

Macro Monthly Letter

March 2025

Uncertainties about the pace of the economic slowdown

Cecilia Machado
Chief Economist

Luana Miranda
Senior Economist

Victor Cota
Analyst

Oruan Perez
Intern

Bruno Oliveira
Intern

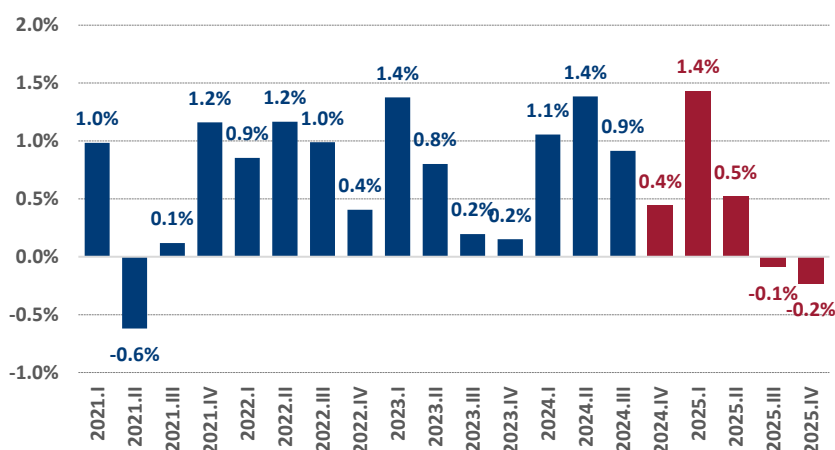
Maria Miraglia
Intern

Interest rates at a restrictive level, loss of household purchasing power due to persistent inflation and a reduced fiscal impulse make an economic slowdown something of an inevitability in 2025. The severity of the slowdown is far less evident. Although the growth seen in 2024 was partly driven by less cyclical sectors such as agriculture and extractive industries, there was spillover to other sectors or segments that is hard to measure. In addition, new stimulus policies, such as a reduction in the cost of credit and permission for extraordinary withdrawals from the FGTS severance indemnity fund, are being discussed and could support economic growth for a longer period.

The slowdown is an element that contributes to the disinflation process, and the pace of deceleration therefore has implications for the conduct of monetary policy. Service inflation, in particular, will remain under pressure unless domestic demand cools sufficiently.

While 2024 was yet another year of strong economic growth, there were clearer signs of deceleration in the fourth quarter, with retail, services, industry and the labor market all displaying a loss of dynamism. After average growth of 1.1% in the first three quarters, monthly sectoral indicators signaled sharp deceleration, which will translate to growth of only 0.4% QoQ in the fourth quarter, according to our projections (Figure 1).

Figure 1: GDP Growth (QoQ)



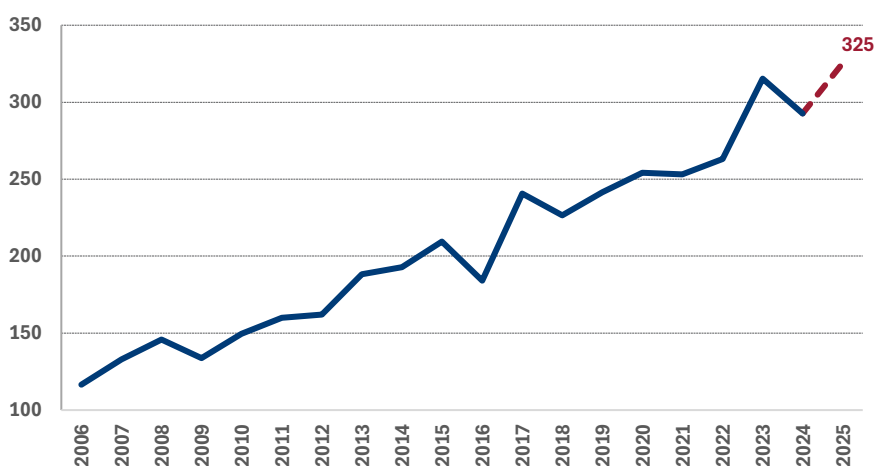
Source: BOCOM BBM, IBGE

This report was prepared by Banco BOCOM BBM and is distributed free of charge with the sole purpose of providing information to the market. Any forecasts, estimates, and certain information contained herein may be based upon proprietary research and should not be interpreted as investment advice or recommendation. Although the information contained herein was prepared with utmost care and diligence, in order to reflect the data at the time in which they were collected, Banco BOCOM BBM cannot guarantee the accuracy thereof. Banco BOCOM BBM cannot be held responsible for any loss directly or indirectly derived from the use of this information or its contents, and the readers should make their own investment decisions. This report cannot be reproduced, distributed or published by the recipient or used for any purpose whatsoever without the prior written consent of Banco BOCOM BBM

