

## Government outperforms expectations on budget freeze, but IOF hike on credit and FX transactions overshadows the positive news

### Highlights

**In its first fiscal report of the year, the government's revenue and expenditure assessment surprised on the upside.**

The federal government announced a total budget freeze of BRL 31.3 billion for 2025, significantly exceeding market expectations, which had anticipated a figure around BRL 10 billion. Of the total, BRL 10.6 billion corresponds to a mandatory freeze due to the breaching of the 2.5% real spending growth cap, while BRL 20.7 billion refers to a precautionary freeze aimed at ensuring compliance with the fiscal target — both impacting discretionary expenditures. This decision was driven by a downward revision in revenue projections (a shortfall of BRL 30 billion), largely due to lower-than-expected tax collections managed by the Federal Revenue Service, as well as increased expenditures, especially in social security and extraordinary credits related to pending payments from the previous year.

Additionally, **the government announced an increase in the IOF (Tax on Financial Operations) rate on credit, foreign exchange, and international spending**, particularly affecting businesses and cross-border transactions. In an attempt to standardize the tax structure, the Ministry of Finance raised the IOF rate on transfers related to foreign fund investments — previously exempt — to 3.5%, generating a significant market reaction. The negative response stemmed from the higher costs imposed on investors seeking to diversify their portfolios abroad, creating frictions in foreign exchange operations and running counter to the long-term goal of greater currency convertibility. In response, the government — via social media and Finance Minister Fernando Haddad — revoked the specific clause, effectively restoring a zero rate on those transactions. According to the minister, while the other provisions remain intact, the revision implies a revenue shortfall of approximately BRL 2 billion in 2025 and BRL 4 billion in 2026. As a result, a new announcement on further budget freezes may occur next week to offset these losses.

**In monetary policy, Central Bank signals prolonged rate hold despite easing external conditions.**

At a macroeconomic seminar, Central Bank director Nilton David reinforced the institution's commitment to maintaining current interest rates. He emphasized that the message conveyed in the latest COPOM minutes remains valid in “direction, meaning, and magnitude.” Although some trade agreements between China and the United States were reached prior to the release of the minutes, David noted that uncertainty still looms over global markets due to a lack of clarity regarding former President Trump's future actions. Against this backdrop of elevated uncertainty and unanchored inflation expectations, David reiterated the Central Bank's commitment to its inflation target. He underlined the importance of maintaining a restrictive stance for a prolonged period, despite the higher costs and lagged effects of monetary policy.

Regarding economic activity, David acknowledged the typical noise during inflection points in growth, highlighting the heterogeneous sensitivity and delayed responses across sectors to interest rate changes. His remarks followed the release of March data from the IBC-Br and FGV's GDP Monitor — monthly proxies for the official GDP figures. On a quarterly basis, the IBC-Br showed growth of 1.3% QoQ, while the FGV Monitor pointed to a 1.6% QoQ expansion. While agriculture contributed significantly to Q1 results, metrics excluding the sector also indicated growth of 1.0% and 0.4% QoQ, respectively. Based on the consolidated data, we project GDP growth of 1.4% QoQ in Q1, driven by strong performance in agriculture and services from the supply side, and robust domestic absorption from the demand side. For the full year, our growth expectation remains at 1.9%.

### **In the United States, the House approves Trump's fiscal package and president threatens new tariffs on the EU.**

The U.S. House of Representatives passed President Donald Trump's flagship fiscal proposal — dubbed the “Big, Beautiful Bill” — last Thursday (May 22). The bill includes extensions of key tax cuts from Trump's first term, as well as new exemptions. Although this marks the most significant legislative win for the Trump administration this year, the fragile Republican majority was also notable, with the bill passing by just one vote and two GOP defections. Unlike its earlier versions, the approved bill lacks offsetting measures for the projected revenue losses. The package is expected to increase the fiscal deficit by roughly USD 4.1 trillion over the next decade, raising market concerns over U.S. public debt sustainability. On the trade front, President Trump threatened to impose fixed tariffs of 50% on the European Union in response to what he called the bloc's slow pace in negotiations. According to Treasury Secretary Scott Bessent, Trump considered the EU's proposals substandard, particularly when compared to ongoing talks with other countries. Following the agreement with China and a reduction in market volatility, this marks the administration's first mention of a potential new tariff regime. So far, the European Union has not issued an official response.

## Economic Calendar

In Brazil, the focus of the week will be the release of **Q1 2025 GDP**, for which we project a 1.4% QoQ increase, and the **May IPCA-15**, which we estimate to rise 0.46% MoM. Additionally, **labor market data** and the **Central Bank's economic and financial statistics** for April will also be released.

