

# Brazil

## *Brazil: From Nominal 'Highs' to Real 'Blues'*

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# Major Global Issues

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- **Ukraine: ‘Forever War?’ Major hit for Europe.**
- **Europe: inevitable stagflation scenario - how bad?**
- **FED hikes. Higher rates uncontroversially necessary to 5%... But what breaks first: asset markets, the housing market or the economy? So far none, but one will break first. Recession very likely (2023).**
- **Structurally lower Chinese GDP (3% to 4%). New normal and it might be not that bad... (but, short time suffering).**
- **Major new structural issues: Russia decoupling from the West, de-globalization, energy issues (supply and ESG), hegemonic disputes, re-shoring, etc.**

# Inflation: Worse Is Over Or Challenges Just Beginning?

**1 Higher global inflation is the result of a pandemic driven, superlative fiscal and monetary policies with increased (but now fading) supply issues.**

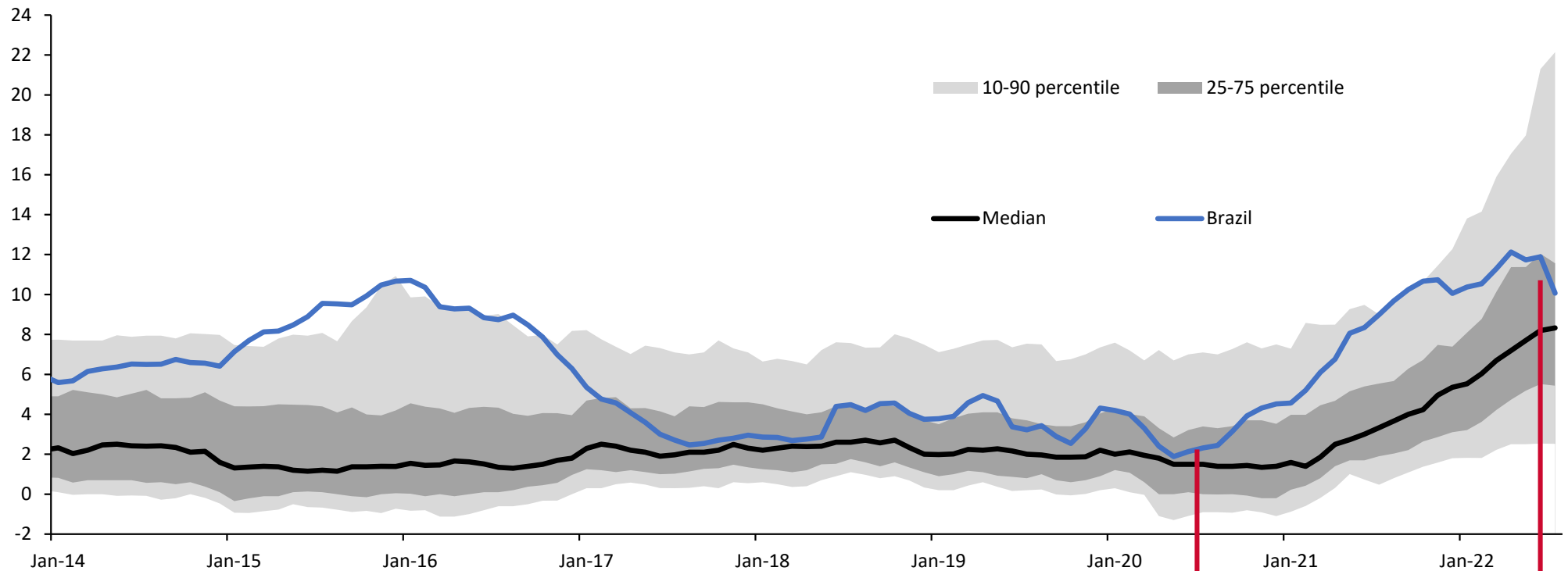
**If so, GOOD NEWS: inflation has peaked, higher interest will bring inflation down (belatedly).**

**2: Inflation, in addition to the dynamics (1) is morphing into a process intertwined with the transition to multipolar world, Russian-led energy constrained, less globalized, less efficient, under a fast and expensive energy transition.**

