

HSBC Investment Forum

September 29, 2025

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Reference scenario

Reference scenario

External scenario

- The global environment remains uncertain due to the economic policy and economic outlook in the United States.
- Therefore, the behavior and the volatility of different asset classes have been impacted, altering global financial conditions.
- This scenario requires particular caution from emerging market economies amid heightened geopolitical tensions.

Economic activity

- Regarding the domestic scenario, the set of indicators on economic activity continues to show some moderation in growth, as expected, but the labor market is still showing strength.

Inflation

- In recent releases, headline inflation and measures of underlying inflation remained above the inflation target.
- Inflation expectations for 2025 and 2026 collected by the Focus survey remained above the inflation target and stand at 4.8% and 4.3%, respectively.
- Copom's inflation projections for the first quarter of 2027, currently the relevant horizon for monetary policy, stand at 3.4% in the reference scenario.



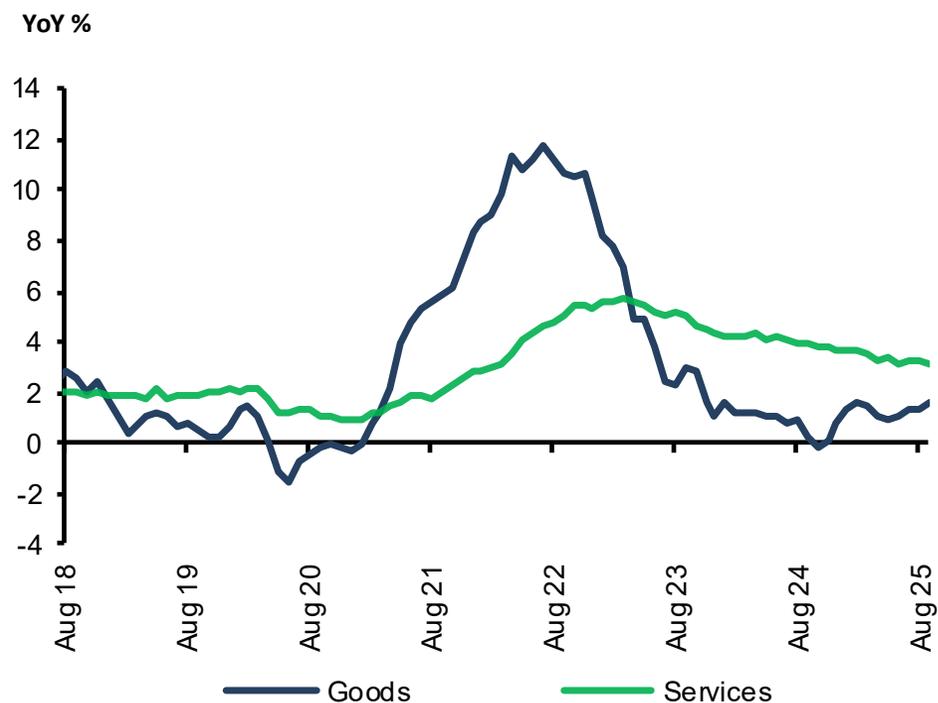
Economic outlook

External scenario

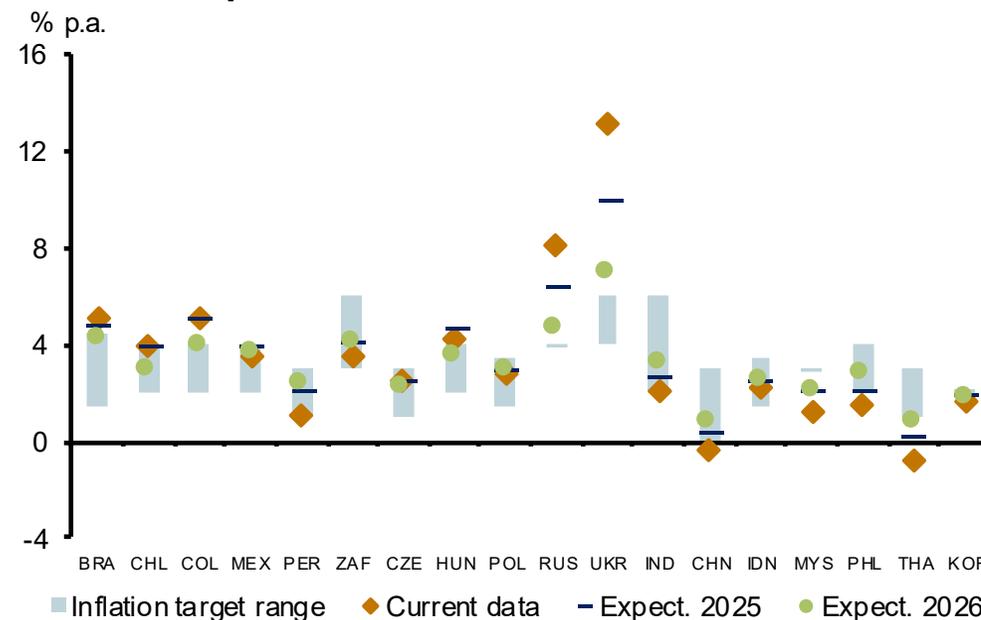
External scenario – Inflation

More recent readings continue pointing to a slow convergence of inflation indicators in leading advanced economies.

Inflation in advanced economies



Inflation expectations¹



Sources: Bloomberg and central banks' surveys

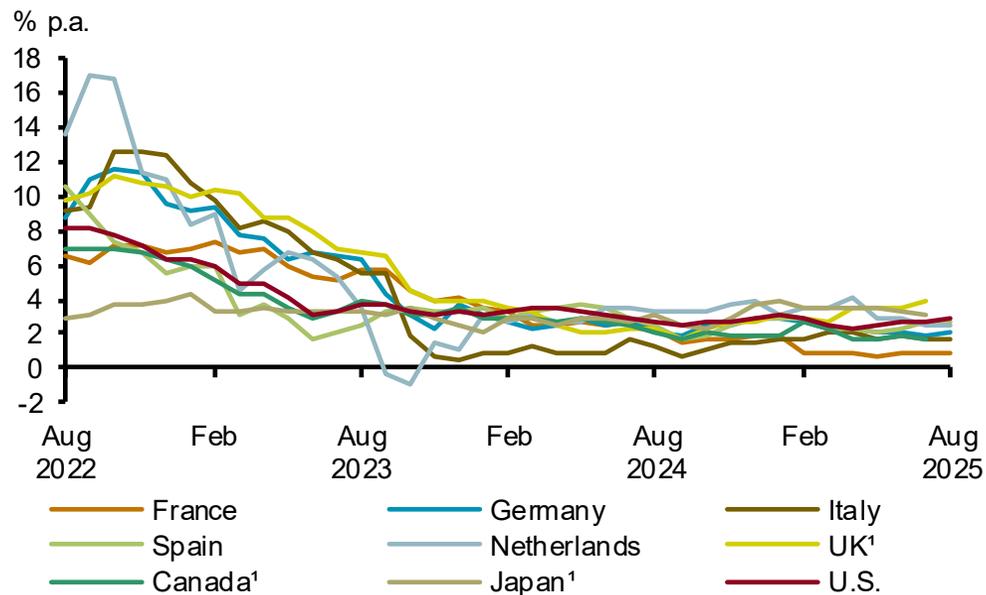
1/ Until September 12.

1/ GER, FRA, UK, ITL, HOL, BEL, IRL, ESP, SUI, NOR, SUE, DIN, FIN, EUA, CAN, JAP

External scenario – Inflation

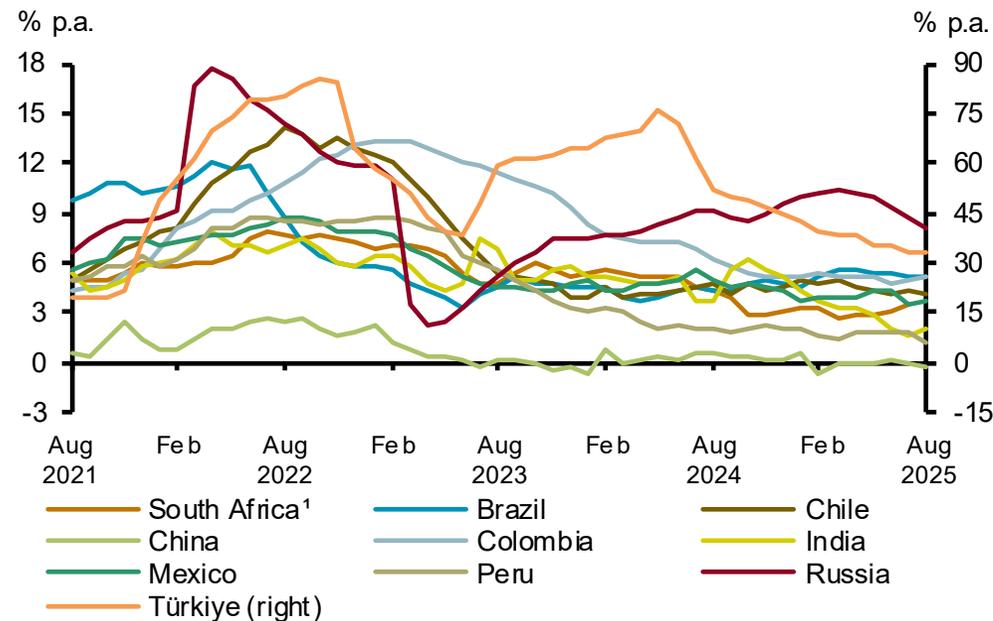
Inflation dynamics remain heterogeneous across countries.

CPI – Advanced economies



Source: Bloomberg
1/ Until July 2025.

CPI – Emerging market economies



Source: Bloomberg
1/ Until July 2025.

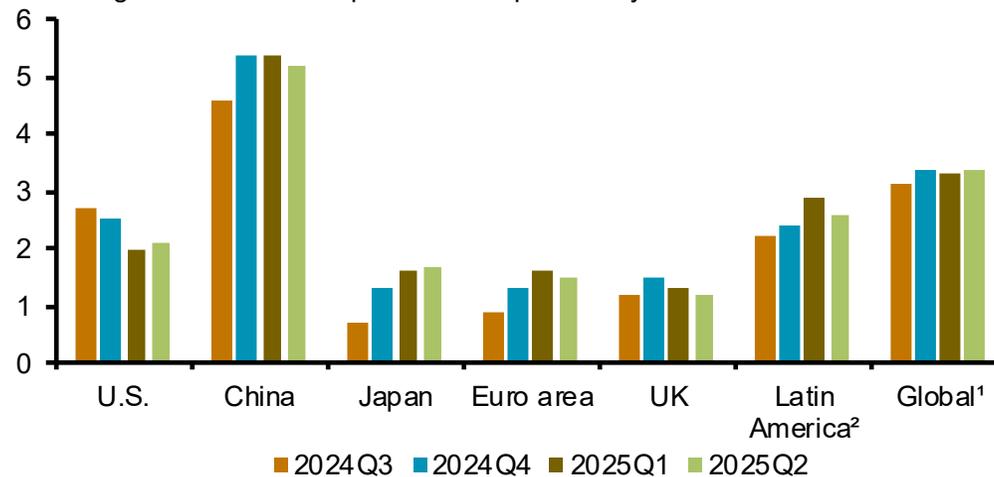
External outlook – Activity

Resilience in global growth.

GDP growth

From 2024Q3 to 2025Q2

% change over the 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.

External outlook – Monetary Policy

Several economies undergoing a cautious monetary easing cycle, maintaining a contractionary monetary stance.

Base rates decisions

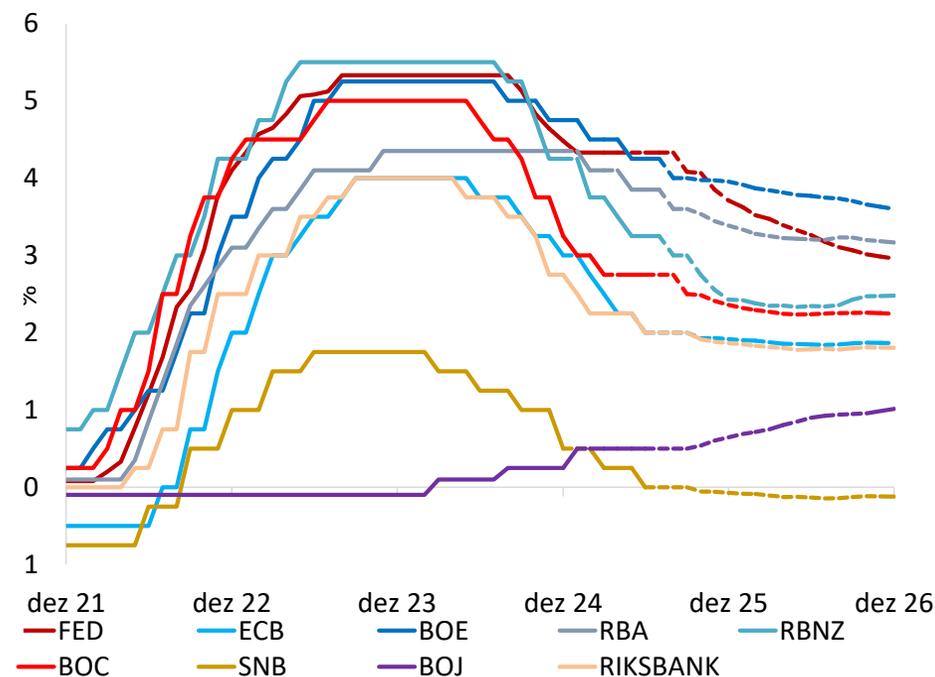
Last moviment		Current rate*	Tightening cycle**	Easing cycle**	Last meeting	Decision
=	Euro Area	2.00	+450 bp	-200 bp	Sep 11	unchanged
(-)	Australia	3.60	+425 bp	-75 bp	Aug 12	-25 bp
(-)	Canada	2.50	+475 bp	-250 bp	Sep 17	-25 bp
(-)	United States	4.25	+525 bp	-125 bp	Sep 17	-25 bp
=	Japan	0.50	+60 bp	-	Sep 19	unchanged
(-)	Norway	4.00	+450 bp	-50 bp	Sep 18	-25 bp
(-)	New Zealand	3.00	+525 bp	-250 bp	Aug 20	-25 bp
=	United Kingdom	4.00	+515 bp	-125 bp	Sep 18	unchanged
=	Sweden	2.00	+400 bp	-200 bp	Aug 20	unchanged
(-)	Switzerland	0.00	+250 bp	-175 bp	Jun 19	-25 bp

