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Monetary Policy Report

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BANCO CENTRAL DO BRASIL

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Monetary Policy Report

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Statistical conventions

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

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.

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Monetary policy framework in Brazil

Legal framework

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

i. **BCB objectives:** The BCB's fundamental objective is to ensure price stability. Without compromising its fundamental objective, the BCB also aims to ensure the stability and efficiency of the financial system, smooth out economic activity fluctuations, and foster full employment (Complementary Law 179 of February 24, 2021).

ii. **Inflation-targeting regime:** The objective of ensuring price stability is pursued through the inflation-targeting regime. Under this framework, the National Monetary Council (CMN) sets an inflation target along with a tolerance interval, and the BCB is responsible for implementing the policies necessary to meet the target. From 1999 to 2024, the target referred to the calendar-year inflation (Decree 3,088 of June 21, 1999). As of January 2025, the target refers to the 12-month inflation, measured every month (Decree 12,079 of June 26, 2024). Under this system, also known as "continuous target" framework, compliance with the target is assessed every month rather than being restricted to December of each year.

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

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

Monetary Policy Committee – Copom

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

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

i. **Statement:** published immediately after the end of the Copom's meeting, from 6:30 pm on, it contains the Committee's decision, the key elements supporting it, and the votes of each member.

ii. **Minutes:** released four business days after the meeting, they provide a more detailed account of the analyses and discussions.

iii. **Monetary Policy Report (MPR):** published by the last day of each calendar quarter, this report details recent developments and the outlook for the economy, with a focus on inflation prospects. This document was called Inflation Report between 1999 and 2024.

Further details at Monetary policy (bcb.gov.br).

Contents

Executive summary

The global environment still remains uncertain due to the economic policy and economic outlook in the United States (U.S.), altering global financial conditions. Moreover, long-term risks, such as the proper pricing of fundamentals and the increase in fiscal spending in many economies, also remain present. This scenario requires caution from emerging market economies amid heightened geopolitical tensions.

Regarding the domestic scenario, economic activity continues to show a path of moderation, while the labor market shows resilience. Gross Domestic Product (GDP) grew by 0.1% in 2025Q3, a slower pace than what was observed at the beginning of the year, with stronger deceleration on the demand side, especially of household consumption. The labor market remains heated, with low unemployment rate and growing real income, although with signs of slowdown in employment. The estimated GDP growth for 2025 was revised from 2.0% to 2.3%, reflecting the revision of time series, while the projection for 2026 increased from 1.5% to 1.6%.

Current inflation and inflation expectations declined since the September 2025 MPR but remain above the 3% target. The 12-month inflation, measured by the Extended National Consumer Price Index (IPCA), fell from 5.13% in August to 4.46% in November. Inflation in the Sep-Nov quarter was 0.32 p.p. lower than the scenario of the previous MPR, with surprises concentrated in food-at-home and, to a lesser extent, in industrial goods and services. Inflation expectations, according to the Focus report, although declining for 2025 and, to a smaller degree, for the following years, remain deanchored, remaining above the target for all collected horizons.

In the reference scenario projections, inflation continues on a downward trend but remains above the target until the end of 2027. In this scenario – which uses the Selic rate from the Focus survey and the exchange rate following the PPP – after remaining in the 5.2%-5.5% range in the first three quarters of 2025, four-quarter inflation declines to 4.4% by the end of the year, to 3.5% in 2026, and to 3.0% in the last period considered, referring to 2028Q2 (Table 2.2.1). In the relevant horizon for monetary policy, considered to be 2027Q2, projected inflation is 3.2%. 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 275th Copom meeting held on December 9-10, 2025.

Compared with the previous MPR, inflation projections have declined. In the relevant horizon for monetary policy, considered to be 2027Q2, projected inflation decreased by 0.2 p.p. Among the factors for downside projections stand out the more favorable short-term inflation behavior, lower inflation expectations, and the decline in fuel prices associated with the USD depreciation and lower oil prices. Conversely, a slightly higher output-gap projection contributed upward.

In its latest meeting (275th meeting), Copom stated:

The Committee continues to monitor the announcements on tariffs by the U.S. 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 evaluates that the present strategy of maintaining the interest rate at its current level for a very prolonged period is appropriate to ensure the convergence of inflation to the target. The Committee emphasizes that it will remain vigilant, that future monetary policy steps can be adjusted and that, as usual, it will not hesitate to resume the rate hiking cycle if appropriate.

1 Economic outlook

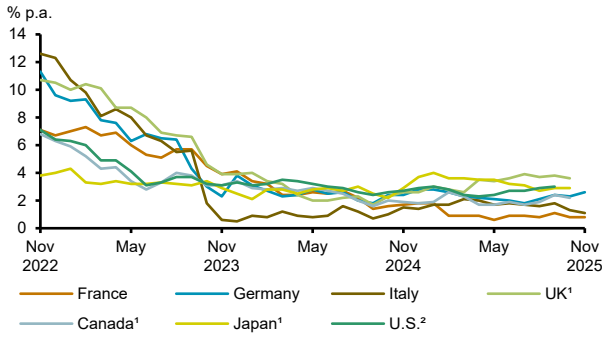
This chapter of the MPR analyzes the recent developments in the economic environment, considering both the international and domestic scenarios, as well as the outlook for the country's economy in the coming quarters. The assessment of the international scenario addresses the major advanced and emerging 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 scenario remains uncertain, reflecting adjustments in the repositioning of U.S. trade policy. Despite the conclusion of new bilateral trade agreements and the repel or postponement of some import tariffs, uncertainty remains elevated. This uncertain environment is consolidating as the disinflation process remains incomplete and shows signs of reversal in some economies (Figure 1.1.1). Global growth is expected to end in 2025 slightly above expectations at the beginning of the year. Although the aggregate revision is modest, underlying components have exhibited relevant negative and positive shifts in their determinants. Anticipations, reorganization of supply chains, and lower-than-initially announced tariffs have helped avert a deterioration in international trade volume. However, they often resulted in lower export prices and larger logistic displacements. Macroeconomic policies and favorable financial conditions have mitigated financial risks and reduced volatility. Commodity prices have remained subdued, helping to mitigate the inflationary impact of tariffs. New technologies, notably artificial intelligence, have spurred investments in the sector and generated wealth effect, boosting private consumption. These factors have influenced the balance of risks but contributed to maintaining elevated the uncertainty surrounding the global outlook. Therefore, monetary and fiscal policies calibrate their response function in view of the estimates of the lasting effects of the repositioning of trade policies, while the assessment of the economic outlook evolves.

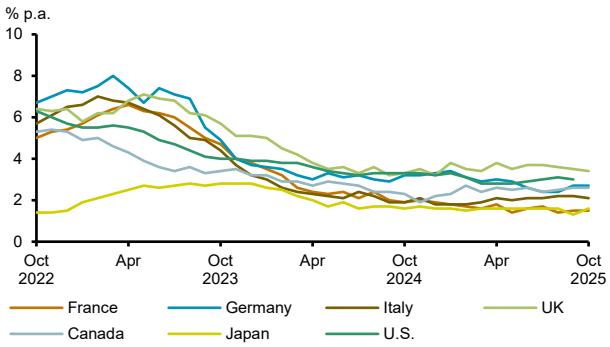
More recent projections point to the postponement of the inflation convergence in U.S. inflation to the target in 2028. Inflation has already converged to the target in some leading economies, such as in the euro area and Canada, but remains more persistent in the United Kingdom, especially in the services component. Core inflation, however, continues above the target in many economies (Figure 1.1.2), with either deceleration or interruption in the pace of convergence. The signs of the impact of tariffs on the prices of goods have increased gradually, while the dynamics of energy and food prices are more benign, especially in emerging market economies. The prospective dynamic of consumer inflation in the U.S. and China – in opposite directions – will depend on the gradualness and on the lag of the pass-through of producer prices to final consumers and the associated lags. In late 2025, some pass-throughs of higher import prices are already observable, with further pass-through expected in 2026. The dynamics of prices throughout the productive chain reveal differences by sectors, by origin, and by market power, distortions caused by the front-loading of imports and the associated buildup of precautionary inventories. Historical experience and recent studies suggest the strengthening of the effects of tariffs in next quarters, as exporters, importers, intermediaries, and retailers re-balance their margins.

Figure 1.1.1 – CPI – Advanced economies



Source: Bloomberg
1/ Until October 2025. 2/ Until September 2025.

Figure 1.1.2 – CPI core – Advanced economies¹

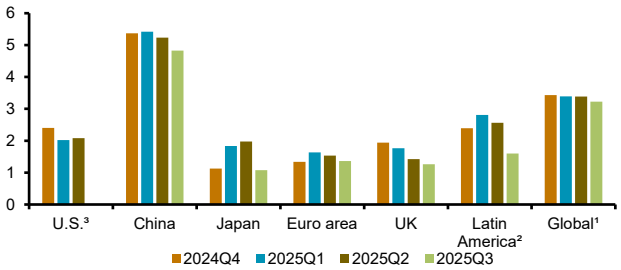


Source: Bloomberg
1/ U.S. until September 2025. Other countries until October 2025.

In advanced economies, inflation expectations have fallen for short- and long-term horizons. This reduction may reflect the materialization of tariff effects and the perception that any reduction in the volume of international trade and domestic demand would have a deflationary impact. The decomposition of these impacts in supply- and demand-driven shocks tend to vary across countries. Although these impacts have been materializing, the net effects of tariffs on prices, as well as their intertemporal distribution, remain uncertain. In emerging market economies of Latin America, Eastern Europe, and Asia, inflation expectations have moved in divergent directions, largely explained by idiosyncrasies and domestic determinants.

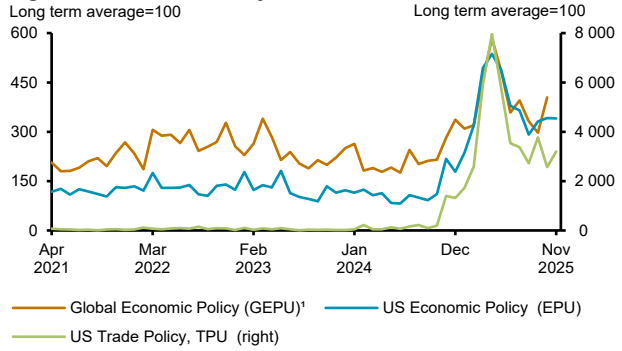
Global activity continued to grow but at lower rates than in the pre-pandemic period, characterizing a gradual deceleration trend. In face of uncertainty still elevated, the risks of stronger deceleration remain while risks of global recession decline (Figure 1.1.3). The anticipation moves to the U.S. tariffs, which fueled activity in 2025Q1, dissipated in 2025Q2 and 2025Q3. In the short- and medium-term, the combination of less contractionary monetary policies and more expansionary fiscal policies continue sustaining activity in leading economies and counterbalancing the persistent economic policy uncertainty (Figure 1.1.4). In the process of strategic adjustment of productive chains to the repositioning of trade policies, divergent productivity growth and comparative advantages across countries increase their relevance. The prospect[1] of a broad-based increase in the sovereign debt increases risks to the sustainability of their debts (Figure 1.1.5) and is added to the growing risks of financial fragmentation, heightening uncertainty around growth and inflation. Over 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 – GDP growth
From 2024Q4 to 2025Q3
% change over the same quarter in the previous year



Sources: Bloomberg, BCB
1/ Calculated as described in the box "Projections and macroeconomic analysis model the global economy" in the September 2022 IR.
2/ Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
3/ Due to shutdown effects, the 2025Q3 GDP has not yet been released.

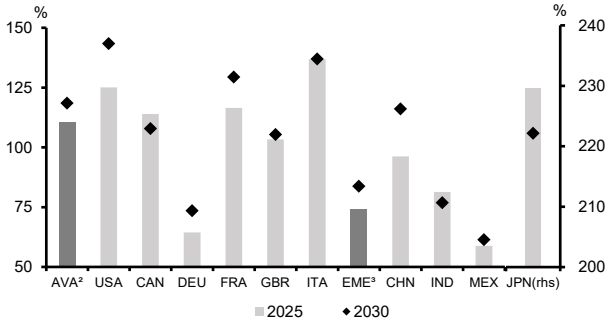
Figure 1.1.4 – Uncertainty measures



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

1/ Fiscal Monitor, IMF, October 2025.

Figure 1.1.5 – Gross Debt/GDP Projection[1]



Sources: IMF - Fiscal Monitor (Oct/25)
1/ IMF methodology. 2/ Advanced economies. 3/ Emerging economies.

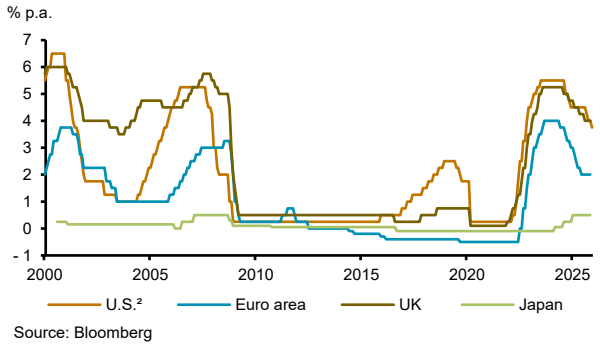
The monetary easing cycle has been concluded or will be concluded in 2026 in nearly all advanced economies (Figure 1.1.6). Heightened uncertainty, downside risks to activity, signs of softening labor markets, and the already restrictive stance of monetary policy justify the monetary easing cycle observed from mid-2024 to late 2025. Nonetheless, central banks have reiterated their commitment to ensuring inflation convergence of inflation to target. Central banks that have already communicated the conclusion of their respective cycle and even those signaling their future trajectories are aiming for stabilization at interest rates well above those observed from 2010 to 2019. Therefore, this implies higher rates for the roll-over of the sovereign debt and for the cost of capital.

In the U.S., economic activity has shown signs of moderation in recent quarters, amid a scenario of elevated uncertainty in the economic policies. The partial shutdown of the federal government activities from October through mid-November resulted in losses to economic activity and delayed access to economic data, complicating the assessment of the economy and heightening uncertainty. GDP data for 2025Q3 have not yet been released, though. Market estimates point to growth by nearly 3.0%. Activity has strongly oscillated in recent quarters in view of the front-loading and subsequent reduction of imports in face of the announcement of external tariffs. Household consumption has been volatile throughout the year, performing below 2024 levels but still showing signs of resilience, benefited by the propensity to consume among high-net-worth households. Fixed investment has been accommodated in recent quarters while residential investment remains subdued, with housing demand constrained by still high mortgage rates and real estate prices. Persistent tight credit conditions, rising delinquency rates, declining disposable income, and the depletion of liquidity have weighed more heavily on low-net-worth households. The persistence of confidence indicators at low levels reflects these pressures and corroborates the prospects of subdued consumption. Accelerated growth investments in the technology sector, with a particular focus on artificial intelligence, increases its contribution to the activity dynamics, from the demand perspective, but it has not fully offset the relative importance of household consumption.

There is evidence of labor market accommodation in recent quarters, with signs of weakening demand combined with lower labor supply. Overall, the labor market remains relatively balanced, albeit with reduced mobility. Net hiring has been subdued in recent months, averaging 62,000 jobs over the three months through September (average of 76,000 in 2025 and 168,000 in 2024). The unemployment rate in September stood at 4.4%, still historically low. This rate reflects a sluggish demand for workers concomitantly with a labor supply decline that has been observed since early 2025, driven by the reduction in the share of foreign-born workers in the labor force (Figure 1.1.7) and a lower participation rate. Nominal wages have continued to grow at high rates (3.8% p.a. in September[2]), mitigated in real terms (0.8% p.a.) due to inflation above the target.

2/ According to the Average Hourly Earnings indicator.

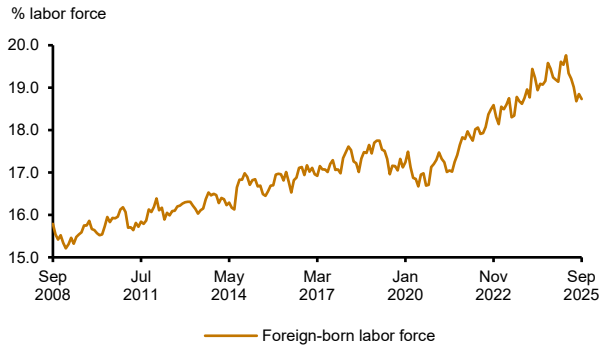
Figure 1.1.6 – Monetary policy rates[1]



Source: Bloomberg

1/ Until December 10. 2/ US refers to the upper bound of the monetary policy rate.

Figure 1.1.7 – U.S. – Foreign-born labor force, share



Source: Bloomberg

Inflation in the U.S. has accelerated in recent months, in the context of increased import tariffs. Consumer inflation in September increased 3.0% p.a.[3], the same percentage of core inflation. Goods prices inflation, which has historically hovered near zero, has accelerated in recent months, especially in segments more exposed to imports. Housing components are posting rates closer to pre-pandemic averages. By contrast, other services components have accelerated, adding upward pressure on inflation. Concerns remain over additional price increases in the coming quarters on account of cost pass-through from imported goods or contamination of inflation expectations. 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 tariff rates, and the resolution of initial operational challenges may further raise consumer prices.

The Federal Reserve (Fed) lowered the interest rate in December to the 3.5%-3.75% interval, the third consecutive reduction, communicating that the Fed Funds rate is close to neutral, and that new decisions will depend on incoming data. In face of the dual risk scenarios, rising inflation and weakening employment, policy decisions have been dissenting in recent meetings. Furthermore, consistent with the goal of maintaining ample liquidity reserves, the Fed announced the beginning of short-term Treasury purchases on an as-needed basis.

Euro area GDP growth increased in 2025Q3 to 0.3% QoQ from 0.1% in 2025Q2 (seasonally adjusted). The external sector contributed negatively to the bloc's economic activity (-0.2 p.p.), reflecting the impact of U.S. tariffs, as well as the increased competition of Chinese goods in the common market. Gross fixed capital formation (GFCF) contributed positively, with a 0.9% QoQ expansion, while government consumption rose by 0.7% on the same comparison basis. Household consumption, however, continues to show a relatively weak performance (+0.2%). Among the bloc's largest economies, Germany's GDP remained stagnated, with moderate investment and declining household consumption and exports. Spain stood out again with a robust growth (+0.6%), while France's GDP surprised positively (+0.5%), benefited by net exports, notably from the aeronautical sector. Overall, the outlook for economic activity in the region remain relatively subdued as a result of political uncertainty, unfolding of the conflict in Ukraine, low consumer and business confidence, and lack of fiscal room in most countries. Nonetheless, employment and real income resilience, credit expansion, and increase public spending on infrastructure and defense, especially in Germany, could counterbalance these effects.

Both headline and core inflation remained broadly stable in the quarter, fluctuating slightly above the European Central Bank (ECB) 2% target. Services inflation, however, persists at an elevated level (3.5% in the November flash estimate forecast). The ECB expects a more favorable dynamics for this component in the coming months, supported by lower wage adjustments negotiated through collective agreements.

The ECB deposit rate remained unchanged at 2.0%, following the final rate cut of the monetary easing cycle in June 2025. The ECB's statement continues emphasizing that euro area inflation has converged to around its 2% medium-term target. The ECB also highlights that wage growth has been moderating and that

3/ Measured by the Consumer Price Index (CPI).

policy rates remain well positioned given the uncertain global scenario. At the same time, the ECB reaffirmed that future decisions would remain data-dependent, considering the balance of risks and the transmission of monetary policy.

In the UK, GDP growth decelerated in 2025Q3, with a forecast of 0.1% QoQ growth compared with 0.3% in 2025Q2. The trends observed in 2025Q2 were maintained, with moderate growth in services and construction, counterbalanced by a stronger decline in industry. Consumer inflation registered in October the first YoY decline in 7 months, to 3.6%, from 3.8% in the previous three months (the largest changes of 2025). Inflation excluding energy, food, alcohol, and tobacco stood at 3.4% in October, reflecting a deceleration in services, despite the change in the segment (4.5%) is still high. The policy interest rate was maintained at 4.0% in the latest meeting of the Bank of England's (BoE) Monetary Policy Committee in early November. At that time, the Committee assessed that, should the disinflation process persist, the policy rate will continue on a gradual downward trend, adopted since August 2024, when monetary easing cycle begun. The sustainability of the sovereign debt is of great concern and leads to volatility in the market of gilts. The budget proposal for 2026 postponed structural adjustments but did not worsen expectations.

In China, economic activity decelerated in 2025Q3. GDP grew 4.8% YoY, after expanding 5.4% in 2025Q1 and 5.2% in 2025Q2. On the supply side, construction and real estate development contracted relative to 2024Q3. On the demand side, net exports and household consumption were broadly unchanged from 2025Q2, and the slowdown in aggregate demand was driven entirely by a lower contribution of gross fixed capital formation.

Economic growth is expected to slow down further in 2025Q4. Economic activity indicators for October, such as industrial output, services activity, and retail sales, suggest the persistence of the deceleration trend observed in 2025Q3. Year-to-date fixed investment assets registered their first negative growth rates in September and October in the time series, excluding the Covid-19 pandemic period. The sector of real estate development persists as the main economic fragility, with investment in the sector declining even further. Nevertheless, GDP growth is likely to meet the 5% target for 2025, as the strong growth observed in the first half of the year is expected to offset the slowdown in the second half.

The Chinese government signaled that the supply-demand balance in the domestic goods market will be one of the priorities of the next Five-Year Plan. Excess supply must be reduced so the economy becomes less dependent on external demand. The macroeconomic policy should, from the demand perspective, prioritize household consumption rather than investment, while on the supply perspective, benefit manufacturing over services, particularly advanced technology sectors. In face of the ongoing economic activity deceleration, the government announced new credit stimulus measures aimed at programs to address local government debt and to promote selected investment projects. Trade negotiations between China and the U.S. have progressed, and some of the restrictive measures on both sides have been repealed, postponed, or softened.

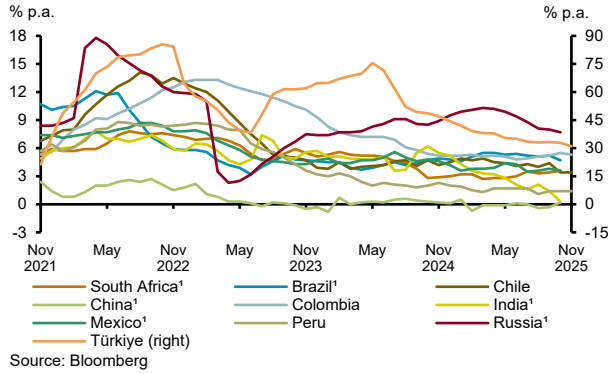
Main emerging market economies registered YoY GDP expansion in 2025Q3, though risks and high uncertainties persist on the horizon. Among the main emerging market economies, the overall trend was of lower growth rates compared with 2025Q2, despite some exceptions. The largest Latin America economies once again exhibited mixed performance concerning their GDP YoY growth rates, with acceleration in Colombia, deceleration in Argentina, Brazil, and Chile, and contraction in Mexico. Domestic demand in these economies, in general, remains robust and the dynamism of imports is higher than that of domestic production. Main indicators of financial condition for emerging market economies reveal improvement compared with 2025Q2. Currencies of emerging market economies showed divergent trajectories in the period, reflecting regional factors, changes in U.S. trade policy and commodity price, in addition to idiosyncratic factors. Risk appetite indicators were broadly stable compared with the end of 2025Q3, despite the volatility during the period.

Several risks and uncertainties for emerging market economies persist, particularly regarding ongoing global trade and geopolitical developments. The back-and-forth in the implementation of U.S. import tariffs continue to maintain uncertainty elevated, negatively affecting confidence and investment. The medium-term impacts of tariffs already in place remain difficult to measure. Furthermore, geopolitical tensions seem to have

escalated, with new hot spots in the Caribbean and Asia, while the situation in the Middle East is fragile and a peace agreement between Russia and Ukraine remains undefined. Doubts concerning the performance of the Chinese economy and its impacts on commodity prices continue to overshadow the outlook for emerging market economies, especially commodity-exporting countries.

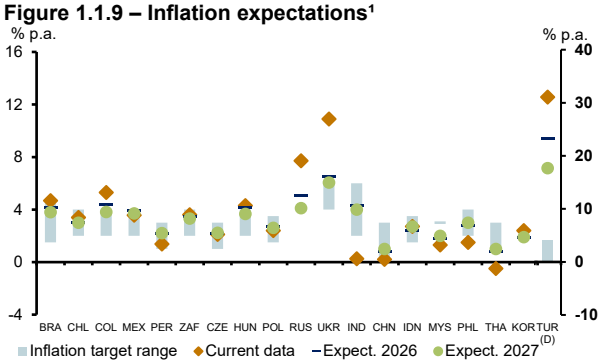
Inflation expectations for the end of 2026 in major emerging market economies generally remain within the target tolerance intervals. Expectations for policy interest rates anticipate, in most cases, cuts of modest magnitude. Inflation rates vary significantly across emerging market economies, with inflation decreasing in most countries, with some exceptions (Figure 1.1.8). Inflation expectations in emerging market economies of Europe and Latin America point to rates closer to the center of the interval targets by the end of 2027, while in Asia, inflation remains at or below the targets through 2026 and 2027 (Figure 1.1.9). The inflation outlook remains highly uncertain, reflecting both the calibration of domestic macroeconomic policies and global trade and geopolitical tensions. Expectations for policy interest rates in those economies remain subjected to high uncertainty, mostly pointing to lower levels but relatively close to current rates by the end of 2026, and unchanged or slightly lower by the end of 2027.

Figure 1.1.8 – CPI – Emerging market economies



Source: Bloomberg
1/ Until October 2025.

Figure 1.1.9 – Inflation expectations¹



Sources: Bloomberg and central banks' surveys
1/ Until December 8.

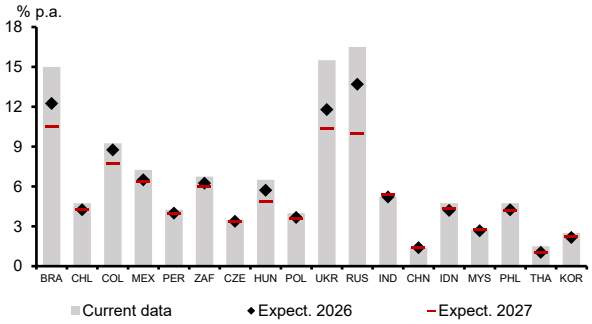
Energy commodity prices[4] declined during the quarter, driven primarily by continued supply expansion by the Organization of the Petroleum Exporting Countries and its allies (OPEC+). Monthly decisions by OPEC+ to continue expanding production quotas until December 2025, the prospects of market oversupply, and the consequent increase in inventories have pressured oil prices downward (Figure 1.1.11). The decline in prices was temporarily intensified by the prospect of a peace agreement between Russia and Ukraine in late November, which ultimately did not materialize. The inventories of the Organization for Economic Cooperation and Development (OECD) countries gained momentum and are increasing to levels close to historical averages. Similarly, European natural gas prices declined in the quarter due to sustained supply of Liquefied Natural Gas (LNG), amid prospects of increased supply during the winter with the start-up and expansion of projects in the largest producing countries. Nonetheless, the recent inventory rebuilding at levels lower than in the same period of 2024 and the risk stemming from the possibility of a more severe winter are preventing a more significant decline in prices.

Metal prices increased during the period, in response to expectations of a relief of trade tensions between the U.S. and China and re-acceleration in Chinese economic activity. As in the previous quarter, steel and aluminum prices maintained high differentials between the U.S. market and other markets, reflecting distortions from import tariffs imposed by the U.S. Copper prices reacted to supply pressures stemming from unscheduled mine shutdowns in Indonesia and Chile, to the ongoing demand linked to clean energy, and expectations of U.S. interest rate cuts. Iron ore prices in China, despite uncertainty about the pace of economic growth, have been driven by rising domestic demand for rebuilding inventories, plans to expand steel production, improved expectations for policy stimulus, and optimism over trade negotiations. However, persistent uncertainties related to China's real estate sector has capped further price gains.

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

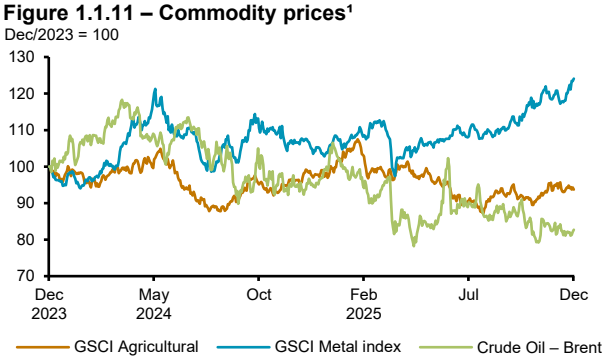
Agricultural commodity prices diverged in the period, reflecting the continuity of the abundant supply of corn, rice, and wheat, and resumption of imports of U.S. soybeans by China. The continuity of a high supply of corn and wheat maintained their prices subdued, despite uncertainties concerning the availability for exporting. Rice supply led to more significant price declines, even with weather-related uncertainties. U.S. soybean prices rose sharply following resumption of Chinese purchases under the bilateral trade agreement, despite overall abundant supply. The U.S removal of the 40% import tariffs on several Brazilian agricultural products, including coffee but excluding soluble coffee, introduced uncertainty into that market. Moreover, persistently low inventories and reports of below-average rainfall coupled with the risk of droughts in Brazilian producing regions ended up overlapping and maintaining coffee prices high.

