Impacts of the conflict in the Middle East on the Banco Central do Brasil's Surveys

Based on recent results from the Pre-Copom Questionnaire (PCQ) and the Firmus Survey, this box summarizes the views of market analysts and companies about the impacts of the conflict in the Middle East on Brazil. In the PCQ, the prevailing view is that of a significant impact on inflation, marked by short-term inflationary surprises, including items not directly affected by the shock. The effects on economic activity are perceived as minor on an aggregate basis, but with significant dispersion among responses. Firmus results point in the same direction, revealing a significant increase in costs, a partial pass-through to prices, squeezed margins, and rising inflation expectations. Despite the widespread perception of the shock among companies, its intensity varied.

The conflict in the Middle East is a significant event for the global economy, with major repercussions on commodity prices, financial conditions, and international trade. In particular, the rise in prices of oil and its derivatives represents an external shock that also affects the Brazilian economy. In this context, this box examines the extent to which the conflict has affected the perceptions and expectations of economic agents in Brazil, based on surveys conducted by the Banco Central do Brasil (BCB). The PCQ[1] reflects how the shock has been incorporated into market analysts' macroeconomic projections. The Firmus Survey,[2] in turn, by capturing the perceptions of non-financial companies, highlights the transmission channels of this shock, particularly with regard to costs, prices, and margins.

PCQ results

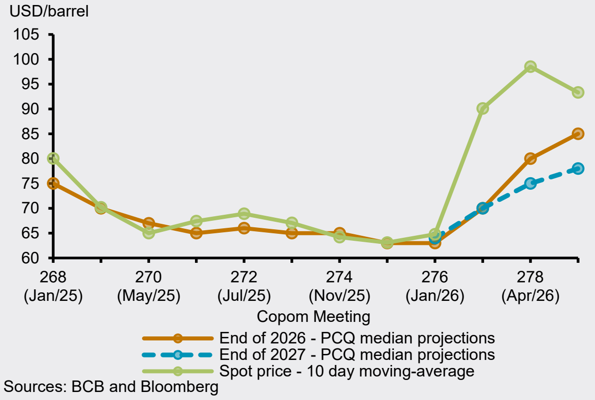
Projections for oil prices and the exchange rate – two key transmission channels of external shocks to the Brazilian economy – moved in opposite directions. The median projections for Brent-type oil prices increased in recent PCQ rounds for both horizons considered. For the end of 2026, the median went from USD 63 in the January 2026 PCQ to USD 85 in the June 2026 PCQ, with intermediate values of USD 70 in March 2026 and USD 80 in April 2026. By the end of 2027, the median went from USD 64 to USD 78 in the same period, with increases also observed in the intermediate rounds.[3] As shown in Figure 1, these medians remained below the spot price observed since the intensification of the conflict, suggesting that analysts had already incorporated some reversal in future prices. Conversely, exchange rate projections have declined over the last three PCQ rounds, from BRL 5.50 to BRL 5.20 for the median projection for 2026, in line with the BRL appreciation during the period (Figure 2).

1/ The PCQ aims to gather projections from participants in the Market Expectations System regarding various economic indicators, and their assessments on the conduct of monetary policy. The questionnaire is sent out before each Monetary Policy Committee (Copom) meeting. The set of questions is revised for each meeting depending on developments in the economic outlook. The questionnaires and aggregated quantitative results are available at https://www.bcb.gov.br/controleinflacao/precopom (Portuguese only).

2/ The Firmus Survey aims to capture the perceptions of non-financial companies regarding their business conditions and economic variables influencing their decisions. The survey is conducted quarterly, with data collected in February, May, August, and November. The questionnaires and statistical appendices are available at https://www.bcb.gov.br/publicacoes/firmus (Portuguese only).

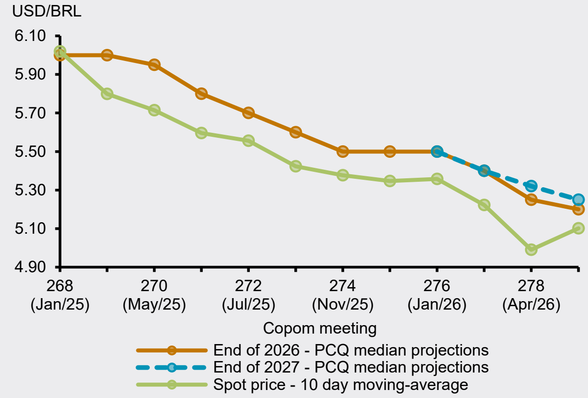
3/ The reference date for a PCQ round is the last business day of the week prior to the corresponding Copom meeting.

Figure 1 – Brent crude oil



Sources: BCB and Bloomberg

Figure 2 – Exchange rate



Inflation projections from PCQ respondents were also revised in the period. After falling from 4.5% in the June 2025 PCQ to 4.0% in the January 2026 PCQ, the median forecast for the 2026 IPCA remained at 4.0% in the March 2026 PCQ, but increased to 4.8% in the April 2026 PCQ and to 5.2% in the June 2026 PCQ (Figure 3). Even though the rise in the median was only observed from the April 2026 PCQ, the bias was already predominantly upward in the March 2026 PCQ, anticipating the revision of the central scenario observed in subsequent editions. For 2027, the median remained at 3.8% between the January 2026 PCQ and the March 2026 PCQ, rising to 4.0% in the April 2026 PCQ and to 4.2% in the June 2026 PCQ (Figure 4). In the most recent round, even after revisions to the central scenario, the upward bias predominated among analysts, particularly for 2026.

