# 1 Economic outlook

This chapter of the IR analyzes the recent evolution of the economic outlook, considering the international and domestic scenarios, as well as the prospects for the Brazilian economy in the coming quarters. The assessment of the international scenario addresses the main advanced and emerging economies, emphasizing aspects that tend to influence the Brazilian economy, especially inflation and activity indicators.

The analysis of the domestic outlook comprises the major drivers of economic activity, considering both the evolution of national accounts and the most frequent and timely sectoral indicators. Central aspects related to the movements in the labor market, the evolution of credit markets, and the performance of the country's public and external accounts are also assessed. The final section of this chapter analyzes the behavior of inflation and market expectations, considering the trajectories of key price indicators.

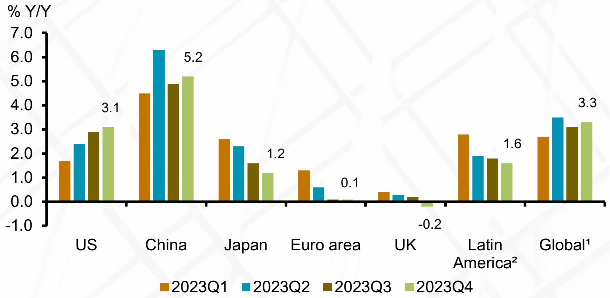
## 1.1 External scenario

The external environment is characterized by the continuation of the gradual disinflation process, and the maintenance of growth projections for 2023 and 2024. The pace of normalization depends on the speed with which the sectoral and regional divergences observed after the shocks of recent years are adjusted. It also depends on the materialization of relevant variables reinforcing expectations and reducing uncertainties about the consolidation of the disinflation process. Since the December 2023 IR, there has been a revision of optimism about the speed of disinflation and a reassessment of the timing of interest rate cuts in the main economies. In these economies, the combined effect explains the return of long-term interest rates and the postponement of expectations about the reduction of short-term interest rates, with market and central banks scenarios converging. The risk appetite for emerging economies' assets has not been significantly affected.

Inflation expectations remain anchored, even though core inflation is still at high levels and above the target in many economies. Surprises with labor markets resilience prolong the risk that core inflation will remain persistently high for a longer period than previously expected. In this context, central banks of major economies have been voicing the need for greater confidence that inflation will move back towards their targets. Moreover, they continue to reaffirm their commitment to promote the convergence of inflation by stressing the need to keep interest rates at restrictive levels for a long enough period to complete the final stage of the disinflation process.

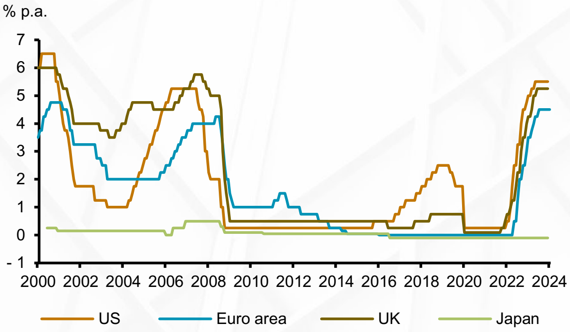
At different degrees among regional blocs, global activity continues to show resilience amid the monetary policy tightening, coherent with the robustness of jobs, wages, and asset prices. This resilience materializes in moderate global growth, still sustained by a strong labor market, household consumption, and real income gains. The expansion of the services sector continues to stand out, reflecting changes in the profile of household consumption and robust labor markets. International trade and industrial output remain moderate. Impacts associated with the stress events in the international banking sector in the first half of 2023 and with the persistence of conflicts in Europe and in the Middle East continue to slow down.

**Figure 1.1.1 – GDP growth**
from 2023Q1 to 2023Q4



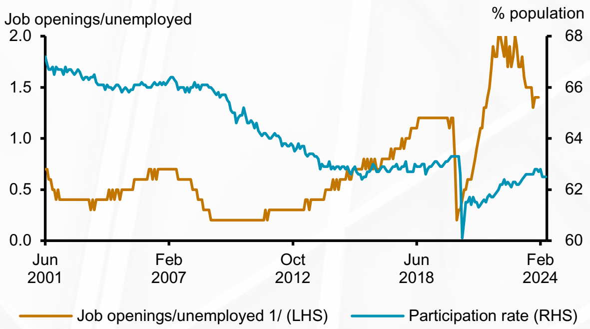

Sources: Bloomberg, BCB
1/ Calculated as described in box "Projections and macroeconomic analysis model of the global economy" of the September 2022 IR.
2/ Argentina, Brazil, Chile, Colombia, Mexico and Peru.

**Figure 1.1.2 – Monetary policy rates[1]**




Source: Bloomberg
1/ Until March 15th.

**Figure 1.1.3 – U.S. – Job openings and participation rate**




Source: Bloomberg
1/ Until January 2024.

The U.S. economy continues to show signs of robustness. In 2023Q4, the U.S. GDP increased by 3.2% QoQ saar, driven by household consumption, which has benefited from a strong labor market, despite the moderation of credit. Fixed investment has been registering a low expansion, to a great extent due to the effects of historically high interest rates on residential and capital expenditures. The persistence of low confidence levels, the process of gradual exhaustion of liquidity accumulated by households since the outbreak of the Covid-19 pandemic, and the still uncertain economic environment suggest moderation of the U.S. activity going forward.

The labor market continues to present signs of tightness, gradually offset by signs of rebalancing between demand and supply in recent months. Average job openings in the first two months of 2024 reached 252 thousand, close to the 2023 average (251 thousand). The unemployment rate has grown moderately since early 2023, reaching 3.9% in February 2024, close to the historical low but below the estimate for the noncyclical rate[1] (4.4%). Job vacancies have declined recently, suggesting the fading of the mismatches between supply and demand for workers, despite remaining at rates close to the peaks of last economic cycles. The participation rate has been recovering over the last months, especially in the prime age segment. Nominal wages continue to grow at high rates, while the decline in inflation accelerates real wage gains (4.3% p.a. in nominal terms and 1.1% p.a. in real terms in February[2]).

U.S. inflation continues decelerating gradually – despite temporary interruptions – since the second half of 2022, reflecting the dissipation of the shocks on energy and food prices, as well as the effects of the moderation of rent prices at the margin and the cumulative effects of monetary tightening. Nevertheless, inflation is still above the target of the Federal Open Market Committee (FOMC), reaching 3.2% p.a. in February[3]. Core inflation has been more persistent, growing at 3.8% in February, mostly explained by the more inertial dynamics of services prices in a tight labor market environment. The prospect is that inflation will decline at a slow pace, converging to the target only by the end of 2025, reflecting the cumulative effect of monetary policy actions and economic activity slowdown.

1/ According to the Congressional Budget Office (CBO).
2/ Values relative to "Average Hourly Earnings" indicator.
3/ According to the Consumer Price Index (CPI).

In response to the context of persistently high inflation, the FOMC rose the Fed funds rate by 5.25 p.p. since early 2022 until March 2023. In its latest meeting, the FOMC kept the Fed funds rate in the interval from 5.25% to 5.5%, suggesting a cautious stance regarding incoming economic data and the need to gain greater confidence about the convergence of inflation as a requirement for the start of the monetary easing cycle. Furthermore, the Fed continues to reduce its holdings of government securities and mortgage-backed securities (MBS) in its balance sheet, by up to USD 95 billion per month since September 2022.

The euro area avoided a technical recession by registering stable GDP in 2023Q4 over 2023Q3, after declining in the previous quarter (-0.1% QoQ). The positive highlight was the contribution of gross capital formation, of 0.2 p.p. On the negative side, net exports contributed with -0.3 p.p. to GDP growth. Germany, the leading economy in the bloc, registered the worst performance, with a 0.3% decline QoQ. Furthermore, some economies in the region registered two consecutive quarterly GDP declines in the second half of 2023, characterizing a technical recession: Estonia, Ireland, and Finland, in the euro zone; Sweden, in the European Union; and the United Kingdom (-0.3% QoQ in 2023Q4 and -0.1% QoQ in 2023Q3). The 12-month inflation[4] continued to decelerate in the euro area. After closing 2023 at 2.9% p.a., dropped to 2.8% p.a. in January and to 2.6% p.a. in February. Core inflation, which excludes energy and food (in addition to alcohol and tobacco), also decelerated, closing the year at 3.4%, reaching 3.3% p.a. in January and 3.1% p.a. in February. In the UK, the annual inflation measured by the CPI reached 4.0% p.a., while the core ex-energy, food, alcohol, and tobacco, reached 5.1% p.a. in January, same rates of December 2023.

On March 7, the European Central Bank (ECB) decided, once again, to maintain its three main interest rates at the level reached in September 2023 that resulted from successive increases since July 2022. The deposit rate of 4.0% p.a. is the record high for the region. The ECB Governing Council highlighted that the economy remains weak, with contained consumer spending and moderate investment. Inflationary pressures resulting from wage increases persist, amid falling labor productivity. However, as inflation declines, the expansion of wages is expected to lead to real income gains, stimulating economic growth.

4/ According to the Harmonized Index of Consumer Prices (HICP).

In this context, surveys indicate a gradual economic recovery throughout 2024. The interest rate in the UK has remained at 5.25% p.a., a level also reached in September 2023, after 14 consecutive hikes since December 2021. The Bank of England (BoE) Monetary Policy Committee (MPC), in the statement from its February 1st meeting, underlined that it expects inflation to fall temporarily to the target of 2.0% in 2024Q2 but to rise again in the following quarters. Despite weaker-than-expected GDP growth in 2023, with household consumption well below expectations, more recent indicators suggest economic activity expansion in 2024Q1.

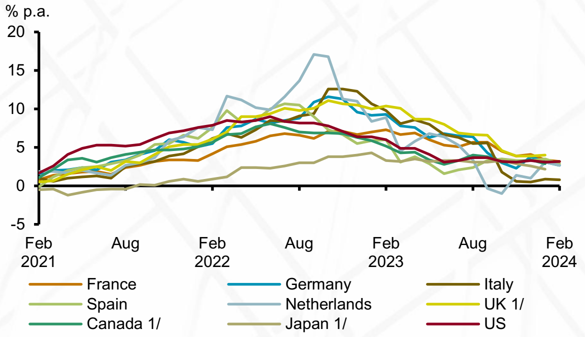
GDP growth in China reached 5.2% in 2023, in line with expectations, meeting the target set by the government for the year and with a strong acceleration compared with 2022. The tertiary sector accounted for 54.6% of the aggregated economic value added, an increase of 1.2 p.p. over 2022, as opposed to declines in the share of the primary and secondary sectors. At the margin, GDP growth accelerated 0.3 p.p. in 2023Q4 to 5.2% YoY, partly reflecting base effects due to the lagged effects of the Covid-19 mobility restrictions applied to some relevant provinces in 2022Q4. These effects were more strongly felt in the transportation and hotel and food sectors.

Economic activity indicators released by the National Bureau of Statistics (NBS) for the first two months of the year show a sustainable growth pace in the period. Industrial production and fixed investment accelerated above expectations, while services and retail sales lost momentum. The unemployment rate is in line with the seasonal standard, although challenges persist regarding the inclusion of young people into the labor market.

The Chinese government remains committed to implementing a structural adjustment in the real estate sector focused on reducing its spillover risks. Figures for the first two months of the year show a sharp reduction in real estate investment, units under construction, units under construction already in progress, units sold, and a backlog of built units for sale.

The second plenary session of the 14th National People's Congress, held in March, approved for this year the same goals for economic growth, inflation, and unemployment rate of 2023. It should be noted that the Chinese population declined in 2022 and

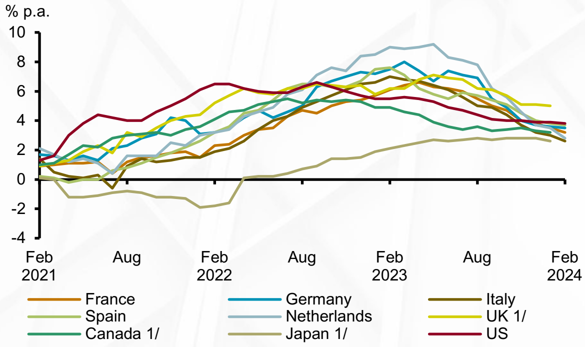
**Figure 1.1.4 – CPI – Advanced economies**




Source: Bloomberg

1/ Until January 2024.

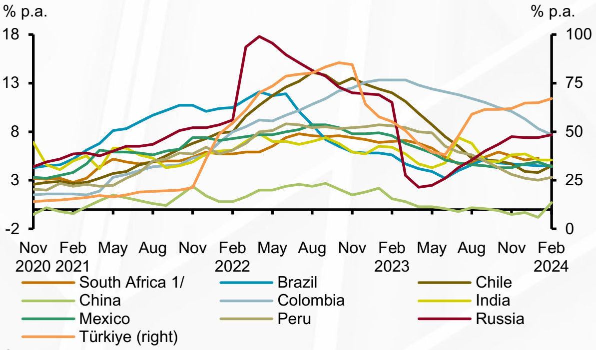
**Figure 1.1.5 – CPI core – Advanced economies**




Source: Bloomberg

1/ Until January 2024.

**Figure 1.1.6 – CPI – emerging markets**




Source: Bloomberg

1/ Until January 2024.

2023, which had not happened since 1961. Wages have increased in real terms over the last 20 years and the government recognizes that the structural transition of the economy entails vectors of aggregate demand growth that will depend increasingly less on infrastructure investment and external demand, and increasingly more on investment in technology and household consumption.

In 2023Q4, most emerging economies returned to positive YoY GDP growth. Nevertheless, in Latin America, GDP continued to decline in Argentina and Peru, mainly reflecting idiosyncratic factors. Over the quarter, international financial conditions improved significantly, mainly reflecting the outlook for U.S. monetary policy, which boosted appetite for emerging economies assets. As a result, stock market indexes rose, and currencies appreciated in general. In the early months of 2024, this trend was reverted, with currencies depreciating due to, among other factors, markets' reassessment of the timing of U.S. interest rate cuts. Activity in emerging economies continues to be subject to high risks, mainly due to fluctuations in U.S. long-term interest rates, uncertainties about the evolution of the Chinese economy, and geopolitical factors such as the prolongation of the war in Ukraine and the intensification of conflicts in the Middle East.

