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Monetary Policy Report

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Statistical conventions

- ... data not available.
- nil or non-existence of the event considered.
- 0 or 0.0 less than half the final digit shown on the right.
- * preliminary data.

Hipphen between years indicates the years covered, including the first and the last year.

A bar (/) between years (1970/1975) indicates the average of the years covered, including the first and the last year or even crop or agreement year, when mentioned in the text.

Occasional discrepancies between constituent figures and totals as well as percentage changes are due to rounding.

There are no references to sources in tables and figures originated in the Banco Central do Brasil.

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Monetary policy framework in Brazil

Legal framework

The conduct of monetary policy by the Banco Central do Brasil (BCB) follows the institutional framework outlined below:

- i. **BCB objectives:** The BCB's fundamental objective is to ensure price stability. Without compromising its fundamental objective, the BCB also aims to ensure the stability and efficiency of the financial system, smooth out economic activity fluctuations, and foster full employment ([Complementary Law 179 of February 24, 2021](#)).
- ii. **Inflation-targeting regime:** The objective of ensuring price stability is pursued through the inflation-targeting regime. Under this framework, the National Monetary Council (CMN) sets an inflation target along with a tolerance interval, and the BCB is responsible for implementing the policies necessary to meet the target. From 1999 to 2024, the target referred to the calendar-year inflation ([Decree 3,088 of June 21, 1999](#)). As of January 2025, the target refers to the 12-month inflation, measured every month ([Decree 12,079 of June 26, 2024](#)). Under this system, also known as "continuous target" framework, compliance with the target is assessed every month rather than being restricted to December of each year.

The breach of the target occurs when inflation falls outside the tolerance interval for six consecutive months. In this case, the BCB must publicly disclose the reasons for the target breach through a note in the Monetary Policy Report and an open letter addressed to the Minister of Finance. These documents must contain a detailed description of the causes of the breach, the measures required to ensure the return of inflation to the tolerance interval, and the expected time frame for the measures to take effect. Another note and open letter must be issued if inflation does not return to the tolerance interval within the time frame stipulated, or if the BCB considers it necessary to update the measures or the expected time frame for inflation to return to the tolerance interval.

- iii. **Target and tolerance interval:** The inflation target set by the CMN for the period starting in January 2025 is 3.00%, as measured by the change in the Extended National Consumer Price Index (IPCA), with a tolerance interval of minus 1.50 p.p. and plus 1.50 p.p., i.e., from 1.50% to 4.50% ([CMN Resolution 5,141 of June 26, 2024](#)).

Monetary Policy Committee – Copom

Copom is the BCB's decision-making body, composed of its Governor and Deputy Governors, which sets, every 45 days, the economy's base interest rate – the Selic rate. The Committee relies on a broad set of information for its decision-making process. During Copom meetings, the BCB's staff provides technical presentations on the developments and outlook for the Brazilian and the global economy, liquidity conditions, and market behavior. The decision is based on an assessment of the macroeconomic scenario and its main associated risks, aiming to keep inflation aligned with the target set by the CMN.

Transparency and accountability are fundamental elements in the conduct of monetary policy. The main monetary policy documents are:

- i. **Statement:** published immediately after the end of the Copom's meeting, from 6:30 pm on, it contains the Committee's decision, the key elements supporting it, and the votes of each member.
- ii. **Minutes:** released four business days after the meeting, they provide a more detailed account of the analyses and discussions.
- iii. **Monetary Policy Report (MPR):** published by the last day of each calendar quarter, this report details recent developments and the outlook for the economy, with a focus on inflation prospects. This document was called Inflation Report between 1999 and 2024.

Further details at [Monetary policy \(bcb.gov.br\)](https://www.bcb.gov.br/monetary-policy).



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Executive summary

The global environment remains adverse and continues to require caution from emerging market economies. The scenario is particularly uncertain due to the economic policy and economic outlook in the U.S., mainly regarding its trade and fiscal policies and their effects. The behavior and the volatility of different asset classes have also been impacted, altering global financial conditions. The escalation of geopolitical tensions adds further uncertainty to this outlook.

On the domestic front, economic activity and labor market data came in slightly stronger than expected. GDP grew 1.4% in 2025Q1, with notable performance from sectors less sensitive to the economic cycle, particularly agriculture. The unemployment rate declined again, accompanied by increases in both the employment level and the labor force participation rate. The GDP growth projection for 2025 was revised upward from 1.9% to 2.1%, but the prospects of a slowdown in economic activity over the course of the year remain.

Inflation remains above the target and inflation expectations continue deanchored. Twelve-month inflation, as measured by the Extended National Consumer Price Index (IPCA), rose from 5.06% in February to 5.32% in May. The increase was slightly lower than anticipated: compared with the reference scenario presented in the previous Monetary Policy Report (MPR), the surprise was -0.06 p.p. Considering the seasonally adjusted quarterly series, both headline inflation and the average of core measures were slightly lower than in the previous quarter but remain above the target. In line with more moderate short-term inflation readings and falling commodity prices in BRL, the median inflation expectation for 2025 declined, according to the Focus survey. However, there was no improvement in longer-term inflation expectations, which remain deanchored.

In the reference scenario projections, inflation remains above the upper limit of the tolerance interval in next months, starting to fall from 2025Q4 but remaining above the target. In this scenario, four-quarter inflation lies in the 5.4%-5.5% interval in the first three quarters of 2025, falls to 4.9% at the end of the year, to 3.6% in 2026, and to 3.2% in the last period considered, referring to 2027Q4. Therefore, in the relevant monetary policy horizon – considered to be 2026Q4 – the projected inflation stands at 3.6%. The inflation projections represent the Copom's view and are conditional on a set of variables, such as the paths of the Selic rate extracted from the Focus survey and the exchange rate based on the purchasing power parity (PPP) theory. Projections in this MPR use data available up to the 271st Copom meeting, held on June 17-18, 2025.

When compared with the previous MPR, inflation projections fell slightly for 2025 and 2026. The projection for 2025 and 2026 fell 0.2 p.p. and 0.1 p.p., respectively. In the latter horizon, inflation projections declined for both market and administered prices. Among the upside factors, the stronger-than-expected activity stands out, and, among downside factors, the exchange rate and the oil price decline.

Copom informed in its more recent meeting (271st meeting):

The Committee continues to monitor closely how the developments on the fiscal side impact monetary policy and financial assets. The current scenario continues to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity and labor market pressures. Ensuring the convergence of inflation to the target in an environment with deanchored expectations requires a significantly contractionary monetary policy for a very prolonged period.

Copom decided to increase the Selic rate by 0.25 p.p. to 15.00% p.a., and judges that this decision is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon for monetary policy. Without compromising its fundamental objective of ensuring price stability, this decision also implies smoothing economic fluctuations and fostering full employment.

If the expected scenario materializes, the Committee foresees an interruption of the rate hiking cycle to examine its yet-to-be-seen cumulative impacts, and then evaluate whether the current interest rate level, assuming it stable for a very prolonged period, will be enough to ensure the convergence of inflation to the target. The Committee emphasizes that it will remain vigilant, that future monetary policy steps can be adjusted and that it will not hesitate to proceed with the rate hiking cycle if appropriate.

1

Economic outlook

This chapter of the Monetary Policy Report (MPR) analyzes the recent developments in the economic environment, considering both the international and domestic scenarios, as well as the outlook for the country's economy in the coming quarters. The assessment of the international scenario addresses the major advanced and emerging market economies, with an emphasis on aspects that are likely to influence the Brazilian economy, especially inflation and activity indicators. The analysis of the domestic environment covers the recent evolution of economic activity, labor and credit markets, the country's public and external accounts, and, finally, inflation.

1.1 External scenario

The external environment remains volatile and challenging amid the increased uncertainties about the repositioning of global trade policies and their impacts. This occurs in a period when the process of disinflation in leading economies remains incomplete and progressing slowly (Figure 1.1.1), in a scenario of still resilient economic activity. The labor market remains balanced, which has contributed to the resilience of activity. Despite the relative relief brought by the 90-day postponement of the entry into force of the reciprocal tariffs announced by the U.S. government in April, the absence of new trade agreements and the approaching end of the tariffs suspension continue to keep uncertainties at fairly high levels, while some leading indicators point to a moderation in economic activity (Figure 1.1.3). In view of the uncertain scenario and the balance of risks, the calibration of monetary and fiscal policies seeks to incorporate in their response functions the estimates of the lasting effects of the repositioning of trade policies.

More recent readings point to a slow decline of inflation indicators in leading economies. Core inflation, however, remains at high levels (Figure 1.1.2), above the target in many economies, and its pace of convergence has recently slowed. Favorable labor markets performance contributes to the persistence of core inflation, especially of the services sector component. In recent months, the rise in food prices has pressured inflation upward. Energy prices have contributed in the opposite direction, but if conflicts in the Middle East escalate, this trend may reverse.

Figure 1.1.1 – CPI – Advanced economies

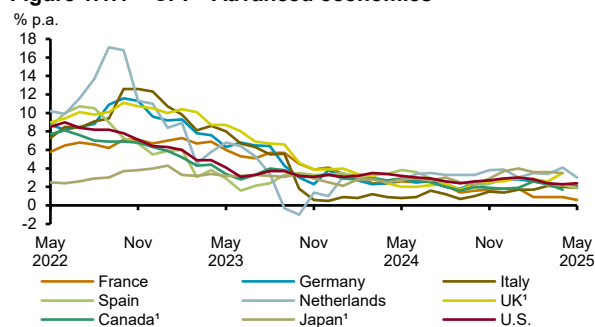
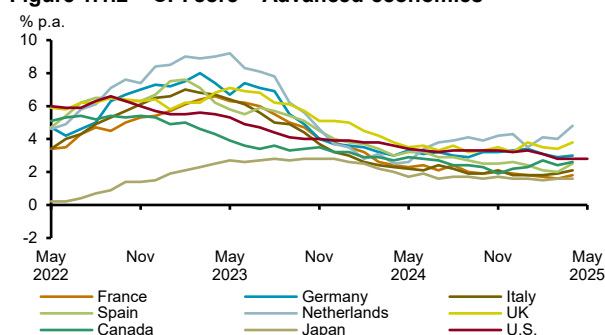


Figure 1.1.2 – CPI core – Advanced economies¹

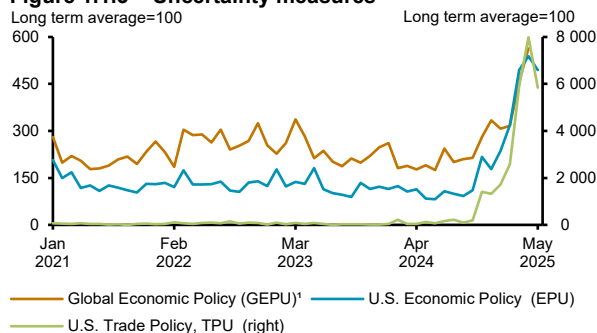


In advanced economies, inflation expectations have moved in different directions. For the shorter horizon, expectations have increased in the U.S., reflecting the expected impact of the new trade policy. In the other countries, expectations have declined, reflecting the understanding that a reduction in international trade volume and in economic activity would have a deflationary impact in those economies. However, the net effect of price and supply shocks, as well as their intertemporal distribution, remains highly uncertain. In emerging market economies, where economic activity and labor market remain robust, inflation expectations have also moved in different directions, except in Asia, where downward revisions have prevailed.

Global activity continues to show resilience, projecting, however, a gradual deceleration. The restrictive monetary stance and, more recently, the increase of uncertainties about the U.S. trade policy contribute to the expected moderation in activity (Figure 1.1.4). In the short term, movements anticipating the U.S. tariffs seem to have fueled activity in some regions, smoothing the deceleration expected for 2025Q1. These movements help explain the divergence between the pace of economic activity and leading indicators. However, as these movements lose momentum and uncertainty remains high, risks of a more pronounced slowdown in global economic activity increase. At the same time, measures that shift the fiscal trajectory or the labor market balance also contribute to the perception of greater uncertainty. In this scenario, the key factors currently supporting economic activity are a still heated labor market, household consumption, and real income gains. Manufacturing, which was already struggling to maintain sustainable growth, has become one of the sectors most exposed to the new trade policies. In this environment, structural trends such as indebtedness and demography contribute to reduce potential growth and to increase neutral interest rates in relevant economies. Divergent productivity growth across countries and risks of financial fragmentation contribute to heightened uncertainty about potential growth and neutral interest rates.

Most central banks in advanced economies continue to ease monetary policy, while others decide to hold interest rates. The increase of uncertainty, activity risks, and the already restrictive monetary policy contribute to different stances. Several central banks continue to communicate that interest rates have been at contractionary levels for an extended period (Figure 1.1.5), amid clearer signs of greater balance between supply and demand in the labor market. They also reaffirm their commitment to promote the convergence of inflation to target and the need to keep interest rates at still restrictive levels, ensuring the conclusion of the final stage of the disinflation process. Some central banks indicate that the balance of risks has been changing, aiming to also maintain a balanced employment level. In common, the USD has depreciated against currencies with greater liquidity in the quarter, which warrants the attention of monetary authorities.

Figure 1.1.3 – Uncertainty measures

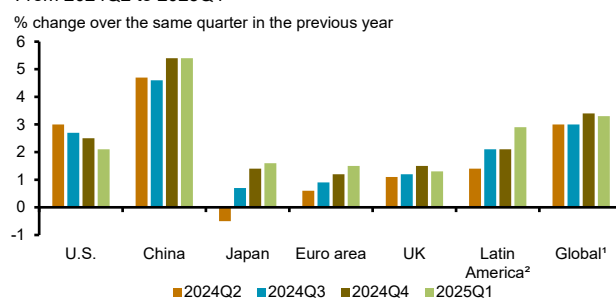


Source: Bloomberg

1/ Weighted by the purchasing power parity (PPP). Until April 2025.

Figure 1.1.4 – GDP growth

From 2024Q2 to 2025Q1



Sources: Bloomberg, BCB

1/ Calculated as described in the box "Projections and macroeconomic analysis model of the global economy" in the September 2022 IR.

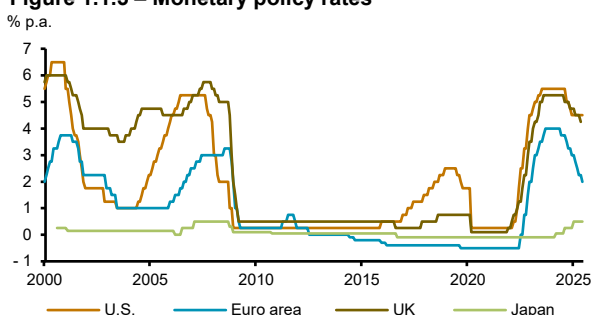
2/ Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

Economic activity in the U.S. declined in 2025Q1, driven primarily by a front-loading of imports amid heightened uncertainty about the introduction of tariffs on foreign trade. GDP fell at an annual rate of 0.2% in 2025Q1. Household consumption, the main expenditure component, was volatile in the beginning of the year, with a negative performance in the first two months and recovery in March and April. The positive trend of income and favorable labor market continue to be the main factors supporting household consumption. Fixed investment grew in early 2025, benefiting by the trend to bring forward capital goods imports. Tight credit conditions, the gradual depletion of savings accumulated during the Covid-19 pandemic, the persistence

of sluggish household and business confidence despite some recent improvements, and the continued high degree of economic uncertainty reinforce the outlook for a slowdown in activity going forward.

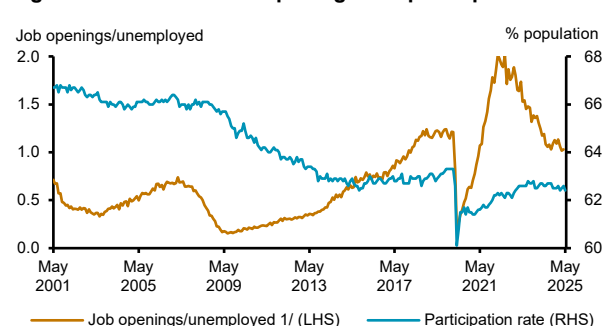
The labor market has shown clearer signs of a better balance between supply and demand, along with prospects for moderation. Job openings have been strong in recent months (average of 135,000 in the Mar-May quarter), compared with the monthly average of 168,000 in 2024 and 216,000 in 2023. The unemployment rate has fluctuated around 4.0% since 2024, recording 4.2% in May 2025, a level considered historically low and close to full employment estimates. Job vacancies have stabilized at levels close to those before the Covid-19 pandemic, after a clearer decline until the first half of 2024, confirming the reduction in the imbalance between supply and demand for workers (Figure 1.1.6). The participation rate has remained relatively stable, after recovering in previous years, but still below the 2019 level. Nominal wages have continued to grow at high rates, with a moderate deceleration (3.9% p.a. in May¹), but mitigated in real terms by inflation (1.4% p.a.). Layoffs in the federal public sector and the new immigration policy have not yet led to relevant changes.

Figure 1.1.5 – Monetary policy rates¹



Source: Bloomberg
1/ Until June 18.

Figure 1.1.6 – U.S. – Job openings and participation rate



Source: Bloomberg
1/ Until April 2025.

The U.S. inflation continues to show a gradual deceleration trend and is expected to converge to the target over the next two years. The Consumer Price Index (CPI) recorded an annual increase of 2.4% in May, while core inflation, which has shown greater persistence, increased 2.8%. Housing components, which historically exhibit more rigid dynamics, have registered gradual disinflation, approaching the rates observed prior to the pandemic. The remaining services, however, more sensitive to wage dynamics and labor market conditions, have shown a more protracted disinflation process. Core goods inflation has remained close to zero, despite moderate increases in the first two months of the year. With the introduction of imports tariffs, there is growing concern about the pass-through to prices, with upward pressures on inflation already reflected, for instance, in higher short-term inflation expectations.

The Federal Reserve has conveyed a cautious stance in recent monetary policy meetings. The Fed Funds rate remained stable in the 4.25%-4.50% range at the June meeting. The Federal Open Market Committee (FOMC) communicated that it considers the current monetary policy appropriate, keeping a stance dependent on the flow of incoming data, the evolving outlook, and the balance of risks. The strategy for reducing its balance sheet, revised in March 2025, has remained unchanged since then. Discussions continue on the revision of the monetary policy framework, which should be completed by the end of next summer in the U.S.

The euro area GDP recorded a 0.6% QoQ growth in 2025Q1 compared with 0.3% in 2024Q4. The expansion was 1.5% when compared with 2024Q1. The quarterly performance was supported by a sharp expansion in net exports and gross fixed capital formation. On the supply side, there was some strengthening in industrial activity, partly explained by front-loaded production in anticipation of the implementation of new U.S. import tariffs. Among the major economies of the monetary union, only Spain grew in line with the regional average (0.6% QoQ). Germany surprised positively with a 0.4% expansion compared with -0.2% in the previous quarter.

1/ According to the Average Hourly Earnings indicator.

Looking ahead to the coming quarters, expectations point to a weakening in activity. Although changes in Germany's fiscal framework have been received with optimism, their positive impact on activity should take time to materialize.

Despite oscillating around the level reached in the end of 2024 (2.4%), inflation in the euro area has been falling in 2025Q2, reaching 1.9% in the May flash estimate. Core inflation also declined. The index that excludes energy, food, alcoholic beverages, and tobacco stood at 2.3% in May flash estimate, compared with 2.7% in April, same value recorded at the end of 2024. Annual services inflation also declined (3.2% in May flash estimate, compared with 4.0% in April, same value recorded at the end of 2024). The main difference between headline and core inflation is concentrated in energy prices.

The European Central Bank (ECB) deposit rate is currently at 2.0%. There have been seven consecutive interest rate cuts, and eight in total, since the start of the monetary easing cycle in June 2024. In its June meeting statement, the ECB emphasized the decline in annual inflation and the weakened economic activity in the short-term projections as justification for the rate cut. It also highlighted the expected dynamics of core inflation, which converges sustainably towards the 2% target. The ECB acknowledged that global trade tensions and associated uncertainties pose downside risks to economic activity and that the inflation outlook is more uncertain than usual.

In the United Kingdom, GDP has surprised positively with a 0.7% QoQ growth in 2025Q1. Regarding the inflation outlook, energy prices continue to exert strong upward pressure, with consumer inflation reaching 3.4% in April, after closing 2025Q1 at 2.6%, close to the rate observed at the end of 2024 (2.5%). Service inflation is still a concern, recording a high of 5.4% in the 12 months ending in April. The policy interest rate stands at 4.25%, after four 0.25 p.p. cuts from the beginning of the monetary easing cycle in August 2024 to the meeting of the Bank of England's Monetary Policy Committee (MPC) in May 2025. At that meeting, the BoE also highlighted the highly unpredictable economic outlook, aggravated by the introduction of new global trade tariffs.

In China, economic activity remained strong in early 2025. GDP YoY growth rate reached 5.4% in 2025Q1, the same rate as 2024Q4 and well above the rate recorded in the two preceding quarters. This performance helps support the achievement of the 5.0% GDP growth target set by the National People's Congress for 2025. On the supply side, the sustained pace of activity was broad-based across the economy: the tertiary sector contributed 2.1 p.p. while the secondary sector contributed 3.2 p.p., to the YoY growth rate. The value added by the real estate development sector posted a second consecutive positive reading (+1.0%) after six quarters of contraction. On the demand side, household consumption stood out, with its contribution to YoY growth rising from 1.6 p.p. to 2.8 p.p., in contrast to investment (which fell by 0.8 p.p.) and external demand (down by 0.4 p.p.). In the context of expanding international trade restrictions, external demand is expected to lose momentum or even turn negative over the course of 2025.

The pace of economic growth is expected to remain stable in 2025Q2. Domestic demand indicators continue to support aggregate demand. Investment in manufacturing and infrastructure remains robust, partly offsetting the weakness in real estate development, while retail sales have shown an upward trend since November 2024, in response to household consumption stimulus programs adopted in the preceding two months. Regarding external demand, exports continue to expand despite higher import tariffs in the U.S., a trend driven by the redirection of sales to alternative markets. On the supply side, industrial production partially reversed its momentum in 2025Q1 but remains on a strong growth trajectory, similarly to the service activity index.

Recently, Chinese economic policy has focused primarily on adjustments to trade policy. During the first half of April, mutual and successive tariff hikes by both the U.S. and China pushed import duties to rates exceeding 100%. In early May, the two countries announced a 90-day general reduction of reciprocal tariffs amid negotiations aimed at easing export controls on key products for the defense and high-tech industries in both nations. In terms of monetary policy, the People's Bank of China (PBoC) implemented widespread

interest rate cuts on several of its instruments. Notably, the PBoC reduced mortgage reference rates by 0.25 p.p. and cut the one-year and five-year Loan Prime Rates (LPR) by 0.1 p.p. The interest rate on Medium-Term Lending Facility (MLF) operations has remained unchanged at 2.0% p.a. since September 25. Also in May, the PBoC announced the expansion of operations for some earmarked credit instruments and increased the requirement for the use of local currency in foreign trade credit operations from 25% to 40%, as part of its macroprudential regulation efforts.

Emerging market economies generally returned to YoY GDP growth in 2025Q1, but uncertainties and risks remain high. In Latin America, the largest economies recorded an acceleration in YoY GDP growth during the period, except for Peru. The key financial condition indicators for emerging market economies showed notable volatility at the beginning of 2025Q2 amid raising trade tensions, though they improved somewhat over the course of the quarter. Emerging market currencies generally appreciated, mainly due to the continued global USD depreciation, while risk appetite for emerging market assets remained relatively stable.

Risks and uncertainties for emerging market economies remain high, especially due to the persistence of global trade tensions. The lack of clarity surrounding the universal implementation of reciprocal import tariffs by the U.S. continues to cloud the outlook, affecting trade flows and potentially undermining confidence in emerging market economies. The scope and impact of any additional tariff measures remain difficult to assess. Other important risks persist, notably those associated to China's economic performance and to ongoing military conflicts and their impacts on commodity prices.

Inflation expectations for the end of 2025 and 2026 in leading emerging market economies have shown little changes, and the path toward convergence to the targets remains highly uncertain. Inflation rates have continued to vary across countries and, in several major economies in Latin America and Europe, remain above target levels, as do inflation expectations for the end of 2025 (Figures 1.1.7 and 1.1.8). In Asia, expectations generally point to inflation within the target range by the end of 2025. It is worth noting that the future trajectory of inflation and policy interest rates is currently subject to a high degree of uncertain, primarily due to the lack of definition regarding the adoption of trade tariffs by the U.S. In most emerging market economies, potentially higher tariffs could have both inflationary effects – due to rising costs, for example – and deflationary effects – due to weaker economic activity and lower commodity prices – also depending on foreign exchange rate developments. The net effect will depend on the final configuration of potential tariffs and the internal dynamics of each economy. Expectations for policy interest rates continue to point largely to lower rates by the end of 2025, with little change over the last quarter (Figure 1.1.9). In Asia, expectations indicate that the rate-cutting cycle has ended, while in Latin America, expectations of more significant cuts remain concentrated in Colombia and Mexico.

Figure 1.1.7 – CPI – Emerging market economies

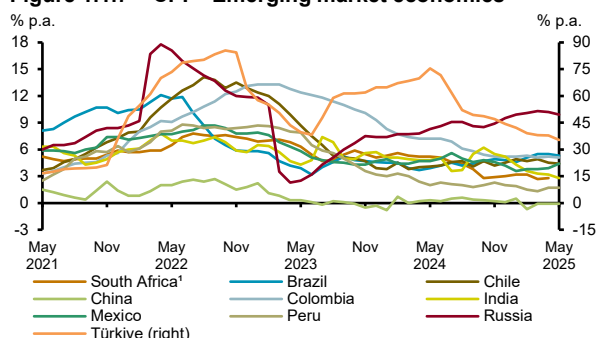


Figure 1.1.8 – Inflation expectations¹

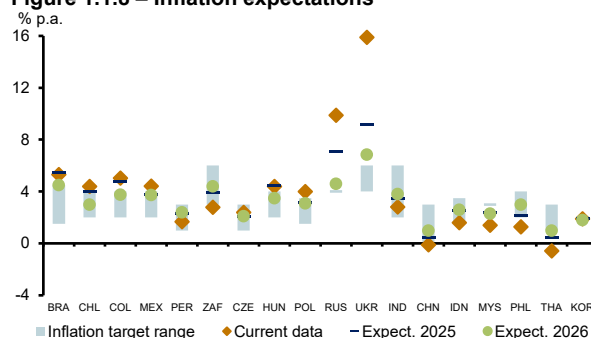
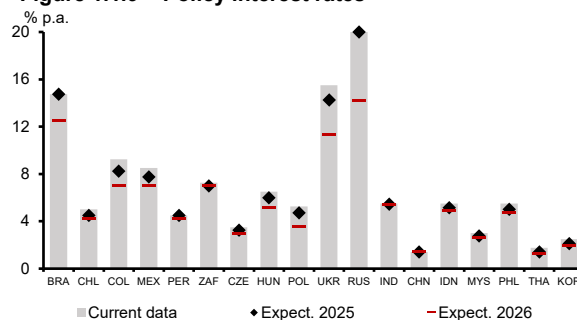


Figure 1.1.9 – Policy interest rates¹



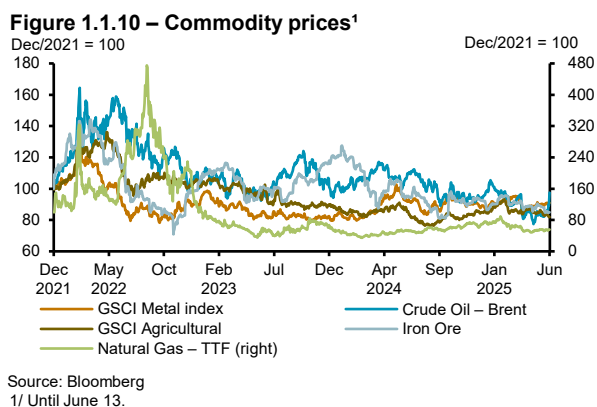
Sources: Bloomberg and central banks' surveys
1/ Until June 13.

Energy commodity prices had been declining strongly in the quarter but rose sharply following the escalation of the Israel-Iran conflict. Oil prices, in particular, had been experiencing a significant drop in 2025Q2 reflecting shifts in supply and demand fundamentals that led to expectations of a growing supply surplus over the next two years. On the supply side, the Organization of the Petroleum Exporting Countries and allies (OPEC+) unexpectedly accelerated its schedule for production expansion by 411,000 barrels/day for May, and made similar adjustments for June and July, heightening expectations of oversupply. On the demand side, even after the postponement of import tariff measures, uncertainty has led to downward revisions in demand growth forecasts. More recently, following Israeli attacks on Iran, prices have risen significantly amid concerns that supply from Iran – one of the world's largest producers – could be disrupted.

Similarly, European natural gas prices fell sharply over the quarter. This was due to the impact of tariffs on economic activity combined with increased supply of liquefied natural gas (LNG), favorable weather conditions, and the potential easing of supply constraints in the event of a ceasefire or agreement between Russia and Ukraine. Despite the relief in the quarter, gas inventories in Europe remain at levels below those of the last two years, especially after the expiration of the agreement for gas transit through Ukrainian territory. This is expected to keep gas prices highly sensitive to any supply shock (Figure 1.1.10).

As for metal commodities, trade repositioning by key countries added to uncertainties regarding China's economic growth, helping to explain the recent price declines. Steel and aluminum prices have been directly impacted by the actual imposition of U.S. import tariffs. In the case of copper, threats by the U.S. government to impose tariffs have led to price volatility depending on the jurisdiction. Despite these developments, steel and iron ore prices in China remain closely tied to uncertainties over the country's economic growth, particularly regarding the challenges facing the real estate sector and doubts about the effectiveness of economic stimulus policies.

Multiple factors have influenced international agricultural commodity prices in recent months. Among downside pressures are upward supply revisions, the arrival of new harvests, and expectations about the impact of tariff measures. These factors are offset by geopolitical and weather-related tensions. During the reference period, the outlook for a large supply of wheat, corn, and soybeans strengthened amid positive expectations for the current and upcoming harvests. However, risks related to grain shipments through the Black Sea, uncertainties about a potential truce between Russia and Ukraine, drought in wheat-producing regions in China, and weather-driven impacts on the quality of the U.S. crop of soybeans have all contributed to upward price pressures.



In short, a more promising outlook for global economic growth may be undermined by more restrictive trade policies, prolonged uncertainty, persistent inflation, and tighter financial conditions. The U.S. trade measures and the responses from its partners may distort trade and capital flows, trigger supply and price shocks, and, in extreme cases, disrupt global supply chains. Record-high levels of uncertainty are being observed, linked to the shift in trade policies and the cyclical easing of fiscal policy in key economies. Uncertainty has increasingly contributed to the deterioration of confidence and expectations.

If prolonged, it may lead to economic fluctuations stemming from delayed investment, employment, and consumption decisions. These adverse factors emerge at a time when labor market fundamentals are gradually rebalancing, supporting economic activity and, particularly, as the gradual disinflationary process is underway. The combination of these headwinds contributes to keep financial conditions tight and to worsen the balance of risks for the global economy – a trend further exacerbated by growing concerns over fiscal sustainability in major economies. A proper assessment of the net impact of these factors will be crucial for determining the next monetary policy steps, given the high degree of uncertainty surrounding the implementation, the distribution of effects on supply and demand, and the various channels through which these shocks transmit to economic activity and inflation.

In this context, most central banks in major economies continue to ease monetary policy, though with pauses for better recalibration. Despite interest rates generally remaining at contractionary levels for an extended period, all central banks remain attentive to core inflation dynamics, labor market conditions, and emerging risks, reinforcing the need to maintain a flexible monetary policy stance and transparent communication.

1.2 Domestic outlook

Economic activity

Economic growth in 2025Q1 was strong as expected, driven by sharp increases in the less cyclical supply components, especially agriculture, and smaller changes in the more cyclical segments. GDP grew 1.4% during the period, following an increase of just 0.1% in 2024Q4 and an average of 1.1% over the first three quarters of 2024 (Table 1.2.1 and Figure 1.2.1). From the supply side, this result mainly reflected the strong performance of the less cyclical sectors, especially agriculture. In contrast, the segments more sensitive to the economic cycle showed a modest expansion. The main components of domestic demand expanded substantially, but there are some caveats. Household consumption growth followed a contraction of roughly the same magnitude in 2024Q4, while a large share of the increase in gross fixed capital formation (GFCF) was due to a one-off event. GDP rose 2.9% YoY, in line with market forecasts at the time of the previous MPR and slightly above the BCB's projection.²

Table 1.2.1 – Gross Domestic Product
QoQ s.a.

Itemization	% change				
	2024				2025
	Q1	Q2	Q3	Q4	Q1
GDP at market prices	1.0	1.5	0.8	0.1	1.4
GDP ex-agriculture at market prices	0.9	1.5	0.8	0.0	0.9
Agriculture	3.2	0.0	1.4	-4.4	12.2
Industry	0.6	0.9	0.9	0.2	-0.1
Mining	-0.1	-4.0	-0.2	0.6	2.1
Manufacturing	1.6	2.0	1.1	0.6	-1.0
Construction	0.7	3.1	-1.2	2.3	-0.8
Public utilities	-3.8	2.3	-1.2	-0.8	1.5
Services	1.7	0.8	0.8	0.2	0.3
Trade	3.0	1.5	0.2	0.1	0.3
Transport and storage	2.1	1.2	0.3	0.2	-0.6
Information services	2.7	1.7	2.3	-0.4	3.0
Financial and related services	-0.1	1.7	1.0	-0.5	0.1
Other services	1.3	1.6	1.5	-0.1	0.8
Real estate	1.1	0.8	0.9	0.3	0.8
Public admin., health and education	0.6	0.4	0.4	0.1	0.6
GVA - more cyclical sectors	1.2	1.8	1.2	0.0	-0.1
GVA - less cyclical sectors	0.8	0.5	0.5	-0.2	2.0
Household consumption	2.3	1.0	1.4	-0.9	1.0
Government consumption	0.2	-0.3	0.8	0.5	0.1
Gross Fixed Capital Formation	4.1	1.7	2.9	0.7	3.1
Exports	-1.1	1.5	-0.6	-1.2	2.9
Imports	2.8	8.0	1.3	0.7	5.9
Indirect seasonal adjustment					
GDP at market prices	1.5	1.1	0.8	-0.1	1.0
GDP ex-agriculture at market prices	1.4	1.2	0.8	0.1	0.4
GVA - more cyclical sectors	1.6	1.8	0.8	0.2	0.2
GVA - less cyclical sectors	0.9	0.2	0.7	-0.7	2.4

Sources: IBGE and BCB

2/ In the cut-off date of the previous MPR, the median market forecast for YoY GDP growth in 2025Q1, according to the Focus Report, was 2.9% (considering forecasts submitted in the last 30 days), thus matching the released figure. The BCB's projection was 2.8%, as mentioned in the box [Seasonal adjustment and uncertainty regarding the intensity of the GDP slowdown in early 2025](#) in the March 2025 MPR. On the eve of the 2025Q1 GDP release, the median market forecast for YoY growth was 3.0%.

From the supply side, the 2025Q1 result was marked by heterogeneous performance across the major economic sectors, with a strong growth in agriculture, a slight contraction in industry, and a moderate growth in services. Agriculture grew 12.2%, mainly driven by a record harvest of soybeans – a crop with significant weight in the sector and mostly harvested in the beginning of the year. Industry contracted 0.1%, ending a sequence of eight consecutive quarters of growth. This result reflected declines in manufacturing and construction, partially offset by gains in mining and in utilities (EGAER). Manufacturing fell 1.0%, after a 0.6% increase in 2024Q4, ending a four-quarter growth sequence. Industrial production data suggested a performance closer to stability.³ The strong growth in mining was mainly driven by the increase in oil production, while the rise in EGAER reflected higher electricity consumption and a reduced share of thermoelectric plants in the energy generation mix in the quarter. Finally, the services sector grew 0.3%, slightly better than in the previous quarter, with expansion across all activities except transport.

The acceleration in activity in 2025Q1 was largely concentrated in the less cyclical sectors of the economy. These sectors grew 2.4% in 2025Q1, after a 0.7% contraction in the previous quarter, driven by the aforementioned strong performance in agriculture and expansion in mining.⁴ In contrast, the more cyclical sectors grew just 0.2%, repeating the result from 2024Q4 and remaining below the 1.4% average observed in the first three quarters of 2024 (Figure 1.2.2).⁵ This modest performance in the more cyclical sectors signals a continued slowdown of the economy.

Figure 1.2.1 – Gross Domestic Product

2019Q4 = 100, s.a.

