ISSN 1517-7289

Monetary Policy Report

Volume 1 | Number 3 | September 2025

BANCO CENTRAL DO BRASIL

Monetary Policy Report

Volume 1 | Number 3 | September 2025

ISSN 1517-7289
CNPJ 00.038.166/0001-05

Monetary Policy Report | Brasília | v. 1 | nr. 3 | Sep. | 2025 | p. 1-104

Monetary Policy Report

Quarterly publication of the Monetary Policy Committee (Copom), according to Decree 12,079 of June 26, 2024.

The following departments are responsible for the English version of the text and the respective tables and figures:

– **Department of Economics (Depec)**
(E-mail: depec@bcb.gov.br);

– **Research Department (Depep)**
(E-mail: depep@bcb.gov.br);

– **International Affairs Department (Derin)**
(E-mail: derin@bcb.gov.br); and

– **Department of Statistics (Dstat)**
(E-mail: dstat@bcb.gov.br).

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.

Hiphen 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.

Contact us:

Banco Central do Brasil
Institutional Relations Department – Deati
SBS – Quadra 3 – Bloco B – Edifício-Sede – 1º subsolo
70074-900 Brasília – DF
Internet: <https://www3.bcb.gov.br/faleconosco/#/contact-us>

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).

Errata

On November 6, 2025, the description of the filters used to estimate the number of home delivery platform workers, presented in the last sentence of the second-to-last paragraph of the first page of the box "Effects of app-based work on the labor market", was supplemented to more accurately reflect the methodology adopted.

Contents

Executive summary

The global environment remains adverse and continues to require caution from emerging market economies amid heightened geopolitical tensions. The scenario is uncertain due to the economic policy and economic outlook in the United States (U.S.). Therefore, the behavior and the volatility of different asset classes have been impacted, altering global financial conditions.

Regarding the domestic scenario, the set of indicators on economic activity shows some moderation in growth, as expected, while the labor market is still showing strength. The GDP grew 0.4% in 2025Q2, following a 1.3% increase in 2025Q1, with a decline in the growth rate in less cyclical economic sectors, while the growth pace was maintained in more cyclical sectors. The unemployment rate, in turn, declined again, from April to July, to 5.7%, renewing the low of the time series. The projected GDP growth for 2025 was slightly revised downward, from 2.1% to 2.0%. The growth projection for 2026 is 1.5%.

Despite some decline since the previous MPR, consumer price inflation remained above the target, and inflation expectations continued deanchored. The 12-month inflation, measured by the Extended National Consumer Price Index (IPCA), declined from 5.32% in May to 5.13% in August. Regarding the short-term projections presented in the previous MPR, there was a significant downward surprise (-0.59 p.p.), which mainly reflected the distribution of the Itaipu bonus in a month different from the expected. The inflation decline in the period also reflects deceleration in food-at-home and industrial goods prices, partially reflecting the BRL appreciation since the beginning of 2025. Conversely, services inflation remains under pressure, in a context still characterized by a heated labor market and a positive output gap.

In the reference scenario projections, inflation remains above the upper limit of the target tolerance interval in the next months and then, despite following a downward trend begun in 2025Q2, remains above the inflation target. In this scenario, after remaining in the 5.3%-5.5% range in the first three quarters of 2025, four-quarter inflation declines to 4.8% by the end of this year, 3.6% in 2026, and 3.1% in the last period considered, referring to 2028Q1. In the relevant horizon for monetary policy, considered to be 2027Q1, the projected inflation is 3.4%. Inflation projections represent Copom's view and are conditional on a set of variables, such as the trajectories of the Selic rate from the Focus survey and the exchange rate based on the purchasing power parity (PPP) theory. In this MPR, projections use the set of information available until the 273rd Copom meeting held on September 16-17, 2025.

Compared with the previous MPR, inflation projections decreased slightly for 2025 and remained stable for the relevant horizon for monetary policy. The projection for 2025 fell by 0.1 p.p. In the relevant horizon for monetary policy, considered to be 2027Q1, the projected inflation remained stable. Among the upside inflation factors, the dynamism of the labor market – in a positive output gap context – and the increase in the projection of residential electricity stand out, and, as downside factors, the BRL appreciation and the reduction in inflation expectations.

At its more recent meeting (273rd meeting), Copom announced:

The Committee continues to monitor the announcements on tariffs by the USA to Brazil, and how the developments on domestic fiscal policy impact monetary policy and financial assets, reinforcing its cautious stance in a scenario of heightened uncertainty. 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 maintain the Selic rate at 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.

The current scenario, marked by heightened uncertainty, requires a cautious stance in monetary policy. The Committee will remain vigilant, evaluating whether maintaining the interest rate at its current level for a very prolonged period will be enough to ensure the convergence of inflation to the target. The Committee emphasizes that future monetary policy steps can be adjusted and that it will not hesitate to resume the rate hiking cycle if appropriate.

1 Economic outlook

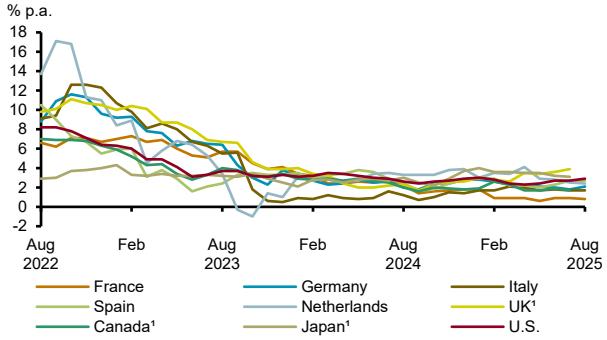
This chapter of the MPR analyzes the recent developments in the economic environment, considering both the international and domestic scenarios, as well as the outlook for the country's economy in the coming quarters. The assessment of the international scenario addresses the major advanced and emerging 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 adverse and particularly uncertain, as the implications of the repositioning of global trade policies are not yet fully understood. Neither are the resulting adjustments fully defined. Despite the conclusion of trade agreements and the entry into force of the reciprocal and sectoral tariffs announced by the U.S. in the first half of the year, uncertainty persists and is likely to remain elevated, with confidence indicators reflecting continued pessimism. Furthermore, the consolidation of this external uncertain environment occurs in a period in which the disinflation process in leading economies remains incomplete and progressing slowly (Figure 1.1.1), and economic activity shows signs of slowing down. Revised U.S. labor market data revealed that underlying weaknesses were more pronounced than previously estimated through July. Although international trade through June does not indicate a broad-based deterioration, the data point to increased volatility and a loss of momentum. These factors weigh on the balance of risks and reinforce uncertainty in the economic scenario. Accordingly, the calibration of monetary and fiscal policies seeks to also incorporate in their response functions the estimates of the lasting effects of the repositioning of trade policies, allowing for a more informed assessment of the evolving outlook.

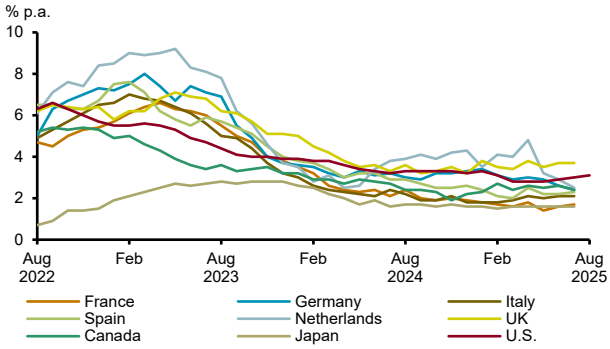
More recent readings continue pointing to a slow convergence of inflation indicators in leading advanced economies, although it has been observed some transmission from the higher prices of imported goods. Inflation has converged to the target in some specific economies, such as in the euro area and in Canada, but remains persistent in the United Kingdom and shows signs of renewed upward pressure in the U.S. In many economies, core inflation remains above the target (Figure 1.1.2), and the pace of convergence has slowed down. Favorable labor markets performance contributes to the persistence of core inflation, especially of the services sector component, while the first signs of tariff-related effects on goods prices are beginning to emerge. Nonetheless, in recent months, the increase of food inflation has stabilized, relieving the upward pressure on headline indexes, while energy prices have continued contributing positively to disinflation. The prospective consumer inflation dynamics are conditioned by the distribution of the increase in costs associated with tariffs. The less exporters, importers, intermediaries, and, finally, retailers absorb these pressures, the greater the pass-through will be. Preliminary signs are mixed, with differences by sector and by origin, and are distorted by the observed front-loading of imports and the associated buildup of precautionary inventories. Nevertheless, there is a convergence between historical experience and collected expectations to suggest that further effects of tariffs will be felt gradually and steadily over the coming quarters.

Figure 1.1.1 – CPI – Advanced economies



Source: Bloomberg
1/ Until July 2025.

Figure 1.1.2 – CPI core – Advanced economies¹

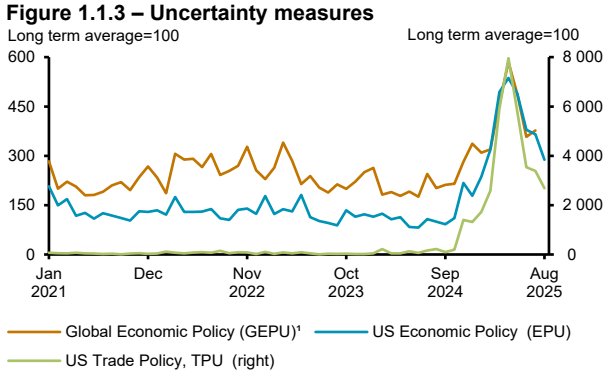


Source: Bloomberg
1/ U.S. until August 2025. Other countries until July 2025.

In advanced economies, inflation expectations have moved in divergent directions, partly reflecting recent prices dynamics. In the U.S., short-term expectations have risen while long-term expectations have edged up moderately, influenced by the anticipated impact of the new trade policy. In other advanced economies, expectations have declined slightly amid the perception that a reduction in international trade volumes and weaker economic activity would exert a deflationary effect on those economies. The relative contributions of supply- and demand-driven shocks tend to vary across countries. Although the effects of tariffs are starting to materialize, the net effects on tariffs prices, as well as their intertemporal distribution, remain highly uncertainty. In emerging market economies, where economic activity and labor markets remain robust, inflation expectations have also moved in divergent directions, with Latin America contrasting with more subdued expectations in Eastern Europe and Asia.

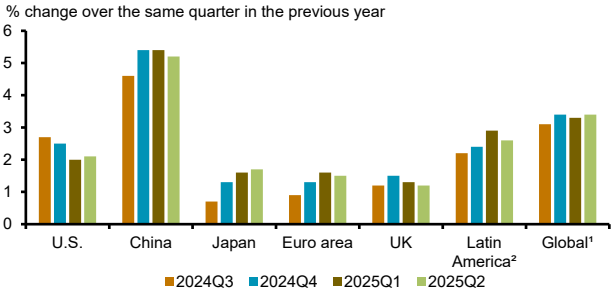
Global economic activity remained resilient through 2025Q2, although some indicators point to a gradual deceleration. Amid persistently high uncertainty (Figure 1.1.3), risks of a sharper slowdown have increased. The anticipation moves to the new U.S. tariffs, which fueled activity in 2025Q1, seem to have dissipated in 2025Q2. This trend continued in the early months of 2025Q3. A labor market that, albeit weaker, remains relatively balanced, together with solid household and corporate balance sheets, recovering real incomes and sustained household consumption, continues to provide support to growth at the margin. Manufacturing, which was already struggling to maintain sustainable growth, has become one of the sectors most exposed to the new trade policies, while investment in the technology sector is expanding rapidly, with a particular focus on artificial intelligence. More recently, the still restrictive monetary stance, concerns over public debt sustainability in several economies, and lingering uncertainties related to U.S. trade policy have all contributed to the moderation in activity (Figure 1.1.4). In the short and medium term, divergent productivity growth across countries, rising indebtedness trend, and risks of financial fragmentation are key factors heightening uncertainty around growth and inflation. In the long term, structural trends such as indebtedness and demography contribute to reducing potential growth and increasing neutral interest rates in major economies.

Figure 1.1.3 – Uncertainty measures



Source: Bloomberg
1/ Weighted by the purchasing power parity (PPP). Until July 2025.

Figure 1.1.4 – GDP growth
From 2024Q3 to 2025Q2



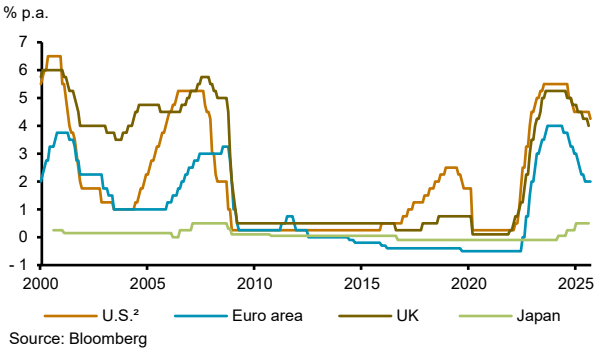
Sources: Bloomberg, BCB
1/ Calculated as described in the box "Projections and macroeconomic analysis model of the global economy" in the September 2022 IR.
2/ Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

Most central banks in advanced economies continue to ease monetary policy (Figure 1.1.5). Heightened uncertainty, risks to activity, signs of softening labor markets, and the already restrictive stance of monetary policy justify these movements. Nonetheless, central banks have reiterated their commitment to promote the convergence of inflation to target. In contrast, long-term interest rates in several advanced economies have continued to increase. The steepening of yield curves stands in contrast to the USD depreciation and the recovery of risk assets since April, including equities and corporate debt, thus leading to an easing of financial conditions through mid-September.

U.S. economic activity growth accelerated in 2025Q2 after declining in 2025Q1, mainly reflecting the unwinding of front-loaded imports amid heightened uncertainty over the introduction of new import tariffs. Real GDP grew at an annual rate of 3.3% in 2025Q2. Despite oscillating over the last two quarters, the overall outlook points to a moderation in domestic demand. Household consumption, the main expenditure component, has been volatile throughout the year, with a deceleration trend. A softening labor market and declining confidence have contributed to that trend. Fixed investment accommodated in 2025Q2, influenced by swings in capital goods imports. Residential investment remains subdued, with housing demand constrained by mortgage rates near multi-decade highs. High uncertainty about tariffs, still tight credit conditions, the depletion of household liquidity, and the persistence of confidence indicators at low levels reinforce expectations of a slowdown in activity going forward.

There is evidence of labor market accommodation in recent months, reflecting the balance still observed between supply and demand. Net hiring has been weak following downward revisions of early 2025 data and modest gains in recent months, averaging 29,000 jobs over the three months through August (total average of 135,000 in 2025 and 168,000 in 2024). The unemployment rate in August was 4.3%, still historically low and close to the oscillation range over the last twelve months and to the estimated equilibrium level. This rate reflects a sluggish demand for workers concomitantly with a labor supply decline that has been observed since early 2025, mainly driven by the reduction in the share of foreign workers in the labor force (Figure 1.1.6). The participation rate has been declining throughout 2025. Nominal wages have continued to grow at high rates, with a moderate deceleration (3.7% p.a. in August[1]), mitigated in real terms (0.7% p.a.) by inflation above the target.

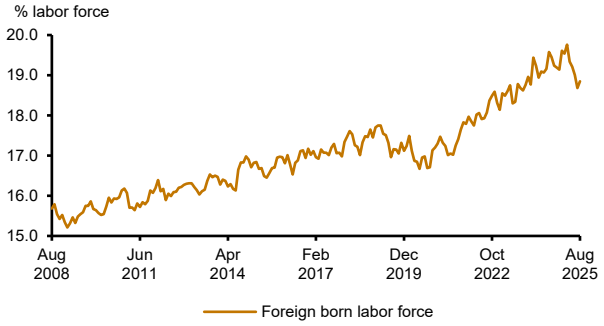
Figure 1.1.5 – Monetary policy rates[1]



Source: Bloomberg

1/ Until September 17. 2/ US refers to the upper bound of the monetary policy rate

Figure 1.1.6 – U.S. – Foreign born labor force, share



Source: Bloomberg

Inflation in the U.S. has accelerated in recent months, in the context of increased tariffs on imports. Consumer inflation in August increased 2.9% p.a., while core inflation grew 3.1%. Goods' prices inflation, which has historically hovered near zero, has accelerated in recent months, especially in categories more exposed to imports. Housing components, which recorded large increases in recent years, are now posting rates closer to pre-pandemic averages. By contrast, other services components have accelerated, further pressuring inflation. Concerns remain over additional price increases later in the year as cost pass-through from imported goods continues. Evidence suggests that some firms have postponed the pass-through and opted to reduce profit margins. However, the depletion of front-loaded inventories, greater clarity regarding reference tariffs rates, and the resolution of initial operational challenges may further raise consumer prices.

1/ According to the Average Hourly Earnings indicator.

The Federal Reserve has conveyed a cautious stance and signaled concerns over both sides of its mandate. The Fed Funds rate fell by 0.25 p.p. in the September meeting to the 4.0%-4.25% interval. The Federal Open Market Committee (FOMC) justified its latest decision as a risk management measure amid a scenario of greater balance between the risks to the labor market and to price stability. Future policy decisions will remain dependent on incoming data. The strategy for reducing its balance sheet, revised in March 2025, has remained unchanged.

In August, the Federal Reserve released the revision of its monetary policy framework. The nature of shocks since 2020 and the recent inflationary process proved that the flexible average inflation target (FAIT) should be replaced. The 2025 update aims to provide flexibility amid more varied economic scenarios, as well as greater objectivity about the balance between the goals of its dual mandate, especially in the event of potential conflicts. The update made simpler and closer to the versions used before 2020.

Euro area GDP growth slowed down substantially in 2025Q2, rising 0.1% QoQ, compared with 0.6% in 2025Q1 (seasonally adjusted). The external sector contributed negatively to the bloc's economic activity (-0.2 p.p.), already reflecting the impact of the U.S. government imposition of reciprocal and automotive sector tariffs, as well as the exhaustion of the front-loading of purchases by U.S. importers. In fact, exports of goods and services from the euro area fell by 0.5% in the quarter, while imports remained stable. Gross fixed capital formation also contributed negatively to activity in the quarter, with a 1.8% decline, reverting the previous quarter's strong expansion. Household consumption posted modest growth (+0.1%), while government consumption played a key role in preventing an economic activity reduction (+0.5%). As in previous quarters, Spain stood out with the highest growth among the bloc's major economies (+0.7%), while Germany and Italy recorded contractions (-0.3% and -0.1%, respectively). The outlook for the region remains uncertain due to low confidence, political instability, and limited fiscal space in most countries, although rising real income, resilient employment, credit expansion, and increased public spending on defense and infrastructure may offset these headwinds.

Consumer inflation in the euro area remained relatively stable in the quarter, hovering around the European Central Bank's (ECB) 2% target. Core inflation measures continued their gradual downward trend, moving closer to the target. The harmonized index excluding energy and unprocessed food rose 2.3% p.a. in August, the lowest level since October 2021. Services inflation also continued to decline gradually, though remaining relatively high (3.1% p.a in August). Food prices continued to exert upward pressure on headline inflation, while energy prices contributed in the opposite direction (3.2% p.a. and -1.9% p.a. through August, respectively).

The ECB deposit rate remained unchanged at 2.0% in the quarter, following the final rate cut of the monetary easing cycle in June 2025. In its September meeting statement, the ECB emphasized that euro area inflation had converged to its 2% medium-term target. The bank also highlighted that wage growth had moderated in recent months, in line with its previous projections, and that policy rates were well positioned given the exceptionally high global uncertainty. At the same time, the ECB reaffirmed that future decisions would remain data-dependent, taking into account the balance of risks and the transmission of monetary policy.

In the UK, the preliminary estimate for GDP growth in 2025Q2 was 0.3% QoQ, down from 0.7% QoQ in 2025Q1. Services and construction growth were offset by the decline in manufacturing. Regarding the inflation outlook, energy prices continue to exert strong upward pressure, with consumer inflation reaching 3.8% in July, after closing 2025Q2 at 3.6%. Services inflation also accelerated to 5.0%, after having dropped to 4.7% in the previous two months. Core inflation remained elevated, registering 3.8% in July. The Bank of England (BoE) projects some acceleration in inflation in the quarter, followed by a gradual return to the 2.0% target, expected to be achieved only by 2027. The policy interest rate stands at 4.0%, after five 0.25 p.p. cuts from the beginning of the monetary easing cycle in August 2024 to the latest meeting of the BoE's Monetary Policy Committee in August 2025. In this meeting, the BoE judged that a gradual and cautious removal of monetary policy restriction remains appropriate.

In China, economic activity remained strong in the first half of 2025. GDP grew 5.2% YoY in 2025Q2, after expanding 5.4% in 2025Q1. The 5.0% GDP growth target, set by the National People's Congress for 2025, is likely to be met. On the supply side, the tertiary sector's contribution to aggregate supply remained at the same level in 2025Q2 as in 2025Q1, while the secondary sector lost momentum, mainly due to the construction industry. The value added by the real estate development sector remained positive for the third consecutive quarter after six quarters of contraction. On the demand side, the contribution of household consumption to the aggregate demand remained at the same level in 2025Q2 as in 2025Q1. The increased investment contribution partially offset the weaker external demand.

Economic growth is expected to slow down in 2025Q3. Monthly indicators of domestic demand, such as retail sales and fixed asset investment, decelerated in July and weakened further in August. Contributing factors include the partial fading of the appliance and mobile phone replacement program, central government guidance aimed at curbing price wars in certain sectors, and significant weather-related events. Real estate investment continues to contract sharply, and housing prices remain under downward adjustment. Regarding external demand, exports continue to expand, offsetting higher U.S. import tariffs by redirecting sales to alternative markets. The current account surplus of 3.2% of GDP over the past four quarters underscores the importance of external demand in achieving the 5.0% growth target for this year. From the supply perspective, both industrial production and the services activity index lost momentum in July and August, although some dynamic industrial segments are still recording robust growth. New data suggest that GDP growth in 2025Q3 is likely to be lower than in the first half of the year.

The government has emphasized the need to regulate predatory price competition observed in several sectors of the economy – a phenomenon referred to as "Involution." Government bodies have taken immediate steps in this direction, and the National Development and Reform Commission (NDRC) released a draft amendment to the pricing law, clarifying standards for the identification of unfair pricing practices and specifying legal responsibilities for violations. The government has announced a new program to subsidize interest paid in consumer loans in selected sectors, and another program for corporate loans in many services sectors. It has also announced a subsidy program for daycare services for children under three years old.

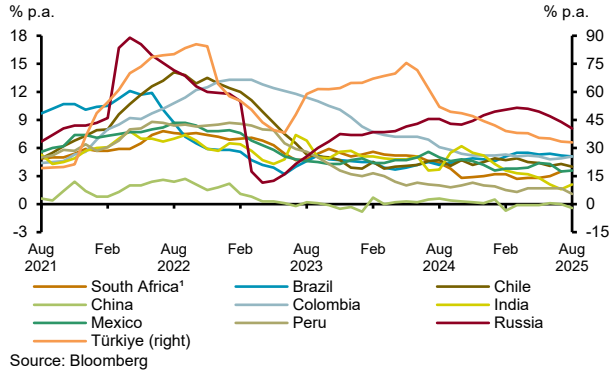
GDP resumed growth in major emerging market economies in 2025Q2 on a YoY basis, although key sources of risks and uncertainties persist. In major Latin America economies, the YoY GDP growth rate displayed a mixed performance, with acceleration in Chile and Mexico, and deceleration in Brazil, Colombia, and Peru. Across the region's main economies, the recovery in demand since 2024 continues to strengthen and dependent on imports of goods, as the pace of domestic supply remains more moderate. Key financial condition indicators for emerging market economies improved compared with the average levels of the previous quarter, although they have shown little change since the beginning of the period, despite ongoing volatility. Most emerging market currencies depreciated, partially reversing the appreciation seen in 2025Q2. Risk appetite indicators remained relatively stable, hovering near levels observed since mid-May.

Key sources of risk and uncertainty for emerging market economies persisted, particularly ongoing global trade tensions. Delays in defining and implementing U.S. import tariffs, coupled with uncertainty regarding their levels, have negatively affected confidence and hindered investment decisions in emerging market economies. The potential imposition of new tariffs and the medium-term impacts of those already in place remain difficult to quantify. 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 major emerging market economies have mostly been declined slightly. The trajectory of inflation and interest rates remains highly uncertain. Inflation rates vary significantly across emerging market economies. Several key countries in Latin America and Europe continue to experience inflation above the upper bounds of their targets (Figure 1.1.7), and expectations for the end of 2025 remain elevated. For the end of 2026, expectations in these regions point, in general, to inflation rates below the upper bounds. In Asia, expectations point to inflation within the target range by the end of 2025 and 2026 (Figure 1.1.8). Nonetheless, inflation dynamics – as well as those of policy interest

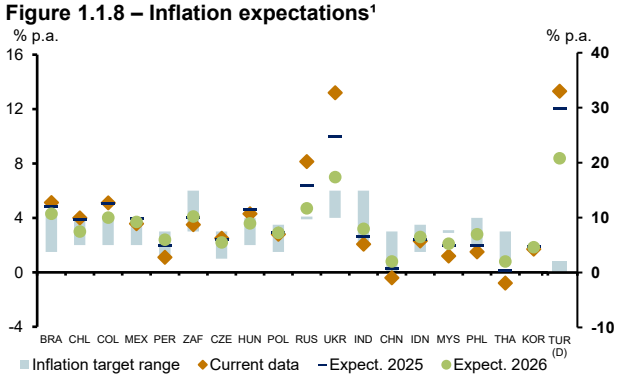
rates – remain subject to high uncertainty, especially due to risks stemming from the U.S. trade policy. The net effect on each economy will depend on the final configuration of tariffs, domestic dynamics, and exchange rate movements. Expectations for policy interest rates in emerging market economies mostly point to levels close to current rates by the end of 2025, and slightly lower by the end of 2026. In Latin America, expectations indicate more pronounced rate cuts in Brazil and Colombia (Figure 1.1.9).

Figure 1.1.7 – CPI – Emerging market economies



Source: Bloomberg
1/ Until July 2025.

Figure 1.1.8 – Inflation expectations¹



Sources: Bloomberg and central banks' surveys
1/ Until September 12.

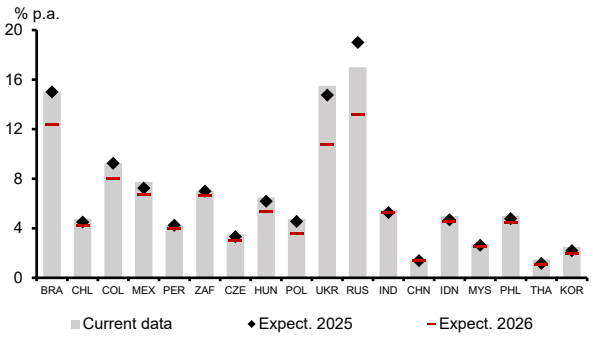
Energy commodity prices[2] declined slightly during the quarter, driven by the easing of tensions between Israel and Iran and continued supply expansion by the Organization of the Petroleum Exporting Countries and its allies (OPEC+) amid trade uncertainties. Oil prices registered a modest drop in 2025Q3, reflecting subdued tensions between Israel and Iran and anticipated supply increases (Figure 1.1.10). Despite the easing of geopolitical tensions, resilient demand data and the ongoing conflict between Ukraine and Russia prevented a sharper decline in prices, consistent with expectations of growing supply surpluses in the coming quarters. On the supply side, OPEC+ announced further production increases for August, September, and October, heightening expectations of oversupply. Despite rising global inventories, the Organization for Economic Cooperation and Development (OECD) inventories remain below historical averages, which, combined with resilient high-frequency demand data, continues to support prices. Similarly, European natural gas prices declined slightly during the quarter due to sustained supply and inventory rebuilding, despite risks stemming from discussions around new sanctions on Russia, which could reduce Liquefied Natural gas (LNG) availability.

Metal commodity prices increased during the period and have been influenced by Chinese economic activity prospects and ongoing trade disputes. Steel and aluminum prices continue to be affected by U.S. import tariffs, which have increased costs for American producers and increased arbitrage opportunities with other markets. In the case of copper, the exemption of refined copper from the 50% tariffs imposed by the U.S. government eliminated the premium previously seen in contracts traded in the U.S. and Europe, amid a rush to build inventories in the U.S. Iron ore prices in China, despite uncertainties surrounding the country's growth – particularly related to challenges in the real estate sector – have been driven by steady inventory declines, plans to increase steel production, and improved expectations for economic stimulus policies, leading to a more pronounced price increase during the period.

Agricultural commodity prices diverged during the period, reflecting both the continued abundant supply of soybeans, corn, rice, and wheat, and concerns over supply constraints and firm demand for commodities such as coffee and fed cattle. The sustained high supply of commodities such as wheat, corn, soybeans, and rice kept prices contained, despite weather-related uncertainties. Conversely, coffee prices responded to the imposition of U.S. tariffs on Brazilian products, climate concerns affecting Brazil's crop outlook, and strong U.S. demand amid historically low global inventories. Factors such as reduced cattle herds, drought, and tariff disputes continue to pressure fed cattle prices in the U.S.

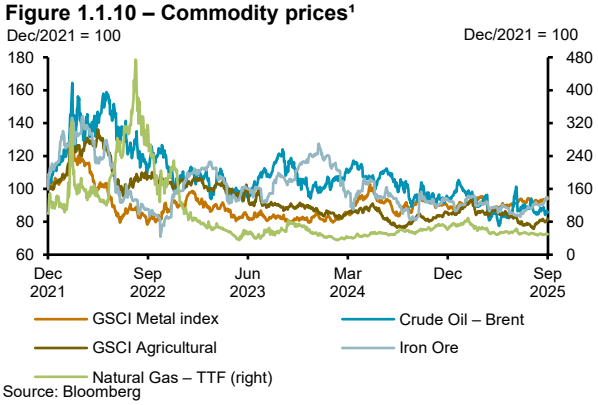
2/ In this section, commodity price changes refer to changes between the respective cut-off dates of the MPRs.

Figure 1.1.9 – Policy interest rates[1]



Sources: Bloomberg and central banks' surveys
1/ Until September 12.

Figure 1.1.10 – Commodity prices[1]



Source: Bloomberg
1/ Until September 12.

In summary, following resilient economic activity in 2025Q1, 2025Q2 data and more recent 2025Q3 indicators point to a slowdown in growth. The front-loading of imports that boosted economic activity in the first half of the year has increased the economy´s vulnerability to potential adverse shocks in the coming quarters. Persistently elevated uncertainty – stemming from shifts in trade policies and pro-cyclical fiscal loosening in major economies – has contributed to a deterioration in confidence and expectations. The introduction of new trade measures by the U.S. and the responses from its partners could further distort trade and capital flows, trigger supply and price shocks, and, in extreme scenarios, disrupt global supply chains. Concerns over debt sustainability in major economies may prompt abrupt asset repricing and pose risks to macro-financial stability. The steepening of yield curves may also amplify vulnerabilities by affecting capital flows and generating exchange rate volatility. These adverse developments are unfolding in a context of macroeconomic rebalancing and, notably, a gradual continuation of the disinflationary process. The combination of these elements contributes to a negative asymmetry in the global economic balance of risks. An accurate assessment of the net impact of these factors will be essential to guide the next monetary policy steps, given the heightened uncertainty surrounding policy implementation, the lagged effects of monetary policy, distributional impacts on supply and demand, and the uneven effectiveness of transmission channels to economic activity and inflation.

In this context, almost all central banks in major economies continue to ease monetary policy. Although interest rates have been mostly at contractionary levels for a long period, all central banks remain attentive to core inflation dynamics, labor market conditions, and the balance of risks, reinforcing the need to maintain a flexible monetary policy stance and transparent communication.

1.2 Domestic outlook

Economic activity

As expected, economic growth slowed down in 2025Q2, with a 0.4% GDP expansion, following a 1.3% increase in 2025Q1. From the supply side, while the growth rate of less cyclical sectors declined, that of more cyclical ones was maintained. In the demand side, household consumption decelerated, government consumption and gross fixed capital formation (GFCF) declined, and the external sector dynamism slowed down (Table 1.2.1). GDP grew 2.2% YoY, below market forecasts,[3] although slightly above BCB's expectations.

Table 1.2.1 – Gross Domestic Product
QoQ s.a.

% change

Itemization	2024				2025	
	Q1	Q2	Q3	Q4	Q1	Q2
GDP at market prices	0.9	1.5	0.8	0.1	1.3	0.4
GDP ex-agriculture at market prices	0.9	1.6	0.8	0.0	0.9	0.3
Agriculture	3.3	-0.8	1.2	-3.4	12.3	-0.1
Industry	0.6	0.8	0.9	0.2	0.0	0.5
Mining	0.6	-5.4	-0.2	1.6	2.9	5.4
Manufacturing	1.6	2.1	1.0	0.5	-1.0	-0.5
Construction	0.9	3.1	-1.4	2.3	-0.6	-0.2
Utilities (EGAER)	-2.2	0.5	-1.4	-0.5	1.8	-2.7
Services	1.8	0.8	0.8	0.2	0.4	0.6
Trade	3.1	1.2	0.3	0.2	0.5	0.0
Transport and storage	2.1	1.0	0.5	0.3	-0.5	1.0
Information services	2.8	1.5	2.4	-0.3	3.0	1.2
Financial and related services	0.6	1.0	1.0	-0.3	0.6	2.1
Other services	2.2	0.6	1.8	-0.2	0.2	0.7
Real estate	1.0	0.8	0.9	0.3	0.7	0.3
Public admin., health, and education (APU)	0.6	0.5	0.4	0.0	0.5	-0.4
GVA - more cyclical sectors	1.7	1.5	1.1	0.1	-0.1	0.1
GVA - less cyclical sectors	0.8	0.3	0.6	-0.1	2.0	0.9
Household consumption	2.3	1.2	1.3	-1.0	1.0	0.5
Government consumption	0.1	0.0	0.6	0.4	0.0	-0.6
Gross Fixed Capital Formation	3.8	2.6	2.6	0.4	3.2	-2.2
Exports	-1.0	1.3	-0.4	-1.4	3.1	0.7
Imports	3.5	8.5	1.3	0.3	5.5	-2.9
Indirect seasonal adjustment						
GDP at market prices	1.8	0.8	0.8	0.0	1.0	0.4
GDP ex-agriculture at market prices	1.6	0.9	0.8	0.2	0.4	0.4
GVA - more cyclical sectors	2.0	1.3	0.9	0.2	0.1	0.1
GVA - less cyclical sectors	1.0	-0.1	0.7	-0.4	2.6	0.8

Sources: IBGE and BCB

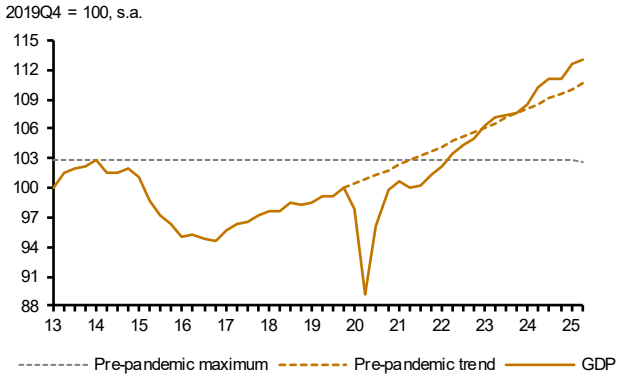
From the supply side, GDP change in 2025Q2 reflected a slight decline in agriculture and expansions in industry and services. The slight decline in agriculture (-0.1%) followed robust growth in 2025Q1 (12.3%), so as the value added by this activity remained at a high level. This result mainly reflects the annual expansion of crops with relevant harvests in the second quarter of the year, such as corn, soybeans, rice, cotton, and coffee. The 0.4% growth of industry in the quarter was exclusively fueled by the strong expansion of mining,

3/ In the cut-off date of the previous MPR, the median market forecast for YoY GDP growth in 2025Q2, according to the Focus Report, was 2.4%, considering forecasts submitted in the last 30 days.

especially the production of oil and gas. The remaining industrial segments declined. In particular, construction and manufacturing fell for the second consecutive quarter, while utilities (EGAER) decreased significantly, influenced by the reduction in electricity consumption and the use of thermal power plants.[4] Lastly, the 0.6% expansion in the services sector outweighed the 0.4% increase observed in 2025Q1. Expansion was observed in almost all segments except for commerce, which remained stable, and public administration, health, and education (APU), which declined. The performance of commerce reflected the deceleration in household consumption and the decline in manufacturing. The positive highlights were transport services – the only segment to decline in 2025Q1 – information and communication, and financial intermediation.

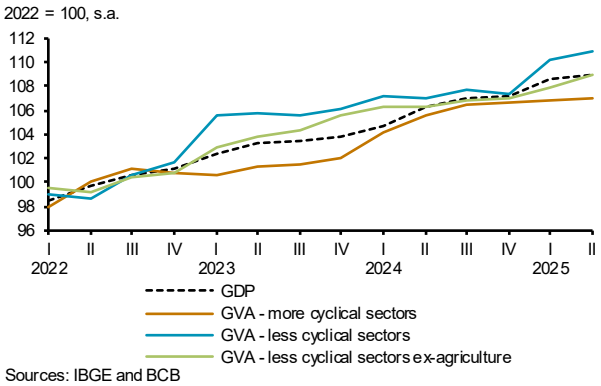
Economic activity deceleration measured by the GDP in 2025Q2 was concentrated in less cyclical sectors of the economy, while more cyclical sectors maintained the pace observed in the previous two quarters. The less cyclical sectors grew 0.8%, following a 2.6% expansion in 2025Q1.[5] This performance was influenced by the slight decline in agriculture and, in the opposite direction, by strong expansion in mining and financial intermediation services. The more cyclical sectors, instead, registered lower growth, 0.1%, close to that registered in the previous two quarters (Figure 1.2.2). The declines in manufacturing and construction, along with stability in commerce, stood out.

Figure 1.2.1 – Gross Domestic Product



Source: IBGE

Figure 1.2.2 – GDP – More and less cyclical sectors



Sources: IBGE and BCB

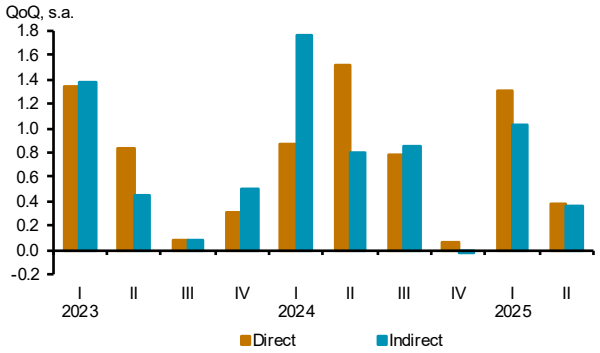
The seasonal adjustment by the indirect method, considering the supply side, indicates a lower discrepancy between 2025Q1 and 2025Q2 growth rates. By this method – that seasonally adjusts the components before the aggregation – GDP grew 1.0% in 2025Q1 and 0.4% in 2025Q2, revealing a slower deceleration than observed by the official adjustment, from 1.3% to 0.4% (Figure 1.2.3). By excluding agriculture, the differences become more evident. GDP ex-agriculture rose 0.4% in both quarters by the indirect adjustment, compared with 0.9% and 0.3% by the official adjustment (Figure 1.2.4). These discrepancies reinforce the need for caution in the analysis of quarterly changes.[6]

4/ For the same level of production, thermal power plants production adds a lower value to GDP compared with other sources, such as hydroelectric, wind, and photovoltaic, since it demands a higher consumption of inputs.

5/ Based on the classification of sectors as more or less cyclical, as discussed in several previous MPR 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. The changes mentioned were obtained considering the indirect seasonal adjustment, i.e., aggregating the supply side GDP components after the seasonal adjustment.

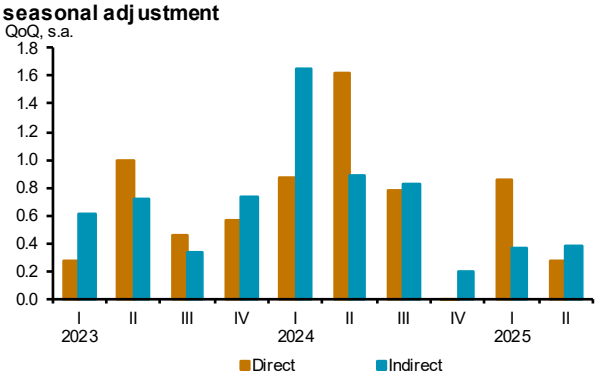
6/ The box Seasonal adjustment and uncertainty regarding the intensity of the GDP slowdown in early 2024 in the March 2025 MPR already warned about difficulties in the assessment of quarterly changes in the beginning of the year. See also the box Effects of the pandemic on the seasonal adjustment of economic indicators in the June 2021 IR.

Figure 1.2.3 – GDP - direct and indirect seasonal adjustment



Sources: IBGE and BCB

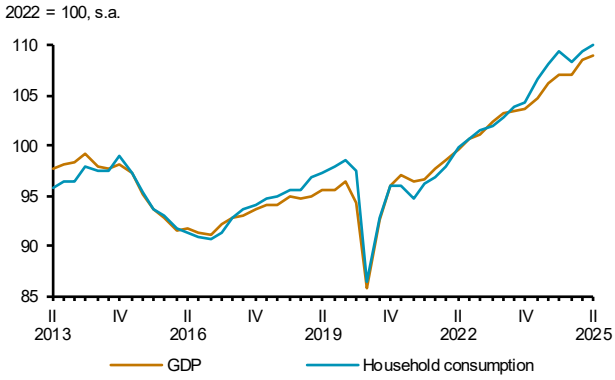
Figure 1.2.4 – GDP ex-agriculture - direct and indirect seasonal adjustment



Sources: IBGE and BCB

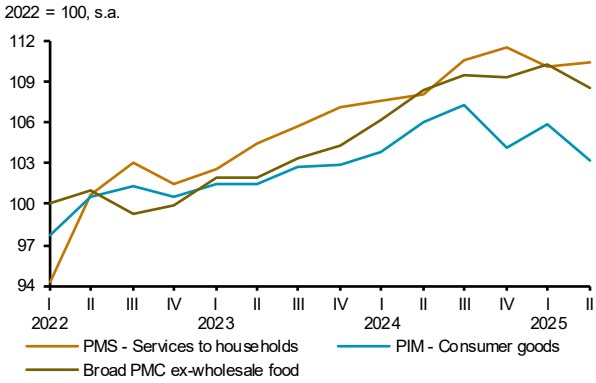
Household consumption decelerated in 2025Q2, following a strong growth in 2025Q1. After expanding 1.0% in 2025Q1, household consumption growth decelerated to 0.5%, despite household disposable income growing at a similar pace to that of the previous quarter[7]. This deceleration seems to have been more concentrated in the consumption of goods. Indicators such as industrial production of consumer goods and retail trade declined in the period, while services provided to households grew modestly (Figure 1.2.6).[8] Considering the last three quarters, the household consumption average growth rate was 0.1%, well below the average rate of 1.6% observed in the first three quarters of 2024 (Figure 1.2.25).

