Macro Outlook

May 2025

Macro Outlook

交通銀行 BANK OF COMMUNICATIONS BBM

- In April, the FOMC Minutes reported concerns about possible persistent inflation, partially influenced by the pass-through of higher tariffs. Besides that, it was noted a resilient labor market with some early signs of a possible deceleration and a contraction in real GDP Q1 of 0.3% QoQ SAAR, driven by a sharp surge in imports ahead of expected tariffs. Meanwhile, domestic demand continued to grow solidly. In this scenario, it is expected that the Fed will wait for clearer evidence about the economic dynamics to decide the next steps.

- Regarding China, economic activity has shown resilience in the context of the trade war with the US, with its main indicators surpassing expectations in March and improving compared to the first two months of 2025. Retail sales and industrial production stood out by recording their fastest growth in recent years, accompanied by strong export numbers before US tariffs reached triple digits. Deflationary pressure persists, with both the CPI and PPI remaining soft, marking the eighth straight quarter that the deflator has been in negative territory. Furthermore, the housing market remains adjusting, and the 12month accumulated housing sales reached the lowest level since 2005.

- In Brazil, economic activity remains resilient. In February, industrial production and retail sales both decreased, respectively, by 0.1% MoM and 0.4% MoM. On the other hand, services accelerated above expectations, increasing by 0.8% MoM. Summarizing this scenario, the IBC-BR showed an increase of 0.4% MoM in the month. Labor market remain solid, with increasing employment and income. Furthermore, recently announced government measures should provide additional stimulus to demand;

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 14.25% p.a. at its March meeting, as expected, and indicated that the hiking cycle will continue in May, albeit at a slower pace. The magnitude of the next hike is very uncertain given the volatile international scenario under a trade war. Our scenario contemplates that the hiking cycle is approaching its end (in this or the next meeting) and is line with the message of "caution and flexibility" echoed by COPOM members;

- April IPCA-15 rose by 0.43% MoM, in line with expectations. The 12-month variation advanced from 5.26% in March to 5.49% in April. The main upward deviation came from industrial goods and fresh foods, while airfares surprised downwards. Regarding the breakdown, core services advanced 0.55% MoM, in line with forecasts and the 3M SAAR (3-month seasonally adjusted annualized moving average) declined from 7.9% to 7.5% but remained at worrisome levels. The average of core inflation increased by 0.46% MoM, also in line with expectations, with its 3M SAAR decreasing from 5.9% to 5.8%. Overall, the breakdown of the IPCA-15 does not bring relief. Our forecast was revised from 5.8% to 5.6%, mainly due to lower forecasts for industrial goods. International scenario bring risks in both directions, but it should be mostly deflationary;

- In the fiscal scenario, the Brazilian public sector posted a primary surplus of BRL 3.6 bn in March, above the market consensus (BRL 1.8 bn), from a deficit of BRL 1.2 bn in March 2024. Regarding the breakdown, central government and state-owned enterprises (SOE) registered deficits of BRL 2.3 bn and BRL 0.6 bn, respectively, while regional governments posted a surplus of BRL 6.5. Central government net revenues is growing at a slower pace, which reflects the slowdown in economic activity, an increase in tax compensations and the high comp base resulting from revenue-boosting measures implemented last year. In turn, the slower execution of discretionary expenditures limited overall spending during the period, with discretionary spending falling 8.3% in real terms YTD. Additionally, primary spending was impacted by a change in the seasonality of court-ordered debts, which were paid in February last year but have been postponed to July this year. This effect is temporary and will be reversed by the end of the year. In this context, General Government Gross Debt fell from 76.1% to 75.9% of GDP, with net issuance (-0.3 p.p.) and nominal GDP growth (-0.6 p.p.) being the main drivers of this change, while nominal interest (+0.8 p.p.) partially offset it.

China: Economic Activity

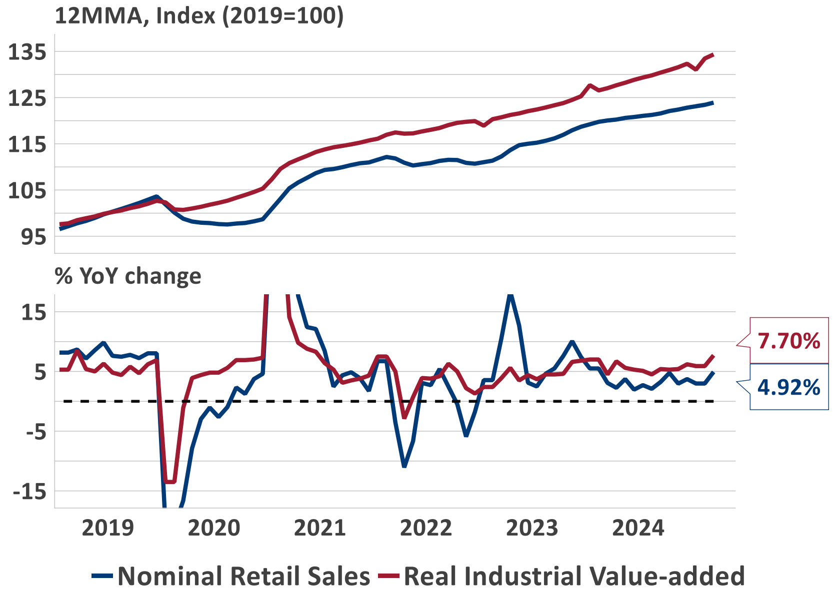
- **Economic activity in March exceeded expectations**, with broad-based gains across industrial output and retail sales. However, underlying demand remains subdued;
- **Retail sales** rose sharply from 3.08% to 4.92% YoY (exp. 4.3%), exceeding expectations and marking the fastest growth since late 2023; trade-in programs for consumer goods continued to driven momentum, with home appliances and telecom devices posting growth rates of 35.1% and 28.6% YoY, respectively;
- **Industrial Production** accelerated from 5.9% to 7.70% YoY (exp.5.9%), the fastest pace since June 2021, reflecting strength in the manufacturing sector, likely supported by increased external demand as exports also grew strongly in this same period (12.3% YoY USD terms);
- **FAI** rose slightly from 4.1% to 4.2% YTD YoY (exp.4.1%). This was once again led by manufacturing and infrastructure investment while real estate remains a drag, highlighting persistent weakness in the sector
- **Housing:** On a 12-month accumulated perspective, housing sales began to stabilize near 810m square meters, a positive sign that the decline for housing demand could be bottoming out

China: Activity (% YoY)

	3/2025	2/2025	3/2024
Industrial Production	7.70	5.9	4.50
Mining	9.30	4.3	0.20
Manufacturing	7.90	6.9	5.10
Utilities	3.50	1.1	4.90
Fixed Asset Investment (YTD)	4.20	4.1	4.50
Manufacturing	9.10	9.0	9.90
Real Estate	-9.90	-9.8	-9.50
Infrastructure	5.80	5.6	6.50
Retail Sales	4.92	n/a	3.08
Catering Services	5.60	2.7	6.90
Consumer Goods	5.90	3.9	2.70
Clothing	3.60	-0.3	3.80
Automobiles	5.50	0.5	-3.70
Furniture	29.50	8.8	0.20
Cellphones	28.60	14.0	7.20
Home Appliances	35.10	39.3	5.80
Construction	-0.10	0.8	2.80

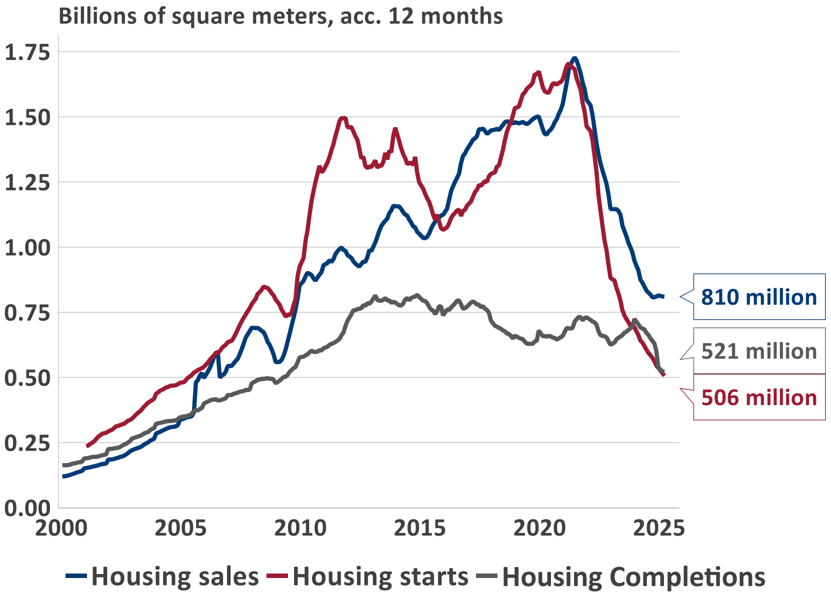
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Housing Indicators

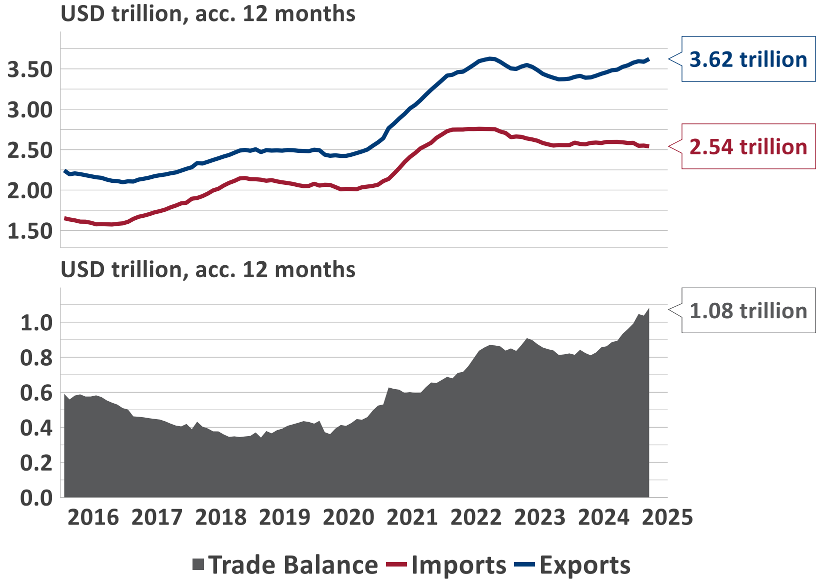


Source: BOCOM BBM, Macrobond, NBS

China: Economic Scenario

- **Exports accelerated sharply in March**, supporting industrial production momentum:
  - In level terms, trade surplus remains near all-time-highs at USD 1.08tn;
  - In real terms, exports growth came in above expectations, accelerating, from -3.0% to 12.4% YoY (exp. 4.6%). The March trade balance data confirms that growth likely remained resilient in 1Q and the impact from tariffs have yet to show up in hard economic data;
- March **CPI** inflation accelerated from -0.7% to **-0.1%** YoY, below expectations of 0.0%;
  - Core inflation surprised to the upside, accelerating to 0.5% YoY in March from **-0.1%** YoY previously, still low and below historical pre-COVID level;
  - The March CPI data reaffirm persistent disinflationary dynamics in China’s consumer prices, despite a modest reacceleration in core CPI inflation;
  - **Deflation pressures remains a major concern for this year,** with economy still suggesting demand-supply imbalances, and possibly excess industry capacity in some sectors.

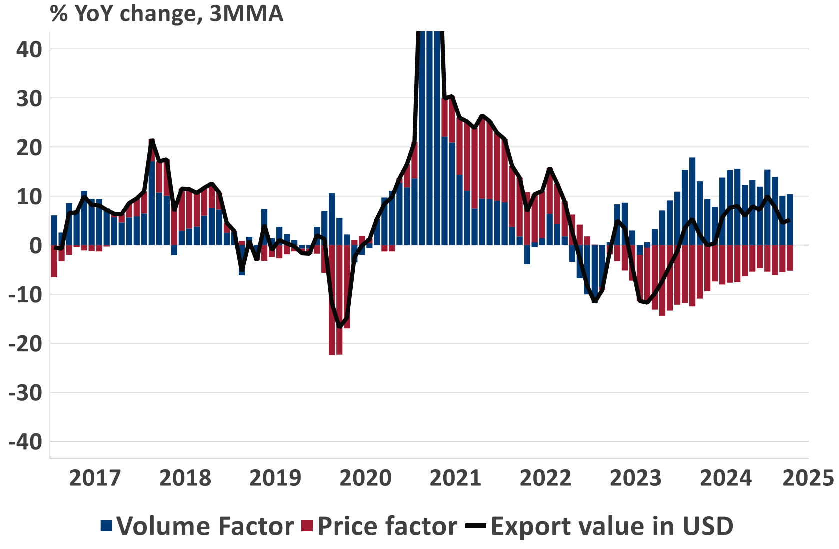
China: Trade Balance



Source: BOCOM BBM, Macrobond, GAC

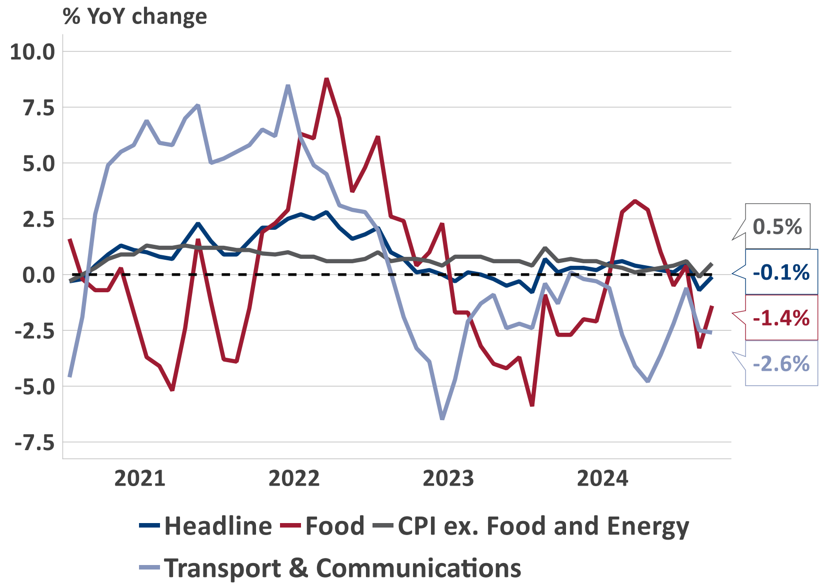
China: Exports (Price x Volume)

Last observation at 3/2025



Source: BOCOM BBM, Macrobond, GAC

China: CPI

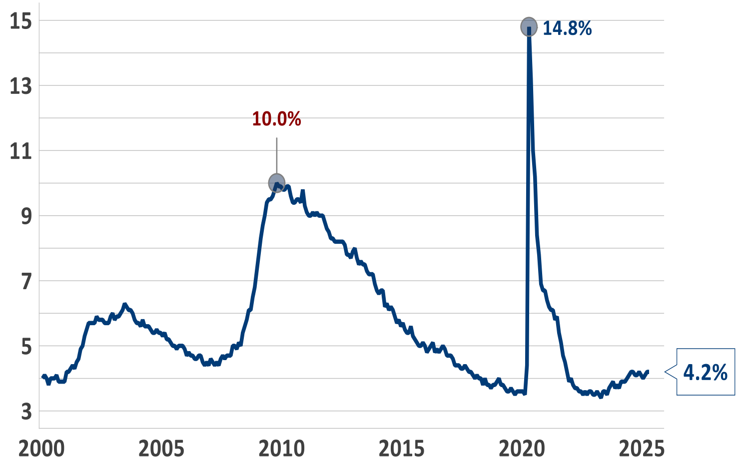


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

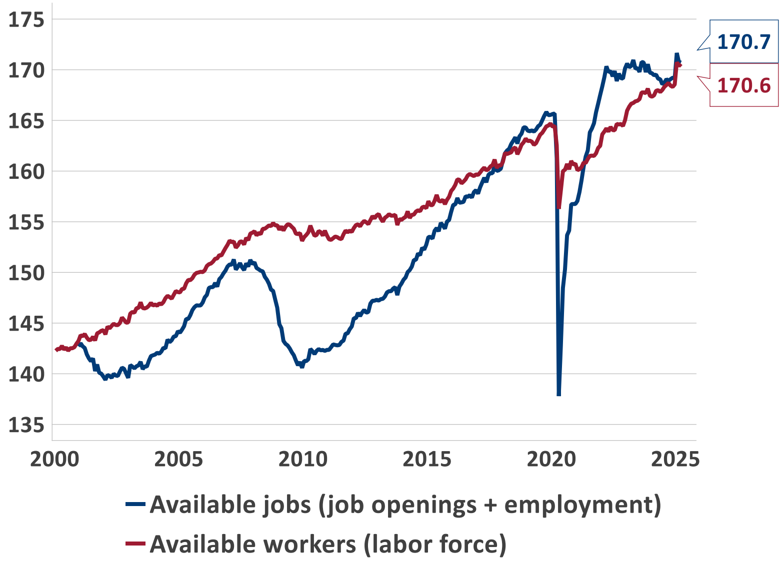
- **April labor market report was an upside surprise, sustaining the strong pace from March. .**
  - April payroll showed a job gain of **177k**, above market expectations of 138k. Previous months were strongly revised downwardly (-15k in February and -43k in March).
  - The unemployment rate remained stable at 4.2%, in line with the market expectations.
- In April, the **jobs-workers gap stood at 0.1M,** consistent with the pace of 2018 and 2019, indicating a **tight but not overheated labor market.**
- April avg. hourly earnings accelerated **0.2 % MoM,** slightly below expectations of 0.3%. Overall, wage growth is showing signs of moderation.
  - The annual rate remained stable at **3.8% YoY**. Additionally, there were upward revisions – March MoM rate moved from 0.25% to 0.28%.

