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# Brazil: Uncertainties go viral

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# Agenda

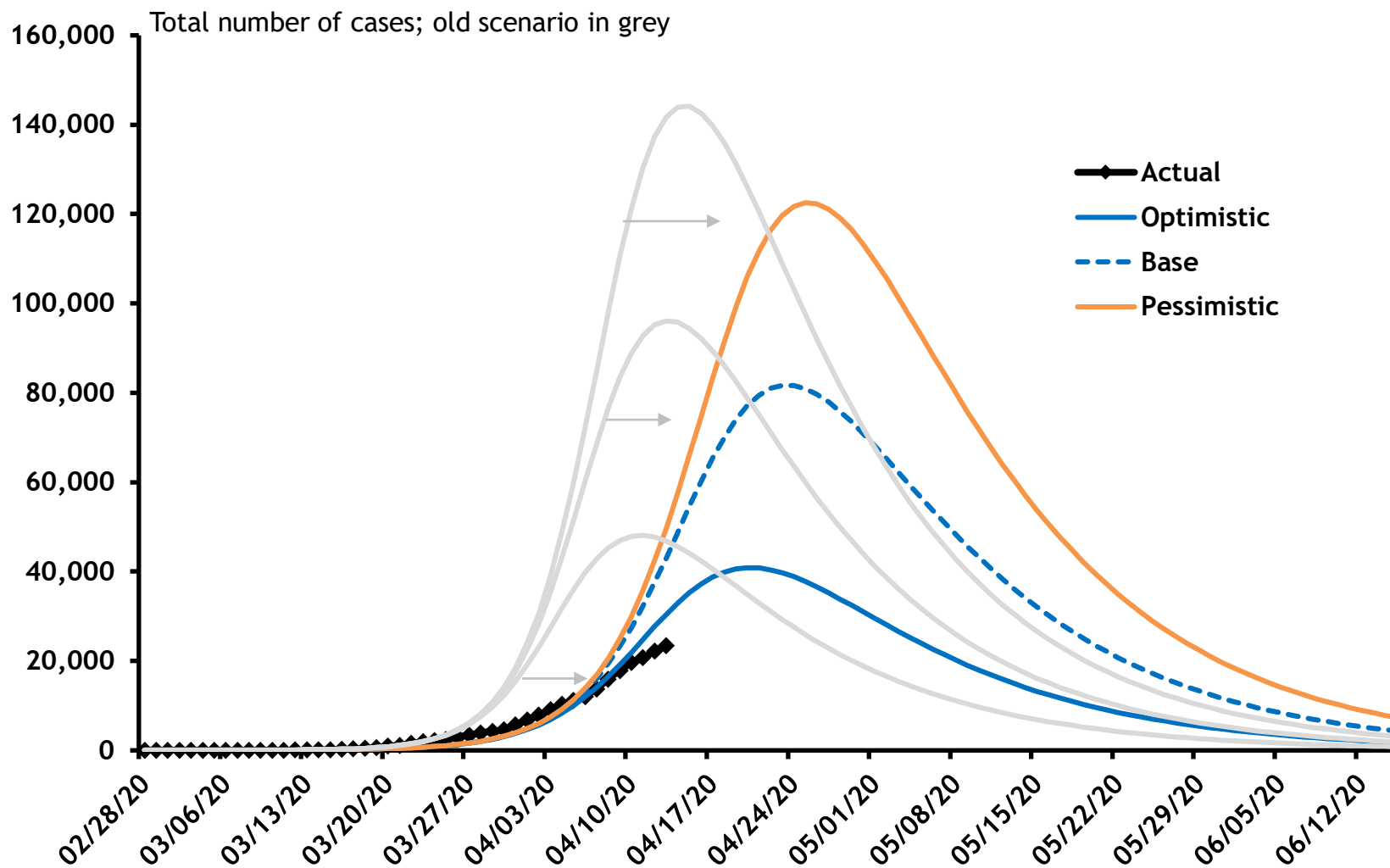
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# Modelling infected base