**If so, BAD NEWS: inflation tends to be highly persistent, volatile and elevated.**

# Inflation Relative: Brazil vs. World

## Consumer inflation for a large sample of countries (% YoY)

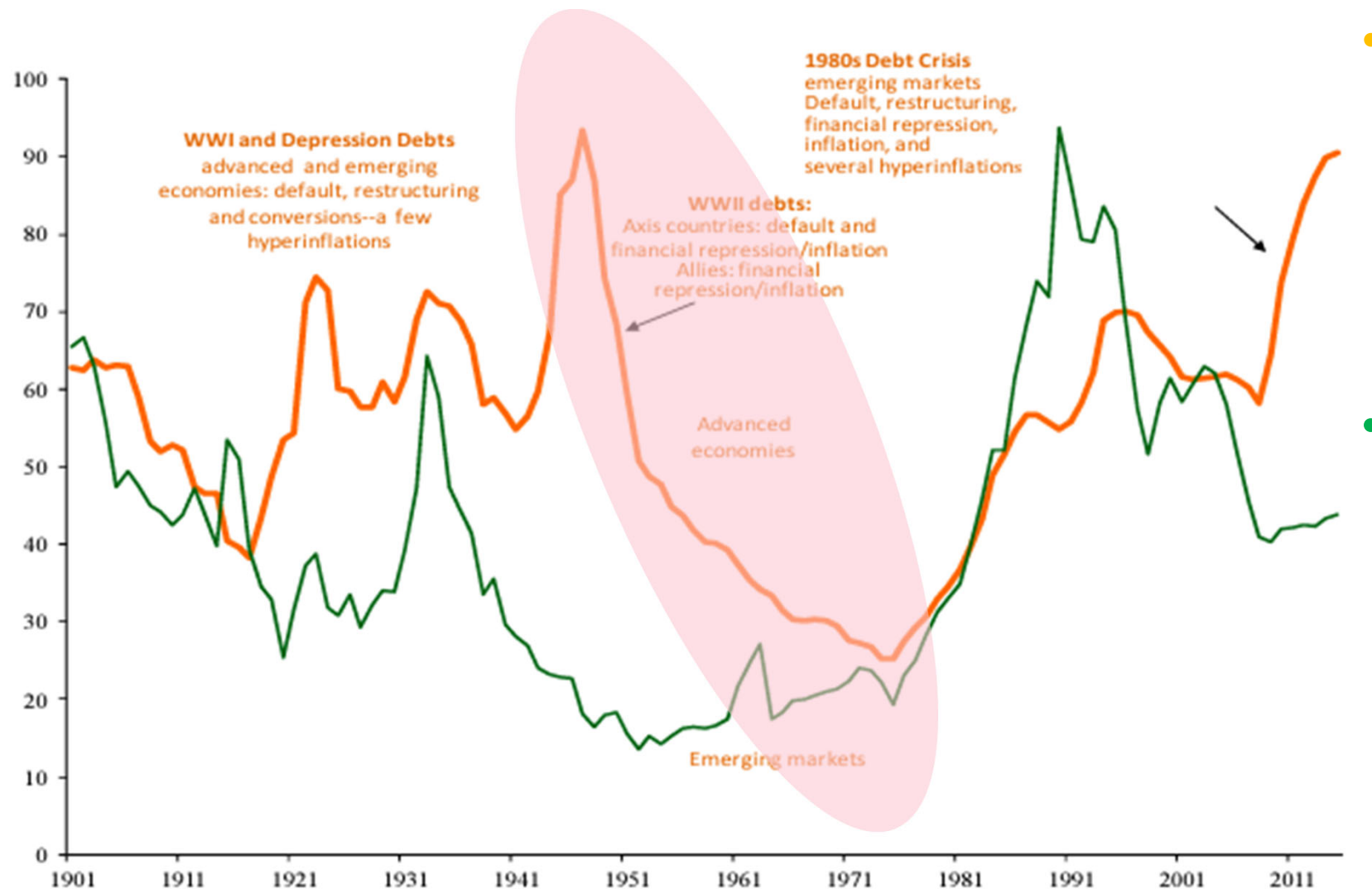


**BZ: getting into 'inflation trouble' first**

**BZ: getting out of 'inflation trouble' first?**

# The Problem #1: Too Much Debt And How To Handle It

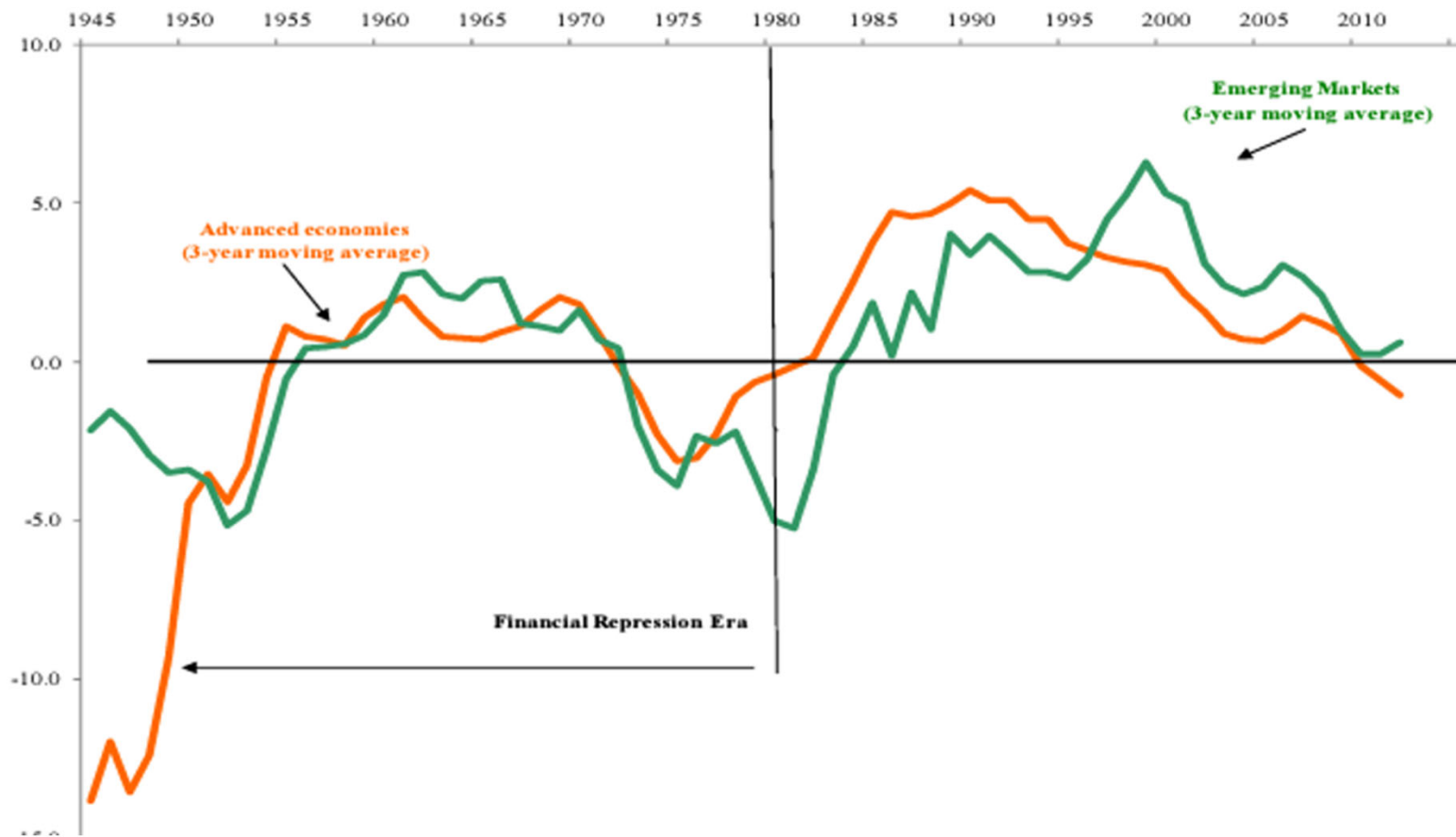
Pub debt, % of GDP



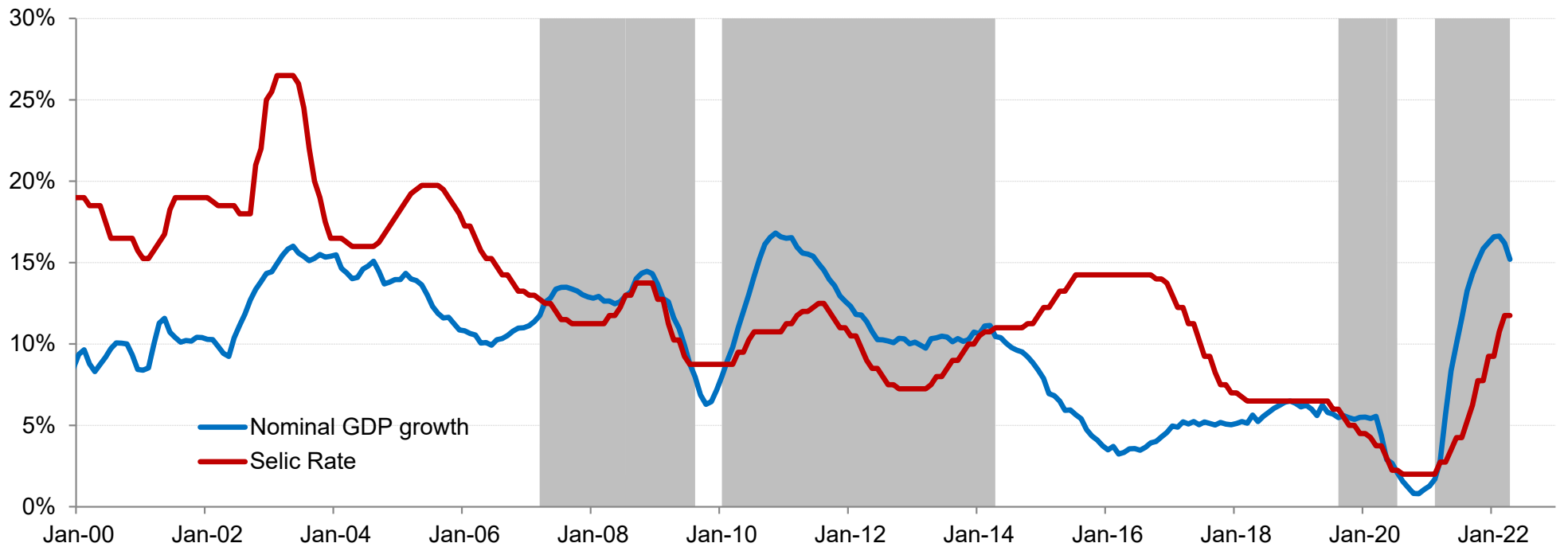
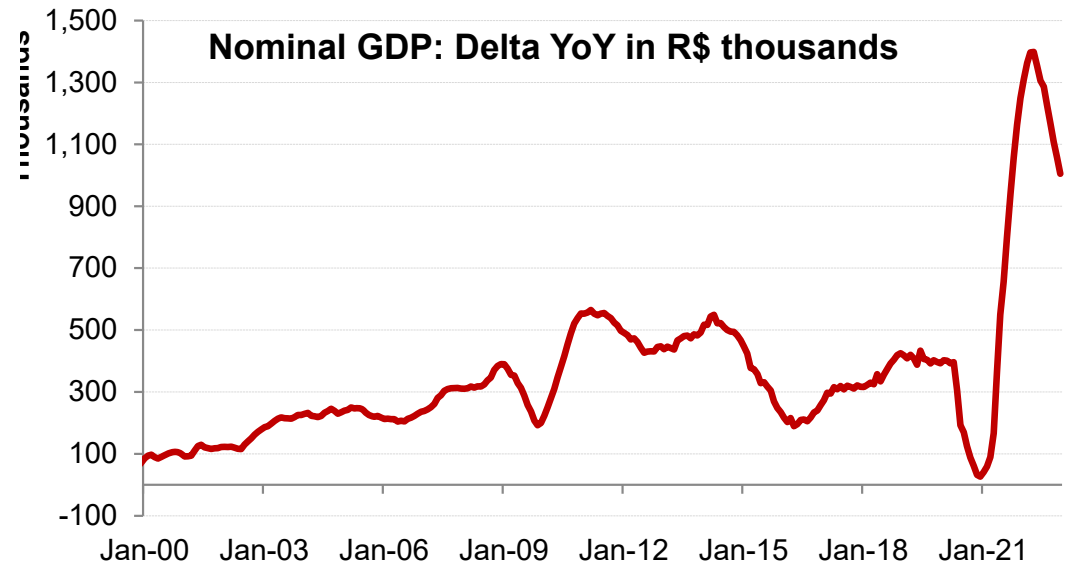
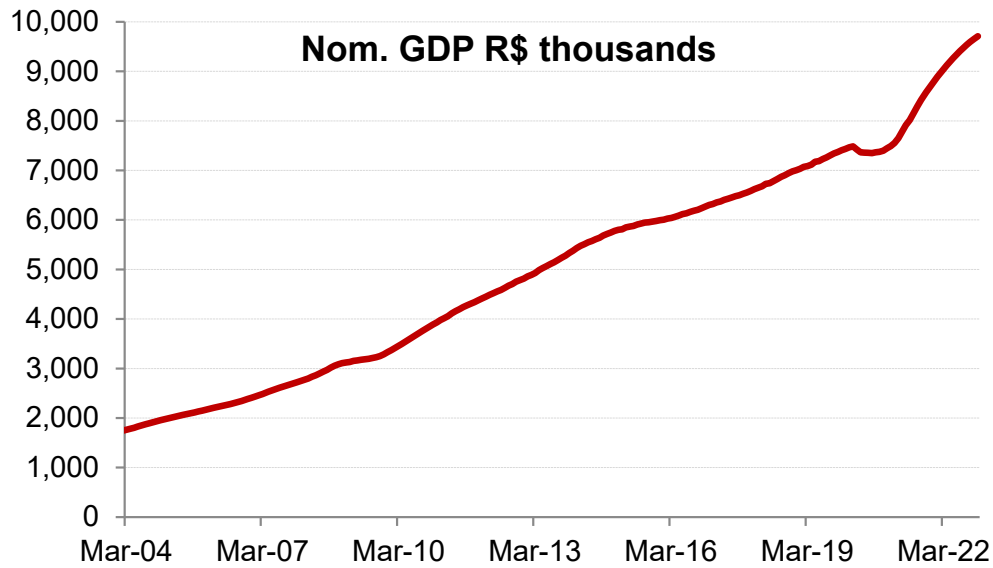
The Liquidation of Government Debt Carmen M. Reinhart and M. Belen Sbrancia IMF WP 15/7

