Research

# Brazil Economic Outlook
# 4Q24

December, 2024

Creating Opportunities

# Global economic outlook: main messages

**Recent developments**

Global inflation has eased further, partly due to lower oil prices (despite geopolitical tensions) and excess supply in China (despite rising stimuli), but growth and core inflation remain resilient. The latter, together with expectations that Trump policies will spur inflation and raise fiscal risk, has boosted US sovereign yields and the USD.

**Growth outlook**

Assuming that the new US administration will raise import tariffs, mainly on China, growth is forecast to slow from 2.7% (+0.2pp) in 2024 to 2.0% (-0.1pp) in 2025 in the US, and from 4.8% (+0.2pp) to 4.1% (-0.1pp) in China, where more policy measures will provide some cushion. In the Eurozone, protectionism will add to other challenges and keep growth low, around 0.8% (+0.1pp) in 2024 and 1.0% (-0.4pp) in 2025.

**Inflation and rates outlook**

Inflation will accelerate in the US but remain subdued in the Eurozone and China, where the effects of weaker demand and lower oil prices will prevail. There will be less room for monetary easing in the US (with rates forecast at 4.0% by end-2025 and 3.0% by end-2026) but greater scope for lower rates in the Eurozone and in China.

**Risks**

The balance of risks for the global economy has deteriorated. Uncertainty is large, but trade and migration policies by the new Trump government in the US, and escalating geopolitical tensions, may create negative supply shocks. More expansionary fiscal policies may add to the ongoing upward pressures on inflation and interest rates.

# Brazil economic outlook: main messages

**Recent developments**

Global factors such as higher US interest rates, a stronger USD, and tariff threats, combined with concerns over fiscal accounts, have heightened tensions in Brazilian financial markets, weakening the Brazilian real and driving up local interest rates. In spite of financial volatility, growth remains robust, bolstered by domestic demand.

**Growth outlook**

Growth will be around 3% for the third consecutive year in 2024. Resilient labor markets and a recovery in credit markets, alongside fiscal policy, continue to support domestic demand. However, growth is likely to decelerate. Exports will face headwinds from slower global growth and rising protectionism, while internal demand is expected to weaken due to tighter-than-anticipated monetary conditions.

**Inflation, exchange and interest rates outlook**

The monetary tightening cycle is expected to continue, with the SELIC rate forecast to converge to around 12.75% by 1Q25. Higher interest rates are likely to help reduce inflation and support the Brazilian real. However, inflation is forecast to remain above the 3% target, and the exchange rate is expected to stay relatively weak.

**Risks**

The balance of risks for the Brazilian economy has worsened recently. In addition to global factors, fiscal imbalances have become an increasing source of concern, despite the recent measures proposed by the government. If left unaddressed, they could lead to a more negative macroeconomic scenario.

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# Global Economic Outlook 4Q24

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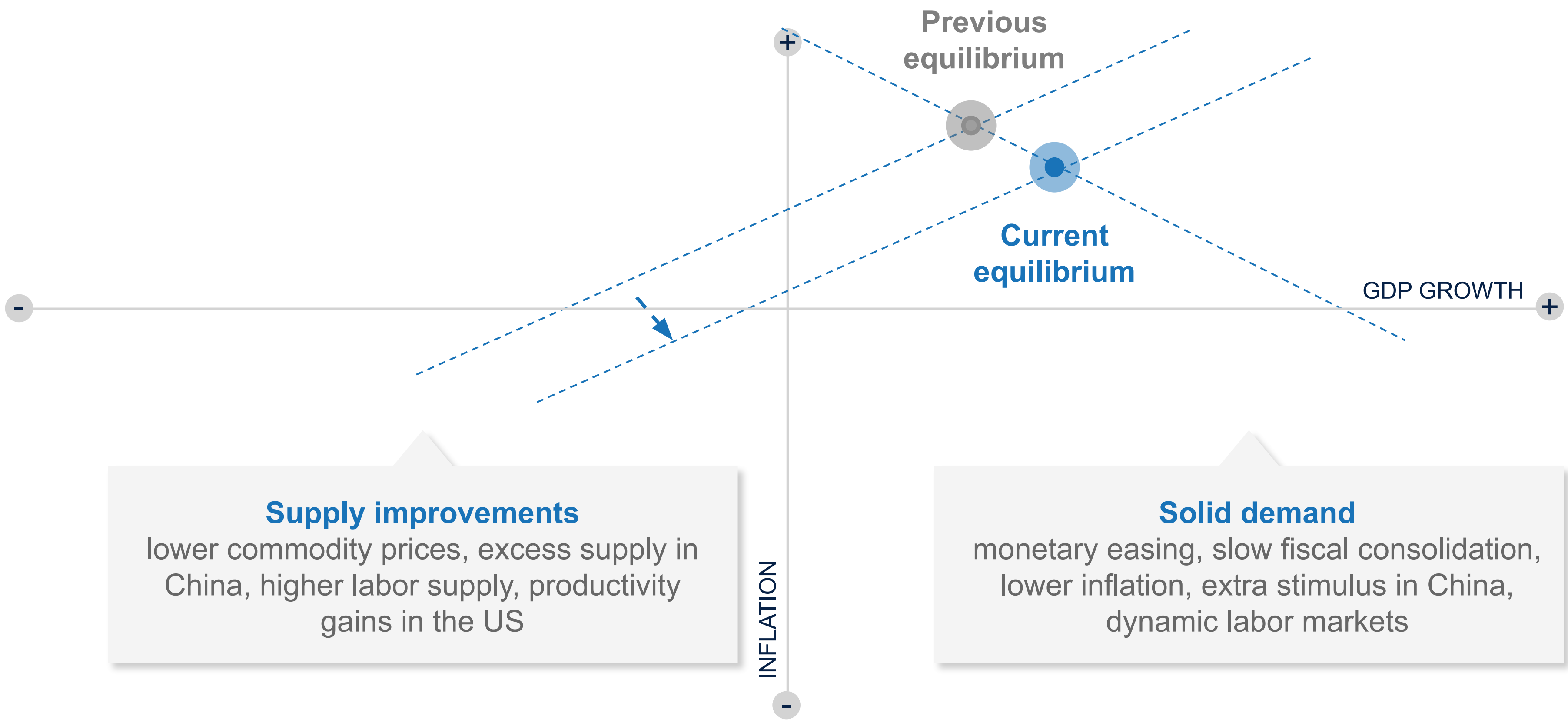
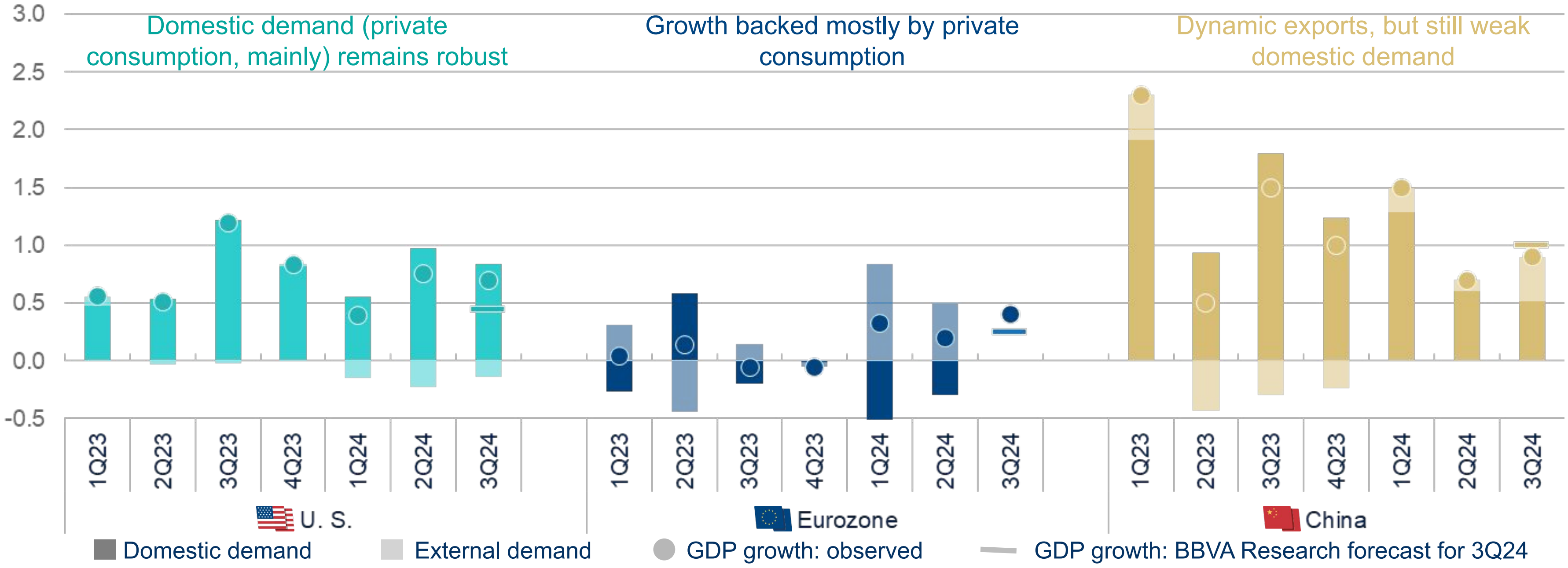
# Recent supply improvements have allowed further declines in headline inflation and supported growth ahead of a new Trump government in the US



