

BRAZIL MACRO OUTLOOK FOR 2025: OPPORTUNITIES AND RISKS

Prepared for the Brazilian Chamber of Commerce in Great Britain

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Agenda



Global outlook

Global growth, inflation and interest rates



Brazil: growth outlook

Demand drivers for 2025



Brazil: inflation, rates & FX

Outlook for prices, interest rates and FX



Risks & scenarios

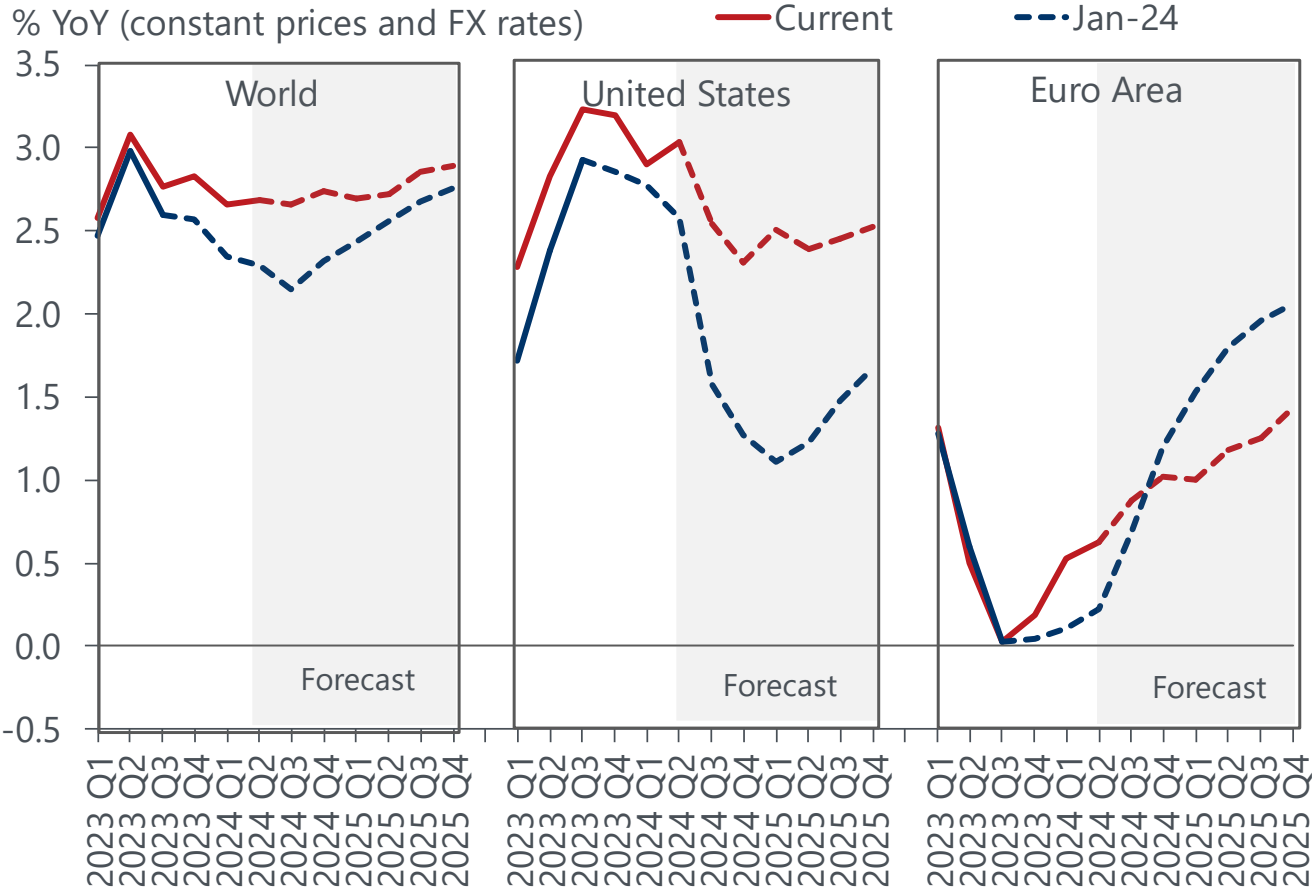
Key upside & downside risks for 2025

A satellite view of Earth showing the Americas and the Pacific Ocean. The image is a high-resolution satellite photograph of the Earth, showing the Americas (North and South America) and the Pacific Ocean. The landmasses are green and brown, while the oceans are dark blue. White clouds are scattered across the scene. A dark blue rectangular box is overlaid on the left side of the image, containing the text "Global outlook" in white. A thin white horizontal line is positioned below the text within the box. The number "3" is located in the bottom right corner of the image.

Global outlook

Global economy headed to a soft landing

World: GDP growth forecasts today vs. in January 2024



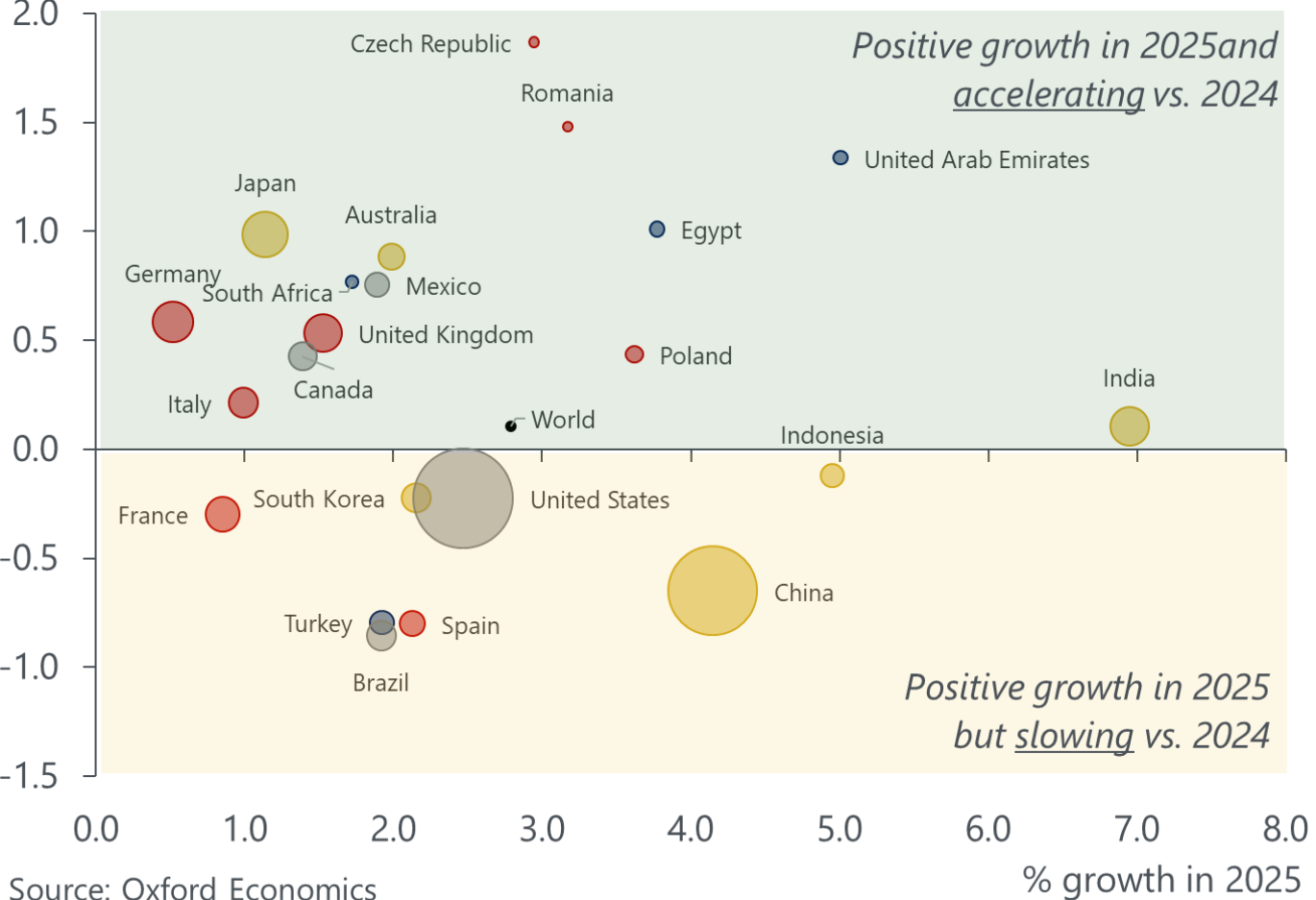
Source: Oxford Economics

Key highlights

- Global economic growth surprised to the upside so far this year.
 - Resilient US consumer
 - Early signs of recovery in Europe.
- Going forward we expect the US market to slow down but less so than we expected.
- We're less convinced about the recovery in Europe, where the recovery in consumers' purchasing power has not been fully restored.