Figure 3 – 2026 IPCA projections and bias (PCQ)

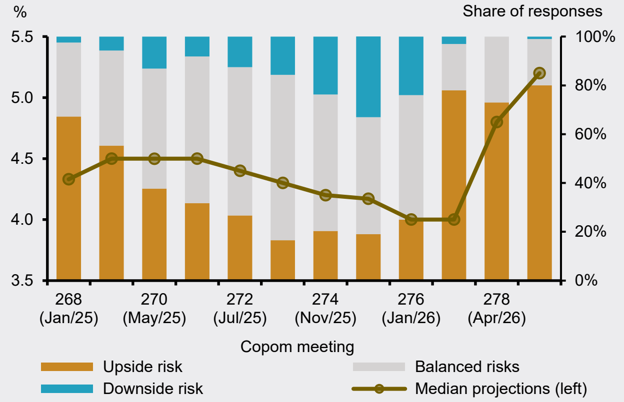
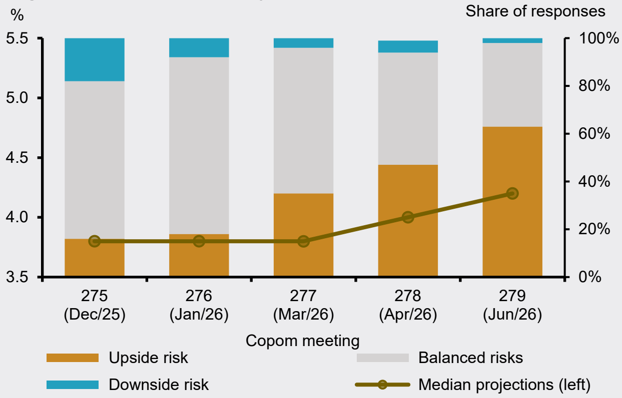


Figure 4 – 2027 IPCA projections and bias (PCQ)



The April 2026 PCQ and the June 2026 PCQ included specific questions about the impact of the conflict on projections, with the aim of assessing the shock transmission to different macroeconomic variables. Analysts were asked to estimate the impact of the conflict on the projections for the Extended National Consumer Price Index (IPCA), Gross Domestic Product (GDP), trade balance, and primary balance for 2026, as well as the share of that impact already incorporated into the projections provided in the questionnaire. For 2027, they were asked whether the projections for the same variables already incorporated any effects of the conflict.

As for the impact on the IPCA, the responses indicated a significant effect in 2026, with a median of 1.0 p.p. in the June 2026 round, with most of it already incorporated into the projections (median of 0.8 p.p.). The dispersion around this median, however, was high, indicating significant divergence among analysts regarding the magnitude of the impact (Figure 5). For 2027, the results were similar between the April 2026 and June 2026 surveys, with 66% of respondents indicating that they had already incorporated an upward impact of the conflict on the IPCA, 4% mentioning a downward impact, 9% reporting no significant effect, and 21%, high uncertainty (Figure 6).

Figure 5 – Conflict's impact on 2026 IPCA (PCQ)

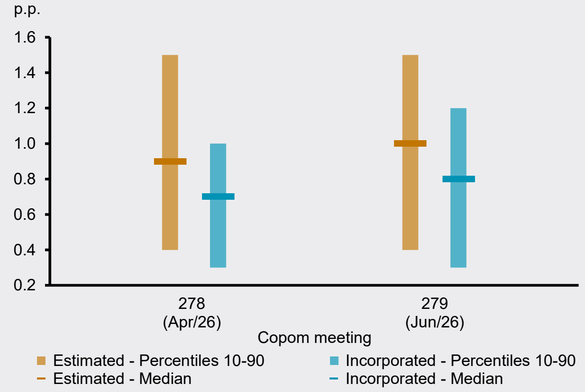
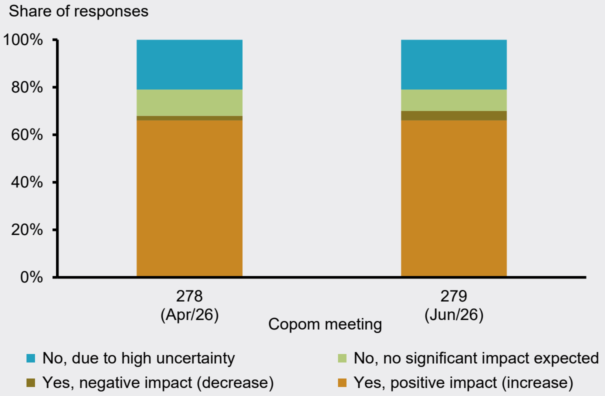
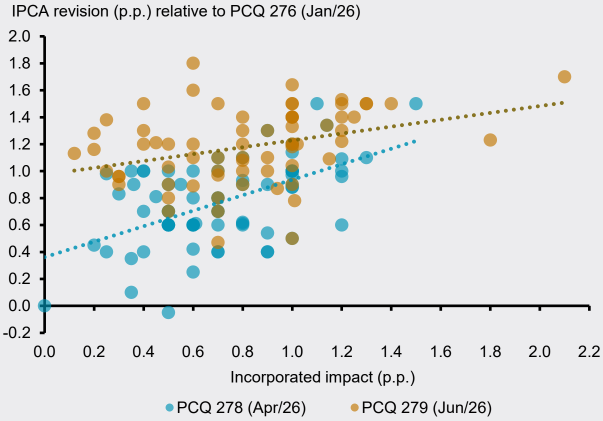


