Approval of the pension reform lowers fiscal risks

Overview

- **Approval of the pension reform will reduce fiscal risks in the medium and long terms.** The main text passed a first vote in the lower house of Congress with 379 votes in favor, which is above the minimum required. Following the parliamentary recess, the legislative process will still take a few weeks for the proposal to be published. The increased perception of lower fiscal risks paves the way for improving expectations and addressing other issues on the economic agenda.

- **In an environment of greater international liquidity, the advance in the reform agenda tends to improve domestic asset prices.** The continuity of this process of improving financial conditions is largely associated with the resumption of GDP expansion. For now, however, the economy is still weak. The most recent retail and service volume data corroborate our estimate of 0.2% of the GDP in the second quarter, which would only make up for the contraction seen in the first quarter.

- **Domestic market interest rates continue to incorporate Selic reduction expectations.** We expect a 0.25 p.p. cut later this month. Weak economic performance and core inflation still at comfortable levels, as reinforced by the June IPCA, will add to the reduction of medium-term fiscal risks, increasing the conviction of the need for the Central Bank to reduce the Selic rate.

- **Expectations of an imminent monetary easing in the U.S. rose this week after official communication by the Fed, which should cut the interest rate by 0.25 p.p. at the end of the month.** The chairman of the institution, Jerome Powell, downplayed the strong results of the June payroll, indicating that they look at a set of indicators, which have been suggesting an economic slowdown. At the same time, he expressed greater concern with the external scenario.

The week ahead

- **All eyes will be on the pension reform process next week, with a possible second vote in the House of Representatives.** The vote should take place before the parliamentary recess, which begins on July 18**.** The May IBC-Br stands out among the domestic indicators, which should show an increase on an year-over-year basis, influenced by the depressed comparison base (shutdown in the transport sector, in May 2018) and also advance in the margin, which should only compensate for the drop in April.

- **Highlights in the global scenario include industrial activity indicators in the U.S. and the Chinese GDP.** Several industrial activity indicators for July will be released throughout the week by the Fed's regional districts, which may reinforce the deceleration trend. In China, the second quarter GDP is expected to show growth slightly over 6%, which will be important to demand new economic stimuli.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 07/15				
08:25	Brazil	BCB: Focus Survey		
08:30	Brazil	BCB: Economic Activity Index (May)	0.5% (MoM)	0.5% (MoM)
15:00	Brazil	MDIC: Trade Balance (weekly)		
09:30	USA	Índice Empire Manufacturing de atividade (Jul)	2.0	
-	China	Industrial Production (Jun)*	5.9% (YoY)	
-	China	GDP (2Q)*	6.2% (YoY)	
-	China	Fixed Assets Investments (Jun)*	5.6%	

*The indicator will be released on July, 14th

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Tuesday 07/16				
08:00	Brazil	FGV: IGP-10 (Jul)		0.48% (MoM)
06:00	Germany	ZEW Survey Expectations (Jul)	-23.5	
10:15	USA	Industrial Production (Jun)	0.1% (MoM)	
Wednesday 07/17				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
12:30	Brazil	BCB: Currency Flows (weekly)		
06:00	Eurozone	CPI (Jun)	0.1% (MoM)	
15:00	USA	Fed: Beige Book		
Thursday 07/18				
08:00	Brazil	FGV: IGP-M (2nd preview) (Jul)		
10:00	Brazil	CNI: Industrial Confidence (Jul)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Fed Philadelphia Outlook (Jul)	5.0	
19:00	Chile	Central bank meeting		2.50%
Friday 07/19				
11:00	USA	University of Michigan Sentiment (Jul - P)	98.4	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	3.80
GDP growth (%)	1.1	1.1	0.8
Industrial Production (%)	2.5	1.1	0.6
Retail Sales (%)	4.0	5.0	4.5
Job Creation (in thousands)	264	1316	368
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.9
Outstanding Credit Growth (%)	-0.5	5.0	7.5
Trade Balance (USD bn)	64.0	53.6	54.5
Current Account (USD bn)	-7.2	-14.5	-16.0
Exchange Rate (BRL/USD, eop)	3.31	3.87	3.80
Selic Rate (%, eop)	7.00	6.50	5.50
Primary Balance (BRL bn)	-111	-108.3	-130
Gross Debt (% of GDP)	74.1	76.7	77.8

Technical Staff

Department of Economic Research and Studies Fernando Honorato Barbosa

Economists Andréa Bastos Damico / Ariana Stephanie Zerbinatti / Constantin Jancsó / Ellen Regina Steter Hanna Farath / Fabiana D'Atri / Igor Velecico / Leandro Câmara Negrão / Mariana Silva de Freitas/ Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Rafael Martins Murrer / Renan Bassoli Diniz / Robson Rodrigues Pereira / Thiago Coraucci de Angelis / Thomas Henrique Schreurs Pires

Interns Ana Beatriz Moreira dos Santos / Camila Medeiros Tanomaru / Daniel Funari Fouto / Gustavo Rostelato de Miranda / Isabel Cristina Elias de Souza Oliveira / Thaís Rodrigues da Silva

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