



ISSN 1517-7289

Monetary Policy Report

Volume 2 | Number 1 | March 2026



Monetary Policy Report

Volume 2 | Number 1 | March 2026

ISSN 1517-7289
CNPJ 00.038.166/0001-05

Monetary Policy Report

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

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

- **Department of Economics (Depec)**
(E-mail: depec@bcb.gov.br);
- **Research Department (Depep)**
(E-mail: depep@bcb.gov.br);
- **International Affairs Department (Derin)**
(E-mail: derin@bcb.gov.br); and
- **Department of Statistics (Dstat)**
(E-mail: dstat@bcb.gov.br).

Reproduction permitted only if source is stated as follows: Monetary Policy Report, volume 2, nr. 1.

Statistical conventions

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

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

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

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

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

Contact us:

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

Monetary policy framework in Brazil

Legal framework

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

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

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

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

Monetary Policy Committee – Copom

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

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

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

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



Contents

Monetary policy framework in Brazil	4
Executive summary	7
Economic outlook	9
1.1 External scenario _____	9
1.2 Domestic outlook _____	16
Economic activity _____	16
Labor market _____	21
Credit _____	24
Fiscal _____	28
External accounts _____	31
Prices _____	35
Inflation outlook	74
2.1 Revisions and short-term projections _____	74
2.2 Conditional projections _____	75
Inflation determinants and conditioning assumptions _____	75
Inflation projections _____	79
2.3 Balance of risks _____	80
2.4 Conduct of monetary policy _____	82
Boxes	
Seasonal adjustment and uncertainty about the pace of growth in early 2026 _____	41
Projections for GDP growth in 2026 _____	46
Recent evolution of labor productivity _____	48
Monetary Policy and the credit channel: response of bank credit granting to changes in the Selic rate _____	51
Projections for credit growth in 2026 _____	56
Services and primary income deficits in the balance of payments: recent dynamics and possible persistence _____	57
Projections for the evolution of external accounts in 2026 _____	64
Exchange rate pass-through: estimates from local projections _____	66
Consolidated methodology for IPCA-derived analytical series _____	71
2025 inflation decomposition _____	84
Appendix	87



Executive summary

The global environment has become more uncertain since the previous Monetary Policy Report (MPR). The escalation of geopolitical conflicts in the Middle East has affected global financial conditions, amid heightened volatility of asset and commodity prices. This scenario requires caution from emerging market economies.

Regarding the domestic scenario, economic activity growth continues to show a trajectory of moderation, while the labor market still shows resilience. The Gross Domestic Product (GDP) grew 2.3% in 2025, below the pace registered from 2021 to 2024, with slowdown in the sectors more sensitive to the economic cycle and in domestic demand. In the labor market, the unemployment rate continued to decline, reaching a new historical low, while real wages continued to increase. The GDP growth projection for 2026 remains at 1.6% but is subject to heightened uncertainty given the potential effects of the conflicts in the Middle East.

Both headline and underlying consumer inflation continue to show some slowdown, although remaining above the 3% target. The 12-month inflation, measured by the Extended National Consumer Price Index (IPCA), fell from 4.46% in November 2025 to 3.81% in February 2026, and the average of core inflation measures declined from 4.73% to 4.46%. Inflation in the Dec-Feb quarter was slightly below the scenario projected in the previous MPR, with the downward surprise concentrated in food-at-home. Services inflation is still high, in a context of heated labor market and positive output gap, but shows signs of moderation in some metrics. Inflation expectations declined marginally for 2026, remaining above the target throughout the projection horizon.

In the reference scenario projections, inflation increases until the end of 2026, resuming the downward trajectory until the relevant horizon, but remaining above the target. In this scenario – which uses the Selic rate from the Focus survey and the exchange rate following the purchasing power parity (PPP) – four-quarter inflation, after ending 2025 at 4.3%, falls to 3.6% in 2026Q1. It then starts an upward trajectory, to a large extent due to the increase in oil prices, ending 2026 at 3.9%. From 2027 it declines again, reaching 3.1% in the last period considered, referring to 2028Q3. In the relevant horizon for monetary policy, considered to be 2027Q3, projected inflation is 3.3%. 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 PPP theory. In this MPR, projections use the set of information available until the 277th Copom meeting held on March 17-18, 2026.

Compared with the previous MPR, inflation projections have risen. In the relevant horizon for monetary policy, considered to be 2027Q3, projected inflation rose by 0.1 p.p. Among the factors for upside projections stand out higher oil prices and the revised output gap. Conversely, the exchange rate appreciation and the marginal decline in inflation expectations contributed to counterbalance this increase.

In its latest meeting (277th meeting), Copom stated:

The Committee continues to monitor how developments of domestic fiscal policy impact monetary policy and financial assets, reinforcing its cautious stance in a scenario of heightened uncertainty. The indicators for the end of 2025 showed a softening of economic activity, whereas the current scenario continues to be marked by deanchored inflation expectations, high inflation projections and labor market pressures.

The Committee considers the impacts of the Middle East conflicts prospectively, particularly their effects on the global supply chain and commodity prices that directly and indirectly affect inflation in Brazil. Currently, inflation projections for the relevant horizon for the monetary policy present additional distance from the target. At the same time, the uncertainty around those projections has considerably increased, due to the lack of clarity about the duration of the conflicts and their effects on the conditioning variables of the projection models. The Committee deemed it appropriate to begin the monetary policy calibration cycle, insofar as the prolonged period of the Selic at a contractionary level gave enough evidence about monetary policy transmission to the economic deceleration, creating the conditions under which adjustments to the pace of this calibration, in light of new information, can be made so as to ensure convergence to the inflation target.

Copom decided to reduce the Selic rate to 14.75% 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.

In the current scenario, marked by heightened uncertainty, the Committee reaffirms serenity and cautiousness in the conduction of monetary policy, so that future steps of interest rate calibration could incorporate new information about the depth and duration of the conflicts in the Middle East, as well as their direct and indirect effects over time on the price level.

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

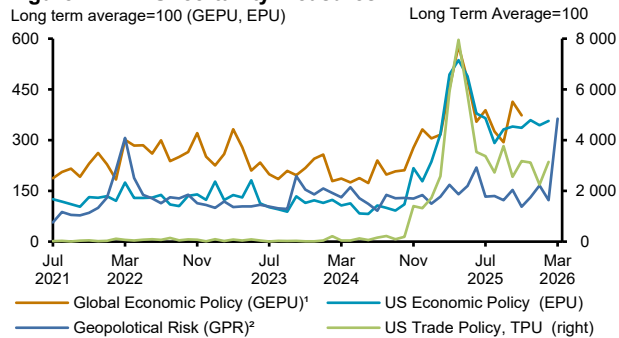
The prospective uncertainty about the external scenario increased. The repositioning of U.S. trade policy was partially challenged by a Supreme Court decision that deemed the legal basis for part of the import tariffs imposed in 2025 invalid. The government responded by implementing a new global tariff – now lower and uniform across countries – which resulted in an effective tariff rate below that previously in force. Although this reduction is favorable, it underscores that uncertainty surrounding U.S. trade policy persists, including with respect to the legality, rate, and duration of the new global tariff, as well as the potential reimbursement of revenues collected under the invalidated measures. Additionally, the outbreak of a conflict involving the U.S., Israel, and Iran has significantly increased uncertainty about the global outlook (Figure 1.1.1), as its effects have spread throughout the Middle East and commodity flows through the Strait of Hormuz have been affected. This environment is unfolding at a time when the disinflation process remains partly incomplete in many economies (Figure 1.1.2). Global growth ended 2025 above the level expected at the beginning of the year, despite the increase in U.S. import tariffs and uncertainty surrounding economic policies throughout the period. Through import front-loading and the reorganization of global production chains, economic agents have managed to avoid a deterioration in international trade volumes and overall economic activity. The resilience of these agents is being tested once again by the conflict in the Middle East and their response may prompt further reconfiguration. These factors continue to weigh on the balance of risks and contribute to keeping uncertainty about the economic outlook at elevated levels. Should the energy price shock persist, assessing its transmission to inflation and economic growth will be important for calibrating fiscal and monetary policies in the coming months.

Although episodes of heightened geopolitical tension are recurrent, the new conflict in the Middle East has generated volatility, uncertainty, and risk aversion in financial markets. Prices of oil, gas, and other commodities have risen and remained volatile since the onset of the conflict. If transit through the Strait of Hormuz remains disrupted for an extended period – or if the conflict continues to take on a broader regional dimension – the impact on prices and economic activity may be significant and long-lasting. Macroeconomic prospects will be affected both by the direct effects of the supply shock and by indirect effects associated with higher uncertainty, complicating central banks' policy reaction functions. The increase in prices will not be homogeneous across countries, with Asian economies – more dependent on energy imports from the Persian Gulf – likely to be more adversely affected. Historically, changes in energy commodity prices tend to spill over to a broad range of other transported and traded goods and to deteriorate inflation expectations.

Despite its recent onset, the increase in energy prices has already exerted upward pressure on short-term inflation expectations. The pass-through of the shock in energy commodity prices to consumer prices

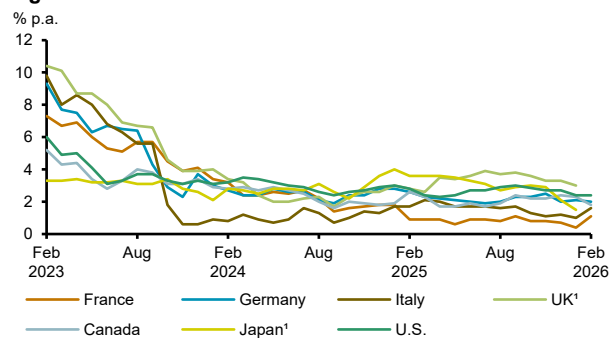
will be heterogeneous and will depend on each country's pricing framework. At the same time, core inflation remains above target in many economies (Figure 1.1.3), with a relatively slow pace of convergence. In the U.S., evidence of the effects of the import tariffs adopted in 2025 and redefined in 2026 continues to emerge in goods prices, and further pass-through is expected throughout the year. Price dynamics along production chains reveal differences by sector, by source, and by market power, as well as distortions stemming from import front-loading and the consequent build-up of precautionary inventories.

Figure 1.1.1 – Uncertainty measures



Source: Bloomberg, Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," *American Economic Review*, April, 112(4), pp.1194-1225.
 1/ Weighted by the purchasing power parity (PPP). Until November 2025.
 2/ Index: 1985:2019=100. Data until March 16, 2026.

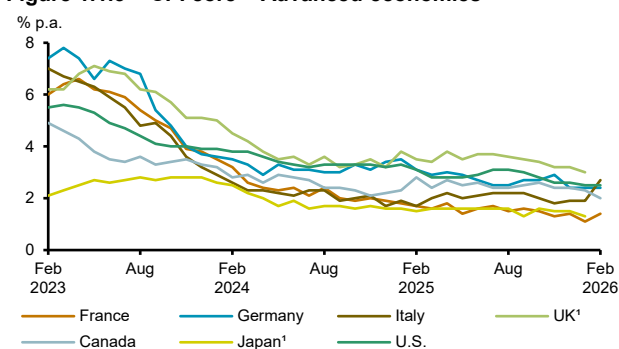
Figure 1.1.2 – CPI – Advanced economies



Source: Bloomberg
 1/ Until January 2026

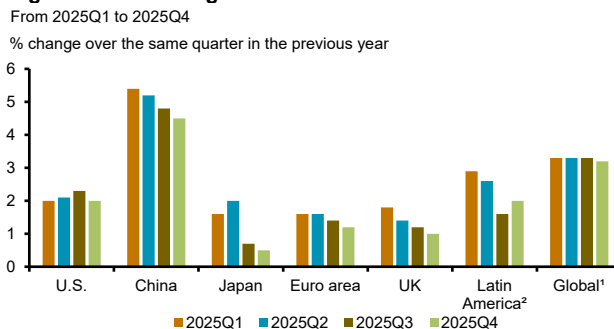
Global activity has continued to expand, albeit at rates below those observed prior to the pandemic, reflecting a trend of gradual deceleration (Figure 1.1.4). Amid heightened uncertainty, the risks of a more pronounced slowdown have increased. In the short- and medium-term, developments related to the conflict in the Middle East may weigh on growth. Countries more directly involved in the conflict and those more dependent on energy commodity imports are expected to be the most affected. For these economies, the need for fiscal measures to mitigate the impact of weaker activity is greater. In cases where fiscal space is limited, the prospect of higher sovereign debt amplifies risks to debt sustainability. Expectations of productivity gains remain the main counteracting force, although they depend on the availability and cost of energy.

Figure 1.1.3 – CPI core – Advanced economies



Source: Bloomberg
 1/ Until January 2026

Figure 1.1.4 – GDP growth



Sources: Bloomberg, BCB

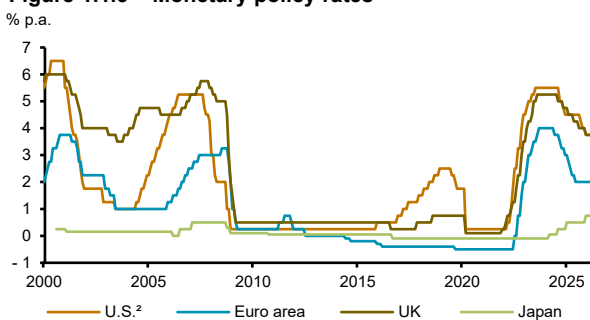
1/ Calculated as described in the box "Projections and macroeconomic analysis model of the global economy" in the September 2022 IR.
 2/ Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

The monetary policy easing cycle has been completed, or is expected to conclude in 2026, in nearly all advanced economies (Figure 1.1.5). In some of these economies, there is even an expectation of policy rate increases in 2026. Australia, for instance, raised its policy rate in February and again in March. The increase in uncertainty, risks to economic activity, signs of improved labor market balance, and the already restrictive monetary policy stance justified the easing cycle initiated in mid-2024. Central banks continue to reaffirm their commitment to bringing inflation rates to target. The conflict in the Middle East complicates the conduct of monetary policy, particularly due to the need to monitor second round effects of the supply shock and to avoid the risk of treating persistent price increases as transitory. Rising inflation expectations, risk premia, and yield curve steepening may signal the need for a preemptive policy response.

In the U.S., economic activity has shown signs of moderation, in a scenario of high uncertainty in the economic policies. The 2025Q4 GDP grew at 0.7% annualized QoQ rate. Activity has been highly volatile due to import front loading followed by subsequent adjustments driven by expectations of trade tariffs, as well as the budget discussions in Congress that resulted in a federal government shutdown lasting several weeks at the end of 2025. Household consumption slowed at year end, amid weaker labor market and income dynamics, and the effects of the shutdown. Fixed investment continues to be driven by the high technology sector, particularly in activities related to artificial intelligence. Performance has been weaker in other segments, negatively affected by still relatively high long-term interest rates. The persistence of tight credit conditions and elevated delinquency rates, together with slowing disposable income and the depletion of liquidity buffers, disproportionately affect households with lower net worth. The continued weakness of confidence indicators at low levels reinforces expectations of subdued consumption.

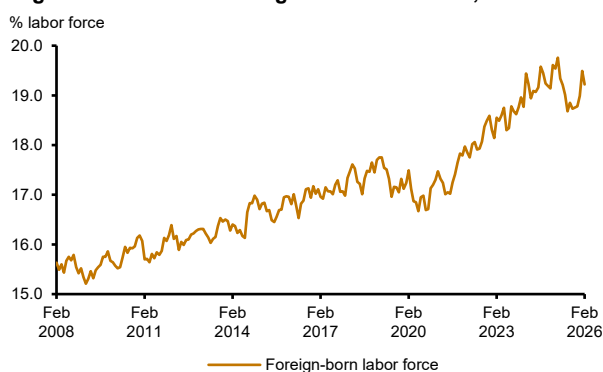
There is evidence of labor market accommodation in recent quarters, with signs of weakening demand combined with lower labor supply. Net hiring has been weak in recent months, averaging 34,000 persons in the first two months of 2026 (compared with an average of 10,000 in 2025 and 122,000 in 2024). The unemployment rate stood at 4.4% in February, still historically low. This rate reflects a cooling in labor demand occurring simultaneously with a contraction in labor supply since the beginning of 2025, driven by a decline in the share of foreign-born workers in the labor force (Figure 1.1.6) and by a lower participation rate. Nominal wages continue to grow at relatively elevated rates (3.8% p.a. in February¹), supported in part by productivity gains.

Figure 1.1.5 – Monetary policy rates¹



Source: Bloomberg
1/ Until March 18, 2026.
2/ US refers to the upper bound of the monetary policy rate.

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



Source: Bloomberg

Inflation in the U.S. remains elevated amid the increase in import tariffs. Consumer inflation in February rose by 2.4% p.a.², while core inflation registered 2.5% p.a. over the same period. Goods prices accelerated throughout 2025, particularly in segments more sensitive to import costs. Housing components have shown rates close to those observed before the pandemic. The remaining core services inflation have shown persistence, despite a gradual deceleration. Although concerns persist about further tariff pass-through in the coming quarters, the outlook suggests that these effects will be moderate, which should contribute to the deceleration of inflation over the course of the year. The recent conflict in the Middle East has heightened concerns regarding renewed price pressures, either through energy prices or via potential disruptions to supply chains. Thus far, long-term inflation expectations have remained stable since April 2025.

The Federal Reserve kept the policy rate unchanged in March, maintaining the target range at 3.5%–3.75%. The communication emphasized that the federal funds rate is close to its neutral level, with future decisions remaining dependent on incoming data, although there are divergences among voting FOMC members regarding the balance of risks and the appropriate monetary policy trajectory over the course of the year. The most recent meeting highlighted that the implications of the conflict in the Middle East for the U.S. economy remain uncertain.

1/ According to Average Hourly Earnings.
2/ According to the Consumer Price Index (CPI).

In the euro area, GDP growth decelerated in 2025Q4, expanding by 0.2% QoQ, compared with 0.3% in 2025Q3, according to seasonally adjusted data. As in the two preceding quarters, net exports contributed negatively to the region's economic activity (-0.1 p.p.), reflecting the impact of U.S. import tariffs as well as increased competition from Asian producers. Gross fixed capital formation (GFCF) contributed positively, rising by 0.6% QoQ, as did government consumption, which grew by 0.5% on the same comparison basis. Household consumption growth also accelerated, advancing 0.4% in the quarter, compared with 0.2% in the previous quarter. Over the year, GDP of the euro area expanded by 1.4%, the highest rate since 2022. The outlook for economic activity in the region remains uncertain, despite a more accommodative monetary policy stance and the prospect of higher fiscal spending in Germany. Indeed, the combination of political uncertainty, the ongoing conflict in Ukraine, subdued confidence, and limited fiscal space in most countries is now compounded by the conflict in the Middle East and the associated risks to energy supply and prices.

Both headline and core inflation remained relatively stable over the quarter, fluctuating around the European Central Bank's (ECB) 2% target. Services inflation, however, continued to stand at a relatively elevated rate (3.4% p.a. in the February flash estimate). In this environment, the ECB's deposit facility rate has stood unchanged at 2.0% since June 2025. In its communication, the ECB continues to emphasize the convergence of inflation to its target. The institution expects a more favorable trajectory for services inflation in the coming months, supported by more moderate wage adjustments negotiated in collective bargaining agreements.

In the United Kingdom, GDP grew by 0.1% QoQ in 2025Q4, matching the pace observed in the previous quarter. Economic activity was sustained by a recovery in the industrial sector, while construction output contracted and the services sector displayed limited momentum. Consumer inflation continued its downward trajectory, standing at 3.0% p.a. in January, while core inflation registered a 3.1% change in the same period. The Bank of England (BoE) maintained the policy rate at 3.75% at its February meeting. On that occasion, the Monetary Policy Committee assessed that wage growth and services inflation, although still above levels consistent with the 2% target, continue to moderate, reflecting the impact of restrictive monetary policy.

In China, economic activity decelerated throughout 2025. In 2025Q4, GDP recorded a YoY 4.5% growth, following increasingly lower rates of 5.4%, 5.2%, and 4.8% in the three preceding quarters. For 2025, the growth rate reached 5.0%, matching the previous year's performance and in line with the target set at the National People's Congress. From the demand side, net exports were essential to meeting the GDP growth target, given that the contribution of investment was the lowest in fifteen years. From the supply side, annual growth was led by the industrial sector (5.8%), while real estate development registered a small, albeit positive rate (0.2%) after three consecutive years of contraction. The construction sector, reflecting the decline in investment, posted a contraction of 1.1%, marking the first negative result in the available time series.

Economic growth is expected to show a modest acceleration in 2026Q1. Economic activity indicators for January and February exceeded expectations, with broad based improvements across services activity, industrial production, retail sales, and fixed asset investment. External demand remained as the main driver of growth, reflecting strong demand for manufactured products during the period, particularly technology-related goods and electrical equipment. Nonetheless, doubts persist regarding the sustainability of the recovery, in light of weakened household consumption, the structural adjustment underway in the real estate development and construction sectors, and uncertainty surrounding external demand. Risks have increased with the intensification of the conflict in the Middle East, leading to higher oil and other commodity prices and the possibility of significant disruptions to global supply chains and to demand for Chinese exports.

The annual GDP growth target approved at the National People's Congress was reduced to a 4.5%-5.0% range for 2026, from 5% in each of the previous four years. The 2026 Government Work Report also sets out the creation of twelve million urban jobs; consumer inflation around 2%; a fiscal deficit of 4% of GDP; issuance of RMB 1.3 trillion in long-term special central government bonds and RMB 4.4 trillion in special local government bonds; and a reduction of approximately 3.8% in carbon emissions per unit of GDP. The Report outlines several specific strategies aimed at supporting higher household consumption, such as expanding

social security transfers and basic health care assistance for rural residents and unemployed individuals in urban areas, as well as easing requirements for permanent residency permits for migrant workers. In addition, the People's Bank of China (PBC) expanded the volumes and lowered by 25 b.p. the interest rates applicable to selected structural policy instruments designed to support agriculture, small enterprises, and technological innovation.

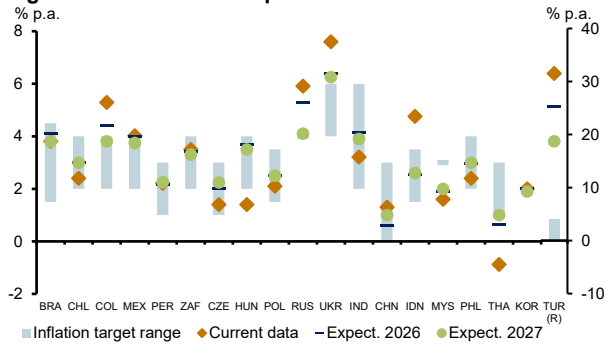
The main emerging market economies returned to a YoY GDP growth in 2025Q4, despite the increase of risks and uncertainties. Overall, these economies experienced a deceleration in YoY growth compared with the previous quarter, although there were exceptions, most notably among mid-sized Asian economies. Among the largest Latin American economies for which data have already been released, Colombia recorded a slowdown in its annual growth rate, Brazil showed stability, and Mexico reversed the contraction observed in 2025Q3. In these economies, domestic demand and goods imports have generally remained more dynamic than domestic production.

Key financial condition indicators for emerging market economies became more restrictive relative to the previous quarter, particularly after the onset of the conflict in the Middle East. Even so, these indicators remain far from the levels observed during past crisis episodes. Most emerging market currencies reversed the positive performance seen in the first two months of the year and depreciated over the quarter, although with notable exceptions, including Argentina, Brazil, Colombia, and Mexico. This overall trend primarily reflected global factors, especially the degree of dependence on energy-commodity imports originating from Middle Eastern countries.

Risks and uncertainties for emerging market economies have increased, driven primarily by concerns surrounding U.S. trade policy and the conflict in the Middle East. The U.S. Supreme Court's decision to invalidate part of import tariffs, the subsequent response by the U.S. government to impose a global tariff, and the overall lack of clarity on this issue have kept uncertainty elevated, negatively affecting economic activity, confidence, and investment. The escalation of geopolitical and military tensions in the Middle East – and their effects on prices, production and logistics of commodities and other intermediate goods – has renewed upside risks to inflation and deteriorated the outlook for emerging market economies. Other risks persist, including doubts about the fiscal sustainability of major economies, developments in the Chinese economy, and the continuation of the conflict between Russia and Ukraine.

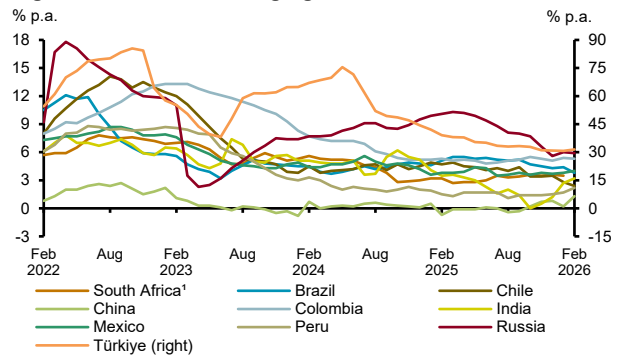
Inflation expectations for late 2026 and 2027 in major emerging market economies mostly point to inflation within target ranges, although risks have increased (Figure 1.1.7). Inflation rates have continued to diverge across economies, mostly recording declines, though with some exceptions (Figure 1.1.8). Inflation expectations relative to current inflation show substantial dispersion, in some cases anticipating a decrease in the rate and in others indicating an increase. The future path of inflation in these economies remains subject to high uncertainty, and risks appear to have risen, reflecting geopolitical tensions and global trade frictions. Expectations for policy interest rates generally point to stability through the end of 2027, with important exceptions (Figure 1.1.9). The most notable cases are Brazil, where expectations indicate rate cuts – particularly during 2026 – and Colombia, where expectations point to higher interest rates.

Figure 1.1.7 – Inflation expectations¹



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

Figure 1.1.8 – CPI – Emerging market economies

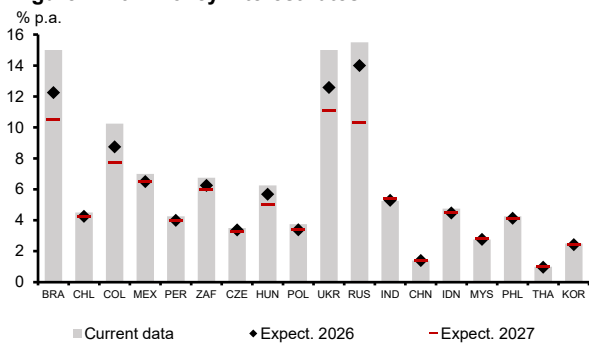


Source: Bloomberg
1/ Until January 2026.

Energy commodity prices³ recorded a sharp increase over the quarter, driven by the outbreak of the conflict involving the U.S., Israel, and Iran in the Middle East, which culminated in the closure of the Strait of Hormuz in late February – a key chokepoint for commodity transit – directly affecting producers and exporters (Figure 1.1.10). Prior to the escalation of tensions in the Middle East, the prevailing scenario was one of excess supply, reflecting increased production by both OPEC+ (the Organization of the Petroleum Exporting Countries and its allies) and non-alliance producers, amid uncertainty regarding global demand and a sustained buildup of inventories. With the conflict, the disruption of transit through the Strait of Hormuz and the consequent halt in production by Persian Gulf countries exerted significant upward pressure on prices. Given Europe’s dependence on marginal liquefied natural gas (LNG) cargoes from Qatar, gas prices in the continent rose sharply, amid increased competition with other buyers in this market, especially at a time of low inventory levels.

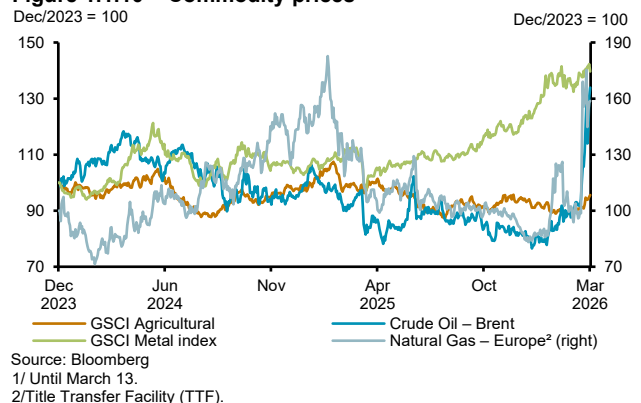
Metal commodity prices increased over the period, responding primarily to geopolitical and trade tensions and to the persistence of structural supply constraints amid demand linked to electrification, artificial intelligence, and the expansion of data centers. Copper and aluminum markets remained under pressure due to persistent supply constraints stemming from operational disruptions, refining bottlenecks, energy limitations, and geopolitical risks. Expectations of monetary easing in the U.S. in 2026, a weaker U.S. dollar, and increased allocation to real assets reinforced financial inflows into metals, particularly copper, gold, and silver. In contrast, iron ore and steel prices remained contained, reflecting developments in the Chinese economy, especially the structural contraction of the real estate sector, with direct implications for steel production and iron ore demand.

Figure 1.1.9 – Policy interest rates¹



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

Figure 1.1.10 – Commodity prices¹



Source: Bloomberg
1/ Until March 13.
2/ Title Transfer Facility (TTF).

Agricultural commodity prices recorded a modest increase over the period, influenced by localized climate concerns, improved demand conditions, and a worsening geopolitical environment, without, so far, undermining the outlook for ample supply of corn, rice, and wheat. Over the quarter, soybean prices rose amid

3/ In this section, commodity price changes are measured between the cut-off dates of the current and previous MPRs.

concerns over localized droughts in Brazil and dry conditions in Argentina, as well as stronger Asian demand. Nevertheless, the robustness of the South American harvest limited more pronounced price increases. Wheat prices posted a more significant rise, reflecting the persistence of tensions in the Black Sea region and, more recently, potential spillovers from the conflict in the Middle East, combined with localized climate risks, despite expectations of abundant harvests. The conflict in the Middle East has affected agricultural prices through potential impacts on fertilizer supply, increased demand for biofuels amid higher energy prices, and logistical factors related to the transit of goods in the region.

In sum, the conflict in the Middle East introduces additional uncertainty to the forward looking outlook for inflation and economic growth. As the conflict persists, the flow of commodities through the Strait of Hormuz becomes impaired, exerting upward pressure on prices. The recent increase in energy-commodity prices has already led to a rise in inflation expectations. However, the pass-through of the energy price shock to consumer prices will be heterogeneous and will depend on each country's pricing framework. The magnitude and timing of inflation pass-through will depend not only on the intensity and duration of the conflict, but also on the effectiveness of mitigating responses. It will also depend on the persistence of the supply shock's impact on economic activity, either by limiting energy production capacity beyond the conflict itself or by prompting further defensive reorganization of supply chains.

The reduction in U.S. import tariffs following the Supreme Court's ruling on their legality is favorable, although it underscores that uncertainty surrounding the issue persists. In this context, risks of renewed protectionist measures and increased trade and financial fragmentation remain present. At the same time, concerns about sovereign debt sustainability in major economies have intensified. On the one hand, new fiscal measures aimed at mitigating the impact of higher international energy prices on economic activity and on final consumers may be implemented. On the other hand, rising geopolitical tensions and fragmentation may lead to increased public spending on defense. Consequently, the risks of abrupt asset repricing have increased, amid expectations of adverse interactions between fiscal and financial vulnerabilities. These developments are unfolding against a backdrop of macroeconomic fundamentals and labor market rebalancing and, above all, of continued gradual disinflation. The combination of all those elements contributes to a still negative asymmetry in the balance of risks to the global economy. Should the energy price shock persist, assessing how it propagates to inflation and economic growth will be important for the calibration of fiscal and monetary policies in the coming months.

The monetary policy easing cycle has been completed or is expected to end in 2026 in almost all central banks of major economies. For some advanced economies, there are even expectations of policy rate increases in 2026, although interest rates remain at contractionary levels in some of these countries. In any case, central banks continue to closely monitor headline and core inflation dynamics, inflation expectations, labor market conditions, the balance of risks, as well as developments related to the conflict in the Middle East, reinforcing the need to maintain a flexible monetary policy stance and transparent communication.

1.2 Domestic outlook

Economic activity

With a 2.3% GDP growth in 2025, the Brazilian economy slowed down compared with previous years, in line with expectations. The GDP performance was weaker than that observed from 2021 to 2024, when it had increased by 3% or more per year (Figure 1.2.1). Unlike the pattern observed since 2021 – when annual results consistently and significantly exceeded the projections made at the end of the previous year – growth in 2025 was close to the BCB and market analysts' initial estimates, as had already been anticipated in the December 2025 MPR (Figure 1.2.2).⁴ From the supply perspective, the sectors more sensitive to the economic cycle slowed down, while the less cyclical ones accelerated significantly, with particular emphasis on the strong expansion of mining and, especially, agriculture. On the domestic demand side, both household consumption and GFCF lost momentum. In the external sector, imports – mirroring domestic demand – grew at a slower yet still significant pace, while exports accelerated, mainly driven by the increase in shipments of primary goods (Table 1.2.1).

Table 1.2.1 – Gross Domestic Product

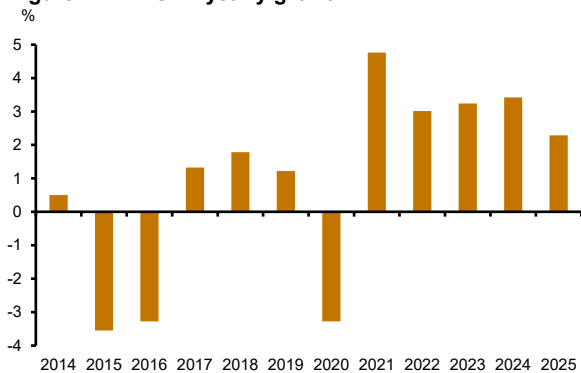
Itemization	YoY change							QoQ, s.a.								%
	2019	2020	2021	2022	2023	2024	2025	2024				2025				
								Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
GDP at market prices	1.2	-3.3	4.8	3.0	3.2	3.4	2.3	0.8	1.7	0.8	0.0	1.5	0.3	0.0	0.1	
GDP ex-agriculture at market prices	1.3	-3.6	5.1	3.3	2.4	3.9	1.7	0.8	1.7	0.7	-0.0	0.8	0.3	0.2	0.2	
Agriculture	0.4	4.2	0.0	-1.1	16.3	-3.7	11.7	3.0	-0.9	0.6	-2.2	14.9	-1.8	0.3	0.5	
Industry	-0.7	-3.0	5.0	1.5	1.7	3.1	1.4	0.6	0.5	0.7	0.4	0.1	0.6	0.7	-0.7	
Mining	-9.1	0.9	3.6	-1.4	9.2	0.5	8.6	0.4	-5.2	-0.1	1.3	3.8	5.0	1.5	1.1	
Manufacturing	-0.4	-4.7	3.8	-0.5	-1.3	3.9	-0.2	1.6	2.2	0.8	0.7	-1.2	-0.4	0.2	-0.6	
Construction	1.9	-2.1	12.6	6.8	-0.3	4.4	0.5	0.8	2.4	-1.3	2.9	-0.8	-0.6	0.6	-2.3	
Utilities (EGAER) ¹	2.6	-1.0	1.5	10.5	5.8	1.0	-0.4	-4.6	0.3	-1.9	-0.3	1.9	-1.4	-1.1	1.5	
Services	1.5	-3.7	4.8	4.3	2.8	3.8	1.8	1.7	0.9	0.9	0.1	0.3	0.6	0.3	0.8	
Trade	1.6	-1.5	4.5	0.9	0.8	3.8	1.1	2.7	1.3	0.5	0.2	0.4	-0.1	0.4	-0.3	
Transport and storage	0.1	-12.7	6.5	8.1	2.4	1.9	2.1	2.0	0.4	0.4	0.8	-0.4	1.0	2.6	-1.4	
Information services	4.5	2.1	13.9	5.2	2.9	6.1	6.5	2.6	1.7	2.5	-0.5	2.9	1.4	1.3	1.5	
Financial and related services	1.1	3.3	-0.7	-0.2	7.5	5.5	2.9	0.9	1.5	1.7	-0.4	0.6	1.3	-0.7	3.3	
Other services	2.8	-9.3	9.0	11.4	3.4	5.3	2.0	1.3	1.5	1.6	-0.3	0.6	0.7	0.1	0.7	
Real estate	2.4	1.7	1.9	1.9	3.0	3.1	2.0	1.1	0.7	0.7	0.1	0.4	0.8	0.6	0.2	
Public admin., health, and education (APU)	-0.4	-4.5	2.6	1.6	1.6	1.7	0.5	0.2	1.2	0.4	-0.3	0.3	-0.1	0.4	0.4	
GVA - more cyclical sectors	1.7	-5.2	6.8	5.1	1.3	4.2	1.4	1.6	1.6	0.9	0.2	-0.1	0.3	0.5	-0.0	
GVA - less cyclical sectors	0.0	-0.4	1.6	0.6	6.0	1.7	3.7	0.7	0.6	0.6	-0.1	2.6	0.7	0.2	0.6	
Household consumption	2.6	-4.6	3.0	4.1	3.2	5.1	1.3	2.7	1.0	1.3	-0.8	0.7	0.5	-0.1	-0.0	
Government consumption	-0.5	-3.7	4.2	2.1	3.8	2.0	2.1	-0.4	1.1	0.5	-1.0	1.4	0.1	1.3	1.0	
GFCF	4.0	-1.7	12.9	1.1	-3.0	6.9	2.9	3.6	2.3	1.8	1.6	3.1	-2.5	0.1	-3.5	
Exports	-2.6	-2.3	4.4	5.7	8.9	2.8	6.2	-0.2	1.5	-1.3	-2.2	4.3	1.7	3.6	3.7	
Imports	1.3	-9.5	13.8	1.0	-1.2	15.6	4.5	3.2	8.8	1.2	0.2	4.9	-2.5	-0.3	-1.8	
Indirect seasonal adjustment																
GDP at market prices								1.4	1.0	0.8	0.1	1.2	0.3	0.4	0.3	
GDP ex-agriculture at market prices								1.3	1.1	0.8	0.2	0.4	0.4	0.4	0.3	
GVA - more cyclical sectors								1.4	1.6	0.8	0.3	0.2	0.2	0.3	-0.1	
GVA - less cyclical sectors								0.9	0.2	0.7	-0.4	2.9	0.5	0.3	0.9	

Sources: IBGE and BCB

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

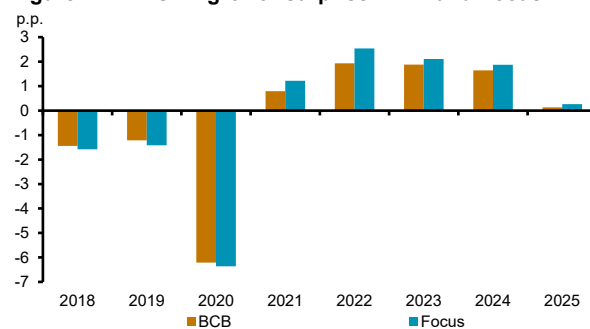
4/ Box [Brazilian GDP growth surprises in the post-pandemic period](#) in the December 2025 MPR.