Figure 1.2.5 – GDP and household consumption



Source: IBGE

Figure 1.2.6 – Household consumption indicators



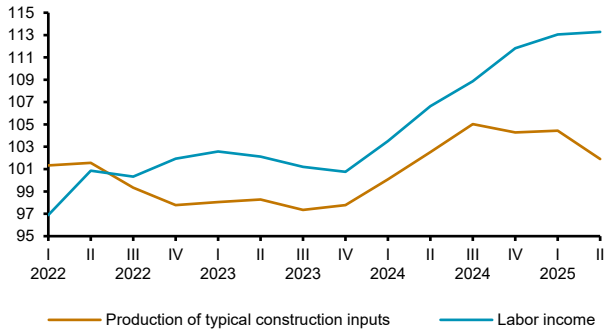
Sources: IBGE and BCB

GFCF dropped in 2025Q2, after a sequence of strong expansions. This indicator dropped 2.2%, after growing 3.2% in 2025Q1 (Figure 1.2.9). This result was highly influenced by the decline of imports of capital goods, which had been boosted by the import of one oil rig in 2025Q1. The production of capital goods remained nearly stable (Figure 1.2.8), while construction indicators, such as the gross value added (GVA), the production of typical inputs, and overall wages suggest a slightly negative contribution from the sector (Figure 1.2.7). In the opposite direction, revenue from information technology services[9] continued to grow, suggesting a positive contribution for the technology segment in the GFCF, albeit lower than that observed in 2025Q1. As a GDP proportion, GFCF also declined, after expanding in 2025Q1 – movements influenced by the oil rig import. Excluding this effect, the GFCF/GDP ratio has remained virtually stable since 2024Q3 (Figure 1.2.10).

7/ See the next section of this chapter.
8/ Data from the Monthly Survey of Industry (PIM-IBGE), Monthly Survey of Trade (PMC-IBGE), and Monthly Survey of Services (PMS-IBGE).
9/ According to the PMS.

Figure 1.2.7 – Construction indicators

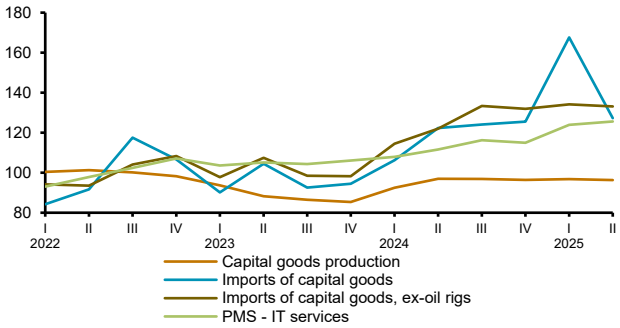
2022 = 100, s.a.



Sources: IBGE and BCB

Figure 1.2.8 – Investment indicators

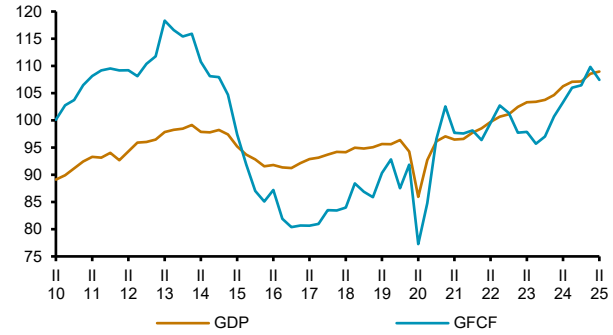
2022 = 100, s.a.



Sources: BCB and IBGE

Figure 1.2.9 – GDP and GFCF

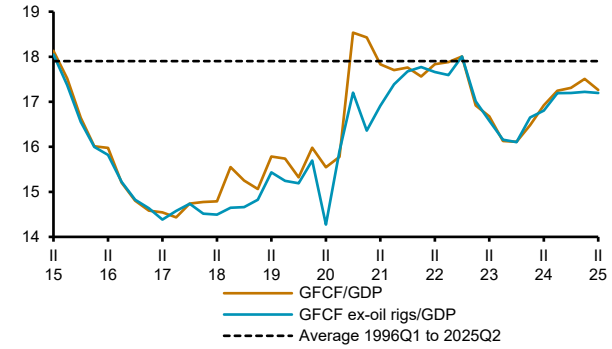
2022 = 100, s.a.



Source: IBGE

Figure 1.2.10 – GFCF/GDP at current prices

%, s.a.



Source: IBGE

As for the external sector components, exports decelerated, and imports declined. Exports grew 0.7%, after growing 3.1% in 2025Q1, influenced by the deceleration in shipments of primary goods in 2025Q2. Shipments of semi-manufactured and manufactured goods resumed growth, after declining in 2025Q1. Imports fell by 2.9%, reverting the strong 2025Q1 growth, when the aforementioned oil rig import occurred.

Activity data for July and August presented mixed signals but, considered as a whole, suggest the continuity of the moderation trend in activity in 2025Q3. In July, the BCB's Economic Activity Index (IBC-Br) fell 0.5% and the IBC-Br ex-agriculture declined 0.4% (Figure 1.2.11), implying statistical carry-overs for 2025Q3 of -1.1% and -0.6%, respectively. Sectoral surveys registered slight declines in manufacturing and restricted retail and moderate expansion in services (Figure 1.2.12). Only broad retail excluding the wholesale food segment registered a stronger growth – partially recovering from the previous month's decline. Coincident indicators available for August show mixed signals (Table 1.2.2). An early assessment, subject to high uncertainty, of the IBC-Br considering data already available for August suggests that some growth is expected in both the full and ex-agriculture indexes in August, partially offsetting July's decline.

Figure 1.2.11 – BCB's Economic Activity Index (IBC-Br)

2022 = 100, s.a.

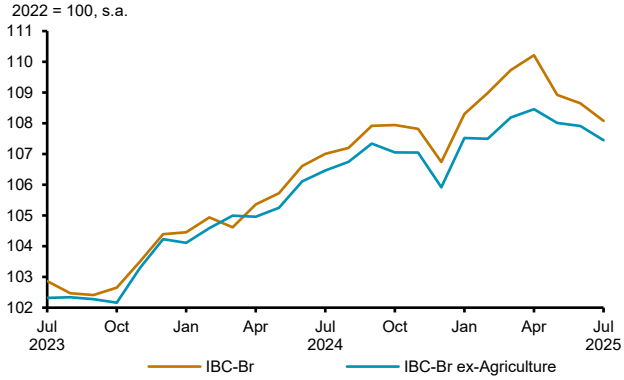
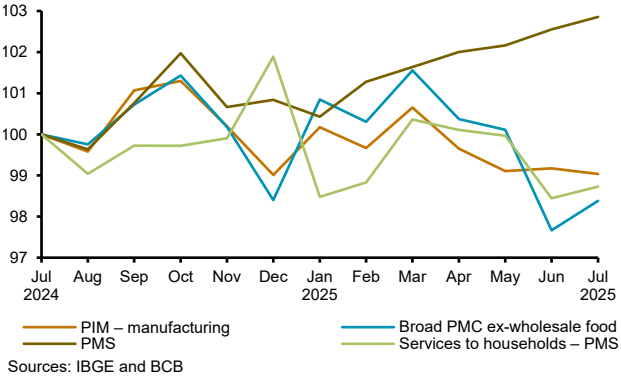


Figure 1.2.12 – Economic activity indicators

Jul 2024 = 100, s.a.



Sources: IBGE and BCB

Table 1.2.2 – Economic activity coincident indicators

Seasonally adjusted data

% change

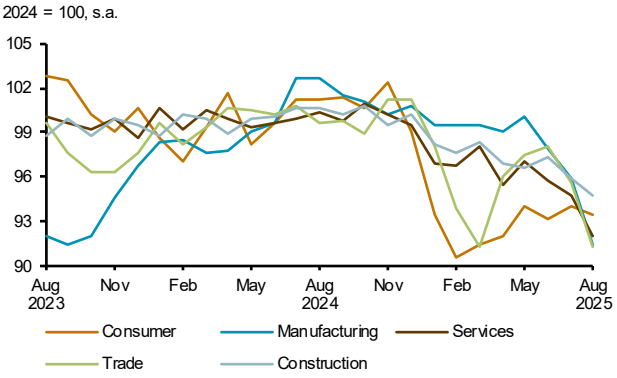
Itemization	2025							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Heavy vehicle traffic	3.4	0.2	0.6	0.2	-0.3	-0.1	1.8	-0.8
Corrugated boxes shipments	-0.4	1.6	1.9	-1.1	0.6	-1.1	1.9	-1.0
Light vehicle production	0.4	0.5	0.2	4.8	-12.6	9.3	3.1	0.5
Truck production	-6.6	7.0	18.2	-11.6	0.1	2.7	0.1	-1.1
Vehicle licensing	-1.6	-1.2	5.8	0.7	1.4	-5.6	2.7	-5.5
Cielo broad retail index	0.3	-0.4	-0.2	0.5	-0.3	-1.1	0.0	0.0
IGet broad retail	-0.5	1.7	1.0	-0.5	-1.7	-0.2	1.6	0.2
IGet services to households	-0.7	1.6	-4.1	-0.1	3.3	-3.6	-0.0	3.9
IDAT goods[1]	1.1	0.1	2.4	-2.0	0.0	0.0	-1.4	0.5
IDAT services to households[1]	-1.2	2.2	-0.3	-0.5	-0.4	-1.1	-1.5	2.0

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

[1] Broad means of payment.

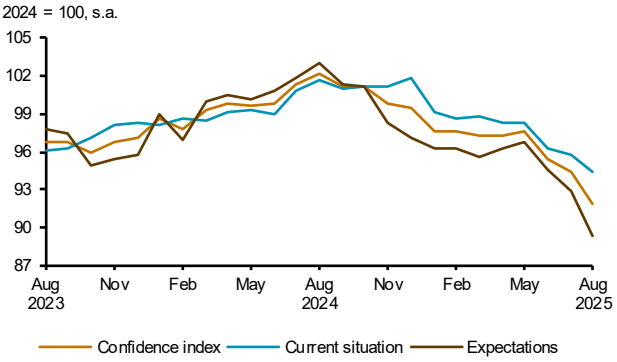
Confidence indexes deteriorated in the beginning of 2025Q3. Entrepreneurs' confidence, which had already been declining in the first half of 2025, fell more strongly in July and August (Figure 1.2.13). Considering the sectors' aggregation, this movement reflects both the current situation and the expectations indicators (Figure 1.2.14). Consumers' confidence, instead, has remained reasonably stable over the last three months, albeit at a low level, much below that observed in late 2024. Although confidence levels do not always reflect the current activity level or anticipate its future performance, recent movements suggest a cautious stance among businesses and consumers.

Figure 1.2.13 – Confidence indexes



Source: FGV

Figure 1.2.14 – Business confidence index



Source: FGV

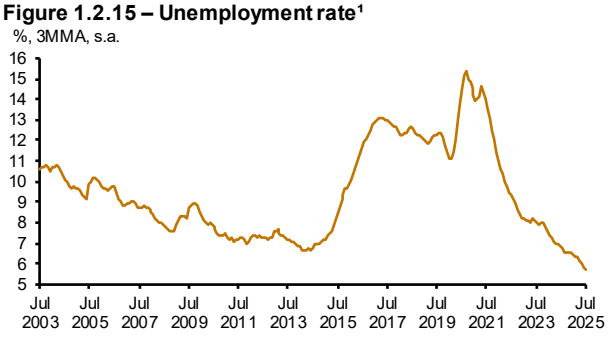
As detailed in a box in this MPR, the projection for GDP growth in 2025 was revised from 2.1% to 2.0%, while the preliminary estimate for 2026 is 1.5%. The expectation that economic activity will continue to moderate throughout the second half of 2025 remains, a trend likely to extend into the following year. The slight reduction in the projection for 2025 reflects the still uncertain effects of the increase of imports tariffs by the U.S., as well as some signals of weaker activity in 2025Q3. These factors were partially offset by more positive prospects for the agriculture and mining segments. For 2026, the projection considers the continuity of the monetary policy on a restrictive territory, the low level of slack of production factors, the prospect of world growth deceleration, and the absence of the agricultural stimulus observed in 2025.

Labor market

The labor market remains heated, with lower-than-expected unemployment rate in recent months. The unemployment rate, which was already at a low level, declined further in the May-Jul quarter,[10] driven by strong employment growth, especially in formal jobs. Salaries and income indicators continue to indicate real gains and, in the case of the Continuous National Household Sample Survey (PNAD Continuous), showing high changes and acceleration at the margin. Complementary indicators, discussed in a box in this MPR, also point to a heated labor market.[11]

The unemployment rate continued on its downward trend during the quarter, reaching a new historical low, with formal employment standing out. The unemployment rate fell by 0.5 p.p. in the May-Jul quarter, to 5.7%, the lowest level in recent decades (Figure 1.2.15). The unemployment rate change in the quarter reflected the 0.4% growth in the employed population and stability in the labor force. The increase in the number of employed people was driven by formal jobs, which rose 0.8%, while informal employment fell by 0.1%. The participation rate stood at 62.3%, 0.1 p.p. lower than in the previous quarter and still considerably below the levels observed in mid-2022 and before the pandemic (Figure 1.2.16). As discussed in boxes of this MPR, structural factors – such as demographic and educational changes[12] and the introduction of new technologies in passenger transport and goods delivery services[13] – have contributed to reducing the unemployment rate over the last decade.

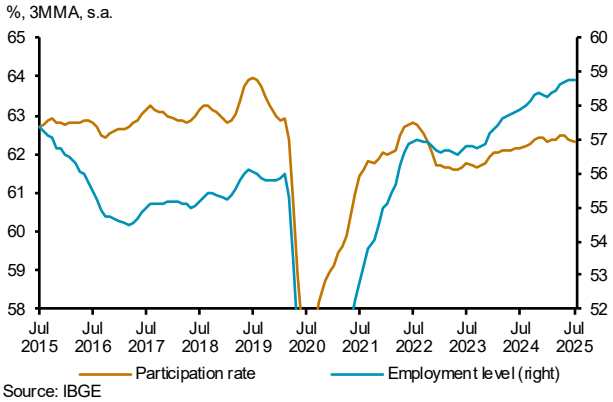
Figure 1.2.15 – Unemployment rate[1]



[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 1.2.16 – Participation rate and employment level

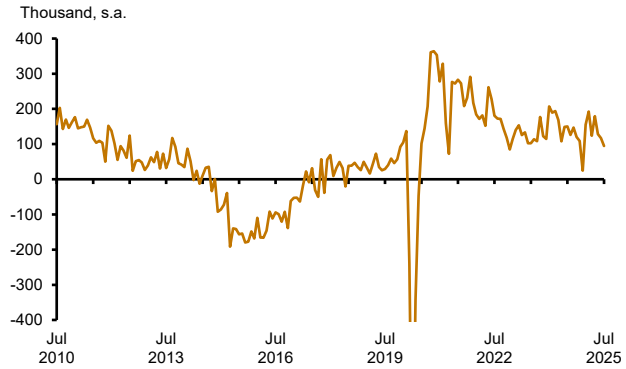


Source: IBGE

Formal job creation decelerated but remains strong. According to data from the New General Registry of Employed and Unemployed Persons (New Caged), seasonally adjusted by the BCB, an average of 113,000 jobs were created per month in the May-Jul quarter, below the 165,000 average recorded in the Feb-Apr quarter (Figure 1.2.17). The slowdown was mostly observed in civil construction and manufacturing. Despite the slowdown in the previous quarter, net job creation remains at a historically high level. In the year up to July, it reached 1.34 million, just 148,000 jobs below the figure recorded in the same period of 2024. The resilience of the labor market is also observed in the share of resignations in total job separations, which remained high (Figure 1.2.18).

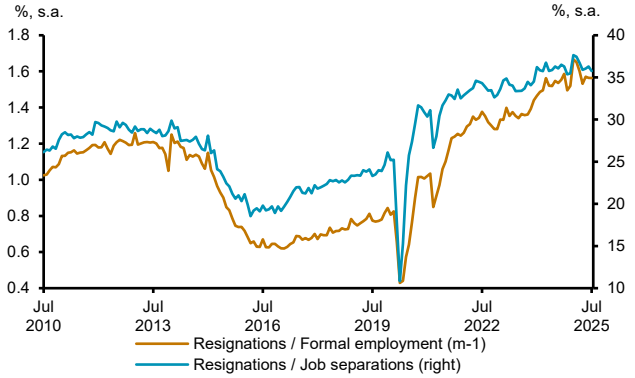
10/ In the June release, the time series of the PNAD Continuous were revised to include the results of the latest Demographic Census, carried out in 2022. Regarding the unemployment rate, the review had a minor effect (in the last three years there was no difference between the new series and the one prior to review).
11/ See box Job switching and wage premium in this MPR.
12/ See box Impact of education and demography on labor market indicators in this MPR.
13/ See box Effects of app-based work on the labor market in this MPR.

Figure 1.2.17 – Net formal job creation



Source: Ministry of Labor and Employment

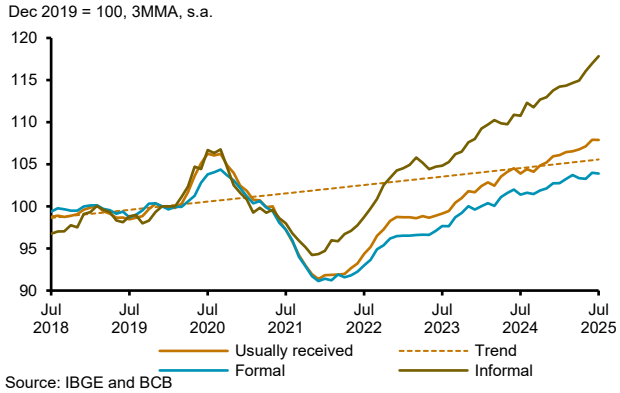
Figure 1.2.18 – Resignations ratio



Source: Ministry of Labor and Employment

Average labor income measured by the PNAD Continuous continues to grow strongly in real terms, accelerating at the margin. In the May-Jul quarter, the change accelerated to 1.0%, compared with 0.6% in the previous quarter, driven by gains among informal workers. Considering the YoY change, the usual real average income grew 3.8% in the May-Jul quarter, still a high rate and higher than those observed in the Feb-April and Nov-Jan quarters (3.2% and 3.6%, respectively). From a longer-term perspective, the average real income is 8.9% above the 2019 average and 2.6% above the level that would have been obtained by extrapolating the growth trend of the pre-pandemic period, from 2017 to 2019 (Figure 1.2.19).

Figure 1.2.19 – Real average labor income



Source: IBGE and BCB

Complementary indicators of salary dynamics continue to indicate lower real growth than shown by the PNAD. Real salaries for new hirings[14] (seasonally adjusted data) grew 0.3% in the May-Jul quarter, following a 0.2% decline in the Feb-Apr quarter, according to the New Caged (Figure 1.2.20). Compared with the same period of the previous year, the real increase is 0.6%, down from the 0.9% observed in the Feb-Apr quarter. A box in this MPR estimates a trend measure for changes in nominal salaries at hirings and layoffs, exploring breakdowns of data from Caged.[15] The average of nominal salary adjustments collected from Collective Bargaining Agreements (CBA)[16], which cover the formal private sector, was 5.8% in the Jun-Aug quarter (Figure 1.2.21), with 84% of negotiations exceeding past inflation. In real terms, the average adjustment in the quarter was 1.0%, unchanged from the same period of the previous year.[17]

14/ The average hiring salary has greater correlation to the economic cycle than the layoff salary, which is 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.

15/ See box Wage trend inflation by sector and age group in this MPR.

16/ 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). The conventions considered are those for which it was possible to adequately capture the agreed adjustment percentage.

17/ 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.

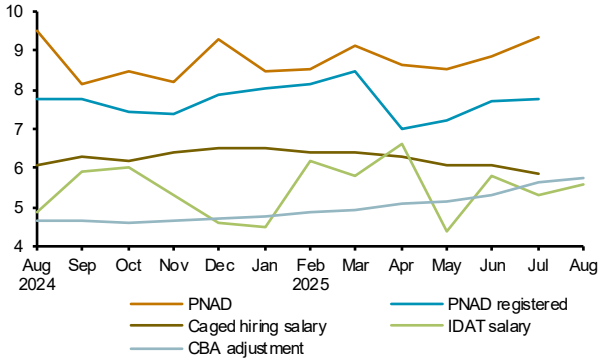
Figure 1.2.20 – Hiring salary

Jul 2025 BRL, 3MMA, s.a.

Source: Ministry of Labor and Employment

Figure 1.2.21 – Salaries and labor income

% YoY change, 3MMA, nominal



Sources: IBGE, MLE, Itaú, and BCB

Household income accelerated in 2025Q2, driven by the labor market dynamism. The estimated Household Gross Disposable National Income (HGDNI) – which includes, in addition to labor income, other sources of income – grew 1.7% in real terms in the period, considering the restricted concept and adjusted for seasonal effects.[18,19] In 2025Q1, the increase had been 1.5%. This acceleration mainly reflected the evolution of the overall labor income, which accounts for about 80% of the restricted income, in a scenario of growth of employed population as well as income (Figures 1.2.22 and 1.2.23). Moreover, other factors contributing to the increase in household income were the payment of funds from the Employment Guarantee fund (FGTS) to laid-off workers who had opted for the anniversary withdrawal modality and the advanced payment of the Christmas bonus for National Social Security Institute (INSS) beneficiaries.

Figure 1.2.22 – Restricted HGDNI

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

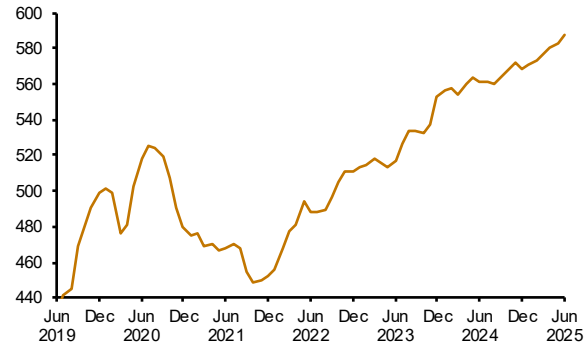
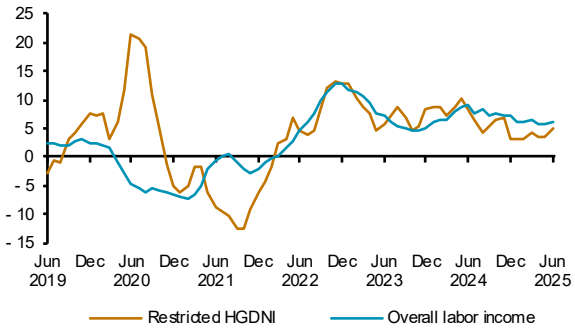


Figure 1.2.23 – Restricted HGDNI and usually received overall labor income

% YoY change, 3MMA, real



Sources: BCB and IBGE

Credit

The credit market has tightened in recent months, mainly in the household segment. Credit granting declined in the period, impacted by the increase of interest rates, obstacles in the payroll-deducted credit for INSS pensioners and retirees, and temporary uncertainty about the levying of the Financial Operations Tax (IOF) on forfaiting operations. The pace of credit balance growth reduced, and net payments from households and companies to the National Financial System (SFN) increased. Household debt-to-income (DTI) and debt-service (DSR) indicators remained at high levels, while delinquency increased significantly, mostly due to accounting regulatory changes implemented in January.

Most of the Selic rate hike seems to have already been passed through to the non-earmarked credit cost, especially to households. The average interest rate in the household segment has risen by 5.7 p.p. since August 2024 – more than the Selic rate, which has increased by 4.5 p.p. (Figure 1.2.24). This trend is in

18/ Monthly HGDNI estimated by the BCB. Further information at Nota Técnica 55 of December 2021 (Portuguese only).

19/ The release of the July PNAD Continuous, initially scheduled for the end of August, was postponed to September 16. Consequently, the July HGDNI data were not available until the cut-off date of this MPR.

line with the study about the pass-through of Selic rate changes to the credit cost, which reveals that most of the pass-through occurs in the same quarter in which the Selic rate is changed.[20] In the corporate segment, the pass-through in non-earmarked modalities was 4.0 p.p. – slightly lower than the Selic rate change in the period (Figure 1.2.25). Considering only non-revolving corporate credit, the increase was 2.6 p.p.

Figure 1.2.24 – Non-earmarked interest rates - Households

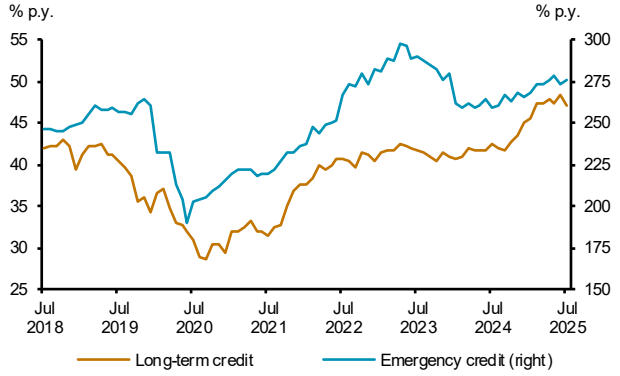
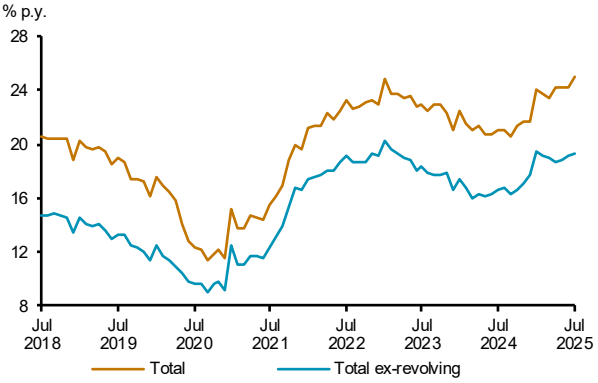
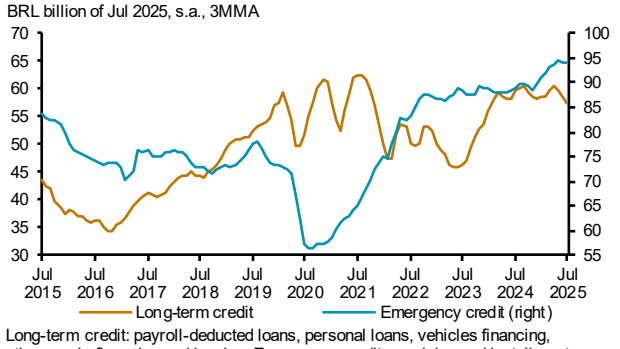


Figure 1.2.25 – Non-earmarked interest rates - Corporate



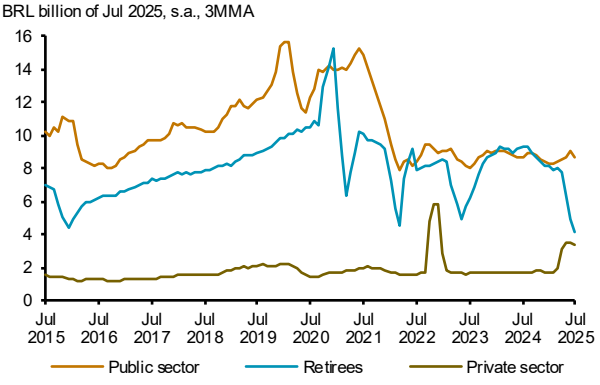
Non-earmarked household credit granting has dropped in recent months, impacted by the tightening monetary policy and stricter requirements for new INSS payroll-deducted loans. Among long-term modalities, the slowdown in credit granting growth was widespread (Figure 1.2.26) and, in the last three months, there was a sharp drop in payroll-deducted loans to INSS pensioners and retirees (Figure 1.2.27). The biometric authentication requirement for new loans, since May, initially reduced daily granting by half. Since then, the volume of new loans has resumed growth but is still at a low level. Conversely, payroll-deducted loans to private sector workers, which had registered increased volume in April and declined in the two subsequent months, rose strongly after the end of the requirement of channeling resources from credit operations to the settlement of previous debts (Figure 1.2.27). Further details on this subject can be found in the box "New private sector payroll-deducted credit". As for emergency credit, the level remained high, after rising in early 2025 and reaching a record in March (Figure 1.2.26). The strong performance of these modalities possibly indicates deterioration in households' budget.

Figure 1.2.26 – Non-earmarked household credit granting



Long-term credit: payroll-deducted loans, personal loans, vehicles financing, other goods financing and leasing. Emergency credit: revolving and installment credit card and overdraft.

Figure 1.2.27 – Non-earmarked household credit granting - Payroll-deducted



In the non-earmarked corporate segment, short-term credit granting decreased in June and July, impacted by the IOF increase.[21] Discount of receivables and trade bills granting fell 15% in the May-Jul quarter due to changes in the tax on forfaiting operations (Figure 1.2.28).[22] These operations are expected

20/ See box Selic rate pass-through to the bank credit market in the September 2022 IR.

21/ The Federal Government Decree 12,466 raised the IOF rate on corporate credit operations from 0.0041% p.d. to 0.0082% p.d., increased the additional rate from 0.38% to 0.95%, and classified forfaiting operations as credit operations. Later, Decree 12,499 reduced the additional rate from 0.95% to 0.38% and exempted its incidence on forfaiting operations. Subsequently, the National Congress suspended the effects of both decrees through Legislative Decree 176, reinstating the previous regulation. Finally, in mid-July, a Federal Supreme Court's decision on a Precautionary Measure in the Declaratory Constitutionality Act 96, validated the increase of the daily rate but vetoed the understanding of forfaiting operations as credit operations, exempting them from IOF charge.

22/ Figure 1.2.29 shows a decline in receivables-discount operations, which comprises the discount of trade bills and receivables, clearance of checks, and discount of credit card bills. Forfaiting operations are included in the discount of trade bills and receivables modality.

to recover in next readings, since, in mid-July, forfaiting was once again exempt from that tax. As an alternative to reduce the impact of the IOF rise, companies increased the use of export financing lines, which are exempt. Companies also increased financing through domestic capital market, expanding debt securities issuances. In this context, the volume of issuances of these securities rose in June and July, following a weak performance in April and May. Nevertheless, funding was lower than that registered in the same period of 2024 (Figure 1.2.29).

Figure 1.2.28 – Non-earmarked corporate credit granting

BRL billion of Jul 2025, s.a.

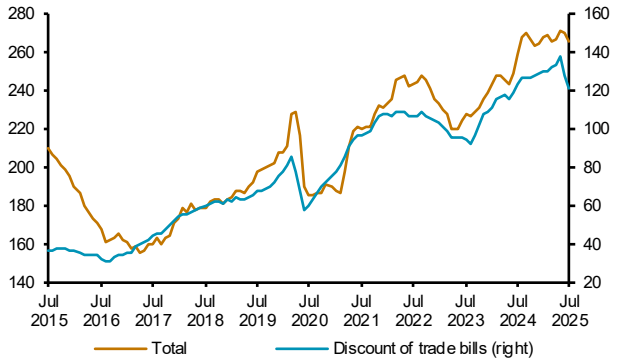
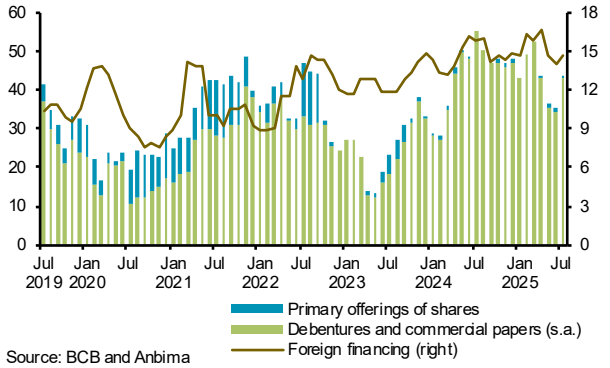


Figure 1.2.29 – Non-banking corporate financing

BRL billion of Jul 2025, 3MMA — USD billion, 3MMA, s.a.



Source: BCB and Anbima

Earmarked credit granting has decreased in the last three months, although remaining at a higher level than in the same period of 2024 in the corporate segment. In the household segment, real estate loans have dropped significantly in recent months, impacted by the increase in the cost of operations (Figure 1.2.30). Rural credit loans rose at the margin but, throughout the 2024/25 *Safra* plan (Harvest plan), the granted volume was below that negotiated in the same month of the previous Harvest plan. Earmarked corporate credit fell at the margin but remains at a high level compared with the same period in 2024. The higher level reflects the increase of Emergency Credit Access Program (PEAC) operations from October 2024 onward, after adjustments in the Investment Guarantee Fund (FGI) that released additional resources for new operations (Figure 1.2.31).[23] Compared with the previous year, it should also be highlighted the increase in rural and Brazilian Development Bank (BNDES) new credit operations.

Figure 1.2.30 – Earmarked household credit granting

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

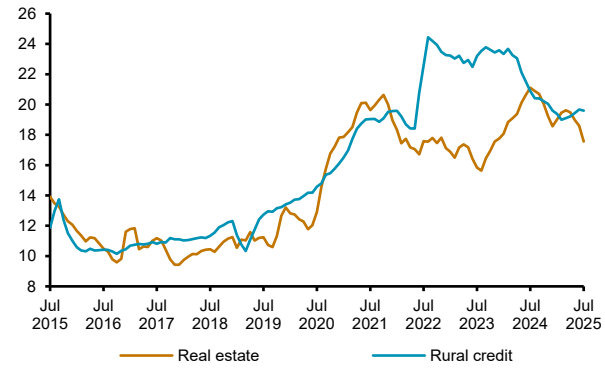
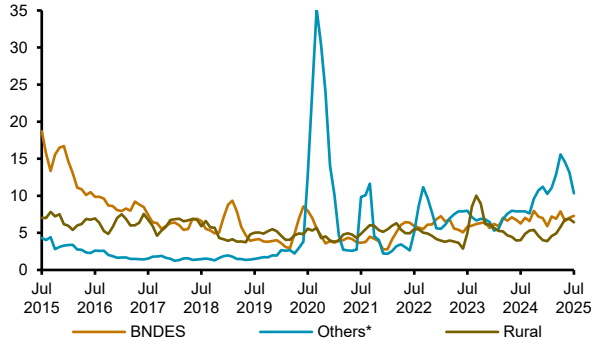


Figure 1.2.31 – Earmarked corporate granting

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



*Includes Pronampe, PEAC, PESE, among others.

The growth rate of the balance of SFN credit operations has fallen in the last three months, impacted by the reduction in the roll-over of non-earmarked and earmarked household credit portfolios. The YoY growth rate of the credit balance fell from 12.1% in April to 10.7% in July. Household operations growth dropped by 1.4 p.p. to 11.5%, with larger impacts from INSS payroll-deducted credit, in the non-earmarked segment, and rural credit, in the earmarked one. The corporate portfolio growth

23/ Changes in the PEAC with FGI resources sought to release resources pledged as collateral and not used for new operations, in view of the delinquency rate observed in these operations (5.7%), lower than the program's parameters (of 20% for medium-sized and large companies and 30% for small-sized ones). Nearly BRL 9 billion of the limit for the coverage of collateral have been released by financial institutions to be used in new operations.

rate decreased by 1.3 p.p. to 9.5%, driven by the non-earmarked segment, highlighting the slowdown in the modalities of discount of trade bills and receivables and export financing (Figure 1.2.32). Earmarked corporate credit balance accelerated, driven by PEAC and rural credit operations (Figure 1.2.33).

Figure 1.2.32 – Non-earmarked credit balance
YoY change

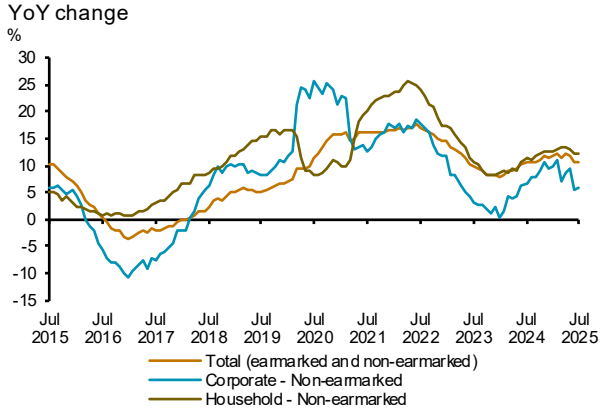
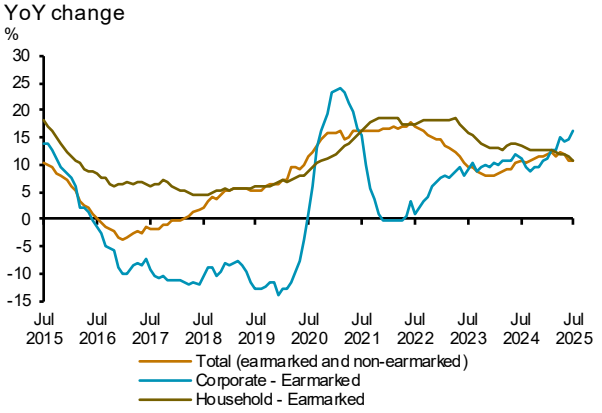
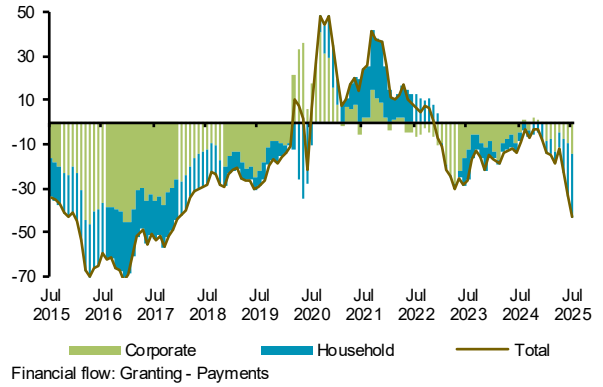


Figure 1.2.33 – Earmarked credit balance
YoY change



In line with balance trend, the negative financial flow has deepened, i.e., households and companies returned more resources than borrowed from the SFN. In real terms, the financial flow has reached its most negative value since December 2017 (Figure 1.2.34). In the household segment, the volume of household payments is estimated to have increased in the last three months, while granting decreased. In the non-earmarked segment, in addition to lower INSS payroll-deducted credit granting, the reduction in the pace of growth in the portfolios of payroll-deducted loans to public workers and credit card purchases stood out. In the earmarked segment, the financial flow has become negative for the first time since 2019, with the decline in rural credit and real estate loans and the estimated increase of payments. The reduction in the financial flow occurs concomitantly with the increase in household debt service ratio (Figure 1.2.36). The corporate financial flow also reduced, albeit at a lower magnitude. Debt roll-over declined, as a result of an increase in payments and a decrease in non-earmarked granting. In the domestic capital market, the financial flow of debentures declined in relation to early 2025, with a reduction of issuances (Figure 1.2.35).

Figure 1.2.34 – Financial flow
BRL billion of Jul 2025, s.a., 3MMA



Financial flow: Granting - Payments

Figure 1.2.35 – Debentures financial flow breakdown
BRL billion of Aug 2025, s.a., 3MMA

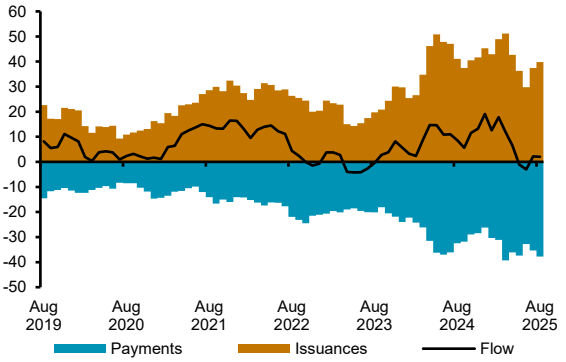
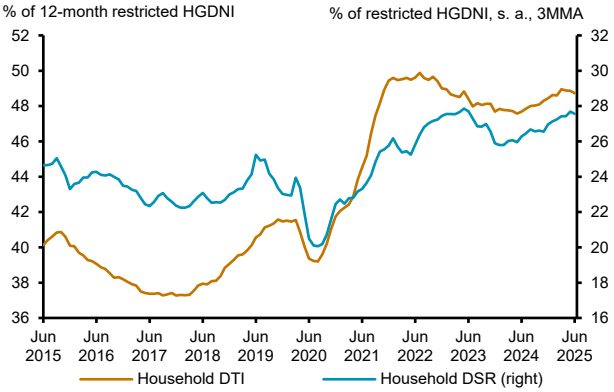


Figure 1.2.36 – Household DTI and DSR



The SFN delinquency rate has increased in the last three months, driven by past due loans in household operations. The delinquency rate of banking credit reached 3.8% of the balance, the highest rate since May 2017, with respective changes of 0.3 p.p. and 0.8 p.p. in the last three months and in the year (Figure 1.2.37). The change in the last three months largely reflected the rise of 0.4 p.p. in past due household loans, especially rural credit, revolving credit card, and non-payroll-deducted personal credit operations. The delinquency in rural credit loans rose significantly, reaching 4.4% of the portfolio, a record high in the time series begun in 2011 (Figure 1.2.38). The delinquency of corporate operations has remained stable in the last three months. However, as detailed in the box "Impact on the delinquency rate resulting from the new accounting rules for financial instruments", nearly 70% of the observed delinquency increase reflects the effects of Resolution 4,966, which came into force in January and influenced the volume of write-offs as losses.