US: Unemployment Rate SA (%)



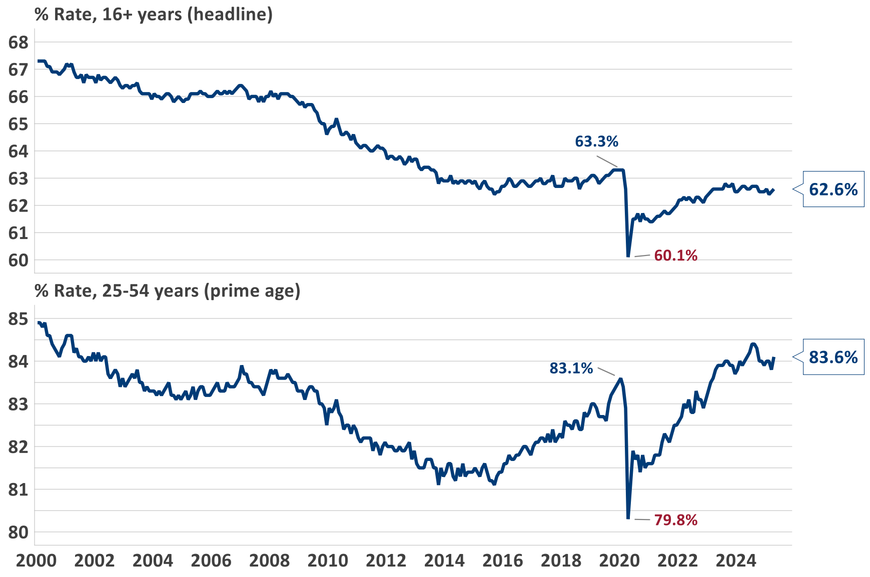
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



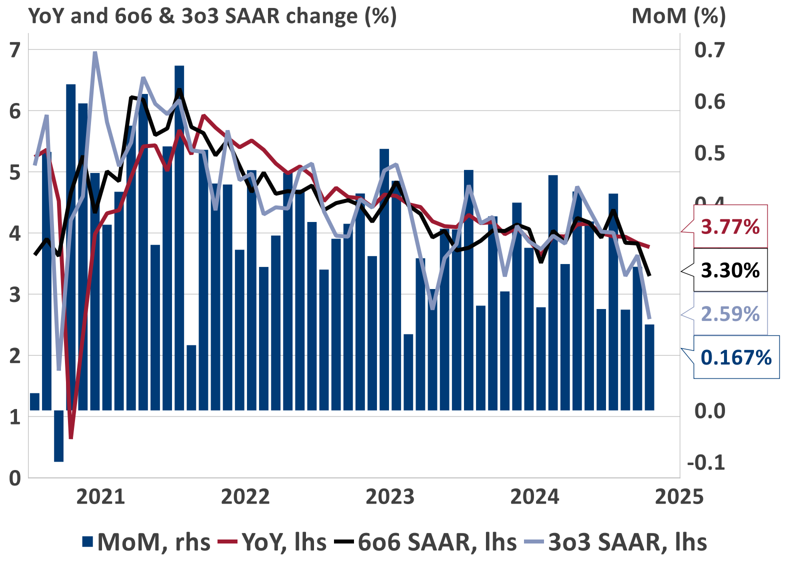
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)

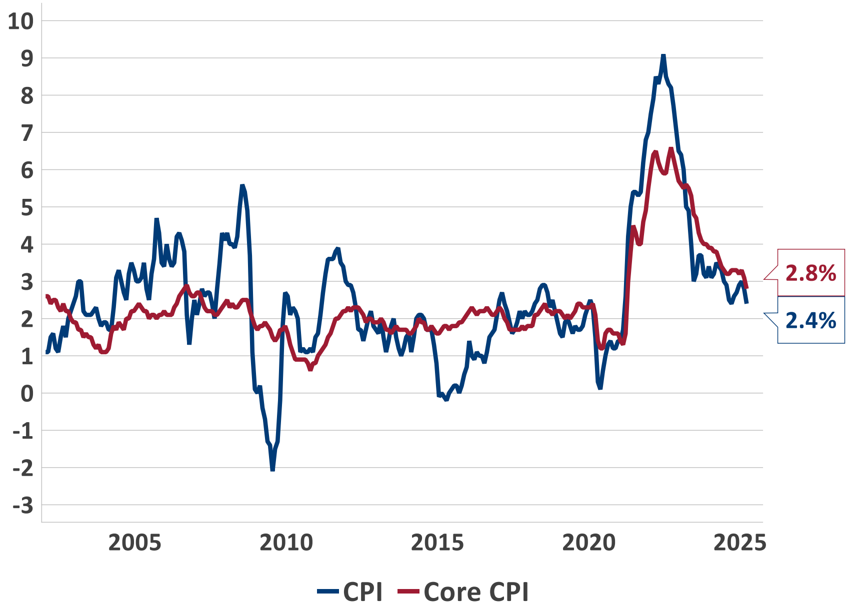


Source: BOCOM BBM, Macrobond, BLS

USA: Inflation

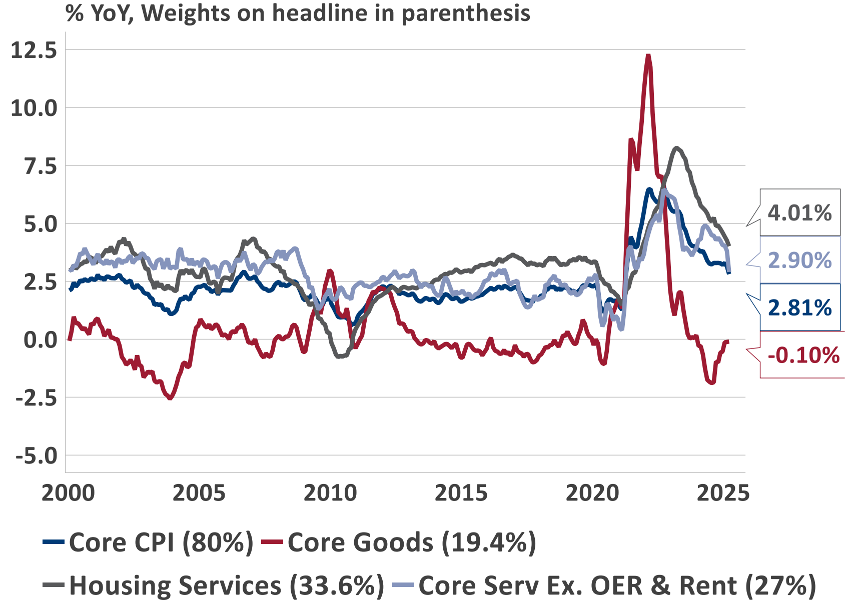
- March **headline CPI** slowed **-0.05% MoM** below expectations (0.1%), leading to an annual growth rate decrease from 2.8% to **2.4% YoY:**
  - Lower impulse from energy (-2.39% MoM) and food prices (0.44% MoM);
- **Core CPI** decreased to **0.05% MoM** (exp. 0.3%), and the annual growth rate went down from 3.1% to **2.8% YoY:**
  - The downward surprise is mostly explained by Airline Fares with another very weak consecutive print -5.3% MoM (vs prior -4.0%) , Lodging away from home coming down at -3.5% MoM and a negative print in car insurance -0.76%;
    - Soft print in airfares and hotel Booking suggests potential weakness in services consumption;
  - Non-housing services was also below the expected (-0.24% MoM vs exp. 0.25%);
- In sum, most of the US slowing in core inflation this month came from core services categories, while **other categories, such as core goods inflation held reasonably firm** – looking forward, resilient labor markets, and higher upside risks to inflation, alongside with high levels of uncertainty are risks to the inflation outlook this year.

US: CPI (YoY, %)



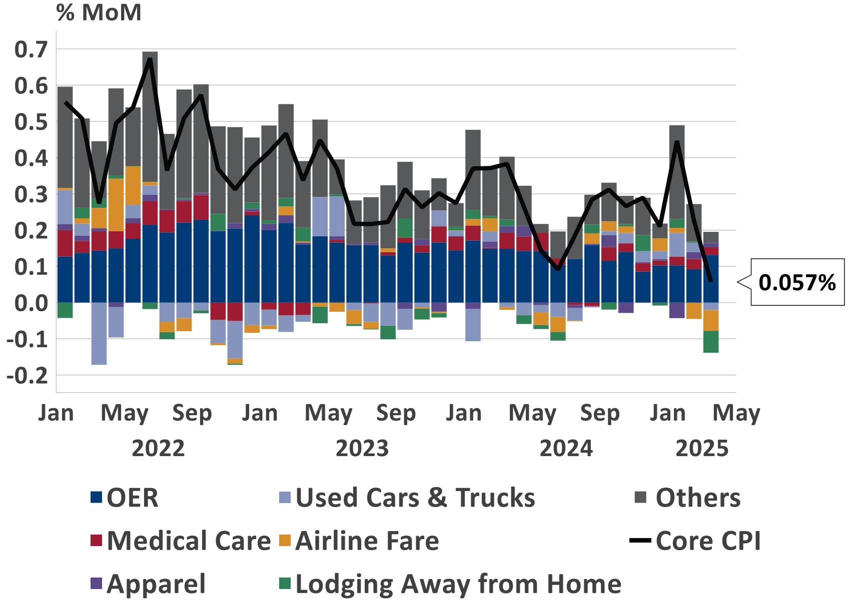
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

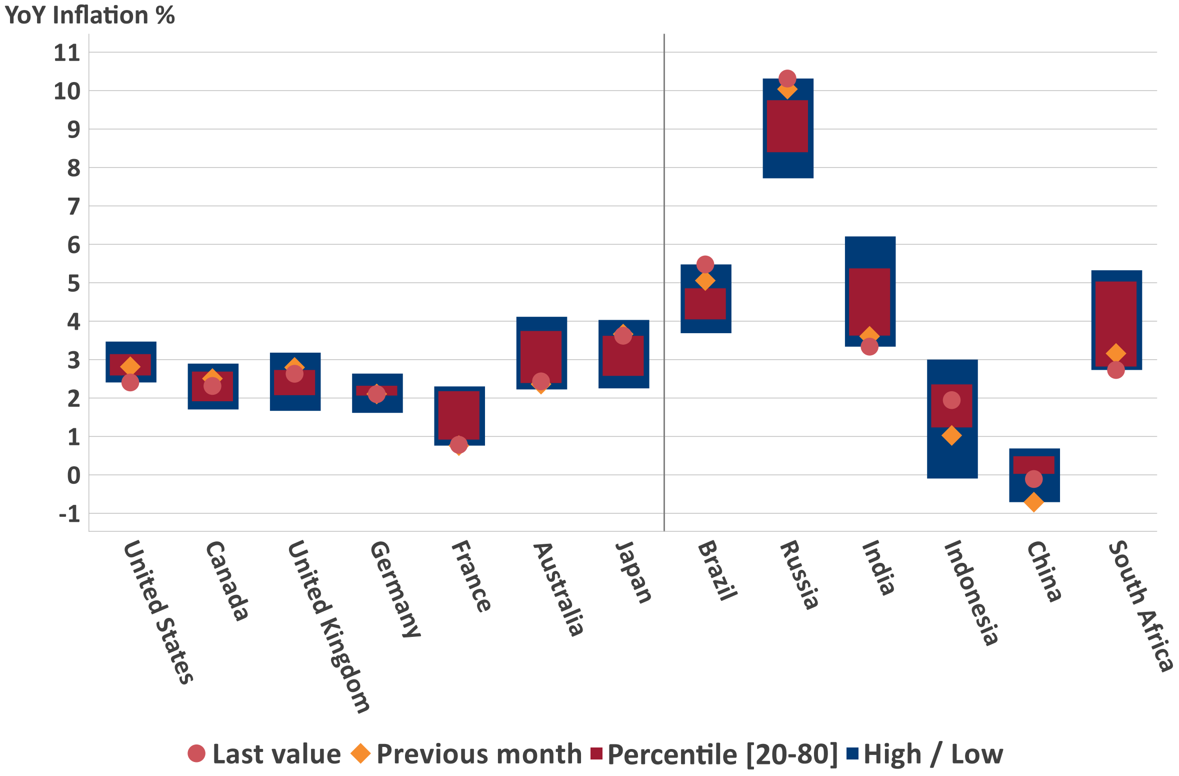


Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

- Progress in inflation numbers are being seen in several developed markets; however, it seems to have stalled in some (like the US) and is heterogenous among emerging markets;
- Many central banks tightened sharply their monetary policy in previous years resulting in a slowdown of economic activity across several countries, although global growth continued surprising up and remained resilient in 2024;
- Further global economic deceleration, fueled by policy and tariff uncertainty, improves the expectation of monetary policy easing this year, but timing and magnitudes should rely on each country's domestic context.

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

G20: GDP Growth Tracker (QoQ, %)

Countries marked in red indicates a technical recession:
2 consecutive quarters of negative sequential growth

	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023
Argentina		1.4	4.3	-1.7	-1.4	-2.3	2.0	-2.9
Australia		0.6	0.3	0.2	0.2	0.1	0.5	0.3
Brazil		0.2	0.7	1.3	1.0	0.4	0.1	0.7
Canada		0.6	0.5	0.7	0.5	0.2	-0.1	0.2
China	1.2	1.6	1.4	1.0	1.3	0.9	1.5	1.3
Euro Area	0.4	0.2	0.4	0.2	0.3	0.0	0.0	0.1
France	0.1	-0.1	0.4	0.3	0.1	0.4	0.1	0.7
Germany	0.2	-0.2	0.1	-0.3	0.2	-0.4	0.2	-0.2
India		5.0	1.1	-7.1	7.6	4.4	2.0	-5.5
Indonesia	-1.0	0.5	1.5	3.8	-0.8	0.5	1.6	3.9
Italy	0.3	0.2	0.0	0.2	0.2	0.2	0.1	-0.2
Japan		0.6	0.4	0.8	-0.5	0.0	-1.0	0.6
Mexico	0.2	-0.6	0.9	0.3	0.0	0.4	0.5	0.8
Russia		1.6	0.9	0.8	1.2	0.7	1.8	1.4
Saudi Arabia	-1.4	4.3	1.2	-1.3	0.2	2.8	-1.2	-2.4
South Africa		0.6	-0.1	0.3	0.1	0.3	-0.4	0.7
South Korea	-0.2	0.1	0.1	-0.2	1.3	0.5	0.8	0.6
Turkey		2.2	12.9	4.9	-14.9	1.5	13.0	8.0
United Kingdom		0.1	0.0	0.5	0.9	-0.2	-0.1	0.0
United States	-0.1	0.6	0.8	0.7	0.4	0.8	1.1	0.6

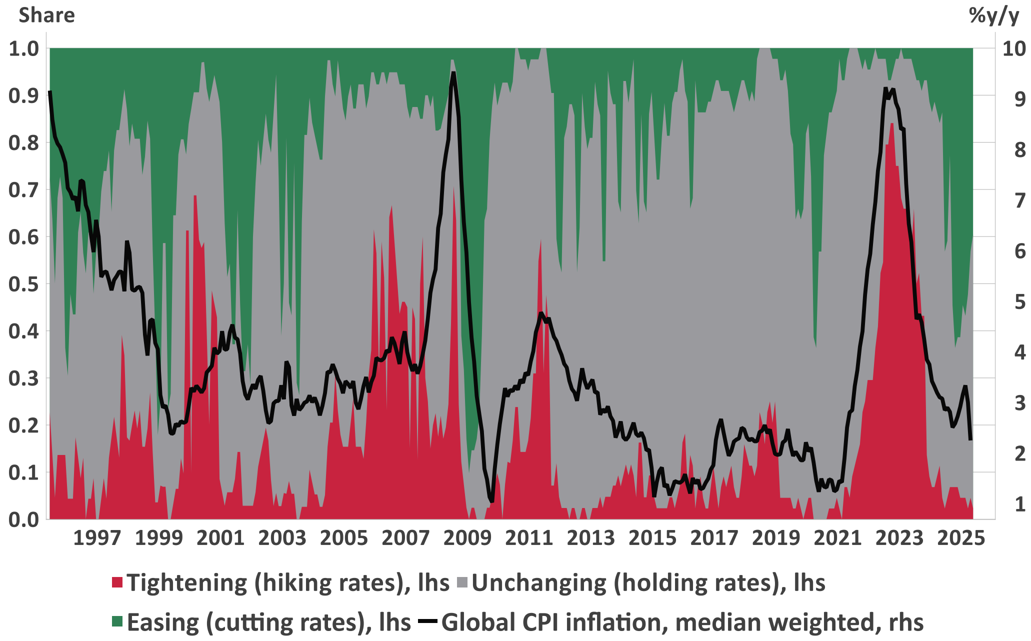
Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

- Several emerging markets have already eased their monetary policy, such as Colombia, Chile and Mexico;
- Developed markets central banks took a little longer, but several also began cutting rates in 2024. However, there are exceptions, such as Turkey, which raised interest rates at its last meeting;
- Overall, the uncertainty surrounding US tariffs and their potential effects continues to drive institutions towards a more careful, data-dependent approach. The FOMC has expressed caution by slowing the pace of balance sheet reduction starting in April.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 6-May-25



Source: BOCOM BBM, Macrobond, World Bank

Central bank tracker: G20 & OECD Countries

	CPI Y/Y %	Core CPI Y/Y %	Key rate	Last decision		Last Move	Months since last hike	Months since last cut
Argentina	55.9	51.3	29.00	-3.00	Cut	1/2025	19	3
Australia	2.4	2.6	4.10	-0.25	Cut	2/2025	18	3
Brazil	5.5	4.9	14.25	1.00	Hike	3/2025	2	12
Canada	2.3	2.2	2.75	-0.25	Cut	3/2025	22	2
Chile	4.9	3.6	5.00	-0.25	Cut	12/2024	31	5
China	-0.1	0.5	3.10	-0.25	Cut	10/2024	135	7
Colombia	5.1	5.3	9.25	-0.25	Cut	5/2025	24	0
Costa Rica	1.2	0.6	4.00	-0.25	Cut	10/2024	30	7
Czech Republic	1.8	0.2	3.75	-0.25	Cut	2/2025	34	3
Denmark	1.5	1.6	2.00	-0.25	Cut	4/2025	20	1
Euro Area	2.2	2.7	2.40	-0.25	Cut	4/2025	20	0
Hungary	4.7	5.7	6.50	-0.25	Cut	9/2024	31	7
Iceland	4.2	4.0	7.75	-0.25	Cut	3/2025	21	2
India	3.3	4.1	6.00	-0.25	Cut	4/2025	27	1
Indonesia	1.9	2.5	5.75	-0.25	Cut	1/2025	12	4
Israel	3.3	3.3	4.50	-0.25	Cut	1/2024	23	16
Japan	3.6	2.9	0.50	0.25	Hike	1/2025	3	111
Mexico	3.8	3.6	9.00	-0.50	Cut	3/2025	25	1
New Zealand	2.5	2.6	3.50	-0.25	Cut	4/2025	23	1
Norway	2.6	3.3	4.50	0.25	Hike	12/2023	17	60
Poland	4.7	3.6	5.75	-0.25	Cut	10/2023	32	19
Russia	10.3	9.6	21.00	2.00	Hike	10/2024	6	32
Saudi Arabia	2.3		5.00	-0.25	Cut	12/2024	21	5
South Africa	2.7	3.1	7.50	-0.25	Cut	1/2025	23	3
South Korea	2.1	2.1	2.75	-0.25	Cut	2/2025	28	2
Sweden	0.5	2.3	2.25	-0.25	Cut	2/2025	19	3
Switzerland	0.0	0.6	0.25	-0.25	Cut	3/2025	23	2
Turkey	37.9	37.1	46.00	3.50	Hike	4/2025	1	2
United Kingdom	2.6	3.4	4.50	-0.25	Cut	2/2025	21	3
United States	2.4	2.8	4.50	-0.25	Cut	12/2024	21	5

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

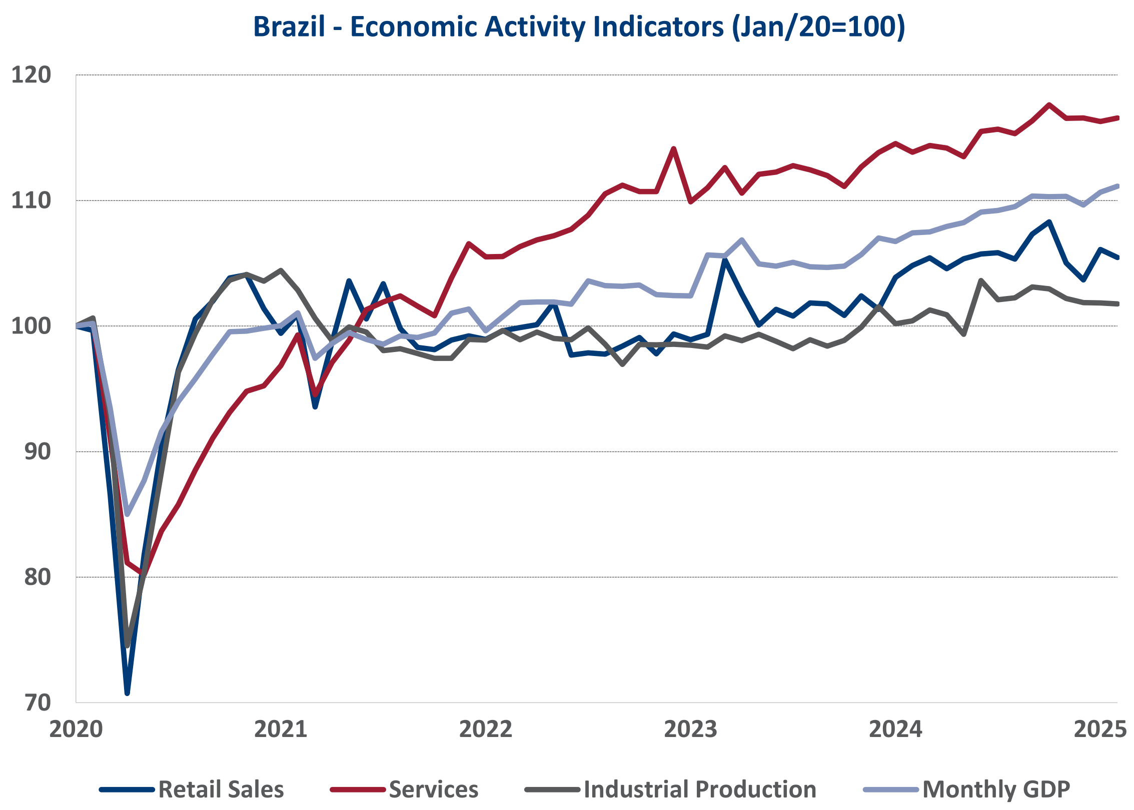
ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.2%	1.3%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	5.6%	4.3%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	6.8%	7.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	14.75%	12.0%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	66	62	73
Current Account Balance (US$ bn)	-25	-40	-42	-28	-61	-70	-55
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-2.8%	-3.2%	-2.4%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.7%	-0.6%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	80.5%	85.3%