Figure 6 – Conflict's impact on 2027 IPCA (PCQ)



One way to assess the extent to which the conflict explained the revision in 2026 IPCA projections is to compare, for each respondent, the cumulative revision since the January 2026 PCQ – the last round prior to the conflict – with the impact reported in the specific question (Figure 7). In the April 2026 PCQ, the median revision of 0.8 p.p. was close to the median incorporated impact of 0.7 p.p., and the dispersion among respondents indicates a positive relationship between both measures – a pattern consistent with the hypothesis that the revision of inflation expectations in the period would be largely associated with the conflict. In the June 2026 PCQ, however, the median revision of 1.2 p.p. diverged from the median incorporated impact of 0.8 p.p., weakening the positive relationship between both measures and suggesting that the revisions started to reflect, to a great extent, factors not directly related to the conflict.

Figure 7 – IPCA 2026 revision and conflict's impact



The recent projections' increase for the 2026 IPCA in the PCQ was not limited to administered prices, which was the segment most directly affected by the oil shock due to fuel prices (Figure 8). Given its weight in the headline index, the change in the median projections for the segment of administered prices between the January 2026 PCQ and the June 2026 PCQ is equivalent to a contribution of around 0.30 p.p. to the IPCA, of which around 85% would come from gasoline and bottled gas.[4,5] In the services segment, the same calculation suggests that the rise in projections primarily stems from airfare – an item linked to the conflict through aviation kerosene.[6]

4/ The contributions by segment are approximate and for illustrative purposes only. The medians by sub-item and segment are not additive with respect to the median of the headline index and may reflect partially different sets of respondents, since not all participants project all items in the PCQ.
5/ The median projections for the gasoline sub-item increased from 2.1% in the January 2026 PCQ to 6.3% in the June 2026 PCQ, while the median for bottled gas grew from 1.6% to 6.0% in the same period.
6/ The revision of the airfare median price increase – from 6.4% in the January 2026 PCQ to 26.0% in the June 2026 PCQ – is consistent with the rise in aviation kerosene prices, albeit with a time lag, considering that the IBGE collects airfare data approximately 60 days before the reference month.

Part of these revisions, however, may reflect factors not related to the oil price shock. In the industrial goods segment, the median of the forecasts for ethanol – the main channel through which the conflict could have directly pressured the sector – was revised downward in the period.[7] Meanwhile, the increase in projections for food-at-home – the main factor underlying the revision of the IPCA in the June 2026 PCQ – was associated with sharp rises in projections for meat and fresh products, as well as the expected impact of *El Niño*.[8, 9] It is worth noting that this concentration in food-at-home is consistent with the divergence observed in the same round between the median revision for the 2026 IPCA and the median impact of the conflict incorporated by respondents.

The timing of these revisions provides additional details. Based on the March 2026 PCQ projections, around 90% of the revision to the headline IPCA projection for 2026 can be attributed to the short-term inflation surprise that occurred between March and May, with more modest revisions for the remainder of 2026 and for 2027. Revisions in underlying inflation measures were also concentrated in the short term, but at a notably lower magnitude than that of the headline IPCA (Figure 9).[10] Although the PCQ responses do not allow one to break down the surprise by segments, it is likely that the inflation surprise in the respondents' scenario for the Mar-May quarter was not limited to oil derivatives, similarly to that observed for the short-term surprises in the Copom scenario (section 2.1 of this MPR).

Figure 8 – Contribution to the 2026 IPCA revision

Cumulative p.p. relative to PCQ 276 (Jan/26)

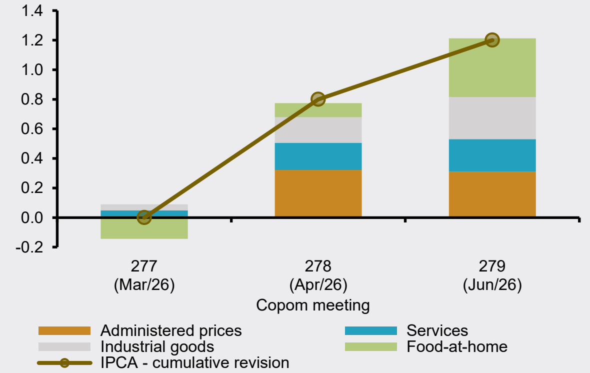
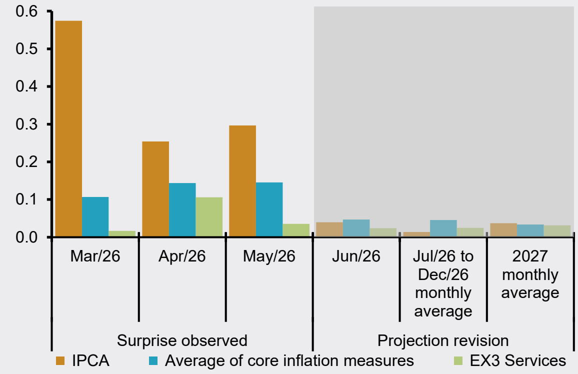


Figure 9 – 2026 and 2027 IPCA revision distribution

Monthly p.p. surprise/revision relative to PCQ 277 (Mar/26)



Unlike that observed in IPCA projections, revisions to the GDP growth projections were marginal among PCQ respondents. The median forecast for 2026 GDP growth increased from 1.8% in the January 2026 PCQ to 1.9% in the April 2026 PCQ and to 2.0% in the June 2026 PCQ (Figure 10). For 2027, the median remained stable at 1.8% in the March 2026 PCQ and in the April 2026 PCQ, falling to 1.6% in the June 2026 PCQ (Figure 11). The prevailing bias remained relatively stable for 2026, with upside risks predominating throughout the most recent cycles. For 2027, in contrast, the bias reversed in June 2026, shifting to a predominantly downside outlook.

