



In, On and For Emerging Markets

A CEIC Insights Report

Brazil Economy in a Snapshot Q3 2019



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Executive Summary



Key Highlights

- Real GDP expanded by 1% on an annual basis in Q2, accelerating from the anaemic 0.45% growth in the first quarter, underpinned by steady consumption and a surge in fixed investment.
- Amid a 2019-low inflation of 3.22% in July, the Monetary Policy Committee (COPOM) cut aggressively the SELIC rate by 50 bp during their July 31 meeting, with further downward adjustments expected until the end of the year.
- The pension reform bill, aimed at generating savings of around USD 300bn in the upcoming years, moved to the Senate, as it was approved by the lower house of Congress on August 7.
- In line with Bolsonaro's aspiration to attract massive amounts of foreign investment through economic liberalisation and privatisation of main state-owned assets, Brazil attracted USD 16.2bn in FDI in Q2, up by a hefty 25.81% y/y.

Economic Outlook

Economic growth will remain stable according to the CEIC Leading Indicator. Preliminary data for the smoothed leading indicator recorded a slight downward trend in the past months from 109.8 in March down to 106.9 in August. However, the figure is still far away from the long-term threshold of 100. Based on latest high-frequency data, Focus Economics analysts revised downwards their projection for GDP growth to 1% in 2019 and foresee an acceleration to 2.2% in 2020, while Oxford Economics' forecast is more pessimistic at 0.5% and 1.9%, respectively.

The health of Brazil's manufacturing industry deteriorated significantly in the second quarter as the sector managed to marginally avoid contraction: manufacturing PMI recorded a drop to 50.2 in May, slightly above the threshold of 50 which separates expansion and contraction. Both the amount of new orders and employment PMI entered contractionary territory, at 49.6 and 49.3, respectively. On a positive note, headline PMI rebounded in August, an effect that could be attributed partly to the monetary stimulus that came as a result of the July 31 COPOM meeting. Following a sharp depreciation of the real, the new export orders index surged to 50.3 in the second month of Q3, while the output and employment indices returned to an expansionary phase, at 53.8 and 50.4 respectively, thus bringing up manufacturing PMI to 52.5 on a seasonally adjusted basis.

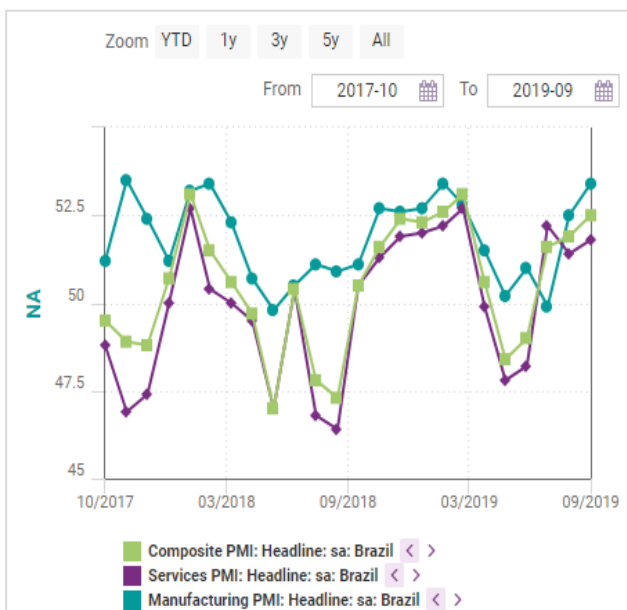
Similarly to manufacturing, the PMI of the services sector, which accounts for 76.81% of the total value added of the Brazilian economy, plummeted to 47.8 in May, based on lower services activity and lower employment. After contracting for four months in a row, services PMI rebounded to 52.2 in July, underpinned by an increase in new orders, though slipping again to 51.4 in August. For the first time since February, the employment sub-index recorded a reading above the threshold of 50 at 50.5

After a downward trend in the second quarter to 56.5 in May, the entrepreneur confidence index has been gaining momentum to reach 59.4 in August. On the contrary, consumers remain rather negative regarding the economic outlook. The consumer confidence index dropped for the second month in a row to 47.0 in Q2, reflecting the sluggish growth in real earnings over the past months.

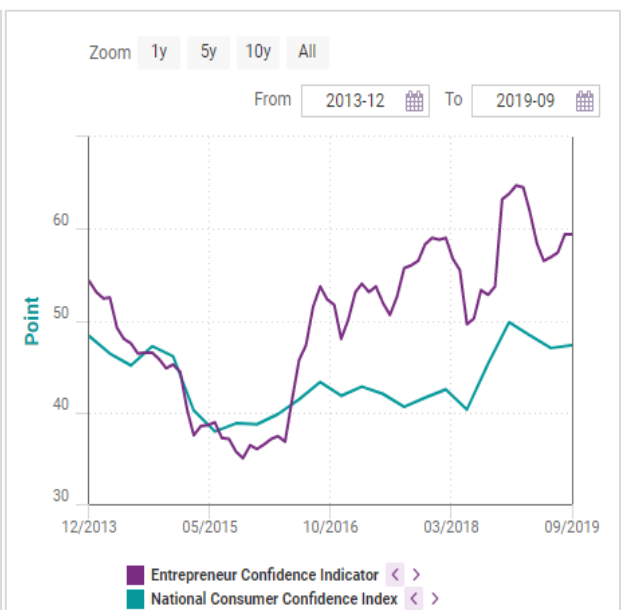
CEIC Leading Indicator



Purchasing Managers' Index



Consumer & Entrepreneur Confidence



Source: CEIC Data

Summary

Economic activity in the second quarter demonstrated that the slip in Q1 did not indicate the beginning of a new downturn. Real **gross domestic product** expanded by 1% on seasonally-adjusted annual basis, surpassing the forecasts for below-1% growth. In an environment of decreased fiscal stimulus given Bolsonaro's right-leaning economic stance, the economy grew on the basis of a robust 5.2% y/y increase in fixed investment, coupled with stable consumption. A 9.39% slump of the mineral extraction sector was offset by growth in manufacturing and construction, by 1.56% and 1.98% y/y, respectively. Services recorded a strong performance, with real estate and commerce sectors growing by 2.66% and 2.05% y/y, respectively.

Inflation reached a 2019 low at 3.22% in July, decreasing significantly from a high of 4.94% in April, underpinned by slipping food & beverage and housing prices. Given these favourable conditions, coupled with sluggish growth, COPOM cut the SELIC rate by 50 bp to a historical low of 6%. Amid rate cuts in other economies, further downward adjustments by the central bank are expected until the end of 2019.

Due to the freezing of public spending by Bolsonaro's government, the **fiscal deficit** narrowed by 76 bp to 6.66% of GDP in Q2 2019. However, according to several estimations, the reduction will not be enough to ensure a budget for 2020 that could sustain the government machine without raising taxes, a measure that Bolsonaro has opposed. Therefore, it is vital that the pension reform bill gets approved by the Senate until the end of the year, after it was passed by the lower house of Congress on August 7.

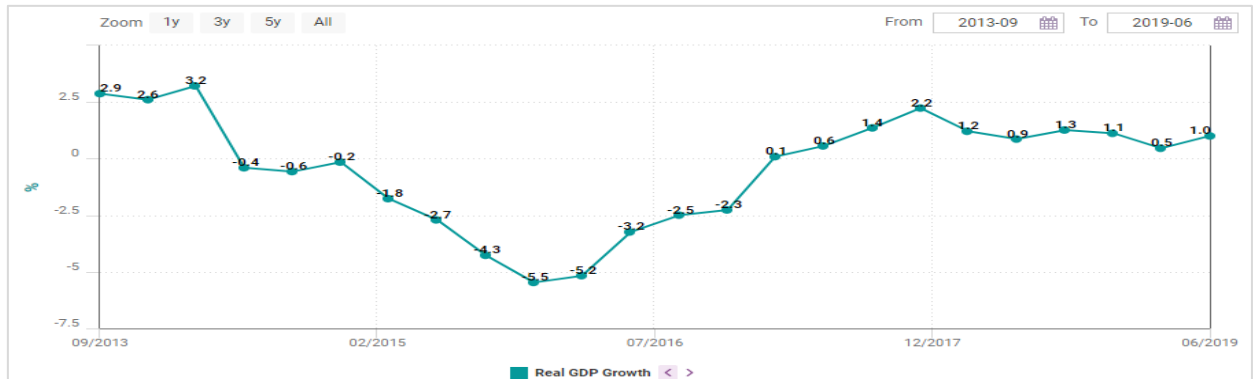
Amid the US-China trade war and the deep recession in Argentina, **exports** recorded a modest 1.8% y/y growth while **imports** expanded by 4.7%. Trade with both China and Argentina contracted, given the slowing demand in the Asian country and high inflationary pressures coupled with output drop in Buenos Aires. This negative impact was counteracted by a significant trade expansion with the US, mainly due to Bolsonaro's personal sympathy towards US President Donald Trump and the improved relations between their administrations.

Brazil Economy: Statistics at a Glance

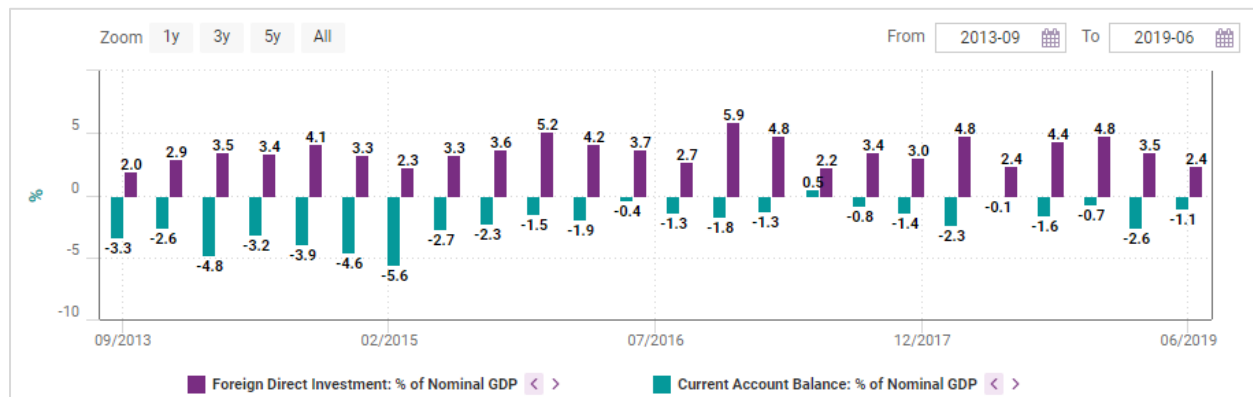
	Unit	09/01/2019	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019
Real GDP: sa: YoY%	%				1.00		
Industrial Production Index: YoY: Monthly: sa: Brazil	%		-2.47	-4.23	-4.11	8.64	-3.23
Consolidated Fiscal Balance: % of Nominal GDP: Quarterly: Brazil	%				-6.66		
Government Debt: % of Nominal GDP: Quarterly: Brazil	%				78.67		
Tax Revenue: % of Nominal GDP: Quarterly: Brazil	%				15.06		
Unemployment Rate: Monthly: Brazil	%		11.80	11.80	12.00	12.30	12.50
Retail Sales: YoY: Monthly: sa: Brazil	%		0.53	3.03	1.39	0.43	-1.16
Consumer Confidence: Jul2010=100: YoY Growth: Monthly: sa: Brazil	%		6.32	4.51	5.99	-1.93	0.34
Consumer Price Index: YoY: Monthly: Brazil	%	2.89	3.43	3.22	3.37	4.66	4.94
<i>Broad Producer Price Index: IPA DI: YoY</i>	%	2.60	10.18	6.48	7.27	8.16	10.13
Total Exports: YoY: Monthly: Brazil	%	-2.33	-13.15	-11.65	-10.09	6.82	-1.39
Total Imports: YoY: Monthly: Brazil	%	16.84	-17.10	-4.77	-9.05	12.87	-1.19
Current Account Balance: % of Nominal GDP: Quarterly: Brazil	%				-1.08		
Foreign Direct Investment: % of Nominal GDP: Quarterly: Brazil	%				2.38		
External Debt: % of Nominal GDP: Annual: Brazil	%						
M2: YoY: Monthly: Brazil	%		6.36	7.25	7.09	8.31	8.71
Policy Rate: Month End: Brazil: SELIC	% pa	5.50	6.00	6.50	6.50	6.50	6.50
Energy Generation; %CHANGE(Over Year)	%		-0.84	-0.90	0.81	4.90	1.76

Source: CEIC Data

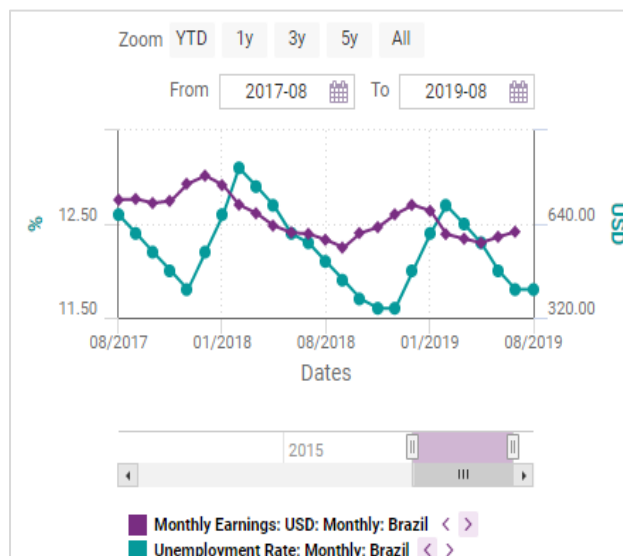
Real GDP Growth



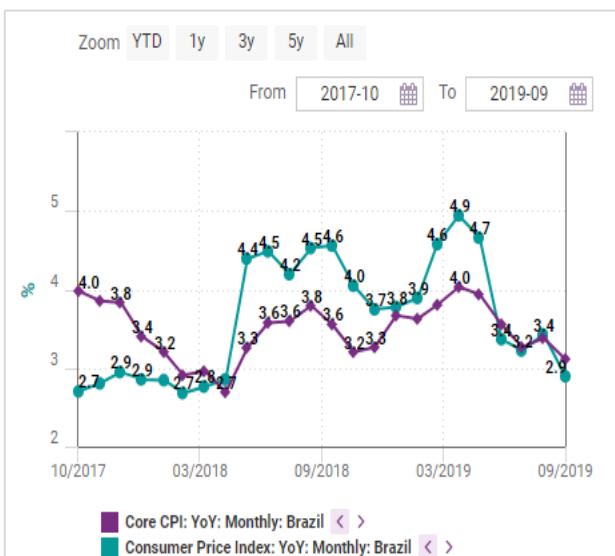
Current Account Balance & FDI



Unemployment Rate & Monthly Earnings



Headline and Core Inflation



Source: CEIC Data



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Real Sector



Real Sector

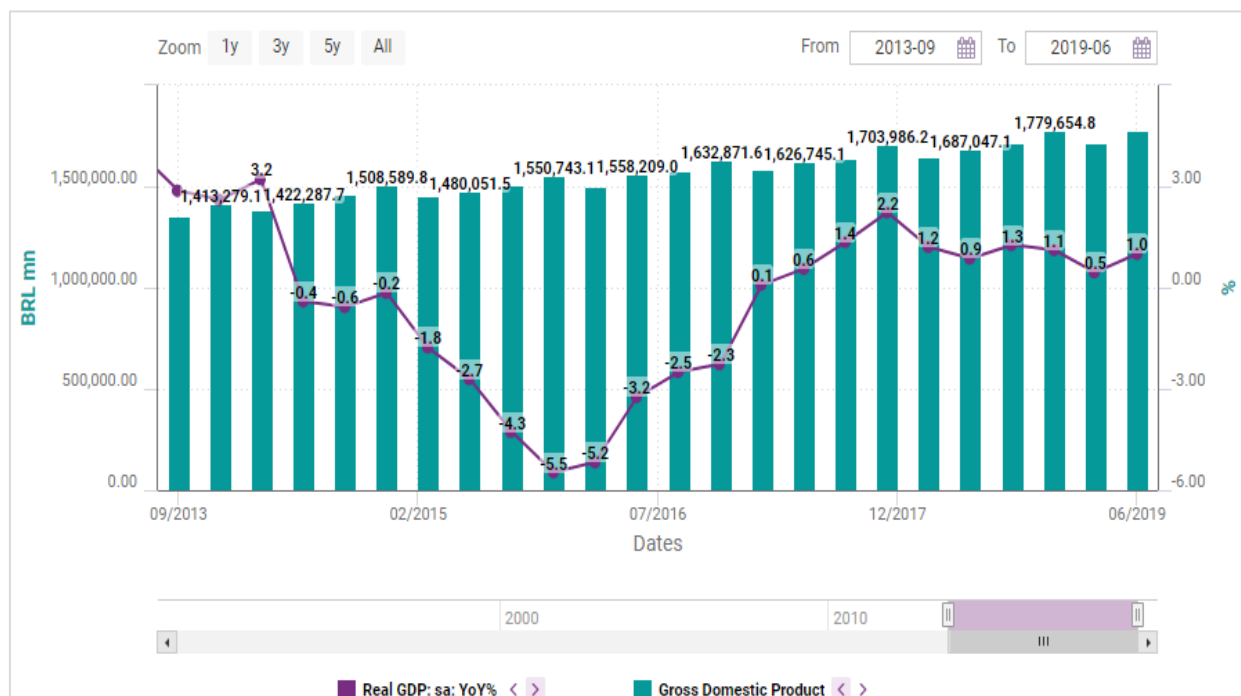
Real GDP growth accelerated to 1% y/y on a seasonally-adjusted basis in Q2, underpinned by robust household consumption growth and a surge in fixed investment, by 1.6% and 5.2% y/y, respectively. Given the liberal economic policy of Jair Bolsonaro, government expenditure decreased by 0.71% on an annual basis, indicating commitment to the fiscal spending freeze. Amid global trade tensions coupled with a recession in neighbouring Argentina, export value rose by a mere 1.84% y/y, while imports rebounded from a slump in Q1 to a 4.68% y/y increase in Q2. Among key industries, the highest GVA growth was recorded by information services and real estate & rent activities, by 3% and 2.66% y/y, respectively. The negative impact on GDP came from a 9.39% y/y contraction in the mineral extraction sector as the consequences of the Brumadinho dam collapse have not faded out yet.

