# Macro Brazil

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## Quarterly Inflation Report: hawkish forecasts, but a dovish take on activity

- The Quarterly Inflation Report, published today, brings an inflation forecast, for the relevant policy horizon (third quarter of 2026), at 3.9%, which is inconsistent with pausing the adjustment cycle. But the text brings a dovish take on economic activity in two boxes – historically, boxes have been used to highlight issues that are of special concern to the authorities. The Copom downgraded its GDP growth forecast for this year, from 2.1% to 1.9%, in particular because of the cyclical component, that is more sensitive to the lagged effects of monetary policy. Moreover, the report brings an interesting box on the challenges to seasonal adjustment. Importantly, under a novel, bottom-up seasonal adjustment method, 1Q25 GDP, even if it comes out very strong on a YoY basis, would confirm a slowdown of non-agro GDP. The committee seems to want to convey the message that, even if headline first quarter GDP figures come out quite strong using the traditional seasonal adjustment method (market consensus stands around 1.0% QoQ/sa), in actuality the economy is slowing down pretty much as expected. This should limit the likelihood of a larger (75 bps) hike in the next policy meeting. We still expect the Copom to end the cycle with two more 50-bp hikes, at 15.25% pa.
- Additionally, four other studies were presented. The first analyzes the rise in cattle prices and its corresponding effect on consumer prices. The second introduces different concepts of financial asset and liability stocks, based on macroeconomic and fiscal statistics. The third provides a breakdown of 2024 inflation, showing that the main factors pushing it above the target were: imported goods inflation, inertia from the previous year, the output gap, and inflation expectations. On the other hand, the drop in oil prices only partially offset the depreciated currency. Finally, the authorities updated a study from 2021 on financial flows and credit impulses, widening the analysis to consider debentures as well.

### Central Bank forecasts

The table below shows the inflation estimates released for the IR reference scenario[1].

| Central Bank inflation (IPCA) forecasts | 2024 | | | | 2025 | | | | 2026 | | | | 2027 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | I | I |
| IPCA | 3.9 | 4.2 | 4.4 | 4.8 | 5.6 | 5.5 | 5.6 | 5.1 | 4.3 | 4.2 | 3.9 | 3.7 | 3.4 | 3.3 | 3.1 |
| Difference to previous IR (pp) | 0.0 | 0.0 | 0.0 | -0.1 | 0.6 | 0.5 | 0.5 | 0.6 | 0.1 | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 | - |
| Market-set prices | 3.1 | 3.5 | 4.1 | 4.9 | 5.7 | 5.9 | 6.1 | 5.4 | 4.5 | 4.2 | 3.8 | 3.5 | 3.2 | 3.1 | 3.0 |
| Difference to previous IR (pp) | 0.0 | 0.0 | 0.0 | -0.1 | 0.4 | 0.5 | 0.6 | 0.9 | 0.4 | 0.4 | 0.2 | 0.1 | 0.0 | 0.1 | - |
| Regulated prices | 6.4 | 6.4 | 5.5 | 4.7 | 5.2 | 4.3 | 4.0 | 4.3 | 3.4 | 4.1 | 4.2 | 4.2 | 4.0 | 3.8 | 3.7 |
| Difference to previous IR (pp) | 0.0 | 0.0 | 0.0 | 0.1 | 1.1 | 0.4 | 0.0 | -0.2 | -1.2 | -0.5 | -0.2 | 0.1 | 0.0 | 0.0 | - |

*Painted area = forecasts.

Source: Central Bank

[1] With the Decree 12.709/2024, starting in January 2025, the target refers to the accumulated inflation over 12 months, calculated month by month, also known as the "continuous target". The window of the projection horizon was set at ten quarters.

Compared to the forecasts presented in the December IR, inflation forecasts rose for 2025 and 2026, to 5.1% (from 4.5%) and to 3.7% (from 3.6%), respectively, increasing the gap to the 3.0% target. In the latter horizon, there was an increase in market set inflation and a reduction in the regulated prices. On the market set prices, the effects of rising inflation expectations and inertia resulting from inflationary surprises and the revision of short-term projections put upward pressure on these forecasts, while the rise in the real interest rate, exchange rate appreciation and the fall in oil prices contributed to the downside. The regulated prices forecasts were significantly affected by the evolution of the exchange rate and the price of oil, leading these forecasts to differ from the market set dynamics. In the reference scenario, inflation remains above the upper limit of the target range throughout 2025, starting to fall from the fourth quarter. Importantly, the forecast in the relevant horizon for monetary policy (3Q26) is at 3.9%. The forecast for the most distant horizon, 3Q2027, presented for the first time, stands at 3.1%, slightly above the target.