Curve implies peak ~100k active cases, late-April and early-May

## Brazil Modelling - Expected COVID-19 Infected Base

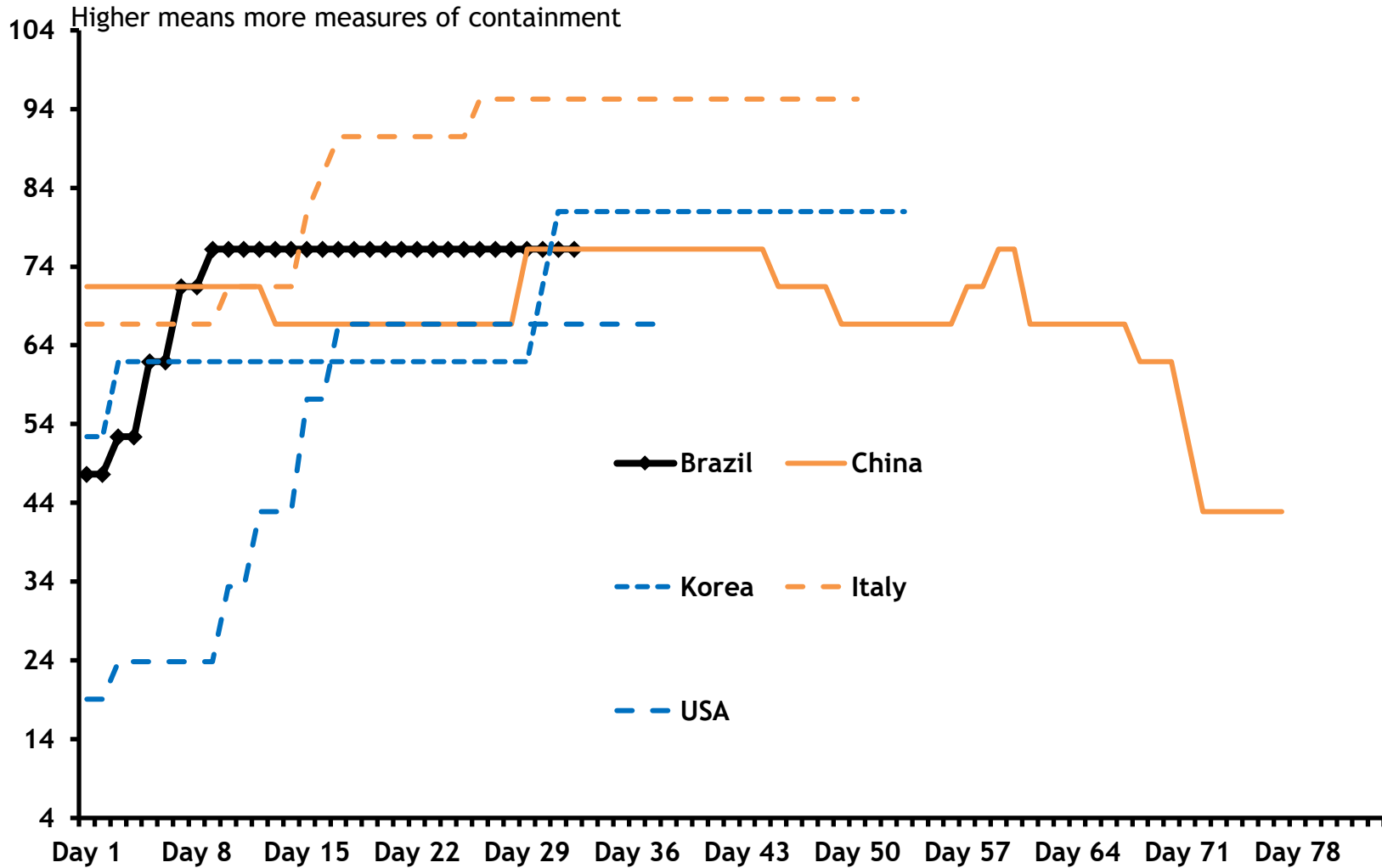


Source: WHO, Ministry of Health, and J.P. Morgan. From Falavina *et al* first released in [“COVID-19 LatAm: Initial Modeling of Brazil Cases; Evolution in LatAm And Other Considerations”](#) in March 18, 2020

