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Monetary Policy Report

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BANCO CENTRAL DO BRASIL

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Monetary Policy 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 the institutional framework outlined below:

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 of ensuring price stability is pursued through the inflation-targeting regime. Under this framework, the National Monetary Council (CMN) sets an inflation target along with a tolerance interval, and the BCB is responsible for implementing the policies necessary to meet the target. From 1999 to 2024, the target referred to the calendar-year inflation (Decree 3,088 of June 21, 1999). As of January 2025, the target refers to the 12-month inflation, measured every month (Decree 12,079 of June 26, 2024). Under this system, also known as "continuous target" framework, compliance with the target is assessed every month rather than being restricted to December of each year.

   The breach of the target occurs when inflation falls outside the tolerance interval for six consecutive months. In this case, the BCB must publicly disclose the reasons for the target breach through a note in the Monetary Policy Report and an open letter addressed to the Minister of Finance. These documents must contain a detailed description of the causes of the breach, the measures required to ensure the return of inflation to the tolerance interval, and the expected time frame for the measures to take effect. Another note and open letter must be issued if inflation does not return to the tolerance interval within the time frame stipulated, or if the BCB considers it necessary to update the measures or the expected time frame for inflation to return to the tolerance interval.

iii. **Target and tolerance interval:** The inflation target set by the CMN for the period starting in January 2025 is 3.00%, as measured by the change in the Extended National Consumer Price Index (IPCA), with a tolerance interval of minus 1.50 p.p. and plus 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's decision-making body, composed of its Governor and Deputy Governors, which sets, every 45 days, the economy's base interest rate – the Selic rate. The Committee relies on a broad set of information for its decision-making process. During Copom meetings, the BCB's staff provides technical presentations on the developments and outlook for the Brazilian and the global economy, liquidity conditions, and market behavior. The decision is based on an assessment of the macroeconomic scenario and its main associated risks, aiming to keep inflation aligned 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 key elements supporting it, and the votes of each member.

ii. **Minutes:** released four business days after the meeting, they provide a more detailed account of the analyses and discussions.

iii. **Monetary Policy Report (MPR):** published by the last day of each calendar quarter, this report details recent developments and the outlook for the economy, with a focus on inflation prospects. This document was called Inflation Report between 1999 and 2024.

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 central banks of major economies remain committed to bringing inflation back to its targets in a context characterized by labor market pressures. The economic policy and outlook in the United States, particularly the uncertainty about the trade policy, poses more questions about the pace of economic activity deceleration and disinflation and, consequently, about the Fed's monetary policy stance and the pace of growth in other countries.

On the domestic front, signals suggest an incipient moderation in economic growth. GDP grew strongly in 2024 (3.4%) but slowed down more than expected in 2024Q4, when it grew 0.2%. The slowdown was clearer in the sectors more sensitive to the economic cycle, household consumption, and gross fixed capital formation. In this context, the GDP growth projection for 2025 was revised downwards, from 2.1% to 1.9%, with a larger reduction in expectations for the more cyclical components.

Inflation, which was already at a high level, has risen again and the deanchoring of expectations has increased. Twelve-month inflation, as measured by the Extended National Consumer Price Index (IPCA), rose from 4.87% in November to 5.06% in February, with a +0.33 p.p. surprise compared with the reference scenario presented in the December 2024 IR. Measures of underlying inflation are also more pressured. Inflation expectations in the Focus survey deteriorated again for the entire projected horizon, widening the gap relative to the inflation target.

In the reference scenario projections, inflation remains above the upper limit of the tolerance interval throughout 2025, starting to fall from 2025Q4, but still staying above the target. In this scenario, four-quarter inflation lies in the 5.5%-5.6% interval in the first three quarters of 2025, falls to 5.1% at the end of the year, to 3.7% in 2026, and to 3.1% in the last period considered, referring to 2027Q3. In the relevant monetary policy horizon, considered to be 2026Q3, the projected inflation stands at 3.9%. The inflation projections represent the Copom's view 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 Monetary Policy Report (MPR) use data available up to the 269th Copom meeting, held on March 18-19, 2025.

Inflation projections remained above the target, making convergence towards the target challenging. The projection for 2025 increased by 0.6 p.p. compared with the December 2024 IR, while for 2026Q3 it increased by 0.1 p.p. In this last horizon, inflation projections increased for market prices, and reduced for administered prices. The effects of the increases in inflation expectations and the inertia resulting from inflationary surprises and the revision of short-term projections pressured the projections upwards, while the rise in the real interest rate, exchange rate appreciation, and the fall in the oil price contributed downwards.

Copom informed in its more recent meeting (269th meeting):

The current scenario is marked by additional deanchoring of inflation expectations, high inflation projections, resilience on economic activity, and labor market pressures, which requires a more contractionary monetary policy.

Copom therefore decided to increase the Selic rate by 1.00 p.p. to 14.25% 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 the continuation of the adverse scenario for inflation convergence, the heightened uncertainty and the lags inherent to the ongoing monetary tightening cycle, the Committee anticipates an adjustment of lower magnitude in the next meeting, if the scenario evolves as expected. Beyond the next meeting, the Committee reinforces that 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 monetary policy and economic activity, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks.

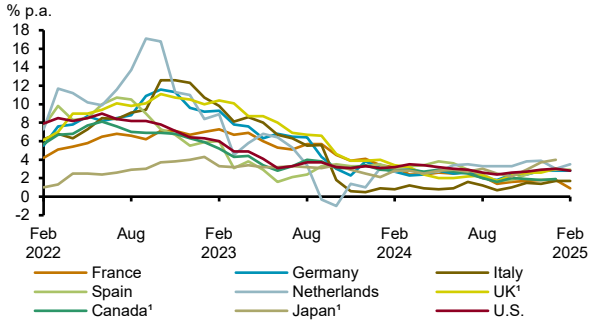
1 Economic outlook

This chapter of the Monetary Policy Report (MPR) 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

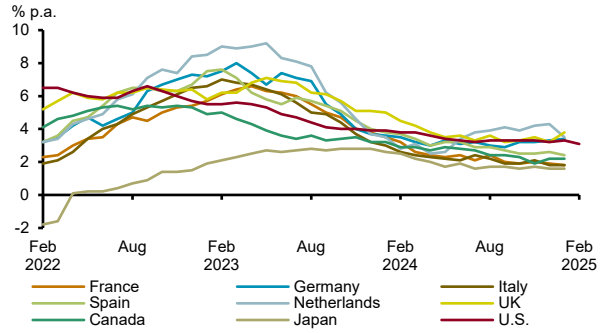
The global environment, still characterized by the resilience of economic activity and the incomplete disinflation process, remains challenging given heightened uncertainties stemming from shifts in global trade policies. The calibration of monetary policy, the fiscal policy impulse, and the effects of trade policies are the key factors in determining the prospective dynamics of core inflation and activity in the reference horizon. The task to rein in higher core inflation in major economies remains incomplete and lost momentum in recent months, as core measures have approached levels consistent with the inflation targets (Figures 1.1.1 and 1.1.2), while labor markets remain relatively robust. In this environment, increased uncertainty regarding economic policy, in general, and trade policy, in particular, has been observed recently (Figure 1.1.3). This heightened uncertainty warrants attention to the potential impact of trade measures on relevant economies, which could distort relative prices and shift the dynamics of economic activity and inflation.

Figure 1.1.1 – CPI – Advanced economies



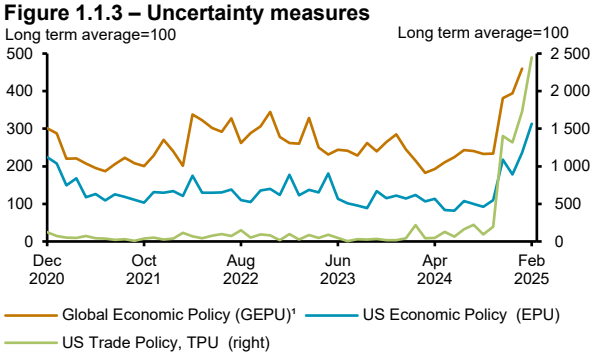
Source: Bloomberg
1/ Until January 2025.

Figure 1.1.2 – CPI core – Advanced economies¹



Source: Bloomberg
1/ U.S until February 2025. Other countries until January 2025.

Figure 1.1.3 – Uncertainty measures

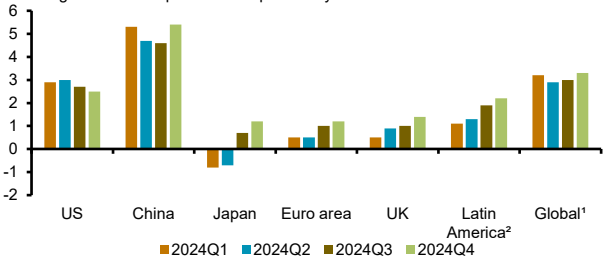


Source: Bloomberg
1/ Weighted by the purchasing power parity (PPP). Until January 2025.

After a continuous decline in headline inflation, the latest readings point to relative stability. Core inflation remains high, above the target in many economies, with deceleration in their pace of convergence at the margin. Favorable labor markets performance contributes to the persistence of core inflation, especially of the services sector component. In recent months, the rise in food prices has pressured inflation upward.

Global economic activity continues to show resilience amid a restrictive monetary policy stance, despite prospects of slowdown. This materializes in moderate global growth (Figure 1.1.4), while the demand-supply balance moves towards a new equilibrium level. This process continues to unfold 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 household consumption preferences and robust labor markets. Manufacturing continues to struggle to achieve more sustainable growth. Structural trends such as indebtedness, setbacks in trade and financial integration, and demography contribute to reduce potential growth and increase neutral interest rates in leading economies. Meanwhile, productivity growth diverges across countries, particularly when comparing the U.S. to other advanced economies, explaining part of the better relative performance of the U.S. economy.

Figure 1.1.4 – GDP growth
From 2024Q1 to 2024Q4
% change over same quarter in the previous year



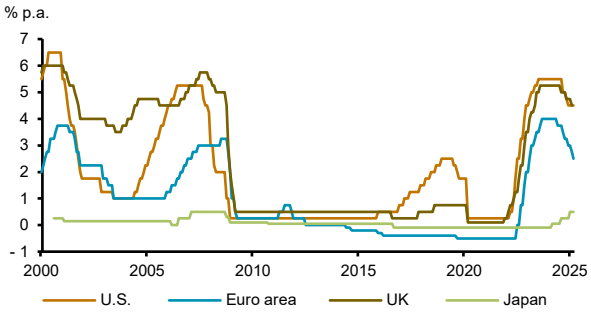
Sources: Bloomberg, BCB
1/ Calculated as described in the box "Projections and macroeconomic analysis model of the global economy" in the September 2022 IR.
2/ Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

The announcement of trade tariffs by the U.S. government and doubts concerning their implementation and the response of other governments have increased uncertainty and worsened agents' expectations and confidence. This uncertainty is already producing a precautionary behavior, impacting prices, and should affect international trade, global activity, and lead to less efficient diversification or reallocation of factors, jeopardizing global supply chains and the relatively favorable contribution of the goods component to inflation. Other measures that increase fiscal deficits or limit labor market supply also contribute to greater uncertainty. Thus, financial assets in general have experienced greater volatility, with increased demand for less risky assets, while, in the foreign exchange market, USD depreciated against other currencies in 2025, after a strong appreciation in late 2024.

In advanced economies, inflation expectations project divergent trajectories, affected by the combination of inflation pressures from trade tariffs and deflation pressures from the reduction in international trade volume. The net effect of price and supply shocks, as well as their intertemporal distribution, remains uncertain. Inflation continues to rise in Japan, exceeding its target. For emerging market economies, inflation expectations have increased in many countries, especially for 2025, despite the appreciation of their currencies, partly reflecting the global USD depreciation. There has been a reduction in risk appetite for emerging market economies' assets, as domestic concerns add to concerns about the spillover of increasing "geofragmentation" risks.

Most central banks in advanced economies continue to ease their restrictive monetary policy stance. After a simultaneous monetary policy tightening cycle implemented in the post-pandemic period, from 2021 to 2023, the determinants of the disinflation process tend not to be so synchronized across countries, making this process more heterogeneous, resulting in less synchronization in the monetary easing when compared with the tightening cycle (Figure 1.1.5). Central banks, in general, continue to communicate that interest rates have been at contractionary levels for a long period, and that signs of improved supply-demand balance in the labor market are beginning to appear. 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 central banks indicate that the balance of risks has considered pressures on both the inflation convergence to the target and the sustainable employment level.

Figure 1.1.5 – Monetary policy rates[1]



Source: Bloomberg
1/ Until March 19.

Properly assessing the impact of trade tariffs on their respective economies will be essential to help defining the next monetary policy steps. In this regard, the impacts on inflation and activity are contingent upon:

(i) how are they combined with usual factors, such as the increase in domestic prices resulting from higher import tariffs; (ii) what are the specific parameters of the tariffs; their effective magnitude; when will they be implemented; how long will they be in effect; which jurisdictions will be affected and their relative importance; which products will be impacted; and whether there will be exemptions or compensations; (iii) what will be the response or retaliation strategies; (iv) what will be the response of importers and final consumers, whether they absorb costs in profit margins or seek substitution; (v) what are the investments required and the time needed to increase domestic production of tariffed products; (vi) what are the investments needed to redirect production and logistics to other markets; (vii) what is the resulting effort to enable a new production balance; (viii) how will local exchange rates behave against the USD.

Ultimately, these factors interact, leading to the assessment of whether there will be a structural change in production and consumption, a new relative prices equilibrium, and a structural fragmentation of international trade. All these uncertainties require a monetary policy focused on combating second-order effects from the resulting shocks.

U.S. economic activity remains robust, despite the prospects of slowdown. In 2024Q4, GDP grew 2.3% QoQ saar, driven by household consumption, which continues to benefit from the favorable evolution of income levels and the use of liquidity accumulated over the last few years. Fixed investment declined, although there was an expansion at the margin in residential expenditures, despite historically high interest rates. Low household savings rate, tight credit conditions, recent increase in economic uncertainty and consequent worsening of confidence indicators reinforce the prospects of economic activity slowdown in the coming quarters.

The labor market in the U.S. has shown clearer signs of accommodation in recent months, with a progressive supply-demand rebalancing. Nonfarm hires have been mild recently (average of 138,000 in the first two months of 2025), compared with a monthly average of 168,000 in 2024 and 216,000 in 2023, reflecting the labor market moderation and specific climate events during the survey's period. The unemployment rate has fluctuated around 4.0% since 2024, recording 4.1% in February 2025, a level considered historically low and close to full employment estimates. Job vacancies have stabilized at levels close to those before the Covid-19 pandemic, after a clearer decline until the first half of 2024, confirming the reduction in the imbalance between supply and demand for workers. The participation rate has remained relatively stable, after recovering in previous years, but still below pre-pandemic levels. Nominal wages have continued to grow at high rates (4.0% p.a. in February[1]), although being eroded in real terms by inflation (1.2% p.a.).

U.S. inflation maintains the prospect of gradual deceleration and convergence to the target over the next two years. The Consumer Price Index (CPI) recorded an annual increase of 2.8% in February, while core inflation, which has shown greater persistence, increased 3.1%. 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, have shown a higher degree of resilience.

The Federal Reserve has expressed caution in recent monetary policy meetings. The Fed Funds rate remained stable in the 4.25%-4.50% range at the March meeting. The Federal Open Market Committee (FOMC) communicated that it considers the current monetary stance appropriate and that there is no rush for new interest rate adjustments, emphasizing the increase in uncertainty around the economic outlook in recent months and maintaining a data-dependent stance. The current interest rate level allows flexibility for adjustments in both directions as uncertainty about adverse effects on its mandate is reduced. In March, the FOMC also announced the slowdown in the pace of decline of its holdings of Treasury securities in its balance sheet, which began in June 2022, to a planned reduction of up to USD 5 billion a month as of April. The monthly reduction of MBS (mortgage-backed securities) stock was maintained at up to USD 35 billion per month. In parallel, discussions have begun for the revision of the monetary policy framework, which is expected to wrap up by late summer in the northern hemisphere.

The euro area GDP recorded a 0.2% QoQ saar growth in 2024Q4 compared with 0.4% in 2024Q3. When compared with 2023Q4, the expansion was 1.2%. Annual growth in 2024 was 0.9%. Private consumption increased 0.4% in the quarter, the largest contribution to GDP growth in the period (+0.2 p.p.). Investment also showed positive performance (+0.6%), contributing with 0.1 p.p. to growth. The contribution of the external sector was neutral in the quarter. Among the main economies of the monetary union, the highlights were Spain, which expanded 0.8% QoQ for the third consecutive quarter, and the Netherlands, which grew 0.4% QoQ, compared with 0.8% in 2024Q3. Both Germany and France recorded GDP contractions in the quarter – 0.2% and 0.1%, respectively – reverting the previous quarter's positive performance. More recently, expectations for a stronger activity recovery in the region have grown, especially supported by the easing of the debt brake rule and increased public spending, still under debate, in Germany.

The euro area inflation at the beginning of 2025 fluctuated around the level reached at the end of 2024. The annual price change, which ended the year at 2.4%, remained stable in February's flash estimate. Similarly, core inflation also showed minor change since the second half of 2024. The index that excludes

1/ According to the Average Hourly Earnings indicator.

energy, food, alcoholic beverages, and tobacco stood at 2.6% in February's flash estimate. Meanwhile, annual services inflation, which was 4.0% at the end of 2024, fell to 3.7% in February's preview.

In the United Kingdom, the disinflationary process followed a slightly different dynamics, to a greater extent impacted by recent energy price increases. Inflation ended 2024 at 2.5% but rose to 3.0% in January. Core prices, which exclude energy, food, alcoholic beverages, and tobacco, also accelerated, with a 3.7% increase in January (compared with 3.2% in December). Services inflation recorded 5.0% in January (compared with 4.4% in the previous month). Regarding activity, GDP grew only 0.1% QoQ in 2024Q4, the same value recorded in 2024Q3.

The European Central Bank (ECB) deposit rate is currently at 2.50%, after six reductions of 0.25 p.p. since the beginning of the monetary easing cycle in June 2024. In the statement from the early March meeting, the ECB emphasized that monetary policy is becoming meaningfully less restrictive, with less expensive new borrowing for both households and companies, and a pickup in loan growth. Uncertainties about the macroeconomic environment, which may worsen in face of a more adverse global trade scenario, led the ECB not to pre-commit to particular rate path. In the UK, the base interest rate is at 4.50%, after three cuts of 0.25 p.p. from the beginning of the monetary easing in August 2024 to the meeting of the Bank of England's Monetary Policy Committee (MPC) in February. On that occasion, the MPC emphasized its increasing inflation projections until 2025Q3, before converging to the target of 2.0% thereafter. Furthermore, there is uncertainty regarding the trajectories of both aggregate demand and supply, reinforcing the MPC's choice for a gradual interest rate easing, decided at each meeting.

In China, economic activity recovered strongly in 2024Q4, interrupting the slowdown trend that prevailed in previous quarters. GDP YoY growth rate reached 5.4% in 2024Q4, representing an acceleration of 0.8 p.p. compared with the previous quarter. This result contributed to a 5.0% GDP growth in 2024, meeting the target set by the National People's Congress. From the supply perspective, activity acceleration was widespread in the economy, led by the tertiary sector (+1.0 p.p.), followed by the secondary sector (+0.6 p.p.), both in YoY terms. The value added by the real estate sector recorded a positive rate (+2.0%) for the first time since 2023Q1. Looking at aggregate demand, GDP growth was widespread across all its components but notably in external demand, with a contribution of half (0.4 p.p.) of the total GDP acceleration. In a context of expanding restrictive measures on international trade, external demand growth is expected to lose momentum or eventually become negative in 2025, which is why the government is firmly committed to encouraging the expansion of domestic demand, particularly government spending and household consumption.

Chinese GDP growth is expected to maintain a strong pace in 2025Q1. Economic activity indicators for the first two months signal that industrial production, services activity, retail sales, and fixed asset investment recorded growth rates higher than last year. However, the real estate sector continues on a contractionary structural adjustment. Foreign trade lost momentum at the beginning of 2025, with a slowdown in exports growth and imports decline, which could continue for the rest of this year in a global context of rising trade tariffs.

The economic goals for 2025 were presented at the National People's Congress in early March. Among these goals, the following stand out: (1) real GDP growth of around 5%, the same as in 2024; (2) consumer inflation of 2% (the lowest ever); (3) fiscal deficit of 4% of GDP (1.0 p.p. above last year); (4) increased issuances of local government bonds by RMB 500 billion compared with the previous year; (5) increased issuances of central government bonds; (6) unemployment rate stable at 5.5% (the same level maintained since 2021). Monetary policy will be conducted according to the evolution of the economy throughout the year, not disregarding the possibility of reducing base interest rates and the reserve requirement ratio if the People's Bank of China (PBoC) deems it necessary.

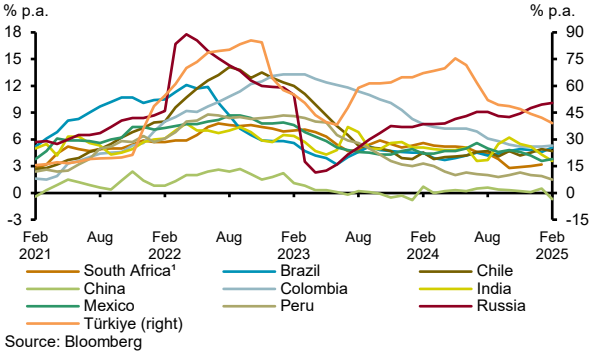
Emerging market economies generally recorded YoY GDP growth in 2024Q4 but uncertainties and risks have increased. In Latin America, all the major economies showed positive GDP YoY growth in the quarter, although Mexico's GDP declined at the margin. The most relevant financial condition indicators for emerging

market economies have once again diverged. There was a relative worsening from mid-February onwards as a result of increased trade tensions, as well as idiosyncratic factors. Emerging market economies' currencies appreciated in most countries, mainly due to the global USD depreciation trend.

Risks and uncertainties for emerging market economies increased with the announcement of the implementation of trade tariffs by the U.S. These tariffs are expected to negatively affect trade and activity in the region, although the extent of the impacts is difficult to measure at this moment, as there is still no definition about their magnitude and possible retaliation responses. Other important risks remain in the macroeconomic scenario, mainly associated with uncertainties about the performance of the Chinese economy and about the course of armed conflicts and their impacts on commodity prices.

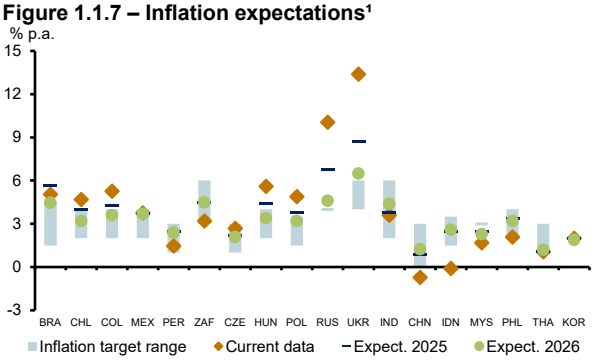
Inflation expectations for 2025 in leading emerging market economies have worsened significantly, affecting the monetary policy outlook. Current inflation rates (Figure 1.1.16) have continued at distinct levels and, in many leading emerging market economies in Latin America and in Europe, are above their respective targets. Inflation expectations for 2025 point to rates above the target in many countries in these regions (Figure 1.1.7), while, in Asia, expectations generally remain within the target range. Expectations for base interest rates continue to predominantly indicate lower rates in late 2025 (Figure 1.1.18), although the magnitude of cuts has been reassessed downward in many major emerging market economies. In Asia, among leading economies, expectations suggest that the rate-cutting cycle has already concluded. In Latin America, expectations of more relevant cuts are still concentrated in Colombia and Mexico.

Figure 1.1.6 – CPI – Emerging market economies



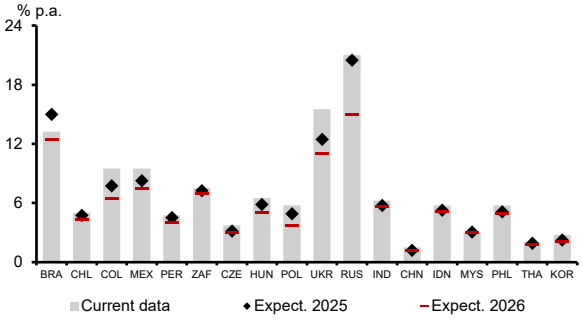
Source: Bloomberg
1) Until January 2025.

Figure 1.1.7 – Inflation expectations¹



Sources: Bloomberg and central banks' surveys
1/ Until March 14.

Figure 1.1.8 – Policy interest rates¹

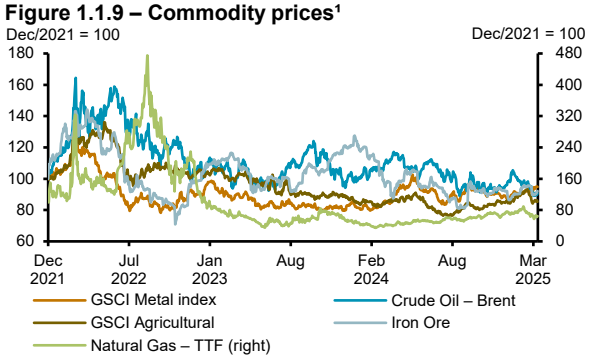


Sources: Bloomberg and central banks' surveys
1/ Until March 14.

Energy commodity prices declined in early 2025, with the prospect of expansion of excess supply amid an uncertain scenario. Oil prices varied sharply in 2025Q1, rising until mid-January after the U.S. government imposition of sanctions on Russia and Iran's energy sectors. Since then, prices have declined in view of the policies for encouraging U.S. oil production, the announcement of a production increase by the Organization of the Petroleum Exporting Countries and allies (OPEC+), and ceasefire expectations between Russia and Ukraine, thus improving the prospects of higher supply. As for the price of natural gas in Europe, a strong decline occurred in the period, in a context of higher supply of natural liquefied gas, favorable weather, and

the possible reduction of supply constraints should a ceasefire between Russia and Ukraine be successful. Despite the relief in the quarter, of gas inventories in Europe are at levels below those of recent years, especially after the end of the agreement for gas transit through the Ukrainian territory, which is expected to maintain the high sensitiveness of prices to any supply change. Furthermore, oil and gas prices have also been affected by the announcement of trade tariffs by the new U.S. government and retaliation measures, which increased uncertainty about demand, thus contributing to price declines (Figure 1.1.9).

Figure 1.1.9 – Commodity prices[1]



Source: Bloomberg
1/ Until March 14.

As for metal commodities, concerns about trade tariffs have increased prices, overriding doubts regarding the robustness of the Chinese growth. Commodities such as copper, steel, and aluminum have been impacted by the introduction of or concern about trade tariffs, leading to uneven price changes depending on the economy. Increased uncertainty has guided short-term price movements, possibly overriding the expected medium- and long-term trend reflecting supply and demand fundamentals. Unlike other metal commodities, the dynamics of iron ore is still associated with uncertainties about the Chinese economy and the effectiveness of the country's stimulus policies. In the reference period, the price declined in line with news of lower demand due to cuts in China's steel output, leading to high inventories compared to past patterns.

In the agricultural commodities group, prices have declined slightly with the possible impacts of tariff measures offsetting concerns about the lower supply due to weather adversities. During the reference period, the positive outlook for wheat, corn, and soybeans was put at risk amid expectations of tighter supply reflecting possible damage to crops caused by the drought in Argentina. This concern did not materialize as expected or has been offset by the Brazilian harvest.

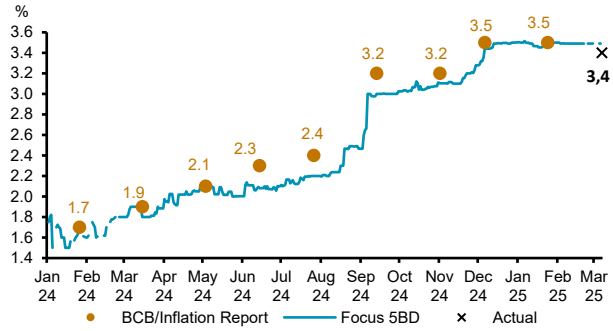
Summing up, the persistence of inflationary pressures, increased activity moderation, and higher uncertainties stemming from trade policy shifts are factors that prevent a more promising recovery of the global economy. The realignment of relative prices, the robustness of activity in the services sector, and the gradual rebalancing of fundamentals in still tight labor markets, as well as concerns about sovereign debt sustainability, suggest that core inflation may remain high for a longer period than recently observed. Despite evidence that the disinflation process is still underway in several countries, core inflation rates remain at high levels. Considering that the disinflation process, although slow, continues to advance, that interest rates have been at contractionary levels for a long period and that signs of a greater balance between supply and demand in the labor market are beginning to emerge, most central banks in advanced economies continue to ease the restrictive stance of monetary policy. They remain vigilant about labor market developments but 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. The proper assessment of the impact of distortive trade policies in their respective economies will be fundamental to the definition of next monetary policy steps, notwithstanding the high degree of uncertainty about their magnitude, implementation, and transmission channels to activity and inflation. Chiefly, it is important to understand which economic balance could possibly result from the sequence of these shocks. Taken together, such uncertainties make the implementation of monetary policy more challenging at this time.

1.2 Domestic outlook

Economic activity

The Brazilian economy registered another strong growth in 2024, once again exceeding initial forecasts, but slowed down in 2024Q4. GDP grew 3.4% in 2024, following increases of 3.0% in 2022 and 3.2% in 2023. This performance significantly exceeded the expectations of early 2024. At the cut-off date of the March 2024 IR, the BCB projected a 1.9% growth, while the median projections of the Focus report was at 1.8% (Figure 1.2.1). However, growth was lower than the 3.5% forecast by the BCB in the December 2024 IR.[2] Growth in 2024 was concentrated in the components more sensitive to the economic cycle, a pattern different from the previous year. From the demand side, the significant increases in household consumption, Gross Fixed Capital Formation (GFCF), and imports stood out, corroborating the assessment of a heated economic activity. However, GDP slowed down in 2024Q4, with a sharper deceleration in the more cyclical sectors and in domestic demand. In 2025Q1, the agricultural output is expected to contribute to a robust GDP growth, while already available monthly indicators for industry and services do not suggest a very strong deceleration.

Figure 1.2.1 – Evolution of 2024 GDP growth forecasts



Sources: BCB and IBGE

2/ The Focus median was 3.4 % at the cut-off date of the December 2024 IR and 3.5% on the eve of the 2024Q4 GDP release.