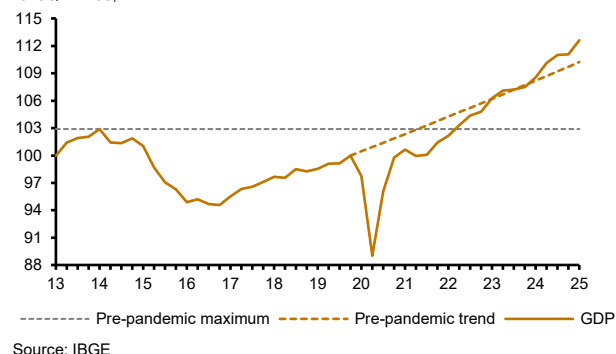
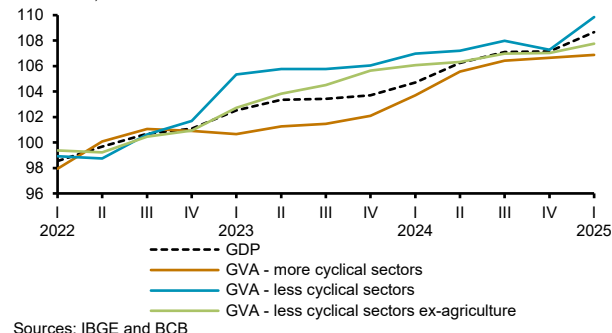


Figure 1.2.2 – GDP – More and less cyclical sectors

2022 = 100, s.a.



In addition, still from a supply perspective, greater-than-usual uncertainties associated with the seasonal adjustment suggest that the quarter's GDP result should be interpreted with caution. As anticipated in a box in the March MPR⁶, in 2025Q1 there was larger-than-usual discrepancy between the quarterly growth rates obtained by the direct seasonal adjustment method – the official one – and the indirect method, in which the GDP components are seasonally adjusted before aggregation. Using the official method (direct adjustment), GDP grew 1.4% in 2025Q1, as mentioned above. By the indirect method, growth was 1.0% – still significant, but lower than the official result. GDP excluding agriculture (GDP ex-agriculture) rose 0.9% in 2025Q1, according to the official adjustment, after remaining stable in 2024Q4, suggesting that the good performance was not restricted to the agriculture sector. However, with indirect seasonal adjustment, the acceleration was more modest, from 0.1% to 0.4%.

Household consumption grew again in 2025Q1, reverting the downturn observed in the previous quarter.

After falling 0.9% in 2024Q4, household consumption grew 1.0% (Figure 1.2.3), benefited by the expansion of

3/ According to the Monthly Industrial Survey (PIM-IBGE), manufacturing output declined 0.1% in 2025Q1, with a drop in intermediate goods and expansion in capital and consumer goods.

4/ Based on the classification of sectors as more or less cyclical, discussed in several previous Inflation Report editions. Activities classified as less cyclical are agriculture; mining; financial activities, insurance, and related services; real estate activities; and public administration, defense, health and education, and social security.

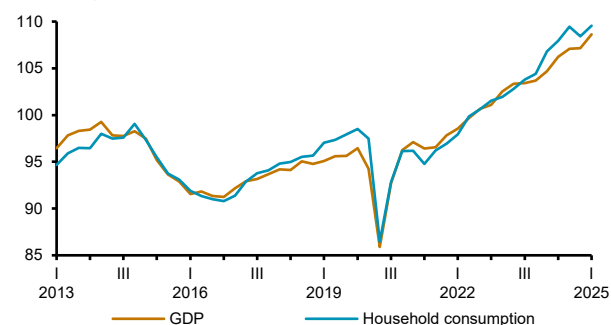
5/ The changes mentioned in the paragraph were obtained considering the indirect seasonal adjustment, i.e. aggregating the supply side GDP components after the seasonal adjustment.

6/ See box [Seasonal adjustment and uncertainty regarding the intensity of the GDP slowdown in early 2025](#) in the March MPR, which analyzes the expected differences in quarterly GDP growth resulting from the choice of the seasonal adjustment method (direct or indirect adjustment).

household disposable income, mainly reflecting the increase in labor income.⁷ This growth seems to have been more concentrated in the consumption of goods: indicators such as industrial production of consumer goods and retail trade showed significant expansion in the period, while services provided to households declined (Figure 1.2.4).⁸ Despite the recovery in household consumption in 2025Q1, the average pace of expansion in the last two quarters was just 0.1%, well below the 1.6% average recorded in the first three quarters of 2024.

Figure 1.2.3 – GDP and household consumption

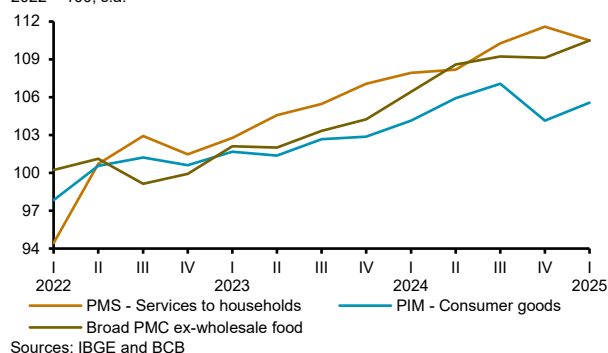
2022 = 100, s.a.



Source: IBGE

Figure 1.2.4 – Household consumption indicators

2022 = 100, s.a.



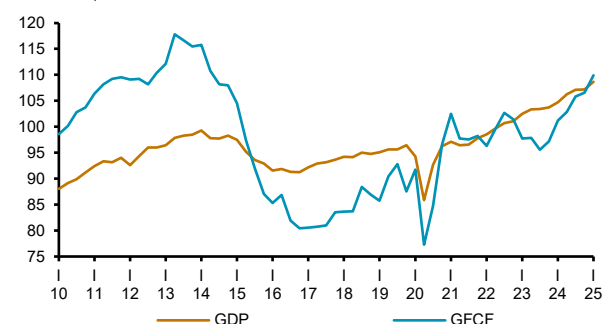
Sources: IBGE and BCB

GFCF accelerated in 2025Q1, driven by machinery and equipment and software development sectors.

The indicator increased 3.1% in the period, intensifying the pace of growth compared with the 0.7% rise seen in 2024Q4 (Figure 1.2.5). The construction sector seems to have made a limited contribution, as suggested by the fall in Gross Value Added (GVA) and the mixed signals in the sector's indicators – low growth in the production of typical inputs and the fall in the overall wages (Figure 1.2.7). In contrast, the expansion in information technology services' revenue⁹, alongside the strong increase in imports of capital goods and the modest expansion in the domestic production of capital goods, indicates that the software development and machinery and equipment segments played a significant role in the quarter's GFCF (Figure 1.2.8). The leap in imports of capital goods in the quarter was largely due to the import of an oil rig, a specific one-off event, which mitigates the perception of a significant recovery in GFCF at the start of the year. As a share of GDP, GFCF grew again in the quarter, approaching the historical average. However, excluding the effects of the oil rig import, the increase in the GFCF/GDP ratio was more modest (Figure 1.2.6).¹⁰

Figure 1.2.5 – GDP and GFCF

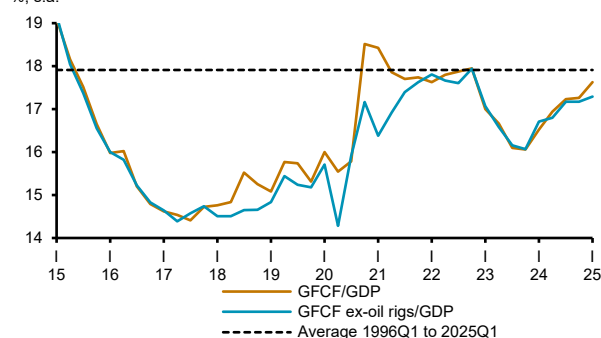
2022 = 100, s.a.



Source: IBGE

Figure 1.2.6 – GFCF/GDP at current prices

%, s.a.



Source: IBGE

7/ See the next section of this chapter.

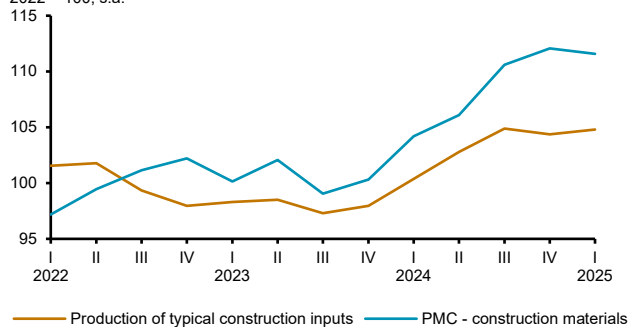
8/ Data from the PIM-IBGE, Monthly Trade Survey (PMC-IBGE), and Monthly Services Survey (PMS-IBGE).

9/ According to the PMS.

10/ Estimate based on the Quarterly National Accounts (CNT) from the Brazilian Institute of Geography and Statistics (IBGE) and imports data released by the Ministry of Development, Industry, Trade and Services (MDIC).

Figure 1.2.7 – Construction indicators

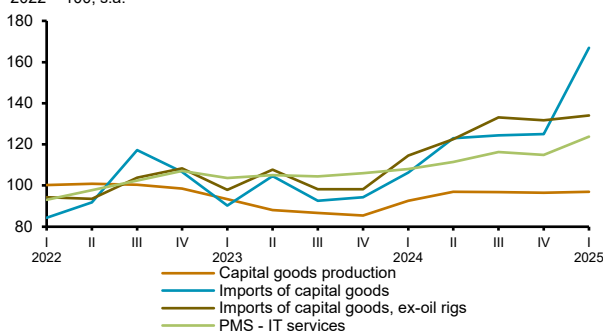
2022 = 100, s.a.



Source: IBGE

Figure 1.2.8 – Investment indicators

2022 = 100, s.a.



Sources: BCB and IBGE

As for the external sector components, exports and imports accelerated. Exports grew 2.9%, reverting the 1.2% drop recorded in 2024Q4. This acceleration was greatly influenced by the increase in shipments of primary products throughout the period. Imports, meanwhile, rose 5.9% in 2025Q1, following a more modest 0.7% rise in 2024Q4. This growth largely reflected the increase in imports of capital goods in 2025Q1, driven above all by the aforementioned import of an oil rig.

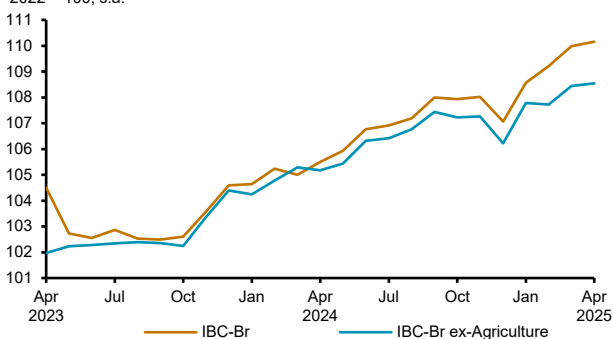
Monthly indicators, especially the IBC-Br and its components, corroborate the assessment of economic activity growth in 2025Q1. The BCB's Economic Activity Index (IBC-Br) rose 1.3% in 2025Q1, with expansion in agriculture, industry, and services. The 1.0% growth in the IBC-Br excluding agriculture (IBC-Br ex-agriculture), together with the positive performance of industry and services, indicates that the economy's dynamism was not concentrated solely in the primary sector (Figure 1.2.9).¹¹ Despite this general scenario of expansion, the sectoral indicators performed heterogeneously. Industrial production grew slightly, with a downturn in manufacturing and an increase in mining; trade showed strong increases in both the restricted concept and broad concept, excluding the food wholesale segment; while the services sector fell slightly, especially in services provided to households.¹²

Data available for April and May showed mixed results, but considered together suggest lower economic growth in 2025Q2 than in 2025Q1. In April, the IBC-Br rose 0.2% and the IBC-Br ex-agriculture growth was lower, 0.1%, leaving a statistical carry-over for 2025Q2 of 0.8% and 0.5%, respectively (Figure 1.2.9).¹³ In both cases, the statistical carry-over is lower than the expansion observed in 2025Q1 (1.3% and 1.0%, respectively).

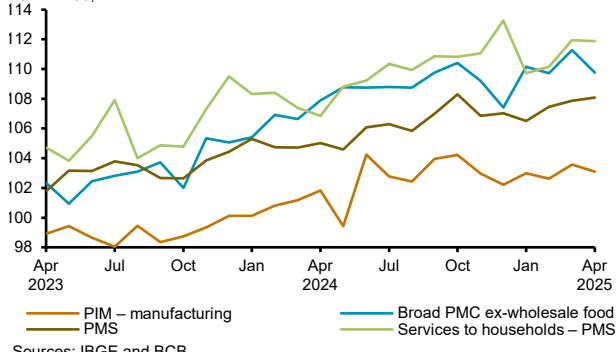
In addition, there was a decline in manufacturing, in trade – both restricted and broad excluding the food wholesale segment – and small growth in services, despite a decline in most of its segments (Figure 1.2.10).¹⁴ Coincident indicators available for May show some dispersion. However, indicators more associated with manufacturing signal a relative stability in industrial output in the month, while most indicators based on payment data showed a decline (Table 1.2.2).

Figure 1.2.9 – BCB's Economic Activity Index (IBC-Br)

2022 = 100, s.a.

**Figure 1.2.10 – Economic activity indicators**

2022 = 100, s.a.



Sources: IBGE and BCB

11/ As of April 2025, the BCB began publishing the sectoral breakdown of the IBC-Br (agriculture, industry, services, and taxes), as well as the IBC-Br excluding the agriculture sector (IBC-Br ex-agriculture). Further details in the box [IBC-Br sectoral breakdown](#) in this MPR.

12/ According to data from the PIM, PMC, and PMS.

13/ Given the seasonal profile of crops and the projections for the 2025 production, some decline is expected in the IBC-Br Agriculture in 2025Q2 and for this reason the IBC-Br statistical carry-over should be interpreted with caution.

14/ According to data from the PIM, PMC, and PMS.

Table 1.2.2 – Economic activity coincident indicators

Seasonally adjusted data

Itemization	2024			2025					% change
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Apr-May ¹
Heavy vehicle traffic	1.5	-2.9	-3.3	3.4	0.2	0.7	0.2	-0.3	0.6
Corrugated boxes shipments	3.5	-1.2	-4.5	-0.4	1.5	1.9	-1.1	0.5	0.9
Light vehicle production	0.5	-1.8	-4.7	0.5	-0.0	0.7	5.1	-12.0	-0.7
Truck production	0.1	-1.6	-6.7	-11.2	13.9	-1.1	-4.3	2.3	0.2
Vehicle licensing	7.2	-5.0	-4.8	-1.6	-1.1	6.1	1.3	2.2	6.1
Cielo broad retail index	0.7	1.2	-0.8	0.4	-0.3	-0.2	0.5	-0.1	0.3
IGet broad retail	1.8	4.9	0.1	-0.6	1.7	1.0	-0.5	-1.9	-0.3
IGet services to households	-4.7	3.9	-2.1	-0.6	1.4	-3.8	-0.5	3.0	-1.1
IDAT goods ²	-0.8	0.0	-1.3	1.1	0.1	2.2	-0.9	-1.0	0.1
IDAT services to households ²	-1.0	3.6	-1.4	-1.4	2.4	0.0	-0.2	-0.5	0.3

Sources: ABCR, ABPO/Empapel, Anfavea, Fenabrave, Cielo, Santander and Itaú.

¹ Average Apr-May 2025 over average 2025Q1.² Broad means of payment**As detailed in a box of this MPR, the projection for GDP growth in 2025 was revised from 1.9% to 2.1%.**

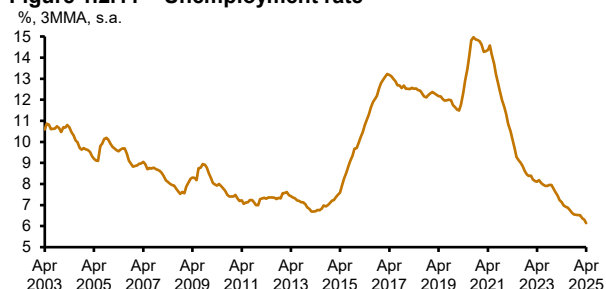
Firstly, the change reflected the slightly positive surprise in 2025Q1 result and a new improvement in the outlook for agricultural production for the year. The revision also incorporates the higher-than-expected labor market heating in the beginning of 2025Q2¹⁵ and – still under high uncertainty – some impact on consumption and GDP of the changes in payroll-deducted loans to private sector's workers. Conversely, expectations of weaker global economic expansion contribute to lower domestic growth. Despite the upward revision in the projection for GDP growth in 2025, economic activity is still expected to slow down over the current quarter and the second half of the year. The expected moderation is due to the continuation of a restrictive monetary policy, limited slack in production factors, expectations of slower global growth, and the fading boost from agriculture observed in 2025Q1.

Labor market**The labor market has remained heated in recent months, with indicators outperforming expectations.**

For instance, the unemployment rate, which had remained stable in the Nov-Jan quarter after declining for more than three years, fell again in the Feb-Apr quarter. Furthermore, this decline occurred alongside increases in both the employment level and the labor force participation rate¹⁶, corroborating the idea of additional tightening in the labor market. Similarly, formal jobs creation increased. Moreover, salary and income indicators continue to show strong growth, albeit at a slower pace than in the first half of 2024.

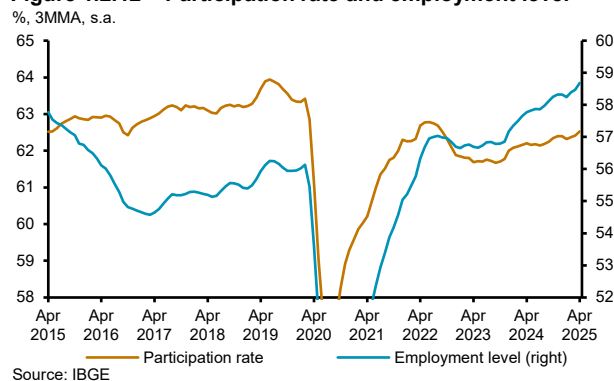
The unemployment rate resumed its downward trend and reached its historical low. The unemployment rate decreased again in the Feb-Apr quarter, after remaining stable in the Nov-Jan one, reaching 6.2%, the lowest in decades (Figure 1.2.11).¹⁷ The employed population and the labor force rose 0.9% and 0.5%, respectively. The increase in the number of employed people led the employment level to a new all-time high, reverting an incipient inflection occurred in the previous quarter. This result was mainly driven by the 1.3% expansion in formal jobs, while informal jobs remained relatively stable. The participation rate stood at 62.5%, 0.2 p.p. above the level recorded in the previous quarter, but below the levels observed in mid-2022 and before the pandemic (Figure 1.2.12).

^{15/} Discussed in the next section of this chapter.^{16/} Employment level is the share of the working-age population (WAP) that is employed, while the labor force participation rate is the share of the WAP that is in the labor force.^{17/} According to data from the Continuous National Household Sample Survey (PNAD Continuous), retropolated according to [Alves and Fasolo \(2015\)](#) and seasonally adjusted.

Figure 1.2.11 – Unemployment rate¹

¹ Historical unemployment rate estimates following Alves, S. A. L. and Fasolo, A. M., "Not just another mixed frequency paper", (Working Paper Series 400, Banco Central do Brasil, 2015).

Sources: IBGE and BCB

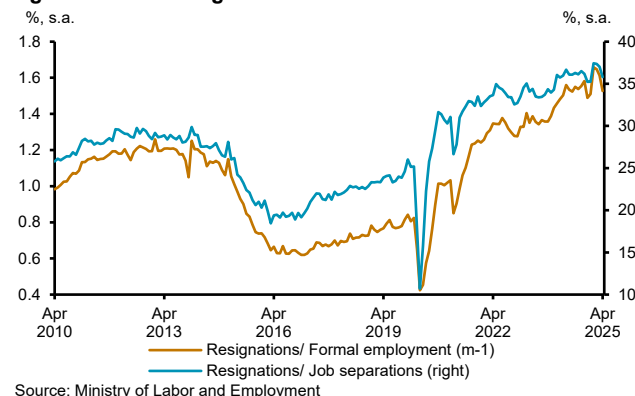
Figure 1.2.12 – Participation rate and employment level

Source: IBGE

Formal jobs creation increased and resignations remained at a high level. According to data from the New General Registry of Employed and Unemployed Persons (New Caged), seasonally adjusted by the BCB, 170,000 jobs were created monthly in the Feb-Apr quarter, on average. This level is historically high and above the 100,000 recorded in the previous quarter (Figure 1.2.13). A broad-based acceleration in employment was observed across services, commerce, and construction. Even so, the observed net job creation reached 898,000 in 2025, 72,000 less than in the same period in 2024. The dynamism of the labor market is also observed in the share of resignations in total job separations, which remained at a high level despite the decline in the quarter (Figure 1.2.14).

Figure 1.2.13 – Net formal job creation

Source: Ministry of Labor and Employment

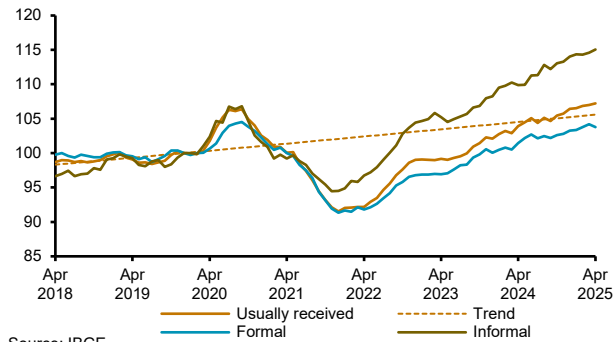
Figure 1.2.14 – Resignations ratio

Source: Ministry of Labor and Employment

The average labor income as measured by the PNAD Continuous is still growing strongly in real terms, although it has slowed down. In the second half of 2024, the usual real average income grew at an average quarterly rate of 0.7%, about half of that recorded in the first half of the year. This same growth rate was observed in the Feb-Apr quarter, after an expansion of 1.0% in the previous quarter. The slowdown in the real average income that began in 2024 is greater in activities with more rigid nominal adjustments, especially in the public sector. Considering the YoY change, the usual real average income reached 3.2% in the Feb-Apr quarter, still a high level, but lower than in the Nov-Jan and Aug-Oct quarters, 3.7% and 3.9%, respectively. From a longer-term perspective, the average real income is 8.1% above the 2019 average and 1.7% above the level that would have been obtained by extrapolating the growth trend of the pre-pandemic period, from 2017 to 2019 (Figure 1.2.15).

Figure 1.2.15 – Real average labor income

Dec 2019 = 100, 3MMA, s.a.



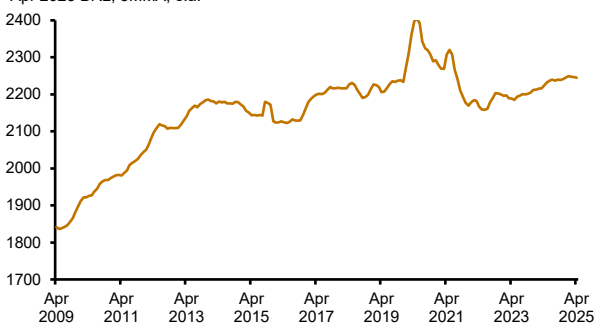
Source: IBGE

Complementary indicators of salary dynamics continue to show lower real growth than that of the PNAD.

Real salaries for new hirings¹⁸ (seasonally adjusted data) decreased 0.2% in the Feb-Apr quarter, following a rise of 0.5% in the previous quarter, according to the New Caged (Figure 1.2.16). In the YoY comparison, the real increase in the 3-month average stands at 0.9%, down from the 1.7% expansion observed up to January. Nominal salary adjustments collected from Collective Bargaining Agreements (CBA)¹⁹, which cover the formal private sector, were, on average, 5.1% in the Mar-May quarter, with 71% of negotiations exceeding past inflation. The average real adjustment²⁰ was 0.4% in the quarter, compared with 0.8% in the same period of the last two years.

Figure 1.2.16 – Hiring salary

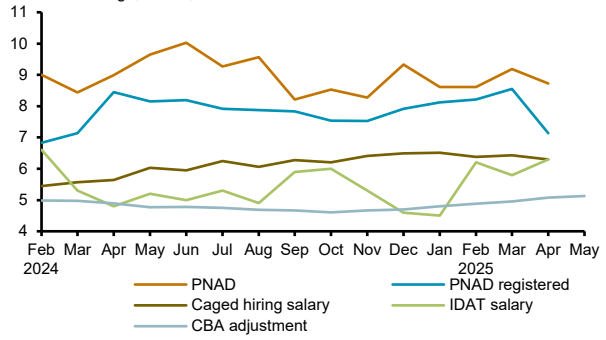
Apr 2025 BRL, 3MMA, s.a.



Source: Ministry of Labor and Employment

Figure 1.2.17 – Salaries and labor income

% YoY change, 3MMA, nominal



Sources: IBGE, MLE, Itaú, and BCB

Household income accelerated in the Feb-Apr quarter, driven by the dynamism of the labor market and the release of funds from the Employment Guarantee Fund (FGTS).

The Household Gross Disposable National Income (HGDNI)²¹ – an indicator that incorporates other sources of income besides work – increased 1.9% in real terms in the period, considering the restricted concept, seasonally adjusted. In the previous quarter, it had grown 0.9%. This acceleration mainly reflected the evolution of the overall labor income, which accounts for about 80% of the restricted income, in a context of growth of employed population as well as income (Figures 1.2.18 e 1.2.19). It is also noteworthy that the minimum wage adjustment, which in addition to increasing labor income, has an impact on retirement and pensions. Furthermore, the release of FGTS funds to dismissed workers who had used the anniversary withdrawal modality, as well as the advanced payment of the Christmas bonus for INSS beneficiaries, which began in April but is expected to intensify in May and June, contributed to the increase in household income.

18/ The average hiring salary has greater adherence to the economic cycle than the layoff salary, which is the reason why this is the preferred metric in the analysis of New Caged data. As Caged transitioned to the New Caged in 2020, data should be analyzed with caution, and the analysis focuses on the more recent period. Further references to the changes in Caged are available in the labor market section in the March 2021 and December 2021 Inflation Reports.

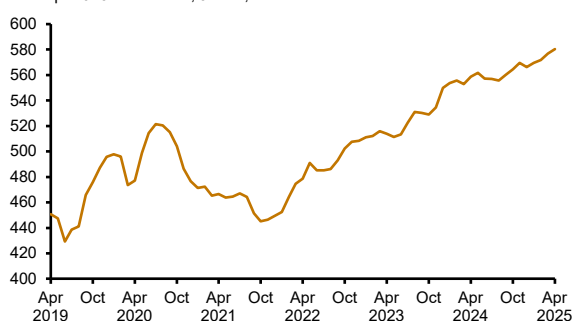
19/ This refers to the arithmetic average of CBA nominal adjustments in São Paulo and Rio de Janeiro by the registration date criterion in the Collective Labor Negotiations System (Mediador) of the Ministry of Labor and Employment (MLE).

20/ 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.

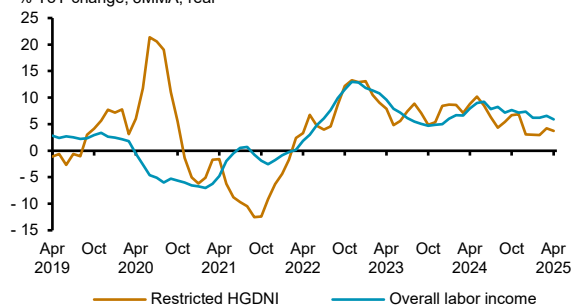
21/ Estimate calculated by the BCB according to the methodology available at [Nota Técnica do Banco Central do Brasil n. 55](#) (Portuguese only).

Figure 1.2.18 – Restricted HGDNI

Feb-Apr 2025 BRL billion, 3MMA, s.a.

**Figure 1.2.19 – Restricted HGDNI and usually received overall labor income**

% YoY change, 3MMA, real



Sources: BCB and IBGE

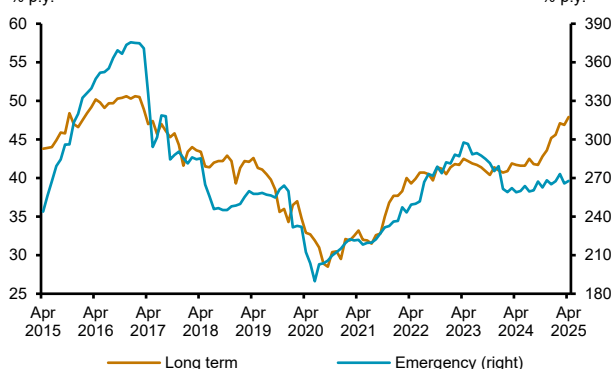
Credit

The credit market continues to show signs of inflection, with clearer effects of the monetary tightening cycle on the interest rates on loans. Interest rates continued to rise in many modalities, with the pass-through of the Selic rate hike that began in September. Furthermore, some slowdown has also been observed in the growth of non-earmarked household and corporate credit granting, although it continues at a high level. Payroll-deducted loans to private sector's workers increased with the implementation of new rules, but their effect on total household loans has been limited so far. Issuances of private securities on capital markets, still at a historically high level, have also shown some moderation compared with the 2024 performance. Lastly, the banking credit delinquency, after a period of stability, increased, while household debt-service ratio continues to rise, pressured by higher interest rates and increased emergency credit operations.

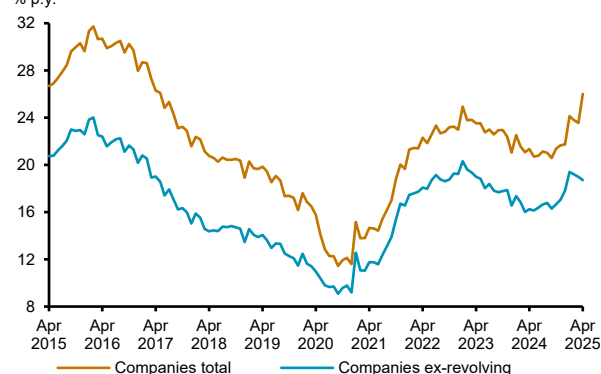
In line with expectations, expansion of SFN interest rates continued to be widespread across credit modalities. Since the start of the monetary policy tightening cycle, the average interest rate of non-earmarked credit rose 5.5 p.p., modestly exceeding the Selic rate increase in the same period (3.8 p.p.). The increase in credit cost was higher in the household segment (Figure 1.2.20), and widespread across emergency and long-term modalities, the latter more closely associated with planned indebtedness. In the corporate segment, the pass-through of higher interest rates also exceeded that of the Selic increase but was slightly lower in the non-revolving modalities (Figure 1.2.21).

Figure 1.2.20 – Non-earmarked household interest rates

% p.y.

**Figure 1.2.21 – Non-earmarked corporate interest rates**

% p.y.



More recent data corroborate the lower pace of growth of non-earmarked credit operations begun in late 2024. After a strong growth in the first three quarters of 2024, household credit granting, excluding credit card, started to show signs of moderation (Figure 1.2.22). This deceleration against the growth pace registered in mid-2023 was concomitant to the worsening in the credit composition: emergency modalities have grown more strongly than long-term modalities (Figure 1.2.23). Both movements possibly reflect,

among other factors, the effects of the monetary tightening begun in 2024. In long-term modalities, payroll-deducted loans to private sector's workers have grown strongly after the changes implemented in mid-March (Figure 1.2.24). Considering deflated seasonally adjusted data, the volume of these operations rose from BRL 1.6 billion in February, before the changes, to BRL 5.6 billion in April, the first complete month with full effectiveness of the Workers' Credit program. Despite an expansion of around BRL 4 billion in this modality, its effect so far is less relevant in the more aggregate series of non-earmarked household credit granting (Figures 1.2.22 and 1.2.23). Non-earmarked corporate credit also decelerated when compared with the strong expansion of 2024 (Figure 1.2.22). This movement is widespread across several modalities, as working capital and receivables advance, which includes the discount of trade and credit card bills. Furthermore, funding raised in the domestic capital market reduced over the last year's level (Figure 1.2.25) but continues at a historically high level.

Figure 1.2.22 – Non-earmarked credit granting

BRL billion of Apr 2025, s.a., 3MMA

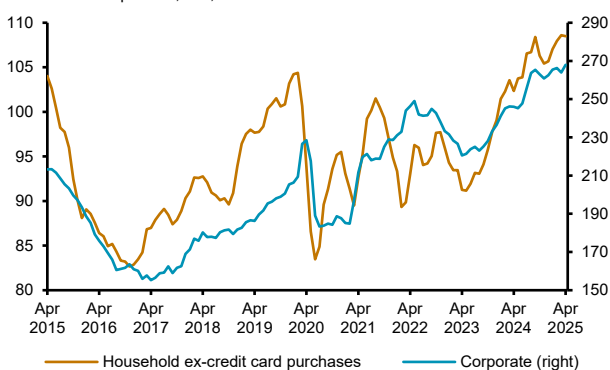


Figure 1.2.23 – Non-earmarked household credit granting

BRL billion of Apr 2025, s.a., 3MMA

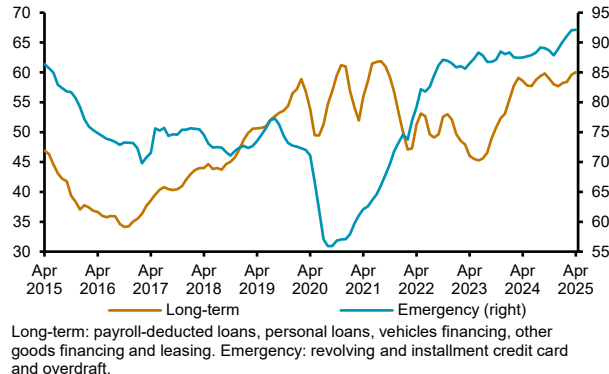


Figure 1.2.24 – Non-earmarked household credit granting – Payroll-deducted

BRL billion of Apr 2025, s.a., 3MMA

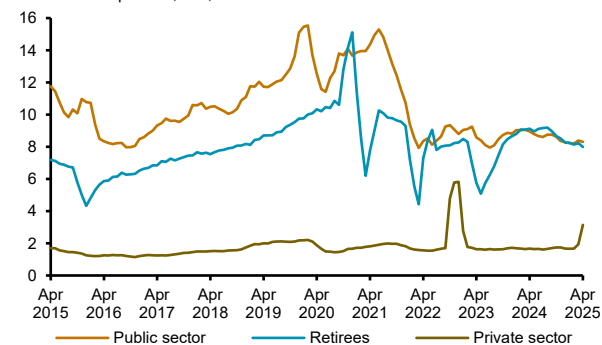
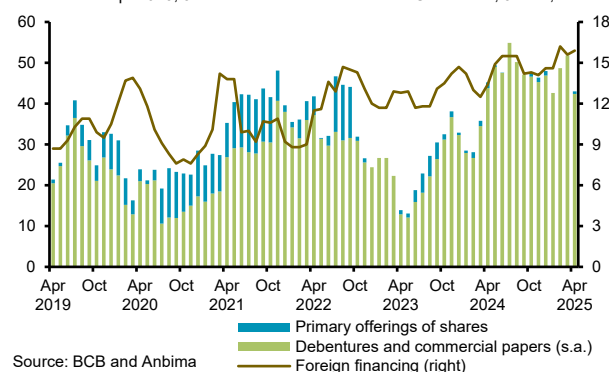


Figure 1.2.25 – Non-banking corporate financing

BRL billion of Apr 2025, 3MMA

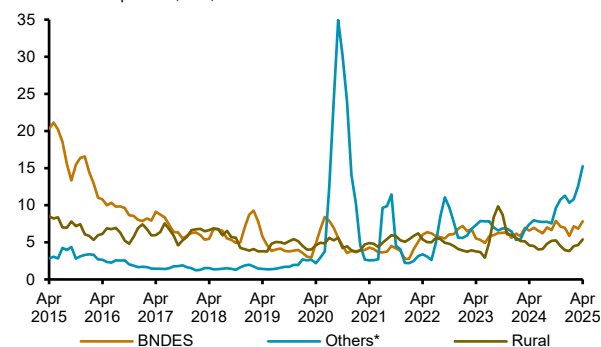
USD billion, 3MMA, s.a.



However, earmarked credit granting in the corporate segment increased in the quarter. Driven by the operations of the Emergency Credit Access Program (PEAC) – the program that guarantees credit to micro, small, and medium-sized companies – earmarked credit granting grew strongly in the Feb-Apr quarter (Figure 1.2.26). In the household segment, real estate loans also increased, interrupting, at least temporarily, the downward trajectory observed in the second half of 2024 (Figure 1.2.27). Conversely, also in the household segment, rural credit operations continued to decline from the high level observed from 2022 to 2024.