Figure 1.1.10 – Policy interest rates[1]



Sources: Bloomberg and central banks' surveys
1/ Until December 8.

Figure 1.1.11 – Commodity prices[1]



Source: Bloomberg
1/ Until December 5.

In summary, 2025Q3 data point to a growth slowdown, following resilient economic activity in 2025Q1 and uncertainty shocks in 2025Q2. Among key downside risks to the outlook, persistent uncertainty surrounding trade repositioning policies stands out, weighing on confidence and expectations. Risks of new protectionist measures and greater trade and financial fragmentation remain. At the same time, doubts are growing about the sustainability of sovereign debt in major economies and the risks of abrupt assets repricing. A potential interaction between fiscal and financial risks, affecting yield curves, capital flows, and exchange rate volatility, could further deteriorate the outlook. In this case, the expectations channel would be amplified and accelerate effects. On the upside, labor market, although moderating, remains broadly balanced. Adequate supply of key commodities is helping to contain inflationary pressures. Both factors increase the degrees of freedom for monetary policy. Furthermore, positive aggregate balance sheet for households and companies mitigates the propagation of shocks and contagion. The accelerated growth of investments in the technology sector, with a particular focus on artificial intelligence, introduces not only new risks but also opportunities and dynamism to economic activity. These developments are unfolding amid macroeconomic rebalancing and, notably, a gradual continuation of the disinflationary process. The combination of these elements contributes to a still negative asymmetry in the balance of risks for the global economy. An accurate assessment of the net impact of these factors will be essential to guide future monetary policy steps, considering heightened uncertainty surrounding policy implementation, lagged effects of monetary policy, distributional impacts on supply and demand, and uneven effectiveness of transmission channels to economic activity and inflation.

Against this background, the monetary policy easing cycle has been completed or is expected to end in 2026 in almost all central banks of major economies. However, policy interest rates remain, in some systemic economies, at contractionary levels. In any case, central banks remain attentive to core inflation and underlying inflation dynamics, employment levels, and the balance of risks, underscoring the need for flexibility in policy implementation and transparent communication.

1.2 Domestic outlook

Economic activity

As expected, the moderation trend in domestic economic activity continued in 2025Q3 (0.1% GDP growth), after a 0.3% GDP growth in 2025Q2. From the supply side, agriculture, industry, and services increased, with recovery in the growth pace of more cyclical components. From the demand perspective, activity slowdown was more evident, as household consumption decelerated, remaining virtually stable in the quarter, while GFCF and imports expanded moderately, despite the import of an oil rig in the period, a non-recurrent event (Table 1.2.1).

Table 1.2.1 – Gross Domestic Product
QoQ s.a.

% change

Itemization	2024				2025		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP at market prices	0.8	1.7	0.9	-0.1	1.5	0.3	0.1
GDP ex-agriculture at market prices	0.9	1.7	0.8	-0.1	0.8	0.3	0.3
Agriculture	3.6	-0.6	0.6	-3.8	16.4	-1.4	0.4
Industry	0.5	0.8	0.6	0.2	0.2	0.6	0.8
Mining	0.3	-5.2	0.0	1.4	3.7	4.8	1.7
Manufacturing	1.7	2.2	0.9	0.4	-1.1	-0.4	0.3
Construction	0.8	2.6	-0.6	1.9	-0.7	-0.3	1.3
Utilities (EGAER)	-5.1	0.2	-1.8	0.2	1.7	-1.6	-1.0
Services	0.9	1.8	0.7	-0.2	1.0	0.3	0.1
Trade	2.7	1.4	0.5	0.0	0.4	0.1	0.4
Transport and storage	2.4	1.3	0.0	0.3	-0.3	1.4	2.7
Information services	2.5	1.7	2.6	-0.4	2.8	1.4	1.5
Financial and related services	0.8	1.5	1.6	0.0	0.3	1.3	-1.0
Other services	2.3	0.5	1.7	-0.2	0.1	1.0	0.2
Real estate	1.0	0.8	0.9	-0.1	0.4	0.8	0.8
Public admin., health, and education (APU)	0.2	1.2	0.5	-0.3	0.3	-0.1	0.4
GVA - more cyclical sectors	1.2	1.7	1.1	0.0	0.0	0.4	0.6
GVA - less cyclical sectors	0.7	0.6	0.6	0.0	2.4	0.7	0.1
Household consumption	2.6	1.0	1.5	-0.9	0.6	0.6	0.1
Government consumption	-0.5	1.0	0.4	-0.8	1.3	0.0	1.3
Gross Fixed Capital Formation	3.0	3.1	2.4	0.7	2.3	-1.5	0.9
Exports	-0.9	1.3	-1.6	-0.7	3.6	1.0	3.3
Imports	3.4	8.9	1.7	-0.7	5.1	-2.4	0.3
Indirect seasonal adjustment							
GDP at market prices	1.6	0.9	0.9	-0.1	1.2	0.4	0.5
GDP ex-agriculture at market prices	1.5	1.0	0.9	0.1	0.3	0.5	0.5
GVA - more cyclical sectors	1.8	1.4	0.9	0.2	0.0	0.3	0.6
GVA - less cyclical sectors	0.9	0.2	0.7	-0.6	3.1	0.6	0.4

Sources: IBGE and BCB

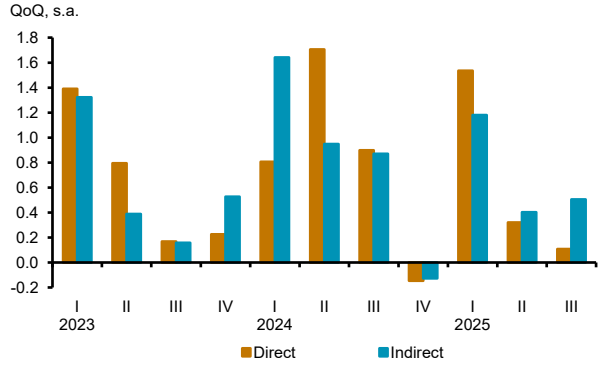
The revision in Quarterly National Accounts (QNA) data did not change the annual 2024 growth but raised slightly the GDP level for the first half of 2025. The release of 2025Q3 QNA was followed by revisions to previously released data, as usual every year. This update mainly incorporated the most up-to-date figures for monthly indicators and harvest surveys, as well as the annual structural surveys of the Brazilian Institute of Geography and Statistics (IBGE) for agriculture, regarding 2024. The estimated 2024 GDP growth remained at 3.4%. Seasonally adjusted quarterly changes in 2025 aggregate GDP were modified slightly, from 1.3% to 1.5% in 2025Q1, and from 0.4% to 0.3% in 2025Q2. In the YoY comparison, revisions for the first half of

the year indicated expansion, but of limited magnitude (0.2 p.p.). However, changes were more significant in some components, particularly in agriculture, whose growth in the first half of 2025 exceeded the previous estimate by 2.1 p.p.

From the supply side, GDP change in 2025Q3 reflected moderate expansions in agriculture and services and stronger growth in industry. Agriculture increased 0.4%, following a significant growth in 2025Q1, and a slight decline in 2025Q2, maintaining a high value-added level. Industry grew by 0.8% in 2025Q3, with widespread expansions across all segments except utilities (EGAER), which declined in a context of moderation in electricity consumption and increase in the share of thermoelectric power plants in total electricity production. Manufacturing recorded modest growth after two consecutive quarterly declines. Construction reversed the declines of the previous two quarters but the average quarterly growth in 2025 remains low. Finally, mining stood out in the secondary sector, recording its fourth quarterly robust expansion in a row. The services sector increased 0.1% in 2025Q3, after growing 1.0% and 0.3% in 2025Q1 and 2025Q2, respectively. Despite a modest growth in aggregate terms, six out of the seven services activities grew more than 0.1% in 2025Q3. The largest increases were observed in transport and information services, and the only activity to register lower expansion than the aggregate tertiary sector was financial intermediation, which declined. This behavior suggests caution in assessing the sector's aggregate performance. Considering the seasonal adjustment by the indirect method, in which components are seasonally adjusted before aggregation, the services sector expansion was more homogeneous in the first three quarters of the year.[5]

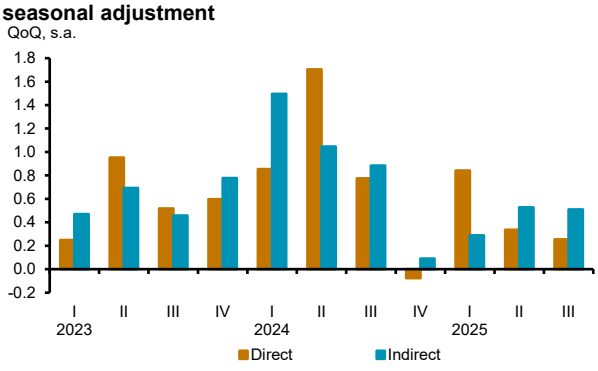
Still from the supply perspective, indirect seasonally adjusted GDP ex-agriculture suggests a moderate and reasonably homogeneous growth pace in the first three quarters of 2025. According to the official seasonal adjustment, the aggregate GDP slowed strongly in 2024Q4, rose sharply in 2025Q1, and grew at a modest pace, 0.2% on average, in the subsequent two quarters. Excluding the agricultural sector, which is less sensitive to economic cycles and has experienced atypically high growth in 2025Q1, the dynamics remain almost unchanged. However, by the indirect method – which aggregates already seasonally adjusted components – the trajectory is different, especially for GDP ex-agriculture. In this case, the indicator slowed down in 2024Q4, growing 0.1%, following a 1.1% average growth in the previous three quarters. From 2025Q1 onwards, it registered moderate and relatively homogeneous quarterly expansions, averaging 0.4% (Figures 1.2.1 and 1.2.2). This analysis corroborates the interpretation that the Brazilian economy growth has moderated since the end of 2024.

Figure 1.2.1 – GDP - direct and indirect seasonal adjustment



Sources: IBGE and BCB

Figure 1.2.2 – GDP ex-agriculture - direct and indirect seasonal adjustment



Sources: IBGE and BCB

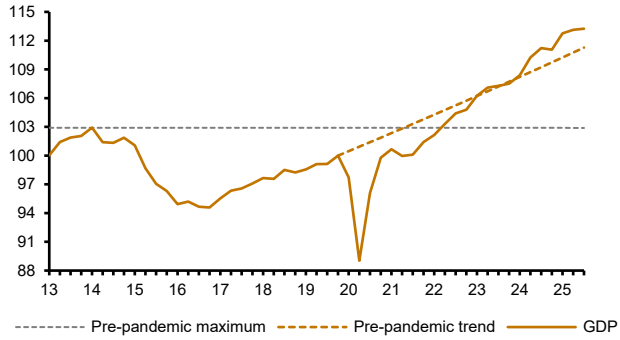
Following three quarters of rather modest growth, the sectors more sensitive to the economic cycle recovered. After averaging 0.2% growth in the previous three quarters, more cyclical sectors increased 0.6% in 2025Q3. This increase was driven by the recovery in manufacturing and in the construction industry, after two consecutive declines, and by the expansion in some of the more cyclical services segments, such

5/ While the official adjustment indicates expansions of 1.0%, 0.3%, and 0.1% for the services sector in the three previous quarters, indirect seasonal adjustment points to growth of 0.4%, 0.6%, and 0.4% in the same period. A discussion of direct and indirect seasonal adjustment can be found in the box Seasonal adjustment and uncertainty regarding the intensity of the GDP slowdown in early 2025 in the March 2025 MPR.

as transport and information services. Sectors less sensitive to the economic cycle grew 0.4%, decelerating slightly when compared with 2025Q2, when they had increased 0.6% (Figure 1.2.4).[6]

Figure 1.2.3 – Gross Domestic Product

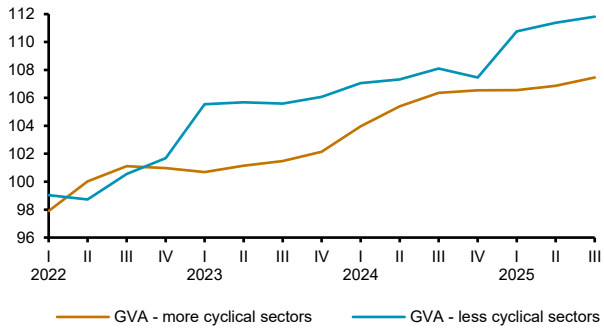
2019Q4 = 100, s.a.



Source: IBGE

Figure 1.2.4 – GDP – More and less cyclical sectors

2022 = 100, s.a.

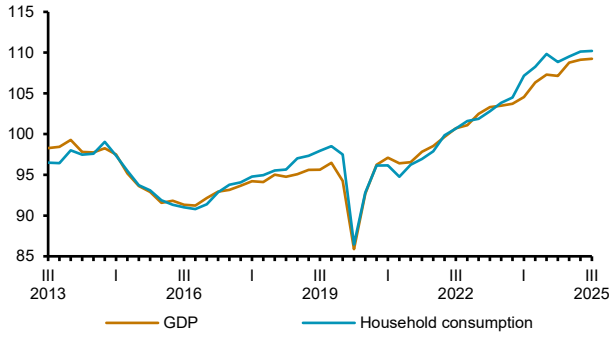


Sources: IBGE and BCB

Household consumption slowed down, remaining virtually stable in 2025Q3. After growing 0.6% in the first two quarters of 2025, household consumption grew only 0.1% in 2025Q3 (Figure 1.2.5). The slower pace of consumption growth may be associated with the slowdown of disposable income, reflecting lower growth in labor income – with slower expansion of employed population – and social benefits.[7] Moreover, the increase in the household debt-to-income (DTI) ratio and debt service ratio (DSR) is a limiting factor for consumption growth. Economic indicators for consumer goods production, retail trade, and services provided to households reveal stagnation or decline in recent quarters, corroborating the slowdown in consumption (Figure 1.2.6).

Figure 1.2.5 – GDP and household consumption

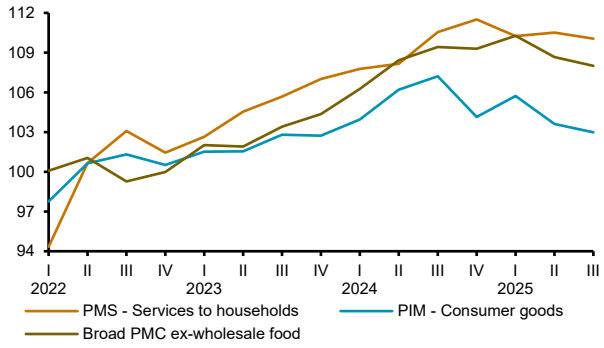
2022 = 100, s.a.



Source: IBGE

Figure 1.2.6 – Household consumption indicators

2022 = 100, s.a.



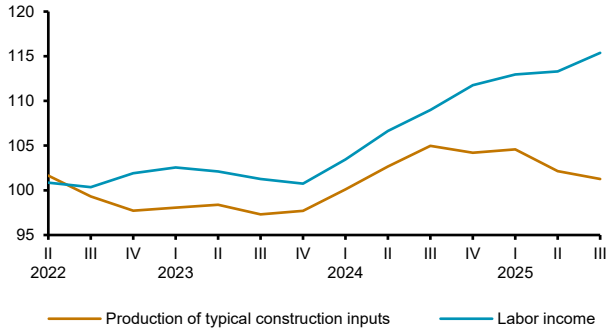
Sources: IBGE and BCB

GFCF increased in 2025Q3, boosted by an oil rig import. Throughout 2025, this indicator has oscillated significantly, increasing 2.3% in 2025Q1, dropping 1.5% in 2025Q2, and rising again 0.9% in 2025Q3 (Figure 1.2.9). This performance was strongly influenced by the evolution in the imports of capital goods, significantly impacted by purchases of oil rigs in 2025Q1 and 2025Q3. The production of capital goods declined in 2025Q3, contributing negatively to the GFCF change. The gross value added (GVA) of construction increased, suggesting a positive contribution from the sector.[8] Conversely, coincident construction activity indicators showed mixed signals: while the sector's overall income increased, the production of typical construction inputs declined (Figure 1.2.7). Finally, revenues from information technology services[9] increased again, indicating a positive contribution from this segment to the GFCF in the quarter. The GFCF declined as a percentage of GDP, despite the import of an oil rig. Excluding this non-recurrent item, the GFCF/GDP ratio recorded a larger decline in the period (Figure 1.2.10).

6/ 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 by the indirect seasonal adjustment, i.e., by aggregating the supply side GDP components after the seasonal adjustment.
7/ See the next section of this chapter.
8/ The GVA change may diverge from the evolution of final production in the sector. Therefore, its trajectory does not always properly reflect the sector's contribution to the GFCF.
9/ According to the Monthly Survey of Services (PMS).

Figure 1.2.7 – Construction indicators

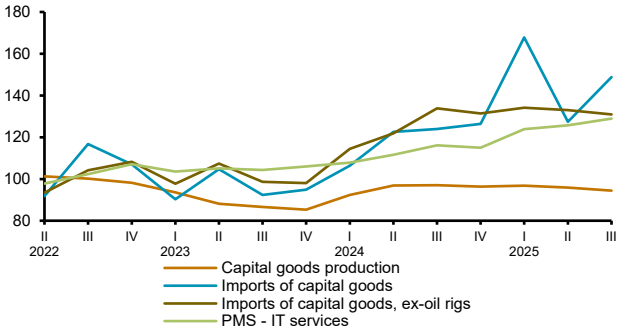
2022 = 100, s.a.



Sources: IBGE and BCB

Figure 1.2.8 – Investment indicators

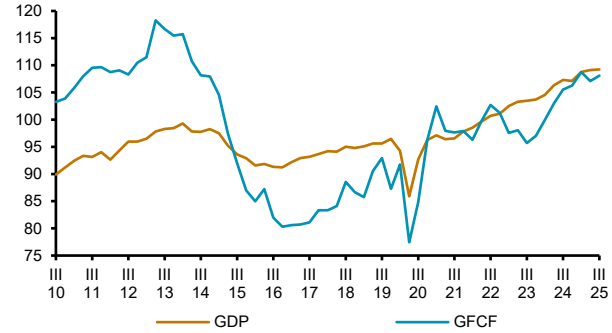
2022 = 100, s.a.



Sources: BCB and IBGE

Figure 1.2.9 – GDP and GFCF

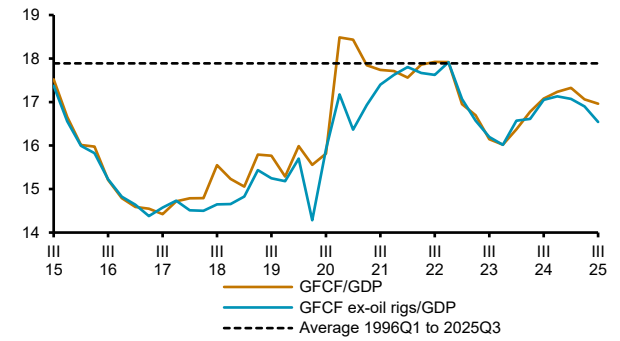
2022 = 100, s.a.



Source: IBGE

Figure 1.2.10 – GFCF/GDP at current prices

%, s.a.



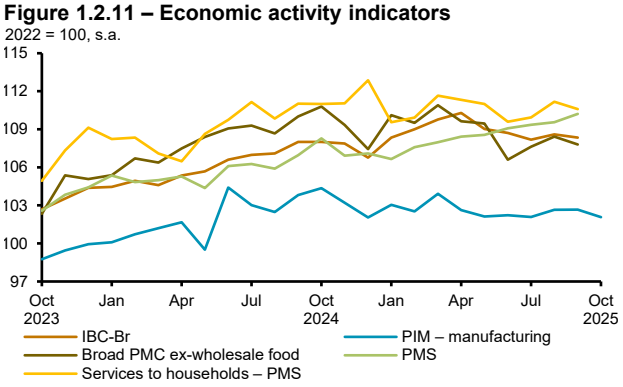
Source: IBGE and BCB

In the external sector, exports accelerated, while imports expanded modestly, despite the purchase of an oil rig. External sales grew 3.3% in 2025Q3, after rising 3.6% in 2025Q1 and 1.0% in 2025Q2, mainly boosted by increased shipments of primary goods. Exports of manufactured and semi-manufactured goods also increased compared with the previous quarter. Imports, in turn, grew 5.1% in 2025Q1, fell 2.4% in 2025Q2, and grew slightly, 0.3%, in 2025Q3, a movement strongly influenced by the aforementioned oil rig purchase. In 2025Q3, in addition to increased entry of capital goods – driven by the oil rig – a sharp decline was registered in durable goods purchases, reverting part of the significant increase recorded previously. Exports and imports of services also increased in the period.

Preliminary available data suggest continuity in economic activity moderation in 2025Q4. In October, manufacturing output fell 0.6% after remaining stable in September, providing a negative statistical carry-over for 2025Q4. However, this decline was not widespread, being concentrated on intermediate goods, a segment that was significantly affected in the month by shutdowns at oil refineries. Coincident indicators for services provided to households and commerce based on payment means data showed predominantly negative signs in September and October.

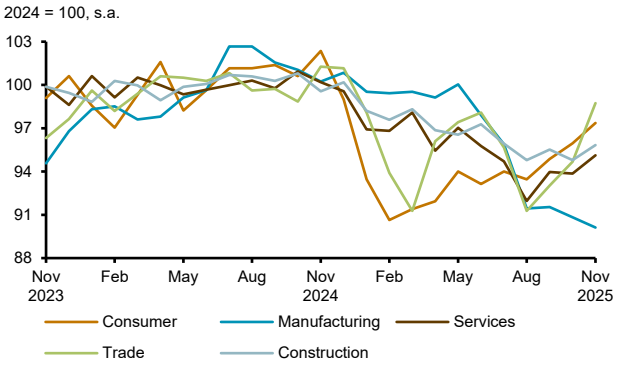
Confidence indexes revealed a partial recovery following the downward trend observed until mid-2025Q3. Consumer and, in general, business confidence had been declining since the end of 2024 but resumed growth since August. Despite improving, November 2025 levels remained below those of December 2024. Industry confidence, however, was an exception, continuing on a downward trend.

Figure 1.2.11 – Economic activity indicators



Sources: IBGE and BCB

Figure 1.2.12 – Confidence indexes



Source: FGV

Table 1.2.2 – Economic activity coincident indicators

Seasonally adjusted data

% change

Itemization	2025									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Heavy vehicle traffic	3.5	0.3	0.6	0.3	-0.2	-0.1	1.9	-0.7	1.8	0.7
Corrugated boxes shipments	-0.7	1.6	1.9	-1.1	0.7	-1.1	2.0	-0.9	0.9	1.7
Light vehicle production	2.0	-0.7	1.2	4.9	-11.2	8.0	2.5	-0.8	3.2	-0.0
Truck production	-14.0	19.3	-0.6	-9.2	6.6	-1.9	4.5	-15.4	-3.3	-6.9
Vehicle licensing	-1.3	-1.2	5.5	0.9	1.9	-5.7	3.0	-4.8	7.8	-0.2
Cielo broad retail index	0.4	-0.5	-0.3	0.5	-0.3	-1.1	0.0	0.0	-0.1	0.0
IGet broad retail	-0.5	1.7	0.9	-0.5	-1.7	-0.3	1.5	-0.1	-0.2	-0.3
IGet services to households	-0.6	1.5	-3.6	-0.9	3.3	-3.9	-0.3	3.9	-4.7	-3.5
IDAT goods[1]	1.1	0.1	2.4	-1.9	0.2	0.1	-1.9	1.0	-0.7	0.2
IDAT services to households[1]	-1.2	2.2	-0.1	-0.3	-0.4	-1.3	-1.5	2.0	-1.6	-0.8

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

[1] Broad means of payment.

As detailed in a box in this MPR, the 2025 GDP growth projection was revised from 2.0% to 2.3%, while the 2026 estimate grew from 1.5% to 1.6%. The revision of 2025 annual growth projection mainly reflects the revision of time series, particularly due to stronger agricultural growth in the first half of the year than previously released, and a slightly higher-than-expected result in 2025Q3. The upward revision of the 2026 projection was driven by the expectation of higher expansion in 2025, providing a slightly higher statistical carry-over for next year, as well as by the incorporation of preliminary estimates of the impacts of the exemption or discount in Individual Income Tax (IRPF) for the lowest income brackets. In the opposite direction stand out downward revisions in projections for agriculture and mining, reflecting preliminary estimates for the 2026 harvest and slightly less favorable forecasts for iron ore production, respectively.

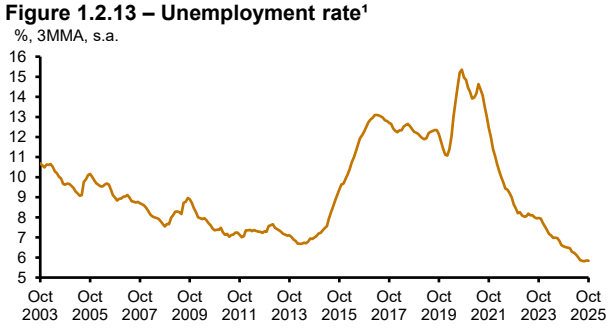
Labor market

Despite signs of deceleration in the employment level, the labor market remains heated, with low unemployment rate and expanding real salaries. Stability in the unemployment rate after several quarters of decline and lower formal job creation suggest some accommodation in the labor market. Conversely, real salary measures, especially the average labor income measured by the Continuous National Household Sample Survey (PNAD Continuous), continue to grow.

Even with the decline in the employed population in recent months, the unemployment rate has remained close to its historical low. After more than two years of uninterrupted decline, the unemployment rate

remained at 5.8% in the Aug-Oct quarter, the lowest level in recent decades (Figure 1.2.13).[10] This stability occurred even with a 0.3 p.p. reduction in the employment level[11] to 58.4%, a movement that reflected respective decreases of 0.1% and 0.6% in formal and informal employment. The labor force participation rate also decreased by the same magnitude, to 62%, offsetting the decline in the employment level and maintaining the unemployment rate stable. With the recent reduction, the labor force participation rate has moved even further away from mid-2022 and pre-pandemic levels (Figure 1.2.14).[12]

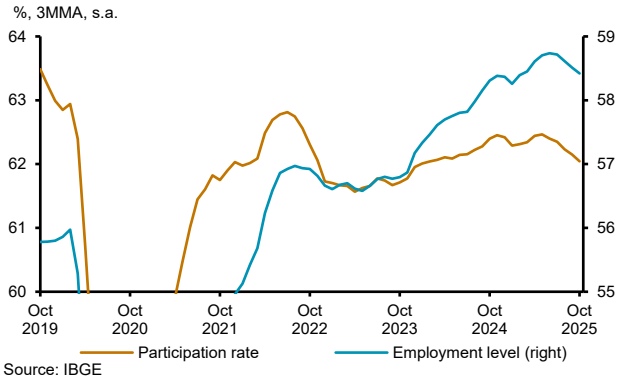
Figure 1.2.13 – Unemployment rate[1]



[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

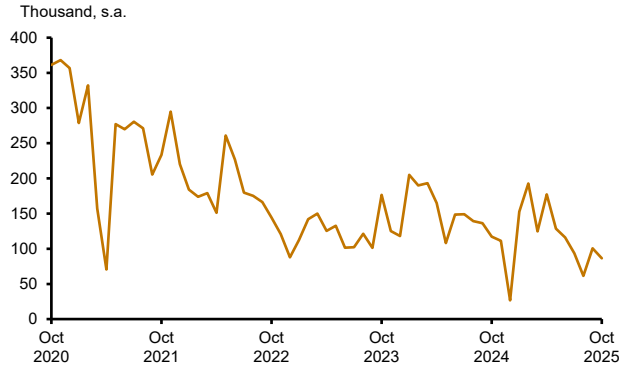
Figure 1.2.14 – Participation rate and employment level



Source: IBGE

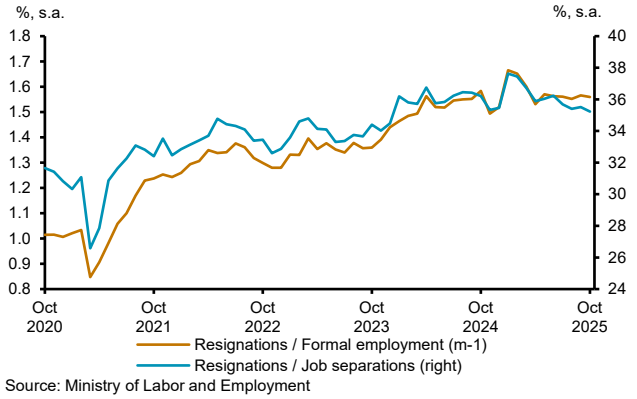
Formal job creation, although lower, remains strong. According to data from the New General Registry of Employed and Unemployed Persons (New Caged), seasonally adjusted by the BCB, an average of 83,000 jobs were created per month in the Aug-Oct quarter, below the 113,000 and 165,000 recorded in the May-Jul and Feb-Apr quarters, respectively (Figure 1.2.15). This deceleration was widespread across all sectors and stronger in manufacturing. Despite slowing down, net job creation remains at a historically high level, reaching, in the year up to October,1.8 million, i.e., 316,000 jobs lower than in the same period of 2024. For the sake of comparison, the average creation of 83,000 jobs per month in the last quarter represents job expansion at 0.17% per month, or 2.1% per year, while the working age population (WAP) increases around 0.8% per year. Labor market resilience is also observed in the share of resignations in total job separations, which remained high (Figure 1.2.16).