On the international front, key highlights include the release of the **FOMC minutes** and **April PCE data in the United States**. In China, attention will turn to the May PMIs.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
<b>05/26/25</b>	<b>Monday</b>					
8:00 AM	Brazil	Consumer Confidence	May	-	-	84.8
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-	-
<b>8:30 AM</b>	<b>Brazil</b>	<b>External Sector Statistics</b>	<b>Apr</b>			
		Current Account		-	\$-1.6b	\$-2.2b
		FDI		-	\$7.8b	\$6.0b
3:00 PM	Brazil	Weekly Trade Balance	-	-	-	-
<b>05/27/25</b>	<b>Tuesday</b>					
5:00 AM	Brazil	IPC-Fipe	May (3P)	-	-	0.39%
6:00 AM	Eurozone	Economic Confidence	May	94.0	-	93.6
8:00 AM	Brazil	Construction Survey	May	-	-	93.6
<b>9:00 AM</b>	<b>Brazil</b>	<b>IPCA-15 (MoM)</b>	<b>May</b>	<b>0.45%</b>	<b>0.46%</b>	<b>0.43%</b>
9:30 AM	USA	Durable Goods Orders (MoM)	Apr (P)	-8.0%	-	9.2%
10:00 AM	USA	FHFA House Price Index (MoM)		0.1%	-	0.1%
11:00 AM	USA	Consumer Confidence	May	87.0	-	86.0
11:30 AM	USA	Dallas Fed Manufacturing Activity	May	-	-	-35.8
<b>05/28/25</b>	<b>Wednesday</b>					
4:55 AM	Germany	Unemployment Rate	May	6.3%	-	6.3%
8:00 AM	Brazil	Manufacturing Survey	May	-	-	98.0
11:00 AM	USA	Richmond Fed Manufacturing Activity	May	-	-	-13.0
11:30 AM	USA	Dallas Fed Services Activity	May	-	-	-19.4
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-	-
<b>3:00 PM</b>	<b>USA</b>	<b>FOMC Minutes</b>	-	-	-	-
-	Brazil	Monthly Report on Federal Public Debt	Apr	-	-	R\$7.5b
-	Brazil	Caged (Formal Employment)	Apr	155k	170k	72k
<b>05/29/25</b>	<b>Thursday</b>					
8:00 AM	Brazil	IGP-M (MoM)	May	-0.25%	-	0.24%
8:00 AM	Brazil	Retail Survey	May	-	-	87.5
8:00 AM	Brazil	Services Survey	May	-	-	90.4
<b>8:30 AM</b>	<b>Brazil</b>	<b>Credit Statistics</b>	<b>Apr</b>			
		Total Outstanding Loans		-	-	R\$6484b
		Personal Loan Default Rate		-	-	5.6%
<b>9:00 AM</b>	<b>Brazil</b>	<b>PNAD Continua (Unemployment Rate)</b>	<b>Apr</b>	<b>6.9%</b>	<b>6.8%</b>	<b>7.0%</b>
9:30 AM	USA	GDP (QoQ annualized)	1Q (S)	-0.3%	-	-0.3%
9:30 AM	USA	Personal Consumption (QoQ annualized)	1Q (S)	1.6%	-	1.8%
9:30 AM	USA	PCE Deflator - Core (QoQ annualized)	1Q (S)	3.5%	-	3.5%
9:30 AM	USA	Initial Jobless Claims	-	230k	-	227k
11:00 AM	USA	Pending Home Sales (MoM)	Apr	-1.0%	-	6.1%
11:40 AM	USA	A. Goolsbee' Speech (Fed Chicago)	-	-	-	-
-	Brazil	Central Government Primary Result	Apr	-	R\$16.2b	R\$1.1b
<b>05/30/25</b>	<b>Friday</b>					
<b>8:30 AM</b>	<b>Brazil</b>	<b>Fiscal Statistics (Primary Result)</b>	<b>Apr</b>	-	<b>R\$14.6b</b>	<b>R\$3.6b</b>
<b>9:00 AM</b>	<b>Brazil</b>	<b>GDP</b>	<b>1Q25</b>			
		QoQ		1.5%	1.4%	0.2%
		YoY		3.1%	2.9%	3.6%
<b>9:30 AM</b>	<b>USA</b>	<b>PCE Deflator (MoM)</b>	<b>Apr</b>			
		Total		0.1%	-	0.0%
		Core		0.1%	-	0.0%
<b>9:30 AM</b>	<b>USA</b>	<b>Personal Income (MoM)</b>	<b>Apr</b>	<b>0.3%</b>	-	<b>0.5%</b>
<b>9:30 AM</b>	<b>USA</b>	<b>Personal Spending (MoM)</b>	<b>Apr</b>	<b>0.2%</b>	-	<b>0.7%</b>
9:30 AM	USA	Wholesale Inventories (MoM)	Apr (P)	0.4%	-	0.4%
11:00 AM	USA	University of Michigan Sentiment	May (F)	51.0	-	50.8
		Expectations - 1Y Inflation		-	-	7.3%
		Expectations - 5-10Y Inflation		-	-	4.6%
<b>10:30 PM</b>	<b>China</b>	<b>PMI (NBS)</b>	<b>May</b>			
		Manufacturing		49.5	-	49.0
		Services		50.6	-	50.4
		Composite		-	-	50.2
-	Brazil	Definition of the Electricity Tariff Flag - Aneel	Jun	-	Yellow	Yellow
-	Brazil	Fiscal Target Compliance Assessment Report	-	-	-	-

#### Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025	2026
GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	<b>1,9</b>	<b>1,6</b>
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	<b>7,1</b>	<b>7,5</b>
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	<b>5,4</b>	<b>4,6</b>
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	<b>14,75</b>	<b>12,75</b>
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,84	6,19	<b>5,85</b>	<b>5,95</b>
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-56,0	<b>-65,1</b>	<b>-69,4</b>
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	<b>-2,9</b>	<b>-3,0</b>
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	<b>60,2</b>	<b>57,9</b>
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	<b>72,0</b>	<b>75,0</b>
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	<b>3,2</b>	<b>3,2</b>
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-43,0	<b>-61,0</b>	<b>-51,0</b>
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	<b>-0,5</b>	<b>-0,4</b>
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	<b>-52,3</b>	<b>-50,0</b>
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,4	<b>-0,4</b>	<b>-0,4</b>
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	<b>80,0</b>	<b>84,4</b>

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