



## MACRO OUTLOOK

**Cecilia Machado**  
Chief Economist

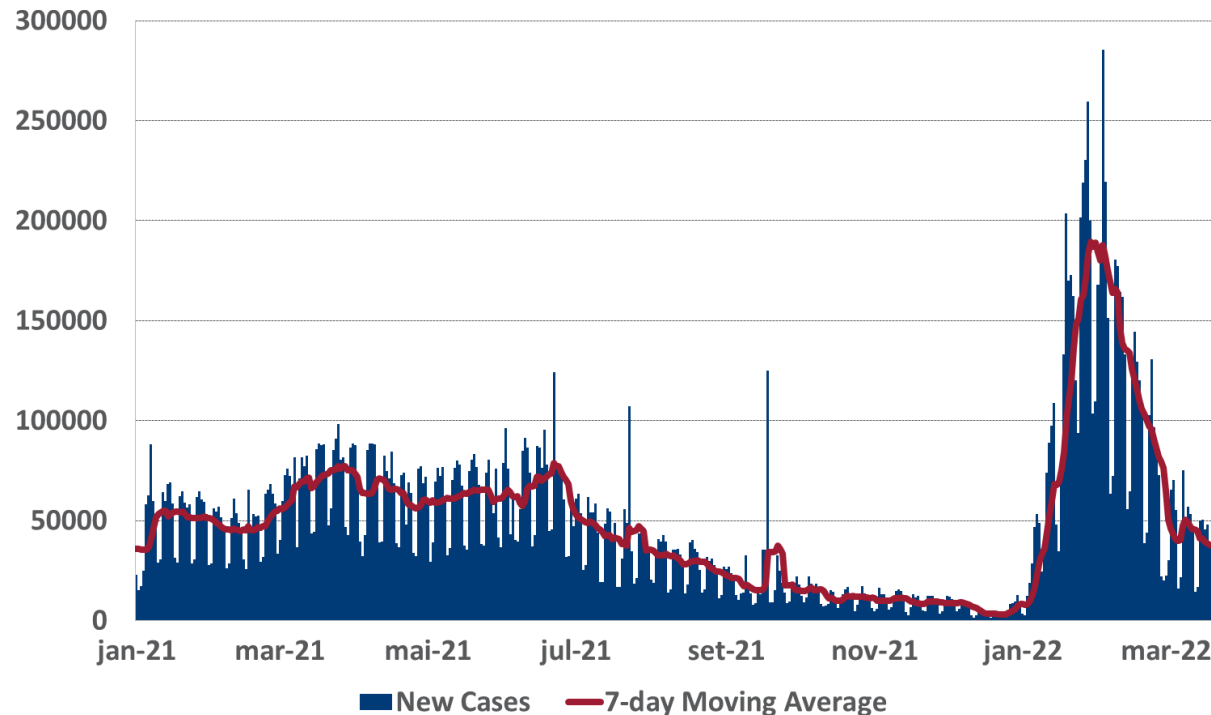
April 2022

- » The war between Russia and Ukraine brought a scenario of lower global growth and higher inflation. Commodities prices have increased and remain highly volatile amid the uncertainty intrinsic to the conflict in Europe;
- » High frequency activity data printed negative results in January due to Covid waves and the rains which affected mining production. In February, the industry has already registered recovery and it is expected that other activities recover as well with the decrease in Covid cases observe in February;
- » We revised our growth forecast for 2022 from 0.3% to 0.9%. The 0.9% projection considers the high carry over effect of some activities, stemming from the upside surprises in 2021 GDP, as well as the recovery of some services that are still below their pre pandemic level;
- » Our inflation forecast is at 7.3% in 2022, revised after the Russia - Ukraine war shock and considering service inflation inertia. In 2023, our projection is at 3.7%, and considers higher readjustments for regulated items;
- » Our Selic rate projection is at 12.75% at the end of 2022 and at 8.0% at the end of 2023;
- » Fiscal result's expectations have benefited from good revenue numbers in the latest data releases, from the rise in commodities prices and the higher inflation forecasts. In comparison to 2021, the result will worsen due to increased expenditures and the risk lower revenues, not only because of the modest growth expected for the year, but also because of recent tax cut proposals that have a considerable impact on government revenue.

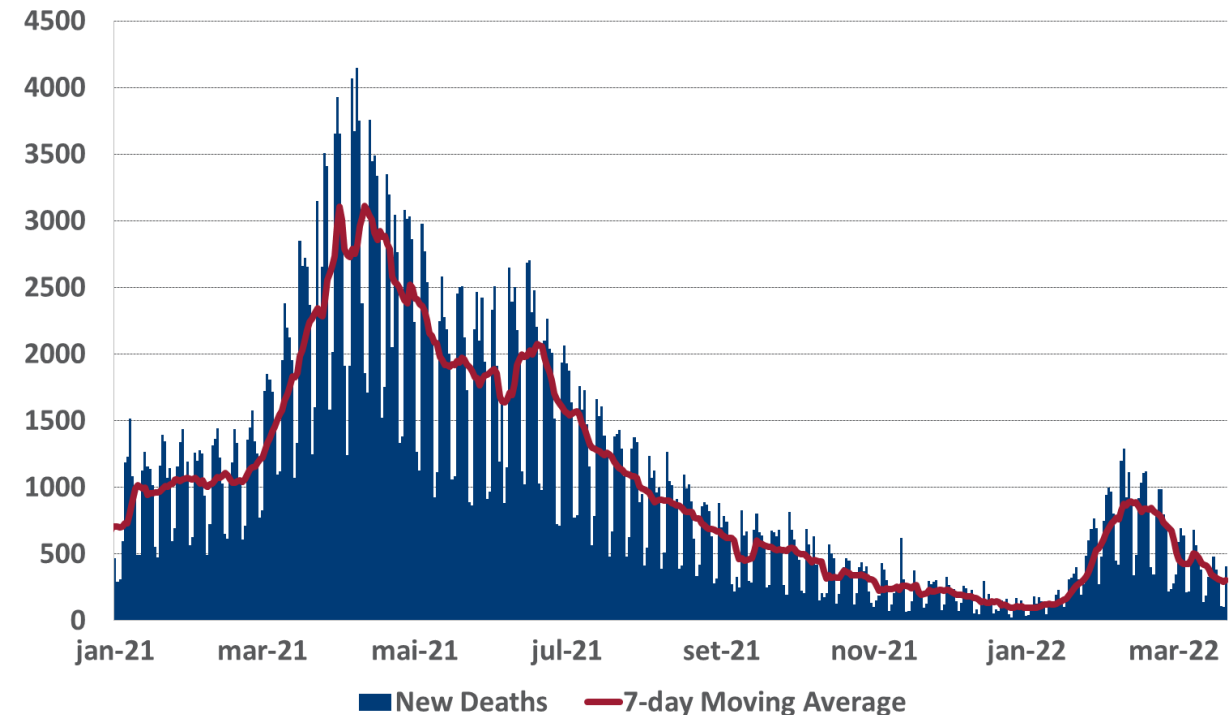
# COVID-19 Brazil - Omicron

- » The Covid-19 pandemic in Brazil continues to show a downward trend, with moving average numbers of cases lower than the beginning of January 2022;
- » The number of deaths are in the same downward trend, which has enabled the loosening of restrictions by Brazilian states.

Daily new cases - Brazil



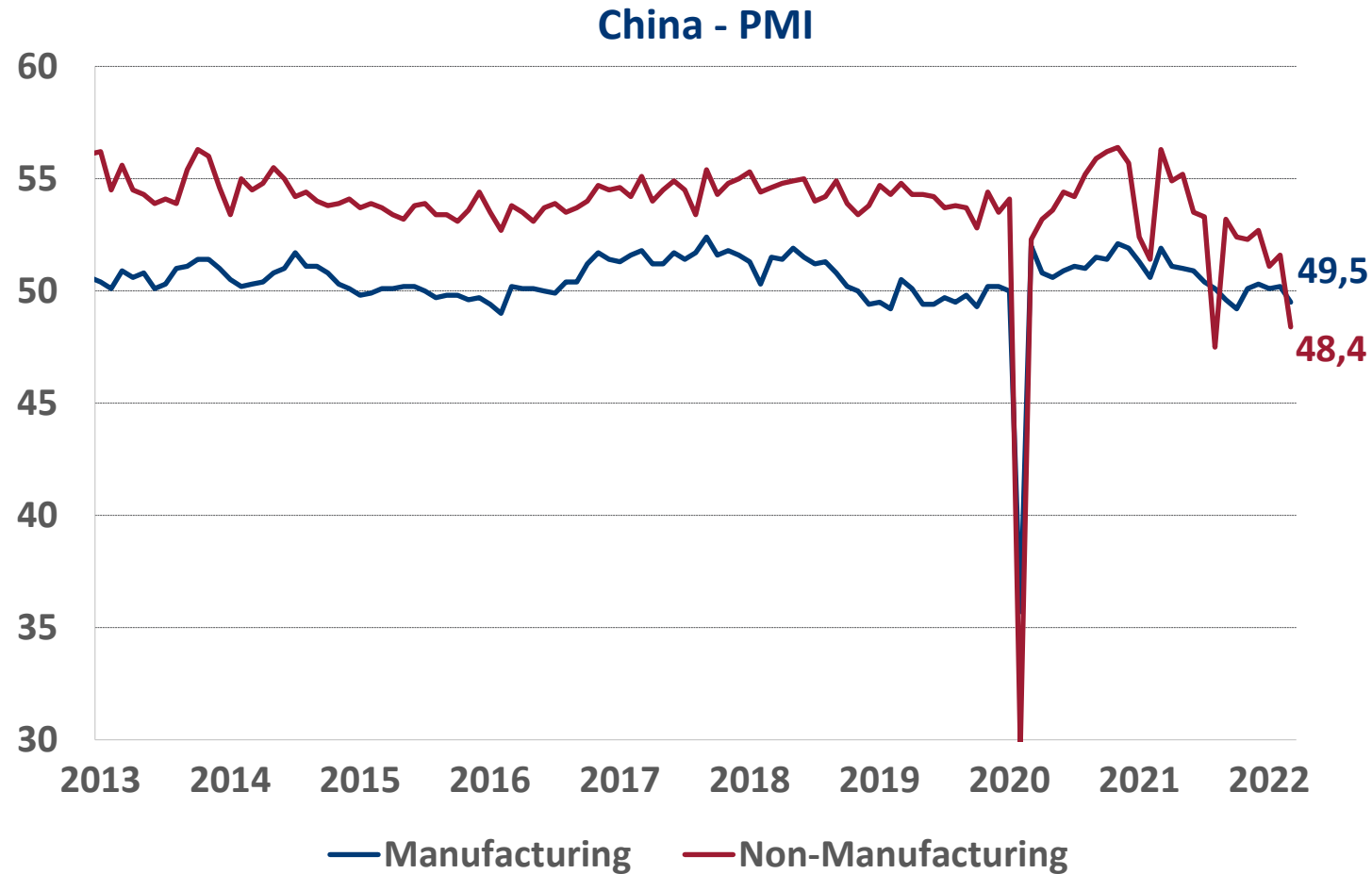
Daily new deaths - Brazil





# China: Activity

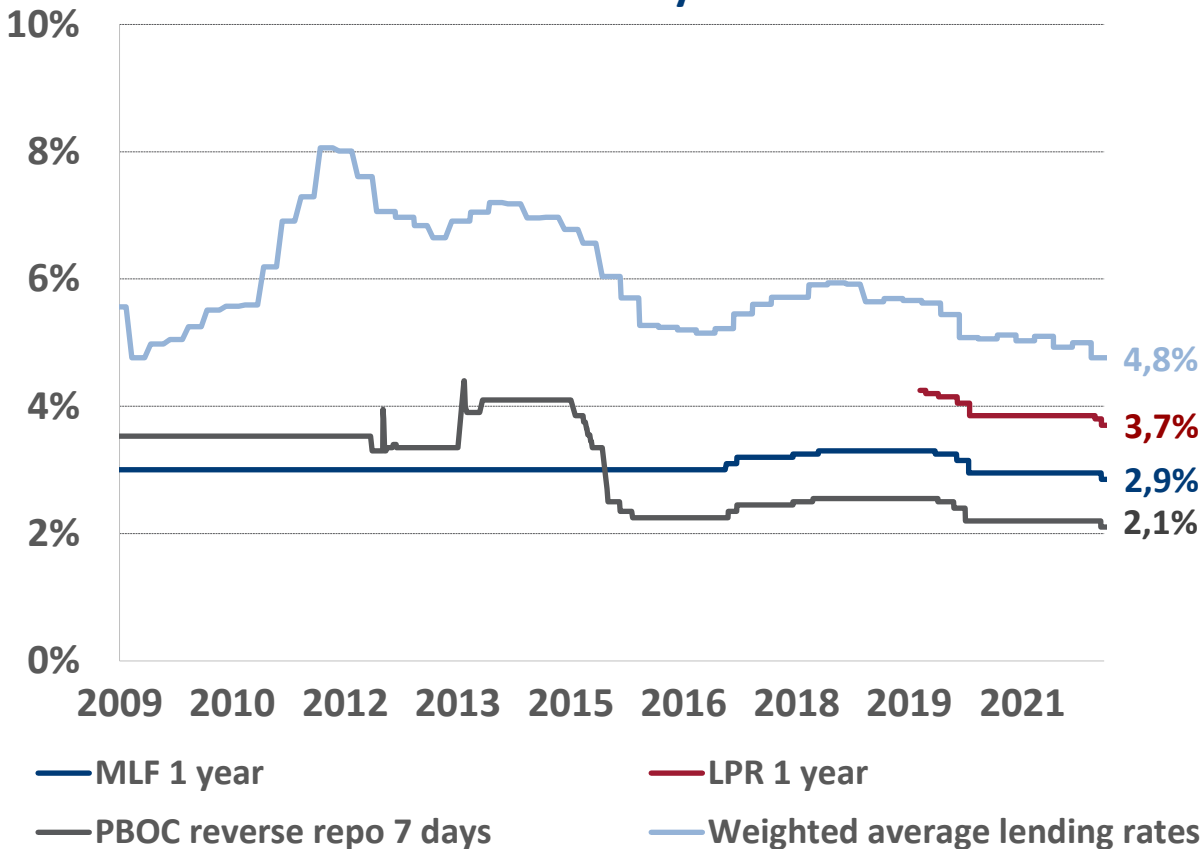
- » China's March PMIs dropped due to the Covid waves which generated lockdowns in important Chinese cities, including Shanghai.



