



## MACRO OUTLOOK

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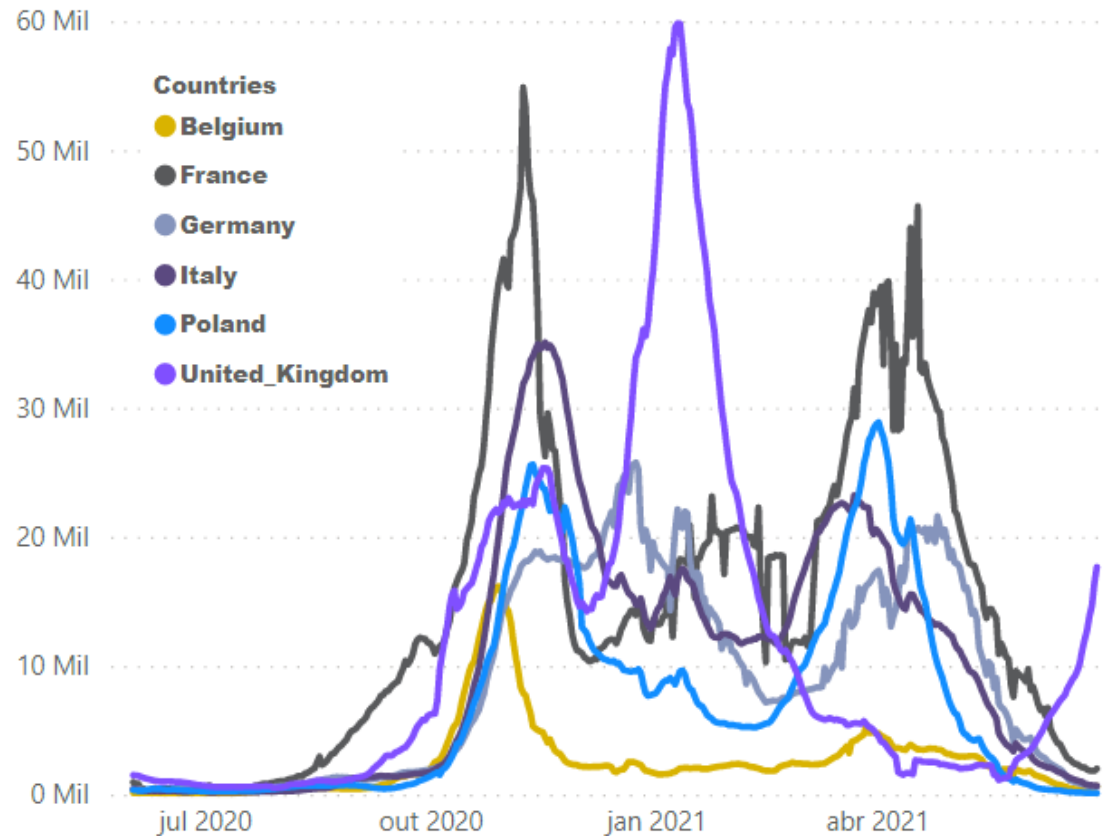
July 2021

- » Covid-19 vaccination campaigns advance in several countries, global activity being revised up
- » In Brazil, the pandemics still on elevated levels, but the vaccine rollout increased its pace
- » Economic activity in Brazil has recovered strongly
- » We forecast a GDP growth of 5.3% for this year
- » We revised up our inflation forecast to 6.1%, on the back of production costs pressure, of the recovery in services and the electric energy crisis
- » We revised our Selic rate projection to 6.5% at the end of 2021 and our projection for the end of 2022 is still 6.5%
- » A higher nominal GDP and a favorable fiscal outlook in the short term will lead to a lower debt-to-GDP ratio in 2021

# Covid-19

- » United Kingdom suffers from a new surge of cases with the Delta variant, but hospitalization number remain low

**World –Covid-19 Cases, 7-day moving average**



**USA –Covid-19 Cases, 7-day moving average**



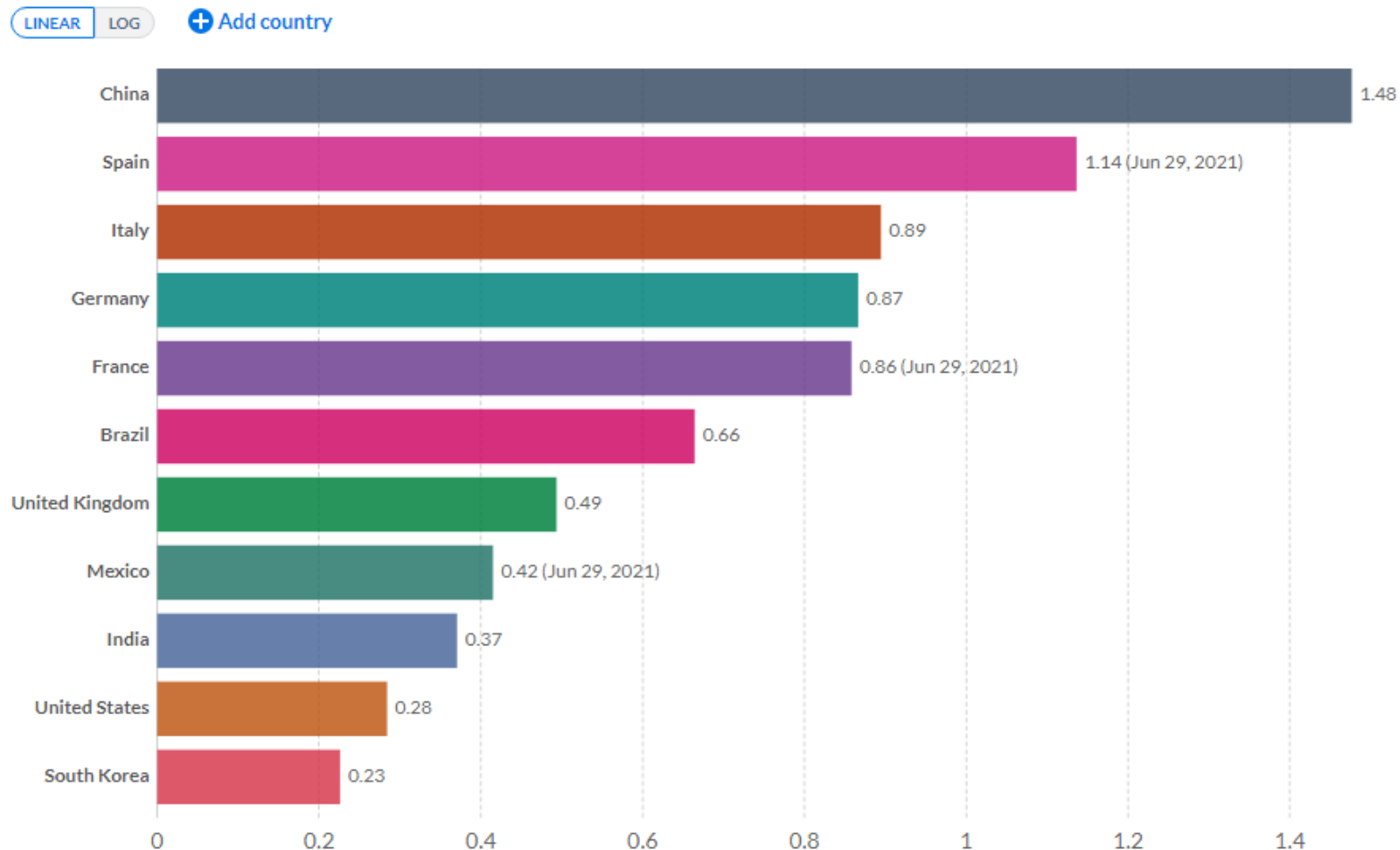


## » Vaccination advanced in China and Europe

### Daily COVID-19 vaccine doses administered per 100 people, Jun 30, 2021

Shown is the rolling 7-day average per 100 people in the total population. For vaccines that require multiple doses, each individual dose is counted.

