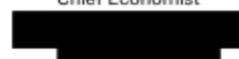




Brazil: A Recession Is Coming



Fiscal tightening, rising interest rates, lower commodity prices, the financial difficulties faced by oil company Petrobras and the growing risk of water and energy shortages all conspire against Brazil's economic recovery. Although we are not yet assuming energy rationing, we believe the risk is already affecting investment decisions, so we have cut our 2015 GDP growth forecast to -0.7% from 0.3%.

The likely decline in GDP in 2015 and the much larger-than-expected consolidated primary fiscal deficit of 0.6% of GDP posted in 2014 will make it more difficult for Finance Minister Joaquim Levy to deliver the targeted primary surplus of 1.2% of GDP this year. While we still expect the government to announce a sizeable spending cut after Congress passes the 2015 budget, we think that additional tax hikes would be necessary to guarantee the 1.2% target. Raising more taxes could aggravate the recession and face strong resistance in Congress, which is becoming increasingly hostile to President Dilma Rousseff. Consequently, we cut our 2015 primary surplus forecast to 0.8% from 1.2% of GDP.

We do not believe that cutting the primary surplus target would necessarily make Brazil lose its current investment grade status. It is important to bear in mind that a primary surplus of 1.2% of GDP is not enough to restore public debt sustainability, and would be just the first step toward restoring fiscal solvency, to be followed by additional tightening in the next years. Under current economic conditions, jumping immediately to 1.2% might be just too costly. In our opinion, the government could improve its fiscal policy significantly by promoting transparency, making a strong effort to rein in discretionary spending, introducing reforms to fix structural problems, and indicating the pathway for further improvement in the next years.

Nevertheless, given the combination of low economic growth, high inflation, large current account deficit and lack of structural reforms, agencies that currently rate Brazil two notches above investment grade (e.g. Moody's, with its negative outlook) might decide to cut Brazil by one notch, aligning their ratings to Standard & Poor's and raising market volatility.

The correction of administered prices (especially of electricity) and the hike in fuel taxes have increased the pressure on inflation, prompting us to raise our 2015 IPCA forecast to 7.2% from 6.6%. We have also raised our year-end SELIC rate forecast to 12.75% from 12.50%, and our year-end FX forecast to BRL2.90/USD from BRL2.80/USD.



We now expect GDP to contract by 0.7% this year

Several factors conspire against Brazil's economic recovery this year:

1. One of the government's main challenges is to repair its fiscal accounts, raising its primary balance to 1.2% from -0.6% of GDP last year. Although this move would be crucial in restoring policy credibility and confidence (therefore paving the way for the economy to recover in the future), its short-term effects would likely be contractionary.
2. As inflation remains high due to the overdue adjustment in administered prices, the central bank has raised interest rates by 125bps since October and has signaled that the tightening cycle has not yet ended.
3. The decline in commodity prices (ex-oil) is hurting Brazil's terms of trade.
4. The Petrobras bribery scandal has impaired the ability of the country's largest company to access capital markets and finance investments. The state-run oil company accounts for approximately 10% of total investments in Brazil. Assuming a 20% decline in Petrobras capex this year, its negative drag on growth could reach at least 0.4% of GDP.
5. Several construction companies allegedly involved in the bribery scheme are also under intense financial pressure and will likely have to reduce their activities as well, further undermining investments in infrastructure.
6. The risk of water and energy rationing has increased significantly due to the continuation of exceptionally low rainfall at the beginning of the year. The crisis is particularly acute because the authorities failed to act preemptively last year, fearing potentially negative implications for the elections. Water rationing in the state of São Paulo is practically inevitable at this juncture, as its main reservoirs are almost empty. São Paulo accounts for approximately 30% of Brazil's GDP and water shortage is already affecting production in some sectors (e.g. foodstuff, metallurgical and textiles). The second largest state economies of Rio de Janeiro and Minas Gerais also face an increasing risk of water rationing. It is difficult to estimate the impact of the water crisis on GDP, but we would put a conservative estimate at 0.2% of GDP.
7. The drought has also depleted the reservoirs of hydroelectric power plants, which account for roughly 70% of Brazil's electricity generation. The national aggregate reservoir levels are down to only 20% and failure to recover to at least 35% by the end of the rainy season in April could prompt the authorities to declare energy rationing. Presently, rationing would most likely be less severe than the 20% rationing of 2001, when hydroelectric power plants accounted for roughly 90% of supply and the national electrical grid was not well integrated. A more likely scenario this time would be a rationing of between 5% and 10%. We believe that a 10% rationing for six months could cut GDP growth by approximately 1%.