Figure 1.2.26 – Earmarked corporate credit granting

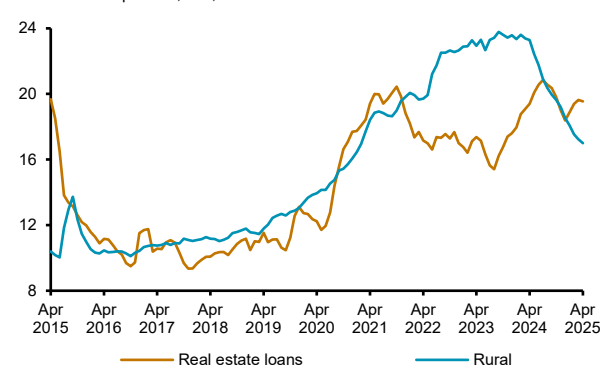
BRL billion of Apr 2025, s.a., 3MMA



*Includes Pronampe, PEAC, PESE, among others.

Figure 1.2.27 – Earmarked household credit granting

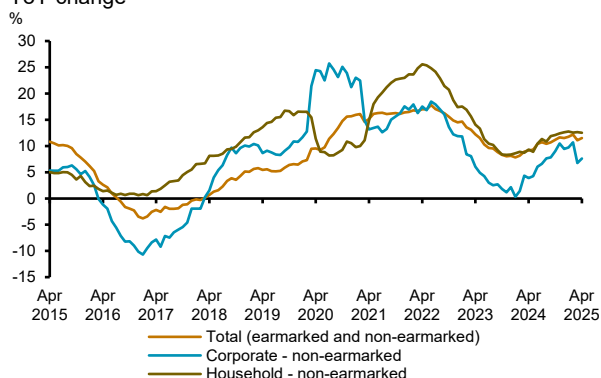
BRL billion of Apr 2025, s.a., 3MMA



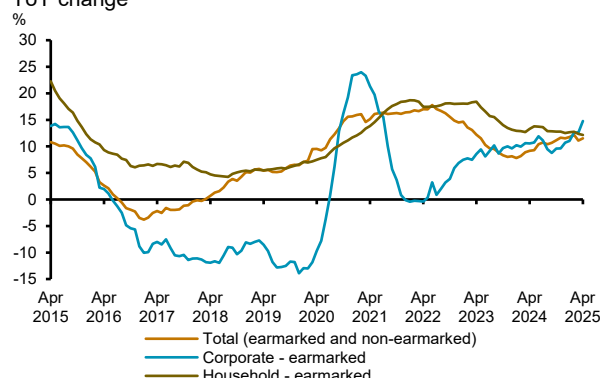
The expansion of SFN balance has oscillated around 11.5% over the last two quarters, with deceleration in the non-earmarked segment and acceleration in the earmarked one. Deceleration in the non-earmarked segment was driven by the corporate segment (Figure 1.2.28), especially in the modalities of discount of receivables and those associated with the external market, partly due to the effect of the exchange rate variation. The balance of earmarked corporate credit accelerated (Figure 1.2.29), in line with the increase of operations guaranteed by the PEAC. As for household operations, they have been decelerating slowly, with worsened composition of the non-earmarked credit and deceleration in rural credit.

Figure 1.2.28 – Non-earmarked credit balance

YoY change

**Figure 1.2.29 – Earmarked credit balance**

YoY change

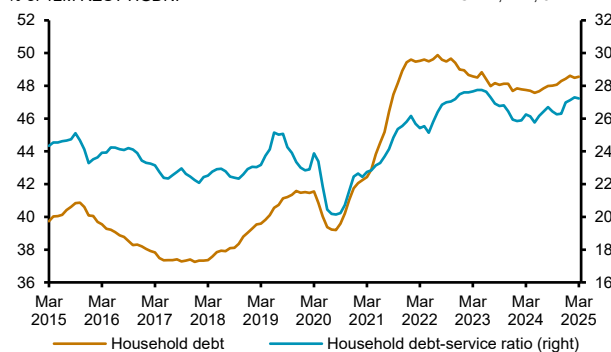


Household debt to income and debt-service indicators are still at high level, corroborating the scenario of tightened household finance. Household debt to income has stabilized in the early months of 2025, after growing gradually over 2024, and is at a slightly lower level than the records observed from mid-2021 to mid-2022. Debt-service ratio is still increasing, pressured by the higher interest rate and the expansion of emergency credit operations, which are more expensive.

Figure 1.2.30 – Household debt to income and household debt-service ratio without real estate loans

% of 12M REST HGDI

% of REST HGDI, s.a., 3MMA



Delinquency of national SFN credit increased since the beginning of the year, partially due to a regulatory accounting change. Throughout 2024, the delinquency indicator oscillated around 3.2%, but worsened in early 2025, especially in April, when it reached 3.5%. This recent delinquency increase reflected greater delays in all segments (Figures 1.2.31 and 1.2.32). In the household segment, it is noteworthy the worsening of the portfolios of revolving credit card and non-payroll-deducted personal loans, in the non-earmarked segment, and rural loans, in the earmarked one. In corporate operations, the increased delinquency in other earmarked credit stands out, which includes operations of the PEAC and the National Program for Supporting the Micro and Small Enterprises (Pronampe) programs, among others. However, to some extent, increased delinquency seems to reflect a change in the dynamics of the gradual acknowledgment of provisions and write-off of loans as loss by financial institutions, in face of CMN Resolution 4,966 of November 25, 2021. Under the current regulation, institutions can postpone some the write-off of certain loans compared to what would be expected under the previous rules. Therefore, some operations that would be written-off as loss – and would no longer be recorded as non-performing – remain classified as outstanding operations for longer.²²

Figure 1.2.31 – 90 days past due loans

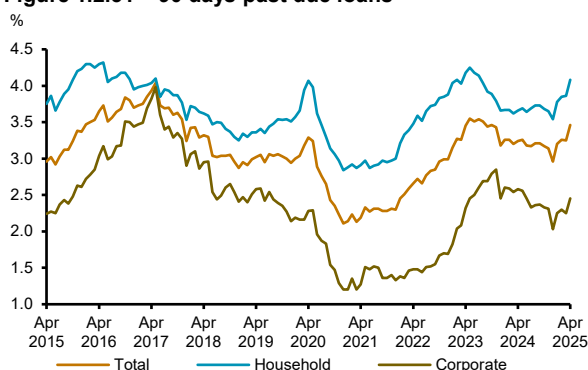
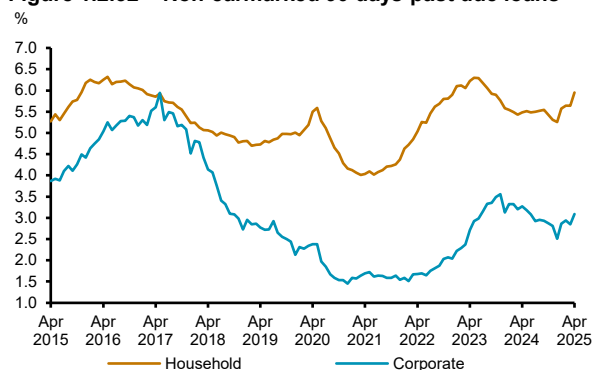


Figure 1.2.32 – Non-earmarked 90 days past due loans



In this context, the projection for credit growth in 2025, detailed in a box in this MPR, was revised upward from 7.7% to 8.5%. This increase mainly reflects stronger-than-expected data for early 2025 than in the previous MPR. Despite the increased projection, the expected nominal expansion represents a significant decline compared with that observed in 2024, of 11.5%, in line with the scenario of higher interest rate and lower economic activity growth in this year than in 2024.

Fiscal

The fiscal framework has been characterized by expectations of primary balance deficits and growing public debt by some analysts. Despite the good primary result in the first four months of the year, the government has recently reduced the projection for this variable for 2025. The new estimate is closer to the consensual analysts' view and is consistent with the lower limit around the target. For 2026, unlike most analysts, the government also expects to meet the target, which is compatible with a small deficit when considered all expenses with court-ordered payments. Even assuming an incremental improvement in the primary balance in the following years – in line with the most recent target indicatives for the period – and with more optimistic assumptions than the market consensus, the government expects the public debt to increase until 2028.

The consolidated public sector recorded a higher primary surplus from January to April than in the first four months of 2024. This increase was due to the Central Government behavior, whereas regional governments and state-owned companies maintained their results practically stable compared with 2024 (Table 1.2.3). Within the Central Government, revenues increased – albeit at a lower YoY growth rate than that observed in the same period in 2024 – and expenditures decreased (Table 1.2.4). Despite the slowdown,

22/ This issue was highlighted by the Financial Stability Committee (Comef) in the [minutes of its 61st meeting](#) on May 27-28 (Portuguese only).

administered revenues maintain a favorable performance, especially taxes related to economic activity and the labor market. The decline in expenses, in turn, reflected a change in the calendar for court-ordered payments and a delay in the approval of the Annual Budget Law (LOA). In 2025, most of the court-ordered payments, which in 2024 were made in February, did not occur until April. Personnel expenses, in turn, decreased in the first four months of the year, even with the adjustments approved in 2024, as the implementation of salary adjustments for federal government careers was subject to the LOA approval, which only occurred in April. Additionally, with the delay in the approval of the budget, the execution of discretionary expenses at the beginning of the year occurred at a slow pace.

Table 1.2.3 – Public Sector Borrowing Requirements - Primary balance

Accumulated in the year until April

Itemization	BRL billion		
	2023	2024	2025
Central Government	-47	-30	-69
o/w Federal Government	-126	-123	-167
o/w INSS	79	92	98
Regional governments	-33	-33	-37
State-owned companies	2	2	3
Total	-79	-61	-103

Positive values represent deficit and negative values represent surplus

Table 1.2.4 – Central Government fiscal balance

Accumulated in the year until April

	BRL billion - current values		
	2024	2025	Real var. (%)
1. Total revenue	896	973	3.3
1.1 - Revenues collected by the Federal Revenue Office	591	647	4.1
1.2 - Net Social Security revenues	201	217	2.6
1.3 - Revenues not collected by the Federal Revenue Office	103	109	0.0
2. Transfers by revenue sharing	169	184	3.3
3. Net revenue (1-2)	727	789	3.3
4. Total Expenditure	695	717	-1.9
o/w excl. court-ordered payments	654	705	2.5
4.1 Social Security benefits	293	315	2.2
o/w excl. court-ordered payments	286	308	2.3
4.2 Payroll	116	119	-2.2
o/w excl. court-ordered payments	115	118	-1.7
4.3 Other compulsory expenses	130	119	-13.1
o/w excl. court-ordered payments	98	115	12.1
4.4 Executive branch expenses subject to financial programming	156	164	0.0
o/w <i>Bolsa Família</i> (Family Allowance)	56	55	-7.5
5. Central Government primary balance - above the line (3 - 4)	32	72	115.6

Source: National Treasury

However, the most recent government projection for the Central Government primary balance in 2025 worsened compared with the previous forecast, due to the reassessment of expected revenues, and came closer to the deficit expected by analysts. In the 2025 LOA, presented in 2024 and approved in 2025, the government expected a primary deficit of BRL 30 billion. In the first Primary Revenues and Expenses Assessment Report (RARD) of 2025, the expected deficit rose to BRL 76 billion²³, higher than the BRL 45 billion of last year. With the new estimate, the government's projection is closer to the analysts' consensus,

^{23/} The balance presented by RARD was a deficit of BRL 97 billion for 2025. Since the target for the year is BRL 31 billion and court-ordered payments excluded from the target reach BRL 45 billion, the government had to freeze BRL 21 billion in expenses in order to reach the target lower limit set for the year. As a result, the projected primary balance, after the expenses freeze, rose to BRL 76 billion.

according to the median of the Pre-Copom Questionnaire (PCQ), and is compatible with meeting the target around the lower limit (Table 1.2.5). In the government's projection update, the amounts expected from extraordinary measures were reduced among the revenues, with emphasis on those regarding CARF (-BRL 28 billion), tax transactions (-BRL 26 billion), and control of tax benefits (-BRL 20 billion). Conversely, the government proposed measures to increase tax collection with an estimated impact of BRL 21 billion in 2025 and BRL 41 billion in 2026.²⁴ The net reduction in projected revenues led to the need for a BRL 21 billion expenditure freeze, aiming to meet the primary balance target. Furthermore, the increase in the projection of mandatory spending (especially social security) resulted in a BRL 10 billion block on discretionary expenses, aiming to meet the expenses cap.

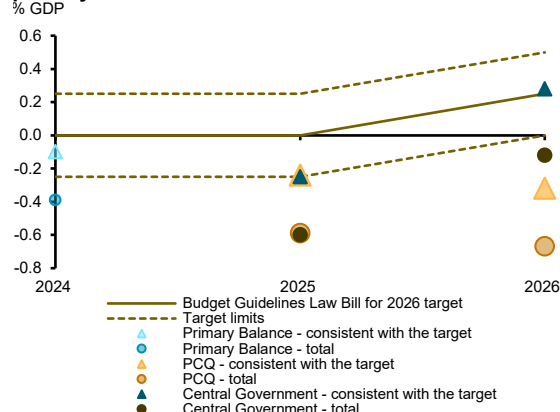
Table 1.2.5 – Forecasts for the Central Government primary balance in 2025

	BRL billion - current values		
	LOA	RARD	PCQ
Net revenue	2,360	2,318	2,318
Total Expenditure	2,390	2,395	2,396
Central Government primary balance	-30	-76	-75
Primary Balance target discount	44	45	
Prim. bal. consistent with the target	15	-31	-30

Sources: National Treasury, Federal Budget Office, and BCB

The government expects to meet the primary balance target in 2026, with a strong contribution from tax collection. In the Budget Guidelines Bill (PLDO) sent in April 2025, the Executive maintained for 2026 the fiscal target indicated in the Budget Guidelines Law (LDO) for 2025: 0.25% of GDP, equivalent to BRL 34 billion, with a tolerance range of 0.25% of GDP. The government projects a primary deficit of BRL 17 billion in 2026, which, after excluding the court-order payments disregarded for the purposes of the assessment of the target meeting, is equivalent to a surplus of BRL 38 billion. Given the projected expenses growth, even the achievement of the lower limit of the target will require a significant revenues increase. The government's projection for 2026 considers BRL 118 billion in revenues from measures not yet approved, to be detailed in the Annual Budget Bill (PLOA), which should be sent in August. In turn, according to the PCQ, market projections indicate a slight worsening of the primary balance from 2025 to 2026 and difficulty in meeting the target in 2026, even considering the lower limit (Figure 1.2.33). The distance between the median projections and the lower limit is BRL 43 billion, already considering the projection of the primary balance for the purposes of the assessment of the target meeting.

Figure 1.2.33 – Forecasts of the Central Government primary balance



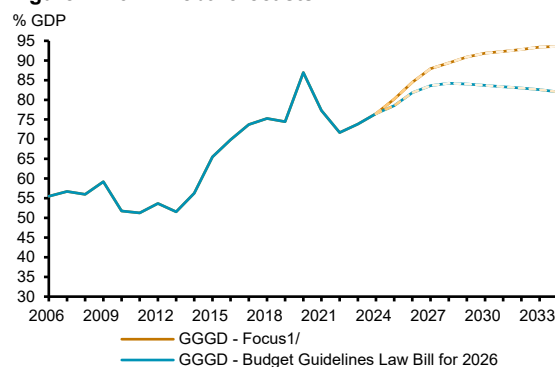
Sources: BCB and Ministry of Finance

^{24/} The government's initial proposal – Decree 12,466, of May 22, 2025 – included an increase in the rate of the Tax on Financial Operations (IOF) on credit operations for companies, foreign exchange, and insurance. Adjustments to the proposal were presented on June 11 through Decree 12,499 and Provisional Measure 1,303. Some of the more recent measures are: a smaller and less comprehensive increase in IOF rates than originally proposed; an increase in tax on bets; changes in taxation on financial investments, including a tax on securities that were previously exempt; an increase in income tax rates on interest on equity; and the elimination of the lowest social contribution rate on net profit, of 9%, which was levied on some segments of the financial market.

Budget execution will remain challenging in the coming years. The government indicated in the more recent PLDO that it will pursue targets of 0.50%, 1.00%, and 1.25% of GDP from 2027 to 2029, respectively. When projecting primary expenses from 2027 onwards, the government made it clear the difficulty of bringing back under the New Fiscal Regime's spending cap the share of court-order payments that had been excluded from this cap by a Federal Supreme Court (STF) ruling. By re-including the value of these court-ordered payments under the cap, the government indicated the need for a strong compression of discretionary expenses, from 1.5% of GDP in 2026 to 0.8% of GDP in 2027 and 0.4% in 2028. As a reference, in 2024 total discretionary expenses reached 1.6% of GDP, while those associated with compliance with the constitutional floors for health and education totaled 0.7% of GDP.

The government projects public debt growth in the coming years and stabilization as of 2028. In the PLDO government's projection, the gross debt as a percentage of GDP starts at 76% in 2024, reaches a peak of 84.2% in 2028 and then begins a downward trajectory, reaching 82% of GDP in 2034. This projection is based on meeting the aforementioned primary balance targets and assumes a higher GDP growth and lower Selic rate than the Focus Report's medians. According to market analysts, public debt will reach 89% in 2028 and will continue to rise for years ahead (Figure 1.2.34).

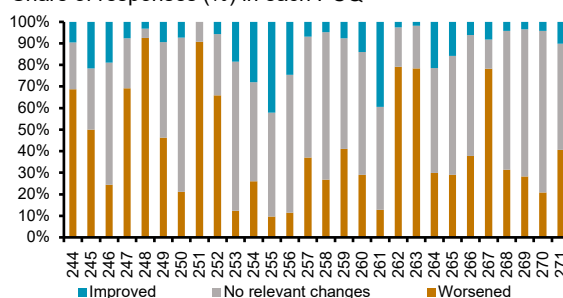
Figure 1.2.34 – Debt forecasts



1/ Forecasts from 2025 on correspond to the June 13, 2025 Focus survey

Finally, the distribution of analysts' perceptions about the evolution of the fiscal situation has slightly worsened since the May's Copom meeting. According to PCQ data (Figure 1.2.35), when asked about their "assessment of the evolution of the fiscal situation since the last Copom meeting considering both the central scenario and the risks involved", most of respondents perceived a worsening at the end of 2024 (Copom 267).²⁵ Since then, in the subsequent three questionnaires, most of respondents stated that there had been no relevant changes. In the more recent edition, however, the proportion of analysts forecasting a stable scenario decreased, although still totaling 49%, and the group believing in the worsening increased proportionally more (from 21% in May to 41% in June).

Figure 1.2.35 – PCQ: Assessment of fiscal situation
Share of responses (%) in each PCQ



Question: "How do you assess the change of the fiscal outlook since the previous Copom, considering both your baseline scenario and related risks?"

^{25/} The December 2024 Inflation Report brings further discussion on this topic.

External accounts

The current account deficit remained high at the beginning of 2025, sustained by the resilience of imports.

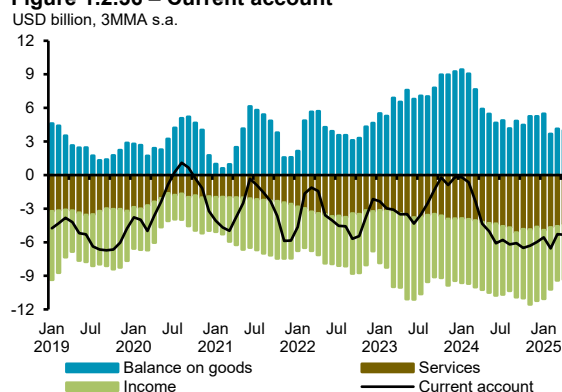
Considering the 3MMA of seasonally adjusted data, the current account deficit has remained relatively stable, fluctuating between USD 5 billion and USD 7 billion per month since 2024Q2 (Figure 1.2.36). In the first four months of the year, the accumulated current account deficit totaled USD 21 billion, the peak since 2015. Compared with the same period of the previous year, the increased deficit reflects a reduction in the trade surplus and the persistence of significant deficits in the services and primary income accounts. The decline in the trade surplus resulted from increased imports, which reached the highest value in the time series up to April. In this context, considering the sum of the last twelve months up to April, the current account deficit of USD 69 billion came closer to net inflows of direct investment liabilities, USD 70 billion.

Table 1.2.6 – External accounts

Year to date until april	USD billion			
Itemization	2022	2023	2024	2025
Current account	-8	-15	-14	-21
Balance on goods	17	23	24	15
Exports	103	105	109	108
Imports	85	83	85	93
Services	-12	-13	-16	-17
of which: Travel	-2	-3	-3	-3
of which: Transport	-6	-4	-4	-5
Primary income	-15	-26	-24	-20
of which: Interests	-7	-9	-10	-9
of which: Dividends	-7	-17	-14	-12
Investment - liabilities	35	35	38	33
DI liabilities	31	28	29	27
Portfolio investments	-3	4	-0	-2
Other investments ¹	6	3	9	7

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

Figure 1.2.36 – Current account



After strong growth throughout most of 2024, in line with domestic demand, the volume of imports has remained relatively stable – albeit at a high level – in recent months.

At the beginning of 2025, imports reached in USD the highest level in the time series. This movement was driven by the arrival of an oil rig in February. Nevertheless, the accumulated import value in the first four months would still have been a record even excluding this operation. The maintenance of imports at a high level was supported by import prices, which reverted the downward trend that had persisted since 2023 (Figure 1.2.38). Conversely, the volume of imports has shown signs of slowdown, widespread across the main use categories (Figure 1.2.37).

Figure 1.2.37 – Imports quantum index - excluding oil rigs

Index (2019=100), 3MMA, s.a.

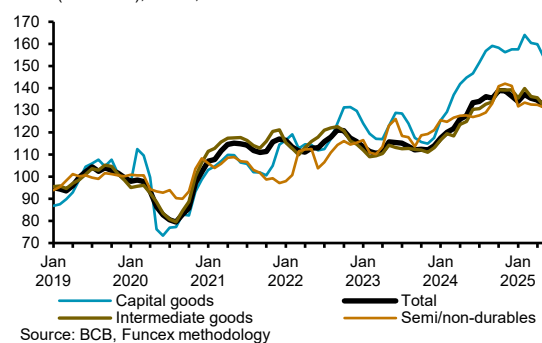
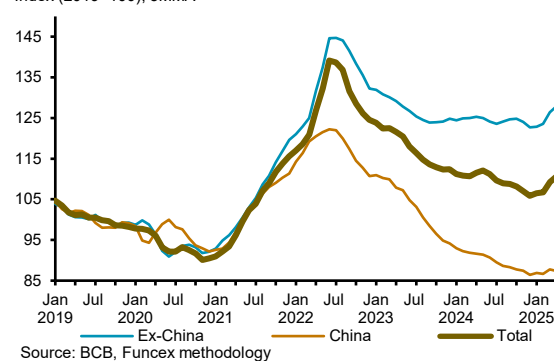


Figure 1.2.38 – Imports price index

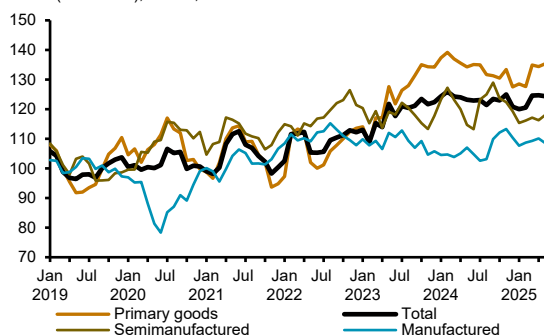
Index (2019=100), 3MMA



Export values remained high at the beginning of 2025, reflecting increased volume offsetting falling prices. The drop of major commodity prices reflects uncertainties surrounding trade disputes and a strong harvest of soybeans in 2025. The performance of export volumes for major commodities was heterogeneous, with the growth in iron ore, meat, and soybeans being partially offset by the performance of oil sales. Steel exports to the U.S., which imposed high tariffs on steel and aluminum imports, have shown incipient signs of decline but so far with no significant impact on total exports.²⁶ To help assess the potential repercussions of the new global tariff environment on Brazil's external accounts, the box "Brazil's bilateral trade with the U.S. and China" in this MPR analyzes Brazil's trade with both countries. Finally, with falling export prices and a modest increase in import prices, the terms of trade worsened in early 2025 (Figure 1.2.40).

Figure 1.2.39 – Exports quantum Index

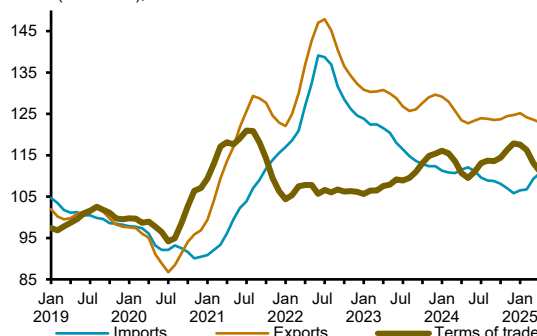
Index (2019=100), 3MMA, s.a.



Source: BCB, Funcex methodology

Figure 1.2.40 – Price Index and terms of trade

Index (2019=100), 3MMA, s.a.



Source: BCB, Funcex methodology

Despite still being significant, the services account deficit declined at the beginning of the year. The drop was driven by lower spending on recreational services (one of the components of the "other services" series in Figure 1.2.41), possibly associated with the implementation of new sports betting regulations starting in early 2025. Additionally, the 2024 BRL depreciation has helped curb travel expenses. Lastly, transport expenses have remained relatively stable, with the increase in import volume offset by lower international freight prices.

In the primary income account, net expenses decreased. This decline was mainly due to lower earnings outflows since the beginning of the year (Figure 1.2.42), despite the dynamism of domestic activity. A slight reduction in interest expenses also contributed to the deficit reduction, following the nominal record in 2024. This behavior of interest payments is partly due to the lagged effect of interest rate cuts in major global economies. In recent months, however, this trend has reverted, possibly linked to increased global uncertainty and greater caution regarding the fiscal situation in the U.S.

Figure 1.2.41 – Services

USD billion, 3MMA, s.a.

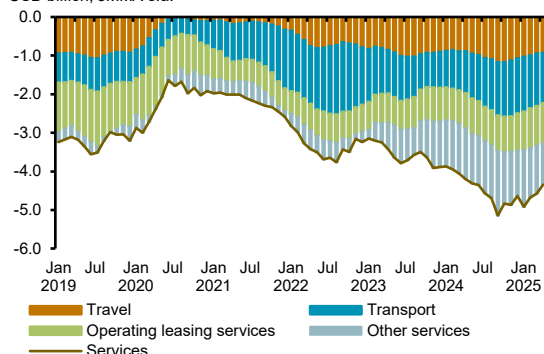
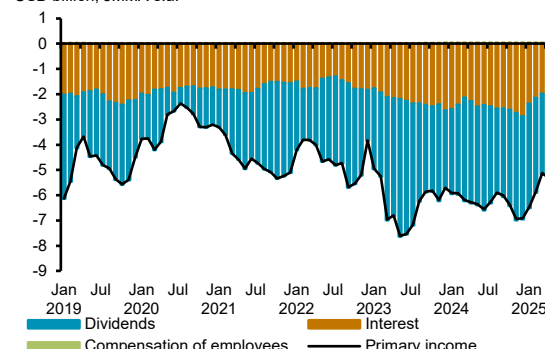


Figure 1.2.42 – Primary income

USD billion, 3MMA, s.a.



Despite a slight decline in early 2025, net inflows of direct investment liabilities remain robust. The recent drop in the seasonally adjusted series compared with the end of 2024 is due to reduced reinvestment of

^{26/} As a reference, Brazil exports of steel in 2024 totaled USD 12 billion, of which USD 6 billion were shipped to the U.S. Total customs exports amounted to USD 337 billion.

earnings in Brazil (Figure 1.2.43). This movement stems from both lower total earnings and higher remittances of earnings abroad. Conversely, both the intercompany debt and equity components excluding reinvested earnings grew at the margin, keeping direct investment liabilities net inflows at a level similar to that of recent years. Regarding portfolio investment liabilities, the strong outflow of equities and investment funds at the end of 2024 was reverted at the beginning of the year, with improved inflows into domestic securities (Figure 1.2.44).

Figure 1.2.43 – Direct investment liabilities

USD billion, 3MMA s.a.

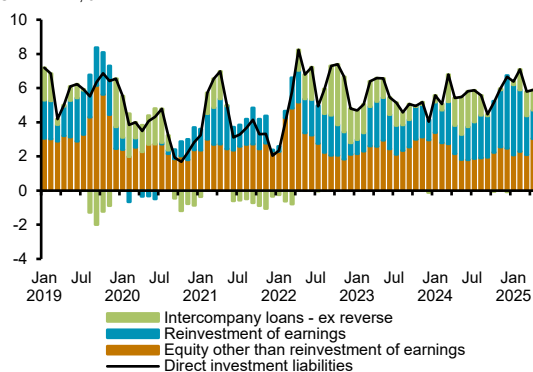
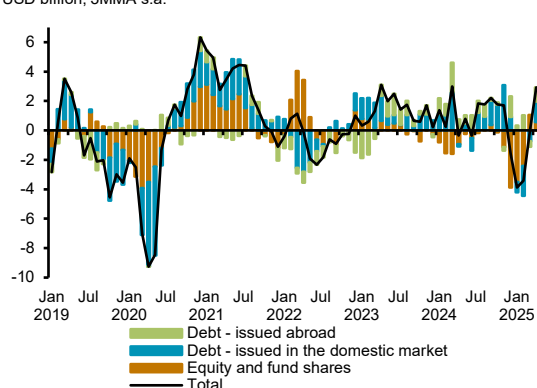


Figure 1.2.44 – Portfolio investment - liabilities

USD billion, 3MMA s.a.



Projections for the external accounts for 2025 were revised marginally. In line with the latest data and the outlook for a moderation in domestic economic activity, the current account deficit is expected to reach USD 58 billion (2.6% of GDP), compared with a projection of USD 62 billion (2.8% of GDP) in the previous MPR. The updated projection represents a slightly smaller deficit than observed in 2024 (USD 62 billion, 2.8% of GDP) and lower than the updated forecast for net inflows of direct investment liabilities (USD 70 billion, 3.2% of GDP). Further details are available in a box in this MPR.

Prices

Consumer inflation remained high, and inflation expectations are still deanchored. The IPCA accumulated a 12-month increase of 5.32% up to May, compared with 5.06% up to February. The average of core inflation measures declined slightly compared with the previous quarter, but remains high, considering the seasonally adjusted 3-months moving average. The three segments of market prices continue to show high changes, despite some moderation compared with the Dec-Feb quarter. This behavior occurs in a scenario still characterized by resilience in activity, pressures in the labor market, and a positive output gap. Furthermore, the BRL has appreciated further since the March 2025 MPR, although it still accumulates a significant depreciation against the USD since the beginning of 2024. In this context, according to the Focus Report, inflation expectations for 2025 have declined, although they remain above the upper limit of the inflation target tolerance interval. For longer horizons, however, expectations have shown little change since the previous MPR and remain deanchored.

The Commodities Index – Brazil (IC-Br) measured in BRL declined again, reflecting the BRL appreciation.

The IC-Br decline in BRL since the March 2025 MPR was 2.2%, with a 1.4% increase in the IC-Br in USD and a 3.5% exchange rate appreciation (Figures 1.2.45 and 1.2.46).²⁷ Metal commodities declined 1.6% in USD, a movement concentrated in base metals. Energy commodities declined 4.2%, with decreases in Brent-type oil and natural gas prices in the U.S. Conversely, agricultural commodity prices increased 3.6%, mainly due to increases in fed cattle, cocoa, and soybean oil. Compared with the June 2024 IR, the IC-Br in BRL grew 8.3%, reflecting a 3.0% increase of the IC-Br in USD and a 5.2% BRL depreciation.

^{27/} IC-Br and exchange rate changes discussed in this section refer to the ten-day moving average between the respective cut-off dates of the reports.

Figure 1.2.45 – IC-Br and foreign exchange rate

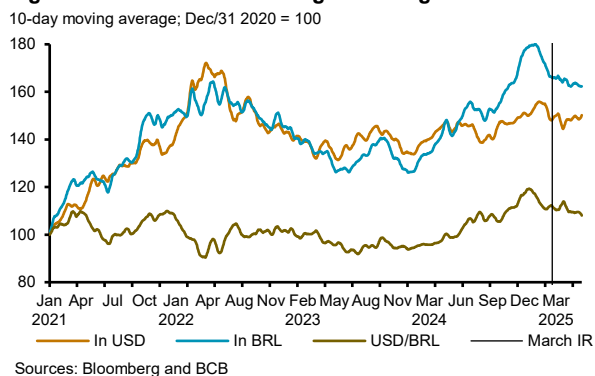
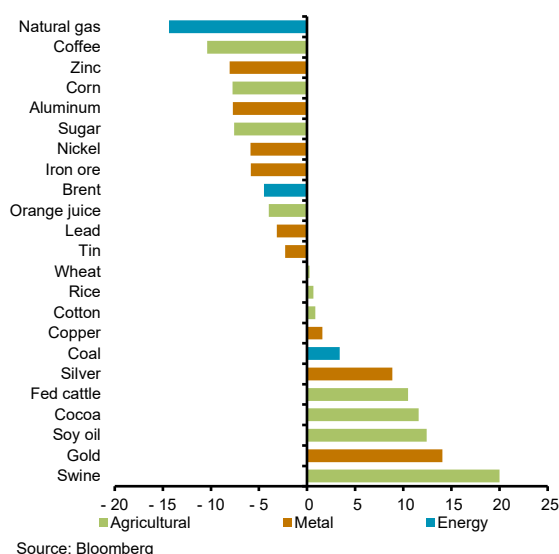


Figure 1.2.46 – Change in commodity prices

% change of the 10-day moving-average in USD between previous and current report cut-off dates



Producer prices fell in aggregate terms, with a drop in the agricultural and mining segments and a slowdown in manufacturing. The Broad Producer Price Index (IPA-DI) shifted from an increase of 2.15% in the Dec-Feb quarter to a decrease of 2.05% in the Mar-May quarter (Figure 1.2.47). The main contribution to this result came from the sharp decline in prices from the mining industry (-9.61%), due to both lower oil and natural gas prices and falling iron ore prices.²⁸ Agricultural prices fell 1.02%, with notable decreases in coffee beans, rice, oranges, corn, and eggs. Cattle prices also declined slightly, in line with the more favorable seasonality of the period. In manufacturing, despite some volatility between readings, the IPA decelerated compared with the sharper increases seen at the beginning of 2025. Part of this movement may reflect a moderation in the pass-through of exchange rate increases since 2024, as well as the recent BRL appreciation. This deceleration can also be observed in the measure that excludes fuels, processed foods, and tobacco.

Figure 1.2.47 – Contributions to quarterly IPA-DI change

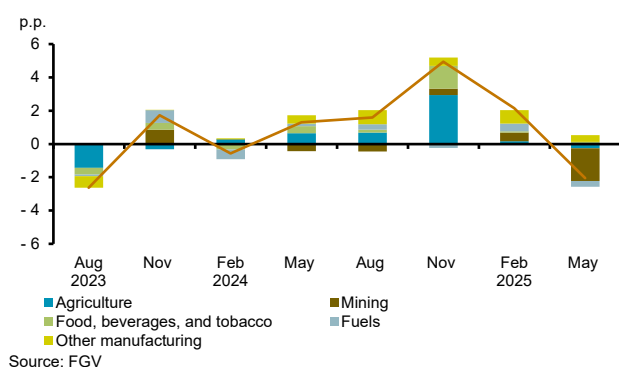
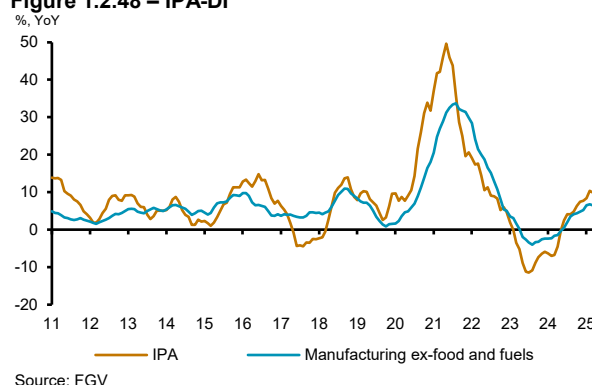


Figure 1.2.48 – IPA-DI

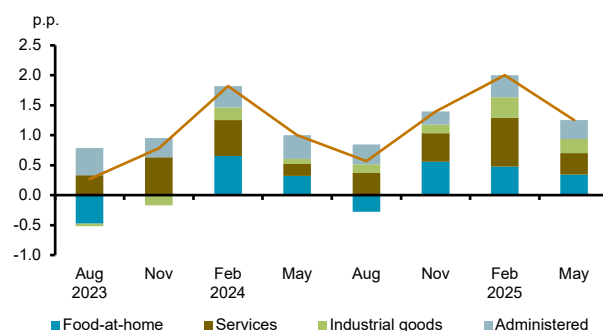


The 12-month consumer inflation increased since the March 2025 MPR and quarterly inflation remains high. Consumer inflation, measured by the IPCA, decreased from 2.00% in the Dec-Feb quarter to 1.25% in the Mar-May quarter. Prices slowdown was observed across all segments (Figure 1.2.49) and in the average of core inflation measures, partly due to seasonal factors. When seasonally adjusted series are considered, core inflation measures were slightly lower than in the previous quarter and they remained above the tolerance interval around the inflation target – in annualized terms, the average of core inflation measures was 5.17%,

28/ In January 2025, the IPA's weighting structure was updated to include the oil and gas subgroup, among other changes, increasing the share of mining in the index. Prices in this segment are highly volatile, and with the updated IPA structure, mining tends to have a greater impact on movements in the aggregate index.