Our World  
in Data



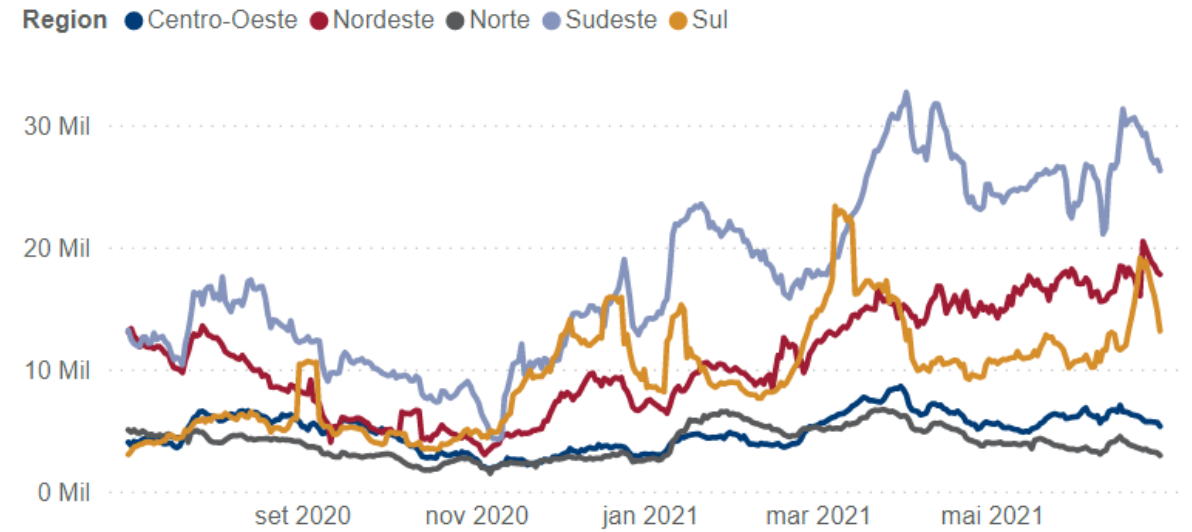
# Covid-19

» In Brazil the number of cases and deaths decrease, but are still high

## Brazil – Covid-19 Cases, 7-day moving average



## Brazil – Covid-19 Cases, 7-day moving average



# Global: GDP Growth

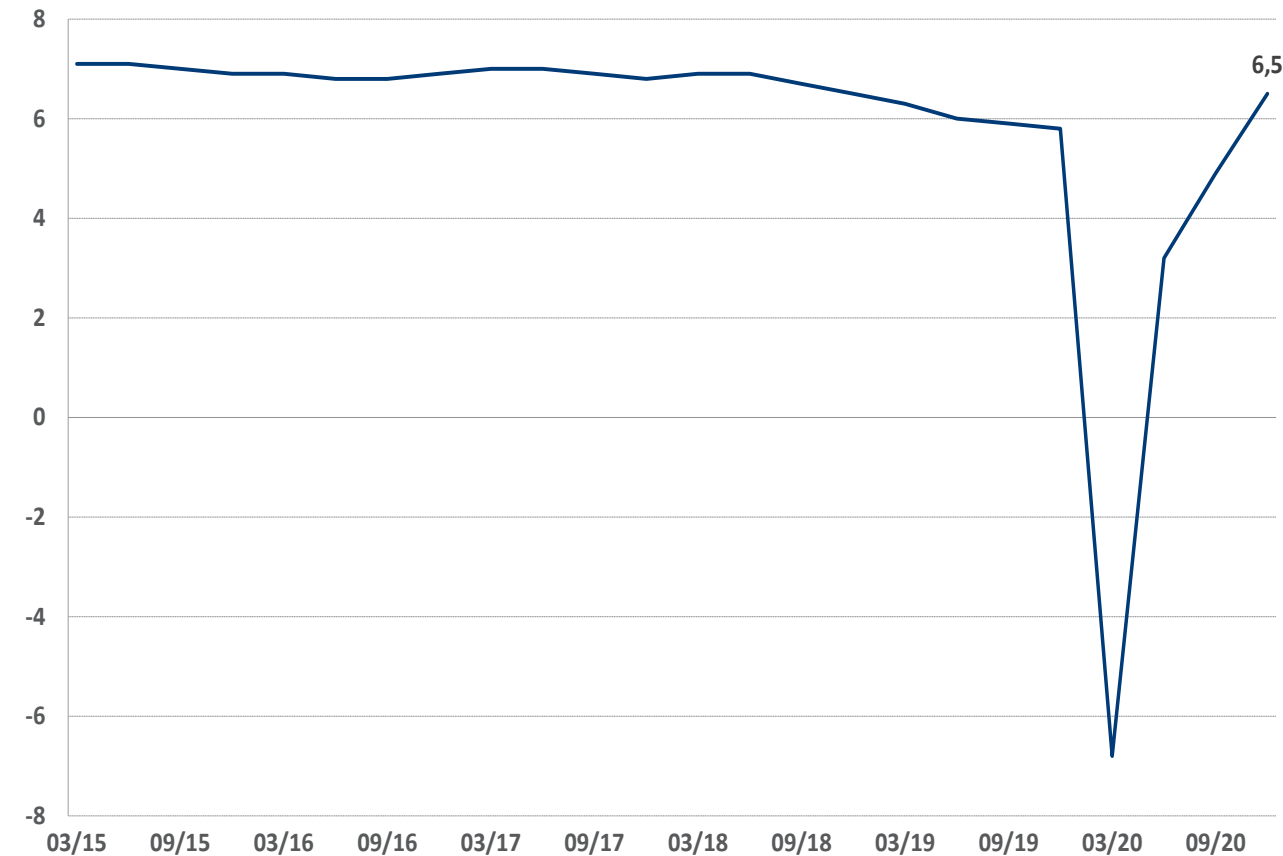
»» Global economy should post strong recovery in 2021



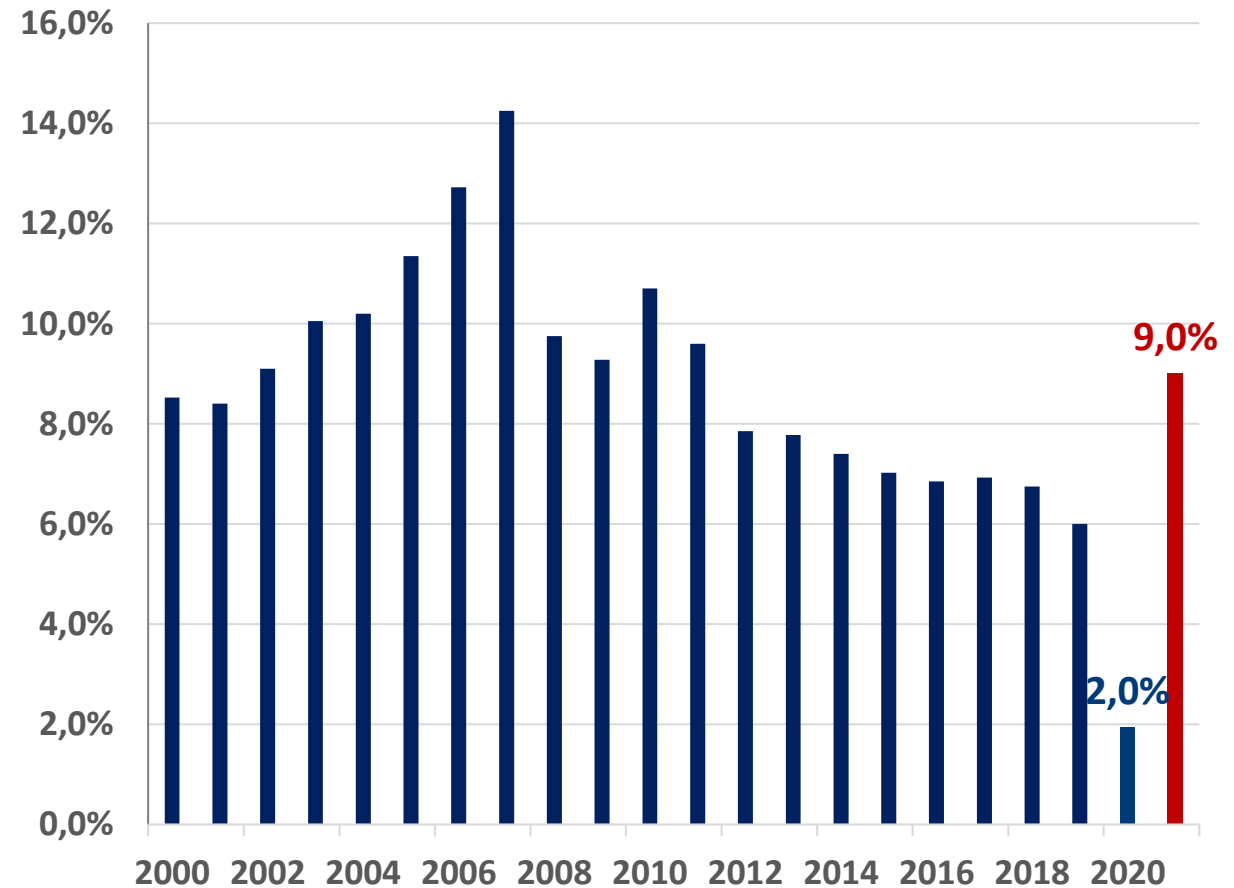
# China: Activity

» Chinese economy recovers fast, with services gaining pace over the fourth quarter

China - Real GDP Growth (% YoY)

