



ISSN 1517-7289

Monetary Policy Report

Volume 2 | Number 2 | June 2026



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ISSN 1517-7289
CNPJ 00.038.166/0001-05

Monetary Policy Report | Brasília | v. 2 | nr. 2 | Jun. | 2026 | p. 1-80

Monetary Policy Report

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

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Statistical conventions

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

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

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

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

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

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Monetary policy framework in Brazil

Legal framework

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

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

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

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

Monetary Policy Committee – Copom

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

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

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

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



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Executive summary

The global environment remains uncertain due to the lack of definition on the terms of the agreement for the end of the armed conflicts in the Middle East, and the consequences of the already materialized effects of these conflicts until this moment. This scenario requires caution from emerging market economies amid heightened volatility of asset and commodities prices, altering global financial conditions.

Regarding the domestic scenario, economic activity accelerated and the labor market still shows signals of resilience. Gross Domestic Product (GDP) grew 1.1% in 2026Q1, after growing 0.3% in 2025Q4, with acceleration in the sectors more sensitive to the economic cycle. In the labor market, the unemployment rate remained at its historical low, while real salaries continued to increase. The projected GDP growth for 2026 was revised from 1.6% to 2.0% mainly due to the positive surprise in the 2026Q1 result and the improved outlook for agriculture and mining. It also reflects the expectation of higher dynamism in domestic demand and in sectors more sensitive to the economic cycle, largely associated with fiscal and credit stimulus measures.

Consumer inflation rose and exceeded the upper limit of the tolerance interval around the inflation target, with further deanchoring of inflation expectations. The 12-month inflation, measured by the Extended National Consumer Price Index (IPCA), increased from 3.81% in February to 4.72% in May, and the average of core inflation measures, from 4.46% to 4.52%. Increases were high in all IPCA segments in the quarter, with notable rises in food-at-home and administered prices, which were the main drivers of the surprise in the period. Services inflation remained under pressure and the prices of industrial goods resumed a stronger upward path. In an environment of a positive output gap and a tight labor market, the higher inflation in the quarter was also driven by the conflict in the Middle East, notably impacting fuel prices. In this context, inflation expectations rose sharply for 2026 and showed further deanchoring for 2027 and 2028.

In the reference scenario projections, inflation increases until the end of 2026, remaining above the upper limit of the tolerance interval around the inflation target for more than two consecutive quarters, and declines again in 2027. In this scenario – which uses the Selic rate from the Focus survey and the exchange rate following the PPP – four-quarter inflation, after falling to 4.1% in 2026Q1, resumes expansion, reaching 5.2% by the end of the year. Then it declines again, reaching 3.1% in the last period considered, referring to 2028Q4. In the relevant horizon for monetary policy, considered to be 2027Q4, projected inflation is 3.7%. 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 279th Copom meeting held on June 16-17, 2026.

Compared with the previous MPR, inflation projections have risen considerably until the relevant horizon. In the relevant horizon for monetary policy, considered to be 2027Q4, projected inflation rose by 0.5 p.p. Among the upside factors for projections in this horizon, stand out (i) the upward surprise with the actual IPCA; (ii) the higher output gap estimate; (iii) the rise of prices of oil and derivatives and of commodities in general; and (iv) the increase in inflation expectations. Conversely, the higher trajectory assumed for the Selic rate and the exchange rate appreciation contributed to mitigate this increase.

In its latest meeting (279th 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. Recent indicators of

economic activity show a recovery in comparison to 2025Q4, remaining consistent with a trajectory of deceleration for the full year of 2026. The current scenario continues to be marked by deanchored inflation expectations, high inflation projections, and labor market pressures.

Currently, inflation projections present further distancing from the target in the relevant horizon for monetary policy. At the same time, uncertainty on these projections remains higher than usual, due to the lack of clarity about the trajectory of the conditioning variables of the projection models considered.

The prolonged period of the basic policy rate at a contractionary level provided evidence about monetary policy transmission to the economic deceleration. In view of the dynamics of risks associated with the evolution of prices, the Committee reaffirms that the total magnitude of the calibration cycle will be established in light of new information aiming to assure inflation conversion to the target.

The Committee evaluates that the degree of restriction accumulated by monetary policy allows different trajectories of the policy rate consistent with inflation convergence to the target. The projection models, utilizing these trajectories of the basic policy rate among its conditioning variables, are subject to higher than usual uncertainties in the current conjuncture. These uncertainties add to the supply shocks scenario, which support the gradation, at least partially, of its effects on future price dynamics.

In current simulations, the monetary policy trajectory necessary to ensure inflation convergence to the target in the current relevant horizon would imply that projected inflation rates for the next relevant horizon, starting at next meeting, would fall below the target. Under these conditions the Committee assesses that alternative trajectories ensuring convergence of inflation to the target in 2028Q1, the relevant horizon for its next decision, are compatible with smoothening variations of macroeconomic aggregates.

The Committee deemed it appropriate, at this moment, to proceed with the monetary policy calibration cycle, reducing the basic policy rate to 14.25% p.a.

1

Economic outlook

1.1 External scenario

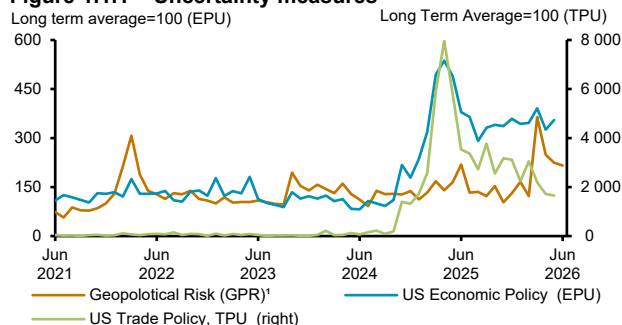
Prospective uncertainty regarding the external environment remains elevated. Ongoing tensions in the Middle East, amid negotiations between the U.S. and Iran over a lasting peace agreement, continue to contribute to heightened global uncertainty, which intensified in 2025 and remains above historical averages (Figure 1.1.1). The disruption to maritime transport through the Strait of Hormuz has persisted since March and may be reversed by end-July should the terms of the signed memorandum of understanding (MoU) be fulfilled. This disruption has reduced the supply of commodities and key intermediate goods, triggering price shocks, risk repricing, and a reshaping of global logistics and trade (Figure 1.1.2). Notwithstanding recent resilience of global growth, a gradual deceleration trend persists, albeit unevenly across countries and regions.

The persistence of elevated prices for energy, fertilizers, and other inputs has given rise to short-term inflationary risks and weighed on confidence. However, the ability of economic agents to adapt to shocks, together with expectations of productivity gains associated with artificial intelligence (AI), helps explain part of global growth resilience. Taken together, these factors continue to shape the balance of risks, reinforcing a downside bias and elevated uncertainty surrounding the global economic outlook. Should the supply shock persist, it will be important to assess its transmission to growth and inflation, including via second-round effects, with implications for the calibration of fiscal and monetary policies in the coming months. The evolution of this shock, the policy responses, and productivity gains related to the diffusion and absorption of AI will be key drivers of growth in the quarters ahead.

Tensions in the Middle East remain among the main risk factors for the global economic outlook. Even if the military conflict were to end in the near term, its economic effects are likely to persist for some time as reopening transport routes and restoring damaged production capacity and infrastructure require time and investment. Expectations surrounding a potential agreement among the countries involved have shaped the dynamics of oil, gas, and other prices, including fertilizer prices. Even after the signing of the MoU, cumulative effects from over one hundred days of conflict continue to pose risks of further and lagged increases in these prices, amid a decline in commercial inventories and strategic reserves at an unprecedented pace in recent periods. Macroeconomic prospects have already been affected by both the direct impact of the supply shock and indirect effects associated with heightened uncertainty and expectations formation, complicating central banks' reaction function. The impact of these price increases will be uneven, with Asian and European economies – more reliant on energy imports from the Persian Gulf – tending to be more adversely affected. Historically, significant changes in energy commodity prices tend to propagate across tradable goods more broadly and to worsen inflation expectations.

The increase in energy prices has already raised global inflation, although medium- and long-term inflation expectations have not deteriorated since March. After several years of disinflation that, while gradual, had been relatively steady, global inflation has risen again since March, reflecting the conflict in the Middle East and the associated supply shock. Core inflation, in aggregate, has reached its lowest levels since the Covid-19 pandemic, although it remains above target in many economies (Figure 1.1.3), indicating incomplete dissipation of earlier global shocks. The transmission of the current shock to consumer prices is likely to be heterogeneous across economies, depending on price-setting frameworks and the effectiveness of mitigation measures. Price dynamics along the production chain point to differences across sectors, origins, and market structures, as well as distortions related to precautionary inventory accumulation.

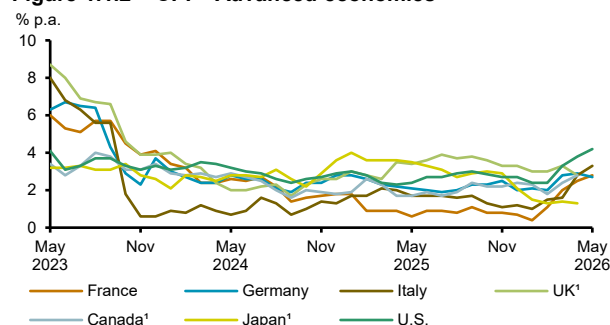
Figure 1.1.1 – Uncertainty measures



Source: Bloomberg, Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," *American Economic Review*, April, 112(4), pp.1194-1225.

1/ Index: 1985:2019=100. Data until June 12, 2026.

Figure 1.1.2 – CPI – Advanced economies

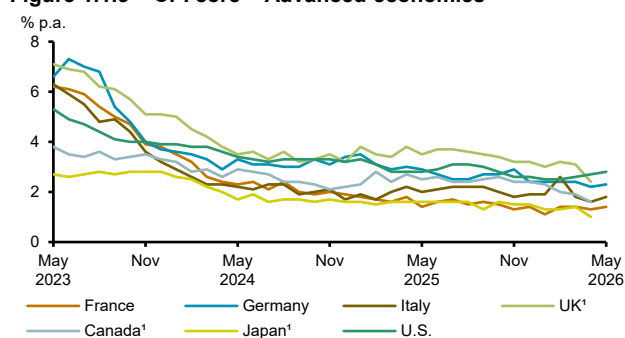


Source: Bloomberg

1/ Until April 2026

Global activity has continued to expand, albeit at a pace below that observed prior to the pandemic, reflecting a gradual deceleration trend (Figure 1.1.4). Global growth remains supported by capital spending on technological infrastructure – particularly related to AI, with the U.S. standing out – and by resilient consumption, especially among higher-income households. However, the outlook for sustaining the current pace of private consumption has become less favorable, as higher energy prices weigh on disposable income. Fiscal outlays on energy security and defense have also provided support to output. Amid heightened uncertainty, the risks of a sharper slowdown have increased. Economies more directly exposed to the conflict, as well as those more reliant on energy imports, are likely to be more adversely affected. For these economies, the need for fiscal measures to mitigate the impact on economic activity is greater. Such measures should be targeted and temporary but are unlikely to fully offset more persistent supply or demand losses. Moreover, in economies with limited fiscal space, the prospect of rising sovereign indebtedness associated with shock-mitigating expenditures increases risks to debt sustainability and financial stability. Expected productivity gains associated with AI remain the main offsetting factor, although their realization depends on energy availability and costs, as well as on the diffusion and absorptive capacity of these technologies at scale, and on second-round effects on employment and household income that remain difficult to quantify.

Figure 1.1.3 – CPI core – Advanced economies



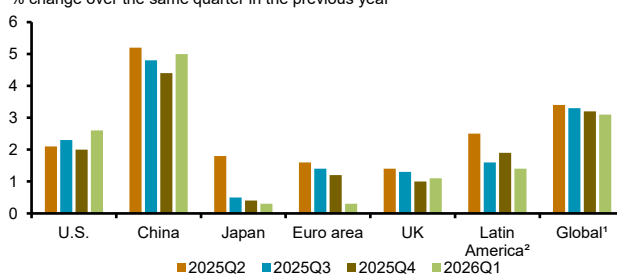
Source: Bloomberg

1/ Until April 2026

Figure 1.1.4 – GDP growth

From 2025Q2 to 2026Q1

% change over the same quarter in the previous year



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.

In response to the energy price shock, central banks have signaled the possibility of policy rate increases (Figure 1.1.5). In some advanced economies, policy rates have already been raised in 2026, while in others hikes are expected in the coming months. The situation in the Middle East complicates the conduct of monetary policy, particularly by requiring close monitoring of second-round effects of the supply shock and by increasing the risk that persistent price pressures may be misinterpreted as transitory. In an environment of elevated uncertainty, monetary policy requires independence and flexibility to safeguard macroeconomic and financial stability. Central banks will need to remain vigilant to shifts in inflation expectations and to the balance of risks, in order to prevent energy price pressures from feeding through to broader price dynamics. However, differences in central bank mandates may lead to divergences in the near-term conduct of monetary policy, with implications for asset prices, long-term interest rates, and exchange rates.

In the U.S., economic activity has remained resilient, albeit showing signs of moderation, amid a backdrop of heightened uncertainty regarding the conduct of macroeconomic policies. Real GDP expanded at an annualized QoQ rate of 1.6% in 2026Q1. Household consumption has decelerated over the past two quarters. Fixed investment in the high-technology sector has exhibited stronger momentum, in contrast with the persistent weakness in residential construction, which remains constrained by elevated housing and construction input costs, as well as by 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. Subdued confidence indicators reinforce the outlook for further moderation in household consumption in the coming quarters.

Labor market conditions improved in the latest quarter but continue to be characterized by low mobility.

The unemployment rate stood at 4.3% in May – historically low – and has remained broadly stable around this level over the past 12 months. Since 2025, there has been a gradual easing in labor demand, alongside a contraction in labor supply, partly reflecting a decline in the share of foreign-born workers in the labor force and a decrease in the participation rate (Figure 1.1.6). Notwithstanding these developments, the pace of job creation has strengthened in recent months, averaging 188,000 net jobs between March and May, compared with an average of just 2,000 in the first two months of the year and 10,000 in 2025. Nominal wage growth has moderated gradually (3.4% p.a. in May), resulting in negative real wage growth at the margin.

Figure 1.1.5 – Monetary policy rates¹

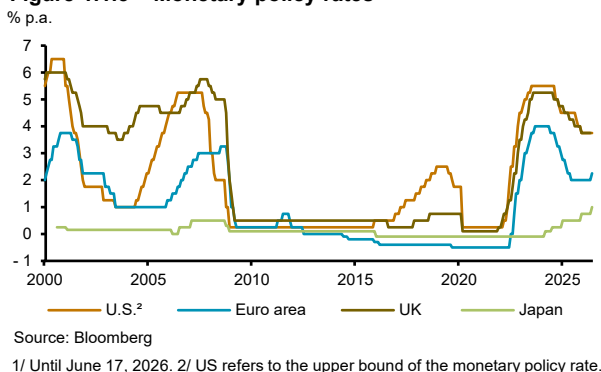
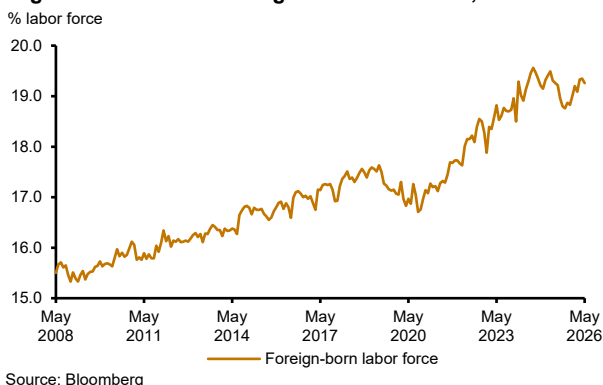


Figure 1.1.6 – U.S. – Foreign-born labor force, share



Inflation in the United States has picked up in recent months, driven primarily by higher energy prices.

Inflation reached 4.2% p.a. in May,¹ with energy inflation rising broadly in line with international oil prices. Core inflation has shown more limited pressures in recent months, registering 2.9% p.a. in May, following a marked increase in 2025 associated with the imposition of import tariffs. Components typically classified as less cyclical and more flexible have accounted for the largest price increases. Additional effects from the conflict in the Middle East on prices, as well as their potential spillovers into core inflation, remain uncertain and will depend on how the situation evolves in the coming months.

The Federal Reserve (Fed) held its target range unchanged in June at 3.5%-3.75%.² At the first meeting under the new Chair, there was a notable shift in communication, which became more concise and omitted elements that could be interpreted as forward guidance. The Fed also announced the creation of task forces to assess several issues with implications for its policy framework, including communications; balance sheet policy; use and reliance on existing data sources; productivity and labor market dynamics, including the effects of AI; and the Fed's inflation framework.

In the euro area, real GDP declined by 0.2% in 2026Q1 (QoQ), following an expansion of 0.2% in 2025Q4, according to seasonally adjusted data. The contraction in activity largely reflected country-specific factors related to the Irish economy. On the demand side, net exports made a negative contribution to growth (-0.2 p.p.) for the fourth consecutive quarter, reflecting both the effects of increased trade tariffs imposed by

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

2/ The Fed's decision was announced on June 17, the same day as the Copom's decision.

the U.S. and the intensification of competition from Asian goods in European markets. Gross fixed capital formation (GFCF) also weighed on activity (-0.1 p.p.), while private and government consumption made positive contributions. The outlook remains conditioned by risks related to energy supply and prices, the persistence of the conflict in Ukraine, and the effects of increasing fragmentation in global trade. In addition, confidence indicators remain at subdued levels, while the scope for expansionary fiscal policy remains limited across most economies in the region. The onset of the monetary tightening cycle by the European Central Bank (ECB) adds a further headwind to activity.

Inflation in the region accelerated from 1.9% p.a. in February to 3.2% in May, driven by the rebound in energy prices. In parallel, core inflation – measured by the index excluding energy, food, alcohol, and tobacco – rose to 2.6%, above the ECB's 2% target. The resilience of underlying components suggests that domestic inflationary pressures remain present, particularly in segments more closely linked to services dynamics. Against this backdrop, the ECB's Governing Council decided to raise the deposit facility rate by 25 basis points, to 2.25%, at its June meeting. While acknowledging the elevated uncertainty surrounding the macroeconomic environment, the monetary authority judges that the current degree of restrictiveness is consistent with the process of bringing inflation back to target over the relevant policy horizon. The ECB has reiterated that its decisions will remain data-dependent, based on its assessment of the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission, refraining from providing forward guidance on the future path of interest rates.

In the United Kingdom, real GDP expanded by 0.6% QoQ in the preliminary reading for 2026Q1. Growth was broad-based across sectors, with services – the largest component of the UK economy – rising by 0.8%. Annual inflation, which stood at 3.3% at the end of 2026Q1, eased to 2.8% in both April and May, despite the increase in energy prices since the onset of the conflict in the Middle East. Core inflation, which fluctuated slightly above 3.0% during 2026Q1, also moderated in May, reaching 2.6%. The Bank of England (BoE) left the policy rate unchanged at 3.75% at its latest meeting in late April. There are signs of a softening in economic activity in 2026Q2, and the BoE projects inflation to rise to 3.3% p.a. by 2026Q3.

Economic activity in China strengthened at the beginning of the year. Real GDP expanded by 5.0% YoY in 2026Q1, following a period of deceleration over the past year and growth of 4.5% in 2025Q4. From the demand side, the acceleration in growth was driven primarily by a significant increase in investment, which reversed the downward trend observed in the previous two quarters. The contribution of consumption remained relatively stable. By contrast, external demand lost momentum, reflecting a sharp increase in imports (22.7% YoY) during the quarter, after having remained broadly stable over the previous year. From the supply side, the pickup in growth in 2026Q1 was broad-based across sectors, except for construction and real estate development.

Growth is expected to moderate in 2026Q2. Monthly indicators of economic activity – including services, industrial production, retail sales, and fixed asset investment – came in below expectations in April. Exports have continued to expand, but strong import growth may reduce the contribution of the external sector as the primary driver of economic activity, despite the persistence of sizable trade surpluses this year. Doubts regarding growth sustainability remain elevated, reflecting weakening household consumption, the ongoing structural adjustment in the real estate development and construction sectors, and continued uncertainty surrounding external demand. Risks to the outlook have increased, driven by the conflict in the Middle East – which has contributed to higher prices for oil and other commodities – as well as by the continued reconfiguration of global supply chains. Despite its significant exposure to oil and refined product flows, China has thus far weathered the current environment relatively well, supported by substantial stockpiling of these products throughout 2025. This accumulation has enabled a reduction of approximately 40% in oil imports between March and May, compared to the preceding 12-month period. In turn, this has freed up supply for other economies and helped alleviate upward pressure on global oil prices.

Authorities have introduced additional measures aimed at supporting domestic demand, safeguarding financial stability, and containing risks. On the macroeconomic front, policy initiatives have focused on

supporting aggregate demand and advancing industrial upgrading, including measures to stabilize the real estate market, expand targeted credit to foster technological innovation, and strengthen the private sector. Further progress has been made in financial opening-up. Access for foreign investors to domestic financial assets has been broadened – government bond futures markets – alongside increases in outbound investment quotas. At the same time, authorities have strengthened measures to mitigate financial risks. These include continued progress in local government debt restructuring programs, enhanced supervision of state-owned investment activities, and tighter oversight of the derivatives market and the asset appraisal sector. In the technology sector, policy has supported the development of AI, its integration with the energy sector, and the sharing of industrial data resources. Concurrently, the authorities have established clearer regulatory boundaries, including rules governing algorithmic applications and data security frameworks.

Despite elevated uncertainty, major emerging market economies recorded quarterly GDP growth in 2026Q1, with some notable exceptions. GDP developments were not uniform across countries, reflecting differing domestic fundamentals, stages of the political cycle, and varying exposures to external shocks, including those related to U.S. trade policy and the conflict in the Middle East. A similar pattern was observed among the largest Latin American economies. On a YoY basis, Chile recorded a GDP contraction in the period, while Mexico exhibited a deceleration, and Colombia and Peru saw an acceleration. In Argentina, where data have yet to be released, the outlook points to a slowdown.³

The main indicators of financial conditions for emerging market economies exhibited mixed behavior relative to the previous quarter. The Chicago Board Options Exchange Volatility Index (VIX), for instance, reversed virtually the entire increase observed in 2026Q1, primarily reflecting easing concerns regarding the impact of the conflict in the Middle East on financial markets. Long-term U.S. interest rates, by contrast, reached their highest levels in more than a year, driven by expectations regarding the impact of rising energy prices on domestic monetary policy, as well as concerns about the country's fiscal sustainability. In most cases, emerging market currencies appreciated against the U.S. dollar, supported by positive capital flows. Capital inflows strengthened amid the reversal of the initial shock triggered by the conflict, more favorable interest rate differentials, and generally solid relative fundamentals across emerging market economies – particularly those less affected by developments in the Middle East.

Risks and uncertainties for emerging market economies remain elevated, still reflecting concerns related to U.S. trade policy and tensions in the Middle East. The U.S. government's decision to announce a new proposal to increase certain import tariffs has contributed to keeping uncertainty high, negatively affecting confidence. The delay in reaching a more definitive agreement to end the conflict in the Middle East continues to sustain upside risks to inflation. Other relevant risks remain on the horizon, including concerns about fiscal sustainability of major economies, the trajectory of the Chinese economy, and the persistence of the conflict between Russia and Ukraine.

Inflation expectations for the end of 2026 point to rates outside target ranges in several major emerging market economies. For 2027, expectations remain mostly within target ranges, although upside risks have risen again. The shock to oil prices has affected both current inflation and expectations, which have come to incorporate higher inflation for a longer period, particularly in Latin America (Figure 1.1.7). Inflation rates have continued to differ across economies in the region, reflecting the uneven impact of the price shock and differences in policy approaches regarding the pass-through to domestic prices (Figure 1.1.8). The future path of inflation in these economies remains subject to high uncertainty. Expectations for policy rates do not yet point to increases, maintaining a broadly stable outlook through the end of 2027 in most cases (Figure 1.1.9).

3/ Median of market expectations collected by Bloomberg.

Figure 1.1.7 – Inflation expectations¹

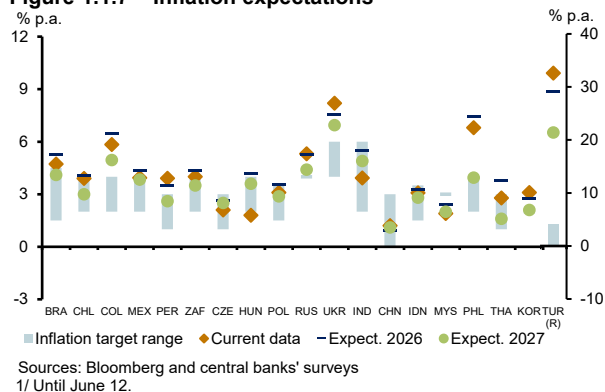
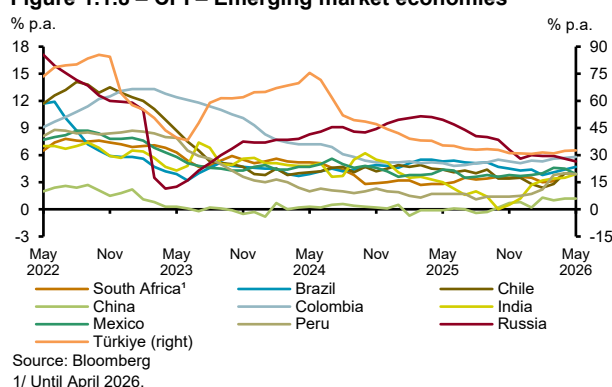


Figure 1.1.8 – CPI – Emerging market economies



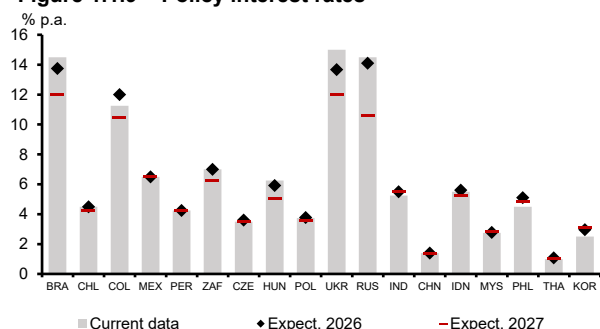
Energy commodity prices⁴ remained elevated during the quarter, reflecting persistent geopolitical tensions in the Middle East and the closure of the Strait of Hormuz, which has directly affected producers and exporters (Figure 1.1.10). The signing of a MoU between the parties is expected to support a gradual normalization of regional flows and facilitate a new price equilibrium that incorporates both the lasting effects of the conflict and the need to rebuild strategic reserves. Although energy prices continue to be influenced by these geopolitical developments, further increases have been mitigated by the use of alternative shipping routes, the drawdown of strategic reserves and commercial inventories, and the expansion of exports from countries outside the Persian Gulf. In the liquefied natural gas (LNG) market, the sharp reduction in supply from the Gulf – accounting for approximately 20% of global trade – combined with Europe’s reliance on marginal cargoes from Qatar and competition from other buyers, particularly in Asia, has contributed to persistently high prices in Europe, amid low inventory levels following the winter season.

Metal commodity prices increased over the period, reflecting primarily heightened geopolitical and trade tensions, alongside persistent structural supply constraints amid demand associated with electrification, AI, and the expansion of data centers. In this context, copper and aluminum markets remained under pressure, owing to operational disruptions, refining bottlenecks, energy constraints, and elevated geopolitical risks. By contrast, iron ore and steel prices remained subdued, reflecting developments in Chinese growth dynamics – notably the structural contraction of the real estate sector – which has exerted a direct impact on steel production and, consequently, on demand for iron ore.

Agricultural commodity prices declined modestly over the period, in a context where ample global supplies of grains and soybeans have been tested by climate-related concerns and the persistence of logistics constraints stemming from the geopolitical environment, which may weigh on future harvests. Although expectations of abundant supply remain prevalent, developments in the Middle East continue to generate uncertainty regarding the outlook for agricultural prices, through potential effects on fertilizers availability, increased demand for biofuels, and logistical frictions affecting the flow of goods in the region. In contrast to the dynamics observed in grains, prices for cotton, rice, cattle, and palm oil increased over the period, reflecting a combination of supply-side constraints – such as the livestock cycle, adverse weather conditions, and low inventory levels – and demand-side drivers, including greater use in bioenergy, substitution effects in the textile sector, and the expansion of global consumption, with particular emphasis on structural constraints in cattle supply and the rising use of vegetable oils for energy purposes. The alignment between the planting cycle of key agricultural commodities and prevailing fertilizer price levels may play a critical role in shaping production outcomes and cost structures for upcoming harvests.

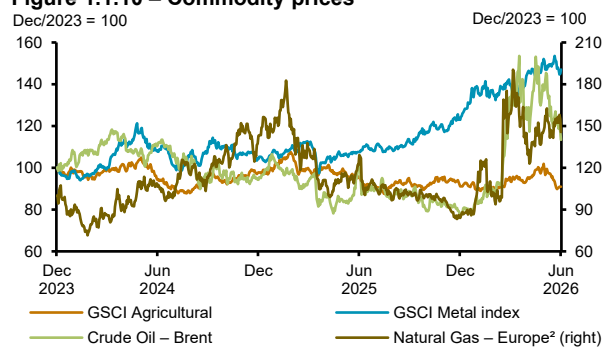
4/ In this section, commodity price changes are measured between the cut-off dates of the current and previous MPRs.

Figure 1.1.9 – Policy interest rates¹



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

Figure 1.1.10 – Commodity prices¹



Source: Bloomberg
1/ Until June 12. 2/ Title Transfer Facility (TTF)

In sum, even if the conflict in the Middle East were to be resolved in the near term, uncertainty surrounding the outlook for inflation and growth would remain elevated. The recent increase in energy prices has interrupted the disinflation process, which, although gradual, had been relatively continuous. The pass-through of the energy price shock to consumer prices has already begun, will be heterogeneous, and will depend on price-setting frameworks across economies. The magnitude and timing of these effects on inflation will continue to depend on the evolution of the conflict and on the calibration of policy responses. They will also hinge on the persistence of the supply shock's effects on economic activity, whether by constraining energy production capacity beyond the immediate horizon of the conflict or by inducing additional defensive adjustments, including the rebuilding of strategic reserves and the reshaping of global supply chains. Even assuming full compliance with the terms of the MoU, the economic effects of the conflict are likely to persist for some time. Nonetheless, de-escalation may give rise to a degree of optimism that is not fully warranted by underlying fundamentals. Over the relevant horizon, greater emphasis will be placed on determining the new equilibrium price level, as well as the extent of its deviation from pre-conflict expectations.