7/ The median projections for the ethanol sub-item decreased from 4.1% in the January 2026 PCQ to 0.3% in the June 2026 PCQ, a shift possibly linked to seasonal and supply factors.

8/ The increase in the median projections for food-at-home between the April 2026 and the June 2026 PCQ, from 5.1% to 7.0%, is consistent with the increases in the medians for meat (from 8.7% to 10.2%) and fresh products (from 7.0% to 17.6%) in the same period.

9/ In the June 2026 PCQ, respondents were asked to estimate the impact of *El Niño* on inflation in Brazil in 2026 and 2027 and how much of that impact had already been incorporated into their projections. The median estimated impact was 0.3 p.p. for 2026, of which 0.2 p.p. had already been incorporated into the projections. For 2027, the respective median impacts were 0.4 p.p. and 0.2 p.p.

10/ The breakdown is based on the March 2026 PCQ projections, collected in the early days after the conflict's escalation. The reason for the choice of this round – rather than the January 2026 PCQ, which was adopted in the other exercises in this box – is that it covers a four-month window of monthly projections (March through June), which allows accounting for the months registering short-term surprises (March through May) and isolates the revision for June. The short-term surprise is measured as the difference between the monthly projections and the actual values for the headline index, the average of the core measures, and the underlying services index. The share corresponding to the remainder of 2026 represents the revision to the annual projection excluding the surprises from March through May and the June revision, distributed uniformly over the remaining six months. The share for 2027 corresponds to the revision of the annual projection, distributed over 12 months.

Figure 10 – GDP 2026 projections and bias (PCQ)

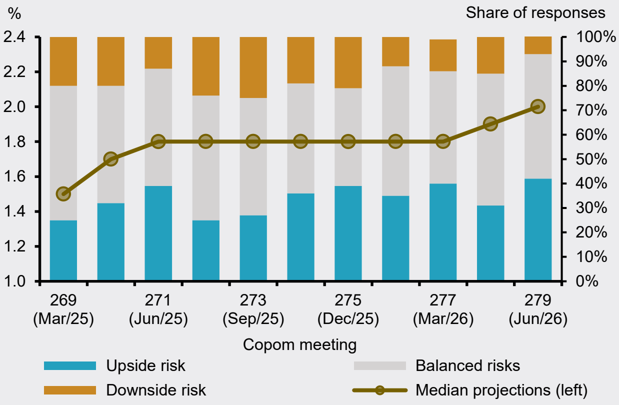
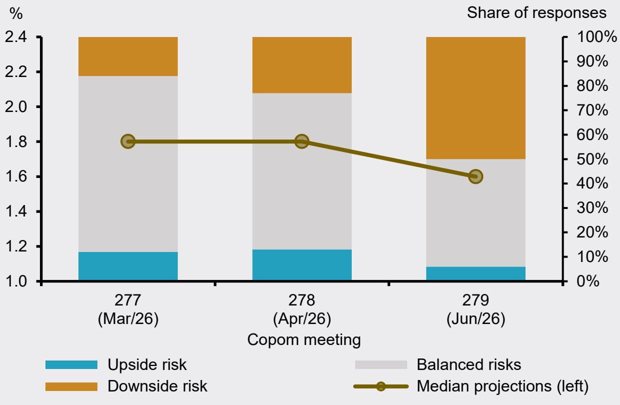


Figure 11 – GDP 2027 projections and bias (PCQ)



Regarding the specific question about the conflict, the median of analysts' estimated impact on 2026 GDP was 0.0 p.p. in both rounds (Figure 12). The dispersion around the median, however, was high: some analysts interpret the conflict as a negative shock to economic activity, while others view it as a positive shock. For 2027, 90% of the June 2026 PCQ respondents did not incorporate the conflict's effects on growth (56% because they did not expect a significant impact and 34% because they pointed to a high uncertainty), while 2% reported a positive impact and 8% a negative one (Figure 13). This pattern contrasts with that observed for inflation, where most participants had already incorporated some impact of the conflict into their projections.

