



BRAZIL 2018/19: POLITICS, ECONOMICS AND BUSINESS OPPORTUNITIES

Gesner Oliveira

Leonardo Barreto

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Brazilian-American
Chamber of Commerce of Florida
EST. 1981



Three points...

1

Political scenarios are uncertain...

2

But the economy is doing well in the short run despite the fiscal challenge...

3

Business opportunities are numerous despite the political uncertainties and the economic challenges...

POLITICAL SCENARIOS ARE UNCERTAIN...

It is premature to derive conclusions from the present polls...

Intention to vote for president 2018 – 1st round (Datafolha Survey)

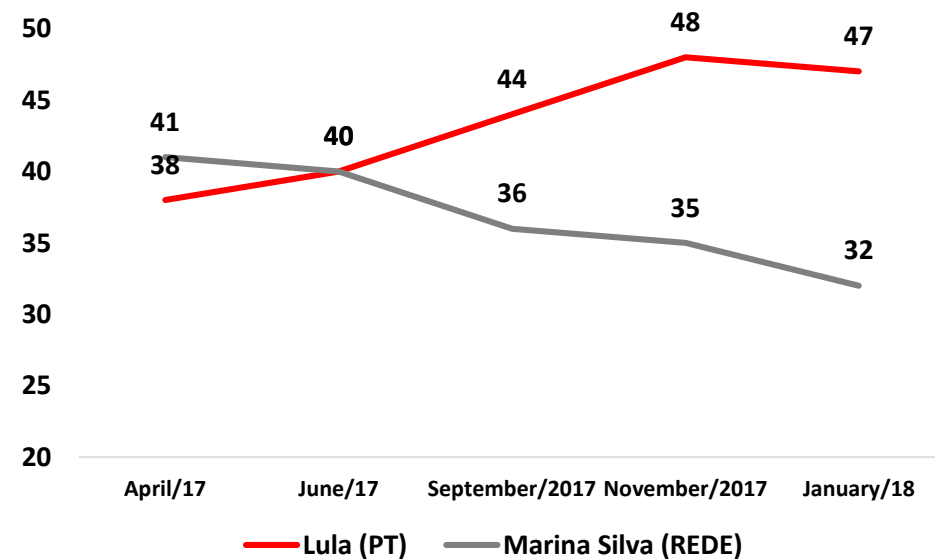
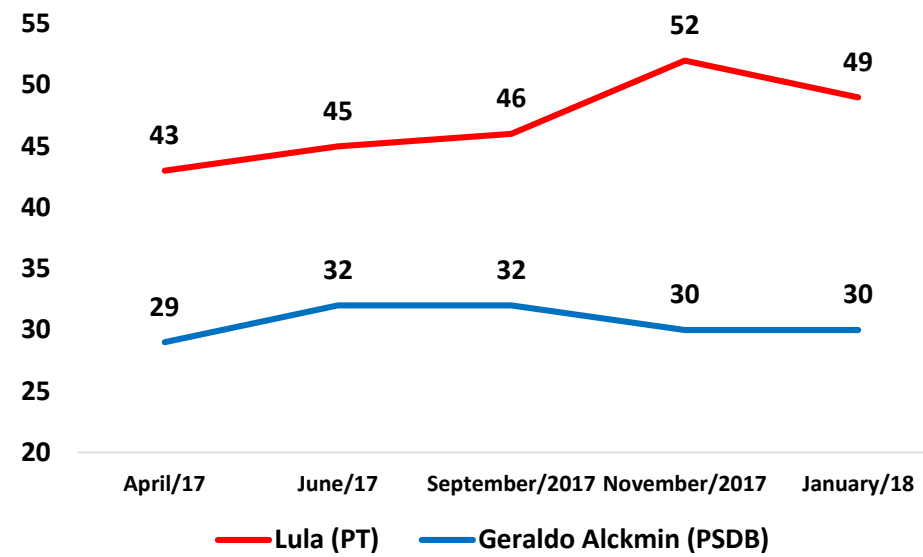
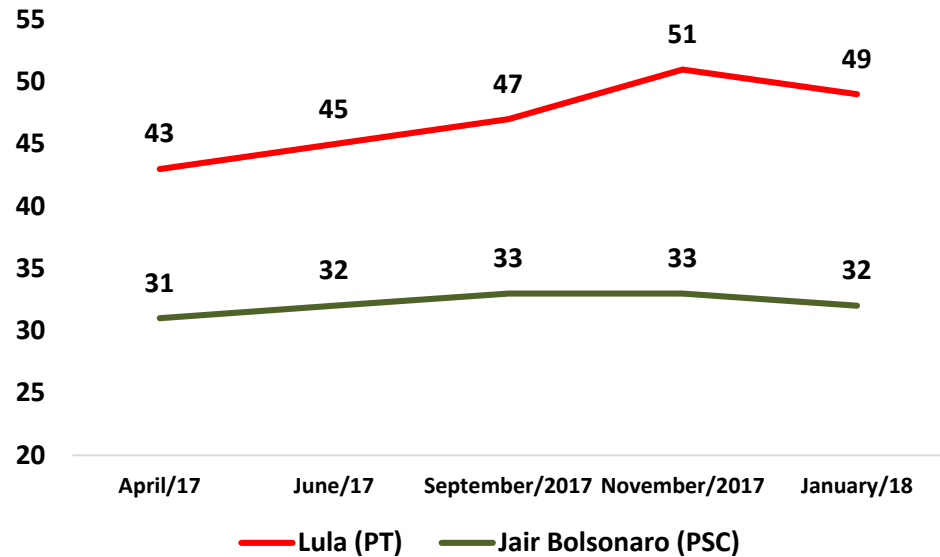
Scenario with Lula

Candidate/Party	Support for economic reforms	30-Nov	30-Jan
Lula (PT)	No	37	37
Jair Bolsonaro (PSC)	Uncertain	18	16
Geraldo Alckmin (PSDB)	Yes	8	7
Ciro Gomes (PDT)	No	7	7
Joaquim Barbosa (no party)	Uncertain	6	5
Others	-	7	9
None/Don't know	-	17	20

Scenario without Lula

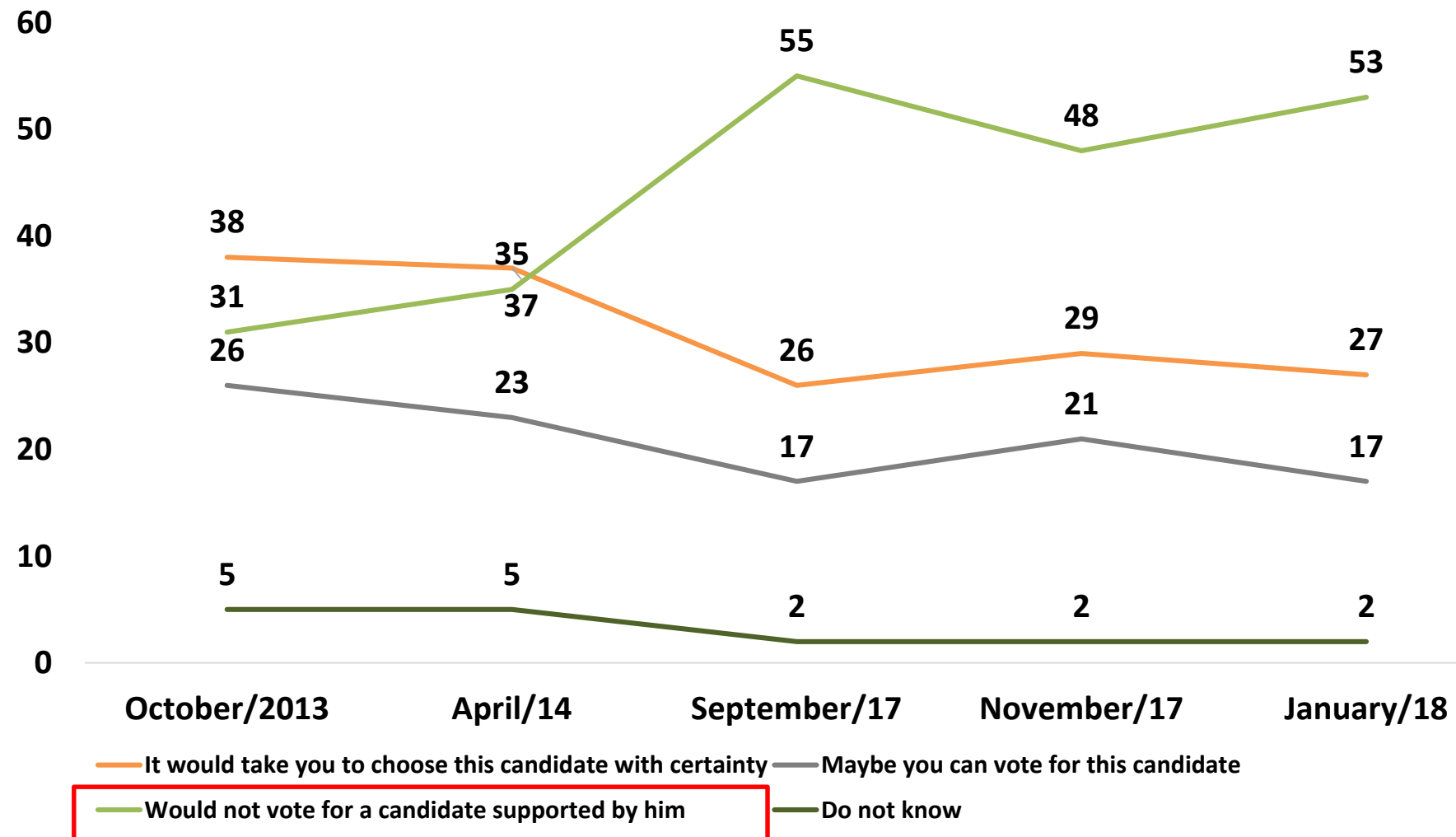
Candidate/Party	Support for economic reforms	30-Nov	30-Jan
Jair Bolsonaro (PSC)	Uncertain	21	19
Ciro Gomes (PDT)	No	12	12
Geraldo Alckmin (PSDB)	Yes	11	11
Joaquim Barbosa (no party)	Uncertain	8	5
Others	-	10	12
None/Don't know	-	38	41

2nd round still show Lula's advantage in the main scenarios...



Source: Datafolha

But support for Lula's candidate has fallen ...



Key questions remain...

1. Will Lula be a candidate?
2. Who will be the main center candidate? Will he/she be competitive?
3. Will it be the economy, stupid?

The campaigning period will be short and atypical...



Despite the uncertainties and institucional challenges, there has been improvement in governance both in the public and in the private sector...

1. Corporate programs of compliance have become frequent
2. New law for state enterprises
3. Major state companies are improving their governance policies

THE ECONOMY IS DOING WELL IN THE SHORT RUN DESPITE THE
FISCAL CHALLENGE IN THE MEDIUM RUN...













The external sector has helped the recovery. Expectations are more optimistic for developed and emerging countries...

IMF Forecast (World Economic Outlook – Jan/18)

	Estimate		Projections			Estimate		Projections	
	2016	2017	2018	2019		2016	2017	2018	2019
World Output	3.2	3.7	3.9	3.9	Emerging Market and Developing Economies	4.4	4.7	4.9	5
Advanced Economies	1.7	2.3	2.3	2.2	Commonwealth of Independent States	0.4	2.2	2.2	2.1
United States	1.5	2.3	2.7	2.5	Emerging and Developing Asia	6.4	6.5	6.5	6.6
Euro Area	1.8	2.4	2.2	2	China	6.7	6.8	6.6	6.4
Japan	0.9	1.8	1.2	0.9	India	7.1	6.7	7.4	7.8
United Kingdom	1.9	1.7	1.5	1.5	Emerging and Developing Europe	3.2	5.2	4	3.8
					Latin America and the Caribbean	-0.7	1.3	1.9	2.6

Despite the recent volatility, high liquidity and global growth boosted emerging market assets and commodity prices...

