Outlook for 2025

In this Special Report, we present our expectations for the macroeconomic scenario in 2025. In general terms, we recognize that the **prospective outlook is more challenging**, both for the external environment and for the domestic one, resulting in a **more depreciated exchange rate, higher inflation, more restrictive monetary policy, and a slowdown in local economic activity.**

In the United States, economic activity continued to positively surprise for the third consecutive year, frustrating the expectations of a sharp economic slowdown. At the beginning of 2024, the start of an interest rate cut cycle was discussed due to a certain cooling of activity and inflation rates closer to the target. However, constant upside surprises in the labor market and resilient inflation led the first cut to be postponed until September, where the FED continued cutting until the end of the year, although signaling gradual cuts in 2025 and 2026.

In fact, after the more aggressive start of the monetary easing cycle in September, the Fed reduced the interest rate by 25 basis points in the last two meetings of the year, totaling 100 basis points since the beginning of the cycle. Although the statement did not undergo many changes, the projection revisions point to a different flight plan than expected for the next year, surprising with a more hawkish tone. In the labor market, unemployment rate projections were revised downwards for this and next year, in a move described by Powell as a 'reduction of downside risks to the labor market,' which evidences a still solid activity dynamic. Inflation projections, on the other hand, underwent an upward revision until 2026, gaining more attention from the Fed president, who used terms like 'resilient' and 'firm' to describe inflation. Thus, the dot plot, which shows FOMC members' expectations for Fed Funds at the end of each year, points to a reduction in the cutting cycle in 2025 from 4 to 2, given the slower pace of the disinflationary process. It is worth remembering that the members' forecasts and expectations still do not take into account the likely measures to be adopted by the Trump government, which have the potential to further pressure inflation. Considering this still solid labor market scenario and the slowdown of the disinflation process, we changed our scenario in 2025 to only a 25-basis-point cut in June. Thus, the Fed Funds will end 2025 at 4.25% and 2026 at 3.75%.

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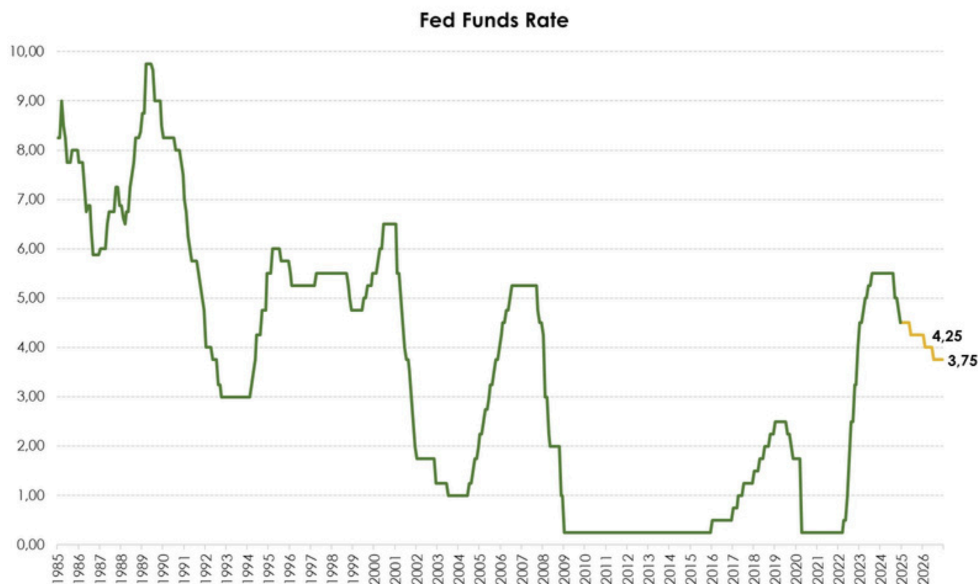
Chart 1 - FED Funds in United States



Source: Federal Reserve, Buysidebrazil.

