

Brazilian economic outlook

What's next after the pension reform?

August 2019

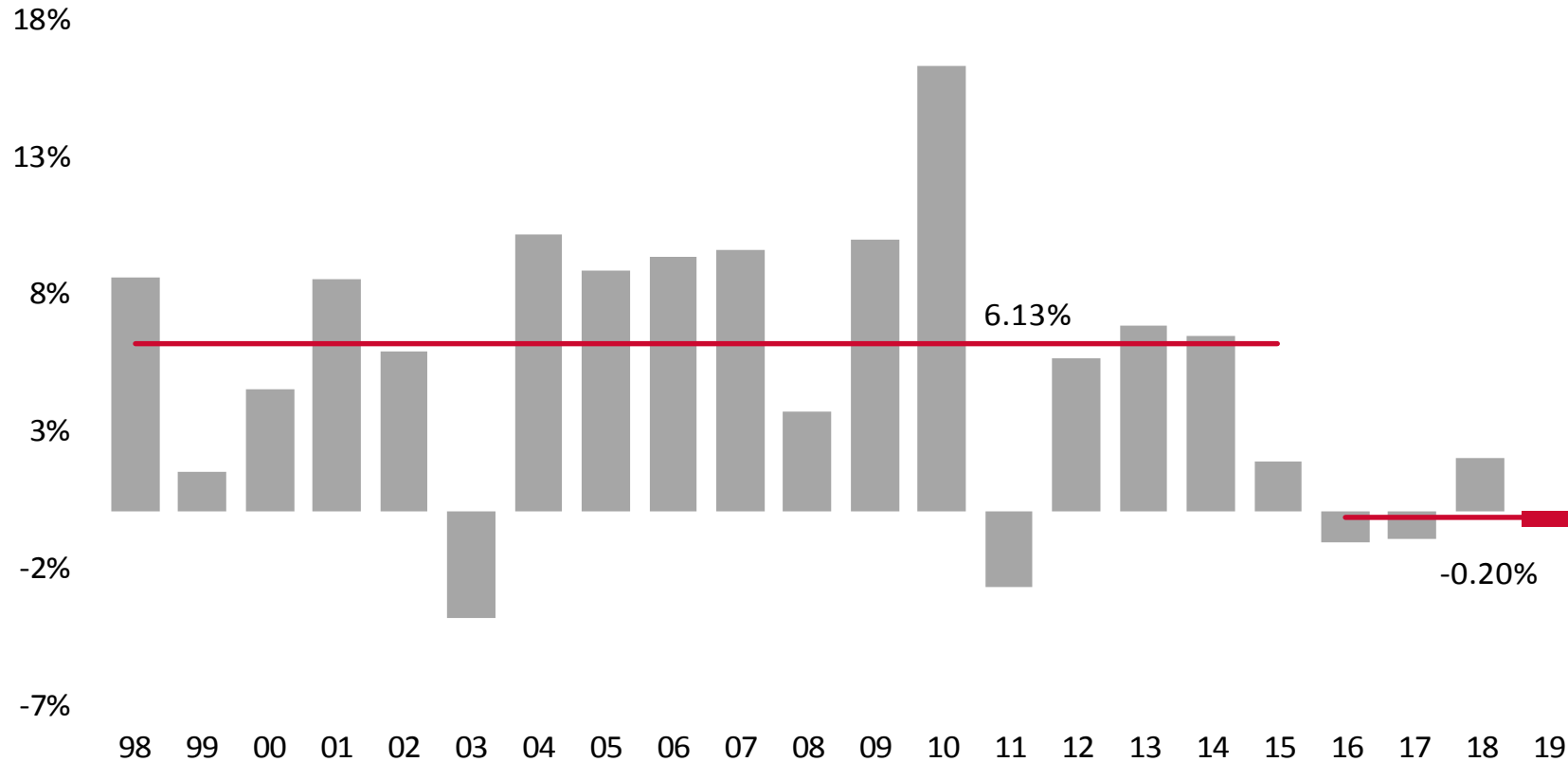
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Brazil is undergoing **its most important economic transition** in decades...

CENTRAL GOVERNMENT REAL EXPENDITURE

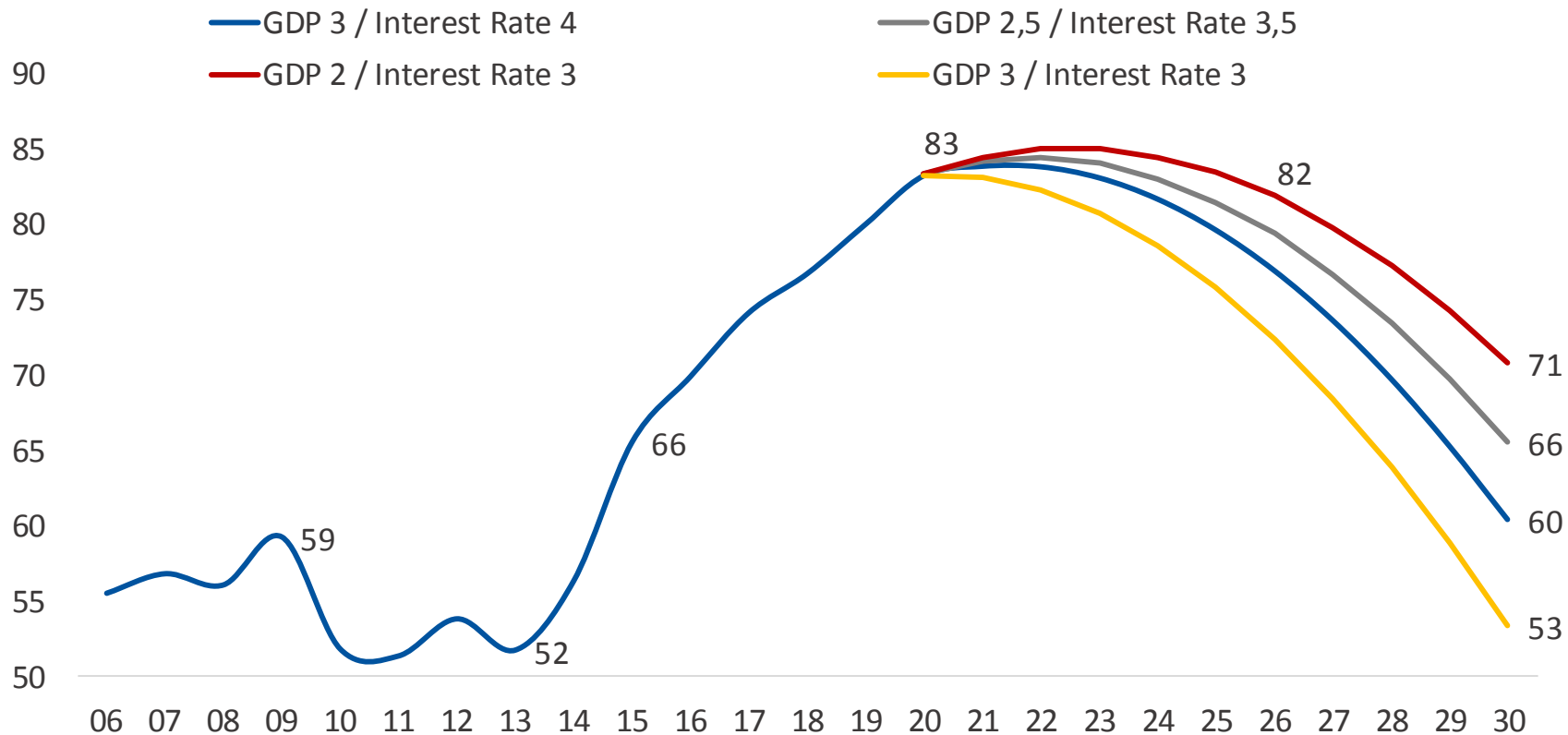
% annual



Source: STN, Bradesco

FEDERAL DEBT/GDP

Alternative scenarios



Source: BCB, Bradesco

NOMINAL INTEREST RATES – 10 YEARS

Selected emerging markets



	2008	2010	2015	2017	2018	2019	CPI target
Brazil	12.5	12.3	13.7	10.3	10.6	7.2	3.8
South Africa	9.1	8.5	8.2	8.7	8.7	8.7	4.5
Russia	7.9	7.8	11.3	7.8	7.9	7.4	4.0
Chile	6.7	4.8	4.5	4.2	4.6	3.3	3.0
Colombia	10.8	7.9	7.5	6.6	6.7	6.0	3.0
Peru	7.3	5.9	6.4	5.6	5.4	4.5	2.0
Mexico	8.4	7.0	6.0	7.2	7.9	7.6	3.0
Average (ex-Brazil)	8.9	7.7	8.2	7.2	7.4	6.4	3.3