Table 1.2.1 – Gross Domestic Product

%

Itemization	YoY change							QoQ, s.a.							
	2018	2019	2020	2021	2022	2023	2024	2023				2024			
								Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP at market prices	1.8	1.2	-3.3	4.8	3.0	3.2	3.4	1.4	0.7	0.1	0.4	1.0	1.3	0.7	0.2
Agriculture	1.3	0.4	4.2	0.0	-1.1	16.3	-3.2	15.3	-3.9	-4.9	-2.5	5.8	-2.3	-1.1	-2.3
Industry	0.7	-0.7	-3.0	5.0	1.5	1.7	3.3	0.1	0.9	0.7	1.4	0.5	0.7	1.0	0.3
Mining	0.4	-9.1	0.9	3.6	-1.4	9.2	0.5	4.2	2.5	-0.0	4.0	0.6	-4.4	-0.6	0.7
Manufacturing	1.4	-0.4	-4.7	3.8	-0.5	-1.3	3.8	-0.7	-0.1	0.5	-0.2	1.2	2.1	1.3	0.8
Construction	-3.0	1.9	-2.1	12.6	6.8	-0.3	4.3	-0.6	1.1	-2.8	3.4	0.5	3.1	-1.1	2.5
Utilities	3.7	2.6	-1.0	1.5	10.5	5.8	3.6	-0.0	0.2	3.6	6.3	-3.8	2.2	-0.8	-1.2
Services	2.1	1.5	-3.7	4.8	4.3	2.8	3.7	0.7	0.7	0.5	0.5	0.9	1.6	0.7	0.1
Trade	2.6	1.6	-1.5	4.5	0.9	0.8	3.8	0.2	0.6	0.2	-0.7	2.6	1.5	0.4	0.3
Transport and storage	2.1	0.1	-12.7	6.5	8.1	2.4	1.9	0.3	1.2	-1.3	-1.1	1.7	1.3	0.6	0.4
Information services	1.8	4.5	2.1	13.9	5.2	2.9	6.2	-1.7	1.1	0.1	0.8	2.9	1.7	2.0	-0.4
Financial and related services	1.0	1.1	3.3	-0.7	-0.2	7.5	3.7	3.6	1.1	1.1	2.2	-1.1	2.3	1.3	-0.3
Other services	3.5	2.8	-9.3	9.0	11.4	3.4	5.3	-0.1	0.9	0.6	1.6	1.3	1.6	1.4	-0.1
Real estate	3.3	2.4	1.7	1.9	1.9	3.0	3.3	0.2	0.8	1.3	0.5	1.1	0.9	0.9	0.1
Public admin., health, and education	0.1	-0.4	-4.5	2.6	1.6	1.6	1.8	0.9	0.8	0.3	-0.2	0.8	0.3	0.4	0.0
More cyclical components	2.2	1.7	-5.2	6.8	5.1	1.3	4.3	-0.4	0.6	0.3	0.7	1.4	1.8	0.9	0.3
Less cyclical components	1.2	0.0	-0.4	1.6	0.6	6.0	1.5	3.8	0.2	-0.3	0.5	1.2	-0.1	0.3	-0.3
Household consumption	2.4	2.6	-4.6	3.0	4.1	3.2	4.8	0.5	0.8	0.9	0.5	2.5	1.0	1.3	-1.0
Government consumption	0.8	-0.5	-3.7	4.2	2.1	3.8	1.9	1.3	2.6	0.8	0.5	0.1	-0.2	0.8	0.6
GFCF	5.2	4.0	-1.7	12.9	1.1	-3.0	7.3	-3.2	-0.0	-2.5	1.4	4.4	2.3	2.3	0.4
Exports	4.1	-2.6	-2.3	4.4	5.7	8.9	2.9	0.6	2.5	3.2	0.9	-1.0	1.2	-0.7	-1.3
Imports	7.7	1.3	-9.5	13.8	1.0	-1.2	14.7	-7.9	5.8	1.1	0.7	4.1	7.5	0.9	-0.1

Source: IBGE

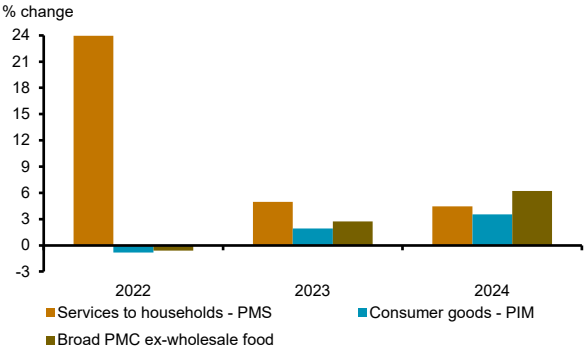
Unlike in 2023, annual growth had a negative contribution from agriculture and was driven by the components more sensitive to the economic cycle. By sector, industry and services expanded in 2024, while agriculture contracted. Industry grew 3.3%, accelerating in relation to 2023, when it had grown 1.7% (Table 1.2.1). This expansion was broad-based, with notable increases in manufacturing, construction, and utilities,[3] and a slight rise in mining. The services sector grew 3.7%, also accelerating in comparison with the 2.8% growth in 2023. All the segments of the tertiary sector expanded in the year, with five of them posting increases above 3.0%. In contrast, agriculture fell 3.2%, following a record expansion of 16.3% in 2023. This performance reflected crop failures inimportant producing regions, as a result adverse weather conditions. Considering the classifications discussed in several IR editions,[4] the sectors more sensitive to the economic cycle grew 4.3%, highlighting the underlying dynamism of economic activity. In comparison, the less cyclical sectors grew at a more moderate rate of 1.5%. These figures contrast with those of 2023, when the more cyclical sectors grew only 1.3%, and the less cyclical ones advanced 6.0%, driven by strong expansions of agriculture and mining.

In 2024, domestic demand grew strongly, with significant increases in household consumption and GFCF, which impacted imports. Household consumption rose 4.8%, after a 3.2% expansion in 2023, driven by increases in household income and credit expansion. The GDP breakdown in the supply perspective and several coincident indicators suggest expansion in the consumption of both goods and services (Figure 1.2.2). GFCF, in turn, grew 7.3%, after falling 3.0% in 2023, possibly supported – especially in the first half of the year – by the monetary policy easing from August 2023 to June 2024. GFCF growth was also broad-based, with expansions in machinery and equipment, construction, and information systems (Figure 1.2.3). Government consumption increased 1.9% in 2024, slowing down in comparison with the 3.8% expansion in 2023. With these results, domestic demand contributed with 5.2 p.p. to the 3.4% GDP growth. As for the external demand, the

3/ Utilities: electricity and gas, water, sewage, waste management activities.
4/ Classification of the more or less cyclical sectors, discussed in the six 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.

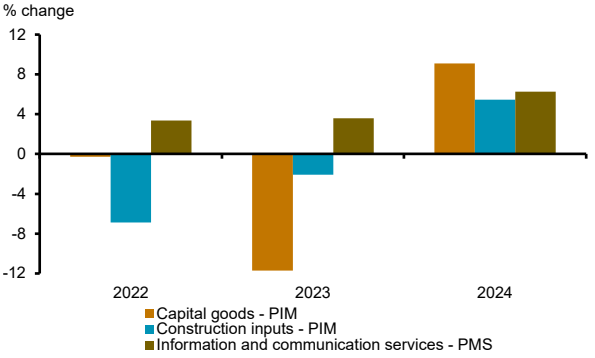
contribution was -1.8 p.p. Exports increased 2.9% in 2024, after an 8.9% expansion in 2023, a deceleration highly influenced by primary goods, in a year of decline in agriculture and modest increase in mining. In line with the heated domestic demand, imports increased 14.7% after declining 1.2% in 2023, with expansions in services and goods – particularly in durable consumer goods and capital goods.

Figure 1.2.2 – Household consumption indicators



Sources: BCB and IBGE

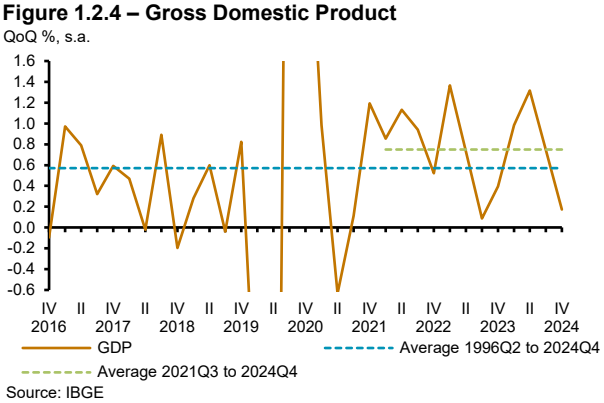
Figure 1.2.3 – Shortage of inputs in manufacturing



Source: IBGE

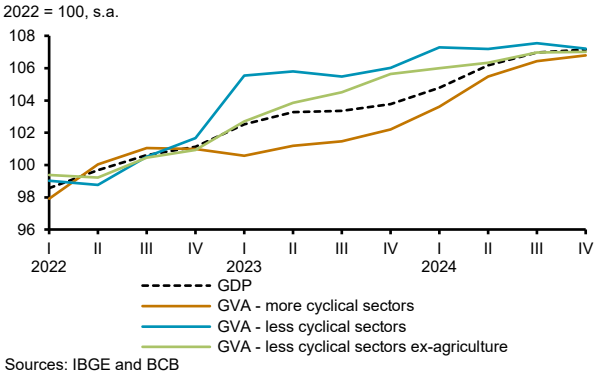
Economic activity slowed down more than expected in 2024Q4, with deceleration of the sectors more sensitive to the economic cycle and of domestic demand. GDP grew 0.2% in this period, after growing 0.7% in 2024Q3 and, on average, 1.2% in the first two quarters of the year (Figure 1.2.4). By sector, the slower growth pace was due to the decline in agriculture[5] and decelerations in the industry – including manufacturing[6] – and in all activities of the services sector (Table 1.2.1). Considering the previously mentioned classification, the more cyclical sectors increased just 0.3% in 2024Q4, after an average growth of 1.6% in the first half and of 0.9% in 2024Q3 (Figure 1.2.5).[7] From the demand side, the deceleration was clearer in household consumption, which fell 1.0%, and in GFCF, which grew 0.4%, after expansions above 2% in the previous three quarters. The decline of consumption contrasts with the expansion of household disposable income, thus suggesting a higher savings rate in the quarter.

Figure 1.2.4 – Gross Domestic Product



Source: IBGE

Figure 1.2.5 – GDP – More and less cyclical sectors



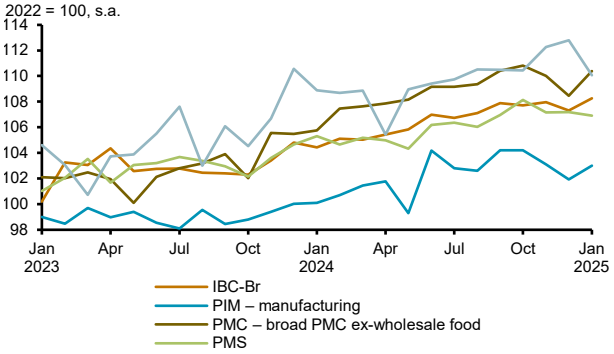
Sources: IBGE and BCB

Monthly indicators from the industry and services sectors available so far show signs consistent with a moderation in growth in 2025Q1. Key monthly economic activity indicators, which declined in late 2024, rebounded, at least partially, in January 2025 (Figure 1.2.6). The BCB's Economic Activity Index (IBC-Br) – which rose through 2024Q3, remained relatively stable from September to November, and fell in December – grew in January, leaving a statistical carry-over of 0.6% for 2025Q1. Manufacturing and trade[8] followed a

5/ Reflecting declines in the annual output of certain crops with a significant share of their harvest in 2024Q4, such as orange, tobacco, wheat, and sugar cane.
6/ Data from the Monthly Industry Survey (PIM) showed even greater deceleration in manufacturing, with respective changes of 1.4% and -0.1% in 2024Q3 and 2024Q4.
7/ After growing 1.2% in 2024Q1 – boosted by the strong increase in agriculture – the sectors less sensitive to the economic cycle showed modest changes in the last three quarters of the year, with no clear trend.
8/ In both the restricted and broad concepts, excluding only the sector of "specialized wholesale of food products, beverages, and tobacco", less associated with household consumption.

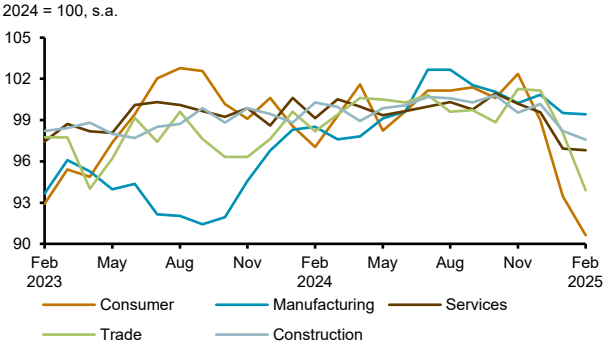
similar trajectory: declined in the last two months of 2024 and increased in January, while services – which also declined in late 2024 – remained stable in January. Considering data already available for February, the negative highlight is the strong reduction business confidence – notably in trade – and of consumer sentiment in early 2025, according to the Getulio Vargas Foundation (FGV)'s indexes (Figure 1.2.7). Nevertheless, other economic activity coincident indicators based on more quantitative data do not corroborate, in general, such a negative view of the first two months of the year (Table 1.2.2). Lastly, quite favorable forecasts for grain production in 2025 – especially soybeans, whose harvest is highly concentrated in the beginning of the year – indicate a strong expansion of agriculture in 2025Q1, tending to impact positively other sectors, especially in the first half of the year.[9]

Figure 1.2.6 – Economic activity indicators



Sources: IBGE and BCB

Figure 1.2.7 – Confidence indexes



Source: FGV

Table 1.2.2 – Economic activity coincident indicators

Seasonally adjusted data

% change

Itemization	2024						2025		
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Jan-Feb[1]
Heavy vehicle traffic	-0.5	-0.4	1.0	1.5	-2.9	-3.3	3.3	0.0	0.0
Corrugated boxes shipments	0.7	-0.6	0.3	3.5	-0.6	-4.6	-0.5	1.2	-3.3
Light vehicle production	8.2	-2.3	-2.2	6.3	-4.0	-4.3	3.4	-1.8	-1.8
Truck production	0.9	-0.5	5.2	0.6	-4.8	-3.5	-13.5	9.7	-12.9
Vehicle licensing	5.3	-2.5	3.7	6.1	-4.4	-5.6	-1.4	-3.4	-8.2
Cielo broad retail index	0.2	-0.1	-0.3	0.8	0.8	-0.6	0.3	-0.5	-0.1
IGet broad retail	0.3	0.2	-1.3	1.8	5.0	0.1	-0.7	1.3	1.7
IGet services to households	1.9	-3.1	0.8	-2.3	-4.5	3.6	0.4	2.0	1.4
IDAT goods[2]	-0.4	0.2	0.6	-0.3	0.0	-1.0	1.0	0.6	0.6
IDAT services to households[2]	-2.2	2.1	1.2	-0.9	3.4	-1.7	-0.9	2.1	0.1

Sources: ABCR, ABPO/Empapel, Anfavea, Cielo, Fenabrave, Itaú, and Santander

[1] Average Jan-Feb 2025/Average 2024Q4.

[2] Broad means of payment

As detailed in a box of this MPR, the projection for GDP growth in 2025 was reduced from 2.1%, in the December 2024 IR, to 1.9%. This change reflects declines in the projections for industry and services, associated with negative surprises in 2024Q4 and a forecast of a stronger deceleration throughout the year, partially offset by an increased projection for agriculture. On the demand side, deceleration is still projected for household consumption, GFCF, and imports. In terms of the GDP trajectory throughout the year, the forecast is of a stronger expansion in 2025Q1, after the modest increase in 2024Q4, and relative stability in the subsequent quarters. The forecast of strong expansion in agriculture, coupled with the increase of the minimum wage, and the release of funds from the Employment Guarantee Fund (FGTS),[10] should contribute

9/ Other GDP components might be influenced by the agriculture dynamics, such as taxes, trade, transport, and the direct industrial processing of some agricultural goods, such as food and biofuels. See boxes Impact of the crop harvest on the economic activity in the June 2017 IR and *Efeitos indiretos dos setores produtores de bens básicos para o crescimento da atividade em 2023* in the 2023 Regional Bulletin (Portuguese only).

10/ As of March, funds will be released to individuals who adhered to the anniversary withdrawal option and were dismissed without cause.

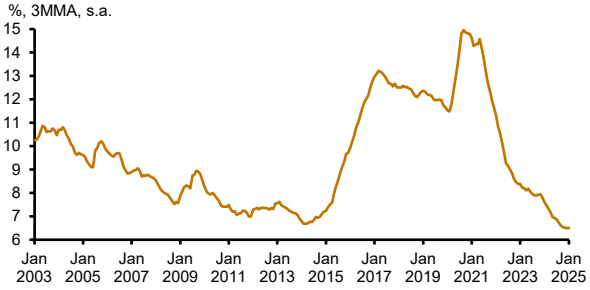
to the activity acceleration in 2025Q1. Nonetheless, part of the expected growth for 2025Q1, especially when excluding agriculture from the GDP, seems to be influenced by specification of the seasonal adjustment, as discussed in a box in this MPR.[11] The box's results suggest that interpretations about the degree of activity heating in early 2025 require caution.

Labor market

The labor market remained heated, but with some moderation in recent months. After more than three years declining, the unemployment rate remained stable in the Nov-Jan quarter, with a slight drop in the employment level and in the labor force participation rate.[12] The pace of formal jobs creation slowed down. In turn, salary and income indicators continue to show strong growth.

The unemployment rate remained at a historical low, but with a possible turnaround in the employment level. The unemployment rate remained stable at 6.5% in the Nov-Jan quarter, the lowest in last decades (Figure 1.2.8).[13] This stability was due to stagnation in the employed population and in the labor force, following quarters of expansion. The employed population stability, which resulted in a small decline in the employment level in the Nov-Jan quarter, reflected a 0,7% expansion in formal employed population and a 1.1% drop in the informal one. The participation rate stood at 62.2%, slightly below the level recorded in the previous quarter and much below the levels seen in mid-2022 and before the pandemic (Figure 1.2.9).

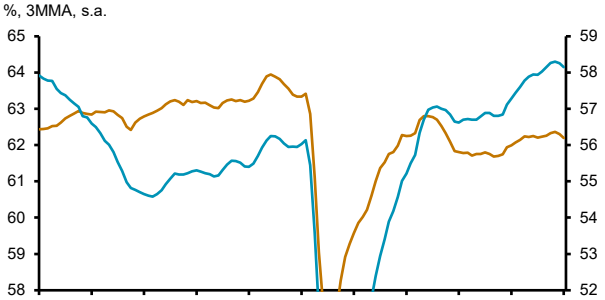
Figure 1.2.8 – Unemployment rate[1]



[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 1.2.9 – Participation rate and employment level

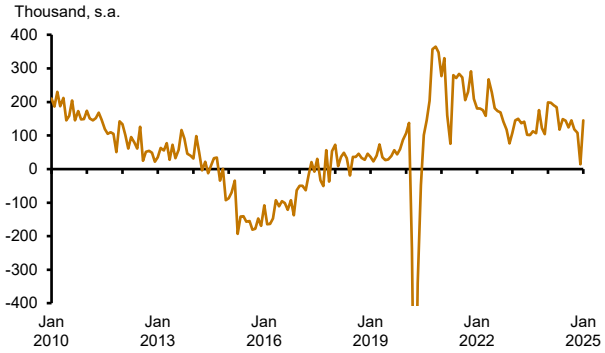


Source: IBGE

The creation of formal jobs slowed down but remains at a high level. According to data from the New General Registry of Employed and Unemployed Persons (New Caged), seasonally adjusted by the BCB, an average of 89,000 jobs were created monthly in the Nov-Jan quarter. This level is still historically high but lower than the 129,000 recorded in the previous quarter (Figure 1.2.10). In the Oct-Dec and Nov-Jan quarters, the average quarterly job creation fell below 100,000, a level not seen since mid-2020.[14] The slowdown was widespread across activities, with the exception of agriculture. Despite this recent slowdown, net job creation reached 1.7 million in 2024 – 198,000 more than in 2023. In 2022, the net job creation had reached 2.0 million. The dynamism of the labor market can also be seen in the share of resignations in total job separations, which is at an all-time high (Figure 1.2.11).

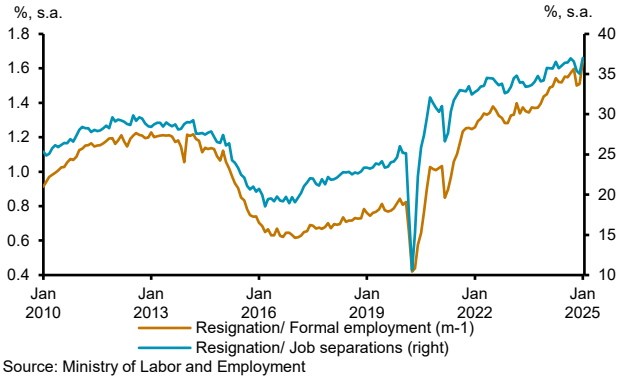
11/ Box Seasonal adjustment and uncertainty regarding the intensity of the GDP slowdown in early 2025.
12/ Employment level is the share of the working-age population (WAP) that is employed, while the labor force participation rate is the share of the WAP that is in the labor force.
13/ According to data from the Continuous National Household Sample Survey (PNAD Continuous), retropolated according to Alves and Fasolo (2015) and seasonally adjusted.
14/ The New Caged replaced the previous Caged as of January 2020. Further references to the Caged changes are available in the labor market section in the March 2021 and December 2021 IR.

Figure 1.2.10 – Net formal job creation



Source: Ministry of Labor and Employment

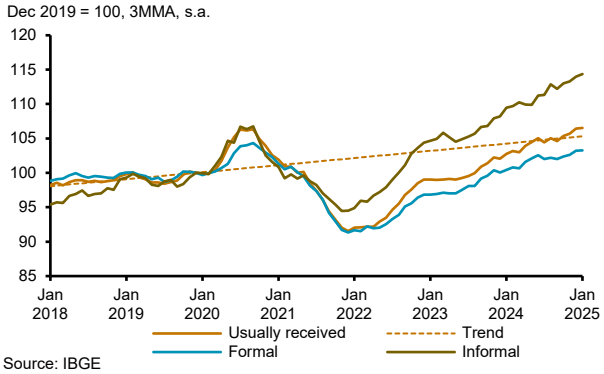
Figure 1.2.11 – Resignations ratio



Source: Ministry of Labor and Employment

The average labor income as measured by the PNAD Continuous is still growing strongly in real terms, although it moderated in the second half of 2024. In that period, the usual real average income grew at an average quarterly rate of 0.6%, a significant slowdown compared with the 1.5% average recorded in the first half of the year. In the Nov-Jan quarter, the real average income usually received increased 1.0%, slightly higher than in Aug-Oct but still lower than in early 2024. This slowdown in the real average income growth is greater in activities with more rigid nominal adjustments (especially in the public sector) and is more pronounced than that of nominal income growth. This indicates that the slowdown in real earnings stems partially from the recent rise in inflation. Considering the YoY change, the usual real average income rose to 3.7% in the Nov-Jan quarter, still a high level, compared with 3.9% and 4.8% in the Aug-Oct and May-Jul quarters, respectively. From a longer-term perspective, the average real income is 7.3% above the 2019 average and 1.2% above the level that would have been obtained by extrapolating the growth trend of the pre-pandemic period, from 2017 to 2019 (Figure 1.2.12).

Figure 1.2.12 – Real average labor income



Source: IBGE

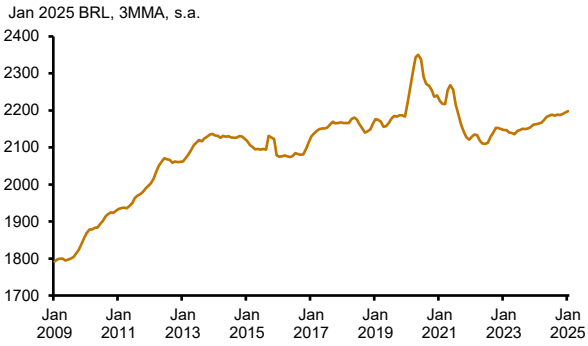
Complementary indicators of salary dynamics continue to show lower real growth than that of the PNAD. Real salaries for new hirings[15] (seasonally adjusted data) increased 0.5% in the Nov-Jan quarter, following a decline in the previous quarter, according to the New Caged (Figure 1.2.13). The expansion in the second half of 2024 was smaller than that registered in the first half of the year (quarterly averages of 0.2% and 0.6%, respectively), as also seen in the PNAD Continuous income data. In the YoY comparison, the real increase stands at 1.7%, remaining relatively stable for several months. Average nominal salary adjustments collected from Collective Bargaining Agreements (CBA),[16] which cover the formal private sector, were, on average, 4.9% in the Dec-Feb quarter, remaining below 5% for about one year (Figure 1.2.14). The average real adjustment[17] was 0.9% in the quarter, with 81% of negotiations exceeding past inflation.

15/ The average hiring salary has greater adherence to the economic cycle than the layoff salary, which is the reason why this is the preferred metric in the analysis of 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 the changes in Caged are available in the labor market section in the March 2021 and December 2021 IR.

16/ This refers to the arithmetic average of CBA nominal adjustments in São Paulo and Rio de Janeiro by the registration date criterion in the Collective Labor Negotiations System (Mediador) of the Ministry of Labor and Employment (MLE).

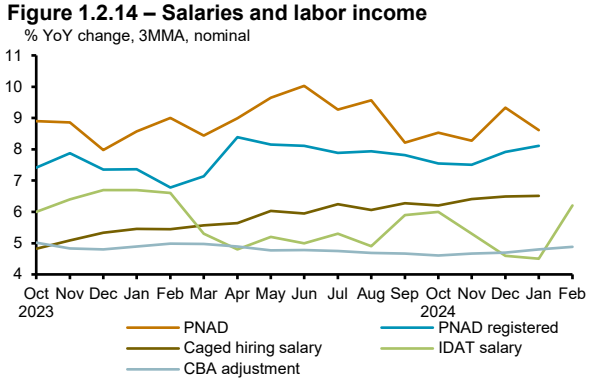
17/ Based on the date of registration, the agreed adjustments have a higher correlation with the deflator used in this analysis, the 12-month National Consumer Price Index (INPC) measured five months earlier.

Figure 1.2.13 – Hiring salary



Source: Ministry of Labor and Employment

Figure 1.2.14 – Salaries and labor income



Sources: IBGE, MLE, Itaú, and BCB

Household income registered another robust growth in 2024 but slowed down in the Nov-Jan quarter. The real Household Gross Disposable National Income (HGDNI) – an indicator that incorporates other sources of income besides work – increased 0.3% in the Nov-Jan quarter, considering the restricted concept, seasonally adjusted. In the previous quarter, expansion reached 1.3%. The slowdown in the Nov-Jan quarter mainly reflects the evolution of the overall labor income, with lower growth in the employed population and in the average effective income.[18] In 2024, the restricted HGDNI grew 5.9%, compared with 7.5% in 2023 and 7.2% in 2022 (Figures 1.2.15 and 1.2.16). In the coming months, HGDNI is expected to benefit from the real increase in the minimum wage – which affects both labor income and social benefits, from the salary increase for part of the public sector, and from the release of FGTS funds to dismissed workers who had opted for the anniversary withdrawal modality, scheduled for March and June.

Figure 1.2.15 – Restricted HGDNI

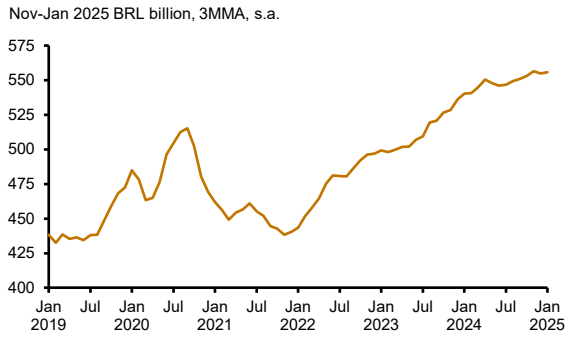
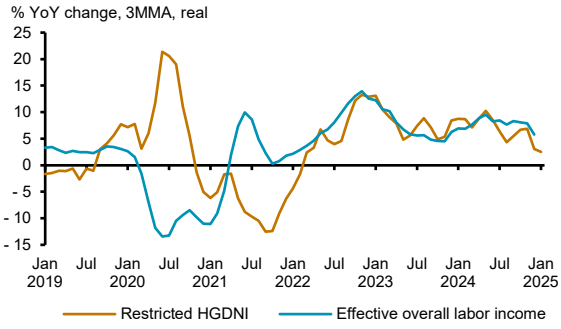


Figure 1.2.16 – Restricted HGDNI and overall labor income



Sources: BCB and IBGE

Credit

The credit market begins to show the effects of the new monetary policy tightening cycle. Interest rates have risen in many modalities, with the pass-through of the Selic rate hike that began in September. Also, some slowdown has been observed in non-earmarked household and corporate credit granting, although operations in both segments continue at a high level. Private security issuances in the capital market also remain at a historically high level, but have shown some inflection in recent months. Bank credit delinquency remains relatively stable.

Interest rates on credit in the National Financial System (SFN) have increased, as expected, due to the pass-through of the recent Selic hike. The cost of bank credit has already risen (Figure 1.2.17), although, so far, the pass-through of the Selic rate increase[19] that began in September is partially offset by the lagged

18/ Income measure used in the HGDNI calculation, which slowed down more than the average usual income at the end of 2024.
19/ See box Selic rate pass-through to the bank credit market in the September 2022 IR.

effects of the reduction implemented in the early months of 2024. In the non-earmarked household segment, the average interest rate rose 1.5 p.p. between October and January. The increase in the cost of credit to households was widespread, affecting both short-term and highly revolving modalities – generally targeted at meeting emergency needs – and long-term ones – more associated with planned indebtedness. In the corporate segment, the average interest rate increased 2.8 p.p., with the rise also widespread across several non-earmarked credit lines. Prospectively, the pass-through of the recent monetary policy tightening is expected to continue throughout the year (Figure 1.2.18).

Figure 1.2.17 – Non-earmarked interest rates

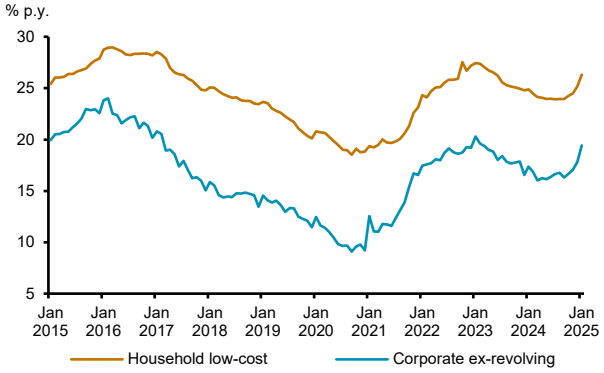
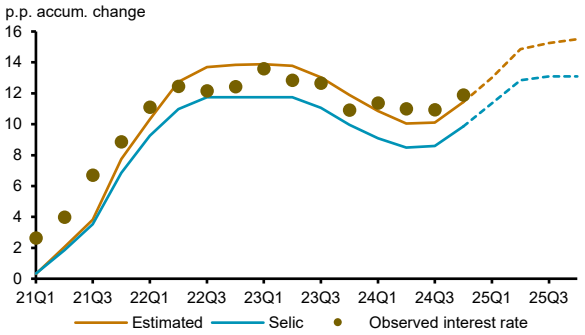


Figure 1.2.18 – Selic rate pass-through: non-earmarked corporate credit



Selic rate expectation data source: Focus of March 14, 2025.

Non-earmarked credit granting slowed down but remains at a high level. In line with the reduction of the Selic rate from August 2023 to May 2024 and the scenario of economic activity expansion, heated labor market, and increased household income, non-earmarked credit granting accelerated in the first quarters of 2024 (Figure 1.2.19). Recently, in a typical context of transition periods, partially driven by the monetary policy inflection in September, the growth of household credit granting has moderated. Despite this accommodation, new loans to household remain at a high level, as they reached record values in 2024. The 2024 growth was fueled by long-term modalities,[20] especially vehicles financing and non-payroll-deducted personal credit. The growth of emergency credit lines,[21] in turn, declined in relation to 2023 (Figure 1.2.20). At the margin, payroll-deducted loans continued to decline, vehicles financing interrupted a long growth trend, and the pace of expansion of non-payroll-deducted personal credit has moderated (Figure 1.2.21). Non-earmarked corporate credit granting slowed down after six quarters of strong growth, with the deceleration spreading across several modalities. As for financing through the domestic capital market, the volume declined for the second consecutive quarter (Figure 1.2.22) but also remains at a historically high level, as debentures and commercial paper issuance peaked in 2024.