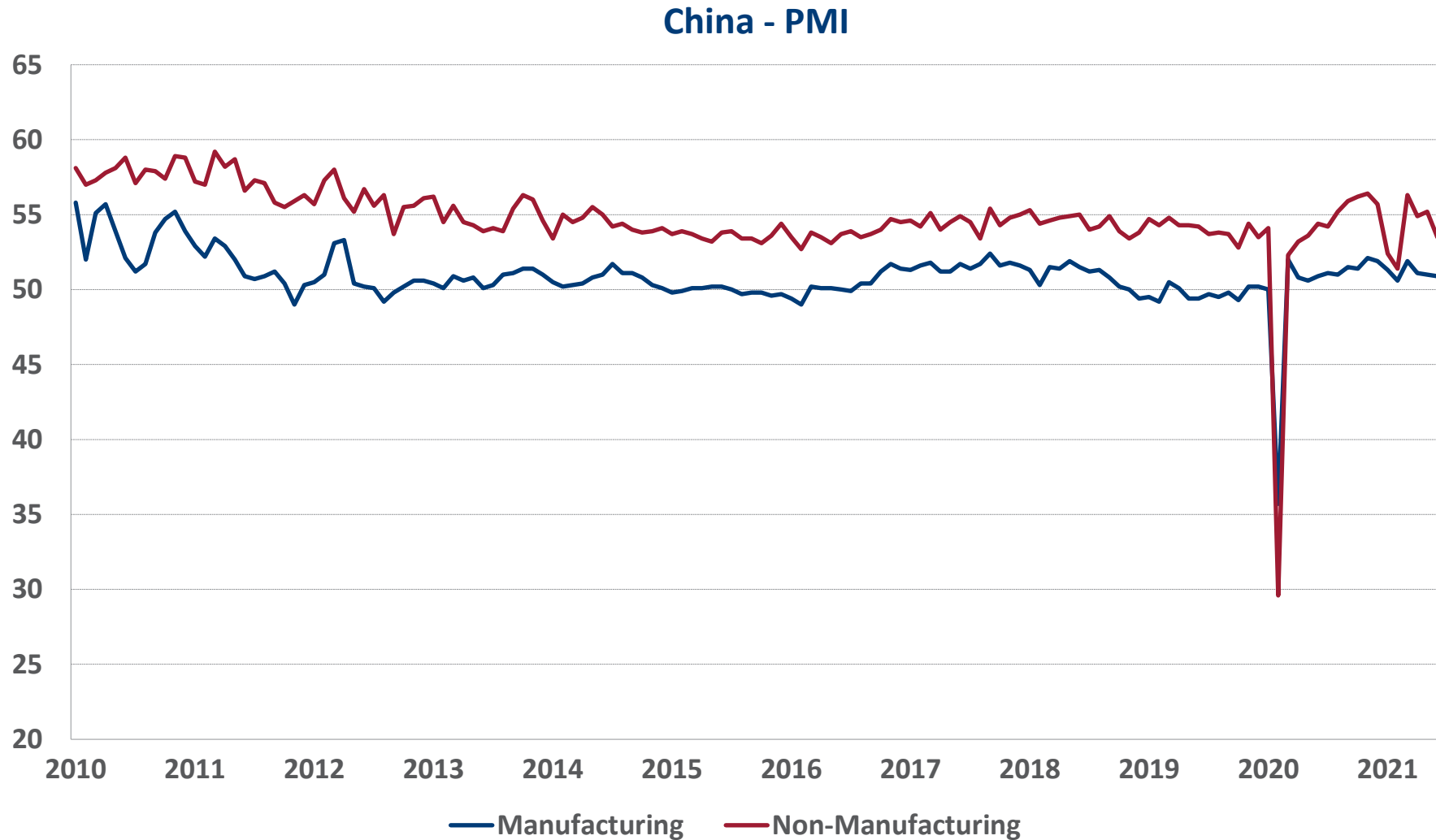


China - GDP, Yearly growth



# China: PMI

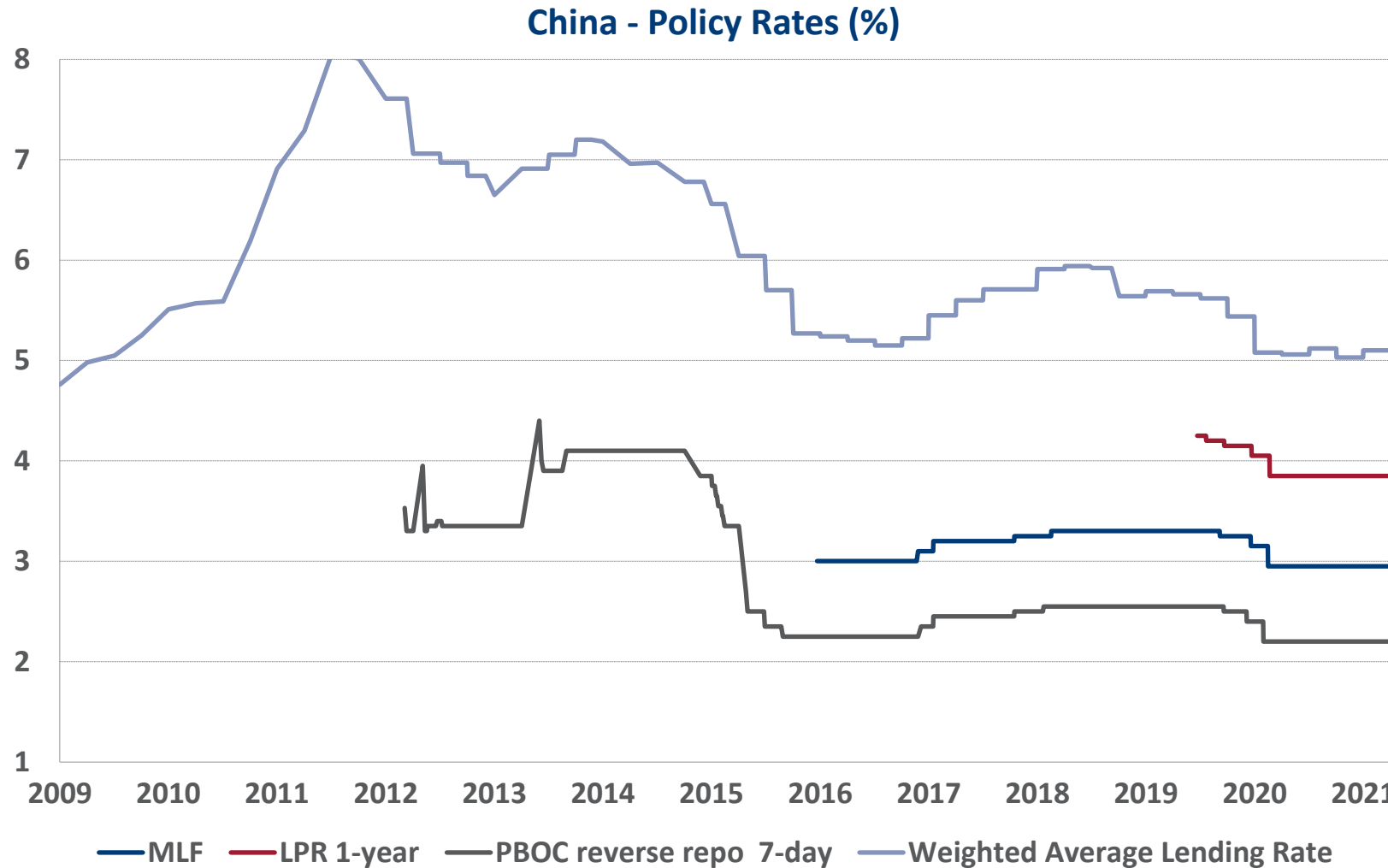
» But PMIs suggest a slowdown in June





# China: Monetary Policy

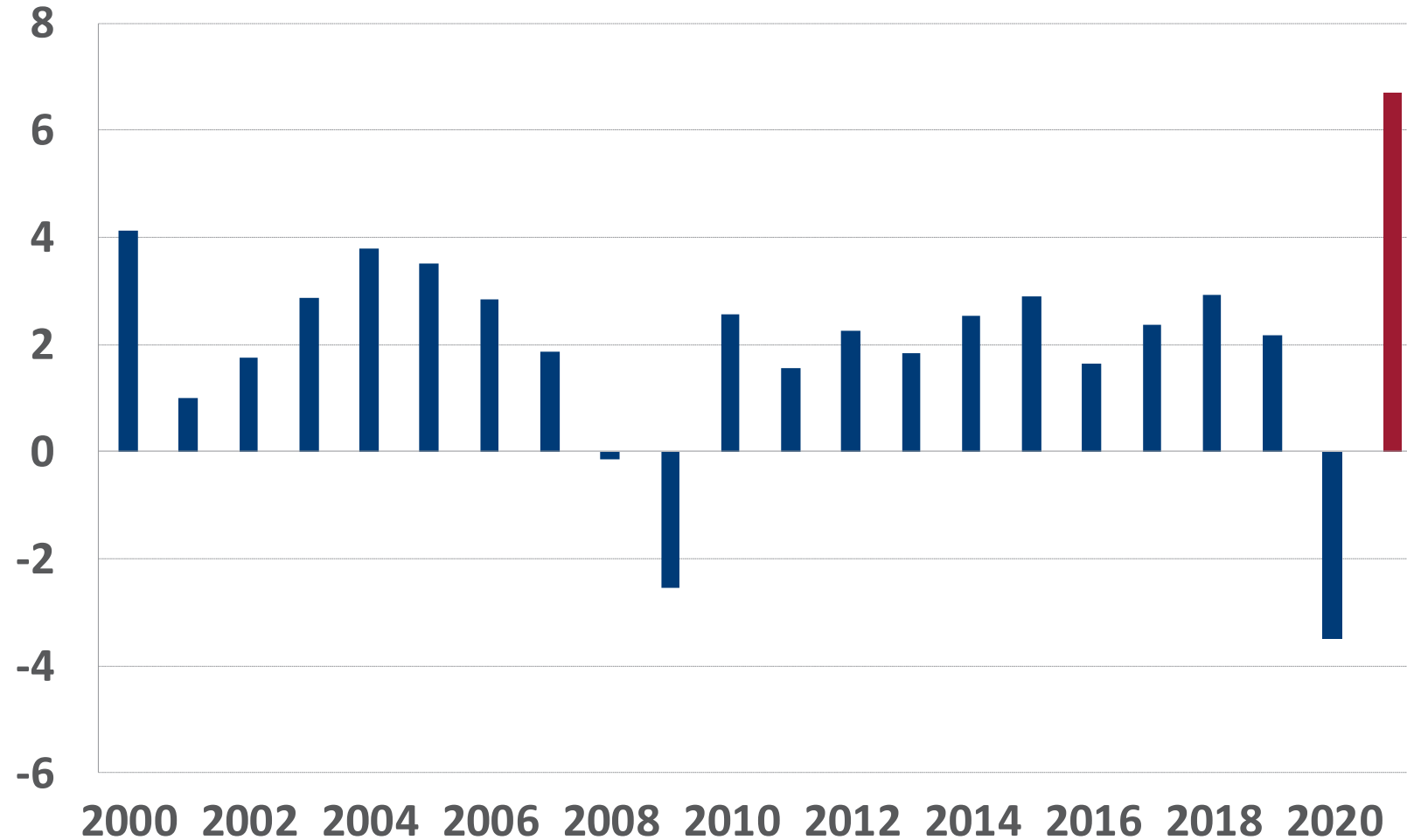
» Monetary policy will remain “prudent, precise and flexible” in 2021; no rate hikes in sight



