Executive summary

Uncertainty surrounding the global environment remains elevated. The global environment remains uncertain owing to unsettled armed conflicts in the Middle East and future monetary policy decisions in some advanced economies. This scenario calls for caution from emerging market economies amid heightened volatility in asset and commodity prices.

Domestic economic activity grew at a more moderate pace, but the labor market remains tight. The Gross Domestic Product (GDP) grew by 0.5% in 2026Q2, following a 1.1% growth in 2026Q1, with deceleration in the sectors more sensitive to the economic cycle and decline in household consumption. The slowdown in 2026Q2, which is expected to continue into 2026Q3, is part of a broader trend of declining economic momentum since late 2024, when a monetary tightening cycle began. In the labor market, the unemployment rate remained at a historically low level, and the creation of formal jobs remains positive despite having declined. The projected GDP growth for 2026 was revised from 2.0% to 1.8%, reflecting a less favorable assessment of growth composition in 2026Q2 and preliminary indicators for 2026Q3, which suggest a weaker activity. For 2027, GDP growth is estimated at 1.4%.

Consumer inflation remains above the target, although having declined since the previous MPR, and inflation expectations remain deanchored. The 12-month inflation, measured by the Extended National Consumer Price Index (IPCA), fell from 4.72% in May to 4.22% in August. In the seasonally adjusted quarterly change, food and administered prices inflation declined, while that of industrial goods showed signs of moderation. Despite some stabilization, services inflation remains elevated, amid a scenario characterized by a tight labor market and a positive output gap. Inflation expectations, although having declined for 2026, increased again for 2027 and 2028 and remain above the target throughout the entire projection horizon.

In the reference scenario, inflation projection for 2028Q1 – currently the relevant horizon for monetary policy – is 3.2%. In the reference scenario, the expected Selic rate path is extracted from the Focus survey and the exchange rate evolves according to the purchasing power parity (PPP). In this scenario, four-quarter inflation resumes expansion by the end of 2026, reaching 5.2%, after declining to 4.4% in 2026Q3, and remains above the upper limit of the tolerance interval around the target for two consecutive quarters. The projected inflation declines again from 2027 onward, reaching 3.1% in 2029Q1, the last period considered. 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 281st Copom meeting held on September 15-16, 2026.

Compared with the previous MPR, the projection for the relevant horizon remained stable but the projected inflation trajectory is higher in general. For the relevant horizon, the upside factors standing out are (i) higher estimated output gap; and (ii) increase of inflation expectations. Conversely, the key downside factors are (i) inertia stemming from surprises in the June-August IPCA readings; and (ii) stronger restitution of the higher oil prices observed in the short term.

In its latest meeting (281st 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 remain consistent with a trajectory of deceleration for the full year of 2026. The Committee is *closely monitoring the deanchoring of longer-term inflation expectations, insofar as it contributes to price-setting behavior and increases the cost of disinflation.*

Due to 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 ensure inflation convergence to the target.

Copom decided to reduce the Selic rate to 13.75% p.a., and judges that this decision is consistent with the strategy for inflation convergence to a level around its target, throughout the relevant horizon for monetary policy. Without compromising its fundamental objective of ensuring price stability, this decision also implies smoothing economic fluctuations and fostering full employment.

The current scenario, marked by heightened uncertainty, deanchoring of expectations, and elevated risks surrounding the reference scenario, requires serenity and cautiousness in the conduct of monetary policy. The Committee will continue to incorporate new information and monitor developments in the scenario in order to keep monetary policy adequately restrictive to ensure convergence to the inflation target.