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Inflation Report

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BANCO CENTRAL DO BRASIL

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Inflation Report

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Statistical conventions

...	data not available.
-	nil or non-existence of the event considered.
0 or **0.0**	less than half the final digit shown on the right.
*****	preliminary data.

Hiphen between years indicates the years covered, including the first and the last year.
A bar (/) between years (1970/1975) indicates the average of the years covered, including the first and the last year or even crop or agreement year, when mentioned in the text.

Occasional discrepancies between constituent figures and totals as well as percentage changes are due to rounding.

There are no references to sources in tables and figures originated in the Banco Central do Brasil.

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Monetary policy framework in Brazil

Legal framework

The conduct of monetary policy by the Banco Central do Brasil (BCB) follows this institutional framework:

i. **BCB objectives:** The BCB's fundamental objective is to ensure price stability. Without compromising its fundamental objective, the BCB also aims to ensure the stability and efficiency of the financial system, smooth out economic activity fluctuations, and foster full employment (Complementary Law 179 of February 24, 2021).

ii. **Inflation-targeting regime:** The objective to ensure price stability is achieved through the inflation-targeting regime. Under this framework, the National Monetary Council (CMN) sets an inflation target and a tolerance interval, and the BCB must execute the necessary policies to meet the target.

- From 1999 to 2024, the target refers to the calendar-year inflation. If the year's inflation falls outside the tolerance interval, the BCB's Governor is required to write an open letter to the Minister of Finance, containing a detailed description of the causes of the breach of the target, measures to ensure the return of inflation to the established intervals, and the expected time frame for these measures to take effect (Decree 3,088 of June 21, 1999).
- As of January 2025, the target will refer to the 12-month inflation, measured every month, also known as the "continuous target." Thus, the verification is no longer restricted to December of each year. If inflation remains outside the tolerance interval for six consecutive months, it is considered that the target has not been met. In this case, the BCB must publicly disclose the reasons for the breach of the target through a note in the Monetary Policy Report and an open letter addressed to the Minister of Finance with the same content of the previous item. A new communication will be made only if inflation does not return to the tolerance interval within the stipulated time frame or if the BCB deems it necessary to update the measures or the expected time span for inflation to return to the tolerance interval (Decree 12,079 of June 26, 2024).

iii. **Target and tolerance interval:** The inflation target set by the CMN for 2024 and from January 2025 onwards is 3.00%, measured by the change in the Extended National Consumer Price Index (IPCA), with a tolerance interval of plus or minus 1.50 p.p., i.e., from 1.50% to 4.50% (CMN Resolution 5,141 of June 26, 2024).

Monetary Policy Committee – Copom

Copom is the BCB body, composed of its Governor and Deputy Governors, which sets, every 45 days, the base interest rate of the economy – the Selic rate. The Committee uses a wide range of information in its decision-making process. The BCB's staff makes technical presentations about the evolution and outlook of both the Brazilian and global economies, liquidity conditions, and market behavior. The decision is based on an assessment of the macroeconomic scenario and its main associated risks, aiming to align inflation with the target set by the CMN.

Transparency and accountability are fundamental elements in the conduct of monetary policy. The main monetary policy documents are:

i. **Statement:** published immediately after the end of the Copom's meeting, from 6:30 pm on. It contains the Committee's decision, the main elements of its rationale, and the votes of each member.

ii. **Minutes:** published four business days after the meeting. It provides a more thorough account of the analyses and discussions.

iii. **Inflation Report (IR):** published at the end of each calendar quarter. It provides detailed information on the recent economic developments and the outlook, focused on inflation prospects. As of 2025, the IR will be renamed as Monetary Policy Report.

Further details at Monetary policy (bcb.gov.br).

Contents

Executive summary

The global environment remains challenging and continues to require caution from emerging market economies. The economic outlook in the U.S. poses questions about the pace of economic deceleration, disinflation, and, consequently, about the Fed's monetary policy stance. The central banks of major economies remain committed to bringing inflation back to its targets in a context characterized by labor market pressures.

Regarding the domestic scenario, economic activity and the labor market remain heated. The seasonally adjusted GDP grew 0.9% in 2024Q3, sustaining a robust pace by slowing down less than expected. Household consumption and Gross Fixed Capital Formation (GFCF) stood out once again, as did the more cyclical sectors, particularly manufacturing. Meanwhile, the unemployment rate continued to decline and reached the lowest value in the time series. Against this background, growth projections for 2024 and 2025 have been revised upwards, but the prospect of activity slowdown remains due to factors such as the expected higher degree of monetary policy tightening and lesser fiscal stimuli, among others.

The 12-month inflation and inflation expectations for 2025 increased to levels incompatible with meeting the inflation target. The 12-month inflation, as measured by the Extended National Consumer Price Index (IPCA), rose from 4.24% in August to 4.87% in November, with a 0.44 p.p. surprise in relation to the reference scenario presented in the previous Inflation Report (IR). It is noteworthy the higher-than-expected pressure on food prices, in addition to pressures exerted by the heated economic activity and the sharp currency depreciation. Inflation expectations from the Focus survey have deteriorated again across the entire projected horizon, with notable increases in the medians for 2025, from 3.95% to 4.59%, and for 2026, from 3.61% to 4.00%.

In the reference scenario projections, inflation lies above the upper limit of the tolerance interval until 2025Q3, and then starts a downward path, but remaining above the target. In this scenario, the four-quarter inflation, after ending 2023 at 4.6%, increases to 4.9% in 2024 and falls to 4.5% in 2025 and 3.6% in 2026, against a 3.00% target. In the current relevant monetary policy horizon, corresponding to 2026Q2, the projected inflation stands at 4.0%. The inflation projections represent the view of the Monetary Policy Committee (Copom) and are conditional on a set of variables, such as the paths of the Selic rate extracted from the Focus survey and the exchange rate based on the purchasing power parity (PPP) theory. Projections in this IR use data available up to the 267th Copom meeting, held on December 10-11, 2024.

Compared with the previous IR, inflation projections have risen across the entire horizon, thus increasing the distance from the target and making the convergence to the target more challenging. The projection for 2026Q2 increased 0.5 p.p. compared with the previous IR. The higher inflation projection for the relevant horizon resulted mainly from the stronger-than-expected economic activity – which led to an increase of the estimated output gap – the exchange rate depreciation, and the higher inflation expectations. Recent inflation surprises and the revision of short-term projections also contributed, in this case, via inertia. These factors more than offset the effects of the higher real interest rate, which, however, contributed to prevent an even stronger increase in projections.

The Copom stated in its more recent meeting (267th meeting):

The current scenario is marked by additional deanchoring of inflation expectations, an increase of inflation projections, a stronger-than-expected economic activity, and further widening of the output gap, which requires an even more contractionary monetary policy.

Copom therefore decided to increase the Selic rate by 1.00 p.p. to 12.25% p.a., and judges that this decision is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon for monetary policy. Without compromising its fundamental objective of ensuring price stability, this decision also implies smoothing economic fluctuations and fostering full employment.

In light of a more adverse scenario for inflation convergence, the Committee anticipates further adjustments of the same magnitude in the next two meetings, if the scenario evolves as expected. The total magnitude of the tightening cycle will be determined by the firm commitment of reaching the inflation target and will depend on the inflation dynamics, especially the components that are more sensitive to economic activity and monetary policy, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks.

1 Economic outlook

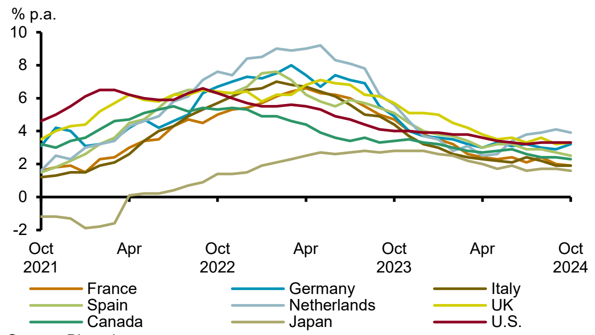
This chapter of the Inflation Report (IR) analyzes the recent developments in the economic environment, considering both the international and domestic scenarios, as well as the outlook for the country's economy in the coming quarters. The assessment of the international scenario addresses the major advanced and emerging economies, with an emphasis on aspects that are likely to influence the Brazilian economy, especially inflation and activity indicators. The analysis of the domestic environment covers the recent evolution of economic activity, labor and credit markets, the country's public and external accounts, and, finally, inflation.

1.1 External scenario

The external environment is still characterized by the resilience of economic activity and the gradual continuity of the disinflation process. The calibration of the monetary policy response and the fiscal policy impulse are the most powerful factors in determining the prospective core inflation and activity dynamics in the reference horizon. The task to rein in higher core inflation remains incomplete and lost momentum in recent months, as core measures approach levels consistent with the inflation targets (Figure 1.1.1). The process of inflation convergence, albeit slow, has proved to be less onerous to activity.

Despite the decline in headline inflation, cores are still at high levels, above the target in many economies, and their pace of convergence has decelerated at the margin. Favorable labor markets performance contributes to the persistence of core inflation, especially of the services sector component. The fall in energy prices has contributed to bring headline inflation closer to the inflation targets (Figure 1.1.2), although in recent months food price rises have acted in the opposite direction, pressuring inflation upwards.

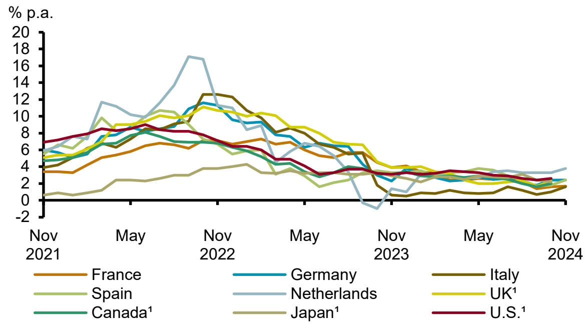
Figure 1.1.1 – CPI core – Advanced economies[1]



Source: Bloomberg

1/ Until October 2024.

Figure 1.1.2 – CPI – Advanced economies



Source: Bloomberg

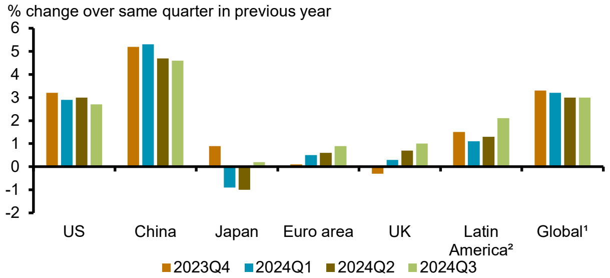
1/ Until October 2024.

Global economic activity continues to show resilience notwithstanding the restrictive monetary policy stance, but with prospects of a slowdown. This materializes in moderate global growth (Figure 1.1.3), while the balance between demand and supply moves towards a new equilibrium level. This rebalancing process continues running smoothly, sustained by a still strong labor market, household consumption, and real income gains. The expansion of the services sector continues to stand out, reflecting changes in the profile of household consumption and robust labor markets. Manufacturing continues to struggle to achieve more sustainable growth. International trade attempts a moderate recovery compared with 2023, with services above trend and goods below. Geopolitical tensions lead to less efficient diversification or less efficient reallocation of resources, jeopardizing global supply chains and potentially weakening the relatively favorable contribution of the goods component to inflation. Structural trends such as indebtedness, financial integration, and demography contribute to reduce potential growth and increase neutral interest rates in leading economies, while productivity growth diverges between countries.

Inflation expectations project different disinflation speeds across countries, which helps explain the also different prospective paths of monetary policy. Inflation expectations have risen in many emerging market economies, especially for 2025. The depreciation of their currencies of these countries reflects global uncertainties or idiosyncratic factors and hinder the process of expectations convergence. In parallel, there has been an increased risk appetite for their assets.

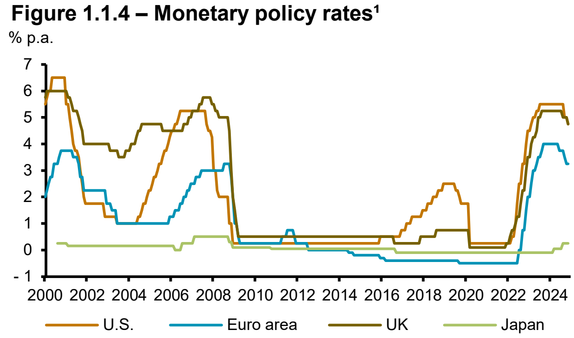
Most central banks in advanced economies continue to ease their restrictive monetary policy stance. After a simultaneous monetary policy tightening cycle implemented in 2021 and 2022, determinants of the disinflation process tend not be so synchronized across countries, possibly making this process more heterogeneous, also implying less synchrony in the monetary easing, when compared with the tightening cycle (Figure 1.1.4). Central banks continue to communicate that the disinflation process, although slow, is still advancing, that interest rates have been at contractionary levels for a long period of time, and that there are incipient signs of improved balance between supply and demand in the labor market. They also reaffirm their commitment to promote the convergence of inflation to targets and the need to keep interest rates at still restrictive levels, ensuring the conclusion of the final stage of the disinflation process. Some indicate that the balance of risks has changed, also aiming to preserve a sustainable employment level.

Figure 1.1.3 – GDP growth
from 2023Q4 to 2024Q3



Sources: Bloomberg, BCB
1/ Calculated as described in the box "Projections and macroeconomic analysis model of the global economy" in the September 2022 IR.
2/ Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

Figure 1.1.4 – Monetary policy rates[1]



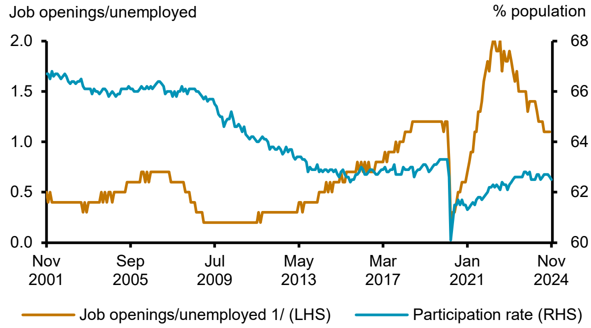
Source: Bloomberg
1/ Until December 6.

With the outcome of the U.S. presidential elections, the winning candidate's economic policy proposals began to affect agents' expectations and asset prices. Despite the inherent uncertainty associated with the approval and effective implementation of these policies, the risk of a more expansionary fiscal policy in the U.S. and a stronger protectionist stance has increased. This uncertainty foreshadows a precautionary behavior, impacting the prices. As a result, the USD appreciated significantly.

U.S. economic activity continues to expand at a solid pace, but with prospects of a gradual slowdown. In 2024Q3, real GDP grew 2.8% QoQ saar, driven by household consumption, which has benefited from the favorable evolution of income levels and the use of liquidity accumulated over the last few years. Fixed investment has shown a moderate performance, with growth in non-residential expenditure, despite the effects of historically high interest rates. The persistence of low confidence, low household savings rate coupled with restrictive credit conditions, and the still uncertain economic environment reinforce the outlook for a moderation in U.S. activity over the coming quarters.

The labor market has shown clearer signs of accommodation in recent months, with a progressive rebalancing between supply and demand. Hirings have been slower in recent months (average of 148 thousand from July to November) compared with monthly averages of 207 thousand for the first half of 2024 and 251 thousand for 2023. The unemployment rate has increased gradually since early 2023, up to 4.2% in November 2024, a level that is still historically low and slightly lower than the non-cyclical rate estimated by the Congressional Budget Office (4.4%). Job vacancies have declined more strongly, reaching levels close to those prevailing before the Covid-19 pandemic, confirming the reduction in the imbalance between supply and demand for workers (Figure 1.1.5). The labor force participation rate has remained relatively stable throughout 2024, after recovering in previous years, while remaining at lower levels than in 2019. Nominal wages continue to grow at high rates (4.0% p.a. in November[1]), despite a moderate slowdown. In real terms, wage growth (1.4% p.a. in October) continues to be partially dampened by still high inflation.

Figure 1.1.5 – U.S. – Job openings and participation rate



Source: Bloomberg
1/ Until October 2024.

Prospects for U.S. inflation continue to point out to deceleration and convergence to the target over the next two years, reflecting the cumulative effect of monetary policy actions and economic activity slowdown. October's inflation rate[2] was 2.3% p.a., while core inflation, which has shown greater persistence, was 2.8%. Housing services prices, traditionally more rigid, are undergoing a gradual disinflation process, which is expected to continue. Other services, however, more sensitive to the dynamics of wages and labor market tightness, have shown greater persistence.

In its September and November monetary policy meetings, the Federal Reserve expressed greater confidence in the path of inflation convergence to the target and stated that risks to achieving the goals of its dual mandate are roughly in balance. At the November meeting, the Fed funds rate was reduced 0.25 p.p. to a range between 4.5% and 4.75%. The Fed signaled that further adjustments to the policy rate towards a neutral monetary policy stance should be gradual, according to incoming data, the evolving outlook, and the balance of risks. The strategy of reducing its balance sheet, initiated in June 2022 and revised in June 2024, has remained unchanged since then.

Euro area real GDP grew 0.4% QoQ in 2024Q3, compared with 0.2% QoQ in the previous quarter. When compared with 2023Q3, the expansion was 0.9%. Quarterly growth was driven by private consumption (+0.7% QoQ) and investment (+2.0% QoQ), while the external sector contributed negatively (-0.9 p.p.) to economic activity. Among the largest economies in the monetary union, Spain stood out with a 0.8% expansion in 2024Q3, the same rate of 2024Q2. France grew 0.4%, boosted by major events such as the Olympics in July and August. Germany grew 0.1%, reverting the 0.3% contraction recorded in 2024Q2. In the UK, the 0.1% QoQ economic growth in 2024Q3 was lower than the 0.5% growth in 2024Q2. Compared with 2023Q3, real GDP expanded 1.0%.

Inflation in the euro area continues to decelerate gradually in 2024. The annual price change, which was at 2.9% in early 2024, fell below the 2.0% target in September. However, with the increase in energy prices as of October, it reached 2.3% in the November flash estimate. Core inflation also slowed down but remains relatively high. The index excluding energy, food, alcoholic beverages, and tobacco, whose annual change in

1/ According to the Average Hourly Earnings indicator.
2/ According to the Personal Consumption Expenditures (PCE) deflator.

early 2024 was 3.4%, recorded a 2.7% change in the November flash estimate. Annual services inflation, which was 4.0% at the beginning of the year, oscillated in both directions, remaining slightly lower (3.9%) in the November estimate. The disinflation process followed a similar dynamic in the UK, where annual inflation was 4.0% in early 2024, fell to 1.7% in September and returned to above-target in October (2.3%). Core inflation (3.3%) and services inflation (5.0%) remained high in October.

After three cuts of 0.25 p.p. in June, September, and October, the European Central Bank (ECB) deposit facility rate reached 3.5%. In its October meeting statement, the ECB expressed concern about the region's poor economic activity, with slow expansion in investment, a weaker performance in goods exports, and decelerating services growth. The ECB also reinforced its concern about rising productivity differentials and endorsed the need of structural policies that could revert this trend and increase potential output. In the UK, the interest rate reached 4.75% after two non-consecutive cuts of 25 bps, the last in early November. The Bank of England (BoE) raised its growth projections for 2025, given the autumn fiscal budget, the first released by the new Labor Party government, and expressed concern about inflationary pressures, reaffirming the guidance for a gradual approach to removing monetary policy restraint.

In China, economic activity has been slowing down since the end of 2023, mainly due to the direct and indirect effects of the real estate sector crisis. Annual real GDP growth slowed to 4.6% in 2024Q3, compared with 5.3% in 2024Q1 and 4.7% in 2024Q2. The more recent performance exceeded market analysts' expectations that anticipated a sharper slowdown. From the demand side, the decline was mainly driven by weaker consumption growth, while net exports mitigated the slowdown in aggregate demand. From the supply side, activity decelerated in the secondary sector (-0.5 p.p. YoY change) while it accelerated in the tertiary sector (+0.3 p.p.). The structural adjustment in the real estate sector continued, albeit to a lesser extent, with a 1.9% decline in the value added in 2024Q3, following respective falls of 5.4% and 4.6% in 2024Q1and 2024Q2. Divergences in the growth dynamics of supply components, benefiting export-oriented manufacturing, offset geopolitical tensions. Divergences in the growth dynamics of demand components, benefiting investment, increase domestic distributive inequalities.

Economic growth is expected to accelerate in 2024Q4. Monthly October's indicators show higher industrial output and retail sales YoY growth rates than GDP growth in 2024Q3. Fixed-asset investment in the year is higher than that recorded in September. Conversely, investments of real estate companies up to October fell 10.3% YoY, a rate slightly higher than the 10.1% contraction recorded up to September. In the labor market, the unemployment rate declined from August to October.

The People's Bank of China (BPC) has adopted a set of economic policy measures aimed at sustaining economic growth and reducing risks. These measures include: (1) reducing interest rates on monetary policy instruments and real estate financing, as well as the reserve requirement ratio; (2) subsidized financing lines for share buybacks by open capital companies; (3) regarding the real estate sector, renegotiating current real estate financing contracts with lower interest rates, reducing the down payment required for new loans, increasing available credit for affordable housing and for the purchase of homes by local government real estate companies; (4) guidance for commercial banks to reduce the remunerated deposit rates. Furthermore, the National Financial Regulatory Administration (NFRA) announced an injection of one trillion renminbi (RMB) into six large state-owned banks to support their financial risk indicators and thereby expand their credit granting capacity. Finally, the Ministry of Finance raised the cap for local governments' debt and bond issuance quotas for 2024 and 2025, focusing on settling overdue payments and the swap of old bonds for new bonds, with extended payment deadlines and reduced interest expenses.

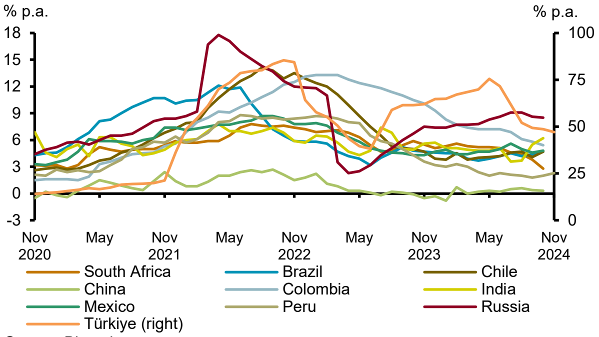
Emerging market economies generally recorded YoY GDP growth in 2024Q3 but significant risks persist. In Latin America, all major economies showed positive GDP growth in both YoY and QoQ comparisons[3]. The most relevant financial conditions indicators for emerging market economies showed different trajectories, despite relatively limited movements. The Chicago Board Options Exchange Volatility Index (VIX) index, for instance, decreased in the period, mainly since November, while U.S. Treasury bond yields rose across the

3/ Data from Argentina were not available up to this date.

entire curve, a movement partially reverted in November. Stock market indexes followed different trajectories across emerging market economies, although on an overall downward trend, with share prices reflecting global factors such as financial conditions, commodity prices, and idiosyncratic elements. Emerging market currencies registered a widespread depreciation during the quarter due to a global USD appreciation, linked to the reassessment of the U.S. monetary policy and signs that the victorious presidential platform could lead to a stronger currency policy. Risks for emerging market economies remain substantial, related to renewed uncertainties about the U.S. monetary policy, the slowdown of the Chinese economy, geopolitical factors and their impact on commodity prices, in addition to the resurgence of trade tensions.

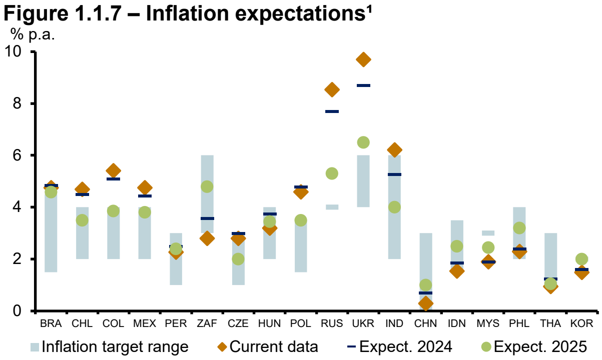
Expectations indicate inflation within the target range by the end of 2025 in major emerging market economies, with lower interest rates than the current ones in general. Inflation stood at different levels (Figure 1.1.6) and, in several important emerging market economies, above the targets, especially in Latin America. In general, inflation was pressured by food and beverages prices and, in Latin America, also by energy prices. Inflation expectations for the end of 2025 point to inflation within the target range in most relevant emerging market economies (Figure 1.1.7), although above the center of the range in many countries. Expectations for policy interest rates mostly point to lower rates by the end of 2025 (Figure 1.1.8). In Asia, relatively smaller interest rate cuts are expected among major economies, compared with Latin America, where the most significant expected cuts are in Colombia and Mexico.

Figure 1.1.6 – CPI – Emerging market economies[1]



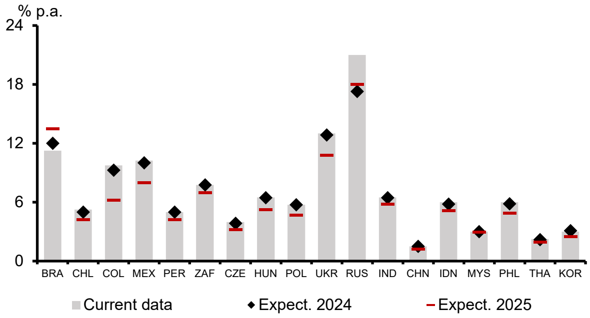
Source: Bloomberg
1/ Peru and Türkiye until November 2024. Other countries until October 2024.

Figure 1.1.7 – Inflation expectations[1]



Sources: Bloomberg and central banks' surveys
1/ Until December 6.

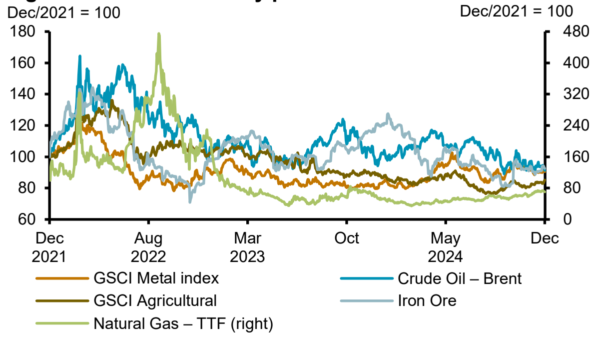
Figure 1.1.8 – Policy interest rates[1]



Sources: Bloomberg and central banks' surveys
1/ Until December 6.

Energy commodity prices rose in the quarter, slightly in the case of oil and sharply for natural gas. Oil prices increased slightly (Figure 1.1.9) due to geopolitical factors such as the worsening of tensions between Russia and Ukraine, after Russia's launch of long-range missiles, which, coupled with tensions in the Middle East, offset downward revisions of global demand growth for 2024 and 2025. On the supply side, the Organization of the Petroleum Exporting Countries and allied non-participants (OPEC+) decision to postpone production increases until April 2025 contrasted with expectations for strong growth in non-OPEC+ supply, a key factor for the outlook of excessive supply next year. Natural gas prices in Europe rose sharply in the period due to ongoing concerns over the possible withdrawal of remaining Russian supply, with the expiration of the agreement concerning gas transit through Ukraine. Moreover, there was a stronger-than-expected drop in inventories on the continent with the arrival of winter and the persistence of lower liquefied natural gas supply, amid strong international competition for the product.

Figure 1.1.9 – Commodity prices[1]



Source: Bloomberg
1/ Until December 6.