Figure 1.2.19 – Non-earmarked credit granting

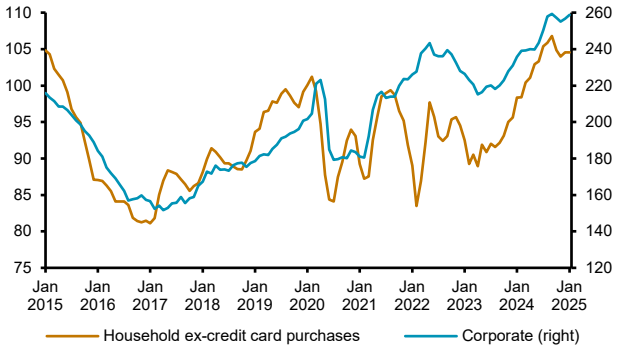
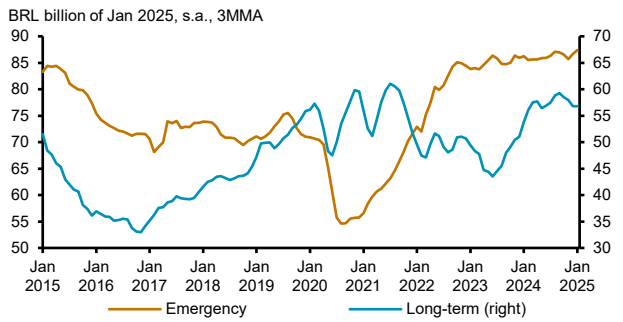


Figure 1.2.20 – Non-earmarked household credit granting



Long-term: payroll-deducted loans, personal loans, vehicles financing, other goods financing and leasing. Emergency: revolving and installment credit card and overdraft.

20/ Long-term modalities: payroll-deducted credit, non-payroll-deducted personal credit, vehicles financing, financing of other goods, and leasing.
21/ Emergency credit: revolving and installment credit card and overdraft facilities.

Figure 1.2.21 – Non-earmarked household granting - long-term modalities

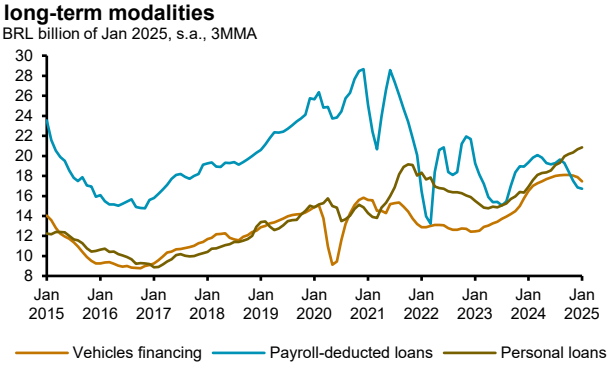
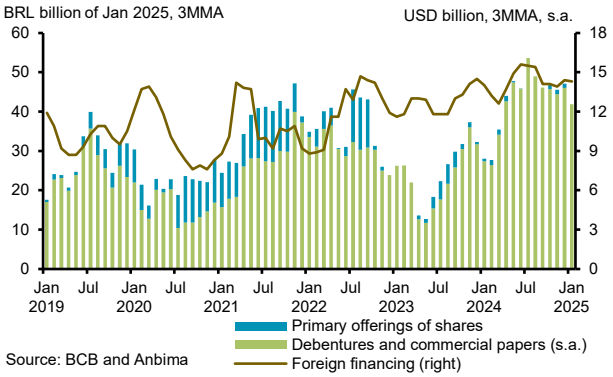


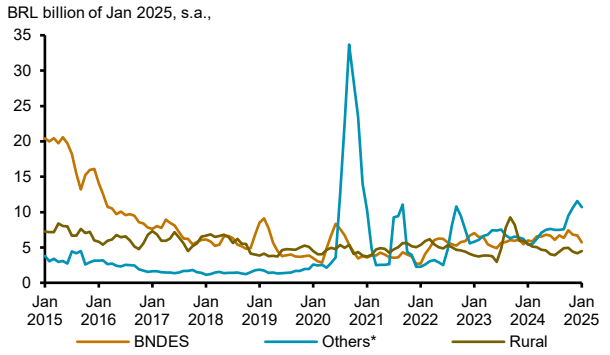
Figure 1.2.22 – Non-banking corporate financing



Source: BCB and Anbima

Earmarked credit granting increased in the quarter, both in the household and corporate segments. Earmarked corporate credit granting, driven by the National Development Bank (BNDES) operations and credit guarantee programs, continued to rise in the Nov-Jan quarter, but at a slower pace than in Aug-Oct (Figure 1.2.23). Conversely, household mortgage loans continued to decline (Figure 1.2.24), reflecting increased interest rates and tighter financing conditions.

Figure 1.2.23 – Earmarked corporate credit granting



*Include Pronampe, PEAC, PESE, among others.

Figure 1.2.24 – Earmarked household credit granting

The growth of the SFN credit balance increased throughout 2024. The YoY growth rate of the credit balance rose from 8.1% in December 2023 to 10.4% in June and 11.5% in December 2024 (Figure 1.2.25), when the SFN credit/GDP ratio reached 54.7%. The growth rate of earmarked credit in 2024 was similar to that of 2023, with a slowdown in the household portfolio (Figure 1.2.26) – impacted by the deceleration of rural credit loans – offset by higher growth in the corporate portfolio – fueled by BNDES operations. In this scenario, although weaker in the second half of the year, credit stimulus was positive in 2024, since the net flow of funds from the real sector (households and corporations) absorbed by the financial system was smaller than in 2023.[22]

Figure 1.2.25 – Non-earmarked credit balance

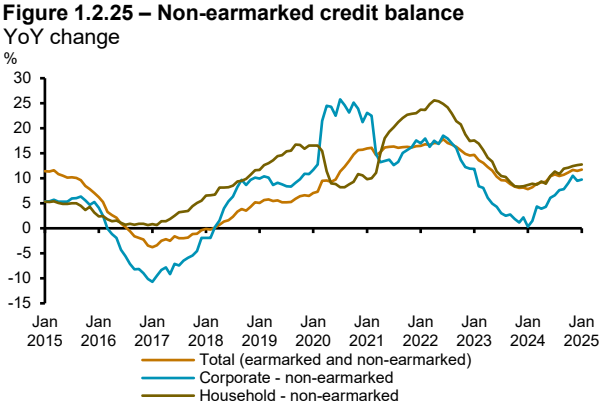
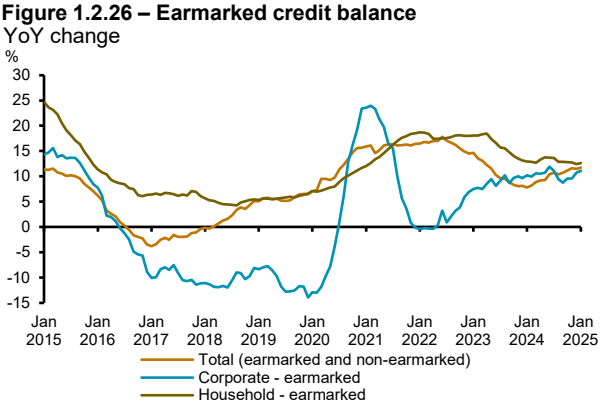


Figure 1.2.26 – Earmarked credit balance



22/ See box Financial flow and credit stimulus in 2024 in this MPR.

Delinquency of SFN credit operations and household debt and debt-service indicators remained relatively stable. After remaining close to 3.2% throughout the year, the delinquency rate improved modestly in December and ended 2024 at 2.9%, a 0.3 p.p. decline in comparison with December 2023. However, in January, the delinquency rate returned to 3.2%, persisting above the trough of previous cycles (Figure 1.2.27).[23] The share of 90 days past due loans in the non-earmarked household portfolio remained relatively stable throughout the year. Conversely, in the second half of the year, debt-to-income and debt-service indicators interrupted the downward trend and remained at a high level, despite the increase of household income. In the corporate segment, the decline in delinquency was concentrated in credit granted to large companies (Figure 1.2.28). In turn, delinquency in loans to micro, small, and medium-sized enterprises (MSME) increased, returning to mid-2019 levels, still well below the peak observed in 2017. Total corporate indebtedness – including loans, bonds, and external funding – as a share of GDP increased significantly in 2024, driven by fundraising in the domestic capital market and by the expansion of external debts, the latter affected by the BRL depreciation.

Figure 1.2.27 – 90 days past due loans

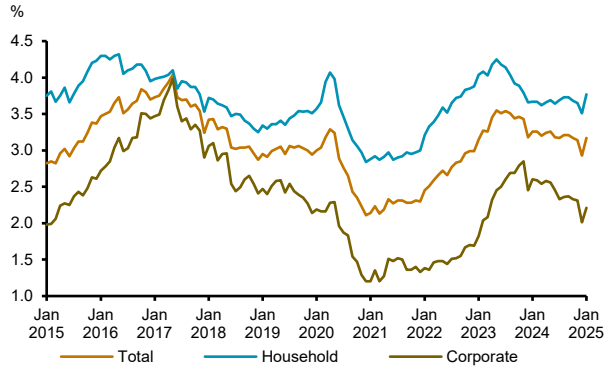
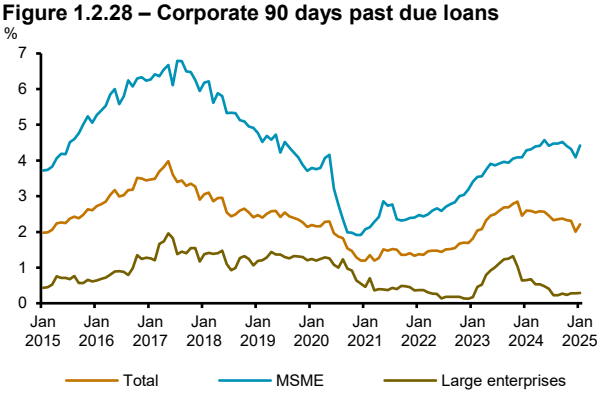


Figure 1.2.28 – Corporate 90 days past due loans



In this context, the projection for credit growth in 2025, detailed in a box in this MPR, was reduced from 9.6% to 7.7%. The expected nominal expansion represents a reduction when compared with that observed in 2024, of 11.5%, in line with the prospective scenario of higher interest rates and lower economic growth in 2025 than in 2024. The projection is consistent with financial institutions' perception of a turning point in credit conditions as of 2024Q4, with expectations of worsening in 2025Q1.[24]

Fiscal

Since the December 2024 IR, there has been no relevant change in the analysts' assessment of the fiscal situation, which remains quite challenging. The Central Government met the primary balance target for 2024, considering the tolerance interval. Still using the tolerance interval, the median of analysts' projections for 2025 is that the primary balance target will also be met this year. Nonetheless, analysts expect that the 2025 primary deficit will exceed that of 2024 – which would interrupt the recent improvement trajectory – and that the debt-to-GDP ratio will keep rising over the decade. The qualitative assessment of most analysts is that there has been no relevant change in the fiscal situation since the December 2024 IR, following the deterioration in perception captured in the December 2024 Pre-Copom Questionnaire (PCQ).

In 2024, the public sector primary deficit declined, largely reflecting extraordinary court-ordered *(precatórios)* payments in late 2023, while the public debt increased. The deficit difference of just over BRL 200 billion when compared with 2023 is exclusively explained by the improved Central Government balance (Table 1.2.3). This result reflected the favorable performance of tax collection and the fact that the 2023 balance was impaired by exceptional court-ordered payments of BRL 95 billion in December, including

23/ The delinquency rate reached 2.8% in January 2014, 2.9% in December 2018, and 2.1% in March 2021.
24/ According to the December 2024 results of the BCB's Quarterly Survey on Credit Conditions (Portuguese only), which was collected in January 2025.

the pre-payment of values due in 2024. While the surplus of regional governments declined, the deficit of state-owned enterprises increased. The worsened balance of regional entities was concentrated in local governments, possibly influenced by the municipal elections of 2024 and by the floods in Rio Grande do Sul (RS). Despite improved public sector primary balance, the General Government Gross Debt (GGGD) continued to increase, reaching 76.1% of GDP (+2.2 p.p. over 2023).

Table 1.2.3 – Public Sector Borrowing Requirements - Primary balance

Accumulated in the year

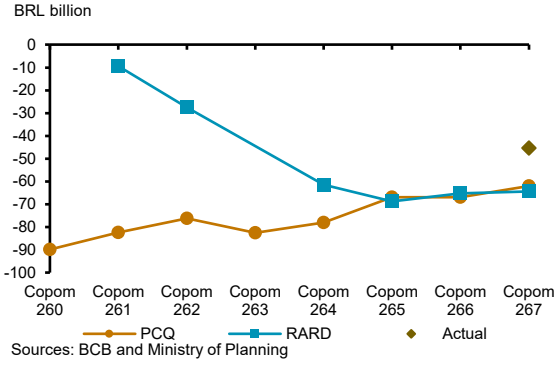
BRL billion

Itemization	2022	2023	2024
Central Government	-55	265	45
o/w Federal Government	-317	-42	-253
o/w INSS	261	306	297
Regional governments	-65	-18	-6
State-owned companies	-6	2	8
Total	-126	249	48

Positive values represent deficit and negative values represent surplus

The Central Government met the primary balance target for 2024, surprising market analysts' expectations positively. The effective balance was a BRL 45.4 billion deficit, considering the metric released by the BCB. However, BRL 32 billion in extraordinary credits were paid to face the calamity in RS, to fight fires in the Pantanal and in the Amazon, and in favor of the Judiciary and the Public Ministry. As these expenses are not considered when measuring compliance with the primary balance target, the Central Government deficit consistent with the target was BRL 13.4 billion, within the tolerance interval of ±0.25% of the GDP, remaining closer to the target center than to the cap of BRL 28.7 billion. The primary deficit of BRL 45.4 billion was lower than expected by analysts throughout 2024. According to the PCQ median projections, the year's deficit forecast of January (BRL 90 billion) was revised downward throughout the year, reaching BRL 62 billion in December (Figure 1.2.29).

Figure 1.2.29 – 2024 primary balance forecast - Central Govt.



Sources: BCB and Ministry of Planning

The Central Government primary balance improvement in 2024 reflected the significant increase of revenues and a slight decline of expenses in real terms. The increase in net revenue (8.9%) was mainly influenced by the expansion of economic activity, with positive impacts on the labor market, coupled with the effects of measures aimed at the increase of tax collection approved by the National Congress in 2023 (Table 1.2.4). The reduction of expenses (-0.7%) was mostly due to lower court-ordered payments in 2024, following the early payment of part of those amounts in December 2023, in compliance with a Federal Supreme Court ruling. The expansion of primary expenses excluding court-ordered payments was 3.4% in real terms (Table 1.2.4), with the increase in Continuous Benefit Payments (BPC) expenses – which have been growing much above the government expectations – standing out. Also in the YoY comparison, federal government's tax expenditure – a form of fiscal waiver, fell from 4.8% of GDP in 2023 to 4.4% of GDP in 2024.[25] This decline

25/ According to the latest Brazilian Federal Revenue Board estimate available at *Demonstrativo de Gastos Tributários* (Portuguese only).

reflected the reinstatement of taxes on fuels, partially in 2023 and fully in 2024. Nevertheless, the fiscal waiver level continues similar to that observed in the last decade (a 4.5% average) and above that of the previous period (for instance, 3.5% in 2011).

Table 1.2.4 – Central Government fiscal balance
Accumulated in the year

BRL billion - current values

	2023	2024	Real % change
1. Total revenue	2,353	2,679	9.0
1.1 - Revenues collected by the Federal Revenue Office	1,439	1,690	12.5
1.2 - Net Social Security revenues	593	641	3.6
1.3 - Revenues not collected by the Federal Revenue Office	322	348	3.6
2. Transfers by revenue sharing	452	518	9.7
3. Net revenue (1-2)	1,901	2,162	8.9
4. Total Expenditure	2,130	2,205	-0.7
o/w excl. court-ordered payments	1,978	2,134	3.4
4.1 Social Security benefits	899	939	0.1
o/w excl. court-ordered payments	842	912	3.8
4.2 Payroll	364	367	-3.2
o/w excl. court-ordered payments	344	363	1.2
4.3 Other compulsory expenses	358	358	-3.6
o/w excl. court-ordered payments	282	319	8.3
4.4 Executive branch expenses subject to financial programming	510	540	1.6
o/w Bolsa Família (Family Allowance)	166	168	-3.2
5. Central Government primary balance - above the line (3 - 4)	-228	-43	-

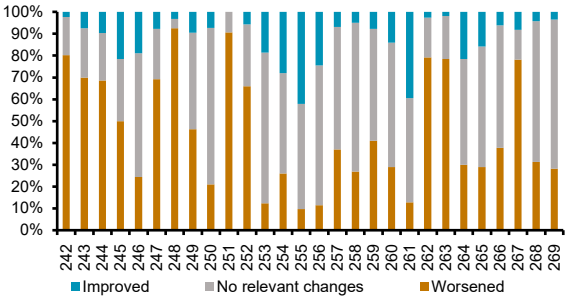
Source: National Treasury

The Central Government surplus in January 2025 exceeded that observed in 2024. Seasonality is generally positive for January, due to the payment schedule of some taxes. Revenues continued to perform well, especially the collection of taxes associated with the economic activity (Industrialized Products Tax and Import Tax). However, even with the delay in the approval of the 2025 Budget, which limited the budget execution in early 2025, expenses also increased significantly when compared with January 2024, with emphasis on the Fund for Maintenance and Development of Elementary Education and Recognition of the Teaching Profession (Fundeb) and BPC payments.

Analysts' projections indicate that the primary balance target may be met again in 2025, but they continue to signal that the fiscal outlook remains quite challenging. In the PCQ, the analysts' median projection is an effective primary deficit of BRL 75 billion and a BRL 32 billion deficit under the metric used to assess target compliance. This value is very close to the cap forecast for this year (BRL 31 billion), considering the tolerance interval. This gap was even wider in the PCQ of December 2024. Despite a positive surprise in the 2024 primary balance and the expectation of target compliance also in 2025, the qualitative assessment of analysts is that there has been no relevant improvement in the fiscal outlook in the last three months (Figure 1.2.30).[26] Even more relevant, according to the Focus survey projections, the scenario continues indicating primary deficit in the next three months and increasing public debt until 2033 (Figure 1.2.31).

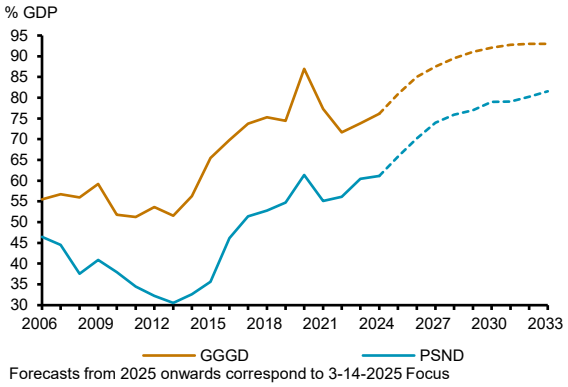
26/ The February edition of the Financial Stability Survey (FSS) corroborates the perception about the fiscal framework captured in the December 2024 and January 2025 PCQ. According to the FSS, participants assessed that the fiscal risks, which were already preponderant in the previous survey – conducted between late October and early November – have become even more relevant. The average expected impact, with a higher magnitude than that of the other risks, increased, being described as the most relevant by more than half of participants, highlighting concerns with the sustainability of the public debt.

Figure 1.2.30 – 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 1.2.31 – Debt forecasts



Forecasts from 2025 onwards correspond to 3-14-2025 Focus

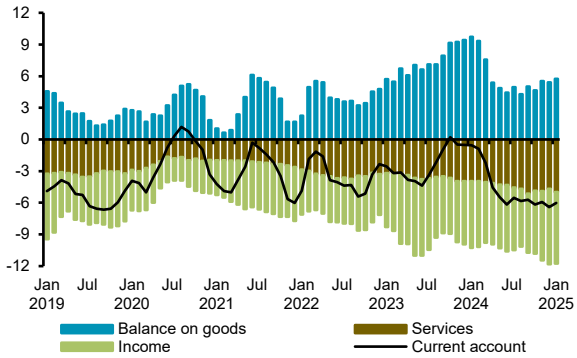
Table 1.2.5 – External accounts

USD billion

Itemization	2021	2022	2023	2024
Current account	-40	-42	-28	-61
Balance on goods	42	52	92	66
Exports	284	340	344	340
Imports	242	289	252	274
Services	-27	-41	-43	-55
of which: Travel	-2	-9	-11	-12
of which: Transport	-14	-19	-13	-15
Primary income	-59	-57	-79	-75
of which: Interests	-21	-20	-30	-30
of which: Dividends	-38	-37	-50	-46
Investment - liabilities	106	95	85	100
DI liabilities	46	75	62	71
Portfolio investments	23	-3	14	10
Other investments[1]	36	24	9	19

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

Figure 1.2.32 – Current account
USD billion, 3MMA s.a.



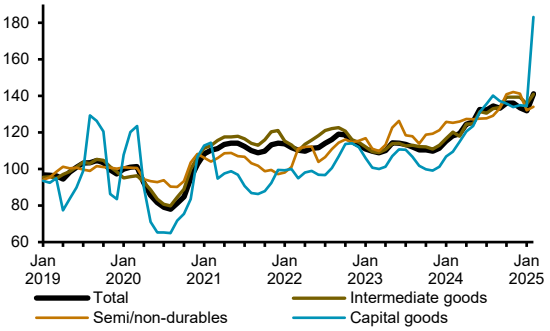
External accounts

As a result of the dynamism of economic activity, the current account deficit increased in 2024. The USD 61 billion deficit was the largest since 2019, reflecting the reduction of the trade surplus and significant deficits in the services and primary income accounts. The decline of the trade surplus was due to the substantial increase in imports, which are sensitive to the domestic demand. Despite this increase, the current account deficit remains moderately below net inflows of direct investment liabilities, which grew in 2024, driven by reinvested earnings.

In 2024, imports reached the second highest value of the time series, driven by a significant increase in quantum, particularly of goods coming from China. Except for fuels, the growth of the imported volume was widespread across use categories (Figure 1.2.33). In turn, prices generally declined compared with 2023, partially offsetting the impact of the exchange rate depreciation on the cost of these goods in BRL. Purchases of Chinese goods were crucial both the increase of volume and the reduction of prices (Figure 1.2.34), especially electric vehicles and machines, electronic equipment and components. The imported quantum in 2024 reflected the robust growth in consumption, investment, and manufacturing. In early 2025, the high level of imports persisted, especially in the categories of intermediate and capital goods, the latter reflecting the import of an oil rig in February.

Figure 1.2.33 – Imports quantum index

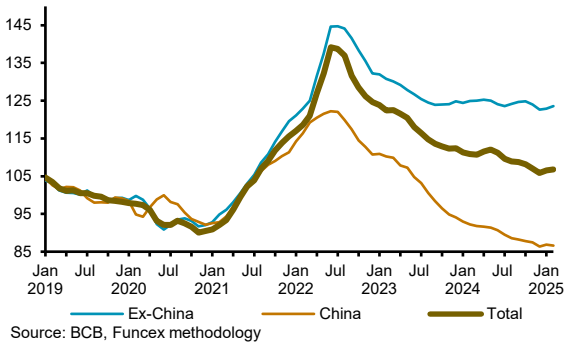
Index (2019=100), 3MMA, s.a.



Source: BCB, Funcex methodology

Figure 1.2.34 – Imports price index

Index (2019=100), 3MMA

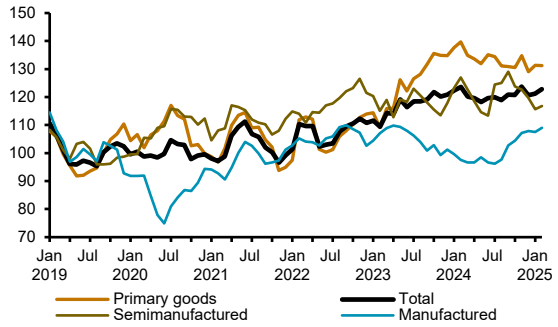


Source: BCB, Funcex methodology

Export values remained high in 2024, although slightly below that of 2023, with increased quantum offsetting lower prices. Primary goods, which are preponderant in the export basket, were main drivers for the growth of shipments (Figure 1.2.35), notably iron ore, oil, and meat. In contrast, the exported volume of soybeans and corn decreased. Both products also registered the sharpest price declines, while coffee recorded the highest increase. Finally, as the reduction of imported prices outpaced that of exports, the terms of trade improved (Figure 1.2.36).

Figure 1.2.35 – Exports quantum index

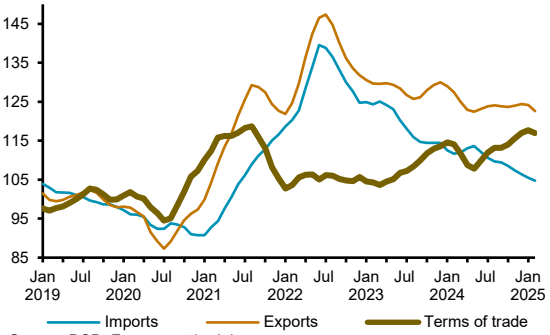
Index (2019=100), 3MMA, s.a.



Source: BCB, Funcex methodology

Figure 1.2.36 – Exports price index

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



Source: BCB, Funcex methodology

China continued to be Brazil's main trade partner in 2024, accounting for 28% of Brazilian exports and 24% of imports. Moreover, around 41% of Brazil's trade surplus was due to trade with China. As for the U.S., Argentina, and European Union – other key trade partners – exports and imports show greater balance (Table 1.2.6). The remainder of Brazil's trade surplus is broadly spread across partners in Asia, Middle East, and Latin America.

Table 1.2.6 – Brazil´s bilateral trade balance

USD billion			2024
Main partners	Exports	Imports	Balance
Total	337	263	74
China	94	64	31
European Union	48	47	1
Argentina	14	14	0
U.S.	40	41	-0
Others	140	98	43

Source: Secex

The widening of the services account deficit, the largest since 2014, was also key for the higher current account deficit in 2024. The increase in expenses on technology and intellectual property services (included

in “other services” in Figure 1.2.37) stood out, but expenses on transport and operating leasing services also increased. The travel sub-account deficit finally returned to its pre-pandemic level, surpassing that of 2019.[27]

In the primary income account, the deficit fell marginally compared with 2023 but remained high – the second largest of the time series. Net interest expenses, which in 2023 were already substantially higher than in the previous two years, increased slightly and reached a record high of the time series (Figure 1.2.38). This rise of net interest expenses in recent years reflects both the higher level of international interest rates since 2022 and the larger stock of liabilities (bonds, loans, and intercompany lending), somewhat offset by higher income from reserve holdings. As for dividend expenses, they continued at a high level, in line with the dynamism of economic activity.

Figure 1.2.37 – Services

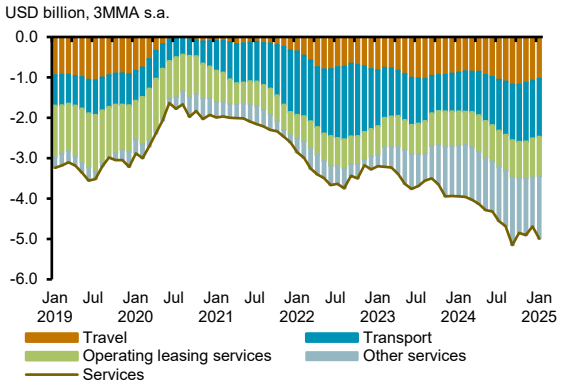
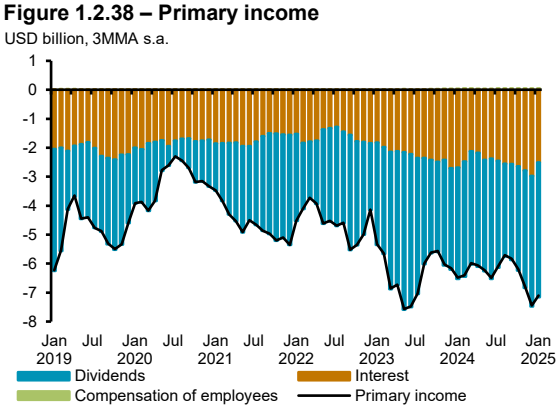


Figure 1.2.38 – Primary income



In 2024, net inflows of direct investment liabilities were robust, while net inflows of portfolio investment were positive, despite outflows in the end of the year. Inflows of direct investment liabilities totaled USD 71 billion in the year. Equity capital flows stood out (Figure 1.2.39), especially reinvested earnings, which benefited from the increased dynamism of economic activity. Most of the dividends owed to non-residents were reinvested in the country, instead of being sent back to headquarters abroad – something not observed since 2011. Intercompany lending, in turn, lost momentum throughout the year. As for portfolio investment, the positive balance in 2024 resulted from net inflows into debt securities issued both domestically and abroad (Figure 1.2.40), offsetting substantial outflows from equities and funds. Notably, there were significant net outflows from equities, funds, and domestic debt securities in December – when there were relevant exchange rate movements, driven by news regarding the domestic fiscal situation, U.S. economic policy developments, as well as the interest rate differential.

Figure 1.2.39 – Direct investment liabilities

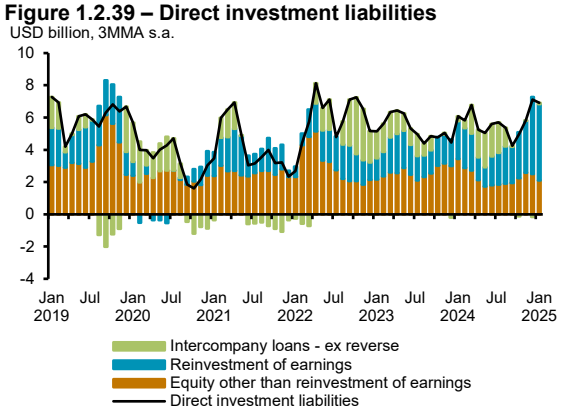
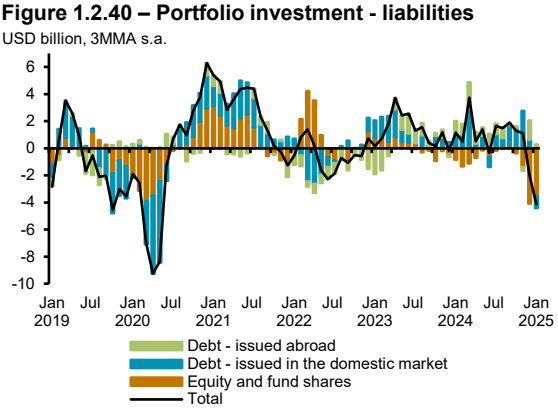


Figure 1.2.40 – Portfolio investment - liabilities



Projections for the external accounts for 2025 were revised marginally. The current account deficit forecast is USD 62 billion (2.8% of GDP), similar to that of 2024, once again moderately lower than net inflows

27/ An extraordinary revision of travel expenses was implemented in the January 2025 data release. Expenses in this category were revised upwards by USD 1.3 billion in 2022, USD 3.4 billion in 2023, and USD 4.8 billion in 2024, increasing the current account deficit by the same amounts.

of USD 70 billion expected for direct investment liabilities (3.2% of GDP). Further details are available in a box in this MPR.