# Brazilian authorities are taking some containment measures

Stringency index as reported by Oxford

## Stringency index\*

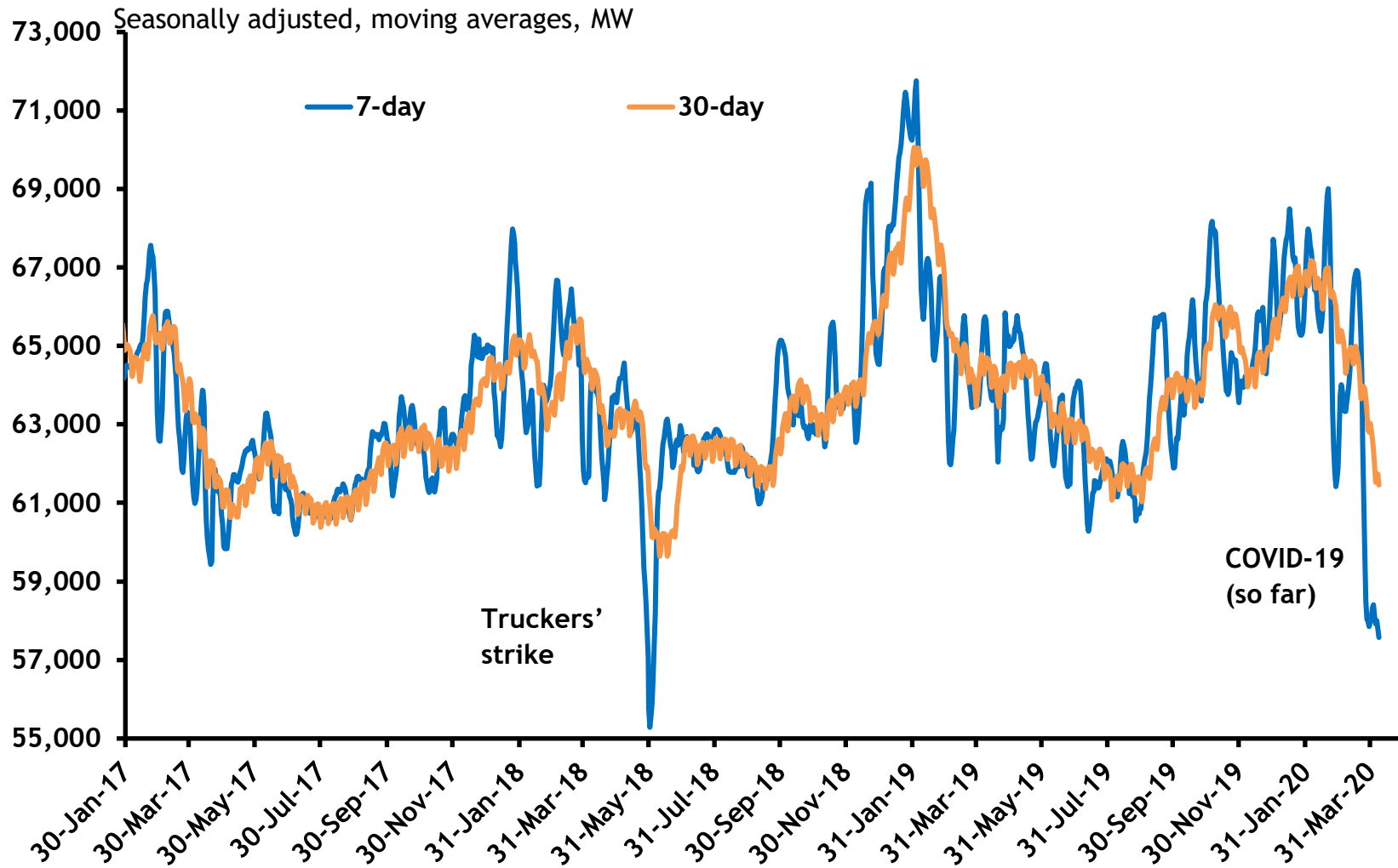


Source: BSG-Oxford and J.P. Morgan \*Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government. Data use policy: Creative Commons