As for metal commodities, concerns about global growth, especially in China, and uncertainties over trade policies helped to contain prices, except for iron ore, which rose sharply in 2024Q4. Despite an almost 20% drop since the beginning of the year due to difficulties in the Chinese real estate market, iron ore prices grew strongly after the announcement of stimulus measures by China at the end of September. Additionally, the increase in steel production in October and November, amid low stocks following production cuts in August and September, helped to support prices during the period. Prices of other metals, such as copper, declined due to improved supply, contained short-term demand, and high stocks amid concerns about U.S. trade policy and the possibility of a slowdown in the country's pace of energy transition after the new president's inauguration in January 2025.

Prices of agricultural commodities have declined slightly. The continuation of better projections for soybeans, corn, and wheat supply, amid a large Brazilian soybeans harvest, grains available for trade in the Black Sea region, and more favorable conditions for wheat in the U.S. kept prices contained, even with weaker production prospects in the European Union and the ongoing war between Russia and Ukraine. In turn, coffee prices have been impacted by the perception of a tighter market amid concerns about possible impacts on future harvests of the drought in Brazilian producing regions throughout 2024.

Despite the resilience of economic activity and the gradual continuation of the disinflation process, several risks persist in the global scenario. Regarding economic activity, the main risks include the lagged effects of the monetary tightening already implemented in advanced economies, the stabilization of interest rates at a higher-than-anticipated level, the spillover effects of these risks to emerging market economies, divergences in the sustainability of growth and external financing capacity of these economies, as well as the worsening in the U.S. and China prospective fiscal outlook. In addition to these risks, there are concerns about a Chinese growth cycle depending more on fiscal and external stimuli and the adoption of protectionist trade or industrial policies. These policies would have adverse impacts on global supply chains and reduce the volume of international trade. Regarding price dynamics, the main risks are associated with a sharper recovery of credit, a reduction of excessive savings in Europe and Asia, possible upward pressures on the price of leading commodities, an escalation of geopolitical conflicts, and the occurrence of climate phenomena such as *La Niña*, although this risk has diminished recently. Moreover, greater resilience in rental prices and wages hinders the slowdown of services sector inflation, while sharp repricing of asset prices could contaminate inflation expectations. In the opposite direction, the main downside risks for inflation are an increase in oil supply from non-OPEC+ countries, a faster rebalancing between supply and demand in the labor market, and a stronger economic activity slowdown, especially due to interest rates in advanced economies at higher levels than the average of previous decades, implying a higher global financing costs.

After the first half of 2024, when the disinflation process was inconsistent and uneven across countries, confidence has increased in advanced economies that this process has become more consolidated, with clearer evidence of activity and labor market responses to the restrictive monetary policy. The outlook for emerging market economies is more divergent, and idiosyncratic factors gain relevance in the consolidation of the disinflation process. Considering the timing of the cycle, some of the effects of the high level of interest rates will still materialize. At the same time, relevant risks related to tensions in the Middle East, the war in Ukraine, and climatic phenomena such as *El Niño* have already largely materialized.

In summary, the persistence of inflationary pressures and greater activity moderation remain as the main risks for the prospective monetary policy scenario in advanced and emerging market economies and for the materialization of the "soft landing" for the global economy. The realignment of relative prices, the normalization of activity in the services sector, and the rebalancing of fundamentals in still tight labor markets, as well as doubts about sovereign debt sustainability suggest that core inflation may remain high for a longer period than recently observed. Despite signs that the disinflation process continues in several countries, core inflation remains high and the pace of convergence to target has slowed down recently. The assessment of trends related to structural changes in preferences, productivity changes, allocation, and distribution require additional time for the confirmation of clear evidence of their effects on new data sets. Considering that the disinflation process, although slow, continues to advance, that interest rates have been at contractionary levels for a long period and incipient signs of a greater balance between supply and demand in the labor market, most central banks in advanced economies continue to reduce the restrictive stance of monetary policy. They remain vigilant about labor market developments and reinforce the need of a still restrictive and flexible stance to accommodate new adjustments as confidence in the conclusion of the disinflation process is bolstered.

1.2 Domestic outlook

Economic activity

Economic activity in Brazil continued to show dynamism in 2024Q3, leading to a new round of upward revisions to growth projections for the year. GDP growth in 2024Q3, although lower than in the previous quarter, was significant and positively surprising. As in 2024Q1 and 2024Q2, there were significant increases in the most cyclical components of supply, household consumption, and investment (Table 1.2.1). Available data suggest a new economic activity expansion in 2024Q4. As in the previous IR, lower GDP growth is expected in 2025, driven by reduced fiscal stimulus, the ongoing monetary policy adjustments, and the limited economic slack.

Table 1.2.1 – Gross Domestic Product
QoQ s.a.

% change

Itemization	2023				2024		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP at market prices	1.4	0.8	0.2	0.2	1.1	1.4	0.9
Agriculture	18.0	-3.4	-4.4	-6.9	9.6	-1.3	-0.9
Industry	0.3	0.6	0.9	1.3	0.1	1.6	0.6
Mining	4.0	2.7	0.2	3.6	0.3	-4.0	-0.3
Manufacturing	-0.7	-0.1	0.5	0.0	1.1	2.0	1.3
Construction	-0.6	1.1	-3.4	4.2	0.5	2.9	-1.7
Public utilities	2.0	-0.2	3.2	5.0	-1.5	1.7	-1.4
Services	0.6	0.9	0.4	0.4	1.7	0.9	0.9
Trade	0.6	0.4	0.2	-1.0	2.5	1.4	0.8
Transport and storage	0.4	1.2	-1.3	-1.2	1.7	1.3	0.6
Information services	-1.4	1.1	0.2	0.4	3.3	1.6	2.1
Financial and related services	3.0	1.9	1.6	1.3	0.3	1.4	1.5
Other services	-0.1	1.1	0.6	1.4	2.2	0.9	1.7
Real estate	0.2	0.8	1.4	0.2	1.1	1.0	1.0
Public admin., health and education	0.8	1.0	0.3	-0.3	0.8	0.4	0.5
Household consumption	0.5	1.1	1.0	0.1	2.5	1.4	1.5
Government consumption	1.3	2.5	0.8	0.6	0.1	-0.3	0.8
Gross Fixed Capital Formation	-3.2	-0.1	-2.6	1.5	4.5	2.2	2.1
Exports	1.0	2.9	3.3	-0.1	-0.2	1.5	-0.6
Imports	-7.8	5.7	1.2	0.6	4.3	7.3	1.0
	1.2	0.7	0.1	0.2	1.0	1.4	-

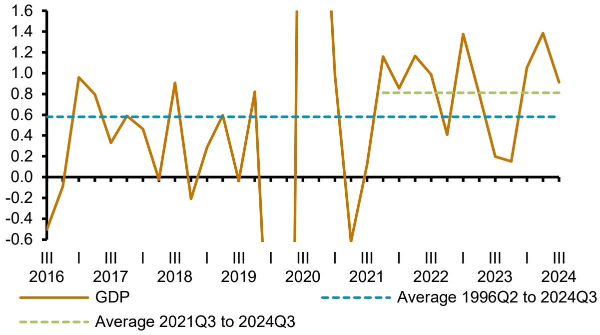
Source: IBGE

The review of the Quarterly National Accounts (CNT) data indicates that growth in 2023 was even higher than previously estimated. The CNT release for 2024Q3 was followed by revisions to previously released data, as usual every year. The revision of the series incorporated, in particular, the most up-to-date versions of monthly indicators and harvest surveys, as well as the Brazilian Institute of Geography and Statistics' (IBGE) annual structural agricultural surveys for 2023. The estimated GDP growth in 2023 was revised from 2.9% to 3.2%. In nominal terms, four-quarter GDP growth until 2024Q2 was 1.2% higher than previously released. In turn, the revision had minimal effect on the volume changes for the 2024 aggregate GDP. The seasonally adjusted quarterly changes and the YoY changes in 2024Q1 and 2024Q2 remained virtually unchanged. However, there were significant changes in some GDP components. For instance, agriculture's gross value added (GVA) change in the first half of 2024, compared with the same period in 2023, showed a higher decline than previously released. In turn, utilities,[4] financial intermediation, other services, and government services revealed higher growth.

Brazilian economy's growth remained strong in 2024Q3 and exceeded expectations again, albeit to a lesser extent than in 2024Q2. Compared with 2023Q3, the 4.0% GDP rise exceeded expectations of the previous IR, when the median forecast in the Focus report[5] was 3.5%. The surprise in 2023Q2 was 1.7 p.p. With the 0.9% growth over 2024Q2, the Brazilian economy recorded its 13th consecutive quarterly expansion. During this period, which followed the peak of the health crisis, the average quarterly growth was 0.8%, above the 0.6% average since 1996, when the series began (Figure 1.2.1). With the most recent increase, GDP has reached a new record high in the time series. The current level is 11.2% higher than that in 2019Q4 and 2.0% above the pre-pandemic trend[6] (Figure 1.2.2).

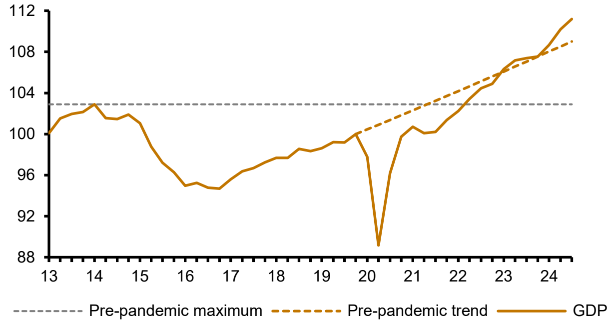
4/ Utilities: electricity and gas, water, sewage, waste management activities
5/ Median of forecasts reported in the previous 30 days.
6/ The pre-pandemic trend is defined here as the projected GDP as of 2019Q4 based on the average quarterly growth from 2017 to 2019, which was around 0.5%, equivalent to 1.8% in annualized terms. According to this criterion, GDP for 2024Q2 is 1.2% above the trend.

Figure 1.2.1 – Gross Domestic Product



Source: IBGE

Figure 1.2.2 – Gross Domestic Product

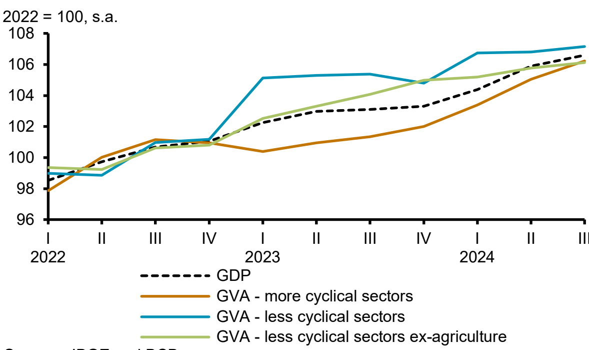


Source: IBGE

By sector, industry and services increased in 2024Q3, while agriculture declined. Industrial output grew 0.6%, slowing down against 2024Q2, when it had increased 1.6%. While other industrial activities declined, manufacturing continued to expand significantly. This activity has grown since 2023Q2, when it was still below the pre-pandemic level, especially in the last three quarters, during which it grew at an average quarterly rate of 1.5%. This recent recovery in manufacturing is detailed in a box in this IR.[7] The services sector grew 0.9%, maintaining the growth pace of the previous quarter, with expansion in all activities. Highlights were information services, financial intermediation, and other services. The latter includes services rendered to households, such as lodging and food-away-from-home. In contrast, agriculture fell 0.9%, influenced by the 2024Q3 drop in annual production of relevant crops, such as corn, sugar cane, and oranges. This decline was partially offset by an estimated increase in the annual production of cotton, wheat, and coffee, which also play a significant role in this period.

The group of activities more sensitive to the economic cycle, despite some deceleration, continued to grow strongly. Considering the classification discussed in previous IR editions[8], in 2024Q3, similarly to 2024Q1 and 2024Q2, the sectors more sensitive to the economic cycle registered the sharpest increases. This group grew 1.7%, 1.7%, and 1.0%, respectively, in the first three quarters of the year. This performance contrasts with the quarterly average growth of just 0.3% in 2023, when GDP growth was driven by less cyclical activities (Figure1.2.3).[9] Among the sectors more sensitive to the economic cycle, in addition to manufacturing, growth in information services, trade, and other services stood out in 2024Q3.[10]

Figure 1.2.3 – GDP – More and less cyclical sectors



Sources: IBGE and BCB

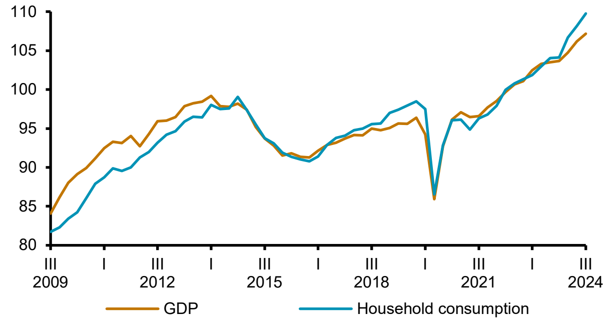
Household consumption maintained a robust growth in 2024Q3. After remaining stable in 2023Q4, household consumption registered high growth rates in the first three quarters of 2024, 2.5%, 1.4%, and 1.5%, respectively (Figure 1.2.4). In 2024Q3, the Monthly Survey of Services (PMS) indicated a strong expansion in

7/ The box Recent performance of manufacturing in this IR provides further details on this positive momentum in the manufacturing sector.
8/ Classification of the sectors more and less sensitive to the economic cycle, discussed in the five previous IR editions. Activities classified as less cyclical are agriculture; mining; financial activities, insurance and related services; real estate activities; and public administration, defense, health and education, and social security.
9/ Considering an indirect seasonal adjustment, whereby the series that make up the group are aggregated after seasonal adjustment.
10/ It includes services rendered to households, such as lodging, food-away-from-home, and leisure activities.

the consumption of services rendered to households[11], after a slowdown in 2024Q2, when it was influenced by the sharp downturn in the consumption of services in Rio Grande do Sul, due to the floods that affected that state. In turn, the Monthly Survey of Trade (PMC) suggests a slowdown in the consumption of goods in 2024Q3, considering the restricted concept – which excludes vehicles and construction materials, sectors which, still according to the PMC, continued to show high sales growth (Figure 1.2.5). An exercise presented in a box in this IR[12] – which empirically analyzes the relationship between interest rates, income, and the consumption of durable and non-durable goods – suggests that interest rates particularly influence the consumption of durable goods, which is relevant within the current monetary tightening cycle.

Figure 1.2.4 – GDP and household consumption

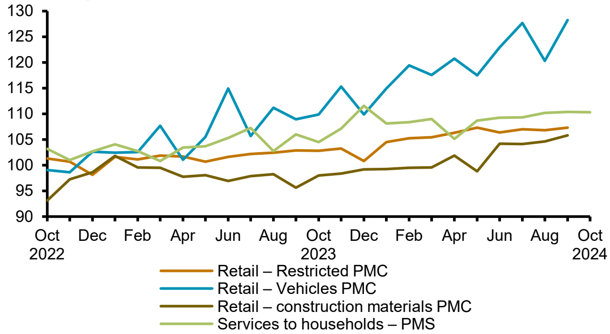
2022 = 100, s.a.



Source: IBGE

Figure 1.2.5 – PMC and PMS

2022 = 100, s.a.

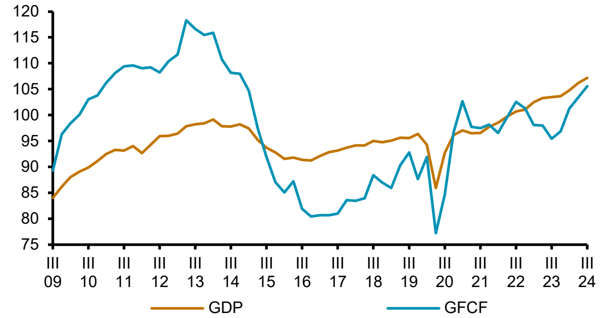


Source: IBGE

Gross Fixed Capital Formation (GFCF) continued to grow at a strong pace. GFCF rose 2.1% in 2024Q3 after growing at an average rate of 2.7% in the previous three quarters (Figure 1.2.6). As a result, the investment rate – given by the GFCF/GDP ratio[13] – grew to 16.3%, remaining below the average level measured since 1996 (Figure 1.2.7). Coincident indicators of the construction activity level – such as the production of typical construction inputs and retail sales of construction materials – suggest that the sector contributed to the quarterly GFCF increase (Figure 1.2.8), despite a decline in the sector's GVA in the same period.[14] According to PMS data, growth in information technology services was notable in 2024Q3, suggesting that investment in software also boosted the GFCF rise. In the opposite direction, apparent demand for capital goods[15] fell in the quarter, indicating a downturn in machinery investment (Figure 1.2.9). This decline was not uniform, being stronger in "trucks and buses" and "cars and other transport equipment". In turn, apparent demand for capital goods classified as industrial goods increased, possibly linked to the favorable momentum of manufacturing (Figures 1.2.8 and 1.2.9).

Figure 1.2.6 – GDP and GFCF

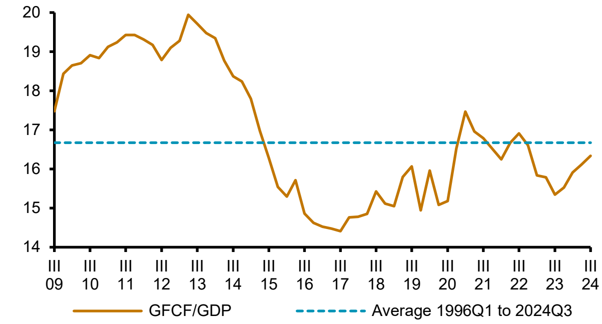
2022 = 100, s.a.



Source: IBGE

Figure 1.2.7 – GFCF/GDP at 2019 prices

%, s.a.

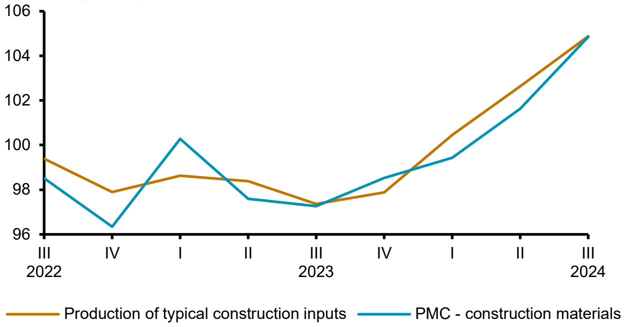


Source: IBGE

11/ Services rendered to households in the PMS mainly include food and lodging.
12/ Box Interest, income, and consumption of durables and non-durables.
13/ GFCF/GDP ratio at 2019 prices.
14/ It is possible that final production in the construction sector has grown, as suggested by the aforementioned indicators, but less than its intermediate consumption, thus justifying the sector's positive contribution to GFCF, despite the GVA decline.
15/ Apparent demand calculated from disaggregated industrial output, exports, and imports data. For more details, see box Recent evolution of Gross Fixed Capital Formation in the March 2022 IR.

Figure 1.2.8 – Construction indicators

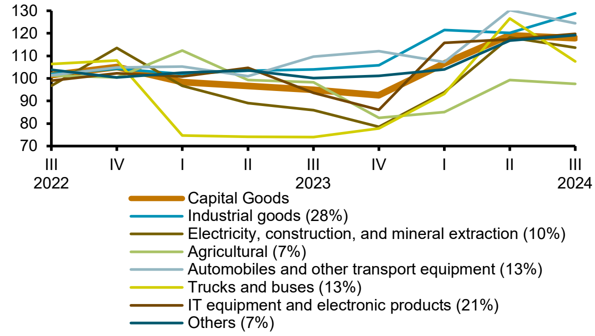
2022 = 100, 3mma, s.a.



Sources: IBGE

Figure 1.2.9 – Apparent demand for capital goods

2022 = 100, s.a.



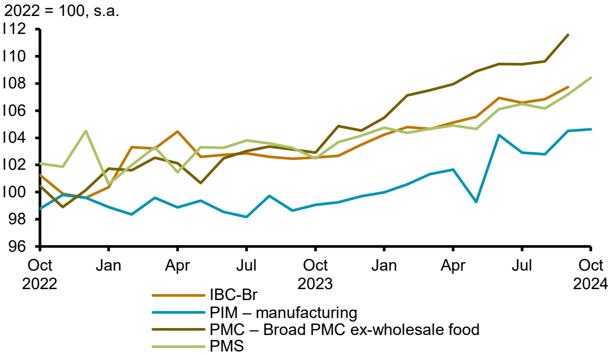
Sources: IBGE and BCB

Imports continued to rise, in line with domestic demand, while exports continued to slow down. In 2024Q3, imports rose 1.0%, following increases of 4.3% and 7.3% in the previous quarters. There was a more modest increase in imports of capital and intermediate goods and a strong drop in the purchase of durable consumer goods. This slower pace may be a corrective movement, having occurred after atypically high expansions, especially in durable goods, without necessarily indicating a sharp loss of economic activity momentum. Imports of services grew significantly in the quarter, with strong increases on travel and transport expenses. Exports, in turn, continued relatively stable after growing significantly from 2021 to 2023, falling 0.6% after an average growth of 0.4% in the last three quarters, standing at a level well above that prevailing before the pandemic.

Available data[16] suggest a new economic activity expansion in 2024Q4, with no clear signs of a significant slowdown. The BCB Economic Activity Index (IBC-Br), after increasing 0.8% in September, produced a statistical carry-over of 0.5% for 2024Q4. October's monthly indicators show a slowdown in industry and another strong rise in services. In October, industrial production fell 0.2%, with a slight drop in mining (-0.2%) and a modest rise in manufacturing (0.1%), after growing 1.0% in the previous month. The breakdown of manufacturing by use categories shows a monthly expansion in the production of capital goods, intermediate goods, and durable goods, as opposed to a decline in the production of semi- and non-durable consumer goods, heavily influenced by the drop in the production of biofuels. After growing 1.0% in September, the services sector grew 1.1% in October. Although significant, the October's growth was not widespread, being concentrated in transport – due to the strong increase in the airline segment[17] – and technical and professional services. The household services segment fell 0.1%, driven by the 15.0% drop in "other services rendered to households", reverting a similar-sized increase in the previous month[18] (Figure 1.2.10). For November, coincident indicators suggest a certain stagnation in industry and growth in commerce, the latter apparently related to the good sales performance in the Black Friday week. Confidence indicators show mixed signals: confidence among entrepreneurs in construction, industry, and services fell, while that of consumers and entrepreneurs in the retail trade increased, following the previous month's declines.

Figure 1.2.10 – Economic activity indicators

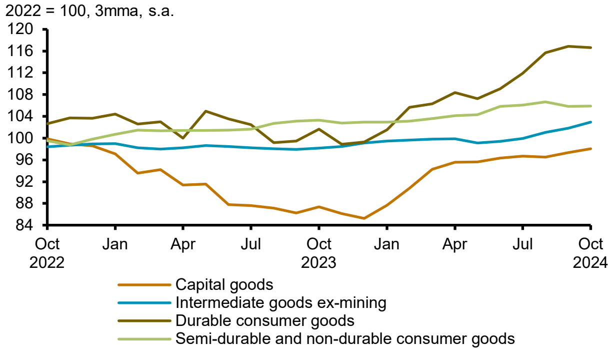
2022 = 100, s.a.



Sources: IBGE and BCB

Figure 1.2.11 – PIM – Monthly Industrial Survey

2022 = 100, 3mma, s.a.



Sources: IBGE and BCB

16/ This IR considers data available up to the Copom meeting.
17/ Air transport was the main positive factor in the PMS rise, with an increase of 27.1%. The good performance is closely linked to the fall in the deflator for this segment. The sector's nominal revenue grew much less, 0.8%.
18/ Large-scale artistic events, with no defined seasonal pattern, produce strong fluctuations in the "other services rendered to households" PMS segment.

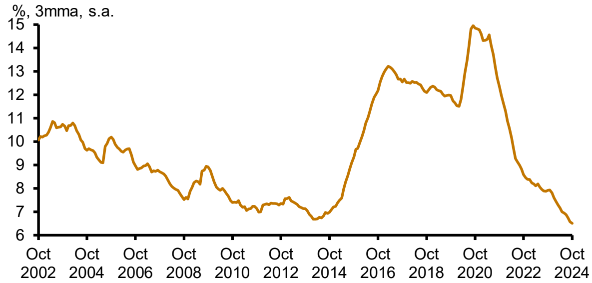
As detailed in a box in this IR, the projection for GDP growth in 2024 grew from 3.2% to 3.5%, while the projection for 2025 rose from 2.0% to 2.1%. The revision of the annual growth projection for 2024 reflects, above all, the positive surprise in 2024Q3 and the revision of the time series of GDP and its components. The increase in the projection for 2025 stems from factors acting in opposite directions. The first reason contributing to the rise in 2025 was the upward revision in the expected growth of agriculture, in line with the more recent forecasts indicating a new increase in the grain harvest, affecting GDP growth particularly in 2025Q1. The second upward factor was the increase in the 2024 statistical carry-over for the 2025 growth, which stems from the surprise in 2024Q3[19]. Conversely, the expected lower quarterly growth throughout 2025, mainly as a result of the assumption of a stronger monetary tightening than in the previous IR,[20] contributes to reducing the growth projection for 2025. Nevertheless, the outlook presented in the previous IR, forecasting lower growth in 2025 than in 2024, remains unchanged. This aligns with the expectations of reduced fiscal stimulus; the ongoing monetary policy adjustments; a limited slack in production factors; and the absence of a strong external stimulus, given the prospect of a global growth in 2025 being similar to that of 2024.

Labor market

The labor market has remained heated in recent months. The unemployment rate, which was already at a low level, dropped again, with the employment level maintaining a consistent upward trend. The labor force participation rate increased, and the creation of formal jobs remained high. Salary and income indicators have slowed down but maintained a high YoY change.

The unemployment rate has reached its historical low. The unemployment rate declined 0.4 p.p. in the Aug-Oct quarter, to 6.5% (Figure 1.2.12), reaching the lowest level in recent decades, according to seasonally adjusted data from the Continuous National Household Sample Survey (PNAD Continuous), retropolated according to Alves and Fasolo (2015). The determining factor for the drop in the unemployment rate in the quarter was the 1.0% growth in the employed population, which took the employment level (ratio between the employed population and the working age population) to its historic peak (Figure 1.2.13). The participation rate, defined as the ratio between the labor force and the working age population, increased to 62.4% but remains considerably below the levels observed in mid-2022 and before the pandemic.

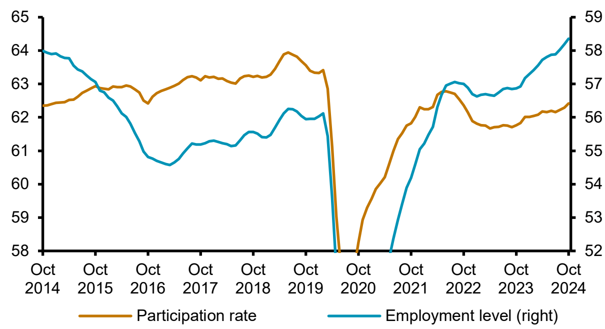
Figure 1.2.12 – Unemployment rate[1]



[1] Historical unemployment rate estimates following Alves, S. A. L. and Fasolo, A. M., "Not just another mixed frequency paper", Banco Central do Brasil (2015), Working Paper 400.