* As of September 19th

** Tightening (in bp) since minimum in the pandemics. Total cuts since maximum in the post-pandemics period.

Source: Bloomberg and central banks

Base rates and expectations





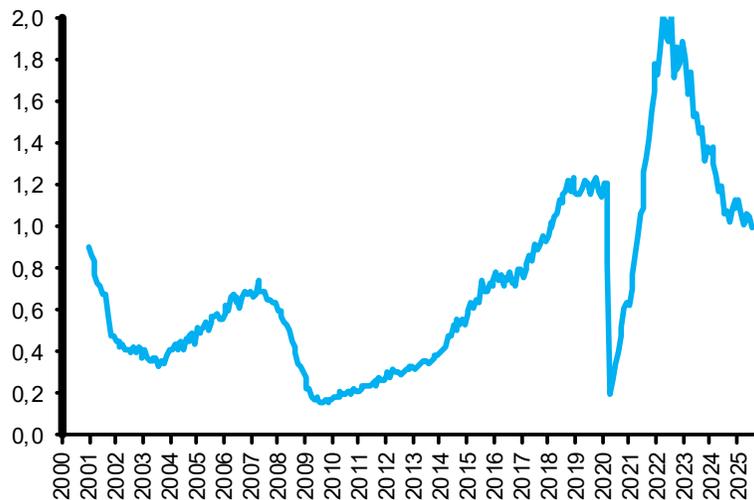
Economic outlook

External scenario – United States

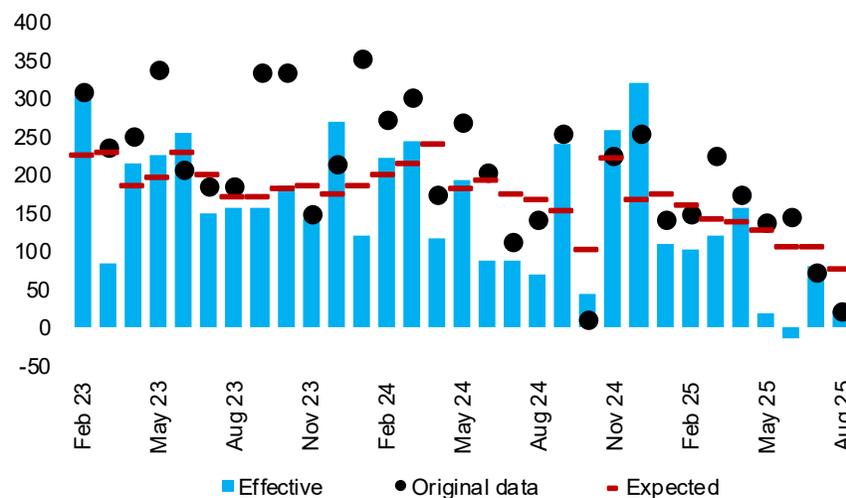
External outlook – U.S economic activity and labor market

Labor market rebalancing process continues but with a significant revision in the pace of net hirings. Growth projections remain stable.

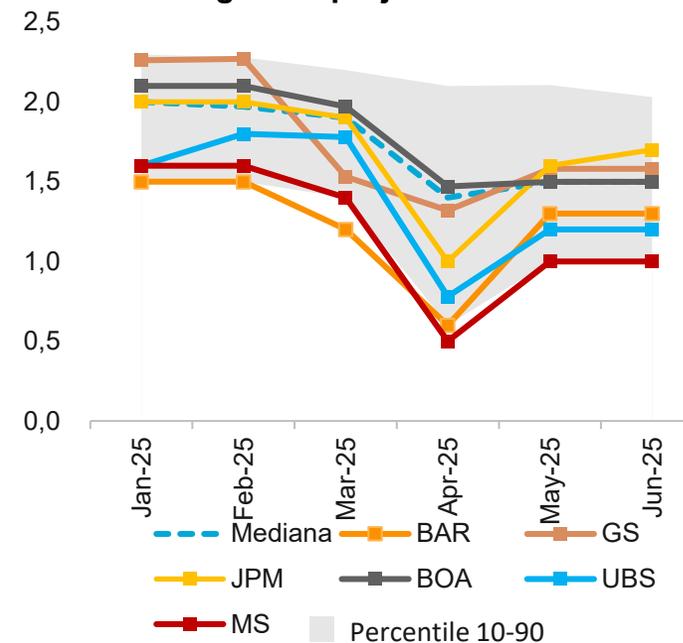
Job openings / unemployed ratio



Payroll revisions



GDP growth projection in 2026

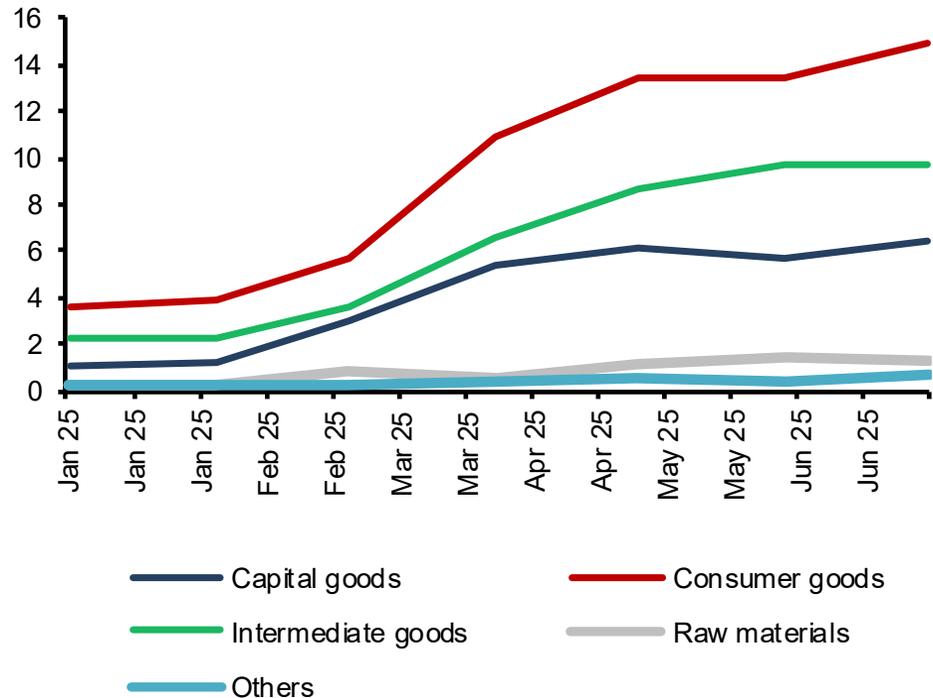


Fonte: Bloomberg

External outlook – U.S. inflation

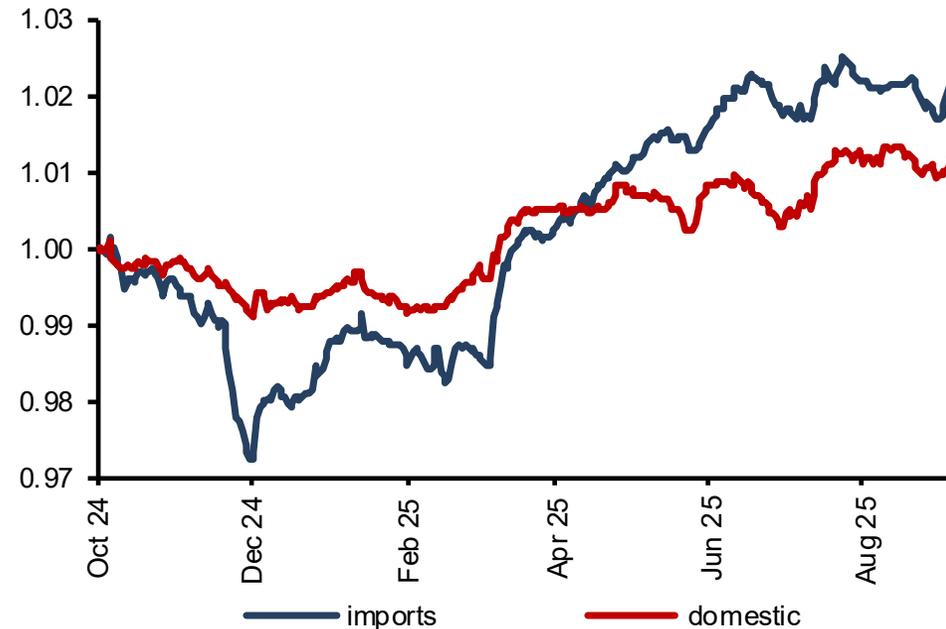
Trade policy introduces significant uncertainty regarding U.S. inflation dynamics, with potentially persistent impacts.

Effective tariffs



Prices of imported and domestic goods

Oct 1st 2024 = 1

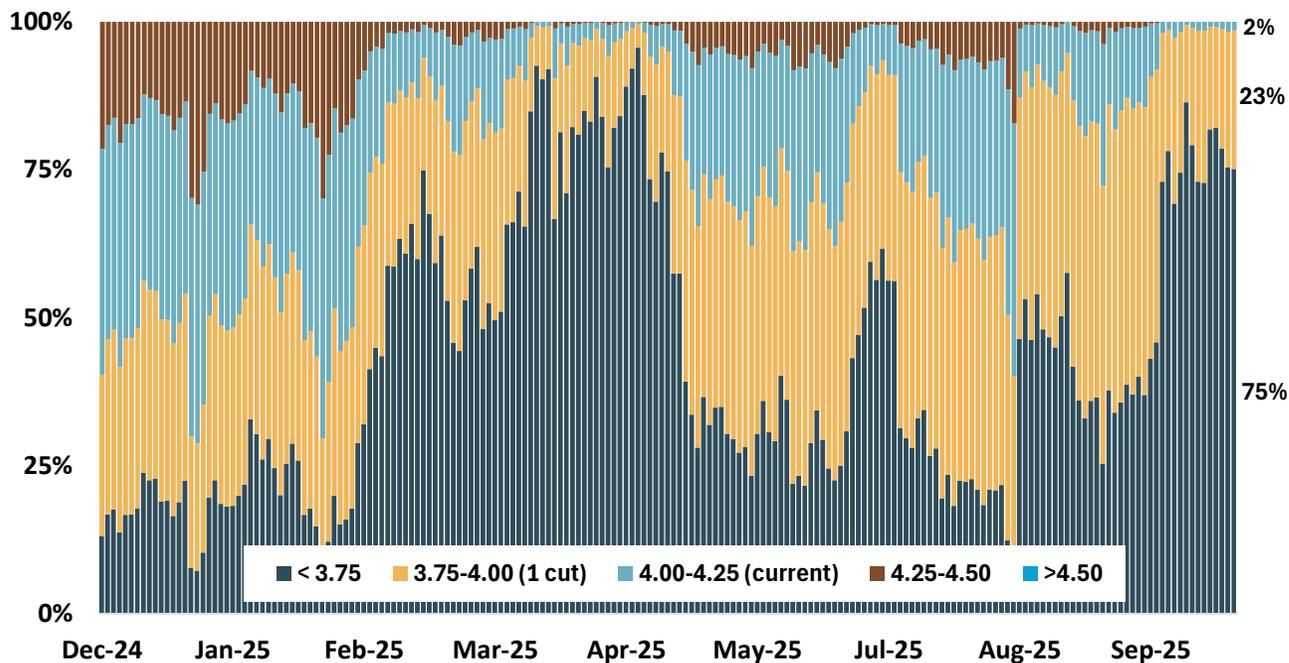


Source: Peterson Institute Tariff Revenue Tracker
Cavallo et al - Tracking the Short-Run Price Impact of US Tariffs

External outlook – U.S. monetary policy

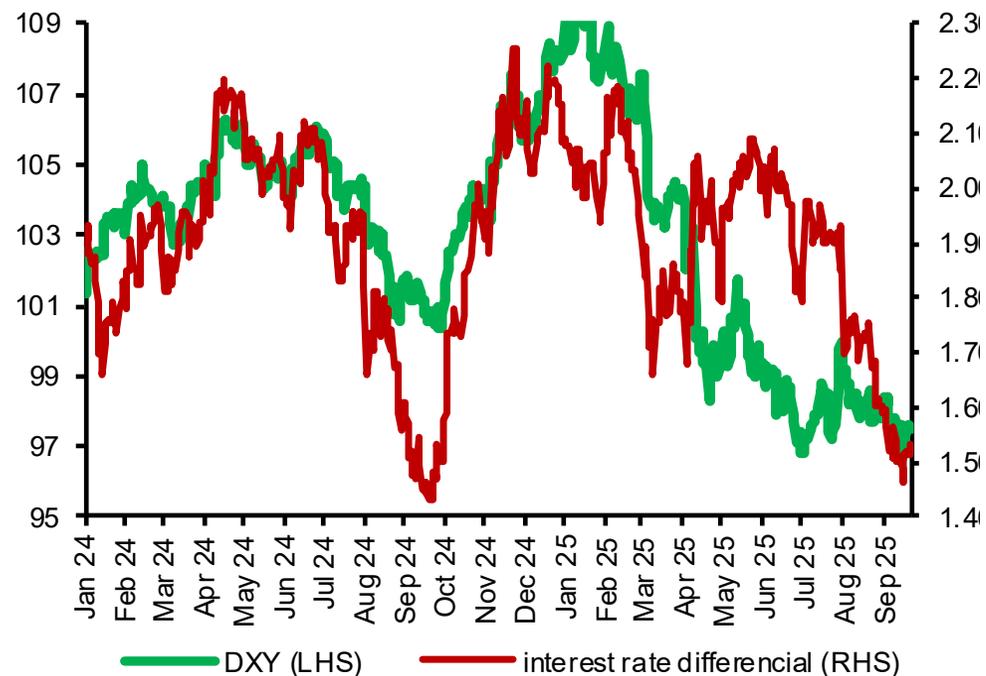
In an environment of USD depreciation, the Federal Reserve opted to cut interest rates in its latest meeting.