Despite a positive outlier in May 2019, due to the truckers strike which resulted in a slump in industrial output in the same month last year, industrial production continued to decline, with the drop reaching 4.33% y/y in June and 4.45% in July. While the mineral extraction industry output showed signs of recovery from the January dam disaster, recording its slightest drop in a while at 14.6% in June, manufacturing shrunk to -2.8% y/y in the last month of Q2. Key sectors such as food products and coke, petroleum products & biofuels contracted by 4.14% and 6.39% y/y on a seasonally-adjusted basis, respectively, while motor vehicles production decreased by 7.5% y/y in August. PMI data also reflected the overall drop in output of the industry: from a 2019-high at 53.4 in February PMI slipped below the 50.0 breakeven point to 49.9 in July. Due to the recovery of the mineral extraction sector and increased export orders, PMI picked up to 52.5 in August.

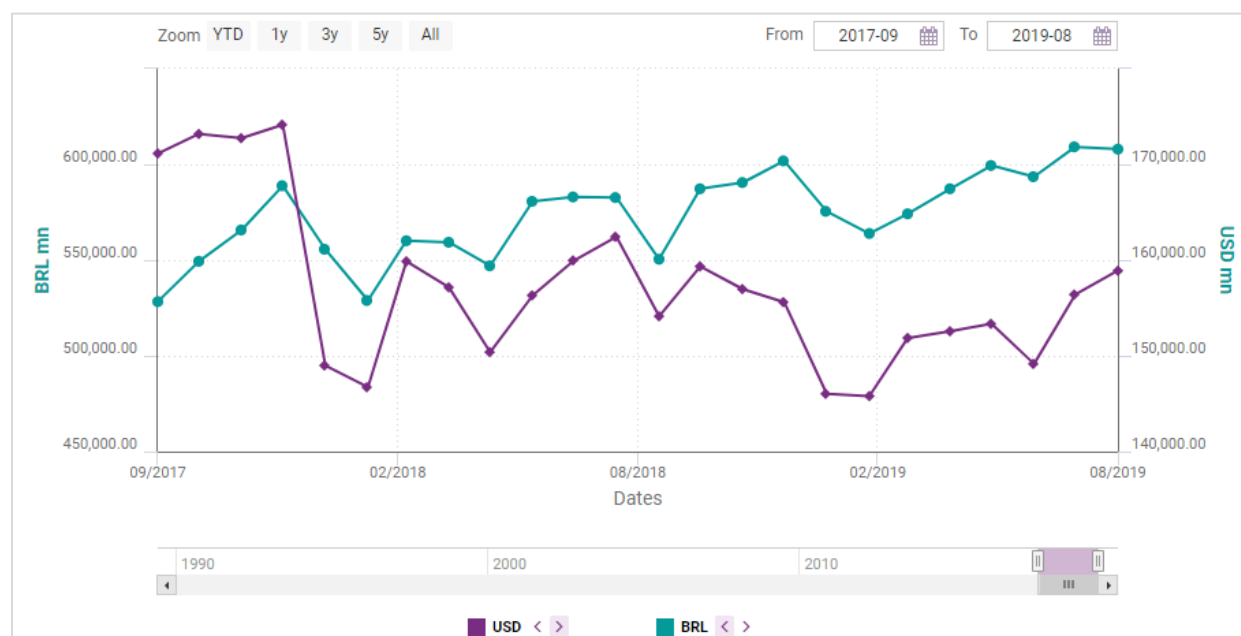
Unemployment rate decreased by 0.5pp y/y to 11.8% in July 2019. The highest growth of employees was recorded by the finance sector and the transportation & postal services sector, by 5.3% and 3.9% y/y respectively. However, real income growth remained in negative territory throughout the whole second quarter, standing at -0.13% y/y in June.

Retail sales value growth fluctuated in Q2 on a seasonally-adjusted basis standing at 3.92% in April, picking up slightly to 5.08% in May and slipping to 3.64% in June. The drop was significantly larger in volume terms, as retail sales contracted by 1.26% y/y in April but rebounded to a 3.24% y/y increase in July.

GDP: Real Growth and Nominal

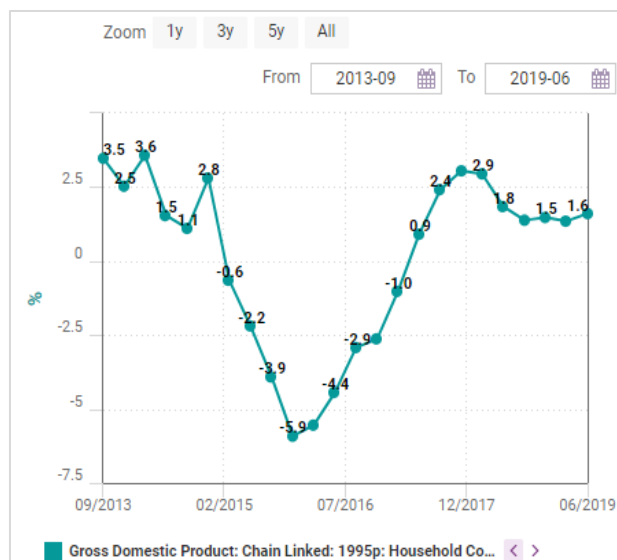


Monthly GDP: BRL & USD

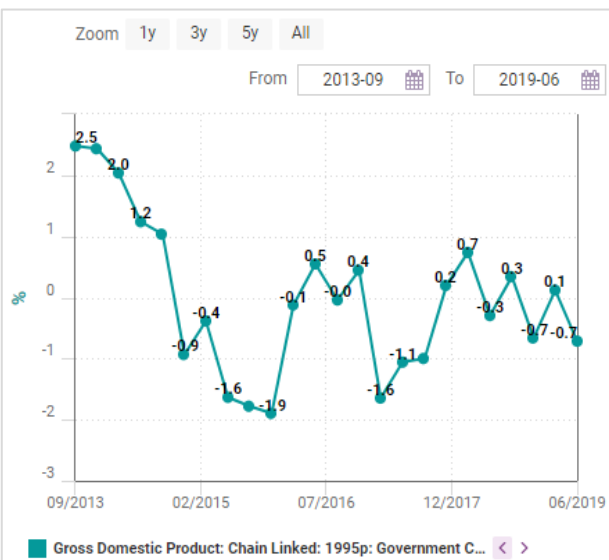


Source: CEIC Data

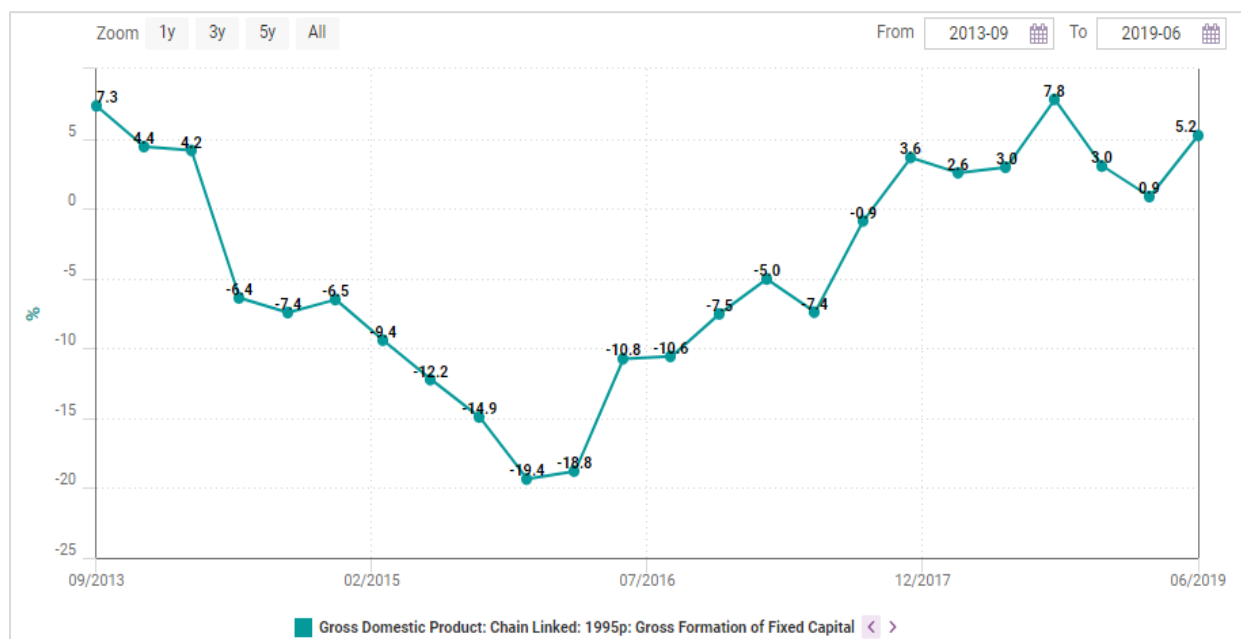
Household Consumption Expenditure: YoY Growth