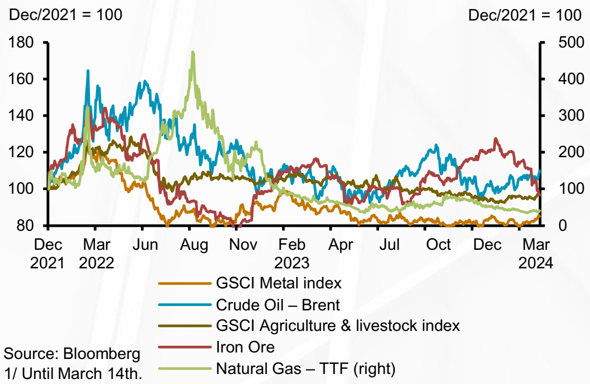
The path of inflation rates continued to diverge across emerging economies, with some countries experiencing acceleration in consumer price indexes. In Latin America, annual inflation slowed down in the largest economies, except in Argentina. Market analysts' surveys point to different paths for the expected inflation rate in 2024, with the inflation remaining above the center of the target in several major economies until the end of the year. Many central banks in emerging economies have decided to maintain policy interest rates, without signaling cuts. Among the exceptions are the central banks of Brazil, Chile, and Peru, which have continued their interest rate cut cycles. Throughout 2024, expectations continue to indicate policy rate cuts for most emerging countries. Doubts remain about the end of the cycle and the terminal rates.

Regarding the fundamentals underlying fluctuations in commodity prices, the main component on the demand side is global growth prospects, particularly in the Chinese economy. On the supply side, highlights are the shocks related to geopolitical factors, such as the war in Ukraine, and, since 2023Q4, tensions in the

Middle East arising from the Hamas attack on Israel, persistent tensions in the Red Sea, the decisions by the Organization of the Petroleum Exporting Countries and other oil-producing countries (OPEC+) to continue restricting oil supply, as well as climate events.

The prices of energy commodities showed mixed trends in the period, with oil being impacted by geopolitical tensions and OPEC+ cuts, while natural gas continued the easing process started in the second half of 2023. This natural gas easing process is due to large inventories as the winter is close to the end in the northern hemisphere, thanks to moderate demand, with warmer temperatures than usual for this time of the year, and helped by the continuity of supply, despite unexpected halts or delays in the resumption of operations by leading producers. On the other hand, oil has been pressured by the persistence of geopolitical tensions and announcements that the OPEC+ voluntary cuts will be maintained, which has been mitigated by the expansion of non-OPEC+ supply, especially from the U.S., Brazil, and Canada, or from countries that, despite belonging to OPEC+, are excluded from meeting production quotas, such as Venezuela and Iran. Although uncertainties about Chinese and global growth persist, demand for oil in 2024 is expected to grow in line with the historical trend. In this context, OPEC+ stance on whether maintaining voluntary production cuts will determine the dynamics of inventories in 2024.

**Figure 1.1.7 – Commodity prices[1]**




Source: Bloomberg
1/ Until March 14th.

As for metal commodities, iron ore prices fell sharply in 2024Q1, influenced by the high level of inventories in Chinese ports and the lack of new measures from the Chinese government to boost growth amid weak demand in the construction sector.

Agricultural commodities prices remain affected by supply developments, such as significant climate impacts on rice and sugar production in Asia and the resulting protectionist measures, as well as trade restrictions deriving from the persistence of war in Ukraine and tensions in the Middle East, especially in the Red Sea. Despite these factors, expectations of large inventories and greater grain supplies from main producers led to declines in soybeans, corn, and wheat prices in 2024Q1, counterbalanced by highs for sugar, cotton, coffee, and cocoa.

The main risks for a sharper deceleration in global activity, contributing to revert the prospects of a soft landing, are the lagged effects of monetary tightening already implemented in advanced economies, the loss of momentum in Chinese growth, and the adoption of protectionist trade or industrial policies, with adverse impacts on global production chains or that would reduce the volume of international trade.

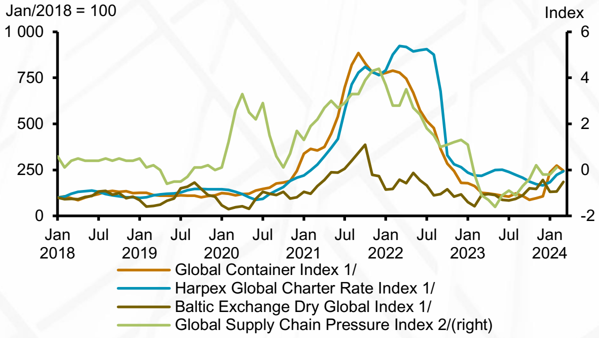
Regarding price dynamics, the main risks for inflation increase, or a slower convergence towards the targets, are upward pressure on the price of relevant commodities, stemming from further cuts in OPEC+ production, an escalation in geopolitical conflicts, or the occurrence of climate phenomena, such as those associated with the *el Niño* to *la Niña* transition in 2024. Furthermore, a greater resilience of rent and wage prices makes it more difficult for services inflation to cool down.

In the opposite direction, the main downside risks for inflation are a quicker rebalancing between supply and demand in the labor market or a sharper economic activity slowdown, especially in case of higher-for-longer interest rates in advanced economies.

On the one hand, considering the stage of the cycle, part of the effects of the interest rate rises around the world has yet to materialize. On the other hand, relevant risks related to tensions in the Middle East, the war in Ukraine, and the *El Niño*, have already largely materialized. In 2024, the moderation in the price levels of some relevant commodities is expected to contribute less significantly to the disinflationary process than throughout 2023. The easing of many sources of pressure in global chains has also already materialized in 2023, so as the contribution of this factor to the disinflation process also becomes less significant in 2024.

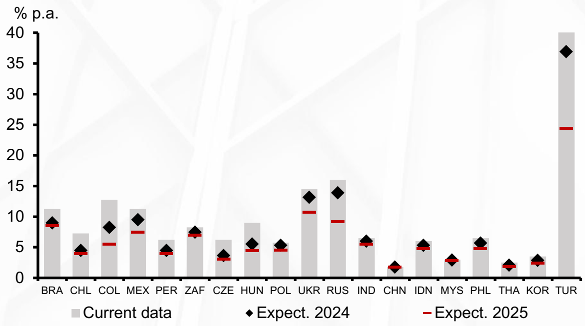
In short, the persistence of inflationary pressures remains as the main risk for the prospective monetary policy scenario in advanced and emerging countries and to the likelihood of a soft landing for the global economy. The realignment of relative prices, the normalization of activity in the services sector, and the rebalancing of fundamentals in still tight labor markets suggest that core inflation should remain persistently high for a longer period than observed in the recent past. Despite signs that the disinflation process is still taking place in several countries, inflation remains at high levels. The assessment of questions related to changes in productivity,

**Figure 1.1.8 – Supply bottlenecks indicators**




Sources: Refinitiv, Federal Reserve (Fed)
1/ Monthly averages - Until March 14th.
2/ Until February 2024.

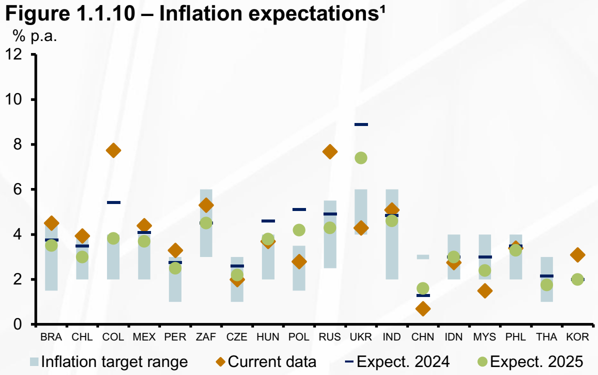
**Figure 1.1.9 – Policy interest rates¹**




Sources: Bloomberg and central banks' surveys

1/ Until March 15th.

**Figure 1.1.10 – Inflation expectations¹**



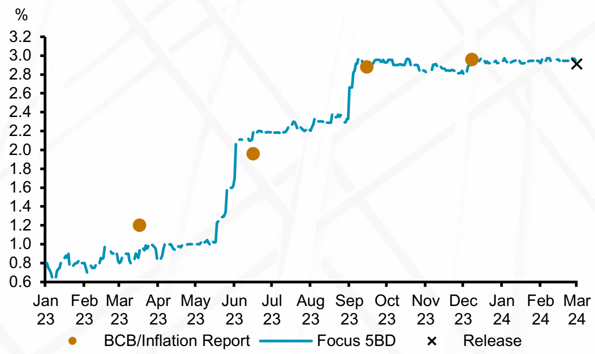

Sources: Bloomberg and central banks' surveys
1/ Until March 15th.

allocation, and distribution requires additional time for the confirmation of clear evidence of their effects in new data sets. Against this backdrop, central banks in leading economies have reaffirmed their commitment to the rebalancing of inflation rates around the respective targets, highlighting the need for maintaining interest rate at historically high levels until they are assured about the convergence of expectations towards the achievement of the last stage of the disinflationary process.

# 1.2 Domestic outlook

## Economic activity

**Figure 1.2.1 – Evolution of 2023 GDP growth forecasts**




Source: BCB and IBGE

**Table 1.2.1 – Gross Domestic Product**
Annual change

% change

| Itemization | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| GDP at market prices | 1.8 | 1.2 | -3.3 | 4.8 | 3.0 | 2.9 |
| Agriculture | 1.3 | 0.4 | 4.2 | 0.0 | -1.1 | 15.1 |
| Industry | 0.7 | -0.7 | -3.0 | 5.0 | 1.5 | 1.6 |
| Services | 2.1 | 1.5 | -3.7 | 4.8 | 4.3 | 2.4 |
| Household consumption | 2.4 | 2.6 | -4.6 | 3.0 | 4.1 | 3.1 |
| Government consumption | 0.8 | -0.5 | -3.7 | 4.2 | 2.1 | 1.7 |
| Investment | 5.2 | 4.0 | -1.7 | 12.9 | 1.1 | -3.0 |
| Exports | 4.1 | -2.6 | -2.3 | 4.4 | 5.7 | 9.1 |
| Imports | 7.7 | 1.3 | -9.5 | 13.8 | 1.0 | -1.2 |

Source: IBGE

The Brazilian economy grew 2.9% in 2023, after expansions of 4.8% in 2021 and 3.0% in 2022. This result came marginally below the forecast presented in the previous IR (3.0%) and in line with the median projections of the Focus report at that period.

When compared with the growth expected in early 2023, the result came as a significant positive surprise. At the cut-off date of the March 2023 IR, the BCB projection was 1.2%, while the median projection of the Focus report was 0.9%. Part of this surprise reflected high growth rates in agriculture and mining, but the performance of sectors more closely related to the domestic economic cycle also exceeded expectations.

On the supply side, it is noteworthy the 15.1% growth of agriculture – the highest of the time series started in 1996. Industry and services grew 1.6% and 2.4%, respectively. The expansion of agriculture was driven by the sharp increase of the grain production, especially soybeans and corn, due to the increased sowed area and, mainly, more favorable weather conditions than those of 2022. The performance of industrial activities was heterogeneous, with strong expansions in mining and utilities and declines in manufacturing and construction industry. The performance of the mining reflected significant growth in the production of oil and iron ore. In turn, the performance of "utilities" mainly reflected an increase in electricity consumption, influenced by high temperatures over the year, and a decrease in the share of thermal power plants in electricity generation[5]. The growth in the services sector was widespread across segments, with "financial, insurance and related services" standing out.

On the demand side, the main contributions to GDP growth came from household consumption (+3.1%) and exports (+9.1%). Household consumption benefited from a strong rise of household disposable income, with expansions of both the overall labor income and government transfers, and from a decline of food prices. The expansion of exports

5/ As thermal power plants use more inputs, they produce lower gross value added (GVA) than hydroelectric, wind, and photovoltaic plants for the same amount of electricity generated. The lower use of thermal power plants was enabled by the favorable rainfall and the continued expansion of solar and wind power generation.

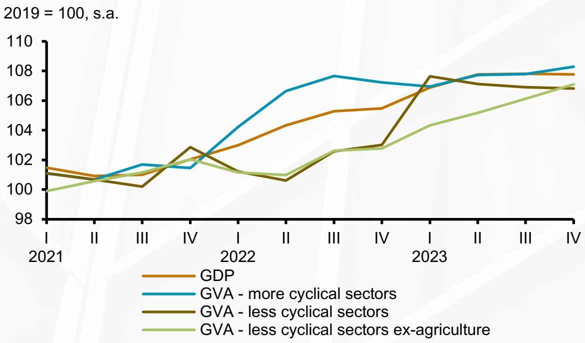
mainly resulted from increased shipments of primary goods, in a year of significant growth in agriculture and mining. Conversely, Gross Fixed Capital Formation (GFCF) fell 3.0% after a moderate expansion in 2022 (1.1%) and robust growth in 2021 (12.9%). The reduction of investments in 2023 was widespread, covering the construction and, mainly, the absorption of capital goods, under the influence of the cumulative and lagged effects of the restrictive monetary policy. Nevertheless, an idiosyncratic factor, already noted in the March 2023 IR, was also relevant for this decline. Part of the production of trucks and buses that would normally take place in 2023 was brought forward to 2022, before the implementation of the new emission standards for engines, in January 2023.

An important characteristic of the evolution of economic activity in 2023 was the large difference in economic growth rates from the first to the second half of the year. This trajectory is more closely associated with the evolution of agriculture – which grew strongly in 2023Q1 and dropped in the following quarters – than with an overall economic activity deceleration in the last quarters of the year. GVA grew at an average rate of 1.2% in the first two quarters and remained stable in the last two quarters. The expansion of GVA excluding agriculture[6], in turn, was more homogeneous throughout the year, with an average quarterly rate of 0.6% in the first half and 0.4% in the second.

The conclusion is the same, based on the classifications of the sectors as more or less cyclical[7], discussed in the previous two IRs. The more cyclical sectors registered an average quarterly growth rate of 0.2% and 0.3% in the first and second halves, respectively, while the respective growth rates for the less cyclical sectors were 1.9% and -0.1%. Excluding agriculture from the latter group, the respective growth rates would be 1.2% and 0.9%. Moreover, one observes that, even excluding the exceptional performance of agriculture, growth throughout 2023, and since the second half of 2022, was higher in the less cyclical sectors.

