

Vaccines and recovery

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Covid-19 vaccination campaigns advance around the world, increasing the confidence in controlling the current infection wave and in the global economic recovery. In Brazil, the campaign starts with a delay, but it shall take benefit from the already established federal health structure, so that the vaccination pace might accelerate in the following months. The domestic challenge, however, will be the effective supply of vaccines, which will most probably limit the volume of inoculated people in the first semester.

In the US, the vaccination campaign started slower than expected, but around 10% of its population have already been vaccinated by the end of January. In Europe, the vaccination also evolves less timely and new vaccines are being approved in order to increase the continent's supply. The exception is the United Kingdom, where almost 15% of the population have been inoculated by the end of January. The restraining measures adopted in the fourth quarter of 2020 in these regions, along with the vaccination campaigns, have already induced reductions in infections and hospitalizations data, in spite of new strains of the virus. In China, localized spots of infections have been reported and despite of not advancing nationwide, alongside with new mobility constraints put in place pre-emptively for the lunar new year holiday, may reduce the recovery's pace in the beginning of 2021.

In Brazil, the vaccination started officially with Coronavac's approval by Anvisa on January 17th. Despite the delay in planning a national campaign and in the available vaccines emergency approval, in the initial days of February Brazil has already vaccinated 3 million people or 1,5% of its population. Even though it is still a timid percentage when compared to countries which started vaccinating in November and December, it is a considerably higher level than its Latin-American peers (such as Chile, Argentina and Mexico) which started their national vaccination campaigns weeks before. The already tested and established Brazilian vaccination experience and infrastructure will probably help to hasten the pace of vaccination, but the effective supply of vaccines in the next months will constrain the number of those receiving the jabs. According to our survey, around 67 million vaccine doses of Coronavac and Oxford-AstraZeneca vaccines will be effectively available until the end of April (this number includes the doses already administered). There are promises and projections for more than a hundred million doses in the second semester, but there is still not a reliable vaccination schedule for the younger part of the population.

In the year's opening monetary policy reunion, the Copom brought a more hawkish message in relation to the monetary policy next steps. Besides withdrawing the mention to *forward guidance*, which was anticipated by us, the committee also signaled it was discussing the reversion of part the cuts adopted in 2020 – i.e., increases in the Selic rate. Faced by inflation forecasts for 2021 and 2022 consistently revised upwards and already around the target in an environment of recovery, the need of extraordinary stimulus level is reduced. In this context, we revised our expectation in relation to the beginning of the interest rate normalization cycle from August to May, bringing the Selic rate to 4,0% (we expected 3,5% previously). It is

worth noting that relevant uncertainties about the health of the recovery situation remains, especially regarding the job market, which in our vision should make Copom postpone its decision to May, when it will have more information about the health of the economy's recovery.

ECONOMIC FORECASTS	2016	2017	2018	2019	2020	2021F
GDP Growth (%)	-3.3%	1.3%	1.3%	1.1%	-4.4%	3.6%
Inflation (%)	6.3%	2.9%	3.7%	4.3%	4.5%	3.7%
Unemployment Rate, SA (eoy, %)	12.6%	12.4%	12.2%	11.7%	14.5%	13.6%
Policy Rate (eoy, %)	13.8%	7.0%	6.5%	4.5%	2.0%	4.0%
External Accounts						
Trade Balance (US\$ bn)	48	67	53	48	43	58
Current Account Balance (US\$ bn)	-23	-10	-42	-51	-13	1
Current Account Balance (% of GDP)	-1.3%	-0.7%	-2.2%	-2.8%	-0.9%	0.1%
Fiscal Policy						
Fiscal Primary Balance (% of GDP)	-2.5%	-1.7%	-1.7%	-1.2%	-9.5%	-2.8%
Government Gross Debt (% of GDP)	69.4%	73.7%	75.3%	74.3%	89.3%	90.0%