Country Risk (Embi+) – February 16, 2018

Country	Points	Var. % month	Var. % year
 Poland	56	36.59%	24.44%
 Peru	108	9.09%	-2.7%
 Uruguay	140	2.94%	-4.11%
 Russia	153	-1.29%	-14.04%
 Indonesia	160	11.89%	1.91%
 Colombia	168	9.09%	-3.45%
 Mexico	178	4.09%	-5.82%
 South Africa	202	5.76%	-8.18%
 Brazil	228	0.44%	-5,00%
 Turkey	287	3.99%	-0.35%
 Egypt	373	6.57%	-5.09%
 Argentina	391	4.55%	11.4%

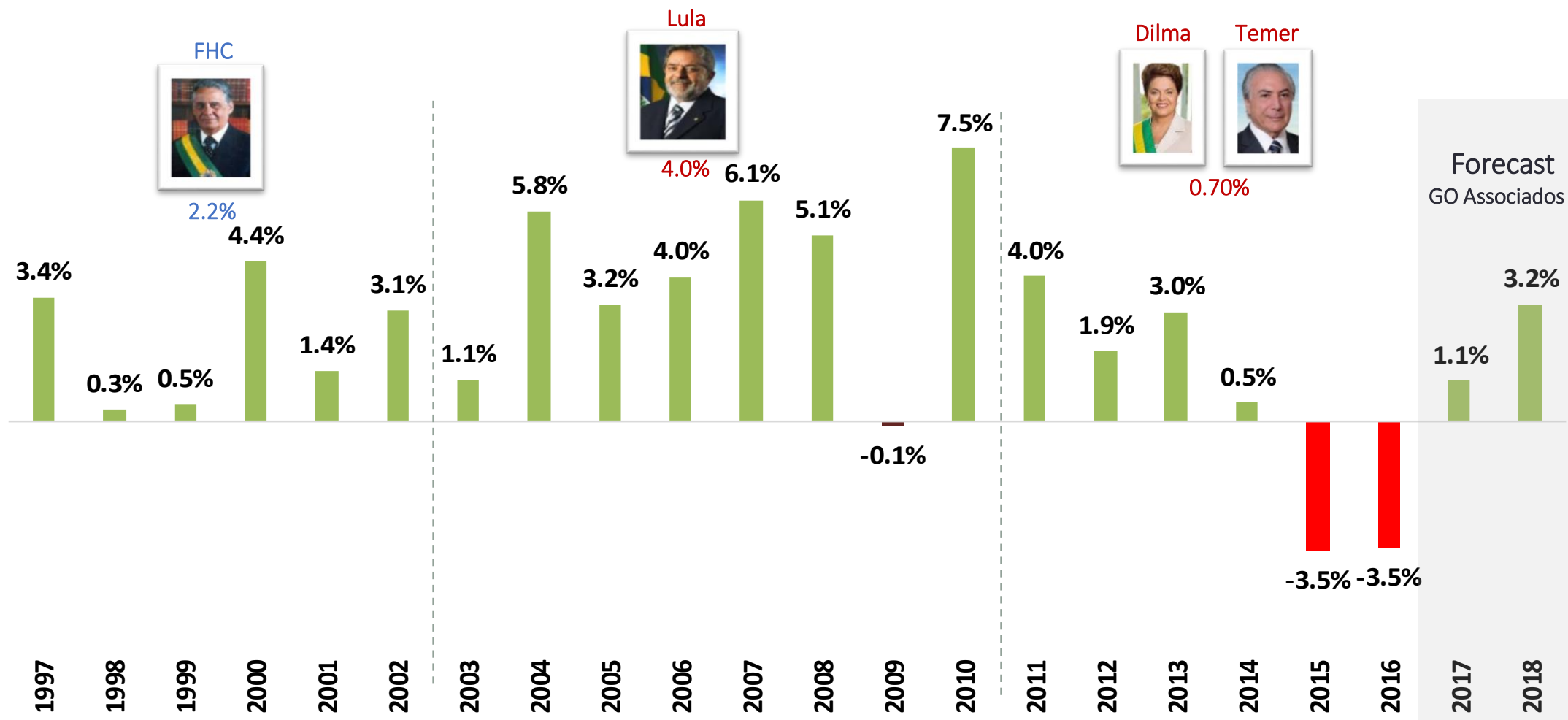
Source: Ambito.com

Brazilian Terms of Trade



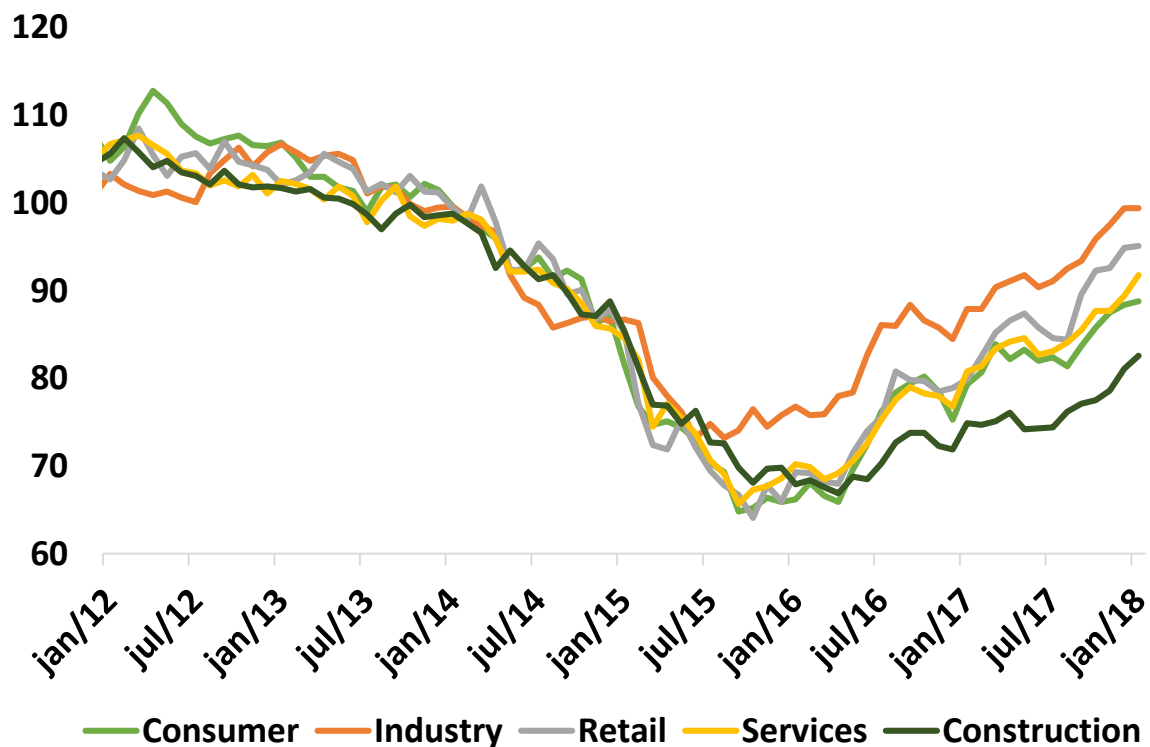
Source: Institute of Applied Economic Research (IPEA)

After the worst recession in the Brazilian history, the challenge is to transform recovery in sustainable growth...

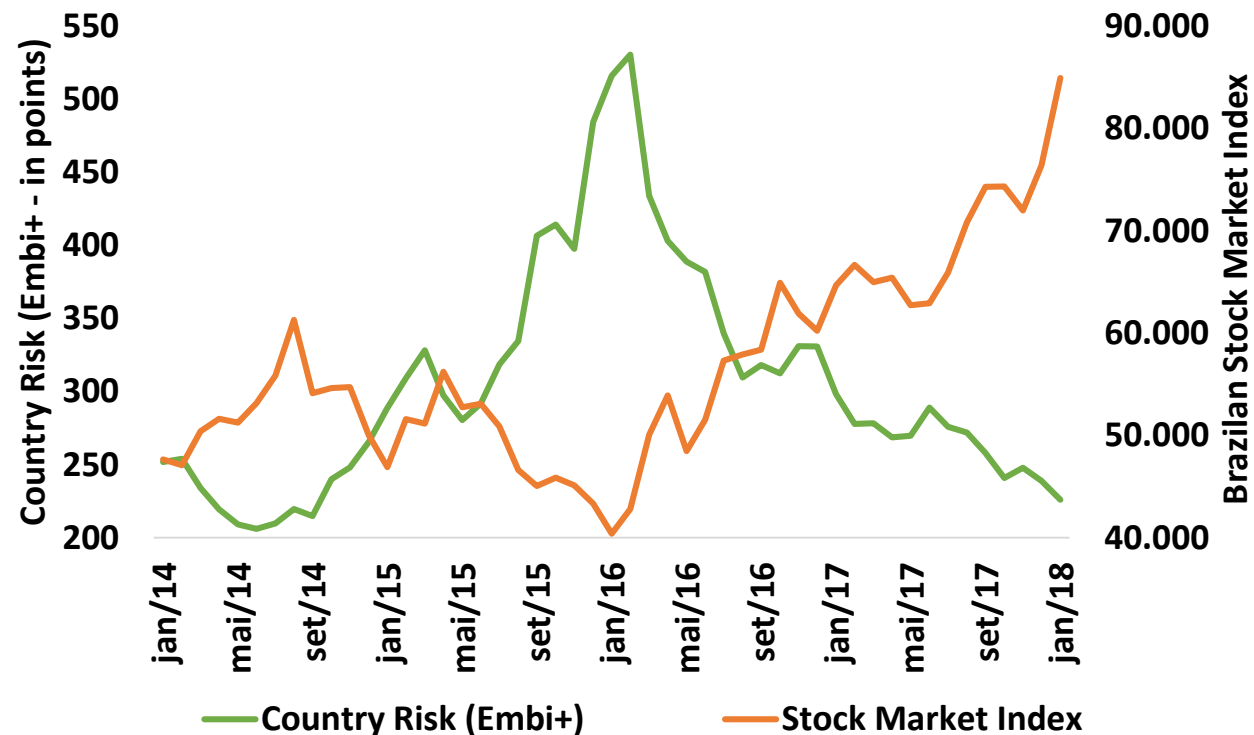


Confidence indexes and financial assets have improved...

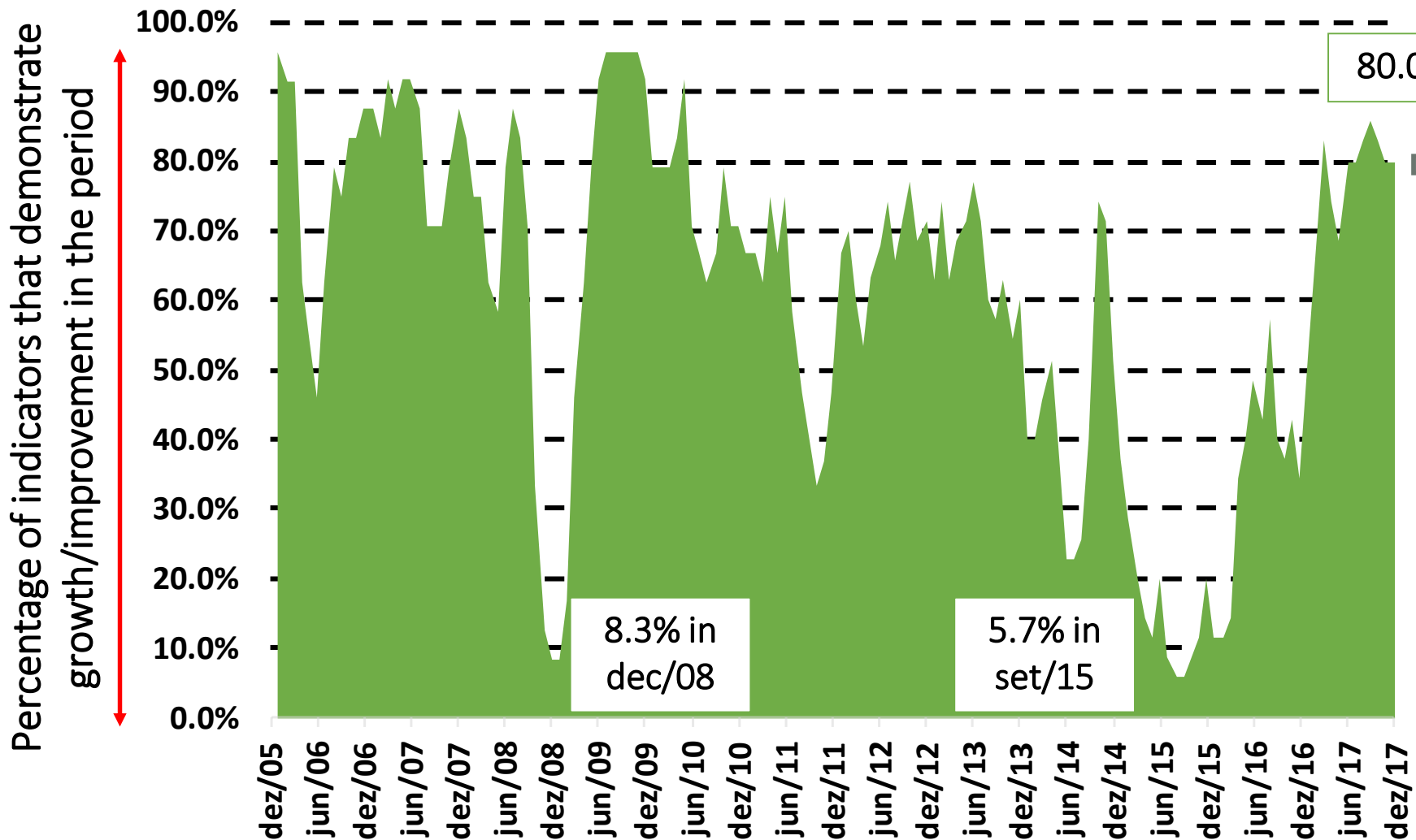
Confidence Indexes (FGV)



Ibovespa stock index e Country risk (Embi+)



Temperature of the economy: Economic Activity Diffusion Index of GO Associados confirms the on going recovery...