Figure 1.2.37 – 90 days past due loans

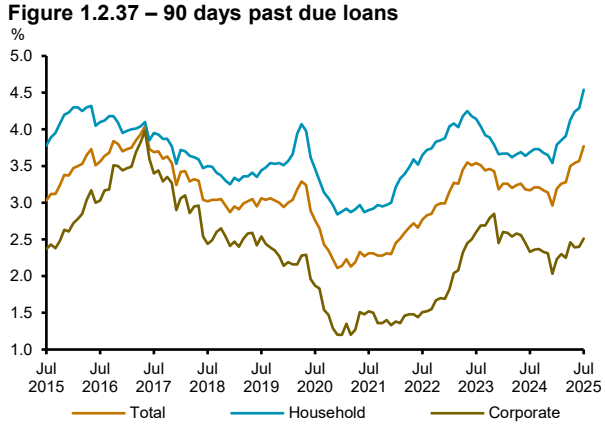
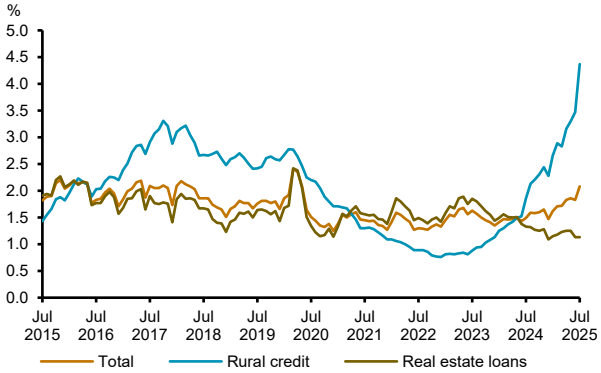


Figure 1.2.38 – 90 days past due loans of earmarked household credit



In this context, the projection for credit growth in 2025, detailed in a box in this MPR, was revised marginally upward from 8.5% to 8.8%. The change mainly reflects 2025Q2 credit data stronger than anticipated in the June 2025 MPR, highlighting the earmarked corporate credit. The expected growth of non-earmarked credit, more sensitive to the monetary policy, practically did not change and continues indicating deceleration compared with 2024. Despite the increased projection, the expected nominal expansion still represents a significant decline compared with the 11.5% observed in 2024, in line with the scenario of higher interest rate and lower economic activity growth in 2025 than in 2024. This deceleration in the pace of balance growth is expected to persist in 2026, with a projected 8.0% expansion.

Fiscal

There were no relevant changes in the fiscal scenario since the June 2025 MPR. This assessment is corroborated by the government and analysts' projections – with little changes – and by the subjective analysts' assessment, collected in the Pre-Copom Questionnaire (PCQ). The government continues projecting the compliance of primary target balances in 2025 and 2026, while market analysts continue to assess the

low probability of the target compliance in 2026 and to forecast a consistent growth of the public debt/GDP ratio until the middle of the next decade.

In the first seven months of 2025, the consolidated public sector registered a lower primary deficit than that observed in the same period of 2024. This improvement – from a BRL 65 billion deficit in 2024 to a BRL 45 billion deficit in 2025 – derived from the reduction in the Central Government deficit and the increase in the regional governments' surplus (Table 1.2.3). Within the Central Government, revenues more closely related to economic activity and the labor market continued showing a good performance. In addition to the impact of the economy's performance, the increase of the IOF rates implemented in late May – whose partial application was re-established by a Federal Supreme Court (STF) decision – also contributed to higher tax collection. On the expenses side, the real change of values accumulated in the year, which was negative until June, became positive (2.0%) due to court-ordered (*precatórios*) payments concentrated in July (Table 1.2.4).[24] Overall, when compared with 2024, mandatory expenses increased while discretionary expenses declined.

Table 1.2.3 – Public sector borrowing requirements - Primary Balance

Accumulated in the year until July

BRL billion

Itemization	2023	2024	2025
Central Government	75	79	69
o/w Federal Government	-133	-142	-178
o/w INSS	208	221	246
Regional governments	-21	-22	-32
State-owned companies	2	8	8
Total	56	65	45

Positive values represent deficit and negative values represent surplus

Table 1.2.4 – Central Government primary balance

Accumulated in the year until July

BRL billion - current values

	2024	2025	Real var. (%)
1. Total revenue	1,531	1,668	3.5
1.1 - Revenues collected by the Federal Revenue Office	991	1,093	4.9
1.2 - Net Social Security revenues	351	384	4.1
1.3 - Revenues not collected by the Federal Revenue Office	190	190	-4.8
2. Transfers by revenue sharing	295	328	5.7
3. Net revenue (1-2)	1,236	1,340	3.0
4. Total Expenditure	1,313	1,410	2.0
o/w excl. court-ordered payments	1,263	1,331	0.1
4.1 Social Security benefits	571	630	4.8
o/w excl. court-ordered payments	559	599	2.0
4.2 Payroll	210	229	3.7
o/w excl. court-ordered payments	208	222	1.5
4.3 Other compulsory expenses	221	249	6.6
o/w excl. court-ordered payments	187	208	5.5
4.4 Executive branch expenses subject to financial programming	310	302	-7.4
o/w Bolsa Família (Family Allowance)	98	95	-7.8
5. Central Government primary balance - above the line (3 - 4)	-76	-70	-14.1

Source: National Treasury

24/ As discussed in the previous MPR, court-ordered payments in 2024 were concentrated in February, which affected the comparison of the expenditure variation accumulated in 2025 against the same period in 2024.

The government's projection for the primary balance in 2025 was maintained relatively stable, indicating the primary balance target compliance. In the May-Jun Primary Revenues and Expenses Assessment Report (RARDP), the projected deficit was BRL 75 billion, a similar value to that projected in the Mar-Apr RARDP (BRL 76 billion).[25] Considering that BRL 49 billion in expenses – especially with court-ordered payments – are excluded for the assessment of the target compliance (Table1.2.5), the government's projection is consistent with the compliance with the lower target range (-0.25% of GDP or -BRL 31 billion). The government's projection for the 2025 balance is similar to the analysts' consensus, according to the median of the PCQ.

The government's primary balance projection was maintained due to similar magnitudes increases in expected revenues and expenses. The projected net revenue increase for 2025 (BRL 27 billion) basically resulted from higher expected Income Tax collection (BRL 12 billion) and the auction of the pre-salt surplus[26] (BRL 15 billion). This increased revenue projection made it possible to fully re-establish limits for the budget commitment and financial movement (BRL 21 billion) that had been restricted in the previous RARDP. Conversely, the increased expenses projection (BRL 26 billion) resulted from the BRL 3 billion expansion in extraordinary credit for the payments of undue INSS discounts and the reversal of the previous budget restriction. As the expenses projection subject to the new rule continued above the expenses cap, it was necessary to maintain the block of BRL 10.7 billion in discretionary expenses.

Table 1.2.5 – Central Government fiscal balance forecasts
Accumulated for 2025

BRL billion - current values

	LOA	RARD	PCQ
Net revenue	2,360	2,345	2,324
Total expenditure	2,390	2,420	2,398
Central Government primary balance	-30	-75	-73
Primary balance target discount	44	49	-
Primary balance consistent with the target	15	-26	-26

Sources: National Treasury and BCB

Since the previous MPR, some measures with a fiscal impact, either by the initiative of the government or the Congress, emerged or proceeded. It should be highlighted:

i) **Partial validation of Presidential Decree 12,499/2025:** on July 16, 2025, the STF granted a preliminary injunction, issued jointly in the Declaratory Constitutionality Act (ADC) 96 and of the Direct Unconstitutionality Acts (ADIs) 7,827 and 7,839, partially re-established the validity of the decree by the President of the Republic that raised the IOF rates. The suspension of the presidential decree was maintained only for the section dealing with the IOF incidence on the so-called forfaiting operations.

ii) **Provisional Measure (MP) 1,303:** under discussion in the National Congress, introduces new rules concerning taxes on financial investments and sets the income tax rates for different types of investors. It is expected to contribute with the revenue increase in 2025 and in the following years.

iii) **Sovereign Brazil Plan:** launched in August by the government, it consists of a set of compensatory measures for sectors impacted by the increase of imports tariffs by the U.S. The package includes expenses and revenues waiver, which will be excluded from the primary balance target and the expenses cap.

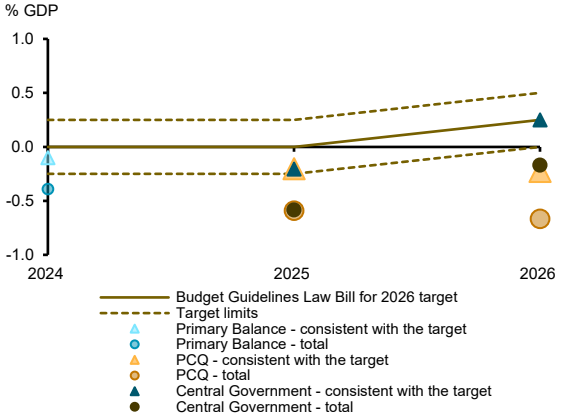
iv) **Constitutional Amendment (EC) 136:** enacted by National Congress in September, the so-called "court-ordered payments PEC" affects the central and subnational governments' finances. For the subnational bodies, the caps for annual court-ordered payments and the renegotiation of social security debts were redefined. For the central government, it removes court-ordered payments from the expenses cap set

25/ The Jul-Aug RARDP was released after the cut-off date of this MPR.
26/ The auction was authorized by Law 15,164 of July 14, 2025, and is expected to take place in November 2025.

by the fiscal framework in 2026 and foresees the exclusion of these expenses from the primary balance target with a gradual re-introduction to the target as of 2027 at a pace of 10% p.a. The removal of court-ordered payments from the expenses cap does not provide a fiscal room for the central government, since the cap will be reduced by the same amount. However, the EC contains a clause that allows increasing the 2026 expenses cap by nearly BRL 13 billion due to the change in the base of calculation.[27]

For 2026, there is no consensus between the government and market analysts about the prospect of the fiscal target compliance. The government projection included in the Annual Budget Law Bill (PLOA) for the next year is a primary deficit of BRL 23 billion. As the projection includes BRL 58 billion in expenses discounted from the assessment of the target compliance, the balance is consistent with the target compliance (a BRL 34 billion surplus, equivalent to 0.25% of GDP).[28] In turn, median market analysts' estimates indicate a primary deficit of BRL 89 billion, equivalent to a BRL 32 billion deficit in the metric for the assessment of the target compliance (Figure 1.2.39), a value below the lower range of the tolerance interval, which is zero for 2026.

Figure 1.2.39 – Central goverment primary balance forecasts

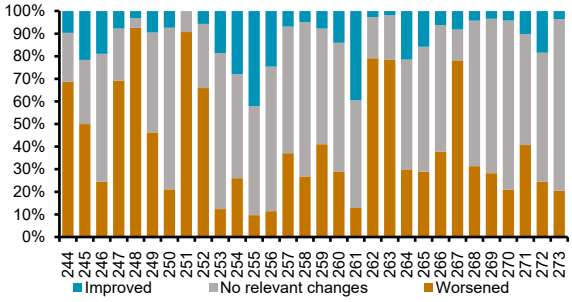


Sources: BCB and Ministry of Finance

Analysts continue to assess the fiscal scenario as challenging. According to the July and September 2025 PCQ, most respondents assess that there were no relevant changes in the evolution of the fiscal situation since the previous MPR (Figure 1.2.40). Nonetheless, the absence of relevant changes takes place amid a scenario of growing government debt which, according to the analysts' assessment, is expected to proceed in the next few years. Median Focus projections indicate a GGGD growth of 18 p.p. until 2034, reaching 94% of GDP (Figure 1.2.41).

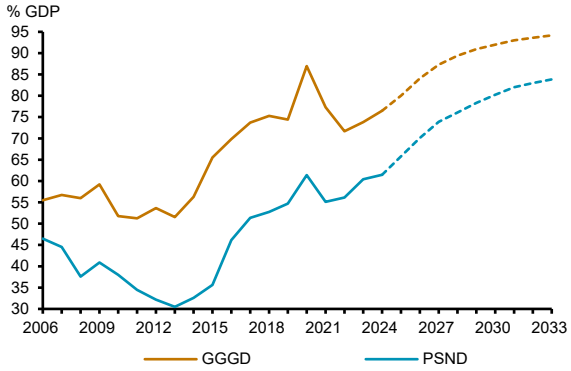
Figure 1.2.40 – PCQ: Assessment of fiscal situation

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?

Figure 1.2.41 – Debt forecasts



Forecasts from 2025 on correspond to Focus of September 12, 2025.

27/ EC 136 allows to include in the calculation base for the 2026 cap the supplementary and special credits considered for the 2025 expenses cap.

28/ As PEC 66 was not approved until late August – the legal term for the delivery of the PLOA – the BRL 13 billion increase in the expenses cap was not incorporated into the official projection. On the revenue side, the government's projection includes several non-recurrent revenues and a BRL 20 billion reduction in tax credits, which still depend on legislative approval.

External accounts

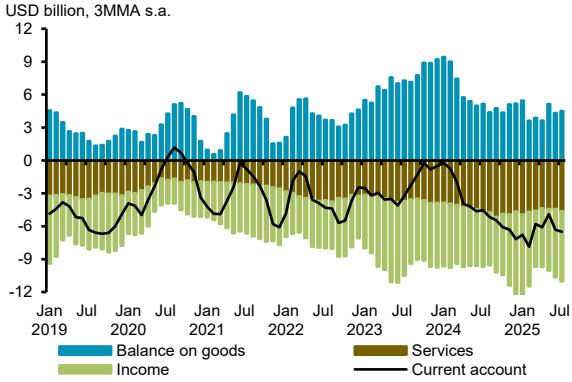
Despite the favorable exports performance, the external accounts scenario is no longer as benign as in recent years. The current account deficit, which grew steadily throughout 2024, remains high in 2025 (Figure 1.2.42). From January to July, the negative balance totaled USD 40 billion – the highest amount for the period since 2015 – highlighting, in the comparison with the same period in 2024, the increase of imports and net expenses on interest and earnings (Table 1.2.6). In the 12-month period, the current account deficit marginally exceeds net inflows of direct investment liabilities since May.

Table 1.2.6 – External accounts

Year to date until july				USD billion
Itemization	2022	2023	2024	2025
Current account	-16	-20	-23	-40
Balance on goods	34	50	44	32
Exports	196	197	200	200
Imports	162	147	155	167
Services	-24	-24	-30	-31
of which: Travel	-5	-6	-7	-8
of which: Transport	-11	-8	-8	-8
Primary income	-29	-47	-39	-43
of which: Interests	-12	-17	-18	-17
of which: Dividends	-17	-30	-22	-27
Investment - liabilities	57	57	71	67
DI liabilities	45	42	45	42
Portfolio investments	-7	9	6	1
Other investments[1]	19	5	21	24

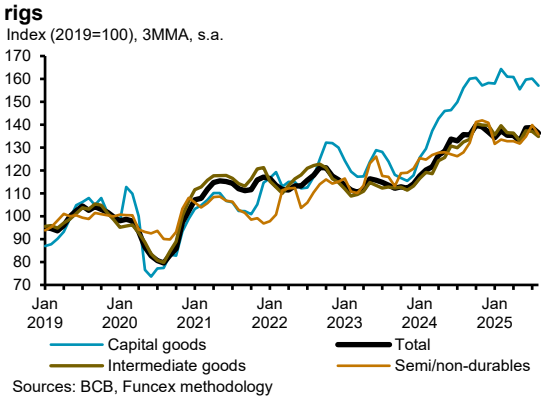
1/ Includes loans, commercial credits, deposits, and other investments

Figure 1.2.42 – Current account



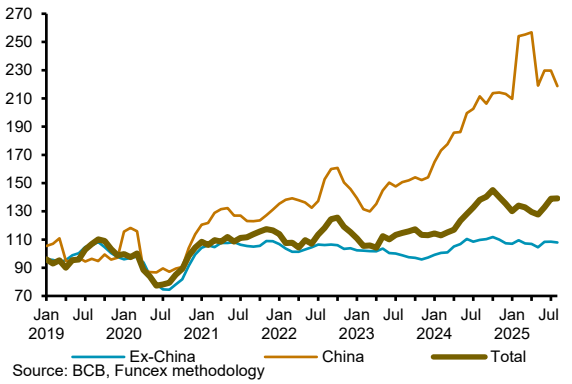
In terms of value, imports remained at a high level and reached a record in the year-to-date series through July. It is noteworthy the growing share of Chinese products, within a context of global trade shifting. The imposition of tariff and non-tariff barriers by the U.S. and the European Union on products originating from China may have contributed to the increased flow of these goods to Brazil (Figure 1.2.44), in addition to the attractiveness of the prices of Chinese products (Figure 1.2.45). These factors may help explain the imports' resilience – especially of industrial inputs and durable consumer goods (Figure 1.2.43) – which, despite having slowed down, remain at high levels even amid signs of slowdown in domestic activity.

Figure 1.2.43 – Imports quantum index - excluding oil rigs



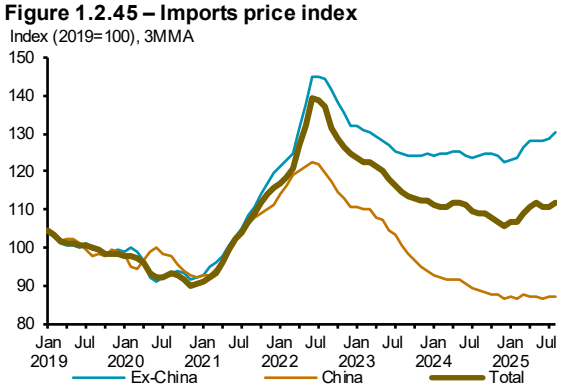
Sources: BCB, Funcex methodology

Figure 1.2.44 – Imports quantum index



Source: BCB, Funcex methodology

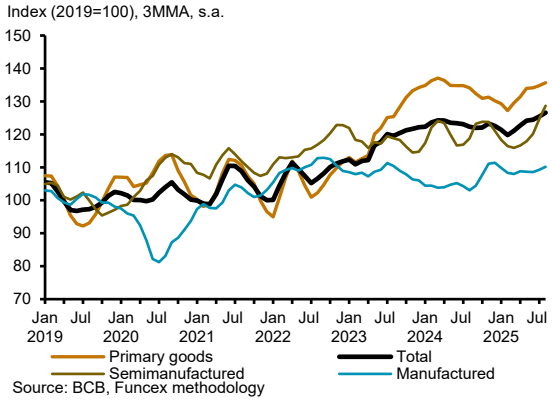
Figure 1.2.45 – Imports price index



Source: BCB, Funcex methodology

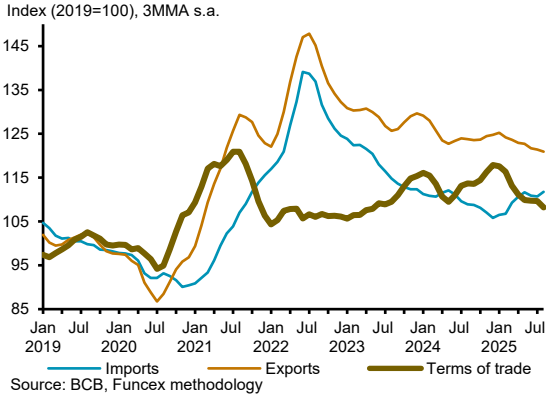
Export values have also remained at a historically high level, with a slight increase in the quantum offsetting the fall in prices. The performance of shipments of major commodities was heterogeneous, with growth in iron ore, meat, and soybeans partially offset by weaker oil sales in early 2025. Meanwhile, major commodity prices dropped, reflecting, among other aspects, uncertainties surrounding trade disputes and a strong harvest of soybeans. With falling export prices and increasing import prices, the terms of trade have worsened throughout 2025 but are showing some stability in recent months (Figure 1.2.47).

Figure 1.2.46 – Exports quantum index



Source: BCB, Funcex methodology

Figure 1.2.47 – Price Index and terms of trade

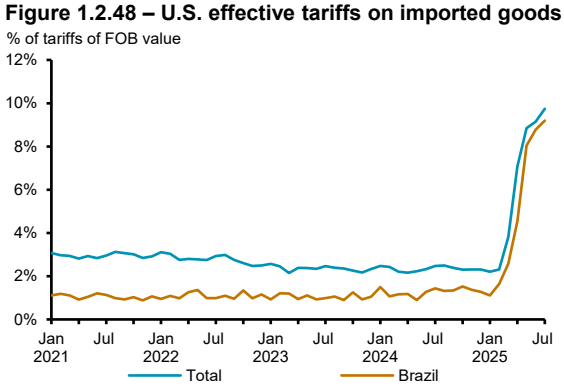


Source: BCB, Funcex methodology

In August, Brazilian exports to the U.S. decreased, and decline was not limited to products for which the tariffs were increased. As of April, the import tariff applied to most Brazilian products exported to the U.S. was raised to 10%, but some items, such as steel and aluminum, were subject to higher sectoral tariffs.[29] In this context, the average effective U.S. tariff on imports of goods from Brazil, which had fluctuated between 1% and 2% until February, reached 9.2% in July (Figure 1.2.48). Despite these changes, no decline in Brazilian exports to the U.S. had been observed until July, considering that the increase in tariffs imposed on Brazil was similar to that of several other countries. As of August, the U.S. imposed higher tariffs on products exported from Brazil, without a similar move for other countries. A 50% tariff was imposed on Brazilian goods that accounted for nearly 60% of the Brazil's exports to the U.S. in 2024. For the other exported goods, the tariffs in effect in July were maintained.[30] In August, Brazilian exports to the U.S. (Figure 1.2.49) dropped by 19% compared with the same month in 2024 (USD 3.4 billion versus USD 2.8 billion). However, the decline was not restricted to products for which tariffs were increased in August, thus suggesting the influence of other factors, such as the impact of the tariffs imposed in previous months and the end of possible up-loading purchases. Finally, the overall impact on Brazilian exports in August was limited, given that exports still rose by about USD 1 billion compared with August 2024.

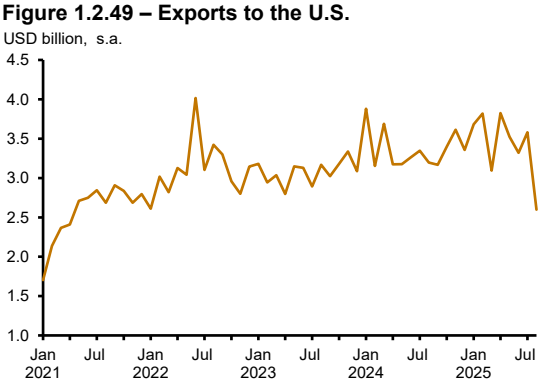
29/ Regardless of the country of origin, the U.S. tariffs on steel and aluminum imports increased to 25% in March and to 50% in July.
30/ Products exempt from the additional tariff include aviation-related products, cast iron, orange juice, fuels, cellulose, and fertilizers. The highest tariffs are applied, for example, to coffee and meat.

Figure 1.2.48 – U.S. effective tariffs on imported goods



Source: Census Bureau

Figure 1.2.49 – Exports to the U.S.



Source: Secex/MDIC, BCB (seasonal adjustment)

The services account deficit increased, reflecting higher travel expenses. In July, travel expenses reached their peak since August 2014. This growth could possibly reflect the BRL appreciation throughout 2025. Data from the National Civil Aviation Agency (ANAC) show an increase in passenger air traffic to South American countries. Transport expenses, in turn, have remained relatively stable (Figure 1.2.50), with the increase in the imported quantum being offset by lower freight prices, partly due to uncertainties in international trade.

The deficit grew again in the primary income account, simultaneously reflecting an increase in expenses and a decrease in revenues from earnings and dividends. The profitability of foreign companies operating in Brazil remained high, despite signs of domestic activity slowdown. Furthermore, after incorporating information from the Brazilian assets abroad (CBE) survey, revenues from earnings up to May were revised downwards, increasing the primary account deficit. Interest expenses abroad have remained relatively stable, while interest expenses paid domestically – composed almost exclusively of National Treasury bonds coupons – rose 9.1% YoY in July (Figure 1.2.51).

Figure 1.2.50 – Services

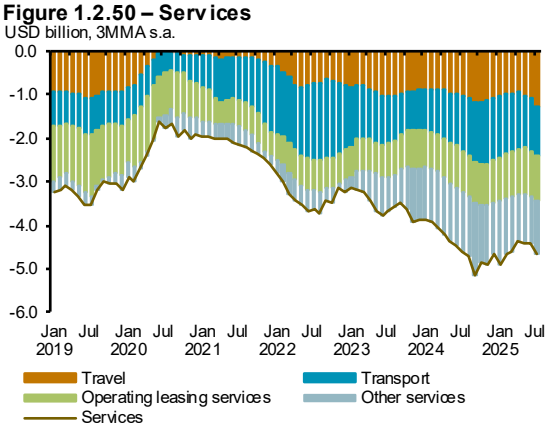
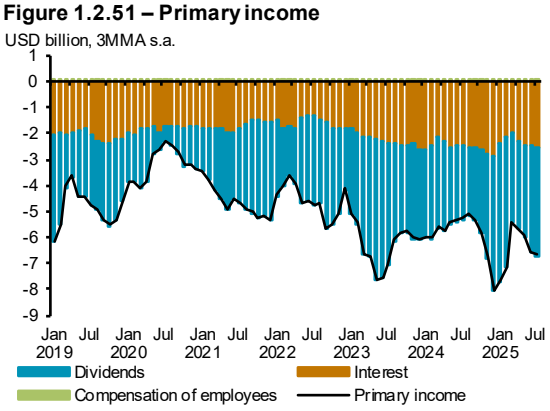


Figure 1.2.51 – Primary income



In the 12-month period, net inflows of direct investment liabilities have been lower than the current account deficit since May. While the current account deficit grew significantly in 2025, compared with the same period in 2024, direct investment liability inflows were slightly lower than those observed in 2024, reflecting a reduction in intercompany transactions (Figure 1.2.52). Conversely, equity operations grew as a result of reinvested earnings. Portfolio investment, in turn, registered a slightly positive result in 2025, supported by net inflows into domestic securities (Figure 1.2.53). These operations more than offset net outflows from equities and investment fund positions, benefited by the high interest rate differential.

Figure 1.2.52 – Direct investment liabilities

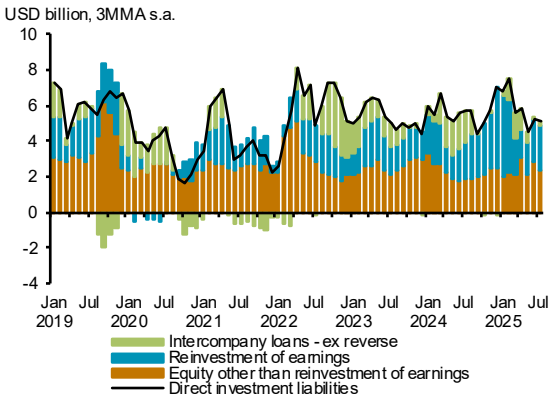
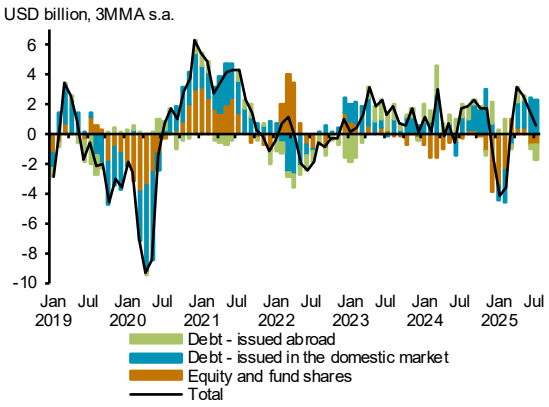


Figure 1.2.53 – Portfolio investment - liabilities



The projections for external accounts in 2025 were revised and further details are available in a box in this MPR. In line with more recent data, the most recent ordinary statistical review, coupled with the domestic outlook – including the prospect of economic activity moderation – and the international outlook, the current account deficit is expected to reach USD 70 billion (3.1% of GDP), compared with a projection of USD 58 billion (2.6% of GDP) in the previous MPR. The revised projection represents a slightly higher deficit than observed in 2024 (USD 58 billion – 2.7% of GDP) and similar to the forecast for net inflows of direct investment liabilities (USD 70 billion – 3.1% of GDP), unchanged from the previous MPR. The box also presents the first projection for the external accounts in 2026, with an expected reduction in the current account deficit to USD 58 billion (2.4% of GDP) and unchanged net inflows of direct investment liabilities at USD 70 billion (2.8% of GDP).

Prices

Despite some decline since the previous MPR, consumer price inflation remained above the target, and inflation expectations remained deanchored. The 12-month IPCA reached 5.13% up to August, compared with 5.32% up to May. In the seasonally adjusted series, the quarterly average of core inflation measures – less volatile than headline inflation – declined compared with the previous quarter. Among the three market price segments, more significant moderation was registered in food-at-home and industrial goods. Services prices, in turn, remain under pressure, amid a scenario still characterized by a heated labor market and positive output gap. Additionally, since the previous MPR, the BRL appreciated again. In this context, according to the Focus report, inflation expectations for 2025 declined but remain above the upper limit of the inflation target tolerance interval. For longer horizons, expectations improved slightly and remained deanchored.

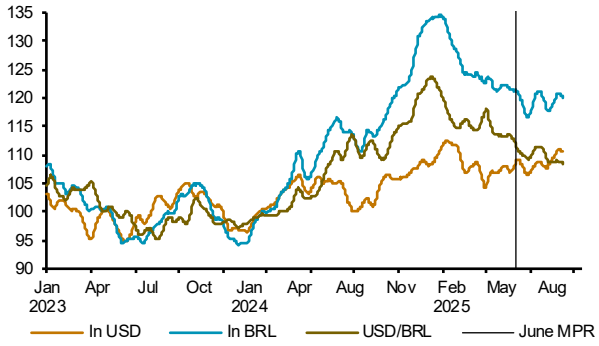
The Commodities Index – Brazil (IC-Br) measured in BRL declined again, reflecting the exchange rate movement. The IC-Br decline in BRL since the June 2025 MPR was 1.1%, with a 2.0% increase in the IC-Br in USD and a 3.1% BRL appreciation (Figure 1.2.54).[31] In USD terms, agricultural commodities increased 1.4%, mainly due to higher prices for fed cattle and coffee (Figure 1.2.55). The price of fed cattle – which has a significant weight in the IC-Br[32], has increased 30% over the past twelve months, reflecting the reduced animal supply in the U.S. Coffee prices, which had been falling since 2025Q1, have recently risen again, reflecting climate-related issues in Brazilian producing regions. Metal commodities rose 7.9%, in a widespread movement, while energy commodity prices fell 2.4%, due to a sharp drop in natural gas prices in the U.S. Since the recent peak in January, the IC-Br in BRL has declined 11%, largely explained by the BRL appreciation against the USD during the period.

31/ IC-Br and exchange rate changes discussed in this section refer to the ten-day moving average between the respective cut-off MPR dates.

32/ The weight of commodities in the IC-Br are indicated in the metadata of series 27574 of the IC-Br, available in the BCB's Time Series Management System (SGS).

Figure 1.2.54 – IC-Br and foreign exchange rate

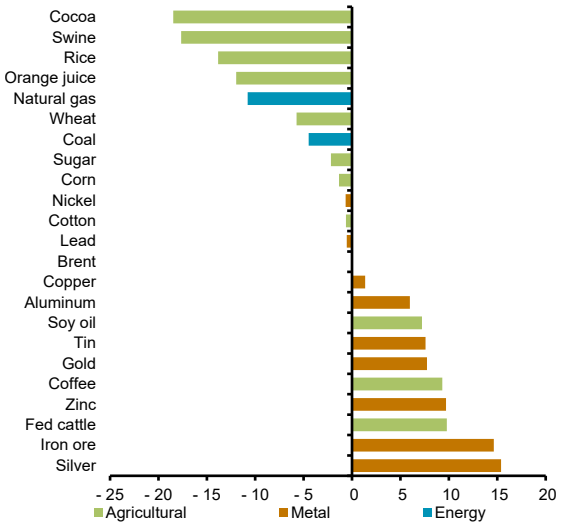
10-day moving average; 2023 = 100



Sources: Bloomberg and BCB

Figure 1.2.55 – Change in commodity prices

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

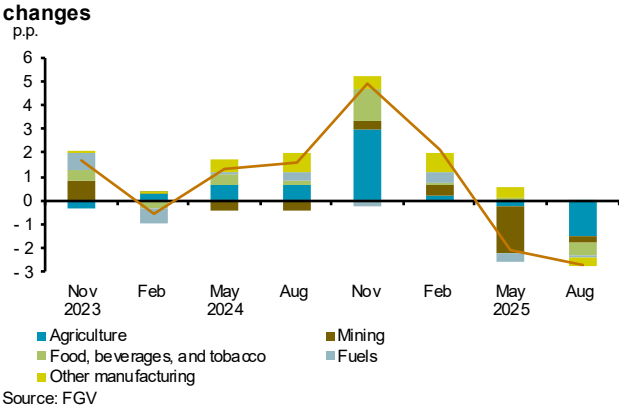


Source: Bloomberg

Producer prices declined again, with drops in agriculture and manufacturing. The Broad Producer Price Index (IPA-DI) dropped 2.71% in the Jun-Aug quarter, after decreasing 2.05% in the Mar-May quarter (Figure 1.2.56). The main contribution came from the agricultural segment (-5.73%), reflecting sharp declines in coffee (-22.18%) and corn (-16.01%) prices.[33] The price of fed cattle, in a seasonally favorable period, also fell during the quarter. With lower weight in the IPA, rice and orange prices declined again, accumulating 12-month drops of 39.3% and 28.2%, respectively. Manufacturing prices fell by 1.70% in the Jun-Aug quarter, after five consecutive quarterly increases. The largest contribution came from a 3.71% drop in processed food products. Fuel prices also declined – especially those of gasoline – due to lower prices at refineries in June. The decline in industrial goods prices is also evident in the measure that excludes fuels and processed foods. This broader movement may partly reflect the BRL appreciation since the beginning of 2025. Overall, recent IPA readings support signs of moderation in food and industrial goods inflation observed in consumer price indexes.

Figure 1.2.56 – Contributions to IPA-DI quarterly changes

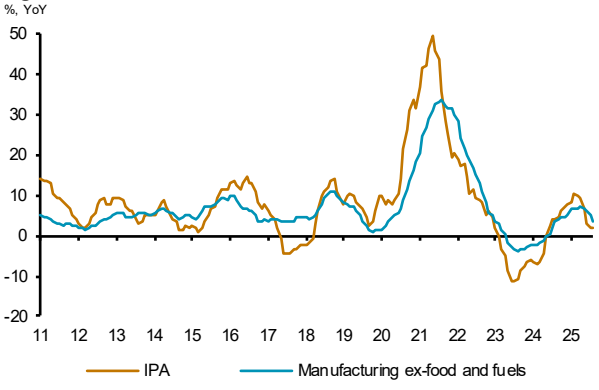
p.p.



Source: FGV

Figure 1.2.57 – IPA-DI

%, YoY



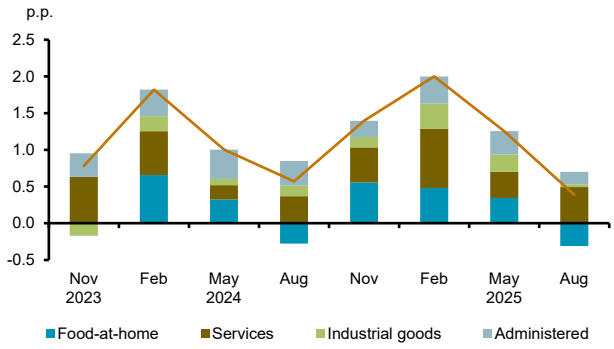
Source: FGV

Consumer inflation has decreased since the previous MPR, both in the 12-month and in the quarterly changes. Consumer inflation, measured by the IPCA, fell from 1.25% to 0.39% from the Mar-May to the Jun-Aug quarters, respectively, with notable deceleration in food-at-home and industrial goods segments (Figure 1.2.58). Part of this deceleration is seasonal but is also evident in the seasonally adjusted series. Similarly, the average of core inflation measures showed a more moderate increase, ending the period with a 4.33% annualized change, within the target tolerance interval, in the seasonally adjusted series. The 12-month IPCA declined

33/ Despite the decline in the Jun-Aug quarter, arabica and robusta coffee prices have started to rise again in recent weeks, driven by concerns over climate impacts on the 2025/2026 harvest in Brazil.

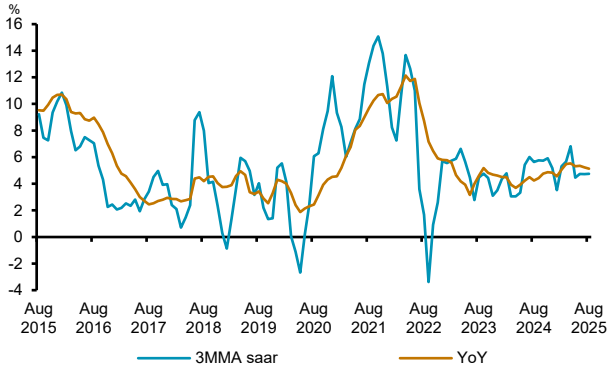
from 5.32% to 5.13% (Figure 1.2.59), a movement influenced by the effect of the Itaipu bonus on electricity prices, which reduced inflation in August. The 12-month change in the average of core inflation measures was close to the previous quarter, dropping from 5.17% to 5.12% (Figure 1.2.60).

Figure 1.2.58 – Contributions to IPCA quarterly changes



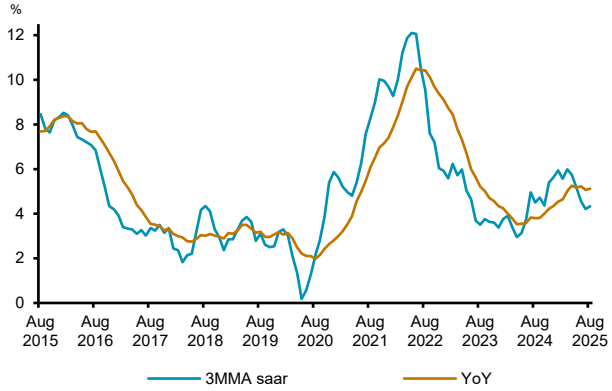
Sources: IBGE and BCB

Figure 1.2.59 – IPCA



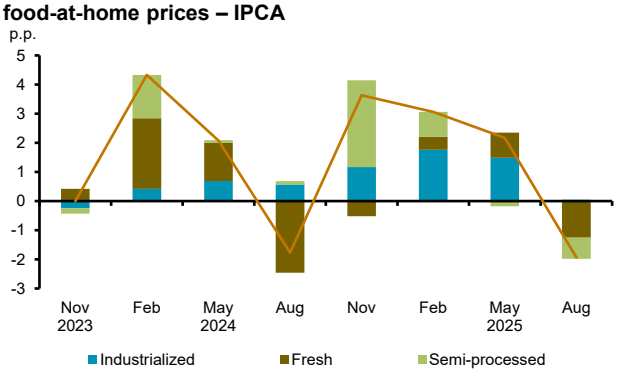
Sources: IBGE and BCB

Figure 1.2.60 – Average of core inflation measures



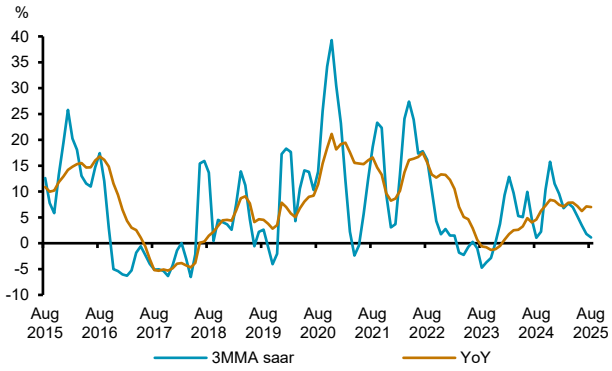
Consumer food prices continued to slow down, showing a lower quarterly change in the seasonally adjusted series. In the series not seasonally adjusted, prices in this segment dropped by 1.94% in the Jun-Aug quarter, compared with a 2.17% increase in the Mar-May quarter (Figure 1.2.61). The price decline was widespread, affecting fresh food, beef and chicken, rice and beans, as well as some processed items such as beverages, condiments, and oils and fats. Notably, ground coffee prices, which had increased 18.17% in the previous quarter, dropped slightly in the Jun-Aug quarter, following a decline in wholesale prices. As for chicken, the drop in consumer prices appears to be linked to increased domestic supply following restrictions on Brazilian exports. While part of the food price decline is seasonal, seasonally adjusted data also reveal low change in the quarter and a sharp slowdown in processed food prices (Figure 1.2.62).

Figure 1.2.61 – Contributions to quarterly changes in food-at-home prices – IPCA



Sources: IBGE and BCB

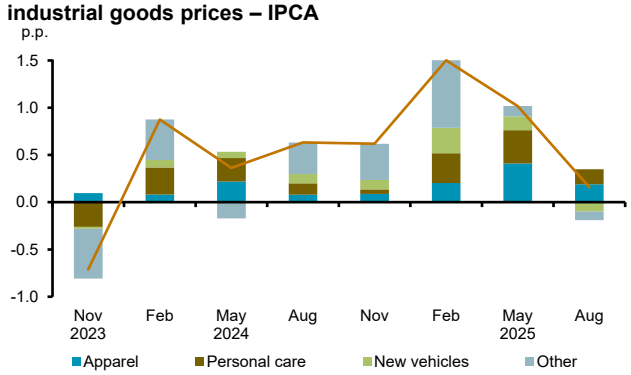
Figure 1.2.62 – Food-at-home inflation



Sources: IBGE and BCB

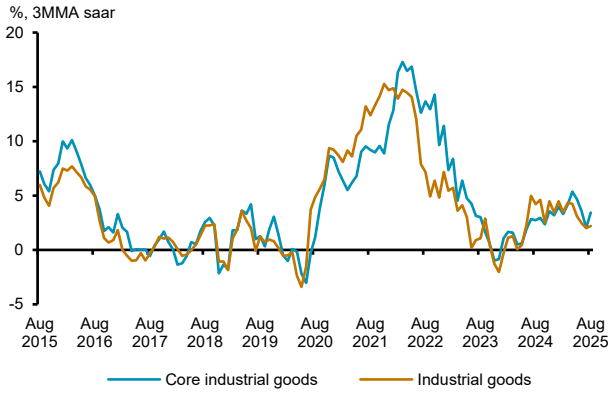
Prices of industrial goods in the IPCA index also slowed down compared with the previous quarter. The segment's price increase fell from 1.02% in the Mar-May quarter to 0.16% in the Jun-Aug quarter (Figure 1.2.63). New vehicle prices dropped significantly in July and August, following a reduction in the Industrialized Products Tax (IPI) tax on the product.[34] However, even excluding that subitem, industrial goods prices also showed moderation. Lower price changes were observed in clothing, personal hygiene products, and materials related to home repairs, cleaning, recreation, and education. In the saar series, the change in industrial goods prices declined from 3.10% to 2.20% (Figure 1.2.64). Alternative measures that exclude the most volatile items in the segment also indicate lower changes in the quarter. The 12-month inflation in the segment declined from 3.82% in May to 3.33% in August, still a high level for this segment.