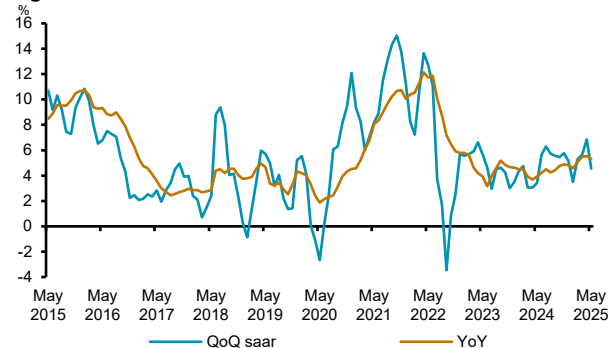
compared with 5.59% in the Dec-Feb quarter. In the 12-month period, both the IPCA change (from 5.06% to 5.32%) and the average of core inflation measures (from 4.64% to 5.17%), which were already high, increased further (Figures 1.2.50 and 1.2.51).

Figure 1.2.49 – Contributions to IPCA quarterly changes



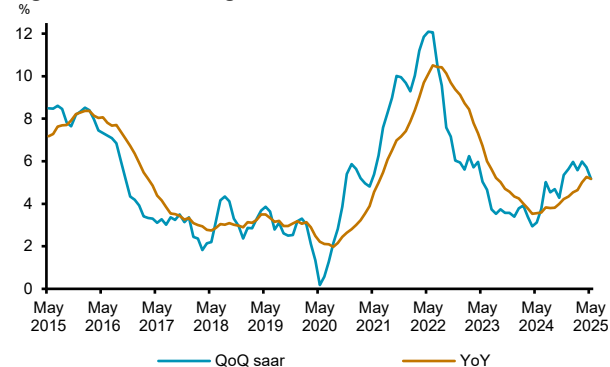
Sources: IBGE and BCB

Figure 1.2.50 – IPCA



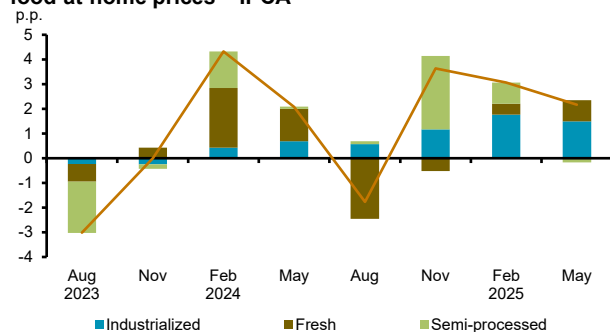
Sources: IBGE and BCB

Figure 1.2.51 – Average of core inflation measures



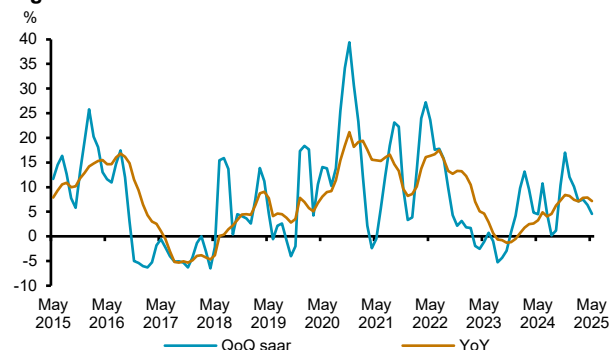
Consumer food prices have slowed down compared with the previous two quarters, but they continue to show a high change. Prices in this segment rose 2.17% in the Mar-May quarter, below the 3.06% in the Dec-Feb quarter (Figure 1.2.52). The main contribution to this movement came from the decline in consumer beef prices, following very sharp increases up to December. Also among semi-processed foods, rice prices also fell, supported by a favorable domestic harvest and a sharp drop in wholesale prices. To a lesser extent, processed food prices also slowed down during the quarter – although they still show high changes. Ground coffee prices, which have contributed to the segment’s increase, continued to rise sharply in retail, although a price decline is already being observed in wholesale. Finally, fresh food, which had shown below-seasonal changes in recent quarters, recorded a significant increase in the Mar-May quarter, despite the recent stabilization in egg prices. Prices of these products are generally more volatile and sensitive to weather conditions.

Figure 1.2.52 – Contributions to quarterly changes in food-at-home prices – IPCA



Sources: IBGE and BCB

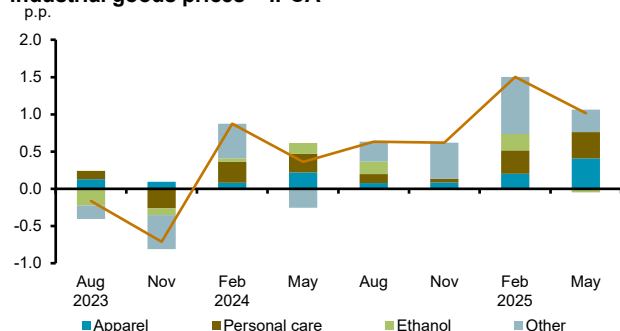
Figure 1.2.53 – Food-at-home inflation



Sources: IBGE and BCB

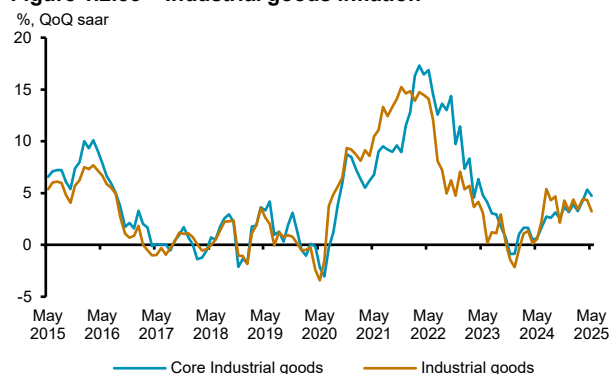
Industrial goods prices in the IPCA increased sharply for the fourth consecutive quarter. The price increase in the segment declined from 1.50% in the Dec-Feb quarter to 1.02% in the Mar-May quarter (Figure 1.2.54). Excluding ethanol – which typically registers price drops starting in April – the segment’s change fell from 1.32% to 1.10% from one quarter to the other. In the saar series, industrial goods price change declined from 3.46% to 3.24%, remaining at a high level for this segment (Figure 1.2.55). Alternative measures that exclude the most volatile items in the segment indicate even higher changes in the quarter. The 12-month inflation in the segment rose from 3.15% in February to 3.82% in May.

Figure 1.2.54 – Contributions to quarterly changes in industrial goods prices – IPCA



Sources: IBGE and BCB

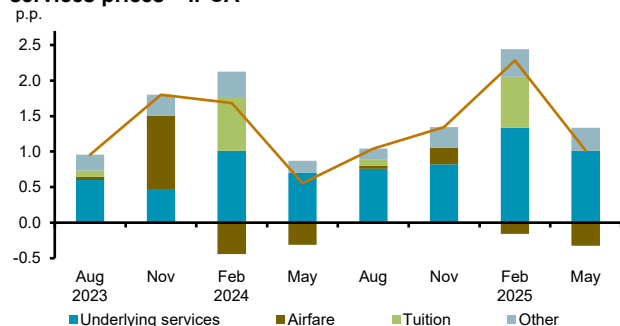
Figure 1.2.55 – Industrial goods inflation



Services inflation remains high and widespread, despite some moderation in its underlying component.

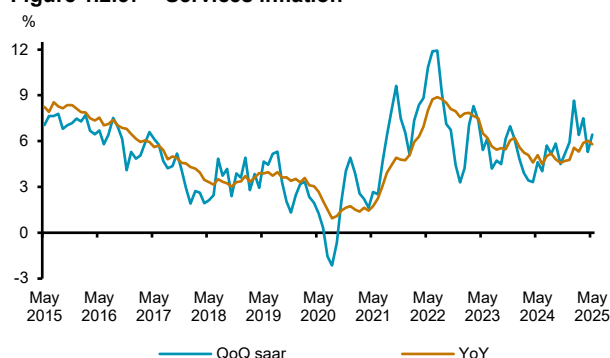
Services inflation fell from 2.28% to 1.01% between the Dec-Feb and the Mar-May quarters, with smaller changes in both the underlying and ex-underlying components (Figure 1.2.56). The ex-underlying component of services inflation fell mainly due to the seasonal effect of education fee adjustments, which are mostly captured in the February IPCA. Additionally, lower changes in volatile items such as airfares and app-based transportation contributed to this result. In the underlying component, the moderation is also partly seasonal but can also be observed in the seasonally adjusted series. The saar change of the underlying component declined from 7.52% in the Dec-Feb quarter to 7.11% in the Mar-May quarter. Excluding the sub-item “cinema”, which showed strong fluctuations between February and March²⁹, the annualized quarterly increase in underlying services dropped from 7.95% to 6.74% in the same period. This moderation was significantly influenced by lower changes in residential rent and condominium fees, which had shown very sharp increases at the beginning of the year. Despite the easing compared with the previous quarter, services inflation remains high. Several underlying inflation measures in this segment indicate annualized changes above 6% in seasonally adjusted series (Figure 1.2.58). In twelve months, the segment showed an acceleration, rising from 5.32% in February to 5.80% in May (Figure 1.2.57).

Figure 1.2.56 – Contributions to quarterly changes in services prices – IPCA



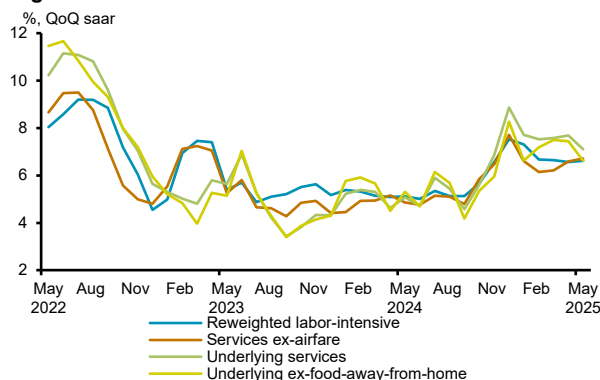
Sources: IBGE and BCB

Figure 1.2.57 – Services inflation



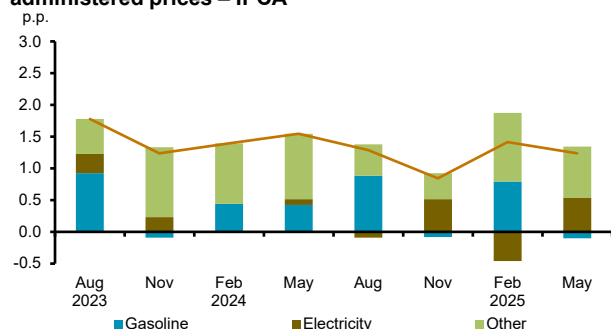
29/ The sub-item “Cinema, theater, and concerts” in the IPCA showed a sharp drop in February, reflecting a promotional week in the cinema sector. In March, with the end of the promotional period, there was an equivalent increase in the sub-item, offsetting the previous month’s decline.

Figure 1.2.58 – Services inflation



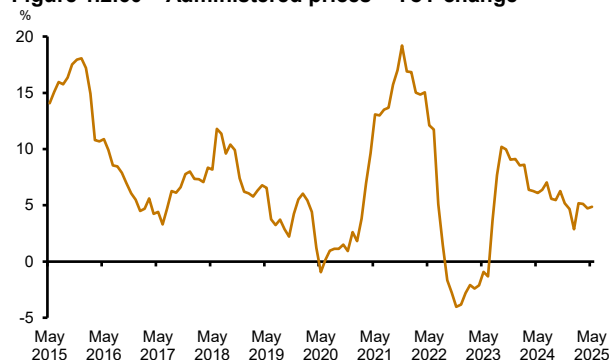
Administered prices slowed down in both the quarterly and 12-month changes. The segment's increase fell from 1.41% in the Dec-Feb quarter to 1.24% in the Mar-May quarter (Figure 1.2.59). The main contribution to this result came from lower change in consumer gasoline prices – which, in the previous quarter, had increased due to the rise in the *ad rem* Tax on Circulation of Goods and Services (ICMS) on fuel and the sharp increase in ethanol prices. There was also a smaller impact from public transportation fare adjustments, which typically occur in the first quarter of the year. In the opposite direction, residential electricity prices increased, as the tariff flag shifted from green in February to yellow in May. In twelve months, administered prices accumulated a change of 4.87% up to May, compared with 5.19% up to February (Figure 1.2.60).

Figure 1.2.59 – Contributions to quarterly changes in administered prices – IPCA



Sources: IBGE and BCB

Figure 1.2.60 – Administered prices – YoY change



Inflation expectations remain deanchored for the 2025-2029 period, although they have declined for the current year. The median expectations for 2025 fell from 5.66% to 5.25% since the March 2025 MPR (Figure 1.2.61), remaining above the upper limit of the inflation target tolerance interval. Expectations fell in all segments, with a greater concentration in administered prices (Table 1.2.7). Data from the Pre-Copom Questionnaire (PCQ) indicate that this revision is mainly related to a lower projection for gasoline prices, which should reflect both the decline in oil prices during the period and a recent downward adjustment in refinery fuel prices. The persistence of high projections for market prices suggests the influence of macroeconomic factors, such as still-elevated current inflation and the resilience of economic activity and the labor market. For the 2026-2029 period, expectations increased slightly compared with the March 2025 MPR (Figure 1.2.62).

Table 1.2.7 – Breakdown of the revision on the 2025 Focus survey

	Weights	Focus expectations (% p.a.)		
		Mar-14	Jun-13	Contr. to Δ (p.p.)
IPCA	100	5.66	5.25	-0.41
IPCA (by aggregation)	100	5.58	5.25	-0.34
Food-at-home	16	7.31	6.93	-0.06
Industrial goods	23	4.12	3.79	-0.08
Services	36	6.15	6.10	-0.02
Administered prices	26	5.05	4.34	-0.18
Market prices	74	5.80	5.62	-0.13
Market prices (by aggreg.)	74	5.77	5.56	-0.15

Figure 1.2.61 – Median market expectations (Focus) – Annual IPCA

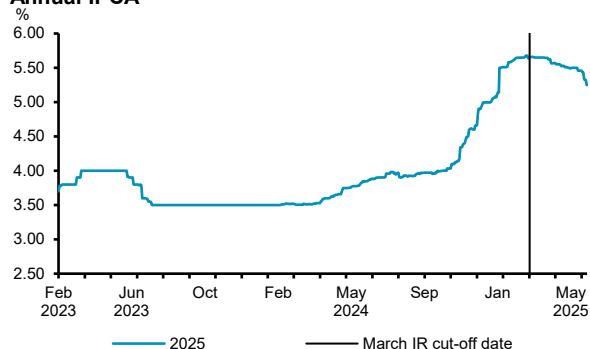
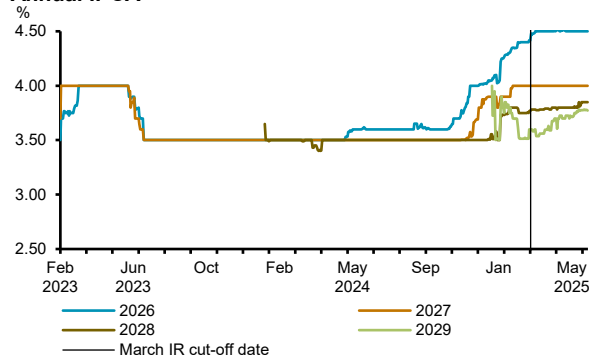


Figure 1.2.62 – Median market expectations (Focus) – Annual IPCA



IBC-Br sectoral breakdown

Since April 2025, the Banco Central do Brasil (BCB) has started to release the sectoral breakdowns of the BCB's Economic Activity Index (IBC-Br), which, as the original indicator, has a monthly frequency. The comparison between the quarterly changes of the IBC-Br, which is calculated with a more restricted set of information, and the equivalent series of the Quarterly National Accounts (CNT), the benchmark for the activity measurement, shows a good adherence of the BCB's indicator to the official data released by the IBGE.

The IBC-Br, released since March 2010, aims to provide a timelier measure of the country's economic activity evolution and to contribute to the elaboration of the monetary policy strategy. This is a monthly indicator that incorporates variables considered as proxies for the performance of the various economic sectors.¹ Since April 2025, the BCB has started to release sectoral IBC-Br data, enlarging the set of information for users already relying on the aggregate indicator. This box presents the series released and makes a comparison between IBC-Br quarterly changes and their correspondent in the CNT, calculated by the Brazilian Institute of Geography and Statistics (IBGE).

The new release includes the series of the three major economic sectors (Agriculture, Industry, and Services), as well as the Taxes series (Figure 1). In addition, it was made available an economic activity measure excluding the Agricultural sector, the IBC-Br ex-Agriculture (Figure 2), since the primary sector dynamics is less correlated with the economic cycle. The new series begin in January 2003, similarly to the IBC-Br, and are released with and without seasonal adjustment.² The base-year of the number-indexes of all IBC-Br series was changed to 2022, which differs from the IBC-Br series released until March 2025, for which the base-year was 2002.³

Figure 1 – IBC-Br and components

2022 = 100, s.a.

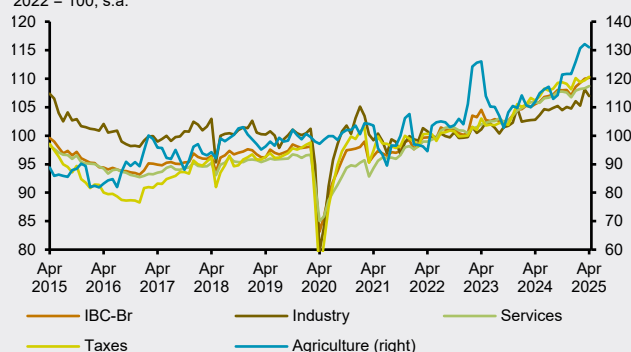


Figure 2 – IBC-Br and IBC-Br ex-Agriculture

2022 = 100, s.a.

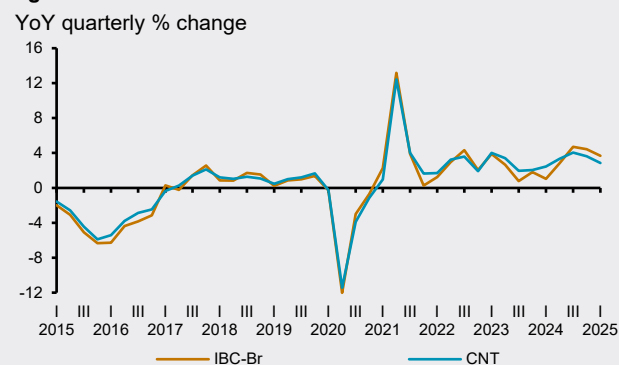


- 1/ For further details about the IBC-Br methodology, see boxes [Central Bank Economic Activity Index – Brazil \(IBC-Br\)](#) in the March 2010 IR and [Central Bank Economic Activity Index – Brazil \(IBC-Br\) – methodological revision](#) in the March 2016 IR.
- 2/ The series are available in Table 1 of the Selected Indicators (<https://www.bcb.gov.br/en/statistics/selectedindicators>) and in the Time Series Management System – SGS (<https://www3.bcb.gov.br/sqspub/localizarseries/localizarSeries.do?method=prepararTeLaLocalizarSeries>). The seasonal adjustment specifications of the new series and the updated specification of the IBC-Br seasonal adjustment can be found in the SGS metadata series. The series are released with the following SGS codes:
 - IBC-Br without and with seasonal adjustment (24363 and 24364, same codes already used);
 - IBC-Br Agriculture without and with seasonal adjustment (29601 and 29602);
 - IBC-Br Industry without and with seasonal adjustment (29603 and 29604);
 - IBC-Br Services without and with seasonal adjustment (29605 and 29606);
 - IBC-Br Ex-Agriculture without and with seasonal adjustment (29607 and 29608);
 - IBC-Br Taxes without and with seasonal adjustment (29609 and 29610).
- 3/ The series are normalized so as the average of the base-year is equal to 100. It is noteworthy that the modification in the base-year does not change the growth rates of economic indicators.

Since the IBC-Br is a measure that summarizes the economic activity and its methodology is based on the IBGE's National Accounts System (SCN), the IBC-Br growth rate is usually compared with that of the GDP. However, despite methodological similarities, it should be highlighted that the IBC-Br series and its components are calculated using a more restricted set of information and, consequently, are less comprehensive than those used by the IBGE to calculate the CNT, which are the official economic activity measure at a quarterly frequency.⁴

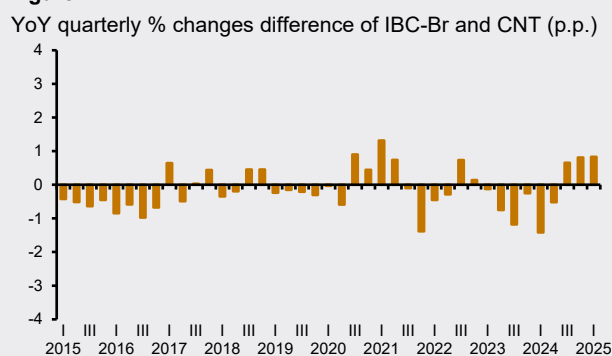
Despite these limitations, the IBC-Br has allowed a timelier assessment of the economic activity trend. All exercises presented in this box have been carried out with real time data, i.e., as calculated and released every quarter. For the IBC-Br sectoral breakdown, released only as from April 2025, the series that represent intermediate steps of the IBC-Br calculation in each publication were used. Figures 3 and 4 compare the YoY quarterly changes of the IBC-Br with the correspondent CNT growth rates from 2015Q1 to 2025Q1. Although IBC-Br change rates show some localized divergences in relation to those of the CNT, the trajectories of both series are similar. In the sample period, the average absolute difference of the IBC-Br rates was 0.55 p.p., equivalent to 15% of the standard deviation of GDP change rates (Table 1).

Figure 3 – IBC-Br and GDP



Sources: BCB and IBGE

Figure 4 – IBC-Br



Sources: BCB and IBGE

Table 1 – IBC-Br quarterly % change difference in relation to CNT

Itemization	Observed data (YoY quarterly change)			Seasonally adjusted data (quarterly change)		
	SD	MAD	MAD/SD	SD	MAD	MAD/SD
IBC-Br	3.76	0.55	0.15	2.19	0.50	0.23
Agriculture	6.36	3.54	0.56	5.33	3.08	0.58
Industry	4.52	1.10	0.24	3.23	0.91	0.28
Services	3.60	0.43	0.12	2.01	0.33	0.17
Taxes	5.54	1.14	0.20	...	...	...

Source: BCB and IBGE

Notes:

- 1 - Exercises carried out with real time data from 2015Q1 to 2025Q1.
- 2 - SD: Standard deviation of quarterly changes of the equivalent CNT series.
- 3 - MAD: Mean absolute difference of IBC-Br and CNT quarterly changes.

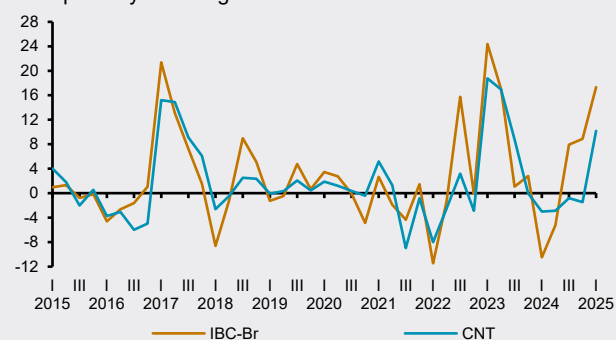
In the sectoral breakdown, in general, there is greater divergence between change rates of the IBC-Br and CNT series (Figures 5 to 12 and Table 1). This may be associated with restrictions on the available information panel for the IBC-Br calculation and with the higher volatility of economic indicators at more disaggregated levels. In Agriculture, a sector in which change rates are more volatile, the average absolute difference of the IBC-Br was 3.54 p.p., corresponding to 56% of the standard deviation of the CNT change rates. In the series for Industry and Taxes, this difference falls to 1.10 p.p. and 1.14 p.p., respectively, slightly above 20% of the

4/ For a discussion about IBC-Br methodological differences and limitations compared with the National Accounts, see box [Methodological aspects and behavior comparison of IBC-Br and GDP](#) in the March 2018 IR.

standard deviations of the equivalent CNT series. In the Services sector, which shows lower volatility in the YoY change rates, the average difference from the IBC-Br stood at 0.43 p.p., corresponding to only 12% of the standard deviation of the CNT change rates. Therefore, according to this YoY change criterion and in the analyzed sample, the IBC-Br for the Services sector in relation to its CNT correspondent has a similar accuracy to that of the aggregate IBC-Br in relation to the GDP.

Figure 5 – Agriculture

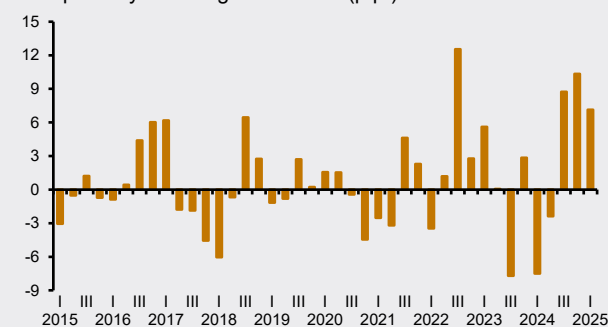
YoY quarterly % change



Sources: BCB and IBGE

Figure 6 – Agriculture

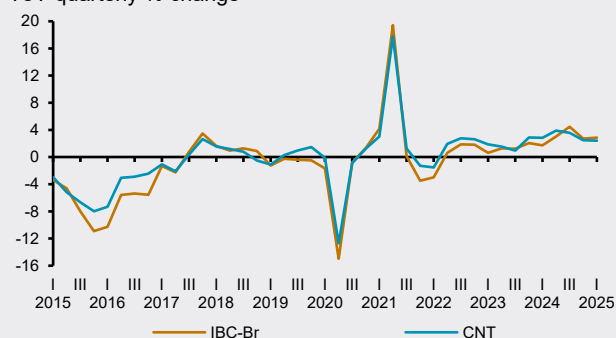
YoY quarterly % change difference (p.p.)



Sources: BCB and IBGE

Figure 7 – Industry

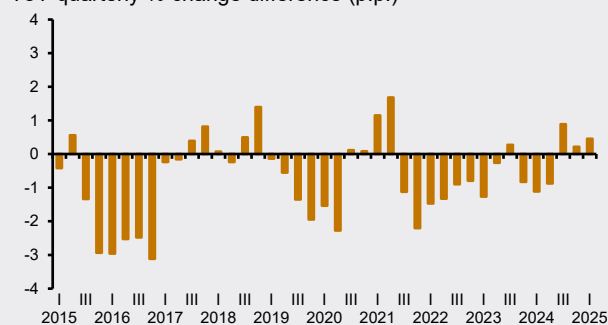
YoY quarterly % change



Sources: BCB and IBGE

Figure 8 – Industry

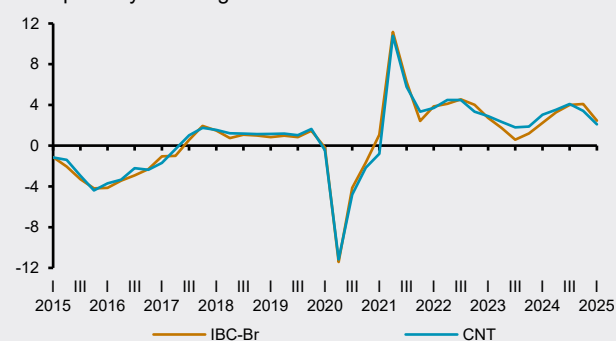
YoY quarterly % change difference (p.p.)



Sources: BCB and IBGE

Figure 9 – Services

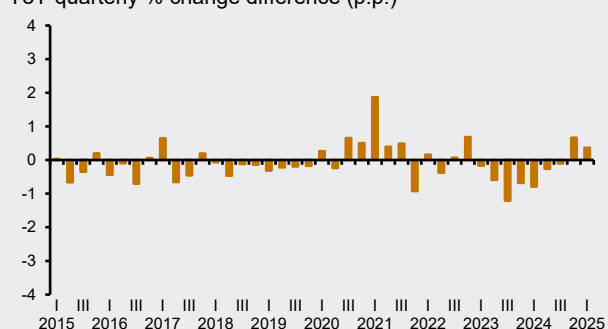
YoY quarterly % change



Sources: BCB and IBGE

Figure 10 – Services

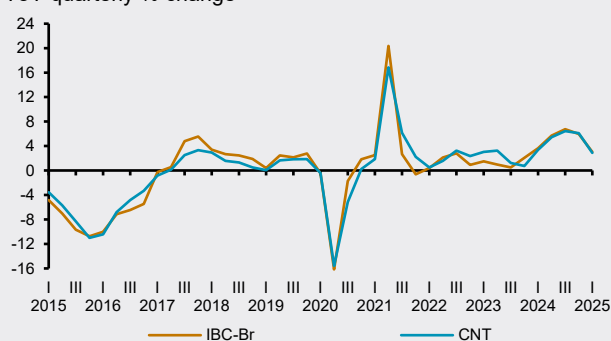
YoY quarterly % change difference (p.p.)



Sources: BCB and IBGE

Figure 11 – Taxes

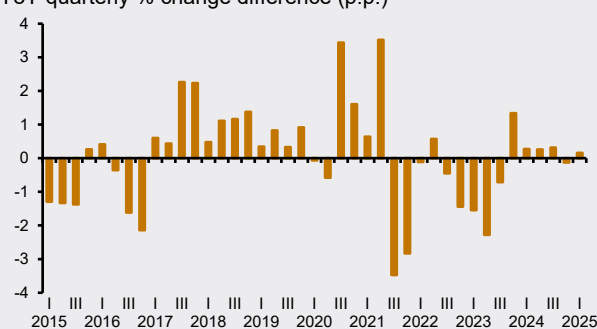
YoY quarterly % change



Sources: BCB and IBGE

Figure 12 – Taxes

YoY quarterly % change difference (p.p.)



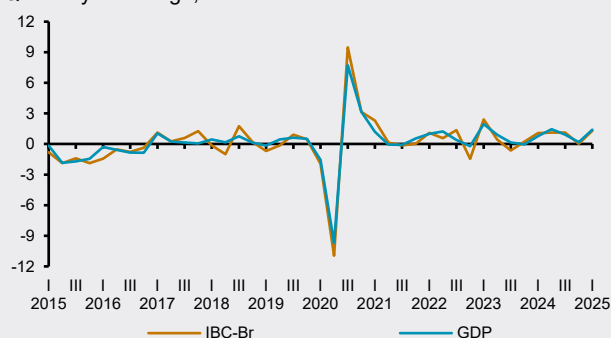
Sources: BCB and IBGE

The comparison between the quarterly change rates of the IBC-Br and CNT series can also be made considering seasonally adjusted data. In general, the short-term economic activity analysis is carried out with seasonally adjusted data. They are obtained by removing seasonal and calendar effects from the original observed series. This allows an adequate comparison of data from one period with that of the immediately precedent period. Once again, it should be emphasized that the IBC-Br and CNT seasonal adjustment methods are different, which introduces yet another source of divergence in the results, requiring greater caution in the comparison of change rates at the margin of both series.⁵

Figures 13 to 20 compare the seasonally adjusted quarterly change rates of the IBC-Br and CNT. Similarly to the observed data, there are significant differences in some quarters over the period, which signal divergent economic trajectories at the margin. These differences are greater in sectoral data⁶, especially in Agriculture and Industry. Part of these divergences may, as already mentioned, be associated with the different seasonal adjustment methods of each series in the IBC-Br and CNT.

Figure 13 – IBC-Br and GDP

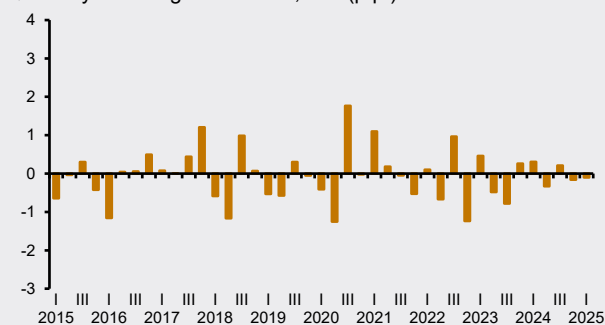
Quarterly % change, s.a.



Sources: BCB and IBGE

Figure 14 – IBC-Br

Quarterly % change difference, s.a. (p.p.)



Sources: BCB and IBGE

As observed in the second part of Table 1, from 2015Q1 to 2025Q1, the average absolute difference in quarterly changes at the margin of the IBC-Br in relation to those of the CNT was 0.50 p.p., slightly below the difference observed in YoY change rates. For sectoral data, a reduction is also observed in the average IBC-Br error. Nonetheless, the change rates of the seasonally adjusted IBC-Br series show relatively larger differences when compared with the standard deviation of the respective change rates in the CNT series.⁷

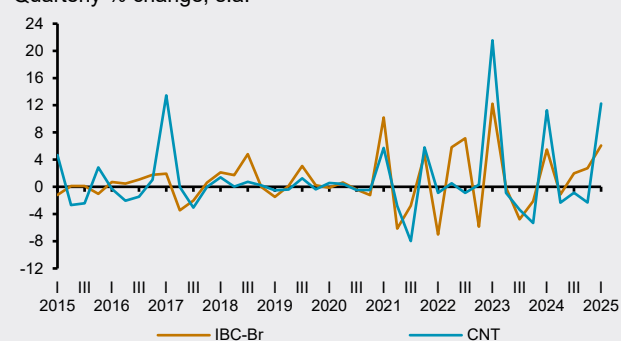
5/ In addition to different specifications, the series have different frequency and sample size, which also affects the seasonal adjustment results. Information about the procedure adopted by the IBGE for the seasonal adjustment of the CNT series can be found at the [IBGE's methodological report](#) (Portuguese only), while the specifications for the seasonal adjustment of the IBC-Br and its components are available in the metadata of the SGS series.

6/ The IBGE does not carry out the seasonal adjustment of the CNT taxes series.

7/ Furthermore, an exercise was carried out applying the CNT seasonal adjustment method to the IBC-Br and CNT series, adjusting the CNT's sample sizes so as they begin in 2003Q1, as well as the IBC-Br series. The average absolute difference found between the quarterly growth rates of the IBC-Br and the CNT is of the same magnitude as those shown in the second part of Table 1, suggesting that the seasonal adjustment method is not the main cause of the discrepancies at the margin between the indicators.

Figure 15 – Agriculture

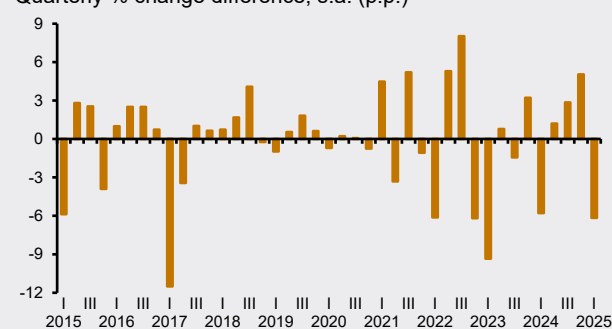
Quarterly % change, s.a.



Sources: BCB and IBGE

Figure 16 – Agriculture

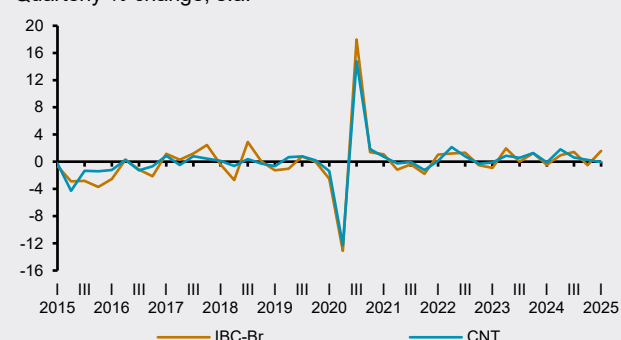
Quarterly % change difference, s.a. (p.p.)