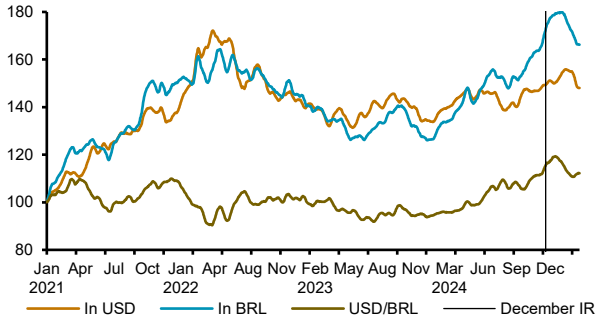
Prices

Consumer prices inflation remained at a high level and the deanchoring of inflation expectations increased. The 12-month IPCA grew from 4.87% in the Sep-Nov quarter to 5.06% in the Dec-Feb quarter. Underlying inflation measures followed a similar trajectory, both in the 12-month change and in the saar quarterly average. Large changes are observed in food, industrial goods, and services. This behavior occurs amid a scenario still characterized by resilience in activity, pressures in the labor market, and a positive output gap. Furthermore, the recent BRL appreciation only partially offsets the sharp exchange rate increase throughout 2024. In this context, according to the Focus Report, the deanchoring of inflation expectations for the period 2025-2028 has increased.

The Commodities Index – Brazil (IC-Br) measured in BRL declined since the December 2024 IR, mainly reflecting the BRL appreciation. The IC-Br decline in BRL since the December 2024 IR was 3.5%, with a 0.8% decrease in the IC-Br in USD and a 2.7% exchange rate appreciation (Figures 1.2.41 and 1.2.42).[28] Compared with the March 2024 IR, the IC-Br in BRL grew 22.5%, of which 4.8% from the IC-Br in USD and 17.0% from the BRL depreciation. In the YoY comparison, the sharpest increase in USD came from metal commodities, 19.2%. As for agricultural commodities, prices rose 2.8%, due to strong increases in coffee prices. Energy commodities fell 1.7% in the period, with the sharp rise in natural gas in the U.S. being offset by the drop in Brent oil.

Figure 1.2.41 – IC-Br and foreign exchange rate

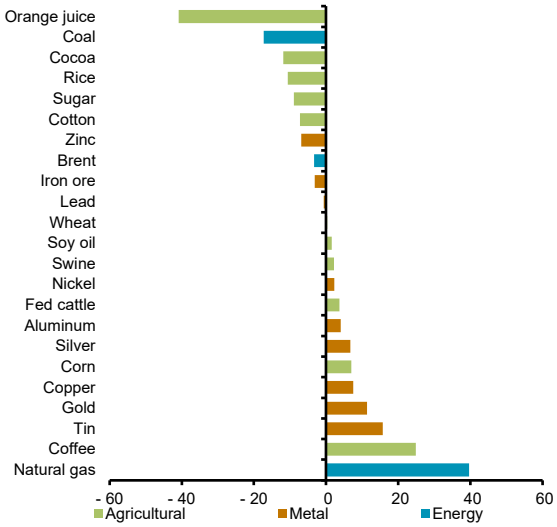
10-day moving average; Dec/31 2020 = 100



Sources: Bloomberg and BCB

Figure 1.2.42 – Change in commodity prices

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



Source: Bloomberg

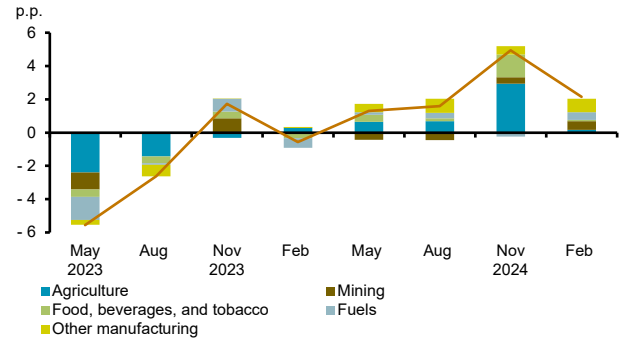
Producer prices decelerated, with moderation in agricultural goods and industrialized food, but less volatile components have increased significantly. The growth rate of the Broad Producer Price Index (IPA-DI) fell from 4.95% in the Sep-Nov quarter to 2.15% in the Dec-Feb quarter (Figure 1.2.43). The moderation in agricultural and industrialized food prices is largely associated with the dynamics of the cattle market. After sharp increases observed from September to November, fed cattle prices fell in December and remained relatively stable in early 2025, although still at a high level.[29] Soybeans also contributed reduce changes more recently, with the beginning of the harvest in Brazil and the prospect of wide global supply. Conversely, in

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

29/ See box Increase in fed cattle prices and effect on consumer prices in this MPR.

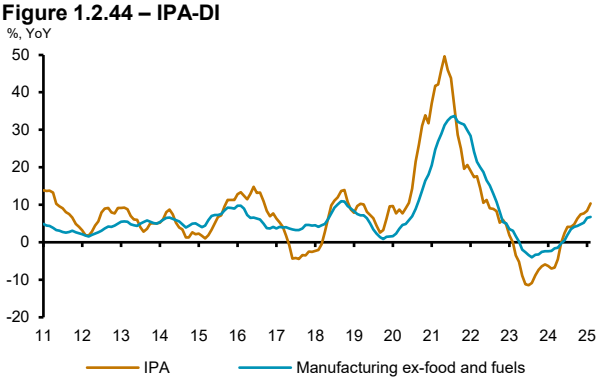
manufacturing – excluding fuels and food – prices increased strongly, with the 12-month change reaching 6.79%, compared with a minimum of -3.98% in August 2023 (Figure 1.2.44). Such increases possibly reflect the pass-through from the BRL depreciation. Similarly, changes in prices of consumer goods – excluding fuels and food – were higher, both in the quarter and in 12 months. This upward trend tends to persist, given the accumulated BRL depreciation since early 2024 and price increases in the early stages of the production chain.

Figure 1.2.43 – Contributions to quarterly IPA-DI change



Source: FGV

Figure 1.2.44 – IPA-DI



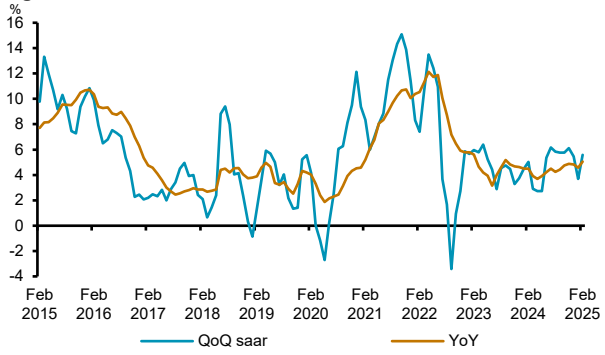
Source: FGV

The 12-month inflation, measured by the IPCA, increased since the December 2024 IR and quarterly inflation remains high. Consumer inflation increased from 1.40% in the Sep-Nov quarter to 2.00% in the Dec-Feb quarter. Price acceleration was widespread in almost all segments, except food-at-home (Figure 1.2.45). The average of core inflation measures also increased, indicating the widespread nature of this movement.[30] Core inflation measures rose from an annualized change of 5.32% in the Sept-Nov quarter to 5.63% in the Dec-Feb quarter, using the seasonally adjusted series. The same trajectory was observed in the 12-month change. Both the IPCA change (from 4.87% to 5.06%) and the average of core measures (from 4.21% to 4.64%) continued to rise, persisting at a high level (Figures 1.2.46 and 1.2.47).

Figure 1.2.45 – Contributions to IPCA quarterly changes

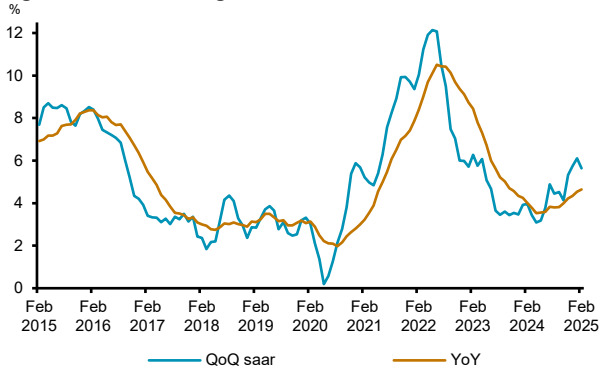
Sources: IBGE and BCB

Figure 1.2.46 – IPCA



Sources: IBGE and BCB

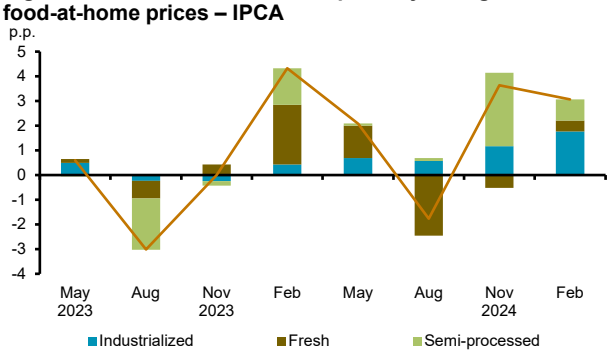
Figure 1.2.47 – Average of core inflation measures



30/ 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.

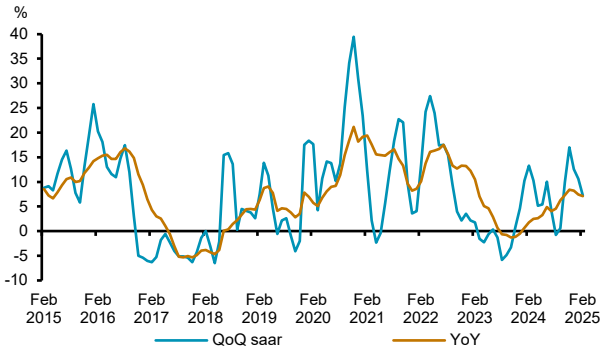
Consumer food prices continued to show large increases, despite some moderation when compared with the previous quarter. Prices in the segment rose 3.06% in the Dec-Feb quarter and accumulated an increase of 7.09% in 12 months (Figures 1.2.48 and 1.2.49). The quarterly change was slightly lower than that observed in the Sep-Nov quarter (3.63%), despite the less favorable seasonality. The increase in beef prices was significantly below that observed in previous months, in line with the moderation in fed cattle prices. Also in line with wholesale prices, soybean oil prices slowed down and long-life milk and rice prices declined – the latter reflecting the favorable harvest outlook for 2025. Despite the slowdown in soybean oil prices, industrialized food prices generally continued to show high increases. This result was significantly influenced by the increase in ground coffee prices, reflecting the record prices of coffee beans. Nonetheless, the dispersion of the increase in industrialized food prices suggests the influence of macroeconomic factors, particularly the exchange rate depreciation. Conversely, fresh food price changes continued below the seasonal pattern of this group, despite the significant increase in egg prices in February.

Figure 1.2.48 – Contributions to quarterly changes in food-at-home prices – IPCA



Sources: IBGE and BCB

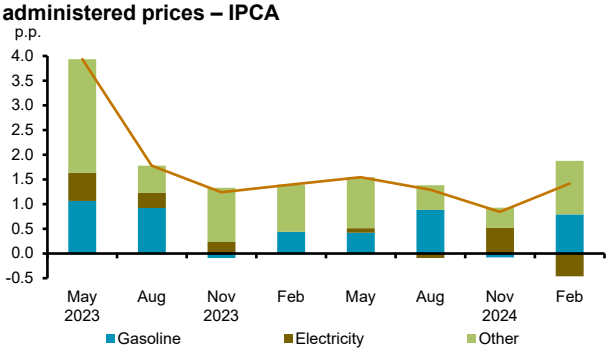
Figure 1.2.49 – Food-at-home inflation



Sources: IBGE and BCB

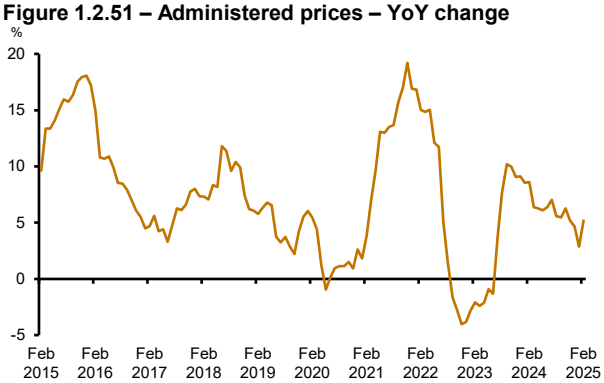
Administered prices grew at a faster pace than in the previous quarter, with a relatively stable 12-month change. The segment's increase went from 0.84% in the Sep-Nov quarter to 1.41% in the Nov-Feb quarter (Figure 1.2.50). The main contribution came from the rise in gasoline, which reflects the increase in the *ad rem* Tax on Circulation of Goods and Services (ICMS) on fuel at the beginning of February and the sharp increase in ethanol prices. Bus fare adjustments were also higher in early 2025, compared with low adjustments in 2024. An additional contribution came from the larger change in vehicle registration and licensing fees. Until December, the sub-item showed monthly changes equivalent to an annual reduction of 1.03%, starting to incorporate monthly changes equivalent to an annual adjustment of 2.43% from January. Conversely, residential electricity prices declined, with the transition from the yellow tariff flag in November to the green flag from December on, in line with improved hydrological conditions.[31,32] In 12 months, administered prices accumulated a 5.19% increase up to February, compared with 5.17% up to November (Figure 1.2.51).

Figure 1.2.50 – Contributions to quarterly changes in administered prices – IPCA



Sources: IBGE and BCB

Figure 1.2.51 – Administered prices – YoY change

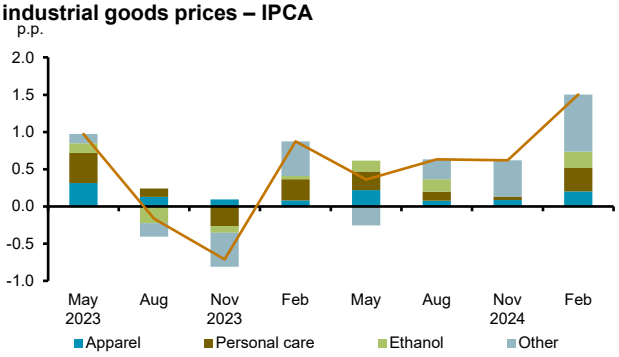


31/ In January, discounts were applied to consumers' electricity bills, related to the distribution of the Itaipu bonus. The IPCA incorporated the effect of these discounts, with a sharp decline in electricity in January and a subsequent increase in February. Thus, the one-time discount does not impact the IPCA change in the Dec-Feb quarter.

32/ As discussed in Chapter 2 of this MPR, after a fairly favorable start in 2025, the hydrological conditions have deteriorated more recently. Rainfall reduced throughout February and March, and, in recent weeks, the level of energy stored in the hydroelectric reservoirs, which had been increasing, showed a slight downturn.

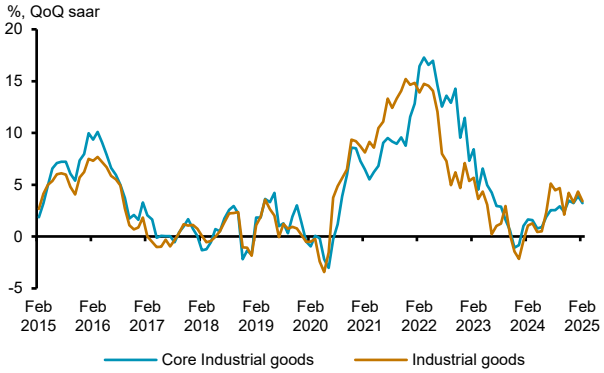
Industrial goods prices rose sharply for the third consecutive quarter. In the Sep-Nov quarter, prices in the segment rose by 0.62%, accelerating to 1.50% in the Dec-Feb quarter (Figure 1.2.52). This result corroborates reports of pass-through pressure to retail prices in early 2025, in line with the BRL depreciation and the rise in producer prices of industrial goods. In core industrial goods – which excludes ethanol, cigarettes, and other items – the quarterly change grew from 0.41% in November to 1.28% in February, indicating a widespread upward trend.[33] The more volatile items have also accelerated, with emphasis on ethanol, with an accumulated quarterly change growing from 0.00% to 7.53%. The saar changes of the core measures accelerated in recent quarters, increasing from 0.90% in May 2024 to 3.23% in February 2025, a high level for this segment (Figure 1.2.53). The 12-month inflation increased from 2.51% in November to 3.15% in February. When excluding the more volatile items, the change rose from 2.12% to 2.54%.

Figure 1.2.52 – Contributions to quarterly changes in industrial goods prices – IPCA



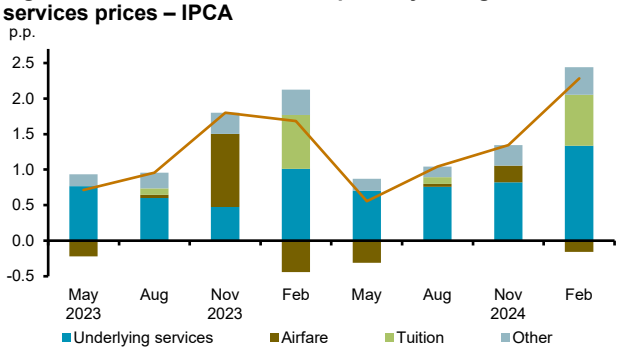
Sources: IBGE and BCB

Figure 1.2.53 – Industrial goods inflation



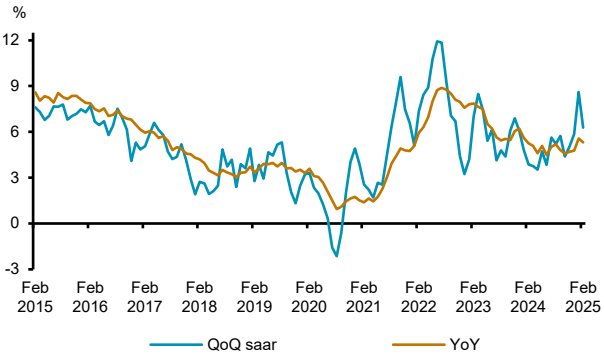
The services segment continues to register high inflation, widespread across its components. Services inflation rose from 1.35% in the Sep-Nov quarter to 2.28% in the Dec-Feb quarter (Figure 1.2.54). The underlying component increased strongly, from 1.38% to 2.24%. This increase was partially due to seasonality, albeit the seasonally adjusted series also indicates a sharp rise, with an annualized change of 7.5%. Food-away-from-home increased significantly during the period, probably reflecting the pass-through of higher beef prices.[34] Similarly, residential rent, condominium fees, and beauty salon services also showed higher increases. Several underlying services inflation measures indicate annualized changes above 6% in the seasonally adjusted series (Figure 1.2.56), including measures more associated with labor, which had slowed down in the second half of 2024.[35] The ex-underlying component of services inflation also accelerated in the Dec-Feb quarter. This result was particularly due to the seasonal effect of education fee adjustments, which are concentrated in the February IPCA. The 12-month change in the services segment accelerated sharply, rising from 4.71% in November to 5.32% in February (Figure 1.2.55).

Figure 1.2.54 – Contributions to quarterly changes in services prices – IPCA



Sources: IBGE and BCB

Figure 1.2.55 – Services inflation

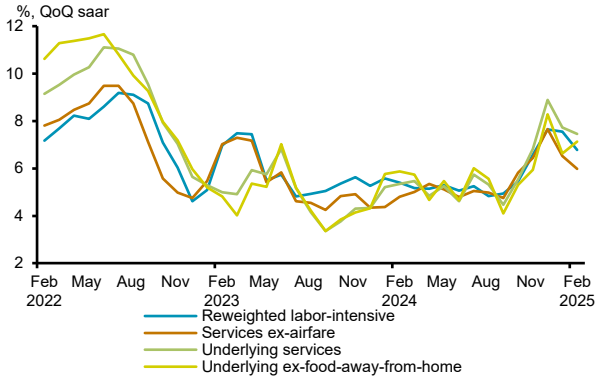


33/ The core industrial goods measure shown in Figure 1.2.60 and discussed in the text is close to the underlying industrial goods indicator that makes up the Ex-3 core inflation, presented in the box New core inflation measures in the June 2018 IR. It excludes charcoal, electrical and electronic devices, new and used cars, ethanol, and cigarettes.

34/ See box Increase in fed cattle prices and effect on consumer prices in this MPR.

35/ The "reweighted labor-intensive" series, in Figure 1.2.63, was presented in the box Services inflation reweighted by production factors in the June 2024 IR.

Figure 1.2.56 – Services inflation



Median inflation expectations for 2025 have significantly increased once again and remain above the upper limit of the tolerance interval around the inflation target. Median expectations rose from 4.59% to 5.66% since the December 2024 IR, which had already indicated a 0.6 p.p. increase when compared with the previous IR (Figure 1.2.57). The rise in expectations was widespread across segments but stronger in services (Table 1.2.7). The widespread increase suggests the importance of macroeconomic factors as determinants, particularly the persistence of the exchange rate at a more depreciated level, current inflation with more pressured underlying inflation measures, and the positive output gap.

Figure 1.2.57 – Median market expectations (Focus) – Annual IPCA

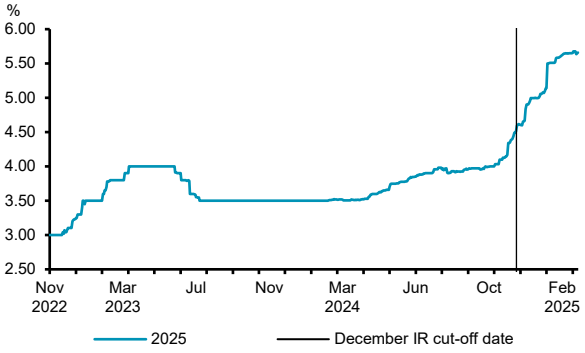


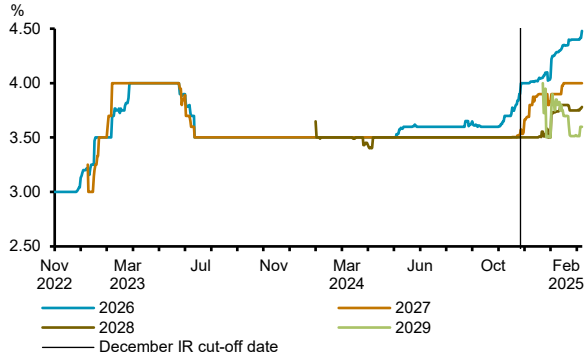
Table 1.2.7 – Breakdown of the revision on the 2025 Focus survey

	Weights	Focus expectations (% p.a.)		
		Dec-6	Mar-14	Contr. to Δ (p.p.)
IPCA	**100**	**4.59**	**5.66**	**+0.48**
IPCA (by aggregation)	100	4.58	5.58	+0.49
Food-at-home	16	5.75	7.31	+0.12
Industrial goods	23	3.30	4.12	+0.06
Services	36	5.21	6.15	+0.24
Administered prices	26	4.13	5.05	+0.06
Market prices	74	4.82	5.80	+0.49
Market prices (by aggreg.)	74	4.73	5.77	+0.43

Inflation expectations remain deanchored for the coming years and have increased once again. For 2026, expectations rose from 4.00% to 4.48%, exceeding the values reached in early 2023[36], with emphasis on the increase in the services segment (from 4.3% to 5.0%). Expectations for the IPCA in 2027 rose by 0.42 p.p. to 4.00%, with widespread increases across segments. The median expectation for 2028 increased from 3.50%, a level maintained throughout 2024, to 3.78%. Expectations for 2029, which began to be collected in January of this year, they are also deanchored in relation to the target of 3.00% (Figure 1.2.58).

36/ Median inflation expectations for 2026 were 3.00% in November 2022, rose to 4.00% from December 2022 to March 2023, and fell to 3.50% in June 2023, following the establishment of the 3.00% inflation target for the reference year, remaining at 3.50% until May 2024.

Figure 1.2.58 – Median market expectations (Focus) – Annual IPCA



Seasonal adjustment and uncertainty regarding the intensity of the GDP slowdown in early 2025

Projections point to strong GDP growth in 2025Q1, partly due to the expectation of a good harvest in the period. However, growth forecasts are high even for GDP excluding agriculture. This box presents an exercise showing that part of this strong GDP growth excluding agriculture may be due to the seasonal adjustment method.

GDP growth slowed down in the second half of 2024, especially in 2024Q4.[1] For 2025Q1, projections point to a strong growth, largely due to the expectation of a good agricultural harvest for crops mainly harvested in the first quarter, especially soybeans.[2] Nevertheless, even the projections for the quarterly GDP growth excluding agriculture are high,[3] which increases the uncertainty regarding the intensity of the economic slowdown in early 2025.

This box shows that this interpretation of strong economic activity in 2025Q1, already excluding the direct effects of agriculture,[4] depends on the seasonal adjustment method used. The IBGE uses the direct method to seasonally adjust GDP at market prices – that is, the adjusted series is obtained from the original (non-adjusted) GDP series. An alternative would be the indirect method, in which seasonally adjusted GDP is calculated by aggregating[5] the seasonally adjusted series of its components, which are the gross value added (GVA) of the sectors of the economy and the taxes on products net of subsidies. Both methods are valid, each with its own advantages and disadvantages. The main advantage of the indirect adjustment is that it preserves the additivity of the series that make up the aggregate.[6] The main advantage of the direct method is that it provides a more accurate adjustment to the aggregate series – smoother and less subject to revision and residual seasonality (IMF 2017, p. 156-157). However, when the component series have very different seasonal patterns, as is the case of agriculture, the indirect adjustment can lead to a smoother and more stable aggregate series (IMF 2017, p. 158). In 2025Q1 in particular, the two methods tell different stories: the direct adjustment results in substantially higher growth at the margin[7] than the aggregate obtained through the indirect method.

The following exercise compares the direct and indirect adjustments of GDP for several combinations of component projections. Analyzing several combinations is important because the CNT results for 2025Q1 are not yet known and because the same value for the GDP series can be obtained from different combinations of values for its components, which – under the indirect seasonal adjustment method – can result in different growth rates at the margin.

1/ Quarterly GDP changes throughout 2024 were 1.0%, 1.3%, 0.7%, and 0.2%, respectively (QoQ, seasonally adjusted).
2/ According to the IBGE's Systematic Agricultural Survey (LSPA), a new record for the grain harvest is projected for 2025, 2.7% higher than in 2023, the largest harvest so far, and 10.6% higher than in 2024. The median expectation for the value added of agricultural activity as a whole, collected by the Focus survey, is a 6.0% increase in 2025.
3/ Using the projections for the GDP and agricultural GVA YoY changes, it is possible to calculate the projections for GDP growth excluding agriculture for each respondent of the Pre-Copom Questionnaire (PCQ). The median of these forecasts for GDP excluding agriculture in 2025Q1 is 2.2% YoY growth, which results in a 0.9% QoQ change after seasonal adjustment according to the IBGE's official methodology.
4/ Other GDP components can be influenced by the dynamics of agriculture, such as taxes, trade, transport, and the direct industrial processing of some agricultural goods, such as food and biofuels. See boxes Impact of the crop harvest on the economic activity in the June 2017 IR and *Efeitos indiretos dos setores produtores de bens básicos para o crescimento da atividade em 2023* in the 2023 Regional Bulletin (Portuguese only).
5/ Aggregation on a moving base identical to that used in GDP without seasonal adjustment.
6/ As for the Quarterly National Accounts (CNT), the moving base indexes would be preserved, since the moving base calculation method already implies the non-additivity of components in other metrics – even in series without seasonal adjustment, such as the YoY change, for example.
7/ In this box, change at the margin always refers to QoQ seasonally adjusted change.

For each of the thirteen supply-side GDP components in the CNT,[8] the best SARIMA model was estimated on the YoY logarithmic difference of the series.[9] Specifically for agriculture, the grain harvest series published in the IBGE's LSPA– including its forecast for 2025– was used as an explanatory variable in the SARIMA model.[10] Once the models for each of the components were estimated, the covariance matrix of their residuals was calculated and used to obtain random shocks for each GDP component. One thousand paths were then simulated for the shocks throughout 2025, consistent with the estimated dependence structure among components.[11] For each component, the simulated shocks were used to generate projections consistent with the estimated SARIMA models. Then, for each of the one thousand trajectories obtained for GDP components, the seasonally adjusted GDP series was derived using both the direct and indirect methods.

Figure 1 shows the changes at the margin for 2025Q1 resulting from direct and indirect seasonal adjustments, with each dot representing a simulation. Considering YoY GDP changes close to the PCQ's median projection (2.8%), there is very strong GDP growth at the margin: 1.4% under the direct seasonal adjustment and 1.0% under the indirect one.[12] Under the direct adjustment, high changes at the margin in 2025Q1 are not solely explained by the favorable performance of agriculture. Considering once again the YoY change close to that of PCQ's median projections (2.2%), growth at the margin for GDP excluding agriculture reached 0.9% in 2025Q1. However, when the same YoY median projection (2.2%) from the PCQ is adjusted by the indirect method, a lower growth projection is obtained for GDP excluding agriculture in 2025Q1 – of 0.3%, a figure close to the growth recorded in 2024Q4. This difference makes clear how, for the same projection, the interpretation of the economic activity slowdown – already excluding the direct effect of agriculture – differs according to the choice of the seasonal adjustment method.