In addition to all the surprises related to the resilience of American consumption and the indication of fewer prospective interest rate cuts, the elections were a widely debated topic during 2024. The election results showed a significant victory for Donald Trump. Besides the White House, the Republicans also secured control of the House and the Senate, paving the way for the consolidation of the president-elect's campaign promises. With a campaign focused on issues such as the mass deportation of illegal immigrants, import tariffs, and the extension of tax cuts, Donald Trump's speeches were dominated by these topics, and the implementation of all these proposals translates into a highly inflationary scenario, which was reflected in a type of trading strategy known as "Trump Trade," which consisted of opening Treasury rates and strengthening the dollar. However, it is worth noting that the party's margin in Congress is quite narrow, and it will not be easy to pass such "aggressive" measures. Therefore, we expect 2025 to bring a mix of threats and real implementations, moderating the trade-off between inflationary impact and American approval.

In China, after a year of challenges in the real estate sector and domestic demand, economic growth next year is expected to reach 4.3%, below the 5.0% expected for this year. On one hand, domestic demand remains a challenge, with the expectation of more concrete stimulus announcements for the sector. The real estate sector has shown a recovery in the last month, with sales increasing in major cities, and recently leading to a reduction in the pace of property deflation after the easing of rules for purchasing properties in these cities. The stabilization of property prices is crucial for increasing consumer confidence. On the other hand, geopolitical tensions and the trade war of the new Trump administration are expected to pose a significant challenge to the productive sector, which already has excess productive capacity, reducing commodity prices and constituting a vector of goods disinflation.

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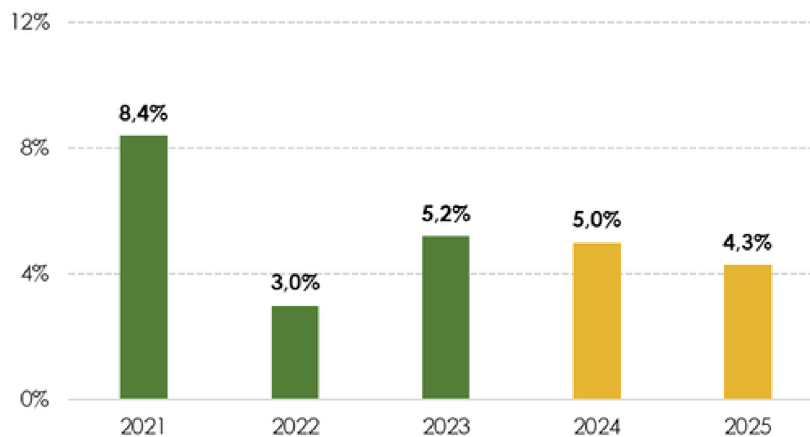
Chart 2 - Chinese GDP

China GDP - % (annual)



Source: NBS, Buysidebrazil.

In Brazil, economic activity remains solid, with more intense dynamism in 2024 than expected. Throughout the past year, growth estimates for the 2024 GDP pointed to numbers closer to 1.5% and 2.0%, while today forecasts aim at levels around 3.5%. In fact, the premise of the dissipation of the effects of the record harvest of 2023 proved true; however, the negative contribution of agriculture was more than compensated by the dynamism of other sectors. In current data, upside surprises from the supply perspective were particularly concentrated in the services sector, raising concerns about possible impacts on the future inflation trajectory. From the demand perspective, the highlight was the robust growth of domestic absorption, reflecting the good performance of investments, despite the worsening financial conditions, along with greater momentum in household consumption, reflecting better employment conditions and credit concessions.

Table 1 - GDP Components

	Components - % QoQ SA								
Period	**GDP**	**Agriculture**	**Industry**	**Services**	**GFCF**	**Hous. Cons.**	**Gov. Cons.**	**Exp**	**Imp**
set/23	0,20%	-4,45%	0,88%	0,43%	-2,58%	1,01%	0,79%	3,28%	1,23%
dez/23	0,15%	-6,92%	1,32%	0,45%	1,49%	0,07%	0,59%	-0,12%	0,56%
mar/24	1,05%	9,58%	0,09%	1,69%	4,53%	2,48%	0,07%	-0,20%	4,32%
jun/24	1,39%	-1,29%	1,62%	0,94%	2,17%	1,39%	-0,26%	1,49%	7,34%
set/24	**0,91%**	**-0,87%**	**0,62%**	**0,95%**	**2,07%**	**1,47%**	**0,78%**	**-0,62%**	**0,97%**

Source: IBGE, Buysidebrazil.