Figure 1.2.1 – GDP yearly growth



Source: IBGE

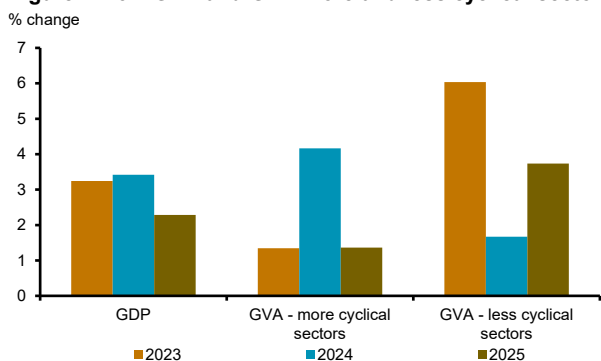
Figure 1.2.2 – GDP growth surprise: BCB and Focus



BCB: projection of the MPR of the previous year. Focus: median (30 days) of the last business day of the previous year.
Sources: IBGE and BCB

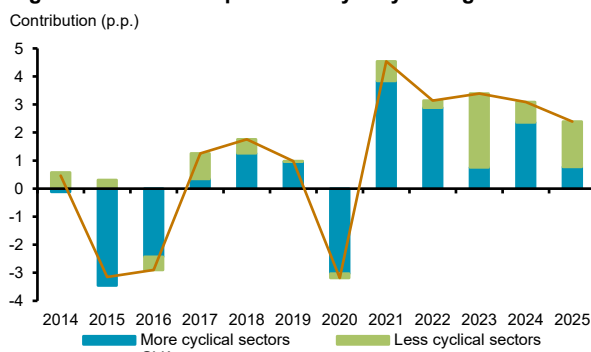
Growth moderation in 2025 was stronger in the more cyclical segments of the economy, while the sectors less sensitive to the economic cycle accelerated. The less cyclical sectors expanded 3.7% in 2025, after growing 1.7% in the previous year, driven by the strong increase in agriculture and mining. By contrast, the more cyclical sectors lost momentum, rising 1.4% in 2025, compared with 4.2% in 2024, a movement consistent with the effects of the restrictive monetary policy (Figure 1.2.3).⁵ Given these results, the less cyclical sectors contributed with 1.6 p.p. to the 2.4% expansion in the Gross Value Added (GVA) in 2025 – a pattern similar to that observed in 2023 and different from that of 2024, when GDP growth was supported by robust expansion in demand and in the sectors more sensitive to the economic cycle (Figure 1.2.4).

Figure 1.2.3 – GDP and GVA more and less cyclical sectors



Source: IBGE

Figure 1.2.4 – Decomposition of yearly GVA growth

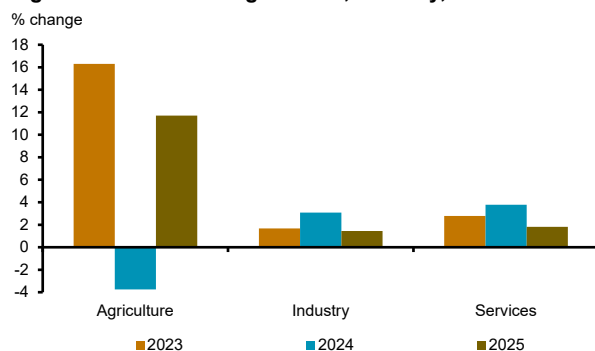


Sources: IBGE and BCB

In the sectoral breakdown, strong expansions in agriculture and mining stood out. Agriculture grew 11.7% in 2025 after declining 3.7% in the previous year, driven by strong grain production – especially soybeans and corn – and by a solid livestock performance (Table 1.2.1). Industry expanded 1.4% in 2025, below the 3.1% recorded in 2024, reflecting weaker momentum in manufacturing and construction. Conversely, mining – less sensitive to domestic conditions – grew strongly, sustained by the increase in oil and iron ore production. The services sector also decelerated, with a growth of 1.8%, compared with 3.8% in 2024 (Figure 1.2.5), amid a widespread slowdown across activities, except for transport and information services, both of which grew slightly more than in the previous year.

5/ 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.

Figure 1.2.5 – GVA of agriculture, industry, and services

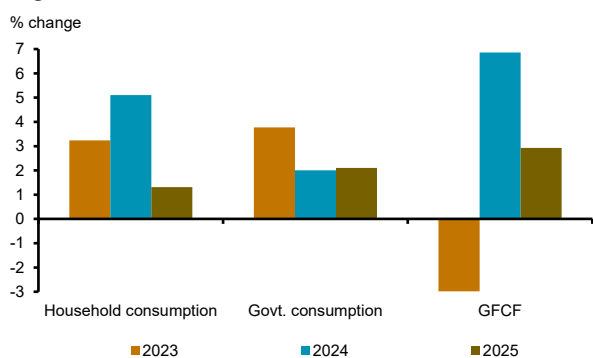


Source: IBGE

In 2025, domestic demand grew at a slower pace, with repercussions on imports, while exports accelerated.

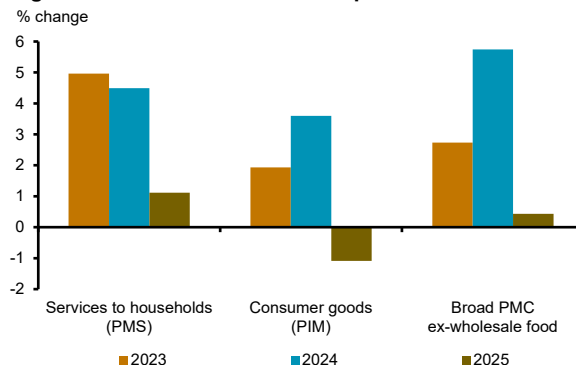
Household consumption grew 1.3%, after a 5.1% increase in 2024. The supply-side breakdown of GDP, as well as indicators of retail sales, services provided to households, and consumer goods production, point to moderation in both goods and services consumption. GFCF grew 2.9%, below the 6.9% recorded in the previous year, possibly reflecting the cumulative effects of the more restrictive monetary policy. The production of capital goods and typical construction inputs indicates a slowdown in both the machinery and equipment segment and construction. Conversely, continued robust growth in information technology services suggests that this segment continued to make a meaningful contribution to investments. Government consumption increased 2.1% in 2025, a rate similar to that observed in 2024 (Figures 1.2.6 to 1.2.8). Imports rose 4.5%, still a high rate, but significantly below the 15.6% observed in 2024, reflecting the slowdown in domestic demand (Figure 1.2.9). Exports, in turn, grew 6.2% in 2025, after increasing 2.8% in 2024, with widespread gains across primary, manufactured, and semi-manufactured goods, in addition to strong expansion in services. With these results, domestic demand contributed with 2.0 p.p. to the 2.3% GDP growth in 2025, while the external sector's contribution was more modest, 0.3 p.p.

Figure 1.2.6 – GDP - final domestic demand



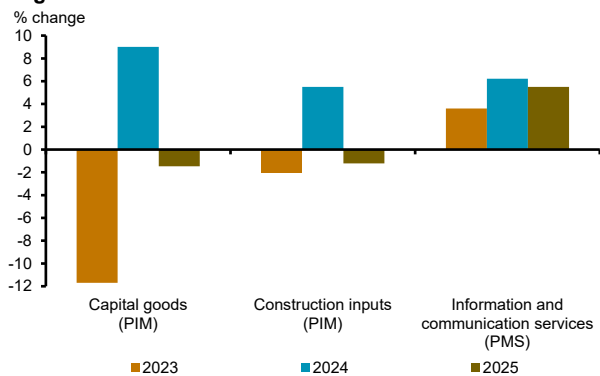
Source: IBGE

Figure 1.2.7 – Household consumption indicators



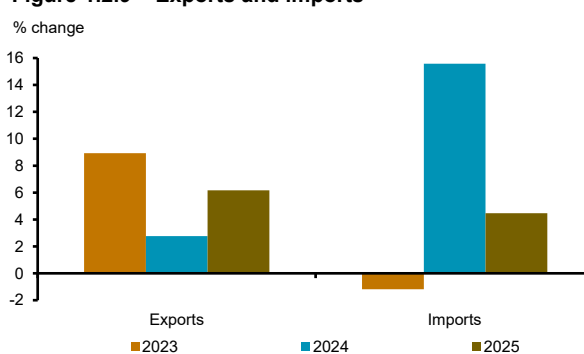
Sources: BCB and IBGE

Figure 1.2.8 – Investment indicators



Source: IBGE

Figure 1.2.9 – Exports and imports

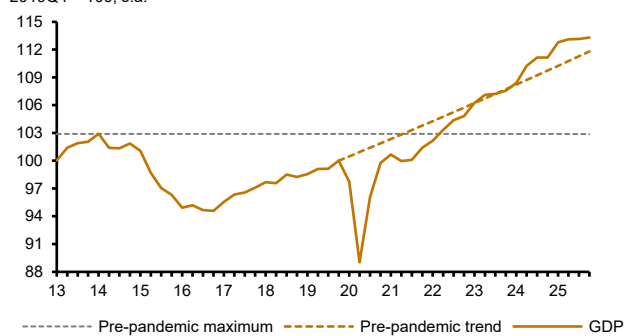


Source: IBGE

In 2025Q4, GDP increased 0.1%, after remaining stable in the previous quarter. On the supply side, agriculture and services expanded 0.5% and 0.8%, respectively, while industry declined 0.7%, reflecting contractions in both manufacturing and construction. In services, growth was relatively widespread across segments, with particular emphasis on the strong expansion in financial intermediation services – which had declined in the previous quarter – and the continued robust growth of information services. The exceptions were contractions in trade and transport. On the domestic demand side, household consumption remained stable, after a slight decline in the previous quarter. The stagnation of consumption in the second half of the year occurs despite the increase in household gross disposable income and may be associated with rising debt-to-income (DTI) ratio and debt to service ratio (DSR). Government consumption grew 1.0% in 2025Q4, while GFCF fell 3.5%, influenced by the base effect of the oil rig import recorded in 2025Q3. In the external sector, exports rose 3.7%, driven by the growth in shipments of primary goods, while imports fell 1.8%, a result also affected by the oil rig import in 2025Q3 (Figures 1.2.10 to 1.2.13).

Figure 1.2.10 – Gross Domestic Product

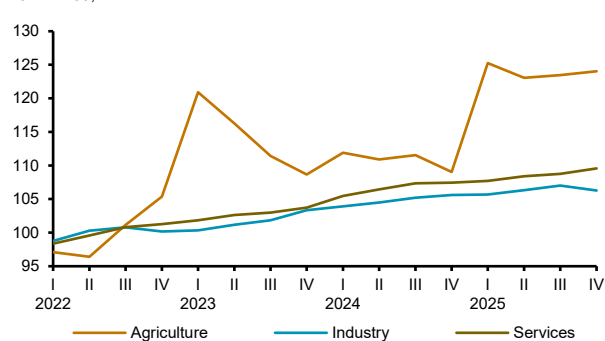
2019Q4 = 100, s.a.



Source: IBGE

Figure 1.2.11 – GVA of agriculture, industry, and services

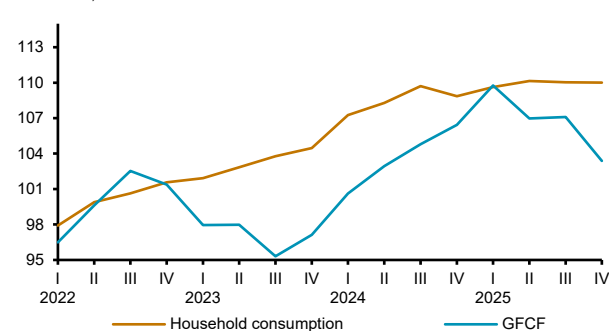
2022 = 100, s.a.



Source: IBGE

Figure 1.2.12 – Household consumption and GFCF

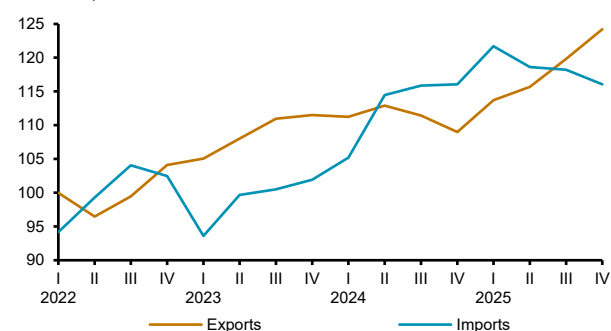
2022 = 100, s.a.



Source: IBGE

Figure 1.2.13 – Exports and imports

2022 = 100, s.a.



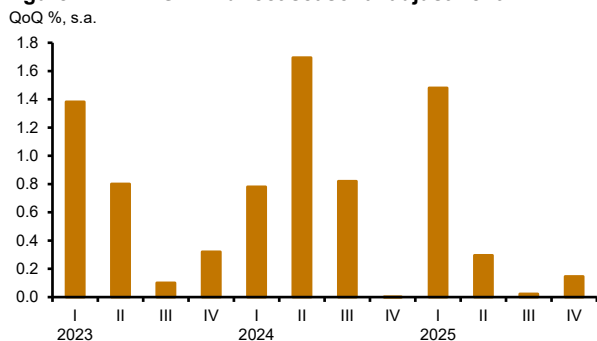
Source: IBGE

The GDP trajectory throughout 2025 combined strong expansion in 2025Q1 with modest performance in the remaining quarters, a dynamic influenced by agriculture and sensitive to the seasonal adjustment method employed. According to the official seasonal adjustment by the Brazilian Institute of Geography and Statistics (IBGE), GDP grew 1.5% in 2025Q1, slowed to 0.3% in 2025Q2, and remained practically stable in the second half of 2025 (Table 1.2.1). The exclusion of agriculture, a sector less sensitive to the economic cycle and which recorded an atypically high increase in 2025Q1, partially alters this interpretation, but the pattern of strong initial expansion followed by moderation throughout the year remains. However, considering the seasonal adjustment by the indirect method, which aggregates already seasonally adjusted components, the trajectory is different, especially for GDP ex-agriculture. In this case, the indicator showed moderate and relatively homogeneous quarterly increases starting in 2025Q1, averaging 0.4%, compared with an average quarterly increase of 0.9% in 2024. In summary, while the official adjustment suggests strong growth in 2025Q1, slowdown in 2025Q2, and stability in the second half of 2025, the combination of the exclusion of agriculture and the use of the seasonal adjustment by the indirect method indicates that the economy expanded at a moderate pace throughout 2025 (Figures 1.2.14 and 1.2.15). As discussed in a box in this MPR,⁶

6/ A more detailed discussion of the uncertainties regarding the pace of economic expansion associated with seasonal adjustment is presented in the box [Seasonal adjustment and uncertainty about the pace of growth in early 2026](#) in this MPR.

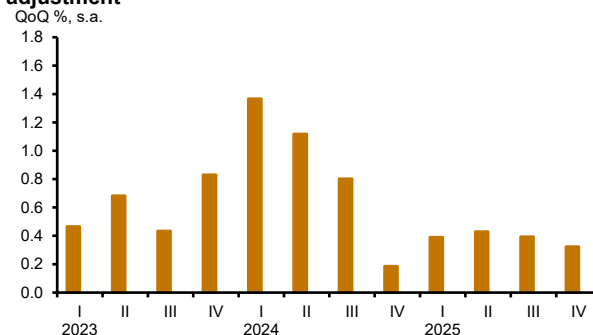
GDP is expected to increase strongly in 2026Q1 once again, repeating the pattern observed in 2025 when the official seasonal adjustment is considered. However, the reading based on GDP ex-agriculture and the seasonal adjustment by the indirect method shows more contained growth in early 2026, only slightly above the pace observed throughout 2025. Given the high sensitivity of growth readings to agricultural dynamics and to the seasonal adjustment method, monitoring a broad set of indicators – including higher-frequency ones – remains essential for a more accurate assessment of the economy’s growth pace.

Figure 1.2.14 – GDP - direct seasonal adjustment



Sources: IBGE and BCB

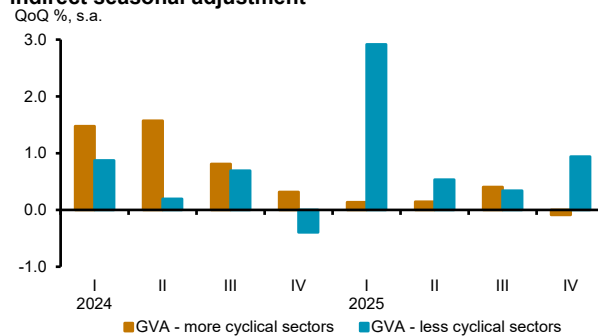
Figure 1.2.15 – GDP ex-agriculture - indirect seasonal adjustment



Sources: IBGE and BCB

The more cyclical sectors of the economy posted a modest performance throughout 2025, while the less cyclical ones showed greater dynamism. As aforementioned, GDP ex-agriculture increased, on average, 0.9% per quarter in 2024 and 0.4% per quarter in 2025, considering the seasonal adjustment by the indirect method. When considering a more restricted universe, encompassing only the sectors more sensitive to the economic cycle,⁷ the slowdown becomes more evident: the average quarterly growth fell from 1.0% in 2024 to 0.2% in 2025. The less cyclical sectors, in turn, recorded more robust results in 2025, with average quarterly growth of 1.2%, compared with average quarterly growth of 0.3% in 2024, a performance influenced by the dynamics of agriculture, as well as of mining and financial intermediation services (Figures 1.2.16).

Figure 1.2.16 – GVA - more and less cyclical sectors - indirect seasonal adjustment



Sources: IBGE and BCB

The data available up to the cut-off date of this MPR generally indicate economic activity expansion in early 2026. The BCB’s Economic Activity Index (IBC-Br) and its ex-agriculture version increased in January, after declining in December – a pattern similar to that observed for industrial production, broad retail sales excluding food wholesale, and services revenue. In the segment of services provided to households, however, there was a different dynamic, with a sharp decline following three months of moderate increases (Figures 1.2.17 and 1.2.18). Coincident indicators show mixed signals for February. On the one hand, metrics associated with industrial production – such as heavy vehicle traffic on highways and shipments of corrugated paper – suggest expansion in this sector. On the other hand, indicators based on card payments and other electronic means of payment point to a more heterogeneous picture, signaling uncertainty regarding the pace of activity in the month. The exemption from or reduction of the Individual Income Tax (IRPF) for lower-income brackets and the increase in the minimum wage tend to support an acceleration of economic activity in 2026Q1. However, the effects of these measures are not yet clearly perceptible in the coincident indicators

7/ Same classification already presented in footnote 5.

for February – the month in which they begin to affect household income – nor in consumer confidence, which declined in the month.

Figure 1.2.17 – BCB's Economic Activity Index (IBC-Br)

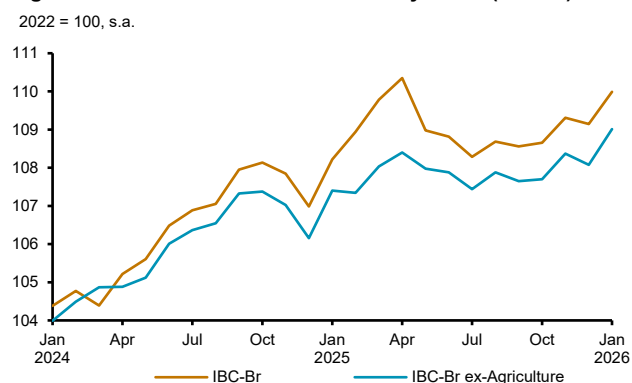


Figure 1.2.18 – Economic activity indicators

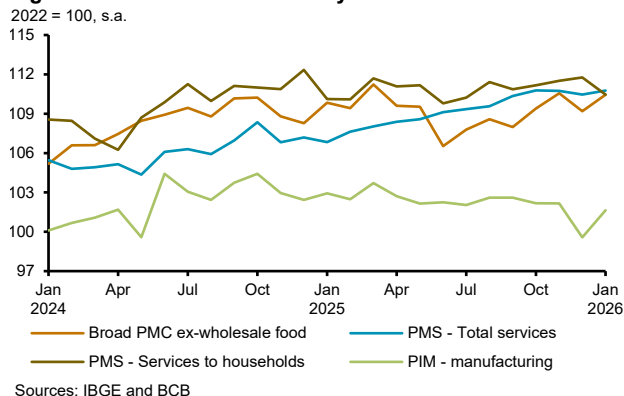


Table 1.2.2 – Economic activity coincident indicators

Seasonally adjusted data

Itemization	% change								
	2025			2026					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Jan-Feb ¹
Heavy vehicle traffic	1.7	-0.8	1.7	0.6	-1.0	-3.4	2.0	0.5	-0.4
Corrugated boxes shipments	1.6	-0.9	0.8	1.3	-0.4	-3.7	2.7	0.4	0.2
Light vehicle production	2.4	-0.8	2.9	-0.2	-4.0	-2.9	-3.5	9.7	-2.2
Truck production	3.3	-14.9	-3.1	-7.6	4.9	-26.1	27.6	-2.5	3.8
Vehicle licensing	2.8	-4.6	8.0	0.1	-4.0	6.5	-6.3	8.7	0.5
Cielo broad retail index	0.1	0.1	-0.0	0.1	0.2	-0.7	0.2	0.8	0.2
IGet broad retail	1.2	-0.2	-0.2	-0.5	1.6	-0.0	-3.3	0.3	-2.6
IGet services to households	-0.2	3.6	-4.2	-3.5	4.5	-1.6	4.8	-5.3	2.4
IDAT goods ²	-1.3	1.0	-0.5	0.9	0.0	-0.8	2.8	-1.4	1.5
IDAT services to households ²	-1.6	2.2	-1.4	-1.0	4.1	-2.3	-0.6	-0.3	-1.0

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

¹ Jan-Feb 2026 average over 2025Q4.

² Broad means of payment.

As detailed in a box in this MPR, the GDP growth projection for 2026 remains at 1.6%, the same value published in the December MPR. The decision to maintain the projection for the aggregate GDP reflects the 2025Q4 result, which was very close to expectations, as well as the unchanged scenario of moderate quarterly growth throughout 2026. However, although the aggregate GDP in 2025Q4 was in line with the BCB's projection, its components showed surprises: in general, services outperformed expectations, while industry and domestic demand grew below what had been anticipated at the time of the previous MPR, which affected the projections for supply and demand components for 2026. The recent conflict in the Middle East increases the degree of uncertainty surrounding the forecasts. If the conflict drags on, its effects are expected to become clearer. Although it may benefit some sectors of the Brazilian economy – especially the oil sector – the predominant aggregate effects of the conflict, both on the global and domestic economies, are likely to be those typically associated with a negative supply shock, increasing inflation and reducing growth.⁸

Labor market

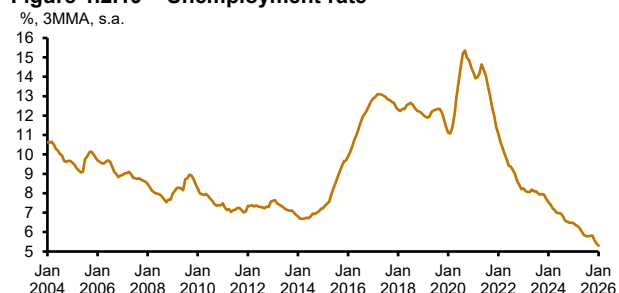
The labor market remains heated, with declining unemployment and rising real average salaries. In 2025, the unemployment rate continued to decline, the economy created a significant number of formal jobs, and real salaries increased. In the short term, after a quarter of stability, the unemployment rate resumed its

8/ See box [Supply shocks, prices, and consumption](#) in the March 2022 IR.

decline in the Nov-Jan quarter, notably driven by an increase in formal employment. Additionally, real salary measures, particularly the average labor income measured by the Continuous National Household Sample Survey (PNAD Continuous), continued to grow in the last quarter.

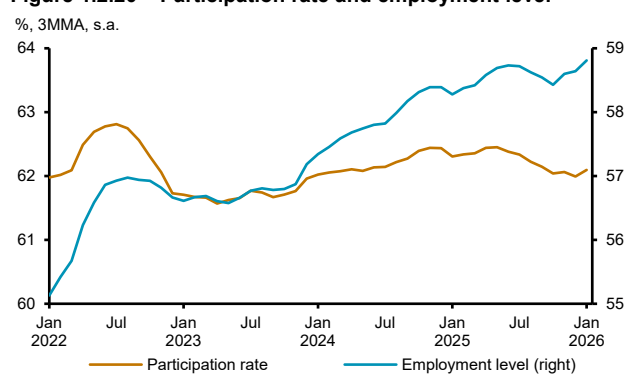
The unemployment rate reached a new historical low, with a resumption of the Employed Population (EP) growth in the last quarter. The unemployment rate, according to the PNAD Continuous, fell to 5.3% in the Nov-Jan quarter, compared with 5.8% in the Aug-Oct quarter, reaching the lowest level in recent decades (Figure 1.2.19).⁹ In the same period, the labor force participation rate increased 0.1 p.p. and reached 62.1%, remaining below the level recorded in mid-2022 (Figure 1.2.20). With the labor force increasing 0.3%, the decline in the unemployment rate resulted from a 0.8% increase in the EP (respective increases of 1.0% and 0.3% in formal and informal employment), reversing the 0.3% drop recorded in the Aug-Oct quarter. From a longer-term perspective, using the last quarter of each year as reference, the unemployment rate dropped for the fifth consecutive year, from 14.5% in 2020 to 6.5% in 2024 and 5.4% in 2025.¹⁰ For the sake of comparison, the lowest unemployment rate in the series shown in Figure 1.2.19 before the pandemic had been 6.7% in March 2014.

Figure 1.2.19 – Unemployment rate¹



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

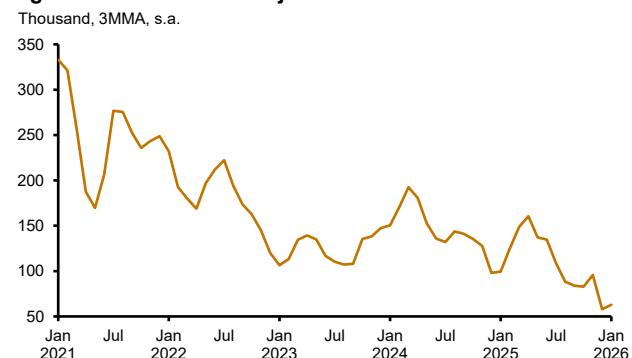
Figure 1.2.20 – Participation rate and employment level



Source: IBGE

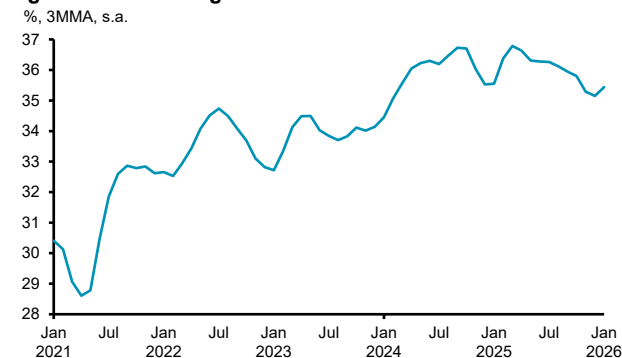
Formal job creation remains strong, although decelerating. According to data from the New General Registry of Employed and Unemployed Persons (New Caged), seasonally adjusted by the BCB, an average of 63,000 jobs were created per month in the Nov-Jan quarter, below the 83,000 and 109,000 recorded in the Aug-Oct and May-Jul quarters, respectively (Figure 1.2.21). In 2025, net job creation reached 1.3 million, 420,000 jobs less than in 2024. Despite slowing down, job creation remains at a high level, corresponding to a 2.7% expansion, significantly higher than the 0.8% growth in the working-age population in the period. Even the lower level observed in the last quarter, 63,000, is still equivalent to an annualized expansion of 1.6%. Corroborating the labor market resilience, also according to data from the New Caged, the share of resignations in total job separations remained high (Figure 1.2.22).

Figure 1.2.21 – Net formal job creation



Source: Ministry of Labor and Employment

Figure 1.2.22 – Resignations ratio



Source: Ministry of Labor and Employment

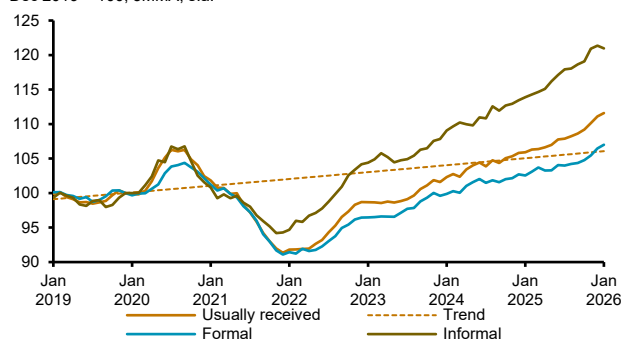
9/ According to seasonally adjusted data from the PNAD Continuous, retroplated according to Alves and Fasolo (2015).

10/ According to seasonally adjusted data.

The average labor income measured by the PNAD Continuous is still growing strongly in real terms, even accelerating when compared with the trend seen in the first half of 2025. In the second half of 2025, the usual real average income grew at an average quarterly rate of 1.5%, a significant acceleration compared with the 0.9% average rate recorded in the first half of the year. The usual real average income increased by 2.2% in the Nov-Jan quarter, well above the 1.2% growth observed in the Aug-Oct quarter, with gains recorded among both formal and informal workers. Considering the YoY change, the usual average income reached a nominal increase of 10.0% in the Nov-Jan quarter, equivalent to a real growth of 5.4%. This strong growth rate is higher than that observed in previous quarters, 3.9% and 3.8% in the quarters ending in October and July, respectively. From a longer-term perspective, the average real income is 12.7% above the 2019 average and 5.2% above the level that would have been obtained by extrapolating the growth trend of the pre-pandemic period, from 2017 to 2019 (Figure 1.2.23).

Figure 1.2.23 – Real average labor income

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



Sources: IBGE and BCB

In recent years, the real average income growth has outpaced the labor productivity growth. As presented in a box in this MPR, labor productivity, measured as the ratio of the Gross Value Added (GVA) to the Employed Population (EP), has increased on average 0.6% per year since 2019.¹¹ Excluding agriculture, the average growth falls to 0.2% per year. On average, over the same period, the usual real income according to the PNAD Continuous increased 1.5% (growth of 0.8% and 3.0% in formal and informal jobs, respectively). In 2025, in particular, the productivity and the average labor income increased 0.6% and 4.1%, respectively.

Complementary indicators of salary dynamics continue to point to real growth, albeit to a lesser extent than those of the PNAD. Real salaries for new hirings grew 1.1% (seasonally adjusted data)¹² in the Nov-Jan quarter, following a 0.7% increase in the Aug-Oct quarter, according to the New Caged (Figure 1.2.24). Compared with the same period of the previous year, the real increase was 2.2% (corresponding to a 6.7% nominal increase), exceeding by 0.8 p.p. change recorded in the Aug-Oct quarter. Thus, these data reiterate the acceleration of the last quarter observed in the PNAD data. The average nominal salary adjustments collected from Collective Bargaining Agreements (CBA),¹³ which cover the formal private sector, was 5.7% in the Dec-Feb quarter (Figure 1.2.25), with 71% of negotiations exceeding past inflation. In real terms, the average adjustment in the quarter was 0.5%, lower than in the same period of the previous year (0.9%), when nominal adjustments reached 4.9%.

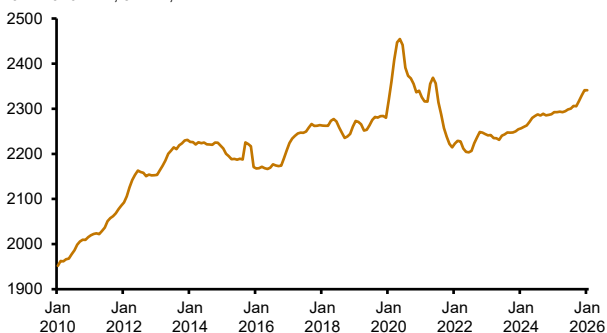
11/ See Box [Recent evolution of labor productivity](#) in this MPR. Labor productivity is defined as the ratio of the GVA to the EP.

12/ The average hiring salary has greater correlation with 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.

13/ 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.

Figure 1.2.24 – Hiring salary

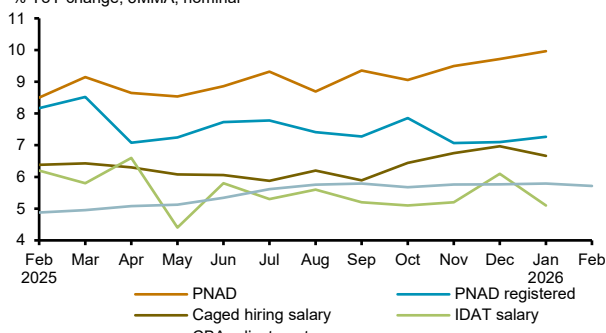
Jan 2026 BRL, 3MMA, s.a.



Source: Ministry of Labor and Employment

Figure 1.2.25 – Salaries and labor income

% YoY change, 3MMA, nominal



Sources: IBGE, MLE, Itaú, and BCB

Household income, which maintained a strong growth in 2025, accelerated in the Nov-Jan quarter. In 2025, the Household Gross Disposable National Income (HGDNI) – which includes, in addition to labor income, other sources of income – grew 4.7% in real terms, in the restricted concept, compared with 5.9% in 2024 and 7.5% in 2023 (Figures 1.2.26 and 1.2.27).¹⁴ Despite the slowdown, the growth recorded in 2025 was significant. In the most recent period, real HGDNI increased 1.8% in the Nov-Jan quarter, seasonally adjusted, also considering the restricted concept. In the previous quarter, growth was 0.5%. The acceleration in the quarter mainly reflects the evolution of overall labor income, with the recovery of EP growth and the increase in the average effective income. In the coming months, HGDNI is expected to benefit from the real adjustment of the minimum wage – which affects both labor income and social benefits – from the exemption or discount in the IRPF for the lowest income brackets, and from the release of the second installment of the Employment Guarantee Fund (FGTS) resources to dismissed workers who had used the anniversary withdrawal modality.

Figure 1.2.26 – Restricted HGDNI

Nov-Jan 2025 BRL billion, 3MMA, s.a.