Figure 1.2.63 – Contributions to quarterly changes in industrial goods prices – IPCA



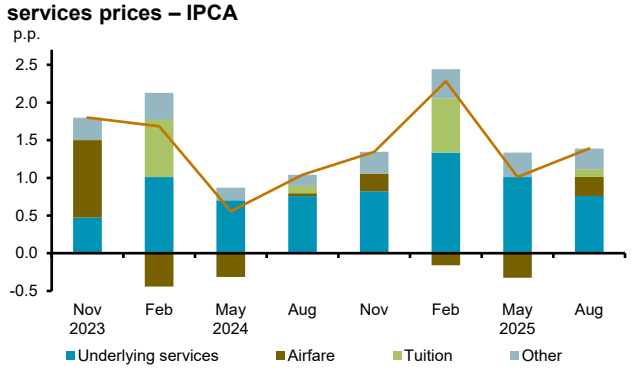
Sources: IBGE and BCB

Figure 1.2.64 – Industrial goods inflation



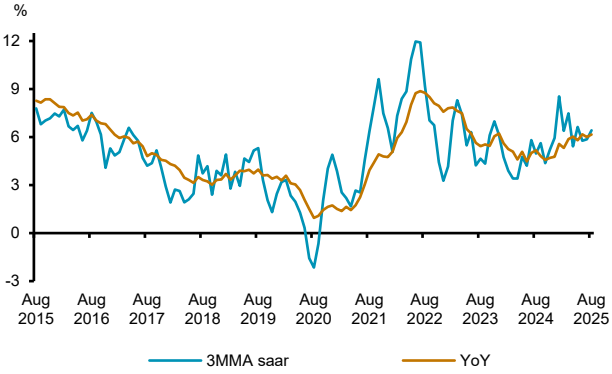
Services inflation continues at a high level. From the Mar-May to the Jun-Aug quarters, services inflation grew from 1.01% to 1.39%, largely driven by a sharp increase in airfare prices (Figure 1.2.65). Excluding airfare, the change dropped from 1.36% to 1.15%. The underlying component of services inflation also slowed down, from 1.70% to 1.27%. When excluding atypical changes in cinema, theater, and concert hall ticket prices,[35] the slowdown was more modest, from 1.53% to 1.32%. The moderation in services inflation is also reflected in the seasonally adjusted series. The saar change of the underlying component declined from 7.06% in the Mar-May quarter to 5.76% in the Jun-Aug quarter. Despite the easing compared with the previous quarter, services inflation remains high, with several underlying measures showing annualized changes of around 6% in the seasonally adjusted series (Figure 1.2.67). In twelve months, services inflation rose again, from 5.80% in May to 6.16% in August (Figure 1.2.66).

Figure 1.2.65 – Contributions to quarterly changes in services prices – IPCA



Sources: IBGE and BCB

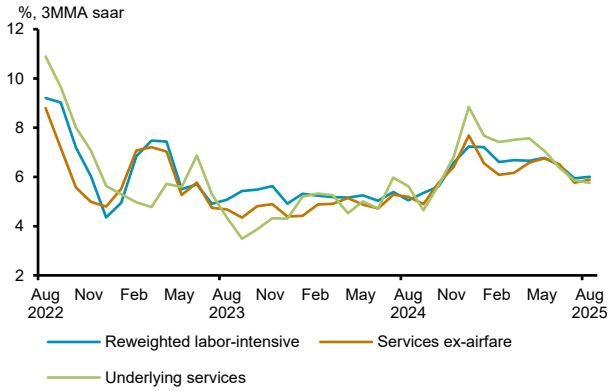
Figure 1.2.66 – Services inflation



34/ On July 11, 2025, Decree 12,549 was published, changing the methodology for calculating the IPI tax on new vehicles. Some of the changes had immediate effects, including the reduction to zero of the IPI on entry models. Other changes are expected to have delayed effects due to the 90-day rule.

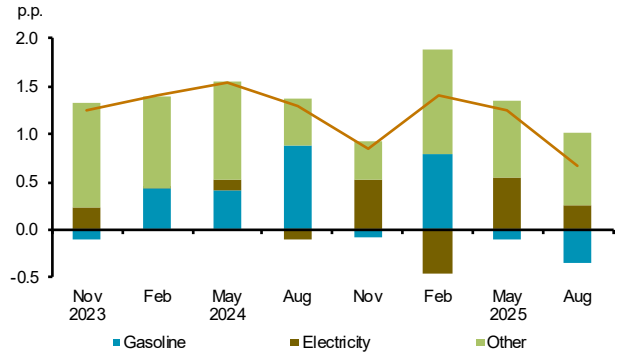
35/ In the previous quarter, in March, there was a sharp increase in this subitem due to the reversal of discounts from the Cinema Week in February. In the current quarter, in August, there was a partial impact from discounts related to the Cinema Week, which ran from August 28 to September 3.

Figure 1.2.67 – Services inflation



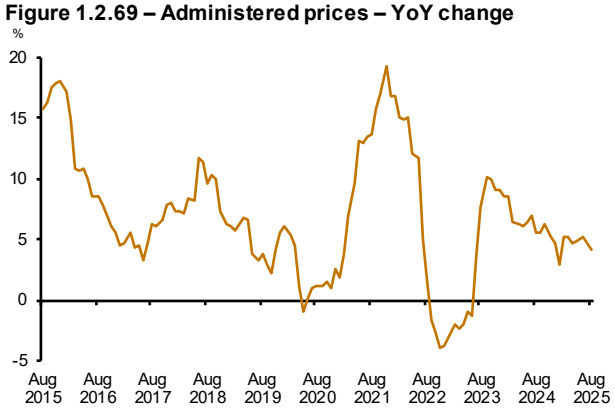
Administered prices showed a smaller increase than in the previous quarter, heavily influenced by a discount on residential electricity tariffs. The segment's change fell from 1.24% in the Mar-May quarter to 0.66% in the Jun-Aug quarter (Figure 1.2.68). The 12-month inflation also moderated, from 4.87% to 4.22% (Figure 1.2.69). The main driver of the slowdown in the quarter was the lower change in residential electricity tariffs – the distribution of the Itaipu bonus to consumers, through a discount on the August tariff, more than offset the switch to the red 2 flag in the same month.[36] Medication prices also registered a smaller increase, following seasonal hikes in the Mar-May quarter (associated with adjustments in the price cap for regulated medicines). Furthermore, gasoline prices dropped more sharply during the quarter, reflecting refinery price cuts in June and favorable seasonal trends for ethanol prices. Conversely, there was a notable increase in the subitem lottery games, reflecting price adjustments by Caixa Econômica Federal during the period.

Figure 1.2.68 – Contributions to quarterly changes in administered prices – IPCA



Sources: IBGE and BCB

Figure 1.2.69 – Administered prices – YoY change



Inflation expectations remain deanchored, although they have declined for 2025 and, to a lesser extent, for 2026. The median expectations for 2025 fell from 5.25% to 4.83% since the March 2025 MPR (Figure 1.2.70), remaining above the upper limit of the inflation target tolerance interval. There was a significant drop in expectations for price increases in food-at-home and industrial goods (Table 1.2.7). Conversely, the median expectation for services inflation in 2025 remained virtually unchanged. Expectations for administered prices were revised upward, possibly reflecting the lottery price rise and higher projections for electricity, according to PCQ data. For the 20262029 period, compared with the June 2025 MPR, there were slight reductions in expectations, which remain deanchored (Figure 1.2.71).

36/ The impact of the Itaipu bonus on August price changes is expected to be fully offset in September. Regarding tariff flags, the accumulated impact of the transition from the yellow flag (in May) to the red 2 flag (in August) was observed in the Jun-Aug quarter. In the previous quarter, there was a transition from the green flag in February to the yellow flag in May. The change in the Jun-Aug quarter was also influenced by significant tariff hikes in several state capitals, including the São Paulo metropolitan area.

Figure 1.2.70 – Median market expectations (Focus) – Annual IPCA in 2025

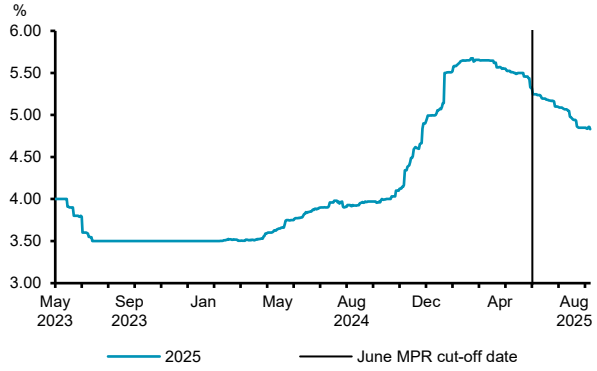
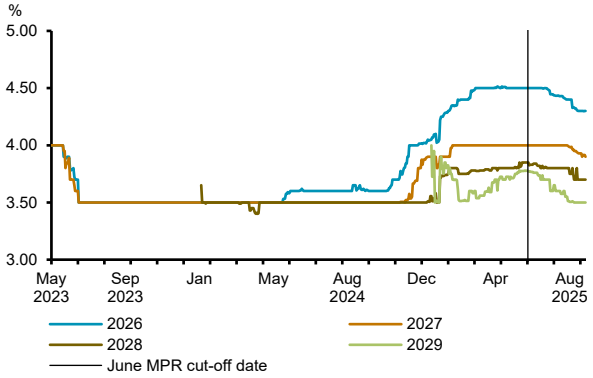


Table 1.2.7 – Breakdown of the revision on the 2025 Focus survey

	Weights	Focus expectations (% p.a.)		
		Jun-13	Sep-12	Contr. to Δ (p.p.)
IPCA	**100**	**5.25**	**4.83**	**-0.42**
IPCA (by aggregation)	100	5.25	4.81	-0.43
Food-at-home	16	6.93	4.57	-0.37
Industrial goods	23	3.79	3.09	-0.16
Services	36	6.10	6.15	+0.02
Administered prices	26	4.34	4.66	+0.08
Market prices	74	5.62	4.86	-0.56
Market prices (by aggreg.)	74	5.56	4.87	-0.52

Figure 1.2.71 – Median market expectations (Focus) – Annual IPCA - 2026 to 2029



Projections for GDP growth in 2025 and 2026

The projection for GDP growth in 2025 was revised from 2.1% to 2.0%, while the initial estimate for 2026 is 1.5%. The expectation remains that the moderation of economic activity will continue throughout the second half of 2025, a trend likely to extend into the following year.

The central projection for GDP growth in 2025 was revised from 2.1% in the June 2025 Monetary Policy Report (MPR) to 2.0%. The slight reduction stems from the still uncertain effects of the increase of higher import tariffs imposed by the United States of America (U.S.), as well as signs of moderation in economic activity in 2025Q3. These factors were partially offset by more favorable forecasts for agriculture and mining.

For 2026, growth of 1.5% is projected, with moderate increases expected in both supply and aggregate demand components. The projection assumes the continuation of the monetary policy in restrictive territory, the low level of slack in production factors, the prospect of a slowdown of global economy, and the absence of the agricultural impulse observed in 2025.

Revision of the 2025 GDP projection

From the supply side, there was an increase in the projection for agriculture, a reduction for industry, and stability for the services sector. The projection for less cyclical sectors increased, mainly reflecting expectations of greater expansions in agriculture and mining, as already mentioned, as well as in the segment of financial intermediation services, which performed robustly in the first half of the year. In contrast, the estimate for the sectors that are more sensitive to the economic cycle declined, pointing to the prospect of moderation in activity.[1]

The estimate for agricultural growth increased from 8.0% to 9.0%, a revision that mainly reflects further increases in harvest estimates by the Brazilian Institute of Geography and Statistics (IBGE). The estimated annual grain production growth has been updated from 13.6% to 16.6% since the June 2025 RPM, with a significant revision in the corn estimate, according to the Systematic Survey of Agricultural Production (LSPA – IBGE).

The forecast for industry has been adjusted from 1.9% to 1.0%. The revision reflects worsening forecasts for manufacturing, construction, and utilities, impacted by lower-than-expected performance in 2025Q2 and the first results of monthly indicators for 2025Q3. Conversely, the annual growth estimate for mining increased significantly, driven by the sharp rise recorded in 2025Q2, which particularly reflected the significant increase in oil production.

For the services sector, the growth projection remained at 1.8%, although significant revisions have been made in specific segments. Particularly noteworthy is the significant increase in the estimate for financial intermediation services, offset by a reduction in forecasts for public administration, health, and education services. The changes in the tertiary sector segments reflect the surprises observed in 2025Q2 results, as well as the first signs captured by the monthly indicators for 2025Q3.

1/ Classification also used in the "Economic activity" section. Less cyclical activities: agriculture; mining; financial activities, insurance, and related services; real estate activities; and public administration, defense, health and education, and social security. More cyclical: other activities.

As for domestic demand, the projection for annual growth in household consumption was revised from 2.1% to 1.8%. This revision is mainly due to the incorporation of more recent data for 2025Q3, particularly indicators for retail trade, consumer goods production, and services provided to households, which point to a more moderate consumption dynamics than previously estimated. However, household consumption is still expected to expand in the second half of the year. The labor market is still resilient, which is expected to contribute to sustaining household income. Although there is some uncertainty about its effects, the increase in consumption during this period should be partially sustained by the impact of court-ordered payments, concentrated this year in 2025Q3, on household income, and by the higher level of payroll-deducted loans to private sector workers already observed since July.

The estimated government consumption growth was also reduced, from 1.2% to 0.5%, reflecting the lower-than-expected performance observed in 2025Q2 results. In contrast, the projection for the change in Gross Fixed Capital Formation (GFCF) was raised from 2.8% to 3.3%, driven by the expected import of another oil rig, scheduled to arrive until the end of the year.

The projection for the annual change in exports was revised from 3.5% to 3.0%, reflecting expectations of a slowdown in shipments during the second half of the year, partly influenced by the U.S. increase in import tariffs. Conversely, the estimate for imports increased from 3.5% to 4.5%, a result that incorporates a higher-than-expected volume observed in 2025Q2, in addition to the aforementioned expectation of the arrival of a new oil rig. Given the estimated changes for the components of aggregate demand, the contributions of the domestic demand and the external sector to GDP growth in 2025 are 2.2% and -0.2%, respectively.

Table 1 – Gross Domestic Product
Accumulated in the year

% growth

Itemization	2024	2025[1]	
		Previous	Current
Agriculture	-3.2	8.0	9.0
Industry	3.3	1.9	1.0
Mining	0.5	4.5	6.5
Manufacturing	3.8	1.0	-0.2
Construction	4.3	2.5	1.0
Utilities (EGAER)[2]	3.6	1.5	-1.5
Services	3.7	1.8	1.8
Trade	3.8	1.8	1.0
Transport and storage	1.9	1.7	1.4
Information services	6.2	5.8	6.5
Financial and related services	3.7	0.7	3.0
Other services	5.3	2.0	2.1
Real estate	3.3	2.1	2.1
Public admin., health, and education (APU)	1.8	1.0	0.4
More cyclical components	4.3	1.9	1.3
Less cyclical components	1.5	2.4	3.1
Value added at basic prices	3.1	2.2	2.1
Taxes on products	5.5	1.7	1.4
GDP at market prices	**3.4**	**2.1**	**2.0**
Household consumption	4.8	2.1	1.8
Government consumption	1.9	1.2	0.5
Gross Fixed Capital Formation	7.3	2.8	3.3
Exports	2.9	3.5	3.0
Imports	14.7	3.5	4.5

Sources: IBGE and BCB
1/ Estimated.
2/ Electricity and gas, water, sewage, waste management activities.

Projection for the 2026 GDP

On the supply side, the agriculture, industry, and services sectors are expected to grow 1.0%, 1.4%, and 1.5%, respectively.

The strong comparison basis is likely to limit agricultural growth in 2026. The record grain harvest in 2025 benefited from very favorable weather conditions, which may not be repeated in 2026. In addition, higher relative prices of pesticides and fertilizers tend to reduce their use, with a negative impact on productivity. In livestock, a moderate pace of cattle slaughter is projected, reflecting the growing share of females in slaughters in recent years, a factor that could reduce the availability of animals.

In the secondary and tertiary sectors, moderate growth is projected in most segments. In industry, mining stands out as an exception, with forecasts of another significant expansion, supported by favorable outlooks from the main oil and iron ore producers. In the services sector, robust growth is expected – albeit lower than in 2025 – in information and communication services, a segment that has shown high dynamism in recent years.

In domestic demand, the expected change rates for household consumption, government consumption, and GFCF are 1.4%, 1.0%, and 0.3%, respectively.

The slowdown in household consumption should reflect, among other factors, a slower pace of expansion in the employed population, in a context of already very low unemployment and high household debt-to-income and debt service levels. Conversely, resilient household disposable income is expected to contribute to partially mitigate the loss of consumption dynamism.

The reduction in GFCF growth compared with the 2025 projection reflects both the expectation of a moderate pace of expansion throughout the year, under the effects of a contractionary monetary policy, and the forecast of a limited statistical carry-over effect from 2025Q4 to 2026. Moreover, the projection foresees a lower volume of imports of oil rigs, a relevant factor for investment expansion in 2025.

Exports and imports of goods and services are expected to grow 2.5% and 1.0%, respectively – rates lower than those projected for 2025. This more moderate performance in exports is influenced by several factors, such as the expectation of lower global growth than predicted for 2025, some level of restriction on access to the U.S. market, and the forecast of only a modest increase in agricultural production. The estimated slowdown in imports reflects the expected slowdown of domestic demand and, as already mentioned, the reduction in imports of oil rigs. The contributions of domestic and foreign demand are estimated at 1.2% and 0.3%, respectively.

Table 2 – Gross Domestic Product
Accumulated in the year

			% growth
Itemization	2024	2025[1]	2026[1]
Agriculture	-3.2	9.0	1.0
Industry	3.3	1.0	1.4
Services	3.7	1.8	1.5
Value added at basic prices	3.1	2.1	1.5
Taxes on products	5.5	1.4	1.4
GDP at market prices	**3.4**	**2.0**	**1.5**
Household consumption	4.8	1.8	1.4
Government consumption	1.9	0.5	1.0
Gross Fixed Capital Formation	7.3	3.3	0.3
Exports	2.9	3.0	2.5
Imports	14.7	4.5	1.0

Sources: IBGE and BCB
1/ Estimated.

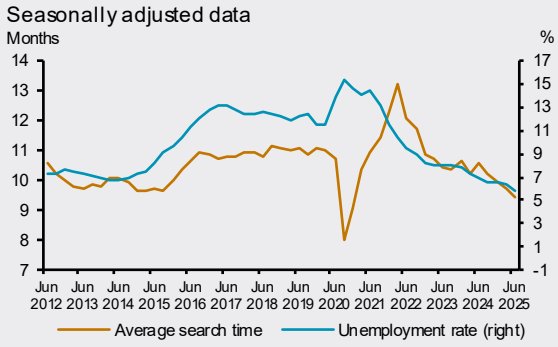
Job switching and wage premium

This box presents additional labor market indicators that, in general, support the assessment that the labor market is heated. Worker mobility is high, as suggested by historically elevated rates of job switching and turnover, and the historically low average time it takes for a worker to find a new job. The wage premium for switching jobs is at a high level according to PNAD Continuous data, although Caged data suggest a decline in this premium in recent years.

Introduction. The labor market remains heated, with no clear signs of slowdown or inflection. This box presents additional indicators – some of which were already presented in a previous edition of this Monetary Policy Report (MPR)[1] – that support this assessment.

Average time a recently employed worker was unemployed:[2] Calculated from paired data from the Continuous National Household Sample Survey (PNAD Continuous), this indicator is well correlated with the labor market cycle – the more heated the labor market, the shorter the time needed for an unemployed individual to find a job. An exception occurred at the beginning of the pandemic, when, despite rising unemployment, the time to reemployment decreased – reflecting a higher rate of withdrawal from job search among the long-term unemployed. As the pandemic dissipated, from the second half of 2021 onward, the indicator reached its highest historical level – thirteen months. Since then, it has shown a consistent downward trend. In 2025, the average time is below ten months – a historically low level, similar to that observed during another period of a heated labor market (2013-2014) and lower than the level recorded from 2017 to 2019, when the economy was gradually recovering from a recession (Figure 1).

Figure 1 – Time of job search until employment and unemployment rate



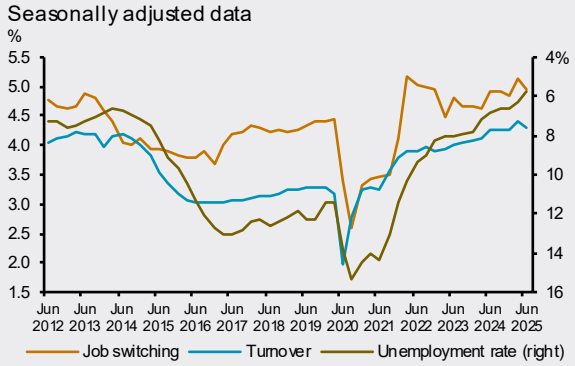
Sources: IBGE and BCB

Occupation switching rate (PNAD Continuous)[3] **and turnover rate (Caged).**[4] Both indicators measure workers' mobility and tend to show an inverse relationship with the unemployment rate. As the labor market heats up,

1/ See box Complementary labor market indicators in the September 2024 Inflation Report (IR).
2/ Calculated from paired data from the PNAD Continuous, which allows tracking respondents over time. By identifying the same individuals in two consecutive quarters, the average job search time was calculated for those who were unemployed in one quarter (the survey includes information on the duration of job searching, measured in months) and employed in the following quarter. Since it is not possible to determine the exact month that the respondent started working, one and a half months were added to the average.
3/ Using paired data, job switches are considered in cases in which individuals are employed in both quarters t and t-1, and in quarter t have been employed for up to two months. The total number of switches was divided by the number of employed individuals in t-1. Due to limitations in the survey, it is not possible to distinguish between those who resigned and those who were dismissed.
4/ It is the minimum between the total number of hirings and layoffs in a given month, divided by the number of existing employment relationships in the previous month.

more – and potentially better – opportunities arise, encouraging workers to seek new positions. However, for the indicator based on the PNAD Continuous data, this relationship was less evident during the 2015-2016 recession. During that period, unemployment rose sharply, while job switching declined modestly (Figure 2). Part of this dampening effect can be explained by the increase in transitions from formal to informal employment,[5] driven by households' need to preserve part of labor income during economic crises. From 2017 to 2019, during the economic recovery, job switching gradually increased. With the pandemic, there was a sharp decline. In recent years, both job switching and turnover rates have risen again, reaching historically high levels nowadays.

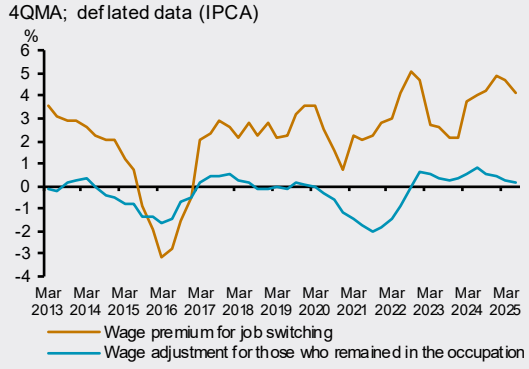
Figure 2 – Quarterly job switches and turnover



Sources: IBGE, MLE and BCB

Wage premium for job switching (PNAD Continuous):[6] The wage premium associated with job switching is also at a historically high level. On average, job changes are accompanied by wage gains, reflecting the fact that many workers voluntarily switch jobs seeking better pay. These gains tend to be more significant during periods of labor market expansion, when there is greater competition among employers for workers. Conversely, during economic downturns, job openings decrease, and the wage premium tends to fall, sometimes even becoming negative. Considering the four-quarter moving average, the premium ranged between 2% and 3% from 2013 to 2014, dropped sharply during the recession, and returned to its initial level from 2017 to 2019. Since the pandemic, the premium has become more volatile, but in 2024 and 2025 it remained between 4% and 5%, supporting the assessment of a heated labor market (Figure 3). Additionally, for most of the period under analysis, the change in average earnings of workers who switched jobs between two consecutive quarters exceeded that of those who remained in the same position. An exception occurred during the 2015-2016 economic crisis.

Figure 3 – Wage premium for job switching



Sources: IBGE and BCB

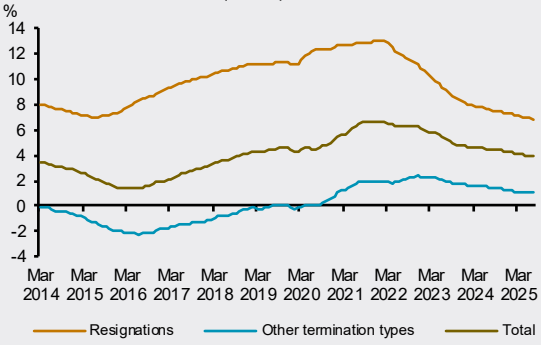
5/ For more information on growth pace and changes in the composition of the employed population, see box Evolution of the formal and informal labor markets in the recent economic activity cycles in the December 2019 IR.

6/ Calculated as the change in average real income between two consecutive quarters, considering only workers who, in the current quarter, occupy a different position than in the previous quarter.

Wage premium for job switching (Caged):[7] General Registry of Employed and Unemployed Persons (Caged) data captures only switches within the formal private employment segment with signed labor contracts, excluding other forms of formal and informal employment. Conversely, this data source allows segmentation of the premium between resignations and other types of termination (Figure 4). As expected, the wage premium for resignations exceeds that of other types throughout the period. However, unlike the similar variable constructed from PNAD Continuous data, the wage premium measured by Caged has been declining for three years, for both resignations and other termination types. This decline is more pronounced among resignations, with the premium reaching a historically low level. Segmentation by education level and age group indicates that this downward trend in the wage premium for resignations over the past three years is widespread (Figures 5 and 6).

Figure 4 – Wage premium

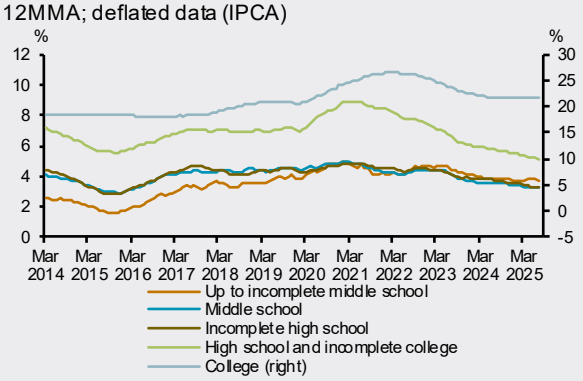
12MMA; deflated data (IPCA)



Sources: MLE and BCB

Figure 5 – Wage premium in resignations by education level

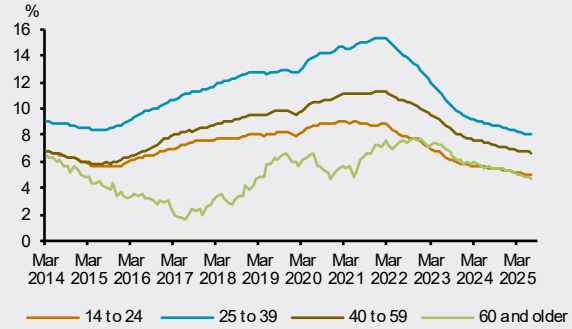
12MMA; deflated data (IPCA)



Sources: MLE and BCB

Figure 6 – Wage premium in resignations by age range

12MMA; deflated data (IPCA)



Sources: MLE and BCB

Conclusion In summary, the current dynamism of the labor market and its low slack are reflected in indicators related to mobility and the time required to find a job. However, the evolution of the wage premium shows discrepancies depending on the data source: while calculations based on PNAD Continuous point to historically high levels, Caged data indicates a downward trend.

7/ Calculated from a database with identified companies and individuals. By tracking individuals over time, the wage premium was calculated as the percentage difference between the hiring salary in month t and the layoff salary in the previous job, considering only terminations that occurred in months t, t-1, or t-2. For the premium calculation, intermittent workers and cases in which the hiring company was the same as the terminating one were excluded. Salaries below 0.3 minimum wage and above 150 minimum wages were also excluded, following the criteria adopted by the Ministry for calculating average earnings. The premiums were deflated by the IPCA and expressed in 12-month moving averages for smoothing. It is important to note that the calculated series includes data from before and after the changes made to Caged in 2020. Therefore, comparisons between periods should be made with caution. Further references to the changes in Caged are available in the labor market section in the March 2021 and December 2021 Inflation Reports.

Effects of app-based work on the labor market

This box analyzes the impact of the introduction of digital platforms for passenger transport and goods delivery services on the Brazilian labor market. The results of two separate exercises suggest that this phenomenon affected the labor force participation rate, the employment level, and the unemployment rate.

Introduction

The use of phone and Internet apps to hire personal transport and goods delivery services emerged about a decade ago and has since grown and become relevant to the Brazilian economy. For example, app-based transport was included in the Extended National Consumer Price Index (IPCA) – the inflation measure used as a reference in the Brazilian inflation-targeting system – starting in 2020, reflecting the results of the 2017/2018 Household Budget Survey (POF). In August 2025, the weight of the sub-item "app-based transport" in the IPCA was 0.3%, while, for comparison, the weight of "airfare" was 0.6%. As that weight still reflects consumption estimates from the 2017/2018 POF, its current relevance may be even greater.

This box uses data from the Continuous National Household Sample Survey (PNAD Continuous) to understand the implications of this phenomenon for the Brazilian labor market. After estimating the number of app-based workers, two separate analyses are presented. The results of both exercises suggest that this phenomenon contributed to an increase in the employment level and labor force participation and helped reduce the unemployment rate.

Estimate of the number of "app-based workers"

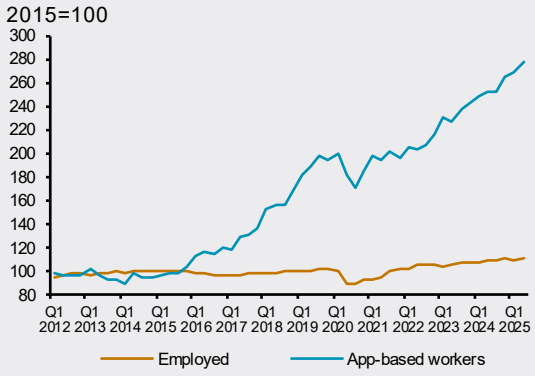
The term "app-based workers" used in this box refers to occupational categories that have grown significantly with the advent of digital platforms, although not all of them are working through those platforms. As a starting point, only self-employed workers are considered in terms of occupational status.[1] Workers on digital passenger transport platforms are estimated by cross-referencing the activity "Road passenger transport" from the National Classification of Economic Activities adapted for household surveys (Household CNAE) with the occupations "Motorcycle drivers" and "Taxi and van drivers" from the Brazilian Classification of Occupations adapted for household surveys (Household CBO). Home delivery platform workers are estimated by cross-referencing "Road passenger transport" and "Courier and delivery activities" (Household CNAE) with the occupation types "Pedal- or hand-powered vehicle drivers"[2], "Motorcycle drivers", and "Taxi and van drivers" (Household CBO).

The number of app-based workers has grown strongly. This expansion has been driven by the emergence of new technologies and the low entry cost of this type of activity.[3] According to PNAD Continuous data, from 2015 to 2025Q2, while the employed population in the country grew nearly 10%, the number of app-based workers – comprising those on passenger transport and home delivery platforms – increased 170%, rising from around 770,000 to 2.1 million.

1/ For example, other types of occupational status include formal employees, informal employees, and employers, among others.
2/ This household CBO is cross-referenced only with "Courier and delivery activities".
3/ The app-based transport service Uber, for instance, began operating in Brazil in 2014, initially offering passenger transport in high-end cars. In 2015, it began serving other segments and quickly expanded in the following years.

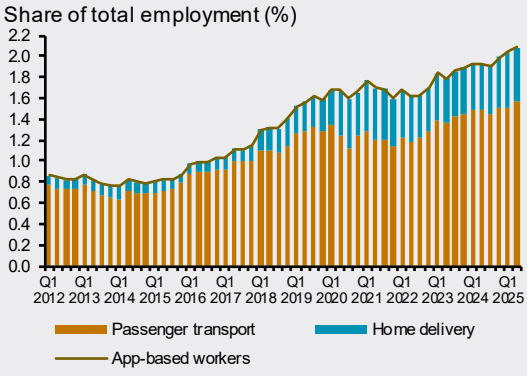
Despite this significant growth, the share of these workers is still relatively small. It rose from 0.8% to 2.1% of the employed population (EP) from 2015 to 2025, and from 0.5% to 1.2% of the working-age population (WAP) in the same period. One can observe that, from 2015 to 2017, growth was stronger in passenger transport services. From 2017 to 2021, dynamism was stronger in home delivery services (Figure 2).

Figure 1 – App-based workers



Sources: IBGE and BCB

Figure 2 – App-based workers



Sources: IBGE and BCB

Counterfactuals without extraordinary growth in app-based employment

The first exercise uses the temporal dimension of Brazilian labor market variables viewed in aggregate terms – that is, without exploring differences between locations. The goal of this exercise is to estimate counterfactual values for the employment level (EL)[4], participation rate (PR),[5] and unemployment rate (UR) under a hypothetical scenario in which the accelerated growth of app-based workers – far above historical patterns – had not occurred.

To this end, the EP was segmented into two groups: app-based employed population (EP-app) and other employed individuals (EP-non-app). A counterfactual EP was then calculated as the sum of these two groups, assuming that the app-based workers group had grown at the same rate as the EP-non-app group, starting from 2015Q1 – when the accelerated growth of app-based workers began. Based on this counterfactual EP, a counterfactual EL was estimated, showing a progressive distancing from the observed values. In 2025Q2, the counterfactual EL was 0.8 p.p. below the actual observed EL (Figure 3).

Figure 3 – Employment level

Sources: IBGE and BCB

To estimate the counterfactual unemployed population (UP) and the population out of the labor force (POLF) – and thereby calculate the counterfactual participation and unemployment rates – it is necessary to

4/ Ratio between EP and WAP.
5/ Ratio between the labor force population and the WAP.

make assumptions about the destination of the extraordinary, employed population (extra EP), which is the difference between the observed EP and the counterfactual EP. In other words, it should be considered what would have happened to this group if they had not been employed. Three scenarios are analyzed: two extreme ones used as benchmarks and an intermediate one that aims to realistically reflect labor market dynamics:

- Scenario 1 (Maximum UP): It is assumed that all individuals in the extra EP would have sought work, but without success, became unemployed.

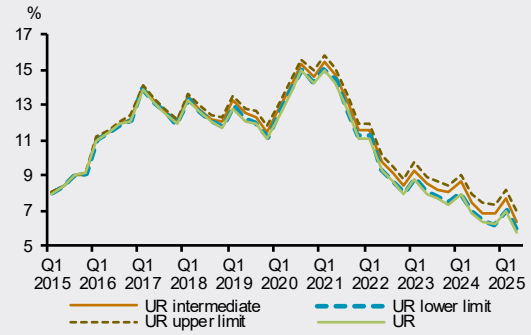
- Scenario 2 (Maximum POLF): In this case, it is assumed that these individuals would not have sought work, moving directly out of the labor force.

- Scenario 3 (Intermediate UP and POLF): It is assumed that part of the extra EP would have become unemployed, and part would have left the labor force, reflecting an intermediate and more plausible situation. The split was calibrated based on the observed proportion of transitions from UP and POLF to EP-app.[6]

In Scenario 1 (Maximum UP), the unemployment rate gradually diverges from the observed rate, reaching 1.2 p.p. above it in 2025Q2. In this scenario, the PR remains identical to the actual rate, since all extra EP is considered unemployed, leaving the labor force size unchanged. In Scenario 2 (Maximum POLF), the unemployment rate remains nearly unchanged, but the PR declines, ending up 0.8 p.p. below the observed rate. Finally, in Scenario 3 (Intermediate UP and OLF), considered the most plausible, the results for UR and PR are intermediate, as expected. In 2025Q2, the UR would be 0.6 p.p. above the observed rate – half the impact seen in Scenario 1, which represents the upper bound for UR. The PR, in turn, would be 0.2 p.p. below the actual value (Figures 4 and 5).

Figure 4 – Unemployment rate

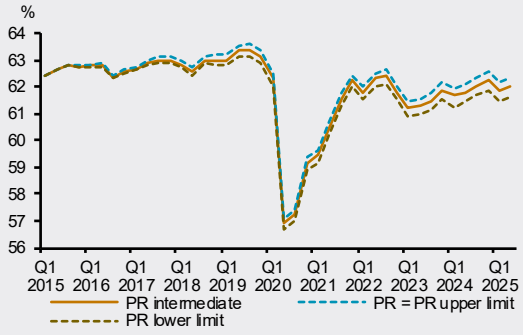
Observed and counterfactuals



Sources: IBGE and BCB

Figure 5 – Participation rate

Observed and counterfactuals



Sources: IBGE and BCB

Estimating labor market impacts using regional dispersion

This exercise leverages regional heterogeneity in the growth of app-based workers since 2015 to estimate the relationship between this growth and changes in employment level (EL), participation rate (PR), and unemployment rate (UR).[7] Panel data models were estimated, relating each labor market variable of interest to the share of app-based workers in the working age population (WAP). Fixed effects for location and time were included as controls. The locations correspond to the 146 strata of the PNAD Continuous (IBGE), and the sample covers the period from 2015 (the year before the growth of this type of worker began, as shown in Figures 1 and 2) to 2024. Formally,

6/ With paired data, it is possible to segment the app-based EP into three groups, depending on their previous status in relation to the labor force: employed, unemployed, and out of the labor force. By excluding those who were previously employed, the share of individuals who were unemployed and out of the labor force can be calculated in each quarter.

7/ The article "The labor market impacts of ridesharing on American cities", by Tucker Omberg, published in Labour Economics (2024), explores the staggered introduction of the Uber ridesharing service in U.S. cities to estimate the labor market impact of this new form of employment. The author estimates that Uber's entry into a city reduces the local UR by between 0.2 p.p. and 0.5 p.p. In the absence of similar data for Brazil, this box adopts an alternative strategy.

$$Y_{it} = \beta \text{App}_{it} + \alpha_i + \tau_t + \varepsilon_{it},$$

where $Y_{it} \in \{\text{EL}, \text{PR}, \text{UR}\}$ is the labor market variable of interest i in year t, App_{it} is the share of app-based workers (as previously defined) in the WAP, α_i and τ_t are fixed effects of location and time, respectively, and ε_{it} is the error term. β is the coefficient of interest, capturing the impact of app-based employment on the labor market variable.

It is worth noting that this coefficient may be biased in relation to the true causal effect, due to the possible existence of alternative mechanisms linking app-based work to key labor market variables. For example, it is plausible that the share of app-based workers is influenced by the UR, with higher uptake in times and places of higher unemployment. The existence of this reverse causality mechanism would make the estimated coefficient less negative than the true causal effect.

Table 1 presents the estimated coefficients, along with 95% confidence intervals using robust standard errors for heteroscedasticity and serial autocorrelation.[8] In addition to the baseline model (labeled Model 1), the table also includes results from an alternative model, to be presented later.

According to Model 1, a 1 p.p. increase in the share of app-based workers in the WAP is associated with a 1.12 p.p. increase in EL. The confidence interval includes the reference value of "one" – suggesting that the rise in app-based employment did not replace other forms of employment. Moreover, the one-off estimate for the association between the increase in app-based workers and the PR (0.87 p.p.) indicates that most individuals entering this type of work came from outside the labor force. This suggests that the new form of employment enables some people to engage more actively in the labor market. Finally, a 1 p.p. increase in app-based workers is associated with a 0.41 p.p. reduction in the UR – a one-off estimate that is not statistically significant, though economically relevant. According to this model, the 0.66 p.p. increase in the share of app-based workers in the WAP from 2015 to 2024 (Figure 2) would be associated with a 0.27 p.p. drop in the UR (Table 2). It is also possible to estimate the change in the UR indirectly through the models for EL and PR. The indirect estimate is 0.33 p.p., very close to the direct estimate from the UR model, suggesting consistency across the three models (Table 1).

Table 1 – β coefficient estimates

Regressor	Model[1]	
	1	2
Dependent variable: Employment level		
App-based	1.12 [0.36; 1.88]	
Transport		0.98 [0.10; 1.87]
Delivery		1.65 [-0.04; 3.35]
Dependent variable: Participation rate		
App-based	0.87 [0.15; 1.60]	
Transport		0.73 [-0.13; 1.58]
Delivery		1.46 [-0.34; 3.27]
Dependent variable: Unemployment rate		
App-based	-0.41 [-1.00; 0.19]	
Transport		-0.49 [-1.20; 0.23]
Delivery		-0.08 [-1.54; 1.38]

1/ Bracketed values indicate the 95% confidence interval at a 5% significance level. Variables were used in level.

8/ Robust errors to heteroscedasticity and to intra-location serial autocorrelation, with residuals clustered by location.

Furthermore, Model 2 explores potential heterogeneity in the impact of different types of apps (transport vs. delivery). The results suggest that the effect on the UR is proportionally greater for transport apps, while the effects on EL and PR are stronger for delivery apps.

Considering the change in the share of app-based workers from 2015 to 2025, the labor market impacts estimated by each model are summarized in Table 2.

Table 2 – Effect on rates associated with the apps
Variation 2024 - 2015 (p.p.)