Figure 1.2.15 – Net formal job creation



Source: Ministry of Labor and Employment

Figure 1.2.16 – Resignations ratio

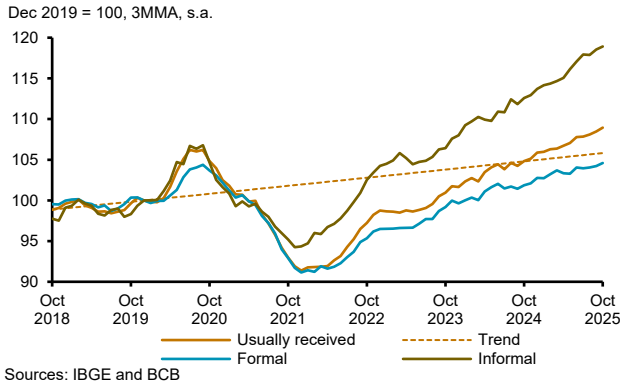


Source: Ministry of Labor and Employment

Average labor income measured by the PNAD Continuous is still growing strongly in real terms. Income expansion reached 1.0% in the Aug-Oct quarter, the same observed in the May-Jul quarter, with gains for both formal and informal workers. Considering the YoY change, the usual real average income grew 3.9% in the Aug-Oct quarter, a high rate and marginally above that observed in the May-Jul quarter. The change in the Feb-Apr quarter was 3.1%. From a longer-term perspective, the average real income is 9.8% above the 2019 average and 3.1% above the level projected by extrapolating the growth trend of the pre-pandemic period, from 2017 to 2019 (Figure 1.2.17).

10/ According to seasonally adjusted data from the PNAD Continuous, retropolated according to Alves and Fasolo (2015).
11/ Employed Population (EP) to the WAP ratio.
12/ See boxes Impact of education and demography on labor market indicators in the September 2025 MPR, Demographic changes and the recent evolution of the labor force participation rate in the June 2024 IR, and Labor force participation rate and social benefits on the BCB Blog (Portuguese only).

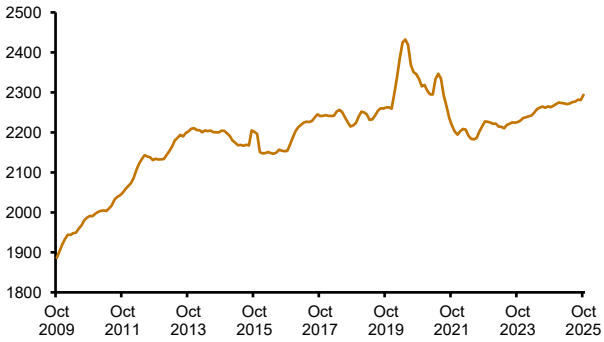
Figure 1.2.17 – Real average labor income



Sources: IBGE and BCB

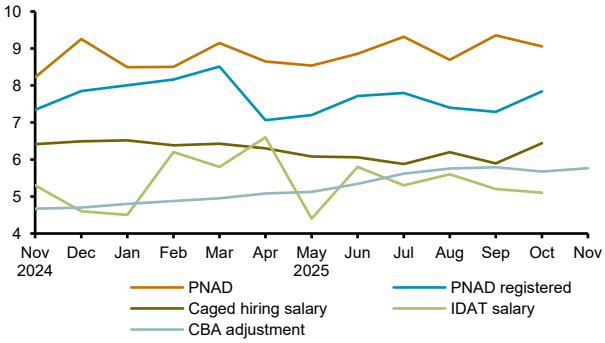
Complementary indicators of salary dynamics continue to point to real growth, albeit to a lesser extent than those of PNAD. Real salaries grew 0.7% (seasonally adjusted data) for new hirings[13] in the Aug-Oct quarter, following a 0.3% increase in the May-Jul quarter, according to the New Caged (Figure 1.2.18). Compared with the same period of the previous year, the real increase was 1.4%, after two quarters of growth below 1%. The nominal salary adjustments collected from Collective Bargaining Agreements (CBA),[14] which cover the formal private sector averaged 5.8% in the Sep-Nov quarter (Figure 1.2.19). In particular, adjustments exceeded past inflation in 73% of negotiations, and, in real terms, the average adjustment in the quarter was 0.5%, lower than in the same period of the previous year (1.2%).[15]

Figure 1.2.18 – Hiring salary



Source: Ministry of Labor and Employment

Figure 1.2.19 – Salaries and labor income



Sources: IBGE, MLE, Itaú, and BCB

Household income remained relatively stable in the Aug-Oct quarter, in a context of weaker labor income growth and a one-off decline in social benefits. The estimated Household Gross Disposable National Income (HGDNI) – an indicator that incorporates other sources of income besides work – decreased 0.1% in real terms in the period, considering the seasonally adjusted restricted concept.[16] In the previous quarter, there was an increase of 1.1%. The slowdown partly reflected the weaker overall labor income, which accounts for about 80% of the restricted income. The lower growth of this component was influenced by the 0.3% contraction in the employed population, which had grown 0.4% in the previous quarter. Additionally, regarding social benefits, the extraordinary court-ordered payments[17] and the advanced payment of the Christmas bonus for National Social Security Institute (INSS) beneficiaries, which occurred in the previous quarter, increased the comparison basis (Figures 1.2.20 and 1.2.21).

13/ 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 most 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.

14/ The adjustments refer to the simple 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.

15/ 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.

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

17/ HGDNI series included court-ordered payments originating from social security and social assistance. Personnel-related data are not included, since the source of labor income information for calculating the HGDNI is the PNAD Continuous.

Figure 1.2.20 – Restricted HGDNI

Aug-Oct 2025 BRL billion, 3MMA, s.a.

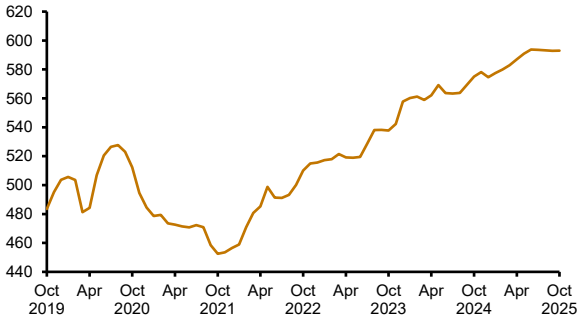
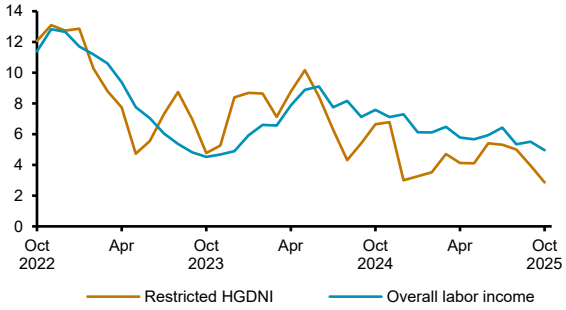


Figure 1.2.21 – Restricted HGDNI and usually received overall labor income

%, real YoY change, 3MMA



Sources: BCB and IBGE

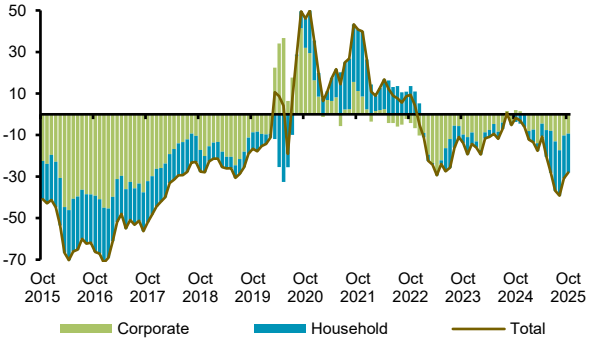
Credit

The credit market still shows some deceleration signs, in line with the expected effects of current monetary policy. The financial flow to the real sector remains negative, with households and companies facing higher net financial expenses than in 2024. The growth in the National Financial System (SFN) credit balance continued to slow down moderately in recent months, reflecting lower expansion in non-earmarked corporate and earmarked household credit. In contrast, non-earmarked household credit granting remains strong, recovering from the decline in the May-Jul quarter. Delinquency showed signs of stabilization, after increasing throughout the year, while household debt-to-income (DTI) ratio remained high and debt service ratio (DSR) reached a record level.

Despite a slight marginal improvement, the financial flow of credit to the real sector remained significantly negative, indicating very high net payments to the financial sector by households and companies. The recovery in non-earmarked household granting, coupled with continued expansion in the earmarked corporate segment, contributed to smooth negative financial flows in the Aug-Oct quarter compared with the May-Jul quarter (Figure 1.2.22). Nonetheless, high volumes of net payments to the SFN by both households and companies persisted. In 12 months, the financial flow reached -2.1% of GDP in October, compared with -0.7% in December 2024. Net financial expenses of households rose by 1.0 p.p. of GDP throughout the year, while that of companies grew by 0.3 p.p. Conversely, the flow of resources funded by companies in the capital market, through net issuances of debentures, remains positive, albeit modestly declining in the year (Figure 1.2.23).

Figure 1.2.22 – Financial flow

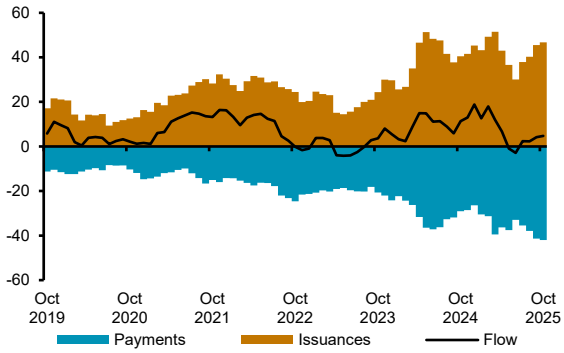
BRL billion of Oct 2025, s.a., 3MMA



Financial flow: Granting - Payments

Figure 1.2.23 – Debentures financial flow breakdown

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



The growth rate of SFN credit balance dropped moderately, reflecting the slowdown in the non-earmarked corporate and earmarked household segments. The YoY change in the credit balance fell by 0.8 p.p. in three months to 10.2% in October. In the household segment, the pace of growth fell by 0.5 p.p., reflecting a more moderate earmarked credit expansion, particularly of rural credit, while, in the non-earmarked credit, the expansion remained relatively stable, sustained by private sector payroll-deducted

loans and installment and revolving credit card.[18] The expansion among companies dropped by 1.3 p.p. in the quarter, with the slowdown concentratted in the non-earmarked credit, notably in discount of trade bills and receivables operations. In the opposite direction, the earmarked credit balance continued to grow at a high pace, driven by the Emergency Credit Access Program (PEAC) and rural credit operations.

Figure 1.2.24 – Non-earmarked credit balance
YoY change
%

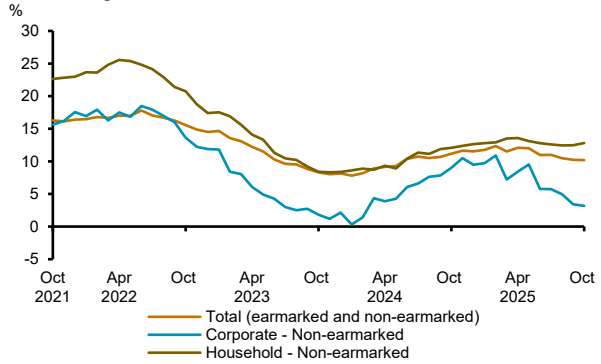
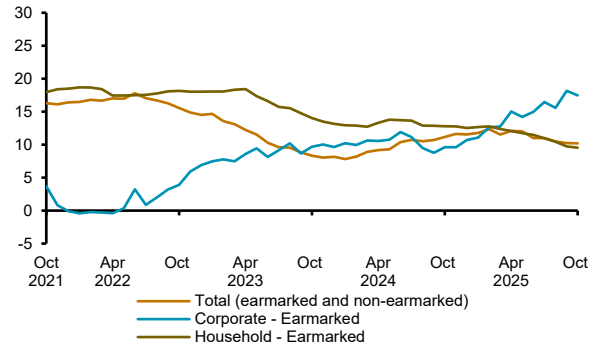
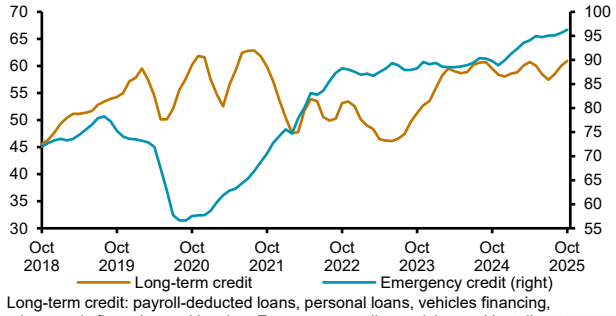


Figure 1.2.25 – Earmarked credit balance
YoY change
%



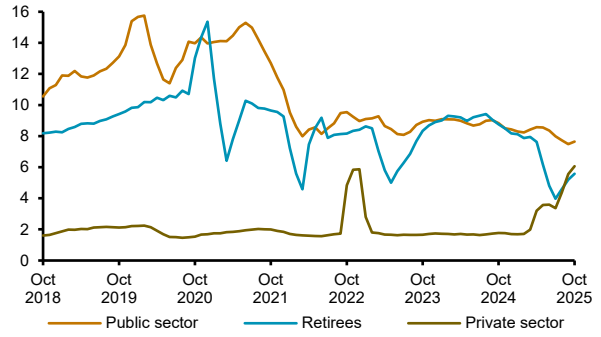
Non-earmarked household granting showed resilience, recovering from the decline in the May-Jul quarter. Long-term modalities increased in the Aug-Oct quarter, reflecting the recovery of payroll-deducted loans to INSS retirees and pensioners, which is still around 30% below the level before the adoption of new lending criteria (Figures 1.2.26 and 1.2.27). The new private sector payroll-deducted loans, non-payroll-deducted loans, and new vehicles financing also increased at the margin. Emergency credit continued to grow in the quarter, highlighting installment credit card operations. In 12 months, the trajectory of long-term credit operations is still slowing down, while emergency credit gained some momentum.

Figure 1.2.26 – Non-earmarked household credit granting
BRL billion of Oct 2025, s.a., 3MMA



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



Corporate financing in the non-earmarked segment decreased after the Tax on Financial Operations (IOF) increase at the end of May.[19] Discount of receivables operations stabilized at a level 20% below that observed before the IOF rate change (Figure 1.2.28). Conversely, export financing operations – which are exempt from the IOF – increased although not fully offsetting the reduction in the discount of receivables. Capital market funding also increased as of July, as large companies take advantage of favorable issuance conditions, amid an environment of low spreads and high demand for debentures, especially tax-incentivized ones (Figure 1.2.29).

18/ As a consequence of the new guidelines for the writing-off of loans, since early 2025 the past due loans have, in general, remained for longer in the credit portfolio. This phenomenon also contributes to the slower-than-expected reduction in credit balance, especially in the non-earmarked household segment. Further information on this topic is available in the boxes Impact on the delinquency rate resulting from the new accounting rules for financial instruments in the September 2025 MPR and Change in the proxy for problem assets in the November 2025 Financial Stability Report (FSR).

19/ After almost two months under legal discussion, the higher IOF on corporate credit operations became permanent in mid-July, following a decision by the Federal Supreme Court (STF). In this decision, forfaiting operations continued to be exempt from the IOF.

Figure 1.2.28 – Non-earmarked corporate credit granting

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

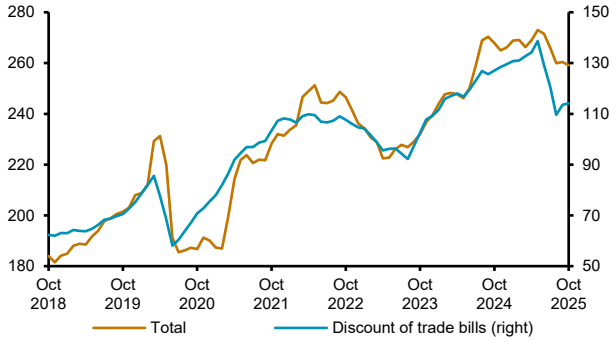
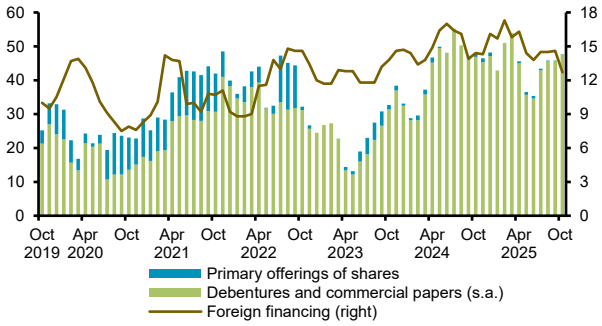


Figure 1.2.29 – Non-banking corporate financing

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



Sources: BCB and Anbima

Corporate granting stands out in earmarked credit. In the household segment, granting dropped in the Aug-Oct quarter, due to lower rural credit, which had real contracted volume 14% below that of the same period in 2024 (Figure 1.2.30). However, part of producers' capital requirements in the year has been met through a significant expansion in Rural Producer Bills (CPR) issuances.[20] Real estate financing operations, which had been declining until July, have grown in recent months. In particular, part of the increase observed in October might already reflect the possibility of deducting up to 5% of the compulsory reserves collected on savings accounts.[21] Among companies, earmarked credit granting – which remain at a level well above that recorded a year earlier – increased in the quarter, leveraged by PEAC[22] and the Brazilian Development Bank (BNDES) operations (Figure 1.2.31).

Figure 1.2.30 – Earmarked household credit granting

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

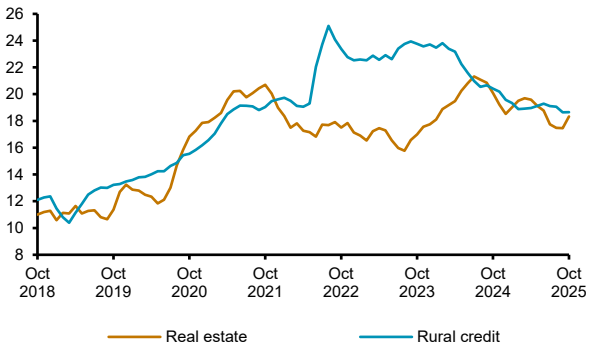
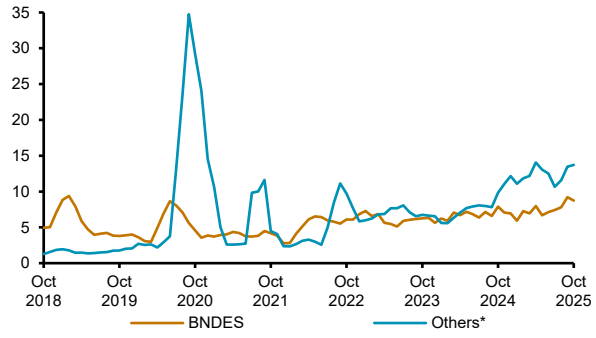


Figure 1.2.31 – Earmarked corporate granting

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



*Includes Pronampe, PEAC, PESE, among others.

Interest rates on non-earmarked credit have remained relatively stable in recent months, suggesting that the pass-through of the Selic hike has been completed. The average rate for non-earmarked operations rose 0.2 p.p. in the Aug-Oct quarter, accumulating a 6.5 p.p. increase in the current monetary tightening cycle, compared with a 4.5 p.p. high in the Selic rate. In the household segment, costs dropped 0.2 p.p. in the quarter, with stronger declines in higher-cost modalities, such as emergency credit. These modalities had registered sharp increases throughout the cycle, mainly in the first half of the year, accumulating a 13.2 p.p. rise. Long-term modalities' rates, which account for 64% of non-earmarked household credit, rose 5.1 p.p. during the cycle (Figure 1.2.32).[23] In the corporate segment, interest rates rose marginally in the quarter but accumulated a 4.2 p.p. pass-through in the cycle, slightly below the Selic rate change (Figure 1.2.33). These results are in line with a study on the pass-through of Selic rate changes to the cost of credit.[24]

20/ More information and data on CPR are available in the section "1.2.2 Credit" in the November 2025 FSR.
21/ Resolution CMN 5,255, of October 10, 2025, changed the criteria for contracting real estate financing operations, while Resolution BCB 512, of October 10, 2025, changed the rules for compulsory reserves requirements on savings accounts.
22/ Changes to this program in October 2024 enabled a larger volume of financing backed by the Investment Guarantee Fund (FGI).
23/ Part of this increase may reflect the change in the composition of borrowers of payroll-deducted loans to private sector workers, whose contracts carried higher interest rates than those applied before the changes in this modality. Further information available in the box New private sector payroll-deducted credit in the September 2025 MPR.
24/ Box Selic rate pass-through to the bank credit market in the September 2022 IR.

Figure 1.2.32 – Non-earmarked interest rates - Households

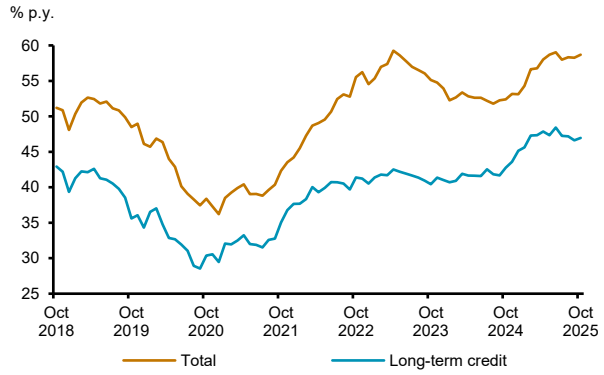
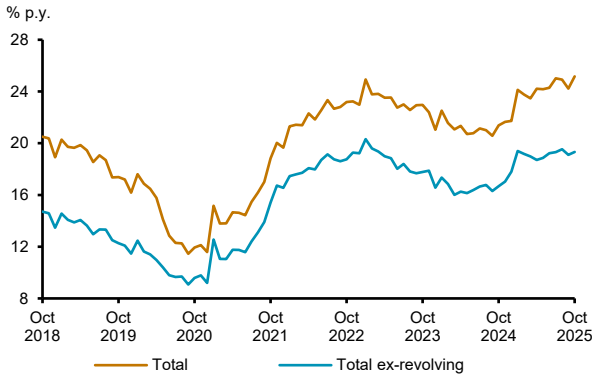


Figure 1.2.33 – Non-earmarked interest rates - Corporate



The delinquency rate continued to increase in recent months but shows some signs of stabilization. The aggregate measure increased 0.2 p.p. in the last three months, with most of the change concentrated in August (Figure 1.2.34). In non-earmarked household credit, the delinquency rate reached 6.7%, a level not seen since 2013. In the earmarked segment, rural credit delinquency continued to rise, reaching 6.2% in October, a record high for the time series (Figure 1.2.35). Delinquency in corporate operations remained stable in the quarter. The SFN credit delinquency grew by 1.1 p.p. throughout the year, mainly as a result of changes in the accounting rules, with the adoption of the concept of expected loss.[25] In the period, household delinquency grew by 1.3 p.p. to 4.9%, while that for companies rose by 0.5 p.p. to 2.5%.

Figure 1.2.34 – 90 days past due loans

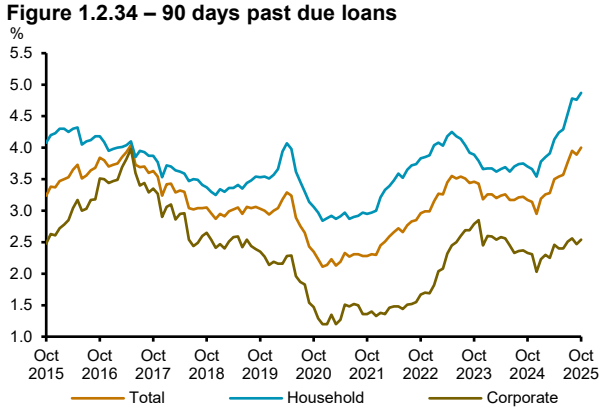
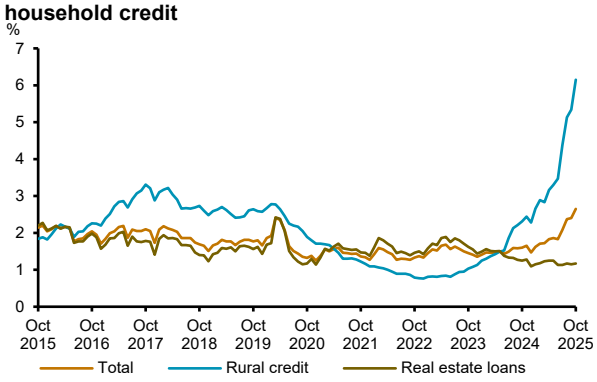
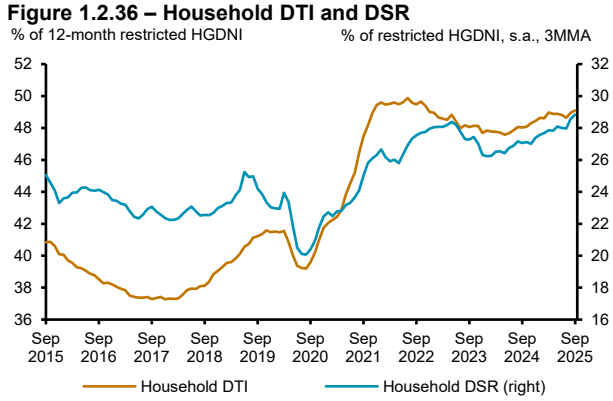


Figure 1.2.35 – 90 days past due loans of earmarked household credit



Household DTI and DSR indicators continue at high levels. The favorable labor market evolution so far and the introduction of innovations in credit modalities, such as in payroll-deducted loans, have sustained the pace of growth in household financing, despite the monetary policy tightening cycle. In this context, household DTI is close to the historical peak, while DSR, more quickly affected by interest rate oscillations, has reached a record level (Figure 1.2.36).

Figure 1.2.36 – Household DTI and DSR



25/ Further information on this topic available in boxes Impact on the delinquency rate resulting from the new accounting rules for financial instruments in the September 2025 MPR and Change in the proxy for problem assets in the November 2025 FSR.

Credit growth projections for 2025 and 2026 were revised upward, as detailed in a box in this MPR. For 2025, the estimate grew from 8.8% to 9.4%, reflecting stronger-than-expected expansion revealed by recent data. For 2026, the projection increased from 8.0% to 8.6%, maintaining the expected deceleration compared with 2025. Revisions mainly reflect the more robust performance of earmarked credit, particularly in the corporate segment.

Fiscal

Overall, analysts assess that the fiscal situation has remained unchanged since the previous MPR. The government and market analysts' projections for the 2025 primary balance continue to indicate target compliance, albeit close to the lower limit. For 2026, a divergence for the primary balance projections remains. While the government foresees target compliance, most analysts still forecast a larger deficit than that consistent with the lower limit of the fiscal framework. The prevailing assessment is that the public debt/GDP ratio will continue on an upward trajectory over the next years.

In the first ten months of 2025, the consolidated public sector primary deficit decreased moderately compared with the same period of 2024. The reduction, from BRL 57 billion to BRL 47 billion, was driven by the increase in the surplus of regional governments and, to a lesser extent, by the reduction in Central Government deficits (Table 1.2.3). Within the Central Government, the growth rate of revenues has been falling in recent months, especially among taxes more sensitive to economic activity. Conversely, IOF revenue, whose rates on certain transactions were raised in mid-2025, contributed significantly to the growth in cumulative revenues for the year to date. Among expenses, the mandatory ones continue increasing at a significant rate, while the discretionary ones, previously contained by the delay in the approval of the 2025 budget, accelerated in the last quarter (Table 1.2.4).

Table 1.2.3 – Public Sector Borrowing Requirements - Primary balance

Year-to-date until October

BRL billion

Itemization	2023	2024	2025
Central Government	98	66	63
o/w Federal Government	-170	-221	-244
o/w INSS	267	287	307
Regional governments	-19	-17	-24
State-owned companies	3	8	7
Total	82	57	47

Positive values represent deficit and negative values represent surplus.