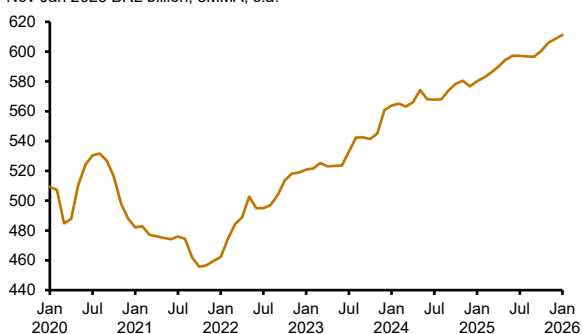
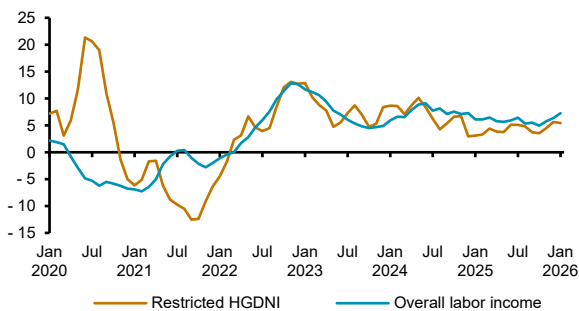


Figure 1.2.27 – Restricted HGDNI and usually received overall labor income

% YoY change, 3MMA, real



Sources: BCB and IBGE

Credit

Credit market conditions became more restrictive in 2025, in line with the monetary tightening implemented. Following the movements in the Selic rate, interest rates on credit granting increased broadly compared with 2024. In the household segment, credit granting decelerated significantly in long-term modalities, while the use of emergency credit lines increased, signaling greater pressure on household budgets.¹⁵ In the corporate segment, non-earmarked credit slowed down, with the demand partly shifting to earmarked credit and capital markets. In this context of credit granting moderation and higher interest

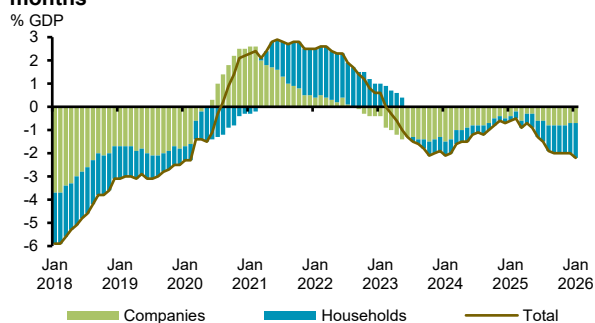
14/ Monthly HGDNI estimated by the BCB. Further information at Nota Técnica 55 of December 2021 (Portuguese only). Under the restricted concept, HGDNI is composed of three components: labor income, social benefits, and current transfers. Thus, rental income and property income are excluded from the total HGDNI.

15/ In the analysis presented in this chapter, in the non-earmarked household segment, the long-term credit is composed of non-payroll-deducted credit, payroll-deducted credit, financing of vehicles and other goods, and leasing; while emergency lines include overdraft facilities, revolving credit card, and installment credit card.

rates, net payments¹⁶ of households and companies to the National Financial System (SFN) increased, leading to a negative credit stimulus in 2025.¹⁷ Finally, the debt-to-income ratio (DTI) and the debt service ratio (DSR) got closer to historical highs, while delinquency increased due to the actual growth in past due loans and the effects of new accounting standards.

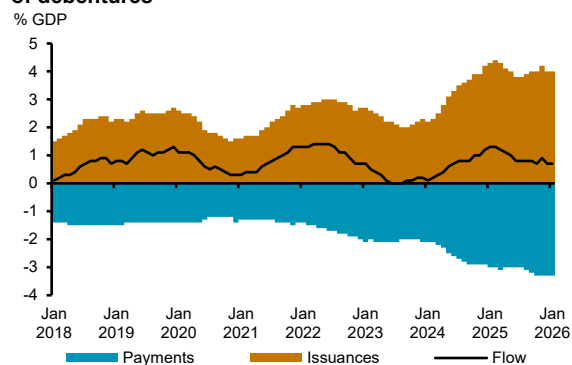
The credit financial flow between the real sector and the SFN moved further into negative territory in 2025, especially in non-earmarked credit. Net payments rose from 0.7% of GDP in 2024 to 2.0% in 2025 and 2.2% in January 2026 (Figure 1.2.28). In the household segment, there was a negative credit stimulus of 1.1% of GDP in 2025, reflecting an increase in net payments of non-earmarked credit and a decrease in net granting of earmarked credit, especially rural credit. In the corporate segment, the stimulus was also negative, around 0.2% of GDP, with increases in net payments of non-earmarked credit and in net granting of earmarked credit, with the Emergency Credit Access Program (PEAC-FGI) operations standing out. Corporate financing in the capital market, although still robust, declined compared with 2024 (Figure 1.2.29), leading to a negative stimulus of 0.6% of GDP in 2025.

Figure 1.2.28 – Financial flow accumulated in 12 months



Financial flow: Granting - Payments

Figure 1.2.29 – Breakdown of 12-month financial flow of debentures



SFN credit to companies and households decelerated in 2025. The YoY change in the credit balance fell from 11.5% in December 2024 to 10.3% in December 2025 and 10.1% in January 2026 (Figures 1.2.30 and 1.2.31). In the household segment, the pace of growth fell by 0.9 p.p. in 2025, reflecting moderation in the earmarked credit expansion, particularly of rural credit, while growth in the non-earmarked segment increased marginally, driven by private sector payroll-deducted loans and emergency lines. In corporate credit, growth dropped by 1.7 p.p. in 2025, with the slowdown concentrated in the non-earmarked segment, especially in discount of trade bills and receivables operations. By contrast, the earmarked credit balance continued to rise, driven by PEAC-FGI operations, rural credit, and lending by the Brazilian Development Bank (BNDES).

Figure 1.2.30 – Non-earmarked credit balance

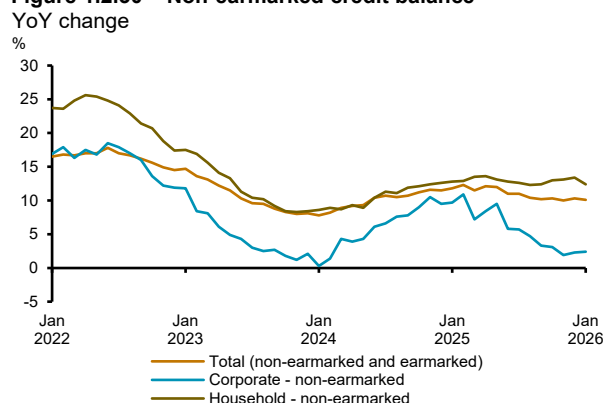
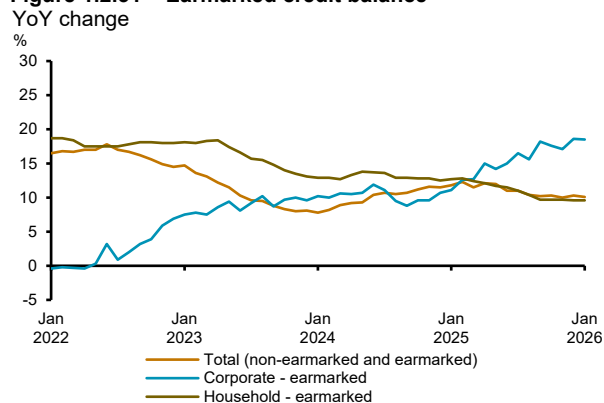


Figure 1.2.31 – Earmarked credit balance

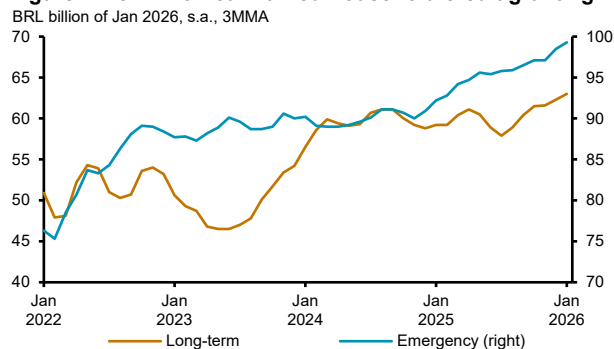


16/ The concept of financial flow was introduced in the box [Financial flow and credit stimulus](#) in the September 2021 IR. The box [Financial flow and credit stimulus in 2024](#) was published in the March 2025 MPR with data up to January 2025.

17/ As thoroughly defined in the boxes mentioned in the previous footnote, credit stimulus is defined as the change in the financial flow. This, in turn, is defined as the difference between the granting by financial institutions and payments made by debtors regarding SFN credit operations.

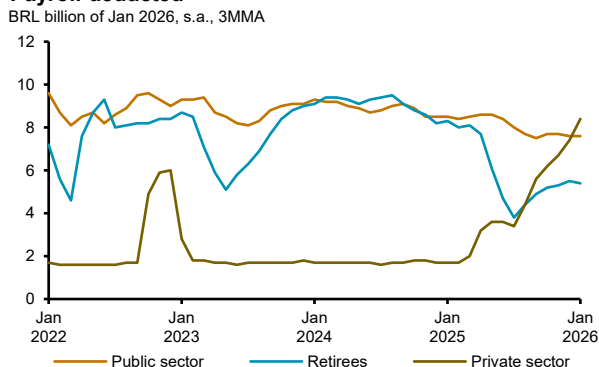
In 2025, non-earmarked household credit granting decelerated but with distinct dynamics across credit modalities. Real growth in long-term credit granting fell from 21.6% in 2024 to 1.1% in 2025 (Figure 1.2.32). A widespread moderation was observed among modalities of this group, except for the private sector payroll-deducted loans, which picked up after the changes introduced in March, as discussed in a box of the September 2025 MPR (Figure 1.2.33).¹⁸ Long-term credit granting even declined in mid-2025, due to a drop of payroll-deducted loans to National Social Security Institute (INSS) retirees and pensioners, associated with new controls on credit approval. Subsequently, there was a slight recovery, with a partial resumption of payroll-deducted loans to INSS retirees and an increase in vehicles financing. The growth pace of emergency credit granting, in turn, rose from 2.4% in 2024 to 6.0% in 2025, with greater use of installment credit card and overdraft facilities. A box in this MPR analyses the heterogeneity in the response of credit granting to the monetary policy.¹⁹

Figure 1.2.32 – Non-earmarked household credit granting



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

Figure 1.2.33 – Non-earmarked household granting - Payroll-deducted



Corporate financing in the non-earmarked segment slowed sharply in 2025, with part of the demand shifting to earmarked credit and capital markets. The real growth of non-earmarked corporate credit granting fell from 13.1% in 2024 to 2.6% in 2025. Contracting in discount of receivables declined significantly from June onwards, even after the removal of the increase in the Financial Operations Tax (IOF) rate on forfeiting operations (Figure 1.2.34).²⁰ Part of the demand for credit by micro, small, and medium-sized companies may have been met by the PEAC-FGI operations, while that of large companies, by the capital market (Figure 1.2.35). Funding from the issuance of debentures and promissory notes reached a high level at the end of 2025, amid an environment of reduced spreads and strong demand.

Figure 1.2.34 – Non-earmarked granting to non-financial corporations

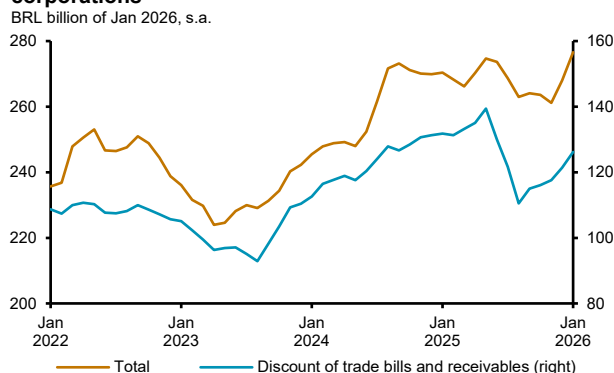
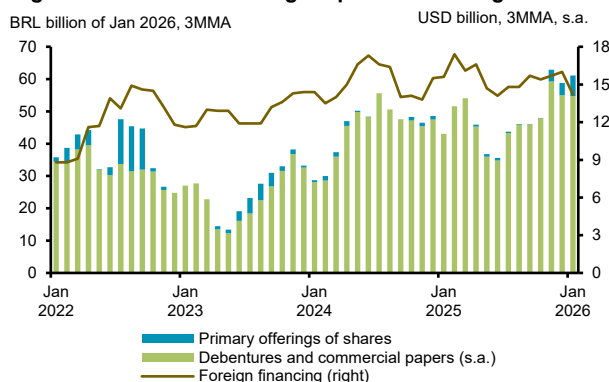


Figure 1.2.35 – Non-banking corporate financing



Source: BCB and Anbima

In the earmarked credit market, credit granting decreased in the household segment and increased in the corporate segment. Household credit granting dropped 7.8% in the year, in real terms. Rural credit

18/ More information in the box [New private sector payroll-deducted credit](#) in the September 2025 MPR.

19/ See box [Monetary Policy and the credit channel: response of bank credit granting to changes in the Selic rate](#).

20/ In May 2025, the Federal Government raised the rates of the IOF and the additional IOF on corporate credit operations and started to classify forfeiting operations as credit operations, charging IOF on them. Later, the government withdrew the increase in the additional IOF rate and exempted forfeiting operations from it. Subsequently, the National Congress suspended the effects of both decrees, reinstating the previous regulation. After almost two months under legal discussion, the higher IOF on corporate credit operations became permanent in mid-July, following a Federal Supreme Court (STF) decision. In this decision, forfeiting operations, which are classified as discount of receivables within credit statistics, continued to be exempt from the IOF.

granting in the bank market fell sharply (Figure 1.2.36), impacted by the increase in the delinquency rate in this segment and by the migration of part of the financing to the capital market, through the issuance of Rural Producer Bills (CPR). Real estate financing operations decreased on average in the year, affected by the higher credit cost, but registered some recovery in recent months. This movement may already reflect an initial response to changes in the rules of this modality, introduced in October.²¹ The increase in operations funded by the FGTS and associated with the *Minha Casa Minha Vida* (MCMV) program also contributed to this recovery. Among companies, earmarked credit granting increased 27.9% in 2025, fueled by PEAC-FGI, BNDES, and rural credit operations (Figure 1.2.37).

Figure 1.2.36 – Earmarked household credit granting

BRL billion of Jan 2026, s.a., 3MMA

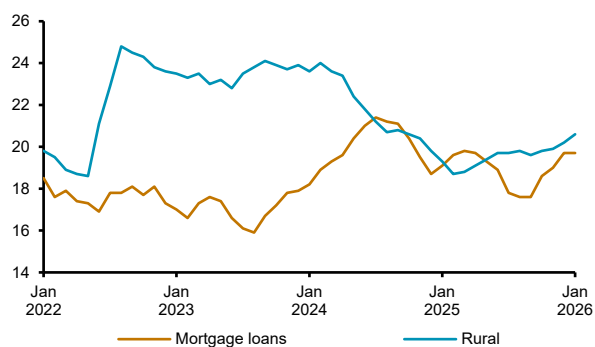
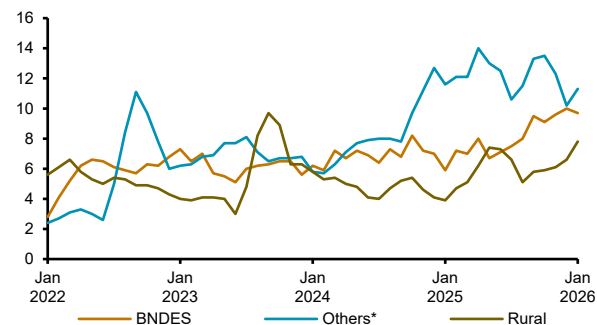


Figure 1.2.37 – Earmarked corporate credit granting

BRL billion of Jan 2026, s.a., 3MMA



*Includes Pronampe, PEAC, PESE, among others.

Interest rates on non-earmarked credit tracked the Selic rate trajectory, with an initial increase followed by relative stability after the base interest rate was held at 15% p.a. as of July. The increase in rates was more significant in the first half of 2025, when the Selic rate was raised by 3.0 p.p. Over the period, the average interest rate on long-term non-earmarked household credit rose by 3.3 p.p., and that on total non-earmarked corporate credit, by 2.6 p.p. (Figures 1.2.38 and 1.2.39). In the second half of 2025, interest rates on non-earmarked credit began to show slight fluctuations, without a clear trend, except for non-payroll-deducted personal credit. One of the components of this modality is the advance on FGTS anniversary withdrawals, which became subject to stricter restrictions as of November. Consequently, these operations, for which interest rates are significantly lower than the average for non-payroll-deducted personal credit, decreased. This composition effect explains the increase in average interest rates for non-payroll-deducted personal credit granting in recent months.

Figure 1.2.38 – Non-earmarked interest rates - Households

% p.y.

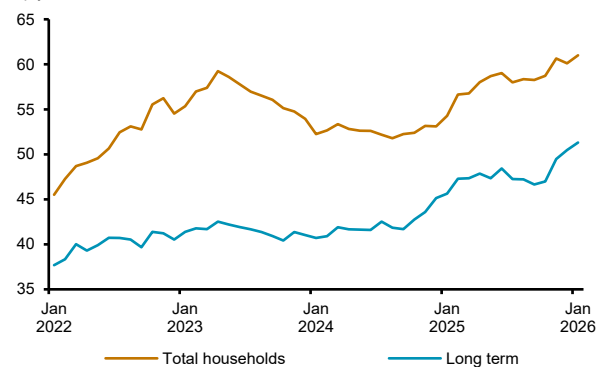


Figure 1.2.39 – Non-earmarked interest rates - Corporations

% p.y.



Delinquency in the SFN credit rose throughout 2025, reflecting both a cyclical increase of past due loans and the effects of the new accounting rules for financial instruments in effect as of January. The delinquency rate rose 1.1 p.p. in 2025, ending the year at 4.0% (Figure 1.2.40). Of this increase, it is estimated that 51% is due to the regulatory change introduced by CMN Resolution 4,966, according to the methodology

21/ Resolution CMN 5,255, of October 10, 2025, changed the criteria for signing real estate financing operations funded with savings deposits, while BCB Resolution 512, of October 10, 2025, changed the rules on compulsory reserve requirements on savings accounts. The latest results of the Quarterly Credit Conditions Survey (PTC – Portuguese only), which collected data in January and February 2026, show that supply conditions became more flexible in 2025Q4, with a notable reduction in restrictions associated with the cost or availability of funding, and that they are expected to become even more flexible in 2026Q1.

described in the box [Impact on the delinquency rate resulting from the new accounting rules for financial instruments](#) in the September 2025 MPR.²² By segment, the increase was more pronounced in the household credit portfolio, with a rise of 1.5 p.p. (estimated impact of the regulatory change: 46%). In this segment, past due loans in the non-earmarked credit increased, mainly in credit card and non-payroll-deducted personal credit, modalities consisting mostly of operations without collaterals. In the earmarked household segment, rural credit delinquency increased sharply, reaching record values (Figure 1.2.41). In the corporate segment, the delinquency rate increased 0.4 p.p. in the year (estimated impact of the regulatory change: 74%).

Figure 1.2.40 – 90 days past due loans

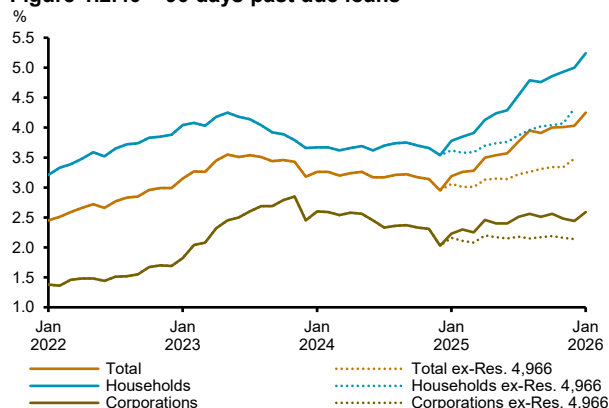
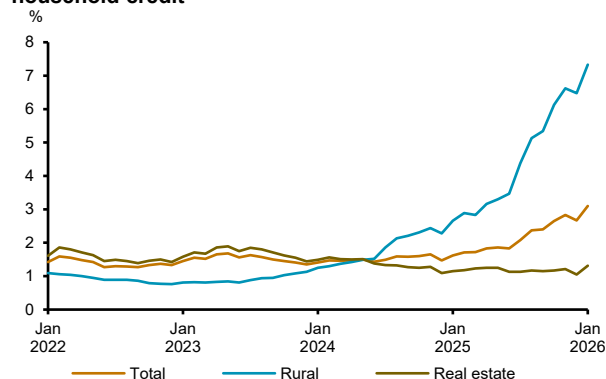
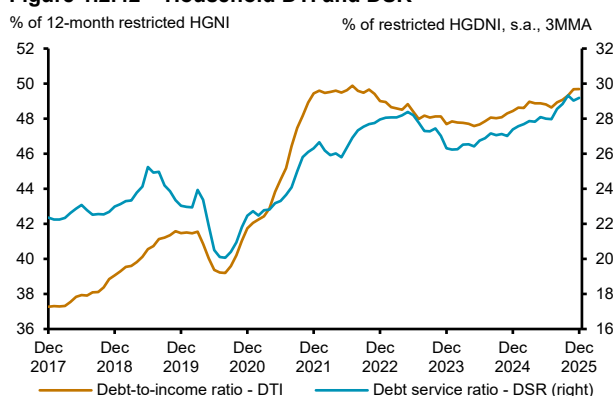


Figure 1.2.41 – 90 days past due loans - Earmarked household credit



Household DTI and DSR increased for the second consecutive year, remaining at high levels. Despite the favorable labor market developments, especially regarding income, DTI rose by 1.3 p.p. in the year, coming closer to the record high for the series, amid changes in the private sector payroll-deducted credit and greater demand for emergency credit. DSR, which is more sensitive to interest rate oscillations and to the increased expansion of emergency credit, typically at higher rates, reached a record high in 2025Q4 (Figure 1.2.42).

Figure 1.2.42 – Household DTI and DSR



In this context, the credit balance slowdown in 2025 was milder than anticipated, which was reflected in an upward revision to the 2026 growth projection, as detailed in a box in this MPR. The 10.3% growth of the credit balance in 2025 exceeded the 9.4% growth forecast presented in the December 2025 MPR. In turn, the projection for 2026 increased from 8.6% to 9.0%, mainly reflecting expectations of a stronger performance in household credit and corporate earmarked credit.

Fiscal

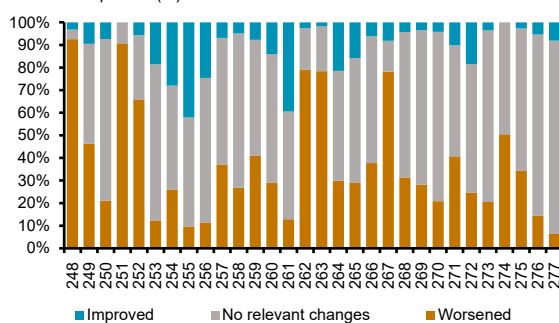
Once again, there have been no significant changes in the fiscal scenario since the previous MPR. As in 2024, the Central Government recorded a primary deficit in 2025 but met the fiscal target set for this variable.

22/ The delinquency data presented correspond to those released in the BCB's Monetary and Credit Statistics. However, the impact of the change introduced by Resolution 4,966 was calculated using microdata from the Credit Information System (SCR), following the calculation presented in that box, and then adjusted to comply with data published in the BCB's Monetary and Credit Statistics. For further information on the impact of Resolution 4,966, see also the box [Change in the proxy for problem assets](#) in the November 2025 Financial Stability Report (FSR).

Both years were also characterized by real growth in the Central Government’s net revenues. For 2026, real growth in tax collection and a negative primary balance are again expected. The public debt as a proportion of GDP continued to rise, as expected, and the outlook remains for a continued upward trajectory. Similarly, analysts’ assessments, which also consider qualitative aspects, suggest relative stability in the fiscal scenario (Figure 1.2.43). According to the January and March 2026 editions of the Pre-Copom Questionnaire (PCQ), most respondents, when assessing the fiscal situation in light of both the central scenario and the risks involved, believe that there have been no significant changes since the previous MPR.

Figure 1.2.43 – 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?

The consolidated public sector primary deficit increased marginally in 2025, mainly reflecting a moderate widening of the Central Government’s deficit. Part of this increase in the Central Government’s deficit between 2024 and 2025, from BRL 45 billion (0.4% of GDP) to BRL 59 billion (0.5% of GDP), stemmed from the base effect, since large court-ordered payments (*precatórios*) made in December 2023 included the anticipation of some expenses of this type that would occur in 2024.²³ Conversely, there was an increase in the surplus of regional governments – concentrated in the results of municipalities – and a reduction in the deficit of state-owned companies, but both variations were also of a quite limited magnitude (Table 1.2.3).

Table 1.2.3 – Public Sector Borrowing Requirements - Primary balance

Year-to-date

Itemization	BRL billion		
	2023	2024	2025
Central Government	265	45	59
o/w Federal Government	-42	-253	-259
o/w INSS	306	297	317
Regional governments	-18	-6	-10
State-owned companies	2	8	6
Total	249	48	55

Positive values represent deficit and negative values represent surplus.

As in 2024, the Central Government met its primary balance target for 2025, coming closer to the center of the target than to its lower limit. The BRL 59 billion deficit, according to the metric released by the BCB, was lower than expected by analysts throughout 2025. According to the median of PCQ projections, the deficit expected for January (BRL 79 billion) was revised downward throughout the year, reaching BRL 69 billion in December. In the metric used to measure compliance with the target, the actual result for 2025 was equivalent to a deficit of BRL 13 billion, closer to the center of the target, zero, than to the lower limit, a deficit of BRL 31 billion.

The slight increase in the Central Government’s primary deficit occurred despite the favorable tax collection performance. Net revenue grew 2.8% in real terms (Table 1.2.4), influenced by economic activity

23/ In December 2023, court-ordered payments reached BRL 92 billion, due to a Federal Supreme Court's (STF) decision that declared unconstitutional the provisions of Constitutional Amendments 113 and 114 of 2021, which had established a regime for limiting the amount of court-ordered payments.

expansion, still favorable labor market conditions, and the effects of measures to increase tax collection, particularly the increase in Financial Operations Tax (IOF) rates. At the same time, total expenses increased 3.4% in 2025, also in real terms, with emphasis on social security benefits (4.1%) and personnel expenses (4.3%), which reflect, respectively, the real increase in the minimum wage and salary adjustments granted to the Executive Branch employees. The expenses on the Continuous Cash Benefit Program (BPC) payments continued to grow strongly (9.1%). Finally, discretionary expenses also increased significantly (6.1%), accelerating in the second half of the year, especially in health and education, after a slow start to the year due to delays in the approval of the budget.

In terms of primary balance, the beginning of this year resembled 2025. In January 2026, the consolidated public sector posted a primary surplus of BRL 104 billion, the same amount as in 2025. In particular, the Central Government posted a positive result of BRL 87 billion, compared with BRL 83 billion in January 2025. This surplus should be analyzed considering that the seasonality of the first month of the year is positive due to the payment schedule for some taxes. Central Government's net revenue continued to perform well in early 2026, with a notable increase in IOF tax collection compared with January 2025, due to the tax rate increase in July 2025. Also within the Central Government, expenses continued to grow more than revenues – 2.9% and 1.2%, respectively, compared with January 2025 – and above the fiscal framework cap of 2.5%. During the month, there were notable increases in social security benefits and personnel expenses compared with the same month in 2025.

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

	BRL billion - current values		
	2024	2025	Real change (%)
1. Total revenue	2,679	2,902	3.2
1.1 - Revenues collected by the Federal Revenue Office	1,690	1,860	4.8
1.2 - Net Social Security revenues	641	710	5.4
1.3 - Revenues not collected by the Federal Revenue Office	348	333	-8.9
2. Transfers by revenue sharing	518	570	4.8
3. Net revenue (1-2)	2,162	2,333	2.8
4. Total Expenditure	2,205	2,394	3.4
o/w excl. court-ordered payments	2,134	2,293	2.3
4.1 Social Security benefits	939	1,027	4.1
o/w excl. court-ordered payments	912	985	2.8
4.2 Payroll	367	403	4.3
o/w excl. court-ordered payments	363	393	3.0
4.3 Other compulsory expenses	358	391	3.7
o/w excl. court-ordered payments	319	342	2.2
4.4 Executive branch expenses subject to financial programming	540	574	1.2
o/w Bolsa Família (Family Allowance)	168	158	-10.4
o/w Discretionary	184	205	6.1
5. Central Government primary balance - above the line (3 - 4)	-43	-62	32.3

Source: National Treasury

For 2026, both the government and the median of analysts' projections point to another year with a primary deficit, although at different magnitudes. The government's projection, contained in the Annual Budget Law (LOA) approved in December, is for a primary deficit of BRL 23 billion, lower than the balance observed in previous years. Since the projection includes BRL 58 billion in expenses not considered for assessing the compliance with the target, the balance is equivalent, under this criterion, to a surplus of BRL 35 billion. Thus, the target, which is a surplus of BRL 34 billion, equivalent to 0.25% of GDP, would be met. The median of market analysts' estimates according to the PCQ points to a primary deficit of BRL 70 billion, or BRL 10 billion based on the metric used to assess compliance with the target. This latter figure is below

the lower limit of the tolerance interval for the primary balance target, which is zero for 2026.²⁴ The median of analysts' projections differs from the government's expectations mainly in terms of revenues (Table 1.2.5).

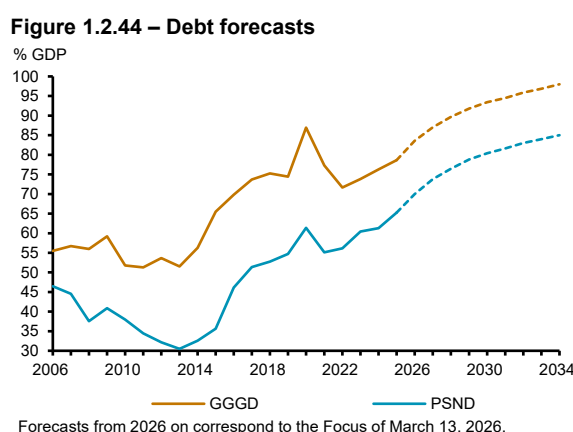
Table 1.2.5 – Central Government fiscal balance forecasts

Year-to-date	BRL billion - current values	
	LOA	PCQ
Net revenue	2,591	2,515
Total expenditure	2,614	2,590
Central Government primary balance	-23	-70
Primary balance target discount	58	-
Primary balance consistent with the target	35	-10

Sources: National Treasury and BCB

To meet the 2026 target, the government proposed – and the National Congress approved – a series of revenue-boosting measures in late 2025, which are set to take effect this year. Complementary Law (LC) 224/2025 reduced tax benefits and increased tax on betting companies, with a gradual increase in the tax rate on gross revenue from 12% to 15% in 2026, reaching 18% in 2028. Taxes on fintechs and on Interest on Equity (JCP) also increased. In January 2026, LC 225/2026 (Repeat Offender Law) was enacted, which tends to increase tax collection in the fuel sector by strengthening the fight against tax evasion. The LOA also incorporated a forecast increase of BRL14 billion in import tax revenue. In February 2026, the government announced the products for which import tax rates would be increased. To mitigate the effects of the recent rise in international fuel prices, the government eliminated the PIS and Cofins taxes on diesel in March and implemented a subsidy for producers and importers of that product. To neutralize the impact of these measures on the primary balance, estimated by the government at BRL 30 billion, a 12% tax on exports of crude oil was created.

The upward trajectory of public debt is expected to persist in the coming years. After reaching a record high in 2020 of 87% of GDP during the Covid pandemic, the General Government Gross Debt (GGGD) decreased until 2022, when it stood at 72% of GDP. Since then, this variable has increased, reaching 76% in 2024 and 79% in 2025. According to the Focus report, the median projection points to a GGGD to GDP ratio of 84% in 2026 and 93% in 2030 (Figure 1.2.44). In its reference scenario, the more recent Fiscal Outlook Report from the National Treasury Secretariat, released in January this year, shows the projection for this same metric at 86% in 2026 and 88% in 2030.²⁵



External accounts

Despite the increase in exports, the current account deficit of the balance of payments remained virtually stable in 2025 when compared with 2024, influenced by economic activity which, despite slowing down,

24/ The government included a provision in the 2026 Budget Guidelines Law (LDO) that allows the lower limit of the target to be considered for compliance purposes.

25/ This [report](#) also provides alternative scenarios and sensitivity analyses of the results.

grew last year. The current account deficit ended 2025 at USD 69 billion (Table 1.2.6), equivalent to 3.0% of GDP, with a composition of its main components similar to that observed in 2024. Compared with 2024, exports increased, but less than imports, which reached a record level in the year, with particular emphasis on purchases from China. A still relatively heated domestic economic activity, which influenced the imports of goods, also reflected in high expenses in the services and primary income accounts. In late 2025 and early 2026, however, the current account deficit declined, reflecting lower imports (Figure 1.2.45). In the financial account, 2025 was characterized by net inflows of non-resident funds in both direct investment liabilities, which again surpassed the current account deficit, and portfolio investments, which were positive for the third consecutive year and remained significant in January 2026.

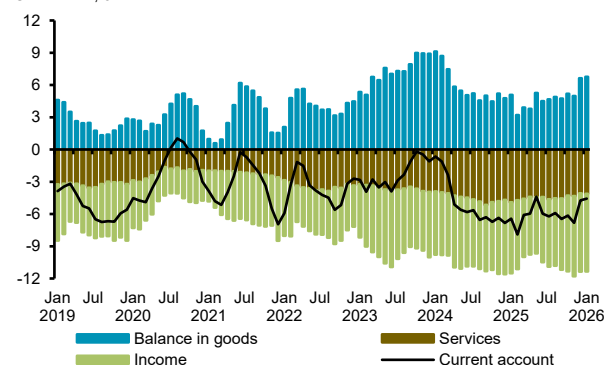
Table 1.2.6 – External accounts

Itemization	USD billion			
	2022	2023	2024	2025
Current account	-42	-27	-66	-69
Balance in goods	52	92	66	60
Exports	340	344	340	351
Imports	289	252	274	291
Services	-42	-44	-55	-53
of which: Travel	-9	-11	-12	-14
of which: Transport	-19	-13	-15	-14
Primary income	-57	-79	-81	-81
of which: Interests	-20	-30	-31	-28
of which: Dividends	-37	-50	-51	-54
Investment - liabilities	96	86	91	130
DI liabilities	76	63	74	78
Portfolio investments	-3	14	8	15
Other investments ¹	24	9	9	37

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

Figure 1.2.45 – Current account

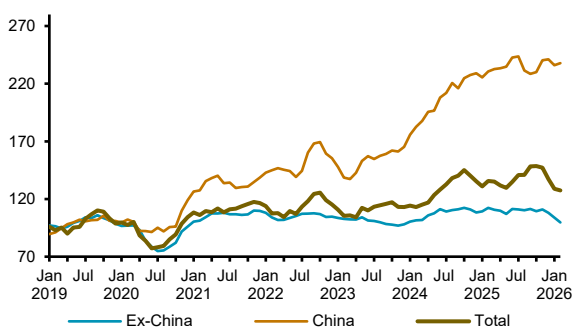
USD billion, 3MMA s.a.



Amid domestic demand growth and strong stimulus to exports from China, the imported value reached a historical high in 2025 but the upward trend observed since late 2023 was replaced by a relative stability throughout 2025. In line with the growth of GDP, consumption, and investments, the imported volume of goods also increased in 2025, even disregarding the import of two oil rigs worth USD 5 billion. In particular, the volume of goods imported from China expanded strongly (Figure 1.2.46), reflecting the significant Chinese expansion in several markets, in the context of the global trade shifting. Moreover, prices of goods imported from China have been declining (Figure 1.2.47), as have producer prices of industrial goods in that country. These price declines helped maintaining Brazilian imports of industrial inputs and capital goods at a high level throughout 2025. Nonetheless, in December 2025 and January 2026, imports declined, indicating that the domestic economic activity moderation may have started to affect imports more clearly.