Sources: BCB and IBGE

Figure 17 – Industry

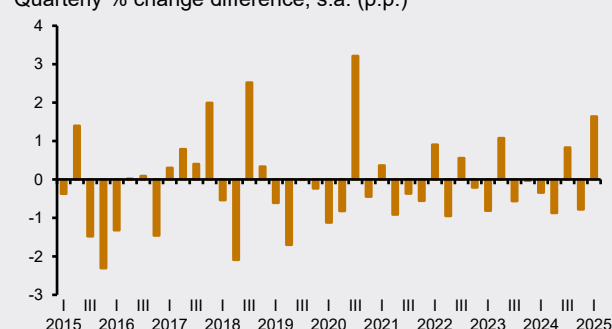
Quarterly % change, s.a.



Sources: BCB and IBGE

Figure 18 – Industry

Quarterly % change difference, s.a. (p.p.)



Sources: BCB and IBGE

Figure 19 – Services

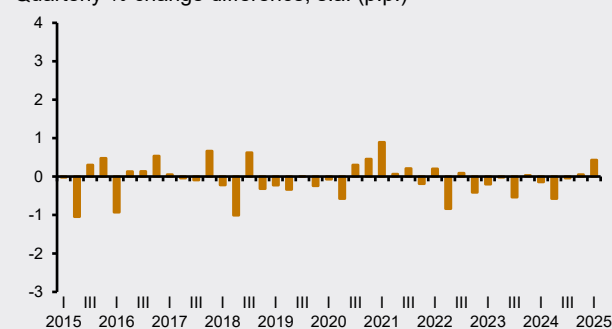
Quarterly % change, s.a.



Sources: BCB and IBGE

Figure 20 – Services

Quarterly % change difference, s.a. (p.p.)



Sources: BCB and IBGE

Summing up, this box presented the new IBC-Br series released by the BCB from April 2025 on and a comparison between IBC-Br quarterly changes and its components with those of the equivalent CNT series released by the IBGE, the official economic activity growth measures at quarterly frequency. Despite its limitations and methodological differences, the IBC-Br has contributed to a timelier assessment of short-term economic activity movements, given its monthly release, thereby helping monetary policy decisions.

Revision of the 2025 GDP projection

The GDP growth projection for 2025 increased from 1.9% to 2.1%. Despite the increase in the projection for the year, the outlook, already present in the previous MPR, of an economic slowdown throughout the current quarter and the second half of the year, is maintained.

The central projection for GDP growth in 2025 increased from 1.9%, in the March 2025 MPR, to 2.1%. Despite the upward revision, the expectation of an economic slowdown throughout the current quarter and the second half of the year remains. This expected moderation is due to the continuation of a restrictive monetary policy, limited slack in production factors, expectations of slower global growth, and the fading boost from agriculture observed in 2025Q1.

The revision in the GDP growth forecast reflects a combination of factors. First, there were positive surprises in 2025Q1, which, although heterogeneous across components, resulted in a slightly better-than-expected overall performance. There was also another improvement in the outlook for agricultural production, with a modest but positive impact on GDP. At the beginning of 2025Q2, the labor market registered a stronger-than-anticipated heating, reinforcing expectations of resilient household consumption. Additionally, although with a high degree of uncertainty, recent changes in rules for payroll-deducted loan for private sector workers are expected to have some impact on consumption and GDP. In the opposite direction, expectations of a weaker global economic expansion contribute to a lower domestic growth.

By sector, the increase in the GDP growth projection reflects upward revisions of estimated performances for agriculture and services, partially offset by a downward revision for industry. Expected growth in agriculture rose from 6.5% to 8.0%, mainly driven by updated Brazilian Institute of Geography and Statistics' (IBGE) estimates for agricultural output, especially grains and coffee.¹

The services sector growth forecast was revised from 1.5% to 1.8%. This revision largely reflects the positive surprises seen in 2025Q1, especially in the "other services" group – which includes household-oriented activities such as lodging and food-away-from-home, and services rendered to companies – as well as in the segments of information and of "public administration, health, and education" services. Conversely, the projection for financial intermediation was revised downward due to significantly weaker-than-expected results in 2025Q1. In trade, despite the lower-than-expected performance early in the year, the projection remained virtually unchanged, reflecting expectations of stronger household consumption for the rest of the year.

For industry, the growth forecast was revised from 2.2% to 1.9%, reflecting a lower estimate for manufacturing. This revision is linked to expectations of a more modest performance in 2025Q2 compared with the scenario considered in the previous MPR. This less favorable expectation is based on already available indicators for the period, which point to a limited pace of activity in the sector.

From the demand perspective, the upward revisions for household consumption – from 1.5% to 2.1% – and gross fixed capital formation (GFCF) – from 2.0% to 2.8%, stand out. The increase in household consumption mainly reflects the stronger labor market at the beginning of 2025Q2, besides the expected additional stimulus from recent changes in payroll-deducted loan rules for private sector workers. As for GFCF, the upward revision is mainly due to the positive surprise in 2025Q1, indicating a stronger-than-expected performance.

1/ According to the Systematic Agricultural Survey (LSPA – IBGE).

Growth forecasts for both exports and imports were revised from 4.0% to 3.5%. The downward revision for exports reflects slightly weaker-than-expected results in data available for 2025Q2, as well as a less favorable prospect due to lower expected global growth. For imports, the downward revision mainly reflects a sharper-than-expected slowdown in foreign purchases in recent months. Given the updated projections, the contributions of domestic demand and the external sector to GDP growth in 2025 are estimated at 2.1 p.p. and 0,0 p.p., compared with 5.2 p.p. and -1.8 p.p. in 2024, respectively.

Table 1 – Gross Domestic Product

Accumulated in the year

Itemization	2024	% growth	
		2025 ¹	
		Previous	Current
Agriculture	-3.2	6.5	8.0
Industry	3.3	2.2	1.9
Mining	0.5	4.5	4.5
Manufacturing	3.8	1.5	1.0
Construction	4.3	2.5	2.5
Public utilities ²	3.6	1.5	1.5
Services	3.7	1.5	1.8
Trade	3.8	1.9	1.8
Transport and storage	1.9	2.1	1.7
Information services	6.2	3.6	5.8
Financial and related services	3.7	1.7	0.7
Other services	5.3	1.0	2.0
Real estate	3.3	1.8	2.1
Public admin., health, and education	1.8	0.7	1.0
More cyclical components	4.3	1.7	1.9
Less cyclical components	1.5	2.3	2.4
Value added at basic prices	3.1	2.0	2.2
Taxes on products	5.5	1.9	1.7
GDP at market prices	3.4	1.9	2.1
Household consumption	4.8	1.5	2.1
Government consumption	1.9	1.6	1.2
Gross Fixed Capital Formation	7.3	2.0	2.8
Exports	2.9	4.0	3.5
Imports	14.7	4.0	3.5

Sources: IBGE and BCB

1/ Estimated.

2/ Electricity and gas, water, sewage, waste management activities.

Projection for credit growth in 2025

The projection for the 2025 nominal growth of the National Financial System (SFN) credit balance was revised upward, from 7.7% to 8.5%, in line with the recent evolution of credit conditions. The new projection, as the previous one, represents a slowdown compared with the credit performance of the previous year, in line with a scenario of lower growth and tighter monetary policy.

Since the March MPR, with the exception of non-earmarked corporate credit, SFN credit balances have exceeded expectations across all segments. This result occurred alongside a slightly better-than-expected evolution of economic activity and household income. In April 2025, the total YoY credit balance growth reached 11.5% – the same level observed in December 2024. The growth rate of household credit decreased slightly, while the growth rate of corporate credit increased.

In the household segment, the growth rate of operations with non-earmarked resources declined just 0.1 p.p. compared with December 2024, with moderation in most categories and increases in revolving credit card and payroll-deducted loans to private sector employees – the latter boosted by the launch of the new private payroll-deducted loans. The growth rate of the earmarked credit portfolio decreased 0.3 p.p., reflecting the slowdown of rural credit.

In the corporate segment, the growth rate of non-earmarked credit fell 1.8 p.p. in the same period, partly reflecting the BRL appreciation in foreign exchange-indexed operations. Conversely, the growth rate in the balance of earmarked credit increased 4.1 p.p., driven by operations guaranteed by the Emergency Credit Access Program (PEAC) and by the portfolio of the National Development Bank (BNDES).

The 2025 projection was revised from 7.7% to 8.5% (Table 1), with increases in projections related to household credit portfolios – which should still end the year with lower changes than in 2024 – and earmarked corporate credit.

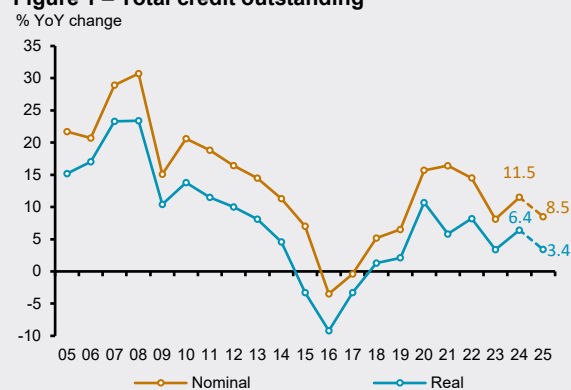
In non-earmarked credit, the household segment projection rose from 8.5% to 10.0%, mainly incorporating the surprise related to the recent evolution. The corporate segment projection was revised slightly downward, from 7.0% to 6.0%, already considering the adjustment in the balances of foreign exchange-indexed operations. In earmarked credit, the projection for the household segment increased from 7.5% to 8.5%, incorporating, in addition to the surprise at the beginning of the year, the positive prospect for real estate financing resulting from the creation of Tier 4 in the *Minha Casa Minha Vida* program. For the corporate segment, the projection was adjusted from 7.5% to 9.5%, considering both the early 2025 surprise and a higher level of financing guaranteed by PEAC.

In real terms, total credit balance is projected to grow 3.4% in 2025, representing a significant reduction compared with the real credit growth of 6.4% in 2024 (Figure 1). The expected slowdown is consistent with a scenario of lower economic activity growth and tighter monetary policy.

Table 1 – Credit balance

	% YoY change				
	Occurred			Proj. 2025	
	2023	2024	Apr 2025	Previous	Current
Total	8.1	11.5	11.5	7.7	8.5
Non-earmarked	5.6	11.2	10.4	7.9	8.3
Households	8.4	12.6	12.5	8.5	10.0
Corporations	2.1	9.4	7.6	7.0	6.0
Earmarked	11.9	11.9	13.0	7.5	8.8
Households	13.1	12.5	12.2	7.5	8.5
Corporations	9.6	10.7	14.8	7.5	9.5
Total Households	10.5	12.6	12.4	8.0	9.3
Total Corporations	4.7	9.9	10.2	7.2	7.3

Figure 1 – Total credit outstanding



Brazil's bilateral trade with the U.S. and China

This box begins by characterizing Brazil's bilateral trade relations with the U.S. and China. In particular, it shows how in recent years there has already been a significant increase in the volume of imports by Brazil from China, whose products have been showing a price trend different from that observed for goods imported from other countries. Then, when analyzing the main products exported by Brazil and the U.S. to China, it concludes that most of the overlap involves soybeans.

On April 2, 2025, it was announced a set of import tariffs to all countries with which the U.S. has trade relations, characterizing a relevant trade and uncertainty shock for the global economy. Despite the partial and temporary reversal of some measures by the U.S. government, adverse judicial decisions, and the announcement of some trade agreements, there are still relevant doubts concerning the duration and the economic effects of this measure. In this scenario, to help assess possible impacts on the Brazilian external accounts, this box analyzes the Brazilian trade with the U.S. and China.

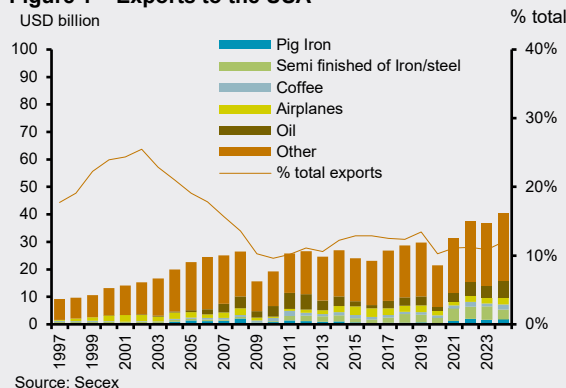
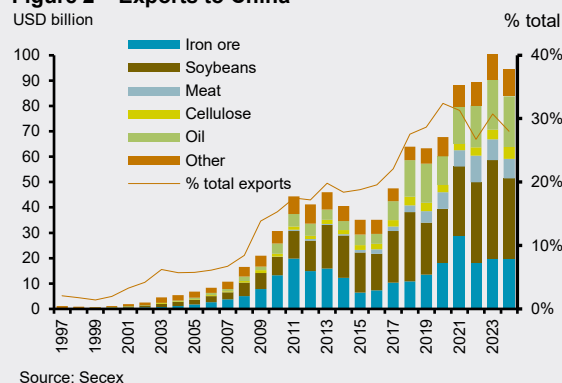
The U.S. and China are important trade partners for Brazil, accounting for nearly 40% of Brazilian exports and imports (Table 1). The analysis of bilateral trade balances in 2024, however, shows a relevant difference. Brazil registered a surplus equivalent to 1.4% of GDP in its trade with China, a value that corresponds to 41% of the entire Brazilian trade surplus in the year. As for trade with the U.S., there was a balance between exports and imports.

Table 1 – Bilateral Brazilian trade balance in 2024

Partner	USD billion								
	Exports		Imports		Balance		Share		
	Value	%GDP	Value	%GDP	Value	%GDP	Exp	Imp	Balance
Total	337	15.5%	263	12.1%	74	3.4%	100%	100%	100.0%
China	94	4.3%	64	2.9%	31	1.4%	28%	24%	41.4%
European Union	48	2.2%	47	2.2%	1	0.0%	14%	18%	1.4%
Argentina	14	0.6%	14	0.6%	0	0.0%	4%	5%	0.3%
U.S.	40	1.9%	41	1.9%	-0	0.0%	12%	15%	-0.4%
Others	140	6.4%	98	4.5%	43	2.0%	42%	37%	57.3%

Source: SECEX/MDIC

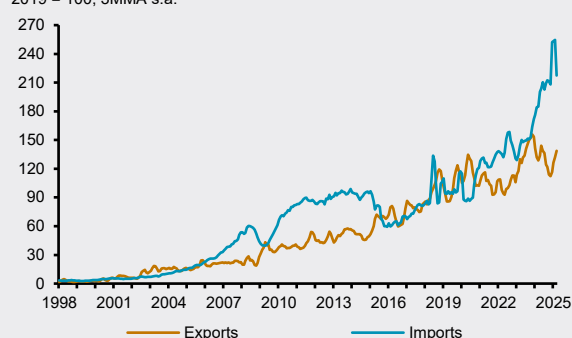
The breakdown of the trade basket by goods reveals some important characteristics. Five goods account for nearly 40% of the USD 40 billion shipped from Brazilian harbors to the U.S. in 2024. These are oil, steel/iron semi-manufactured goods, cast iron, coffee, and airplanes (Figure 1). As for trade with the Asian country, the basket is much more concentrated in a few commodities, with five items (soybeans, oil, iron ore, beef, and cellulose) accounting for 90% of the USD 94 billion exports in the same year (Figure 2). Regarding imports, the trade basket is more diversified. The main goods coming from the U.S. are machinery, fuel oils, airplanes, and natural gas, which together accounted for 34% of imports from the U.S. As for purchases from China, electric vehicles, telecommunications equipment, chemicals, and solar panels accounted for 22% of total imports from that country.

Figure 1 – Exports to the USA**Figure 2 – Exports to China**

China has gained relevance in Brazilian imports in recent decades. In 2024, the imported volume from China was 98% above that observed in 2019, the year before the Covid pandemic (Figure 3). This movement is particularly remarkable as of 2021, with a strong acceleration in 2024. In early 2025, the movement was intensified by imports of oil rigs worth USD 2.7 billion. Conversely, the participation of the U.S. as the origin of Brazilian imports has followed a downward trend since 2001, although oscillating over the period, with a 23% decline in the imported quantum in relation to 2019 (Figure 4). Moreover, the increased representativeness of the Asian country occurred not only in terms of volume, but also in the degree of technology associated with the goods. As of 2019, China has overtaken the U.S. in sales of goods classified as high and medium/high technology¹ (Figures 5 and 6).

Figure 3 – Quantum of trade between Brazil and China

2019 = 100, 3MMA s.a.

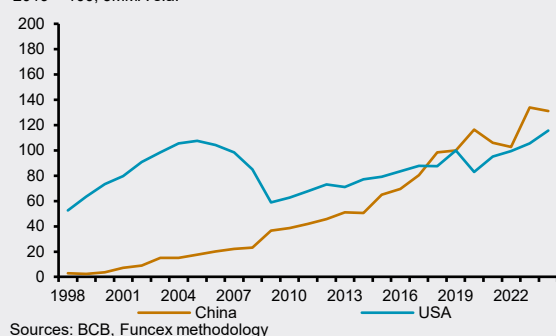
**Figure 4 – Quantum of trade between Brazil and the U.S.**

2019 = 100, 3MMA s.a.

**Figure 5 – Brazilian imports - technological intensity**

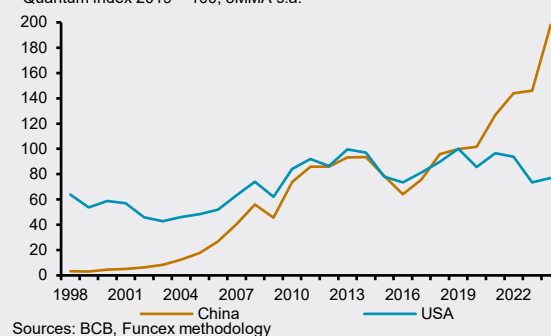
Low and medium-low technology

2019 = 100, 3MMA s.a.

**Figure 6 – Brazilian imports - technological intensity**

High and medium-high technology

Quantum index 2019 = 100, 3MMA s.a.

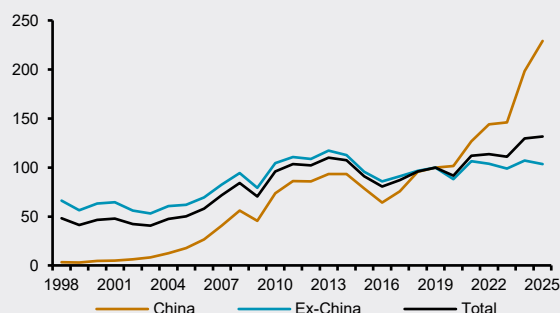


1/ For further information about the classification by technological intensity see classification of the Foreign Sector Secretariat ([Classificação](#) - Portuguese only).

As for prices, those from goods imported by Brazil from China have followed a downward trend, in contrast to those from other origins (Figure 8). The decline of import prices was relevant. The price index of goods coming from China dropped 11% from 2019 to 2024 (2.2% p.a.), while prices of goods coming from the rest of the world increased 24% in the period (4.4% p.a.). In this context, volume data (Figure 7) and import prices (Figure 8) reveal that, even before the recent introduction of tariffs by the U.S., the Brazilian economy has already been affected by a significant inflow of cheaper Chinese goods.²

Figure 7 – Imports volume

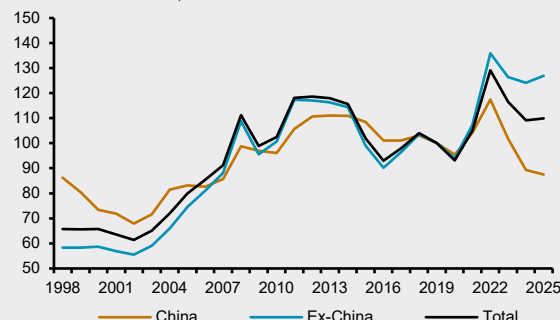
Quantum index 2019 = 100, 3MMA s.a.



Source: BCB, Funcex methodology

Figure 8 – Imports price

Price index 2019 = 100, 3MMA s.a.

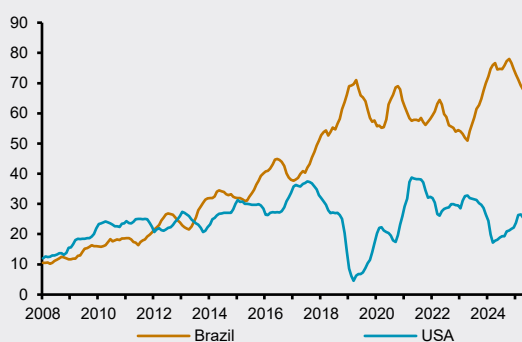


Source: BCB, Funcex methodology

Aiming to explore the possible sources of expansion of Brazilian exports, the main coincident goods in the U.S. and Brazilian baskets of exports to China were analyzed (Figure 11).³ Brazil and the U.S. compete for the Chinese market in basically four goods: soybeans, oil, beef, and cotton. In 2024, these items amounted to USD 21 billion in U.S. exports to China and USD 59 billion in Brazilian sales to the Asian country. Soybeans are the most relevant in terms of total value, with USD 13 billion of U.S. exports and USD 31 billion of Brazilian exports. In the previous episode of the trade dispute between China and the U.S., in 2018, Brazil was benefited by an increase in the exports volume of soybeans and a rise in the price premium of the Brazilian product compared with the American one. (Figure 9). In that year, Brazilian exports of soybeans to China grew nearly USD 7 billion compared with 2017, and part of this gain proved to be lasting, with a permanent expansion of the Brazilian share of the Chinese market.⁴ Nevertheless, since then, China has significantly increased its inventories of soybeans, while the Brazilian inventories reduced (Figure 10). To measure the importance of these values in macroeconomic terms, it is noteworthy that the Brazilian trade surplus in goods in 2024 was USD 74 billion, equivalent to 3.4% of the Brazilian GDP.

Figure 9 – China soybean imports

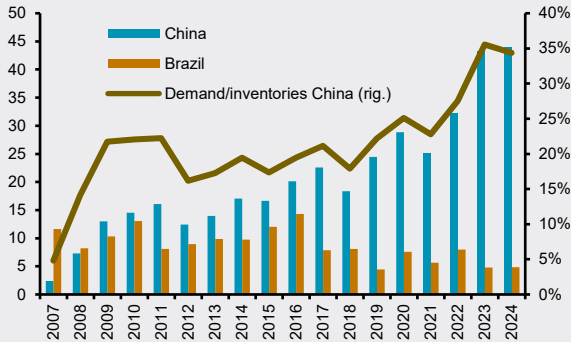
Million of tons



Sources: China Customs, Bloomberg, ABIOVE

Figure 10 – End of year inventories

Million tons



Sources: USDA and Abiove

- 2/ Further information about imports from China in the BCB's blog post "Impact of rising freight and insurance costs on imported prices from China": [Impacto do aumento nos custos de fretes e seguros nos preços importados da China](#) (Portuguese only).
- 3/ The selection included goods exported through HS6 by the U.S. to China worth more than USD 1 billion in 2024 and compared with the same goods exported by Brazil. The items account for 51% of U.S. exports to China in 2024.
- 4/ Further information in box [Recent evolution of the trade balance](#) in the 2019 IR, which analyzed, among other issues, the initial effects of the previous episode of trade dispute between the U.S. And China.

Figure 11 – Overlap of exports to China

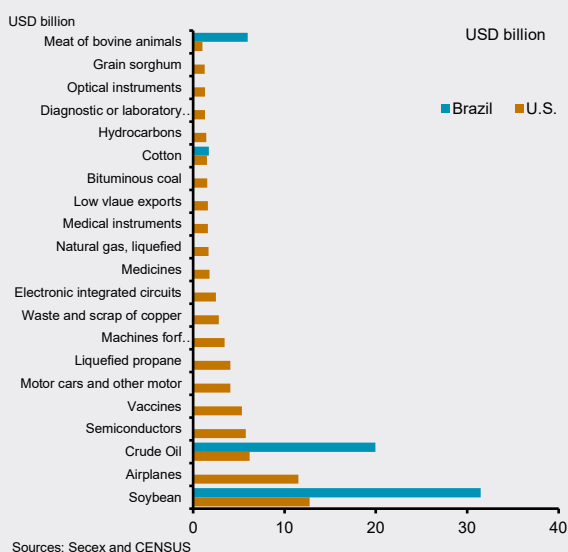
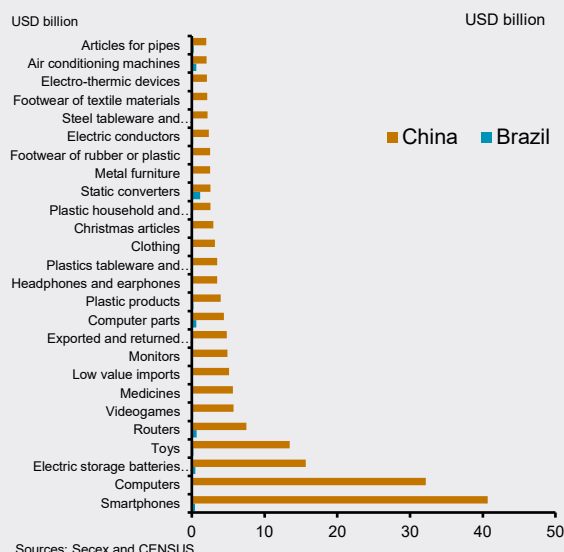


Figure 12 – Overlap of exports to the U.S.



Based on the same reasoning and similar methodology, the main coincident products in the American basket of imports from China and from Brazil were analyzed (Figure 12).⁵ The overlap between these baskets is very small, which makes it quite unlikely the occurrence of relevant gains to Brazil, from the macroeconomic point of view, if the U.S. reduces its purchases of Chinese goods.

5/ The selection included imported goods through HS6 by the U.S. from China worth more than USD 2.5 billion in 2024 and compared with the same goods imported by Brazil. The items accounted for 39% U.S. imports from China in 2024.

Projections for the external accounts in 2025

Projections for the external accounts in 2025 have changed slightly when compared with the March 2025 MPR. In particular, a slightly smaller deficit is expected in the current account, due to changes in the projections for the services and primary income accounts.

This box presents the revised projection for the external accounts of the Brazilian economy in 2025. The current account deficit is projected to be slightly lower than in 2024 and below estimated net inflows of direct investment liabilities. The risks for the scenario, however, remain high, mainly due to the uncertainties associated with international trade disputes and the conflict in the Middle East.

Table 1 – Projections for the external accounts

Itemization	USD billion			
	2024	2025	2025 Forecast	
	Year	Jan - Apr	Previous	Current
Current account	-61	-21	-62	-58
Balance on goods	66	15	61	60
Exports	340	108	343	340
Imports	274	93	282	280
Services	-55	-17	-52	-50
of which: Travel	-12	-3	-14	-14
of which: Transport	-15	-5	-13	-13
Primary income	-75	-20	-72	-70
of which: Interests	-30	-9	-31	-30
of which: Dividends	-46	-12	-41	-40
Investment - liabilities	87	33	80	75
DI liabilities	71	27	70	70
Portfolio investments	10	-2	10	5
Other investments ¹	7	7	0	0

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

Projections for the external accounts in 2025 have changed slightly when compared with the March 2025 MPR. The projected current account deficit decreased to USD 58 billion, equivalent to 2.6% of GDP. The projected reduction is associated with expectations of a slightly smaller deficit in the services and income accounts.

The downward revision in the services account deficit reflects the prospect of lower spending in the cultural, personal, and recreational services account. The entry into force of new sports betting regulations from the beginning of 2025 on has reduced outflows of resources in this account. Thus, the projected deficit for the services account remains lower than that recorded in 2024. In this comparison, the reduction in net transport expenses is also noteworthy, partly due to the trade uncertainty shock that reduced international freight prices.

In turn, the downward reduction in the expected deficit in the primary income account reflects a marginal revision in interest expenses, due to lower-than-projected expenses at the beginning of the year. The same trend was observed with dividends, which have been falling in line with the slowdown in domestic activity. Due to lower net expenses on dividends, the expected deficit in this account is also lower than in 2024.

The trade balance is expected to be lower than in 2024, with an increase in imports and stability in exports. The projected value of exports was marginally reduced, while expectations of a moderate increase in the volume of exports compared with 2024 remain, due to a record grain harvest offset by lower commodity prices. Relevant exceptions are coffee and beef, whose prices are expected to remain high. The new projection for imports considers a slowdown in the imported volume, especially of intermediate goods, in line with lower expectations of growth in manufacturing.

Despite greater uncertainty in the scenario, direct investment liabilities are expected to remain stable at USD 70 billion, a figure consistent with the pace of inflows seen up to April. The favorable outlook for exports and growth in domestic activity, despite the expected slowdown in the short term, benefits inflows of foreign capital to companies in the country. Net inflows account for 3.2% of GDP, a level similar to that observed since 2021 and slightly lower than in the decade before the pandemic (3.7%).

Inflows of portfolio investments were revised downward, reflecting the results of the early months of the year and the more uncertain global scenario observed since the previous MPR. Even so, positive net inflows are still expected for the third consecutive year, which should be concentrated in debt securities, benefited by the more attractive interest rate differential.

Figure 1 – Current account

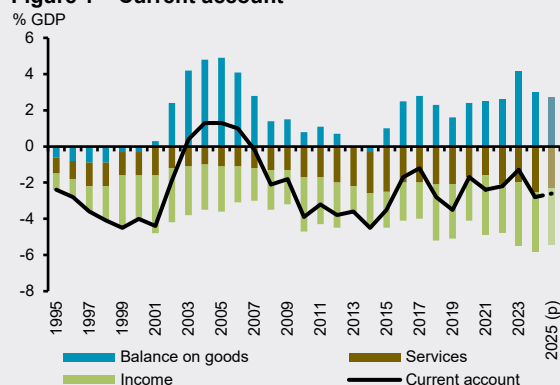
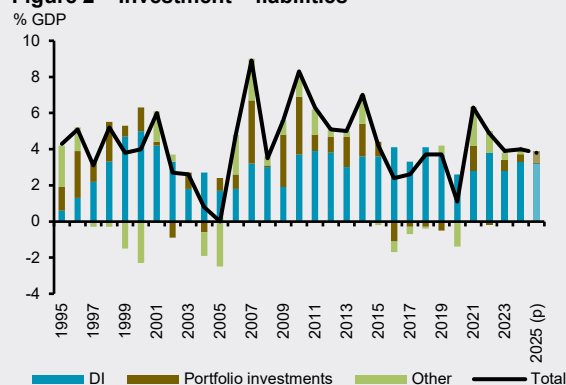


Figure 2 – Investment – liabilities



2

Inflation outlook

This chapter analyzes the inflation outlook. Inflation projections, encompassing ten quarters ahead, extend until 2027Q4.³⁰ They use information available up to the 271st Copom meeting, held on June 17-18, 2025. As for the conditioning factors used in the projections, especially those from the Focus survey, the cut-off date is June 13, 2025, unless otherwise stated.

These projections represent Copom's view and are conditioned on a set of variables. Projections are generated using a set of models and available information, combined with judgment.³¹ The scenarios presented in this chapter use as conditioning assumptions the trajectories of the Selic rate from the BCB's Focus survey and the exchange rate based on the PPP theory.³² Projections depend not only on assumptions about interest and exchange rates, but also on a set of assumptions about the behavior of other exogenous variables. They are presented together with probability intervals that highlight the degree of uncertainty involved.

Prospective analysis is essential in monetary policy decision-making. Monetary policy impacts the economy through long, variable, and uncertain lags. Therefore, prospective analysis is fundamental to Copom's decisions, involving the building of scenarios and projections and the analysis of risks involved. The MPR's projections are some of the quantitative instruments that help to guide Copom's decisions. The Committee uses a wide set of information to support its decisions. In the conduct of monetary policy, the horizon that the BCB deems appropriate for the return of inflation to the target depends on the nature and persistence of the shocks and the transmission mechanisms operating in the economy.

2.1 Revisions and short-term projections

Consumer inflation in the Mar-May quarter was slightly lower than expected. Observed inflation was 0.06 p.p. below the Copom scenario (Table 2.1.1). Overall, the IPCA outcome was qualitatively similar to the projection. In particular, the change in average core inflation measures was close to expectations. Among the major IPCA segments, the biggest surprises came from administered prices and food-at-home. For industrial goods and services, the observed results were close to projections. Administered prices rose more than expected, mainly due to residential electricity. In the March 2025 MPR, the projection assumed the continuation of the green tariff flag. However, due to the deterioration of the hydrological scenario, the yellow flag was implemented in May. As for food-at-home, the main surprise came from fresh food, with prices increasing less than anticipated. In addition to the surprise observed from March to May, the inflation projection for June was revised from 0.27% in the previous MPR to 0.33% in this MPR, mainly due to residential electricity, with the transition to the red 1 flag in June.

30/ See box [Governance for the communication of the inflation projections horizon](#) in the September 2024 IR.

31/ See box [BCB's analysis and projection system](#) in the March 2023 IR.

32/ See box [Exchange rate path in BCB projections and the purchasing power parity](#) in the September 2020 IR.

Table 2.1.1 – IPCA – Inflation surprise

	% change				
	2025				
	Mar	Apr	May	Quarterly up to May	12-month up to May
Copom's scenario ^{1/}	0.63	0.42	0.26	1.32	5.38
Actual IPCA	0.56	0.43	0.26	1.25	5.32
Surprise	-0.07	0.01	0.00	-0.06	-0.06

Sources: IBGE and BCB

1/ Scenario at the March 2025 Monetary Policy Report cut-off date.

Short-term monthly projections indicate that 12-month inflation will remain above the upper limit of the tolerance interval (Table 2.1.2). Changes in food-at-home prices are expected to be lower, due to both more favorable seasonality and a slowdown in processed food prices. The suspension of poultry exports due to an avian flu case in Montenegro (RS) may lead to a short-term drop in chicken meat prices, but the projection incorporates a recovery in prices as external sales normalize. Inflation of industrial goods is expected to remain high compared with the historical standard for the segment. However, the projection until September includes some moderation in monthly increases, in line with a smaller pass-through of the exchange rate depreciation accumulated since 2024, the recent BRL appreciation, and more moderate changes in producer prices. Changes in administered prices until September are expected to be closely linked to the residential electricity sub-item. With the worsening hydrological scenario, the projection assumes red 1 flag in June (already in effect), red 2 flag in July and August, and a return to red 1 flag in September. Besides the expected effect of the electricity flags, the projection incorporates the likely distribution of the Itaipu bonus, with a downward impact on the IPCA in July, offset by an increase of the same magnitude in August.³³ Additionally, the scenario reflects the recent drop in gasoline prices at refineries. In services, underlying inflation measures are expected to remain high, consistent with the high degree of inertia of these prices and a still tight labor market. Finally, the average of core inflation measures is expected to remain above 5%, both in the seasonally adjusted annual quarterly change and in the 12-month change.

Table 2.1.2 – IPCA – Short-term projections^{1/}

	% change			
	2025			
	Jun	Jul	Aug	Sep
Monthly change	0.33	0.18	0.44	0.15
Quarterly change	1.02	0.77	0.95	0.77
12-month change	5.45	5.24	5.72	5.41

Sources: IBGE and BCB

1/ Copom's reference scenario at cut-off date.

33/ The final amount of the credit earmarked for the Itaipu bonus had not been disclosed until the cut-off date of this MPR. The projected impact is based on preliminary estimates released at the time the Itaipu tariff was set. Additionally, the Dispatch 1,347/2025 from the Brazilian Electric Power National Agency (ANEEL) reported that the preliminary result of the Itaipu Electric Energy Commercialization Account is positive. The distribution of the bonus is expected to occur in July, based on regulatory procedures, with tariffs returning to normal levels in August, resulting in a neutral effect on quarterly and annual inflation.

2.2 Conditional projections

Inflation determinants and conditioning assumptions³⁴

Compared with the previous MPR, the trajectory assumed for the Selic rate in the reference scenario reduced 0.25 p.p. for 2025 and remained very similar for the rest of the horizon. The September 2024 Copom meeting started the monetary tightening cycle, with a 0.25 p.p. increase of the Selic rate, followed by a 0.50 p.p. hike in November, increases of 1.00 p.p. in the December, January, and March meetings, and of 0.50 p.p. in the May meeting. Thus, the Selic rate increased from 10.50% to 14.75% p.a. In the considered Focus trajectory, the Selic rate remains at 14.75% until the end of 2025. The rate resumes a downward trend in the second meeting of 2026, ending the year at 12.50% and 2027 at 10.50% (Figure 2.2.1). The rate until the end of 2025 is 0.25 p.p. lower than in the March 2025 MPR, which had projected a 0.25 p.p. increase at the June meeting. After this period, the trajectory is very similar to that of the previous MPR.