Growth will accelerate in most markets

World: GDP growth in 2025 ppt difference from 2024 (bubble sizes denote the level of GDP in US\$ in 2024)



Source: Oxford Economics

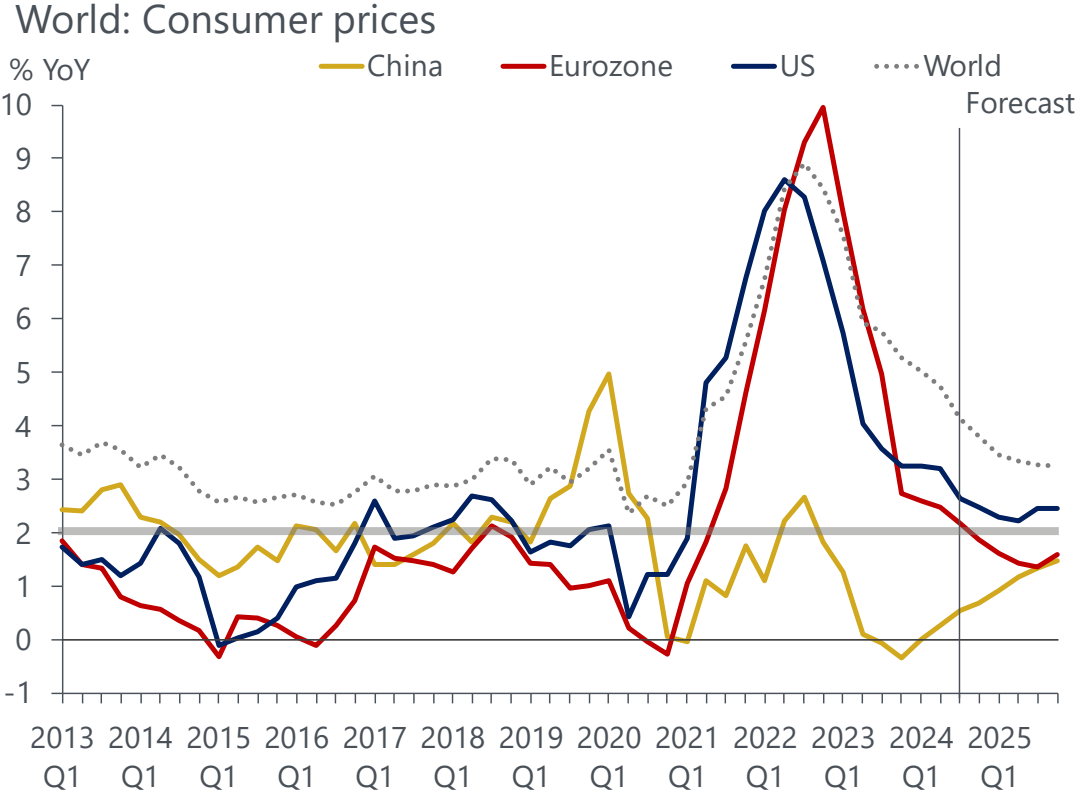
Key highlights

- Japan, Australia, Canada and much of Europe will see accelerating growth in 2025, creating improved opportunities across the developed markets portfolio.
- A number of emerging markets will also see growth accelerate – from India and South Africa to Poland, offering opportunities to capture upside despite slowdowns in the US and China.
- The mixed growth picture may require a more balanced portfolio approach to identifying growth opportunities for 2025.

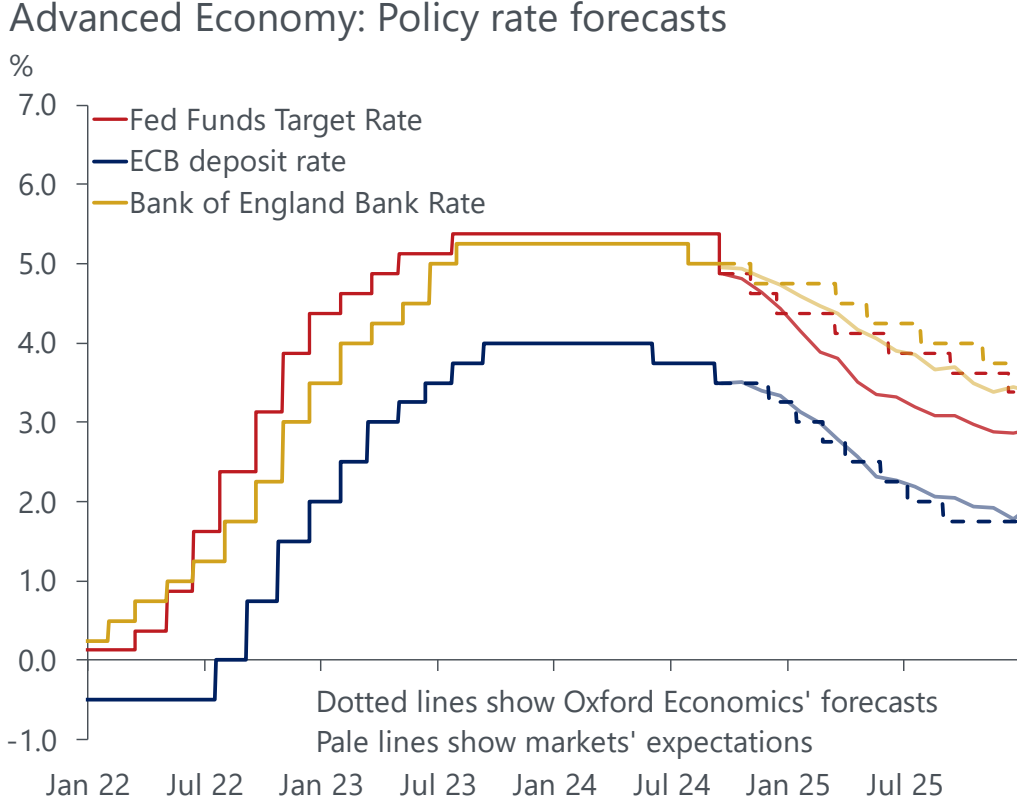
On target inflation opens the door for rate cuts in DMs

Inflation is back to target, opening the door for rate cuts in advanced economies and in China.

