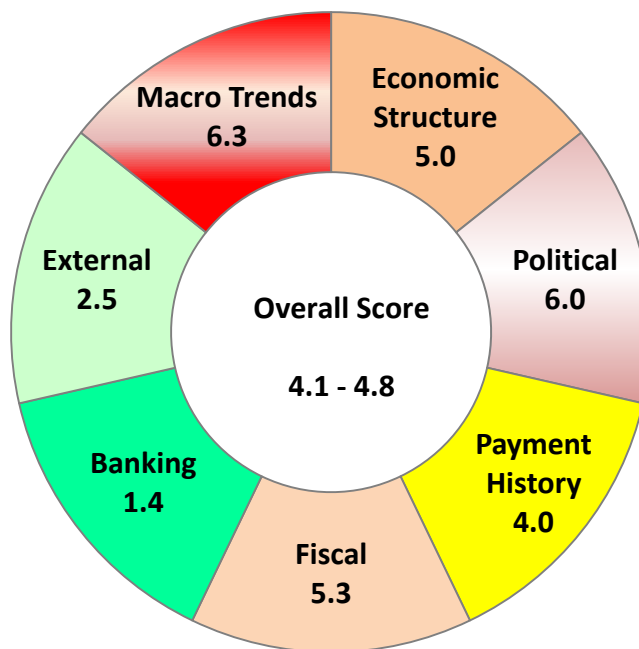


Brazil Risk Scores



Brazil Trend Risks

Macroeconomic fundamentals have begun to improve since a new austerity-minded government took office in May 2016. Policy measures to address the huge fiscal deficit have helped boost confidence, easing pressure on the Central Bank's tough anti-inflation stance. Real GDP is forecast to be slightly positive in 2017, with inflation slowing to 7%, although unemployment remains troubling at more than 11%.

The fiscal outlook was enhanced by passage of a constitutional amendment to freeze federal spending in real terms for 20 years. This will help limit the primary deficit (at 2.8% of GDP), but will only gradually pass through to the general budget, where high interest costs pushed the deficit to 10% of GDP. With inflation slowing, the Central Bank will cut rates sharply this year.

External finances will gain as well. Export volumes were up 5% over the past 12 months, and a current account deficit of less than 1% of GDP is expected in 2017. FX reserves of \$367 billion cover 18 months of imports. The flexible exchange also reduces pressures from capital flows.

Brazil's banks are well-capitalized, liquidity is exceptionally strong, and supervision is strong.