Priced Cuts at the FOMC Meeting Dec/25 (FF fut)



Fonte: CME

DXY and interest rate differential



Fonte: Bloomberg



Economic outlook

Domestic outlook

Economic activity

As expected, economic growth decelerated in 2025Q2, with a 0.4% GDP expansion, following an 1.3% increase in 2025Q1. Economic activity deceleration measured by the GDP in 2025Q2 was concentrated in the less cyclical sectors of the economy, while the more cyclical sectors maintained the pace already observed in the previous two quarters.

Gross Domestic Product

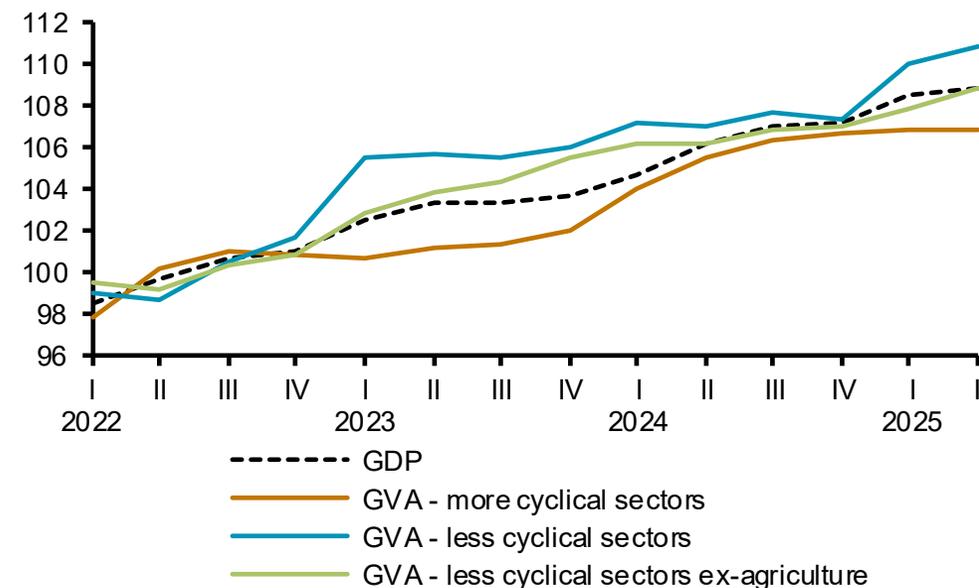
QoQ s.a.

Itemization	% change					
	2024				2025	
	Q1	Q2	Q3	Q4	Q1	Q2
GDP at market prices	0.9	15	0.8	0.1	13	0.4
GDP ex-agriculture at market prices	0.9	16	0.8	0.0	0.9	0.3
Agriculture	3.3	-0.8	12	-3.4	12.3	-0.1
Industry	0.6	0.8	0.9	0.2	0.0	0.5
Services	1.8	0.8	0.8	0.2	0.4	0.6

Sources: IBGE and BCB

GDP – More and less cyclical sectors

2022 = 100, s.a.



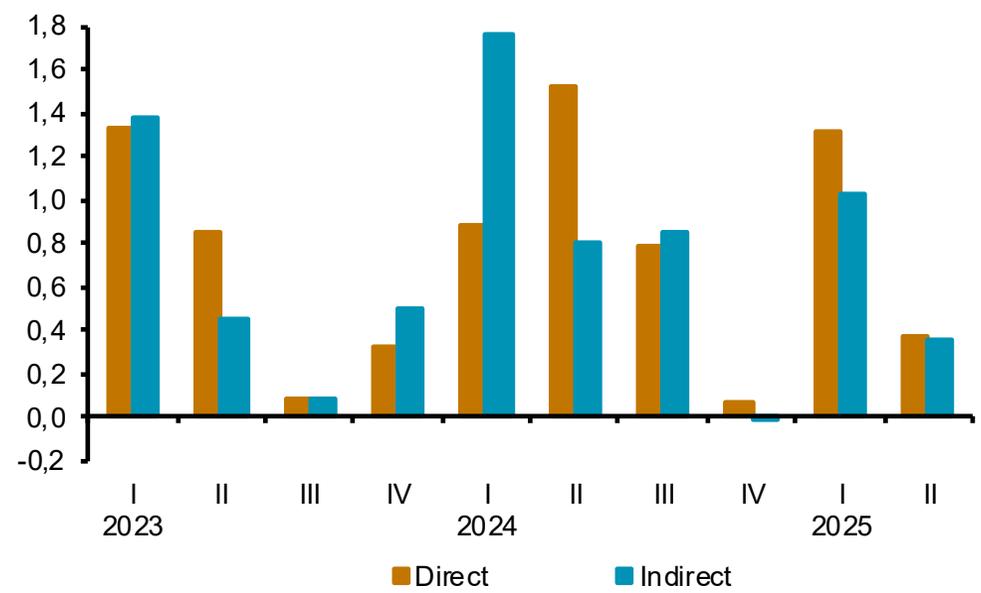
Sources: IBGE and BCB

Economic activity

The seasonal adjustment by the indirect method, considering the supply side, indicates a lower discrepancy between 2025Q1 and 2025Q2 growth rates.

GDP - direct and indirect adjustment

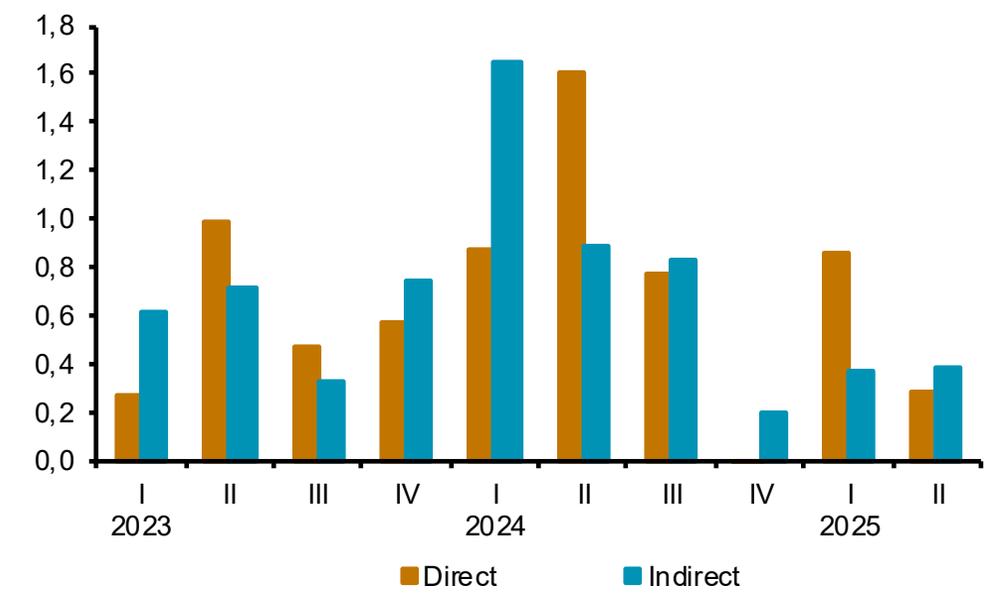
QoQ, s.a.



Sources: IBGE and BCB

GDP ex-agro - direct and indirect adjustment

QoQ, s.a.



Sources: IBGE and BCB

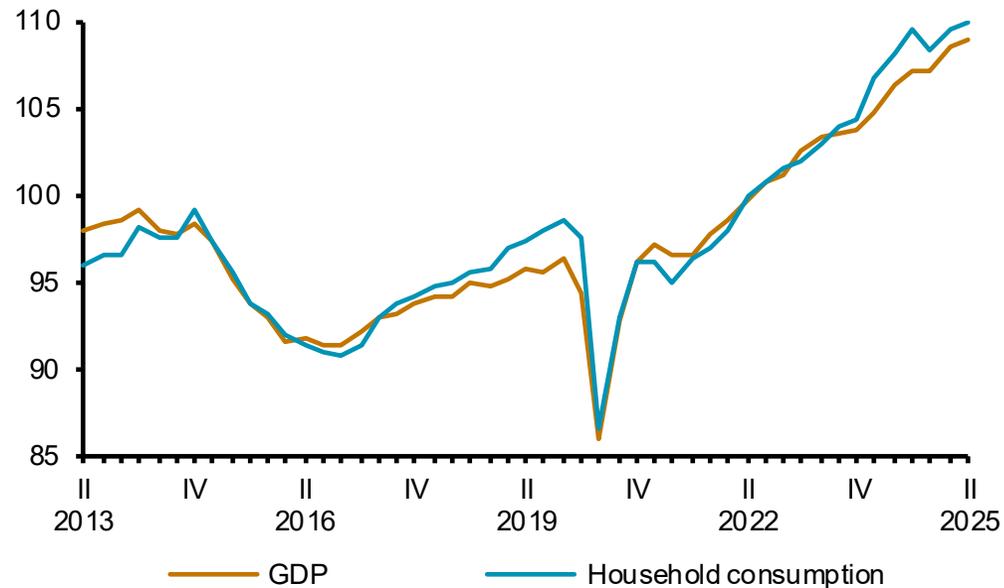
Economic activity

Household consumption decelerated in 2025Q2, following a strong growth in 2025Q1.

GFCF dropped in 2025Q2, after a sequence of strong expansions.

GDP and household consumption

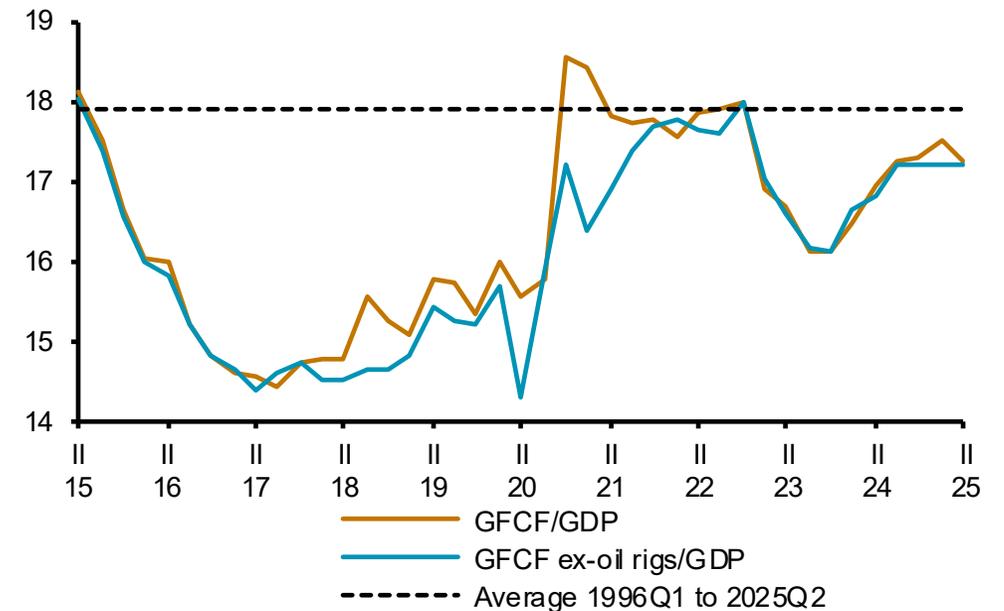
2022 = 100, s.a.



Source: IBGE

GFCF/GDP at current prices

%, s.a.



Source: IBGE

Economic activity

Activity data for July and August presented mixed signals but considered as a whole, suggest the continuity of the moderation trend in activity in 2025Q3.