# US: 2021 Outlook

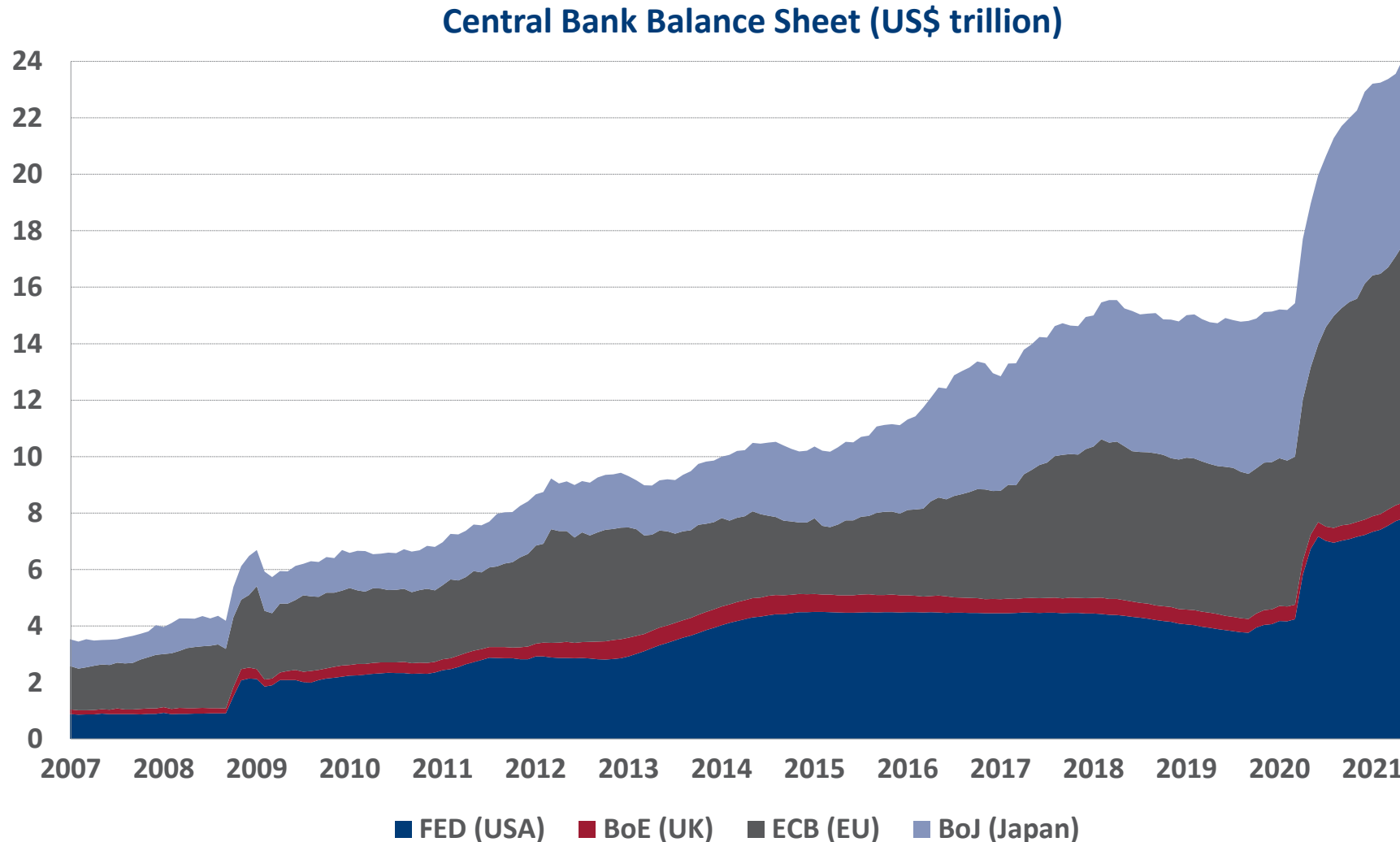
- » On the back of the reopening process and the effects of increased spending, the US GDP growth should pick up this year

USA - Gross Domestic Product (% Growth)

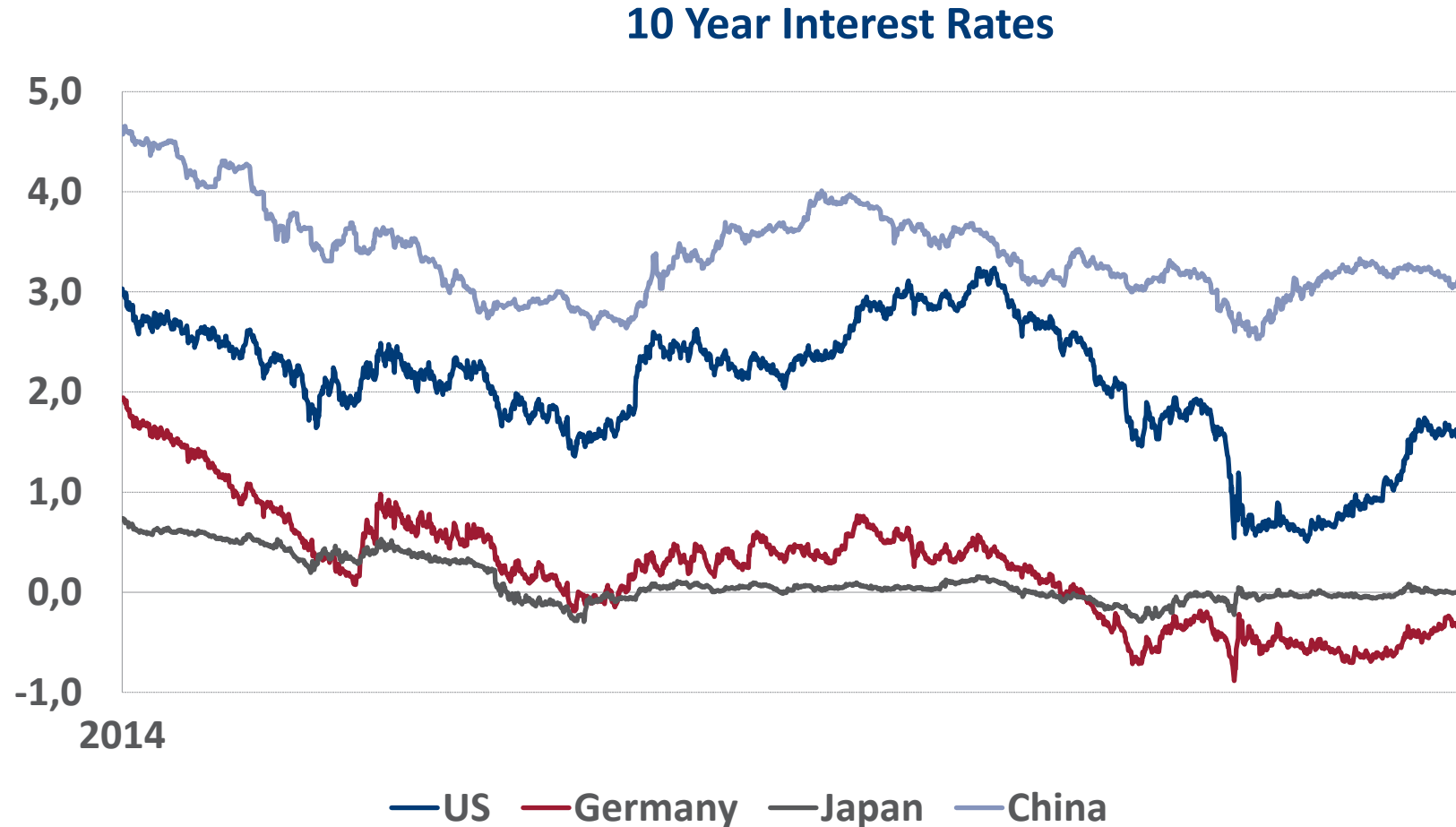


# Global: Monetary Expansion

- » Balance of G10 Central Banks will continue expanding in 2021, sustaining the elevated global liquidity environment



- » Long term interest rates rose on the back of higher activity growth and inflation, but have been stable in recent months



# Global: Negative Interest Rates

» In line with the interest rate, the volume of negative yielding sovereign debt has also remained stable

Global Negative Yielding Debt, Market Value (US\$ Trillion)



