BBVA Research

Brazil Economic Outlook

March 2025

Creating Opportunities

Global economic outlook: main messages

RECENT DEVELOPMENTS

The global economy is facing major geopolitical and economic shifts with uncertain consequences, mostly due to the policies of the new Trump administration. US growth remains resilient despite recent negative signs, while the Eurozone stays weak and China recovers. Inflation continues above target, mainly in the US. The Fed has kept rates steady and the ECB has continued its easing cycle in 1Q25.

GROWTH OUTLOOK

Global growth is set to slow amid rising uncertainty and protectionism. While some recent growth momentum supports upward forecast revisions for the US and China, both are still expected to decelerate. In the Eurozone, growth prospects have worsened as trade and geopolitical uncertainty weigh negatively, but fiscal spending (particularly in defense) may provide support.

INFLATION AND RATES OUTLOOK

US inflation is expected to rise, partly due to tariffs, while in the Eurozone it should converge to target. The Fed will likely hold rates steady in the near term, but monetary easing could resume from 2H25. The ECB is preparing to end its easing cycle as monetary conditions are now less restrictive; two rate cuts in 2Q25 are still likely. Controlled inflation should clear the path for lower interest rates in China.

RISKS

The balance of risks for the global economy remains skewed to the downside. The main source of concerns are higher US tariffs and persistent uncertainty. Even though talks on ending the war in Ukraine are a positive development, geopolitical risks will remain in the radar.

Brazil economic outlook: main messages

GROWTH

The outlook remains largely unchanged, with GDP growth expected to slow to 1.6% in 2025 and 1.8% in 2026, following three years of around 3% growth. The slowdown, supported by recent data, will be driven by tighter monetary conditions, a weaker fiscal impulse, and a less favorable global context, though the primary sector's dynamism and labor market resilience will likely provide some support.

FISCAL POLICY

Fiscal policy is expected to follow a muddle-through approach. While fiscal targets will likely be met, achieving them will require additional adjustment measures. Although this won’t be enough to prevent further public debt increase, it could help avoid new turbulence like that seen in late 2024. Still, risks remain significant, especially with next year’s general elections increasingly on the radar.

MONETARY POLICY

The restrictive tone of monetary policy is set to be reinforced during the next few months. The SELIC rate is expected to be hiked to around 15% by mid-year, 450 bps higher than at the beginning of the tightening cycle in Aug/24. Although activity deceleration will probably create some room for an easing cycle to begin by the end of 2025, interest rates will remain at high levels.

INFLATION, EXCHANGE RATE

Inflation will continue rising in the short term but is likely to gradually weaken from mid-year. Significantly tight economic policies should prevent a depreciation of the exchange rate and contribute to inflation moderation, at least if fiscal and global risks remain contained.

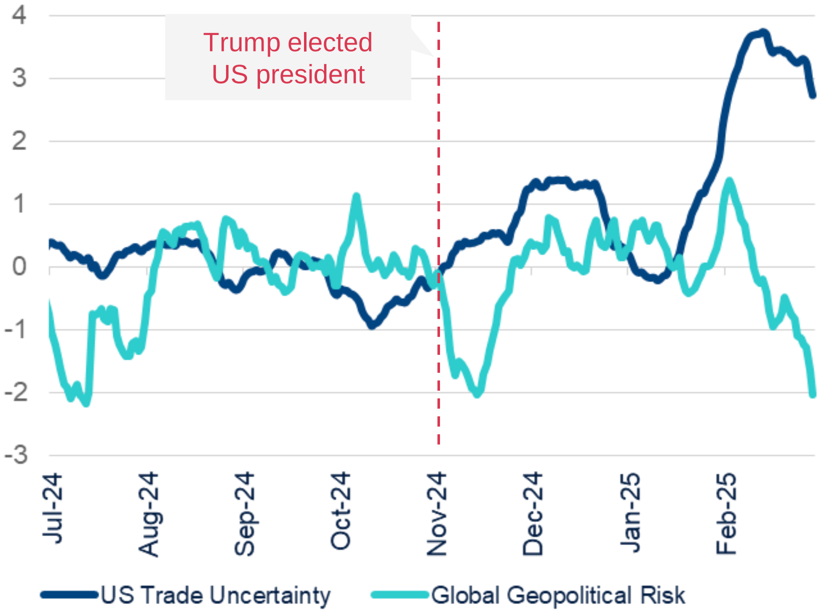
Research

01

Global Economic Outlook March 2025

The policies of the new U.S. administration create significant uncertainty

US TRADE UNCERTAINTY AND GLOBAL GEOPOLITICAL RISK INDEXES (*)
(MEAN SINCE JAN/23 EQUALS TO 0; 28-DAY MOVING AVERAGE)



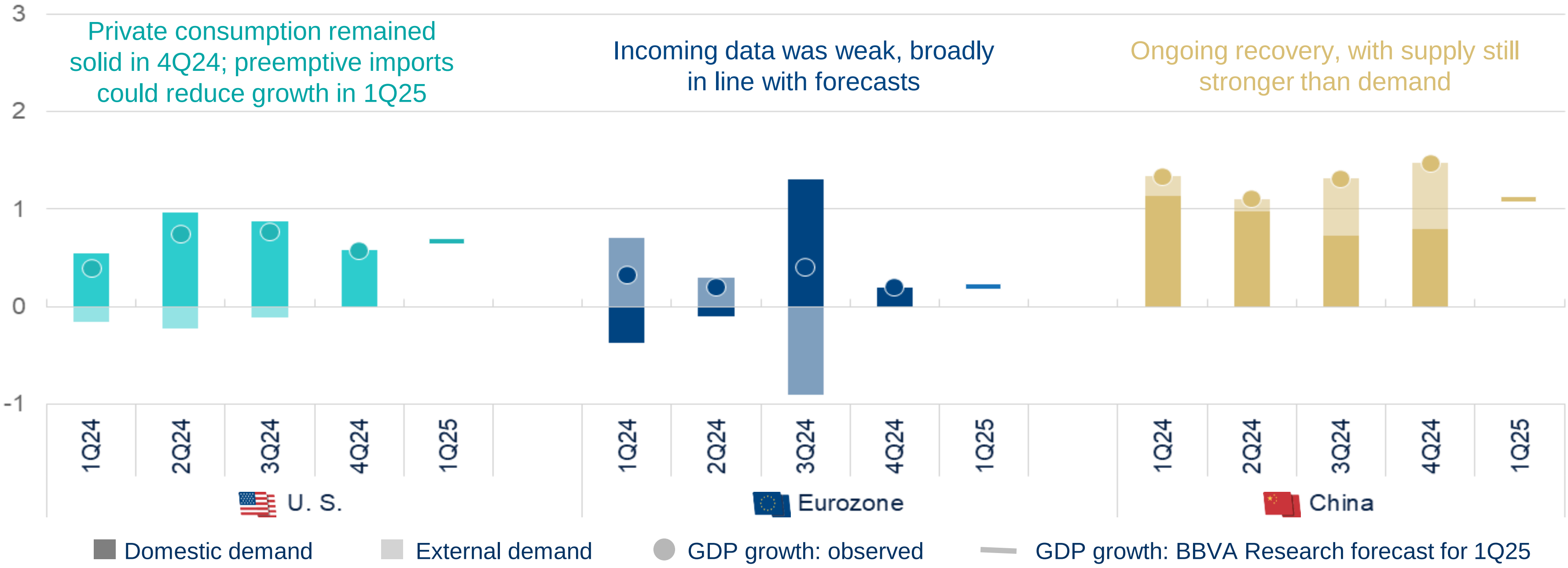
(*) Last available data: March 5th, 2025
Source: BBVA Research Geopolitics Monitor.

- Higher uncertainty on Trump's policies:
    - Trade: 20% tariffs on China, 25% on some Western allies (later delayed), 25% tax on steel and aluminum, etc., along with various threats of further protectionism measures
    - Other: policies to tighten immigration controls, promote fossil fuel production, cut public spending while favoring lower taxes, reduce US support for multilateral institutions, etc.
- Short-term geopolitical risk has eased lately on talks to end the war in Ukraine and Israel-Hamas truce, taking some pressure off energy prices.
- Still, geopolitics will remain a concern given latent US rivalry with China and the rising US tensions with Western allies, which are triggering a determined increase in defense spending in Europe.

Growth still has strong inertia: it remained robust in the US and China but was barely positive in the Eurozone by late 2024

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH

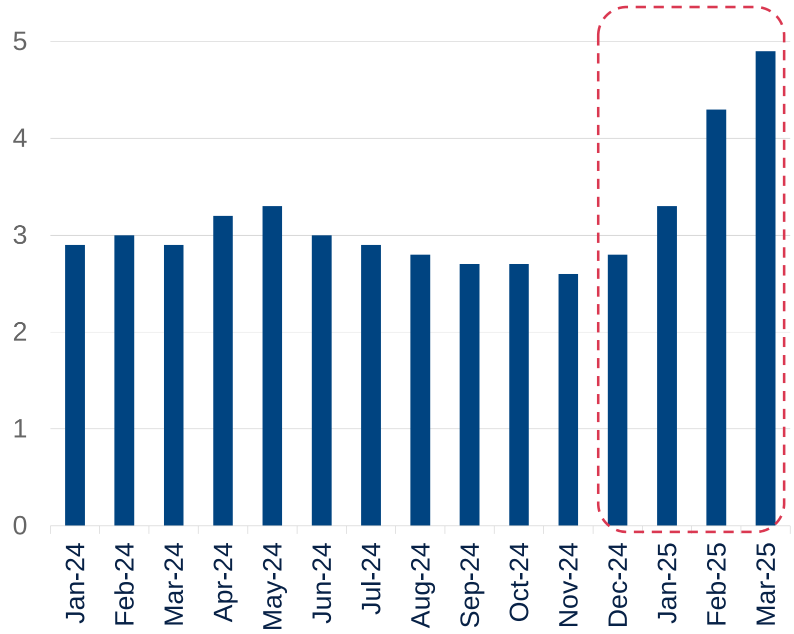
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



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

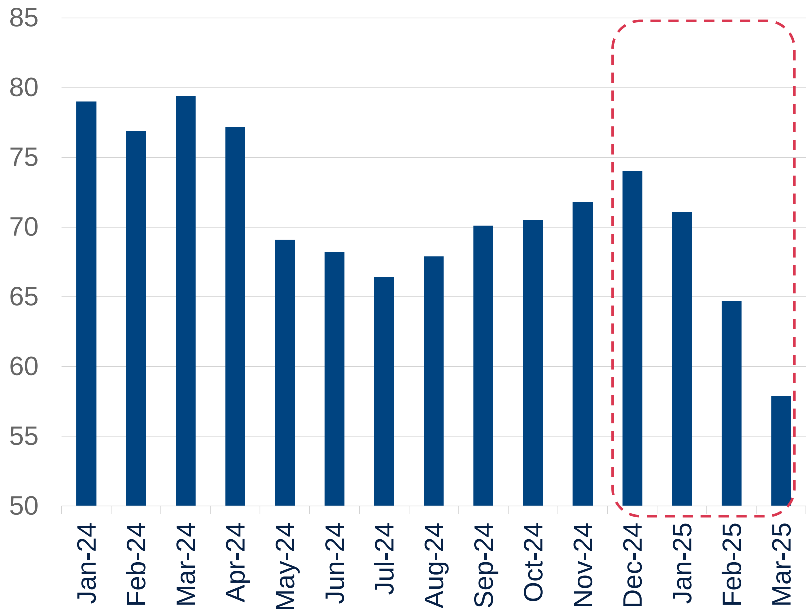
Despite the recent resilience of US growth, uncertainty already appears to be weighing on consumer confidence and inflation expectations

US CONSUMER INFLATION EXPECTATIONS: ONE YEAR AHEAD (Y/Y %)



Source: BBVA Research based on data from Survey of Consumers, University of Michigan.

