



MACRO OUTLOOK

Cecilia Machado
Chief Economist

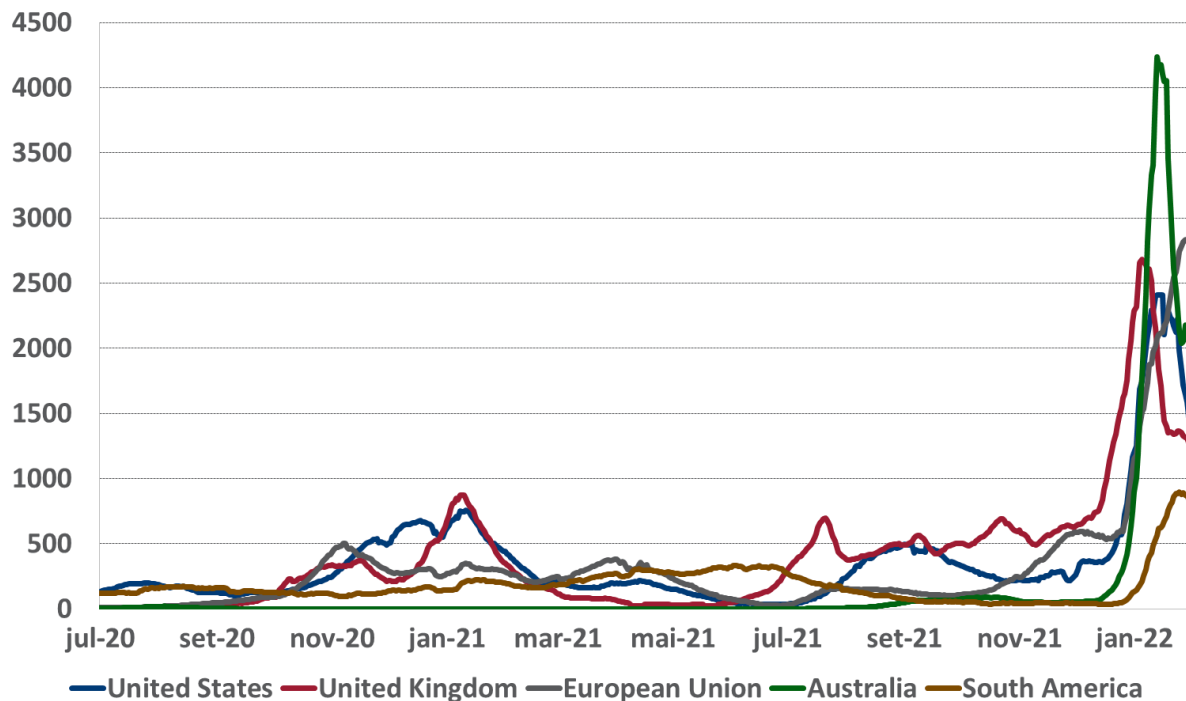
February 2022

- » The Omicron variant continue to spread over the world as several countries registered increase in number of cases and deaths. In Brazil, with the normalization of Ministry of Health's data system, the number of people infected in its moving average is breaking records;
- » Recent activity data showed a recovery at the margin, with growth registered in the goods and services sector. However, sectorial confidence indicators already indicate a loss of dynamism in the coming months;
- » We maintain our GDP forecast to 4.4% in 2021 and revised down to 0.3% in 2022 due to interest rate hike cycle and considering the electoral uncertainty. In 2023, we expect a 1.7% growth;
- » Our inflation forecast is at 5.8% in 2022 due to the inertia of service inflation. In 2023, our projection is at 3.3%;
- » Our Selic rate projection was revised to 12.25% at the end of 2022 and to 8.0% at the end of 2023;
- » Once again, December's fiscal result contributed positively to the fiscal result for the year, including a public sector surplus for 2021;
- » The expectation is that this result will worsen in 2022 due to increased expenditures, consolidated with the approval of Court-ordered debt proposal, and the risk of reducing revenues, not only because of the lower growth expected for the year, but also by the emergence of proposals for tax cuts that can have a considerable impact on government revenue.

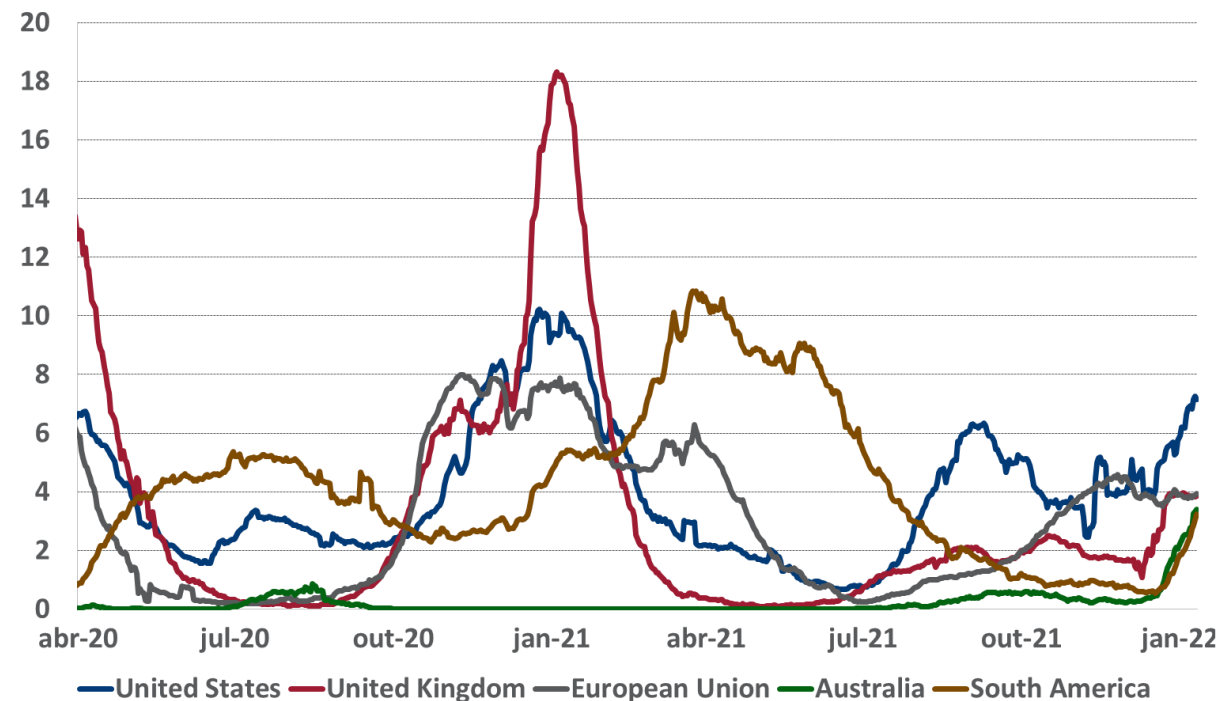
COVID-19 World - Omicron

- » The new variant has spread to several countries and dominated in new cases. In Europe, it is already possible to observe a reduction in the number of cases and loosening of Covid-19 restrictions;
- » Deaths had a modest increase in comparison to the number of infections.

Daily new cases per million people - 7DMA



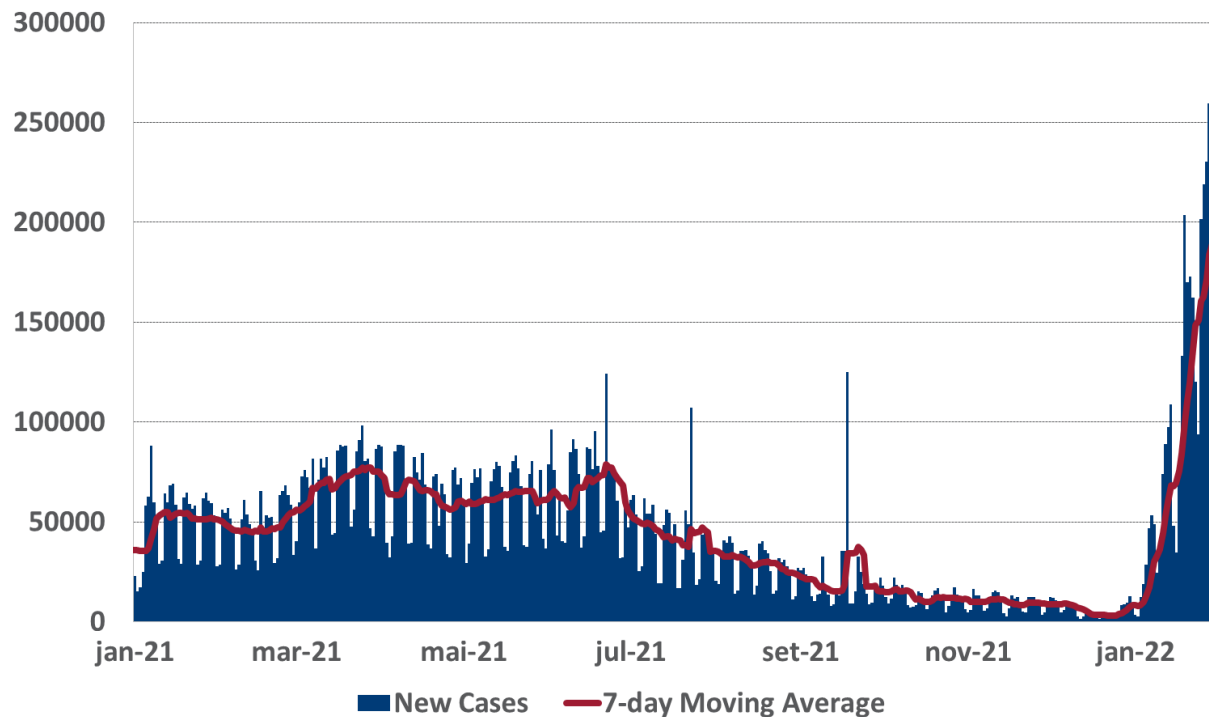
Daily new deaths per million people - 7DMA



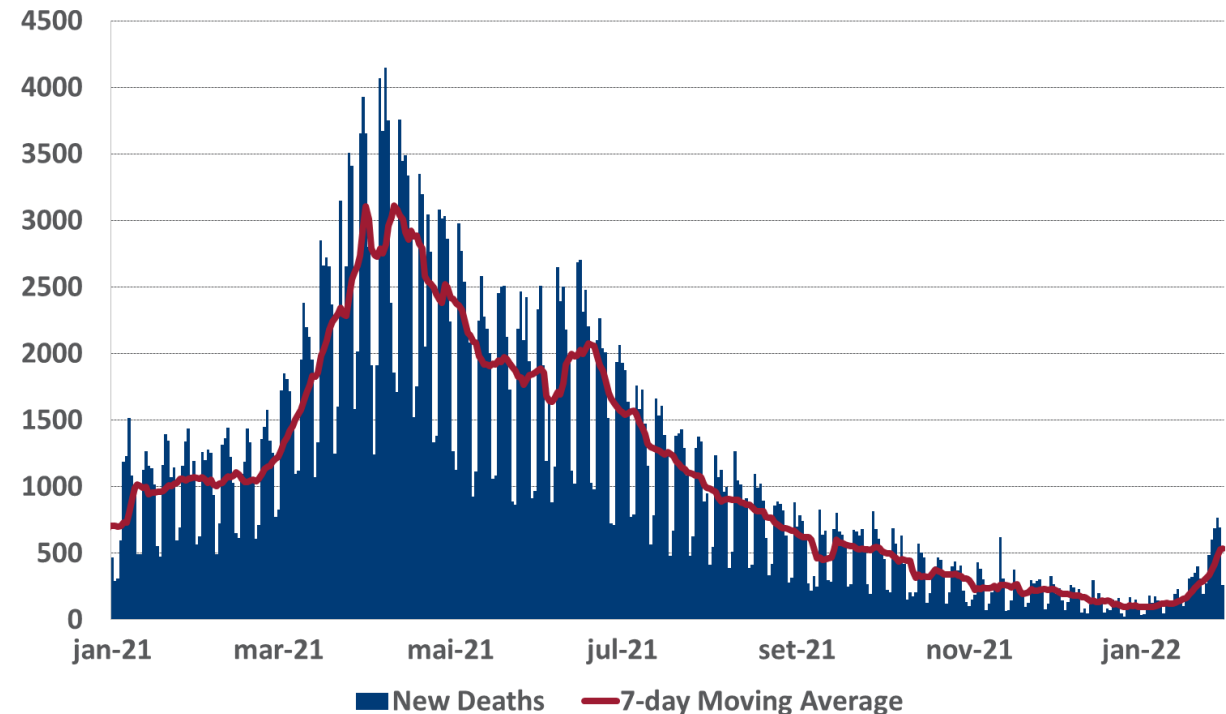
COVID-19 Brazil - Omicron

- » The Covid-19 pandemic in Brazil is registering record numbers of infections in its moving average, with the spread of the new Omicron variant, as presented by data from the Ministry of Health;
- » On the other hand, the number of deaths grows moderately, far below the cases.

Daily new cases - Brazil



Daily new deaths - Brazil



China: GDP

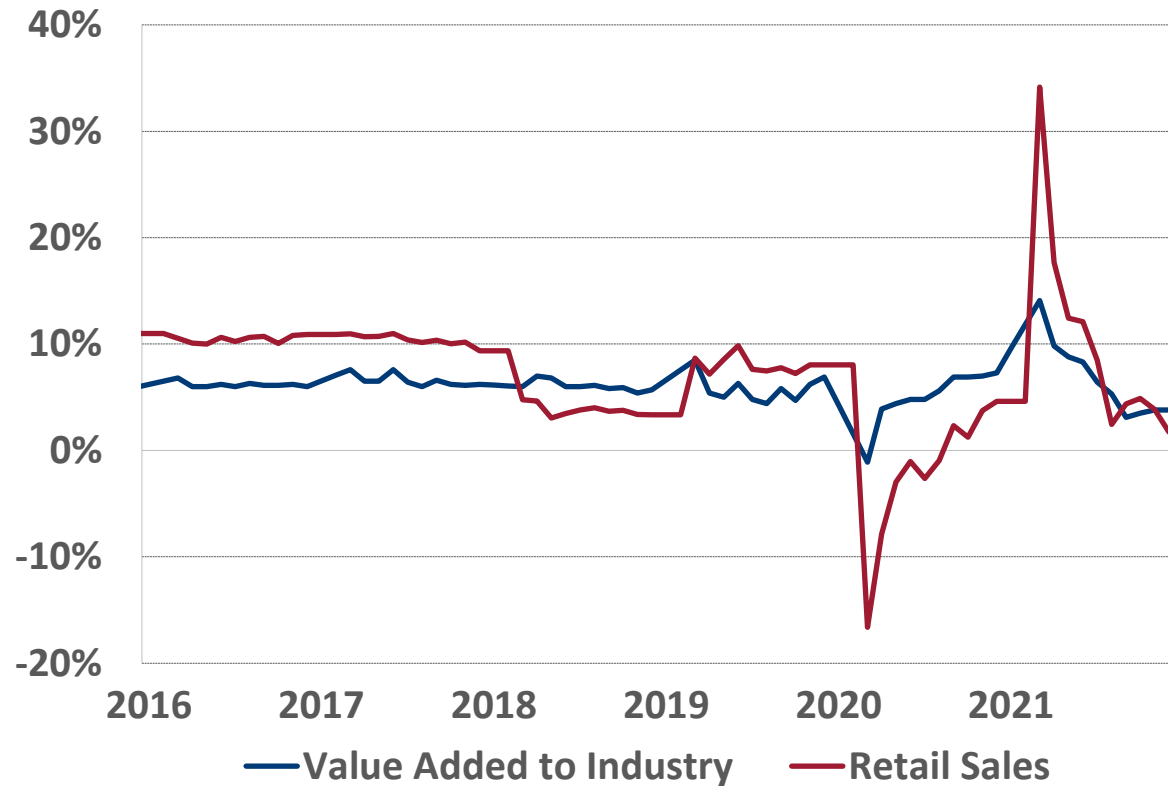
- » In 4Q21, Chinese GDP recorded a 4.0% YoY growth, decelerating from the previous reading, amid a weak real estate sector and tightening of zero-Covid policy which is affecting consumption.
- » Annual growth was 8.1% (above the 6% target) as industrial production steadily increased by the end of the year and offset the drop in retail sales.