Concerns regarding sovereign debt sustainability in major economies have increased. In response to the conflict, fiscal measures have been implemented to mitigate the effects of higher international energy prices on economic activity and consumers. Maintaining these measures following a return to price equilibrium in the aftermath of a lasting peace agreement may exacerbate adverse expectations regarding fiscal trajectories in major economies. In addition, rising geopolitical tensions and fragmentation have led to higher public spending on defense. As a result, risks of abrupt asset repricing have increased, given the potential for adverse interactions between fiscal and financial vulnerabilities. The combination of all those elements contributes to a still negative asymmetry in the balance of risks to the global economy. Should the supply shock persist or dissipate only gradually, it will be important to assess its transmission to inflation and growth, with implications for the calibration of fiscal and monetary policies in the coming months.

Some central banks in advanced economies have signaled the possibility of hikes in policy rates, while others have already begun this adjustment process, in response to the risk that higher energy prices may feed through to headline inflation and to inflation expectations over medium- and long-term horizons. In an environment of heightened uncertainty, the conduct of monetary policy requires independence and flexibility on the part of monetary authorities to ensure macroeconomic and financial stability. In this context, central banks remain attentive to the dynamics of headline inflation and its underlying measures, to inflation expectations, to labor market conditions, to the balance of risks, and to geopolitical developments in the Middle East, underscoring the importance of maintaining a responsive monetary policy stance alongside clear and transparent communication.

1.2 Domestic outlook

Economic activity

As expected, economic activity registered strong growth in 2026Q1. GDP grew by 1.1% in the period, following an increase of 0.3% in the previous quarter (Table 1.2.1). From the supply-side perspective, the three major sectors rose in the quarter, with another significant increase in the less cyclical sectors and an acceleration in those more sensitive to the economic cycle (Table 1.2.1 and Figures 1.2.1 and 1.2.2). From the demand side, household consumption resumed growth after two consecutive quarters of relative stability, while gross fixed capital formation (GFCF), influenced by the volatility of imports of oil rigs, recovered from the contraction observed in the previous quarter. Considering the YoY change, GDP grew 1.8%, a result close to market forecasts at the time of the previous MPR but higher than the Banco Central do Brasil's (BCB) projection.⁵

Table 1.2.1 – Gross Domestic Product

Itemization	YoY change							QoQ, s.a.				%
								2025				2026
	2019	2020	2021	2022	2023	2024	2025					2026
								Q1	Q2	Q3	Q4	Q1
GDP at market prices	1.2	-3.3	4.8	3.0	3.2	3.4	2.3	1.3	0.3	0.1	0.3	1.1
GDP ex-agriculture at market prices	1.3	-3.6	5.1	3.3	2.4	3.9	1.7	0.6	0.3	0.3	0.4	1.0
Agriculture	0.4	4.2	0.0	-1.1	16.3	-3.7	11.7	15.8	-2.1	0.0	0.1	2.0
Industry	-0.7	-3.0	5.0	1.5	1.7	3.1	1.4	0.1	0.6	0.6	-0.7	1.0
Mining	-9.1	0.9	3.6	-1.4	9.2	0.5	8.6	2.8	5.1	2.2	1.5	3.6
Manufacturing	-0.4	-4.7	3.8	-0.5	-1.3	3.9	-0.2	-1.2	-0.4	0.2	-0.6	0.1
Construction	1.9	-2.1	12.6	6.8	-0.3	4.4	0.5	-1.3	-0.1	0.9	-2.4	2.9
Utilities (EGAER) ¹	2.6	-1.0	1.5	10.5	5.8	1.0	-0.4	1.6	-1.1	-1.0	1.5	-0.3
Services	1.5	-3.7	4.8	4.3	2.8	3.8	1.8	0.3	0.6	0.3	0.7	0.5
Trade	1.6	-1.5	4.5	0.9	0.8	3.8	1.1	-0.0	-0.2	0.4	0.1	0.6
Transport and storage	0.1	-12.7	6.5	8.1	2.4	1.9	2.1	0.1	1.0	2.1	-1.5	-0.7
Information services	4.5	2.1	13.9	5.2	2.9	6.1	6.5	2.5	1.4	1.6	1.6	2.4
Financial and related services	1.1	3.3	-0.7	-0.2	7.5	5.5	2.9	0.8	1.0	-0.8	3.4	-0.6
Other services	2.8	-9.3	9.0	11.4	3.4	5.3	2.0	0.5	0.8	0.1	0.7	0.8
Real estate	2.4	1.7	1.9	1.9	3.0	3.1	2.0	0.3	0.8	0.7	0.2	1.2
Public admin., health, and education (APU)	-0.4	-4.5	2.6	1.6	1.6	1.7	0.5	0.2	-0.1	0.4	0.4	0.4
GVA - more cyclical sectors	1.7	-5.2	6.8	5.1	1.3	4.2	1.4	-0.1	0.3	0.5	0.0	0.4
GVA - less cyclical sectors	0.0	-0.4	1.6	0.6	6.0	1.7	3.7	2.6	0.6	0.3	0.6	0.9
Household consumption	2.6	-4.6	3.0	4.1	3.2	5.1	1.3	0.3	0.5	-0.0	0.2	1.0
Government consumption	-0.5	-3.7	4.2	2.1	3.8	2.0	2.1	1.5	0.0	1.3	0.9	0.4
GFCF	4.0	-1.7	12.9	1.1	-3.0	6.9	2.9	2.3	-1.8	0.2	-3.4	3.5
Exports	-2.6	-2.3	4.4	5.7	8.9	2.8	6.2	4.9	1.0	3.8	3.7	-1.7
Imports	1.3	-9.5	13.8	1.0	-1.2	15.6	4.5	3.5	-2.1	-0.1	-1.1	4.4
Indirect seasonal adjustment												
GDP at market prices								1.1	0.3	0.4	0.4	0.8
GDP ex-agriculture at market prices								0.2	0.5	0.4	0.4	0.7
GVA - more cyclical sectors								0.0	0.2	0.4	0.0	0.7
GVA - less cyclical sectors								2.9	0.5	0.4	0.9	0.9

Sources: IBGE and BCB

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

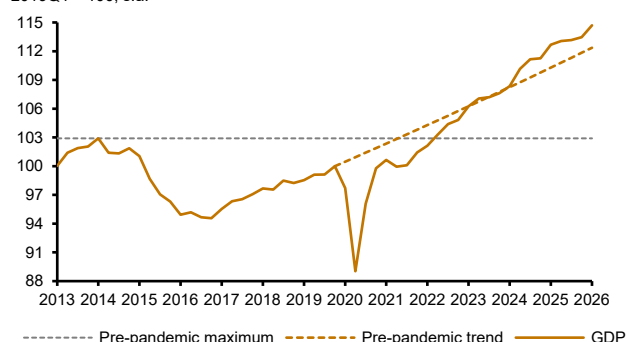
5/ At the cutoff date of the previous MPR, the median of market forecasts for GDP YoY growth in 2026Q1, according to the Focus Report, was 1.7% (considering forecasts reported over the previous 30 days). The BCB's projection, mentioned in the box [Seasonal adjustment and uncertainty about the pace of growth in early 2026](#), was 1.5%. On the eve of the release of the 2026Q1 GDP, the median forecast from the Focus survey for YoY growth stood at 1.8%, thus matching the reported figure.

The 2026Q1 GDP result was marked by increases in all three major sectors of the economy. Agriculture grew 2.0%, a result heavily influenced by the soybean crop – a product with significant weight in the sector – whose harvest, concentrated at the beginning of the year, exceeded the record previously set in 2025. Industry, in turn, grew 1.0%, resuming its expansion trajectory after the interruption observed in the previous quarter, with notable growth in construction and mining. The utilities sector (EGAER) declined, influenced by the increased share of thermal power plants in total electricity generation, while manufacturing showed relative stability. The modest performance of manufacturing contrasts with the more robust behavior of industrial production in 2026Q1. Mining, in turn, was mainly driven by growth in oil production.⁶ Finally, the services sector grew 0.5%, a performance slightly below that observed in 2025Q4, with expansion in all activities except transport and financial intermediation services.

From another perspective, growth in 2026Q1 reflected another sharp increase in the less cyclical components and an acceleration in the components more sensitive to the economic cycle. Considering the seasonal adjustment by the indirect method – in which components are seasonally adjusted before aggregation – the less cyclical sectors repeated the 0.9% increase recorded in 2025Q4, a result strongly influenced by the performances of agriculture, mining, and real estate activities.⁷ The more cyclical sectors, in turn, grew 0.7%, following a sequence of modest changes, averaging 0.2% throughout 2025. This result, however, was marked by significant heterogeneity across activities. On the one hand, segments such as construction and information and communication services recorded robust growth. On the other hand, EGAER and transport declined, while manufacturing remained stable, indicating that the recovery of the more cyclical sectors in the quarter occurred unevenly across different sectors (Figure 1.2.2).

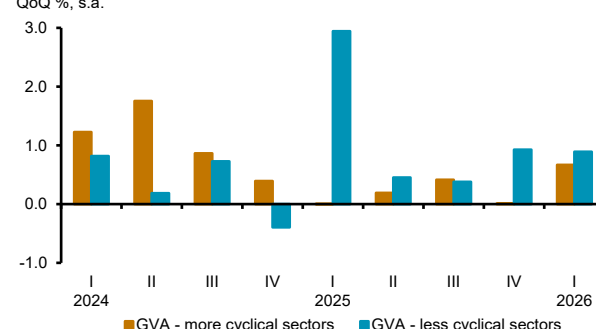
Figure 1.2.1 – Gross Domestic Product

2019Q4 = 100, s.a.



Source: IBGE

Figure 1.2.2 – GVA - more and less cyclical sectors - indirect seasonal adjustment
QoQ %, s.a.



Sources: IBGE and BCB

Higher-than-usual uncertainties associated with the seasonal adjustment recommend caution in interpreting the quarterly GDP result. Similarly to what was observed in 2025Q1, and as anticipated in a box presented in the March 2026 MPR,⁸ a more pronounced discrepancy than usual was observed in 2026Q1 between the quarterly growth rates obtained using the direct seasonal adjustment method – the official one – and the indirect method, which seasonally adjusts GDP components prior to aggregation. Under the official method (direct adjustment), GDP grew 1.1% in 2026Q1, as mentioned earlier. Considering the indirect method, growth was 0.8% – still significant, but lower than the official result. Excluding agriculture – a sector with a strong seasonal pattern in the first quarter – GDP ex-agriculture increased 1.0% in 2026Q1 according to the official adjustment, after having grown 0.4% in 2025Q4. However, under the indirect seasonal adjustment, the acceleration was smaller, from 0.4% to 0.7%.

6/ While Gross Value Added (GVA) in manufacturing rose just 0.1% in 2026Q1, manufacturing output grew 1.5% during the period, according to the Monthly Survey of Industry (PIM-IBGE). According to the PIM, mining production grew 2.4%, driven by a 4.2% increase in oil and natural gas production.

7/ Based on the classification of sectors as more or less cyclical, as discussed in several previous IR and 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.

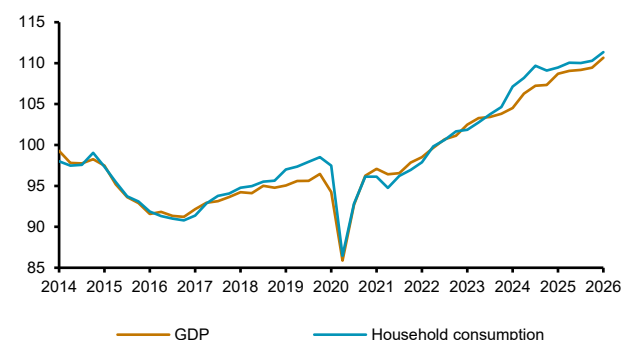
8/ The box [Seasonal adjustment and uncertainty about the pace of growth in early 2026](#) presented in the March 2026 MPR, analyzes the expected differences in quarterly GDP growth arising from the choice of seasonal adjustment method (direct or indirect).

Household consumption resumed growth in 2026Q1, after two consecutive quarters close to stability.

After changes of 0.0% and 0.2% in 2025Q3 and 2025Q4, respectively, consumption increased 1.0% in 2026Q1 (Figure 1.2.3). This performance was supported by the expansion of households' disposable income, driven by significant increases in both the overall labor income and social benefits. The adjustment of the minimum wage contributed to raise both labor income and social benefits, while the exemption or reduction of the Individual Income Tax (IRPF) for lower income brackets reinforced the growth of disposable income. The increase in consumption in 2026Q1 appears to have been concentrated in goods consumption: indicators such as industrial production of consumer goods and retail sales recorded significant growth, whereas services provided to households showed more moderate expansion (Figure 1.2.4).⁹

Figure 1.2.3 – GDP and household consumption

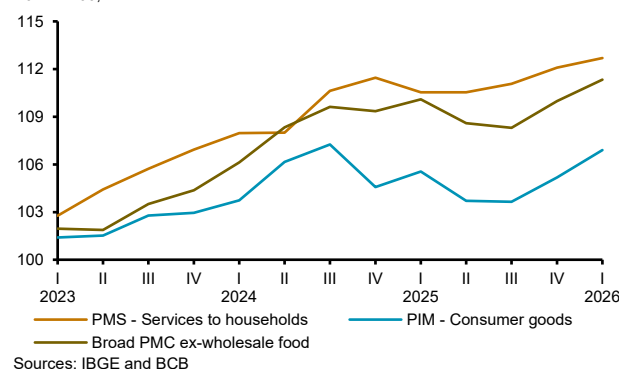
2022 = 100, s.a.



Source: IBGE

Figure 1.2.4 – Household consumption indicators

2022 = 100, s.a.

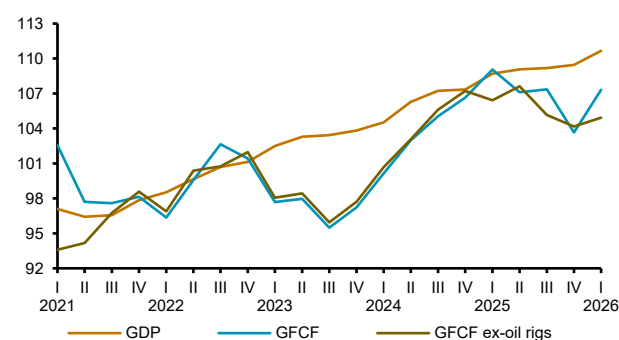


Sources: IBGE and BCB

GFCF increased in 2026Q1, recovering from the contraction observed in 2025Q4. This result was strongly influenced by the rise in imports of capital goods, largely reflecting the arrival of an oil rig, and was also supported by positive contributions from the information technology and construction sectors. Revenue from information technology services¹⁰ continued to grow, while the GVA of construction grew strongly in the quarter. This result in the construction sector, however, contrasted with other sector's indicators – such as the production of typical inputs and overall payroll – which showed more moderate growth. Conversely, the production of capital goods declined for the fourth consecutive quarter (Figures 1.2.7 and 1.2.8). From a slightly longer perspective, after a sequence of strong increases throughout 2024, GFCF began to show a stabilization trend – or even contraction – since the beginning of 2025, albeit with significant fluctuations, largely associated with the imports of oil rigs (Figure 1.2.5).¹¹ As a proportion of GDP, GFCF has declined over recent quarters, remaining below its historical average (Figure 1.2.6).

Figure 1.2.5 – GDP, GFCF, and GFCF ex-oil rigs

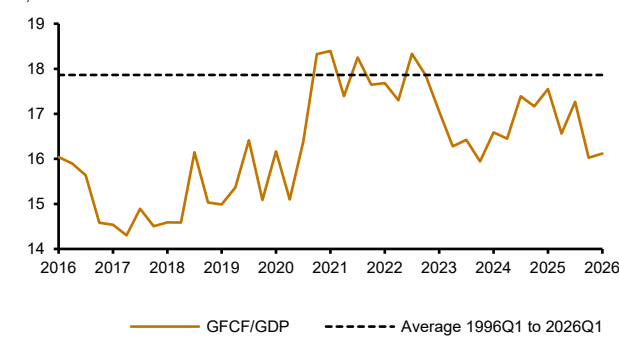
2022 = 100, s.a.



Sources: IBGE and BCB

Figure 1.2.6 – GFCF/GDP at current prices

%, s.a.



Source: IBGE

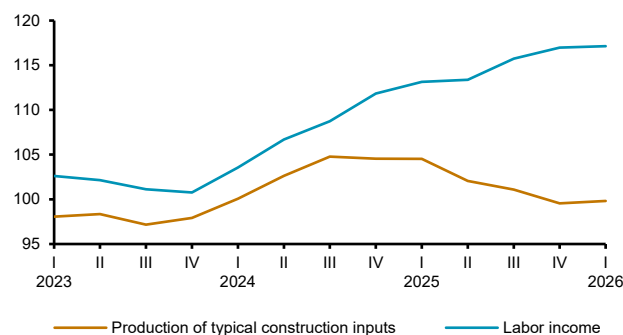
9/ Data from the PIM-IBGE, the Monthly Survey of Trade (PMC-IBGE), and the Monthly Survey of Services (PMS-IBGE).

10/ According to the PMS.

11/ The estimate of GFCF, excluding oil rigs, presented in Figure 1.2.5, was based on the Quarterly National Accounts (QNA) from the Brazilian Institute of Geography and Statistics (IBGE), and on imports data released by the Ministry of Development, Industry, Trade and Services (MDIC).

Figure 1.2.7 – Construction indicators

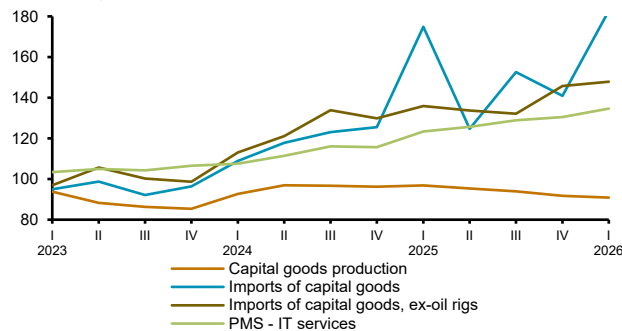
2022 = 100, s.a.



Source: IBGE

Figure 1.2.8 – Investment indicators

2022 = 100, s.a.



Sources: IBGE and BCB (Funcex methodology)

Regarding the external sector components, exports declined while imports increased. Exports fell 1.7%, following a 3.7% rise in 2025Q4, reflecting both a slowdown in shipments of primary goods and a decrease in sales of manufactured and semi-manufactured goods. Imports, in turn, increased 4.4% in 2026Q1, after a contraction of 1.1% in 2025Q4. This result was influenced by the increase in imports of capital goods, driven primarily by the aforementioned arrival of an oil rig, and by the significant growth in services imports.

Monthly indicators, particularly the IBC-Br and its components, support the assessment of widespread economic activity growth in 2026Q1. The BCB's Economic Activity Index (IBC-Br) increased 1.3% in 2026Q1, with expansion across the three major sectors – agriculture, industry, and services (Figure 1.2.9).¹² In general, sectoral indicators also recorded growth in 2026Q1. Industrial production, in both manufacturing and mining segments, and trade grew strongly, the latter registering robust expansions in both the restricted and the broad – excluding the wholesale food segment – concepts. In contrast, the volume of services declined, although services provided to households increased, albeit at a slower pace than that observed in 2025Q4.¹³

The data available for April and May showed mixed results, but together they point to slower economic growth in 2026Q2 compared with 2026Q1. In April, the IBC-Br grew 0.5%, while the IBC-Br ex-agriculture increased 0.4%, resulting in a statistical carry-over for 2026Q2 of 0.6% and 0.2%, respectively (Figure 1.2.9).¹⁴ In both cases, these figures are lower than the expansion observed in 2026Q1, of 1.3%. With the April 2026 release, the changes in the IBC-Br and the IBC-Br ex-agriculture in 2026Q1 were revised to 1.3% for both activity indicators. Business surveys for April show that manufacturing and services expanded, while retail trade declined in the restricted concept and remained nearly stable in the broad measure, excluding wholesale food. As a result, the statistical carry-over to 2026Q2 is positive for manufacturing and services, negative for restricted retail trade, and neutral for broad retail trade excluding wholesale food (Figure 1.2.10).¹⁵ For May, the available coincident indicators also show dispersion. Among indicators more closely related to manufacturing, positive signs prevail, suggesting a slight expansion in industrial production, while those related to retail and services, based on payment data, mostly indicate declines (Table 1.2.2).

12/ As of April 2025, the BCB began publishing the sectoral breakdowns of the IBC-Br (agriculture, industry, services, and taxes), in addition to the IBC-Br excluding the agriculture sector (IBC-Br ex-agriculture). For further details, see box [IBC-Br sectoral breakdown](#) in the June 2025 MPR.

13/ According to data from PIM, PMC, and PMS.

14/ Given the seasonal profile of crops and the projections for production in 2026, some decline in the IBC-Br Agriculture component is expected for 2026Q2, and therefore the statistical carry-over of the IBC-Br should be interpreted with caution.

15/ According to data from PIM, PMC, and PMS.

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

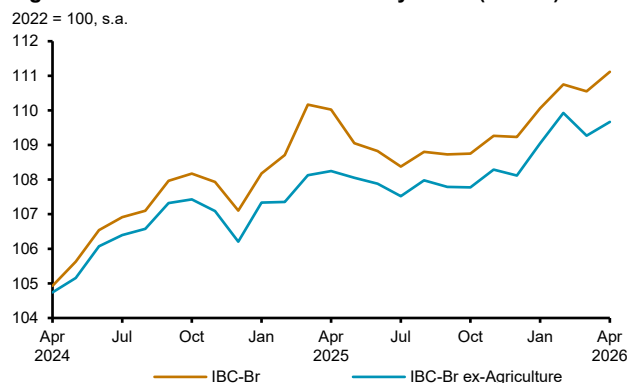


Figure 1.2.10 – Economic activity indicators

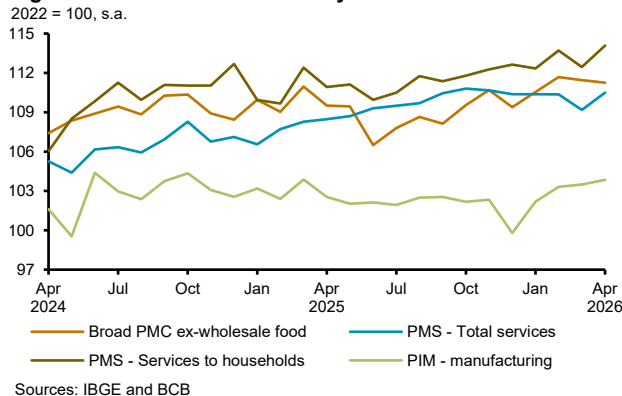


Table 1.2.2 – Economic activity coincident indicators

Seasonally adjusted data

Itemization	% change								
	2025		2026						
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Apr-May ¹
Heavy vehicle traffic	0.6	-0.9	-3.3	2.1	0.7	2.0	-1.2	0.8	0.6
Corrugated boxes shipments	1.2	-0.4	-3.7	2.6	0.4	0.7	2.1	-2.2	1.6
Light vehicle production	0.1	-3.8	-2.7	-1.7	9.9	11.7	-7.5	1.3	3.1
Truck production	-8.7	7.0	-24.8	27.2	-2.3	11.6	-5.5	6.3	3.9
Vehicle licensing	0.9	-3.8	7.2	-8.8	12.6	10.1	-5.2	5.7	7.8
Cielo broad retail index	0.0	0.2	-0.8	0.0	0.6	-1.2	-0.1	-0.5	-0.9
IGet broad retail	-0.4	1.3	0.2	-3.3	0.4	-1.0	0.8	1.9	1.2
IGet services to households	-3.4	4.5	-1.5	3.9	-5.0	0.9	1.9	0.2	0.9
IDAT goods ²	-0.4	-0.2	-0.6	2.5	-0.5	0.5	-0.8	-0.7	-1.0
IDAT services to households ²	-0.5	4.1	-2.4	-0.7	-0.3	2.8	0.8	-2.2	1.4

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

¹ Apr-May 2026 average over 2026Q1.

² Broad means of payment.

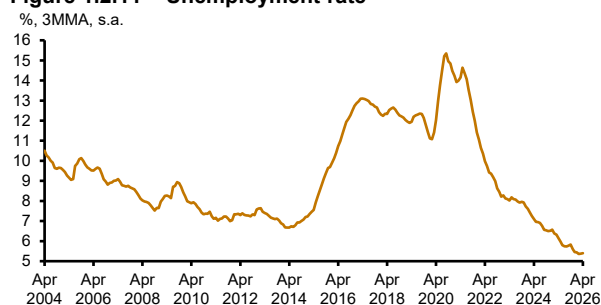
As detailed in a box in this MPR, the GDP growth projection for 2026 was revised from 1.6% to 2.0%. The revision mainly stems from the positive surprise in 2026Q1 results and the improved outlook for agriculture and mining. It also reflects expectations of higher dynamism in domestic demand and in sectors more sensitive to the economic cycle, largely associated with fiscal and credit stimulus. Nevertheless, in a context of contractionary monetary policy and low levels of slack of production factors, the prospects of a moderate growth in 2026Q2 and throughout the second half of the year remain. Even though its most evident effects on the Brazilian economy so far have been concentrated on prices, the Middle Eastern conflict is also increasing uncertainties surrounding growth projections.

Labor market

The labor market remains tight. The scenario continues to be characterized by low unemployment and significant formal job creation, despite some early signs of slowdown in the growth of the employed population. Additionally, average salary measures continue to show real growth in general. In this context, household income continued to grow strongly, driven by labor income – which reflects increases in average income and employment – by social benefits, and by income tax exemptions or reductions for lower income brackets.

The unemployment rate remained at its historic low, but the growth of the employed population was more moderate in the last quarter. After declining in the previous quarter, the unemployment rate, according to the Continuous National Household Sample Survey (PNAD Continuous), stood at 5.4% in the Feb-Apr quarter, matching the level of the previous quarter and remaining at the lowest level in recent decades (Figure 1.2.11).¹⁶ The stability of the indicator reflected a 0.2% increase in both the employed population – with a 0.4% rise in formal employment and a slight 0.1% decline in informal employment – and in the labor force. Both aggregates showed a slowdown compared with the previous quarter, when they had grown 0.7% and 0.3%, respectively. The labor force participation rate remained at 62.1%, below the levels observed in mid-2022 and before the pandemic (Figure 1.2.12).

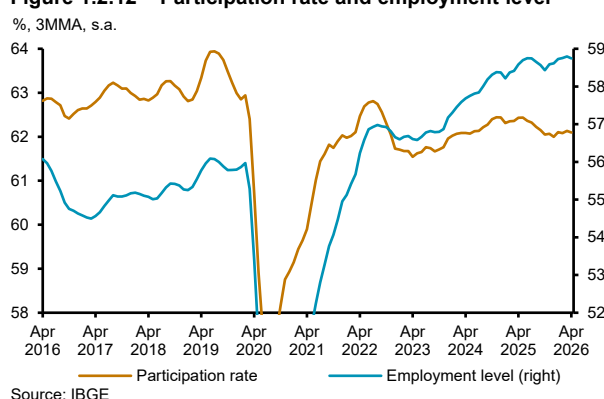
Figure 1.2.11 – Unemployment rate¹



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

Sources: IBGE and BCB

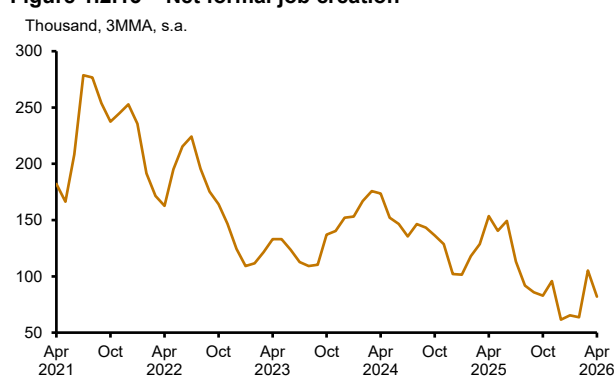
Figure 1.2.12 – Participation rate and employment level



Source: IBGE

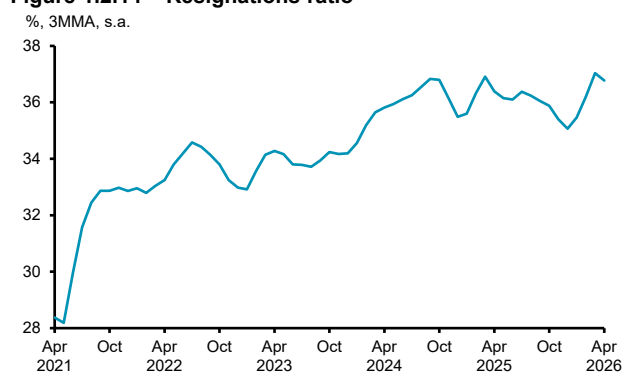
Formal job creation remains strong, although lower than in 2025. According to data from the New General Registry of Employed and Unemployed Persons (New Caged), seasonally adjusted by the BCB, an average of 82,000 jobs were created per month in the Feb-Apr quarter, above the 65,000 recorded in the Nov-Jan quarter (Figure 1.2.13). The Feb-Apr quarter result corresponds to an annualized growth rate of 2.1% in the stock of jobs, considerably higher than the 0.8% increase in the working-age population (WAP). From January to April, net job creation totaled 682,000, 217,000 below that recorded in the same period of 2025. Corroborating the resilience of the labor market, according to data from the New Caged, the share of resignations in total job separations remained at a high level, suggesting the continued favorable conditions for worker mobility (Figure 1.2.14).

Figure 1.2.13 – Net formal job creation



Source: Ministry of Labor and Employment

Figure 1.2.14 – Resignations ratio



Source: Ministry of Labor and Employment

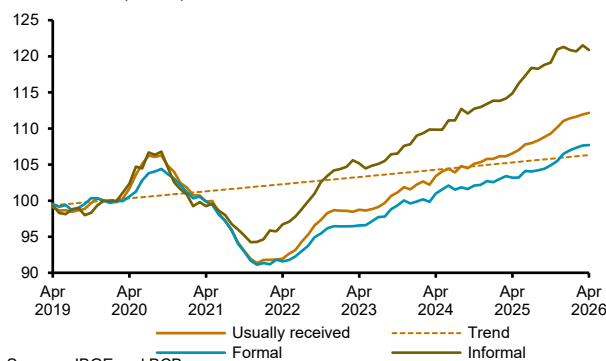
The real average labor income measured by the PNAD Continuous continues to grow at a strong pace. In the second half of 2025, the usual real average income increased at an average quarterly rate of 1.5%, accelerating from the 0.9% average recorded in the first half. However, in the Feb-Apr quarter, growth was 0.6%, with gains concentrated among formal workers. In YoY comparison, the usual real average labor income increased by 5.4% in the Feb-Apr quarter, maintaining the strong growth pace observed in the Nov-Jan quarter. From a longer-term perspective, the average real income is 13.1% above the 2019 average and 5.7% above

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

the level that would have been expected by extrapolating the growth trend of the pre-pandemic period, from 2017 to 2019 (Figure 1.2.15).