In terms of employment, the heating of the labor market was evident across various metrics. The unemployment rate recorded a historic low since the beginning of the continuous PNAD, reflecting an increase in the number of employed people, especially in formal employment. Formal job creation was also significant, recorded in a widespread manner across sectors. The better employment conditions were evidenced not only in the level of income, which reached levels close to those recorded during the pandemic, but also in the ease of relocation in the market, with an increase in turnover between activities and an increase in voluntary resignation requests.

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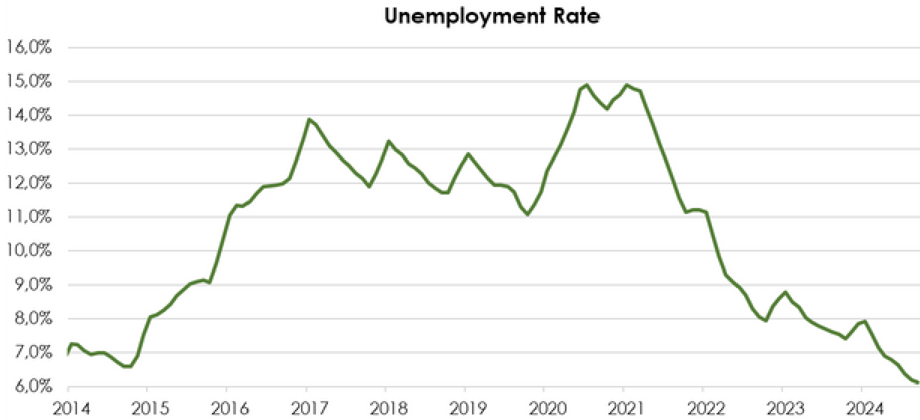
Chart 3 - Unemployment Rate

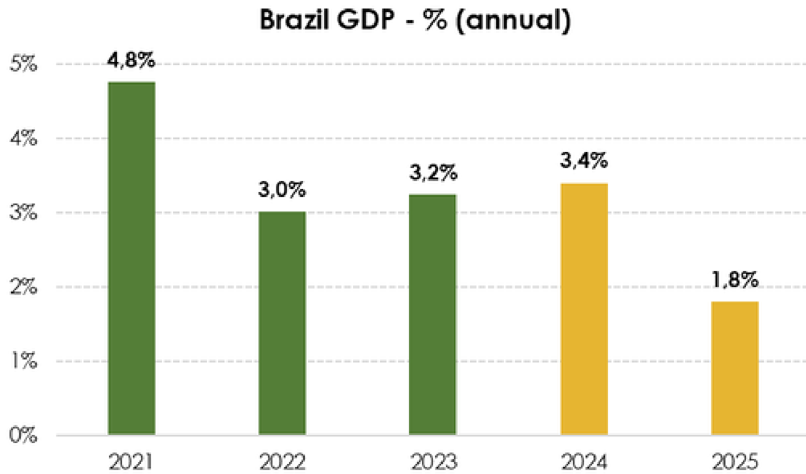


Source: IBGE, Buysidebrazil.

In the credit segment, expectations were also exceeded. Given the monetary easing stimulus initiated in mid-2023, forecasts pointed to greater dynamism in corporate credit growth. In practice, the granting of free credit was the main highlight, with an emphasis on household loans boosting consumption, especially of durable goods. In a strong stimulus scenario, the stability of default rates was a positive factor, although it is in question for the coming year given the level of household debt and income commitment and the prospective scenario of rising interest rates.

For 2025, we expect annual GDP growth to slow to 1.8%. Under the premise of a scenario with less fiscal stimulus, a higher average interest rate for the year should have effects, especially on investment and household consumption breakdown, reversing the constructive dynamic seen in 2024 due to higher credit costs. On the other hand, grain crop estimates for 2025 are more positive, with the potential to surpass the record crop of 2023 and raise growth forecasts for the year. In the labor market, the economic slowdown, combined with the difficulty in further increasing the number of employed people, should contribute to the rise in the unemployment rate, as well as dampen the average earnings of workers and their potential impacts on inflation.

