

Brazil Business Forecast Report Q1 2015

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Abstracts

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Core Views

Brazil's economic recovery will falter in 2014, with real GDP growth coming in at just 0.7% in 2014. Fixed investment will remain weak in light of falling business confidence, while poor consumer confidence to constrain private consumption growth. We forecast a modest pick-up to 1.5% real GDP growth in 2015, but expect relatively slow private consumption growth and moderate investment will weigh on headline growth in the coming years.

Elevated inflation will keep interest rates steady at 11.00% through end-2014, but the bank will switch its focus from reining in inflation to stimulating growth in 2015. As such, we forecast 100 basis points of rate cuts to 10.00% by end-2015.

The widespread public protests that took place in June 2013 marked a turning point for the Brazilian electorate. Public unrest will continue flaring up intermittently until significant progress on promised reforms, including higher-quality public services and greater government transparency, begins to take shape. Brazil's second-round presidential election is too close to call. President Dilma Rousseff is set to face off against Aécio Neves of the Partido da Social Democracia Brasileira on October 26. The election outcome will have a significant impact on the trajectory of economic policy, with Rousseff likely to maintain the status quo while Neves would return to more orthodox economic policies.

Major Forecast Changes

We have downgraded our 2014 and 2015 real GDP growth forecasts to 0.7% and 1.5%

respectively. Fixed investment growth will be more subdued than we initially anticipated, as an electricity price spike in Q114 saw a number of businesses delay investment plans in H114. Moreover, weak business confidence will temper gross fixed capital formation into 2015.

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Domestic Politics

Economic Policy At A Crossroads Heading Into Second-Round Vote

Brazil's second-round presidential election on October 26 will be key to the country's economic policy trajectory, following an

inconclusive first-round vote on October 5. President Dilma Rousseff will face off against Aécio Neves of the Partido d a Social

Democracia Brasileira, whose victory would see a return to macroeconomic orthodoxy, a break from the current policy course.

Table: Political Overview

Long-Term Political Outlook

Economy To Dominate Policymaking

With Brazilian real GDP set for a period of more moderate growth over the medium term, significant business environment challenges,

and growing competition for investment from Mexico, we believe that the economy will figure prominently on the country's policy agenda

over the medium term. In addition, with the PAC growth acceleration programme scheduled to end in 2014, the government will be

challenged to continue improving Brazil's social development metrics in order to provide the foundations for robust long-term growth.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Index

Economic Activity

Slow Growth Here To Stay

Brazil will remain mired in a period of low growth in the coming years, due to a slowing consumer story, persistent business environment

challenges, and a weaker external environment. A more substantial contraction in real GDP in Q214 than we anticipated has prompted us to revise down our 2014 and 2015 headline growth forecasts.

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Fiscal Consolidation Ahead, Neves Victory Would Spell More

Brazil is poised for a period of modest fiscal consolidation beginning in 2015. Moreover, should opposition candidate Aécio Neves win

Brazil's second-round presidential election on October 26, this would likely result in a sharper narrowing of Brazil's fiscal shortfall than we currently forecast.

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Opposition Victory Would Pose Upside Risks To Interest Rate Forecasts

We expect Brazilian monetary policy to loosen in 2015 as the central bank increasingly focuses on stimulating growth. However, with the second round of Brazil's October presidential election set to be tightly contested and a change in government highly likely to result in a more hawkish central bank, we explore the upside risks to our multiyear interest rate outlook.

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