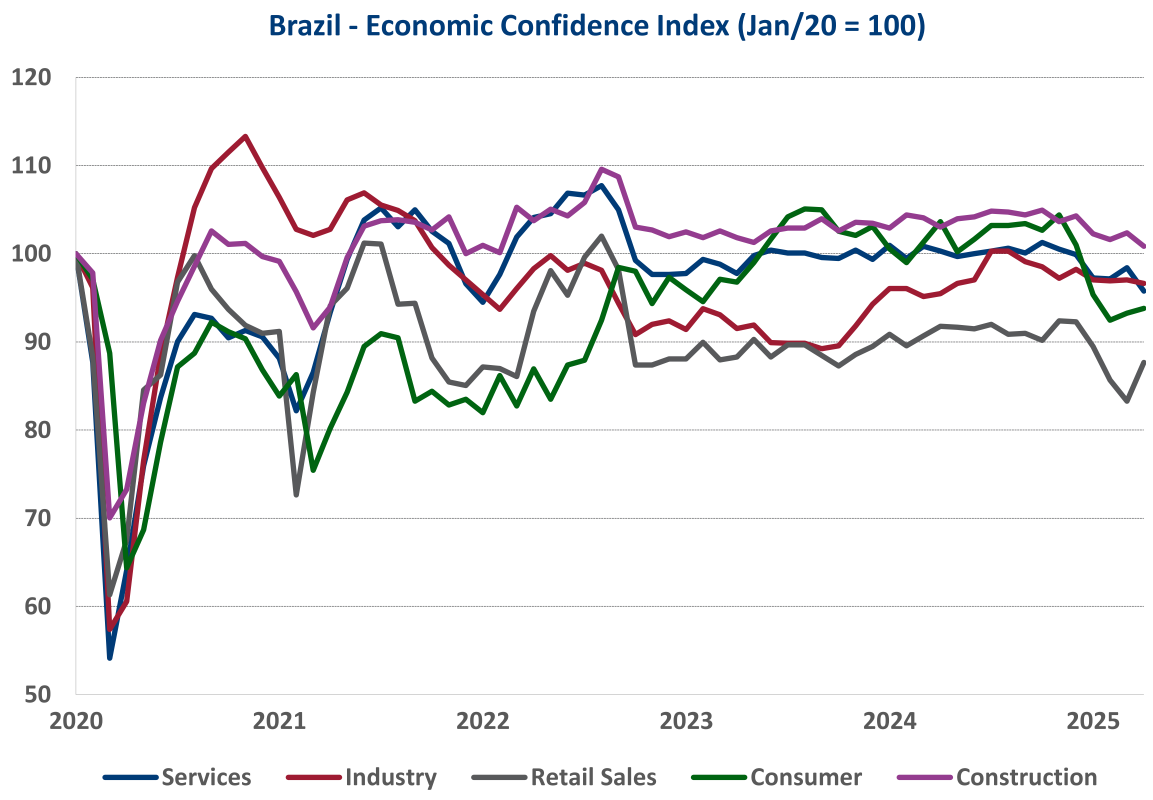
Source: BOCOM BBM, IBGE

Brazil: Activity

- In February, monthly indicators of economic activity posted mixed signs across sectors. Industrial production and retail sales both decreased, respectively, by 0.1% MoM and 0.4% MoM. On the other hand, services accelerated above expectations, increasing by 0.8% MoM. Summarizing this scenario, the IBC-BR showed an increase of 0.4% MoM in the month.

- Looking ahead, the confidence surveys for the retail sales and consumer sectors grew in April, while those for construction, industry, and services contracted.

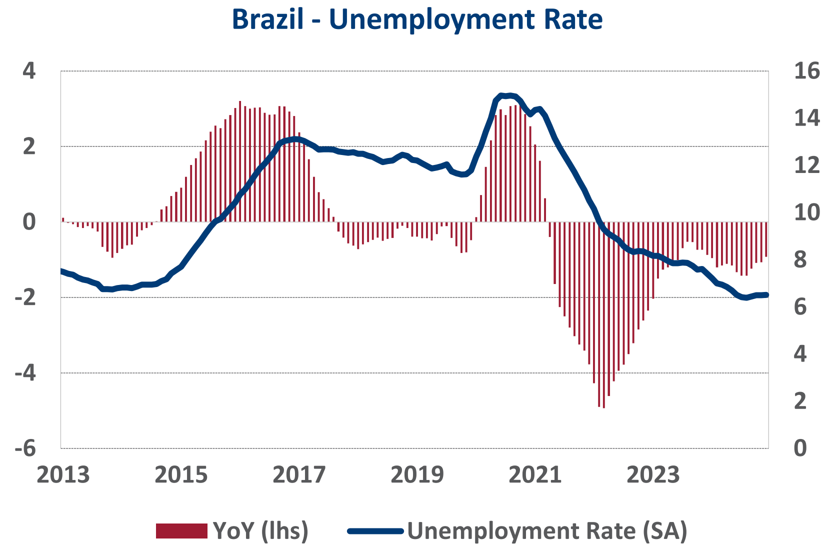


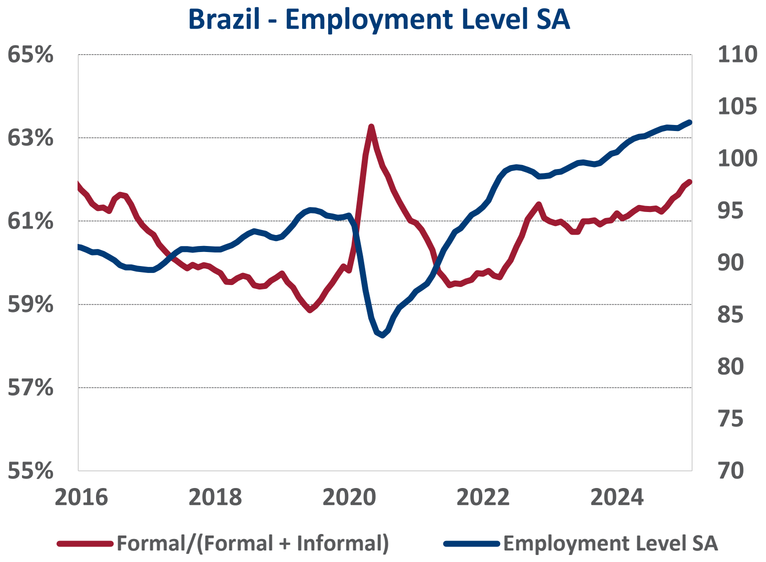


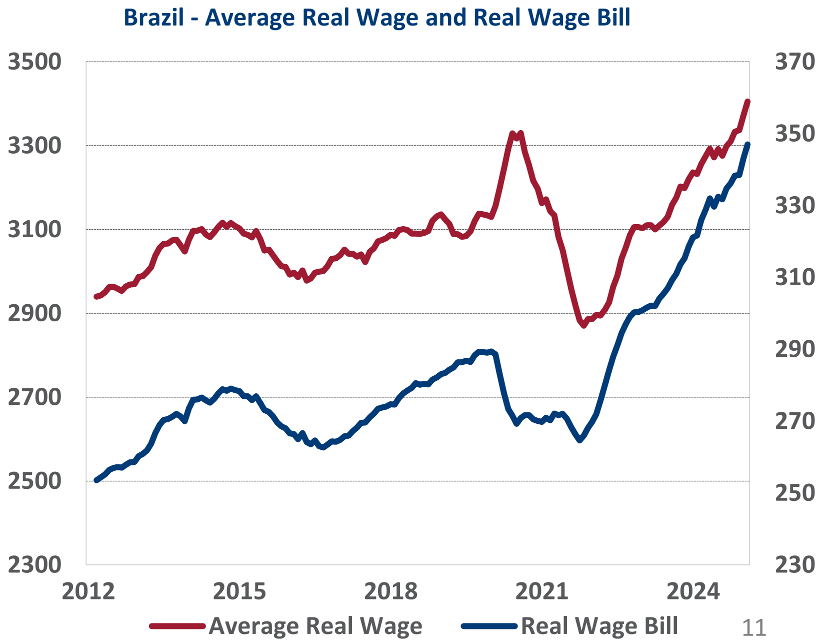
Source: BOCOM BBM, IBGE, FGV

Brazil: PNAD

- The unemployment rate increased to 7.0% in the moving quarter up to March, from 6.8% on the previous period.
- Seasonally adjusted, the indicator increased to 6.52% in March from 6.50% in February, remaining at a historically low level.
- Total employment increased by 0.24% MoM, driven by formal employment categories, while labor force inched up 0.13% MoM, reflecting the resilience of economic activity.
- The labor force participation rate remained stable at 62.42%, still running considerably below pre-pandemic levels (around 63.5%).
- The average real wage kept increasing marginally, this time by 0.32% MoM, marking the sixth gain in a row.
- In turn, real aggregated labor income increased 0.5% MoM in March.





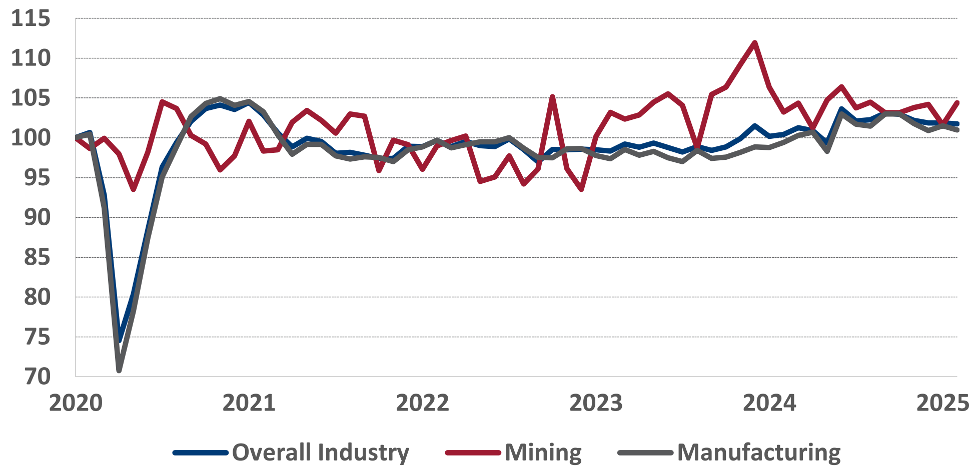


Source: IBGE, BOCOM BBM, MTE

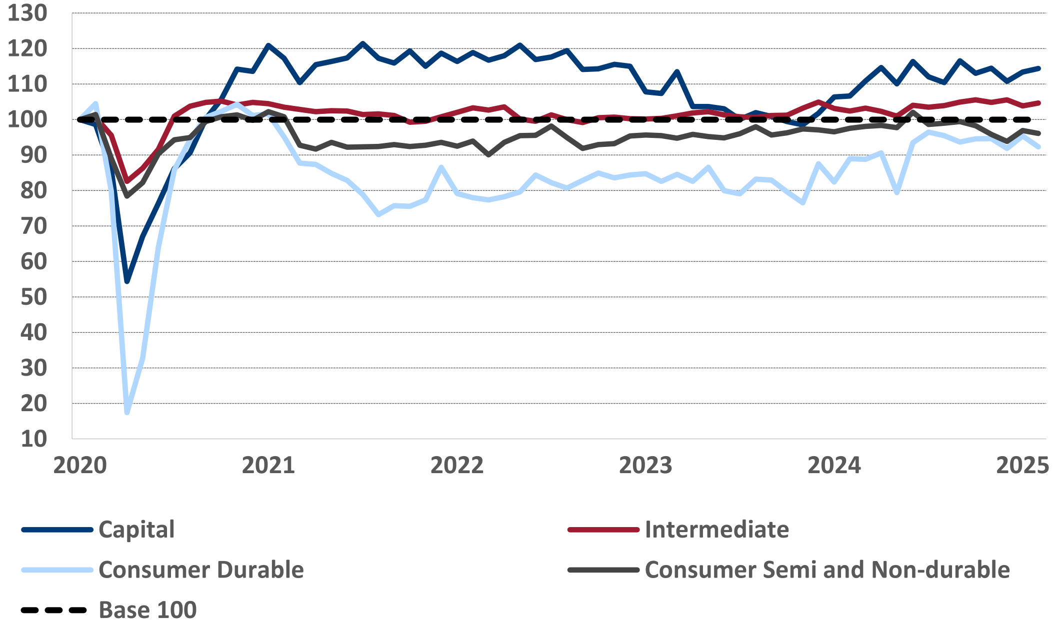
Brazil: Industrial Production

- Industrial output declined 0.1% MoM in February, slightly below expectations (0.3% MoM), marking the fifth decline in a row, mainly due to the sharp contraction in pharmaceutical products (-12.3% MoM).
- The month's figures registered mixed results, with 2 out of the 4 major economic categories and 14 out of the 25 manufacturing activities falling in the monthly comparison.
- Tighter financial conditions and worsening business confidence contribute to the slowdown in the manufacturing industry.
- On the positive side, capital goods production increased by 0.8% MoM in February, which is a positive sign for the Investment in Q1.

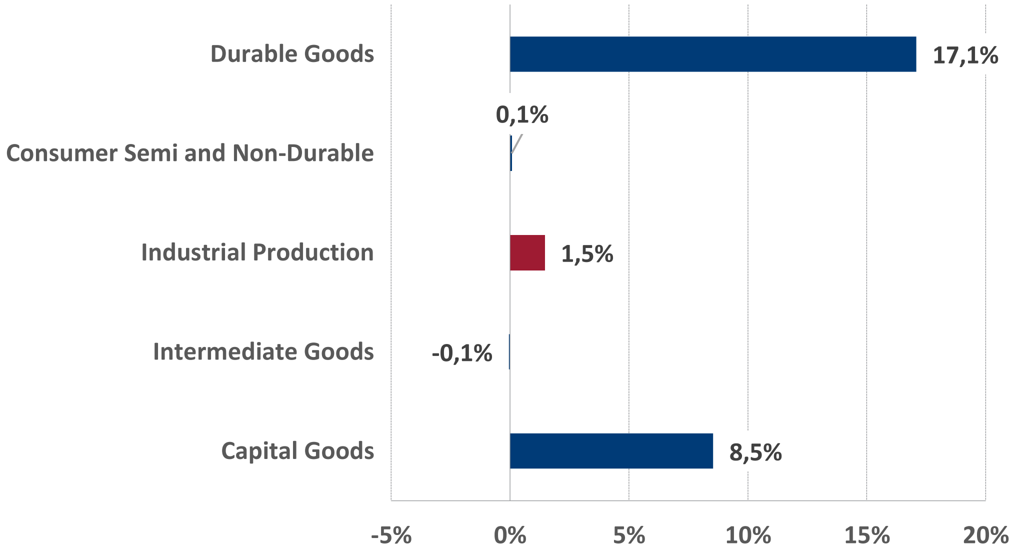
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



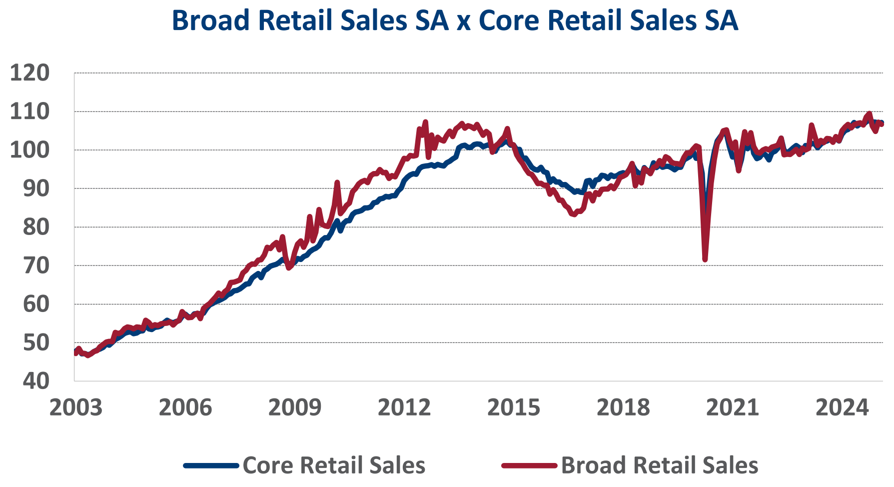
Industrial Production by Category - 02/2025 (YoY)

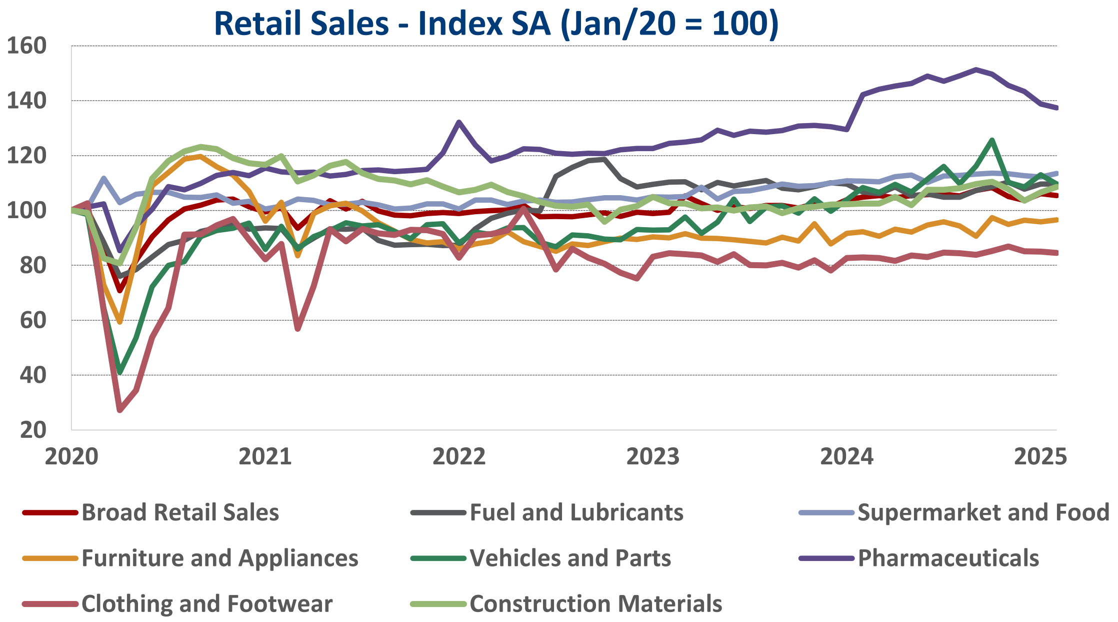


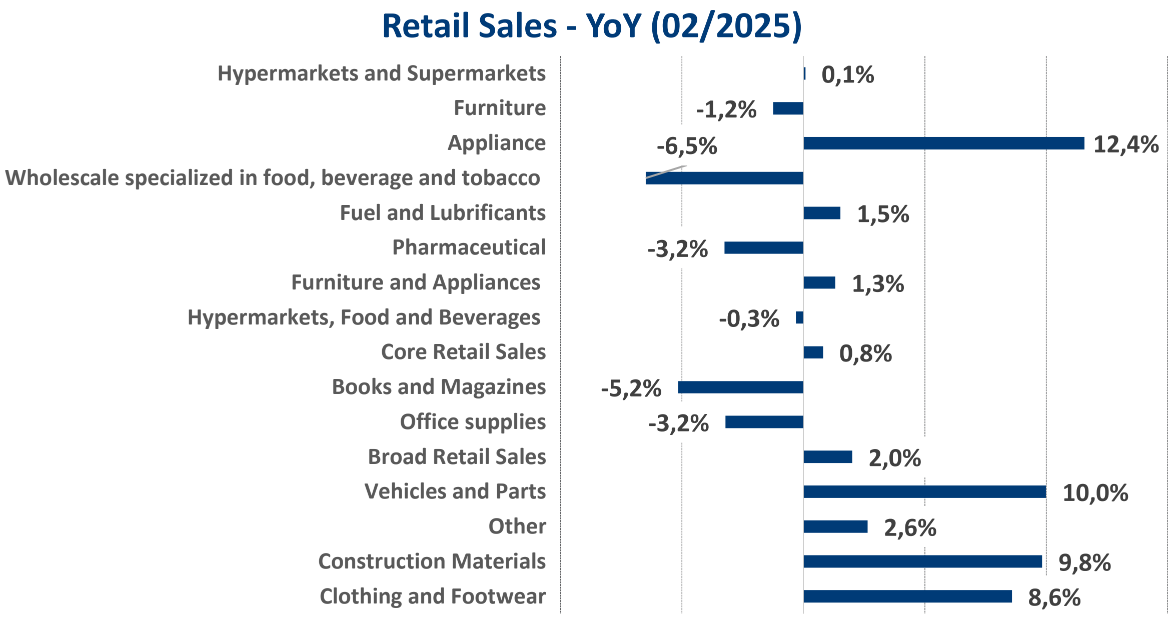
Source: IBGE, BOCOM BBM

Brazil: Retail Sales

- Broad retail sales fell by 0.4% MoM in February, approximately in line with consensus, after a strong reading in January (+2.7% MoM).
- Of high importance, there were downward revisions to the data series of pharmaceutical products, which is now considered to have expanded by 7.4% in 2024, considerably below the 14.2% originally reported.
- In turn, core retail sales climbed up 0.5% MoM, as expected, portraying the second modest increase in a row and indicating that sales outside of the volatile items are recovering.
- In the breakdown, 5 out of 10 retail activities grew in the monthly comparison, with the highlights being the recovery of supermarkets, food and beverages (1.1% MoM) on the positive side, and books and magazines (-7.8% MoM) on the negative. Besides, cash & carry activities for food and beverages remained on a falling path.