US CONSUMER SENTIMENT (INDEX)

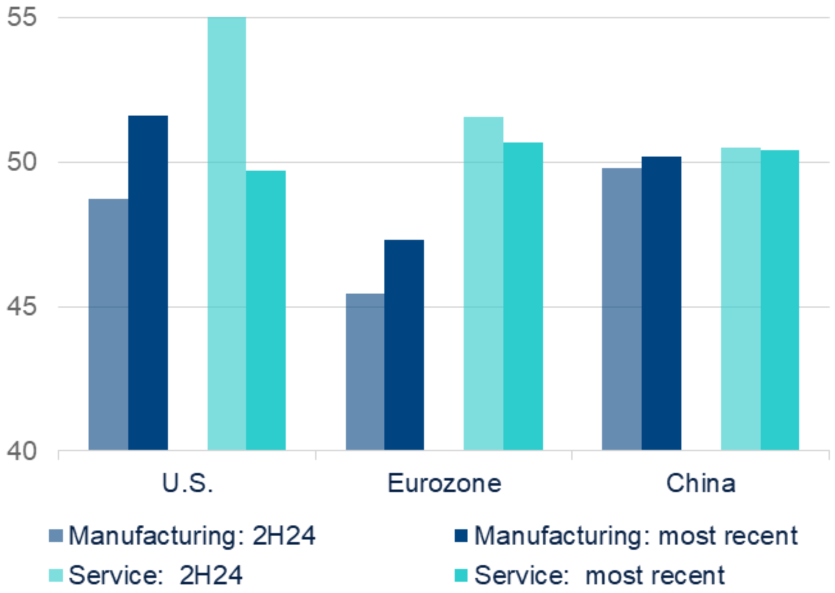


Source: BBVA Research based on data from Survey of Consumers, University of Michigan.

The recent slowdown in services and signs that manufacturing has bottomed out raise questions about the persistence of the post-pandemic growth model

PMI INDICATORS: 2H24 AVERAGE AND MOST RECENT DATA (*)

(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)

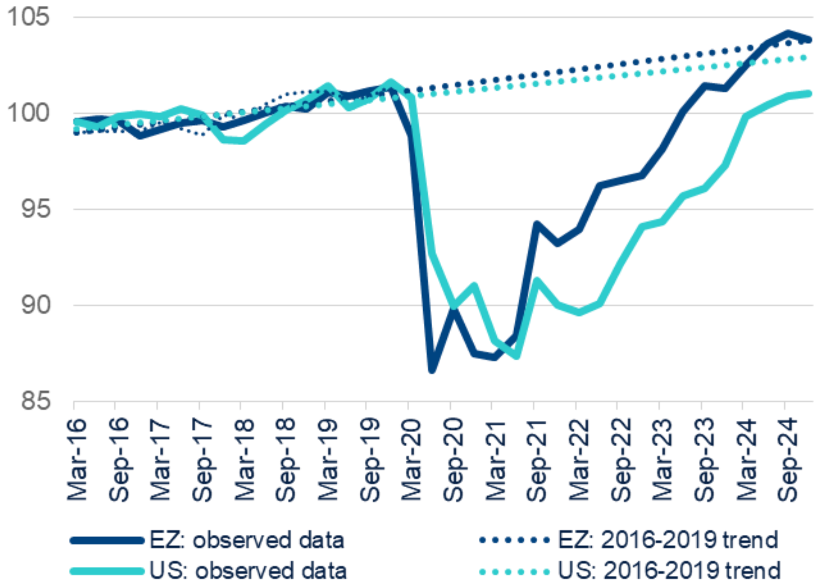


(*) Most recent data: February 2025.

Source: BBVA Research based on data from Haver.

SERVICES/GOODS PRIVATE CONSUMPTION RATIO (*)

(INDEX: 2016-19 AVERAGE = 100; BASED ON NOMINAL VALUES)



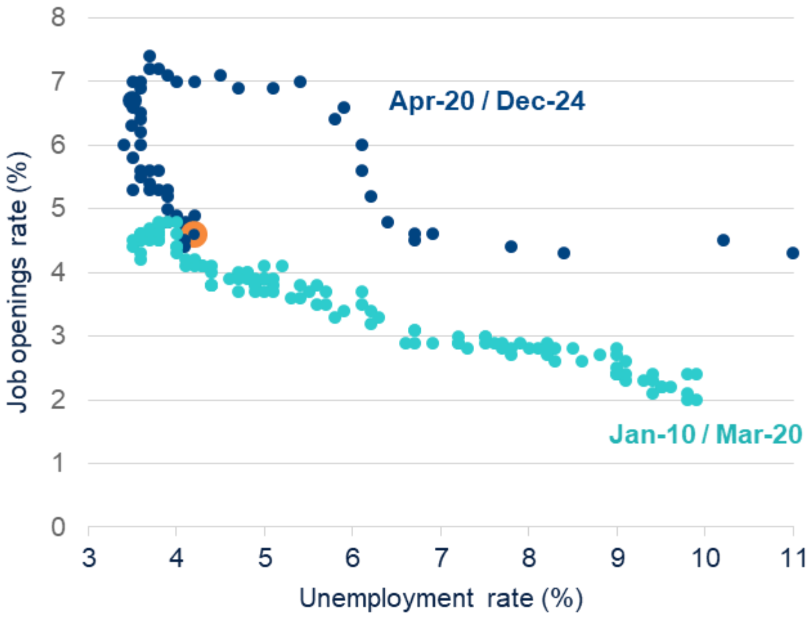
(*) 4Q24 data for the Eurozone is based on preliminary figures for Denmark, Germany, Spain, France, Netherlands and Slovenia.

Source: BBVA Research based on BEA and Eurostat data.

Labor markets remain resilient despite recent moderation: job openings have fallen sharply, but unemployment continues to be at low levels

US: BEVERIDGE CURVE (*)

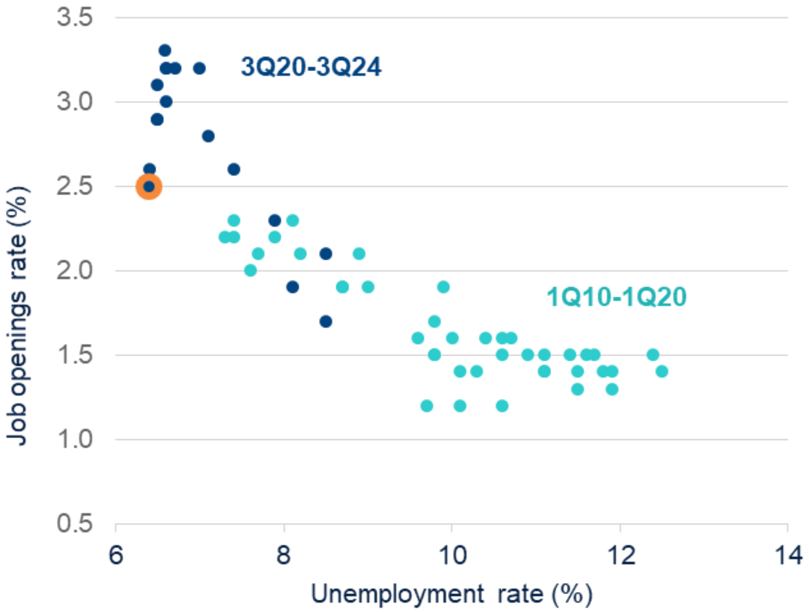
(MOST RECENT MONTHLY DATA HIGHLIGHTED IN ORANGE)



(*) Unemployment: share of labor force. Job openings: share of sum of employment and job openings.
Source: BBVA Research based on data from FRED.

EUROZONE: BEVERIDGE CURVE (*)

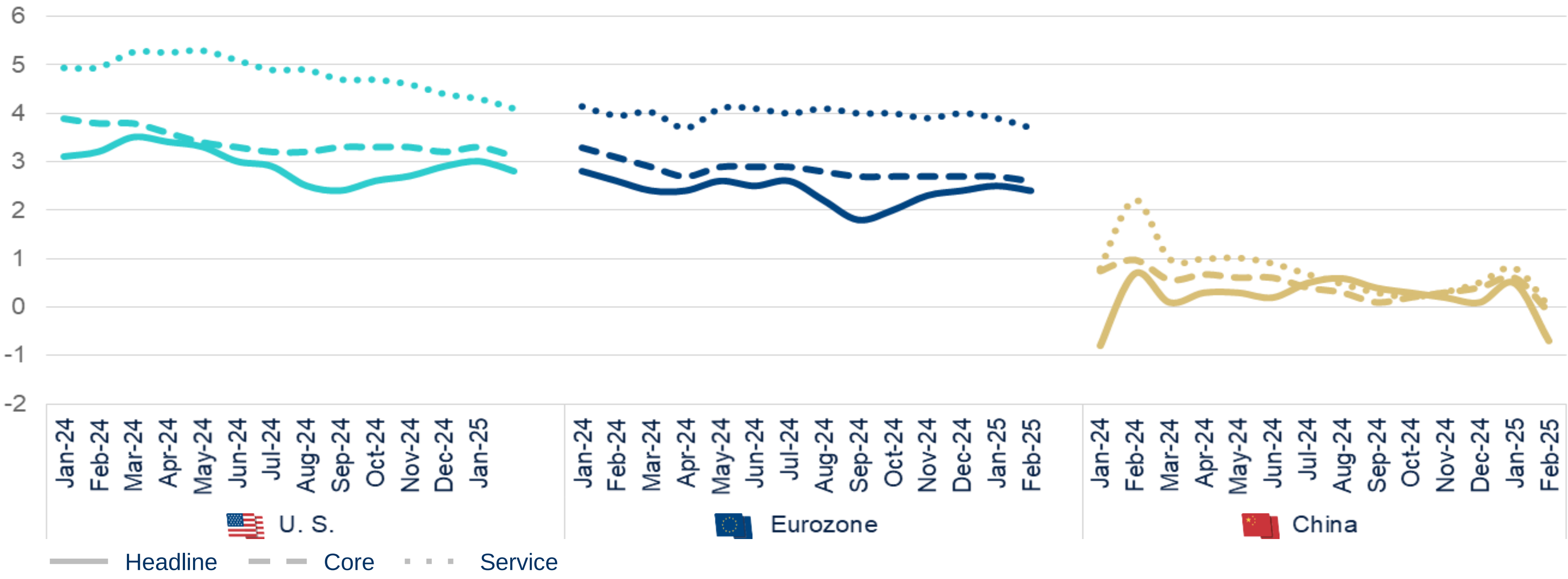
(MOST RECENT QUARTERLY DATA HIGHLIGHTED IN ORANGE)



(*) Unemployment: share of labor force. Job openings: share of sum of employment and job openings.
Source: BBVA Research based on data from Eurostat.

Inflation remains above target, particularly in the US but to a lesser extent also in the Eurozone, after having rebounded more than expected in recent months

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

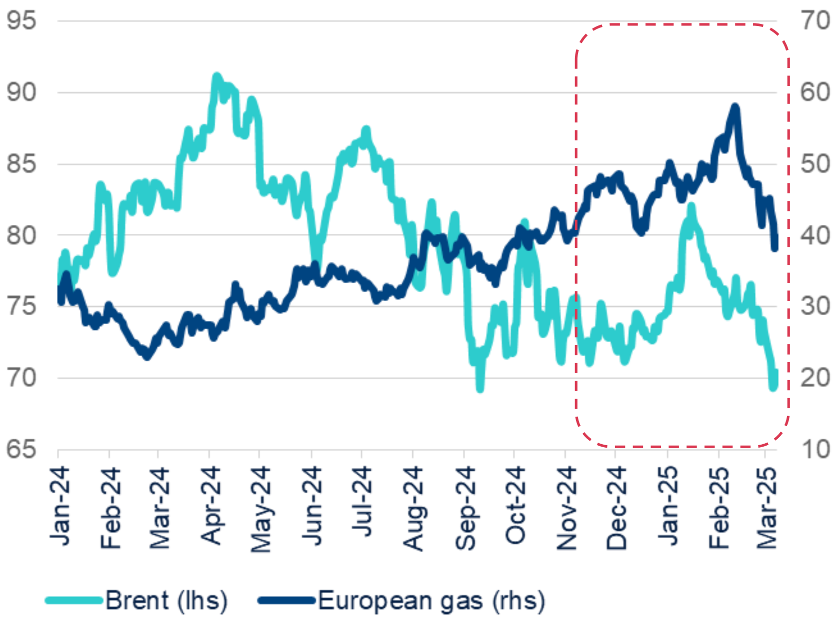


Source: BBVA Research based on data from Haver.