Source: Bloomberg, Bradesco

REAL INTEREST RATE 2050

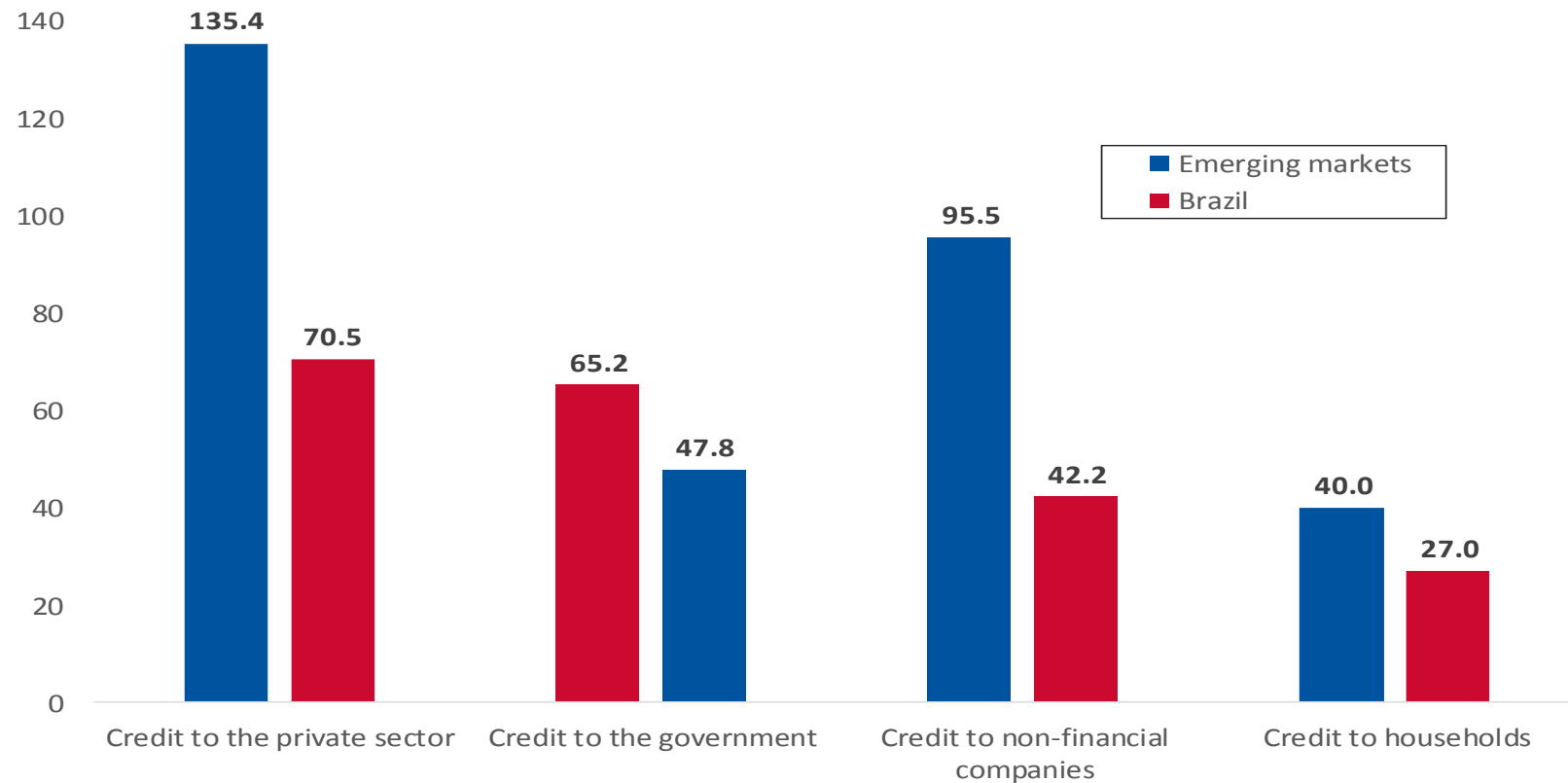
% Annual



Source: Bloomberg, Bradesco

CREDIT – INTERNATIONAL COMPARISON

Dec-18, % of GDP

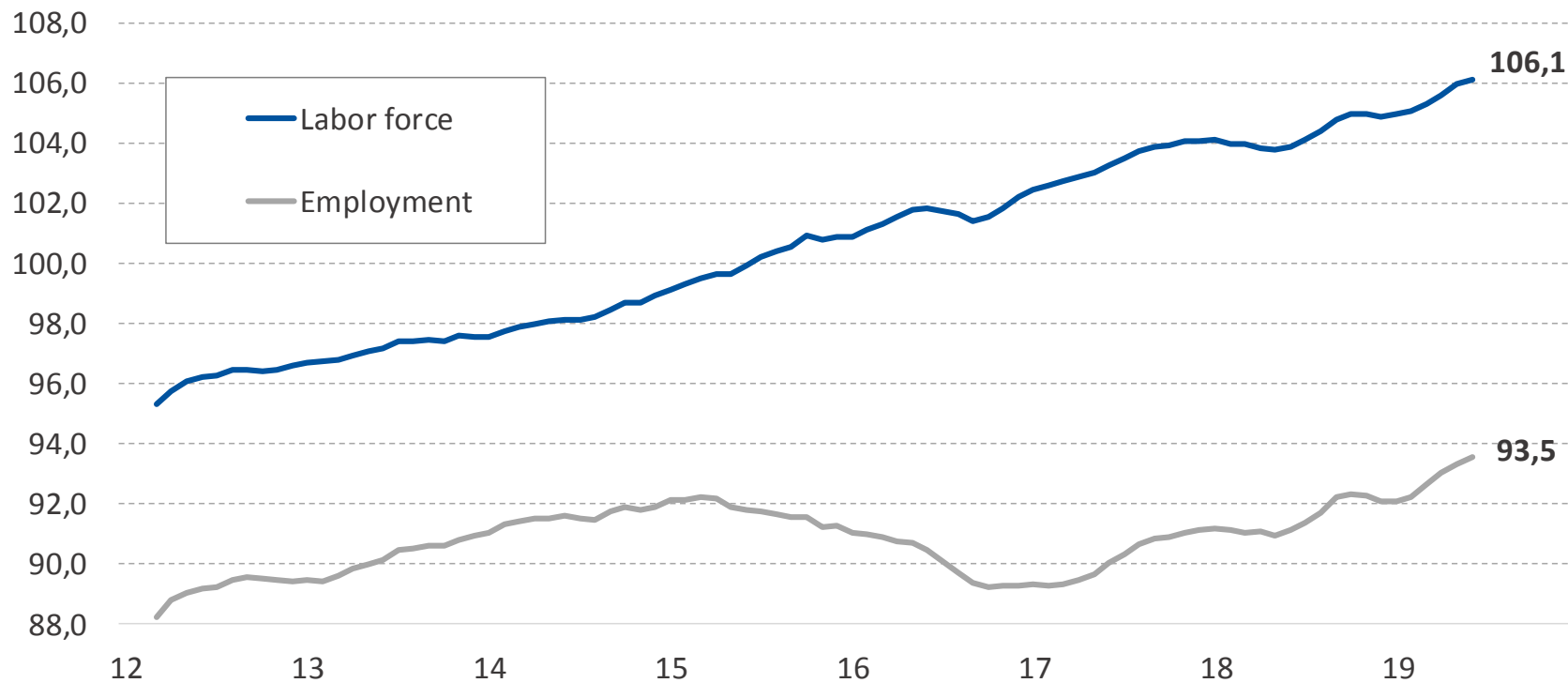


Source: BIS, BCB, Bradesco

The economy is
gradually improving...