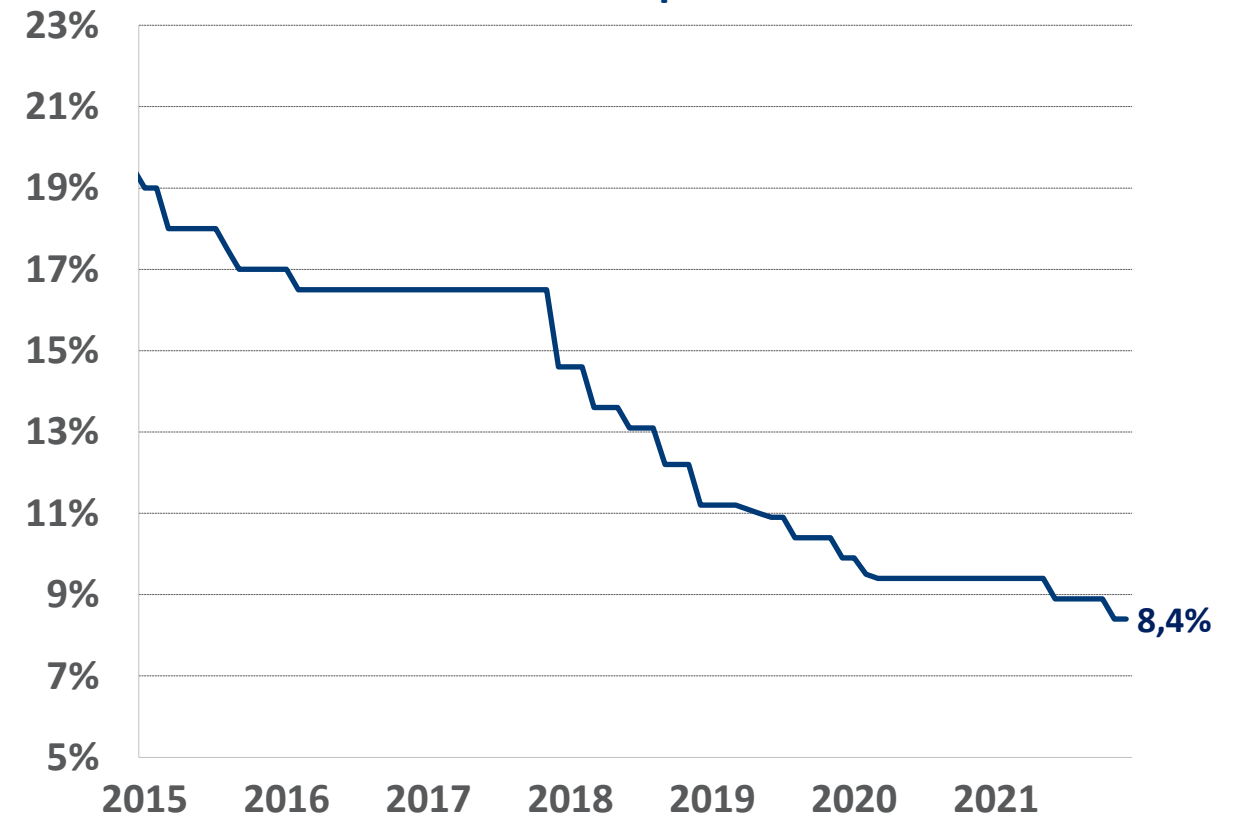
# China: Monetary Policy

» Throughout March, the Chinese Central Bank left policy rates unchanged amid strong credit growth at the start of the year. On the other hand, the communication continues pointing to support to economic growth and Chinese government official's speeches also point towards more flexibility of sectorial policies.

## China - Policy Rates



## China - Reserve Requirement Ratio



# USA: Inflation

- » US inflation accelerated reaching its highest level at 7.9% YoY, much above the FED long-term price stability target of 2%;
- » High inflation keeps setting stage for the FED to raise interest rates at a faster pace and to accelerate the pace of reducing its asset balance sheet considering the persistence of the inflationary process.

## US - CPI SA (YoY)



## US - PCE SA (YoY)



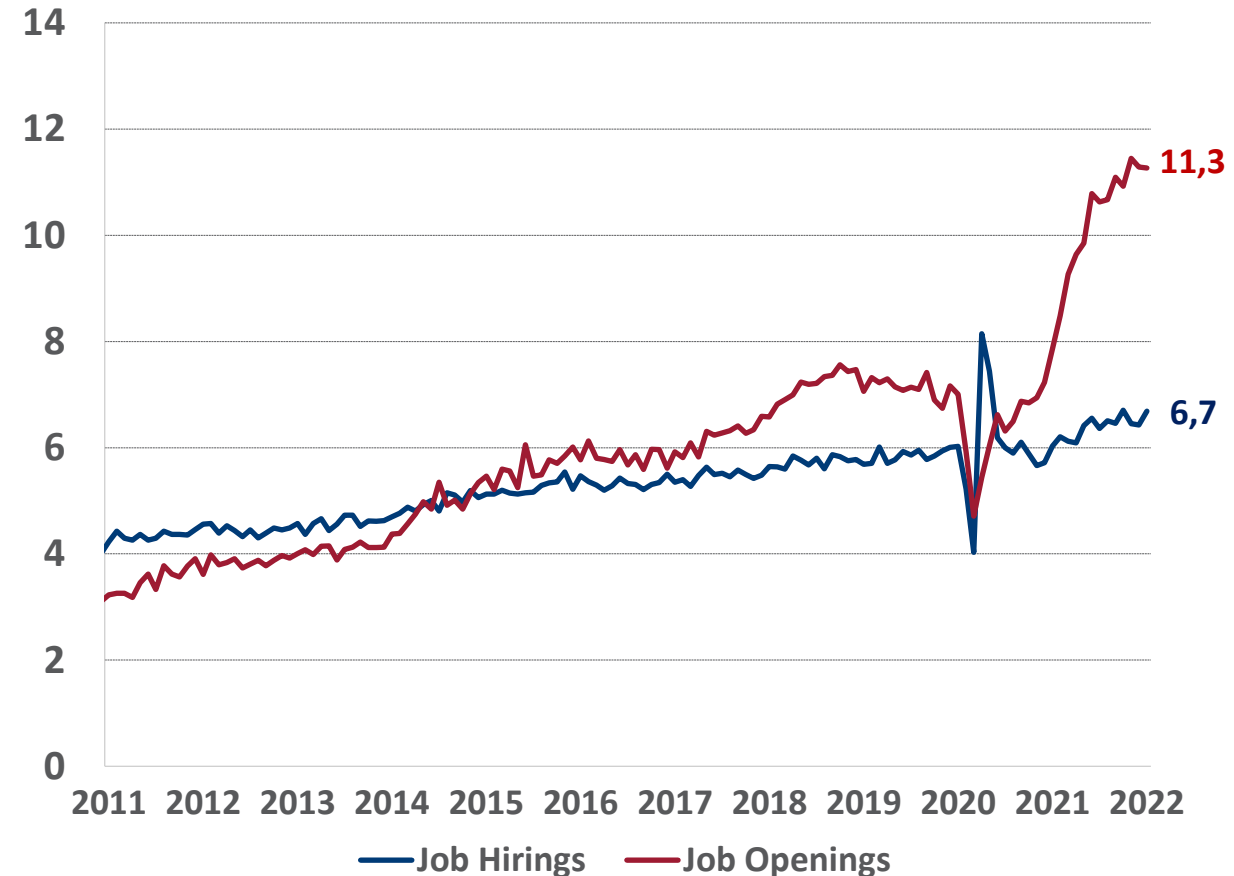
# USA: Labor Market

- » Labor market data point to a resilient U.S. economy, with the unemployment rate at a low level (3.6%) amid reduced case numbers and easing restrictions;
- » The number of job openings remained high, reinforcing the misalignment between labor demand and labor supply.

US - Unemployment Rate SA (%)

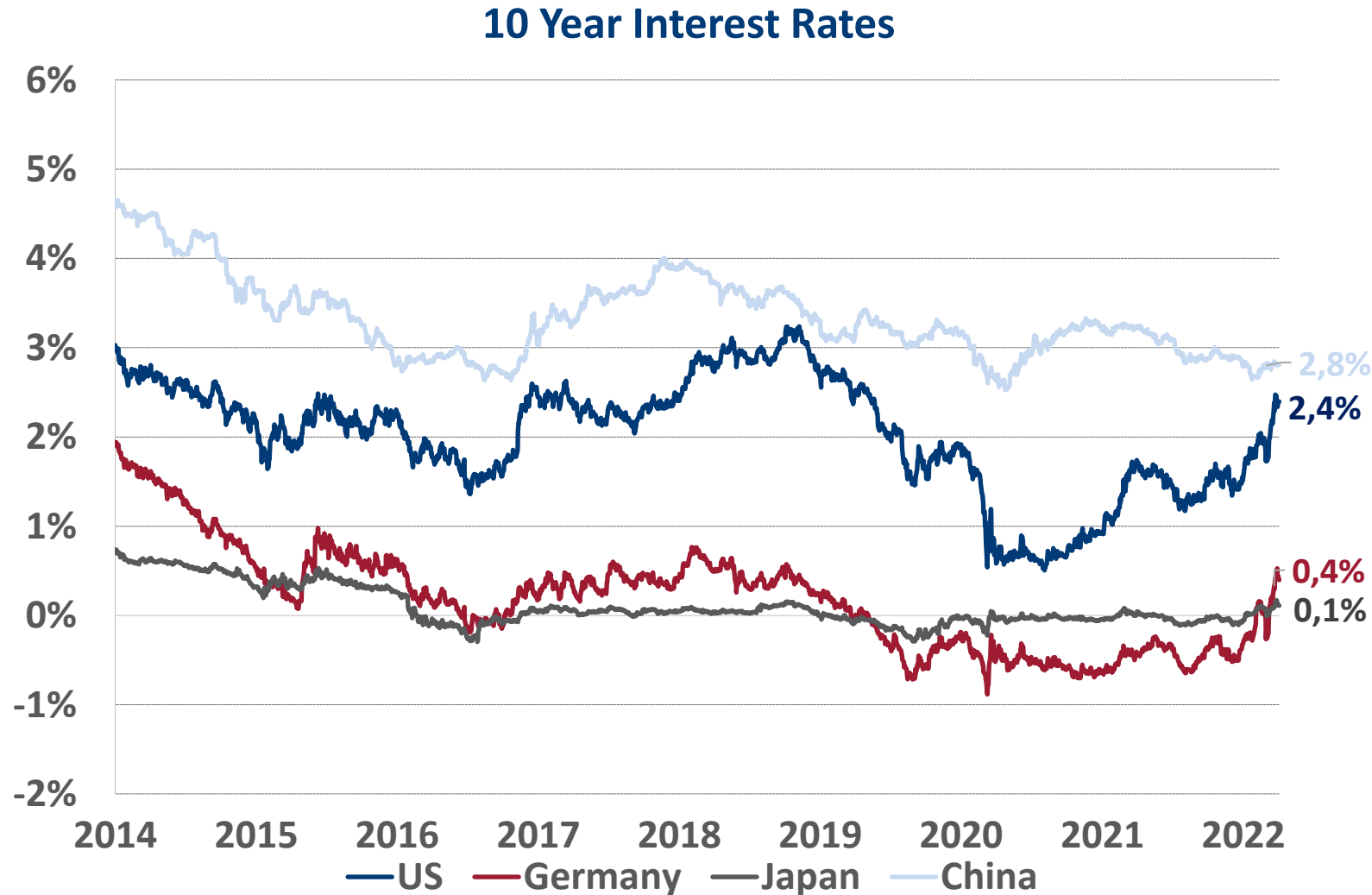


US - Job Openings and Hirings (Million)



# Global: Interest Rates

- » Long-term interest rates of some major developed countries recently reversed its upward trend in response to the intensifying Russian-Ukraine conflict.





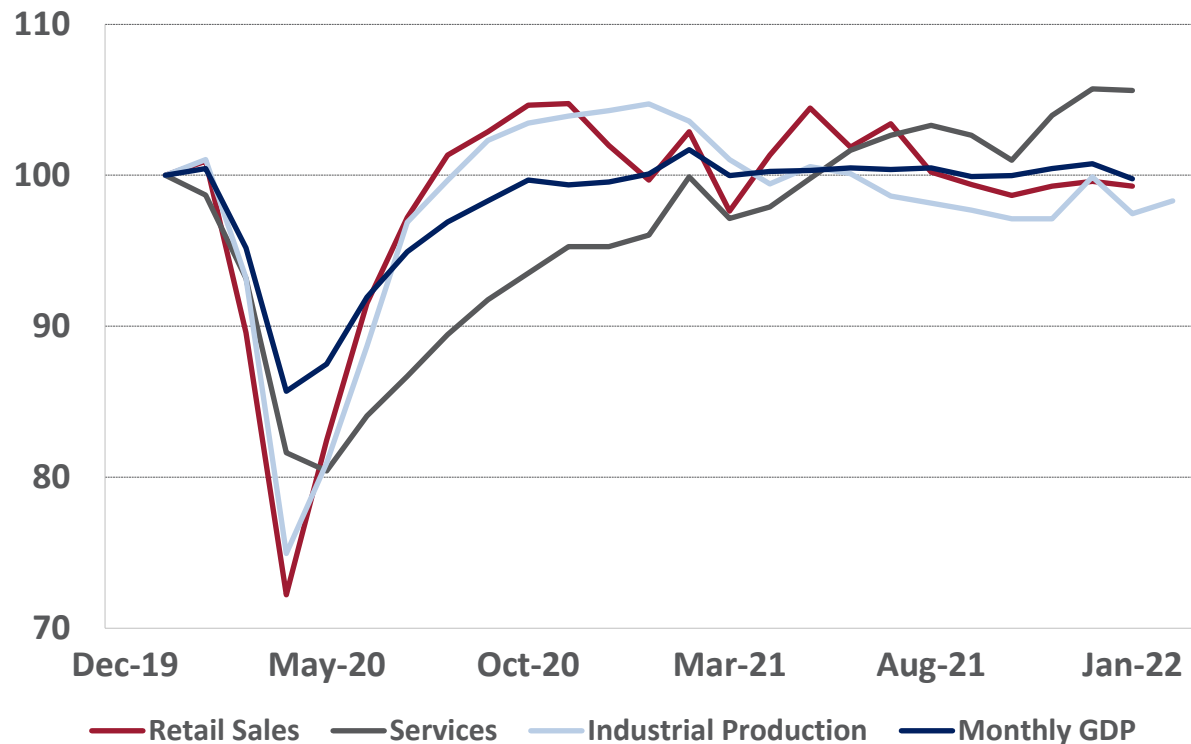
# Brazil: Forecasts

ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F
GDP Growth (%)	1,1%	-4,1%	4,6%	0,9%	1,7%
Inflation (%)	4,3%	4,5%	10,1%	7,3%	3,7%
Unemployment Rate (eoy ,%)	11,7%	13,9%	11,1%	11,8%	11,6%
Policy Rate (eoy, %)	4,50%	2,00%	9,25%	12,75%	8,00%
External Accounts					
Trade Balance (US\$ bn)	48	32	36	68	45
Current Account Balance (US\$ bn)	-65	-24	-28	-14	-40
Current Account Balance (% of GDP)	-2,8%	-0,9%	-1,8%	-0,8%	-2,6%
Fiscal Policy					
Central Government Primary Balance (% of GDP)	-1,2%	-10,0%	-0,4%	-0,9%	-0,9%
Government Gross Debt (% of GDP)	74,3%	88,8%	80,3%	80,9%	86,4%