Energy prices have eased on more positive supply prospects and recent geopolitical developments, but remain volatile; wages seem to have lost steam

OIL AND GAS PRICES (*)

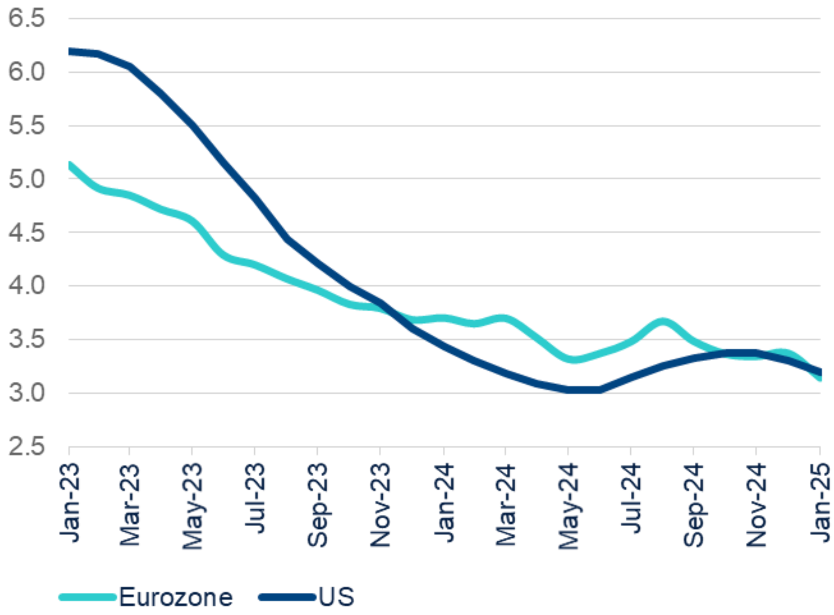
(OIL: USD PER BRENT BARREL; GAS: EURO /MWH)



(*) Last available data: March 7th, 2025.
Source: BBVA Research based on data from Haver.

NOMINAL WAGES: INDEED WAGE TRACKER

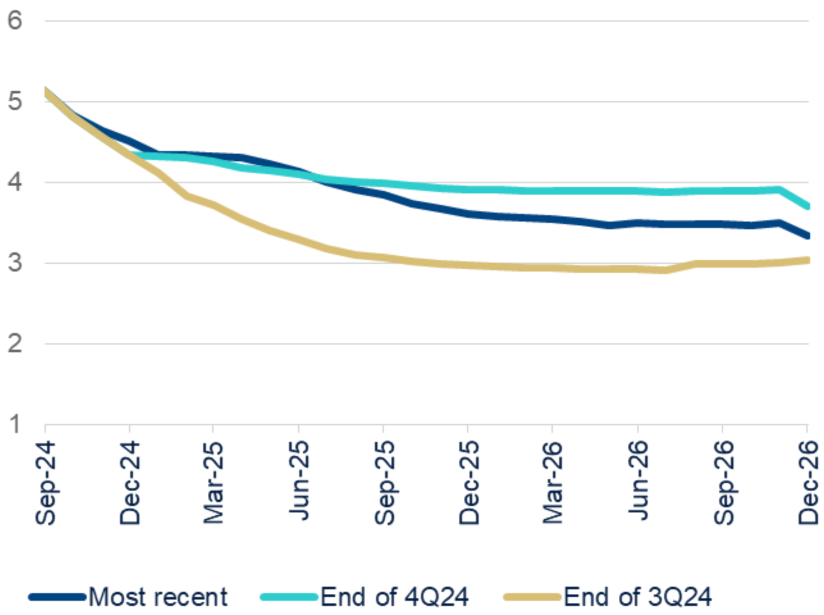
(Y/Y %, 3-MONTH MOVING AVERAGE)



Source: BBVA Research based on data from Indeed.

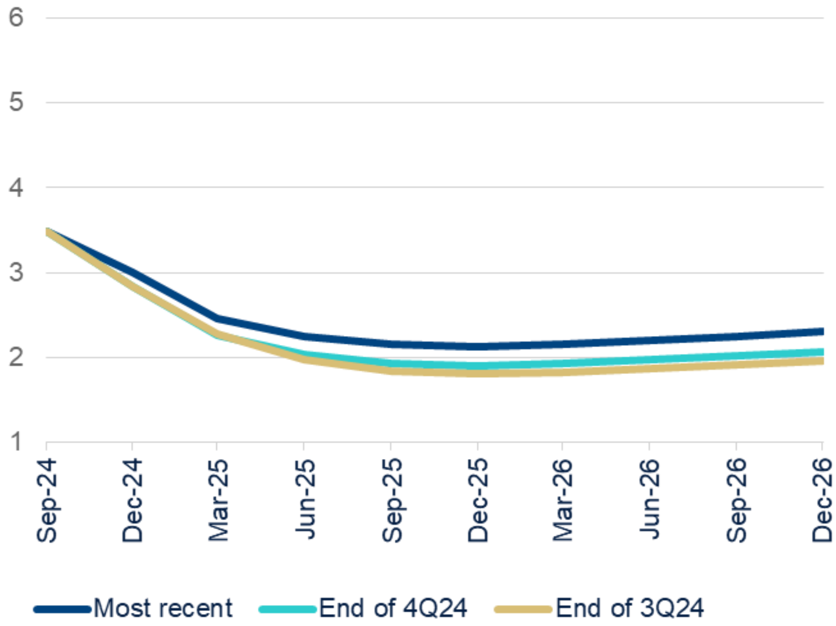
The Fed has held rates steady, signaling no rush for more cuts; the ECB has kept easing, but stressed that conditions are now meaningfully less restrictive

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



(*) Last available data: March 7th, 2025.
Source: BBVA Research based on data from Haver.

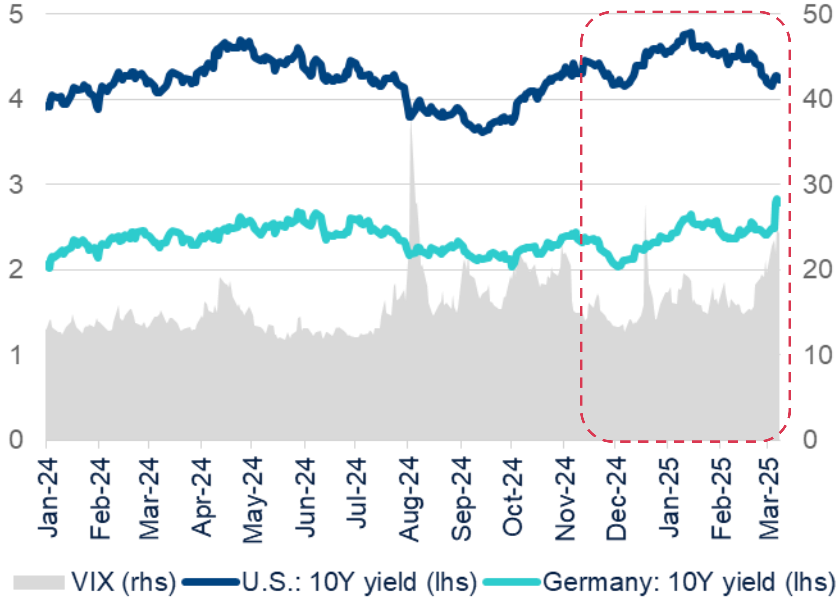
EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*)
(%)



(*) Last available data: March 7th, 2025.
Source: BBVA Research based on data from Haver.

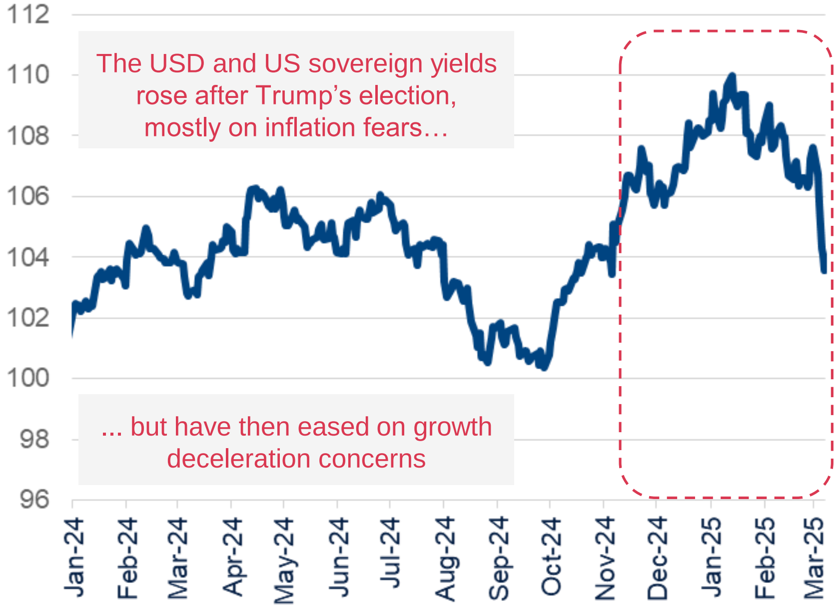
Financial volatility has risen as markets gauge the impact of evolving US policies; Europe's defense spending plans have driven Germany yields higher

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



(*) Last available data: March 7th, 2025.
Source: BBVA Research based on data from Haver.

US DOLLAR: DXY (*)
(INDEX)



(*) A lower DXY index represents a weaker US dollar. Last available data: March 7th, 2025.
Source: BBVA Research based on data from Haver.

The new US administration's erratic policies are set to bring major shifts, posing growing challenges to the global economy

BBVA RESEARCH BASELINE SCENARIO ON MAIN TRUMP POLICIES

TRADE POLICY	US tariffs are more than a negotiating tool. Working assumption: a 10% blanket tariff from 2Q25 and 60% tariffs on China from 2H25.
GEOPOLITICS	No changes in the current status quo; risks are tilted to the downside, although the eventual end of the war in Ukraine will have positive effects.
MIGRATION	No strong impact on labor markets; deportations will rise, but not sharply.
FISCAL POLICY	Deficits will be large, pressured by low taxes, despite some spending cuts.
MONETARY POLICY	The Fed will remain independent, but Trump's criticism may create noise.
DEREGULATION	No significant positive effects are being assumed.