Government Consumption Expenditure: YoY Growth

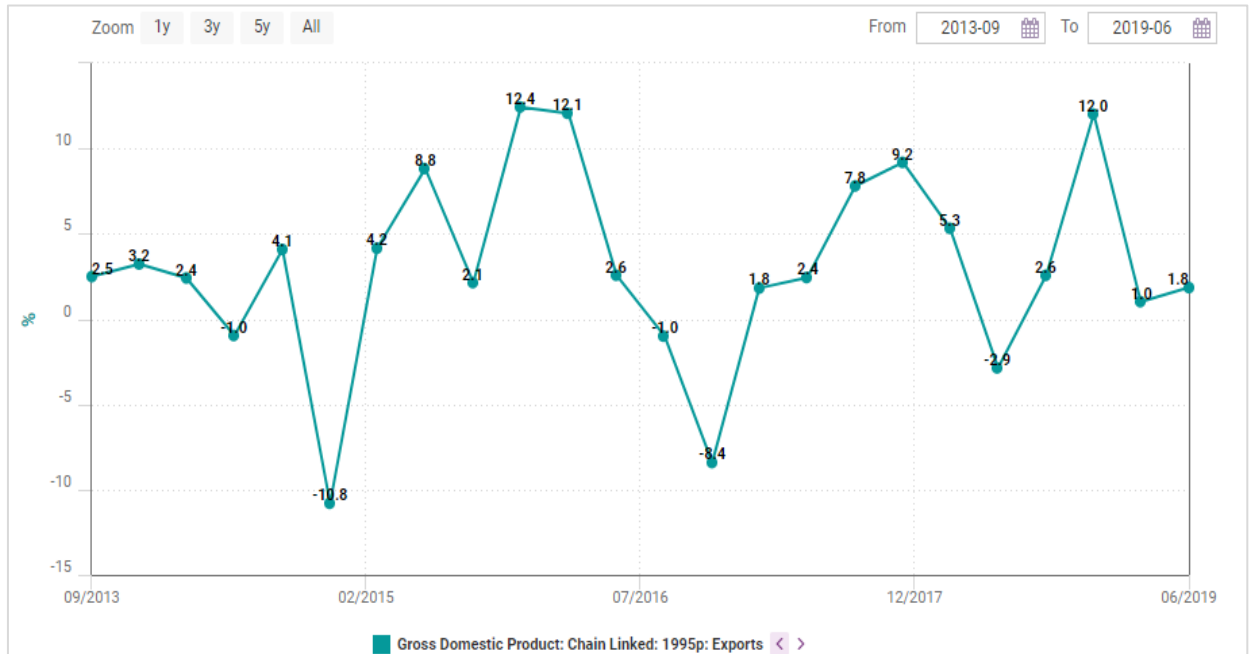


Fixed Investment: YoY Growth

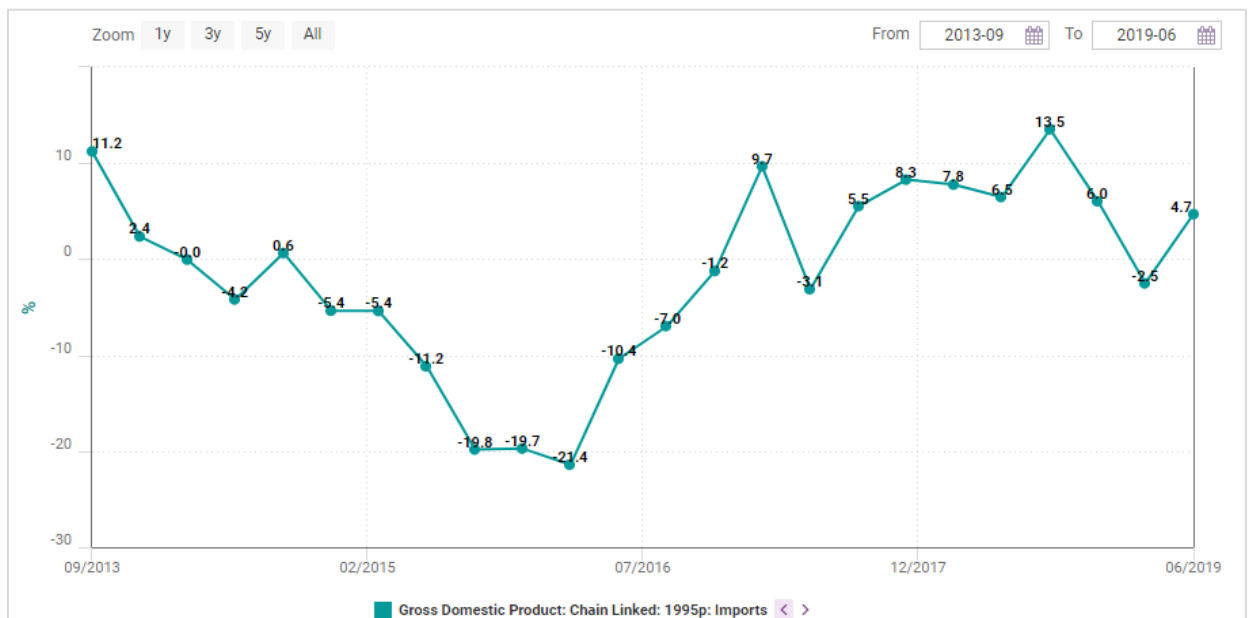


Source: CEIC Data

Exports of Goods and Services: YoY Growth



Gross Domestic Product: Chain Linked: 1995p: Imports

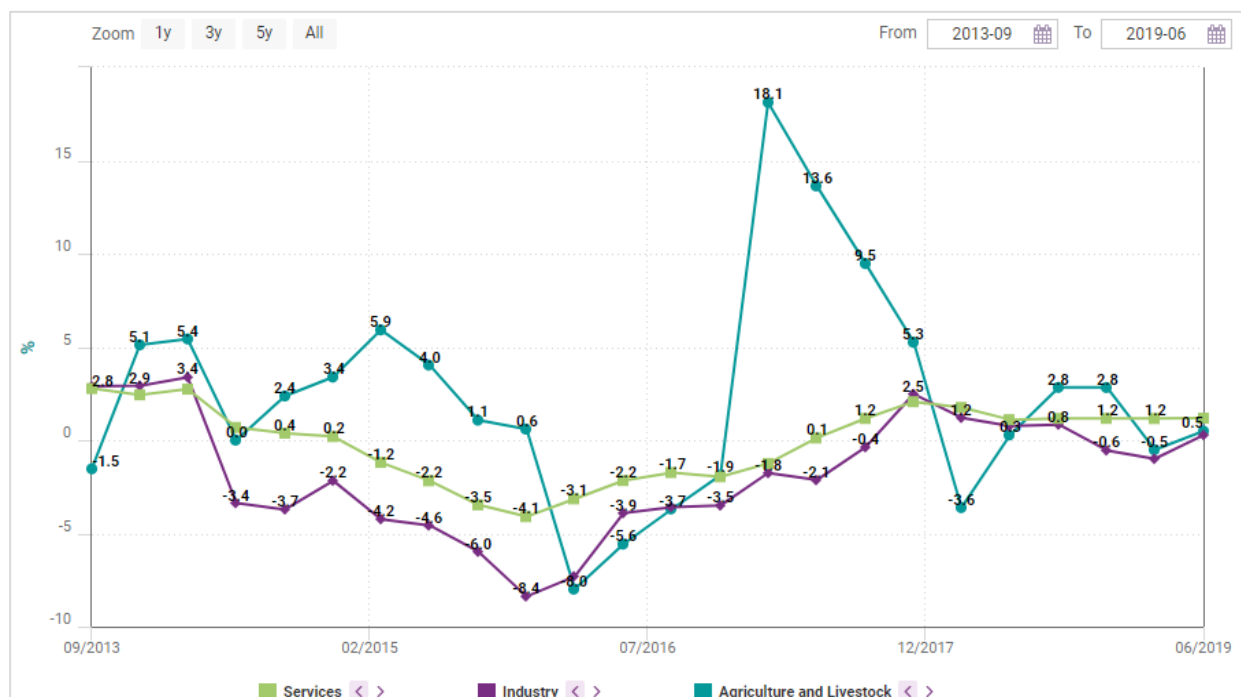


Source: CEIC Data

Gross Domestic Product: by Expenditure: 1995p

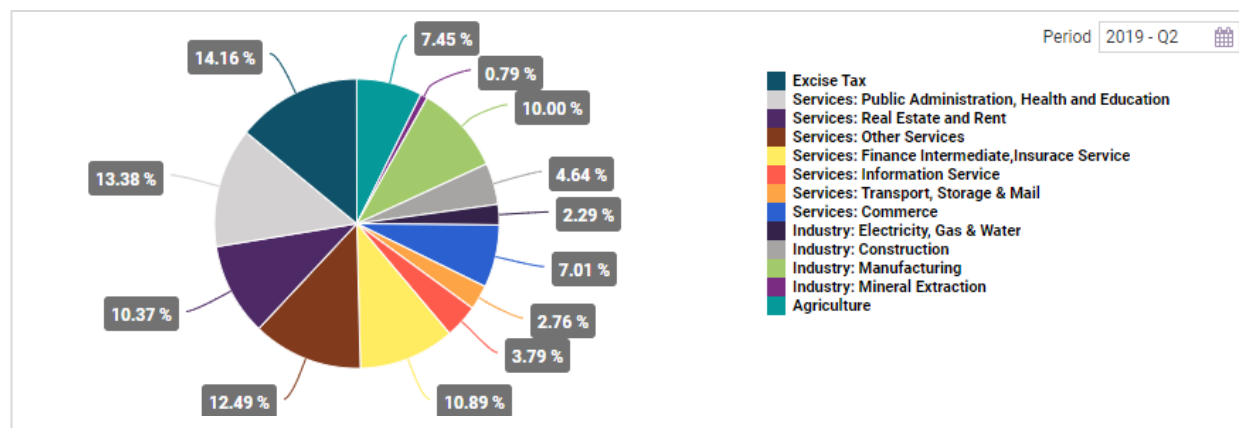
	Unit	06/01/2019	03/01/2019	12/01/2018	09/01/2018	06/01/2018	03/01/2018
Gross Domestic Product: Chain Linked: 1995p	BRL mn	296,244.33	290,915.92	295,810.87	299,801.42	293,289.24	289,580.58
Household Consumption	BRL mn	198,331.16	196,799.87	207,699.89	200,337.98	195,198.31	194,181.73
Government Consumption	BRL mn	54,050.22	52,817.37	55,705.67	54,687.01	54,439.52	52,753.63
Gross Formation of Fixed Capital	BRL mn	52,106.68	49,410.85	52,433.96	54,903.53	49,518.99	48,992.10
Exports	BRL mn	42,018.56	39,920.73	43,728.58	44,098.14	41,258.46	39,518.62
Imports	BRL mn	39,907.23	38,883.59	42,450.35	44,649.92	38,120.35	39,889.01

GDP Index: Main Industries



Source: CEIC Data

GDP by Industry

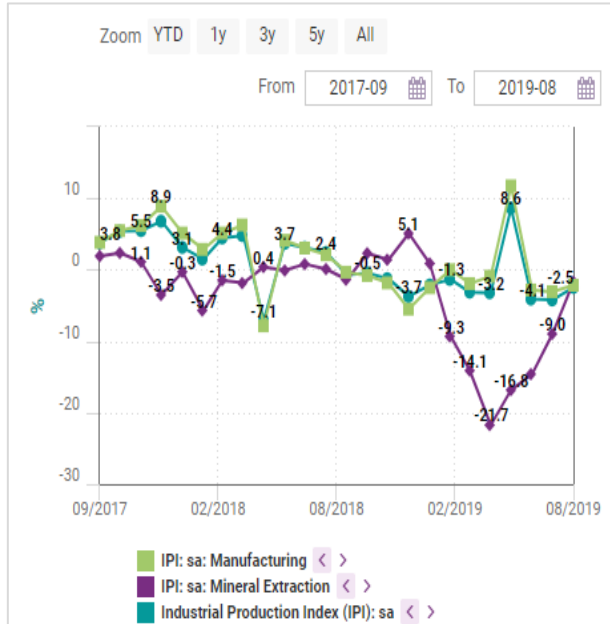


Gross Domestic Product: by Industry: 1995p

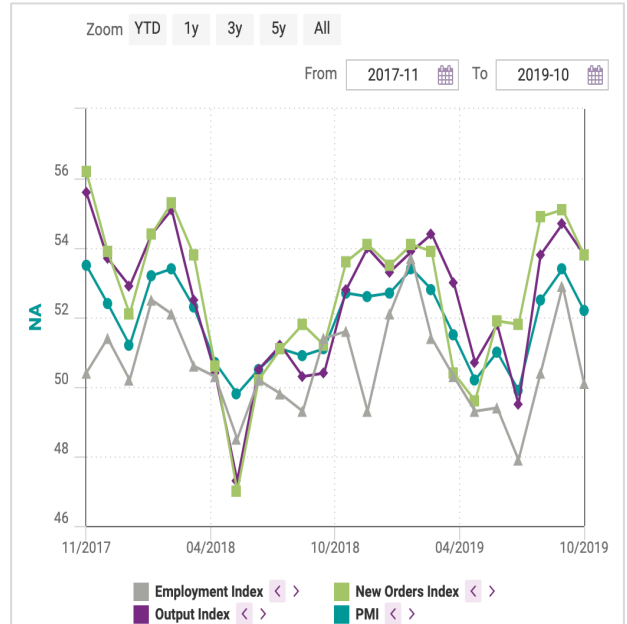
	Unit	06/01/2019	03/01/2019	12/01/2018	09/01/2018	06/01/2018	03/01/2018
GDP: Added Value at Basic Prices	BRL mn	253,387.52	248,749.85	251,558.14	255,858.58	251,089.80	247,428.75
Agriculture	BRL mn	22,227.06	24,062.49	13,121.30	18,536.14	22,148.88	24,080.78
Industry	BRL mn	54,083.19	51,904.77	55,082.80	57,319.85	53,927.96	52,484.62
Industry: Mineral Extraction	BRL mn	2,343.44	2,378.27	2,717.82	2,698.68	2,586.42	2,451.12
Industry: Manufacturing	BRL mn	29,822.31	27,659.12	29,702.85	32,190.11	29,363.41	28,128.72
Industry: Construction	BRL mn	13,830.93	13,326.75	14,074.03	14,111.61	13,562.76	13,623.80
Industry: Electricity, Gas & Water	BRL mn	6,824.68	7,018.03	6,801.07	6,412.20	6,665.81	6,701.75
Services	BRL mn	179,131.38	175,563.57	182,391.14	180,834.92	177,019.90	173,557.53
Services: Commerce	BRL mn	20,913.19	20,209.57	21,857.85	21,861.89	20,492.97	20,105.74
Services: Transport, Storage & Mail	BRL mn	8,248.20	8,104.45	8,581.49	8,823.74	8,227.38	8,085.35
Services: Information Service	BRL mn	11,305.09	11,132.32	11,984.18	11,110.33	10,976.11	10,727.65
Services: Finance Intermediate, Insurance Service	BRL mn	32,490.41	32,209.97	33,368.44	32,463.10	32,590.13	32,100.95
Services: Other Services	BRL mn	37,252.40	36,121.47	37,923.41	37,217.93	36,679.32	35,625.73
Services: Real Estate and Rent	BRL mn	30,924.30	30,616.69	30,830.67	30,434.89	30,122.92	29,715.16
Services: Public Administration, Health and Education	BRL mn	39,921.49	39,507.69	39,680.39	40,058.08	39,961.99	39,323.76
Excise Tax	BRL mn	42,234.00	41,553.78	43,665.46	43,310.10	41,547.78	41,528.54