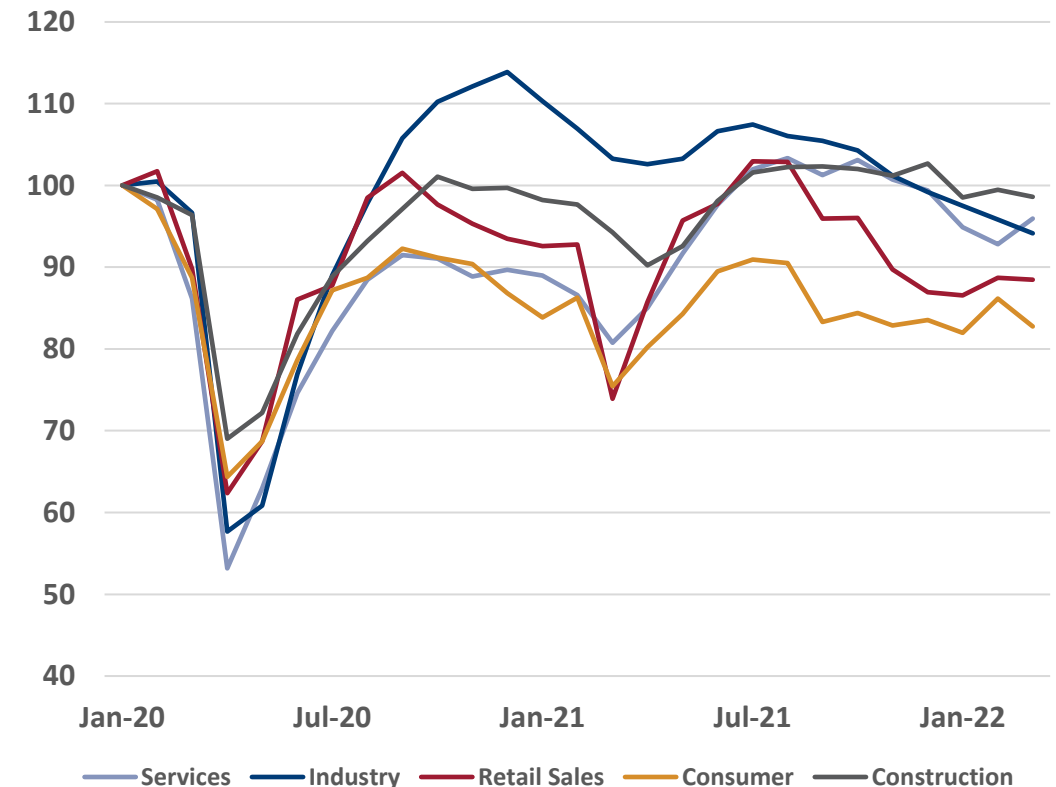
# Brazil: Activity

- » Broad activity data showed a weak start of the 1Q22, likely reflecting the omicron variant's impact;
- » But recent high frequency data brought a good perspective for the upcoming months with a slight increase in the industrial production in February and higher confidence index levels for services.

**Brazil - Economic Activity Indicators**  
(Jan/20=100)



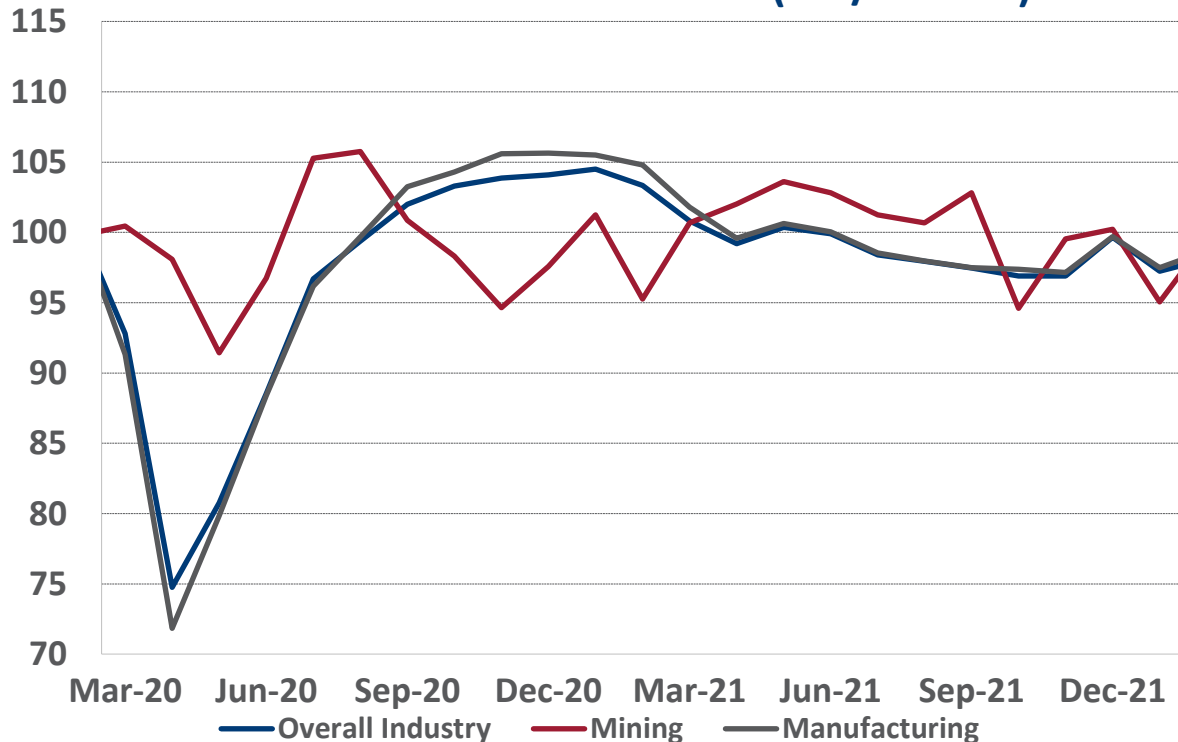
**Economic Confidence Index (Jan/20 = 100)**



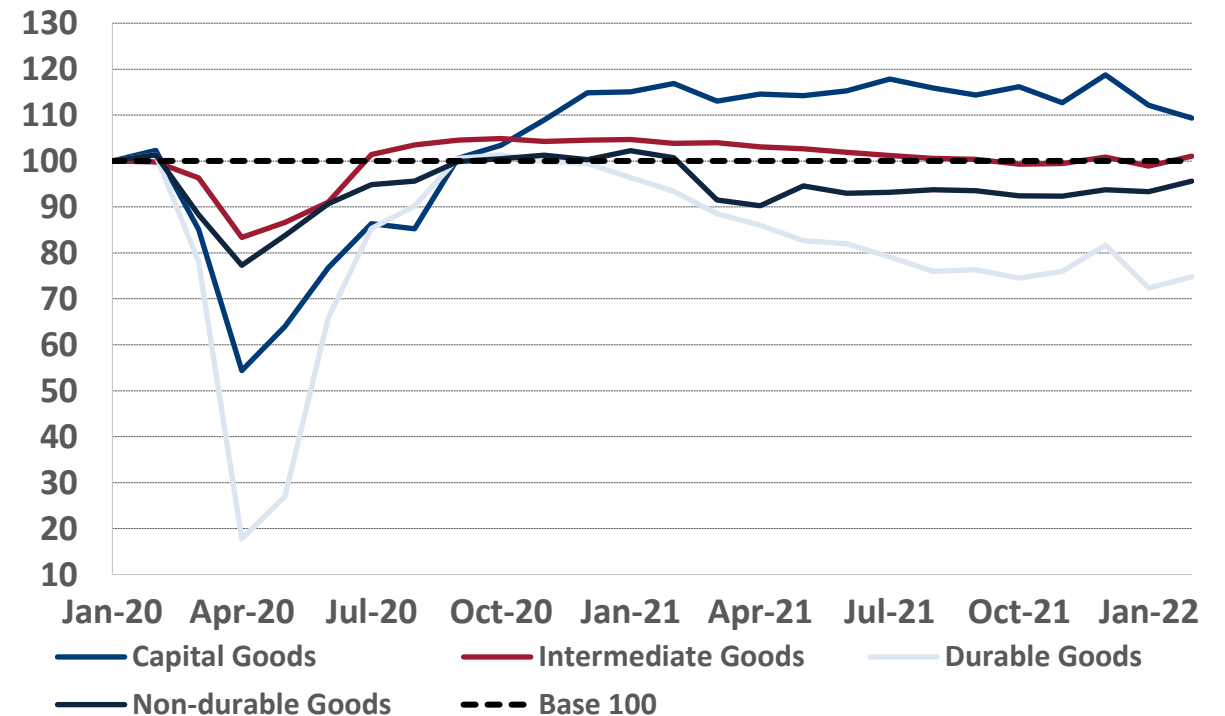
# Brazil: Industrial Production

- » The industrial production rose by 0.7% MoM in February having the mining sector as its highlight (5.3% MoM). However, it is 1.9% below pre-pandemic levels;
- » This increase was widespread through every economic category, being led by both capital (1.9% MoM) and intermediate goods (1.6% MoM), which recovered from their fall in January (-8.8% and -1.3%, respectively).

Industrial Production Index SA (Jan/20=100)



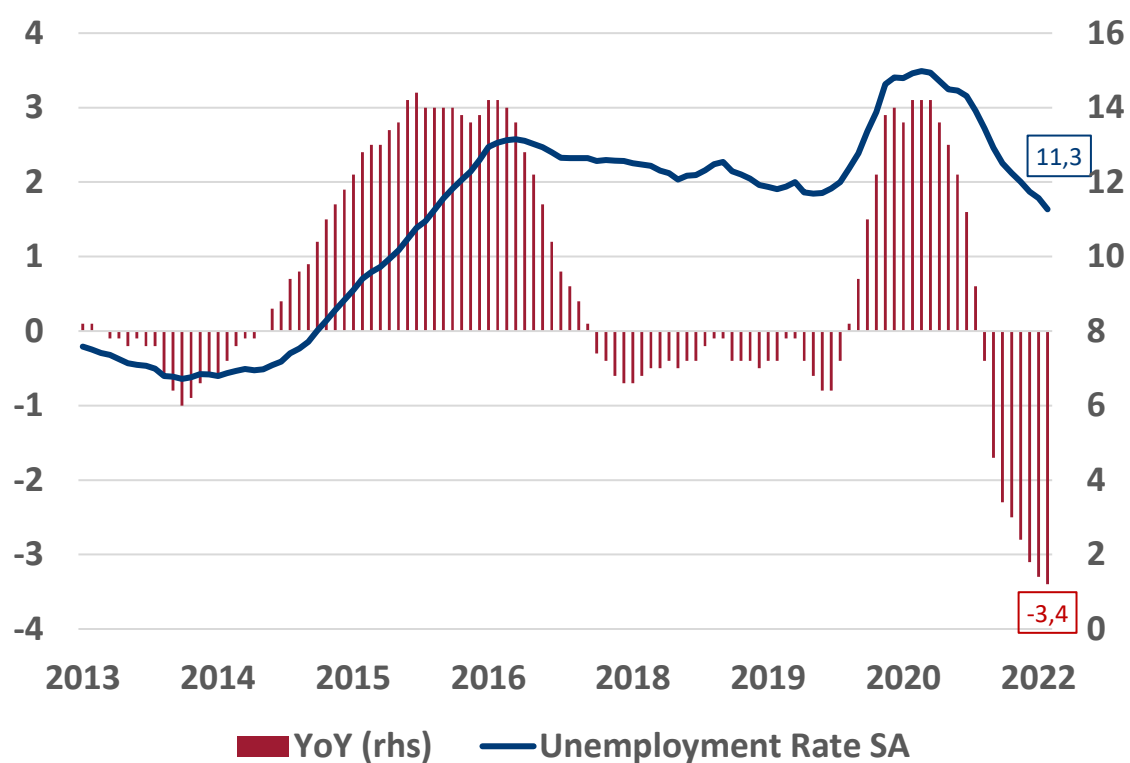
Industrial Production Index SA (Jan/20=100)



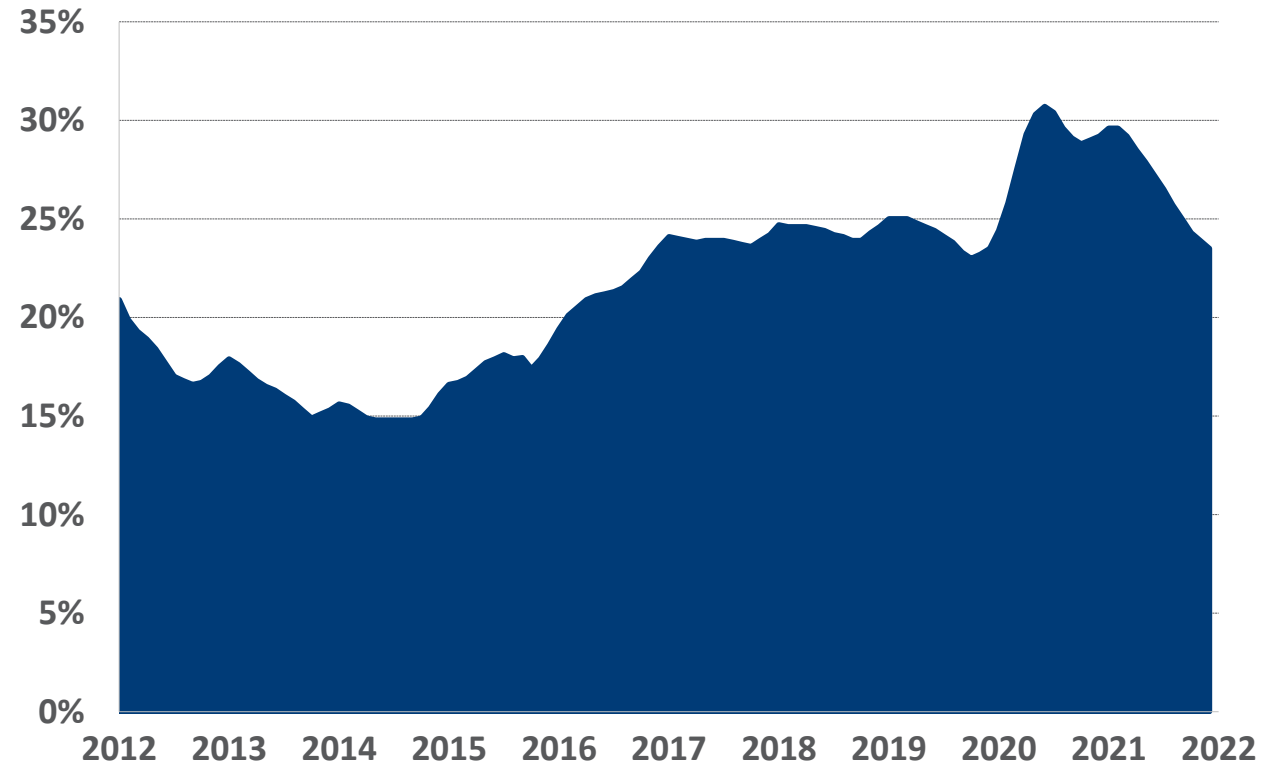
# Brazil: Labor Market (PNADC)

- » Labor market keeps improving on the heels of normalization process:
  - » Unemployment decreased 0.3% MoM and 3.4% YoY;
  - » And the underutilization of Labor Force is at 23.9%, almost reaching pre-pandemic levels.