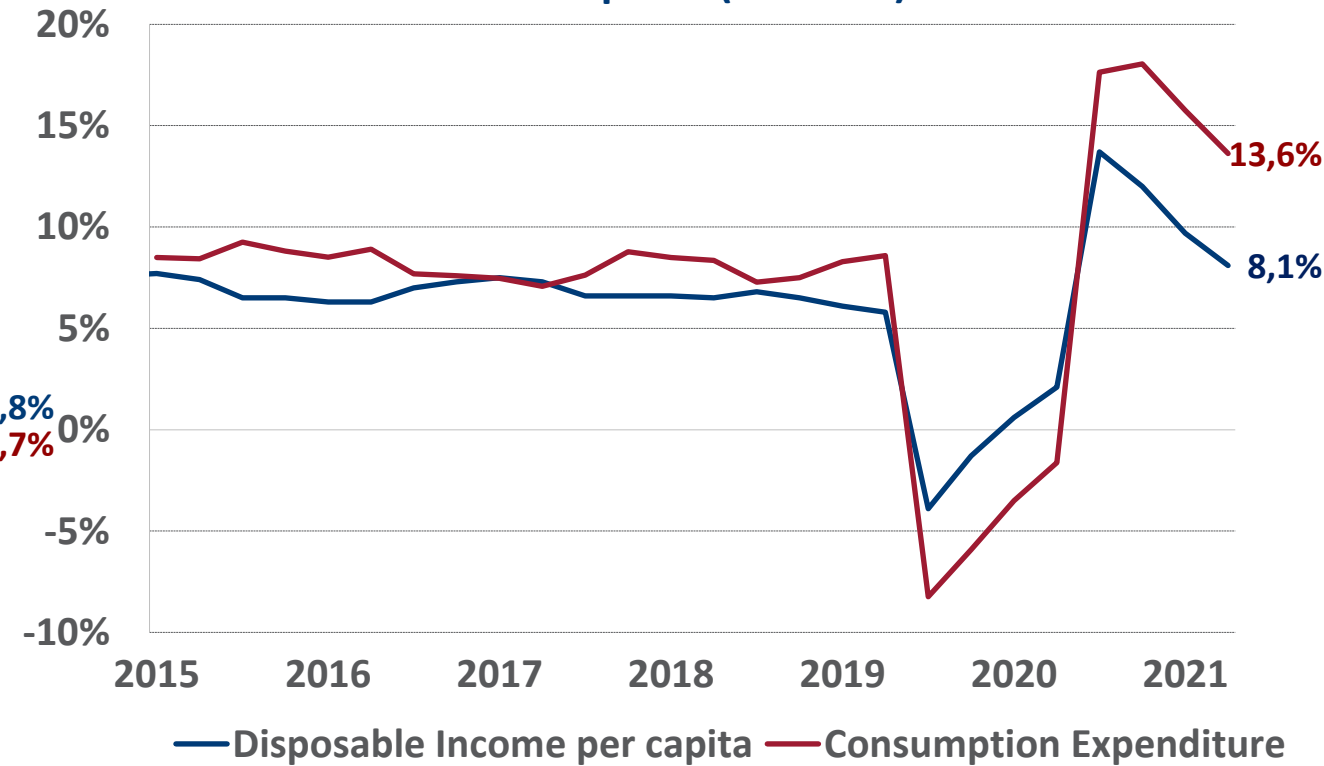
China: Activity

- » The industrial sector slightly recovered in 4Q21, reflecting government's policy against power crisis and chip shortages;
- » Retail sales was lower than expectations as Covid outbreaks and related control measures hit consumption especially by the end of the year.

China - Activity Data (YoY)



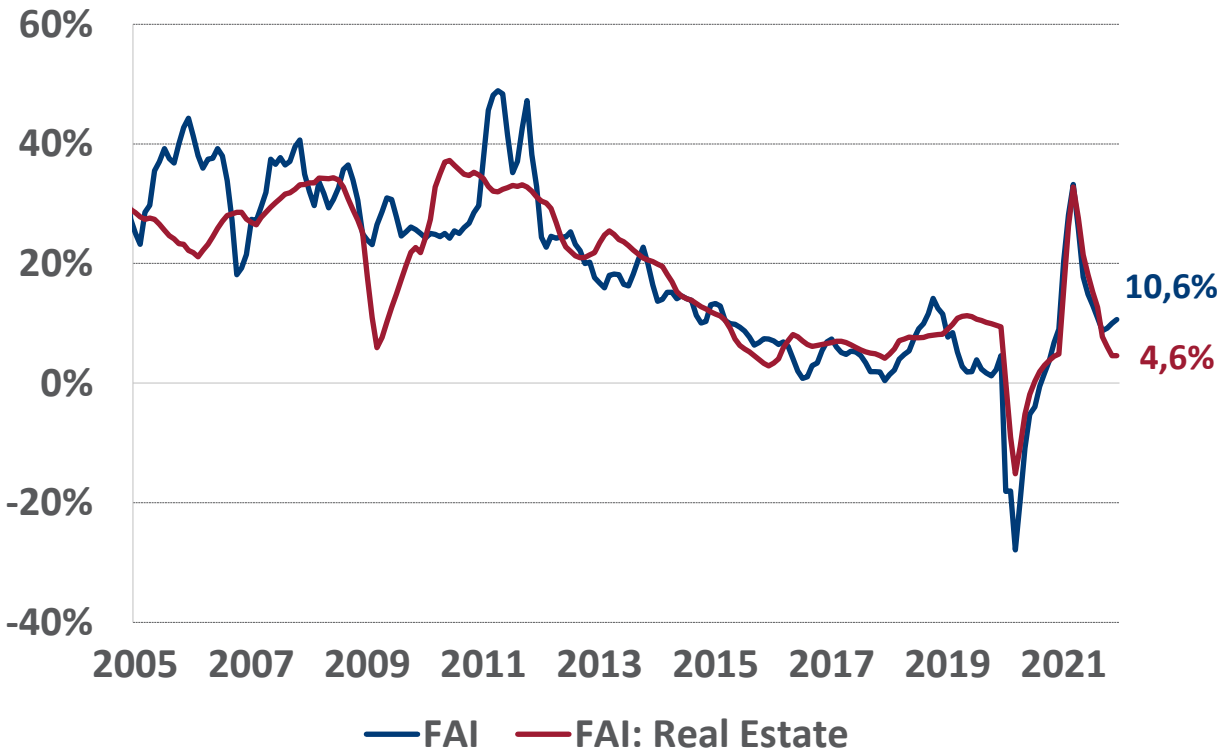
China - Quarterly Households Income and Consumption (YoY YTD)



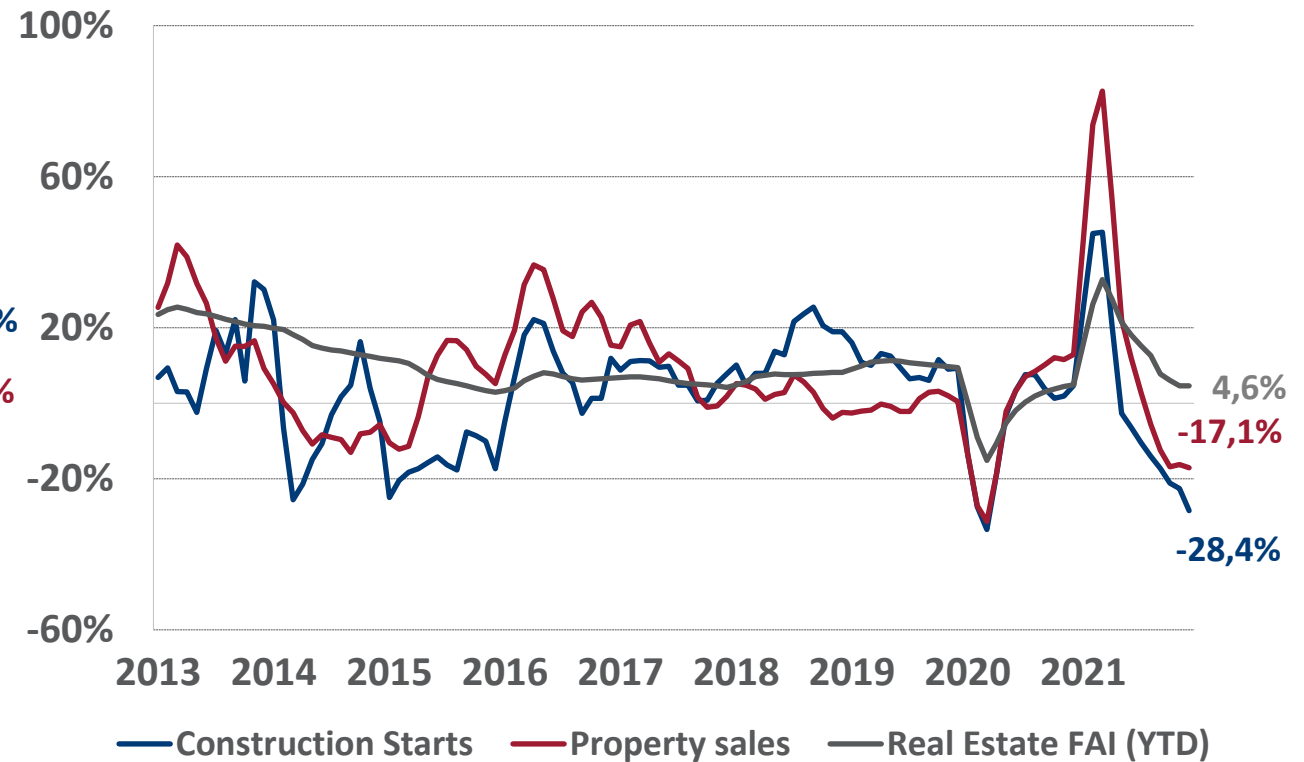
China: Activity

- » Fixed asset investment (FAI) rose 2.7% YoY in December as policymakers push an acceleration of major investment projects to support economic growth, but real estate investments and property sales data continued falling.

China - Fixed Asset Investment (3MMA YoY)



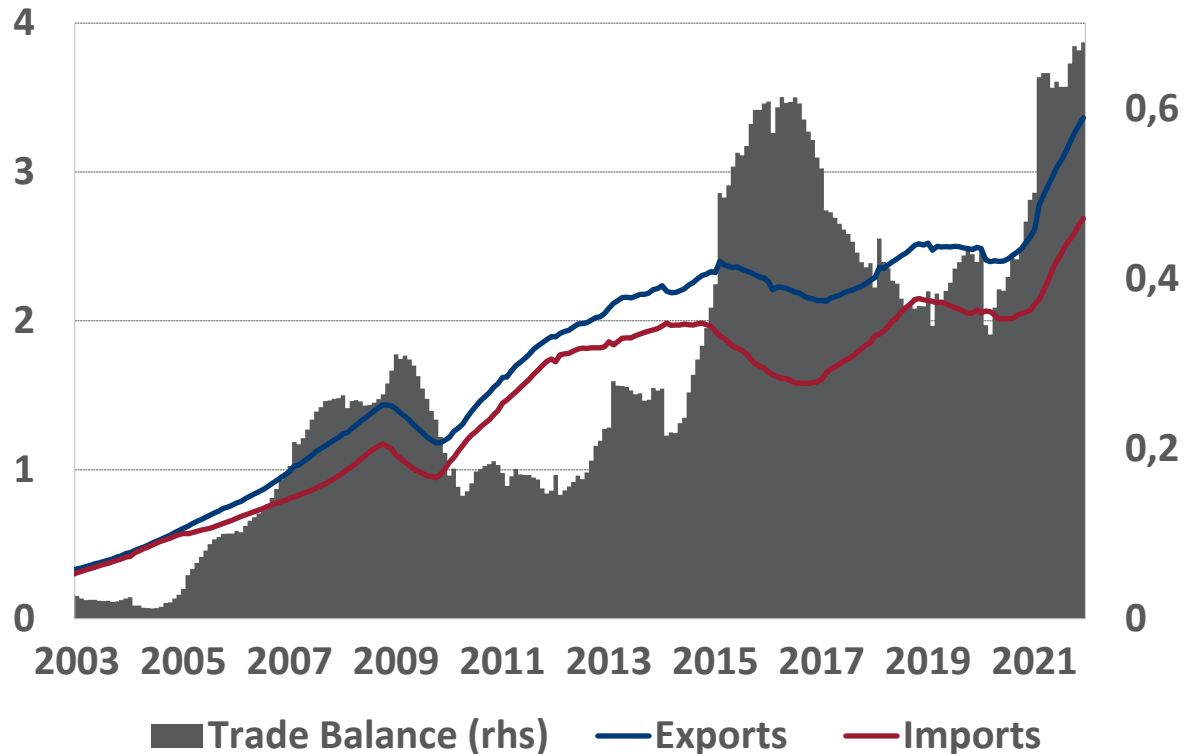
China - Real Estate Sector (3MMA YoY)



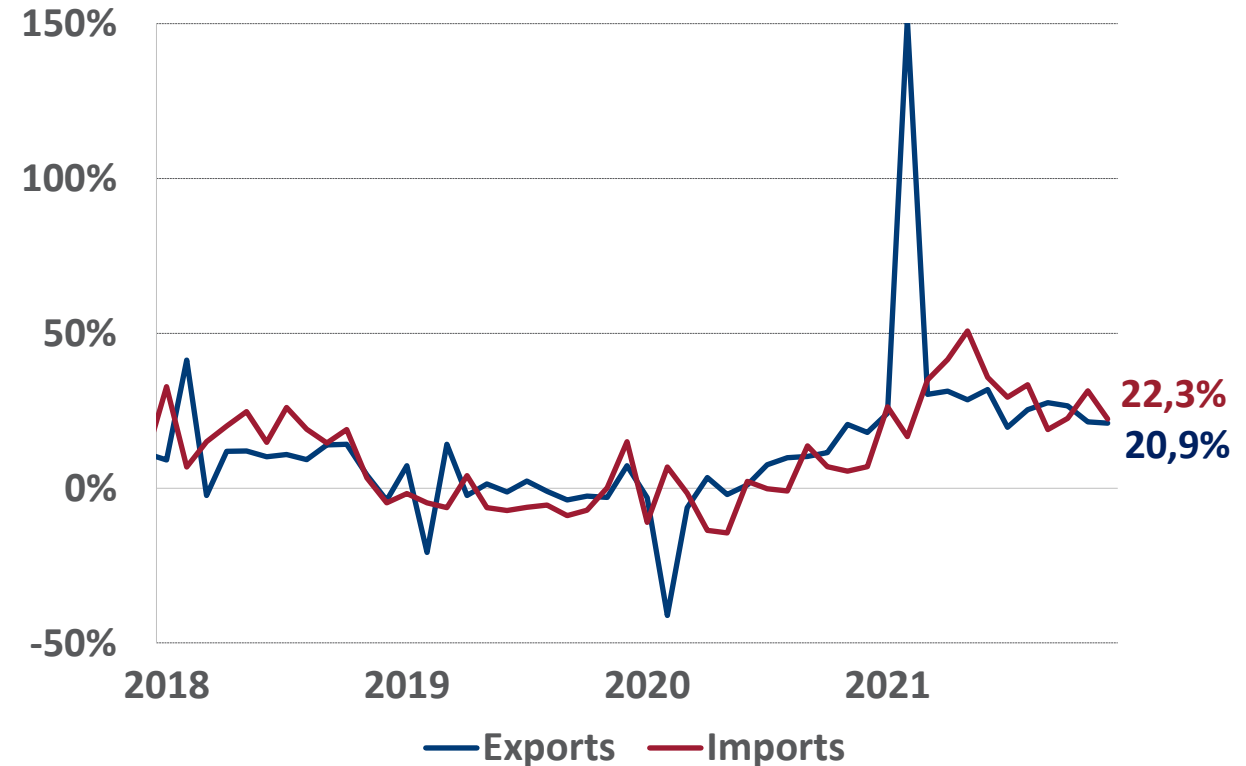
China: Trade Balance

- » Although domestic demand remained weak, external demand continues to support growth;
- » Exports hit records throughout 2021, but it is expected to slow growth in the coming months amid growing port disruptions.