Table 1.2.4 – Central Government fiscal balance
Year-to-date until October

BRL billion - current values

	2024	2025	Real change (%)
1. Total revenue	2,173	2,372	3.8
1.1 - Revenues collected by the Federal Revenue Office	1,403	1,540	4.4
1.2 - Net Social Security revenues	506	560	5.2
1.3 - Revenues not collected by the Federal Revenue Office	264	272	-1.7
2. Transfers by revenue sharing	415	456	4.6
3. Net revenue (1-2)	1,758	1,915	3.7
4. Total Expenditure	1,820	1,979	3.3
d/q Ex Precatórios	1,756	1,886	2.1
4.1 Social Security benefits	792	867	4.0
d/q Ex Precatórios	770	829	2.3
4.2 Payroll	295	323	3.8
d/q Ex Precatórios	292	314	2.1
4.3 Other compulsory expenses	300	333	5.5
d/q Ex Precatórios	262	288	4.3
4.4 Executive branch expenses subject to financial programming	432	457	0.4
o/w Bolsa Família (Family Allowance)	140	133	-9.5
o/w Discretionary	140	151	2.4
5. Central Government primary balance - above the line (3 - 4)	-63	-64	-5.5

Source: National Treasury

The Federal Government maintained the expectation of primary balance target compliance in 2025, considering the interval around the target. In the Sep-Oct Primary Revenues and Expenses Assessment Report (RARDP), the primary deficit projection was adjusted marginally to BRL 76 billion, including expenses that will not be included in the calculation of the fiscal target compliance, especially court-ordered payments ("*precatórios*"). Therefore, in the relevant metric for this calculation, the official projection is a BRL 34 billion deficit, leading to the need for a BRL 3 billion expense freeze to reach the lower limit of the target (BRL 31 billion). Conversely, the BRL 8 billion reduction in projected expenses subject to the cap reduced the need for an expense block from BRL 12 billion to BRL 4 billion. The median projection according to the Pre-Copom Questionnaire (PCQ) is a primary deficit of BRL 69 billion, or BRL 26 billion by the metric used in the calculation of the target compliance (Table 1.2.5). For the sake of comparison, the Central Government effective primary deficit in 2024 was BRL 45 billion.

Table 1.2.5 – Central Government fiscal balance forecasts
Year-to-date

BRL billion - current values

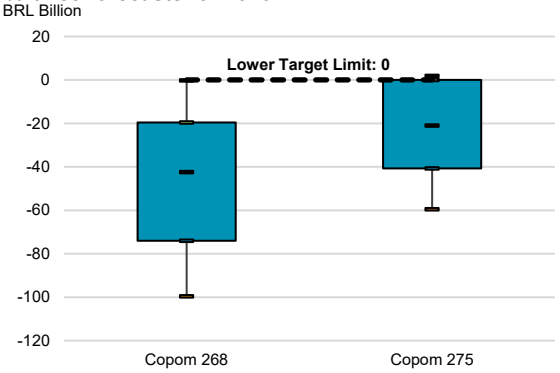
	LOA	RARD	PCQ
Net revenue	2,360	2,343	2,330
Total expenditure	2,390	2,415	2,400
Central Government primary balance	-30	-72	-69
Primary balance target discount	44	44	-
Primary balance consistent with the target	15	-31	-26

Sources: National Treasury and BCB

Regarding the 2026 primary balance, the government projection and the median of analysts' projections are still divergent. The 2026 Annual Budget Law Bill (PLOA) projection indicates a primary deficit of BRL 23 billion, which corresponds to a BRL 35 billion surplus (0.25% of GDP) by the relevant metric for the fiscal target, therefore consistent with its compliance. As for the median estimates collected by the PCQ, the deficit is BRL 21 billion by the relevant metric for the target. This measure of market expectations has improved over

time. In early 2025, in the PCQ edition related to the 268th Copom meeting, the median responses indicated a BRL 42 billion deficit for the Central Government in 2026, by the relevant criterion for the fiscal target compliance. Furthermore, a relevant share of analysts already expects the target compliance in 2026 if the lower limit is considered. In the more recent PCQ, the 75th percentile of the distribution of primary balance projections, used for the calculation of the target compliance, indicates a null primary balance, equivalent to the lower limit for 2026 (Figure 1.2.37).

Figure 1.2.37 – PCQ's Central Government primary balance forecasts for 2026



Measures recently approved or under evaluation are relevant for the primary balance target compliance in 2026. After the expiration of Provisional Measure (MP) 1,303, the government has sought to recover its effect through new legislative initiatives. In this regard, Congress approved a bill that incorporates part of the measures originally planned,[26] and the government intends to seek approval of additional tax measures to fully achieve the effects sought by MP 1,303. For instance, the Senate's Commission for Economic Affairs (CAE) approved, in early December, a bill that increases taxes on some segments of financial companies, such as fintechs and payment institutions, and fixed quota betting companies ("bets"), in addition to adjusting provisions related to exemptions on dividends.[27] Still on the legislative arena, the Budget Guidelines Bill (PLDO), submitted by the Executive in April, was approved in early December. Nevertheless, until the cut-off date of this MPR, the PLOA, submitted in August, was still waiting for a vote.

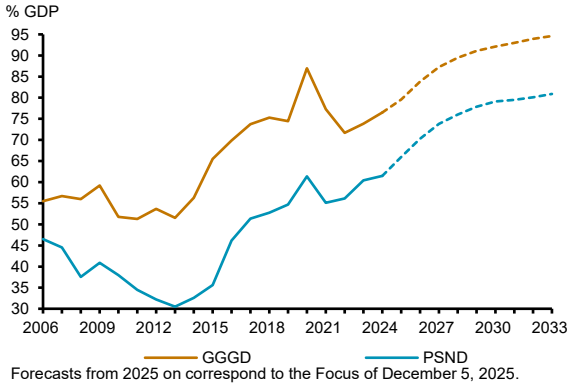
Another recently approved measure with a significant impact on the 2026 budget was the increase in the IRPF exemption bracket. In November, Congress approved a bill that expands the income tax exemption bracket for individuals earning up to BRL 5,000 per month. Until then, the exemption was applied to individuals earning up to two minimum wages per month, equivalent to BRL 3,036 in 2025. The bill also stipulates discounts for individuals earning up to BRL 7,350 per month. To ensure the revenue neutrality of this measure, a minimum effective income tax rate of up to 10% was introduced on earnings exceeding BRL 600,000 annually.

The public debt upward trajectory is expected to persist in coming years. After reaching a record high in 2020 (87%), the General Government Gross Debt (GGGD) decreased until 2022, when it stood at 72%. Since then, GGGD has been rising and is expected to reach 80% in 2025 and 84% in 2026, and continue rising in subsequent years, according to the median of the Focus Report (Figure 1.2.38). The July 2025 Fiscal Outlook Report prepared by the Brazilian National Treasury Secretariat (STN) also shows projected GGGD expansions, reaching 79% in 2025, 82% in 2026, and 84% in 2028. Using the Public Sector Net Debt (PSND) to measure public indebtedness instead of the GGGD, the overall picture would be similar both in terms of recent performance and future prospects.

26/ The measures included in the Bill 458/2021, which establishes the Special Regime for Asset Updating and Regularization (REARP), are the following: restriction to tax compensations; inclusion of the *Pé-de-Meia* (Nest Egg) program in the constitutional fund for education and the removal of the BRL 20 billion cap on Federal Government resources; reduction of the period for receiving the illness benefit by Atestmed; and limitation of social security compensation between regimes to the amount provided in the budget law.

27/ Although it was approved on a definitive basis, until the cut-off date of this MPR, the text could still be submitted to the Senate plenary before being sent to the Chamber of Deputies.

Figure 1.2.38 – Debt forecasts

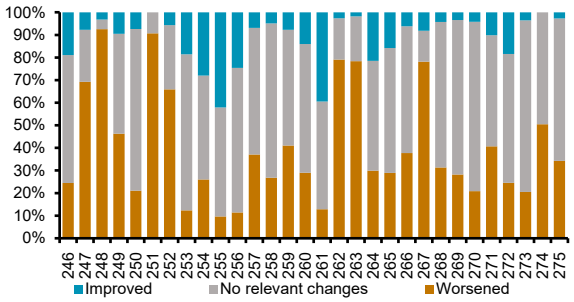


Forecasts from 2025 on correspond to the Focus of December 5, 2025.

Despite the challenging scenario, with primary deficit and public debt increase, the prevailing perception is of stability in the fiscal situation. More recent PCQ responses indicate that most analysts, when considering both their central scenario and risks surrounding it, do not identify any relevant change in the fiscal trajectory since the previous MPR (Figure 1.2.39). In particular, the most frequent response is that there has been no relevant change, despite a modest decrease in the primary deficit expected for 2026. This result suggests that, at least in part, the government's recently adopted measures to improve the fiscal performance were already expected.

Figure 1.2.39 – 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?

External accounts

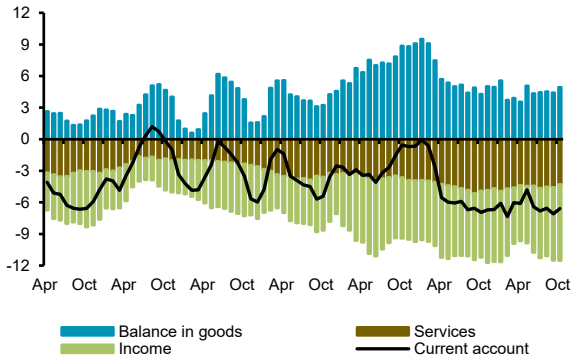
The increase in the balance of payments current account deficit, which began in 2024, continued throughout 2025, despite high level of exports. The current account deficit totaled USD 62 billion from January to October, the peak for this period since 2014. Compared with the same period in 2024, the deficit increase – consistent with a still-heated economy – was mainly driven by the rise in the imports of goods and, to a lesser extent, by the growth in net expenses on interests and earnings (Table 1.2.6). Exports also increased in the YoY comparison but at a magnitude not sufficient to offset the increase in the other accounts. In this context, net inflows of direct investment liabilities have improved recently and, in the 12-month period, once again marginally exceeded the current account deficit.

Table 1.2.6 – External accounts

Year-to-date until October				USD billion
Itemization	2022	2023	2024	2025
Current account	-35	-21	-52	-62
Balance on goods	43	76	56	46
Exports	285	287	287	292
Imports	242	211	231	246
Services	-35	-36	-45	-45
of which: Travel	-7	-9	-10	-11
of which: Transport	-17	-11	-12	-12
Primary income	-46	-65	-65	-67
of which: Interests	-16	-23	-24	-23
of which: Dividends	-30	-42	-42	-45
Investment - liabilities	89	76	105	129
DI liabilities	69	58	68	74
Portfolio investments	-6	14	12	12
Other investments[1]	26	5	25	43

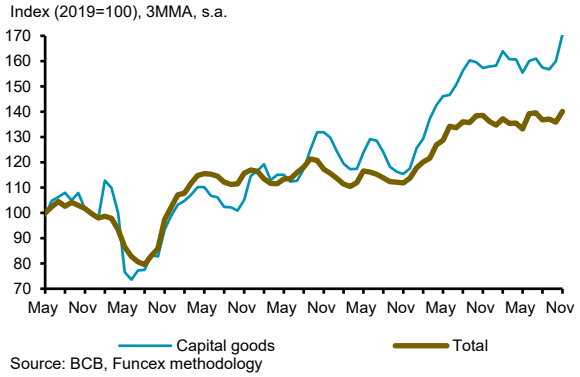
1/ Includes loans, commercial credits, deposits, and other investments.

Figure 1.2.40 – Current account



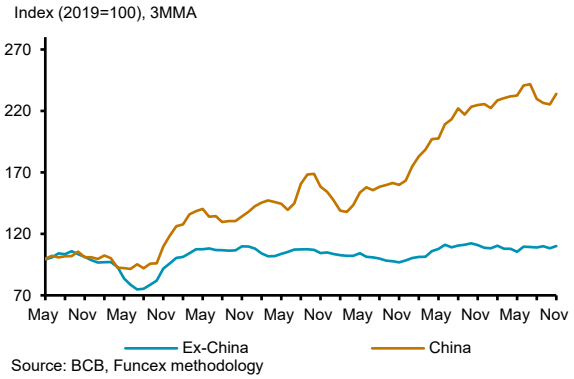
The value of imports has oscillated at a historically high level in 2025, despite some slowdown in domestic economic activity. The high share of Chinese products in the Brazilian imports stands out (Figure 1.2.42) in a context of global trade shifting and falling prices of Chinese industrial goods (Figure 1.2.43). This factor has contributed to maintaining imports at a high level, especially of industrial inputs and capital goods.

Figure 1.2.41 – Imports Quantum Index - excluding oil rigs



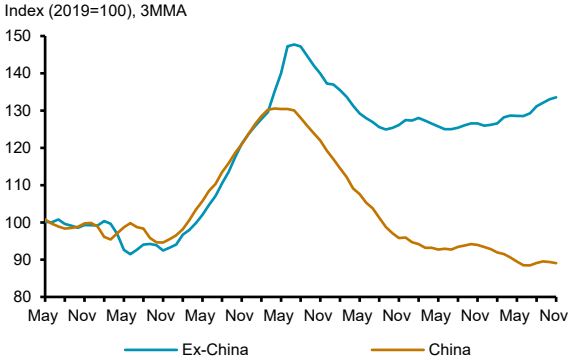
Source: BCB, Funcex methodology

Figure 1.2.42 – Imports Quantum Index - excluding oil rigs



Source: BCB, Funcex methodology

Figure 1.2.43 – Imports price index (CIF)

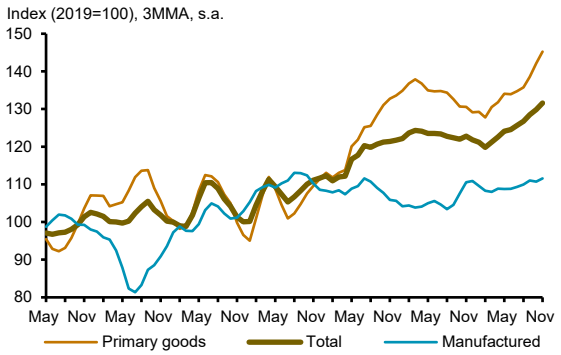


Source: BCB, Funcex methodology

Despite lower prices of main commodities than in previous years, the exported value remains high, reflecting the strong expansion in the quantum of primary goods. In particular, shipments of iron ore, meat, soybeans, and oil increased strongly. Even with relatively low prices of these commodities, the terms of trade of the Brazilian economy remain above the pre-pandemic period, largely due to the decline in the prices of goods imported from China (Figure 1.2.45).

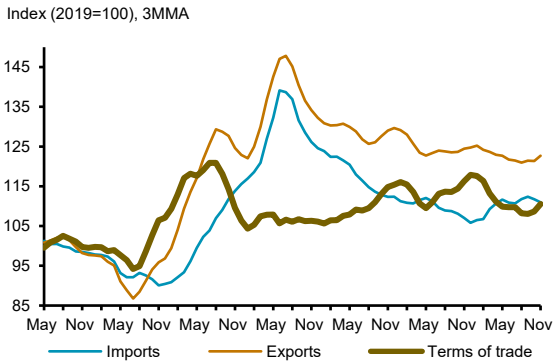
Excluding this effect, the terms of trade would be below 2019 levels (Figure 1.2.46).[28] Amid a scenario of higher trade tariffs imposed by the U.S. throughout the year, sales to that market dropped strongly (Figure 1.2.47), but the shifting of these exports mitigated the impact on total exports. Moreover, in November, the U.S. removed tariffs – both the reciprocal 10% rate and the additional 40% rate – on Brazilian agricultural products, including beef, coffee, and fruits. This reversal helps ensuring that future impacts on the Brazilian economy are even more limited.

Figure 1.2.44 – Exports quantum Index



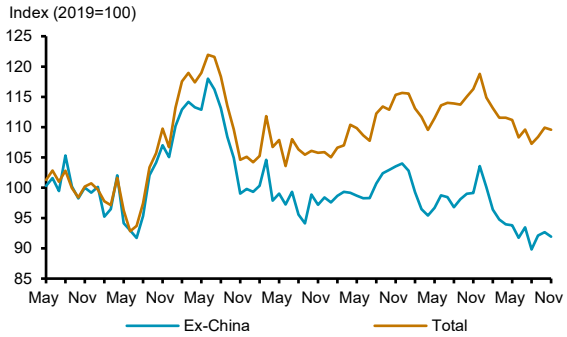
Source: BCB, Funcex methodology

Figure 1.2.45 – Price Index and terms of trade



Source: BCB, Funcex methodology

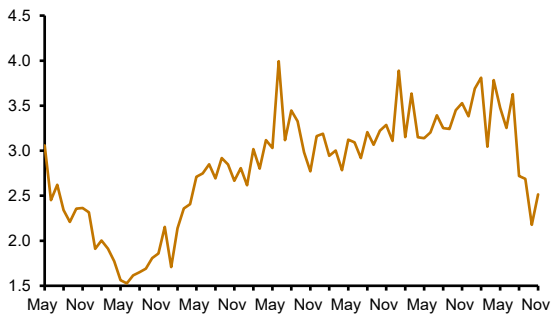
Figure 1.2.46 – Terms of trade



Source: BCB, Funcex methodology

Ex-China index excludes China´s impact only on imports.

Figure 1.2.47 – Exports to the United States



Source: Secex/MDIC, BCB (seasonal adjustment)

Although still high, the services account deficit has slightly decreased in recent months. The change in the legislation on sports betting reduced expenses on recreational and cultural services as of January[29] (Figure 1.2.49). Furthermore, expenses on computer and telecommunications, which have been gaining relevance within the services account, have decreased marginally in recent months, a movement that may be temporary. Conversely, transport expenses have remained relatively stable, with the increase in the imported quantum being offset by lower freight prices, partly due to uncertainties in international trade.

28/ For the purposes of this exercise, the terms of trade were recalculated – import price index excludes China, while export price index considers all destinations.

29/ As of January 1, 2025, regulations issued by the Secretariat of Prizes and Lotteries (SPA) came into effect to govern the betting system in the country. Only companies duly authorized by the SPA became eligible to operate in Brazil. As a result, companies in the sector were no longer required to operate from abroad, which may explain the reduction in outflows of resources in this category.

Figure 1.2.48 – Services

USD billion, 3MMA s.a.

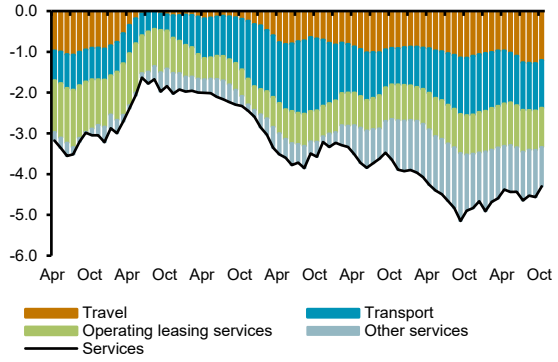
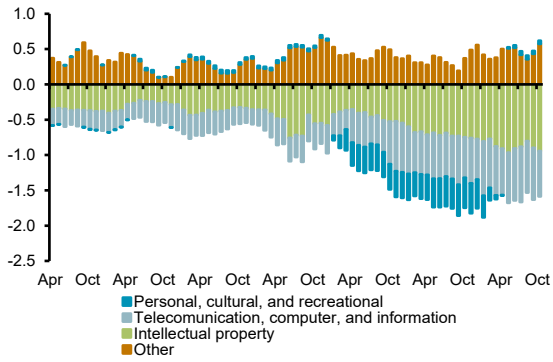


Figure 1.2.49 – Other Services

USD billion, 3MMA s.a.



The primary income account deficit has resumed growth, driven by expenses on both interest and earnings. Despite some domestic activity slowdown, the dynamism of the Brazilian economy was reflected in profitability of companies operating in the country with non-resident shareholders, which remained high (Figure 1.2.50). Net interest expenses also remain close to the peak of recent years (Figure 1.2.51).

Figure 1.2.50 – Profits and dividends

USD billion, 3MMA s.a.

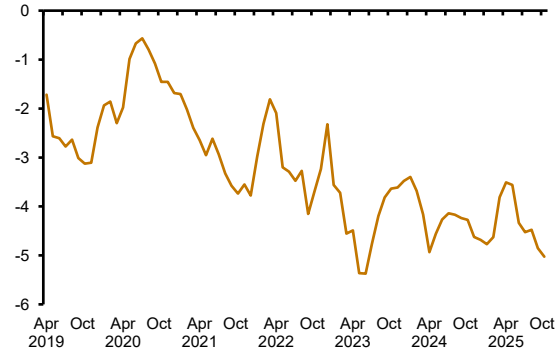
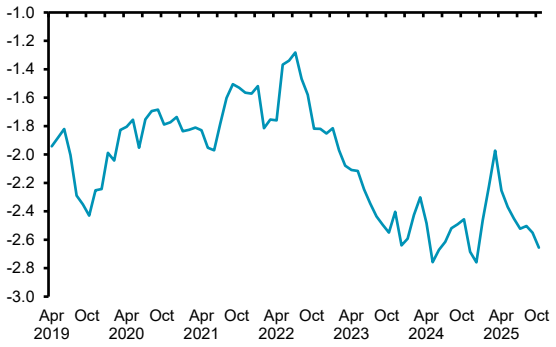


Figure 1.2.51 – Interest

USD billion, 3MMA s.a.



Net direct investment liability inflows remained strong, increasing in recent months, while portfolio investment inflows were slightly positive in the year. Inflows of direct investment liabilities were driven by large equity inflows, as well as by reinvested earnings and intercompany transactions. With the recent improvement, net inflows of direct investment liabilities once again marginally exceeded the 12-month current account deficit, USD 80 billion (3.6% of GDP), compared with USD 77 billion (3.5% of GDP). Conversely, portfolio investments continued to record net inflows of domestic securities (Figure 1.2.53), benefited by the high interest rate differential, more than offsetting net outflows of equities and investment fund shares.

Figure 1.2.52 – Direct investment liabilities

USD billion, 3MMA s.a.

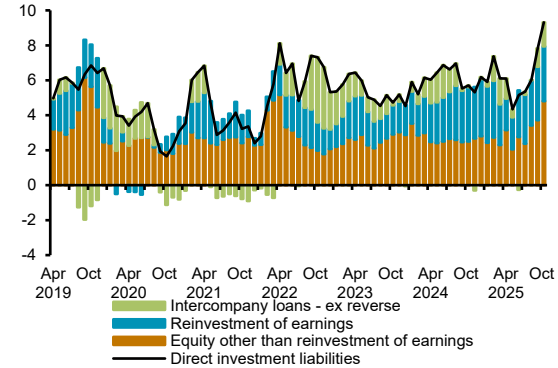
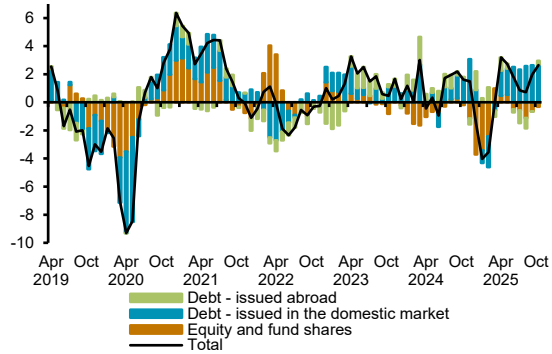


Figure 1.2.53 – Portfolio investment - liabilities

USD billion, 3MMA s.a.



Projections for the external accounts in 2025 and 2026 were revised, with further details available in a box in this MPR. For 2025, the current account deficit is projected at USD 76 billion (3.3% of GDP), compared with a USD 70 billion (3.1% of GDP) projection in the previous MPR. The revision incorporates, in addition to more recent data, the ordinary statistical revision released at the end of September. The current estimate

is higher than the USD 58 billion (2.7% of GDP) deficit observed in 2024 and similar to the USD 75 billion (3.3% of GDP) forecast for net inflows of direct investment liabilities. For 2026, the current account deficit is projected to decline to USD 60 billion (2.4% of GDP), with a USD 70 billion (2.8% of GDP) estimate for net inflows of direct investment liabilities, both very similar to the previous MPR projections.

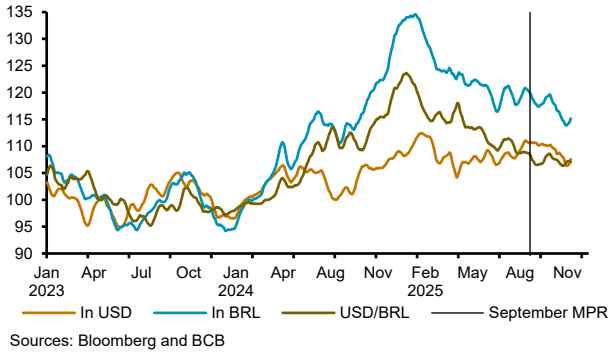
Prices

Since the previous MPR, current inflation and inflation expectations have declined but remained above the 3% inflation target. The 12-month inflation, measured by the IPCA, fell from 5.13% in August to 4.46% in November. Average core inflation measures, less volatile than headline inflation, also showed moderation, from 4.36% to 3.85%, in terms of the seasonally adjusted and annualized quarterly average. The BRL appreciation and the decline in commodity prices since the beginning of the year have contributed to the slowdown in food and industrial goods prices, while services inflation remained high, pressured by inertia, heated labor market, and positive output gap. In this context, inflation expectations measured by the Focus survey remained deanchored, although further declining for 2025 and, to a lesser extent, for the subsequent years.

Commodity prices measured in BRL decreased again, driven by the BRL appreciation and the drop in international prices in USD.[30] The Commodities Index – Brazil (IC-Br) measured in BRL fell 4.0% since the previous MPR, driven by a 2.7% decline in the index in USD and by a 1.4% BRL appreciation against the USD (Figure 1.2.54).[31] Since the recent peak in January, the IC-Br has accumulated a 14% decline in BRL, largely explained by the BRL appreciation against the USD in the period. Agricultural commodities fell 8.1% in USD since the previous MPR, with significant contributions from fed cattle, orange juice, and cocoa prices (Figure 1.2.55). Despite declining in the quarter, the price of fed cattle – which has a significant weight in the IC-Br – has accumulated a 15% increase over the past 12 months. Orange juice and cocoa prices have been declining since early 2025, with expectations of an increase in supply, following sharp rises in 2023 and 2024. Metal commodity prices rose 14.6% since the previous MPR, in a widespread movement, notably in precious metals. Finally, despite cheaper Brent-type oil, energy commodity prices rose 2.4%, driven by a sharp increase in natural gas prices in the U.S.

Figure 1.2.54 – IC-Br and foreign exchange rate

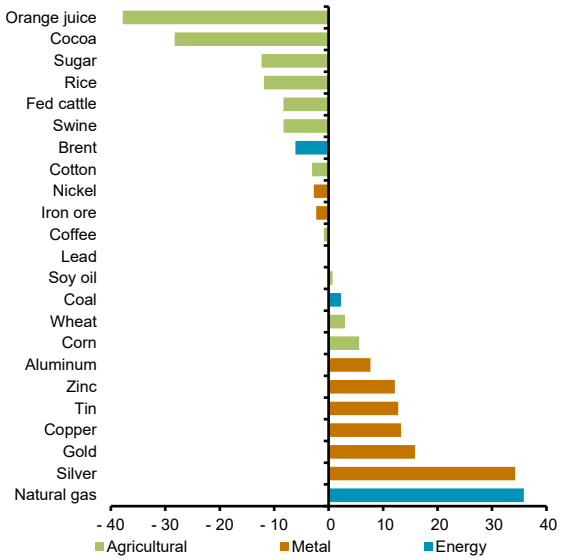
10-day moving average; 2023 = 100



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



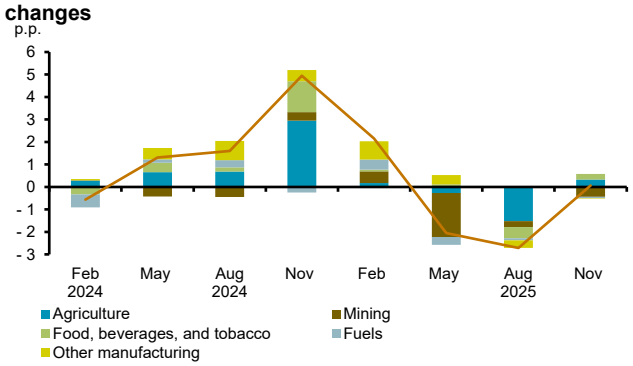
Source: Bloomberg

30/ This movement is related to the IC-Br, an indicator that aggregates commodity prices relevant to Brazilian inflation dynamics. The commodity weights in the IC-Br are indicated in the metadata of the series 27574 available at the BCB's Time Series Management System (SGS).

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

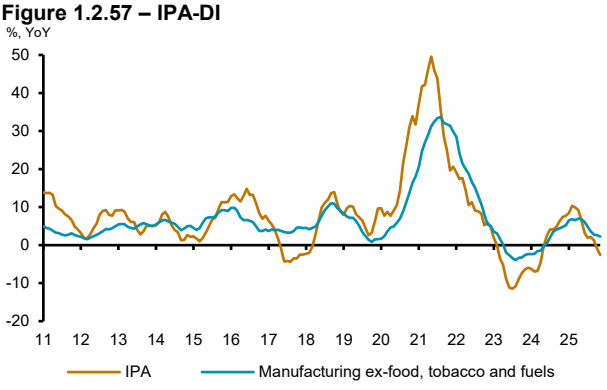
Producer prices still suggest moderate pressures on consumer prices of food and industrial goods. The Broad Producer Price Index (IPA-DI) change was close to zero in the Sep-Nov quarter, after decreasing 2.71% in the Jun-Aug quarter (Figure 1.2.56). The agricultural segment increased 1.28%, mainly driven by coffee prices (14.31%), in the context of risk for the next harvest. The price of fed cattle rose moderately, close to seasonal patterns, with still high supply of animals for slaughter. Conversely, the prices of raw milk, rice, and wheat fell sharply. Despite the quarterly increase, agricultural prices still show a 4.9% decline over the past 12 months. Manufacturing prices increased slightly in the Sep-Nov quarter, after decreasing in the previous quarter. Prices of processed food increased, driven by meat and soybeans products, while fuel prices declined, following the reduction in gasoline prices at refineries at the end of October. Excluding processed food, tobacco, and fuels, manufacturing prices fell slightly, and its 12-month change continued to moderate (Figure 1.2.57).