## Brazil - Unemployment Rate



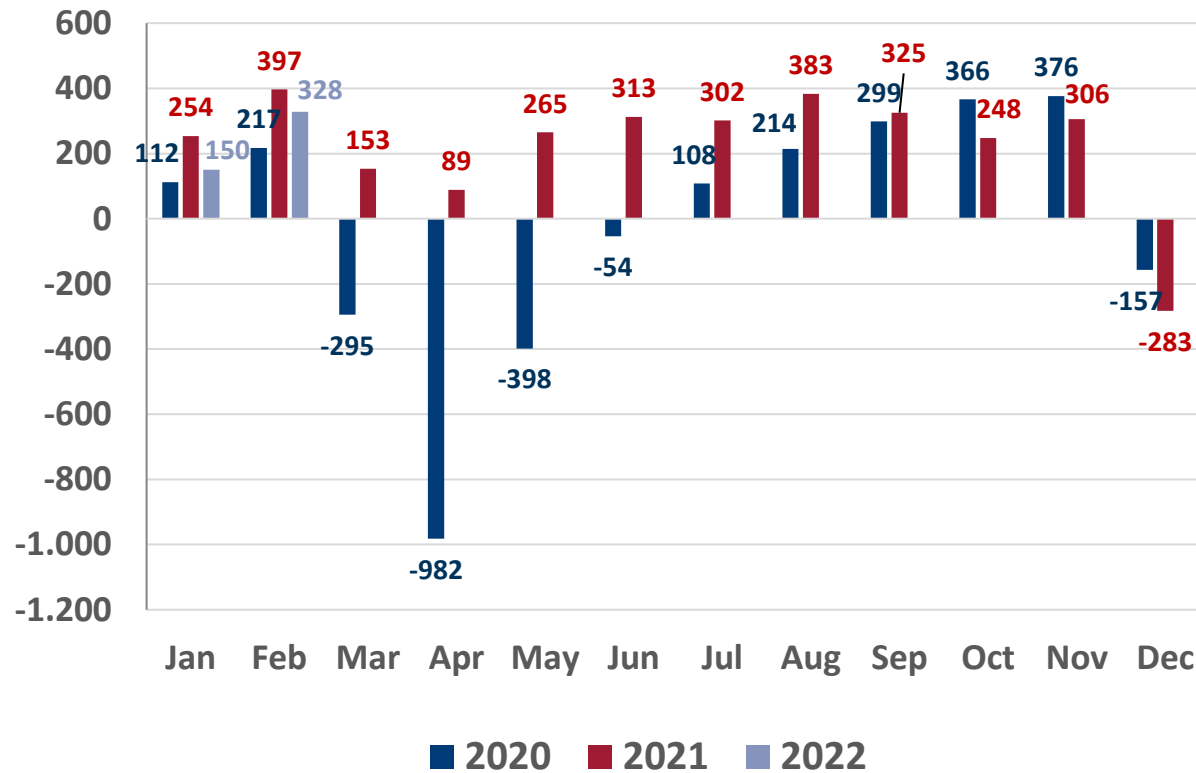
## Brazil - Underutilization of Labor Force



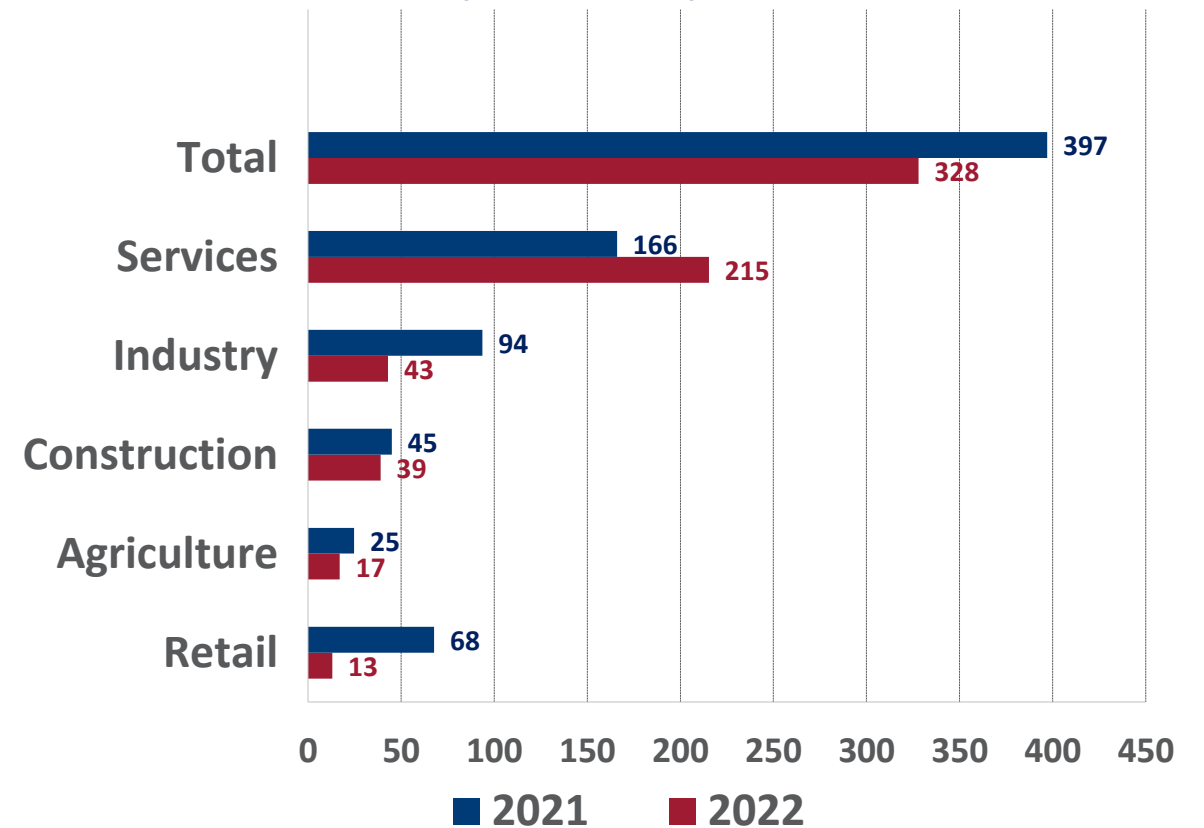
# Brazil: Labor Market (CAGED)

- » In February, net job creation printed a positive result of 328k, showing widespread net gain in every sector;
- » The results was led by the services sector, which was boosted by hirings for public services and education.

## Net Job Creation (Thousands)



## Net Job Creation by Sector SA - Feb/22 (Thousands)

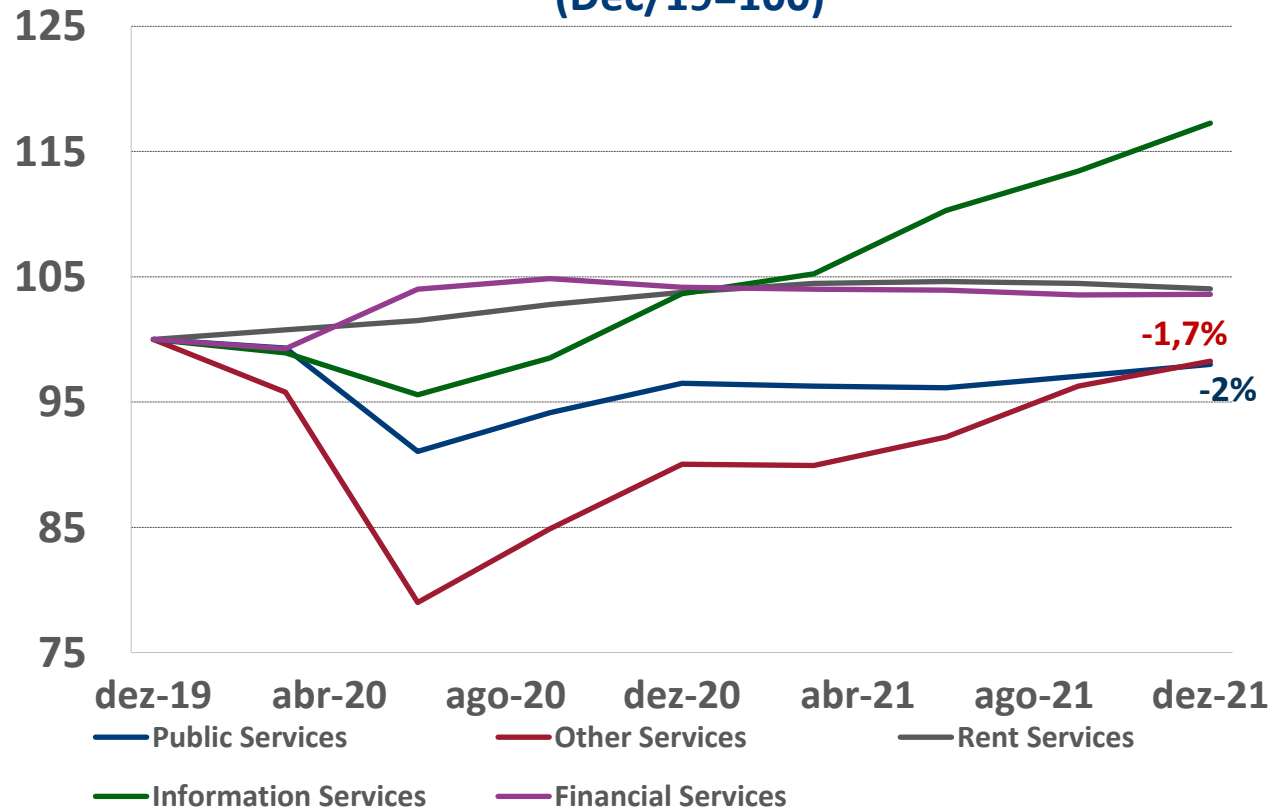




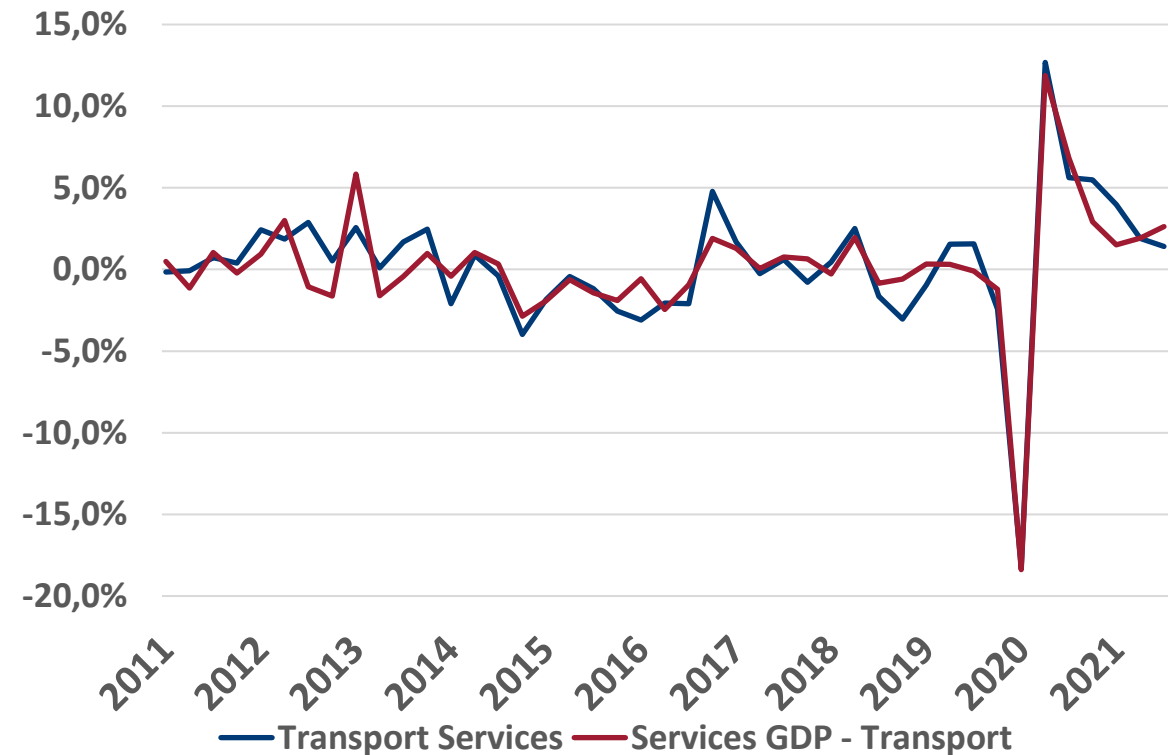
# Brazil: GDP scenario 2022

- » Services output remains the main vector of 2022 growth, with the recovery of segments – which are below the 4Q19 level- highly related to mobility (Public and other services);
- » Transport and information services have a carry over to 2022 and should contribute to a good annual growth.

**Selected Segments of the Services GDP Index SA  
(Dec/19=100)**



**Transport Services (PMS) x Services GDP - Transport  
(QoQ)**

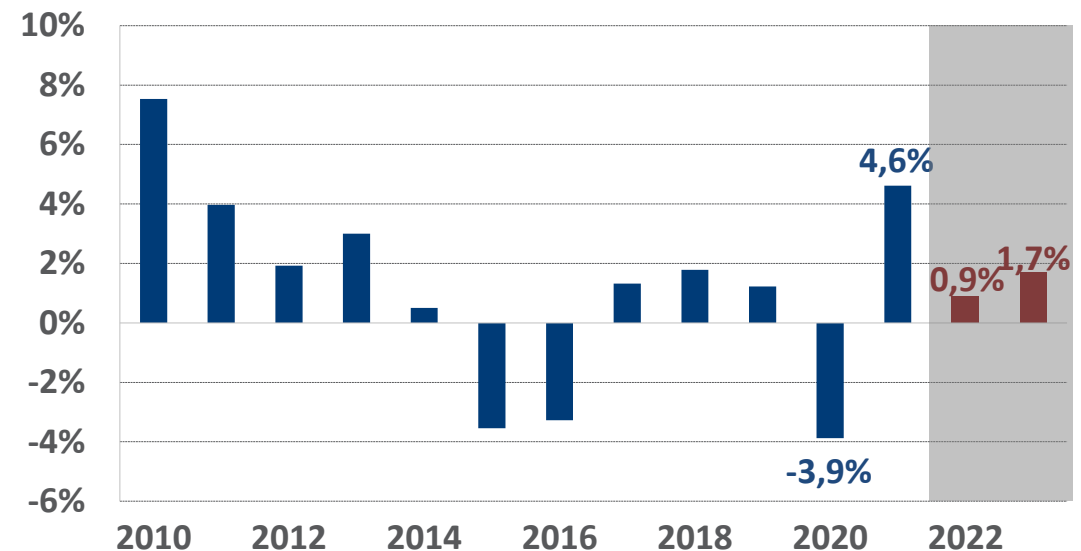


# Brazil: GDP scenario 2022

- » Our growth projection was revised to 0.9% due to the carry over effect and the recovery of some sectors. The agriculture output was revised down in line with production forecasts;
- » In 2023, we project a 1.7% growth due to the recovery of stocks in industry, lower interest rates and decreasing economic uncertainty after elections.