EMPLOYMENT AND LABOR FORCE

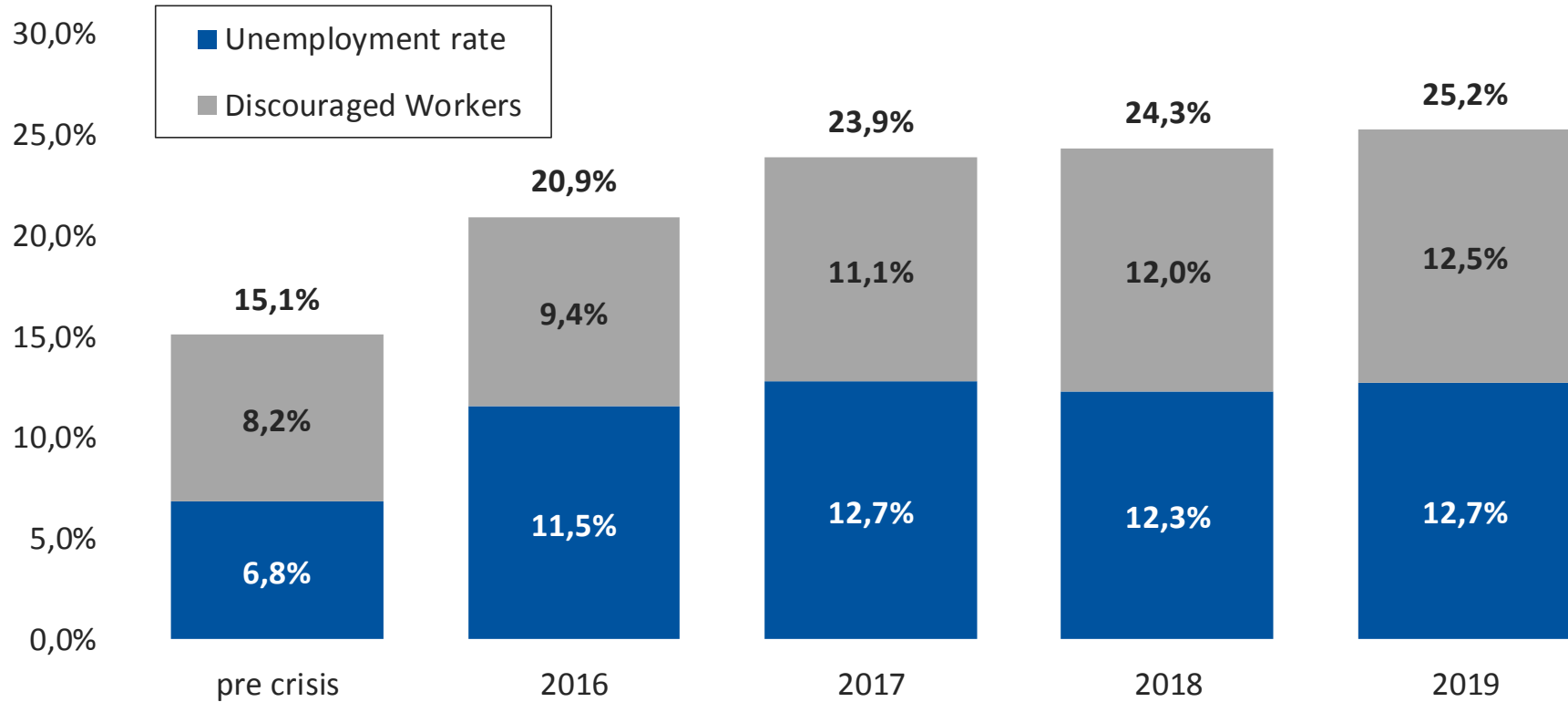
Seasonally adjusted, millions, includes non-formal workers