Figure 1.2.15 – Real average labor income

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

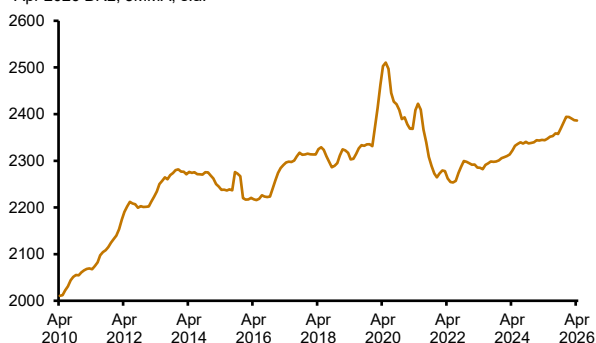


Sources: IBGE and BCB

In YoY terms, complementary indicators of salary dynamics also point to real growth, albeit to a lesser extent than those of PNAD. According to the New Caged, real salaries for new hirings fell 0.3%¹⁷ (seasonally adjusted data) in the Feb-Apr quarter, following a 1.0% increase in the previous quarter (Figure 1.2.16). Still, in YoY terms, real salaries for new hirings recorded a real increase of 1.8% (corresponding to a 5.9% nominal change), 0.4 p.p. lower than in the Nov-Jan quarter. The average nominal salary adjustments captured by Collective Bargaining Agreements (CBA),¹⁸ which cover the formal private sector, reached an average of 5.4% in the Mar-May quarter (Figure 1.2.17), with 81% of negotiations exceeding past inflation. In real terms,¹⁹ the average adjustment in the quarter was 0.9%, slightly higher than that observed in the same period of the previous year (0.7%), when nominal adjustments also reached 5.4%.

Figure 1.2.16 – Hiring salary

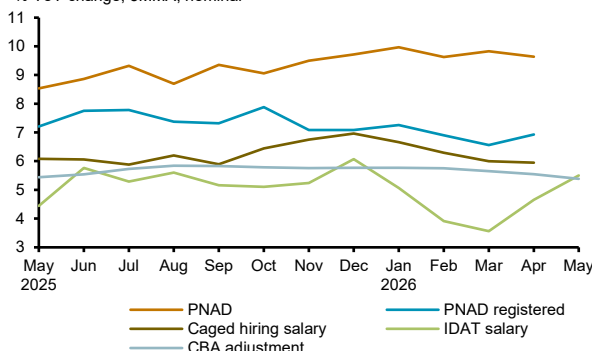
Apr 2026 BRL, 3MMA, s.a.



Source: Ministry of Labor and Employment

Figure 1.2.17 – Salaries and labor income

% YoY change, 3MMA, nominal



Sources: IBGE, MLE, Itaú, and BCB

Household income accelerated in the Feb-Apr quarter, driven by labor income and social benefits. The estimated Household Gross Disposable National Income (HGDNI) – an indicator that incorporates other sources of income besides work – increased 2.2% in real terms, considering the seasonally adjusted restricted concept.²⁰ In the previous quarter, growth was 1.6% (Figure 1.2.18). In addition to the effect of the real increase in the minimum wage on labor income and on retirement and pensions benefits, the acceleration of

17/ 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.

18/ The adjustments refer to the simple average of CBA nominal adjustments 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-upon adjustment percentage. As of this MPR, the sample – which previously covered only the states of São Paulo and Rio de Janeiro – has been expanded to include all states. The series for the other states were recalculated retroactively from 2012 to ensure temporal consistency.

19/ Based on the date of registration, the agreed-upon adjustments have a higher correlation with the deflator used in this analysis, the 12-month National Consumer Price Index (INPC) measured five months earlier.

20/ Monthly estimated Household Gross Disposable National Income calculated by the BCB. Further information at [Nota Técnica número 55](#), of December 2021 (Portuguese only).

HGDNI reflected the advance payment of the first installment of the INSS 13th salary, court-ordered payments (*precatórios*),²¹ and the exemption or reduction in the IRPF for the lower-income brackets. In YoY comparison, both HGDNI under the restricted concept and the overall labor income continue to show growth rates well above inflation (Figure 1.2.19).

Figure 1.2.18 – Restricted HGDNI

Feb-Apr 2026 BRL billion, 3MMA, s.a.

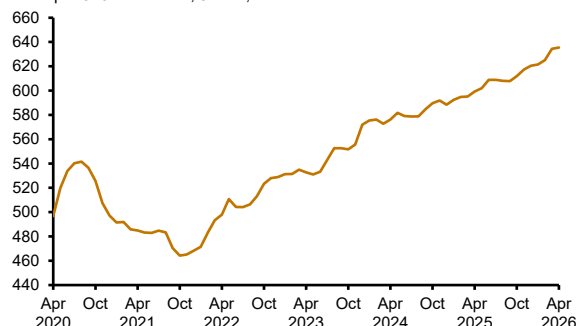
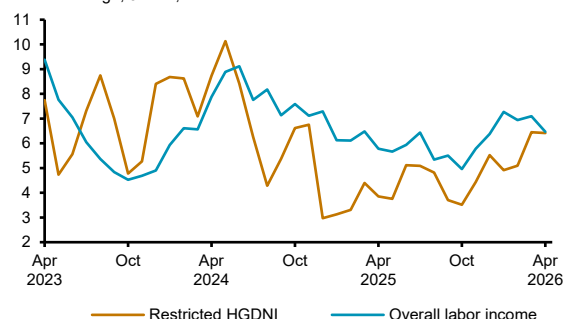


Figure 1.2.19 – Restricted HGDNI and usually received overall labor income

% YoY change, 3MMA, real



Sources: BCB and IBGE

Credit

Amid a tight monetary policy environment, the credit market continues to exhibit signs of a slowdown.

Average interest rates on banking credit remain above the levels observed before Copom began the monetary tightening cycle in the second half of 2024. Despite the high level of credit granting in recent months, the National Financial System (SFN) credit balance continues to decelerate, with the YoY growth rate falling from 12.3% in February 2025 to 10.3% in December 2025 and 9.3% in April 2026. This deceleration was even more pronounced in non-earmarked credit, especially in the corporate segment. Similarly, the financial flow of credit to the real sector slipped further into negative territory, with households and companies facing increased financial expenses. Moreover, delinquency, debt-to-income (DTI) ratio, and debt service ratio (DSR) remain high. Finally, according to the Quarterly Credit Conditions Survey (PTC), credit supply – which financial institutions already perceived as tight in 2026Q1 – is expected to become even tighter in 2026Q2.²²

Interest rates on non-earmarked credit fluctuated only slightly during the quarter, with greater variations in loans without collaterals. In the household segment, interest rates on payroll-deducted loans and vehicle financing showed modest changes. Meanwhile, average rates for non-payroll-deducted personal credit increased for the second consecutive quarter, driven by the composition effect²³ and rising interest rates on operations without collaterals (Figure 1.2.20). In the corporate segment, average interest rates on non-earmarked credit, which had hovered around 24.5% over the past 12 months, increased moderately to 25.3% in April (Figure 1.2.21).

21/ Those are court-ordered payments (*precatórios*) related to social security and social assistance. Labor-related court-ordered payments are not included in the HGDNI calculation, since the data source used for labor income is the PNAD Continuous.

22/ The PTC, carried on between April 13 and 29, revealed that financial institutions expect tighter credit supply conditions in 2026Q2, due to such factors as rising delinquency rates, lower risk tolerance, and high DSR levels.

23/ The share of Employment Guarantee Fund (FGTS) anniversary withdrawals advance loans – which are lower-cost operations – declined as of November, when more restrictive rules came into effect.

Figure 1.2.20 – Non-earmarked interest rates - Household

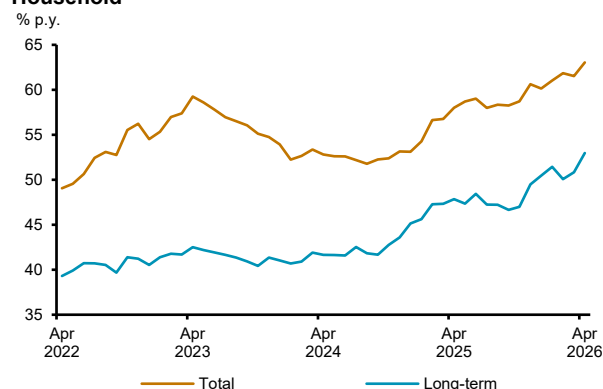
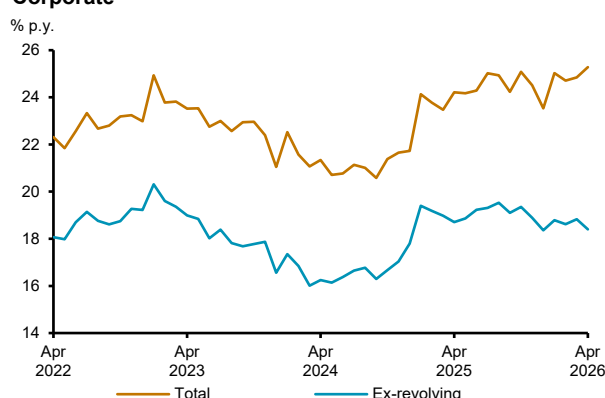


Figure 1.2.21 – Non-earmarked interest rates - Corporate



Non-earmarked household credit granting continued to grow, albeit at a more moderate pace. The volume of new lending increased by 0.6% in the Feb-Apr quarter, compared with a 2.1% increase in the previous quarter, mainly reflecting a decline in credit card purchases. Long-term credit posted robust growth during this period (Figure 1.2.22), driven by payroll-deducted lending – particularly for private sector workers – and vehicle financing (Figure 1.2.23). Conversely, non-payroll-deducted credit declined for the second consecutive quarter.²⁴ Emergency credit also expanded, driven by increased use of revolving credit card facilities, but at a slower pace than in the previous quarter.

Figure 1.2.22 – Non-earmarked household credit granting

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

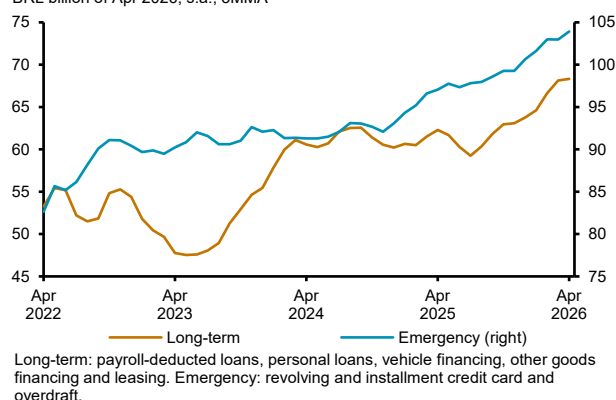
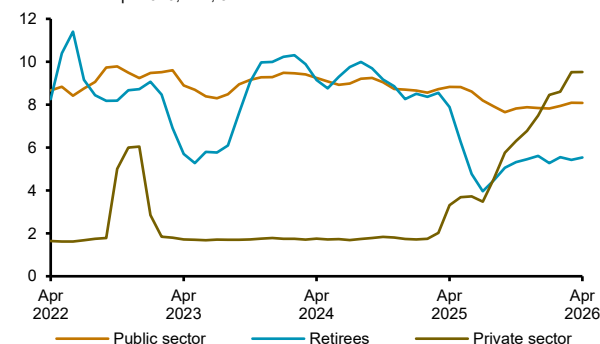


Figure 1.2.23 – Non-earmarked household granting - Payroll-deducted

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



Non-earmarked corporate credit granting also increased during the quarter, driven by short-term loans.

Notable among these were discount of receivables operations – which are still recovering from the decline that occurred in mid-2025 – and working capital with terms up to 365 days (Figure 1.2.24). Conversely, granting under the Advance on Foreign Exchange Contracts (ACC) and export financing lines declined during the quarter. In the non-banking credit market, security issuances have declined recently, with a sharper drop in April, when risk perceptions worsened and spreads charged to issuers widened (Figure 1.2.25).

^{24/} Most non-payroll-deductible personal credit operations do not have collateral, but this modality also includes FGTS anniversary withdrawals advance loans, which have been subject to stricter rules since November 2025.

Figure 1.2.24 – Non-earmarked granting to non-financial corporations

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

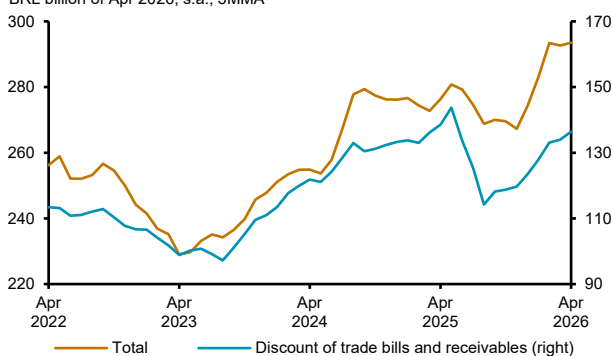
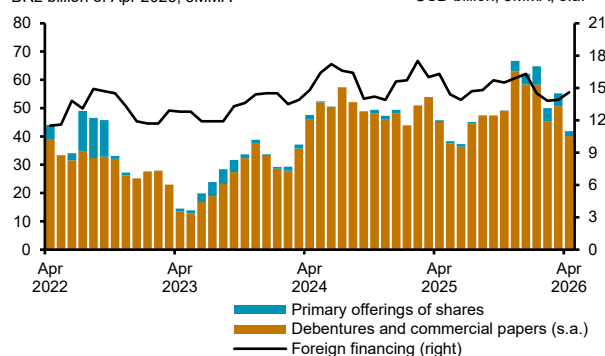


Figure 1.2.25 – Non-banking corporate financing

BRL billion of Apr 2026, 3MMA

USD billion, 3MMA, s.a.



Source: BCB and Anbima

Earmarked credit granting declined in the corporate segment – following a strong growth in 2025 – and increased in the household segment.

The volume of new operations of the Brazilian Development Bank (BNDES), of rural credit, and of the Emergency Credit Access Program - Guaranteed Investment Fund (PEAC-FGI) declined in the Feb-Apr quarter (Figure 1.2.27). Operations in the latter category were boosted throughout 2025 by changes to the program, implemented in late 2024, which allowed for the optimized use of the FGI resources. As the impact of these changes wore off, the volume of new operations declined. In contrast, earmarked household credit granting increased for the second consecutive quarter. This growth mainly reflected the expansion of real estate financing, driven by an increase in financing with FGTS resources and possibly influenced by changes in the rules governing financing funded by savings deposits (Figure 1.2.26).²⁵ Rural credit declined in the Feb-Apr quarter, following a brief rebound in the previous quarter. This portfolio has been affected by high delinquency rates, in addition to the shift of part of the demand for financing to the capital market.

Figure 1.2.26 – Earmarked household credit granting

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

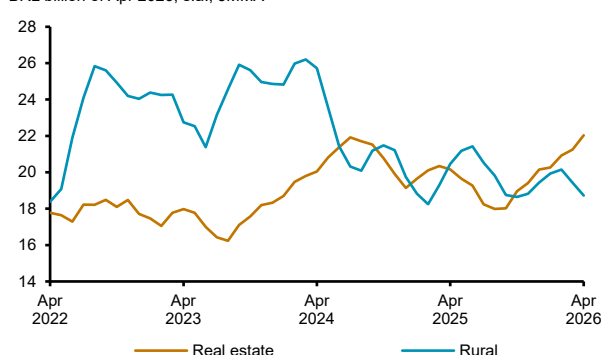
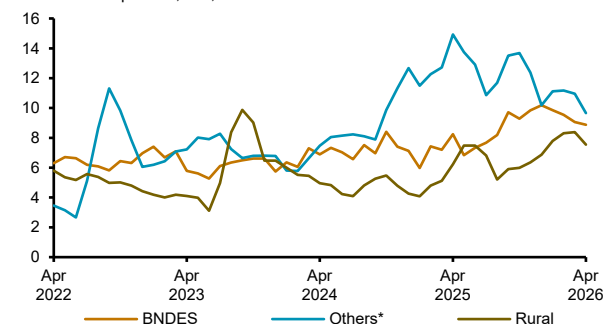


Figure 1.2.27 – Earmarked corporate credit granting

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



*Includes Pronampe, PEAC, PESE, among others.

Despite the high level of credit granting, growth in the SFN credit balance declined, with a sharper deceleration in non-earmarked credit portfolios.

The credit balance growth rate fell from 10.2% in January to 9.3% in April (Figures 1.2.28 and 1.2.29). In the household segment, non-earmarked credit growth slowed by 1.1 p.p. to 11.7%, reflecting moderation in both emergency and long-term credit. By contrast, growth in earmarked household credit remained broadly stable at around 10%. In the corporate segment, the YoY growth rate of the credit balance declined by 1.6 p.p. since January, standing at 6.7% in April. Growth in non-earmarked credit slowed by 1.7 p.p. over the period, with deceleration widespread across credit modalities. Earmarked credit began to show signs of slowdown after growing strongly throughout 2025. Its growth rate declined by 1.6 p.p. over three months, as PEAC-FGI operations lost momentum.

²⁵/ 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.

Figure 1.2.28 – Non-earmarked credit balance

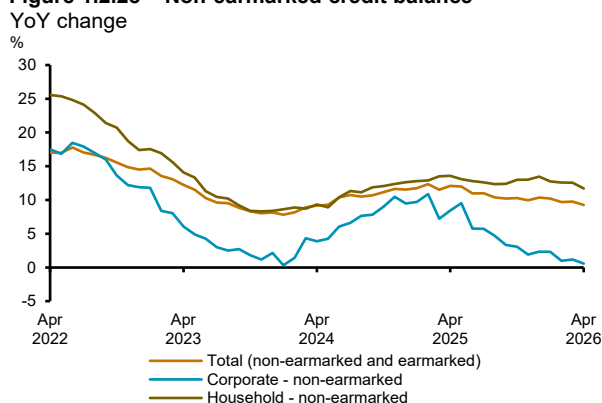
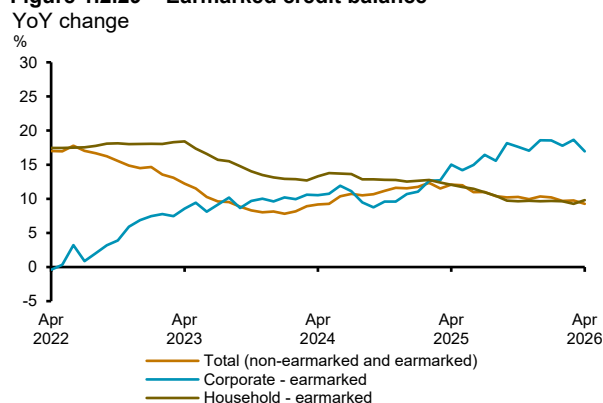
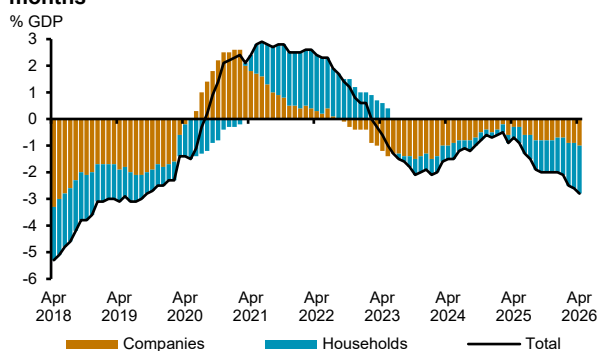


Figure 1.2.29 – Earmarked credit balance



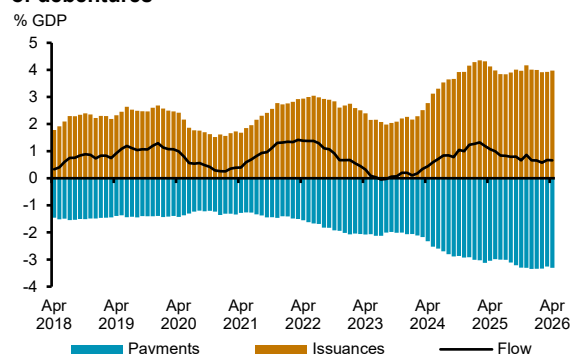
The financial flow in credit operations moved further into negative territory, indicating an increase in net payments from the real sector to the SFN.²⁶ This trend reflected a higher volume of payments and some moderation in the pace of growth in corporate and household credit granting. Considering the 12-month cumulative flow, net payments – which had reached a recent low of 0.5% of GDP in February 2025 – went from 2.1% in January 2026 to 2.8% in April (Figure 1.2.30). Under this metric, households accounted for 1.8% of GDP, while companies accounted for 1.0% (compared with 1.4% and 0.7% of GDP, respectively, in January). As for corporate financing in the capital market, the net flow of funds remained significant in the Feb-Apr quarter but was lower than in the previous quarter. Despite the recent slowdown, net funding over the past 12 months – as a percentage of GDP – remained at 0.7%, the same level recorded in January (Figure 1.2.31).

Figure 1.2.30 – Financial flow accumulated in 12 months



Financial flow: Granting - Payments

Figure 1.2.31 – Breakdown of 12-month financial flow of debentures



Delinquency remained at a historically high level in the first months of 2026. In the household segment, the delinquency rate increased 0.1 p.p. between January and April, down from a 0.4 p.p. increase in the previous quarter, reaching 5.4% of the portfolio – 0.1 p.p. below the all-time high recorded in May 2012 (Figure 1.2.32). The recent increase was mainly driven by non-earmarked credit, particularly the rise in delinquencies on vehicle financing, non-payroll-deducted personal credit, and payroll-deducted credit for private sector workers. Recent measures promoting household debt renegotiation are expected to reduce delinquency rates in eligible credit lines in the coming months. Among earmarked credit operations, the rise in delinquency on rural credit eased compared with previous quarters. Nevertheless, delinquency in this modality reached a record high for the time series in February (7.6%), fluctuating around that level in the following months (Figure 1.2.33). For corporate credit, the delinquency rate increased 0.2 p.p. in the quarter, with an increase in delinquency on both non-earmarked and earmarked credit. The delinquency rate for “other earmarked credits” – which includes operations under the National Program for Supporting the Micro and Small Enterprises (Pronampe) and the PEAC-FGI program – increased 0.8 p.p. in the quarter, reaching 3.5%, the peak of the time series.

^{26/} 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.

Figure 1.2.32 – 90 days past due loans

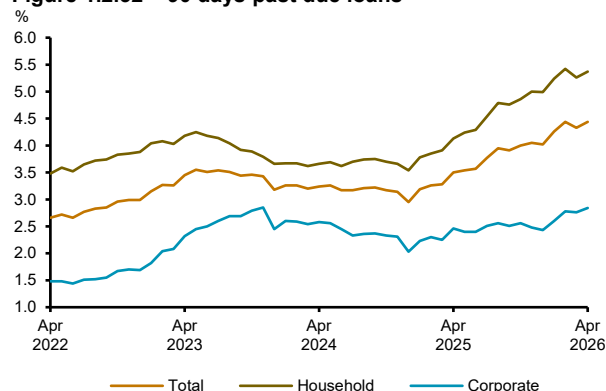
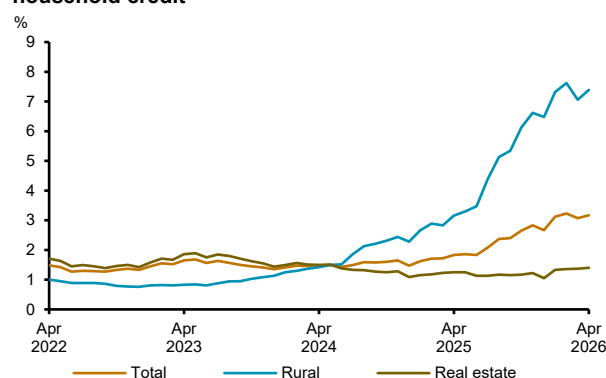
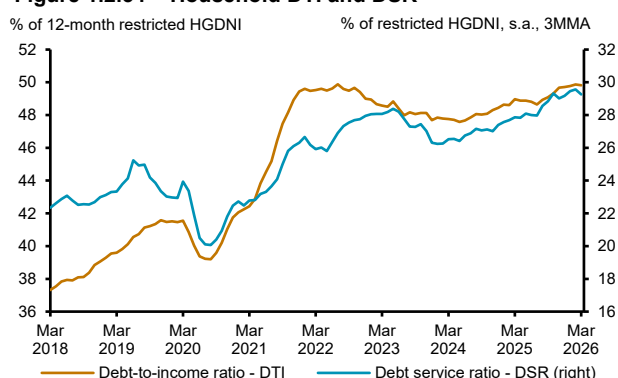


Figure 1.2.33 – 90 days past due loans - Earmarked household credit



DTI and DSR indicators also remained high. DTI reached 49.8% in March, 0.1 p.p. below the record high set in July 2022, while DSR stood at 29.3%, after peaking at 29.6% in the previous month (Figure 1.2.34). Since the end of 2021, DTI has remained at a high level. The process of financial inclusion, combined with technological innovations and favorable labor market conditions, boosted households' access to credit during that period, leading DTI to a new level, mainly due to the increase in the number of borrowers. As expected, DSR rose in tandem with DTI. Since then, there was a slight deleveraging between 2023 and 2024, but DTI has resumed expansion. At the same time, the increase in credit cost during the latest cycle of Selic rate hikes, together with stronger demand for emergency credit – which is typically more expensive – contributed to the record-high DSR.

Figure 1.2.34 – Household DTI and DSR



The projection for the nominal growth of the aggregate banking credit balance in 2026 was maintained at 9.0%. However, as detailed in a box in this MPR, the projections for the components of credit were revised. In summary, there was a slight downward revision in non-earmarked credit and an upward revision in earmarked credit, both driven by the corporate segment.

Fiscal

Despite the adoption of several measures with fiscal impact since March, primary balance projections for 2026 and 2027 have remained relatively stable. Both the government and the median of analysts' projections indicate a primary deficit for the Central Government around 0.5% of GDP in 2026, with a balance close to the lower bound of the tolerance interval on the metric used to assess compliance with the target. Although the Budget Guidelines Bill (PLDO) maintained the increasing trajectory of the primary balance target, the median of market projections for 2027 points to a result below the target's lower bound. As in the previous MPR, the assessment that the public debt/GDP ratio will continue on an upward trajectory in the coming years remains (Figure 1.2.35). In contrast with the relative stability of the quantitative projections,

the perception of some analysts about the fiscal situation, considering both the central scenario and the risks involved, worsened since the previous MPR (Figure 1.2.36). The stronger deterioration was captured in the June Pre-Copom Questionnaire (PCQ), which reflects the evolution of analysts' perception after the Copom Meeting in April 28-29, a period that coincided with the intensification of measures announced by the government.

Figure 1.2.35 – Debt forecasts

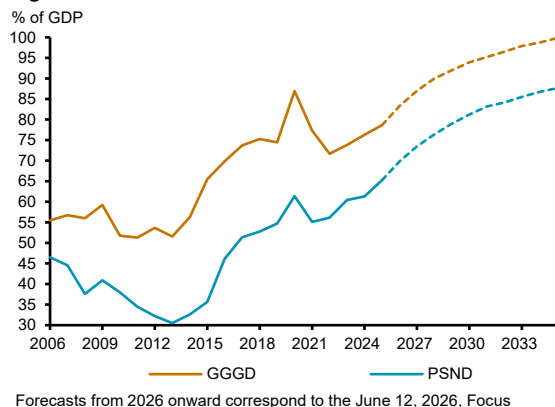
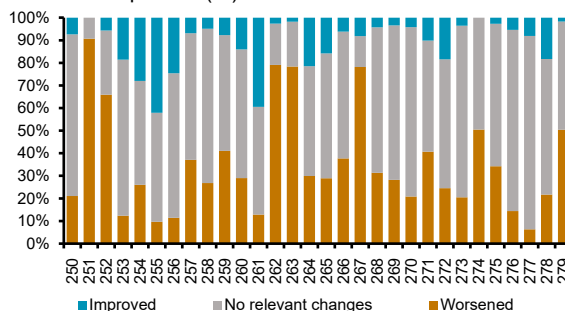


Figure 1.2.36 – PCQ: Assessment of fiscal situation
Share of responses (%) in each PCQ



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 registered, in Jan-Apr 2026, a primary surplus lower than that observed in the same period of 2025, with deterioration in the balances of Central Government, regional governments, and state-owned companies. The reduction in the consolidated surplus was mainly due to the Central Government's performance (Table 1.2.3), whose surplus – impacted by the change in scheduled court-ordered payments (*precatórios*) – fell from BRL 69 billion to BRL 9 billion. The surplus of regional governments fell from BRL 37 billion to BRL 30 billion, possibly due to the increase in state governments' expenses in an election year. The deficit of state-owned companies increased from BRL 3 billion to BRL 8 billion.

Table 1.2.3 – Public Sector Borrowing Requirements - Primary balance

Year to date until April

Itemization	BRL billion		
	2024	2025	2026
Central Government	-30	-69	-9
o/w Federal Government	-123	-167	-135
o/w INSS	92	98	125
Regional governments	-33	-37	-30
State-owned companies	2	3	8
Total	-61	-103	-31

Positive values represent deficit and negative values represent surplus

The reduction in the Central Government primary surplus in Jan-Apr 2026 reflected a significant real growth in both expenses and revenues, with higher growth in expenses due to the settlement of court-ordered payments. Net revenue continued to perform well in the first four months of the year, growing 4.6% in real terms (Table 1.2.4), highlighting the increase in Financial Operations Tax (IOF) collection, still influenced by the rise in rates in mid-2025. Total expenses, in turn, increased 14.2% in real terms, impacted by the change in scheduled court-ordered payments, which were concentrated in March in 2026 instead of July in 2025.²⁷ Excluding the effect of court-ordered payments, expenses rose 5.1% in real terms, highlighting social security benefits (4.2%) and personnel expenses (8.6%). Meanwhile, discretionary expenses grew 39.3% in real terms, reflecting the timely budget approval – compared with 2025 – and the greater implementation of parliamentary amendments in an election year.

^{27/} These payments are registered in different categories, such as social security benefits, personnel expenses, and other mandatory expenses.