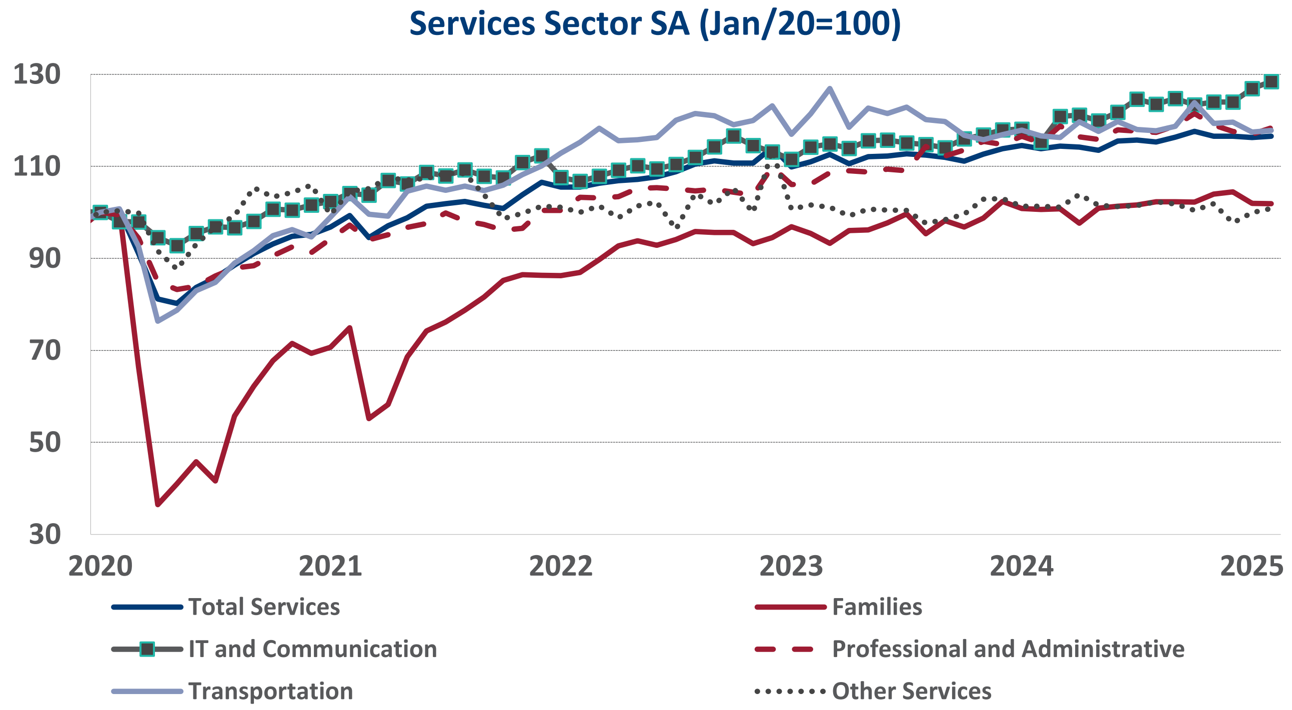


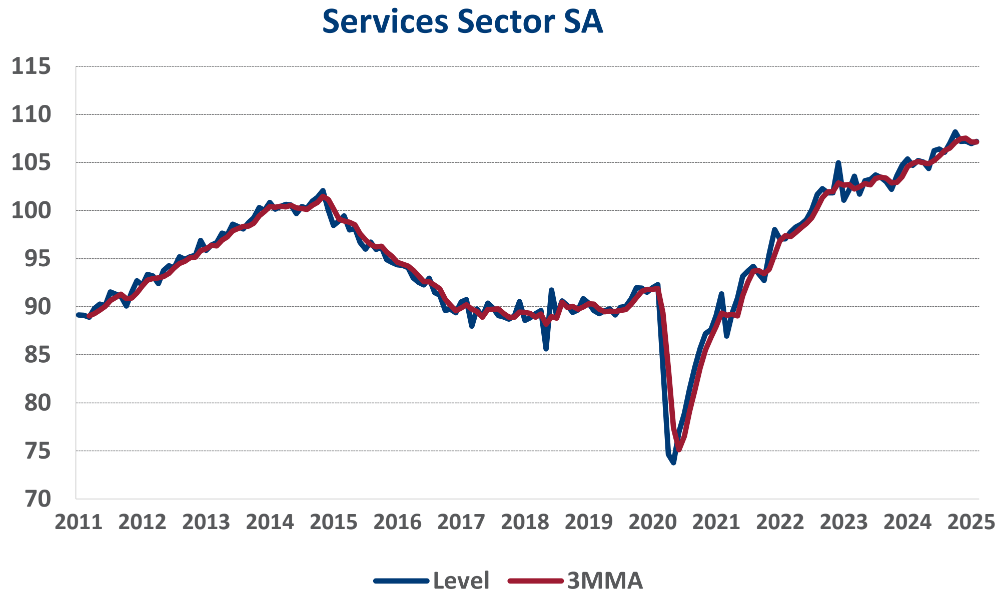


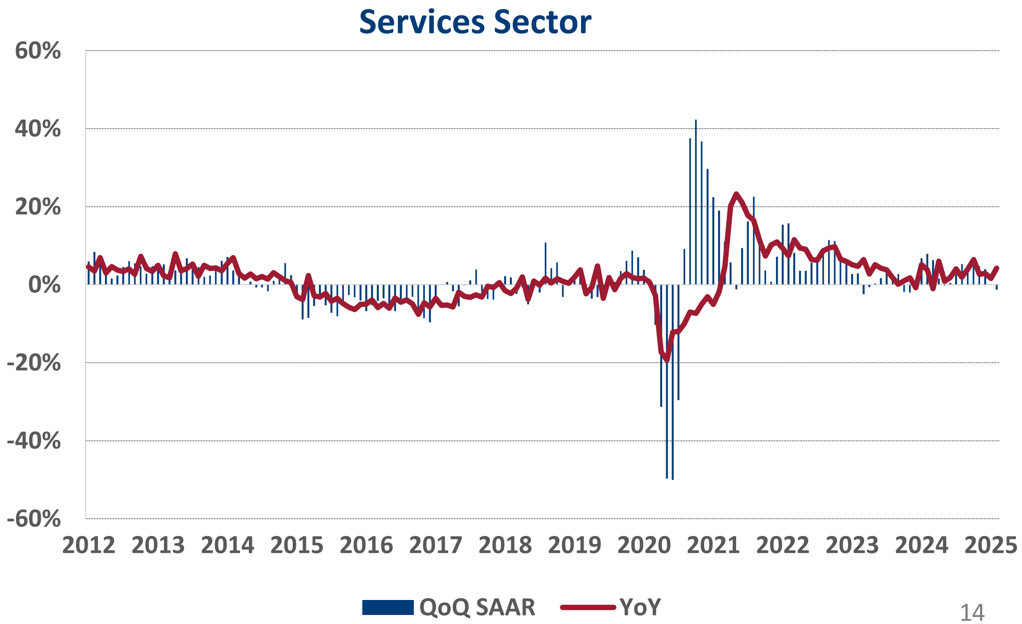
Source: IBGE, BOCOM BBM

Brazil: Services

- Services output increased by 0.8% MoM in February, coming above market estimates of stability, mainly due to downward revisions made to the data series of the previous months.
- Furthermore, the group of other services was the highlight by growing 2.2% MoM (0.4% YoY). However, this category has shown high volatility in the MoM results.
- In turn, information and communication services registered the fourth straight gain, climbing 1.8% MoM (9.8% YoY), showing a solid growth trajectory.
- Overall, the service sector scenario for February suggests some resilience in domestic demand and activity.



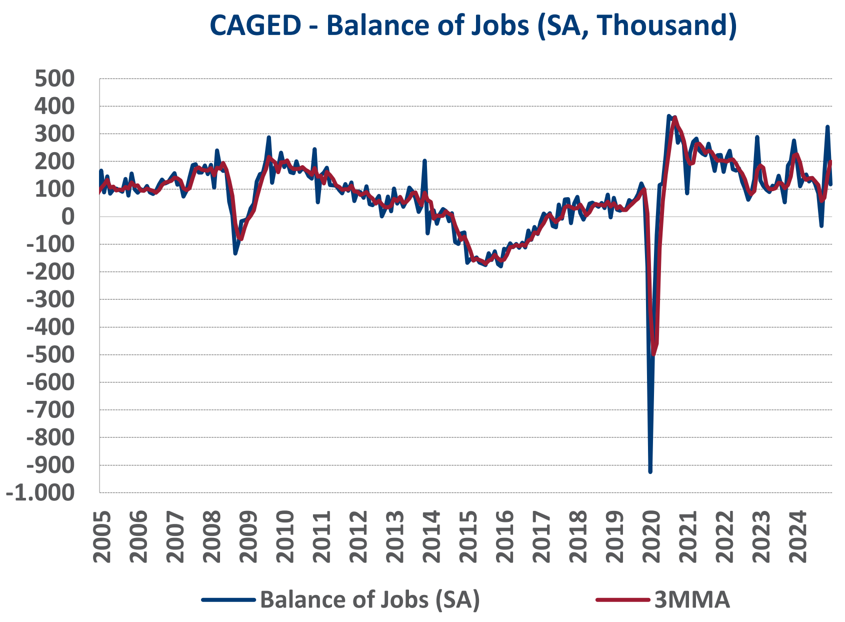


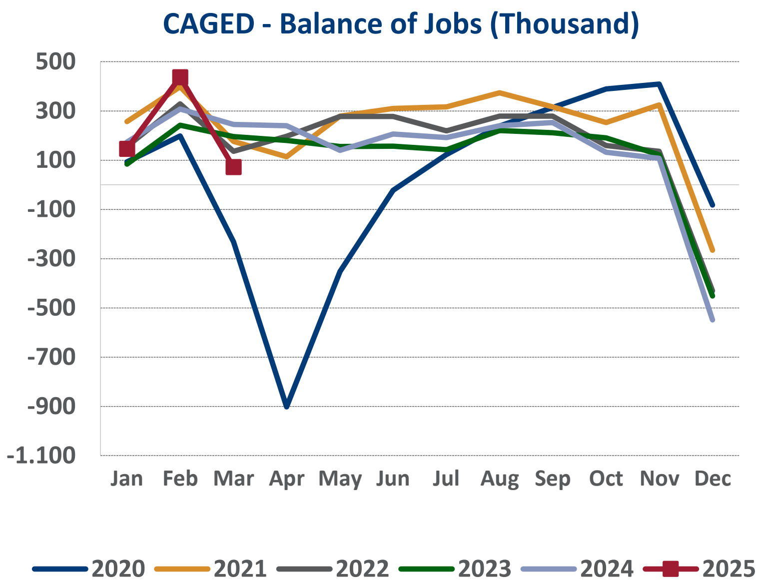


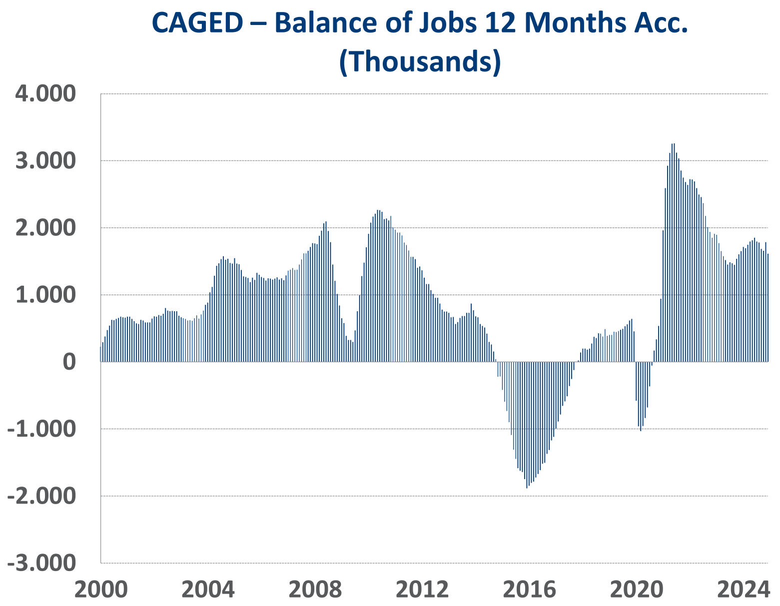
Source: IBGE, BOCOM BBM

Brazil: Formal Labor Market

- Caged registered a net creation of 71.6k formal jobs in March, considerably below market expectations (187.5k).
- There was a net creation of 1.614 million jobs in the 12-month rolling sum up to March, after 1.788 million jobs up to February.
- Formal job hiring rose by 4.0% QoQ in 25Q1 (7.0% YoY).
- Overall, formal employment data continues to reinforce the tight labor market scenario of a gradual slowdown in domestic activity in the coming months.





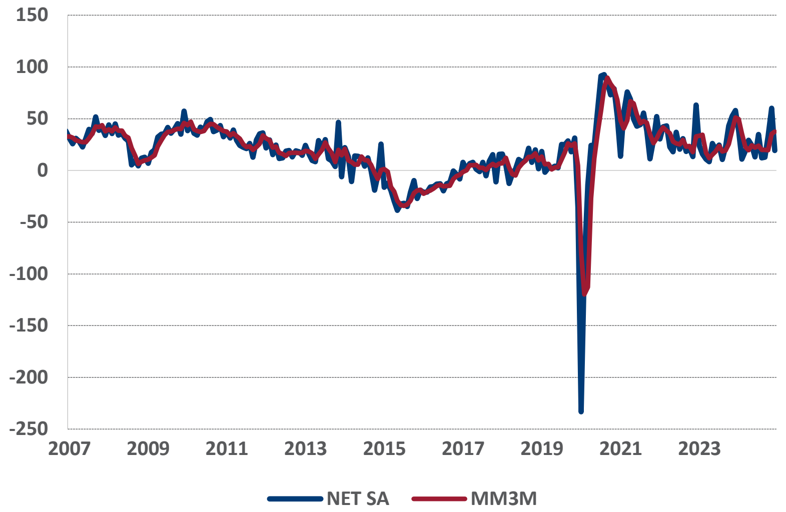


Source: BOCOM BBM, MTE

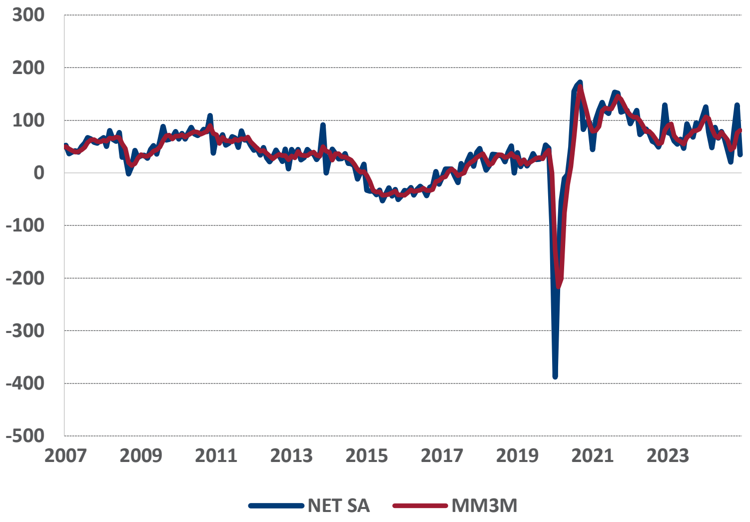
Brazil: Formal Labor Market

- The tertiary sector has been the highlight in recent months.
- The net addition in the services sector totaled 37k jobs in March, after 118k in February.
- Construction (to 6k from 16k), manufacturing industry (to 3k from 33k) and agriculture & livestock (to 6k from 9k) also slowed down substantially in the monthly comparison.
- In turn, retail posted a net destruction of 7k jobs in March after a positive balance of 44k in the previous month.
- All in all, the data shows a more contained net performance across sectors when compared to last month.