80.0% in dec/17

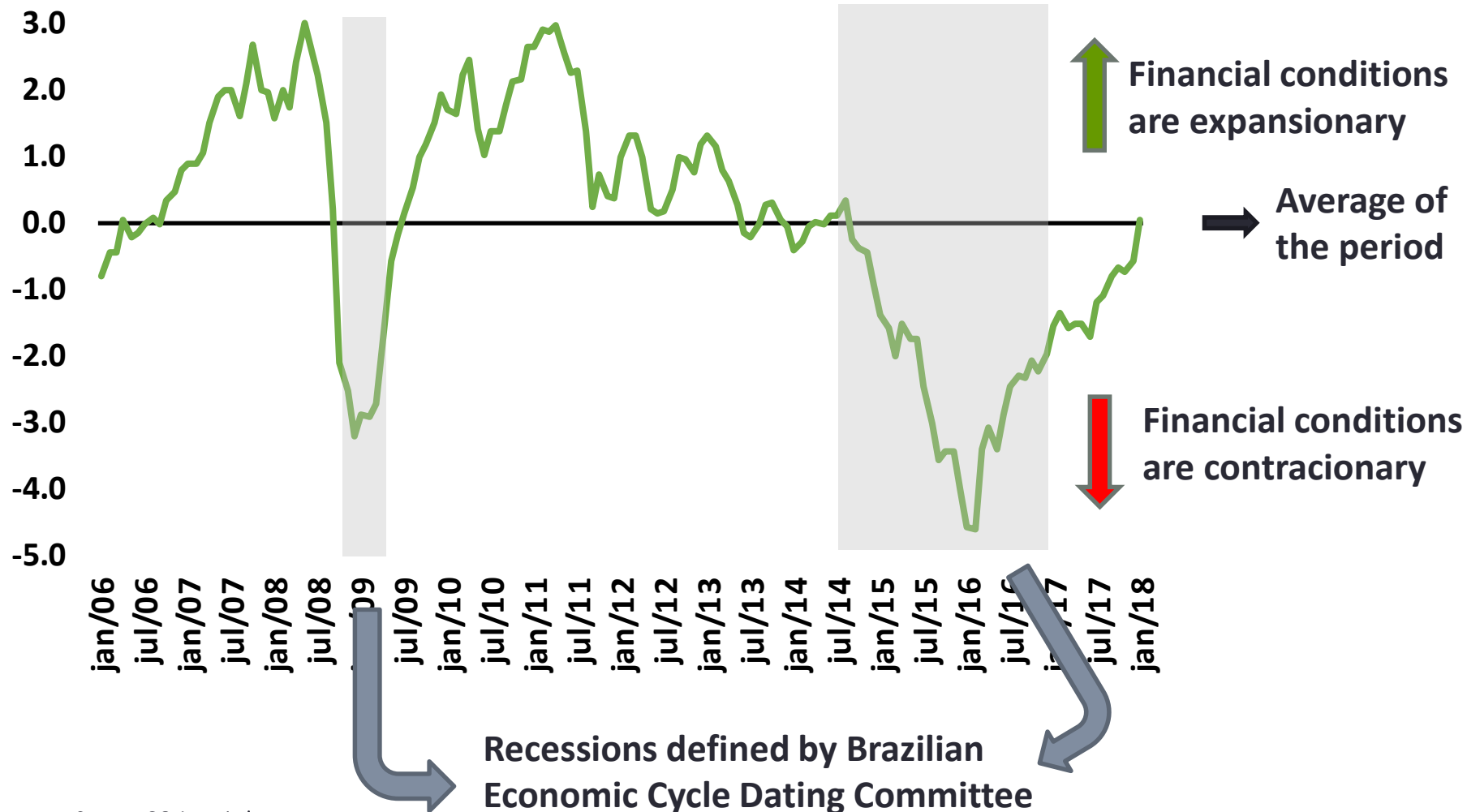
8.3% in dec/08

5.7% in set/15

- 35 economic series:
- Official data (IBGE);
 - Leading indicators;
 - Labour market;
 - Credit market;
 - Foreign sector;
 - Financial indicators;

Source: GO Associados

Future behavior of the economy: Financial Conditions Index (FCI- GO) goes in the same direction...



8 financial series:

External Data

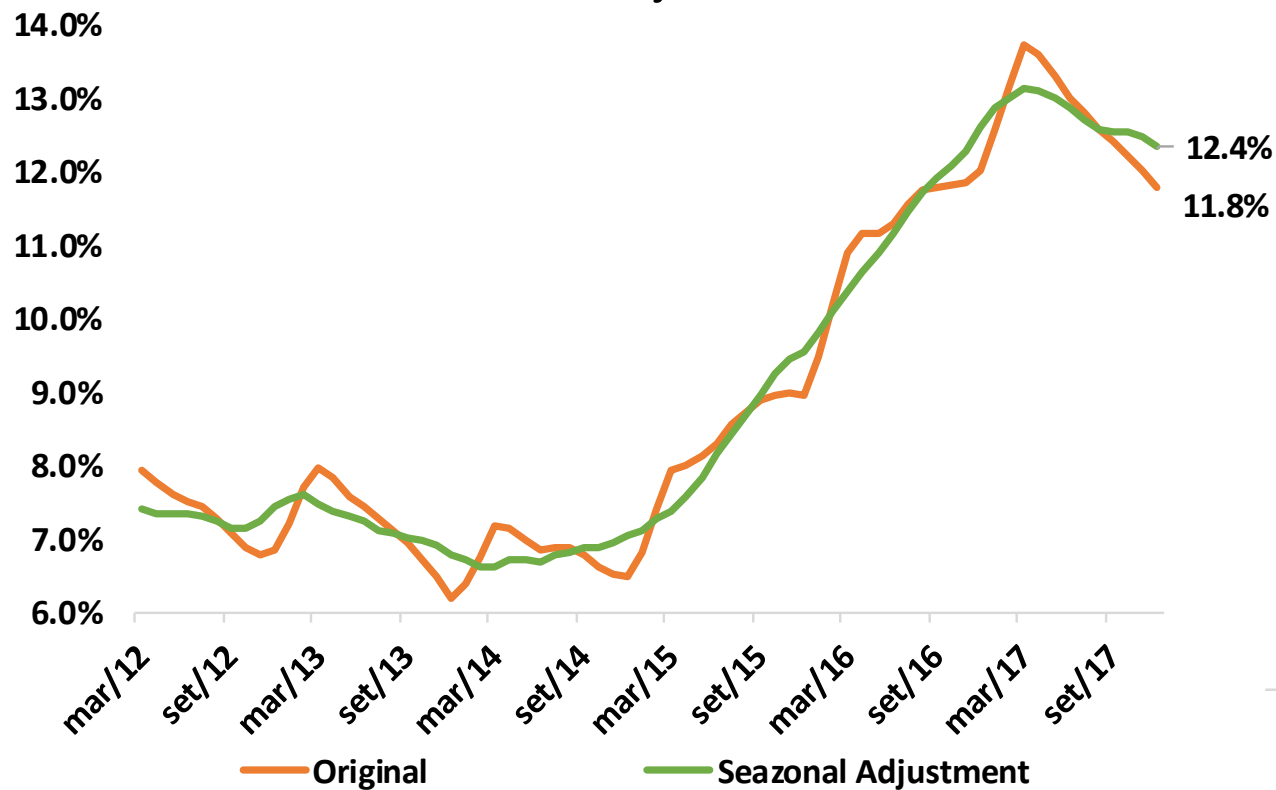
- USA Treasury 10 year;
- Volatility Index (VIX);
- Index of metallic commodities prices from BCB (in US\$);

Internal Data

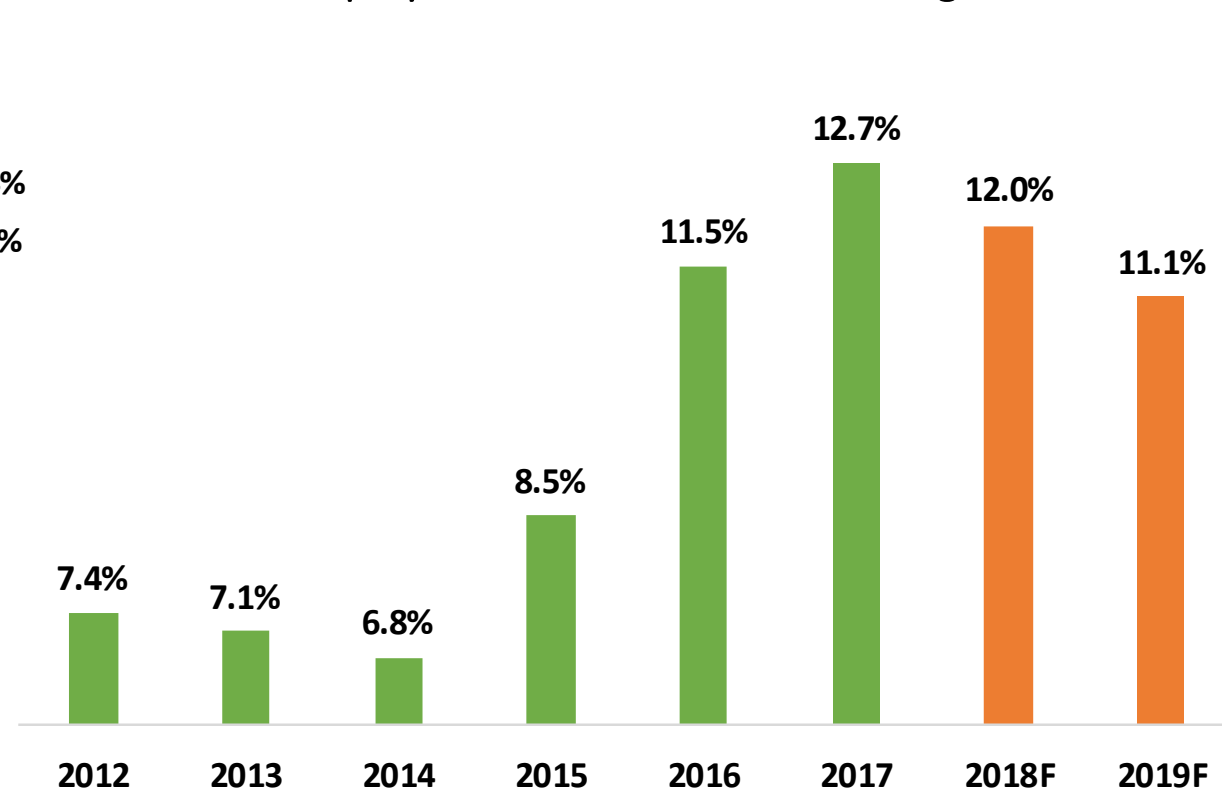
- Real Ibovespa index;
- Country risk (Embi+);
- Exchange Rate (R\$/US\$);
- Real interest rate;
- Yield curve inclination (1 year);

Labour market has shown a gradual recovery...