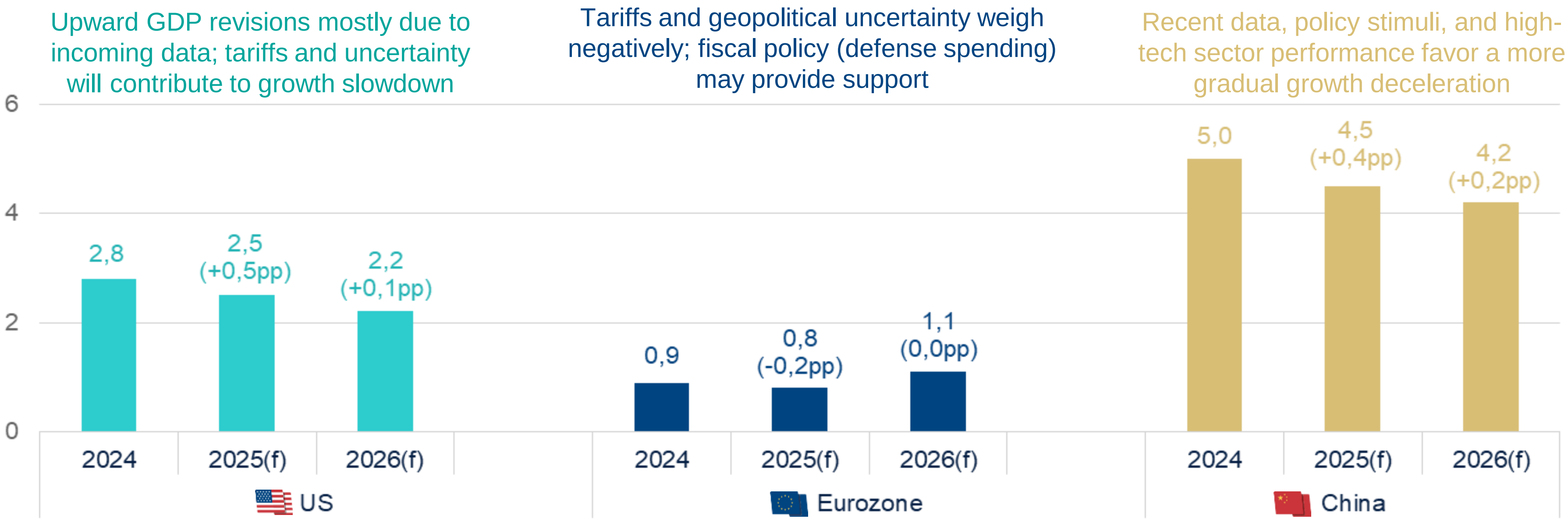
US tariffs are set to create negative supply and uncertainty shocks

	BASELINE SCENARIO	MAIN RISKS
SHOCKS CREATED BY US POLICIES	Negative supply and uncertainty (demand) shocks	Very negative supply and uncertainty (demand) shocks
US TARIFF LEVELS	Tariffs as a negotiation and policy tool (working assumption: 60% on China, 10% on other countries)	Tariffs mostly as a policy tool (25% or higher permanent tariffs on most important trade partners)
TARIFF ESCALATION	Moderate	Large and dynamically unstable
GROWTH IMPACT	Significant	Very significant and potentially disruptive
INFLATION IMPACT	Upwards in the US, downwards elsewhere	Upwards if supply shock prevails; downwards if uncertainty shock dominates

Growth is expected to lose momentum amid rising uncertainty and protectionism, despite positive incoming data in the U.S. and China

GDP GROWTH

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

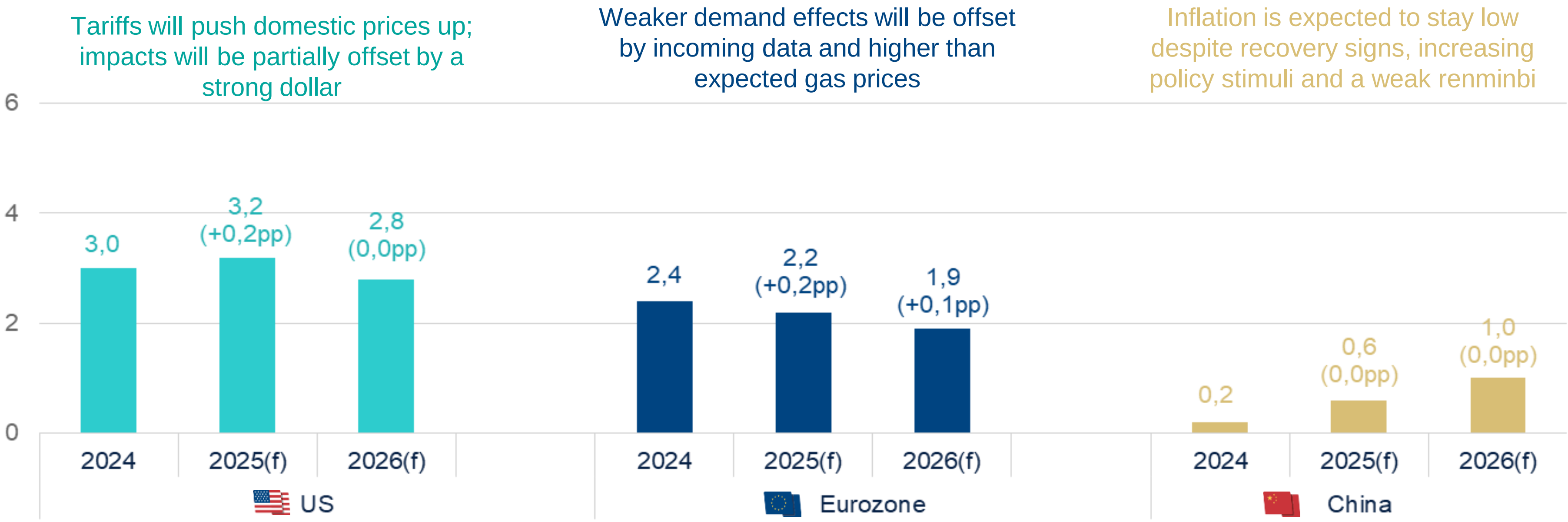


(f): forecast.
Source: BBVA Research.

US inflation is set to rise further, partly due to tariffs, while in the Eurozone it will likely keep converging to target

HEADLINE CPI INFLATION

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



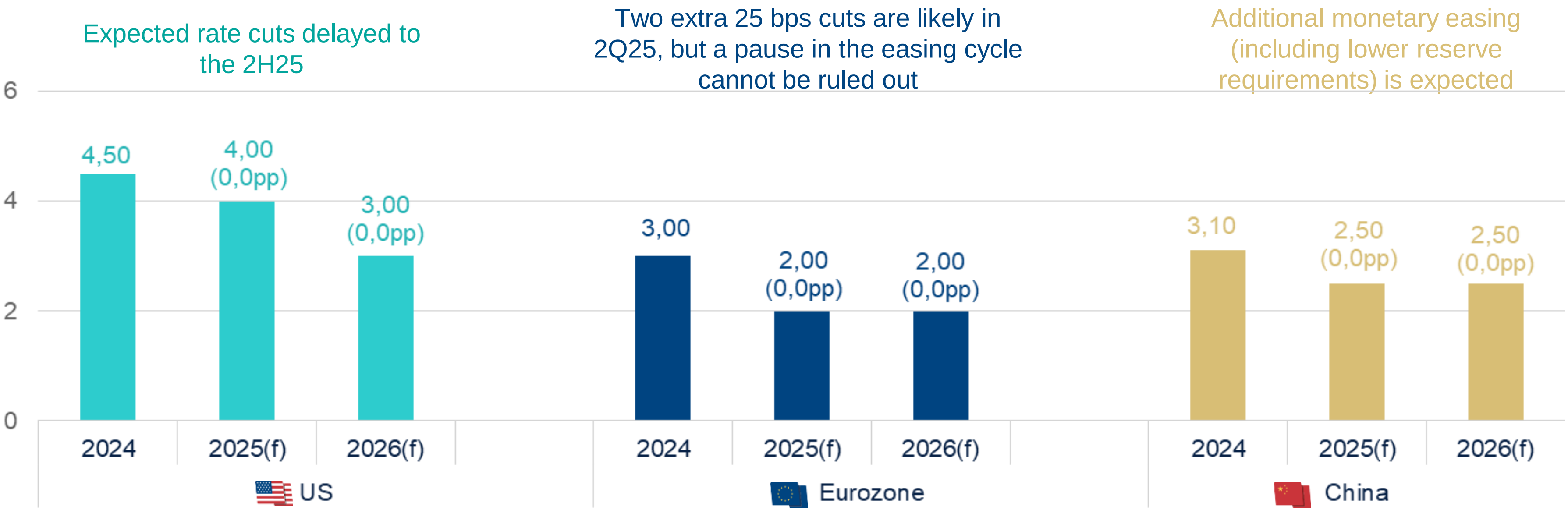
(f): forecast.

Source: BBVA Research.

The Fed will hold rates steady before resuming cuts in 2H25; the ECB is preparing to end its easing cycle but extra reductions in 2Q25 are still likely

POLICY INTEREST RATES (*)

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

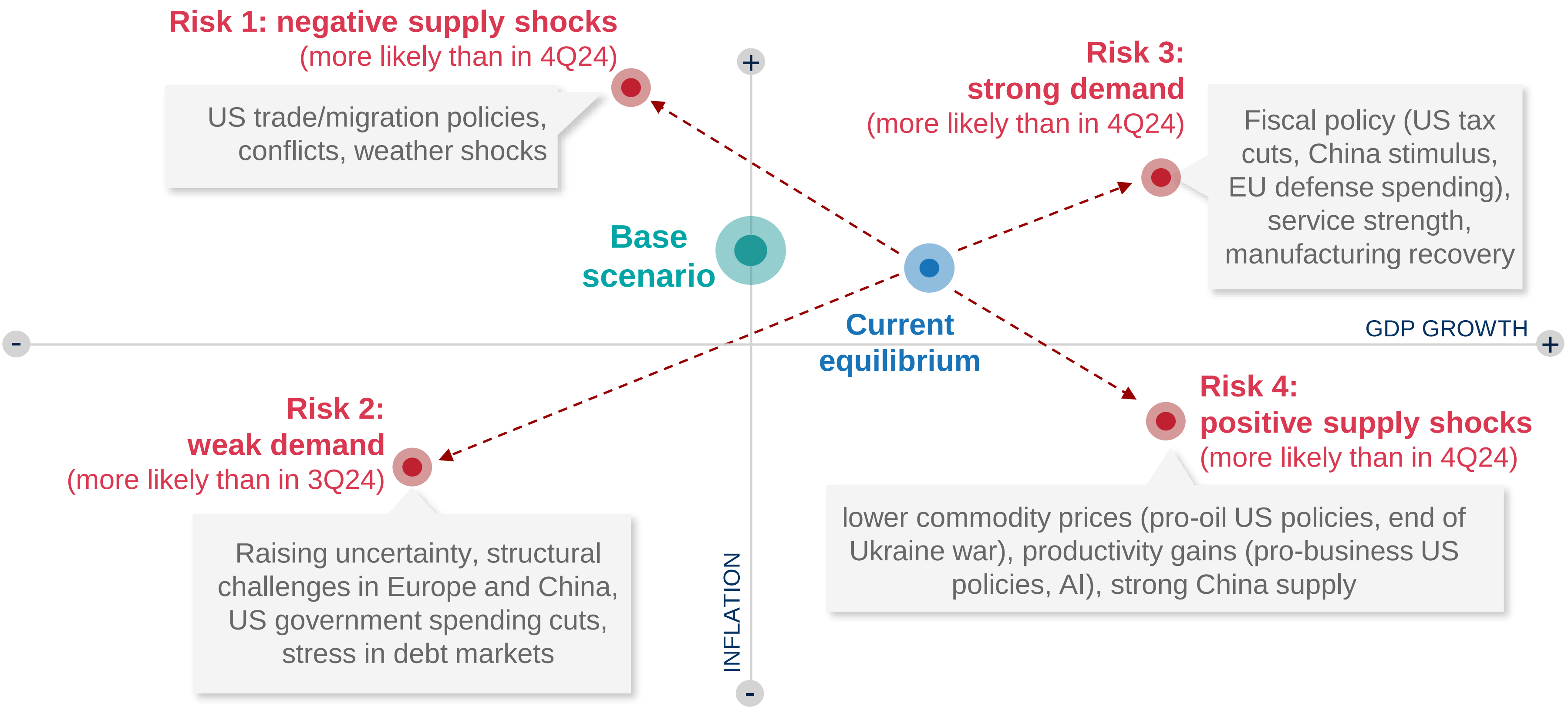


(f): forecast.

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

Source: BBVA Research.