Brazil - Retail Net Payroll Job Creation (SA)

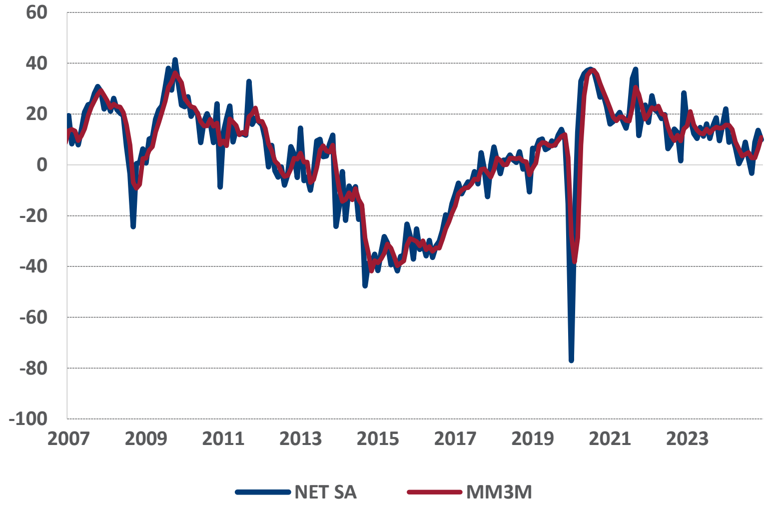


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)



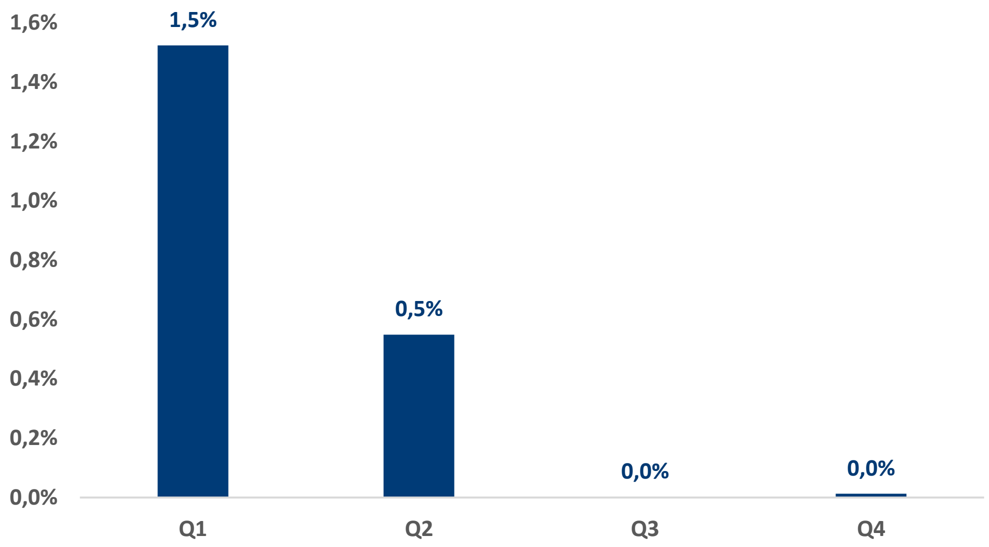
Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- Economic activity showed signs of losing momentum at the end of 2024, but recent data suggest resilience;
- Labor market remain solid, with increasing employment and income. Furthermore, recently announced government measures should provide additional stimulus to demand;
- In our view, growth in 2025 should register 2.2%, with risks in both directions;
  - Positive: government initiatives could sustain household consumption over the second semester;
  - Negative: falling commodity prices and global recession risks related to Trump's liberation day;
- By 2026, the lagged effects of monetary policy should be more significant, reducing growth to 1.3% in the absence of new fiscal measures

Forecast				
	2025.I QoQ	2025.I YoY	2025	2026
GDP	**1.5%**	**3.0%**	**2.2%**	**1.3%**
Agriculture	**13.5%**	**12.0%**	**8.5%**	**4.2%**
Industry	**-0.3%**	**2.0%**	**1.9%**	**0.8%**
Mining	0.1%	-2.5%	6.7%	4.7%
Manufacturing	-0.8%	3.2%	0.5%	-0.5%
Electricity	0.0%	-1.4%	0.9%	1.8%
Civil Construction	0.7%	4.6%	2.7%	0.9%
Services	**0.9%**	**2.1%**	**1.8%**	**1.4%**
Retail	0.6%	2.5%	1.5%	0.3%
Transports	-0.2%	2.0%	2.0%	0.6%
Information and Communication	2.3%	6.0%	4.4%	2.7%
Financial Services	0.5%	3.0%	2.8%	1.7%
Rents	0.5%	2.0%	2.1%	2.8%
Other Services	0.2%	1.7%	1.2%	1.1%
Public Administration	1.0%	1.0%	1.3%	1.4%

GDP Forecast QoQ in 2025

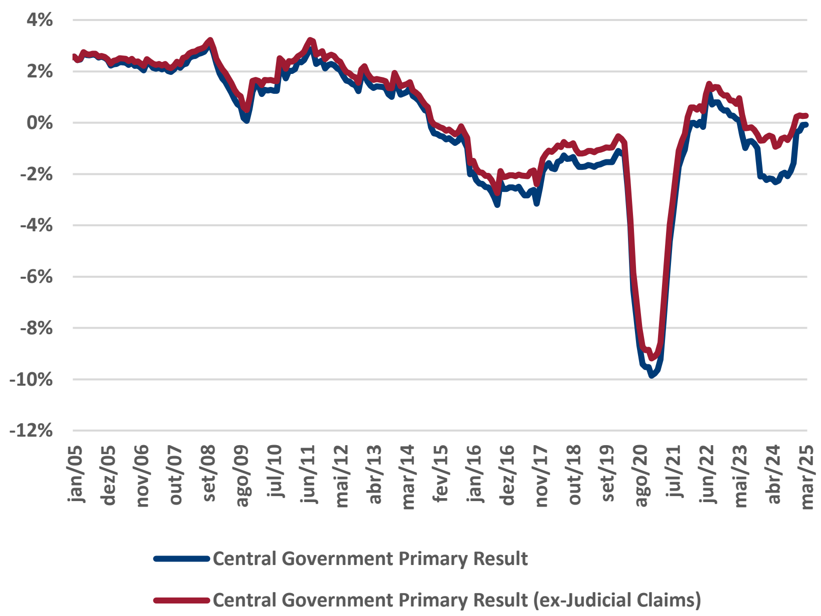


Source: BOCOM BBM, IBGE

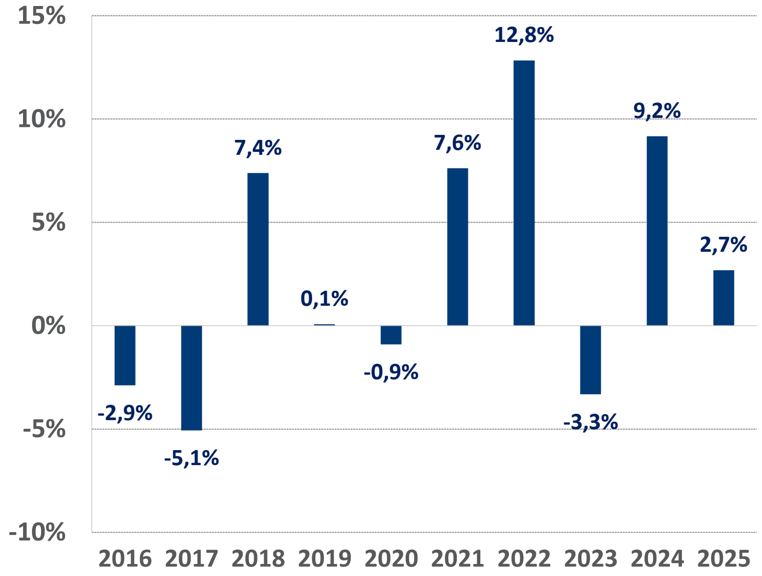
Brazil: Central Government Primary Result

- The central government's primary balance registered a surplus of BRL 1.1 billion in March, higher than the BRL 1.0 billion recorded last year, but below the market consensus (BRL 1.3 billion).
- Net revenues grew by 0.8% YoY in real terms, mainly driven by import tax (26.8%), natural resources exploitation (8.5%) and income tax (5.0%). On the negative side, there was an unexpected decline in PIS/Confins revenue (-1.4%) that may reflect the slowdown in economic activity and/or an increase in tax compensations.
- Total expenditure fell by 0.5% YoY in real terms, being mainly explained by lower execution of discretionary spending (-22.9%) and changes in the payment calendar for court-ordered debts. Moreover, there was a reduction in mandatory with flow control (-5.9%) and personnel and charges (-2.0%). On the other hand, social security benefits (1.6%), BPC/LOAS (9.8%) and unemployment insurance and bonus wage (23.8%) remain as sources of concern.

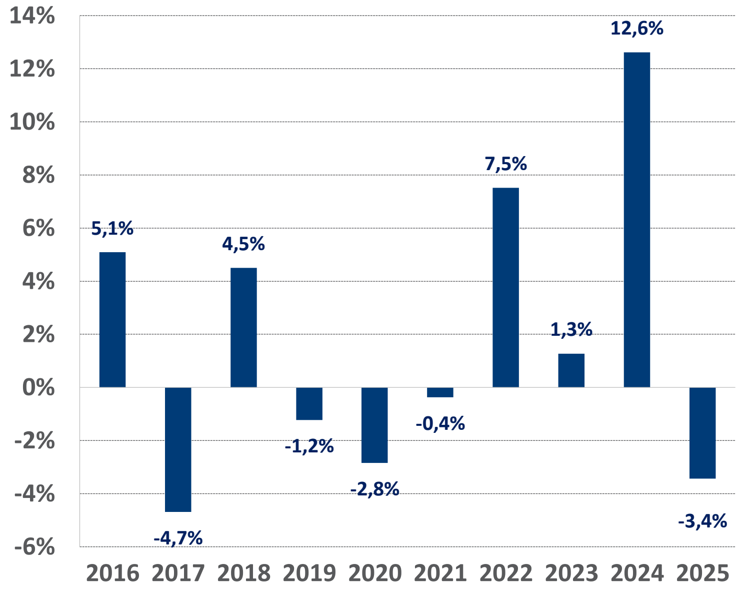
Central Government Primary Result (% GDP)



Net Revenue (YTD Real, %)



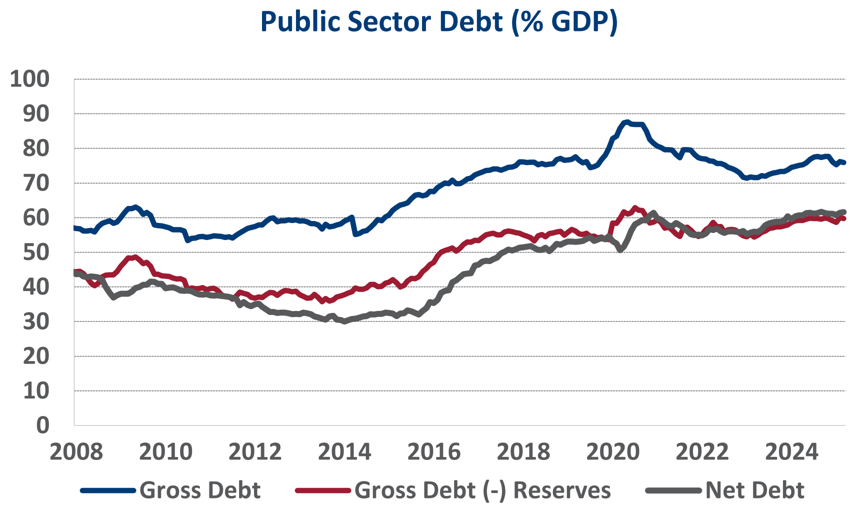
Expenditure (YTD Real, %)

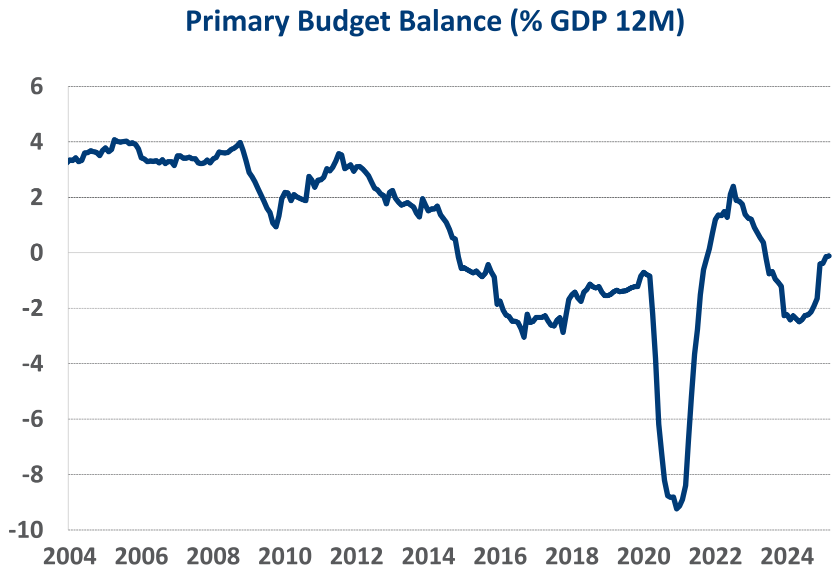


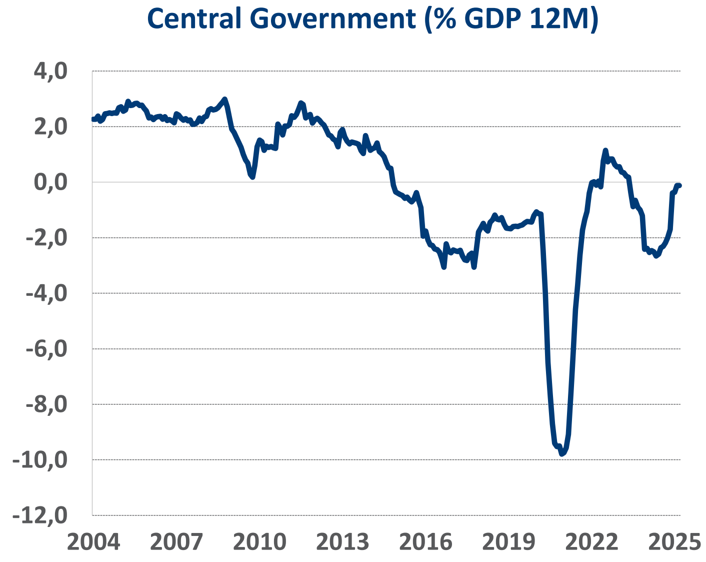
Source: BOCOM BBM, RTN

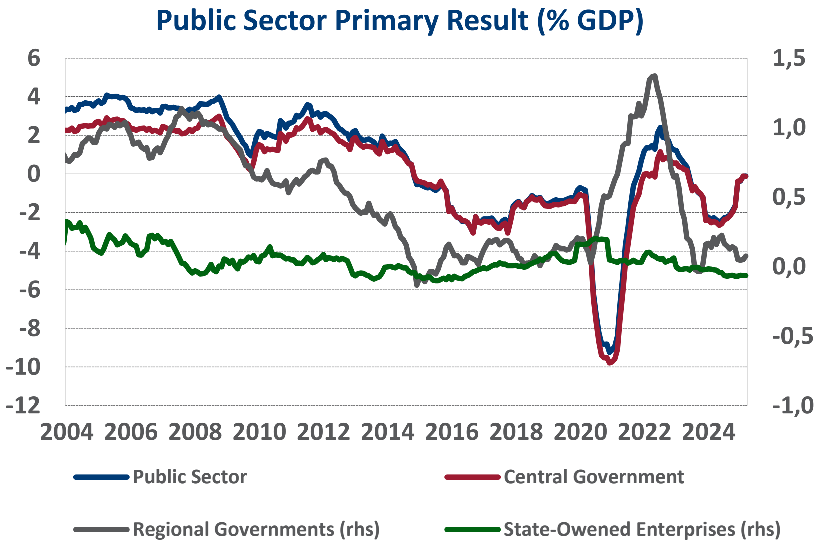
Brazil: Consolidated Public Sector Budget

- The consolidated public sector posted a primary surplus of BRL 3.6 bn in March, coming above market consensus (BRL 1.8 billion), driven by the regional governments performance.
- Regarding the breakdown, central government and state-owned enterprises (SOE) registered deficits of BRL 2.3 bn and BRL 0.6 bn, respectively, while regional governments posted a surplus of BRL 6.5 bn.
- General Government Gross Debt (GGGD) fell from 76.1% to 75.9% of GDP. Net issuances (-0.3 p.p.), and nominal GDP growth (-0.6 p.p.) were the main drivers of this change, while nominal interest (an increase of 0.8 p.p. of GDP) partially offset it.









Source: BOCOM BBM, BCB

Brazil: Credit Statistics

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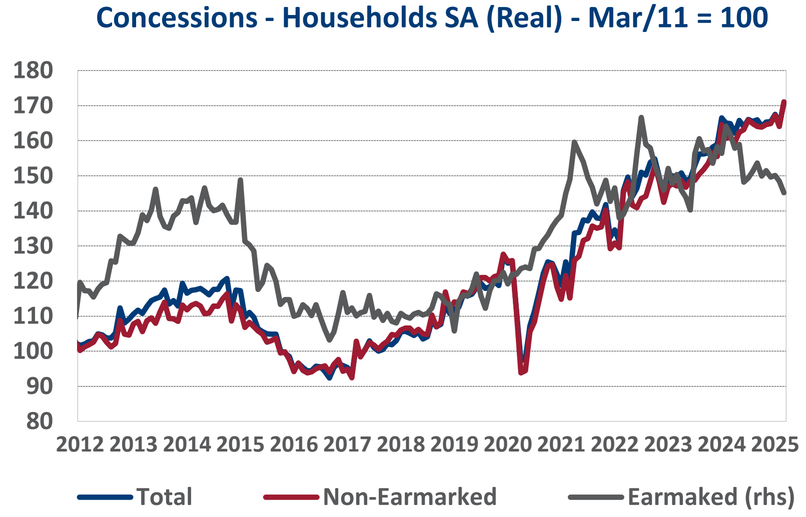
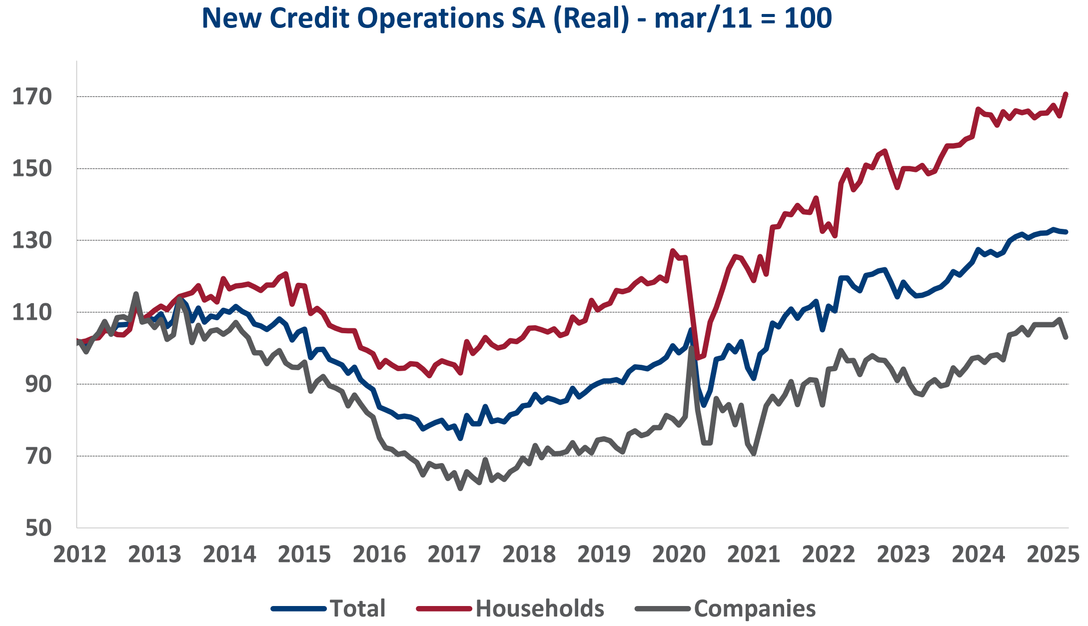
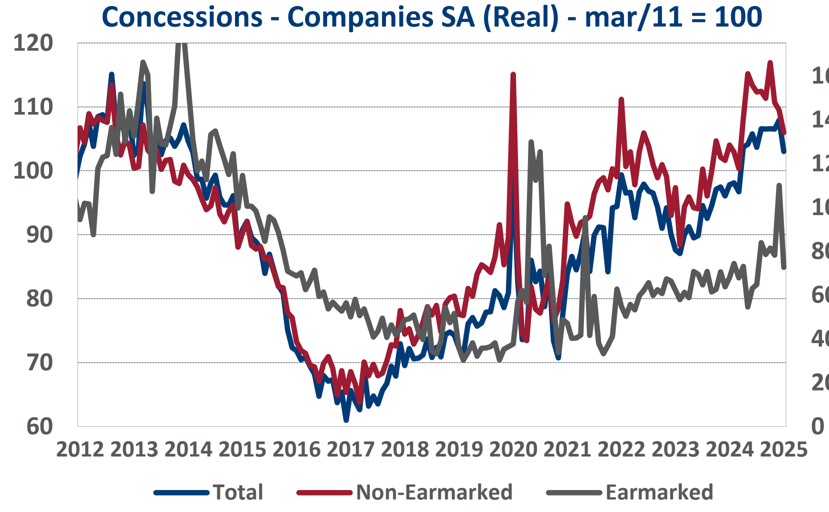
- In March, total credit concessions decreased 0.1% MoM in real terms, after falling 0.4% in the last month;
- Non-earmarked credit concessions decreased 3.2% to companies and increased 4.3% households in real terms;
- Overall, credit data showed weakness in March, with credit concessions for companies sharply decelerating.