	Observed	Models		
		1	2	Average
EL	0.71	0.74	0.79	0.76
PR	-0.46	0.58	0.63	0.60
UR (direct)	-1.81	-0.27	-0.24	-0.25
UR (indirect)	-1.81	-0.33	-0.33	-0.33

In summary, the estimates presented in this exercise suggest that new app-based jobs were not created at the expense of other occupations, that most app-based workers came from outside the labor force, and that the impact on the UR would be around -0.3 p.p. (although not statistically significant). It should be emphasized that these estimates may not represent the true causal effect of app-based employment growth on the labor market – due to likely alternative mechanisms linking the variables, such as reverse causality. Therefore, these estimates should be interpreted with caution.

Conclusion

Taken together, both exercises suggest that the emergence of platform-based work represents a structural shift in the labor market, which has contributed to a greater entry of individuals into the labor force and employment, with positive effects on key indicators. The extraordinary growth in the number of app-based workers led to an increase in the EL and PR, as well as a reduction in the UR. Under scenario 3 of the first exercise, the estimated impacts by 2025Q2 were +0.8 p.p. in the EL, +0.2 p.p. in the PR, and -0.6 p.p. in the UR. Comparatively, the results from the panel data models of the second approach suggest similar effects on the EL (+0.7 p.p.), stronger effects on the PR (+0.6 p.p.), and slightly smaller effects on the UR (-0.3 p.p.).

Impact of education and demography on labor market indicators

This box indicates that changes in the composition of the working age population (WAP) – in terms of gender, education, and age range – positively impacted the participation rate (PR) and the employment level (EL) but had a more limited effect on the unemployment rate (UR).

This box evaluates how educational progress and changes in the demographic composition of the WAP may have influenced labor market indicators, especially the UR. The analysis seeks to verify whether these structural factors hinder the comparison of current levels with those observed in previous periods.

For this purpose, the WAP was segmented into 48 groups, resulting from the combination of gender (two categories), education (four levels), and age range (six intervals).[1] Based on this structure, the counterfactual PR, UR, and EL were calculated, maintaining constant the demographic composition (gender and age range) and the educational levels observed in 2014Q1 – the period with lower UR before the pandemic. From this reference quarter onward, the relative share of each group in the WAP was maintained constant, while the PR_t^i and UR_t^i rates of each group continued to evolve according to effective data. The entire study was carried out with seasonally adjusted data for the working age population (WAP), employed population (EP), and unemployed population (UP), each analyzed individually for the 48 defined groups.

Calculation of counterfactual indicators

The aggregate PR and UR can be expressed as:

$$PR_t = \sum_i PR_t^i \frac{WAP_t^i}{WAP_t}$$

$$UR_t = \sum_i UR_t^i \frac{PR_t^i}{PR_t} \frac{WAP_t^i}{WAP_t}$$

Maintaining constant WAP distribution as of the reference quarter, the counterfactual PR (PR_t^*) is obtained and, with it, the counterfactual UR (UR_t^*):

$$PR_t^* = \sum_i PR_t^i \frac{WAP_{t=t_{ref}}^i}{WAP_{t=t_{ref}}}$$

$$UR_t^* = \sum_i UR_t^i \frac{PR_t^i}{PR_t^*} \frac{WAP_{t=t_{ref}}^i}{WAP_{t=t_{ref}}}$$

In addition, the counterfactual EL (EL_t^*) can be obtained by the identity:

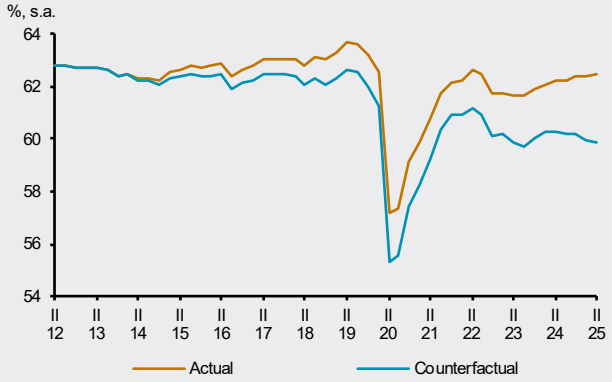
$$EL_t^* = (1 - UR_t^*) \cdot PR_t^*$$

1/ Gender: (1) male; (2) female. Education: (1) up to incomplete middle school; (2) complete middle school or incomplete high school; (3) complete high school or incomplete university degree; (4) university degree. Age range (1) 14 to 24 years old; (2) 25 to 34 years old; (3) 35 to 44 years old; (4) 45 to 54 years old; 5) 55 to 64 years old; (6) 65 years old or older.

Results

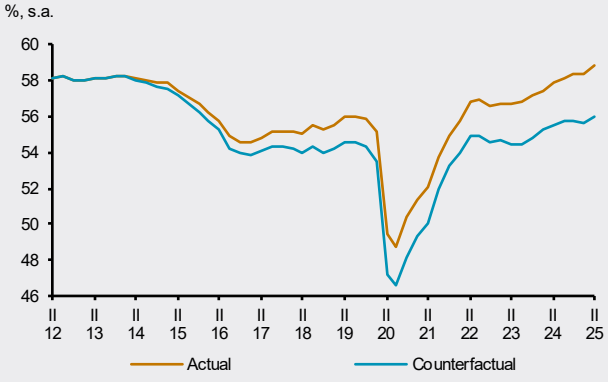
The impacts on PR and EL are significant. If the WAP structure had remained constant since early 2014 and the PR and UR of each gender-age-education group had evolved according to the observed data, the aggregate PR would be nearly 2.5 p.p. below the current level and the EL would be nearly 3.0 p.p. below (Figures 1 and 2).

Figure 1 – Participation rate



Sources: IBGE and BCB

Figure 2 – Employment level



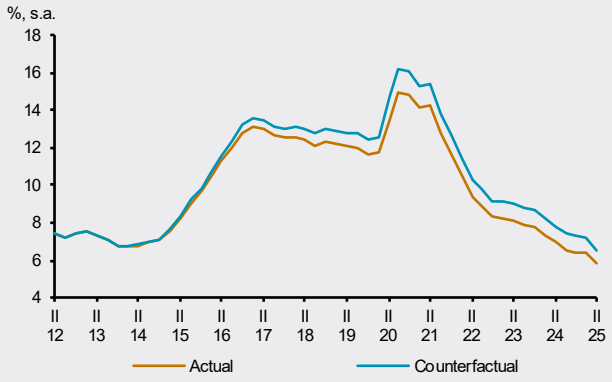
Sources: IBGE and BCB

The impact on the UR is more moderate. In the counterfactual scenario, it would be nearly 0.7 p.p. higher in 2025Q2, at a level close to that observed in 2014 (Figure 3). The lower PR reduces the UR, while the lower EL pressures on the opposite direction. These effects in opposite directions contribute to smoothing the change in the aggregate UR in the counterfactual scenario.

The comparison between the observed and counterfactual trajectories of labor market indicators highlights that changes in WAP composition have contributed to increase the PR and the EL since early 2014, the reference period, except for the two years after following the pandemic outbreak.[2] Until mid-2021, the impact on the EL outweighed the effect on the PR, leading to the decrease in the UR. Since late 2022, the effects on the PR and EL began to offset each other, indicating that the sharp decline over the latest three years does not seem to have relevantly benefited from changes in the WAP composition (Figure 4).

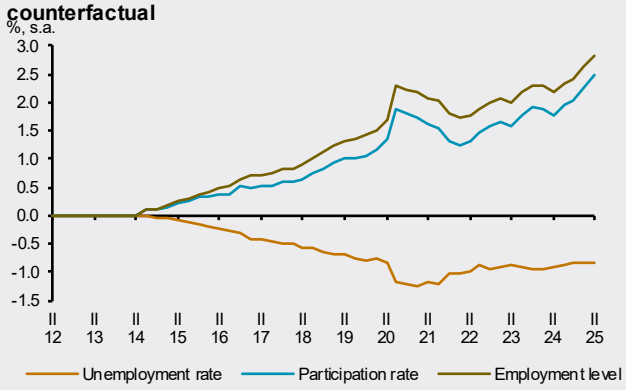
Appendix – Alternative counterfactual scenarios

Figure 3 – Unemployment rate



Sources: IBGE and BCB

Figure 4 – Difference between actual and counterfactual



Sources: IBGE and BCB

2/ Some anomalies are observed in the evolution of the WAP over some quarters after the outbreak of the pandemic. Such distortions are possibly due to difficulties faced by the IBGE for collecting data for the Continuous National Household Sample Survey (PNAD Continuous) during the most critical period of the sanitary crisis, which could have led to temporary changes in the impact of WAP composition on labor market indicators.

The box analyzed the effects of the change in the WAP distribution on labor market indicators, considering openings by gender-age-education. It showed that, if the WAP structure had been maintained constant as of early 2014, the current PR and EL level would be lower, while the UR would be higher.

The adopted approach is comprehensive, considering simultaneously the three dimensions – gender, age, and education – and their combined effects on the indicators. Yet, it is relevant to examine the isolated impacts of each of these variables. For this, the exercise was repeated separately for each dimension. It is noteworthy, however, that the isolated effects are not additive, i.e., the sum of individual impacts does not reproduce the joint effect. The disaggregated results should be interpreted as a means of identifying the predominant factors.

The analysis of the composition by gender indicates that the relative share of male and female in the WAP since 2014Q1 have not altered the indicators considered. If this distribution had remained constant and the PR and UR rate trajectories by gender had been maintained, the current PR, EL, and UR would be the same (Table 1).

Conversely, maintaining the age or education structure at the levels of the reference quarter would have significant effects. If the age composition was maintained, the PR and the EL would be 1.6 p.p. and 1.3 p.p. above the current levels, respectively, with a net impact of 0.4 p.p. on the UR.[3] Maintaining the educational distribution, in turn, would have greater effects in the opposite direction on the PR and EL, compared with the case in which the age composition is maintained – the PR would be 5.0 p.p. below the current level, and the EL, 4.9 p.p. below.[4] In this scenario, the effects on the PR and EL would also partially offset each other, leading to an UR only 0.2 p.p. above the current one.

In the most comprehensive scenario – maintaining the WAP distribution constant in the three dimensions – there are declines in the PR and EL, revealing that the effect of education outweighed that of the age structure. Although the impacts on PR and EL offset each other, the compensation is lower than in the isolated scenarios, leading to an UR 0.7 p.p. higher.

Table 1 – Counterfactuals of labor market indicators

%

	2014Q1	2025Q2				
		Actual	Counterfactuals			
			Gender	Age	Education	Gender-age-educ.
Participation rate	62.5	62.5	62.5	64.1	57.4	59.9
Employment level	58.3	58.8	58.8	60.1	54.0	55.9
Unemployment rate	6.7	5.8	5.8	6.2	6.1	6.6
Change relative to 2014Q2 (p.p.)						
Participation rate		-0.0	0.0	1.6	-5.0	-2.6
Employment level		0.6	0.6	1.8	-4.3	-2.3
Unemployment rate		-0.9	-0.9	-0.5	-0.7	-0.2
Difference between counterfactuals and actual in 2025Q2 (p.p.)						
Participation rate			0.0	1.6	-5.0	-2.6
Employment level			0.0	1.3	-4.9	-2.9
Unemployment rate			-0.0	0.4	0.2	0.7

Sources: IBGE and BCB

3/ The box Demographic changes and the recent evolution of the labor force participation rate released in the June 2024 Inflation Report highlights the negative contribution of the population aging on the participation rate.

4/ The article *Determinantes Estruturais da Taxa de Participação* by Fernando de Holanda Filho, Fernando Veloso, and Paulo Peruchetti, released on October 2024 on the Ibre Blog, available at Ibre.FGV (Portuguese only), already emphasized the relevance of the educational progress as a determinant factor for the increase of the PR.

New private sector payroll-deducted credit

This box shows information available in the Credit Information System (SCR) on the granting of payroll-deducted credit to private sector employees after the changes implemented in March. New payroll-deducted credit granting reached BRL 13.6 billion by the end of July, considering only employer-financial institution pairs that did not have a prior payroll-deducted credit agreement (in Portuguese: convênio). The average interest rate for this group was below the average rate charged on non-payroll-deducted personal loans, but above that charged on payroll-deducted credit operations with borrowers employed by companies that had a previous agreement with a financial institution. It takes more time to assess the impact of these operations on borrowers' finances, but the results from the first few months show, in addition to an increase in private sector payroll-deducted loans, an increase in overall debt-to-income ratio (DTI) of a magnitude similar to that of the credit granting.

Primary aspects of the Worker Credit Program

Provisional Measure (MP) 1,292, issued in March,[1] amended the rules for payroll-deducted credit to employees under the Consolidation of Labor Laws (CLT), expanding the scope and facilitating access to this credit modality. In the previous model, payroll-deducted credit contracts depended on an agreement between financial institutions and employers. If the employee left the company, the financial institution would lose the payroll deduction mechanism, having to collect the installments directly from the borrower. This increased the risk and, consequently, the cost of the operation. Under the new model, payroll-deducted credit operations no longer require agreements, increasing market size and competition, and allowing financial institutions to rely on more robust payroll-deduction mechanisms.

The new legislation provided for the use of public digital platforms in the management and operation of payroll-deducted loans, thus simplifying the process. The eSocial and the Digital Employment Card allowed centralization of workers information. The employee data required for credit analysis are now available to financial institutions authorized by the Ministry of Labor and Employment (MLE) to operate under the Worker Credit program. These changes also expanded access to payroll-deducted credit for workers with other types of formal employment, such as rural workers and domestic employees. During the MP's legislative process, the possibility of payroll-deducted credit was also extended to self-employed workers engaged in ride-hailing and goods delivery services.

Regarding deductions, the new legislation allows that, in case of termination or suspension of an employment contract, voluntary payroll-deductions may be redirected to other employment relationships, even if they arise after the credit operation has been contracted. In addition, the new legislation provides for the use of termination fines and guarantees from the Employment Guarantee Fund (FGTS), further reducing the risk of the operation.

Operations began on March 21, 2025. Initially, borrowings could only occur through the *Crédito do Trabalhador* (Worker Credit) platform, developed by Dataprev and accessed through the Digital Employment Card. As of April 25, registered financial institutions were also allowed to offer payroll-deducted credit through their own channels. As of June 6, interbank portability was enabled, allowing the exchange of older contracts for new ones at different financial institutions with better conditions.

1/ MP 1,292 of March 12, 2025, was converted into Law 15,179 on July 24, 2025.

Consequences of the payroll-deducted credit expansion in the past

Payroll-deducted credit has a strong potential for expansion, considering the increased access to this credit line for millions of workers. However, inferences regarding the impacts on consumption, debt-to-income (DTI) and debt service (DSR) ratios are uncertain due to unpredictability in future borrowing volumes, share of debt swap, terms, and interest rates of new operations.

In this regard, to better understand the potential implications of the new program, it is useful to look into similar episodes in the past. Thus, an event study analysis was conducted using 2022 data on payroll-deducted credit borrowing by employees of private sector companies immediately after agreements have been signed by these companies with a bank to offer such type of credit.[2]

Results showed in that episode, initially, an increase in the average debt among individuals opting to borrow in this modality exactly in the month in which it became available at the company they work for (Figure 1). In the period under analysis, debt increased, on average, around BRL 5,000 when compared with the month prior to the borrowing. Consequently, the median DSR also increased, from 28% before the borrowing to 33% in the subsequent month and to 38% after 11 months.[3]

In this sample, the swap of old bank debts for operations with better conditions played a minor role (Figure 2).[4] Among borrowers, the average balance of debts with personal non-payroll-deducted loans and credit cards (excluding one-off purchases and interest-free installment purchases), in the month in which the payroll-deducted loan occurred, decreased by a substantially smaller amount than that contracted as payroll-deducted credit to private sector employees. This led to an increase in the overall debt (Figure 1). However, a few months after taking out the payroll-deducted loan to private sector employees, both the DTI and DSR pace of growth decreased when compared with the prior period.

Figure 1 – Evolution of the debt of private sector payroll-deducted credit borrowers – 2022 cohorts

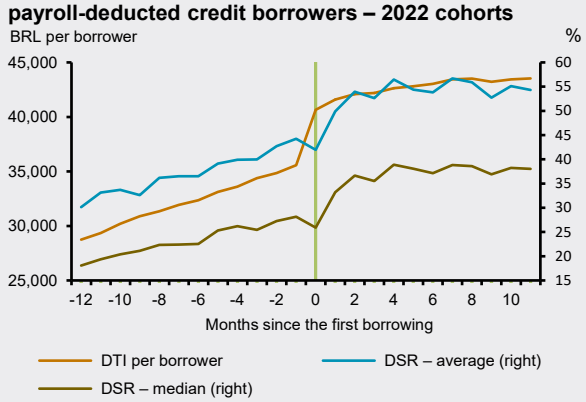
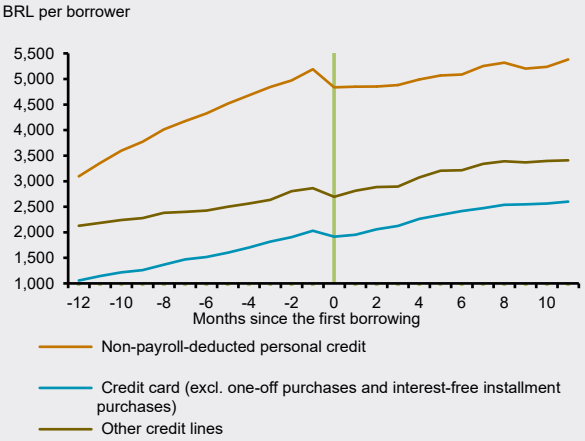


Figure 2 – Evol. of the high-cost debt of priv. sector payroll-deducted credit borrowers – 2022 cohorts



2/ The study sought to identify, using SCR data, the evolution of DTI and DSR among payroll-deducted credit borrowers. New relationships of private sector payroll-deducted credit were assessed using a company-month-bank dimension. From the month in which a payroll-deducted credit was granted by bank Y to an employee of company A, it was assumed that all employees of company A would have access to and could take out the loan. The effects on DTI and DSR per capita were measured throughout 2022 using a sample of companies and their workers that borrowed payroll-deducted loans in month zero, i.e., in the first month in which the payroll-deducted line was available.

3/ For more details on the calculation of the individual DSR used, see Footnote 1, Figure 1.2.2.14, and the Concepts and Methodology section of the Financial Stability Report - April 2025.

4/ It should be noted that, during the period analyzed in the study, there were no campaigns or guidance for payroll-deducted borrowers to use the resources to settle previous debts with higher interest rates.

Analysis of preliminary data following the launch of the new payroll-deducted credit program

The first step was to identify the new payroll-deducted credit operations in the SCR. For this purpose, all existing relationships between employers and financial institutions in this credit modality as of February 2025 were listed. This pairing served as an indication of agreements already existing before the new program came into effect. Thus, all contracts signed as of March 21 with an employer-financial institution pair other than those existing in February were considered as new payroll-deducted credit operations.[5] For comparison, payroll-deducted credit operations carried out during the same period by employer-financial institution pairs that had already signed an agreement were also analyzed.

The data reveal that, from March to July, 3 million people took out payroll-deducted loans for private sector employees, of whom 2.3 million did so through contracts under the new legislation (Table 1). Credit granting reached BRL 21.9 billion in the period, of which BRL 13.6 billion corresponded to contracts under the new payroll-deducted credit framework. After high initial demand, the volume of operations declined in May and June, but increased strongly in late July. The increase observed in July occurred after the end of the transition period in which resources from these payroll-deducted credit operations had to be used primarily to pay off previous debts.[6] Despite the significant growth in the granting of private sector payroll-deducted credit – which averaged around BRL 1.5 billion/month before March – these loans account for only around 5% of all non-earmarked household operations (excluding credit cards purchases). Therefore, they have a limited effect on the behavior of overall banking credit.

Table 1 – Private sector payroll-deducted loans

Month of operation	Number of borrowers (thousand)			Credit granting (BRL billion)			Interest rate (% p.a.)		
	Agreement-based	New	Total	Agreement-based	New	Total	Agreement-based	New	Total
Total	**740**	**2,328**	**3,024**	**8.3**	**13.6**	**21.9**	**36.2**	**58.0**	**49.0**
March	212	168	380	2.3	1.4	3.7	33.4	46.0	38.0
April	115	971	1,085	1.3	4.7	6.0	36.4	61.4	55.2
May	143	348	491	1.4	1.9	3.3	38.5	55.6	48.2
June	147	411	556	1.3	2.0	3.3	37.4	58.7	49.6
July	233	746	969	2.0	3.6	5.6	36.7	58.9	50.2

Source: SCR

Despite the greater number of operations, the average value of new payroll-deducted credit is about half of the average value of old agreement-based granting (Table 2). Regarding interest rates,[7] new payroll-deducted credit operations were more expensive than the agreement-based payroll-deducted loans, but much cheaper than non-payroll-deducted credit. The average rate on new payroll-deducted credit – that reached 58.0% p.a. (3.9% p.m.) in operations contracted up to the end of July, represents around 60% of the 106% p.a. (6.2% p.m.) average rate charged on non-payroll-deducted credit.[8] In the same period, the average

5/ Data used in this study correspond to those available in the SCR on September 5, 2025, thus disregarding information incorporated into the system afterwards. The analysis focused only on operations related to payroll-deducted credit with private payroll providers. Transactions involving employees from state-owned companies are classified as public payroll-deducted credit and were therefore not included in this study. Finally, data available in the SCR come from document 3040 and differ from the information used in the compilation of the Monetary and Credit Statistics, available on the Banco Central do Brasil (BCB) website, which are based on aggregate data from document 3050.

6/ MP 1,292 established that, during the first 120 days of implementation of the new payroll-deducted credit framework, the funds should be allocated to the repayment of unsecured non-payroll-deducted loans and payroll-deducted loans, should the borrower have such debts.

7/ The average and median interest rates calculated in this study were weighted by the volume of credit granted and refer to fixed-rate transactions with tails trimmed at 2.5%. Contractual rates were considered, i.e., they do not include taxes or fees.

8/ Average interest rates for personal non-payroll-deducted credit granting are sourced from the Monetary and Credit Statistics, available on the BCB website.

rate for agreement-based payroll-deducted credit existing before March reached 36.2% p.a. (2.6% p.m.). The different rates observed in these two types of payroll-deducted credit may be related to the borrowers' profiles, including the characteristics of the company they work for.[9]

Table 2 – Private sector payroll-deducted loans per borrower

Month of operation	Credit granting (BRL)				Interest rate (% p.a.)			
	Agreement-based		New		Agreement-based		New	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Total	**11,278**	**5,400**	**5,827**	**3,744**	**36.2**	**35.3**	**58.0**	**49.8**
March	10,880	5,373	8,088	5,150	33.4	32.2	46.0	40.3
April	11,352	6,090	4,870	3,135	36.4	36.1	61.4	58.6
May	9,460	4,489	5,454	3,685	38.5	37.2	55.6	46.8
June	9,182	4,154	4,841	3,117	37.4	35.0	58.7	46.8
July	8,703	3,485	4,808	2,969	36.7	34.6	58.9	58.1

Source: SCR

By cross-referencing the Taxpayer Identification Number (CPF) of credit borrowers with data from the Annual Report of Social Information (RAIS), one can observe that, in this period, the average borrower of the new payroll-deducted credit works for smaller companies, has a shorter employment tenure with their current employer, and earns a lower income than the average borrower of agreement-based payroll-deducted credit (Table 3).[10] The breakdown by employer size shows that, in the credit granted from March to July, interest rates on the new payroll-deducted credit were higher than those on the agreement-based payroll-deducted credit for all company sizes (Figure 3).[11] In the new payroll-deducted credit granting, rates were higher for employees in smaller companies, gradually decreasing until stabilizing for medium-sized companies. Thus, data suggest an association between the size of the employer and the perception of credit risk by financial institutions, but only for the lower size brackets. For the agreement-based payroll-deducted credit granting, the results do not indicate such a clear relationship between employer size and interest rates.

9/ The difference can also be partly explained by the profile of the financial institutions that offered the loans. A note published by the Ministry of Finance on June 16 (available in Portuguese only) states that "institutions that adopted the payroll-deducted credit to private sector employees modality only through the Worker Credit Program presented higher rates". Indeed, the 15.4 p.p. increase in the average interest rate for the new payroll-deducted credit for private sector employees (Table 1) from March to April coincided with a rise in the participation of smaller financial institutions that had little prior involvement in the payroll-deducted credit for private sector employees through formal agreements.

10/ Borrowers profile information was obtained from RAIS 2023 data, expanded by Caged data up to the month prior to the private sector payroll-deducted credit borrowing, and corresponds to borrowers identified in these databases as having an active employment relationship. Coverage corresponds to around 88% of borrowers of agreement-based payroll-deducted credit (77% of the value granted) and around 95% of borrowers of new payroll-deducted credit for private sector employees (91% of the value granted) from March to July, after tails were trimmed by 1.0% on salaries. Income data refer to formal employment earnings (estimated average monthly salary from RAIS 2023 or most recent hiring salary, according to Caged), at July 2025 prices. In cases where there was more than one active employment relationship, salaries were added together. The DTI corresponds to the ratio between the balance of non-earmarked credit debts, excluding credit cards purchases, and twelve times the monthly income from formal labor. This indicator is not comparable with the household debt ex-housing one published in the BCB's Monetary and Credit Statistics, as it reflects the DTI of new payroll-deducted credit borrowers only, while the other compares the balance with the disposable income of the entire population, the restricted Household Gross Disposable National Income (HGDNI).

11/ In this figure, the horizontal axis starts with companies with 1 to 4 employees, followed by companies with 5 to 9 employees; 10 to 19; 20 to 49; 50 to 99; 100 to 249; 250 to 499; 500 to 999; and equal to or above 1000 employees.

Table 3 A – Profile of private sector payroll-deducted credit borrowers

to be continued

Month of operation	Gender (% male)		Average age		Education (% high school or higher)		Tenure at current employer (months)			
	Agreement-based	New	Agreement-based	New	Agreement-based	New	Agreement-based		New	
							Mean	Median	Mean	Median
Total	**63**	**61**	**36**	**35**	**83**	**78**	**52**	**28**	**38**	**23**
March	59	64	37	35	85	78	60	33	42	25
April	63	62	37	35	82	78	59	32	41	25
May	63	60	36	35	83	77	49	27	34	21
June	65	61	36	34	82	76	47	26	36	22
July	65	60	36	35	82	78	44	24	38	23

Sources: BCB and MLE

Table 3 B – Profile of private sector payroll-deducted credit borrowers

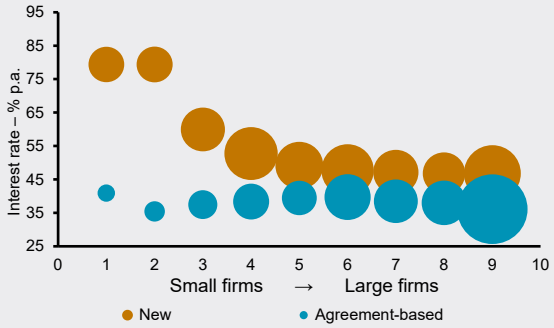
continued

Month of operation	Firm size (% with 250 or more employees)		Income (BRL of Jul/25)				DTI (%, month prior to the private sector payroll-deducted loan)			
	Agreement-based	New	Agreement-based		New		Agreement-based		New	
			Mean	Median	Mean	Median	Mean	Median	Mean	Median
Total	**53**	**33**	**3,918**	**2,925**	**2,603**	**2,166**	**36.0**	**20.1**	**21.9**	**10.8**
March	61	41	4,255	3,185	2,793	2,295	43.5	26.6	25.3	12.0
April	59	31	4,091	3,111	2,601	2,187	40.5	25.9	20.3	10.4
May	52	34	3,752	2,814	2,558	2,138	32.9	18.9	20.2	9.9
June	51	36	3,716	2,779	2,573	2,146	32.9	18.0	21.8	12.3
July	49	32	3,610	2,702	2,610	2,157	33.9	19.4	29.0	17.2

Sources: BCB and MLE

Figure 3 – Interest rate by employer firm size – Median

Priv. sector payroll-deducted credit - Mar-Jul borrowers



Note: Bubble size represents the share in the type of payroll-deducted credit granting.

Table 4 shows the income quartile distribution of payroll-deducted credit borrowers in the period analyzed. In terms of interest rates, the higher cost of the new payroll-deducted credit, compared with agreement-based payroll-deducted credit, is observed in all income quartiles. However, considering the median rate, this difference is greater in lower-income groups. Regarding the DTI in the month prior to borrowing, considering only non-earmarked credit,[12] one observes that the ratio for new payroll-deducted credit borrowers is lower than that for borrowers under agreement-based transactions. Combined with the fact that they face higher interest rates, this may indicate that workers benefiting from the new payroll-deducted credit have restricted

12/ See footnote 10.

access to credit. Finally, it is noteworthy that interest rates decrease from the lowest to the highest income quartile, both for agreement-based payroll-deducted credit and for the new payroll-deducted credit, indicating an inverse relationship between income and interest rates.

Table 4 A – Private sector payroll-deducted loans from March to July, by income quartile

to be continued

Quartile	Income range	Agreement-based							
		Number of borrowers	Credit granting (BRL)			Interest rate (% p.a.)		DTI (%, month prior to the private sector payroll-deducted loan)	
		% Share	Mean	Median	% Share	Mean	Median	Mean	Median
Total	**[1,240; 21,460]**	**100**	**9,984**	**5,225**	**100**	**39.4**	**37.7**	**36.0**	**20.1**
Q1	[1,240; 1,808]	13	3,762	2,210	5	46.8	45.1	26.5	10.5
Q2	(1,808; 2,277]	19	4,874	3,113	9	44.9	42.6	28.7	13.4
Q3	(2,277; 3,257]	26	7,069	4,924	18	42.0	40.6	34.6	19.8
Q4	(3,257; 21,460]	43	15,823	10,135	68	37.4	36.3	42.9	29.4

Sources: BCB and MLE

Table 4 B – Private sector payroll-deducted loans from March to July, by income quartile

continued

Quartile	Income range	New							
		Number of borrowers	Credit granting (BRL)			Interest rate (% p.a.)		DTI (%, month prior to the private sector payroll-deducted loan)	
		% Share	Mean	Median	% Share	Mean	Median	Mean	Median
Total	**[1,240; 21,460]**	**100**	**5,591**	**3,739**	**100**	**58.5**	**50.6**	**21.9**	**10.8**
Q1	[1,240; 1,808]	29	3,544	2,637	18	63.0	59.9	17.7	8.4
Q2	(1,808; 2,277]	27	4,511	3,231	22	61.6	57.8	20.0	9.9
Q3	(2,277; 3,257]	25	5,975	4,528	27	58.9	50.9	23.7	12.1
Q4	(3,257; 21,460]	20	9,501	6,613	34	53.3	46.3	28.3	15.0

Sources: BCB and MLE

The debt of individuals that took out the new payroll-deducted loan at this first moment increased, suggesting a limited role for the swap of previous debts among this group. The balance of non-earmarked credit operations (excluding credit card purchases) for this group rose from BRL 18.4 billion in February to BRL 33.1 billion in July, up 80% (Table 5). This debt increase (BRL 14.7 billion) is even higher than the amount granted in new payroll-deducted credit (BRL 13.6 billion), suggesting that these individuals borrowed from other modalities besides the payroll-deducted one. An average increase of 58% in debt was observed in the borrowing month (Figure 4), along with a slight reduction in high-cost modalities, such as credit card, overdraft facilities, and personal non-payroll-deducted credit, (Figure 5). The balance of these credit modalities fell 3% after the payroll-deducted credit borrowing. This reduction, however, was temporary in the sample observed, with the balance resuming expansion in subsequent months.

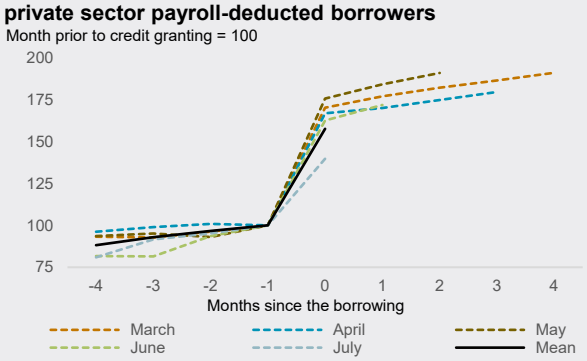
Table 5 – Debt of new private sector payroll-deducted credit borrowers

March to July/2025

Month	Debt balance	DTI (%)	
	BRL billion	Mean	Median
February	18.4	21.1	9.9
March	19.4	22.4	10.9
April	25.0	29.9	17.8
May	27.3	33.1	21.3
June	29.6	36.4	24.4
July	33.1	41.0	28.5

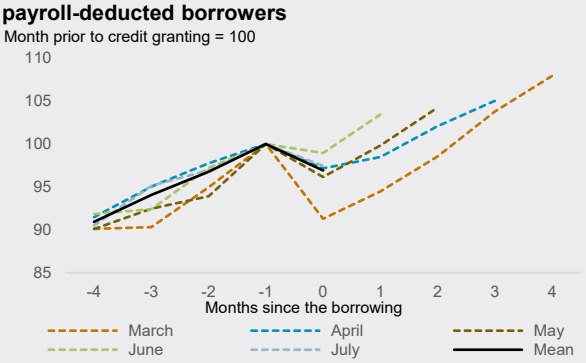
Note: Balance of non-earmarked credit. Excludes credit card purchases.

Figure 4 – Evol. of non-earmarked credit debt of new private sector payroll-deducted borrowers



Note: Excludes one-off purchases and interest-free installment credit card transactions.

Figure 5 – Evol. of high-cost debt of new private sector payroll-deducted borrowers



Note: Excludes one-off purchases and interest-free installment credit card transactions.

Regarding loan payments, the new payroll-deducted credit operations registered some delays as of June (Figures 6 and 7). However, since only a small share of the balance that was 1 to 15 days past due in June moved into the 31 to 45 days past due range in July, there are indications that the delay was probably associated with some difficulty in the required operational procedures. In addition, the reduction in delays up to 15 days in July compared with June may be an indication of improved efficiency in the procedures for recording operations in the systems, withholding installments, identifying amounts, and transferring funds to creditor institutions. It is worth remembering that these operations are not considered delinquent by the usual methodology, which considers only above 90 days past due loans as sucht.

Figure 6 – Payment delays in new priv ate sector payroll-deducted loans

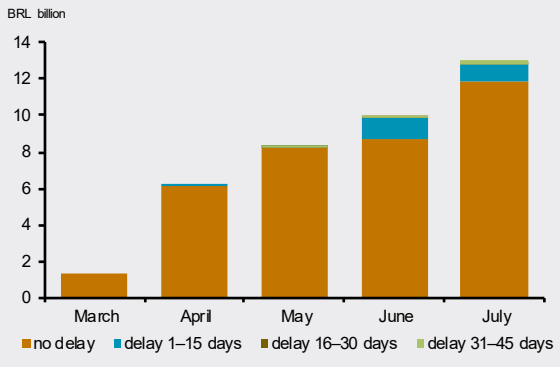
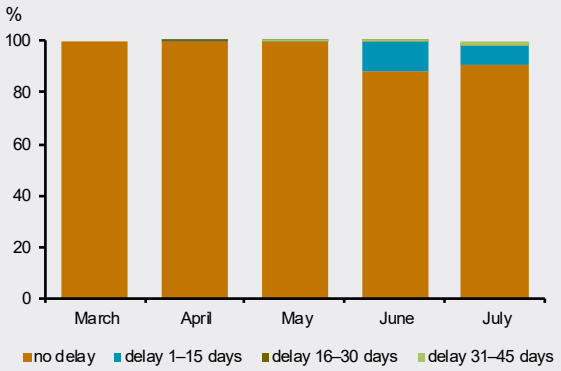


Figure 7 – Payment delays in new priv ate sector payroll-deducted loans



Conclusion

This study described the available information on payroll-deducted credit to private sector employees after the regulatory changes. There was an increase in credit granting in this modality, which seems to have reached a larger group of potential borrowers, with repercussions on the average interest rates of these operations. This borrowing expansion was accompanied by an increase in borrowers' DTI of a magnitude similar to the borrowed volumes.

These results reflect the evolution so far and should not be extrapolated or interpreted as long-term forecasts of the program's effects. Moreover, caution is required when interpreting these results in terms of cause and effect. On the one hand, new types of credit lines may lead to increased debt, especially if the alternative is cheaper than those previously available. In this case, as predicted by a standard demand curve, the reduction in credit cost tends to stimulate an increase in the demand for credit. On the other hand, it is possible that individuals taking out payroll-deducted credit as soon as it became available were already seeking to increase their debt. In this scenario, payroll-deducted credit would have simply enabled them to do so, possibly at a lower cost, generating lower DSR, with a beneficial effect on household budgets.

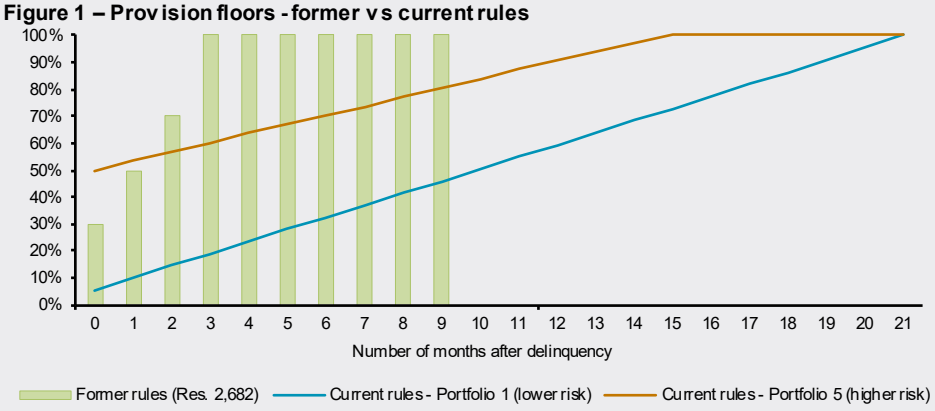
Impact on the delinquency rate resulting from the new accounting rules for financial instruments

The box assesses the impact of the new accounting rules for financial instruments on the delinquency rate of credit operations in the National Financial System (SFN). It is estimated that most of the increase in delinquency observed until June 2025 – around 70% – is associated with the effects of the regulatory change.

Throughout 2025, the delinquency rate on credit operations in the SFN has been rising. One of the factors affecting this indicator during the mentioned period was the entry into force of new accounting concepts and criteria for measuring financial instruments, as of January 1, 2025.[1] In this new framework, characterized by provisioning for expected losses, many past due transactions remained in the credit portfolio for longer before being written off, which increased the share of more than 90 days past due SFN loans.

Figure 1 illustrates the regulatory change in provisioning for past due operations, showing its previous content (bars) and the new content (lines). Until 2024, after becoming non-performing (which occurs when a payment is 90 days late), a transaction would reach the former risk classification "H" after three months in that condition. At that point, the financial institution should already set aside a 100% provision.[2] Six months later (nine months after delinquency), the transaction should typically be written off as a loss. The rules that came into effect in 2025[3] established minimum provisions for incurred losses, which increase more gradually over time and take longer to reach the 100% level. These minimum provisions depend on the type of credit, the guarantees, and the delay range of the transaction.[4] For instance, Portfolio 1, composed of well-secured and less risky debts, may take up to 21 months after delinquency to be fully provisioned. Even the riskiest portfolio (Portfolio 5), composed mainly of personal loans, may take up to fifteen months to be fully provisioned.

Figure 1 – Provision floors - former vs current rules



Moreover, new guidelines for write-offs have been established. Previously, as already mentioned, write-offs had to occur nine months after delinquency, all other things being equal. Under the new rules, write-offs also depend on the expected loss by the financial institution: a transaction must be written off if the institution

1/ Further details on the changes are available in the October 2024 Financial Stability Report, Selected Topic "2.3 – Regulatory convergence with international accounting standards: financial instruments and hedge".
2/ Resolution 2,682 of 1999. For transactions with a remaining term longer than 36 months, the aforementioned time frames could be counted twice.
3/ National Monetary Council (CMN) Resolution 4,966 of 2021, and BCB Resolution 352 of 2023.
4/ Further details on the types of portfolios are available in the BCB Resolution 352 of 2023. Section II defines the credit modalities and guarantees that comprise each portfolio. Annex I of that Resolution presents the minimum provision amounts for losses incurred by delay range and portfolio type.

is no longer likely to recover its value. In theory, if the financial institution no longer expects to recover the transaction, it may write off the asset even before reaching the maximum provision level set by the rules. Conversely, even if the delay is such that the rule requires full provisioning, the financial institution may keep the transaction in its outstanding portfolio if it still has some expectation of recovery. In general, at the beginning of 2025, past due loans have remained in the portfolio for longer, leading to an increase in operations with delays above twelve months in the SFN's outstanding portfolio (Figure 2)[5] and, consequently, an increase in the delinquency rate.

Figure 2 – Past due loans for 9 months or more

To appraise the impact of the new rules on the delinquency rate, a counterfactual was built showing what the rate would have been if previous practices had been maintained. Data used in this analysis come from the Credit Information System (SCR).[6] In simple terms, the average retention period of past due transactions in the outstanding portfolio was calculated for each month of delay after delinquency, from June 2023 to December 2024, aggregated for the SFN and for the household and corporate portfolios separately. These average retention period values were applied, in the months of 2025, to the past due operations of each of the outstanding portfolio segments (SFN, household, and corporate), by length of delay since delinquency.[7] The result of the counterfactual exercise suggests that the SFN delinquency rate in June would be 0.53 p.p. lower in the absence of the regulatory changes (Figure 3), which corresponds to about 70% of the 0.78 p.p. increase in the delinquency rate observed this year. This percentage is similar in the household and corporate segments (Figures 4 and 5).

Even if the counterfactual series is considered, one observes that delinquency would have increased in 2025, reinforcing that other factors also contributed to the increase – as expected, given the monetary policy tightening cycle. Finally, it should be emphasized that the estimated impact represents only what occurred up to June 2025 and this effect could vary over time. As mentioned, under the new rules, write-offs are more closely linked to the expected loss models of financial institutions than to a deterministic rule. Therefore, it is possible that in certain circumstances write-offs will be faster or slower than at current practices, with contrasting effects on the delinquency rate.

5/ Three months of delay in reaching the characterization of delinquency, plus nine months thereafter in that condition.

