

Monetary Policy Report

June 25, 2026

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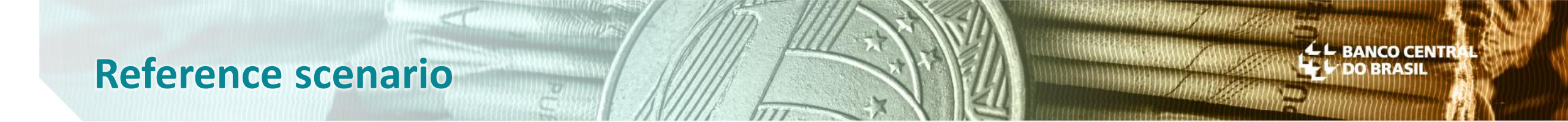
BCB's Deputy Governor for Economic Policy





MONETARY POLICY REPORT

Reference scenario



Reference scenario

External scenario

- 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, altering global financial conditions.
- This scenario requires caution from emerging market economies amid heightened volatility of asset and commodities prices.

Economic activity

- Regarding the domestic scenario, the set of indicators shows economic activity acceleration during the first quarter of this year, with cyclical sectors resuming to play a significant role, while the labor market still shows signals of resilience.

Inflation

- In recent releases, headline inflation and measures of underlying inflation accelerated, moving further away from the inflation target, surpassing the upper limit in the latest print.
- Inflation expectations for 2026 and 2027 collected by the Focus survey remained above the inflation target and stand at 5.30% and 4.10%, respectively.
- Copom's inflation projections for the fourth quarter of 2027, currently the relevant horizon for monetary policy, stand at 3.7% in the reference scenario



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Economic outlook

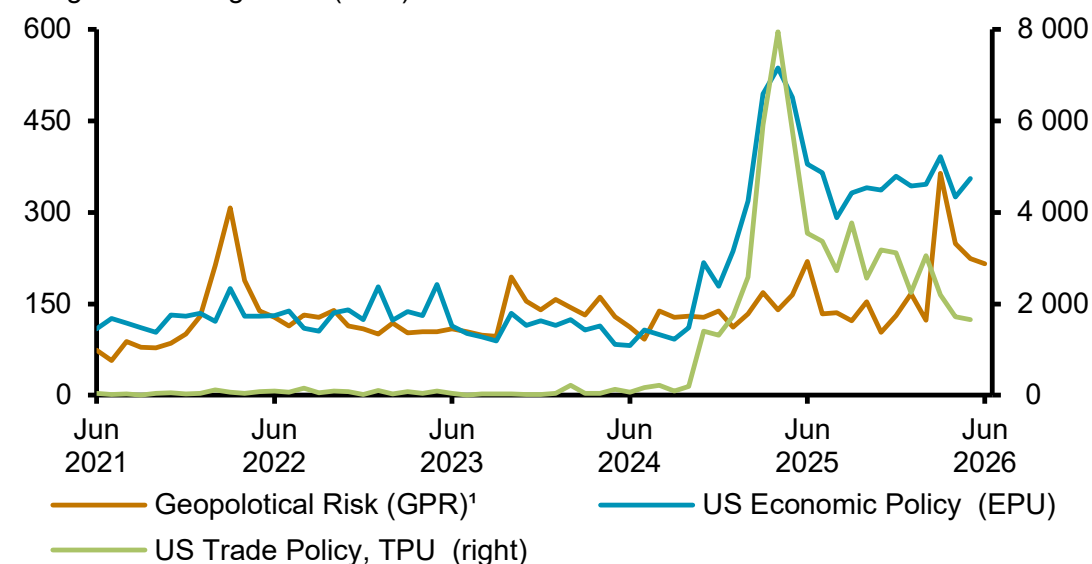
External scenario

External scenario – Uncertainty

The prospective uncertainty about the external scenario increased. The elevated prices for energy, fertilizers, and other inputs has materialized short-term inflation risks and reduced market agents' confidence.

Uncertainty measures

Long term average=100 (EPU)