Fiscal tightening has a short-run contractionary effect

High inflation demands tight monetary policy

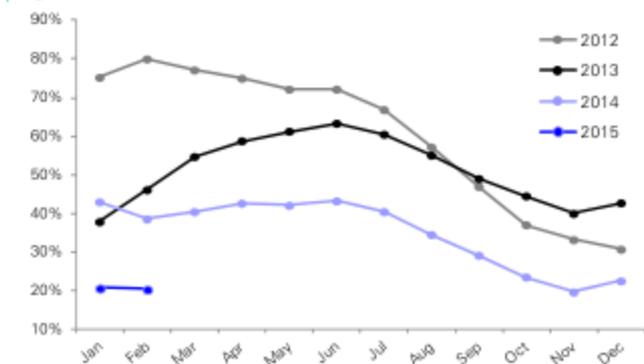
Petrobras will likely cut investments

Water rationing in the state of São Paulo is practically inevitable at this juncture

We believe that a 10% rationing for six months could cut GDP growth by approximately 1%

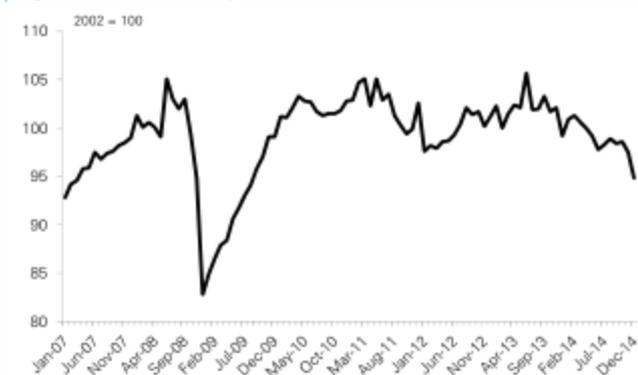


Figure 1: Reservoir levels



Source: ONS

Figure 2: Industrial production



Source: IBGE

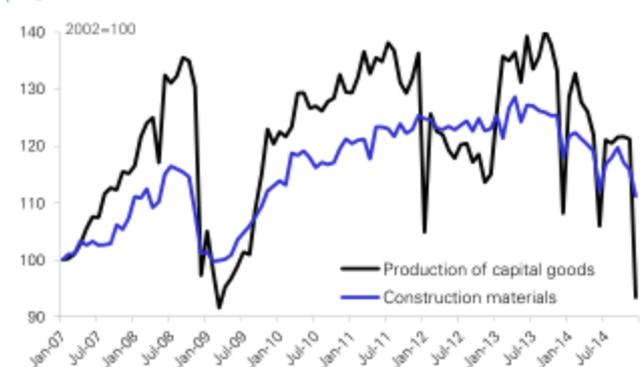
The latest indicators have attested to the weak economic performance at the end of 2014. Industrial production declined 2.8% MoM in December, 1.6% QoQ in 4Q14 and 3.2% in 2014. Other indicators have remained quite weak too, especially consumer and business confidence in most sectors of the economy. We believe that 4Q14 GDP fell 0.1% QoQ. Therefore, we have lowered our 2014 growth forecast to zero from 0.1%.

We forecast zero growth for 2014

For 2015, in light of what was discussed above, we cut our forecast to -0.7% from +0.3%. Although we are not yet assuming electricity rationing, we believe that the uncertainty surrounding the energy situation is already affecting sentiment and undermining investment. Investment continues to be the key variable to rekindle growth, as global growth remains sluggish, fiscal solvency issues prevent further expansion in government consumption and credit constraints and rising unemployment hurt household consumption. We estimate that fixed-asset investment fell approximately 7% in 2014 and we project another decline of roughly the same magnitude this year.

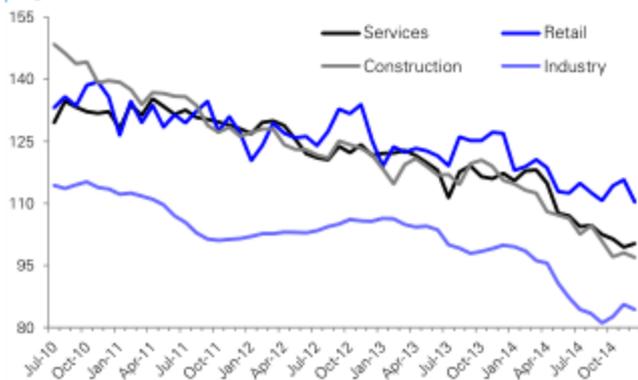
We cut our 2015 GDP growth forecast to -0.7% from +0.3%.

Figure 3: Investment indicators



Source: IBGE

Figure 4: Business confidence



Source: FGV

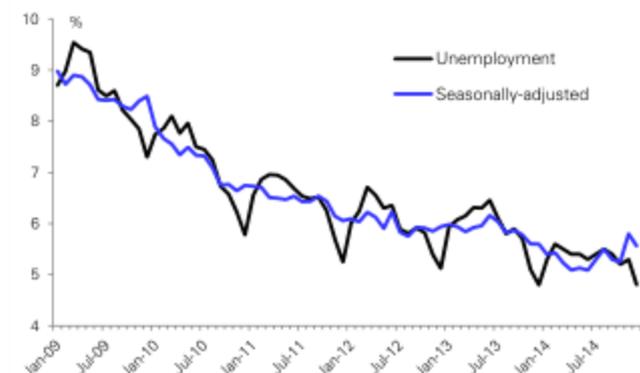
The unemployment rate averaged 4.8% in 2014, down from 5.4% in 2013, and the lowest on record. Although the average number of employed workers fell 0.1% last year, the labor force contracted by 0.7%. The contraction in the labor force may be explained by slower population growth, increase in government transfers, and rise in school attendance among youngsters. However, the labor participation rate is unlikely to decline further, at the same time that job origination will most likely fall due to negative GDP growth. We expect average unemployment to climb to 6.0% in 2015.