The GDP stability in 2023Q4 reflected, on the supply side, a 5.3% decline in agriculture and respective expansions of 1.3% and 0.3% in industry and services. In industry, mining, "utilities", and

**Figure 1.2.2 – GDP – more and less cyclical sectors**




Source: IBGE and BCB

6/ GVA excluding agriculture can also be affected by indirect effects of agriculture on the other sectors.

7/ Activities classified as less cyclical are agriculture; mining; financial activities, insurance and related services; real estate activities; and administration, defense, public health and education, and social security. Other activities are considered more cyclical.

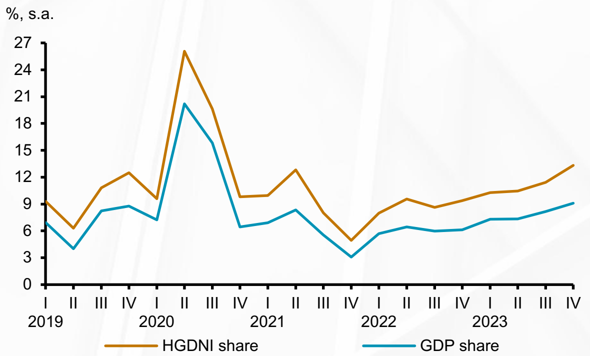
**Table 1.2.2 – Gross Domestic Product**
QoQ s.a.

% change

| Itemization | 2022 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| GDP at market prices | 0.9 | 1.3 | 0.9 | 0.2 | 1.3 | 0.8 | 0.0 | 0.0 |
| Agriculture | -5.4 | -2.6 | 3.5 | 1.8 | 20.9 | -6.4 | -5.6 | -5.3 |
| Industry | 3.2 | 1.5 | 0.7 | -0.7 | 0.0 | 1.0 | 0.6 | 1.3 |
| Mining | -2.7 | 0.9 | 2.0 | 1.3 | 3.5 | 1.6 | 0.7 | 4.7 |
| Manufacturing | 5.2 | 0.9 | -0.3 | -1.6 | -0.5 | 0.4 | 0.0 | -0.2 |
| Construction | 2.7 | 2.7 | 1.1 | -1.4 | -0.8 | 1.5 | -3.7 | 4.2 |
| Public utilities | 7.3 | 4.1 | -0.5 | 1.5 | 1.6 | 0.7 | 3.3 | 2.8 |
| Services | 1.0 | 1.3 | 1.3 | 0.1 | 0.6 | 0.7 | 0.3 | 0.3 |
| Trade | 0.0 | 1.7 | -0.2 | -0.5 | 0.7 | 0.3 | -0.1 | -0.8 |
| Transportation and storage | 3.4 | 2.2 | 1.4 | 0.8 | 0.3 | 1.5 | -1.0 | -0.6 |
| Information services | -3.4 | 3.2 | 3.1 | 1.9 | -2.2 | 1.1 | 0.9 | -0.1 |
| Financial and related services | -2.2 | -0.3 | 2.1 | 1.8 | 2.1 | 1.5 | 1.3 | 0.7 |
| Other services | 4.2 | 3.4 | 2.4 | -0.3 | -0.3 | 1.0 | 0.5 | 1.2 |
| Real estate | -0.5 | 1.1 | 1.2 | 0.6 | 0.3 | 0.8 | 1.4 | 0.1 |
| Public admin., health and education | 0.3 | -1.2 | 1.6 | -1.1 | 1.1 | 0.2 | 0.5 | 0.1 |
| Household consumption | 1.3 | 2.0 | 0.7 | 0.6 | 0.7 | 1.0 | 0.9 | -0.2 |
| Government consumption | 0.1 | -0.6 | 2.3 | -1.5 | 0.4 | 1.1 | 0.6 | 0.9 |
| Gross Fixed Capital Formation | -1.5 | 3.3 | 3.0 | -1.6 | -3.0 | -0.2 | -2.2 | 0.9 |
| Exports | 9.4 | -3.4 | 3.1 | 4.7 | 0.5 | 3.6 | 2.8 | 0.1 |
| Imports | -2.5 | 6.0 | 5.1 | -4.6 | -3.5 | 4.1 | -2.1 | 0.9 |
| GDP at m.p. (previous release) | 1.0 | 1.3 | 1.1 | -0.1 | 1.4 | 1.0 | 0.1 | - |

Source: IBGE

**Figure 1.2.3 – Household savings rate**




Source: IBGE and BCB

construction expanded – the latter recovering from the previous quarter's decline –, while manufacturing decreased. The performance of the services sector was heavily heterogeneous across segments. It was noteworthy the expansion in "other services" – which includes services rendered to households, such as accommodation and food services and leisure activities – and financial intermediation. Conversely, transportation and trade services declined. As for trade, it was influenced by the negative performance of manufacturing and household consumption.

On the demand side, it was notable the surprising decline of 0.2% in household consumption, after significant expansions, above expectations, in the previous quarters. The fall of household consumption seems to be related to increased household savings rate[8] – since disposable income continued to grow – and to be concentrated in goods – considering the decline in the production of consumption goods (Monthly Industrial Survey – PIM), the fall in the restricted retail sales (Monthly Survey of Trade – PMC), the expansion in services rendered to households (Monthly Survey of Services – PMS), and the increase of rental services and financial intermediation (CNT[9]).

GFCF rose 0.9%, interrupting a sequence of four consecutive quarterly declines. The expansion was driven by construction, as the production and the imports of capital goods declined. After two quarters of strong growth, exports remained virtually stable (0.1%), with an increase in the shipments of primary goods and a decline in manufactured and semi-manufactured goods. Imports, in turn, rose 0.9%, influenced by increased imports of services.

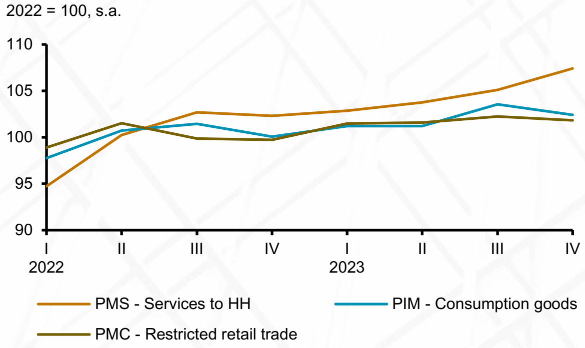
Data available until the cut-off date of this IR indicate, in general, economic activity expansion in the first two months of 2024.

According to the BCB Economic Activity Index (IBC-Br), activity grew 0.6% in January over December, leaving a statistical carry-over of 1.2% for 2024Q1. Retail sales rose 2.5% in the restricted concept and 0.5% in the broad concept, excluding wholesale food. The services sector grew 0.7%, with expansions in four out of the five categories comprised in the

8/ Household savings were calculated from the household consumption – based on the National Quarterly Accounts – and the BCB's estimated Household Gross Disposable National Income (HGDNI). Further details on the BCB's HGDNI are available in the box Monthly estimate of the Household Gross Disposable National Income, of the December 2021 IR.

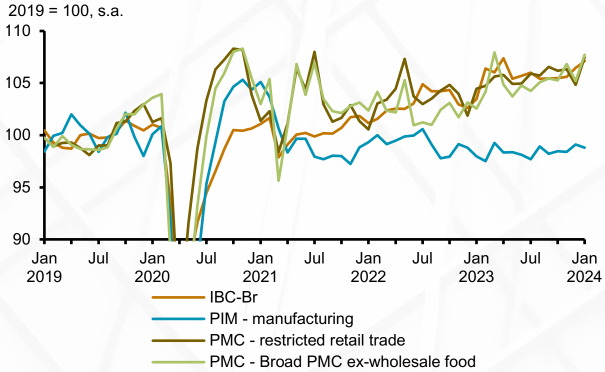
9/ Quarterly National Accounts (CNT) do not provide a breakdown for household consumption. However, expansions in the GVA of rental services and "financial activities, insurance, and related services" suggest an increase in the consumption of these services in the quarter.

**Figure 1.2.4 – Household consumption indicators**



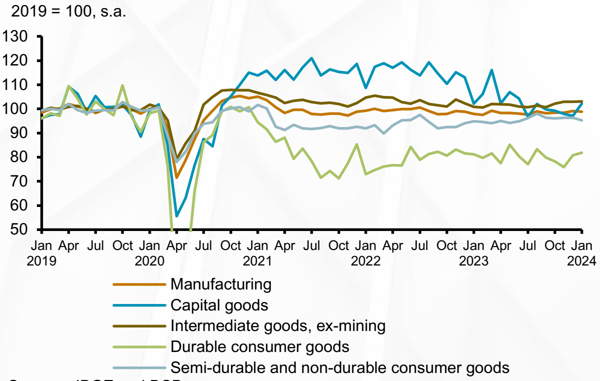

Source: IBGE and BCB

**Figure 1.2.5 – Economic activity indicators**




Sources: IBGE and BCB

**Figure 1.2.6 – Industrial production**




Sources: IBGE and BCB

**Table 1.2.3 – Economic activity coincident indicators**

Seasonally adjusted

% change

| Itemization | 2023 | | | | 2024 | | |
|---|---|---|---|---|---|---|---|
| | Sep | Oct | Nov | Dec | Jan | Feb | Jan-Fev |
| Circulation of heavy vehicles | 0.1 | 0.8 | 0.3 | -0.1 | -0.4 | 0.3 | -0.2 |
| Corr. cardboard shipment | -1.1 | 1.5 | 1.4 | 1.0 | -0.4 | 2.5 | 1.9 |
| Vehicles production | 3.8 | -6.0 | -0.3 | 4.8 | -8.5 | 14.9 | 1.2 |
| Trucks production | -0.8 | 14.4 | 0.4 | 4.6 | 3.4 | -3.5 | 4.9 |
| Vehicles sales | 1.3 | 7.1 | -4.2 | 5.2 | -3.3 | 4.0 | 0.5 |

Sources: ABCR, ABPO/Empapel, Anfavea and Fenabrave

[1] Average Jan-Febr 2023/Average 2023Q4.

index.[10] The exception was services rendered to households, which dropped 2.7%, offsetting part of the 7.4% expansion accumulated in November and December. Manufacturing, in turn, fell 0.3%, with a decline in the production of semi and non-durable goods, stability in ex-mining industry intermediate goods, and growth in durable consumer goods and, especially, capital goods. The rise of 5.2% in the production of capital goods was quite widespread and reverted a sequence of four consecutive monthly declines.

Coincident indicators for February show predominantly positive signals. In the automotive industry, sales of new vehicles and, particularly, the production of vehicles, grew significantly in the month, after declining in January. Shipments of corrugated paper and truck traffic in toll highways, indicators that help to anticipate industrial production, expanded in February after dropping in January. Indicators based on credit card sales and other means of payments mostly indicate declines in January.[11] For February, they suggest expansion in the volume of goods and decline in the volume of services consumed by households.

As detailed in a box of this IR, the GDP growth projection for 2024 rose from 1.7% to 1.9%, mainly reflecting the slightly greater-than-expected economic activity dynamics at the start of 2024Q1. On the supply side, a decline in agriculture is expected, following a significant expansion in 2023, while growth of similar magnitudes, not far from those registered in 2023, is anticipated for both industry and services. On the demand side, the projection considers resumption of GFCF growth, deceleration of household consumption, and lower net contribution from the external sector.

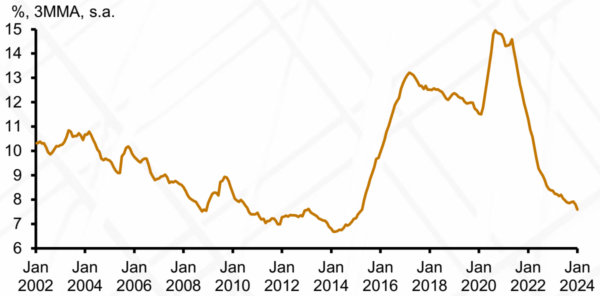
## Labor market

The most recent indicators show a dynamic labor market that has heated up marginally in recent months. The unemployment rate fell again, the employment level and the participation rate rose, the net creation of formal jobs increased, and the real income continued to grow, even at a faster-than-expected rate.

10/ The five PMS categories are services rendered to households; information and communication services; professional, administrative, and complementary services; transportation, auxiliary services, and mailing; and other services.

11/ Assessed indicators include IDAT (Banco Itaú), IGet (Santander/Getnet), and the ICVA (Cielo).

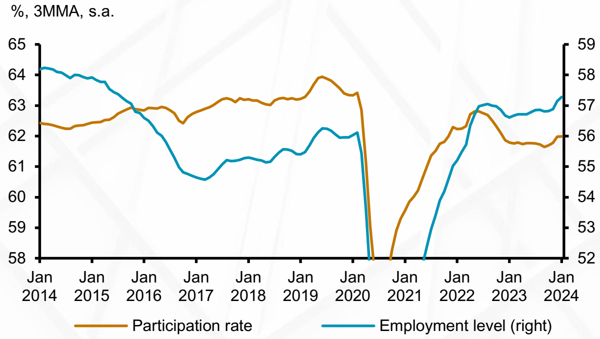
**Figure 1.2.7 – Unemployment rate[1]**




[1] Historical unemployment rate estimates following Alves, S. A. L. and Fasolo, A. M., "Not Just Another Mixed Frequency Paper", Banco Central do Brasil (2015), Working Paper 400.