# Brazil: Forecasts

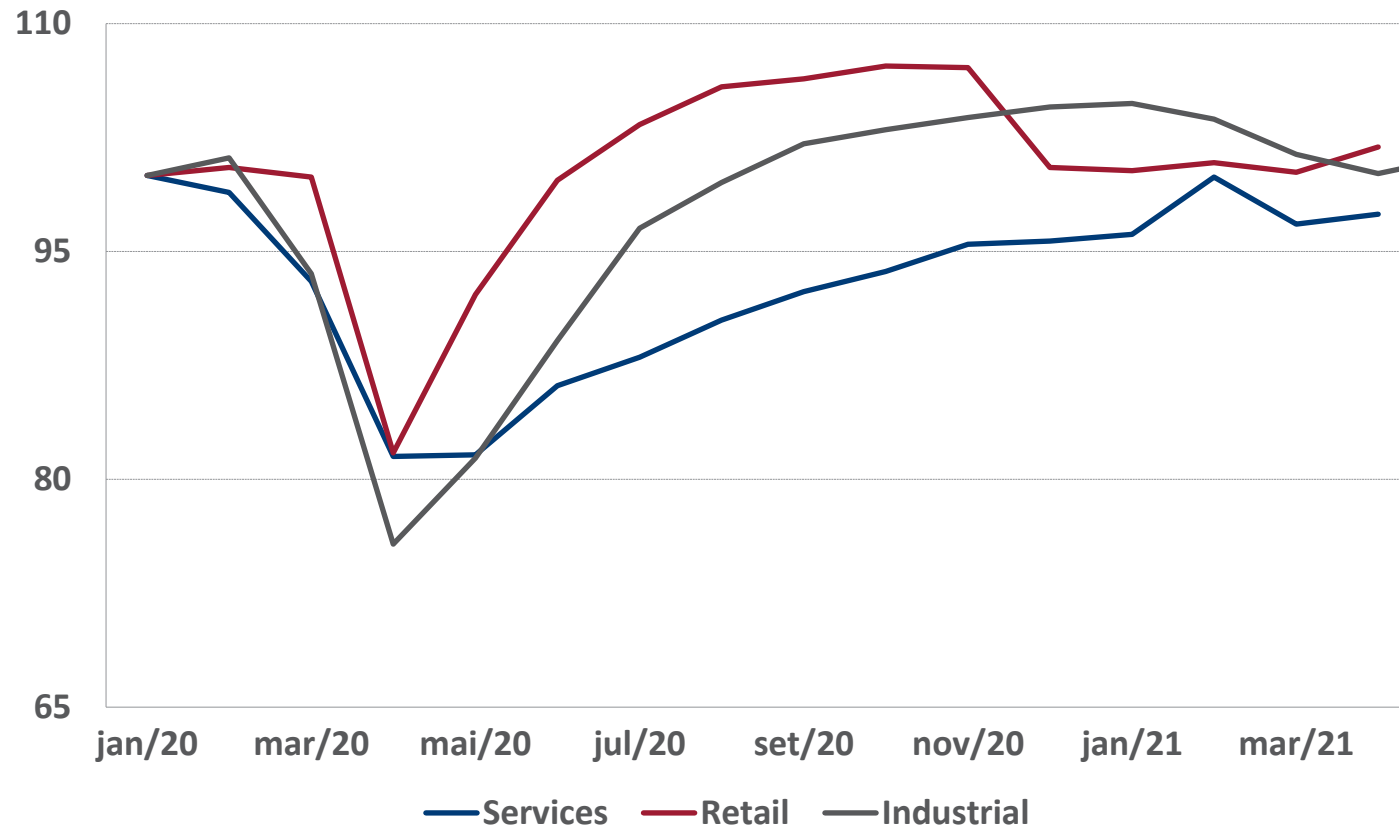
ECONOMIC FORECASTS	2016	2017	2018	2019	2020	2021F	2022F
GDP Growth (%)	-3,3%	1,3%	1,3%	1,1%	-4,1%	5,3%	2,2%
Inflation (%)	6,3%	2,9%	3,7%	4,3%	4,5%	6,1%	3,9%
Unemployment Rate, SA (eoy ,%)	12,6%	12,4%	12,2%	11,7%	13,9%	13,0%	13,0%
Policy Rate (eoy, %)	13,8%	7,0%	6,5%	4,5%	2,0%	6,5%	6,5%
External Accounts							
Trade Balance (US\$ bn)	48	67	53	48	51	70	46
Current Account Balance (US\$ bn)	-23	-10	-42	-51	-13	3	-15
Current Account Balance (% of GDP)	-1,3%	-0,7%	-2,2%	-2,8%	-0,9%	0,2%	-0,9%
Fiscal Policy							
Fiscal Primary Balance (% of GDP)	-2,5%	-1,7%	-1,7%	-1,2%	-10,0%	-2,3%	-1,2%
Government Gross Debt (% of GDP)	69,4%	73,7%	75,3%	74,3%	88,8%	82,6%	83,3%



# Brazil: Activity

» After the slowdown in activity in March, the economy grew again in April

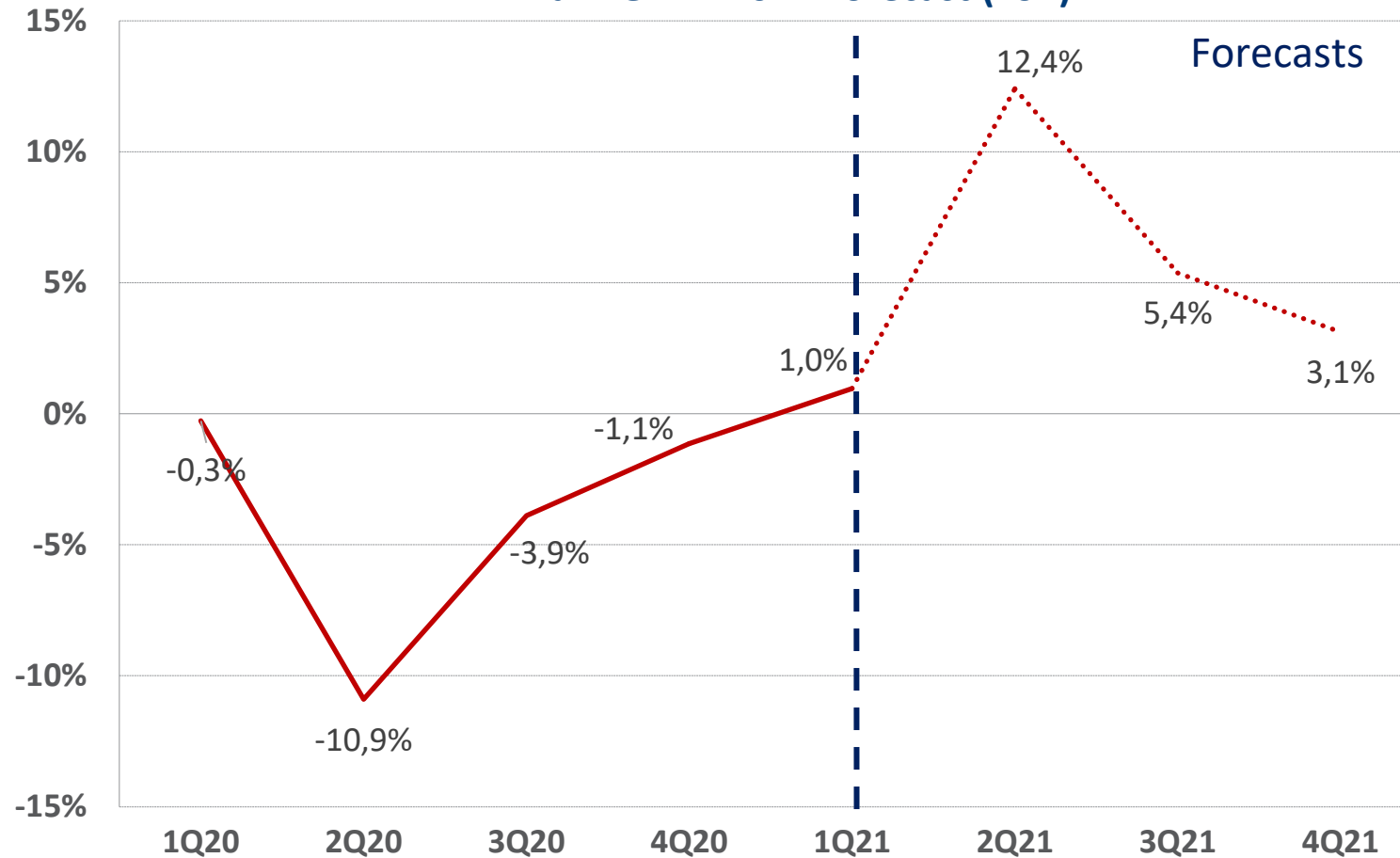
**Brazil - Retail Sales x Industrial Production x Services Sector  
Index (Jan 2020 = 100)**



# Brazil: Activity

- » We are forecast a GDP growth of 5.3% for 2021
- » Economic recovery has been heterogeneous, but we expect the reopening of the economy will allow a consistent recovery in the service sector in the second half of the year