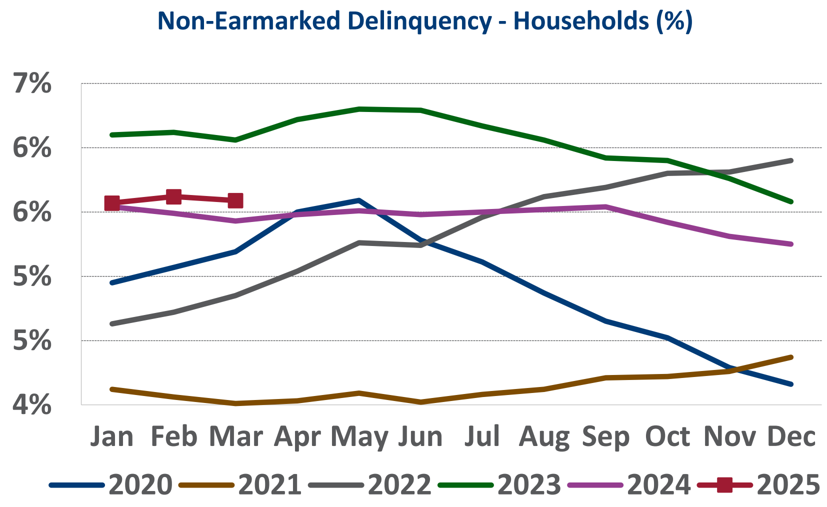


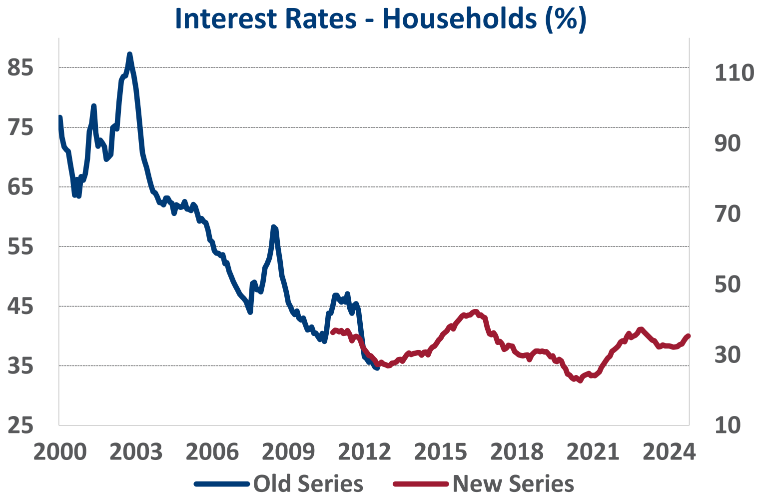
Source: BOCOM BBM, FGV

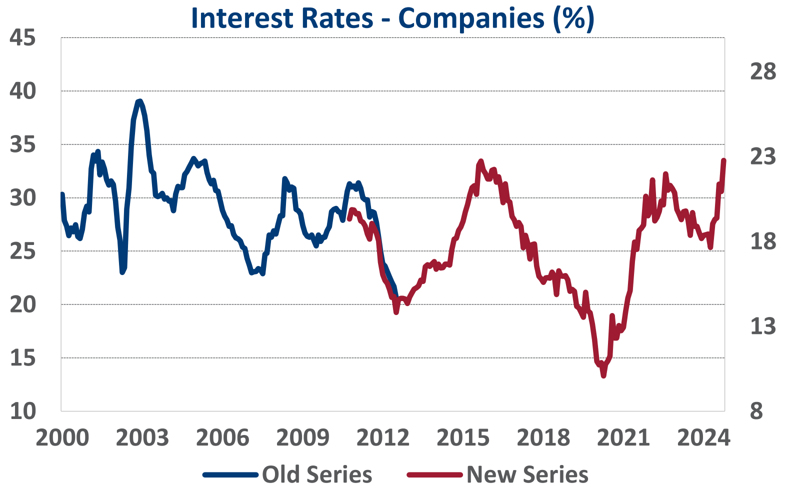
Brazil: Credit Statistics

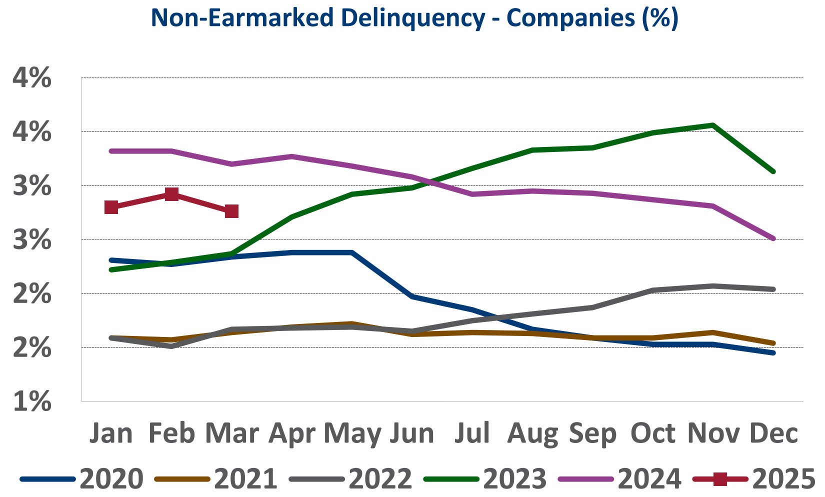
- Lending rates increased from 35.0% in February to 35.4% in March for individuals and from 21.0% to 22.8% for companies;

- In turn, non-earmarked delinquency rate remained stable at 5.6% to individuals and decreased from 2.9% to 2.8% to companies.





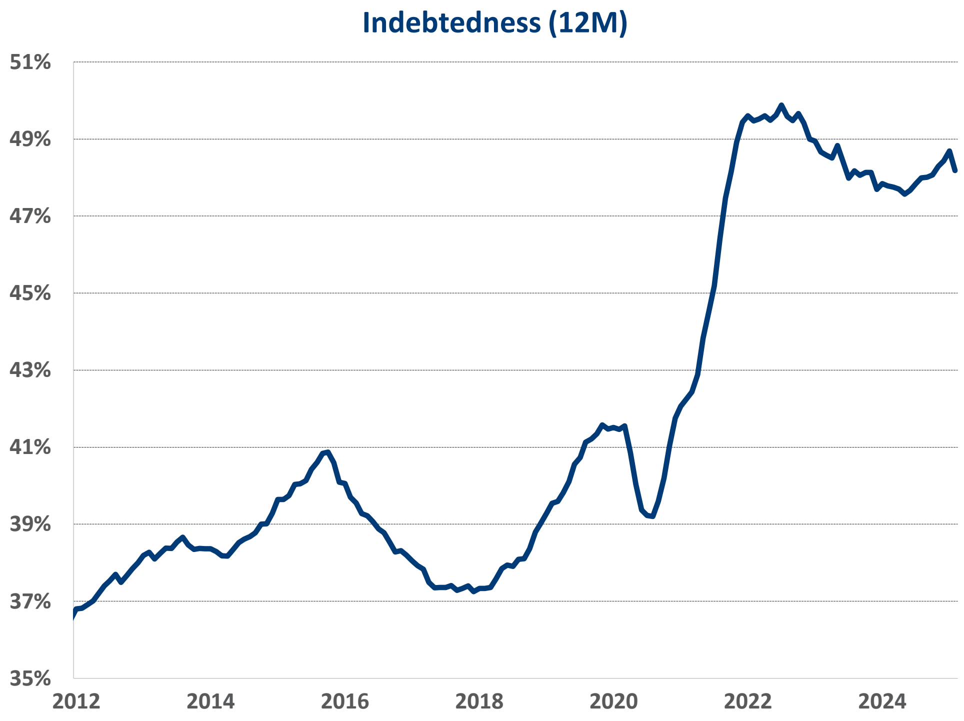


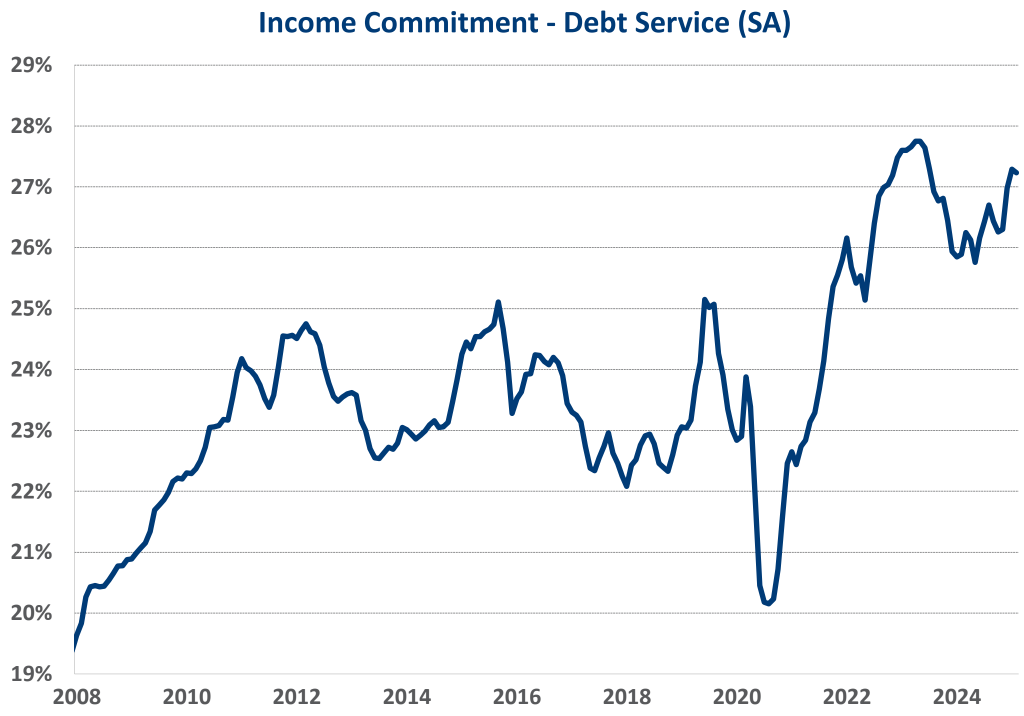


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness fell to 48.2% in February, from 48.7% in January.
- This trend should be intensified over the next months driven by the new payroll loans to the private sector;
- Meanwhile, income commitment showed stability, keeping its seasonally adjusted level around 27.2% in February.

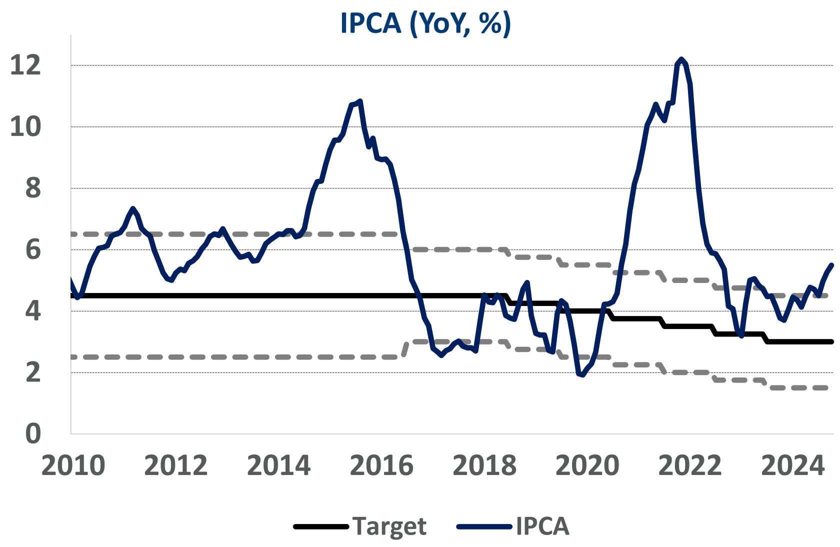


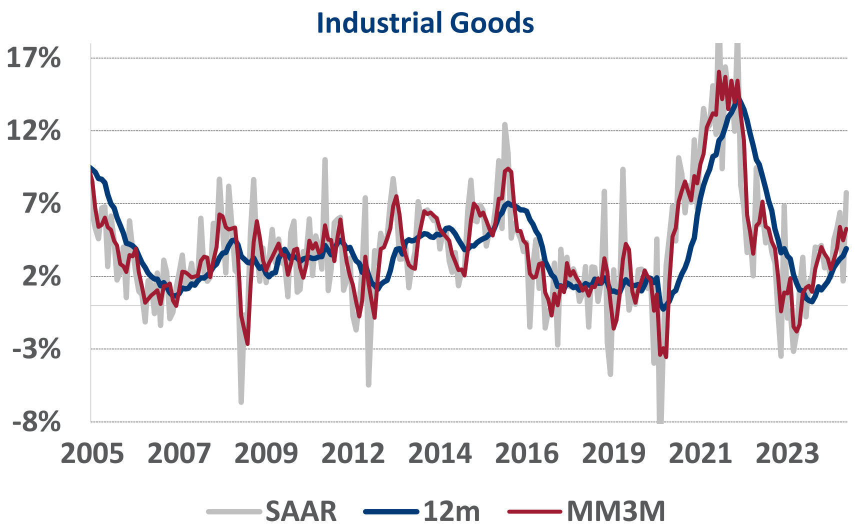


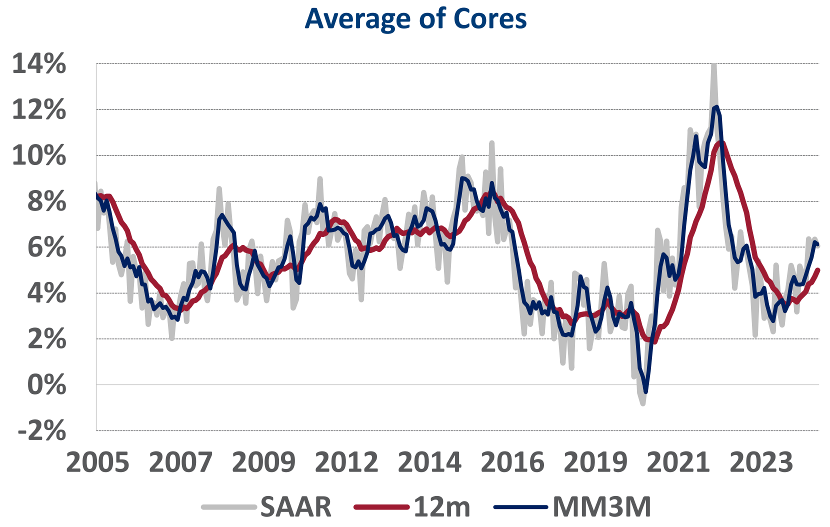
Source: BOCOM BBM, BCB

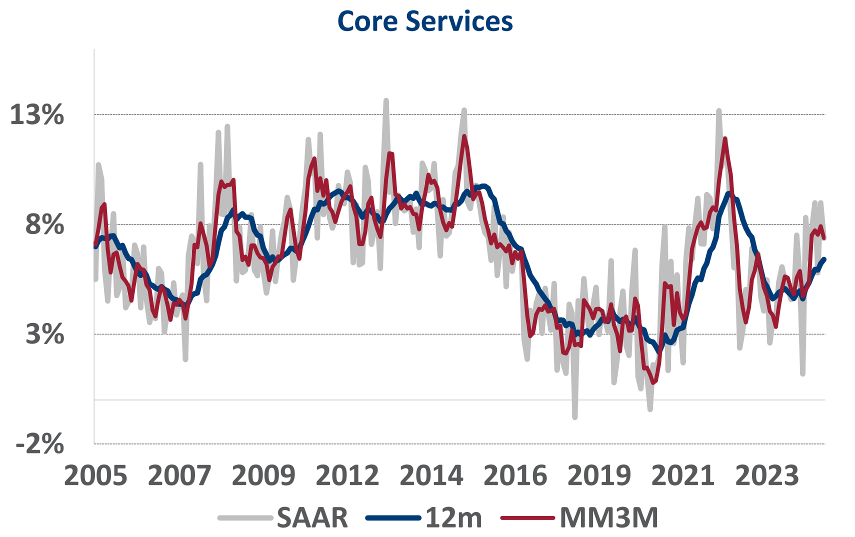
Brazil: Inflation 2025

- April IPCA-15 rose by 0.43% MoM, in line with expectations. The 12-month variation advanced from 5.26% in March to 5.49% in April;
- The main upward deviation came from industrial goods and fresh foods, while airfares surprised to the downside;
- Core services advanced 0.55% MoM, in line with forecasts and the 3M SAAR declined from 7.9% to 7.5%;
- The average of core inflation increased by 0.46% MoM, also in line with expectations, with its 3M SAAR decreasing from 5.9% to 5.8%;
- All in all, the April IPCA-15 result did not change the view that current inflation is still under pressure.





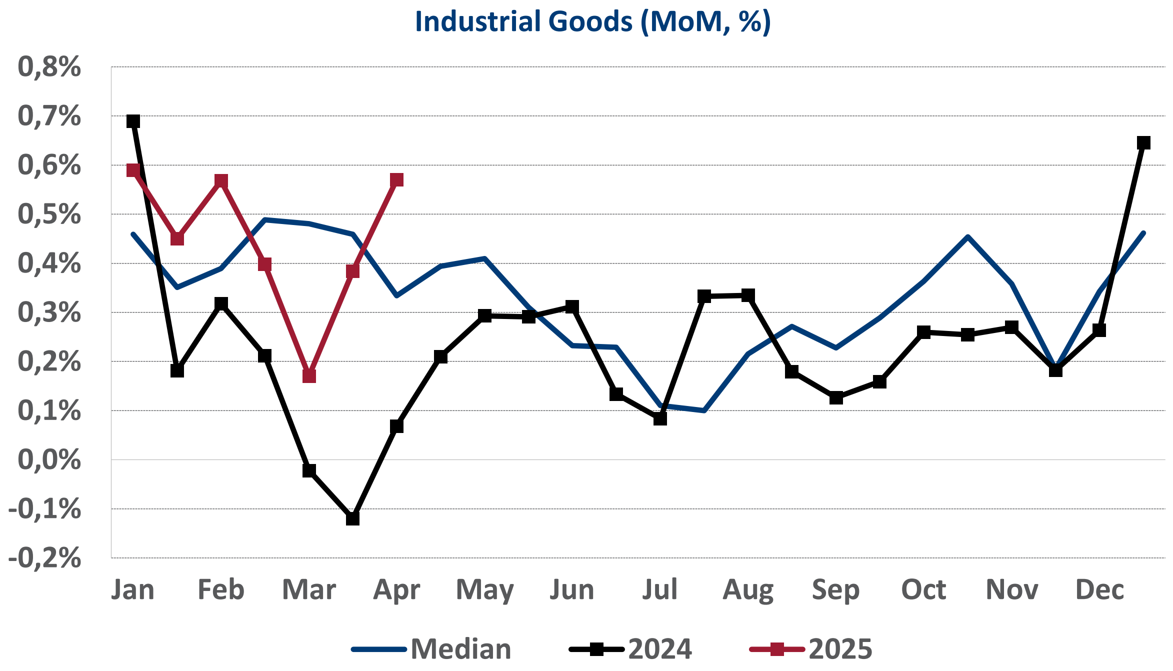


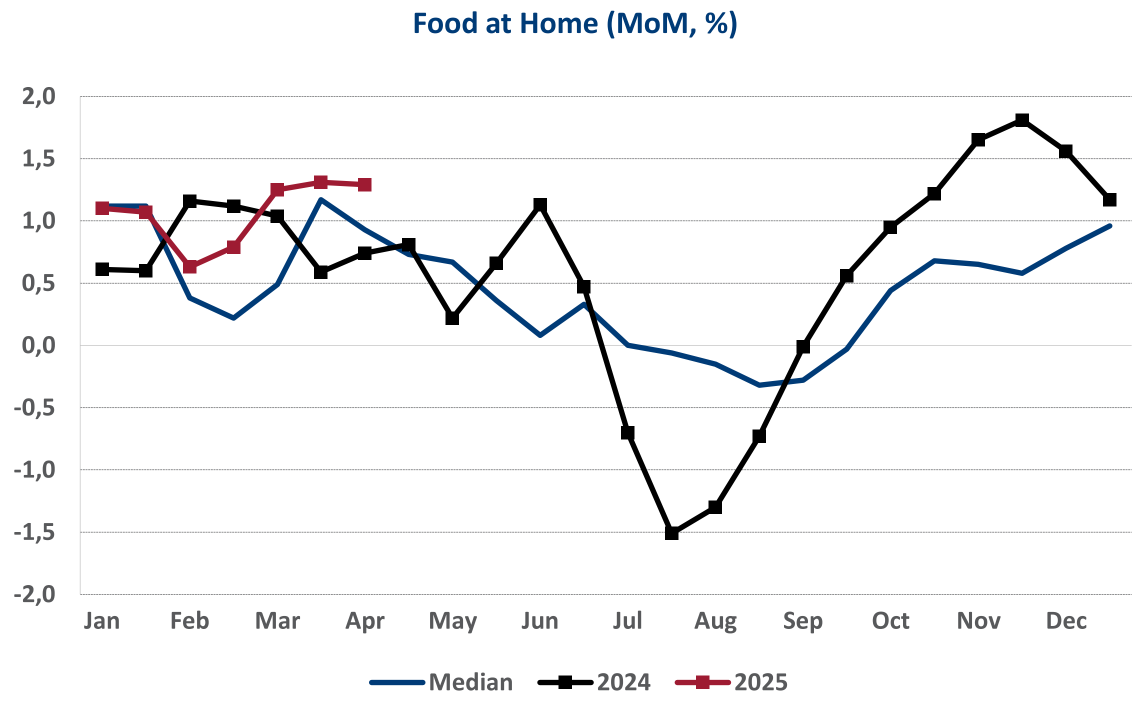


Source: BOCOM BBM, IBGE

Brazil: Inflation 2025

- Industrial goods increased by 0.57% MoM, materially above estimates. The 3M SAAR climbed from 4.3% last month to 4.7% in April;
- The main upward contribution came from personal hygiene. There were upward surprises in durable and semidurable goods, owing to a stronger-than-expected effect from 'consumer week' in March;
- Foodstuff prices rose by 1.29% MoM, also above expectations, with contributions from fresh food and meat to the surprise.