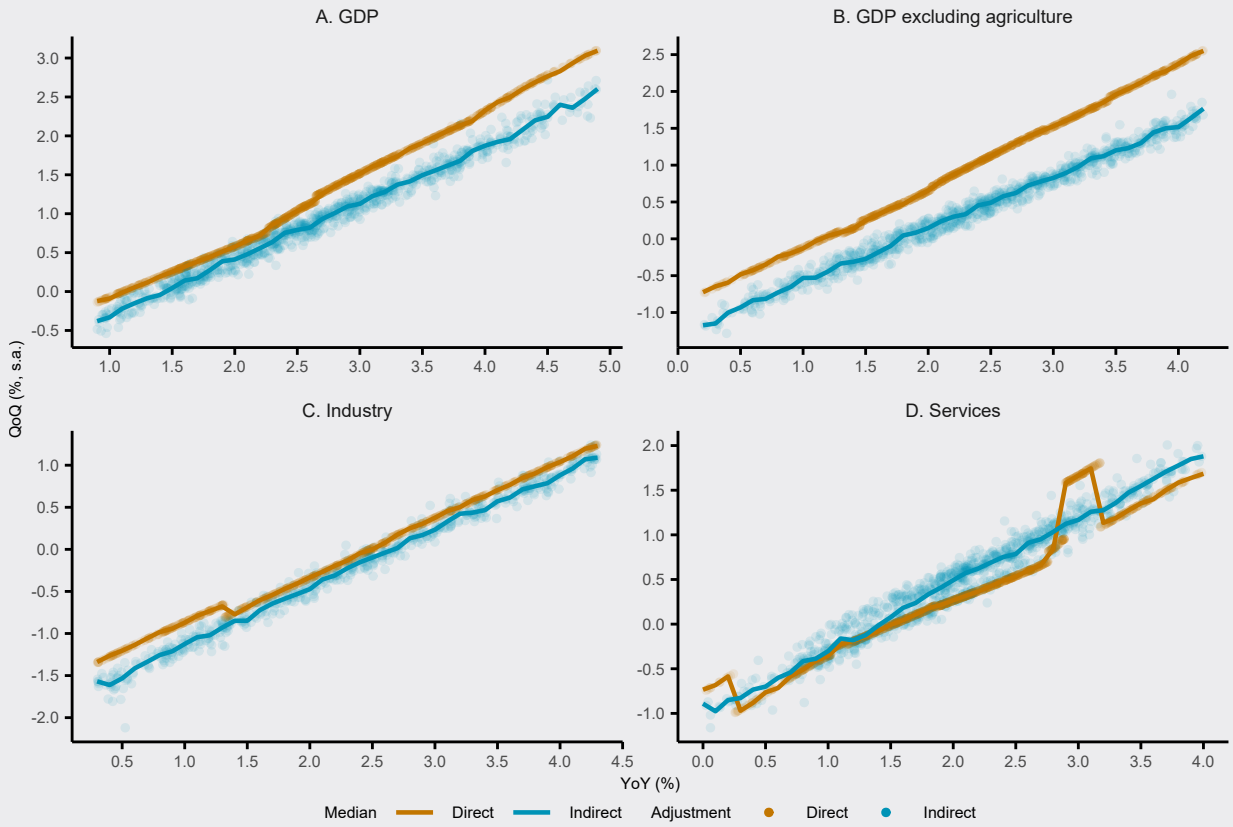
Figure 1 also shows that, in 2025Q1, changes at the margin under the direct seasonal adjustment exceed those under the indirect adjustment – both for GDP and for GDP excluding agriculture – across virtually all YoY growth assumptions. Therefore, the conclusion holds not only for values around the PCQ median, but also across a broader range of possible outcomes. For total industry,[13] margin changes under the direct adjustment also exceed those from the indirect adjustment, but the gap is much smaller than in the cases of GDP and GDP excluding agriculture. For services,[14] the difference between the methods is less clear than in the other cases analyzed.

The higher growth at the margin for GDP excluding agriculture in 2025Q1 under the direct adjustment – compared with the indirect adjustment – is expected to persist even when data for the remaining 2025 quarters are incorporated into future CNT releases. Figure 2 shows the GDP growth excluding agriculture in 2025Q1 for different seasonal adjustment horizons, based on the simulations previously discussed. Even as the remaining 2025 quarters are progressively incorporated, growth in 2025Q1 will continue to remain substantially higher under the direct adjustment than under the indirect adjustment. For instance, after incorporating 2025Q4, growth in 2025Q1 at the margin, for a 2.2% YoY change, would be 0.7% under the direct adjustment compared with 0.2% under the indirect adjustment.

8/ Agriculture, four industry activities, seven services sector activities, and taxes on products net of subsidies.
9/ Data up to 2024Q4 were used for the estimation, with dummy variables included for 2008Q4 and 2020Q2. The best model was selected based on the minimization of the corrected Akaike information criterion (AICc).
10/ The annual harvest was converted to a quarterly series using the seasonal distribution of agricultural GVA. For 2025, the same distribution was assumed as for 2023, another year with favorable soybeans and corn harvests.
11/ Additionally, residuals were assumed to exhibit no temporal autocorrelation, consistent with the estimated SARIMA models.
12/ To assess the association between the YoY change and the change at the margin, it was considered the median of the changes at the margin obtained from simulations whose YoY figure – rounded to one decimal place – matched the value of interest. The same procedure was applied throughout the remainder of the text.
13/ Equivalent to the secondary sector, an aggregation of four industrial activities: i) mining; ii) manufacturing; iii) construction; and iv) utilities.
14/ The tertiary sector, comprising seven different economic activities.

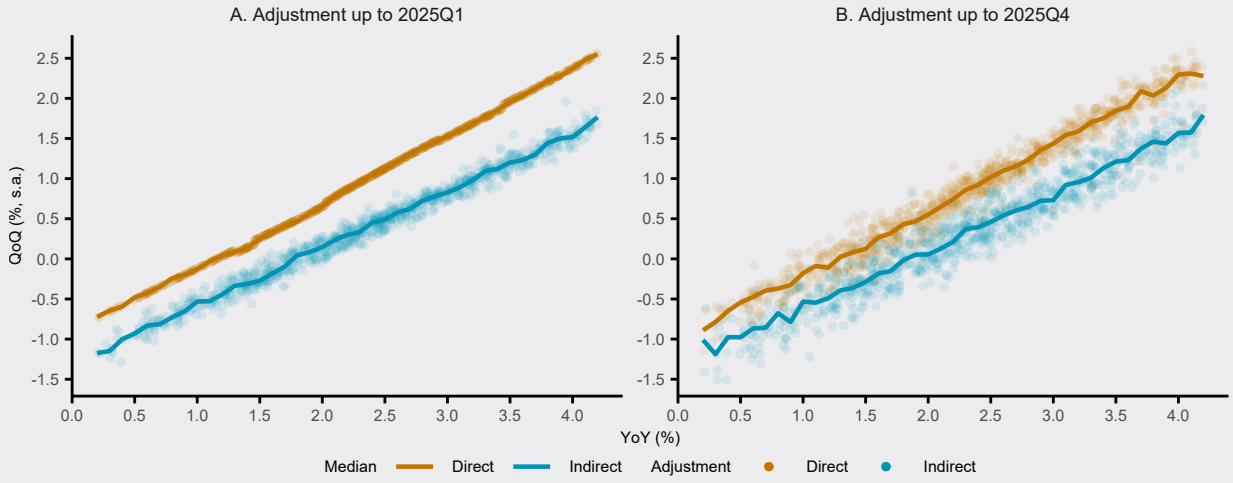
Figure 1 — 2025Q1: QoQ change by type of seasonal adjustment

Seasonal adjustment using data up to 2025Q1



For each type of adjustment, the dots represent different simulations.
The median (solid line) was calculated in 0.1 intervals of the YoY change.

Figure 2 — GDP excluding agriculture 2025Q1: QoQ change by seasonal adjustment horizon

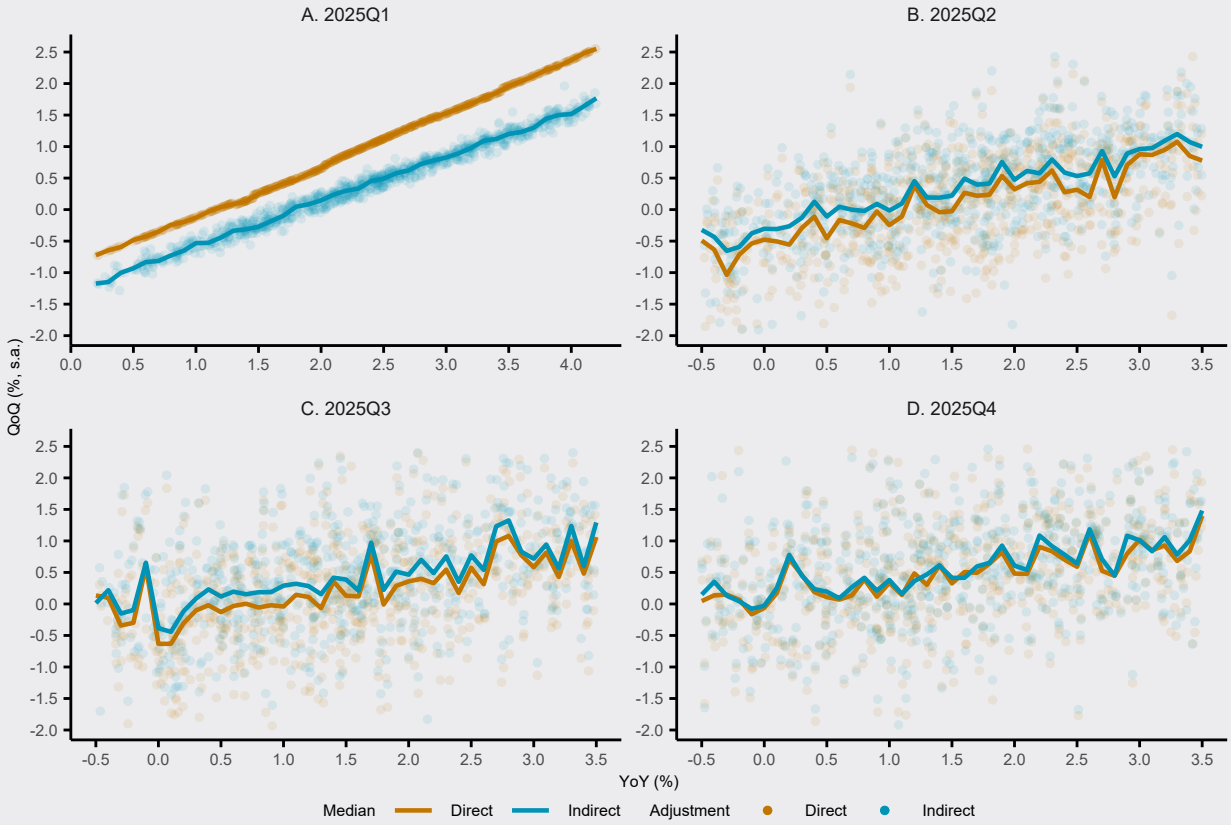


For each type of adjustment, the dots represent different simulations.
The median (solid line) was calculated in 0.1 intervals of the YoY change.

However, such significant discrepancy should not be observed in the quarterly changes obtained under the direct and indirect seasonal adjustment methods in the remaining quarters of 2025. Figure 3, which shows the growth rates for each quarter with the seasonal adjustment going up to the quarter itself, indicates that in the remaining quarters of 2025, the change obtained under the indirect adjustment should generally be slightly higher than that one obtained under the direct adjustment, offsetting part of the effect observed in 2025Q1.

Figure 3 — GDP excluding agriculture: QoQ change

Seasonal adjustment using data up to the respective quarter



For each type of adjustment, the dots represent different simulations.
The median (solid line) was calculated in 0.1 intervals of the YoY change.

Figure 4 shows the GDP excluding agriculture series with direct and indirect seasonal adjustment in level, considering adjustment up to 2025Q1 – a period for which the median change resulting from a 2.2% YoY growth (PCQ median) is used. When examining a longer time horizon, both seasonal adjustment methods tell the same story. However, when analyzing changes at the margin, considerable differences emerge. Figure 5 shows the growth at the margin difference between the direct and indirect adjustments: positive values indicate greater growth under the direct adjustment, as is the case for 2025Q1. As the main interest lies in comparing the result to be released for 2025Q1, the figure considers the seasonal adjustment, applied using data only up to each respective quarter. Even though the average differences is virtually zero[15] – as the level figure already indicated – changes at the margin often diverge, with the average of absolute deviations equal to 0.21 p.p. However, the 0.55 p.p. deviation in 2025Q1 is the largest since 2010 – although other quarters have since shown similarly large differences – and more than twice the average for a first quarter (0.23 p.p.).

15/ Considering data from 2010. Even when broken down by quarter, average differences are small. Considering only first quarters of each year, the average difference is 0.07 p.p.

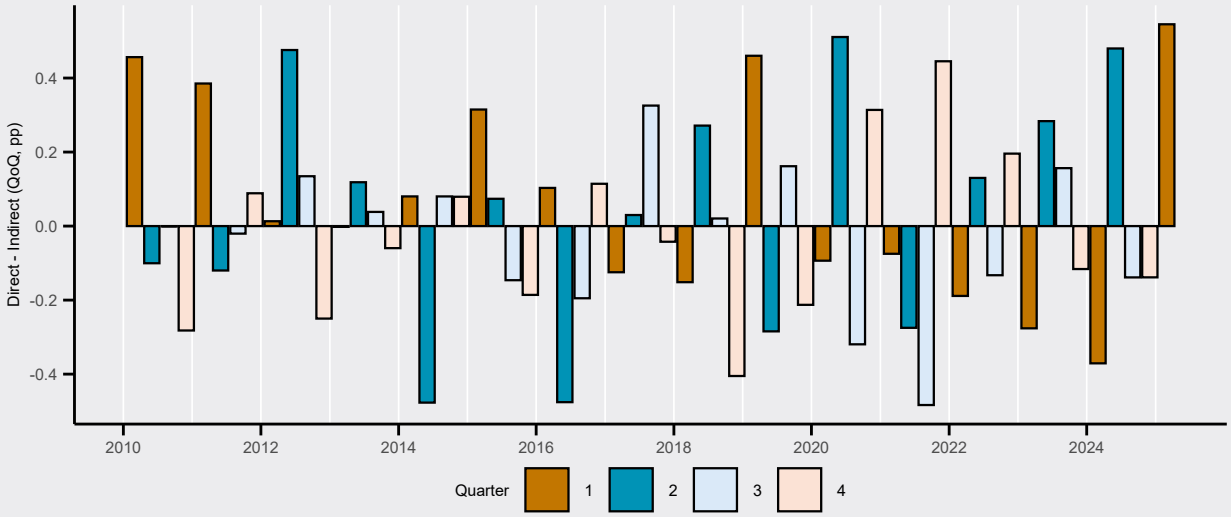
Figure 4 — GDP excluding agriculture: direct and indirect adjustments

Seasonal adjustment using data up to 2025Q1.

Sources: IBGE and BCB

Figure 5 — GDP excluding agriculture: direct - indirect adjustment

Seasonal adjustment using data up to the respective quarter.



One possible reason for the difference between the direct and indirect adjustments in 2025Q1 is the offsetting effect of the leap year that occurred the previous year. The official specification used in the seasonal GDP adjustment mechanically discounts leap year's extra day,[16] which may overestimate its actual effect. Furthermore, the official adjustment uses only the number of weekdays to estimate calendar factors, ignoring national holidays which always occur in the same month and may reduce working days.[17] To assess the effects of the leap year and working days on the difference between the direct and indirect adjustments, the exercise was repeated with an alternative adjustment – accounting for working days instead of just weekdays, and without applying the mechanical leap year adjustment. Figure 6 shows that the discrepancy between these modified direct and indirect adjustments decreased considerably, with an average of the absolute deviations of 0.15 p.p. (down from 0.21 p.p.), while the discrepancy for 2025Q1 falls to 0.24 p.p., less than half the 0.55 p.p. gap seen under the conventional adjustment (values obtained with the median of the changes referring to a YoY of 2.2%). Figure 7 shows that the smaller discrepancy between the direct and

16/ The mechanical adjustment consists of multiplying the series without seasonal adjustment by 90.25/91 in the first quarters of leap years. It is carried out when the algorithm identifies multiplicative seasonality, which has been the case for GDP, but not necessarily for all its components.

17/ Taking Christmas as an example, its seasonal effect is always captured in December (in the fourth quarter in the case of quarterly data), regardless of whether the holiday on the 25th falls on a weekend or a weekday. However, this holiday may have a different calendar effect if it falls on a Sunday or a Monday, for example.

indirect adjustments is robust to different possible scenarios and seasonal adjustment horizons. In addition, its decrease in relation to the official seasonal adjustment is due to a reduction in the change at the margin resulting from the direct adjustment and an increase in the change of the indirect adjustment. When the median relative to the PCQ YoY change (2.2%) is considered, the direct adjustment falls from 0.9% to 0.7% and the indirect adjustment rises from 0.3% to 0.5%. It is also possible that the effects of the pandemic still affect the result of the seasonal adjustment, making it hard to interpret high frequency movements.[18]

Figure 6 — GDP excluding agriculture: direct - indirect adjustment

Alternative adjustment. Seasonal adjustment using data up to the respective quarter.

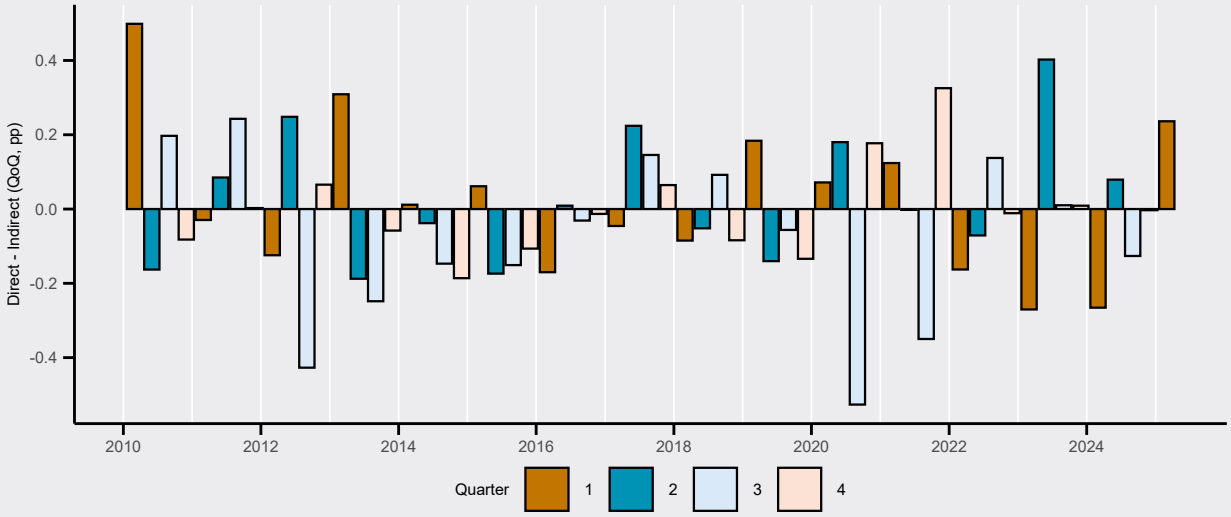
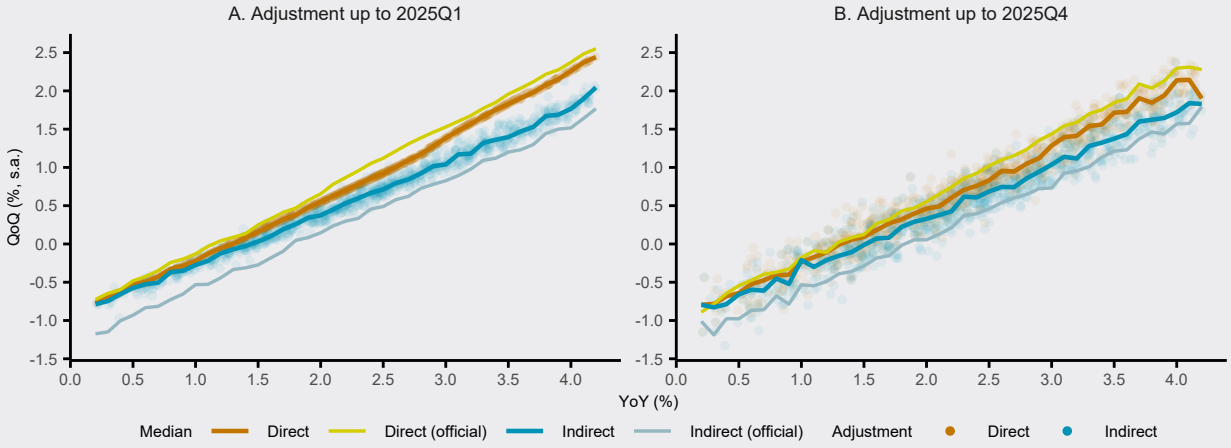


Figure 7 — GDP excluding agriculture 2025Q1: QoQ change by seasonal adjustment horizon

Alternative Adjustment



For each type of adjustment, the dots represent different simulations.
The median (solid line) was calculated in 0.1 intervals of the YoY change.

The BCB's projection for GDP growth in 2025Q1 is the same as the PCQ median, a 2.8% change in relation to the same period in 2024, which is equivalent to a 1.4% growth at the margin by the direct adjustment and 1.0% by the indirect adjustment. For GDP excluding agriculture, the projection is a 2.2% YoY growth, also in line with the PCQ, which results in a 0.9% growth at the margin by the direct adjustment and only 0.3% by the indirect adjustment. Therefore, for GDP excluding agriculture, the projection for 2025Q1 is consistent with a slower growth rate than in the first three quarters of 2024. Naturally there is a lot of uncertainty about the result, especially considering the indirect adjustment, which depends on the composition to be observed.

18/ An analysis of the effects of the pandemic on seasonal adjustment can be found in box Effects of the pandemic on the seasonal adjustment of economic indicators in the June 2021 IR.

The Brazilian economy slowed down in 2024Q4 and the strong growth expected for agriculture in 2025Q1 makes it more difficult to identify the continuity or reversal of this process in early 2025. This box discussed technical issues concerning seasonal adjustment methods and revealed that even calculating GDP growth excluding agriculture, uncertainty about the evolution of this deceleration process in 2025Q1 will remain. At first glance, the median projections of the most recent PCQ may appear consistent with strong growth for GDP excluding agriculture in 2025Q1. However, the exercises presented in this box show that this result may partly reflect the complexities of the seasonal adjustment process, which appear especially pronounced in the current quarter – precisely when there is great interest to know the exact value of the economy's growth rate. For instance, under the indirect seasonal adjustment method, a projection of YoY growth for GDP excluding agriculture in line with the PCQ's median seems to result in growth at the margin that would corroborate the slowdown observed in 2024Q4. In this context, without denying the key role of GDP, it will be particularly relevant to monitor a wide range of indicators – including those with a monthly frequency – of economic activity and the labor and credit markets, to assess the degree to which the economy is slowing down.

References

IMF Quarterly National Accounts Manual. Washington, D.C.: IMF, 2017.

Revision of the 2025 GDP projection

The 2025 Gross Domestic Product (GDP) growth projection remains consistent with the perspective of economic slowdown compared with 2024 and previous years. The revision, from 2.1% to 1.9%, reflects a reduction in the expected growth of more cyclical sectors, partially offset by an increase in the others.

The central projection for GDP growth in 2025 fell from 2.1%, in the December 2024 IR, to 1.9%. As in the September and December IR editions, the growth outlook for 2025 remains below that of 2024, which was 3.4% The expected deceleration remains associated with the tighter monetary policy, lower fiscal stimulus, reduced degree of slack of production factors, and moderate global growth. However, uncertainty around the baseline scenario has increased, considering both external and domestic factors.

The revision reflects a reduction in the expected growth of more cyclical sectors, partially offset by higher growth in the other sectors.[1] The expectation of a slower economic growth pace throughout 2025, especially of the sectors more sensitive to the economic cycle, was influenced by a tighter monetary policy, as evidenced by higher real interest rates as of 2025Q1 than those expected in the December 2024 IR.[2] As for improved forecasts for less cyclical sectors, they mainly reflect increased estimates for the agricultural output and more favorable prospects for oil production. On the demand side, a relevant deceleration is still expected in household consumption, Gross Fixed Capital Formation (GFCF), and imports.

The GDP trajectory over the year is expected to show stronger growth in 2025Q1, following a modest increase in 2024Q4, and relative stability in the following quarters. The strong growth forecast for agriculture – driven by the prospect of a record soybeans harvest, concentrated in the beginning of the year – coupled with the increase of the minimum wage and the release of extra funds from the Employment Guarantee Fund (FGTS) extra funds,[3] is expected to contribute to activity acceleration in 2025Q1. Nonetheless, part of the expected growth for 2025Q1 – especially when excluding agriculture from the GDP – seems to be influenced by the specification of the seasonal adjustment, as discussed in a box in this MPR.[4] The results suggest that assessment of how heated economic activity is in early 2025 should be made with caution.

By sector, the lower GDP growth forecast reflects the decline of industry and services, which surprised negatively in 2024Q4, and expansion of agriculture. The expected agriculture expansion rose from 4.0% to 6.5%, in view of more favorable prospects for agricultural production, especially grains.[5] For industry, the growth projection fell from 2.4% to 2.2%, with heterogeneous results across its components. The lower manufacturing growth projection is closely associated with the prospect of a lower average growth pace throughout the year, with deceleration already in 2025Q1. Conversely, upward revision in mining is due to more favorable prospects for oil production, while, in construction, it is mainly due to the positive surprise in 2024Q4, which implied an increased statistical carry-over for the annual growth in 2025. The projection for the services sector fell from 1.9% to 1.5%, with decline or stability in most of its activities. Overall, changes

1/ Classification of the sectors more and less sensitive to the economic cycle, discussed in several 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.
2/ See Figure 2.2.2, in Chapter 2 in this MPR.
3/ As of March, funds will be released for those who adhered to the anniversary withdrawal and were dismissed without cause.
4/ Box Seasonal adjustment and uncertainty regarding the intensity of the GDP slowdown in early 2025.
5/ The Brazilian Institute of Geography and Statistics (IBGE) December's forecast for agricultural production in 2025 was of a 5.9% expansion in grain production, while the IBGE's March Systematic Agricultural Survey (LSPA) projected an expansion of 10.6%, with strong increase in the production of soybeans, corn, rice, and beans.

stem from mostly negative surprises in 2024Q4 and the forecast of growth rates throughout the year slightly lower than previously expected.

From the demand side, the reduced forecasts for household consumption – from 2.4% to 1.5% – and GFCF – from 2.9% to 2.0% – stood out, while the projected growth for government consumption remained stable at 1.6%. The downward revision in household consumption is mostly due to the negative surprise in 2024Q4, with a strong decline of 1.0%. The downward revision in GFCF reflects a slightly stronger deceleration than previously expected, amid tighter financial conditions. Growth projections for exports and imports were raised from 2.5% to 4.0%. The change in exports projection reflects more favorable prospects for agriculture and mining – sectors with a large share in the country's export basket. Increased projection for imports is mainly due to positive surprises in the imported volumes in the first two months of the year. Despite the upward revision, a strong deceleration is expected for imports compared with 2024, when they grew 14.7%, in line with the prospect of a slowdown in domestic demand. Considering updated projections, the contributions from domestic demand and the external sector to GDP growth in 2025 are estimated at 1.9 p.p. and 0,0 p.p., against 5.2 p.p. and -1.8 p.p. in 2024, respectively.

Table 1 – Gross Domestic Product
Accumulated in the year

% growth

Itemization	2024	2025[1]	
		Previous	Current
Agriculture	-3.2	4.0	6.5
Industry	3.3	2.4	2.2
Mining	0.5	2.0	4.5
Manufacturing	3.8	3.0	1.5
Construction	4.3	1.0	2.5
Public utilities[2]	3.6	1.5	1.5
Services	3.7	1.9	1.5
Trade	3.8	1.5	1.9
Transport and storage	1.9	2.0	2.1
Information services	6.2	3.6	3.6
Financial and related services	3.7	1.7	1.7
Other services	5.3	2.5	1.0
Real estate	3.3	2.3	1.8
Public admin., health, and education	1.8	1.0	0.7
More cyclical components	4.3	2.3	1.7
Less cyclical components	1.5	2.0	2.3
Value added at basic prices	3.1	2.2	2.0
Taxes on products	5.5	2.0	1.9
GDP at market prices	**3.4**	**2.1**	**1.9**
Household consumption	4.8	2.4	1.5
Government consumption	1.9	1.6	1.6
Gross Fixed Capital Formation	7.3	2.9	2.0
Exports	2.9	2.5	4.0
Imports	14.7	2.5	4.0

Sources: IBGE and BCB

1/ Estimated.

2/ Electricity and gas, water, sewage, waste management activities.

Financial flow and credit stimulus in 2024

This box presents an update of the metrics for the financial flow and credit impulse previously presented in a box in the September 2021 Inflation Report, along with an extension for the debentures market. The results indicate that the financial sector, through the bank credit market, received in 2024, in net terms, 0.9% of GDP in resources from the non-financial sector (households and companies), below the 2.1% recorded in 2023. Thus, the banking credit impulse was positive at 1.1% of GDP. Additionally, the significant volume of debenture issuances in the capital market also generated a positive stimulus for companies of 1.0% of GDP.

The balance of credit in the National Financial System (SFN) grew 11.5% in 2024, compared with an 8.1% expansion in 2023. This increased pace of balance growth was mainly due to the expansion of credit granting in 2024, of 10.7% in real terms, the highest of the time series. Monetary policy easing from August 2023 to May 2024 and relatively stable delinquency rates allowed a reduction in non-earmarked interest rates, boosting new credit origination. Household and corporate payments to the SFN – estimated according to the methodology used in the box Financial flow and credit stimulus[1] – continued to exceed new loans (Figure 1) and the financial flow – the difference between credit granting and payments – remained negative. However, given the strong increase in credit granting, the net flow of resources from the real sector to the banking system fell: from 2.1% of GDP in 2023 to 0.9% in 2024 (Figure 2).

Figure 1 – New loans and payments

BRL billion of Jan 2025, 3MMA, s.a.

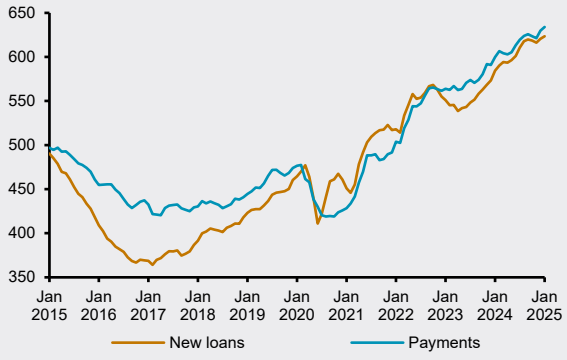
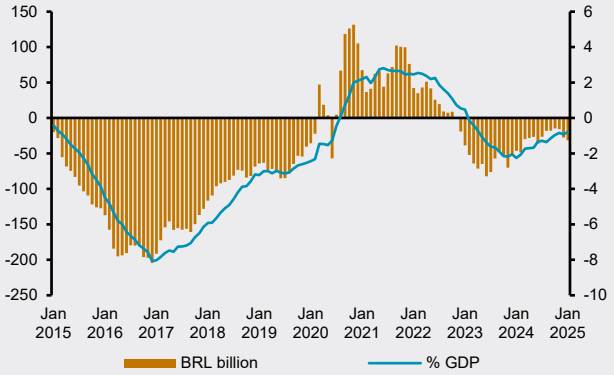


Figure 2 – Financial flow

BRL billion of Jan 2025, 3-month accum., s.a. | % of GDP, 12-month accum.



The largest contribution to the reduction in the flow absorbed by the SFN in 2024 came from non-earmarked operations, especially from the corporate segment. Companies paid in net terms 0.5% of GDP to the SFN in 2024 (Figure 3), below the 1.3% recorded in 2023. This result reflected the growth of non-earmarked credit granting, observing that new corporate contracts in 2023 were negatively impacted by higher uncertainty caused by judicial recovery requests from large companies at the beginning of that year. Part of the robust growth in credit granting in 2024 is therefore explained by the base effect represented by the weak 2023 performance. As for households, lower net payments to the SFN were also observed. The flow of payments made by households fell from 0.7% to 0.4% of GDP (Figure 4), also mainly reflecting the growth of new non-earmarked credit operations. The decline in rural credit disbursements, in turn, impacted the financial flow of earmarked financing in the opposite direction, both in the household and corporate segments.

1/ The value of payments is estimated from the monthly change in outstanding balances, following the methodology described in the box published in September 2021.