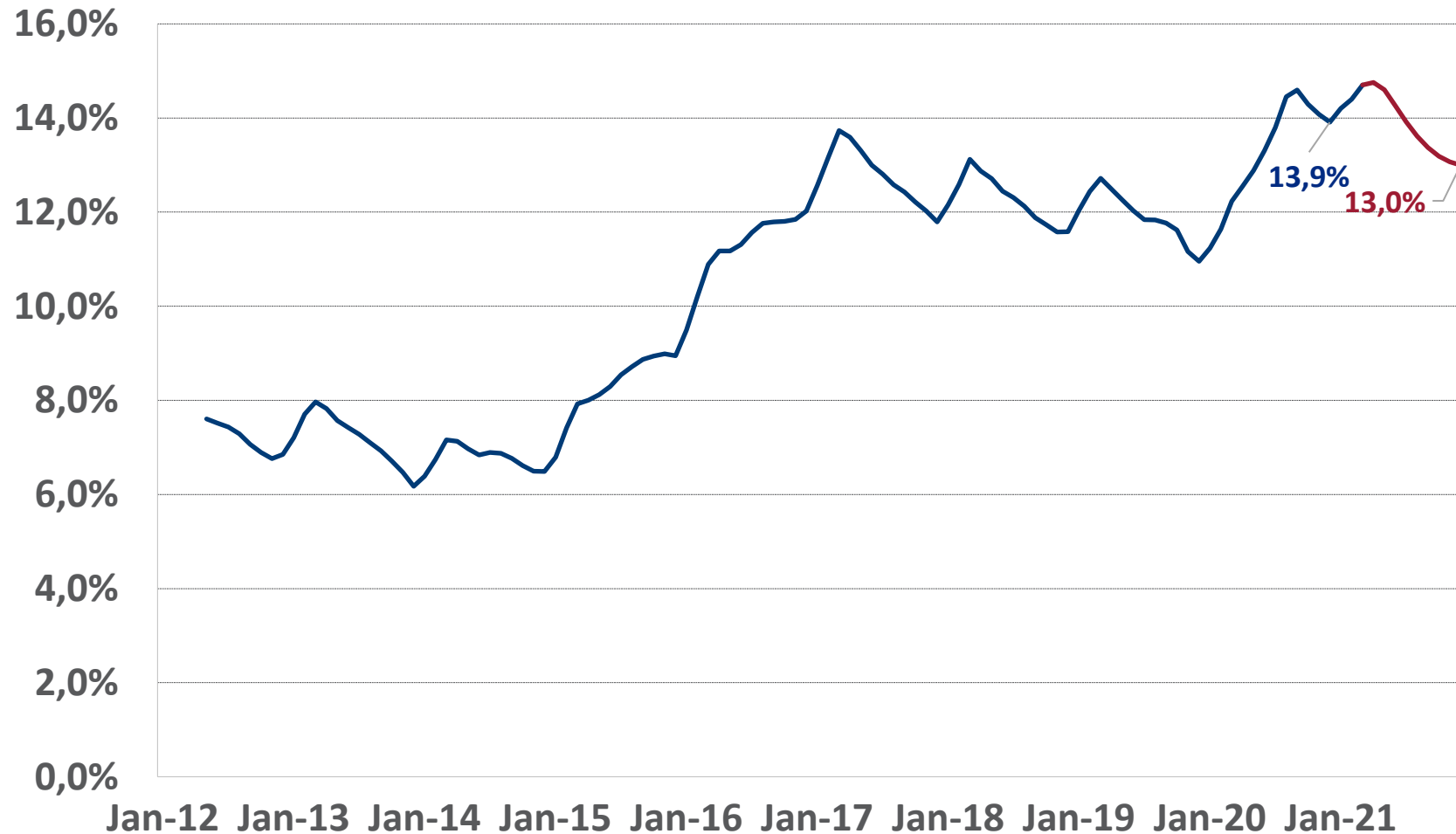
**Brazil GDP - 2021 Forecast (YoY)**



# Brazil: Labor Market

» The unemployment rate remains elevated, but will decrease throughout 2021 as the service sector recovers

Brazil - Unemployment Rate (% , SA)



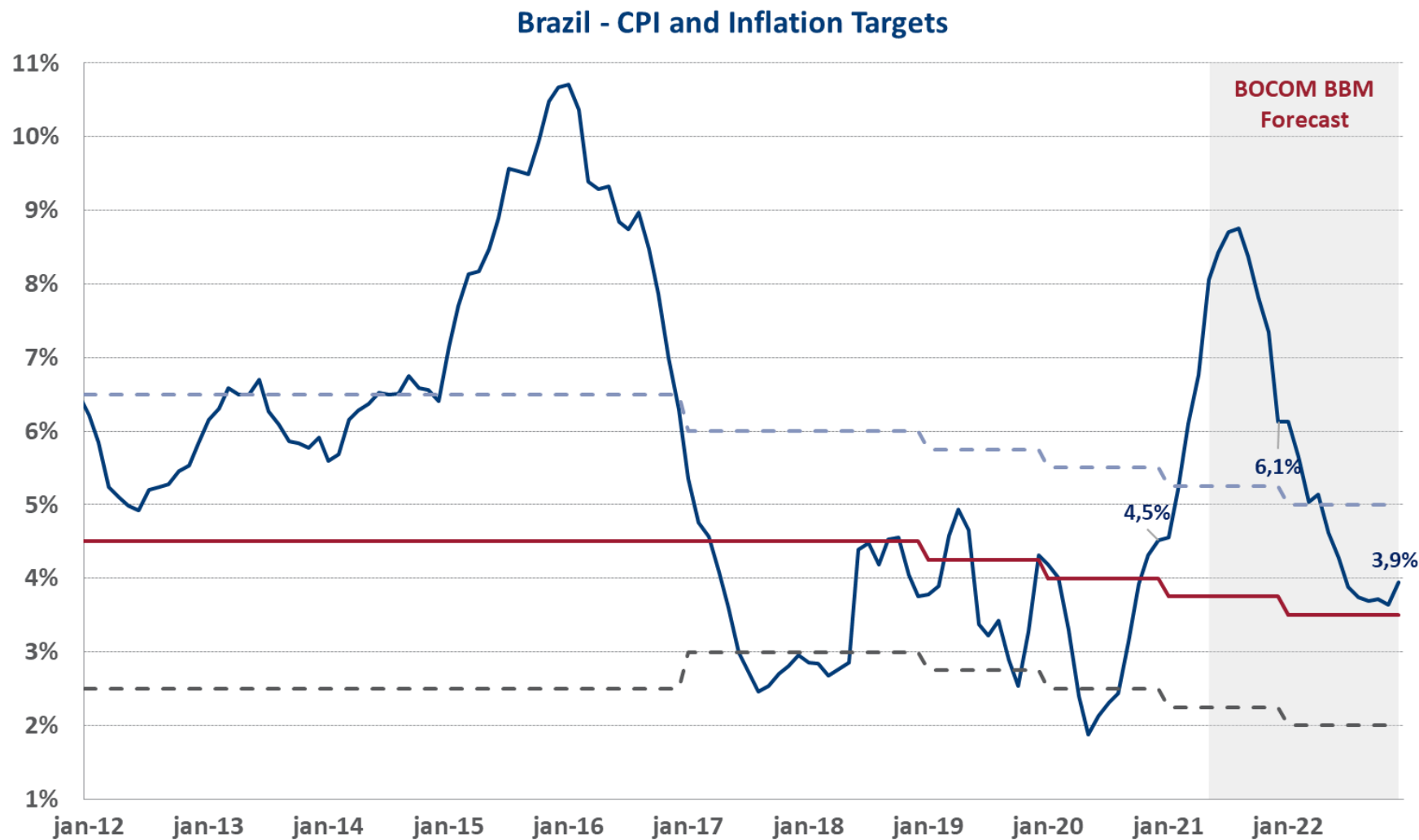
# Brazil: Inflation

- » Stronger services inflation and new electric energy flag tariffs are adding pressure to 2021 CPI
- » Inflation in 2021 to reach 8,8% in August

Baseline Scenario (YoY)						
	IPCA	Regulated	Non-Regulated	Services	Food-at-Home	Industrial Products
19 Q4	4,3%	5,5%	3,9%	3,5%	7,8%	1,7%
20 Q1	3,3%	4,8%	2,9%	3,1%	5,1%	1,2%
20 Q2	2,1%	2,6%	2,8%	2,1%	9,0%	0,2%
20 Q3	3,1%	2,1%	3,8%	1,1%	15,4%	1,3%
20 Q4	4,5%	2,6%	5,5%	1,7%	18,2%	3,2%
21 Q1	6,1%	7,0%	6,1%	1,6%	17,6%	5,5%
21 Q2	8,4%	13,3%	7,0%	2,3%	15,1%	8,8%
21 Q3	8,4%	13,2%	6,8%	3,8%	10,9%	8,6%
21 Q4	6,1%	9,5%	5,0%	3,3%	6,9%	6,3%
22 Q1	5,0%	5,4%	4,9%	4,2%	7,4%	4,5%
22 Q2	4,3%	3,5%	4,6%	4,8%	7,4%	2,4%
22 Q3	3,7%	2,6%	4,1%	4,6%	6,5%	1,7%
22 Q4	3,9%	4,3%	3,8%	4,5%	5,1%	2,0%

# Brazil: Inflation

» Inflation forecast revised to 6.1% in 2021, above the target's upper limit



- » Inflation forecast is at 6.1%, principal factors accountable for the cpi above upper limit are:
  1. Cost inflation passthrough to industrial goods
  2. Resilient activity implying a stronger recovery of the service sector
  3. Additional pressure from regulated prices with red 1 flag at December and risk of red 2
- » A downward risk, however, is the readjustment of health plans which could be negative in 2021
- » Possible red 2 flag in December 2021 is a downward risk for 2022 CPI