China - Trade Balance SA (USD Trillion, 12MMA)



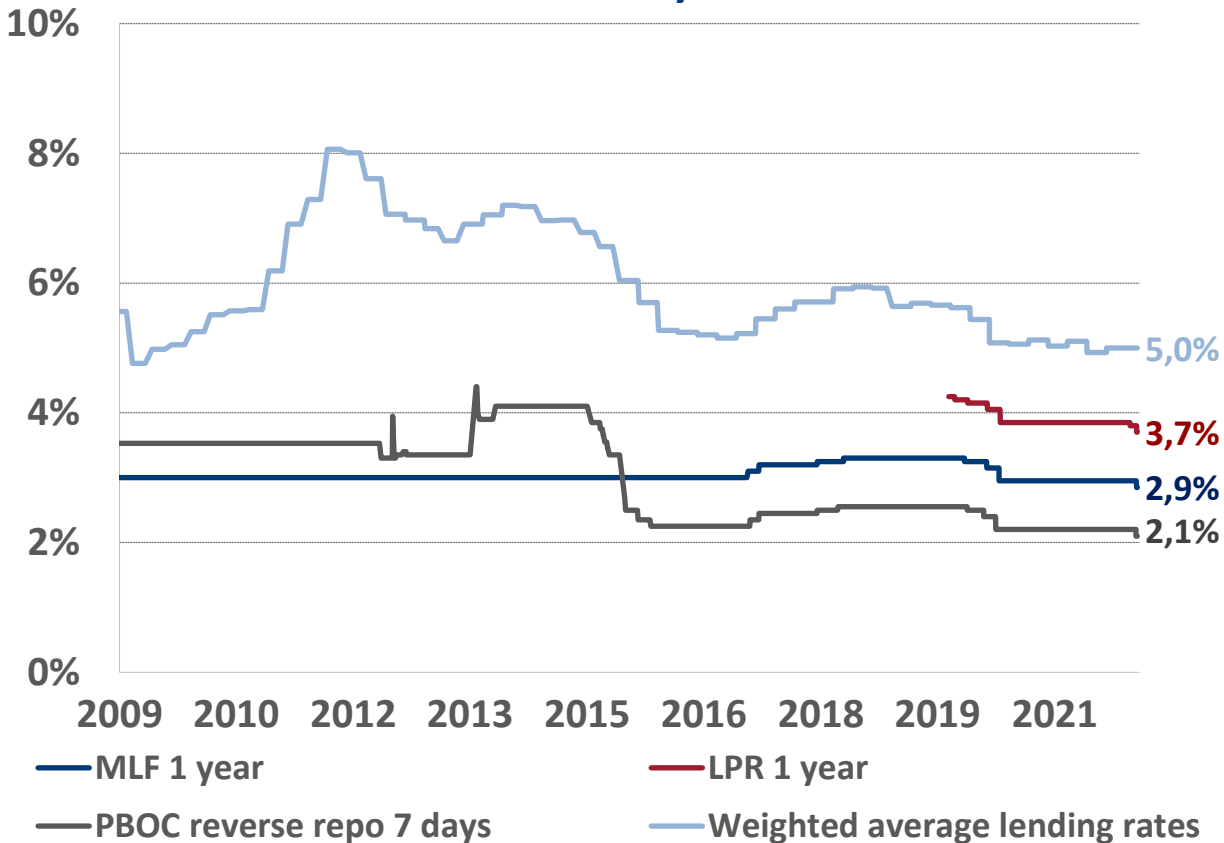
China - Trade Balance YoY



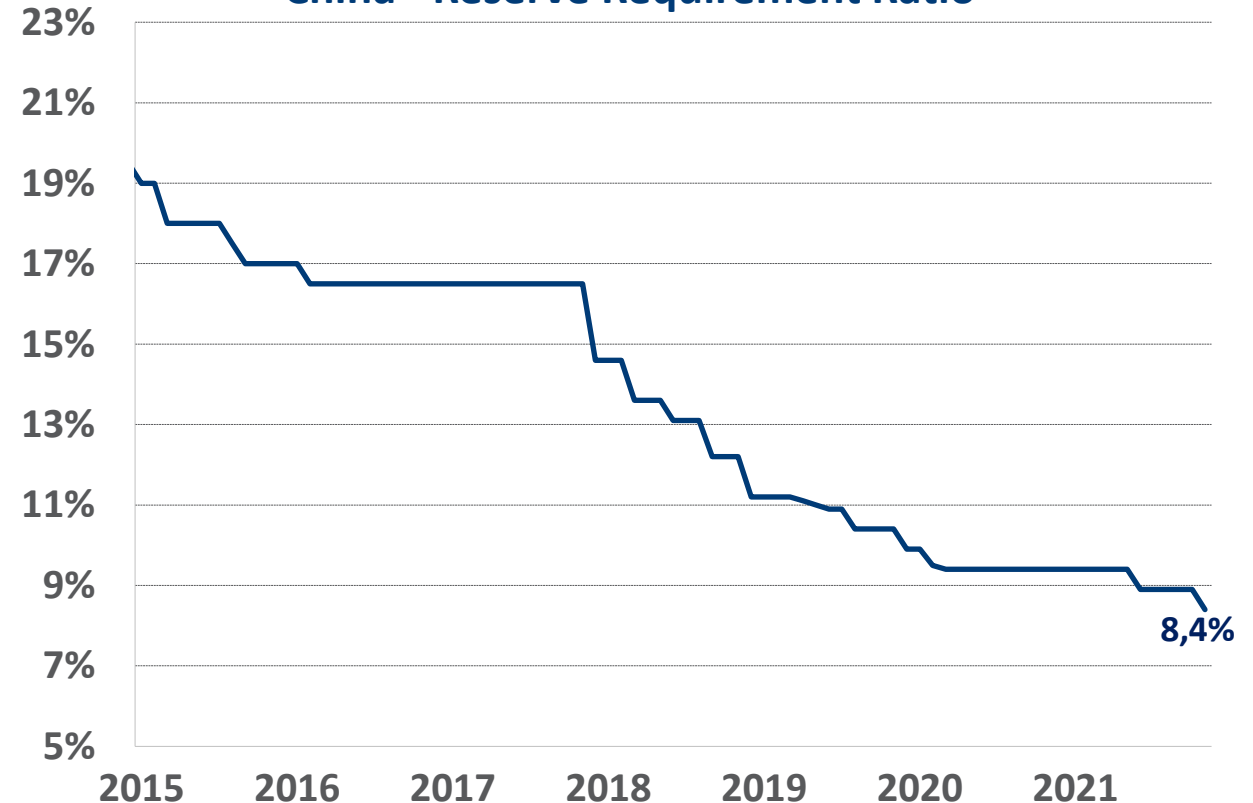
China: Monetary Policy

- » The Chinese Central Bank continues to promote a flexible monetary policy as it intensifies efforts to stabilize economic growth by cutting its main interest rates. The expectation is that there will be more cuts in the coming months.

China - Policy Rates



China - Reserve Requirement Ratio



USA: Inflation

» US inflation continue to accelerate and reached the highest level through most of 2021, driven by energy prices pressures and higher good prices caused by supply chain disruptions. Inflation rise keeps setting stage for the FED to start raising interest rate as it appear to be persistent.

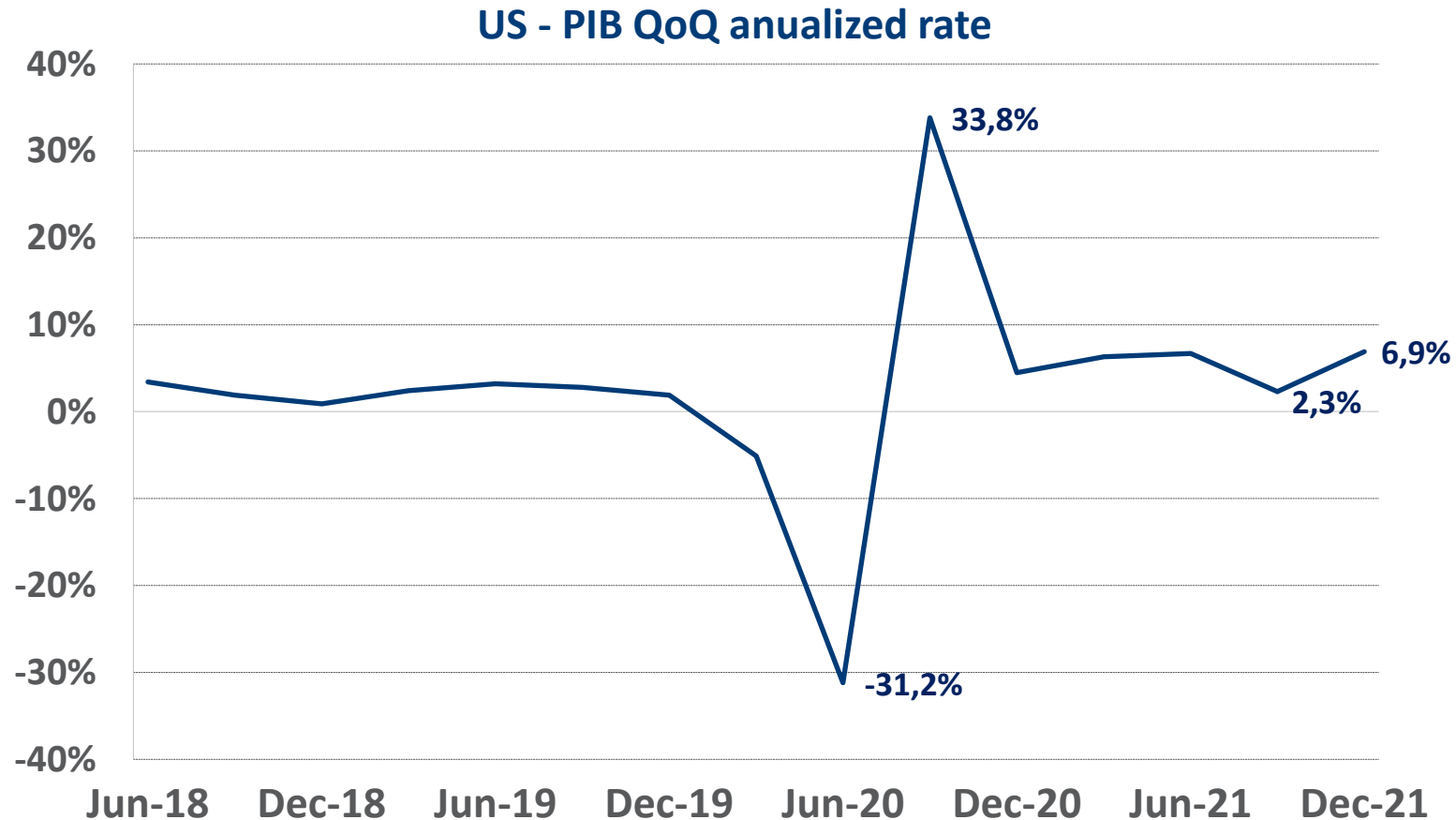
US - CPI SA (YoY)



US - PCE SA (YoY)

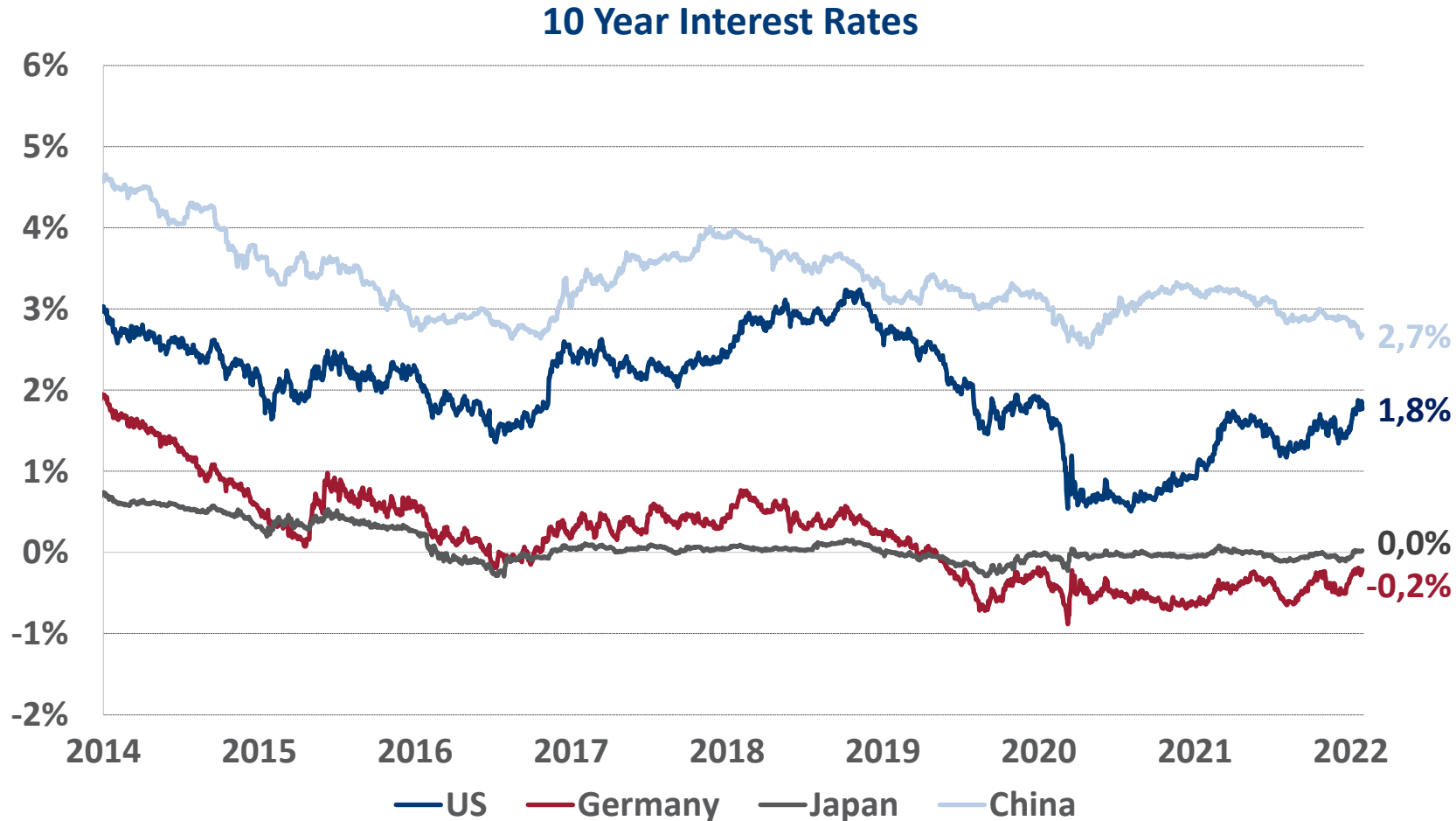


- » US GDP surprised by growing 6.9% at the annualized rate in 4Q21 despite the resurgence of the pandemic. The result was driven by the good performance of private investments and personal consumption.