Chart 4 - Brazilian GDP



Source: IBGE, Buysidebrazil.

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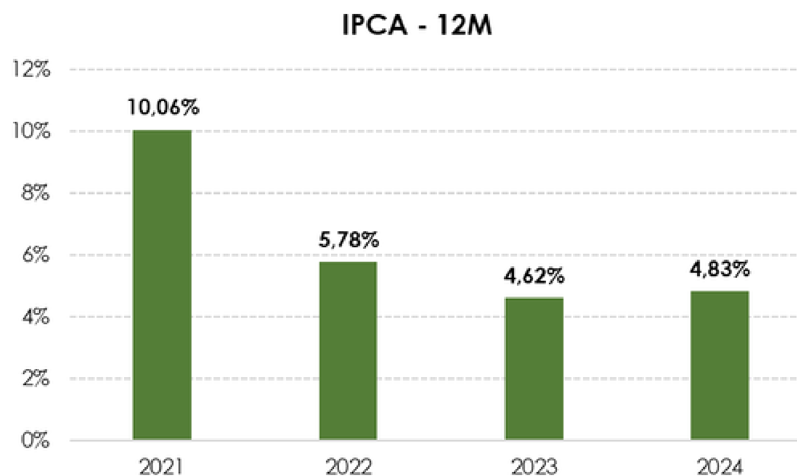
For inflation, 2024 ends the year with a year-on-year change above the target range. At the beginning of the year, expectations for the disinflation trajectory were more constructive, with continuous downward revisions in the Focus survey until mid-May. From then on, food inflation became the highlight and the main driver of upward revisions, whether due to the impacts of floods in Rio Grande do Sul or the effects of wildfires on cattle prices. In this second factor, the effects of drought along with the seasonality of the slaughter cycle drove up wholesale meat and derivative prices, as well as the pass-through to consumer prices. Thus, in a context of heated economic activity and a resilient labor market, service inflation also rose, with increases in metrics of labor-intensive services and core services, especially dining out. Not less important, the sharp currency depreciation recorded in the second half of the year additionally put pressure on consumer prices, mainly in industrial goods. Finally, regulated prices were mainly highlighted by electricity, with the activation of tariff flags due to droughts increasing the cost of electricity consumption.

Chart 5 - IPCA accumulated in 12 months



Source: IBGE, Buysidebrazil.

In this context – and considering the fiscal uncertainty scenario – inflation expectations remain unanchored. For 2025, Focus expectations are already pointing to numbers close to 5%, our scenario is 4.8%. We believe that the recent exchange rate depreciation, above R$ 6.00, will especially impact the industrial goods sector, and secondarily, some segments of services, such as dining out, car insurance, repairs, and airfares. In services, we believe that the group will remain under pressure, reflecting still significant labor market numbers – although less buoyant compared to 2024 – along with greater inertia and additional unanchoring of expectations. Thus, we believe that metrics more sensitive to the economic cycle, such as core services, will remain pressured, making it challenging for the Central Bank to meet the inflation target. Finally, for food inflation, we foresee a more constructive trajectory, especially for beef, with a slowdown expected over the next few months.

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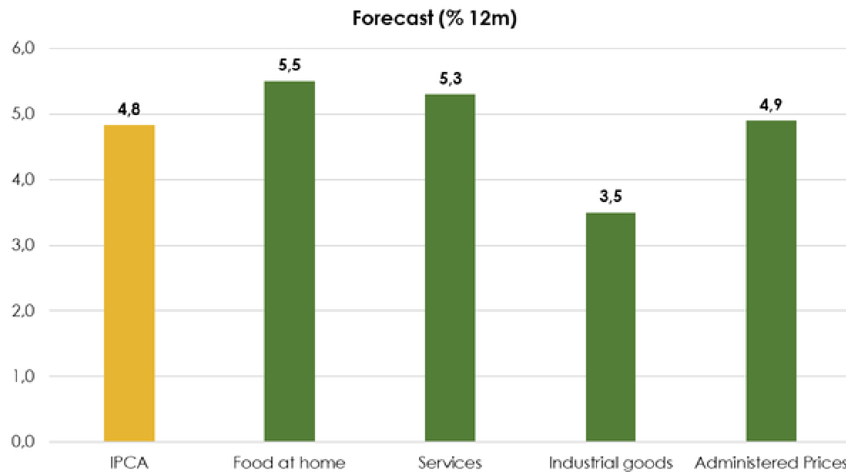
Chart 6 - IPCA Groups in 2025