# Alternative economic activity data suggesting the first impacts

Electricity consumption fell significantly

## Electricity consumption

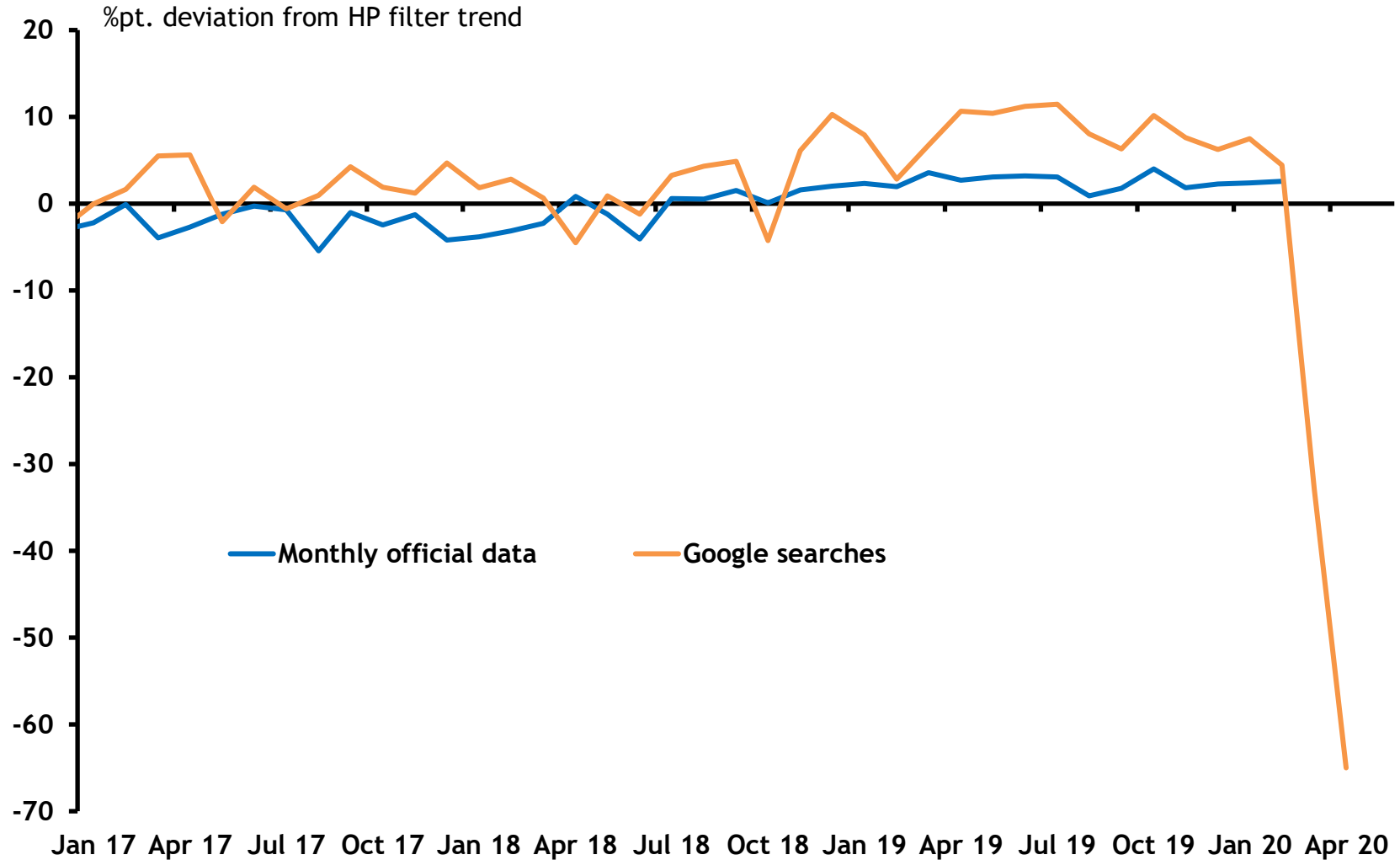


Source: ONS, J.P. Morgan

# Alternative economic activity data started suggesting the first impacts

Searches for services of food and accommodation

## Food and accommodation services versus related Google searches

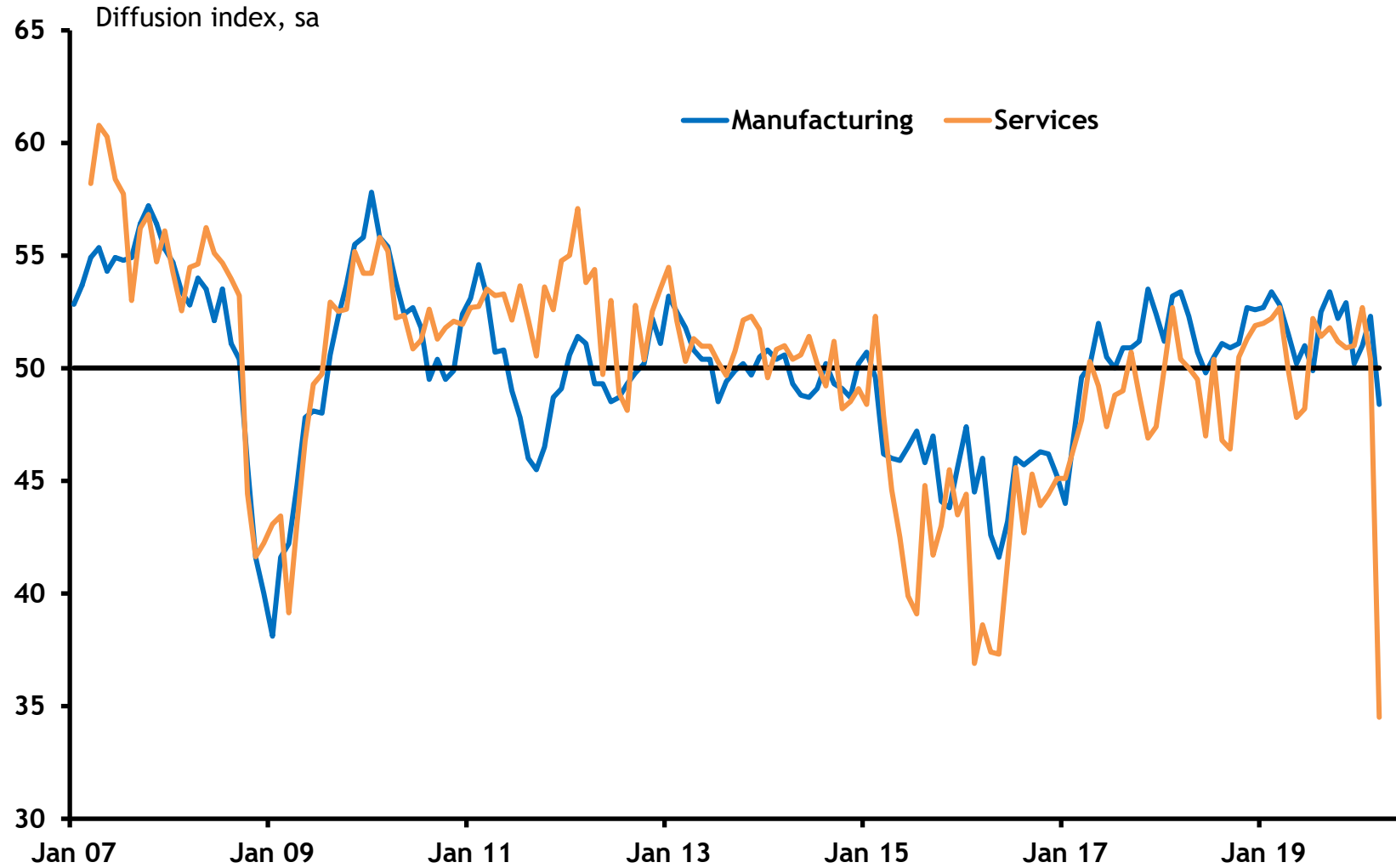


Source: IBGE and Google Trends. Searches include bar, hotel, restaurants and cinemas

# Sentiment indicators were the first sign of a negative March

In particular, services PMI plunged in the month

## Services and manufacturing PMI



Source: Markit and J.P. Morgan.