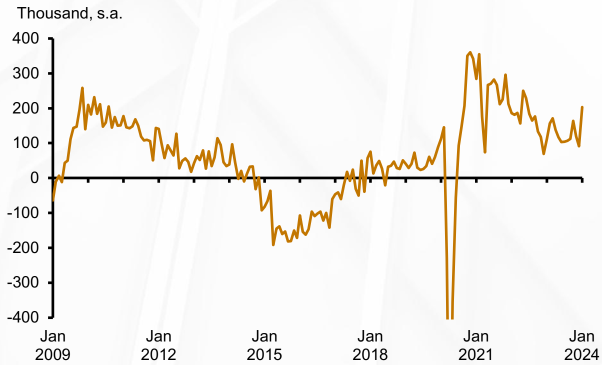
Sources: IBGE and BCB

**Figure 1.2.8 – Participation rate and employment level**



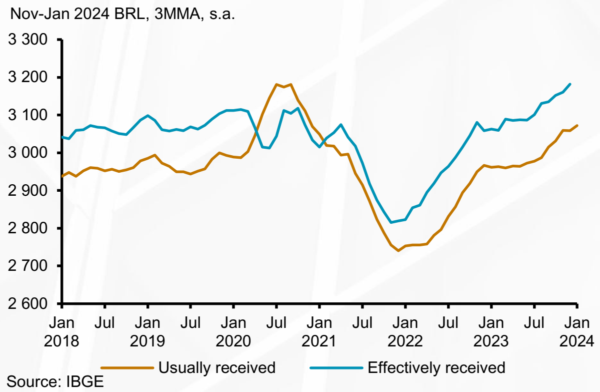

Source: IBGE

**Figure 1.2.9 – Net formal job creation**




Source: Ministry of Labor and Employment

**Figure 1.2.10 – Real average labor income**




Source: IBGE

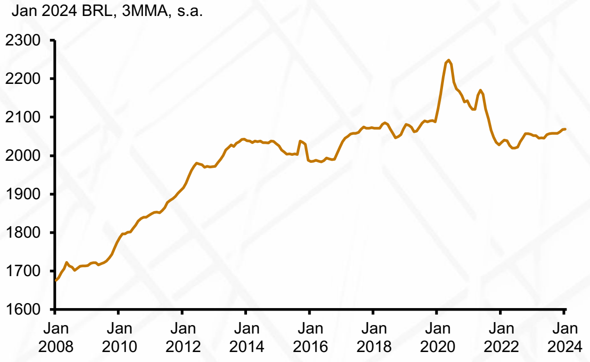
In the Nov-Jan quarter the unemployment rate declined once more, to 7.6%, after a period in which it remained relatively stable. Data are from the Continuous National Household Sample Survey (PNAD Continuous) and are seasonally adjusted. The unemployment rate decreased despite the 0.7% growth of the workforce in the quarter. Thus, the participation rate, which had been on a negative trajectory since the second half of 2022, increased. The employed population rose 1.0% from October to January, combining increases in formal and informal job positions. The employment growth was widespread across economic activities, with a few exceptions.

The net creation of formal jobs increased slightly, remaining at a high level, according to data from the New General Registry of Employed and Unemployed Persons (New Caged), seasonally adjusted. The average monthly balance grew from 128,000 in the Aug-Oct quarter to 138,000 in the Nov-Jan quarter. The positive balance was widespread across activities and the share of resignations in total job separations remains high. In 2023, 1.5 million formal jobs were created in net terms, which corresponds to 3.4% of the stock of registered employees. In 2022, 2 million jobs had been created (4.8% of the stock).

The average real labor income grew at a high rate for the second consecutive quarter, according to indicators from the PNAD Continuous, seasonally adjusted. Considering the concept of income usually received, the expansion reached 1.3% in the Nov-Jan quarter, after an increase of 1.8% in the previous quarter. Gains in the most recent quarter were widespread across all occupation types. In particular, for private sector employees with a formal contract – a category that accounts for a significant share of the total employment – the average real labor income grew 0.8% in the Nov-Jan quarter (1.4% in Aug-Oct). From a longer-term perspective, the average real labor income is approximately 3.5% higher than that observed in 2019 but below what would have been achieved if the growth trend from 2017 to 2019 had been maintained.

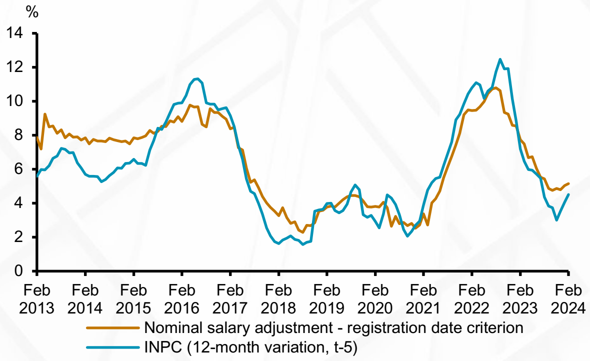
Among the supplementary indicators for assessing the salary dynamics, seasonally adjusted data from the New Caged also indicate expansion in real salaries, although less intense than that pointed out

**Figure 1.2.11 – Hiring salary**



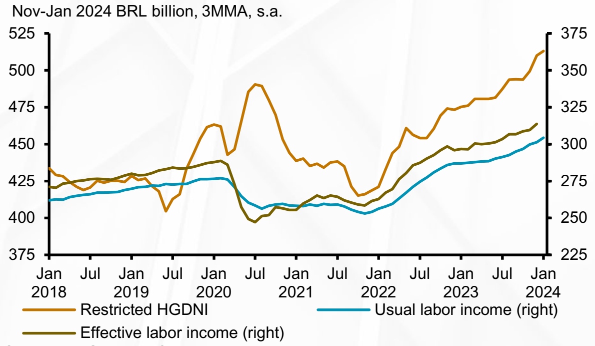

Source: Ministry of Labor and Employment

**Figure 1.2.12 – Collective bargaining agreements**




Sources: IBGE, MLE and BCB

**Figure 1.2.13 – Restricted HGDNI and overall labor income**




Sources: IBGE and BCB

by the PNAD. The average real salary on hirings[12] rose 0.5% in the Nov-Jan quarter, following a quarter of relative stability.

Nominal salary adjustments collected from Collective Bargaining Agreements (CCT),[13] in turn, have remained close to 5% since September. Salary adjustments, which were below the 12-month inflation[14] in 2021 and 2022, exceeded it from February 2023 onwards. In 2023, the average real adjustment was 0.8%, with nearly 67% of the adjustments agreed above inflation and 10% granting the inflation index. The bulletin *Salariômetro*, of the *Fundação Instituto de Pesquisas Econômicas* (Fipe), shows a similar picture.[15] In the first two months of 2024, the real adjustment measured in the CCT remained at around 1%.

The restricted HGDNI, an indicator that incorporates other sources of income besides labor, increased 3.9% in the Nov-Jan quarter, after rising 1.3% in Aug-Oct, considering seasonally adjusted data. The HGDNI expansion in the most recent quarter reflected the favorable evolution of overall labor income – influenced by the growth in average income and employed population – and of social benefits, particularly social security ones. This result was boosted by extraordinary court-ordered payments[16] at the turn of the year.

## Credit

After three years of strong growth, the credit market decelerated more significantly in 2023, reflecting the effects of the restrictive monetary policy. The SFN credit balance grew 8.1% in 2023[17], compared

12/ The average hiring salary is more closely linked to the economic cycle than the layoff salary, and that is why the analysis focuses on this metric in the New Caged data. As Caged changed to the New Caged in 2020, data should be analyzed with caution. The analysis focuses on the most recent period. Further references to the changes in Caged are available in the labor market section of the https://www.bcb.gov.br/en/publications/inflationreport/202103 and https://www.bcb.gov.br/en/publications/inflationreport/202112 Inflation Reports.

13/ This refers to the arithmetic average of nominal adjustments of the CCT in São Paulo and Rio de Janeiro by registration date criterion in the Collective Labor Negotiations System (*Mediador*) of the Ministry of Labor and Employment (MLE). The agreements considered are those for which it was possible to adequately capture the percentage of adjustment agreed upon.

14/ Based on the date of registration, the agreed adjustments have a higher correlation with the deflator used in this analysis, the 12-month National Consumer Price Index (INPC) measured five months earlier.

15/ The bulletin *Salariômetro* has national coverage and considers collective bargaining agreements deposited in the system *Mediador* by their effective start date, deflated by the 12-month INPC with a one-month lag. The *Salariômetro* indicates that 78% of the adjustments exceeded the INPC, and the median real adjustment was 1.0% in 2023.

16/ The HGDNI series includes social security and social assistance court-ordered payments. Those related to payroll are not included, since the source of labor income information for calculating the HGDNI is the PNAD Continuous, according to the methodology available at Nota Técnica do Banco Central do Brasil 55 (Portuguese only).

17/ The credit balance growth in 2023 was higher than the December 2023 IR projection (6.8%). The difference is largely explained by the extraordinary review of real estate financing at regulated rates, released by the BCB on February 6, 2024.

**Figure 1.2.14 – Credit outstanding balance**

% year change

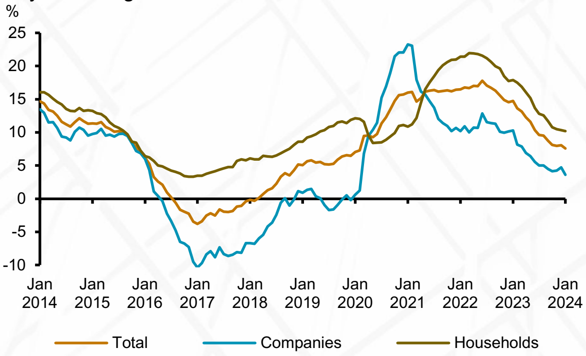



**Figure 1.2.15 – Non-earmarked interest rates**

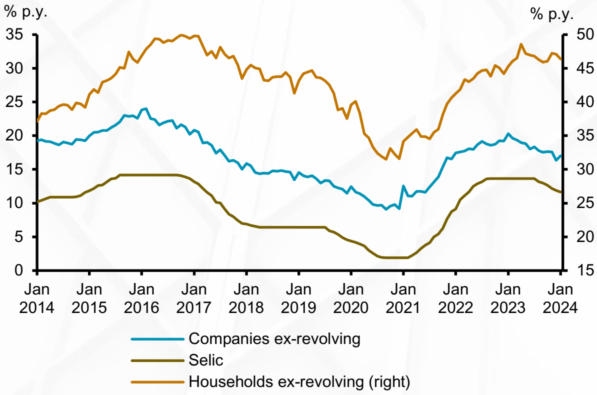
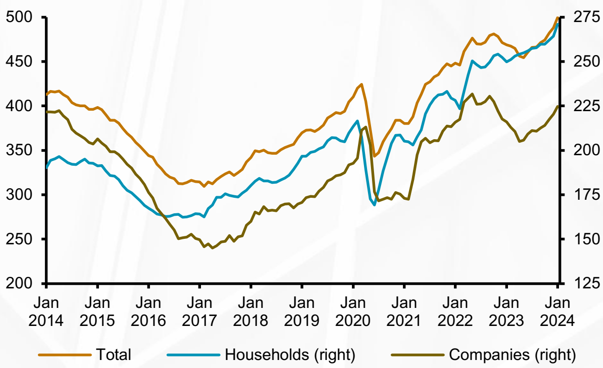



**Figure 1.2.16 – New non-earmarked credit operations**

BRL billion of Jan 2024, s.a., 3MMA




with a 14.5% growth in 2022. SFN interest rates followed the Selic rate trend and, in general, started to decline in the second half of the year. In the non-earmarked segment, household operations slowed down and credit composition worsened, being more concentrated in high-cost modalities. Corporate loans, both in the banking and capital markets, declined in the first half of 2023 – also reflecting the greater risk aversion associated with requests for judicial reorganization made by large companies – recovering in the second half. Finally, delinquency rose slightly in the year, although more recent data show improvement.

In 2023, Copom maintained the degree of monetary policy tightening throughout the first half of the year and started to reduce it as of August, but still preserving the contractionary stance.[18] The pass-through of the reduction of the basic interest rate to the credit cost has been occurring as expected. The model presented in the box "Selic rate pass-through to the bank credit market", of the September 2022 IR, predicts a decline of 1.5 p.p. from 2023Q2 to 2023Q4 in the average rate of the credit modalities considered in the exercise, while the actual decline was 1.8 p.p. In general, interest rates of ex-revolving modalities reached its peak in mid-2023.

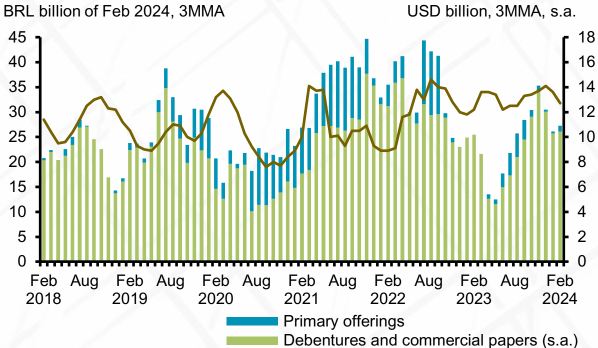
Credit granting remained relatively stable in 2023 in real terms (change of 0.1%), representing a significant slowdown over 2022 (10.6%). The deceleration was stronger in the first half of 2023 and widespread, taking place in the non-earmarked and earmarked segments, both in household and corporate loans.

This movement was stronger in the non-earmarked corporate segment, which declined in comparison with 2022 and was characterized in 2023 by two halves with marked differences. In this segment, the reduction of credit granting was concentrated in early 2023, when to the impact of the tightening monetary policy was added the increased risk aversion triggered by requests for judicial reorganization by large companies.[19] The modality of receivables, more impacted by "forfeit" operations, fell 8.0% in the first half of 2023, when compared with the second half of 2022 (according to deflated and seasonally adjusted data). A similar trajectory was observed in the domestic capital market, which in the first half saw a decline in issuances of debentures and promissory notes. With the reduction of the risk aversion and

18/ The Selic rate target fell from 13.75%, in August 2023, to 11.25% in January 2024.

19/ A more thorough discussion is available in the 2023 IRs, especially of June, and in the Financial Stability Report.