We expect unemployment to rise significantly this year



For 2016, we also lowered our GDP forecast to 1.5% from 1.9%, assuming that the water and energy problems will be alleviated by then, that Petrobras will stabilize and that the fiscal adjustment will continue, reducing the risk of losing the investment grade status and shoring up confidence. We remain skeptical about structural reforms (upon which faster growth depends).

Figure 5: Unemployment



Source: IBGE

Figure 6: Consumer confidence



Source: FGV

A more distant fiscal target

The authorities have announced more measures to raise the primary fiscal surplus this year. As market participants had widely expected, the government has raised the CIDE tax on fuel. Although a 90-day grace period was required for the tax to be effective, the government astutely raised another tax (PIS/COFINS) temporarily in order to start collecting revenues right away. The authorities expect to collect BRL12.2bn with the CIDE tax in 2015. The downside, of course, is the average 8% increase in gasoline prices (which adds roughly 30bps to the IPCA consumer price index).

The government has raised fuel taxes, as expected

A more surprising move was the hike in the IOF tax on consumer loans to 3.0% from 1.5%, which the government expects to generate BRL7.4bn this year. The previous economic team used the IOF extensively as an instrument to stimulate consumption and it was probably difficult for President Dilma Russeff to accept a tax hike that should further dampen consumption. The government has also raised the PIS/COFINS tax on cosmetic products, a measure that will generate an estimated BRL0.4bn only in 2015. Finally, the authorities have decided to raise the PIS/COFINS tax on imports as of June, expecting it to generate BRL0.7bn. Of the three aforementioned measures, this is the only one that will require congressional approval.

Figure 7: Estimated fiscal savings (% of GDP)

Increase in primary balance of local governments to 0% of GDP	0.2
Increase in IPI tax on cars, appliances	0.1
Increase in CIDE tax, PIS/COFINS on imports, IOF tax on consumer loans	0.4
New rules for unemployment benefits and pensions	0.3
Elimination of electricity subsidies	0.2
Total	1.2

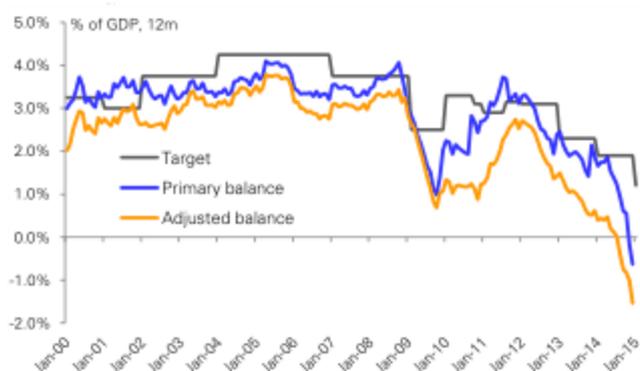
Source: Federal government, Deutsche Bank Research



However, the fiscal adjustment's starting point is much worse than expected. The public sector posted a consolidated primary fiscal deficit of BRL32.5bn (0.63% of GDP) in 2014, the first primary deficit since 1997. The deficit compared to a surplus of 1.9% of GDP in 2013. The central government posted a deficit of BRL20.5bn, while the states and municipalities had a deficit of BRL7.8bn and SOEs a deficit of BRL4.3bn. In December alone, the consolidated deficit reached BRL12.9bn (compared to our forecast of BRL2bn), as states and municipalities posted a much larger-than-expected deficit of BRL11.3bn. The nominal deficit (which includes interest on the public debt) surged to 6.70% of GDP in 2014 from 3.25% in 2013, the largest since 1998. The net public debt climbed to 36.7% of GDP in 2014 from 33.6% of GDP in 2013, while the gross public debt jumped to 63.4% from 56.7% of GDP.

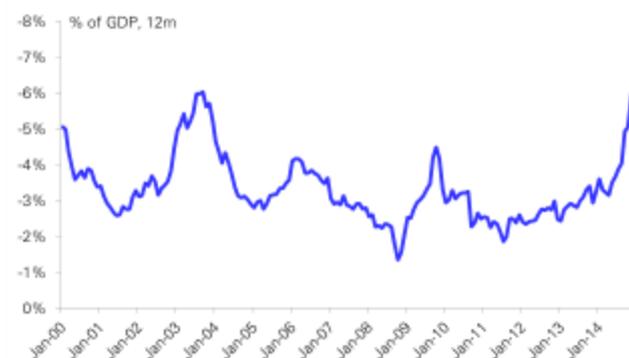
The fiscal adjustment's starting point is much worse than expected