Global Interest Rates

- »» In response to changes in the monetary policies of the major Central Banks, sovereign bonds with long-term interest rates have a bullish bias in the margin, despite the contrary movement of monetary policy observed in China.

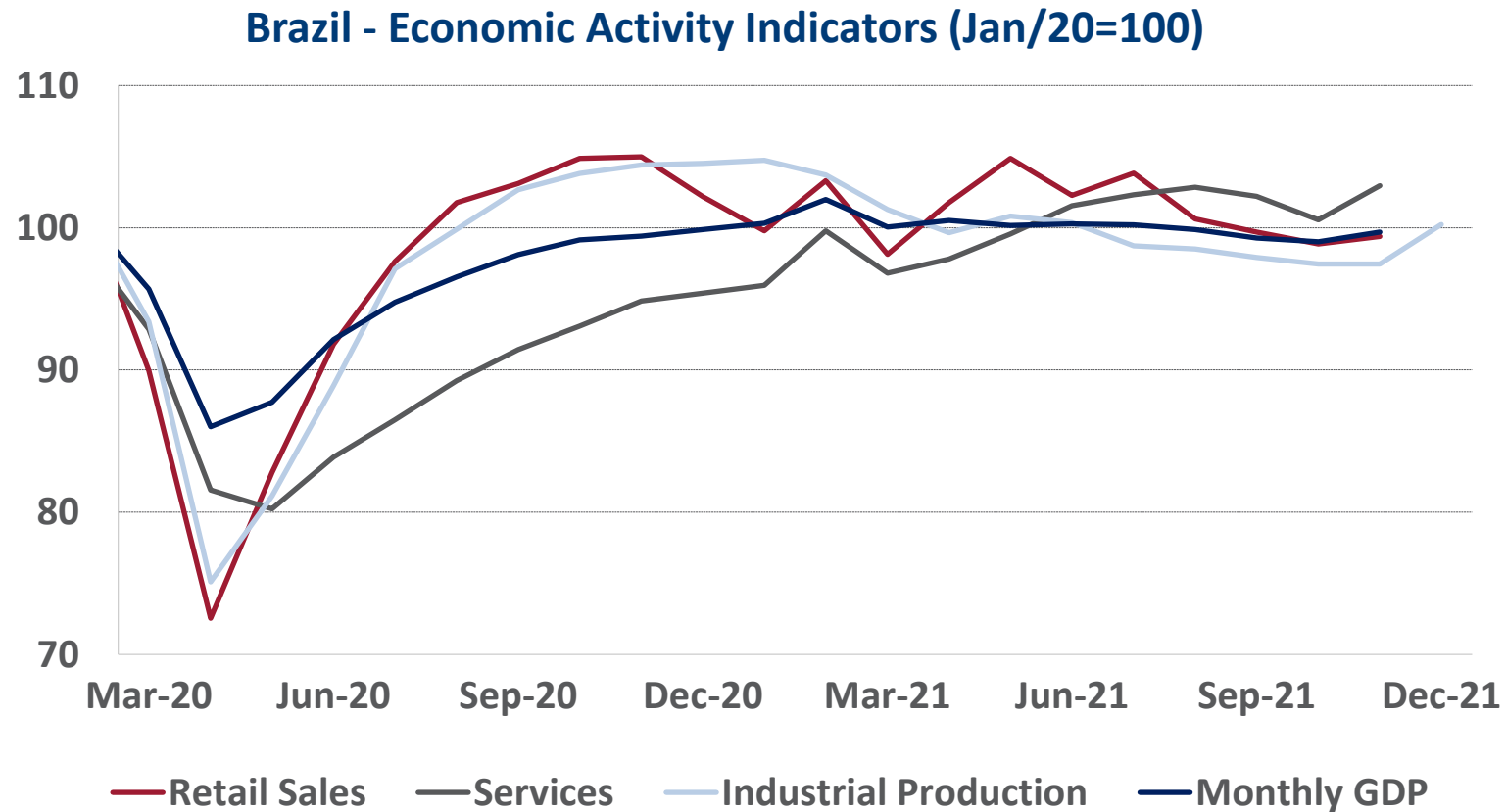


Brazil: Forecasts

ECONOMIC FORECASTS	2019	2020	2021F	2022F	2023F
GDP Growth (%)	1,1%	-4,1%	4,4%	0,3%	1,7%
Inflation (%)	4,3%	4,5%	10,1%	5,8%	3,3%
Unemployment Rate, SA (eoy, %)	11,7%	13,9%	11,5%	13,2%	13,0%
Policy Rate (eoy, %)	4,50%	2,00%	9,25%	12,25%	8,00%
External Accounts					
Trade Balance (US\$ bn)	48	32	36	49	40
Current Account Balance (US\$ bn)	-65	-24	-28	-23	-43
Current Account Balance (% of GDP)	-2,8%	-0,9%	-1,8%	-1,3%	-2,6%
Fiscal Policy					
Central Government Primary Balance (% of GDP)	-1,2%	-10,0%	-0,4%	-1,4%	-1,3%
Government Gross Debt (% of GDP)	74,3%	88,8%	80,3%	82,1%	87,1%

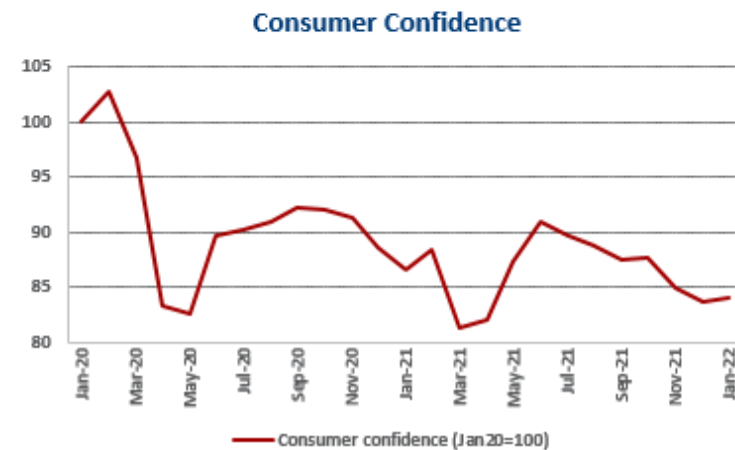
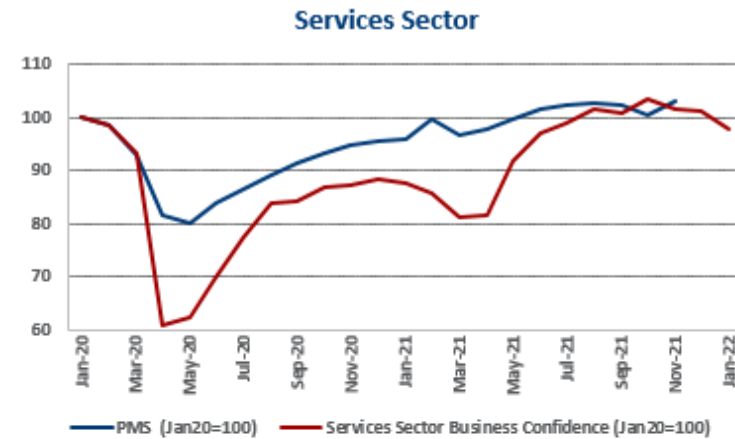
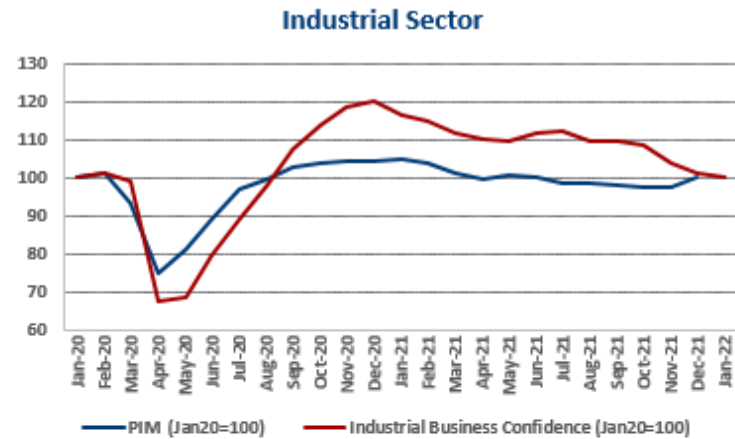
Brazil: Activity

- » Recent activity data have shown signs of relief for 4Q21, as the goods and services sectors grew above expectations at the margin.



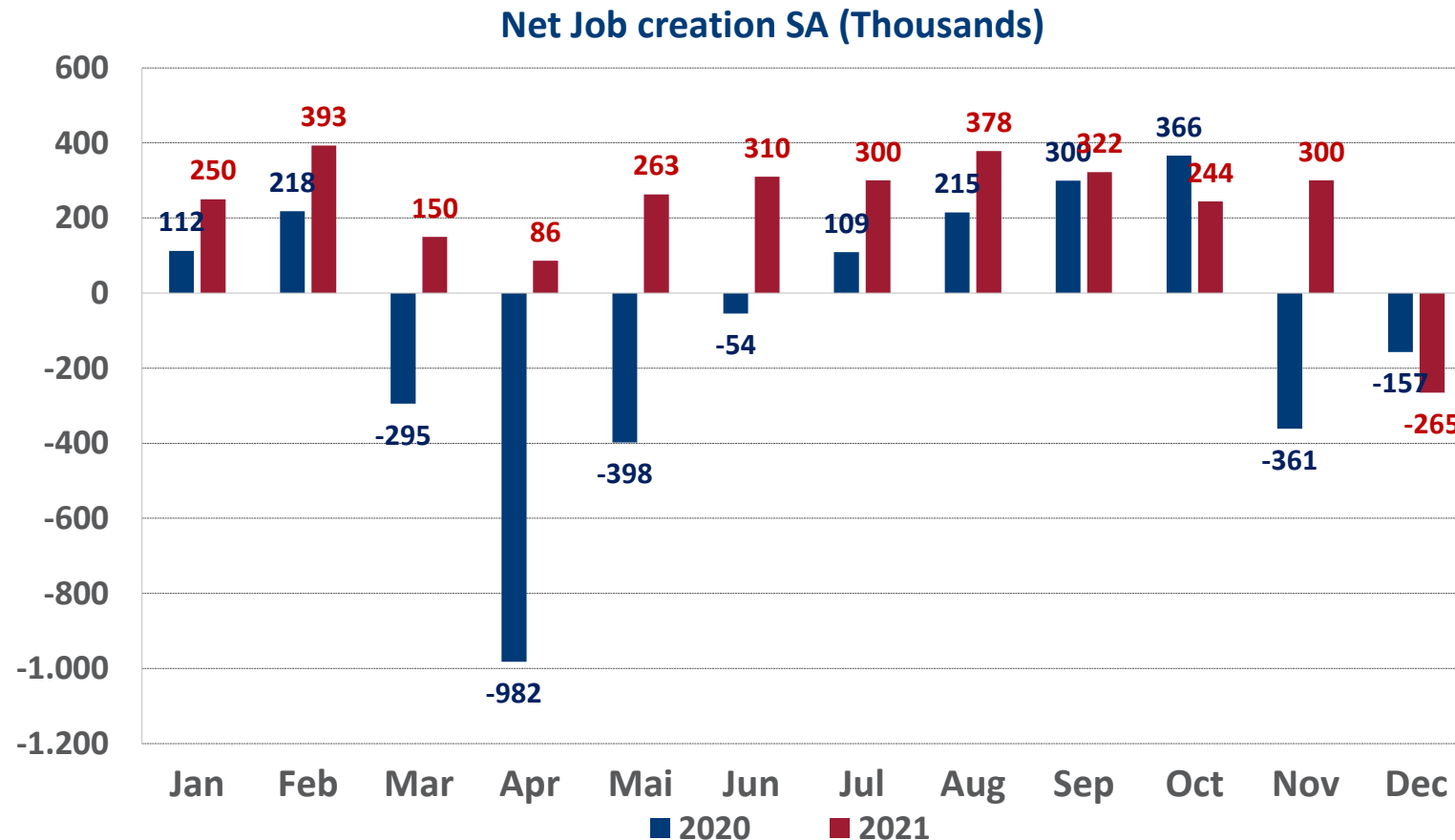
Brazil: Activity

- » Confidence indicators keep showing a negative prospect of the economic activity showing worsening in current situation and expectations.



Brazil: Caged

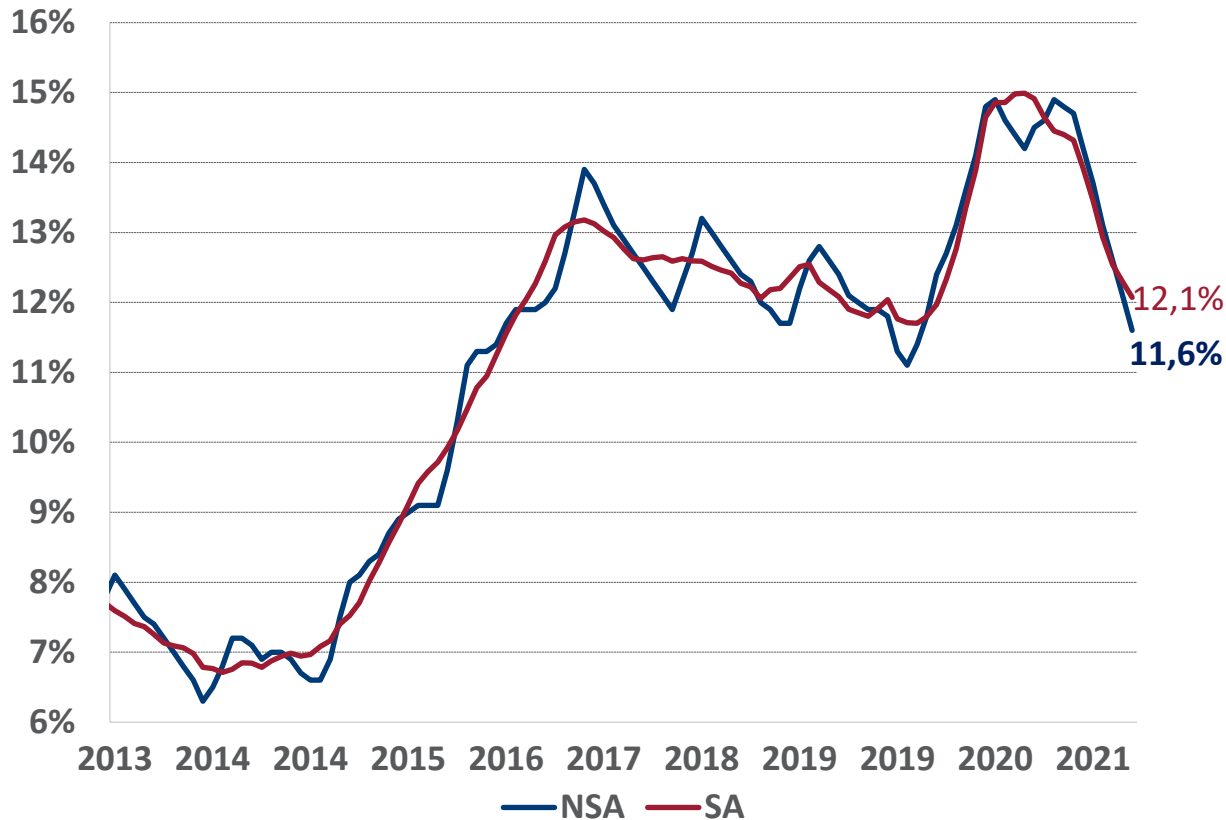
- » In December, net job's result printed a negative figure of 265K jobs destructed as layoffs accelerated at the margin;
- » In 2021, almost 2.7 million jobs were created as a result of economic reopening process and government emergency program (BEM) after net loss registered in 2020 (-191K).