Figure 3 – Financial flow decomposition
Corporations
% of GDP, accumulated in 12 months

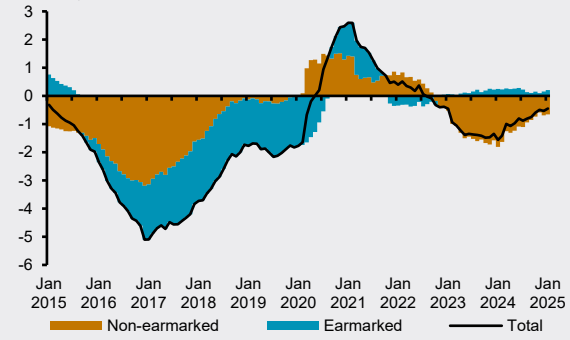
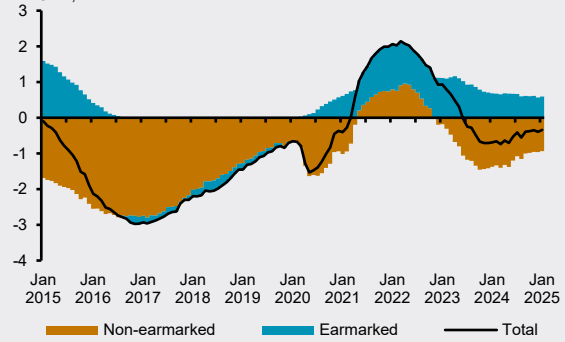


Figure 4 – Financial flow decomposition
Households
% of GDP, accumulated in 12 months



As a result of the lower flow of resources from the non-financial sector to the SFN, the credit impulse – defined as the financial flow change – was positive in 2024. Considering data at constant prices, the stimulus totaled BRL 128.1 billion in the year, equivalent to 1.1% of GDP.[2] The stimulus was positive in non-earmarked operations and slightly negative in earmarked ones (Figure 5). Analyzing the contribution of new loans and payments, one observes that the 2024 result was due to the expansion of credit granting at a higher pace than payments (Figure 6).

Figure 5 – Credit impulse decomposition
BRL billion of Jan 2025, accumulated in 12 months

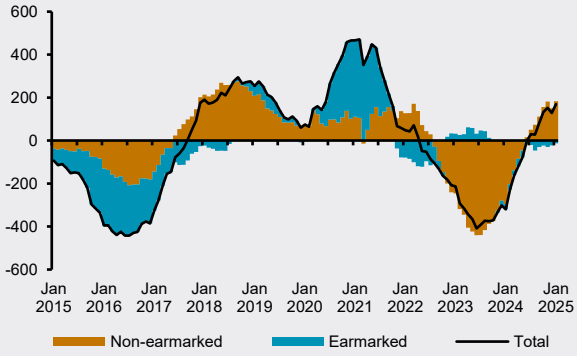
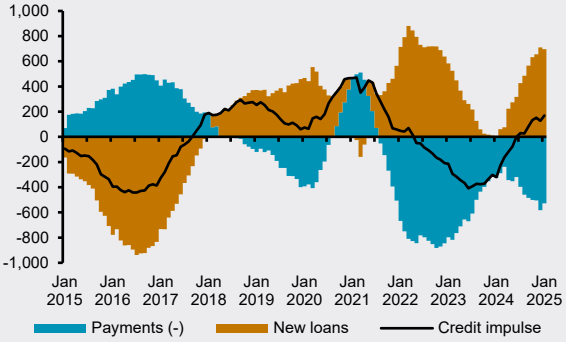


Figure 6 – Credit impulse decomposition
BRL billion of Jan 2025, accumulated in 12 months



In historical perspective, after a strong credit impulse during the pandemic years of 2020 and 2021 – when the SFN postponed the payment of part of financing and increased corporate credit granting – monetary policy tightening in the biennium 2022-2023 contributed to the return of financial flow and credit impulse to a negative territory, even amid strong economic growth (Figure 7). In 2024, the credit impulse became positive, contributing to the economic expansion recorded in the year (Figure 8).

Figure 7 – Credit Impulse and GDP
Accumulated in the year
BRL billion of Jan 2025

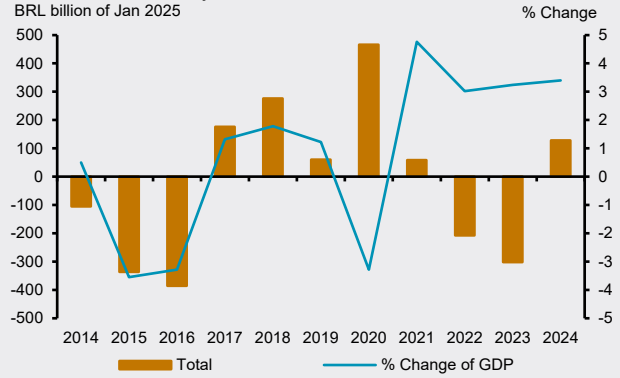
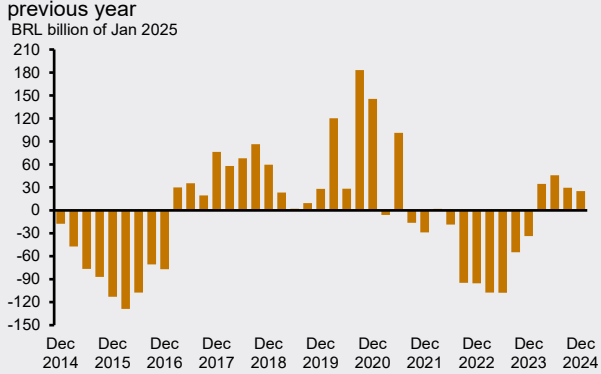


Figure 8 – Credit impulse
Flow change compared with the same quarter of the previous year
BRL billion of Jan 2025



2/ The credit impulse in 2024 was calculated by the difference in financial flows for 2023 and 2024, obtained by summing monthly data of the respective year, corrected by the Extended National Consumer Price Index (IPCA).

Moreover, it is important to highlight the role of the capital market, which has grown in recent years and has become a key source of corporate financing. The stock of corporate debt securities grew from 10.2% of GDP in 2019 to 18.1% in 2024 (Figure 9).[3] Much of this financing is obtained through debentures, with issuances of BRL 489 billion in 2024, a record in the time series in real terms. Using issuances[4] and amortization[5] data for this instrument, an indicator similar to the financial flow[6] was constructed, using the difference between the two variables. The results indicate that the financial flow of debentures reached 1.2% of GDP in 2024, up from 0.2% in 2023, mainly reflecting growth in issuances, which reached 4.2% of GDP (Figure 10). Amortizations also increased, but to a lesser extent than issuances. The resulting credit impulse – calculated by the difference in annual flow – was BRL 121.5 billion, considering data at constant prices, equivalent to 1.0% of GDP (Figure 11). The positive stimulus occurred after two consecutive years with negative values. The conclusion is, therefore, that the corporate credit stimulus in 2024 was even greater when considering financing in the domestic capital market.

Figure 9 – Total credit to non financial corporations

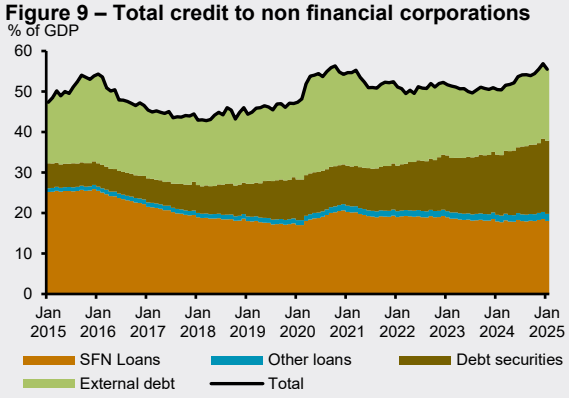


Figure 10 – Debentures financial flow decomposition

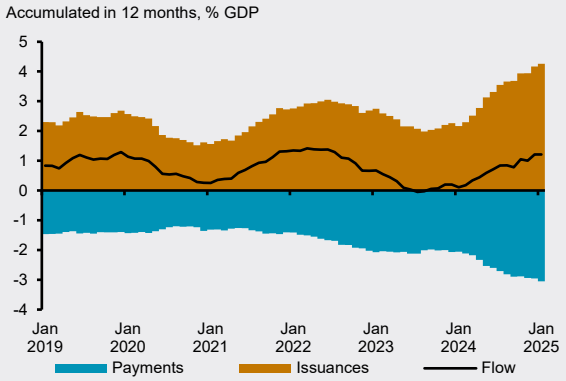
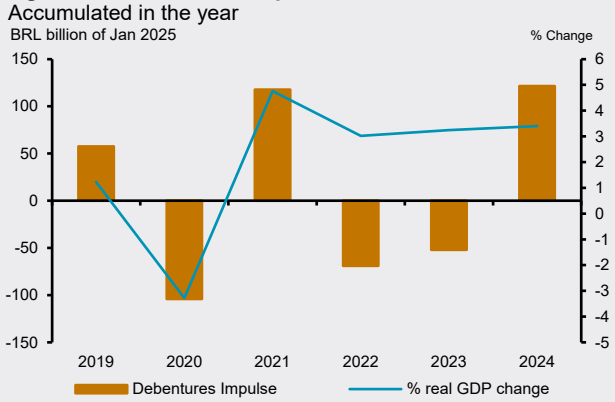


Figure 11 – Debentures Impulse and GDP
Accumulated in the year



Prospectively, the monetary policy tightening that began in September 2024 tends to contribute to a new reversal of the credit impulse. In bank credit, the magnitude of the credit impulse has already declined in the last two quarters of 2024 (Figure 8), considering the YoY flow change. This movement tends to intensify as the cost of credit slows down credit granting and increases the value of payments. The resulting tightening

3/ According to information from total credit to the non-financial sector, available in the Press Release of the Monetary and Credit Statistics. In addition to cyclical factors, this market has shown structural growth and still responds to legal and regulatory changes. See, for example, discussions on total credit and its long-term trend and corporate credit granting in the section "1.2.2 Credit" of the Financial Stability Report of November 2024.

4/ Issuance data come from Cetip/B3. The value corresponds to the original unit price (UP) of the issuance multiplied by the number of debentures traded in the month.

5/ Data come from Cetip/B3. Similarly to the calculation of the banking financial flow, amortization values are estimated based on the change in the outstanding stock and include both principal and interest.

6/ Unlike bank loans, financing through securities issuance in the capital market does not necessarily generate a financial flow between the banking sector and the real sector (households and companies). In the capital market, securities can be purchased by households or even other non-financial corporations, which would generate a financial flow within the real sector.

of financial conditions may also imply a slowdown in the capital market. A similar assessment is shared by a relevant share of economic analysts. For 61% of Pre-Copom Questionnaire (PCQ) respondents, the performance of the capital market is expected to be weaker than in 2024.[7]

7/ The question was "What is your expectation for the performance of the capital market in 2025?".

Projection for credit growth in 2025

The projection for the 2025 nominal growth of the National Financial System (SFN) credit balance was revised downward, from 9.6% to 7.7%, in line with the scenario of lower activity growth and further monetary tightening.

Since the December 2024 IR, SFN credit balances have been above expectations, mainly in the non-earmarked household and earmarked corporate segments. Therefore, the credit balance ended 2024 with an 11.5% growth, higher than the 10.6% projection published in the December 2024 IR and the 8.1% expansion in 2023.

For 2025, the projection was revised from 9.6% to 7.7% (Table 1), with widespread downward adjustment across segments. Revisions reflected the prospects of a scenario of higher interest rates, lower economic activity growth, and slowdown in the labor market, in a context of high indebtedness and debt service-to-income ratio, in addition to tighter credit supply conditions.[1] The projection for non-earmarked credit went from 10% to 8.5% for households and from 9% to 7% for companies.[2]

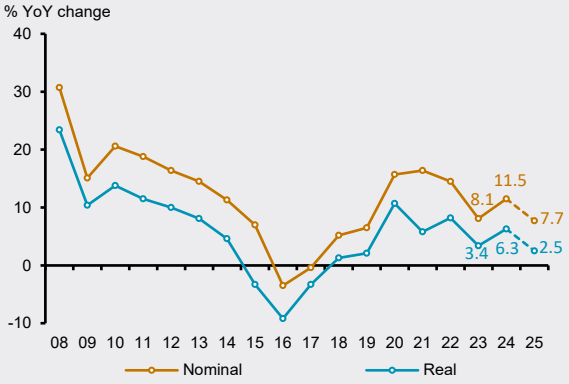
In the earmarked credit segment, the growth projection for household credit fell from 10% to 7.5%, with the prospect of tighter credit conditions – affecting new housing loan contracts, which have already been on a downward trend, as highlighted in the first chapter of this MPR. The projected growth of earmarked corporate credit was reduced from 9.0% to 7.5%, considering that the surprise in late 2024 resulted in a higher comparison basis. In real terms, the growth in the total credit balance is projected at 2.5% for 2025 (Figure 1), which would be the lowest since 2019.

Table 1 – Credit balance

% YoY change

	Occurred			Proj. 2025	
	2023	2024	Jan 2025	Previous	Current
Total	8.1	11.5	11.7	9.6	7.7
Non-earmarked	5.6	11.2	11.5	9.6	7.9
Households	8.4	12.6	12.7	10.0	8.5
Corporations	2.1	9.4	9.7	9.0	7.0
Earmarked	11.9	11.8	12.1	9.7	7.5
Households	13.1	12.4	12.6	10.0	7.5
Corporations	9.6	10.7	11.1	9.0	7.5
Total Households	10.5	12.5	12.7	10.0	8.0
Total Corporations	4.7	9.9	10.2	9.0	7.2

Figure 1 – Total credit outstanding



1/ According to the December 2024 results of the BCB's Quarterly Survey on Credit Conditions (Portuguese only), which was collected in January 2025, the financial institutions perceive a turning point in credit conditions as of 2024Q4, with expectations of worsening in 2025Q1.

2/ This projection does not include an estimate of potential impact of the Credit to Workers program, regarding payroll-deducted loans to private sector workers, given the uncertainty about the magnitude and timing of these impacts.

Projections for the external accounts in 2025

Projections for the external accounts in 2025 have changed slightly when compared with the December 2024 IR. In particular, levels similar to those of 2024 are expected for the current account deficit and net inflows of direct investment liabilities.

This box presents the revised projection for the external accounts of the Brazilian economy in 2025. The current account deficit is expected to remain relatively stable in relation to 2024, lower than projected inflows of direct investment liabilities. The risks to this scenario, however, have increased, with greater uncertainty due to rising international trade disputes.

Table 1 – Projections for the external accounts

USD billion

Itemization	2024	2025	2025 Forecast	
	Year	Jan	Previous	Current
Current account	-61	-9	-58	-62
Balance on goods	66	1	65	61
Exports	340	25	338	343
Imports	274	24	274	282
Services	-55	-5	-49	-52
of which: Travel	-12	-1	-10	-14
of which: Transport	-15	-1	-14	-13
Primary income	-75	-6	-75	-72
of which: Interests	-30	-3	-31	-31
of which: Dividends	-46	-3	-44	-41
Investment - liabilities	100	2	85	80
DI liabilities	71	7	70	70
Portfolio investments	10	-5	15	10
Other investments[1]	19	0	0	0

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

Projections for the external accounts in 2025 have changed slightly compared with the December 2024 IR. The projected current account deficit increased slightly to USD 62 billion, equivalent to 2.8% of GDP. The increase in the projected deficit is associated with expectations of a smaller trade surplus and a larger services account deficit.

The new projection considers that the trade balance should decline when compared with 2024, with lower growth in exports than in imports. The projected value of exports rose slightly, maintaining the expectations of a moderate increase in the volume in relation to 2024, offset by lower commodity prices in general. Relevant exceptions are coffee and beef, whose prices are expected to remain at a higher level. The new projection for imports considers higher volumes of capital goods – especially due to imports of oil rigs – and intermediate goods, whose purchases from China remain strong.[1]

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

The projected deficit for the services account has been revised slightly upwards but remains just below that recorded in 2024. The projection considers a slight recovery in net travel expenses but with reduced net transport expenses. Compared with the December 2024 IR, the estimate also considers the methodological improvement in the calculation of travel expenses, which led to an increase in estimated net expenses for the 2022-2024 period. As for maritime transport, prices have been falling and tend to impact the cost of the transport of goods by this mode.[2]

In the primary income account, the deficit is now expected to fall slightly compared with 2024. The revision was concentrated on net expenses with dividends, revised marginally downwards considering the lower GDP growth projected for 2025.

Despite the greater uncertainty in the scenario, net inflows of direct investment liabilities are expected to remain stable at USD 70 billion. The favorable prospect for exports and the pace of domestic activity continues to 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%). As for portfolio investments, net inflows should be positive for the third consecutive year and concentrated in securities, given the more attractive interest rate differential.

Figure 1 – Current account

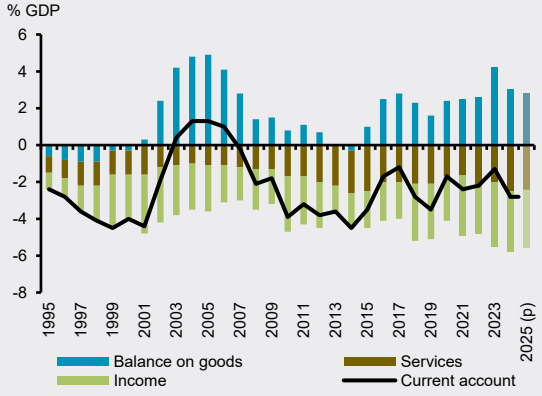
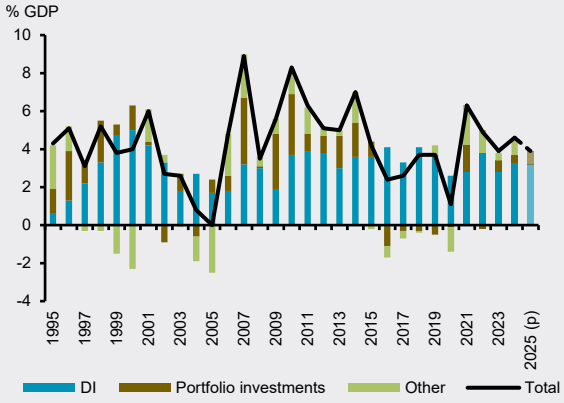


Figure 2 – Investment – liabilities



2/ Further details on the methodological change in the travel account can be found in Statistical press releases – external sector – February 2025.

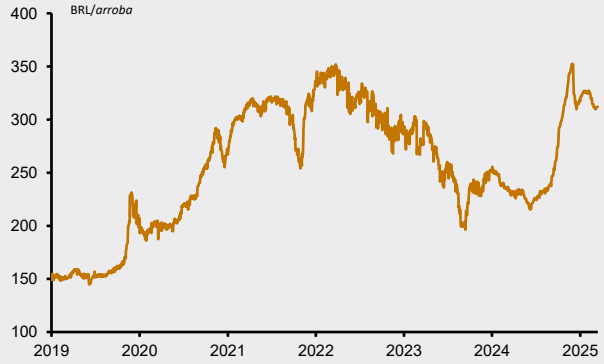
Increase in fed cattle prices and effect on consumer prices

The increase in fed cattle prices since September has been strong, partially associated with supply issues in the sector, and helps explain the rise in meat and food-away-from-home prices in the subsequent months. The outlook for meat supply suggests that prices in these segments are likely to remain pressured this year.

After a prolonged decline, starting in 2022, fed cattle prices grew strongly from September 2024. The price per *arroba* (15 kg) of fed cattle reached a low of BRL 215.0 in June, during a period of seasonally lower prices, and of BRL 353.0 at the end of November, before declining to around BRL 320.0 in December and BRL 310.0 more recently (Figure 1).

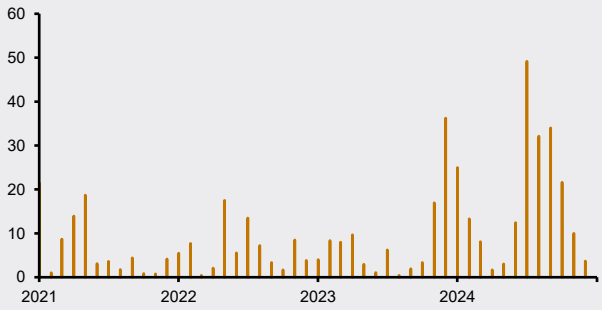
This recent increase occurs amid a scenario of strong domestic and external demand and significant BRL depreciation throughout the year. Nevertheless, supply restrictions could have played a relevant role in the price trajectory. In 2024, there was a long period with little rainfall and higher temperatures, from May to October, which affected leading crops such as corn, coffee, and orange. Industry reports and and remote sensing surveys also indicate that the drought affected a large share of pasture areas (Figure 2).[1]

Figure 1 – Fed cattle price



Source: Cepea

Figure 2 – Drought impact index on pastures



Sources: Cemaden, Pasture Atlas, developed by the BCB. The index represents the percentage of Brazil´s pasture area affected by severe drought or worse.

The possible end of the down cycle of fed cattle price was also pointed out as one of the factors for the price increase at the end of 2024. The cattle cycle can be described as an oscillation of the herd or the supply of animals for meat production, with a multi-year period. This oscillation is linked to an economic decision by the cattle farmer, between allocating cows and heifers for reproduction or slaughter (culling of breeding stock).[2] In Figure 3, one can observe the cyclical behavior in the number of animals slaughtered and its positive correlation with the percentage of females in the slaughter. Still for Brazil, one can also observe a cyclical behavior of fed cattle price that is negatively correlated with the slaughter cycle – as would be expected in the case of supply-related movements (Figure 4).[3] From 2022 to mid-2024, a strong down cycle was observed in the country, with an increase in total slaughter, greater culling of breeding stock, and falling prices. The

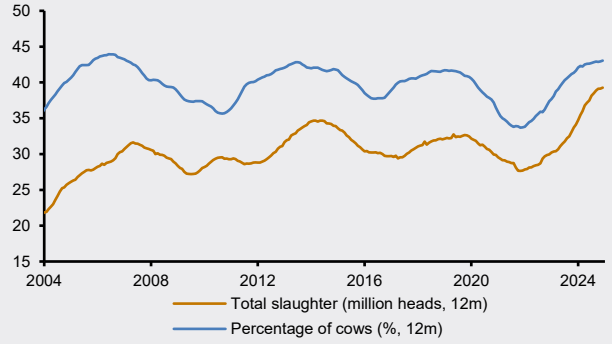
1/ This Figure shows an estimated percentage of pasture areas in Brazil affected by the drought in 2024. This estimate associates the monthly drought index by municipality, produced by the National Center for Monitoring and Alerts of Natural Disasters (Cemaden) of the Ministry of Science, Technology, and Innovation (MCTI), with information on pasture areas by municipality (2023), provided by the *Atlas das Pastagens* from the Image Processing and Geoprocessing Laboratory of the Federal University of Goiás (Lapig/UFG).

2/ In the down cycle, cattle farmers allocate more cows and heifers for slaughter, which increases the meat supply but tends to reduce the future availability of animals. In the up cycle, cattle farmers allocate more cows and heifers for reproduction, which reduces the meat supply. The cattle cycle is discussed, for instance, in Wedekin et al. (2017) for Brazil, and in Rosen et al. (1994) for the U.S.

3/ In Figure 4, the cyclical component of the fed cattle price is obtained as the residual of the regression of the logarithm of the fed cattle price on a linear trend over 2000-2025. The monthly residual has an amplitude around 30 p.p., between trough and peak, but with a much higher amplitude in the recent cycle, since the price trough of 2019.

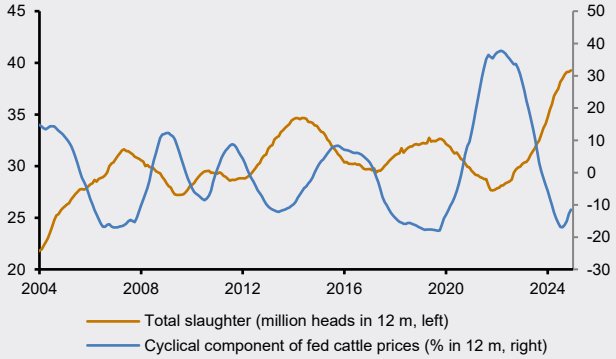
sector's analysts generally maintained expectations of a reversal in Brazil's livestock cycle over 2024 or 2025.[4] The decline in cattle slaughter in 2024Q4 (Figure 5) and the sharp rise in fed cattle prices since September (Figure 1) seem to corroborate the hypothesis of a cycle turnaround, though data up do December show no drop yet in cows slaughter (Figure 6).

Figure 3 – Total cattle slaughter and percentage of females in slaughter



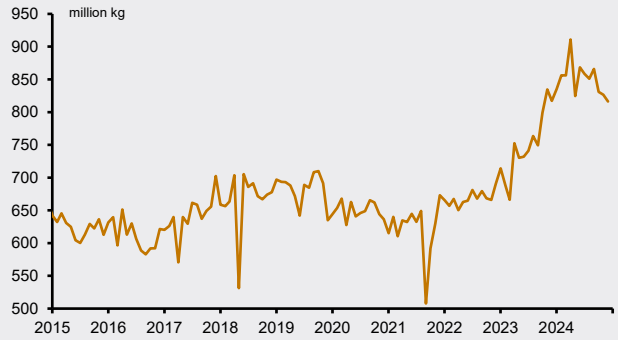
Sources: IBGE, developed by the BCB

Figure 4 – Slaughter and fed cattle price cycle



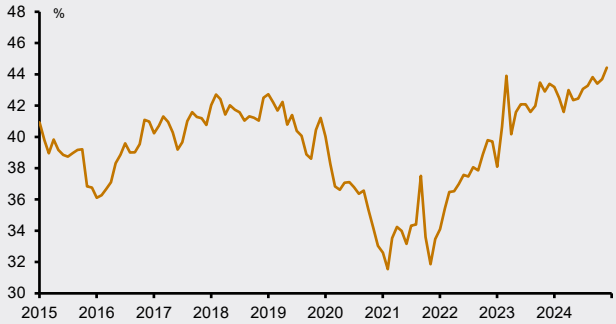
Sources: IBGE, Cepea, developed by the BCB

Figure 5 – Total cattle slaughter - monthly, seasonally adjusted



Sources: IBGE, developed by the BCB

Figure 6 – Cows slaughter percentage - seasonally adjusted



Sources: IBGE, developed by the BCB. Percentage calculated based on the number of slaughtered heads.

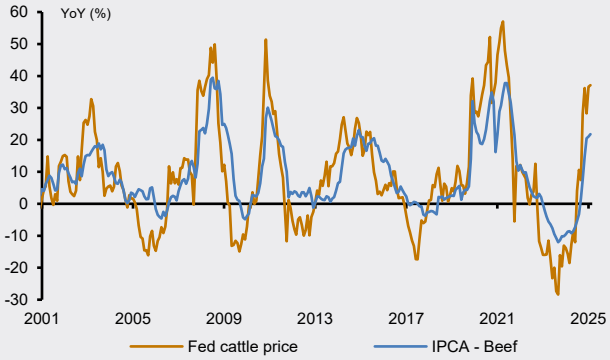
The increase in fed cattle prices was quickly passed through to consumer beef prices. Beef prices rose 22.4% from September to January, according to the Extended National Consumer Price Index (IPCA). The close association between fed cattle prices and consumer beef prices can be observed in Figure 7, which compares 12-month changes of both price series. A monthly regression model between monthly changes of both series suggests a similar pattern.[5] According to this model, the pass-through is concentrated in the first months after the fed cattle price increase, with an accumulated pass-through coefficient of around 50% in the short term (Figure 8).[6]

4/ Despite the perspective of turnaround in the livestock cycle, leading to rising prices, median projections for the "Meat" item in the 2024 IPCA were still at 0.6% and a 90th percentile of 2.9% in the Pre-Copom Questionnaire (PCQ) of July 2024. In the September PCQ, when a stronger rise in fed cattle prices was already observed, median projections rose to 1.8%, and the impact of the drought on food prices was one of the upside risks mentioned in the qualitative question about inflation risks. The actual increase observed for the "Meat" item in 2024 was 20.8%.

5/ The model was estimated with monthly series in the 2000-2025 period, with seasonal dummies included as controls. The beef series in the IPCA is constructed as the aggregation of the following sub-items: beef cuts from the "Meat" item, "Hamburger", "Dried and salted meat", and "Canned meat".

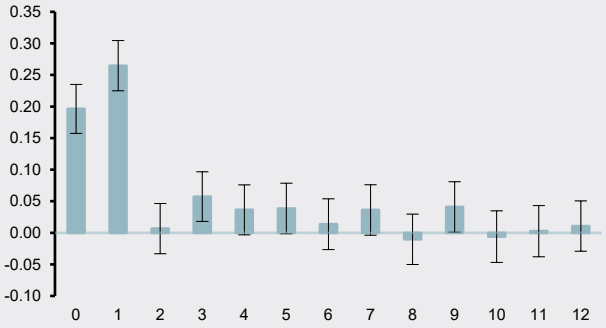
6/ This pass-through percentage is consistent with estimates derived from the national accounts. The total cattle supply to total beef supply ratio, both at consumer prices, is 0.45 in the Resource and Use Table (TRU) of the 2021 National Accounts. The pass-through over a longer horizon is more uncertain. The coefficients of larger lags are generally positive, suggesting an even higher pass-through, but not statistically significant. Over 12 months, the coefficients accumulate a pass-through of around 70%. Conversely, a regression between 12-month changes of fed cattle prices and beef prices suggests a pass-through coefficient slightly above 50%.

Figure 7 – Fed cattle price and IPCA - Beef



Sources: IBGE, Cepea, developed by the BCB

Figure 8 – Fed cattle coefficients and their lags in the monthly beef price regression



The increase in beef prices also influences the prices of substitute proteins, although the relationship between these movements is less clear. In particular, one can observe long periods with a significant decoupling between beef prices and substitute protein prices. Nevertheless, a simple regression model suggests that the average effect is relevant, with an elasticity around 0.5 between beef and chicken prices and 0.3 between beef and pork prices in the IPCA (Figures 9 and 10).[7]

Figure 9 – Beef price coefficients and their lags in the monthly chicken price regression

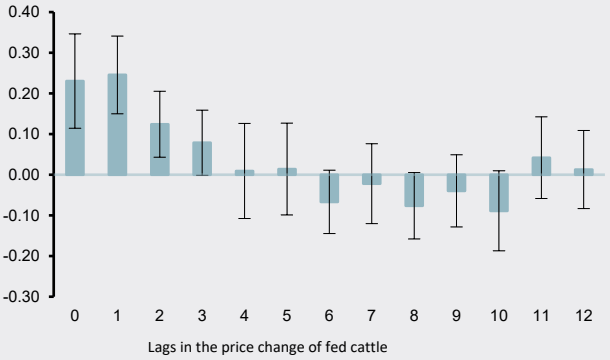
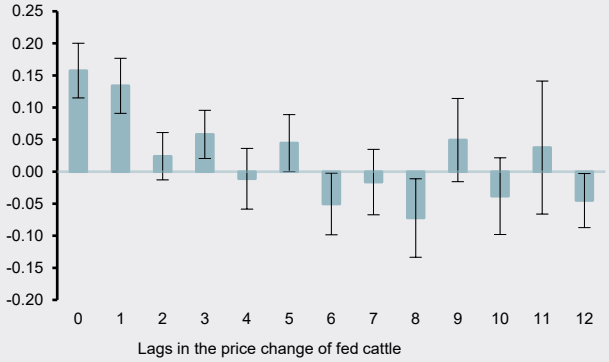


Figure 10 – Beef price coefficients and their lags in the monthly pork price regression



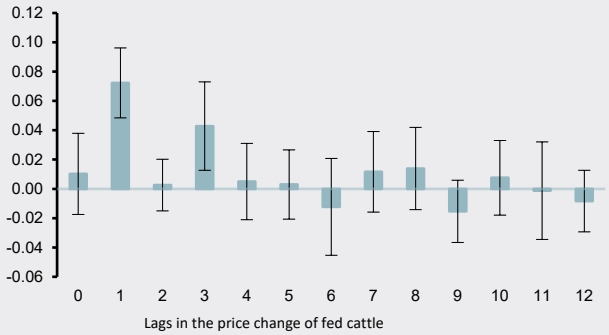
The increase in beef prices seems to largely explain the acceleration in food-away-from-home prices, which has significant weight in underlying services inflation. Meat and other proteins are a relevant cost for the food-away-from-home sector,[8] and its increase tends to be passed through to consumers, especially considering the dynamism of economic activity. Simple regression models suggest that changes in food costs have a pass-through coefficient of around 30% for food-away-from-home prices, with a significant contribution from beef price changes and a pass-through concentrated in the first months after the meat price increase (Figure 11).[9]

7/ The models were estimated with monthly series in the 2000-2025 period, with the following controls: seasonal dummies, exchange rate change, and 12-month change in food-at-home excluding beef. The pork series in the IPCA is constructed as the aggregation of the following sub-items: "Pork meat", "Ham", "Bacon", "Sausage", "Hand-made sausage", "Mortadella", "Salami", "Salted and smoked pork meat", and "Canned sausage". The chicken series in the IPCA is constructed as the aggregation of the following sub-items: "Whole chicken", "Chicken pieces", "Chicken breast", "Chicken thigh", and "Chicken wing". In figures 9 and 10, the 95% confidence interval is constructed with standard errors robust to heteroscedasticity and autocorrelation.