Figure 12 – Conflict's impact on GDP 2026 (PCQ)

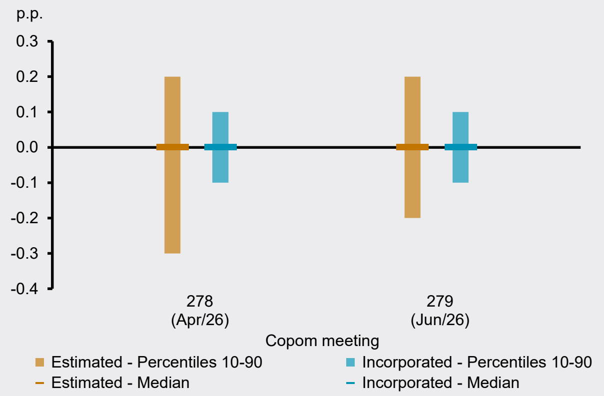
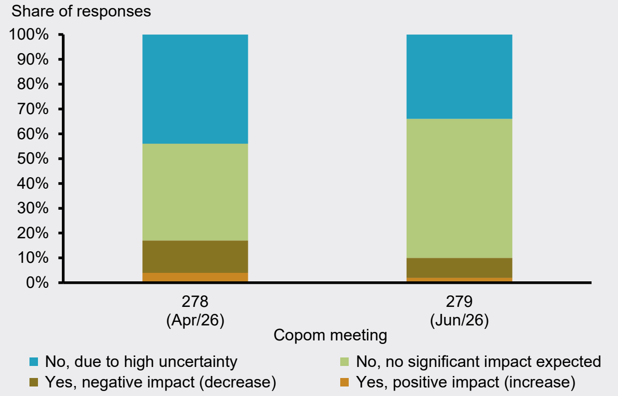


Figure 13 – Conflict's impact on GDP 2027 (PCQ)

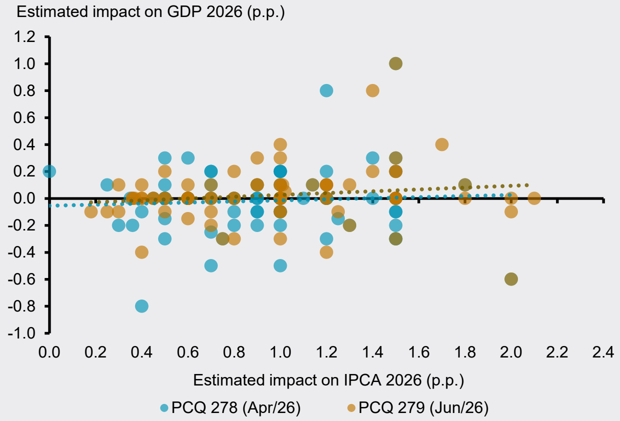


The joint analysis of the estimated impacts on the IPCA and GDP suggests that, over the considered horizon, the effects of the conflict were perceived as predominantly inflationary. In general, estimates of a higher inflationary impact were not accompanied by a more negative impact on economic activity (Figure 14), a pattern that differs from what would be expected in a classic supply shock.[11] However, caution is required in the interpretation of this result, since the reported estimates correspond to the perceived net effect of the conflict.[12]

11/ For the United States and the euro area, in contrast, the results from the January 2026 and June 2026 PCQ suggested an impact closer to a classic supply shock, combining an increase in the medians for the 2026 CPI (from 2.6% to 3.5% in the U.S. and from 1.9% to 2.9% in the euro area) and a decline in the medians for 2026 GDP (from 2.3% to 2.2% and from 1.2% to 0.8%, respectively).

12/ The question asked for an estimate of the conflict's impact on the IPCA, GDP, the trade balance, and the primary balance in 2026, with instructions to consider which is the most likely scenario – including both direct and indirect effects – in comparison with a scenario with no conflict. The reported estimate therefore corresponds to the net effect: in addition to the direct impact of the shock, it may incorporate endogenous responses – of economic policy, exchange rate, or relative price adjustments – that mitigate or amplify the effect on each variable.

Figure 14 – Conflict's impact on IPCA 2026 and GDP 2026



In addition to the impacts on inflation and economic activity, the specific question also assessed the effects on the external sector and the fiscal situation. The responses pointed to a positive effect on the trade balance, possibly reflecting the rise in oil prices and Brazil's trade surplus in this sector.[13] Respondents indicated an increase in the trade balance in 2026, with an estimated and incorporated median impact of USD 10 billion (Figure 15). For 2027, in the June 2026 PCQ, 47% of the participants stated that they had already incorporated a positive effect on the trade balance, 3%, a negative effect, 13% did not expect a significant impact, and 36% mentioned high uncertainty (Figure 16).

Figure 15 – Conflict's impact on trade balance 2026 (PCQ)

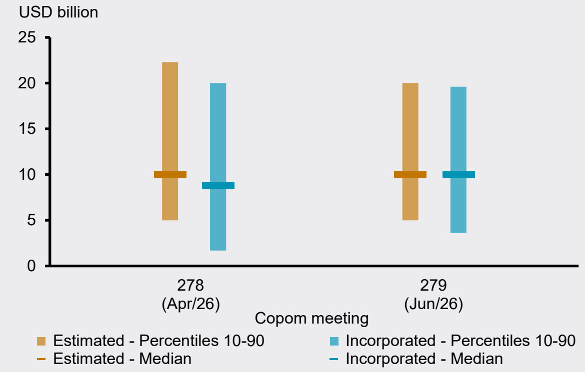
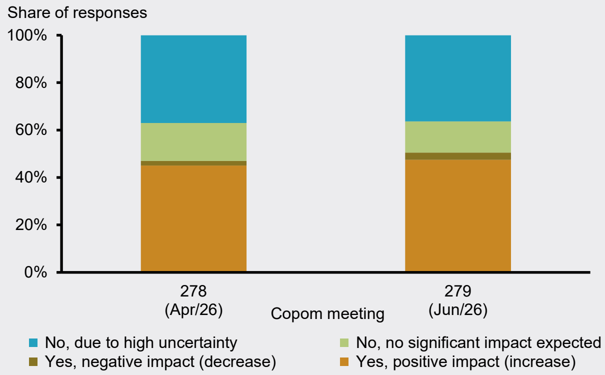


