BANK OF COMMUNICATIONS BBM

Monthly Macro Letter

MAY 2020

Curves of a Pandemic

Fernanda Guardado
Chief Economist

Serge de Valk
Economist

Alvaro Borges
Intern

Anna Saraiva
Intern

Giovanni Machado
Intern

In April the COVID-19 pandemic decelerated in the northern hemisphere but gained speed in the economies of South, especially Brazil. Regardless of the direction of infection rates, the economic data for the month in all countries will reflect a sharp fall in the level of activity and a dramatic rise in unemployment. Uncertainty persists regarding the timing and pace of the recovery in each country.

It became most evident in Europe that the rise in cases and deaths was decelerating during April, especially in Spain and Italy, where the number of deaths reached 24,000 and 27,700 respectively at the end of the month. In response to the flattening of the infection curve, several European countries announced a partial relaxation of their lockdowns or social restriction measures in May, with varying levels of moderation. However, as German Chancellor Angela Merkel stressed, the situation requires caution to avoid new waves of infection resulting in additional lockdowns or social restriction measures. In the United States, the infection curve showed signs of flattening while the death curve began decelerating. Some states, such as Texas and Florida, began relaxing social restrictions, but New York appeared set to keep its current arrangements in place until at least mid-month. Meanwhile, the number of jobless claims since mid-March surpassed 30 million, despite the various government programs introduced to mitigate the impact of the economic downturn, pointing to a rise of more than 10 percentage points in the jobless rate for the month.

In Brazil, as in other southern hemisphere countries, April ended with no sign of deceleration in the infection curve or in the number of deaths, which exceeded 6,000 on April 30. Several states extended or tightened their social restriction measures, including Amazonas, Rio de Janeiro and São Paulo. In light of the extension of social isolation measures into May and the high-frequency indicators for economic activity available for April, we have revised down our growth forecast interval for the year, which is now between -3.1% and -5%, followed by a recovery in 2021 (between 3.7% and 4.8%). Unemployment measures rose in March and are set to rise more sharply in April.

New measures were introduced by the government and Congress to mitigate the economic impact of the epidemic on society. According to our estimates, the fiscal measures passed so far amount to more than 8% of GDP in 2020, and some of them may be extended into the second semester, especially the emergency aid program (Auxílio Emergencial), originally intended to last only three months. Given the need for public policies to cushion the impact of the social and health emergency caused by the pandemic, the primary deficit is likely to exceed 8% of GDP in 2020 but should return to 2% or thereabouts in 2021. From the standpoint of public finance sustainability, as we have stressed, it is important to ensure that the fiscal deterioration is confined to this year, in which the situation is clearly out of the ordinary, and that the fiscal consolidation agenda is resumed as soon as this situation is over.

On the side of monetary policy, we expect a fresh rate cut of 50 bps at the Copom meeting in the first week of May, lowering the Selic to 3.25% p.a. We will wait for signals from the Central Bank regarding its next steps. However, we do not foresee an aggressive cycle of additional cuts. Although the inflation outlook is benign for the relevant horizon, an unusual level of uncertainty surrounds the institution's balance of risks over the relevant horizon of monetary policy, arguing for caution in the conduct of monetary policy with rates at historically low levels.

ECONOMIC FORECASTS	2016	2017	2018	2019	2020F	2021F
GDP Growth (%)	-3,3%	1,3%	1,3%	1,1%	-3.1% to -5%	3.7% to 4.8%
Inflation (%)	6,3%	2,9%	3,7%	4,3%	1.5% to 2%	2.5% to 3%
Unemployment Rate, SA (%)	12,6%	12,4%	12,2%	11,7%	12.2% to 13.7%	11.5% to 12.5%
Policy Rate (%)	13,8%	7,0%	6,5%	4,5%	3,25%	5,0%
External Accounts						
Trade Balance (US$ bn)	48	67	53	39	41 to 47	42 to 47
Current Account Balance (US$ bn)	-23	-10	-42	-51	-40 to -47	-45 to -52
Current Account Balance (% of GDP)	-1,3%	-0,7%	-2,2%	-2,8%	-1.8% to -2.3%	-2.2 to -2.5%
Fiscal Policy						
Fiscal Primary Balance (% of GDP)	-2,5%	-1,8%	-1,6%	-0,9%	-7.5% to -9.1%	-1.7% to -2.5%
Government Gross Debt (% of GDP)	69,4%	73,7%	77,2%	75,9%	85% to 88%	83% to 85%