**Figure 1.2.17 – Non-banking corporate financing**




Source: BCB and Anbima

**Figure 1.2.18 – Non-earmarked household grants**

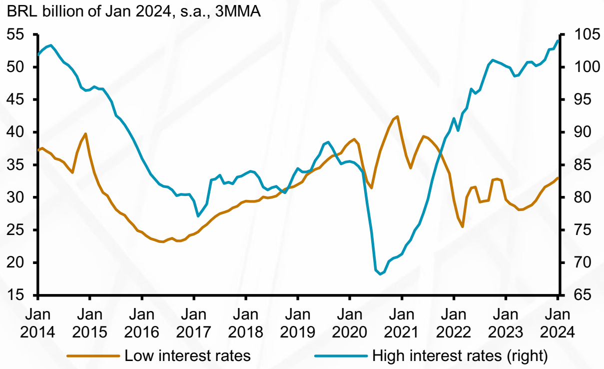



**Figure 1.2.19 – New earmarked credit operations**

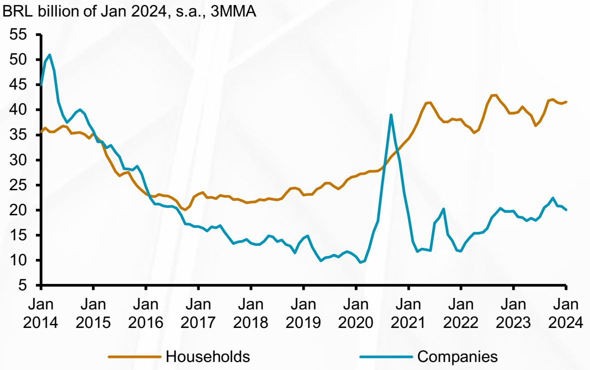
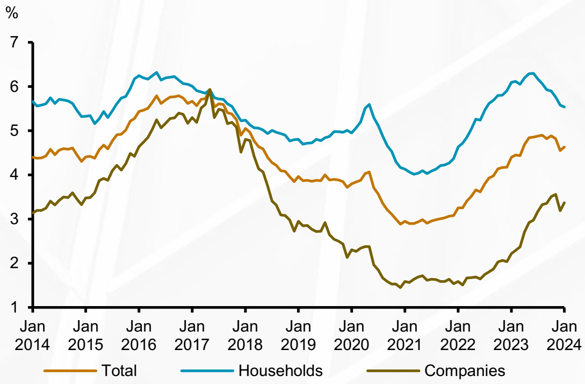



**Figure 1.2.20 – Non-earmarked 90 days past due loans**




concomitantly with the fall in the basic interest rate, corporate granting resumed growth in the second half, both in banking and capital markets. In this market, the volume of fundraising in the second half outweighed that observed in the same period of 2022. Nevertheless, the volume of primary issuances of stocks was relatively small throughout 2023.

Regarding the household segment, the deceleration in non-earmarked credit granting was followed by a relative worsening in the lending composition, with increased high-cost modalities[20] and reduced low-cost ones[21]. This outlook is associated with the environment of high interest and delinquency rates. Credit card spending increased throughout 2023 at a slower pace than in the previous years, indicating accommodation in the driving forces – the enlargement in the number of users and the replacement of other means of payment.

Earmarked credit granting also decelerated. In the household segment, the highlight was the drop in real estate financing in operations funded with resources from the Brazilian System of Savings and Loans (SBPE), only partially offset by the increase of loans under the *Minha Casa Minha Vida* program. The 26.8% increase in the budget of the Plano Safra 2023/2024 sustained a relevant growth pace of rural credit, which, however, was lower than in 2022. In the corporate segment, granting of rural credit and loans under the Pronampe and PEAC programs continued to rise strongly, while the National Development Bank (BNDES) financing declined in real terms.

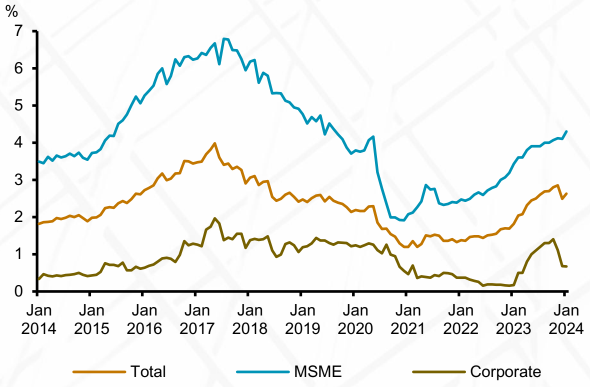
The delinquency rate of credit operations rose slightly, continuing the process started in 2022. The rise in 2023 was concentrated in corporate loans, mostly in the non-earmarked segment. Corporate delinquency, which was rising moderately until early 2023, rose sharply in 2023Q2 and 2023Q3, impacted by the growing arrears of a large retail company that requested for judicial reorganization. In late 2023, the corporate delinquency rate declined with the deceleration of the delinquency rate of micro, small, and medium-sized companies and the lower level of arrears of large corporations, due to the writing-off of a significant balance in the banks' portfolio.

In the household segment, in turn, delinquency dropped slightly in 2023. This movement took place

20/ High-cost modalities: overdraft facilities, non-payroll-deducted personal credit, other goods financing, credit card revolving credit, credit card financing, and other non-earmarked credit.

21/ Low-cost modalities: payroll-deducted credit, vehicles financing, leasing, and discount of checks.

Figure 1.2.21 – Companies 90 days past due loans




as of mid-2023 and was stronger in the higher risk and higher cost modalities. This decline is explained by the adoption by financial institutions of more strict criteria in new credit granting and the exclusion of old operations in arrears from the financial institutions' balances.

Considering the credit trajectory in 2023Q4 and the economic prospects for 2024, the projection for credit growth in 2024, detailed in a box of this IR, rose from 8.8% to 9.4%.

## Fiscal

After two consecutive annual surpluses, the consolidated public sector registered a primary deficit of BRL 249 billion (2.3% of GDP) in 2023.[22] An important reversal was observed in the Central Government balance, which registered a deficit of BRL 265 billion[23], compared with a surplus of BRL 55 billion in 2022. The balance of state-owned enterprises was also reverted from surplus to deficit in the same period, while the regional governments balance continued to be positive, although smaller.

**Table 1.2.4 – Public Sector Borrowing Requirements - Primary balance**
Accumulated in the year

BRL billion

| Itemization | 2021 | 2022 | 2023 |
|---|---|---|---|
| Central Government | 36 | -55 | 265 |
| o/w Federal Government | -212 | -317 | -42 |
| o/w INSS | 247 | 261 | 306 |
| Regional governments | -98 | -65 | -18 |
| State-owned companies | -3 | -6 | 2 |
| Total | -65 | -126 | 249 |

Positive values represent deficit and negative values represent surplus

The reduction of the primary surplus of subnational governments in 2023 is related to both the growth of expenses and the decline of revenues. It is worth highlighting the lower revenues on the State Tax on the Circulation of Goods and Services (ICMS) on fuels, electricity, and telecommunications, due to the Complementary Law (LC) 194/2022, offset by transfers established by the same Law in the amount of BRL 14.9 billion in 2023. The collection of the regional governments, in turn, was benefited by the introduction, in May for diesel and in June for other fuels, of the fixed rate (*ad rem*) ICMS, established by LC 192/2022.

The worsened Central Government fiscal balance was driven by the decline of net revenues (-2.2% in real terms) and, mainly, the sharp expansion of expenses (12.5%). Among expenses, the highlights were greater disbursements with social programs, authorized by the Constitutional Amendment (EC) 126/2022, and

22/ Data as GDP percentage correspond to those released in the January's fiscal statistics, before the release of the 2023 GDP by the IBGE. Therefore, they do not incorporate the new nominal GDP growth estimate, which is 0.13% lower than the previous forecast.
23/ This balance refers to the "below the line" concept, calculated by the BCB. In the "above the line" concept, calculated by the National Treasury Secretariat (STN), the 2023 deficit reached BRL 230.5 billion. This difference reflects, among other factors, the distinct accounting methodologies adopted by the BCB and the STN for the PIS/Pasep Program resources (BRL 26 billion) and the compensation to state governments (BRL 8.7 billion).

**Table 1.2.5 – Central Government primary balance**
Accumulated in the year

BRL billion - current values

| | 2022 | 2023 | Real var. (%) |
|---|---|---|---|
| 1. Total Revenue | 2,313 | 2,351 | -2.8 |
| 1.1 - Revenues Collected by the Federal Revenue Office | 1,390 | 1,439 | -1.0 |
| 1.2 - Fiscal Incentives | 0 | 0 | 32.9 |
| 1.3 - Net Social Security Revenues | 536 | 593 | 5.8 |
| 1.4 - Revenues Not Collected by the Federal Revenue Office | 388 | 320 | -21.1 |
| 2. Transfers by revenue sharing | 457 | 452 | -5.5 |
| 3. Net revenue (1-2) | 1,856 | 1,899 | -2.2 |
| 4. Total expenditure | 1,810 | 2,130 | 12.5 |
| 4.1 Social Security Benefits | 797 | 899 | 7.9 |
| 4.2 Payroll | 338 | 364 | 2.8 |
| 4.3 Other Compulsory Expenses | 303 | 358 | 12.2 |
| 4.4 Executive Branch Expenses Subject to Financial Programming | 371 | 510 | 31.3 |
| o/w Bolsa Família (Family Allowance) and Auxílio Brasil (Brazil Aid) | 88 | 166 | 80.4 |
| 5. Central government primary balance - above the line (3 - 4) | 46 | -231 | - |

Source: National Treasury

**Table 1.2.6 – PCQ: Recovery of revenues incorporated into the fiscal balance projection (March 24)¹**

BRL billion

| | 2024 | 2025 |
|---|---|---|
| 75th Percentile | 110 | 80 |
| Median | 82 | 55 |
| 25th Percentile | 70 | 20 |

¹ The results above refer to the following question: "Among the economic measures presented or under discussion to recover revenues, what value is incorporated in your projection of net revenue from the Central Government?"

**Table 1.2.7 – PCQ: Fiscal projections (March 24)**

| | Central Gov. primary balance (BRL billion) | Regional Gov. primary balance (BRL billion) | PSND (% GDP) | GGGD (%GDP) |
|---|---|---|---|---|
| 2024 | -82 | 10 | 63 | 77 |
| 2025 | -80 | 11 | 65 | 80 |

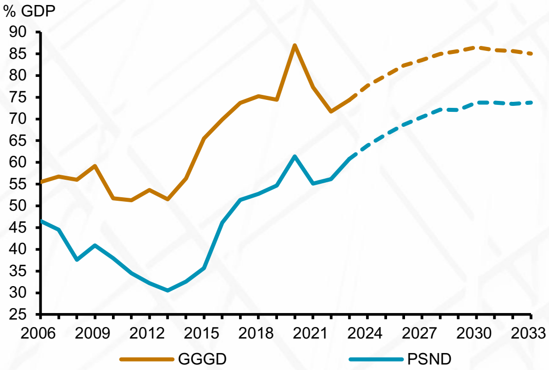
the BRL 92.4 billion in court-ordered payments in December, in view of the Federal Supreme Court (STF) decision that declared unconstitutional the provisions of EC 113 and EC 114[24]. Revenues, in turn, were influenced by the decline of commodity prices in BRL on the international market – which mostly affected the revenues on the exploit of natural resources – and by the reduction of the Tax on Industrialized Products (IPI) rates. Collection has also been negatively affected by the extended use of tax compensation, mainly due to the a STF ruling in 2021, according to which the ICMS is not comprised in the Social Integration Program (PIS)/Contribution for Social Security Financing (Cofins) calculation base.

Several legislative proposals of the Federal Government that were approved by the National Congress in late 2023 are expected to contribute to the recovery of revenues. Among them, noteworthy are the introduction of taxes on offshores, trusts, exclusive funds, and electronic betting; and the change in the treatment of subventions granted by federative units when paying federal taxes. In addition, proposals that partially revoke the payroll tax exemptions, limit the use of tax credit, and revise the Emergency Program for the Recovery of the Sector of Events (Perse) are also under the National Congress evaluation.

The magnitude of the impact of these measures is uncertain, and it should better observed throughout the year. However, some effects can be already noticed. Information from the Federal Revenue Board (FRB) for January show an atypical collection of BRL 4.1 billion relative to the tax on exclusive funds, which contributed to a 6.9% real growth in revenues managed by the FRB over the same month of the previous year. Nevertheless, Central Government total expenses also increased (6.8%) in the same period, reflecting the new police for minimum-wage hikes, the wage increase of public employees, and the indexation of expenses on health and education to revenues. Nevertheless, the Central Government reached a significant primary surplus in January (BRL 81 billion, against BRL 79 billion in January 2023), a month with favorable seasonality. With the contribution of the primary balance of BRL 23 billion of subnational governments (against BRL 22 billion in January 2023), the consolidated public sector registered a BRL 102 billion surplus in the month, similar to that observed in January 2023.

24/ EC 113 and 114 introduced a new regime for court-ordered payments by defining a cap for the amount to be paid.

**Figure 1.2.22 – Debt forecasts**



Forecasts from 2024 onwards correspond to 3.15.2023 Focus

Data from the Pre-Copom Questionnaire (PCQ) and the Focus Report show that, despite the recent approval of measures for the recovery of revenues and the significant primary balance in January, the assessment of economic analysts that the primary balance target should not be met in 2024 persists. Furthermore, analysts evaluate that the achievement of fiscal targets over the next years should also be challenging, since, in addition to uncertainty about the effectiveness of the revenue restoration measures, some of them should have non-recurring impacts.[25] Against this backdrop, the expected trajectory by most of analysts for the public debt over the next years continues to be of upward trend, with no perspective of stabilization in this decade.

## External accounts

**Table 1.2.8 – External accounts**

USD billion

| Itemization | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| Current account | -28 | -46 | -48 | -29 |
| Balance on goods | 32 | 36 | 44 | 81 |
| Exports | 211 | 284 | 340 | 344 |
| Imports | 178 | 248 | 296 | 264 |
| Services | -25 | -27 | -40 | -38 |
| of which: Travel | -2 | -2 | -7 | -8 |
| of which: Transport | -7 | -14 | -19 | -13 |
| Primary income | -38 | -59 | -57 | -72 |
| of which: Interests | -22 | -21 | -20 | -28 |
| of which: Dividends | -17 | -38 | -37 | -45 |
| Investment - liabilities | 17 | 106 | 95 | 91 |
| DI liabilities | 38 | 46 | 75 | 62 |
| Portfolio investments | -2 | 23 | -3 | 12 |
| Other investments¹ | -20 | 36 | 24 | 17 |

1/ Includes loans, commercial credits, deposits and other investments

The external accounts ended 2023 with a current account deficit of USD 29 billion (1.3% of GDP), slightly larger than projected in the December 2023 IR (USD 26 billion). The deficit reduced significantly in comparison with 2022, due to the strong increase in the trade balance, only partially offset by the expansion of net expenses in the primary income account. Direct investment liabilities net inflow added up USD 62 billion, slightly above the December 2023 IR projection but substantially below that of 2022.