Inflation expectations from the Focus survey declined for 2025 but remained relatively stable for 2026 and 2027, maintaining the gap from the inflation target. When compared with the March 2025 MPR, median expectations decreased from 5.66% to 5.25% for 2025, increased from 4.48% to 4.50% for 2026, and remained at 4.00% for 2027. Therefore, the gap relative to the 3.00% target narrowed for 2025 and remained relatively stable for 2026 and 2027. In the analyzed scenarios, in addition to the trajectory of inflation expectations extracted from the Focus survey, Copom also considers expectations from other sources, such as financial instruments, endogenously generated expectations from available models, or from other surveys, such as the Firmus.³⁵

The trajectory of the ex-ante real Selic rate remained relatively stable. The Selic rate accumulated over the next four quarters, adjusted for inflation expectations over the same period – both extracted from the Focus survey and measured in quarterly averages – follows a trajectory similar to that of the previous MPR (Figure 2.2.2), as in general the movements in nominal interest rate expectations were broadly offset by changes in inflation expectations. By this measure, the *ex-ante* real interest rate, which began its upward path in 2024Q2, reaches a peak of 9.4% in 2025Q2, as in the previous MPR, and then enters a downward trajectory, reaching 6.2% at the end of the horizon.

Figure 2.2.1 – Selic rate target assumption for projections – Focus survey expectations

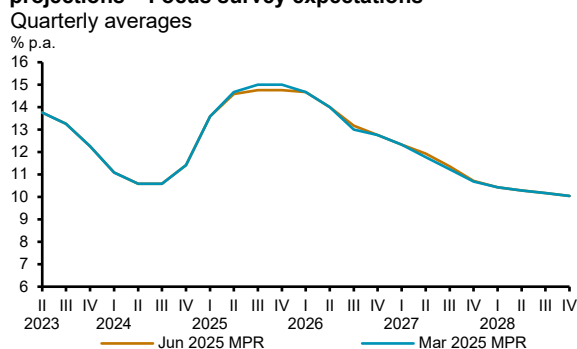
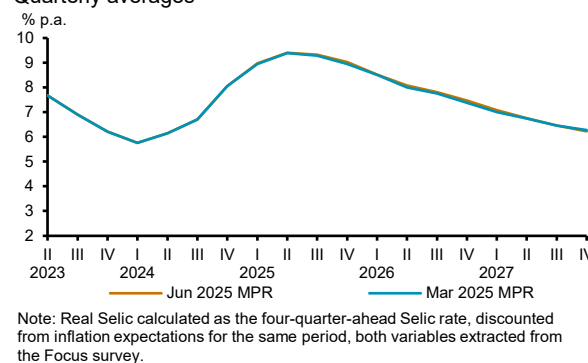


Figure 2.2.2 – Four-quarter-ahead real Selic
Quarterly averages



The exchange rate appreciated in 2025Q2, reflecting both external and domestic factors. In the inflation projections of the reference scenario, the exchange rate starts at USD/BRL 5.60 – 3.4% lower than the USD/BRL 5.80 considered in the March 2025 MPR – and follows a path according to the PPP (Figure 2.2.3). The USD global value has fluctuated significantly, driven by shifts in the U.S. tariff policy announcements and consequent reactions, but with a predominant depreciation trend. Domestically, agents' perception of the fiscal situation, with concerns about the capacity to generate primary balances that stabilize the public

34/ For further details about the procedures used in the building of conditioning assumptions for the Selic, exchange rate, and oil price, see the methodological appendix in this chapter.

35/ For further details about the Firmus survey (Portuguese only), see <https://www.bcb.gov.br/publicacoes/firmus>.

debt, has been reflected in the prices of domestic assets in general, including the exchange rate, implicit inflation, and risk premia. Conversely, the interest rate differential has contributed to the BRL appreciation. The average exchange rates considered in the last quarters of 2025, 2026, and 2027 are USD/BRL 5.62, USD/BRL 5.68, and USD/BRL 5.73, respectively.

Oil prices declined in 2025Q2, significantly impacted by announcements of tariff measures in the U.S. and increased production by OPEC+, although near the Copom meeting prices rose due to the conflict in the Middle East. As highlighted in the methodological appendix of this chapter, the governance of the reference scenario projections uses, as a starting point for oil prices, the average of prices over the ten business days ending on the last day of the week prior to the Copom meeting. Using this procedure, in the trajectory considered, the average Brent oil price for 2025Q3 is USD 66.70 – which is 4% lower than in the March 2025 MPR – falls to USD 65.11 for 2026Q1 and then grows at 2% p.a. (Figure 2.2.4) Prices were pushed downward mainly due to the announcements of tax measures in the U.S. in early April and by the OPEC+ decision of a faster reversal of voluntary production cuts. However, the conflict between Israel and Iran led to a sharp rise in prices on June 13, the Friday before the Copom meeting. Commodity prices, measured by the IC-Br in USD, remained relatively stable, with a decline in April followed by a recovery in May and in the June average until the cut-off date. The relative stability of the index reflects a decline in energy and metal commodities, offset by an increase in agricultural commodities.

Figure 2.2.3 – Exchange rate assumption for projections – PPP trajectory

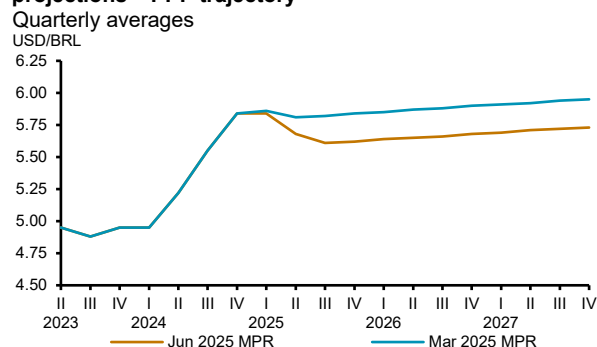
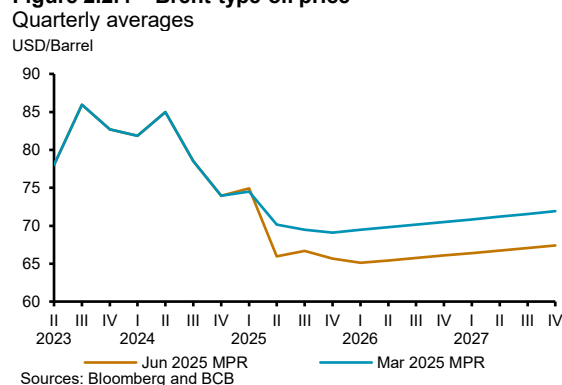


Figure 2.2.4 – Brent-type oil price



The neutral real interest rate assumed for projections in the reference scenario is 5.00%. As it is an unobservable variable whose measurement is subject to high uncertainty, the BCB relies on several methodologies for the neutral rate estimation.³⁶ In the analysis and decision-making process, alternative inflation scenarios with different values for the neutral rate are also considered.

From a fiscal point of view, results are supposed to fluctuate over shorter periods and then gradually improve over time. The variable used in the fiscal projections is the 12-month central government primary balance corrected for outliers and adjusted for the business cycle. In 2024, this variable recorded a lower deficit than in 2023. Within the projections horizon, this variable is expected to fluctuate over shorter periods and then gradually improve over time. It should be emphasized that projections evaluated by Copom depend on assessments about the evolution of fiscal and quasi-fiscal policies and their institutional framework, reforms, and necessary adjustments in the economy. Their effects on projections are captured through asset prices, expectations from the Focus survey, and their effect on the economy's structural interest rate. Besides these channels, fiscal policy influences conditional inflation projections through its effects in the aggregate demand.

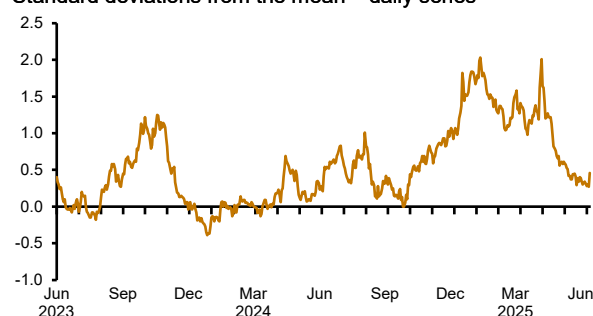
The hydrological scenario has worsened, leading to the activation of more expensive tariff flags and a revision of the short-term projection. After a very favorable start to the year, the hydrological scenario has deteriorated since the March 2025 MPR, with reservoir levels remaining below those observed in 2024. In 2025, after a green flag in effect until April, the yellow flag was activated for May and the red 1 flag for June. In the scenario, red 2 flag is assumed for July and August, red 1 flag for September and October, yellow

36/ See, for instance, box [Update of neutral real interest rate measures in Brazil](#) in the June 2024 IR.

flag for November, and green flag for December. For the final months of each quarter in 2026 and 2027, the same sequence of flags as in 2025 is assumed. The assumption of a “neutral” flag sequence from the point of view of YoY projections ensures that medium-term projections, especially for the relevant horizon, are not affected by this uncertain and specific factor.

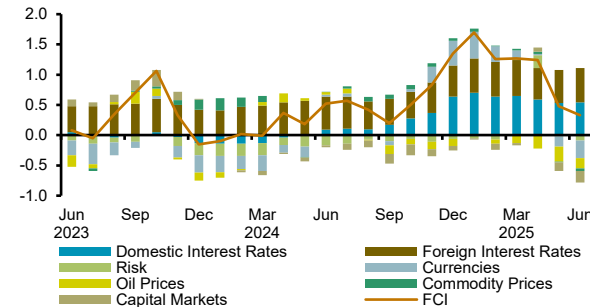
Financial conditions became less restrictive, reflecting several factors, especially the global USD depreciation and the BRL appreciation. In early April, the BCB’s Financial Conditions Index (FCI) reached a restrictive peak due to the announcement of tariff measures by the U.S., which mainly affected variables related to risk, currencies, and capital markets. However, this movement was quickly reverted and, by mid-June, financial conditions were less restrictive than in March (Figures 2.2.5 and 2.2.6).³⁷ The FCI decline from March to mid-June was mainly driven by the BRL appreciation and the global USD depreciation. Other factors include the rise in domestic and international stock markets, the drop in the Chicago Board Options Exchange Volatility Index (VIX), country risk premium, domestic future interest rates, and oil prices, as well as the increase in agricultural commodity prices.³⁸

Figure 2.2.5 – Financial Conditions Index
Standard deviations from the mean – daily series



Note: The higher the value of the index, the tighter the financial conditions.
Figure data: 6.1.2023–6.13.2024.

Figure 2.2.6 – Financial Conditions Index
Standard deviations from the mean and contributions



Note: The higher the value of the index, the tighter the financial conditions.
Values refer to monthly averages. Jun/2025 value refers to the average until the 13th.

GDP growth was significant at the beginning of 2025, driven by the agricultural sector. Seasonally adjusted GDP rose 1.4% in 2025Q1 compared with 2024Q4, following respective expansions of 0.8% and 0.1% in 2024Q3 and 2024Q4. Agriculture grew 12.2%, while Services increased 0.3% and Industry declined 0.1%. Over the same comparison period, household consumption rose 1.0%, following a 0.9% drop in 2024Q4, which had interrupted a sequence of 13 consecutive increases. GFCF grew 3.1%, the sixth consecutive quarterly growth. GDP growth projection for 2025 increased from 1.9% in the March 2025 MPR to 2.1% in this MPR.³⁹

Labor market and installed capacity utilization indicators have been stronger than anticipated. The unemployment rate declined again, reaching a new historical low of 6.2% in the Feb-Apr quarter (seasonally adjusted). Net hirings, as measured by the New Caged, stood at 170,000 jobs in the Feb-Apr monthly average, compared with an average of 100,000 in Nov-Jan (seasonally adjusted data). The seasonally adjusted Level of Utilization of Installed Capacity (Nuci), calculated by the Getulio Vargas Foundation (FGV), increased from 80.9% in February to 83.7% in May.

37/ It is noteworthy that the previous MPR used FCI data up to March 14, 2025, while the current one uses data up to June 13, 2025. By construction, the FCI is a dimensionless measure, with a zero mean and unit variance in the sample considered since January 2006. For a description of the methodology used in the FCI calculation, see box [Financial Conditions Indicator](#) in the March 2020 IR. For the FCI decomposition into domestic and external factors, see box [Decomposition of the Financial Conditions Index into domestic and external factors](#) in the December 2022 IR.

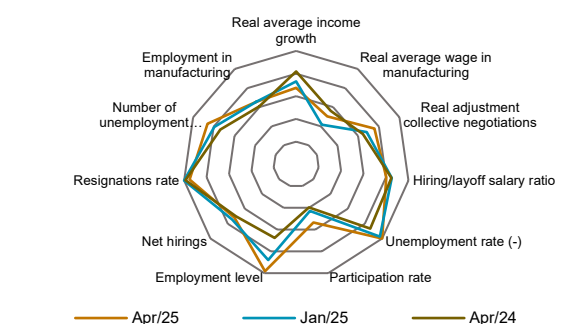
38/ It should be emphasized that the FCI reflects a series of elements and should not be interpreted as an indicator of monetary easing or tightening. Moreover, the relationship of this index with inflation is ambiguous because some of its components, such as those related to risk premium and exchange rate, are in general related positively to inflation and negatively to activity. Therefore, tighter financial conditions indicate lower economic activity growth ahead but may imply either higher or lower inflation, depending on the factors affecting their movement.

39/ See box [Revision of the 2025 GDP projection](#) in this MPR.

The labor market spider chart continues showing a heating up. This measure considers historical information from several labor market indicators until April 2025 (Figure 2.2.7).⁴⁰ Most variables are in the top two quartiles, i.e., above the historical median. When comparing April with January, income measures point to opposite directions. While the growth of the PNAD's average real income and the hiring salary to layoff salary ratio signal lower expansion, the manufacturing average real income and the real adjustment of collective negotiations indicate higher expansion. Conversely, most employment metrics indicate higher growth (unemployment and participation rates, employment level, and number of unemployment insurance claims). In the opposite direction, the decline of resignations in the formal market compared with the peak observed in January 2025 stands out. In the YoY comparison, income indicators point to lower labor market heating, except for the real adjustment of collective negotiations, while employment indicators point to higher expansion, except for resignations.

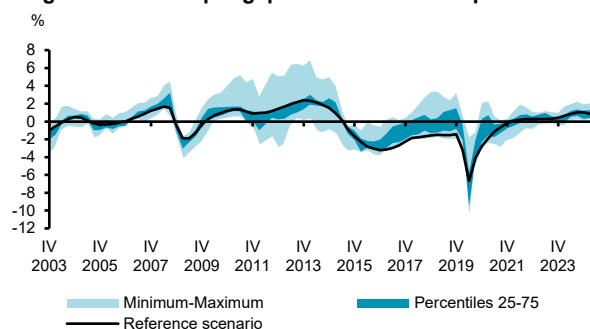
The output gap remains at positive levels, thus pressuring inflation, but it is projected to fall over the next quarters. The estimated output gap for 2025Q1 and 2025Q2 are 0.9% and 0.5%, respectively (Figure 2.2.8).⁴¹ Positive values for the output gap are considered to be consistent with the inflationary pressure recently observed. However, the output gap is expected to fall to negative values in next quarters, reaching -0.8% in 2026Q4. Tight monetary conditions play an essential role in this movement. The high level of the *ex-ante* real interest rate is the main factor contributing to economic activity deceleration in the reference scenario. As highlighted in previous MPR and IR quarterly editions, the output gap presented in this chapter incorporates information from different methodologies and Copom's judgment. It should also be noted that, due to the high level of uncertainty in output gap estimates, Copom evaluates projections with different estimates and scenarios for this variable.

Figure 2.2.7 – Job market



Note: The inner ring represents the minimum value, the interior rings represent the 25th, 50th and 75th percentiles of distribution, and the outer ring represents the maximum value

Figure 2.2.8 – Output gap: estimates and dispersion



Note: Dispersion measures were constructed using a set of selected output gap measures. See the box "Output gap measures in Brazil", in the June 2024 IR, for a presentation of a broad range of methodologies. Chart data: 2003Q4–2025Q2.

Inflation projections

Inflation projections presented in this MPR represent Copom's view and result from a combination of analysis of recent developments, use of models and conditioning assumptions, and assessment of the state and outlook of the economy. More specifically, projections involve the following elements: i. analysis of recent developments and experts' projections for market prices in shorter horizons and for administered prices up to a certain horizon; ii. use of macroeconomic models, satellite models, specific models for administered price items, and studies; iii. building of trajectories and assumptions for the conditioning variables;⁴² and iv. assessment on the state and outlook of the economy.⁴³

40/ See box [Labor market on the radar](#) in the September 2022 IR. Two indicators were removed for the radar elaboration, the FGV's Leading Employment Indicator (IAEmp) – as it ceased to be published by the FGV after the April 2025 edition; and the FGTS Withdrawals indicator, due to changes in withdrawal modalities in recent years that affected the balance available for workers upon their dismissal.

41/ Projections of these activity variables were used for 2025Q2 when data was not available.

42/ See the methodological appendix in this chapter for further details about the procedures used in the building of conditioning assumptions for the Selic, exchange rate, and oil price.

43/ See box **BCB's analysis and projection system** in the March 2023 IR.

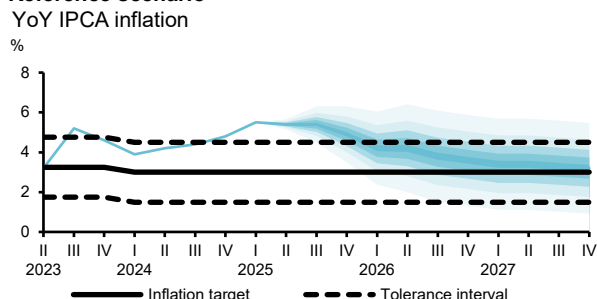
In the reference scenario projections, inflation remains above the upper limit of the tolerance interval in the coming months, starting to fall from 2025Q4 but remaining above the target. In this scenario, which uses the Selic rate from the Focus survey and the exchange rate following the PPP, the four-quarter inflation lies in the 5.4%-5.5% interval in the first three quarters of 2025, falls to 4.9% at the end of the year, to 3.6% in 2026 and to 3.2% in the last projected period, referring to 2027Q4 (Table 2.2.1). Therefore, in the relevant monetary policy horizon, considered to be 2026Q4, the projected inflation stands at 3.6%. From probability intervals built around the reference scenario (Figure 2.2.9), the estimated probability of inflation surpassing the tolerance interval in this horizon is 26% for the upper limit and 6% for the lower limit (Table 2.2.2).⁴⁴ Considering monthly projections, 12-month inflation will be above the upper limit of the target tolerance interval for six consecutive months in June 2025 (see Section 2.1). If this scenario materializes, the inflation target will be breached and it will be necessary to disclose the reasons for this breach by means of a note in this MPR and an open letter addressed to the Minister of Finance.⁴⁵

Table 2.2.1 – Inflation projections – Reference scenario
YoY IPCA inflation

Price index	2024			2025				2026				2027				%
	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	
IPCA	4.2	4.4	4.8	5.5	5.4	5.4	4.9	4.2	4.2	3.8	3.6	3.4	3.4	3.3	3.2	
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.1]	[-0.1]	[-0.2]	[-0.2]	[-0.1]	[0.0]	[-0.1]	[-0.1]	[0.0]	[0.1]	[0.2]	-	
Market prices	3.5	4.1	4.9	5.6	5.6	6.0	5.2	4.5	4.3	3.8	3.4	3.3	3.2	3.2	3.1	
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.1]	[-0.3]	[-0.1]	[-0.2]	[0.0]	[0.1]	[0.0]	[-0.1]	[0.1]	[0.1]	[0.2]	-	
Administered prices	6.4	5.5	4.7	5.1	5.2	3.9	3.8	3.2	3.7	3.9	4.1	3.9	3.7	3.6	3.6	
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.1]	[0.9]	[-0.1]	[-0.5]	[-0.2]	[-0.4]	[-0.3]	[-0.1]	[-0.1]	[-0.1]	[-0.1]	-	

Note: The values in white background are actuals, and those in hatched background are projections. The values presented are rounded. Therefore, the aggregated values may not match the combination of the rounded disaggregated values. The difference with respect to the previous MPR is calculated using the rounded values presented.

Figure 2.2.9 – Inflation projections and fan chart – Reference scenario
YoY IPCA inflation



Note: Shaded areas represent projections intervals associated with the following probabilities (from the inner to the outer interval): 10%, 30%, 50%, 70% and 90%. Until 2024Q4, inflation targets and tolerance ranges refer only to the respective calendar year, but, for visual reasons, the respective lines are presented for all quarters.

Table 2.2.2 – Estimated probabilities of inflation surpassing the target tolerance interval

Year	Lower limit	Probability of surpassing the lower limit	Upper limit	Probability of surpassing the upper limit
2025	1.50	0	4.50	68
2026	1.50	6	4.50	26
2027	1.50	11	4.50	17

Note: Numbers rounded to the nearest integer value. The probabilities do not represent probabilities of non-compliance with the target, since, from January 2025 onwards, the characterization of non-compliance requires that inflation be outside the tolerance range for six consecutive months (in any month of the year).

When compared with the previous MPR, inflation projections fell slightly for 2025 and 2026. The projection for 2025 fell 0.2 p.p. and, for 2026, 0.1 p.p. In the latter horizon, inflation projections declined for both market and administered prices. Among the upside factors, the stronger-than-expected economic activity stands out, and, among downside factors, the exchange rate appreciation and the oil price decline. Compared with the May Copom meeting (270th meeting), inflation projections in this horizon remained relatively unchanged (see [Minutes of the 270th meeting](#)).

44/ It is noteworthy that, with the new “continuous target” system, in force since January 2025, inflation outside the tolerance intervals implies a target breach only in the case of its occurrence for six consecutive months, in any month.

45/ The measurement of the number of months starts in January 2025, the first month in which the so-called “continuous target system” comes into effect, as established by [Decree 12,079](#) of June 26, 2024. The note and the letter must contain: I - a detailed description of the causes of the breach; II - the measures required to ensure the return of inflation to the tolerance interval; and III - the expected time frame for the measures to take effect.

2.3 Balance of risks

Copom assesses the presence of several risks around inflation projections in the reference scenario.

There are basically two sources of risks considered. The first is related to the use, in the reference scenario, of conditioning assumptions based on the established governance, as is the case of the Selic rate, exchange rate, and oil price trajectories, which do not necessarily reflect the most likely scenario assessed by the Committee. The second stems from the assessment of the possibility of materialization of certain events, and their impacts on inflation, not considered as the most likely when building the reference scenario. These events may occur both in the short and medium term.

The balance of risks presented is an instrument of monetary policy communication and provides important information about the uncertainties assessed by Copom for the projections horizon.

Some risk factors may be assessed quantitatively with the use of scenarios based on models, while others have a more qualitative evaluation. Not all risk factors assessed are disclosed in the monetary policy communication. The Committee evaluates, selects, and communicates those risk factors deemed more relevant for the inflation dynamics in the relevant projection horizon, considering the probability of occurrence and its impact on the economy.

In its more recent meeting (271st meeting), Copom stressed that the risks to inflation, both to the upside and to the downside, continue to be higher than usual. The main risks are listed below.

Upside inflation risks in the reference scenario:

i. a more prolonged period of deanchoring of inflation expectations

The assessment of the presence or not of deanchored inflation expectations considers longer horizons, typically two or three years ahead, so as to use measures free from short-term effects of inflation deviations from the target. Inflation expectations in the Focus survey for longer terms have shown relative rigidity at values above the 3.00% target. Compared with the March 2025 MPR, the median rose from 4.48% to 4.50% for 2026; remained at 4.00% for 2027; and grew from 3.78% to 3.85% for 2028. The persistence of deanchoring for a prolonged period would have consequences for the credibility of the inflation-targeting system, tending to make expectations more sensitive to short-term shocks, to pressure the dynamics of prices and salaries, and to increase the exchange rate pass-through to prices.

ii. a stronger-than-expected resilience of services inflation due to a more positive output gap

In the case of materialization of higher-than-expected economic activity, inflation would be pressured to values above those of the reference scenario. Services inflation would be particularly affected for being the most sensitive to the output gap. Moreover, for having greater inertia than other groups, its disinflation tends to be more costly and takes longer than in the other groups. Additionally, there is uncertainty about the output gap measures, which may imply the underestimation of current output gap levels.

iii. conjunction of internal and external economic policies with a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency.

In the international scenario, uncertainties and decisions related to the U.S. trade tariff policy have caused volatility to the markets. Moreover, uncertainties remain about fiscal policy and the economic effects of restrictions on the labor supply. This environment has increased uncertainties about future economic activity and inflation in the U.S. and, consequently, about the Fed's monetary policy, and the global trade and economic growth trend. Should this scenario be accompanied by global USD appreciation and strong reduction in risk appetite, there would be pressure on the BRL, impacting domestic inflation. From the domestic point of view, in the case of implementation of policies, such as fiscal ones, leading to a new deterioration of agents'

perception, there could be new effects on the exchange rate and inflation expectations and, consequently, inflationary pressures.

It is noteworthy that, in the case of materialization of more than one of the above scenarios, the effects of one may be intensified by the other. For instance, in the context of deanchored expectations for a more prolonged period and a positive output gap, the pass-through of an exchange rate depreciation to prices tends to be higher, intensifying the inflationary impact.⁴⁶

Downside inflation risks in the reference scenario:

i. possible greater-than-projected deceleration of domestic economic activity, with impacts on the inflation scenario

The set of indicators on economic activity and labor market is still showing some strength, but there is a noticeable moderation in growth. It is noteworthy that the economic deceleration is part of Copom's reference scenario, and its materialization is in line with the functioning of monetary policy transmission mechanisms and its impact on inflation. However, the pace of the slowdown could be faster and stronger than that projected by the reference scenario. In this case, the output gap would be even more negative in the future, amplifying the effects of the economic slowdown on prices and inflation expectations.

ii. steeper global slowdown stemming from the trade shock and the scenario of heightened uncertainty.

Uncertainties and decisions on U.S. trade tariff policy, already mentioned in the upside risks for inflation, could have disinflationary effects. In fact, compared with what is already considered in the reference scenario, a greater loss of momentum in international trade as a result of increased uncertainties and the implementation of protectionist policies could cause a sharper slowdown in the U.S. economy and in other major economies, with a negative effect on global activity. This scenario could lead to pricings of higher cuts in the Fed Funds rates. The reduction in the U.S. Treasury yields would benefit the BRL, thus contributing to lower domestic inflationary pressures.

iii. reduction in commodity prices with disinflationary effects

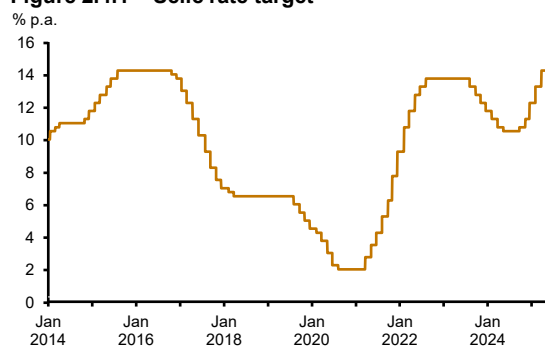
Commodity prices are highly influenced by the world business cycle. In the event of a deceleration of the global economy, commodity prices could be pressured downward, which, if not followed by a balancing effect of a BRL depreciation, would have disinflationary implications for the domestic economy.

2.4 Conduct of monetary policy

In the March meeting, Copom increased the Selic rate 1.00 p.p., to 14.25%, for considering that the scenario had unfolded in such a way that the previous increasing indication deemed to be the right decision (Figure 2.4.1). Copom highlighted that the more recent scenario was marked by additional deanchoring of inflation expectations, high inflation projections, resilience on economic activity, and labor market pressures, which required a more contractionary monetary policy.

^{46/} For evidence in Brazil that, with positive output gap levels and deanchored inflation expectations, the exchange rate pass-through to consumers is higher, see, for instance, box [Exchange rate pass-through from the perspective of a semi-structural model](#) in the September 2018 IR.

Figure 2.4.1 – Selic rate target



Note: Daily values from 1.1.2014 to 6.20.2025.

At that moment, the Committee stressed that it anticipated, if the expected scenario materialized, an adjustment of lower magnitude in the next meeting, in light of the continuation of the adverse scenario for inflation convergence, the heightened uncertainty, and the lags inherent to the ongoing monetary tightening cycle. Beyond the May meeting, the Committee reinforced that the total magnitude of the tightening cycle would be determined by the firm commitment of reaching the inflation target and would depend on the inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks.

In the May meeting, in line with the previous indication, the Committee increased the Selic rate by 0.50 p.p., to 14.75%, highlighting that the scenario prescribed a significant contractionary monetary policy for a prolonged period to ensure the convergence of inflation to the target. The Committee highlighted that the scenario continued to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity, and labor market pressures. It also highlighted that it was maintaining the way of analysis and response that it had been conducting over time and had outlined in its communication.

Copom assessed that, for the next meeting, the scenario of heightened uncertainty, combined with the advanced stage of the current monetary policy cycle and its cumulative impacts yet to be observed, required additional caution in the monetary policy action and flexibility to incorporate data that could impact the inflation outlook. The Committee reinforced that it would remain vigilant and the calibration of the appropriate tightening of the monetary policy would continue to be guided by the objective of bringing inflation back to the target in the relevant horizon. This calibration would depend on the inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks.

In the more recent meeting, in June, Copom increased the Selic rate by 0.25 p.p., to 15.00%, emphasizing that ensuring the convergence of inflation to the target in an environment with deanchored expectations requires a significant contractionary monetary policy for a very prolonged period. The Committee highlighted that the current scenario continues to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity and labor market pressures.

Copom also stressed that, if the expected scenario materializes, it foresees an interruption of the rate hiking cycle. The goal is to examine its yet-to-be-seen cumulative impacts, and then evaluate whether the current interest rate level, assuming it remains stable for a very prolonged period, will be enough to ensure the convergence of inflation to the target. The Committee emphasizes that it will remain vigilant, that future monetary policy steps can be adjusted and that it will not hesitate to proceed with the rate hiking cycle if appropriate.

Methodological appendix

Conditioning assumptions

In the building of the reference scenario, the following procedures were adopted for the construction of the Selic, exchange rate, and oil price conditioning assumptions:

i. Selic rate – starting point: target in place when the June meeting took place. Trajectory: use of the median expectations for the Selic target extracted from the Focus survey of the last day of the week prior to the Copom meeting. It uses interpolation for the months in which the survey does not collect the respective data, considering the values for each year's end. Due to the use of the four-quarter-ahead Selic rate for the calculation of the real *ex-ante* interest rate, the rate used extends to four quarters ahead of the presented projection horizon;

ii. Exchange rate – starting point: average exchange rate over the period of ten working days ending on the last day of the week prior to the Copom meeting, rounded to the second decimal at intervals of five cents. Trajectory: based on the PPP. For the easiness in the construction of projections and the simplicity of communication, the assumed inflation differential is the difference between the Brazilian inflation target, of 3.0% p.a., and the long-term external inflation, 2.0% p.a., in line with the inflation target of most developed countries;

iii. Oil price – starting point: value around the average prices of Brent-type oil over the period of ten working days ending on the last day of the week prior to the Copom meeting. Trajectory: the oil price follows approximately the futures market curve for the next six months and then increases 2.0% p.a.

Output gap

The output gap is an unobservable variable subject to high uncertainty in its estimation, being recommended to rely on several methodologies. The starting point are the estimates provided by several small-scale semi-structural models and are complemented by information from other methodologies⁴⁷. Therefore, the output gap presented in this chapter incorporates information from different methodologies and Copom's judgment. Among economic activity variables used, the GDP, the Nuci – calculated by the FGV, the unemployment rate – measured by the IBGE, and the stock of formal jobs – measured by New Caged of the Ministry of Labor and Employment (MLE), all seasonally adjusted, stand out.

47/ See, for instance, box [Updating output gap measures in Brazil](#) in this MPR.

Inflation decomposition according to Samba model – 2022-2024

From the perspective of the Samba model, exogenous and less persistent cost changes, interpreted as price markup shocks, explained the inflationary or disinflationary surprises observed until the first half of 2023, from when supply shocks lose importance and demand shocks gain predominance, becoming the most inflationary component. The behavior of inflation expectations shows a direct association with the persistence of inflation's deviation from the target.

This box presents the decomposition of inflation from 2022 to 2024 using the most up-to-date version of the Samba model.¹ Two methodologies are used. The first is the traditional historical decomposition, where the observed data are filtered to measure the contribution of each of the model's structural shocks in explaining inflation's deviation from the target. The second, known as double decomposition, identifies the contributions to the inflation deviations of each of the observed data series when these series are adjusted to the model through their structural shocks.

In the historical decomposition, shocks are grouped into four categories²: supply, demand, price markup, and other shocks. Demand shocks include exogenous changes in household consumption, investment, government consumption, and exports; supply shocks include productivity changes and exogenous changes in the labor market, either by labor supply or wage markup; and price markup shocks include the shocks to the Phillips curve of market prices and to the equations of administered and imported goods prices. The group "other shocks" includes external shocks, monetary and fiscal policy shocks, and real exchange rate shocks, among others.

Figure 1 shows the historical decomposition of the four-quarter change in the Extended National Consumer Price Index (IPCA), measured as the gap from the inflation target over the period. At the beginning of 2022, inflation was high, well above the target, due to various factors. Logistical issues that generated imbalances in global supply chains influenced industrial goods inflation. Similarly, the rise in commodity prices, notably oil throughout 2021, reached a peak at the end of 2022Q1. In the decomposition, these two factors are reflected in the supply and price markup shocks, which have an inflationary contribution in the first half of 2022, a movement that has been going on since the end of 2020. Finally, the BRL depreciation observed in the second half of 2021 showed its effects on consumer prices in the period, affecting the "other shocks" category. Conversely, output gap measures indicated that aggregate demand was not a relevant driver of inflation in the period.³ Therefore, in 2022, the decomposition presents a context in which cost-related factors were important, while aggregate demand was relatively neutral, although with a reversal of sign throughout the year.

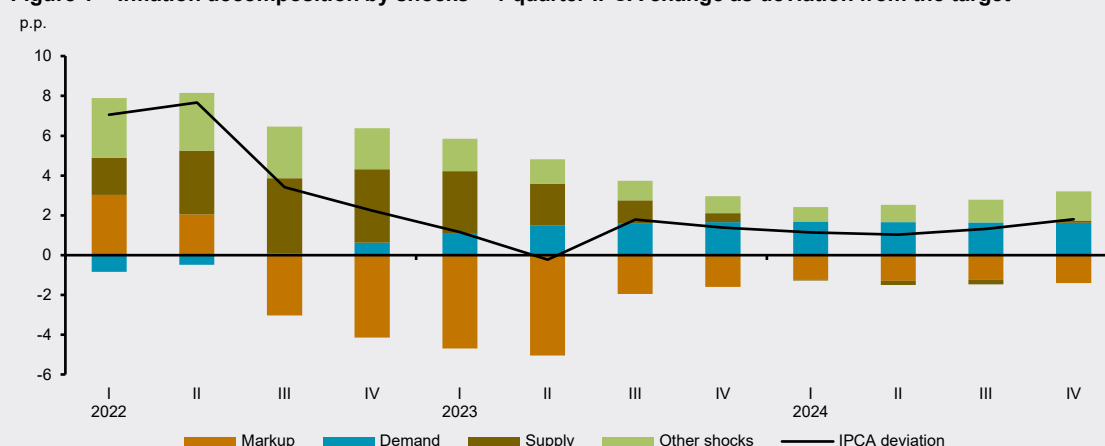
In fact, demand shocks began to gain importance as a driver of rising inflation, first by reducing the magnitude of negative values and, from 2022Q4 on, entering the positive field, which lasted until the end of 2024Q4. By this decomposition, aggregate demand shocks are the main drivers of inflation in 2023 and 2024.

1/ See Fasolo *et al.* (2024) for details of the most recent innovations in the model.

2/ See box [Inflation decomposition according to Samba model](#) in the September 2022 IR, for a historical decomposition by shocks using an earlier version of the Samba model, for the period from January 2019 to June 2022. Since the decomposition presented here aggregates shocks into the same groups, it can be seen as an extension of that exercise, even though the model has been updated.

3/ See, for example, box [2022 inflation decomposition](#) in the March 2023 IR.

Figure 1 – Inflation decomposition by shocks – 4-quarter IPCA change as deviation from the target



Price markup shocks returned to negative field from 2022Q3 on, contributing significantly to reducing inflation until 2023Q2. This disinflationary contribution of the markup shock in the period coincides with the end of the critical period of the crisis in global supply chains in the post-Covid era, and also, in part, with the record harvest in 2023Q1, which contributed to the reduction in food prices, a rather volatile item in the IPCA. Supply shocks began to reduce their contribution to inflation deviation as of 2023Q1, ceasing to be relevant from 2024Q1 on. In turn, the “other shocks” category increased its relevance throughout 2024, mainly due to shocks to real exchange rate level and to global GDP growth.