Table 1.2.4 – Central Government Primary Balance

Year to date until April

	BRL billion - current values		
	2025	2026	Real var. (%)
1. Total revenue	973	1,056	4.0
1.1 - Revenues collected by the Federal Revenue Office	647	711	5.3
1.2 - Net Social Security revenues	217	241	6.4
1.3 - Revenues not collected by the Federal Revenue Office	109	104	-8.2
2. Transfers by revenue sharing	183	194	1.5
3. Net revenue (1-2)	790	862	4.6
4. Total Expenditure	717	853	14.2
o/w excl. court-ordered payments	705	773	5.1
4.1 Social Security benefits	315	366	11.4
o/w excl. court-ordered payments	308	334	4.2
4.2 Payroll	119	144	15.8
o/w excl. court-ordered payments	118	134	8.6
4.3 Other compulsory expenses	119	157	27.0
o/w excl. court-ordered payments	115	118	-1.4
4.4 Executive branch expenses subject to financial programming	164	186	9.1
o/w <i>Bolsa Família</i> (Family Allowance)	55	52	-9.6
o/w Discretionary	44	64	39.3
5. Central Government primary balance -above the line (3 - 4)	73	9	-87.6

Source: National Treasury

In response to the oil market shock resulting from the Middle Eastern conflict, the government adopted a set of measures with primary fiscal impact to mitigate effects on the domestic fuel market. The Social Integration Program (PIS)/Contribution for Social Security Financing (Cofins) tax rates on diesel and aviation kerosene were reduced to zero.²⁸ Economic subsidies were also introduced for producers and importers of diesel, Liquefied Natural Gas (LNG), and gasoline, which were successively expanded and extended.²⁹ The estimated fiscal impact of these measures is around BRL 7.4 billion per month,³⁰ which will be financed through an increase in the Tax on Industrialized Products (IPI) on cigarettes³¹ and on export taxes on crude oil (at a rate of 12%) and on diesel (at a rate of 50%), the latter while the subsidy lasts.³²

The government has adopted other measures with fiscal impact since the previous MPR. Still in the context of the oil shock, credit lines were established for exporters and sectors affected by the rise in fuel prices, with no primary balance impact.³³ A measure not directly related to that shock reduced to zero the

28/ On March 12, 2026, Decree 12,875 reduced the PIS/Cofins tax rates on import and sale of diesel to virtually zero. On April 8, 2026, Decree 12,924 eliminated the PIS/Cofins tax rates on aviation kerosene. This measure was subsequently extended by Decree 12,991, of May 29, 2026, until July 31. Provisional Measure (MP) 1,349, of April 7, authorized the deferral of the collection of air navigation fees and established credit lines for the aviation sector.

29/ MP 1,340, of March 12, 2026, established a BRL 0.32 subsidy per liter of diesel to producers and importers, with a cap of BRL 10 billion valid until the end of 2026. MP 1,349 increased the subsidy by BRL 0.80/L and established an additional subsidy of BRL 1.20/L of imported diesel, shared between the Federal Government and the states, with a cap of BRL 4 billion. On May 13, MP 1,358 authorized an economic subsidy to fuel producers and importers in values equivalent to PIS/Cofins and Cide on gasoline and PIS/Cofins on diesel, which are currently equivalent to around BRL 0.89/L for gasoline and BRL 0.35/L for diesel. On May 30, MP 1,363 established a new subsidy of BRL 1.12/L, fully covered by the Federal Government, effective until December 31, 2026, under a new regime, with eligibility conditional on discontinuing enrollment under MP 1,340 and MP 1,349. For liquefied petroleum gas (LPG), MP 1,349 authorized a subsidy of up to BRL 850 per imported ton, limited to BRL 330 million, subsequently extended until July 31, 2026, by Decree 12,992 of May 30, 2026, with expansion of the limit to BRL 660 million.

30/ According to the May 2026 Macro-Fiscal Bulletin of the Economic Policy Secretariat at the Ministry of Finance, the monthly fiscal impact of the measures announced so far was BRL 6.2 billion. To that amount was added BRL 1.2 billion, reflecting the fiscal impact of the gasoline subsidy, according to a statement by the Minister of Planning and Budget on May 22.

31/ Decree 12,922 of April 7, 2026.

32/ Tax established by MP 1,340 of March 12, 2026, that also implemented the first diesel subsidy.

33/ In the context of the *Brasil Soberano* Plan, MP 1,345 authorized up to BRL 15 billion in credit lines for companies that export industrial goods, their suppliers, and industrial sectors relevant to the foreign trade. MP 1,359 and MP 1,362 created, respectively, a credit line of up to BRL 30 billion and a supplementary credit line of the same value for the purchase of new sustainable vehicles by privately paid transport drivers, taxi drivers, and taxi cooperatives under the *Move Brasil* program.

Import Tax on international transactions up to USD 50, for which revenues had reached BRL 5 billion in 2025.³⁴ The *Novo Desenrola Brasil* program was also created, aimed at restoring households' financial stability, with its primary impact contingent on the use of the current stock of the credit guarantee fund.³⁵

Despite the fiscal impact of recent measures, the government projects compliance with the primary balance target for 2026, albeit with a result close to the lower bound. According to the Mar-Apr 2026 Primary Revenues and Expenses Assessment Report (RARDP), the projected primary deficit for the Central Government remains around BRL 60 billion, a value consistent with the lower bound of the fiscal target considering the exclusion of BRL 64 billion in expenses for calculation purposes (Table 1.2.5).³⁶ The relative stability in the projection compared with the Jan-Feb 2026 RARDP is due to the combination of a BRL 20 billion increase in estimated gross revenue, concentrated in administered revenues, and the expansion of the block of discretionary expenses, from BRL 2 billion to BRL 22 billion. This additional block was necessary to accommodate the growth of mandatory expenses, especially social security benefits and the Continuous Cash Benefit Program (BPC), within the cap of expenses in the fiscal framework. Despite the upward revision in the projected average oil price (from USD 73 to USD 91), the estimated revenue from exploitation of natural resources was reduced by BRL 4.6 billion, due to the removal of the forecasted revenues on the sale of federal oil reserves.

Table 1.2.5 – Central Government Fiscal Balance Forecasts

Year to date

	BRL billion - current values			
	RARDP Jan-Feb	RARDP Mar-Apr	PCQ - Copom 278	PCQ - Copom 279
Net revenue	2,577	2,581	2,515	2,560
Total expenditure	2,637	2,642	2,590	2,616
Central Government primary balance	-60	-60	-70	-61
Primary balance target discount	63	64	-	-
Primary balance consistent with the target	4	4	-10	0

Sources: National Treasury, Federal Budget Secretariat, and BCB

The median of analysts' projections for the primary balance in 2026 improved marginally compared with the previous MPR, indicating a target compliance on the lower bound. According to the PCQ, the median projection points to a primary deficit of BRL 61 billion, equivalent to a zero balance on the metric used to assess compliance with the target, at the lower bound of the tolerance interval, which is set at zero for 2026 (Table 1.2.5). From March to June, revisions in the PCQ projections were more significant than those registered on the RARDP between Jan-Feb and Mar-Apr, with net revenue growth exceeding expenses. This movement may reflect, on the revenues side, the incorporation of the oil shock impact and, on the expenses side, the accounting treatment of the measures recently adopted by the government. In line with this assessment, the PCQ indicates a positive impact of BRL 20 billion from the Middle Eastern conflict on the primary balance, of which BRL 10 billion would already be incorporated into the projections (Table 1.2.6).

34/ MP 1,357 authorized the ministry of Finance to change Import Tax rates on international transactions up to USD 50 in the context of the *Remessa Conforme* program. The rate was reduced to zero by the Ministry of Finance (MF) Directive 1,342/2026.

35/ MP 1,355 established the *Novo Desenrola Brasil* program, focused on renegotiating household debts with the financial system, with a maximum interest rate of 1.99% per month and a repayment term of 12 to 48 months, and amended the renegotiation rules within the Higher Education Student Financing Fund (Fies). The risk of delinquency in the *Novo Desenrola* transactions is covered by the Operations Guarantee Fund (FGO). The primary impact in 2026 will depend on the pace of enrollment: if the current stock of the fund is depleted by the guarantees issued, the National Treasury can make additional budgetary contributions.

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

Table 1.2.6 – PCQ: Impact of the conflict in the Middle East on the primary balance

BRL billion				
	Copom 278		Copom 279	
	Estimated	Incorporated	Estimated	Incorporated
75th Percentile	30	22	32	24
Median	20	10	20	10
25th Percentile	6	0	0	0

The results above refer to the following PCQ question: "What is your estimate of the impact of the conflicts in the Middle East on the variables below in Brazil in 2026? How much is incorporated into your projections? Consider the scenario and developments that you assess as most likely, including direct and indirect effects, in relation to the scenario with no conflict."

The government projects to meet the primary balance target in 2027, with an improvement over the 2026 projection, partially supported by the cut on expenses, triggered by the fiscal framework. On the PLDO sent on April 2026, the Executive kept the 2027 primary surplus target at 0.5% of GDP (BRL 73 billion), with a tolerance interval of 0.25% of GDP. The government forecasts a primary surplus of BRL 8 billion for 2027, which, after the deduction applied for purposes of assessing compliance with the target, corresponds to a BRL 74 billion surplus. The PLDO also triggers, for 2027, fiscal control measures linked to the deficit observed in 2025, including a ban on creating new tax benefits and a cap on the real growth of personnel expenses. According to the PCQ, the median of analysts' projections points to a Central Government primary deficit of BRL 60 billion in 2027, equivalent to a zero primary balance under the metric used to assess compliance with the target, below the lower bound of the tolerance interval.

The public debt will continue on an upward trajectory in the coming years. The scenario presented in the 2027 PLDO foresees the continuation of this increase, with the General Government Gross Debt (GGGD) peaking at 87.8% of GDP in 2029 and then starting a gradual decline, reaching 84.1% of GDP by 2035 – a projection conditional on the convergence of the Selic rate and on the evolution of the primary balance consistent with a trajectory of progressive increase in the target. The median of Focus projections, in turn, indicates a GGGD/GDP ratio of 83.3% in 2026, 93.9% in 2030, and 99.8% in 2035 (Figure 1.2.35), with no signs of stabilization in the projected horizon. Using the Public Sector Net Debt (PSND) to measure public indebtedness instead of the GGGD, the overall picture is similar both in terms of recent performance and future prospects.

External accounts

Since late 2025, the 12-month current account deficit has been declining, driven by the services account and an improvement in the trade balance. After hovering around 3.5% of GDP throughout the first half of 2025, the current account deficit of the balance of payments started to decline, reaching 2.7% in April 2026. Firstly, this movement was derived from the reduction in the services account deficit in 2025, from 2.6% of GDP, in the first half, to 2.1% in December. More recently, the improvement in the trade surplus has been the main driver of the current account deficit decline (Figure 1.2.37). On a year-to-date basis through the first four months of 2026, the current account deficit also declined when compared with the same period in 2025, from USD 24 billion to USD 22 billion, with the trade surplus increase partially offset by other accounts (Table 1.2.7). In the financial account, also on a year-to-date basis through April, net inflows of portfolio investments amounted to USD 21 billion, the highest Jan-Apr level since 2015. Finally, net inflows of direct investment liabilities remained at a similar level to those registered in recent years, once again exceeding the current account deficit.

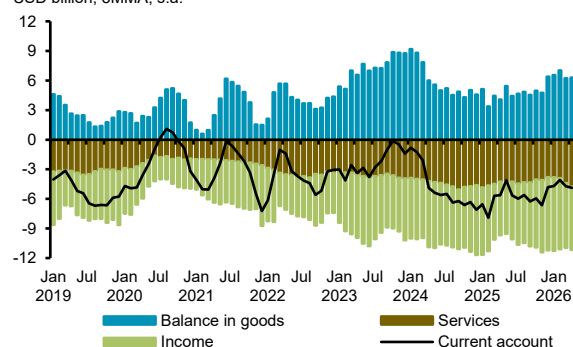
Table 1.2.7 – External accounts

Year to date until April	USD billion			
Itemization	2023	2024	2025	2026
Current account	-15	-16	-24	-22
Balance in goods	23	24	14	22
Exports	105	109	108	117
Imports	83	85	93	95
Services	-13	-15	-16	-17
of which: Travel	-3	-3	-3	-4
of which: Transport	-4	-4	-5	-4
Primary income	-26	-26	-24	-28
of which: Interests	-9	-10	-9	-10
of which: Dividends	-17	-16	-15	-18
Investment - liabilities	35	39	45	62
DI liabilities	28	30	28	30
Portfolio investments	4	-1	-2	21
Other investments ¹	3	11	19	11

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

Figure 1.2.37 – Current account

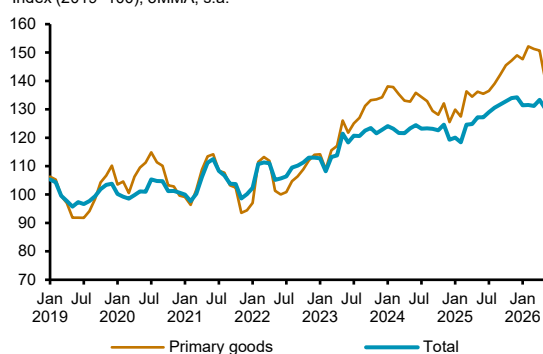
USD billion, 3MMA, s.a.



In the early months of 2026, the exported value increased, with a higher quantum of major commodities than in previous years and growing prices. Part of the relevant increase of exports in Jan-May 2026 came from the expansion in shipments of primary goods – such as oil, soybeans, and meat – which, in general, also registered expansion in domestic production (Figure 1.2.38). Export prices also increased (Figure 1.2.39), especially for oil and beef, reaching levels close to the peak observed over the past five years. The increase in the prices of oil and derivatives is associated with the Middle Eastern conflict, which began in late February, impacting the world supply of fuels. The direct impacts of the conflict on the Brazilian trade balance are discussed in the box [Early impacts of the conflict in the Middle East on the trade balance](#) in this MPR.

Figure 1.2.38 – Export quantum index

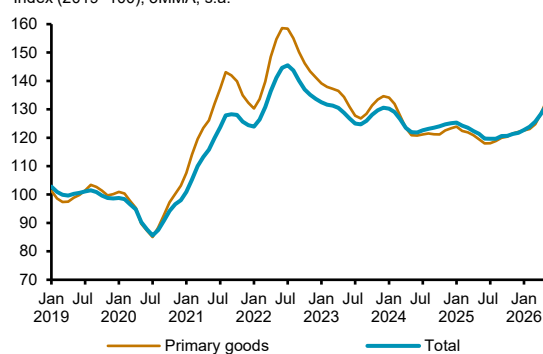
Index (2019=100), 3MMA, s.a.



Source: BCB, Funcex methodology.

Figure 1.2.39 – Export price index

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



Source: BCB, Funcex methodology.

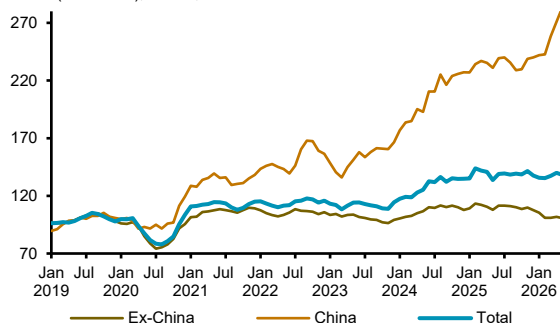
The imported value remains high, sustained by the quantum originated from China and, more recently, by higher prices, especially of fuels. After growing strongly throughout 2024, the volume of Brazilian imports has remained relatively stable at a high level. This moderation is related to the deceleration of domestic demand from 2024 to 2025. Since the beginning of 2026, however, the relative stability of imports occurred with the increase of the imported quantum from China – reflecting the strong Chinese expansion in several markets, in the context of the global trade shifting – and reduction of imports from other regions (Figure 1.2.40).³⁷ In the first months of 2026, medicines, capital goods, and passenger vehicles stood out in the imports

^{37/} The expansion of Brazilian imports from China has already been discussed in previous MPR editions, including in the box [Brazil's bilateral trade with the U.S. and China](#) in the June 2025 MPR.

basket.³⁸ More recently, the imported value has been driven by higher prices (Figure 1.2.41), highlighting the increase of fuel prices, associated with the Middle Eastern conflict. Some increase, although incipient, was also observed in the prices of goods coming from China, in line with the reversal of the producer price index of industrial goods in that country.

Figure 1.2.40 – Import quantum index ex-oil rigs

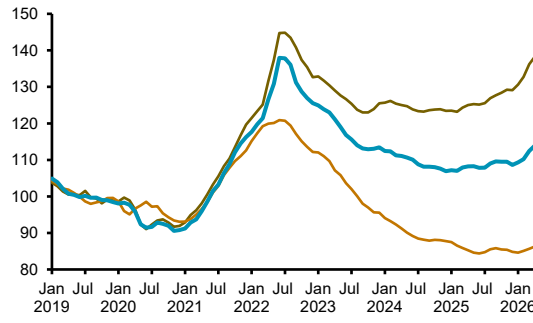
Index (2019=100), 3MMA, s.a.



Source: BCB, Funcex methodology.

Figure 1.2.41 – Import price index (CIF)

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



Source: BCB, Funcex methodology.

After declining throughout 2025, the services account deficit increased again in 2026, considering the 3-month moving average with seasonally adjusted data. Among the conjunctural factors that contributed to this movement, the increase of travel expenses stands out, possibly associated with the BRL appreciation trend and the still tight labor market. The deficit in the transport account also increased in the 3-month moving average, reflecting the reduction of atypically high revenues registered in January 2026, but with no relevant change on a year-to-date basis (Table 1.2.7). Moreover, the impact of higher prices of oil and derivatives has not yet translated into higher freight costs to the point of significantly affect this account. The other services, in turn, continue to pressure the deficit at a magnitude like the 2025 average, in line with their more structural characteristic (Figure 1.2.42).³⁹

In the primary income account, the deficit declined in early 2026, reflecting lower payments of profits and dividends. According to seasonally adjusted data, net expenses on profits and dividends fell in early 2026, compared with late 2025, when outflows were very high, probably due to the change in the taxes on profits effective as of January 2026 (Figure 1.2.43).⁴⁰ Despite the marginal decline, net expenses on profits and dividends remain high (Table 1.2.7). Conversely, net expenses on external interest continue to oscillate around the same level throughout the last two years. The slight increase in recent months, based on seasonally adjusted data, does not yet seem to clearly reflect the environment of heightened global uncertainty, which has raised risk premia and the cost of external financing.

Figure 1.2.42 – Services

USD billion, 3MMA, s.a.

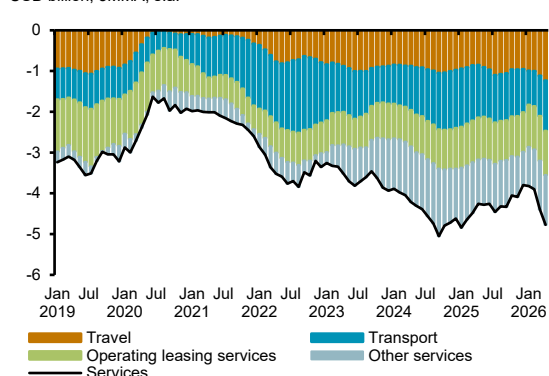
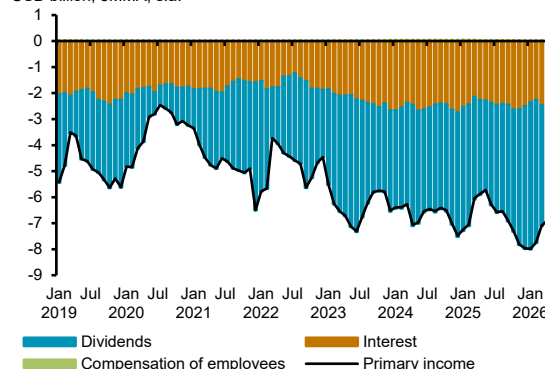


Figure 1.2.43 – Primary income

USD billion, 3MMA, s.a.



38/ Imports of passenger vehicles remained at a high level in Jan-Apr 2026, possibly reflecting, in part, anticipated purchases due to the increase of import tariffs on electric vehicles scheduled for July.

39/ The persistence of pressure coming from other services on the deficit was discussed in the box [Services and primary income deficits in the balance of payments: recent dynamics and possible persistence](#) in the March 2026 MPR.

40/ For the analysis of the dynamics of these expenses in the longer term, see box [Services and primary income deficits in the balance of payments: recent dynamics and possible persistence](#) in the March 2026 MPR.

In the financial account, direct investment liabilities remain strong and net inflows of portfolio investment have increased substantially until April. Net inflows of direct investment liabilities, in the seasonally adjusted series, have remained at a similar level to that of recent years (Figure 1.2.44), highlighting the equity component. In particular, the equity capital component with reinvested earnings – which has been negatively affected by record remittances of profits in December 2025, possibly enlarged due to changes in taxes on profits – recovered in the early months of 2026. Net inflows of portfolio investments, in turn, were strong in early 2026, especially in debt securities but also with positive results in equities and investment funds (Figure 1.2.45). The high interest rate differential between Brazil and advanced economies continues to contribute to inflows of debt securities, which was the most positive component of portfolio investments in recent years. Furthermore, two external sovereign debt issuances – USD 4.5 billion in February (Global 2036 and 2056) and €5.0 billion in April (equivalent to USD 5.8 billion in tranches in 2030, 2033, and 2036) – also positively impacted portfolio investment.

Figure 1.2.44 – Direct investment liabilities

USD billion, 3MMA, s.a.

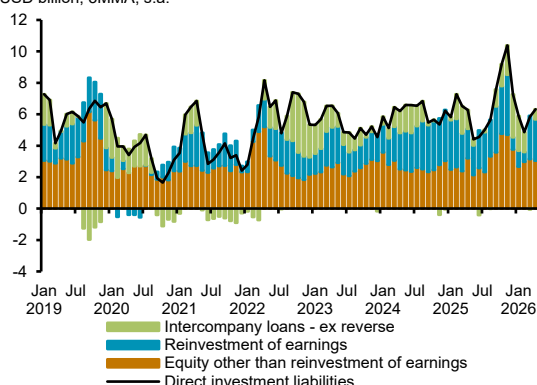
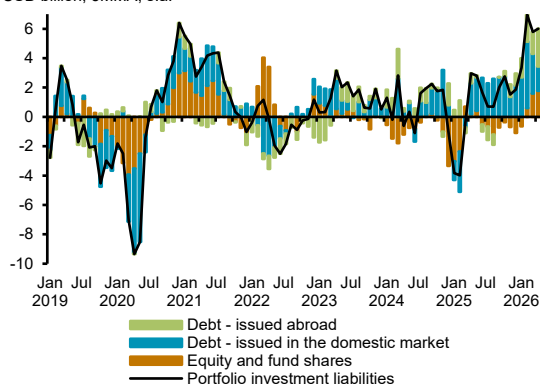


Figure 1.2.45 – Portfolio investment - liabilities

USD billion, 3MMA, s.a.



As detailed in a box in this MPR, the projections for external accounts in 2026 were marginally revised.

In line with more recent data and the domestic and international outlooks, the current account deficit is expected to reach USD 56 billion (2.1% of GDP), compared with the USD 58 billion (2.2% of GDP) estimate in the March 2026 MPR. The updated projection continues to represent a lower deficit than that observed in 2025 (USD 67 billion, 2.9% of GDP) and lower than the forecast for net inflows of direct investment liabilities (USD 75 billion, 2.8% of GDP).

Prices

Since the previous MPR, inflation grew above the tolerance interval around the inflation target, and inflation expectations worsened. The 12-month inflation as measured by the IPCA grew from 3.81% in February to 4.72% in May. The seasonally adjusted quarterly metrics also increased, both in terms of the IPCA aggregate and core inflation measures. All IPCA segments fluctuated significantly in the quarter, emphasizing increases in food-at-home and administered prices. Producer and consumer price indexes reflected the impacts of the Middle Eastern conflict on the oil value chain, especially in fuel prices. Services inflation is still pressured and the prices of industrial goods have risen more sharply again, amid a scenario of positive output gap and tight labor market. In this context, according to the Focus survey, inflation expectations grew strongly for 2026 and the deanchoring of inflation expectations increased for 2027 and 2028.

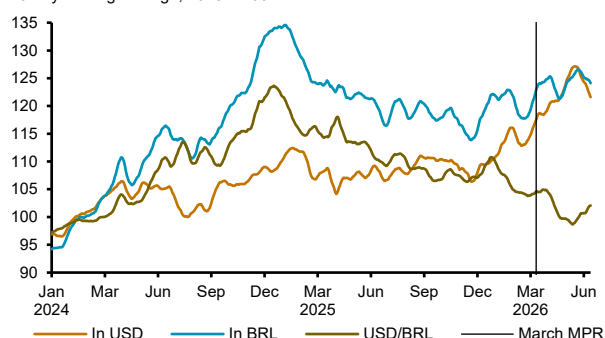
Commodity prices in BRL began to rise again, despite the exchange rate movement in the opposite direction.⁴¹ The Commodities Index – Brazil (IC-Br) measured in BRL increased 1.2% since the March 2026

41/ 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).

MPR, reflecting the index's 3.7% increase in USD, partially offset by a 2.3% BRL appreciation (Figure 1.2.46).⁴² The exchange rate appreciation and the commodity prices increase repeat the trend observed in the previous quarter. The increase of commodity prices in USD was relatively widespread with expansions across all segments. As in the previous quarter, energy commodity prices increased, driven by a 5.6% rise in the Brent-type oil prices, as a result of the Middle Eastern conflict. The upward movement was also predominant among agricultural and metal commodities (Figure 1.2.47).

Figure 1.2.46 – IC-Br and foreign exchange rate

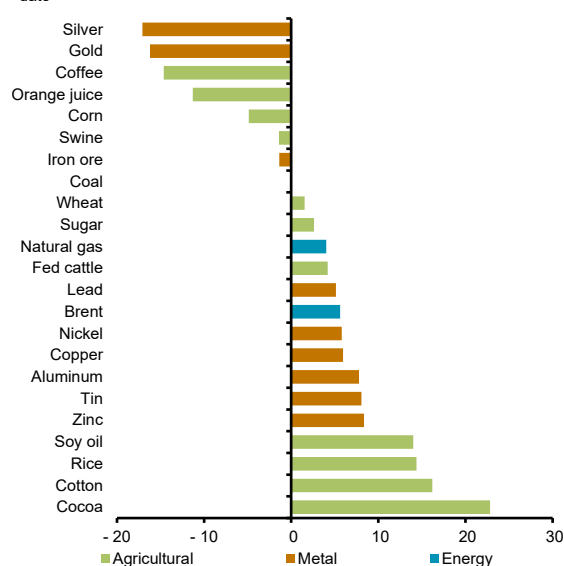
10-day moving average; 2023 = 100



Sources: Bloomberg and BCB

Figure 1.2.47 – Change in commodity prices

% change of the 10-day moving-average in USD since previous MPR cut-off date

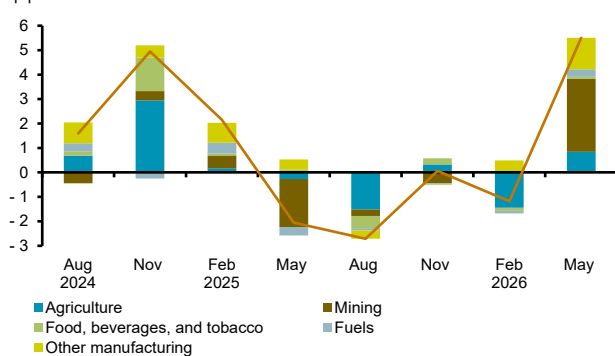


Source: Bloomberg

Producer prices grew sharply in the quarter, with the increase in oil prices impacting the mining and manufacturing segments. The Broad Producer Price Index (IPA-DI) increased 5.51% in the Mar-May quarter (Figure 1.2.48). Strong increases were observed in mining, with oil and natural gas prices rising 62.53%. The oil prices increase also impacted the manufacturing industry. There was an increase of 17.18% in oil derivatives prices, 18.89% in plastic products, and 10.45% in chemical products (a category that includes fertilizers, which rose 11.05%). In addition to increases related to the products in the oil and gas chain, agricultural and processed food prices also increased. The sharp increases in fresh and processed milk, tubers and vegetables – particularly potato, tomato, and onion – and beef stood out. Overall, IPA recent results reflect price movements that are already observed in the IPCA (such as meat, milk, and tubers and vegetables) or that indicate cost pressures for consumer prices in next months, mainly associated to the effects of the Middle Eastern conflict.⁴³

Figure 1.2.48 – Contributions to IPA-DI quarterly changes

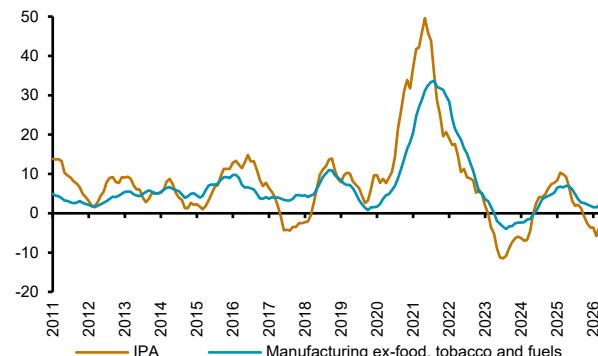
p.p.



Source: FGV

Figure 1.2.49 – IPA-DI

%, YoY



Source: FGV

42/ The IC-Br and exchange rate changes discussed in this section compare ten-day moving averages of indicators at the respective cut-off MPR dates.

43/ The IPA indicates still subdued fluctuations in prices of electronic goods such as cell phones, computers, and TV sets, despite the sharp increase in prices of RAM, a key input with a significant impact on the sector's production costs.

Since the previous MPR, consumer inflation grew above the tolerance interval around the inflation target.

Consumer inflation measured by the IPCA grew from 1.37% in the Dec-Feb quarter to 2.14% in the Mar-May quarter, with strong increases in food and administered prices (Figure 1.2.50). Inflation also increased in the seasonally adjusted series: in the Mar-May quarter, the headline index grew 7.9% on an annualized basis, while the average of core inflation measures rose 5.5% (Figure 1.2.52) compared with respective changes of 3.0% and 4.2% in Dec-Feb.⁴⁴ In 12 months, inflation measured by the IPCA grew from 3.81% in February to 4.72% in May, above the upper limit of the tolerance interval around the inflation target (Figure 1.2.51). In this same metric, the average of core inflation measures also indicated inflation at a high level (4.52%).

