

Brazil Business Forecast Report Q4 2014

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Abstracts

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Core Views

We expect Brazil's economic recovery to falter in 2014, as fixed investment will remain weak in light of falling business confidence. Moreover, we expect high inflation and poor consumer confidence to constrain private consumption growth.

Elevated inflation will keep interest rates high in the coming months, but we maintain our view that the bank will switch its focus from reining in inflation to stimulating growth by year-end on the back of tepid growth and weak consumer confidence.

The widespread public protests begun in June 2013 marked a turning point for the Brazilian electorate. As such, we anticipate that public unrest could flare up again should political progress on reforms stall. We maintain our view that President Dilma Rousseff will win the October 2014 presidential election, and therefore we anticipate that major reforms are likely to be limited in the coming years. This implies only a modest reining in of expansionary fiscal policy and a continued piecemeal approach to improving the outlook for stateowned oil company Petrobras.

Major Forecast Changes

We have downgraded our 2014 and 2015 real GDP growth forecasts to 1.8% and 2.2% respectively, as we anticipate that fixed investment growth will be more subdued than we initially anticipated, and moderate private consumption will not be enough to buoy the country's growth outlook.

With the Banco Central do Brasil (BCB) indicating that it would hold the Selic target rate

steady despite high inflation, we adjusted our end-2014 interest rate forecast to 11.00%, anticipating that the bank will hold rates steady for the duration of the year. In addition, we forecast 100 basis points of rate cuts to 10.00% in 2015, as we expect the bank to shift its focus to stimulating growth in the coming quarters.

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Presidential Election Is Rousseff's To Lose
We expect President Dilma Rousseff to win Brazil's 2014 presidential race, implying little scope for significant economic reform through

2018. WE HIGHLIGHT, THOUGH, THAT THE LARGE CORE OF UNDECIDED VOTERS PRESENTS A RISK TO ROUSSEFF'S HOPES FOR A SECOND TERM, ESPECIALLY

given our view that there will be little improvement in Brazil's macroeconomic position in the run-up to the October election.

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