Monthly evolution of unemployment rate – original and seasonal adjustment



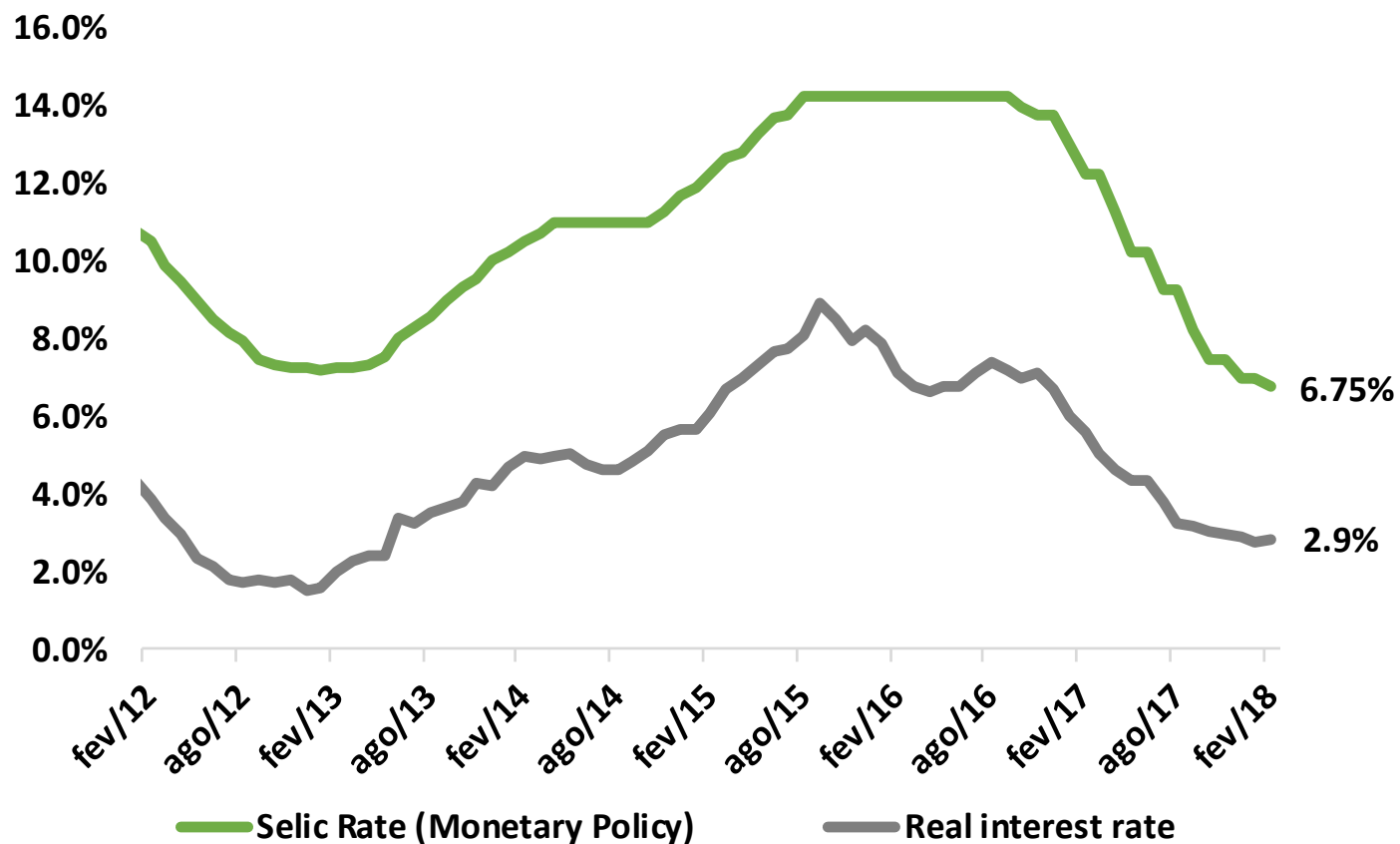
Unemployment rate - % annual average



Source: Pnad/IBGE. GO Associados

Monetary policy will continue expansionary throughout the year ...

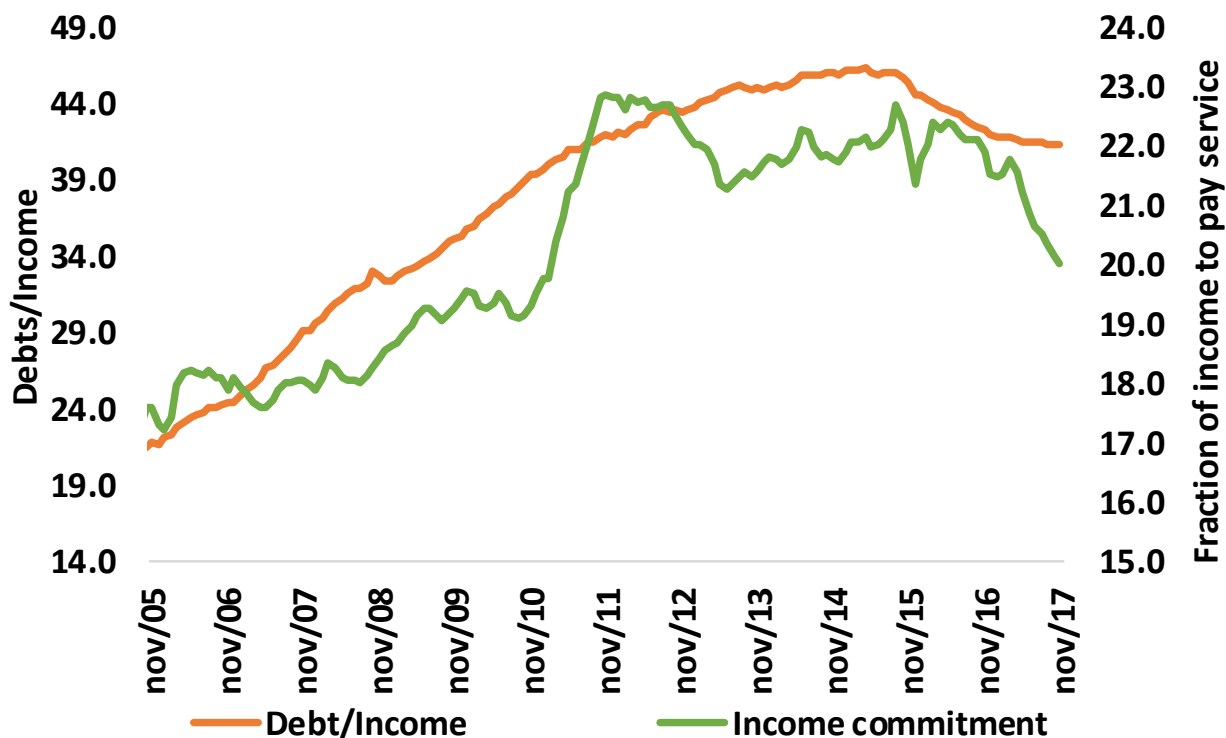
Selic interest rate (Monetary Policy) and real interest rate (% per year)



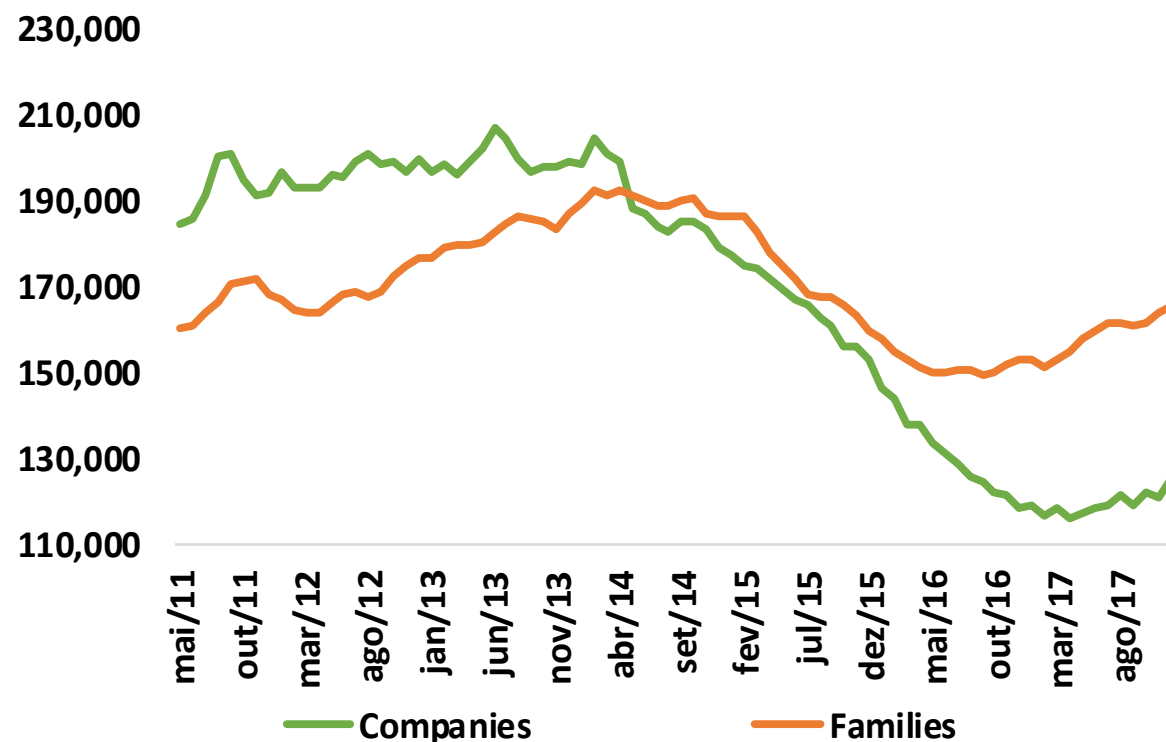
Selic interest rate should fall to 6.50% in the next meeting and continue in this level until the end of 2018

Household's debt has been falling and credit concessions have shown signs of recovery...

Debt and families commitment to the debt payment (%)



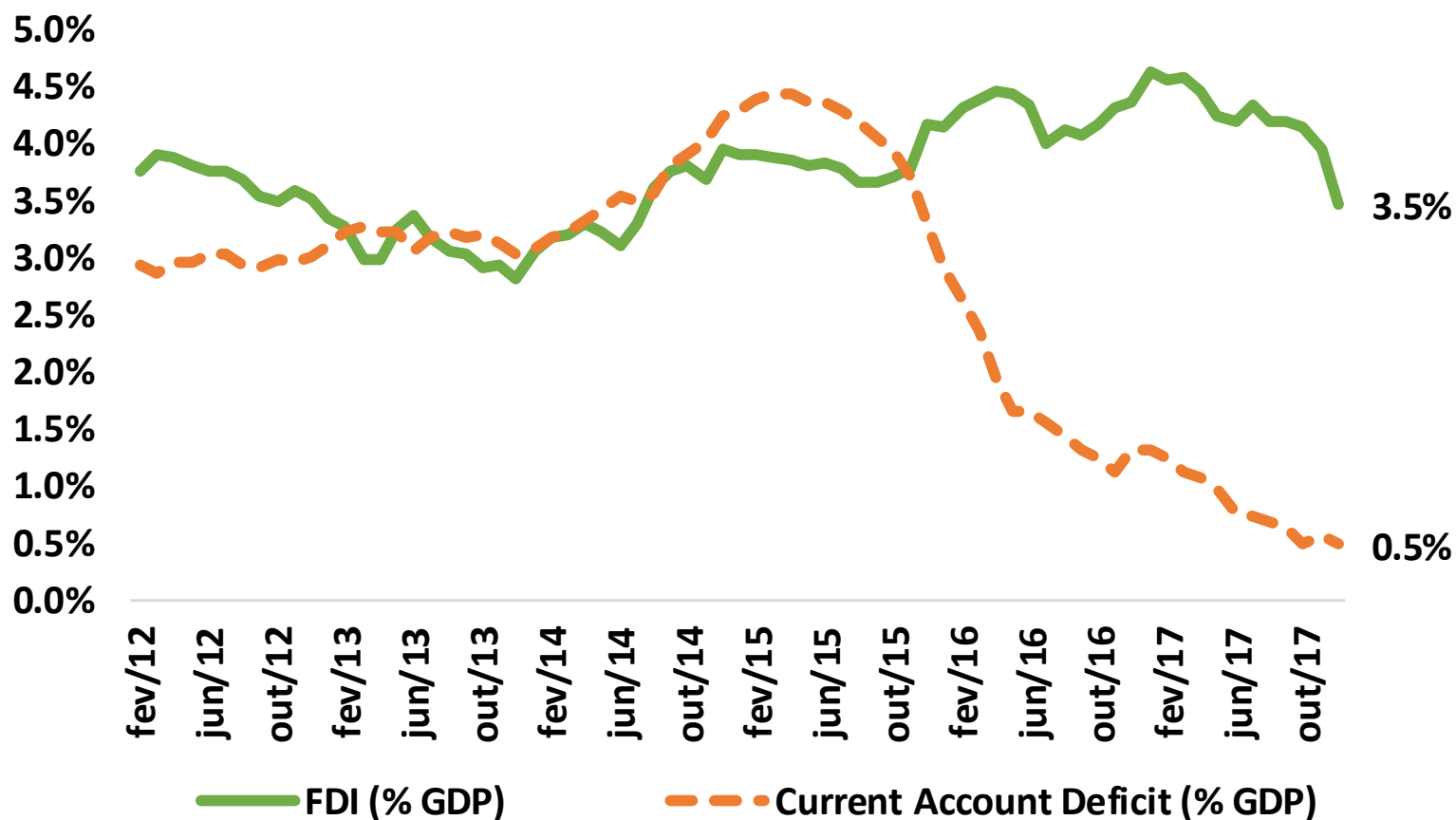
Credit concessions (R\$ million) – Three-month moving average



Source: Brazilian Central Bank.

External accounts are in very comfortable situation. This is important to mitigate external volatility...