Figure 1.2.46 – Imports quantum index - excluding oil rigs

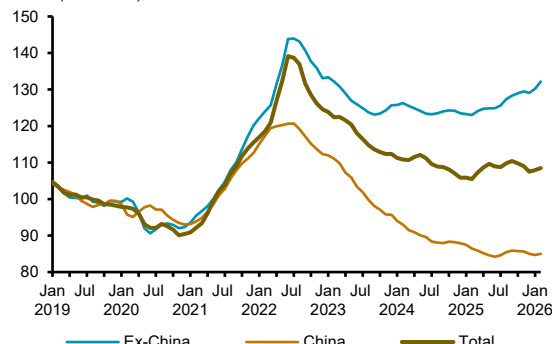
Index (2019=100), 3MMA



Source: BCB, Funcex methodology

Figure 1.2.47 – Imports price index (CIF)

Index (2019=100), 3MMA



Source: BCB, Funcex methodology

Despite prices of main commodities remaining below those in previous years, the exported value in 2025 increased, reflecting the strong expansion in the volume of primary goods (Figure 1.2.48). In particular, shipments of iron ore, meat, soybeans, and oil grew significantly, consistent with the strong expansion of domestic production of agriculture and mining. Despite the 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. Excluding this effect, the terms of trade would be below 2019 levels (Figure 1.2.49). Amid rising U.S. tariffs throughout 2025, sales to that market dropped strongly, but growth in exports to other countries helped mitigating the negative impact, and total exports increased (Figure 1.2.50). The average effective tariff on exports of Brazilian goods to the U.S. reached a peak of 22% in October 2025, impacted by the rates announced in April and increased in late July (Figure 1.2.51). These rates were then reduced in late November, when some goods were excluded from the tariffs list. The decision of the U.S. Supreme Court in February 2026 and its developments may lead to a new reduction in the average effective rate on imports of Brazilian goods by the U.S.²⁶

Figure 1.2.48 – Exports quantum Index

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

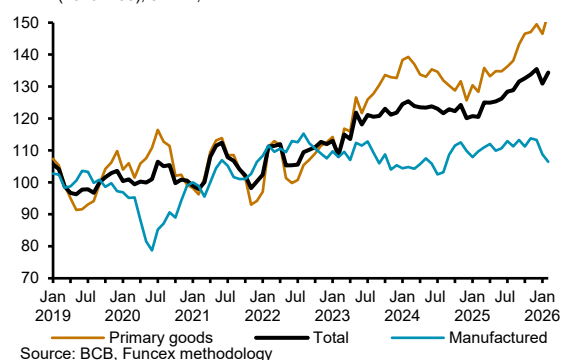
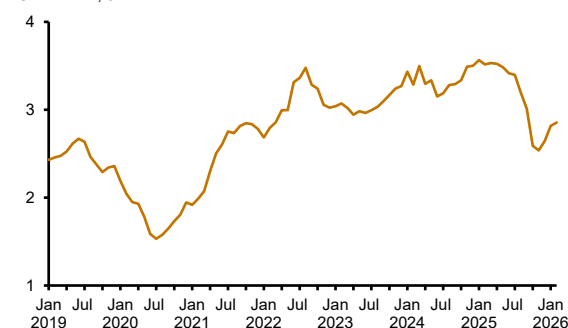


Figure 1.2.50 – Exports to the U.S.

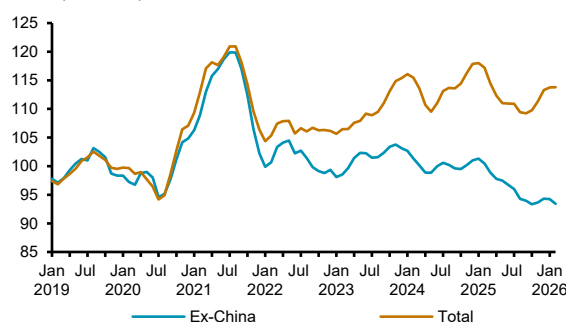
USD billion, 3MMA s.a.



Source: Secex/MDIC and BCB

Figure 1.2.49 – Terms of trade

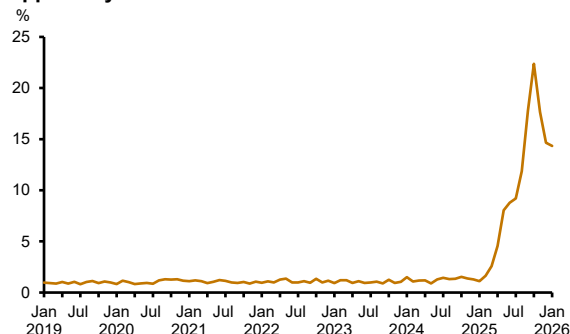
Index (2019=100), 3MMA



Source: BCB, Funcex methodology

Ex-China index excludes China's impact only on imports

Figure 1.2.51 – Import tariffs on Brazilian products applied by the U.S.



Source: Census Bureau

The deficit in the services account in 2025 was slightly lower than in 2024, with lower net expenses on cultural services and transport, although it remained high (Figure 1.2.52). Compared with 2024, the change in the legislation on sports betting explains the reduction in the expenses on cultural services as of January 2025²⁷. Similarly, transport expenses declined, reflecting the normalization of freight prices. Conversely, the BRL appreciation and the heated labor market explain the increase in travel expenses throughout 2025. The box [Services and primary income deficits in the balance of payments: recent dynamics and possible persistence](#), in this MPR, illustrates that, although most of the fluctuation in the services account is associated with conjunctural factors, some possibly structural determinants are also present and may bring persistence to the higher deficit observed in some types of services.

26/ The U.S. Supreme Court's decision in February 2026 determined that the U.S. president had exceeded his authority by imposing tariffs by means of a law specific for national emergencies. Following this decision, the American government, using an alternative instrument, announced an overall import tariff of 10% but maintained relevant exceptions, such as the energy sector. In this context, the average U.S. tariff on Brazilian goods is expected to be reduced again as of February 2026.

27/ 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 modality.

Figure 1.2.52 – Services

USD billion, 3MMA s.a.

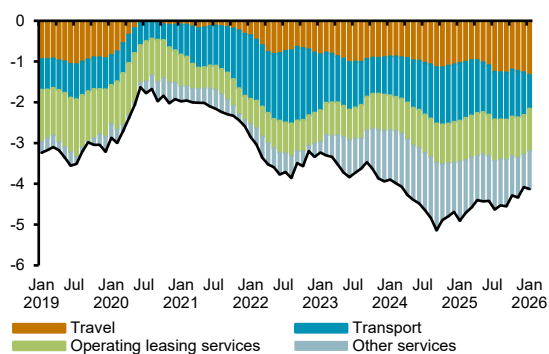
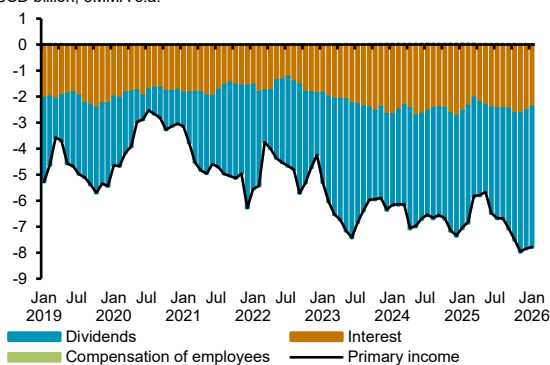


Figure 1.2.53 – Primary income

USD billion, 3MMA s.a.



In the primary income account, the deficit remained stable in 2025 compared with 2024, but with a decline in net interest expenses and an increase in net expenses on profits and dividends (Figure 1.2.53). Despite some domestic activity slowdown, the profitability of companies operating in the country with non-resident shareholders remained high. This issue is also discussed in the box [Services and primary income deficits in the balance of payments: recent dynamics and possible persistence](#) in this MPR. External interest, in turn, benefited from the U.S. monetary easing, which began in 2024, and net expenses declined, especially in the last months of the year.

In the financial account, 2025 was characterized by net inflows of non-resident funds in both direct investment liabilities, which again surpassed the current account deficit, and portfolio investments, which were positive for the third consecutive year. In 2025, direct investment liabilities reached USD 78.0 billion, equivalent to 3.4% of GDP, with higher inflows of intercompany operations and equity excluding reinvested earnings compared with 2024 (Figure 1.2.54). Reinvested earnings, in turn, were negatively affected by record remittances of profits in December, possibly enlarged due to changes in tax on profits. Portfolio investments recorded net inflows in 2025 for the third consecutive year, mainly due to the positive inflows of securities traded in the country, benefited by the high interest rate differential between Brazil and advanced economies (Figure 1.2.55). In January 2026, the high level of inflows continued: net inflows of portfolio investments reached USD 9.0 billion, comprising USD 6.9 billion in securities traded in the country, the peak for the month of January in the last eleven years.

Figure 1.2.54 – Direct investment liabilities

USD billion, 3MMA s.a.

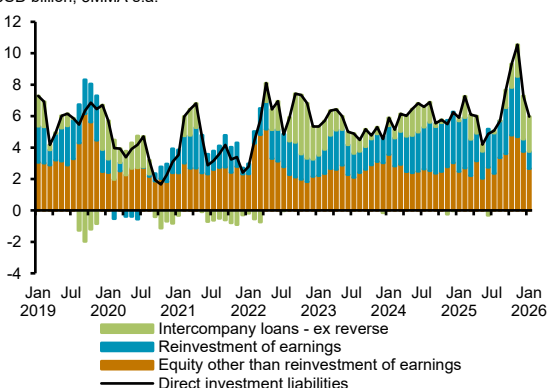
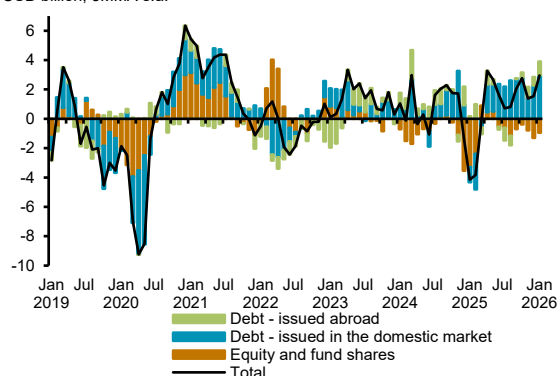


Figure 1.2.55 – Portfolio investment - liabilities

USD billion, 3MMA s.a.



The projections for external accounts in 2026 were revised and further details are available in a box in this MPR. In line with more recent data, and the domestic outlook – including the prospect of Brazilian economic activity moderation – and the international outlook, the current account deficit is expected to reach USD 58 billion (2.2% of GDP), compared with a projection of USD 60 billion (2.4% of GDP) in the previous MPR. The updated projection represents a lower deficit than observed in 2025 (USD 69 billion, 3.0% of GDP) and lower than the forecast for net inflows of direct investment liabilities (USD 70 billion, 2.7% of GDP).

Prices

The 12-month consumer inflation continued to decline, showing a small change in the last quarter, but inflation expectations remained deanchored.

The 12-month inflation as measured by the IPCA, which peaked at 5.53% in April 2025, decreased once again, falling from 4.46% in November to 3.81% in February. According to the seasonally adjusted and annualized quarterly change, the IPCA rose only by 2.88% in February, influenced by falling food prices, while the average of core inflation measures increased 4.22%. Part of the disinflation underway since mid-2025 reflects movements in the exchange rate, which has a significant effect on the IPCA and the average of core inflation measures, but impacts more strongly the prices of tradable goods – such as food and industrial goods.²⁸ Conversely, despite moderation in some metrics, services inflation remains high, still impacted by a heated labor market and a positive output gap. According to the Focus Report, median inflation expectations declined slightly for 2026, remaining above the target. For longer horizons, however, expectations remained unchanged and still deanchored.

Commodity prices increased, after four quarters of decline when priced in BRL.²⁹

The Commodities Index – Brazil (IC-Br) measured in BRL increased 6.4% since the previous MPR, reflecting the index's 9.0% increase in USD, only partially offset by a 2.4% BRL appreciation (Figure 1.2.56).³⁰ The rise in the IC-Br in USD during the quarter was driven by a sharp increase in oil prices – a consequence of the conflict in the Middle East – and by an equally steep rise in metal commodity prices, with significant contributions from both precious and industrial metals.³¹ Agricultural commodities, in turn, showed a trend closer to stability, with price increases for fed cattle and soybean oil offset by lower prices for coffee and cocoa (Figure 1.2.57). Despite the increase in the quarter, the IC-Br in BRL still accumulates a 9% decline since its peak in January 2025.

Figure 1.2.56 – IC-Br and foreign exchange rate

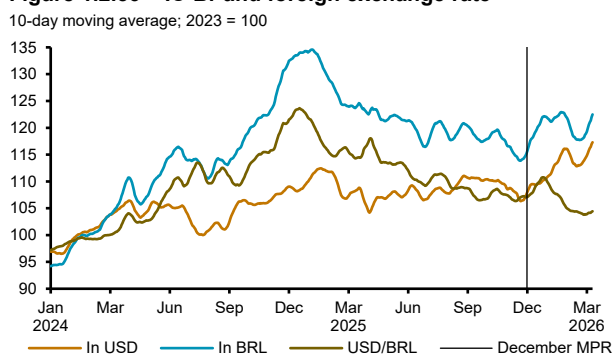
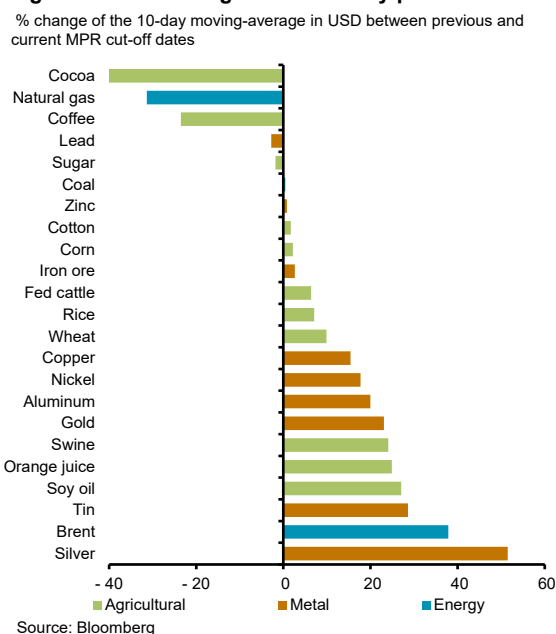


Figure 1.2.57 – Change in commodity prices



Producer prices in Brazil fell once again in the quarter and show a cumulative deflation on a 12-month basis.

The Broad Producer Price Index (IPA-DI) fell 1.18% in the Dec-Feb quarter, with a decline in agricultural prices and a rise in industrial prices (Figure 1.2.58). In 12 months, prices fell 5.8%. The decline in prices in

28/ See box [Exchange rate pass-through: estimates by local projections](#) in this MPR.

29/ This paragraph uses as reference the IC-Br, an indicator that aggregates the prices of commodities relevant to the dynamics of Brazilian inflation. The commodity weights in the IC-Br are listed in the metadata of the series 27574, available at the BCB's [Time Series Management System](#) (SGS)

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

31/ Since the previous MPR, the price of silver has increased 51% in USD. The price of gold has also fluctuated significantly, but its weight in the index is low. Prices for industrial metals such as tin, aluminum, and copper also rose significantly during the quarter. Since March 2025, metal commodity prices have risen 56% in USD. Excluding gold and silver, the increase is 31%, which is still quite high, indicating that the rise in the sector is widespread.

agriculture was relatively widespread in the quarter, with drops in soybeans, being harvested, in coffee, amid improved prospects for the 2026 harvest, and in fresh milk. In 12 months, prices in the agricultural sector dropped by 10.7%. Similarly, processed food products also declined in the quarter, particularly sugar, soybean oil, pork, and poultry. Overall, the IPA still indicates relief in consumer food prices. Excluding processed foods, tobacco, and fuels, producer prices in manufacturing increased 1.32%, following two quarterly declines. The 12-month changes in the segment still suggest a benign outlook for consumer prices (Figure 1.2.59), but recent monthly increases may reflect the exhaustion of the pass-through from the BRL appreciation and upward pressures on input costs for the sector.

Figure 1.2.58 – Contributions to IPA-DI quarterly changes

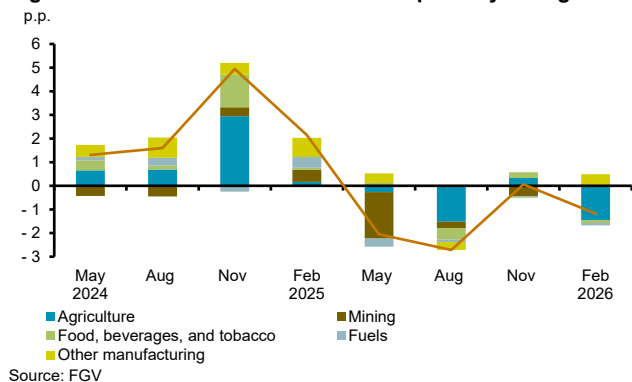
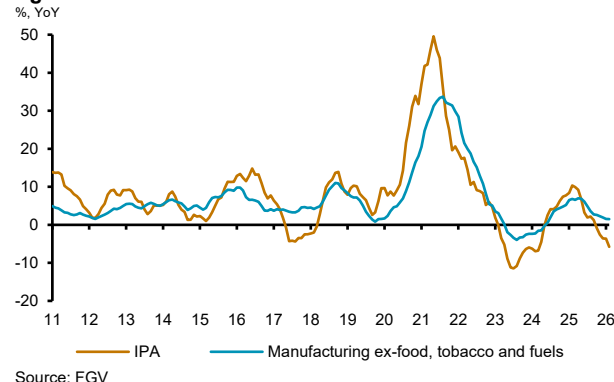
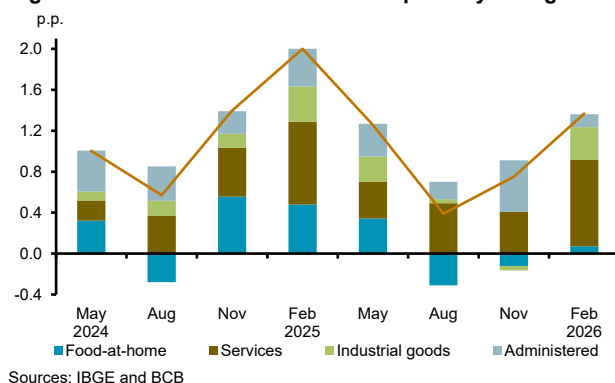


Figure 1.2.59 – IPA-DI



According to seasonally adjusted data, consumer inflation change was close to the target also in this quarter but the average of core inflation measures remained higher. Consumer inflation measured by the IPCA grew from 0.75% in the Sep-Nov quarter to 1.37% in the Dec-Feb one, influenced by the seasonal pattern in services (Figure 1.2.60). In the seasonally adjusted series, the IPCA showed moderation in the same period, with annualized changes slowing down from 3.37% to 2.88%, while the average of core inflation measures increased from 3.80% to 4.22% between November and February (Figure 1.2.62).³² As discussed below, a significant share of this low IPCA change in the last quarter, according to seasonally adjusted data, reflects the decline in food prices. In the 12-month change, both the headline IPCA inflation and the average of core inflation measures declined – from 4.46% to 3.81% for the IPCA and from 4.73% to 4.46% for the average of core inflation measures, still above the inflation target (Figure 1.2.61).

Figure 1.2.60 – Contributions to IPCA quarterly changes



32/ The average considers the Ex-0, Ex-3, MS, DP, and P55 cores. The consolidated methodology for the core measures and other analytical series is described in the Technical Note [Núcleos de inflação e outras séries analíticas derivadas do IPCA: metodologia consolidada \(Inflation cores and other analytical series derived from the IPCA: consolidated methodology\)](#) (Portuguese only), published on December 19, 2025. See box [Consolidated methodology for IPCA-derived analytical series](#).

Figure 1.2.61 – IPCA and core inflation

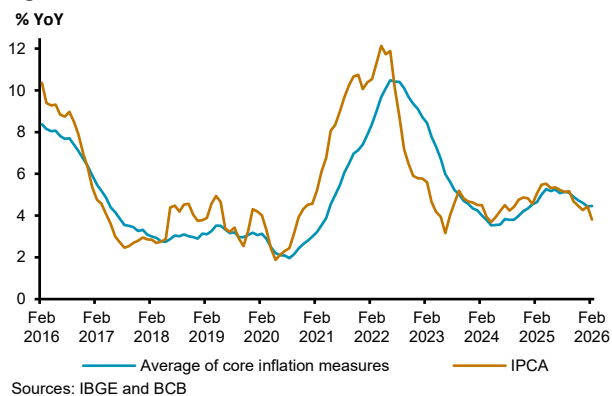
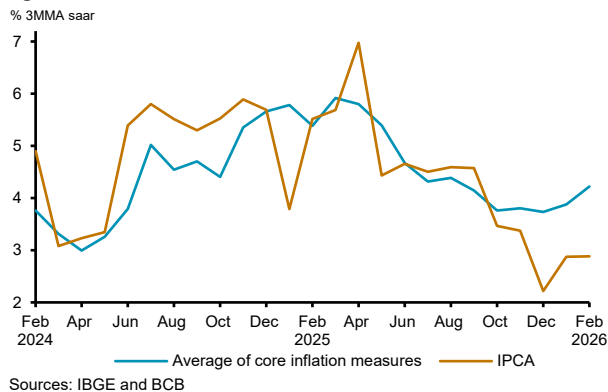


Figure 1.2.62 – IPCA and core inflation



Consumer food prices showed little change during the quarter, below the seasonal pattern for the period.

In the series without seasonal adjustment, prices in the food-at-home segment increased 0.47% in the Dec-Feb quarter, compared with a 0.77% decline in the Sep-Nov quarter (Figure 1.2.63). The price increase was concentrated in fresh food and beef, which typically experience greater fluctuations during this time of the year. Still, the 3.00% increase in fresh food prices in the quarter was significantly lower than suggested by the seasonal pattern. Among semi-processed foods, despite the increase in beef prices, there was an overall decline, with decreases in UHT milk, rice, and chicken. Price changes for processed foods were small again, continuing the slowdown observed since the beginning of 2025. In the seasonally adjusted quarterly series, food-at-home prices fell 2.96% at an annualized rate (Figure 1.2.64), with negative growth in both fresh food – more volatile – and in semi-processed and processed foods. In 12 months, the food-at-home segment accumulated a 0.11% decline until February, following a 2.46% increase until November.

Figure 1.2.63 – Contributions to quarterly changes in food-at-home prices – IPCA

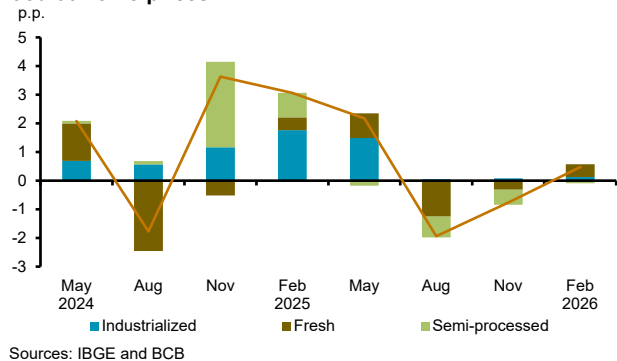
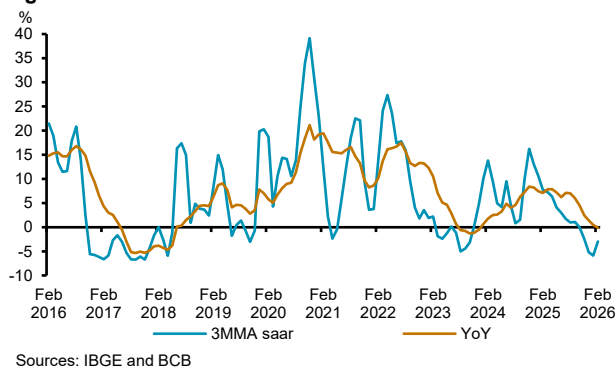


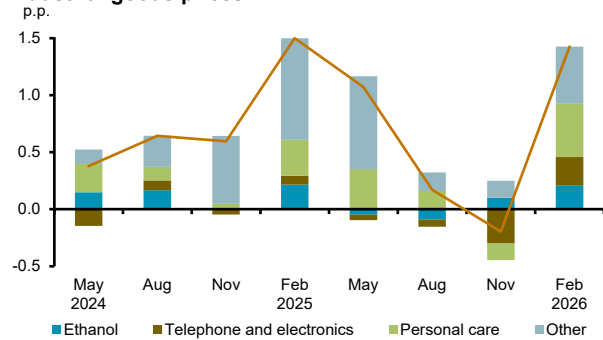
Figure 1.2.64 – Food-at-home inflation



Prices of industrial goods posted a stronger increase during the quarter. Inflation in this segment, as measured by the IPCA, shifted from a 0.20% decline in the Sep-Nov quarter to a 1.43% increase in the Dec-Feb quarter (Figure 1.2.65). The movement was relatively widespread, with a notable rise in personal hygiene products, a category with a high weighting and more volatile prices. Telephones and electronic devices also registered significant price increases, following declines in the Sep-Nov quarter. Ethanol prices grew strongly – a typical trend during the sugarcane off-season – and household appliances, vehicles, furniture, and cleaning supplies registered higher price changes. Part of the upward trend may be related to the reversal of discounts from the Black Friday promotional period or to other seasonal effects.³³ Still, in the seasonally adjusted series, the annualized change in industrial goods prices grew from 1.41% to 3.09% (Figure 1.2.66). Alternative measures that exclude the most volatile items in the segment also generally show higher changes than in the previous quarter, exceeding 2% on an annualized basis. The 12-month inflation of industrial goods declined from 2.56% in November to 2.49% in February, still a high level for this segment.

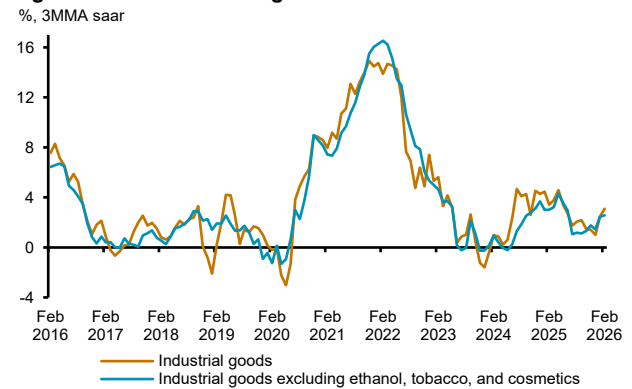
33/ In the specific case of the electronics sector, in addition to seasonal factors, there are also reports of cost pressures, with a significant increase in the price of RAM memory, a key component in the production of cell phones, TV sets, and personal computers. These pressures may have influenced retail prices, but producer prices as measured by the IPA (FGV) and the Producer Price Index (IPP/IBGE) do not yet clearly indicate the pass-through of these higher costs.

Figure 1.2.65 – Contributions to quarterly changes in industrial goods prices – IPCA



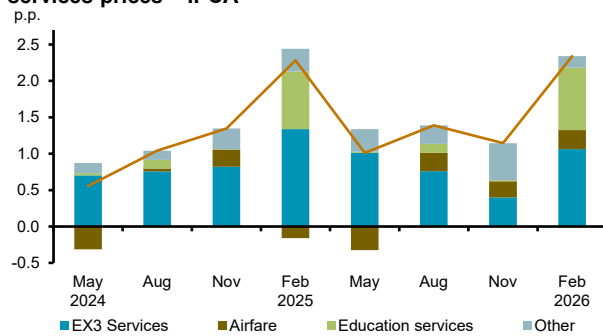
Sources: IBGE and BCB

Figure 1.2.66 – Industrial goods inflation



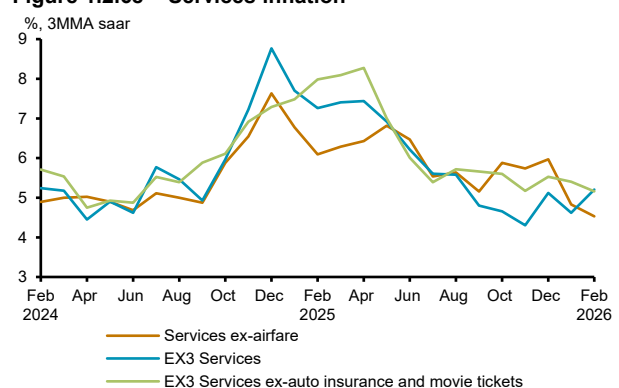
Services inflation remained high, with the quarterly change influenced by seasonal factors and more volatile components. Between November and February, the segment’s quarterly change increased from 1.15% to 2.34% (Figure 1.2.67). The sharpest increase is largely explained by adjustments in school tuition fees, which in the IPCA are concentrated in the February reading. There was also a higher change in EX3 Services, a measure of underlying inflation in the segment.³⁴ In this case, in addition to seasonality, there was also a significant influence from rising prices in voluntary vehicle insurance – only partially offset by fluctuations in the cinema, theater, and concerts subcategory.³⁵ The seasonally adjusted series for services inflation generally indicate moderation or stabilization at a level below that observed throughout 2025 – even though they remain above the inflation target. Excluding airfare, the seasonally adjusted and annualized inflation rate for services went from 5.74% in the Sep-Nov quarter to 4.53% in the Dec-Feb quarter – the lowest reading since late 2023. The EX3 services index, in turn, ended the quarter with an annualized change rate of 5.21%, accelerating from the previous quarter but still well below the peaks observed between late 2024 and early 2025. Excluding the cinema and insurance sub-items, which have been volatile recently, the EX3 services index went from 5.17% to 5.16% on an annualized and seasonally adjusted basis (Figure 1.2.68). Measures focusing on more labor-intensive services continue to show higher annualized change rates, with some signs of moderation in the latest IPCA readings (Figure 1.2.69).³⁶ In 12 months, services prices increased 6.01% until February, virtually the same as the increase accumulated until November (5.95%). Excluding airfare, the segment’s 12-month inflation fell from 6.07% to 5.68%, still at a high level (Figure 1.2.70).

Figure 1.2.67 – Contributions to quarterly changes in services prices – IPCA



Sources: IBGE and BCB

Figure 1.2.68 – Services inflation



34/ In previous reports and statements, EX3 services were usually referred to as “underlying services.” The Technical Note [Núcleos de inflação e outras séries analíticas derivadas do IPCA: metodologia consolidada \(Inflation cores and other analytical series derived from the IPCA: consolidated methodology\)](#) (Portuguese only), published in December, introduced the term “EX3 services” to more clearly indicate that this measure comprises the EX3 core of the IPCA and that there are other possible definitions of underlying inflation for the services segment. See box [Consolidated methodology for IPCA-derived analytical series](#) in this MPR.

35/ The voluntary vehicle insurance sub-item registered a 9.33% decline in the Sep-Nov quarter, followed by a 5.88% increase in the Dec-Feb quarter. Meanwhile, the “movies, theater, and concerts” sub-item increased 4.51% in the Sep-Nov quarter, due to the reversal of discounts from August’s Movie Week, and fell 2.63% in the Dec-Feb quarter, reflecting the impact of discounts from February’s Movie Week.

36/ The series “Reweighted services – labor” was presented in the box [Services inflation reweighted by production factors](#) in the June 2024 Inflation Report. The series “Labor-intensive services” aggregates changes in medical and dental services, beauty salon services, domestic workers, home-repair labor, and dressmaker.

Figure 1.2.69 – Services inflation

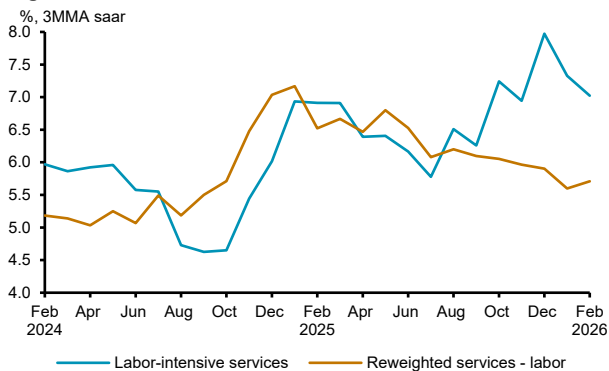
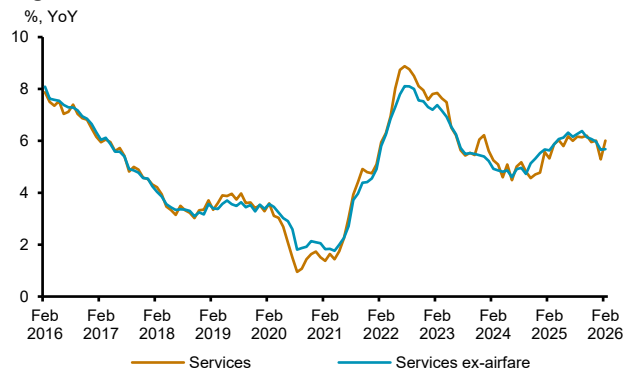
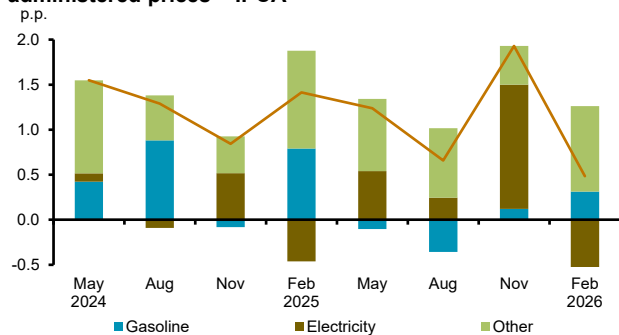


Figure 1.2.70 – Services inflation



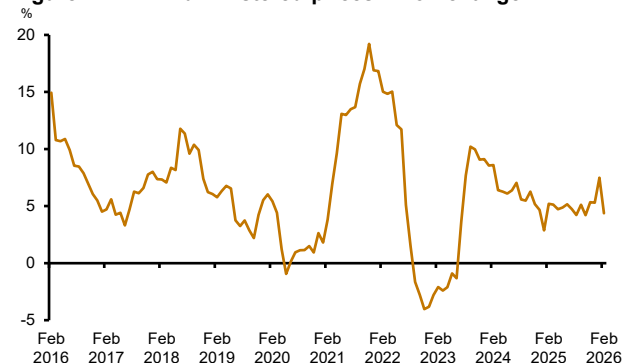
Administered prices showed a smaller change than in the previous quarter, largely due to residential electricity rates. The change in this segment went from 1.93% in the Sep-Nov quarter to 0.48% in the Dec-Feb one (Figure 1.2.71). The main factor contributing to the slowdown was residential electricity, due both to fluctuations in rates associated with the Itaipu bonus and to the shift to a more favorable flag.³⁷ Conversely, there were higher increases in gasoline, urban bus fares, and water and sewage fees. The increase in gasoline prices reflects the *ad rem* increase in the State Tax on the Circulation of Goods and Services (ICMS) on fuel in early January and the increase in ethanol prices during a period of unfavorable market conditions. With regard to water and sewage fees, the highest change reflects the concentration of rate adjustments at the beginning of the year, particularly in São Paulo, which carries a significant weight in this sub-item³⁸ In the case of urban buses, fares are typically adjusted at the beginning of the year. In 12 months, administered prices slowed, falling from 5.34% in November to 4.38% in February (Figure 1.2.72).

Figure 1.2.71 – Contributions to quarterly changes in administered prices – IPCA



Sources: IBGE and BCB

Figure 1.2.72 – Administered prices – YoY change



Inflation expectations have declined slightly for 2026 and remain deanchored throughout the projection horizon. The median expectations for 2026 has fallen from 4.16% to 4.10% since the previous MPR (Figure 1.2.73). Expectations decreased more sharply until the end of February, reaching 3.89%, but began to rise again until the cut-off date of this MPR, possibly reflecting the higher-than-expected result for the February IPCA-15 and the strong increase in oil prices during the first two weeks of March.³⁹ The slight decline in the median expectation for the IPCA in the period as a whole reflects lower projections for food-at-home prices, partially offset by higher expectations for the other segments (Table 1.2.7). For the 2027-2029 period, the medians of

37/ In September 2025, there was a reversion of the one-off discount on August rates, linked to the Itaipu bonus. The reversal of the discount drove up inflation for the Sep-Nov quarter, which serves as basis for comparison. The transition between flags was also more favorable in the recent quarter: between August and November, the flag shifted from Red 2 to Red 1, with a smaller impact than the transition from Red 1 to Green in the Dec-Feb quarter.

38/ Following the privatization of Sabesp, the reference date for rate adjustments in São Paulo shifted from May to January.

39/ In the PCQ, the median projection for the price of Brent-type oil at the end of 2026 rose from USD 63 to USD 70 between the January and March surveys, with no significant change in the projection for gasoline prices over the same period. This divergence suggests that the recent increase in oil prices has been only partially factored into inflation projections.

inflation expectations remained unchanged from the previous MPR, above the 3% inflation target throughout all horizons considered by the Focus survey (Figure 1.2.74).