Coincident indicators

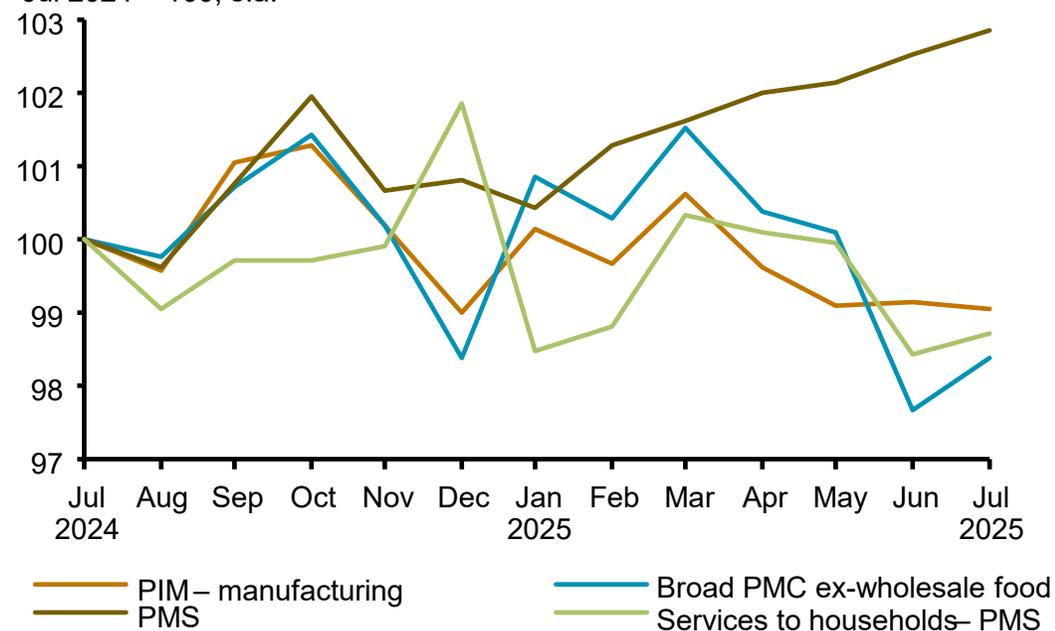
% change s.a.

	2025							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Production of vehicles (Anfavea)	1.3	1.1	1.2	3.1	-10.2	6.3	-0.1	0.7
Heavy vehicle traffic (ABCR)	3.4	0.2	0.6	0.2	-0.3	-0.1	1.8	-0.8
Corrugated boxes shipments (Empapel)	-0.4	1.6	1.9	-1.1	0.6	-1.1	1.9	-1.0
Production of gross steel (IABr/Aço Brasil)	-1.6	2.2	0.1	-5.7	0.4	5.0	-3.2	0.6
Cement sales (SNIC)	1.1	2.6	-0.3	-1.5	0.9	-0.7	-0.1	0.2
Vehicles sales (Fenabrave)	-1.6	-1.2	5.8	0.7	1.4	-5.6	2.7	-5.5
Commerce activity (Serasa Experian)	0.3	-0.2	0.1	-0.1	0.1	-0.8	0.3	...
Cielo broad retail index	0.3	-0.4	-0.2	0.5	-0.3	-1.1	0.0	0.0
Pharmaceutical sales (Sindusfarma)	3.8	-1.3	0.9	0.1	5.1	-2.7	0.5	1.7
IGET broad retail ^{1/}	-0.5	1.7	1.0	-0.5	-1.7	-0.2	1.6	0.2
IGET services to households ^{1/}	-0.7	1.4	-4.1	-0.3	3.2	-3.7	-0.1	4.1
IDAT Goods ^{2/}	1.1	0.1	2.4	-2.0	0.0	0.0	-1.4	0.5
IDAT Services ^{2/}	-1.2	2.2	-0.3	-0.5	-0.4	-1.1	-1.5	2.0
Broad IVS (Stone) ^{2/}	3.2	0.1	-1.5	0.6	0.6	-3.3	2.3	-1.4
Restrict IVS (Stone) ^{2/}	2.2	-0.4	-0.6	0.5	0.8	-3.0	1.0	0.1

1/ Seasonal adjustment by Economic Department. 2/ Seasonal adjustment by data provider

Economic activity indicators

Jul 2024 = 100, s.a.



Sources: IBGE and BCB

GDP projections for 2025 and 2026

Gross domestic Product

% growth

	2024	2025 ^{1/}		2026 ^{1/}
		MPR Jun	MPR Sep	MPR Sep
GDP at market prices	3.4	2.1	2.0	1.5
Taxes on products	5.5	1.7	1.4	1.4
Value added at basic prices	3.1	2.2	2.1	1.5
Supply				
Agriculture and livestock	-3.2	8.0	9.0	1.0
Industry	3.3	1.9	1.0	1.4
Services	3.7	1.8	1.8	1.5
Demand				
Household consumption	4.8	2.1	1.8	1.4
Government consumption	1.9	1.2	0.5	1.0
Gross fixed capital formation	7.3	2.8	3.3	0.3
Exports	2.9	3.5	3.0	2.5
Imports	14.7	3.5	4.5	1.0
Net trade contribution (p.p.)	-1.8	0.0	-0.3	0.3

Sources: IBGE and BCB

1/ Estimates.

2025: Projection revised from 2.1% to 2.0%

- The revision includes an upward projection for less cyclical economic sectors and a downward projection for more cyclical ones.
- Contributing to the reduction:
 - Signs of weaker activity in 2025Q3;
 - Still uncertain effects of the increase in U.S. import tariffs.
- Factors were partially offset by more favorable forecasts for agriculture and mining.

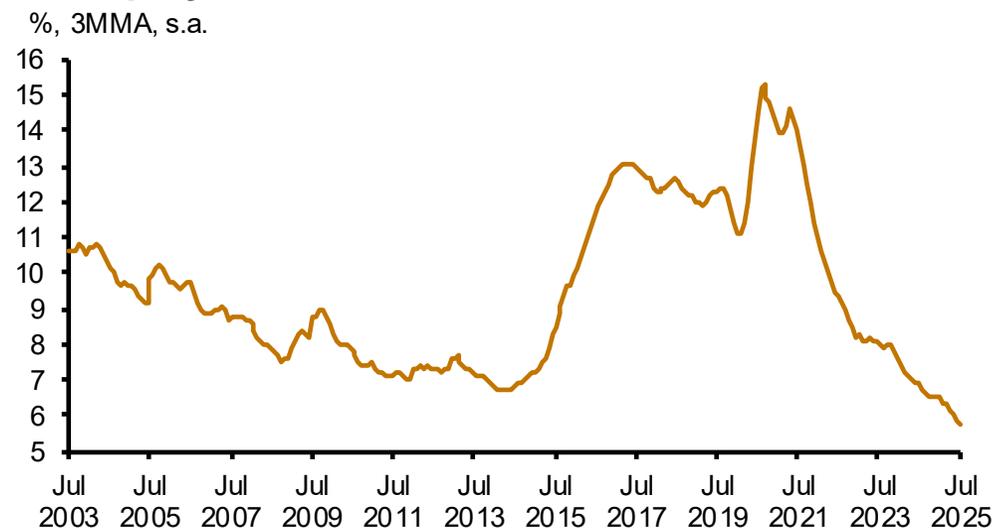
2026: 1.5% growth projection

- **Expectation of moderate increases across components:**
 - Restrictive monetary policy;
 - Low slack of production factors;
 - Prospect of a slowdown in global economy;
 - Absence of the agricultural stimulus observed in 2025.

Labor market – Employment

The labor market remains heated, and the unemployment rate in recent months has been lower than expected.

Unemployment rate¹



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

Sources: IBGE and BCB

Net formal job creation



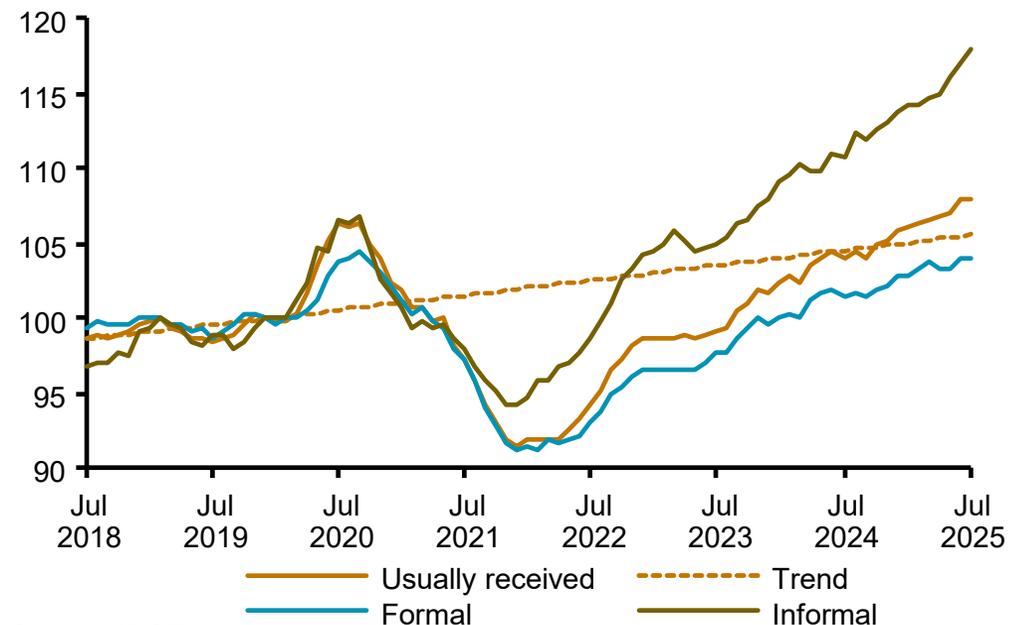
Source: Ministry of Labor and Employment

Labor market – Income

Average labor income measured by the PNAD Continuous is still growing strongly in real terms. Complementary indicators of salary dynamics continue to indicate lower real growth than in the PNAD.

Real average labor income

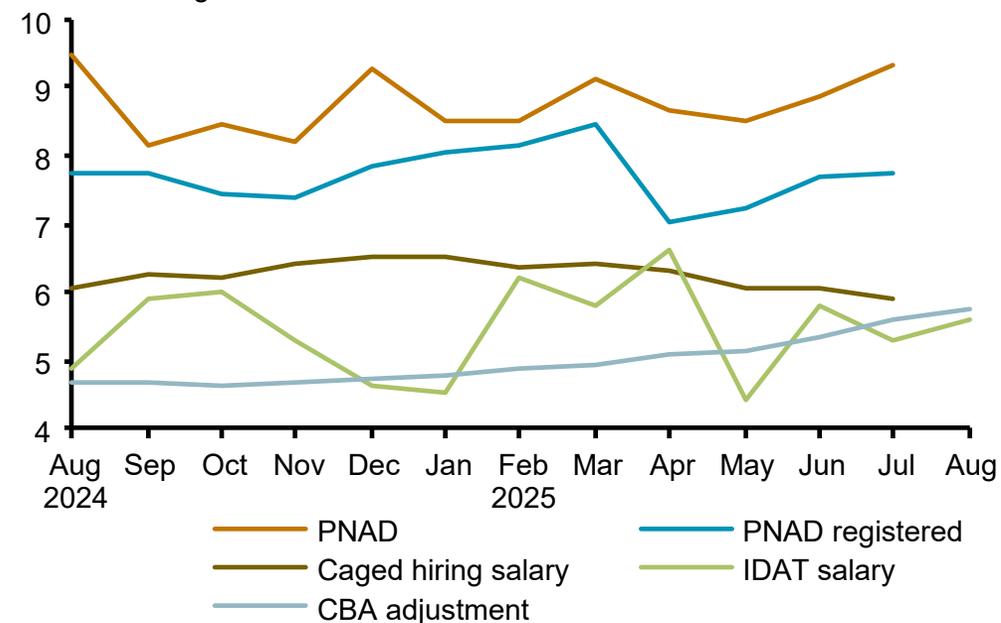
Dec 2019 = 100, 3MMA, s.a.



Source: IBGE

Salaries and labor income

% YoY change, 3MMA, nominal

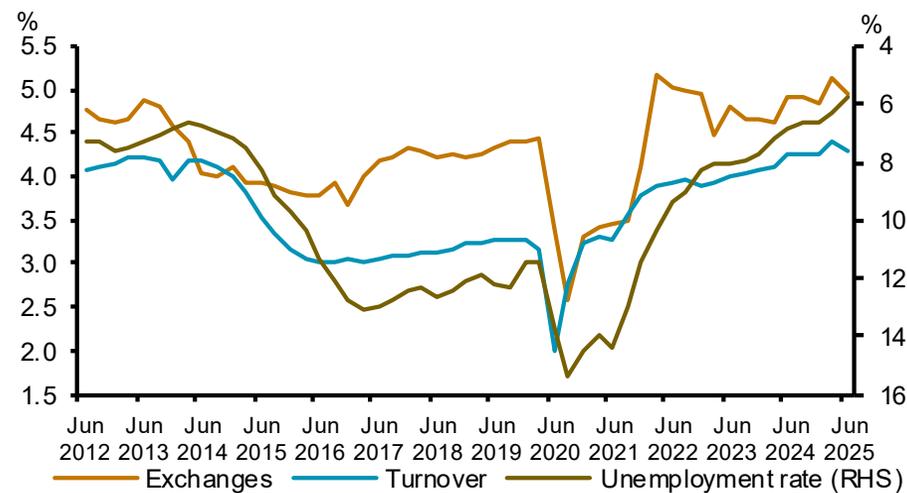


Sources: IBGE, MLE, Itaú, and BCB

Job switching and wage premium

- The dynamism of the labor market and its low slack are reflected in indicators related to mobility and the time required to find employment.
- Wage premium for switching jobs at high levels according to PNAD Continuous, although Caged data suggests some slowdown in recent years.