	Weights(%)	4Q21 %YoY	4Q21 %QoQ	2021 %	Carry-over 2022
<b>GDP</b>	100	1,6	0,5	4,6	0,3%
<b>Supply</b>					
<b>Agriculture</b>	6,9	-0,8	5,8	-0,2	-0,4
<b>Industry</b>	18,9	-1,3	-1,2	4,5	-1,2
Mining	4,7	4,5	-2,4	3,0	-0,3
Manufacturing	9,6	-6,9	-2,5	4,5	-3,2
Civil Construction	2,2	12,2	1,5	9,7	3,8
Utilities	2,3	0,7	-0,2	-0,1	-0,7
<b>Services</b>	59,4	3,3	0,5	4,7	1,1
Retail	13,0	-2,9	-2,0	5,5	-2,2
Transportation and Storage	3,3	9,3	2,6	11,4	3,3
Information and Communcation	2,9	13,8	3,4	12,3	5,1
Financial Activities	5,2	-0,4	0,0	0,7	-0,2
Real Estate Acitivities	8,1	0,2	-0,4	2,2	-0,3
Other Services	12,9	9,7	2,1	7,6	4,3
Public Services	14,0	2,0	1,0	1,5	1,2
<b>Demand</b>					
<b>Consumption</b>	61,0	2,1	0,7	3,6	1,0
<b>Government</b>	19,1	2,8	0,8	2	1,4
<b>Investment</b>	19,2	3,4	0,4	17,2	-0,9
<b>Exports</b>	20,1	3,3	-2,4	5,8	-3,8
<b>Imports</b>	-19,1	3,7	0,5	12,4	-3,0

**GDP Annual Growth (%)**



**GDP Projections 2022**

GDP Breakdown	Weights(%)	2019	2020	2021	2022
<b>Agriculture</b>	6,9	0,4	3,8	-0,3	2,0
<b>Industry</b>	18,9	-0,7	-3,4	4,3	-0,6
<b>Services</b>	59,4	1,5	4,5	4,5	1,6
<b>Total GDP</b>		1,2	4,6	4,6	0,9

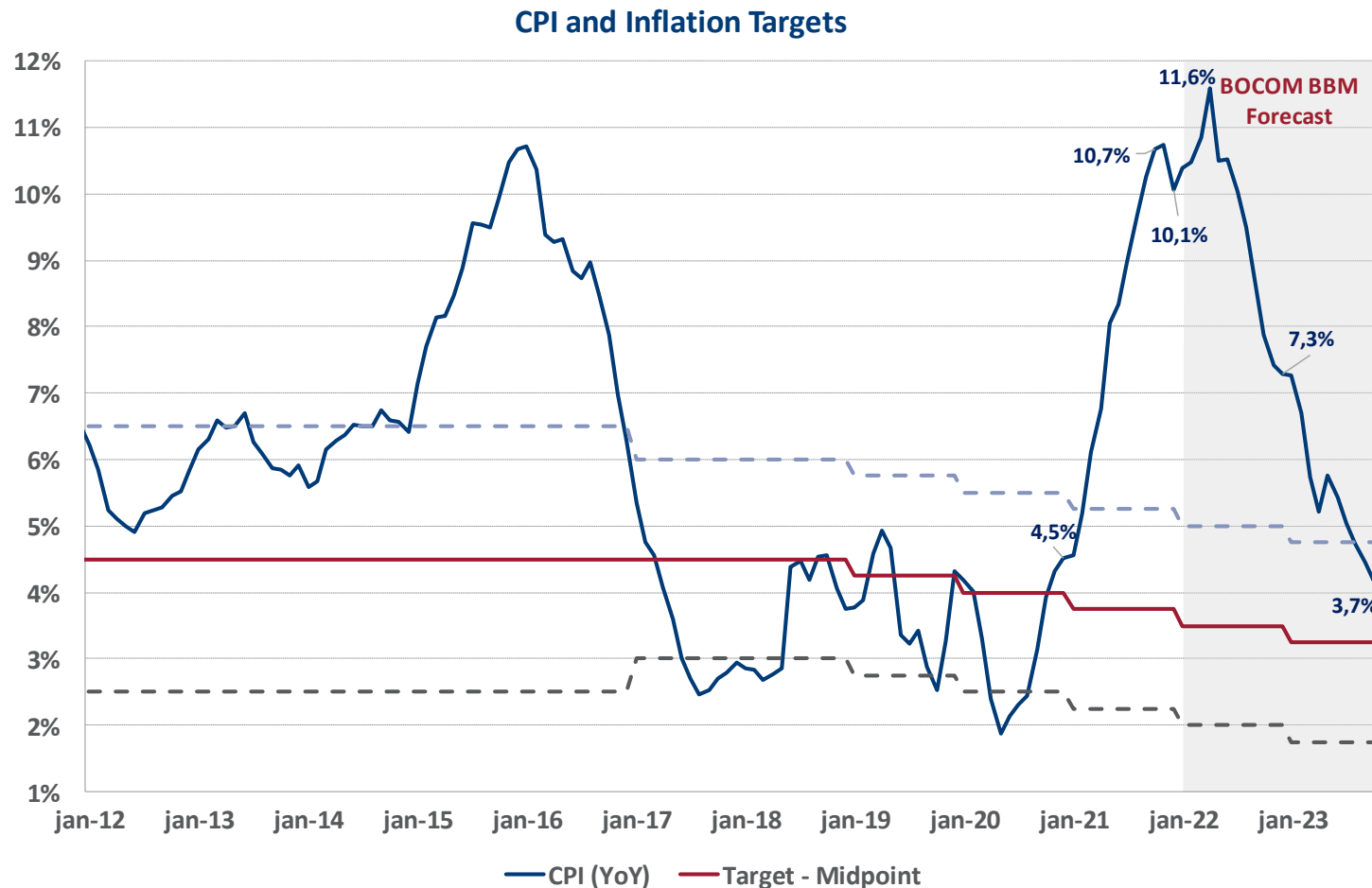
# Brazil: Inflation

- » The CPI peak should be reached in April, when the hydrological scarcity flag will end. The 2022 projection presents a high number due to the persistence of services inflation and the impacts of the war;
- » In 2023, regulated items readjustments and services inflation inertia will bring inflation above the target of 3.3%.

Baseline Scenario (YoY)						
	IPCA	Regulated	Non-Regulated	Services	Food-at-Home	Industrial Products
<b>20 Q4</b>	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%
<b>21 Q4</b>	10,1%	17,0%	7,8%	4,7%	8,2%	12,0%
22 Q1	10,9%	14,3%	9,8%	6,2%	13,0%	13,2%
22 Q2	10,5%	10,9%	10,4%	7,6%	13,6%	12,3%
22 Q3	8,5%	8,1%	8,7%	7,3%	9,1%	10,5%
<b>22 Q4</b>	7,3%	6,1%	7,7%	6,4%	9,2%	8,6%
23 Q1	5,6%	5,4%	5,7%	5,9%	4,9%	5,9%
23 Q2	5,4%	7,3%	4,7%	5,1%	4,1%	4,5%
23 Q3	4,6%	6,1%	4,0%	4,3%	4,0%	3,5%
<b>23 Q4</b>	3,7%	4,7%	3,4%	4,0%	3,8%	2,2%

# Brazil: Inflation

- » Our 2022 CPI projection takes into account Brent prices at US\$ 125, the USDBRL at 5.0, and electric energy yellow flag by the end of the year;
- » In 2023, CPI forecast at 3.7% above the target, considering the secondary effects of the shock.



» In 2022, the 7.3% projection is mainly caused by high inertia in services inflation, high inflation expectations and the impact of Russia-Ukraine war, phenomena that brings uncertainty to projections. Further risks to 2022 CPI are:

## Upside risks:

1. The BRL recent appreciation could be reverted with the uncertainty triggered by the war and enlarge the upside revisions;
2. The supply chain bottlenecks could last longer and have higher impact than expected.

## Downside risks:

1. Further BRL appreciation could impact the production costs of industrial goods and food stuff inputs;
2. The IPI tax rate cut impact on inflation could be underestimated and industrial goods inflation could decrease;
3. Activity decline and high unemployment start playing a larger role due to the high interest rate;
4. Hydrological crisis finished with green flag in December 2022.

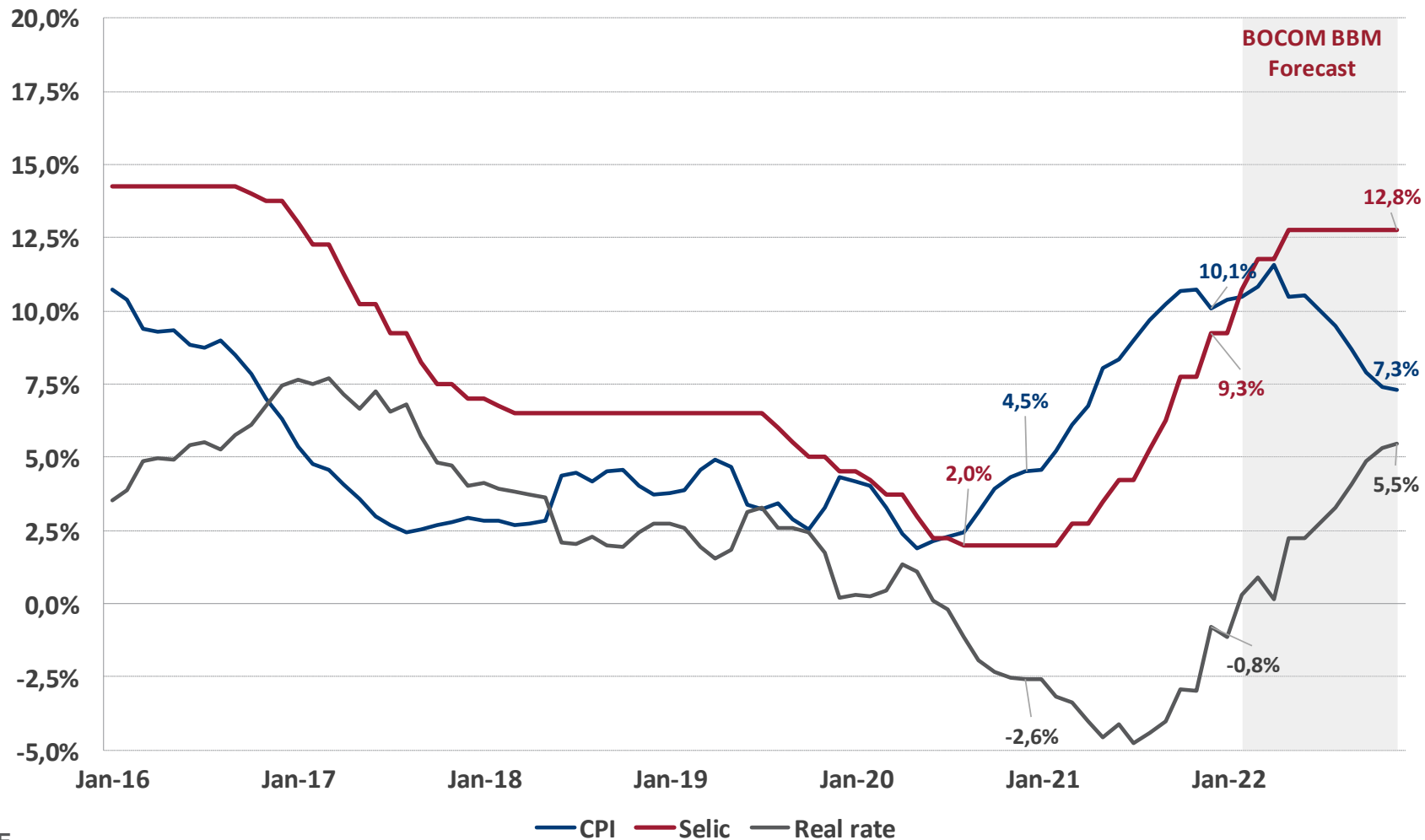
» In 2023, we expect that secondary effects of the shock continue to impact the economy. Some regulated items readjustments will be impacted by the higher oil price this year. Besides, it is expected that services inflation will show persistence in 2023 in line with higher inflation expectations.



# Brazil: Interest rates

» Scenario: Copom hikes Selic by 100 bps in May, finishing the hike cycle with 12.75%.