Figure 8: Primary fiscal balance



Source: BCB, Deutsche Bank Research (adjusted balance excludes extraordinary revenues)

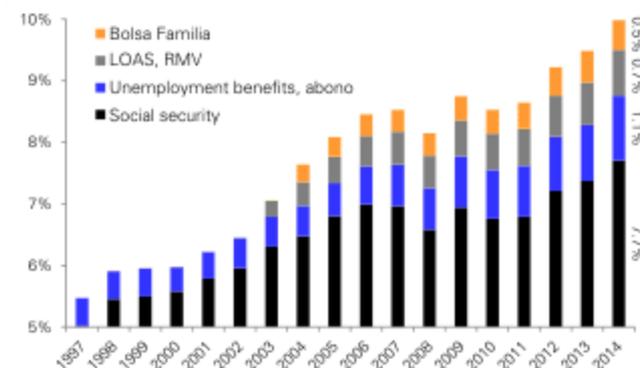
Figure 9: Nominal fiscal deficit



Source: BCB

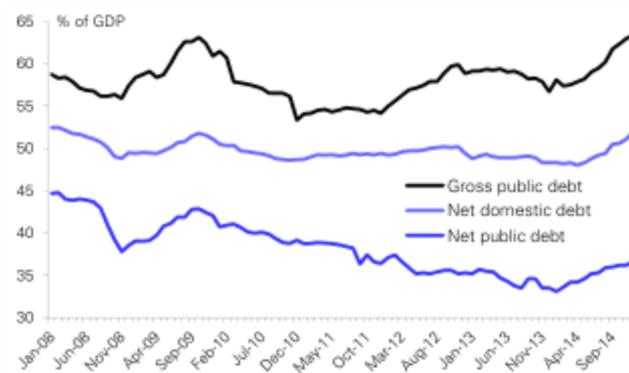
In light of last year's record primary deficit, reaching the surplus target of 1.2% in 2015 would be tantamount to an adjustment of 1.8% of GDP. In addition, the government would likely have to get another 0.2% of GDP to cover an increase in mandatory spending. The measures announced so far should save approximately 1.2% of GDP (assuming that the government will manage to obtain BRL18bn in savings from the changes in unemployment benefits and pension rules, which is far from granted due to growing political resistance against these measures).

Figure 10: Federal spending on social security and welfare



Source: STN, Portal da Transparência

Figure 11: Public debt (% of GDP)



Source: BCB

Finance Minister Joaquim Levy would still need at least 0.8% of GDP, according to our calculations. We believe that roughly half of this amount



could be achieved through spending cuts, which are to be announced after Congress passes the 2015 budget, (likely by the end of February). In terms of extraordinary revenues, we are assuming that what the government collects this year (e.g. by outsourcing its payroll management) will be just enough to match last year's amount. The remaining 0.4% of GDP would therefore have to be obtained by either raising more taxes or by undoing some of the tax cuts introduced in the previous years (especially the reduction in payroll taxes), which could exacerbate the recession.

Furthermore, we believe that the authorities should be prepared to deal with additional pitfalls. We see three main risks: First, although it is possible that the normalization of payments that had been delayed during the year contributed to a deepening of the fiscal deficit in the last months of 2014, transparency is low and the size of potential fiscal "skeletons" inherited by the new economic team remains unclear. For example, the fiscal watchdog TCU, claims that there is an unaccounted stock of approximately BRL40bn in financial transactions. Second, lower-than-expected GDP growth could hurt tax collection and further complicate the fiscal adjustment. We estimate that every 1% decline in real GDP could reduce total tax revenues by approximately 0.4% of GDP. Third, there is a risk that the National Treasury may have to provide some financial aid to Petrobras. Therefore, we are cutting our 2015 primary surplus forecast to 0.8% from 1.2% of GDP.

We are cutting our 2015 primary surplus forecast to 0.8% from 1.2% of GDP

Figure 12: Central government primary fiscal balance (BRLbn)

	2013	2014	change	% change
Total revenues	1,181.1	1,224.0	42.9	3.6%
Personal income tax	105.3	114.7	9.4	9.0%
Corporate income tax	187.5	194.5	7.0	3.7%
IPI tax	47.1	51.6	4.5	9.6%
IOF tax	29.4	29.8	0.4	1.3%
Import tax	37.2	36.7	-0.5	-1.4%
PIS/COFINS/CSLL	319.2	313.3	-5.9	-1.8%
Royalties	36.5	39.4	2.9	8.0%
Concessions	22.1	7.9	-14.2	-64.1%
Dividends	17.1	18.9	1.8	10.5%
Social security	307.1	337.5	30.4	9.9%
Total spending	1,104.1	1,241.3	137.2	12.4%
Transfers	190.0	210.2	20.2	10.6%
Personnel	202.7	219.8	17.1	8.4%
FAT (inc. unemployment benefits)	44.7	54.4	9.7	21.7%
Subsidies	10.2	9.0	-1.2	-12.0%
LOAS	33.5	37.9	4.4	13.1%
CDE (energy)	7.9	9.2	1.3	17.0%
Administrative	188.6	223.1	34.5	18.3%
Investments	63.2	77.5	14.3	22.6%
Social security	357.0	394.2	37.2	10.4%
Primary balance	77.0	-17.2	-94.2	-122.4%
(as % of GDP)	1.6%	-0.3%		