8/ Based on the resources and uses tables (TRU) of the 2021 National Accounts, for instance, the intermediate consumption of "Beef and other meat products" accounts for 8% of the "Food" activity output value. Proteins as a whole (poultry, eggs, pork, fish, and beef) have a weight of 12%, while for food in general, excluding beverages and processed coffee, the weight is 24%.

9/ Two regressions were estimated for the 2000-2019 period. In addition to the food-away-from-home (dependent variable) and beef IPCA series, the change in food-at-home, excluding beef, and underlying services inflation, excluding food-away-from-home, were used as controls. All variables in the first model show 12-month changes. The point estimate for the explanatory variables is 0.10 for beef, 0.19 for food-at-home (excluding beef), and 0.75 for the underlying services component (excluding food-away-from-home). A second model was estimated to evaluate the speed of pass-through of meat price increase to food-away-from-home prices. This model shows monthly changes for food-away-from-home and meat series, including their lags, and 12-month changes for both control variables already mentioned, besides seasonal dummies. The 2020-2024 period was excluded from estimations due to mobility restrictions during the most critical period of the pandemic, which particularly affected in-person economic activities. The results are qualitatively similar if that period is included. In figure 11, the 95% confidence interval is constructed with standard errors robust to heteroscedasticity and autocorrelation.

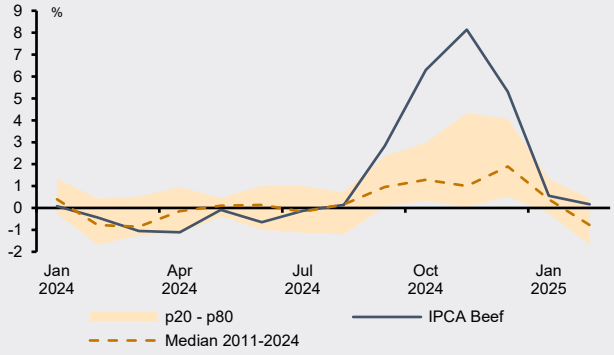
Figure 11 – Beef price coefficients and their lags in the monthly food-away-from-home price regression



As discussed in the price section of Chapter 1.2, however, the high level and recent increase in underlying services inflation have a more widespread nature and can be observed in measures that exclude food-away-from-home. This more widespread process reflects broader determinants of the inflationary process, such as inertia, inflation expectations, and the positive output gap.

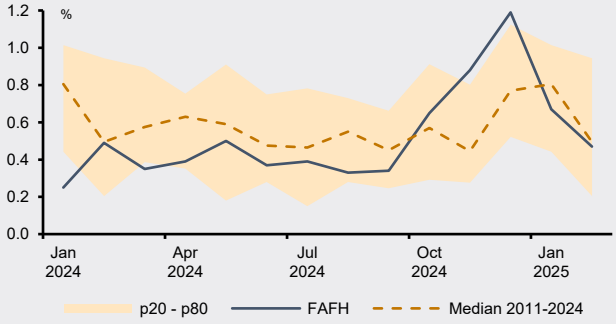
The coefficients and lags estimated in the beef and food-away-from home models suggest that most of the impact of the rise in fed cattle prices so far has already been passed through to consumer prices. This assessment is corroborated by the monthly evolution of both items in the IPCA. Changes in both beef and food-away-from-home prices were more moderate in January and February (Figures 12 and 13).

Figure 12 – IPCA Beef - monthly change



Sources: IBGE, developed by the BCB

Figure 13 – Food-away-from-home in IPCA - monthly change



Sources: IBGE, developed by the BCB

Prospectively, despite the decline in fed cattle prices since the peak at the end of November, the prospect of a turnaround in the fed cattle cycle, in a scenario of strong external demand, suggests a more restricted domestic beef supply throughout this year. In particular, projections by the National Supply Company (Conab) indicate a 5% drop in beef production and an 8.5% drop in domestic protein availability in 2025, with a persistent growth of exports.[10] Thus, the price of fed cattle is expected to rise again, with meat prices remaining under pressure this year. According to the March 2025 PCQ, the median projection for meat price increases in 2025, in the IPCA, is 9.6%, even after a 20.8% increase in 2024.[11] This projection is consistent with a new rise in meat prices for the rest of the year, beyond that suggested by the seasonal pattern, and is aligned with the prospect of a tighter fed cattle supply.

10/ Supply and demand projections from Conab (Portuguese only), published on January 27, 2025.
11/ For comparison, the accumulated change of the "Meat" item in the IPCA for January and February is 0.44%.

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

The Banco Central do Brasil (BCB) publishes different public debt statistics, including the Public Sector Net Debt (PSND) and the General Government Gross Debt (GGGD), the latter included in both the BCB and the International Monetary Fund's (IMF) concepts, which will from now on be highlighted in the fiscal statistics. The BCB also publishes the General Government Net Financial Worth (GGNFW) – which is the most comprehensive methodology – accounting for financial instruments that are not included in debt statistics.

The measurement of public sector's assets and liabilities can be made through different concepts and definitions that capture specific characteristics of the fiscal situation. Several methodological and operational aspects need to be considered in the compilation of these statistics, including the international comparability and the availability of primary data for the compiling institution. This box analyses comparatively three fiscal stock statistics compiled by the BCB: the Public Sector Net Debt (PSND), the GGGD, and the GGNFW. These statistics are based on the Brazilian institutional framework and on the international standard[1] defined by the following manuals: the Government Finance Statistics Manual 2014 (GFSM 2014), published by the IMF, and the Public Sector Debt Statistics: Guide for Compilers and Users, published by a group of international organizations under the coordination of the IMF.

Public Sector Net Debt

Regarding debt statistics, the measure with broader coverage released by the BCB is the PSND, which includes the entire non-financial public sector, comprising, according to the GFSM 2014, the general government and non-financial public corporations. The general government comprises institutions that primarily carry out government-related activities, including the central government (federal), state and municipal/local governments, and social insurance funds, for the countries that adopt this administrative-political structure. The PSND also includes non-financial public corporations, entities that, among other characteristics, have a legal constitution different from that of their owners/shareholders and, in Brazil, include public companies and non-financial mixed-capital corporations belonging to the three spheres of government, except for the companies of the Petrobras Holding, which are excluded from the PSND since 2009.[2]

Central banks, according to the GFSM 2014 (and all other international statistics manuals, starting with the System of National Accounts, of 2008), must be included in the subsector of financial public corporations (financial public sector). According to the Brazilian methodology, the BCB is included in the PSND as a central government component since the beginning of the compilation of fiscal statistics in 1991. This exception to the international standard is due to specific characteristics of the Brazilian institutional framework, in which part of the revenues and expenses of the Monetary Authority are included in the Federal Government General

1/ The international standard defines the group of public sector financial assets and liabilities and classify them by financial instruments, which make up the foundation of the fiscal sector's macroeconomic statistics, compiled by the BCB. These instruments, primarily considering their legal and liquidity characteristics, include, among others, financing, deposits, government securities, accounts payable and receivable, equity shares, and financial derivatives. The last two financial instruments, although included in the public institutions' net worth, are not debt instruments, since they do not require payment of principal and interest.
The international standard also acknowledges non-financial assets (buildings, land, mineral stocks, etc.) as public sector assets. However, these assets are not included in the BCB's fiscal statistics. Therefore, these statistics do not comprise total net worth (financial and non-financial) either for the general government or the public sector.

2/ Statistics excluding Petrobras were backdated to December 2001 for comparability purposes. It is also noteworthy that, in 2010, companies of the Eletrobras Holding (privatized in 2022) were also excluded from the PSND, with the adoption of a similar procedure, equally backdating fiscal statistics to December 2001. Further information about the exclusion of these companies may be found at *Manual de Estatísticas Fiscais* (Portuguese only).

Budget (OGU). Therefore, regarding Brazilian fiscal statistics, in terms of the economy, the BCB is part of the central government and this fact is reflected in the statistics. The BCB's *Manual de Estatísticas Fiscais (MEF)* (Portuguese only) is explicit on this topic:

"The Banco Central do Brasil is included in the calculation of net debt and borrowing requirements due to the specificities of the Brazilian institutional arrangement, in particular the system for transferring the Monetary Authority's results to the National Treasury and the inclusion of its administrative and personnel costs in the Federal Budget Law, as established by the Fiscal Responsibility Law (LRF) (art. 5, § 6)."

Financial assets and liabilities recorded in the PSND include government securities debt on the market, repurchase operations carried out by the BCB, monetary base, bank debt, net external debt, deposits and investments by public entities, and international reserves. The PSND therefore shows the balance between assets and liabilities of all spheres of the non-financial public sector.

In the methodology adopted by the BCB, accounts payable (e.g. values to be paid) and receivable (e.g. outstanding debt) are not included in the PSND, even though they are recognized as debt financial instruments by the international standard. This methodological discrepancy stems from the fact that Public Sector Borrowing Requirement (PSBR) – which includes the primary balance and the nominal accrued interest – is calculated based on the change in the PSND, using a methodology known as "below the line", which allows the fiscal balance to be calculated from the perspective of the net financing granted to the public sector. In its primary concept, the Brazilian PSBR is calculated using cash accounting, while accounts payable and receivable are more directly related to accrual accounting. This is the reason why their inclusion in the PSND would mean a change in the methodology to calculate the public sector's primary balance. Accounts payable and receivable are included in the GGNFW, which will be later addressed.

General Government Gross Debt

The BCB also publishes another public debt concept, the GGGD, which considers only the Federal Government, state and local governments' liabilities– including Social Security. Two characteristics distinguish the GGGD from the PSND: i) it includes only financial liabilities and ii) it excludes state-owned companies and the BCB itself, in compliance, in this case, with the general government definition by the international standard. It is noteworthy that the BCB also publishes information on the General Government Net Debt (GGND), incorporating financial assets held by the general government.

The narrower scope of the GGGD has contributed for its diffusion across countries, being widely used in international comparisons. This was one of the main reasons for its inclusion in the fiscal statistics compiled by the BCB from 1998 onwards.

In the methodology followed until 2007, the GGGD incorporated all securities issued by the National Treasury, including those in the BCB's portfolio. In addition to being aligned with the international methodology, which is the reason why this methodology became known as "GGGD in the IMF concept" (GGGD – IMF Concept), this inclusion was related to the fact that, until the enactment of Complementary Law 101 (FRL), in 2000, the BCB was authorized to issue its own securities.[3] The last redemptions of these securities took place in November 2006, according to their maturity schedule. As long as there were BCB's securities debt on the market, one could make a certain distinction between securities issued to cover budget deficits and securities issued to implement the monetary policy. This justified the inclusion of all the National Treasury's securities debt – even of the entire BCB's securities portfolio – in the GGGD, as repurchase operations could be carried out with the Monetary Authority's own securities, despite the possibility of also using National Treasury's securities to conduct monetary policy.

3/ The LRF allowed the BCB to continue issuing its own securities up to two years after its enactment.

In early 2008, the BCB changed its methodology to calculate the GGGD, adopting the "GGGD in the BCB concept" (GGGD – BCB Concept), retro-acting the new series to December 2006. With the redemption of the remaining securities issued by the BCB and the legal prohibition on new issuances, the monetary policy started to be conducted exclusively through securities issued by the National Treasury. The close relationship between the BCB's securities portfolio and the conduct of monetary policy reinforced the understanding that these securities did not actually constitute debt of fiscal nature. For this reason, they were excluded from the GGGD.[4] Conversely, repurchase operations carried out by the BCB were incorporated into the GGGD, given their link to the National Treasury's debt on the market, since, unlike portfolio's securities, which do not require the National Treasury to effectively pay updated principal, they express a BCB's commitment to financial institutions using those securities as collateral. In this regard, its inclusion in the GGGD represents the incorporation of the entire federal securities debt held by the market.

In sum, the GGGD methodology adopted by the BCB since 2008 reflects the Brazilian institutional arrangement. However, the international standard, based on criteria such as harmonization and comparability among countries, recommends that the entire National Treasury's securities in the BCB's portfolio be included in fiscal statistics, since they represent debt with an institutional unit outside the regular scope of the general government.

To this end, in August 2024, a technical assistance mission was carried out by the IMF's Statistics Department, upon request of the National Treasury Secretariat (STN). The purpose was to assess the adequacy of the Brazilian fiscal statistics to the GFSM 2014. Among the recommendations of the mission's final report was classifying the BCB as a public financial corporation and, consequently, including in the GGGD the entirety of securities issued by the National Treasury for the BCB's portfolio. The adoption of this and other recommendations still depends on the analysis of national compilers, among others, regarding their suitability to the country's institutional framework.

It is worth noting that, focusing on transparency, even after the methodological change in the GGGD compilation, the BCB continued to publish the GGGD – IMF Concept in its special tables.[5] Following this same guideline of transparency and comparability, as of the March 2025 Press Release – Fiscal Statistics, Table 17 will present the GGGD in both the current methodology (GGGD – BCB Concept) and the methodology used until 2007 (GGGD – IMF Concept). The difference between the concepts, which corresponds to the number of free securities in the BCB's portfolio[6], will also continue to be shown. The following table and figure show both methodologies for the GGGD compilation. Free securities in the BCB's portfolio showed an average difference equivalent to 11.2% of GDP throughout the last four years.

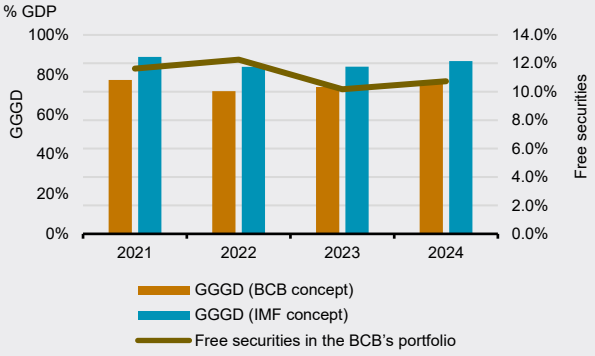
4/ See the Technical Note included in Press Release – Fiscal Statistics, February 27, 2008 and box Alteration in the Methodology for Calculating the General Government Gross Debt (GGGD) in the March 2008 IR.
5/ See special table Gross and net general government debt historical series (methodology effective until 2007).
6/ The BCB's free portfolio is the difference between the National Treasury's securities debt in the BCB's portfolio and the stock of repurchase operations. The calculation of the free portfolio amount, pursuant to Law 13,820 of 2019, is presented in Table 5 of the Press Release – Open Market Statistics.

Table 1 – General Government Net and Gross Debt
Accumulated in the year

BRL million

Itemization	December 2023		December 2024	
	Balances	% GDP	Balances	% GDP
General Government Gross Debt - IMF concept (A=B+J)	**9 192 466**	**84.0**	**10 251 233**	**86.8**
General Government Gross Debt - BCB concept (B=E+F)	**8 079 270**	**73.8**	**8 984 237**	**76.1**
Public Sector Net Debt (C=D+L+M)	**6 612 830**	**60.4**	**7 220 738**	**61.2**
General Government Net Debt (D=B+G+J)	**6 521 378**	**59.6**	**7 445 160**	**63.1**
General Government Internal Debt (E)	**7 119 695**	**65.1**	**7 780 063**	**65.9**
Securities debt on the market	5 654 952	51.7	6 236 545	52.8
BCB's repurchase operations	1 205 385	11.0	1 250 516	10.6
Bank debt	259 359	2.4	293 002	2.5
General Government External Debt (F)	**959 575**	**8.8**	**1204 174**	**10.2**
General Government Credits (G=H+I)	**-2 671 087**	**-24.4**	**-2 806 073**	**-23.8**
Domestic credits (H)	**-2 670 859**	**-24.4**	**-2 805 786**	**-23.8**
General Government Availability	-1 883 850	-17.2	-1 887 151	-16.0
Investments in funds and programs	- 310 745	-2.8	- 359 321	-3.0
FAT resources in the banking network	- 402 477	-3.7	- 448 227	-3.8
Other	- 73 787	-0.7	- 111 088	-0.9
External credits (I)	**-229**	**-0.0**	**-287**	**-0.0**
Free securities in the BCB's portfolio (J)	1 113 196	10.2	1 266 997	10.7
BCB's net debt (L)	**44 007**	**0.4**	**-267 060**	**-2.3**
Memo: Interest-bearing voluntary deposits	128 979	1.2	164 526	1.4
State-owned companies net debt (M)	**47 444**	**0.4**	**42 639**	**0.4**
GDP	10 943 345		11 804 452	

Figure 1 – General Government Gross Debt and free securities in the BCB's portfolio



General Government Net Financial Worth (GGNFW)

The measurement of the stock of the general government or public sector financial assets and liabilities can be restricted to financial debt instruments or encompass an even broader set of public institutions' balance sheets, referred to in the statistical methodology as financial assets. As part of the process of improving and harmonizing fiscal statistics with international standards, since 2017 the BCB has also published the GGNFW, statistics that are part of the GFSM 2014 and are aligned with its guideline, including the accrual accounting criterion for calculating fiscal flows. Initially published once a year, the GGNFW has been published quarterly since 2020.

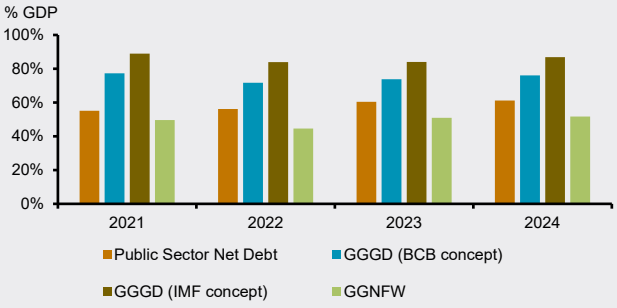
Although including only the general government, the GGNFW broadens the scope of financial instruments in relation to the debt indicators published by the BCB (PSND and GGGD). Besides the aforementioned inclusion of accounts payable and receivable, which are debt instruments not included in the PSND and GGGD, it also considers other financial assets and liabilities that are not debt instruments, such as equity shares. The incorporation of accounts payable and receivable makes it possible to calculate the change in financial equity in a more consistent way regarding the accrual accounting criterion set out in the GFSM 2014. Another distinction of the GGNFW is that government securities and equity shares are recorded at market value, unlike in PSND and GGGD statistics, in which the entire assets and liabilities are recorded by the nominal value.

Table 2 – General Government Net Financial Worth1/
September 2024

Itemization	BRL million	%GDP
Financial assets	**4 113 053**	**35.7**
by instrument		
Currency and deposits	2 804 991	24.3
Securities, except stocks	59 303	0.5
Loans	103 306	0.9
Stocks and other equity share	747 485	6.5
Other receivables	397 968	3.5
by residence		
Domestic	4 112 844	35.7
External	210	0.0
Liabilities	**10 075 482**	**87.4**
by instrument		
Securities, except stocks	9 172 420	79.6
Loans	482 808	4.2
Other payable accounts	420 254	3.6
by residence		
Domestic	8 979 335	77.9
External	1 096 147	9.5
Net Worth (Assets - Liabilities)	**-5 962 428**	**-51.7**

The following figure shows, as a percentage of GDP, the PSND, the GGGD – BCB Concept, the GGGD – IMF Concept, and the GGNFW over the last four years. The inclusion of the BCB's free portfolio implies an increase of 10.7 p.p. of GDP in the comparison between the GGGD – BCB Concept, 76.1% of GDP, and the GGGD – IMF Concept, 86.8% of GDP, in 2024. In the four-year period analyzed, it can be observed that the GGNFW remained at a (negative) level close to 50% of GDP, lower than the PSND.[7]

Figure 2 – PSND, GGGD, and GGNFW



1/ To facilitate visual comparison, the (negative) debit balance of the GGNFW recorded in the period is expressed with a positive sign. In 2024, data referring to September.

7/ As for the GGNFW, negative values indicate liabilities greater than assets.

This box presented the different concepts of stocks of financial assets and liabilities in the fiscal sector's macroeconomic statistics compiled by the BCB. Among the public debt concepts, the PSND stands as the most comprehensive one. Regarding the GGGD, it is published regularly by the BCB in two different concepts. As of March, both concepts will be explained in the fiscal statistics, making more transparent. The GGGD – BCB Concept remains the concept used in fiscal statistics, in compliance with the MEF. Finally, the GGNFW stands as the most comprehensive methodology currently published, because of the inclusion of additional financial instruments in comparison with the other concepts.

2 Inflation outlook

This chapter analyzes the inflation outlook. Inflation projections, encompassing ten quarters ahead, extend until 2027Q3.[37] They use information available up to the 269th Copom meeting, held on March 18-19, 2025. As for the conditioning factors used in the projections, especially those from the Focus survey, the cut-off date is March 14, 2025, unless otherwise stated.

These projections represent 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.[38] 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 PPP theory.[39] Projections depend not only on assumptions about interest and exchange rates, but also on a set of assumptions about the behavior of other exogenous variables. They are presented together with probability intervals that highlight the degree of uncertainty involved.

Prospective analysis is essential 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 MPR'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 for the Dec-Feb quarter was higher than expected and had a less favorable composition. Realized inflation was 0.32 p.p. above projection (Table 2.1.1). Among the major IPCA segments, the surprise was concentrated in administered prices, mainly gasoline. In addition to the increase in the price of anhydrous ethanol, which is part of the final consumer price, the pass-through of the ICMS *ad rem* increase on gasoline was faster than anticipated. In the other IPCA segments, realized inflation was closer to projections but with an unfavorable composition. Downside surprises generally occurred in more volatile components, while upside surprises occurred in components that tend to show more persistent price movements. In food-at-home, the change in industrialized food was higher than expected, mainly due to the increase in coffee prices – with a strong pass-through to the wholesale price of the grain. Conversely, changes in semi-processed and fresh food were lower than anticipated. In the services segment, there was an upside surprise in its underlying component and a downside surprise in the ex-underlying component. In industrial goods, there were higher changes in new and used cars and clothing. In addition to the surprise observed in the Dec-Feb quarter, the inflation projection for March was revised from 0.42% in the December 2024 IR to 0.63% in this MPR, with a perspective of higher change in food-at-home and services.

37/ See box Governance for the communication of the inflation projections horizon in the September 2024 IR.
38/ See box BCB's analysis and projection system in the March 2023 IR.
39/ See box Exchange rate path in BCB projections and the purchasing power parity in the September 2020 IR.

Table 2.1.1 – IPCA – Inflation surprise

% change

	2024	2025			
	Dec	Jan	Feb	Quarterly up to Feb	12-month up to Feb
Copom scenario[1/]	0.58	-0.08	1.17	1.68	4.72
Actual IPCA	0.52	0.16	1.31	2.00	5.06
Surprise	-0.06	0.24	0.14	0.32	0.33

Sources: IBGE and BCB

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

In the next months, consumer prices are expected to continue showing high monthly changes, and the 12-month inflation should remain around 5.5%, above the target tolerance interval (Table 2.1.2). Food-at-home prices are expected to remain pressured, even with some moderation in industrialized food when compared with recent months. Fresh foods, which had registered relatively low changes recently, are expected to evolve closer to or above seasonality. As for proteins, the scenario of restricted fed cattle supply in 2025 and strong external demand remains. Despite the expected seasonal drop in ethanol prices, industrial goods prices are also expected to remain pressured, in line with the recent rise in producer prices and the effects of the BRL depreciation accumulated over 2024. Administered prices are expected to continue showing more moderate changes, after the end of the effect of the ICMS increase and of the rise in ethanol on gasoline consumer prices. Regarding residential electricity, after a favorable start in 2025, hydrological conditions deteriorated in February and March. In this volatile context, the projection still assumes a green tariff flag until June. The projection is of large changes for the services segments, even with the slowdown in food-away-from-home. High services inflation is widespread, consistent with the still tight labor market scenario and higher inertia. Lastly, the saar quarterly average of the core measures is expected to be above 5% and, consequently, the 12-month change is likely to keep rising until it exceeds 5%.

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

% change

	2025			
	Mar	Apr	May	Jun
Monthly change	0.63	0.42	0.26	0.27
Quarterly change	2.11	2.38	1.32	0.95
12-month change	5.55	5.59	5.38	5.45

Sources: IBGE and BCB

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

2.2 Conditional projections

Inflation determinants and conditioning assumptions[40]

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 increase in the pace of adjustment, in the terminal rate, and in the duration of the monetary tightening. The September 2024 Copom meeting started the tightening cycle, with a 0.25 p.p. increase of the Selic rate, followed by a 0.50 p.p. hike in November and increases of 1.00 p.p. in the December and January meetings, reaching 13.25% p.a. In the considered Focus trajectory, the Selic rate increases 1.00 p.p. in March, 0.50 p.p. in May, and 0.25 p.p. in June, reaching a peak of 15.00%, ending the year at this value. The rate resumes a downward trend in early 2026, ending the year at 12.50% and 2027 at 10.50% (Figure 2.2.1). Throughout the projection horizon,

40/ Further details about the procedures used in the building of conditioning assumptions for the Selic, exchange rate, and oil price in the methodological appendix in this chapter.

the rate is higher than in the December 2024 IR, which showed increases of 0.75 p.p. in December 2024 and January 2025, and of 0.50 p.p. in March and May, reaching a peak of 13.75%, ending 2025, 2026, and 2027 at 13.50%, 11.00%, and 10.00%, respectively. The significant increase in the Focus interest rate expectations reflects the worsening inflationary situation – with an increase in current inflation, in its expectations and its upside risks, and a robust economic activity – and the conduct of monetary policy, with the Selic rate rising more than expected and the Copom's signal at the December meeting.

Inflation expectations from the Focus survey increased strongly throughout the entire horizon, widening even more the gap from the inflation target. When compared with the December 2024 IR, median expectations rose from 4.59% to 5.66% for 2025, from 4.00% to 4.48% for 2026, and from 3.58% to 4.00% for 2027. Therefore, the gap from the 3.00% target, which had already risen in the December 2024 IR, has widened. 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.[41]

The *ex-ante* real Selic rate increased, reflecting the rise in the 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 December 2024 IR (Figure 2.2.2). By this measure, the *ex-ante* real interest rate, which began its upward path in 2024Q2, reaches a peak of 9.40% in 2025Q2, compared with 8.80% in the December 2024 IR, and then enters a downward trajectory, reaching 6.50% at the end of the horizon. The increase of the real interest rate is consistent with the so-called Taylor principle, which stipulates that increases in the nominal interest rate should be greater than increases in the inflation expectations.

Figure 2.2.1 – Selic rate target assumption for projections – Focus survey expectations
Quarterly averages
% p.a.

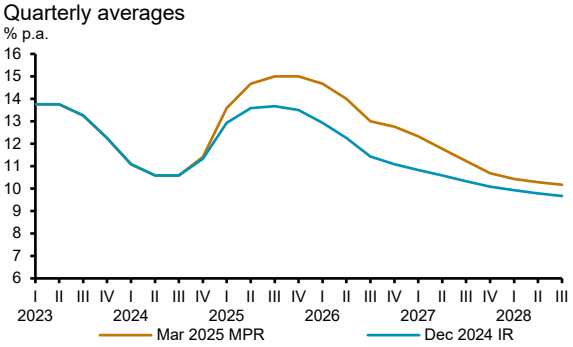
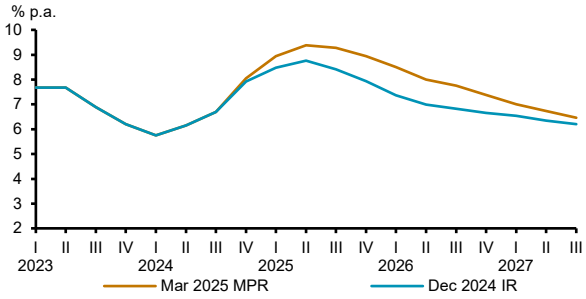


Figure 2.2.2 – Four-quarter-ahead real Selic
Quarterly averages
% p.a.



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.

The exchange rate continued to depreciate until the end of 2024 and then appreciated, reflecting both external and domestic factors. In the inflation projections of the reference scenario, the exchange rate starts at USD/BRL 5.80 – 2.50% lower than the USD/BRL 5.95 considered in the December 2024 IR – and follows a path according to the PPP (Figure 2.2.3). Globally, the USD value has been highly volatile, initially reflecting expectations about the new U.S. administration and subsequently the measures announced or adopted since then. In general, the USD appreciated from October 2024 to mid-January, depreciating afterwards. Domestically, agents' perception of the fiscal situation, with concerns about the capacity to generate primary balances that stabilize the public debt, has been reflected in 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 2025 and 2026 are BRL 5.84/USD and BRL 5.90/USD, respectively.

Oil price rose at the beginning of the year but then started a downward trend, reaching levels below those of 2024Q4. In the trajectory considered, the average Brent oil price for 2025Q2 is around USD 70, 1.80% lower than in the December 2024 IR, falling to USD 69 in the second half of the year and then growing at 2.00% p.a. (Figure 2.2.4). Prices have been pressured downward due to several factors, such as the risk of a

41/ For further details about the Firmus survey (Portuguese only) see https://www.bcb.gov.br/publicacoes/firmus.

slowdown in the global economy in view of the U.S. tariff policy, the decision of OPEC+ to increase production from April this year, the prospect of resolution of geopolitical conflicts, the U.S. government's priority to increase oil production, and contained forecasts for global demand expansion, which are even lower than the increase in the supply from non-OPEC+ countries. Commodity prices, measured by the IC-Br in USD, followed a similar trend, upward in January, stable in February, and fall in the March's average until the cut-off date.