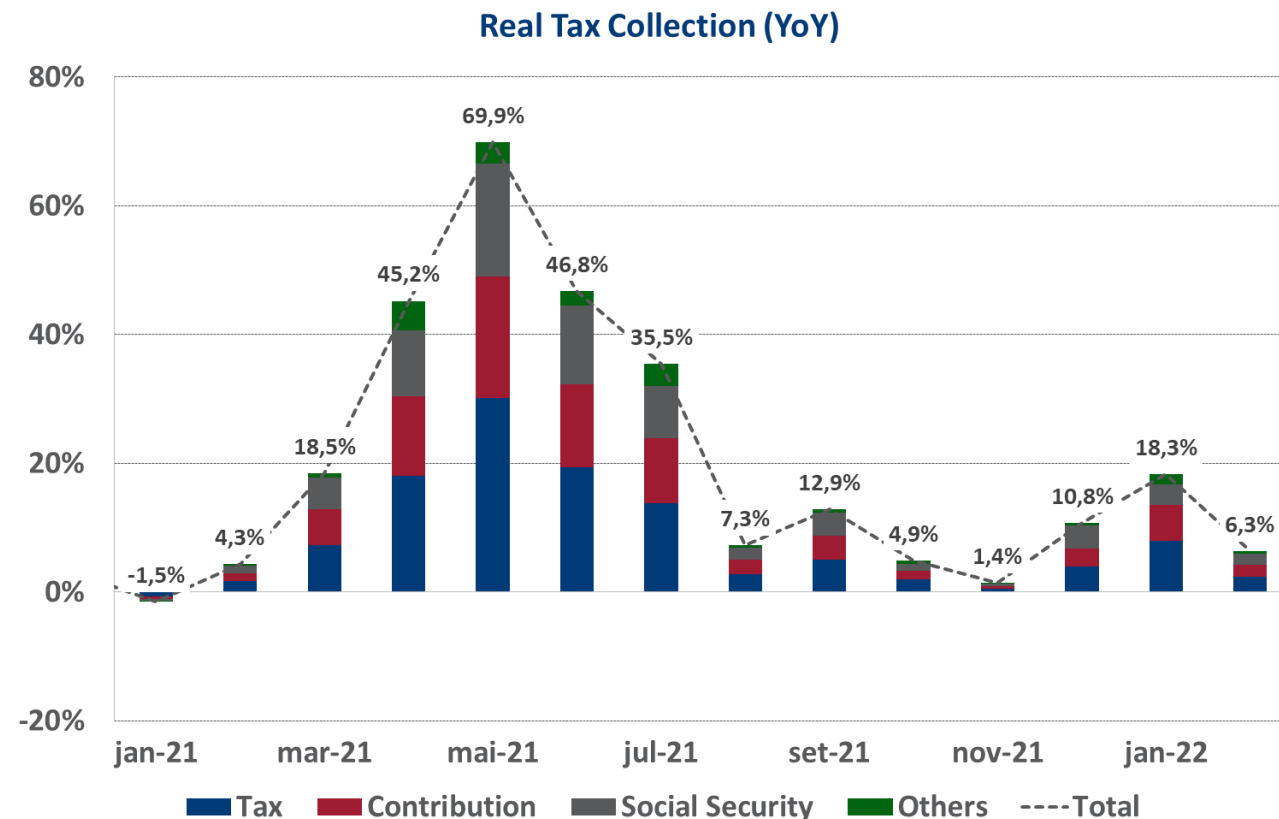
Brazil: CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)



# Brazil: Tax Collection

- » The February collection result of BRL 148.7 billion was below the consensus of BRL 152 billion;
- » PIS/COFINS had a real growth of 6.68%, and IRPJ and CSLL a retraction of 1.93%.

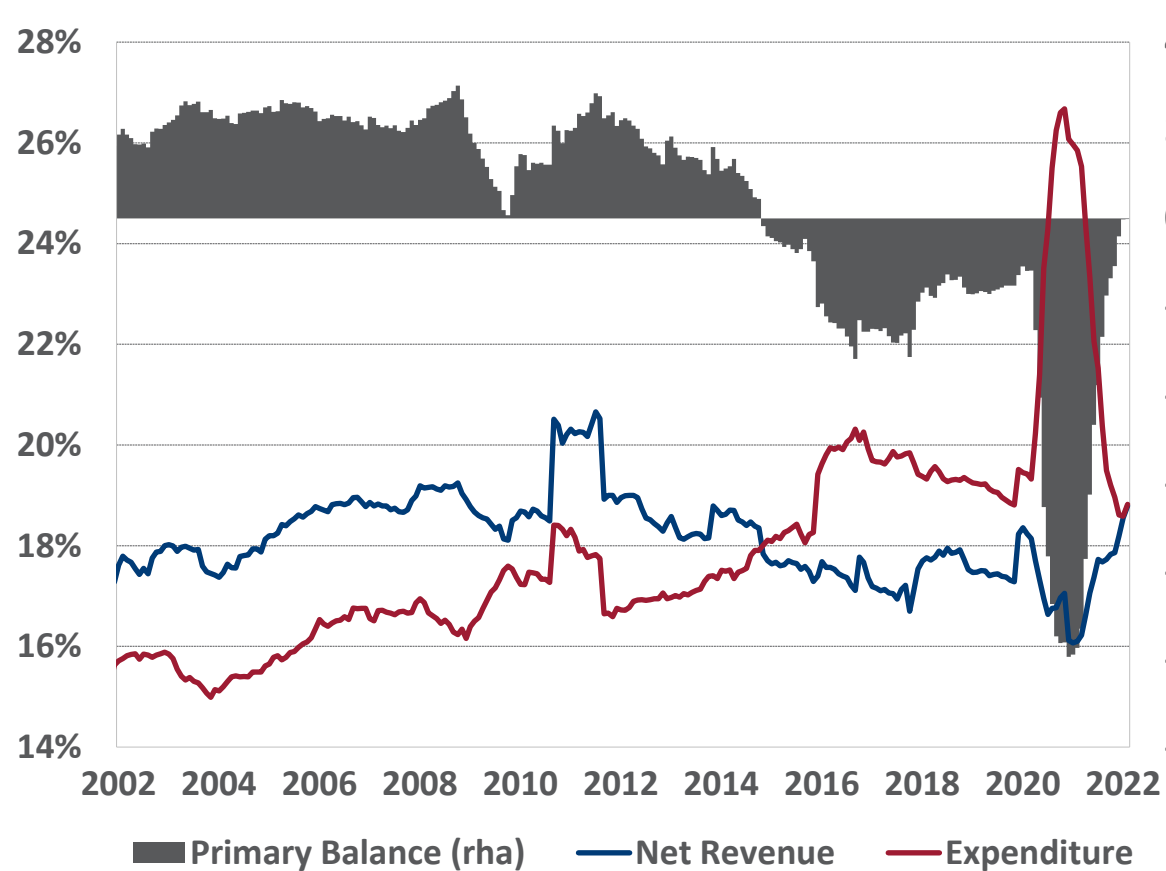
Central Government Tax Revenue Feb-22	BRL Billions	YoY Real	YDT YoY Real
Import taxes	4,6	-14,2%	-8,3%
IPI-Total	5,6	-11,6%	-4,1%
Individual Income Taxation (IRPF)	2,7	38,2%	-7,0%
Corporate Income Taxation (IRPJ)	17,3	-6,4%	15,5%
Withholding Income taxes (IRRF)	21,3	13,7%	9,7%
IOF	4,5	26,3%	52,8%
ITR	0,0	2,3%	15,0%
COFINS	25,0	8,1%	8,7%
PIS/PASEP	7,0	1,8%	4,3%
CSLL	8,7	8,3%	36,2%
CIDE	0,2	409,2%	444,8%
PSS	3,0	-11,6%	-11,2%
Other Taxes Administered by the Central Govt	1,5	-27,5%	-18,8%
Social security	41,0	3,3%	3,8%
<b>Administered by the Central Government [A]</b>	<b>142,6</b>	<b>3,4%</b>	<b>10,0%</b>
Administered Ex Social Security	101,6	3,5%	12,0%
<b>Administered by Other Entities [B]</b>	<b>6,1</b>	<b>79,8%</b>	<b>89,2%</b>
<b>TOTAL [A + B]</b>	<b>148,7</b>	<b>5,3%</b>	<b>12,9%</b>



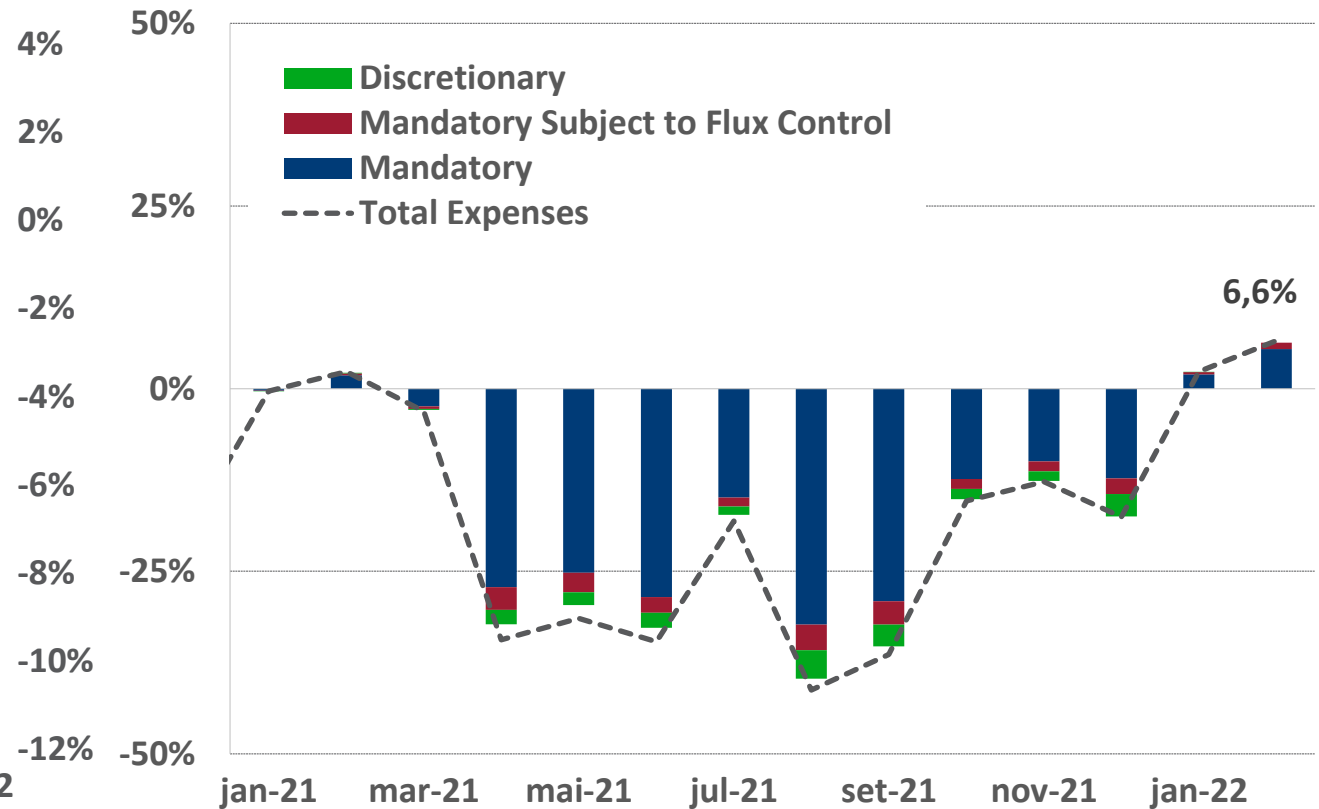
# Fiscal: Central Government's Primary Result

- » Central Government's Primary result registered a **BRL -20.6 bn figure**, bigger than market consensus (BRL -19.3 bn);
- » Expenses: BRL 2.9bn in extraordinary credits to vaccines and BRL 1.9bn in subsidies and discretionary expenses.

Brazil: Net Revenue and Expenditure (% GDP 12M)



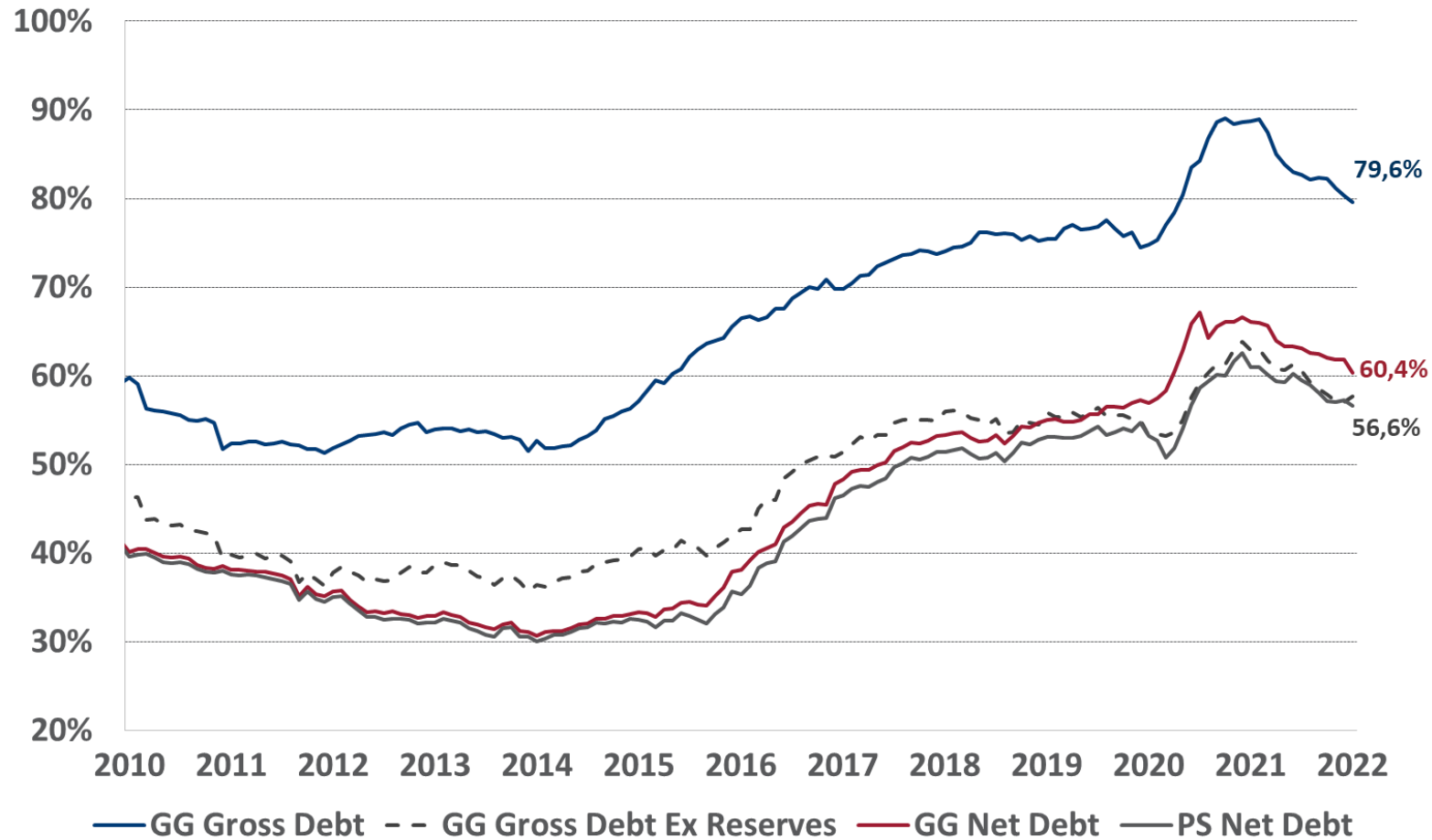
Central Government Real Expenses (YoY)



# Brasil: Public Deficit

- » The Gross Public Debt fell to 79.6% of GDP, below that observed in January 2021, which was 88.8% of GDP. The fiscal result was driven by the increase in commodity prices and the recovery in economic activity.