6/ This box uses information from the "Document 3040 – Credit Risk Data", which feeds into the Credit Information System (SCR) and enables the calculations presented in this study. Such information may differ from the BCB's Monetary and Credit Statistics, which are based on the aggregate information by modality sent by financial institutions through the "Document 3050 - Aggregate Credit and Leasing Statistics". Other than information arriving through different documents, there are some differences in terms of scope. For instance, this study does not consider advances on receivables granted by financial institutions to acquirers and similar entities within the scope of corporate credit.

7/ For the household, corporate, and SFN (total) aggregates, the average monthly retention period patterns of delay from June 2023 to December 2024 were calculated. The counterfactual was built for each of these aggregates considering that these patterns would be maintained from January 2025 onwards. To this end, the overdue balance from that date was disaggregated by length of delay. Next, each delinquency cohort was assigned the average pattern of delinquency retention period corresponding to the respective credit portfolio. Finally, the past due balance resulting from these dynamics was calculated, along with the respective counterfactual delinquency rate. Therefore, the calculation did not consider intertemporal differences in the composition of the portfolios, either in terms of modality or the relevance of each financial institution.

Figure 3 – 90 days past due loans - Total

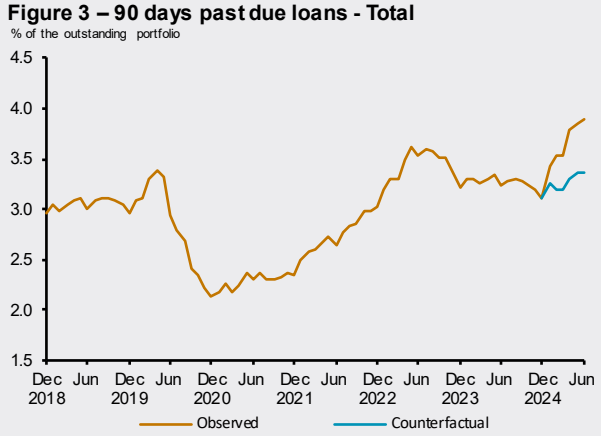


Figure 4 – 90 days past due loans - Companies

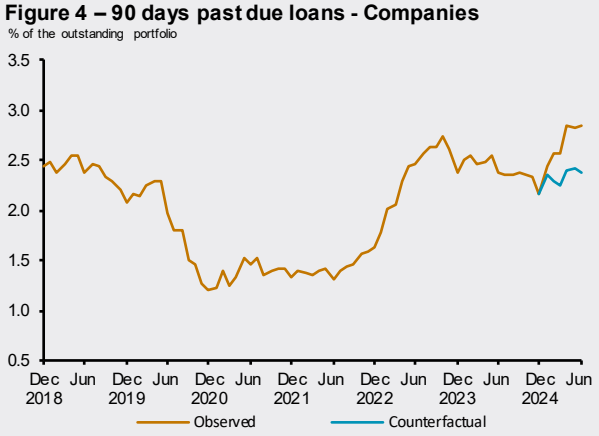


Figure 5 – 90 days past due loans - Households

Projection for credit growth in 2025 and 2026

The projected nominal growth of credit balance in the National Financial System (SFN) for 2025 was revised slightly upward, from 8.5% to 8.8%, particularly reflecting the better-than-expected performance of earmarked corporate credit. The credit balance growth rate is expected to decline to 8.0% in 2026.

Since the previous MPR, an inflection has been observed in the growth trajectory of the balance of SFN's credit operations. The pace of credit growth began to slow down, partly in response to the more restrictive monetary policy cycle. The YoY nominal credit balance growth in July was 10.7%, with reductions of 1.4 p.p. compared with April and 0.8 p.p. compared with December 2024. The growth rate declined across all segments, except for earmarked corporate credit. The balance of the household portfolio evolved in line with projections, although growth was stronger in non-earmarked credit and more moderate in earmarked credit. This result was concomitant with the better-than-expected performance of household income. The growth of the corporate credit balance, in turn, was above projections for the period, mainly in the earmarked segment.

In the household segment, the credit balance growth rate decreased by 1.4 p.p. compared with April. The non-earmarked credit balance evolved slightly above projections, with emergency credit operations standing out, due to stronger growth, possibly driven by the deterioration of household budgets. Long-term credit modalities, which are more sensitive to monetary policy, and credit card transactions showed moderation. Notably, payroll-deducted loans from the National Institute of Social Security (INSS) declined, while private payroll-deducted loans recorded a strong increase, as illustrated in the box "New private sector payroll-deducted credit" in this MPR. The earmarked credit growth rate declined slightly above projection during this period, with a sharper slowdown in rural credit.

In the corporate segment, the credit balance fell 1.3 p.p. since April, with a 2.6 p.p. decrease in non-earmarked credit mitigated by a 1.0 p.p. increase in earmarked operations. The slowdown in non-earmarked credit reflected not only the effects of a tighter monetary policy but also a moderation in the growth of foreign currency-indexed debt balances and the impacts of the increase in the Financial Operations Tax (IOF) rate. In contrast, the pace of expansion of earmarked credit increased, driven by rural credit and loans guaranteed by the Emergency Credit Access Program (PEAC).

Considering mainly the balance evolution in recent months, the projection for 2025 was revised from 8.5% to 8.8% (Table 1). The most significant adjustment occurred in the earmarked corporate credit projection (+3.0 p.p.), which considers the persistence of a higher level of guaranteed granting under the PEAC. As a result, the corporate credit projection was raised from 7.3% to 8.0%, despite a -0.5 p.p. adjustment in the non-earmarked segment. As for the household segment, the projection was marginally adjusted, with an increase in the projected balance of non-earmarked credit (+0.5 p.p.) and a reduction in the projected balance of earmarked credit (-0.5 p.p.). Updated projections continue to point to a credit slowdown in 2025 when compared with 2024.

For 2026, the pace of credit balance expansion is expected to slow again, to 8.0%. This change reflects slower growth in non-earmarked credit, with moderation in the household segment, and slightly higher expansion in the corporate segment. In portfolios with earmarked resources, the growth rate of household credit is projected to remain at the same pace as in 2025, while corporate credit is expected to decelerate.

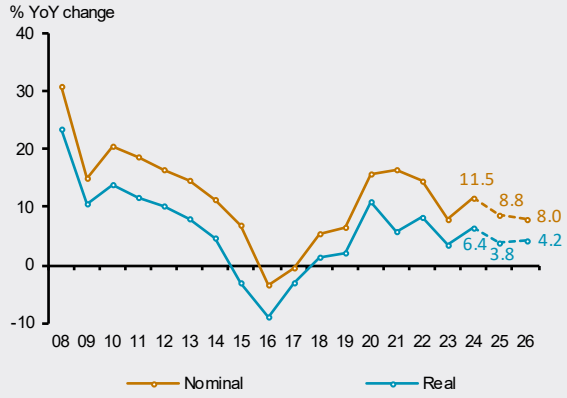
In real terms, total credit balance is projected to grow 3.8% in 2025 and 4.2% in 2026, representing a significant slowdown compared with the real growth rate of 6.4% in 2024 (Figure 1). The expected slowdown is consistent with a scenario of lower economic activity growth and the lagged effects of the monetary policy.

Table 1 – Credit balance

12-month % change

	Occurred			Proj. 2025		Proj. 2026
	2023	2024	Jul 2025	Previous	Current	Current
Total	8.1	11.5	10.7	8.5	8.8	8.0
Non-earmarked	5.6	11.2	9.4	8.3	8.4	7.7
Households	8.4	12.6	12.1	10.0	10.5	8.5
Corporations	2.1	9.4	5.8	6.0	5.5	6.5
Earmarked	11.9	11.9	12.5	8.8	9.5	8.3
Households	13.1	12.5	10.7	8.5	8.0	8.0
Corporations	9.6	10.7	16.1	9.5	12.5	9.0
Total Households	10.5	12.6	11.5	9.3	9.4	8.3
Total Corporations	4.7	9.9	9.5	7.3	8.0	7.4

Figure 1 – Total credit outstanding



Projections for the external accounts in 2025 and 2026

Compared with the previous MPR, a more pressured scenario is expected for the external accounts in 2025, with an increase in the current account deficit, now estimated at USD 70 billion (3.1% of GDP). In 2026, an increase in the trade balance is expected to allow a reduction in the current account deficit.

This box presents the revised projection for the external accounts of the Brazilian economy in 2025 and the first estimate for 2026. For this year, a current account deficit of USD 70 billion is expected, the largest since 2014,[1] and the net inflow of direct investment liabilities is projected to match this amount. The increase in the projected deficit is associated with an expected larger deficit in the services and income accounts, as well as a smaller trade surplus. Pressure on external accounts should begin to show some relief in 2026, with imports expected to remain at a similar level to that projected for 2025. The risks for this scenario remain high, mainly due to the uncertainties associated with international trade disputes.

Table 1 – Projections for the external accounts

USD billion

Itemization	2024	2025	2025 Forecast		2026 Forecast
	Year	Jan - Jul	Previous	Current	Current
Current account	-58	-40	-58	-70	-58
Balance on goods	66	32	60	54	61
Exports	340	200	340	338	345
Imports	274	167	280	285	284
Services	-55	-31	-50	-53	-51
of which: Travel	-12	-8	-14	-14	-13
of which: Transport	-15	-8	-13	-14	-13
Primary income	-72	-43	-70	-73	-72
of which: Interests	-31	-17	-30	-30	-30
of which: Dividends	-42	-27	-40	-43	-42
Investment - liabilities	92	67	75	85	75
DI liabilities	71	42	70	70	70
Portfolio investments	10	1	5	5	5
Other investments[1]	11	24	0	10	0

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

Projection for 2025

The projection for the trade balance has been revised downward, thus remaining below the value recorded in 2024. Imports are expected to end 2025 at a higher level than in the previous year, while exports are expected to be slightly lower.

1/ Considering the USD value. As a percentage of GDP, the 2025 deficit (3.1%) would be the largest since 2019, when the current account deficit reached 3.5%. For reference, in 2014, the current account deficit reached 4.5% of GDP.

The projected value for exports was marginally revised downward compared with the previous MPR, while expectations of a moderate increase in the exports volume remain unchanged. The record grain harvest has been partially offset by the drop in international commodity prices. Relevant exceptions are coffee and beef, whose international prices are expected to remain high. However, gains in the exported volume of these products are likely to be limited due to the direct impact of the U.S. tariff policy in force since August 2025. On the other hand, the projection for imports was revised upward, incorporating a positive surprise in the imported volumes, which proved to be slightly more resilient to the slowdown in domestic activity than previously expected. Additionally, the expectation of importing a new oil rig in 2025 also contributed to this revision.

The projection for the 2025 services account deficit was revised upward, mainly reflecting the increase in transport expenses – associated with the increase in imports – as well as higher spending on operating leasing services. Even so, the projected deficit for the services account remains lower than that recorded in 2024. In this comparison, it is worth highlighting the entry into force of new sports betting regulations starting in early 2025, which reduced outflows of resources under the recreational services category.

A larger deficit is also expected in the primary income account compared with the previous MPR projection. A large share of this change is due to the statistical revision that reduced earnings in 2025, increasing net expenses on profits and dividends.[2] The expectation of reduced profitability for companies with non-resident equity participation remains aligned with the slowdown in domestic activity in the second half of the year. The projection for interest expenses remains unchanged. The prospect of interest rate cuts by the Fed in the U.S., reducing borrowing costs for Brazilian companies abroad, is expected to have little impact on these expenses in 2025.

Despite a more adverse external scenario than in the previous MPR, direct investment liabilities are expected to remain stable at USD 70 billion The positive outlook for exports, especially in sectors not affected by the recent U.S. tariff measures, is expected to support foreign capital inflows into companies in the country. Net inflows of direct investment liabilities would represent 3.1% of GDP, a level close to that observed since 2021 and slightly lower than in the decade prior to the pandemic (3.7%).

The projection for portfolio investments was maintained. While increased uncertainty in the global scenario negatively impacts capital inflows, the monetary easing in the U.S. is expected to widen the interest rate differential, increasing the attractiveness of Brazilian securities.

Projection for 2026

Projections for external accounts in 2026 include a reduction in the current account deficit to USD 58 billion, equivalent to 2.4% of GDP. Compared with 2025, the trade balance is expected to improve, driven by higher exports and stable imports, along with slight reductions in the deficits of services and primary income accounts, resulting from weaker domestic economic activity.

The expected growth in the exports` value should result from higher quantum, concentrated in mining, especially oil. In turn, export prices are expected to remain relatively stable compared with 2025. As for imports, their structural upward trend – especially in purchases of intermediate goods[3] – should be offset by the continued slowdown of domestic demand and the reduction in the value of imported oil rigs.

The slight reduction in the primary income account deficit should reflect lower net expenditures on profits and dividends, in a context of slowing domestic activity. As for interest, stability should stem from a lower

2/ See press release on External Sector Statistics for July.
3/ See, for example, the box Dynamics of imports in 2021 and decoupling of economic activity in the March 2022 report, in particular the Figure 6.

average cost of the stock of issued securities – driven by the monetary easing in the U.S. – offset by an increase in that stock compared with 2025.

Direct investment liabilities are expected to remain stable at USD 70 billion in 2026, negatively affected by uncertainties regarding trade measures taken by the U.S. against Brazil. As a percentage of GDP, the 2.8% level is slightly lower than that of 2025 and lower than in the decade prior to the pandemic (3.7%). For portfolio investments, net inflow should once again be moderately positive and concentrated in securities, benefiting from the interest rate differential.

Figure 1 – Current account

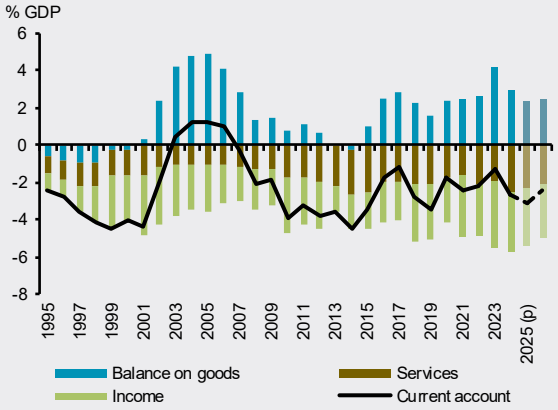
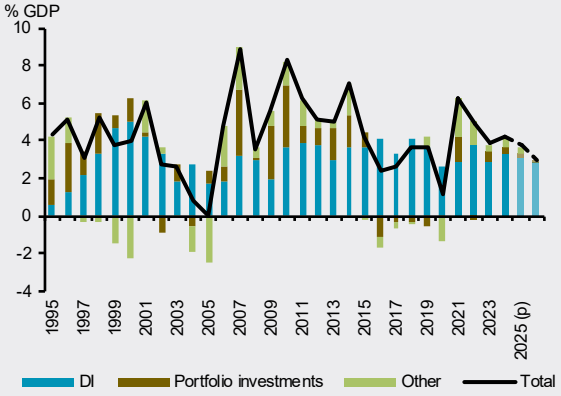


Figure 2 – Investment – liabilities



Firmus survey – expectations and sentiment of Brazilian firms

The Banco Central do Brasil is concluding the pilot stage of the Firmus survey, aimed at non-financial firms. The results of this stage indicate that the dynamics of Brazilian firms' inflation expectations is similar to the median projections released in the Focus report, which suggests its influence on the formation of expectations. At the same time, Firmus provides information that goes beyond numerical projections for macroeconomic variables, including perceptions of the economic situation, expectations of costs, prices and margins, as well as special questions on economic outlook topics. This information set broadens the perspective provided by the Focus report and enriches the monitoring of the economic outlook.

Expectations play a relevant role in price setting in market economies and are an important variable for the formulation and conduct of monetary policy, mainly in inflation-targeting regimes. Because firms are primarily responsible for production and pricing decisions, their expectations are especially relevant.

For this reason, there is a growing number of surveys carried out by central banks to collect expectations directly from firms, as opposed to traditional surveys that typically rely on greater participation of financial market agents, such as banks, asset managers, consultants, among others. Additionally, the economic literature has advanced in studying firms' expectations, showing how they are formed and how they influence the firms' own decisions and, consequently, macroeconomic variables (Coibion *et al.*, 2018; Coibion *et al.*, 2020; Weber *et al.*, 2022; Candia *et al.*, 2024).

Following this trend, the Banco Central do Brasil (BCB) created the Firmus survey (Portuguese only), aimed at non-financial firms. This survey seeks to collect the firms' expectations for macroeconomic variables and their perceptions on current economic conditions and sectoral prospects. The survey is conducted quarterly, with data collections in February, May, August, and November. So far, eight surveys have been carried out in the pilot stage, with the first in November 2023 and the most recent in August 2025.[1]

With the conclusion of the pilot stage, this box analyzes firms' expectations and perceptions in the Firmus survey and compares them with the projections compiled in the Focus Report.

Sample and questionnaire design

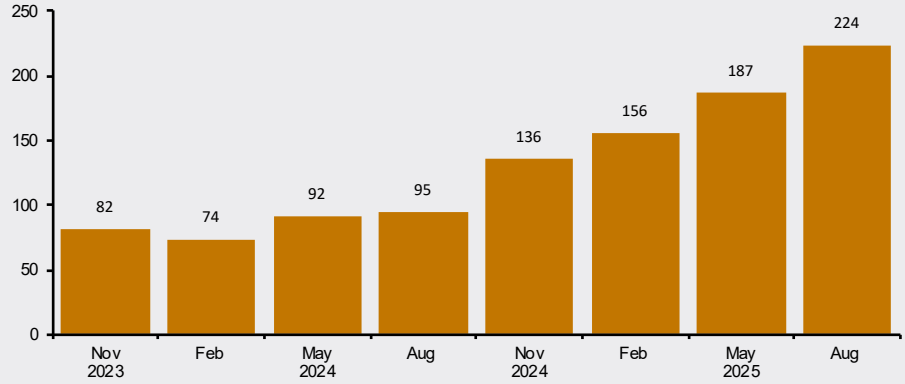
The Firmus' sample is not probabilistic, since it depends on the rate of success in prospecting contacts, carried out mainly through sectoral associations and directly with the firms' treasury and investor relations areas.[2] At this initial stage, priority was given to larger firms, which typically already use projections for variables such as inflation, GDP, and exchange rates in their decision-making regarding production, hiring, investment, and pricing.

The design of the sample involved typical challenges of firms' surveys. After defining the initial set of firms to be contacted, the first major challenge was reaching the appropriate respondent in each firm, especially senior executives with a comprehensive view of the firm and of the sector, whose agenda is usually protected

1/ The survey's webpage (Portuguese only) provides further information, including questionnaires and reports. The next report, the sixth and last of the pilot stage, will be published on September 29, 2025.
2/ Weber *et al.* (2022) highlight that surveys with firms are rarely based on probabilistic samples and, in general, relies on convenience samples, given the difficulties in accessing senior executives and the high opportunity cost of their time to participate.

by multiple layers of staff. The second was to convince them to participate recurrently, overcoming time constraints and concerns about sharing sensitive information. In this process, individualized contact with each representative, explaining the initiative's importance and addressing questions, has been crucial for expanding the sample. Initially comprising 80 to 90 firms in the first four rounds, the sample exceeded 200 participants in the eighth edition (Figure 1).[3] The goal is to continue expanding the number of respondents and consolidate a stable and diversified panel of firms operating in different sectors.

Figure 1 – Number of participants - Firmus



The Firmus questionnaire was elaborated based on other central banks' experience and projected to be concise, allowing firms to respond carefully but without committing much time of their agenda. During the pilot stage, the questionnaire underwent adjustments to ensure clarity of the questions and to facilitate respondents' understanding. Once the pilot stage is completed, the questionnaire can be further improved, either by including special questions in specific rounds, or by refining recurrent questions. Still, the idea is to preserve as much stability as possible, to enable the construction of comparable time series over time.

Dynamics of Firmus' expectations

Firmus survey collects and reports participants' projections for different macroeconomic variables (inflation, GDP, and exchange rate) for several horizons. Among them, inflation expectations are particularly relevant for the formulation and communication of monetary policy. In Figures 2 and 3, which present the median Extended National Consumer Price Index (IPCA) expectations collected by the Firmus[4] and Focus[5] surveys for 2025 and 2026, one observes that the reported median expectations show a similar trend over time. In international literature, different studies show that expectations reported by firms tend to be consistently higher than the contemporaneous expectations of analysts and financial market participants (Weber *et al.*, 2022). However, this pattern was not confirmed for the Brazilian case in the period under analysis.

3/ Firmus' response rate has varied between 50% and 60%, in line with that reported by Weber *et al.* (2022). According to the authors, surveys conducted by public agencies usually achieve participation rates between 50% and 80%, well above those observed in private surveys, which often do not exceed 10%.

4/ IPCA projections for the calendar-year began to be collected from the third round of the Firmus survey, in May 2024, the starting point for figures 2, 3, 5, and 6. Projections based on calendar years were chosen instead of moving 12-month-ahead horizons because this format is more commonly used in macroeconomic discussions, serving as a clearer and more widely reference followed by market participants.

5/ The Focus data presented in this box correspond to the expectations disclosed in the reports with cut-off dates coinciding with the respective final days of data collection for each round of the Firmus survey.

Figure 2 – Median expectation of 2025 IPCA

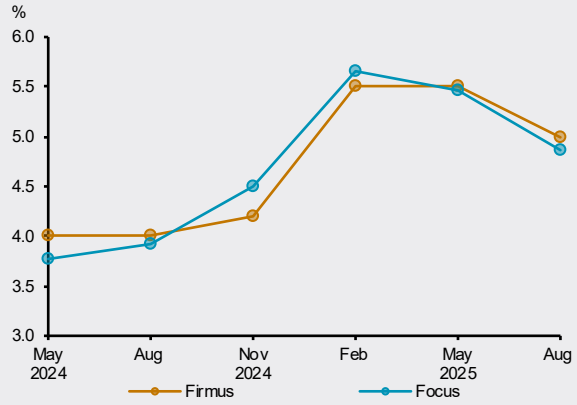
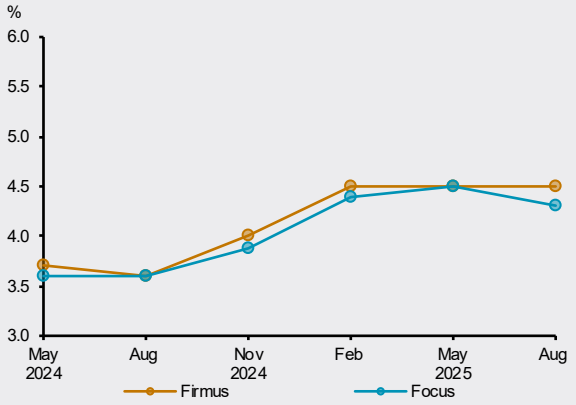


Figure 3 – Median expectation of 2026 IPCA

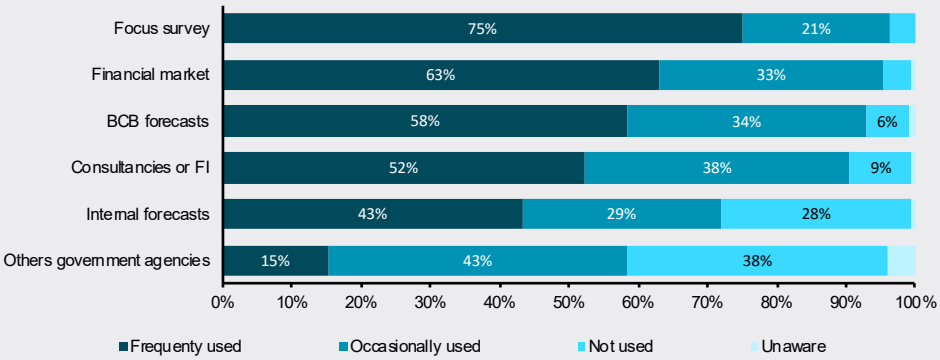


A possible explanation for the observed proximity is the wide dissemination of the Focus report, frequently reported in the news and used as a market reference. To explore this issue, the Firmus of August 2025 round included a specific question about the frequency of use of several sources of information. In addition to the Focus report, the answers' options included the firm's internally produced projections, financial market information (e.g. exchange rate future contracts or breakeven inflation rates of financial contracts or government securities), projections of consulting or financial institutions, BCB's projections, and projections of other government agencies.

As shown in Figure 4, the Focus report appears to be the main source of information. Nearly 75% of the firms responded that they use the Focus report frequently and most of the others stated that they use it occasionally. Although the Focus report is rarely used alone – almost all firms that use it also reported to use other sources – its prominence can contribute for anchoring firms' projections to the expectations of financial market's analysts.

Figure 4 – Information sources for economic forecasts

Share of answers of the Aug-25 round



Despite the wide dissemination of the Focus report, the data indicate that firms update their expectations based on heterogeneous sources of information. Moreover, firms from different sectors tend to have distinct incentives for collecting information and updating their expectations, as they perceive different prices signals and face specific competitive dynamics (Weber *et al.*, 2022). This is why their expectations tend to show higher dispersion. Figures 5 and 6 illustrate this point, presenting the standard deviation of responses to Firmus and Focus surveys on different collection times.

Figure 5 – Standard deviation of 2025 IPCA expectations

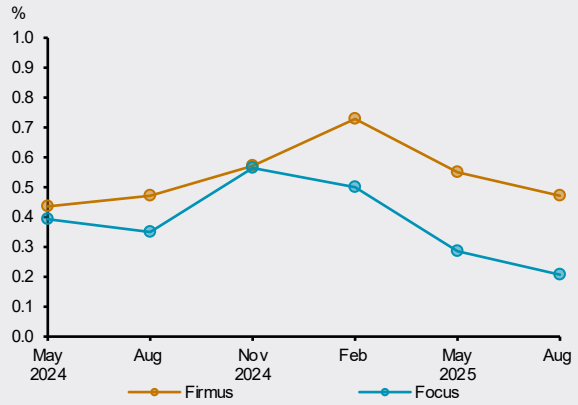
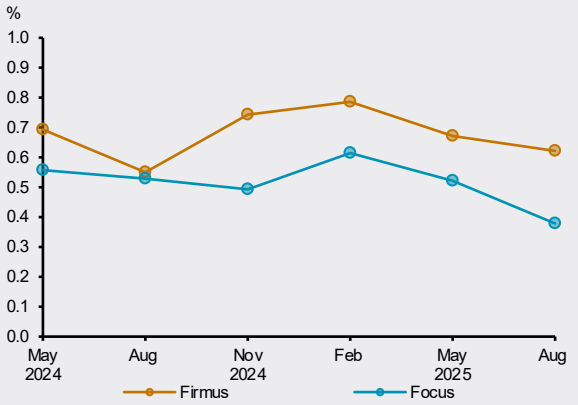


Figure 6 – Standard deviation of 2026 IPCA expectations



Although the median expectations show a similar behavior, the standard deviation of Firmus' responses exceeds those of the Focus survey in all collection periods and confirms greater heterogeneity in the updating of expectations among firms.

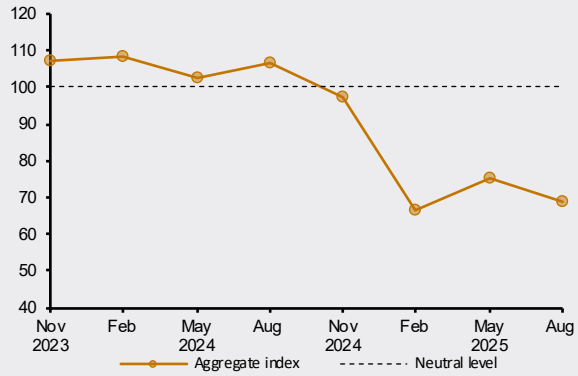
Qualitative perceptions

In addition to quantitative projections for inflation, GDP, and exchange rate, the Firmus survey includes a set of multiple-choice questions that allow capturing more qualitative perceptions. The results of these questions complement macroeconomic projections and help to understand how firms assess the economic environment.

One question refers to the sentiment regarding the current economic situation,[6] for which an index constructed from the responses suggests a significant deterioration since Feb-Apr 2025, as shown in Figure 7.[7]

Figure 7 – Current economic situation

Index from 0 to 200 (increasing with more positive sentiment)



Another key aspect of the survey is expectations for cost, captured by Firmus survey through questions with responses expressed in numerical ranges. One of the questions collects expectations for changes in labor costs and has been part of the questionnaire since the third round (May 2024). Furthermore, starting in February 2025, the survey began collecting expectations for changes in input acquisition costs.[8] Figure 8

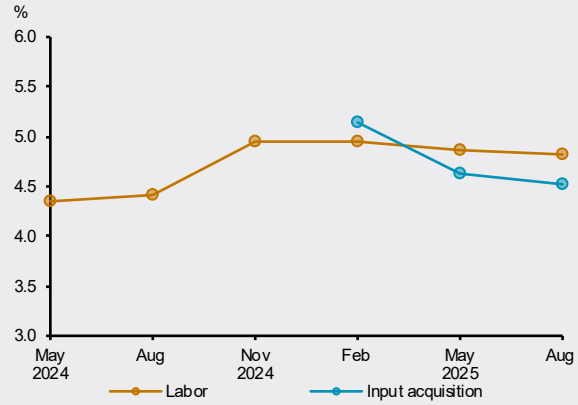
6/ Firms responded to the following question: "As the representative of your firm, your assessment about the predominant sentiment among professionals of your sector of activity concerning the current economic situation is a. Strongly positive; b. Discreetly positive c. Neutral; d. Discreetly negative; e. Strongly negative".

7/ The aggregate index, constructed for the analytical purposes of this study, was calculated by weighting the answers according to the following values: a = 200; b = 150; c = 100; d = 50; e = 0.

8/ Firms responded to the following questions: "For the next 12 months, you expect that the change of the average labor cost of your firm will be: a. Above 6%; b. Above 4% and up to 6%; c. Above 2% and up to 4%; d. From 0% to 2%; e. Negative"; and "For the next 12 months, you expect that the average input acquisition costs by your firm will be: a. Above 6%; b. Above 4% and up to 6%; c. Above 2% and up to 4%; d. From 0% to 2%; e. Negative".

shows the evolution of the indices built from these questions.[9] The expected labor costs remained above the inflation target in all rounds and, after a sharper increase at the end of 2024 and a quarter of stability, declined marginally in the last two surveys. Meanwhile, expected input acquisition costs followed a downward trend in 2025, although they also remained above the inflation target.

Figure 8 – Costs - 12-month ahead



Firmus survey also collects information on expectations for final price adjustments and the expected evolution of profit margins over the next twelve months, aiming to capture potential inflationary pressures.[10,11] Figures 9 and 10 show the evolution of the indices built from these questions,[12] indicating that in August 2025, both price adjustment expectations and projected profit margins were at lower levels than those recorded in the same period of 2024, although still in a positive territory. Additionally, in the last two rounds, there was a moderate improvement in the average expectation for future profit margins, even in the face of the deceleration trend captured by the price-related question. This movement may be associated with expectations that lower pressures on input costs (Figure 6) will offset the prospect of lower price adjustments.

Figure 9 – Prices vs inflation - 12-month ahead
Index from 0 to 200 (increasing with more positive difference)

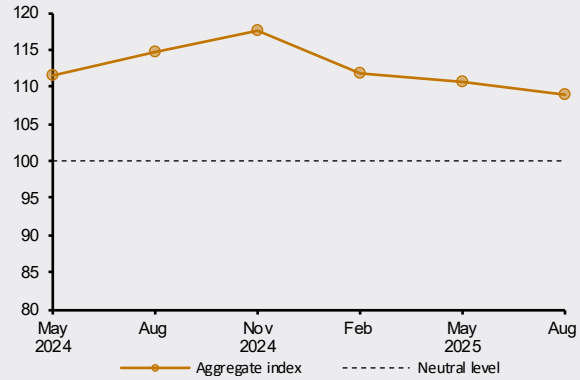
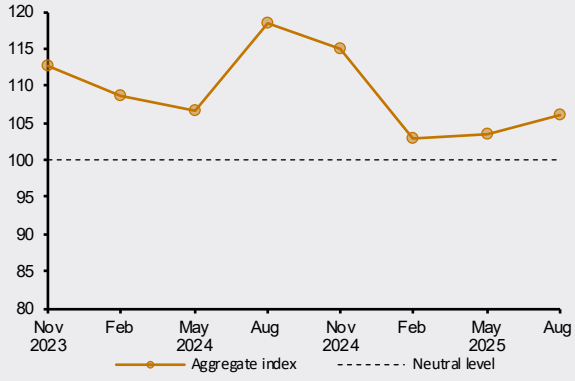


Figure 10 – Margin - 12-month ahead vs current
Index from 0 to 200 (increasing with more positive difference)



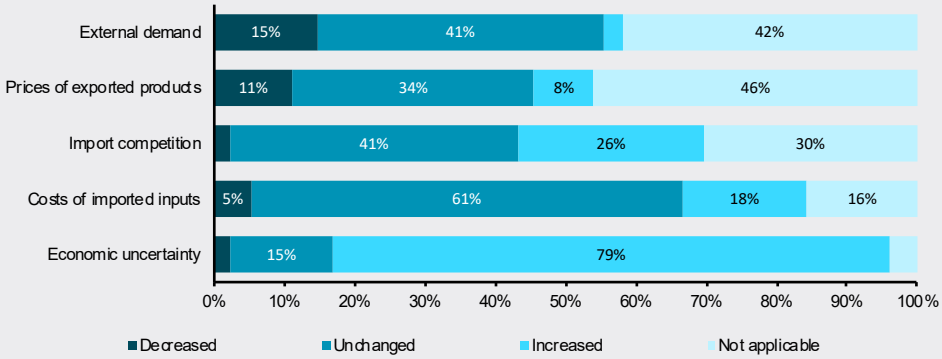
Finally, Firmus occasionally includes questions addressing current topics of interest. In the last two rounds, the survey investigated firms' perceptions about the impacts of the U.S. trade policy. In both rounds, most

9/ For the analytical purposes of this study, the expected average costs were calculated by weighting the answers to the respective questions according to the following values: a = 7%; b = 5%; c = 3%; d = 1%; e = -1%.
10/ Firms responded to the following question: "In the next 12 months, how do you expect the change of prices of your firm's products compared with the expected inflation, measured by the IPCA? a. Strongly above the expected inflation; b. Discreetly above the expected inflation; c. In line with the expected inflation; d. Discreetly below the expected inflation; e. Strongly below the expected inflation".
11/ Firms responded to the following question: "For the next 12 months, you expect that the margin of your firm's result will be: a. Strongly above the current level; b. Discreetly above the current level; c. In line with the current level; d. Discreetly below the current level; e. Strongly below the current level".
12/ For the analytical purpose of this study, both aggregate indices are calculated by weighting the answers to their respective questions according to the following values: a = 200; b = 150; c = 100; d = 50; e = 0.

firms reported not to have yet perceived a direct impact, despite mentioning reduced external demand or increased competition from imports (Figure 11). To contextualize the response, it is worth noticing that for a large share of participants, some of the possible direct transmission channels are not relevant (they answered "does not apply"). Nevertheless, most firms pointed to increased economic uncertainty resulting from the shift in U.S. trade policy stance. Figure 11 presents the results of this question in the latest round.

Figure 11 – Impacts of the U.S. trade policy

Share of answers of the Aug/25 round



Concluding Remarks

The results presented in this box indicate that the median inflation expectations collected by Firmus survey closely follow the medians of the Focus report, reinforcing the relevance of this report in coordinating the expectations of Brazilian firms. Furthermore, Firmus adds value by providing additional information, such as greater heterogeneity in quantitative responses, sentiment indicators regarding the economic situation, and expectations for costs, final prices, and margins, which offer distinct and complementary inputs for the monetary policy. Moreover, the inclusion of special questions in some rounds allows for capturing firms' perceptions on current topics of interest.

Therefore, Firmus not only confirms the relevance of the Focus report but also broadens the range of information available to the BCB and to society, providing a broader view of the process of expectations formation. However, it is noteworthy that the analyses should be interpreted with caution, as they are based on a sample that is still expanding and with a limited number of rounds. Interested readers are invited to follow the next editions of the Firmus survey reports on Firmus at the BCB webpage (Portuguese only), including next week's release of the full results based on data collected in August.

References

Candia, B., Coibion, O.; Gorodnichenko, Y. (2024). "The Inflation Expectations of US Firms: Evidence from a new survey". *Journal of Monetary Economics*, 145, 103569.

Coibion, O., Gorodnichenko, Y., and Kumar, S. (2018). "How do firms form their expectations? New survey evidence". *American Economic Review*, 108(9): 2671-2713.

Coibion, O., Gorodnichenko, Y.; and Ropele, T. (2020). "Inflation expectations and firm decisions: New causal evidence". *The Quarterly Journal of Economics*, 135(1): 165-219.

Weber, M., d'Acunto, F., Gorodnichenko, Y., and Coibon, O. (2022). "The subjective inflation expectations of households and firms: Measurement, determinants, and implications". *Journal of Economic Perspectives*, 36(3): 157-184.

2 Inflation outlook

This chapter analyses the inflation outlook. Inflation projections presented extend until 2028Q1, thus comprising ten quarters ahead.[37] Projections use the set of information available until the 273rd Copom meeting held on September 16-17, 2025. As for the conditioning factors used in the projections, especially those from the Focus survey, the cut-off date is September 12, 2025, unless otherwise stated.

Inflation projections represent Copom's view and are conditional on a set of variables. Projections are generated using a set of models and available information, combined with judgment.[38] 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.[39] 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. The projections are presented along with probability intervals, which highlight the degree of uncertainty surrounding them.

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 the 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 Jun-Aug quarter was lower than expected but with a significant contribution of specific factors. Actual inflation was 0.56 p.p. below the Copom scenario (Table 2.1.1). Most of the surprise is related to the Itaipu bonus and its effect on residential electricity tariffs. The projection presented in the previous MPR considered that the bonus distribution would have a neutral effect for the projection of the Jun-Aug quarter, with a reduction of tariffs in July and a return to normal levels in August. The one-off bonus distribution in August had an estimated impact of -0.4 p.p. on the quarter's accumulated inflation. Among market prices, downward surprises occurred in food-at-home and in industrial goods, while change in the services segment was closer to the projection. For industrial goods, the decline in new vehicle prices contributed significantly to the lower inflation in this segment and is likely associated with the effects of the Industrialized Products Tax (IPI) reduction on entry models.[40] Even so, surprises in industrial goods and food were relatively widespread and may reflect the pass-through of the recent exchange rate appreciation – in addition to some idiosyncratic factors, such as the decline in wholesale coffee prices until mid-July. In the opposite direction, the inflation projection for September was revised from 0.15%, in the previous MPR, to

37/ See box Governance for the communication of the inflation projections horizon in the September 2024 IR.
38/ See box BCB's analysis and projection system in the March 2023 IR.
39/ See box Exchange rate path in BCB projections and the purchasing power parity in the September 2020 IR.
40/ On July 11, 2025, Decree 12,549 was published, changing the methodology for the calculation of the IPI tax on new vehicles. Some of the changes took effect immediately, including the reduction of the IPI to zero for entry models. Other changes are expected to have delayed effects due to the 90-day rule.

0.62%, in this MPR. The projection for electricity was revised upward due to the reversal of the Itaipu bonus in the month and the adoption of the red 2 flag, against the assumption of red 1 flag in the previous MPR. This effect was only partially offset by the reduction in the projection for the other segments.

Table 2.1.1 – IPCA – Inflation surprise

% change

	2025				
	Jun	Jul	Aug	Quarterly up to Aug	12-month up to Aug
Copom's scenario[1/]	0.33	0.18	0.44	0.95	5.72
Actual IPCA	0.24	0.26	-0.11	0.39	5.13
Surprise (p.p.)	-0.09	0.08	-0.55	-0.56	-0.59

Sources: IBGE and BCB

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

Short-term monthly projections indicate persistence of 12-month inflation above the upper limit of the inflation target tolerance interval (Table 2.1.2). Food-at-home prices are expected to register higher changes until the end of this year. In addition to less favorable seasonality, there remains a risk of a sharper increase in fed cattle and beef prices, which is partially incorporated into the projections. Industrial goods inflation, fueled by exchange rate and producer price movements, is expected to continue at a level close to that of recent months, lower than observed in late 2024 and early 2025. In services, underlying inflation measures should continue under pressure, consistent with the high degree of inertia in prices of this segment and with the still heated labor market. By the end of this year, administered prices should register changes highly influenced by the residential electricity subitem. The projection assumes the green flag in December, but the hydrological scenario still points to a high risk of restrictive tariff flags in the short term. Furthermore, as already discussed in the previous paragraph, the one-off Itaipu bonus distribution in August leads to an increase in electricity tariffs in September, with an impact of around 0.4 p.p. in the headline IPCA for the month. In this context, the average of core measures is expected to lie around 5% in terms of 12-month change.

Table 2.1.2 – IPCA – Short-term projections[1/]

% change

	2025			
	Sep	Oct	Nov	Dec
Monthly change	0.62	0.23	0.22	0.53
Quarterly change	0.77	0.74	1.07	0.98
12-month change	5.32	4.97	4.80	4.81

Sources: IBGE and BCB

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

2.2 Conditional projections

Inflation determinants and conditioning assumptions[41]

Compared with the previous MPR, the trajectory assumed for the Selic rate in the reference scenario grew by 0.25 p.p. for 2025 and showed a slightly faster decline throughout 2026, remaining unchanged at the end of each year from 2027 onwards. The September 2024 Copom meeting started the monetary tightening cycle, with a 0.25 p.p. increase of the Selic rate, followed by hikes of 0.50 p.p. in November, 1 p.p. in the December, January, and March meetings, 0.50 p.p. in the May meeting, and 0.25 p.p. in the June

41/ For more 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.

meeting, leading to a Selic rate hike from 10.50% to 15.00% p.a. In the considered Focus trajectory, the Selic rate remains at 15.00% until the end of 2025. The rate resumes a downward trend in the first meeting of 2026, ending the year at 12.38% and 2027 at 10.50% (Figure 2.2.1). The rate until the end of 2025 is 0.25 p.p. higher than in the previous MPR, which did not project a 0.25 p.p. increase at the June meeting. Moreover, some reductions are anticipated throughout 2026 and 2027, although maintaining the same Selic rate level by the end of 2027. After this period, the trajectory is very similar to that of the previous MPR.