Sources: IBGE and BCB

Figure 1.2.13 – Participation rate and employment level



Source: IBGE

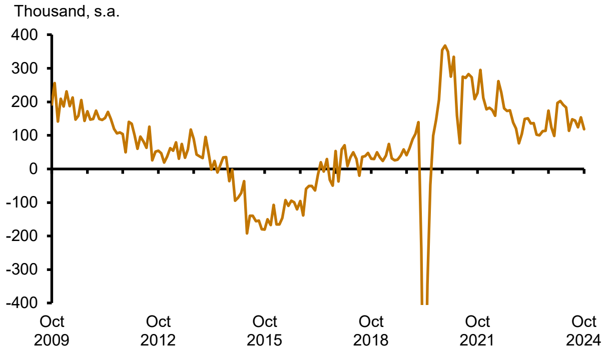
Job creation remains at a high level. According to seasonally adjusted data from the New General Registry of Employed and Unemployed Persons (New Caged), an average of 132 thousand jobs were created per month in the Aug-Oct quarter, slightly lower than in the previous quarter (Figure 1.2.14) and in the same period in 2023. Employment growth in the quarter was widespread across activities, with the exception of agriculture. Notable expansions in services, which experienced widespread growth, and in the industry, in line with the

19/ The growth projected in this IR is annual, calculated for 2025 by the change in the sum of GDP for the year's four quarters compared with the sum of the four quarters of 2024. Therefore, even assuming the same quarterly growth rate throughout 2025, a surprise in 2024Q2, 2024Q3, or 2024Q4 affects the 2025 growth.

20/ The comparison of nominal and real interest rates with the assumptions of the previous IR is presented in the "Inflation determinants and conditioning assumptions" segment of section 2.2 of this IR.

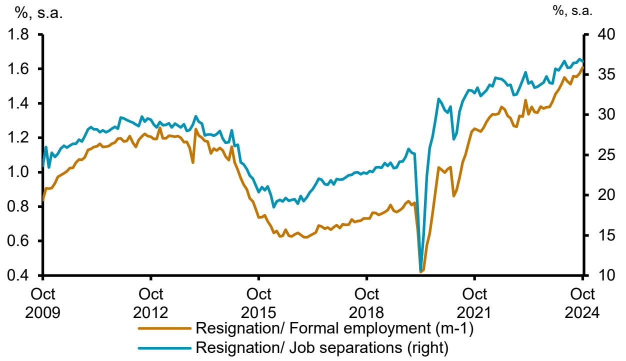
output growth.[21] In 2024, net job creation in the country reached 2.1 million by October, exceeding by 327 thousand that observed in the same period in 2023. The dynamism of the labor market is also evident in the share of voluntary layoffs in total job separations, which remains at a historically high level, close to 37.0% (Figure 1.2.15).

Figure 1.2.14 – Net formal job creation



Source: Ministry of Labor and Employment

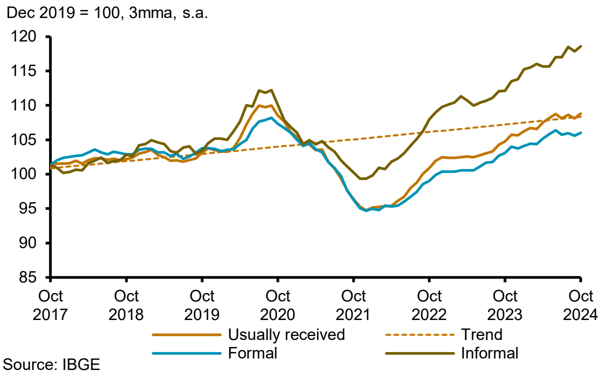
Figure 1.2.15 – Resignations ratio



Source: Ministry of Labor and Employment

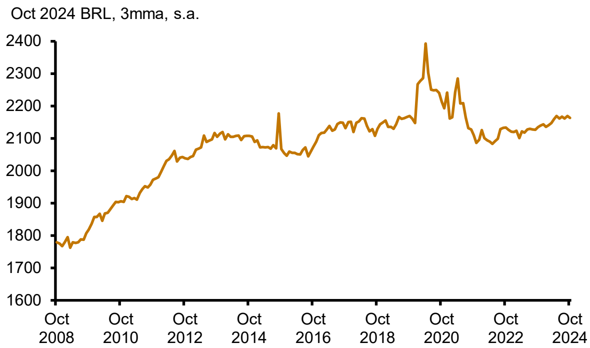
The average real labor income measured by the PNAD Continuous has grown at a more moderate pace. In the Aug-Oct quarter, the usual real average income increased 0.7%, after rising 0.6% in the May-Jul quarter. This pace is lower than the 1.4% average recorded in the previous three quarters. The slowdown in real income is greater than that of nominal income – which grew 2.1% in October and 1.7% in July, compared to a 2.4% average in the previous three quarters. This suggests that the slowdown is partially due to the recent increase in inflation. Moreover, the moderation in the growth rate is explained by the evolution of formal workers' income, whose adjustments are generally more rigid[22] than those for informal workers (Figure 1.2.16). Considering the YoY change, the usual real average income decelerated to 3.9%, still at a high level. From a longer-term perspective, the average real income is 6.0% above the 2019 average and slightly above the level that would have been obtained by extrapolating the growth trend of the pre-pandemic period, from 2017 to 2019.

Figure 1.2.16 – Real average labor income



Source: IBGE

Figure 1.2.17 – Hiring salary



Source: Ministry of Labor and Employment

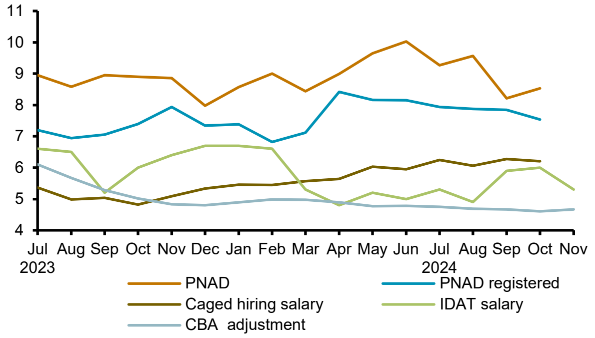
Complementary indicators of salary dynamics, which have shown lower real growth than the PNAD over the past year, have also moderated. Real salaries for new hirings[23] (seasonally adjusted data) decreased 0.2% in the Aug-Oct quarter, following five consecutive quarters of growth, according to the New Caged (Figure 1.2.17). In a YoY comparison, the real declined from 1.9% in July to 1.5% in October. The average of nominal salary adjustments collected from Collective Bargaining Agreements (CBA)[24] stood at 4.7% in the

21/ See box Recent performance of manufacturing in this IR.
22/ In many cases, these adjustments result from annual negotiations between employers and employees.
23/ The average hiring salary is more closely related to the economic cycle than the layoff salary, which is why this metric is preferred in analyzing New Caged data. As Caged transitioned to the New Caged in 2020, data should be analyzed with caution, and the analysis focuses on the more recent period. Further references to changes in Caged are available in the labor market section of March 2021 and December 2021 IR.
24/ This refers to the arithmetic average of nominal adjustments in collective bargaining agreements from São Paulo and Rio de Janeiro, based on the registration date criterion in the Collective Labor Negotiations System (Mediador) of the Ministry of Labor and Employment (MLE). The agreements considered are those for which it was possible to adequately capture the percentage of adjustment agreed upon.

Sep-Nov quarter, showing a gradual deceleration (Figure 1.2.18). The average real adjustment[25] was 1.2% in this period, with 90% of negotiations exceeding past inflation.

Figure 1.2.18 – Salaries and labor income

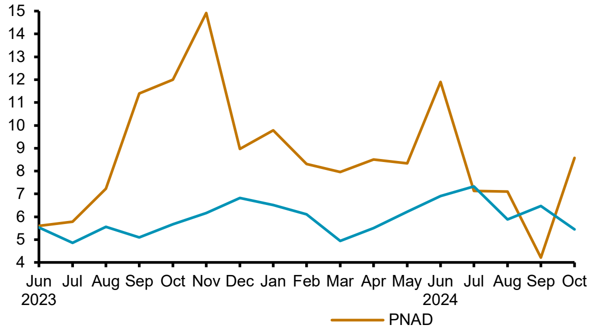
YoY %, nominal, 3mma



Sources: IBGE, MLE, Itaú and BCB

Figure 1.2.19 – Salaries and labor income

Annualized QoQ %, nominal, 3mma, s.a.



Sources: IBGE and MLE

Household income grows at a robust pace. The seasonally adjusted Household Gross Disposable National Income (HGDNI) in the restricted concept, an indicator that incorporates other sources of income besides work, increased 1.3% in the Aug-Oct quarter.[26] This growth can be attributed to the dynamism of the labor market and, to a lesser extent, to the expansion of social security benefits. In the previous quarter, the increase was 0.8%. The YoY change in HGDNI in the restricted concept reached 6.8%, in line with that observed in the previous quarter in this type of comparison (Figures 1.2.20 and 1.2.21).

Figure 1.2.20 – Restricted HGDNI

Aug-Oct 2024 BRL billion, 3mma, s.a.

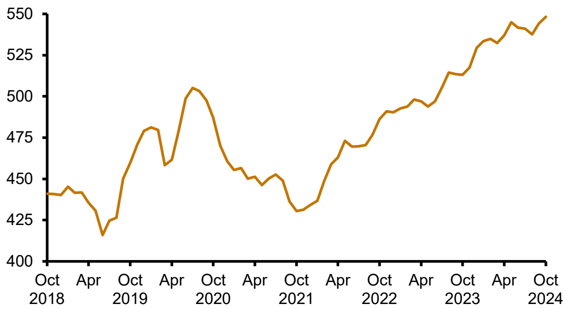
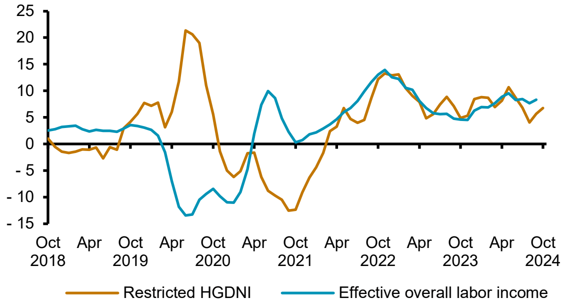


Figure 1.2.21 – Restricted HGDNI and overall labor income

%, YoY change, 3mma, real



Sources: BCB and IBGE

Credit

The credit market is possibly showing incipient signs of turnaround. Non-earmarked credit interest rates started to increase, albeit slightly. Non-earmarked credit granting continued at a high level, but household operations declined. The credit balance growth remained stable, as did the delinquency. Despite the decline, funding in the domestic capital market and foreign financing remained at high levels. All these events took place in a scenario in which a monetary policy tightening cycle is beginning, economic activity is growing strongly, and the labor market is tight. Considering the inflection of the base interest rate and the relevant increase already observed in future rates, a greater pass-through of the Selic rate hike to credit costs and a moderation in the volume of granting are expected in the coming months.

Interest rates on non-earmarked credit increased slightly, as expected. In the Aug-Oct quarter, interest rates grew 0.2 p.p., both in the household and corporate segments (Figure 1.2.22). This movement is in line with

25/ Based on the registration date, the agreed adjustments have a higher correlation with the deflator used in this analysis, the 12-month National Consumer Price Index (INPC) measured five months earlier.
26/ The HGDNI in the restricted concept excludes gross operational surplus and property income. Further details in the BCB's Technical Note 55 of December 2021 (Portuguese only).

expectations, considering the change in the Selic rate in the last 12 months (Figure 1.2.23) and the estimated pass-through presented in the September 2022 IR.[27] At this moment of transition, the pass-through of the recent increase of the base interest rate is partially offset by the lagged effects of the reduction occurred in the first months of the year.

Figure 1.2.22 – Non-earmarked credit interest rates

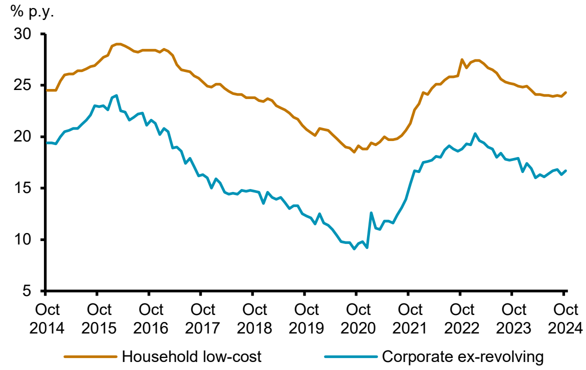
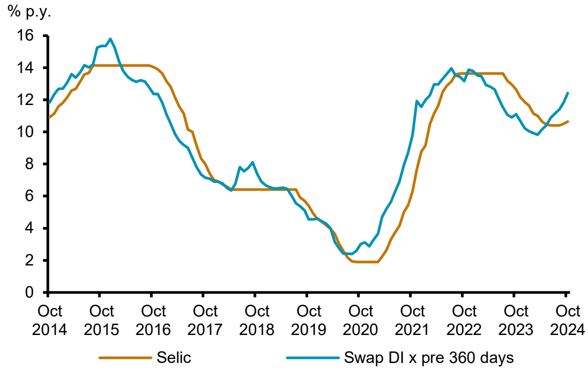


Figure 1.2.23 – Interest rates



Non-earmarked credit granting dropped in the household segment but maintained a robust growth in the corporate segment (Figure 1.2.24). Household granting fell 1.4% in the Aug-Oct quarter, after reaching a record level in the May-Jul quarter. This was the first negative quarterly result since February 2023. Credit granting in the higher cost modalities grew less than in the May-Jul quarter (Figure 1.2.25). Among low-cost modalities, which have remained relatively stable over the year, it is notable the continued increase in vehicles financing and the fall in the payroll-deducted credit (Figure 1.2.26). Regarding corporate financing, bank granting grew 2.7% in the quarter, registering the highest level in August. Funding in the domestic and foreign capital markets declined, but remained at a historically high level, after the peak observed in July (Figure 1.2.27).

Figure 1.2.24 – Non-earmarked credit granting

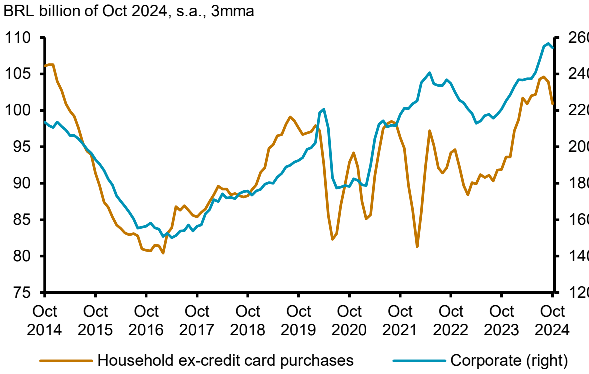


Figure 1.2.25 – Non-earmarked household granting

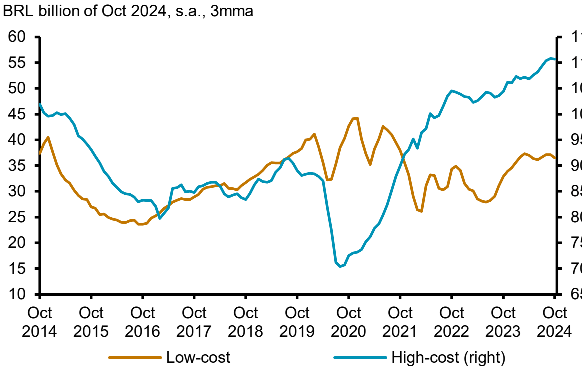


Figure 1.2.26 – Non-earmarked household granting – Low-cost modalities

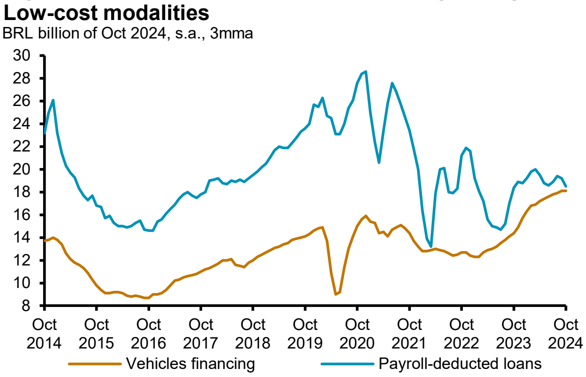
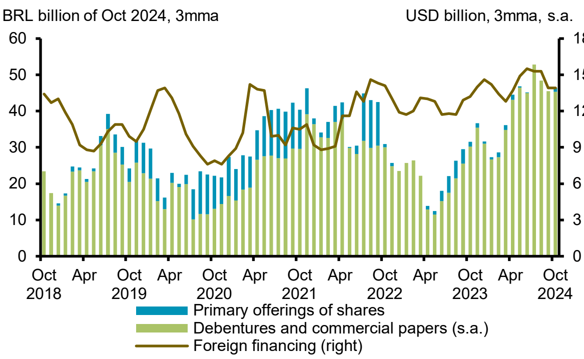


Figure 1.2.27 – Non-banking corporate financing



Sources: BCB and Anbima

27/ See box Selic rate pass-through to the bank credit market in the September 2022 IR.

As for earmarked credit, granting fell in the household segment and recovered in the corporate segment. At the margin, the fall in household credit granting is associated with real estate financing, which dropped 4.9% in the Aug-Oct quarter (Figure 1.2.28). The upward trend in interest rates and tighter lending conditions are expected to maintain this modality at moderate levels. As for rural credit operations, granting remained stable when compared with the May-Jul quarter. However, when comparing the first four months of the *Plano Safra* 2024/2025 with the same period of 2023/2024, current granting is substantially lower (Figure 1.2.29). The decline in prices of main agricultural products, which reduced the expected profitability; the lower cost of inputs, resulting in lower working capital requirements; and the already high level of credit borrowed by producers in the previous years are among the reasons for the reduction in rural credit granting by banks. Regarding corporate earmarked credit (Figure 1.2.30), granting increased due to operations from BNDES and the Emergency Credit Access Program (PEAC).

Figure 1.2.28 – Earmarked household credit granting

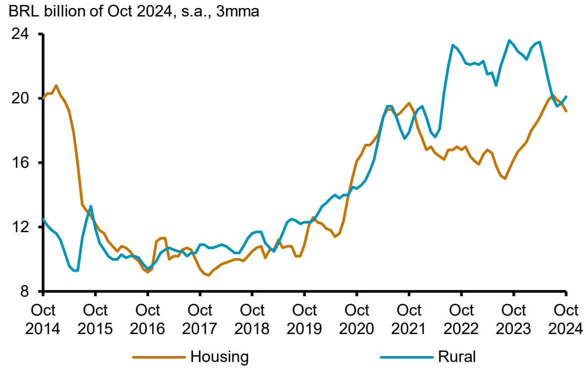


Figure 1.2.29 – Earmarked credit granting – Rural

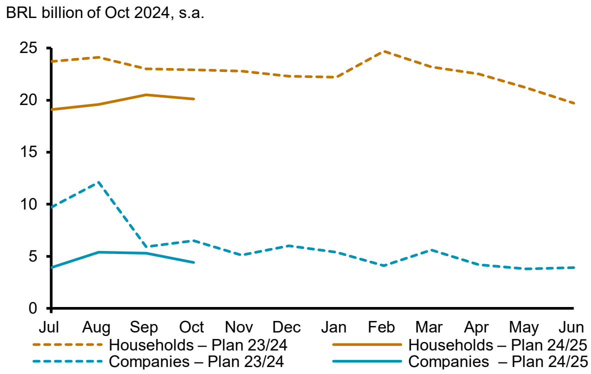
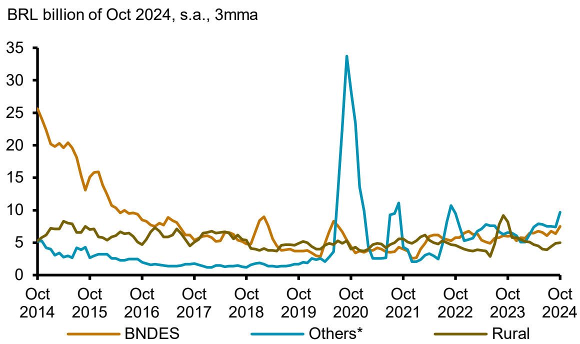


Figure 1.2.30 – Earmarked corporate credit granting



*Include Pronampe, PEAC, PESE, among others.

The growth rate of the credit balance in the National Financial System (SFN) remained relatively stable. The YoY growth rate of the credit balance, which had grown from 9.2% to 10.7% from April to July, oscillated to 10.8% in October. This slight increase in the pace of balance growth followed the moderation in the evolution of portfolios. The growth rate of non-earmarked corporate credit accelerated, largely driven by the pass-through of the exchange rate change in the credit lines indexed to foreign currencies, while the growth rate of non-earmarked household credit remained stable. Earmarked credit, in turn, slowed down, impacted by the lower expansion of rural credit, both in the corporate and household segments (Figures 1.2.31 and 1.2.32).

Figure 1.2.31 – Non-earmarked credit balance
12-month change

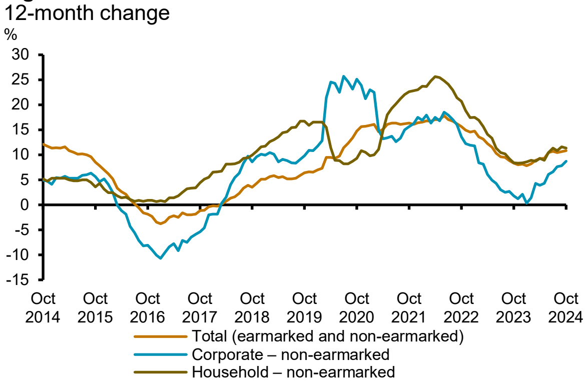
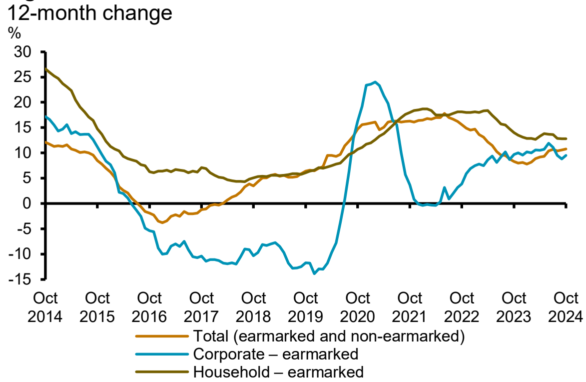


Figure 1.2.32 – Earmarked credit balance
12-month change



Delinquency, indebtedness, and debt-to-income indicators remained stable, even in a scenario of expansion of activity and of household disposable income. The delinquency rate has oscillated around 3.2% since December 2023 (Figure 1.2.33). The improvement cycle of this indicator was brief, with the rate stabilizing at a level higher than the minimum of previous cycles.[28] Household debt and debt-to-income indicators (Figure 1.2.34) have also stabilized at a high level since late 2023, despite the positive conditions in the labor market and income recovery. In the corporate segment, the upward trend in overdue loans to large corporations was reverted, while the delinquency of micro, small, and medium-sized companies stabilized at a level slightly above that observed in pre-pandemic months (Figure 1.2.35).

Figure 1.2.33 – 90 days past due loans

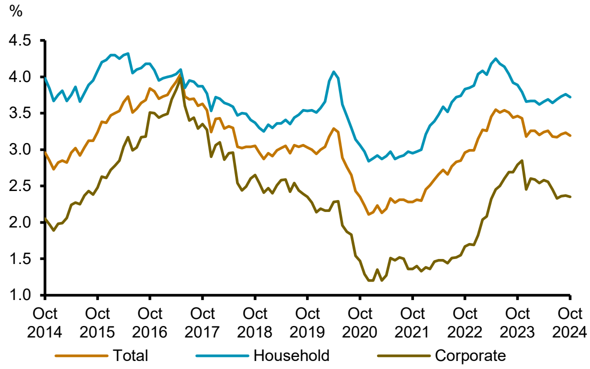


Figure 1.2.34 – Household debt and debt-to-income ratio (except housing financing)

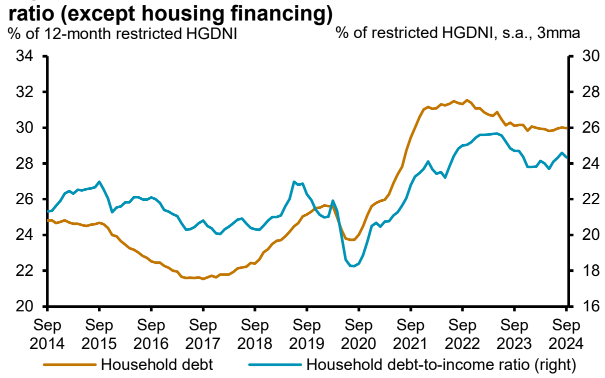
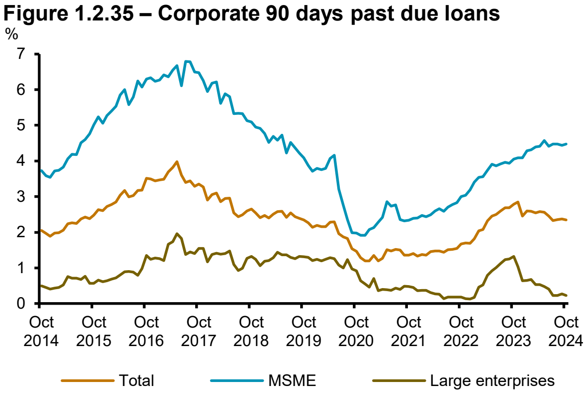


Figure 1.2.35 – Corporate 90 days past due loans



In this context, the projection for credit growth in 2024, detailed in a box in this IR, was slightly reduced. The growth projection for 2024 fell from 11.1% to 10.6%. The projection for earmarked corporate credit was revised downwards, with a reassessment of the evolution of *Crédito Solidário* to Rio Grande do Sul. For 2025, the projected growth of the credit balance decreased from 10.3% to 9.6%, incorporating the scenario of higher interest rates.

Fiscal

The Central Government primary balance target for 2024 is likely to be met, considering the lower limit set, but the fiscal situation still requires attention. The Central Government is expected to end 2024 with a primary deficit lower than in 2023 and that expected by analysts throughout the year. This improvement is associated with a favorable performance of revenues. However, uncertainties remain regarding the achievement of fiscal targets in the coming years, and projections indicate a rising public debt trajectory. In this context, the government has presented measures to restrain expenses, aiming to ensure the sustainability of the fiscal framework.

28/ The delinquency rate reached 2.8% in January 2014, 2.9% in December 2018, and 2.1% in March 2021.

The primary balance of the consolidated public sector has improved compared with 2023. Considering data accumulated up to October, the BRL 57 billion deficit in 2024 decreased when compared with that of the same period in 2023, BRL 82 billion (Table 1.2.2). The lower deficit was due to the improvement in the Central Government balance, which recorded a significant surplus in October, after five consecutive monthly negative results. As highlighted in previous IR, the improvement in the Central Government balance is explained by the significant increase in net revenues, 6.9% in real terms, which outweighed the equally significant growth in expenses, 5.8% (Table 1.2.3). Regional governments, in turn, maintained a surplus similar to that accumulated in the same period of 2023, while state-owned enterprises posted a larger deficit than in the previous year.