Current account deficit and Foreign Direct Investment (FDI) - (% of GDP)



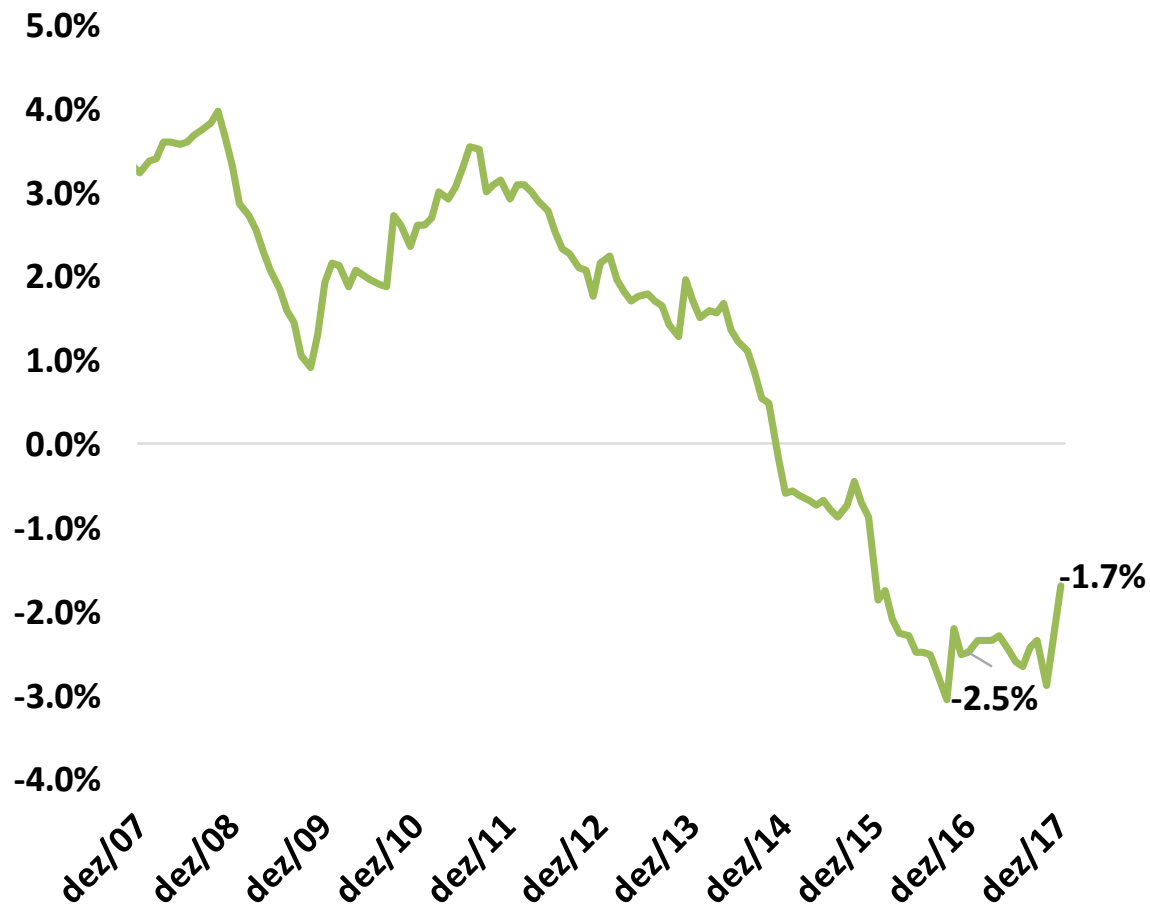
Trade Balance in 2017 was record: US\$ 68 billion and should continue in a high level in 2018 (US\$ 55 bi)

Factors that support a good scenario for exports:

- Higher global economic growth;
- Recovery of South America economy (especially Argentina)
- Improvement in commodities prices
- Good agricultural supply

However, the fiscal scenario remains critical, mainly due to the Social Security deficit...

Primary fiscal balance (% GDP)

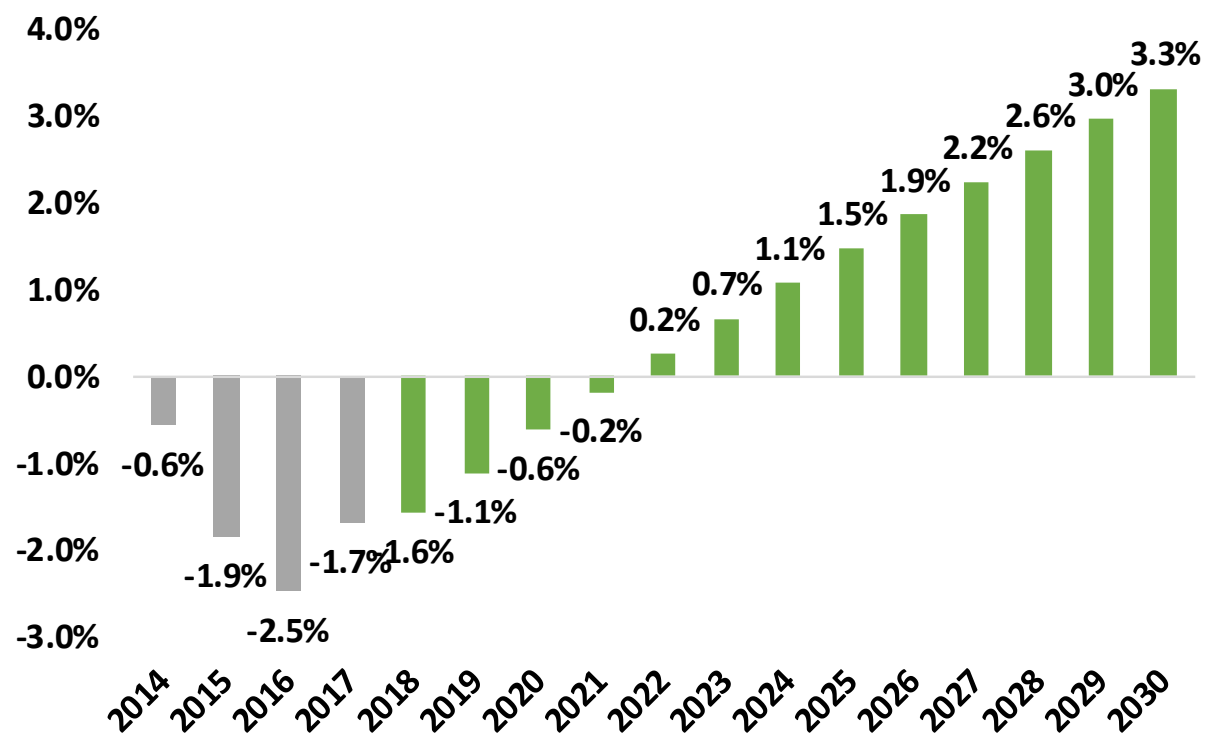


	2016		2017	
	R\$ mi	% GDP	R\$ mi	% GDP
Primary Balance	-155 791	-2.5%	-110 583	-1.7%
Federal Level	-160 309	-2.6%	-119 394	-1.8%
Federal government	-8 767	-0.1%	64 761	1.0%
Central Bank	- 972	0.0%	- 699	0.0%
Social Security System	-149 734	-2.4%	-182 442	-2.8%
Federal Companies	- 836	0.0%	- 952	0.0%
Regional Level	4 519	0.1%	8 812	0.1%
Interest expenses	-407 024	-6.5%	- 400 826	-6.1%
Overall Fiscal Balance	-562 815	-9.0%	-511 408	-7.8%

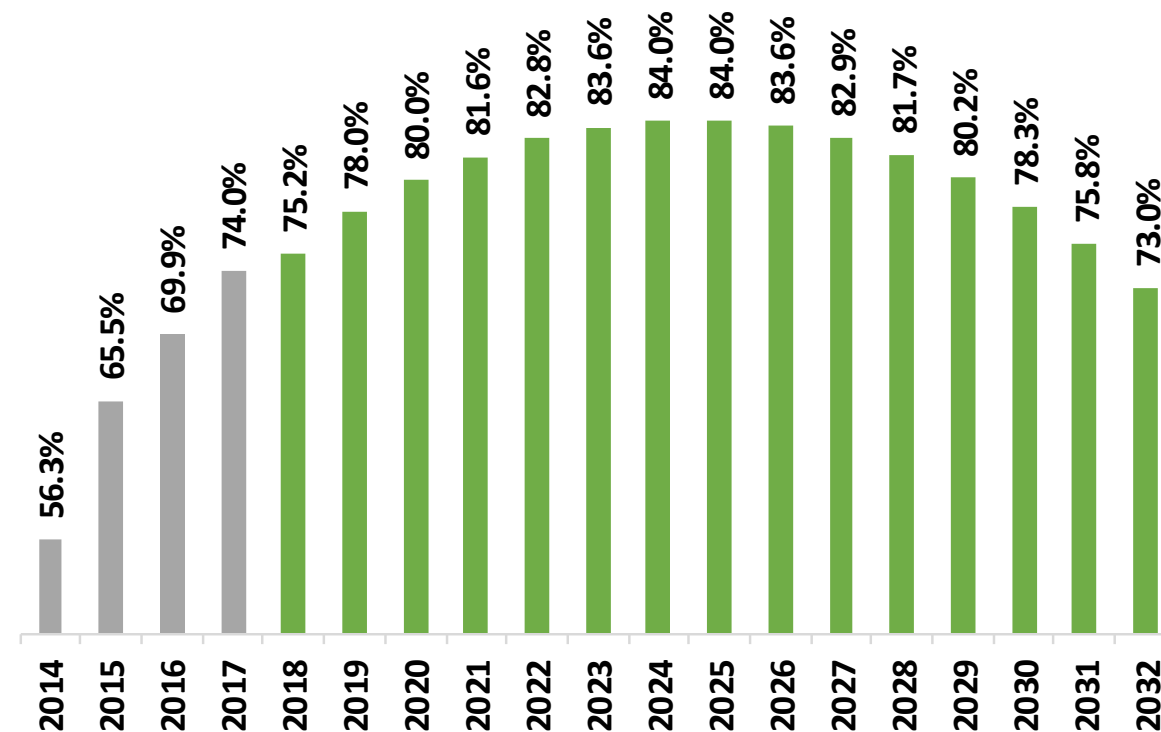
Source: National Treasury

Primary surplus and a stable debt level can be expected only in the next decade, considering that the Expenses Limit Rule will be respected over the next 20 years...

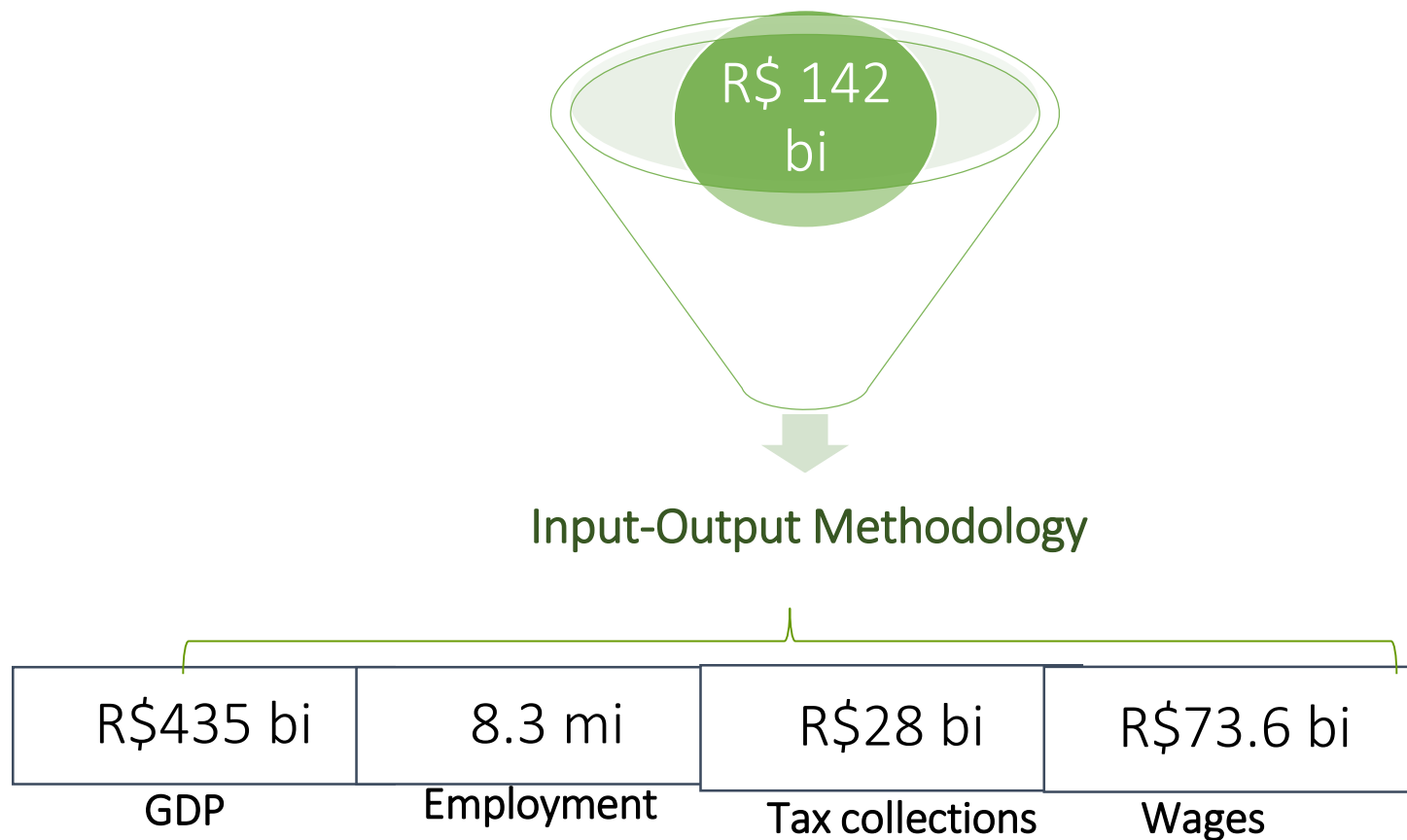
Mid-term projections for the Primary Fiscal Balance (% GDP)



Gross Debt (% GDP)



Investment in infrastructure will be key to transform recovery in sustainable growth...