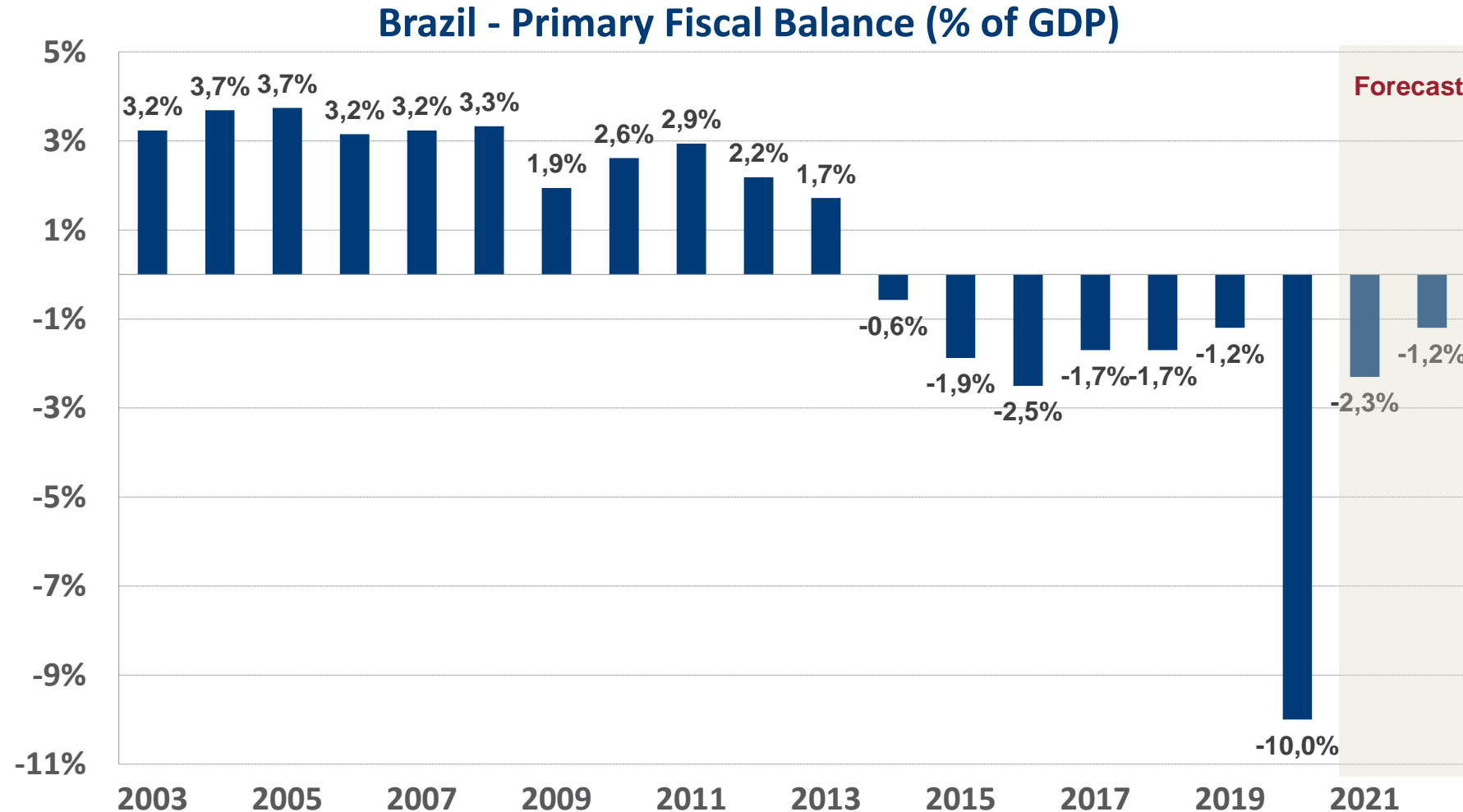
# BRAZIL: MONETARY POLICY

- » We revised our Selic rate projection to 6.5% at the end of 2021 with the cycle's end in December
- » The pace of increase will be kept at 0.75% in the next two meetings, followed by one hike of 0.5% and another of 0.25%

Brazil - CPI, Selic Rate and Real Ex-post Interest Rate

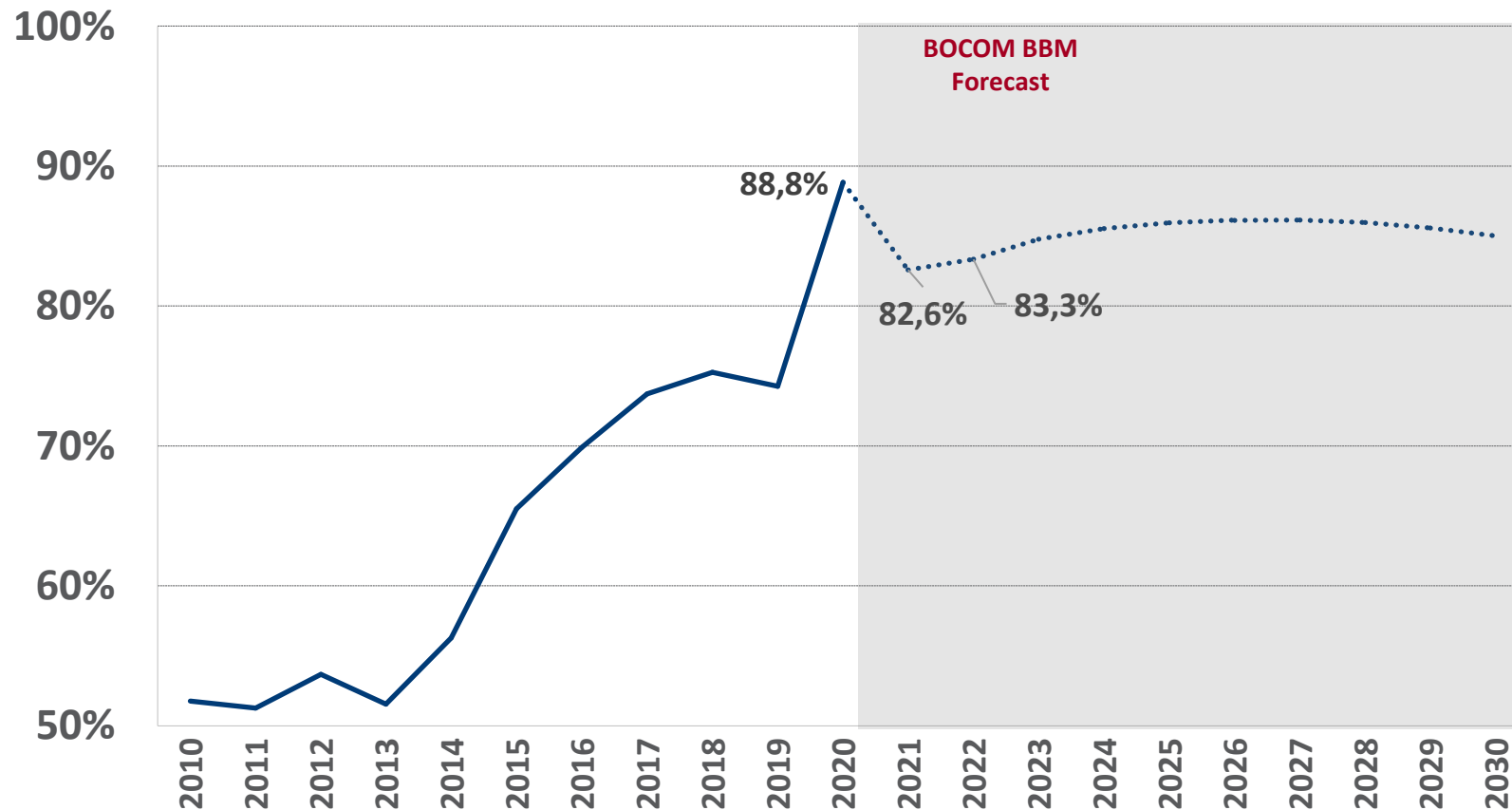


- » Measures to mitigate economic impacts from the pandemic elevated the primary deficit in 2020
- » With stronger growth in tax collection, the primary deficit should return to 2,3% of GDP in 2021



- » Fiscal measures to mitigate economic fallout will result in a sharp rise in the Debt/GDP ratio
- » The smaller fiscal deficit, but also a higher GDP deflator, will decrease the debt-to-GDP ratio this year
- » But it is important to continue pursuing fiscal consolidation to reduce the elevated public debt