Figure 1.2.73 – Median market expectations (Focus) – Annual IPCA in 2026

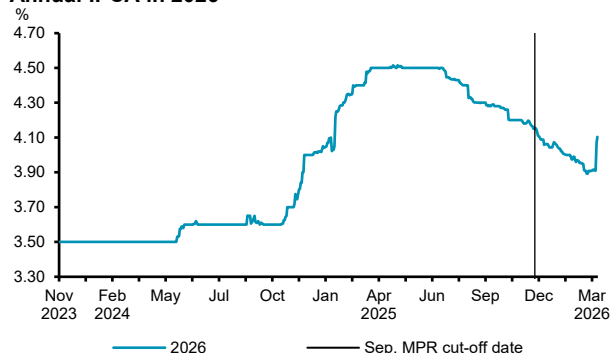
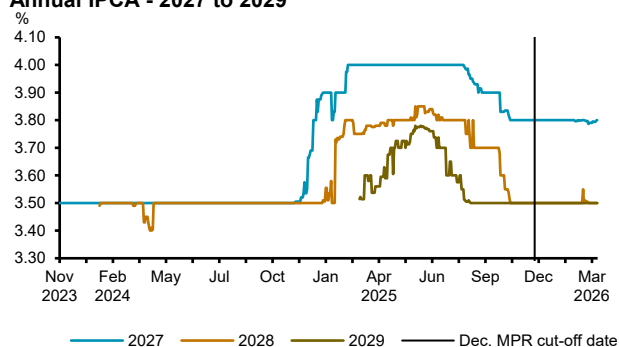


Table 1.2.7 – Breakdown of the revision on the 2026 Focus survey

	Weights	Focus expectations (% p.a.)		
		Dec-5	Mar-13	Contr. to Δ (p.p.)
IPCA	100	4.16	4.10	-0.05
IPCA (by aggregation)	100	4.16	4.13	-0.03
Food-at-home	15	4.79	3.86	-0.14
Industrial goods	23	2.55	2.64	+0.02
Services	36	5.18	5.37	+0.07
Administered prices	26	3.76	3.85	+0.02
Market prices	74	4.28	4.22	-0.04
Market prices (by aggreg.)	74	4.30	4.23	-0.05

Figure 1.2.74 – Median market expectations (Focus) – Annual IPCA - 2027 to 2029



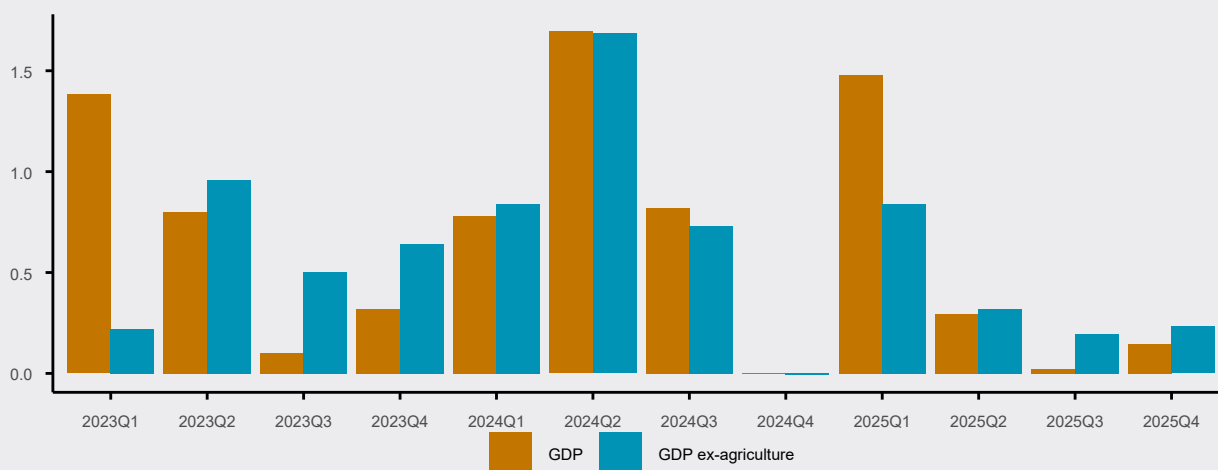
Seasonal adjustment and uncertainty about the pace of growth in early 2026

Similarly to 2025, a strong Gross Domestic Product (GDP) growth is expected in 2026Q1, partly due to the prospect of a favorable harvest in the period. Nonetheless, growth forecasts are high even for GDP ex-agriculture. In this context, an update of the exercise presented in early 2025 shows that part of this expected GDP ex-agriculture growth can be attributed to the seasonal adjustment method.

GDP decelerated significantly throughout 2025. After growing 1.5% at the margin¹ in 2025Q1, GDP registered more modest changes in the subsequent quarters, with average growth of 0.2% per quarter. The strong growth in early 2025 reflected, to a large extent, the expansion of agriculture, which grew 14.9% at the margin in the period, driven by the record harvest of soybeans.² Even so, even excluding the direct contribution of agriculture – GDP ex-agriculture³ – the growth in 2025Q1 remained high (0.8%), and decelerated throughout the year, averaging 0.2% in the subsequent quarters (Figure 1).

Figure 1 — GDP and GDP ex-agriculture 2026Q1: QoQ change

QoQ (%) — direct seasonal adjustment



Sources: IBGE and BCB

The reading of the deceleration trajectory throughout 2025, however, depends on the seasonal adjustment method used. As discussed in a box of the March 2025 Monetary Policy Report (MPR),⁴ the official seasonal adjustment of GDP, calculated by the IBGE, uses the direct method, in which seasonal adjustment is obtained by seasonally adjusting the original series itself. An alternative would be the indirect method, in which the seasonally adjusted GDP is obtained by the aggregation of the series of its components already seasonally adjusted.⁵ Considering the indirect adjustment, the deceleration throughout 2025 is less significant in GDP

1/ In this text, change at the margin always refers to the change in a quarter compared with the immediately previous quarter, using seasonally adjusted data.

2/ The Brazilian Institute of Geography and Statistics (IBGE) records most of the soybeans harvest in the first quarter of the year. According to the Systematic Agricultural Survey (LSPA), the harvest of grains rose 18.2% in 2025 and is expected to remain at a high historical level in 2026, declining 0.6%.

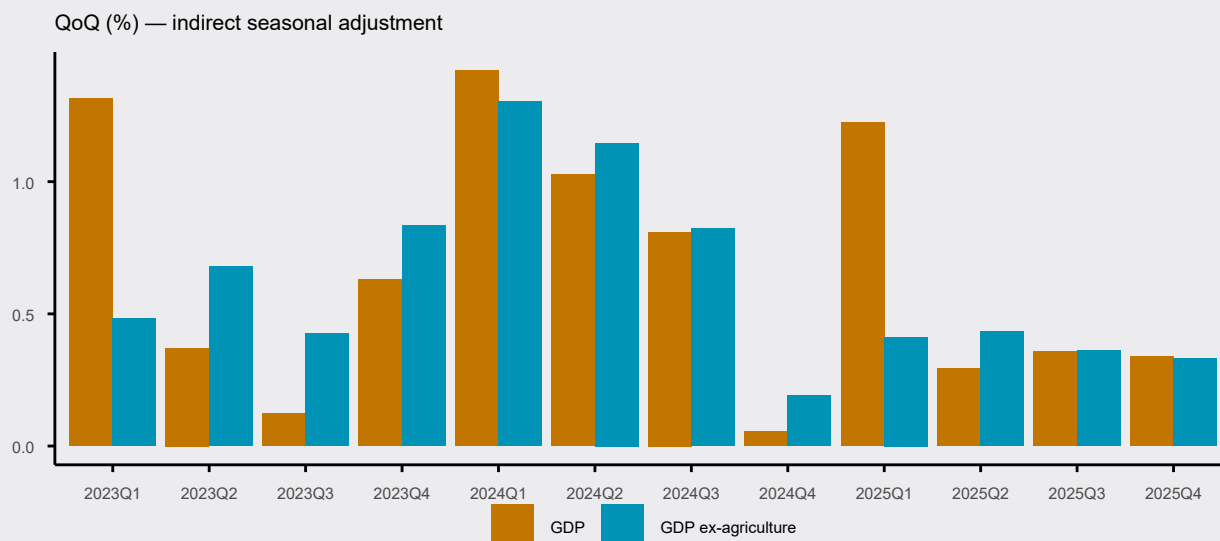
3/ Other GDP components may be influenced by the dynamics of agriculture, such as taxes, trade, transport, and direct industrial processing of some agricultural goods, such as food and biofuels. See box [Impact of the crop harvest on the economic activity](#) in the June 2017 Inflation Report (IR) and box [Efeitos indiretos dos setores produtores de bens básicos para o crescimento da atividade em 2023](#) in the Regional Bulletin of 2023 (Portuguese only).

4/ Box [Seasonal adjustment and uncertainty regarding the intensity of the GDP slowdown in early 2025](#).

5/ The aforementioned box presents a brief discussion about the advantages and disadvantages of both seasonal adjustment methods.

and not observed in GDP ex-agriculture (Figure 2). As for GDP ex-agriculture, after a sharp deceleration in 2024Q4, growth remained relatively stable throughout 2025, around 0.4% per quarter.

Figure 2 — GDP and GDP ex-agriculture 2026Q1: QoQ change



Projections signal that GDP will once again show a significant growth in 2026Q1, considering the official adjustment method. According to the more recent survey of the Pre-Copom Questionnaire (PCQ), the median projections for GDP and GDP ex-agriculture growth at the margin stand at 0.9% and 0.8%, respectively.⁶ Nevertheless, part of this acceleration is related to the seasonal adjustment method, as in the previous year.

To assess the relevance of this methodological difference, different simulations were built for GDP components, corresponding to likely combinations of the trajectories for the series in level, not seasonally adjusted, starting in 2026Q1. For each of these simulations, the GDP series adjusted by the direct and indirect seasonal adjustment methods were built.⁷

Figure 3 presents the changes at the margin for 2026Q1 resulting from the direct and indirect seasonal adjustments. Each point corresponds to one simulation, i.e., a specific combination of the trajectories of GDP components. Figure 4 summarizes this comparison by showing, for each simulation, the difference between the quarter-over-quarter changes under the two methods (direct less indirect), so that positive values indicate higher growth by the direct adjustment. GDP changes at the margin by the direct adjustment exceed those calculated by the indirect adjustment in most simulations. For YoY changes close to the PCQ median projections (1.6%), the growth by the direct adjustment is projected around 1.0%, compared with around 0.7% by the indirect adjustment.⁸ A similar result is observed for GDP ex-agriculture: close to the PCQ median (1.7%), the growth remains elevated by the direct adjustment (0.8%), while, by the indirect adjustment, it is smaller (0.5%), at a level closer to that observed throughout 2025.

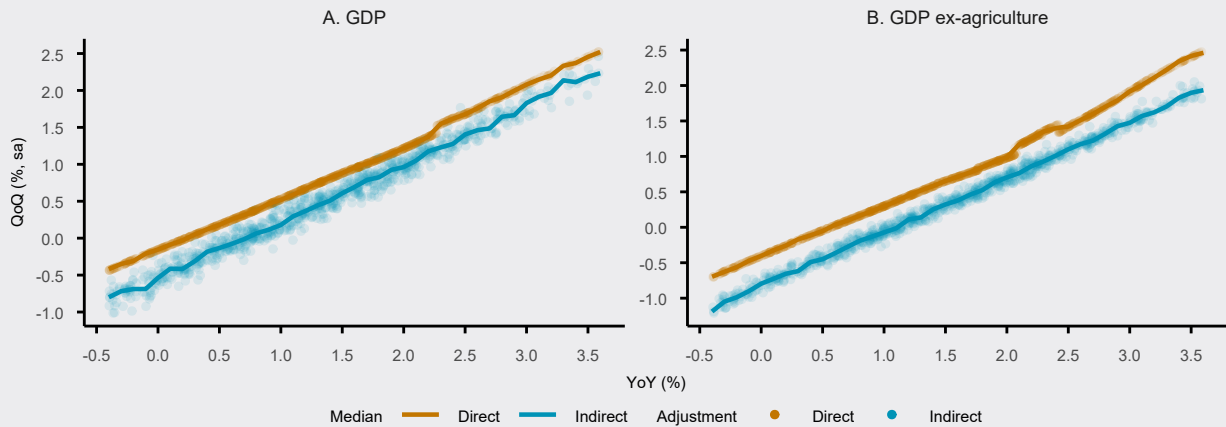
6/ Using the projections for YoY changes of GDP and Gross Value Added (GVA) of agriculture, it is possible to calculate the projections for GDP ex-agriculture growth for each PCQ respondent, as well as the respective projection for the growth at the margin according to the methodology adopted by the IBGE.

7/ The thorough description of this exercise is found in the aforementioned box of March 2025 MPR.

8/ For the association between the YoY change and the change at the margin, it was considered the median of changes at the margin for each simulation whose YoY change rounded to one decimal place coincides with the value of interest. The same procedure was carried out in the remainder of the text.

Figure 3 — 2026Q1: QoQ change by type of seasonal adjustment

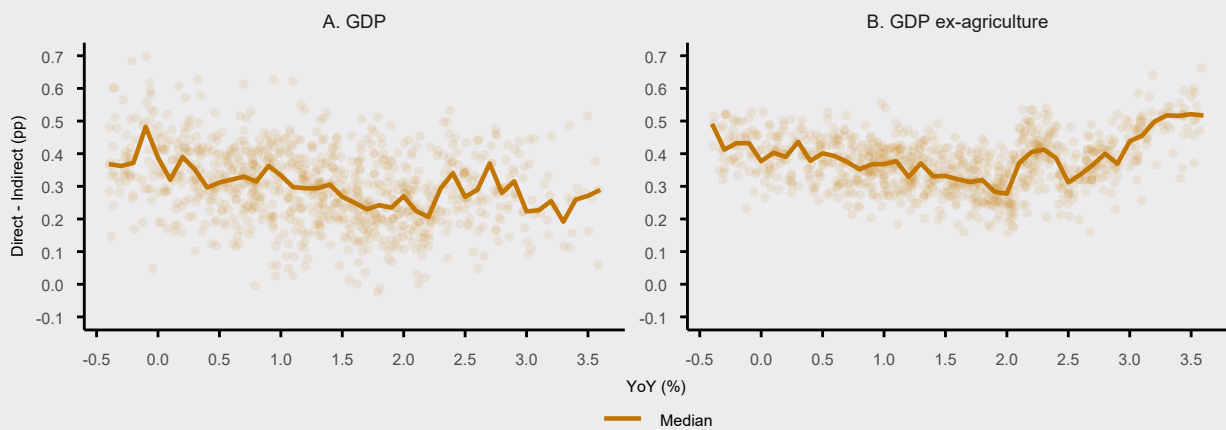
Seasonal adjustment using data up to 2026Q1



For each adjustment type, points represent different simulations. The median (solid line) was computed in 0.1 p.p. intervals of the YoY change.

Figure 4 — 2026Q1: Difference between QoQ changes by type of seasonal adjustment

Direct - Indirect. Seasonal adjustment using data up to 2026Q1

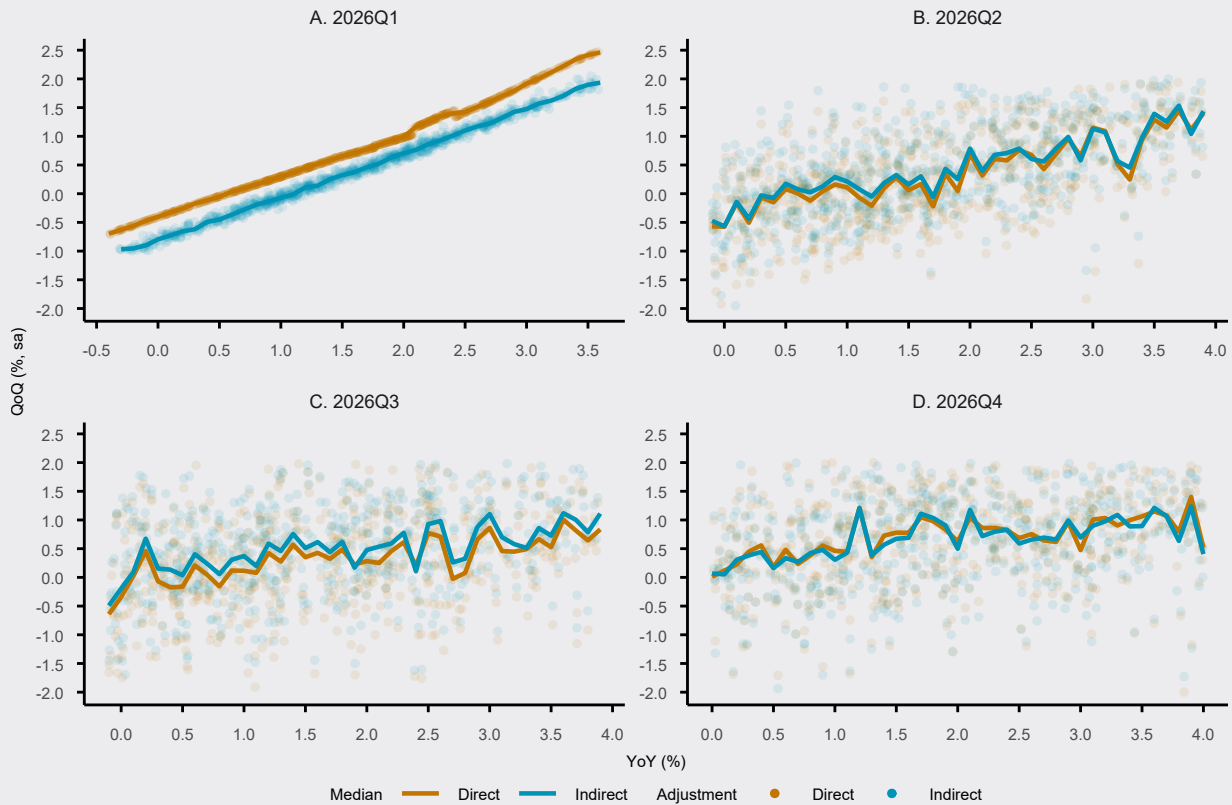


Points represent different simulations. The median (solid line) was computed in 0.1 p.p. intervals of the YoY change.

Similarly to 2025, the difference between the seasonal adjustment methods is concentrated in the first quarter and tends to be small in the subsequent quarters of the year (Figure 5). When the seasonal adjustment is carried out using only information available until each quarter, growth rates obtained by the direct and indirect methods are similar in the subsequent quarters of 2026. Even so, the estimated difference for 2026Q1 persists when the seasonal adjustment horizon is enlarged, i.e., when the results of the subsequent quarters are progressively incorporated (Figure 6).

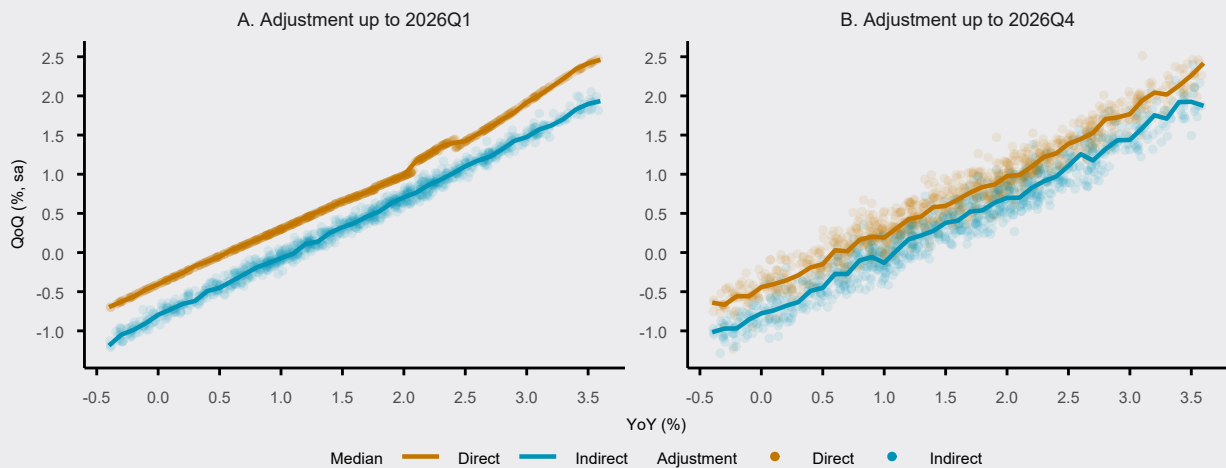
Figure 5 — GDP ex-agriculture: QoQ change

Seasonal adjustment using data up to the respective quarter



For each adjustment type, points represent different simulations.
The median (solid line) was computed in 0.1 p.p. intervals of the YoY change.

Figure 6 — GDP ex-agriculture 2026Q1: QoQ change by seasonal adjustment horizon



For each adjustment type, points represent different simulations.
The median (solid line) was computed in 0.1 p.p. intervals of the YoY change.

The Banco Central do Brasil's (BCB) projection for GDP growth in 2026Q1 is 1.5% compared with 2025Q1, which is slightly below the PCQ's median projections. Considering the seasonal adjustment methodology used by the IBGE, this projection corresponds to a growth at the margin of 0.9% by the direct adjustment and 0.5% by the indirect adjustment. For GDP ex-agriculture, the YoY growth projection is 1.7%, in line with the PCQ, which means growth rates at the margin of 0.8% by the direct adjustment and 0.5% by the indirect adjustment. Considering the latter method, the expected GDP ex-agriculture growth is only moderately

higher than that observed throughout 2025, reflecting factors such as the real minimum wage increase and the measures for income tax exemption or reduction targeted to the lower income brackets. There is, however, high uncertainty about the result, especially considering the indirect adjustment, which depends on the growth composition.

The higher growth projection for 2026Q1 makes the discussion about the reading of the growth at the margin once again relevant. The exercises presented in this box show that the interpretation of the pace of activity in early 2026 depends substantially on the seasonal adjustment method adopted. In particular, while the direct adjustment suggests higher GDP ex-agriculture growth in 2026Q1, the indirect adjustment indicates a smaller growth, closer to that observed throughout 2025. In this context, not disregarding the central role of GDP, the monitoring of a wide set of indicators – even those with higher frequency – remains fundamental for a more accurate assessment of the pace of economic growth in early 2026.

Projections for GDP growth in 2026

The projection for the Gross Domestic Product (GDP) growth in 2026 remains at 1.6%, the same figure released in the December 2025 MPR, maintaining the prospect of moderate expansion over the year.

The stability of the annual growth projection reflects the 2025Q4 result, which was close to expectations, and the continued prospect for a moderate quarterly expansion throughout 2026. This scenario is conditioned by the expectation of monetary policy remaining in a restrictive territory, the low level of slack of production factors, the prospect of deceleration of the world economy, and the absence of the agricultural stimulus observed in 2025. As in the previous MPR, the outlook also incorporates estimates of the effects of recent measures with the potential to support domestic demand, such as the real increase in the minimum wage and the exemption or reduction of the Individual Income Tax (IRPF) for lower income brackets.

Although the aggregate 2025Q4 GDP was in line with the Banco Central do Brasil's (BCB) forecasts, there were surprises in its components: overall, services outperformed expectations, whereas industry and domestic demand grew below the previous MPR projections. These surprises have an impact on the projections for the supply and demand components for 2026. Furthermore, the recent conflict in the Middle East increases the degree of uncertainty surrounding the forecasts. If prolonged, its predominant impacts, both domestically and abroad, should be consistent with a negative supply shock, raising inflation and reducing growth, even though they may benefit some sectors of the Brazilian economy – particularly the oil sector.

In terms of GDP dynamics throughout the year, growth is projected to be stronger in 2026Q1 – following a virtual stability over the second half of 2025 – and followed by moderate increases in the subsequent quarters. The aforementioned measures, which may affect demand, as well as the expected growth of agriculture in 2026Q1 – despite the forecast of moderate annual expansion for the sector – should contribute to the acceleration of economic activity during this period. However, the expected growth for 2026Q1 and for the remainder of the year – especially when excluding agriculture from GDP – is sensitive to the seasonal adjustment specification, as discussed in a box in this MPR.¹ Considering seasonal adjustment by the indirect method, which aggregates the already seasonally adjusted components, GDP ex-agriculture is expected to show a more homogeneous growth pattern throughout the year, as already observed in 2025. These results suggest that interpretations of the degree of economic activity momentum, particularly in early 2026, should be made with caution.

From the supply side perspective, the stability of the annual GDP growth projection reflects a downward revision for industry and upward revisions for services and agriculture. The expected expansion of agriculture increased from 0.5% to 1.0%, amid more favorable projections for agricultural production. In industry, the projection was revised from 1.9% to 1.2%, a reduction that reflects lower growth expectations for manufacturing and construction, both influenced by a lower-than-expected performance in 2025Q4. Despite the significant downward revision to the annual growth projection for construction, the sector is still expected to expand over the year, driven by the residential segment and the anticipated increase in infrastructure works. The projection for the services sector was revised more moderately, from 1.6% to 1.7%. Among tertiary-sector activities, negative revisions for trade and transport stand out, while positive revisions were recorded for information services and financial services, largely influenced by the surprises observed in 2025Q4 results.

1/ Box [Seasonal adjustment and uncertainty about the pace of growth in early 2026](#).

Still from the supply side perspective, compared with the 2025 result, the projection for 2026 indicates that the pace of growth in the more cyclical components will be maintained, at 1.4%.² Therefore, the expectation remains of a continued moderate expansion in these sectors in a context of tight monetary policy and low level of slack of production factors. Among the less cyclical segments, growth of 1.8% is projected, compared with 3.7% in 2025, a deceleration mainly resulting from the expectation of more moderate agricultural expansion in 2026, following the strong increase recorded in the previous year.

In the context of domestic demand, the projections for household consumption and for Gross Fixed Capital Formation (GFCF) in 2026 were revised from 1.5% and 1.0% in the previous MPR to 1.4% and 0.5%, respectively, while the growth estimate for government consumption increased from 1.5% to 2.0%. These revisions mainly reflect the surprises observed in 2025Q4 results. In the external sector, the exports forecast increased from 2.0% to 2.5%, whereas the projection for imports was maintained at 1.0%. Given these updated projections, the contribution of domestic demand to GDP growth is expected to decrease from 2.0 p.p. in 2025 to 1.3 p.p. in 2026, while the external sector is once again expected to provide a modest contribution of 0.3 p.p.

Table 1 – Gross Domestic Product

Year-to-date

Itemization	2024	2025	% growth	
			2026 ¹	Current
			Previous	Current
Agriculture	-3.7	11.7	0.5	1.0
Industry	3.1	1.4	1.9	1.2
Mining	0.5	8.6	4.0	4.0
Manufacturing	3.9	-0.2	1.3	0.5
Construction	4.4	0.5	2.5	1.0
Utilities (EGAER) ²	1.0	-0.4	0.5	1.0
Services	3.8	1.8	1.6	1.7
Trade	3.8	1.1	1.7	1.2
Transport and storage	1.9	2.1	3.0	1.7
Information services	6.1	6.5	3.5	4.0
Financial and related services	5.5	2.9	0.8	3.0
Other services	5.3	2.0	1.5	1.7
Real estate	3.1	2.0	1.7	1.7
Public admin., health, and education (APU)	1.7	0.5	1.0	1.0
More cyclical components	4.2	1.4	1.8	1.4
Less cyclical components	1.7	3.7	1.3	1.8
Value added at basic prices	3.1	2.4	1.6	1.5
Taxes on products	5.7	1.7	1.9	1.6
GDP at market prices	3.4	2.3	1.6	1.6
Household consumption	5.1	1.3	1.5	1.4
Government consumption	2.0	2.1	1.5	2.0
Gross Fixed Capital Formation	6.9	2.9	1.0	0.5
Exports	2.8	6.2	2.0	2.5
Imports	15.6	4.5	1.0	1.0

Sources: IBGE and BCB

1/ Estimated.

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

2/ Classification of sectors as more or less cyclical, as discussed in several 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.

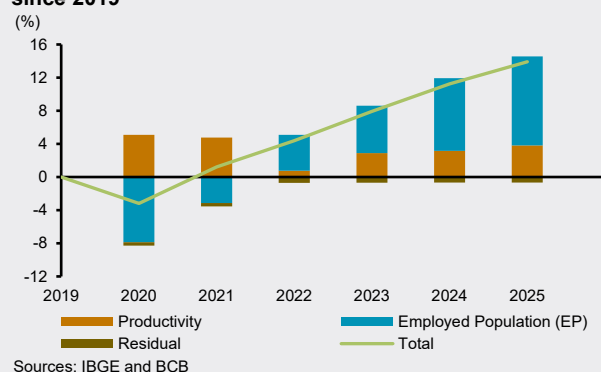
Recent evolution of labor productivity

The growth of labor productivity in the Brazilian economy has been modest since 2019, mostly reflecting the composition effects – with the reallocation of employment towards more productive activities – and the favorable productivity performance in agriculture. Moreover, labor productivity has remained stable since 2023 when agriculture is excluded.

From 2019 – the year before the pandemic outbreak – to 2025, the total Gross Value Added (GVA) of the economy grew by 13.9%. In the same period, the employed population (EP) increased 10.0%, while labor productivity¹ rose 3.5%, highlighting that most of the GVA expansion in the period was due to the incorporation of workers into the economy.

The relatively modest increase of labor productivity after 2019 (averaging 0.6% per year) reflected different dynamics over the period, as shown in Figure 1, which presents the breakdown of the cumulative change in GVA into changes in labor productivity and in EP.² In 2020, labor productivity increased strongly, associated with the pandemic shock, as the EP decline exceeded the drop in GVA. The increase in productivity was gradually reverted until 2022, when the cumulative change in productivity since 2019 was virtually null. In 2023, productivity increased significantly, influenced by the expansion of agricultural productivity in a year of record harvest, growing at a moderate pace in the two subsequent years.

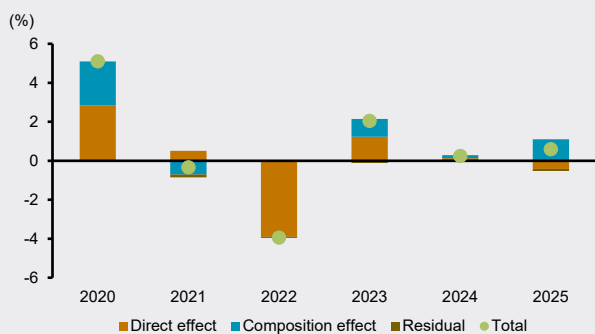
Figure 1 – Decomposition of the cumulative change in GVA since 2019



The breakdown of the cumulative change in labor productivity, according to the methodology presented in a box of the December 2023 IR,³ shows that the growth observed since 2019 was mostly driven by the composition effect (ECP), resulting from the reallocation of employment towards relatively more productive activities. Conversely, the contribution of the direct effect (EDP), which captures productivity gains within sectors, was nearly null in the period under analysis (Figures 2 and 3).

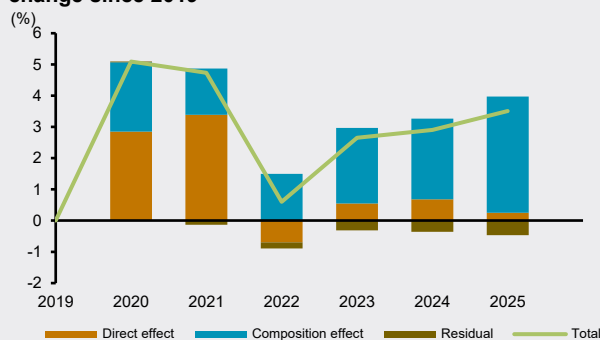
- 1/ In this box, labor productivity is defined as the ratio of the GVA to the EP. GVA data come from the Quarterly National Accounts (QNA), while EP data come from the quarterly Continuous National Household Sample Survey (PNAD Continuous). The terms “labor productivity” and “productivity” are used interchangeably throughout the text, always referring to labor productivity.
- 2/ Let \dot{Y}_t , \dot{A}_t and \dot{L}_t be the percentage changes in GVA, labor productivity, and EP, respectively: The GVA change can be broken down as the sum of productivity and EP changes, plus a third term that captures the residue generated by the interaction of both components ($\dot{Y}_t = \dot{A}_t + \dot{L}_t + \dot{A}_t \dot{L}_t$). Contributions for several periods are aggregated using the methodology presented in Appendix 3 of the box [Sectoral analysis of GDP and labor productivity](#) in the December 2023 IR.
- 3/ According to Appendix 1 of the box [Sectoral analysis of GDP and labor productivity](#), the change in labor productivity can be broken down into the direct effect of productivity growth within each sector (EDP), the employment composition effect on productivity (ECP), in addition to a residue encompassing second-order terms ($\dot{A}_t = \text{EDP}_t + \text{ECP}_t + \text{Residual}_t$). Contributions for several periods are aggregated using the methodology presented in Appendix 3 of that box.

Figure 2 – Decomposition of annual productivity change



Sources: IBGE and BCB

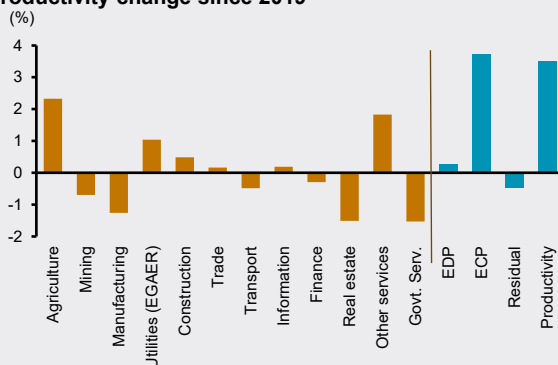
Figure 3 – Decomposition of cumulative productivity change since 2019



Sources: IBGE and BCB

By sector, agriculture stood out in terms of productivity expansion, reflecting the combination of output growth and EP reduction. The other services segment has also recorded a positive performance since 2019, possibly associated with the greater incorporation of technology and organizational changes, although this assumption requires further investigation. The contributions from the other segments were more modest or even negative for the evolution of aggregate labor productivity (Figure 4).

Figure 4 – EDP by activity; ECP, EDP, and total productivity change since 2019

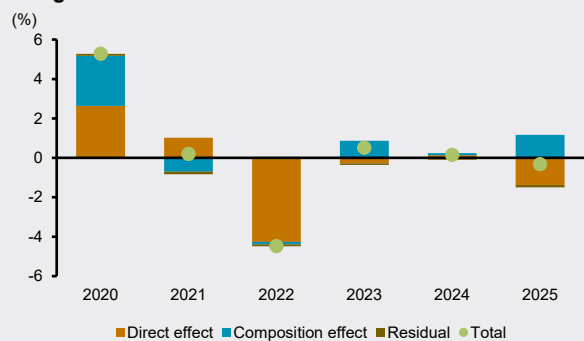


Sources: IBGE and BCB

When agriculture is excluded, productivity performance appears even more limited: it increased by only 1.1% since 2019 (an average of 0.2% per year), with EDP becoming negative – thus indicating an aggregate decline in intrasectoral productivity across the other segments of the economy. It is also noteworthy that labor productivity has remained nearly stagnant since 2023, when agriculture is excluded (Figures 5 and 6).

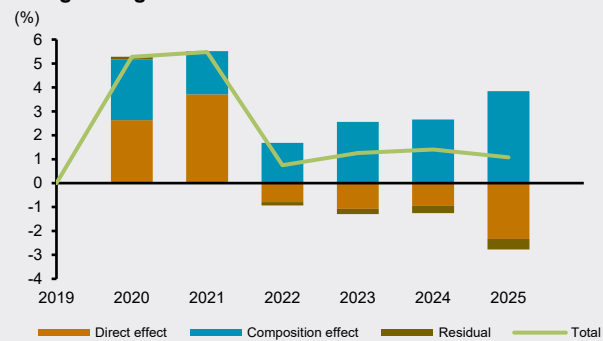
Summing up, the performance of labor productivity has been moderate or adverse in most sectors recently. The modest expansion of aggregate productivity mainly reflected the composition effects – due to the reallocation of employment towards relatively more productive activities – and the relevant role played by agriculture and, to a lesser extent, by some services segments. In particular, excluding agriculture, labor productivity has been relatively stable in the last three years.

Figure 5 – Decomposition of annual productivity change ex-agriculture



Sources: IBGE and BCB

Figure 6 – Decomposition of cumulative productivity change ex-agriculture since 2019



Sources: IBGE and BCB

This scenario indicates that the contribution of productivity to the reduction of labor costs has been limited. The possible persistence of modest labor productivity gains, combined with constraints on the growth of EP – as a result of low unemployment rate, the relative stagnation of labor force participation, and deceleration of working-age population expansion – could limit the economic growth potential. In this context, accelerations in demand can lead to inflationary pressures.

Monetary Policy and the credit channel: response of bank credit granting to changes in the Selic rate

This box investigates the causal relationship between the Selic rate and non-earmarked bank credit granting using the local projections method with instrumental variable. The results corroborate the contractionary impact of monetary policy tightening on long-term credit granting. They also demonstrate that the aggregation of modalities with heterogeneous responses to monetary policy makes it difficult to assess the transmission channels to bank credit.