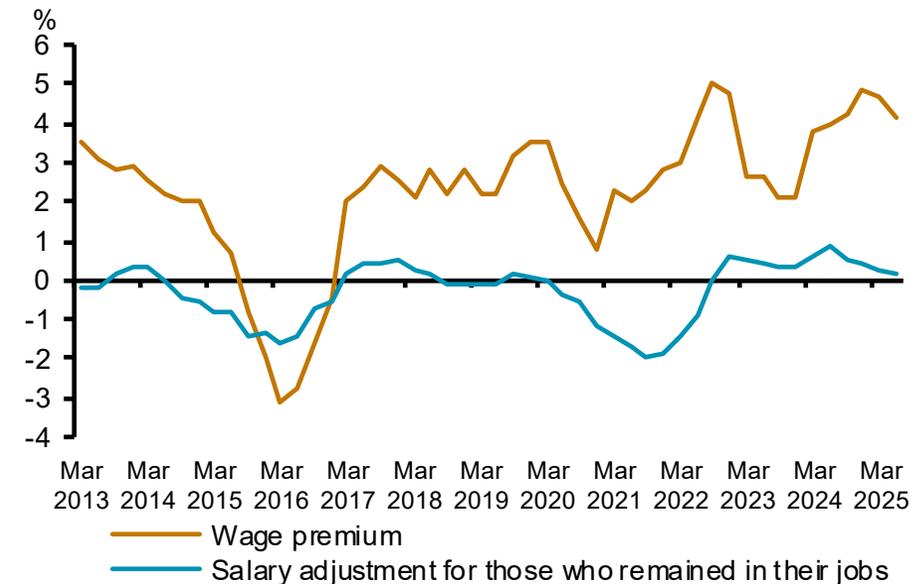
Quarterly job switching and turnover



Sources: IBGE, MTE and BCB

Wage premium

YoY deflated by IPCA



Sources: IBGE and BCB

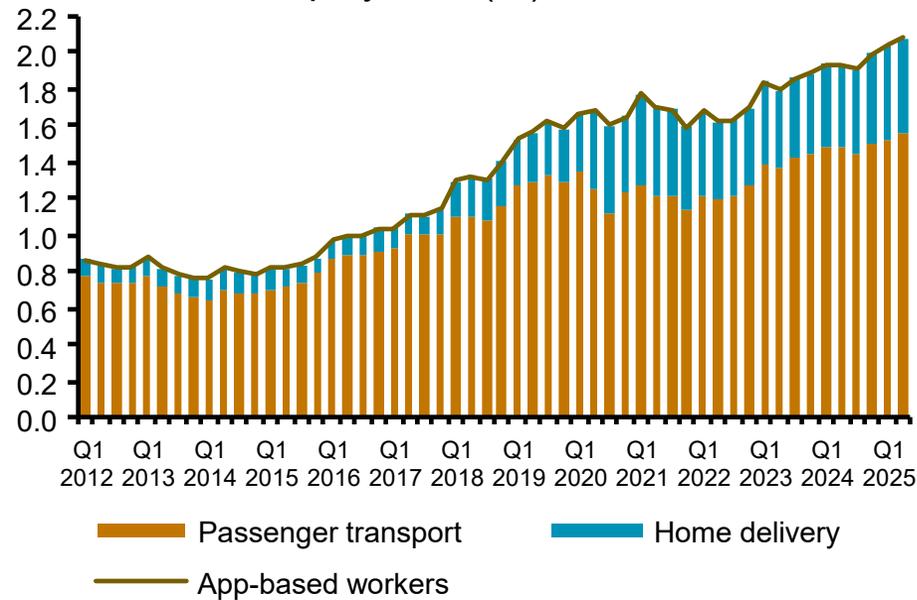
Job switching rate (PNAD Continuous): using paired data, switches are considered when individuals are employed in both quarters t and $t-1$, and, in quarter t , have been employed for up to two months. The total number of switches was divided by the number of employed individuals in $t-1$. Due to the survey limitations, it is not possible to distinguish between individuals that resigned and those that were fired. Turnover rate (New Caged) is the minimum between the total number of hirings and layoffs in a given month divided by the number of existing employment relationships in the previous month.

Effects of app-based work on the labor market

Exercises suggest that the introduction of digital platforms (apps) is associated with movements in the labor force participation rate, employment level, and unemployment rate. Studies estimate impacts from 0.3% to 0.6% in the unemployment rate.

App-based workers

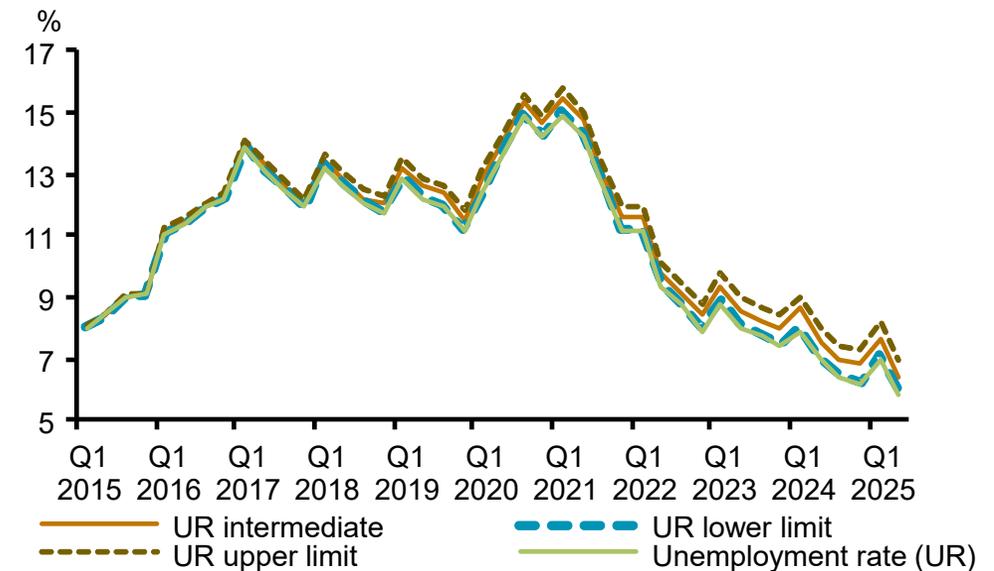
Share of total employment (%)



Sources: IBGE and BCB

Unemployment rate

Observed rate and counterfactuals



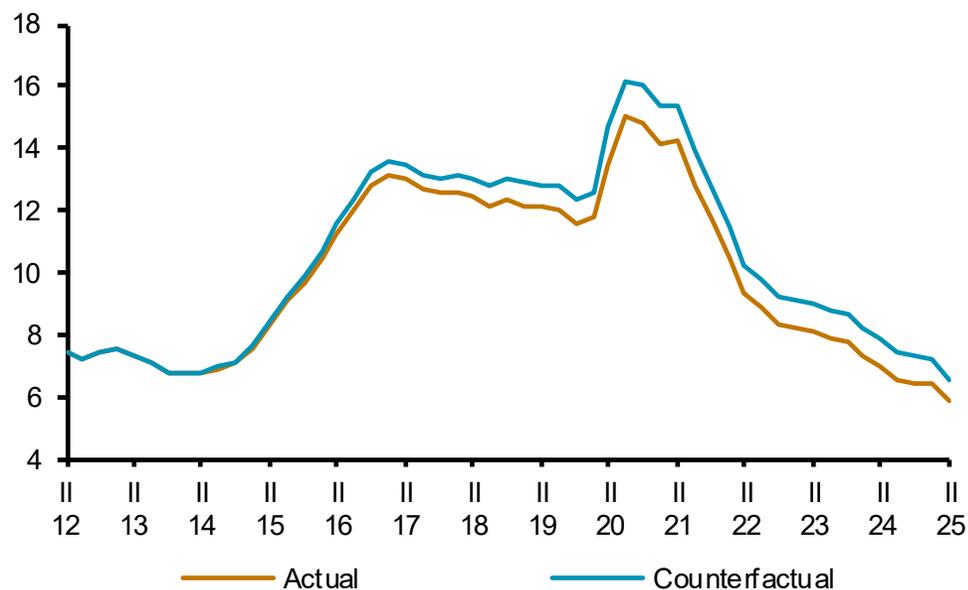
Sources: IBGE and BCB

Impact of education and demography on labor market indicators

- Changes in education and in the age structure of the working age population positively impacted the participation rate and the employment level but had a more limited effect on the unemployment rate;
- Since the end of 2022, the composition effects on the participation rate and employment level have begun to offset each other, indicating that the recent decline in the unemployment rate has not been affected by these factors.

Unemployment rate

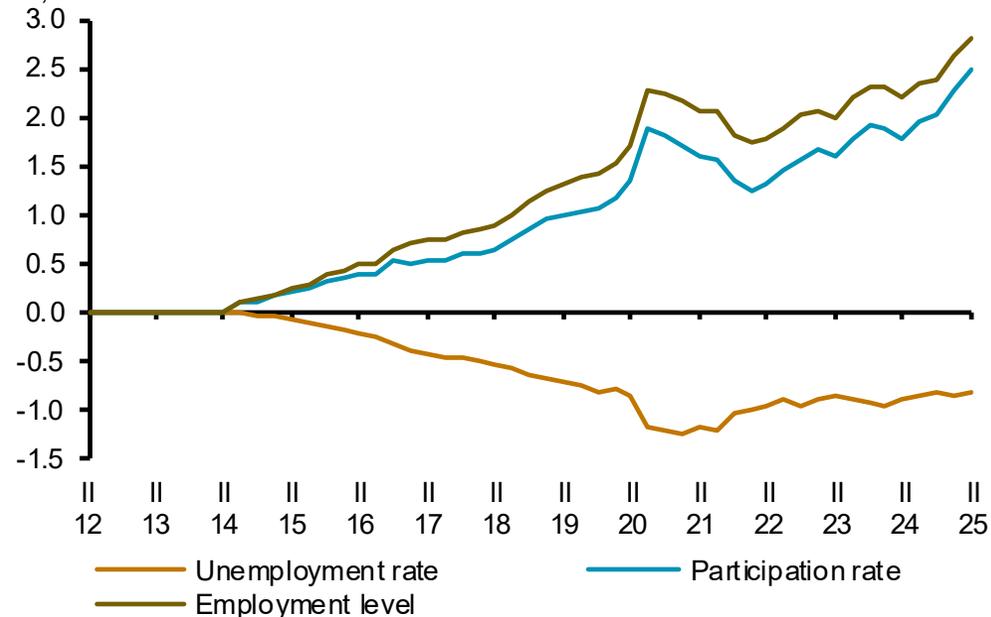
%, s.a.



Sources: IBGE and BC

Difference between actual and counterfactual

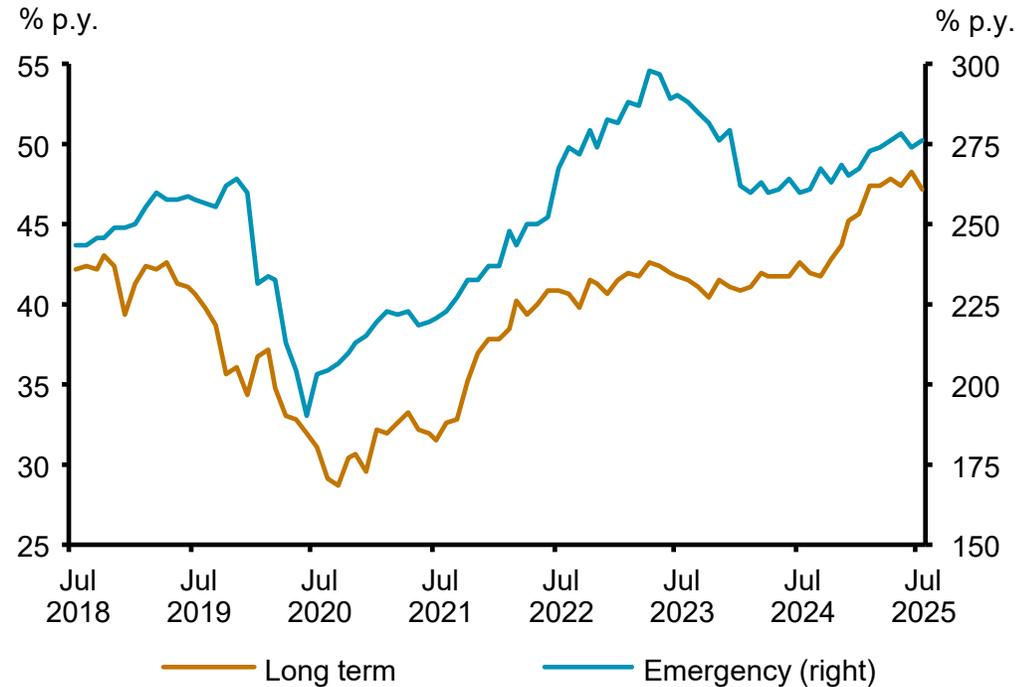
%, s.a.