Figure 16 – Conflict's impact on trade balance 2027 (PCQ)



For the central government's primary balance, estimates indicated a positive effect. In the April 2026 and June 2026 PCQ, the median estimated impact for 2026 was BRL 20 billion, with a median already incorporated share of BRL 10 billion (Figure 17) – considerably lower than that observed for the IPCA and the trade balance. For 2027, in the June 2026 PCQ, responses that did not incorporate any effect prevailed: 22% because they did not expect a significant impact, and 47% because they pointed to a high uncertainty. In turn, 28% already incorporated a positive impact and 3% a negative impact, indicating uncertainty regarding the persistence of the shock over these horizons (Figure 18).

13/ See box Early Impacts of the conflict in the Middle East on the trade balance in this MPR.

Figure 17 – Conflict's impact on primary balance 2026 (PCQ)

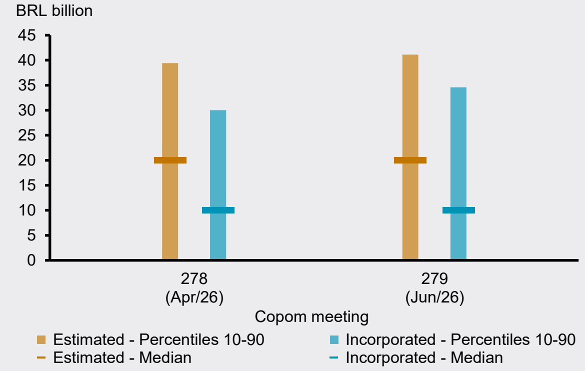
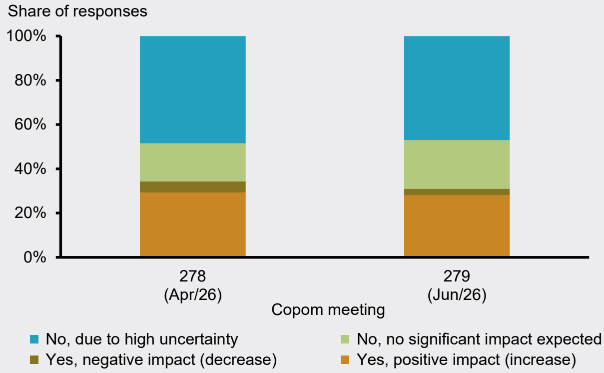


Figure 18 – Conflict's impact on primary balance 2027 (PCQ)



Firmus results

Between the February 2026 and May 2026 rounds, the projections reported in Firmus for the IPCA and GDP growth followed a similar pattern to that observed in the PCQ.[14] For the IPCA, there was a significant upward revision in the shorter-term horizon: the median for 2026 increased from 4.0% to 5.0% (Figure 19). For 2027, the median remained at 4.0%, although the distribution became more asymmetric. For GDP growth, revisions were marginal, with the median remaining stable at 1.8% for both 2026 and 2027 (Figure 20). Taken together, data are consistent with the view that the shock was primarily perceived as inflationary.

Figure 19 – IPCA projections (Firmus)

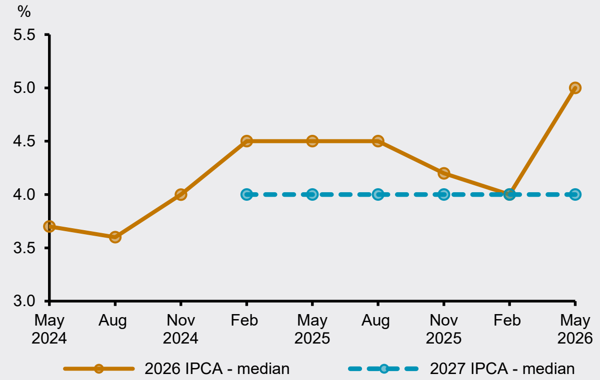
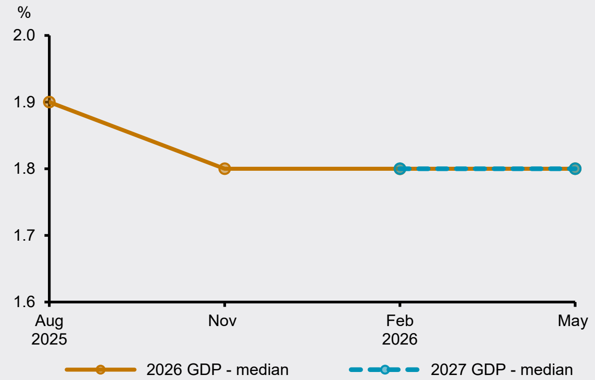