A previous study, published in the September 2022 Inflation Report (IR), investigated the classic interest rate channel, relating the economy's base interest rate to the rates charged in several credit segments.¹ This box aims to expand the analysis and explicitly explore causal aspects derived from monetary policy decisions on credit granting in the bank market. While the previous study investigated the price effect, the focus now is on the quantity effect.

For this purpose, certain non-earmarked credit modalities were grouped, within each borrower type (household or corporate), based on the similarity of the underlying borrowing motive. This makes it possible to explore the natural heterogeneity across modalities, which may respond differently to changes in the Selic rate. For the household segment, three groups of series were analyzed: emergency non-earmarked credit, long-term non-earmarked credit, and non-earmarked credit ex credit card purchases.² For the corporate segment, the groups were: short-term non-earmarked credit, long-term non-earmarked credit, and total non-earmarked corporate credit.³ Figures presenting the 12-month changes of these credit granting modalities are available in the appendix.

Emergency non-earmarked household credit seems to respond positively to increases in the Selic rate (Figure A1). This result is not a surprise, as the credit lines that compose this group are more frequently used in situations of household financial stress, which are relatively more common during periods of contractionary monetary policy. Conversely, the dynamics of long-term credit lines are more consistent with the typically expected monetary policy transmission channel (Figure A2). For instance, seasonally adjusted real granting of long-term non-earmarked household credit decreased by 15.7% when comparing the averages for the periods in which the Selic rate was at 2% (Aug/20 to Feb/21) and at 13.75% (Aug/22 to Jul/23). For corporations, short-term credit shows, at least in part, a behavior analogous to that of household emergency lines (Figure A4), whereas long-term non-earmarked credit seems to have been more clearly affected by the contractionary monetary stance (Figure A5).

1/ See box [Selic rate pass-through to the bank credit market](#) in the September 2022 IR. An analysis of this classic channel between base interest rate and interest rates on banking loans for the recent Brazilian case is also in the box "Monetary Policy Transmission to Lending Rates" in the 2025 International Monetary Fund (IMF) Article IV Consultation for Brazil.

2/ Following the same breakdown used in the Credit section of Chapter 1 of the latest editions of this report, emergency non-earmarked credit is the sum of overdraft facilities, revolving credit card, and installment credit card. The long-term non-earmarked credit is the sum of payroll-deducted loans, non-payroll-deducted loans, vehicles and other goods financing, and vehicles and other goods leasing. The non-earmarked credit ex credit card purchases is the total non-earmarked credit excluding credit card transactions. The three groups account for, respectively, the following percentages of non-earmarked household credit granting, based on December 2025 12-month data: 29.6%, 18.8%, and 34.3%. Regarding the credit balance, considering December 2025, they account for: 8.5%, 63.0%, and 77.6%.

3/ The short-term non-earmarked credit is the sum of discount of trade bills and receivables, check discounting, advances on credit card receivables, conta garantida (guaranteed account), overdraft facilities, vendor, comprop, and credit card purchases. The long-term non-earmarked credit is the sum of working capital, vehicles and other goods financing, and vehicles and other goods leasing. The total non-earmarked corporate credit is the standard series monthly released in the BCB's Monetary and Credit Statistics. The first two groups account for, respectively, the following percentages of non-earmarked corporate credit granting, based on December 2025 12-month data: 73.9%, and 14.2%. Based on the non-earmarked corporate credit balance, the respective percentages are: 27.4%, and 43.4%.

In this context, the transmission of monetary policy to credit granting was estimated using the local projections method (Jordà, 2005), which allows inferring the response of variable y_t to a shock at different time horizons ($h = 0, 1, 2, \dots$). In particular, this box uses the method to estimate the cumulative multiplier (Jordà & Taylor, 2025), which makes it possible to capture the average impact of monetary policy by considering the full path of the policy rate rather than only its initial change. More precisely, the multiplier on the horizon h indicates the expected percentage change in the granting variable, on average between t and $t + h$, associated with a 1 p.p. increase in the base interest rate, also on average between t and $t + h$. Formally, the multiplier on the horizon h , m_h , is estimated from the following equation:

$$\sum_{j=0}^h (y_{t+j} - y_{t-1}) = \alpha_h + m_h \left[\sum_{j=0}^h (Selic_{t+j} - Selic_{t-1}) \right] + \Gamma'_h X_t + \varepsilon_{t+h}^h,$$

where y_t is the log of the deflated and seasonally adjusted grantings for each one of the previously mentioned groups, $Selic_t$ is the Selic rate, X_t is a control vector,⁴ and ε_{t+h}^h is the error term.

Since monetary policy responds to the macroeconomic outlook, the expectations for macroeconomic variables, and the credit market conditions, there is a potential endogeneity problem that hinders the identification of causal relationships. Thus, aiming to infer causality, the model was estimated using Two-Stage Least Squares, instrumenting the Selic rate with the monetary policy surprise, herein defined as the Selic rate forecast error among respondents to the Focus survey, considering the median projection on the eve of each Copom meeting.⁵ The sample comprises monthly observations from March 2011 to December 2025. Standard errors are robust to White-type heteroscedasticity.

The estimated multipliers for the 3, 6, 9, and 12-month horizons are presented in Table 1.⁶

Table 1 – Multipliers (m(h)) estimated through local projection using an instrumental variable

h (month)	Household			Corporate		
	Emergency	Long-term	Ex credit card purchases	Short-term	Long-term	Total non-earmarked
3	1.5 (1.7)	-2.7 (3.0)	-0.6 (2.6)	1.8 (3.2)	-6.9 (4.6)	-0.7 (1.8)
6	1.8 (1.7)	-3.7* (2.1)	-1.2 (1.9)	1.3 (2.5)	-5.5* (2.9)	-0.5 (1.7)
9	1.3 (1.5)	-3.9** (1.5)	-1.3 (1.4)	1.1 (2.1)	-6.2*** (2.1)	-0.8 (1.6)
12	1.3 (1.6)	-3.7** (1.7)	-1.4 (1.5)	1.2 (2.1)	-6.2*** (1.9)	-0.7 (1.6)

Note: (*), (**), and (***) denote significance at the 10%, 5%, and 1% levels, respectively. Standard errors in parentheses.

In the household segment, the long-term non-earmarked credit has an inverse and statistically significant relationship with the interest rate over longer horizons. The same relationship was observed with long-term non-earmarked corporate credit. Based on long-term non-earmarked credit to households, the estimated multiplier indicates that, over 12 months, an average 1 p.p. increase in the Selic rate leads to a 3.7% decrease in the average level of credit granting relative to a counterfactual scenario without the shock.

The parameters associated with short-term or emergency credit lines are not significant, neither are those related to the non-earmarked household credit ex credit card purchases and the total non-earmarked corporate credit. For the former, the classic interest rate transmission channel likely counteracts the liquidity

4/ The controls consist of lags of the Selic rate, the (seasonally adjusted) IBC-Br log, and the dependent variable.

5/ These surprises capture the unanticipated component of monetary policy decisions and are plausibly orthogonal to credit granting, constituting an instrument theoretically adequate for causal identification. Leigh and Xu (2025) employ a similar strategy, albeit with practical differences, to investigate the transmission of monetary policy to interest rates using a local projections approach.

6/ The results for the Cragg-Donald statistic are reported in the appendix. It should be observed that, for most horizons, the Cragg-Donald F statistics > 10, indicating that the instrument is not weak.

constraint relief nature of these credit lines. The last two groups aggregate several series with very different characteristics, making it more difficult to obtain a single response to the monetary policy conditions, a result consistent with the heterogeneity discussed earlier.⁷

Summing up, the results suggest that the negative causal relationship between the base rate and bank credit granting is more pronounced in long-term credit lines. The analysis from highly aggregated granting series makes it more difficult to measure the effects of monetary policy, as it incorporates credit modalities with short-term or emergency characteristics, which have distinct dynamics.

References

International Monetary Fund. (2025). Brazil: 2025 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Brazil. IMF Country Report n. 25/194

Jordà, Ò. (2005). “Estimation and Inference of Impulse Responses by Local Projections.” *American Economic Review* 95(1): 161-182.

Jordà, Ò. & Taylor, A. M. (2025). “Local Projections.” *Journal of Economic Literature*, 63(1): 59-110.

Leigh, D. & Xu, R. (2025). “Monetary Policy Transmission to Lending Rates: Evidence from Brazil”. IMF Working Paper.

7/ This result is consistent with the findings of the box [Evolution of the credit market in monetary policy easing cycles](#) in the March 2018 IR, which did not find any significant growth trend or widespread response among non-earmarked corporate credit modalities in the last easing cycle evaluated.

Appendix

Figure A1 – Credit granting - Emergency non-earmarked household credit

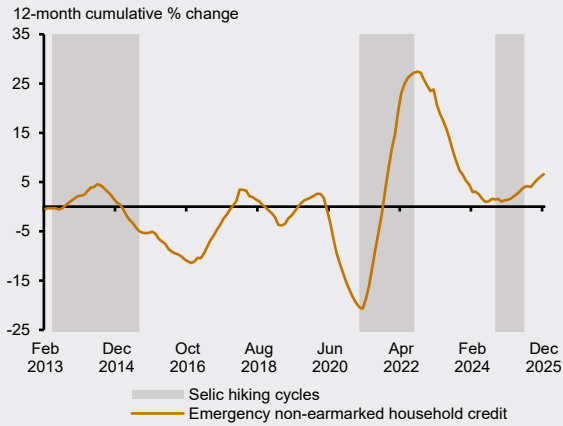


Figure A2 – Credit granting - Long-term non-earmarked household credit

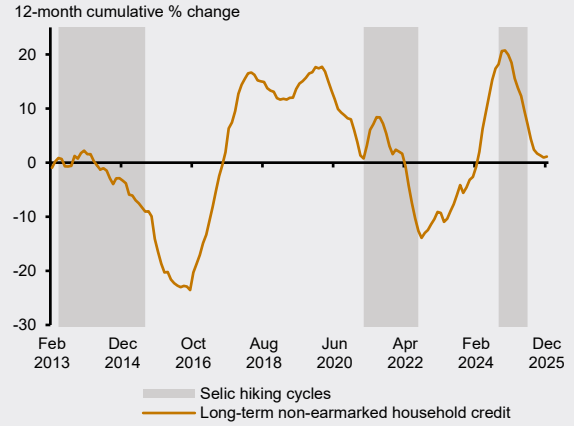


Figure A3 – Credit granting - Non-earmarked household ex credit card purchases

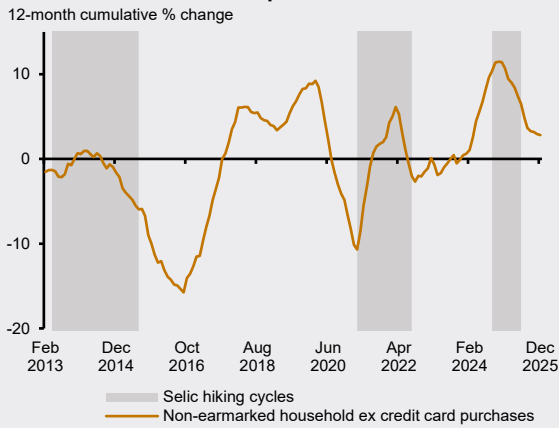


Figure A4 – Credit granting - Short-term non-earmarked corporate credit

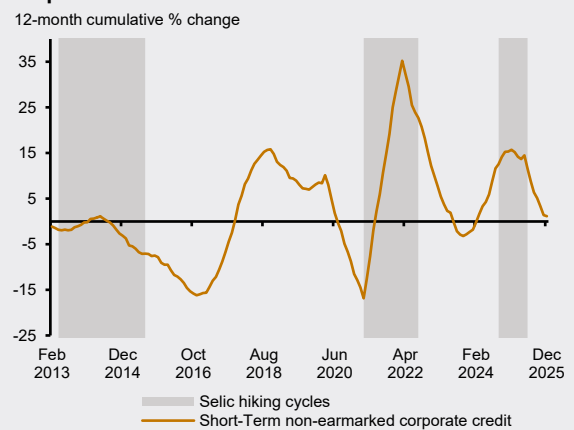


Figure A5 – Credit granting - Long-Term non-earmarked corporate credit

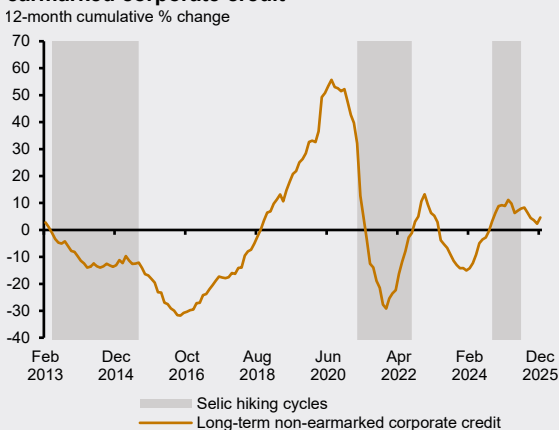


Figure A6 – Credit granting - Total non-earmarked corporate Credit



Table A1 – Cragg-Donald F Statistic

h (month)	Emergency	Long-term	Ex credit card purchases	Short-term	Long-term	Total non- earmarked
3	19.5	17.4	17.9	19.9	18.1	19.9
6	15.0	13.7	13.8	16.1	14.2	15.9
9	13.6	12.4	12.2	13.9	12.3	13.9
12	10.0	9.7	8.9	10.5	9.2	10.6

Projections for credit growth in 2026

The projection for the 2026 nominal growth of the National Financial System (SFN) credit balance was revised upward from 8.6% to 9.0%, primarily reflecting the recent higher-than-expected growth. The updated forecast continues to point to a slowdown in credit growth for the second consecutive year.

The credit balance in the SFN grew 10.3% in 2025, below the 11.5% increase observed in 2024, but above the 9.4% projection published in the December 2025 Monetary Policy Report (MPR). The results exceeded expectations mainly in the segments of non-earmarked household credit and earmarked corporate credit. In contrast, the growth in non-earmarked corporate credit fell short of projections.

The YoY growth rate of the credit balance in the SFN slowed slightly since the previous MPR, falling from 10.3% in October to 10.1% in January. The growth in the balance of non-earmarked credit slowed in both the household and corporate segments. However, the balance of non-earmarked household credit grew more than projected in the previous MPR. Granting in this segment increased in the fourth quarter, with higher expansions of payroll-deducted credit, vehicles financing, and emergency lines. The growth pace of the earmarked corporate credit portfolio increased in the period, driven by rural credit and the Brazilian Development Bank's (BNDES) operations.

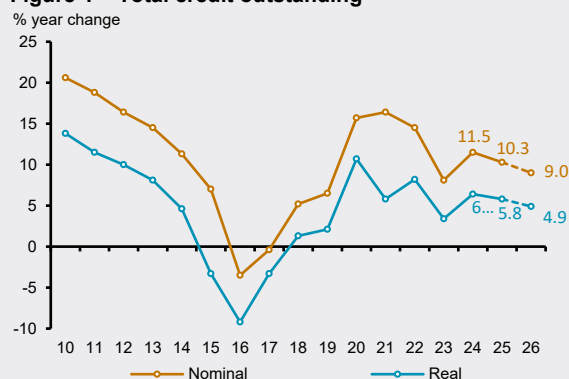
In this context, the nominal growth projection for the SFN credit balance in 2026 was revised from 8.6% to 9.0%. The revision mainly reflected the higher-than-expected performance of non-earmarked household credit and earmarked corporate credit. Projections for these segments increased by 0.5 p.p., to 9.5% and 11.5%, respectively. The projection for earmarked household credit also increased, reaching 9.5%. In this segment, in particular, the prospect of a relatively favorable growth of real estate financing remains.

The updated projection shows a continuity of credit slowdown for the second consecutive year. In real terms, total credit balance is projected to grow by 4.9% in 2026, representing a reduction compared with the real credit growth in 2024 and 2025 (Figure 1). The expected slowdown is consistent with the prospective domestic economic activity outlook and the current and lagged effects of monetary policy, amid high debt-to-income ratio (DTI) and debt service ratio (DSR).

Table 1 – Credit balance

	12-month % change				
	Occurred		Jan 2026	Proj. 2026	
	2024	2025		Previous	Current
Total	11.5	10.3	10.1	8.6	9.0
Non-earmarked	11.3	8.7	8.3	7.8	8.1
Households	12.6	13.4	12.4	9.0	9.5
Corporations	9.5	2.3	2.4	6.0	6.0
Earmarked	11.9	12.6	12.6	9.7	10.2
Households	12.5	9.6	9.6	9.0	9.5
Corporations	10.7	18.6	18.5	11.0	11.5
Total Households	12.6	11.7	11.1	9.0	9.5
Total Corporations	9.9	8.2	8.3	7.9	8.2

Figure 1 – Total credit outstanding

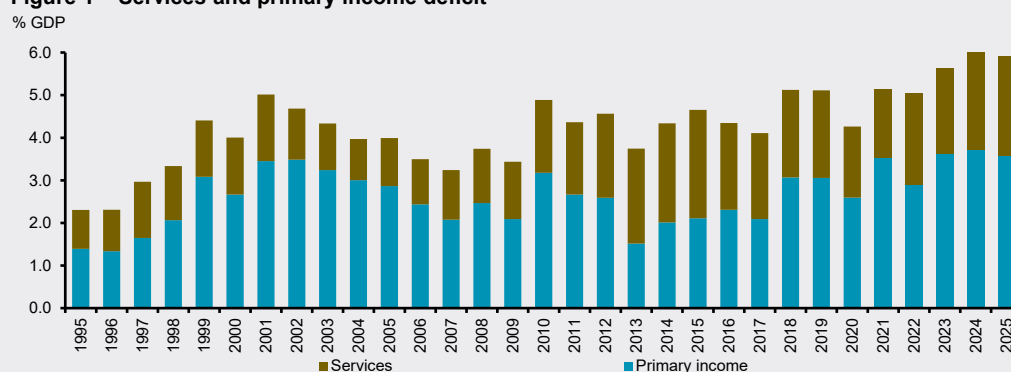


Services and primary income deficits in the balance of payments: recent dynamics and possible persistence

This box assesses the behavior of deficits in the services and primary income accounts of the balance of payments to identify whether part of the recent increase may be persistent, possibly reflecting movements of a more structural than cyclical nature. In the services account, expenses associated with the adoption of new information, communication, and data storage technologies stand out as the most persistent source of pressure. In the primary income account, the increase in expenses on profits and dividends may also persist for longer, as it does not only result from higher profitability but also from larger stock of direct investment liabilities.

The deficits in the services and primary income accounts of the balance of payments have reached record levels in recent years. Together, they accounted for 4.4% of the Gross Domestic Product (GDP) on average for the period from 2010 – the first year to include data on revenues and expenses on reinvested earnings – to 2017. This average increased to 5.3% of GDP for the 2018-2025 period, with the last three years recording the highest values in the series: 5.6% in 2023, peaking at 6.2% in 2024, followed by 5.9% in 2025 (Figure 1). These persistently high deficits have influenced the current account balance, more than offsetting the substantial surplus in the balance of goods. In this context, with the aim of identifying possible structural aspects related to the increase in the deficit, this box examines the behavior of the main components of the services and primary income accounts.

Figure 1 – Services and primary income deficit

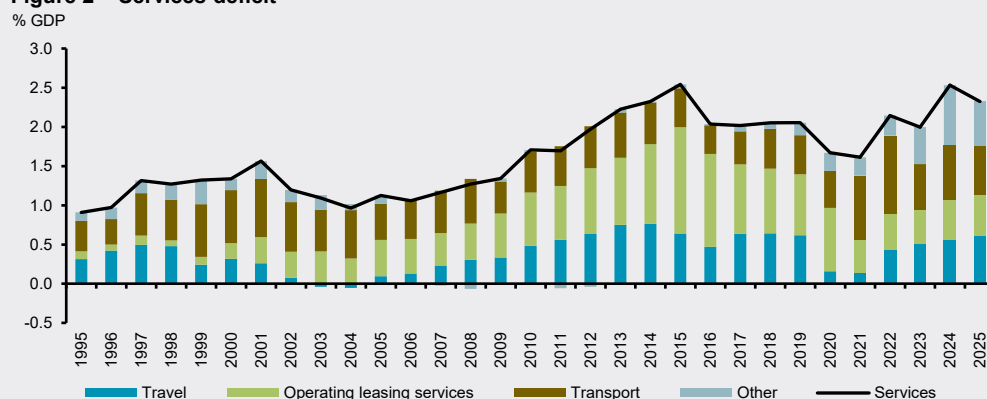


*Methodological changes have occurred over time, the most important being the incorporation of reinvested earnings in primary income from 2010.

Services

Between 2004 and 2015, driven by travel and operating leasing expenses, the deficit in the services account increased consistently, reaching its peak (2.5% of GDP) in 2015 (Figure 2). The reduction in spending in this latter category explains the decline in the services account deficit since 2016, a trend that intensified during the pandemic due to restrictions on international travel. From 2022 onward, the deficit in the services account resumed expansionist increase, now driven by higher spending on transport and recreational and digital services – the latter two included in the “Other” category. This dynamics and its implications can be analyzed based on the behavior of each specific component.

Figure 2 – Services deficit



The disaggregated analysis shows, for instance, that net travel expenses are at a similar level to pre-pandemic period and remain below the historical peak (0.8% of GDP) recorded in 2014 (Figure 3). Data from the Ministry of Justice and Public Security¹ show that 2025 registered a record number of international trips by Brazilians (Figure 4), in a context of post-pandemic normalization and BRL appreciation. Despite the high passenger flow, average spending on international travel² has remained stable since 2015 and below the level recorded between 2012 and 2014 – a period of a relatively favorable foreign exchange rate, expanding disposable income, and low unemployment. Fluctuations in travel expenses, except in the pandemic period, therefore seem to be associated with economic conditions, notably the foreign exchange rate and household income.

Figure 3 – Travel

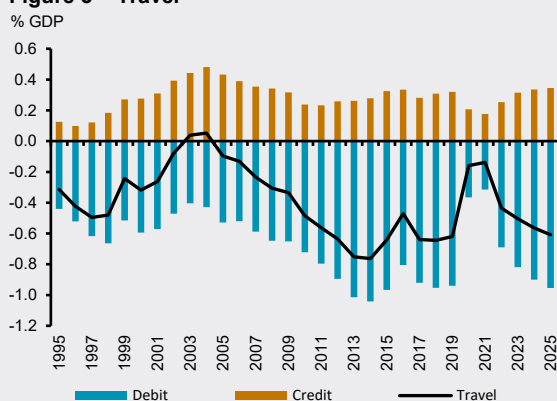
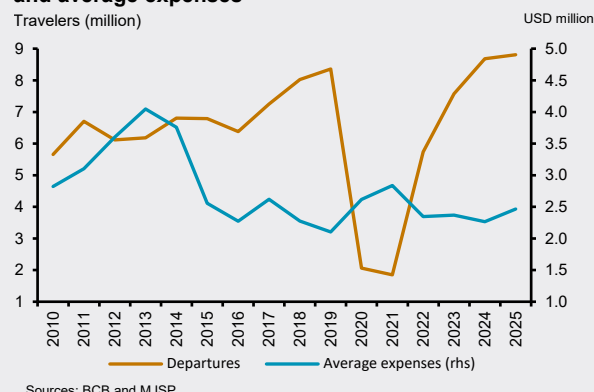


Figure 4 – International travel by residents - departures and average expenses



Net operating leasing expenses, in turn, are substantially lower than the record high in 2015 (Figure 5), after which successive reductions were observed until 2021. High expenses in this item are linked to the operational leasing strategy for oil and natural gas exploration assets, mainly oil rigs, made possible by Repetro.³ This special customs regime, in its initial conception, allowed the temporary admission of such assets with federal tax exemption. To take advantage of this tax benefit, units built in Brazil were fictitiously exported, such as the P-51 oil rig,⁴ which was leased after being formally exported. This structure created a fictitious increase in exports (Figure 6) and in expenses related to the leasing of these goods, the latter accounted for under operating leasing in the services account. In 2017, this and three other customs regimes were replaced by Repetro-Sped, which eliminated the need for fictitious exports and subsequent leasing to obtain tax benefits, and goods that had been exported in this way began to be fictitiously imported from 2018 onward. This regulatory change explains much of the fluctuation in the operating leasing deficit during the period.

1/ Residents' trips abroad were counted based on the [Portal de Imigração](#) (Immigration Portal – Portuguese only).
 2/ To estimate average travel expenses, total travel expenses from the balance of payments were divided by the number of residents who left the country as recorded by the Ministry of Justice and Public Security.
 3/ More details about Repetro are available on the Federal Revenue Office's [website](#) (Portuguese only).
 4/ Example: contract 4600289064 signed between Petrobras headquarters and its subsidiary, PETROBRAS NETHERLANDS B.V. – PNBV, in 2008. Available at [Contratos | Petrobras](#) (Portuguese only).

Figure 5 – Operating leasing services

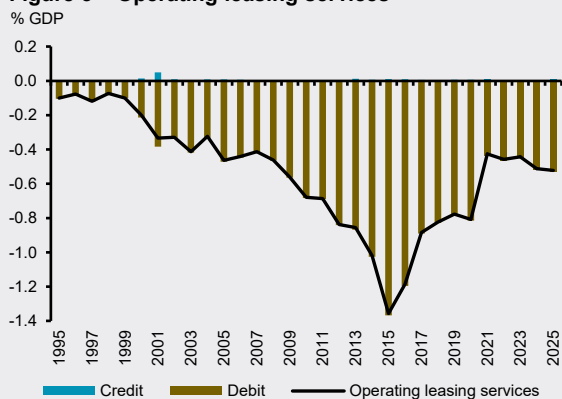
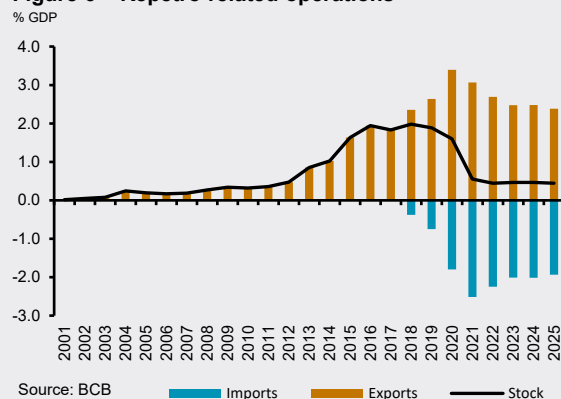
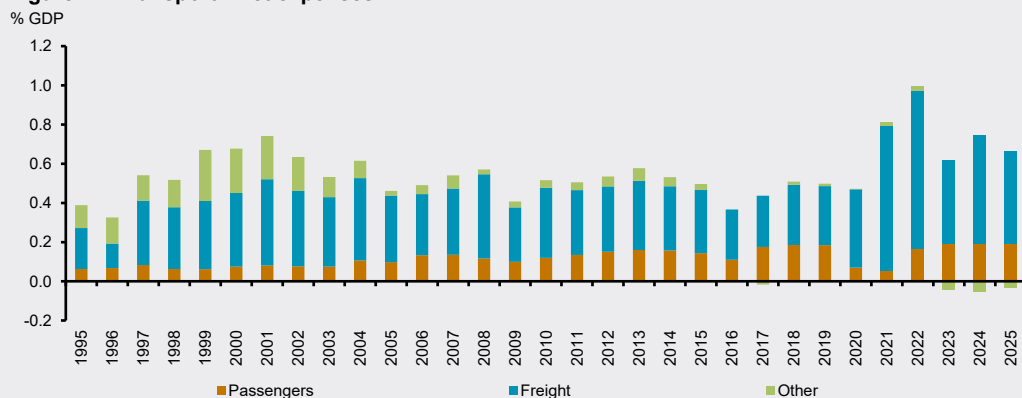


Figure 6 – Repetro-related operations



As for transport, even with the slight decline in 2025, net expenses remain slightly above the historical average (Figure 7). Most of these expenses are related to freight,⁵ whose prices increased significantly in 2021 and early 2022 (Figure 8),⁶ in the context of the Covid pandemic and in line with the increase in oil prices. Despite the normalization of prices from 2022 onward, specific shocks – such as attacks on ships in the Red Sea and operational restrictions in the Panama Canal – continued to generate volatility in the series. In contrast to this improvement in freight prices, the volume imported by Brazil resumed growth (Figure 9), influenced by the expansion of domestic aggregate demand and the fall in the prices of Chinese goods,⁷ which prevented freight costs from returning to pre-pandemic levels by 2025. Due to its impact on ship traffic in the Strait of Hormuz, the current conflict in the Middle East, which began in late February, is a new source of pressure on international maritime freight rates. Consequently, there may be repercussions from freight costs in the Brazilian economy if this situation persists.

Figure 7 – Transport - Net expenses



5/ In the [ordinary annual review](#) of November 2022 data, freight revenues and expenses began to follow the data disclosed by Secex.
 6/ The increase in freight prices has already been addressed in the box [Brazilian supply chains pressure index](#) in the September 2022 IR and in the study [Impact of the increase in freight and insurance costs on prices imported from China](#), published in November 2024 on the BC Blog (Portuguese only). The latter also details the construction of the import freight price index, calculated using freight rates disclosed by Secex by means of Funcex methodology.
 7/ On this topic, see box [Brazil's bilateral trade with the U.S. and China](#) in the June 2025 MPR.

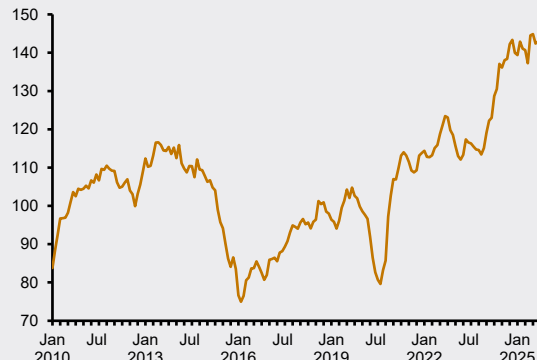
Figure 8 – Freight prices

Index, 2019 = 100



Figure 9 – Quantum Index - imports

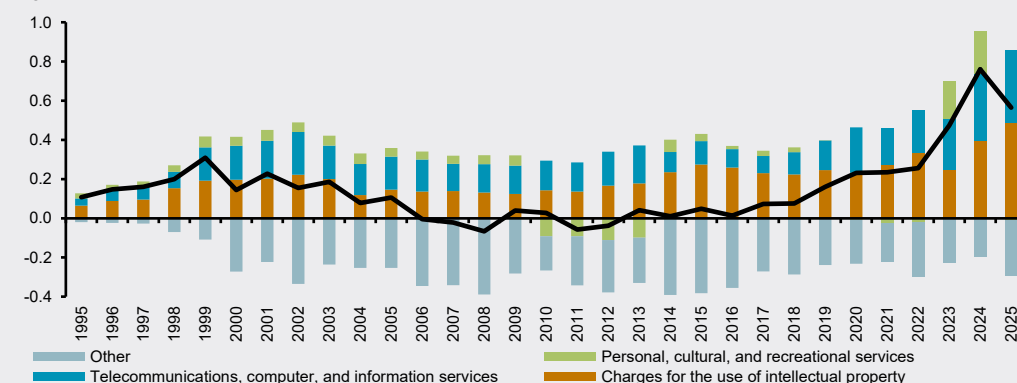
Index (2019=100), 3MMA s.a.



Finally, Figure 10 shows the behavior of the “other services” group and its components, an item that has grown consistently in recent years. Combined, net expenses on intellectual property services and technology services (telecommunications, computer, and information) reached 0.9% of GDP in 2025, more than double (0.4% of GDP) the figure recorded in 2019. They include, among others, services related to social media and digital advertising, as well as streaming and cloud computing. Especially after the pandemic, the intensive use of digital communication platforms and new information technologies have driven up spending on this item in the balance of services. Considering that these services are mainly developed and marketed by companies owned by non-residents, this item in the services account is expected to remain relevant in the external accounts.⁸

Figure 10 – Other services - net expenses

% GDP



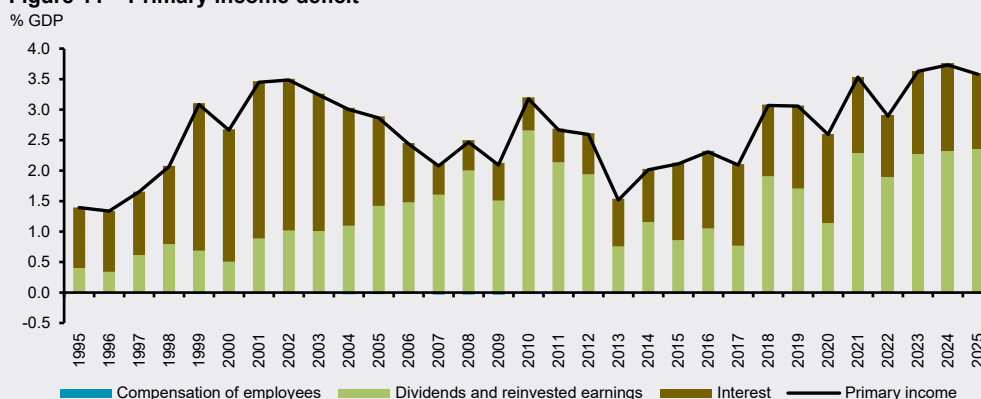
In summary, regarding the services account, part of the deficit behavior over time reflects a combination of cyclical factors (foreign exchange rates and household income affecting travel), regulatory change (Repetro and its impact on operating leasing), volatility in international trade, and domestic demand for imports (transport, via freight). In turn, the recent increase in spending on digital services appears to be more structural, as it is associated with changes in the behavior of households and companies in a context of new technological communication and information dynamics.

8/ Expenses on sports betting, which has also been affected by regulatory and technological changes in recent years, is compiled in the personal and recreational services account, which showed a 0.2% of GDP deficit in 2023 and 2024. However, this trend was reversed in 2025 with the regulation of sports betting, which required companies operating in the segment to have headquarters and a CNPJ (Corporate Taxpayer ID) in Brazil and authorization from the Ministry of Finance, reducing transactions with non-residents and shifting part of the expenses to the domestic market.

Primary income

The primary income account of the balance of payments reflects the remuneration of production factors between residents and non-residents and can be broken down into three components: compensation of employees; profits and dividends; and interest (Figure 11). Given its relevance, this box focuses on the latter two components. Over the last decade, net interest expenses have remained relatively stable, despite some fluctuations. Net expenses on profits and dividends, however, increased from 2021 onwards and have since averaged 2.2% of GDP, higher than the 1.3% of GDP observed in the previous five years.

Figure 11 – Primary income deficit



The increase in expenses on profits and dividends may reflect both a higher return rate and a larger stock of investments. Therefore, it is worth analyzing the international investment position (IIP), the statistical statement that shows the value of the stock of financial assets of residents of an economy, which comprises claims on non-residents, and the liabilities of residents of an economy, which constitute obligations to non-residents. Brazil's IIP balance, the difference between total assets and liabilities, has historically been negative (Figure 12).⁹ Some components of IIP liabilities generate interest expenses, such as securities and intercompany transactions, and others generate expenses on profits and dividends, such as shares and equity (Figure 13). Currently, most of Brazil's liabilities consist of direct investment liabilities and equity, the largest component of Brazil's external liabilities, which grew from 27% of GDP in 2010 to 47% of GDP in 2025.

Figure 12 – International Investment Position (IIP)

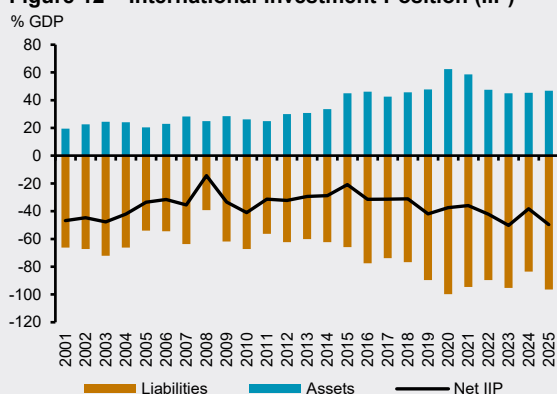
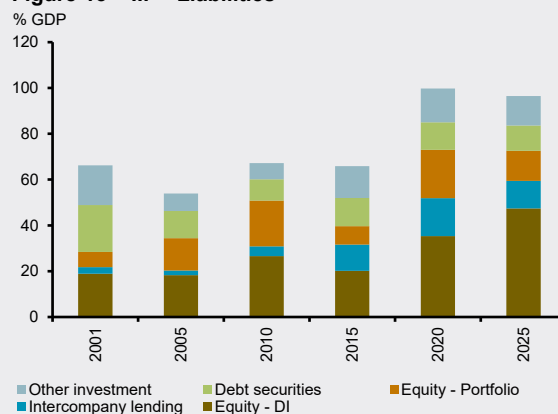


Figure 13 – IIP - Liabilities



This growth in direct investment liabilities – equity put pressure on expenses related to profits and dividends. Even with an increase in revenues, this item averaged a deficit of 2.2% of GDP over the last five years, in contrast to the average of 1.5% of GDP recorded between 2010 and 2019 (Figure 14). Finally, the profitability of direct investment liabilities – equity – estimated by the ratio of annual profit expenses to the stock held by non-residents – also grew, but more modestly, averaging 7.6% since 2021 compared with a 6.2% average in

9/ Quarterly historical data are available on the [Special Series](#) page of the Statistics section of the Banco Central do Brasil's website. The most recent yet preliminary data are disclosed in Tables 17 and 18 of the [External sector press releases](#).

the previous five years (Figure 15).¹⁰ Therefore, most of the increase in expenses on profits and dividends in the most recent five-year period seems to be more closely associated with the larger stock invested in Brazil rather than with a higher rate of return, which possibly increases the persistence of this source of pressure on the current account deficit in the balance of payments.