Figure 1.2.50 – Contributions to IPCA quarterly changes

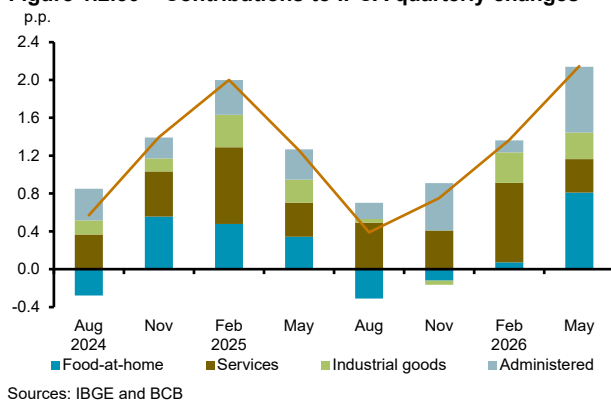


Figure 1.2.51 – IPCA and core inflation

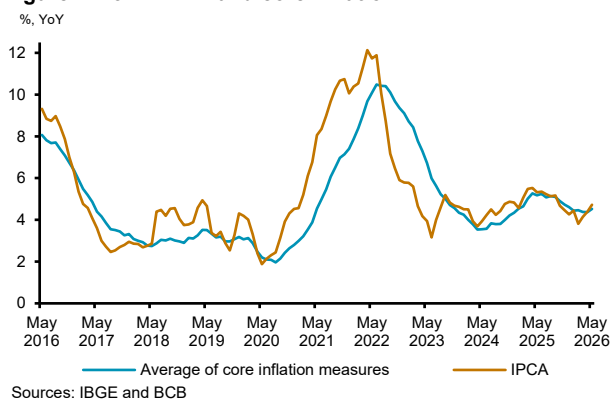
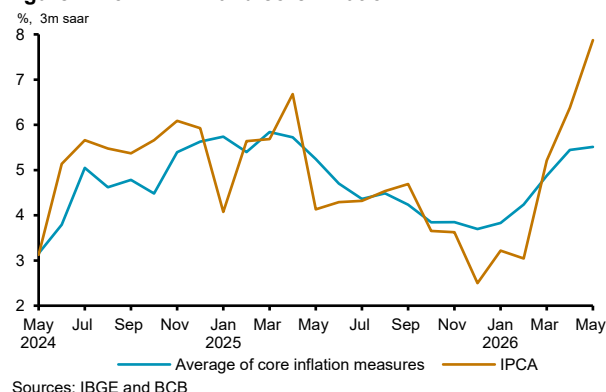


Figure 1.2.52 – IPCA and core inflation



Consumer food prices, which had been declining, increased sharply in the quarter. Prices in the food-at-home segment increased 5.32% in the Mar-May quarter, after three quarters registering low or negative changes (Figure 1.2.53). Increases were concentrated in fresh (17.04%) and semi-processed food (6.63%), especially in tubers, roots, and vegetables (53.75%), long-life milk (27.98%), meat (4.78%), and beans (27.09%). Processed food, less volatile, remained subdued. In the seasonally adjusted quarterly series, after decreasing in previous quarters, the annualized increase in the food-at-home segment reached 15.3% (Figure 1.2.54), also registering strong increases in fresh and semi-processed food and small changes in processed food. In 12 months, the food-at-home segment accumulated a 3.0% increase until May, following a 0.1% decline until February.

44/ The average considers the EX0, EX3, MS, DP, and P55 cores. The consolidated methodology for Inflation cores and other analytical series is presented 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 in December 19, 2025.

Figure 1.2.53 – Contributions to quarterly changes in food-at-home prices – IPCA

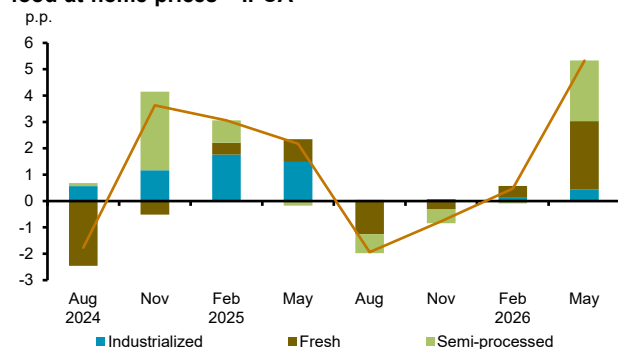
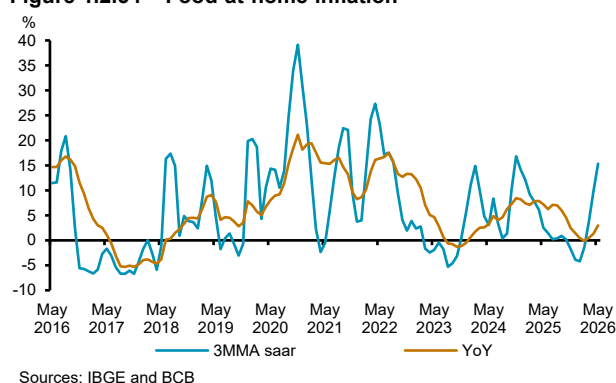


Figure 1.2.54 – Food-at-home inflation



Prices of industrial goods increased strongly again in this quarter. The IPCA inflation of this segment was 1.25% in the Mar-May quarter, accelerating compared with the second half of 2025, when expansion reached only 0.41%. A small slowdown was observed relative to the Dec-Feb quarter, mainly explained by the fall in ethanol prices, in a period of more favorable seasonality (Figure 1.2.55). In the seasonally adjusted series, the annualized quarterly change in the prices of industrial goods grew from 3.21% to 3.95% from February to May; in the two previous quarters, inflation in this segment had been lower, 1.39% in November and 2.17% in August (Figure 1.2.56). Alternative measures that exclude the most volatile items in this segment also show higher changes than in previous quarters, at an elevated level for the segment and above the inflation target.

Figure 1.2.55 – Contributions to quarterly changes in industrial goods prices – IPCA

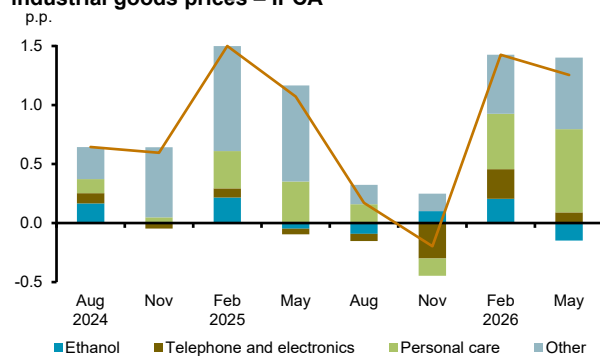
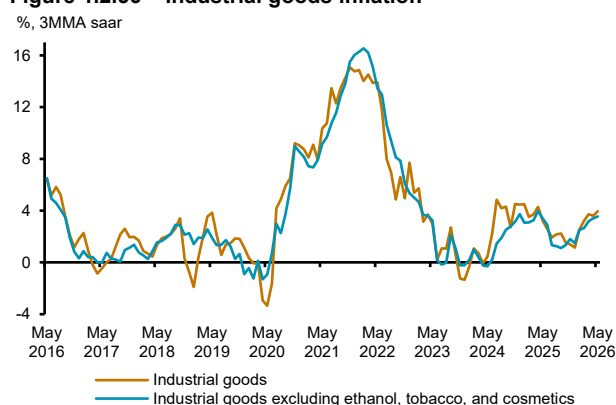


Figure 1.2.56 – Industrial goods inflation



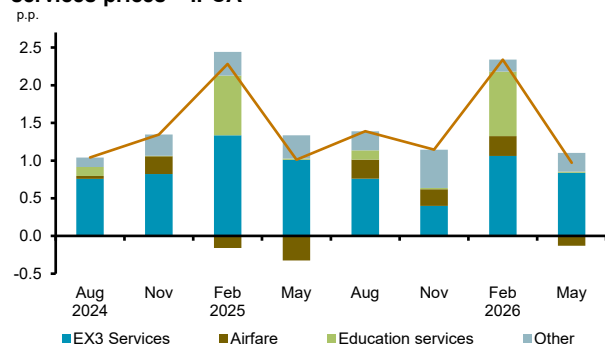
Services inflation remained high, with the quarterly change influenced by seasonal factors and more volatile components. Services inflation fell from 2.34% in the Dec-Feb quarter to 0.97% in the Mar-May quarter (Figure 1.2.57). The slowdown was concentrated in education services, whose price adjustments are mainly captured in the February IPCA, and in airfares, which are more volatile. In the seasonally adjusted series, underlying inflation measures continue to indicate a high services inflation, even if below the peaks observed from late 2024 to early 2025. Excluding airfare, the seasonally adjusted and annualized inflation rate for services increased from 4.65% in the Dec-Feb quarter to 5.56% in the Mar-May quarter (Figure 1.2.58). The EX3 core services increased 5.49% in the most recent quarter and measures focusing on more labor-intensive services continued to show higher changes, above 6.00% on an annualized basis (Figure 1.2.59).^{45,46} In 12 months, services prices rose 5.97% until May, virtually the same as the increase accumulated until February

45/ 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 2025, 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.

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

(6.01%). Excluding airfare, the 12-month inflation of the segment fell from 5.68% to 5.44%, a level still high but below the peak of 6.38% registered in September 2025 (Figure 1.2.60).

Figure 1.2.57 – Contributions to quarterly changes in services prices – IPCA



Sources: IBGE and BCB

Figure 1.2.58 – Services inflation

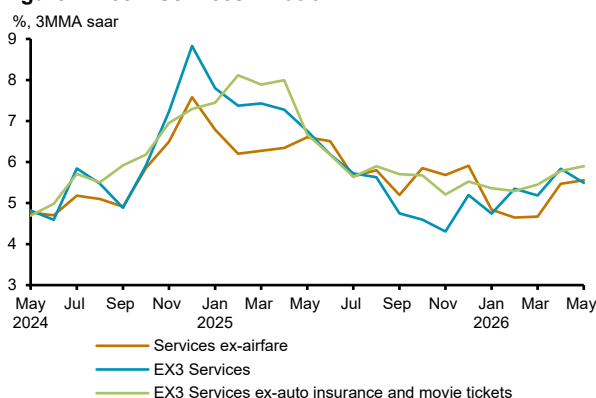


Figure 1.2.59 – Services inflation

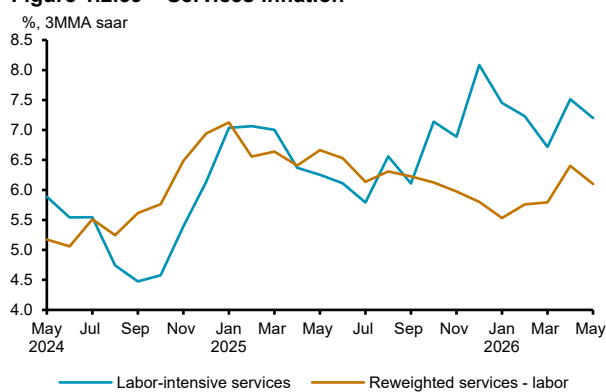
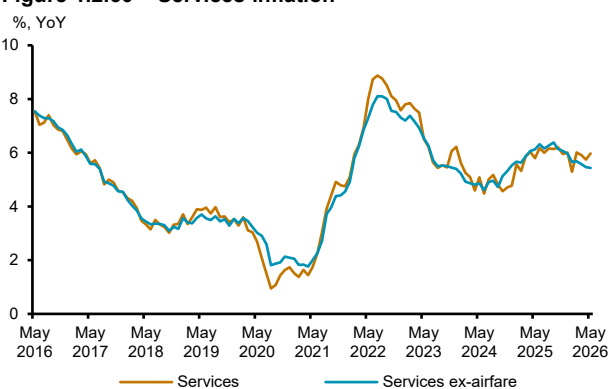


Figure 1.2.60 – Services inflation



Administered prices increased sharply in the quarter, reflecting higher oil prices and more restrictive electricity tariff flags. The change in this segment reached 2.67% in the Mar-May quarter (Figure 1.2.61).

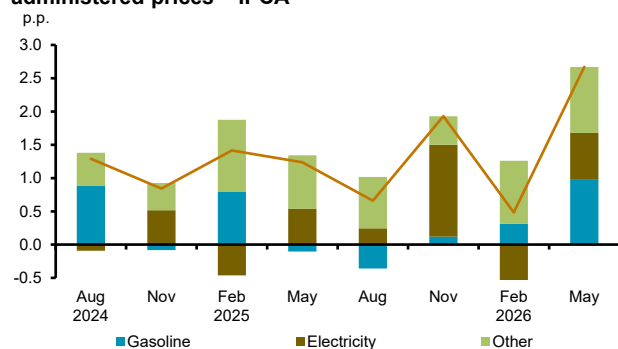
The largest contribution to the increase in administered prices in the period came from gasoline, given its high weight in the household consumption basket. The price of gasoline C at gas stations rose 4.98% driven by the increase in the international prices of refined petroleum products.^{47,48} The diesel price grew 16.2% in the quarter, despite the adoption of tax relief and subsidy measures.⁴⁹ Although the direct impact of diesel on the IPCA is limited, its price increase can have a relevant indirect effect through cost pressures along production and transport chains. Bottled gas prices to consumers increased 4.09% in the quarter, a trend that also appears to be associated with developments in the international prices of refined products. In addition to the rise in vehicle and domestic fuel prices, residential electricity tariffs increased 4.55% due to the usual seasonal adjustments and the shift from the green tariff flag in February to the yellow tariff flag in May. There was also a significant increase in pharmaceutical products, reflecting the annual adjustment of maximum medicine prices, typical for the period. In 12 months, rises in administered prices accelerated, from 4.38% in February to 5.85% in May (Figure 1.2.62).

47/ International gasoline and diesel prices increased more sharply than crude oil prices after the outbreak of the Middle Eastern conflict due to higher refining margins (crack-spreads).

48/ In the period under analysis in this MPR, Petrobras, the Brazilian largest fuel supplier, maintained relatively stable the reference price for gasoline A at its refineries. On May 29, the net price was raised by BRL 0.04 considering the incorporation of a subsidy of BRL 0.44 as established by MP 1,358 of May, 13, 2026, Decree 12,984, and the MF Directive 1,496 of May, 25, 2026.

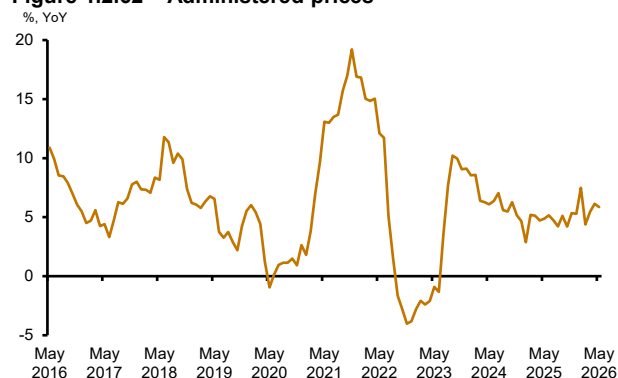
49/ On March 12, 2026, it was issued MP 1,340, establishing a subsidy of BRL 0.32/L of diesel for producers and importers. On the same date, it was issued Decree 12,875, eliminating the PIS and Cofins taxes on diesel until the end of May. On April 7, 2026, MP 1,349 increased by BRL 0.80/L the subsidy for domestic diesel and by BRL 1.20/L for imported diesel. On the same date, it was issued Decree 12,923, eliminating the PIS and Cofins taxes on import and sale of biodiesel. On May 13, 2026, it was issued MP 1,358, regulated by the Decree 12,984, of May, 25, 2026, authorizing a new subsidy to producers and importers of oil-based fuels. For diesel, MP will influence the dynamics of consumer prices as of the June IPCA, given that it took effect on June 1, 2026, after the MF Directive 1,584, of May, 29, 2026, establishing the value of BRL 0.3515/L. The subsidy replaces the elimination of the PIS and Cofins taxes on diesel, which expired on May, 31, 2026. On May, 30, 2026, it was issued MP 1,363, replacing the subsidies to producers and importers of diesel established by MP 1,340 and 1,349 by other of BRL 1.12/L.

Figure 1.2.61 – Contributions to quarterly changes in administered prices – IPCA



Sources: IBGE and BCB

Figure 1.2.62 – Administered prices



Inflation expectations increased sharply for 2026 and, to a lesser extent, for 2027 and 2028. According to the Focus survey, median inflation expectations for 2026, which had reached 3.89% by the end of February, immediately before the beginning of the Middle Eastern conflict, rose from 4.10% at the cut-off date of the previous MPR to 5.30% (Figure 1.2.63), exceeding the upper limit of the tolerance interval around the inflation target. The rise in median expectations reflects higher projections across all segments, with the sharpest increases in food-at-home and administered prices (Table 1.2.8). For food-at-home, the recent IPCA changes were high and the PCQ shows risks associated with the *El Niño* phenomenon, both in 2026 and 2027. The PCQ also indicates that the revised expectations for administered prices in 2026 reflects, to a large extent, a higher projection for gasoline prices, associated with the Middle Eastern conflict.⁵⁰ Inflation expectations for 2027 and 2028 also increased, albeit to a lesser extent, and moved further away from the target – from 3.80% and 3.50% to 4.10% and 3.68%, respectively.⁵¹ Since the medians for 2029 and 2030 remained at 3.5%, inflation expectations remain above the 3% inflation target throughout all horizons considered by the Focus survey (Figure 1.2.64).

Figure 1.2.63 – Median market expectations (Focus) – Annual IPCA in 2026

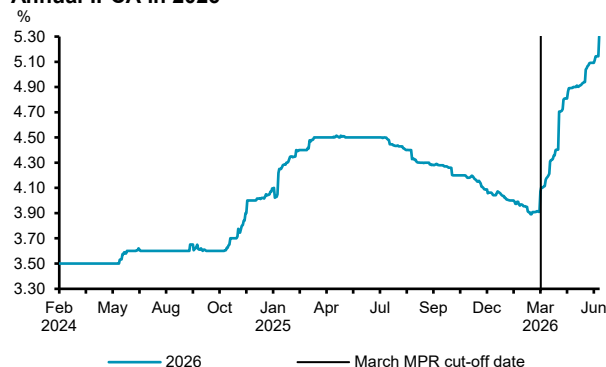
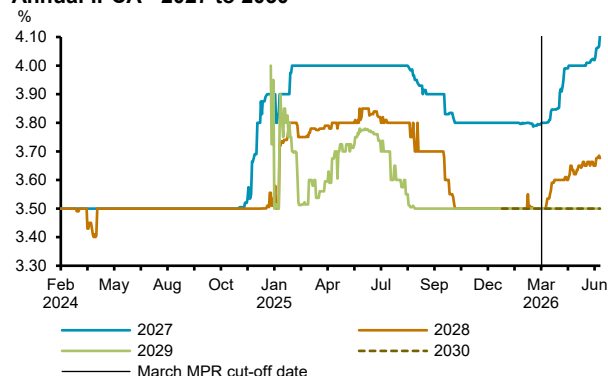


Figure 1.2.64 – Median market expectations (Focus) – Annual IPCA - 2027 to 2030



50/ The box [Impacts of the conflict in the Middle East on the Banco Central do Brasil's Surveys](#) in this MPR provides further information on this topic.

51/ In the IPCA breakdown by segments, expectations for 2027 show sharper increase in food, possibly reflecting the risks associated with a stronger *El Niño* phenomenon as of the second half of this year.

Table 1.2.8 – Breakdown of the revision on the 2026 Focus survey

	Weights	Focus expectations (% p.a.)		
		Mar-13	Jun-12	Contr. to Δ (p.p.)
IPCA	100	4.10	5.30	+1.20
IPCA (by aggregation)	100	4.13	5.34	+1.21
Food-at-home	15	3.86	7.33	+0.53
Industrial goods	23	2.64	3.66	+0.23
Services	36	5.37	5.78	+0.15
Administered prices	26	3.85	5.00	+0.30
Market prices	74	4.22	5.47	+0.92
Market prices (by aggreg.)	74	4.23	5.46	+0.91

Projections for GDP growth in 2026

The Gross Domestic Product (GDP) growth forecast for 2026 increased from 1.6% to 2.0%, with upward revisions to estimates for the economy's three major sectors and for domestic demand.

The GDP growth forecast was raised from 1.6%, as presented in the March 2026 Monetary Policy Report (MPR), to 2.0%. The revision mainly stems from the positive surprise in 2026Q1 results and the improved outlook for agriculture and mining. It also reflects the expectation of higher dynamism in domestic demand and in sectors more sensitive to the economic cycle, largely associated with fiscal and credit stimulus measures. Nevertheless, in a context of contractionary monetary policy and low levels of slack in production factors, the prospect of a moderate growth in 2026Q2 and throughout the second half of the year remains. Even though its most evident effects on the Brazilian economy so far have been concentrated on prices, the conflict in the Middle East is also increasing uncertainty surrounding growth projections.

By sector, the upward revision in the GDP growth projection reflects improved estimates for the performances of agriculture, industry, and services. The expected expansion in agriculture grew from 1.0% to 1.7%, mainly driven by the Brazilian Institute of Geography and Statistics' (IBGE) revised estimates for agricultural production, particularly the upward revisions to forecasts for the crops of soybeans, corn, and coffee.¹

In industry, the growth forecast was revised from 1.2% to 2.3%, reflecting improved estimates for all of its segments. The revisions for mining and construction were mainly influenced by better-than-expected performance in 2026Q1. As for mining, the performance in early 2026 was driven by oil and gas production, which tends to remain at high levels throughout the year. In manufacturing, although 2026Q1 results were close to expectations, the upward revision to the annual forecast reflects both more favorable early signs in 2026Q2 and the expectation that stimulus measures implemented after the previous MPR – particularly credit measures targeting the automotive sector – will help sustain demand and production for the remainder of the year.

The growth forecast for the services sector was revised from 1.7% to 1.9%, influenced by positive surprises in 2026Q1 data, particularly in the segments of information services and real estate activities. Conversely, forecasts for transport and for financial intermediation services were revised downward, in line with a weaker-than-expected performance in 2026Q1. The growth forecast for trade, in turn, was revised upward, in line with more favorable outlooks for manufacturing and household consumption.

Still from a supply-side perspective, the projection for less cyclical sectors was raised from 1.8% to 2.1%, mainly as a result of positive revisions in mining and real estate activities, partially offset by a reduced estimate for financial intermediation services. Among the sectors more sensitive to the economic cycle, however, the revision was more significant, from 1.4% to 2.0%, which points to the prospect of a stronger economic growth compared with the scenario outlined in the March 2026 MPR.²

From the demand-side perspective, the upward revisions to projections for household consumption – from 1.4% to 2.1% – and gross fixed capital formation (GFCF) – from 0.5% to 1.5% – stand out, both influenced

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

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.

by better-than-expected results in 2026Q1 and the expected effects of fiscal and credit stimulus measures. Conversely, expectations of a steeper path for interest rates tend to mitigate this impulse.

Growth forecasts for exports and imports were raised from 2.5% to 3.0% and from 1.0% to 2.0%, respectively. The rise in exports mainly reflects expectations of stronger growth in shipments of primary goods, in line with increases in growth projections for agriculture and mining, while the increase in imports is linked to expectations of stronger growth in manufacturing and household consumption. Given the updated projections, the contributions of domestic demand and the external sector to GDP growth in 2026 are estimated at 1.8 p.p. and 0.2 p.p., compared with 2.0 p.p. and 0.3 p.p. in 2025, respectively.

Table 1 – Gross Domestic Product

Year to date

Itemization	2024	2025	% growth	
			2026 ¹	
			Previous	Current
Agriculture	-3.7	11.7	1.0	1.7
Industry	3.1	1.4	1.2	2.3
Mining	0.5	8.6	4.0	7.0
Manufacturing	3.9	-0.2	0.5	1.5
Construction	4.4	0.5	1.0	1.5
Utilities (EGAER) ²	1.0	-0.4	1.0	1.2
Services	3.8	1.8	1.7	1.9
Trade	3.8	1.1	1.2	2.0
Transport and storage	1.9	2.1	1.7	0.8
Information services	6.1	6.5	4.0	6.0
Financial and related services	5.5	2.9	3.0	2.0
Other services	5.3	2.0	1.7	2.0
Real estate	3.1	2.0	1.7	2.4
Public admin., health, and education (APU)	1.7	0.5	1.0	1.0
More cyclical components	4.2	1.4	1.4	2.0
Less cyclical components	1.7	3.7	1.8	2.1
Value added at basic prices	3.1	2.4	1.5	2.0
Taxes on products	5.7	1.7	1.6	2.0
GDP at market prices	3.4	2.3	1.6	2.0
Household consumption	5.1	1.3	1.4	2.1
Government consumption	2.0	2.1	2.0	2.0
Gross Fixed Capital Formation	6.9	2.9	0.5	1.5
Exports	2.8	6.2	2.5	3.0
Imports	15.6	4.5	1.0	2.0

Sources: IBGE and BCB

1/ Estimated.

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

Projections for credit growth in 2026

The projection for the nominal growth of the National Financial System (SFN) credit balance remained at 9.0%, with the downward revision for the prospect of growth in non-earmarked credit being offset by the higher projected growth for earmarked credit. The updated forecast continues to point to a slowdown in credit growth for the second consecutive year.

The YoY growth rate of the SFN credit balance declined 0.9 p.p. since January, reaching 9.3% in April. The growth pace decelerated in non-earmarked credit, both in the household and corporate segments, and in the earmarked corporate portfolio. Results came in line with the projections of the March 2026 MPR for the aggregate balance, but with surprises in its composition.

The growth rate in the non-earmarked credit balance decreased from 8.4%, in January, to 7.1% in April. In the household segment, despite the slowdown, growth in non-earmarked credit exceeded previous projections. Household credit granting remained at a high level, especially in payroll-deducted loans to private sector workers, vehicle financing, and revolving credit card. In contrast, the non-earmarked corporate credit balance grew less than expected. New corporate lending increased in early 2026, with stronger growth in short-term loans. However, the increase in credit granting was offset by a higher volume of repayments and by the effect of exchange rate appreciation on the balance of portfolios linked to trade finance.

In earmarked credit, the growth rate of the credit balance edged down from 12.6% to 12.2% between January and April, exceeding projections. In the corporate segment, the growth of credit under the Emergency Credit Access Program – Guaranteed Investment Fund (PEAC-FGI) declined, but the impact of the slowdown in this portfolio was smoothed by rural credit and the Brazilian Development Bank (BNDES) financing, which showed more dynamism in the quarter.

In this context, the projection for nominal growth of the SFN credit balance in 2026 remained at 9.0%, with adjustments in the components. The expected growth for non-earmarked credit fell 0.3 p.p., to 7.8%, with downward revisions in the corporate segment and upward revisions in the household segment. The projection for household loans increased 0.5 p.p., mainly due to the positive surprise in recent performance. With regard to credit programs created since the last MPR, there are both programs with a positive effect on the balance, such as *Move Brasil*, aimed at app and taxi drivers, and programs that tend to reduce the debt stock, such as *Novo Desenrola Brasil Famílias*. In the corporate segment, the projection decreased 1.5 p.p., reflecting the negative surprise in recent data and the update on the expected trajectory for the key drivers of credit, such as interest and exchange rates.

Meanwhile, the projection for earmarked credit increased 0.5 p.p., to 10.7%, with the adjustment focused on corporate financing. The revision reflected the recent performance of portfolios, updated data on the economic outlook, and the *Desenrola para Micro e Pequenas Empresas* program, which relaxed granting conditions and raised borrowing limits for companies in the National Program for Supporting the Micro and Small Enterprises (Pronampe).

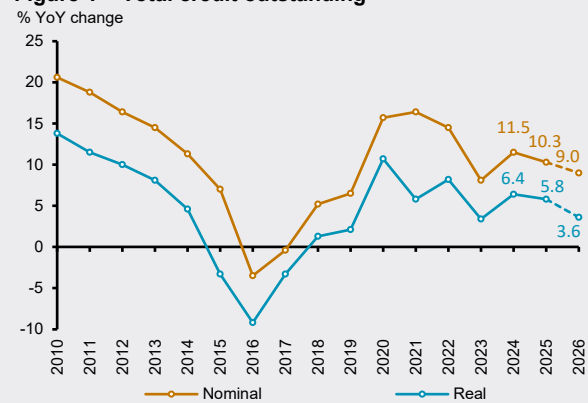
The updated forecast continues to point to a slowdown in credit growth for the second consecutive year. In real terms, total credit balance is projected to grow by 3.6% in 2026, representing a reduction compared with the real credit growth in 2024 and 2025 (Figure 1). The expected slowdown is consistent 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

	Occurred			12-month % change	
	2024	2025	Apr 2026	Proj. 2026 Previous	Current
Total	11.5	10.3	9.3	9.0	9.0
Non-earmarked	11.3	8.7	7.1	8.1	7.8
Households	12.6	13.5	11.7	9.5	10.0
Corporations	9.5	2.3	0.6	6.0	4.5
Earmarked	11.9	12.6	12.2	10.2	10.7
Households	12.5	9.6	9.8	9.5	9.5
Corporations	10.7	18.6	17.0	11.5	13.0
Total Households	12.6	11.7	10.8	9.5	9.8
Total Corporations	9.9	8.2	6.7	8.2	7.8

Figure 1 – Total credit outstanding



Early impacts of the conflict in the Middle East on the trade balance

This box assesses the early developments of the Middle Eastern conflict on the Brazilian trade balance. Firstly, the impacts on net exports of crude oil and derivatives is investigated, with some expansion already observed from March to May. Next, the relative importance of the Middle East as a destination of Brazilian exports is discussed, indicating small relevance in aggregate terms, but significant for specific goods. Lastly, the impact on the imports of fertilizers is analyzed, especially of nitrogenous ones, for which the effect on the production and exports of Brazilian grains depend on the origin and the period when these imports occur.

The outbreak of the Middle Eastern conflict in late February impacted global financial conditions, production chains, and international trade flows. As highlighted in the box regarding the projection for external accounts in the March 2026 Monetary Policy Report (MPR), impacts on the Brazilian trade balance were already expected, especially due to the prospects of higher oil prices. This box deepens the analysis of the episode's main developments on the country's trade balance so far. For this, three transmission channels of the conflict's effects on the Brazilian trade balance are considered. The first, already mentioned and the most relevant, takes place through the trade balance of crude oil and derivatives, which should benefit from the higher commodity price. The second, referring to direct exports to the Middle East, tends to reduce the trade balance, although at a small magnitude, due to the low participation of that region in Brazilian exports. The third consists in the imports of fertilizers, since the Middle East is one of the suppliers of this input to Brazil.

Trade balance of crude oil and derivatives

The Middle East concentrates a large share of the world oil production, and the Strait of Hormuz is a strategic route for its transport.¹ Therefore, strictly from an economic point of view, the first clearer repercussion following the outbreak of the conflict occurred on oil prices in the international market.² The potential impact of this movement on the Brazilian trade balance can be measured through the crude oil and derivatives trade balance, i.e., the trade balance derived from exports and imports of these goods.