Figure 1.2.56 – Contributions to IPA-DI quarterly changes



Source: FGV

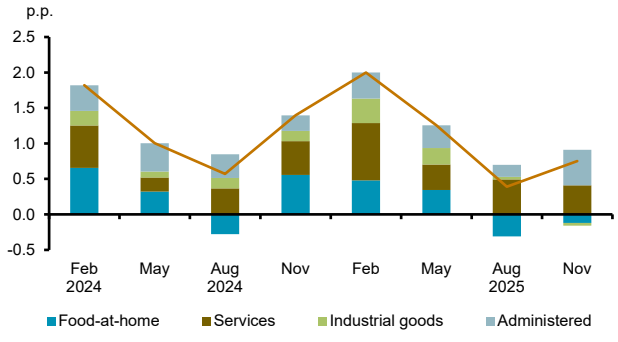
Figure 1.2.57 – IPA-DI



Source: FGV

Consumer prices have slowed down since the previous MPR, both in terms of 12-month change and seasonally adjusted quarterly metrics. In the non-seasonally adjusted series, consumer inflation measured by the IPCA rose from 0.39% in the Jun-Aug quarter to 0.75% in the Sep-Nov quarter (Figure 1.2.58), influenced by less favorable food-at-home seasonality and by specific factors related to electricity tariffs.[32] In the seasonally adjusted series, both IPCA and the average of core inflation measures moderated, with annualized changes of 3.41% and 3.85%, respectively, compared with 4.64% and 4.36% in the previous quarter (Figures 1.2.59 and 1.2.60). Both metrics also declined in the 12-month change – from 5.13% to 4.46% for the IPCA and from 5.12% to 4.72% for the average of core measures. Both 12-month and seasonally adjusted quarterly IPCA metrics remain above the inflation target, even though they have recently moved within the tolerance interval.

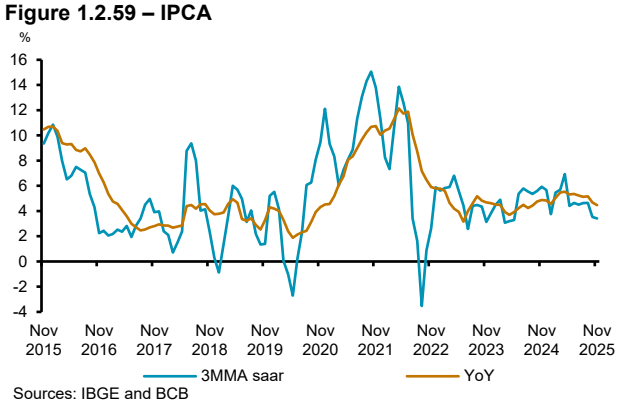
Figure 1.2.58 – Contributions to IPCA quarterly changes



Sources: IBGE and BCB

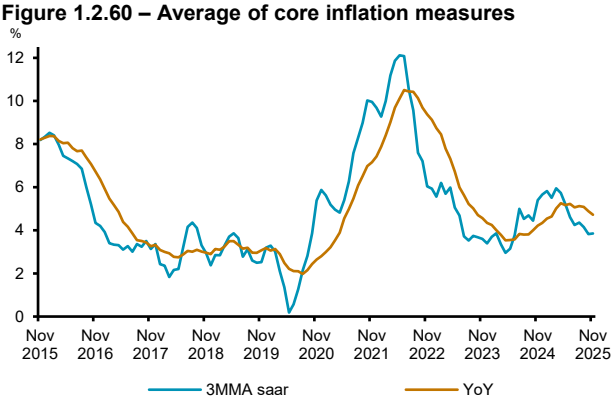
32/ As detailed below, the increase in electricity price in the Sep-Nov quarter is explained by the reversal of the discount associated with the Itaipu bonus.

Figure 1.2.59 – IPCA



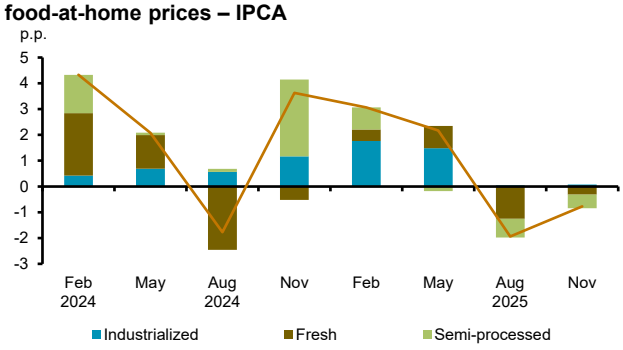
Sources: IBGE and BCB

Figure 1.2.60 – Average of core inflation measures



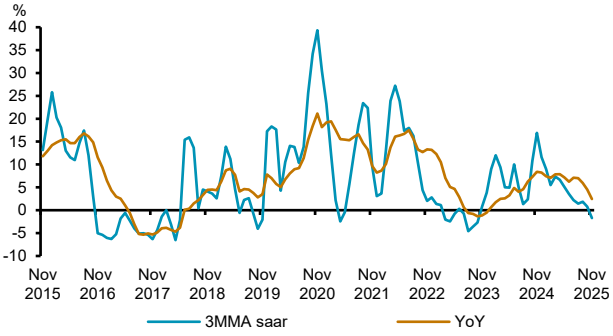
Consumer food prices fell in the quarter and continued to slow down in the 12-month change. In the non-seasonally adjusted series, food-at-home prices dropped 0.77% in the Sep-Nov quarter, compared with a 1.94% decline in the Jun-Aug quarter (Figure 1.2.61). The fall was relatively widespread, reaching tubers, roots and vegetables, rice, condiments, poultry and eggs, and milk and dairy products. In the opposite direction, prices increased for fruits and meats, due to less favorable seasonality, and for soybean oil, following the rise in wholesale prices. In the seasonally adjusted series, food prices also decreased (Figure 1.2.62), with declines in fresh and semi-processed food. Processed food prices, which are less volatile, continued to slow down, with an annualized quarterly increase of 2.55%. In the 12-month change, the increase in food-at-home prices fell from 7.01% to 2.46%.

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



Sources: IBGE and BCB

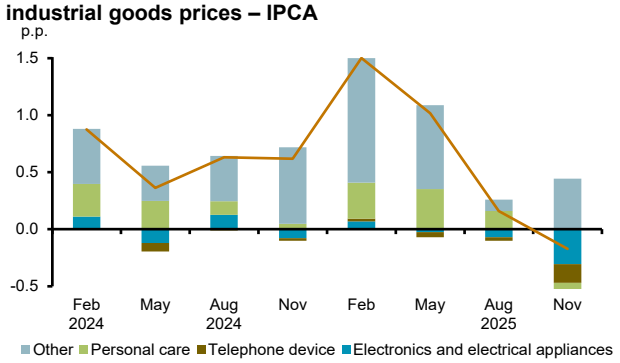
Figure 1.2.62 – Food-at-home inflation



Sources: IBGE and BCB

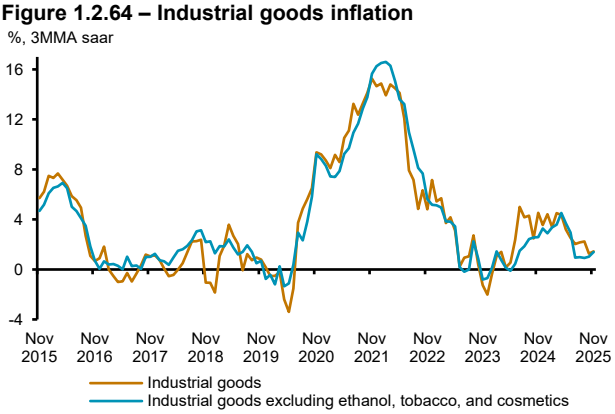
Prices of industrial goods once again showed small changes. Inflation in this IPCA segment fell from 0.16% in the Jun-Aug quarter to -0.17% in the Sep-Nov quarter, with significant declines in the prices of electronics and cell phones (Figure 1.2.63). Part of this movement may be related to the Black Friday promotional period, although prices for these items had already been falling in previous months, possibly impacted by the BRL appreciation and lower demand, as a result of tighter credit conditions. Small changes in prices of cleaning supplies, furniture and utensils, personal hygiene items, and tobacco also contributed to the moderation in this segment. In the seasonally adjusted series, the annualized change in industrial goods prices fell from 2.15% to 1.44% (Figure 1.2.64). Alternative measures that exclude the most volatile items in this segment also indicate, in general, small variations. In terms of 12-month change, industrial goods inflation fell from 3.33% in August to 2.52% in November, maintaining the moderation trend but still at an elevated level for the segment.

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



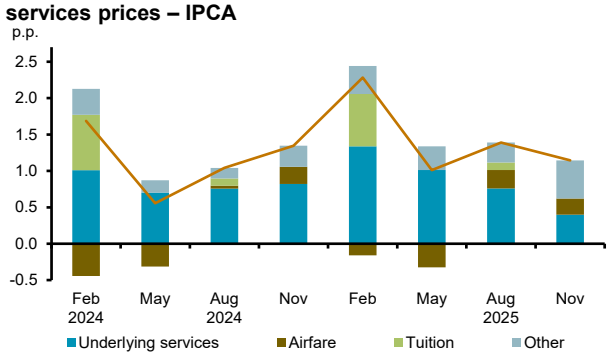
Sources: IBGE and BCB

Figure 1.2.64 – Industrial goods inflation



Services inflation remains high, despite some recent moderation. From the Jun-Aug quarter to the Sep-Nov quarter, price changes in the segment fell from 1.39% to 1.15% (Figure 1.2.65). In the seasonally adjusted series, the annualized increase in services, excluding airfare, fell from 5.81% in the Jun-Aug quarter to 5.62% in the Sep-Nov quarter. The underlying services component has slowed more sharply and ended the quarter with a 4.22% annualized change, largely influenced by a 9.33% decline in auto insurance prices between September and November. Excluding this sub-item, the change in the underlying services component decelerated slightly, from 5.57% to 5.41% in the same period, in annualized terms (Figure 1.2.67).[33] Similarly, measures that emphasize more labor-intensive services showed higher annualized changes, around or above 6% in the quarter (Figure 1.2.68).[34] In terms of 12-month change, services inflation fell from 6.16% in August to 5.95% in November, still at an elevated level (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

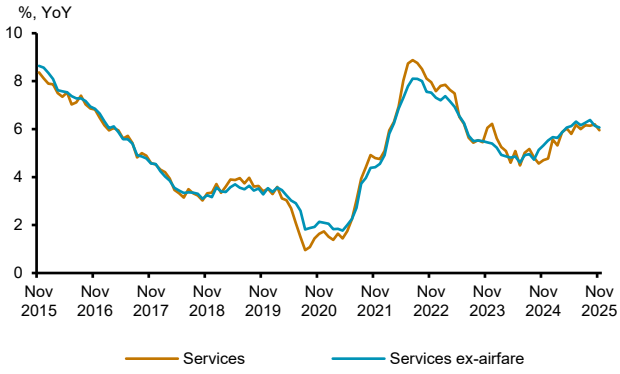


Figure 1.2.67 – Services inflation

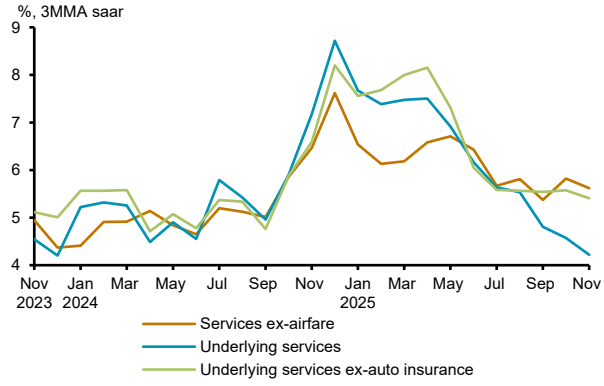
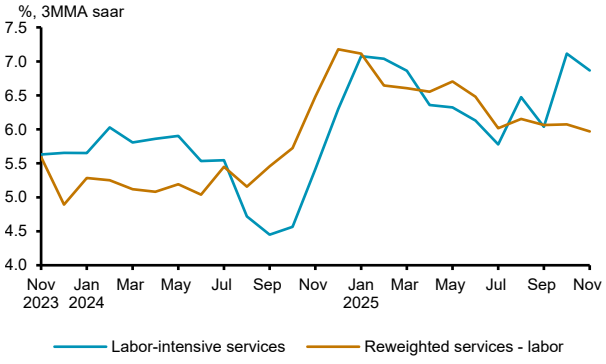


Figure 1.2.68 – Services inflation

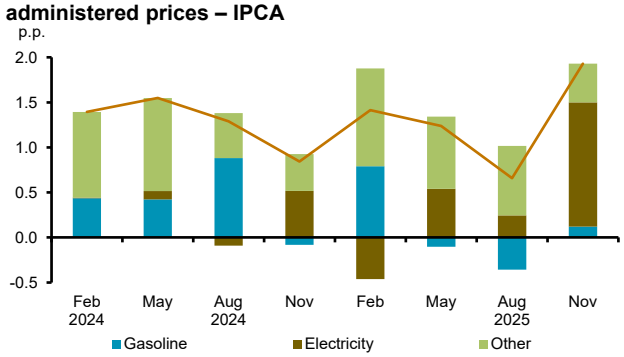


33/ In recent months, the underlying services component has also been influenced by price movements in other sub-items that may not reflect the cyclical behavior of services inflation. In particular, there was a significant fluctuation in cinema prices between August and September, due to a promotional period in the sector, and changes below the seasonal pattern in banking services prices. Measures that exclude these sub-items, in addition to auto insurance, also indicate underlying services variation closer to 6% in the seasonally adjusted annual rate (saar) series.

34/ The series "reweighted services - labor" was presented in the box Services inflation reweighted by production factors in the June 2024 IR. The series "labor-intensive services" aggregates variations in medical and dental services, beauty salon services, domestic workers, home-repair labor, and dressmaker.

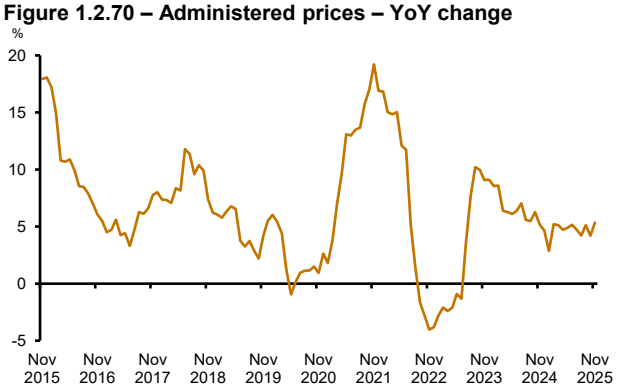
Changes in administered prices were higher than in the previous quarter, heavily influenced by residential electricity tariffs. The change in this segment rose from 0.66% in the Jun-Aug quarter to 1.93% in the Sep-Nov quarter (Figure 1.2.69). The main contribution to this acceleration came from the residential electricity sub-item, with the reversal of the discount associated with the Itaipu bonus.[35] Furthermore, gasoline consumer prices, after falling in the Jun-Aug quarter, rose moderately in the Sep-Nov quarter. Despite the reduction in Type A gasoline prices at refineries in late October, the price of anhydrous ethanol, which is part of the gasoline blend sold to consumers, increased significantly. In terms of 12-month change, administered prices grew more strongly, from 4.22% in August to 5.34% in November (Figure 1.2.70).

Figure 1.2.69 – Contributions to quarterly changes in administered prices – IPCA



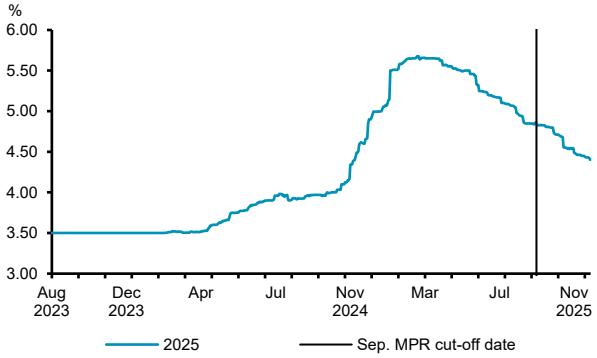
Sources: IBGE and BCB

Figure 1.2.70 – Administered prices – YoY change



Inflation expectations remained deanchored, despite further declining for 2025 and, to a lesser extent, for the subsequent years. Median expectations for 2025 have fallen from 4.83% to 4.40% since the previous MPR (Figure 1.2.71). Expectations for market prices decreased sharply, especially for food-at-home (Table 1.2.7). Conversely, the expectation for administered prices inflation was revised upward, possibly reflecting the higher projection for electricity tariffs. At the cut-off date of this MPR, the December tariff flag had already been set at yellow, while the median expectation in the September PCQ was for a green flag. For the 2026-2028 period, the magnitude of the inflation expectations decline was smaller, with no change in the median expectation for 2029. Despite declining expectations from 2025 to 2029, median projections remain above the 3% inflation target for all horizons evaluated in the Focus survey (Figure 1.2.72).

Figure 1.2.71 – Median market expectations (Focus) – Annual IPCA in 2025

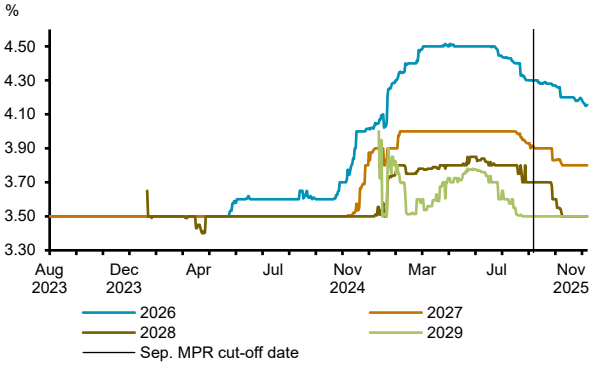


35/ The impact of the Itaipu bonus on August price changes was fully offset in September. The reversal of the discount more than offset the effect of tariff flag transitions in the period. In the Sep-Nov quarter, red 2 flag in September was replaced by red 1 flag in October, with a downward impact on tariffs. In the previous quarter, yellow flag in May was replaced by red 2 flag in August, with an upward effect.

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

	Weights	Focus expectations (% p.a.)		
		Sep-12	Dec-5	Contr. to Δ (p.p.)
IPCA	**100**	**4.83**	**4.40**	**-0.43**
IPCA (by aggregation)	100	4.81	4.36	-0.46
Food-at-home	16	4.57	2.05	-0.40
Industrial goods	23	3.09	2.40	-0.16
Services	36	6.15	5.99	-0.06
Administered prices	26	4.66	5.25	+0.15
Market prices	74	4.86	4.07	-0.59
Market prices (by aggreg.)	74	4.87	4.05	-0.61

Figure 1.2.72 – Median market expectations (Focus) – Annual IPCA - 2026 to 2029



Brazilian GDP growth surprises in the post-pandemic period

After four years of significant positive surprises, 2025 Gross Domestic Product (GDP) growth is expected to remain close to late 2024 forecasts. Despite this relative stability in 2025 GDP projections, there are significant movements across components. Less cyclical sectors in particular – an aggregation including activities such as agriculture and mining – are expected to grow more strongly than initially expected. This expansion was offset by lower-than-expected growth in more cyclical segments of the economy.

Introduction

After a decade of predominantly negative surprises, from 2021 onwards GDP growth began to consistently exceed analysts' projections, prompting speculation about the reasons underlying higher economic growth. However, this behavior is unlikely to be repeated in 2025, as both market analysts and the Banco Central do Brasil (BCB) currently estimate a 2025 growth close to projections made at the end of 2024.[1] In this context, this box analyzes GDP growth surprises in recent years, especially in the post-pandemic period.

History of aggregate GDP growth surprises

Figure 1 shows annual GDP growth surprises calculated as the difference between the released result and the median of Focus Report projections[2] in the thirty days prior to the end of the previous year. In this box, GDP results always refer to the first Brazilian Institute of Geography and Statistics (IBGE) release, disregarding subsequent revisions.[3] For 2025, the most updated projection is considered to be the actual result, i.e., it is assumed that the 2025Q4 growth will be in line with current projections. Figure 2 shows the surprises compared with the BCB's projection released in the Inflation Report (IR) of December of the previous year. In some years – highlighted by a different color on this figure – the surprise is considered to be the four-quarter change until the third quarter of the reference year, as this was the projection with the longest horizon released by the BCB at that time.

The surprises' historical behavior in relation to the market's and the BCB's projections is similar. Considering Focus survey expectations from 2011 to 2019, the GDP change was, in general, lower than projected at the end of the previous year, with an average surprise of -1.6 p.p. Due to the Covid-19 pandemic shock, the result in 2020 was much below the late 2019 projection, although above projections made in the peak of

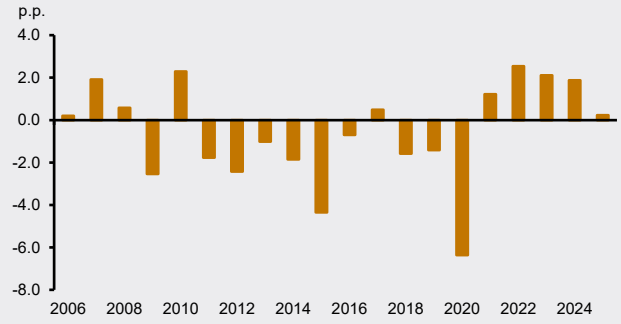
1/ Although the 2025 GDP growth will only be known after the release of 2025Q4 data in early March 2026, the information already available for the first three quarters of the year indicates that an annual growth rate substantially different from current forecasts would only occur in the event of a major surprise in that quarter. The most recent BCB's projection for the 2025 GDP growth, as well as the details concerning the revisions to the previous projection, are presented in the box Projection for GDP growth in 2025 and 2026 in this MPR.

2/ Further information about the BCB Market Expectations System is available at *Expectativas de mercado* (Market Expectations - Portuguese only).

3/ The first annual GDP growth release is that of the fourth quarter of Quarterly National Accounts (QNA). The recent series is revised in the release of the third quarter of the subsequent year QNA, thus becoming the second release. Finally, in the subsequent year, the third annual GDP release is presented in the Annual National Accounts. Currently, this third revision is temporarily suspended due to the process of changing the base-year of IBGE's National Accounts.

the pessimism about economic activity, in June 2020.[4] Since then, in the subsequent four years, GDP growth exceeded projections, with an average surprise of 1.9 p.p. relative to the Focus and 1.6 p.p. compared with the BCB´s projections. As previously mentioned, this pattern with substantial positive surprises is expected to end in 2025.

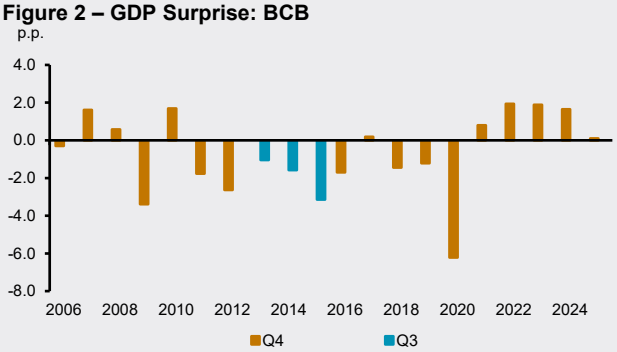
Figure 1 – GDP Surprise: Focus



Considers the median of Focus (30 days) on the last business day of the previous year. For the current year, it considers as actual the most recent projection (Dec 5).

Sources: IBGE and BCB

Figure 2 – GDP Surprise: BCB



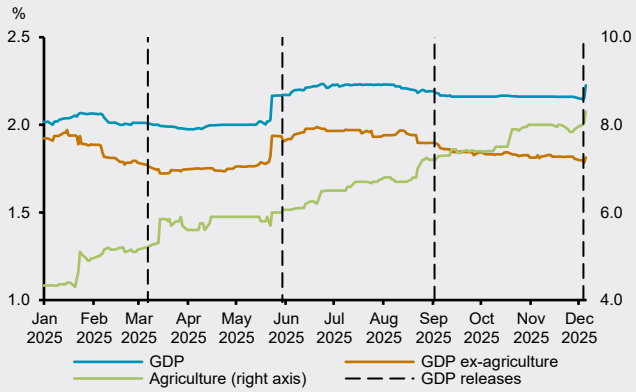
Considers the MPR of December of the previous year. For the current year, it considers as actual the most recent projection (December MPR).

Sources: IBGE and BCB

Sectoral evolution of projections for 2025

The reasonable stability in 2025 GDP growth projections conceals reductions in projections for more cyclical segments, especially in the BCB's projection. Figure 3 shows the evolution of the Focus's projections for annual changes in the GDP, in the value added (GVA) at basic prices of agriculture, and in the GDP ex-agriculture.[5] Table 1 presents the BCB's projections for changes in GDP and its components since the December 2024 IR.

Figure 3 – Evolution of projections for 2025: Focus



4/ The first release of the 2020 GDP indicated a 4.1% decline. In the June 2020 IR, the BCB projected a 6.4% decline, while the median of the projections collected by the Focus in June of that year indicated a 6.6% decline.

5/ For each projection of the responding institutions that included estimates for GDP and agricultural GVA changes, the GDP ex-agriculture change was calculated using the most recent weights. For projections made before the release of the 2024Q4 QNA, the weight accumulated over four quarters up to the third quarter of 2024 was used. The figure presents the evolution of the median of the GDP projections of all respondents, but the evolution of the median restricted to those that also informed the projection for agriculture is quite similar.

Table 1 – BCB's projections for GDP growth in 2025

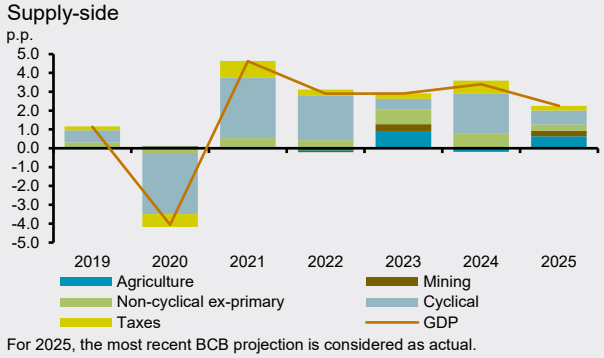
	Weight	MPR				
	2024	24Q4	25Q1	25Q2	25Q3	25Q4
GDP	100.0	2.1	1.9	2.1	2.0	2.3
GDP ex-agriculture	94.2	2.0	1.7	1.8	1.6	1.7
GDP ex-primary sectors	90.6	2.0	1.6	1.7	1.4	1.5
GVA	85.9	2.2	2.0	2.2	2.1	2.3
Cyclical GVA	48.7	2.3	1.7	1.9	1.3	1.5
Non-cyclical GVA	37.1	1.9	2.3	2.6	3.1	3.4
Non-cyclical GVA ex-primary sectors	27.7	1.5	1.2	1.2	1.5	1.2
Agriculture	5.8	4.0	6.5	8.0	9.0	11.0
Mining	3.6	2.0	4.5	4.5	6.5	8.0

Since the end of 2024, a strong agriculture expansion was already expected, with growth projections around 4.0%, driven by prospects of an increase in the production of soybeans and corn, but current estimates are even higher, 8.3% by the Focus and 11.0% by the BCB. The relative stability in GDP projections, with higher estimates for agriculture, was due to lower estimates for GDP ex-agriculture, which dropped by 0.1 p.p. in the Focus, and by 0.3 p.p. in the BCB´s projections, to 1.8% and 1.7%, respectively. This is a significant deceleration in view of the 3.7% average growth observed in the previous four years. In addition to agriculture, mining also surprised positively. Meanwhile, the other less cyclical sectors and, in particular, the sectors more sensitive to the economic sector, presented a negative surprise.[6] The growth projection for the more cyclical segment fell from 2.3% to 1.5%, while that for the less cyclical GVA rose from 1.9% to 3.4%, driven by primary goods.