Risks continue to build up: US trade policies and the negative impact of persistent uncertainty are among the main threats to the global economy



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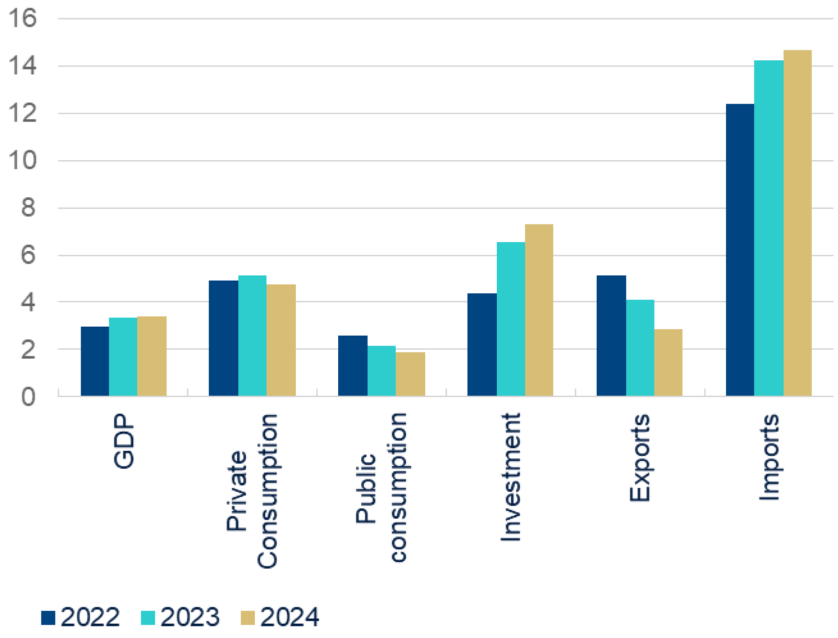
02

Brazil Economic Outlook
March 2025

Creating Opportunities

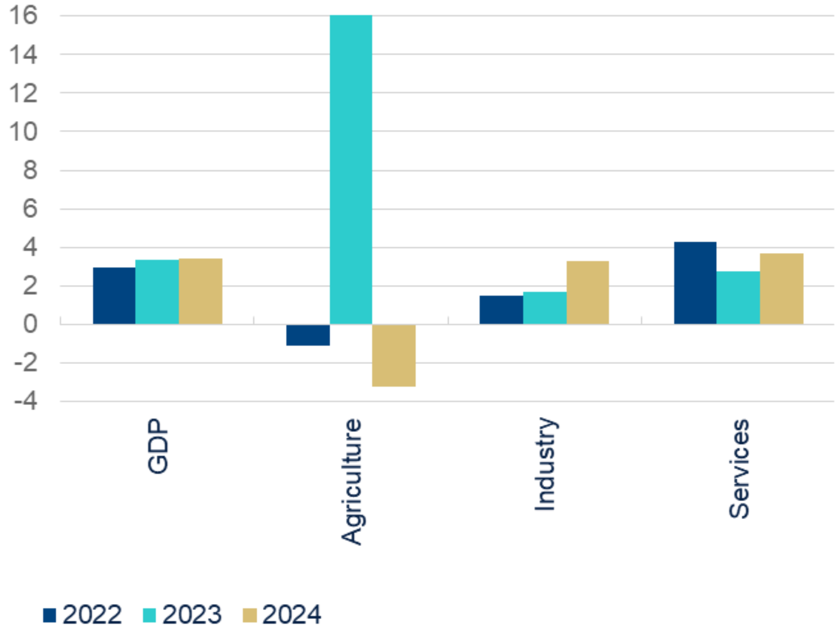
Growth remained around 3% for the third year in 2024, driven by a rebound in investment and industry, along with resilient private consumption and services

GDP AND DEMAND COMPONENTS: ANNUAL GROWTH (%)



Source: BBVA Research based on data by IBGE.

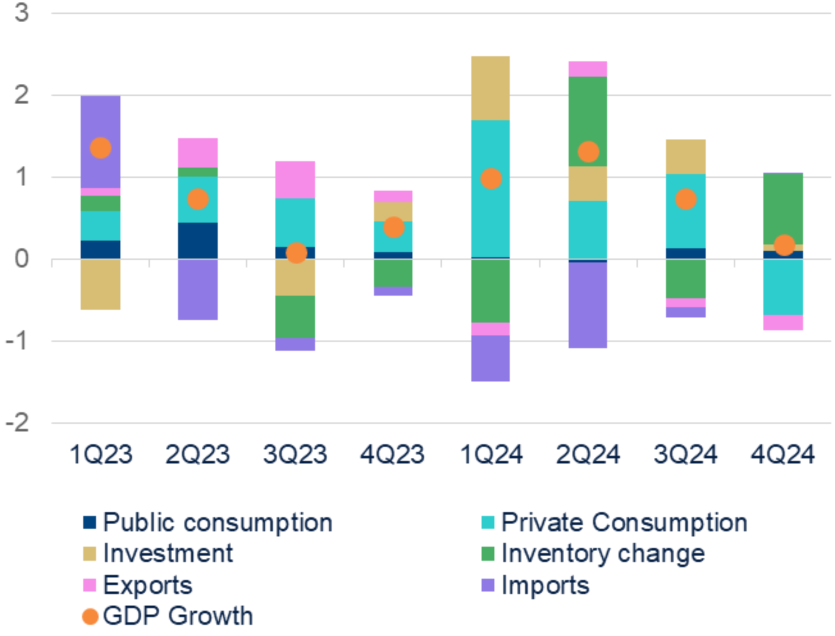
GDP AND SUPPLY COMPONENTS: ANNUAL GROWTH (%)



Source: BBVA Research based on data by IBGE.

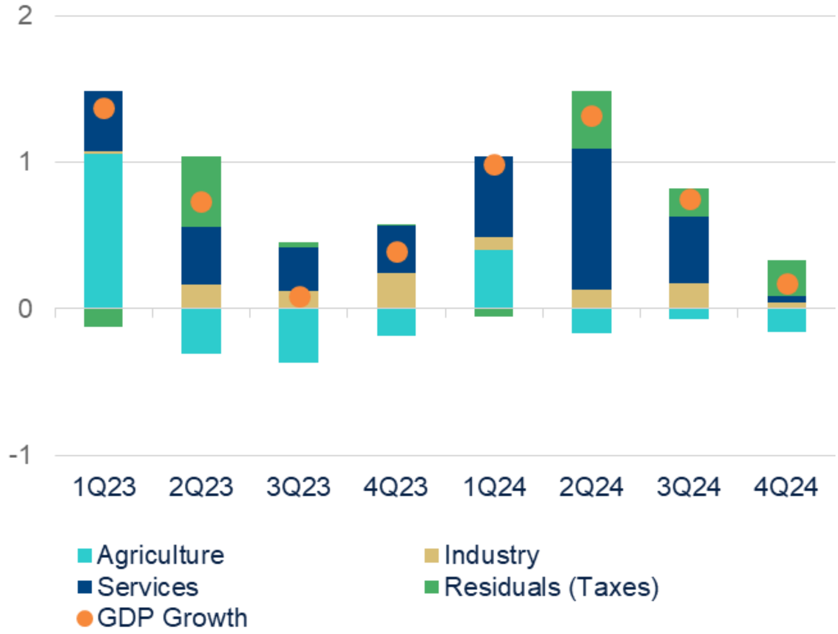
After exhibiting surprising strength during the previous quarters, GDP growth lost steam at the end of 2024

CONTRIBUTION OF DEMAND COMPONENTS TO QUARTERLY GDP GROWTH
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GROWTH: PP)



Source: BBVA Research based on data by IBGE.

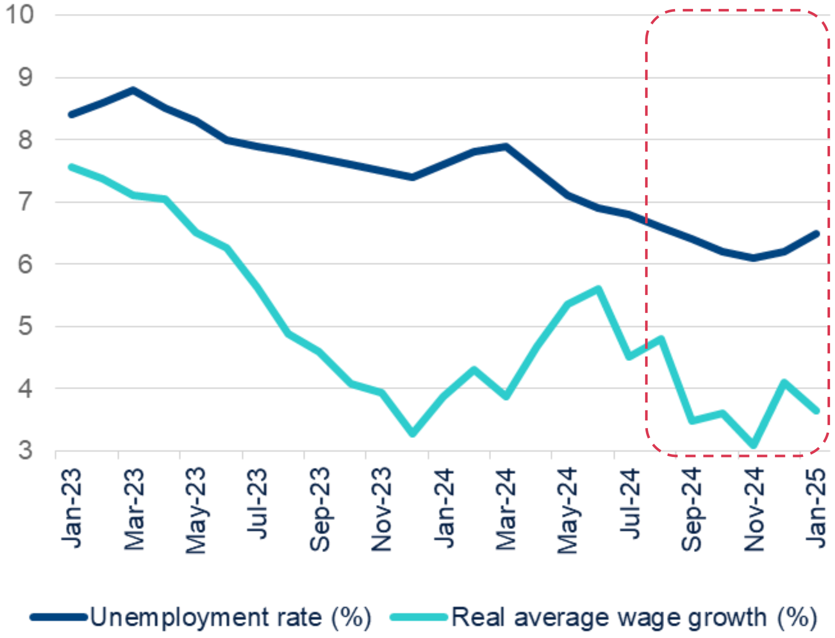
CONTRIBUTION OF SUPPLY COMPONENTS TO QUARTERLY GDP GROWTH
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GROWTH: PP)



Source: BBVA Research based on data by IBGE.

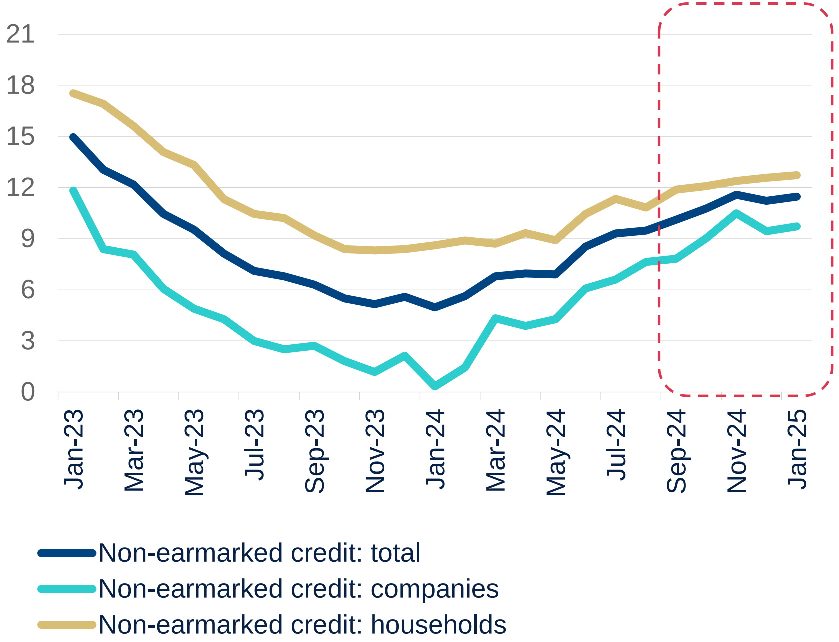
Labor and credit markets, while still resilient, also suggest the economy is starting to slow down

UNEMPLOYMENT RATE AND REAL AVERAGE WAGE GROWTH
(%)



Source: BBVA Research based on data by BCB.

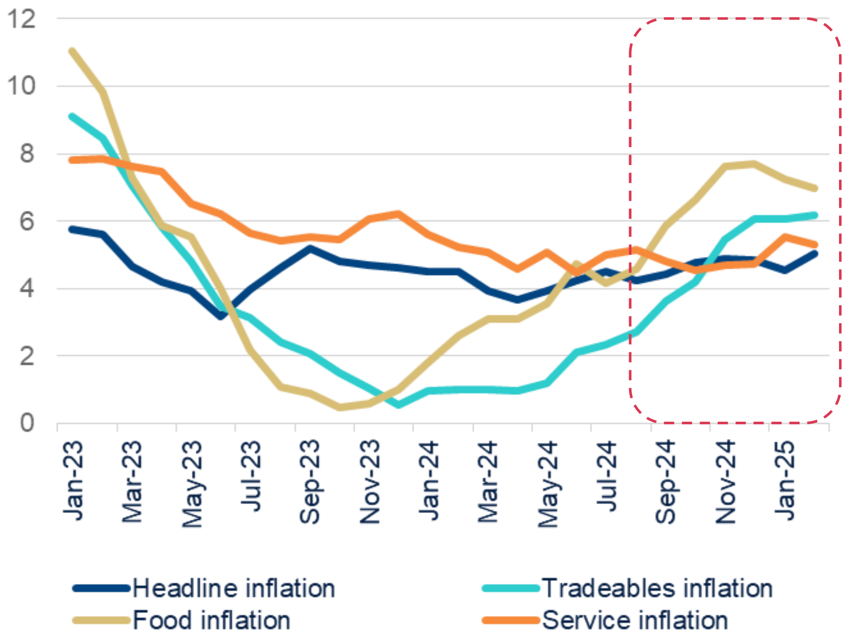
CREDIT STOCK: NOW-EARMARKED LOANS
(Y/Y %)



Source: BBVA Research based on data by BCB.