Source: IBGE, Bradesco

UNEMPLOYMENT RATE

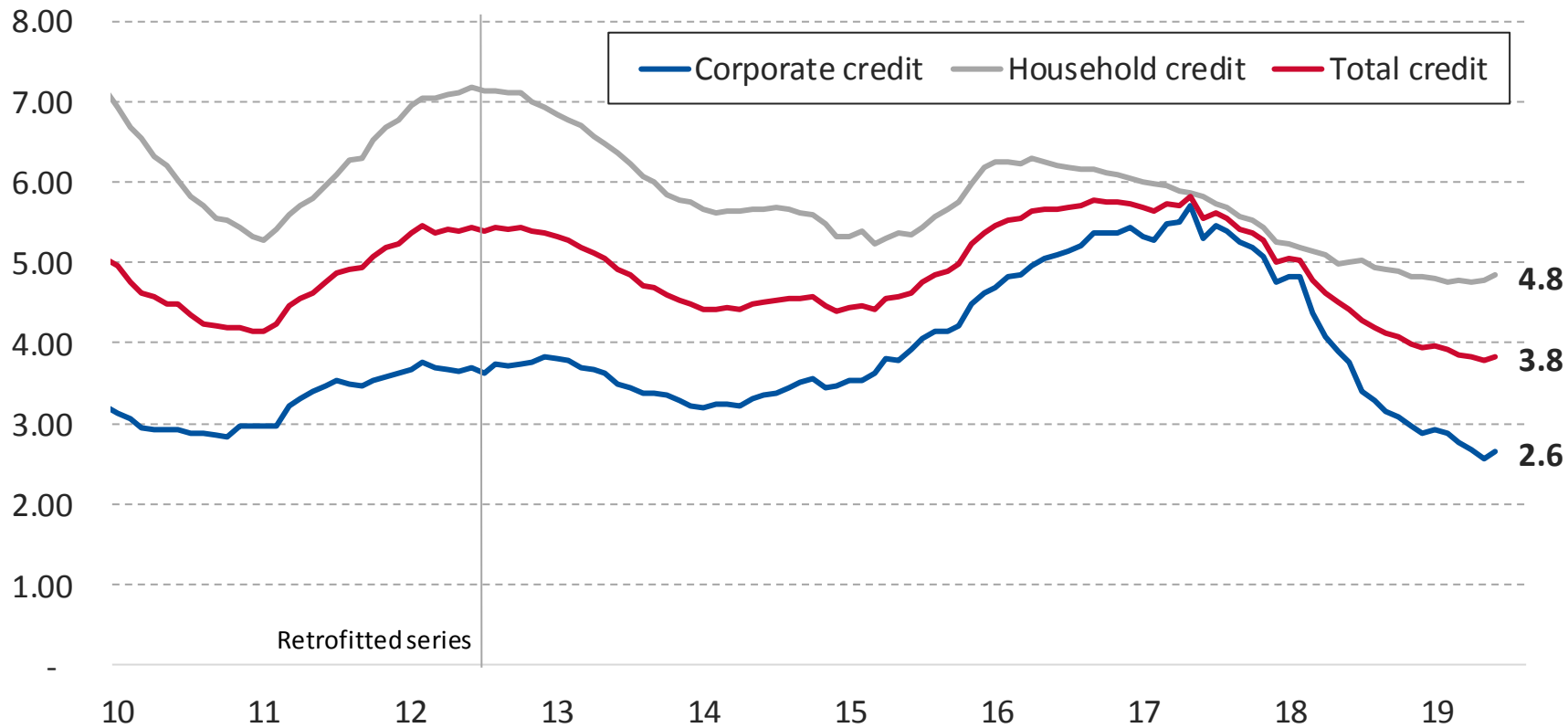
Annual average



Source: IBGE, Bradesco

NON-PERFORMING LOANS

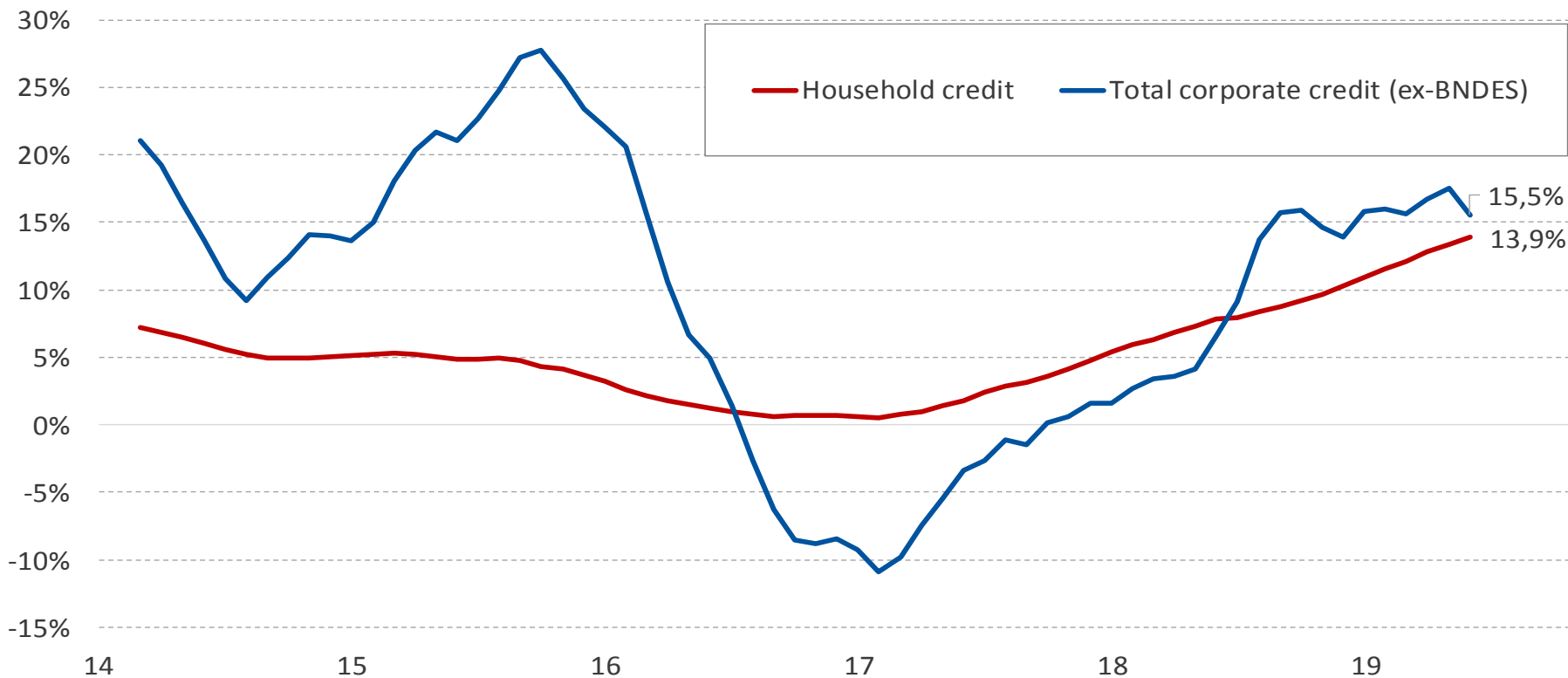
Seasonally adjusted



Source: BCB, Bradesco

CREDIT TO HOUSEHOLDS AND COMPANIES

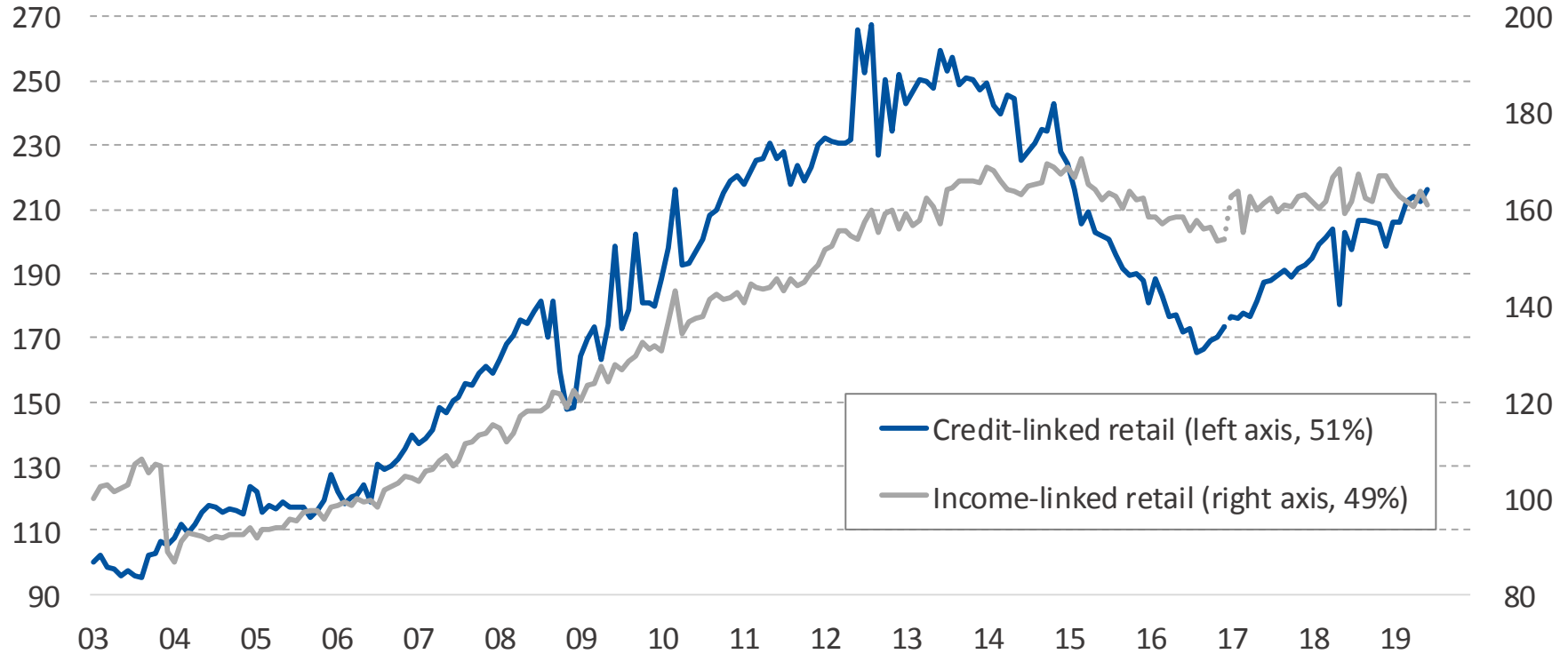
YoY, % 3 month-moving average



Fonte: BCB, Bradesco

BRAZILIAN REAL RETAIL SALES

Credit and income-related retail sales, level



Source: IBGE, Bradesco

SAO PAULO HOUSING MARKET

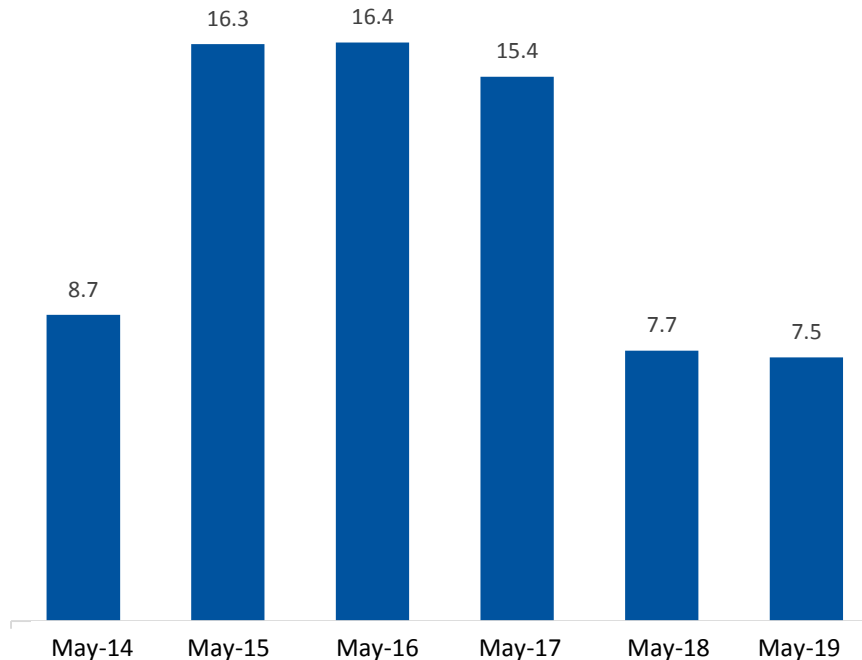
Housing starts and sales



Housing Starts and New Home Sales (units in 12 months)



Supply runoff time (months of sales)