Source: BOCOM BBM, IBGE

Brazil: Inflation

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- Our forecast was revised from 5.8% to 5.6%, mainly due to lower forecasts for industrial goods
- International scenario bring risks in both directions:
- Down: weak dollar, increasing imports of Chinese industrial goods, lower commodity prices (fuels, metals)
- Up: risk off scenario could depreciate BRL, lower commodity prices bring fiscal challenges, higher demand for Brazilian grains can increase food domestic prices

IPCA (%, annual)

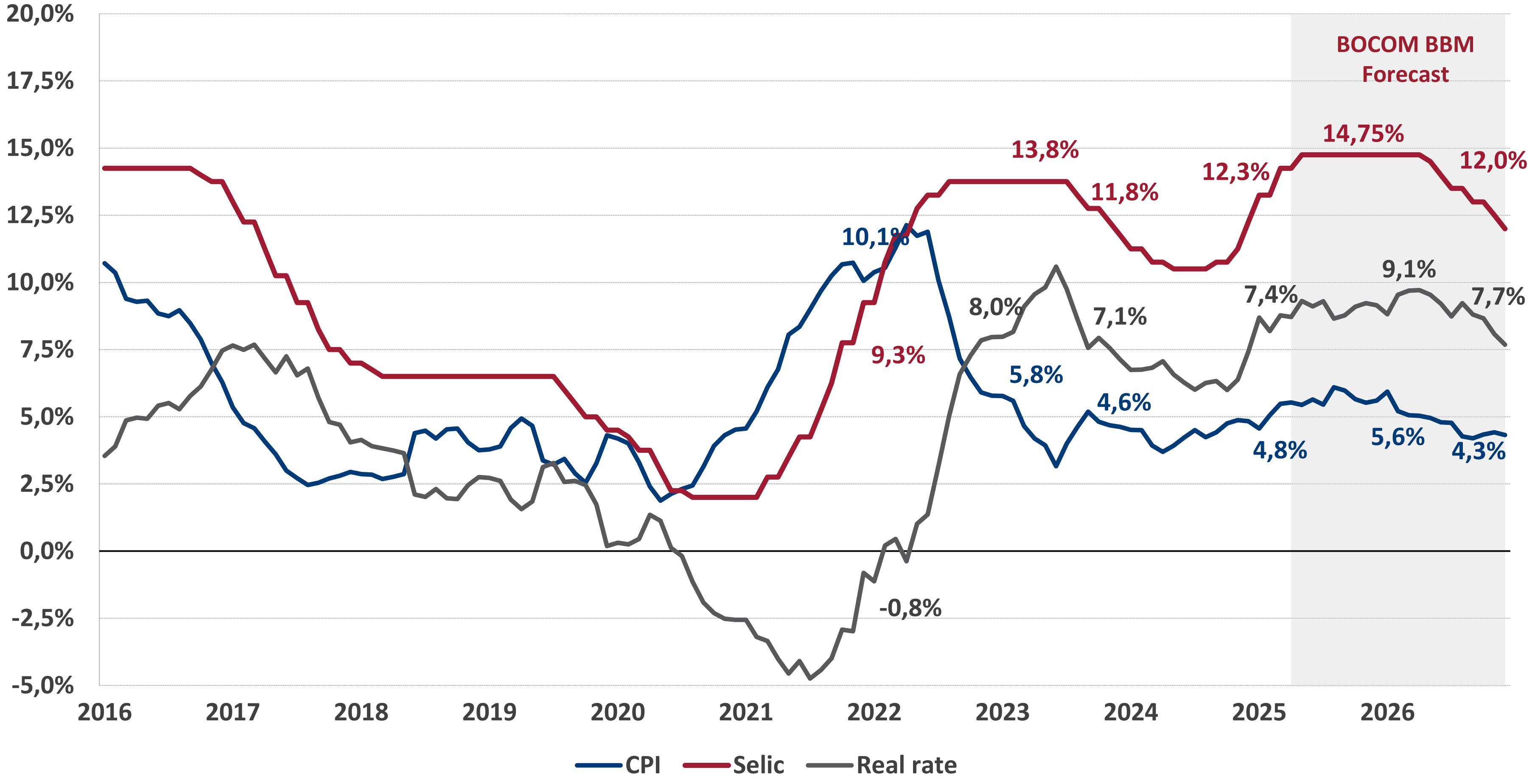
	Weight	2020	2021	2022	2023	2024	2025	2026
Regulated	**26.6**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**5.4**	**3.9**
Industrial goods	**23.6**	**3.2**	**11.9**	**9.5**	**1.1**	**2.9**	**3.4**	**3.7**
Durable goods	10.3	4.5	12.9	6.1	-0.4	1.5	1.9	-
Semi-durable goods	5.9	-0.1	10.2	15.7	2.7	2.0	3.1	-
Non-durable goods	7.3	4.0	11.9	9.5	1.7	5.4	5.6	-
Food at home	**15.7**	**18.2**	**8.2**	**13.2**	**-0.5**	**8.2**	**7.8**	**4.8**
Services	**34.1**	**1.7**	**4.8**	**7.6**	**6.2**	**4.6**	**6.1**	**4.8**
Food away from home	5.6	4.8	7.2	7.5	5.3	6.3	6.9	4.7
Related to minimum wage	5.2	1.5	3.3	6.3	5.2	5.0	6.6	5.0
Sensitive to economic activity	8.2	0.2	5.1	6.3	9.5	0.9	5.4	4.6
Inertial	15.0	1.6	4.2	8.8	5.1	6.0	6.1	4.9
IPCA		**4.5**	**10.1**	**5.8**	**4.6**	**4.8**	**5.6**	**4.3**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 14.25% p.a. at its March meeting, as expected, and indicated that the hiking cycle will continue in May, albeit at a slower pace. The magnitude of the next hike is very uncertain given the volatile international scenario under a trade war. Our scenario contemplates a final hike of 50 bps in the next meeting. This aligns with Copom's new rhetoric of "caution and flexibility" moving forward.

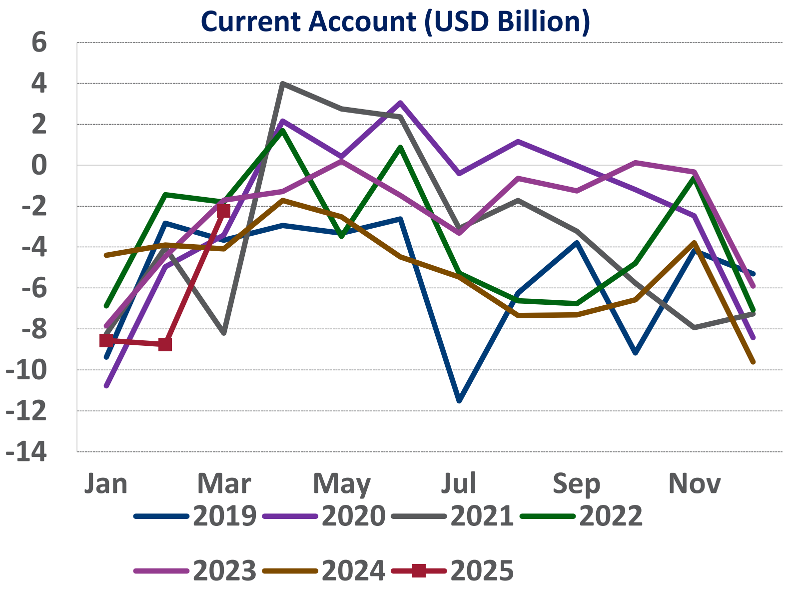
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

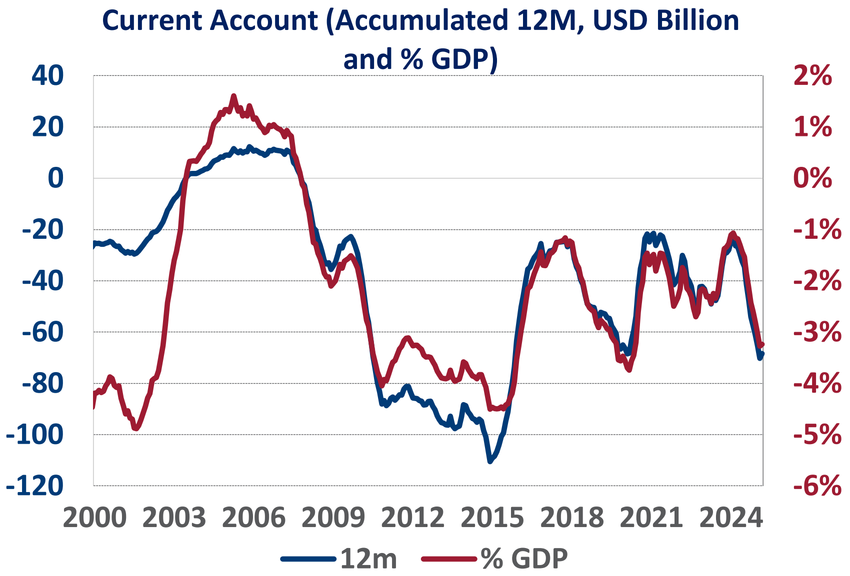


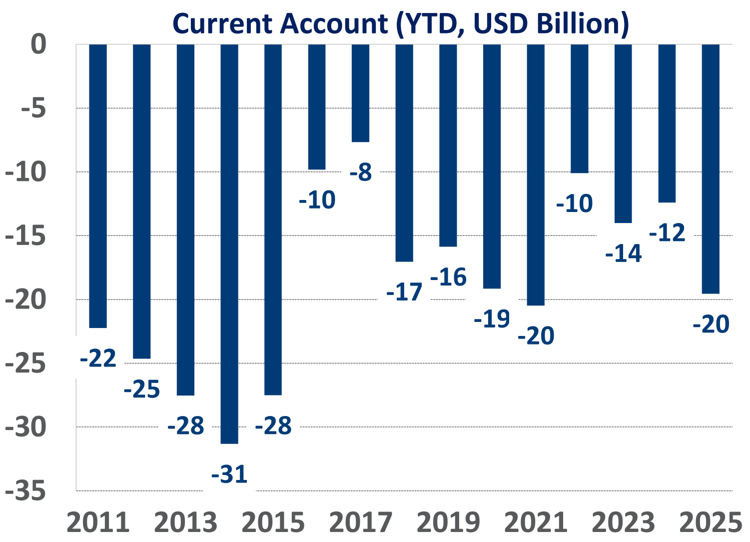
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a USD 2.2 billion deficit for March 2025, better than market consensus (USD -3.2 billion).
- This result was narrower than the USD 4.0 billion deficit recorded in March 2024, largely due to a positive trade balance on the back of delayed agricultural exports.
- For the 12-month rolling sum, the deficit reached USD 68.5 billion (3.21% of GDP) in March from USD 70.3 billion (3.28% of GDP) in February.



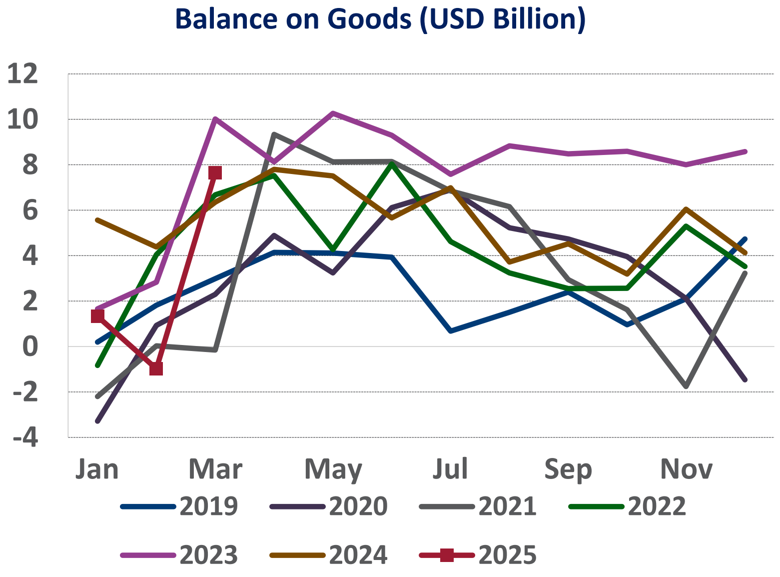


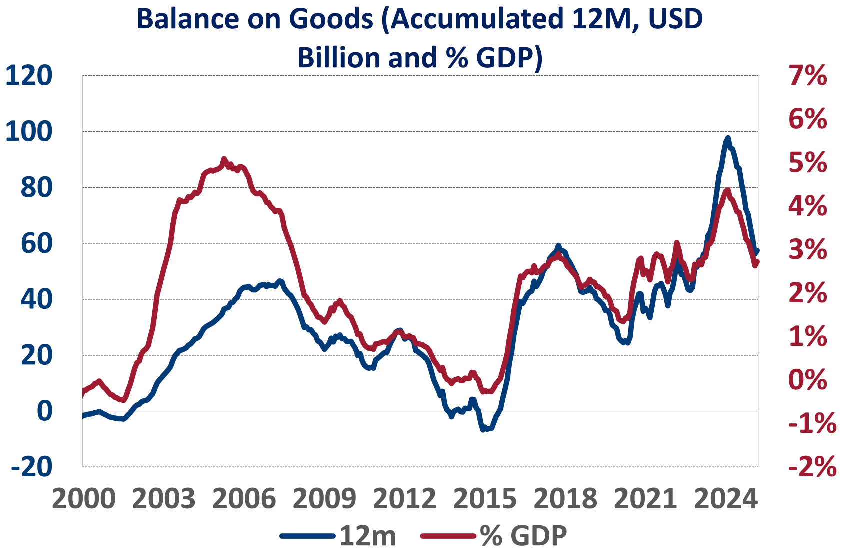


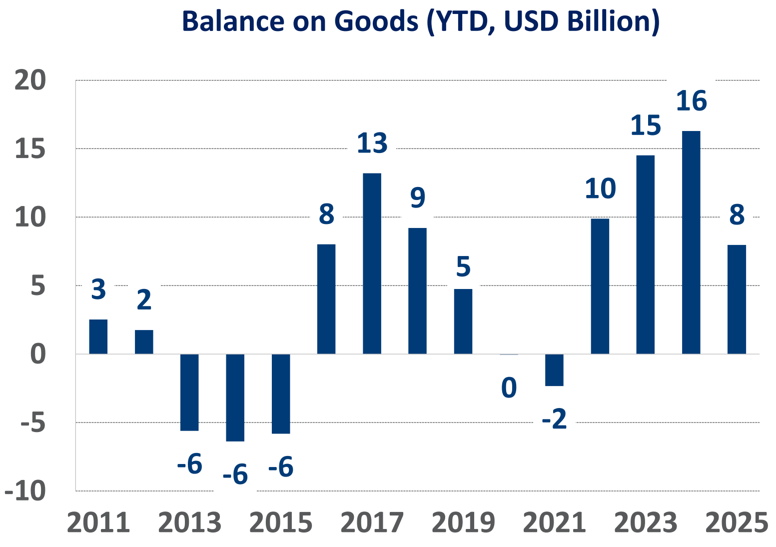
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The merchandise trade balance recorded a surplus of USD 7.6 billion in March, higher than the USD 6.4 billion surplus reported one year earlier.
- Exports rose 5.3% YoY in March to USD 29.4 billion, while imports slightly increased by 0.9% YoY to USD 21.8 billion.
- However, in 1Q25, the merchandise trade balance totaled USD 7.9 billion, versus USD 16.3 billion in the same period last year.
  - Exports remained virtually stable at USD 78.0 (- 0.6% YoY), while imports rose to USD 70.1 billion (+ 12.8% YoY).
  - According to MDIC data, the increase in imports was explained by higher volumes (+14.6% YoY) amid still strong domestic demand, while prices declined (-4.5% YoY).
- On a 12-month basis, the trade surplus fell to USD 68.4 billion, from USD 70.2 billion in February.



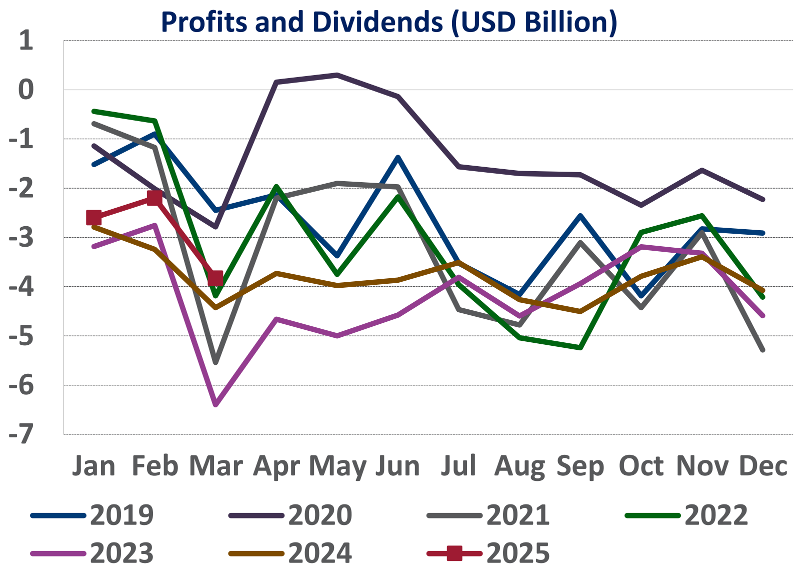


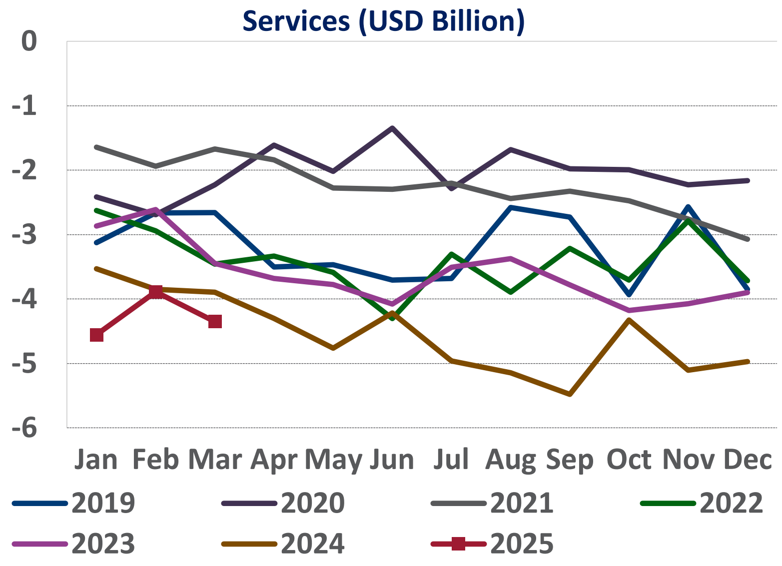


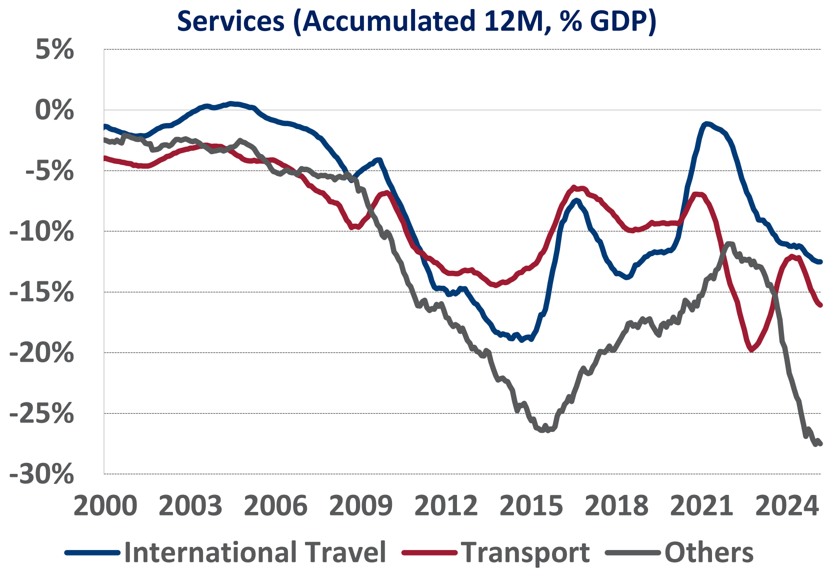
Source: BOCOM BBM, BCB

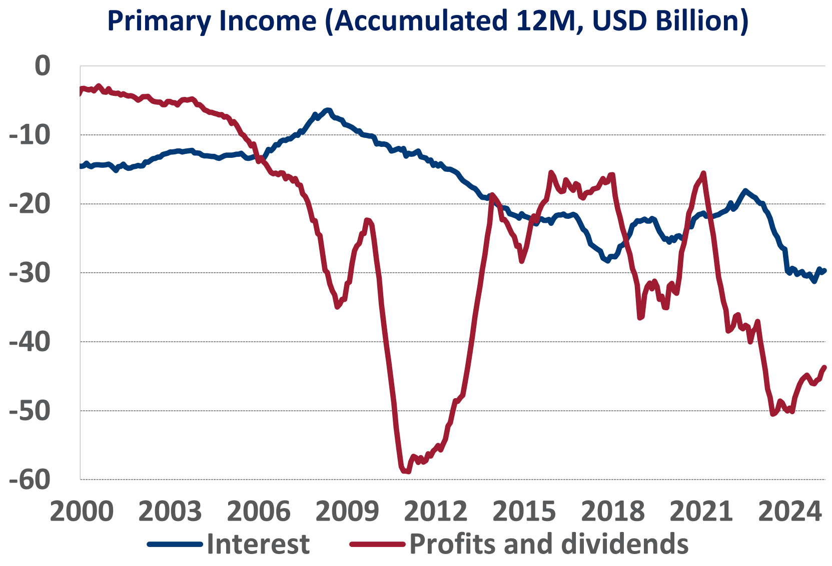
Brazil: Balance of Payments

- The services deficit reached USD 4.4 billion in March 2025, slightly wider than the USD 3.9 billion deficit recorded in March of 2024;
- ‘Charges for the use of intellectual property’, which reflects new services – as streaming - is a more cyclical account and registered a USD 0.5 billion larger deficit to USD 1.1 billion, accounting for the biggest deviation for March;
- Additionally, the services deficit in 1Q25 was higher than the observed in the same period last year. The main differences came from the ‘Transport’ account, linked to goods exported, and the more cyclical ‘‘Charges for the use of intellectual property’.