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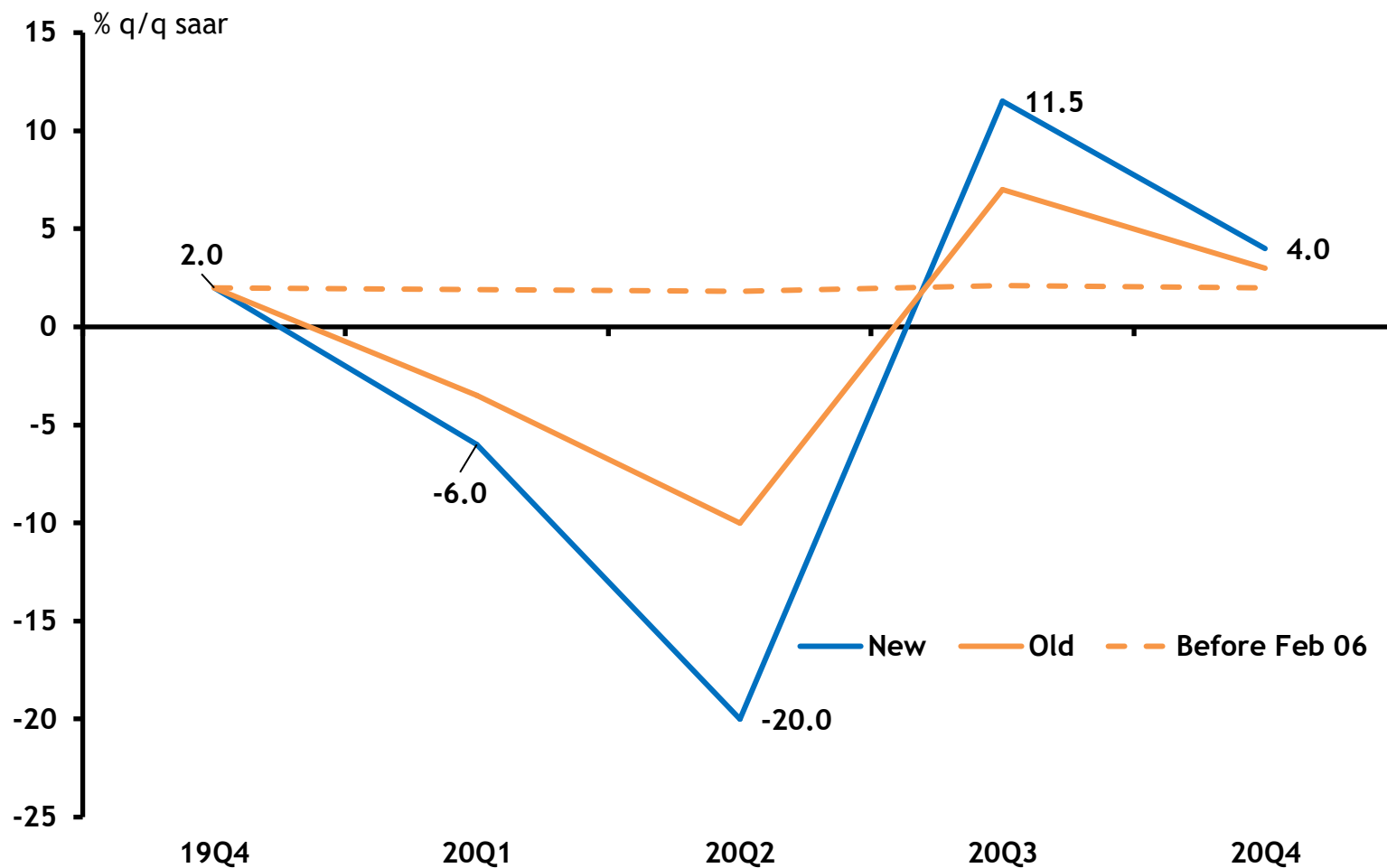
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# Brazil should fall into a recession this year

GDP should fall 20% in 2Q

## Quarterly GDP forecasts for 2020



Source: IBGE and J.P. Morgan. Updated Mar 23, 2020

## Back into recession following the 2015-16 episode

We look for GDP falling 3.2% this year

### Annual GDP forecasts

% oya

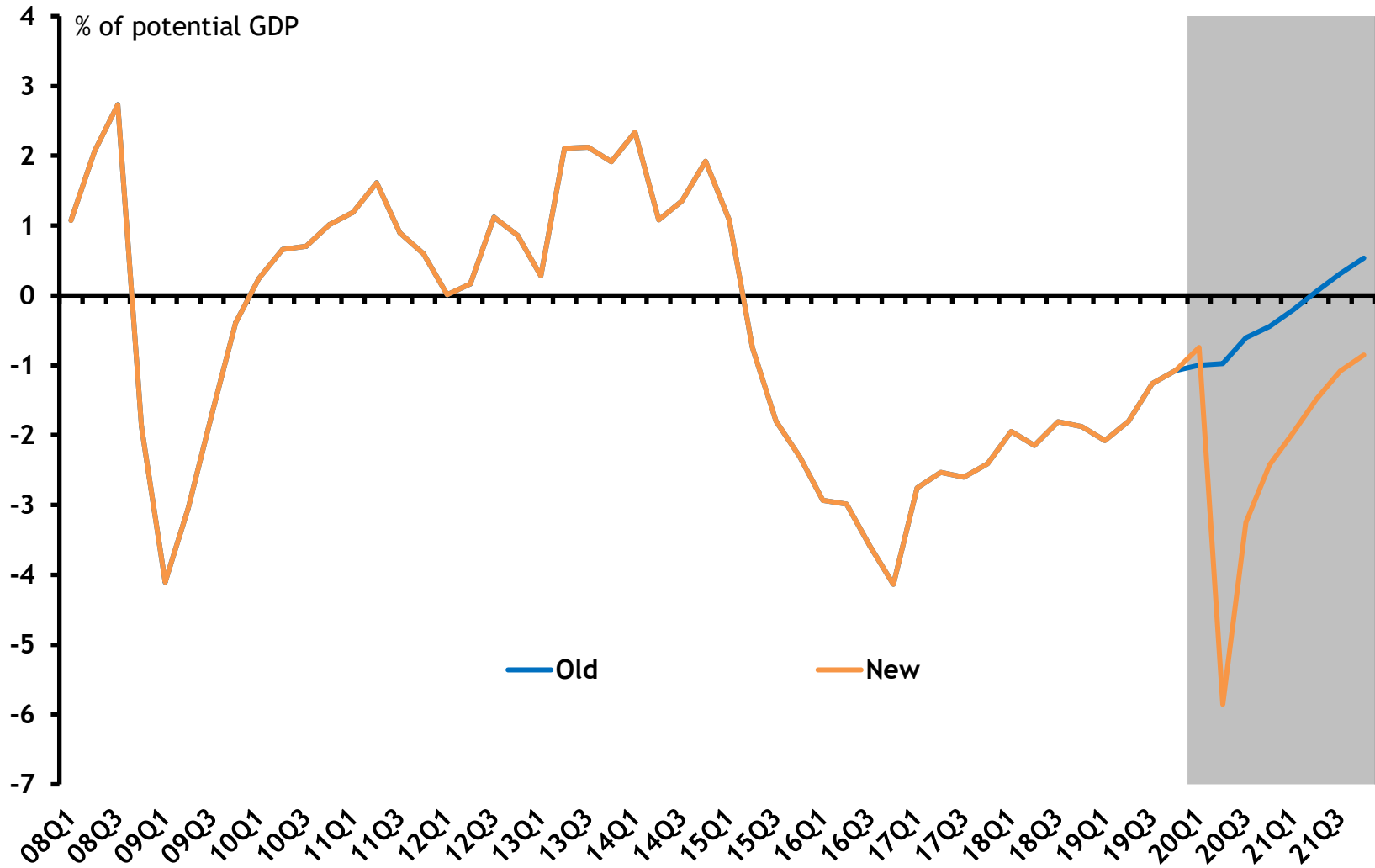
Items	Weight (%)	2016	2017	2018	2019	2020	2021
<b>GDP</b>	<b>100</b>	<b>-3.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.1</b>	<b>-3.2</b>	<b>2.4</b>
<i>Demand components:</i>							
Private Consumption	64	-3.8	2.0	2.1	1.8	-2.0	2.8
Government Consumption	20	0.2	-0.7	0.4	-0.4	0.3	-0.8
Investment	15	-12.1	-2.6	3.9	2.2	-6.0	6.0
Exports	15	0.9	4.9	4.0	-2.5	-7.0	4.0
Imports	-14	-10.3	6.7	8.3	1.1	-8.0	4.5