# How Countries Got Rid of Too Much Debt? Inflation Anyone?

Real interest rates (T-bills) 3-m moving average

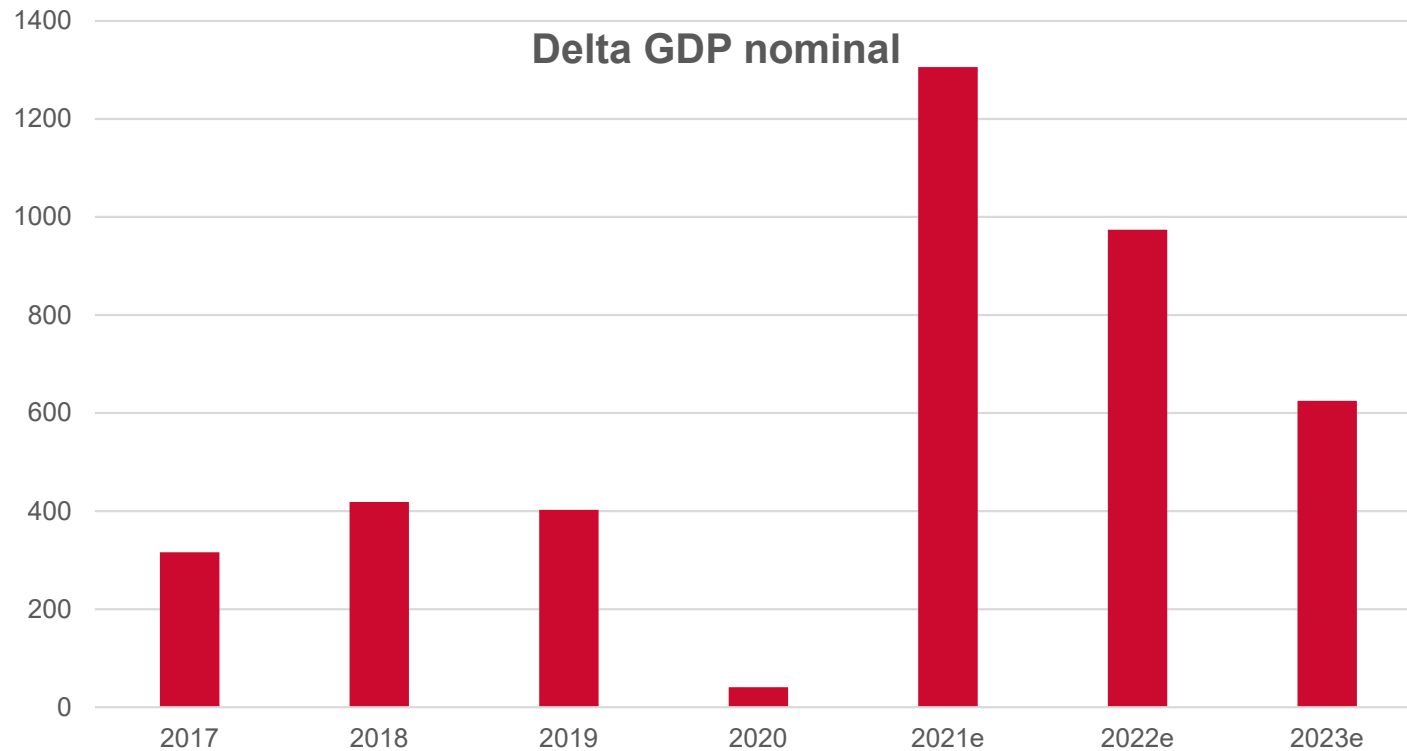


# Brasil: Nominal GDP – The Ultimate ‘Well-being’ Force...



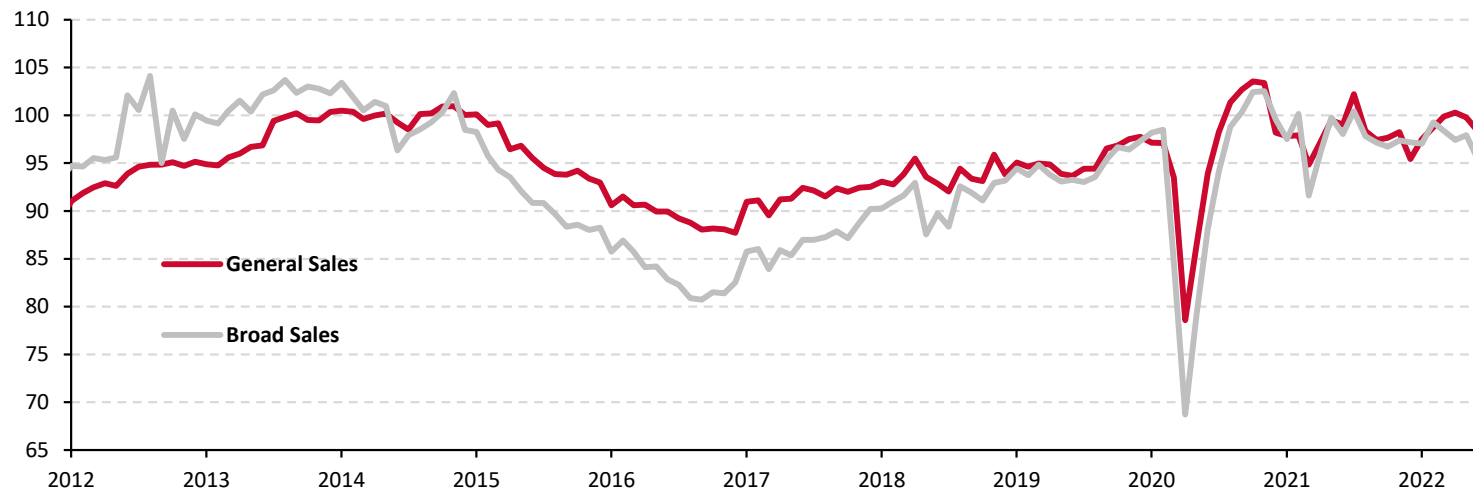
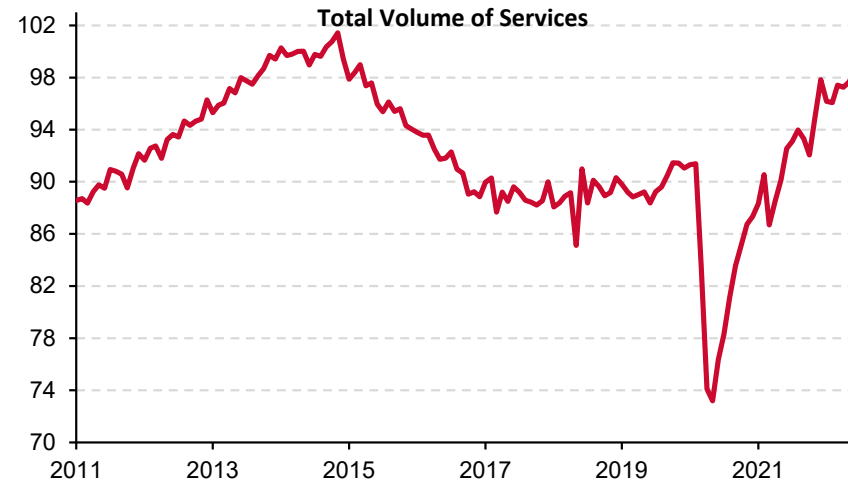
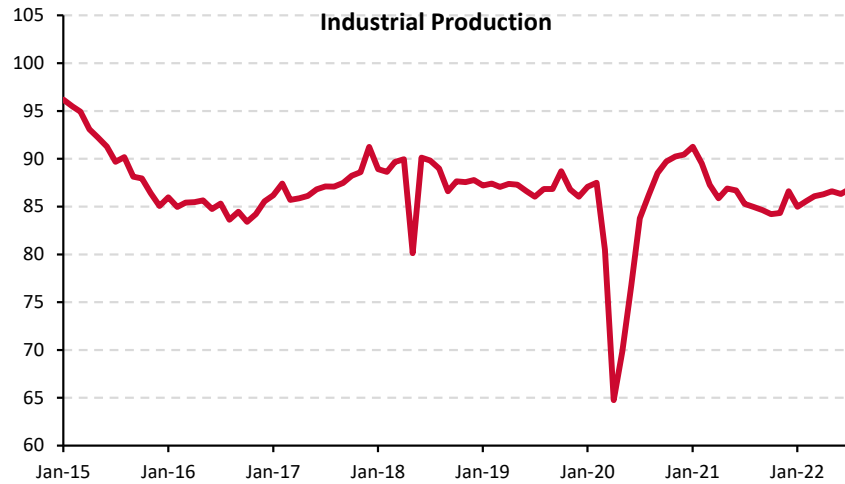
# Improvement on Nominal Incomes: All Good.. For Now...

- 'Delta' of nominal GDP in 2017-2019: average of R\$379bn
- 'Delta' of nominal GDP in 2021: R\$1.3tr



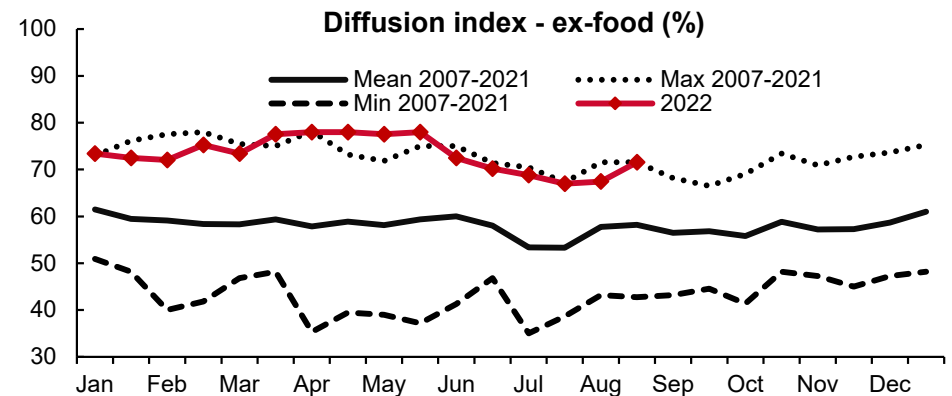
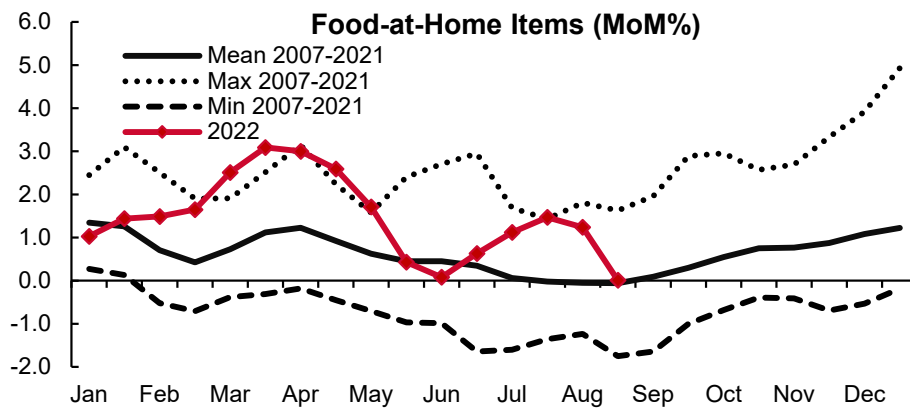
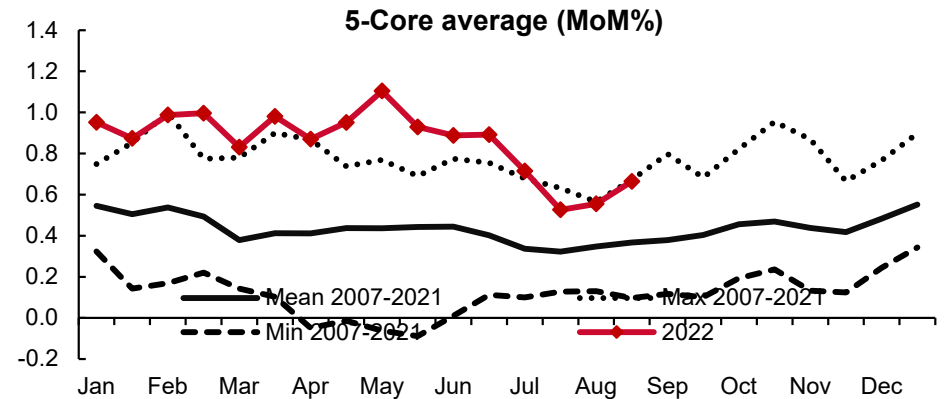
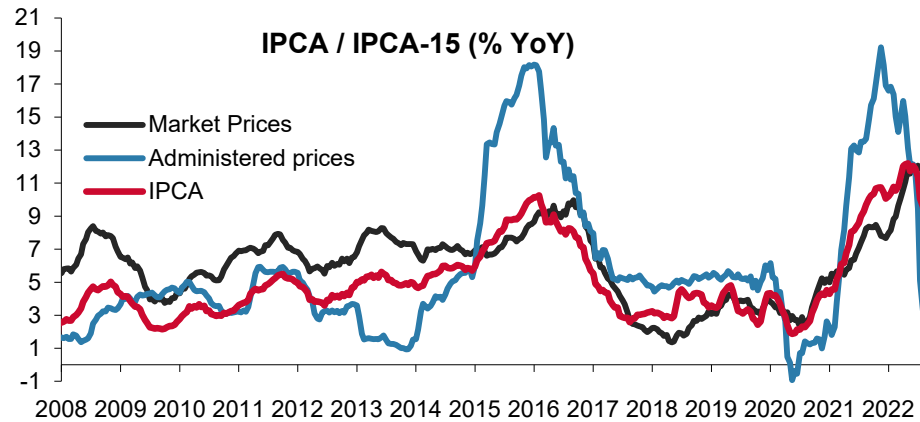