Figure 14 – Dividends and reinvested earnings

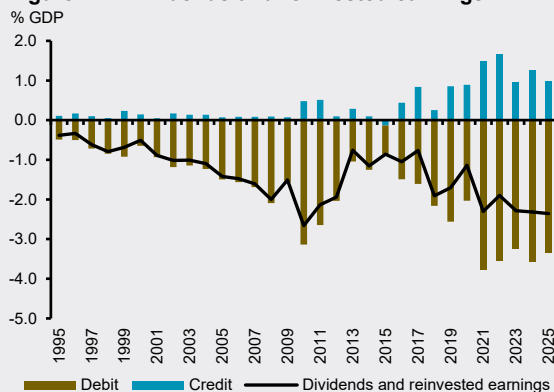
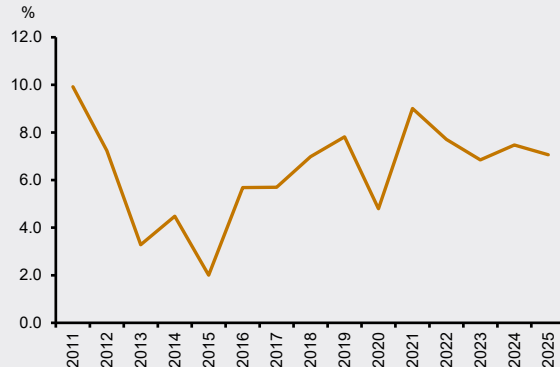


Figure 15 – DI return rate - Equity and investment fund shares



Net interest payments, the second largest item in the primary income balance, have remained relatively stable as a share of GDP over the last decade (Figure 16), despite some variation observed from 2021 to 2024 reflecting, with some lag, the international interest rates. However, the magnitude of recent movements is substantially smaller than that observed in the late 1990s and early 2000s, when the high level of expenses reflected very different structural characteristics of the Brazilian economy, such as high external indebtedness of the public and private sectors, high country risk, and greater dependence on short- and medium-term external loans (Figure 17). In recent years, despite fluctuations in domestic and international interest rates, as well as in sovereign and corporate spreads, the share of non-residents in the domestic Federal Securities Debt (DPMFi) has remained limited,¹¹ and funding has generally reflected longer-term interest rates, which respond with a lag to changes in monetary policy. Furthermore, the relevance of interest payments associated with intercompany transactions, which are a direct investment category and possibly subject to fewer rollover difficulties in times of crisis, has grown.

Figure 16 – Interest

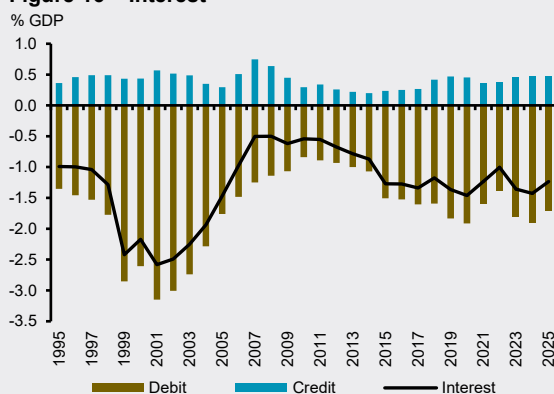
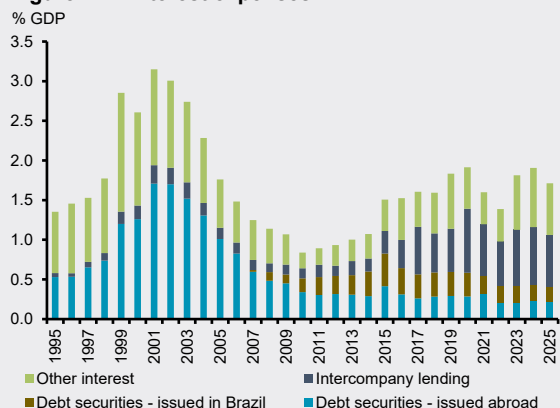


Figure 17 – Interest expenses



10/ Further information about the flows and positions of direct investment liabilities is available at [Direct Investment Report](#), released annually.

11/ Foreign share in the DPMFi has been hovering around 10% since 2020. The peak of this series was 20.8%, in May 2015.

Conclusion

Evidence suggests that two potentially persistent factors contributed to the recent increase in the current account deficit: (i) the rise in expenses on technology-related services, driven by the digitization of the economy and growing demand for data services; and (ii) higher expenses on profits and dividends arising from the increase in direct investment liabilities – equity. These factors may continue to exert some pressure on the current account deficit in the balance of payments, even when cyclical factors are acting in the opposite direction.

Projections for the evolution of external accounts in 2026

The projection for the current account deficit in 2026 was reduced in comparison with the previous MPR to USD 58 billion (2.2% of the GDP), due to the improved projection for the trade balance. The projection for net inflows of direct investment liabilities was maintained at USD 70 billion (2.7% of the GDP).

The current account deficit in 2025 reached USD 69 billion, below that expected in the December 2025 MPR (USD 76 billion). The main surprise was concentrated in exports, which registered a widespread higher-than-expected balance in December. For 2026, the current account deficit is projected at USD 58 billion (2.2% of the GDP), slightly below that of the December 2025 MPR, and net inflows of direct investment liabilities at USD 70 billion (2.7% of the GDP), the same projection of the December 2025 MPR. The expected decline in the current account deficit is derived from the projection of a higher trade balance, driven by growth of exports above that of imports. Higher-than-usual risks and uncertainties surrounding the projection are due to the Middle Eastern conflict, which reduced the trade flow in the Strait of Hormuz, with possible repercussions on the international trade, production chains, and global financial conditions.

Table 1 – Projections for the external accounts

Itemization	USD billion			
	2025	2026	2026 Forecast	
	Year	Jan	Previous	Current
Current account	-69	-8	-60	-58
Balance in goods	60	4	64	73
Exports	351	25	355	374
Imports	291	22	291	301
Services	-53	-4	-51	-54
of which: Travel	-14	-1	-13	-14
of which: Transport	-14	0	-13	-14
Primary income	-81	-8	-78	-82
of which: Interests	-28	-4	-30	-30
of which: Dividends	-54	-5	-48	-52
Investment - liabilities				
DI liabilities	78	8	70	70
Portfolio investments	15	9	5	5
Other investments ¹	37	0	0	0

^{1/} includes loans, commercial credits, deposits, and other investments

The higher projection for exports in 2026 arises from the combination of a slight increase in the expected volume and, mainly, the prospect of higher prices, in line with the recent outlook. The main change in comparison with the December 2025 MPR comes from the increase in fuel prices resulting from the Middle Eastern conflict, impacting the projection for oil exports. The revision also reflected the higher growth in the exported quantum of semi-manufactured goods, in line with the good performance in early 2026 and the reduction in the U.S. tariff on Brazilian goods. The imported value was also revised upward, mostly reflecting higher prices, especially for fuels.

The projection for the services account deficit was increased from the previous MPR to a virtually stable level when compared with 2025. The revision partially reflects the increase of freight prices, due to increased logistical costs and terms due to the reduced navigation in the Strait of Hormuz. Travel expenses also increased slightly, in line with the BRL appreciation and the still heated labor market. In the primary income account, the expected deficit increase reflects the higher projection for net expenses on profits and dividends, also influenced by higher commodity prices. Nevertheless, these expenses are expected to remain lower than in 2025, in line with the slowdown in domestic economic activity.

In the financial account, positive net inflows are projected for direct investment liabilities and portfolio investments, in line with early 2026 results. Direct investment liabilities are projected at USD 70 billion for 2026, the same projection of the previous MPR and slightly below 2025 inflows, when positive surprises were observed in the year's final months. As a GDP share, direct investment liabilities are projected to drop from 3.4% in 2025 to 2.7% in 2026. Regarding portfolio investments, typically more volatile, net inflows are expected to be positive once again and concentrated in debt securities, benefited by the interest rate differential. The USD 5 billion projection of the previous MPR was maintained but uncertainty increased around it due to possible economic and financial repercussions of the Middle Eastern conflict.

Figure 1 – Current account

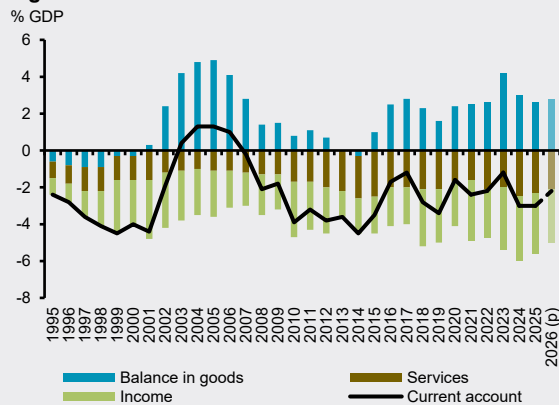
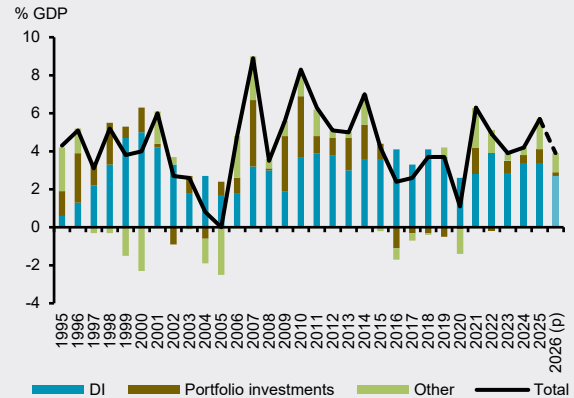


Figure 2 – Investment – liabilities



Exchange rate pass-through: estimates from local projections

Using local projection models, this box estimates the pass-through of exchange rate variations to headline inflation, as measured by the Extended National Consumer Price Index (IPCA), as well as to several of its components. The central estimates indicate sizable but heterogeneous exchange rate pass-through effects across the IPCA components. Among market prices, for instance, higher effects are seen in food-at-home and industrial goods, while the pass-through to services is close to zero. However, given the uncertainty associated with the estimates, the results should be interpreted with caution.

Introduction

The significant movements observed in the exchange rate over the past two years – with a BRL depreciation throughout 2024, followed by an appreciation during 2025 – have renewed attention to the potential effects of these variations on inflation. In episodes of this nature, it becomes essential to consider both the magnitude and the speed at which changes in the exchange rate are transmitted to domestic prices.

This box estimates the exchange rate pass-through to inflation using local projection models, a methodology that allows for directly measuring the response of inflation to exchange rate shocks throughout different horizons. The analysis is conducted for the IPCA headline index and for several analytical series derived from it – such as administered prices, services, food-at-home, industrial goods, and core inflation measures.

The central estimates indicate sizable but heterogeneous exchange rate pass-through effects across the different IPCA components. However, given the high degree of uncertainty associated with these estimates, the results should be interpreted with due caution.

Methodology

The exchange rate pass-through coefficients are estimated using local projection models, based on monthly observations from July 2006 to December 2025. The specification for horizon h is given by:

$$p_{t+h} - p_{t-1} = \phi^h \Delta e_t + \gamma_0^h + \gamma_1^h \Delta e_{t-1} + \gamma_2^h \Delta ICB r_t + \gamma_3^h \Delta ICB r_{t-1} + \gamma_4^h (u_t - u_t^*) + \gamma_5^h IPPCV_t + \gamma_6^h IPPCV_{t-1} + \gamma_7^h \Delta p_{t-1} + \varepsilon_t$$

where p_t denotes the price level, in month t , of the inflation measure under analysis, seasonally adjusted; e_t represents the monthly average of the USD/BRL exchange rate in t ; $ICBr_t$ and corresponds to the price level of the BCB's Commodities Index – Brazil (IC-Br)¹ in t . The three variables – p_t , e_t and $ICBr_t$ – are expressed in natural logarithms, so that their absolute monthly change, indicated by the difference operator Δ , approximately corresponds to the percentage change of the variable.

1/ Given the negative correlation frequently observed between commodity prices and the USD/BRL exchange rate, the estimated exchange rate pass-through coefficients would tend to be biased downward if a commodity price index were not included as a control variable. Intuitively, in the absence of this control, the coefficient associated with the exchange rate would capture not only the exchange rate pass-through itself, but also the impact of commodity prices on inflation, which tends to offset part of the exchange rate effect. For a more detailed discussion, see box [Influência dos Preços de Commodities sobre o Repasse Cambial](#) in the March 2015 Inflation Report (IR) (Portuguese only).

In addition to these variables, the estimation includes IPPCV_t, which represents the pressure index in Brazilian supply chains in t ², and ω_t , a monthly proxy for the degree of slack in the economy.³ Finally, ε_t represents the unobserved error term.

The parameters ϕ^h and γ_i^h , for $i = 1, 2, \dots, 7$, are estimated by ordinary least squares (OLS) for each horizon h between 0 and 24 months, using heteroscedasticity-robust standard errors. The parameter of interest is ϕ^h , which measures the cumulative exchange rate pass-through over horizon h . More precisely, ϕ^h quantifies the expected increase, in percentage points, of accumulated inflation between t and $t + h$ after a 1% depreciation of the exchange rate at t . For example, if $\phi^h = 0,1$, a 10% depreciation would imply a 1 percentage point (p.p.) increase in accumulated inflation.

Results

Figures 1 to 6 present the exchange rate pass-through coefficients for the headline IPCA, administered prices, market prices, and the three market price segments (services, food-at-home, and industrial goods). Each figure displays both the point estimates and the 90% confidence intervals (CI).

Initially, it can be seen that, in all cases, the CI are quite wide, indicating substantial uncertainty surrounding the estimates. Accordingly, the central results should be interpreted with due caution.

Figure 1 – IPCA

Cumulative exchange rate pass-through, by horizon

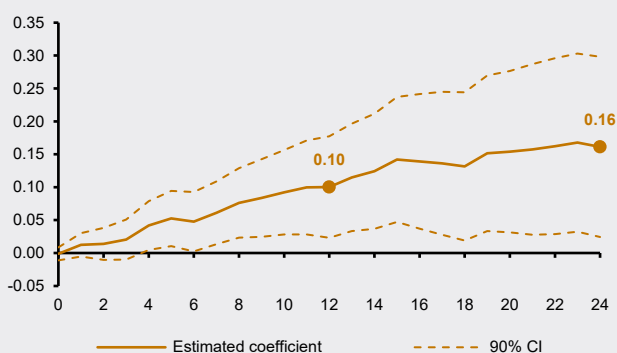


Figure 2 – Administered prices

Cumulative exchange rate pass-through, by horizon

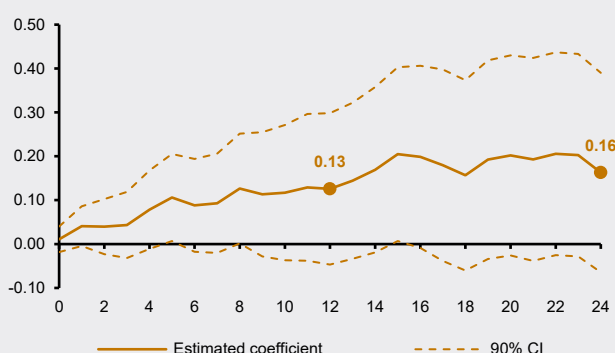


Figure 3 – Market prices

Cumulative exchange rate pass-through, by horizon

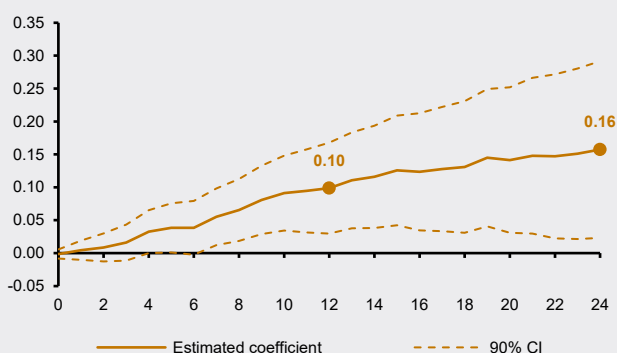
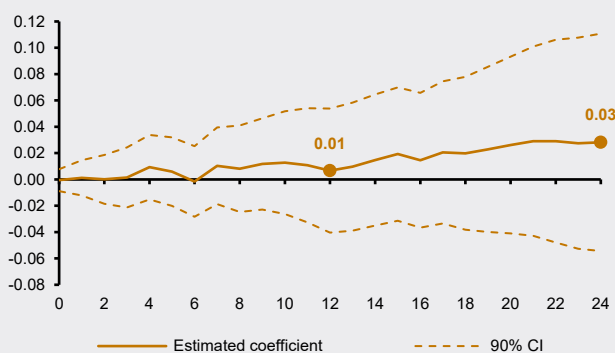


Figure 4 – Services

Cumulative exchange rate pass-through, by horizon

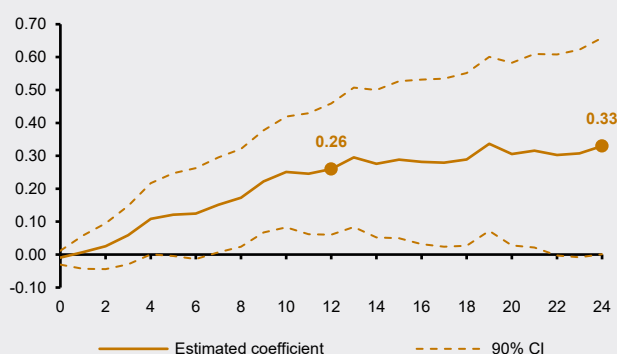


2/ This pressure index was presented in the box [Brazilian supply chains pressure index](#) in the September 2022 IR. Its inclusion in the regressions aims to control for the effects associated with disruptions in global production chains, which became particularly relevant during the pandemic.

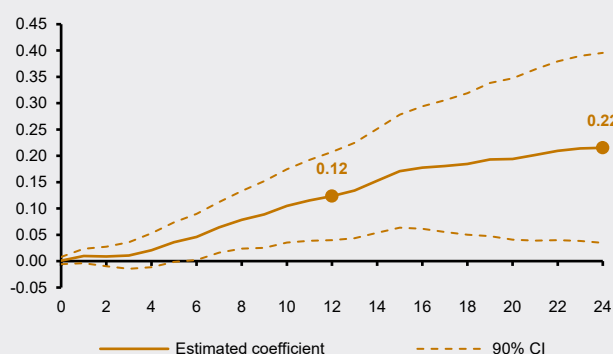
3/ The output gap estimates monitored by the Banco Central do Brasil (BCB), and regularly updated in boxes of the Inflation Reports (IR) through 2024 and of the Monetary Policy Reports (MPR) starting in 2025, are calculated at a quarterly frequency. To obtain a monthly measure of slack, this box relies on the unemployment gap estimated according to the methodology of Santos and Sabbadini (2025), which is based on services inflation and labor market data. As highlighted in Chapter 2 of this MPR, there is substantial uncertainty surrounding any measure of slack, which is why the Copom assesses its projections using different estimates and scenarios for this variable.

Figure 5 – Food-at-home

Cumulative exchange rate pass-through, by horizon

**Figure 6 – Industrial goods**

Cumulative exchange rate pass-through, by horizon



Regarding the point estimates, coefficients of 0.10 and 0.16 are obtained for the headline index at the 12- and 24-month horizons, respectively. Thus, a 10% BRL depreciation would imply increases of 1 p.p. in accumulated inflation over the subsequent 12 months and 1.6 p.p. over the 24-month period. The central estimates for administered and market prices are quite close to those for the headline IPCA. However, in the case of administered prices, given the higher degree of uncertainty, the estimates are not statistically significant for most horizons. The BCB's small-scale semi-structural models, both in their aggregate and disaggregated versions, suggest an exchange rate pass-through coefficient of 0.10 for the headline IPCA at the four-quarter horizon – the same value as the estimate reported in Figure 1 – but with a higher coefficient for administered prices (0.18) and a lower one for market prices (0.07), respectively.⁴

The pass-through coefficients for market price segments are heterogeneous. On the one hand, the estimated exchange rate pass-through for services is very close to zero, and it is not possible to rule out that it is, in practice, null. On the other hand, substantial pass-through effects are estimated for industrial goods and, especially, for food-at-home. In the case of food, the pass-through is not only intense but also quite fast: in the 12-month horizon, the coefficient is 0.26, which represents almost 80% of the cumulative pass-through over 24 months (0.33). Even so, given the particularly high uncertainty in this segment, additional caution is recommended when interpreting these results. These estimates for market price segments are qualitatively similar to those obtained from the disaggregated version of the BCB's small-scale semi-structural model, which also suggests low pass-through for services and high coefficients for industrial goods and, most notably, for food-at-home.⁵

The exchange-rate pass-through was also estimated for the average of the core inflation measures.⁶ The estimated coefficients, shown in Figure 7, indicate sizable pass-through, reinforcing the interpretation that the exchange rate has an important effect on the inflation process. However, the coefficients obtained for the average of the core measures are smaller than those estimated for the headline IPCA. This result may stem from the lower sensitivity of the core measures to the volatile components of the IPCA, which are possibly more influenced by exchange rate changes. In particular, the EX0 and EX3 core measures exclude components of food-at-home, a segment for which the estimated exchange rate pass-through is high (Figure 5).

It is interesting to note that lower pass-through coefficients appear not only in the core average, but also in each of the five core measures that comprise it. This result can be seen in Figure 8, which presents the

4/ See box [Updating the model for the medium-term projection of administered prices](#) in the June 2025 MPR, which presents exchange rate pass-through coefficients for both market and administered prices. It should be noted that the model for administered prices discussed in this box is generally not based on estimated equations, but rather on calibrations anchored in the prevailing institutional framework. Therefore, while these calibrations seek to reflect price behavior under the current regime, the empirical exercises presented here capture an average effect over the sample, which may encompass different institutional regimes.

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

6/ The core average is calculated as a simple average of five IPCA core measures: EX0, EX3, the smoothed trimmed mean core (MS), the double-weighted core (DP), and the 55th percentile (P55). For more details, see box [Update of the set of core inflation measures commonly considered by the BCB for economic outlook analysis](#) in the June 2020 IR.

coefficients of these core measures at the 12-month horizon. The coefficients are lower than that of the headline IPCA and exhibit similar magnitudes – a nontrivial result, considering that these core measures follow quite distinct calculation methodologies.⁷

Figure 7 – Average of core inflation measures
Cumulative exchange rate pass-through, by horizon

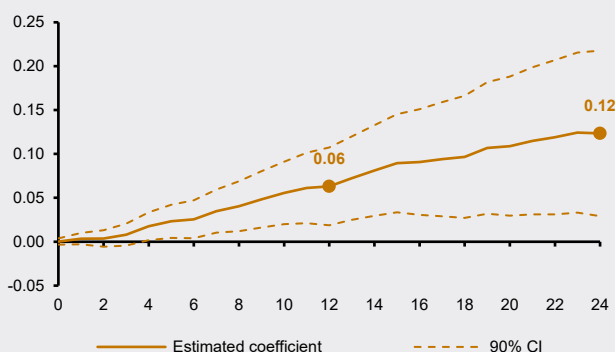
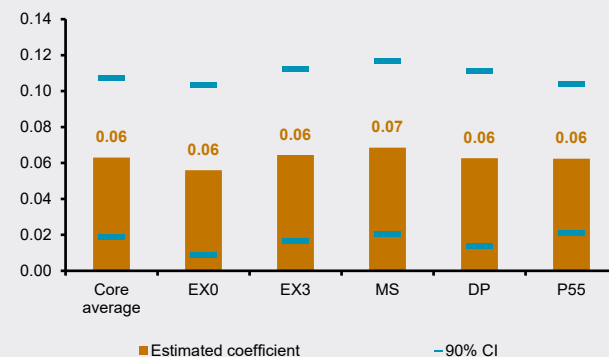


Figure 8 – Core inflation measures
12-month cumulative exchange rate pass-through



Analogous results can be observed in Figures 9 and 10, which examine in greater detail the two segments with the highest estimated pass-through – industrial goods and food-at-home – presenting the coefficients for some of their subcomponents in the 12-month horizon. In both cases, the estimated pass-through for the core measure of each segment⁸ is lower than that estimated for its aggregate, in line with the pattern observed for the headline IPCA.

Figure 9 – Industrial goods and components
12-month cumulative exchange rate pass-through

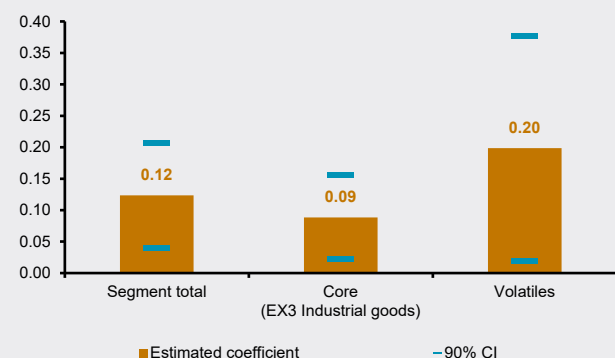
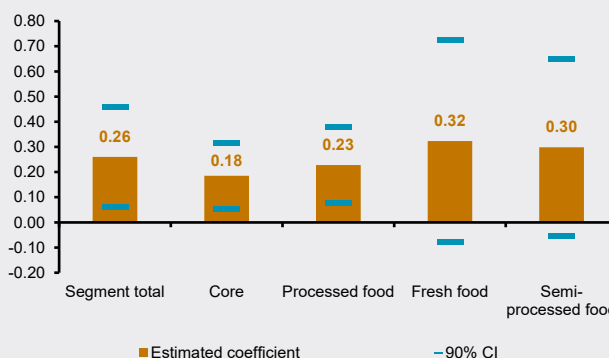


Figure 10 – Food-at-home and components
12-month cumulative exchange rate pass-through



In the case of industrial goods, in contrast with the lower pass-through obtained for the core measure (EX3 Industrial goods), a higher coefficient is estimated for goods with volatile prices. For food-at-home, coefficients are also estimated for the breakdown of the segment into processed, fresh, and semi-processed foods. Coefficients are high in all cases. The central results are particularly elevated for fresh and semi-processed foods, although they are not statistically significant.

The analyses presented so far considered the decomposition of market price products into services, food-at-home, and industrial goods. Although this segmentation is the most commonly adopted in outlook analysis, such as in this MPR, it is not the only possible breakdown. Alternatively, the market price segment may be decomposed into services, durable goods, semi-durable goods, and non-durable goods; or, similarly, into tradable and non-tradable products. Figures 11 and 12 show the pass-through coefficients estimated for these alternative segmentations, at the 12-month horizon.

7/ For more details on these methodologies, see the Technical Note [Núcleos de inflação e outras séries analíticas derivadas do IPCA: metodologia consolidada](#) (Portuguese only), published in December 2025.

8/ The food-at-home core in this case comprises the six food-at-home items that are included in the EX1 core: (i) flours, starches, and pasta; (ii) processed meats and fish; (iii) baked goods; (iv) beverages and infusions; (v) canned and preserved foods; and (vi) salt and condiments.

Figure 11 – Durables, semi-durables and non-durables
12-month cumulative exchange rate pass-through

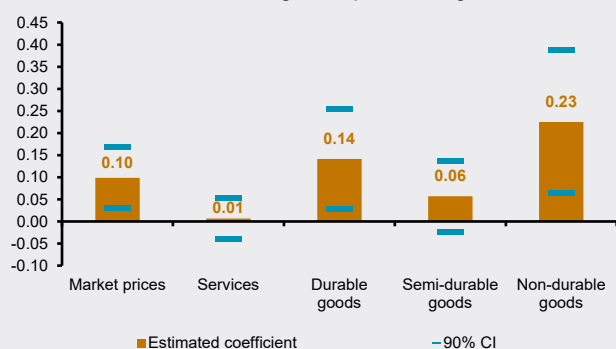


Figure 12 – Tradables and non-tradables
12-month cumulative exchange rate pass-through



Compared with the aggregate of market price goods, the estimated pass-through is slightly higher for durable goods, while it is slightly lower for semi-durables. The point estimate is substantially higher for non-durable goods, possibly reflecting the stronger pass-through observed in food-at-home (Figures 5 and 10), whose components fall into that category. However, as in the case for food-at-home, the uncertainty associated with these exchange rate pass-through estimates is particularly high, which precludes definitive conclusions.

Finally, in the segmentation between tradable and non-tradable goods, the estimated pass-through is higher for the former than for the latter. This is an expected result, given that the non-tradable group includes products with low export or import potential (such as services), while the tradable group comprises market price components that are more subject to external conditions.

Conclusion

The central estimates indicate sizable but heterogeneous exchange rate pass-through effects across the different IPCA components. For the headline index, the estimated coefficients stand at 0.10 and 0.16 over the 12- and 24-month horizons, respectively, while the average of the core measures shows more moderate, though still relevant, pass-through. Higher values are observed for industrial goods and, especially, for food-at-home, a segment in which the estimated pass-through is both strong and relatively fast. In contrast, the pass-through to services is very close to zero, consistent with the inherently lower sensitivity of this segment to exchange-rate movements.

Despite these patterns, the analysis reveals wide confidence intervals in all cases, indicating a high degree of uncertainty surrounding the estimates. Moreover, different approaches – such as structural models, semi-structural models, vector autoregressive models (VARs), or alternative specifications for local-projections – may produce different results. Therefore, although the coefficients presented here provide useful benchmarks for the possible order of magnitude of exchange rate pass-through, their interpretation should be carried out with caution.

References

SANTOS, T. T. O.; and SABBADINI, R. (2025). *O nível recente da inflação de serviços deveria causar surpresa?* BC Blog, BCB.

Consolidated methodology for IPCA-derived analytical series

Technical note released in December 2025 consolidates the methodology for analytical series derived from the Extended National Consumer Price Index (IPCA). In addition to documenting and updating the calculation criteria, the note made it possible to provide longer time series.

In December 2025, the Technical Note [Núcleos de inflação e outras séries analíticas derivadas do IPCA: metodologia consolidada](#) (Inflation cores and other IPCA-derived analytical series: consolidated methodology) was published (Portuguese only). The note promotes greater transparency by consolidating, in a single document, the detailed methodology for the calculation of 22 IPCA-derived analytical series.¹ These series, elaborated by the BCB's Department of Economics (Depec), have a strictly analytical purpose, intended to facilitate the assessment of the Brazilian inflation outlook.

Twenty out of these 22 series were already released through the Time Series Management System (SGS).² The series of underlying services and industrial goods core, often analyzed in the MPR, were included in the SGS only after the release of the technical note, under the denominations EX3 Services and EX3 Industrial goods. These new denominations reflect the direct correspondence between these series and the services and industrial goods components of the IPCA EX3 core.

In addition to the consolidation, the note incorporated minor adjustments in the methodology, with results remaining virtually unchanged for the post-2012 period.³ The adjustments, detailed in Section 3 of the technical note, sought to correct inconsistencies and promote greater methodological uniformity. The most relevant change was introduced in the IPCA subgroup "12. Food-away-from-home", reclassified from the industrial goods segment to the services segment in the period before 2012, following the classification already adopted in the subsequent period. Even in cases of more significant changes, the key economic messages underlying each analytical series are preserved. This can be seen in Figures 1 to 5, which compare the 12-month changes between the new and previous series for the five categories with the greatest changes (services, industrial goods, non-durables, semi-durables, and durables).

Finally, in addition to consolidating and updating the methodology, the note made it possible to provide longer time series, starting in January 1991. The only exceptions are the smoothed trimmed mean core (MS) and the double-weighted core (DP) – which start in December 1991 and January 1995, respectively, due to the need for a minimum number of past inflation observations for their calculation.

1/ Previously, these methodologies were discussed in several boxes of the Inflation Report (IR) – currently named Monetary Policy Report (MPR) – published since June 1999. See Annex I of the technical note for a list of these boxes.

2/ The 20 series that were already available in the SGS are: Administered prices; Market prices; Food-at-home; Services; Industrial goods; Tradables; Non-tradables; Non-durables; Semi-durables; Durables; EX-Food and Energy (EX-FE) core; Exclusion-based core EX0; Exclusion-based core EX1; Exclusion-based core EX2; Exclusion-based core EX3; Trimmed mean core (MA); Smoothed trimmed mean core (MS); Double-weighted core (DP); 55th percentile core (P55); and Diffusion index.

3/ The new series can be accessed in the SGS through the existing codes. Previous series will remain available in the SGS, under other codes but will no longer be updated. The codes for the new and previous SGS series are listed in Annex 2 of the technical note.