Source: STN

A crucial question is whether failure to meet the primary surplus target of 1.2% of GDP would cost Brazil the investment grade status. It is important to bear in mind that a primary surplus of 1.2% of GDP is not enough to restore public debt sustainability (we estimate that something closer to 2.5% would be needed). The 1.2% target was presented as the feasible first step toward restoring fiscal solvency, to be followed by additional tightening in the next years (when the target would be raised to 2.0% of GDP). Under current economic conditions, jumping immediately to 1.2% might be just too painful

We believe Brazil could keep the investment grade even with a lower primary surplus target this year



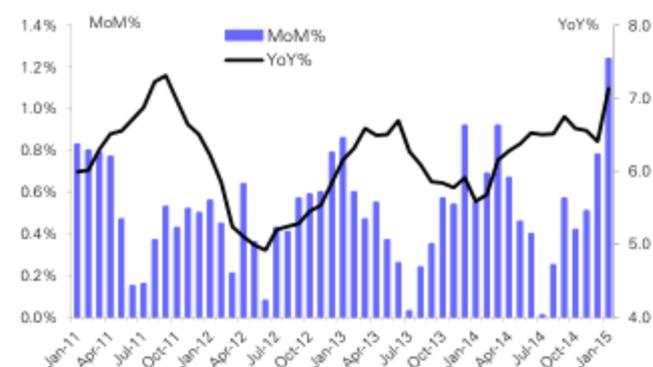
and economically inefficient. In our opinion, the government could improve its fiscal policy significantly by promoting transparency, making a strong effort to rein in discretionary spending, introducing reforms to fix the structural problems, and indicating the path for further improvement in the next years.

Higher inflation

The government's decision to finally normalize administered prices is already putting a lot of pressure on inflation. The IPCA consumer price index rose 1.24% MoM in January, the steepest increase since February 2003. In 12 months, the IPCA climbed 7.14%, the largest gain since September 2011. Administered prices surged 2.50% MoM in January, led by electricity and bus fares. We do not expect much relief in February (we forecast 1.10% MoM), as the index will be hit by higher fuel prices (due to the tax hike) and by the seasonal adjustment in school tuitions. We expect the 12-month IPCA to climb to 7.57% in February, further distancing itself from the 6.50% ceiling of the inflation target's tolerance band.

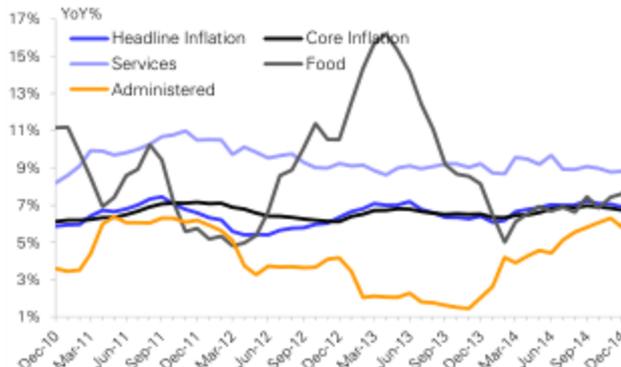
Administered prices are putting pressure on inflation

Figure 13: IPCA



Source: IBGE

Figure 14: IPCA breakdown



Source: IBGE

We estimate that the increase in fuel taxes and public transportation, together with the government's decision to eliminate electricity subsidies, will likely make administered prices climb a hefty 10% this year. Consequently, although the deceleration in economic activity will contribute to a slowing of the inflation of non-tradable goods and services, we raised our 2015 IPCA forecast to 7.2% from 6.6%.

We raised our 2015 IPCA forecast to 7.2% from 6.6%.

Figure 15: IPCA breakdown

	weight	2008	2009	2010	2011	2012	2013	2014	2015F
Food	16%	10.7%	0.9%	10.7%	5.4%	10.0%	7.6%	7.1%	6.5%
Tradables *	23%	4.4%	4.0%	3.8%	3.9%	2.7%	5.4%	4.7%	5.2%
Non-tradables *	39%	6.9%	5.6%	7.6%	8.8%	7.6%	8.2%	7.9%	7.0%
Monitored	23%	3.5%	4.7%	3.1%	6.2%	3.7%	1.5%	5.3%	10.0%
IPCA	100%	6.0%	4.3%	5.9%	6.5%	5.8%	5.9%	6.4%	7.2%

Source: IBGE, DB forecasts (*) excluding food

The COPOM raised the SELIC overnight rate by 50bps to 12.25% in January, in line with market expectations. The COPOM minutes sent a somewhat ambiguous message, claiming that "the scenario of convergence of inflation to 4.5% in 2016 has become stronger" (even though the BCB claimed that its inflation forecasts for 2016 remained "relatively stable" and above the target),



but also stating that the progress obtained in the fight against inflation was “not yet enough.” Our interpretation of the document was that the tightening cycle was not over yet, but the BCB kept the door open for another 50bp hike or a 25bp hike at the next meeting on March 4.