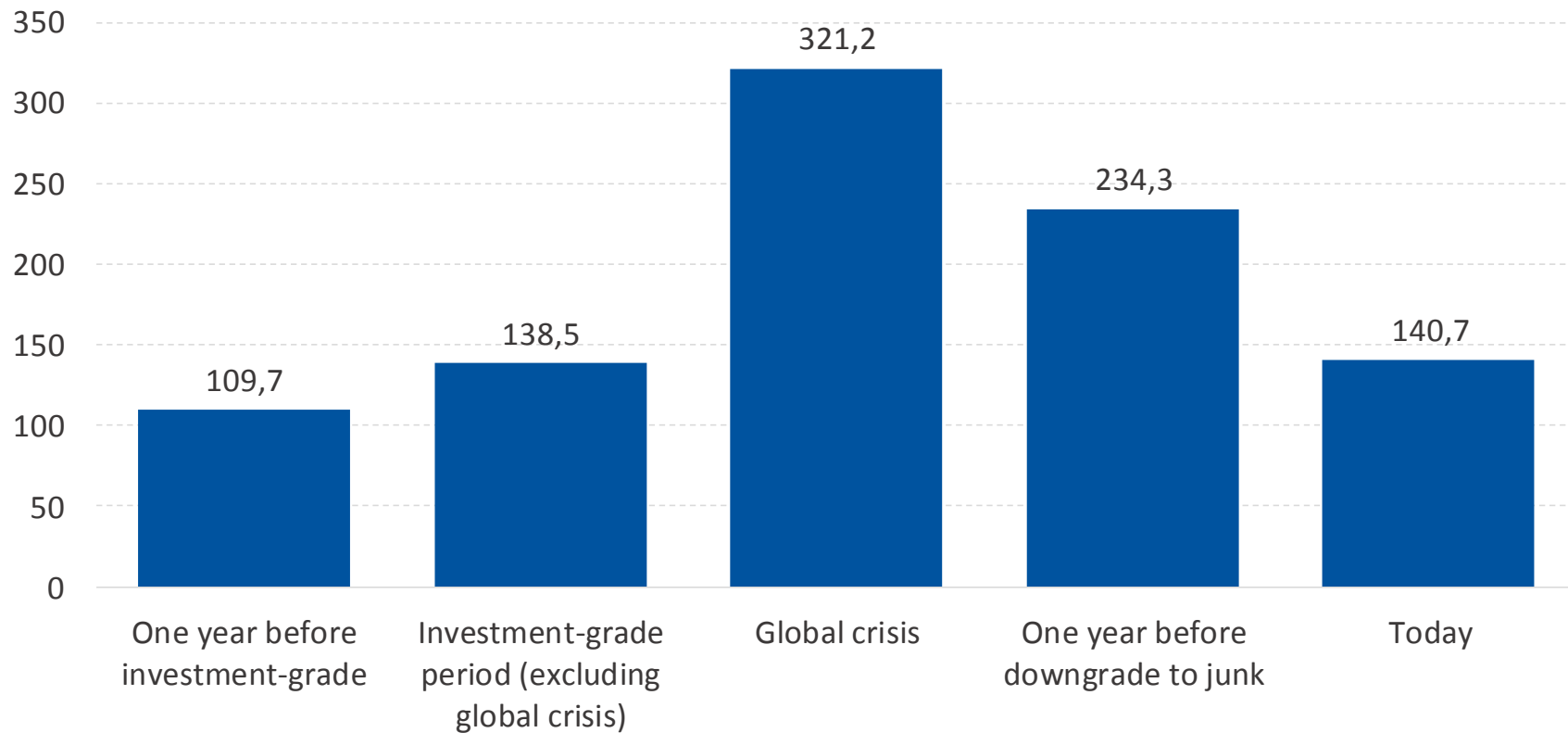


Source: Secovi, Bradesco

Markets are pricing-
in this **positive**
outlook...

BRAZILIAN RISK: 5 YEAR CDS

b.p.



Source: Bloomberg, Bradesco

BRAZIL: EXTERNAL FUNDAMENTALS

External indicators



	Sample mean	Investment grade		Speculative grade	
		AAA to A-mean	BBB+ to BBB-mean	Speculative grade mean	Brazil
Total external debt / GDP	52%	68%	46%	48%	27%
Net external liabilities / GDP	15%	-27%	31%	59%	32%
International Reserves (US\$ bi)	149	245	100	45	383
International Reserves (months of import)	8.6	8.1	7.8	9.0	24.8
Current account / GDP (*)	-2.3%	-1.1%	-2.5%	-2.8%	-0.7%
External financing needs / (Reserves + Exports) (**)	147%	193%	115%	126%	61%

Sample: 81 countries

* Mean of deficit countries

** Current account + Debt servicing maturing in 12 months

Source: S&P, Bradesco

BRAZILIAN RATINGS

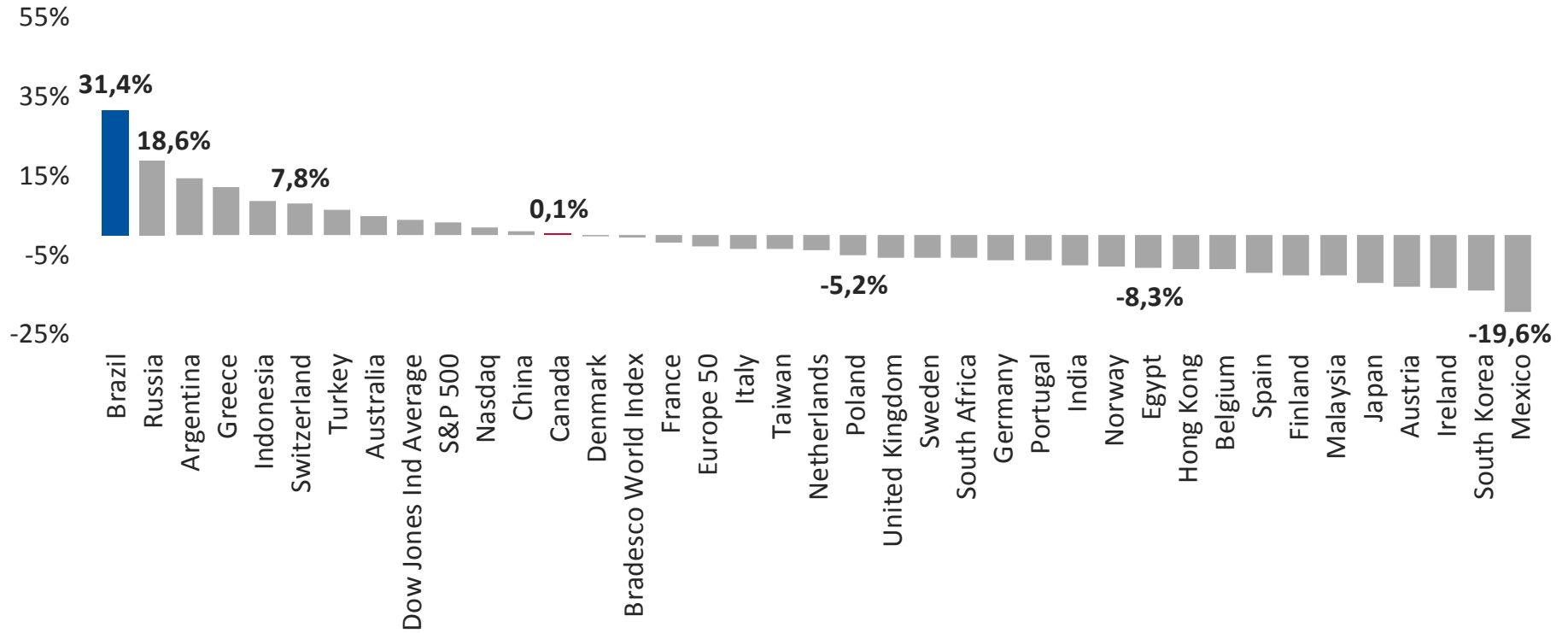
Rating agencies



Fitch Ratings		Moody's		Standard & Poor's	
AAA		Aaa		AAA	
AA+		Aa1		AA+	
AA		Aa2		AA	
AA-		Aa3		AA-	
A+		A1		A+	
A		A2		A	
A-		A3		A-	
BBB+		Baa1		BBB+	
BBB		Baa2		BBB	
BBB-		Baa3		BBB-	
BB+		Ba1		BB+	
BB		Ba2		BB	
BB-		Ba3		BB-	
B+		B1		B+	
B		B2		B	
B-		B3		B-	
CCC		Caa1		CCC+	
CC		Caa2		CCC	
C		Caa3		CCC-	
RD		Ca		CC	
D		C		C	
				D	