Fed, ECB, BoE expected to cut throughout 2025, but we don't expect rates to return to zero unless there's a recession



Source: Oxford Economics/Haver Analytics



Source : Oxford Economics/Haver Analytics/Refinitiv

Brazil: growth outlook

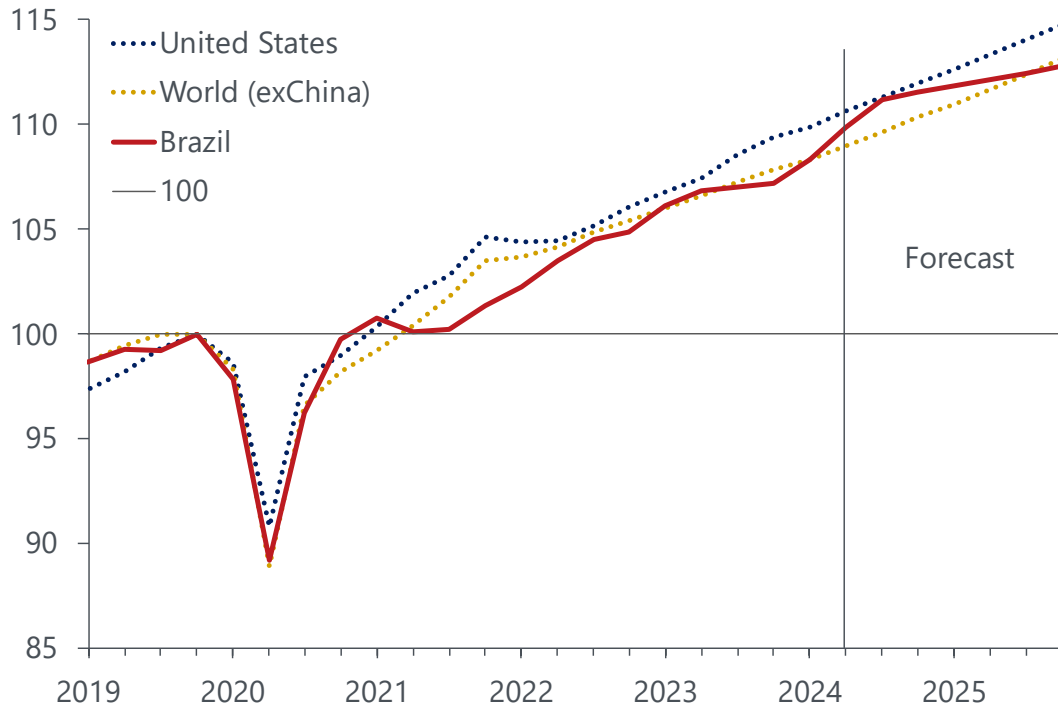


Brazil has outperformed global economy since the pandemic

Brazil's recovery since the pandemic was faster than in most countries and nearly matches that of the US.

Brazil: Post-pandemic GDP recovery

Index (2019 Q4 = 100)

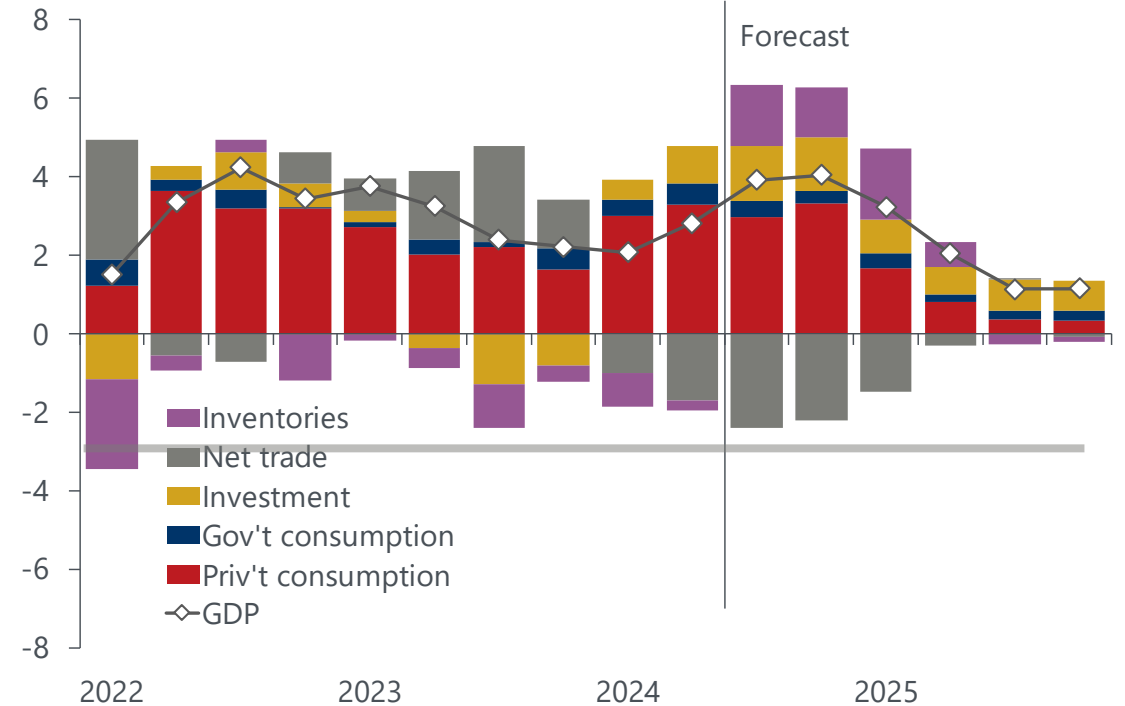


Source: Oxford Economics

Growth was driven by domestic demand, supported by lax fiscal policy and a buoyant labour market.

Brazil: Expenditure-side GDP growth decomposition

ppt contributions to y/y growth



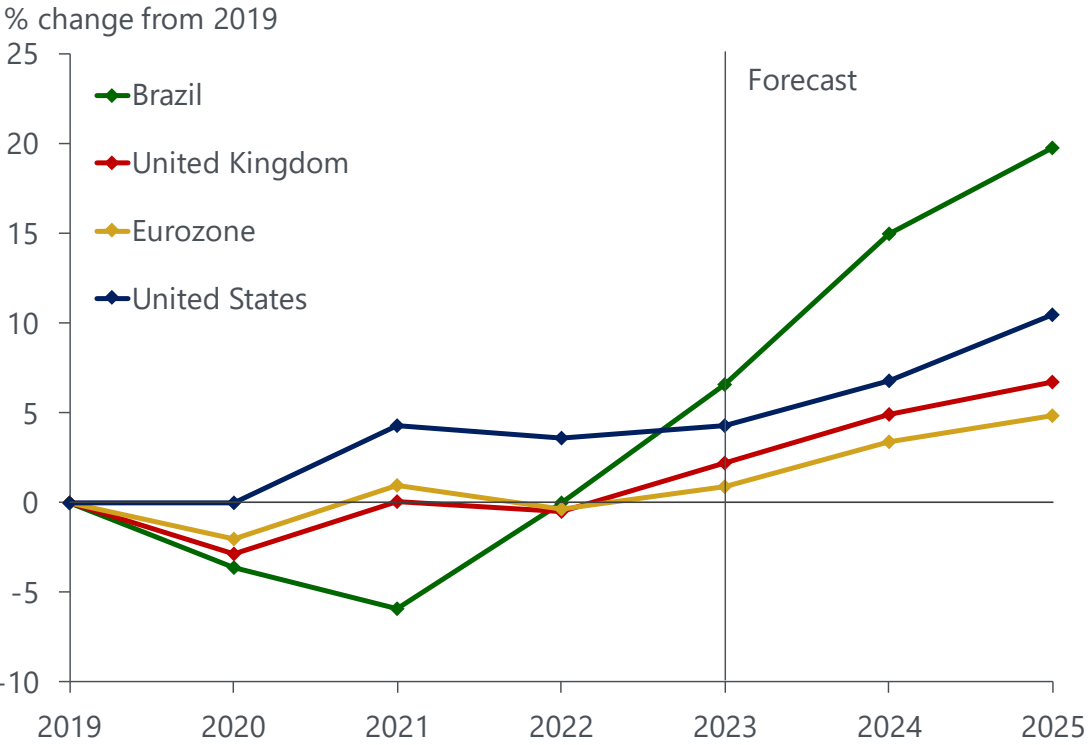
Source: Oxford Economics

Supported by a buoyant labour market

The "secret sauce" of Brazil's growth outperformance is the labour market, with strong jobs and wage growth.

