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Global Outlook for 2025 and 2026

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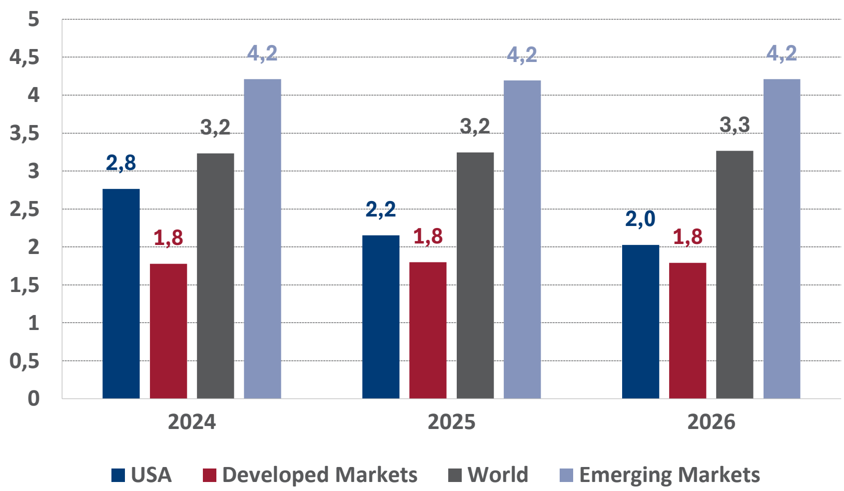
After years of globally synchronized economic growth and inflationary pressures, divergences among countries are starting to appear. In 2025 and 2026, the pace of economic slowdown and inflation convergence to lower levels in each country will relate to more specific contexts, although global growth prospects remain firm. The outlook is influenced by heightened uncertainty due to probable changes in the US economy and their implications for geopolitical dynamics following the election of Donald Trump.

In the US, the resilience of the economy reflects an expansionary fiscal policy and probable labor productivity gains since the pandemic. The economic slowdown in the next two years will therefore be gradual, and the speed of disinflation will also be slower, leaving less room for monetary easing to continue (Figure 1). In Europe, on the contrary, lack of economic dynamism will probably open the door to a looser monetary policy. In the emerging market economies, the effects of increasing uncertainty in the global environment following the election of Donald Trump will depend largely on the policies implemented by his administration and on their intensity.

Figure 1: Real GDP Forecasts (% Annual Growth)

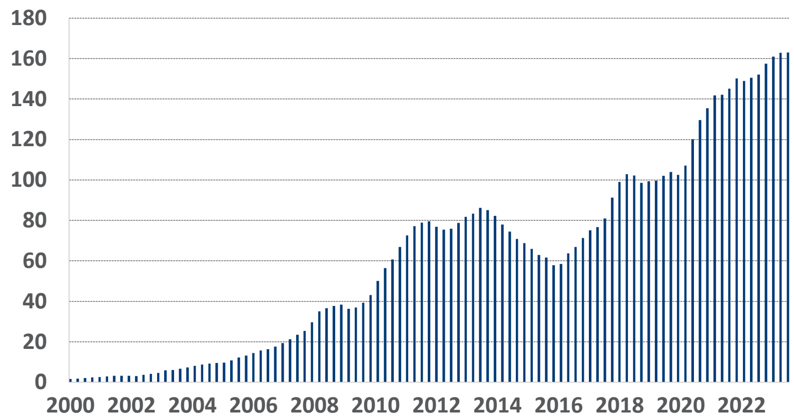


Source: BOCOM BBM, FMI

At this time, his economic agenda includes proposals that could either reduce global growth – such as higher tariffs on imports from several trade partners and restrictions on the entry of illegal immigrants – or boost global economic expansion, if tax cuts or deregulation stimulate the US economy. With regard to tariff policy, a wide array of possibilities includes tariffs of 60%-100% on imports from China and 25% on imports from Mexico and Canada, as well as import duty on automotive vehicles from Europe, and even a universal 10%-20% tariff on all US imports. While all tariffs will be inflationary, their impact will vary significantly, as will their implications for the conduct of monetary policy by the Fed and for global financial conditions.