Table 1.2.2 – Public Sector Borrowing Requirements - Primary balance

Accumulated in the year until October

BRL billion

Itemization	2022	2023	2024
Central Government	-65	98	66
o/w Federal Government	-314	-170	-221
o/w INSS	249	267	287
Regional governments	-87	-19	-17
State-owned companies	-5	3	8
Total	-158	82	57

Positive values represent deficit and negative values represent surplus

Table 1.2.3 – Central Government fiscal balance

Accumulated in the year until October

BRL billion - current values

	2023	2024	Real var. (%)
1. Total revenue	1,936	2,171	7.6
1.1 - Revenues collected by the Federal Revenue Office	1,195	1,403	12.6
1.2 - Fiscal incentives	0	0	-
1.3 - Net Social Security revenues	467	506	3.9
1.4 - Revenues not collected by the Federal Revenue Office	274	262	-8.3
2. Transfers by revenue sharing	361	415	10.4
3. Net revenue (1-2)	1,575	1,756	6.9
4. Total Expenditure	1,651	1,820	5.8
4.1 Social Security benefits	735	792	3.5
4.2 Payroll	281	295	1.0
4.3 Other compulsory expenses	242	300	19.0
4.4 Executive branch expenses subject to financial programming	394	432	5.3
o/w Bolsa Família (Family Allowance)	138	140	-2.9
5. Central Government primary balance - above the line (3 - 4)	-76	-64	-18.3

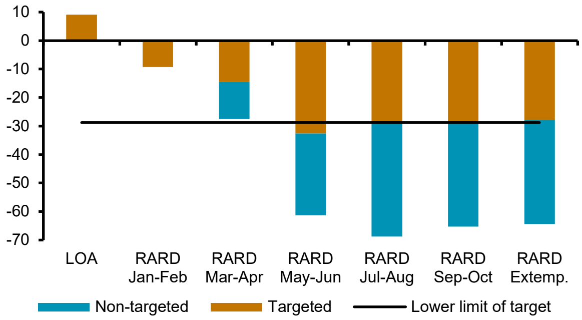
Source: National Treasury

The Federal Government continues expecting to fulfill the primary balance target in the year, considering the range around the target. The Assessment Report of Primary Revenues and Expenses (RARDP) of Sep-Oct 2024 showed an adjustment in the primary balance projection to BRL 65.3 billion, including BRL 36.6 billion in extraordinary credits that will not be considered for the calculation of the target fulfillment (Figure 1.2.36). Therefore, in the relevant metric for determining the target compliance, the projected deficit was reduced to BRL 28.7 billion, within the set tolerance range (deficit up to BRL 28.8 billion), making the cut in expenses unnecessary. However, to meet the primary balance cap established for 2024, a new constraint was necessary, increasing the locked amount from BRL 13.3 billion to BRL 19.3 billion.[29]

29/ In the context of the fiscal measures discussed later in this section, an extemporaneous RARDP was published reducing the locked amount from BRL 19.3 billion to BRL 17.6 billion due to the publication of a provisional measure that reduced the expected amount of mandatory expenses in 2024.

Figure 1.2.36 – 2024 primary balance forecast – Central Government

BRL billion



Source: Ministry of Planning

As the end of year approached and in line with an improved Central Government primary balance, market projections have shifted towards a higher probability of achieving the fiscal target in 2024. According to the Pre-Copom Questionnaire (PCQ), the median projection for the Central Government primary balance in the relevant metric for determining target compliance[30] is a deficit of BRL 28 billion, at the limit of the tolerance range (Table 1.2.4). Data from the more recent PCQ suggests that 67% of respondents project the achievement of the target in 2024. Also according to this PCQ, analysts now expect a higher level of net revenues (BRL 2,156 billion) compared with the previous IR (BRL 2,145 billion). This reassessment reflects the good revenue performance throughout the year, aligned with the economic activity trajectory and tax collection efforts in the period. For instance, in October, BRL 6.3 billion were collected from judicial deposits from Caixa Econômica Federal, and a new round of extra revenue is expected in Nov-Dec 2024, including additional dividends from the Brazilian Development Bank (BNDES).

Unlike market analysts, the government also projects the fulfillment of the primary deficit target in 2025. The government projection for 2025 in the Annual Budget Law (LOA) bill, sent in August, is a primary deficit of BRL 40.4 billion, which represents a BRL 3.7 billion surplus in the metric used to measure the target compliance.[31] This projection is, therefore, consistent with the fulfillment of the zero primary balance target established for the year. In turn, the median projection of market analysts is of BRL 91 billion for the actual primary deficit and of BRL 50 billion for the metric used for measuring target compliance, a value higher than the cap (Table 1.2.5).[32]

Table 1.2.4 – PCQ: 2024 Forecasts

BRL billion

	Copom 265 (Sep 24)	Copom 267 (Dec 24)
Central Government primary balance	-67	-62
Net revenue	2,145	2,156
Total Expenditure	2,213	2,215
Targeted Central Govt. primary balance	-	-28

Table 1.2.5 – PCQ: 2025 Forecasts

BRL billion

	Copom 265 (Sep 24)	Copom 267 (Dec 24)
Central Government primary balance	-96	-91
Net revenue	2,267	2,285
Total Expenditure	2,369	2,380
Targeted Central Govt. primary balance	-	-50

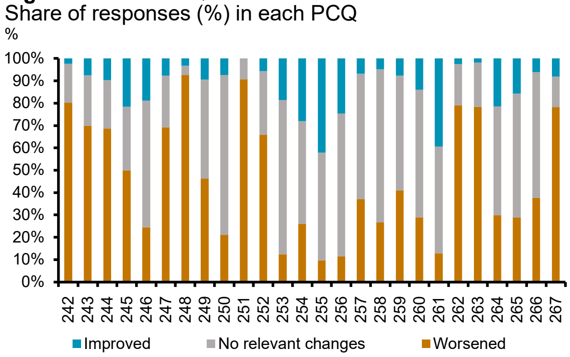
Aiming to ensure compliance with the primary balance targets for 2025 and 2026 and the sustainability of the current fiscal framework, the government proposed, at the end of November, a series of measures to restrain expenses.[33] In the government's assessment, the set of measures has an expected impact of BRL 30.6 billion in 2025 and BRL 41.3 billion in 2026. It is worth noting the change in the minimum wage adjustment

30/ The projection for the Central Government primary balance metric for fiscal target compliance became subject of consultation in the PCQ 266, of November 2024.
31/ The difference of BRL 44.1 billion between these values refers to court-ordered payments (*precatórios*), according to the compensation set in the judgment of Direct Unconstitutionality Actions (ADI) 7064 and 7047.
32/ The lower limit of the interval for the target compliance, 0.25% of GDP, corresponds to a primary deficit of BRL 30.9 billion.
33/ At the same time, the government announced the submission to Congress of a proposal to reform the Income Tax, which provides for an increase in its exemption range to up to BRL 5,000 per month. In the announcement, the Minister of Finance stated that the aim is for the reform to be neutral from the point of view of tax collection, with the increase in the exemption range being offset by the adoption of a minimum effective tax rate for individuals with a monthly income above BRL 50,000. It was also informed that the tax changes will be processed separately from the measures to contain expenses.

rule, whose real adjustment, although still reflecting the GDP growth from the previous two years, will not be lower than the minimum index nor higher than that actually calculated according to the fiscal framework rules.[34] Other key points of the proposal are the revision of the criteria for accessing the Continuous Benefit Payments (BPC) and the salary bonus, as well as increased focus on *Bolsa Família* benefits.

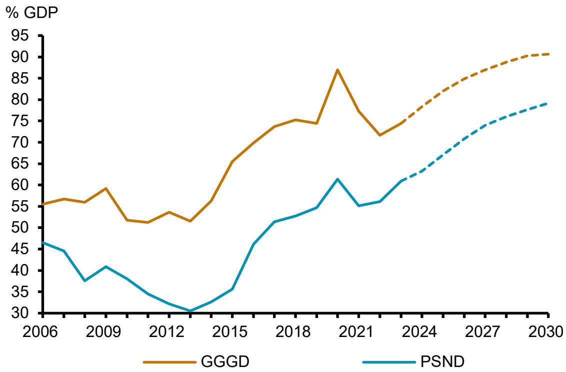
However, the fiscal measures do not seem to have had a positive initial impact on analysts' perceptions. In part, the reaction is due to the assessment that the announced measures are insufficient. As mentioned above, most analysts do not expect the primary balance target to be met in 2025. According to the PCQ, analysts estimate that the potential impact of these measures on the primary balance, BRL 18 billion for 2025 and BRL 26 billion for 2026, will be lower than estimated by the government. Moreover, the median projection for the primary balance does not incorporate any impact from these measures, which may be associated with the view that the gap created by cutting mandatory expenditures will be filled by discretionary expenditures.[35] The PCQ also indicates that the analysts' perception about the fiscal situation have worsened between the November and December Copom meetings (Figure 1.2.37), despite the short-term improvement in the primary balance, suggesting that the reaction to the fiscal measures was a significant factor. For analysts, the fiscal situation remains challenging. According to their projections, the debt-to-GDP ratio is not expected to stabilize this decade (Figure 1.2.38).

Figure 1.2.37 – PCQ: Assessment of fiscal situation
Share of responses (%) in each PCQ



Question: How do you assess the change of the fiscal outlook since the previous Copom, considering both your baseline scenario and related risks?

Figure 1.2.38 – Debt forecasts



Forecast from 2024 on correspond to 9.3.2024 Focus

External accounts

The current situation of the external accounts, as well as their prospect, remains similar to the previous IR. The USD 44 billion current account deficit, registered in the January-October period, is the largest since 2019, with a relevant increase over 2023 (Table 1.2.6). The current account worsening compared with 2023 reflects the trade balance decline and the services account deficit increase, consistent with the scenario of strong economic activity. In any case, the current account deficit – which has stabilized in recent months (Figure 1.2.39), as expected – remains lower than the USD 61 billion accumulated inflows of direct investment liabilities until October.

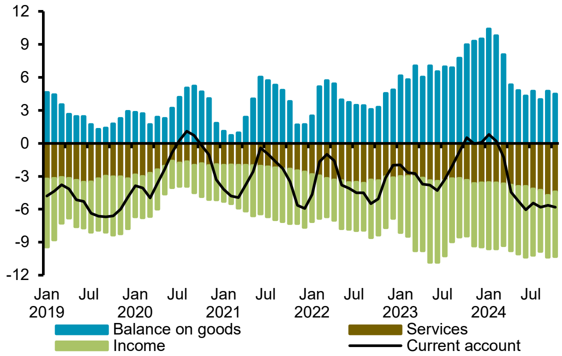
34/ The expenditure growth cap, when the primary balance target is met, is equivalent to 70% of the increase in the adjusted net revenue measured over twelve months ending in June of the previous year but limited to the 0.6%-2.5% range.
35/ The 75th percentile of responses to this question indicates that 25% of analysts have already incorporated into their current primary balance projections the impact of the measures, estimated at BRL 15 billion or more for 2025 and BRL 20.5 billion for 2026.

Table 1.2.6 – External accounts

Year to date until October						USD billion
Itemization	2019	2020	2021	2022	2023	2024
Current account	-56	-14	-25	-34	-19	-44
Balance on goods	23	35	41	43	76	56
Exports	189	175	239	285	287	287
Imports	167	140	198	242	211	231
Services	-32	-20	-21	-33	-33	-40
of which: Travel	-10	-2	-2	-6	-7	-6
of which: Transport	-8	-5	-10	-17	-11	-12
Primary income	-47	-31	-48	-46	-65	-61
of which: Interests	-21	-18	-17	-16	-23	-24
of which: Dividends	-26	-13	-30	-30	-42	-38
Investment - liabilities	77	4	103	88	76	94
DI liabilities	58	35	47	69	58	61
Portfolio investments	-6	-19	24	-6	14	14
Other investments[1]	25	-12	32	26	5	19

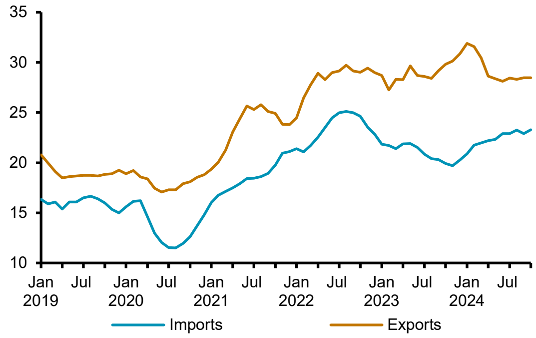
1/ Includes loans, commercial credits, deposits and other investments

Figure 1.2.39 – Current account
USD billion, 3mma s.a.



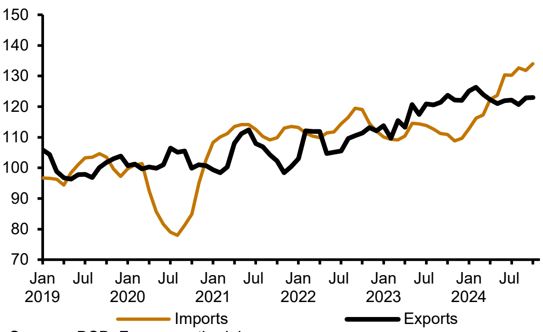
The trade balance has stabilized in recent months at a lower level than in early 2024. The balance decline throughout this year reflected stable exports and increased imports (Figure 1.2.40). The value of exports, still high, is supported by primary goods, although impaired by a recent downturn in grain prices. At the margin, the expansion in the shipped volume of key export products, such as oil and meat, helped to halt the decline. The exported quantum of manufactured goods, which had also been decreasing, recovered, notably regarding sales of passenger vehicles. Among semi-manufactured goods, the positive highlight was sugar cane.

Figure 1.2.40 – Trade balance
USD billion, 3mma s.a.



Sources: Secex/MDIC, BCB (s.a.)

Figure 1.2.41 – Quantum Index
Index (2019=100), 3mma, s.a.

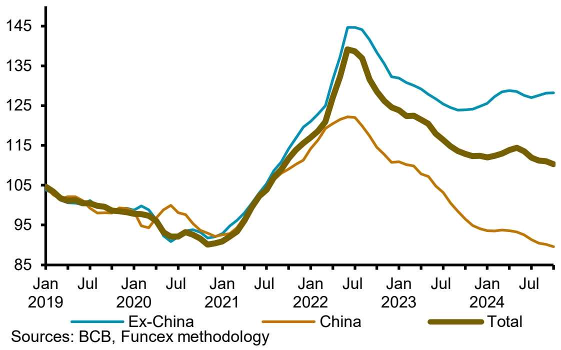


Sources: BCB, Funcex methodology

The expansion of the imported value has slowed down, but it is still reached its highest level in the past two years in October. The increase of imports is associated with the growth of quantum, widespread across categories (Figure 1.2.41), in line with the expansion of consumption, investment, and manufacturing. Unlike in 2023, the drought in the Amazon basin had a limited impact on the imports in the state of Amazonas. Recently, the imported volume of fertilizers and thermionic valves and tubes (solar panels) has been noteworthy. The prices of imported goods, which had been declining, have slightly recovered (Figures 1.2.42 and 1.2.43), especially those of automobiles. Meanwhile, freight rates for products imported by Brazil have begun to fall, following international shipping prices from China.[36]

Figure 1.2.42 – Price Index

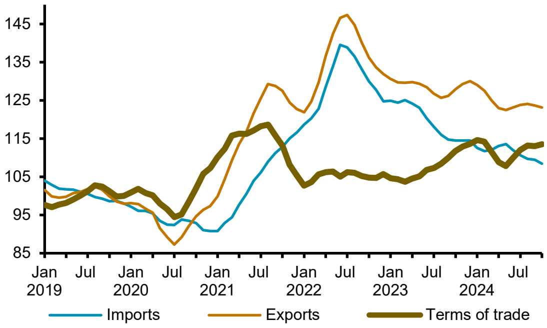
Index (2019=100), 3mma



Sources: BCB, Funcex methodology

Figure 1.2.43 – Price Index

Index (2019=100), 3mma s.a.



Sources: BCB, Funcex methodology

The services account deficit continued to grow. The services account deficit has been growing since early 2023, being a relevant factor for the worsening of the current account balance. The increase in expenses on technology and intellectual property services (included in "other services" in Figure 1.2.44) has been prominent this year, but expenses on transport and equipment rentals also increased. The primary income account deficit, in turn, has remained relatively stable, both in the aggregate and in its components (Figure 1.2.45).

Figure 1.2.44 – Services

USD billion, 3mma s.a.

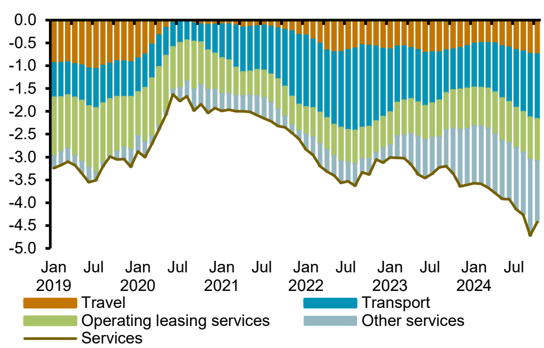
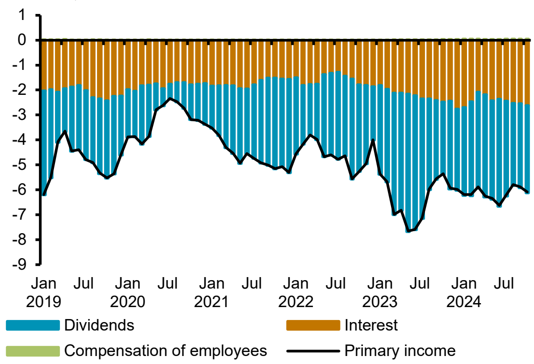


Figure 1.2.45 – Primary income

USD billion, 3mma s.a.



Direct investment liabilities continue to grow at a strong pace, and positive portfolio investment flows are driven by debt securities. The recent strong performance of direct investment liabilities recently observed is associated with the gradual recovery of equity inflows (Figure 1.2.46). In line with the economic activity dynamism, the profitability of these investments has been high, with a large share of earnings being reinvested. Intercompany loans, in turn, which had been determinant for the good performance of direct investment liabilities in the first half-year, declined, with net outflows being registered for the first time in the year in October. As for portfolio investment liabilities, net inflows to debt securities issued in the country and abroad stood out (Figure 1.2.47). The widening interest rate differential in relation to the U.S. has sustained foreign interest in public debt securities. Net flows to shares and equity funds, negative in the first half-year, remained close to neutrality between July and October.

36/ See, on this subject, the post Impacto do aumento nos custos de fretes e seguros nos preços importados da China, published on the *BC Blog* on November 12th (Portuguese only).

Figure 1.2.46 – Direct investment liabilities
USD billion, 3mma s.a.

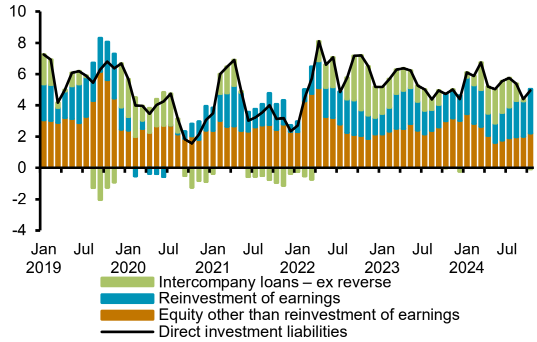
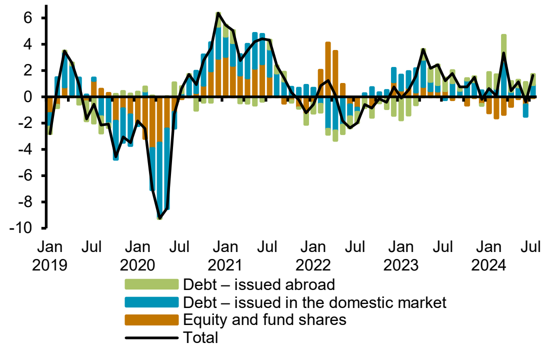


Figure 1.2.47 – Portfolio investment - liabilities
USD billion, 3mma s.a.



Projections for the external accounts for 2024 and 2025 were revised marginally, with no qualitative changes. The projected current account deficit for 2024 was revised to USD 54 billion (2.5% of GDP) and remains lower than estimated net direct investment liability inflows, maintained at USD 70 billion (3.2% of GDP). For 2025, an increase in the current account deficit compared with 2024 is still projected. A USD 58 billion deficit is expected (2.7% of GDP), a value once again lower than the USD 70 billion estimated net inflows of direct investment liabilities (3.2% of GDP). Further details are available in a box in this IR.

Prices

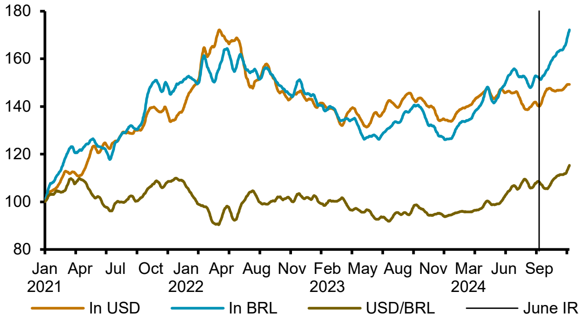
Consumer prices inflation – already high in the previous quarter – increased. Measures of underlying inflation have also increased and are above the inflation target. Such rises come amid a scenario that continues to be characterized by resilience in activity, pressures in the labor market, a positive output gap, and strong exchange rate depreciation. To this scenario is now added a significant rise in food prices, mainly due to the rise in beef prices. In this context, according to the Focus Report, inflation expectations have further deanchored.

Commodity prices (IC-BR) have risen, especially when quoted in BRL. The IC-Br in BRL rose 13.2% since the previous IR, reflecting the 6.5% rise in commodity prices in USD and the 6.3% BRL depreciation (Figure 1.2.48).[37] The IC-Br increase in USD was widespread across all segments (Figure 1.2.49). Regarding the prices of energy commodities, natural gas in the U.S. remained volatile and rose significantly in the quarter. Brent-type oil remained stable in a context of weaker global demand. For agricultural commodities,most products in the IC-Br showed price increases, with still constrained coffee supply and volatile cocoa prices. Finally, prices of metal commodities increased, apparently associated with China's stimuli to economic activity – which is the case for zinc, aluminum, and iron ore. The upward trend of the IC-Br in BRL has been observed since the end of 2023, with an accumulated change of 10% in USD and a 22% BRL depreciation.

37/ IC-Br and exchange rate changes discussed in this section refer to the 10-day moving average between the respective closing dates of the IR.

Figure 1.2.48 – IC-Br and foreign exchange rate

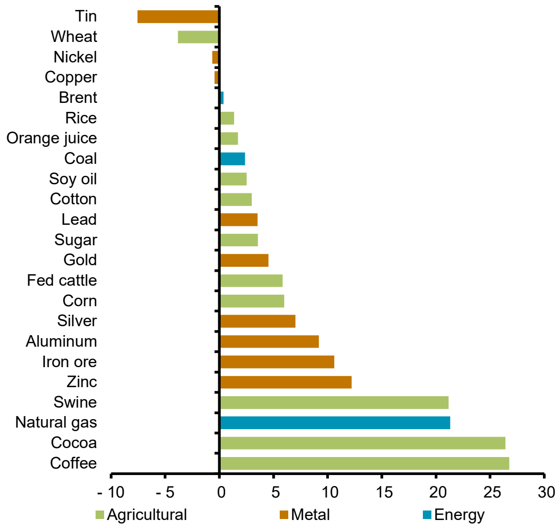
10-day moving average; Dec/31 2020 = 100



Sources: Bloomberg and BCB

Figure 1.2.49 – Change in commodity prices

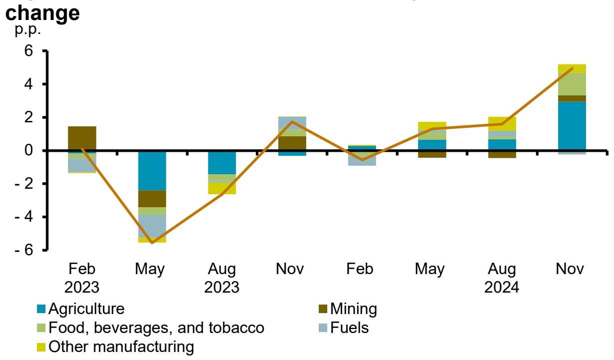
% change of the 10-day moving-average in USD between previous and current IR cut-off dates



Source: Bloomberg

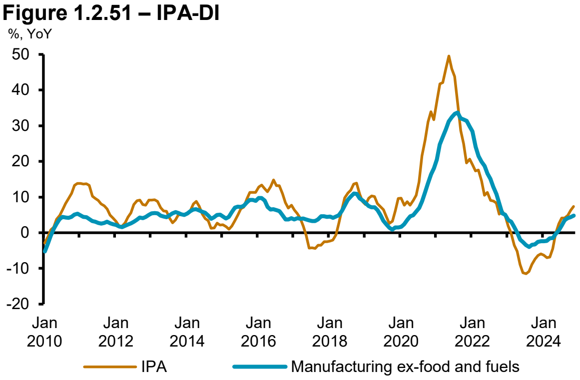
The producer price index, which had been rising in recent quarters due to price changes in manufactured goods, accelerated because of higher meat prices. The Broad Producer Price Index (IPA-DI) rose significantly in the Sep-Nov quarter, increasing by 4.95% after a 1.60% rise in the Jun-Aug quarter (Figure 1.2.50). This result is closely related to the rise in the prices of fed cattle and industrialized beef. This rise reflects both the heated demand – particularly for exports – and the more limited supply of animals for slaughter, with the impact of the prolonged drought on pastures and, possibly, the reversal of the cattle cycle. In manufacturing, excluding fuel and food, prices continued to increase at a high rate, with the 12-month change reaching 4.78%, compared with a low of -3.98% in August 2023 (Figure 1.2.51). Consumer goods prices excluding food and fuel have shown more moderate changes so far, but there are upside risks to their future trajectory stemming from the recent evolution of the exchange rate and of prices in the early stages of the production chain.

Figure 1.2.50 – Contributions to quarterly IPA-DI change



Source: FGV

Figure 1.2.51 – IPA-DI

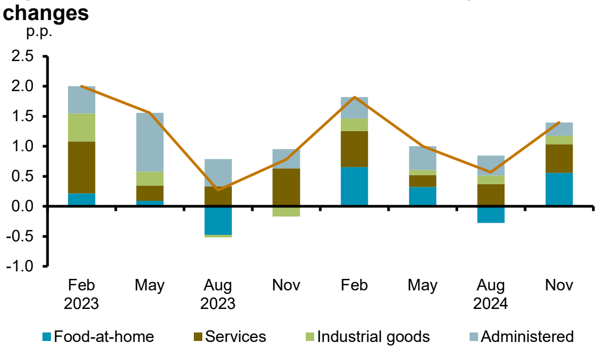


Source: FGV

The IPCA accelerated in the quarter, with a strong rise in food, and continues to indicate high current inflation. Consumer inflation increased from 0.57% to 1.40% from the Jun-Aug to the Sep-Nov quarter, respectively. The acceleration in prices was concentrated in food-at-home, particularly due to significant beef increases, while the other segments remained at a high level (Figure 1.2.52). When considering the seasonally adjusted core inflation measures38 an increase was also observed between those quarters, from 4.40% to 5.47% in the annualized metric. The same trend was observed in the 12-month change – both the headline index (from 4.24% to 4.87%) and the average of core measures (from 3.80% to 4.21%) continued to rise and remained at elevated levels (Figures 1.2.53 and 1.2.54).

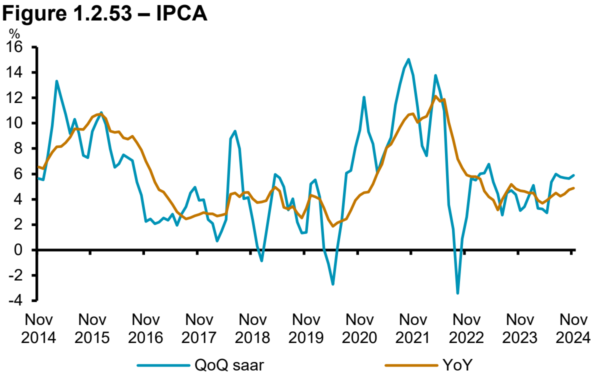
38/ It considers cores Ex-0, Ex-3, MS, DP, and P55 discussed in the box Update of the set of core inflation measures commonly considered by the BCB for economic outlook analysis in the June 2020 IR.