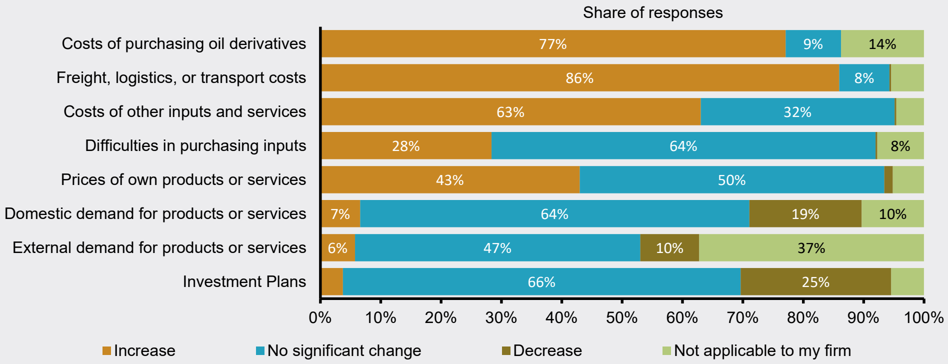
Figure 20 – GDP projections (Firmus)



The May round of the Firmus Survey included a specific question about how companies perceived the impacts of the conflict in the Middle East from various perspectives. The responses, summarized in Figure 21, indicated a perception that the conflict has mainly been passed on through costs, with only a partial pass-through to sales prices: around 80% reported increased costs for oil derivatives, logistics, or transport, while 43% reported price increases for their products or services. Furthermore, perceptions regarding the demand for their products or services remained relatively stable, albeit with a slightly unfavorable net result, particularly for domestic demand.

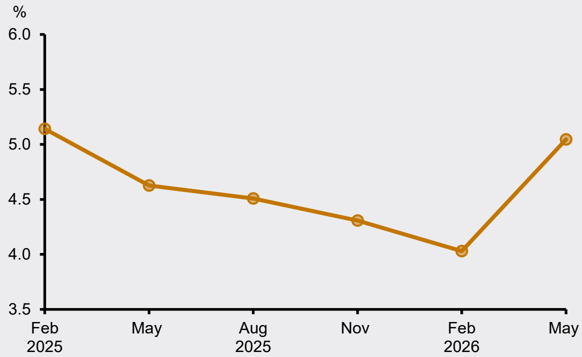
14/ The box Firmus Survey – expectations and sentiment of Brazilian firms, in the September 2025 MPR, shows that Brazilian companies' inflation expectations follow a similar trend to the market analysts' projections published in the Focus report.

Figure 21 – Impacts of the conflict in the Middle East (Firmus)



The perceptions captured by this specific question are consistent with the trends observed in the other survey's questions. Companies' expectations regarding changes in input costs over the next 12 months showed a significant deterioration in the most recent survey: the aggregate index increased from 4.0% in February 2026 to 5.0% in May 2026, interrupting the gradual improvement trend observed since February 2025 (Figure 22).[15]

Figure 22 – Input purchasing cost - change in the next 12 months (Firmus)



The analysis of the microdata provides additional evidence regarding the heterogeneity of the shock. Among the 277 companies that responded to the February and May 2026 surveys, 89% reported an increase in at least one of the cost-related items in the specific question about the impacts of the conflict, but only 49% revised their input cost expectations upward for the next 12 months (that is, they indicated a wider expected variation range in the recurrent question than in the previous round).[16] Considering the overall pattern of responses (Table 1), the share of companies that revised their expectations upward remains close to 37% among those that reported an increase in only one or two items of the specific question, but rises to 57% among those that reported an increase in all three items simultaneously. This pattern suggests that the upward revision in expectations mainly materialized when the perception of the shock was broad, simultaneously encompassing oil derivatives, freight/logistics, and other inputs. However, the relationship between the already perceived shock and future expectations is not mechanical: companies that had already observed rising costs might even expect smaller fluctuations ahead, given that part of the shock was already incorporated into the current perception.

15/ Companies answered the following question: "For the next 12 months, do you expect your company's average cost of purchasing inputs to change by: a. More than 6%; b. More than 4% and up to 6%; c. More than 2% and up to 4%; d. From 0% to 2%; e. Negative." The aggregate index is calculated as the weighted average of responses, with the following weights: a = 7%; b = 5%; c = 3%; d = 1%; e = -1%.

16/ The results should be interpreted with caution, since the recurrent question captures companies' perceptions within predefined intervals, which limits the identification of marginal changes. Thus, the lack of revision may reflect the small magnitude of the shock in some cases, a reversal of the shock within the considered horizon, or even the effects of other factors that partially offset the shock, such as exchange rate appreciation.

Table 1 – Conflict's impact and expectations on inputs' costs (Firmus)

% share of respondents

Has the firm revised the expected change in input costs?	Conflict's impact on costs			
	Increase in all three categories	Increase in two categories	Increase in one category	No reported increase
Yes, reported a higher range	31.4	9.4	3.2	4.7
No	18.8	11.9	2.9	4.3
Yes, reported a lower range	4.7	4.7	2.2	1.8
Total	**54.9**	**26.0**	**8.3**	**10.8**

A combined analysis of the responses suggests that the specific and recurrent questions capture complementary dimensions of the shock. The first identifies its extent by revealing that a significant share of companies reported cost increases, although not distinguishing their magnitude. The second provides an indication – albeit imperfect – of its intensity, as it reflects only adjustments that are significant enough to change the companies' baseline scenario. In this regard, the fact that rising costs were widely reported in response to the specific question but less frequently mentioned in the responses captured by the recurrent question suggests that the shock was perceived as widespread but varied in intensity.