Comparison of recent years' GDP growth with expectations for 2025

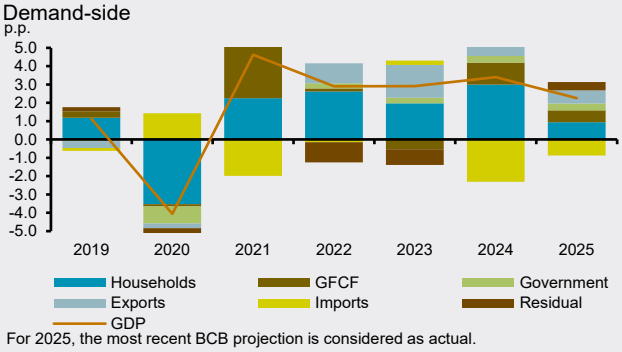
Figures 4 and 5 show the breakdown of GDP change by supply and demand components, respectively. Similarly to 2025, GDP growth in 2023 was strongly influenced by the performance of the GVA of primary goods (agriculture and mining) output. Of the 2.9% GDP growth in 2023, 1.4 p.p. came from primary goods. Of the remainder, contributions of similar magnitude came from the GVA of cyclical items and from the GVA of non-cyclical ex-primary (0.6 p.p. and 0.8 p.p., respectively). In 2025, in turn, 0.9 p.p. of the projected 2.3% growth is expected to be explained by the performance of primary goods. In 2021, 2022, and 2024, the cyclical sectors accounted for the largest contribution to growth.

Figure 4 – Breakdown of annual GDP change



For 2025, the most recent BCB projection is considered as actual.
Sources: IBGE and BCB

Figure 5 – Breakdown of annual GDP change



For 2025, the most recent BCB projection is considered as actual.
Sources: IBGE and BCB

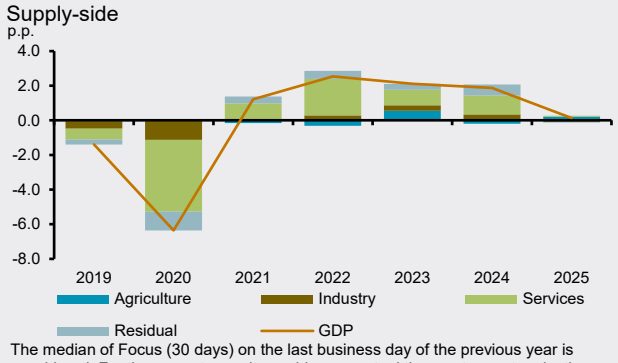
6/ Based on the classification of sectors as more or less cyclical, as discussed in several previous MPR editions. Activities classified as less cyclical are agriculture; mining; financial activities, insurance, and related services; real estate activities; and public administration, defense, health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

From the demand perspective, household consumption accounted for the largest contribution to GDP growth in the period but varying over the years. For instance, it was lower in 2022/2023 (when exports stood out, in line with the higher production of primary goods), notably lower in 2024 (reflecting the impact on imports of the sharp and widespread increase of domestic demand), and also in 2025. Analyzed together, the evolution of cyclical sectors and demand from 2024 to 2025 shows an even more significant economic activity slowdown between these years than suggested by the GDP growth decline from 3.4% to 2.3%.

Breakdown of recent years' surprises from supply and demand perspectives

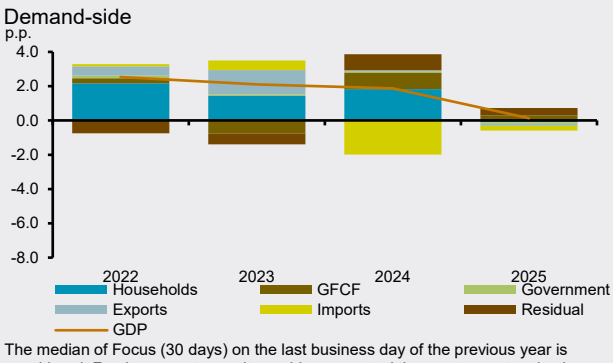
Figures 6 and 7 show the breakdown of annual GDP growth surprises compared with Focus projections by supply and demand components, respectively[7]. Figures 8 and 9, in turn, show the breakdown of surprises compared with the BCB's projections.[8]

Figure 6 – Breakdown of forecast error: Focus



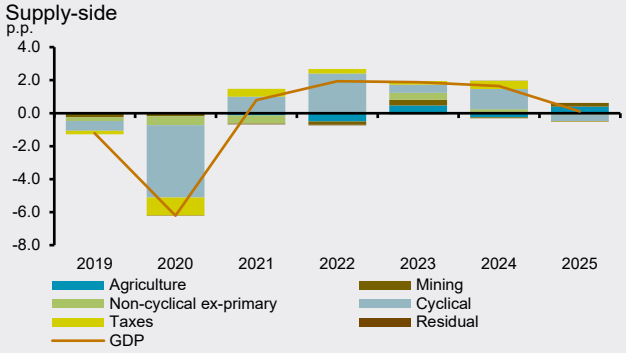
The median of Focus (30 days) on the last business day of the previous year is considered. For the current year, it considers as actual the most recent projection (Dec 5).

Figure 7 – Breakdown of forecast error: Focus



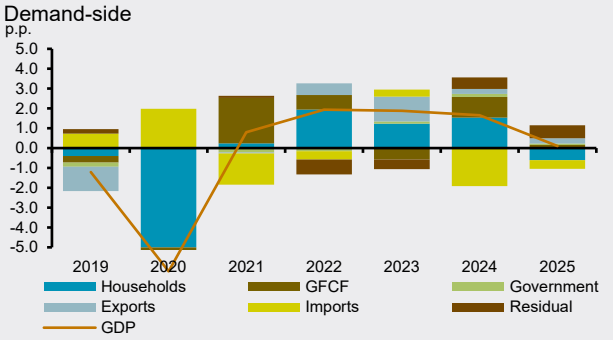
The median of Focus (30 days) on the last business day of the previous year is considered. For the current year, it considers as actual the most recent projection (Dec 5).

Figure 8 – Breakdown of forecast error: BCB



The December IR of the previous year is considered. For the current year, it considers as actual the most recent projection (December MPR).

Figure 9 – Breakdown of forecast error: BCB



The December IR of the previous year is considered. For the current year, it considers as actual the most recent projection (December MPR).

Annual GDP growth surprises, when compared with projections, have had distinct origins over recent years. From the supply perspective, according to BCB's estimates, more cyclical components were the main factors underlying positive surprises from 2021 to 2024, while industry and services stood out for the Focus' projections. In 2023, agriculture also played a relevant role, accounting, in BCB's projections, for around one third of the surprise. For 2025, the scenario once again indicates a significant contribution from agriculture. Nevertheless, for the first time since the pandemic, a negative surprise is expected in more cyclical components.

7/ The Focus' projections refer to the median of projections made in the thirty days ending on the last business day of the previous year for each GDP component. Moreover, items were aggregated considering the weight used in the first annual GDP release in the QNA. From the supply perspective, the residual includes differences between these weights and those used at the time of projections; aggregation of medians calculated separately for each component, not necessarily reproducing the median for the aggregate GDP; and the contribution for the change in taxes, a variable not collected by Focus. From the demand perspective, the residual includes, instead of taxes, the change in inventories.

8/ Projections presented in the December IR of the previous year, with the same weight treatment adopted for the Focus.

From the demand perspective, regarding the BCB's projection[9], the positive surprise in Gross Fixed Capital Formation (GFCF) stood out in 2021, consistent with a strong economic recovery, especially in the production of goods, and an expansion in the real estate sector. From 2022 to 2024, higher-than-expected household consumption was the predominant factor for positive GDP surprises. Exports above projections also stood out, particularly in 2023, reflecting, from the supply perspective, the performance of agriculture and mining. Conversely, imports registered repeatedly negative contributions, as they grew more strongly than expected. In 2025, as with supply, projection errors in demand are moving toward a lower level compared to previous years.

Conclusion

This box analyzed GDP growth surprises, with emphasis on the post-pandemic period. Until 2024, growth consistently exceeded initial estimates. In 2025, however, the trend points to the end of this pattern. Assuming that the forecast error for 2025Q4 will not be significant, 2025 GDP growth is expected to remain close to the forecasts made at the end of 2024 and throughout 2025. Nonetheless, moderate revisions in aggregate GDP projections hide relevant changes in its growth composition: lower than initially expected in more cyclical components and stronger in less cyclical ones.

The composition of the 2025 GDP growth surprise may have contributed, albeit to a limited extent, to downside revisions in inflation expectations for this year. The 2025 inflation decline has been highly concentrated in industrial goods and food prices, mainly reflecting the BRL appreciation and favorable climate conditions to food production. The prospect for services inflation – more inertial and sensitive to the economic cycle – dropped more moderately in the period. In this context: i) negative surprises in more cyclical GDP components, more sensitive to the aggregate demand conditions, may have contributed to lower pressure on prices of goods and services (despite a heated labor market) and ii) positive surprises in less cyclical components, especially agriculture, can be interpreted as a favorable supply shock, also with deflationary impacts.

9/ Projections for changes in demand components started being collected by Focus only in 2022.

Projections for GDP growth in 2025 and 2026

This box updates the Gross Domestic Product (GDP) growth projections for 2025 and 2026. For 2025, the projection increased from 2.0% to 2.3%, significantly influenced by the revision of data for the first half of the year. The 2026 projection was adjusted slightly upward, from 1.5% to 1.6%, maintaining the prospect of moderate growth throughout the year.

The GDP growth projection for 2025 was revised from 2.0% to 2.3%, reflecting the revision in the time series of the Quarterly National Accounts (QNA), which especially affected the growth of agriculture in the first half of the year, and a slightly above-than-expected growth in 2025Q3. For 2026, the estimate grew from 1.5% to 1.6%, influenced by the higher statistical carry-over resulting from higher expansion in 2025 and the inclusion of the preliminary estimated effects of exemption or discount in the Individual Income Tax (IRPF) for the lower income brackets. Conversely, GDP growth was hindered by negative revisions for agriculture and mining, associated with the first harvest projections and less favorable prospects for iron ore.

Revision of the 2025 GDP projection

The change in the GDP growth projection for 2025 reflects the slightly positive surprise in 2025Q3, the reassessment of the performance expected for 2025Q4 – considering indicators available until the cut-off date of this MPR – and the revision of the QNA time series. This revision was particularly relevant for the update of the agriculture projection. For industry and the services sector, the aggregate impact of the revision in the time series was small, although significant in some specific segments. From the demand perspective, the revision mainly affected the estimated government consumption.

From the supply perspective, projections for agriculture and industry increased, followed by a slight reduction in the estimate for the services sector. The projection for the less cyclical sectors was raised, mainly reflecting an upward revision in agriculture and mining, partially offset by a reduction in the estimate for financial intermediation services. The forecast for more cyclical sectors also increased, with higher estimates for construction, manufacturing, and some more cyclical activities of the services sector.

The estimated annual growth for agriculture grew from 9.0% to 11.0%. As already mentioned, this expansion mainly reflects the revision in the time series, which rose by 2.1 p.p. the sector's expansion in the first half of 2025 compared with the first half of 2024. Furthermore, the 2025Q3 result revealed a positive surprise for this sector.

The forecast for industry was adjusted from 1.0% to 1.6%, with increased estimates for all segments. The revision of QNA series contributed to increasing the projection for the annual growth of mining and utilities (EGAER). For mining, the positive surprise in 2025Q3 also contributed, mainly due to higher-than-expected oil production. For manufacturing and construction, the effect of the revision in time series was smaller and contributed in the opposite direction. In these sectors, increases in annual growth projections were influenced by reassessment of the expected performance in 2025Q4 and, in construction, also by the positive surprise in 2025Q3.

For the services sector, the growth projection was reduced slightly, from 1.8% to 1.7%. Estimates for commerce, transport, and public administration, health, and education increased, while forecasts for the

other sectors decreased. The main highlights were the upward revision for the transport segment and the downward revision for financial intermediation services. Overall, revisions were strongly influenced by surprises observed in 2025Q3 results.

As for domestic demand, the growth projection for household consumption dropped from 1.8% to 1.5%. Conversely, estimates for government consumption and gross fixed capital formation (GFCF) were raised from 0.5% to 2.0% and from 3.3% to 3.8%, respectively. These revisions were heavily influenced by surprises in 2025Q3 results – downward for household consumption and upward for both government consumption and GFCF. Regarding government consumption, the estimated growth was also affected by the revision in time series, which raised the first half of the year result.

The projection for exports was raised from 3.0% to 4.0%, while the estimate for imports increased from 4.5% to 5.0%. These revisions reflect the incorporation of foreign trade data available for 2025Q4 and, for exports, also the stronger-than-expected acceleration in 2025Q3. In view of the projected changes for aggregate demand components, respective contributions from the domestic demand and the external sector for the GDP growth in 2025 are estimated at 2.4 p.p. and -0.1 p.p., respectively.

Table 1 – Gross Domestic Product
Year-to-date

% growth

Itemization	2024	2025[1]	
		Previous	Current
Agriculture	-3.7	9.0	11.0
Industry	3.1	1.0	1.6
Mining	0.5	6.5	8.0
Manufacturing	3.9	-0.2	0.2
Construction	4.4	1.0	1.5
Utilities (EGAER)[2]	1.0	-1.5	-0.7
Services	3.8	1.8	1.7
Trade	3.8	1.0	1.4
Transport and storage	1.9	1.4	2.7
Information services	6.1	6.5	6.1
Financial and related services	5.5	3.0	1.8
Other services	5.3	2.1	1.9
Real estate	3.1	2.1	2.0
Public admin., health, and education (APU)	1.7	0.4	0.5
More cyclical components	4.3	1.3	1.5
Less cyclical components	1.5	3.1	3.4
Value added at basic prices	3.1	2.1	2.3
Taxes on products	5.7	1.4	1.8
GDP at market prices	**3.4**	**2.0**	**2.3**
Household consumption	5.1	1.8	1.5
Government consumption	2.0	0.5	2.0
Gross Fixed Capital Formation	6.9	3.3	3.8
Exports	2.8	3.0	4.0
Imports	15.6	4.5	5.0

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

Revision of the 2026 GDP projection

For 2026, a moderate growth projection throughout the year was maintained. Among the factors influencing this scenario stand out the prospect of continuity of the tighter monetary policy, the low level of slack of production factors, the world growth deceleration forecast, and the absence of the agricultural stimulus observed in 2025. The projected dynamics also incorporates the effects of recent measures with potential impact on demand, such as the exemption or discount of the Individual Income Tax (IRPF) for the lower income brackets.[1]

From the supply perspective, the slight increase in the GDP growth projection reflects higher estimates for industry and the services sector, partially offset by lower estimate for agriculture. For industry, the growth estimate grew from 1.4% to 1.9%, a revision highly influenced by increased forecasts for manufacturing and construction. These adjustments mainly reflect the increased statistical carry-over from the revision of projections for 2025. Conversely, the estimate for mining was reduced due to the less favorable prospects for iron ore production. In services, the revision was small, from 1.5% to 1.6%, maintaining the prospect of gradual expansion over the year. Finally, the projection for agriculture was reduced from 1.0% to 0.5%, reflecting the first forecasts for the 2026 harvest.

Regarding the domestic demand, estimates for household consumption, government consumption, and GFCF increased to 1.5%, 1.5%, and 1.0%, respectively, compared with previous forecasts of 1.4%, 1.0%, and 0.3%. Revisions for government consumption and GFCF especially reflect adjustments in the estimated growth in these components for 2025, which increased the statistical carry-over. The slight increase in household consumption, in turn, was influenced by the expected impact of recently approved measures, especially the IRPF exemption or discount on lower income brackets.

The forecast for exports was changed from 2.5% to 2.0%, mainly derived from lower projections for agriculture and mining, while the estimated growth for imports remained at 1.0%. Respective contributions of domestic and external demand for the annual GDP growth are estimated at 1.4 p.p. and 2.0 p.p., respectively.

Table 2 – Gross Domestic Product
Year-to-date

% growth

Itemization	2024	2025[1]	2026[1]	
			Previous	Current
Agriculture	-3.7	11.0	1.0	0.5
Industry	3.1	1.6	1.4	1.9
Services	3.8	1.7	1.5	1.6
Value added at basic prices	3.1	2.3	1.5	1.6
Taxes on products	5.7	1.8	1.4	1.9
GDP at market prices	**3.4**	**2.3**	**1.5**	**1.6**
Household consumption	5.1	1.5	1.4	1.5
Government consumption	2.0	2.0	1.0	1.5
Gross Fixed Capital Formation	6.9	3.8	0.3	1.0
Exports	2.8	4.0	2.5	2.0
Imports	15.6	5.0	1.0	1.0

Sources: IBGE and BCB
1/ Estimated.

1/ Law 2,750, of November 25, 2025, which will be effective as of January 1, 2026, increased the IRPF exemption for monthly earnings up to BRL 5,000.00 and granted tax discounts for monthly earnings between BRL 5,000.01 and BRL 7,350.00. For offsetting the loss of revenues, the law established a minimum tax for individuals with high earnings and changed the tax on profits and dividends. As individuals that benefited from tax change are expected to have a higher marginal propensity to consume than those that will have to pay a higher tax, changes in IRPF rules should have a positive effect on consumption and economic activity.

Payment Statistics by Economic Activity (EPAE)

This box presents new statistics on the flows of payments via PIX between payers and payees in the economy. Since the launch of the Pix ecosystem, the number and value of transactions between households and companies have increased substantially. The compilation and release by the Banco Central do Brasil (BCB) of more than 500 monthly flows between economic sectors provides a quick, in-depth, and frequent economic analysis.

Introduction

Flows of payments for goods and services occur across all sectors of the economy, reflecting the continuous production and consumption of goods and services throughout the supply chain. With the advancement of technology, the variety of payment instruments have increased, migrating from cash to increasingly digital solutions. This transformation has driven the creation of big data and, consequently, has enabled faster, in-depth, and more frequent access to payment information. These databases allow building more timely alternative indicators with higher data frequency for the assessment of the economic outlook.

Particularly in 2020, two events had a significant impact on the Brazilian financial system: the Covid-19 pandemic, at the beginning of the year, and the emergence of the Pix instant payment system, at the end. On the one hand, the rapid changes in the epidemiological and sanitary outlook triggered an economic crisis in Brazil and around the world. In addition, in the Brazilian case, Pix emerged with high adoption in the payment system, and the share of transactions carried out with this new digital solution grew rapidly, from 22.1% in January 2023 to 41.2% in September 2025 of the overall value of transactions involving Pix, payment slips, DOC, TEC, TED, and checks.[1] In this context, the shift in payment flows between economic sectors, particularly transactions via Pix, has proved to be a potential and complementary economic activity indicator, providing higher speed and frequency in the generation of information, compared, for example, to the quarterly GDP released by the Brazilian Institute of Geography and Statistics (IBGE).

The main characteristics of the new statistical series

Starting in October 2025, the BCB began publishing monthly EPAE[2] regarding Pix transactions. This initiative expands the set of information on payments broken down by the National Classification of Economic Activities (CNAE) sections.

These statistics provide monthly time series for payments, starting in November 2020, with monthly information on the number and value of transactions between several payer and payee sectors. In these statistics, economic sectors consist of 21 sections of the CNAE (two digits), households, and an additional sector called "Others". Thus, the EPAE shows the level and dynamics of payments between different sectors of the economy over time, with the cross-analysis of the 23 payer and payee sectors resulting in up to 529 monthly flows between sectors.

1/ The series are available on *Estatísticas de Meios de Pagamento* (Statistics on the means of payment – Portuguese only).
2/ The series are available on the Special Series under the subject "Money and Credit".

Since the purpose of EPAE is to present the economic transactions between payers and payees, canceled and returned transactions, cash withdrawal transactions, and transactions involving the same payer and payee were excluded. Due to the granularity of information required for the economic activity breakdown, only transactions processed through the Instant Payment System (SPI) were considered, thus disregarding transfers between internal accounts within the same financial institution carried out via Pix. These exclusions determine the main differences in relation to the number of transactions shown in other indicators published by the BCB regarding this payment instrument.

It is worth noting that data were processed for low-frequency cases, characterized by "payer x payee" transactions with fewer than 4 monthly transactions, to preserve the confidentiality of households or companies involved. These transactions, corresponding to less than 0.001% of total operations (in volume and value) in the November 2020-September 2025 period, were classified under the "Others" sector.

Figure 1 - Value (in BRL billion) and relative share of payments by economic activity, 2020–2025

Figure 1a – Value of Pix payments

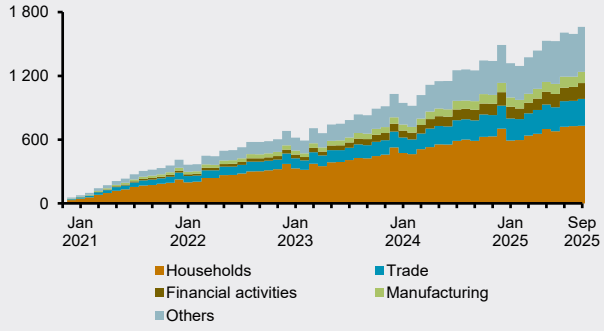


Figure 1b – Payers

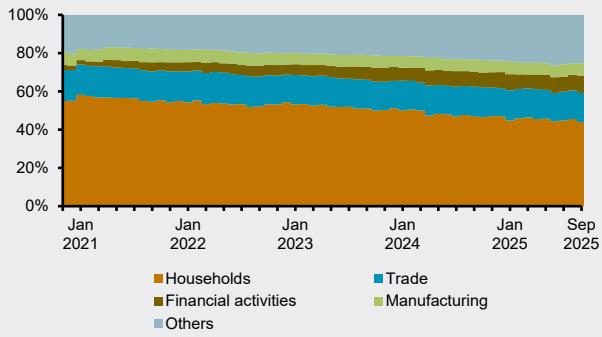
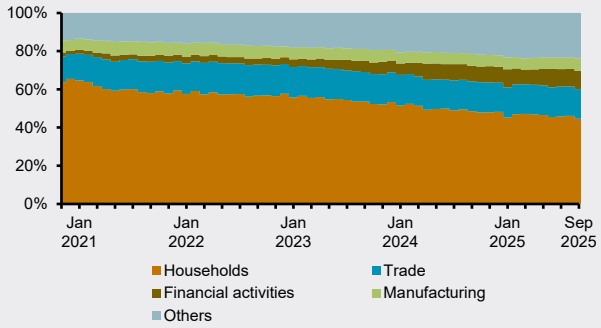


Figure 1c – Payees



Main results

For the analytical purposes in this box, corporate sectors were summarized into the three largest economic activities (Trade, Financial Activities, and Manufacturing) and into an "Others" segment comprising the remaining activities. The full breakdown of EPAE sectors is available on the BCB homepage.

The value of payments via Pix increased from BRL 12.0 billion in November 2020 to BRL 1.7 trillion in September 2025, at current values (Figure 1). There were 15.9 million transactions in the first month of the EPAE series and 5.4 billion transactions in September 2025. Households accounted for the absolute majority of the amount paid at the beginning of the series, 55.0%, in November 2020, subsequently declining to 44.0%, in September 2025. The increase in the share of payments by companies occurred particularly in the sectors of Financial Activities

(from 2.8% to 9.0% in the aforementioned months) and "Others" (from 19.2% to 25.4%). Concerning the payees, households received most of the transferred amount (63.7% in November 2020 and 44.6% in September 2025), with a gradual increase in the share of companies.

Table 1 summarizes the payment flows between five major sectors that aggregate the 23 economic activity sectors available in the statistics. The payment flow maintained a similar pattern over time (Figure 2), highlighting that a significant share of the transferred amounts was channeled to payees within the same economic activity sector of payers. For example, in September 2025, households allocated 57.5% of their payments (or BRL 420 billion) to other households. Similarly, in the same month, trade channeled 30.6% (or BRL 78 billion) of the volume of its Pix transactions to trade itself.

Table 1 – Pix payments (in BRL billion) between economic activity sectors, September 2025

Payers (rows) / Payees (columns)	Households	Financial activities	Manufacturing	Trade	Others	Total
Households	419.8	35.2	14.6	98.1	162.7	730.4
Financial activities	30.4	52.5	11.8	18.3	36.2	149.2
Manufacturing	28.7	11.3	27.1	16.6	21.7	105.3
Trade	81.5	16.2	35.0	77.7	43.3	253.6
Others	180.6	45.1	17.7	47.1	132.6	423.1
Total	741.0	160.2	106.1	257.7	396.6	1661.6

Overall, each of the five sectors both made and received payments, leading to a final positive net balance for the four sectors and negative only for the "Others" sector (Figure 3). In September 2025, the "Others" sector transferred a net amount of BRL 26.4 billion to the other sectors. The other sectors, in turn, showed a positive net balance (the amounts received outweighed the amounts paid): Households (BRL 10.5 billion), Financial Activities (BRL 11.0 billion), Manufacturing (BRL 0.8 billion), and Trade (BRL 4.1 billion). This means that the amounts received by these four sectors outweighed the amount of their payments.

Figure 2 – Flow of Pix payments value by economic activity

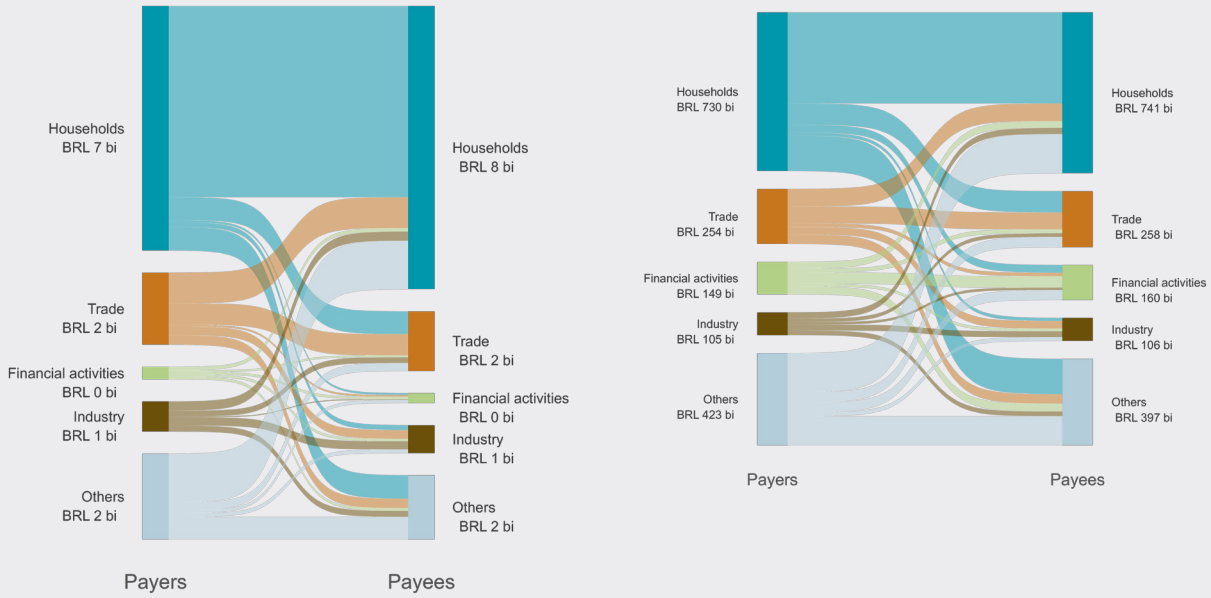
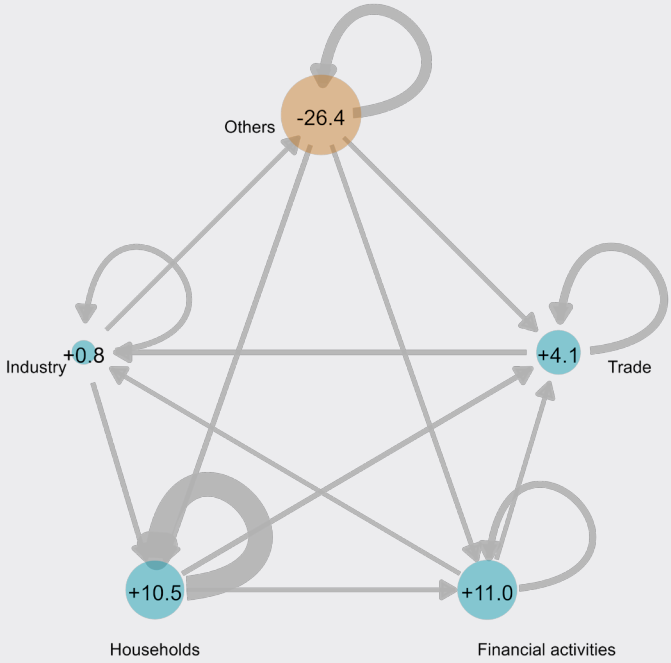


Figure 3 - Net flow of payments by economic activity in September 2025 (in BRL billion)



Conclusion

This box presented the new EPAE, published by the BCB since October 2025. With the widespread use of the new instant payment technology, the Pix data system provides a wealth of information about the size and dynamics of payment flows between economic activity sectors. Since its launch, the volume and value of payments have grown across all sectors, with a significant share of households and companies from trade, financial activities, and industry. The compilation and dissemination of 529 monthly flows between economic sectors therefore provide a new set of in-depth and timely statistical data for assessing the Brazilian economic outlook. In the future, EPAE will be expanded to include flows of payments that use other financial instruments.

Projection for credit growth in 2025 and 2026

The projected nominal growth of the credit balance in the National Financial System (SFN) for 2025 and 2026 was revised upward. The 2025 projection grew from 8.8% to 9.4%, reflecting the better-than-expected performance of earmarked corporate credit and the resilience of non-earmarked household credit. The 2026 projection, in turn, increased from 8.0% to 8.6%, also impacted by the prospect of higher growth on earmarked credit, both for households and companies.