# Growth has surprised upwards in 3Q24, mainly in the US but also in the EZ; in China it has recovered somewhat amid increasing counter-cyclical policies

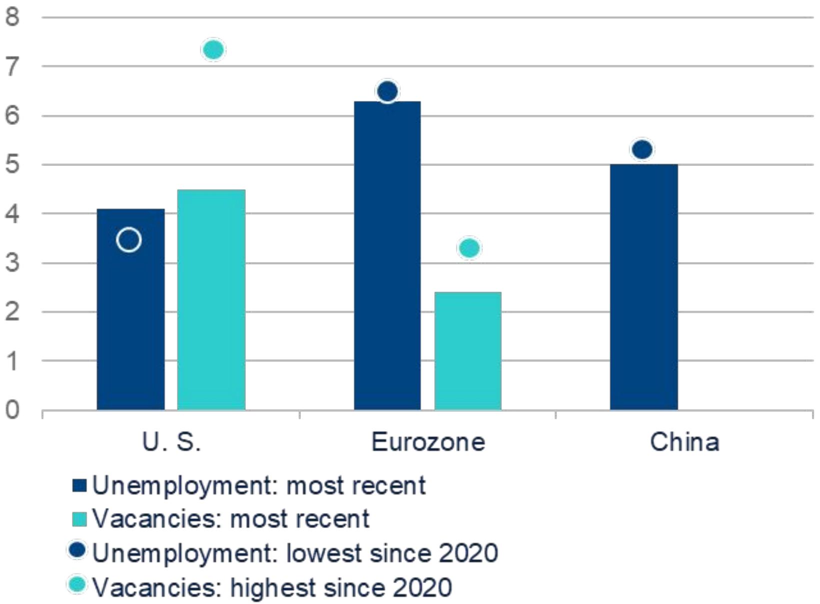
## GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)




Source: BBVA Research based on data from Haver and China's NBS.

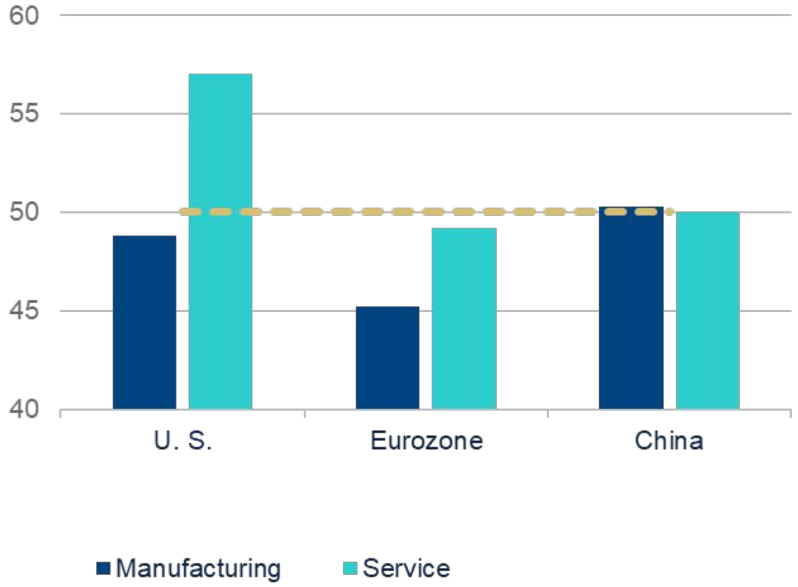
# Labor markets remain robust, after easing somewhat lately; solid services continue to contrast with weak manufacturing (despite recent improvements)

## UNEMPLOYMENT AND VACANCY RATES (*)
(%)




(*) Unemployment rate: unemployment as share of the labor force. Vacancy rate: job vacancies as share of the sum of total employment and job vacancies. Vacancies data not available for China.
Source: BBVA Research based on data from BLS , Eurostat and Haver.

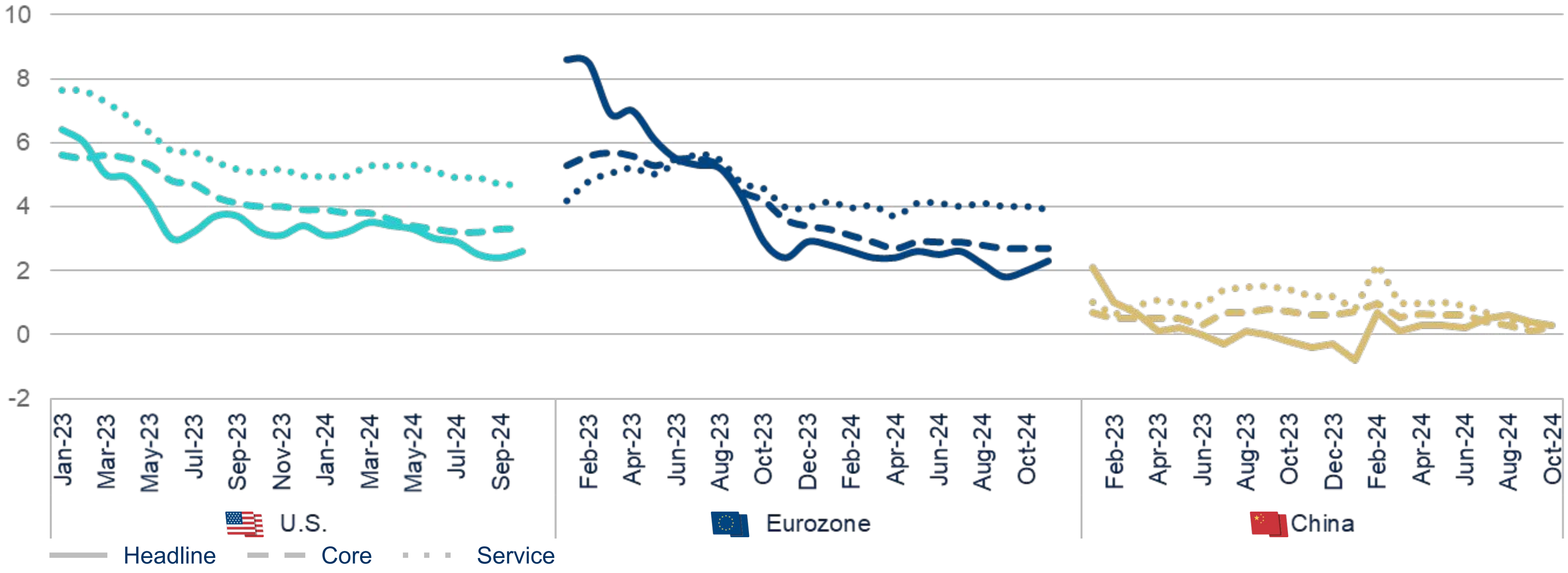
## PMI INDICATORS: MOST RECENT DATA (*)
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)




(*) November 2024.
Source: BBVA Research based on data from Haver.

# Inflation continues to ease and is now close to the targets, but service and core measures remain stickier, amid resilient demand and still pressured wages

## CPI INFLATION: HEADLINE, CORE AND SERVICE
(Y/Y %)

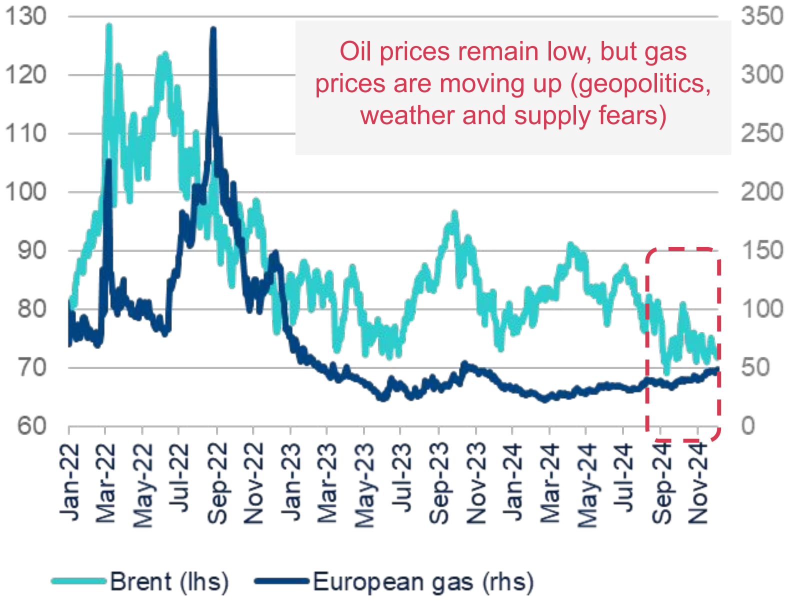



Source: BBVA Research based on data from Haver.