Different Public Debt Measures (% GDP)



# Brasil: Fiscal Measures

## » Measures approved and discussed in the last month:

Measure	Description	Status
PLP 11/2020	Adoption of a uniform rate for ICMS by deliberation of the States and Federal District; Total exemption from PIS/COFINS on diesel, gas, biodiesel and aviation kerosene until the end of the year.	Approved
PL 1472/2021	Creation of a national fuel price policy, a stabilization fund, gasoline aid and expansion of the gas aid.	Under consideration by the Chamber of Deputies
Refis do Simples	Promulgation of Refis	Congress rejected the presidential veto
IOF Reduction	New cut in transactions All taxes will be zeroed out by 2029	Approved
AFRMM Reduction	Reduction of AFRMM and the tax benefit for ports and railroads, Reporto	Congress rejected the presidential veto
New Package	Injection of BRL 150 billion to stimulate the economy	Approved

## » Fiscal impact related to fuel decisions:

Impacts estimated by Parliament		
	PLP 11/2020	PL 1472/2021
Union (Federal Government)		
Exemption of federal taxes (PIS/Pasep and Cofins)	BRL 17,8 billion	
Expansion of the "Gas Aid" program		BRL 1,9 billion
Emergency aid for gasoline		BRL 3,0 billion
Total	BRL 17,8 billion	BRL 4,9 billion
	BRL 22,7 billion	



# Brazil: Fiscal Measures

## » IPI reduction:

- » Approval of a 25% linear cut in all IPI taxes, except for tobacco (no cut) and automobiles (18.5% cut);
- » The cut can reach up to 33%, according to Paulo Guedes, Minister of Economy.

	2021 Revenue BRL bn	Fiscal Impact	
		Initial Cut	+10% Cut
IPI-Total Ex Tobacco	69.35	17.2	24.1
<b>18.5% Initial Cut</b>			
IPI-Automobiles	2.19	0.4	0.6
<b>25% Initial Cut</b>			
IPI-Beverages	2.38	0.6	0.8
IPI-Imports	31.74	7.9	11.1
IPI-Others	33.04	8.3	11.6
Metallurgy	3.5	0.9	1.2
Wholesale Trade	5.5	1.4	1.9
Manufacture of Plastic Materials	3.8	1.0	1.3
<b>No cut</b>			
IPI-Tobacco	5.59	-	-

# Brasil: Fiscal Projections

- » Revenue-related projections released in the LOA, the Bimonthly Budget Report, and made by Bocom BBM:

Discrimination	BRL Billion			Bocom BBM
	LOA 2022 (A)	1st Bimester Assessment (B)	Difference (B) - (A)	
1. Total Primary Revenue	2030,52	2118,01	87,49	
2. Transfers by Revenue Breakdown	386,40	431,93	45,53	-
3. Net transfer revenues (1) - (2)	1644,12	1686,09	41,97	1677,3
4. Primary Expenditures	1720,29	1752,99	32,71	1751,3
Mandatory	1589,49	1621,73	32,24	-
Discretionary	130,79	131,26	0,47	-
5. Primary Central Government Result	-76,17	-66,91	9,26	-74

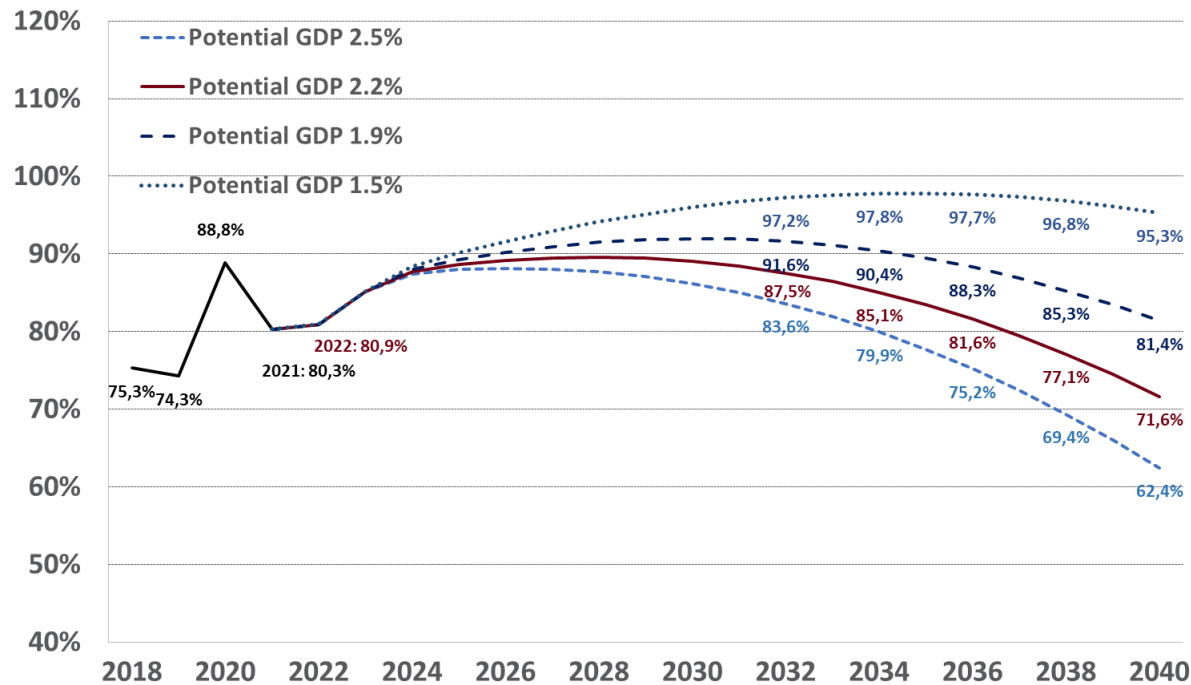
# Brasil: Debt Scenario

» Our projection for the Debt/GDP ratio in 2022 is 80.9% according to our base case scenario.

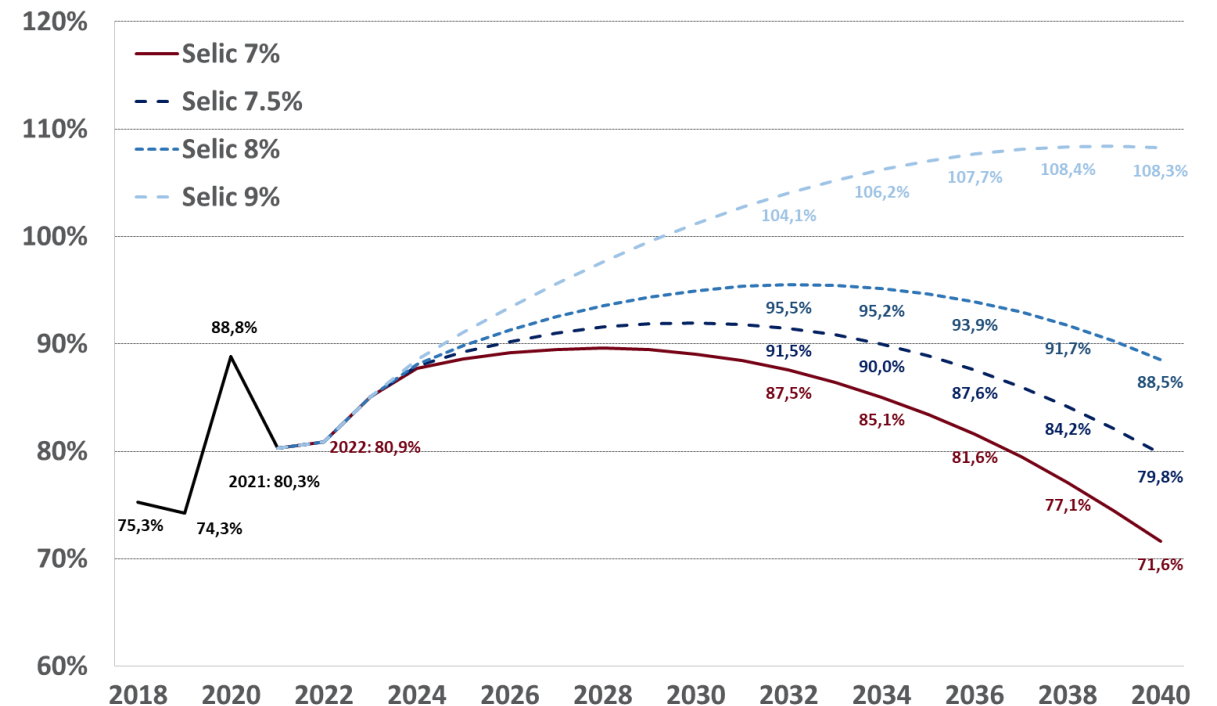
## Other Hypothesis:

Potential GDP	7%
Increase Spending Cap 2023 to 2026	7.75%
Increase Spending Cap after 2026	3.4%
GDP Deflator	3%
Long Term CPI	2.2%

Debt to GDP Ratio - Different Potential GDPs

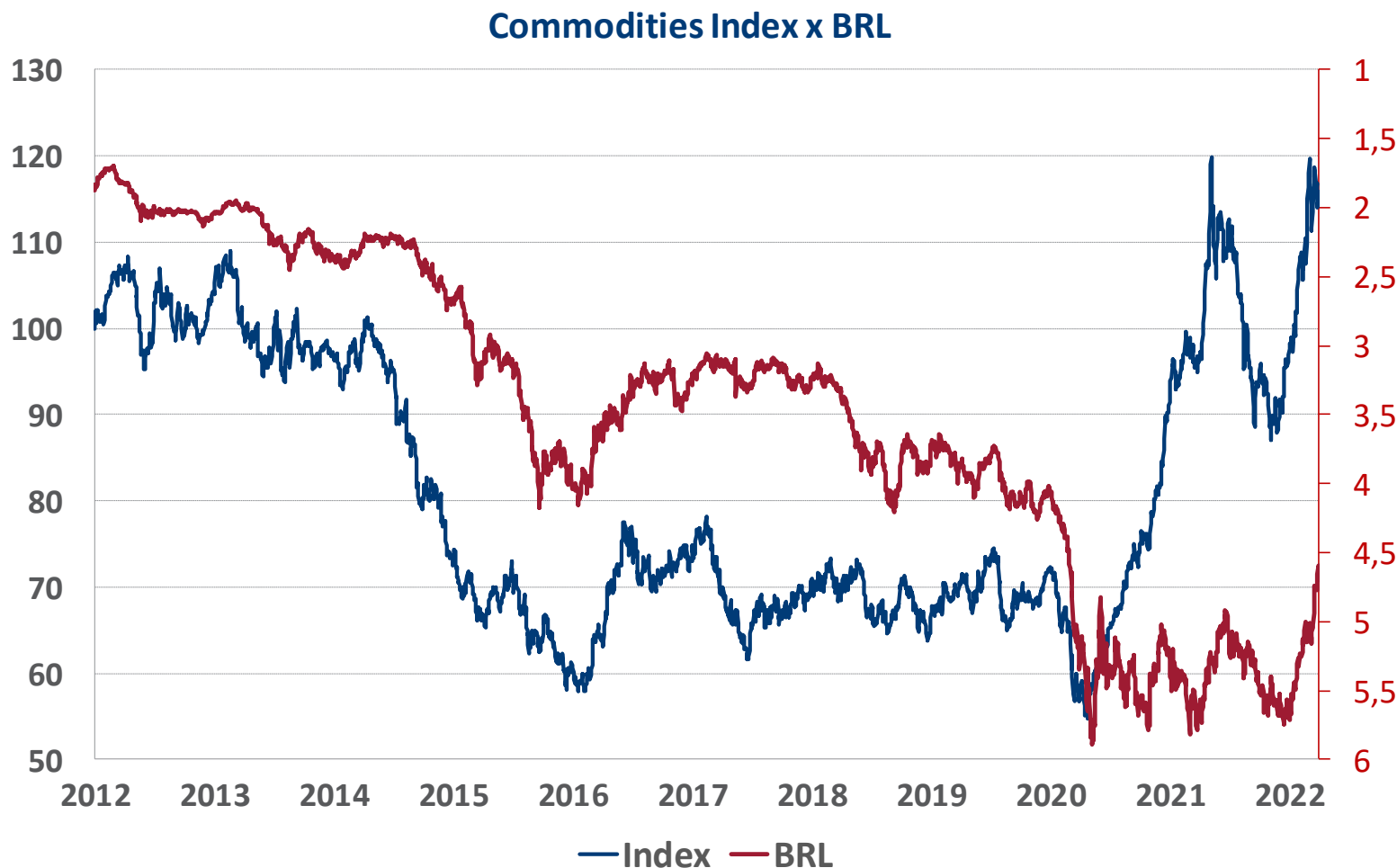


Debt to GDP - Different Selic Scenarios



# Brazil: External Sector

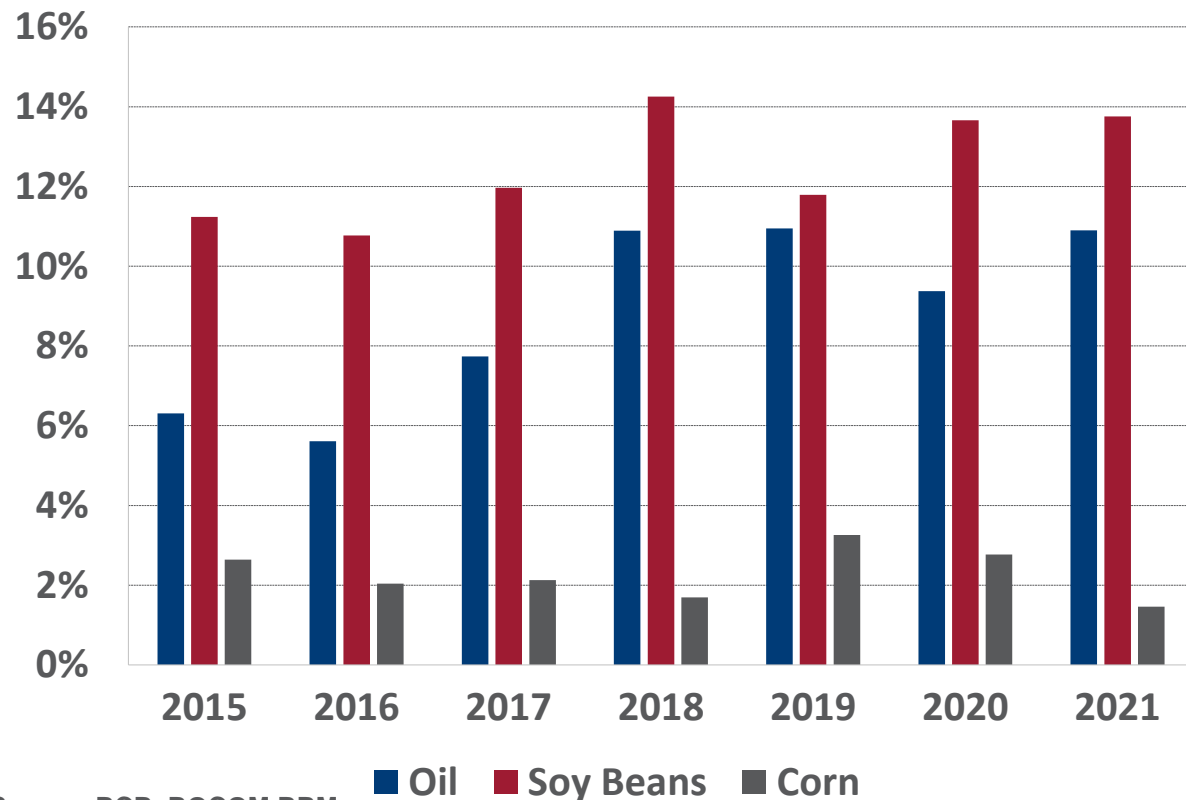
- » The commodity Index presented strong growth after the beginning of the war with the price increase of metallic and agricultural commodities;
- » The BRL is once again following the increase in commodities prices and it continues to register a strong appreciation in the last month, having reached R\$ 4,60.