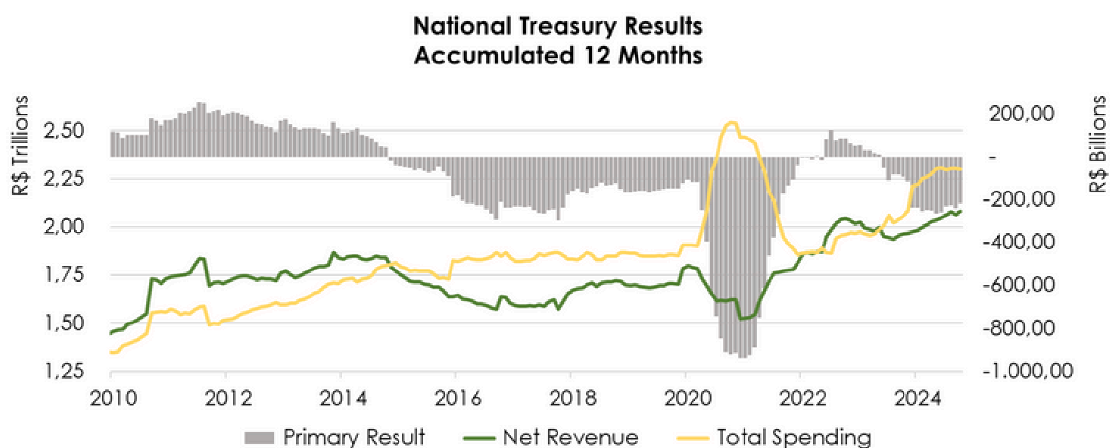


Source: IBGE, Buysidebrazil.

In the realm of fiscal policy, the year 2024 was marked by significant challenges. Despite a remarkable performance in revenue collection, with historic records in various sources of income, the primary result fell short of expectations due to the substantial increase in central government expenditures. The rise in spending, combined with the lack of effective commitment to necessary fiscal adjustments, brought instability to the market's perception of the health of public accounts.

Two episodes of flexibilization of fiscal framework rules deepened this distrust. First, the possibility of using the space between the target center and the lower band to accommodate additional expenses raised doubts about the credibility of fiscal commitment. Subsequently, the primary result targets for the coming years were altered, further reducing the predictability of medium-term fiscal policies. These movements fueled concerns about the government's ability to reverse the current debt cycle.

Chart 7 - Primary Result



Source: Nacional Treasury, Buysidebrazil.

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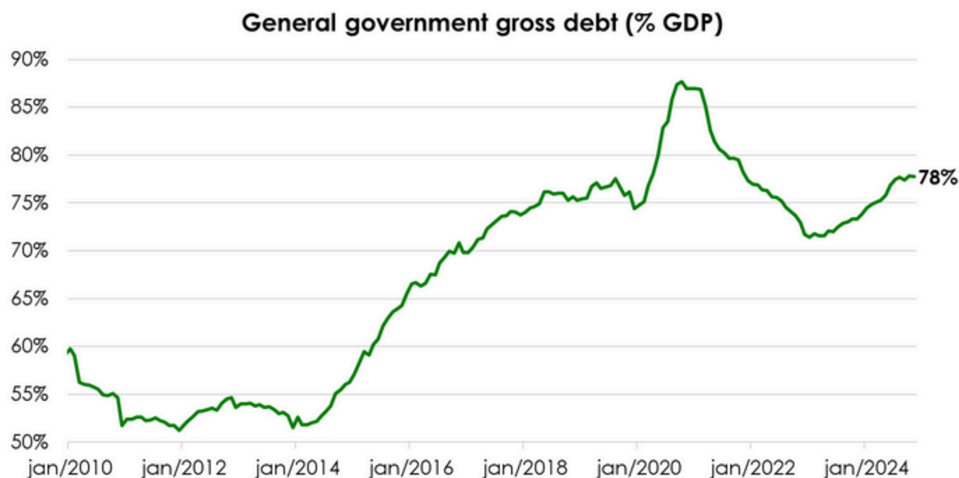
At the end of the year, the attempt to present an adjustment in primary expenditures proved insufficient, in addition to coming alongside the expansionist measure of income tax exemption for workers earning up to BRL 5,000. Promises of significant cuts were frustrated, and the exclusion of crucial items, such as the minimum wage, from the proposed limits reinforced the perception that the announced fiscal adjustments are palliative and short-term. This context left a legacy of skepticism regarding the government's ability to generate sufficient surpluses to stabilize public debt. Consequently, the risk of fiscal dominance, where monetary policy is unable to control inflation due to fiscal imbalance, has become a topic in market discussions.