Therefore, the persistence of the effects of demand shocks and other shocks (in particular, real exchange rate level and global GDP growth shocks) was the main factor explaining the deviation of inflation from the target throughout 2024, outweighing the contribution of price markup shocks to the reduction in inflation in this period.

Figure 2 shows another type of inflation decomposition, from a different perspective, known as a double decomposition.⁴ In this other type of decomposition, the structural shocks presented in Figure 1 are measured in terms of the observed data used in the Samba model simulation. The algorithm recursively analyzes the projection errors generated by each of the shocks to each of the variables of the model to establish the relationship between the structural shocks and the data used in the model. The trajectory of inflation deviations from the target is then recovered from this alternative representation of the shocks in the model. For this box, the contributions to the inflation deviations of each of the series of observed data, associated with the structural shocks in the model, are grouped into six categories: inflation expectations, inflation, labor market, external variables, domestic demand, and other variables.⁵

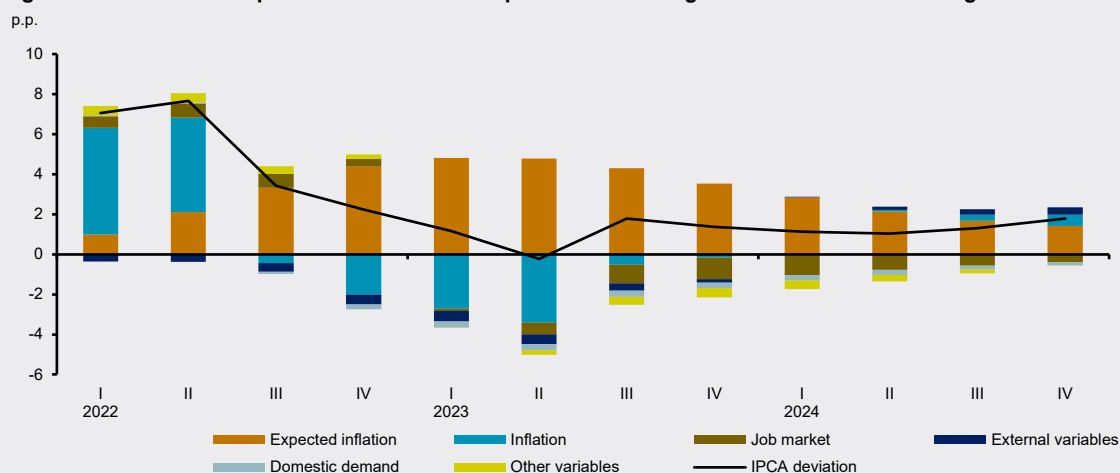
In the first half of 2022, both the surprises – regarding the model’s predictions – in the observed inflation data and inflation expectations contributed to explain the positive inflation deviation from the target. Between the second half of 2022 and the first half of 2023, the opposite movement was observed. Inflation downward surprises contributed significantly to reducing inflation, while expectations increased their upward contribution. The surprises in the period are consistent with the increased share of price markups that explains the inflation decrease in the period, as observed in Figure 1. However, especially in the second half of 2023, the persistence of the positive sign contribution from expectations and the elimination of surprises in inflation data help to explain the observed inflation above the target in the period. Similarly,

4/ See Chung *et al.* (2021). The authors note that the double decomposition is different from the so-called “data decomposition”, where the vector of state variables is decomposed in relation to the observables in the model, but without an association with the structural shocks calculated in the traditional shock decomposition. The double decomposition combines the decomposition of shocks with “data decomposition”, while maintaining the structural character of the exercise.

5/ The complete list of variables used in the Samba model is at Fasolo *et al.* (2024).

throughout 2024, inflation expectations – extremely off target over the 12-month horizon (variable observed in the model) – play a fundamental role in explaining the inflationary dynamics in the period.

Figure 2 – Double decomposition of inflation – 4-quarter IPCA change as deviation from the target



Sources: IBGE and BCB

Among other important variables in the decomposition, the downward contribution of the labor market to inflation throughout 2023 is noteworthy. Despite the significant drop in the unemployment rate and the labor force participation rate in the period, the annual growth of nominal wages fell from 14.8%, at the end of 2022, to 8%, at the end of 2023 (from 8.5% to 3.2% in real terms).⁶ However, throughout 2024, the recovery of the growth of nominal wages, the maintenance of unemployment at low levels, and the rise of the labor force participation rate justify the reduction in labor market to contain inflation. Noting that, if the contribution is negative, the reduction in its absolute value contributes to an increase in inflation. As of the second half of 2023, external variables began to reduce their negative contribution, beginning to have a small and growing positive participation throughout 2024, while domestic demand (household and government consumption and investment) gradually reduced its negative contribution in the same period.

In summary, from the Samba model's perspective, a significant part of the inflationary or disinflationary surprises observed in 2022, and in the first half of 2023, is interpreted as resulting from phenomena associated with exogenous and less persistent cost changes, represented as price markup shocks in the traditional decomposition, while demand shocks began to gain predominance over time, becoming the most inflationary group as of the second half of 2023. The persistence of inflation deviation from the target is directly associated with the behavior of inflation expectations. However, the composition of shocks that justifies this persistence changed between 2022 and 2024, from being mainly supply-related to mainly demand-related.

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6/ Nominal wage measured as average usual income of all jobs in the IBGE PNAD-C.

Determinants of the risk premium in Brazilian nominal interest rates

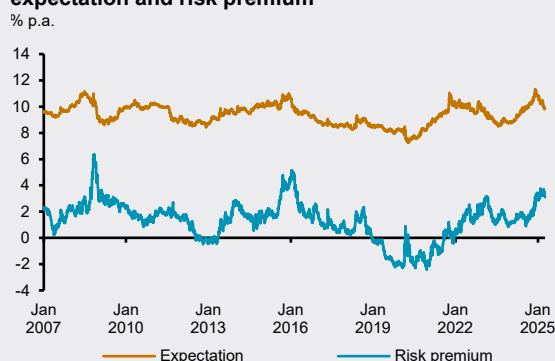
This box investigates the determinants of the risk premium in Brazilian nominal interest rates. The analysis shows that most of the volatility in rates stems from the risk premium, which is influenced by both domestic and external factors. The most robust regression indicates that the Selic rate, TLP, inflation expectations, public debt, U.S. interest rates, USD/BRL exchange rate, and VIX have a significant impact. The time-series decomposition reveals that domestic interest rates are the main factor, followed by inflation, fiscal outlook, and external conditions, reflecting the Brazilian market's sensitiveness to the macroeconomic environment.

The box [Risk premium in Brazilian nominal interest rates](#), published in the December 2022 Inflation Report (IR), studied the decomposition of long-term nominal interest rates into two main components, the expectation of future interest rates and the risk premium (or the term premium). Using the methodology of Adrian, Crump and Moench (2013) – named here the ACM model – the paper estimated the risk premia embedded in the Brazilian yield curve, highlighting its importance in understanding financial conditions and the perception of risk by economic agents. The results showed that risk premia vary over time and that a large part of the the long-term interest rate volatility stems from changes in these premia, and not just from changes in expectations about the trajectory of the Selic rate.

The current box investigates the main determinants of risk premium movements in Brazilian nominal interest rates, estimated using the same methodology employed in the previous analysis. The nominal yield curve is estimated from government securities (LTNs and NTN-Fs), using the Svensson (1995) interpolation method.

A set of Ordinary Least Squares (OLS) regressions is estimated for the monthly average of the daily risk premia of 5-year nominal rate, estimated by the ACM model, for the period from January 2007 to April 2025. The 5-year term is used because, at the beginning of the sample, nominal government securities with longer maturities did not yet have sufficient liquidity in the market. It is worth noting that the time series of risk premia for different periods show high correlations.¹ Figure 1 shows the time series of the components of the 5-year nominal rate: the accumulated expectation of short-term term interest rates and the respective risk premium, both estimated by the ACM model. Most of the volatility in the nominal rate stems from fluctuations in the premium.²

Figure 1 – Components of 5-year nominal rate: expectation and risk premium



- 1/ Among the risk premia time series from 1 to 10 years, the lowest correlation observed is between the 1- and 10-year series, with a value of 0.60. The correlations between the 5-year series and the others are: 0.667 (1 year), 0.861 (2 years), 0.968 (3 years), 0.996 (4 years), 0.999 (6 years), 0.997 (7 years), 0.994 (8 years), 0.991 (9 years), and 0.998 (10 years).
- 2/ The coefficient of variation of the nominal rate expectation is 0.08, while that of the risk premium is 1.11.

Multiple specifications were tested to identify statistically significant predictors, and standard errors robust to heteroscedasticity and autocorrelation (HAC) are calculated with the Newey-West correction.

The reduced-form model for the risk premium is described below:

$$ACM_t = \alpha + \beta_1\pi_{t-1} + \beta_2i_{t-1} + \beta_3i_{t-1}^* + \beta_4f_{t-1} + \beta_5y_{t-1} + \beta_6s_{t-1} + \beta_7E_{t-1} + \beta_8C_{t-1} + \beta_9V_{t-1} + \varepsilon_t \quad (1)$$

where:

π represents inflation-related variables, effective or expected;

i represents variables related to the domestic interest rate;

i^* refers to the U.S. interest rates;

f represents fiscal variables;

y corresponds to economic activity variables;

s represents variables of the stock market;

E refers to exchange rate variables;

C represents commodity-related variables; and

V refers to the volatility index.

As can be seen in equation (1), the explanatory variables are included with a non-month lag to mitigate possible endogeneity problems. These variables seek to capture fundamental macroeconomic and financial factors that potentially influence the nominal interest rate risk premium in an emerging economy such as Brazil. It is important to note that the data do not include fixed rates in BRL, since these rates were used to generate the risk premia. The explanatory variables used in the regressions are detailed below:

- Inflation: Extended National Consumer Price Index (IPCA) total, IPCA Services, IPCA Food-at-home, IPCA Industrial Goods, and IPCA Administered Prices – all with 12-month change;
- Inflation expectations: 1-year median IPCA inflation expectation, as published by the Focus bulletin (only the 1-year expectation is used, as at the beginning of the sample expectations for longer periods were not collected in the moving horizon mode);
- Domestic interest rates: effective Selic rate and Long-Term Rate (TLP), both expressed per year;³
- External interest rates: nominal rates on 2- and 10-year U.S. Treasury securities and rates on 5-year Treasury Inflation-Protected Securities (TIPS);
- Fiscal indicators: primary balance, the General Government Gross Debt (GGGD) as a proportion of GDP, and the Public Sector Net Debt as a proportion of GDP;

3/ The TLP replaced the Long-Term Interest Rate (TJLP) as of January 2018. For data prior to that date, the TJLP is used.

- Economic activity: output gap, constructed with the HP filter on the monthly IBC-Br, with seasonal adjustment;
- Stock indexes: returns of the Ibovespa and the Morgan Stanley Capital Index (MSCI) for developed countries;
- Exchange rate: return of the USD against the BRL and the DXY index (USD value against a basket of developed country currencies);
- Commodities: returns of the CRB and WTI oil indexes; and
- Volatility: VIX index, which measures the implicit volatility of the S&P 500.

Table 1 shows the results of seven specifications.⁴ Regression 1 uses one representative variable for each group of factors. Variables related to inflation, monetary policy, external interest rates, fiscal policy, exchange rates, and volatility were statistically significant. The adjusted R^2 is 0.75.

In Regression 2, inflation expectations as measured by Focus are added, while non-significant variables are removed. As a result, the IPCA loses statistical significance, while the Focus expectation is significant at the 1% level.⁵ The GGGD/GDP ratio and the USD against the BRL, referred to here as the “USD/BRL”, also lose significance. The adjusted R^2 increases to 0.78 and the Schwarz information criterion (SIC) also indicates an improvement in the quality of the model.

In Regression 3, only the non-significant variables are excluded, except for the USD/BRL.⁶ The results of this regression are robust to the exchange of the U.S. nominal interest rate variable for the U.S. 5-year real rate (TIPS), including in terms of the magnitude of the estimated coefficient. Regression 4 combines the level of the U.S. real rate with the slope of the U.S. nominal yield curve, measured by the difference between the 10-year and 2-year rates. This combination results in a further improvement in the SIC and raises the adjusted R^2 to 0.81.

In Regression 5, several variables are added to the previous model to test their statistical significance. The variables that were already significant remained relevant. The USD/BRL – which was no longer significant in regressions 2 to 4 – becomes statistically significant again at the 1% level. Among the new variables, only TLP is statistically significant. The adjusted R^2 increases again and the SIC becomes even more favorable.

Regression 6 maintains a similar structure to the previous one, with substitutions in the fiscal, stock market, and commodities variables, as well as the inclusion of the DXY index. There is an improvement in the SIC, and the GGGD/GDP ratio is once again significant, but this time with a positive sign.

Finally, Regression 7 preserves the structure of the previous model, excluding the variables that were not statistically significant. The adjusted R^2 remains similar, but the SIC improves significantly since the model is more parsimonious. This is the model that best fits the sample amongst all those evaluated.

4/ The variables in the regressions are in percentages, except for the Primary Balance, which was divided by 100,000.

5/ An alternative specification was also tested, using the components of the IPCA (administered prices, services, industrial goods, and food-at-home) as regressors instead of the headline IPCA. However, none of the components are statistically significant.

6/ The specification of Regression 3 was also run with the GGGD/GDP ratio, but this variable remained non-significant and was therefore discarded.

Table 1 – Risk premium regressions (ACM) of 5-year nominal rates against several factors

Dependent variable: ACM	(1)	(2)	(3)	(4)	(5)	(6)	(7)
C	-0.02 ** (-2.3)	-0.06 *** (-4.59)	-0.05 *** (-9.5)	-0.04 *** (-6.53)	-0.06 *** (-7.29)	-0.08 *** (-8.24)	-0.08 *** (-8.02)
IPCA	0.18 *** 3.03	0.01 (0.22)					
Focus		0.54 *** (3.79)	0.54 *** (5.59)	0.46 *** (3.37)	0.60 *** (4.78)	0.56 *** (5.01)	0.54 *** (4.65)
Selic	0.20 *** (5.49)	0.18 *** (5.6)	0.18 *** (5.63)	0.18 *** (5.1)	0.09 * (2.22)	0.16 *** (3.54)	0.16 *** (3.47)
TLP					0.40 *** (3.39)	0.28 ** (2.31)	0.27 * (2.17)
TIPS_5				0.60 *** (6.19)	0.63 *** (7.02)	0.65 *** (7.78)	0.64 *** (7.1)
USPRE10	0.51 *** (3.79)	0.57 *** (6.1)	0.55 *** (5.99)				
USPRE10 - USPRE2				0.41 *** (5.08)	0.51 *** (6.79)	0.69 *** (6.84)	0.71 *** (6.94)
PRIMARY_BAL					-0.15 (-1.29)		
GGGD	-0.02 ** (-2.25)	0.00 (0.3)				0.03 *** (2.84)	0.03 *** (3.07)
IBC-Br	-0.08 (-1.45)				0.00 (-1.26)		
IBOV	0.00 (-0.26)					-0.01 (-0.94)	
MSCI_Developed					0.01 (0.72)		
USD	0.05 *** (2.98)	0.04 (1.81)	0.04 (1.79)	0.03 (1.8)	0.04 *** (2.68)	0.04 ** (2.53)	0.03 ** (2.49)
DXY						-0.02 (-0.72)	
CRB	1.88 (0.67)					0.03 (1.24)	
WTI					0.00 (0.98)		
VIX	0.02 * (2.07)	0.04 *** (4.29)	0.04 *** (4.06)	0.02 ** (2.27)	0.02 ** (2.34)	0.02 ** (2.5)	0.02 * (2.2)
Adjusted R ²	0.75	0.78	0.78	0.81	0.84	0.84	0.84
SIC	2.37	2.22	2.18	2.05	2.00	1.95	1.89
Observations	220	220	220	220	220	220	220

Statistical value "t" in brackets (calculated with the Newey-West HAC variance estimator)

*** p < 0.01, ** p < 0.025, * p < 0.05

This regression shows that the risk premium of Brazilian nominal rates is positively associated with the public sector's gross debt as a proportion of GDP, inflation expectations, the Brazilian policy interest rate (Selic), and the TLP, which represents the cost of long-term financing granted by the National Development Bank (BNDES).⁷

7/ The robustness of the results is preserved even when the fiscal variable used, gross public sector debt as a proportion of GDP, is replaced by public sector net debt as a proportion of GDP.

In addition, the risk premium is also positively related to external factors, such as the slope of the U.S. nominal yield curve, the U.S. real interest rate, the VIX, and the USD/BRL exchange rate. These results show the influence of the international scenario on the Brazilian nominal securities market.

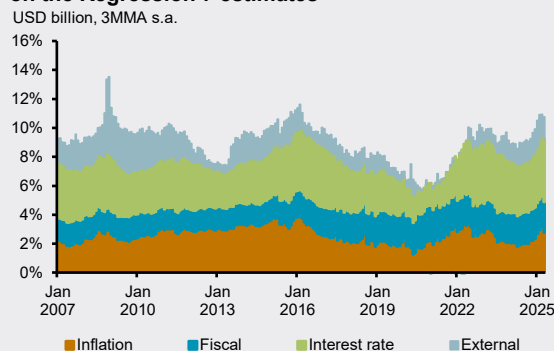
Table 2 shows the change in the risk premium (ΔACM) resulting from a one standard deviation increase in the explanatory variables in Regression 7. The greatest fluctuations in the risk premium are associated with changes in the U.S. interest rates, demonstrating their influence on the risk premium of Brazilian nominal rates.

Table 2 – Changes in the risk premium (ΔACM) resulting from one standard deviation increase in the explanatory variables in Regression 7

1SD change	growth ΔACM
Focus	0.005
Selic	0.522
TLP	0.236
GGGD	0.301
TIPS_5	0.732
USPRE10 - USPRE2	0.693
USD	0.001
VIX	0.137

Figure 2 shows the time-series decomposition of the term premium, based on the Regression 7 estimates. The explanatory variables are grouped into four categories: External (TIPS_5, USPRE10 – USPRE2, USD/BRL and VIX), Fiscal (GGGD), Inflation (Focus), and Interest (Selic and TLP). The constant and the error term are not shown on the figure.

Figure 2 – Decomposition of the risk premium based on the Regression 7 estimates



The Interest factor is the most prominent component of the decomposition throughout most of the time series. Its participation stands out mainly until 2016 and then rises sharply again from 2022 onwards. The Inflation factor presents intermediate relevance. It gained greater weight starting in 2014, in a context of increased inflationary instability, but its influence diminished after 2017, although it has risen again in the recent period. The Fiscal factor, initially the least representative, begins to have a more significant contribution starting in 2016. The External factor displays a more volatile contribution. This factor begins the series with high relative importance, peaking during the 2008 financial crisis, growing again from 2013 to 2016, and again in recent years.

As presented in this box, the study of the determinants of the term premium in Brazilian nominal rates and its relevance, based on the ACM model, contributes to understanding the dynamics of medium and long-term interest rates in Brazil, with a focus on its risk premium component.

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Updating output gap measures in Brazil

This box presents an update of output gap estimates by different methodologies, grouped into univariate and multivariate methods. For 2025Q1, all the estimates point to an output gap in the positive range and, in general, higher than the values estimated for the same period of the previous year.

The output gap is a key variable for the conduct of monetary policy, defined as the difference between the real levels of effective output and potential output¹ (the level that does not generate inflationary or disinflationary pressures on the economy). Both the potential output and the output gap are unobservable variables and, therefore, estimates are required through econometric models with several approaches, which highlights the high degree of uncertainty in measuring these variables.

The Banco Central do Brasil (BCB) estimates the output gap using different methodologies aiming to obtain a better dimension of the uncertainty involved. Results are subject to revision as new information becomes available, for instance, by changing the sample's size or even revising previous data. This box presents an updating of several output gap estimates for the Brazilian economy using the previously adopted methodology, classified into two groups:²

Group I – Statistical univariate gaps

- i. Quadratic trend with breaks;
- ii. Non-parametric trend;
- iii. HP (Hodrick-Prescott) trend;
- iv. ℓ_1 trend;
- v. Modified HP trend;
- vi. Band-Pass filter – Christiano and Fitzgerald approximation; and
- vii. Beveridge and Nelson – Kamber et al. variant. (2018).

Group II – Multivariate gaps

- i. Production function with a simple combination;
- ii. Production function based on the Areosa (2008) approach;
- iii. Production function based on the model used by the U.S. Congressional Budget Office (CBO);

1/ It is worth noting that, in New-Keynesian structural models of general equilibrium, the potential output, typically in this framework, is the output that would prevail in a counterfactual situation with no nominal frictions and no monetary or markup shocks. Different models with different types of friction and shocks may be applied, thus making it difficult to reach a consensus on the potential output.

2/ Methodological details are available in the box [Output gap measures in Brazil](#) in the June 2024 IR.

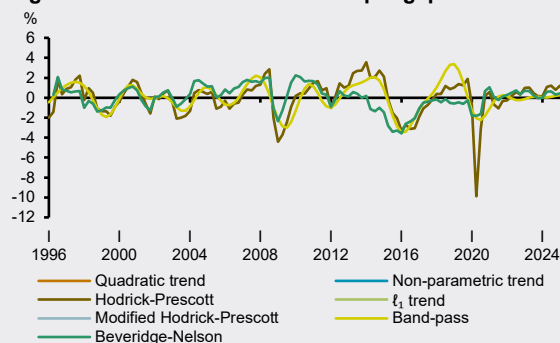
- iv. Estimation based on the Jarocinski and Lenza (2018) model; and
- v. Estimation based on principal components.

Statistical univariate gaps

Univariate methodologies perform a trend-cycle decomposition and generally share the assumption that trends are uncorrelated with the cycle. The gap is then the cyclical measure obtained by the difference between the level of the observed activity and its estimated trend. The observed activity variable is the logarithm of the seasonally adjusted quarterly series of Gross Domestic Product (GDP) at market prices, calculated by the Brazilian Institute of Geography and Statistics (IBGE).

Aiming to reduce the usual end-of-sample problem, the GDP time series, whose last data correspond to 2025Q1, was extended until 2029Q4, using the median expectation of the Focus survey obtained on June 13, 2025.³ The results are presented in Figure 1. In general, output gaps are positively correlated, and the estimated levels have increased in recent quarters.

Figure 1 – Statistical univariate output gaps



Note: Data period: 1996Q1–2025Q1. The estimation was conducted extending the sample up to 2029Q4 with expectations from the Focus survey.

Multivariate gaps

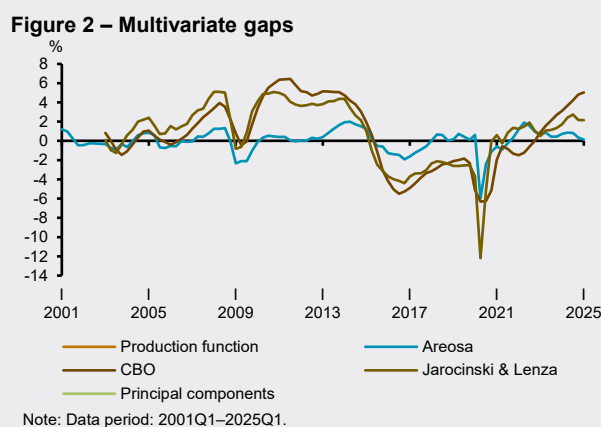
The group of multivariate gaps involves different methodologies and approaches that use the combination of observable variables, non-observed filtered components, or even macroeconomic relationships, as the Phillips curve, to better identify the degree of activity heating.

The first three estimates, the production function with a simple combination, the production function based on Areosa (2008) approach, and the production function based on the CBO model⁴, involve the use of a production function that combines capital and labor through a Cobb-Douglas technology. Overall, these methodologies capture possible inflationary pressures based on estimated pressures on production factor markets. The Jarocinski and Lenza (2018) approach is an application for Brazil of a model developed by these authors using a Bayesian dynamic factor model in which output gap estimates are correlated with inflation behavior. Lastly, the estimate based on principal components is used to obtain a common series that explains simultaneously most changes of the cyclical dynamics in economic activity and in the labor market.

3/ Due to data availability, as of 2027Q2, annual projections are used to calculate the quarterly values. In this estimate, the selected breakpoints for the quadratic trend were 2008Q4, 2014Q2, and 2020Q1.

4/ Model used by the U.S. Congressional Budget Office (CBO).

Figure 2 presents output gaps estimated by multivariate methods. As is the case of univariate gaps, a positive contemporaneous correlation is observed. A significant dispersion of output gap measures is also observed in some periods, highlighting its high uncertainty degree, especially at the end of sample, where the behavior is quite heterogeneous across the measures.



Set of measures

The contemporaneous correlation coefficient among different output gap measures is shown in Table 1. In general, there is a high correlation between the measures.

Table 1 – Correlation of output gap measures
Sample 2003Q2–2025Q1.

	Quadratic trend	Non-parametric trend	Hodrick-Prescott	t_1 trend	Modified Hodrick-Prescott	Modified Hodrick-Prescott	Band-pass	Production function	Areosa	CBO	Beveridge-Nelson	Jarocinski & Lenza
Quadratic trend	1.00											
Non-parametric trend	0.48	1.00										
Hodrick-Prescott	0.76	0.80	1.00									
t_1 trend	0.68	0.91	0.94	1.00								
Modified Hodrick-Prescott	0.78	0.49	0.79	0.68	1.00							
Band-pass	0.52	0.47	0.73	0.63	0.35	1.00						
Beveridge-Nelson	0.53	0.39	0.52	0.52	0.43	0.44	1.00					
Production function	0.48	0.85	0.82	0.88	0.54	0.48	0.44	1.00				
Areosa	0.58	0.70	0.90	0.85	0.64	0.68	0.40	0.88	1.00			
CBO	0.26	0.85	0.60	0.76	0.21	0.40	0.51	0.82	0.56	1.00		
Jarocinski & Lenza	0.47	0.83	0.70	0.81	0.46	0.39	0.68	0.87	0.69	0.89	1.00	
Principal components	0.44	0.87	0.82	0.89	0.49	0.51	0.49	0.96	0.86	0.87	0.90	1.00

Table 2 shows the output gap levels in 2024 and in 2025Q1 for all the discussed methodologies. Considering 2025Q1, the estimated range is between 0.14% and 5.03%, with an average of 1.38%, median of 1.18%, and 25th and 75th percentiles at 0.44% and 1.86%, respectively. Therefore, all estimates are of an output gap in the positive range. Compared with 2024Q1, most estimates increased.

The Pre-Copom Questionnaire (PCQ), sent to participants of the Market Expectations System before each Monetary Policy Committee (Copom) meeting, periodically includes a question about the participants' estimates of the output gap. In the June 2025 Copom's PCQ, the median estimate of the output gap for 2025Q1 was 1.2%, with 25th and 75th percentiles at 0.9% and 1.8%, respectively.

Table 2 – Output gap levels from 2024Q1 to 2025Q1 by type of methodology

					%
	2024				2025
	Q1	Q2	Q3	Q4	Q1
Statistical univariate gaps					
Quadratic trend	-0.50	0.40	0.49	0.08	0.47
Non-parametric trend	-0.26	0.84	1.11	0.86	1.39
Hodrick-Prescott	0.14	1.08	1.21	0.81	1.23
ℓ_1 trend	0.42	1.46	1.66	1.33	1.80
Modified Hodrick-Prescott	-0.60	0.27	0.36	-0.02	0.39
Band-pass	0.05	0.03	0.08	0.20	0.33
Beveridge-Nelson	-0.01	0.60	0.64	0.32	0.46
Multivariate gaps					
Production function	1.67	1.96	2.21	1.93	2.05
Areosa	0.72	0.85	0.83	0.34	0.14
CBO	3.13	3.67	4.22	4.82	5.03
Jarocinski & Lenza	1.71	2.41	2.73	2.18	2.16
Main components	1.00	1.44	1.63	1.15	1.14
Summary					
Mean	0.62	1.25	1.43	1.17	1.38
Median	0.28	0.97	1.16	0.83	1.18
25th percentile	-0.07	0.55	0.60	0.29	0.44
75th percentile	1.17	1.58	1.80	1.48	1.86

Conclusion

This box presented an update of output gap estimates using different methodologies, previously released in a box in the June 2024 Inflation Report (IR). The BCB continuously monitors different output gap measures and has made efforts to improve the methodologies used. This box enhances the transparency of the BCB's decision-making processes.

References

AREOSA, M. (2008). Combining Hodrick-Prescott Filtering with a Production Function Approach to Estimate Output Gap. Banco Central do Brasil, Working Paper 172.

JAROCINSKI, M.; and LENZA, M. (2018). "An inflation-predicting measure of the output gap in the euro area". *Journal of Money, Credit and Banking*, 50(6):1189-1224.

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Updating the model for the medium-term projection of administered prices

This box updates the medium-term projection model for administered prices. The equations that represent the dynamics of the 24 items that make up the administered prices basket are presented, along with more detailed explanations for the items with the greatest weight. The model's properties are illustrated through impulse response functions to shocks in the exchange rate, oil prices, market prices, and the Assistance Expenses Value Index (IVDA).

This box presents the current specification of the model for generating projections and medium-term scenarios for administered prices.¹ This model is part of the set of tools used by Copom to project inflation. In particular, the inflation projections and scenarios from the semi-structural models are formed considering the set of equations from the administered prices model. Hence, the projections generated for headline inflation incorporate the feedback effects between market and administered prices.

Administered prices refer to the components of the Extended National Consumer Price Index (IPCA) whose adjustments are determined by contracts, public bodies, or regulatory agencies, such as electricity tariffs and health insurance plans. Fuel prices are also considered administered prices.² In general, administered prices are less sensitive to economic market conditions and introduce greater inertia into the behavior of inflation due, in many cases, to the presence in their contracts and regulations of clauses indexing them to past inflation. In addition, they are an important pass-through channel for exchange rate and oil price changes.

The BCB's inflation projections are based on a combination of medium-term model projections and short-term expert projections.³ Experts have specific information that is relevant to short-term dynamics but is difficult to incorporate properly into macroeconomic models. In general, experts' projections for the short term are built using a bottom-up approach, i.e. projecting variables at a higher level of disaggregation and then aggregating them. These projections also incorporate knowledge of the methodological details of data compilation. In the case of administered prices, knowledge of institutional aspects is highly relevant. For many items, there are rules that determine their adjustment. Expert projections for administered prices tend to be used for horizons of around four or five quarters. These are longer than for market prices, due to the greater relative relevance of the experts' information.

In the medium-term projection model for administered prices, each item is represented by a specific equation, designed to capture the particularities of its behavior. The definition of these equations considers the specific adjustment rules and measurement methodologies employed by the Brazilian Institute of Geography and Statistics (IBGE). In general, these are not estimated equations, but calibrated equations based on the current institutional framework. The model consists of a set of 24 quarterly equations that describe the idiosyncratic dynamics of these items and are integrated with the small-scale semi-structural models used by the BCB.

In comparison with the model released in 2017, the seasonalities and parameter values were recalibrated to better reflect current conditions. In addition, methodological changes were made to the equations for some items. For example, in the equation for residential electricity prices, the specification based on econometric estimation was replaced by a version calibrated according to the weight of each distributor in the IPCA and

1/ The last release of this model was in the box [Revision of the medium-term projection models for administered prices](#) in the September 2017 IR.

2/ Except for ethanol, which is part of the "industrial goods" segment in the IPCA.

3/ See box [BCB's analysis and projection system](#) in the March 2023 IR.

the weight of Itaipu in each distributor. In the case of fuels, the equations remain similar to those in the previous model but now consider that the ICMS depends only on the IPCA and is only readjusted in the first quarter of each year, and that ethanol and biodiesel prices follow producer prices for gasoline and diesel oil, respectively. Some explanatory variables were also eliminated to make the model more parsimonious.

The administered prices models are continuously revised. Modifications are introduced incrementally as changes in adjustment rules items are identified, ensuring greater adherence to the dynamics of price make up. This continuous approach contributes to greater accuracy in projections and the alignment of analyses with current conditions.

Below is a brief description of the equations for the products with the greatest weight in the IPCA. Next, the impulse response functions are shown in relation to shocks to oil prices, to the exchange rate, to market prices, and to the IVDA. Finally, the detailed equations corresponding to each administered item are presented.

A) Description of the equations of selected items

Residential electricity (weight 3.78% in the IPCA)

Electricity providers have their ordinary tariff adjustments⁴ set by the Brazilian Electric Power National Agency (ANEEL) every year in the anniversary month of the concession contract. ANEEL calculates the adjustment based on the evolution of non-manageable costs, called “Share A”, and manageable costs, called “Share B”, both related to the distributors’ operation. The share of manageable costs is updated by some inflation index (usually IPCA or IGP-M). The share of non-manageable costs is made up of the cost of energy, sector charges (the largest of which is defined annually in the CDE⁵), and transmission costs.⁶

The change in energy costs depends on the type of contract: regular, long-term contracts are usually adjusted annually by inflation indexes; Itaipu energy has its price in USD adjusted annually for the subsequent year (Itaipu energy is around 8% of the energy used by captive consumers, imposing an exchange rate pass-through of around 8% on the energy cost share); and the short-term market, used to adjust differences between contracted energy and effective consumption, is remunerated by the Settlement Price (PLD).⁷

The final tariff adjustment reflects the sum of the increase of the costs of Parcels A and B, with any adjustments to compensate for differences between the projections and the values that effectively occurred in the previous period (known as “financial effects”).

The more complex components of electricity price make up, such as transmission costs and sector charges, are evaluated by the expert over the shorter-term projection horizon. The medium-term modeling for electricity therefore adopts a more simplified approach. In this model, the share of energy from Itaipu allocated to each state is considered, based on their specific contracts, while the rest of the price change is updated using the IPCA accumulated over the previous four quarters. In addition, the applied aggregate seasonality reflects the weight of each electricity provider and the weight of residential electricity in each metropolitan region that makes up the IPCA.

4/ In addition to the ordinary annual adjustment, there are (i) extraordinary adjustments, applied in exceptional situations that lead to an economic and financial imbalance in the contracts, and (ii) a tariff review, which takes place every four or five years and re-evaluates the distributors’ operating costs and investments. These two other adjustment hypotheses are not considered in the model.

5/ Economic Development Account (CDE, in Portuguese). It is a sector charge mainly designed to promote public policies in the electricity sector, such as universal access to energy, subsidies for low-income consumers, and financing for renewable sources.

6/ Part of the transmission costs is calculated annually by ANEEL, and the other part is adjusted in line with past inflation, usually IPCA or IGP-M.

7/ Settlement Price (PLD, in Portuguese), which has maximum and minimum limits set annually by ANEEL and which depends on the hourly scarcity of energy.

In addition to adjustments in electricity tariffs, the IPCA also captures tariff flags.⁸ The model described here refers only to the ordinary tariff share. The flag surcharge is evaluated in the short term by the expert. For the medium term, the pattern of the last four quarters of the expert's short-term projection is repeated seasonally, so that the accumulated projections of electricity tariffs over four quarters are not affected.

The equations used and their parameters are presented at the end of this box.

Pharmaceutical products (weigh 3.46% in the IPCA)

Drug price adjustments are regulated by the Medicines Market Regulation Chamber (CMED), which is linked to the National Health Surveillance Agency (Anvisa). CMED establishes a Maximum Consumer Price (PMC) table, and this table is adjusted annually in April using a known methodology.

The adjustment is calculated as:

$$VPP = IPCA - X + Y + Z$$

where VPP is the percentage change in price ("adjustment" of pharmaceutical products); IPCA is the rate accumulated over 12 months up to the announcement of the adjustment; Factor X is the productivity factor passed on to the consumer⁹; Factor Z is the intra-sectors relative price adjustment factor.¹⁰ Factor Y is the factor that adjusts prices between sectors.¹¹

For the sake of parsimony, the influence of factors X and Z is left out of the medium-term projections. These are variables that are difficult to predict and represent in a medium-term model, remembering that for shorter terms the projection used is that of the expert, who can make projections for these factors using a broader set of information. The Factor Y is calculated according to the following formula, which is a linear simplification of the factor's adjustment rule:

$$\begin{aligned} \text{Factor } Y_t &= c_{\text{cambio}} \left(\sum_{i=1}^4 \Delta C\grave{a}mbio_{t-i} + \sum_{i=1}^4 \Delta CPI_{t-i} - \sum_{i=1}^4 \Delta IPCA_{t-i} \right) \\ &+ c_{\text{energia}} \left(\sum_{i=1}^4 \Delta energia_ex_bandeira_{t-i} - \sum_{i=1}^4 \Delta IPCA_{t-i} \right) \end{aligned}$$

Thus, the projected adjustment is the 12-month IPCA change forecast for the immediately preceding quarter plus Factor Y. Elements of the seasonality of the pass-through over the quarters are also considered. The quarter with the greatest impact is the second of the year.