The USD 81 billion trade balance was the largest of the time series, which began in 1995, significantly surpassing that of 2022 (USD 44 billion). This expansion reflected the moderate increase of exports – also reaching a record level – and, mainly, the sharp decline of imports. The growth of exports was driven by the increase in the volume shipped, especially of primary goods such as grains and oil. This expansion more than offset the widespread decline in the price of key commodities. Imports, in turn, declined as a result of decreases of both prices and volume. The latter factor is associated with the reduced need for precautionary inventories, in view of the easing of logistical dysfunctions in the world trade when compared with the previous year.

The deficit in the services account dropped slightly in comparison with 2022, to USD 38 billion. This

25/ This assessment, together with other issues about the fiscal policy analyzed in this paragraph, were presented in the 94$^{th}$ Cycle of Meetings of the BCB's Deputy Governor for Economic Policy with economists who participate in the Market Expectations System, held over 2024Q1.

**Figure 1.2.23 – Current account**

USD billion, 3mma s.a.

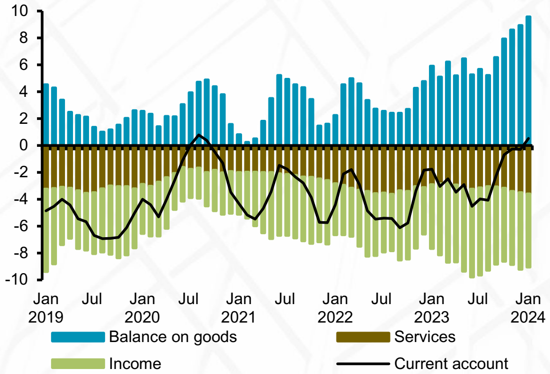
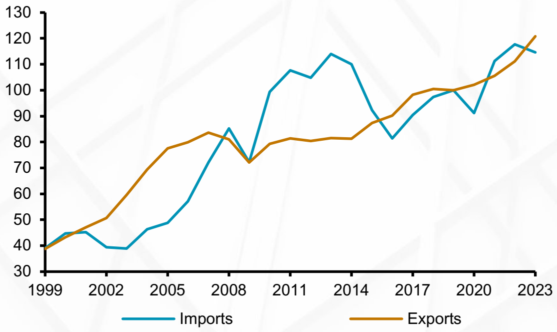



**Figure 1.2.24 – Quantum Index, yearly**

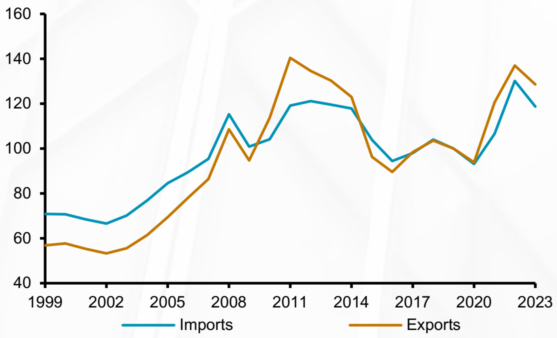
Index (2019=100)




Source: Secex/MDIC

**Figure 1.2.25 – Price Index, yearly**

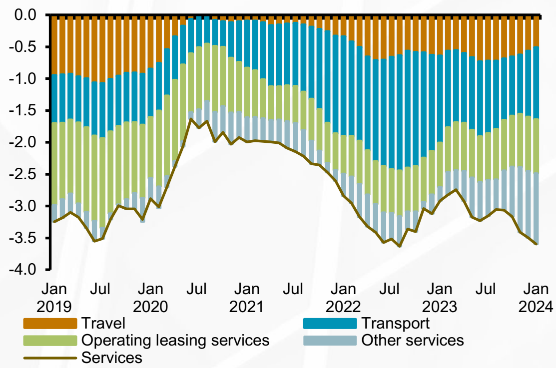
Index (2019=100)




Source: Secex/MDIC

**Figure 1.2.26 – Services**

USD billion, 3mma s.a.




falloff was driven by lower transport expenses, in view of the decline in freight prices with the normalization of supply chains and the reduction in the imported volume of goods. Conversely, there was a slight increase in net travel expenses (although remaining at a much lower level than in the pre-pandemic period), operating leasing services, and telecommunication and computer services.

The primary income account deficit grew significantly in 2023, reaching the historical record of USD 72 billion. Interest expenses increased significantly, reflecting tighter restrictive financial conditions in leading global economies. Net earnings expenses also increased, reaching the highest level since 2012, mainly due to the significant decline of revenues in this account.

In the financial account, net inflows of direct investment liabilities added up USD 62 billion, compared with USD 75 billion in 2022. The reduction compared with 2022 mostly reflected intercompany lending, which fell by USD 8 billion. The second source of decline was equity capital, except reinvested earnings, which dropped after the good performance of 2022.

The positive net inflow of portfolio investments (USD 12 billion), in turn, reflected the demand by non-residents for Brazilian securities, especially those issued in the country, a market in which government securities are predominant. The stable foreign interest in Brazilian securities, despite the fall in the interest rate differential, is consistent with the assumption of an improved external perception of the fiscal risk, which was also materialized in the substantial decline in the country's credit default swap (CDS) and in the greater exchange rate stability. As for securities abroad, the slightly positive result was influenced by well-succeeded issuances of sovereign bond in April and November.[26] Private issuances, in turn, registered a temporary rebound after April, which did not hold in a context of high interest rates in the U.S.

January 2024 results, in general, indicate the continuity of the external accounts dynamics registered in 2023. The highlight of the USD 5.1 billion current account deficit was the best trade balance result ever registered for this month. In the services account, telecommunications and information technology expenses registered the record value of

26/ The first issuance of sustainable security by the National Treasury (USD 2 billion) took place in November.

Figure 1.2.27 – Primary income

USD billion, 3mma s.a.

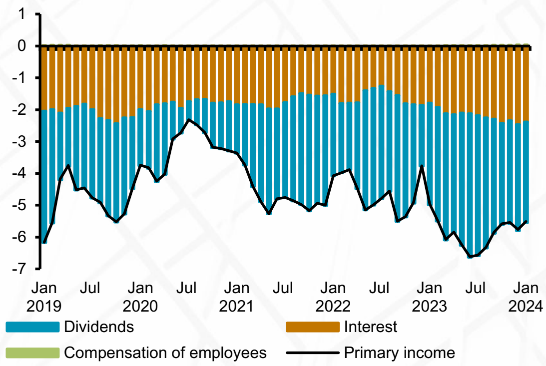
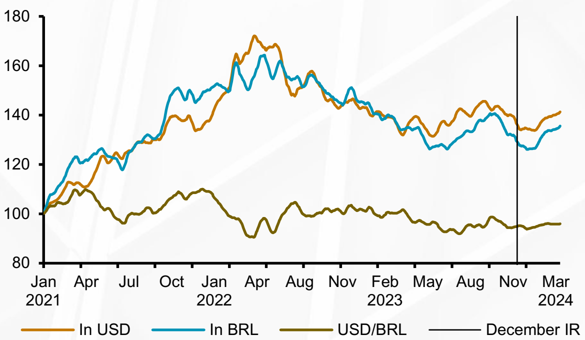



Figure 1.2.28 – IC-Br and foreign exchange rate

10-day moving average; Dec/31 2020 = 100




Sources: Bloomberg and BCB

the time series and increased the account's deficit. In the primary income, the highlight was higher interest expenses than in January 2023 on securities issued domestically, reflecting the increase of the foreign position. In the financial account, net inflows of both direct investment liabilities and portfolio investments registered positive results in the first month of the year. Particularly noteworthy, regarding portfolio investments, was the net inflow of USD 8 billion in debt securities, the largest since 2015 and the second best of the time series.

Considering data released since the December 2023 IR and the evolution of the prospects for economic activity and prices, mainly of commodities, the forecast for the current account deficit in 2024 was revised from USD 35 billion to USD 48 billion. The projection revision is detailed in a box of this IR.

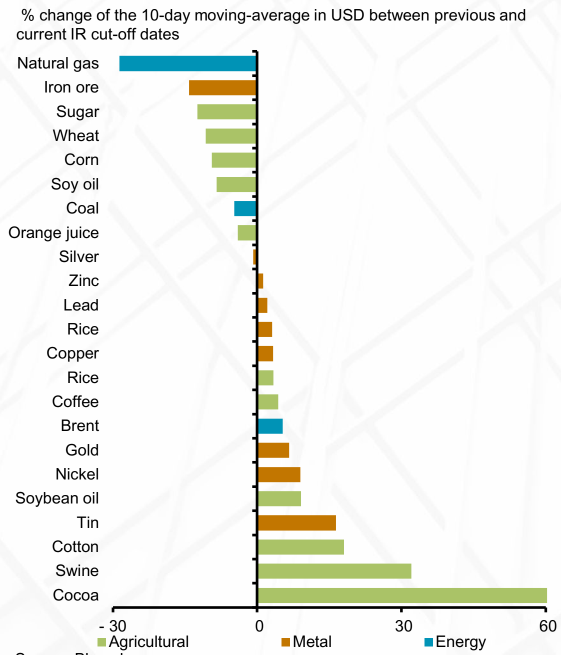
## Prices

The 12-month inflation decreased since the previous IR, according to the IPCA and the average of core inflation measures. However, in the quarterly metric, consumer price inflation increased. This movement was not restricted to the seasonality of the period. In the seasonally adjusted series, both headline inflation and the average of the core inflation measures increased, ending the Dec-Feb quarter at levels well above the inflation target. In turn, producer prices still suggest a prospect of moderate consumer price inflation for industrial goods, but the higher price increases at the final links of the production chain are a cause for concern. Finally, according to the Focus Report, inflation expectations for 2024 have decreased, with lower projections for administered prices, services, and industrial goods. Changes in expectations for longer horizons were small, remaining above the inflation target for the period.

The Commodities Index – Brazil (IC-Br) has been going through ups and downs since 2023Q2. The pattern can be seen in both BRL and USD measured indexes. This recent evolution contrasts with the early years of the Covid-19 pandemic when a long upward cycle until 2022Q2 was partially reverted by a sequence of falls. In the current quarter, the IC-Br rose 3.7% in USD and 4.9% in BRL, given the 1.1% depreciation of the domestic currency.[27]

27/ The IC-Br and the exchange rate changes discussed in this section refer to the 10-day moving average between the respective IR closing dates.

**Figure 1.2.29 – Change in commodity prices**



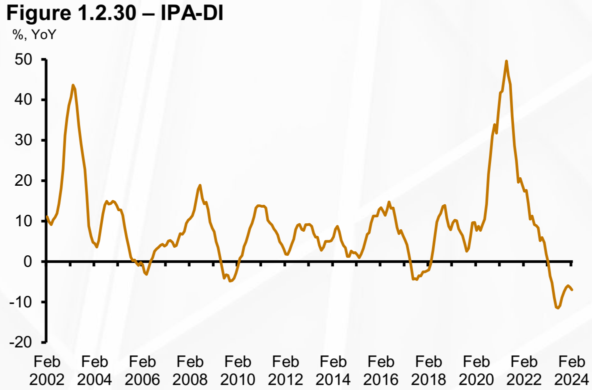

Source: Bloomberg

This rise in the IC-Br in the quarter mainly reflects the evolution of agricultural commodity prices, which, in aggregate terms, have risen 4.3% since the previous IR. International prices of cocoa, cotton, and fed cattle increased significantly. News about the sector indicates that the rise in cocoa prices is associated with supply restrictions in the leading producing countries, partially due to adverse weather conditions. Regarding cotton and fed cattle, there are also indications of the influence of supply factors, particularly in the U.S. market. Conversely, the prices of corn, soybean oil, sugar, and wheat, products wigh a significant weight in terms of the global production value, have fallen since the previous IR. This movementd is generally associated with a more favorable prospect for the global supply of these products. In particular, regarding corn and soybeans, the reduction expected in the 2023/2024 Brazilian crop has been offset by the recovery in the Argentine production after the crop failure in 2022/2023.[28]

The aggregate of energy commodities, meanwhile, fell 0.6% since the previous IR, explained by declines in the prices of natural gas in the U.S. and coal in Europe. In broad terms, the movement of both products seems to be associated with the more abundant supply of natural gas and the milder winter in the northern hemisphere. Brent-type oil, in turn, rose 5.3% in the period. This commodity supply restrictions under OPEC+ remain relevant, as do the uncertainties arising from geopolitical tensions in the Middle East.

Finally, metal commodities rose 5.5% in the quarter, mainly following the evolution of tin prices. Iron ore, which had risen in the previous quarter, fell again.

**Figure 1.2.30 – IPA-DI**



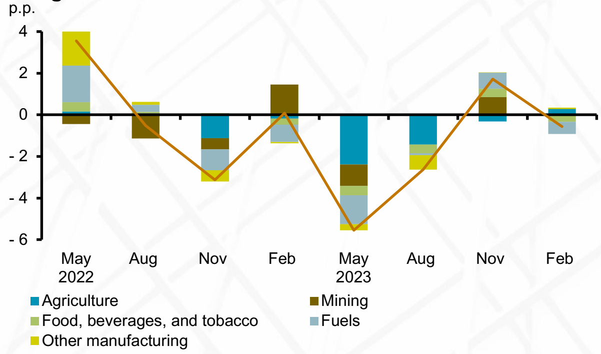

Source: FGV

The Producer Price Index (IPA-DI), after rising in the previous quarter, dropped again in the Dec-Feb quarter, by 0.6%. The result mainly reflected the observed declines in oil derived goods and industrialized food. The 12-month IPA-DI change remained negative (-7.0%), at a level that is similar to the observed in the previous quarter.