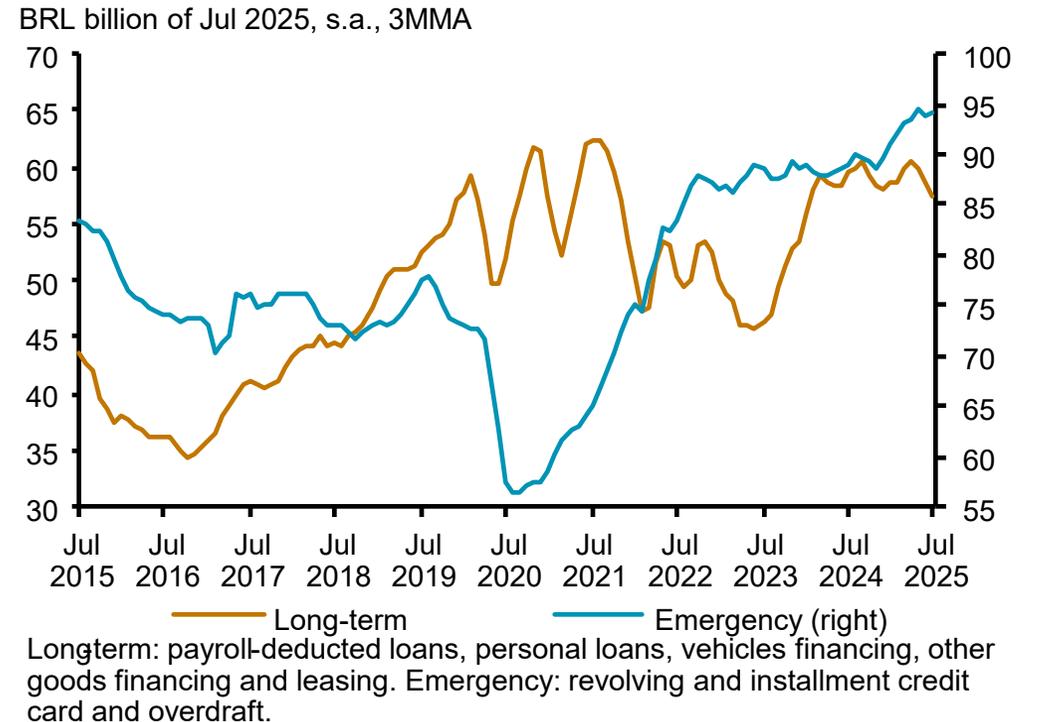
Sources: IBGE and BC

The credit market has become more tightened in recent months, mainly in the household segment.

Non-earmarked interest rates Households



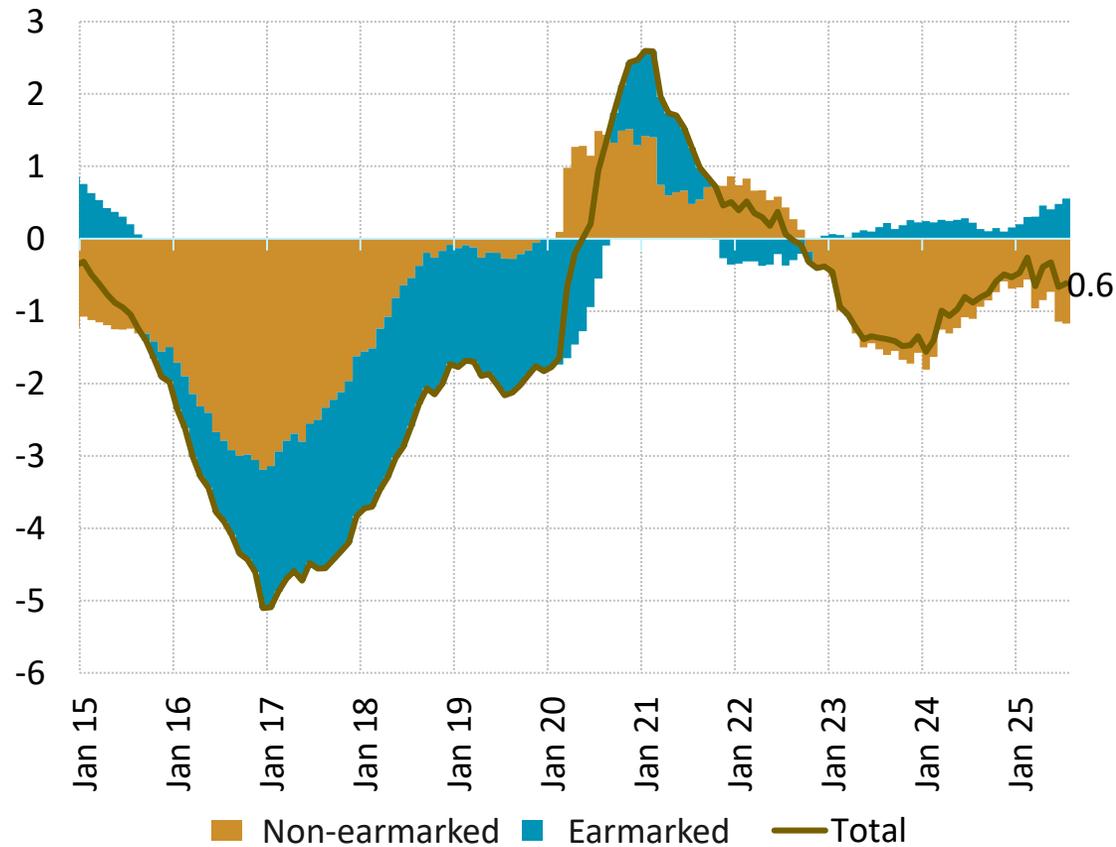
Non-earmarked household credit granting



In line with balance trend, the negative financial flow has deepened – i.e. households and companies returned more resources than borrowed from the SFN.

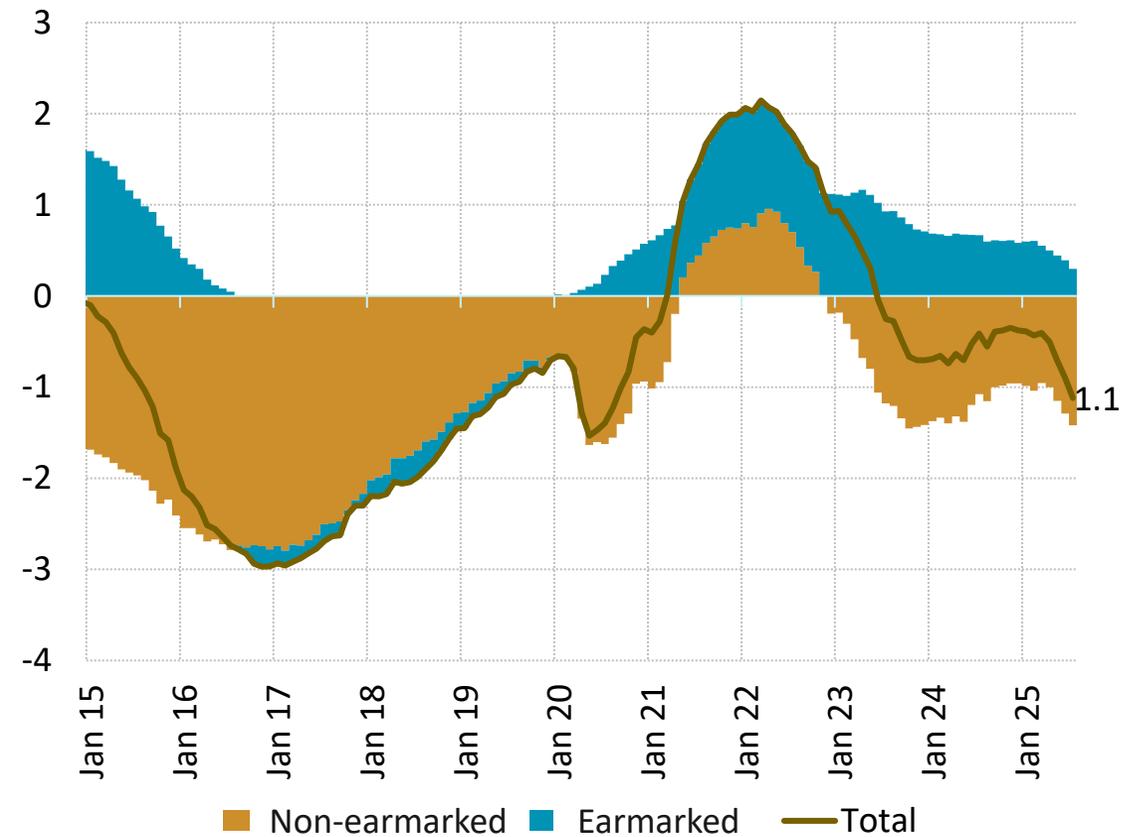
Financial Flow – Corporations

Accumulated in 12 months, % of GDP



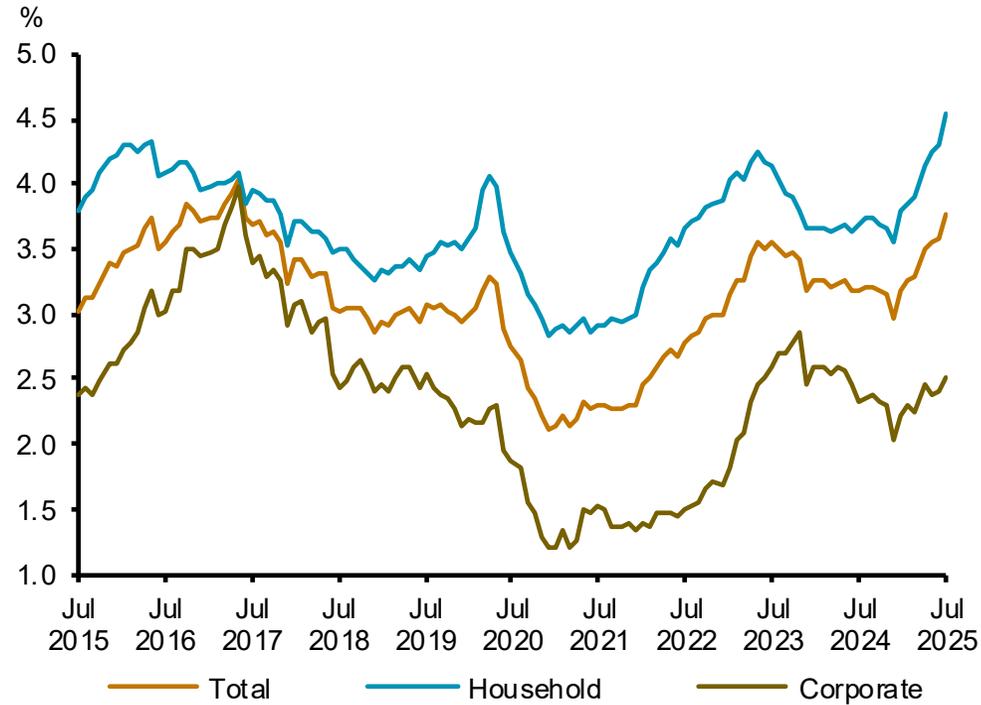
Financial Flow – Households

Accumulated in 12 months, % of GDP

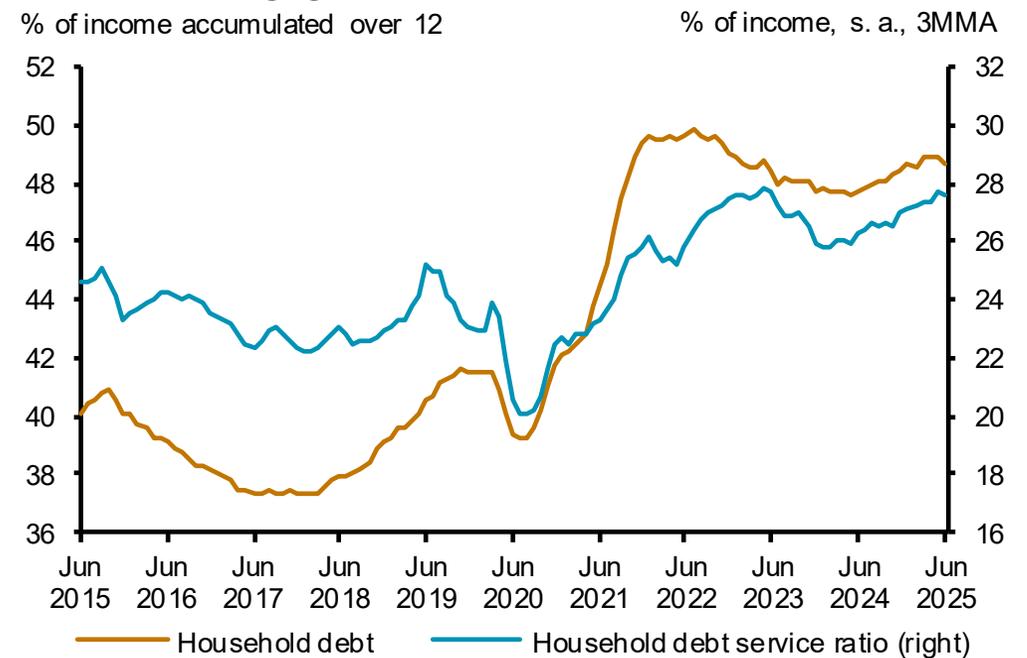


The SFN delinquency rate has increased in the last three months, driven by past due loans in household operations, in addition to reflect the effects of Resolution 4,966, which came into force in January and influenced the volume of write-offs as losses.

90 days past due loans



Household debt and household debt service ratio without mortgage loans

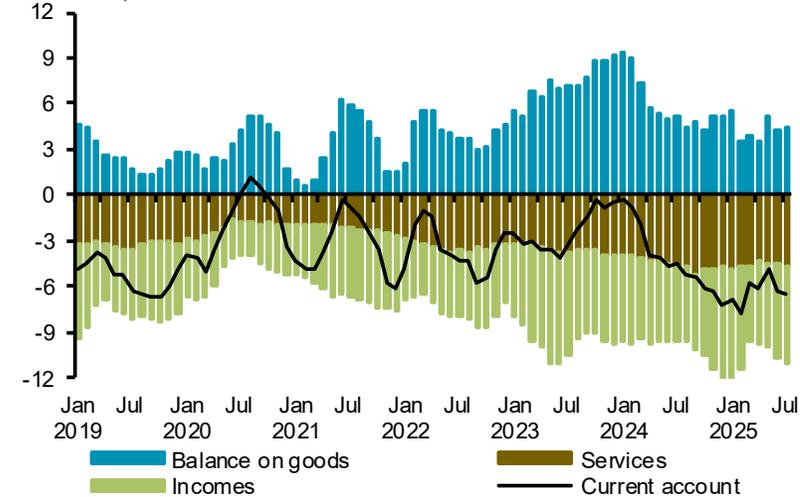


External accounts

Despite the favorable exports' performance, the external accounts scenario is no longer as benign as in recent years. In terms of value, imports remained at a high level, reaching the highest value in the time series up to July.