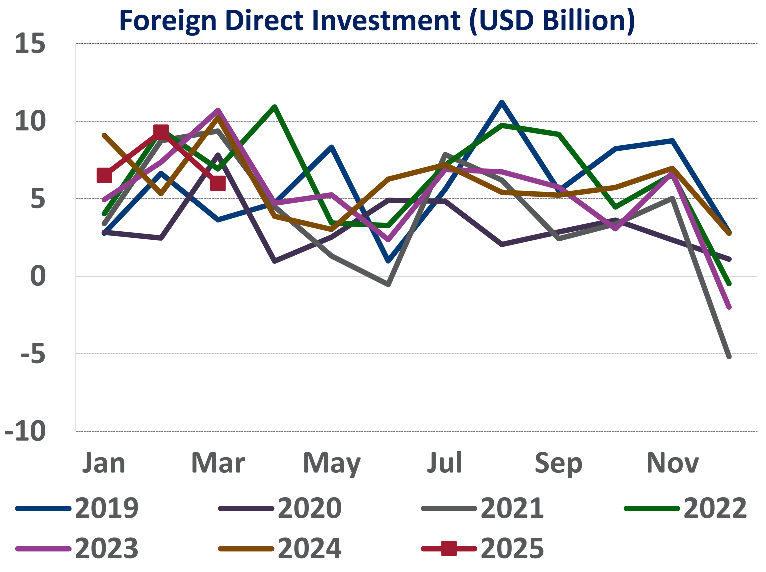


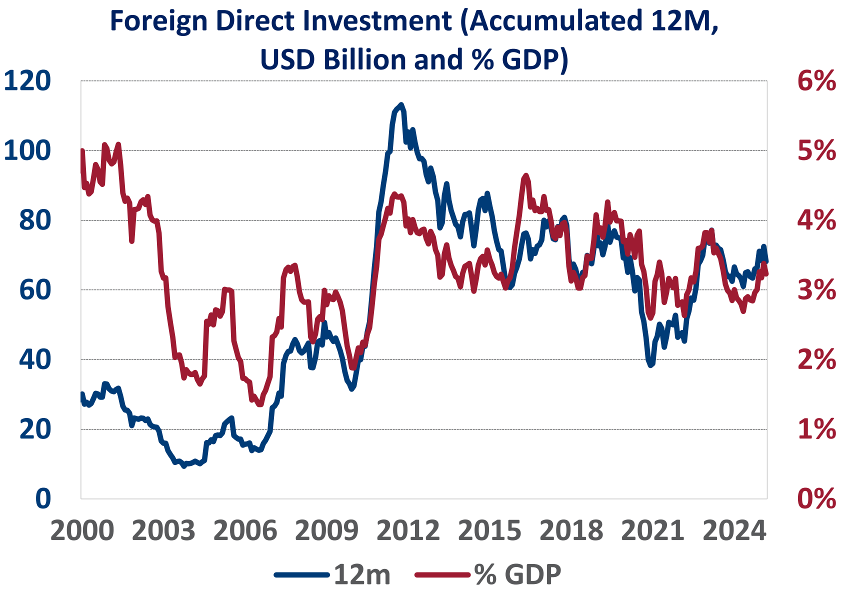


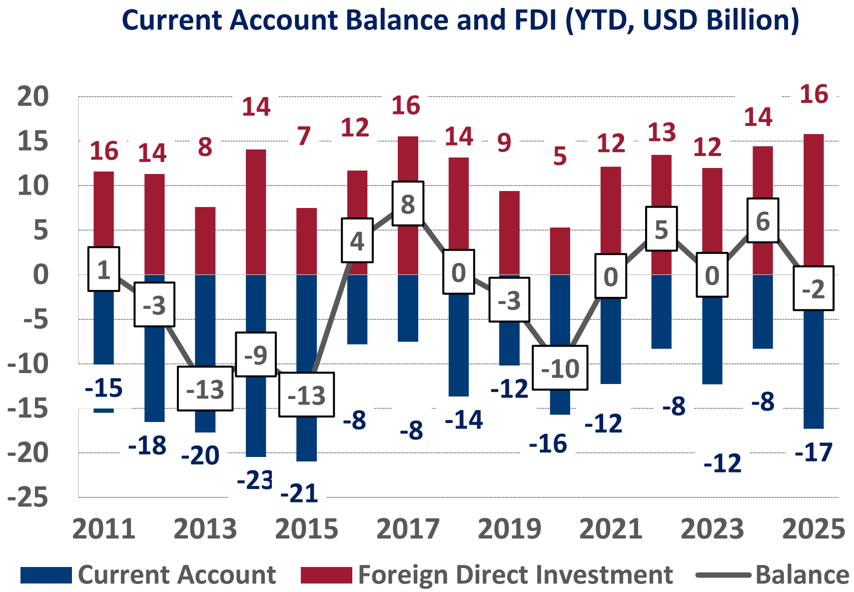
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) surprised to the downside, totaling USD 6.0 billion against expectations (of USD 8.0 billion).
- In 1Q25, FDI inflows totaled USD 21.8 billion, compared to USD 24.6 billion in 1Q24.
- Thus, FDI inflows fell to USD 68.2 billion in the 12-month rolling sum up to March 2025 (3.19% of GDP).
- Despite a higher uncertainty scenario and the downward surprise in March, FDI inflows are still posting strong numbers.





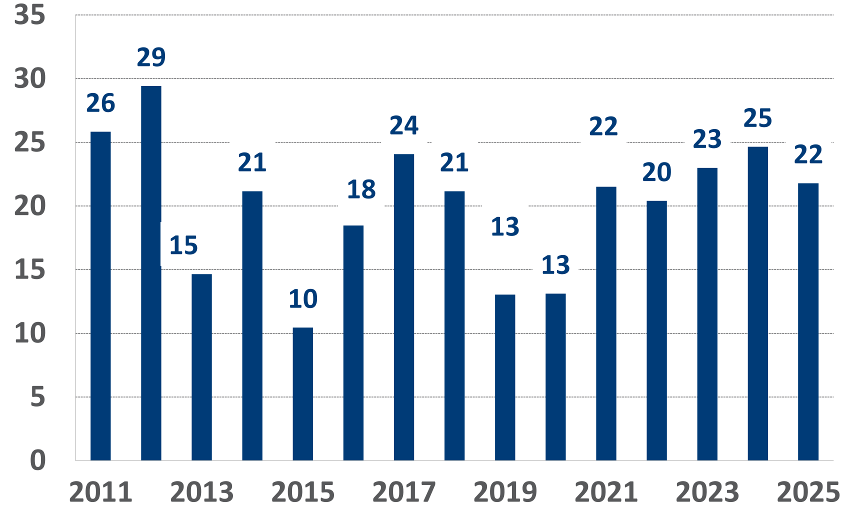


Source: BOCOM BBM, BCB

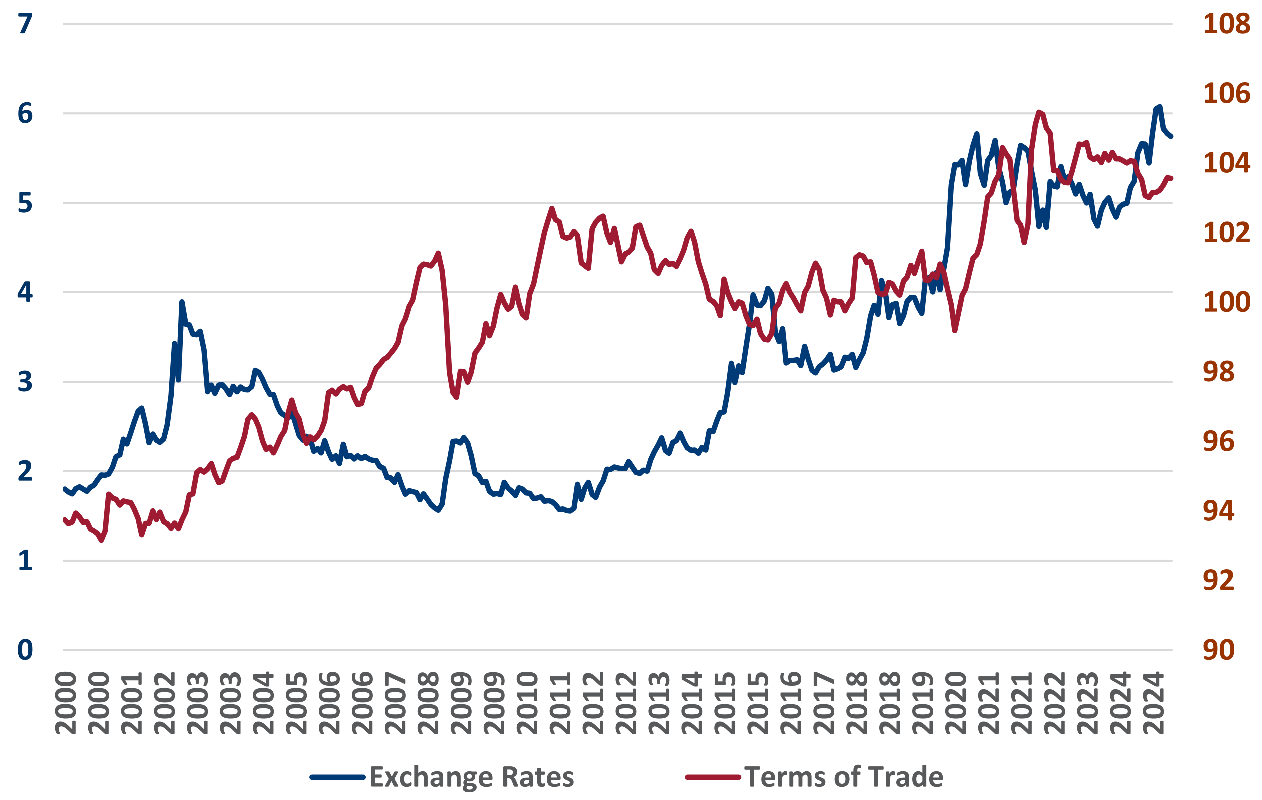
Brazil: External Sector

- In April, the Brazilian Real appreciated from 5.73 to around 5.68 against the US Dollar, which was mainly explained by international developments. On April 2, Trump announced the reciprocal tariffs. Brazil was subject to the minimum 10% import tariff, which may benefit Brazilian sectors capable of capturing market share previously held by competitors now subject to higher tariffs. Commodity sectors may find opportunities to capture markets the US may lose due to retaliatory measures from trading partners. The BRL appreciation in April reflected Brazil's relative positive position when compared to other countries after the ‘liberation day’.

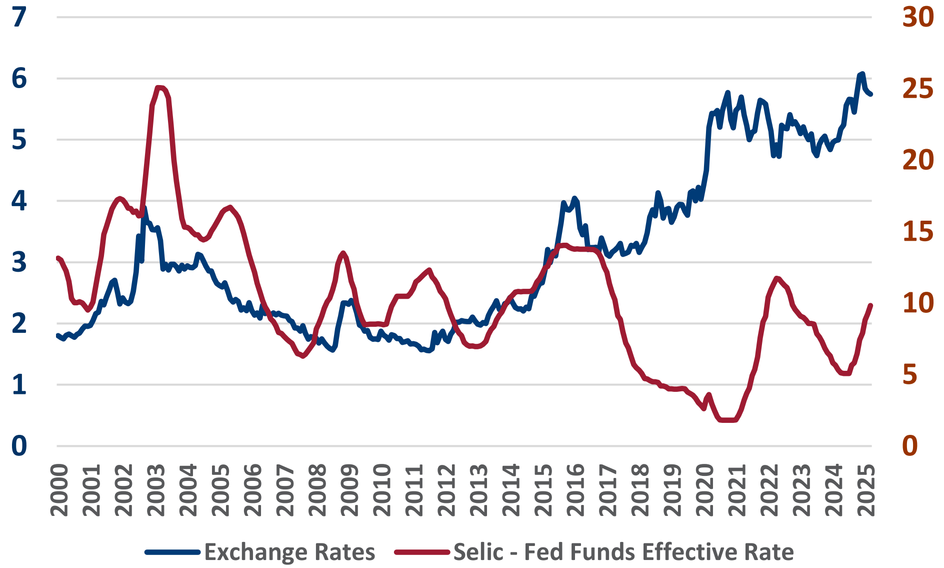
Foreign Direct Investment (YTD, USD Billion)



Terms of Trade x BRL



Interest Rate Differential x BRL

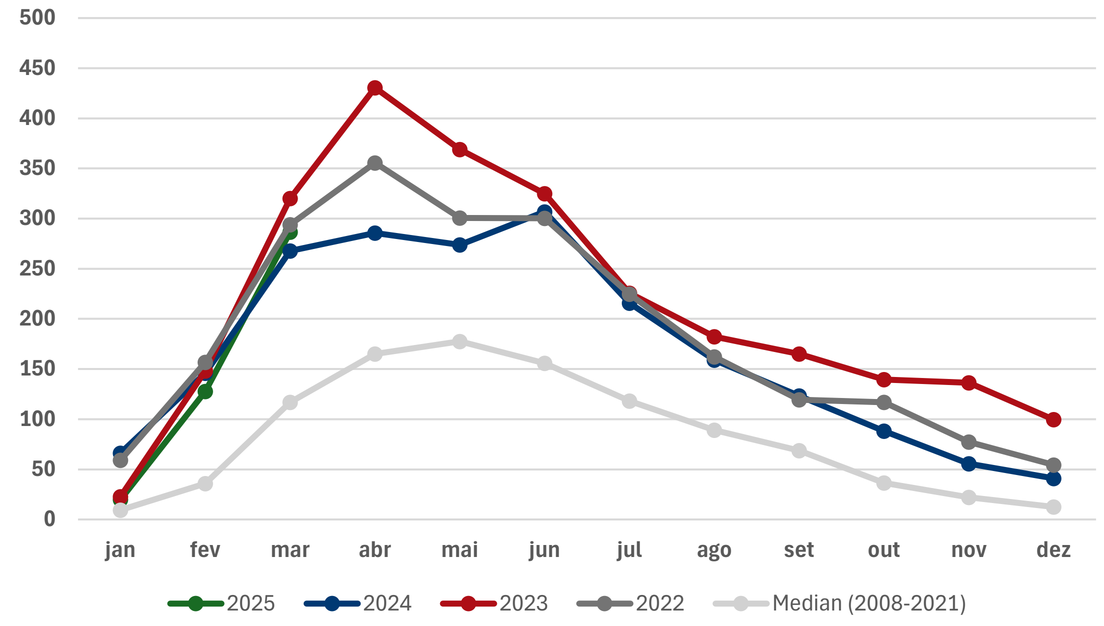


Source: BOCOM BBM, Bloomberg, BCB

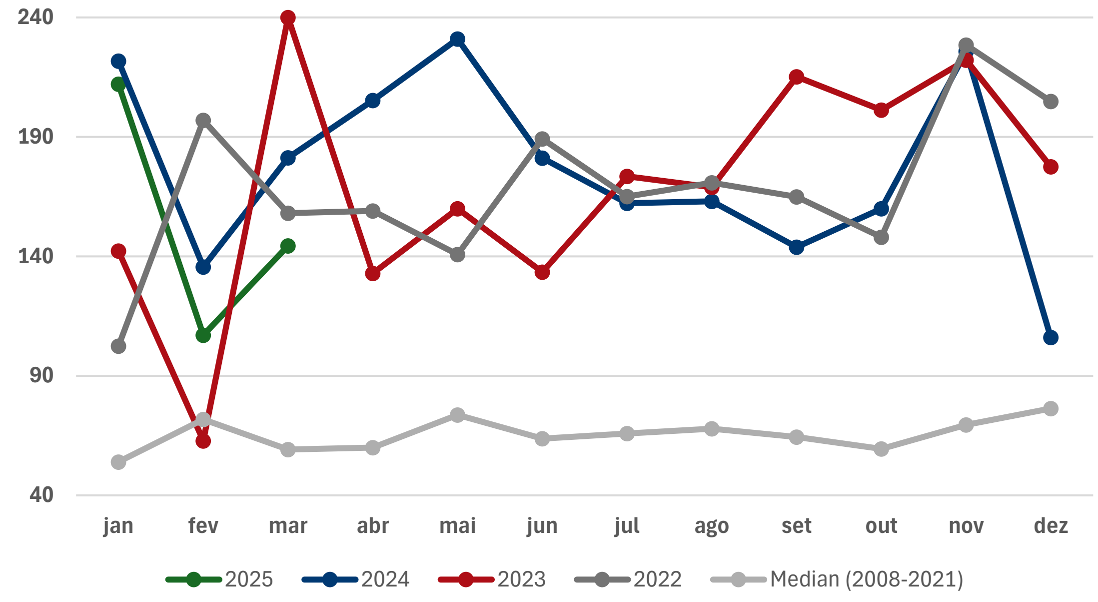
Brazil: External Sector

- In March, the trade balance presented a surplus of USD 8.15 bn (13.8% YoY) according to Secex data;
- Exports increased 5.5% YoY, primarily due to the performance in the agriculture sector (16% YoY). Key contributors to this growth included corn (107.8% YoY) and coffee (92.7% YoY) and soy (7.0% YoY).
- In turn, imports saw a modest rise of 2.6% YoY, also driven by the agriculture sector (22.8% YoY), mainly stimulated by raw roasted cocoa (807.1% YoY), latex products (100.5% YoY) and wheat (21.4%).

Brazil BoP: Soy Exports
USD Million Daily Average



Brazil BoP: Crude Oil Exports
USD Million Daily Average



Source: Secex, BOCOM BBM

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