The prices of agricultural products rose 1.1% in aggregate terms, interrupting a sequence of falls observed since 2022Q4. The largest contributions to this result came from fresh food – in addition to typical price increases at this time of year, the supply of these products was hampered by climate

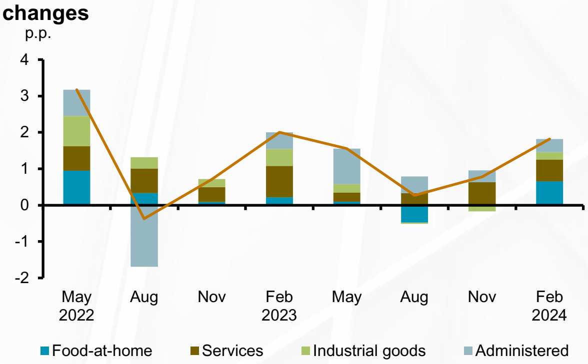
28/ According to estimates in the latest monthly report from the U.S. Department of Agriculture (USDA), Argentina and Brazil will jointly produce 7% more corn and soybeans than in the previous harvest.

Figure 1.2.31 – Contributions to quarterly IPA-DI change




Source: FGV

Figure 1.2.32 – Contributions to IPCA quarterly changes




Sources: IBGE and BCB

adversities caused by *El Niño*. Besides fresh food, the prices of corn, coffee, rice, and beans rose sharply. In the opposite direction, soybeans fell again, in line with international prices. More recently, higher frequency data show that the price of rice is already declining, with the arrival of the new harvest ino the country, and that the price of cotton rose strongly, following international market prices.

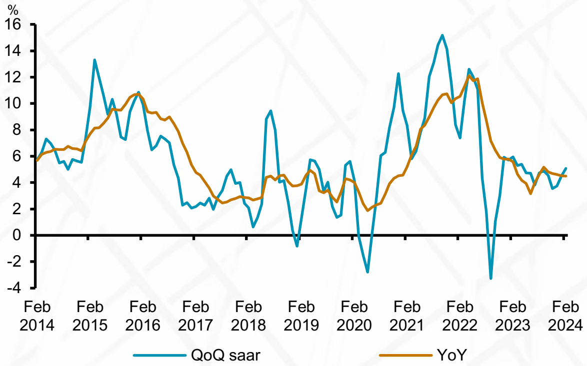
Producer prices in the industrial segment fell in the Dec-Feb quarter. The evolution in the price of diesel – which was determinant to the rise in industrial prices in the previous quarter – now contributed to the fall in this segment. Similarly, in the group of industrialized food products, prices dropped significantly in both sugar and soybean meal and oil, reflecting the international trajectory.

Excluding fuels and industrial food products, whose prices are highly volatile, manufacturing prices were close to stability in the Dec-Feb quarter (0.14%). This aggregate of products has shown very slight changes since the second half of 2022, accumulating a 2.3% decline in 12 months. Conversely, the prices of consumer goods excluding food and fuels rose 0.64% in the Dec-Feb quarter, accumulating a 2.5% increase in 12 months. This modestly higher change in goods at the final link of the production-to-consumption chain may represent incipient signs of pressure on consumer goods prices. However, the behavior of producer prices in the quarter, in general, is still compatible with low consumer price inflation for industrial goods.

Consumer prices as measured by the IPCA rose 1.82% in the Dec-Feb quarter, well above that of the Sep-Nov quarter (0.78%). This stronger change partly reflects the typical pattern of the period but can also be seen in the seasonally adjusted series. The saar IPCA change grew from 3.54% in November to 5.08% in the Dec-Feb quarter. In the same period, the average of core inflation measures rose from 3.41% to 4.08%, indicating that the inflation increase was not restricted to the most volatile products in the basket.

The 12-month change in the IPCA fell from 4.68% in November to 4.50% in February, a movement also observed in the average of the core inflation levels (from 4.56% to 4.01%). The lesser change in the IPCA reflects, among the major segments, the slowdown in industrial goods, administered prices, and the ex-underlying component of services. In

**Figure 1.2.33 – IPCA**




Sources: IBGE and BCB

**Figure 1.2.34 – Average of core inflation measures**

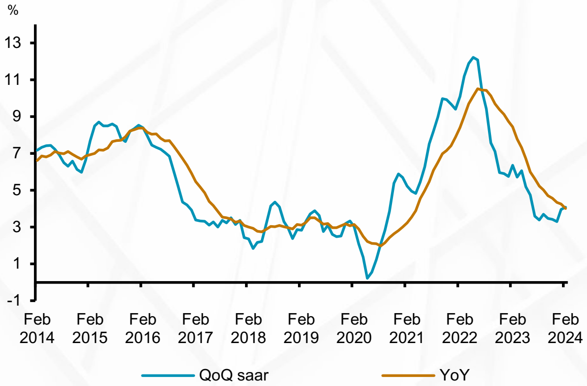
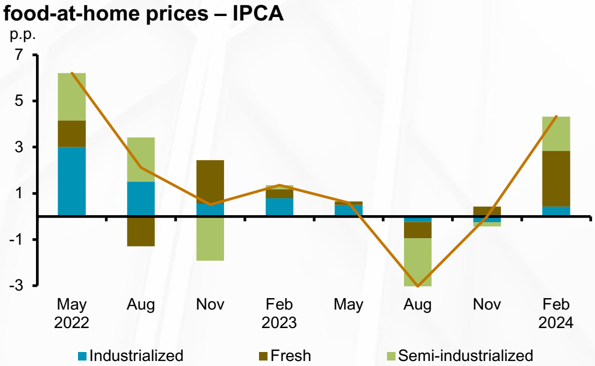
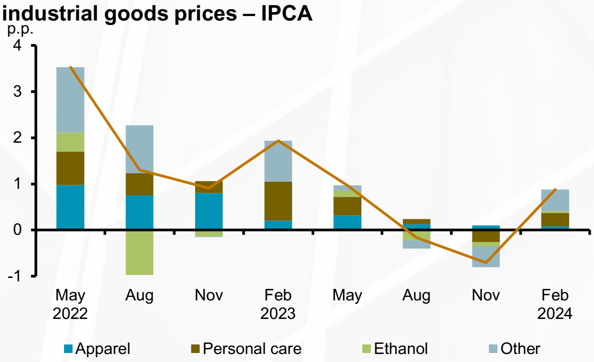



**Figure 1.2.35 – Contributions to quarterly changes in food-at-home prices – IPCA**




Sources: IBGE and BCB

**Figure 1.2.36 – Contributions to quarterly changes in industrial goods prices – IPCA**




Sources: IBGE and BCB

the opposite direction, the food-at-home segment, which was down 1.14% YoY in November, turned to an 1.77% YoY increase in February. In the same metric, the underlying component of services inflation also increased, from 4.78% in November to 4.89% in February, corroborating the expectation of a slower deceleration of prices for the rest of the year.

Looking at quarterly changes, food-at-home prices rose sharply in the Dec-Feb quarter (4.33%) compared with -0.01% in the Sep-Nov quarter. The acceleration in this group of prices, which was expected in the previous IR, can also be seen in the seasonally adjusted series. Therefore, in addition to seasonality, the result may reflect the impact of climate adversities on food supply, especially for fresh products. In this group, particularly noteworthy were the change observed in sub-items such as potatoes, bananas, tomatoes, and carrots. Among semi-industrialized food, the price of rice registered another significant rise, now accompanied by the price of beans. Long-life milk, which had been contributing to the fall in prices in this segment, increased in the Dec-Feb quarter.

Industrial goods prices increased 0.87% in the Dec-Feb quarter, after negative changes in the Jun-Aug and Sep-Nov quarters. Even though the magnitude of the increase was limited, the result represents an acceleration compared with the previous period, also observable in the seasonally adjusted series. Both the change in the quarter and the acceleration in relation to the previous period had an important contribution from personal hygiene, a volatile item with a high weight. However, the movement was not restricted to this item and was relatively widespread. Among the components whose price changes were higher than in the Sep-Nov quarter measures, significant contributions came from mobile phones, books and magazines, household appliances, TV, stereos and computers, new and used cars.

Prices in the services segment rose 1.69% in the Dec-Feb quarter, slightly less than in the Sep-Nov quarter. In saar terms, prices in the segment increased by 4.22% in the period, slowing down compared with the previous quarter. The underlying and ex-underlying components evolved quite unevenly in the period. While the ex-underlying component slowed down significantly, the opposite was observed for the underlying component. This difference is not explained by seasonal differences and is also observed in the seasonally adjusted series.

**Figure 1.2.37 – Industrial goods inflation**

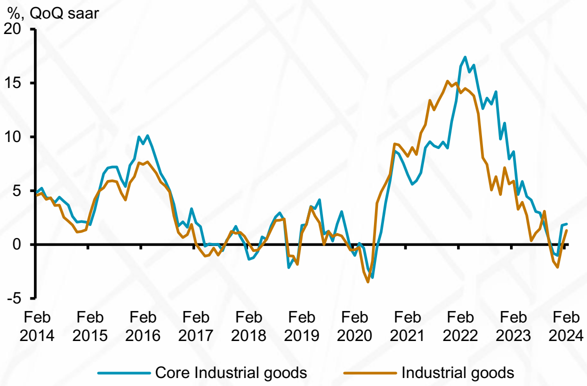
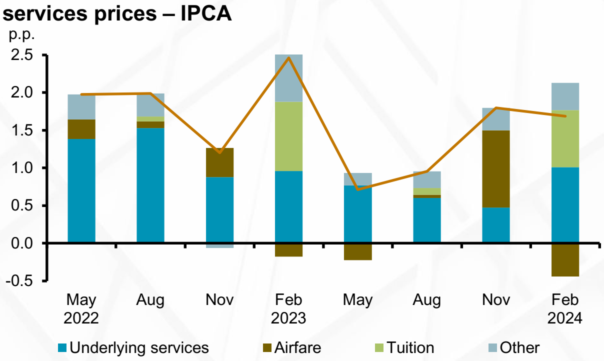



**Figure 1.2.38 – Contributions to quarterly changes in services prices – IPCA**




Sources: IBGE and BCB

**Figure 1.2.39 – Services inflation**

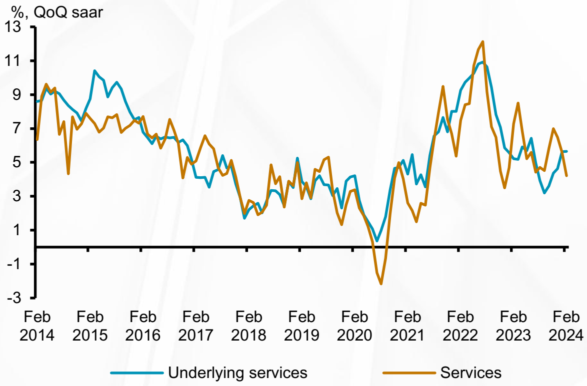
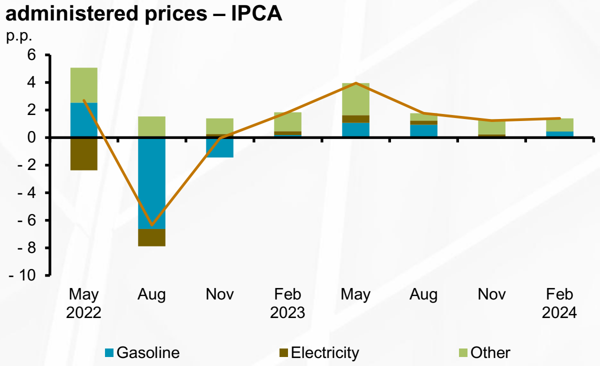



**Figure 1.2.40 – Contributions to quarterly changes in administered prices – IPCA**




Sources: IBGE and BCB

Compared with the Sep-Nov quarter, the services ex-underlying component incorporated the adjustment in tuition fees recorded in the February IPCA. However, a sharp reversal occurred in airfare, which had risen 67.20% in the previous period and fell 17.59% in the Dec-Feb quarter.

The underlying component of services inflation rose 1.71% in the Dec-Feb quarter, compared with 0.79% in the previous quarter. The acceleration in prices was relatively widespread, with significant contributions from vehicle insurance, car repairs, banking, food-outside-home, and more labor-intensive services (medical and dental services, manicures, and hairdressing and barbering). In saar terms, underlying services inflation rose to 5.66% in the Dec-Feb quarter, up from 4.37% in the previous quarter. In a longer view, this trend, which has so far been marked by oscillations, corroborates the prospect of a more gradual slowdown for this component throughout the year.

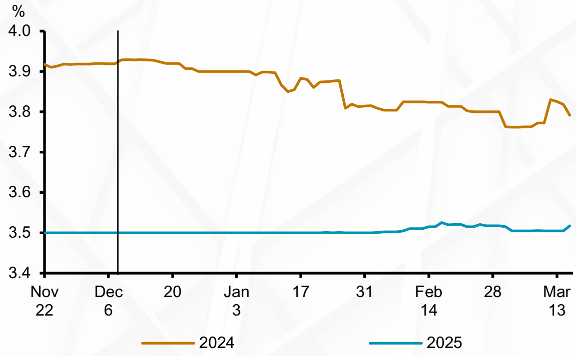
Finally, administered prices registered slightly higher increases, of 1.39% in the Dec-Feb quarter, compared with 1.24% in the Sep-Nov quarter. This movement was largely influenced by the rise in the price of gasoline, which reflects the increase in the ICMS *ad rem* on fuel in early February. Higher changes were also seen in urban buses and pharmaceutical products. In the opposite direction, license plates and car licenses changed less. Until December, the sub-item showed monthly changes equivalent to an annual adjustment of 21.2%, and from January onwards it incorporated monthly changes equivalent to an annual reduction of -1.3%.

The median expectation for inflation in 2024 decreased since the previous IR, from 3.93% to 3.79%. The analysis of projections disaggregated by segments indicates a prospect of lower increases for industrial goods, services, and administered prices. Based on the evolution of the answers to the PCQ, the downward revision of administered prices seems to reflect, to a large extent, the surprise of the sub-item license plates and licenses in the January IPCA, whose change shall repeat in the other months of 2024. Also based on the answers to the PCQ, the revision of services inflation may be related to the lower projection for the airfare subitem. In the same comparison period, the PCQ's median projection for underlying services inflation increased.