Source: CEIC Data

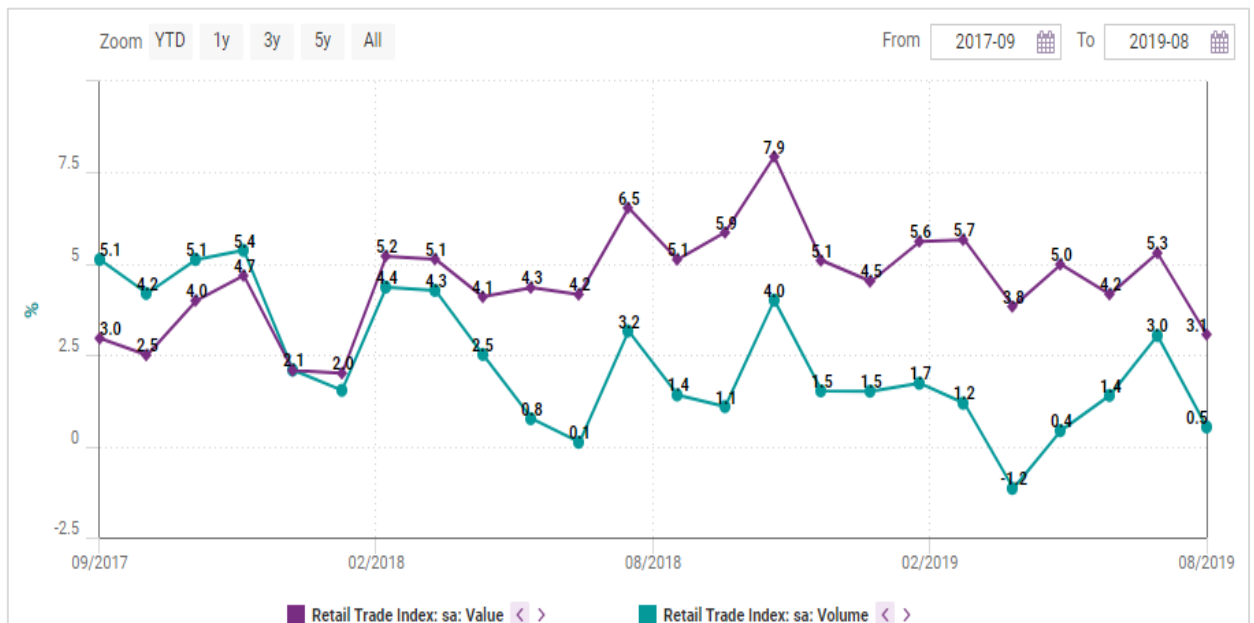
Industrial Production Index Growth



Manufacturing PMI

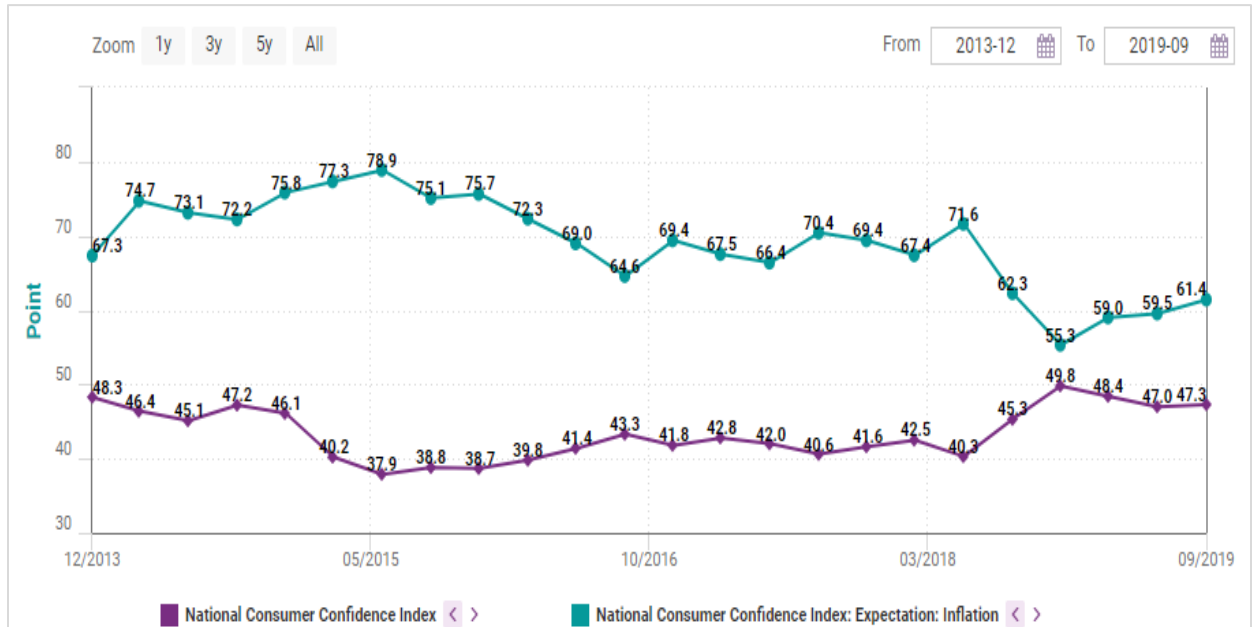


Retail Trade Index: Volume & Value

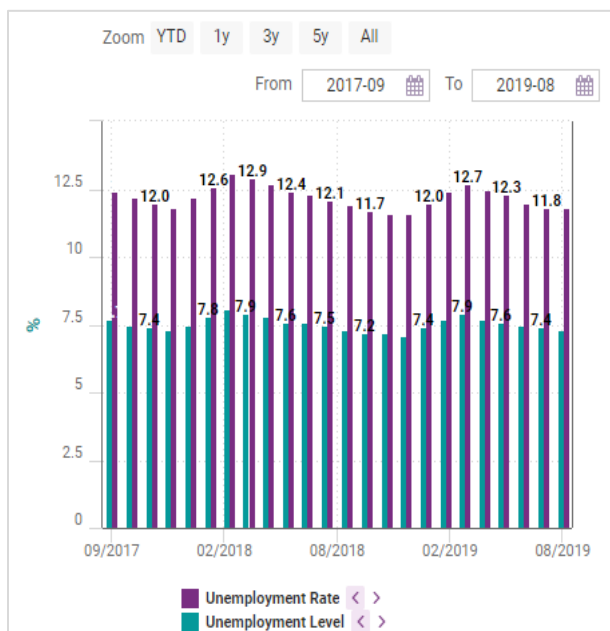


Source: CEIC Data

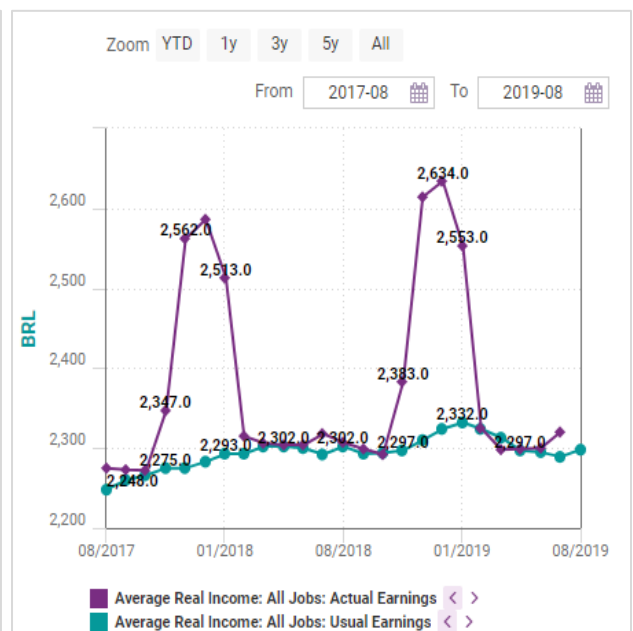
National Consumer Confidence



Unemployment: Rate & Level



Usual & Actual Real Income



Source: CEIC Data



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Monetary & Financial Sector



Monetary & Financial Sector

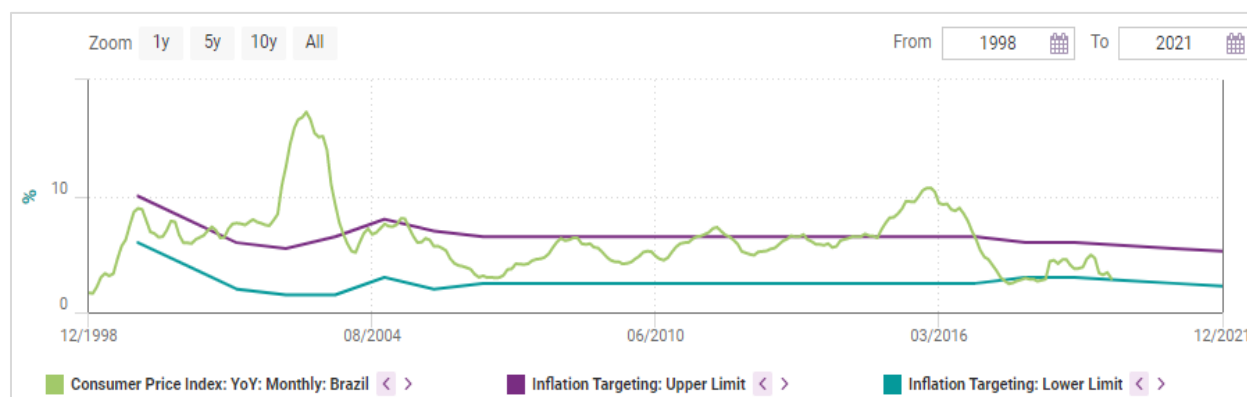
During its latest meeting, COPOM cut the SELIC rate by 50 bp to a record low 6%, surprising both investors and analysts with the magnitude of the change. Although sharper than expected, the cut comes in harmony with other rate adjustments around the globe - the Fed's 25-bp cut in July and the Chilean central bank's 50-bp cut in June among others. COPOM's decision reflects the central bank's confidential stance and many analysts expect a further cut of the SELIC to a historically low 5% by the end of the year.

The rate drop comes in an environment of downward trending inflation, which reached a 2019-low of 3.22% in July, decreasing significantly from a high of 4.94% in April. The fall below the 4.25% target for 2019 allowed a more dovish stance on behalf of the central bank and COPOM did not hesitate to explore this window of opportunity. The plunge in inflation comes as a consequence of the sharp decrease in prices in essential sectors - food & beverage inflation fell to 4.12% in July from 6.73% in March, while the housing price index dropped to 3.49% from 6.11% in the same period. On the supply side, producer price indices trended downwards as well after the mid-2018 hike, down to 0.35% and 1.32% in manufacturing and industry, respectively.

The Sao Paulo stock exchange benchmark index BOVESPA gained some ground in 2019, up to 101,134.61 in August from 97,393.7 in January 2019. Government securities demand remained robust as the 10-year government bond yield kept trending downwards in 2019 to reach 7.38% at the end of August from 9.26% at the end of 2018.

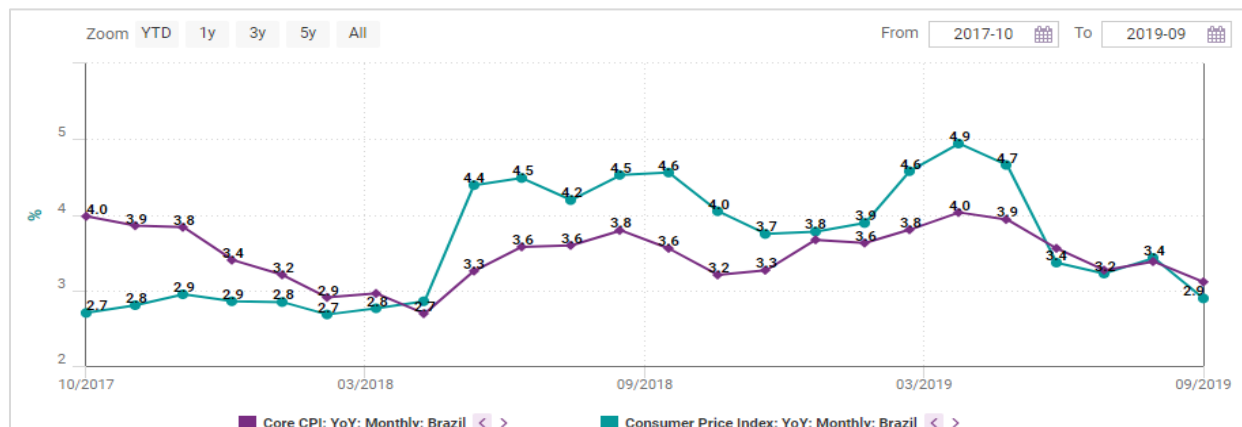
Although the Brazilian real gained on the US dollar in Q2, it subsequently felt the impact of the SELIC rate cut and depreciated significantly in August, trading at 4.14 USD/BRL at the end of the month. Given the expected additional cuts in the months to come, the real's further depreciation against the US dollar depends on the outcome of the Fed's next meeting, where the board will convene under pressure for more cuts on behalf of President Trump. A similar trend was recorded by the Brazilian real's exchange rate against the Euro - the real traded at 4.38 EUR/BRL in the beginning of 2019 and appreciated to 4.22 EUR/BRL at the end of July, though after the rate cut it lost some ground, trading at 4.55 EUR/BRL at the end of August.

Consumer Price Index: Actual vs Target



Source: CEIC Data

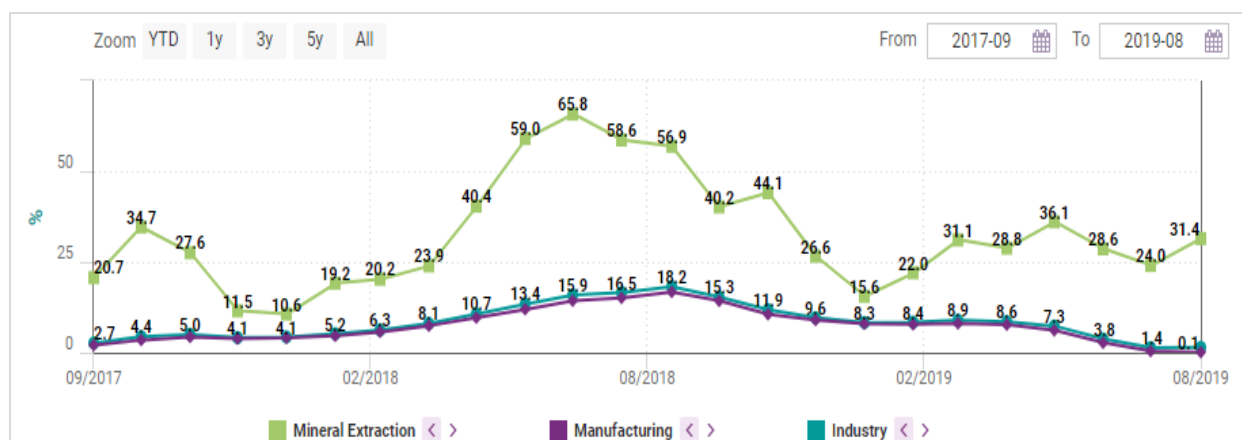
Core and Headline CPI



National Consumer Price Index: Broad Category (IPCA)

	Unit	09/01/2019	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019
IPCA: General	%	2.89	3.43	3.22	3.37	4.66	4.94	4.58
Food & Beverage	%	3.56	4.11	4.12	3.98	6.36	7.30	6.73
Housing	%	3.90	4.26	3.49	3.84	6.34	6.18	6.11
Household Articles	%	2.39	3.28	3.28	3.47	3.80	3.84	4.32
Apparel	%	0.79	0.50	0.46	0.38	-0.08	0.16	0.60
Transportation	%	0.88	2.58	1.73	2.40	4.34	4.69	3.71
Health & Personal Care	%	4.20	3.89	4.47	4.76	4.48	4.46	3.84
Personal Expenses	%	3.16	3.51	3.57	3.43	3.62	3.57	3.51
Education	%	4.74	4.95	5.04	4.91	4.79	4.89	4.88
Communication	%	0.41	0.35	0.29	-0.20	-0.18	0.01	-0.09

PPI: Main Groups

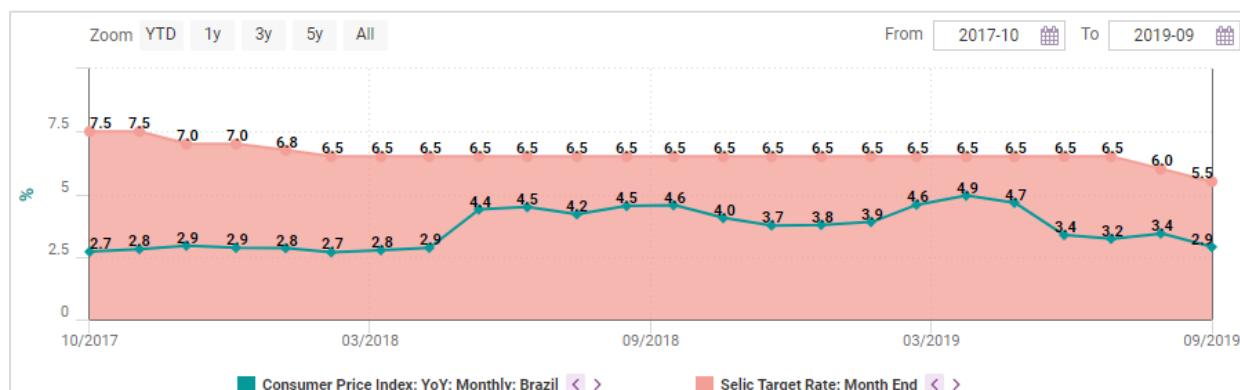


Source: CEIC Data

Producer Price Index

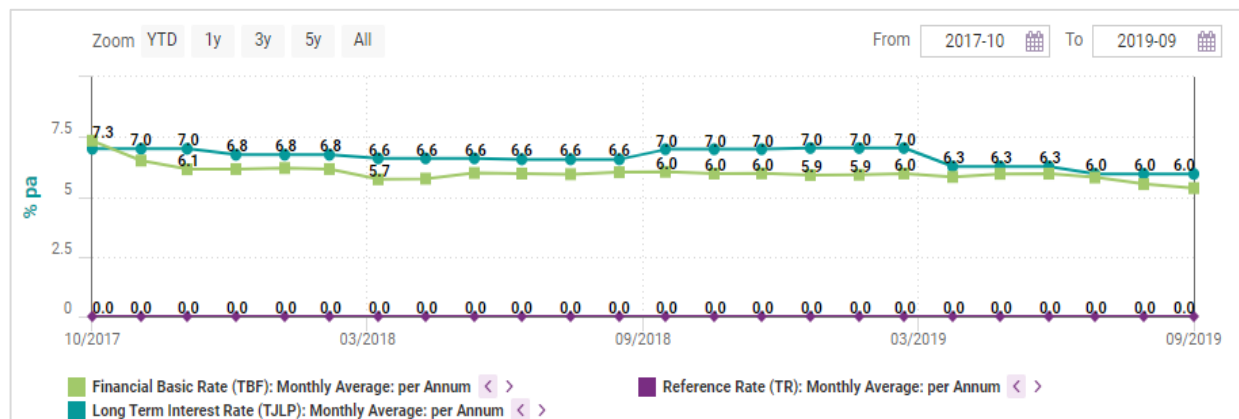
	Unit	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019
Industry	%	1.43	1.37	3.76	7.32	8.55	8.94
Mineral Extraction	%	31.44	24.04	28.62	36.10	28.83	31.09
Manufacturing	%	0.15	0.40	2.70	6.14	7.70	8.02
Manufacturing: Food Products	%	0.61	-0.73	0.69	4.86	6.37	6.25
Manufacturing: Beverages	%	-0.18	3.69	4.00	3.09	1.78	-0.26
Manufacturing: Tobacco	%	-0.98	-1.67	0.59	6.49	9.97	12.51
Manufacturing: Textiles	%	1.85	2.50	3.67	4.81	6.06	8.13
Manufacturing: Clothing & Accessories	%	2.05	1.89	1.10	5.02	5.90	5.79
Manufacturing: Leather Preparation, Leather Products, Travel Accessories & Footwear	%	-7.08	-6.24	-6.27	-1.87	2.08	2.56
Manufacturing: Wood	%	-5.34	-2.88	-1.70	0.58	3.92	7.80
Manufacturing: Cellulose, Paper & Paper Products	%	-9.07	-7.14	-5.05	1.31	5.80	7.74
Manufacturing: Edition, Impression & Reproduction of Writing	%	4.21	6.68	7.60	8.95	7.98	6.36
Manufacturing: Coke, Petroleum Products & Biofuels	%	-1.03	-0.57	2.40	13.52	18.00	19.29
Manufacturing: Soaps & Detergents, Cleaning Products, Cosmetics, Perfumes & Toiletries	%	3.10	2.89	7.12	2.85	3.59	5.42
Manufacturing: Other Chemical Products	%	-7.11	-5.78	1.06	5.06	6.51	6.92
Manufacturing: Pharmaceutical Chemicals & Pharmaceutical Products	%	8.85	10.74	11.26	8.55	5.43	2.03
Manufacturing: Rubber & Plastic	%	3.57	4.45	4.23	6.63	8.14	8.23
Manufacturing: Non Metallic Minerals	%	0.16	0.76	2.01	3.51	5.35	6.05
Manufacturing: Metallurgy	%	-1.35	-2.20	3.51	5.93	6.79	7.20
Manufacturing: Metal Products excl Machines & Equipment	%	4.32	2.82	4.54	5.80	5.58	4.56
Manufacturing: Machine for Office, Electronic & Optical	%	2.15	1.04	1.83	1.51	2.56	2.07
Manufacturing: Machine, Equipments & Electrical Materials	%	5.57	5.75	5.98	7.93	8.96	9.22
Manufacturing: Machine & Equipment	%	7.23	8.12	9.40	9.72	9.38	10.21
Manufacturing: Vehicles	%	4.00	4.87	5.56	5.76	6.18	6.20
Manufacturing: Other Transportation Equipment, Except Vehicles	%	4.31	2.66	5.02	9.99	13.13	15.22
Manufacturing: Furniture	%	6.20	6.27	8.18	9.66	9.63	7.46