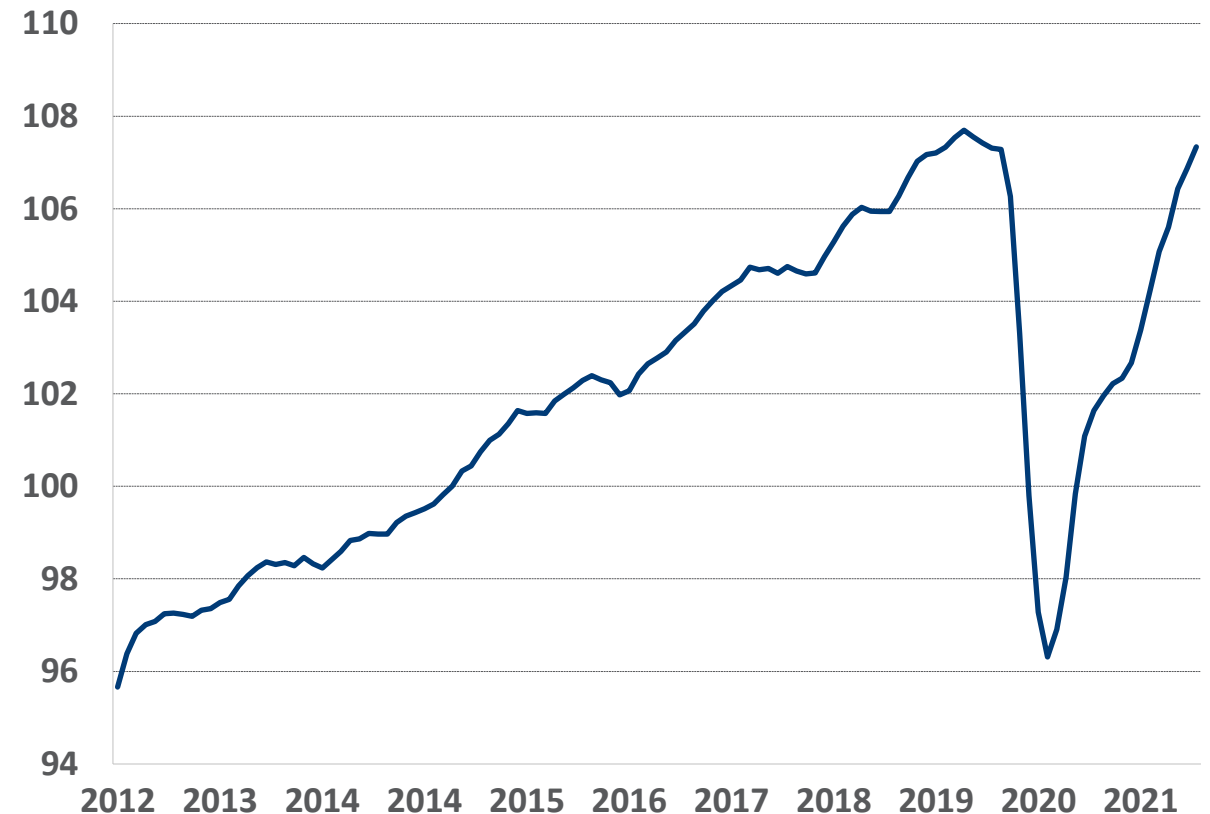
Brazil: Labor Market (PNADC)

- » The unemployment rate kept its downward trajectory as the employed population increases;
- » PNADC employment data begins to show incipient signal of slowdown in margin, with stability registered in informal employment and incomes remained at a depressed level.

Unemployment Rate



Labor Force NSA (Millions)



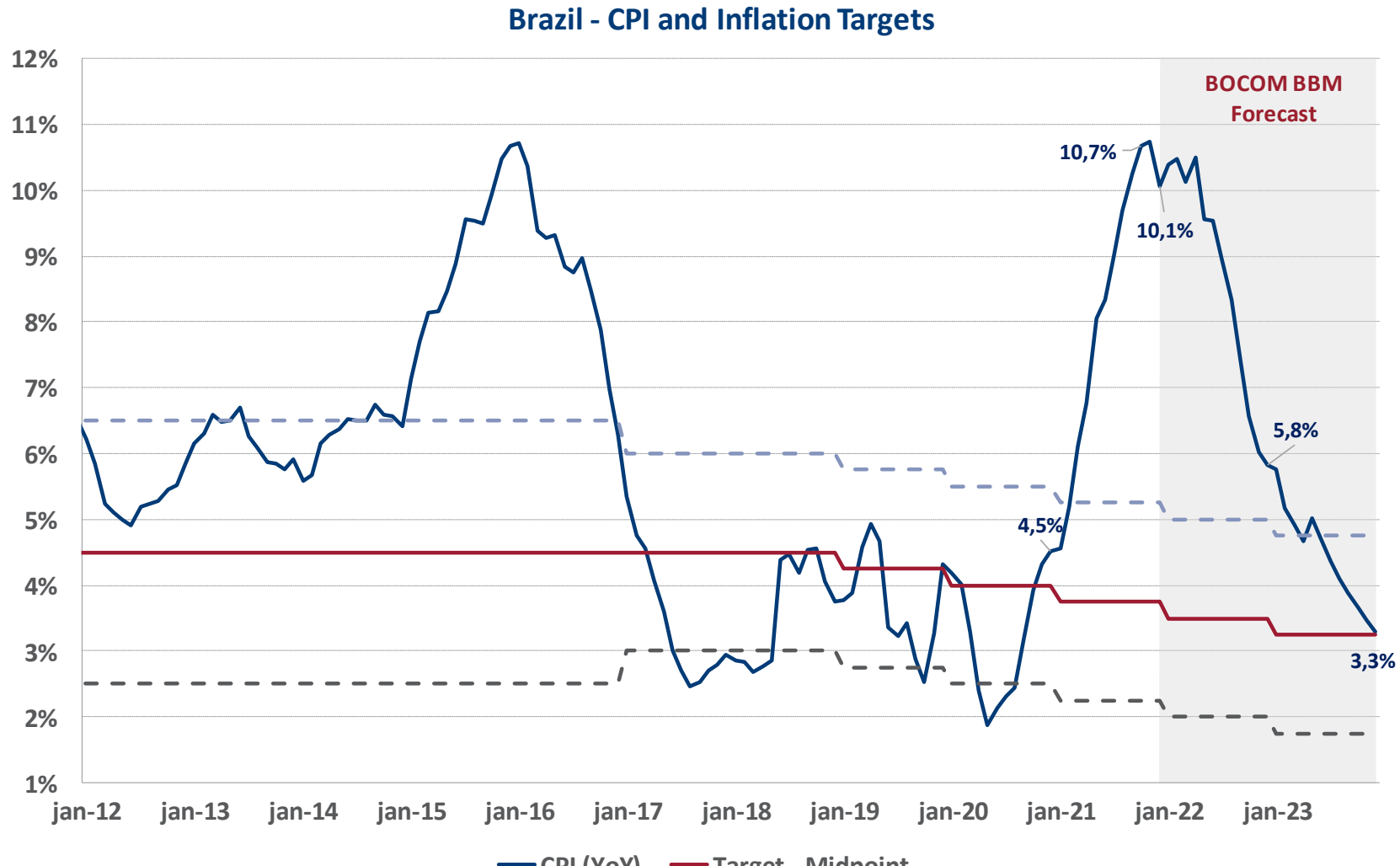
Brazil: Inflation

- » In 2022, the CPI will float around 10% until April, when the Hydrological Scarcity Flag will end. The 2022 projection presents high number due to the persistence of services inflation;
- » Omicron variant will also extend supply chain disruption crisis.

Baseline Scenario (YoY)						
	IPCA	Regulated	Non-Regulated	Services	Food-at-Home	Industrial Products
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	8,3%	13,0%	7,0%	2,2%	15,3%	8,8%
21 Q3	10,2%	15,8%	8,5%	4,4%	14,7%	10,6%
21 Q4	10,1%	17,0%	7,8%	4,7%	8,2%	12,0%
22 Q1	10,1%	13,5%	9,0%	6,6%	10,2%	11,7%
22 Q2	9,5%	10,4%	9,2%	7,9%	9,6%	10,8%
22 Q3	7,4%	7,6%	7,3%	7,4%	5,1%	8,6%
22 Q4	5,8%	5,3%	5,9%	6,4%	5,3%	5,7%
23 Q1	4,8%	5,3%	4,7%	5,3%	4,4%	3,9%
23 Q2	4,7%	7,1%	3,8%	4,4%	4,7%	2,2%
23 Q3	3,9%	5,9%	3,1%	3,8%	4,5%	1,3%
23 Q4	3,3%	4,8%	2,8%	3,6%	4,3%	0,6%

Brazil: Inflation

- » 2022 CPI should hover around 10% until April, when the hydrological scarcity flag ends. Year end CPI forecast at 5.8% with high inertia in services CPI;
- » In 2023, CPI forecast at 3.3% in line with the target.



» In 2022, the 5.8% projection is mainly caused by high inertia in services inflation and high inflation expectations. Further risks to 2022 CPI are:

Upside risks:

1. New Covid variants impact on the supply chain;
2. Another commodities rally with the BRL still depreciated, with fuels and food at home prices increasing;
3. Ukraine and Russia war, with energetic crisis in Europe as a consequence.

Downside risks:

1. Activity decline and high unemployment start playing a larger role due to the high interest rate;
2. Hydrological crisis finished with green flag in December 2022;
3. End of supply chain disruption before expectations;
4. Casuistic changes in tax rates in order to reduce prices.

» In 2023, we expect industrial goods CPI close to 1% with the normalization of supply chains. The high level of interest in 2022 will have a relevant impact in 2023 inflation.

- » We have also done a small study of Health Plan readjustment which takes place in the middle of the year.
- » The Health Plan official adjustment calculation follows the two equations below:

$$IRPI = 0,8 * IVDA + 0,2 * IPCA \quad \text{and} \quad IVDA = \frac{1+(VDA-FGE)}{1+VFE} - 1$$

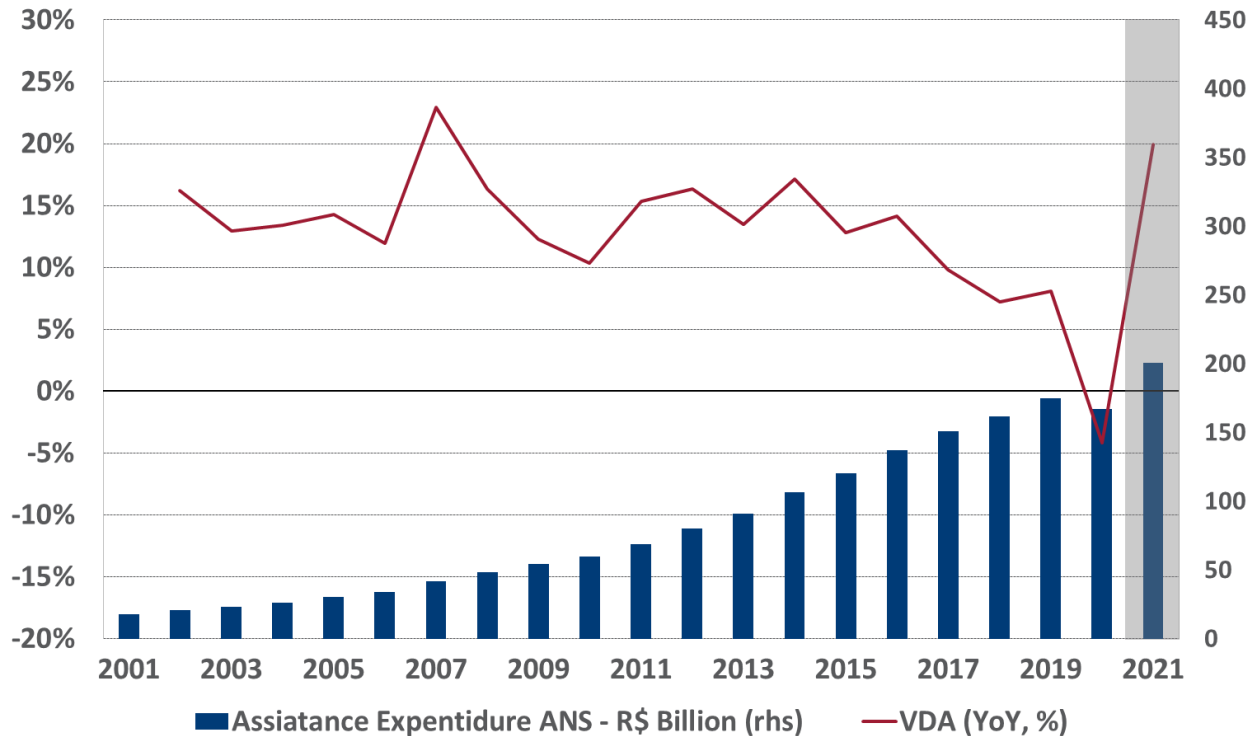
Where:

- » IRPI is the individual and Family plans readjustment index
- » IVDA is the index of assistencial expenditure value for individual and family plans
- » IPCA is the adjusted CPI (without Health plan item) accumulated in 12 months
- » FGE is the efficiency gain factor
- » VFE is the revenue variation by age group of individual health plans

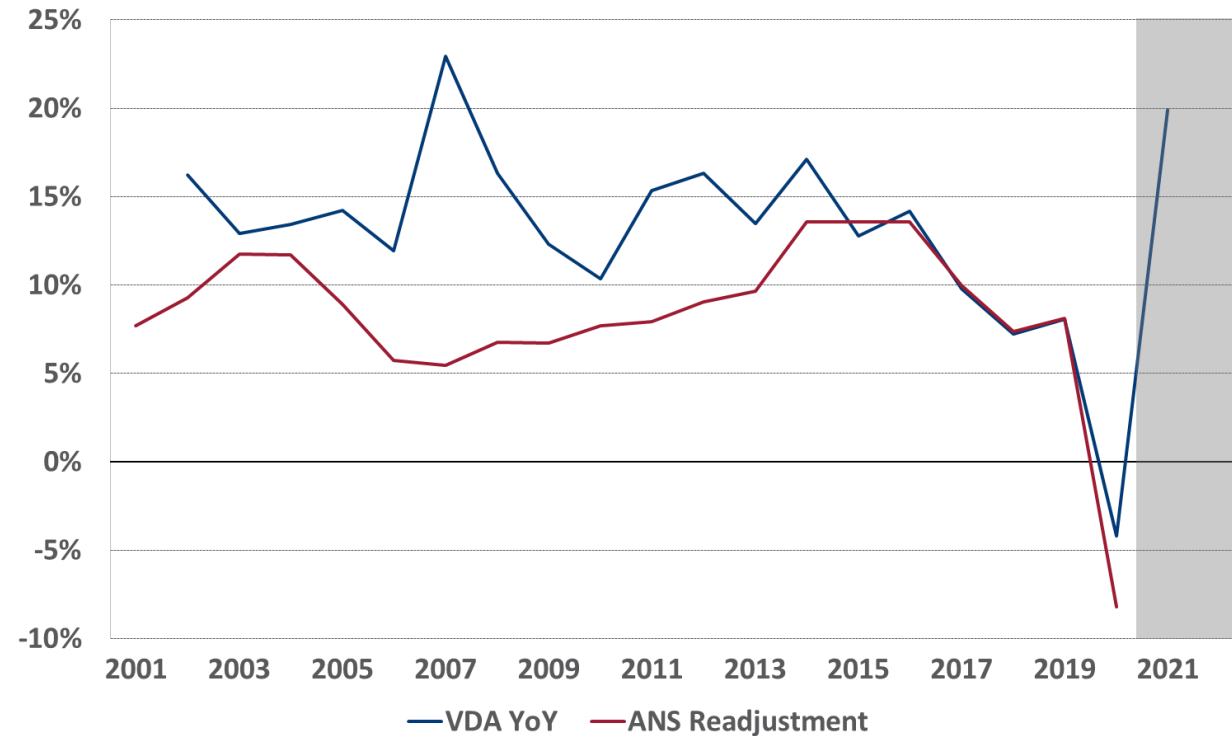
Brazil: Inflation

- » The assistance expenditure value (VDA) grew almost 20% in 2021 in relation to 2020, presenting recovery in the health plan usage;
- » The gray area of the graphs below depict projection to 2021 VDA, of which values are available only until September (2021 number will be published only in April);
- » ANS adjustment is closely following the VDA variation in recent years.