Source: IBGE and J.P. Morgan forecasts

# Output gap wider now

With recession, output gap will remain negative for a while

## Output gap



Source: BCB, J.P. Morgan.

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## The fiscal impact of COVID-19

Central government primary deficit at BRL368bn and consolidated primary deficit at BRL390bn (5.3% of GDP) this year

### Fiscal forecasts

% of GDP, except where indicated

Variables	Old		New	
	2020	2021	2020	2021
Central government primary balance (BRLbn)	-105	-40	-368	-118
Consolidated government primary balance	-1.2	-0.3	-5.3	-1.3
Nominal balance	-5.9	-4.8	-10.5	-6.1
Gross debt	75.5	76.5	82.2	82.0

Source: J.P.Morgan

### Central government primary budget in 2020

BRL billion

Variables	Old	New	Change
Total revenues	1,665	1,525	-141
<i>of which mineral royalties</i>	69	47	-22
Net revenues	1,374	1,250	-124
Total expenditure	1,479	1,618	139
Primary balance	-105	-368	-263

Source: J.P.Morgan

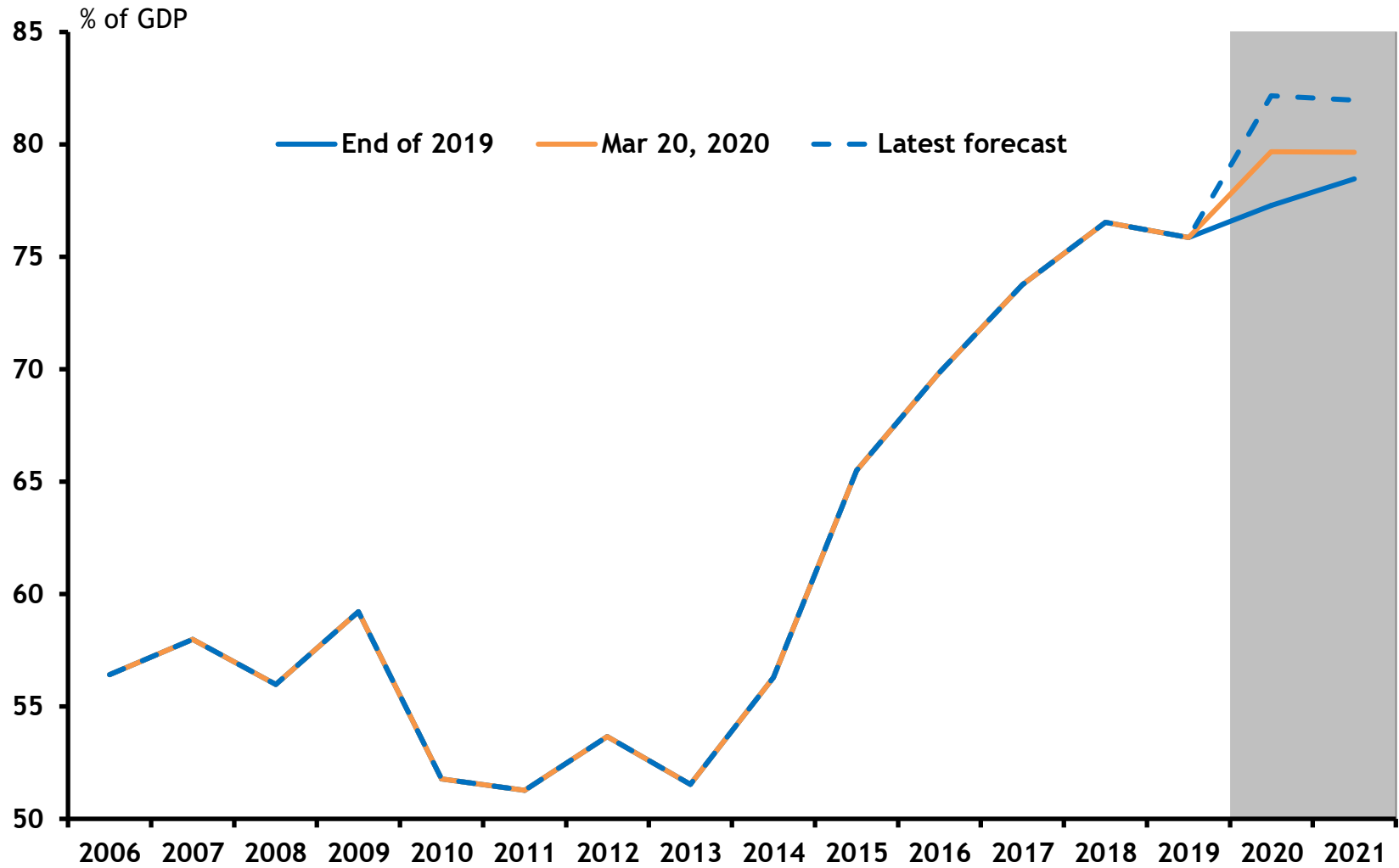
We assume 2.5% of GDP (BRL185bn) in direct fiscal expenditures:

