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Expectations revised

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The highlights of March were the continuation of expansionary fiscal and monetary policies, revised growth forecasts, and differences in vaccination campaigns around the world. Optimistic expectations for the US, Chinese and UK economies did not extend to the rest of Europe, where vaccination proceeded slowly. Insufficient supply also held up the vaccination rollout in Brazil, where the number of COVID-19 cases and deaths reached all-time highs and threatened to impair economic growth.

In the United States, the pace of vaccination accelerated to some 3 million doses per day. Almost a third of the US population (more than 100 million people) had received at least the first dose by end-March, boosting expectations of a full economic reopening before long. These factors, in conjunction with the US$ 1.9 trillion stimulus package, resulted in upward revisions of 2021 growth forecasts to 7%. President Joe Biden also announced a new fiscal plan focusing on investment of US$ 2.2 trillion in green infrastructure, research and education over the next decade. The impact of this massive demand stimulus went beyond growth forecasts, lifting inflation expectations to 2.5% for a five-year horizon and leading to a steeper yield curve. Nevertheless, the Fed signaled its intent to leave zero interest rates on hold until 2023 in line with its new monetary policy framework.

Growth forecasts for the euro area and China were also revised, but downward in the former case. The European Union’s largest economies have faced vaccine shortages. Only about 11% of each country’s population had received a dose by end-March on average. To make matters worse, the onset of a third wave of the pandemic required the reintroduction of restrictions on mobility. In contrast, the pandemic remained under control in China even though a smaller proportion of the population had been vaccinated. Alongside China’s consistent economic recovery, this situation encouraged an upward revision of growth expectations, which are now close to our own projection of 9%.

In Brazil, the vaccination campaign accelerated amid a new pandemic peak, with cases and deaths reaching new highs every day. The arrival of shipments of API, the raw material for the vaccine, and announcements that deals have been closed with more pharmaceutical companies raised the odds of fulfillment of the promised supply in the months ahead. Nevertheless, the improvement did not happen soon enough to prevent Brazil becoming the epicenter of the pandemic. Hospital intensive care units were overwhelmed in several states. Most states and major cities reintroduced restrictions on mobility and shopping, negatively affecting the economy in March and April and fueling uncertainty about its first-half performance.

The spiraling pandemic and downward revisions to growth expectations for 2021 were accompanied by a pickup in inflation. Surprises in the February IPCA, successive gasoline price hikes, rising prices of commodities and local currency depreciation have pushed up our inflation forecast for 2021 from 3.7% to 4.8% in the last two months. This rapid acceleration of inflation, including the risk of a de-anchoring of expectations for 2022, led the Central Bank of Brazil to make an early start on normalization of interest rates. It raised its policy rate (Selic) by 75 basis points in March and signaled a hike of the same size at the next meeting. We expect it to maintain this pace for three meetings, ending the cycle with a hike of 50 bps in September, when the Selic will reach 5.50% p.a.

In the fiscal sphere, Congress passed the "PEC Emergencial" constitutional amendment and the 2021 budget. The former requires automatic saving measures to comply with the spending cap ("triggers") and authorizes another round of income support starting in April. Although the fiscal gain is smaller than called for by the original proposal, we consider the move positive because it corrects flaws in the spending cap, permits the activation of triggers by subnational entities, and limits the amount to be disbursed for income support. However, the budget as passed was a negative surprise: contrary to the Ministry of the Economy's expectations, it reduced mandatory expenditure to make room for an increase in funding for projects in members' constituencies. This is considered unconstitutional and probably non-executable. We expect the budget to be redrafted in the weeks ahead. Indeed, the process of revision has already begun.

ECONOMIC FORECASTS	2016	2017	2018	2019	2020	2021F	2022F
GDP Growth (%)	-3,3%	1,3%	1,3%	1,1%	-4,1%	3,8%	2,5%
Inflation (%)	6,3%	2,9%	3,7%	4,3%	4,5%	4,8%	3,6%
Unemployment Rate, SA (eoy ,%)	12,6%	12,4%	12,2%	11,7%	13,9%	13,0%	13,0%
Policy Rate (eoy, %)	13,8%	7,0%	6,5%	4,5%	2,0%	5,5%	5,5%
External Accounts							
Trade Balance (US$ bn)	48	67	53	48	51	58	45
Current Account Balance (US$ bn)	-23	-10	-42	-51	-13	1	-14
Current Account Balance (% of GDP)	-1,3%	-0,7%	-2,2%	-2,8%	-0,9%	0,1%	-0,8%
Fiscal Policy							
Fiscal Primary Balance (% of GDP)	-2,5%	-1,7%	-1,7%	-1,2%	-9,5%	-2,8%	-2,0%
Government Gross Debt (% of GDP)	69,4%	73,7%	75,3%	74,3%	88,8%	86,0%	87,0%