Assistance Expenditure - Value and YoY Variation



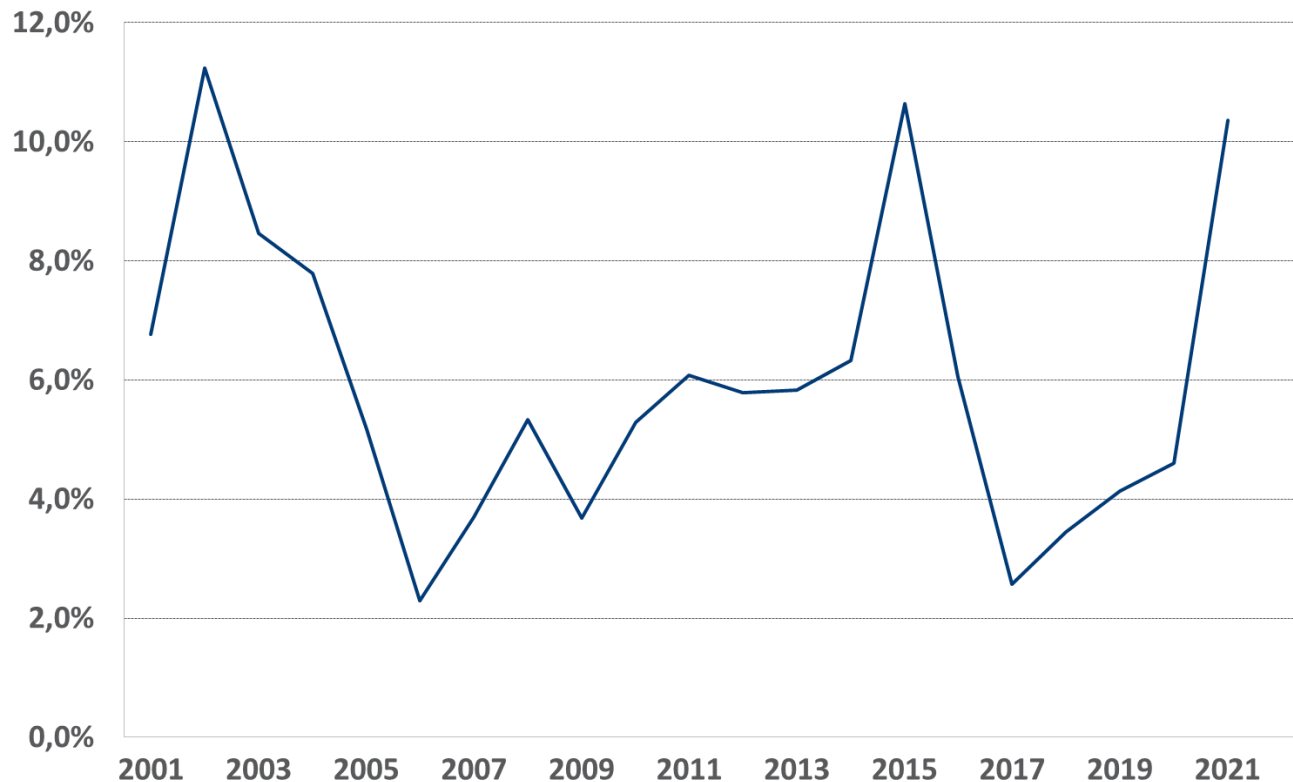
Lagged ANS Readjustment x VDA YoY



Brazil: Inflation

- » The adjusted CPI (without Health Plan inflation) increased considerably and will contribute to a higher adjustment in 2022;
- » Applying the formulas, we have a health plan adjustment of 15.4% in 2022;
- » But as we have seen on the graph of the VDA against Health care readjustment, risks are tilted to the upside (impact of 1% higher adjustment would be 2.5 bps in 2022 and 1.25 bps in 2023).

IPCA Ex Health Plan

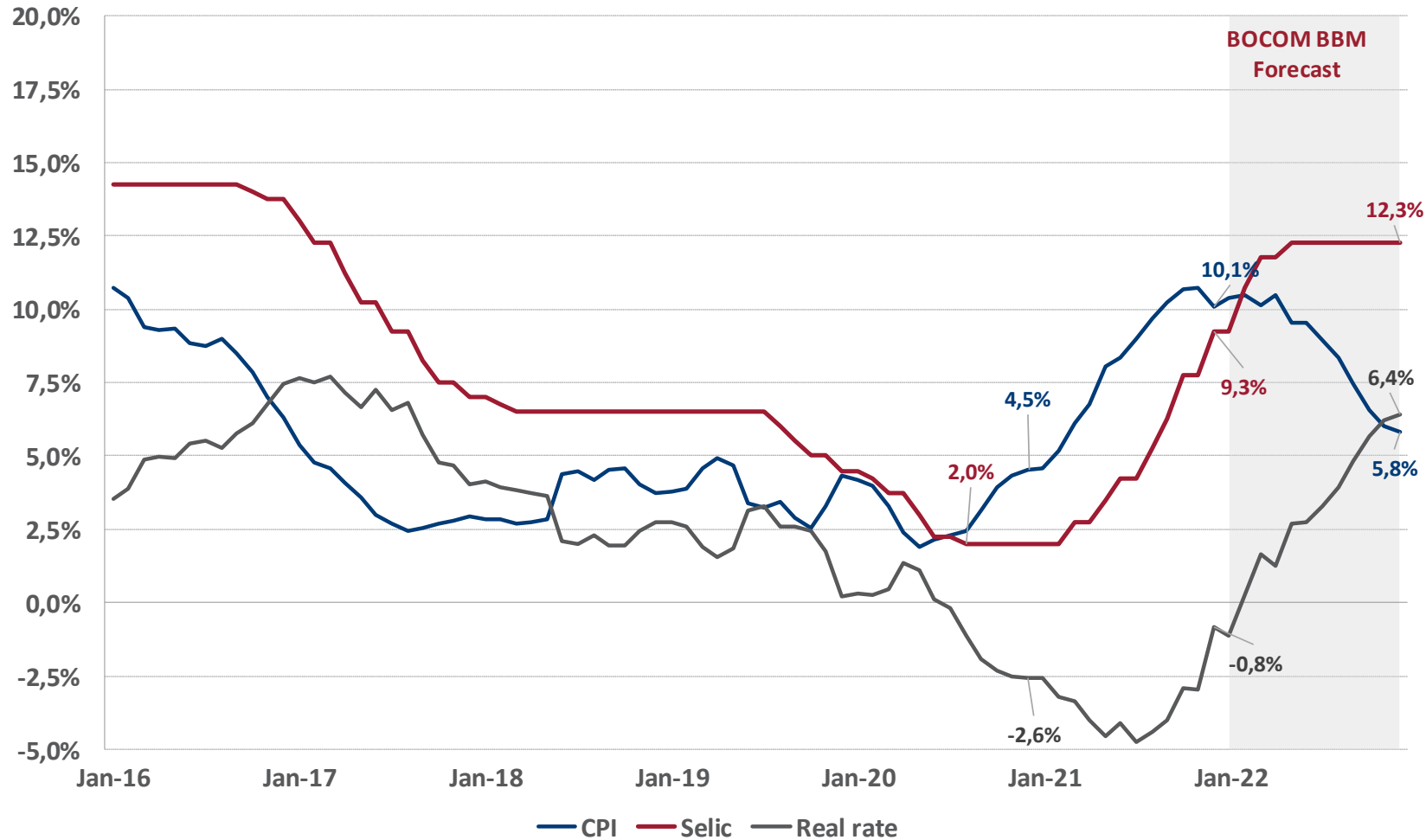


VDA (Assistance Expenditure Value)	19,9%
FGE (Efficiency Gain Factor)	1,8%
VFE (Revenue Variation by Age Group)	1,24%
IVDA	16,7%
IPCA Adjusted (Ex Health Plan)	10,4%
Health Plan Readjustment	15,4%

Brazil: Interest rates

- » Scenario: Copom hikes Selic by 150 bps in 100 bps in March, finishing the hike cycle with one last 50 bps hike in May, and reaching 12.25%.

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



Fiscal: Central Govt Tax Collection

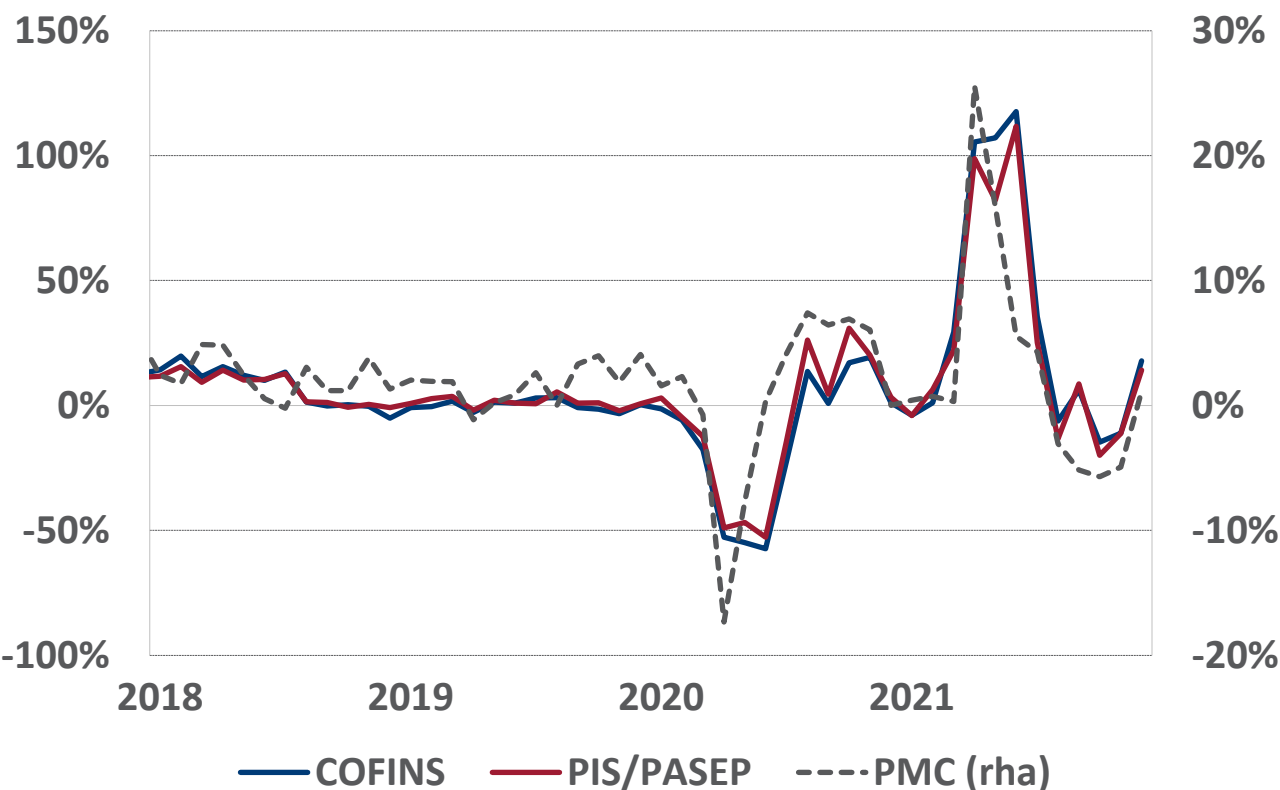
- » In December, tax collection was R\$ 193.9 billion, totaling R\$ 1.879 Tri in 2021;
- » PIS/COFINS revenues grew, together, 16.2% m/m in real terms, being the highlight of December;
- » In the year, IRPJ and CSLL were the main drivers of revenue growth.

Central Government Tax Revenue Dec-21	BRL Billions	YoY Real	YDT YoY Real
Import taxes	5,4	6,0%	25,1%
IPI-Total	7,3	3,6%	18,9%
Individual Income Taxation (IRPF)	4,5	5,9%	25,3%
Corporate Income Taxation (IRPJ)	17,0	9,6%	32,3%
Withholding Income taxes (IRRF)	32,2	17,6%	6,3%
IOF	5,6	137,2%	106,5%
ITR	0,2	9,4%	12,1%
COFINS	28,6	17,9%	17,4%
PIS/PASEP	7,7	14,1%	13,7%
CSLL	8,8	11,8%	28,9%
CIDE	0,3	385,1%	15,5%
PSS	3,8	-9,9%	-4,9%
Other Taxes Administered by the Central Govt	2,2	-11,5%	19,4%
Social security	65,5	3,2%	6,6%
Administered by the Central Government [A]	189,0	10,6%	16,2%
Administered Ex Social Security	123,5	15,0%	20,1%
Administered by Other Entities [B]	4,9	66,6%	51,0%
TOTAL [A + B]	193,9	11,6%	17,4%

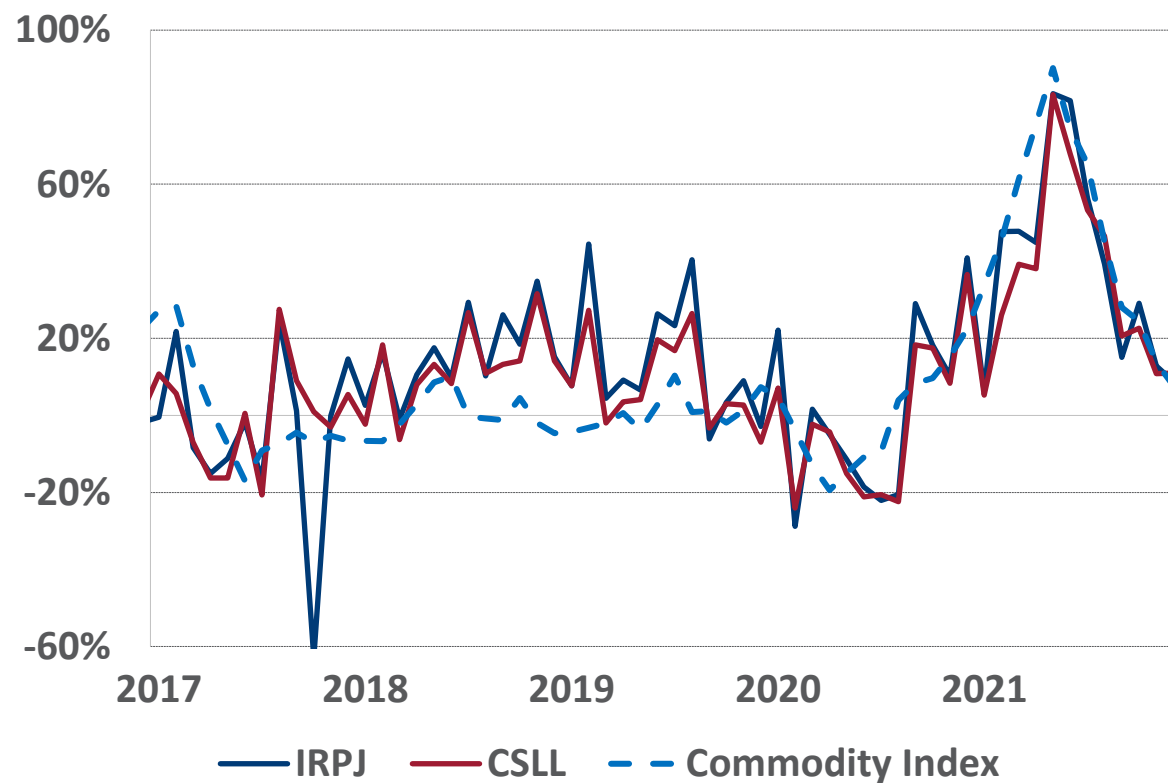
Fiscal: Receita de Arrecadação de Impostos

- » The performance of PIS/COFINS collection continues to be correlated with retail sales sector (PMC) while Corporate-related tax performance (IRPJ and CSLL) is linked to rising commodity prices (measured by IC-Br).