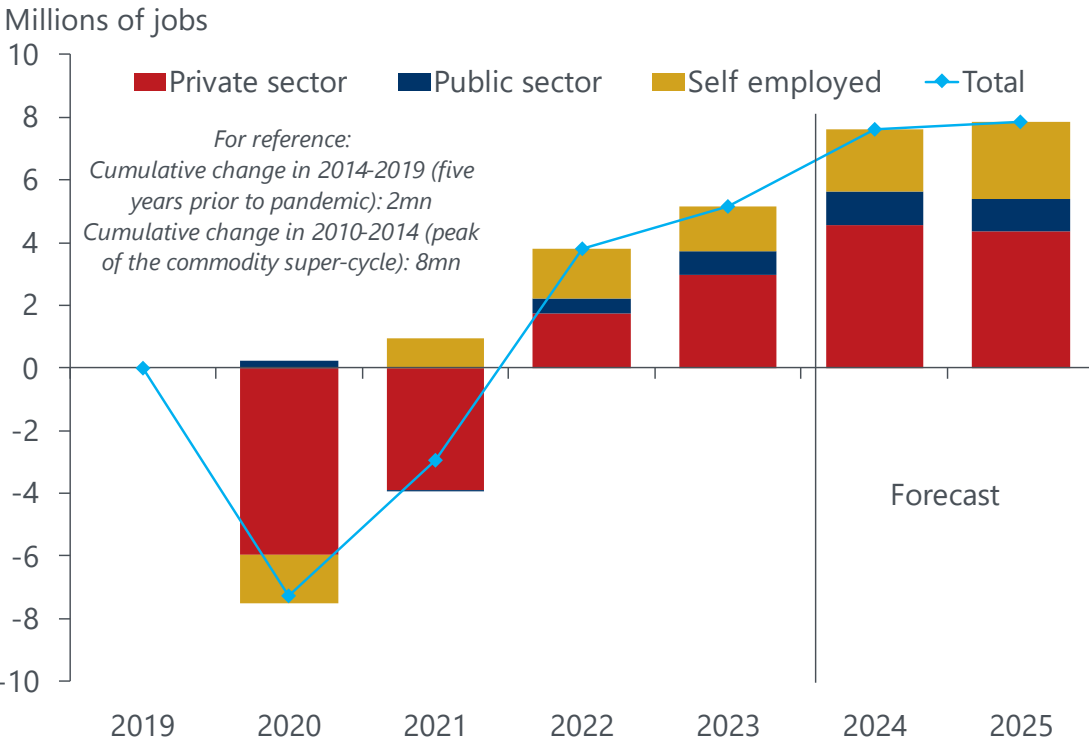
Brazil added 8mn jobs since 2019, matching buoyant labour market in 2010-2014.

Changes in inflation-adjusted labour income since pandemic



Source: Oxford Economics

Brazil: Cumulative change in employment since pandemic



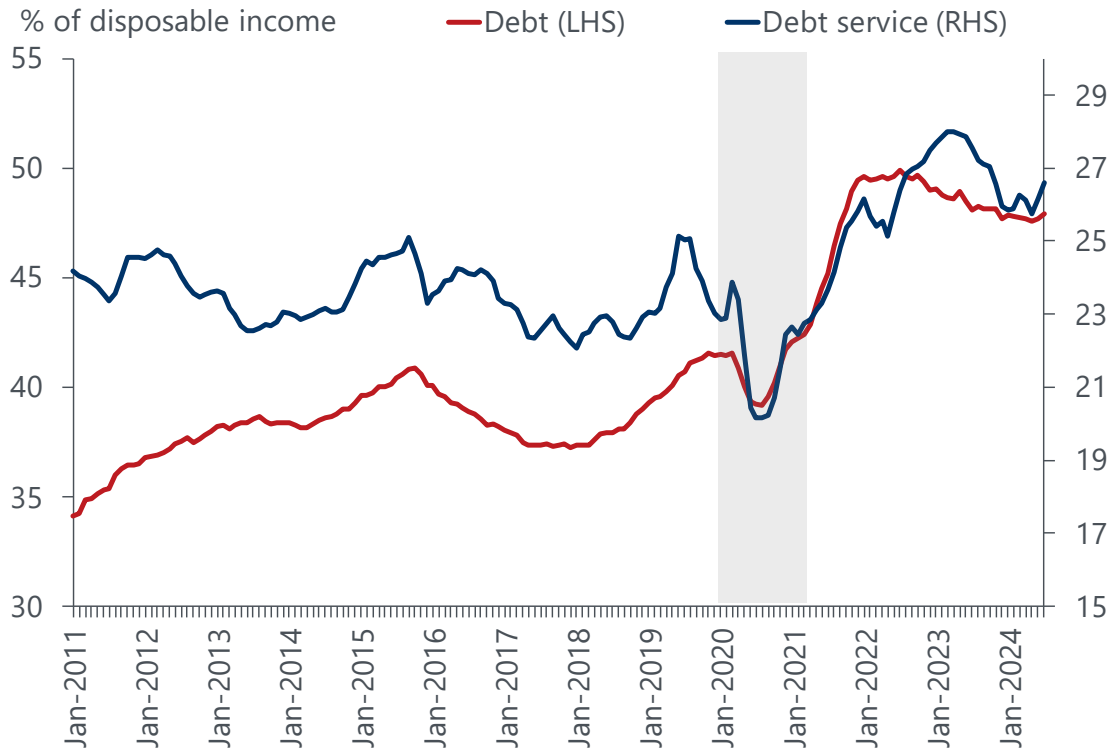
Source: Oxford Economics

Brazilians are compromising future consumption by spending today

Households have taken on more debt to fund higher consumption, but service costs are at all-time high.

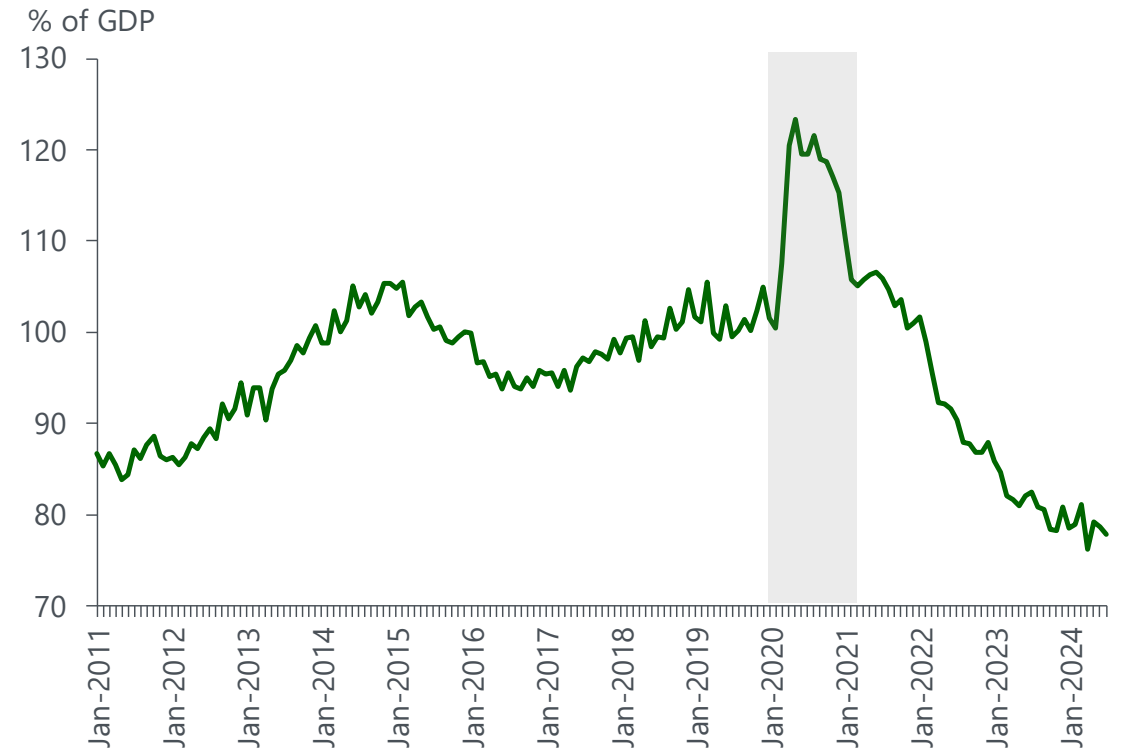
Sharp decline in household savings suggest limited room for continued consumer-based growth model.