The text also highlights that inflation in 2024 was above the target tolerance range due to the strong pace of economic activity growth, exchange rate depreciation and weather conditions, in a context of unanchored inflation expectations and inertia of the previous year.

Relative to the other variables, the GDP growth estimate for 2025 fell to 1.9% from 2.1%. According to the report, the expected slowdown is associated with more contractionary monetary policy, less fiscal stimulus, reduced slack of production factors and moderation in global growth. However, uncertainty surrounding the baseline scenario has increased, considering external and domestic factors.

The report states that the revision reflects a reduction in expected growth for the most cyclical sectors, partially offset by an increase in the other sectors. The expectation of a slower pace of economic growth throughout 2025, especially in the ones more sensitive to the economic cycle, was influenced by a more contractionary monetary policy, evidenced by real interest rates for the first quarter of 2025 that was higher than those expected at the time of the December IR. The improvement in forecasts for sectors less sensitive to the economic cycle is mainly due to the expected increase for agricultural production and more favorable forecasts for oil production. On the demand side, a significant slowdown in household consumption, gross fixed capital formation (GFCF) and imports is still expected.

In the credit market, the forecast for nominal growth in the credit balance for 2025 was revised downwards, to 7.7% from 9.6%. The revisions reflected the outlook of higher interest rates, lower economic activity growth and a cooling of the labor market, in a context of high indebtedness and debt-service ratio, in addition to more restrictive credit supply conditions.

Finally, regarding revisions to external accounts, a current account deficit of USD 62 bn is projected, relatively stable compared to 2024 (and slightly worse compared to estimates from the last IR, at USD 58 bn), remaining lower than the net flow forecast of direct investment in the country (IDP). However, according to the report, risks to the scenario have increased, with the heightened uncertainty given the intensification of international trade disputes.

**Gross domestic product forecasts (accumulated in the year)**

| | September | December | March |
|---|---|---|---|
| | 2025 | 2025 | 2025 |
| **GDP (current prices)** | 2.0% | 2.1% | 1.9% |
| Agriculture and livestock | 2.0% | 4.0% | 6.5% |
| Industry | 2.4% | 2.4% | 2.2% |
| Services | 1.9% | 1.9% | 1.5% |
| Household consumption | 2.2% | 2.4% | 1.5% |
| Government consumption | 2.0% | 1.6% | 1.6% |
| Gross fixed capital formation | 2.0% | 2.9% | 2.0% |
| Exports | 2.5% | 2.5% | 4.0% |
| Imports | 2.5% | 2.5% | 4.0% |

Source: Central Bank.

| Credit balance forecasts (12-month change) | | | |
|---|---|---|---|
| | September | December | March |
| | 2025 | 2025 | 2025 |
| **Total** | 10.3% | 9.6% | 7.7% |
| Non-earmarked | 10.2% | 9.6% | 7.9% |
| Households | 11.0% | 10.0% | 8.5% |
| Corporations | 9.0% | 9.0% | 7.0% |
| Earmarked | 10.5% | 9.7% | 7.5% |
| Households | 10.5% | 10.0% | 7.5% |
| Corporations | 10.5% | 9.0% | 7.5% |
| Total households | 10.8% | 10.0% | 8.0% |
| Total corporations | 9.5% | 9.0% | 7.2% |

Source: Central Bank.

| External accounts forecasts (USD billion) | | | |
|---|---|---|---|
| | September | December | March |
| | 2025 | 2025 | 2025 |
| **Current account** | -60 | -58 | -62 |
| Trade balance | 64 | 65 | 61 |
| Exports | 341 | 338 | 343 |
| Imports | 277 | 274 | 282 |
| Services | -49 | -49 | -52 |
| Primary income | -75 | -75 | -72 |
| Investment - liabilities | 85 | 85 | 80 |

Source: Central Bank.

## Summary of the IR studies

We present below summaries of the studies published in the IR, with links for the complete reports.

- **Seasonal adjustment and uncertainty about the intensity of GDP deceleration at the beginning of 2025**
  Full study (in Portuguese) here.

  - In this box, the Central Bank suggests that while the median of expectations points to robust GDP growth in 1Q25, other aspects should be considered. To illustrate this, the text compares two methods of seasonal adjustment: the direct approach, applied to the aggregated GDP series, and the indirect method, which adjusts each component individually before aggregating them.

  - The median of expectations from the Pre-Copom Survey suggests a QoQ growth of 1.4% in 1Q25 GDP, with 0.9% for GDP excluding agriculture, when applying the direct approach. However, using the indirect method, the change in GDP excluding agriculture drops to 0.3% - close to the figure observed in 4Q24.