The BCB finds itself between the proverbial rock and a hard place, as inflation expectations remain unanchored (despite some decline in long-term forecasts, market participants still do not see inflation dropping below 5% before 2019), while economic activity is collapsing. Our impression is that it will be difficult for the COPOM to reduce the tightening pace to 25bps in March, as February inflation will likely accelerate to 7.6% YoY, approximately. Thus, we now expect the BCB to raise the SELIC by 50bps to 12.75% in March, and keep the door open for a 25bp hike or no hike in April. Then, some deceleration in 12-month inflation in 2Q15 and further deterioration in economic activity will likely prompt the BCB to interrupt the tightening cycle in April and abandon its pledge to make inflation converge to the 4.5% target in 2016 (we forecast 5.6% for next year).

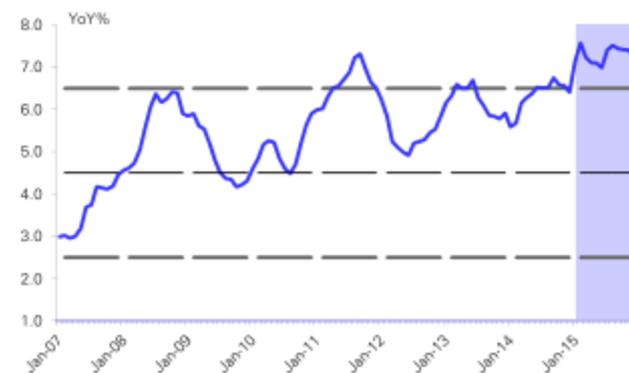
We expect the SELIC rate to climb to 12.75% in March

Figure 16: Expected IPCA, Focus survey



Source: BCB, Focus survey

Figure 17: IPCA and inflation targets



Source: IBGE, BCB, DB forecasts

Our scenario now contemplates the SELIC rate peaking at 12.75% in March, initiating an easing cycle at the beginning of 2016, and dropping to 10.50% by the end of that year. Should energy rationing become necessary and put even more pressure on inflation (through even higher energy prices and a weaker BRL), we believe the BCB would prefer to accommodate the supply shock and focus on the deceleration in aggregate demand. Therefore, we would probably still not see the SELIC rate above 13% in that scenario.

Regarding the latest reshuffle at the BCB board, we do not expect it to lead to significant changes in the conduction of monetary policy. BCB President Alexandre Tombini has appointed economist Tony Volpon as Director for International Affairs. Volpon, currently the head of emerging markets research at Nomura Securities, is the first director chosen by Tombini from outside the BCB ranks. We believe it is positive that Tombini has decided to bring an outsider with large experience in the private sector. On the other hand, Economic Policy Director Carlos Hamilton will leave the BCB and will be replaced by current International Affairs Director Luiz Awazu Pereira. In our opinion, Hamilton was the most hawkish member of the COPOM, and his departure could give the committee a somewhat more dovish tone.



A weaker BRL ahead

Although the Brazilian economy did not grow last year, the current account of the balance of payments posted a record USD90.9bn (4.2% of GDP) deficit, compared to USD81.1bn (3.6% of GDP) in 2013. The increase in the deficit was mainly due to the trade balance (a USD3.9bn deficit in 2014 versus a USD2.4bn surplus in 2013) and equipment leasing (-USD22.7bn vs. -USD19.1bn), reflecting mainly an increase in the leasing of oil equipment. The balance of payments still posted a surplus of USD10.8bn in 2014, as foreign direct investment totaled USD62.5bn (down from USD64bn in 2013, and significantly lower than the current account deficit of USD90.9bn), foreign portfolio investment amounted to USD31.7bn (down from USD37.0bn), long-term external borrowing reached USD71.8bn (vs. USD60.8bn), debt amortization totaled USD49.8bn (vs. USD60.1bn), Brazilian assets abroad led to a loss of USD40.8bn (following the USD48.5bn deficit in 2013), and short-term capital flows reached USD22.3bn (vs. USD17.2bn).

A current account deficit of 4.2% of GDP in 2014

We forecast that the current account deficit will decline to USD77bn in 2015, as we expect lower oil prices and the domestic recession to compensate for the fall in export prices. However, because GDP measured in dollars will be smaller, the deficit will not fall below 4.0% of GDP. We project USD60bn in FDI this year. Since foreign direct investment is no longer enough to finance the current account deficit, Brazil is more dependent on portfolio flows that are more volatile and vulnerable to global liquidity conditions.