The growth rate of the SFN credit balance dropped by 0.8 p.p. since July, reaching a YoY nominal change of 10.2% in October. This slowdown was partly due to the more restrictive monetary policy cycle, mainly focused on the non-earmarked corporate and earmarked household segments. Regarding other portfolios, growth in the non-earmarked household credit oscillated marginally upwards while that of the earmarked corporate segment increased.

In the household segment, non-earmarked credit granting is still strong, with the balance of operations increasing above projections. The pace of growth of emergency credit operations, a high-cost credit, increased compared with July, suggesting deterioration of household budgets, despite a positive performance of the labor market. Conversely, the pace of growth of long-term modalities – more sensitive to the monetary policy – and credit card purchases slowed down. The growth deceleration of payroll-deducted loans for retirees and pensioners, non-payroll-deducted loans, and vehicles financing was almost entirely offset by the robust expansion of payroll-deducted loans to private sector employees. In the earmarked segment, the decline in the pace of credit expansion was lower than previously projected, as the resilience of real state financing partially offset the slowdown in rural credit. Furthermore, the possibility of deducting up to 5% from the calculation base of mandatory reserves collected on savings accounts and other measures introduced by Resolution CMN 5,255 and Resolution BCB 512, of October 10, 2025, are expected to encourage real estate financing, especially in 2026.

In the corporate segment, the growth rate of the non-earmarked credit balance dropped by 2.6 p.p. since July, more strongly than expected. The slowdown in non-earmarked credit not only reflected the effects of a tighter monetary policy but also a reduction of foreign currency-indexed debt balances, the impact of the increase in the Financial Operations Tax (IOF) rate on some modalities, and, possibly, the shift of part of the demand for financing to the capital and earmarked credit markets. The pace of expansion of earmarked credit continued to surprise, increasing since July, driven by rural credit and operations guaranteed by the Emergency Credit Access Program (PEAC).

In addition to the factors mentioned above, the revised projection also considered the effects of regulatory changes introduced by CMN Resolution 4,966. Greater flexibility for financial institutions in risk management and accounting provisions affected the length of time that past due loans remain in the outstanding portfolio and contributed to the increase in the credit balance in 2025.

In this context, the projected growth of the SFN credit balance was revised from 8.8% to 9.4% for 2025 and from 8% to 8.6% for 2026 (Table 1). The largest upward adjustment occurred in projections for earmarked credit, especially in the corporate segment, which considers the continuity of a higher level of financing guaranteed by the PEAC. Conversely, the projected growth of the non-earmarked corporate credit balance was reduced. Thus, the projected growth for total corporate credit remained at 8% for 2025 and increased slightly, from 7.4% to 7.9%, for 2026. In the household segment, the projected expansion of total credit

increased from 9.4% to 10.4% for 2025 and from 8.3% to 9% for 2026. The projected growth of the balance of non-earmarked and earmarked household credit was revised upward for 2025 and 2026.

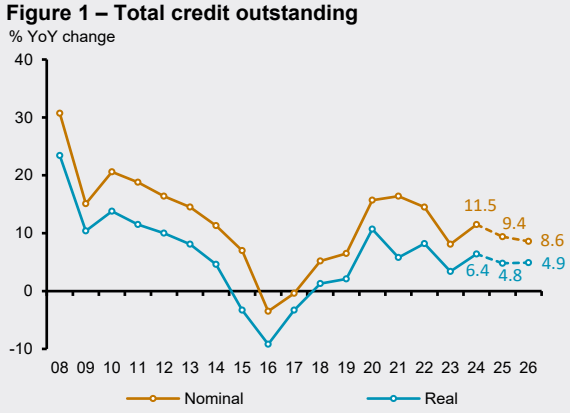
Updated projections continue to point to a credit slowdown in 2025 and 2026 when compared with 2024. In real terms, total credit balance is projected to grow 4.8% in 2025 and 4.9% in 2026, slowing down compared with the real growth rate of 6.4% in 2024 (Figure 1). The expected slowdown is consistent with the prospective domestic economic activity scenario and the current and lagged monetary policy effects.

Table 1 – Credit balance

12-month % change

	Actual			Proj. 2025		Proj. 2026	
	2023	2024	Oct 2025	Previous	Current	Previous	Current
Total	8.1	11.5	10.2	8.8	9.4	8.0	8.6
Non-earmarked	5.6	11.3	8.8	8.4	8.1	7.7	7.8
Households	8.4	12.6	12.8	10.5	11.5	8.5	9.0
Corporations	2.1	9.5	3.2	5.5	3.5	6.5	6.0
Earmarked	11.9	11.9	12.2	9.5	11.3	8.3	9.7
Households	13.1	12.5	9.5	8.0	9.0	8.0	9.0
Corporations	9.6	10.7	17.5	12.5	16.0	9.0	11.0
Total Households	10.5	12.6	11.3	9.4	10.4	8.3	9.0
Total Corporations	4.7	9.9	8.4	8.0	8.0	7.4	7.9

Figure 1 – Total credit outstanding



Projections for the external accounts in 2025 and 2026

Compared with the previous Monetary Policy Report (MPR), a higher current account deficit, USD 76 billion [3.4% of Gross Domestic Product (GDP)], is projected for 2025. In 2026, the increase in the trade balance in goods is expected to allow a moderate slowdown of this deficit to USD 60 billion (2.4% of GDP).

This box presents the revision in the Brazilian economy's external accounts projections for 2025 and 2026. For 2025, the current account deficit is estimated at USD 76 billion, the largest since 2014[1], while net inflows of direct investment liabilities are forecast at USD 75 billion, both higher than projected in the previous MPR. Some relief is expected in the current account deficit in 2026, with the prospect of higher exports and stability of imports compared with 2025. The risks to this scenario remain high, due to the outlook and economic policy in the U.S. – with repercussions on global financial conditions – and uncertainties associated with international trade disputes.

Table 1 – Projections for the external accounts

USD billion

Itemization	2024	2025	2024 Forecast		2026	
	Year	Jan - Oct	Previous	Current	Previous	Current
Current account	-66	-62	-70	-76	-58	-60
Balance in goods	66	46	54	52	61	64
Exports	340	292	338	344	345	355
Imports	274	246	285	291	284	291
Services	-55	-45	-53	-53	-51	-51
of which: Travel	-12	-11	-14	-14	-13	-13
of which: Transport	-15	-12	-14	-14	-13	-13
Primary income	-81	-67	-73	-80	-72	-78
of which: Interests	-31	-23	-30	-29	-30	-30
of which: Dividends	-51	-45	-43	-51	-42	-48
Investment - liabilities	91	85	85	110	75	75
DI liabilities	74	70	70	75	70	70
Portfolio investments	8	5	5	10	5	5
Other investments[1]	9	10	10	25	0	0

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

Projection for 2025

The projection for the trade balance in 2025 was revised slightly downward, remaining below that of 2024 but with expansions in both imports and exports.

1/ Considering the USD value. As a percentage of GDP, the 2025 current account deficit (3.4%) 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 revised marginally upward compared with the previous MPR, given the prospect of a moderate increase in the volume exported. The record grain harvest and mining's strong export performance have been only partially offset by relatively lower international commodity prices compared with previous years. Relevant exceptions are coffee and beef, for which international prices are expected to remain high. The gains in the volume exported of these products may be even higher after the removal of the additional 40% U.S. tariff on some Brazilian goods, a measure applied retroactively since November 13. The projection for imports was revised upward, incorporating the recently observed positive surprise in the imported volume, which has proved to be slightly more resilient to the slowdown in domestic activity than previously expected.

The projection for the services account deficit in 2025 remained unchanged from the previous MPR and is marginally lower than that recorded in 2024. A relevant factor for the lower services account deficit compared with the previous year is the entry into force of the regulatory framework for the nationalization of betting companies, which reduced outflows of resources from recreational services.[2] Conversely, expenses in the categories related to technology, computer and intellectual property, which have been rising in recent years, stood out.

In the primary income account, a significantly larger deficit on net earnings expenses on profits and dividends than that in the previous MPR projection is expected. Part of this increase is associated with the ordinary revision of external sector statistics detailed in the September 2025 press release, after the publication of the MPR for that month.[3] Incorporating new information, estimated net earnings expenses on profits and dividends from January to July 2025 was increased by USD 2 billion. Furthermore, despite the ongoing domestic activity slowdown, the profitability of companies with non-resident shareholders remains robust. The projection for net interest expenses was revised marginally downward, mainly due to slightly lower-than-expected expenses. The prospect of interest rate cuts by the Fed in the U.S., reducing funding costs for Brazilian companies abroad, has a lagged effect and should have a minor impact on these expenses in 2025.

Despite uncertainty in the external scenario, inflows of direct investment liabilities are projected at USD 75 billion, above previous expectations. The revision mainly reflects high results recorded in September and October. These inflows would account for 3.3% of GDP, a level close to the average observed since 2021 and slightly lower than in the decade prior to the pandemic (3.7%). One risk to the projection is the prospect of early distribution of earnings, given that the increase of remittances of earnings by foreign direct investment companies reduce the amount of reinvested earnings.

The projection for portfolio investments was also increased, especially due to the recently observed positive inflows of securities. The difference between domestic and international interest rates has contributed to attracting funds in this category, even amid an uncertain scenario regarding the global environment and the domestic fiscal situation.

Projection for 2026

The revision of external accounts projections for 2026 includes a small increase in the projected current account deficit, from USD 58 billion to USD 60 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 minor reductions in the services and primary income deficits, due to less domestic economic activity dynamism.

2/ Part of these flows is expected to appear in other operational accounts, such as other business services, telecommunication services, or intellectual property services, in addition to remittances of earnings and reinvestment inflows.
3/ See the September 2025 External Sector Statistics press release, which presented data for August and revised series for 2024 and for January to July 2025. Estimates for primary income deficits and, consequently, current account deficits, also increased for 2024.

Part of the expected growth in the exported value in 2026, compared with 2025, is projected to stem from higher volumes, especially oil. In turn, since the September 2025 MPR, prices of some commodities with a large weight in the export's basket, such as soybeans and ore, have risen, contributing to the upward revision in this comparison. As for imports, their structural upward trend – especially in purchases of intermediate goods[4] – should be offset by the moderation of domestic demand and the reduction in the value of imported oil rigs.

The slight reduction in the projected primary income account deficit should reflect lower net earnings expenses on profits and dividends, in line with domestic activity slowdown. As for interest, stability should stem from a lower average cost of the stock of issued securities – driven by the U.S. monetary easing – offset by an increase in that stock compared with 2025.

Direct investment liabilities in 2026, USD 70 billion, is likely to be marginally lower than in 2025 – the same projection presented in the previous MPR. As a percentage of GDP, the projected 2.8% level is lower than that of 2025. For portfolio investments, net inflows should once again be moderately positive and concentrated on securities, benefiting from the interest rate differential.

Figure 1 – Current account

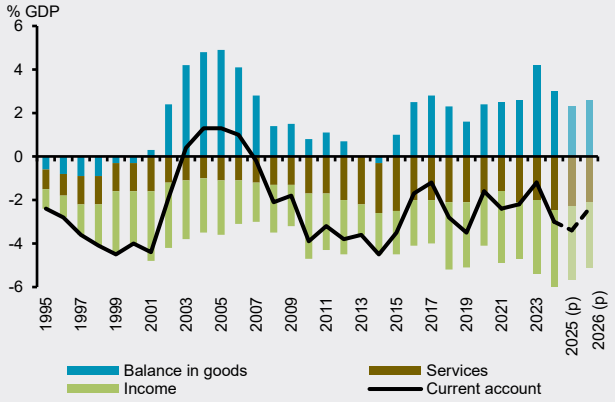
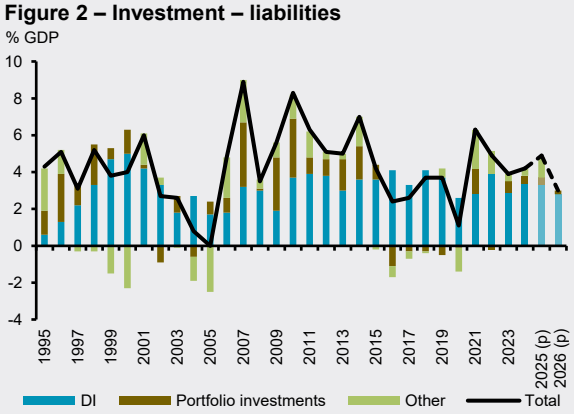


Figure 2 – Investment – liabilities



4/ See, for example, box Dynamics of imports in 2021 and decoupling of economic activity in the March 2022 IR, particularly Figure 6.

2 Inflation outlook

This chapter analyses the inflation outlook. Inflation projections presented extend until 2028Q2, thus comprising ten quarters ahead.[36] Projections use the set of information available until the 275th Copom meeting held on December 9-10, 2025. As for the conditioning factors used in the projections, especially those from the Focus survey, the cut-off date is December 5, 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.[37] 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.[38] 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 guiding 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 was lower than expected in the Sep-Nov quarter, with the downward surprise concentrated in food-at-home. Actual inflation was 0.32 p.p. below the Copom's scenario (Table 2.1.1). Most of this surprise is due to lower-than-expected change in food-at-home prices, especially among fresh and semi-processed food, categories with higher price volatility. Among market prices, downward surprises also occurred in industrial goods and in the underlying component of services, albeit to a lesser extent. Surprises in industrial goods were relatively widespread, with a significant contribution from the drop in prices of electronic products. As for the underlying component of services inflation, a large part of the surprise is explained by a sharp negative change in the voluntary auto insurance subitem and by a change below the seasonal pattern in banking services. Conversely, administered prices rose more than projected, a surprise mainly explained by the electricity tariff flag in November more restrictive than anticipated. The inflation projection for December was revised from 0.53% in the previous MPR to 0.41% in this report. As in the Sep-Nov quarter, the revision in the projection for December is mainly explained by more moderate change in food-at-home prices.

36/ See box Governance for the communication of the inflation projections horizon in the September 2024 IR.
37/ See box BCB's analysis and projection system in the March 2023 IR.
38/ See box Exchange rate path in BCB projections and the purchasing power parity in the September 2020 IR.

Table 2.1.1 – IPCA – Inflation surprise

% change

	2025				
	Sep	Oct	Nov	Quarterly up to Nov	12-month up to Nov
Copom's scenario[1/]	0.62	0.23	0.22	1.07	4.80
Actual IPCA	0.48	0.09	0.18	0.75	4.46
Surprise (p.p.)	-0.14	-0.14	-0.04	-0.32	-0.33

Sources: IBGE and BCB

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

Short-term monthly projections indicate lower 12-month inflation, which will still remain above the inflation target (Table 2.1.2). Food-at-home prices are expected to show higher changes until March, following the less favorable seasonality of fresh food. Processed food prices are less volatile and should continue the recent trend of more moderate changes. Short-term projections only partially incorporate the risk of stronger increases in fed cattle and beef prices. Industrial goods inflation is expected to be higher in December, with the reversal of discounts associated with Black Friday in the previous month. In the seasonally adjusted series, however, consumer prices of industrial goods are likely to remain relatively subdued, still influenced by exchange rate and producer price dynamics. In the services segment, prices are expected to rise more sharply until March, due to annual adjustments in school tuition fees and the less favorable seasonality of the period. Underlying measures of services inflation should continue under pressure, a projection consistent with the high degree of inertia in prices in this segment and with the still heated labor market. Among administered prices, electricity tariffs are expected to decline with the tariff flag transition from red 1 to green. Conversely, the increase of the State Tax on the Circulation of Goods and Services (ICMS) on fuels in January and tariff adjustments by public service concessionaires are expected to exert upward pressure on prices in this segment over the period. In this context, the average of core inflation measures should continue to run above the inflation target in the seasonally adjusted and annualized series.

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

% change

	2025	2026		
	Dec	Jan	Feb	Mar
Monthly change	0.41	0.42	0.60	0.29
Quarterly change	0.68	1.01	1.44	1.32
12-month change	4.35	4.62	3.89	3.61

Sources: IBGE and BCB

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

2.2 Conditional projections

Inflation determinants and conditioning assumptions[39]

Compared with the previous MPR, the assumed trajectory for the Selic rate in the reference scenario remained stable until the end of 2027, declining since then. In the monetary tightening cycle between the September 2024 and June 2025 meetings, the Selic rate was raised from 10.50% to 15.00% p.a., a level at which it has remained since then. In the Focus trajectory considered, the Selic rate remains stable at 15.00% until the end of 2025 (Figure 2.2.1). The rate resumes a downward trend in the second meeting of 2026, falling by 0.50 p.p. in each meeting until September, stabilizing at 12.5% in November and ending the year with an additional reduction of 0.25 p.p. compared with the previous MPR, with the rate at the end of 2026 dropping

39/ 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.

from 12.38% to 12.25%. For the end of 2027, the expected Selic rate was maintained, although following a slightly lower curve throughout the year. For the end of 2028, the rate was reduced from 10.00% to 9.50%.

Inflation expectations from the Focus survey declined for the next years but a gap from the inflation target remains. When compared with the September 2025 MPR, median expectations decreased from 4.83% to 4.40% for 2025, from 4.30% to 4.16% for 2026, and from 3.90% to 3.80% 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.[40]

The trajectory of the real *ex-ante* Selic rate remained quite similar to that of 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 slightly in relation to the previous MPR (Figure 2.2.2). Between the end of 2025 and of 2026, the real interest rate increases slightly, mainly reflecting the reduction of inflation expectations. As of the second half of 2027, the rate declines slightly due to the reduction of the nominal Selic rate in 2028. Overall, the *ex-ante* real Selic rate began an upward trend in 2024Q2, reaching the peak of 9.6% in 2025Q3, and then resuming a downward trend that reaches 6.0% at the end of the horizon, compared with 6.2% in the previous MPR.

Figure 2.2.1 – Selic rate target assumption for projections – Focus survey expectations
Quarterly averages
% p.a.

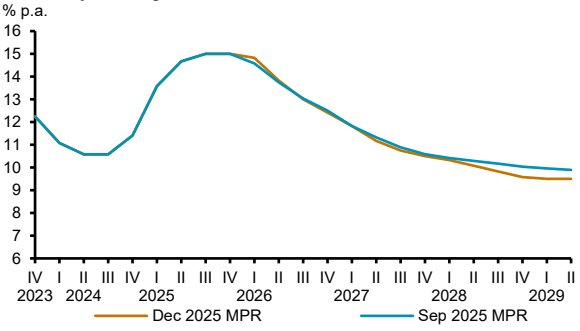
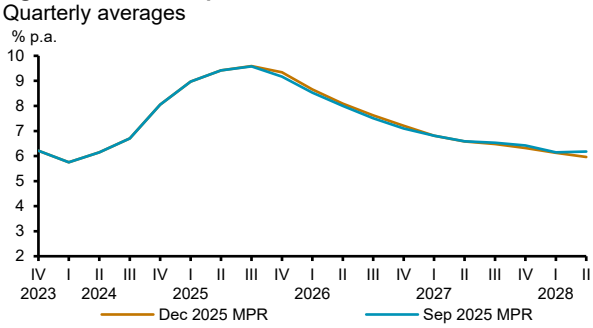


Figure 2.2.2 – Four-quarter-ahead real Selic
Quarterly averages
% p.a.



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 BRL appreciated slightly in the quarter, reflecting external and domestic factors. The USD value has oscillated globally, but the more recent trend points to a slight recovery. Domestically, agents' perception of the fiscal situation continues to affect domestic asset prices, but the interest rate differential has contributed to the appreciation of the domestic currency. In the inflation projections of the reference scenario, the exchange rate starts at USD/BRL 5.35 – 0.9% lower than the USD/BRL 5.40 considered in the September 2025 MPR – and follows a path according to the PPP (Figure 2.2.3). The average exchange rates considered in the last quarters of 2025, 2026, and 2027 are USD/BRL 5.36, USD/BRL 5.40, and USD/BRL 5.45, respectively.

Oil price declined albeit with some volatility. 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 63.55 for 2025Q4 – 4.9% lower than in the September 2025 MPR – falls to USD 62.11 for 2026Q3 and then grows at 2% p.a. (Figure 2.2.4). Announcements of reversal in voluntary OPEC+ cuts, on the one hand, and the sanctions to Russia, on the other, have led to oil price oscillations since the previous MPR, with a decline at the end of the period. Commodity prices, measured by the IC-Br in USD, have declined since the previous MPR. The decline in agricultural commodities, given their weight in this group, more than offset the increase in metal and energy commodities observed in the index.

40/ Further details about Firmus survey at https://www.bcb.gov.br/publicacoes/firmus?ano=2025 (Portuguese only). See box Firmus survey – expectations and sentiment of Brazilian firms in the September 2025 MPR.

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

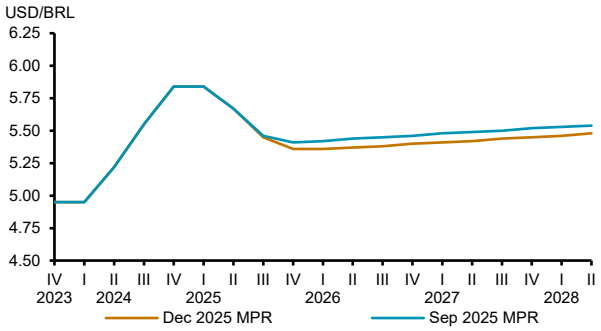
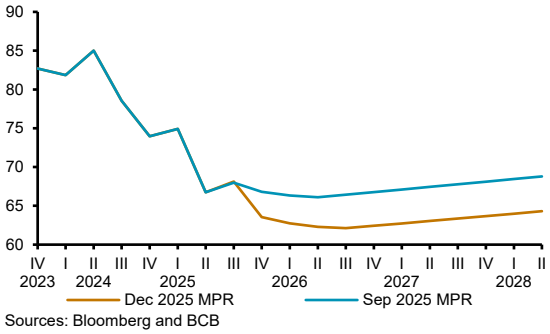


Figure 2.2.4 – Brent-type oil price
Quarterly averages



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.[41] In the analysis and decision-making process, alternative inflation scenarios with different values for the neutral rate are also considered.

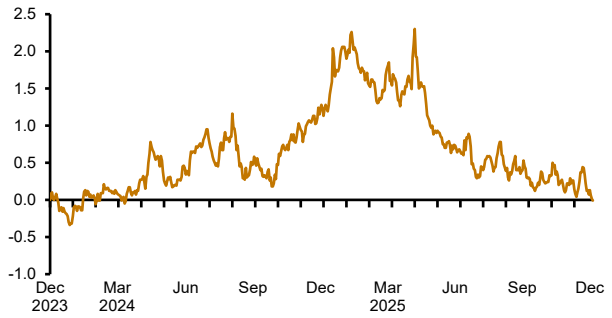
From a fiscal point of view, the structural primary balance is expected to improve gradually over time. The variable used in the fiscal projections is the 12-month central government primary balance, adjusted for outliers and for the business cycle. It should be emphasized that projections evaluated 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 since the previous MPR, leading to the activation of more costly 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, in some months, 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 July, the red 2 flag for August and September, the red 1 flag for October and November, and the yellow flag for December. In the previous MPR, the yellow flag was considered for November and the green flag for December 2025. In this scenario, the same sequence of flags in 2025 is assumed for the last months of each quarter in 2026 and 2027. 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 markets, interest rates in Brazil, and oil price groups. In early December, financial conditions, measured by the BCB's Financial Conditions Index (FCI), reached slightly less restrictive levels than in September (Figures 2.2.5 and 2.2.6).[42] The FCI reduction since the previous MPR mainly reflected the appreciation of domestic and external stock exchanges, reduction of domestic future interest rates, and oil price decline.[43]

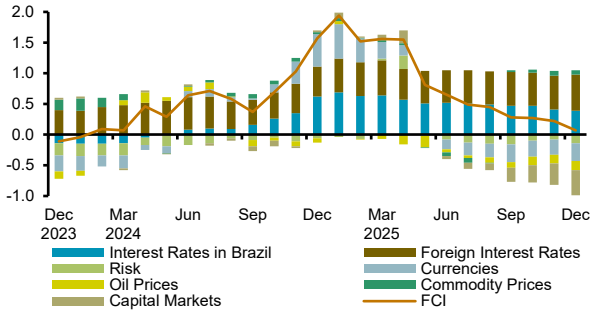
41/ See, for instance, box Update of neutral real interest rate measures in Brazil in the June 2024 IR.
42/ The previous MPR used FCI data up to September 12, 2025, while the current one uses data up to December 5, 2025. By construction, the FCI is a dimensionless measure, with a zero mean and unit variance 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.
43/ 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 between this index and inflation is ambiguous because some of its components, such as those related to risk premium and exchange rate, are in general positively related to inflation and negatively related 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.

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: 12.1.2023–12.5.2025.

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. Dec/2025 value refers to the average until the 5th.

GDP growth slowed down in 2025Q3, after growing strongly in early 2025. Seasonally adjusted GDP rose 0.1% in 2025Q3 compared with 2025Q2, following respective expansions of 1.5% and 0.3% in 2025Q1 and 2025Q2. The sectors of services, industry, and agriculture grew by 0.1%, 0.8%, and 0.4%, respectively. On the same comparison basis, household consumption grew by 0.1%, decelerating when compared with the previous two quarters. The GFCF, in turn, grew by 0.9%, following a decline in 2025Q2, but influenced by the import of an oil rig. For 2025, the projection for the GDP growth rose to 2.3%, largely due to the revision of the Quarterly National Accounts data, released by the IBGE, which increased the GDP level in the first half of 2025.[44] The projection for 2026 was raised to 1.6%, from 1.5% in the previous MPR, already incorporating, among other factors, a preliminary estimate of the impact of the measures for increasing the income tax exemption.

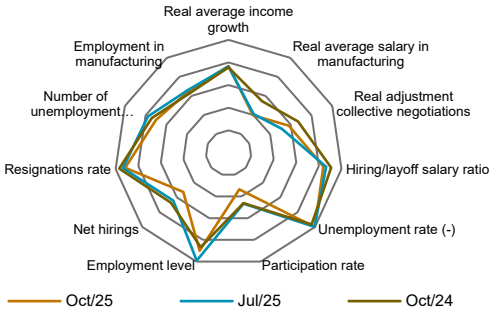
Labor market and installed capacity utilization indicators have shown mixed signals. The unemployment rate remained stable around the historical low, at 5.8%, in the Aug-Oct quarter (seasonally adjusted). Conversely, net hirings, measured by the New Caged, fell to a monthly average of around 83,000 in the Aug-Oct quarter, a still historically high level, from an average of 113,000 hirings in the May-Jul quarter (seasonally adjusted data). The seasonally adjusted Level of Utilization of Installed Capacity (Nuci), calculated by the Getulio Vargas Foundation (FGV), decreased from 82.6% in August to 79.7% in November.

The labor market spider chart continues to show signs of heating up. This measure considers historical information from several labor market indicators up to October 2025 (Figure 2.2.7). Most variables are in the top two quartiles, i.e., above the historical median. When comparing October with July 2025, income indicators point to the opposite direction in relation to the labor market heating. While the PNAD's real average income growth remains stable and the real adjustment of collective negotiations indicates a higher heating, the real average salary in manufacturing real income and the hiring-to-layoff salary ratio indicate a lower heating. Conversely, employment indicators, except for the unemployment rate, which reached the historical low, point to lower labor market heating in October 2025 compared with July 2025. In the YoY comparison, most indicators for October point to lower labor market heating.

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 2025Q3 and 2025Q4 are 0.5% and 0.2%, respectively (Figure 2.2.8).[45] Positive and decreasing values for the output gap are consistent with the inflationary pressure recently observed. Nevertheless, an output gap reduction to negative values is anticipated over the next quarters, reaching -0.4% in 2027Q2, slightly higher than the -0.5% projected for 2027Q1 in the previous MPR. Tight monetary conditions play an essential role in this movement. 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.

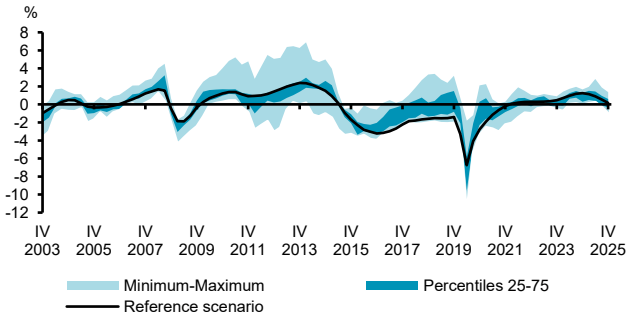
44/ See box Projections for GDP growth in 2025 and 2026 in this MPR.
45/ Projections of these activity variables were used for 2025Q4 when data were not available.

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: 2003Q4–2025Q4.