Figure 1.2.52 – Contributions to IPCA quarterly changes



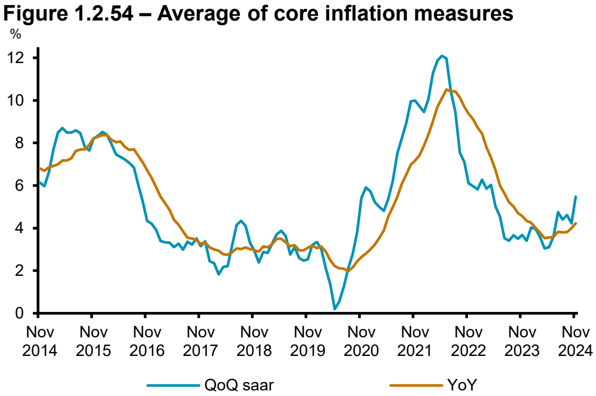
Sources: IBGE and BCB

Figure 1.2.53 – IPCA



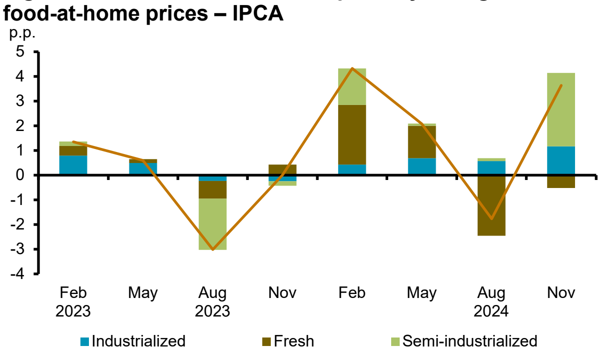
Sources: IBGE and BCB

Figure 1.2.54 – Average of core inflation measures



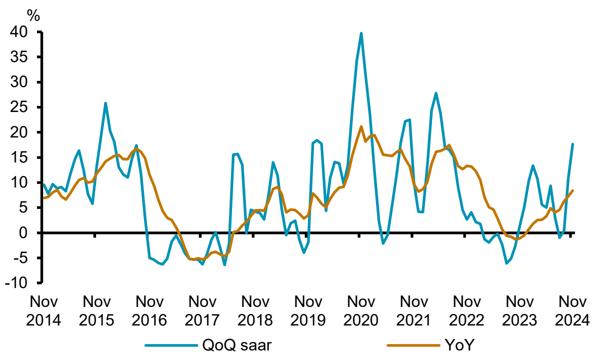
Consumer food prices increased strongly in the quarter, driven by beef. During this period, prices in the segment increased 3.63%, compared with a 1.77% fall in the Jun-Aug quarter (Figure 1.2.55). In the 12-month period, food prices accelerated, increasing 8.41% in November (Figure 1.2.56). This segment tends to show higher changes in the final months of the year due to seasonality, but the acceleration in the period can also be seen in seasonally adjusted quarterly data. The behavior of food prices was significantly influenced by the strong rise in the beef price. The pressure of coffee and soybean oil prices was also noteworthy. Prices of other industrialized food items are also rising, impacted by the BRL depreciation. Fresh food prices, in turn, continued to fall, even in a period of less favorable seasonality for this group.

Figure 1.2.55 – Contributions to quarterly changes in food-at-home prices – IPCA



Sources: IBGE and BCB

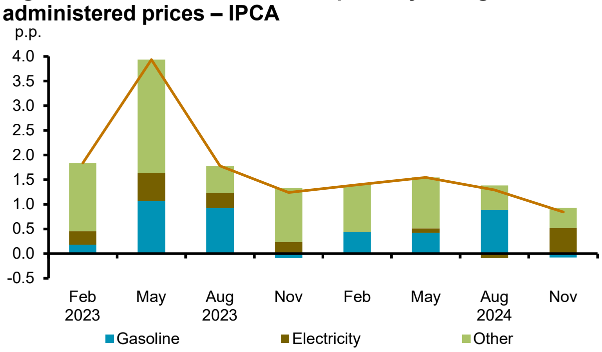
Figure 1.2.56 – Food-at-home inflation



Administered prices grew at a slower pace than in the previous quarter, after the exhaustion of the effect of the increase of gasoline price in July. The increase fell from 1.29% in the Jun-Aug quarter to 0.84% in the Sep-Nov quarter (Figure 1.2.57). The main contribution to this result came from the modest changes in gasoline prices, with no significant variations since July. Conversely, residential electricity pressured the segment's prices – due to the switch from the green flag in August to the yellow flag in November, following unfavorable hydrological conditions. Bottled gas has also risen more sharply, due to the pass-through of the sector's workers' dispute to final prices, which is typical of this period. Over the last 12 months, administered prices have increased by 5.17%, showing a decline in this metric since September 2023, when it peaked at

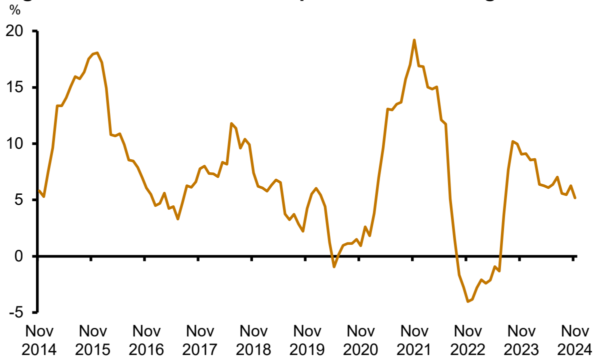
10.21% (Figure 1.2.58). This behavior is mainly attributed to the slowdown in license plates and car licenses fees, with lower monthly changes starting in January, after strong increases in 2022 and 2023; in gasoline, amid lower international oil prices; and in electricity tariffs, due to lower adjustments.

Figure 1.2.57 – Contributions to quarterly changes in administered prices – IPCA



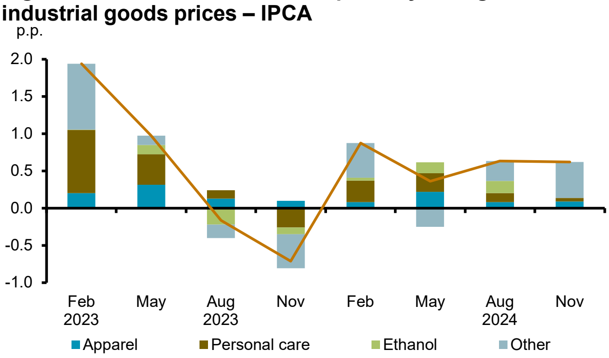
Sources: IBGE and BCB

Figure 1.2.58 – Administered prices – YoY change



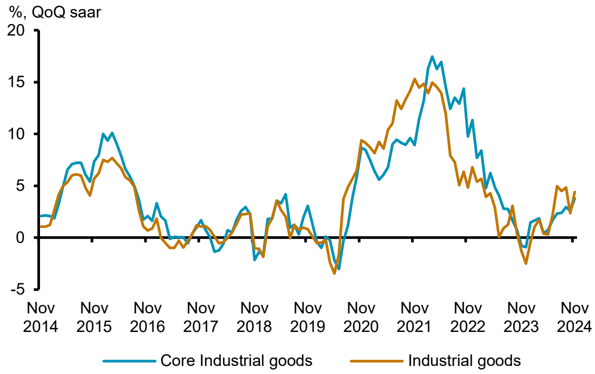
The 12-month inflation for industrial goods increased, in line with the recent trajectory of exchange rate. The 12-month inflation of industrial goods prices in the IPCA increased from 1.15% in August to 2.51% in November (Figure 1.2.60). In the quarter, the segment's prices increased 0.62%, a value similar to that seen in the Jun-Aug quarter (Figure 1.2.59). On the one hand, there were benign effects of the Black Friday promotional period and a modest change in ethanol prices, in line with the relative stability of gasoline prices. On the other hand, there was the pressure from the IPI increase on cigarettes.[39] In the industrial goods core, which excludes ethanol, cigarettes, and other items[40], the seasonally adjusted and annualized quarterly changes rose significantly over the last two quarters, from 0.75% in May to 3.78% in November. This increase is partly attributed to the pass-through of the exchange rate depreciation and higher producer prices.

Figure 1.2.59 – Contributions to quarterly changes in industrial goods prices – IPCA



Sources: IBGE and BCB

Figure 1.2.60 – Industrial goods inflation



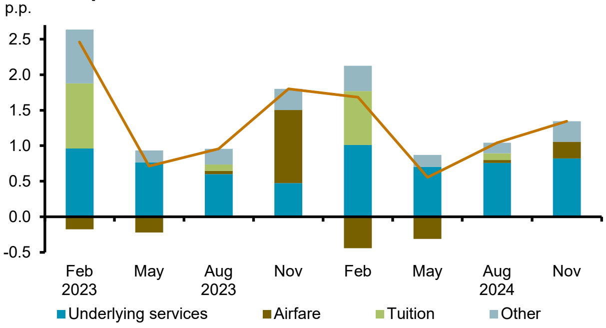
Services inflation remains high and some of its core measures have increased compared with the previous quarter. Services inflation increased from 1.04% to 1.35% between the Jun-Aug and Sep-Nov periods, with a stronger rise in the ex-core component (Figure 1.2.61). Underlying services inflation also increased in the seasonally adjusted and annualized quarterly metric, from 5.2% in August to 6.8% in November, and, in the 12-month period, from 5.1% to 5.7% (Figure 1.2.62). Measures focused on the intensity of labor use[41], which may be more associated with labor market conditions, also point to pressured services inflation, with indexes above 5% (Figure 1.2.63). Finally, food-away-from-home inflation also increased, from 1.09% in the Jun-Aug quarter to 1.88% in the Sep-Nov quarter, which may reflect the recent increase in food inflation.

39/ Decree 12,127, dated July 31, 2024, established an increase in the specific IPI rate per pack of 20 cigarettes from BRL 1.50 to BRL 2.25, starting on November 1, 2024.

40/ The industrial goods core measure shown in Figure 1.2.60 and herein discussed closely resembles the underlying industrial goods indicator that constitutes the Ex-3 core inflation measure, as presented in the box New core inflation measures in the June 2018 IR. It excludes charcoal, electrical and electronic goods, new and used cars, ethanol, and cigarettes.

41/ Figure 1.2.63 shows two series focused on the intensity of labor use. The "labor-intensive" series was originally presented in the box Services Inflation Segmentation (Portuguese only) of the December 2013 IR. The "reweighted labor-intensive" series was presented in the box Services inflation reweighted by production factors in the June 2024 IR.

Figure 1.2.61 – Contributions to quarterly changes in services prices – IPCA



Sources: IBGE and BCB

Figure 1.2.62 – Services inflation

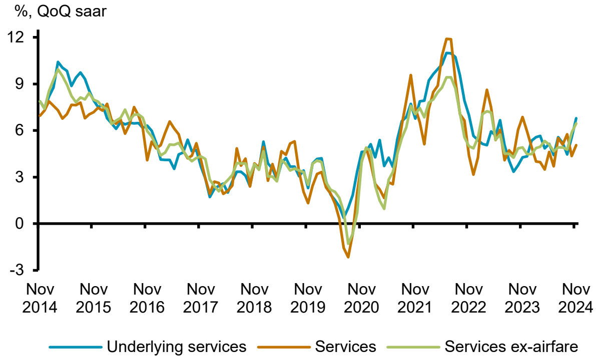
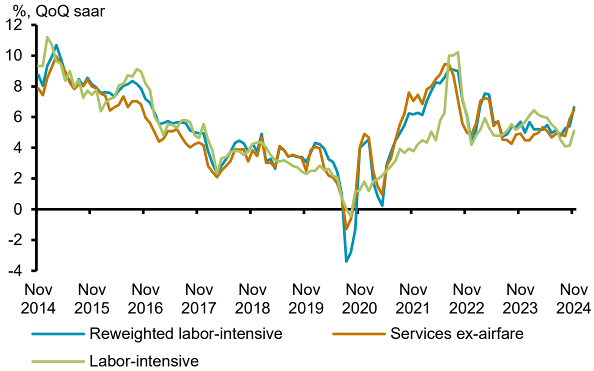


Figure 1.2.63 – Services inflation



The expectation for inflation in 2024 has risen since the previous IR and is above the upper limit of the tolerance interval around the inflation target. The median of expectations for the IPCA change in 2024 grew from 4.35% on the date of the previous IR to 4.84%, according to the Focus Report, which collects information from economic analysts. The increase in the projection is mainly due to the revision of the food-at-home segment (Table 1.2.7). PCQ data indicates that the revision is related to the behavior of the meat prices, which follows the strong rise in the price of fed cattle. In the opposite direction, there was a slight downward revision in the projections for administered prices and industrial goods.

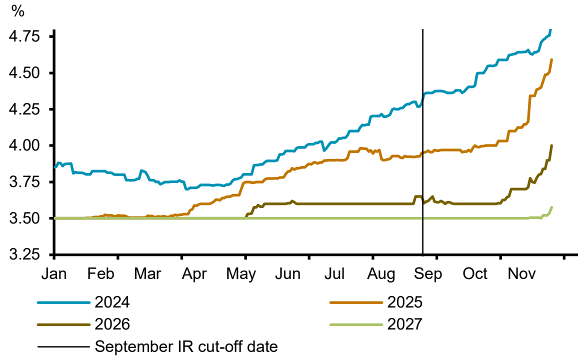
Table 1.2.7 – Breakdown of the revision on the 2024 Focus survey

	Weights	Focus expectations (% p.a.)		
		Sep-13	Dec-6	Contr. to Δ (p.p.)
IPCA	**100**	**4.35**	**4.84**	**+0.49**
IPCA (by aggregation)	100	4.36	4.81	+0.45
Food-at-home	15	5.46	8.49	+0.46
Industrial goods	23	2.88	2.71	-0.04
Services	36	4.55	4.69	+0.05
Administered prices	26	4.78	4.69	-0.02
Market prices	74	4.19	4.89	+0.52
Market prices (by aggreg.)	74	4.21	4.85	+0.47

Inflation expectations remain deanchored for the next few years and have risen since the previous IR. The median expectation for 2025 increased more strongly, from 3.95% to 4.59%, a figure that exceeds the upper limit of the tolerance interval around the target (Figure 1.2.64). This revision was widespread across segments. According to the PCQ, the outlook for food-at-home in relation to beef has become less favorable.

Expectations for industrial goods and services inflation have also worsened, in line with the expectation of a more depreciated exchange rate and the perception of more resilient economic activity. The median of expectations for 2026, which was at 3.5% until May and increased to 3.60% in June, already above the inflation target, rose significantly to 4.00%.[42] Finally, inflation expectations for 2027, which had been at 3.50% since June 2023, grew to 3.58%.

Figure 1.2.64 – Median market expectations (Focus) – Annual IPCA



42/ The median for inflation expectations for 2026 was 3% in November 2022, rose to 4% between December 2022 and March 2023, and fell to 3.5% in June 2023 following the establishment of the 3% inflation target for the reference year, remaining at 3.5% until May 2024.

Projections for GDP growth in 2024 and 2025

This box updates the projections for Gross Domestic Product (GDP) growth in 2024 and 2025. Compared with the previous IR, the projection for the 2024 growth of the aggregate GDP grew from 3.2% to 3.5%, while the projection for 2025 rose from 2.0% to 2.1%.

Revision of the 2024 GDP projection

The change in the GDP growth projection for 2024 reflects the positive surprise in the 2024Q3 results and 2024Q4 indicators available up to the cut-off date of this IR. The revision of the time series of the Quarterly National Accounts (CNT) was an important factor for updating the projection of some components, although not having a significant influence on the aggregate.

From a supply perspective, the upward revision in GDP growth for 2024, from 3.2% to 3.5%, reflected an increased projection for the services sector, partially offset by lower estimates for agriculture and industry.

The projection for the annual change in agriculture was reduced from -1.6% to -2.0%. The revision of the time series for agriculture, which incorporated data from structural surveys for 2023 and updated forecasts for the 2024 harvest, was particularly important. The Gross Value Added (GVA) change for agriculture in the first half of 2024, compared with the same period of last year, was revised from -2.9% to -4.5%, impacting the annual growth forecast.

For industry, the forecast was adjusted from 3.5% to 3.3%, with increases in projections for manufacturing and utilities[1] and declines in estimates for mining and construction. The surprises in 2024Q3 – with declines for mining and construction and increases for utilities – explain a significant share of the revision for these sectors. As for manufacturing, the surprise regarding 2024Q3 result was small. The revision in the annual growth forecast for this segment mainly reflects a more favorable expectation for 2024Q4, heavily influenced by the high statistical carry-over of the respective monthly industrial production series. The revision of time series had little impact on the projections for industrial activities, except for utilities, whose growth in the first half of 2024 compared with the same period the previous year was increased by 0.8 p.p.

For the services sector, the growth projection was revised from 3.2% to 3.8%, reflecting stability in the estimate for trade and increases in forecasts for other segments. The increased forecast for the services sector was driven by positive surprises in 2024Q3 results, widespread across activities, an by the revision of time series. This revision mainly impacted projections for "financial intermediation and related services", "other services", and "public administration, health, and education."

Regarding the domestic components of aggregate demand, the estimated growth for household consumption increased from 4.5% to 5.3%, while that for Gross Fixed Capital Formation (GFCF) rose from 5.5% to 7.3%. These revisions mainly reflect the strong increase of these components in 2024Q3, as opposed to the previously expected slowdown. Conversely, the forecast for the growth of government consumption was reduced from 2.7% to 1.9%, reflecting a lower YoY change in the first half of the year after the revision of the time series and a negative surprise in 2024Q3 result.

1/ Utilities: electricity and gas, water, sewage, waste management activities.

The projection for exports remained nearly stable, decreasing from 3.2% to 3.0%, while the estimate for imports increased from 11.3% to 13.7%, mainly reflecting a smaller-than-expected slowdown in 2024Q3. Given the revised expectations for the aggregate demand components, the contributions of domestic demand and the external sector to the GDP growth in 2024 are estimated at 5.2% and -1.7%, respectively.

Table 1 – Gross Domestic Product
Accumulated in the year

% growth

Itemization	2023	2024[1]	
		Previous	Current
Agriculture	16.3	-1.6	-2.0
Industry	1.7	3.5	3.3
Mining	9.2	1.8	0.5
Manufacturing	-1.3	3.6	3.9
Construction	-0.3	5.4	3.4
Public utilities	5.8	3.7	4.0
Services	2.8	3.2	3.8
Trade	0.8	3.8	3.8
Transport and storage	2.4	1.1	1.9
Information services	2.9	6.3	6.7
Financial and related services	7.5	2.2	3.6
Other services	3.4	4.5	5.6
Real estate	3.0	3.1	3.5
Public admin., health and education	1.6	1.6	1.9
More cyclical components	1.2	3.9	3.9
Less cyclical components	5.5	1.6	1.6
Value added at basic prices	3.4	2.9	3.3
Taxes on products	2.3	4.7	5.5
GDP at market prices	**3.2**	**3.2**	**3.5**
Household consumption	3.2	4.5	5.3
Government consumption	3.8	2.7	1.9
Gross Fixed Capital Formation	-3.0	5.5	7.3
Exports	8.9	3.2	3.0
Imports	-1.2	11.3	13.7

Sources: IBGE and BCB
1/ Estimated.

Revision of the 2025 GDP projection

The small increase in the GDP growth projection for 2025, from 2.0% to 2.1%, is driven by factors acting in opposite directions. Positive contributions include the upward revision in expected agricultural growth, in line with the latest forecasts indicating a further increase in the grain harvest, and the rise in the statistical carry-over from 2024 to the growth in 2025, mainly due to the surprise in 2024Q3. In the opposite direction, the expectation of lower quarterly growth throughout 2025, mainly due to the assumption of a stronger monetary tightening than expected in the previous IR[2], contributes to reducing the growth projection. Nevertheless, the growth outlook for 2025 remains lower than that for 2024, due to the expectation of reduced fiscal stimulus; the ongoing monetary policy turnaround; the reduced degree of slack of production factors; and the absence of a strong external stimulus, given the prospect of a world growth in 2025 similar to that of 2024.

2/ The comparison of nominal and real interest rates with the assumptions of the previous IR is presented in the Inflation determinants and conditioning assumptions segment of section 2.2 of this IR.

From the supply perspective, the slight increase in the GDP growth forecast reflects an upward revision in the projection for agriculture and stability in the estimates for industry and services. From the demand perspective, the forecasts for household consumption and GFCF were increased from 2.2% to 2.4% and from 2.0% to 2.9%, respectively. Conversely, the estimate for the growth of government consumption was reduced from 2.0% to 1.6%. Finally, the growth forecast of 2.5% for both exports and imports was maintained. The contributions of the internal and external demand contributions are estimated at 2.1% and 0.0%, respectively.

Table 2 – Gross Domestic Product

Accumulated in the year

% growth

Itemization	2023	2024[1]	2025[1]	
		Current	Previous	Current
Agriculture	16.3	-2.0	2.0	4.0
Industry	1.7	3.3	2.4	2.4
Services	2.8	3.8	1.9	1.9
Value added at basic prices	3.4	3.3	2.0	2.2
Taxes on products	2.3	5.5	1.9	2.0
GDP at market prices	**3.2**	**3.5**	**2.0**	**2.1**
Household consumption	3.2	5.3	2.2	2.4
Government consumption	3.8	1.9	2.0	1.6
Gross Fixed Capital Formation	-3.0	7.3	2.0	2.9
Exports	8.9	3.0	2.5	2.5
Imports	-1.2	13.7	2.5	2.5

Sources: IBGE and BCB

1/ Estimated.

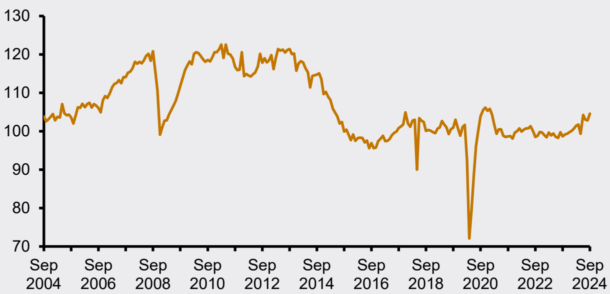
As usual, there are many risks surrounding this central scenario. Among external risks, global growth in 2025 may be lower than in 2024, due to, for example, geopolitical factors. Domestically, on the one hand, the recent tightening of financial conditions may have a stronger contractionary impact than anticipated. On the other hand, part of the high growth in recent years may be related to structural reforms, which means the possibility of new positive surprises, given the uncertainties surrounding the potential growth rate.

Recent performance of manufacturing

In 2024, the economy continued to show strong dynamism, and it is expected to end the year with a higher growth rate than in 2023 and higher than forecast at the beginning of the year.[1] Moreover, while growth in 2023 was driven by less cyclical sectors, especially agriculture and mining, in 2024 it is more widespread and driven by activities more sensitive to the economic cycle,[2] including manufacturing. In the recent context of a robust expansion in the Brazilian economy, this box presents an analysis focused on the recent trajectory of the manufacturing sector.

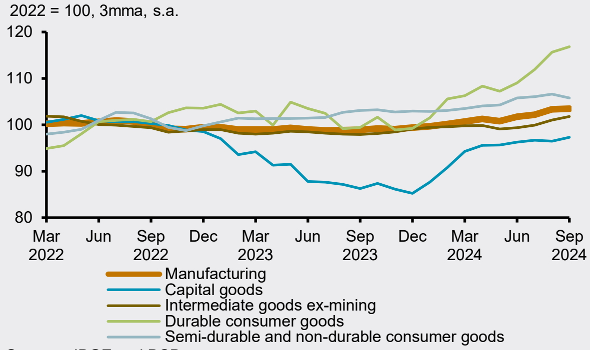
Throughout the last two decades, the manufacturing output has somewhat stagnated (Figure 1). After the expansion observed until mid-2011[3] and the strong decline from 2013 to 2016, manufacturing has undergone short periods of expansion, generally succeeding strong reduction phases, as in 2017 and 2021, leading the current output to a level similar to that of 2004.

Figure 1 – Industrial production
Manufacturing
2022 = 100, s.a.



Source: IBGE

Figure 2 – Industrial production
2022 = 100, 3mma, s.a.



Sources: IBGE and BCB

Nevertheless, manufacturing has shown stronger dynamism since late 2023. According to the Monthly Industrial Survey (PIM-IBGE), in the four-quarter period ended in September 2024, industrial output accumulated growth reached 4.5%, with widespread expansions in all use categories, notably in capital and durable consumer goods (Figure 2, Table 1). The largest contribution to this expansion came from intermediate goods, given its large share in manufacturing. Capital and durable consumer goods, despite accounting for just over 10% of manufacturing, contributed with one third of the output expansion in the period.

1/ See box Projections for the GDP growth in 2024 and 2025 in this IR and the section "Economic activity" in Chapter 1.
2/ Among the sectors more sensitive to the economic cycle, in addition to manufacturing, it is notable the expansions of construction, commerce, information and communication, and other services, which includes services rendered to households.
3/ The only exception in this period was 2009, when manufacturing declined due to the international financial crisis occurred in late 2008.

Table 1 – Industrial production
QoQ
Seasonally adjusted data

% change

Itemization	Weight 2022 (%)	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024Q3 / 2023Q3 1/	Contr. 2024Q3 / 2023Q3 1/ in p.p.
Manufacturing	100.0	-0.4	0.0	-0.1	0.5	1.3	1.1	1.7	4.5	4.5
Capital goods	7.0	-4.4	-6.8	-1.8	-1.2	10.6	2.2	1.1	11.9	0.7
Intermediate goods ex-mining	53.8	-1.0	0.5	-0.5	1.2	0.7	-0.4	2.4	3.7	2.0
Durable consumer goods	5.1	-0.6	0.5	-3.9	-0.2	7.1	2.6	7.1	16.4	0.8
Semi-durable and non-durable consumer goods	32.2	1.5	0.1	1.6	-0.1	0.6	2.2	0.0	2.7	0.9

Sources: IBGE and BCB
1/ Non-seasonally adjusted data

Table 2 shows the performance of manufacturing by use category and activity type. The expansion in the output of capital goods was mainly driven by automotive vehicles and computer equipment, electronics, and optical products. The strong growth in the first sector was mostly due to the increased production of trucks and buses.[4] In the intermediate goods category, growth was mainly fueled by automotive vehicles and chemical products, partially offset by declines in food products and coke, oil and biofuel derivatives. Vehicles also contributed substantially to the higher production of durable consumer goods, jointly with machinery and electric material. Finally, the expansion in the output of semi-durable and non-durable consumer goods chiefly reflected the contributions of the sectors of beverages and coke, and oil and biofuel derivatives.[5] The widespread output growth can also be viewed in the breakdown by manufacturing activity sector (Table 3). In the period under analysis, output increased in 19 of the 24 manufacturing activity sectors. Such data show that the industrial output growth was highly widespread, albeit some use categories and sectors stood out.

4/ The production of trucks and buses grew 47.8%, contributing with 0.29 p.p. to the expansion of manufacturing in the period analyzed. This growth partially reflects the normalization of production, which had fallen significantly in the first half of 2023 due to production brought forward to 2022, motivated by changes in pollutant emission requirements from 2023.

5/ Oil and biofuel derivatives are classified in the PIM in the use categories of intermediate goods and of semi- and non-durable consumer goods. The production of biofuels, largely (95.6%) classified as semi-durable and non-durable consumer goods, grew 4.4%, contributing with 0.20 p.p. to the manufacturing expansion, while the production of oil derivatives, with 77.7% of goods classified as intermediate, dropped 0.9%, contributing with -0.12 p.p. to the industrial growth.