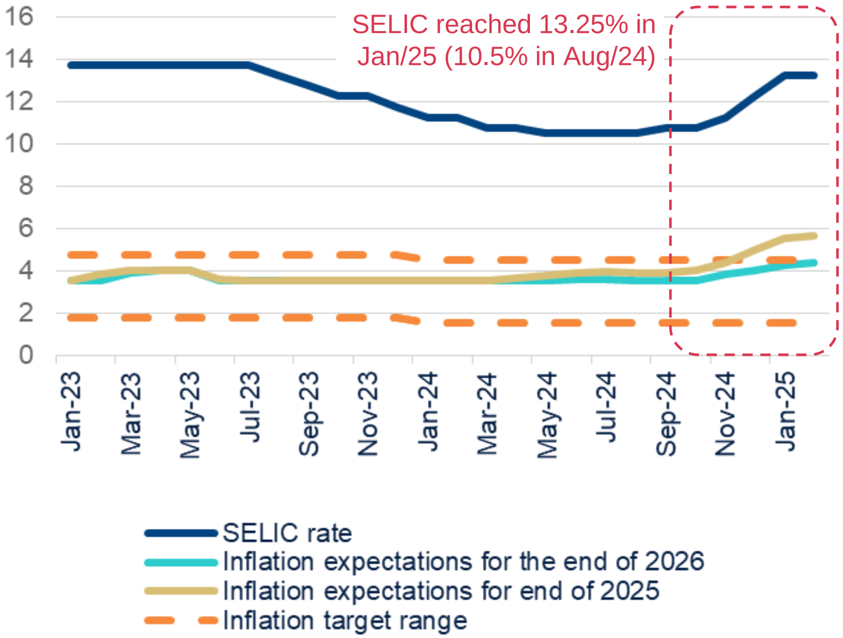
Inflation's rebound, driven by the FX depreciation and supply shocks, as well as the sharp monetary tightening help to explain the late growth slowdown

INFLATION: IPCA
(YoY%)



Source: BBVA Research based on data by BCB.

SELIC INTEREST RATE, INFLATION EXPECTATIONS
(%)

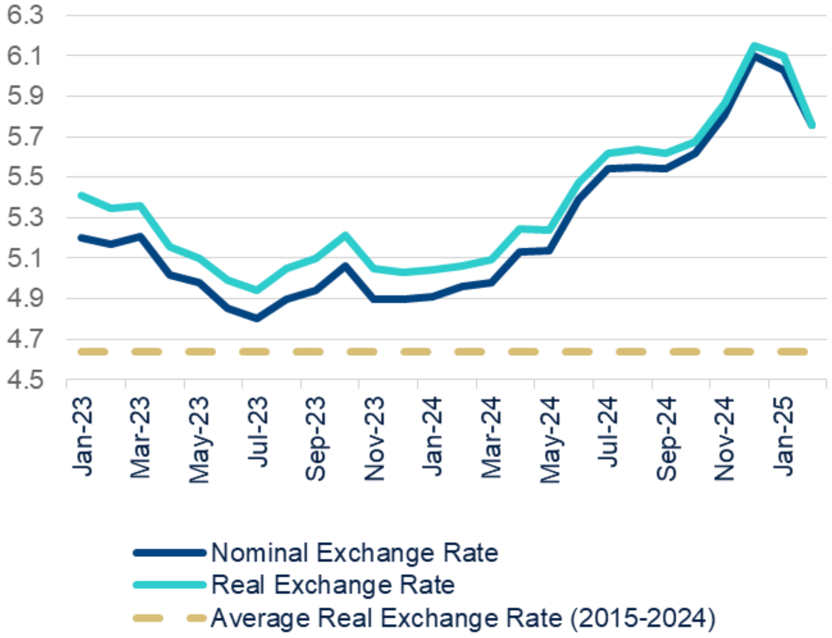


Source: BBVA Research based on data by BCB.

The recent financial volatility, driven by fiscal concerns and global factors, also weighed negatively on 4Q24 growth

NOMINAL AND REAL EXCHANGE RATE

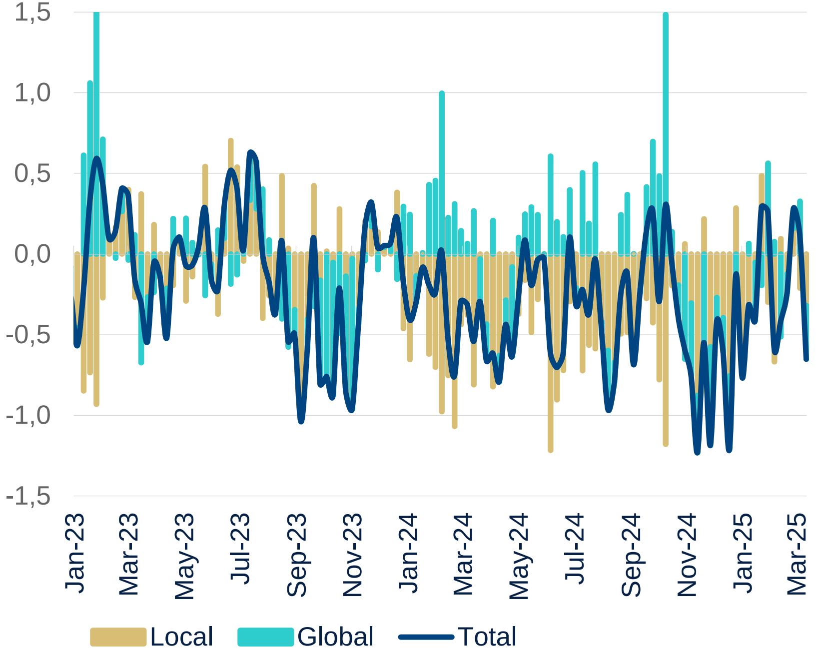
(BRAZILIAN REAL PER USD, REAL EXCHANGE RATE AT FEB/25 PRICES)



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

PORTFOLIO FLOWS TO BRAZIL: DECOMPOSITION BY LOCAL AND GLOBAL FACTORS

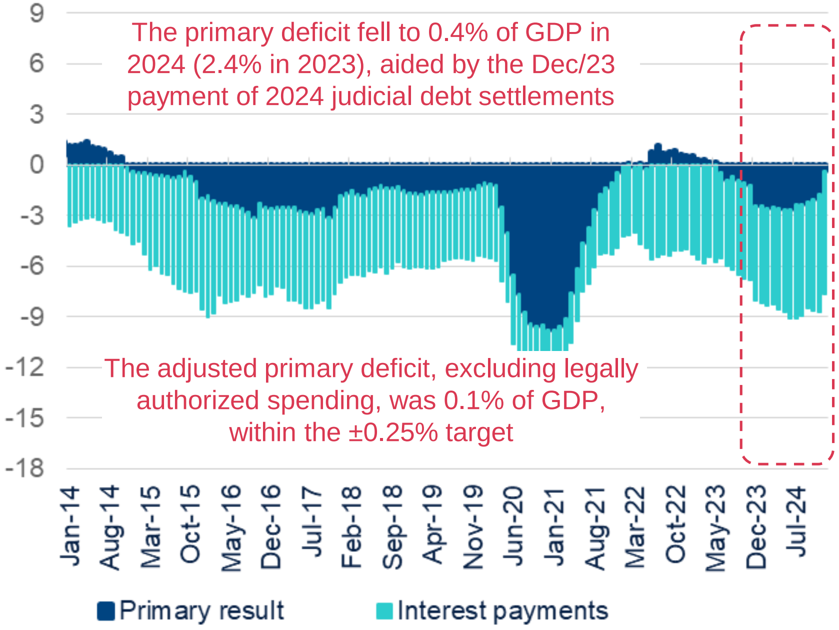
(Z-SCORES, DEVIATION FROM THE MEAN)



Source: BBVA Research based on data by Haver.

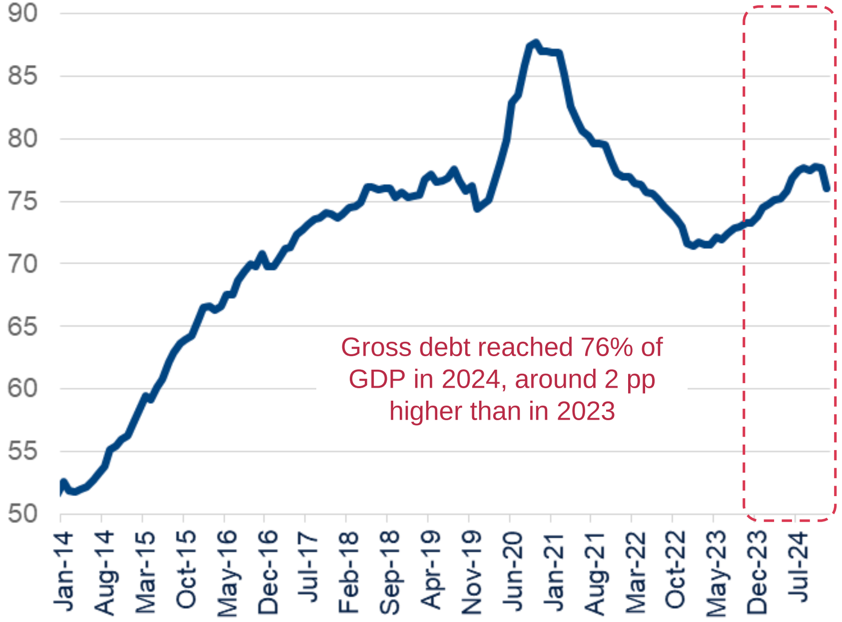
Fiscal accounts remain precarious but benefited from one-offs and base effects in late 2024, which enabled the fulfillment of last year's (eased) targets

CENTRAL GOVERNMENT FISCAL RESULTS
(% OF GDP)



Source: BBVA Research based on data by BCB.

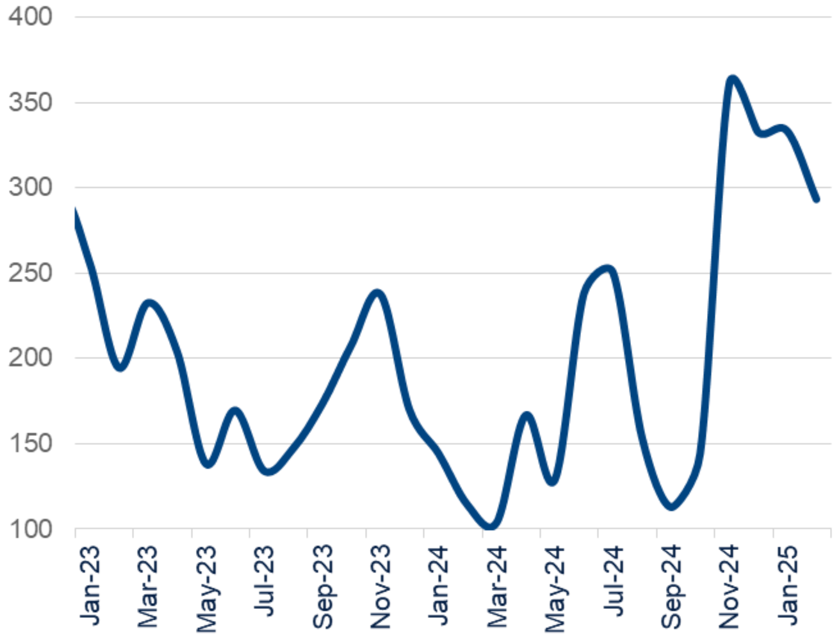
CENTRAL GOVERNMENT GROSS DEBT
(% OF GDP)



Source: BBVA Research based on data by BCB.