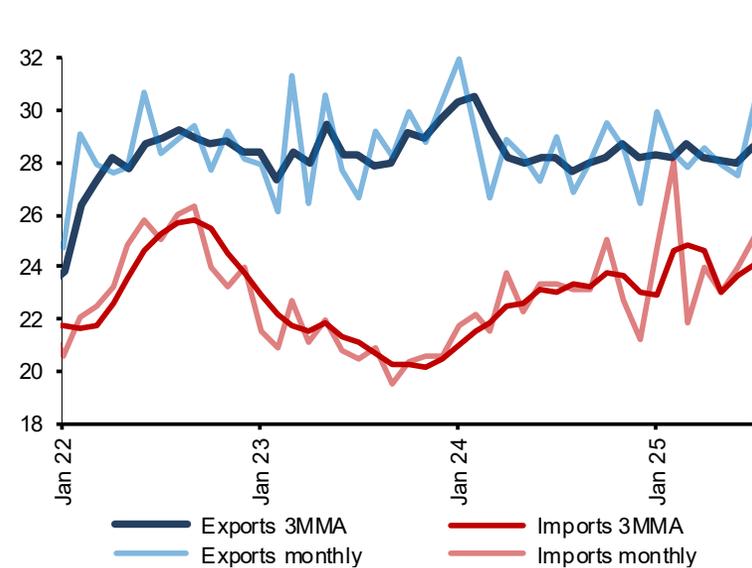
Current account

USD billion, 3MMA s.a.



Exports and imports

US\$ billion



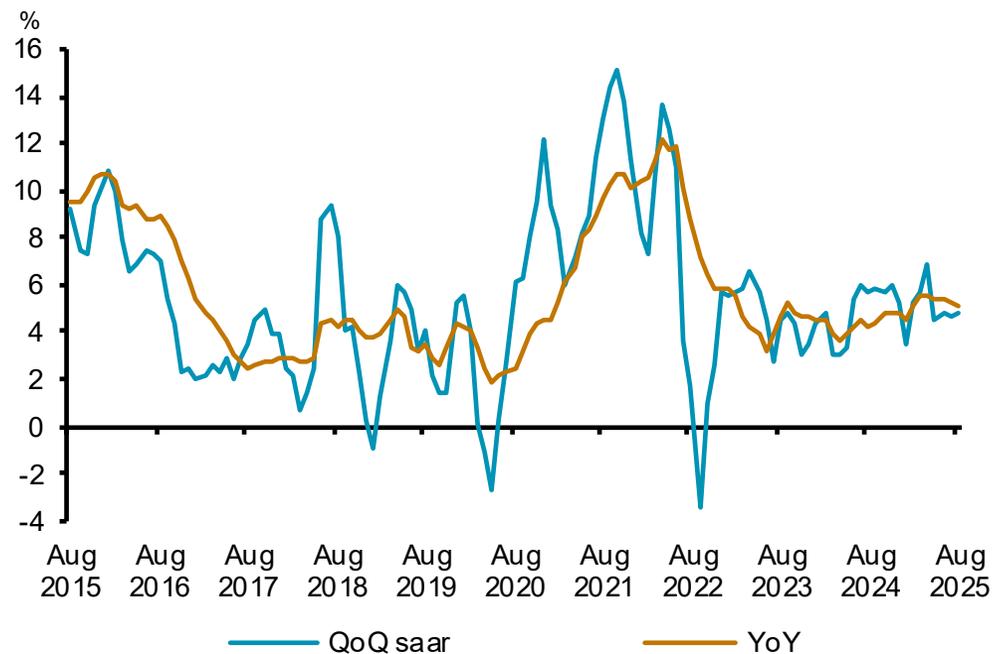
External accounts

Up to July	US\$ billion			
	2022	2023	2024	2025
Current account	-16	-20	-23	-40
Trade balance	34	50	44	32
Exports	196	197	200	200
Imports	162	147	155	167
Services	-24	-24	-30	-31
Primary income	-29	-47	-39	-43
Investments – liabilities	57	57	71	67

Consumer prices (IPCA)

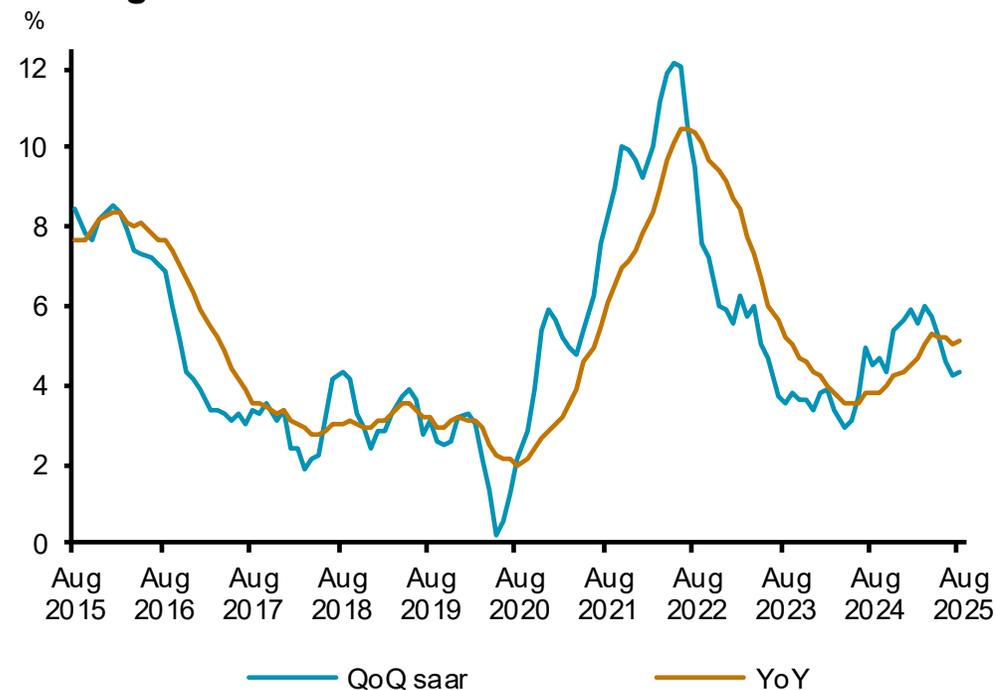
Despite some decline since the previous MPR, consumer inflation remained above the target.

IPCA



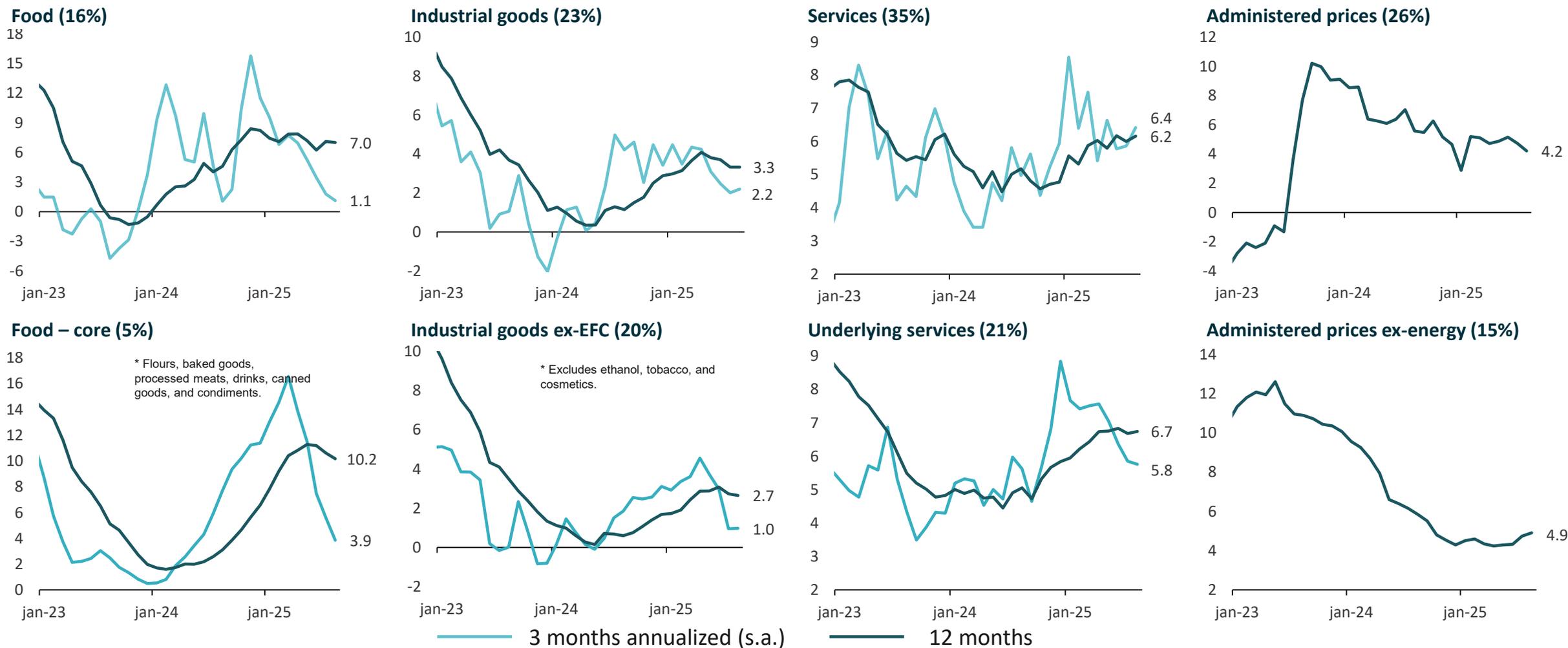
Sources: IBGE and BCB

Average of core inflation measures



Consumer prices (IPCA) – Segments

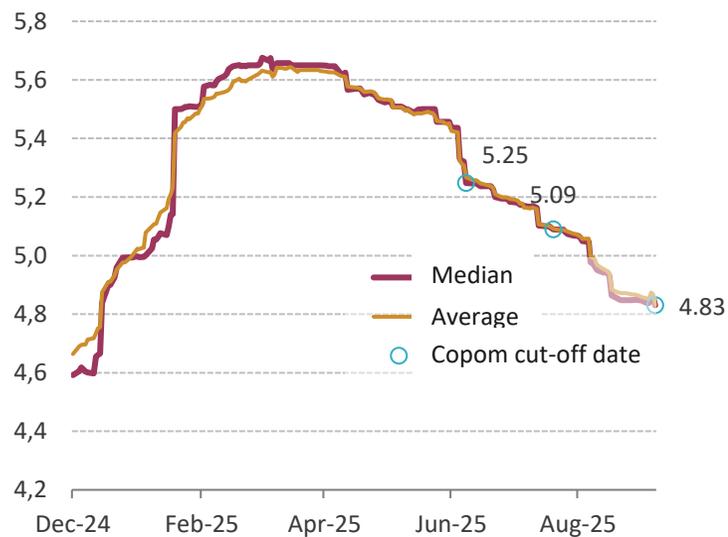
Consumer food prices continued to slow down, with lower change in the quarter in the seasonally adjusted series. Prices of industrial goods in the IPCA index also slowed down compared with the previous quarter. Services inflation continues at a high level.



Consumer prices – Expectations

Inflation expectations remain deanchored, although declining for 2025 and, to a lesser extent, for 2026.

