Emerging Markets

Country Risk Analytics

MacroFinance Research

Quarterly - 2018 Q2

TAC ECONOMICS
www.taceconomics.com

Description of the CRA

The Country Risk Analytics is a quarterly report focusing on the three following items:

1. A summary of TAC ECONOMICS views, including the international environment within which emerging countries evolve;
2. A subject of thematic research of particular interest to emerging economies and relevant at the time of the analysis;
3. A summary of sensitive elements of risks and links with the economic policies conducted in each country, specific comments for each of the ten key emerging markets (Brazil, China, India, Indonesia, Mexico, Poland, Russia, South Africa, South Korea and Turkey). The analysis notably shows recent macroeconomic and financial changes: economic momentum, changes in interest rates and exchange rates.

Table of Contents

Brazil Watch List Indication

Overall Risk

- The Economic & Financial Risk rating has continued to modestly reduce (50.3-C in 2017Q4) as the favorable position on the Cyclical Balance is now combined with a significant improvement on the Growth Balance, though in an intermediate position due to a persistent weak economic growth.
- Indeed, the mediocre rebound of *economic growth* and the large narrowing of the current account deficit have allowed the country to exit the *high risk* area in 2017 on the Growth Balance. Meanwhile, the stabilization of the *real economic pressure* at a high level on the Cyclical Balance suggests a gradual consolidation of the domestic demand in 2018.
- On the Foreign Exchange Balance, the decline in *forex reserves quality* has moved the trajectory into the *unsustainable overvaluation* quadrant reflecting heightened volatility of the Brazilian Real. Moreover, the Watch List Indication highlights the persistent uncertainty of the currency.
- Political tensions continue with Supreme Court's verdict barring former President L. Lula from contesting in the forthcoming Presidential elections (Oct. 2018) leaving no clear front-runners.

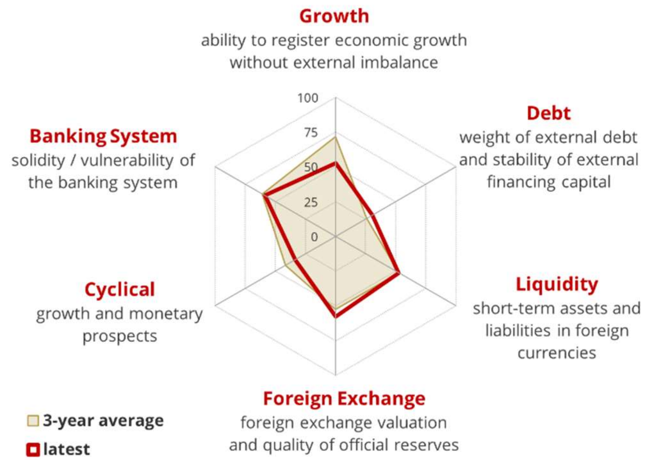
Recent Events

- GDP growth continues its gradual upward momentum (+2.1% y/y in 2017Q4 from +1.4% in Q3) due to revival in fixed capital spending (+3.8%), whereas agricultural production decelerates because of lower exports. Also, business outlook has strengthened further (favorable PMI at 53.2 in Feb. 2018).
- Inflation (+2.9% y/y in Jan.-Feb. 2018) has remained below the Central Bank's official target (+4.5% ±1.5%) thanks to lower increase in regulated prices and declining food prices.
- The current account deficit has expanded in 2017Q4 (USD -7.0bn against USD -3.2bn in Q3) owing to weakening of trade surplus. Overall, massive trade surplus in 2017 has considerably reduced the current account deficit (less than USD -10bn after USD -24bn in 2016) making it the lowest in a decade (at -0.5% of GDP), yet deficits service and income have widened in 2017.

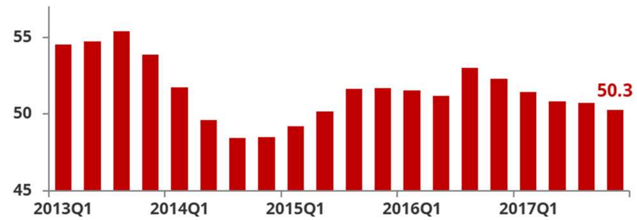
Interest Rates & Currency Dynamics

- The Central Bank (BCB) has further cut its reference SELIC rate in Mar. 2018 (-25bp to 6.50%, lowest rate since Nov. 1997). After an overall easing of 775bp since Oct. 2016, the rebound in investment and limited inflationary pressures should encourage the BCB to end the easing cycle soon. Less favorable international scenario (likelihood of cyclical reversal in advanced economies and Chinese cyclical adjustment from 2019 onwards) should also reduce BCB's ability to further easing.
- The Brazilian Real has registered significant volatility in the last few quarters (between 3.1 and 3.3 BRL/USD since July 2017); the currency is expected to hover around 3.25 BRL/USD in the next quarters but with a high volatility due to the combination of political uncertainty (next Presidential elections in Oct. 2018) and the progressive reduction in interest rate spread with the U.S.

Risk-Scores on Fundamental Balances
from 0 (lowest risk) to 100 (highest risk)



Economic & Financial Risk Rating History
from 0 (lowest risk) to 100 (highest risk)



Risk Ratings	Current	Previous Quarter	Last Year
Economic & Financial	50.3 – C	50.7 – C	52.3 – C
Political & Governance	50.1 – c	-	50.4 – c
Crisis Signals	Watch List Indication	Watch List Indication	Watch List Indication

Disclaimer

These assessments are, as always, subject to the disclaimer provided below.

Your contacts at TAC ECONOMICS

Technical questions / hotline

TAC ECONOMICS team is available for any economic, financial, technical questions and requests at the following e-mail address: hotline@taceconomics.com

Customer relation

For any question relative to your subscription, please contact us by e-mail at taceconomics@taceconomics.com

Tel +33 (0)299 39 31 40
Web: http://www.taceconomics.com

Document completed on April 05, 2018.