GLOBAL STOCK MARKETS

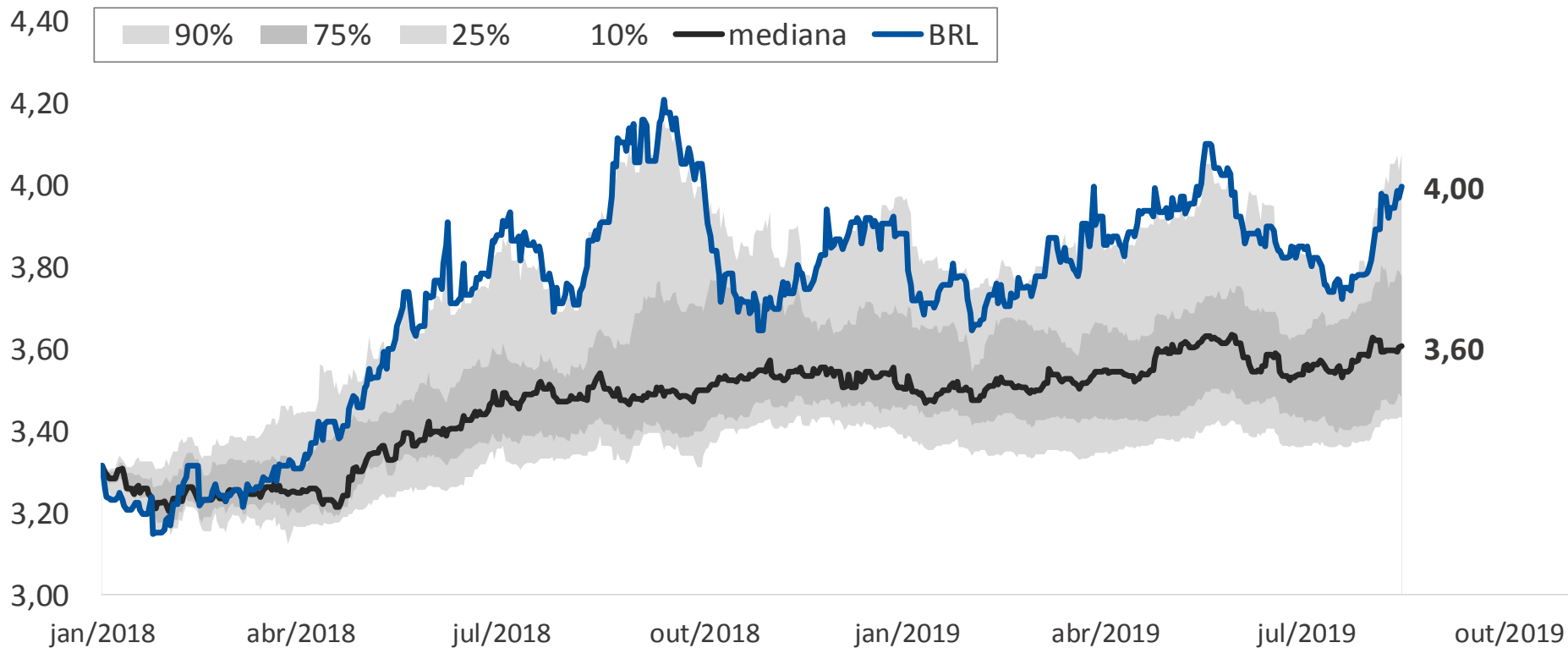
12-month, %, local currency



Source: Bloomberg, Bradesco

EXCHANGE RATE: BRL vs EMERGING MARKETS

BRL accumulated variation versus median and percentiles of 22 emerging



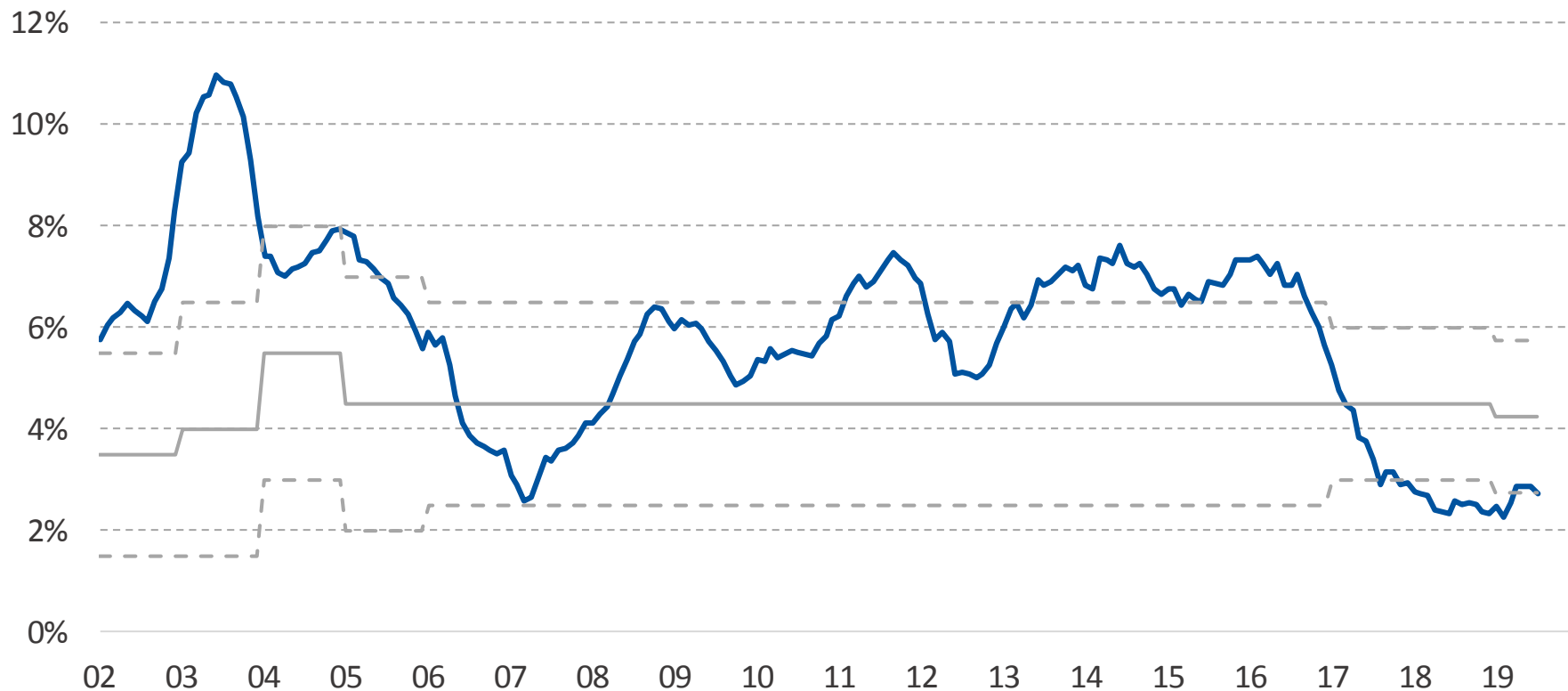
Source: Bloomberg, Bradesco

To **strengthen growth**,
however, the **private sector**
must be the protagonist of
the economy...

Topics	Reforms
Business environment	Tax reform, Economic Freedom Bill, Law of Gas and Sanitation, Regulatory Mark of Regulatory Agencies, BC+ Outlook
Privatization and concessions	BRL 204 billions in projects
Openness of economy	Mercosul-EU Deal, unilateral reduction of CET, new deals
Demand boost	FGTS, Bolsa Família Programme Christmas Bonus, monetary policy
Macro and fiscal reforms	Transfer of Rights (Petrobras), Central Bank Independence, aid to states and municipalities, administrative reform
Implemented reforms	Spending cap bill, TLP, labor reform, public credit downsizing, social security and anti-fraud, reduction of inflation target, home equity credit, positive credit bureau, LIG, electronic bonds