FDI no longer finances the entire current account deficit

Figure 18: Main export products (USDbn)

Product	2013	2014	2014/13	Share of total
Soybeans	31.03	31.41	1.2%	14.0%
Mining (incl. iron ore)	35.09	28.44	-18.9%	12.6%
Oil and fuel	22.40	25.18	12.4%	11.2%
Transportation material	32.19	21.76	-32.4%	9.7%
Meat	16.30	16.93	3.9%	7.5%
Chemicals	14.68	15.10	2.9%	6.7%
Metallurgical products	13.33	14.50	8.8%	6.4%
Sugar	11.98	9.48	-20.9%	4.2%
Mechanical products	9.00	8.75	-2.8%	3.9%
Pulp & paper	7.16	7.22	0.9%	3.2%
Coffee	5.25	6.47	23.2%	2.9%
TOTAL	242.21	225.12	-7.1%	100.0%

Source: SECEX

While the BCB continues to intervene in the FX market by offering USD100mn in FX swaps every day, the outstanding stock of these instruments has reached approximately USD110bn, and we believe it will be increasingly difficult to continue extending the program (which is now scheduled to expire at the end of March). As a matter of fact, Finance Minister Joaquim Levy recently stated that he does not intend to keep the FX "artificially overvalued." While the BCB (not the Finance Ministry) is in charge of FX policy, we believe that this statement could be an indication that the government is willing to accept a weaker exchange rate.

The government seems to accept a weaker BRL

Prospects of negative GDP growth this year do not bode well for the BRL either, especially when it could prompt the rating agencies to downgrade Brazil's sovereign debt. Although we still do not expect S&P to put its Brazil rating below investment grade, Moody's and Fitch currently rate Brazil two notches above investment grade and we would not be surprised if at least one of them (e.g. Moody's, with its negative outlook) were to downgrade Brazil this year. Consequently, we revised our year-end FX forecast to BRL2.90/USD from BRL2.80/USD. While we believe that the risk is now tilted toward an even

We revised our year-end FX forecast to BRL2.90/USD



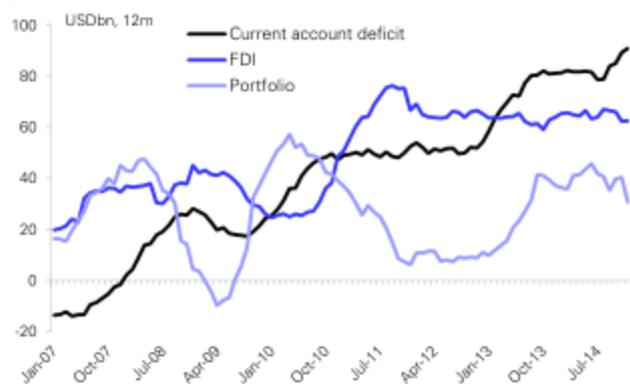
weaker currency, we continue to assume that the government will continue to work on adjusting its policies to restore confidence and pave the way to a gradual economic recovery in 2016.

Figure 19: Balance of Payments (USDbn)

	2011	2012	2013	2014	2015F
Current account	-52.5	-54.2	-81.1	-90.9	-77.0
Trade balance	29.8	19.4	2.4	-3.9	6.0
Net interest payments	-9.7	-11.8	-14.2	-14.1	-14.5
Profits and dividends	-38.2	-24.1	-26.0	-26.5	-24.5
International travel	-14.7	-15.6	-18.3	-18.7	-17.0
Other services	-22.7	-24.9	-28.3	-29.6	-29.0
Transfers	3.0	2.8	3.4	1.9	2.0
Financial account	111.1	73.1	75.2	101.8	77.0
FDI	66.7	65.3	64.0	62.5	60.0
Portfolio investment	7.1	10.7	37.0	31.7	30.0
Long-term disbursements	83.6	57.8	60.8	71.8	75.0
Brazilian assets abroad	-20.9	-29.3	-45.0	-37.2	-40.0
Short-term capital, others	12.3	8.4	18.4	22.9	15.0
Long-term amortization	-37.7	-39.7	-60.1	-49.8	-63.0