# Low oil prices and abundant Chinese supply, particularly of manufactured goods, have helped to lower inflation and keep growth relatively robust

## OIL AND GAS PRICES (*)

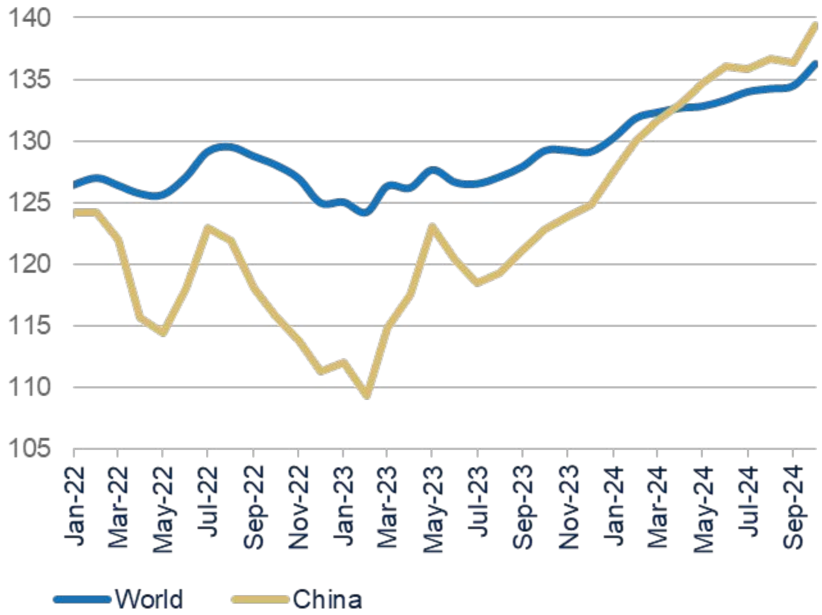
(OIL: USD PER BRENT BARREL; GAS: EURO /MWH)




(*) Last available data: December 3rd, 2024.
Source: BBVA Research based on data from Haver.

## BBVA RESEARCH TRADE INDICATOR (*)

(INDEX: 2019 AVERAGE =100; IN REAL TERMS)

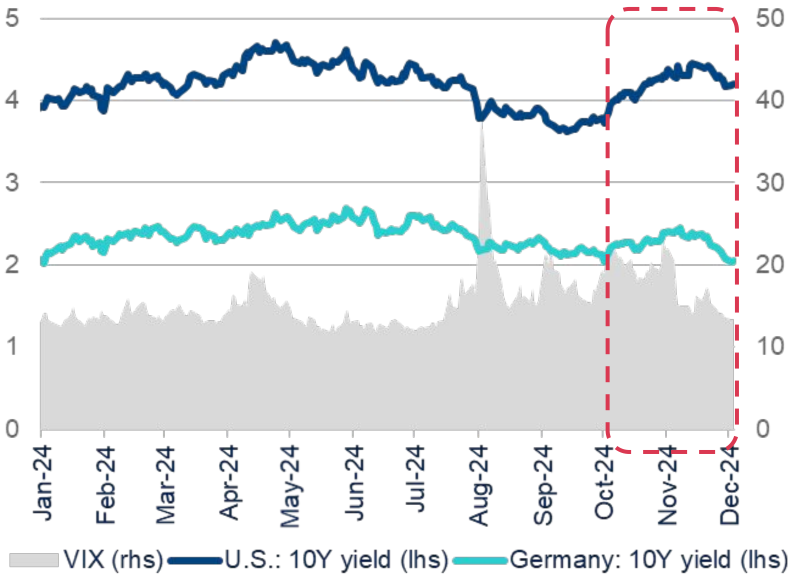



(*) The indicator is a three-month moving average of goods exports, from a sample of 25 countries (in the case of the World indicator). It is deflated using export price indexes.
Source: BBVA Research based on Haver data

# US sovereign yields have increased, reflecting the view of larger fiscal risks and inflationary pressures under Trump, which has backed the US dollar

## SOVEREIGN YIELDS AND VOLATILITY (VIX) (*)

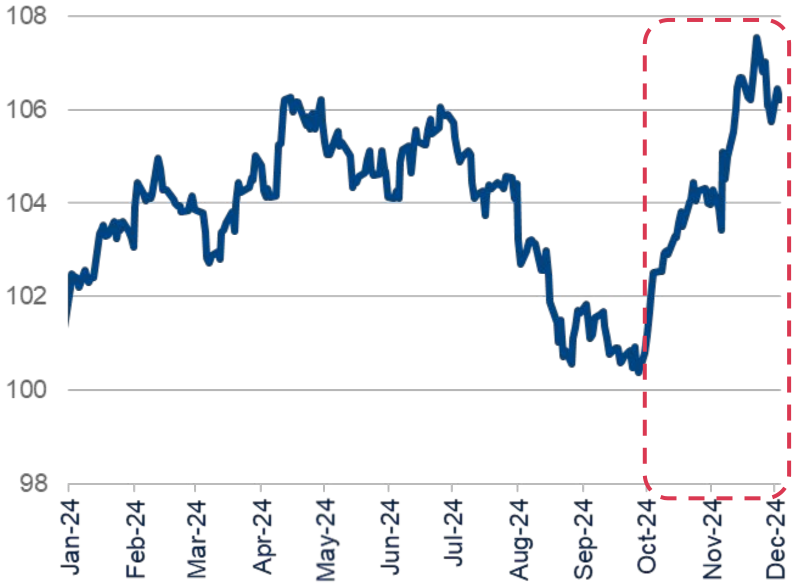
(%)




(*) Last available data: December 3rd, 2024.
Source: BBVA Research based on data from Haver.

## US DOLLAR: DXY (*)

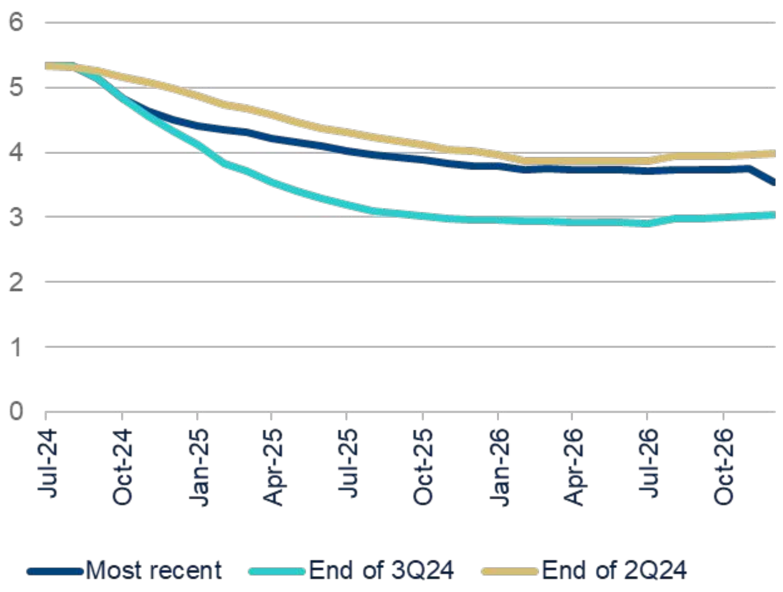
(INDEX)




(*) A lower DXY index represents a weaker US dollar. December 3rd, 2024.
Source: BBVA Research based on data from Haver

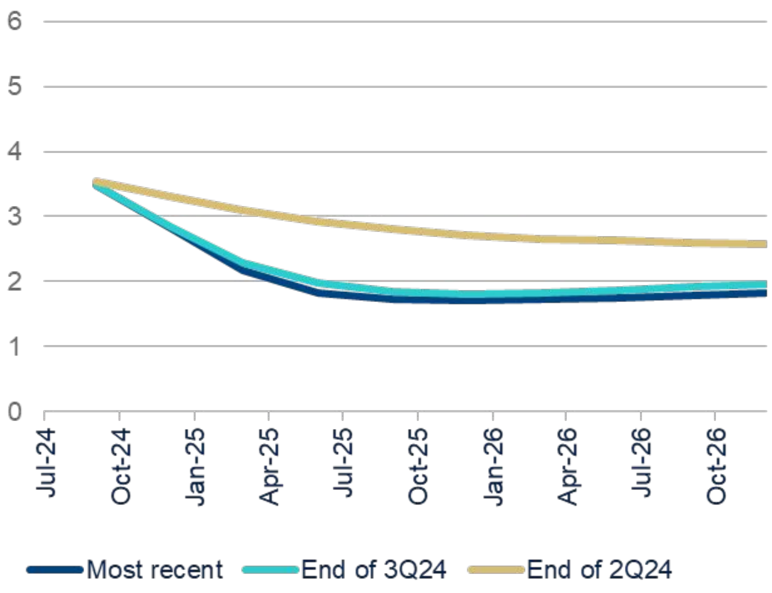
# Markets see less room for further monetary easing, and higher terminal rates, in the U.S. than in the Eurozone, due to likely impact of Trump's policies

## US: IMPLICIT RATE IN FED FUND FUTURES (*) (%)




(*) Last available data: December 3rd, 2024.
Source: BBVA Research based on data from Haver.

## EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*) (%)

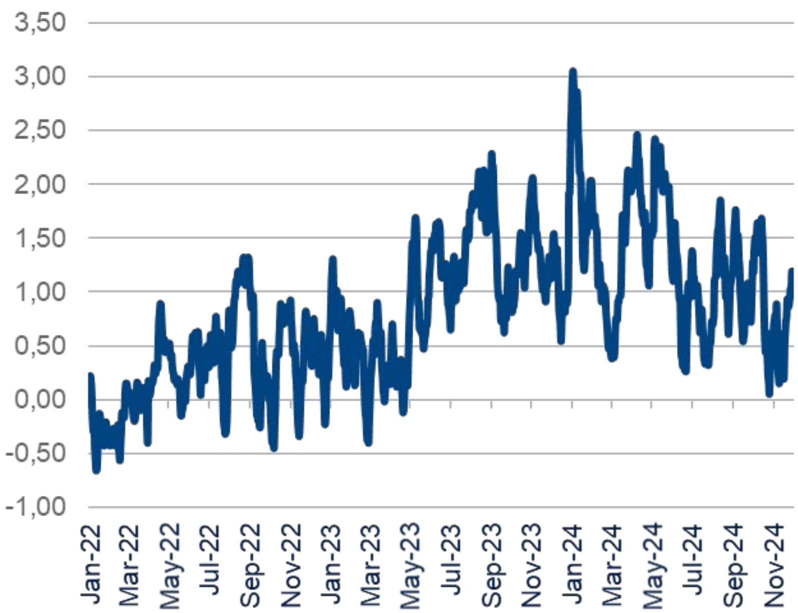



(*) Depo interest rates. Last available data:December 3rd, 2024.
Source: BBVA Research based on data from Haver.