# Brazil Wrap-up/Activity - GDP 2022: 2.7%, 2023: 0%

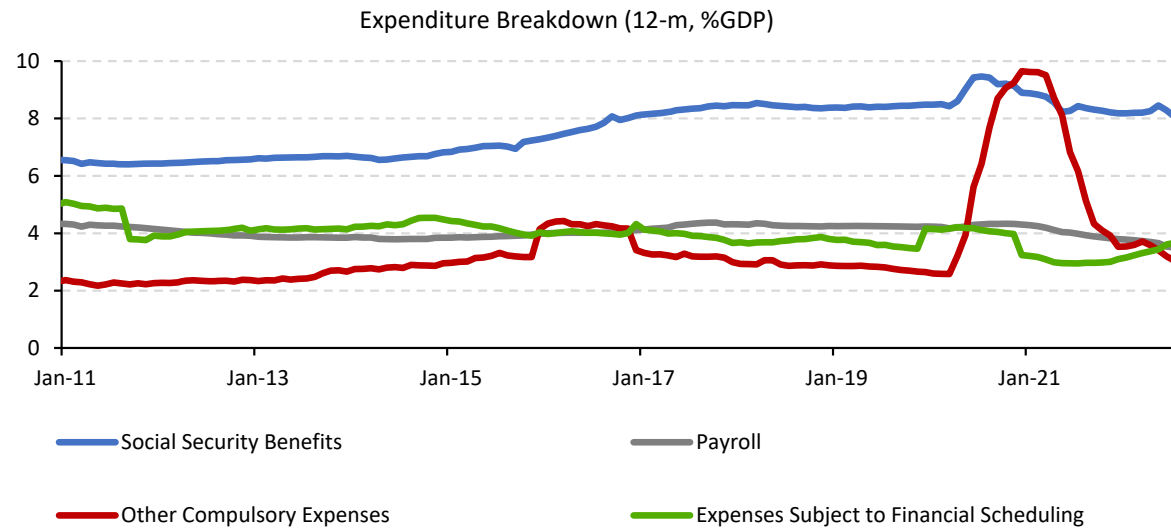
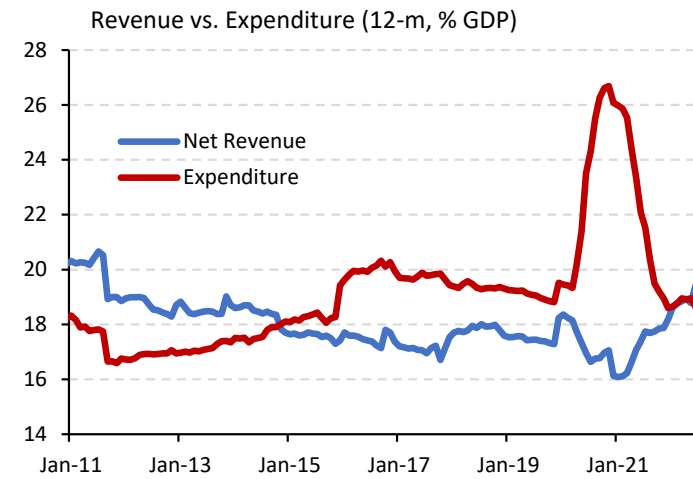
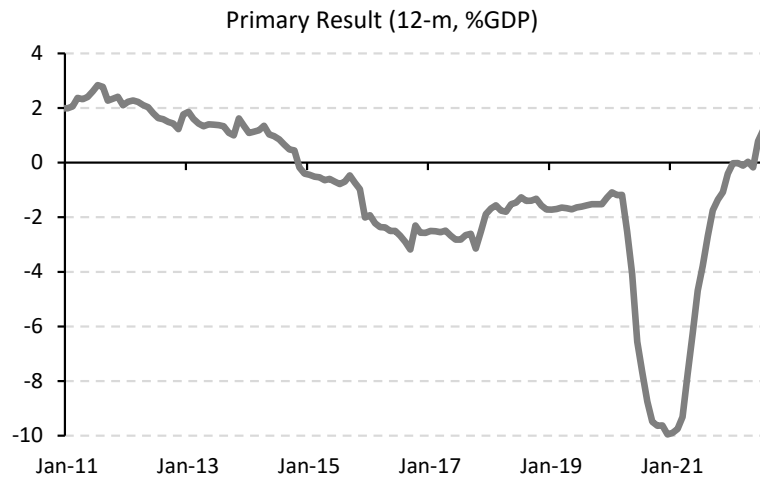


Data: IP = July 22, others June

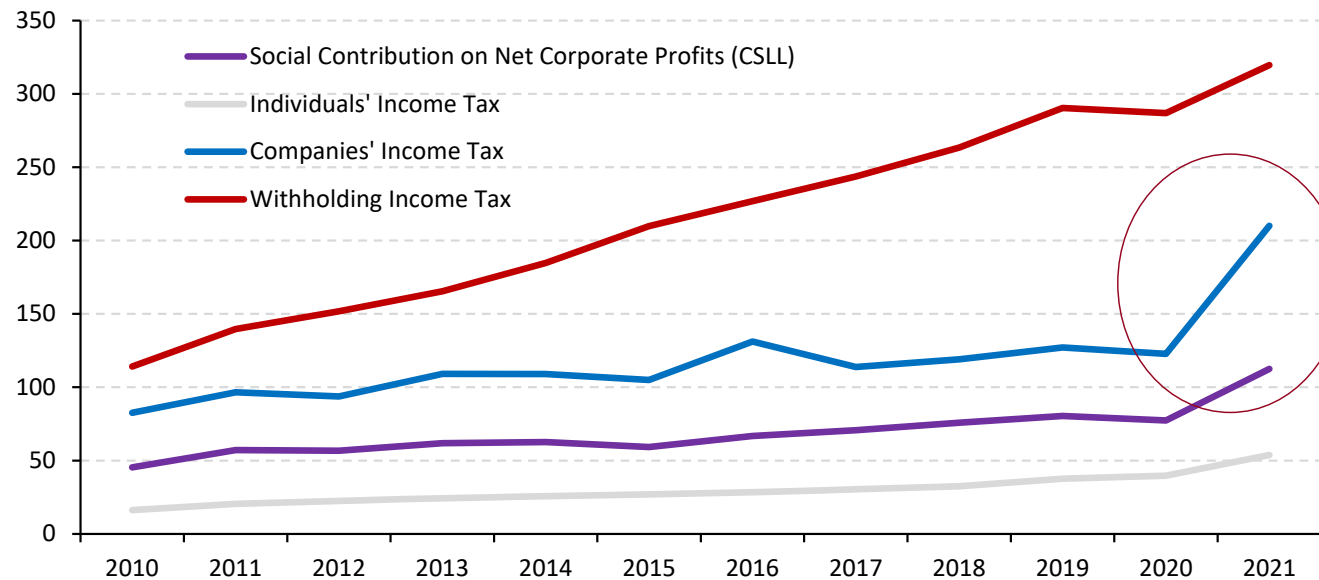
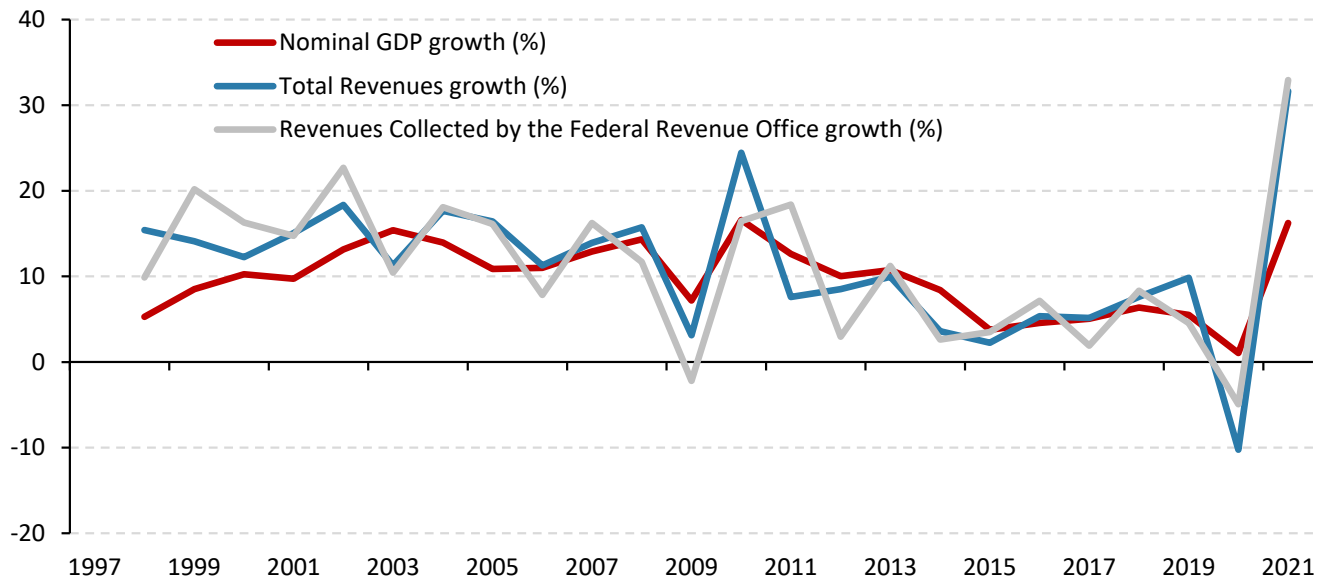
# Brazil Wrap-up/Inflation - IPCA 2022 6.2%, 2023: 5.3%



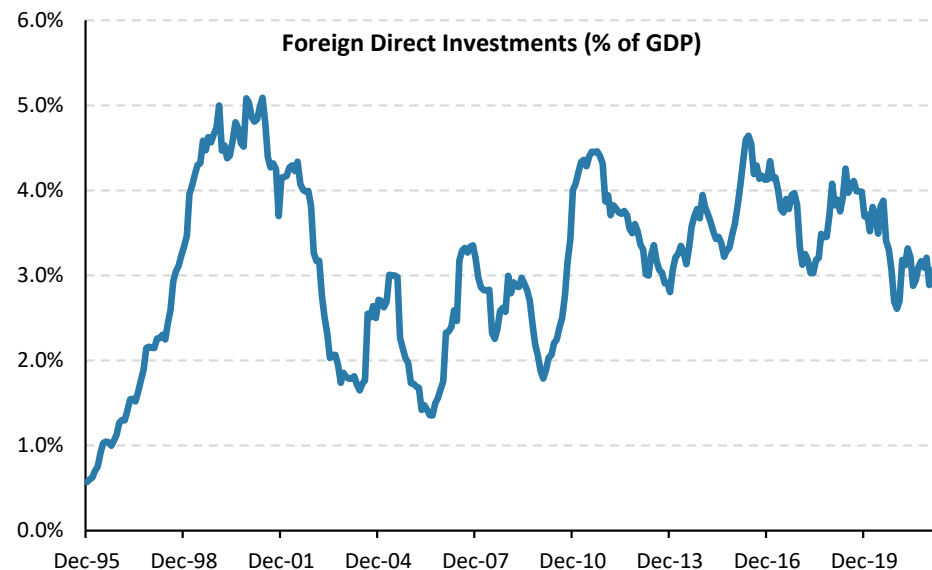
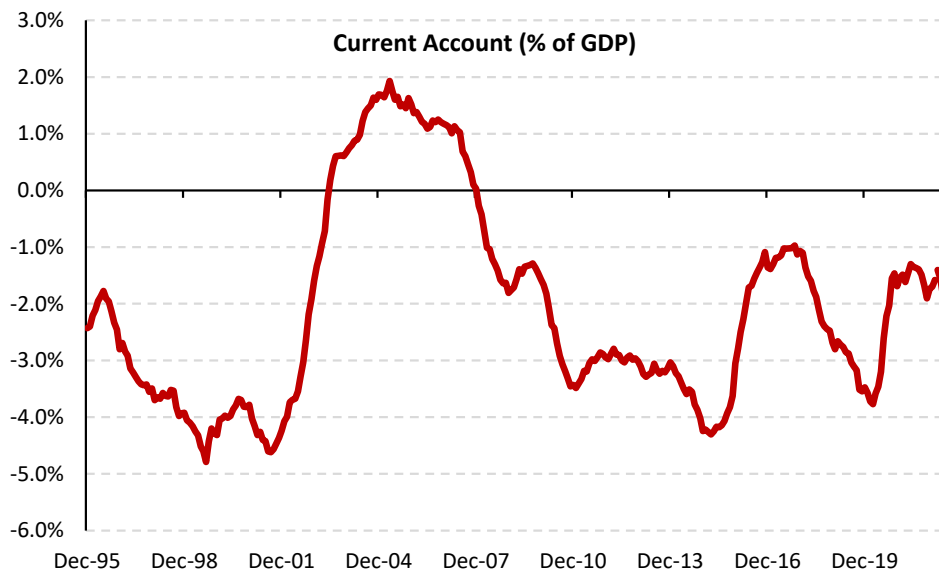
# Brazil Wrap-up/Fiscal – Temporary surpluses