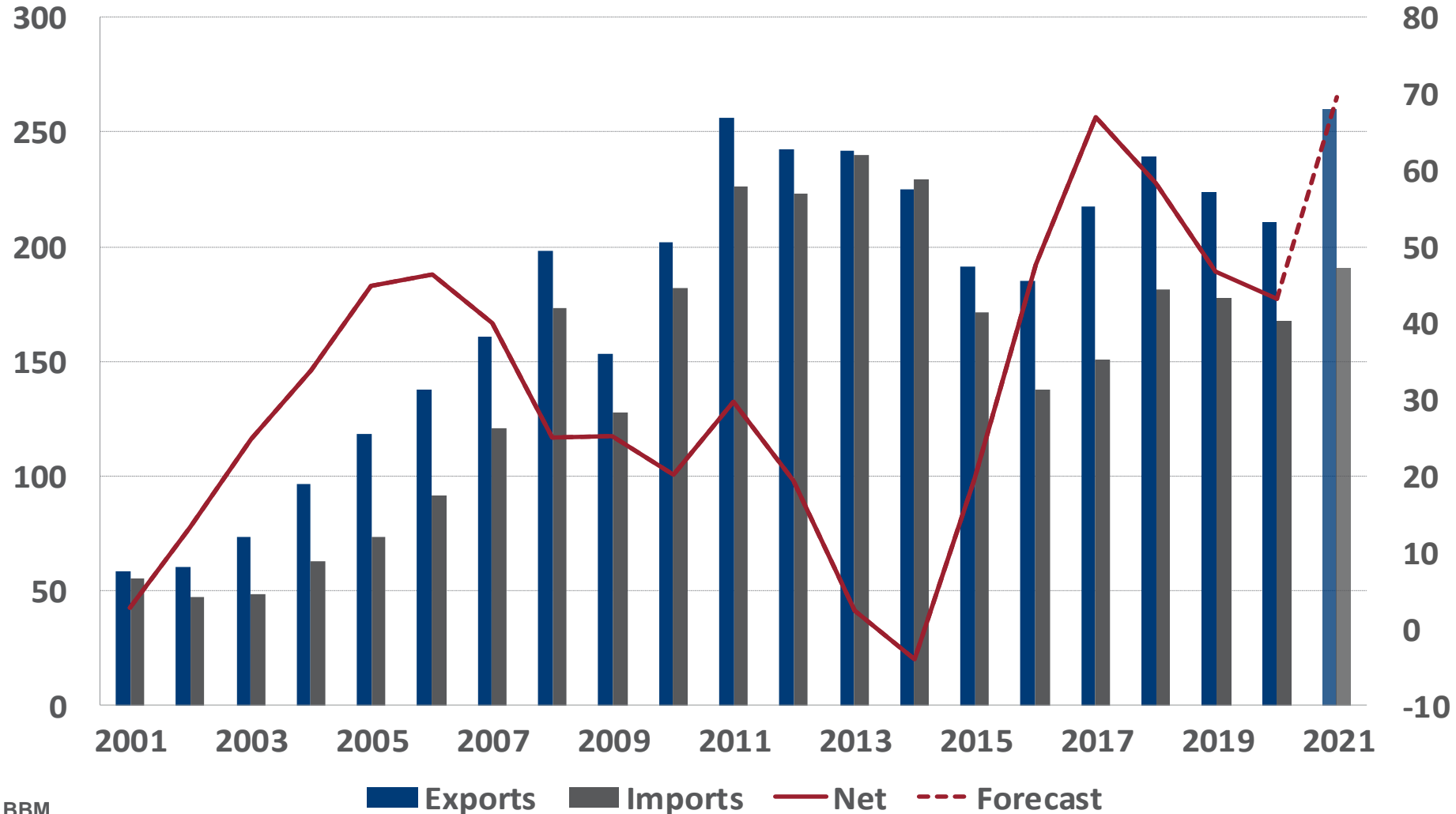
## Brazil - Gross Public Debt-to-GDP



# Brazil: Trade Balance

» In June, the trade balance registered the largest monthly surplus in the series

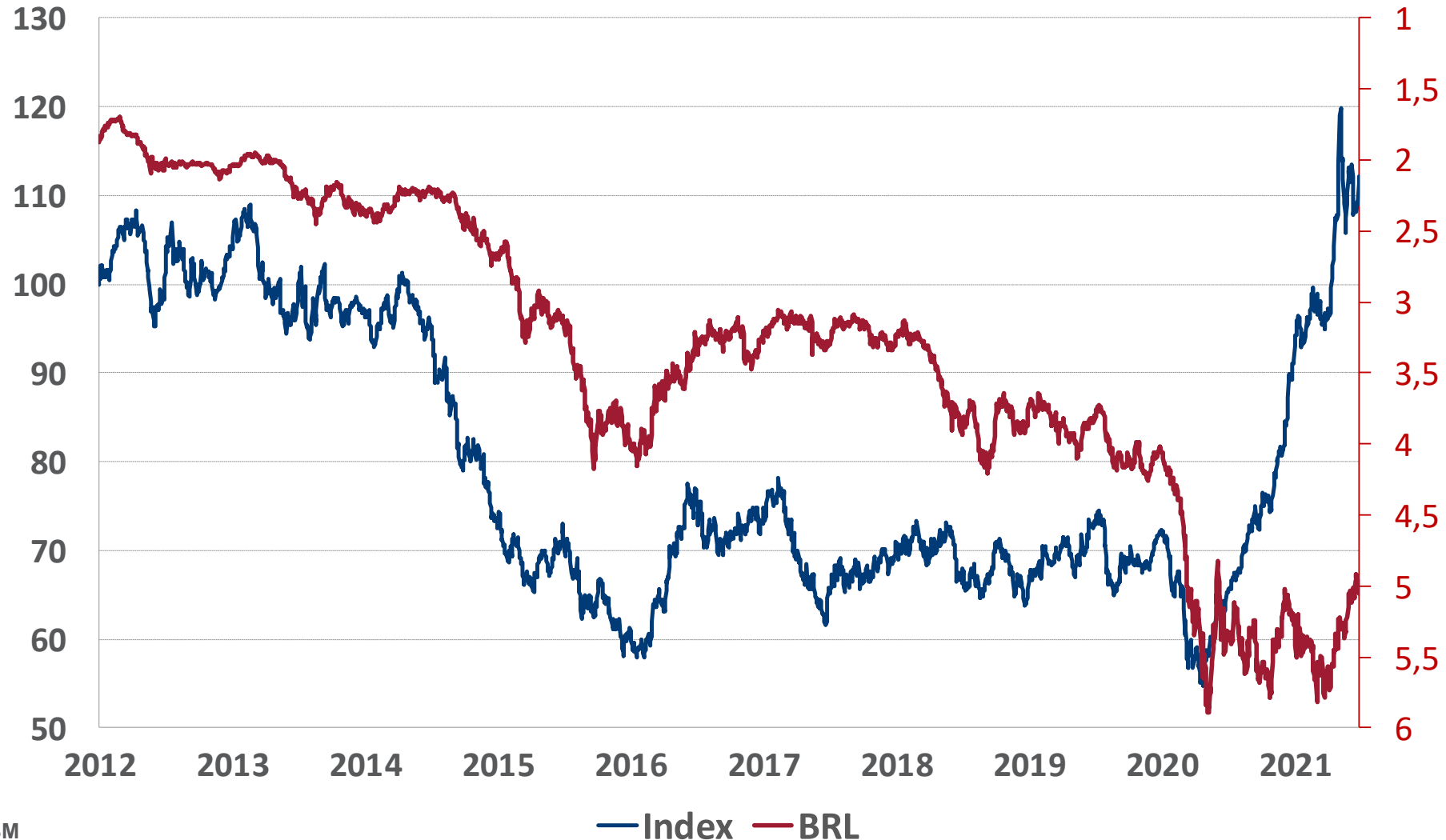
Brazil - Trade Balance (US\$ Bi - 12m)



# Brazil: Trade Balance

» BRL appreciated in June and commodities prices suggest that it still has space to further appreciate

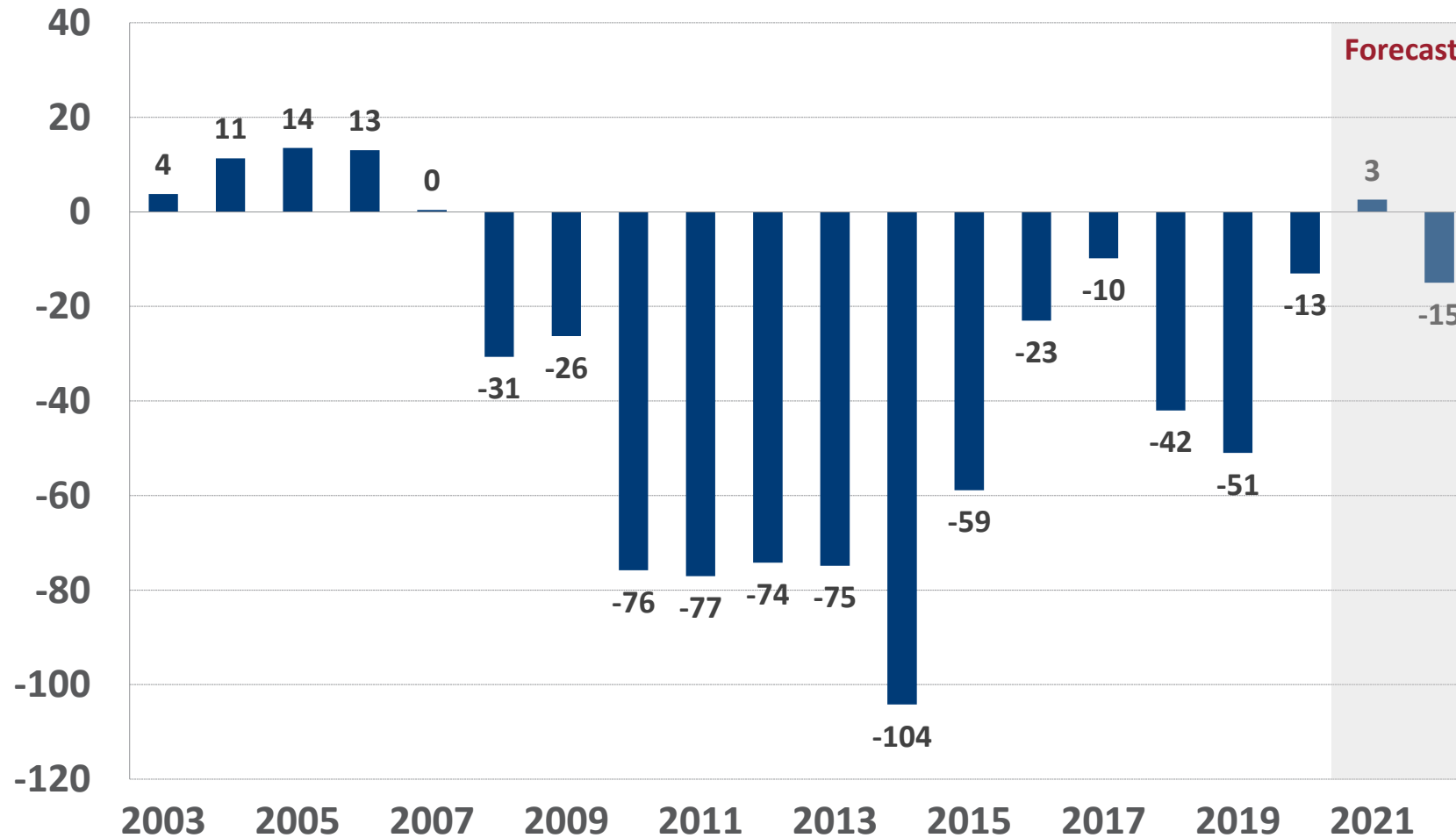
Brazil - Commodity Index vs BRL



# Brazil: Balance of Payments

» The trade balance is causing an improvement of the 2021 current account

Current Account Balance - USD Billion





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