Policy Rate vs Inflation



Source: CEIC Data

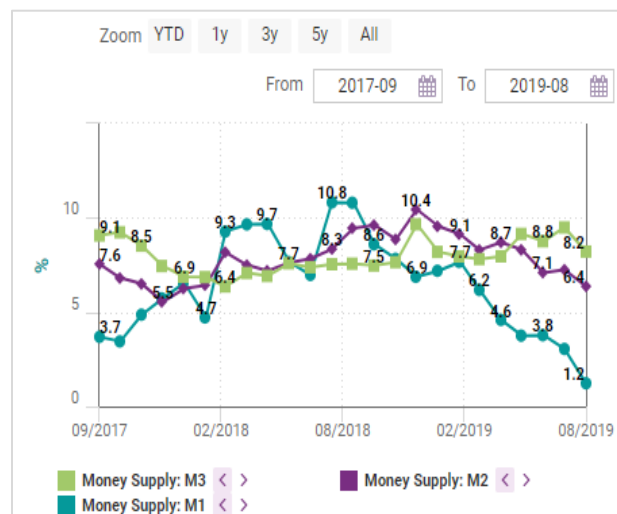
Lending Rate: Central Bank of Brazil



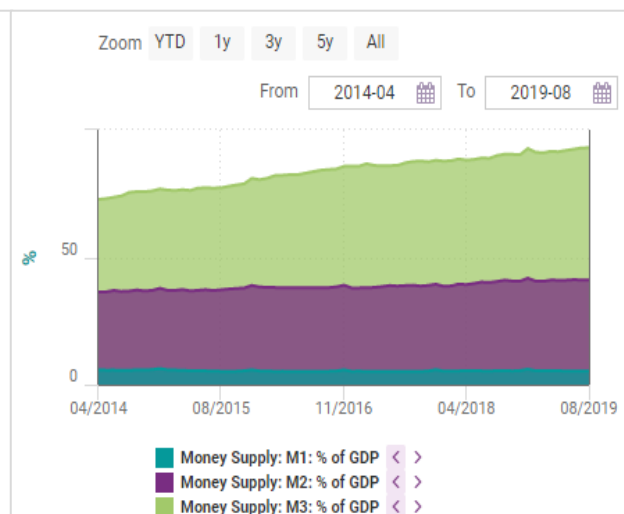
Key Interest Rates

	Unit	09/01/2019	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019
Savings Deposits Rate	% per Month	0.32	0.34	0.37	0.37	0.37	0.37	0.37
Long Term Interest Rate (TJLP): Per Annum	% pa	5.95	5.95	5.95	6.26	6.26	6.26	7.03
Money Market Interest Rate: Monthly Average: Per Annum	% pa	5.71	5.90	6.40	6.40	6.40	6.40	6.40
Reference Interest Rate: Monthly Average: Per Annum	% pa	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial Basic Rate: Monthly Average: Per Annum	% pa	5.36	5.52	5.80	5.96	5.95	5.82	5.97
BCB Forecast: Over Selic Rate: Median: Current Calendar Year	% pa	4.75	5.00	5.50	5.50	6.50	6.50	6.50
Policy Rate: Month End: SELIC	% pa	5.50	6.00	6.50	6.50	6.50	6.50	6.50

Money Supply: M1, M2, M3: YoY Growth



M1, M2, M3: % of GDP

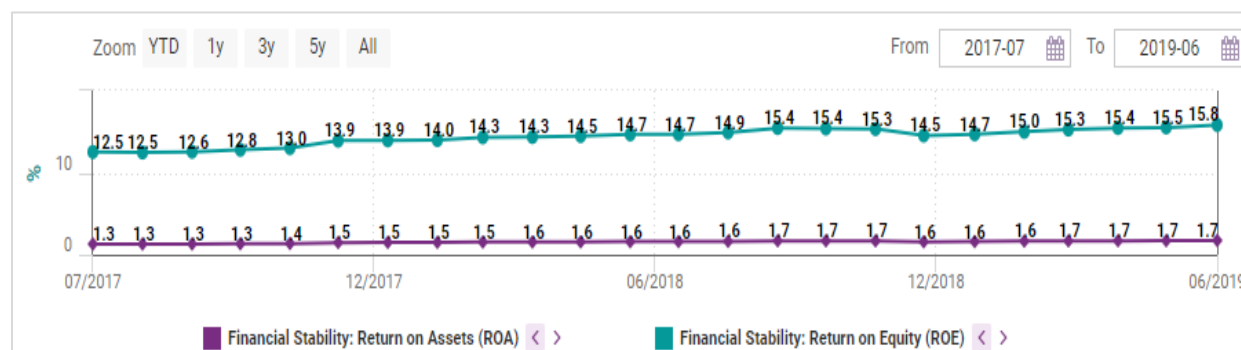


Source: CEIC Data

Money Supply

	Unit	09/01/2019	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019
M1: Seasonally Adjusted	BRL mn		376,943	376,181	376,085	374,130	376,361
M1	BRL mn		370,211	367,668	372,681	371,571	375,671
M1: Currency Held by the Public	BRL mn		197,772	195,647	196,114	195,382	194,784
M1: Demand Deposits	BRL mn		172,439	172,020	176,567	176,189	180,887
M2	BRL mn		2,895,941	2,882,521	2,878,335	2,858,261	2,837,568
M2: Savings Deposits	BRL mn		810,066	805,719	804,275	798,870	796,503
M2: Private Securities Issued by National Financial System	BRL mn		1,715,665	1,709,135	1,701,379	1,687,819	1,665,394
M2: Private Securities Issued by National Financial System: Time Deposits	BRL mn		1,044,900	1,038,109	1,026,993	1,014,982	998,615
M2: Private Securities Issued by National Financial System: Financial Bonds	BRL mn		324,955	325,204	327,637	326,262	322,968
M2: Private Securities Issued by National Financial System: Exchange Bills	BRL mn		310,451	310,595	311,993	313,737	310,931
M2: Private Securities Issued by National Financial System: Others	BRL mn		35,359	35,226	34,756	32,837	32,880
M3	BRL mn		6,547,968	6,517,590	6,458,079	6,413,435	6,329,039
M3: Quotas of Fixed Income Fund	BRL mn		3,458,085	3,432,013	3,375,986	3,337,559	3,282,271
M3: Repo Operations with Federal Public Securities	BRL mn		142,251	150,705	144,938	153,540	148,493
M3: Repo Operations with Private Securities	BRL mn		51,690	52,351	58,820	64,075	60,707
M4	BRL mn		6,979,672	6,919,074	6,880,572	6,851,178	6,802,015
M4: Federal Securities	BRL mn		431,704	401,484	422,493	437,743	472,976
Non-Resident Assets	BRL mn		528,129	528,812	530,023	535,044	524,113
Daily Average	BRL mn	381,203	372,409	376,608	373,596	371,318	377,239
Daily Average: Currency Outside Banks	BRL mn	205,562	199,254	199,300	199,212	197,708	199,814
Daily Average: Demand Deposits	BRL mn	175,642	173,155	177,308	174,384	173,610	177,425

Financial Stability: ROA & ROE

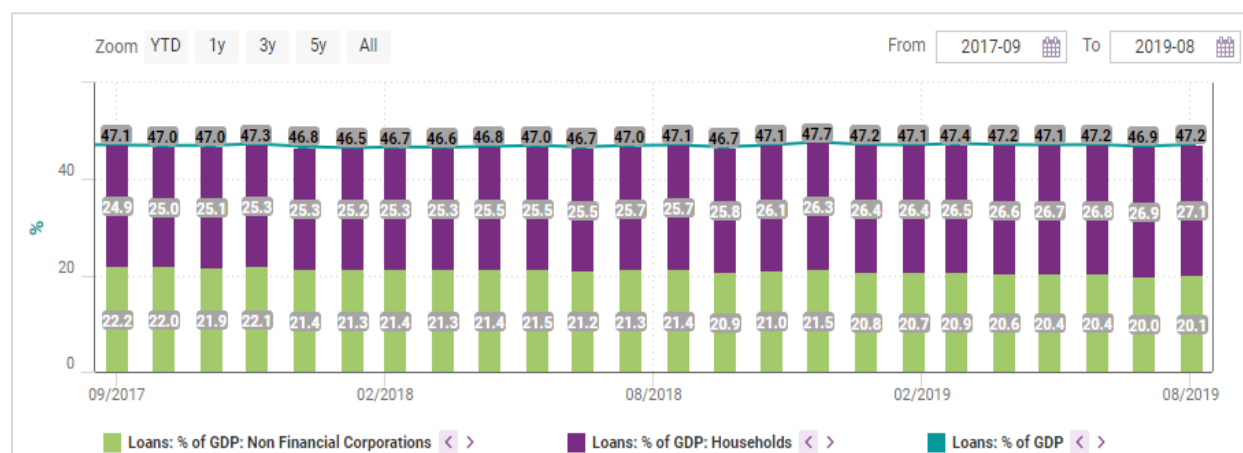


Source: CEIC Data

Financial Stability

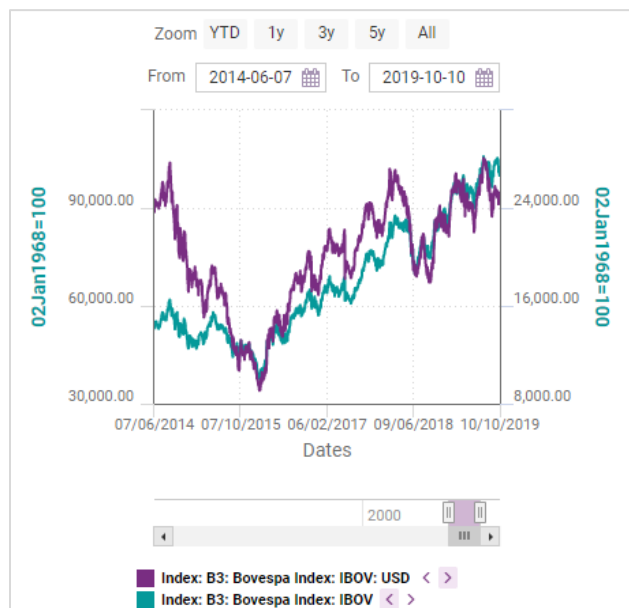
	Unit	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019	02/01/2019
Regulatory Capital to Risk-Weighted Assets	%	17.93	18.02	18.08	17.97	17.82	17.71
Capital to Assets	%	10.44	10.31	10.37	10.27	10.18	10.14
Tier I Capital	BRL mn	638,861.13	634,719.69	629,975.77	622,970.33	614,038.52	599,408.99
Tier II Capital	BRL mn	128,379.48	128,919.64	131,281.78	131,601.40	132,711.75	130,485.21
Total Regulatory Capital	BRL mn	767,240.60	763,639.33	761,257.55	754,571.73	746,750.27	729,894.20
Equity	BRL mn	674,914.74	668,975.53	665,246.69	657,741.69	648,599.71	640,441.32
Assets	BRL mn	6,463,515.78	6,486,171.71	6,413,997.69	6,402,327.11	6,370,204.03	6,313,616.56
Return on Equity (ROE)	%		15.81	15.51	15.44	15.25	14.98
Return on Assets (ROA)	%		1.74	1.70	1.69	1.66	1.64
Tier 1 Ratio	%		14.98			14.65	
Risk Weighted Assets	BRL mn		4,238,474.15			4,189,761.49	
Noninterest Expenses to Gross Income	%		48.68			48.39	
Interst Margin	BRL mn		337,576.56			311,600.34	