Table 2 – Industrial production

Itemization	Weight 2022 (%)	2024Q3 / 2023Q3	% change Contr. 2024Q4 / 2023Q3 (p.p.)
Manufacturing	**100.00**	**4.47**	**4.47**
Capital goods	**7.03**	**11.91**	**0.72**
Computer equipment, electronics, and optical products	0.74	25.11	0.16
Machinery and electric material	0.95	11.04	0.08
Machinery and equipment	2.97	1.91	0.05
Vehicles	1.23	36.97	0.37
Other transport equipment	0.64	4.21	0.02
Other activities	0.51	5.85	0.03
Intermediate goods ex-mining	**53.82**	**3.75**	**1.97**
Food products	5.68	-2.88	-0.20
Textile products	1.19	4.11	0.05
Pulp and paper	3.66	-0.20	-0.01
Oil and biofuel derivatives	10.33	-1.16	-0.12
Chemical products	7.15	6.82	0.46
Rubber and plastic	3.68	7.94	0.28
Non-metallic minerals	3.13	4.87	0.14
Metallurgy	5.78	4.42	0.24
Metal products	3.11	10.34	0.30
Machinery and equipment	1.37	5.96	0.07
Vehicles	3.70	18.18	0.59
Other activities	5.04	3.24	0.16
Durable consumer goods	**5.10**	**16.38**	**0.84**
Computer equipment, electronics, and optical products	0.43	16.06	0.07
Machinery and electric material	0.66	23.40	0.16
Vehicles	2.30	13.22	0.31
Other transport equipment	0.38	10.61	0.05
Furniture	0.89	16.18	0.14
Other activities	0.43	30.49	0.11
Semi-durable and non-durable consumer goods	**32.17**	**2.74**	**0.93**
Food products	11.98	0.38	0.05
Beverages	3.17	5.74	0.17
Textile products	0.29	11.25	0.03
Clothing	2.36	5.30	0.12
Leather and footwear	1.31	9.28	0.12
Printing and engravings	0.22	38.40	0.06
Oil and biofuel derivatives	5.50	2.73	0.21
Chemical products	1.56	2.00	0.03
Pharmaceuticals	2.83	0.41	0.01
Other activities	2.95	4.94	0.13
Goods not previously specified	**1.88**	**0.54**	**0.01**

Sources: BCB and IBGE

Table 3 – Industrial production

Non-seasonally adjusted data

% change

Itemization	Weight 2022 (%)	2024Q3 / 2023Q3	Contr. 2024Q3 / 2023Q3 (p.p.)
Manufacturing	**100.00**	**4.47**	**4.47**
Food products	17.66	-0.81	-0.16
Beverages	3.50	2.71	0.09
Tobacco products	0.50	-2.56	-0.01
Textile products	1.48	5.39	0.08
Clothing	2.36	5.30	0.12
Leather and footwear	1.68	8.55	0.14
Wood products	1.23	9.45	0.11
Pulp and paper	4.34	-0.68	-0.03
Printing and engravings	0.70	-10.02	-0.09
Oil and biofuel derivatives	15.83	0.51	0.09
Chemical products	8.70	5.89	0.50
Pharmaceuticals	2.83	0.41	0.01
Rubber and plastic	4.03	8.05	0.32
Non-metallic minerals	3.13	4.87	0.14
Metallurgy	5.78	4.42	0.24
Metal products	3.53	10.06	0.33
Computer equipment, electronics, and optical products	2.36	18.02	0.36
Machinery and electric material	2.65	13.12	0.30
Machinery and equipment	4.49	4.96	0.20
Vehicles	7.24	19.31	1.27
Other transport equipment	1.34	12.45	0.18
Furniture	1.34	16.72	0.21
Miscellaneous	1.43	7.90	0.10
Maintenance of machinery and equipment	1.86	-1.25	-0.02

Sources: IBGE and BCB

The expansion of the manufacturing output seems to be associated with the increase in domestic demand, particularly of household consumption and investment. Estimate of the apparent demand[6] for industrial goods reveals expansion since early 2024, rising 7.5% in 2024Q3 over 2023Q3 (Figure 3). This expansion outweighs the 4.5% growth of domestic output in the period, which means that imports also increased, equally contributing to the domestic output for meeting the increased demand.[7] Exports of industrial goods also increased (contributing negatively to the apparent demand), although this contribution was not so relevant.

The expansion of demand for industrial goods can be corroborated by the evolution of industrial inventories. Inventories[8], which were at a high level until the beginning of 2023Q4, decreased to levels deemed adequate at the end of the year (Figure 4). This was observed despite the increase in output, suggesting, again, a greater expansion of demand.

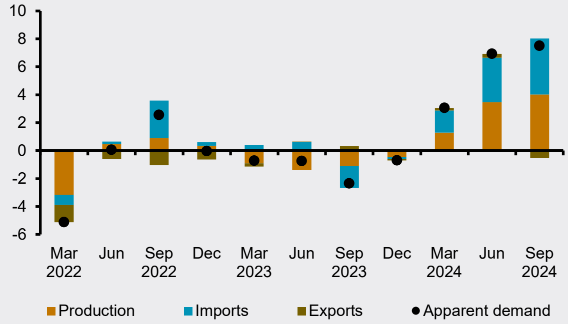
6/ This indicator is a proxy of the domestic demand for industrial goods. It is defined as the sum of domestic industrial output plus imports less exports. It was calculated from the volume indexes of the industrial production (PIM) and of exports and imports (Ministry of Development, Industry, Commerce and Services – Secex), aggregated by weights obtained from the Table of Resources and Uses (TRU) of the National Accounts of 2021.

7/ The box Import penetration and export ratio in manufacturing published in the March 2019 IR showed a strong increase in the participation of imports in the domestic demand for manufactured goods in the last decade.

8/ Qualitative inventory data obtained from the business surveys by the Getulio Vargas Foundation (FGV) and the National Confederation of Industry (CNI).

Figure 3 – Apparent demand for industrial goods

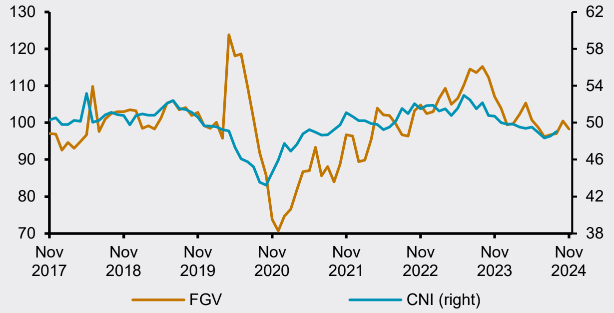
Quarterly, YoY % change and contribution of components



Sources: Secex and BCB

Figure 4 – Inventories index: manufacturing

Points, s.a.

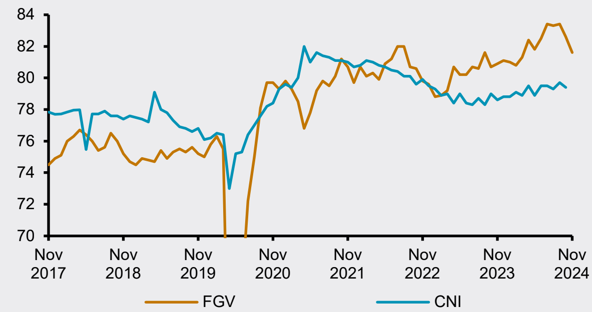


Sources: CNI and FGV

The expansion in industrial output was followed by a greater use of production factors. FGV and CNI data show that the level of industrial capacity utilization has been rising since the second half of 2023 (Figure 5). Similarly, Caged and CNI employment data indicate acceleration of hirings in industry in the same period (Figure 6).

Figure 5 – Capacity utilization: manufacturing

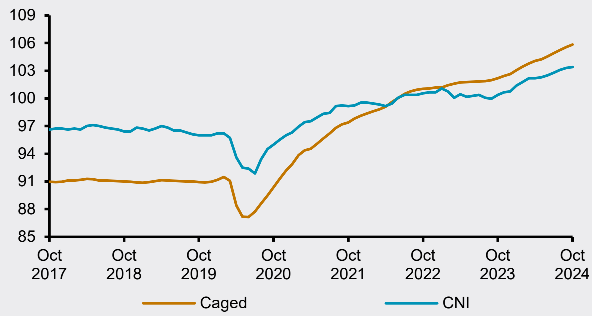
%, s.a.



Sources: CNI and FGV

Figure 6 – Employment: manufacturing

2022=100, s.a.

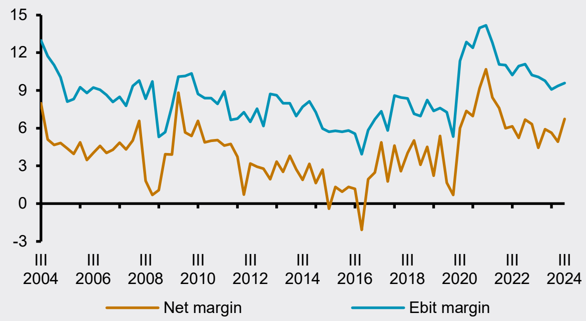


Sources: CNI and MTE

Another variable that confirms the favorable momentum for manufacturing, when compared to the last two decades, is the sector's profitability. Data regarding open capital companies show that the sector's profitability margin, measured by indicators such as the net margin and the Ebit, remains above the levels observed before the outbreak of the Covid-19 crisis (Figure 7), which suggests that the expansion of sales did not result from larger losses of the sector's profitability. [9]

Figure 7 – Profit margins: manufacturing

%, s.a., median, unbalanced panel

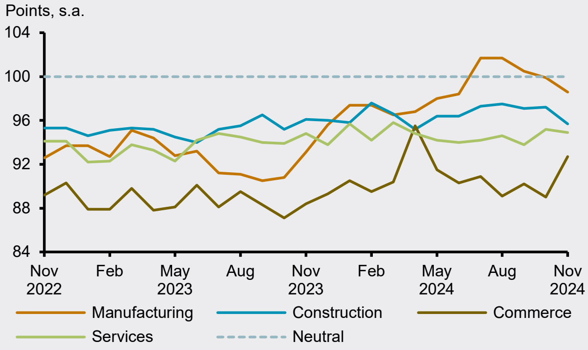


Sources: Economatica and BCB

9/ The net margin is calculated as the ratio of the net profit to the net operational revenue. The Ebit is the ratio of profit before interest and taxes to the net operational revenue. The indicators were calculated by using an unbalanced panel of manufacturing companies, according to the classification of the *Economatica*. For this purpose, the median of indicators in each period was considered.

Finally, reflecting this overall framework, the industrial entrepreneurs' confidence presented three characteristics. Considering the last two years and the comparison with the other economy's sectors, the industrial entrepreneur's confidence was the only one that followed a clear upward path (Figure 8). However, despite the positive indicators shown above, the confidence is only close to the neutrality level, still below the optimistic level observed in many periods before 2014 (Figure 9). Moreover, it has declined recently, more strongly in the component regarding future expectations (Figure 10).

Figure 8 – Confidence indexes

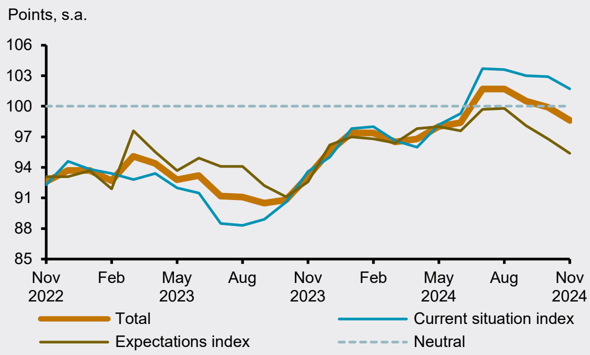


Source: FGV

Figure 9 – Industry confidence index

Source: FGV

Figure 10 – Industry confidence index

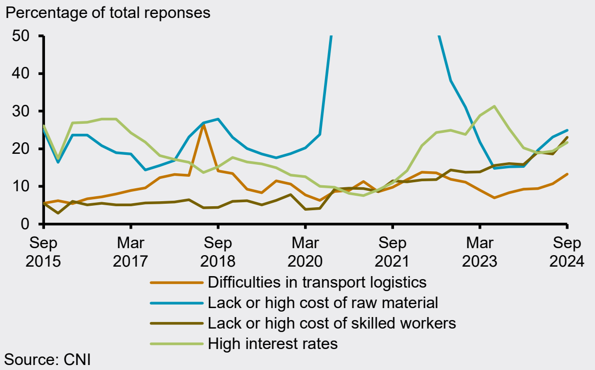


Source: FGV

Prospectively, the continued expansion of industry depends on overcoming factors that may hinder production growth in the short or medium term. As already mentioned, the installed capacity utilization is at a high level, which makes the output expansion even more dependent on new investments. Data from the CNI survey about the main problems faced by the industry (Figure 11A and 11B) reveal some difficulties that can be considered more structural and others possibly more cyclical. In the first group, one can indicate the high tax burden, largely mentioned in the survey. Combining structural and more cyclical issues, there has been an increase in complaints about transport logistics, which may have been exacerbated by the expansion of production and demand. In recent quarters, there has also been an increase in complaints about the shortage or high cost of raw materials, possibly due to the BRL depreciation, although these complaints are still below the levels observed during the pandemic. Even with the BRL depreciation, mentions regarding competition with imported goods have increased, which may be related to the increase in imports, mainly from China, whose prices have fallen.[10] Mentions regarding the lack or the high cost of skilled workers have been increasing since 2022, which is consistent with the scenario of tight labor market[11]. In the last quarter, mentions regarding higher interest rates increased, possibly reflecting the tightening of monetary policy since the second half of the year. In the opposite direction, and in line with the previous analysis, there was less concern of entrepreneurs with the level of demand.

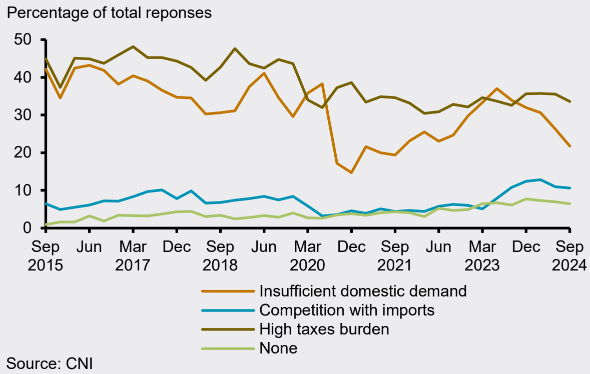
10/ See *Impacto do aumento nos custos de fretes e seguros nos preços importados da China*, written by Celso Nozema and Marcos Torres, published on the *BC Blog* (Portuguese only).
11/ See box Complementary labor market indicators in the September 2024 IR.

Figure 11A – Main problems faced by the industry



Source: CNI

Figure 11B – Main problems faced by the industry



Source: CNI

Summing up, this box described the favorable momentum of manufacturing in 2024. It was shown that there was widespread output growth across use categories and activity sectors, driven by increased domestic demand and higher use of production factors. Furthermore, the sector's profitability is still at a relatively high level and the entrepreneurs' confidence has increased. Increasing productivity and production factors is essential for the sector to maintain its upward trend. In the short term, however, the industrial trajectory could be impacted by more cyclical factors, including a tighter monetary policy.

Interest, income, and consumption of durables and non-durables

Durable consumer goods, such as automobiles and household appliances, which provide utility to their owners over a prolonged period, tend to have a lower need for immediate replacement in comparison to non-durable consumer goods, such as food and fuel. This different characteristic may imply distinct magnitudes of income elasticity for both types of consumption. Moreover, due to their high price as a proportion of monthly income, durable consumer goods are often purchased in installments, so that this group is more influenced by interest rates. This box empirically evaluates this possible heterogeneity of the effects of interest rates and income on these two types of consumption in the Brazilian economy.

To this end, a vector autoregressive model (VAR) was estimated, relating the four variables – proxies for the consumption of durable and non-durable goods, a measure of household income, and a measure of interest rates. The proxies for consumption were constructed by aggregating items from the IBGE's Monthly Survey of Trade (PMC).[1] The income measure refers to the restricted Household Gross Disposable National Income (HGDNI), deflated by the IPCA, calculated by the Banco Central do Brasil (BCB),[2] while the interest rate measure refers to the *ex-ante* real Selic rate extracted from the expectations of the Focus Report. Consumption and income variables were used in first logarithmic difference in the seasonally adjusted series, while the interest rate was used in first difference only. Figures 1 to 4 show the evolution of the variables used in the model.

Figure 1 – Interest rate

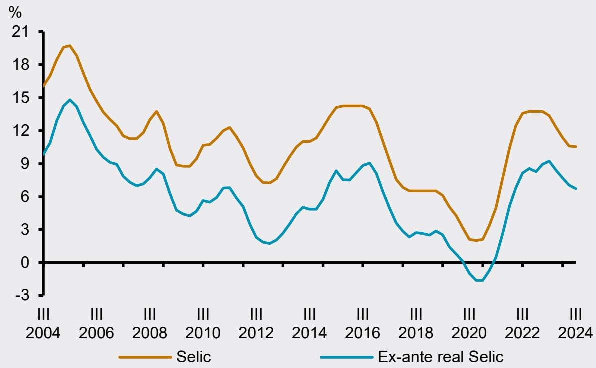


Figure 2 – Restricted HGDNI

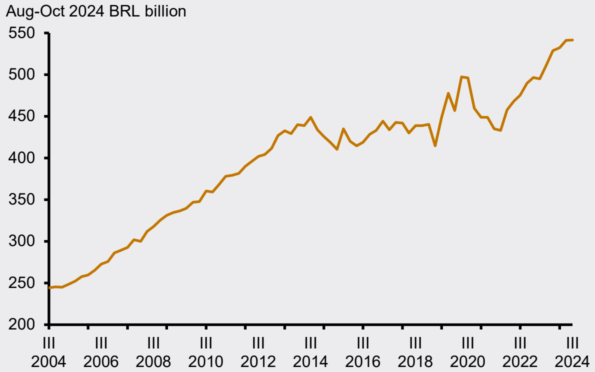
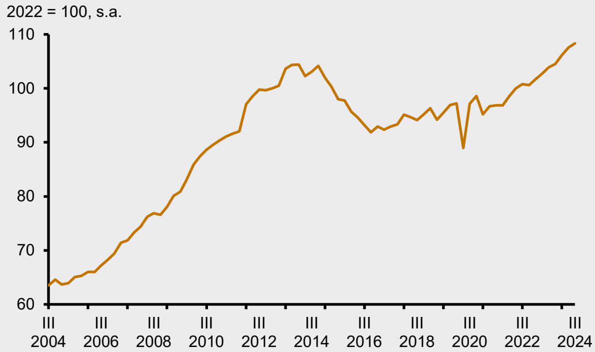
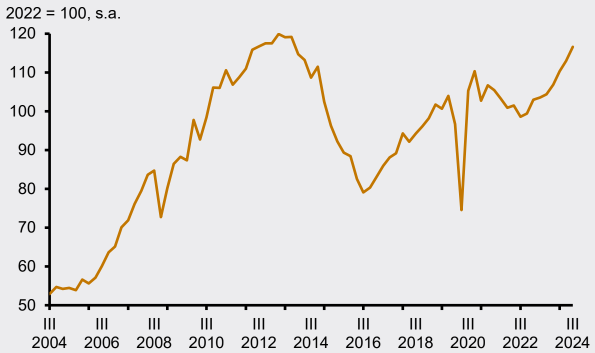


Figure 3 – PMC – non-durables



Sources: IBGE and BCB

Figure 4 – PMC – durables



Sources: IBGE and BCB

1/ For durables, the items considered were "furniture and household appliances", "office, computer, and communication equipment and materials", "construction materials", and "vehicles, motorcycles, parts, and accessories". For non-durables, the items used were "fuels and lubricants", "hypermarkets, supermarkets, food, beverages, and tobacco products", "textiles, clothing, and footwear", "pharmaceutical, medical, orthopedic, and cosmetic articles", and "books, newspapers, magazines, and stationery". The seasonal adjustment of durables and nondurables was constructed indirectly by aggregating the already seasonally adjusted components.

2/ Available at the Time Series Management System (SGS) under the code 29028.

The VAR was estimated at a quarterly frequency with one lag,[3] and the sample used for estimation covered the period from 2004Q1 to 2019Q4.[4] For the identification of structural shocks, recursive identification was used through Cholesky decomposition,[5] assuming that the order of variables, from the most exogenous to the most endogenous, is interest rates, income, non-durables, and durables. The choice to assume interest rate as more exogenous than income aimed to allow the model to look for contemporaneous monetary policy effects on these activities. However, in an alternative specification, with income more exogenous than interest rate, there were no significant changes in the responses of durables and non-durables.

Figures 5 to 8 show the impulse response functions (IRF) estimated to a 1 p.p. interest rate shock. These are accumulated IRF and, therefore, despite the model being estimated in first differences, Figures 5 to 8 should be interpreted as effects on the levels of the variables. This initial 1 p.p. interest rate shock would lead this variable itself to a level around 2 p.p. higher after seven quarters (Figure 5). Figures 9 to 12, in turn, present the IRF to a 1 p.p. income change shock – which also lead to a permanent level increase.

Figure 5 – Response to interest rate – interest rate

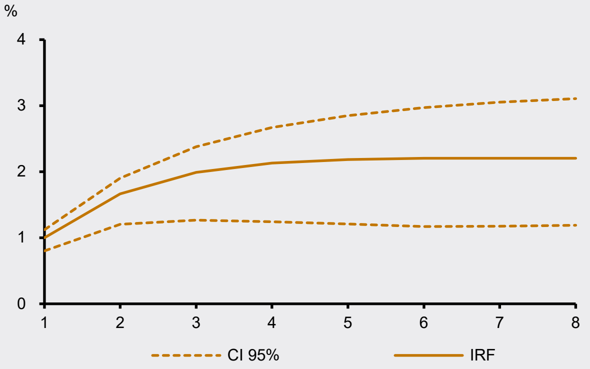


Figure 6 – Response to interest rate – income

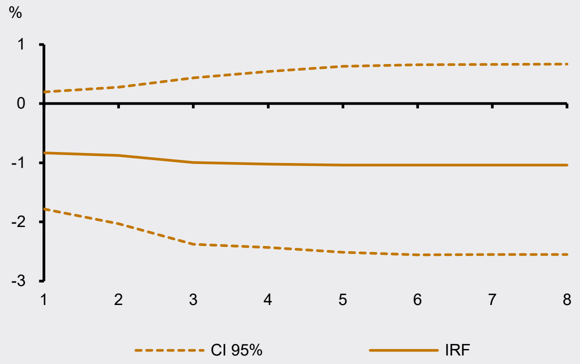


Figure 7 – Response to interest rate – non-durables

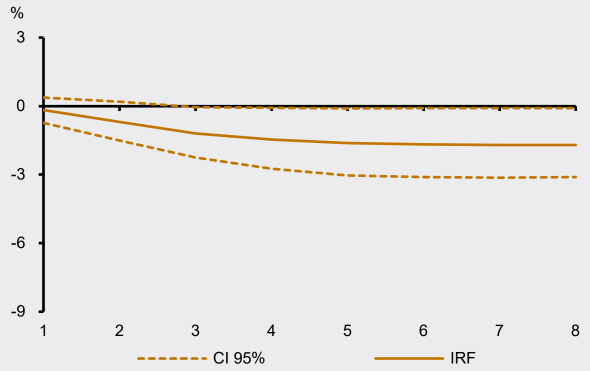
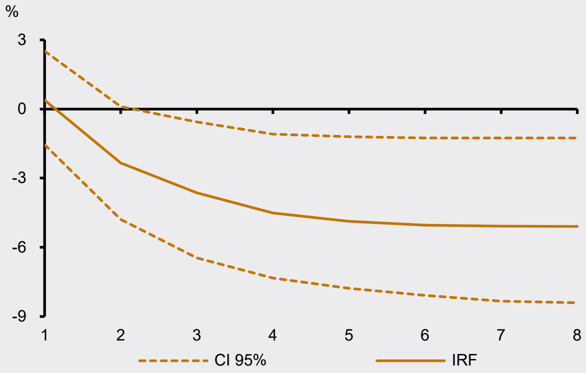


Figure 8 – Response to interest rate – durables



As expected, the response of durable consumer goods to interest rate is higher than that of non-durables. An initial 1 p.p. interest rate shock leads to a 2.3 p.p. reduction in durables consumption in the subsequent quarter, reaching a contraction of around 5 p.p. three quarters after the shock.[6] The ratio of these interest rate and durables consumption responses is equivalent to an elasticity of 2.3. Although the estimated response of durables to interest rate is high and, after the second quarter, statistically different from zero at the 95% confidence level, this estimate is accompanied by significant uncertainty. According to the estimated model, at the same confidence level, the response after seven quarters can be as high as -8.4 p.p. or as low as -1.3 p.p.

3/ Lag chosen automatically according to the Akaike criterion.
4/ The choice to estimate the model using only pre-pandemic data was due to the difficulty in adequately addressing the effects of the health crisis on economic variables. However, in an alternative specification including the post-pandemic period (up to 2024Q3), the results were qualitatively alike to those of the base estimation, but with smaller effects and greater uncertainty.
5/ The Cholesky identification method is based on the hypothesis of ordering from the most exogenous to the most endogenous component. In the structural form of equations, the component assumed as the most exogenous is not impacted contemporaneously by the other components. According to this ordering, each of the subsequent components, assumed to be relatively more endogenous, will be contemporaneously impacted only by the shocks to the previous components.
6/ In this model's specification, the interest rate shock also impacts household income. However, a similar result is obtained in the specification in which income is considered the most exogenous variable in the ordering of the Cholesky decomposition.

The response of non-durables to the same interest rate shock reaches just over 1.5 p.p., implying an interest rate elasticity slightly lower than one. At the same 95% confidence level, the response of non-durables is slightly different from zero as from the second quarter after the shock. The main conclusion, therefore, is the greater response of durables consumption, compared to non-durables consumption, to interest rate changes, despite the uncertainty about its magnitude.

The response to an initial 1 p.p. income shock, in turn, is more alike for the two classes of goods, but still higher for durables. After two quarters, in response to the shock, there are increases of around 1 p.p. for durables consumption and 0.5 p.p. for non-durables consumption. Therefore, according to point estimates, the elasticity of durables consumption is around 1, while that of non-durables consumption is lower than one. Both responses are statistically different from zero at the 95% confidence level.