Chart 8 - General government gross debt (%GDP)



Source: BCB, Buysidebrazil.

For 2025, the outlook is that the government will continue to seek to achieve its primary targets, even with new announcements of increased revenue collection and expenditure containment. However, the consistency of these measures will be crucial to avoid a further deterioration in confidence. Without structural reforms or broader and more sustainable cuts, the repetition of palliative solutions may prolong the uncertainty scenario and further undermine the credibility of fiscal rules. The next year will be crucial to demonstrate the government's willingness to face challenges decisively and ensure macroeconomic stability. The primary result for 2025 is expected to reach a BRL 65 billion deficit, representing 0.6% of GDP. For 2026, the expected deficit amounts to R$ 45 billion, equivalent to 0.3% of GDP. The gross debt of the Central Government for the years 2025 and 2026 follows the trajectory to 82.3% and 86.3% of GDP, respectively.

In external accounts, the scenario was marked by deterioration throughout 2024. In 2023, in addition to the record agricultural harvest, oil outflow supported record-level exports, which were mainly compromised by the fall in commodity prices in 2024. Alongside this, the strength of domestic activity was reflected in the level of imports, which already accumulates more than $20 billion difference compared to 2023. Thus, the trade balance of goods was the main driver for the increase in the country's current account deficit – from -1.0% of GDP last year to around -2.6% of GDP in 2024, according to our estimates.

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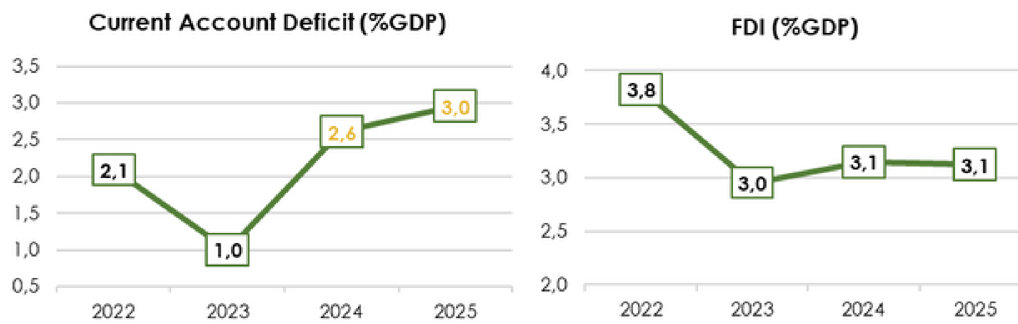
Chart 9 - Balance of Payments



Source: BCB, Buysidebrazil.

The foreign exchange flow also showed significant deterioration. Despite a more positive trade flow during the year due to greater internalization of resources by exporters, there was a deepening of deficits in services, incomes, and the capital account, impacting the financial flow. These accounts showed a relevant increase in expenses with betting, streaming, and cryptocurrencies – accentuating the trend of previous years. In turn, uncertainties regarding Brazil's fiscal sustainability were predominant for foreign investors – direct investment decreased excluding reinvested profits, while the portfolio advanced below expectations, despite the growing differential with U.S. interest rates.

