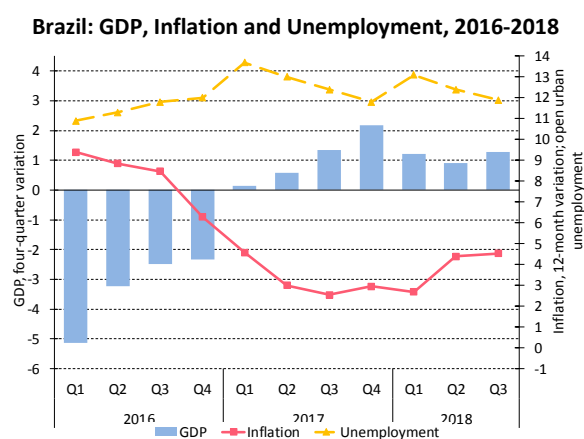


Brazil

The Brazilian economy continued to expand slowly in 2018, and GDP growth for the whole year is expected to be 1.3%, which is only slightly higher than the 1.1% increase seen in 2017. Thus, it has still not recovered fully from the 2015/16 recession, when GDP fell by close to 7.0% and per capita GDP by almost 9.0%. Weaker growth kept unemployment high in the first three quarters of 2018, with an average of 12.5%, equivalent to some 13 million unemployed persons. Year-on-year inflation stood at 4.05% in November 2018, below the 4.5% target. With regard to the external sector, the trade account surplus in the period to October was US\$ 51.7 billion, 16.7% lower than in 2017, as a result of stronger imports, which grew by 21.8% compared to a 9.9% increase in exports. The balance-of-payments current account deficit grew to 0.7% of GDP between January and October, compared to 0.3% at the end of 2017, and was largely financed by foreign direct investment (FDI), in the amount of US\$ 67.5 billion. International reserves remained robust, at US\$ 380 billion. GDP growth of 2.0% is expected in 2019.

The uncertainty surrounding the presidential elections in October and the political fragility of the incumbent administration complicated the economic policy's implementation. Consequently, major reforms in areas such as pensions and tax were set aside by the National Congress in 2018. The federal government continued its fiscal efforts to reduce the primary deficit, estimated at 119 billion reais (1.7% of GDP) for 2018, lower than the 2017 figure of 149 billion reais (2.1% of GDP). The nominal 9.8% increase in tax revenue, thanks to stronger activity and exceptional income from concessions, made it easier to manage expenditures, which allowed a small improvement in public investment and spending on social policies. The deficit in State pension system continued to widen, reaching nearly 171 billion reais by October, representing a 4.6% increase in real terms compared to the same month in 2017. The nominal public deficit narrowed by 1.31 percentage points of GDP between January and October 2018. By October, it was 6.49% of GDP, compared to 7.80% of GDP in December 2017, owing mainly to smaller interest payments amounting to 5.58% of GDP in the first 10 months of 2018, compared to 6.26% of GDP in the same period of 2017, thanks to lower interest rates. Gross public debt stood at 76.5% of GDP in October 2018, compared to 70.5% in December 2017. Given the greater value of international reserves in reais because of the higher exchange rate—which is considered a public-sector asset—the rate of growth of net public debt rose from 51.5% to 53.3% of GDP in the first 10 months of the year.

In 2018, monetary policy notably included a reduction in the nominal benchmark interest rate (SELIC) to the lowest level since the implementation of the Real Plan, the stabilization programme which created the real in 1994. SELIC climbed to 6.5% in March 2018 and subsequently remained unchanged. This policy was able to be implemented thanks to low inflation, which was 2.6% in the 12 months to March. Economic activity was also slow to recover, resulting in a high level of idle capacity. Meanwhile, lower interest rates failed to boost lending. Total lending grew by 2.4% in nominal terms in the first 10



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

months of 2018 compared to the year-earlier period. Personal loans climbed by 5.4% in that period—which contributed to the improvement in household consumption—but corporate loans declined by 1.6%. This negative trend in business loans is linked to the 9.2% year-on-year decrease in operations reported by the National Bank for Economic and Social Development (BNDES) in October. The monetary base and means of payment posted nominal losses of 3.3% and 6.2%, respectively, in October 2018 compared to December 2017.

Exchange rate volatility in 2018 reflected the uncertainty surrounding the outcome of elections and the candidates' proposals. In early 2018, the exchange rate was 3.25 reals to the United States dollar, rising to 4.10 reals in September, ahead of the elections, before falling to 3.70 reals to the dollar after the results were announced. At the beginning of December, the exchange rate was 3.90 reals to the dollar, in line with the expectation that the new administration would implement economic changes as of January 2019.

Imports totalled US\$ 168.3 billion between January and November, which is 21.8% higher than the year-earlier period. This growth stems mainly from higher capital expenditure on oil platforms (up 95.0%), an increase in fuel imports (up 35.8%) and durable goods purchases (up 36.8%). Meanwhile, exports grew by 9.9% between January and November, totalling US\$ 219.9 billion, as a result of stronger sales of commodities (up 16.3%) and manufactured goods (up 8.9%). Exports of semi-manufactured products fell by 3.06%, mainly because of the sharp drop in foreign sales of raw cane sugar (down 41.4%). This decrease was triggered by a decline in exports to India and Thailand, where domestic production had increased, by the higher tariffs imposed by China and by better ethanol prices on the domestic Brazilian market. Among exports of manufactured goods, there was a notable drop of 18.6% in automobile exports, linked to the fallout of the recession in Argentina, which is the main market for Brazilian cars.