Brazil has turned in surpluses in the international trade for crude oil and its derivatives³ since 2018, mainly due to the growth of exports of crude oil, which have consolidated at a level above USD 40 billion since 2022 (Figure 1). Despite becoming a net oil exporter, with production exceeding consumption in overall terms, Brazil continues to import crude oil and derivatives, notably diesel oil.

1/ According to the International Energy Agency (IEA), the Middle East accounted for around 30% of global oil production in 2024 and around 34% of global crude oil trade passed through the Strait of Hormuz in 2025.

2/ The Brent-type oil price, which was below USD 70 in Jan-Feb, averaged more than USD 100 from March to May.

3/ It includes natural gas.

Figure 1 – Oil and petroleum derivatives trade balance

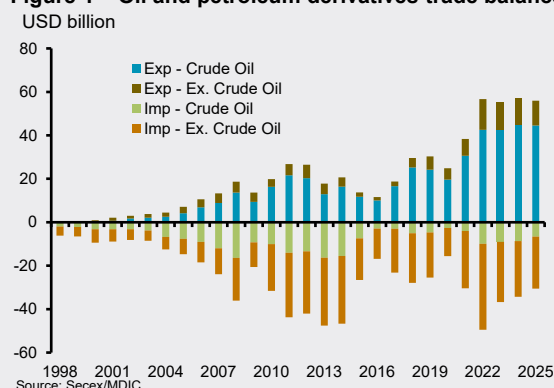
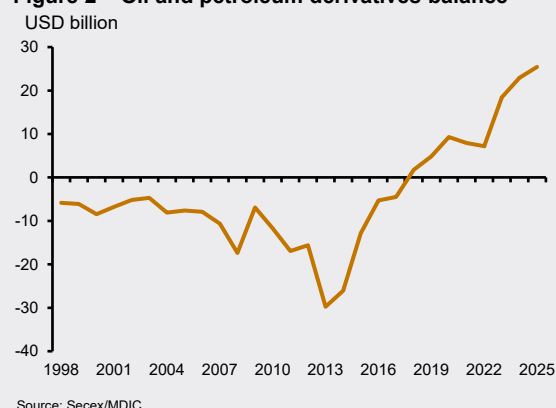


Figure 2 – Oil and petroleum derivatives balance



In 2025, the trade surplus reached USD 25 billion (Figure 2), reflecting exports of USD 56 billion and imports of USD 31 billion. A simple calculation using such data, compared with 2025, reveals that a 10% increase in the international price of crude oil and its derivatives, *ceteris paribus*, would generate a positive impact of USD 2.5 billion per year, around 0.1% of the Gross Domestic Product (GDP).⁴ As the Brent-type oil price increased by 50% on average from March to May 2026 compared with the 2025 average,⁵ this simplified calculation would indicate a positive impact of USD 12.7 billion (0.6% of GDP) in 12 months on the trade balance should prices remain at this level.

However, the effective magnitude of this impact depends on several factors, including the dynamics of relative prices and the responses of economic agents to such variations. The analysis of the oil account on a monthly basis (Figures 3 and 4) indicates expansions in the values of both exports (25%) and imports (18.5%) in Mar-May compared with what was observed in the same period in 2025. The surplus of crude oil and derivatives, which was around USD 2 billion per month throughout 2025, or USD 2.4 billion on average from March to May 2025, rose to USD 3.1 billion in the corresponding quarter of 2026, with a more significant impact in the beginning of the period. This monthly average increase of USD 0.7 billion would be equivalent to USD 9.0 billion in 12 months, below that suggested by the aforementioned calculation.

Figure 3 – Oil and petroleum derivatives trade balance

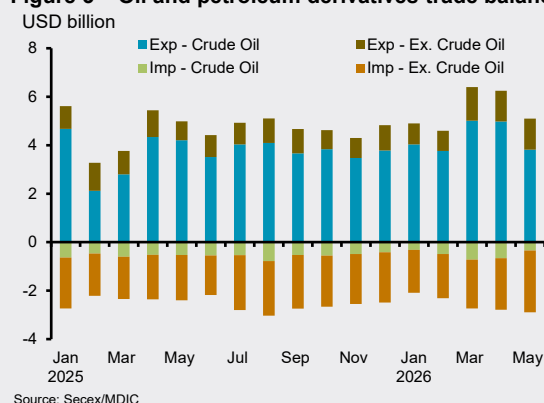
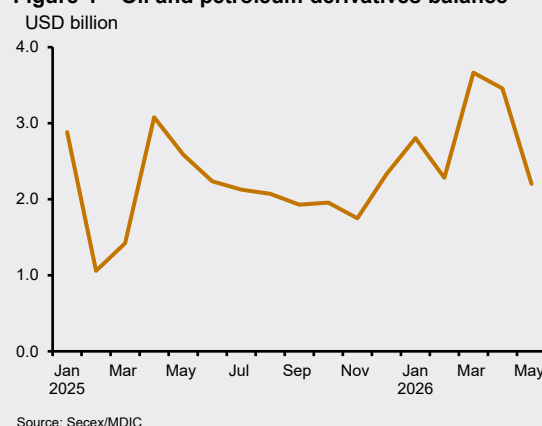


Figure 4 – Oil and petroleum derivatives balance



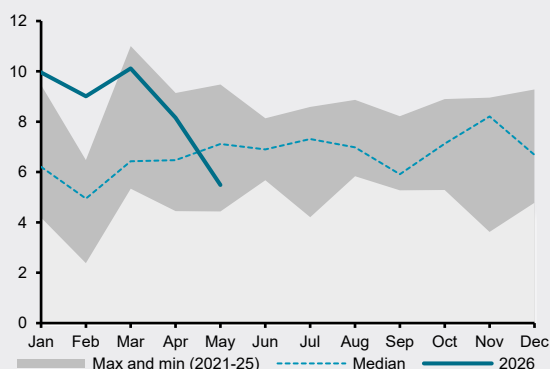
Figures 5 to 8 present the breakdown of crude oil export and import values by price and quantum components. The increase in exported and imported values is directly associated with the trajectory of prices, which increased rapidly and sharply, in line with the international Brent-type oil price. Compared with the same period in 2025, prices of exports and imports grew by 28% and 29%, respectively, on average in the Mar-May quarter, while the Brent increased 51.5% in the same period. In addition, exported and imported volumes declined.

4/ This calculation implicitly assumes that the change in international oil prices is proportionally passed through to exported and imported values, under the hypothesis of constant volumes.

5/ These changes consider the Brent crude generic front-month Intercontinental Exchange (ICE) futures contract in USD per barrel.

Figure 5 – Crude oil exports - volume

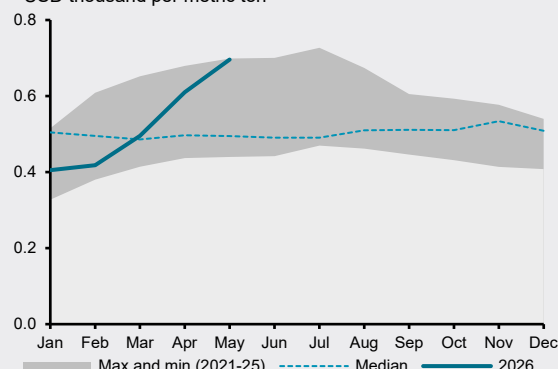
million metric tons



Source: Secex/MDIC

Figure 6 – Crude oil exports - price

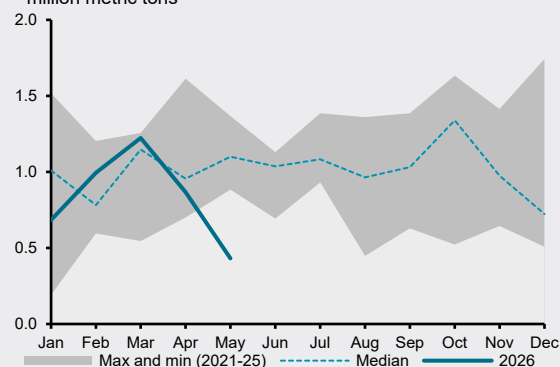
USD thousand per metric ton



Source: Secex/MDIC

Figure 7 – Crude oil imports - volume

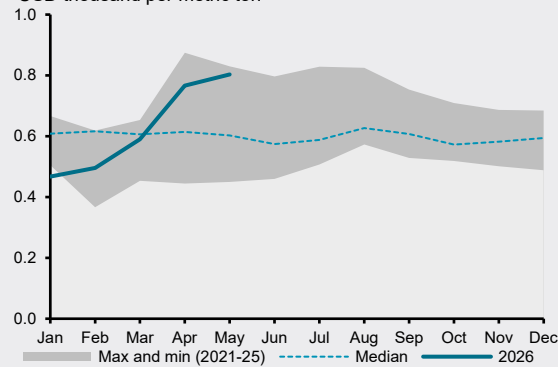
million metric tons



Source: Secex/MDIC

Figure 8 – Crude oil imports - price

USD thousand per metric ton

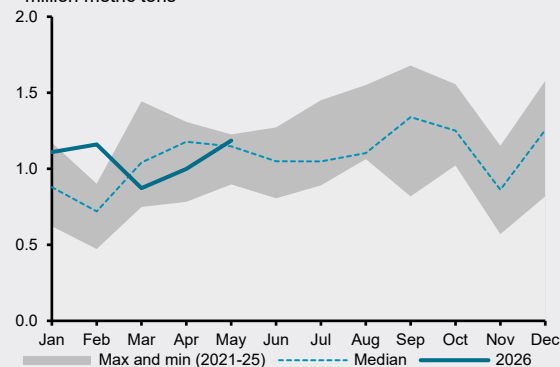


Source: Secex/MDIC

Among oil derivatives, the early impacts on the imports of diesel (Figures 9 and 10), the main imported item, stand out.⁶ Prices rose by 64% in Mar-May when compared with the same period in 2025. This increase is much higher than the change in the price of exported crude oil, which reduces the net positive effect of the rise in Brent oil price on the trade balance. The asymmetry between these changes helps explain the reason why the simplified calculation is not fully corroborated by early data, since it implicitly assumed a proportional pass-through to export and import prices.

Figure 9 – Diesel imports - volume

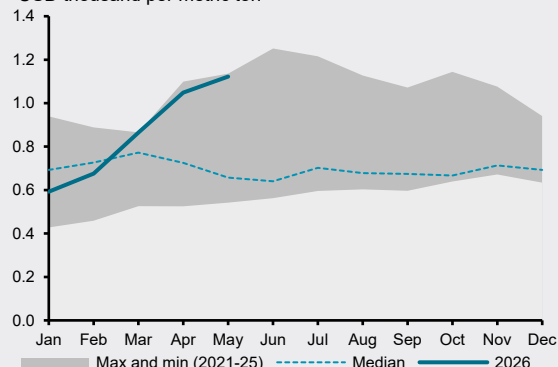
million metric tons



Source: Secex/MDIC

Figure 10 – Diesel imports - price

USD thousand per metric ton



Source: Secex/MDIC

Summing up, the oil price shock tends to benefit the trade balance of crude oil and derivatives, since Brazil runs a surplus in this segment. An early positive impact is observed in the first monthly data available after the outbreak of the conflict, although at a more moderate magnitude than a simplified analysis based on 2025 data could suggest.

6/ In 2025, imports of diesel accounted for 61% of the total imported value of oil derivatives.

This occurs because the increase in exported oil prices was smaller than that observed for imported products, especially diesel, for which prices increased due to, among other factors, wider refining margins (crack spreads).

Exports to the Middle East

In addition to the impacts related to the price of crude oil and derivatives, Brazil maintains a direct trade relationship with the other countries in the Middle East, the region where the conflict occurs. Therefore, some impact on exports to this region is expected. Brazil exported USD 16.1 billion to the Middle East in 2025, equivalent to 4.6% of total exports in the year⁷ (Table 1) and 0.7% of GDP. Despite the little relevance of this participation in aggregated terms, the breakdown of the exports basket reveals the importance of this destination for some specific goods. This region absorbs around one third of the total Brazilian exports of chicken and corn and is also a relevant destination for sugar cane exports.

Table 1 – Brazilian exports in 2025

USD billion			
Product	Middle East	World	Middle East (%)
Poultry meat	3.1	8.8	34.9
Corn	2.8	8.6	32.4
Sugar	2.4	14.1	16.9
Iron ore	1.8	29.0	6.2
Beef	1.2	16.6	7.1
Soybeans	0.9	43.5	2.1
Coffee	0.4	14.9	2.5
Gold	0.3	6.6	5.2
Others	3.3	206.2	1.6
Total	16.1	348.3	4.6

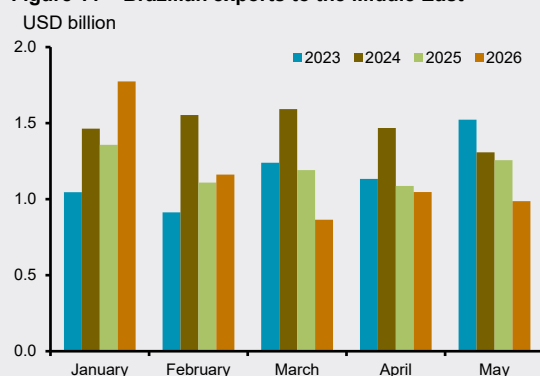
Source: Secex/MDIC

Data for 2026 indicate that exports to the region grew by 19% in Jan-Feb, the period immediately before the outbreak of the conflict, when compared with the same period in 2025 (Figure 11). However, a 18% decline (USD 0.6 billion) was observed in Mar-May, also compared with the same period in 2025. Moreover, March, April, and May 2026 corresponded to the lowest export levels to the Middle East when compared with the same months in recent years.

Despite this unfavorable movement, it only accounts for a low share of total exports. Even in the early months of the conflict, when a relevant logistics crisis took place in the region, Brazilian exports remained largely unchanged. The Middle East is, as shown, a large consumer of Brazilian corn, and shipments of this commodity are heavily concentrated in the second half of the year.⁸ Thus, the likely negative effects are not expected to have been fully consolidated yet and may not even be felt on a large scale, depending on the unfolding of the conflict.

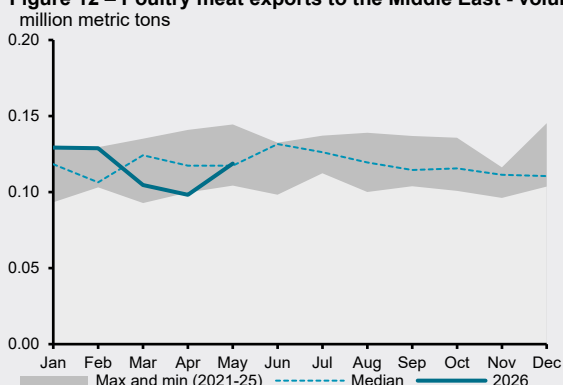
7/ The sum of data for the United Arab Emirates, Saudi Arabia, Iran, Iraq, Oman, Bahrain, Israel, Jordain, Lebanon, Qatar, Yemen, Kuwait, Palestine, and Syria was used for calculating the aggregate information for the Middle East.

8/ In 2025, 83% of total value of exports of corn occurred in the second half of the year. The availability of grains depends on the crop's seasonality, heavily dependent on the second harvest.

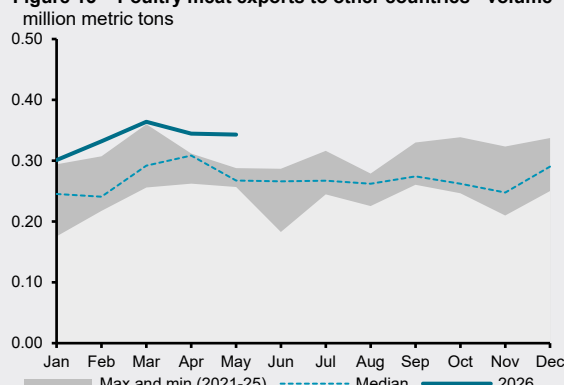
Figure 11 – Brazilian exports to the Middle East

Source: Secex/MDIC

Regarding the exports of poultry meat, the figures below show the exported quantum, broken down by the Middle East (Figure 12) and other countries (Figure 13). Despite the high levels of the volume exported to the other regions, even above the peaks registered in recent years, the exported quantum to the Middle East fell sharply, particularly in March and April. Exports to the region, which stood around 130 thousand tons in January and February, averaged slightly above 100 thousand tons in Mar-May. Average export values dropped from USD 259 million to USD 220 million on the same comparison basis.

Figure 12 – Poultry meat exports to the Middle East - volume

Source: Secex/MDIC

Figure 13 – Poultry meat exports to other countries - volume

Source: Secex/MDIC

Lastly, it is worth highlighting that corn and poultry meat are largely consumed on the domestic market and any likely shifting of exports to the local market would bring economic impacts beyond the trade balance, including on prices.⁹

Fertilizers

The analysis of imports of fertilizers in the context of the Middle Eastern conflict is relevant for many reasons. Brazil is one of the largest consumers of this input, accounting for 8% of global consumption. Furthermore, more than 80% of total Brazilian consumption is supplied by imports.¹⁰ In 2025, Brazilian foreign purchases of fertilizers amounted to USD 15.5 billion, around 5% of total imports and 0.7% of GDP. This input is important for agriculture, which accounts for around 6% of GDP and has been the sector registering the largest productivity gains in recent years.¹¹

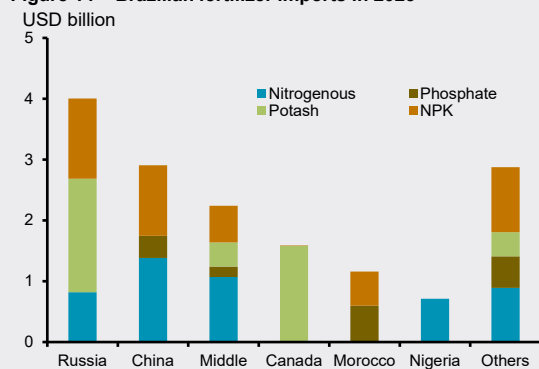
9/ Foreign Trade Secretariat (Secex) and Brazilian Association of Animal Protein (ABPA) data indicate that the Middle East is the destination of around 10% of chicken and corn produced in the country.

10/ Data from the National Fertilizers Plan (PNF).

11/ More details about the evolution of labor productivity can be found in the box [Recent evolution of labor productivity](#) in the March 2026 MPR.

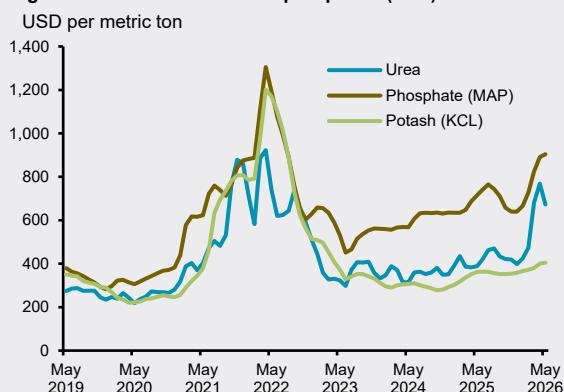
The Middle East accounted for 14.5% of total Brazilian imports of fertilizers in 2025, a percentage only lower than that of Russia (25.9%) and China (18.8%). The region plays a particularly relevant role in the global trade of nitrogenous fertilizers by concentrating around 34% of the global trade of urea.¹² As for Brazil, nitrogenous fertilizers corresponded to around one third of the imports of fertilizers in 2025, of which 22% came from the Middle East (Figure 14). This breakdown is relevant because the prices of nitrogenous fertilizers, in particular, tend to be highly correlated with oil prices, owing to the central role of natural gas as an intermediate input in their production.

Figure 14 – Brazilian fertilizer imports in 2025



Source: Secex/MDIC

Figure 15 – Brazil - fertilizer import prices (CFR)

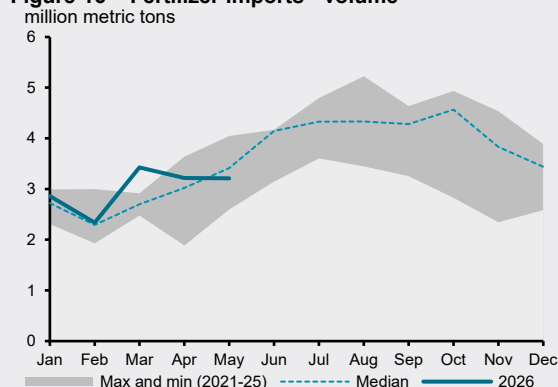


Source: Green Markets/Bloomberg

Data shown by Figure 15 reveal that the reference price of granular urea delivered to Brazil rose by 50% in May compared with the Jan-Feb 2026 average, an increase that spilled over to the prices of phosphate (29.7%) and, to a small extent, to potassium (9.7%). This increase in prices can potentially reduce the positive short-term impact of the conflict on the trade balance and, eventually, influence the production and exports of grains ahead.

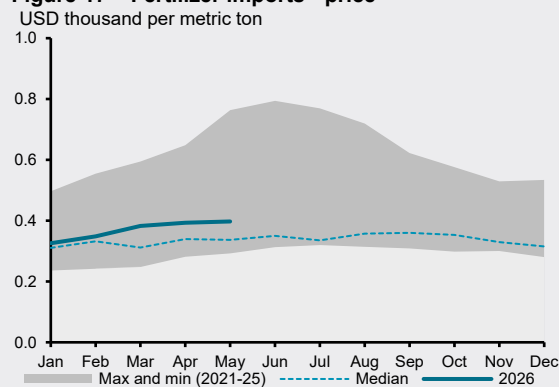
This potential largely depends on the period when this good is imported throughout the year, which is associated with the seasonality of crops in the country, especially of grains. Soybeans – for which the production is less dependent on nitrogenous fertilizers – and corn are predominantly sowed in the fourth quarter of the year, while the second-harvest corn – which accounts for more than 75% of the domestic production of this cereal – is sowed right after the harvest of soybeans, mainly in the first four months of the year. This characteristic implies that the imported volume of fertilizers, especially of nitrogenous ones, grows significantly in the second half of each year (Figures 16 and 18). Thus, the economic shock from the conflict begun in late February occurred at a potentially less harmful period to the Brazilian imports of fertilizers.

Figure 16 – Fertilizer imports - volume



Source: Secex/MDIC

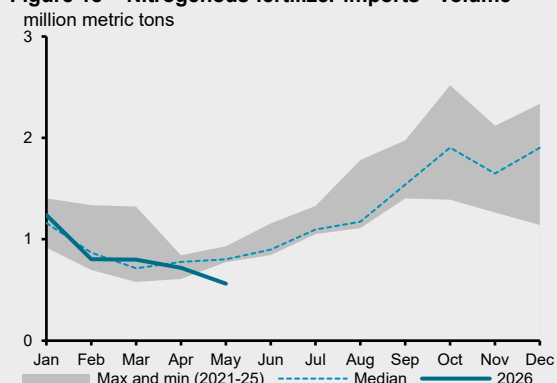
Figure 17 – Fertilizer imports - price



Source: Secex/MDIC

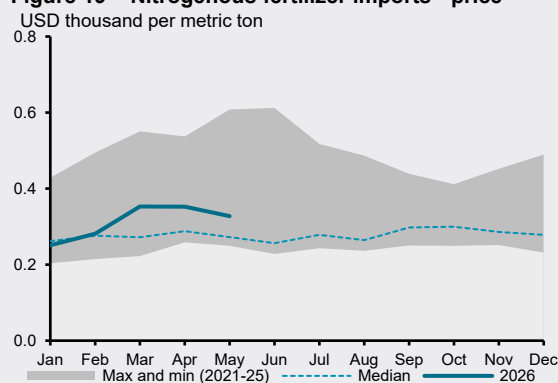
12/ Data from the International Fertilizer Association (IFA). A simple classification of mineral fertilizers indicates three main groups, according to the predominant nutrient: nitrogenous, phosphate, and potash. The NPK acronym is commonly used for fertilizers combining these nutrients. Urea, in turn, is a nitrogenous fertilizer widely used in agriculture.

Figure 18 – Nitrogenous fertilizer imports - volume



Source: Secex/MDIC

Figure 19 – Nitrogenous fertilizer imports - price



Source: Secex/MDIC

Therefore, a limited impact of the conflict is expected on the production and exports of grains in 2026, since a large amount of the required fertilizers had been imported before its outbreak. Nonetheless, as the largest share of imports of fertilizers is concentrated in the second half of each year, a more significant impact could affect the 2027 harvest of grains, depending on the duration of the shock and its developments.

Conclusion

The economic shock resulting from the Middle Eastern conflict tends to benefit the Brazilian trade balance, with early positive impacts via oil prices being already observed. The impacts on direct exports to the Middle East also seem to be present, but tend to be limited, since the shipments to the region accounted for just 4.6% of total exports in 2025, and 0.7% of GDP. Some stronger negative effect may be observed as of the second half of the year, when imports of fertilizers intensify and the corn crop should be transported towards that region. Finally, the effects described in this box are preliminary, being subject to revision according to the conflict's developments, and could be smoothed or reverted in case of a settlement, or even intensified in the opposite scenario.

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 56 billion (2.1% of GDP), while the projection for net inflows of direct investment liabilities increased to USD 75 billion (2.8% of GDP).

The updated projection for Brazil's external accounts in 2026 indicates a current account deficit of USD 56 billion (2.1% of GDP), slightly lower than that projected in the previous MPR and smaller than that recorded in 2025. The increase in the trade balance, mainly driven by higher oil prices, explains most of this revision. Net inflows of direct investment liabilities were also revised, to USD 75 billion (2.8% of GDP), a projection somewhat above that presented in the previous MPR and still higher than the current account deficit. However, the projected scenario for the external accounts remains subject to higher-than-usual risks due to the repercussions of the conflict in the Middle East.

Table 1 – Projections for the external accounts

Itemization	USD billion			
	2025	2026	2026 Forecast	
	Year	Jan-Apr	Previous	Current
Current account	-67	-22	-58	-56
Balance in goods	60	22	73	78
Exports	351	117	374	385
Imports	291	95	301	307
Services	-51	-17	-54	-56
of which: Travel	-12	-4	-14	-15
of which: Transport	-14	-4	-14	-15
Primary income	-81	-28	-82	-83
of which: Interests	-28	-10	-30	-31
of which: Dividends	-54	-18	-52	-52
Investment - liabilities				
DI liabilities	78	30	70	75
Portfolio investments	15	21	5	15
Other investments ¹	41	11	0	0

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

Compared with what was projected in the previous MPR, the upward revision of exports reflected a combination of increases in both volume and, especially, in prices expected.¹ In terms of *quantum*, stronger growth is expected in primary goods, in line with the outlook for agricultural production. As for prices, increases in soybeans, beef, and especially oil stand out, following the dynamics of international prices. The imported value was also revised upward, mostly reflecting higher prices, especially for fuels.

1/ The box [Early impacts of the conflict in the Middle East on the trade balance](#) analyzes how changes in oil prices may affect Brazil's trade balance, while also exploring other channels through which the conflict may also impact it. The effects described in the box are preliminary, being subject to revision as the conflict and its developments unfold and could be mitigated or reverted in case of easing of tensions, or even intensified in the opposite scenario.

The projection for the services account deficit was also revised upward compared with the previous MPR. This revision partly reflected the expectation of higher freight costs and longer logistics lead times, amid uncertainty regarding the full resumption of traffic through the Strait of Hormuz and the normalization of oil and derivatives flows. Expectations for travel expenses also increased slightly, in line with the recent dynamics, the BRL appreciation, and the still tight labor market. In the primary income account, the slight increase in the expected deficit reflects higher net interest expenses, associated with the negative impact of increased global uncertainty on international interest rates. The projection for net expenses on profits and dividends was maintained compared with the previous MPR.

The projection for direct investment liabilities rose to USD 75 billion. In addition to the inflows already recorded until April, the prospect of stronger export performance favors foreign capital investments in companies in the country. Under this projection, direct investment liabilities are approaching the level seen in 2025, despite the more uncertain global environment. For portfolio investment, there was an upward revision, reflecting the outcome of the first four months of the year, which included sovereign debt issuances. Despite the still uncertain global environment, the outlook remains for positive net inflows in portfolio investment for the fourth consecutive year, concentrated in debt securities and supported by interest rate differentials.