- BRL24.4bn in deferred taxes turned permanent
- BRL22bn in regional government debts not paid this year
- -BRL139bn in primary expenditure

# The fiscal impact of COVID-19

Debt-to-GDP to jump above 82%

## Gross debt forecasts



Source: BCB, J.P. Morgan.

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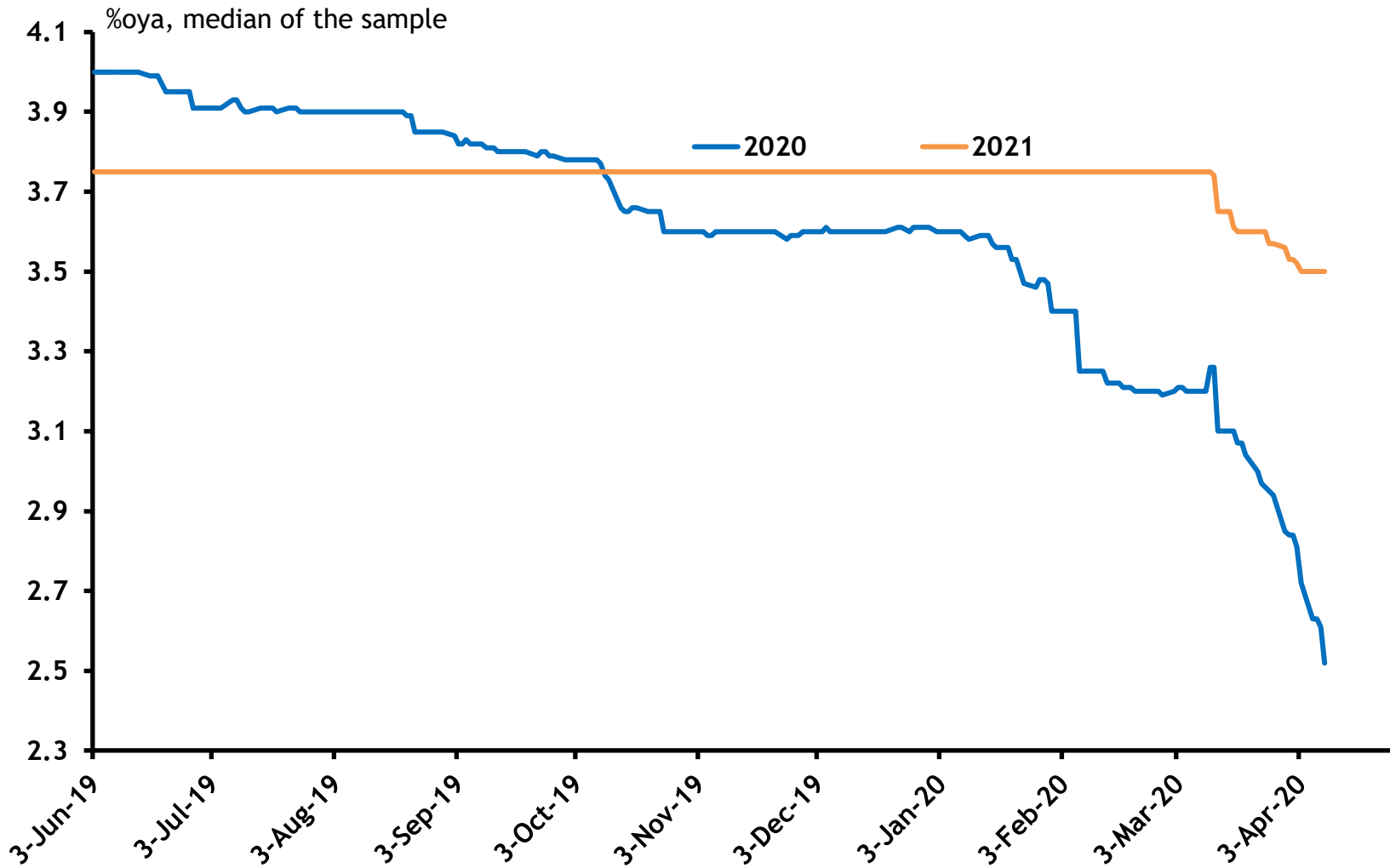
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As a result, inflation expectations are falling too

Expectations for 2020 are around 2.5% and for 2021 around 3.5%

### Inflation expectations for 2020 and 2021



Source: BCB



## Taylor rule suggesting lower rates

Rule is estimated based on output gap, core CPI and Fed funds rate level

### Brazil policy rate and implied by Taylor rule



Source: BCB and J.P. Morgan

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## Deeper recession should lower the current account deficit