All this culminated in a sharp currency depreciation, which was exacerbated at the end of the year. In the first half, there was a round of real devaluation, in line with the strengthening dollar – when agents began to envision more resilient activity in the U.S. From mid-year onwards, the domestic environment became predominant for risk premiums, due to negative signals both in the public accounts sphere and fears regarding the Central Bank's actions. Finally, the perception of fiscal instability, after the announcement of fiscal adjustment accompanied by income reform, led the Brazilian currency to record levels, above BRL 6.00, causing the Central Bank to intervene consecutively in the foreign exchange market in a seasonally lower financial flow period. Thus, the contracted foreign exchange flow for 2024 ended the year with a negative balance of USD 18 billion, mainly influenced by the record outflow in the financial segment in December, which accumulated a negative balance of USD 29 billion – well below the suggested standard for the month. Therefore, incorporating a higher uncertainty environment, we foresee that for the current year, the foreign exchange flow will remain negative.

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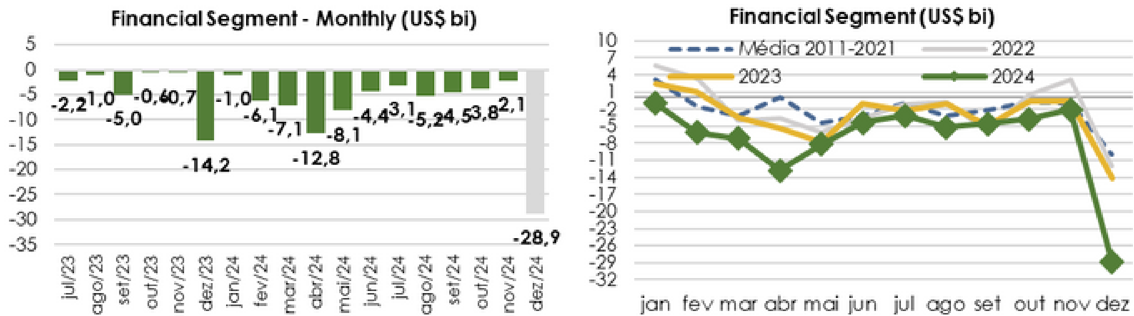
Chart 10 - Foreign exchange transactions



Source: BCB, Buysidebrazil.

In terms of exchange rates, we believe the current level of BRL 6.10 will be kept throughout 2025. Regarding external sector indicators, we expect a larger current account deficit, driven by a more negative contribution from services along with a more moderate trade balance, reflecting still significant levels of imports, although the outlook for exports is more constructive given the prospect of a good harvest. For the exchange rate, we believe the main influencing factor on the currency level throughout the year will be domestic risk premiums, which we believe will not substantially change. Thus, we understand that the current exchange rate level will remain stable without significant appreciations in the coming months.

In monetary policy, we have faced another challenging period. The initial expectation in the Focus survey for the terminal interest rate in 2024 was 9.0% p.a., much lower than the actual level observed at 12.25% p.a. Several points previously presented here justify the need for a more contractionary monetary policy: i) economic activity more heated than expected, partly reflecting greater fiscal stimulus and partly reflecting a more dynamic labor market, ii) exchange rate depreciation due to global and domestic factors, iii) a less responsible fiscal outlook, even with expectations of better dynamics for the General Government Gross Debt (% of GDP) – at the beginning of the year, the Prisma survey pointed to a DBGG (% of GDP) for 2026 of 81.0%, and the November projections increased to 84.7%, iv) unanchored inflation expectations starting the year at 3.5% for 2025 and 2026 and already at 5.0% and 4.0%, respectively, and finally, the need to respond to secondary effects of supply shocks, as was the case with food prices at home, especially meat.

Other points are idiosyncratic to the conduct of monetary policy. The year 2024 was the first test of the transition to an independent Central Bank, and throughout the year, the apprehension of economic agents regarding the profile of the new Monetary Policy Committee (Copom) in 2025 increased. The composition in 2024 received four directors appointed by the current government, Ailton de Aquino, Gabriel Galípolo, Paulo Picchetti, and Rodrigo Teixeira, but with a majority of five members (including the president Roberto Campos Neto) appointed by previous governments, Carolina Barros, Otavio Damaso, Renato Gomes, and Diogo Guillen.