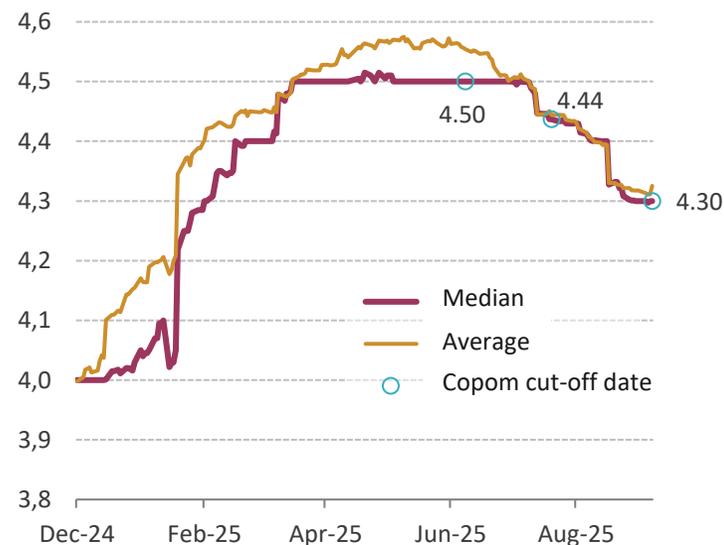
Median expectations (Focus) – IPCA 2025



Revision in Focus projections for 2025

	IPCA	100	Focus projections		
			Jun 13th	Sep 12th	contr. Δ
IPCA	100	5.25	4.83	-0.42	
Food	16	6.9	4.6	-0.37	
Industrial goods	23	3.8	3.1	-0.16	
Services	36	6.1	6.1	0.02	
Administered	26	4.3	4.7	0.08	

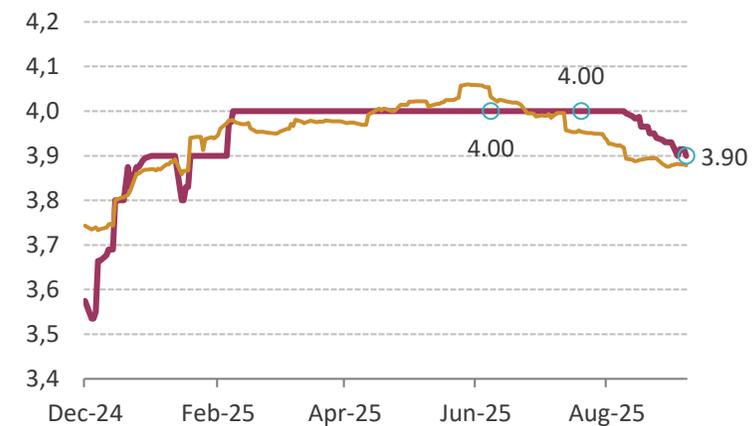
Median expectations (Focus) – IPCA 2026



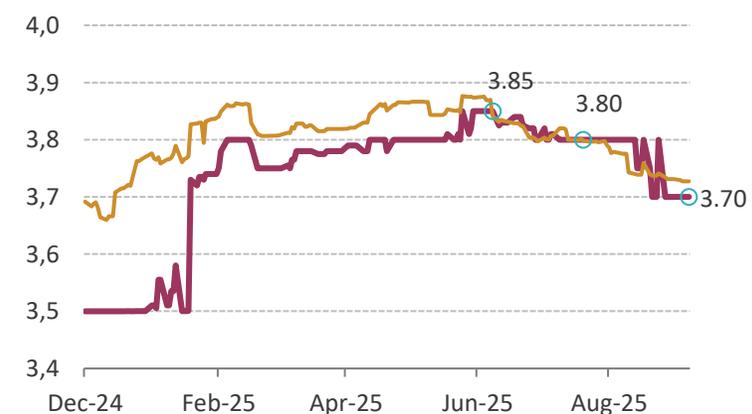
Revision in Focus projections for 2026

	IPCA	100	Focus projections		
			Jun 13th	Sep 12th	contr. Δ
IPCA	100	4.50	4.30	-0.20	
Food	16	5.0	4.9	-0.02	
Industrial goods	23	3.2	2.8	-0.10	
Services	36	5.4	5.3	-0.03	
Administered	26	4.3	4.0	-0.08	

Median expectations (Focus) – IPCA 2027



Median expectations (Focus) – IPCA 2028





Inflation outlook

Short-term reference scenario

IPCA – Inflation surprise

	% change				
	2025				
	Jun	Jul	Aug	Quarterly up to May	12-month up to Aug
Copom's scenario ^{1/}	0.33	0.18	0.44	0.95	5.72
Actual IPCA	0.24	0.26	-0.11	0.39	5.13
Surprise	-0.09	0.08	-0.55	-0.56	-0.59

Sources: IBGE and BCB

^{1/} Scenario at the June 2025 Monetary Policy Report cut-off date.

IPCA – Short-term projections^{1/}

	% change			
	2025			
	Sep	Oct	Nov	Dec
Monthly change	0.62	0.23	0.22	0.53
Quarterly change	0.77	0.74	1.07	0.98
12-month change	5.32	4.97	4.80	4.81

Sources: IBGE and BCB

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

Surprises

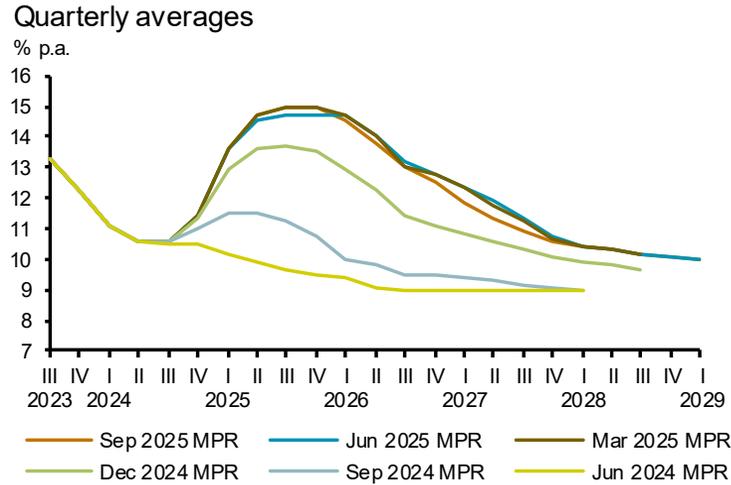
- **Consumer inflation in the Jun-Aug quarter was lower than expected.**
 - Most of the surprise is related to the Itaipu bonus, expected in July but distributed only in August.
 - Among market prices, there was downward surprises in food-at-home and industrial goods.
 - Changes in services prices were closer to expectations.

Projection

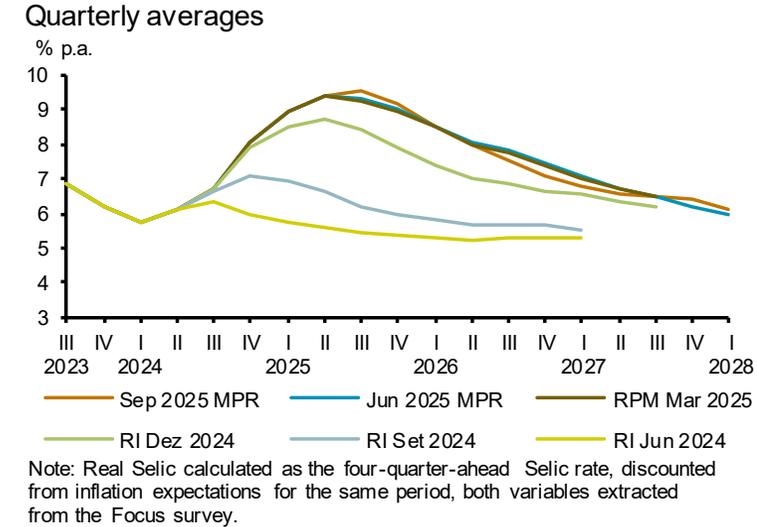
- **Short-term monthly projections indicate persistence of 12-month inflation above the upper limit of the inflation target tolerance interval.**
 - The average of core measures is expected to lie around 5% in terms of 12-month change.
 - Underlying services measures should continue under pressure, consistent with the inertia of this segment and the still-heated labor market.
 - Inflation for industrial goods should remain at levels close to those seen in recent months, lower than in early 2025.
 - Changes in food prices are expected to be higher, with less favorable seasonality and upside risk for meat prices.
 - Administered prices are expected to be heavily influenced by electricity, with restrictive flags in the short term and the upside effect of the Itaipu bonus in September.

Conditional projections for inflation: conditioning assumptions

Selic rate target as assumption for projections – Focus survey expectations

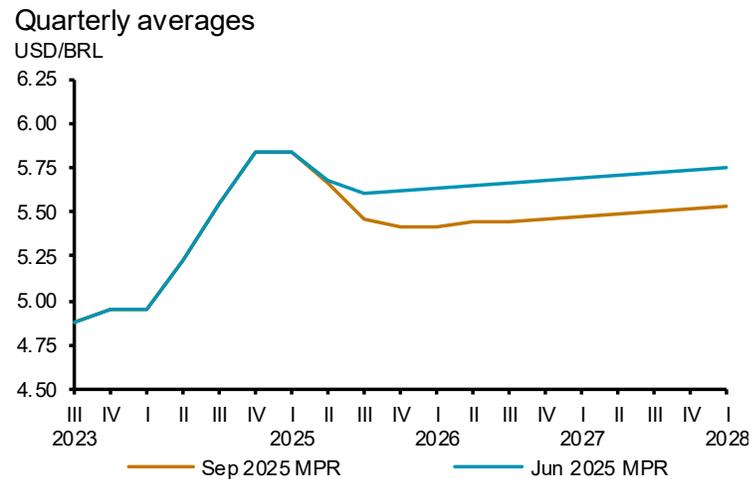


Four-quarter-ahead real Selic

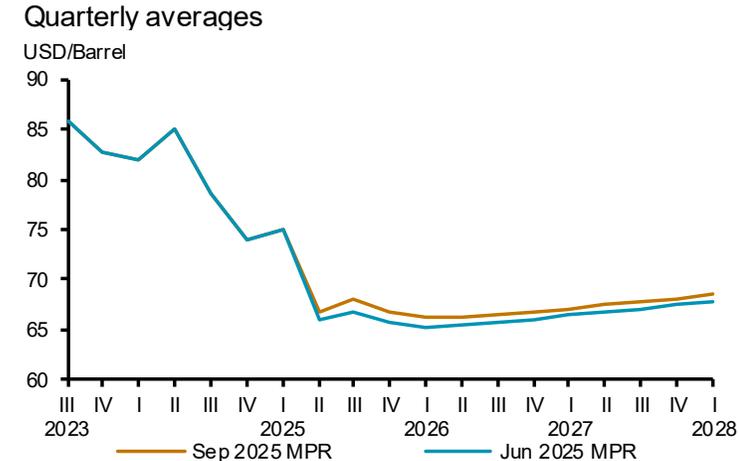


Neutral real interest rate of 5.00%

Exchange rate assumption for projections – PPP trajectory



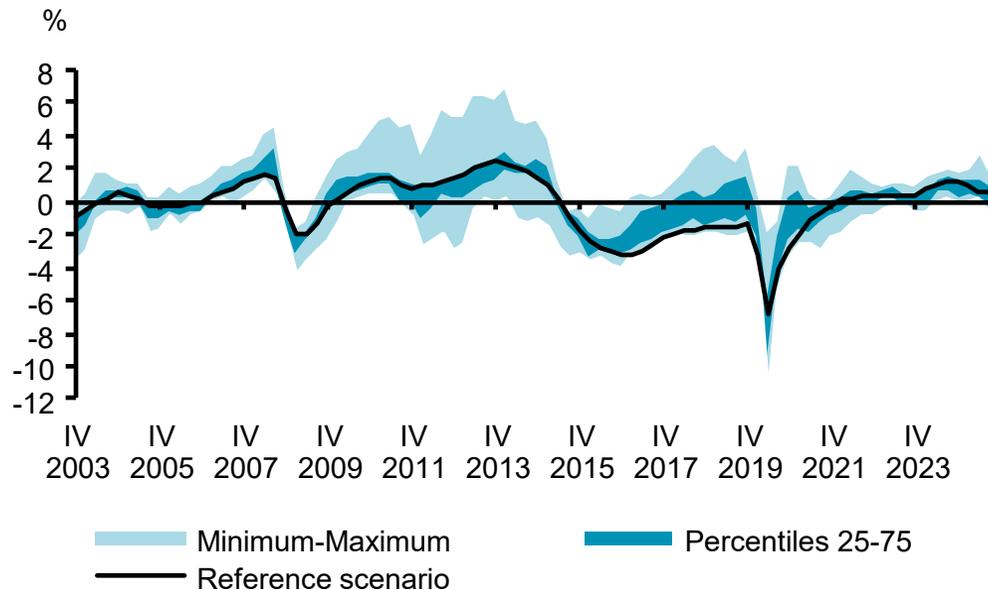
Brent-type oil price



Output gap

Output gap estimated at positive levels but projected to fall over the next quarters.

Output gap: estimates and dispersion



- 2025Q3 output gap estimated at 0.5%.
- 2027Q1 output gap projected at -0.5%.

Upward revisions in the current and projected output gaps in an environment of stronger-than-expected labor market.

Note: Dispersion measures were constructed using a set of selected output gap measures. See the box “Output gap measures in Brazil”, in the June 2024 IR, for a presentation of a broad range of methodologies. Chart data: 2003Q4–2025Q3.

Conditional projections for inflation: reference scenario

Inflation projections – Reference scenario

YoY IPCA inflation

Price index	2024		2025				2026				2027				2028
	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
IPCA	4.4	4.8	5.5	5.4	5.3	4.8	4.0	4.1	4.0	3.6	3.4	3.4	3.3	3.2	3.1
Previous MPR difference (p.p)	[0.0]	[0.0]	[0.0]	[0.0]	[-0.1]	[-0.1]	[-0.2]	[-0.1]	[0.2]	[0.0]	[0.0]	[0.0]	[0.0]	[0.0]	-
Market prices	4.1	4.9	5.6	5.4	5.4	5.0	4.3	4.2	4.1	3.5	3.3	3.2	3.2	3.1	3.0
Previous MPR difference (p.p)	[0.0]	[0.0]	[0.0]	[-0.2]	[-0.6]	[-0.2]	[-0.2]	[-0.1]	[0.3]	[0.1]	[0.0]	[0.0]	[0.0]	[0.0]	-
Administered prices	5.5	4.7	5.1	5.2	5.0	4.3	3.4	3.8	3.7	3.8	3.8	3.7	3.6	3.6	3.4
Previous MPR difference (p.p)	[0.0]	[0.0]	[0.0]	[0.0]	[1.1]	[0.5]	[0.2]	[0.1]	[-0.2]	[-0.3]	[-0.1]	[0.0]	[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 MPR is calculated using the rounded values presented.

- In the reference scenario projections, inflation remains above the upper limit of the inflation target tolerance interval in the next months and then, despite following the downward trend that began in 2025Q2, remains above the inflation target.
- Main upside factors for the projections in the relevant horizon:
 - Labor market dynamism, in a scenario of positive output gap
 - Increased projection for residential electricity
- Main downside factors for the projections in the relevant horizon:
 - Exchange rate appreciation
 - Reduction in inflation expectations



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