Brazil: Household debt



Source: Oxford Economics/Haver Analytics

Brazil: Stock of money parked in savings accounts



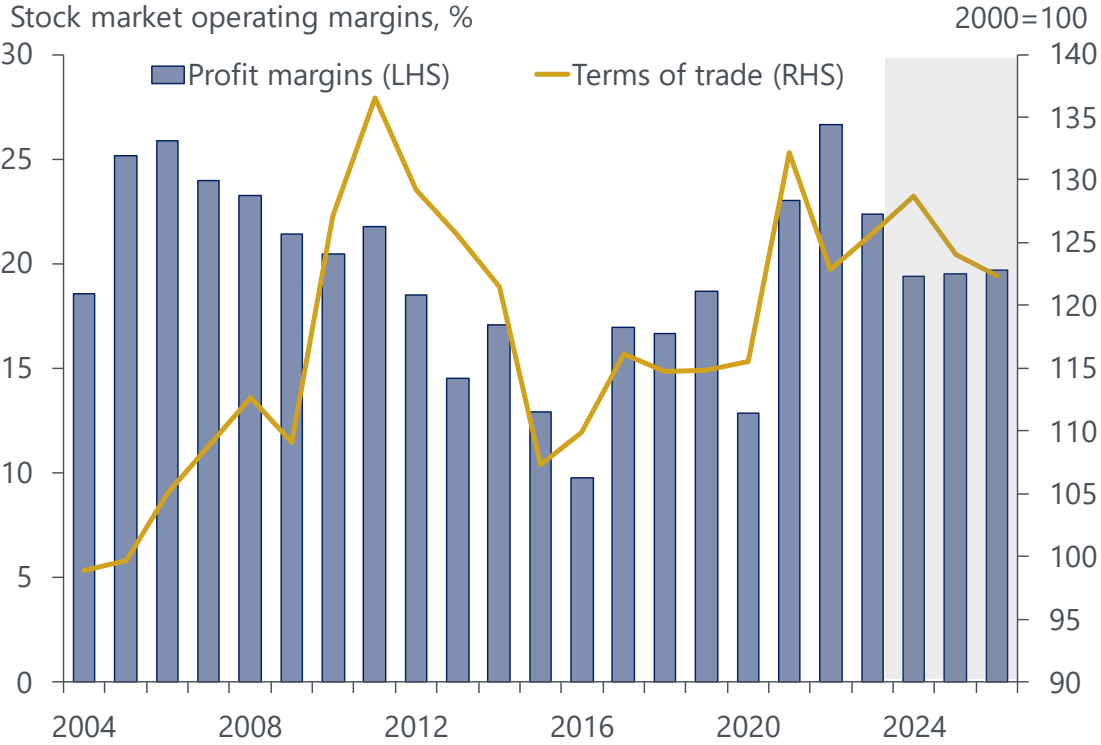
Source: Oxford Economics/Haver Analytics

Strong profitability opens opportunities across a variety of sectors

Operating margins have improved alongside terms of trade, boding well for corporate investment.

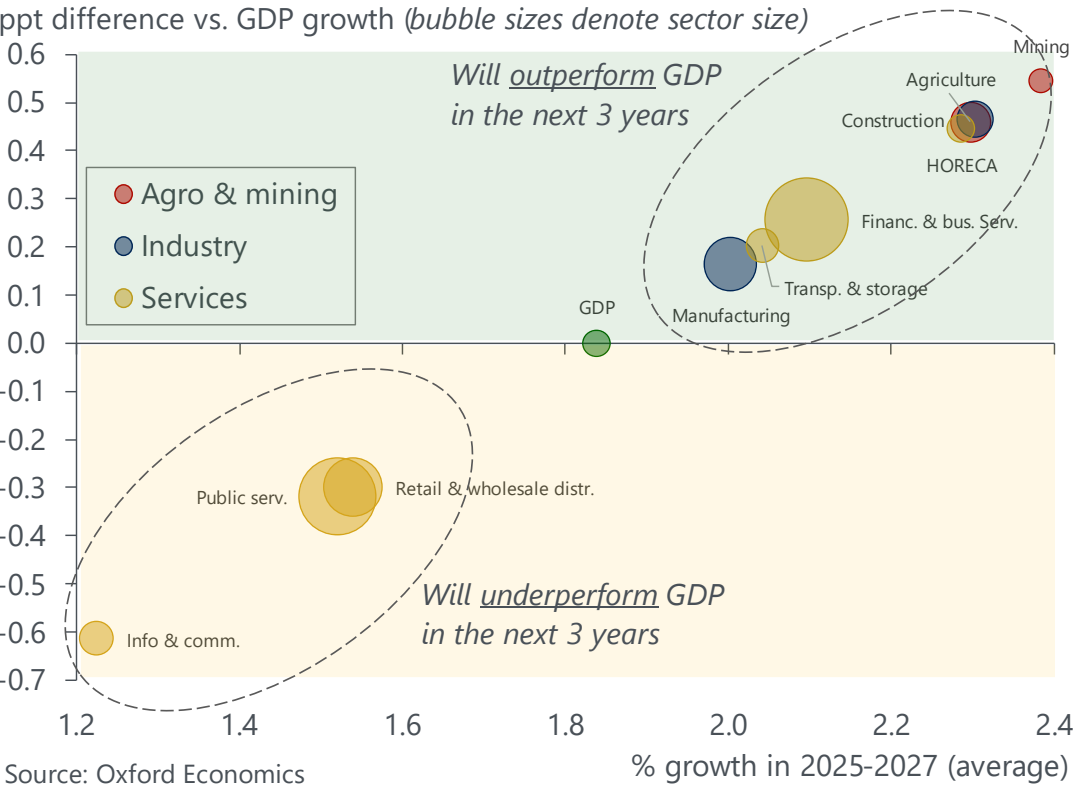
Mining, agro and construction to be the best performing sectors; services to struggle with consumption slowdown