Loans: % of GDP

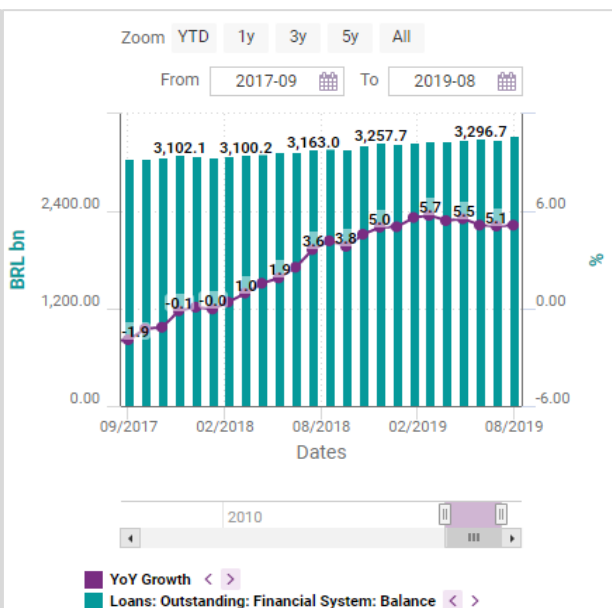


Source: CEIC Data

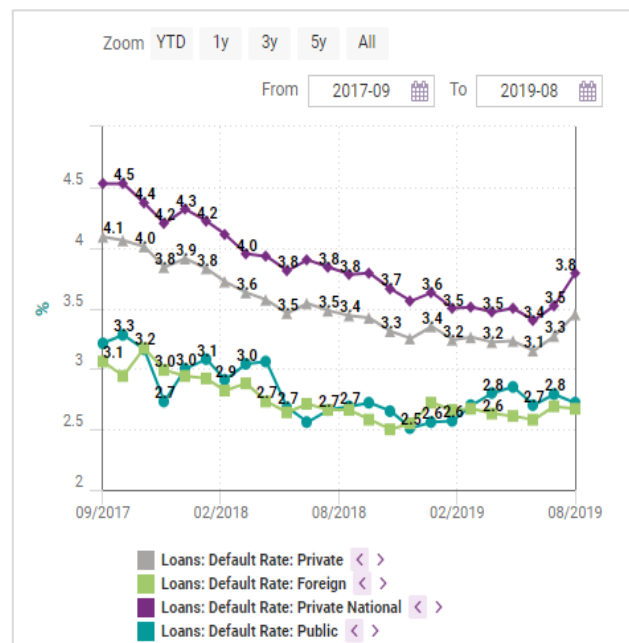
Index: B3: Bovespa Index: IBOV



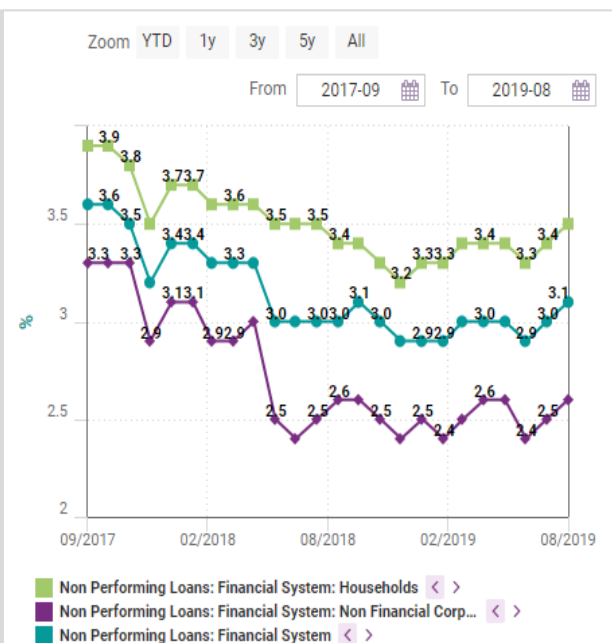
Loans: Outstanding Balance



Loans: Default Rate

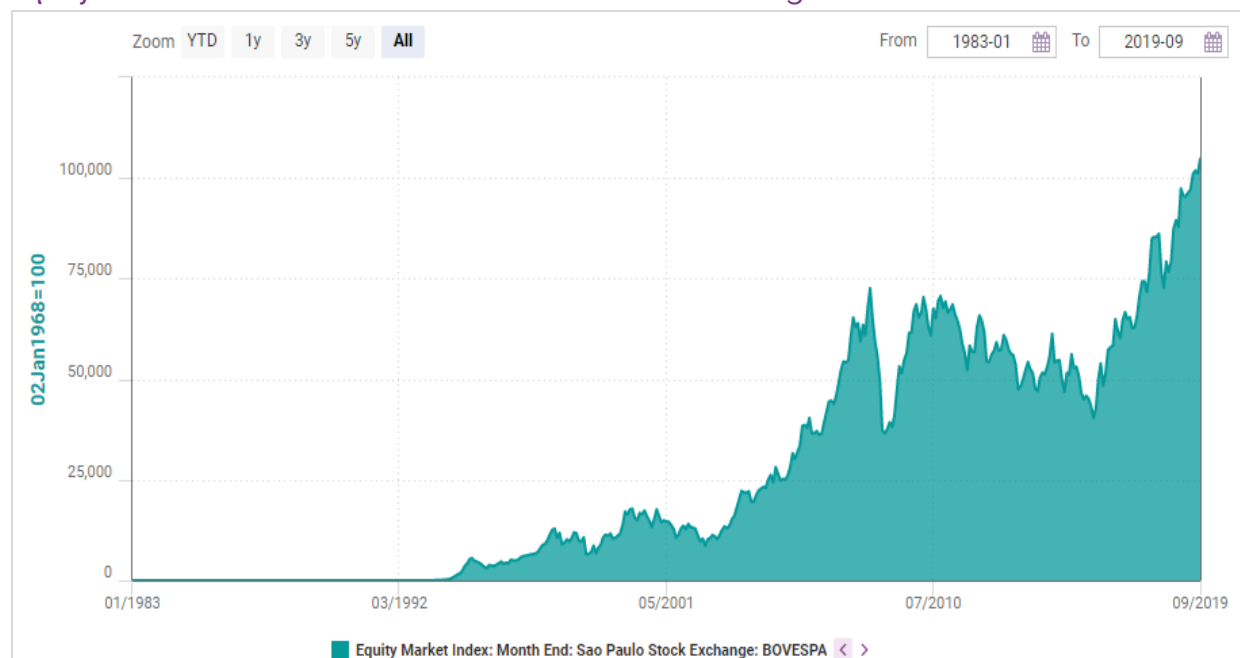


Non Performing Loans: Financial System

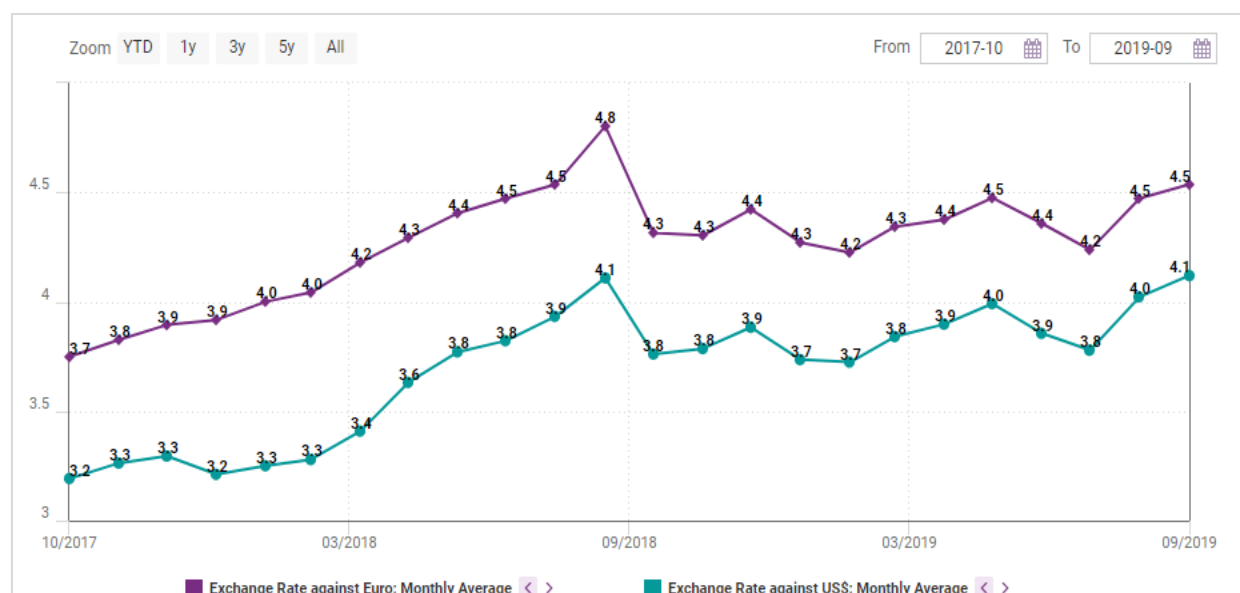


Source: CEIC Data

Equity Market Index: Month End: Sao Paulo Stock Exchange: BOVESPA



Foreign Exchange Rates



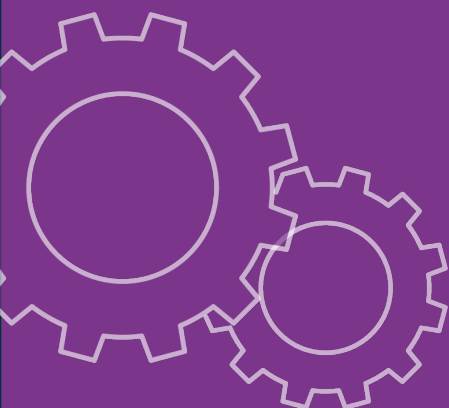
Source: CEIC Data



In, On and For Emerging Markets

Brazil Economy in a Snapshot, Q3 2019

A CEIC Insights Report



Fiscal Sector

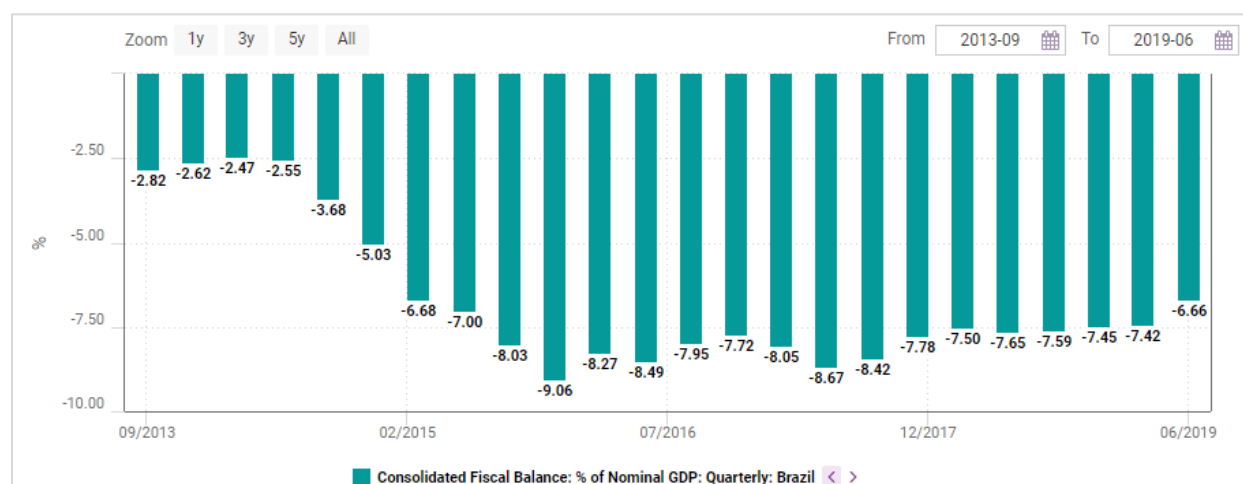


Fiscal Sector

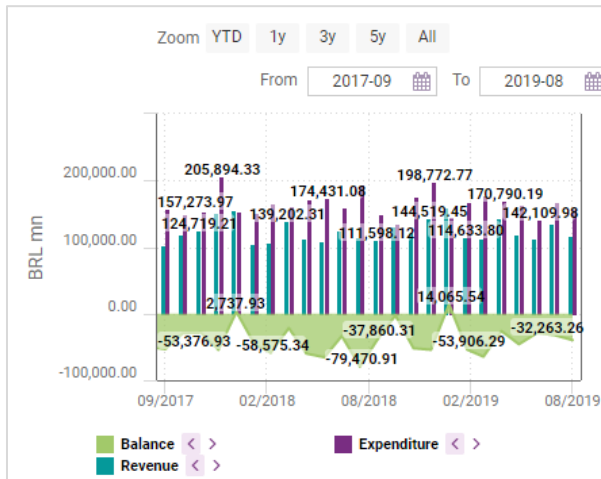
Brazil's government finances improved in Q2 as the fiscal deficit narrowed down significantly by 0.76 pp to 6.66% of GDP. In line with economy minister Paulo Guedes' liberal agenda, public expenditure dropped by 6.09% y/y, while revenues expanded by 4.18% in Q2. As of July, revenues growth accelerated to 7.7% y/y and expenditure picked up pace, increasing by 5.2% y/y. These short-run solutions do not solve the huge government imbalance issue but rather are intended to stabilize deficit at the current levels until the Congress passes the long-awaited social security reform, which is expected to happen by the end of 2019. The pension reform bill is aimed at cutting social security costs which now stand at 13% of GDP, while other G-20 countries spend just 8% on average. The plan is foreseen to generate savings of around USD 300bn, which could be used to reduce the country's high government debt. Moreover, its expansionary effect could be strengthened by a tax simplification reform that involves aggregating five different taxes into one VAT. The reform is expected to be approved in the next 12 months.

As a consequence of the severe fiscal imbalances from 2014 onwards, government debt-to-GDP ratio skyrocketed from 52.62% in January 2014 to an all-time high of 79.27% in April 2019. A significant fraction of the debt comes as a consequence of increased borrowing to support the activities of an unsustainable amount of state-owned enterprises (134 as of January 2019). Capital insufficiencies coupled with lack of investment are the reason behind the privatisation agenda led by current economy minister Paulo Guedes, secretary of privatisation Salim Mattar, and special secretary for the government's Investment Partnership Program (PPI) Martha Seillier. According to data from PPI, Brazil is expected to raise USD 323bn over the upcoming years from airport and railway concessions and postal services privatisation among others. Following the tenth meeting of the PPI council in August, the total number of qualified projects went up to 227, while 119 are already in the pipeline.

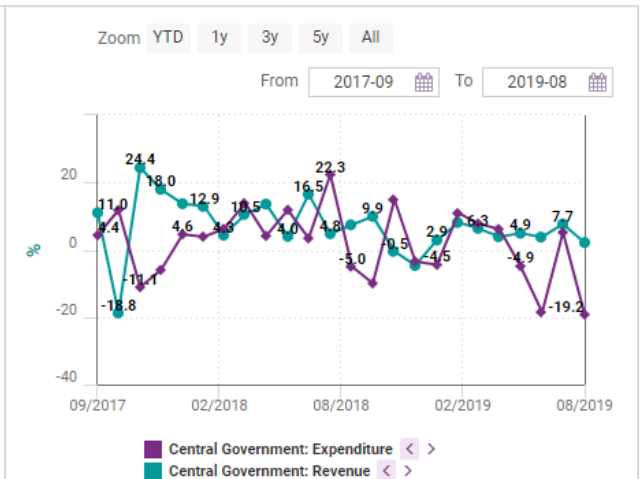
Fiscal Balance: % of Nominal GDP



Central Government Operations



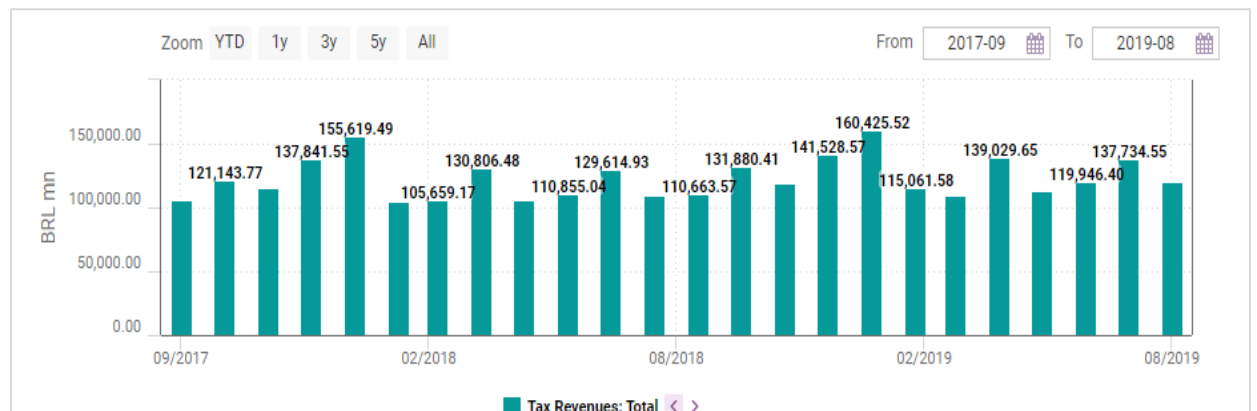
Revenue & Expenditure Growth



Central Government Operations

	Unit	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019
Revenue	BRL mn	117285.44	136008.01	112950.80	118281.60	144620.44	114071.22
Expenditure	BRL mn	156993.83	168271.26	142109.98	164231.24	170790.19	178703.73
Balance	BRL mn	-39708.39	-32263.26	-29159.19	-45949.64	-26169.75	-64632.50
Primary Result	BRL mn	-16817.85	-5919.22	-11732.99	-14756.83	6762.09	-21133.64
Nominal Interest	BRL mn	22890.54	26344.04	17426.20	31192.81	32931.84	43498.86