- One possible explanation for this difference is the payback effect from the leap year in the previous year. Mainstream seasonal adjustment accounts for the extra day in the leap year, which might overestimate the impact of that extra day. Another factor to consider is that the effects of the pandemic may still be influencing the seasonal adjustment results.
- The box concludes that, given the need to treat the first-quarter GDP outcome with caution, it is particularly important to monitor a broad set of economic activity indicators to better assess the stage of deceleration.

## Financial flow and credit impulse in 2024

Full study (in Portuguese) here.

- This box presents an update of the financial flow and credit impulse metrics, previously presented in the September 2021 IR, and an extension to the debenture market.
- The results indicate that the financial sector, through the bank credit market, received in 2024, in net terms, 0.9% of GDP in resources from the non-financial sector (households and companies), below the 2.1% recorded in 2023. As a result, the bank credit impulse was positive at 1.1% of GDP. Additionally, the relevant volume issued in debentures in the capital market also generated a positive momentum for companies of 1.0% of GDP.

## Rise in cattle prices and impact on inflation

Full study (in Portuguese) here.

- This study analyzes the impacts of the rise in cattle prices on consumer prices. After a period of decline that began in 2022, cattle prices experienced a sharp increase starting in September 2024, influenced by supply constraints, strong domestic and external demand, and currency depreciation. This movement also reflects the beginning of a possible reversal of the cattle cycle, which is characterized by multi-year oscillations in the supply of animals for slaughter. This cycle occurs because ranchers alternate between allocating cows and heifers for reproduction or slaughter, depending on economic and climatic conditions. During the low phase of the cycle, there is greater culling of breeding stock and an increase in total slaughter, which reduces prices. In the high phase, slaughter decreases, restricting supply and driving prices up. The rise in cattle prices was quickly passed on to consumer beef prices, which increased by 22.4% between September and January, according to the IPCA.
- The study shows that the rise in beef prices also impacted the prices of substitute proteins, such as chicken and pork, with estimated elasticities of 0.5 and 0.3, respectively. Additionally, it contributed to the acceleration of prices for food consumed outside the home, which has significant weight in service inflation. Central Bank models suggest a pass-through of around 30% to the prices of food consumed outside the home, concentrated in the first months after the rise in beef prices.
- Despite the recent decline in cattle prices, the prospect of more restricted domestic supply and strong external demand suggests that meat prices will remain under pressure in 2025. According to the March/25 Pré-Copom Questionnaire, the median projection for the rise in meat prices in the IPCA in 2025 is 9.6%, following a 20.8% increase in 2024.

## Stocks of public assets and liabilities in the macroeconomic statistics of the fiscal sector

Full study (in Portuguese) here.

- This box presents distinct concepts from public debt statistics published by the Central Bank: Public Sector Net Debt (PSND), General Government Gross Debt (GGGD), and General Government Net Financial Worth (GGNFW).

- The results indicate that there was an increase in both debt concepts relative to GDP. The GGGD, which considers only the liabilities of federal, state, and municipal governments, rose by 2.8 percentage points to 86.8% of GDP in 2024 according to the IMF metric and by 2.1 percentage points to 76.1% of GDP according to the Central Bank metric. The PSND – broader as it includes other institutions performing government activities, public companies, and mixed-economy corporations (except financial ones) – increased by 0.8 percentage points to 61.2% of GDP in the same period. Finally, the GGNFW, which measures the stock of financial assets and liabilities at market value, reached -51.7% of GDP in September 2024, with no significant variation since 2021.

## Breakdown of 2024 inflation

Full study (in Portuguese) here.

- This yearly study aims to measure the contribution of the main factors to the deviation of the inflation rate from the target in 2024, based on semi-structural models from the BCB. To this end, the deviation is broken down into five components: i) inertia from the previous year; ii) expectations; iii) imported inflation; iv) output gap; and v) other factors.
- In 2024, inflation measured by the IPCA index ended the year at 4.83%, 1.83pp above the inflation target of 3.0%, and 0.33pp above the tolerance range established by the CMN (of +/- 1.50pp). The model showed that i) the inertia coming from the previous year contributed 0.52 p.p. for deviation from the target; ii) Inflation expectations, whose de-anchoring expanded throughout 2024, contributed 0.30 pp; iii) imported inflation was the factor with the largest contribution to the deviation from the target, at 0.72 pp, mainly influenced by currency depreciation during the period, which was only partially offset by the drop in oil prices; iv) the output gap contributed 0.49 pp, reflecting robust economic activity growth in 2024; and finally, v) other factors – such as climate anomalies, tax measures, etc – had a negative contribution of 0.20 pp.
- In conclusion, the breakdown presented in the study shows that the main factors that led inflation in 2024 to be above the target were tax imported inflation and inertia from the previous year. Conversely, other factors presented a negative contribution.

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