# Brazil Wrap-up/Fiscal – Revenue Growth Unsustainable



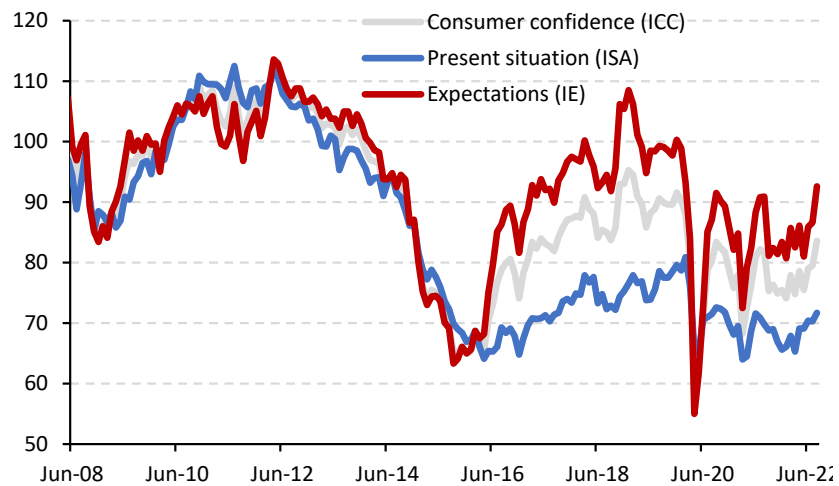
# Brazil Balance of Payments: All OK



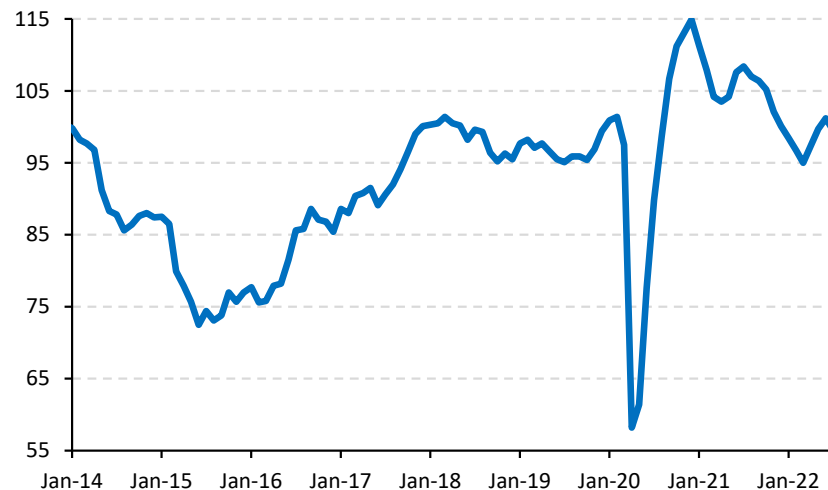
External Accounts	US\$bn		TTM % GDP	
	May-22	Apr-22	May-22	Apr-22
<b>Current Account</b>	-3.5	1.1	-1.9%	-1.6%
<b>Trade Balance</b>	3.4	6.8	2.4%	2.7%
Exports	30.0	29.3	17.5%	17.7%
Imports	26.6	22.4	15.1%	15.0%
<b>Capital and Financial Account</b>				
Foreign Direct Investments	4.5	11.1	3.41%	3.35%
Portfolio Investments	-3.9	-3.8	0.07%	0.58%
Equities	-3.5	0.4	0.36%	0.69%
Fixed Income	-0.7	-3.8	-0.23%	-0.04%
<i>Source: BCB, Bradesco BBI</i>				