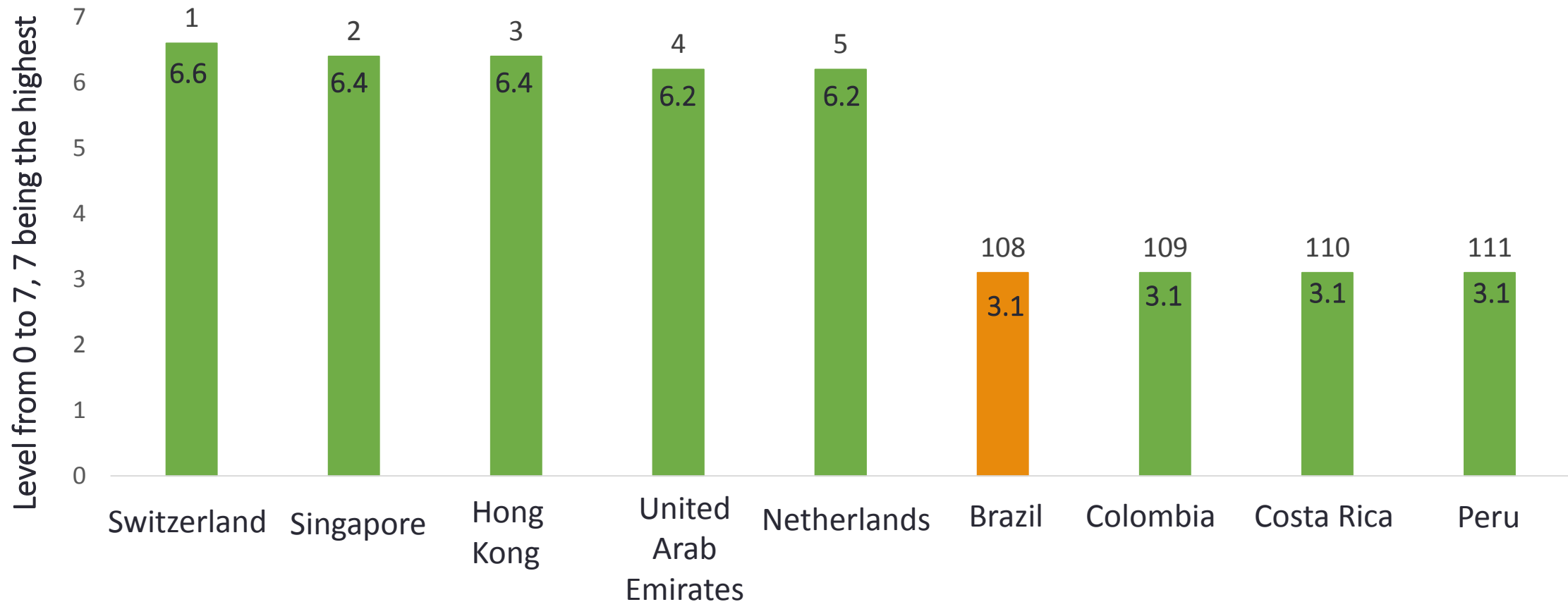


Source: Input-Output Matrix of IBGE. It is considered that all the investments would be allocated in the civil construction sector, values in reais of 2009.

BUSINESS OPPORTUNITIES ARE NUMEROUS DESPITE THE
POLITICAL UNCERTAINTIES AND THE ECONOMIC CHALLENGES...

Lack of infrastructure is a tragedy as well as a business opportunity...

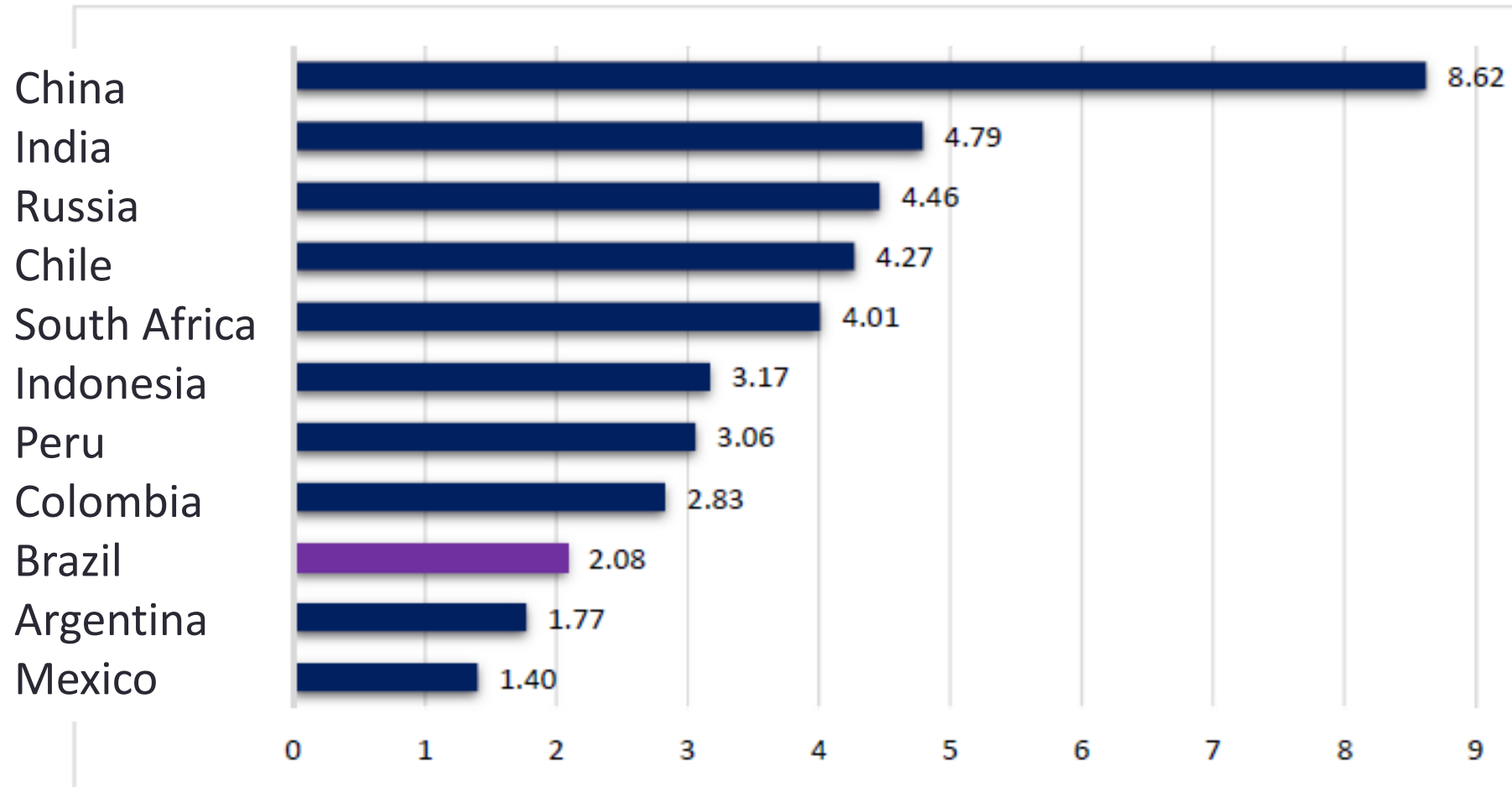
Ranking of Infrastructure Quality – 137 countries



Source: World Economic Forum (2017)

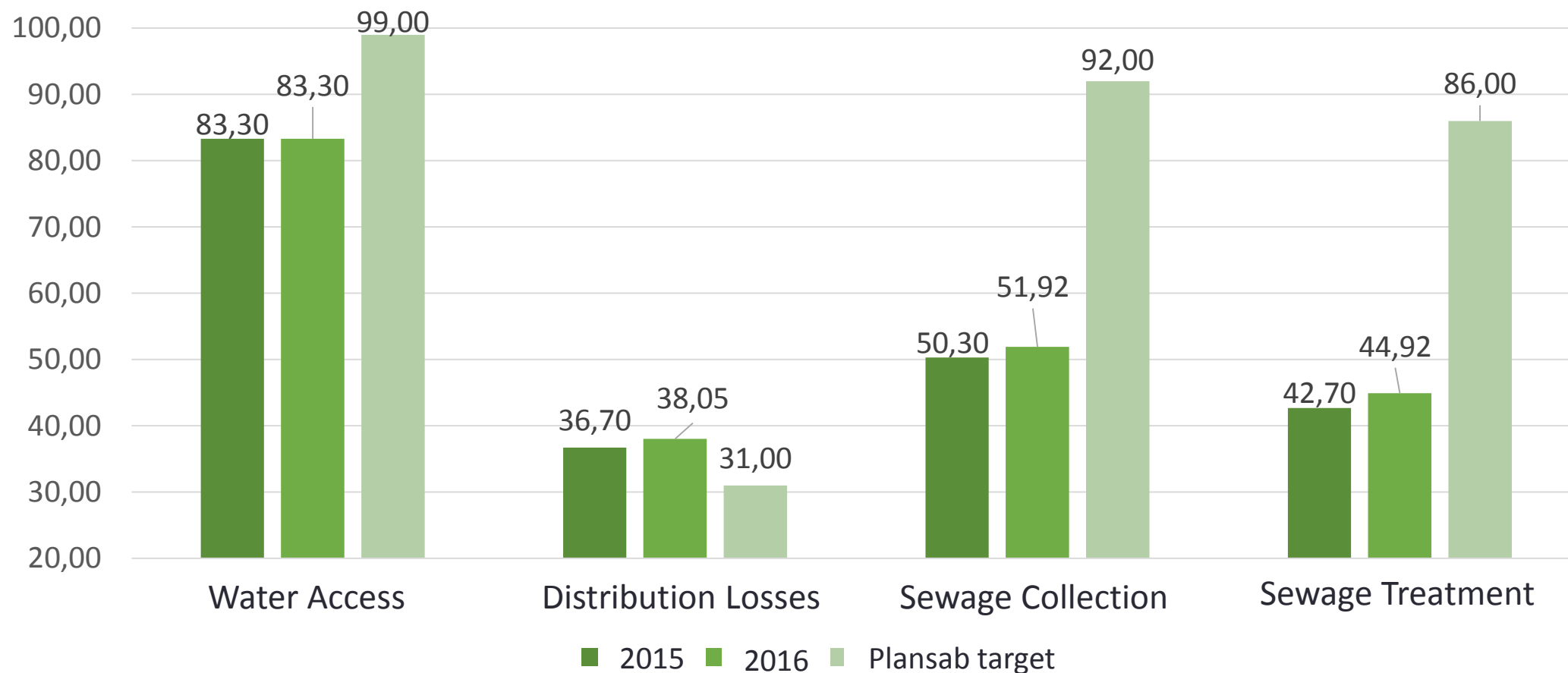
In the last few years, the investment barely covered the depreciation costs...