Figure 9 – Response to income – interest rate

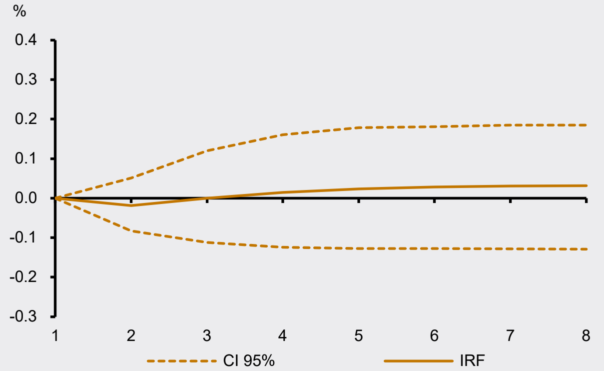


Figure 10 – Response to income – income

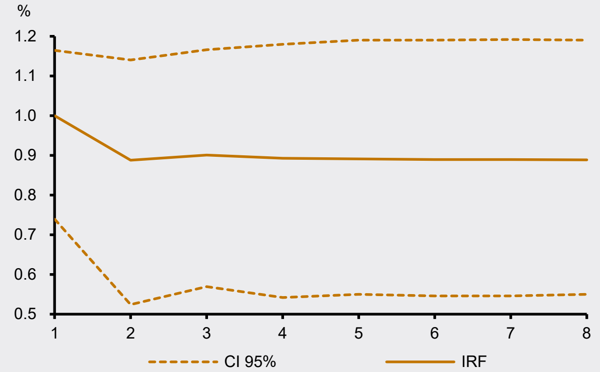


Figure 11 – Response to income – non-durables

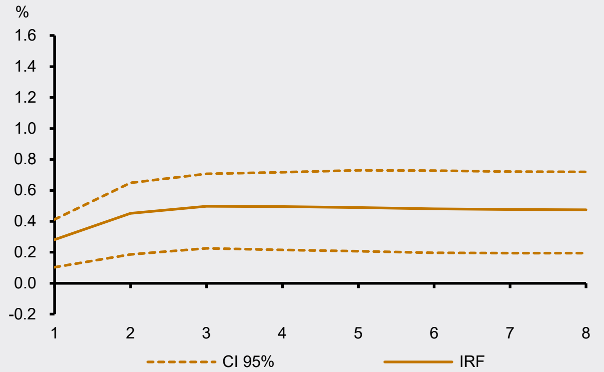
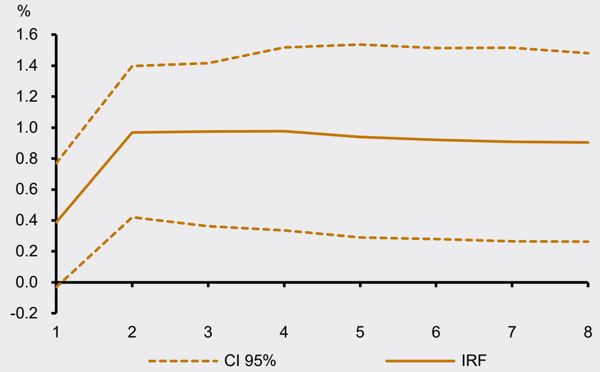


Figure 12 – Response to income – durables



An alternative way to analyze the effects of interest rate and income on different types of consumption is through the decomposition of the forecast error variance, where, for each variable, the variance of its forecast error is decomposed for a given number of periods ahead in the model's structural shocks. Table 1 presents this decomposition for projections eight quarters ahead. Interest rate shocks are more relevant for the variance of durables, accounting for 18% of this variable's forecast error variance, while their importance for non-durables is 10%. Income shock, in turn, is more relevant for non-durables consumption (24%). For durables, the relevance of income shocks is lower (12%). Non-durables consumption shocks also have some relevance for explaining the change in durables consumption. Thus, this metric also suggests a greater importance of interest rate changes on the consumption of durable goods.

Table 1 – Forecast error variance decompostion
Eight quarters ahead

%

Shock	Interest rate	Income	Non-durables	Durables
Interest rate	93.2	5.0	10.4	18.5
Income	0.8	94.7	23.8	11.9
Non-durables	4.8	0.1	63.5	12.4
Durables	1.3	0.2	2.3	57.3

In summary, the exercises presented in this box indicate that interest rate and household income – which includes labor earnings and social benefits – significantly influence consumption. Furthermore, the analysis shows that, as expected, durable goods consumption is more sensitive to interest rate changes. These results are particularly relevant in the current outlook, characterized by interest rate reduction in the recent past, the current monetary tightening cycle, and robust household income expansion.

Projection for credit growth in 2024 and 2025

Projections for the nominal growth of the SFN credit balance in 2024 and 2025 were revised downward. The projection for 2024 went from 11.1% to 10.6%; and for 2025, from 10.3% to 9.6% (Table 1). The projections revision considered, in particular, the scenario of tighter monetary policy and the reassessment of the trajectory of earmarked credit, which prevailed over expectations of higher economic activity growth and stronger labor market.

The main change in the credit projection for 2024 was the reduction in the earmarked corporate segment growth. The expected growth for this portfolio decreased due to the reassessment of rural credit and *Crédito Solidário* loans to borrowers from Rio Grande do Sul, which have been evolving below previous predictions. In non-earmarked credit, the increase in the corporate segment expected growth offset the reduction in the household segment.

The decrease in the credit projection for 2025 mainly reflected the reduction of the forecasted growth in the balance of non-earmarked household loans. The effects of the monetary policy tightening should be concentrated next year, affecting particularly non-earmarked credit operations. The expected growth of the non-earmarked corporate credit portfolio was maintained, but at a slower pace than the household portfolio. In the earmarked segment, tighter lending conditions for real estate financing[1] and more constrained rural credit are expected to affect both household and corporate operations. In real terms, the growth in the total balance of credit is projected at 4.9% for the next year, slightly lower than the 5.4% change expected for 2024 (Figure 1).

Table 1 – Credit balance

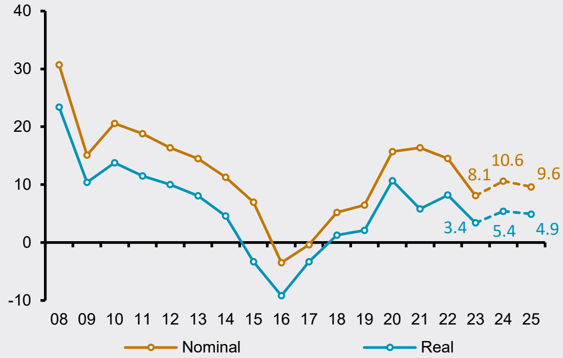
12-month % change

	Occurred			Proj. 2024		Proj. 2025	
	2022	2023	Oct 2024	Previous	Current	Previous	Current
Total	14.5	8.1	10.8	11.1	10.6	10.3	9.6
Non-earmarked	14.9	5.6	10.2	10.5	10.4	10.2	9.6
Household	17.4	8.4	11.3	12.0	11.5	11.0	10.0
Corporate	11.9	2.1	8.7	8.5	9.0	9.0	9.0
Earmarked	14.0	11.9	11.7	12.0	10.8	10.5	9.7
Household	18.0	13.1	12.8	12.0	12.0	10.5	10.0
Corporate	6.9	9.6	9.5	12.0	8.5	10.5	9.0
Household total	17.7	10.5	12.0	12.0	11.7	10.8	10.0
Corporate total	10.1	4.7	8.9	9.7	8.8	9.5	9.0

1/ According to the most recent edition of the BCB's Quarterly Survey on Credit Conditions (Portuguese only).

Figure 1 – Total credit balance

% YoY change



Projections for the external accounts for 2024 and 2025

This box presents the revised projections for the external accounts of the Brazilian economy for 2024 and 2025. A relevant increase in the current account deficit is expected from 2023 to 2024 and a more moderate increase from 2024 to 2025. Nevertheless, the current account deficit in these years is expected to remain below net inflows of direct investment liabilities.

Table 1 – Projections for the external accounts

USD billion

Itemization	2023	2024	2024 forecast		2025 forecast	
	Year	Jan - Oct	Previous	Current	Previous	Current
Current account	-25	-44	-51	-54	-60	-58
Balance on goods	92	56	68	65	64	65
Exports	344	287	335	337	341	338
Imports	252	231	267	272	277	274
Services	-40	-40	-48	-48	-49	-49
of which: Travel	-8	-6	-8	-8	-10	-10
of which: Transport	-13	-12	-16	-15	-15	-14
Primary income	-79	-61	-72	-73	-75	-75
of which: Interest	-30	-24	-29	-28	-31	-31
of which: Dividends	-50	-38	-43	-46	-44	-44
Investment - Liabilities	85	94	102	108	85	85
DI liabilities	62	61	70	70	70	70
Portfolio investments	14	14	12	18	15	15
Other investments[1]	9	19	20	20	0	0

1/ includes loans, commercial credits, deposits, and other investments

Projections for 2024

For 2024, the projection for the current account deficit was revised slightly upward, from USD 51 billion to USD 54 billion (Table 1), equivalent to 2.5% of GDP (Figure 1). This revision reflects the expectation of a lower trade balance, mainly due to increased imports. Projections for the services and primary income accounts remained relatively stable.

The projected value for exports increased slightly. The scenario remains very similar, with the projection of a small increase in the exported volume in relation to 2023, offset by lower commodity prices. The new projection for imports considers a higher quantum of capital and intermediate goods, incorporating the good results of September and October. Imported goods prices, in turn, are expected to decline slightly more sharply than anticipated when compared with 2023.

The deficit projected for the services account was maintained. Compared with 2023, the expected increases in deficits in transport and technology services and IT stand out. With a slightly increased projection, the primary income deficit considers larger net income expenses in view of the stronger economic activity pace, which increases the profitability of direct investment liabilities.

In the financial account, the main change was the projection for portfolio investment, revised upwards, from USD 12 billion to USD 18 billion. Despite uncertainties in both the external and domestic scenarios, the increase of the interest rate differential has attracted foreign investment flows to debt securities in the country. Regarding net inflows of direct investment liabilities, the projection has been maintained since the September 2024 IR at USD 70 billion, equivalent to 3.2% of GDP (Figure 2). This projection considers the recovery throughout the year of the equity component, associated with earnings reinvested in the country.

Projection for 2025

Projections for the external accounts in 2025 were also slightly changed in comparison with the previous IR. A marginal increase of USD 58 billion is expected in the current account deficit when compared to 2024, equivalent to 2.7% of GDP, with modest changes in all accounts. It is particularly noteworthy net interest expenses in the primary income account. Despite the prospect of reduction of interest rates in the U.S. over the projection horizon compared with that of 2023, the average cost of the debt stock is expected to increase due to the rollover of long-term loans at higher rates than the original ones.

The projection of a slight increase in the services account deficit compared with 2024 considers a moderate recovery in net travel expenses, which have not yet returned to the pre-pandemic level. The stability of the trade balance compared with 2024, in turn, reflects modest increases in both exports and imports. The expansion of both is likely to be due to the higher quantum, since annual average prices are expected to decline over 2024.

Direct investment liabilities are expected to remain stable at USD 70 billion. The good prospect for exports and the pace of domestic activity benefit inflows of foreign capital to companies in the country. Net inflows would account for 3.2% of GDP, a level similar to that observed since 2021 and slightly lower than in the decade before the pandemic (3.7%). Regarding portfolio investment, net inflows should remain positive and concentrated in debt securities, benefited by a more attractive interest rate differential.

Figure 1 – Current account

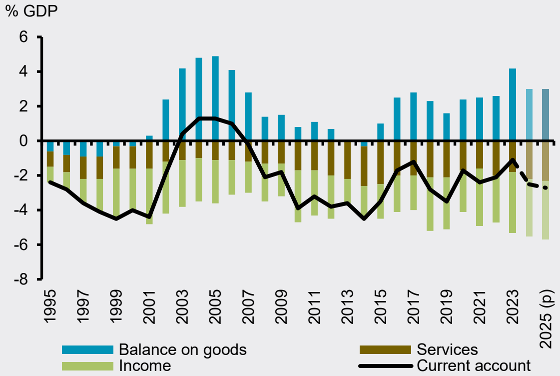
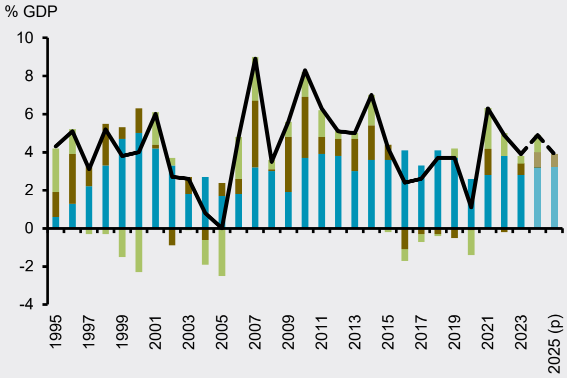


Figure 2 – Investment – liabilities



2 Inflation outlook

This chapter analyzes the inflation outlook. Inflation projections, encompassing ten quarters ahead, extend until 2027Q2.[43] They use information available up to the 267th Copom meeting, held on December 10-11, 2024. As for the conditioning assumptions used in the projections, especially those from the Focus survey, the cut-off date is December 6, 2024, unless otherwise stated.[44]

These projections represent the Copom's view and are conditioned on a set of variables. Projections are generated using a set of models and available information, combined with judgment.[45] The scenarios presented in this chapter use as conditioning assumptions the trajectories of the Selic rate from the BCB's Focus survey and the exchange rate based on the purchasing power parity (PPP) theory.[46] The projections depend not only on assumptions about interest and exchange rates, but also on a range of assumptions about the behavior of other exogenous variables. Projections are presented together with probability intervals that highlight the degree of uncertainty involved.

Prospective analysis is fundamental in monetary policy decision-making. Monetary policy impacts the economy through long, variable, and uncertain lags. Therefore, prospective analysis is fundamental to Copom's decisions, involving the building of scenarios and projections and analysis of the risks involved. The IR's projections are some of the quantitative instruments that help to guide Copom's decisions. The Committee uses a wide set of information to support its decisions. In the conduct of monetary policy, the horizon that the BCB deems appropriate for the return of inflation to the target depends on the nature and persistence of the shocks and the transmission mechanisms operating in the economy.

2.1 Revisions and short-term projections

Consumer inflation in the Sep-Nov quarter was above expectations, with most of the surprise concentrated in food-at-home. Realized inflation was 0.42 p.p. above projection (Table 2.1.1). The main surprise occurred in food-at-home, reflecting strong increases in beef prices. Although it was already expected that the cattle cycle would reduce the supply of animals for slaughter, the upward prices trajectory started sooner and was stronger than anticipated. To a lesser extent, there was also an upward surprise in industrialized food, while the prices of fresh food surprised downwards. The segment of services also contributed to the higher-than-expected inflation, notably food-away-from-home, which may be reflecting the increase of beef prices and voluntary vehicle insurance, which has been a volatile item in the IPCA. Among administered prices – another segment registering an upward surprise – the price of gasoline remained practically stable, while the projection had incorporated a reduction in consumer prices. Conversely, the water scenario followed a more positive path, which allowed the transition to the yellow flag in November, instead of the projected red 1 flag. As for the prices of industrial goods, the increase was slightly below expectations, with surprises concentrated in the apparel and home appliances groups. In addition to the

43/ See box Governance for the communication of the inflation projections horizon in the September 2024 IR.
44/ In this case, it is noteworthy the inclusion of data regarding the November IPCA change, released on December 10, 2024.
45/ See box BCB's analysis and projection system in the March 2023 IR.
46/ See box Exchange rate path in BCB projections and the purchasing power parity in the September 2020 IR.

observed surprise, inflation projected for December rose from 0.44% in the previous IR to 0.58% in this IR, with stronger increase of beef prices and less benign trajectory of administered prices.[47]

Table 2.1.1 – IPCA – Inflation surprise

% change

	2024				
	Sep	Oct	Nov	Quarterly up to Nov	12-month up to Nov
Copom scenario[1/]	0.57	0.36	0.04	0.97	4.43
Actual IPCA	0.44	0.56	0.39	1.40	4.87
Surprise	-0.13	0.20	0.35	0.42	0.44

Sources: IBGE and BCB

1/ Scenario at the September 2024 Inflation Report cut-off date.

Except for the fluctuation between January and February, the 12-month inflation is expected to remain above the upper limit of the tolerance interval over the next months, amid higher monthly inflation rates (Table 2.1.2). Food-at-home prices are expected to remain under pressure, in a period of stronger seasonality and with pass-through of the BRL depreciation and of the increase of fed cattle prices to final prices. The medium-term scenario for beef is of tight supply and heated demand. The pass-through of the exchange rate depreciation is also expected to result in significant increases in the prices of industrial goods, in a context of still resilient domestic demand. The projection for the change in administered prices is strongly influenced by the discount in the energy bills of January, resulting from the transfer of the Itaipu bonus to consumers.[48] In addition to this effect, in December the energy flag will change from yellow to green, and it is expected to remain green throughout the subsequent months. The projection for the services segment indicates price changes of elevated magnitude, in a context of heated labor market and increased inertial effect. Food-away-from-home prices, which have a high weight in the segment, are expected to be pressured by higher beef prices. The projection for 2025Q1 is consistent with the average of core inflation measures[49], both in the 12-month change and in the seasonally adjusted annualized quarterly change, standing around 4.5%.

Table 2.1.2 – IPCA – Short-term projections[1/]

% change

	2024	2025		
	Dec	Jan	Feb	Mar
Monthly change	0.58	-0.08	1.17	0.42
Quarterly change	1.54	0.89	1.68	1.51
12-month change	4.89	4.37	4.72	5.00

Sources: IBGE and BCB

1/ Copom's reference scenario at cut-off date.

47/ The previously expected transition from the red 1 flag in November to yellow in December would have a higher downward impact in the segment of administered prices in the December IPCA than the actual transition from yellow to green.

48/ On November 26, 2024, the Brazilian National Power Agency (ANEEL) approved the transfer to consumers of the Itaipu bonus relative to 2023. The bonus will be allocated to residential and rural consumers, at a proportional amount to the 2023 months in which their consumption was below 350kWh. The discount will be applied in invoices issued over January 2025, with the return to original tariffs in February. The estimated impact in the January IPCA is around -0.60 p.p., fully reverted in February (neutral for the year).

49/ It considers cores Ex-0, Ex3, MS, DP, and P55 discussed in the box Update of the set of core inflation measures commonly considered by the BCB for economic outlook analysis in the June 2020 IR.

2.2 Conditional projections

Inflation determinants and conditioning assumptions[50]

Due to the worsening of the inflation outlook, the trajectory assumed for the Selic rate in the reference scenario, extracted from the Focus survey, increased strongly, involving the expansion in the pace of adjustment, in the terminal rate, and in the duration of the monetary tightening. The September Copom meeting started the tightening cycle, with a 0.25 p.p. increase, followed by a 0.50 p.p. increase in November, leading the Selic rate to 11.25% p.a. In the considered Focus trajectory, the Selic rate rises 0.75 p.p. in December and in January 2025, and 0.5 p.p. in March and May, reaching the peak of 13.75%. Then, it remains unchanged for the next two meetings, falls 0.25 p.p. in the September meeting, and remains stable in the subsequent two meetings, ending the year at 13.50%. The rate resumes a downward trend in early 2026, ending the year at 11.00% and 2027 at 10.00% (Figure 2.2.1). Throughout the projection horizon, the Selic rate is significantly higher than in the previous IR, which predicted increases of 0.25 p.p. in the meetings from September 2024 to January 2025, a peak of 11.50%, and a decline in July 2025. The significant rise of the Focus interest rate expectations reflects the worsening of the inflationary outlook in recent months, with increase of inflation expectations and its upside risks, stronger-than-expected economic activity, and growth in the neutral real interest rate assessed by analysts.[51]

Inflation expectations from the Focus survey increased strongly across the entire horizon, widening even more the distance from the inflation target. When compared with the previous IR, the median of expectations rose from 4.35% to 4.84% for 2024, from 3.95% to 4.59% for 2025, from 3.61% to 4.00% for 2026, and from 3.50% to 3.58% for 2027. Therefore, the difference from the 3.00% target set for 2024 and for the period starting in January 2025, which had already risen in the previous IR, has increased. In the analyzed scenarios, in addition to the trajectory of inflation expectations extracted from the Focus survey, Copom also considers expectations from other sources, such as financial instruments, endogenously generated from available models, or from other surveys, such as the Firmus.[52]

The *ex-ante* real Selic rate increased, reflecting the growth of nominal interest rate expectations at a higher magnitude than the increase of inflation expectations. The four-quarter-ahead Selic rate discounted from inflation expectations for the same period, both extracted from the Focus survey and measured in terms of quarterly averages, increased throughout the entire horizon when compared with the previous IR (Figure 2.2.2). By this metric, the growth pace of the *ex-ante* real interest rate, which was already on an upward path in 2024Q2 and 2024Q3, accelerated its pace of increase, reaching the peak of 8.8% in 2025Q2, and then starts a downward path, reaching 6.4% at the end of the horizon. The increase of the real interest rate is consistent with the so-called Taylor rule, which stipulates that increases in the nominal interest rate should be higher than increases in the inflation expectation. It also reflects analysts' reassessment of the increase in the neutral real interest rate of the economy.[53]

Figure 2.2.1 – Selic rate target assumption for projections – Focus survey expectations
Quarterly averages

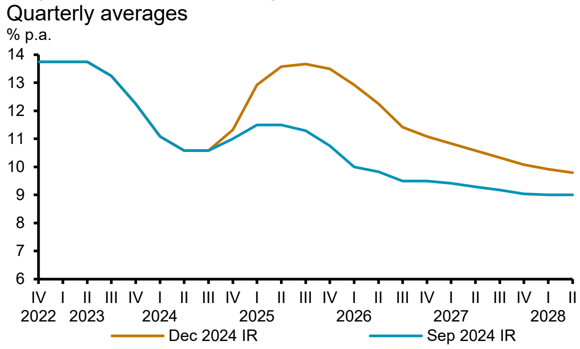
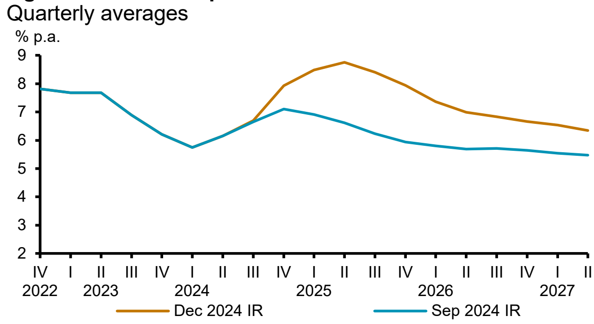


Figure 2.2.2 – Four-quarter-ahead real Selic
Quarterly averages



Note: Real Selic calculated as the four-quarter-ahead Selic rate, discounted from inflation expectations for the same period, both variables extracted from the Focus survey.

50/ For further details about the procedures used in the building of conditioning assumptions for the Selic, exchange rate, and oil price, see the methodological appendix in this chapter.
51/ See, for instance, the PCQ of the latest meetings.
52/ For further details about the Firmus survey (Portuguese only) see https://www.bcb.gov.br/publicacoes/firmus.
53/ According to the comparison of the medians of the December and June 2024 PCQs, the neutral real interest rate assessed by analysts grew 0.6 p.p. in the short-term and 0.5 p.p. two years ahead, remaining stable for the period of five years ahead.

The exchange rate continued to depreciate in the quarter, reflecting external and, mainly, domestic pressures. In the inflation projections of the reference scenario, the exchange rate starts at USD/BRL 5.95 – 6.3% higher than the USD/BRL 5.60 considered in the September 2024 IR – and follows a path according to the PPP (Figure 2.2.3). The exchange rate has been on a depreciation trend, mainly as from April 2024. Considering the exchange rate used in the reference scenario of the March 2024 IR, USD/BRL 4.95, the depreciation reached 20.2%. In the external scenario, the outcome of the U.S. elections and the reassessment of the pace of reduction of the Fed funds rate have led to a global USD appreciation. Domestically, the worsening of the agents' perception of the fiscal situation, with concerns about the capacity to generate primary balances that stabilize the public debt, have been reflecting on the prices of domestic assets in general, including the exchange rate, implicit inflation, and risk premia. The average exchange rates considered in the last quarters of 2024, 2025, and 2026 are USD/BRL 5.80, USD/BRL 6.00, and USD/BRL 6.06, respectively.

Oil price changed slightly over the September levels. Oil price rose slightly. In the considered trajectory, the average price of Brent-type oil for 2025Q1 is 1% higher than in the previous IR, reaching about USD 71.00 in 2025Q2, and then increasing 2.0% p.a. (Figure 2.2.4). On the one hand, oil prices were influenced by the worsening of tensions between Russia and Ukraine and the OPEC+ decision to postpone the increase of production until April 2025. On the other hand, there are expectations of strong supply growth by non-OPEC+. Commodity prices, measured by the IC-Br in USD, increased since the previous IR, driven by agricultural goods, with fluctuations in metal commodities.

Figure 2.2.3 – Exchange rate assumption for projections – PPP trajectory
Quarterly averages

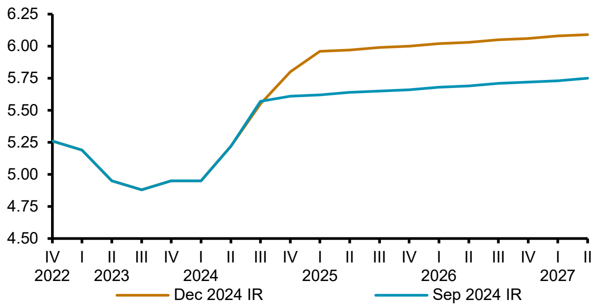
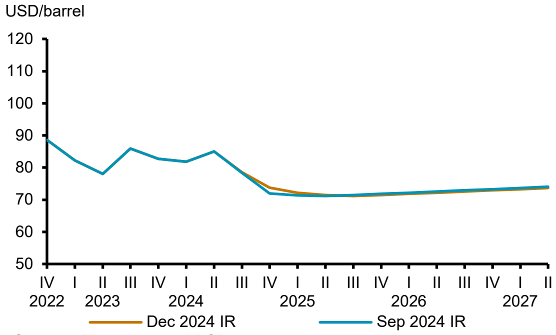


Figure 2.2.4 – Brent-type oil price
Quarterly averages



Sources: Bloomberg and BCB

The neutral real interest rate assumed for projections in the reference scenario rose to 5.00%. As it is an unobservable variable whose measurement is subject to high uncertainty, the BCB relies on several methodologies for its estimation.[54] Considering this set of measures, Copom decided to raise the neutral real interest rate assumed in the projections from 4.75% to 5.00% p.a. throughout the analyzed horizon. In the analysis and decision-making process, alternative inflation scenarios with different values for the neutral rate are also considered.

The fiscal balance is assumed to improve over time. The variable used in the projections is the 12-month central government primary balance corrected for outliers and adjusted for the business cycle. This variable, after ending 2023 with a substantial deficit, partially due to the incorporation of delayed court-ordered payments (*precatórios*), is expected to recover partially over time. It should be emphasized that projections evaluated by Copom depend on assessments about the evolution of fiscal and quasi-fiscal policies and their institutional framework, reforms, and necessary adjustments in the economy. Their effects on projections are captured through asset prices, expectations from the Focus survey, and their effect on the economy's structural interest rate. Besides these channels, the fiscal policy influences conditional inflation projections through its effects in the aggregate demand.

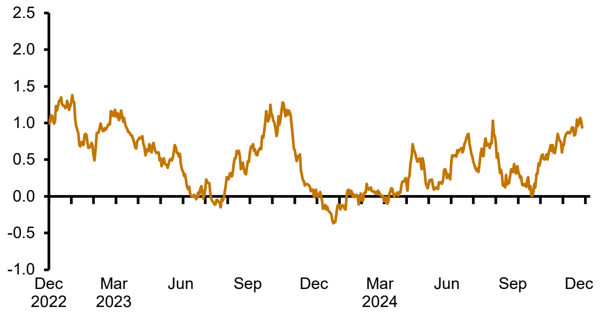
Projections consider, on the one hand, improved weather conditions associated with energy tariff flags and, on the other, the effects of the drought in some regions and the impacts of the cattle cycle. Improved rainfall in recent months allowed that the scenario of red 2 flag in October, red 1 flag in November,

54/ See, for instance, box Update of neutral real interest rate measures in Brazil in the June 2024 IR.

and yellow flag in December 2024, from the previous IR, would become effective only in October, with yellow flag for November and green flag for December. From 2025 on, for the last months of each quarter, it is being considered the same sequence of flags observed in 2024, green flag in March and June, red 1 flag in September, and green flag in December. Therefore, medium-term projections are not affected by this uncertain and one-off factor, i.e., from the point of view of YoY projections, it is assumed a sequence of "neutral" flags. Food prices have been particularly pressured by beef prices, still reflecting the effects of the drought and the cattle cycle. Finally, the forecast of the *La Niña* phenomenon has lost intensity in recent months, with temperatures in the Pacific Ocean above expectations.