The last US-China trade war is known to have contributed to an increase in Brazilian exports to China (Figure 2), especially exports of soybeans. However, the present context may prove more challenging as the space to be potentially occupied by Brazil appears more limited. Furthermore, a more intense trade war will have more adverse implications for emerging market countries, which tend to rely on export-led economic growth.

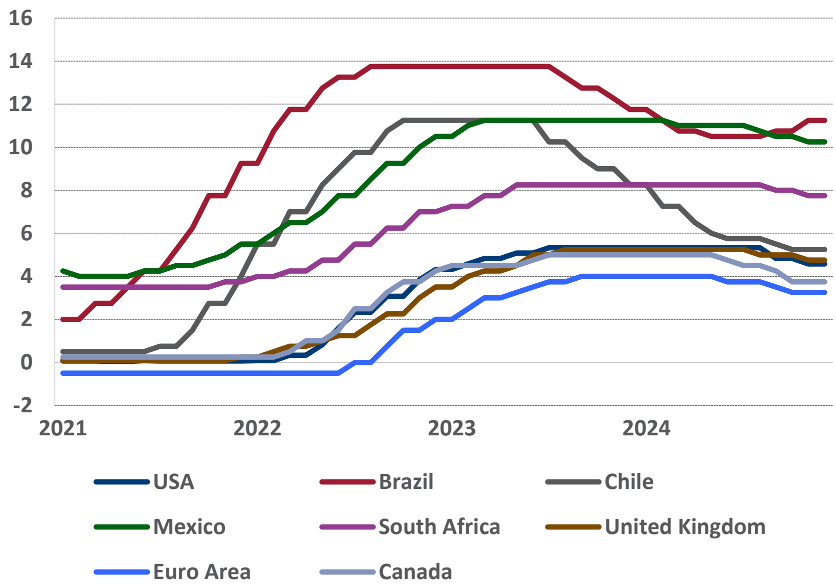
Figure 2: Trade Flow Brazil and China (Exports + Imports) - US$ Billions, acc. 12 months



Source: BOCOM BBM, MDIC

In Brazil, domestic challenges are accompanied by rapid deterioration in the inflation outlook. In the short term, the main drivers of inflation are pressures on food prices and the effect of local currency depreciation on prices of goods in general. We expect inflation to end the year close to 5%, increasing inertia for 2025 and pressuring service prices such as rentals, condominium maintenance fees and education. In addition, a nominal minimum wage hike of about 8% would result from the new rule, driving up prices of more labor-intensive services. Pressures on food prices are also set to persist in 2025, as the livestock cycle reverses in the context of strong demand. With regard to administered prices, hikes are expected in state sales tax (ICMS) on fuels (in February), bus fares in state capitals, and water and sewerage rates. All these factors together will limit disinflation in 2025, justifying the monetary tightening cycle (Figure 3).

Figure 3: Policy Rates (% per year)



Source: BOCOM BBM, Fed, BCB, Banxico, SARB, BoE, ECB, BoC, BCCh

On the fiscal front, the government at last announced its long-awaited fiscal package, but the absence of measures involving a significant reduction in expenditure frustrated market expectations. In parallel, a proposed income tax exemption for all salaried workers earning up to BRL 5,000 per month further clouded the prospects of debt sustainability, triggering sharp local currency depreciation. In light of this more adverse scenario and the increased de-anchoring of inflation expectations according to the Central Bank of Brazil's Focus report, we forecast an acceleration of the pace of rate hikes at the next meeting, taking the Selic to at least 14% in 2025.

ECONOMIC FORECASTS	2019	2020	2021	2022	2023	2024F	2025F	2026F
GDP Growth (%)	1.2%	-3.3%	4.8%	3.0%	2.9%	3.5%	2.3%	2.0%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.6%	5.0%	4.8%	4.0%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	7.4%	6.3%	7.0%	7.5%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.8%	11.75%	12.0%	14.0%	10.5%
External Accounts								
Trade Balance (US$ bn)	27	32	36	44	92	72	77	86
Current Account Balance (US$ bn)	-68	-28	-46	-48	-31	-51	-49	-46
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.5%	-1.3%	-2.4%	-2.2%	-2.0%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.5%	-2.1%	-0.5%	-0.8%	-0.8%
Government Gross Debt (% of GDP)	74.4%	86.9%	77.3%	71.7%	74.4%	77.9%	83.0%	87.9%