Figure 1a – Services inflation

New vs. previous series



Figure 1b – Services inflation

Difference between the new and previous series

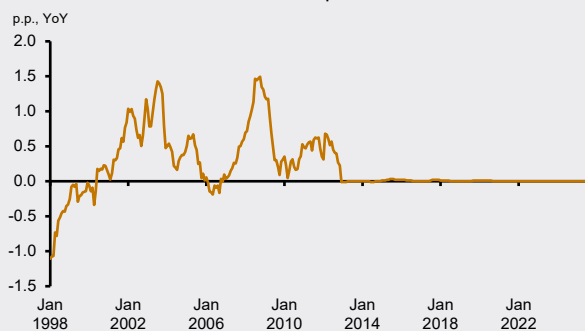


Figure 2a – Industrial goods inflation

New vs. previous series

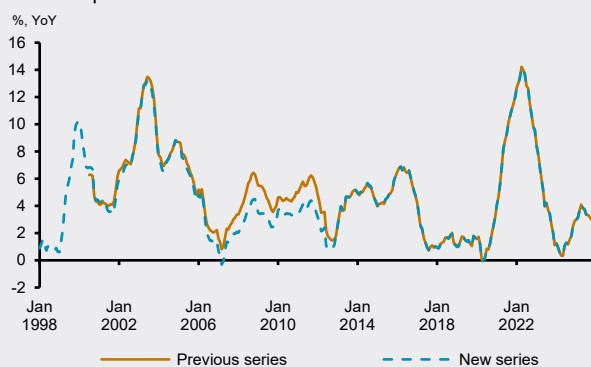


Figure 2b – Industrial goods inflation

Difference between the new and previous series



Figure 3a – Non-durable goods inflation

New vs. previous series

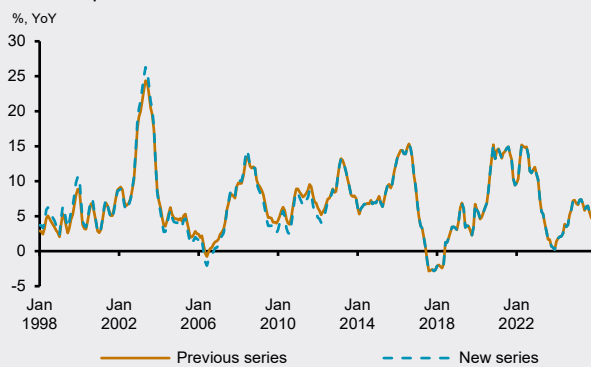


Figure 3b – Non-durable goods inflation

Difference between the new and previous series

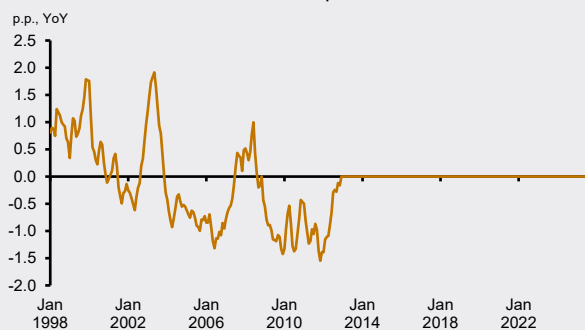


Figure 4a – Semi-durable goods inflation

New vs. previous series

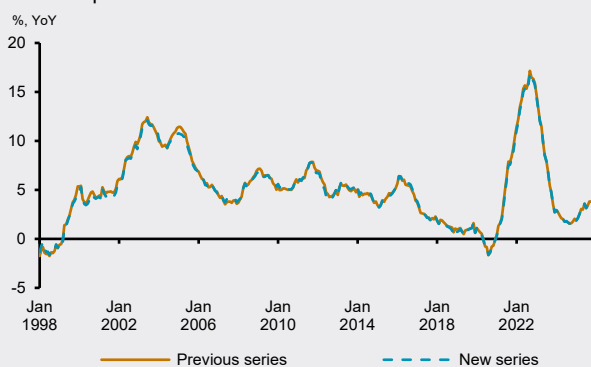


Figure 4b – Semi-durable goods inflation

Difference between the new and previous series

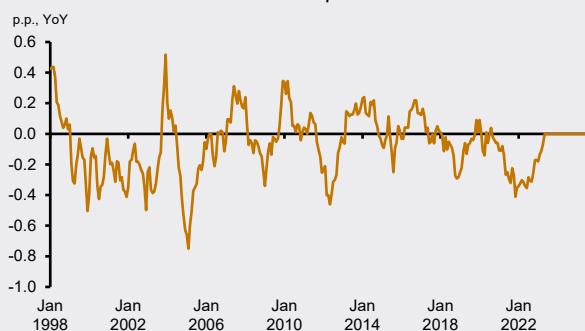


Figure 5a – Durable goods inflation

New vs. previous series

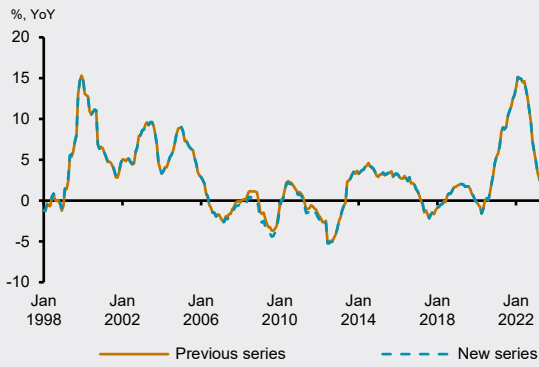
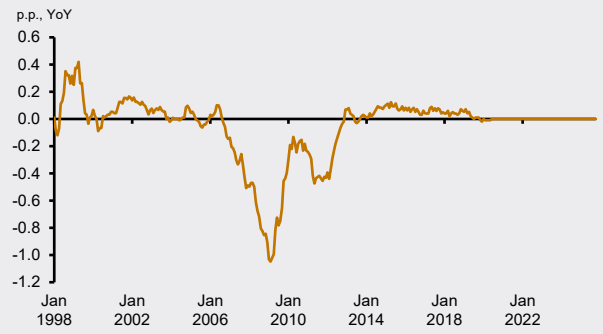


Figure 5b – Durable goods inflation

Difference between the new and previous series



2

Inflation outlook

This chapter analyses the inflation outlook. Inflation projections presented extend until 2028Q3, thus comprising ten quarters ahead.⁴⁰ Projections use the set of information available until the 277th Copom meeting held on March 17-18, 2026. As for the conditioning factors used in the projections, especially those from the Focus survey, the cut-off date is March 13, 2026, 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.⁴¹ 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.⁴² 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 in the Dec-Feb quarter was slightly lower than expected, with the downward surprise once again concentrated in food-at-home. Actual inflation was 0.07 p.p. below the Copom's scenario (Table 2.1.1). Food-at-home change was again lower than projected, with the downward surprise widespread among fresh, semi-processed, and processed food. The better-than-expected result in the food group was partially offset by stronger increases in industrial goods, services, and administered prices. In industrial goods, the surprises were relatively widespread, with a relevant contribution of personal hygiene. In services, the upward surprise is mainly due to the higher-than-anticipated change in airfare – the evolution of less volatile services was in line with projections. Among administered prices, downward surprises were observed in items such as pharmaceutical products, sewage and water fees, urban bus fares, and electricity. The projection for inflation in March was revised from 0.29% in the previous MPR to 0.33% in this MPR, with higher projections for food and administered prices.

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

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

42/ 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		2026		
	Dec	Jan	Feb	Quarterly up to Feb	
Copom's scenario ^{1/}	0.41	0.42	0.60	1.44	3.89
Actual IPCA	0.33	0.33	0.70	1.37	3.81
Surprise (p.p.)	-0.08	-0.09	0.10	-0.07	-0.07

Sources: IBGE and BCB

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

Short-term monthly projections indicate that 12-month inflation is expected to reach its lowest value in the past two years but will still remain above the inflation target (Table 2.1.2). Following a period with smaller increases, food-at-home prices are expected to move closer to the seasonal pattern. Despite the acceleration, the 12-month change in the segment is expected to remain at low levels. Prices of industrial goods are expected to decelerate compared with the Dec-Feb quarter – period when the reversal of discounts associated to the Black Friday pressured changes in the segment. In the seasonally adjusted series, prices of industrial goods are expected to maintain moderate increases, reflecting the BRL appreciation and the still small increase in industrial producer prices. In the services segment, price changes are expected to be lower until June, following the period with higher seasonality. Considering seasonally adjusted data, underlying inflation measures should remain under pressure, consistent with the high degree of inertia in prices of this segment and with the still heated labor market. Among administered prices, the projection incorporates higher electricity tariff flags, with the transition to more restrictive tariff flags in May (yellow) and June (red 1). The projection also incorporates the recent increase in oil prices and its effects on domestic fuel prices. In this context, the average of core inflation measures should remain above the inflation target in the seasonally adjusted and annualized series.

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

	% change			
	2026			
	Mar	Apr	May	Jun
Monthly change	0.33	0.42	0.32	0.33
Quarterly change	1.37	1.46	1.07	1.07
12-month change	3.58	3.56	3.63	3.72

Sources: IBGE and BCB

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

2.2 Conditional projections

Inflation determinants and conditioning assumptions⁴³

Compared with the previous MPR, the trajectory assumed for the Selic rate in the reference scenario is higher throughout the entire horizon. 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 maintained until the March 2026 meeting. In the Focus trajectory considered, the Selic rate resumes a downward trajectory in the second 2026 meeting, albeit with a lower-than-expected reduction, 0.25 p.p. instead of 0.50 p.p. Although the Focus trajectory is slightly higher than in the previous MPR during part of 2026, the prospect for the end of

43/ 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.

2026 continues to be 12.25% in both MPRs. For 2027, the Selic trajectory remains above that considered in the previous MPR but with an extra reduction in the last quarter, so the expected Selic level at the end of the year was maintained at 10.50%. For the end of 2028, the rate was raised from 9.50% to 10.00%. (Figure 2.2.1).

Inflation expectations declined for 2026 but the gap from the inflation target remains for the subsequent years. When compared with the December 2025 MPR, median expectations from the Focus survey decreased from 4.16% to 4.10% for 2026 and remained at 3.80% for 2027. In the analyzed scenarios, in addition to the trajectory of inflation expectations extracted from the Focus survey, Copom also considers expectations from other sources, such as financial instruments, endogenously generated expectations from available models, or from other surveys, such as the Firmus.⁴⁴

The trajectory of the real *ex-ante* Selic rate remained slightly higher than in the previous MPR throughout the entire horizon. 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 – increased in relation to the previous MPR (Figure 2.2.2). In the short term, the increase in the real Selic rate was mainly due to the reduction in inflation expectations for 2026. Subsequently, the increase is explained by the slightly higher nominal Selic trajectory. Overall, the *ex-ante* real Selic rate began an upward trend in 2024Q2, reaching the peak of 9.6% in 2025Q3, and then resumed a downward trend that reaches 6.2% at the end of the horizon, higher than in the previous MPR.

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

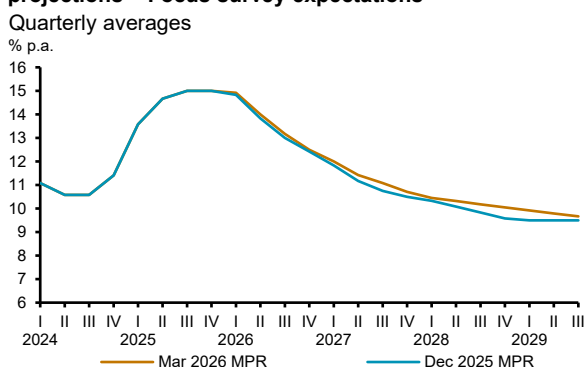
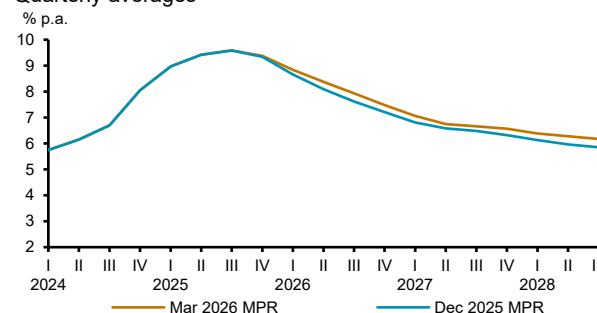


Figure 2.2.2 – Four-quarter-ahead real Selic Quarterly averages



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 in the quarter but has been oscillating in the short term due to the developments of the Middle Eastern conflict. The DXY index, which measures the global strength of the USD, oscillated throughout 2026Q1, showing a depreciation trend until the end of February followed by a recovery after the outbreak of the conflicts. 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 5.20 – 2.8% lower than the USD/BRL 5.35 considered in the December 2025 MPR – and follows a path according to the PPP (Figure 2.2.3). The average exchange rates considered in the last quarters of 2026 and 2027 are USD/BRL 5.23 and USD/BRL 5.29, respectively.

Oil prices rose strongly due to the Middle Eastern conflict. The outbreak of the Middle Eastern conflict in late February led to a strong increase in oil prices compared with the previous MPR. 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 and considering the quarterly average, the Brent-type oil price starts from USD 75 in 2026Q1, rises to USD 86 in 2026Q2, falls in 2026Q3 and 2026Q4 to USD 77 and then grows at 2% p.a. (Figure 2.2.4). The prices trajectory from 2026Q1 is around 24% higher than

44/ Further details about the Firmus survey (Portuguese only) are available at <https://www.bcb.gov.br/publicacoes/firmus>. See box [Firmus survey – expectations and sentiment of Brazilian firms](#) in the September 2025 MPR.

in the previous MPR. Commodity prices, measured by the IC-Br in USD, have grown since the previous MPR, especially metal and energy ones.

Figure 2.2.3 – Exchange rate assumption for projections – PPP trajectory

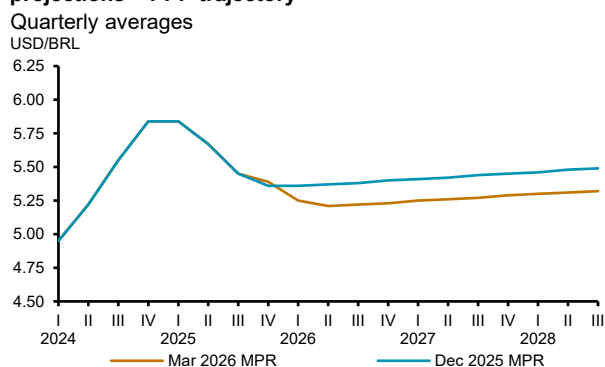
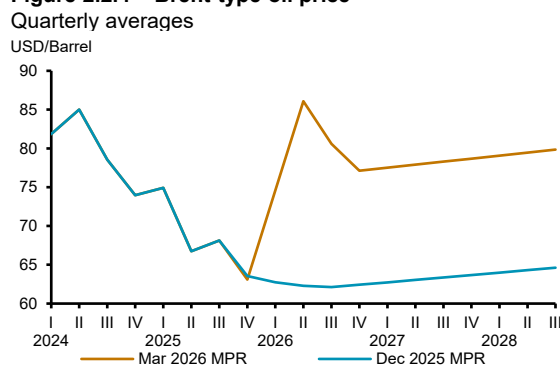


Figure 2.2.4 – Brent-type oil price



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.⁴⁵ 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 remained similar to that of the previous MPR. The year 2025 ended with a yellow flag in December. For 2026, the monthly distribution is as follows: green flag in effect until April, yellow flag in May, red 1 flag in June and July, red 2 flag in August and September, red 1 flag in October and November, and yellow flag in December. The same sequence of flags is assumed for the last months of each quarter from 2027: green flag in March, red 1 flag in June, red 2 flag in September, and yellow flag in December. 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 tightened since the previous MPR, mainly reflecting the oil and risk groups.

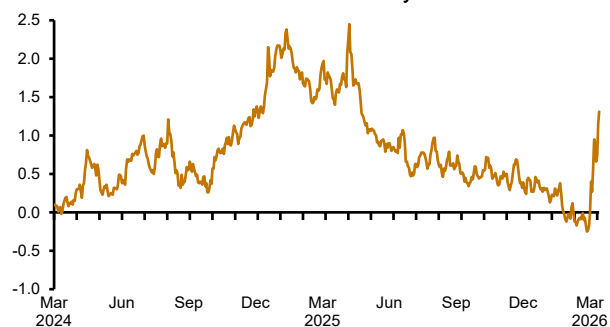
Financial conditions, measured by the BCB's Financial Conditions Index (FCI), reached more restrictive levels in mid-March 2026 than in December 2025 (Figures 2.2.5 and 2.2.6).⁴⁶ The FCI increase since the previous MPR mainly reflected the rises in the oil price and in the Chicago Board Options Exchange Volatility Index (VIX).⁴⁷

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

46/ The previous MPR used FCI data up to December 5, 2025, while the current one uses data up to March 13, 2026. 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, and, 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.

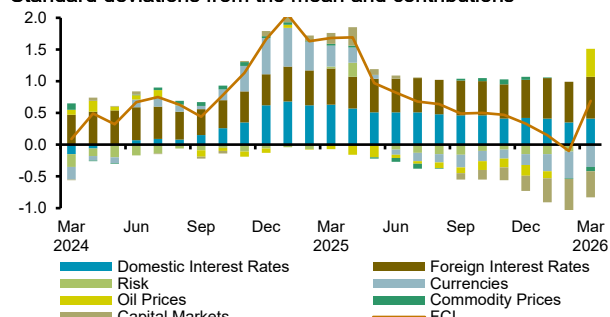
47/ It should be emphasized that the FCI reflects multiple elements and should not be interpreted as an indicator of monetary stimulus or tightening. Moreover, the relationship between this index and inflation is ambiguous because some of its components, such as those related to risk premium and exchange 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: 3.1.2024–3.13.2026.

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. Mar/2026 value refers to the average until the 13th.

The GDP growth remained relatively stable in 2025Q4, after slowing down throughout the year. Seasonally adjusted GDP rose 0.1% in 2025Q4 compared with 2025Q3, after stability in 2025Q3 and expansions of 0.3% in 2025Q2 and 1.5% in 2025Q1. The GDP growth in 2025 reached 2.3%, below that observed from 2021 to 2024. In 2025Q4, services and agriculture increased 0.8% and 0.5%, respectively, while industry declined 0.7%. On the same comparison basis, household consumption remained stable, while GFCF fell by 3.5%, influenced by the base effect due to the import of an oil rig in 2025Q3. The GDP growth projection for 2026 was maintained at 1.6%.⁴⁸

Labor market and installed capacity utilization indicators continue to show mixed signals. The unemployment rate declined to a new historical low, 5.3%, in the Nov-Jan quarter (seasonally adjusted). Conversely, net hirings, measured by the New Caged, fell to a monthly average of around 63,000 in the Nov-Jan quarter, from an average of 83,000 hirings in the Aug-Oct quarter (seasonally adjusted data). The seasonally adjusted Level of Utilization of Installed Capacity (Nuci), calculated by the Getulio Vargas Foundation (FGV), increased from 79.9% in November to 81.6% in February.

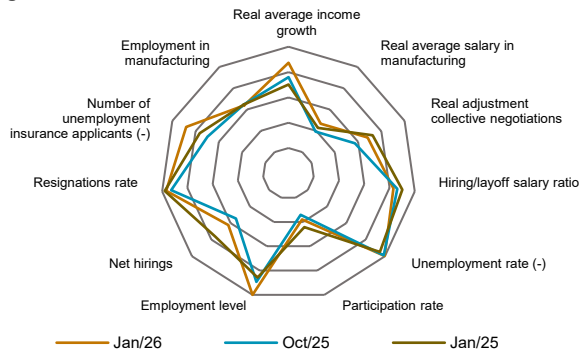
The labor market spider chart continues to show signs of heating up. This measure considers historical information from several labor market indicators up to January 2026 (Figure 2.2.7). Most variables are in the top two quartiles, i.e., above the historical median. By comparing January 2026 and October 2025, except for the hiring-to-layoff salary ratio and the employment in manufacturing, all other indicators point to labor market heating. In the YoY comparison, six out of eleven indicators analyzed point to lower labor market heating compared with January 2025.

The output gap remains at slightly positive levels but is projected to fall over the next quarters. The estimated output gaps for 2025Q4 and 2026Q1 are 0.4% and 0.1%, respectively (Figure 2.2.8).⁴⁹ The downward output gap trajectory is consistent with the recently observed inflation deceleration. An output gap reduction to negative values is anticipated over the next quarters, reaching -0.4% in 2027Q3, similar to the -0.4% projection for 2027Q2 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.

48/ See box [Projections for GDP growth in 2026](#) in this MPR.

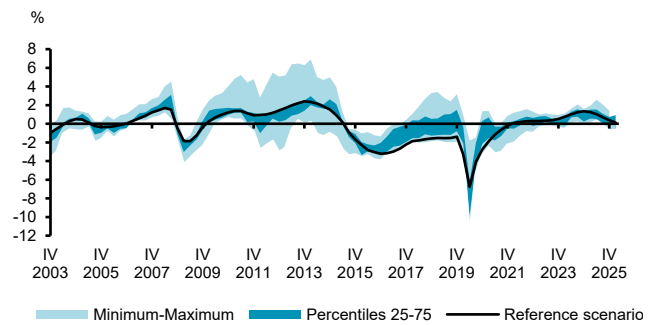
49/ Projections of these activity variables were used for 2025Q4 when data were not available.

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: 2003Q4–2026Q1.

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;⁵⁰ and iv. assessment on the state and outlook of the economy.⁵¹

In the reference scenario projection, inflation increases until the end of 2026, resuming the downward trajectory until the relevant horizon but remaining above the target. In this scenario – which uses the Selic rate from the Focus survey and the exchange rate following the PPP – four-quarter inflation, after ending 2025 at 4.3%, falls to 3.6% in 2026Q1. It then starts an upward trajectory, to a large extent due to the increase in oil prices, ending 2026 at 3.9%. From 2027 it declines again, reaching 3.1% in the last period considered, referring to 2028Q3 (Table 2.2.1). In the relevant horizon for monetary policy, considered to be 2027Q3, projected inflation is 3.3%. From probability intervals built around the reference scenario (Figure 2.2.9), the estimated probability of inflation surpassing the tolerance interval in 2026Q4 rose from 23% to 30% for the upper limit and fell from 7% to 2% for the lower limit (Table 2.2.2), reflecting the higher inflation projection for 2026 than in the previous MPR.⁵²

Table 2.2.1 – Inflation projections – Reference scenario
YoY IPCA inflation

Price index	2025				2026				2027				2028			%
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	
IPCA	5.5	5.4	5.2	4.3	3.6	3.7	3.8	3.9	3.6	3.4	3.3	3.3	3.2	3.2	3.1	
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.1]	[0.0]	[0.1]	[0.2]	[0.4]	[0.4]	[0.2]	[0.1]	[0.2]	[0.2]	[0.2]	-	
Market prices	5.6	5.4	5.2	3.9	3.3	3.3	3.5	3.7	3.5	3.4	3.3	3.3	3.2	3.1	3.1	
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.1]	[-0.2]	[-0.1]	[-0.1]	[0.1]	[0.2]	[0.2]	[0.2]	[0.2]	[0.2]	[0.1]	-	
Administered prices	5.1	5.2	5.1	5.3	4.5	4.9	4.9	4.3	3.8	3.6	3.2	3.4	3.3	3.2	3.1	
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[0.0]	[0.4]	[0.8]	[1.2]	[1.1]	[0.7]	[0.2]	[0.0]	[0.2]	[0.2]	[0.2]	-	

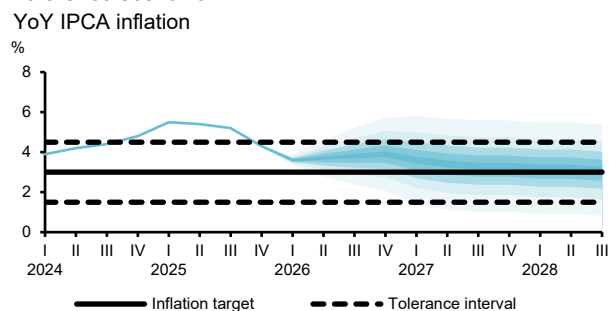
Note: The values in white background are actual ones, and those in hatched background are projections. The values presented are rounded. Therefore, the aggregated values may not match the combination of the rounded disaggregated values. The difference with respect to the previous MPR is calculated using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

50/ 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.

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

52/ 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



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
2026	1.50	2	4.50	30
2027	1.50	10	4.50	19
2028	1.50	11	4.50	17

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

Compared with the previous MPR, inflation projections have risen. In the relevant horizon for monetary policy, considered to be 2027Q3, projected inflation rose by 0.1 p.p. Among the factors for upside projections, higher oil prices and the revised output gap stand out. Conversely, the exchange rate appreciation and the marginal decline in inflation expectations contributed to smooth this increase. Compared with the Copom meeting held in January (276th meeting), inflation projections in this horizon also increased by 0.1 p.p. (see Minutes of the 276th 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 latest meeting (277th meeting), Copom highlighted that the risks to inflation – both upside and downside – which were already higher than usual, intensified following the outbreak of conflicts in the Middle East.

The Committee considers the impacts of these conflicts prospectively, particularly their effects on the global supply chain and commodity prices that directly and indirectly affect inflation in Brazil. Currently, inflation projections for the relevant horizon for the monetary policy present additional distance from the target. At the same time, the uncertainty around those projections has considerably increased, due to the lack of clarity about the duration of the conflicts and their effects on the conditioning variables of the projection models. The risks to inflation, which were already higher than usual, intensified following the outbreak of conflicts in the Middle East, and 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 remained unchanged compared with the previous MPR, above the 3.00% target, with only a slight reduction for 2026. Compared with the previous MPR, the median fell from 4.16% to 4.10% for 2026; remained at 3.80% for 2027 and at 3.50% for 2028 and 2029. 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 still shows dynamism. It is noteworthy that the economic deceleration is part of Copom's reference scenario, and its materialization is in line with the functioning of monetary policy transmission mechanisms and its impact on inflation. However, the pace of the slowdown could be faster and stronger than that projected by the reference scenario. In this case, the output gap would be even more negative in the future, amplifying the effects of the economic slowdown on prices and inflation expectations.

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

Uncertainties and decisions on U.S. trade tariff policy, already mentioned in the upside risks for inflation, could have disinflationary effects. In fact, compared with what is already considered in the reference scenario, a greater loss of momentum in international trade as a result of increased uncertainties and the implementation of protectionist policies could cause a sharper slowdown in the U.S. economy and in other major economies,

with a negative effect on global activity. This scenario could lead to 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.

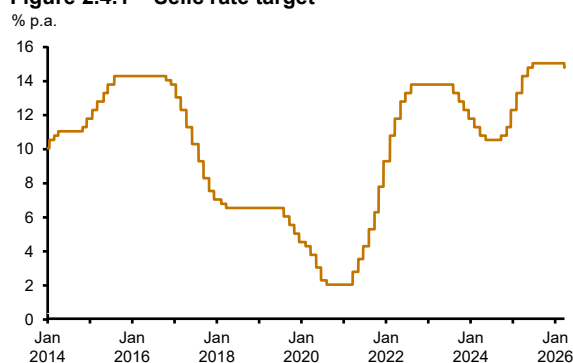
iii. reduction in commodity prices with disinflationary effects

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 December 2025 meeting, Copom maintained the Selic rate at 15.00%, effective since June 2025, and stressed that this decision was consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon (Figure 2.4.1). The scenario at that time, marked by heightened uncertainty, required caution in the conduct of monetary policy, being 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 3.20.2025.

In the January 2026 meeting, the Committee maintained the Selic rate at 15.00% and foresaw, if the expected scenario was confirmed, to initiate the flexibilization of monetary policy in the March meeting. Copom reinforced, however, that it would keep the appropriate restriction to ensure the convergence of inflation to the target, and that the pace and the magnitude of the easing cycle would depend on the evolution of factors that allowed greater confidence in meeting the inflation target at the relevant horizon for the conduct of monetary policy.

In its latest meeting, in March 2026, the Committee reduced the Selic rate to 14.75% p.a. The Committee deemed it appropriate to begin the monetary policy calibration cycle, insofar as the prolonged period of the Selic at a contractionary level gave evidence about monetary policy transmission to the economic deceleration, creating conditions under which adjustments to the pace of this calibration, in light of new information, can be made so as to ensure convergence to the inflation target.

Copom 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. In the current scenario, marked by heightened uncertainty, the Committee reaffirms serenity and cautiousness in the conduct of monetary policy, so that future steps of interest rate calibration could incorporate new information about the depth and duration of the conflicts in the Middle East, as well as their direct and indirect effects over time on the price level.

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.⁵³ Therefore, the output gap presented in this chapter incorporates information from different methodologies and Copom's judgment. Among economic activity variables used, the GDP, the Nuci – calculated by the FGV, the unemployment rate – measured by the IBGE, and the stock of formal jobs – measured by New Caged of the Ministry of Labor and Employment (MLE), all seasonally adjusted, stand out.

53/ See, for instance, box [Updating output gap measures in Brazil](#) in the June 2025 MPR.

2025 inflation decomposition

According to estimates from the Banco Central do Brasil's (BCB) semi-structural models, the key factors that led inflation in 2025 to exceed the target were the inflation inertia from the previous year, inflation expectations, and the output gap. The imported inflation and the shocks in food-at-home and industrial goods contributed to the opposite direction.

This box shows the estimated decomposition of the deviation of the 2025 inflation rate, measured by the change in the Extended National Consumer Price Index (IPCA), in relation to the target set by the National Monetary Council (CMN).¹ The aim is to measure the contribution of the key drivers of inflation using the BCB's semi-structural models.²

The deviation of inflation from the target is decomposed into five components: (i) inertia from the previous year (deviation of the previous year's inflation from the target);³ (ii) expectations (difference between inflation expectations measured by the Focus survey and the inflation target); (iii) imported inflation (difference from the target); (iv) output gap; and (v) other factors.⁴ These estimates are approximations based on models and are therefore subject to the uncertainties inherent to the modeling and estimation process.

The estimation of components relies on a scenario in which all conditioning factors are neutral, i.e., they have no impact that would lead inflation to deviate from the target.⁵ The contribution of each factor to the deviation of the inflation rate from the target is obtained when these neutral conditioning factors are replaced by the values actually observed.

Inflation in 2025 was 4.26%, 1.26 percentage point (p.p.) above the 3.00% inflation target, within the tolerance interval set by the CMN, of plus or minus 1.50 p.p. (Figure 1 and Table 1). Inflation was 0.57 p.p. lower than the 4.83% recorded in 2024. Market prices inflation fell from 4.89% in 2024 to 3.91% in 2025, while administered prices inflation increased from 4.66% to 5.29%. Among market prices, services rose 6.01%, industrial goods increased 2.36%, and food-at-home rose 1.42%. Among administered prices, the contributions of residential electricity, health insurance, and medicines stood out.

The main results of the decomposition are the following (Figure 2):

i. Inflationary inertia was the factor with the largest contribution to the inflation deviation from the target in 2025. Inflation in 2024 was 1.83 p.p. above the 3.00% inflation target, contributing with 1.13 p.p. to the inflation deviation from the target in 2025. As for market prices, past inflation means current cost pressure, arising both from other prices of goods and services used as inputs and from informal inertial wage indexation mechanisms. For example, adjustments in wage negotiations in 2025 once again not only followed the past inflation trend but were also above inflation. Regarding administered prices, the emphasis is on institutional arrangements that link price adjustments to past inflation, especially health insurance and medicines;

1/ The inflation decomposition based on projection models is presented annually in the Inflation Reports (IR) through 2024 and in the Monetary Policy Reports (MPR) starting in 2025. See, for example, the box [2024 inflation decomposition](#) in the March 2025 MPR. Further details on methodological procedures in the box [2017 inflation decomposition](#), in the March 2018 IR, and in Cusinato et. al (2016).

2/ See boxes [Updating small-scale semi-structural models](#), in the June 2024 IR, and [Updating the model for the medium-term projection of administered prices](#), in the June 2025 MPR.

3/ The component "inertia from the previous year" includes the effects of all the factors affecting inflation until December 2024.

4/ The item "other factors" includes factors not considered in the previous items, such as specific conditioning factors of the administered prices models and the model's residual term.

5/ As for variables that exhibit seasonality, the neutral conditioning factors also include a seasonal component.

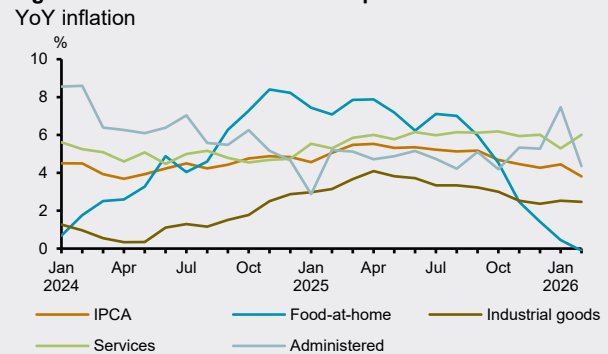
ii. After a strong increase in late 2024 and early 2025, inflation expectations declined throughout 2025, thus reducing its deanchoring but remaining, in general, above the target and the values observed throughout 2024. Its contribution for the inflation deviation from the target was 0.69 p.p. The decline in expectations reflected current and prospective inflationary pressures. According to the Focus survey, the median expectations for the 12-month-ahead inflation (smoothed) started 2025 above the upper limit of the inflation target, at around 5.00%, and increased until mid-February, when it reached 5.90%. Then it began a downward trajectory, ending the year at around 4.0% (Figure 3). The median expectations for 2025 followed a similar behavior. It began the year around 5.0%, increased until reaching values above 5.6% between February and April, and then began a downward trend, remaining below the upper limit of the tolerance interval of 4.50% in mid-November;

Table 1 – Components of the IPCA in 2025

Selected components and items	Change (%)	Weight (%)	Contribution to IPCA change (p.p.)
Market prices	3.91	74.17	2.90
Food-at-home	1.42	15.75	0.22
Industrial goods	2.36	22.92	0.54
Services	6.01	35.50	2.13
Administered prices	5.29	25.83	1.37
IPCA	4.26	100.00	4.26

Sources: IBGE and BCB

Figure 1 – Inflation: IPCA and components



Sources: IBGE and BCB

Figure 2 – Contributions to the deviation of inflation from the target in 2025

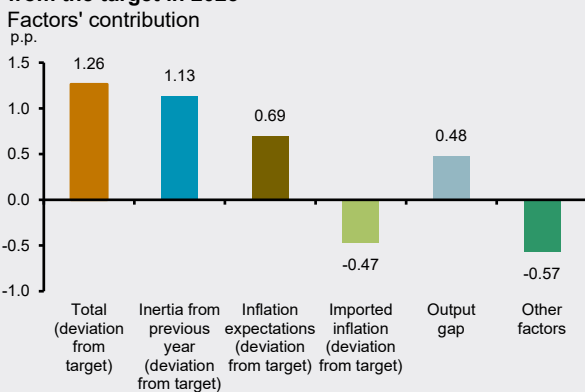


Figure 3 – 12-month-ahead inflation expectations (smoothed) – Focus survey



iii. Imported inflation (as deviation from the target) contributed negatively to the inflation deviation from the target, -0.47 p.p. Of this value, the main contributions came from the decline in the international oil price (-0.28 p.p. effect) and the exchange rate appreciation (-0.19 p.p. effect). As for commodities in general, measured by the Commodities Index – Brazil (IC-Br), the effect was neutral in the year (Figures 4 to 6);

Figure 4 – IC-Br (index in USD)

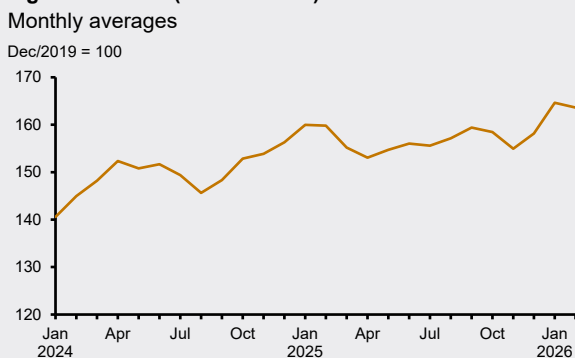
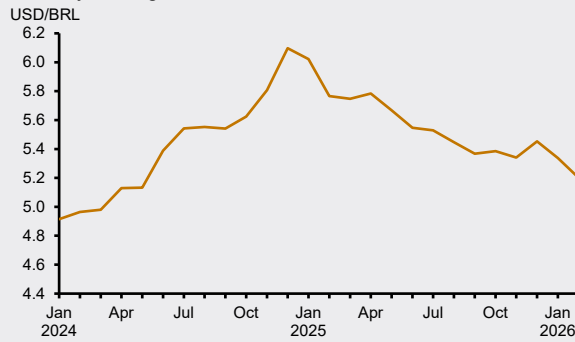


Figure 5 – Brent-type oil price



Sources: Bloomberg and BCB

Figure 6 – Nominal exchange rate
Monthly averages



iv. **The output gap contribution to the deviation of inflation from the target was 0.48 p.p.** After strong growth in 2024, economic activity remained heated in 2025 but, in general, following a moderate growth trend. Gross Domestic Product (GDP) grew 2.3% in 2025, after growing 3.4% in 2024. Net formal job creation, measured by the New Caged, fell from 1.7 million in 2024 to 1.3 million in 2025. The seasonally adjusted Level of Utilization of Installed Capacity (Nuci), calculated by the Getulio Vargas Foundation (FGV), remained stable at an average of 82.0% in 2025. The average unemployment rate, in turn, dropped from 6.9% in 2024 to 5.9% in 2025. Therefore, the estimated output gap for 2025 remained positive, contributing to inflation in the period; and

v. **Lastly, the other factors contributed with -0.57 p.p. to the deviation of inflation from the target in 2025.** The latter item includes factors not considered in the previous ones – mainly specific factors conditioning administered prices, the effect of climate anomalies, and tax measures – and a part not explained by the model, represented by shocks in the Phillips curve of market prices and in the equations of administered prices. Using the disaggregated small-scale model for estimating the contribution of shocks in groups of prices, the highlight is the negative contribution of shocks in food-at-home (-0.66 p.p.) and industrial goods (-0.25 p.p.). Conversely, it stood out the contributions of 0.13 p.p. from shocks in administered prices, and of 0.18 p.p. in electricity tariff flags, which ended 2025 at the yellow level, as opposed to the green level observed in December 2024. These estimates are approximations based on models and are therefore subject to the uncertainties inherent to the modeling and estimation process.

Summing up, according to the decomposition presented in this box, the key factors that led inflation in 2025 to exceed the inflation target were the inertia from the 2024 inflation, inflation expectations, and the output gap. The imported inflation and shocks in food-at-home and industrial goods prices contributed to the opposite direction.

References

CUSINATO, R. T., FIGUEIREDO, F. M. R., MACHADO, V. G., MELLO, E. P. G. and PEREZ, L. P. (2016). "*Decomposição de Inflação: revisão da metodologia e resultados para 2012 a 2014*", Banco Central do Brasil, Working Paper 440.



Appendix

Monetary Policy Committee (Copom)

Members

Governor

Gabriel Muricca Galípolo

Deputy Governor

Ailton de Aquino Santos

Deputy Governor

Gilneu Francisco Astolfi Vivan

Deputy Governor

Izabela Moreira Correa

Deputy Governor

Nilton José Schneider David

Deputy Governor

Paulo Picchetti

Deputy Governor

Rodrigo Alves Teixeira

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

International Affairs Department – Derin

Marcelo Antônio Thomaz de Aragão

Department of Economics – Depec

Ricardo Sabbadini

Research Department – Depep

Euler Pereira Gonçalves de Mello

Department of Banking Operations and Payments System – Deban

Fábio Martins Trajano de Arruda

Open Market Operations Department – Demab

André de Oliveira Amante

Department of Foreign Reserves – Depin

Luís Guilherme Siciliano Pontes