Brazil: Corporate profitability and terms of trade



Source: Oxford Economics/Haver Analytics

Brazil: Growth map for 2025-2027



Source: Oxford Economics

Brazil: inflation, interest rates & FX

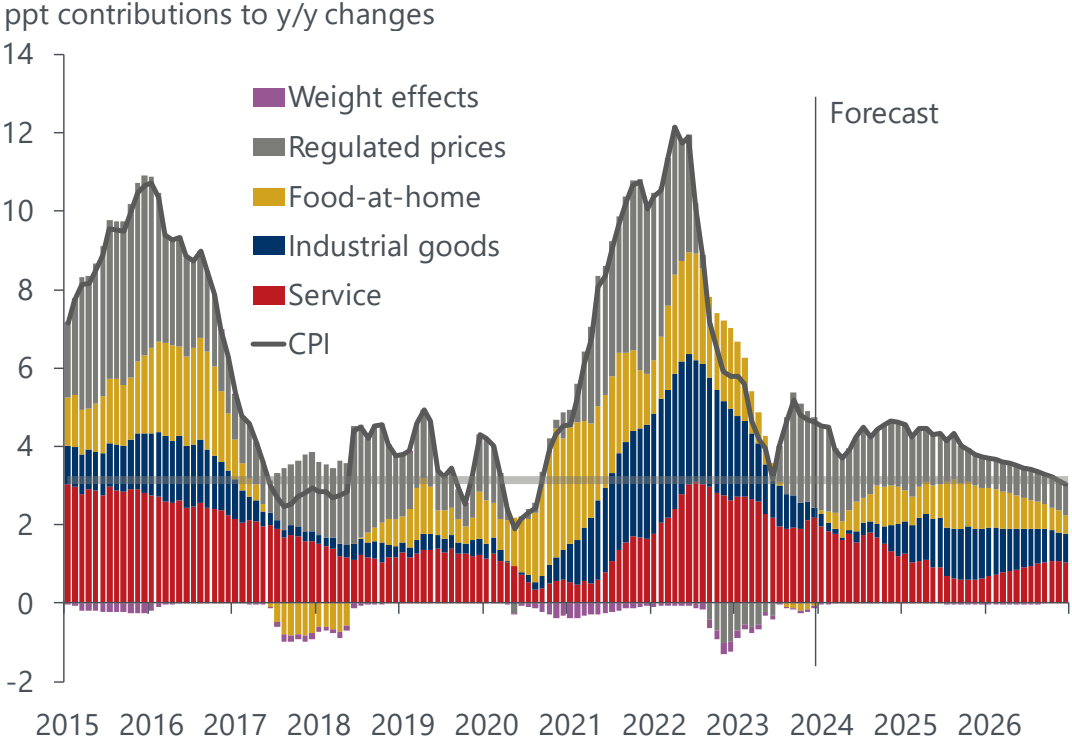


Stubborn inflation & fiscal risks led to another rate hike cycle

Recent rise in inflation coupled with de-anchoring of expectations amid fiscal risk led the BCB hike rates again.

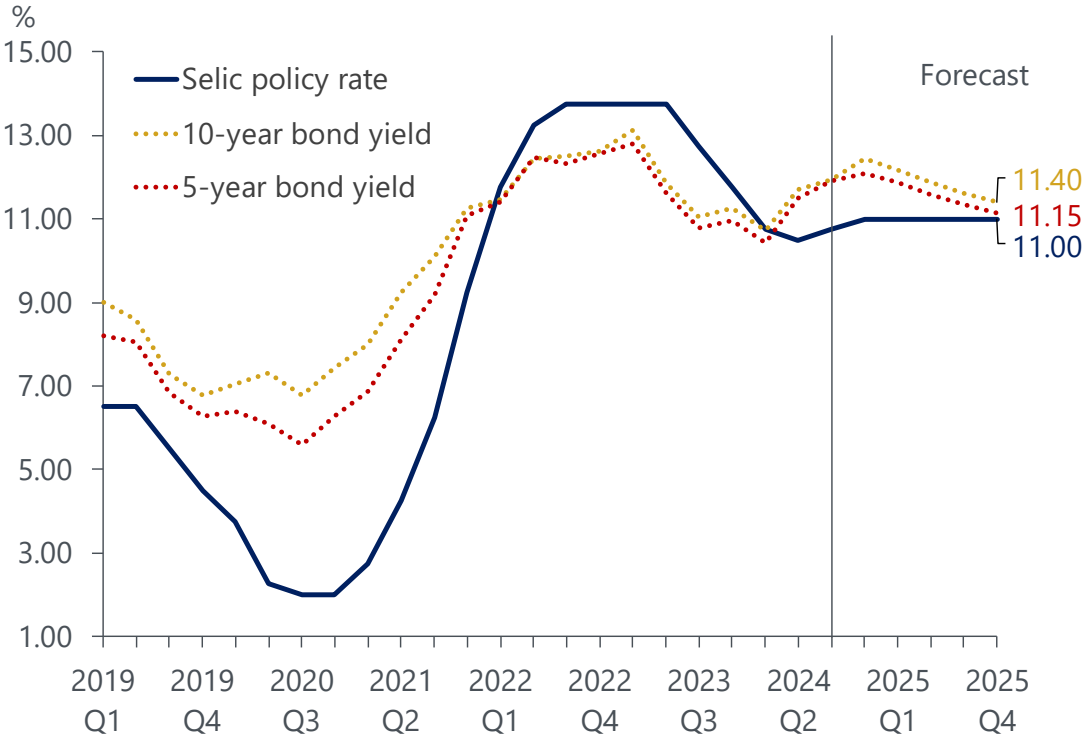
We forecast the BCB to stop the hiking cycle soon, with the Selic rate set to end next year at 11%.