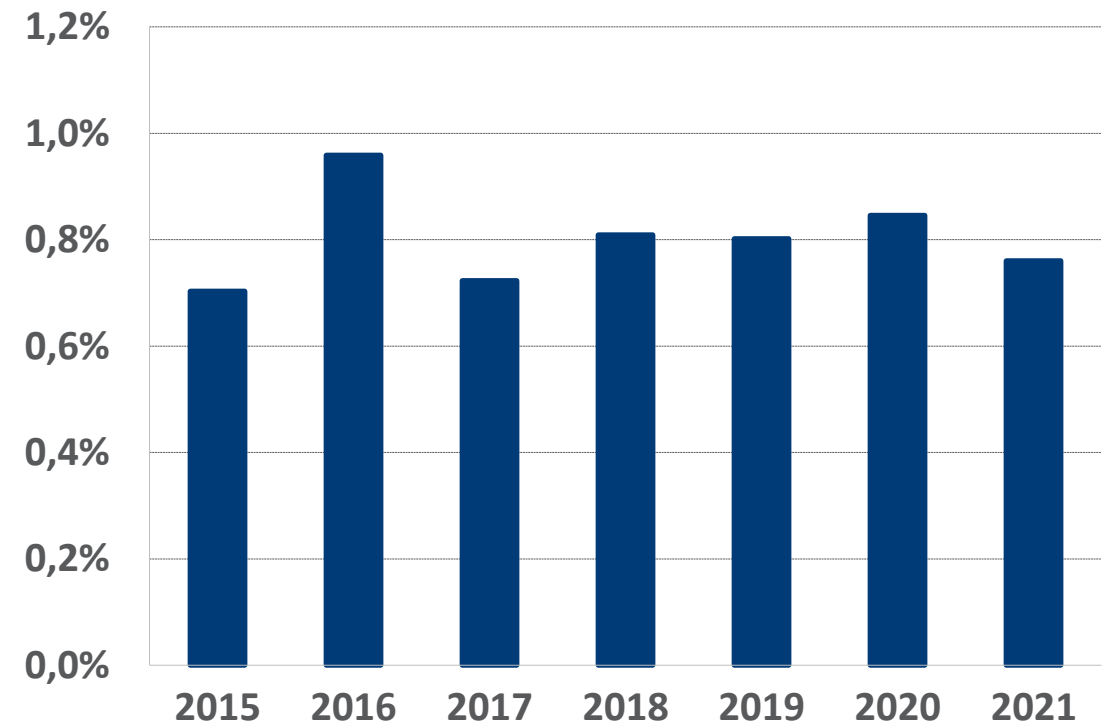
# Brazil: Trade Balance

- » With the war, it was possible to observe the rise in commodity prices, which were already on a growth path, largely due to the anticipation of the fall in supply. In any case, the trade balance should benefit from this increase in commodity prices, since exports of raw materials such as oil, soybeans, and corn should generate higher revenues;
- » On the import side, wheat prices have increased considerably, but their relative importance is low in the trade balance.

### Participation in Brazilian Exports



### Wheat Participation in Brazilian Imports

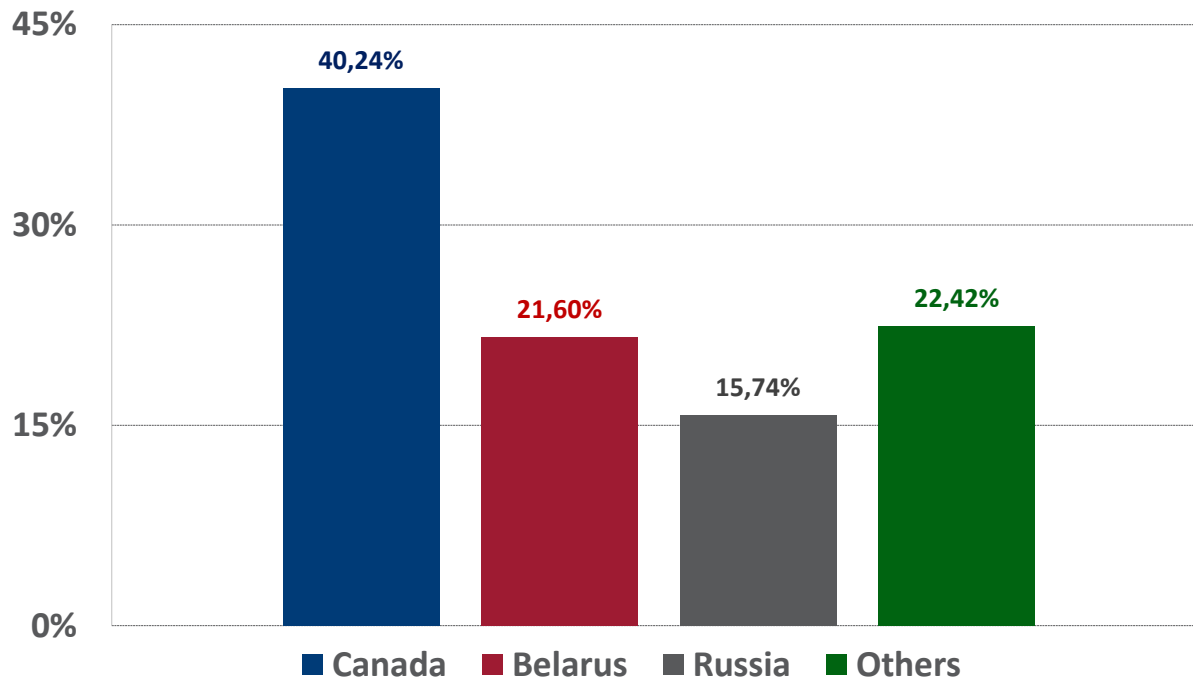




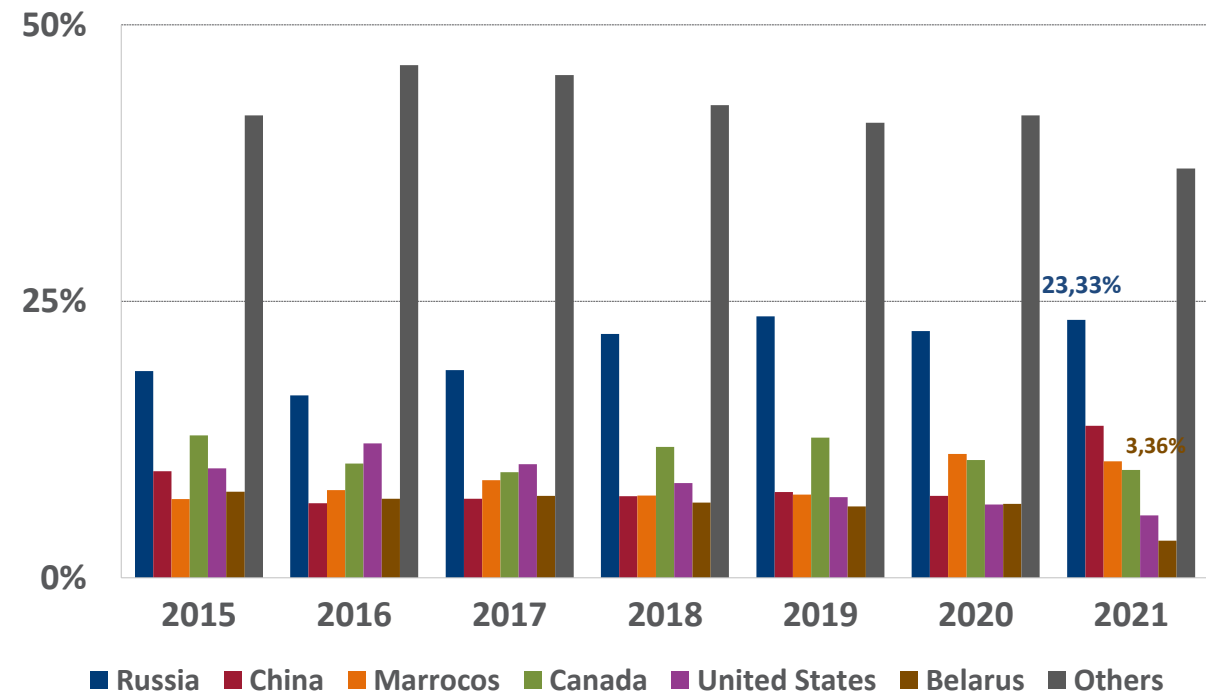
# Brazil: Trade Balance

- » Another item on the import side, with rising prices, are fertilizers, whose main exporting country to Brazil is Russia. Brazil imports about 85% of all fertilizers used in its production, 26% of these imports are from Russia and Belarus.
- » The main concern is with the depletion of potassium in the world, since Russia, Canada and Belarus account for 80% of the world supply.
- » With the war and related sanctions, fertilizer prices are expected to continue to rise, impacting agricultural productivity and food prices.

Global - Potassium Chloride Fertilizers Exports in 2020



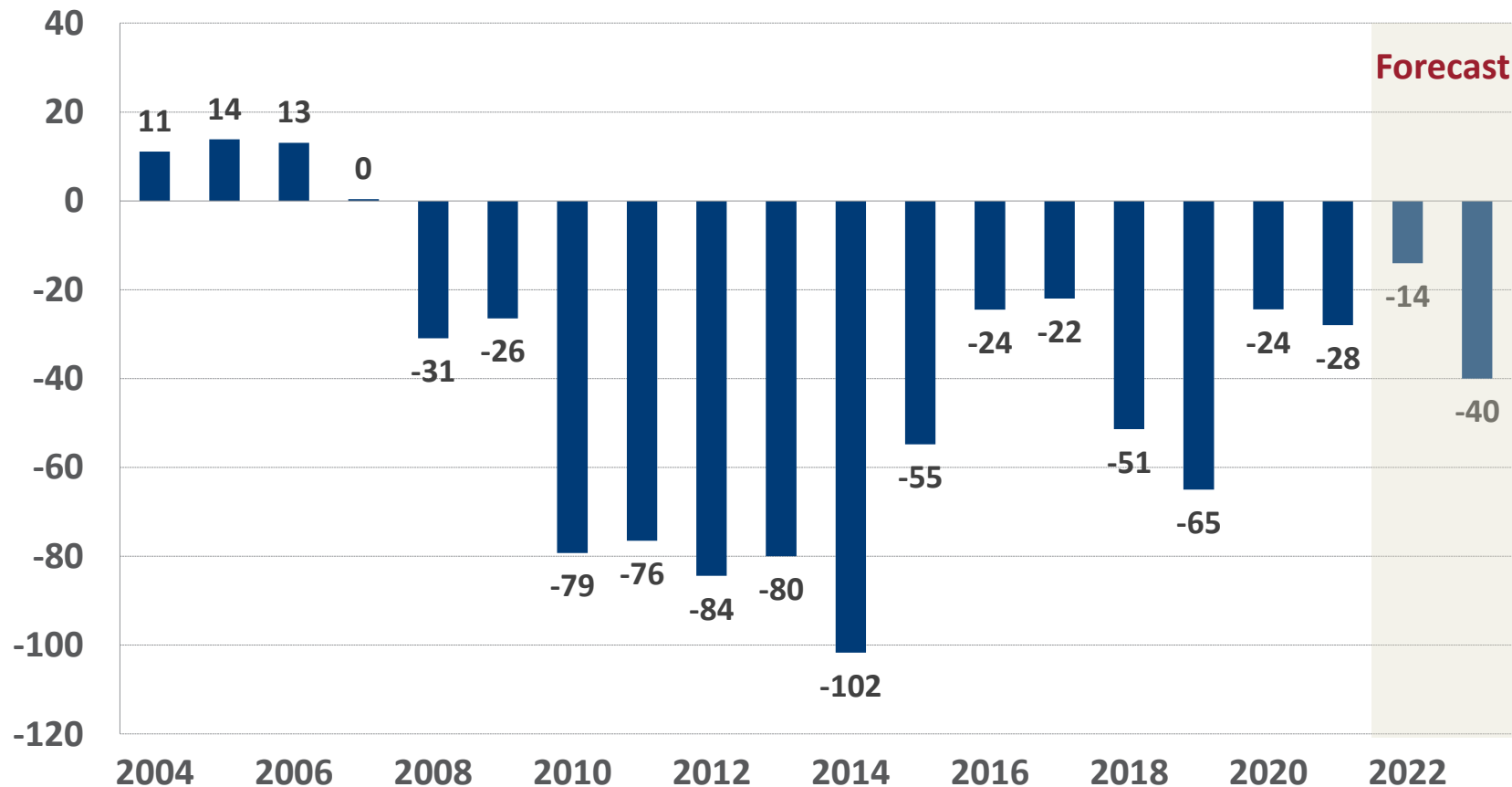
Brazil - Total Fertilizer Imports



# Brazil: Balance of Payments

- » The 2022 current account expectation is that the improvement in comparison to 2019 and 2018 will continue due to the elevated prices of commodities, that have increased even further after the beginning of the war;
- » We revised our current account forecast to -14 billion in 2022, since we expect a better outlook to the trade balance with Brazilian exports registering a sound result this year.

Current Account Balance - USD Billion



This presentation was prepared by Banco BOCOM BBM. The information contained herein should not be interpreted as investment advice or recommendation. Although the information contained herein was prepared with utmost care and diligence, in order to reflect the data at the time in which they were collected, Banco BOCOM BBM cannot guarantee the accuracy thereof. Banco BOCOM BBM cannot be held responsible for any loss directly or indirectly derived from the use of this presentation or its contents. This report cannot be reproduced, distributed or published by the recipient or used for any purpose whatsoever without the prior written consent of Banco BOCOM BBM.

## ADDRESSES

### Rio de Janeiro, RJ

Avenida Barão de Tefé, 34 – 20<sup>th</sup> and 21<sup>st</sup> 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](http://www.bocombbm.com.br)

**Ombudsman** | Phone.: 0800 724 8448 | Fax: 0800 724 8449  
E-mail: [ouvidoria@bocombbm.com.br](mailto:ouvidoria@bocombbm.com.br)