In the wake of cost pressures, expectations for final price adjustments relative to the expected IPCA also worsened. After showing a slight downward trend since the beginning of 2025, the aggregate index revealed a significant turnaround in the latest round, rising from 108 to 120 – the highest level in the series (Figure 23).[17] This trend suggests that, on average, companies participating in the Firmus Survey now expect to pass on cost pressures to final prices to a greater extent, with price adjustments that are proportionally further from the IPCA than in previous quarters.

The expected rise in prices, however, is unlikely to be sufficient to offset the acceleration in costs anticipated by the responding companies. Expectations for profit margins over the next 12 months declined sharply in the latest survey, reversing the improvement observed throughout 2025 and early 2026. The aggregate index fell from 111 to 98 – the first record below the neutral level – indicating expectations of margins below current levels (Figure 24).[18]

Figure 23 – Prices vs inflation – 12-month ahead (Firmus)

Index from 0 to 200 (increasing with higher price adjustments relative to inflation)

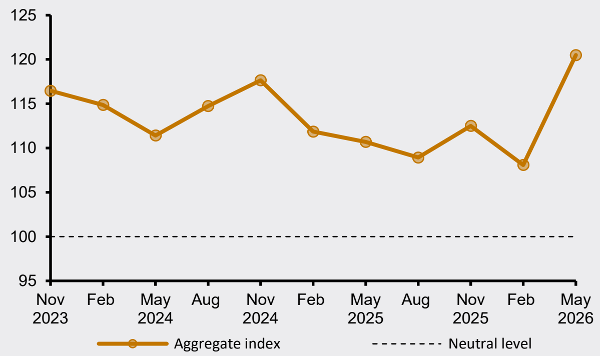
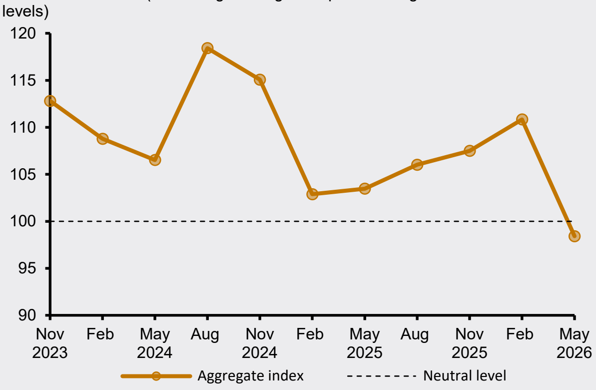


Figure 24 – 12-month ahead vs current margin (Firmus)

Index from 0 to 200 (increasing with higher expected margins relative to current levels)



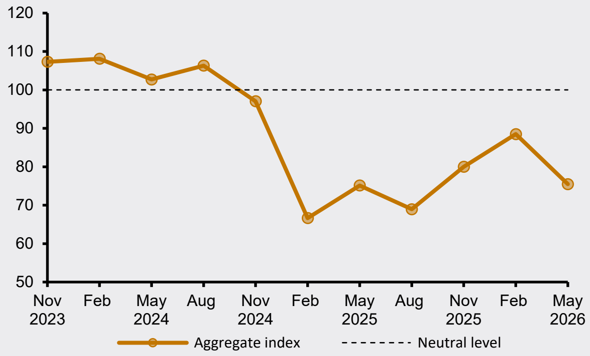
17/ Companies answered the following question: "Over the next 12 months, how do you expect the change in the prices of your company's products to compare with the expected inflation, as measured by the IPCA? a. Well above expected inflation; b. Slightly above expected inflation; c. In line with expected inflation; d. Slightly below expected inflation; e. Well below expected inflation." The aggregate index is calculated as the weighted average of the responses, with the following weights: a = 200; b = 150; c = 100; d = 50; e = 0.

18/ Companies answered the following question: "For the next 12 months, do you expect your company's profit margin to be: a. Significantly higher than the current one; b. Slightly higher than the current one; c. In line with the current one; d. Slightly lower than the current one; e. Significantly lower than the current one." The aggregate index is calculated as the weighted average of responses, with the following weights: a = 200; b = 150; c = 100; d = 50; e = 0.

In this adverse environment, companies' perception of the current economic situation also worsened once again in the most recent survey, halting the gradual recovery that had been underway. The aggregate index fell from 88 to 76, moving even further away from the neutral level (Figure 25).[19]

Figure 25 – Current economic situation (Firmus)

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



Conclusion

Surveys generally agree that the conflict was primarily perceived as an inflationary shock in Brazil, with a limited impact on economic activity projections. In the PCQ, revisions to inflation projections were also marked by short-term surprises, including in items not directly affected by the shock, while in the Firmus Survey, the findings at the company level were more consistent with a supply shock, with squeezed margins and worsening sentiment.

Finally, it is worth noting that the data from the PCQ and Firmus used in this box were collected prior to the signing, on June 17, 2026, of the memorandum of understanding to end the armed conflicts in the Middle East. Developments in the situation, including the effectiveness of the agreement, may lead to a revision of these assessments in future rounds.

19/ Companies answered the following question: "As a representative of your company, how would you assess the prevailing sentiment among professionals in your sector regarding the current economic situation: a. Strongly positive; b. Moderately positive; c. Neutral; d. Moderately negative; e. Strongly negative." The aggregate index is calculated as the weighted average of responses, with the following weights: a = 200; b = 150; c = 100; d = 50; e = 0.