# Conflicts in the Middle-East and in Ukraine continue to have a relatively limited impact on financial markets and macro data

## BILATERAL TENSIONS INDEX: UKRAINE-RUSSIA (*)

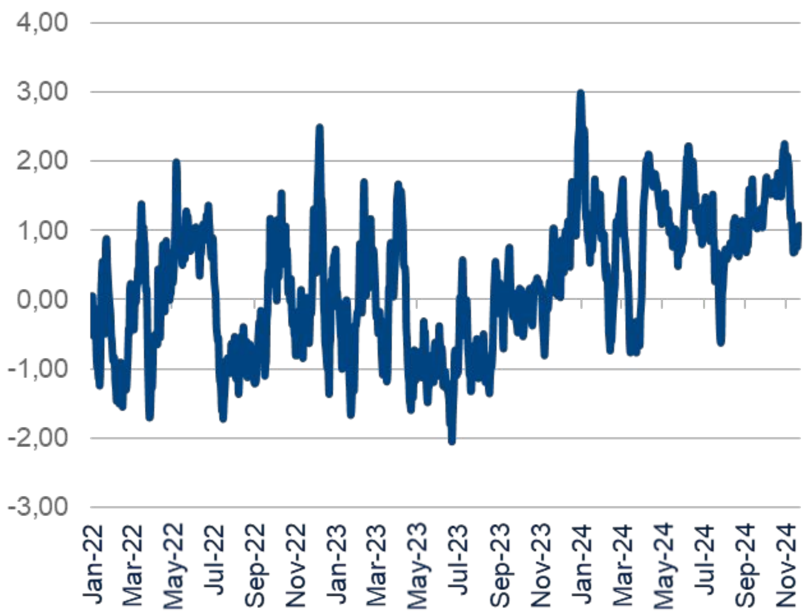
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)




(*) Last available data: December 1st, 2024.
Source: BBVA Research Geopolitics Monitor.

## BILATERAL TENSIONS INDEX: ISRAEL-IRAN

(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)




(*) Last available data: December 1st, 2024.
Source: BBVA Research Geopolitics Monitor.

# What to expect from a new Trump government in the US?

## BBVA Research base scenario

**Higher import tariffs:**
60% US tariffs on China, 10% US tariffs on all other countries; retaliation by China (60% tariffs on targeted US goods), but not by others

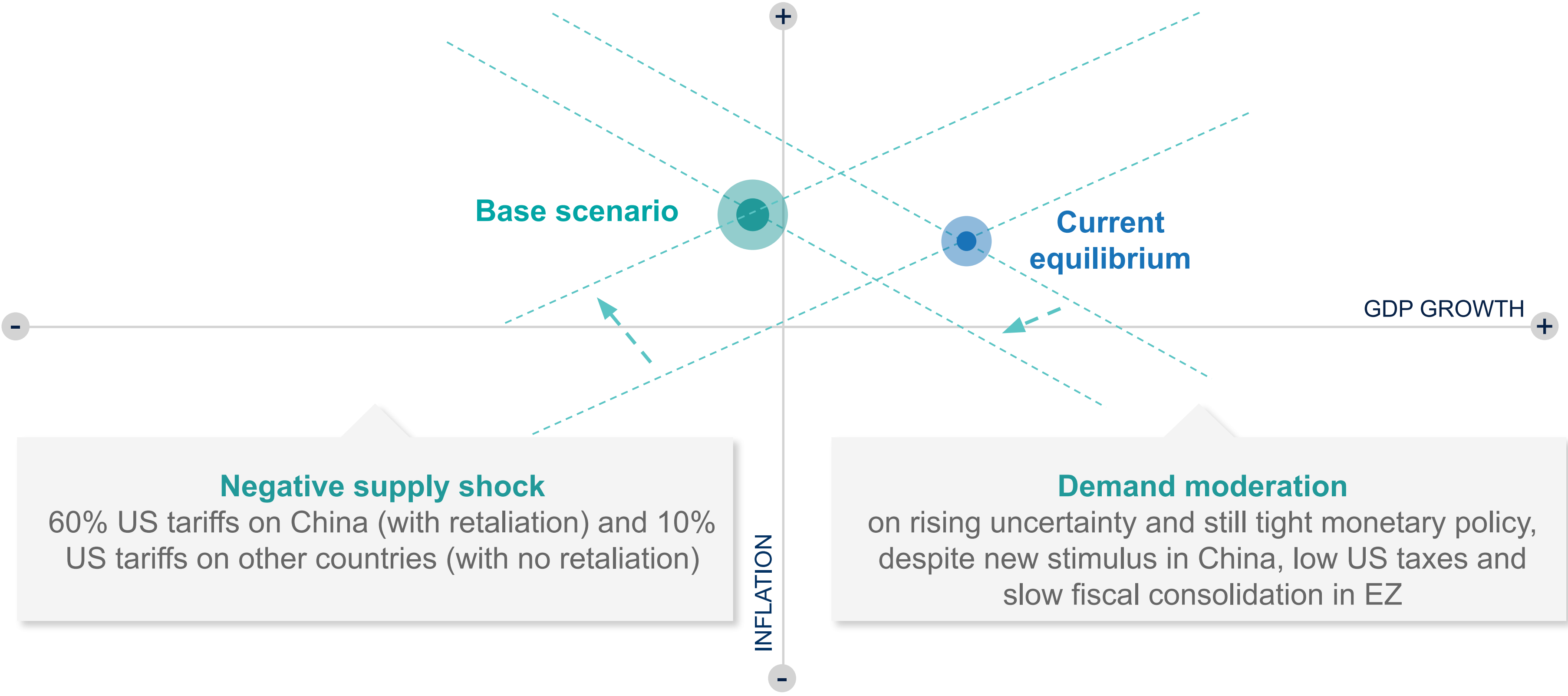
**Low taxes:**
tax cuts remain in place (i.e the 2017 Tax Cut and Job Act is renewed).

**Uncertainty on various fronts:**
extra shocks (on immigration, deregulation, pro-oil agenda, Fed's autonomy, foreign policy...) are possible, but are not assumed.

## Overall impact will depend on cyclical position (better in the US) and margin for response (higher in China and in the US)

| | US | CHINA | EUROZONE |
|---|---|---|---|
| GDP | Slightly lower | Slightly lower | Much lower (no recession) |
| INFLATION | Higher (one-off impact) | Much lower | Lower |
| RATES | Higher | Lower | Lower |
| CURRENCY | USD: stronger | RMB: weaker | EUR: weaker |

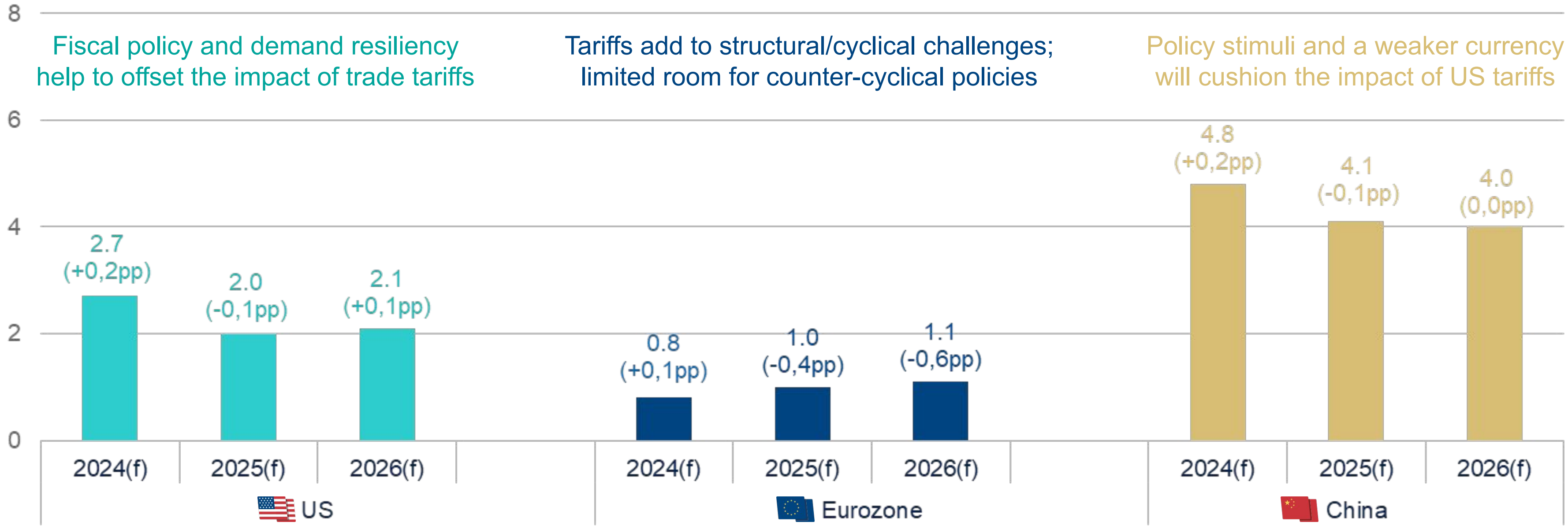
# Base scenario: protectionism will fuel uncertainty, pressure global growth downwards and inflation upwards, with important differences across countries



# Slower growth ahead, despite both stronger GDP expansion in 2024 and likely measures to mitigate the impact of higher trade tariffs (mainly in China)

## GDP GROWTH (*)

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)




(*) Global GDP growth: 3.2% (+0.1pp) in 2024, 3.1% (-0.2pp) in 2025 and 3.3% (+0.1pp) in 2026.

