## Snapshot

![Brazil Flag](image)

**Population (2017)**
- 210 million (85% in urban areas)

**GDP (2017)**
- USD 1.981 trillion (9th)
  - Services – 60%
  - Industry – 20%
  - Net taxes – 15%
  - Agriculture – 5%

**Trade Balance (2017)**
- Exports: USD 217 billion
- Imports: USD 150 billion

**Credit ratings**
- Fitch: BB- (outlook stable)
- Moody’s: Ba2 (outlook stable)
- S&P: BB- (outlook stable)

### Brazil facts

<table>
<thead>
<tr>
<th>Population</th>
<th>Area</th>
<th>Agricultural land</th>
<th>Agricultural production</th>
<th>Freshwater reserves</th>
<th>FX reserves</th>
<th>Proven oil reserves</th>
<th>Car production</th>
</tr>
</thead>
<tbody>
<tr>
<td>6th</td>
<td>5th</td>
<td>4th</td>
<td>2nd</td>
<td>1st</td>
<td>8th</td>
<td>15th</td>
<td>9th</td>
</tr>
</tbody>
</table>

Source: World Bank; CIA Factbook
GDP

- GDP increased by 1% in 2017
- The GDP growth in 2017 was mainly driven by the strong output of the agricultural sector, which increased 13% compared to 2016
  - Record harvests of soy, which posted a 55% growth compared to 2016, had a very positive impact in the sector
- The service sector, responsible for around 60% of the supply side of the GDP, posted a positive number of 0.3%
  - The sector was benefited by the increase in family consumption funded by FGTS release
- On the other hand, the industry sector remained stable in 2017 after three consecutive decreases
  - Civil construction had a negative impact, shrinking 5%
- According to the Focus Report, the market expects the GDP to grow 2.51% in 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (%) of growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>-3.85</td>
</tr>
<tr>
<td>2016</td>
<td>-3.60</td>
</tr>
<tr>
<td>2017</td>
<td>1.00</td>
</tr>
<tr>
<td>2018P</td>
<td>2.51</td>
</tr>
</tbody>
</table>

Source: Focus Report (Central Bank of Brazil)
Industrial Production and Retail Sales

- After three consecutive years posting negative figures, the industrial production finally posted an increase of 2.5% in 2017
  - The main sectors responsible for this growth were the vehicles (17.6%), electronics (19.6%) and the metallurgical (4.7%) sectors

- Year to date (March), the accumulated industrial production reached 3.1% boosted by the mining sector and vehicles manufacturing

- In the same path as the industrial output, retail sales grew by 2% in 2017, first positive figure in two years and the highest growth since 2014
  - The products which posted the best figures were household appliances and building materials

- So far this year, the retail sales have reached an accumulated growth of 3.8%
The industry’s confidence has been recovering after decreasing drastically during the last years.

Consumer’s confidence reached low levels during the 2015 crisis, but posted a small recovery throughout 2016-17.

Nevertheless, political and economic uncertainties have been undermining a stronger recovery.
Despite the increase in the unemployment rate, the Minister of Labor highlighted that during the first quarter of the year were created over 200,000 formal jobs, which shows a positive trend for job creation.

In order to strengthen the labor market, Congress approved new labor legislation in October 2017.

The main points were:
- Increase in the time contract for temporary workers
- Direct negotiations between employee and employer for specific features
- Intermittent work
- End of the obligatory union contribution

Despite small reductions in unemployment during the last year, it has increased in recent months.

The unemployment rate was 13.1% (13.7 million) in the moving quarter January-February-March.

The average worker's real income is at BRL 2,169 per month (≈USD 600).
Exchange rates and trade balance

- The BRL–USD was relatively stable in 2017
- The BRL has depreciated relatively to the USD in 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Exchange rate (BRL per USD)</th>
<th>Trade Balance (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>3.90</td>
<td>19.67</td>
</tr>
<tr>
<td>2016</td>
<td>3.26</td>
<td>47.72</td>
</tr>
<tr>
<td>2017</td>
<td>3.31</td>
<td>67.07</td>
</tr>
<tr>
<td>2018P</td>
<td>3.40</td>
<td>55.60</td>
</tr>
</tbody>
</table>

Source: Focus Report (Central Bank of Brazil)

- In 2017, the trade balance posted a surplus of USD 67 billion
- This result was mainly impacted by an increase in exports
Exchange rates and trade balance

- The main commodity exports are agricultural products and ores & metals, representing 54% and 26% respectively.

- On the manufactured goods, machinery and transport equipment are responsible for 44% of the total.