With respect to trade by country, cumulative exports from Brazil to China in the period to November jumped by 80.3%, mainly as a result of stronger demand for soybeans and oil, which pushed Brazil's trade surplus with China to US\$ 26.1 billion, just over half of Brazil's total trade surplus of US\$ 51.7 billion. Meanwhile, Brazil posted a small trade deficit with the United States of US\$ 61.4 million, owing to a 15.6% increase in imports, compared to the US\$ 1.7 billion surplus over the same period in 2017. Brazilian exports to Argentina fell by 11.2%, while imports from Argentina to Brazil climbed by 16.0%.

With regard to the balance of payments, Brazil's current account deficit was US\$ 11.3 billion or 0.7% of GDP in the period to October 2018, which is considerably higher than the US\$ 1.4 billion deficit posted in October 2017. This increase stems almost exclusively from a US\$ 12.3 billion reduction in the trade balance surplus. In the financial account, FDI in the first 10 months of 2018 amounted to US\$ 67.5 billion, equivalent to 98.5% of the cumulative total for the whole of 2017. Total external debt

Brazil: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	-3.3	1.1	1.3
Per capita gross domestic product	-4.1	0.3	0.5
Consumer prices	6.3	2.9	4.6 ^b
Real average wage ^c	-1.2	2.4	0.4
Money (M1)	0.2	4.4	8.2 ^d
Real effective exchange rate ^e	-4.0	-7.0	11.3 ^d
Terms of trade	3.0	5.8	-0.9
	Annual average percentage		
Open urban unemployment rate ^f	13.0	14.5	14.2
Central government			
Overall balance / GDP	-7.6	-7.7	-8.2
Nominal deposit rate ^g	8.3	6.8	6.2 ^d
Nominal lending rate ^h	53.7	49.9	45.4 ^d
	Millions of dollars		
Exports of goods and services	217 753	251 721	272 555
Imports of goods and services	203 163	221 543	252 186
Current account balance	-23 684	-9 805	-15 841
Capital and financial balance ⁱ	32 922	14 898	27 341
Overall balance	9 237	5 093	11 500

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Estimates.

b/ Figures as of October.

c/ Private-sector workers covered by social and labour legislation.

d/ Figures as of September.

e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

f/ Twenty metropolitan regions.

g/ Nominal saving deposits rates.

h/ Interest rate on total consumer credit.

i/ Includes errors and omissions.

stood at US\$ 297.3 billion by October 2018, which is slightly lower than the US\$ 317.3 billion recorded at the end of 2017.

Between January and September 2018, GDP rose by 1.1% compared to the year-earlier period. The nationwide truck drivers' strike weighed on growth, as it paralyzed production and trade for two weeks in May, making it one of a number of factors that led to an 11% drop in industrial production that month.

GDP growth was mainly attributable to the performance of services, such as trade (up 2.8%) and the manufacturing industry (up 2.3%). The agricultural sector posted a decline of 0.3%, although production levels remained high after the records set in 2017. Construction continued to deteriorate (down by 2.6%), as it was unable to shake off the effects of the recession and weak investment. For the first time since 2014, all demand components saw quarterly growth, most notably investment, which was up by 4.5% year-on-year to September; household spending (up 2.0%); exports of goods and services (up 1.5%); and government spending (up 0.3%). Imports of goods and services, meanwhile, jumped 9.4%. Gross capital formation climbed to 16.9% of GDP in the third quarter of 2018, up from the 15.4% posted in the same quarter of 2017. The savings rate remained unchanged at 14.9% of GDP. The increase in investment or gross capital formation is linked to investments made by the oil company, Petrobras, which has installed several new exploration platforms in deepwater pre-salt fields, where daily production already stands at 1.5 million barrels, triple the 2014 figure.

The manufacturing industry performed better in 2018 (up 2.0% year-on-year by October), led by the automobile industry, which posted a 15.8% increase in production. The metallurgy industry and manufacturers of computer products, paper and pulp saw increases of more than 5%. Non-durable consumer goods stagnated, with a contraction of 0.06%, while intermediate goods posted a slight increase of 0.77%.

The labour market lost momentum in 2018. Year-on-year, 790,500 new formal jobs were created by October 2018, down 2.1%. Although construction and agriculture contributed little to GDP growth, these two sectors saw the highest rates of job growth, with increases of 4.08% and 4.78%, respectively. In terms of the number of workers, the services sector created 471,200 jobs, followed by the manufacturing industry, with 145,300 new formal jobs. The eleventh of November marked the one-year anniversary of the entry into force of new labour laws that made hiring more flexible. According to the Ministry of Labour and Employment, some 7,000 net new jobs on a part-time or intermittent schedule were created in October 2018 and, in the same month; almost 16,000 workers took advantage of the voluntary redundancy programme. Almost all new contracts or redundancies were linked to the services sector.

In October 2018, the average starting wage in the formal market was 1,528.32 reais, representing year-on-year a real increase of 0.66%. Meanwhile, according to the Brazilian Institute of Geography and Statistics (IBGE), the actual average wage in the first three quarters of the year was 2,230 reais, reflecting a real increase of 0.87% with respect to the previous four quarters. Unemployment remains high, at 11.7% in the quarter that ended in October 2018. Rates also vary depending on the region: unemployment was 7.9% in the south and 14.4% in the north-east. Job creation comprised primarily informal or own-account work.