Brazil: Consumer price inflation breakdown



Source: Oxford Economics

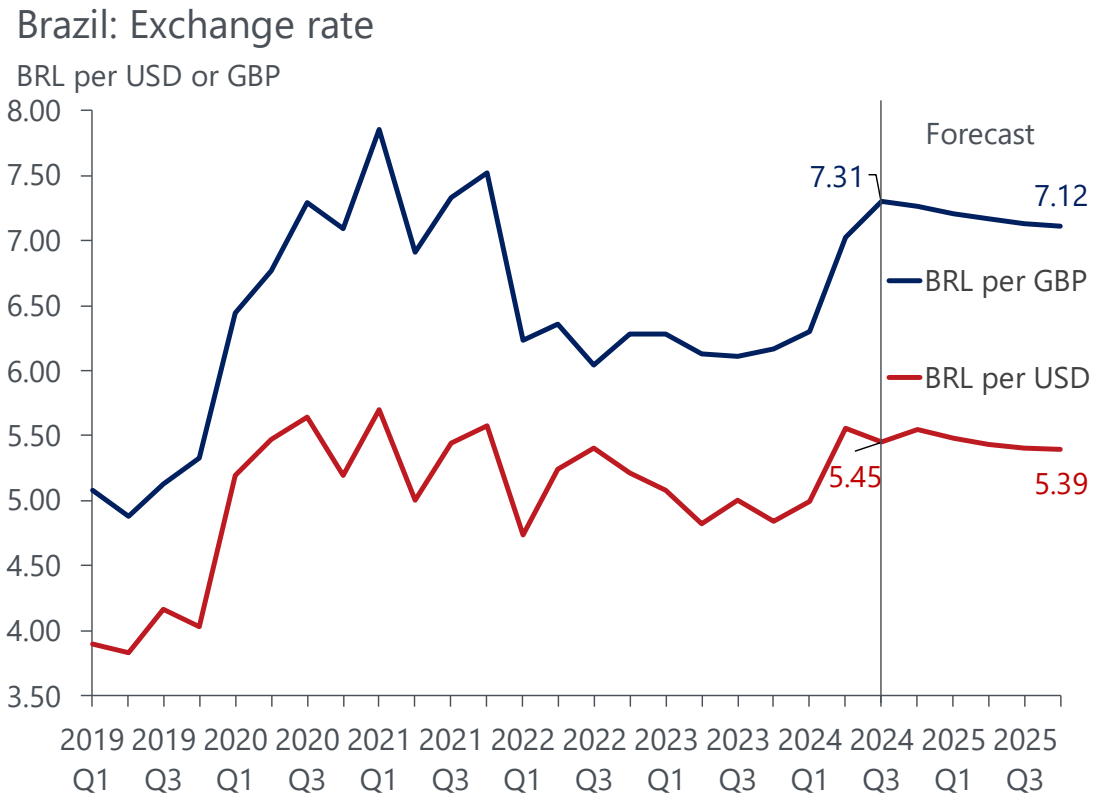
Brazil: Interest rates



Source: Oxford Economics/Haver Analytics

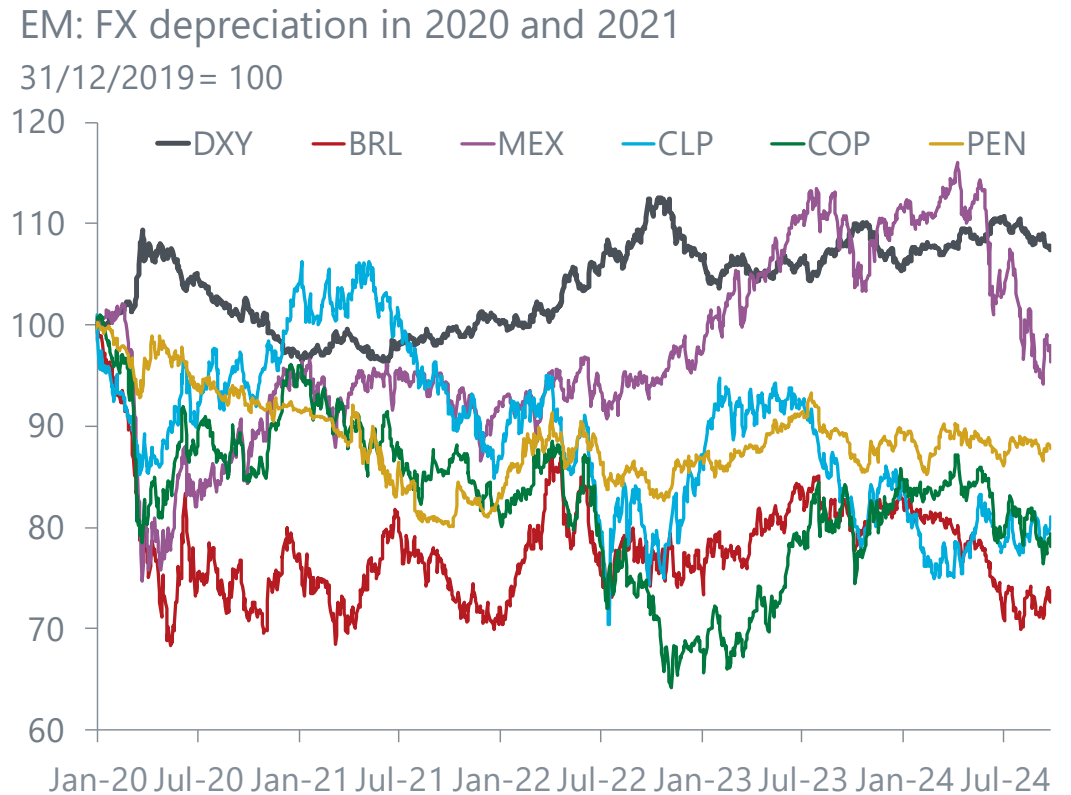
BRL already close to fair value, so not much downside risk from here

We forecast the BRL to remain stable versus the USD and to gain modestly versus the GBP in 2025.



Source: Oxford Economics/Haver Analytics

BRL lost more value than any other LatAm currency since 2019 (-30%), limiting the downside potential from here.



Source : Oxford Economics/Haver Analytics

Brazil: opportunities & risks

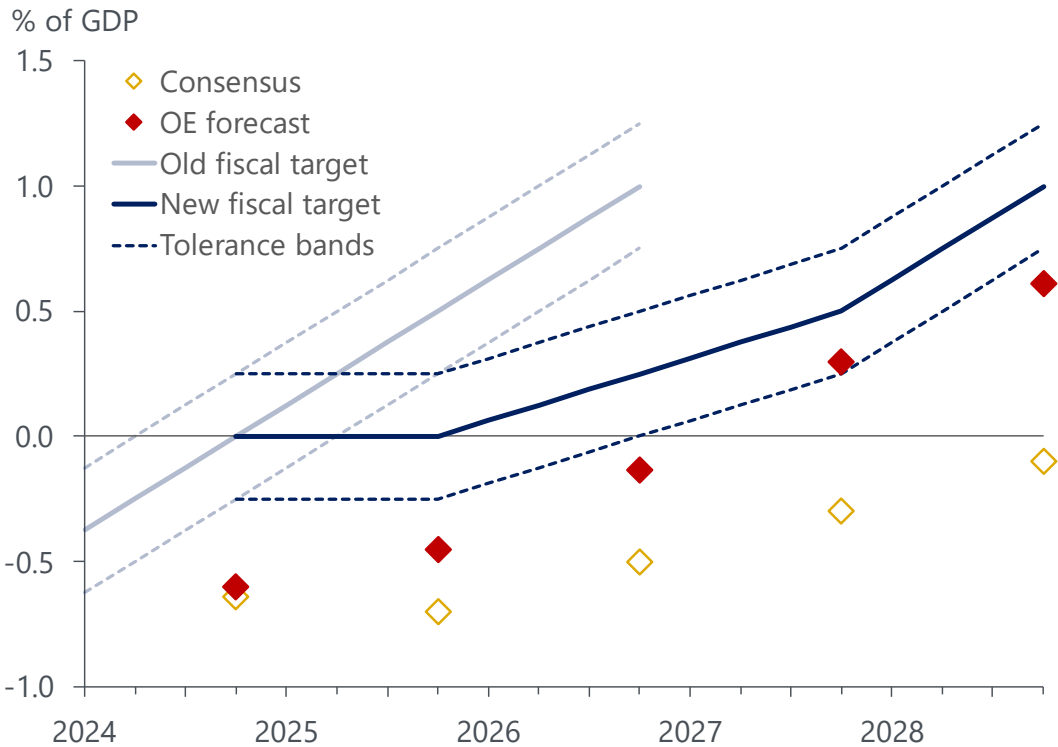


Risk: without consolidation, Brazil will face another debt crisis

Even with looser fiscal targets, Brazil still needs to do more austerity, but investors are running out of patience.

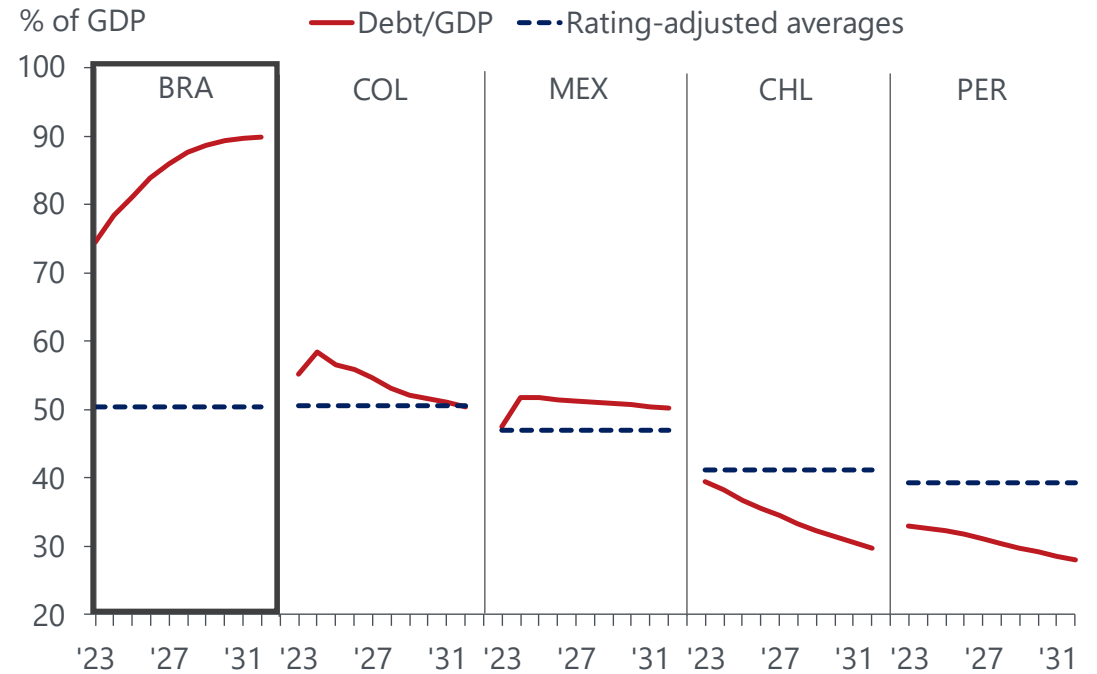
Our baseline is for debt/GDP to reach 90% by 2030. Without consolidation, debt could approach 100% of GDP.