- Main exports destinations are:
  1. Eastern, Southern and South-Eastern Asia with 30% of the total exports
  2. Latin America with 21% of the total exports
  3. European union with a total of 19% of the exports
  4. United States with 12% of the total exports
Foreign accounts

- The international reserves have been stable during the last years
- External debt (including public and private sectors) has been decreasing and now is at USD 310 bn

<table>
<thead>
<tr>
<th>Year</th>
<th>International Reserves (USD bn)</th>
<th>FDI (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>374.1</td>
<td>96.90</td>
</tr>
<tr>
<td>2015</td>
<td>368.7</td>
<td>75.07</td>
</tr>
<tr>
<td>2016</td>
<td>372.2</td>
<td>78.93</td>
</tr>
<tr>
<td>2017</td>
<td>381.7</td>
<td>64.29</td>
</tr>
</tbody>
</table>

- FDI in 2017 reached USD 64.3 billion, mainly through intercompany loans and corporate direct investments
Due to recession, high unemployment and an active monetary policy, inflation has reached historical low levels.

The consumer price index IPCA is currently at 2.76% and below the target range.

Brazil has a target of 4.5% with a band of ± 1.5 percentage points.

The Central Bank announced a cut in the inflation target for 2019 and 2020 to 4.25% and 4%, respectively.

- The cut was mainly driven by reduction in inflationary expectations for the upcoming years and also to bring inflation down to international levels.

Food and beverage sector, strongly contributed to subdue inflation. On the other hand, healthcare and medicines contributed to the increase in the monthly inflation.
The benchmark interest rate SELIC is currently at 6.50% p.a., after the Central Bank kept the rate in its last meeting in May.

With the recent currency volatility and the low inflation figures, that Central Bank ceased the interest rate reduction cycle.

Although inflation and the SELIC rates have been falling during the last months, the real interest rate remains high for international standards, around 4%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Selic (% p.a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>14.25</td>
</tr>
<tr>
<td>2016</td>
<td>13.75</td>
</tr>
<tr>
<td>2017</td>
<td>7.00</td>
</tr>
<tr>
<td>2018P</td>
<td>6.25</td>
</tr>
</tbody>
</table>

Source: Focus Report (Central Bank of Brazil)
Government Primary Deficit and Social Security Spending

- Primary deficit in 2017 reached BRL 124.4 billion (1.9% of the GDP), within the target set of BRL 139 billion
- Government spending has been growing mainly because of subsidies and mandatory expenses, such as social security
- Tax revenues were lower than expected, impacting public accounts, although the tax burden rose in 2017

- Expenses with social security are around 8.2% of the GDP
- The government expects an increase of the social security expenses and a decrease in income
- Social security deficit was BRL 182.45 billion (2.8% of the GDP) in 2017, an increase of 21% compared to 2016
Government gross debt

- Government bonds (which finance the govt. spending) contributed the most to the increase of Government gross debt:
  - 69% of the gross debt is composed by Federal Government bonds
- Government gross debt-to-GDP ratio rose during 2017, specially because of the increase in social security expenses
- In March, the gross debt-to-GDP reached 75.3%, the worst figure since the beginning of the series
Funding alternatives in Brazil

- Despite the low nominal rate for USD funding, the volatility of BRL against USD implicates in a higher risk.
- CDI funding is becoming cheaper as the SELIC rate is decreasing and is more stable.

<table>
<thead>
<tr>
<th>Year-end rates</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDI (% p.a.)</td>
<td>11.57</td>
<td>14.14</td>
<td>12.88</td>
<td>6.89</td>
</tr>
<tr>
<td>BRL/USD (∆%)</td>
<td>13.39</td>
<td>47.01</td>
<td>-16.54</td>
<td>1.07</td>
</tr>
</tbody>
</table>

Source: Focus Report, Central Bank of Brazil, Cetip
2018 Elections

• The elections in Brazil are decided by popular vote, which is mandatory

• In 2018 the population will vote for President, 2/3 of the Senate, the entire House of Representatives, State Governors and State House of Representatives. The voting for President and Governors are decided by single majority and if not achieved, a second round is held with the 2 most voted candidates

• The election day is set for October 7th and the second round on October 28th

• The candidates need to register their candidacies by August 15th at the Supreme Electoral Court

• The main pre-candidates for President are:
  o Jair Bolsonaro
  o Marina Silva
  o Ciro Gomes
  o Geraldo Alckmin
  o Álvaro Dias

• An important factor to highlight is that all candidates have a high disapproval rating