Real Collection Revenue vs. PMC (YoY)



Real Collection Revenue vs. IC-Br (YoY)



Fiscal: Central Govt Primary Budget

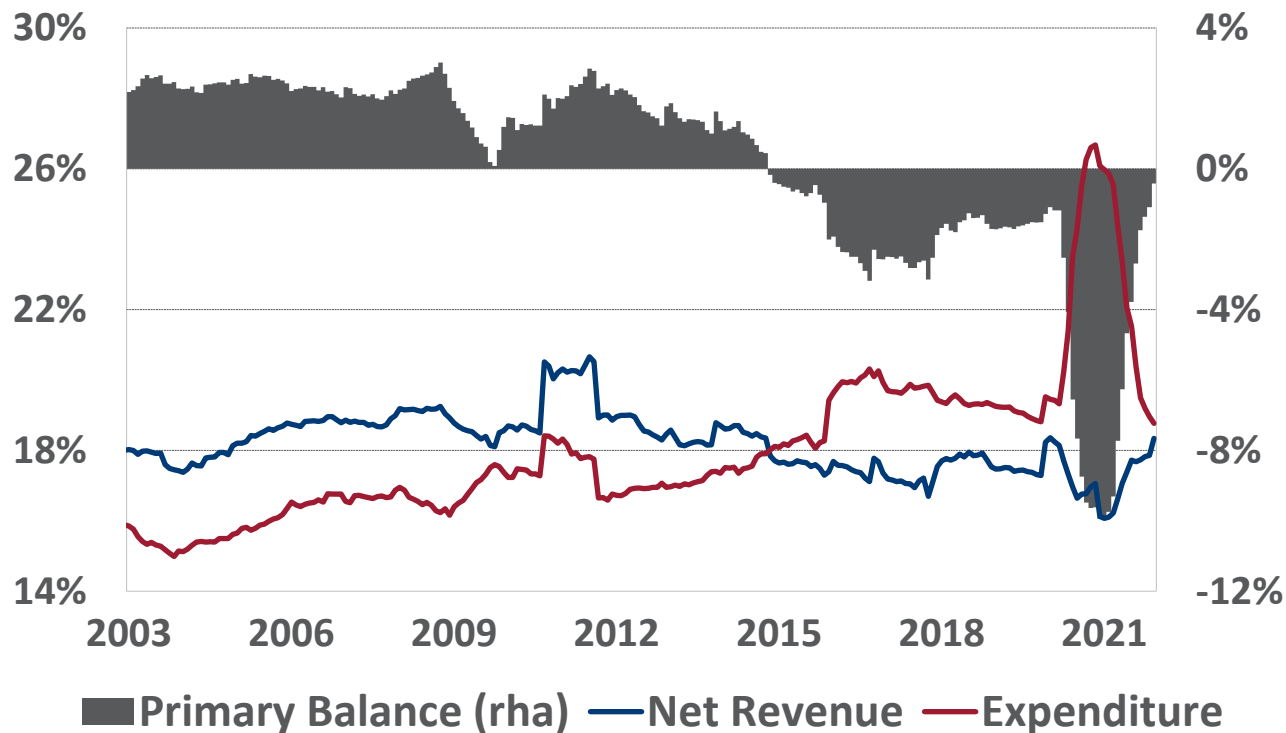
- » December fiscal results kept the positive trend seen throughout the year;
- » In 2021, primary budget result were driven by stabilization of covid-related expenses and good revenue results.

Primary Budget Balance				
BRL Billions	Dec-20	Dec-21	YTD	12M
1. Gross Revenue	161.5	211.5	1783.5	1783.5
2. Transfers	29.9	38.2	354.8	354.8
3. Net Revenue [1-2]	131.6	173.3	1577.6	1577.6
4. Expenditure	175.7	159.5	1614.5	1614.5
5. Primary Budget Balance [3-4]	-44.1	13.8	-36.0	-36.0

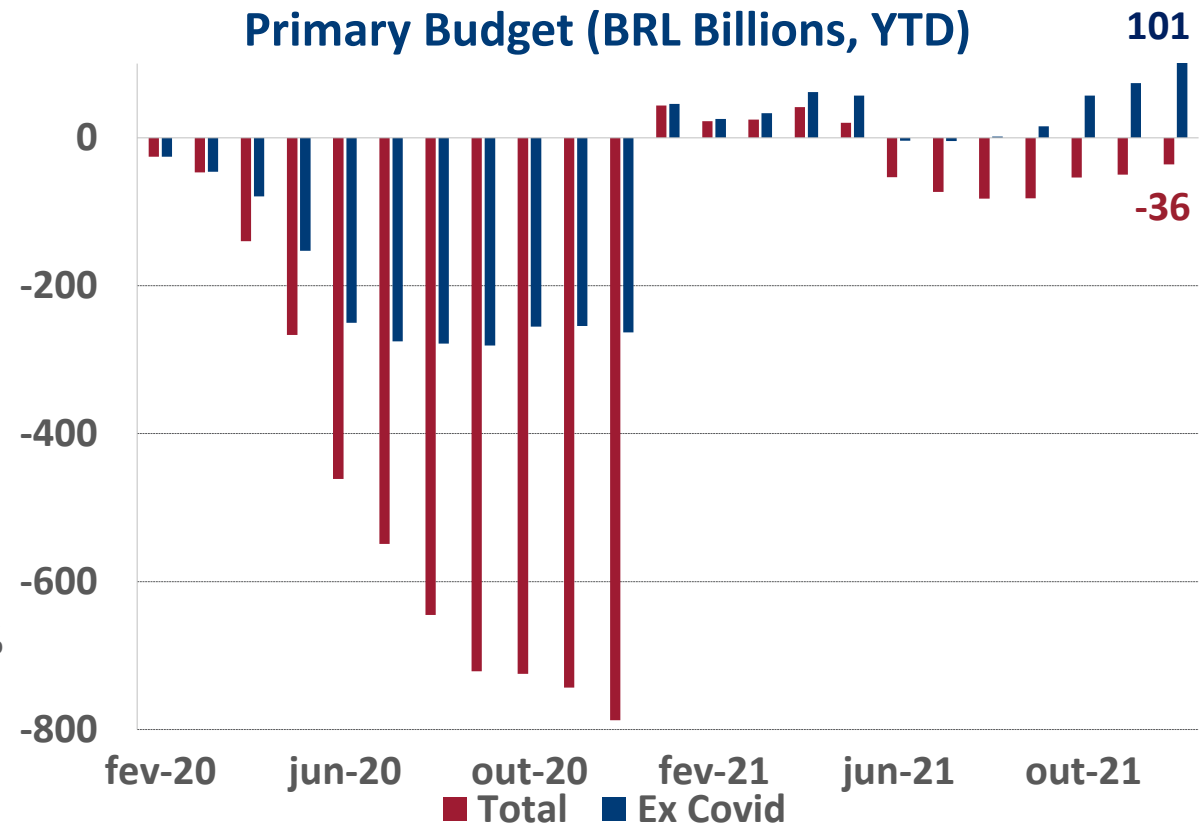
Fiscal: Central Govt Primary Budget

- » Net revenue increased throughout 2021 while expenses fell, reflecting reduced pandemic-related spending ;
- » If it weren't for covid-related expenses, central government surplus would have been BRL101 bn this year.

Net Revenue and Expenditure (% GDP 12M)



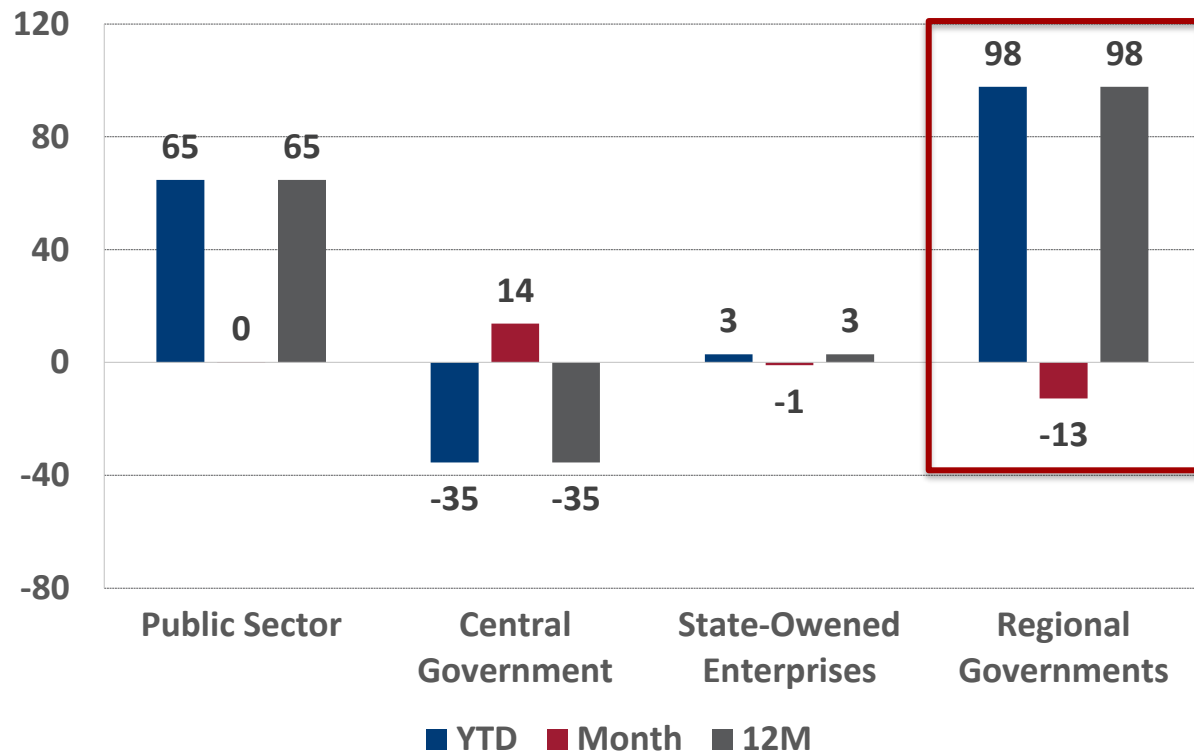
Primary Budget (BRL Billions, YTD)



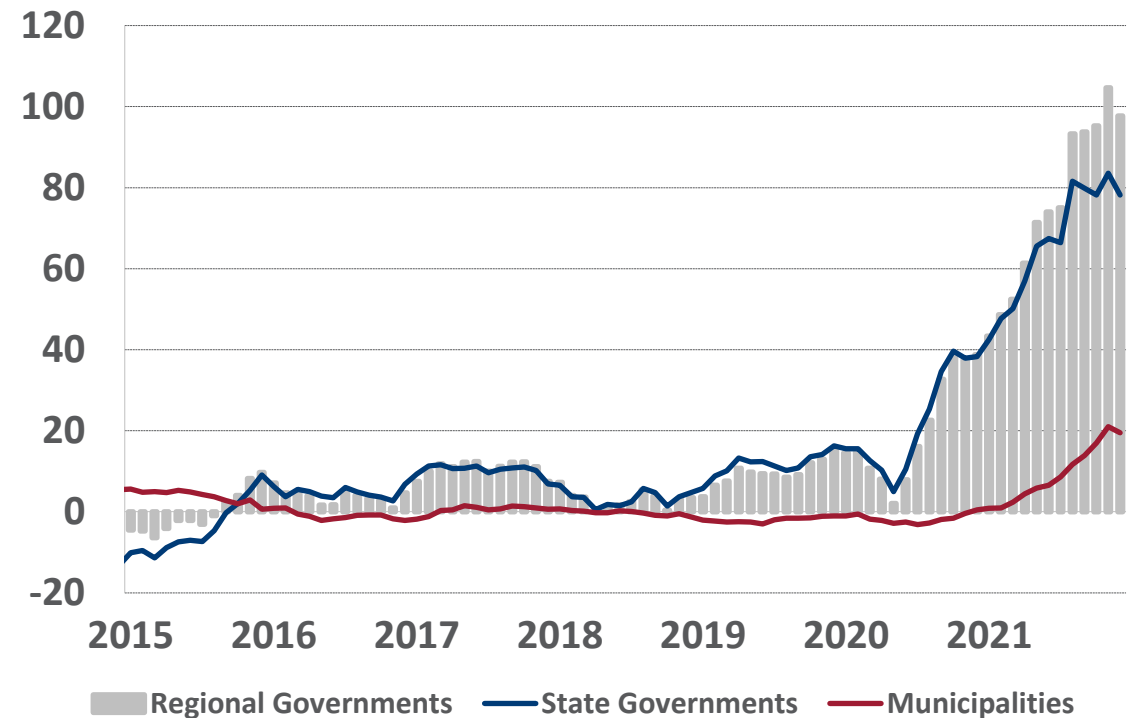
Fiscal: Public Sector Primary Budget

- » The states and municipalities posted a historically unusually high primary fiscal surplus of 1.13% of GDP driven by rising inflation and buoyant revenue from taxes on rising gasoline and electricity prices;
- » 2021 ended with a BRL 64.7 public sector surplus.