Tax Revenue: Including Security Revenue

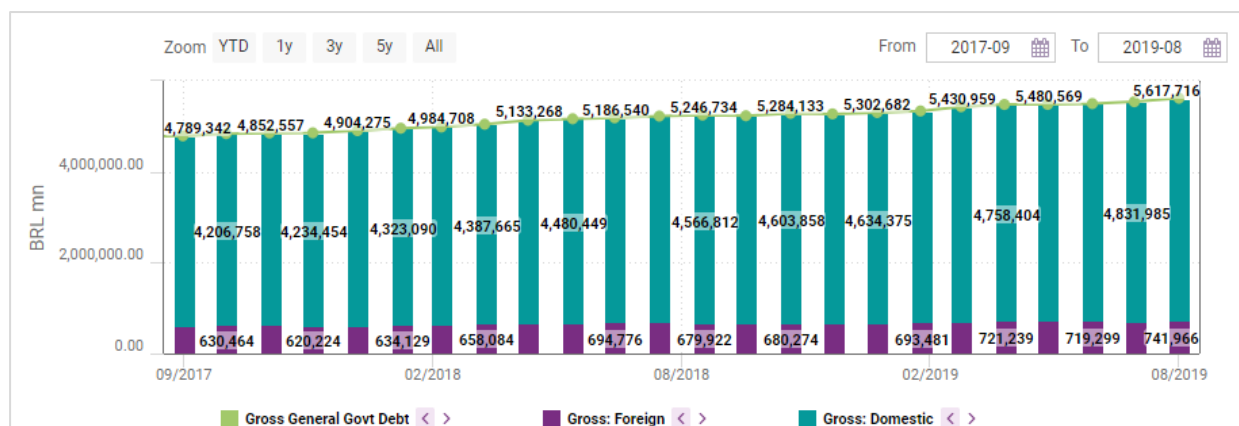


Source: CEIC Data

Federal Tax Revenues

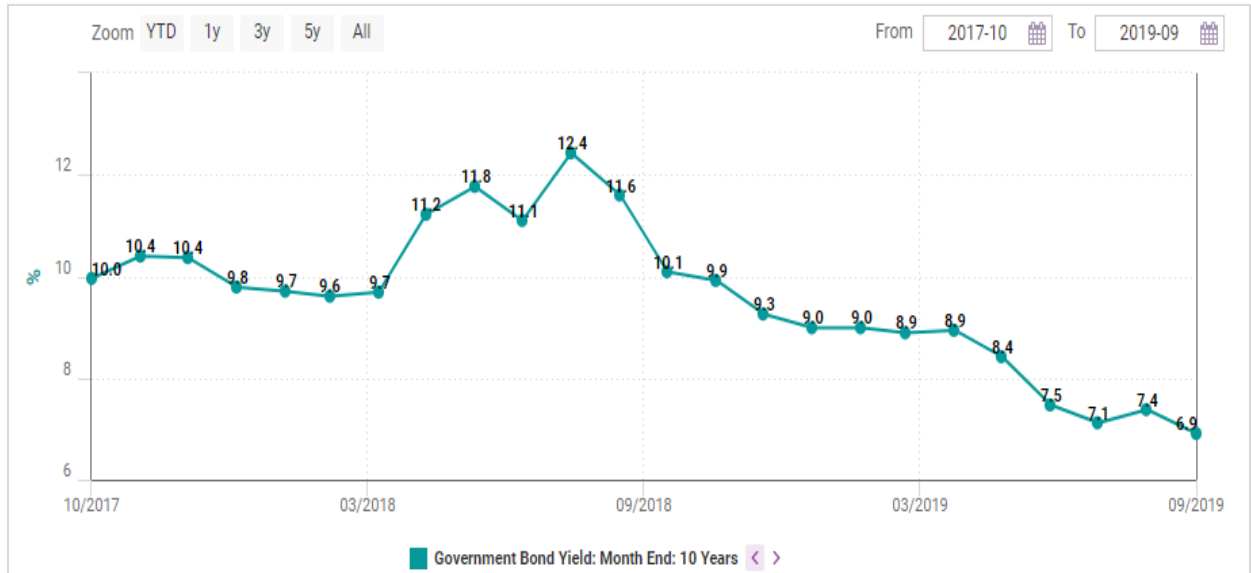
	Unit	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019
Income Tax - IR	BRL mn	32745.18	40229.10	34172.81	28883.29	43315.53	28802.11
Tax on Industrial Products - IPI	BRL mn	4610.13	4552.14	4618.30	4643.64	4709.73	4676.54
Tax on Financial Transactions - IOF	BRL mn	3471.68	3404.65	3482.47	3181.29	3566.04	2931.70
Contribution to Social Security Financing - COFINS	BRL mn	21030.86	21332.21	20730.10	20860.19	20769.48	19766.34
Social Contribution without Net Income	BRL mn	7029.97	10219.31	5017.14	4486.09	8011.84	5428.47
Integration Program/Public Servants Patrimony Training Program - PIS/PASEP	BRL mn	5675.86	5573.12	5512.48	5504.23	5558.99	5451.16
Import Tax - II	BRL mn	3802.59	3720.45	3201.07	3617.01	3499.02	3261.47
Rural Property Tax - ITR	BRL mn	35.95	23.68	20.39	24.50	24.24	24.60
Provisional Contribution on Financial Transaction - CPMF	BRL mn	0.00	0.00	0.00	0.00	0.00	0.00
Intervention Contributions in the Economic Domain - CIDE	BRL mn	230.50	207.65	227.78	235.92	219.51	219.07
Contribution to Fund of Development and Administration of Collection and Inspection - FUNDAF	BRL mn	0.00	0.00	0.00	0.00	0.00	0.00
Contribution to Social Security Plan of Government Employee - PSS	BRL mn	2576.20	2512.72	2567.97	2784.85	2603.00	2581.61
Other Administrative Revenue	BRL mn	1985.43	2060.83	1512.00	2059.07	1734.98	1637.27
Subtotal	BRL mn	83194.34	93835.85	81062.52	76280.09	94012.35	74780.34
Security Revenue	BRL mn	34338.54	33801.21	35666.86	34472.57	33986.86	33131.34
Administered by the Federal Revenue of Brazil	BRL mn	117532.88	127637.06	116729.37	110752.65	127999.21	107911.68
Administered by Other Agencies	BRL mn	2418.47	10097.48	3217.03	2525.36	11030.43	1942.39
Total	BRL mn	119951.35	137734.55	119946.40	113278.01	139029.65	109854.07

Central Government: Gross Debt

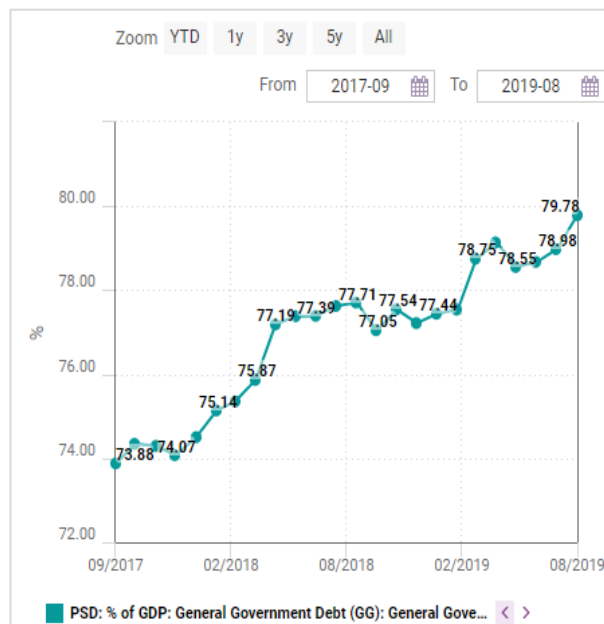


Source: CEIC Data

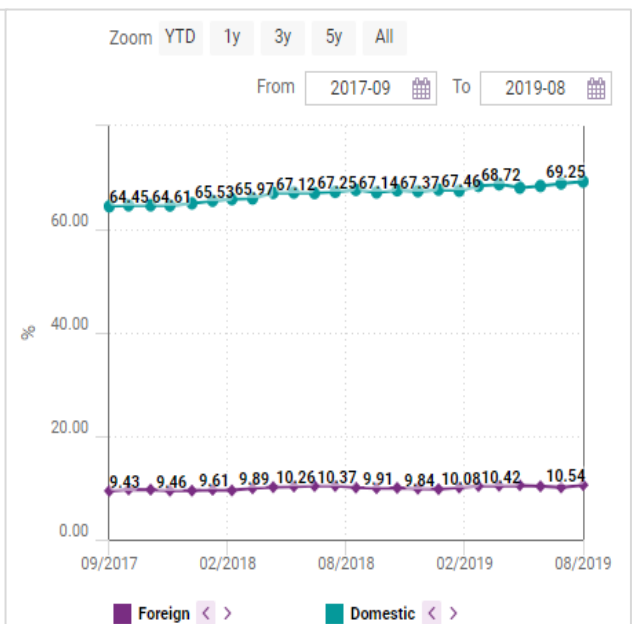
Government Bond Yield: Month End: 10 Years



Gross Government Debt: % of Nominal GDP



Gross Government Debt: % of Nominal GDP (Domestic & Foreign)



Source: CEIC Data



In, On and For Emerging Markets

Brazil Economy in a Snapshot, Q3 2019

A CEIC Insights Report



External Sector



External Sector

Despite global trade tensions, both export and import value increased in Q2 by 1.8% and 4.7% y/y, respectively. However, monthly data on exports showed a decline in July and August by 11.26% and 13% y/y, respectively. Imports followed a similar trend for the given period, dropping by 17.09% on an annual basis in August. Trade surplus trended downwards in Q2, dropping to USD 2.29bn in July 2019, though it rebounded in August to USD 3.18bn.

Among the top four highest-grossing export sectors, only food & live animals recorded positive growth in July, accelerating to 23.27% y/y from 12.33% in April. The other three – crude materials, machinery & transport equipment, and mineral fuels – contracted by 6.86%, 31.90% and 48.05% y/y, respectively, in July.

The growth of exports to China, which is by far Brazil's biggest trade partner, entered negative territory in Q2 to decline by 12.55% y/y in July, pushed down by the slowing domestic demand in the Asian country. Despite the expectations for an increase in soybean exports to China in the face of the Beijing-Washington trade war, these exports recorded a 29.69% drop y/y on the back of price increases on the Brazilian commodity markets. Crude oil exports also decreased significantly by 54.35% y/y, while positive signals come from iron ore exports, which expanded by 41.32% y/y in July.

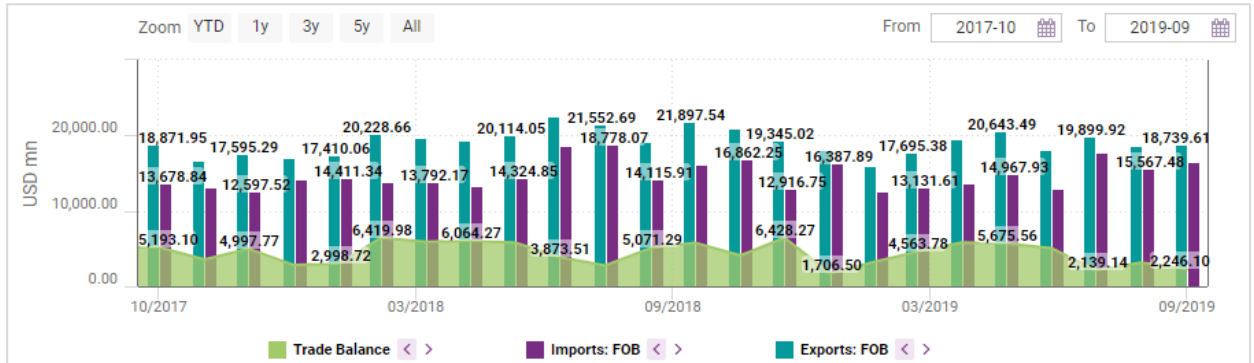
Exports to the US improved significantly by 10.77% y/y in July, while exports to Argentina plunged by 27.75% y/y amid skyrocketing inflation in the neighbouring country.

Most of Brazil's key imports grew until May, plunged in June, but managed to pick up in July, with machinery & transport equipment being the only exception with a 30.10% y/y drop in July. All other three – manufactured goods, mineral fuels and chemical products – registered increases of 29.12%, 23.47%, and 14.85%, respectively, in July 2019.

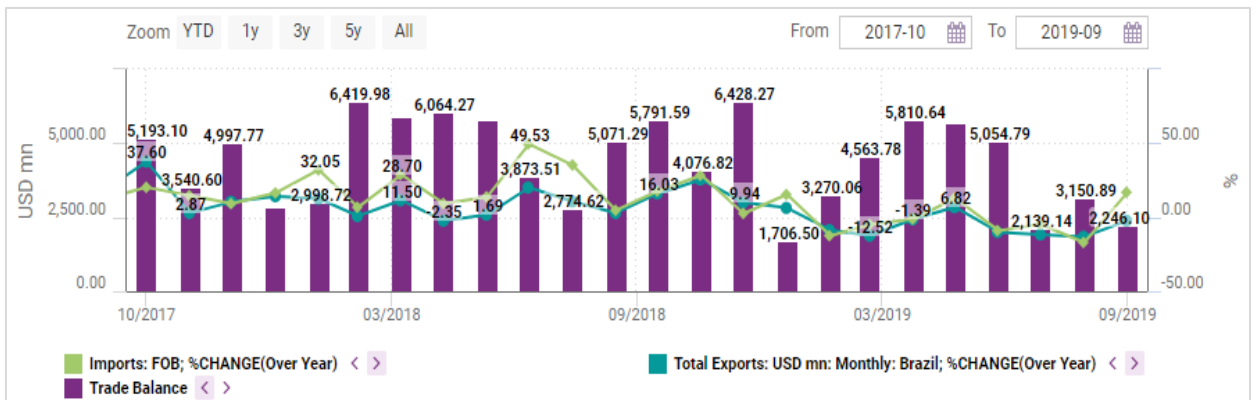
Imports from China remained stable in April and May but plummeted by 3.59% in June and a further 34.78% y/y in July. Imports from the US grew by 25.53% y/y to a five-year high of USD 3.2bn during the same period. Argentinian imports contracted by 4.6% y/y following declines in passenger cars and wheat trade.

Brazil's current account deficit narrowed to USD 3.1bn or 0.67% of nominal GDP in Q2 2019. Foreign portfolio investment recorded an outflow of USD 7.1bn in Q2. In line with Bolsonaro's aspiration to attract massive amounts of foreign investment through economic liberalisation and privatisations of main state-owned assets, in Q2 Brazil attracted USD 16.2bn in FDI in Q2, 25.81% more y/y. Given the pro-market agenda of economy minister Paulo Guedes and the upcoming M&A deals in Q3, analysts expect the value of foreign investment to continue to grow and support Brazil's stagnating economy.

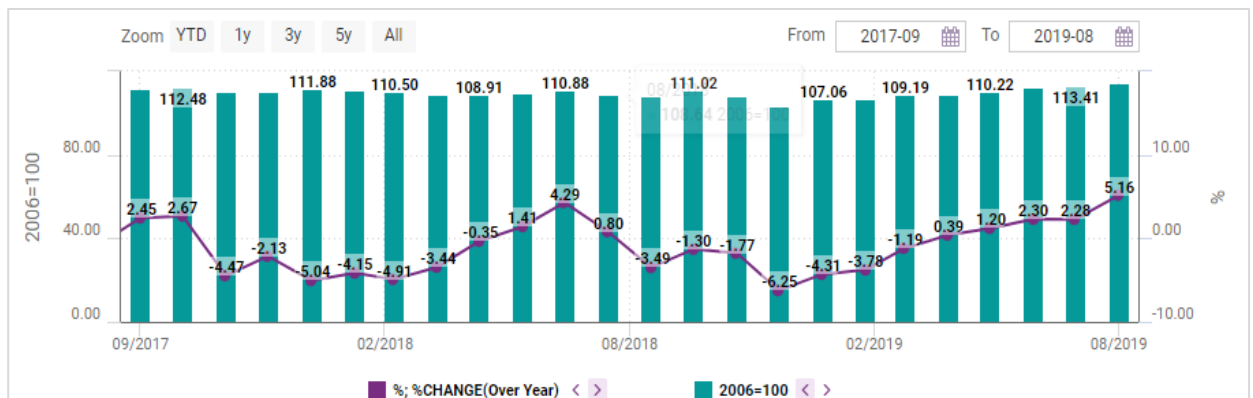
Foreign Trade Balance



Foreign Trade: YoY Growth



Terms of Trade Index

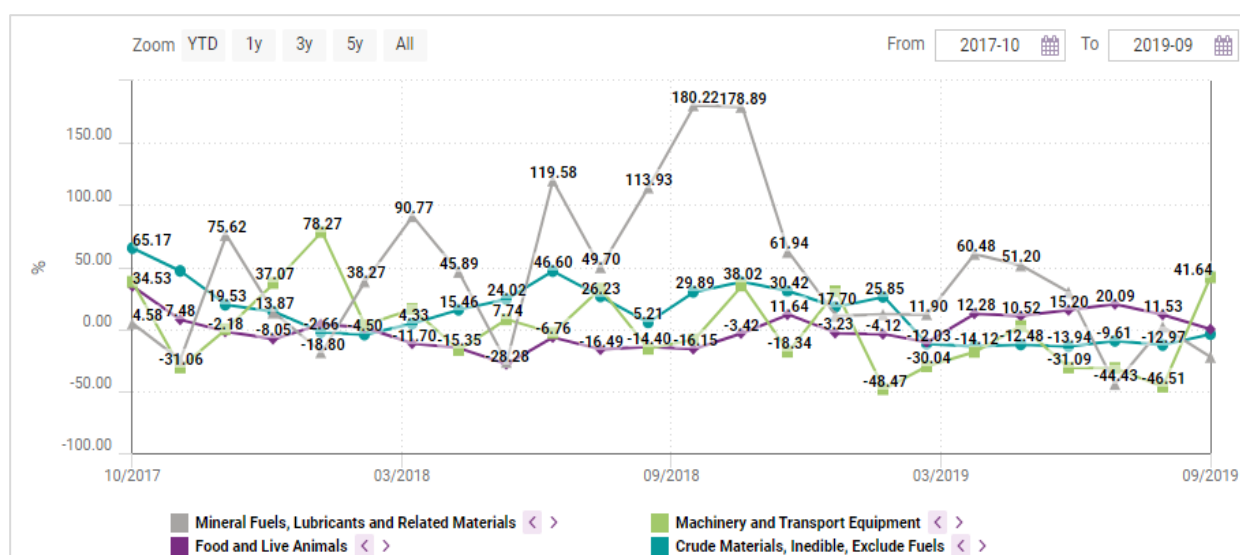


Source: CEIC Data

Exports: Main Categories

	Unit	09/01/2019	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019
Exports: FOB	USD mn	18739.61	18718.37	19899.92	18083.60	20643.49	19439.26	17695.38
Crude Materials, Inedible, Exclude Fuels	USD mn	4914.14	5612.12	6643.71	6503.57	7167.77	6059.18	5962.61
Food and Live Animals	USD mn	4249.12	4455.11	4422.47	3305.30	3588.84	3066.30	3204.54
Machinery and Transport Equipment	USD mn	3587.97	2392.44	2559.70	2387.57	2705.96	2713.35	2352.43
Mineral Fuels, Lubricants and Related Materials	USD mn	2237.85	2315.26	2145.15	2019.52	2774.74	3503.68	2382.82
Manufactured Goods Classified by Materials	USD mn	1801.83	1950.54	2123.89	2098.17	2347.14	2191.48	1911.71
Chemical and Related Products	USD mn	881.77	1013.16	1072.80	937.61	1011.38	952.73	961.38
Commodities and Transactions not Specified in Other Parts	USD mn	297.27	324.36	262.58	237.51	312.80	270.49	219.91
Commodities and Transactions not Specified in Other Parts: Special Operations and Commodities Not Classified	USD mn	0.25	0.33	0.16	2.75	0.31	1.29	1.07
Beverages and Tobacco	USD mn	287.23	187.03	201.17	142.32	181.70	130.99	206.63
Animal and Vegetables Oils, Fats and Waxes	USD mn	77.64	90.13	105.03	112.22	168.42	69.77	80.09
Miscellaneous Articles	USD mn	404.81	378.22	363.41	339.82	384.75	481.28	413.27
Commodities and Transactions not Specified in Other Parts: Gold, Non-Monetary	USD mn	297.01	324.04	262.41	234.75	312.50	269.20	218.85