Total infrastructure expenses, 2000-2013 (% GDP)

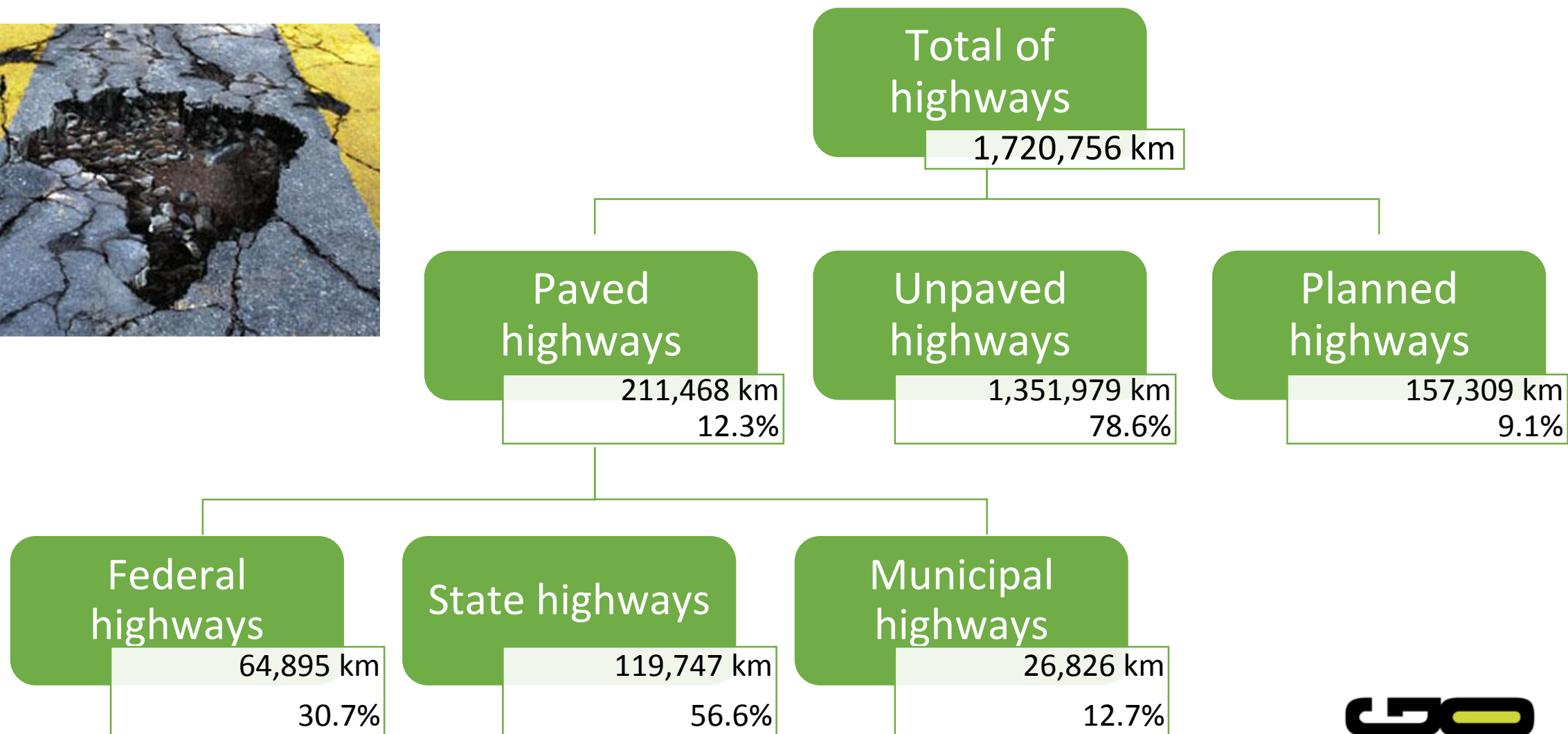


There is a huge gap in the Brazilian water and sewage sector...

Water supply & distribution, Sewage service & treatment – 2015/16



Nearly 80% of Brazilian highway network is not paved...



Brazil's port terminals are inefficient and mismanaged...

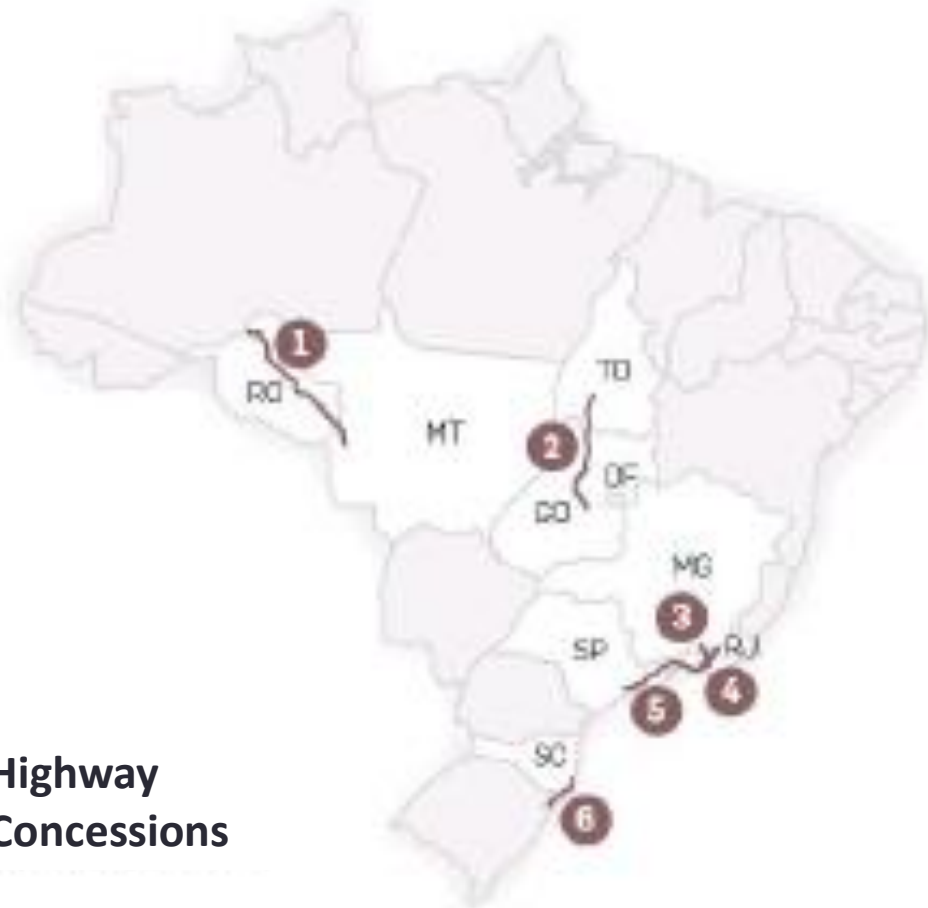
- Bureaucracy
- Over capacity
- Poor highway and railway infrastructure
- High costs: cargo handling, bureaucracy, and demurrage
- Storage deficiencies
- Poor and inefficient management by the public sector.



Pipeline for the PPI program for 2018...

PRIVATIZATION PANEL						
PROJECT	SECTOR	TYPE	AUCTION DATE	MINIMUM CONCESSIONARY FEE	POLITICAL RISK	DESCRIPTION
Pre-Sal 4th Round	Oil & Gas	Shared partition regime	2018 Q2	US\$ 445 mi	Low	There is no legal discussion or state bureaucracy resistance
EF-140 railway MT/PA - Ferrogrão	Railway	Common concession	2018 Q2	To be defined	Moderate	The environmental licensing process is complex and also involves the interests of indigenous communities in the region.
Eletrobras	Energy	Privatization	2018/2019	Under Study	High	Legal framework is under discussion and there is a high resistance among left-parties and state bureaucracies
BR-116 RJ/SP Road Rio de Janeiro to São Paulo	Roads	Common concession	2018 Q4	To be defined	Low	There is no legal discussion or state bureaucracy resistance

There are other projects in the PPI pipeline for 2018 in highways...



**Highway
Concessions**

- 1) BR 364 – Porto Velho (RO) / Comodoro (MT)
- 2) BR 153 – Aliança do Tocantins (TO) / Anápolis (GO)
- 3) BR 040 – Juiz de Fora (RJ) / Rio de Janeiro (RJ)
- 4) BR 116 – Além Paraíba (RJ) / BR 040
- 5) BR 116 – Rio de Janeiro (RJ) / São Paulo (SP)
- 6) BR 101 – Paulo Lopes (SC) / São João do Sul (SC)

In Railway...



Railway Concession

1) Railway East West Integration (Fiol, in portuguese)

And in regional airports...



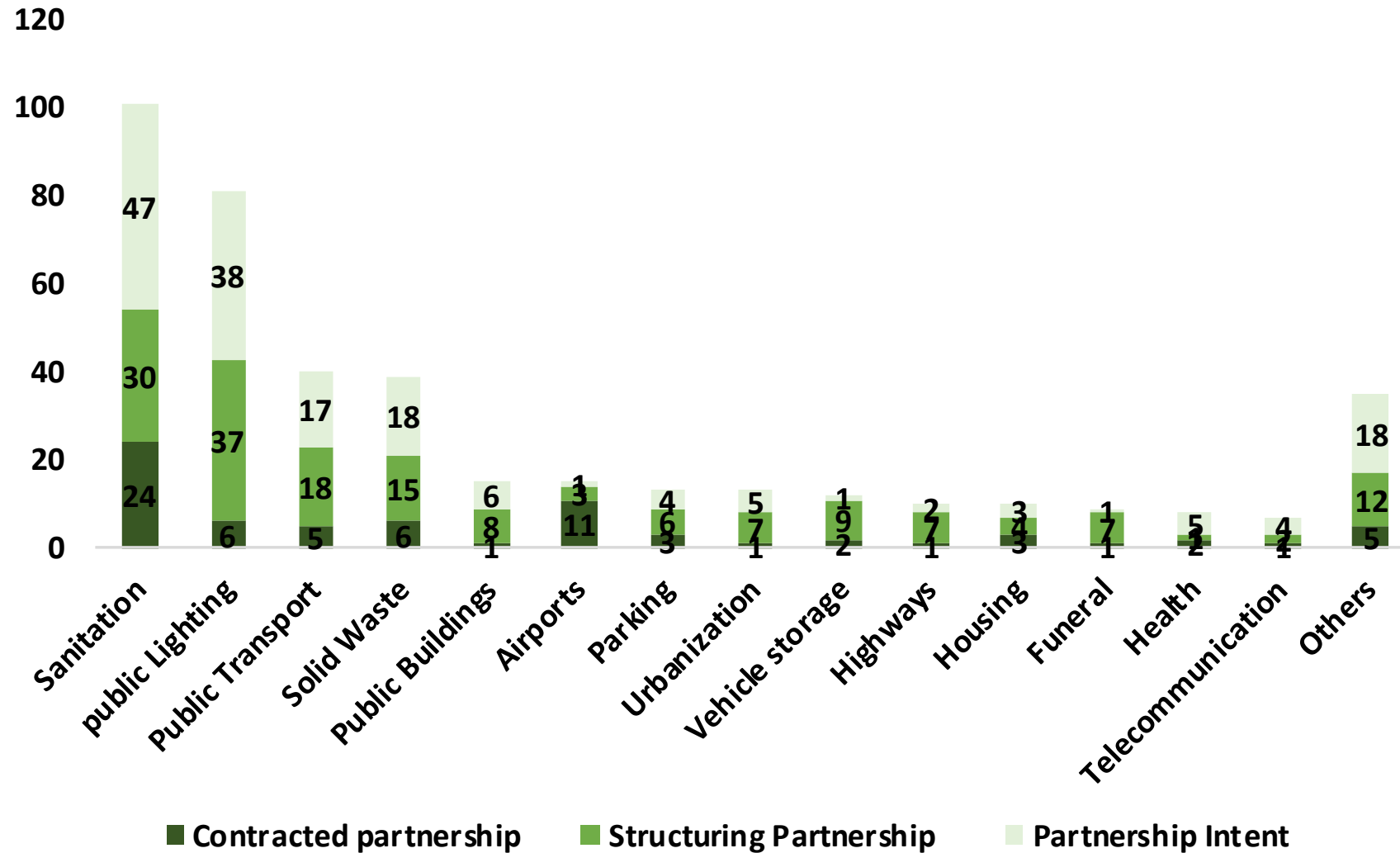
Regional Airports Concessions

- 1) Piloto Oswaldo Marques Dias – Alta Floresta (MT)
- 2) Presidente João Batista Figueiredo – Sinop (MT)
- 3) Marechal Rondon – Várzea Grande (MT)
- 4) Barra do Garças – Barra do Garças (MT)
- 5) Rondonópolis – Rondonópolis (MT)
- 6) Orlando Bezerra de Menezes – Juazeiro do Norte (CE)
- 7) Presidente João Suassuna – Campina Grande (PB)
- 8) Presidente Casto Pinto – João Pessoa (PE)
- 9) Gilberto Freyre – Recife (PE)
- 10) Zumbi dos Palmares – Maceió (AL)
- 11) Santa Maria – Aracajú (SE)
- 12) Eurico de A. Salles – Vitória (ES)
- 13) Macaé – Macaé (RJ)

Besides the federal projects, there are important state and city projects...