Public Sector Primary Result (BRL Billions)

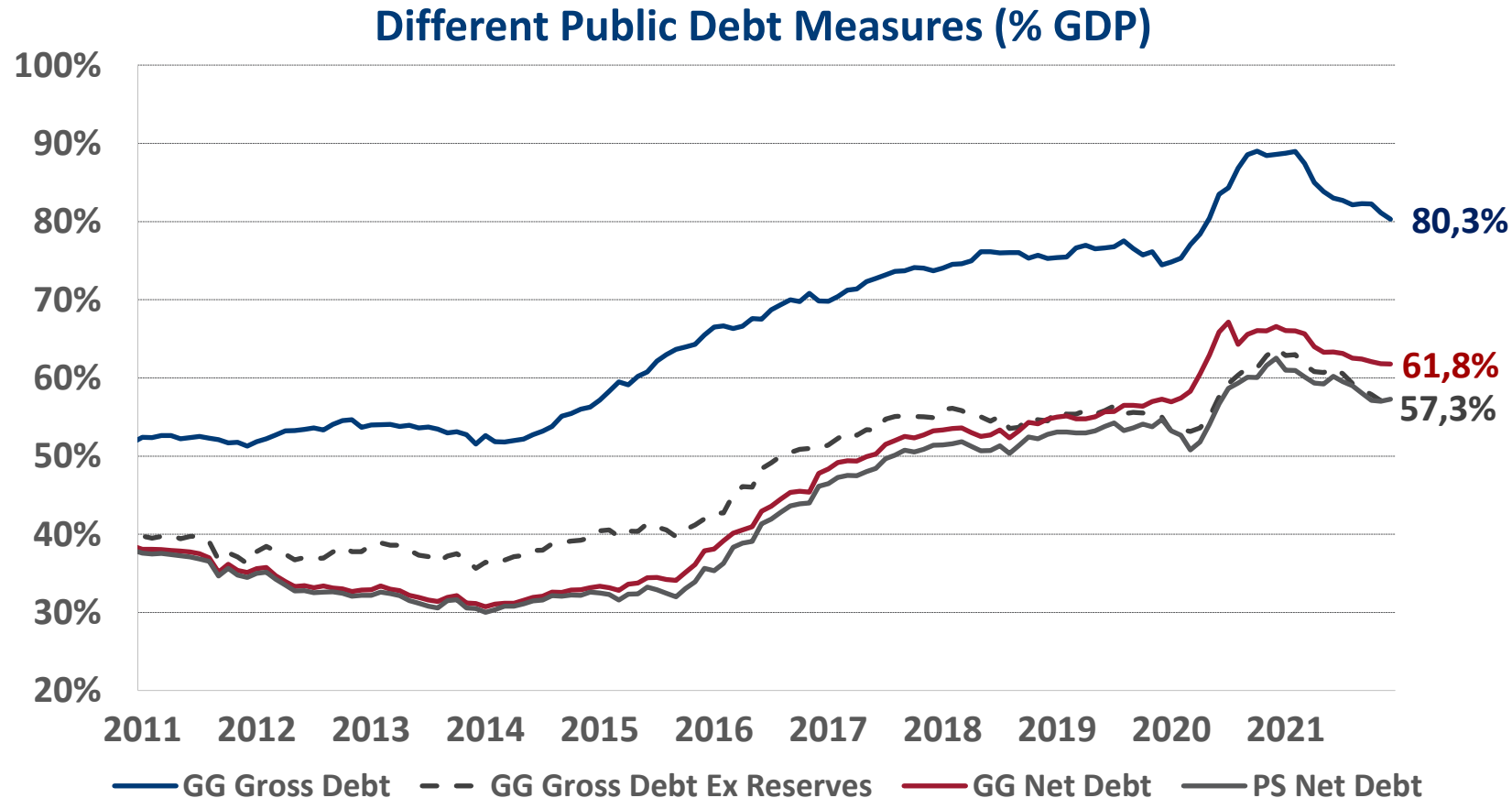


Regional Governments' Primary Result (12M, BRL Billion)



Fiscal: Public Deficit

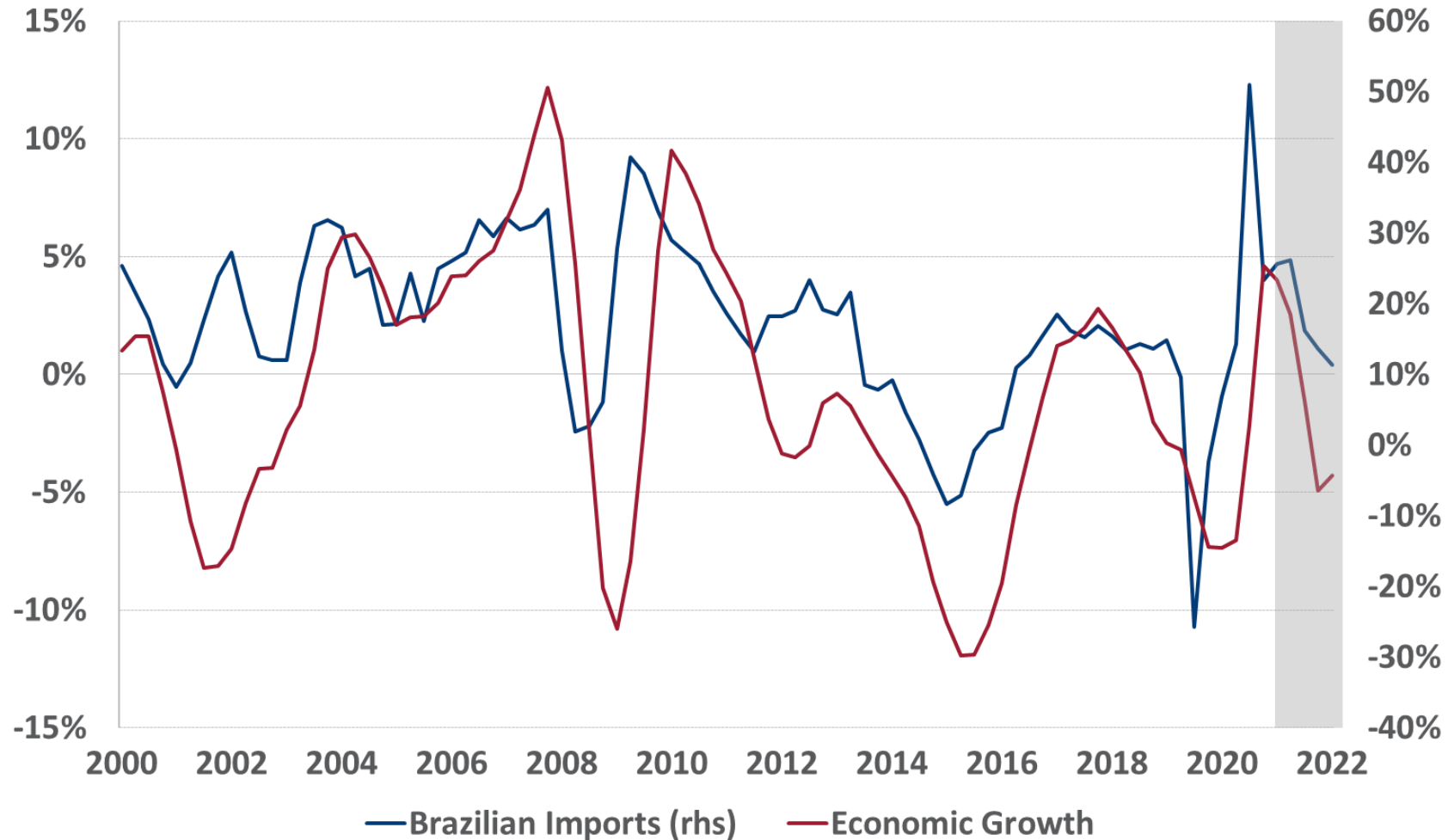
- » In the year, Gross Debt fell by 8.3 pp, driven mainly by nominal GDP growth (-12.3 pp) and net issuances (-2.1 pp). Interest payments, on the other hand, accounted for a 5.8 pp increase;
- » In the year, Net public debt reached 57.3% of GDP, a decrease of 5.3 pp. – mostly led by nominal GDP growth and exchange devaluation.



Brazil: Trade Balance

» The expectation of low GDP growth in Brazil will reduce imports in 2022.

Economic Growth vs. Imports - YoY

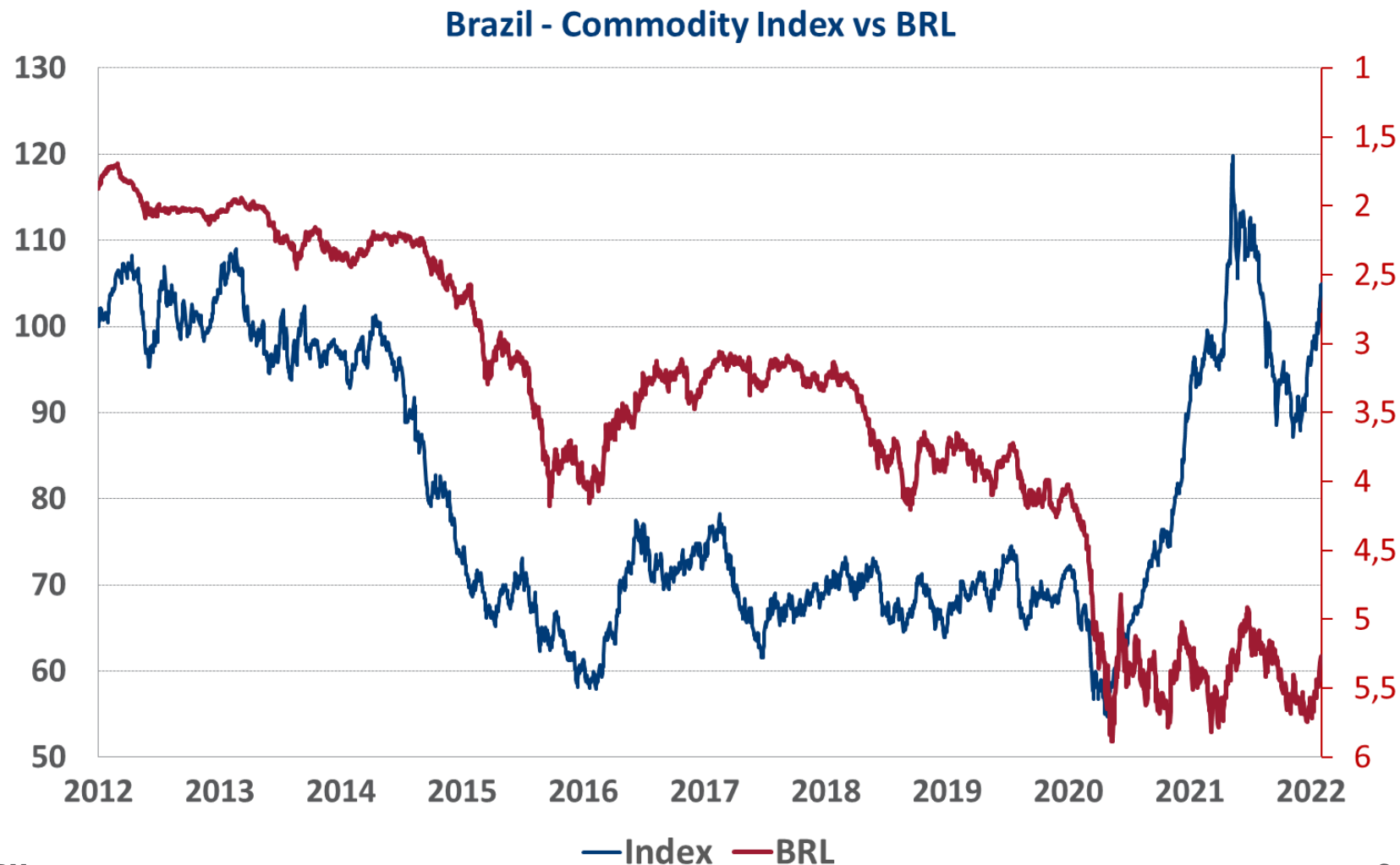


Brazil: Trade Balance

- » At the same time, economic recovery throughout the world will continue to keep exports strong in 2022 and thus will help the current account to continue stronger than in the years before the pandemic.



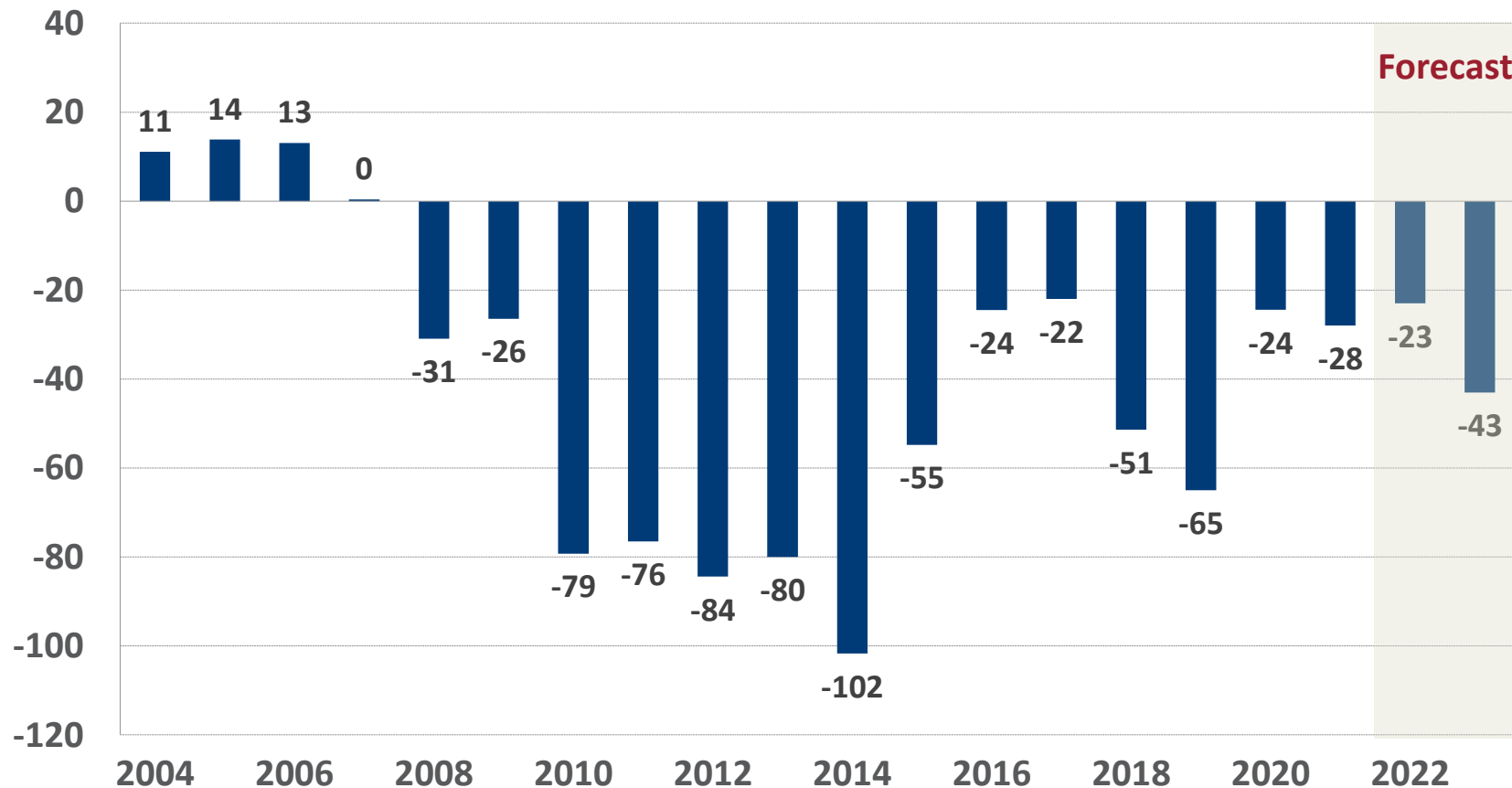
- »» Commodity index reversed its downward trend and started to increase and the BRL also appreciated considerably in January.



Brazil: Balance of Payments

- » The trade balance was the main driver of the current account improvement in 2021, but Repetro operations and downfall of some commodities prices and the blockage to some exports pushed the value down;
- » The 2022 expectation is that the improvement in comparison to 2019 and 2018 will continue due to still elevated prices of commodities and a depreciated BRL, but mainly because of a weak economic growth expected to 2022.

Current Account Balance - USD Billion



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ADDRESSES

Rio de Janeiro, RJ

Avenida Barão de Tefé, 34 – 20th and 21st floors
Zip Code 20220-460
Tel.: +55 (21) 2514-8448
Fax: +55 (21) 2514-8293

Salvador, BA

Rua Miguel Calmon, 398 – 2nd floor
Zip Code 40015-010
Tel.: +55 (71) 3326-4721 +55 (71) 3326-5583
Fax: +55 (71) 3254-2703

São Paulo, SP

Av. Brigadeiro Faria Lima, 3311 – 15th floor
Zip Code 04538-133
Tel.: +55 (11) 3704-0667 +55 (11) 4064-4867
Fax: +55 (11) 3704-0502

Nassau, Bahamas

Shirley House | Shirley House Street, 50, 2nd floor
P.O. N-7507
Tel.: (1) (242) 356-6584
Fax: (1) (242) 356-6015

www.bocombbm.com.br

Ombudsman | Phone.: 0800 724 8448 | Fax: 0800 724 8449
E-mail: ouvidoria@bocombbm.com.br