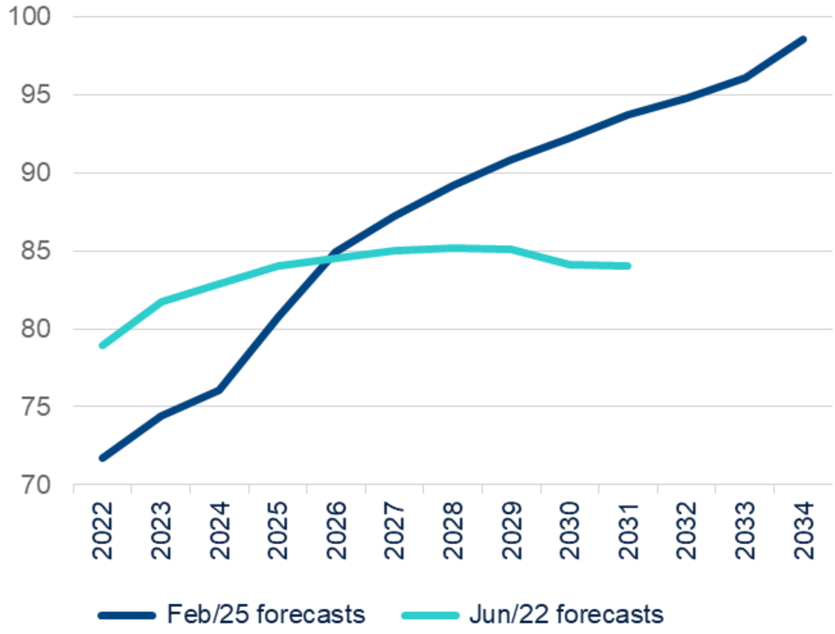
Fiscal policy uncertainty remains high; expectations are unanchored, and risks persist

ECONOMIC POLICY UNCERTAINTY INDEX: BRAZIL
(INDEX, 1991-2011 AVERAGE = 100)



Source: BBVA Research based on data by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com

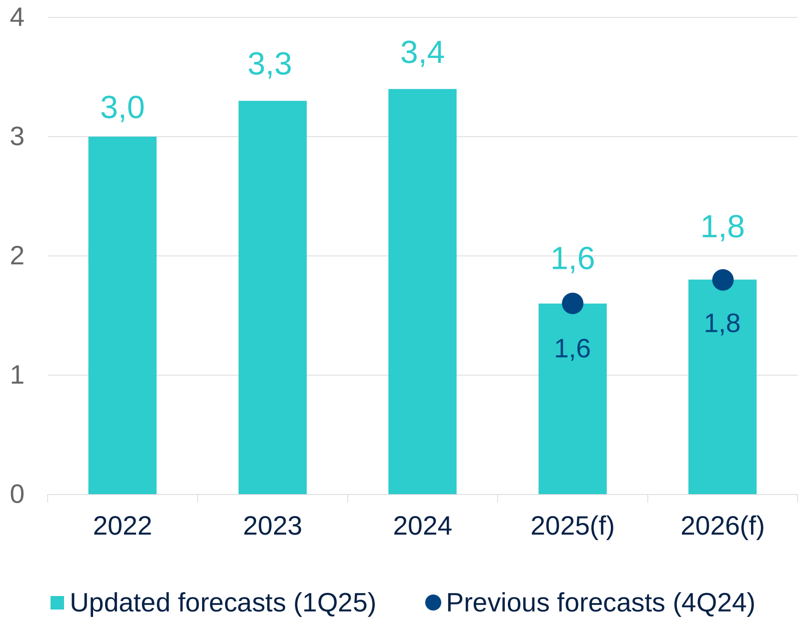
CENTRAL GOVERNMENT GROSS DEBT: MARKET CONSENSUS (% OF GDP)



Source: BBVA Research based on data by Prima Fiscal.

GDP growth is expected to dip below 2%, mainly due to tighter economic policies and a less supportive global environment

GDP GROWTH
(%)

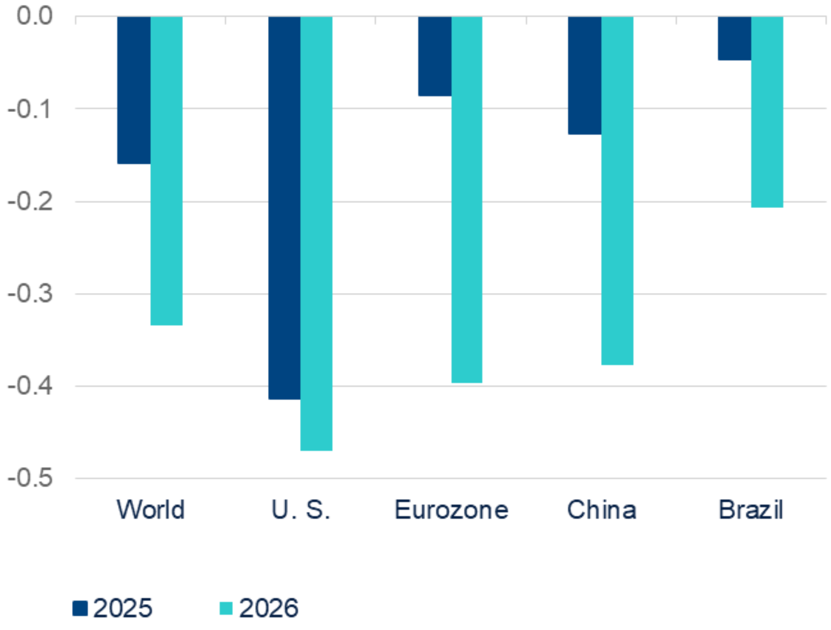


(f): forecast.
Source: BBVA Research.

- 4Q24 GDP was mostly in line with expectations (observed growth: 0.2% q/q; BBVAe: 0.3% q/q).
- Tighter monetary conditions and a weaker fiscal impulse pave the way for growth deceleration, but positive prospects for the agriculture sector and the likely resilience of labor markers will provide some support to growth, mainly in 1H25.
- US policies will heighten uncertainty and protectionism, pressuring global growth down:
  - US tariffs on Brazil's exports are expected to reduce GDP by around 2 p.p. (based on the working assumption of 10% US tariffs)
  - 25% US tariffs on steel and aluminum will reduce Brazil's GDP by around 0.03pp.

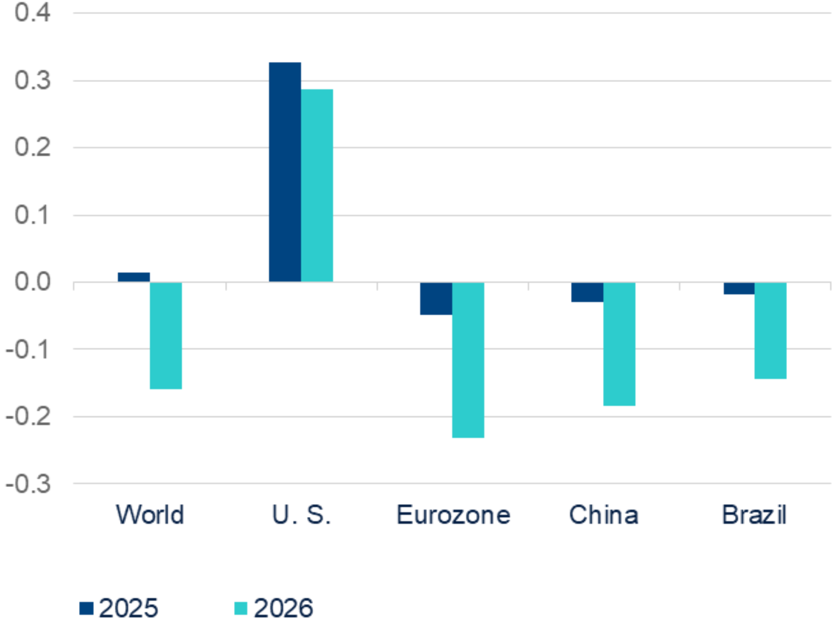
Our simulations suggest that US tariffs will drive down both growth and inflation in Brazil, but less than in other economies

SIMULATED IMPACT IN THE GDP LEVEL OF 10% BLANKET US TARIFFS WITHOUT RETALIATION
(% OF GDP LEVEL)



Source: BBVA Research based on Oxford Economics Model.

SIMULATED IMPACT IN THE PRICE LEVEL OF 10% BLANKET US TARIFFS WITHOUT RETALIATION
(% OF PRICE LEVEL)

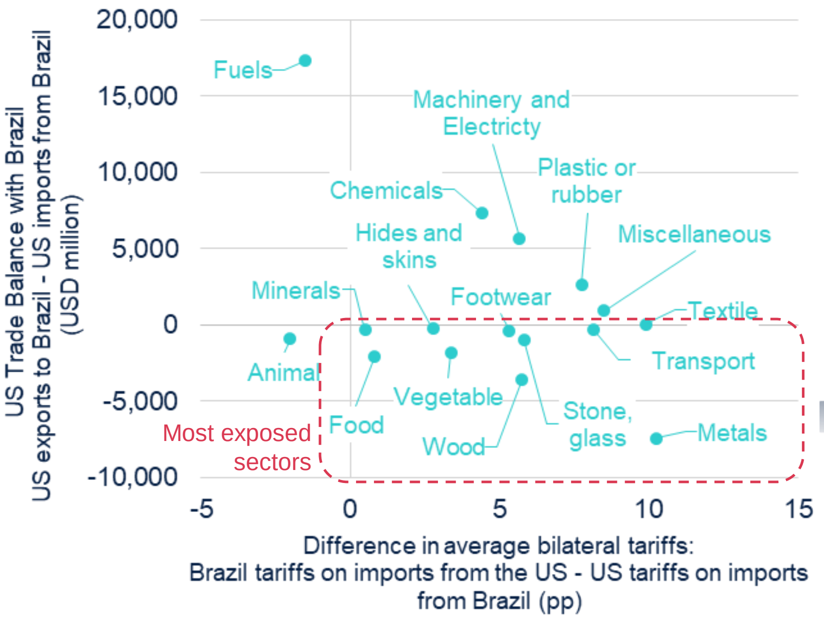


Source: BBVA Research based on Oxford Economics Model.

Beyond metals, already targeted by US tariffs, most exposed sectors are wood, transport, food, and vegetables; however, overall exposure is limited

TARIFF DIFFERENTIAL AND BILATERAL US TRADE BALANCE, BY SECTOR (2022)

(PP, USD BILLION)



Source: BBVA Research based on data by WITS.

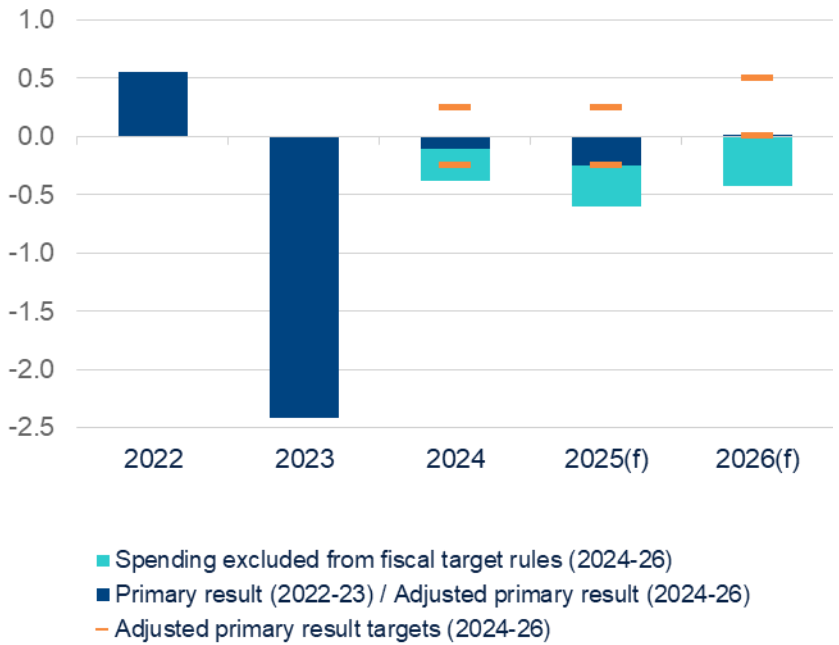
BRAZIL'S MOST EXPOSED SECTORS TO US TARIFFS (2022)

	Exports to US (USD billion)	Impact on GDP of 10% US tariffs (p.p.)
Metals	8.5	0.03
Wood	3.8	0.02
Transport	2.7	0.01
Food	2.4	0.01
Vegetable	2.1	0.01
Stone, glass	1.2	<0.01
Minerals	0.6	<0.01
Footwear	0.3	<0.01
Hides, skins	0.3	<0.01
Total	**21.9**	**0.1**

(*) BBVA Research estimations using 2022 data and an import demand elasticity of 0.8.
Source: BBVA Research based on data by WITS.