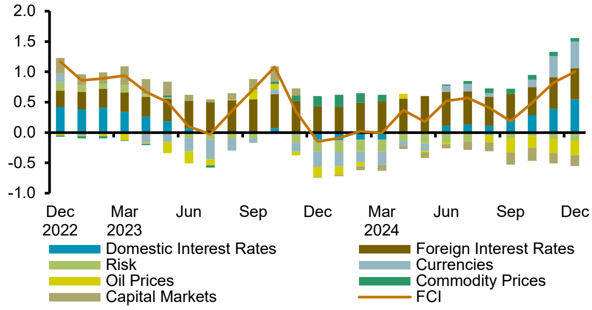
Financial conditions have tightened since the previous IR, mainly due to the BRL depreciation and the increase of domestic future interest rates. Financial conditions, after partially slowing down in August and September, become increasingly tighter over recent months, as measured by the Financial Conditions Index (FCI), calculated by the BCB (Figure 2.2.5 and 2.2.6).[55] The worsening of financial conditions was mainly driven by the BRL depreciation and the rise of domestic future interest rates, complemented by the decline in the domestic stock market, the increase of the country's risk premium, the USD global appreciation, and the increase of external future interest rates. In the opposite direction, mitigating the restrictive effects, acted only external variables, such as the decline in the Chicago Board Options Exchange Volatility Index (VIX), the slight decline in oil price, the slight increase in agricultural commodity prices, and the appreciation of external stock markets.[56]

Figure 2.2.5 – Financial Conditions Index
Standard deviations from the mean – daily series



Note: The higher the value of the index, the tighter the financial conditions.
Figure data: 12.1.2022–12.6.2024.

Figure 2.2.6 – Financial Conditions Index
Standard deviations from the mean and contributions



Note: The higher the value of the index, the tighter the financial conditions. Values refer to monthly averages. Dec/2024 value refers to the average until the 6th.

The pace of economic activity growth has been strong and once again above expectations, as shown by the robust GDP growth in 2024Q3. Seasonally adjusted GDP rose 0.9% in 2024Q3 over 2024Q2, exceeding expectations and building over the 1.1% and 1.4% growth seen in 2024Q1 and 2024Q2, respectively. GDP growth has reflected the strong expansion of domestic demand, especially household consumption and GFCF, which grew 1.5% and 2.1%, respectively, when compared with the previous quarter (seasonally adjusted data). Considering growth accumulated in the year until 2024Q3, GDP, household consumption, and GFCF rose 3.3%, 5.1%, and 6.6%, respectively. Growth of consumption has reflected the rise of overall real wages, the increase of government transfers, and the expansion of credit. The growth of domestic demand has led to a significant increase in imports, albeit decelerating at the margin. For 2024, there was a further increase in the GDP growth projection. After increasing from 1.9% to 2.3% in the June IR, the projection rose to 3.2% in the September IR and now to 3.5%.[57]

The unemployment rate fell to historical lows, again surprising downwards. The unemployment rate declined again, reaching 6.5% in the Aug-Oct quarter (seasonally adjusted), 0.3 p.p. lower than in July. This

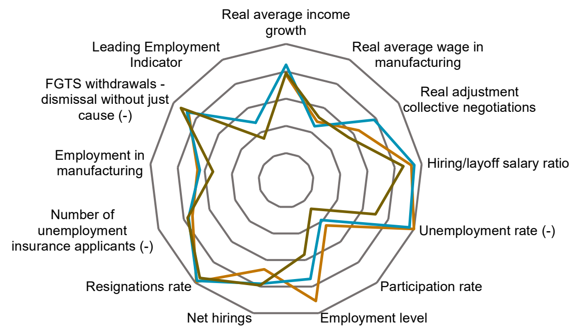
55/ By construction, the FCI is a dimensionless measure, with a zero mean and unit variance in the sample considered since January 2006. For a description of the methodology used in the FCI calculation, see box Financial Conditions Indicator in the March 2020 IR. For the FCI decomposition into domestic and external factors, see box Decomposition of the Financial Conditions Index into domestic and external factors in the December 2022 IR.
56/ It should be emphasized that the FCI reflects a series of elements and should not be interpreted as an indicator of monetary easing or tightening. Moreover, the relationship of this index with inflation is ambiguous because some of its components, such as those related to risk premium and exchange rate, are in general related positively to inflation and negatively to activity. Therefore, tighter financial conditions indicate lower economic activity growth ahead but may imply either higher or lower inflation, depending on the factors affecting their movement.
57/ See box Projections for GDP growth in 2024 and 2025 in this IR.

is the lowest rate of the time series. It is also notable the speed of this decline, the fastest of the time series. After increasing rapidly due to the Covid-19 pandemic, the unemployment rate fell 8.5 p.p. in a period of almost four years (peak of 15.0% in September 2020), although declining less quickly in the last year. Likewise, net hirings measured by the New Caged has persisted at significant levels, around 140 thousand jobs per month (seasonally adjusted data). The seasonally adjusted Level of Utilization of Installed Capacity (Nuci), calculated by the Getulio Vargas Foundation (FGV), after reaching 83.4% in September, dropped to 82.6% and 81.6% in October and November, respectively, although they still represent historically high levels.

The labor market spider chart continues showing a heating up. This measure considers historical information from several labor market indicators until October 2024 (Figure 2.2.7).[58] Most variables are in the top two quartiles, i.e., above the historical median. When compared with July 2024, the main variables indicating the heating up of the labor market were the decline in the unemployment rate, which lied in the historical low, and the increase in the employment and labor force participation rates (individuals in the labor force in relation to the economically active population, measured by the IBGE). In the opposite direction, it is notable the lower real adjustment in collective negotiations, in the balance of net hirings (lower net creation of jobs) and, to a lesser extent, the expansion of the real average income (PNAD-IBGE). Compared with 12 months ago, most of the series indicate a heating up, with unemployment rate, employment level, and labor force participation rate standing out. The resignations rate in the formal labor market, measured by the New Caged, remains close to the historical peak.

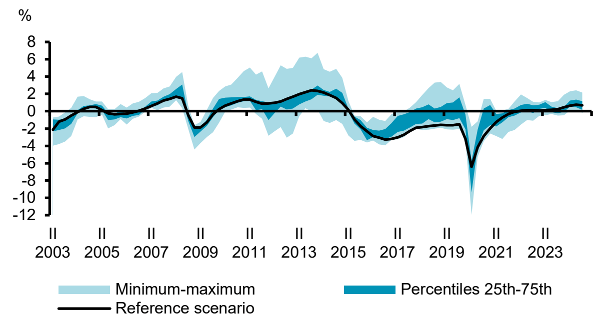
Due to significant surprises in economic activity, the output gap used in the reference scenario was again revised upward. When compared with the previous IR, the output gap estimated for 2024Q3 was revised from 0.5% to 0.7% (Figure 2.2.8). For 2024Q4, the estimated value is also 0.7%.[59] For 2026Q2, the projected gap is -0.6%. In the output gap projections, restrictive monetary conditions play a key role in the reduction of projected levels. In these projections, the strong increase in the *ex-ante* real interest rate since the previous IR seems to be the main factor explaining the economic activity deceleration. It is noteworthy that, due to the high level of uncertainty in output gap estimates, Copom evaluates projections with different estimates and scenarios for this variable.

Figure 2.2.7 – Labor market distributions



Note: The inner ring represents the minimum value, the interior rings represent the 25th, 50th e 75th percentiles of the distribution, and the outer ring represents the maximum value.

Figure 2.2.8 – Output gap: estimates and dispersion



Note: Dispersion measures were constructed using a set of output gap measures. See the box "Output gap measures in Brazil", in the June 2024 IR, for a presentation of various methodologies. Chart data: 2003Q2–2024Q4.

Inflation projections

Projections in this IR represent Copom's view and reflect a combination of analysis of recent developments, use of models and conditioning assumptions, and assessment of the state and outlook of the economy. More specifically, projections involve the following elements: i. analysis of recent developments and experts' projections for market prices in shorter horizons and for administered prices up to a certain

58/ See box Labor market on the radar in the September 2022 IR.
59/ Projections for these activity variables were used for 2024Q4 when data were not available.

horizon; ii. use of macroeconomic models, satellite models, specific models for administered price items, and studies; iii. building of trajectories and assumptions for the conditioning variables[60]; and iv. assessment on the state and outlook of the economy.[61]

In the reference scenario projections, inflation is above the upper limit of the tolerance interval until 2025Q3, and then starts a downward path, but still above the target. In this scenario, which assumes the Selic rate of the Focus survey and the exchange rate according to the PPP, inflation in 2024 reaches 4.90%, above the upper limit of the tolerance interval, of 4.50%, relative to the target of 3.00% (Table 2.2.1). Still in the reference scenario, four-quarter inflation projections are of 4.50% for 2025, 4.00% for the relevant monetary policy horizon, considered as 2026Q2, and 3.60% for 2026.

Table 2.2.1 – Inflation projections – Reference scenario
YoY IPCA inflation

%

	2023	2024				2025				2026				2027	
Price index	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
IPCA	4.6	3.9	4.2	4.4	4.9	5.0	5.0	5.1	4.5	4.2	4.0	3.8	3.6	3.4	3.2
Previous IR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.2]	[0.6]	[1.0]	[1.2]	[1.6]	[0.8]	[0.7]	[0.5]	[0.4]	[0.3]	[0.2]	-
Market prices	3.1	3.1	3.5	4.1	5.0	5.3	5.4	5.5	4.5	4.1	3.8	3.6	3.4	3.2	3.0
Previous IR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.2]	[0.6]	[1.0]	[1.3]	[1.7]	[0.9]	[0.7]	[0.5]	[0.4]	[0.3]	[0.1]	-
Administered prices	9.1	6.4	6.4	5.5	4.6	4.1	3.9	4.0	4.5	4.6	4.6	4.4	4.1	4.0	3.8
Previous IR difference (p.p.)	[0.0]	[0.0]	[0.0]	[0.2]	[0.4]	[0.8]	[1.1]	[1.5]	[0.5]	[0.7]	[0.5]	[0.6]	[0.3]	[0.4]	-

Note: The values in white background are actuals, and those in hatched background are projections. The values presented are rounded. Therefore, the aggregated values may not match the combination of the rounded disaggregated values. The difference with respect to the previous Report is calculated using the rounded values presented.

Inflation throughout 2024 reflected a combination of different factors, mainly the exchange rate depreciation, the strong pace of economic activity growth, and weather-related or cattle cycle factors, in a context of deanchored inflation expectations and inertia from the previous year's inflation. In the opposite direction, it is notable the drop of international oil price in the second half-year period. Inflationary pressure has involved the distinct segments of the IPCA, reflecting the variety of inflationary sources. The exchange rate depreciation affects more strongly food-at-home and industrial goods. Economic activity affects all segments, especially services. Weather-related and cattle cycle factors affect food-at-home, inertia is heavier on the trajectory of services, and inflation expectations pass through all segments.

Compared with the previous IR, inflation projections have risen across the entire horizon, thus increasing the distance from the target and making the convergence to the target more challenging. The projection for 2026Q2 increased 0.5 p.p. compared with the previous IR. In this horizon, there were contributions of projections for both market and administered prices.[62] In comparison with the 266th Copom meeting held in November, inflation projections increased 0.4 p.p. for the same quarter (see the Minutes of the 266th Meeting).

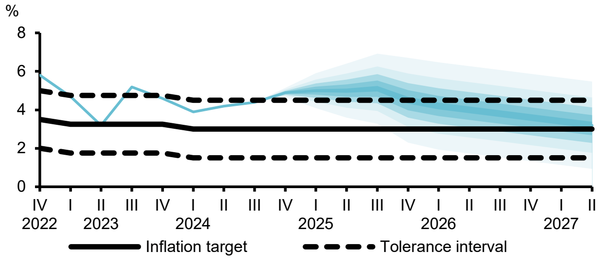
The higher inflation projection for the relevant horizon resulted mainly from the stronger-than-expected economic activity – which led to the increase of the estimated output gap, the exchange rate depreciation, and the higher inflation expectations. Recent inflation surprises and the revision of short-term projections also contributed, in this case, via inertia, as well as the higher neutral interest rate considered. These factors more than offset the effects of the higher real interest rate, which, however, contributed to prevent an even stronger increase in projections.

Reflecting higher projections, the probability of inflation exceeding the upper limit of the tolerance interval has increased. The estimated probability, built from the probability intervals (Figure 2.2.9), grew

60/ For further details about the procedures used in the building of conditioning assumptions for the Selic, exchange rate, and oil price, see the methodological appendix in this chapter.
61/ See box BCB's analysis and projection system in the March 2023 IR.
62/ Regarding 2025Q3, projections for administered prices were particularly impacted by the change about the assumption for the energy tariff flag by adopting the neutral flag procedure also for that year.

from 36% to around 100% for 2024, from 28% to 50% for 2025, and from 19% to 26% for 2026 (Table 2.2.2).[63] As inflation projections lie above the target, the probabilities of exceeding the upper limit are higher than exceeding the lower limit.

Figure 2.2.9 – Inflation projections and fan chart – Reference scenario
YoY IPCA inflation



Note: Shaded areas represent projections intervals associated with the following probabilities (from the inner to the outer interval): 10%, 30%, 50%, 70% and 90%. Until 2024Q4, inflation targets and tolerance ranges refer only to the respective calendar year, but, for visual reasons, the respective lines are presented for all quarters.

Table 2.2.2 – Estimated probabilities of inflation surpassing the target tolerance interval

%

Year	Lower limit	Probability of surpassing the lower limit	Upper limit	Probability of surpassing the upper limit
2024	1.50	0	4.50	100
2025	1.50	1	4.50	50
2026	1.50	6	4.50	26

Note: Numbers rounded to the nearest integer value. The probabilities for 2025 and 2026 do not represent probabilities of non-compliance with the target, since, from 2025 onwards, the characterization of non-compliance requires that inflation be outside the tolerance range for six consecutive months (in any month of the year).

2.3 Balance of risks

Copom assesses the existence of several risks around inflation projections in the reference scenario. There are basically two sources of risks considered. The first is related to the use, in the reference scenario, of conditioning assumptions based on the established governance, as is the case of the Selic rate, exchange rate, and oil price trajectories, which do not necessarily reflect the most likely scenario assessed by the Committee. The second stems from the assessment of the possibility of materialization of certain events, and their impacts on inflation, not considered as the most likely when building the reference scenario. These events may occur both in the short and medium term.

The balance of risks presented is an instrument of monetary policy communication and provides important information about the uncertainties assessed by Copom for the projections horizon. Some risk factors may be assessed quantitatively with the use of scenarios based on models, while others have a more qualitative evaluation. Not all risk factors assessed are released in the monetary policy communication. The Committee evaluates, selects, and communicates those risk factors deemed more relevant for the inflation dynamics in the relevant projection horizon, considering the probability of occurrence and its impact on the economy.

In its more recent meeting (267th), Copom stated that, due to the materialization of risks, it assessed the scenario as less uncertain and more adverse than in the previous meeting. Copom stressed, however, the persistence of an asymmetric balance of risks tilted to the upside for the prospective inflation scenarios. The highlighted risks are listed below.

Upside inflation risks in the reference scenario:

i. a more prolonged period of deanchoring of inflation expectations

The assessment of the presence or not of deanchored inflation expectations considers longer horizons, typically two or three years ahead, so as to use measures exempt from short-term effects of inflation

63/ It should be noticed that, with the new "continuous target" procedure to be adopted as from January 2025, inflation outside the tolerance intervals implies a target breach only in the case of its occurrence for six consecutive months, in any month. The measurement of the number of months will start in January 2025.

deviations from the target. Inflation expectations extracted from the Focus survey rose to 4.00% for 2026 and 3.58% for 2027, and remained at 3.50% for 2028, in face of an inflation target of 3.00%. The persistence of deanchoring for a prolonged period would have consequences for the credibility of the target system, tending to make expectations more sensitive to shocks in the economy, affect the dynamics of prices and salaries, and increase the exchange rate pass-through to prices.

ii. a stronger-than-expected resilience of services inflation due to a more positive output gap

In the case of materialization of higher-than-expected economic activity, inflation would be pressured to values above those of the reference scenario. Services inflation would be particularly affected for being the most sensitive to the output gap. Moreover, for having greater inertia than other groups, its disinflation tends to be more costly and last longer than in the other groups. Economic activity has been stronger than expected, which increases the probability that underlying processes not yet fully measured continue to pressure activity. Additionally, there is uncertainty about the output gap measures, which may imply the underestimation of current output gap levels.

iii. conjunction of internal and external economic policies with an inflationary impact, for example, through a persistently more depreciated currency.

In the international scenario, expectations about the Fed's monetary policy have affected the prices of domestic assets. Parallel to that, the possibility about change in the conduct of economic policy in the U.S. also provides additional uncertainty to the scenario, particularly with likely fiscal stimuli, labor supply restrictions, and the introduction of import tariffs. From the domestic point of view, in the case of implementation of policies, especially fiscal ones, leading to a new deterioration of agents' perception, there could be new effects on the exchange rate and inflation expectations and, consequently, inflationary pressures.

It is noteworthy that, in the case of materialization of more than one of the above scenarios, the effects of one may be intensified by the other. For instance, in the context of deanchored expectations for a prolonged period and a positive output gap, the pass-through of an exchange rate depreciation to prices tends to be higher, intensifying the inflationary impacts.[64]

Downside inflation risks in the reference scenario:

i. a greater-than-projected deceleration of global economic activity

Global economic activity, despite resilient, has shown signs of moderate slowdown. Should a stronger slowdown materialize, there would be external disinflationary pressure, which would be passed-through domestically via prices of commodities and other tradables. In addition, the weakening of global activity could lead central banks of advanced economies to reduce interest rates more strongly, tending to benefit the performance of currencies of emerging market economies. The dynamics of the Chinese economy deserves special attention for having registered decreasing growth rates and faced more structural issues, such as the mismatch between domestic demand and installed capacity, and the slowdown of the real estate sector.

ii. an impact on global inflation larger than expected from monetary policy tightening

In recent years, central banks of advanced economies have conducted a relevant process of fighting rising inflation by increasing base interest rates to unprecedented levels when compared with the last decades. Some central banks, such as the European Central Bank and the Fed, considering that the disinflation process, although slow, continues advancing, have started a process of interest rate reduction. Nonetheless, interest rates have been in a restrictive territory for some time, and the effects of the monetary tightening tend to

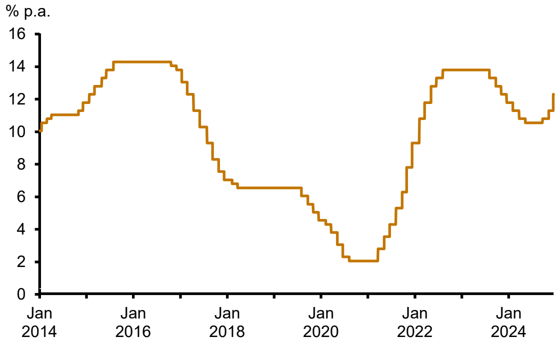
64/ For evidence that, in Brazil, with positive output gap levels and deanchored inflation expectations, the exchange rate pass-through to consumers is higher, see, for instance, box Exchange rate pass-through from the perspective of a semi-structural model in the September 2018 IR.

be cumulative over time. If these effects on global inflation prove to be stronger than expected, the Brazilian economy could benefit from a lower external inflationary pressure.

2.4 Conduct of monetary policy

In its September meeting, Copom started the monetary tightening cycle, rising the Selic rate by 0.25 p.p. to 10.75%, considering that the scenario required an even more contractionary monetary policy (Figure 2.4.1). The scenario was marked by resilient economic activity, labor market pressures, positive output gap, increase in the inflation projections, and deanchored expectations. In its analysis, the Committee stressed the higher-than-expected dynamics of economic activity and labor market leading to a reassessment of the output gap as being positive. Regarding the start of the cycle, the Committee considered that it should be gradual to, on the one hand, benefit from diligent data monitoring, especially in a context of uncertainties, both in the external and domestic scenarios, but, on the other hand, allow the transmission mechanisms of monetary policy that will enable the convergence of inflation back to the target to begin operating.

Figure 2.4.1 – Selic rate target



Note: Daily values from 1.1.2014 to 12.13.2024.

Copom stressed that the pace of future adjustments of the interest rate and the total magnitude of the cycle were determined by the firm commitment of reaching the inflation target and would depend on the inflation dynamics, especially the components that are more sensitive to economic activity and monetary policy, inflation projections, inflation expectations, the output gap, and the balance of risks. In view of the uncertainties involved, the Committee preferred a communication that reinforced the importance of monitoring scenarios over time, without giving any future indication of its next steps, but insisting on its firm commitment to the convergence of inflation to the target.

In the November meeting, in view of the need of a more contractionary monetary policy, the Committee deemed appropriate to increase the Selic rate at a higher magnitude of 0.50 p.p. to 11.25%. Copom deemed appropriate the increase at this magnitude in face of current economic outlook and prospective uncertainties, reflecting the commitment to bring inflation to the target, essential to a continuous building of credibility. The Committee highlighted that the perception of economic agents about the fiscal scenario has significantly impacted asset prices and agents' expectations, especially the risk premium and the exchange rate.

In the latest meeting, in December, Copom increased the Selic rate by 1.00 p.p. to 12.25%, considering that the more recent scenario is marked by additional deanchoring of inflation expectations, an increase of inflation projections, a stronger-than-expected economic activity, and further widening of the output gap, which requires an even more contractionary monetary policy. Copom assessed that the magnitude of the short- and medium-term deterioration in the inflation scenario required a more timely policy action to maintain the firm commitment to converging inflation to the target. In its analysis, Copom stressed that the set of economic activity and labor market indicators continues to exhibit strength, as observed in the release of 2024Q3 GDP, which suggested a further widening of the output gap. Copom also highlighted that headline inflation and measures of underlying inflation are above the inflation target and have increased in recent releases.

Copom also emphasized that, in light of a more adverse scenario for inflation convergence, it anticipates further adjustments of the same magnitude in the next two meetings, if the scenario evolves as expected. Several risks have materialized, making the scenario more adverse but less uncertain, allowing the Committee to have greater visibility and then to provide an indication of how it anticipated the next decisions. The total magnitude of the tightening cycle will be determined by the firm commitment of reaching the inflation target and will depend on the inflation dynamics, especially the components that are more sensitive to economic activity and monetary policy, the inflation projections, the inflation expectations, the output gap, and the balance of risks.

Methodological appendix

Conditioning assumptions

In the building of the reference scenario, the following procedures were adopted for the construction of the Selic, exchange rate, and oil price conditioning assumptions:

i. Selic rate – starting point: target in place when the September meeting took place. Trajectory: use of the median expectations for the Selic target extracted from the Focus survey of December 6, 2024. It uses interpolation for the months in which the survey does not collect the respective data, considering the values for each year's end. Due to the use of the four-quarter-ahead Selic rate for the calculation of the real *ex-ante* interest rate, the rate used extends to four quarters ahead of the presented projection horizon;

ii. Exchange rate – starting point: average exchange rate over the period of ten working days ending on the last day of the week prior to the Copom meeting, rounded to the second decimal at intervals of five cents. Trajectory: based on the PPP. For the easiness in the construction of projections and the simplicity of communication, the assumed inflation differential is the difference between the Brazilian inflation target, of 3.0% p.a., and the long-term external inflation, 2.0% p.a., in line with the inflation target of most developed countries;

iii. Oil price – starting point: value around the average prices of Brent-type oil over the period of ten working days ending on the last day of the week prior to the Copom meeting. Trajectory: the oil price follows approximately the futures market curve for the next six months and then increases 2.0% p.a.

Output gap

The output gap is an unobservable variable subject to high uncertainty in its estimation, being recommended to rely on several methodologies. The starting point are the estimates provided by several small-scale semi-structural models and are complemented by information from other methodologies[65]. Therefore, the output gap presented in this chapter incorporates information from different methodologies and Copom's judgment. Among economic activity variables used, the GDP, the Nuci, calculated by the FGV, the unemployment rate, measured by the IBGE, and the stock of formal jobs, measured by New Caged of the Ministry of Labor and Employment (MLE), all seasonally adjusted, stand out.

65/ See, for instance, box Output gap measures in Brazil in the June 2024 IR, where many of these methodologies and estimates are presented.

Appendix

Banco Central do Brasil Management

Monetary Policy Committee (Copom)

Banco Central do Brasil Management

Board of Governors

Roberto de Oliveira Campos Neto
Governor

Ailton de Aquino Santos
Deputy Governor for Supervision

Carolina de Assis Barros
Deputy Governor for Institutional Relations, Citizenship and Conduct Supervision

Diogo Abry Guillen
Deputy Governor for Economic Policy

Gabriel Muricca Galípolo
Deputy Governor for Monetary Policy

Otávio Ribeiro Damaso
Deputy Governor for Regulation

Paulo Picchetti
Deputy Governor for International Affairs and Corporate Risk Management

Renato Dias de Brito Gomes
Deputy Governor for Licensing and Resolution

Rodrigo Alves Teixeira
Deputy Governor for Administration

Monetary Policy Committee (Copom)

Members

Governor
Roberto de Oliveira Campos Neto

Deputy Governor
Ailton de Aquino Santos

Deputy Governor
Carolina de Assis Barros

Deputy Governor
Diogo Abry Guillen

Deputy Governor
Gabriel Muricca Galípolo

Deputy Governor
Otávio Ribeiro Damaso

Deputy Governor
Paulo Picchetti

Deputy Governor
Renato Dias de Brito Gomes

Deputy Governor
Rodrigo Alves Teixeira

Monetary Policy Committee (Copom)

Departments whose heads are responsible for technical presentations at Copom meetings (Resolution 61/2021)

International Affairs Department – Derin
Marcelo Antônio Thomaz de Aragão

Department of Economics – Depec
Ricardo Sabbadini

Research Department – Depep
André Minella

Department of Banking Operations and Payments System – Deban
Rogério Antônio Lucca

Open Market Operations Department – Demab
André de Oliveira Amante

Department of Foreign Reserves – Depin
Alan da Silva Andrade Mendes

Acronyms

BCB	Banco Central do Brasil
BNDES	Brazilian Development Bank
BoE	Bank of England
BPC	Continuous Benefit Payments
CCT	Collective Bargaining Agreements
CMN	National Monetary Council
CNI	National Confederation of Industry
Copom	Monetary Policy Committee
Covid-19	Coronavirus disease 2019
Depec	Department of Economics
Depep	Research Department
Derin	International Affairs Department
Dstat	Department of Statistics
ECB	European Central Bank
EP	Employed Population
FCI	Financial Conditions Index
Fed	Federal Reserve
FGV	Getulio Vargas Foundation
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GVA	Gross Value Added
HGDNI	Household Gross Disposable National Income
IBC-Br	BCB Economic Activity Index
IBGE	Brazilian Institute of Geography and Statistics
IC-Br	Commodities Index – Brazil
INPC	National Consumer Price Index
IPA-DI	Producer Price Index
IPCA	Extended National Consumer Price Index
IPI	Industrialized Products Tax
IR	Inflation Report
MDIC	Ministry of Development, Industry, Foreign Trade, and Services
Mediator	Labor Collective Bargaining System
MTE	Ministry of Labor and Employment
New Caged	New General Registry of Employed and Unemployed Persons
Nuci	Industry Installed Capacity Usage Level
OPEC+	Organization of the Petroleum Exporting Countries Plus
p.a.	Per annum
p.p.	Percentage points
PBC	People's Bank of China
PCE	Personal Consumer Expenditures
PCQ	Pre-Copom Questionnaire

PEAC	Emergency Employment Support Program
PIM	Monthly Industrial Survey
PLOA	Annual Budget Bill
PMC	Monthly Survey of Trade
PMS	Monthly Survey of Services
PNAD	National Household Sample Survey
PPP	Purchasing Power Parity
PTC	Quarterly Credit Conditions Survey
QNA	Quarterly National Accounts
RARDP	Assessment Report of Primary Revenues and Expenses
RS	State of Rio Grande do Sul
s.a.	Seasonally adjusted data
Selic	Special System for Clearance and Custody
SFN	National Financial System
SGS	Time Series Management System
TRU	Table of Resources and Uses
U.S.	United States of America
VAR	Autoregressive Vector
VIX	Chicago Board Options Exchange Volatility Index