Figure 1 – Current account

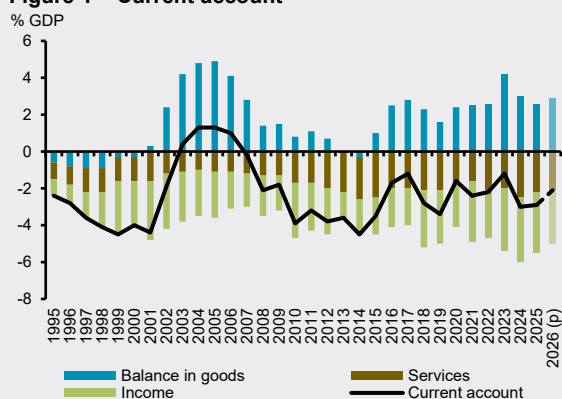
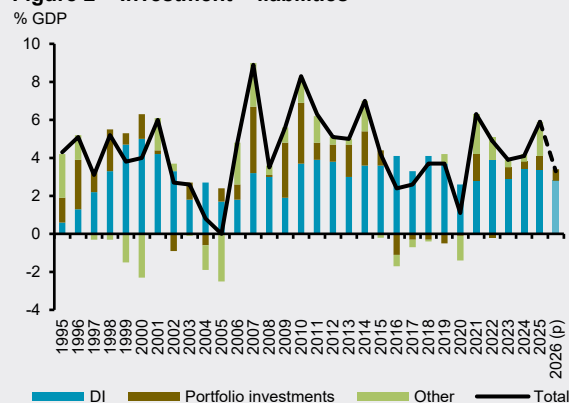


Figure 2 – Investment – liabilities



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 PCQ¹ 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

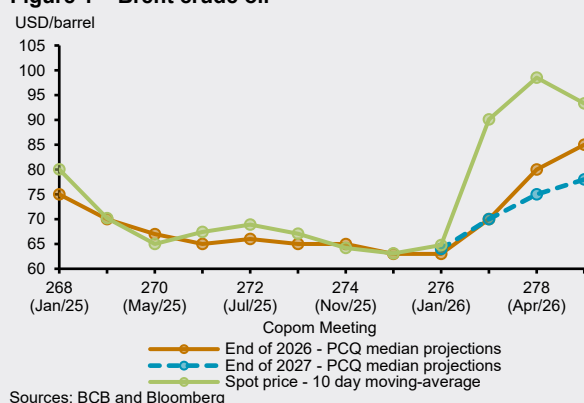
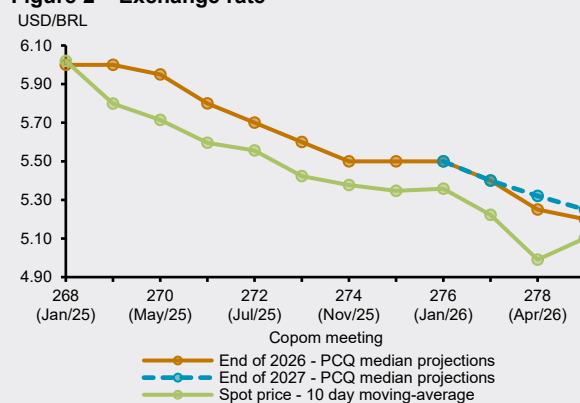


Figure 2 – Exchange rate



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)

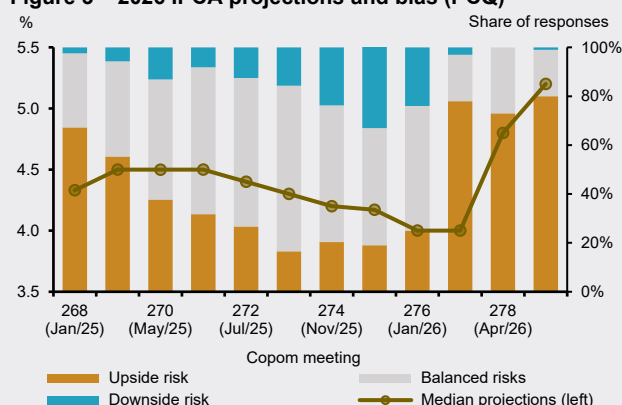
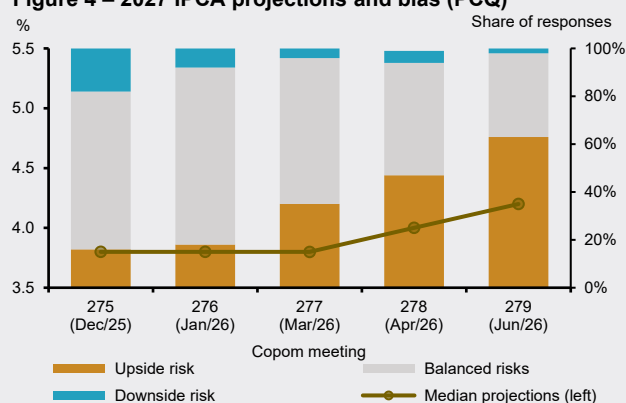


Figure 4 – 2027 IPCA projections and bias (PCQ)



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)

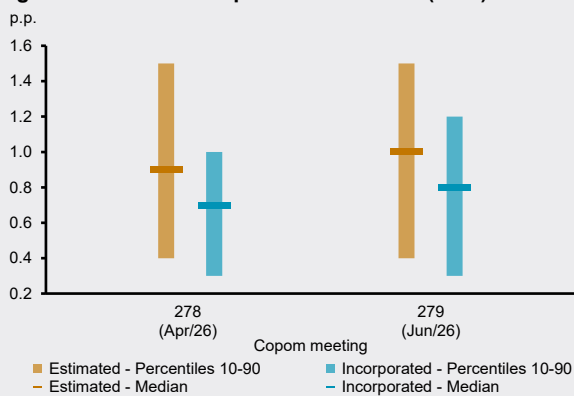
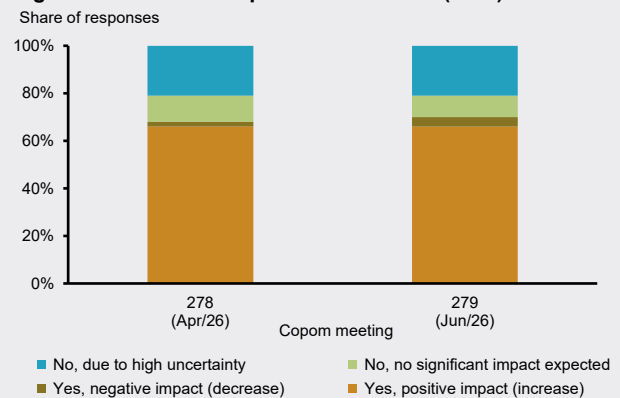
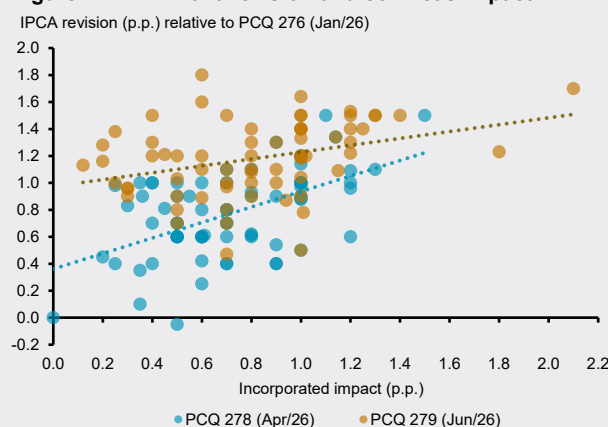


Figure 6 – Conflict's impact on 2027 IPCA (PCQ)



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

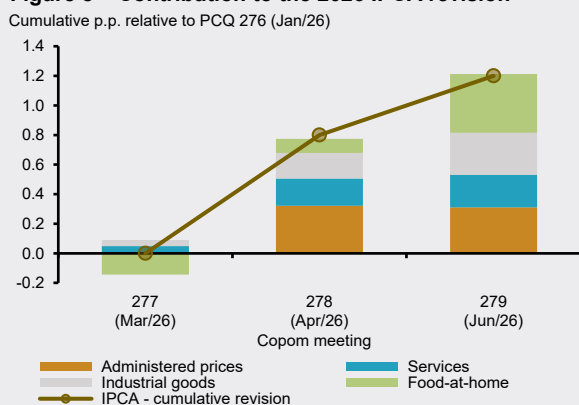
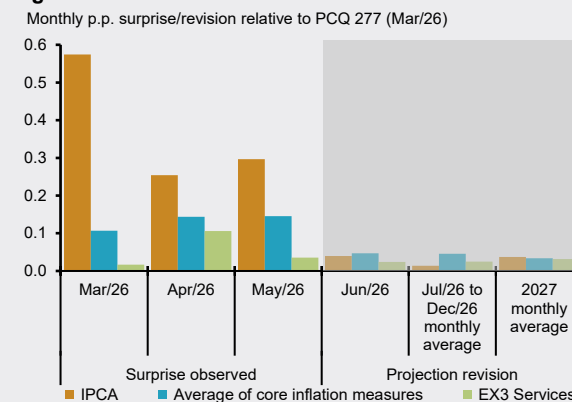


Figure 9 – 2026 and 2027 IPCA revision distribution



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)

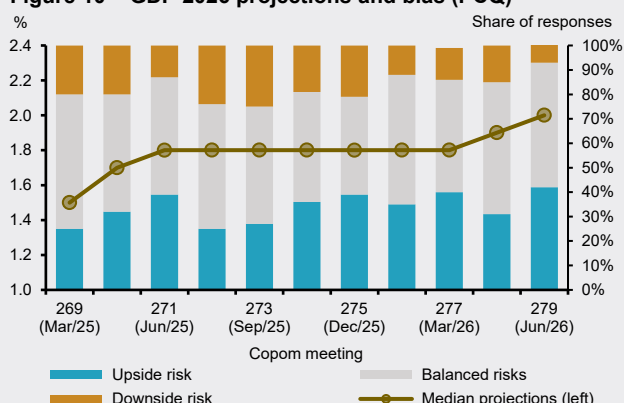
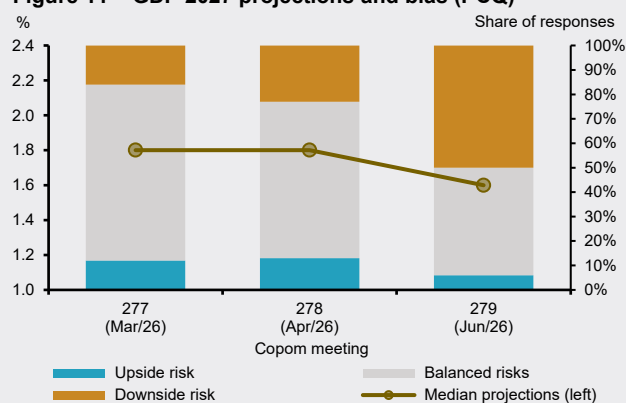


Figure 11 – GDP 2027 projections and bias (PCQ)



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)

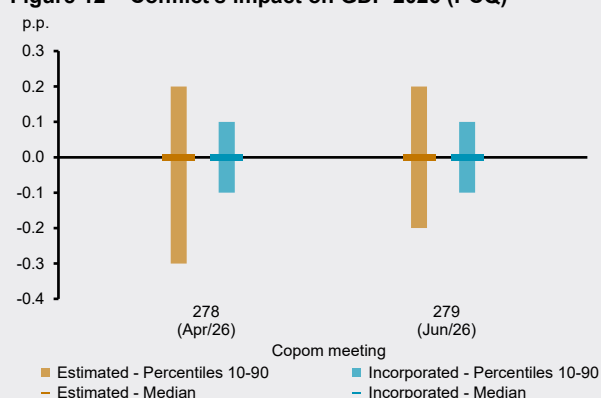
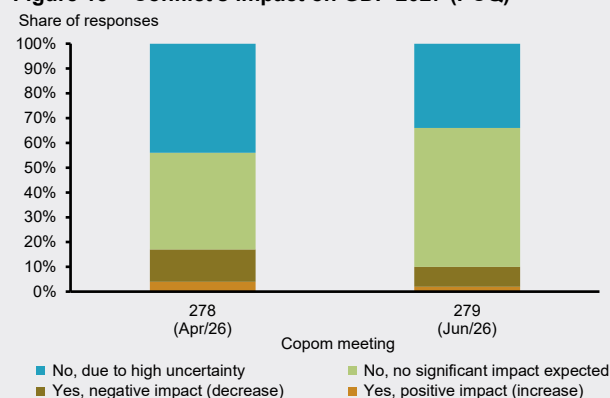


Figure 13 – Conflict's impact on GDP 2027 (PCQ)

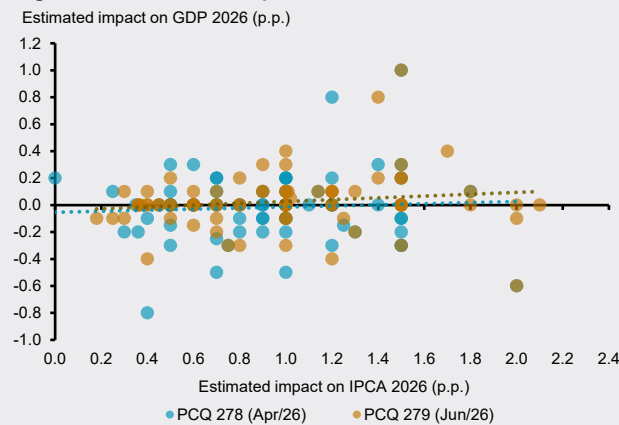


The joint analysis of the estimated impacts on the IPCA and GDP suggests that, over the considered horizon, the effects of the conflict were perceived as predominantly inflationary. In general, estimates of a higher inflationary impact were not accompanied by a more negative impact on economic activity (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)

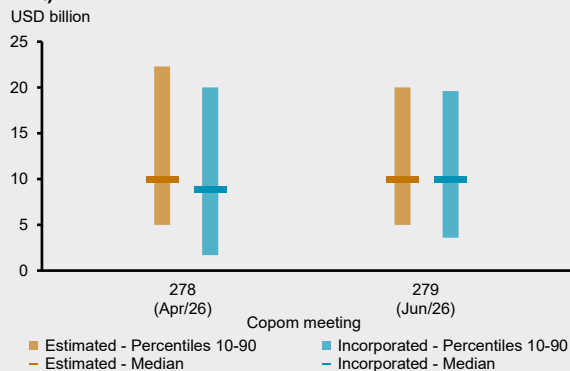
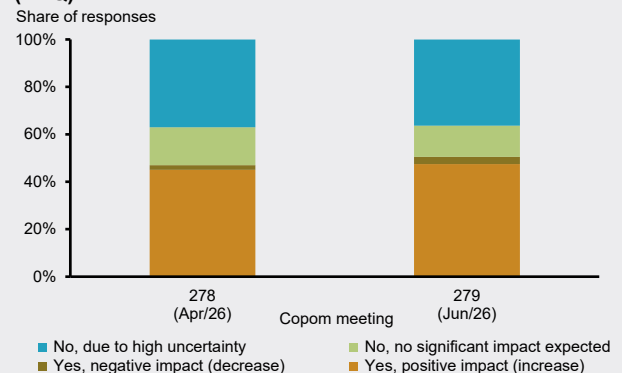


Figure 16 – Conflict's impact on trade balance 2027 (PCQ)



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)

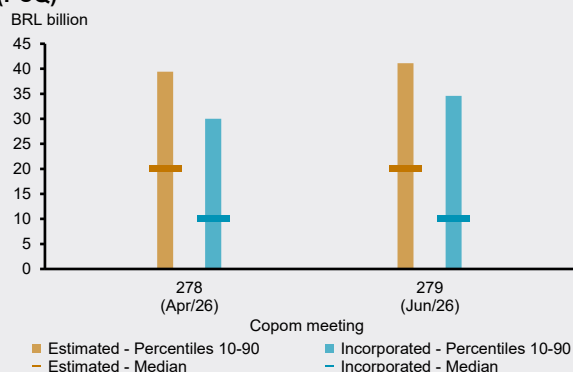
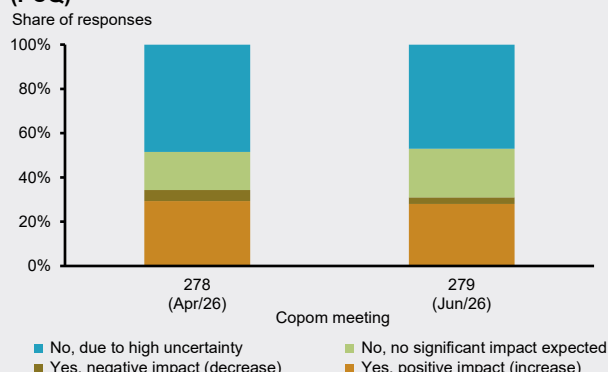


Figure 18 – Conflict's impact on primary balance 2027 (PCQ)



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)

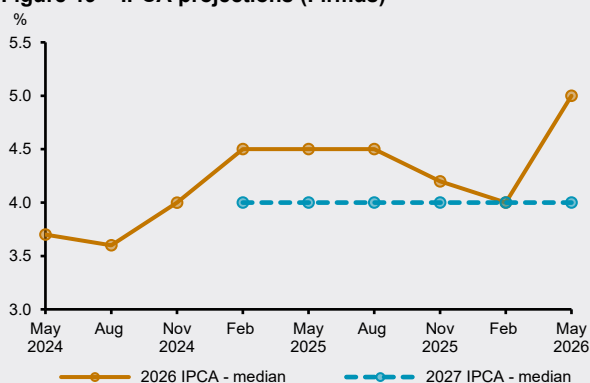
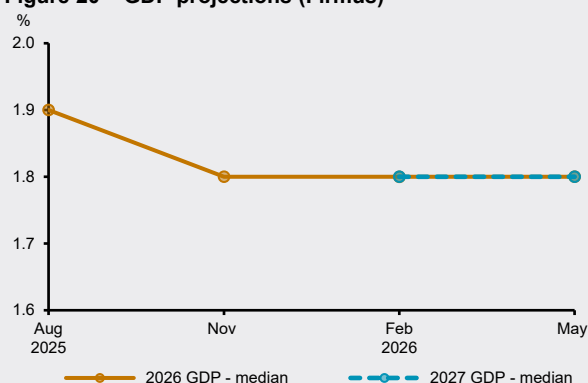


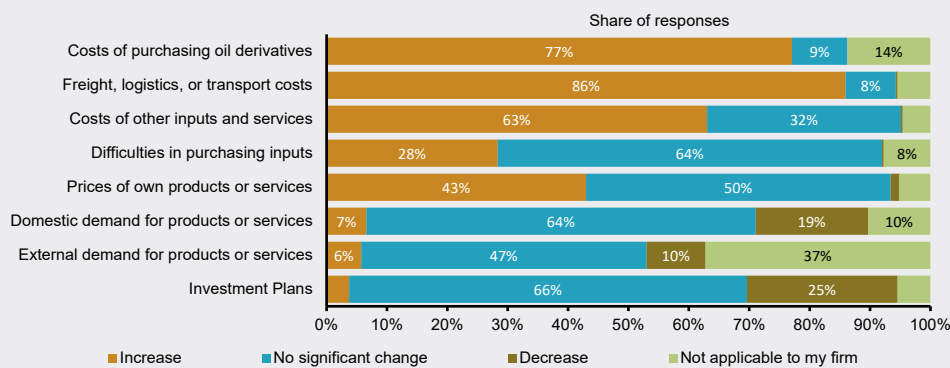
Figure 20 – GDP projections (Firmus)



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.

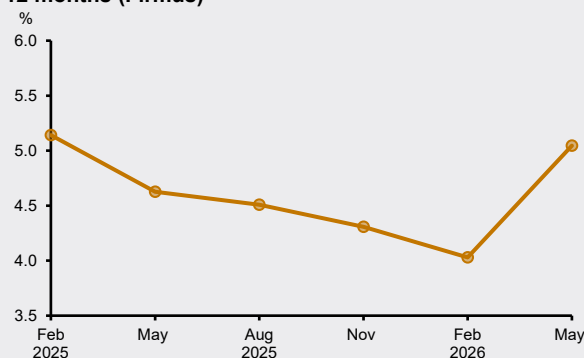
^{14/} The box [Firmus Survey – expectations and sentiment of Brazilian firms](#), in the September 2025 MPR, shows that Brazilian companies' inflation expectations follow a similar trend to the market analysts' projections published in the Focus report.

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.

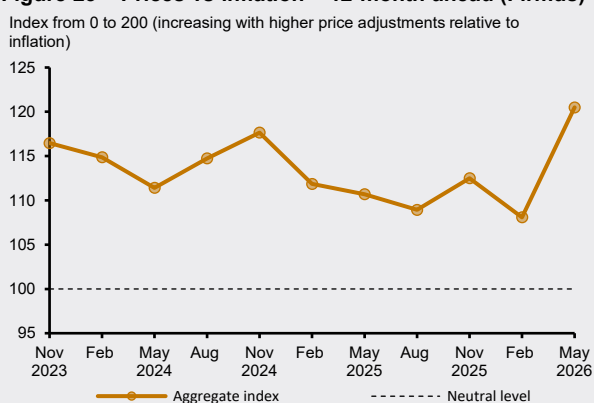
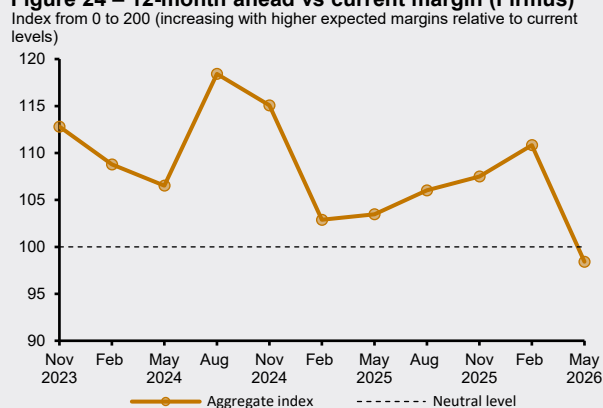
Table 1 – Conflict's impact and expectations on inputs' costs (Firmus)

Has the firm revised the expected change in input costs?	% share of respondents			
	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)**Figure 24 – 12-month ahead vs current margin (Firmus)**

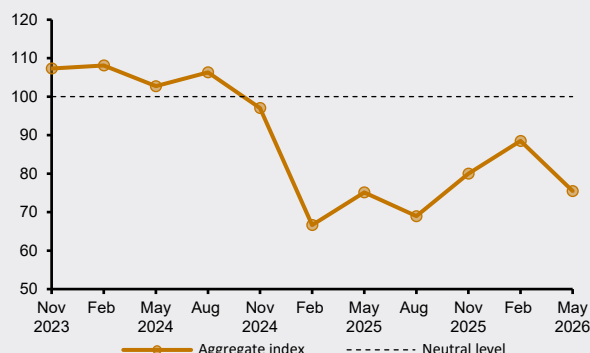
17/ Companies answered the following question: "Over the next 12 months, how do you expect the change in the prices of your company's products to compare with the expected inflation, as measured by the IPCA? a. Well above expected inflation; b. Slightly above expected inflation; c. In line with expected 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.

2

Inflation outlook

This chapter analyses the inflation outlook. Inflation projections presented extend until 2028Q4, thus comprising ten quarters ahead.⁵² Projections use the set of information available until the 279th Copom meeting held on June 16-17, 2026. As for the conditioning factors used in the projections, especially those from the Focus survey, the cut-off date is June 12, 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.⁵³ 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.⁵⁴ 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 guide Copom's decisions. The Committee uses a wide set of information to support its decisions. In the conduct of monetary policy, the horizon that the BCB deems appropriate for the return of inflation to the target depends on the nature and persistence of the shocks and the transmission mechanisms operating in the economy.

2.1 Revisions and short-term projections

Consumer inflation in the Mar-May quarter was significantly higher than expected, with surprises concentrated in food-at-home and administered prices. Actual inflation was 1.07 p.p. higher than that considered in the Copom scenario (Table 2.1.1).⁵⁵ In addition to food-at-home and administered prices, increases in industrial goods and services were also higher than expected. In food-at-home, a significant surprise was observed in fresh food, a typically volatile group that had been registering low changes well below the typical seasonal pattern. Changes in semi-processed food prices such as beef, long-life milk, and beans were also higher than expected. In the segment of administered prices, surprises were concentrated in gasoline, diesel, and bottled gas. Prices of fuels in the IPCA increased faster and more sharply than expected, given the assumptions of the previous MPR. Surprises in industrial goods and services were of smaller magnitude. As for industrial goods, higher-than-expected increases occurred in various components, especially in the personal hygiene item – more volatile and with a high weight in this segment. In services, the upside surprise was concentrated in airfare. The trajectory of underlying inflation measures for this segment, which exclude this sub-item, was more in line with what was expected. The projection for June headline inflation remained virtually stable since the previous MPR, falling from 0.33% to 0.32%, with higher projections for food-at-home and lower for administered prices.

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

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

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

55/ The IPCA change in the Mar-May quarter was also higher than expected by market analysts. Among the Focus participants, the median projection for Mar-May was 1.02% at the March 2026 MPR cut-off date – 1.12 p.p. below the actual IPCA.

Table 2.1.1 – IPCA – Inflation surprise

	% change				
	2026				
	Mar	Apr	May	Quarterly up to May	12-month up to May
Copom's scenario ^{1/}	0.33	0.42	0.32	1.07	3.63
Actual IPCA	0.88	0.67	0.58	2.14	4.72
Surprise (p.p.)	0.55	0.25	0.26	1.07	1.10

Sources: IBGE and BCB

1/ Scenario at the March 2026 Monetary Policy Report cut-off date.

Short-term monthly projections indicate 12-month inflation still above the upper limit of the tolerance interval around the inflation target (Table 2.1.2). Changes in food-at-home prices are expected to be lower than in the Mar-May quarter, due to a more favorable seasonality for fresh products in this period. The likely transition to an *El Niño* scenario in the second half of the year adds uncertainty to prices in this segment, usually more volatile and dependent on supply conditions. Fuel prices continue to depend on the evolution of international prices of oil and refined products and on the domestic price subsidy measures for these goods. Still in the segment of administered prices, the projection incorporates increases in residential electricity tariffs, with the transition to more restrictive tariff flags in the period.⁵⁶ Prices of industrial goods are expected to continue showing higher changes than in the second half of 2025 due to the weaker effect of the exchange rate appreciation, to the impact of higher taxes on cigarettes and to cost pressures derived from the oil shock, and from the increase of prices of metal commodities and of electronic components. In the segment of services, the projection considers that underlying inflation measures should remain under pressure, consistent with the high degree of inertia in the prices of this segment and the still tight labor market. In this context, the 12-month IPCA change is expected to remain above the upper limit of the target tolerance interval.

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

	% change			
	2026			
	Jun	Jul	Aug	Sep
Monthly change	0.32	0.26	0.23	0.16
Quarterly change	1.58	1.16	0.81	0.65
12-month change	4.81	4.81	5.17	4.83

Sources: IBGE and BCB

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

2.2 Conditional projections

Inflation determinants and conditioning assumptions⁵⁷

The trajectory assumed for the Selic rate, extracted from the Focus survey, is considerably higher than in the previous MPR. In the March 2026 MPR, the Focus trajectory considered that the monetary policy calibration cycle would start with a 0.25 p.p. cut in the March meeting and that the pace would accelerate in the subsequent meetings, bringing the Selic rate to 12.25% by the end of 2026 and to 10.50% by the end of 2027. The 0.25 p.p. cut in the March meeting was confirmed but not the acceleration of the pace in April. The prospective trajectory considered by Focus now indicates a more gradual interest rate decline, with the Selic reaching 13.75% by the end of 2026 and 12.00% by the end of 2027. For the end of 2028, the expected rate was raised from 10.00% to 10.25% (Figure 2.2.1).

56/ The projection presented in Table 2.1.2 does not incorporate the impact on electricity tariffs of the possible distribution of funds linked to the Itaipu bonus. This impact is restricted to the month in which the distribution of funds occurs and is expected to have a neutral effect on cumulative inflation from June to September 2026.

57/ 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.

Inflation expectations have deteriorated, even for the period beyond the relevant horizon for the monetary policy. For 2026, the increase in the median inflation expectation of the Focus survey was significant, from 4.10% to 5.30%. For 2027, period coinciding with the relevant horizon for the monetary policy, the median expectation grew from 3.80% to 4.10%. For 2028, the increase from 3.50% to 3.68% suggests a further deanchoring of inflation expectations. 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.⁵⁸

The current trajectory of the real ex-ante Selic rate is considerably higher than that of the previous MPR. The four-quarter-ahead Selic rate, adjusted for inflation expectations over the same period – both extracted from the Focus survey and measured in quarterly averages – increased in relation to the previous MPR (Figure 2.2.2). The increase in the trajectory of the nominal Selic rate was stronger than that of inflation expectations, leading to a higher real interest rate during the entire projection horizon. Nevertheless, broadly speaking, the prospective trajectory remains of a gradual reduction of the real *ex-ante* Selic rate after the peak of 9.6% observed in 2025Q3, reaching 6.4% by the end of the horizon, a value above that considered in the previous MPR.

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

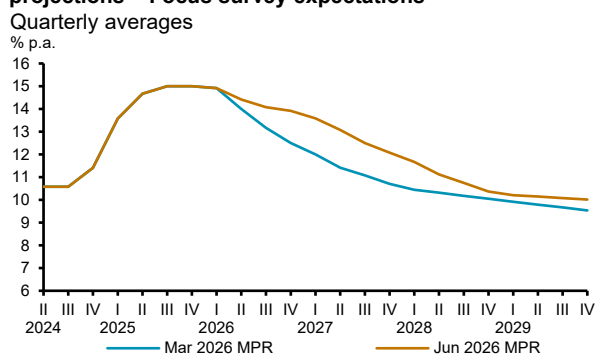
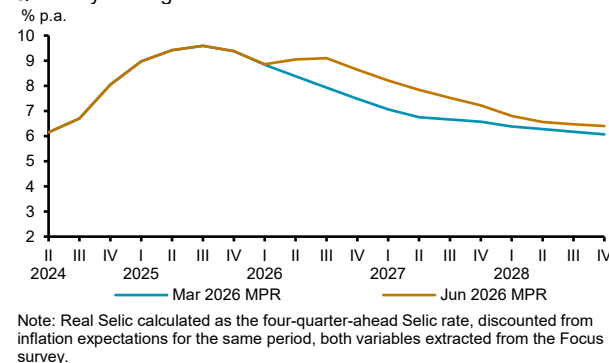


Figure 2.2.2 – Four-quarter-ahead real Selic
Quarterly averages



The neutral real interest rate assumed for projections in the reference scenario is 5.00%. This value is lower than the real *ex-ante* Selic rate in each point of the trajectory, which means that the monetary policy assumes a contractionary stance throughout the entire projection horizon, although with a decreasing degree in general. As it is an unobservable variable whose measurement is subject to high uncertainty, the BCB relies on several methodologies for the neutral rate estimation.⁵⁹ In the analysis and decision-making process, alternative inflation scenarios with different values for the neutral rate are also considered.

The BRL appreciated during the quarter but resumed a depreciation trend at the end of the period.

In the reference scenario, the exchange rate starts at USD/BRL 5.10 – 1.9% lower than the USD/BRL 5.20 considered in the March 2026 MPR – and follows a path according to the PPP (Figure 2.2.3). However, over the past month, the BRL depreciated against the USD, and the exchange rate in the reference scenario for the June's Copom meeting starts from a value 2.0% higher than the rate considered in the April's Copom meeting. The more recent movement reflected both the global USD appreciation and domestic factors.

Oil price increased even further, reflecting the developments of the Middle Eastern conflict. The outbreak of the Middle Eastern conflict in late February led to a strong increase in oil prices, which persisted after the publication of the previous MPR. The increase in prices of oil derivatives such as gasoline and diesel was even stronger than that of oil prices. The effect of these developments on short-term projections is mitigated

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

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

by subsidies to fuel prices.⁶⁰ For the medium term, the pricing of futures contracts continues to point to a decline in oil prices over time but to levels higher than those observed before the conflict. 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 at USD 100 in 2026Q2, falls to USD 85 until 2027Q1 and then starts to grow by 2% p.a. (Figure 2.2.4).⁶¹ The price trajectory from 2026Q2 is around 10% higher than in the previous MPR. The projection also incorporates a gradual normalization of the refining margins (crack spreads) of oil derivatives. Commodity prices, measured by the IC-Br in USD, have also increased since the previous MPR, especially energy ones.