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

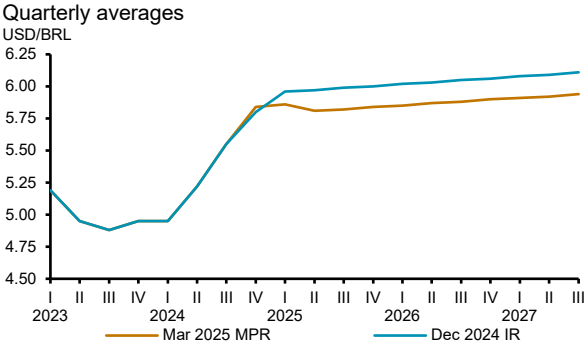
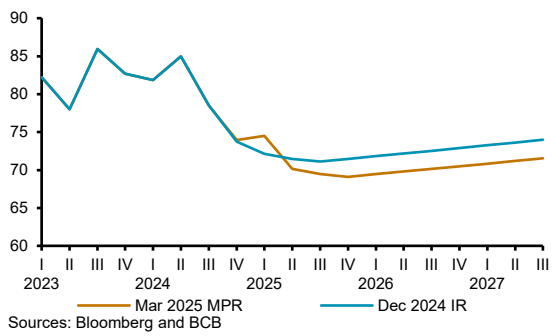


Figure 2.2.4 – Brent oil price
Quarterly averages



Sources: Bloomberg and BCB

The neutral real interest rate assumed for projections in the reference scenario is 5.00%. As it is an unobservable variable whose measurement is subject to high uncertainty, the BCB relies on several methodologies for its estimation.[42] 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 gradually 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. In 2024, this variable recorded a lower deficit than in 2023. For the rest of the horizon, similarly to previous IR editions, this variable is expected to continue to recover gradually 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, fiscal policy influences conditional inflation projections through its effects in the aggregate demand.

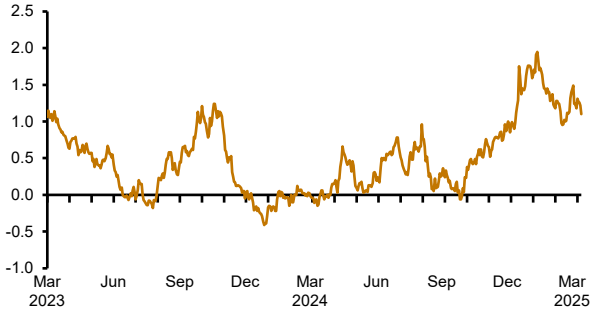
Despite the recent worsening of the hydrological scenario, the outlook for electricity tariff flags used in the December 2024 IR was maintained, which already considered the adoption of more costly flags in the second half of the year. After a fairly favorable start in 2025, the hydrological conditions have deteriorated more recently. Throughout February and March, rainfall reduced, and, in recent weeks, the level of energy stored in the hydroelectric reservoirs, which had been increasing, registered a slight inflection. In this volatile context, the same hypothesis used in the December 2024 IR was maintained, which already considered the adoption of more costly flags in the second half of the year. For 2025, the monthly breakdown is as follows: green flag until June, yellow flag in July and August, red 1 flag in September and October, yellow in November, and green in December. The same sequence of flags is considered for each quarters' final months from 2026 onwards: green flag in March and June, red 1 flag in September, and green flag in December. The assumption of a "neutral" flag sequence from the point of view of YoY projections ensures that medium-term projections, especially for the relevant horizon, are not affected by this uncertain and specific factor.

Financial conditions have oscillated since the December 2024 IR but reached tighter levels in mid-March, reflecting the domestic and foreign interest rates, risk, and capital markets groups, which mostly counterbalanced the currencies and oil groups. As measured by the BCB's Financial Conditions Index (FCI), financial conditions, which had already tightened in October and November, reached a restrictive peak around mid-January (Figures 2.2.5 and 2.2.6). The worsening in financial conditions involved most of the FCI's

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

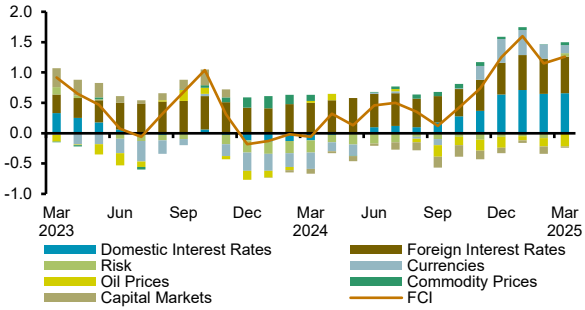
component groups, especially the rise in domestic future interest rates, the BRL depreciation, and the global USD appreciation. Also contributed the rise in external future interest rates, the country risk premium, and the oil price, coupled with the decline of domestic stock market. Financial conditions then eased but remained at tighter levels than in early December.[43] The FCI reduction from mid-January to March was mainly due to the BRL appreciation, the global USD depreciation, and the oil price decline, as well as the reduction in domestic future interest rates, which more than counterbalanced the effect of the VIX increase.[44]

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: 3.1.2023–3.14.2025.

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. Mar/2025 value refers to the average until the 14th.

GDP growth slowed down at the end of 2024. Seasonally adjusted GDP rose 0.2% in 2024Q4 compared with 2024Q3, following respective expansions of 1.3% and 0.7% in 2024Q2 and 2024Q3. On the same comparison basis, the 1.0% reduction in household consumption stands out on the aggregate demand side, after a sequence of thirteen consecutive increases. GFCF growth was positive at 0.4% but lower than in the previous four quarters. The lower dynamism of activity was reflected in the relative stability of imports in the quarter. GDP growth projection for 2025 was reduced from 2.1% in the December 2024 IR to 1.9% in this MPR.[45]

The labor market and installed capacity utilization indicators also show signs of slowdown. The unemployment rate interrupted its downward trend, remaining relatively stable around its historic low. The unemployment rate stood at 6.5% in the Nov-Jan quarter (seasonally adjusted), the same as in October, when it reached the lowest rate in the time series. Net hirings, as measured by the New Caged, despite oscillating in recent months, stood at 89,000 jobs in the Nov-Jan monthly average, compared with an average of 129,000 in Aug-Oct (seasonally adjusted data). The seasonally adjusted Level of Utilization of Installed Capacity (Nuci), calculated by the FGV, decreased from 81.6% in November to 80.9% in February.

The labor market spider chart continues showing a heating up. This measure considers historical information from several labor market indicators until January 2025 (Figure 2.2.7).[46] Most variables are in the top two quartiles, i.e., above the historical median. When comparing January 2025 with October 2024, most income measures (growth of PNAD's real average income, real average wage in manufacturing, the hiring/layoff salary ratio), and the expectations measure (Leading Employment Indicator) indicate lower expansion. Conversely, employment metrics indicate stability (unemployment and participation rates) or higher growth (net hirings in the formal labor market and the number of unemployment insurance claims). It is also noteworthy the resignation rate in the formal labor market, measured by the New Caged, which reached the peak of the historical window. Compared with twelve months ago, lower growth was also observed in most income indicators and higher growth in employment ones.

43/ It is noteworthy that the December 2024 IR used FCI data up to December 6, 2024, and this MPR, up to March 14, 2025. 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.

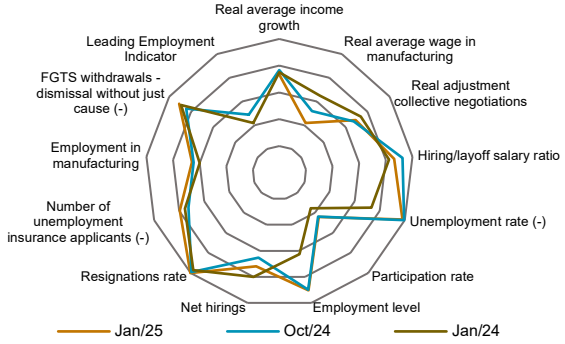
44/ It should be emphasized that the FCI reflects a series of elements and should not be interpreted as an indicator of monetary easing or tightening. Moreover, the relationship of this index with inflation is ambiguous because some of its components, such as those related to risk premium and exchange 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.

45/ See box Revision of the 2025 GDP projection in this MPR.

46/ See box Labor market on the radar in the September 2022 IR.

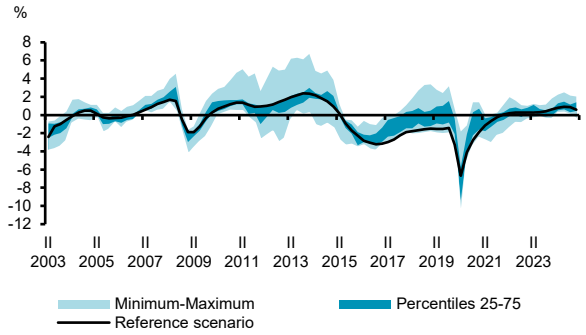
The output gap remains at positive levels, thus pressuring inflation, but it is projected to fall in next quarters. The estimated output gap for 2024Q4 and 2025Q1 are 0.8% and 0.6%, respectively (Figure 2.2.8).[47] Positive values for the output gap are considered to be consistent with the inflationary pressure recently observed. However, the output gap is expected to fall to negative values in next quarters, reaching -0.8% in 2026Q3. Tight monetary conditions play an essential role in this movement. The high level of the *ex-ante* real interest rate, higher than in the December 2024 IR, is the main factor contributing to economic activity deceleration in the reference scenario. As highlighted in previous IR quarterly editions, the output gap presented in this chapter incorporates information from different methodologies and Copom's judgment. It should also be noted 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 – Job Market



Note: The inner ring represents the minimum value, the interior rings represent the 25th, 50th and 75th percentiles of 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. Figure data: 2003Q2–2025Q1.

Inflation projections

Inflation projections presented in this MPR represent Copom's view and result from 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 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;[48] and iv. assessment on the state and outlook of the economy.[49]

Inflation in 2024 was above the target's tolerance interval due to the strong pace of economic activity growth, the exchange rate depreciation, and climate factors, in a context of deanchored inflation expectations and inertia from the previous year's inflation. Therefore, inflation involved a wide group of factors. In the opposite direction, it was notable the oil price decline in the second half of the year. Inflationary pressure involved different IPCA segments, reflecting the variety of inflationary sources. Inflation in 2024 was 4.83%, above the upper limit of the tolerance interval of 4.50% and the target of 3.00%. Pursuant to Decree 3,088 of June 21, 1999, an open letter was addressed by the BCB's Governor to the Minister of Finance explaining the reasons for the target breach.[50]

In the reference scenario projections, inflation is still above the upper limit of the tolerance interval throughout 2025, starting to fall from 2025Q4 but remaining above the target. In this scenario, which uses the Selic rate from the Focus survey and the exchange rate following the PPP, the four-quarter inflation lies in the 5.5%-5.6% interval in the first three quarters of 2025, falls to 5.1% at the end of the year, to 3.7% in 2026, and to 3.1% in the last projected period, referring to 2027Q3 (Table 2.2.1).

47/ Projections of these activity variables were used for 2025Q1 when data were not available.
48/ 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.
49/ See box BCB's analysis and projection system in the March 2023 IR.
50/ See OpenLetter2024.pdf.

In the relevant monetary policy horizon, considered to be 2026Q3, the projected inflation stands at 3.9%. Considering monthly projections, 12-month inflation will be above the upper limit of the target tolerance interval for six consecutive months in June of this year (see Section 2.1). If this scenario materializes, the inflation target will be breached, and it will be necessary to disclose the reasons for this breach by means of a note in this MPR and an open letter addressed to the Minister of Finance.[51]

Table 2.2.1 – Inflation projections – Reference scenario
YoY IPCA inflation

%

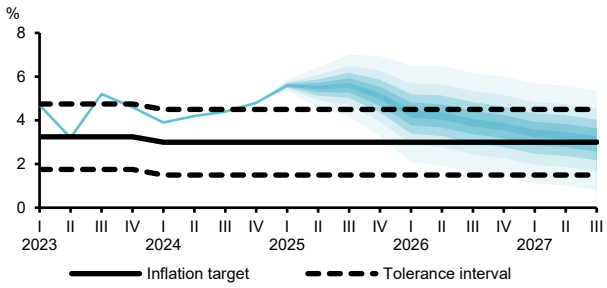
	2024				2025				2026				2027		
Price index	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
IPCA	3.9	4.2	4.4	4.8	5.6	5.5	5.6	5.1	4.3	4.2	3.9	3.7	3.4	3.3	3.1
Previous report difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.1]	[0.6]	[0.5]	[0.5]	[0.6]	[0.1]	[0.2]	[0.1]	[0.1]	[0.0]	[0.1]	-
Market prices	3.1	3.5	4.1	4.9	5.7	5.9	6.1	5.4	4.5	4.2	3.8	3.5	3.2	3.1	3.0
Previous report difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.1]	[0.4]	[0.5]	[0.6]	[0.9]	[0.4]	[0.4]	[0.2]	[0.1]	[0.0]	[0.1]	-
Administered prices	6.4	6.4	5.5	4.7	5.2	4.3	4.0	4.3	3.4	4.1	4.2	4.2	4.0	3.8	3.7
Previous report difference (p.p.)	[0.0]	[0.0]	[0.0]	[0.1]	[1.1]	[0.4]	[0.0]	[-0.2]	[-1.2]	[-0.5]	[-0.2]	[0.1]	[0.0]	[0.0]	-

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 projections remained above the target, making the convergence to the target challenging. The projection for 2025 increased 0.6 p.p. compared with the December 2024 IR, while for 2026Q3 it increased 0.1 p.p. In this last horizon, inflation projections increased for market prices and reduced for administered prices. The effects of inflation expectation increases and the inertia resulting from inflationary surprises and the revision of short-term projections pressured projections upwards, while the rise in the real interest rate, the exchange rate appreciation, and the fall in the oil price pressured them downwards. Projections for administered prices were greatly affected by the evolution of the exchange rate and oil price, making the behavior of their projections to differ from that of market prices. Compared with inflation projections at the January's Copom meeting (268th meeting), projections in this horizon fell 0.1 p.p. (see Minutes of the 268th meeting).

Reflecting higher projections, the probability of inflation exceeding the upper limit of the tolerance interval has increased. The estimated probability, based on the probability intervals (Figure 2.2.9), grew from 50% to 70% for 2025 and from 26% to 28% for 2026 (Table 2.2.2). As inflation projections lie above the target, the probabilities of exceeding the upper limit are higher than exceeding the lower limit. Although these probabilities do not represent the probability of the target breach,[52] they are a reference for the assessment of risks involved in the projections.

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
2025	1.50	0	4.50	70
2026	1.50	6	4.50	28

Note: Numbers rounded to the nearest integer value. The probabilities do not represent probabilities of non-compliance with the target, since, from January 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).

51/ The measurement of the number of months starts in January 2025, the first month in which the so-called "continuous target system" comes into effect, as established by Decree 12,079 of June 26, 2024. The note and the letter must contain: I - a detailed description of the causes of the breach; II - the measures required to ensure the return of inflation to the tolerance interval; and III - expected time frame for the measures to take effect.

52/ With the new "continuous target" system, in force since 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.

2.3 Balance of risks

Copom assesses the presence 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 disclosed 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 (269th meeting), Copom highlighted that the balance of risks to its prospective inflation scenarios is still tilted to the upside. The upside risks to the inflation scenario and inflation expectations 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 free from short-term effects of inflation deviations from the target. Inflation expectations extracted from the Focus survey rose to 4.48% for 2026, 4.00% for 2027, and 3.78% 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 inflation-targeting system, tending to make expectations more sensitive to short-term shocks, to pressure the dynamics of prices and salaries, and to 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 takes longer than in the other groups. 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 a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency.

In the international scenario, uncertainties and decisions related to the U.S. trade tariff policy have caused volatility to the markets. Moreover, uncertainties remain about fiscal policy and the economic effects of restrictions on the labor supply. This environment has increased uncertainties about future economic activity and inflation in the U.S. and, consequently, about the Fed's monetary policy, and the global trade and economic growth trend. Should this scenario be accompanied by global USD appreciation and strong reduction in risk appetite, there would be pressure on the BRL, impacting domestic inflation. From the domestic point of view, in the case of implementation of policies, such as 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 more 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.[53]

Downside inflation risks in the reference scenario:

i. impacts on the inflation scenario in the case of a possible greater-than-projected deceleration of domestic economic activity

The set of indicators on economic activity and labor market has been exhibiting strength, even though there are signals that suggest an incipient moderation in growth. It is noteworthy that the economic deceleration is part of Copom's reference scenario, and its materialization is in line with the functioning of monetary policy transmission mechanisms and its impact on inflation. However, the pace of the slowdown could be faster and stronger than that projected by the reference scenario. In this case, the output gap would be even more negative in the future, amplifying the effects of the economic slowdown on prices and inflation expectations.

ii. less inflationary scenario for emerging market economies arising from shocks on the international trade or global financial conditions

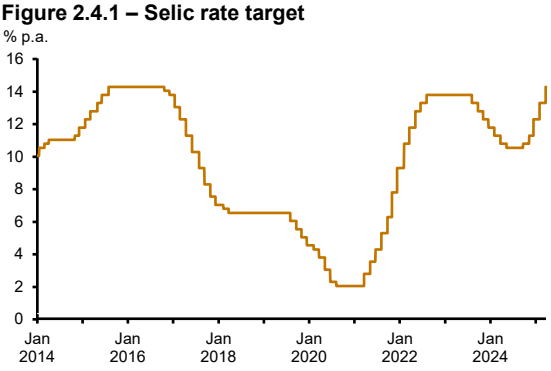
Uncertainties and decisions on U.S. trade tariff policy, already mentioned in the upside risks for inflation, could have disinflationary effects. In fact, compared with what is already considered in the reference scenario, a greater loss of momentum in international trade as a result of increased uncertainties and the implementation of protectionist policies could cause a sharper slowdown in the U.S. economy and in other major economies, with a negative effect on global activity. This scenario could lead to downside pressures on commodity prices and expectations of higher cuts in the Fed funds rates. The reduction in the U.S. Treasury yields would benefit the BRL, thus contributing to lower domestic inflationary pressures.

2.4 Conduct of monetary policy

In the December meeting, considering that the scenario required an even more contractionary monetary policy, Copom intensified the monetary policy tightening cycle, increasing the Selic rate by 1.00 p.p. to 12.25% (Figure 2.4.1). Copom highlighted the scenario marked by additonal deanchoring of inflation expectations, higher inflation projections, stronger-than-expected activity dynamics, and widening output gap. 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 continued to exhibit strength, as observed in the release of 2024Q3 GDP, which suggested a further widening of the output gap. Headline inflation and measures of underlying inflation had been above the inflation target and had increased in recent releases.

53/ For evidence in Brazil that, 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.

Figure 2.4.1 – Selic rate target



Note: Daily values from 1.1.2014 to 3.21.2024.

Copom also stressed at that time that, in light of a more adverse scenario for inflation convergence, the Committee anticipated, if confirmed the expected scenario, adjustments of the same magnitude in the subsequent two meetings. Several risks had materialized, making the scenario more adverse but less uncertain, providing the Committee with greater visibility to give an indication of how it anticipated the next decisions. The total magnitude of the tightening cycle would be 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, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks.

In the January meeting, the Committee considered that the scenario had unfolded in such a way that the previous indication of increasing the Selic rate by 1.00 p.p. deemed to be the right decision, thus increasing it to 13.25%. Copom highlighted that the more recent scenario was marked by additional deanchoring of inflation expectations, higher inflation projections, resilience on economic activity, and labor market pressures, which requires a more contractionary monetary policy.

The Committee also considered that, in light of the continuation of the adverse scenario for the inflation convergence, it was still appropriate the previous indication which anticipated, if confirmed the expected scenario, an adjustment of the same magnitude in the subsequent meeting. Beyond the subsequent meeting, the Committee reinforced that the total magnitude of the tightening cycle would be 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 monetary policy and economic activity, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks.

In the latest Copom meeting, in March, the Committee considered that the scenario unfolded in such a way that the previous indication of increasing the Selic rate by 1.00 p.p. was deemed to be the right decision, thus increasing it to 14.25%. Copom stressed that the more recent scenario is marked by additional deanchoring of inflation expectations, high inflation projections, resilience on economic activity, and labor market pressures, which requires a more contractionary monetary policy.

The Committee stressed that, in light of the continuation of the adverse scenario for inflation convergence, the heightened uncertainty, and the lags inherent to the ongoing monetary tightening cycle, Copom anticipates an adjustment of lower magnitude in the next meeting, if the scenario evolves as expected. Beyond the next meeting, the Committee reinforces that 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 monetary policy and economic activity, on the inflation projections, on the inflation expectations, on the output gap, and on 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 March meeting took place. Trajectory: use of the median expectations for the Selic target extracted from the Focus survey of March 14, 2025. 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 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[54]. 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.

54/ See, for instance, box Output gap measures in Brazil in the June 2024 IR, which presents several of these methodologies and estimates.

2024 inflation decomposition

According to estimates from the Banco Central do Brasil's (BCB) semi-structural models, the key factors that led inflation in 2024 to exceed the target were the imported inflation, the inflation inertia from the previous year, the output gap, and inflation expectations. The decline of oil price contributed in the opposite direction.

This box shows the estimated decomposition of the deviation of the 2024 inflation rate, measured by the change in the Extended National Consumer Price Index (IPCA), in relation to the target set by the National Monetary Council (CMN).[1] The aim is to measure the contribution of the main key drivers of inflation using BCB's semi-structural models.[2]

The deviation of inflation from the target is decomposed into five components: (i) inertia from the previous year (deviation of the previous year's inflation from the target);[3] (ii) expectations (difference between inflation expectations measured by the Focus survey and the inflation target); (iii) imported inflation (difference from the target); (iv) output gap; and (v) other factors.[4] These estimates are approximations based on models and are therefore subject to the uncertainties inherent to the modeling and estimation process.

The estimation of components relies on a scenario in which all conditioning factors are neutral, i.e., they have no impact that would lead inflation to deviate from the target.[5] The contribution of each factor to the deviation of the inflation rate from the target is obtained when these neutral conditioning factors are replaced by the values actually observed.

Inflation in 2024 was 4.83%, 1.83 p.p. above the 3.00% inflation target, and 0.33 p.p. above the tolerance interval set by the CMN, of plus or minus 1.50 p.p. (Figure 1 and Table 1). Inflation was 0.21 p.p. higher than the 4.62% recorded in 2023. Market prices inflation grew from 3.14% in 2023 to 4.89% in 2024, while administered prices inflation declined from 9.12% to 4.66%. Among market prices, services rose 4.77%, industrial goods increased 2.89%, and food-at-home rose 8.22%. Among administered prices, the contributions of gasoline, medicines, and health insurance stood out.

The main results of the decomposition are the following (Figure 2):

i. **Inflationary inertia impacted inflation in 2024.** Inflation in 2023 was 1.37 p.p. above the 3.25% inflation target, contributing with 0.52 p.p. to the inflation deviation from the target in 2024. As for market prices, past inflation means current cost pressure, arising both from other prices of goods and services used as inputs and from informal inertial wage indexation mechanisms. For example, adjustments in wage negotiations not only followed the past inflation trend but were also above inflation. Regarding administered prices, the emphasis is on institutional arrangements that link price adjustments to past inflation, especially health insurance and medicines;

1/ The 2024 inflation decomposition was presented previously in the Open Letter addressed by the BCB Governor to the Minister of Finance and CMN President on January 10, 2025. The inflation decomposition based on projection models was presented annually in the Inflation Report. See, for example, box 2023 inflation decomposition in the March 2024 IR. Further details on methodological procedures in the box 2017 inflation decomposition in the March 2018 IR and Cusinato et. al (2016).
2/ See boxes Updating small-scale semi-structural models in the June 2024 IR and Revision of the medium-term projection models for administered prices in the September 2017 IR.
3/ The component "inertia from the previous year" includes the effects of all the factors affecting inflation until December 2023.
4/ The item "Other factors" includes factors not considered in the previous items, such as specific conditioning factors of the administered prices models and the model's residual term.
5/ As for variables that exhibit seasonality, the neutral conditioning factors also include a seasonal component.

ii. **Inflation expectations deteriorated throughout 2024, thus increasing their deanchoring.** Its contribution for the inflation deviation from the target was 0.30 p.p. The rise in expectations reflected current and prospective inflationary pressures. According to the Focus survey, the median expectations for the 12-month-ahead inflation (smoothed) started 2024 at around 3.90% and declined until early May, when it reached 3.60%. It remained around this value until early July, when it began a rapid upward trajectory, ending the year at around 5.00% (Figure 3). The median expectations for 2024 followed a similar behavior. It started at around 3.90%, fell to 3.70% in April, but then began an upward trajectory, surpassing the upper limit of the tolerance interval of 4.50% in October;

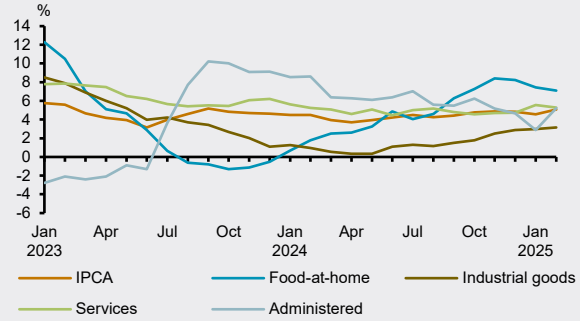
Table 1 – Components of the IPCA in 2024

Selected components and items	Change (%)	Weight (%)	Contribution to IPCA change (p.p.)
Market prices	4.89	74.14	3.62
Food-at-home	8.22	15.26	1.26
Industrial goods	2.89	23.35	0.67
Services	4.77	35.52	1.70
Administered prices	4.66	25.86	1.21
IPCA	4.83	100.00	4.83

Sources: IBGE and BCB

Figure 1 – Inflation: IPCA and components

YoY inflation



Sources: IBGE and BCB

Figure 2 – Contributions to the inflation deviation from the target in 2024

Factors' contributions

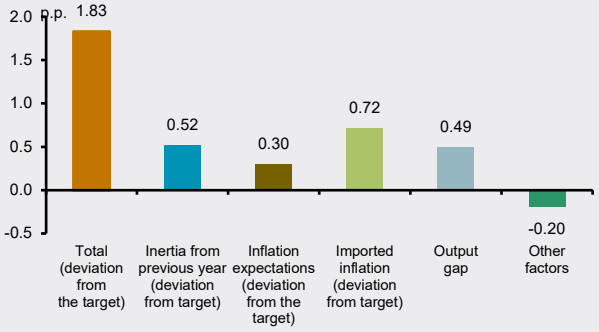


Figure 3 – 12-month-ahead inflation expectations (smoothed) – Focus survey

iii. **Imported inflation (as deviation from the target) was the factor with the largest contribution to the inflation deviation from the target, 0.72 p.p.** Within this group, the main contribution came from the exchange rate depreciation (a 1.21 p.p. effect), followed by commodities in general, measured by the Commodities Index – Brazil (IC-Br) (a 0.10 p.p. effect), which more than offset the estimated effect of the international oil price decline (a -0.59 p.p. effect). (Figures 4 to 6);

Figure 4 – IC-Br (index in USD)

Monthly average

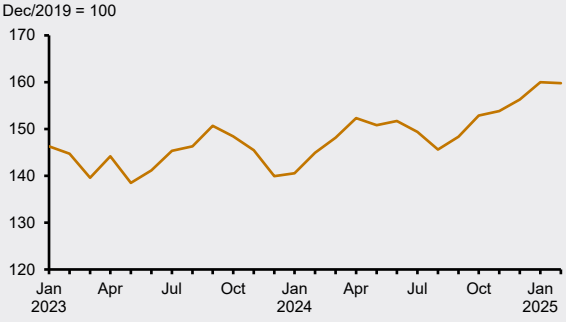
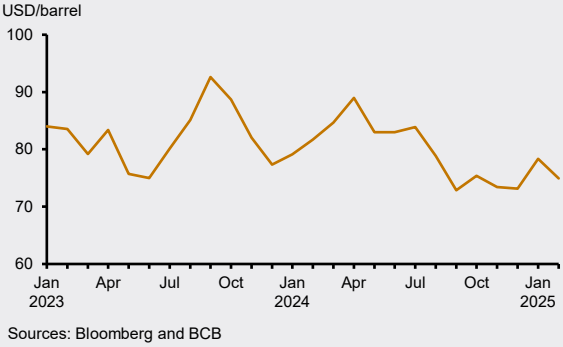


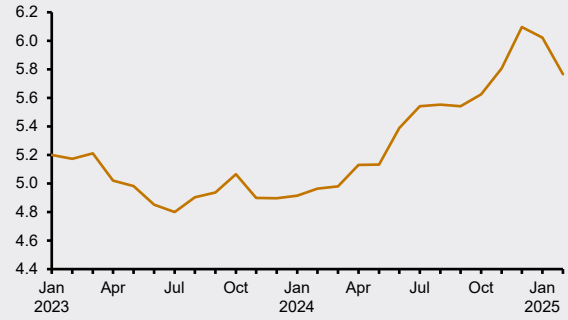
Figure 5 – Brent oil price

Monthly average



Sources: Bloomberg and BCB

Figure 6 – Nominal exchange rate
Monthly average



iv. **The output gap contribution to the deviation of inflation from the target was 0.49 p.p.** In 2024, economic activity growth was strong, surprising upwards throughout the year. Gross Domestic Product (GDP) grew 3.40% in 2024, and the average unemployment rate fell from 8.00% in 2023 to 6.90% in 2024. Net formal job openings measured by the New General Registry of Employed and Unemployed Persons (New Caged) rose from 1.5 million in 2023 to 1.6 million in 2024, while the Level of Capacity Utilization (Nuci), calculated by the Getulio Vargas Foundation (FGV), grew from average values of 80.3% in 2023 to 82.1% in 2024. Therefore, the estimated output gap for 2024 was higher than that of 2023, contributing to inflation in the period.

v. **Lastly, the other factors contributed with -0.20 p.p. to the deviation of inflation from the target in 2024.** The latter item includes factors not considered in the previous ones – mainly specific factors conditioning administered prices, the effect of climate anomalies, and tax measures – and a part not explained by the model, represented by shocks in the Phillips curve of market prices and in the equations of administered prices. These estimates are approximations built based on models and are therefore subject to the uncertainties inherent to the modeling and estimation process.

Summing up, according to the decomposition presented in this box, the key factors that led inflation in 2024 to exceed the inflation target were the imported inflation (given by the exchange rate depreciation and increased commodity prices in general), the inertia from the 2023 inflation, the output gap, and inflation expectations. The decline of oil price contributed to the opposite direction.

References

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Appendix

Monetary Policy Committee (Copom)

Members

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Deputy Governor
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Deputy Governor
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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
Conab	National Supply Company
Continuous PNAD	Continuous National Household Sample Survey
Copom	Monetary Policy Committee
CPI	Consumer Price Index
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
FGTS	Employment Compensation Fund
FGV	Getulio Vargas Foundation
FOMC	Federal Open Market Committee
Fundeb	Fund for Maintenance and Development of Elementary Education and Recognition of the Teaching Profession
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GGGD	General Government Gross Debt
GVA	Gross Value Added
HGDNI	Household Gross Disposable National Income
IBC-Br	BCB's Economic Activity Index
IBGE	Brazilian Institute of Geography and Statistics
IC-Br	Commodities Index – Brazil
ICMS	Tax on Circulation of Goods and Services
IMF	International Monetary Fund
INPC	National Consumer Price Index
IPA-DI	Producer Price Index
IPCA	Extended National Consumer Price Index
IR	Inflation Report
LRF	Fiscal Responsibility Law
LSPA	Systematic Survey of Agricultural Production
MBS	Mortgage-backed securities
Mediator	Labor Collective Bargaining System

MF	Ministry of Finance
MTE	Ministry of Labor and Employment
New Caged	New General Registry of Employed and Unemployed Persons
Nuci	Industry Installed Capacity Usage Level
OGU	Federal Government General Budget
OPEC+	Organization of the Petroleum Exporting Countries Plus
p.a.	Per annum
p.p.	Percentage points
PBC	People's Bank of China
PIM	Monthly Industrial Survey
PNAD	National Household Sample Survey
PPP	Purchasing Power Parity
PSBR	Public Sector Borrowing Requirements
PSND	Public Sector Net Debt
QNA	Quarterly National Accounts
RARD	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
STN	National Treasury Secretariat
TRU	Table of Resources and Uses
U.S.	United States of America
WAP	Working Age Population