We see current account deficit ending the year at 2.1%

### Balance of payments forecasts

US\$ billion

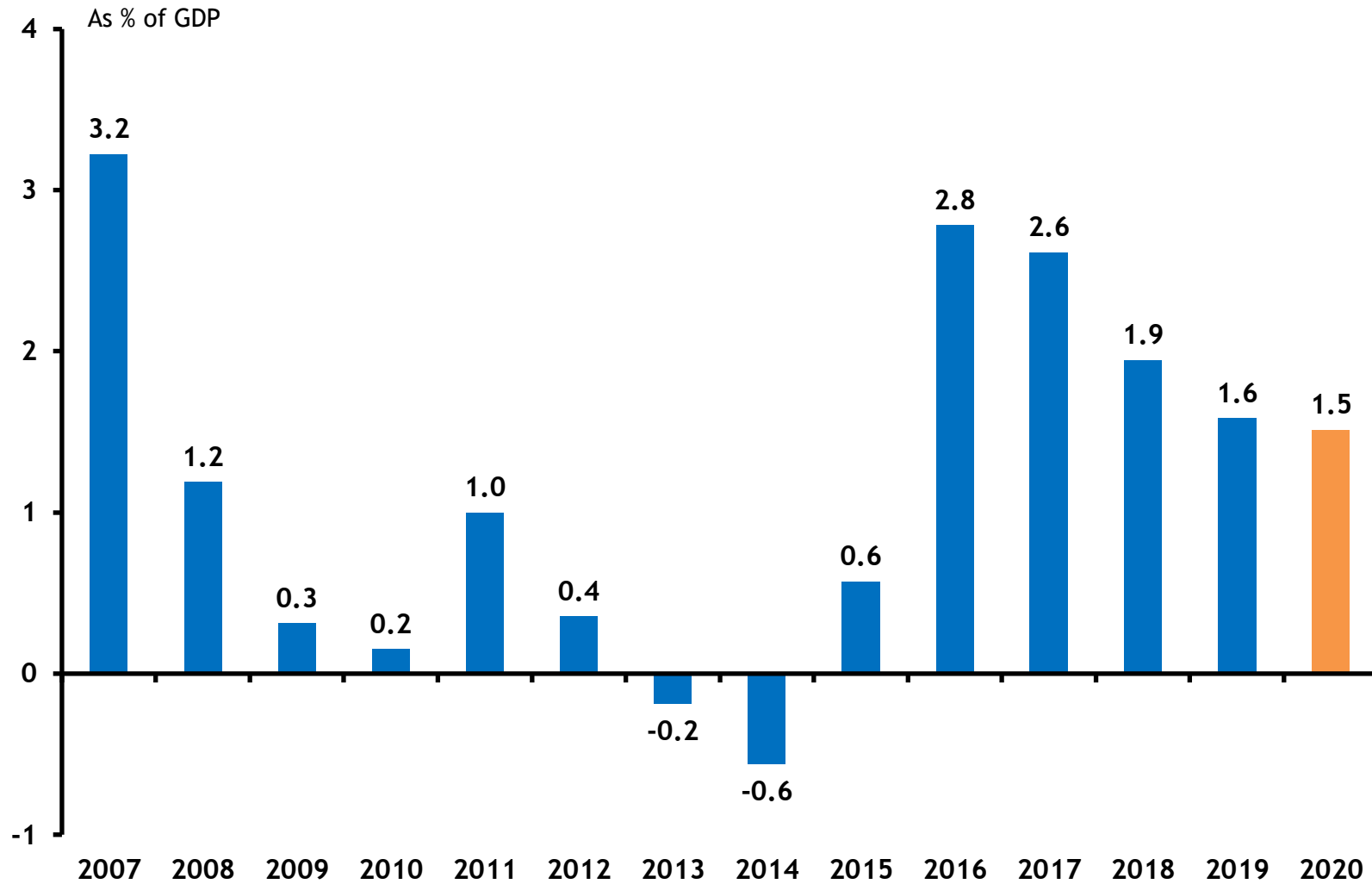
Accounts	2018	2019	2020F	2021F
<b>Current account</b>	<b>-42</b>	<b>-49</b>	<b>-30</b>	<b>-46</b>
<i>as % of GDP</i>	<b>-1.5</b>	<b>-2.7</b>	<b>-2.1</b>	<b>-2.9</b>
Trade balance	53	41	27	26
Services	-36	-35	-19	-29
Income	-59	-55	-38	-42
<b>Capital flows</b>	<b>46</b>	<b>26</b>	<b>18</b>	<b>57</b>
Financial account	45	25	17	57
Brazilian investment abroad	-2	-22	-4	-10
<b>Foreign direct investment</b>	<b>78</b>	<b>79</b>	<b>52</b>	<b>65</b>
Portfolio investment	-7	-22	-24	9
Other investment *	-24	-9	-7	-7
Errors & omissions	-1	-2	0	-1
Balance of Payments	6	-21	-13	12
International reserves	375	357	314	326

Source: BCB and J.P. Morgan; \* - includes " currency and deposits" and "trade credit"

# FDI should continue higher than CAD

We see FDI at US\$ 52billion this year

## Basic balance (FDI minus CAD)



Source: BCB, J.P. Morgan

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## Not in Kansas anymore

The outlook for Brazil and the World changed markedly in the last couple of months

### Summary of forecast changes for 2020

	Forecast at the end of 2019	Current forecasts
GDP growth (%y/y)	2.0	-3.2
Inflation (%Dec/Dec)	3.8	2.6
SELIC rate (year-end)	4.50	3.25
Primary fiscal result (as % of GDP)	-0.8	-5.3
Headline fiscal result (as % of GDP)	-5.5	-10.5
Gross debt (as % of GDP)	77.3	82.2
Current account result (as % of GDP)	-3.5	-2.1
Global GDP growth (%y/y)	2.5	-3.6
Developed Markets GDP growth (%y/y)	1.4	-5.5
Emerging Markets GDP growth (%y/y)	4.2	-0.8

Source: J.P. Morgan forecasts.

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