# GDP 2Q22 Very Good: What About 3Q And Beyond?

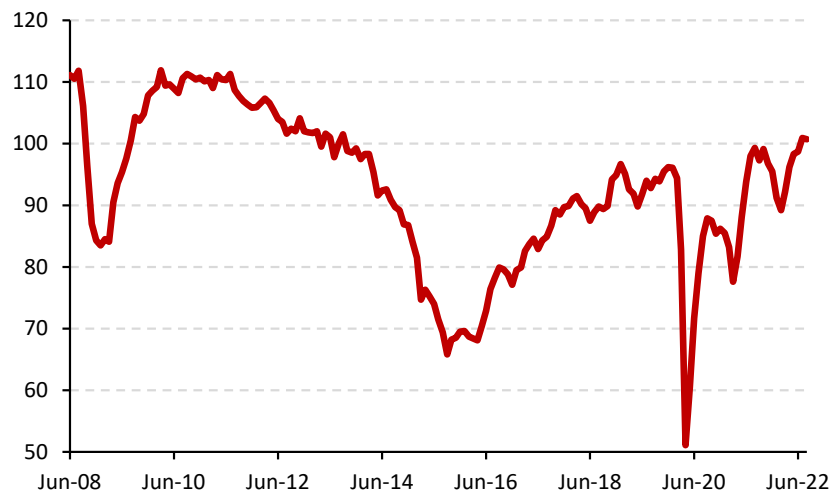
## Consumer confidence



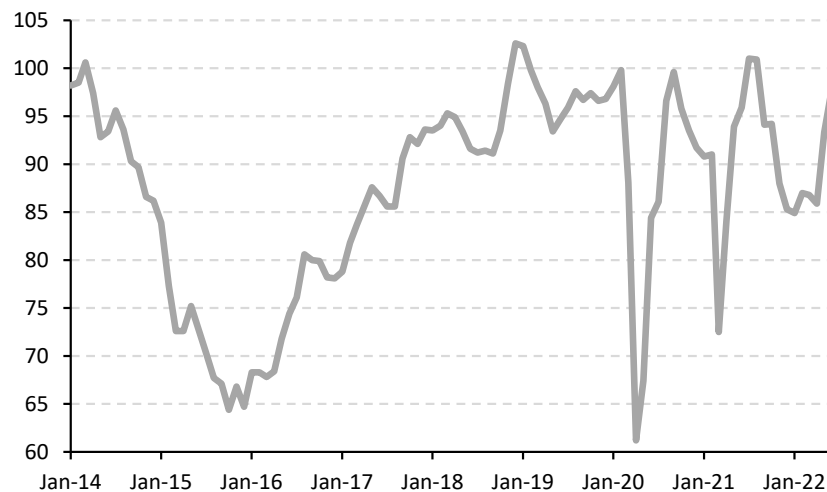
## Industry confidence



## Services Sector confidence



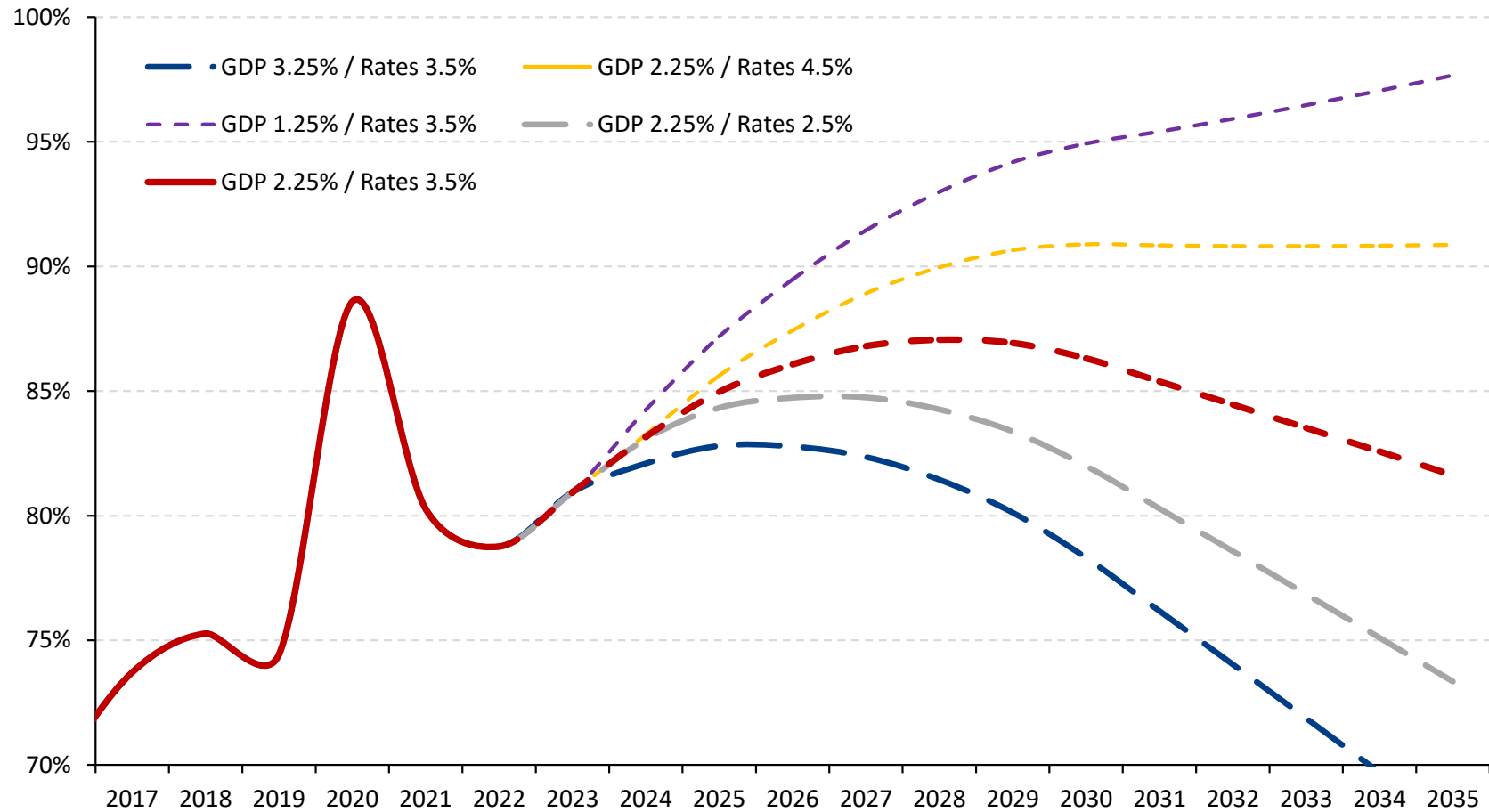
## Retailers confidence



## Activity: Strong, But Getting Weaker...

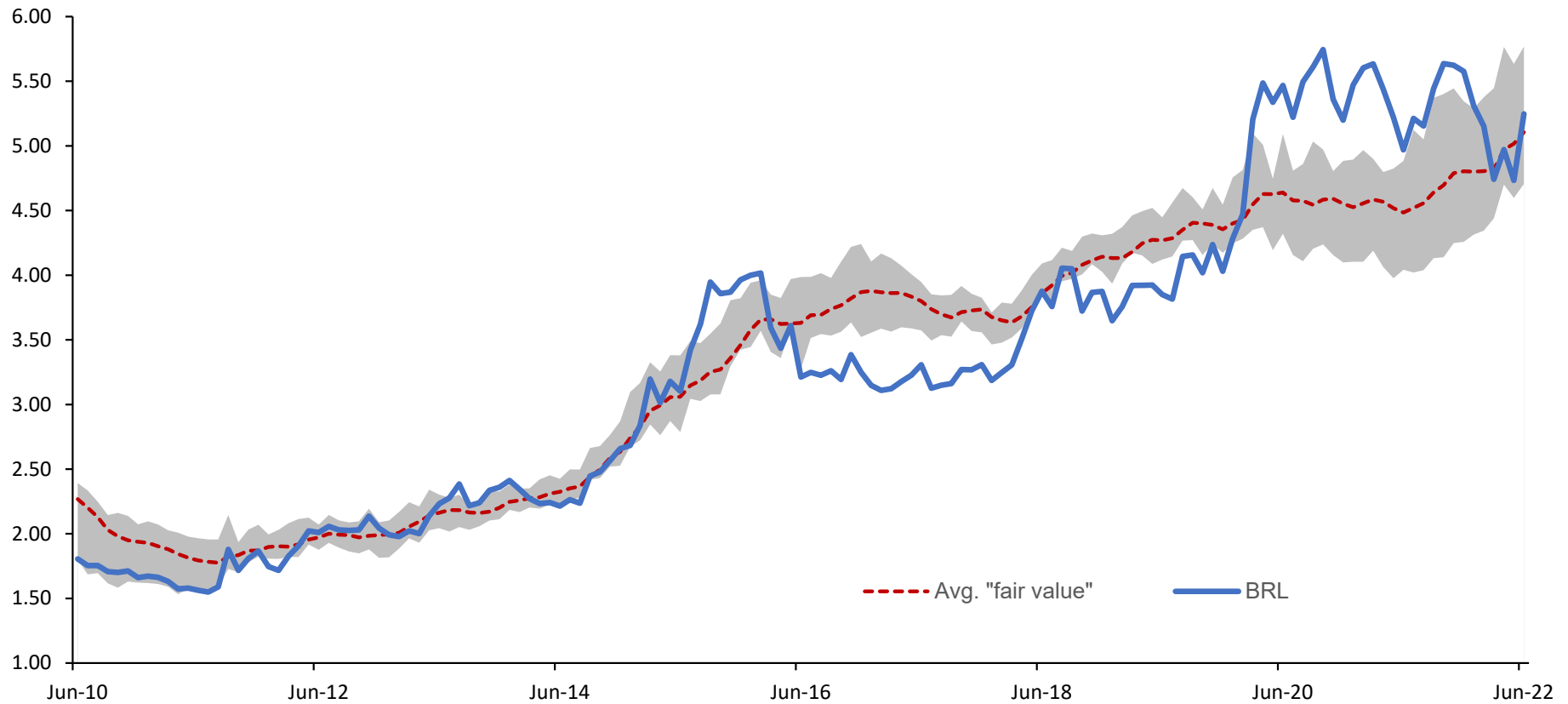
Indicator (s.a. unless indicated)	June MoM	July MoM	Aug MoM
Retail sales	-1.4		
Industrial production	-0.4		
Services IBGE	0.7		
IBC-Br	0.7		
FGV Consumer confidence	4.6	0.6	5.2
FGV Industrial confidence	1.5	-1.7	0.8
FGV Services confidence	0.4	2.2	-0.2
FGV Retailers confidence	4.5	-2.9	4.5
PMI Composite	2.4	-6.9	
ABCR light vehicles	-1.2	3.9	
Car registrations (nsa)	-5.4	2.1	
Car production (nsa)	-1.1	7.5	
Total imports (nsa)	0.1	-2.3	

# BZ Public: Too Much Under Any Reasonable Assumption Set

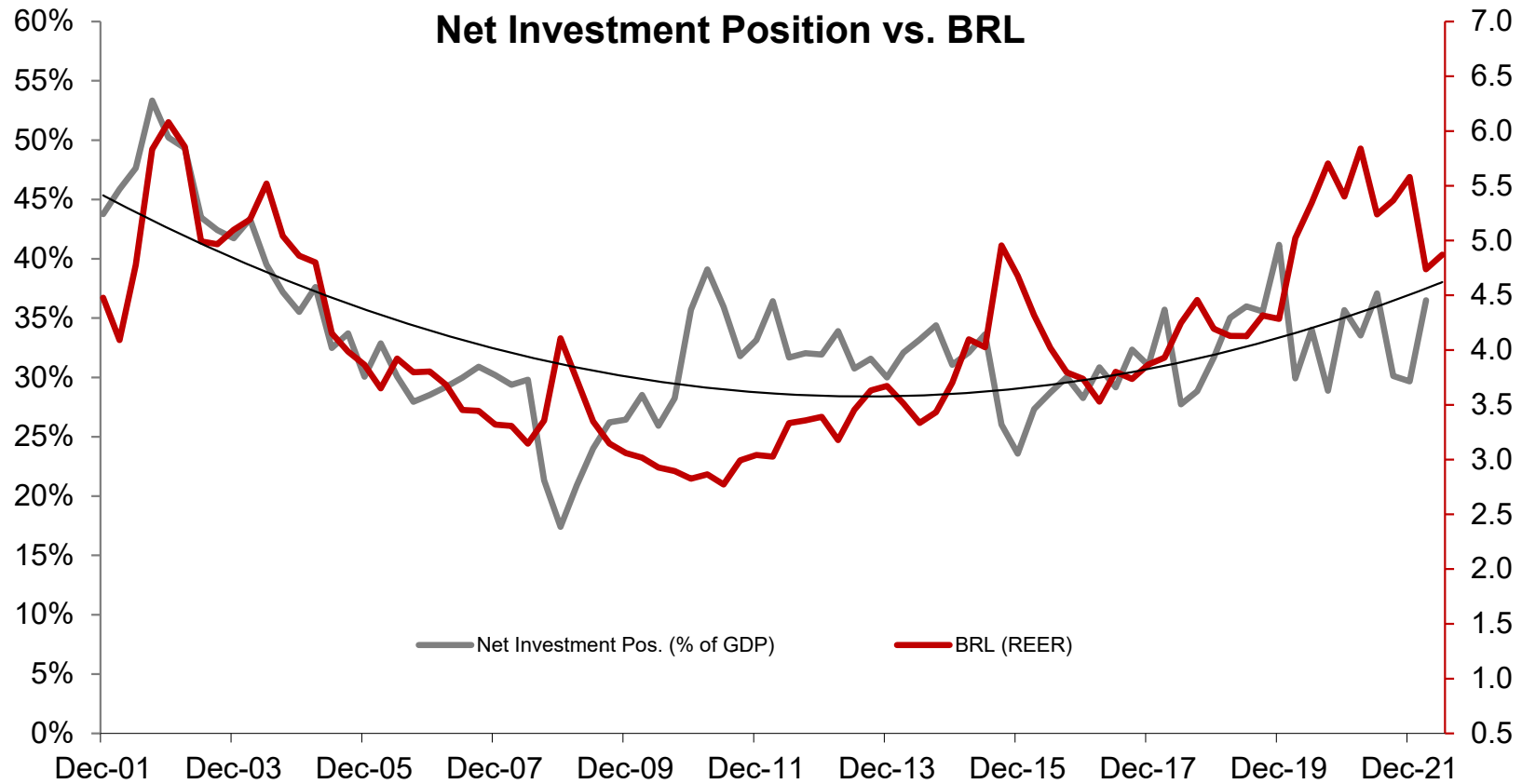




# Real: All Models Still Point To Sub-5.00 Exchange Rate, But...



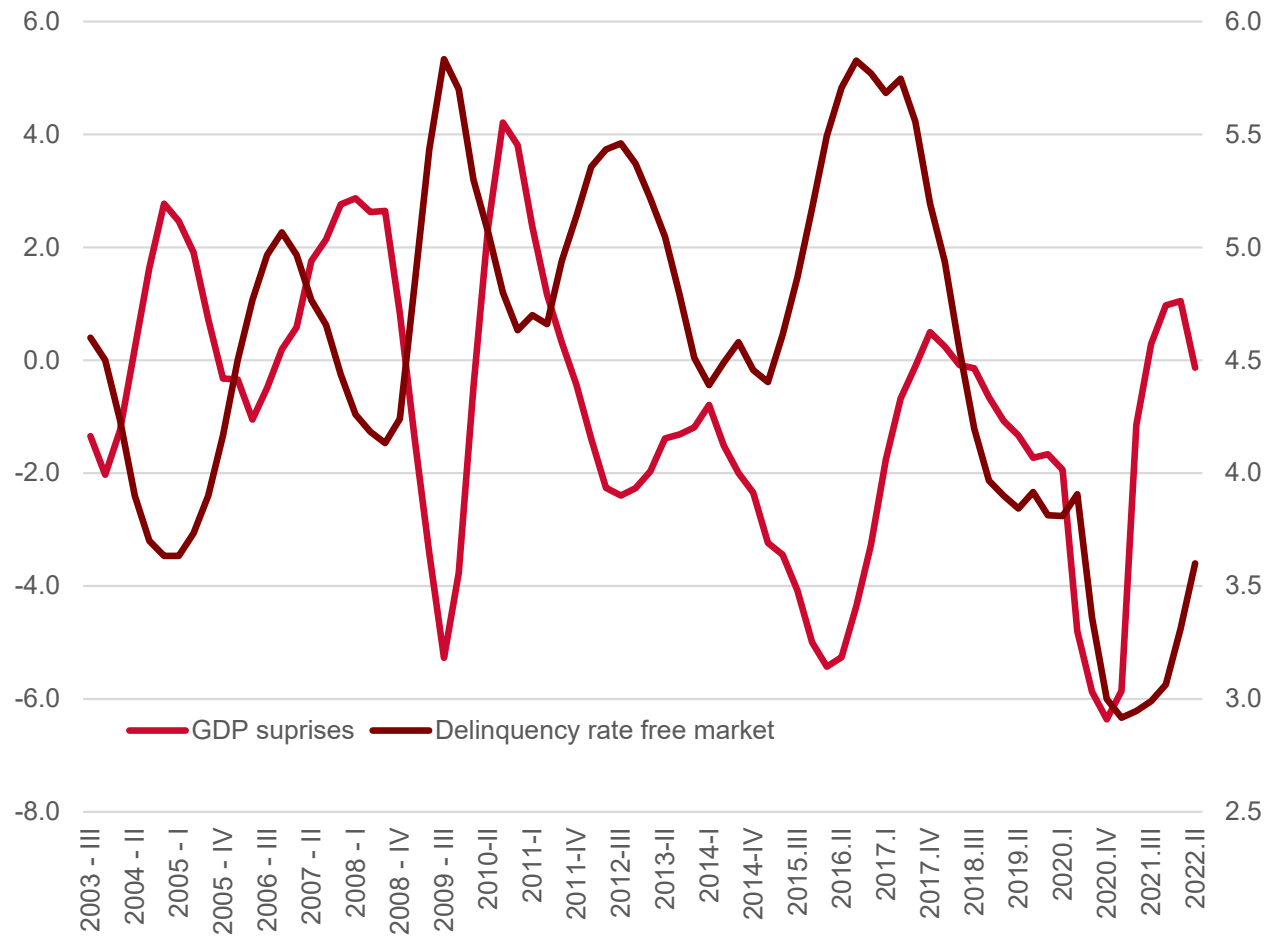
# Real: Cheap? Yes, Again, But...