• TV, Radio and Social Media are expected to influence the final results
<table>
<thead>
<tr>
<th>Party</th>
<th>Number of Seats</th>
<th>Main proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jair Bolsonaro</td>
<td>Social Liberal Party (PSL)</td>
<td>House: 8 (1.5%)</td>
</tr>
<tr>
<td>Geraldo Alckmin</td>
<td>Brazilian Social Democratic Party (PSDB)</td>
<td>House: 49 (9.5%)</td>
</tr>
<tr>
<td>Marina Silva</td>
<td>REDE</td>
<td>House: 2 (0.3%)</td>
</tr>
<tr>
<td>Ciro Gomes</td>
<td>Democratic Labor Party (PDT)</td>
<td>House: 2 (0.3%)</td>
</tr>
</tbody>
</table>
Presidential Run - Possibilities

**Right**

Party: Progressive Party
PP; PODE; AVANTE; PEN

Number of Seats
House: 76 (14.8%)

Support:
Despite having its own candidate for President, the coalition between of the parties above is most likely to support Ciro Gomes in the event of a second election round
This coalition is a mix of right and left politicians

---

**Centre Right**

Party: Brazilian Democratic Movement (MDB)

Number of Seats
House: 50 (9.7%)

Support:
Historically, MDB being the largest political party in Brazil, will be in political power in a coalition govt
According to sources, the party will most likely support Geraldo Alckmin (PSDB) for President but other coalitions are not to be excluded

---

**Centre Left**

Party: Labor Party (PT)

Number of Seats
House: 60 (11.7%)

Support:
PT had to change plans after Lula da Silva was arrested for a corruption scandal
Yet, it is most likely that Lula will not be allowed to remain a presidential candidate
If he is unable to run, Fernando Haddad is the most likely candidate

---

**Left**

Party: None specified

Number of Seats
House: 60 (11.7%)
Presidential Run - Election Scenarios

First Round

**Election Polls**

<table>
<thead>
<tr>
<th>Candidate</th>
<th>1st Round</th>
<th>2nd Round</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jair Bolsonaro</td>
<td>18.3%</td>
<td>27.2%</td>
</tr>
<tr>
<td>Marina Silva</td>
<td>11.2%</td>
<td>28.2%</td>
</tr>
<tr>
<td>Ciro Gomes</td>
<td>9%</td>
<td>24.2%</td>
</tr>
<tr>
<td>Geraldo Alckmin</td>
<td>5.3%</td>
<td>20.2%</td>
</tr>
<tr>
<td>Álvaro Dias</td>
<td>3%</td>
<td>20.2%</td>
</tr>
</tbody>
</table>

Source: CNT/MDA – April-18

**Disapproval Ratings**

<table>
<thead>
<tr>
<th>Candidate</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jair Bolsonaro</td>
<td>58%</td>
</tr>
<tr>
<td>Marina Silva</td>
<td>62%</td>
</tr>
<tr>
<td>Ciro Gomes</td>
<td>65%</td>
</tr>
<tr>
<td>Geraldo Alckmin</td>
<td>68%</td>
</tr>
</tbody>
</table>

Source: IPSOS – February-18

Second Round

<table>
<thead>
<tr>
<th>Candidate</th>
<th>1st Round</th>
<th>2nd Round</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jair Bolsonaro</td>
<td>27.2%</td>
<td>27.2%</td>
</tr>
<tr>
<td>Marina Silva</td>
<td>27.8%</td>
<td>20.2%</td>
</tr>
</tbody>
</table>

Source: CNT/MDA – April-18
In 2014’s election, Marina Silva was the Vice-President of Eduardo Campo’s campaign.

After his death, Marina gathered all his vote intentions and became a strong candidate.

As the TV debates started, Ms. Silva was bashed by all sides and soon a downfall in vote intentions started.

She finished 2014’s election in third, with 22 million votes.

Dilma, supported by the coalition PMDB-PT, won the second round of the election against Aécio Neves.
Contact Information

Claudio Goulart de Andrade
Representative in Brazil
DNB Bank ASA

claudio.goulart@dnb.no
+55 21 2137 1650
+55 21 9 9804 7943

Rua Lauro Muller, 116 suite 3108
22.290-160, Botafogo Rio de Janeiro, RJ Brazil
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this presentation may include forward-looking statements such as statements of future expectations. These statements are based on the management’s current views and assumptions and involve both known and unknown risks and uncertainties.

Although DNB believes that the expectations reflected in any such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

Actual results, performance or events may differ materially from those set out or implied in the forward-looking statements. Important factors that may cause such a difference include, but are not limited to: (i) general economic conditions, (ii) performance of financial markets, including market volatility and liquidity (iii) the extent of credit defaults, (iv) interest rate levels, (v) currency exchange rates, (vi) changes in the competitive climate, (vii) changes in laws and regulations, (viii) changes in the policies of central banks and/ or foreign governments, or supra-national entities.

DNB assumes no obligation to update any forward-looking statement.