**Table 1.2.9 – Breakdown of the revision on the 2024 Focus survey**

| | Weights | Focus expectations (% p.a.) | | |
|---|---|---|---|---|
| | | Dec-8 | Mar-15 | Contr. to ” (p.p.) |
| **IPCA** | **100** | **3.93** | **3.79** | **-0.14** |
| IPCA (by aggregation) | 100 | 3.90 | 3.74 | -0.15 |
| Food-at-home | 15 | 4.04 | 4.09 | 0.01 |
| Industrial goods | 23 | 2.32 | 2.21 | -0.03 |
| Services | 36 | 4.50 | 4.30 | -0.07 |
| Administered prices | 26 | 4.41 | 4.16 | -0.06 |
| Market prices | 74 | 3.75 | 3.63 | -0.08 |
| Market prices (by aggreg.) | 74 | 3.72 | 3.60 | -0.09 |

**Figure 1.2.41 – Median market expectations (Focus) – 2024 and 2025 IPCA**




For 2025 and 2026, the median expectations remained close to 3.50%, above the inflation target for the period. According to Copom's assessment, recorded in its latest meeting minutes, the reduction of expectations requires a firm action of the monetary authority, as well as the continuous strengthening of the credibility and reputation of both the institutions and the fiscal and monetary frameworks that make up the Brazilian economic policy.

# Revision of the 2024 GDP projection

**Table 1 – Gross Domestic Product**
Accumulated in the year

% growth

| Itemization | 2023 | 2024[1] | |
|---|---|---|---|
| | | Previous | Current |
| Agriculture | 15.1 | 1.0 | -1.0 |
| Industry | 1.6 | 1.7 | 2.2 |
| Mining | 8.7 | 2.0 | 3.0 |
| Manufacturing | -1.3 | 1.3 | 1.7 |
| Construction | -0.5 | 1.0 | 2.5 |
| Public utilities | 6.5 | 4.4 | 3.5 |
| Services | 2.4 | 1.9 | 2.0 |
| Trade | 0.6 | 2.1 | 1.9 |
| Transportation and storage | 2.6 | 1.1 | 1.8 |
| Information services | 2.6 | 2.2 | 1.8 |
| Financial and related services | 6.6 | 2.2 | 2.4 |
| Other services | 2.8 | 2.0 | 2.3 |
| Real estate | 3.0 | 2.4 | 2.4 |
| Public admin., health and education | 1.1 | 1.3 | 1.5 |
| Value added at basic prices | 3.0 | 1.8 | 1.9 |
| Taxes on products | 2.1 | 1.6 | 1.8 |
| **GDP at market prices** | **2.9** | **1.7** | **1.9** |
| Household consumption | 3.1 | 2.3 | 2.3 |
| Government consumption | 1.7 | 1.1 | 1.9 |
| Gross Fixed Capital Formation | -3.0 | 1.0 | 1.5 |
| Exports | 9.1 | 1.5 | 0.5 |
| Imports | -1.2 | 2.5 | 3.0 |

Source: IBGE and BCB
1/ Estimated.

The baseline projection for the Gross Domestic Product (GDP) growth in 2024 rose from 1.7% to 1.9%. This moderate revision mainly reflects the higher-than-expected dynamics in early 2024, as suggested by available indicators.

Qualitatively, the forecast is similar to that of the December 2023 IR. On the supply side, growth is expected to be less affected by the less cyclical economic sectors – notably agriculture and mining – than it was in 2023. On the demand side, household consumption is expected to grow more slowly, given the lower impulse from government transfers. The external sector should have a negative net contribution, with increased imports and lower expansion of exports, amid expectations of a more modest performance of agriculture and mining. Gross Fixed Capital Formation (GFCF), in turn, is expected to resume growth, supported by less restrictive monetary conditions.

On the supply side, the higher GDP projection than that released in the December 2023 IR results from increased growth prospects for industry and services. On the other hand, the projection now incorporates decline in agriculture (-1.0%, against growth projection of 1.0%). This revision particularly reflects the lower forecasts for agricultural production in 2024, in view of uneven rainfall and high temperatures in a large part of the country's main producing regions.[1]

In industry, the projection rose from 1.7% to 2.2%, with worsened prospects for "utilities" and improved ones for the other sectors. Regarding construction and mining, the revision mainly reflects positive surprises in 2023Q4, which leave a higher statistical carry-over for 2024. In manufacturing, already available indicators for 2024 suggest that the expansion in 2024Q1 should be higher than previously expected. Normalized inventories and improved business confidence also contribute to greater expansion of the sector. As for the decline in the forecast for "utilities", it results from a slightly lower-than-expected performance in 2023Q4 and the expectation of thermal power plants having in 2024 a larger share in electricity production.[2]

1/ At the time of the December 2023 IR, the Brazilian Institute of Geography and Statistics (IBGE) released a forecast of a 2.8% reduction in the harvest of grains over 2023, while the more recent estimate – presented in the March Systematic Agricultural Survey (LSPA) – indicates a 4.7% decline. As for the estimates of the National Supply Company (Conab), the variation in the harvest of grains 2023/2024 over 2022/2023 went from -1.9% to -7.6%.

2/ This expectation, still highly uncertain, is due to the lower levels of hydroelectric reservoirs in early 2024 than in the same period of 2023, although well above the average of the recent years. Moreover, the affluent natural energy (i.e., electricity that can be generated by the waterflow into the reservoirs) has been below the recent historical average.

The growth projection for the services sector was slightly increased, from 1.9% to 2.0%. Main contribution to this expansion came from more favorable forecasts for “other services”, “administration, public health and education” and “transportation, storage, and mailing”. In the opposite direction, it stands out the reduction in the estimated growth in the trade sector. The revisions, almost entirely of low magnitude, reflect, in general, surprises in 2023Q4 and the first available indicators for 2024.

As for the domestic components of the aggregate demand, the estimated expansion of household consumption was maintained at 2.3%, while government consumption rose from 1.1% to 1.9% and GFCF from 1.0% to 1.5%. For maintaining the forecast of household consumption in 2024, factors with opposing effects come into play. On the one hand, the surprising decline of household consumption in 2023Q4 resulted in a lower statistical carry-over than expected. On the other hand, the recent positive dynamics in the labor market stands out. The higher forecasts for government consumption and GFCF largely stem from the 2023Q4 surprises. The higher forecast for GFCF also reflects the first 2024 indicators, which show increased production and imports of capital goods.

Exports and imports in 2024 are expected to vary by 0.5% and 3.0%, respectively, compared with previous projections of 1.5% and 2.5%, in the same order. The lower forecast for exports results from a reduction in the estimated exports of services and agricultural goods. Regarding the slight positive revision of imports, it mainly reflects increased estimates for the imports of services and capital goods, driven by imports data released since the previous IR.

Given the revised estimates for the aggregate demand components, the respective contributions of domestic demand and the external sector to the GDP growth in 2024 are 2.3% and -0.4%.

# Projection for credit growth in 2024

This box presents the revised projection for the National Financial System (SFN) nominal credit growth for 2024 (Table 1).

Since the December 2023 IR, credit market data came in above expectations, mainly in the non-earmarked segment. Furthermore, in the earmarked segment, real estate financing data was revised, resulting in a higher credit balance statistic for this modality since February 2023. These factors contributed for the credit balance to grow 8.1% in 2023, above the 6.8% projection of the previous IR. Nevertheless, the growth pace decelerated significantly in comparison with 2022, reflecting the contractionary monetary policy stance, the high household debt-to-income level, and the increased risk aversion by financial institutions, as discussed in Chapter 1 of this IR.

For 2024, the projected credit balance growth rose from 8.8% to 9.4%. The projected growth of non-earmarked household credit grew from 9.0% to 10.0%, while non-earmarked corporate credit increased from 7.0% to 7.5%. Both revisions reflect surprising 2023Q4 data, with increased credit granting and lower delinquency rates, coupled with the upward revision in the GDP growth forecast. The growth projection for the earmarked household segment was adjusted from 10.0% to 10.5%, reflecting the revision of real estate financing data in 2023. Finally, the forecast for the expansion of earmarked corporate credit was kept at 9.0%, with the maintenance of the scenario of moderate expansion of rural credit and BNDES financing.

In short, new projections for the growth of credit balance in 2024 are slightly higher than in the previous IR, and they continue to indicate a recovery process in the credit growth pace, in nominal and real terms, consistent with the decreasing monetary tightening phase that has been ongoing since mid-2023.

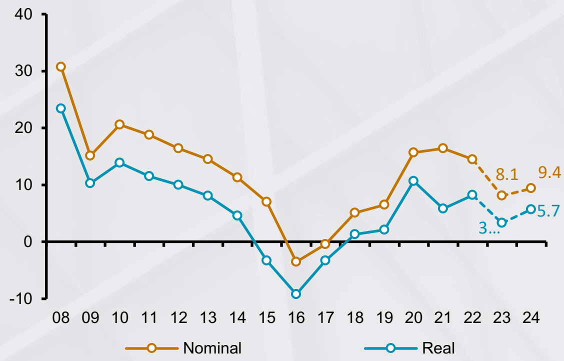
**Table 1 – Credit balance**

12-month % change

| | Occurred | | | Proj. 2024 | |
|---|---|---|---|---|---|
| | 2022 | 2023 | Jan 2024 | Previous | Current |
| Total | 14.5 | 8.1 | 7.6 | 8.8 | 9.4 |
| Non-earmarked | 14.9 | 5.5 | 4.6 | 8.1 | 8.9 |
| Households | 17.5 | 8.2 | 8.1 | 9.0 | 10.0 |
| Corporations | 11.9 | 2.2 | 0.1 | 7.0 | 7.5 |
| Earmarked | 14.0 | 11.9 | 12.0 | 9.7 | 10.0 |
| Households | 18.0 | 13.1 | 12.9 | 10.0 | 10.5 |
| Corporations | 6.9 | 9.6 | 10.2 | 9.0 | 9.0 |
| Total Households | 17.7 | 10.4 | 10.2 | 9.4 | 10.2 |
| Total Corporations | 10.1 | 4.7 | 3.6 | 7.7 | 8.0 |

**Figure 1 – Total credit outstanding**

% year change



# Projections for the external accounts in 2024

This box presents the revised projections for the external accounts of the Brazilian economy for 2024. The outlook continues favorable, characterized by a high trade balance surplus, albeit lower than in 2023; a moderate current account deficit; and a recovery in the net inflows of direct investment liabilities, whose amount should be more than sufficient to finance the current account deficit.

The only change in the projections for the analyzed items occurred for the trade balance and, thus, in the current account balance. The current account deficit projected for 2024 is USD 48 billion (2.1% of GDP), higher than the previous projection (USD 35 billion). This increase is due to the downward revision in the projected trade balance surplus, from USD 73 billion to USD 59 billion (2.5% of GDP). Projections for the services, primary income, and direct investment liabilities were not changed.

**Table 1 – Projections for the external accounts**

USD billion

| Itemization | 2023 | 2024 | 2024 Forecast | |
|---|---|---|---|---|
| | Year | Jan | Previous | Current |
| Current account | -29 | -5 | -35 | -48 |
| Balance on goods | 81 | 4 | 73 | 59 |
| Exports | 344 | 27 | 343 | 330 |
| Imports | 264 | 23 | 270 | 271 |
| Services | -38 | -3 | -40 | -40 |
| of which: Travel | -8 | 0 | -12 | -12 |
| of which: Transport | -13 | -1 | -14 | -14 |
| Primary income | -72 | -6 | -68 | -68 |
| of which: Interests | -28 | -4 | -29 | -29 |
| of which: Dividends | -45 | -2 | -39 | -39 |
| Investment - liabilities | 91 | 17 | 80 | 80 |
| DI liabilities | 62 | 9 | 70 | 70 |
| Portfolio investments | 12 | 7 | 10 | 10 |
| Other investments[1] | 17 | 2 | 0 | 0 |

1/ includes loans, commercial credits, deposits, and other investments

The worsening of the trade balance mainly reflected the downward revision in the projected value of exports, reflecting lower prices, especially of soybeans, in view of the prospect of a robust global supply. In addition, a bigger decline in the shipments of soybeans and corn is expected, although the negative impact in the total volume of exports is partially offset by positive revisions in other primary goods, such as meat and oil.

The projection for exports remained relatively stable. On the one hand, imports of capital goods were revised upwards. On the other hand, it stands out the prospect of lower imported value of intermediate goods, as a result of expectations of lower prices, more than offsetting the recent imported volume recovery after the end of the drought in the Amazon basin.

The projection for the services account was maintained. The deficit in this account, higher than in 2023, is due to greater convergence of net travel expenses to the level observed before the pandemic, and to some stability in the other categories, as transport. The projection for the primary income account, which was also maintained, assumes increased net interest expenses, in line with the lagged effects of the higher level of interest rates in major economies; and decreased net income expenses, reflecting moderation after exceptionally high gains in the first half of 2023.

Net inflows of direct investment liabilities are expected at USD 70 billion, equivalent to 3.0% of GDP. It means a slight increase in comparison with 2023, converging to a level consistent with the historical average in terms of GDP percentage. Even though the projection was maintained since the December 2023 IR, the recent dynamics suggests increased contribution of equity capital and decreased contribution of intercompany transactions – a component that has been more volatile over the recent years. As for portfolio investments, expected net inflows – slightly lower than in 2023 – should be concentrated in debt securities. The higher foreign demand for government securities issued in the country might be associated with a perception of more moderate fiscal risk than in 2023 and with lower exchange rate volatility.

**Figure 1 – Current account**

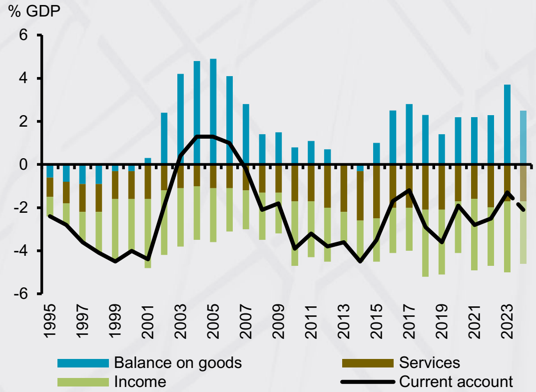



**Figure 2 – Investment – liabilities**