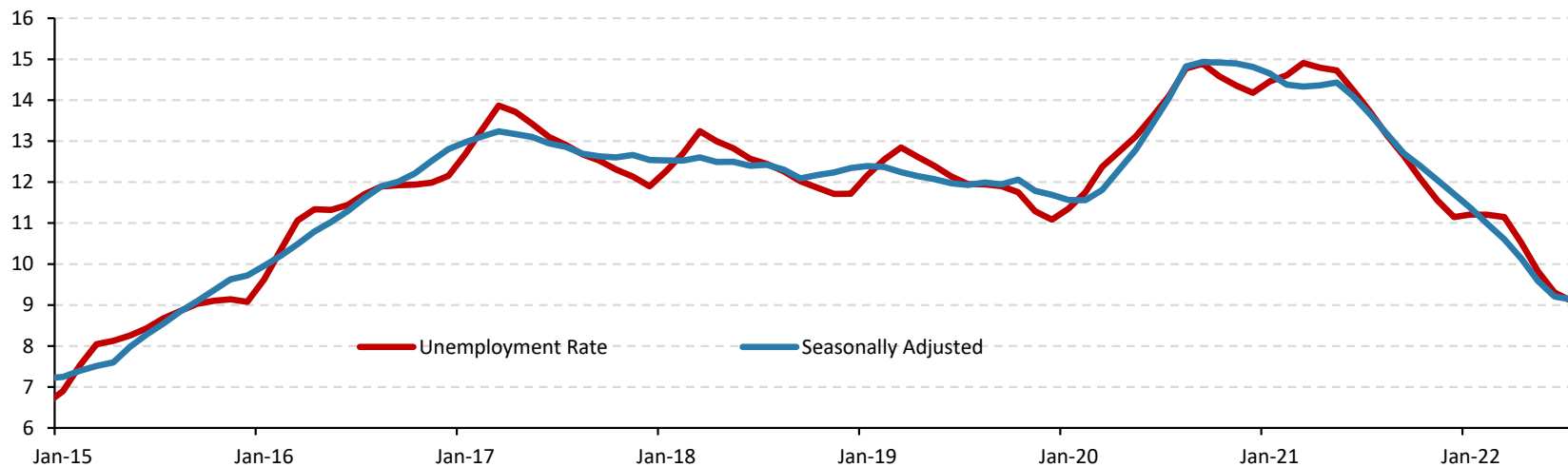
# Delinquency Cycles – Individuals % Non-earmarked



# Delinquency Cycles – GDP Surprises Explains a Lot



# Unemployment Still Falling, Prices (Temporarily Too)



IPCA YoY%

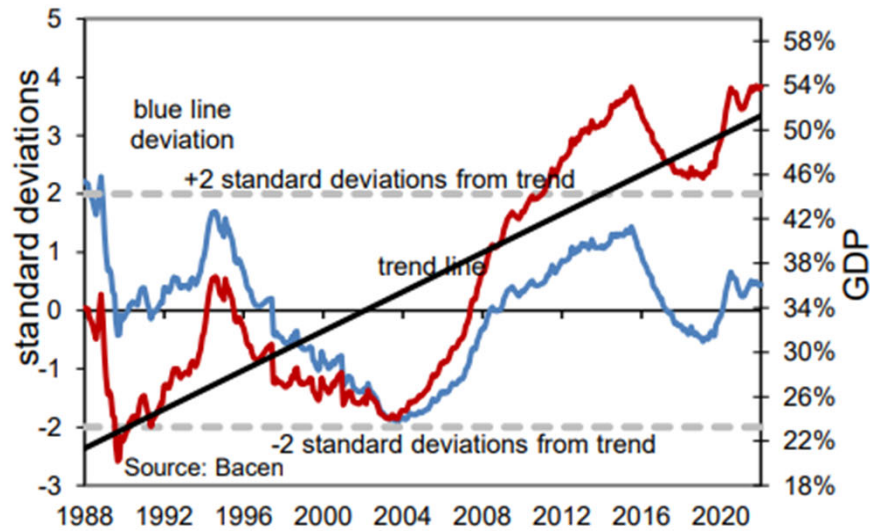


Gasoline prices (R\$/l)

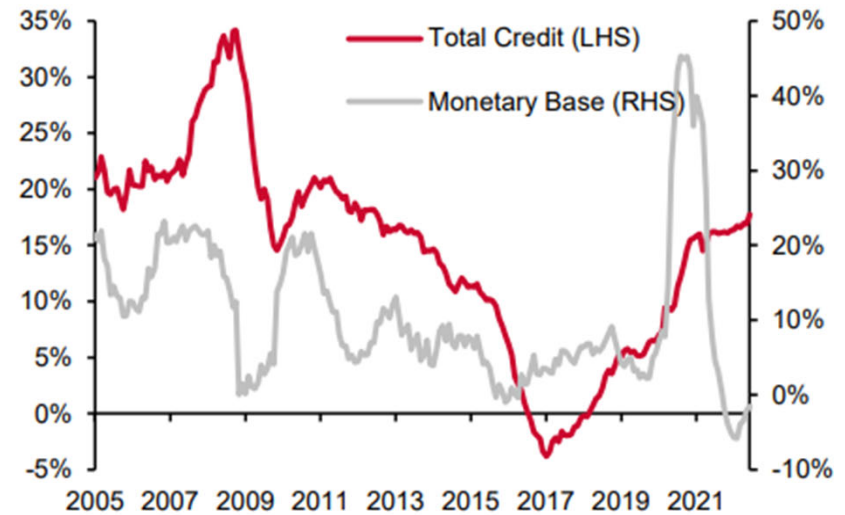


# Credit: Strangely Strong

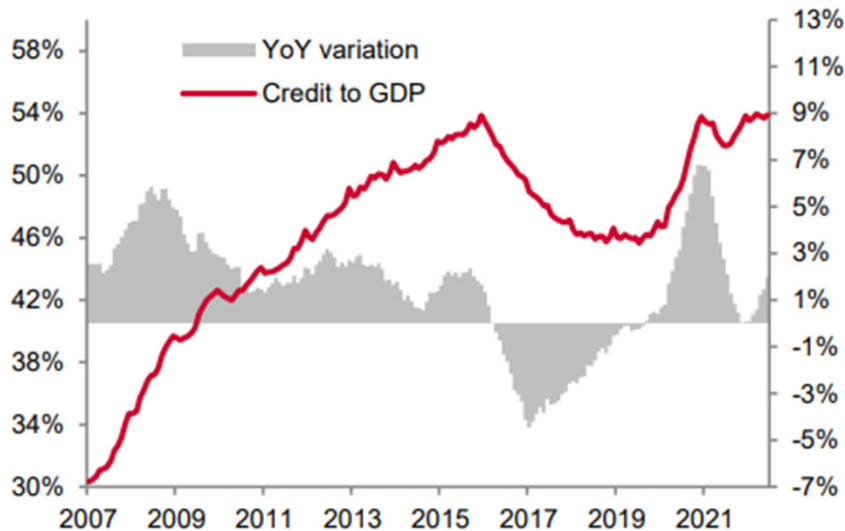
## CREDIT FIGURES



## LOAN GROWTH VS. NARROW AGGREGATES



## CREDIT TO GDP RATIO



## MONETARY AGGREGATES: SUMMARY

Last (Jun/22)	% YoY	% MoM	R\$bn
<b>M0 – monetary base</b>	-1.6	1.1	396.6
<b>M1</b>	-5.5	1.1	601.1
<b>M2</b>	13.7	2.2	4,619.6
<b>M3</b>	10.8	0.7	9,246.9
<b>M4</b>	13.8	0.8	10,133.0

Source: Bacen. M1=currency+demand deposits, M2=M1+CDs+savings deposits, M3=M2+mutual funds+repo operations, M4=M3+gov. bonds. Month-end data.

# Political Preferences vs. Political Restrictions

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## (1) Political Preferences vs. (2) Political Restrictions

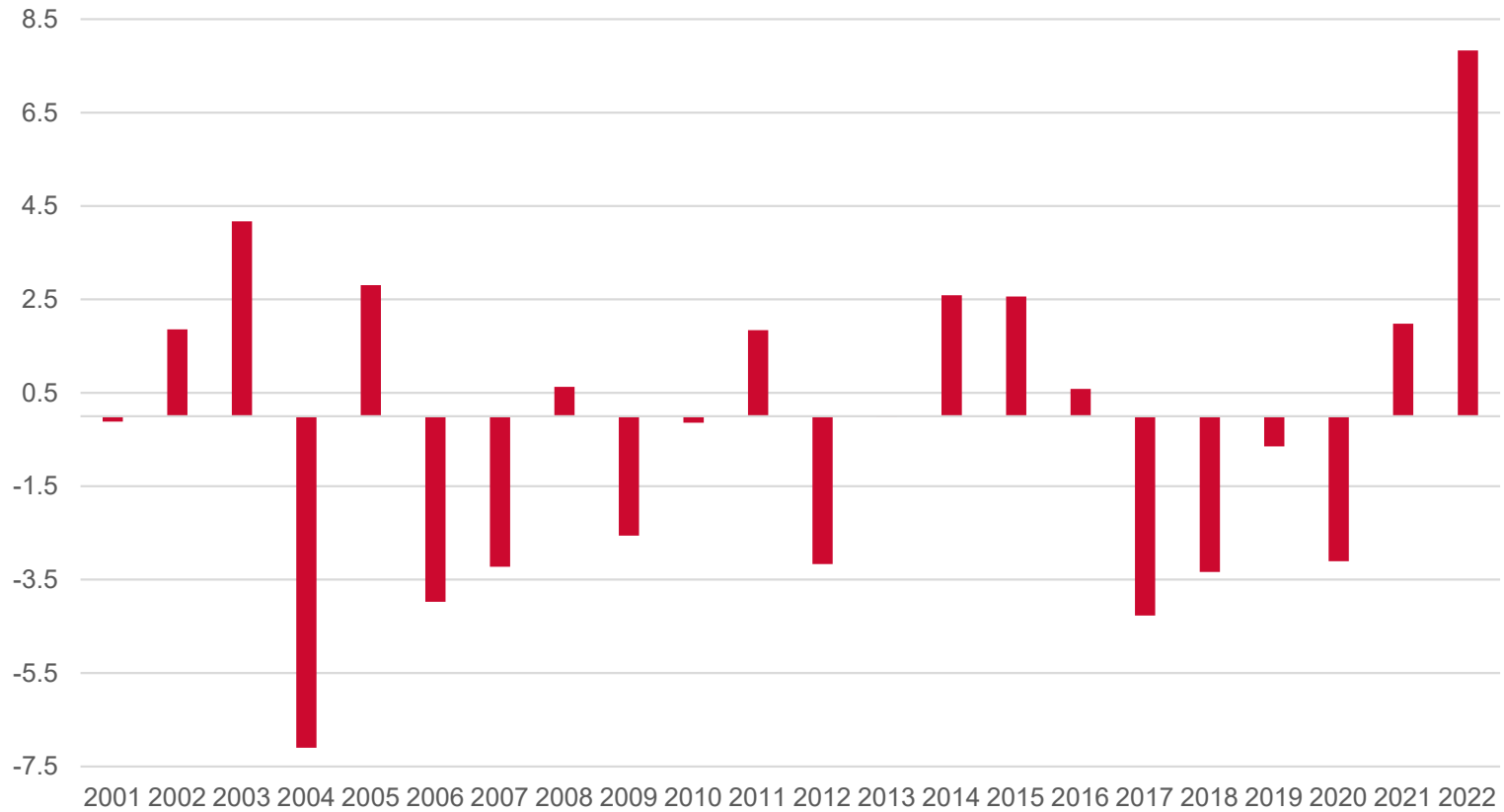
**Market participants and comments tend to focus on (1)**