CORE CPI

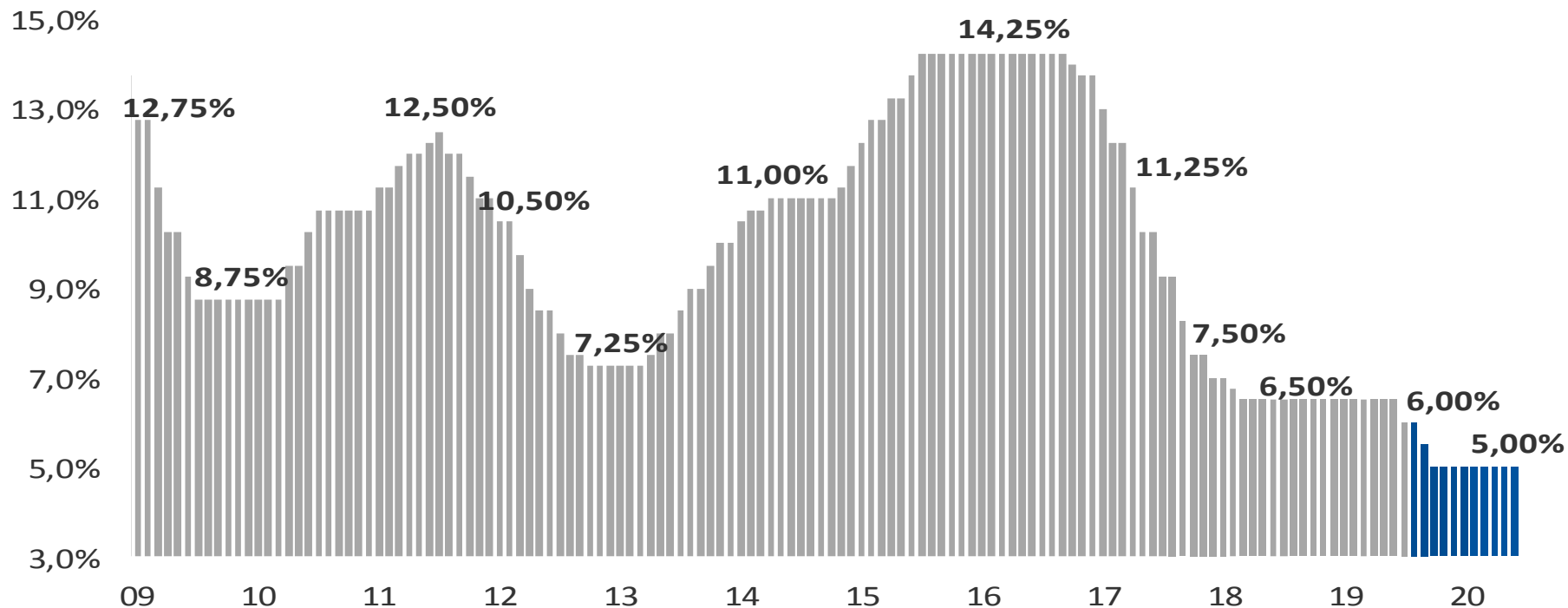
Seasonally adjusted, 12 months



Source: IBGE, Bradesco

SELIC POLICY RATE

Selic, %



Source: BCB, Bradesco

Goods and Services

Federal VAT

(IPI, Cofins, PIS)

or

Dual VAT*

(ICMS, ISS)

Income and Profits

Reduce corporate tax
(IRPJ and CSLL)

Reduce personal income
tax (IRPF)

Remove/limit tax
deductions

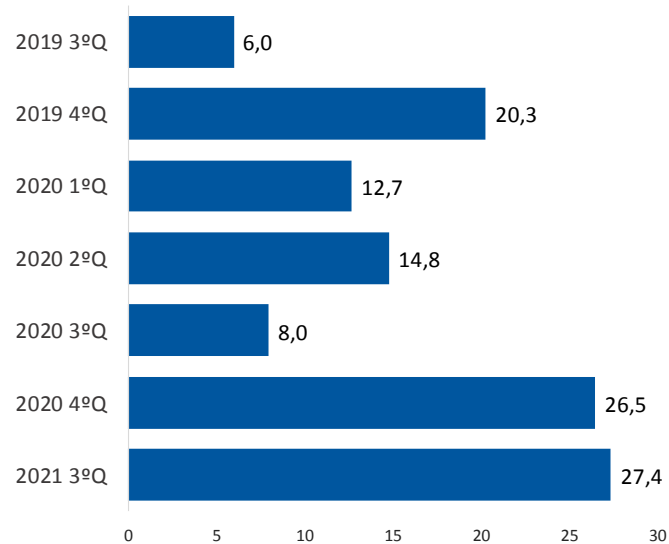
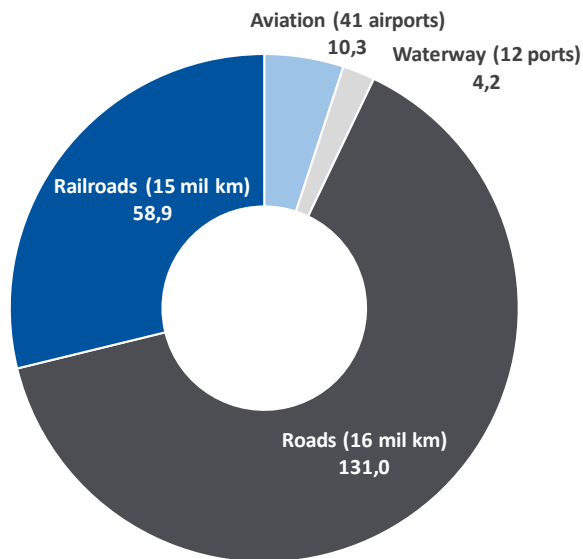
Tax dividends