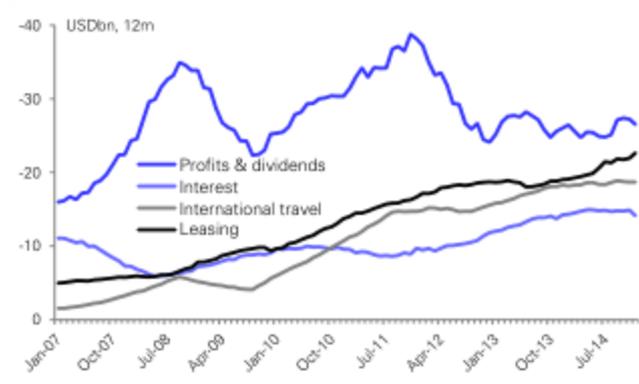
Source: BCB, DB forecasts

Figure 20: Current account and foreign capital flows



Source: BCB

Figure 21: Selected current account components



Source: BCB

José Carlos de Faria, São Paulo, (+55) 11 2113-5185



Figure 22: Main Macroeconomic Forecasts

	2009	2010	2011	2012	2013	2014E	2015F	2016F
Economic Activity								
Real GDP (%YoY)	-0.3	7.5	2.7	1.0	2.5	0.0	-0.7	1.5
Nominal GDP (R\$bn)	3,239.4	3,770.1	4,143.0	4,392.1	4,844.8	5,111.1	5,413.7	5,742.2
Nominal GDP (US\$bn)	1,625.6	2,143.9	2,475.1	2,252.6	2,245.4	2,171.7	1,928.9	1,965.9
GDP per capita (US\$)	8,489.8	11,093.9	12,696.1	11,306.0	11,174.9	10,719.8	9,444.0	9,547.2
Household consumption (%YoY)	4.4	6.9	4.1	3.2	2.6	0.9	0.0	1.0
Investment (%YoY)	-6.7	21.3	4.7	-4.0	5.2	-7.4	-7.6	3.9
Industrial production (%YoY)	-7.4	10.5	0.4	-2.3	2.3	-3.2	-3.0	2.5
Unemployment Rate (%)	8.1	6.7	6.0	5.5	5.4	4.8	6.0	6.5
Prices								
IPCA (%)	4.3	5.9	6.5	5.8	5.9	6.4	7.2	5.8
IGP-M (%)	-1.7	11.3	5.1	7.8	5.5	3.7	5.7	5.0
Fiscal Accounts								
Primary balance (% of GDP)	2.0	2.7	3.1	2.4	1.9	-0.6	0.8	1.5
Nominal balance (% of GDP)	-3.3	-2.5	-2.6	-2.5	-3.3	-6.7	-5.6	-4.3
Net government debt (% of GDP) year end	42.1	39.1	36.4	35.3	33.6	36.7	38.4	40.6
External Accounts								
Trade balance (US\$bn)	25.3	20.2	29.8	19.4	2.4	-3.9	6.0	12.0
Current account balance (US\$bn)	-24.3	-47.3	-52.5	-54.2	-81.1	-90.9	-77.0	-80.0
Current account balance (% of GDP)	-1.5	-2.2	-2.1	-2.4	-3.6	-4.2	-4.0	-4.1
Foreign direct investment (US\$bn)	25.9	48.5	66.7	65.3	64.0	62.5	60.0	65.0
Debt Indicators								
Gross external debt (US\$bn)	239.1	288.6	352.0	378.6	375.8	374.1	374.1	374.1
Gross external debt (% of GDP)	277.6	351.9	404.1	440.6	482.8	554.7	581.7	606.7
Interest and exchange rates								
Overnight interest rate (% eop)	17.1	16.4	16.3	19.6	21.5	25.5	30.2	30.9
Exchange rate (BRL/US\$, eop)	8.8	10.8	11.0	7.3	10.0	11.8	12.8	10.5
Exchange rate (BRL/US\$, average)	1.74	1.67	1.88	2.04	2.34	2.66	2.90	3.00

Source: National Statistics, DB forecasts

Figure 23: Long-term forecasts

	GDP %	IPCA %	BRL/USD eop	Selic avg.
2010	7.5	5.9	1.67	10.0
2011	2.7	6.5	1.88	11.7
2012	1.0	5.8	2.04	8.5
2013	2.5	5.9	2.34	8.4
2014E	0.0	6.4	2.66	11.0
2015F	-0.7	7.2	2.90	12.7
2016F	1.5	5.6	3.00	11.0
2017F	2.7	5.2	3.10	10.5
2018F	3.0	5.6	3.21	10.5
2019F	2.5	5.2	3.31	11.7
2020F	2.5	5.0	3.41	11.0
2021F	2.8	5.0	3.51	10.5

Source: National Statistics, DB forecasts

Figure 24: Monthly forecasts

	IPCA MoM%	IPCA YoY%	SELIC%
Feb-15	1.10	7.57	12.25
Mar-15	0.60	7.23	12.75
Apr-15	0.55	7.11	12.75
May-15	0.45	7.09	12.75
Jun-15	0.30	6.99	12.75
Jul-15	0.40	7.41	12.75
Aug-15	0.35	7.51	12.75
Sep-15	0.50	7.44	12.75
Oct-15	0.40	7.42	12.75
Nov-15	0.50	7.41	12.75
Dec-15	0.60	7.21	12.75
Jan-16	0.70	6.64	12.25

Source: DB forecasts



Appendix 1

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David Folkerts-Landau
Group Chief Economist
Member of the Group Executive Committee

Raj Hindocha
Global Chief Operating Officer
Research

Marcel Cassard
Global Head
FICC Research & Global Macro Economics

Richard Smith and Steve Pollard
Co-Global Heads
Equity Research

Michael Spencer
Regional Head
Asia Pacific Research

Ralf Hoffmann
Regional Head
Deutsche Bank Research, Germany

Andreas Neubauer
Regional Head
Equity Research, Germany

Steve Pollard
Regional Head
Americas Research

International Locations

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: [REDACTED]

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: [REDACTED]

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: [REDACTED]

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: [REDACTED]

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: [REDACTED]

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