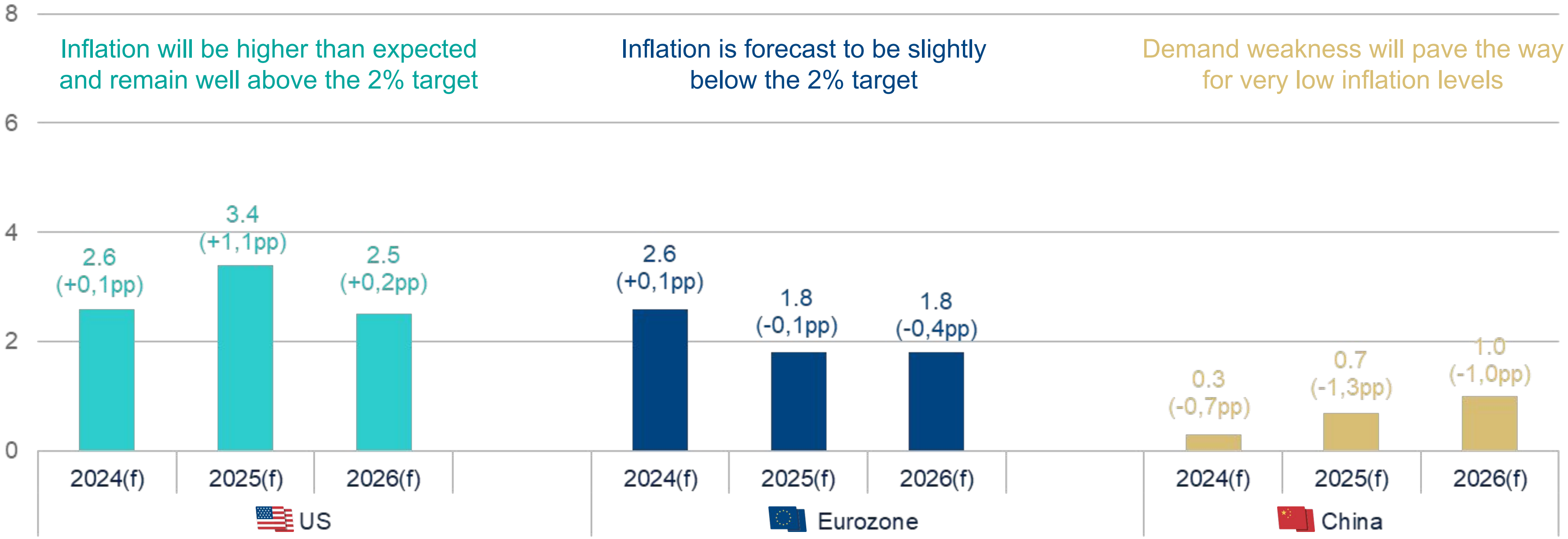
(f): forecast.

Source: BBVA Research.

# Trump policies will pressure inflation, mainly in the US; in other regions, it will likely ease due to weaker growth, lower oil prices and excess supply in China

## HEADLINE CPI INFLATION

(Y/Y %, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

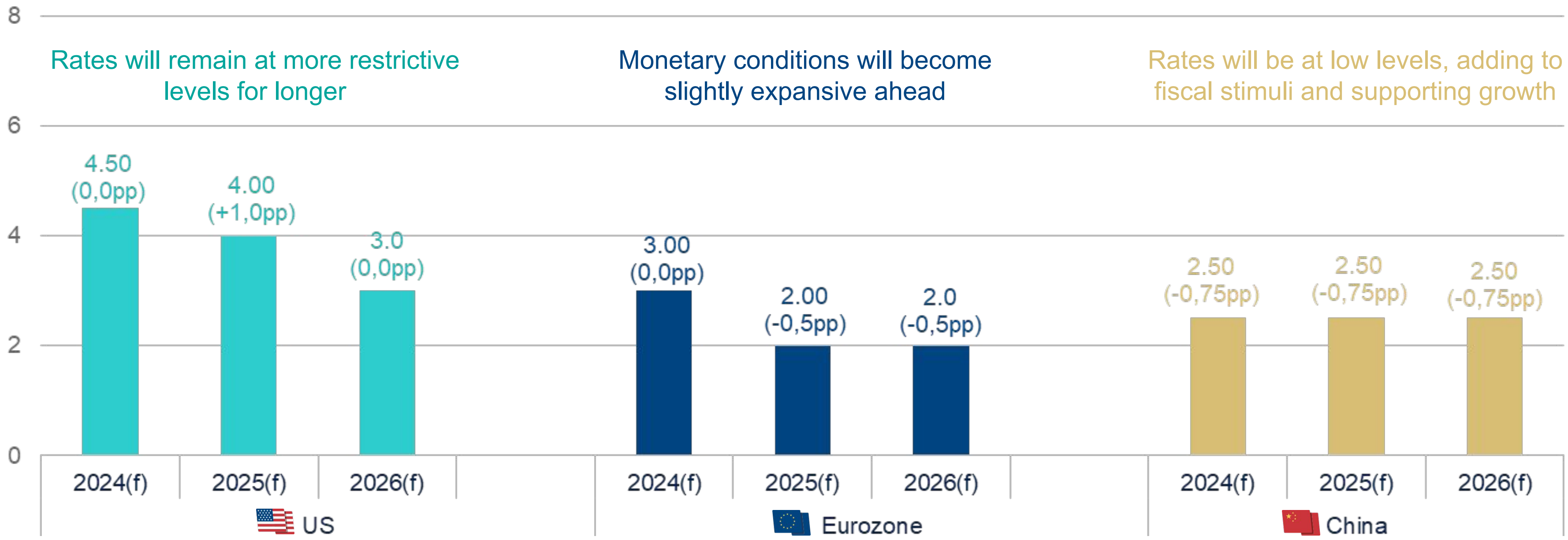



(f): forecast.
Source: BBVA Research.

# The Fed will have less room to ease monetary conditions, while more rate cuts than previously forecast are likely in the EZ and in China

## POLICY INTEREST RATES (*)

(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

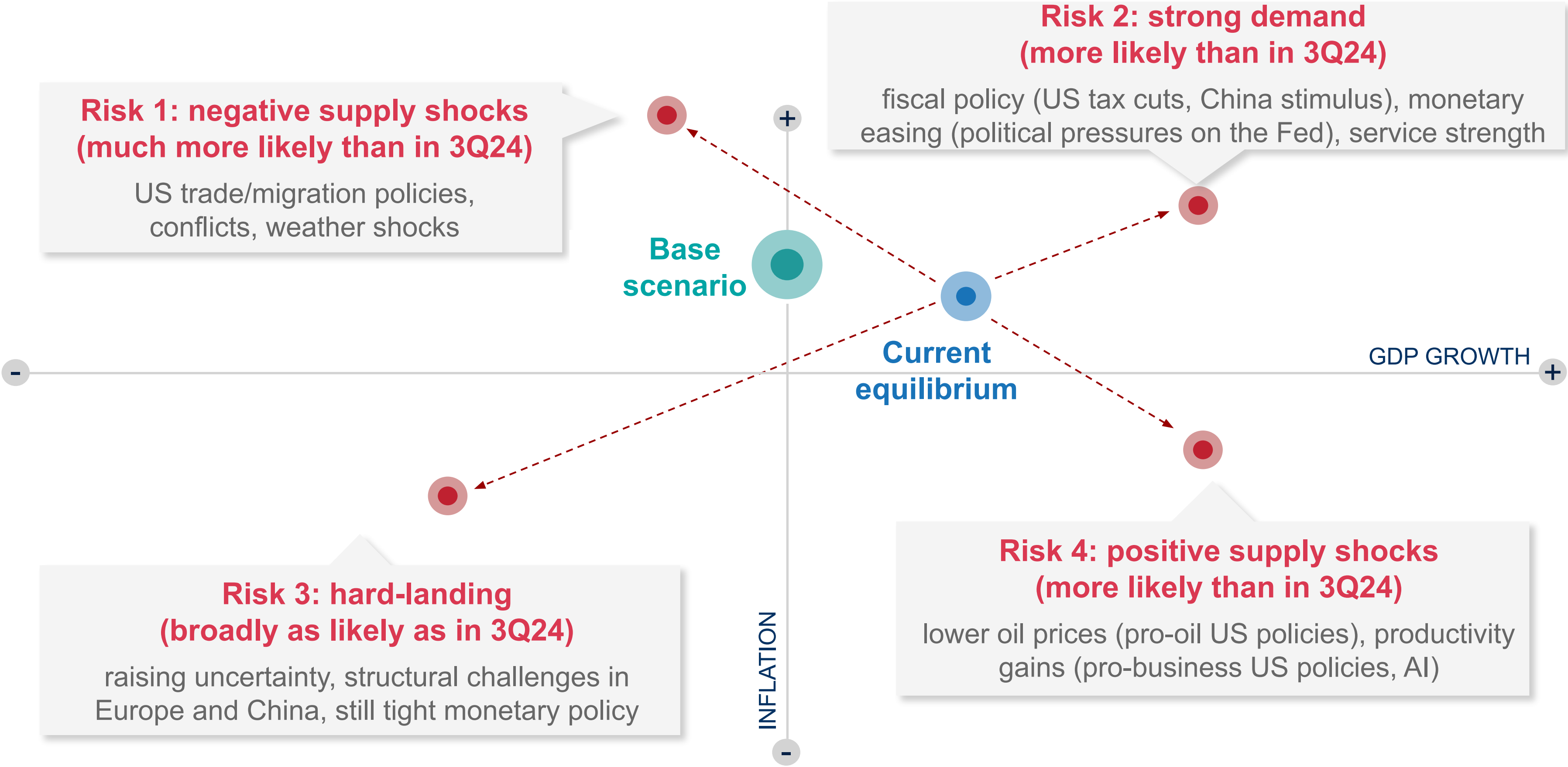



(f): forecast.