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;[46] and iv. assessment on the state and outlook of the economy.[47]

In the reference scenario projections, inflation continues on a downward trend but remains above the target until the end of 2027. In this context – which uses the Selic rate from the Focus survey and the exchange rate following the PPP – after remaining in the 5.2%-5.5% range in the first three quarters of 2025, four-quarter inflation declines to 4.4% by the end of the year, to 3.5% in 2026, and to 3.0% in the last period considered, referring to 2028Q2 (Table 2.2.1). In the relevant horizon for monetary policy, considered to be 2027Q2, projected inflation is 3.2%. From probability intervals built around the reference scenario (Figure 2.2.9), the estimated probability of inflation surpassing the tolerance interval in 2026Q4 fell from 26% to 23% for the upper limit and rose from 6% to 7% for the lower limit (Table 2.2.2), reflecting the inflation projection for 2025, which was lower than in the previous MPR.[48]

Table 2.2.1 – Inflation projections – Reference scenario
YoY IPCA inflation

%

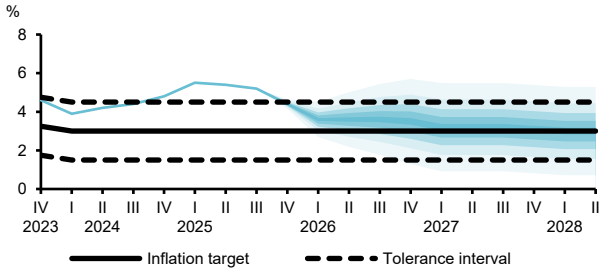
	2024	2025				2026				2027				2028	
Price index	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
IPCA	4.8	5.5	5.4	5.2	4.4	3.6	3.6	3.6	3.5	3.2	3.2	3.2	3.1	3.0	3.0
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.1]	[-0.4]	[-0.4]	[-0.5]	[-0.4]	[-0.1]	[-0.2]	[-0.2]	[-0.1]	[-0.1]	[-0.1]	-
Market prices	4.9	5.6	5.4	5.2	4.0	3.5	3.4	3.6	3.6	3.3	3.2	3.1	3.1	3.0	3.0
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.2]	[-1.0]	[-0.8]	[-0.8]	[-0.5]	[0.1]	[0.0]	[0.0]	[-0.1]	[0.0]	[0.0]	-
Administered prices	4.7	5.1	5.2	5.1	5.3	4.1	4.1	3.7	3.2	3.1	3.4	3.2	3.2	3.1	3.0
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[0.1]	[1.0]	[0.7]	[0.3]	[0.0]	[-0.6]	[-0.7]	[-0.3]	[-0.4]	[-0.4]	[-0.3]	-

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.

46/ 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 prices.
47/ See box BCB's analysis and projection system in the March 2023 IR.
48/ 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.

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	26
2026	1.50	7	4.50	23
2027	1.50	12	4.50	16

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 have declined. In the relevant horizon for monetary policy, considered to be 2027Q2, projected inflation dropped by 0.2 p.p. Among the factors contributing to the downside of projections stand out the more favorable short-term inflation behavior, lower inflation expectations, and the decline in fuel prices associated with the USD depreciation and lower oil prices. Conversely, a slightly higher output gap projection contributed to the upside. Compared with the Copom meeting held in November (274th meeting), inflation projections in this horizon declined slightly, by 0.1 p.p. (see Minutes of the 274th 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 one 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 one 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 (275th meeting), Copom stressed that the inflation risks, 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 September 2025 MPR, the median fell from 4.30% to 4.16% for 2026, from 3.90% to 3.80% for 2027, and from 3.70% to 3.50% 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. Furthermore, there is uncertainty about the output gap measures, which may imply an 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 is still resilient. 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 the pricing 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.

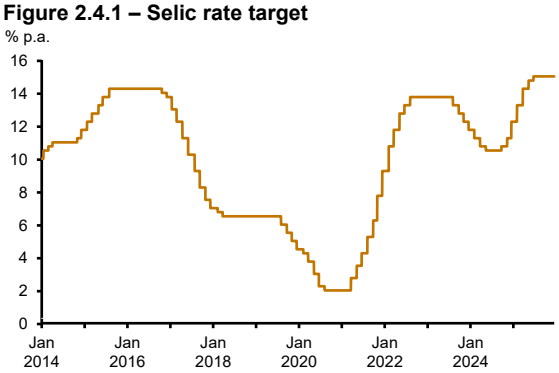
iii. reduction in commodity prices with disinflationary effects

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 12.12.2025.

Copom also stressed that, if the expected scenario materialized, 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 significant 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 the September meeting, Copom maintained the Selic rate at 15.00%, emphasizing that ensuring the convergence of inflation to the target in an environment with deanchored expectations required a significant contractionary monetary policy for a very prolonged period. The Committee highlighted that the scenario continued to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity, and labor market pressures.

In its more recent meeting, in December, Copom maintained the Selic rate at 15.00% and stressed that this decision is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon. The current scenario, marked by heightened uncertainty, requires a cautious stance in monetary policy. The current scenario continues to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity, and labor market pressures.

The Committee evaluates that the present strategy of maintaining the interest rate at its current level for a very prolonged period is appropriate to ensure the convergence of inflation to the target and emphasizes that it will remain vigilant. The Committee emphasizes that future monetary policy steps can be adjusted and that, as usual, 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 rate, 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.[49] 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.

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

Special topics on machine learning inflation forecasting

This box presents a methodological discussion on the use of machine learning (ML) techniques for forecasting Brazilian inflation by the Banco Central do Brasil (BCB), highlighting their ability to handle large datasets, non-linearities, and irrelevant information. Based on Araujo and Gaglianone (2023), the study extends the forecasting horizon up to 24 months, updates macroeconomic and financial databases, and uses the Expectation Maximization (EM) algorithm to deal with missing data. Several ML methods and traditional econometric models are employed both individually and in combination to minimize the Mean Squared Error (MSE) in pseudo out-of-sample exercises. The results show that ML-based forecasts are competitive in relation to Focus survey expectations, especially in short- and medium-terms, and that model combinations and the inclusion of breakeven inflation (BEI) increase the forecasting capacity, reinforcing the usefulness of this framework for monitoring and prospective analysis of inflation in Brazil.

Inflation forecasting is essential in economic decision-making and particularly challenging for emerging market economies. In this context, machine learning (ML) methods provide a promising alternative by capturing non-linear patterns and filtering irrelevant information. This box aims to present a brief methodological discussion on special topics in the implementation of inflation forecasts using ML techniques by the BCB.[1]

The methodology is based on the study by Araujo and Gaglianone (2023), which investigates the performance of a wide range of ML methods and traditional econometric models for forecasting Brazilian inflation. The main innovations of this box relative to the cited study are: (i) systematic use of an EM algorithm for the treatment of recent missing data (ragged edge); (ii) revision and update of macroeconomic and financial databases;[2] (iii) extension of the forecasting horizon up to 24 months ahead; and (iv) use of ML methods for building disaggregated inflation forecasts, with a focus on the three main groups of market prices inflation in the Extended National Consumer Price Index (IPCA) (food-at-home, industrial goods, and services).

Several classes of models and forecasting methods are used for building a ML inflation forecast. Among ML methods, the following stand out: penalized regressions (ridge, lasso, adaptive lasso, and elastic net), tree-based methods (random forest, quantile regression forest, and XGBoost), and Recurrent Neural Networks (RNN). Traditional econometric models, such as the Vector Autoregressive (VAR), factor models, and Phillips curves, in addition to the BEI series and many combinations of models, are also considered. For further details, see Araujo and Gaglianone (2023). Most of the forecasts are built using the direct forecast approach, where each model is estimated separately for each forecasting horizon.[3] The selection of the best methods for each horizon is based on the MSE, with the ML final trajectory given by the average of the three best forecasts, according to a pseudo out-of-sample recursive forecasting exercise.[4] For horizons longer than 12 months, for which the historical average of inflation predominates (a typical behavior of time series models), a weighted combination like the Constrained Least Squares (CLS) of previously selected methods is adopted.[5]

1/ The box details procedures and tools of the satellite models that are integrated into the Monetary Policy Committee (Copom) cycle of analyses and projections as described in BCB (2023, p.61).
2/ Since data collection from different sources is a dynamic process, some variables were added and others were removed from the original database (e.g. the case of discontinued series, which are no longer being updated).
3/ Exceptions are the iterative VAR and ARMA models, for which there is a single estimation for all forecasting horizons.
4/ The ML-based inflation forecasting discussed in this box does not use any information from the Focus survey expectations, with the aim of producing an alternative forecast to the market consensus. This forecast is built solely on macroeconomic and financial data, and combines recent ML methods with traditional econometric time series models.
5/ Such as: ARMA, Random Walk (RW-AO), Quantile Regression Forest (QRF), BEI, and hybrid Phillips curve. See Araujo and Gaglianone (2023) for more details.

In this context, in addition to forecasting IPCA inflation, it is also possible to build forecasts for IPCA market prices inflation using two approaches: (i) directly, considering this variable as the dependent variable in each model; or (ii) from disaggregated forecasts for the three main groups of market prices, weighting these forecasts by the corresponding weights of each component in the IPCA structure.[6]

The database includes 137 macroeconomic and financial series, with monthly frequency, from January/2004 to October/2025,[7] in addition to breakeven inflation series built from federal government securities data.[8] The series are individually transformed to achieve stationarity (according to the KPSS test), and missing data are filled in via Kalman filter, using a version of the EM algorithm capable of handling datasets with hundreds of variables.[9]

Therefore, the main ML forecasting steps involve:

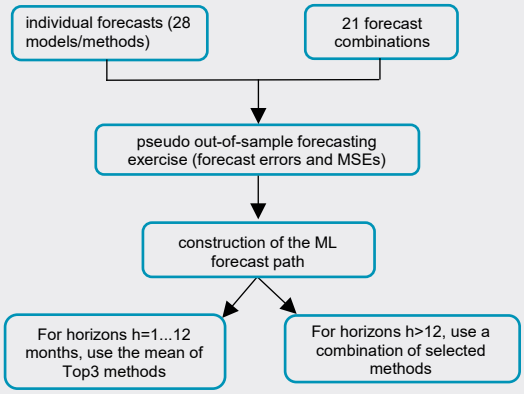
i) *Data preprocessing*: updating databases from different sources, filling missing data with the EM algorithm, transforming time series to ensure stationarity (e.g. the first difference of the series);

ii) *Processing/estimation of models*: estimation of individual models and of the weights of the combination of models, construction of in- and out-of-sample inflation forecasts, for horizons up to 24 months, calculation of forecast errors and MSE in each horizon; and

iii) *Post-processing of results*: identification of the best methods, construction of the out-of-sample ML trajectory, calculation of 12-month inflation forecasts, and a final comparison with the respective median expectations from the Focus survey.

Figure 1 shows a flowchart with the main steps for building a final trajectory of a ML-based inflation forecast using the 50 forecasting methods discussed in Araujo and Gaglianone (2023).[10]

Figure 1 – Inflation Forecasting Exercise using ML



6/ One of the advantages of building disaggregated inflation trajectories is the ability to anticipate the reversion of trends in periods of specific shocks (such as in food or services).
7/ The dataset of this study considers November 28, 2025, as the reference date.
8/ BEI is built using the methodology described in Val and Araujo (2019).
9/ Schafer (1997) proposes an extension of the EM algorithm for multivariate Gaussian data. For more details, see also Little and Rubin (2002).
10/ Except Focus expectations, not included in the group of forecasting methods in this box. This source of expectations is used in this study only for comparison purposes.

It is worth highlighting that the ML forecast obtained according to the flowchart above is conditional on an information set available in a specific date (with series observed until that date or filled in via the EM algorithm) and not conditional on scenarios, as usually observed in structural or semi-structural macroeconomic models.[11]

Table 1 presents the most relevant variables for forecasting the monthly IPCA inflation, identified according to the selected ML methods for the reference date under analysis. Overall, results show that, for short horizons, the inertial inflation dynamics remain central, with lagged inflation measures standing out, as well as economic activity related variables (such as electricity consumption and agricultural exports), which are recurrently selected by the several ML methods considered.

As the forecast horizon is extended, a certain diversification is observed in the set of relevant variables for inflation forecasting, with increased presence of fiscal, financial, and external sector indicators. Thus, the combination of inertial inflation information, domestic macroeconomic conditions, and external shocks is relevant for explaining the inflation trajectory across the different horizons analyzed in this study.

Table 1 – Relevant variables for inflation forecasting by selected methods

Forecast horizon (months)	Top5 variables from ML selected methods
1	Commodity BR, Commodity Metal BR, core IPCA-DW, electricity commercial, GDP, interest rate 1y, IPC-Fipe, IPCA diffusion, IPCA headline, IPCA market prices, real interest rate 1y, 2y and 5y
2	Commodity Metal BR, core IPCA-DW, electricity commercial, exchange rate, GDP, interest rate 1y and 2y, IPC-Fipe, IPCA diffusion, IPCA ind. goods, IPCA market prices, real interest rate 1y and 2y, VIX
3	Commodity Agriculture BR, electricity commercial, exports agriculture, GDP, imports others, interest rate 1y and 2y, IPCA market prices, real interest rate 2y and 5y, VIX
6	Electricity commercial, export price, INCC, non-durable ind. prod., interest rate 1y, 2y and 5y, IPCA services, primary balance/GDP, real interest rate 1y and 2y, UST 3m
9	Industry capacity utilization, electricity total, GDP, IBC-BR, IGP-DI, IGP-M, INCC, Selic, IPC-BR, real interest rate 1y, 2y and 5y
12	CRB, CRB food, electricity commercial, GDP, IGP-10, IGP-DI, IGP-M, IPCA market prices, non-tradables IPCA, primary balance/GDP, real interest rate 1y, 2y and 5y, savings deposits, UST 3m

Obs.: The set of selected variables in each horizon, considering the reference date 11/28/2025, represents the Top5 series from the following methods: lasso, adaptive lasso, ridge, elastic net, random forest, and xgboost.

Table 2 illustrates the selection of methods for forecasting monthly IPCA inflation at specific horizons (h), based on their respective MSE. BEI stands out for its strong performance, being selected as the Top1 method for h=1 month, reflecting the quality of its informational content. In addition, many combinations of models and non-linear approaches appear among the best-performing models, in line with the results of Araujo and Gaglianone (2023).

Table 2 – Top forecasting methods of IPCA inflation (% p.m.)

Forecast horizon (months)	Top1	Top2	Top3
1	BEI	Comb2 CLS	Comb2 Adalasso
2	Comb1 Adalasso	Comb2 Adalasso	Comb2 GR
3	Comb2 Mean	Comb2 Median	Comb1 Adalasso
6	BEI	Comb2 Mean	Comb2 Median
9	FM3	Comb2 Mean	Comb2 Median
12	RF	QRF	Disag RF

Obs.: The acronyms indicate the forecasting methods: BEI (Breakeven Inflation), CLS (Constrained Least Squares), Adalasso (Adaptive Lasso), GR (Granger-Ramanathan), FM3 (Factor Model 3), RF (Random Forest), QRF (Quantile Regression Forest), Disag RF (disaggregated Random Forest). Comb1 is a combination of forecasts from models 1 to 28 of Table 1 in Araujo and Gaglianone (2023). Comb2 is a combination based on the model confidence set of Hansen et al. (2011), using models 1 to 28 from the same table. Reference date: 11/28/2025.

11/ The construction of a multivariate scenario for conditional forecasting within a big data context is not a trivial task, and this practice generally produces more noise than signal in terms of accuracy gains, especially in longer horizon projections. Moreover, the risk premium, in general, is higher for breakeven inflation at longer horizons, in addition to the convergence to the unconditional inflation mean in the time series models that make up the ML-based inflation forecast.

Table 3 compares the MSE of the Focus forecast (median of expectations) with ML forecasts, with and without the BEI in the list of forecasts. The results confirm that ML is a competitive approach in terms of the forecasting performance over the short- and medium-terms. In particular, the inclusion of the BEI in the composition of ML forecasting increases substantially the ML forecasting performance at short horizons. Thus, the niche for monthly ML-based inflation forecasting lies between 2-3 up to 9-12 months, since very short horizons are generally dominated by experts' forecasts (e.g. based on judgment or direct price collection), while longer horizons (e.g. beyond 1 year) tend not to be informative, as forecasts converge to the unconditional mean of inflation.

Table 3 – Mean Squared Error (MSE) of forecasting IPCA inflation (% p.m.)

Forecast horizon (months)	Focus	ML	ML (without BEI)
1	0.115	0.116	0.293
2	0.269	0.243	0.321
3	0.342	0.330	0.359
6	0.366	0.363	0.369
9	0.374	0.370	0.370
12	0.379	0.374	0.374
18	0.385	0.402	0.411
24	0.390	0.423	0.416

Obs.: Focus denotes the median inflation expectation, whereas ML is the Machine Learning inflation forecast, and BEI is the Breakeven Inflation. Reference date: 11/28/2025.

Summing up, ML inflation forecasting allows for the combination of information from a large database with the flexibility and robustness of modern algorithms. The results of this box illustrate how the combination of forecasts from different models can contribute to monitoring inflation in Brazil.[12]

The incorporation of this framework into the BCB's projection system has been useful for the timely monitoring of inflation pressures in different IPCA segments. This initiative reinforces the continuous effort for improving quantitative tools used by the BCB.

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12/ The inflation forecasts discussed in this box are merely illustrative of the proposed methodology, and were obtained through a statistical and non-structural approach, complementing other BCB's economic models.

Note about the inflation target breach

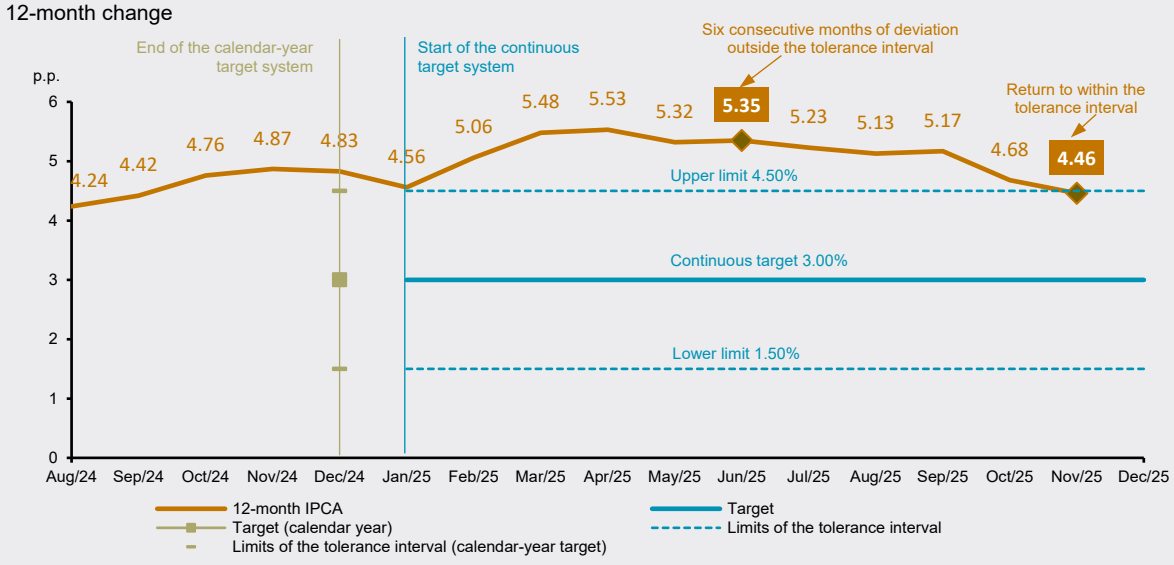
The goal of this note is to monitor the evolution of the inflation outlook and the measures adopted by the Banco Central do Brasil (BCB) to ensure the convergence of inflation to the target. The open letter and the note in the Monetary Policy Report (MPR) are instruments provided for in the Decree 12,079 of 2024 which established the continuous inflation-targeting framework. These instruments shall be released when the inflation target is breached.

About the target breach

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.

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. In November 2025, 12-month inflation reached 4.46% and returned to the tolerance interval of the 3,00% target.

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



Whenever the target is not met, the BCB shall disclose the reasons in an open letter[1] addressed to the Minister of Finance and a note in the MPR. The BCB previously informed that it will produce a quarterly note on the MPR not only when the breach is formalized, pursuant to the decree, but throughout the period in which the non-compliance lasts, thereby reinforcing transparency and accountability to society.

1/ Article 6 of Decree 12,079 of June 26, 2024. See the open letter that formalized the target breach, released on July 10, 2025, at https://www.bcb.gov.br/controleinflacao/historicometas (Portuguese only).

Therefore, the BCB provides an update to the note released in the September 2025 MPR, as the target remained breached during part of the current quarter. 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 inflation convergence.

Dynamics of inflation convergence

Inflation measured by the IPCA remained above the upper limit of the tolerance interval of the 3.00% target until October and ended November around the upper limit. The deceleration in consumer prices is consistent with the reference scenario projections released in the September 2025 MPR and with the inherent uncertainty around these projections. The current scenario of the Monetary Policy Committee (Copom) continues to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity, and labor market pressures.

The moderation in aggregate demand is a relevant element for the dynamics of inflation convergence outlined in conditional projections. There are signs of this moderation in recent readings on economic activity. For example, in 2025Q3, household consumption growth was lower than in previous quarters, reflecting the slowdown of disposable income. Moreover, the high debt-to-income (DTI) ratio and the increase of the debt to service ratio (DSR) may also have contributed to reduce the ability to expand consumption.

The output gap remains at positive levels, suggesting high utilization of productive factors and contributing to explain the dynamics of inflation. The resilient labor market, with an unemployment rate near historical lows and real growth of salaries, albeit more moderately, indicates that the Brazilian economy operates with a low degree of slack, despite signs of slowdown. The prospective scenarios for inflation project a gradual reduction in the output gap throughout next quarters, in line with the lagged effects of the monetary policy and its impacts on credit and consumption.

In November, actual 12-month inflation reached 4.46%, still above the 3% target. In this same metric, the average of core inflation measures ended November at 4.72%. The dynamics of inflation indicators involved different IPCA components, reflecting several pressure factors on consumer prices. In particular, the following stands out:

- Food-at-home: inflation dropped from 7.01% to 2.46% in twelve months, with relevant contributions from the exchange rate appreciation and lower international prices for some agricultural commodities. In 2024, food-at-home inflation was 8.22%, particularly pressured by high meat prices;

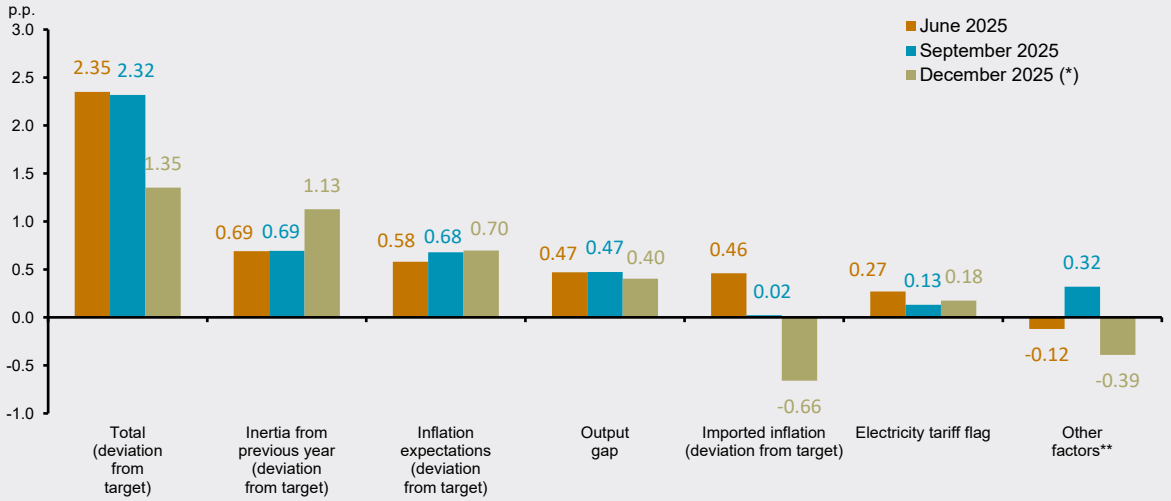
- Industrial goods: inflation reached 2.52% in the twelve months ending in November, but yet remaining at a level considered high for this group. In 2024, inflation in this segment reached 2.89%. The recent moderation reflects relevant contributions from exchange rate appreciation and lower demand, with significant decline in prices of electronics and cell phones;

- Services: after closing 2024 at 4.77%, services inflation has shown resilience at the margin, reaching a 12-month change of 5.95% in November. A relevant downside oscillation was observed in some components, such as cinema, banking services, and car insurance, while inflation measures that emphasize more labor-intensive services continue under pressure.

- Administered prices: inflation reached 5.34% in the twelve months ended in November. In 2024, inflation in this group reached 4.66%. Recent dynamics revealed an acceleration of the group at the margin, reflecting the reversal of the discount associated with the Itaipu bonus and a moderate increase in retail gasoline prices.

For December, the projected inflation is 0.41% p.m., which corresponds to a projected 12-month change of 4.35% p.a. by the end of 2025. Considering this projection, it is possible to update the breakdown of the IPCA deviation from the 3.00% target and compare it with the breakdown released in the July open letter and the note in the September MPR. Using the breakdown of factors[2] through small-scale semi-structural models, one can observe the factors that currently contribute to sustaining the projected deviation of 1.35 p.p. from the target in this quarter. Among the key factors are inertia from the previous twelve months (contribution of 1.13 p.p.); high inflation expectations (0.70 p.p.); positive output gap (0.40 p.p.); imported inflation (-0.66 p.p.); electricity tariff flag (0.18 p.p.); and other factors (-0.39 p.p.).

Figure 2 – Breakdown of the IPCA deviation from its target
12-month contribution (p.p.)



* Observed data until November and nowcast for December
** 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.

The convergence dynamics of inflation have shown a deceleration in prices, although the 12-month measure continues above the 3% target. Gradual disinflation can be observed in some components of the breakdown by factors, particularly in imported inflation. The twelve month inertia accounts for the largest contribution because the lagged inflation measure over four quarters increased in the moving window. Conditional projections for inflation over the coming quarters indicate that the factors determining the deviation are expected to show further accommodation, responding to the effects of the transmission of contractionary monetary policy.

Measures taken and their effects on inflation

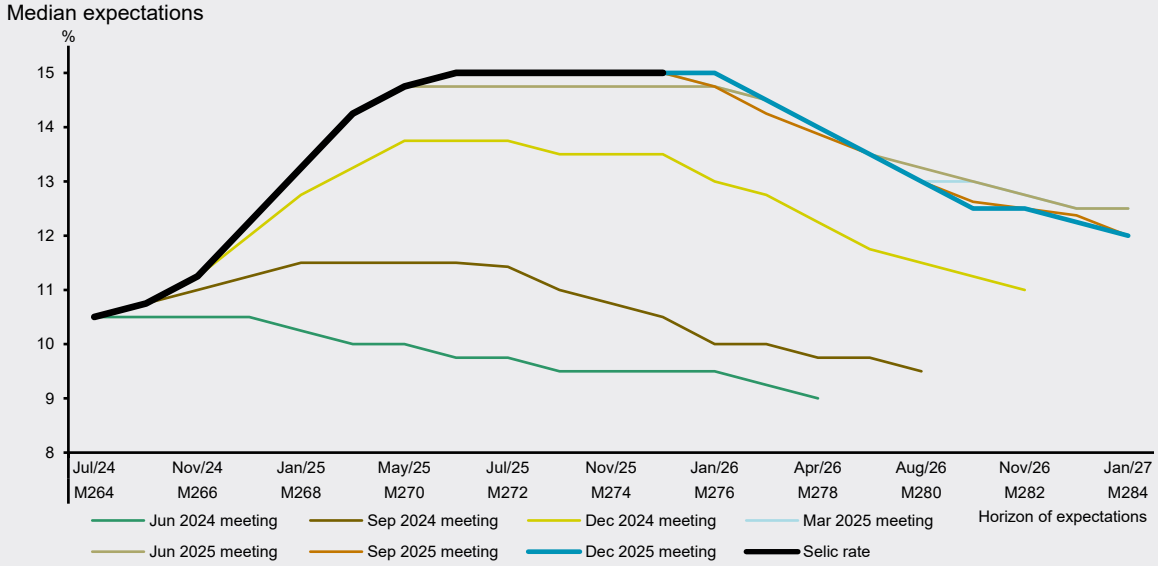
The BCB has implemented measures to mitigate inflationary risks and bring inflation back to the target. Copom decisions have led monetary policy to significantly contractionary levels, always considering the lagged effects of the interest rate on economic activity and inflation convergence to the target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

Throughout the year, the Committee has adjusted its communication to convey its assessment of the current stage of monetary policy, highlighting the growing confidence in the disinflation process. First, it is worth noting the firm increase in the policy rate to counteract a deterioration in the inflation scenario. After completing the tightening phase, the Committee paused to assess whether the prevailing interest rate level would be sufficient to ensure inflation convergence. The Committee reinforced that its strategy would be to keep the interest rate level for a very prolonged period. At first, Copom debated whether such a rate was sufficient, then judged that it was, and, in December meeting, concluded that the ongoing strategy

2/ 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.

of maintaining the current level of interest rate for a very prolonged period is appropriate to ensure the convergence of inflation to the target.

Figure 3 – Evolution of expectations for the Selic rate
Median expectations



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 intervals 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. Such objective elements provided for by law reinforce society's control over the performance of the continuous inflation-targeting regime. This additional note increases transparency and accountability.

Appendix

Monetary Policy Committee (Copom)

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