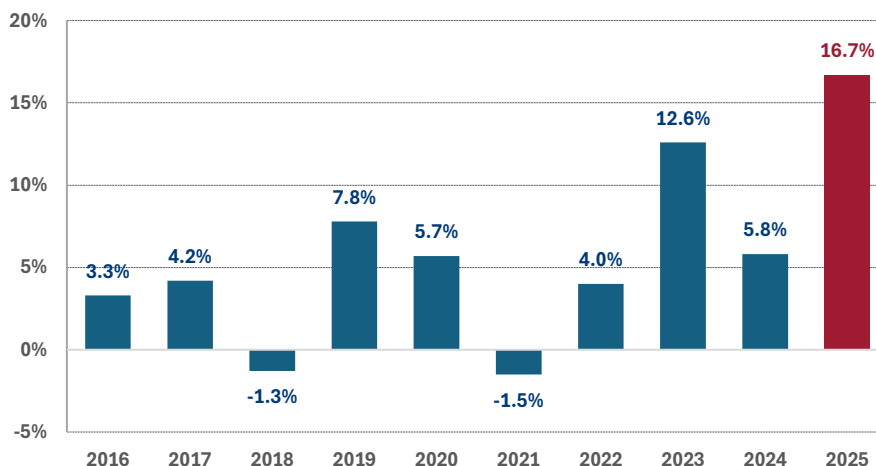
However, high-frequency data for the start of 2025, albeit imparting mixed signals, do not appear to show a sudden change in the economy's growth trajectory. On the downside, the confidence surveys, especially consumer expectations and business confidence in the retail sector, point to a continuing decline. On the other hand, the labor market continues to display robustness, especially in terms of formal jobs, and real wages are supporting the upside trend. Other leading indicators, such as heavy vehicle traffic on toll roads and the preview of corrugated cardboard shipments also recovered in January.

The main challenge will be evaluating whether the economy is genuinely decelerating or alternatively whether the fourth-quarter readings reflected a temporary dip. This assessment is complicated by the fact that for seasonal reasons most of the effects of growth in the agricultural sector are seen early in the year. Another record grain crop is predicted in 2025. According to IBGE's projections, it will reach 325 million metric tons, 11.1% more than in 2024 (Figure 2). It is worth noting that although agriculture (primary production) accounts for only 6% of GDP, the agribusiness sector includes other activities such as branches of industry and services. The share of agribusiness in GDP is estimated to exceed 20%, and the sector is set to be a major driver of growth in 2025. Another commodity-producing sector that is also a significant potential contributor to growth this year is the oil industry, with production expected to rise almost 17%, according to studies by EPE (Figure 3).

Figure 2: Production of cereals, legumes and oilseeds (million tons)



Source: BOCOM BBM, IBGE

Figure 3: Oil Production (YoY)


Source: BOCOM BBM, EPE

In sum, the strong dynamism of the commodity-producing sectors, combined with the resilience of the labor market and new stimulus policies implemented by the government, should prevent the economic slowdown from becoming too deep in the months ahead, in line with our projection of 2.2% GDP growth this year. On the other hand, robust activity entails challenges for the convergence of inflation, which is projected to reach 5.8% by year-end, ultimately requiring a more contractionary monetary policy for a longer period. This means equilibrium with more growth, more inflation, and more interest rates. Our other projections are shown in the table below.

ECONOMIC FORECASTS					2024F	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.5%	2.2%	1.3%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	5.8%	4.5%
Unemployment Rate (eoy, %)	14.2%	11.1%	7.9%	7.4%	6.2%	6.8%	7.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	12.0%
External Accounts							
Trade Balance (US\$ bn)	36	42	52	92	66	77	86
Current Account Balance (US\$ bn)	-25	-40	-42	-28	-61	-49	-46
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-2.8%	-2.2%	-2.0%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.7%	-0.8%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	82.2%	87.5%

This report was prepared by Banco BOCOM BBM and is distributed free of charge with the sole purpose of providing information to the market. Any forecasts, estimates, and certain information contained herein may be based upon proprietary research and should not be interpreted as investment advice or recommendation. Although the information contained herein was prepared with utmost care and diligence, in order to reflect the data at the time in which they were collected, Banco BOCOM BBM cannot guarantee the accuracy thereof. Banco BOCOM BBM cannot be held responsible for any loss directly or indirectly derived from the use of this information or its contents, and the readers should make their own investment decisions. This report cannot be reproduced, distributed or published by the recipient or used for any purpose whatsoever without the prior written consent of Banco BOCOM BBM.