State	Project	Conceding Power	Sector
SP	Line 08 (Diamond) and 09 (Emerald) of Metropolitan Trains	State Company	Urban mobility
SP	Public Supply Warehouse of São Paulo	State Company	Agriculture and Food Supply
SP	Anhembi – Exhibition and Convention Center	Municipal Company	Convention Center
SP	Interlagos Motorsport Circuit	Municipal Company	Motorsport Circuit
RS	Metropolitan Region of Porto Alegre - Corsan	State Company	Water & Sanitation
ES	Guarapari and Fundão/ Cariacica and Viana – Cesan	State Company	Water & Sanitation

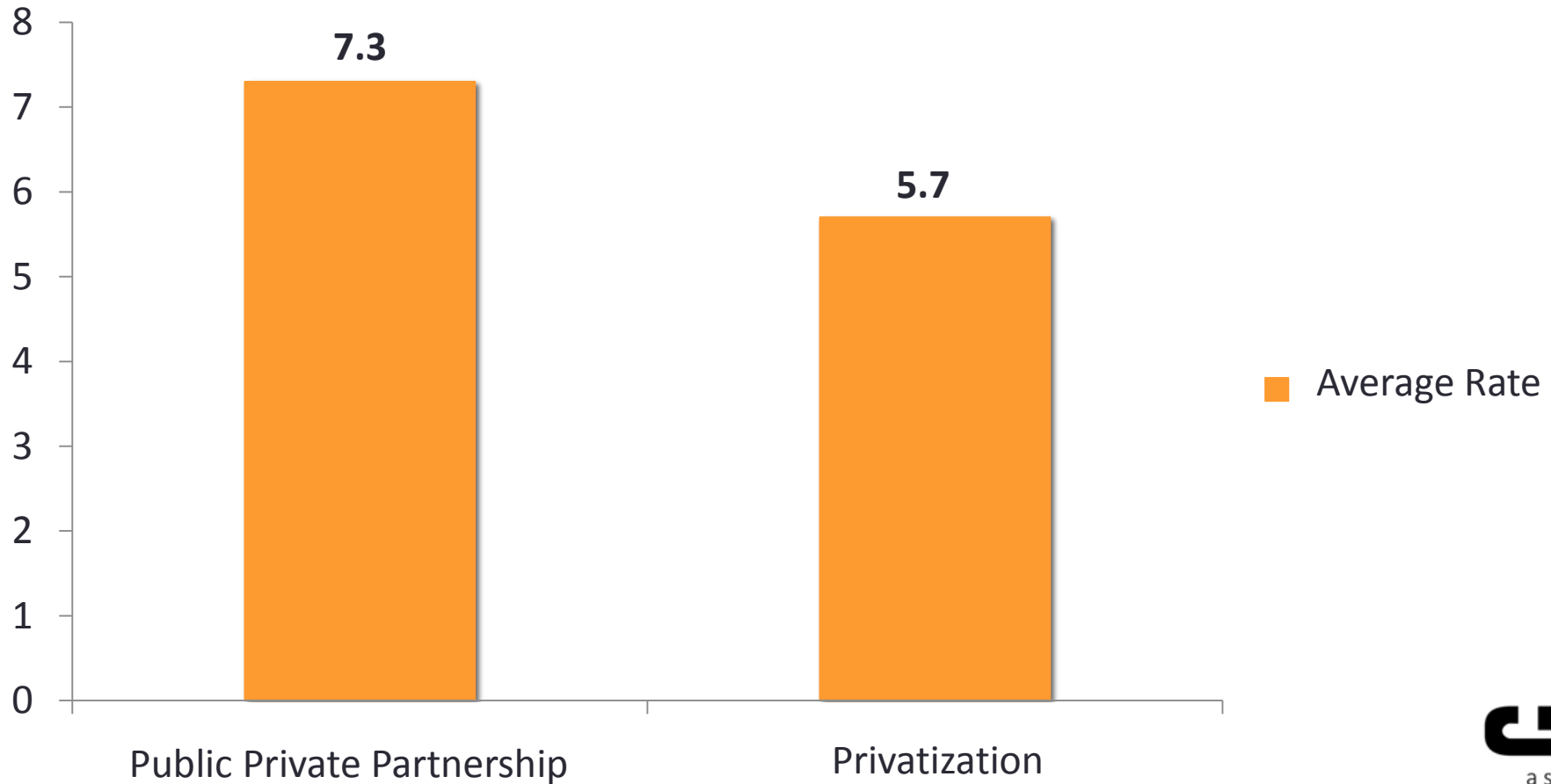
Public private partnerships are present in several sectors...



Congress Members prefer PPP model rather than privatization...

Factual Informação Survey with 190 deputies

Question: How do you evaluate these two models for the economic development of Brazil? Answers between 0 and 10 (from nothing important to very important)



GO Associados' forecast for 2018-19...

Variables	2017	2018F	2019F
GDP growth (%)	1.1*	3.2	2.5
Industrial Production	2.5	5.5	4.0
Unemployment rate (% average of the year)	12.7	12.0	11.1
Job formal creation (in thousands)	-20.8	+980.0	+980.0
Fiscal Primary Balance (% GDP)	-1.7%	-1.5%	-1.1%
Gross Debt (% GDP)	74.0%	74.0%	75.5%
CPI (% acum. in year)	2.9	4.0	4.25
Selic Rate – monetary policy (% end of period)	7.0	6.5	8.0
Exchange Rate (R\$/US\$ - end of period)	3.31	3.20	3.25
Current Account (US\$ bi)	-9.8	-24.0	-32.0

* Forecast

Reminding the three points...

1

Political scenarios are uncertain...

2

But the economy is doing well in the short run despite the fiscal challenge in medium run...

3

Business opportunities are numerous despite the political uncertainties and the economic challenges...

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GO BRAZIL

NEWSLETTER ON BRAZILIAN POLITICS AND ECONOMICS

PREPARED BY

POLITICAL ANALYSIS

BRAZIL PRIVATIZATION CONTEXT

LEONARDO BARRETO

The Investment Partnership Program (IPP) that is being undertaken by the Brazilian federal government is not related to a deep ideological conviction about the importance of the private sector participation, but to a pragmatic view of financing the economy given the lack of public resources. The current privatization momentum in the country would not have enough strength to lead, by itself, a denationalization plan. However, there are no signs of dissatisfaction among the population about the greater participation of the private sector. No public mobilization was registered against the IPP. Historically, also, there is no significant resistance against the presence of foreign investors. Even sectors once considered politically strategic as the airport or energy segments now count with different global companies. The reaction against the privatization process is heavily concentrated in public employees corporations, some effectively powerful, and in political groups controlling the companies involved. Parties and activists from the left, traditionally in favor of state presence, assume a secondary role in this political composition. The recent auction of the four hydroelectric plants from Cerrig, the state-owned energy company from Minas Gerais, was a good example of mobilization of forces against privatization. Another relevant test for the government involved Congonhas airport, in São Paulo, which was taken off the IPP list due to political pressures from the Republican Party

INSTITUTIONAL COHESION INDEX (ICI) & ECONOMIC POLICY SUPPORT INDEX (EPSI)

Month	ICI	EPSI
Feb/17	6,35	6,2
Apr/17	5,49	5,8
May/17	6,22	5,6
Jun/17	5,76	6,8
Jul/17	5,89	5,7

Factual Informação e Análise. The ICI measures the cooperation level among the Executive, Judiciary and Legislative powers and ranges between 0 to 10; 10 means the institutions fully cooperate with themselves. The EPSI measures the consensus level regarding government's economic agenda and also ranges between 0 to 10; 10 means total support for the agenda. Both indexes are monthly updated.

MACROECONOMICS ANALYSIS

DESPITE THE DISAPPOINTMENT WITH ECONOMIC DATA IN AUGUST, THE ECONOMY CONTINUES TO RECOVER

GESNER OLIVEIRA

The economic data from August have disappointed the market. When comparing to July, the services sector decreased 1%, industrial production fell 0.8% and retail sales dropped 0.5%. All together, these results explained why the so-called IBC-Bi, the main GDP preview measured by the Central Bank, fell 0.38% in the same period. The results below expectations, however, were occasional and should not be interpreted as a reversal of the economic recovery trend. Indeed, once compared to the same period of 2016, the signs for these three sectors change considerably. The service sector data came 2.4% below 2016 result, but better than the drop of 3.2% from July, under the same basis of comparison. Industrial production, in turn, increased by 4% when compared to August 2016 and the retail sales have showed its fifth consecutive rise, of 3.6%. The IBC-Bi then increased by 1.64%. The economic activity diffusion index from GO Associados (called ID-GO, in portuguese) indicates that 29 over 35 economic series ended up August with positive results for their three month average. This shows how widespread is the economic resumption: 82.9% of the economy is improving, the best result since May, 2010, when the index pointed to 91.7%. For September, the incoming data confirm the ongoing recovery and

ECONOMIC ACTIVITY DIFFUSION INDEX (ID-GO)

GO Associados. ID-GO aims at measuring the economy "temperature" by analyzing 35 economic series. All series are seasonally adjusted, except for the financial data. The last three months average is compared with the former three months. The index then aggregate all series and indicates the percentage of them which are improving in the period.

INFRASTRUCTURE ANALYSIS

THERE ARE STILL 19 IPP INFRASTRUCTURE PROJECTS TO BE AUCTIONED IN 2017

GESNER OLIVEIRA

In a little over a year and only with three Council meetings, 54 over 148 IPP projects were concluded. The program was created in order to enhance investment politics coordination among the different government institutions and includes several sectors, such as railways, airports, oil and gas, ports, mining, among others. Investments within the 37% already auctioned assets are estimated at US\$ 10 bn and about US\$ 8 bn were earned from concessionary fees. These numbers include contract concessions, renewals, anticipated extensions and privatizations. There are still 19 projects in the pipeline for 2017 and 21 more to be public noticed. Among the next expected auctions are five port terminals, 11 lots of energy transmission installation and the privatization of the Caixa Econômica federal bank lottery (Lotof). The Privatization Panel highlights the main ongoing IPP projects. Besides Pre-sal 2^o Round, which took place on October 27th, the concession of Ferroglió railway calls the attention. The political risk is low since the railway regulatory framework is already consolidated and there is no signs of state bureaucracy resistance. In the energy sector, the main project is the privatization of Eletrobras. The state-owned company has a total capacity of generating 48,856 GW and the government controls 40.98% of its total capital. Finally, the concession of the so-called President Dutra Highway, which has 402 km of extension and links the two main metropolitan regions of the country, São Paulo and Rio de Janeiro, is likely to happen in the end of 2018.

PRIVATIZATION PANEL

PROJECT	SECTOR	TYPE	AUCTION DATE	MINIMUM CONCESSIONARY FEE	POLITICAL RISK	DESCRIPTION
Pre-Sal 2nd Round 4 Internal areas	Oil & Gas	Shared partition regime	27/10/2017	R\$ 3,4 bn	Low	There is no legal discussion or state bureaucracy resistance
EF-170 railway MT/PA - Ferroglió	Railway	Common concession	2018 Q2	To be defined	Low	There is no legal discussion or state bureaucracy resistance
Eletrobras	Energy	Privatization	2018/2019	Under study	High	Legal framework is under discussion and there is a high resistance among left-parties and state bureaucracies
BR-116 RJ/SP Road Rio de Janeiro to São Paulo	Roads	Common concession	2018 Q4	To be defined	Low	There is no legal discussion or state bureaucracy resistance

CONTACT DETAILS

FACTUAL INFORMAÇÃO E ANÁLISE AND GO ASSOCIADOS OFFER ON DEMAND STUDIES WITH MORE POLITICAL AND ECONOMIC DETAILS ON EACH ONE OF THE INFRASTRUCTURE INVESTMENT PROJECTS IN BRAZIL.

FACTUAL INFORMAÇÃO E ANÁLISE

contato@factualanalise.com.br

BRASILIA OFFICE

SCN 01 – Esplanada Business building, Room 413
Brasília, DF - Brazil
Postal code: 70711-070
Phone number: +55 (61) 3710-9100

GO ASSOCIADOS

contato@goassociados.com.br

SÃO PAULO OFFICE

Hungria Street, nº 574 – 18^o floor – 182
São Paulo, SP - Brazil
Postal Code: 01452-000
Phone number: +55 (11) 3030-8678

MACEIÓ OFFICE

Estudante Ubiracy Norberto Juscelino de
Farias Street, nº 193 – Stella lot - Galeria 145
Maceió, AL - Brazil
Postal Code: 57036-780
Phone number: +55 (82) 3028-4188



Thank you for the attention! Hope you enjoy GO BRAZIL! 



Endereço – São Paulo (SP)

Rua Hungria, 574, 18° andar – cj. 182
Jardim Europa

Endereço – Maceió (AL)

Rua Estudante Norberto Juazeiro de Farias, 193,
Loteamento Stella Maris, Jatiúca

Endereço – Rio de Janeiro (RJ)

Avenida Rio Branco, 99, 9° andar –
CEP: 20040-004

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