Inflation expectations from the Focus survey declined for the next years but a gap from the inflation target remained. When compared with the June 2025 MPR, median expectations decreased from 5.25% to 4.83% for 2025, from 4.50% to 4.30% for 2026, and from 4.00% to 3.90% for 2027. Therefore, the gap relative to the 3.00% target narrowed for these three years. 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.[42]

The trajectory of the *ex-ante* real Selic rate fluctuated in relation to the previous MPR. The four-quarter-ahead Selic rate, adjusted for inflation expectations over the same period – both extracted from the Focus survey and measured in quarterly averages – oscillated in relation to the previous MPR (Figure 2.2.2). From 2025 to 2026, it mainly follows the general movements in nominal interest rate expectations, with increase in 2025 and reduction from mid-2026 to 2027. As from the second half of 2027, it increases due to the downward movement in inflation expectations. By this measure, the *ex-ante* real interest rate, which began its upward path in 2024Q2, reaches a peak of 9.6% in 2025Q3, while, in the previous MPR, the peak was reached in 2025Q2, 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
Quarterly averages
% p.a.

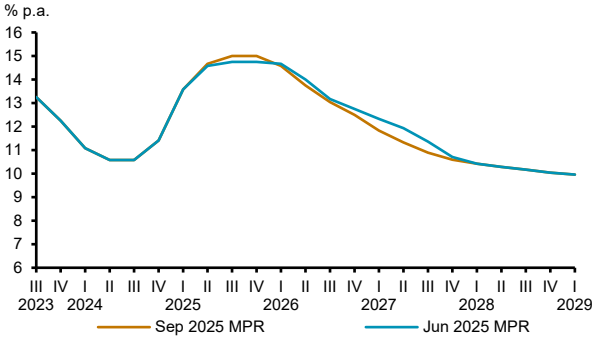
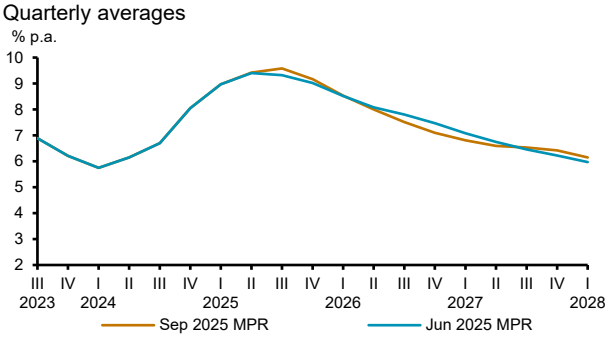


Figure 2.2.2 – Four-quarter-ahead real Selic
Quarterly averages
% p.a.



Note: Real Selic calculated as the four-quarter-ahead Selic rate, discounted from inflation expectations for the same period, both variables extracted from the Focus survey.

The exchange rate has appreciated in the quarter, reflecting both external and domestic factors. In the inflation projections of the reference scenario, the exchange rate starts at USD/BRL 5.40 – 3.6% lower than the USD/BRL 5.60 considered in the June 2025 MPR – and follows a path according to the PPP (Figure 2.2.3). The USD global value has fluctuated, also reflecting the U.S. tariff policy announcements and the consequent reactions, but with a predominant depreciation trend. Domestically, agents' perception of the fiscal situation continues to affect domestic asset prices. 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 5.41, USD/BRL 5.46, and USD/BRL 5.52, respectively.

Oil prices oscillated slightly in the quarter, impacted by the conflict in the Middle East and an increase in production by OPEC+. 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-type oil price is USD 66.81 for 2025Q4 – 1.7% higher than in the

42/ Further details about the Firmus survey (Portuguese only) are available at https://www.bcb.gov.br/publicacoes/firmus and in the box Firmus survey – expectations and sentiment of Brazilian firms in this MPR.

June 2025 MPR, falls to USD 66.11 for 2026Q2 and then grows at 2% p.a. (Figure 2.2.4) After fluctuating as a result of the conflict between Israel and Iran, prices continued to be pushed downward mainly due to the announcements of OPEC+ of a faster reversal of voluntary production cuts. Commodity prices, measured by the IC-Br in USD, increased. The increase observed in metal and agricultural commodities outweighed the decline in energy commodities.

Figure 2.2.3 – Exchange rate assumption for projections – PPP trajectory
Quarterly averages
USD/BRL

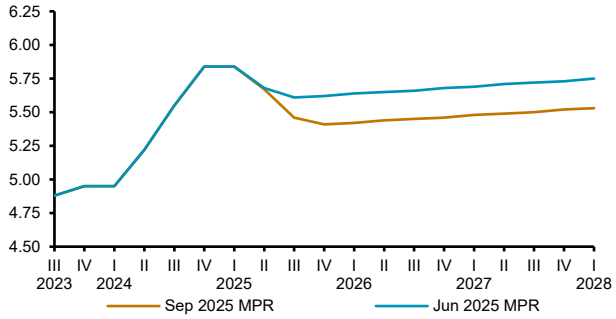
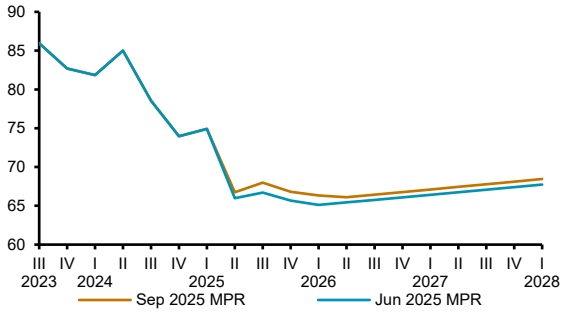


Figure 2.2.4 – Brent-type oil price
Quarterly averages
USD/Barrel



Sources: Bloomberg and BCB

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.[43] 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, adjusted for outliers and for the business cycle. Within the projections' horizon, this variable is expected to fluctuate over shorter periods and then gradually improves 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 on the aggregate demand.

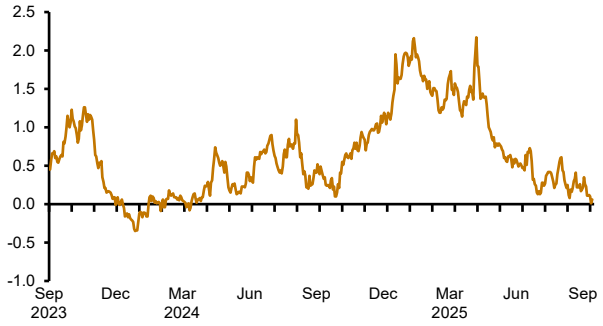
The hydrological scenario has worsened, leading to the activation of more expensive tariff flags and a revision of the short-term projection. After a very favorable start to the year, the hydrological scenario has deteriorated since the March 2025 MPR, with reservoir levels remaining below those observed in 2024. In 2025, after a green flag in effect until April, the yellow flag was activated for May, the red 1 flag for June, and the red 2 flag for August and September. In the scenario, red 1 flag is assumed for October, yellow flag for November, and green flag for December. For the last 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 have become less restrictive since the previous MPR, mainly reflecting the capital market, currencies, and risk groups. In mid-September, financial conditions, measured by the BCB's Financial Conditions Index (FCI), reached less restrictive levels than in June (Figures 2.2.5 and 2.2.6).[44] FCI decline since the previous MPR mainly reflected the appreciation of domestic and foreign stock exchanges, BRL appreciation,

43/ See, for instance, box Update of neutral real interest rate measures in Brazil in the June 2024 IR.
44/ The previous MPR used FCI data up to June 13, 2025, while the current one uses data up to September 12, 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.

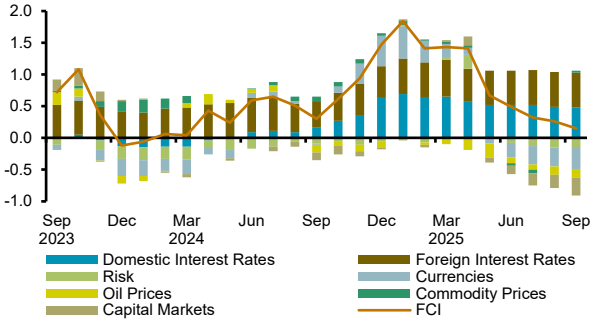
reductions of the Chicago Board Options Exchange Volatility Index (VIX) and of the country risk premium, and oil price decline. These movements more than offset the reduction of agricultural commodity prices.[45]

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: 9.1.2023–9.12.2025.

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. Sep/2025 value refers to the average until the 12th.

GDP growth slowed down in 2025Q2, after growing strongly in early 2025. Seasonally adjusted GDP rose 0.4% in 2025Q2 compared with 2025Q1, following respective expansions of 0.1% and 1.3% in 2024Q4 and 2025Q1. Services and industry increased 0.6% and 0.5%, respectively, while agriculture declined 0.1%. In the same comparison basis, household consumption rose 1.0%, following a 0.9% rise in 2025Q1. GFCF fell by 2.2%, following six consecutive quarterly expansions. GDP growth projection for 2025 fell from 2.1% in the June 2025 MPR to 2.0% in this MPR.[46] The initial estimate for the 2026 projection is 1.5%.

Labor market and installed capacity utilization indicators have shown mixed signals, although both still suggest economic heating. The unemployment rate declined again, reaching a new historical low of 5.7% in the May-Jul quarter (seasonally adjusted). The seasonally adjusted Level of Utilization of Installed Capacity (Nuci), calculated by the Getulio Vargas Foundation (FGV), decreased from 83.7% in May to 82.6% in August. Moreover, net hirings, measured by the New Caged, fell from a monthly average of 165,000 in the Feb-Apr quarter to around 113,000 jobs in the May-Jul (seasonally adjusted data), a still historically high level.

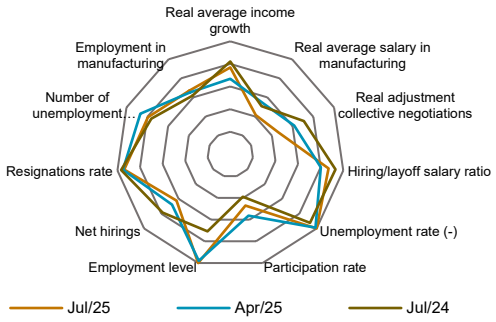
The labor market spider chart continues to show signs of a heating up. This measure considers historical information from several labor market indicators until July 2025 (Figure 2.2.7). Most variables are in the top two quartiles, i.e., above the historical median. When comparing July with April 2025, both income and employment indicators point to opposite directions. While the average real income in manufacturing and the real adjustment of collective negotiations indicate reduced heating, the other two income measures (the PNAD's average real income and the hiring salary to layoff salary ratio) signal higher heating. Among employment measures, while the unemployment rate and employment levels are at the peak of the historical heating, the metrics of resignations, participation rate, formal jobs balance, and number of unemployment insurance claims indicate lower heating in July 2025 when compared with April 2025. In the YoY comparison, while income indicators point to a lower labor market heating, most employment indicators point to a higher heating compared with July 2024.

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 2025Q2 and 2025Q3 are 0.7% and 0.5%, respectively (Figure 2.2.8).[47] Positive values for the output gap are considered to be consistent with the inflationary pressure recently observed. There was a slight increase in the estimate for the output gap in 2025Q2 compared with the 0.5% figure reported in the June 2025 MPR, due to more recent labor market data, which came in stronger than anticipated. It is worth noting that the gap measure used here does not refer only to GDP but is also

45/ It should be emphasized that the FCI reflects multiple elements and should not be interpreted as an indicator of monetary stimulus 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.
46/ See box GDP growth projections in 2025 and 2026 in this MPR.
47/ Projections of these activity variables were used for 2025Q3 when data were not available.

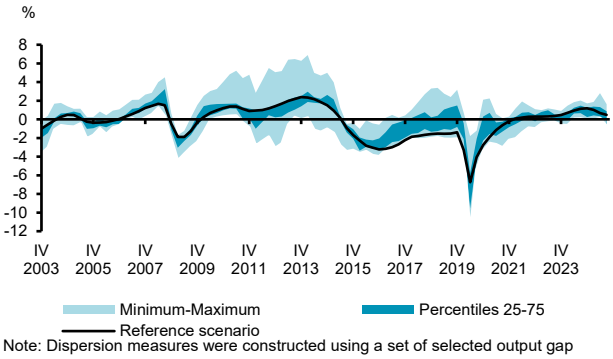
influenced by other variables associated with capacity utilization and the labor market.[48] However, the output gap is expected to fall to negative values in the next quarters, reaching -0.5% in 2027Q1. Tight monetary conditions play an essential role in this movement. There was also an increase in the projection for 2026Q4 when compared with the -0.8% reported in the June MPR. As highlighted in previous MPR and IR 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. Figure's data period: 2003Q4–2025Q3.

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;[49] and iv. assessment on the state and outlook of the economy.[50]

In the reference scenario projections, inflation remains above the upper limit of the inflation target tolerance interval in the next months and then, despite following the downward trend that began in 2025Q2, remains above the inflation target. In this context – which uses the Selic rate from the Focus survey and the exchange rate following the PPP – after remaining in the 5.3%-5.5% range in the first three quarters of 2025, four-quarter inflation declines to 4.8% by the end of the year, to 3.6% in 2026, and to 3.1% in the last period considered, referring to 2028Q1 (Table 2.2.1). In the relevant horizon for monetary policy, considered to be 2027Q1, projected inflation is 3.4%. From probability intervals built around the reference scenario (Figure 2.2.9), the estimated probability of inflation surpassing the tolerance interval in 2026Q4 remains at 26% for the upper limit and 6% for the lower limit (Table 2.2.2), since the forecast for 2026Q4 remained stable.[51] Based on monthly projections, 12-month inflation exceeded the upper limit of the target tolerance interval for six consecutive months as of June 2025 (see Section 2.1), thereby breaching the inflation target. The reasons for this breach were disclosed in an open letter to the Ministry of Finance and a note in this MPR.[52]

48/ See box Updating of small-scale semi-structural models in the June 2024 IR.
49/ See the methodological appendix in this chapter for more details about the procedures used in the building of conditioning assumptions for the Selic, exchange rate, and oil price.
50/ See box BCB's analysis and projection system in the March 2023 IR.
51/ 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.
52/ The assessment is carried out through the so-called "continuous inflation-targeting framework," established by Decree 12,079 of June 26, 2024. The note and the letter 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 span for the measures to take effect.

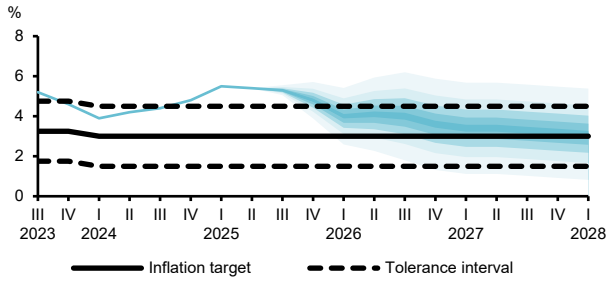
Table 2.2.1 – Inflation projections – Reference scenario
YoY IPCA inflation

%

	2024		2025				2026				2027				2028
Price index	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
IPCA	4.4	4.8	5.5	5.4	5.3	4.8	4.0	4.1	4.0	3.6	3.4	3.4	3.3	3.2	3.1
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[0.0]	[-0.1]	[-0.1]	[-0.2]	[-0.1]	[0.2]	[0.0]	[0.0]	[0.0]	[0.0]	[0.0]	-
Market prices	4.1	4.9	5.6	5.4	5.4	5.0	4.3	4.2	4.1	3.5	3.3	3.2	3.2	3.1	3.0
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.2]	[-0.6]	[-0.2]	[-0.2]	[-0.1]	[0.3]	[0.1]	[0.0]	[0.0]	[0.0]	[0.0]	-
Administered prices	5.5	4.7	5.1	5.2	5.0	4.3	3.4	3.8	3.7	3.8	3.8	3.7	3.6	3.6	3.4
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[0.0]	[1.1]	[0.5]	[0.2]	[0.1]	[-0.2]	[-0.3]	[-0.1]	[0.0]	[0.0]	[0.0]	-

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 intervals 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	71
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 interval for six consecutive months (in any month of the year).

Compared with the previous MPR, inflation projections slightly decreased for 2025 and remained stable for the relevant horizon for monetary policy. The projection for 2025 fell 0.1 p.p. In the relevant horizon for monetary policy, considered to be 2027Q1, projected inflation remained stable. Among the upside inflation factors, the dynamism of the labor market, in a context of positive output gap, and the increase in the projection of residential electricity stand out, and, among downside factors, the BRL appreciation and the reduction in inflation expectations. Compared with the Copom meeting held in July (272nd meeting), inflation projections in this horizon also remained relatively unchanged (see Minutes of the 272nd meeting).

2.3 Balance of risks

Copom assesses the existence 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 released in the monetary policy communication. The Committee evaluates, selects, and communicates the 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 (273rd 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 whether inflation expectations are deanchored is based on longer horizons, typically two to three years ahead, to rely on measures that are not affected by short-term inflation deviations from the target. Inflation expectations in the Focus survey for longer terms, although declining since the previous MPR, still remain above the 3.00% target. Compared with the June 2025 MPR, the median fell from 4.50% to 4.30% for 2026, from 4.00% to 3.90% for 2027, and from 3.85% to 3.70% 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 slower 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 behavior of global trade and growth. 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.

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 economic activity and labor market indicators continues to show, as expected, some moderation in growth, but the labor market still shows dynamism. 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.

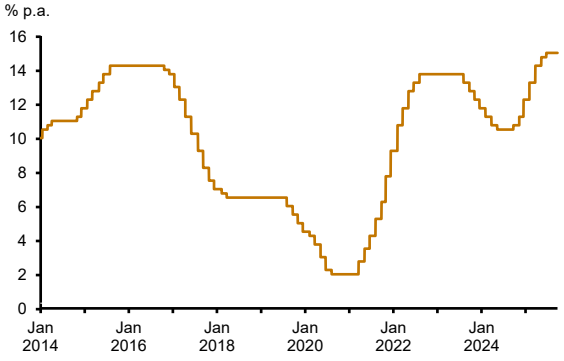
iii. reduction in commodity prices with disinflationary effects

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 June meeting, 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 continued to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity and labor market pressures.

Figure 2.4.1 – Selic rate target



Note: Daily values from 1.1.2014 to 9.19.2025.

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

In the July meeting, emphasizing again that 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 maintained the Selic rate at 15.00%. The Committee still highlighted that the scenario continued to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity and labor market pressures.

At that time, the Committee stressed again that, if the expected scenario materialized, it anticipated a continuation of the interruption in the interest rate hiking cycle to examine its yet-to-be-seen cumulative impacts of the adjustment already made, and then evaluate whether the current interest rate level, assuming it stable for a very prolonged period, would be enough to ensure the convergence of inflation

to the target. The Committee emphasized that it would remain vigilant, that future monetary policy steps could be adjusted, and that it would not hesitate to proceed with the rate hiking cycle if appropriate.

In its more recent meeting, in September, Copom maintained the Selic rate at 15.00%, once again emphasizing that 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. 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.

The Committee reaffirmed that it will remain vigilant, evaluating whether maintaining the interest rate at its current level for a very prolonged period will be enough to ensure the convergence of inflation to the target. The Committee emphasizes that future monetary policy steps can be adjusted and that it will not hesitate to resume 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 at the time of the meeting in the month of the MPR publication. 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 methodologies.[53] 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.

53/ See, for instance, box Updating output gap measures in Brazil in the June 2025 MPR.

Trend wage inflation by sector and age group

A measure of trend wage inflation in the formal sector of the Brazilian economy is estimated from changes in nominal hiring and layoff salaries recorded by the General Registry of Employed and Unemployed Persons (Caged). This trend comprises factors that are common and factors that are specific to different data segmentations. Results show a high correlation between economic activity and estimated trends broken down by sector and age group, reflecting the influence of broad macroeconomic factors. These correlations also suggest that this trend may serve as an additional indicator of the Brazilian labor market.

This box presents estimates of the trend wage inflation for nominal hiring and layoff salaries from Caged, with a focus on identifying persistent and transitory components of wage growth. The analysis is based on the dynamic factor model with time-varying parameters proposed by Almuzara, Audoly, and Melcangi (2025), using a multivariate framework to decompose the aggregate wage growth into persistent and transitory components. This structure allows the construction of a measure of trend wage inflation that considers the interrelationship observed in different data segmentations. This box explores two specific segmentations: by economic activity sector (CNAE 2.0), and by age group of workers hired and fired. Segmentations were calculated using microdata from Caged, covering the period from January 2008 to July 2025.[1]

The estimated trend can serve as an additional indicator to analyze the labor market in Brazil. Moreover, the structure of the model used is flexible and can be adapted for research in other contexts, such as regional, occupational, or education level analyses, expanding its potential for application in labor market studies. It should be noted, however, that the estimates obtained here reflect only the formal sector of the Brazilian economy and do not capture wage dynamics in the informal sector.[2] For this reason, the results should be interpreted as complementary to traditional economic activity measures.

Aggregate trend and its components

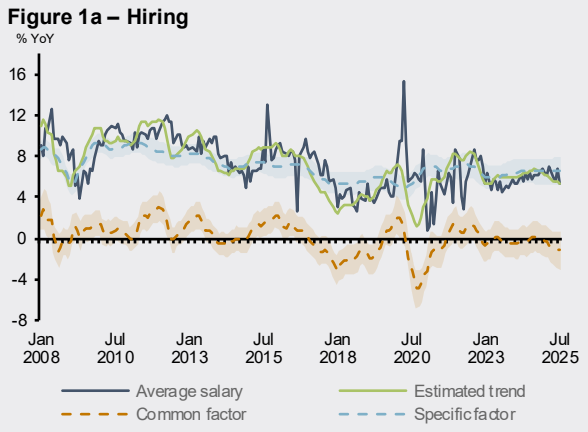
The aggregate trend wage is the weighted sum of the individual group trends. This sum can be split into two parts. One part is the common trend, which captures the persistent factors shared between groups – whether economic activity sectors or age groups – and reflects broad macroeconomic influences that affect the labor market across the board. The other part is the specific trend, which expresses the aggregation of idiosyncratic changes associated with each group, revealing particular dynamics that are not explained by the common factor.

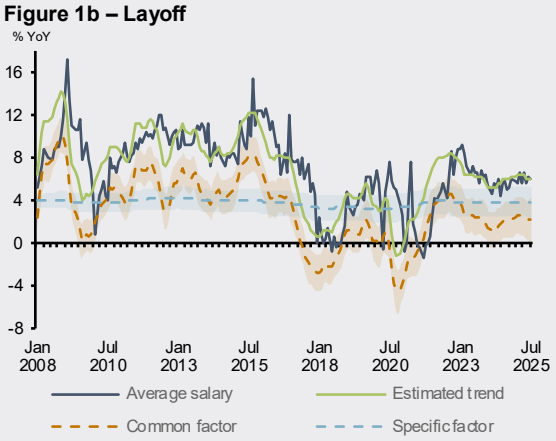
Figure 1 shows the annual change in nominal salaries observed in the Caged data, the estimates of the aggregate trend, represented by the green line, the common trend across sectors, indicated by the dashed brown line, and the specific trend, represented by the dashed blue line, estimated with data segmented by economic activity sectors. Figure 1a shows estimates for hiring salaries, while Figure 1b shows estimates for layoff salaries.[3] Figure 2, in turn, repeats the exercise now segmented by age group of workers hired (Figure 2a)

1/ The sample begins in 2007, when the survey microdata started reporting sector classification according to CNAE 2.0. After calculating the annual change in wages, the first observation corresponds to January 2008.
2/ Preliminary tests with data from the Continuous National Household Sample Survey (PNAD Continuous) were mainly hampered by the smaller sample size.
3/ Data follow the same adjustments made by the Ministry of Labor and Employment (2025), excluding values less than 0.3 minimum wages and greater than 150 minimum wages. Note also that, by construction, the common factor and the specific trend factor are additive in forming the aggregate trend. See the appendix at the end of this box with the model description.

and laid off (Figure 2b). A comparison between estimates reveals that the aggregate trend, both by sector of activity and by age group, shows a similar trajectory over time. This is due to the similarity between the common trends estimated in both models. The correlation between the common trends of the two breakdowns is 0.70 for hiring salaries and 0.92 for layoff salaries. These values suggest that macroeconomic factors affect different segments of the labor force in a relatively homogeneous way.

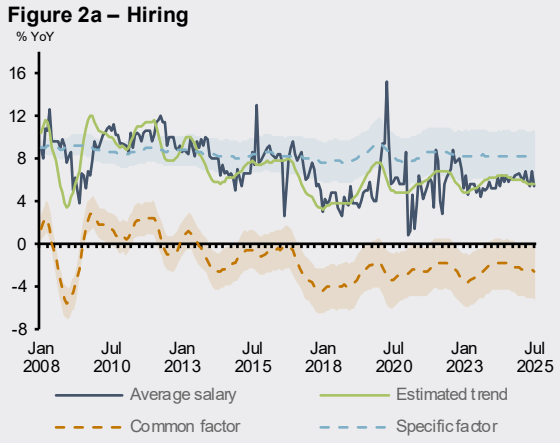
Figure 1 – Aggregate trend in the 12-month changes in average hiring and layoff salaries, estimated from data by economic activity sector.

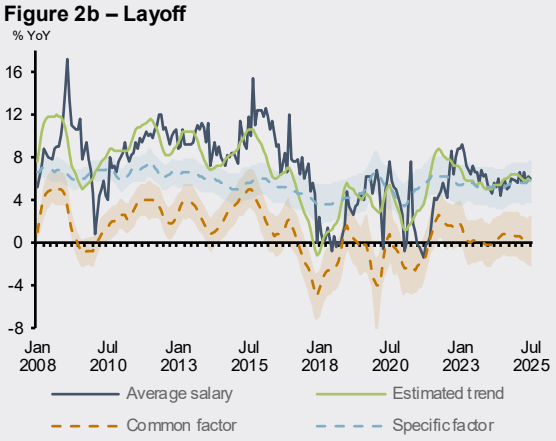




Note: Monthly data from January 2008 to July 2025. Shaded area represents the credibility interval (16th to 84th percentiles).
Sources: Caged and BCB

Figure 2 – Aggregate trend in the 12-month changes in average hiring and layoff salaries, estimated from data by age group.





Note: Monthly data from January 2008 to July 2025. Shaded area represents the credibility interval (16th to 84th percentiles).
Sources: Caged and BCB

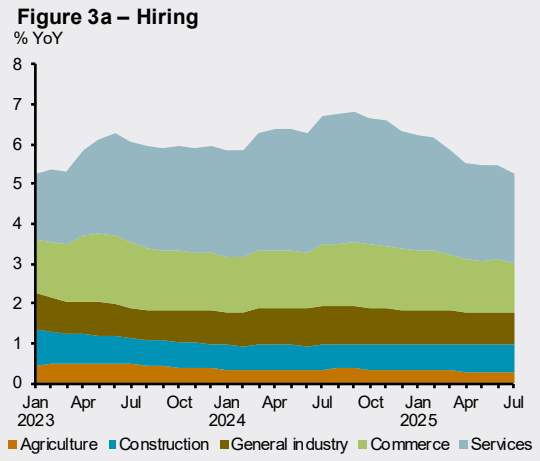
Contribution of sectors and age groups

Figures 3a and 3b show the decomposition of the aggregate trend in average hiring and layoff salaries, based on segmentation by economic activity sector. To simplify the interpretation of results, although the model was estimated based on the 21 sectors defined by CNAE 2.0, figures show the contribution of economic activity

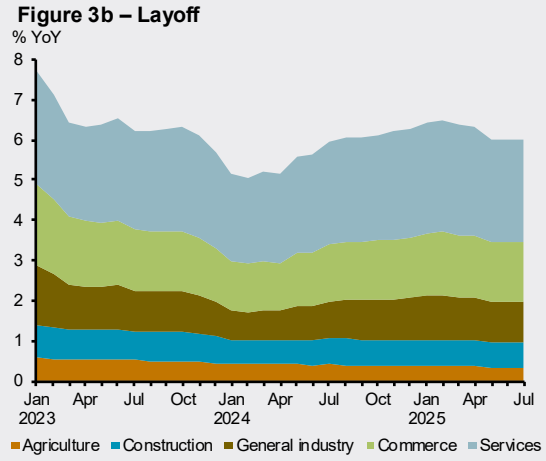
groups to the trend for the period from 2023 to 2025.[4] Note that groups such as services, commerce, and general industry have a significant and consistent share in the aggregate trend, reflecting their weights in the formal labor market structure. The downward trends in hiring and layoff salaries, observed since June 2024 and January 2025, respectively, appear to have been decisively influenced by the services sector. In the case of layoff salaries, in addition to services, the commerce sector also seems to contribute to the downward trend.

Figure 4 shows the estimates of the aggregate trend breakdown using segmented data for workers' age groups and, as in the previous case, separated for hiring salaries (Figure 4a) and layoff salaries (Figure 4b). This figure reveals that workers up to 50 years old account for the largest share of the aggregate trend in both cases. The recent decline in the estimated trend in hiring salaries is stronger in the two intermediate age groups, with workers aged 25 to 50. In terms of layoff salary, the breakdown highlights the decrease in salaries in the highest brackets as a contributing factor to the recent decline, especially for workers over 35 years old.

Figure 3 – Trend breakdown of the average hiring and layoff salaries, by economic activity group – January 2023 to July 2025.

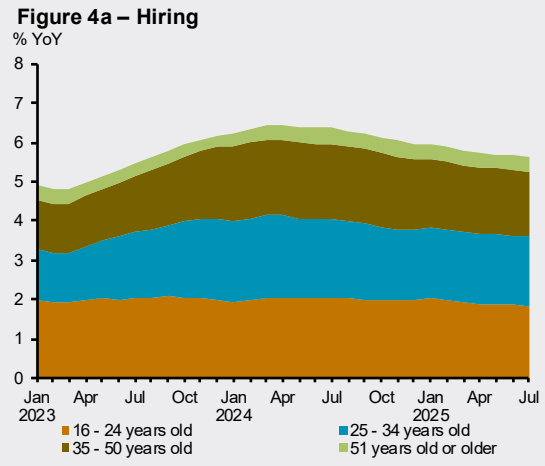


Sources: Caged and BCB

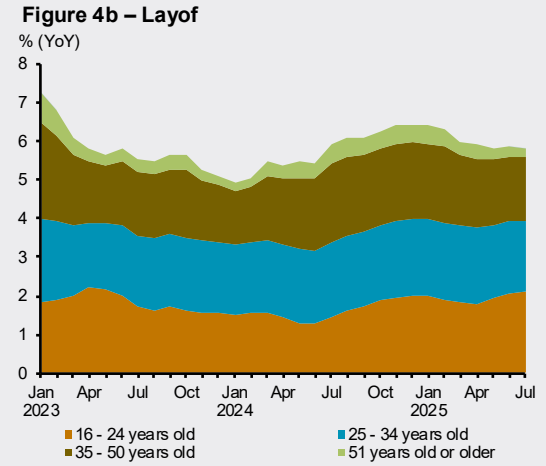


Sources: Caged and BCB

Figure 4 – Aggregate trend breakdown of the 12-month changes of the average hiring and layoff salaries, by age group – January 2023 to July 2025.



Sources: Caged and BCB



Sources: Caged and BCB

4/ These groups follow the classification adopted by the Ministry of Labor and Employment, according to the official document Economic Activity Groups.

Trend wage as an economic activity indicator

Starting with an estimate of the output gap measure obtained by applying the Hodrick-Prescott (HP) filter to the BCB's Economic Activity Index (IBC-Br)[5], cross-correlation plots were constructed with the trend series for each of the age group breakdowns. The results presented in Figure 5 indicate that the trend wage generally has a negative correlation – significant in most cases – with the future output gap; in contrast, the output gap has a positive correlation with the future trend wage. Exceptions to this regularity show in the intermediate age ranges for hiring salaries.[6]

Figure 5 – Cross-correlograms between the output gap and trend wages by age group (hirings and layoffs).

Figure 5a – 16 - 24 years old (hiring)

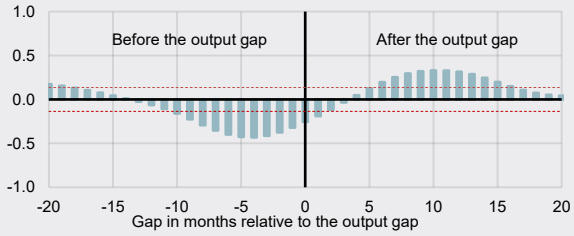


Figure 5b – 16 - 24 years old (layoff)

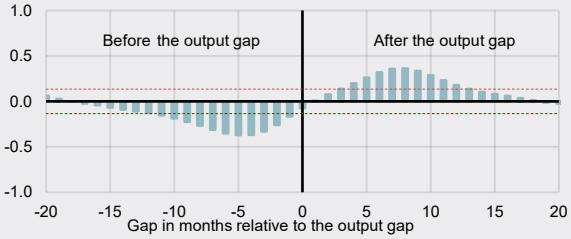


Figure 5c – 25 - 34 years old (hiring)

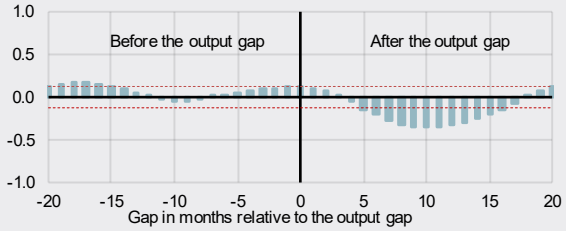


Figure 5d – 25 - 34 years old (layoff)

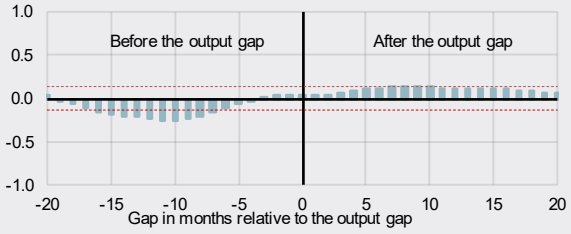


Figure 5e – 35 - 50 years old (hiring)

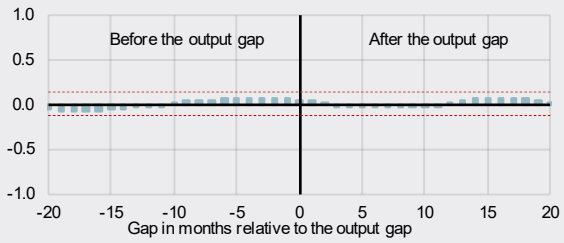


Figure 5f – 35 - 50 years old (layoff)

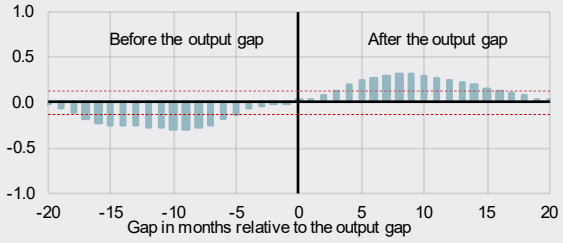


Figure 5g – 51 years old or older (hiring)

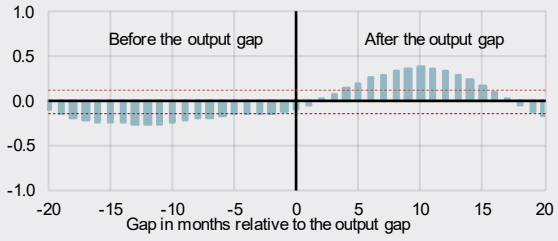
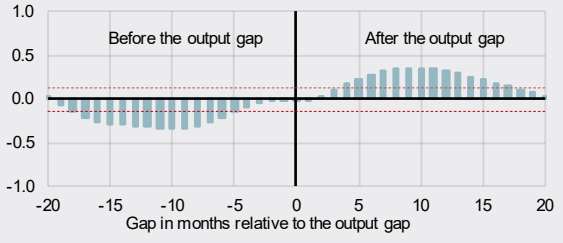


Figure 5h – 51 years old or older (layoff)



5/ Data excludes the agricultural component and is seasonally adjusted. Series number 29608 in the BCB's Time Series Management System (SGS).

6/ This pattern also appears in the results segmented by economic activity sector, and using other filters to calculate the gap, such as the Hamilton (2018) filter.

Despite all the recognized limitations of a simple statistical exercise such as this, the correlograms suggest a behavior consistent with supply shocks in the negative relationship between the output gap and past trend wages – high wage growth tends to generate cost pressures, thus reducing the current output. Similarly, there is evidence of a consistent behavior with demand shocks in the positive relationship between trend wages and the output gap in the past, with heated economic activity taking some time to generate significant wage increases in the economy. The regularity of this pattern in layoff salaries for different age groups also seems to show that the layoff salary is more influenced by aggregate economic factors than by events specific to each group.

In summary, the breakdowns by sector of activity show the role of the services sector in the growth dynamics observed over the last year. The breakdown by age group, in turn, distinguishes the role of the intermediate age groups in relation to the older age groups in the slowdown in hiring and layoff salaries, respectively. The cross-correlations of the trend by age group with the output gap suggest a more complex and varied relationship, combining elements of supply and demand shocks depending on the direction of the relationship. These results reinforce the importance of trend wage inflation as an additional element to understand the mechanisms of economic shock propagation in the Brazilian labor market.

Nevertheless, it should be emphasized that this approach has the limitation of data representativeness being restricted to the formal sector. Therefore, results should be considered with caution, especially in applications involving inferences about the economic cycle. Conversely, the model's multivariate and dynamic structure allows its application in different contexts and empirical settings, making it a promising tool for future research on wage dynamics and the labor market.

Appendix: Wage growth decomposition model

The model developed by Almuzara, Audoly, and Melcangi (2025) proposes a measure of trend wage inflation (Trend Wage Inflation, or TWIn) based on monthly wage microdata. The objective of the approach is to isolate the persistent component of wage growth, filtering out noise and transitory changes, and to capture the common and specific factors that influence aggregate wage dynamics.

The fundamental equation of the model is given by:

$$w_{it} = \frac{1}{12}\sum_{\ell=1}^{12} \tilde{\tau}_{i,t+1-\ell} + \tilde{\varepsilon}_{it},$$

where w_{it} represents the annual wage inflation rate for sector i in month t, calculated as the percentage change in the average/median wage between t and t-12. The term $\tilde{\tau}_{i,t}$ represents the persistent (trend) component of unobserved monthly wage inflation, while $\tilde{\varepsilon}_{it}$ expresses the transitory (noise) component, which may include a measurement error.

To capture cross-sector correlations, the model breaks down the trend and noise components into common and specific parts:

$$\tilde{\tau}_{it} = \alpha_{\tau,it}\tau_{ct} + \tau_{it},$$

$$\tilde{\varepsilon}_{it} = \alpha_{\varepsilon,it}\varepsilon_{ct} + \varepsilon_{it}.$$

The common components ($\tau_{ct}, \varepsilon_{ct}$) reflect aggregate shocks affecting all sectors, while the specific components ($\tau_{it}, \varepsilon_{it}$) capture idiosyncratic changes.

The dynamics of these components are modeled as:

$$\tau_{ct} = \tau_{c,t-1} + \sigma_{\Delta\tau,ct}\eta_{\Delta\tau,ct},$$

$$\tau_{it} = \tau_{i,t-1} + \sigma_{\Delta\tau,it}\eta_{\Delta\tau,it},$$

$$\varepsilon_{ct} = \left(1 + \theta_{c1}L + \cdots + \theta_{cp}L^{p}\right)\sigma_{\varepsilon,ct}\eta_{\varepsilon,ct},$$

$$\varepsilon_{it} = \left(1 + \theta_{i1}L + \ldots + \theta_{iq}L^{q}\right)\sigma_{\varepsilon,it}\eta_{\varepsilon,it},$$

where L is the lag operator, and the terms η are independent Gaussian noises. Trends are modeled as a random walk, and the moving average structure in the transitory components allows short-term temporal dependence to be captured.

Impact factors (α) and volatilities (σ) are modeled as random walks with slow variation over time:

$$\Delta\alpha_{m,it} = \gamma_{\alpha,m,i}\nu_{\alpha,m,it}, \quad \text{where} \quad m \in \tau, \varepsilon, \quad i = 1, \ldots, n,$$

$$\Delta ln\sigma^{2}_{m,jt} = \gamma_{\sigma,m,j}\nu_{\sigma,m,jt}, \quad \text{where} \quad m \in \Delta\tau, \varepsilon, \quad j = c, 1 \ldots, n.$$

The object of interest is the aggregate trend wage inflation, $\tilde{\tau}_t$, obtained from the weighting by sectoral shares $(\{s_{it}\}_{i=1}^{n})$:

$$\tilde{\tau}_t = \sum_{i=1}^{n} s_{it}\tilde{\tau}_{it} = \left(\sum_{i=1}^{n} s_{it}\alpha_{\tau,it}\right)\tau_{ct} + \sum_{i=1}^{n} s_{it}\tau_{it}.$$

This term represents the aggregate trend wage inflation, being the weighted sum of the trends of the groups. This sum can be broken down into two parts. The first is the aggregate common part, which captures the common factor in the aggregate trend. The second is the aggregate specific part, which reflects the specific changes between groups.

The estimation of model parameters and inference about latent components are conducted using Bayesian methods, with sampling performed via Gibbs Sampling and state smoothing. The procedure follows the methodological approach of Stock and Watson (2016) and Del Negro and Otrok (2008).

References

ALMUZARA, M.; AUDOLY, R.; MELCANGI, D. A measure of trend wage inflation. *Journal of Applied Econometrics*, v. 40, p. 508-520, 2025.

DEL NEGRO, M.; OTROK, C. Dynamic factor models with time-varying parameters: measuring changes in international business cycles. *Staff Reports*, n. 326, Federal Reserve Bank of New York, 2008.

HAMILTON, J. D. Why you should never use the Hodrick-Prescott filter. *The Review of Economics and Statistics*, v. 100, n. 5, p. 831-843, 2018.

MINISTÉRIO DO TRABALHO E EMPREGO. *Sumário executivo: July 2025*. Brasília, DF: Ministério do Trabalho e Emprego, 2025.

STOCK, J. H.; WATSON, M. W. Core inflation and trend inflation. *Review of Economics and Statistics*, v. 98, n. 4, p. 770-784, 2016.