(*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

# Risks: policies by the new US administration, and geopolitical events, may lead to more negative global macro scenarios



Research

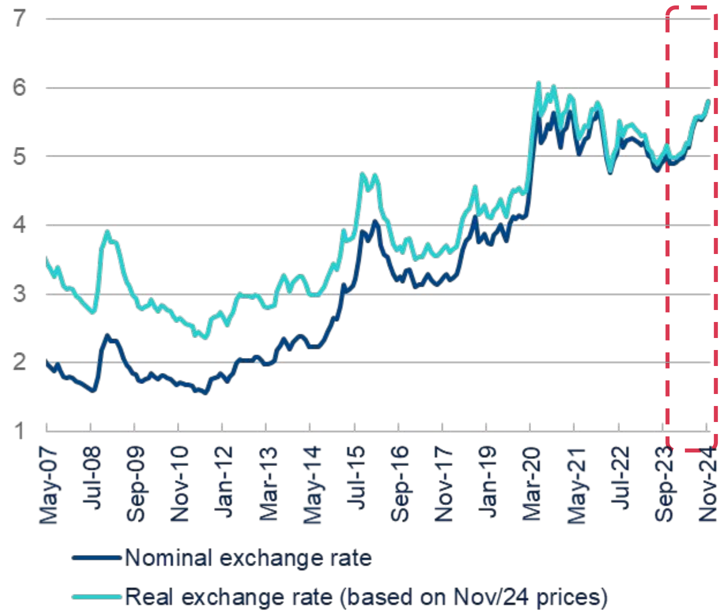
02

# Brazil Economic Outlook 4Q24

Creating Opportunities

# Global factors such as higher US rates, a stronger USD and tariff threats, alongside concerns over fiscal accounts have heightened financial tensions

## EXCHANGE RATE
(BRAZILIAN REAL / USD)



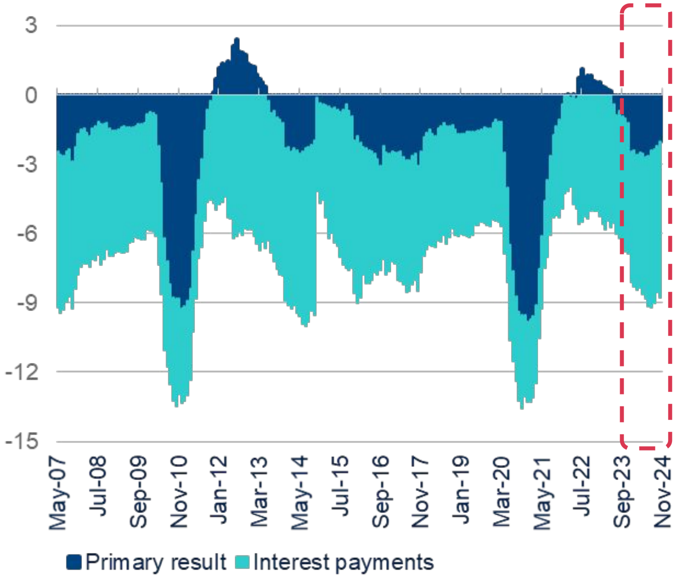

Source: BBVA Research based on data by BCB and the FRED

## BRAZIL 10-YEAR BOND YIELD
(%)


Source: BBVA Research based on data by Haver

# A persistent primary fiscal deficit and rising interest payments continue to drive public debt higher, fueling concerns about fiscal accounts

## PUBLIC SECTOR FISCAL RESULTS
(% OF GDP)



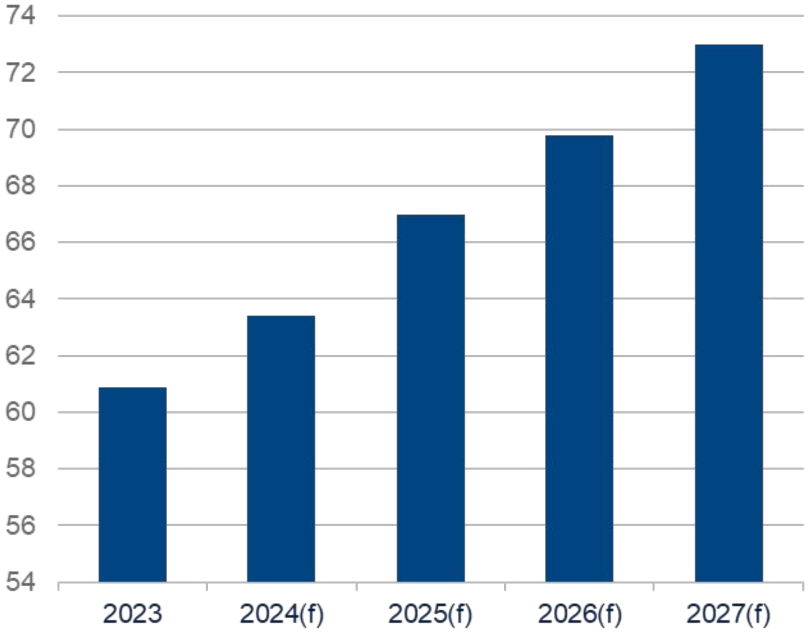

Source: BBVA Research based on data by the BCB

## PUBLIC SECTOR NET DEBT
(% OF GDP)


Source: BBVA Research based on data by the BCB

# Markets continue to expect fiscal imbalances to remain mostly in place, despite fiscal rules and measures recently proposed by the government

**PUBLIC SECTOR NET DEBT: MARKET CONSENSUS**
(% OF GDP)



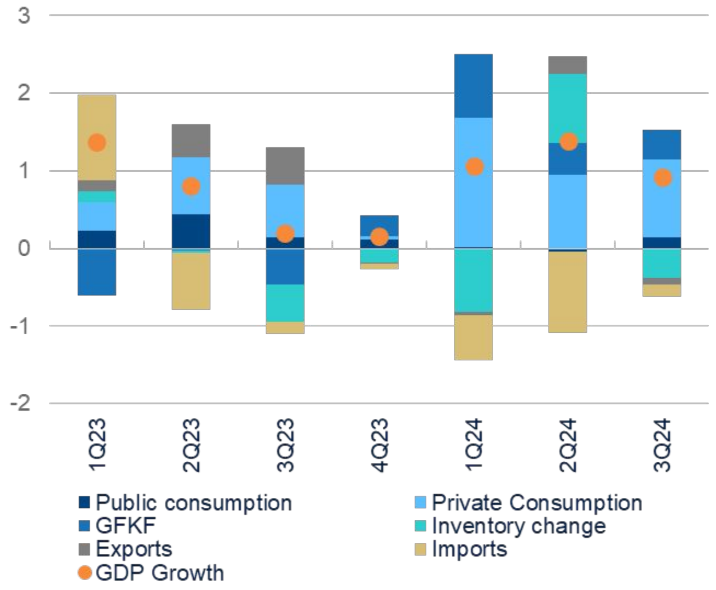

(f): forecast (market consensus:BCB'S Focus Report)
Source: BBVA Research based on data by the BCB

- The government's commitment to fiscal consolidation remains uncertain
- Recent measures to reduce public spending by around 0.5% of GDP in 2025-26 are welcome, as they could support progress toward the adjusted primary targets (0.0% of GDP in 2024, 0.5% in 2025, and 1.0% in 2026, with a ±0.25pp tolerance)
- Meeting these targets and addressing fiscal problems remain challenging
- Fiscal policy is likely to continue weighing negatively on domestic assets, such as the BRL, and on Brazil's overall macroeconomic performance, even though a full-blown fiscal crisis will likely be avoided

# Despite financial volatility, growth has remained robust lately, supported by the dynamism of consumption and investment

## GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH

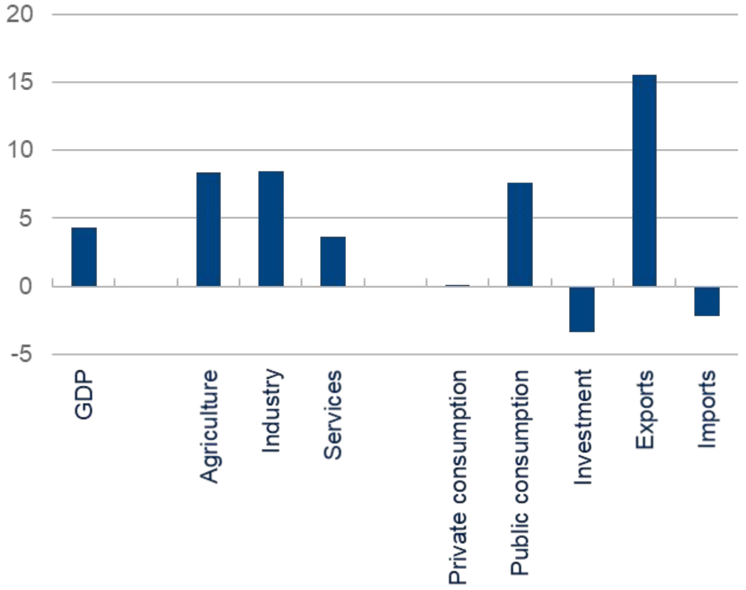
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GROWTH: PP)




Source: BBVA Research based on data by IBGE

## GDP COMPONENTS: GAP BETWEEN CURRENT LEVELS (3Q24) AND PRE-COVID (2017-19) TREND

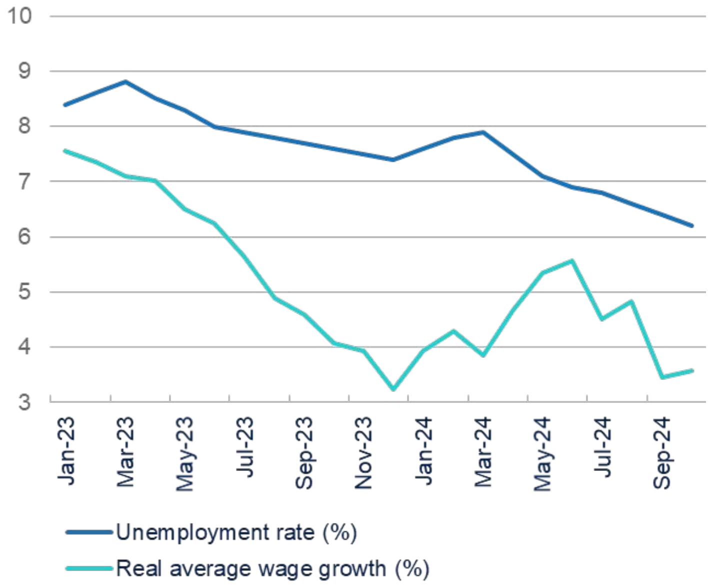
(%)




Source: BBVA Research based on data by IBGE

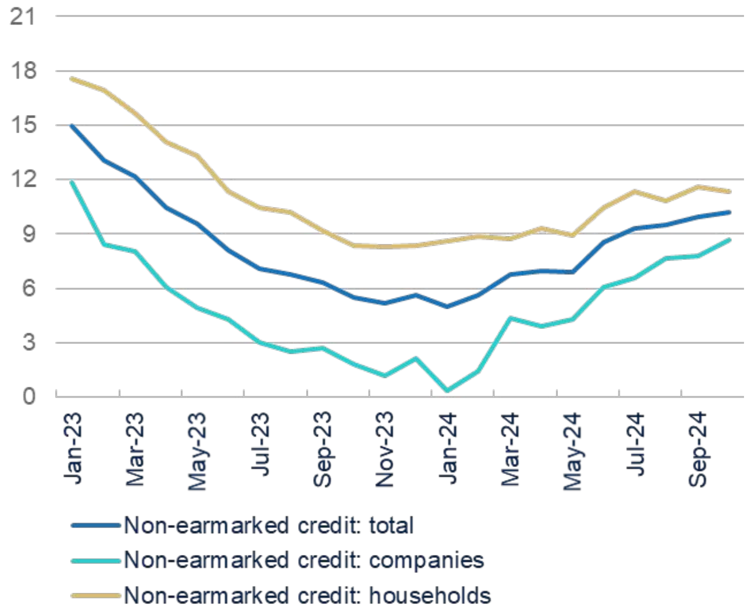
# On top of fiscal policy, resilient labor markets and a recovery of credit markets continue to support domestic demand

## UNEMPLOYMENT RATE AND REAL AVERAGE WAGE GROWTH
(%)




Source: BBVA Research based on data by BCB

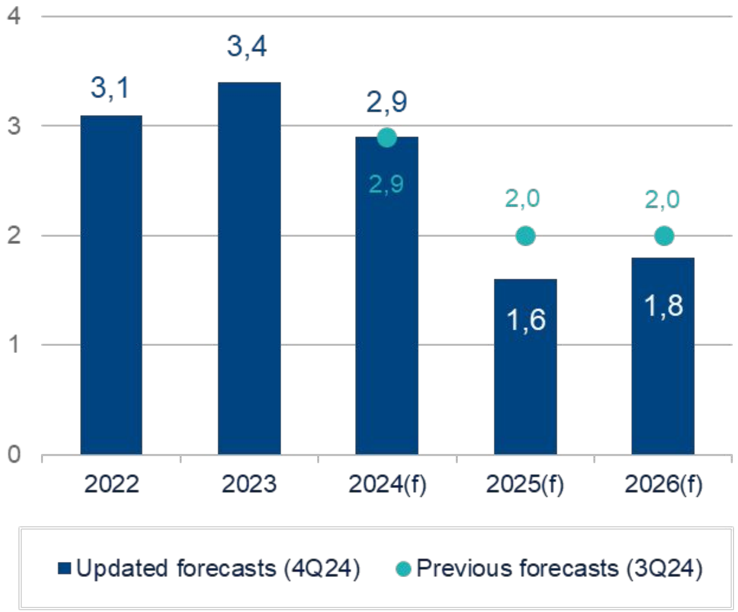
## CREDIT STOCK: NOW-EARMARKED LOANS
(Y/Y %)




Source: BBVA Research based on data by BCB

# Growth will be around 3% for the third consecutive year in 2024, but a slowdown driven by global and local factors still appear inevitable

## GDP GROWTH
(%)

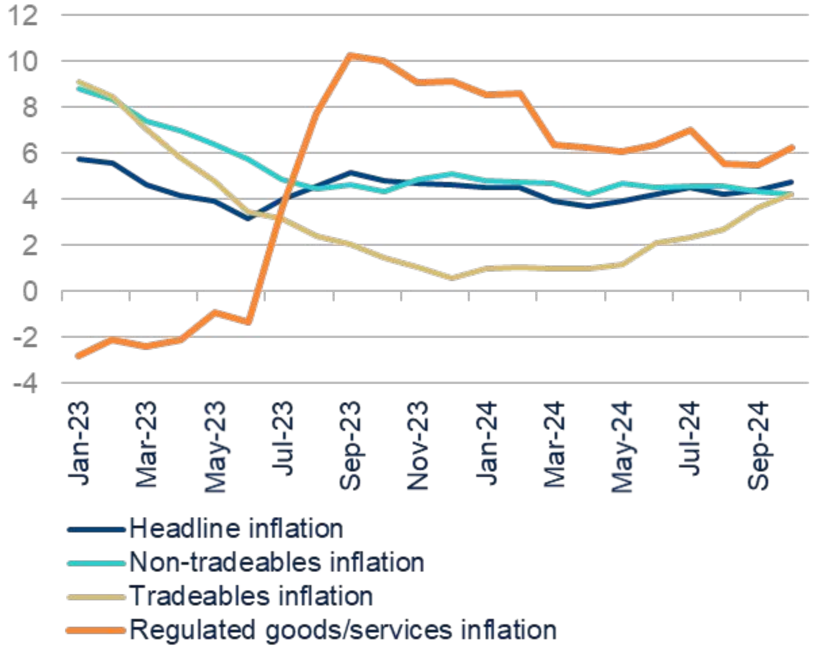



(f): forecast
Source: BBVA Research

- 3Q24 GDP grew faster than expected (observed: 0.9% QoQ; BBVAe: 0.6% QoQ), adding an upward bias to the 2.9% forecast for the year
- Despite resilient growth, GDP forecasts for 2025-26 have been revised down mostly due to:
  - lower exports, given lower global growth and the impact of US tariffs on Brazilian goods (a 10% tariffs is being assumed)
  - tighter monetary conditions, which will hit domestic demand
- Moreover, the fiscal impulse will likely be weaker ahead than in the recent past, reinforcing the prospects for a growth deceleration

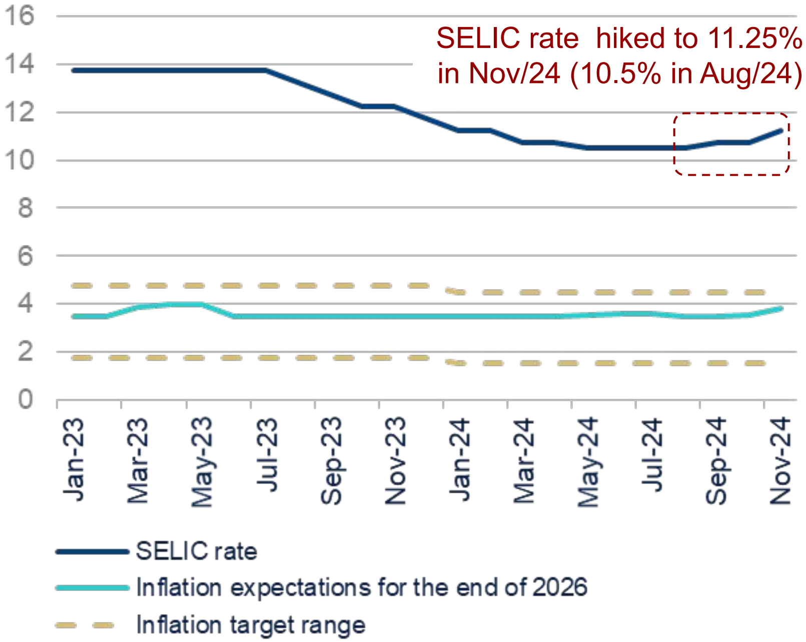
# Growth resilience and BRL depreciation have helped to push inflation higher, which, alongside rising Fed rates, strengthens the case for higher SELIC levels