Exports: Top Products: YoY Growth

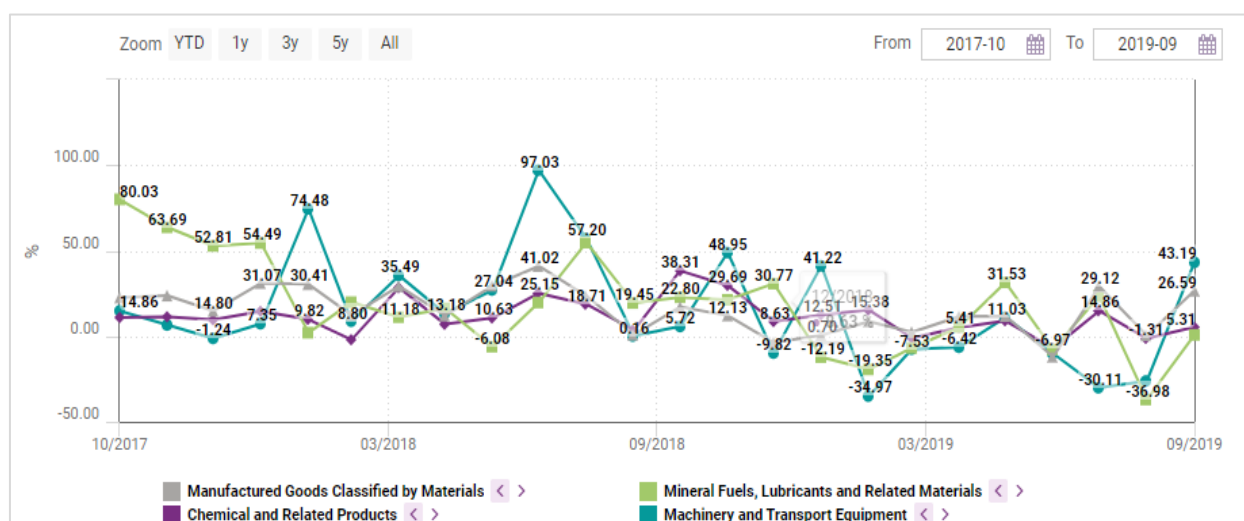


Source: CEIC Data

Imports: Main Categories

	Unit	09/01/2019	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019
Imports: FOB	USD mn	16493.51	15567.48	17760.78	13028.82	14967.93	13628.62	13131.61
Machinery and Transport Equipment	USD mn	6562.34	5439.09	5731.83	4580.05	5088.59	4728.97	4485.52
Chemical and Related Products	USD mn	4117.05	4308.54	4550.84	3417.75	3783.19	3285.84	3022.04
Mineral Fuels, Lubricants and Related Materials	USD mn	1910.94	1788.97	2725.96	1703.35	2322.44	1894.09	1935.75
Manufactured Goods Classified by Materials	USD mn	1911.56	1856.65	2441.73	1526.53	1669.52	1686.62	1556.95
Food and Live Animals	USD mn	623.77	625.93	682.92	573.74	650.57	710.16	679.86
Crude Materials, Inedible, Exclude Fuels	USD mn	246.75	351.08	465.13	281.19	380.16	305.59	416.31
Animal and Vegetables Oils, Fats and Waxes	USD mn	46.64	59.16	68.10	61.26	76.27	65.17	83.63
Beverages and Tobacco	USD mn	64.28	64.03	63.16	45.96	72.79	56.39	50.34
Commodities and Transactions not Specified in Other Parts	USD mn	1.11	1.25	1.50	1.18	1.07	0.59	0.43
Miscellaneous Articles	USD mn	1009.07	1072.77	1029.60	837.82	923.35	895.20	900.77
Commodities and Transactions not Specified in Other Parts: Gold, Non-Monetary	USD mn	1.11	1.25	1.50	1.18	1.07	0.59	0.43

Imports: Top Products: YoY Growth



Source: CEIC Data

Top Trading Partners: Exports

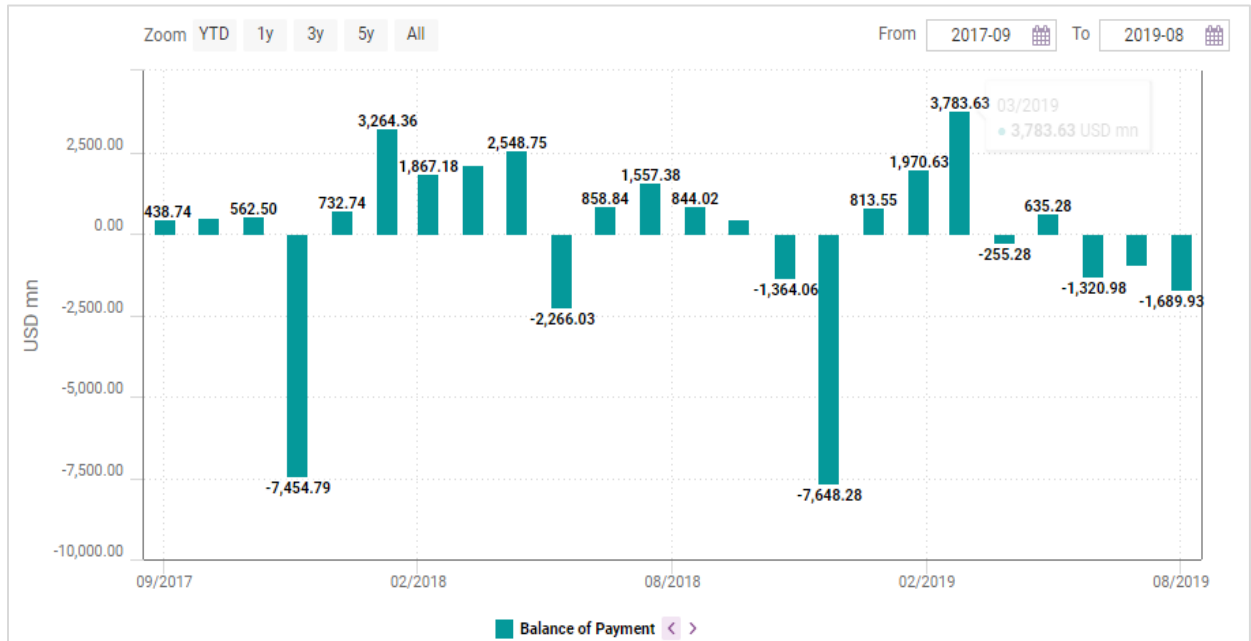
	Unit	09/01/2019	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019
China	USD mn	4708.85	5357.57	5796.47	5530.81	5707.26	5701.76	5369.77
USA	USD mn	2103.72	2312.44	2691.21	2387.54	3112.24	2731.17	2139.99
Argentina	USD mn	695.49	790.20	837.24	848.87	1035.62	929.73	798.48
Netherlands	USD mn	2354.67	719.99	772.71	619.51	843.19	837.62	578.98
Chile	USD mn	371.49	441.32	398.06	482.65	448.74	480.11	366.31
Germany	USD mn	272.00	440.28	437.00	347.68	405.51	399.80	472.06
Spain	USD mn	341.44	354.97	294.10	341.09	452.36	407.25	377.60
Mexico	USD mn	459.86	393.51	483.84	423.70	446.98	394.31	401.06
Japan	USD mn	506.79	490.15	590.85	414.98	319.44	301.71	369.50
India	USD mn	223.91	162.44	254.96	207.75	228.05	235.53	338.22

Top Trading Partners: Imports

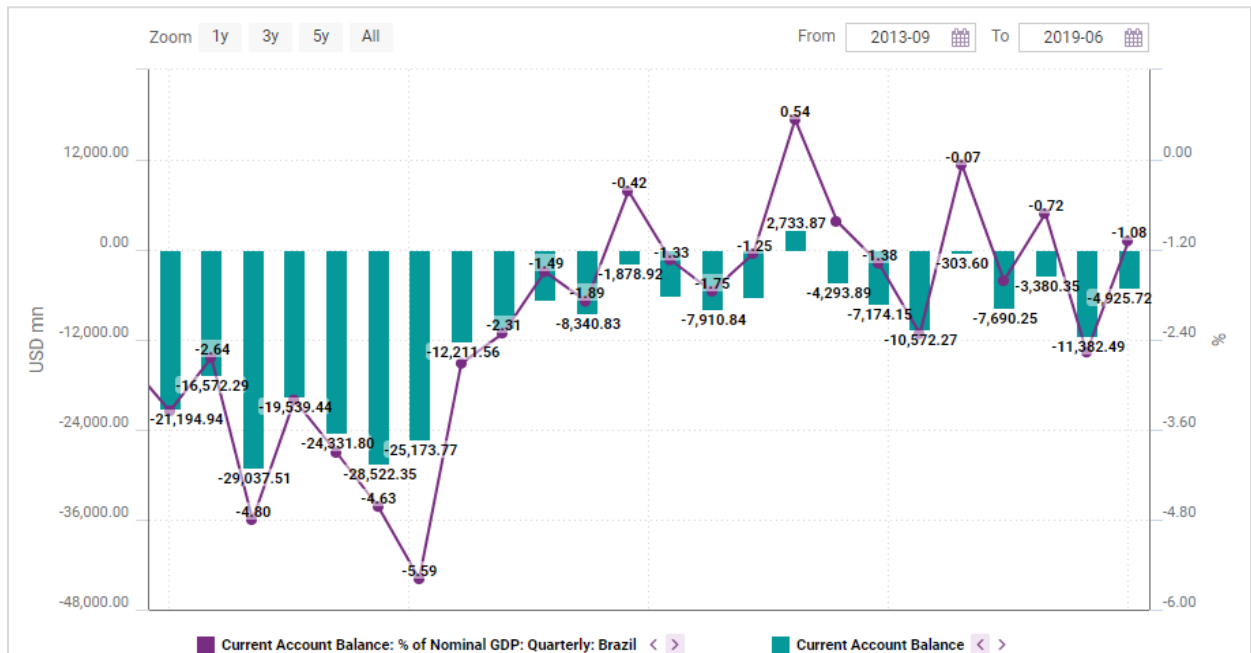
	Unit	09/01/2019	08/01/2019	07/01/2019	06/01/2019	05/01/2019	04/01/2019	03/01/2019
China	USD mn	2903.47	2943.30	2819.05	2505.17	2681.82	2558.79	2525.07
USA	USD mn	2496.23	3167.15	3186.90	2042.97	2824.70	2458.06	2206.86
Argentina	USD mn	776.85	825.20	907.15	828.03	893.80	907.66	983.28
Germany	USD mn	918.22	987.41	974.00	769.13	947.78	793.68	755.06
South Korea	USD mn	396.20	413.32	435.43	385.22	450.68	442.86	378.15
Mexico	USD mn	366.98	414.74	394.06	313.43	422.12	327.76	345.28
Italy	USD mn	344.92	378.89	399.35	325.15	362.73	302.72	314.77
Japan	USD mn	324.37	338.46	547.88	287.58	343.83	366.04	331.99
France	USD mn	291.20	312.28	322.78	281.38	304.98	261.84	248.68
India	USD mn	299.73	337.71	391.38	270.27	377.62	417.84	314.49

Source: CEIC Data

Balance of Payments



Current Accounts: % of Nominal GDP

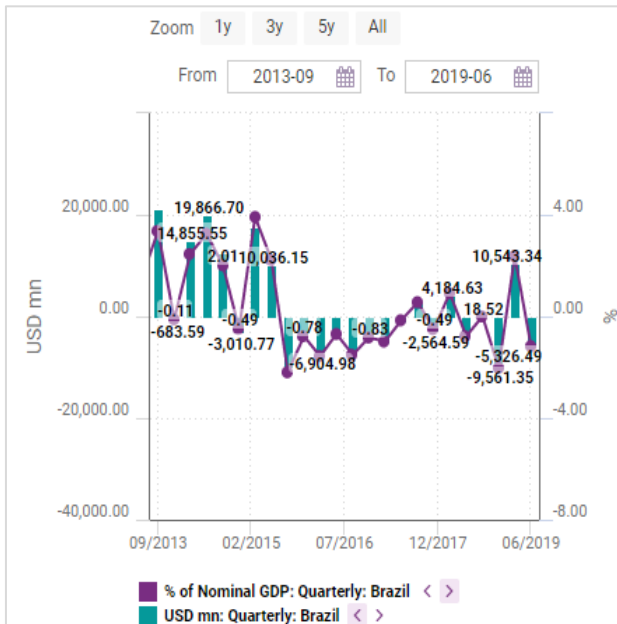


Source: CEIC Data

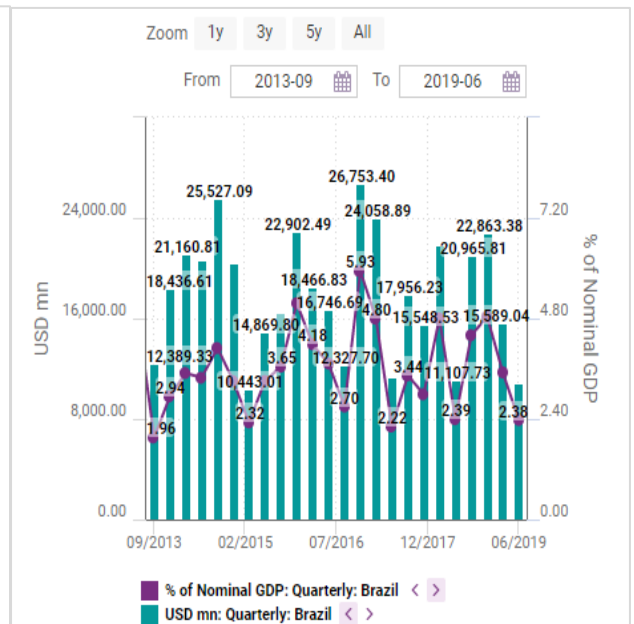
Flows of Direct and Portfolio Investment (+ Inflows, - Outflows)



Foreign Portfolio Investment (Net) (+ Inflows, - Outflows)



Foreign Direct Investment (Net) (+ Inflows, - Outflows)



Source: CEIC Data



In, On and For Emerging Markets



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CEIC is an ISI Emerging Markets Group Company specialized in high quality macroeconomic databases. CEIC's databases have earned a world-class reputation among financial institutions, government agencies, universities, and corporations due to accuracy and comprehensiveness. Today, we are the service of choice for economic research on emerging and developed markets by economists around the globe.

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