Fiscal policy outlook: despite significant risks, a muddle-through remains the baseline scenario

CENTRAL GOVERNMENT PRIMARY RESULT
(% OF GDP)

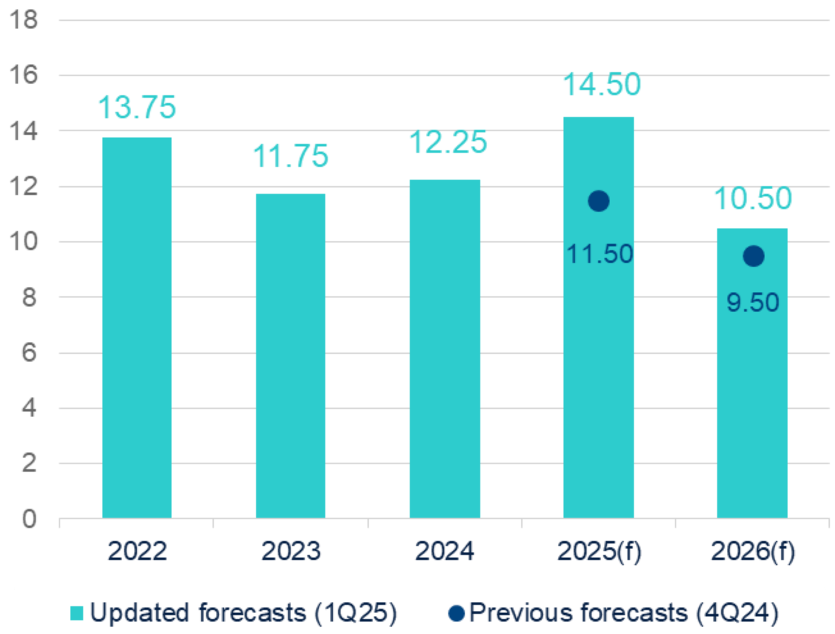


(f): forecast.
Source: BBVA Research.

- The government's commitment to fiscal consolidation remains uncertain.
- Muddle-through scenario: fiscal concerns will likely continue to weigh negatively, but a full-blown fiscal crisis will likely be avoided.
- Fiscal targets are expected to be met in 2025 and 2026, which will require extra adjustment measures.
- Meeting fiscal targets is not enough to prevent further public debt increases (a primary surplus of around 2.5% is needed for stabilization), but it can help avoid new episodes of turbulence.
- Risks are significant, especially concerning the government's plan to sharply raise the income tax exemption threshold while compensating for lost revenue by increasing taxes on higher earners.

Monetary policy outlook: there is still some room for the SELIC to move up; although an easing cycle is likely to begin by late 2025, rates will remain high

SELIC INTEREST RATE
(YOY%, END-OF-PERIOD)

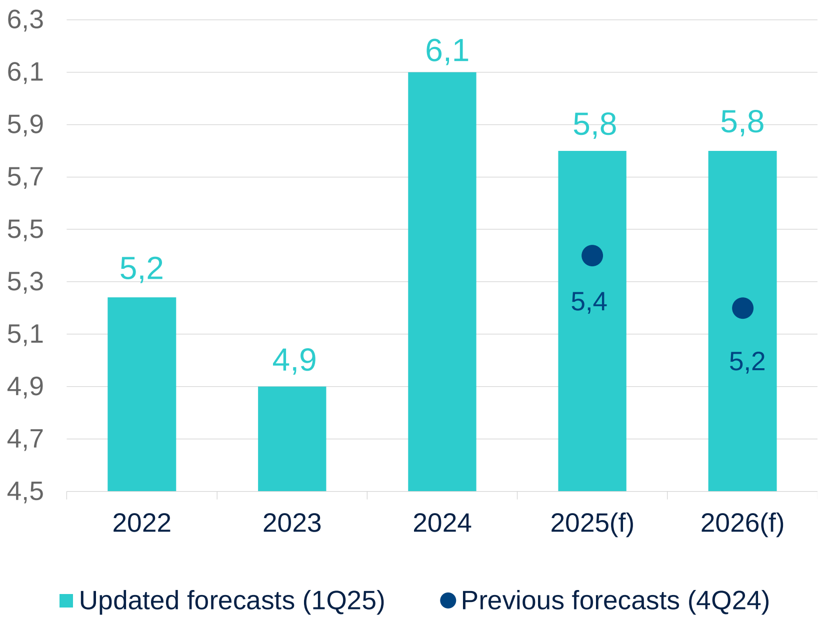


(f): forecast.
Source: BBVA Research.

- After reaching 14.25% in Mar/25, the monetary tightening cycle will likely continue, with final hikes of 50 bps in May/25 and 25 bps in Jun/25.
- The expected inflation slowdown and the Fed's monetary easing in 2H25 should set the stage for SELIC rate cuts starting at year-end.
- The SELIC is expected to converge to around 10.0% at the end of the easing cycle in early 2027, a level consistent with an inflation of 4% and real interest rates around 6% (a higher equilibrium rate than in the recent past).
- Risks are two-sided; the SELIC could peak at a higher (lower) level if the Fed proves to be more (less) hawkish than expected or if inflation and fiscal policy surprise negatively (positively).

Significantly tight monetary conditions should prevent a further depreciation of the exchange rate, at least if fiscal and global risks remain contained

NOMINAL EXCHANGE RATE
(BRL / USD, END-OF-PERIOD)

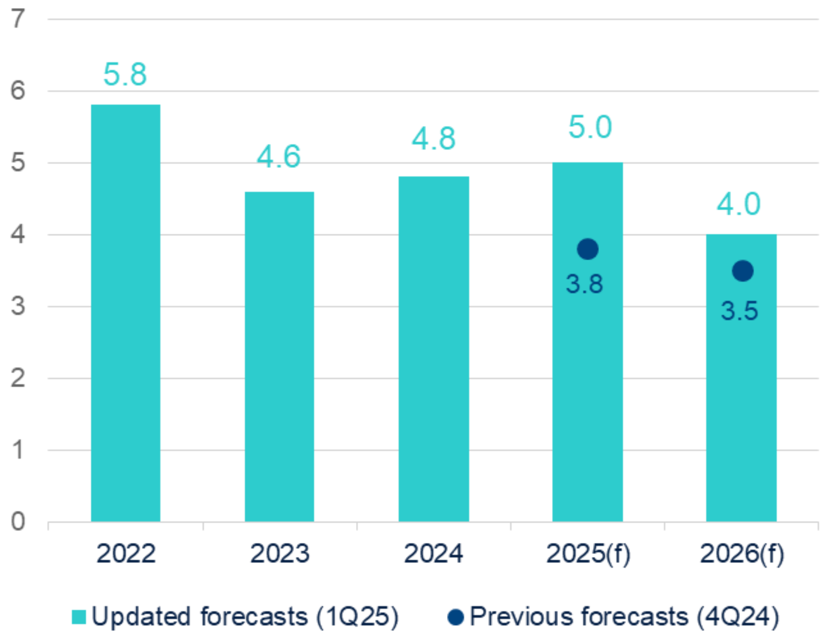


(f): forecast.
Source: BBVA Research.

- High SELIC levels will keep real interest rates around 10% and the differential with US rates above 10 p.p. for most of 2025, backing the Brazilian real.
- Still, a strong US dollar globally and persistent concerns about fiscal accounts should keep the Brazilian real weak, significantly above equilibrium levels (the 2017-2024 average, at currently prices, is around 4.8).
- Exchange rate volatility ahead of 4Q26 general elections is expected.

Inflation will continue rising in the short term but is likely to gradually weaken from mid-year

CPI INFLATION
(YOY%, END-OF-PERIOD)

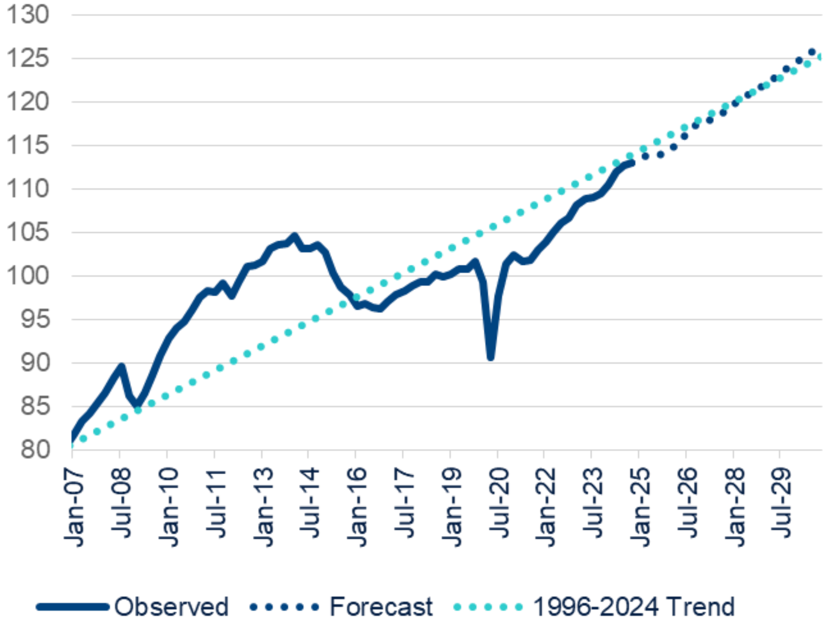


(f): forecast.
Source: BBVA Research.

- Inflation will remain under pressure, mainly in the first half of 2025.
- We expect it to rise to almost 6.0% by Jun/24, driven by the continued pass-through of the 2024 exchange rate depreciation to tradable prices and still high food and service inflation.
- Growth moderation amid tighter economic policies will likely pave the way for a moderation of inflation from mid-year; global growth deceleration and controlled global commodity prices are also expected to support a disinflation process in 2H25.
- Anyway, inflation will likely remain above the 3% target, in a context where fiscal concerns will continue to weigh negatively.

Long-run growth: GDP has returned to its long-term trend after a strong recovery in recent years; where is it headed next?

GDP LEVEL IN REAL TERMS
(INDEX: 2024-2016 AVERAGE = 100)



Source: BBVA Research based on data by BCB.

- Brazil's GDP returned to its long-term trend level in 2024, after nearly a decade.
- Following the recent catch-up, GDP is likely to grow around 2% over the next few years, a rate similar to the 1996–2024 average.
- Growth could be higher than expected if new structural reforms are adopted or productivity in the primary sector continues to increase.
- Short-term growth could be (unsustainably) higher if public credit increases significantly or fiscal impulse remains high.
- In fact, new financial stress episodes and lower growth are likely if fiscal imbalances remain unaddressed.

BBVA Research forecasts for Brazil

		2022	2023	2024	2025 (f)	2026 (f)
GDP (%)	Updated (1Q25)	3.0	3.3	3.4	1.6	1.8
	Previous (4Q24)				1.6	1.8
Inflation (%, end-of-period)	Updated (1Q25)	5.8	4.6	4.8	5.0	4.0
	Previous (4Q24)				3.8	3.5
Policy rate (%, end-of-period)	Updated (1Q25)	13.75	11.75	12.25	14.50	10.50
	Previous (4Q24)				11.50	9.50
Exchange rate (end-of-period)	Updated (1Q25)	5.24	4.90	6.10	5.80	5.80
	Previous (4Q24)				5.40	5.35

(f): forecast.
Source: BBVA Research.

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Brazil Economic Outlook

March 2025

Creating Opportunities