Figure 2.2.3 – Exchange rate assumption for projections – PPP trajectory

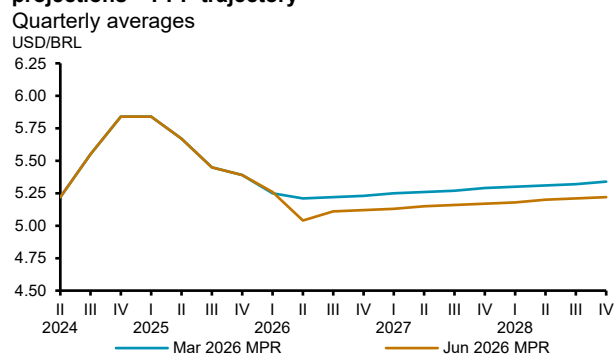
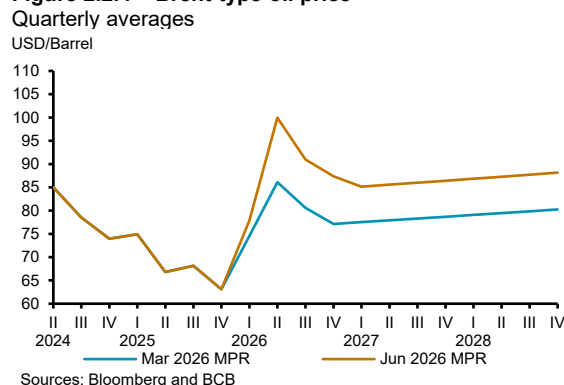


Figure 2.2.4 – Brent-type oil price



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 effects on the aggregate demand.

The reference scenario assumes a strong *El Niño* phenomenon. The most current prospect is that the Relative Oceanic Niño Index (RONI)⁶² – which was -0.1°C in the Mar-May quarter – would reach 2.1°C in 2026Q4 and then start normalizing. In March, the index was projected to reach 1.3°C by the end of 2026. In the specification used for the projections for market prices in the aggregate model and for food-at-home prices in the disaggregate model, the impact of the climate variable on inflation is high at first but downside after three quarters. This behavior represents a trend for normalization of food relative prices after the phenomenon subsides.⁶³ Therefore, considering the projected normalization of this climate anomaly as of early 2027, the effect on the 12-month IPCA in the relevant horizon is relatively modest compared with the effect forecasted for the end of 2026 and for the first three quarters of 2027. From 2028, the normalization of food relative prices shows a relevant downside contribution to the four-quarter inflation.

60/ For gasoline, a subsidy of BRL 0.44/L is considered (MP 1,358, Decree 12,984, and MF Directive 1,496). For diesel, the subsidies are of BRL 0.3515/L (MP 1,358, Decree 12,984, and MF Directive 1,584) and of BRL 1.12/L (MP 1,363). See the section "Prices" in Chapter 1 of this MPR for more details about these measures.

61/ On June 14, Sunday, after the cut-off date for calculating the trajectories of conditioning factors for the reference scenario projections, it was announced that the U.S. and Iran had reached a preliminary agreement for ending the war. This announcement was followed by a relevant decline in oil prices, with the spot price falling to around USD 80 and the sixth futures contract to around USD 76 at the time of the Copom meeting.

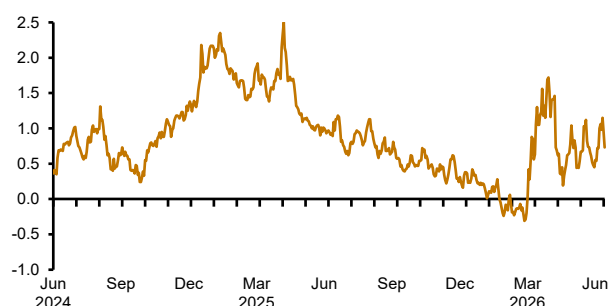
62/ The assessment of the *El Niño* phenomenon formation relies on several climate indexes, one of which is the RONI. This index, provided by the Climate Prediction Center, linked to the U.S. government's agency National Oceanic and Atmospheric Administration (NOAA), is defined on the basis of the quarterly moving average of the difference between the sea surface temperature anomaly at one specific region of the Equatorial Pacific Ocean (Niño 3.4 region, delimited by latitudes 5°N-5°S and longitudes 120°W-170°W) and the sea surface temperature anomaly in the region from 20°S to 20°N. According to this index, *El Niño* is characterized when this temperature is equal or higher than +0.5°C for five consecutive moving quarters. The forecast herein mentioned refers to the average forecast of a set of projections (ensemble) produced by the CFSv2 (PDF+Spread corrected) model of the NOAA itself.

63/ See box [Updating of small-scale semi-structural models](#) in the June 2024 IR. It should be observed that the model used in this box indicates the use of the Oceanic Niño Index (ONI). NOAA has recently replaced the ONI by RONI as the main index for sea surface temperature anomaly, since this index would be less affected by the distortions that the widespread warming of tropical seas could bring about in the measurement of temperature anomalies in the Niño 3.4 region, in the context of global warming.

There were no changes in the assumptions for the electricity tariff flags, except for the incorporation of the yellow flag released in June and the respective updating of the “neutral” trajectory ahead. The year 2025 ended with a yellow flag in December. The green flag was adopted from January to April 2026, followed by the yellow flag in May and June.⁶⁴ For the remainder of 2026, the monthly flag distribution is identical to that considered in the previous MPR: red 1 in July, red 2 in August and September, red 1 in October and November, and yellow in December. The same sequence of flags is assumed for the last months of each quarter in 2027 and beyond: green in March, yellow in June, red 2 in September, and yellow 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.

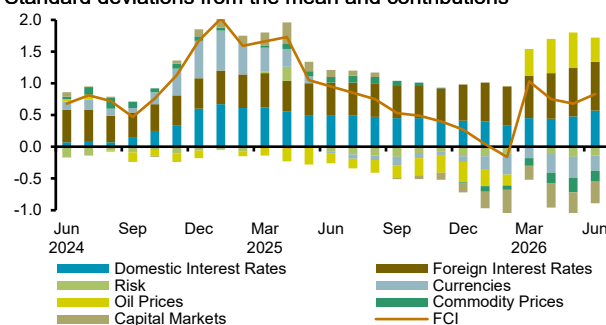
Financial conditions have oscillated since the previous MPR, becoming slightly less restrictive, mainly due to the groups of risk and capital markets. Financial conditions, measured by the BCB’s Financial Conditions Index (FCI), reached less restrictive levels in mid-June 2026 than in March 2026 (Figures 2.2.5 and 2.2.6).⁶⁵ The FCI reduction since the previous MPR was mainly derived from the decline in the Chicago Board Options Exchange Volatility Index (VIX) and the appreciation of foreign stock exchanges.⁶⁶

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



Note: The higher the value of the index, the tighter the financial conditions. Figure data: 6.3.2024–6.12.2026.

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. Jun/2026 value refers to the average until the 12th.

GDP growth was high in 2026Q1, after slowing down throughout 2025. The seasonally adjusted GDP grew by 1.1% in 2026Q1 compared with 2025Q4, following three quarters of moderate expansions around 0.3% or lower. Growth in less cyclical sectors such as agriculture and mining stood out, while more cyclical sectors also accelerated, as well as household consumption. The projected GDP growth for 2026 was raised from 1.6% to 2.0%.⁶⁷

Labor market and installed capacity utilization indicators signal low slack of production factors. The unemployment rate remained at a historical low, 5.4%, in the Feb-Apr quarter (seasonally adjusted). Net monthly average hirings, measured by the New Caged, increased from around 65,000 in the Nov-Jan quarter to around 82,000 in the Feb-Apr quarter (seasonally adjusted data). This level of net hirings indicates formal employment expansion of around 2.1% p.a., which far exceeds that of the working-age population. The seasonally adjusted Level of Utilization of Installed Capacity (Nuci), calculated by the Getulio Vargas Foundation (FGV), increased from 81.6% in February to 82.8% in May, remaining above the historical average of around 80%.

64/ The previous MPR assumed the red 1 flag for June 2026.

65/ The previous MPR used FCI data up to March 13, 2026, while the current one uses data up to June 12, 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 its decomposition into domestic and external factors, see box [Decomposition of the Financial Conditions Index into domestic and external factors](#) in the December 2022 IR.

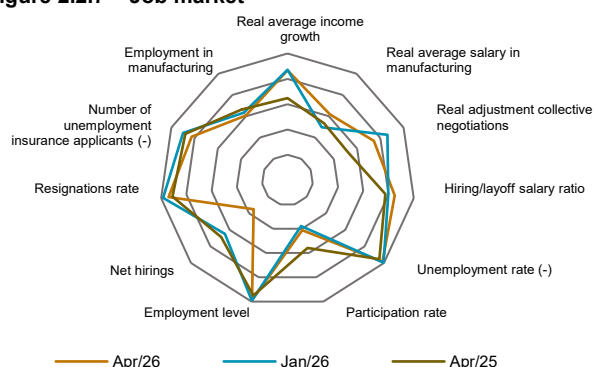
66/ It should be emphasized that the FCI reflects multiple elements and should not be interpreted as an indicator of monetary stimulus or tightening. Moreover, the relationship between this index and inflation is ambiguous because some of its components, such as those related to risk premium and exchange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

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

The labor market spider chart continues to show signs of tightness. This measure considers historical data for a series of labor market indicators until April 2026 (Figure 2.2.7.). By comparing April with January 2026, no clear trend is observed, with some indicators remaining stable and others signaling slightly greater tightness or slowdown. In the YoY comparison, indicators related to labor earnings signal a tighter labor market.

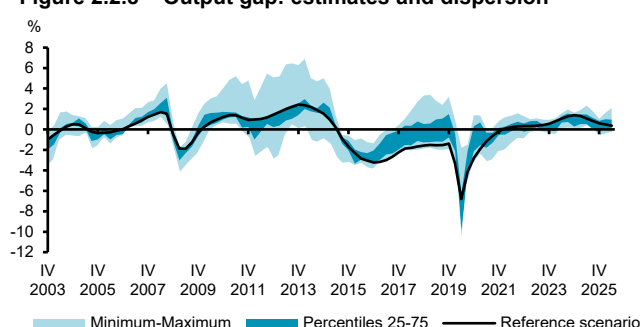
The output gap remains at positive levels but is projected to fall over the next quarters. The estimated output gap for 2026Q1 and 2026Q2 are 0.5% and 0.4%, respectively (Figure 2.2.8).⁶⁸ A reduction in the output gap to negative values is anticipated for next quarters, reaching -0.5% in 2027Q4. Tight monetary conditions play an essential role in this movement. As highlighted in previous editions of this Report, the output gap presented in this chapter incorporates information from different methodologies and Copom's judgment. It should also be noted that, due to the high level of uncertainty in output gap estimates, Copom evaluates projections with different estimates and scenarios for this variable.

Figure 2.2.7 – Job market



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

Figure 2.2.8 – Output gap: estimates and dispersion



Note: Dispersion measures were constructed using a set of selected output gap measures. See the box "Output gap measures in Brazil", in the June 2024 IR, for a presentation of a broad range of methodologies. Figure's data period: 2003Q4–2026Q2.

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;⁶⁹ and iv. assessment on the state and outlook of the economy.⁷⁰

In the reference scenario projections, inflation increases until the end of 2026, remaining above the upper limit of the tolerance interval around the inflation target for more than two consecutive quarters, and declines again in 2027. In this scenario – which uses the Selic rate from the Focus survey and the exchange rate following the PPP – four-quarter inflation, after dropping to 4.1% in 2026Q1, resumes expansion until reaching 5.2% by the end of the year. Then it declines again, reaching 3.1% in the last period considered, referring to 2028Q4 (Table 2.2.1). In the relevant horizon for monetary policy, considered to be 2027Q4, the projected inflation is 3.7%. From probability intervals built around the reference scenario (Figure 2.2.9), the estimated probability of inflation surpassing the upper limit of the tolerance interval in 2026Q4 rose from 30% to 79% (Table 2.2.2), reflecting a higher inflation projection for 2026 than in the previous MPR.⁷¹

68/ Projections for these activity variables were used for 2026Q2 when data were not available.

69/ 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.

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

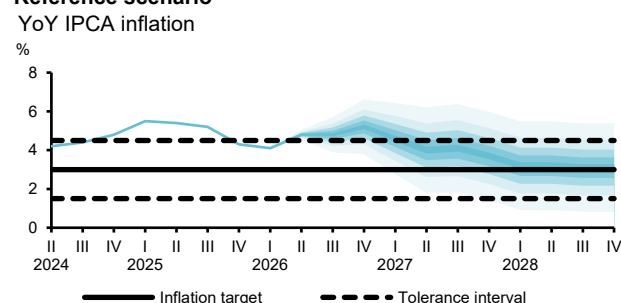
71/ It is noteworthy that, with the new "continuous target" system, in force since January 2025, inflation outside the tolerance intervals implies a target breach only in the case of its occurrence for six consecutive months, in any month.

Table 2.2.1 – Inflation projections – Reference scenario
YoY IPCA inflation

Price index	2025			2026				2027				2028				%
	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	
IPCA	5.4	5.2	4.3	4.1	4.8	4.8	5.2	4.6	4.0	4.1	3.7	3.2	3.2	3.1	3.1	
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[0.5]	[1.1]	[1.0]	[1.3]	[1.0]	[0.6]	[0.8]	[0.4]	[0.0]	[0.0]	[0.0]	-	
Market prices	5.4	5.2	3.9	3.7	4.6	4.8	5.3	5.0	4.1	4.0	3.7	3.2	3.1	3.1	3.1	
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[0.4]	[1.3]	[1.3]	[1.6]	[1.5]	[0.7]	[0.7]	[0.4]	[0.0]	[0.0]	[0.0]	-	
Administered prices	5.2	5.1	5.3	5.5	5.3	4.9	4.7	3.7	3.6	4.1	3.9	3.5	3.4	3.4	3.3	
Previous MPR difference (p.p.)	[0.0]	[0.0]	[0.0]	[1.0]	[0.4]	[0.0]	[0.4]	[-0.1]	[0.0]	[0.9]	[0.5]	[0.2]	[0.2]	[0.3]	-	

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

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



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

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

Year	Lower limit	Probability of surpassing the lower limit	Upper limit	Probability of surpassing the upper limit
2026	1.50	0	4.50	79
2027	1.50	6	4.50	28
2028	1.50	12	4.50	16

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

Compared with the previous MPR, inflation projections have risen considerably until the relevant horizon.

In the relevant horizon for monetary policy, considered to be 2027Q4, the projected inflation rose by 0.4 p.p. Among the upside factors for projections in this horizon, stand out (i) the upward surprise with the actual IPCA; (ii) the higher output gap estimate; (iii) the rise of prices of oil and derivatives and of commodities in general; and (iv) the increase of inflation expectations. Conversely, the higher trajectory assumed for the Selic rate and the exchange rate appreciation contributed to mitigate this increase. Compared with the Copom meeting held in April (278th meeting), inflation projections in this horizon increased by 0.2 p.p. (see Minutes of the 278th meeting).

Projections for the 2028 quarters were slightly revised. The normalization of relative food prices, after the rise caused by the *El Niño*, coupled with a real interest rate trajectory higher than in the previous MPR, contributed to counterbalance the effect of the drivers for the upside revision described in the previous paragraph.

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 in both 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 most recent meeting (279th meeting), Copom stressed that the risks to inflation, both to the upside and to the downside, remain higher than usual, with an upward asymmetry. Currently, inflation projections present further distancing from the target in the relevant horizon for monetary policy. At the same time, uncertainty on these projections remains higher than usual, due to the lack of clarity about the trajectory of the conditioning variables of the projection models considered.

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. Since the previous MPR, expectations for 2029 remained at 3.50% but, for 2028, rose from 3.50% to 3.69%, moving further away from the inflation target. 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 (including those characterized as supply shocks), to pressure the dynamics of prices and salaries, and to increase the exchange rate pass-through to prices. Moreover, this could intensify the second-round effects of supply shocks.

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.

iv) stimuli to aggregate demand, particularly its consumption component, resulting in economic activity growth above potential output, weakening some of the usual transmission channels of monetary policy.

Government measures and actions recently announced could provide further stimuli to the aggregate demand, in a context of low slack of production factors. These measures, of fiscal or credit nature, will be considered in the reference scenario only when definitely approved. However, even in this case, relevant uncertainties remain about the magnitude of its impact on economic activity and inflation, given the specificities and details involving each of these policies. Although uncertainties of this nature are common, their relevance is exacerbated in the case of implementation of a large set of new government's measures and actions.

Downside inflation risks in the reference scenario:

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

Despite slightly stronger-than-projected economic activity in 2026Q1, the prospective scenario is still of a certain moderation in growth. It is noteworthy that the economic deceleration is part of Copom's reference scenario, and its materialization is in line with the functioning of monetary policy transmission mechanisms and its impact on inflation. However, the pace of the slowdown could be faster and stronger than that projected by the reference scenario. In this case, the output gap would be even more negative in the future, amplifying the effects of the economic slowdown on prices and inflation expectations.

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

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

iii) reduction in commodity prices with disinflationary effects

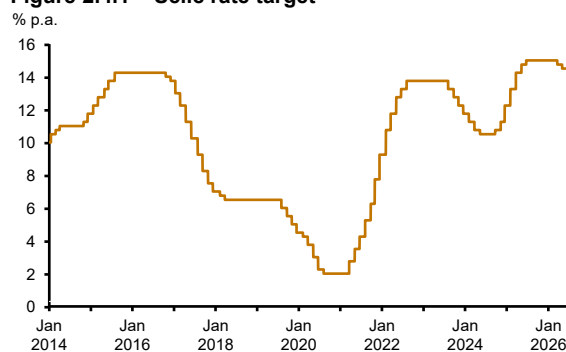
Commodity prices are highly influenced by the world business cycle. In the event of a deceleration of the global economy, commodity prices could be pressured downward, which, if not followed by a balancing effect of a BRL depreciation, would have disinflationary implications for the domestic economy.

2.4 Conduct of monetary policy

In the March 2026 meeting, the Committee reduced the base interest 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 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, could be made so as to ensure convergence to the inflation target.

In the April 2026 meeting, the Committee reduced again the base interest rate by 0.25 p.p. to 14.50% p.a. The Committee deemed it appropriate to proceed with the monetary policy calibration cycle, and established that its magnitude and duration would be determined over time, as new information was incorporated into its assessments. In addition, Copom judged that this decision was 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 implied smoothing economic fluctuations and fostering full employment.

Figure 2.4.1 – Selic rate target



Note: Daily values from 1.1.2014 to 6.19.2026.

In the most recent meeting, in June 2026, the Committee reduced the base interest rate to 14.25% p.a.

The Committee deemed it appropriate to proceed with the monetary policy calibration cycle, insofar as the prolonged period of the Selic at a contractionary level provided evidence about monetary policy transmission to the economic deceleration. Due to the dynamic of the risks associated to the evolution of prices, the Committee reaffirms that the total magnitude of the calibration cycle will be established in light of new information aiming to assure inflation convergence to the 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. Without compromising its fundamental objective of ensuring price stability, this decision also implies smoothing economic fluctuations and fostering full employment.

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 is the estimates provided by several small-scale semi-structural models and are complemented by information from other methodologies.⁷² 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.

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

Analysis of inflation and economic activity risks

This box presents exercises to measure inflation and economic activity risks in Brazil based on quantile regressions. As for inflation, a Quantile Phillips Curve is used to assess risks in the upper tail of the distribution, while, for activity, the growth-at-risk methodology is applied to characterize low growth risks. The results indicate that adverse shocks can significantly change the conditional distributions, increasing the probability of scenarios with higher inflation or lower growth.

The conduct of monetary policy requires continuous monitoring not only of expected inflation and economic activity values, but also of the distribution of risks surrounding these central trajectories. In environments subject to financial, geopolitical, and external shocks, traditional measures based exclusively on point projections may be insufficient to capture relevant macroeconomic vulnerabilities.

In this context, this box presents two complementary exercises. The first uses a Quantile Phillips Curve to build conditional densities of inflation and to measure probabilities of upward inflationary pressures. The second uses the growth-at-risk (GaR) methodology to characterize the conditional distribution of the Gross Domestic Product (GDP) growth, with an emphasis on tail risks associated with deteriorating financial conditions and the term structure of interest rates.

Both empirical applications share an approach based on quantile regressions, allowing to assess how different determinants do not only affect the central tendency but also the skewness, dispersion, and probability of adverse scenarios, providing a more comprehensive evaluation of the balance of macroeconomic risks in Brazil.

Methodology

Both applications presented in this study use quantile regressions as the central tool to model conditional distributions of macroeconomic variables. Unlike traditional models focused on the conditional mean, the quantile regression allows a direct estimation of different points of the distribution, providing a greater ability to capture skewness, heterogeneity, and tail risks.

The Quantile Phillips Curve methodology is used in the inflation exercise, according to López-Salido and Loria (2024). The dependent variable is inflation as measured by the 12-month Extended National Consumer Price Index (IPCA) with a one-year forecast horizon. The covariates include past inflation, expected inflation, the output gap, imported inflation, financial conditions, and exchange rate volatility.¹ From the quantile regressions, inflation distributions and measures associated with the risk of higher future inflation are obtained.

In the exercise for economic activity, the growth-at-risk (GaR) approach, presented in Adrian et al. (2019), is used. In the first stage, quantile regressions are estimated for different quantiles of the distribution of 4-quarter GDP, using as covariates the current GDP growth, the Financial Conditions Index (FCI), and the yield curve slope of the Term Structure of Interest Rates (ETTJ).² In the second stage, the estimated quantiles are

1/ Sample with monthly frequency, from January 2004 to April 2026. For further details, see Banco Central do Brasil (BCB) – 2023.

2/ Sample with quarterly frequency, from March 2006 to March 2026. Further FCI details on BCB (2020). The yield curve slope (ETTJ) is calculated as the difference between 5-year and 1-year interest rates (pre-DI swaps). Both the FCI and the ETTJ are considered in first differences.

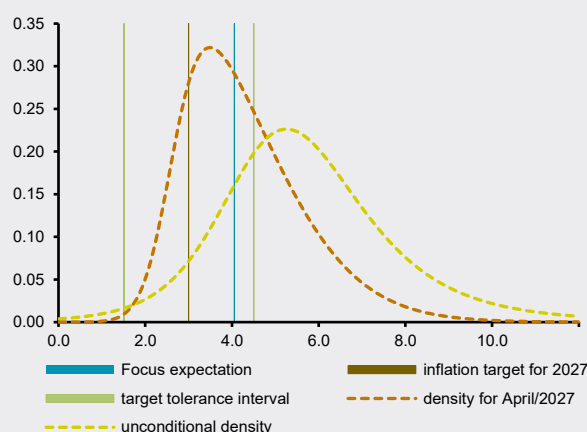
mapped into an asymmetric-t parametric distribution through a quantile matching procedure, allowing to construct conditional densities of economic growth.

In both empirical exercises, baseline and stress scenarios are considered. The stress exercises seek to assess how adverse shocks to macroeconomic conditions affect the distribution of the variables of interest, allowing to measure shifts in the central tendency, changes in dispersion, and variations in the probability of extreme events.

Inflation risks

The inflation risk analysis in the baseline scenario, shown in Figure 1, indicates that the conditional distribution of projected inflation for April 2027 exhibits positive skewness, with a longer tail toward higher inflation values. Figure 1 also shows that the conditional density of inflation lies below the unconditional density in its central region, suggesting prospective inflation below the historical average. Nevertheless, this positive skewness implies relevant risks in the upper tail.

Figure 1 – Inflation density forecast



Obs.: Inflation measured by 12-month IPCA % change. Focus expectation is the median of 12-month smoothed inflation on May 29, 2026.

Table 1 presents the main results of the inflation exercise. In the baseline scenario, the median of the conditional distribution is 4.04% p.a., a value very close to the Focus survey's inflation expectation (4.06%).³ The same scenario estimates a 38% probability of inflation exceeding the upper limit of the target (4.50% p.a.) in April 2027. In stress scenario 1, associated with increased demand,⁴ the probability of exceeding the upper limit of the target rises to 52%. In stress scenario 2, which incorporates an external cost shock⁵ in addition to stronger domestic demand, this probability reaches 76%.

3/ Median of Focus survey expectations for smoothed 12-month IPCA inflation, collected on May 29, 2026.

4/ Stress scenario 1 is characterized by stronger domestic demand, reflected in a more positive output gap. This environment may result from fiscal stimulus, credit expansion, or greater economic activity resilience, generating inflationary pressures through higher capacity utilization and broader cost pass-through to prices. This scenario assumes the output gap at the upper limit of the trajectories considered for March 2026 in the March 2026 MPR, maintaining financial conditions, imported inflation, and long-term inflation expectations unchanged.

5/ In stress scenario 2, in addition to stronger domestic demand, an adverse external supply shock is incorporated, associated with rising oil prices and geopolitical tensions. This shock translates into high imported inflation, which adds to demand-side pressures already existing in stress scenario 1. Therefore, it consists of an even more severe scenario, in which domestic and external factors move towards the same direction, increasing both the expected level of inflation and the risks surrounding its trajectory. Thus, this scenario assumes the same output gap as in stress scenario 1, combined with the double of imported inflation observed in March 2026.

Table 1 – Statistics of the inflation conditional densities under different scenarios

Scenario	Percentile 25	Percentile 75	Stand.Dev.	Mode	Median	Mean	Prob. infl. > 4.50%
Baseline	3.24	5.08	1.42	3.49	4.04	4.28	38%
Stress 1	4.05	5.23	0.89	3.93	4.55	4.74	52%
Stress 2	4.53	6.10	1.20	4.60	5.20	5.43	76%

Obs.: Inflation measured by 12-month IPCA % change. Inflation density forecasts for April/2027.

These results suggest that inflation risks are asymmetric and respond strongly to adverse macroeconomic shocks. Stress scenarios shift the conditional distribution towards higher inflation levels, increasing both the median and the probability of breaching the upper limit of the target. Thus, the main impact of the shocks analyzed is not an increase in the dispersion of the distribution, but rather an intensification of risks in the upper tail, with a greater concentration of probability in high-inflation scenarios.

Economic activity risks

The growth-at-risk analysis for Brazil shows a stronger impact of financial variables on the lower quantiles of the GDP growth distribution than on its central quantiles. Table 2 results show that deteriorating financial conditions, represented by increases in the FCI, are associated with significant reductions in lower economic growth quantiles, thereby increasing the likelihood of adverse scenarios. Similarly, unfavorable movements in the yield curve slope (ETTJ) also affect the left tail of the distribution, although with lower statistical significance in the considered sample.

Table 2 – Estimation of the quantile regression model, h = 4 quarters

Variable	Quantile				
	0.05	0.25	0.50	0.75	0.95
Intercept	-3.04 (***) [0.61]	-0.80 [0.85]	1.42 (**) [0.55]	3.40 (***) [0.75]	5.68 (***) [0.64]
GDP	0.76 (***) [0.15]	0.51 (***) [0.15]	0.38 (**) [0.17]	0.22 [0.19]	0.29 [0.20]
FCI	-3.06 (**) [1.18]	-2.42 (**) [0.95]	-1.37 (*) [0.80]	-1.72 (*) [0.89]	-3.04 (***) [0.84]
Yield curve	1.57 (*) [0.82]	0.74 [0.97]	0.29 [0.62]	0.04 [0.63]	-0.16 [0.47]
Observations	77	77	77	77	77

Obs.: Coefficients significant at 1, 5, or 10% levels are identified by (***), (**), or (*). Standard errors in brackets are computed via bootstrap with 1,000 replications.

Table 3 shows that, in the baseline scenario, the probability of zero growth for March 2027 is estimated at 11%, while growth-at-risk (GaR 5%) is equal to -0.74% p.a.⁶ Under the two stress scenarios considered,⁷ the probability of zero growth increases to 31% and 26%, respectively, while the GaR becomes substantially more negative, reaching -2.97% p.a. and -2.95% p.a. respectively in those scenarios.

6/ In other words, with a 5% probability in this context, GDP growth in March 2027 would be equal to or lower than -0.74% p.a.

7/ Two stress scenarios are considered: (1) an adverse shock to financial conditions, with a 70 bps increase in the FCI, consistent with a scenario of moderate disruptions in global oil supply and prolonged geopolitical instability in the Middle East; and (2) a 100 bps reduction in the ETTJ, for example, driven by an increase in short-term interest rates with no change in long-term rates.

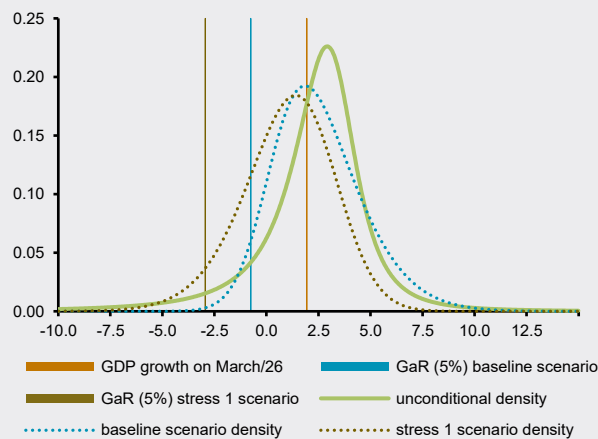
Table 3 – Growth-at-risk analysis for March/2027

Scenario	Conditional density statistics		Focus expectation	GaR 5%	zero-growth probability
	mode	standard deviation			
Baseline	1.85	2.23	1.85	-0.74	11%
Stress1: FCI shock	1.40	2.27	-	-2.97	31%
Stress 2: Yield curve shock	1.82	2.96	-	-2.95	26%

Obs.: Output growth measured in YoY % change. Densities conditioned in the previous 4 quarters. Focus expectation is the median of "GDP Total", collected on May 29, 2026, interpolated with annual figures for 2026 and 2027.

Figure 2 shows that, in stress scenario 1, the conditional density of economic growth shifts to the left and exhibits a lengthening of the lower tail. This behavior suggests increased probability of low or negative growth in response to adverse financial shocks.

Figure 2 – GDP growth density forecast (% p.y.) for March/27 conditioned on March/26



Results reinforce the presence of nonlinearities in Brazil's macroeconomic dynamics. Financial shocks and changes in the yield curve have a relatively limited impact on average growth but significantly increase tail risks associated with recessionary or low-growth scenarios.

Conclusion

Results show that approaches based on quantile regressions and conditional densities provide relevant information for macroeconomic analysis and the monitoring of the balance of risks. As for inflation, the exercises indicate that shocks associated with stronger demand and imported inflation may significantly increase the probability of higher inflation ahead. Regarding economic activity, financial conditions and yield curve deteriorations substantially increase the risks of recessionary or low-growth scenarios.

Both empirical exercises highlight the importance of incorporating skewness, dispersion, and tail risks into macroeconomic assessment. In particular, the results suggest that financial variables and external shocks do not only affect the expected central values of economic variables but also meaningfully change the entire shape of conditional distributions of the considered macroeconomic variables.

Despite the analytical usefulness of these models, it is worth mentioning that they consist in statistical, non-structural, and relatively parsimonious approaches. Thus, their results should be interpreted with caution, especially in contexts of regime changes or the occurrence of extreme shocks. Nonetheless, the methodologies presented represent complementary tools that are important for the forward-looking assessment of the balance of macroeconomic risks in Brazil.

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Appendix

Monetary Policy Committee (Copom)

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