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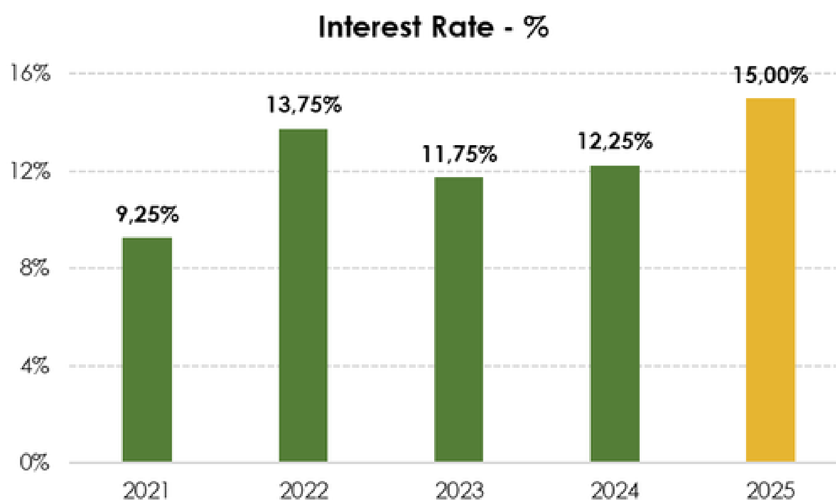
In this context, a dissenting vote raised questions about the credibility of the Central Bank. In the May meeting, we had a committee split with a score of 5x4, with five votes for -25bps (from the old directors) and four votes for -50bps (from the new directors), being the catalyst for apprehension about the new directors' commitment to anchoring expectations at the 3% inflation target. In the August meeting, the Copom unanimously changed its concern, reinforcing the message that it will not hesitate to raise interest rates to ensure inflation convergence to the target. More precisely, on August 8, the committee became unanimously hawkish with Gabriel Galípolo, then Director of Monetary Policy, as the spokesperson, who would be nominated to preside over the BCB in 2025 on August 28. In September, the Copom returned to raising interest rates, significantly correcting its reaction function and product gap projections that had been successively underestimated.

For 2025, the year begins with the promise of two interest rate hikes of 100bps in January and March. Economic activity remains heated, while inflation expectations continue to become unanchored. The scenario entails a positive output gap, which increases the risk of faster and/or more intense exchange rate pass-through to inflation. Thus, we expect the final interest rate of the contractionary cycle to be 15%, higher than the 13.75% at the end of the 2022 cycle. Throughout the year, we expect little room for the BCB to be anything but hawkish, as the core service inflation is only expected to converge to the target in the last quarter of the year, reflecting still heated economic activity in the first half driven by the labor market and fiscal stimulus.

Chart 11 - Brazilian Interest Rate



Source: BCB, Buysidebrazil.

Given the more deteriorated outlook for inflation evolution in the relevant horizon, we expect the interest rate to keep its level until the end of the year. In terms of composition, Copom members will be mostly appointed by the current government, with the replacement of Carolina Barros, Otavio Damaso, and Gabriel Galípolo by Izabela Correa, Gilneu Astolfi Vivan, and Nilton David, respectively. Thus, we expect firm commitment from the new board in its primary mandate of inflation stability.

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Macroeconomic projections	2019	2020	2021	2022	2023	2024	2025
GDP (%)	1,2	-3,3	4,8	3,0	2,9	**3,4**	**1,8**
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	**6,8**	**7,1**
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	**4,8**
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	**15,00**
Exchange Rate (end of period, R$/US$)	4,03	5,20	5,58	5,22	4,86	6,1	**6,10**
Current Account Transactions (US$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	**-58,6**	**-68,2**
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	**-2,6**	**-3,0**
Trade Balance - BCB (US$ billion)	26,5	32,4	36,4	44,2	80,5	**65,4**	**52,6**
Foreign Direct Investment (US$ billion)	69,2	37,8	46,4	87,2	62,0	**70,8**	**72,0**
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	**3,1**	**3,1**
Primary Result of the Central Government (R$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	**-45,2**	**-65,3**
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	**-0,4**	**-0,6**
Primary Result of the Public Sector (R$ billion)	-61,9	-703,0	64,7	126,0	-249,1	**-58,8**	**-55,6**
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	**-0,5**	**-0,5**
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	**77,8**	**82,3**

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