Payroll

Reduce payroll tax

Create financial
transactions tax

(*) voluntary membership of states

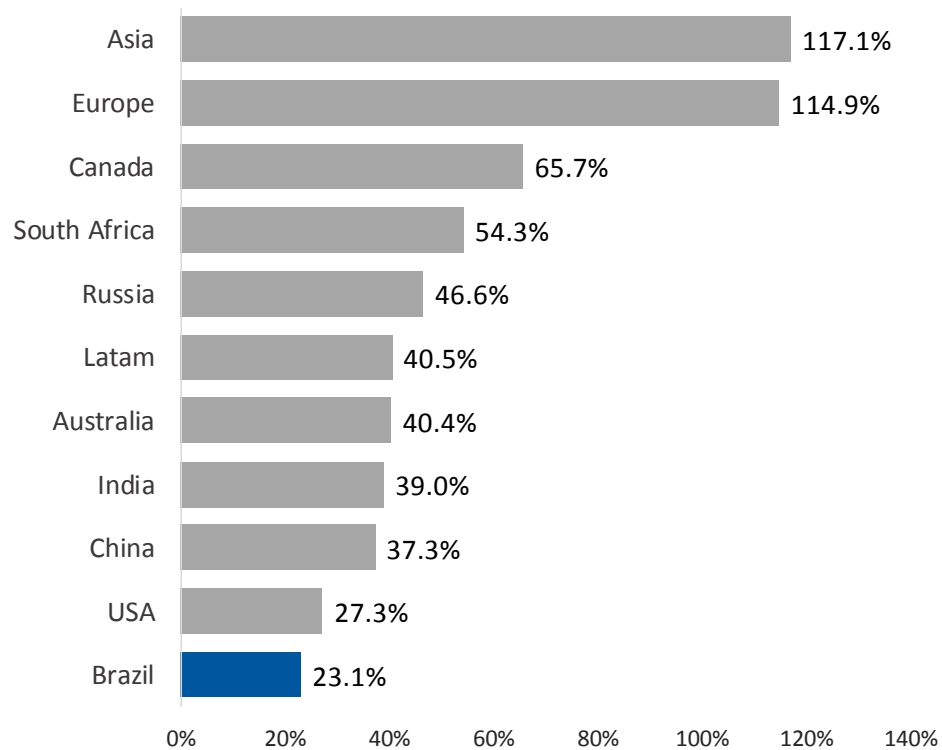


R\$ 204 billions by 2022

R\$ 10 billion of investment: + 0,15 p.p. GDP

TRADE OPENNESS

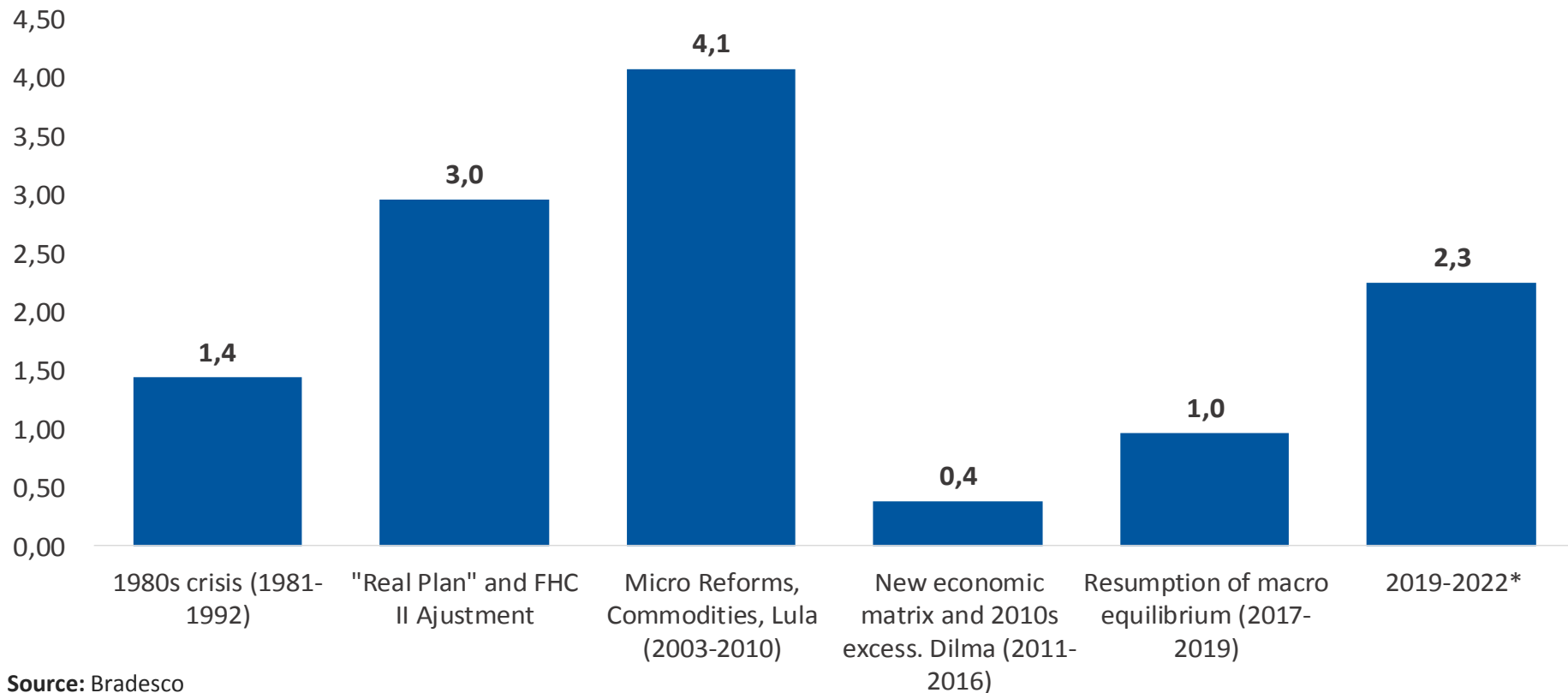
Exports + imports % of GDP, 2017



Source: EIU, Bradesco

BRAZILIAN GROWTH

Good economic policies enhance growth



Source: Bradesco

Medium-term challenges and risks...

Main risks / negative drivers

- Global environment
- Drop in public investment not being compensated by private investments
- Fiscal solvency of subnational governments
- Political volatility
- Education, productivity and absorption of new technologies

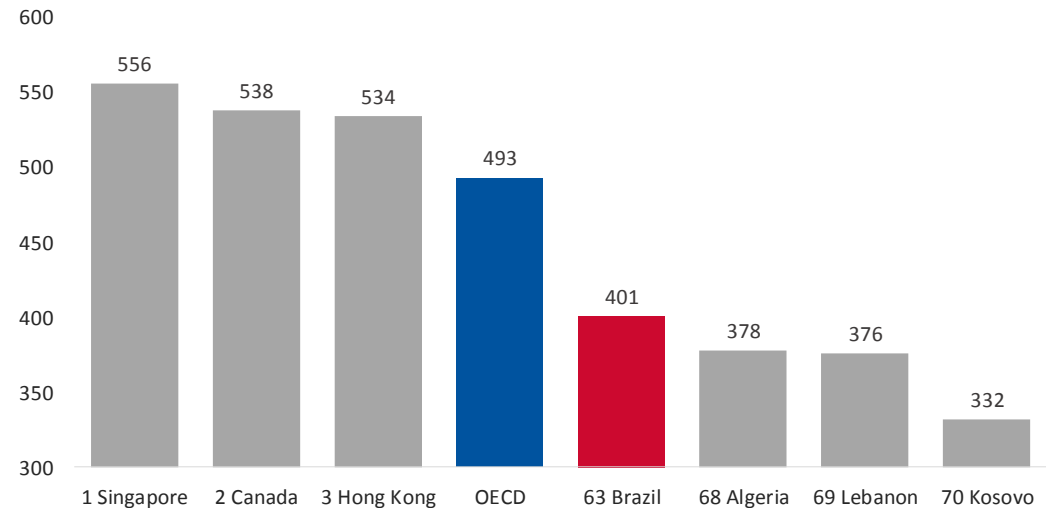
DOING BUSINESS AND EDUCATION

Ease of doing business and mathematics performance PISA Test

Doing Business 2019

Country	#
New Zealand	1
Singapura	2
Denmark	3
United Kingdom	9
Turkey	43
China	46
Mexico	54
Brazil	109
Argentina	119
Venezuela	188
Eritrea	189
Somalia	190

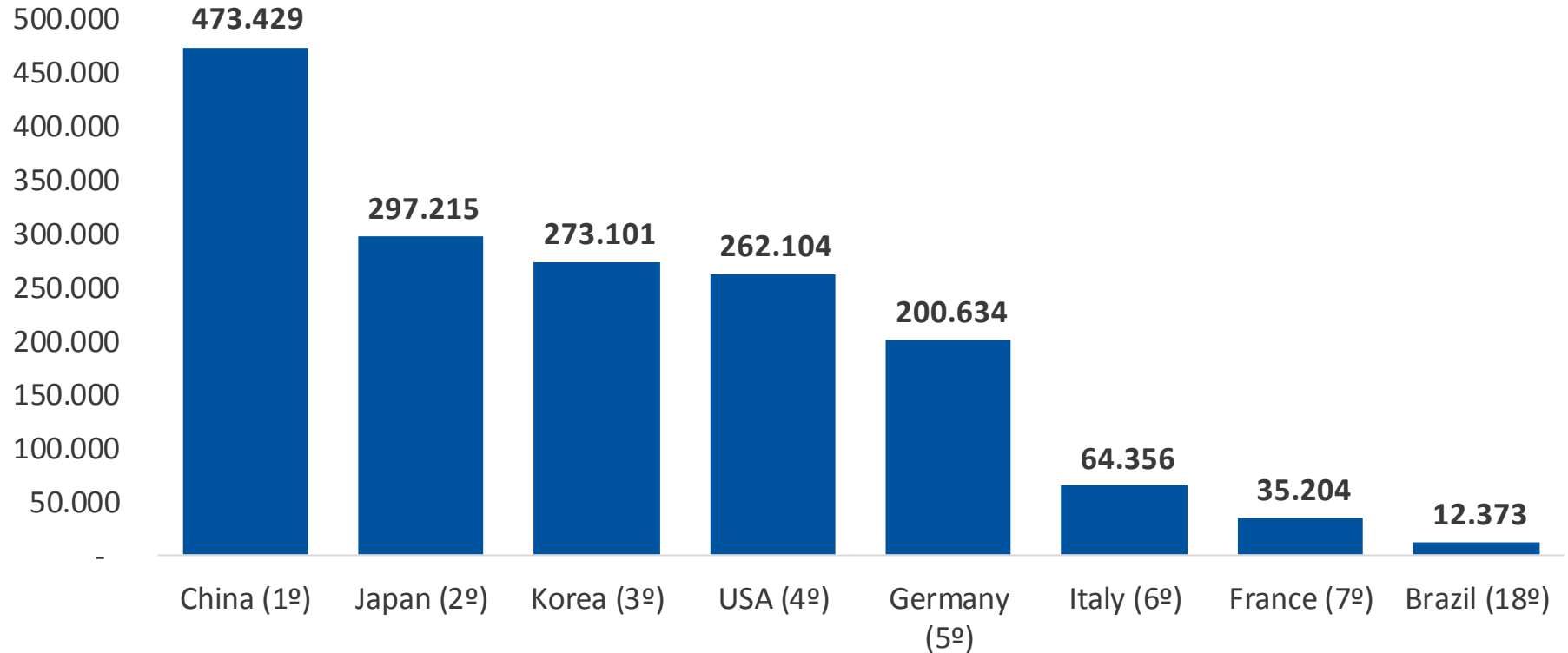
PISA Mathematics 2015



Source: OECD, World Bank, Bradesco

ROBOTS STOCK BY COUNTRY

Thousand units



Source: IFR, Bradesco

	2017	2018	2019	2020
Consumer inflation - IPCA (%)	2,95	3,75	3,50	3,9
GDP growth (%)	1,1	1,1	0,8	2,2
Industrial Production (%)	2,5	1,1	0,6	2,5
Retail Sales (%)	4,0	5,0	4,5	4,5
Job Creation (in thousands)	264	1316	368	1016
Unemployment Rate (% of labor force, avg)	12,7	12,3	12,9	12,8
Outstanding Credit Growth (%)	-0,5	5,0	7,5	9,4
Trade Balance (USD bn)	64,0	53,6	51,7	47,4
Current Account (USD bn)	-7,2	-14,5	-22,1	-38,6
Exchange Rate (BRL/USD, eop)	3,31	3,87	3,80	3,80
Selic Rate (% eop)	7,00	6,50	5,00	5,00
Primary Balance (BRL bn)	-111	-108,3	-130	-89,4
Gross Debt (% of GDP)	74,1	76,7	77,8	79,4
International Reserves (USD bn)	382,0	388,1	388,1	388,1

Bradesco economic forecasts are revised at the beginning of each month. During moments of greater volatility, the level of uncertainty and error margins naturally rise, especially between revisions. Our forecasts are based on the assumption that the adjustments necessary to ensure the sustainability of Brazil's macroeconomic framework will be implemented over the next few years. If these adjustments do not materialize or are better than expected, the forecast could be altered significantly. Last revised on August 08, 2019.

Source: Bradesco

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