**Dynamics is determined by (2)**

- 2023 is not 2003 (commodity cycle, debt size, tax level, GDP growth level, demographics, etc.)
- 'Narrative' to recompose the fiscal regime: easier for the incumbent (candidate Lula promised to end the spending cap, grant minimum and civil servants' wage increases)
- 2023 under at least with two out of three economic blocks in recession (US, Europe and China)

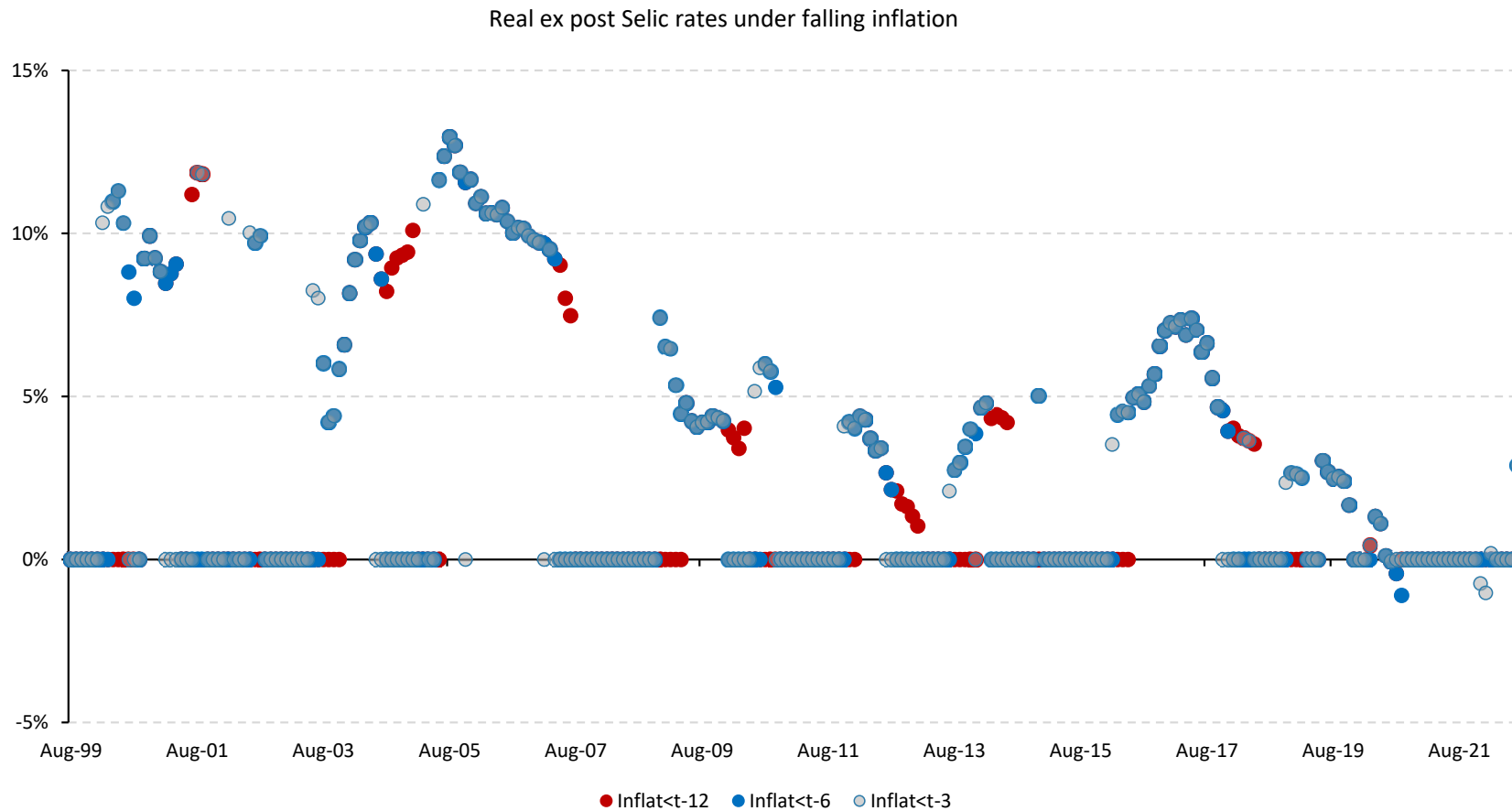
# Major Tightening, In fact The Tightest

interest rates change, nominal, averages



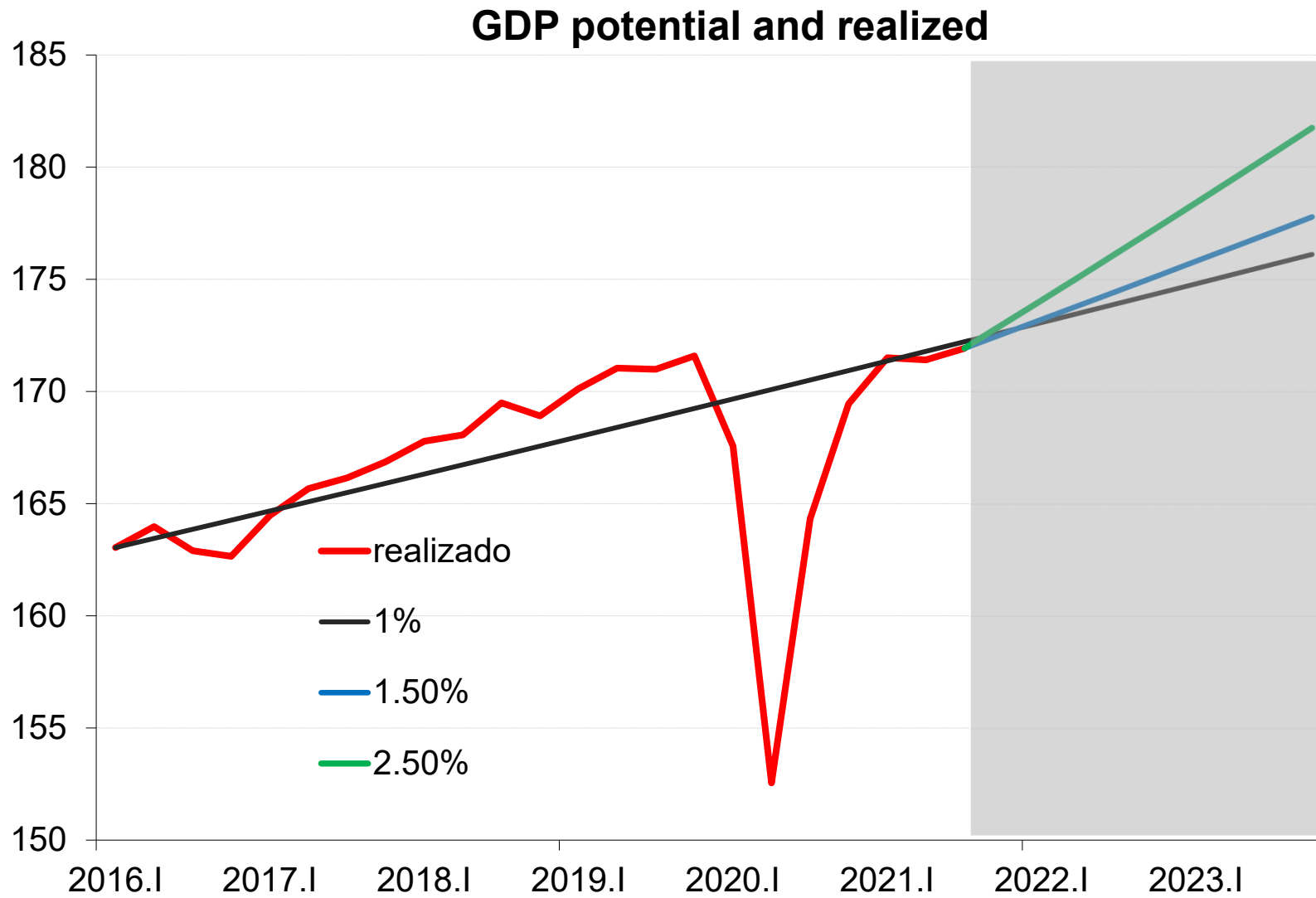


# Selic: How Much Was Enough? YoY Inflation To Fall



	ex post Selic rate		
	Inflat<t-3	Inflat<t-6	Inflat<t-12
2016-2021	3.7%	4.0%	4.1%
<b>2009-2021</b>	<b>4.1%</b>	<b>4.2%</b>	<b>3.9%</b>
1999-2021	6.4%	6.5%	6.5%

# Trend GDP



## All-in-all: After Covid - Brazil in a Low Growth Path?

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- Low growth has been the norm: average of 1.0-1.5% 2017, 2018 and 2019.
- Inflation is a problem...10%+ unleashed inertia and prices misalignments ...targets to be met only in 2024...contingent to a credible fiscal plan.
- And as consequence nominal rates of 13.75% in 2022 (peak). YE2023: 11.25%
- R\$5.2/US\$1 2022. Hedging demand and cloudy fiscal consolidation: bias to the downside, but early (new or old) government promises will help, too.
- Early promises of fiscal consolidation will prove to be harder to execute (sell on the rally?)

# Brazil: Fiscal Ordeal

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- **The biggest policy challenge in Brazil is, ironically, the SAME BEFORE Covid-19 affected the country: fiscal consolidation.**
- **Public debt reaching 82% of GDP in 2021 (better for the wrong reasons) and possibly hitting a figure near 90% in this decade. Fiscal consolidation is the greatest economic risk for the coming years (risk of not being executed, protracted or ignored).**
- **This will have profound implications for productivity, interest rates, the appetite of foreign capital (foreign direct and portfolio investors), country risk and a reduction in the degrees of freedom of economic policy. AND A MAJOR OPPORTUNITY IF IT HAPPENS...**

# Brazil: Main Economic Indicators

<b>Brazil: Main Economic Indicators</b>					
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>
<b>Real GDP growth (% , IBGE)</b>	1.2	-3.9	4.6	2.7	0.0
<b>IPCA (inflation target, IBGE, %YoY)</b>	4.3	4.5	10.1	6.2	5.3
<b>SELIC (target, year end, %)</b>	4.50	2.00	9.25	13.75	11.25
<b>R\$/US\$ (year end)</b>	4.03	5.20	5.58	5.20	5.40
<b>Primary balance (% of GDP)</b>	-0.8	-9.4	0.8	0.5	-0.2
<b>Gross public debt (% of GDP, Dec)</b>	74.4	88.6	80.3	78.8	80.9
<b>Bank credit (% growth, Dec)</b>	6.4	18.3	14.1	14.9	8.2
<b>Current account (% of GDP)</b>	-3.5	-1.7	-1.7	-1.9	-2.5

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