Measuring monetary policy communication

This box describes the application of machine learning techniques to the content of the Banco Central do Brasil´s (BCB) official periodical publications, producing indicators of textual readability and thematic distribution that are comparable over time. This represents an initial research and methodological development effort within a broader institutional agenda to improve communication, particularly monetary policy communication.

This box analyzes the structure of the textual content of statements and minutes published by the monetary authority from January 2003 (Copom 80) to December 2024 (Copom 267)[1]. The strategy combines organization and pre-processing of the textual content with metrics that capture different dimensions of communication: readability (how easy it is to read) and thematic distribution (what the text is about). This effort is part of a broader institutional agenda, also including recent initiatives to improve communication in the Monetary Policy Report (MPR), whose format has been redesigned to make reading clearer and more accessible.

Before the elaboration of these indicators, the content undergoes pre-processing commonly used in natural language processing (NLP) literature: sentence segmentation, text cleaning, tokenization, noise removal (symbols and stopwords)[2], reduction of words to their root, and bigram detection. Each of these steps is used when appropriate, depending on the technique employed. The unit of analysis for estimation is the sentence, while the resulting time series are presented aggregated by publication.

Readability

What is measured: Readability refers to how easy is to read a text. This measure indicates how difficult each publication is to read based on objective writing criteria, such as average sentence length and word complexity. Greater readability enhances transparency by making reading accessible to a broader range of audiences.

How it is measured: The ALT readability index[3] *(Moreno et al, 2022)* is the arithmetic mean of four measures – Coleman-Liau (CL), Flesch-Kincaid Grade (FK), Automated Readability Index (ARI), and Gunning Fog (GF) – adapted for Portuguese. All of these measures operate on an approximate scale of years of schooling. Index formulas with parameters adapted to Portuguese:

- **FK:** 0.36*(words/phrases) + 10.4*(syllables/word) – 18
- **CL:** 5.4*(characters/word) – 21*(sentences/word) – 14
- **GF:** 0.49*[(words/phrases) + 19*(complex words/words)], with a complete word being one with three or more syllables.
- **ARI:** 4.6*(characters/word) + 0.44*(words/sentences) – 20
- **ALT** = 0.25*(FK + CL + GF + ARI)

1/ The period covers 188 minutes and statements, providing sufficient textual material for model estimation. The cut-off in 2024 is intended to preserve Copom's confidentiality regarding its most recent publications.
2/ Stopwords: these are terms important for the grammatical structure of the text, but do not carry relevant semantic content, such as articles, prepositions, and pronouns.
3/ Acronym for textual readability analysis.

Interpretation: A higher ALT indicates a denser or more complex text that tends to require more years of schooling from the reader; a lower ALT indicates a more accessible text. As a general rule, values below 13 suggest high readability (easy), values between 13 and 17 suggest intermediate readability, and values equal to or above 17 suggest low readability (difficult).

Below, the ALT index by Copom cycle is reported, calculated for the full content of statements and minutes. Paragraph-level calculation can also be useful to identify sections that increase the complexity of the text. Reading time as an auxiliary metric is also estimated[4]. It should be emphasized that caution is required when interpreting these results, as the indexes used do not consider the content of the text or the clarity of the argument, but only its structure and linguistic density. Approaches that consider jargon, more technical terminology, and other measures of semantic complexity beyond the structural dimension of the text should be part of the next step in the analysis.

Figure 1 – Average ALT index and reading time
Statements

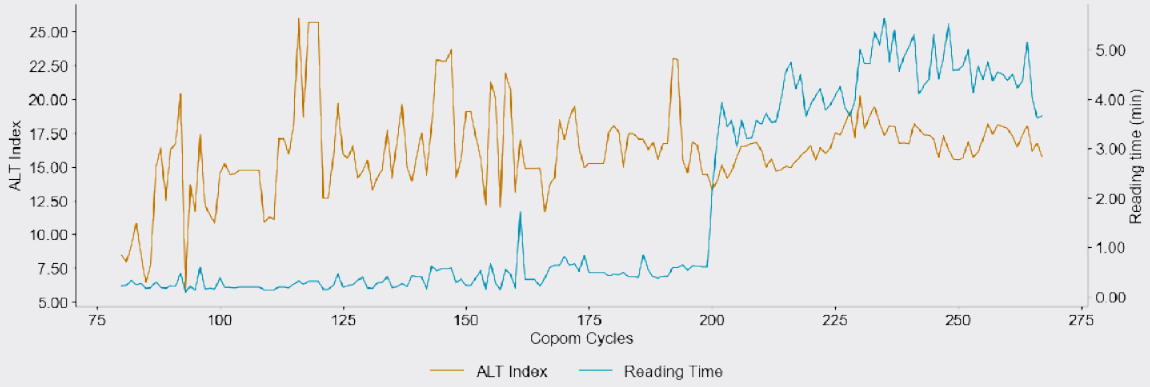
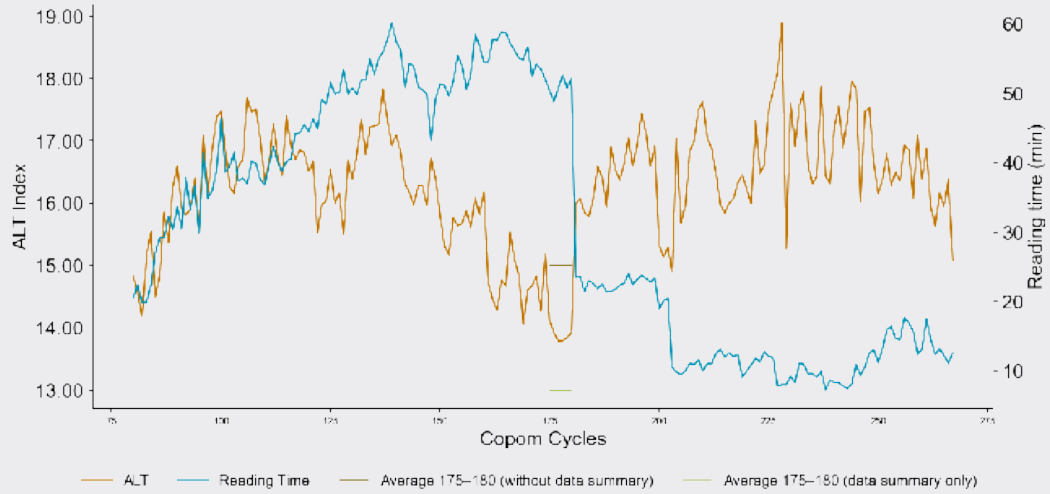


Figure 2 – Average ALT index and reading time
Minutes



The visible structural breaks in the reading time series reflect changes in the structure of Copom publications. Starting from minute 181, the summary of data analyzed by Copom was removed from the minutes, reducing by nearly half the length of the text. Starting from cycle 200, the statements, which generally consisted of a single paragraph announcing the interest rate decision, became significantly longer, incorporating a preview of the economic outlook and the monetary policy discussion that took place during that cycle, hence the increase in reading time. From that cycle onwards, the minutes became more analytical, replacing the previous

4/ For the reading time calculation, an average reading speed of 200 words per minute was considered.

format that focused on the description of indicators. Thus, both publications became more explanatory and, possibly for that reason, denser in certain sections, which may raise the ALT index.

Furthermore, when analyzing the historical minimum of the ALT series for the Copom minutes, which occurred between cycles 175 and 180, it may seem counterintuitive its occurrence just before the removal of the "Summary of data analyzed by Copom", which was discontinued with cycle 181. This section, although lengthy, was mainly descriptive, with shorter sentences and more direct language, which reduced the index, while the analytical part increases the complexity. The comparison of averages in the figure – represented as two straight line segments between meetings 175 and 180 – confirms this effect.

Since the second half of 2024, the MPR has introduced topic sentences at the beginning of its paragraphs – short sentences that anticipate the central idea and appear in bold. These topic sentences organize the reading, reduce asymmetrical interpretations, and make it easier for the reader to navigate throughout the sections, which is especially useful to expand the audience beyond specialists. The figures below compare the ALT index of topic sentences and their respective paragraphs in the June 2025 MPR.

Figure 3 – ALT Index per paragraph
MPR June 2025

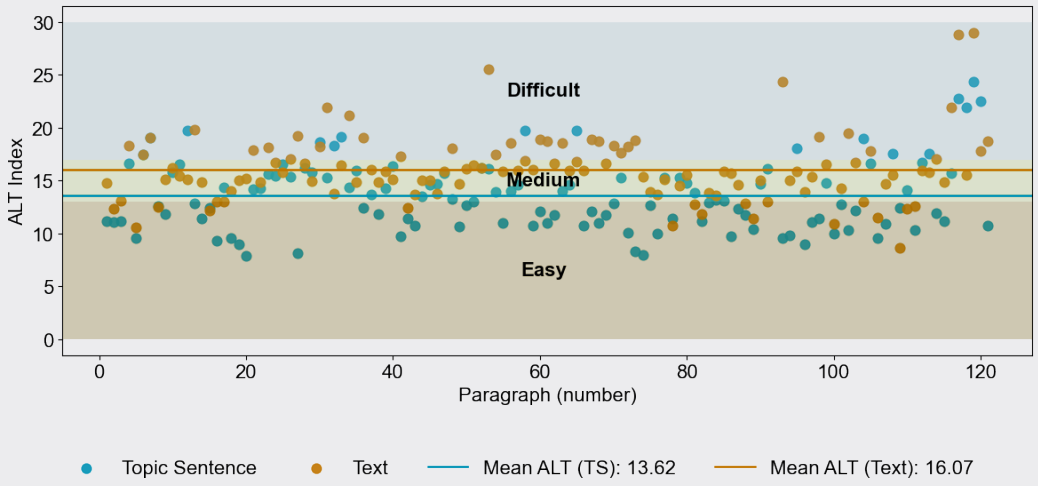
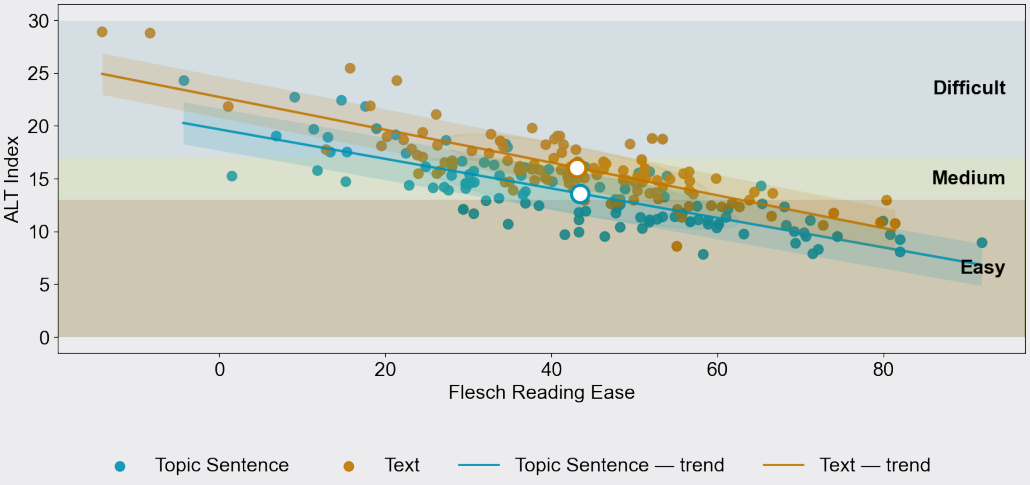


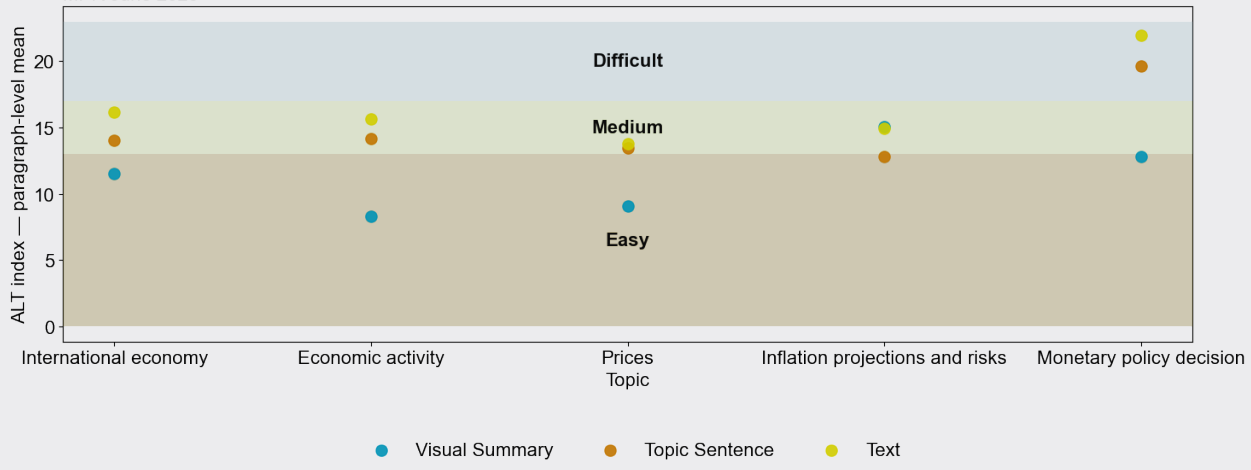
Figure 4 – ALT Index vs Flesch Reading Ease
MPR June 2025



Topic sentences show a lower average ALT than complete paragraphs (13.67 vs. 16.07)[5] and are more concentrated in the easy/medium reading ranges, indicating greater accessibility, while complete paragraphs are preponderantly distributed between medium/difficult (Figure 3). By incorporating the Flesch Reading Ease index[6] into the analysis, one observes that topic sentences are concentrated in a region with higher Flesch scores (easier to read) and lower ALT values, with a negative slope, indicating that, for the same level of reading ease, topic sentences tend to require less educational background to be understood when compared with full paragraphs (Figure 4).

Another resource available to the reader is the visual summary, published on the same MPR webpage. It is a complementary tool designed to facilitate and anticipate the understanding of key points in each MPR section. The figure below shows that, in almost every section, the visual summaries have lower average ALT scores than the topic sentences and the full text. Furthermore, they focus on the easy reading range, while topic sentences and full text remain in more demanding ranges. This difference suggests that the visual summary provides a more accessible reading alternative, being a less demanding entry point to the MPR's content.

Figure 5 – ALT index per topic
MPR June 2025



Thematic Distribution

What is measured: The share of each topic in each Copom publication and how this composition changes over time. Recurring topics include inflation and prices, monetary policy and interest rates, economic activity, labor market, and the global economy. The identification of themes is data-driven, which are then organized into subgroups of similar macroeconomic categories.

How it is measured: The textual dataset undergoes pre-processing that is common in NLP literature: text cleaning, standardization in lowercase letters, noise removal, reduction of words to their root, removal of very rare or very frequent words and, finally, the identification of recurring bigrams. Next, the topics are estimated through unsupervised machine learning via Latent Dirichlet Allocation (LDA) with K=20[7] topics with the paragraph as the unit of analysis. As a final step, based on the estimated themes, their distribution in each of the publications is predicted, and this result represents the share participation of each theme in the document under analysis (Hansen and McMahon, 2016).

5/ Statistically significant difference ($t = -5.845$; $p < 0.00001$).
6/ Readability index, acronym FRE. In this case, also with the parameters adapted to Portuguese (Moreno et al., 2022). FRE: 227 – 72*(syllables/words) – 1.05*(words/phrases). The higher the index, the easier it is to read. As a general rule: above 90 is very easy, between 60 and 70 is easy, between 50 and 60 is moderate, between 30 and 50 is difficult, and below 30 is very difficult.
7/ Hyperparameter selected based on perplexity and coherence measures.

LDA is a bag-of-words model that, for any chosen excerpt of the text, returns a probability vector assigning each of the themes discovered with a probability of composing that selected set, whose sum of the probabilities associated with each excerpt analyzed is 100%; variations over time reflect shifts in the publication's emphasis. The estimated themes are also probability vectors, but in this case each theme (or vector) represents a probability distribution over the set of unique words that make up the entire textual dataset. The five to ten words most likely to be associated generally signal the semantic content of that theme and, based on those words, themes are manually classified into macroeconomic categories after estimation. It is common the uprise of similar topics (close semantics) and, to calculate the composition of thematic distribution, the shares of these similar topics are aggregated into a common category.

The thematic distribution of each sentence is also estimated to identify the main theme addressed in the shorter excerpts of publications. A sentence is considered to predominantly address a specific topic when the probability associated with that topic is at least 40%. This result is useful for selecting or qualitatively labeling smaller text units and can be applied not only to sentences, but also to paragraphs or subsections.

Figure 6 - Theme distribution — stacked series
Statements

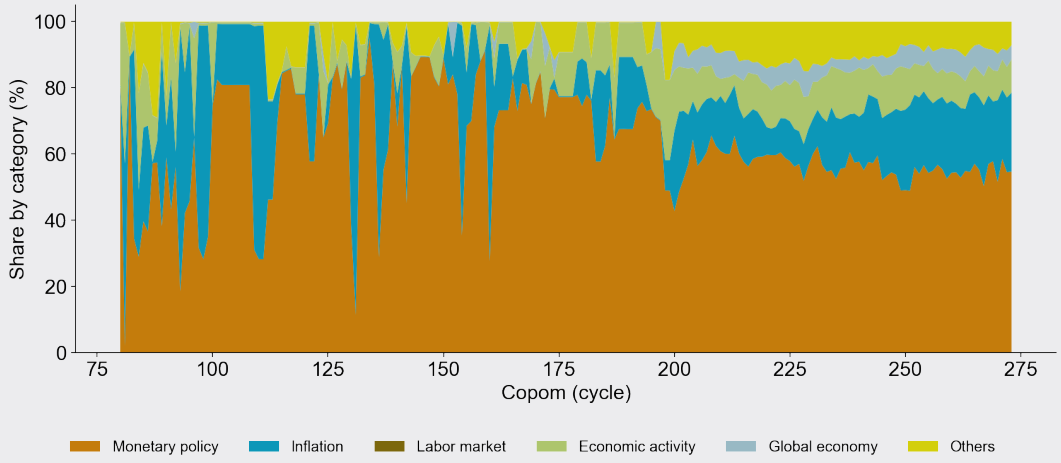
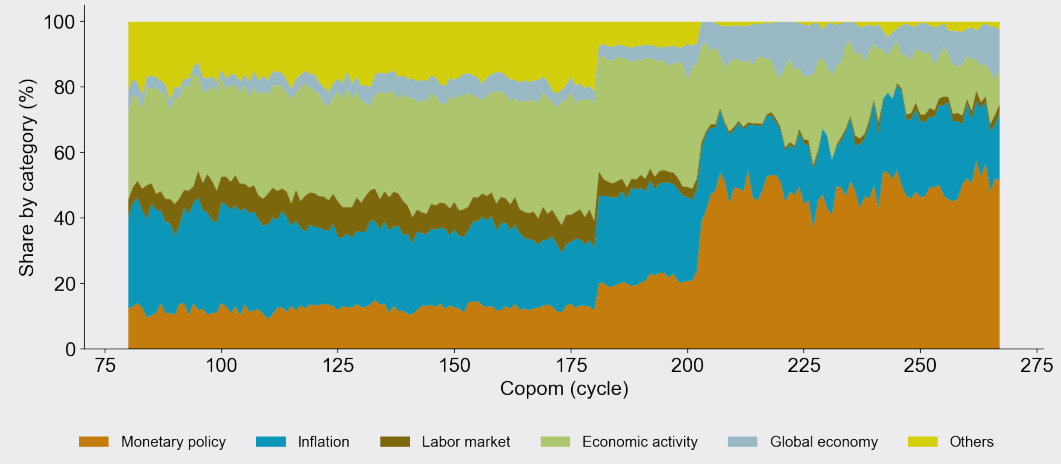


Figure 7 - Theme distribution — stacked series
Minutes

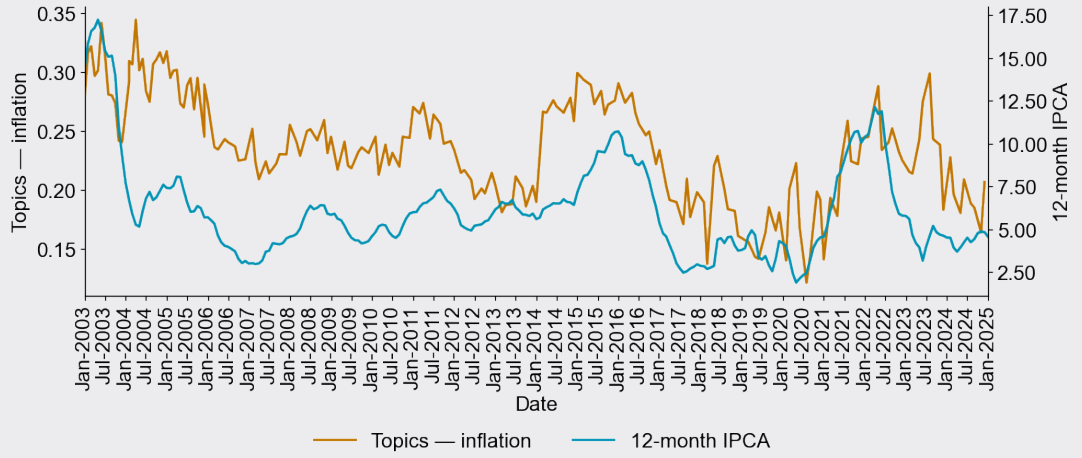


The thematic composition of the minutes and statements also reflects the change in the format of publications since Copom 200. At that point, both became more analytical and, in the case of the statements, lengthier. As for the minutes, the share of "monetary policy" increases more clearly, reflecting the Committee's effort to record in greater detail the central elements of the monetary policy debate in its publications. In the

statements, which until Copom 199 were short and concise, there is now greater thematic diversity: different topics such as "inflation", "economic activity", and "global economy" began to occupy significant space, leading to a distribution less concentrated on a single topic. Furthermore, as the total thematic participation is 100%, one topic gains space necessarily at the expense of others, thus reinforcing the interpretation of a shift in emphasis in communication. In both cases, part of this redistribution is associated with the new communication format, and not only with the macroeconomic context.

Conversely, the historical evolution of the "inflation and prices" theme participation in the minutes shows that there is a moderate positive correlation (0.59) with the trajectory of the 12-month IPCA, for example. Results show that, in periods of higher IPCA, Copom's communications also devoted more space to discussing inflation and prices in its minutes. These results suggest that the thematic distribution also follows movements in the macroeconomic environment, so that observing the distribution of themes can be useful to understand how Copom calibrates its communications in different circumstances. However, it is worth highlighting that the thematic distribution should not be interpreted as a sign of policy and should be evaluated in conjunction with other measures, in addition to the context itself.

Figure 8 - Inflation and prices topics vs 12-month IPCA
Correlation: 0.59



Important: LDA inference is performed on the entire document, generating a probability vector across the K = 20 topics. Therefore, even in short publications, such as the statements before Copom 199, the composition tends to include more than one theme. If, instead, a classification was made sentence by sentence, and the predominant theme was assigned when the probability reached a certain threshold, the figures would show a less diverse composition, especially when the document has few sentences, since the distribution would then reflect discrete counts of categorized sentences, not the probabilistic distribution of the textual content of the publication.

Conclusion

The indexes presented herein should be analyzed with caution, as they are synthetic language measures constructed from sentences and, in some cases, normalized for comparison over time. Furthermore, differences between minutes and statements partly reflect editorial choices specific to the nature of each type of publication and should not be interpreted as a content divergence. For more robust comparisons, other dimensions of analysis can be added, such as the incorporation of sentiment measures[8], including the use of the latest language and artificial intelligence models.

8/ For sentiment interpretation using hLDA, see Angelo et al (2021).

Sources of uncertainty in the construction of readability indexes may lie, for example, in the index's sensitivity to sentence segmentation, possibly contaminated by the presence of acronyms and abbreviations, although this risk has been mitigated in the index construction process. In thematic distribution, the choice of parameters such as the number of topics directly affects the estimation, in addition to other features of the model, such as the overlap of themes within the same topic, which may affect the interpretation of textual content.

References

Fasolo, A. M., Graminho, F. M. & Bastos, S. B. (2021). Seeing the forest for the trees: using hLDA models to evaluate communication in Banco Central do Brasil. Banco Central do Brasil, Research Department, Working Paper Series, 555.

Hansen, S., & McMahon, M. (2016). Shocking language: Understanding the macroeconomic effects of central bank communication. *Journal of International Economics*, 99, S114-S133.

Moreno, G. C. D. L., de Souza, M. P., Hein, N., & Hein, A. K. (2022). *ALT: um software para análise de legibilidade de textos em Língua Portuguesa*.

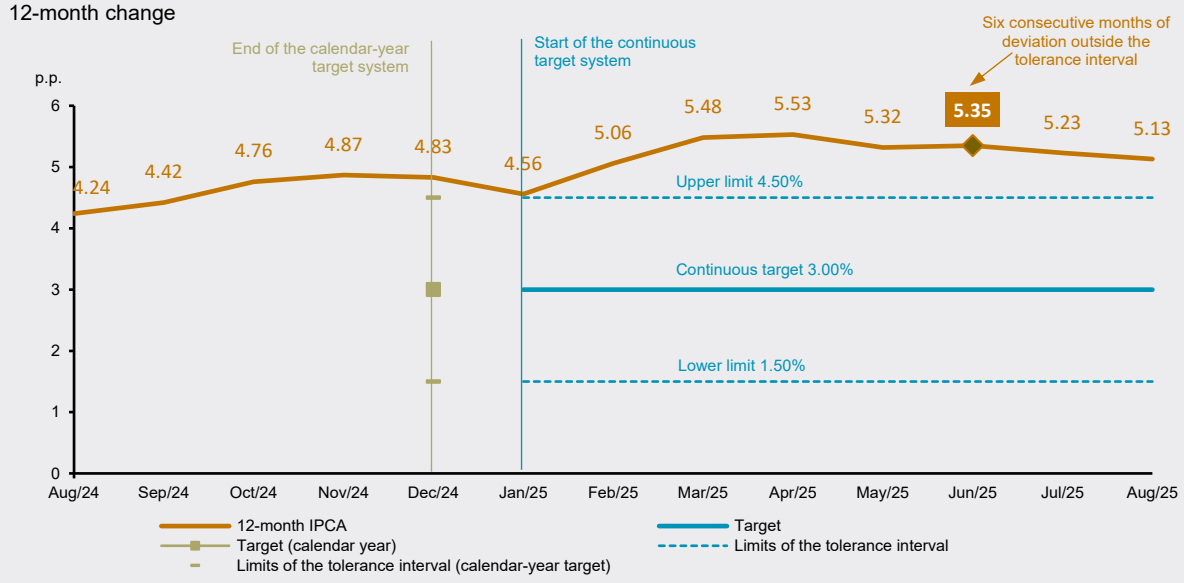
Note on the breach of the inflation target

The goal of this note is to monitor the evolution of the inflation outlook and the measures adopted by the Banco Central do Brasil (BCB) to ensure the convergence of inflation to the target. It consists of an additional instrument, pursuant to Decree 12,079 of 2024 establishing the continuous inflation-targeting framework, which increases transparency and accountability to society. The open letter and the note in the Monetary Policy Report shall be released when the inflation target is breached.

About the target breach

In June 2025, the 12-month inflation, measured by the Extended National Consumer Price Index (IPCA), reached 5.35% and exceeded the upper limit of the 4.5% tolerance interval for the inflation target. The current inflation target, set by the National Monetary Council (CMN) by means of Resolution 5,141 of June 26, 2024, is 3.00%, with a tolerance interval of plus or minus 1.50 percentage points (p.p.). The target is deemed breached when inflation remains outside its respective tolerance interval for six consecutive months.

Figure 1 – Recent dynamics of the IPCA
12-month change



Whenever the target is not met[1], the BCB shall disclose, by means of an open letter[2] addressed to the Minister of Finance and a note in the Monetary Policy Report, (i) a detailed description of the causes for the target breach, (ii) the measures needed to ensure the return of inflation to the established limits, and (iii) the expected time span for the measures to take effect.

1/ Article 6 of Decree 12,079 of June 26, 2024.
2/ The target breach was formalized by means of the open letter publicly disclosed on July 10, 2025. Available at https://www.bcb.gov.br/controleinflacao/historicometas (Portuguese only).

By the time the open letter was released, the BCB informed that it would produce a quarterly note in the Monetary Policy Report not only by the formalization of the target breach, pursuant to the decree, but throughout the period in which the breach lasts, thereby reinforcing accountability to society. The note shall detail (i) the evolution of the inflation outlook, (ii) the effects of the measures taken for bringing inflation back to the target tolerance interval; and (iii) the monitoring of the dynamics of the inflation convergence within the stipulated time span.

Dynamics of inflation convergence

Inflation measured by the IPCA remained above the upper limit of the tolerance interval for the 3% target and this behavior is expected to persist for the remainder of 2025. This evolution was indeed expected given the reference scenario projections released in Monetary Policy Reports. Economic activity surprised, with stronger-than-expected Gross Domestic Product (GDP) growth and a very heated labor market, reflecting increases in household consumption and investment. In addition, the output gap at a positive level also pressures consumer inflation. Inflation expectations deanchored, especially throughout the second half of 2024, and yet remain above the 3% inflation target, which makes the convergence scenario more challenging.

In turn, the exchange rate is a relevant factor due to the volatility observed in the period, directly impacting the prices of imported goods and inflation expectations. Moreover, the contribution of inflationary inertia is still relevant because higher past inflation implies cost pressures, stemming from more expensive inputs and informal wage indexation mechanisms.

In August, actual 12-month inflation reached 5.13%, still above the upper limit of the tolerance interval for the 3% target. In this metric, market and administered prices increased 5.45% and 4.22%, respectively, while the average of core inflation measures closed August at 5.12%. Inflationary pressures applied to several IPCA segments, reflecting the variety of inflationary factors. In particular, the following stands out:

Food-at-home: 12-month inflation of 7.01%, reflecting supply factors and exchange rate depreciation, combined with economic activity pressures and higher international prices of some agricultural commodities. In 2024, food-at-home inflation was 8.22%, particularly pressured by high meat prices;

Industrial goods: 12-month inflation reached 3.33% in August, a level considered high for this group. In 2024, inflation in this segment reached 2.89%. Recent readings show accommodation at the margin, with declines in prices of vehicles, clothing, personal hygiene, among others.

Services: after closing 2024 at 4.77%, services inflation has shown resilience at the margin, reaching a 12-month change of 6.16% in August. Adjustments in services prices continue widespread and pressured by inertial factors, tight labor market, and heated economic activity.

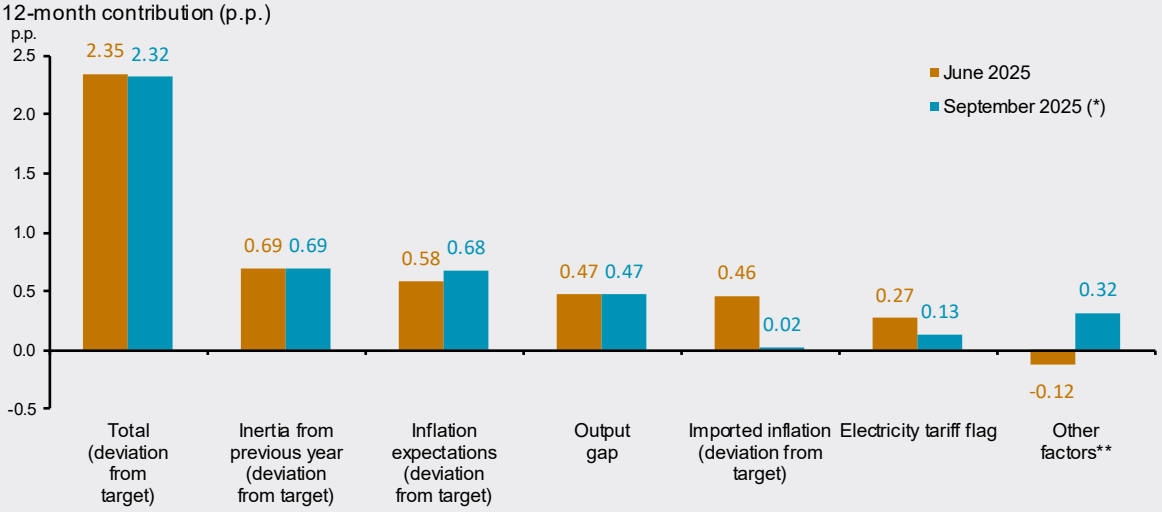
Administered prices: 12-month inflation reached 4.22% in August. In 2024, inflation in this group reached 4.66%. The recent dynamics have mainly reflected price changes in residential electricity, medicines, and gasoline.

For September, the projected inflation is 0.62% p.m., which corresponds to a projected 12-month change of 5.32% p.a. by the end of 2025Q3. Considering this projection, it is possible to update the breakdown of the IPCA deviation from the 3.0% target and compare it with the breakdown released in the July open letter. Using the breakdown of factors[3] through small-scale semi-structural models, one can observe the factors that currently contribute to sustaining the projected deviation of 2.32 p.p. from the target in this quarter. Among the key factors are the inertia from the previous twelve months (contribution of 0.69 p.p.), high inflation expectations (0.68 p.p.), the positive output gap (0.47 p.p.), imported inflation (0.02 p.p.), the electricity tariff flag (0.13 p.p.), and other factors (0.32 p.p.).

3/ The breakdown is produced using the small-scale semi-structural model. For more methodological details see box 2017 inflation decomposition in the March 2018 Inflation Report.

Figure 2 – Breakdown of the IPCA deviation from its target

12-month contribution (p.p.)



* Observed data until August and nowcast for September

** Contribution to the inflation as deviation from the target after excluding the following factors: inertia associated with the share of the previous year's inflation that deviated from target; expectations as a deviation from target; imported inflation as a deviation from target; and output gap.

Recent dynamics have shown readings still above the upper limit of the inflation target tolerance interval. Nonetheless, a gradual slowdown can be observed in some components but still influenced by the factors determining the breach, such as the positive output gap, deanchored inflation expectations, and inertia. Inflation projections for the next quarters indicate that the determining factors for the inflation deviation are expected to show some accommodation, in response to the transmission effects of the tight monetary policy, with a gradual slowdown in economic activity, more favorable exchange rate pass-through, and reanchoring of expectations.

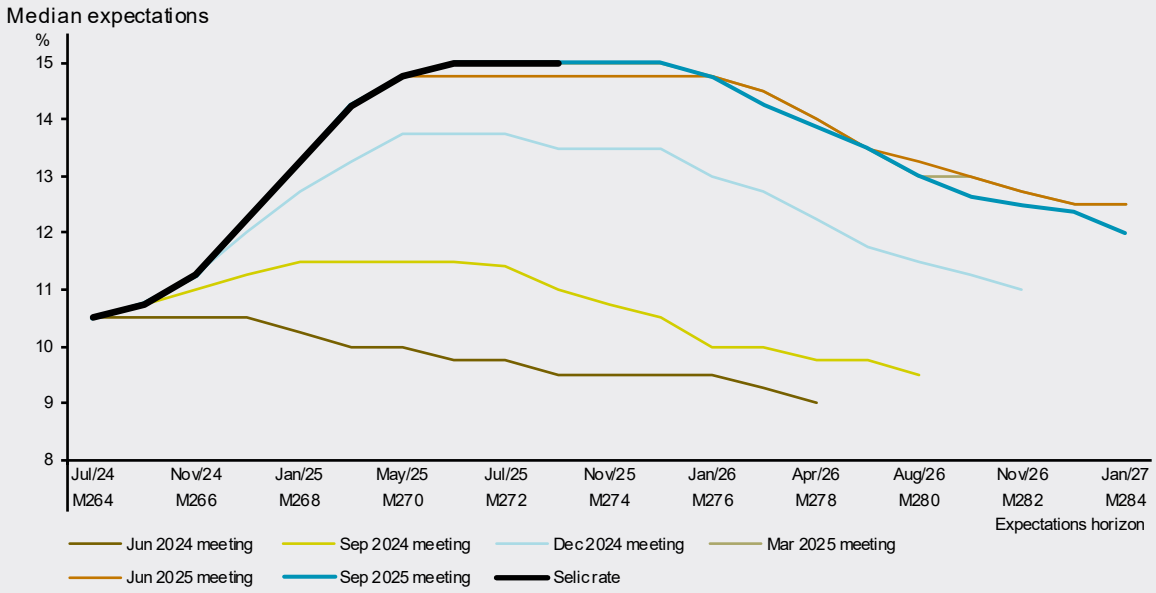
Measures taken and their effects on inflation

The BCB has implemented measures to mitigate inflationary risks and bring inflation back to the target. The Monetary Policy Committee (Copom) decisions have led the monetary policy to significantly contractionary levels, always considering the lagged effects of the interest rate on economic activity and the inflation convergence to the target in the relevant horizon.

Copom conducted a firm monetary tightening from September 2024 until the June 2025 meeting. It acknowledges a scenario with inflationary pressures, deterioration of expectations, and heated economic activity that justified a total adjustment of 4.5 p.p., rising the Selic rate to 15% p.a. In the July 2025 meeting, amid a scenario marked by heightened uncertainty requiring a cautious stance in the conduct of monetary policy, Copom interrupted 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, would be enough to ensure the convergence of inflation to the target.

In the September meeting, the Committee maintained the Selic rate at 15.00% p.a. and judged the decision consistent with the strategy for inflation convergence to a level around the 3.00% target throughout the relevant horizon for monetary policy. The Copom's current scenario remains marked by heightened uncertainty, with deanchored expectations, high inflation projections, resilience on economic activity, and labor market pressures. The Committee assessed that the scenario requires caution in the conduct of monetary policy and that 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.

Figure 3 – Evolution of expectations for the Selic rate



Evolution of prospective inflation scenarios

Copom evaluates several prospective scenarios that consider different trajectories for the Selic rate and market expectations for the interest rate. The prospective scenarios consider updated economic data, analysis of recent developments, and short- and medium-term projections, in addition to the Committee assessment of the current state and prospects for the economy.

In particular, Copom regularly releases the reference scenario as a monetary policy communication tool. This scenario assumes that the Selic rate will follow the median trajectory extracted from the Focus survey and that the exchange rate will follow the purchasing power parity (PPP). Updated projections for the reference scenario were presented in section 2.2 (see Table 2.2.1 in this MPR).

The BCB is committed to the continuous inflation target of 3.00% and its decisions aim to achieve this goal throughout the relevant monetary policy horizon. Bringing inflation back to the established tolerance interval is a natural step in the process of inflation convergence to the target. The open letter and the note are elements of communication pursuant to the law within the institutional framework for the conduct of monetary policy under the continuous inflation-targeting regime. The legislation defines objective criteria to formalize the breach of the inflation target and determines actions to be taken by the BCB for accountability to society in terms of bringing inflation back to the tolerance interval of the continuous target. This note complies with the law, while reinforcing that monetary policy decisions always seek the convergence of inflation to around the continuous target of 3.00%.

In its September 2025 meeting, Copom assessed that the conduct of monetary policy is appropriate and consistent with the strategy of converging inflation to the 3.00% target in the relevant horizon, which is currently 2027Q1. This assessment considers the expected inflation outlook and depends on the evolution of the components more sensitive to economic activity and to the contractionary monetary policy, inflation projections, inflation expectations, the output gap, and the balance of risks. In its decision, the Committee emphasized that it will remain vigilant, that future monetary policy steps can be adjusted, and that it will not hesitate to resume the rate hiking cycle if appropriate.

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
Euler Pereira Goncalves de Mello

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

ADC	Declaratory Constitutionality Act
ADIs	Direct Unconstitutionality Acts
Anac	National Civil Aviation Agency
APU	Public administration, health, and education
BCB	Banco Central do Brasil
BNDES	Brazilian Development Bank
BoE	Bank of England
Caged	General Registry of Employed and Unemployed Persons
CBA	Collective Bargaining Agreements
CBE	Brazilian Assets Abroad Survey
CLT	Consolidated Labor Legislation
CMN	National Monetary Council
CNAE	National Classification of Economic Activities
Copom	Monetary Policy Committee
Depec	Department of Economics
Depep	Research Department
Derin	International Affairs Department
Dstat	Department of Statistics
EC	Constitutional Amendment
ECB	European Central Bank
EL	Employment Level
EP	Employed Population
FAIT	Flexible average inflation target
FCI	Financial Conditions Index
Fed	Federal Reserve
FGI	Investment Guarantee Fund
FGTS	Employment Compensation Fund
FGV	Getulio Vargas Foundation
FOMC	Federal Open Market Committee
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GGGD	General Government Gross Debt
HGDNI	Household Gross Disposable National Income
Household CBO	Brazilian Classification of Occupations adapted for household surveys
IBC-Br	BCB's Economic Activity Index
IBGE	Brazilian Institute of Geography and Statistics
IC-Br	Commodities Index – Brazil
INPC	National Consumer Price Index
INSS	National Social Security Institute
IPCA	Extended National Consumer Price Index
IPI	lndustrialized Products Tax

IR	Inflation Report
LNG	Liquefied Natural Gas
LSPA	Systematic Survey of Agricultural Production
Mediador	Collective Labor Negotiations System
MF	Ministry of Finance
MLE	Ministry of Labor and Employment
MP	Provisional Measure
MPR	Monetary Policy Report
NDRC	National Development and Reform Commission
New Caged	New General Registry of Employed and Unemployed Persons
Nuci	Industry Installed Capacity Usage Level
OECD	Organisation for Economic Co-operation and Development
OPEC+	Organization of the Petroleum Exporting Countries Plus
p.a.	Per annum
p.p.	Percentage points
PCQ	Pre-Copom Questionnaire
PEAC	Emergency Credit Access Program
PIM	Monthly Survey of Industry
PLOA	Annual Budget Law Bill
PMC	Monthly Survey of Trade
PMS	Monthly Survey of Services
PNAD Continuous	Continuous National Household Sample Survey
POF	Consumer Expenditure Survey
PR	Participation rate
PPP	Purchasing Power Parity
Rais	Annual Report of Social Information
RARDP	Primary Revenues and Expenses Assessment Report
s.a.	Seasonally adjusted data
SCR	Credit Information System
SFN	National Financial System
SGS	Time Series Management System
STF	Federal Supreme Court
UP	Unemployed population
U.S.	United States of America
UR	Unemployment Rate
VIX	Chicago Board Options Exchange Volatility Index
WAP	Working Age Population