## INFLATION: IPCA
(YoY%)




Source: BBVA Research based on data by BCB

## SELIC INTEREST RATE, INFLATION EXPECTATIONS
(%)

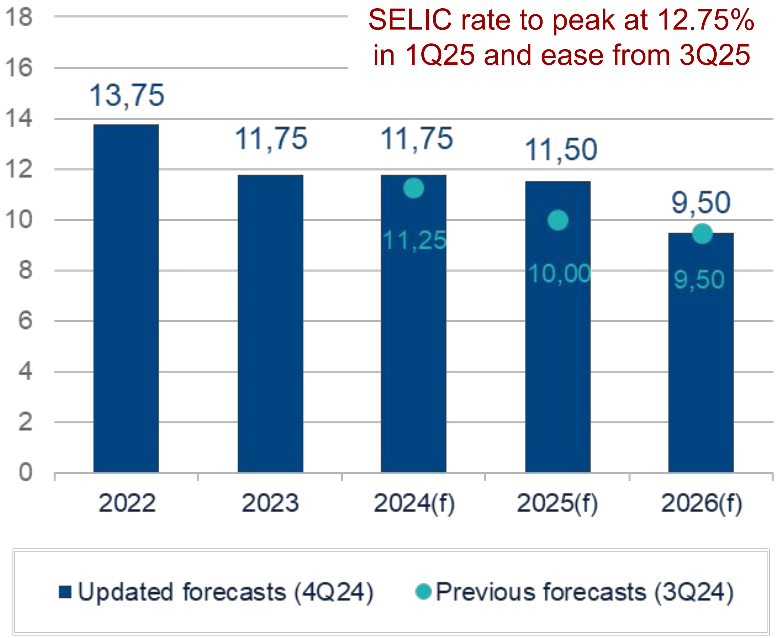



Source: BBVA Research based on data by BCB

# Tighter monetary conditions and weaker growth are expected to drive inflation down, though it will likely remain above the 3% target

## SELIC INTEREST RATE

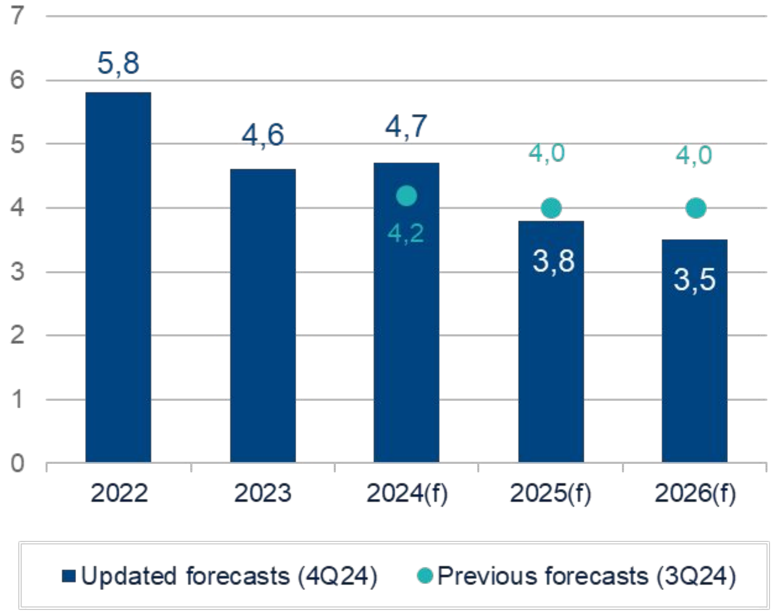
(YOY%, END-OF-PERIOD)




(f): forecast
Source: BBVA Research

## CPI INFLATION

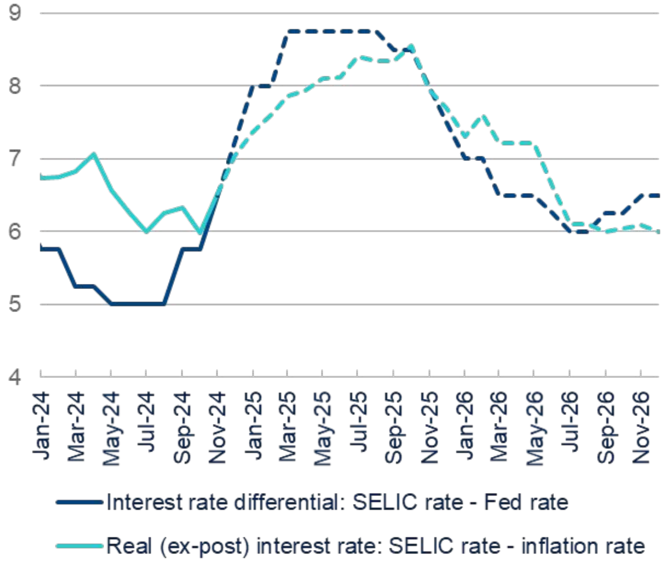
(YOY%, END-OF-PERIOD)




(f): forecast
Source: BBVA Research

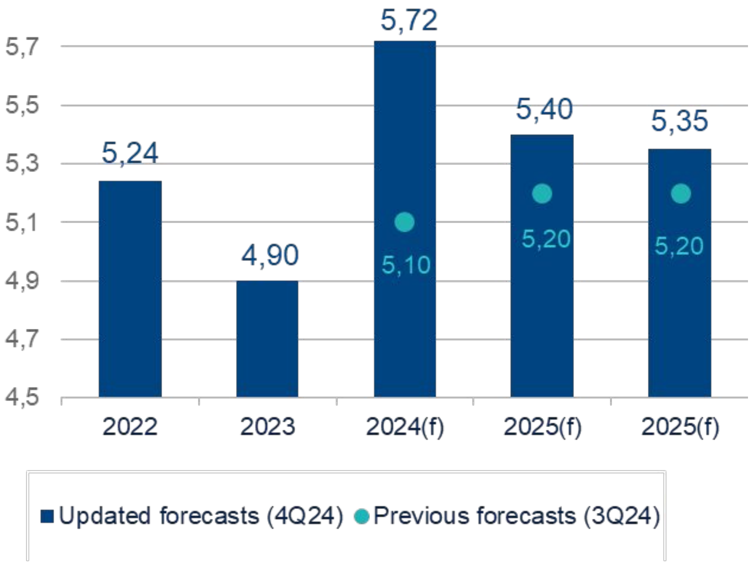
# Although higher SELIC rates might support some appreciation ahead, a stronger USD globally and lingering fiscal concerns will keep the BRL weak

## REAL EX-POST INTEREST RATES AND DIFFERENTIAL WITH RESPECT TO FED RATES
(PP)




Source: BBVA Research

## NOMINAL EXCHANGE RATE
(BRAZILIAN REAL / USD, END-OF-PERIOD)




(f): forecast
Source: BBVA Research

# The balance of risks for the Brazilian economy has deteriorated lately due to global and idiosyncratic factors

## Main positive risks

**Higher growth:**
stronger-than-expected growth suggests that potential growth could be higher than 2%; higher growth and a better macro performance could also be triggered by the addressing of fiscal imbalances or by a more positive global scenario

## Main negative risks

**Global outlook:**
protectionism measures (including higher US tariffs on BRICS countries), weaker global growth (particularly in China), global risk aversion, etc.

**Fiscal tensions:**
unaddressed fiscal imbalances could further weigh on interest and exchange rates, paving the way for a more negative macro environment

**Weather shocks:**
weather events could drive inflation upwards and/or growth downwards

# Baseline-scenario forecasts for Brazil

| | | 2021 | 2022 | 2023 | 2024 (f) | 2025 (f) | 2026 (f) |
|---|---|---|---|---|---|---|---|
| GDP (%) | Updated (4Q24) | 4.8 | 3.0 | 2.9 | 2.9 | 1.6 | 1.8 |
| | Previous (3Q24) | | | | 2.9 | 2.0 | 2.0 |
| Inflation (%, end-of-period) | Updated (4Q24) | 10.1 | 5.8 | 4.6 | 4.7 | 3.8 | 3.5 |
| | Previous (3Q24) | | | | 4.2 | 3.7 | 4.0 |
| Policy rate (%, end-of-period) | Updated (4Q24) | 8.25 | 13.75 | 11.75 | 11.75 | 11.50 | 9.50 |
| | Previous (3Q24) | | | | 11.25 | 10.00 | 9.50 |
| Exchange rate (end-of-period) | Updated (4Q24) | 5.65 | 5.24 | 4.90 | 5.72 | 5.40 | 5.35 |
| | Previous (3Q24) | | | | 5.10 | 5.20 | 5.20 |

(f): forecast
Source: BBVA Research

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December, 2024

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