Brazil: Primary fiscal balance targets & expectations



Source: Oxford Economics

LatAm5: Debt/GDP forecasts vs. ratings



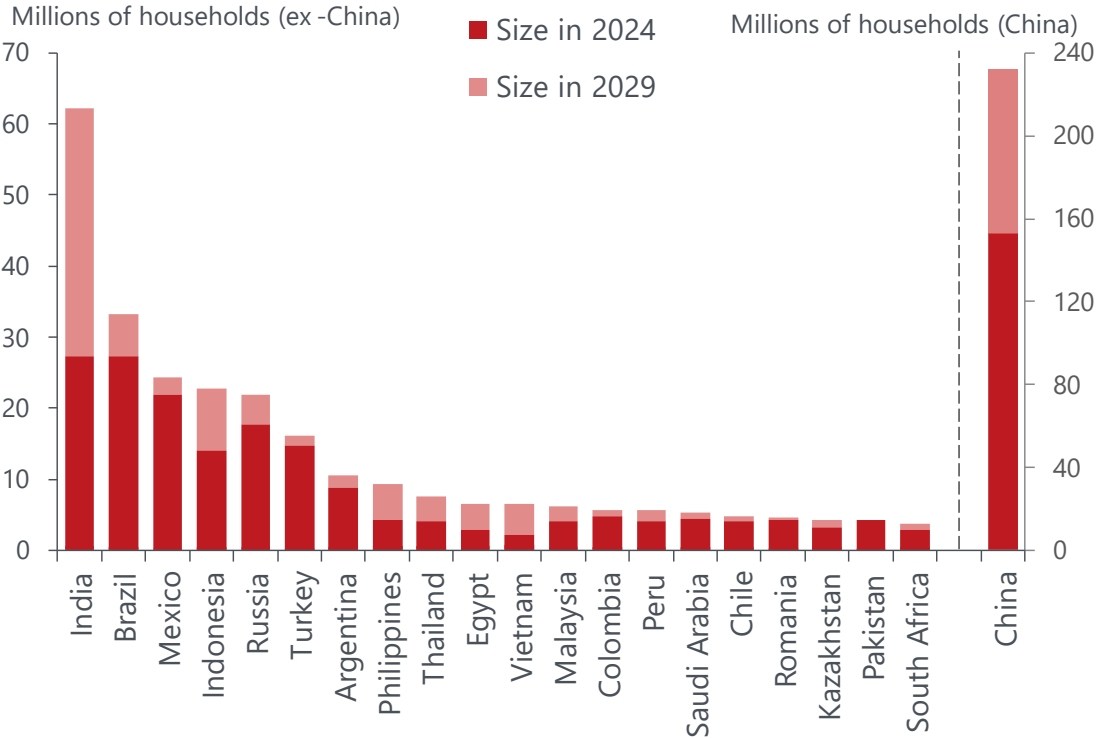
*Average public debt/GDP ratio at each country rating

Opportunity: Brazil's middle class is the 3rd biggest in EM

Brazil is a major consumer market; its middle class is the 3rd largest in EM, only behind China and India.

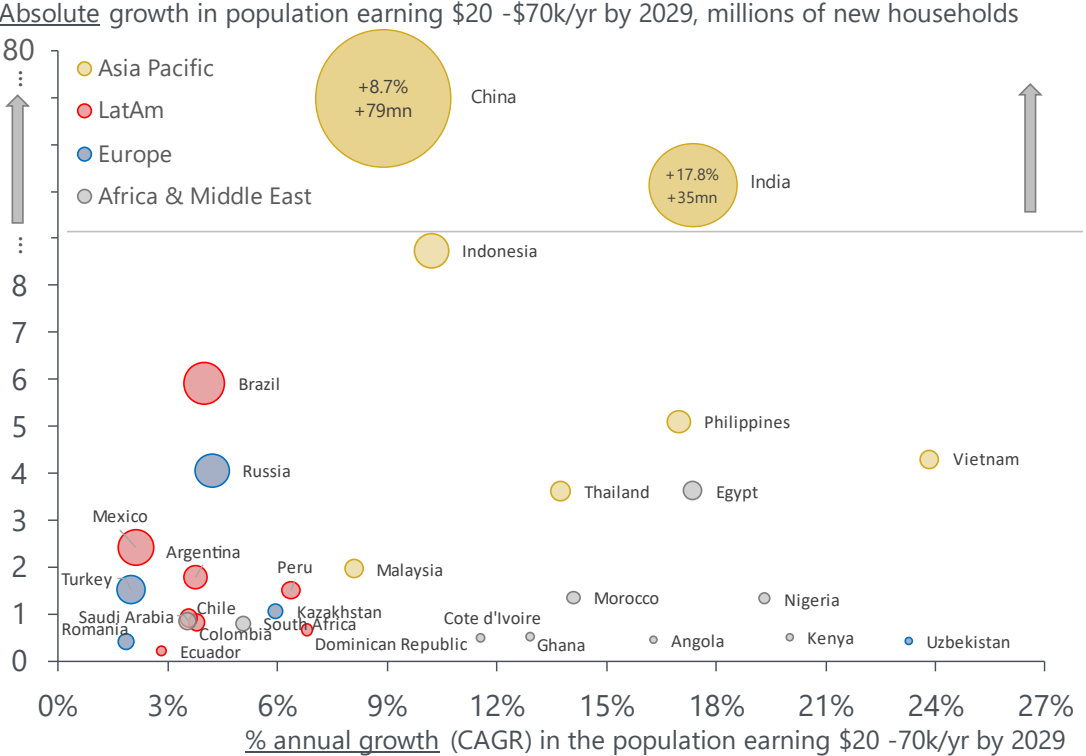
Despite the modest growth outlook, Brazil will add over 6 million new households to its middle class by 2029.

EM middle class today and in the next five years



Source: Oxford Economics

EM middle-class growth map for the next five years



Source: Oxford Economics (Bubble sizes denote estimated relative market sizes in 2029)

Questions?

Table 1: Brazil forecast overview

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|------------------------------------|-------|-------|-------|-------|-------|------|
| GDP | 3.1 | 2.9 | 3.2 | 1.9 | 1.4 | 1.9 |
| Domestic demand | 2.4 | 1.3 | 5.0 | 2.3 | 1.5 | 1.9 |
| Private consumption | 4.1 | 3.1 | 4.6 | 1.1 | 0.9 | 1.4 |
| Fixed investment | 1.0 | -2.9 | 6.0 | 4.4 | 3.8 | 2.8 |
| Government consumption | 2.1 | 1.7 | 2.5 | 1.5 | 1.7 | 1.8 |
| Exports of goods and services | 6.2 | 9.1 | 3.4 | -1.5 | 1.4 | 2.3 |
| Imports of goods and services | 1.5 | -1.1 | 14.0 | 1.1 | 1.9 | 2.2 |
| Industrial production | -0.7 | 0.3 | 2.4 | 2.2 | 2.0 | 2.0 |
| Unemployment rate (%) | 9.2 | 8.0 | 7.1 | 7.3 | 7.6 | 7.9 |
| Gov't primary balance (% of GDP) | 1.2 | -2.2 | -0.6 | -0.5 | -0.1 | 0.3 |
| Gross gov't debt (% of GDP) | 74.5 | 72.9 | 77.4 | 79.4 | 82.0 | 83.8 |
| Current a/c balance (% of GDP) | -2.1 | -1.0 | -1.8 | -2.4 | -2.5 | -2.6 |
| Consumer prices EOP | 5.8 | 4.6 | 4.6 | 3.7 | 3.0 | 2.5 |
| Central bank policy rate (% EOP) | 13.75 | 11.75 | 11.00 | 11.00 | 10.00 | 9.50 |
| Exchange rate (Real per US\$, EOP) | 5.22 | 4.84 | 5.28 | 5.26 | 5.30 | 5.33 |

Source: Oxford Economics

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