The change in the price of pharmaceutical products is then modeled as:

$$\begin{aligned} \pi_t^{\text{Produtos farmac\^euticos}} &= d_{1,t} * 0,1 * reajuste_{t-3} + d_{2,t} * 0,8 * reajuste_t + d_{3,t} * 0,05 * reajuste_{t-1} + d_{4,t} * 0,05 * reajuste_{t-2} \end{aligned}$$

where $d_{1,t}$ to $d_{4,t}$ are quarterly dummies and the constants represent the seasonality of the pass-through of the increase in the price of pharmaceutical products. The adjustment is considered to be fully passed on until the first quarter of the subsequent year.

8/ Tariff flags are an additional charge on the electricity tariff to signal to consumers the increase in the cost of energy in that month. They are set in the week before the month of application and vary according to the intensity of the shortage. In general, they can add between 2% and 10% to the basic electricity tariff.

9/ It is always greater than or equal to zero, so Factor X always does not change or reduces the calculated adjustment. Factor X is calculated by the Ministry of Finance's Secretariat for Economic Reforms based on projections of productivity gains by companies producing medicines (for details of the calculation, see the annex to the CMED Resolution 1/2015).

10/ Sectors with a higher share of generic drugs are considered more competitive and will have a higher Z Factor.

11/ For the full calculation, see the annex to the CMED Resolution 1/2015.

Health insurance (weight of 4.06% in the IPCA)

According to the IBGE Technical Note 1/2005¹², to calculate inflation for the “health insurance” sub-item, the IBGE conducts a monthly survey of the most representative health insurance companies in each region, to find out the percentage of adjustment applied to the monthly fees of the contracts that have their anniversary in the month of the survey. In practice, however, the maximum adjustment set by the National Supplementary Health Agency (ANS)¹³ for individual and family health insurance is informed.¹⁴ This annual adjustment is usually published between May and June, for application over the subsequent 12 months, according to the following formula:

$$Reajuste_A = 0,8 * IVDA_A + 0,2 * \Delta IPCA_{A-1}^{ex-plano de saúde}$$

where the subscript A represents the year in question, $IVDA_A$ is the IVDA calculated for year A, and $\Delta IPCA_{A-1}^{ex-plano de saúde}$ is the change in the previous year of the IPCA excluding health insurance. The IVDA calculation is based on the combination of the components Variation in Assistance Expenses (VDA), Efficiency Gains Factor (FGE), and Variation in Revenue by Age Group (VFE).

The IBGE incorporates this adjustment linearly in the IPCA over the subsequent 12 months, representing the fact that adjustments are applied in the anniversary month of each contract, distributed uniformly throughout the year by hypothesis.

In correspondence, in the quarterly model for health insurance inflation, one quarter of the adjustment is applied in the second quarter of the year, and the other third quarters throughout the subsequent three quarters, as in the equation below.

$$\pi_t^{plano saúde} = d_{1,t} \left(\frac{Reajuste_{A-1}}{4} \right) + \sum_{i=2}^4 d_{i,t} \frac{Reajuste_A}{4} + \varepsilon_t^{plano saúde}$$

For projecting the IVDA of the subsequent year, the expert’s judgment is used. Hence, the IVDA is represented in a simplified way in the model with a combination of inertia and indexation to the IPCA, according to the following equation of yearly periodicity:

$$IVDA_A = 0,6 * IVDA_{A-1} + (1 - 0,6) \Delta IPCA_{A-1} + \varepsilon_A^{IVDA}$$

Fuels (total weight 6.96% of the IPCA)

As in the previous versions, consumer fuel prices are projected considering the evolution of the shares that make them up. In general, these shares are the fuel dealer price, added renewable fuel, federal taxes, state taxes, and trade margin.

The behavior of fuel dealer prices is highly dependent on the Petrobras prices policy. Recently, Petrobras has changed its policy of import parity price (IPP) to consider local factors, such as the production cost in Brazil and the Petrobras participation in the market, instead of directly passing through international fluctuations.¹⁵ Nevertheless, international price changes continue to be relevant for the Brazilian price (Figure 1), which justifies maintaining them in the medium-term model.

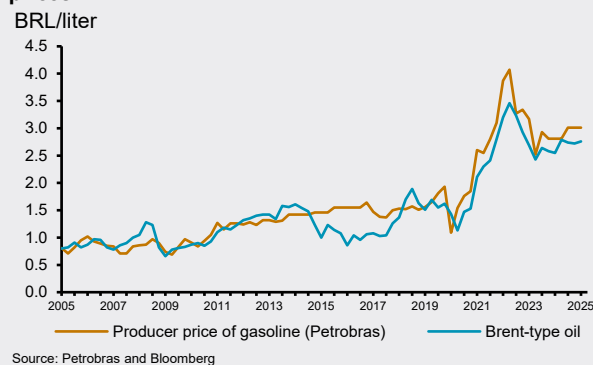
12/ See also [National Consumer Price Index System - Calculation Methods](#), 2020.

13/ The methodology for calculating the maximum adjustment and its components can be found in the annex to CMED Resolution 1/2015 and ANS Normative Resolution 441/2018.

14/ There are also other health insurance plans with a very small impact on the IPCA, called “old” because they were signed before Law 9,656 of 1998, and their adjustments are published in June/July.

15/ See [Petrobras approves gasoline and diesel commercial strategy](#) (Portuguese only), published in May 2023.

Figure 1 – Domestic producer price of gasoline and oil prices



As previously mentioned, short-term projections for fuel prices (and other administered prices) are carried out by the expert, which assesses the convergence of international fuel prices over the oil price, the convergence of Petrobras price over the international fuel price¹⁶ and other relevant factors. For the medium term, it is assumed that the relative prices of Petrobras fuels and the price of gasoline on the international market compared with the price of oil will be in equilibrium and that the changes in Petrobras price will then follow the changes in the international oil price in BRL.

As for added biofuels, it is assumed that prices follow Petrobras prices. For state taxes (ICMS), it is assumed that they are adjusted in the first quarter of each year by the previous year IPCA change. It is also assumed that federal taxes are fixed, and the trade margin follows inflation. Regarding bottled LPG (Liquefied Petroleum Gas), it is assumed that the trade margin grows exclusively in the third quarter of each year, due to the category's adjustment date.

For "vehicle natural gas", a linear regression was estimated between this variable, accumulated inflation over the last four quarters, and changes in oil prices in BRL and the "gasoline" item in the IPCA. A similar strategy was used for "piped natural gas", where the regression considered accumulated inflation over the last four quarters, changes in oil prices in BRL and the "bottled LPG" item in the IPCA.

Vehicle registration and licensing and professional council (2.69% weight at IPCA)

Vehicle registration and licensing and professional council are administered items whose adjustment is known in the first release of the year and is linearly distributed for the subsequent 11 months. For the medium term, it is assumed only past inflation for the adjustment projection. Therefore, equations for both items are the inflation of the previous year divided by four, applied in the first quarter and repeated in the subsequent three quarters

B) Generic model for the other items

The other items of administered prices were divided into two groups according to the presence or absence of any seasonality in the adjustment rule. Items with seasonality are modeled according to the equation below, where seasonal constants come from a combination of estimation with a sample starting in 2020 and judgment.

^{16/} In the sector's terminology, the convergence of the crack spread and of the lag over the PPI.

$$\pi_t^{itens\ com\ sazonalidade} = \sum_{j=1}^4 d_{j,t} c_j * \left(\sum_{i=1}^4 \Delta IPCA_{t-i} \right)$$

For the other items, the equation below is used:

$$\pi_t^{itens\ sem\ sazonalidade} = \left(\frac{1}{4} \right) * \sum_{i=1}^4 \Delta IPCA_{t-i}$$

C) Impulse response functions

This section illustrates the response of administered prices inflation to shocks, using impulse response functions. In particular, shocks to four variables were chosen: exchange rate, oil price, market prices inflation, and IVDA. The first three variables are important components in the modeling of various administered prices and therefore have a more widespread impact, while the last is a very specific item with more limited effects than the others. To fully capture the effect of a shock, even on a specific variable, it is necessary to consider feedback effects. Therefore, to compute the impulse response functions mentioned above, the administered prices model is combined with small-scale semi-structural models, both with the aggregate and the disaggregate models.¹⁷ The weights of administered items in the IPCA have been calibrated according to the values observed in the IPCA of May 2025, released by the IBGE on June 10, 2025.

In fact, as there is a seasonal pattern in the adjustments of a large share of administered prices, the response depends on the quarter when it occurs. For the sake of simplicity, the choice was to present impulse response functions of the linear version of the administered prices model, which summarize the model's behavior and allow understanding the shocks' transmission channels.

The impulse response functions presented below were computed without monetary policy response, i.e., with the Selic rate kept unchanged throughout the entire horizon of the exercise. This procedure allows to clearly visualize the shocks' transmission channels in the absence of a monetary authority's response.

a) Shock on the exchange rate

This exercise verifies what occurs to the projection for administered prices after a permanent increase of 10% in the USD/BRL exchange rate. After four quarters, administered prices reach the maximum effect of around 1.8 p.p. in the four-quarter rate (Figures 2a and 2b). The exchange rate is also passed through to market prices, which reach the maximum effect of around 0.70 p.p. in the four-quarter period, both in the aggregate and disaggregate models. It should be noticed that the impact on administered prices comes especially through the items more sensitive to the exchange rate, such as fuels, medicines, and electricity. As for other items (for instance, health insurance), the effects are indirect through indexation of past inflation. For the IPCA, the 10% exchange rate increase leads to a 1.0 p.p. rise after four quarters.

17/ See box [Updating of small-scale semi-structural models](#) in the June 2024 IR.

Figure 2a – Inflation response to the exchange rate shock

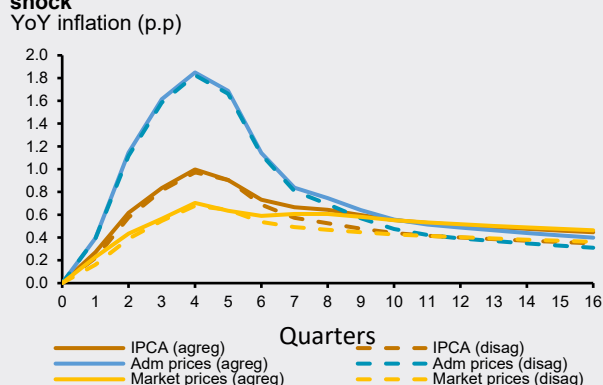
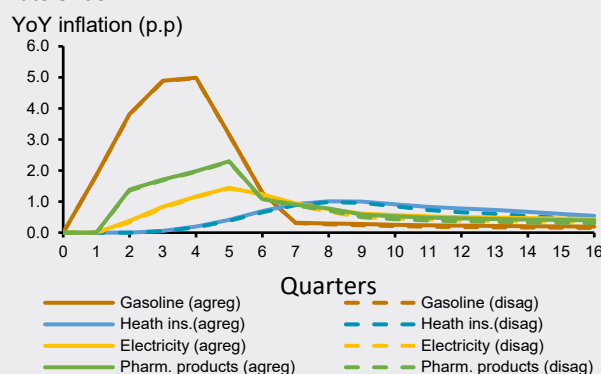


Figure 2b – Selected itens responses to the exchange rate shock



b) Shock on the oil price

A permanent increase of 10% in the Brent-type oil in USD leads to an increase of around 1.3 p.p. in administered prices (Figures 3a and 3b). Oil price affects directly the composition of prices of gasoline, bottled LPG, diesel oil, piped natural gas, and vehicle natural gas. However, the pass-through of each of these prices depends on an individual dynamic. The impact of oil price is stronger on the diesel oil price, since the tax share of diesel oil is lower. However, it is noteworthy that the weight of diesel oil in the IPCA is much lower than that of gasoline (0.25% versus 5.24%). In the fourth quarter, the approximate pass-through is 50% for gasoline and 20% for bottled LPG. The pass-through for bottled LPG is smaller because, given its characteristics, the cost of distribution and trade is proportionally much higher.

Figure 3a – Inflation response to na oil shock

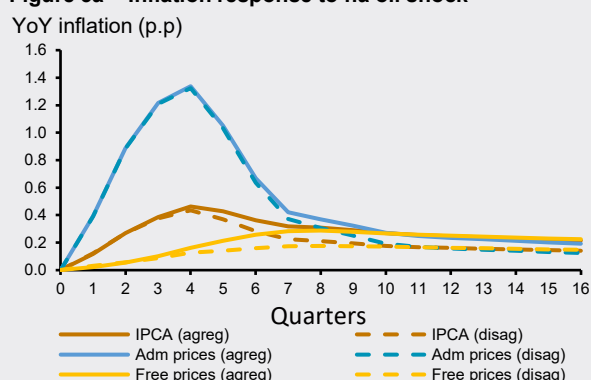
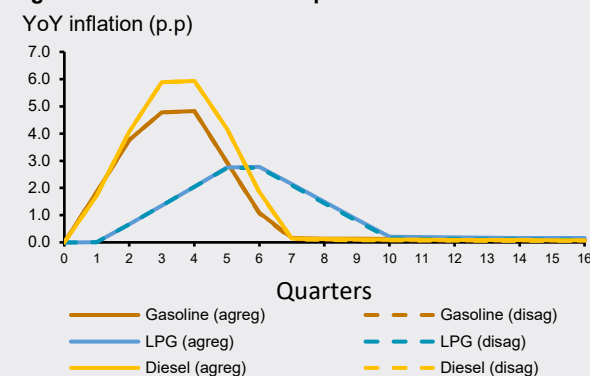


Figure 3b – Selected itens responses to an oil shock



c) Market prices inflation shock

A shock of 1.0 p.p. in market prices inflation also affects administered prices (Figures 4a and 4b). In this case, the shock is applied to the Phillips curve (in the curve of market prices, for the aggregate model, and equally in the three curves of services, industrial goods, and food-at-home, for the disaggregate model). The main transmission channel of market prices inflation to administered prices is indirect through indexation to past inflation. It is noteworthy that the gasoline response is little affected by the shock, as this item is less indexed to past inflation. Conversely, health insurance shows a stronger and more lagged response, due the high inertia of its indexation rule. In general, the indexation mechanisms of administered prices mean that their aggregate index responds more slowly and more persistently than market prices. Five quarters after the shock, when the effect on four-quarter inflation of market prices has already dissipated, the response of inflation in administered prices exceeds that of market prices.

Figure 4a – Inflation response to a shock in market prices

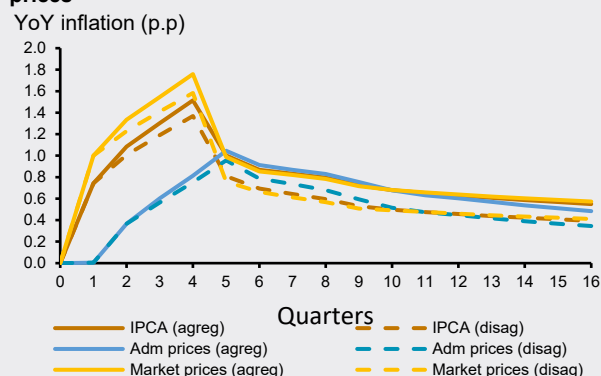
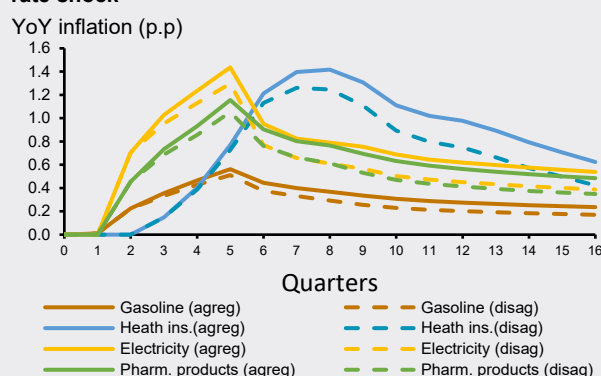


Figure 4b – Selected itens responses to the exchange rate shock



d) IVDA shock

To illustrate how an idiosyncratic shock on a particular item of administered prices spreads to the other IPCA items, an exercise where the IVDA increases 1.0 p.p. is presented. As the IVDA is included in the adjustment rule of health insurance with a weight of 0.8, the four-quarter impact on health insurance prices reaches 0.8 p.p., increasing directly the inflation index of administered prices (increase of 0.14 p.p.) and indirectly the inflation index of market prices (maximum of 0.02 p.p. after eight quarters). Therefore, the effect of the shock on the total IPCA is mostly direct, with a maximum impact of 0.04 p.p. after four quarters.

Figure 5a – Inflation response to a IVDA shock

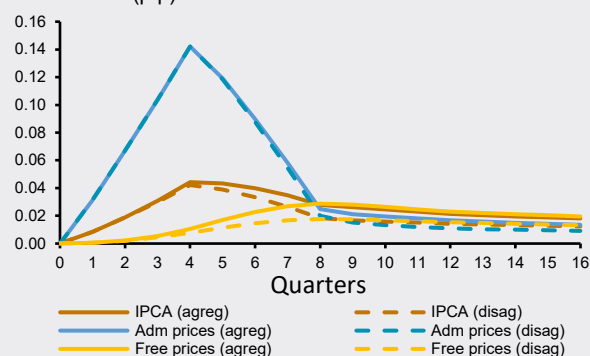
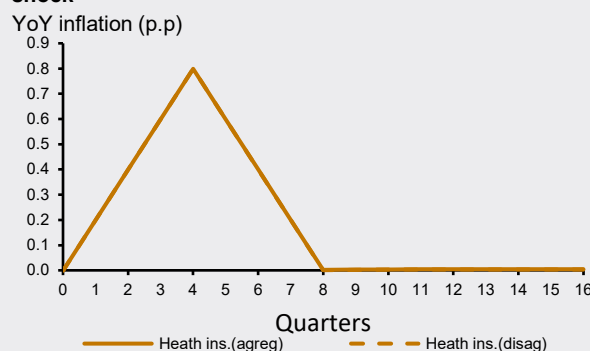


Figure 5b – Health insurance response to na IVDA shock



D) Conclusion

Administered price models presented in this box seek to summarize the dynamics and methodologies of the administered prices composition in Brazil. It is noteworthy that specifications have relevant simplifications for the short term, which are, however, acceptable for the medium-term convergence dynamics. When there is available information for more distant projections, the horizon considered by experts can be extended¹⁸, incorporating these elements in the scenario analysis.

It should be also highlighted that the models described are constantly evolving. Incremental changes can be implemented timely as changes are identified in the adjustment mechanisms and calculation methodologies. This continuous process makes it possible to incorporate new data and adjust the specifications to reflect the best current conditions to build consistent and relevant projection scenarios.

¹⁸/ Or possibly shortened if the evaluation indicates that there is no informational advantage for the expert.

Summary table: Equations for administered prices

The table below also gives, along with the name of the administered item, its respective code and weight in the composition of the IPCA. The weight is the value released for the IPCA in May 2025.

Administered item	Equation	Parameters used
Gasoline (cod. 5104001) (weight 5.24%)	$\Delta Petrobras_t = \sum_{i=0}^3 c_i (\Delta Petroleo_{t-i} + \Delta Câmbio_{t-i}) + \varepsilon_t^{\Delta Petrobras}$ $\Delta Etanol_t = \Delta Petrobras_t + \varepsilon_t^{\Delta Etanol}$ $\Delta ICMS_t = d_{1,t} * \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\Delta ICMS}$ $\Delta Impostos\ federais_t = \varepsilon_t^{\Delta Impostos\ federais}$ $\Delta Margem_t = \frac{1}{4} * \left[\left(\frac{2}{3} \right) \sum_{i=1}^4 \Delta IPCA_{t-i} + \left(\frac{1}{3} \right) \sum_{i=0}^3 \Delta IPCA_{t-i} \right] + \varepsilon_t^{\Delta Margem}$ $\pi_t^{Gasolina} = p_1 * \Delta Petrobras_t + p_2 * \Delta Etanol_t + p_3 * \Delta ICMS_t + p_4 * \Delta Impostos\ federais_t + p_5 * \Delta Margem_t + \varepsilon_t^{\pi^{Gasolina}}$	$c_0 = 0,4$ $c_1 = 0,4$ $c_2 = 0,2$ $c_3 = 1 - c_0 - c_1 - c_2$ $p_1 = 0,35$ $p_2 = 0,13$ $p_4 = 0,11$ $p_5 = 0,17$ $p_3 = 1 - p_1 - p_2 - p_4 - p_5$
Health insurance (cod. 6203) (weight 4.06%)	$IVDA_A = a * IVDA_{A-1} + (1 - a) IPCA_{A-1} + \varepsilon_A^{IVDA}$ $Reajuste_A = 0,8 * IVDA_A + 0,2 * \Delta IPCA_{A-1}^{ex\ plano\ saude}$ $\pi_t^{Plano\ saude} = d_{1,t} \left(\frac{Reajuste_{A-1}}{4} \right) + \sum_{i=2}^4 d_{i,t} \frac{Reajuste_A}{4}$	$a = 0,6$
Residential electricity (cod. 2202003) (weight 3.78%)	$\pi_t^{Energia} = \pi_t^{Energia\ ex-band} + \pi_t^{bandeira}$ $\pi_t^{bandeira} = -(\pi_{t-1}^{bandeira} + \pi_{t-2}^{bandeira} + \pi_{t-3}^{bandeira}) + \varepsilon_t^{bandeira}$ $\pi_t^{Energia\ ex-band} = (1 - \alpha_{Itaipu} \alpha_{energia}) * \left(\sum_{j=1}^4 d_{j,t} c_j \sum_{i=1}^4 \Delta IPCA_{t-i} \right) + \alpha_{Itaipu} \alpha_{energia} * \sum_{j=1}^4 d_{j,t} c_{Itaipu_j} \sum_{i=1}^4 (\Delta Itaipu_{t-i} + \Delta Câmbio_{t-i}) + \varepsilon_t^{Energia\ ex-band}$ $\Delta Itaipu_t = d_{1,t} * \sum_{i=1}^4 \Delta CPI_{t-i}^{USA} + \varepsilon_t^{\Delta Itaipu}$	$\alpha_{Itaipu} = 0,086$ $\alpha_{energia} = 0,6$ $c_1 = 0,08$ $c_2 = 0,40$ $c_3 = 0,42$ $c_4 = 1 - c_1 - c_2 - c_3$ $c_{Itaipu_1} = 0,1$ $c_{Itaipu_2} = 0,35$ $c_{Itaipu_3} = 0,42$ $c_{Itaipu_4} = 1 - c_{Itaipu_2} - c_{Itaipu_3} - c_{Itaipu_4}$

Pharmaceutical products (cod. 6101) (weight 3.46%)	$Fator X_t = \varepsilon_t^{FatorX}$ $Fator Z_t = \varepsilon_t^{FatorZ}$ $Fator Y_t = \left[c_{cambio} \left(\sum_{i=1}^4 \Delta C\grave{a}mbio_{t-i} + \sum_{i=1}^4 \Delta CPI_{t-i}^{USA} - \sum_{i=1}^4 \Delta IPCA_{t-i} \right) + c_{energia} \left(\sum_{i=1}^4 \pi_{t-i}^{Energia\ ex-b\grave{a}nd} - \sum_{i=1}^4 \Delta IPCA_{t-i} \right) \right] + \varepsilon_t^{FatorY}$ $reajuste_t = \sum_{i=1}^4 \Delta IPCA_{t-i} - Fator X_t + Fator Y_t + Fator Z_t$ $\pi_t^{produtos\ farmac\^euticos} = d_{1,t} c_{rep,1} * reajuste_{t-3} + d_{2,t} c_{rep,2} * reajuste_t + d_{3,t} c_{rep,3} * reajuste_{t-1} + d_{4,t} c_{rep,4} * reajuste_{t-2} + \varepsilon_t^{produtos\ farmac\^euticos}$	$c_{C\grave{a}mbio} = 0,15$ $c_{Energia} = 0,07$ $c_{rep,1} = 0,1$ $c_{rep,2} = 0,8$ $c_{rep,3} = 0,05$ $c_{rep,4} = 1 - c_{rep,1} - c_{rep,2} - c_{rep,3}$
Vehicle registration and license fee (cod. 5102004) (weight 2.69%)	$\pi_t^{Emplacamento} = d_{1,t} * \left(\frac{1}{4} \right) * \sum_{i=1}^4 \Delta IPCA_{t-i} + \sum_{i=2}^4 d_{i,t} \pi_{t-i}^{Emplacamento} + \varepsilon_t^{Emplacamento}$	
Water and sewage fee (cod. 2101004) (weight 1.84%)	$\pi_t^{Taxa\ \acute{a}gua\ e\ esgoto} = \sum_{j=1}^4 d_{j,t} c_j \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{Taxa\ \acute{a}gua\ e\ esgoto}$	$c_1 = 0,19$ $c_2 = 0,50$ $c_3 = 0,09$ $c_4 = 1 - c_1 - c_2 - c_3$
Bottled LPG (cod. 2201004) (weight 1.25%)	$\Delta Petrobras_t^{GLP} = \sum_{i=0}^5 c_i (\Delta Petroleo_{t-i} + \Delta C\grave{a}mbio_{t-1}) + \varepsilon_t^{Petrobras, GLP}$ $\Delta ICMS_t^{botij\tilde{a}o} = d_{1,t} * \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{ICMS, botij\tilde{a}o}$ $\Delta Impostos\ federais_t^{botijao} = \varepsilon_t^{ImpFed, botij\tilde{a}o}$ $\Delta Margem_t^{botij\tilde{a}o} = d_{3,t} * \left[\left(\frac{2}{3} \right) \sum_{i=1}^4 \Delta IPCA_{t-i} + \left(\frac{1}{3} \right) \sum_{i=0}^3 \Delta IPCA_{t-i} \right] + \varepsilon_t^{\Delta Margem, botij\tilde{a}o}$ $\pi_t^{G\acute{a}s\ botij\tilde{a}o} = p_1 * \Delta Petrobras_t^{GLP} + p_3 * \Delta ICMS_t^{botij\tilde{a}o} + p_4 * \Delta Impostos\ federais_t^{botijao} + p_5 * \Delta Margem_t^{botij\tilde{a}o} + \varepsilon_t^{\pi^{botijao}}$	$c_0 = 0,0$ $c_1 = 0,2$ $c_2 = 0,2$ $c_3 = 0,2$ $c_4 = 0,2$ $c_5 = 0,2$ $p_1 = 0,32$ $p_4 = 0$ $p_5 = 0,51$ $p_3 = 1 - p_1 - p_4 - p_5$
Urban bus (cod. 5101001) (weight 1.12%)	$\pi_t^{\hat{o}nibus\ urbano} = \sum_{j=1}^4 d_{j,t} c_j \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\pi^{\hat{o}nibus\ urbano}}$	
Lottery (cod. 7201063) (weight 0.44%)	$\pi_t^{logos\ de\ azar} = \left(\frac{1}{4} \right) * \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\pi^{logos\ de\ azar}}$	

Inter-municipal bus (cod. 5101006) (weight 0.41%)	$\pi_t^{\hat{\text{onibus intermunicipal}}} = \sum_{j=1}^4 d_{j,t} c_j \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\pi^{\hat{\text{onibus intermunicipal}}}}$	$c_1 = 0,55$ $c_2 = 0,14$ $c_3 = 0,18$ $c_4 = 1 - c_1 - c_2 - c_3$
Diesel oil (cod. 5104003) (weight 0.25%)	$\Delta Petrobras_t^{diesel} = \sum_{i=0}^3 c_i (\Delta Petroleo_{t-i} + \Delta Câmbio_{t-1}) + \varepsilon_t^{\Delta Petrobras^{diesel}}$ $\Delta Biodiesel_t = \Delta Petrobras_t$ $\Delta ICMS_t^{diesel} = d_{1,t} * \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\Delta ICMS^{diesel}}$ $\Delta Impostos federais_t^{diesel} = \varepsilon_t^{\Delta Impostos federais^{diesel}}$ $\Delta Margem_t^{diesel} = \left(\frac{1}{4}\right) * \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\Delta Margem^{diesel}}$ $\pi_t^{\hat{\text{leo diesel}}} = p_1 * \Delta Petrobras_t + p_2 * \Delta Biodiesel_t + p_3 * \Delta ICMS_t + p_4 * \Delta Impostos federais_t + p_5 * \Delta Margem_t + \varepsilon_t^{\pi^{\hat{\text{leo diesel}}}}$	$c_0 = 0,3$ $c_1 = 0,4$ $c_2 = 0,3$ $c_3 = 1 - c_0 - c_1 - c_2$ $p_1 = 0,468$ $p_2 = 0,125$ $p_4 = 0,05$ $p_5 = 0,184$ $p_3 = 1 - p_1 - p_2 - p_4 - p_5$
Land-line telephone plan (cod. 9101002) (weight 0.22%)	$\pi_t^{\text{Plano telefonia fixa}} = \left(\frac{1}{4}\right) * \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\pi^{\text{Plano telefonia fixa}}}$	
Taxi (cod. 5101002) (weight 0.20%)	$\pi_t^{\text{Taxi}} = \sum_{j=1}^4 d_{j,t} c_j \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\pi^{\text{Taxi}}}$	$c_1 = 0,48$ $c_2 = 0,31$ $c_3 = 0,04$ $c_4 = 1 - c_1 - c_2 - c_3$
Piped natural gas (cod. 2201005) (weight 0.15%)	$\pi_t^{\text{Gás encanado}} = \beta_1 \frac{1}{4} \left(\sum_{i=1}^4 \Delta IPCA_{t-i} \right) + \beta_2 \pi_{t-1}^{\text{Gás de botijão}} + \beta_3 \sum_{i=1}^4 (\Delta Petrôleo_{t-i} + \Delta Câmbio_{t-i}) + \varepsilon_t^{\pi^{\text{Gás encanado}}}$	$\beta_1 = 0,55$ $\beta_2 = 0,25$ $\beta_3 = 0,05$
Interstate bus (cod. 5101007) (weight 0.11%)	$\pi_t^{\hat{\text{onibus interestadual}}} = \sum_{j=1}^4 d_{j,t} c_j \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\pi^{\hat{\text{onibus interestadual}}}}$	$c_1 = 0,17$ $c_2 = 0,02$ $c_3 = 0,06$ $c_4 = 1 - c_1 - c_2 - c_3$
Traffic fines (cod. 5102006) (weight 0.088%)	$\pi_t^{\text{Multa}} = \left(\frac{1}{4}\right) * \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{\pi^{\text{Multa}}}$	

Toll (cod. 5102015) (weight 0.087%)	$\pi_t^{Pedágio} = \sum_{j=1}^4 d_{j,t} c_j \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{Pedágio}$	$c_1 = 0,22$ $c_2 = 0,04$ $c_3 = 0,42$ $c_4 = 1 - c_1 - c_2 - c_3$
Vehicle natural gas (cod. 5104005) (weight 0.070%)	$\begin{aligned} \pi_t^{Gás\ veicular} &= \beta_1 \left(\sum_{i=1}^4 \Delta IPCA_{t-i} \right) + \beta_2 \pi_{t-1}^{Gasolina} + \beta_3 \pi_{t-2}^{gasolina} \\ &+ \sum_{i=1}^3 \gamma_i (\Delta Petr\acute{o}leo_{t-i} + \Delta C\grave{a}mbio_{t-i}) + \varepsilon_t^{Gás\ veicular} \end{aligned}$	$\beta_1 = 0,5$ $\beta_2 = 0,1$ $\beta_3 = 0,2$ $\gamma_1 = 0,1$ $\gamma_2 = 0,05$ $\gamma_3 = 0,05$
Subway (cod. 5101011) (weight 0.066%)	$\pi_t^{Metr\hat{o}} = \sum_{j=1}^4 d_{j,t} c_j \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{Metr\hat{o}}$	$c_1 = 0,38$ $c_2 = 0,58$ $c_3 = 0,04$ $c_4 = 1 - c_1 - c_2 - c_3$
Postal services (cod. 9101011) (weight 0.065%)	$\pi_t^{Correio} = \sum_{j=1}^4 d_{j,t} c_j \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{Correio}$	$c_1 = 0,17$ $c_2 = 0,83$ $c_3 = 0$ $c_4 = 1 - c_1 - c_2 - c_3$
Integrated public transport (cod. 5101053) (weight 0.052%)	$\pi_t^{Integra\c{c}\tilde{a}o} = d_{1,t} \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{integracao}$	
Professional council (cod. 7101090) (weight 0.048%)	$\begin{aligned} \pi_t^{Conselho\ de\ classe} &= \frac{1}{4} d_{1,t} \sum_{i=1}^4 \Delta IPCA_{t-i} + \sum_{i=2}^4 d_{i,t} \pi_{t-1}^{Conselho\ de\ classe} + \varepsilon_t^{Conselho\ de\ classe} \end{aligned}$	
Train (cod. 5101004) (weight 0.038%)	$\pi_t^{Trem} = d_{1,t} \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{trem}$	
Notary (cod. 7101034) (weight 0.023%)	$\pi_t^{Cart\acute{o}rio} = d_{1,t} \sum_{i=1}^4 \Delta IPCA_{t-i} + \varepsilon_t^{cartorio}$	



Appendix

Monetary Policy Committee (Copom)

Members

Governor

Gabriel Muricca Galípolo

Deputy Governor

Ailton de Aquino Santos

Deputy Governor

Diogo Abry Guillen

Deputy Governor

Gilneu Francisco Astolfi Vivan

Deputy Governor

Izabela Moreira Correa

Deputy Governor

Nilton José Schneider David

Deputy Governor

Paulo Picchetti

Deputy Governor

Renato Dias de Brito Gomes

Deputy Governor

Rodrigo Alves Teixeira

Departments whose heads are responsible for technical presentations at Copom meetings (Resolution 61/2021)

International Affairs Department – Derin

Marcelo Antônio Thomaz de Aragão

Department of Economics – Depec

Ricardo Sabbadini

Research Department – Depep

André Minella

Department of Banking Operations and Payments System – Deban

Fábio Martins Trajano de Arruda

Open Market Operations Department – Demab

André de Oliveira Amante

Department of Foreign Reserves – Depin

Luís Guilherme Siciliano Pontes

Acronyms

ANEEL	Brazilian Electricity Regulatory Agency
Anvisa	National Health Surveillance Agency
BCB	Banco Central do Brasil
BNDES	Brazilian Development Bank
BoE	Bank of England
CCT	Collective Bargaining Agreements
CDE	Energy Development Account
CMED	Chamber for the Pharmaceutical Market Regulation
CMN	National Monetary Council
Comef	Financial Stability Committee
Continuous PNAD	Continuous National Household Sample Survey
Copom	Monetary Policy Committee
Covid-19	Coronavirus disease 2019
Depec	Department of Economics
Depep	Research Department
Derin	International Affairs Department
Dstat	Department of Statistics
ECB	European Central Bank
EP	Employed Population
FCI	Financial Conditions Index
Fed	Federal Reserve
FGTS	Employment Compensation Fund
FGV	Getulio Vargas Foundation
FOMC	Federal Open Market Committee
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GGGD	Gross General Government Debt
GVA	Gross Value Added
HAC	Heteroskedasticity and autocorrelation
IBC-Br	Central Bank Economic Activity Index
IBGE	Brazilian Institute of Geography and Statistics
IC-Br	Commodities Index – Brazil
ICMS	State Value-Added Tax on Sales and Services
IOF	Financial Operations Tax
IPA-DI	Producer Price Index – Domestic Supply
IPCA	Extended National Consumer Price Index
IVDA	Assistance Expenses Value Index
LDO	Budget Guidelines Law
LOA	Annual Budget Law
LPR	Loan Prime Rate
MDIC	Ministry of Development, Industry, Foreign Trade and Services

Mediator	Labor Collective Bargaining System
MF	Ministry of Finance
MSCI	Morgan Stanley Capital Index
MTE	Ministry of Labor and Employment
New Caged	New General Registry of Employed and Unemployed Persons
Nuci	Industry Installed Capacity Usage Level
OLS	Ordinary Least Square
OPEC+	Organization of the Petroleum Exporting Countries Plus
p.a.	Per annum
p.p.	Percentage points
PBC	People's Bank of China
PCQ	Pre-COPOM Questionnaire
PEAC	Emergency Employment Support Program
PIM	Monthly Industrial Survey
PLDO	Budget Guidelines Bill
PLOA	Annual Budget Bill
PMC	Monthly Survey of Trade
PMS	Monthly Survey of Services
PPI	Producer Price Index
PPP	Purchasing Power Parity
Pronampe	National Program for the Support of Micro and Small Businesses
QNA	Quarterly National Accounts
RARD	Assessment Report of Primary Revenues and Expenses
s.a.	Seasonally adjusted data
SCN	System of National Accounts
Selic	Special System for Clearance and Custody
SFN	National Financial System
SGS	Time Series Management System
STF	Federal Supreme Court
TJLP	Long-Term Interest Rate
TLP	Long-Term Rate
U.S.	United States of America
VIX	Chicago Board Options Exchange Volatility Index
WAP	Working Age Population