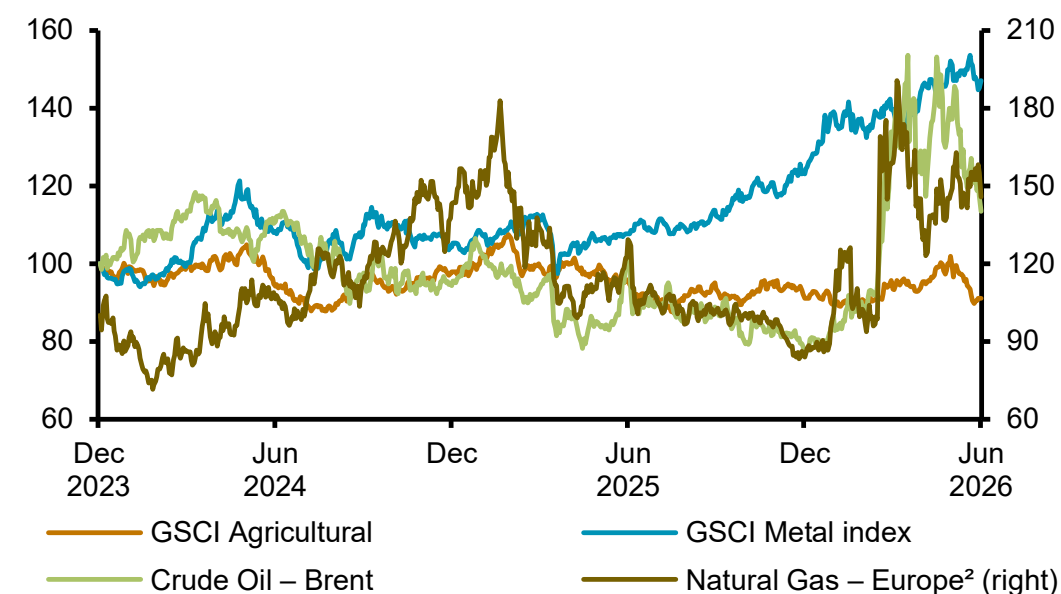


Source: Bloomberg, Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225.

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

Commodity prices¹

Dec/2023 = 100



Source: Bloomberg

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

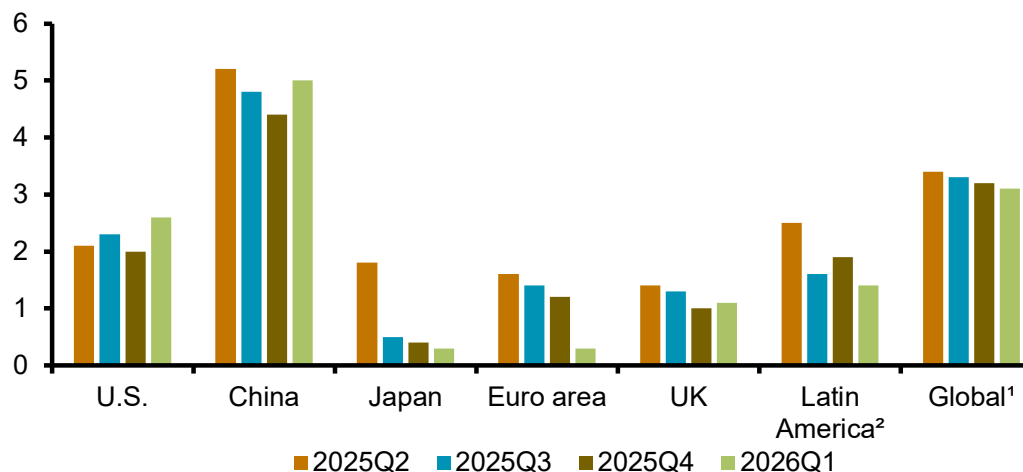
External scenario – Economic activity

Global activity continued to grow but at lower rates than in the pre-pandemic period, following a deceleration trend. In the U.S., economic activity has remained resilient, albeit with signs of moderation, amid a scenario of heightened uncertainty regarding the conduct of macroeconomic policies. Major emerging market economies generally registered positive GDP growth rates in 2026Q1, with a few exceptions.

GDP Growth

From 2025Q2 to 2026Q1

% change over the same quarter in the previous year



Sources: Bloomberg, BCB

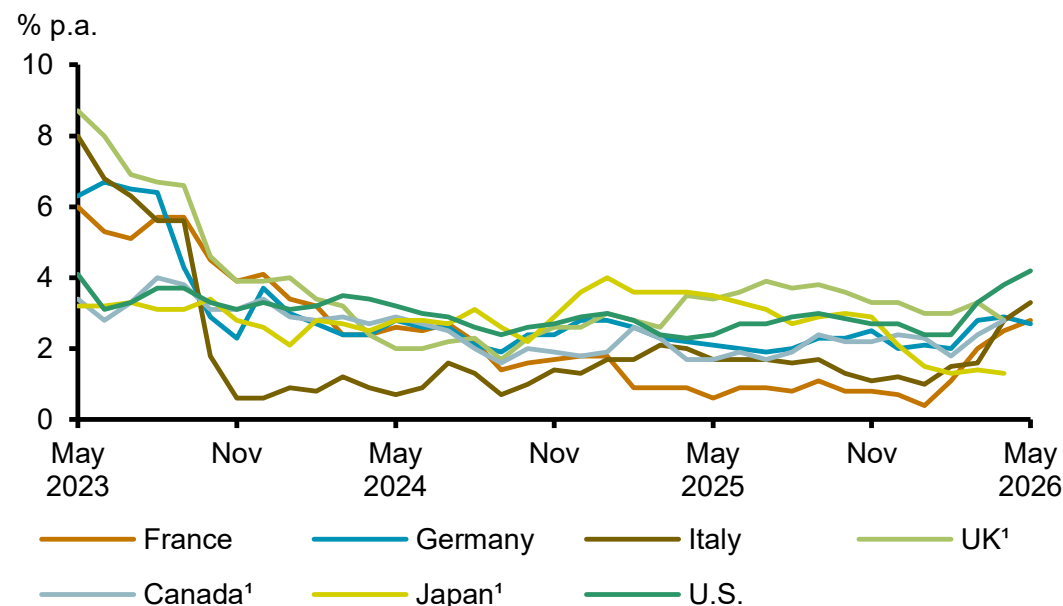
1/ Calculated as described in the box "Projections and macroeconomic analysis model of the global economy" in the September 2022 IR.

2/ Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

External scenario – Inflation

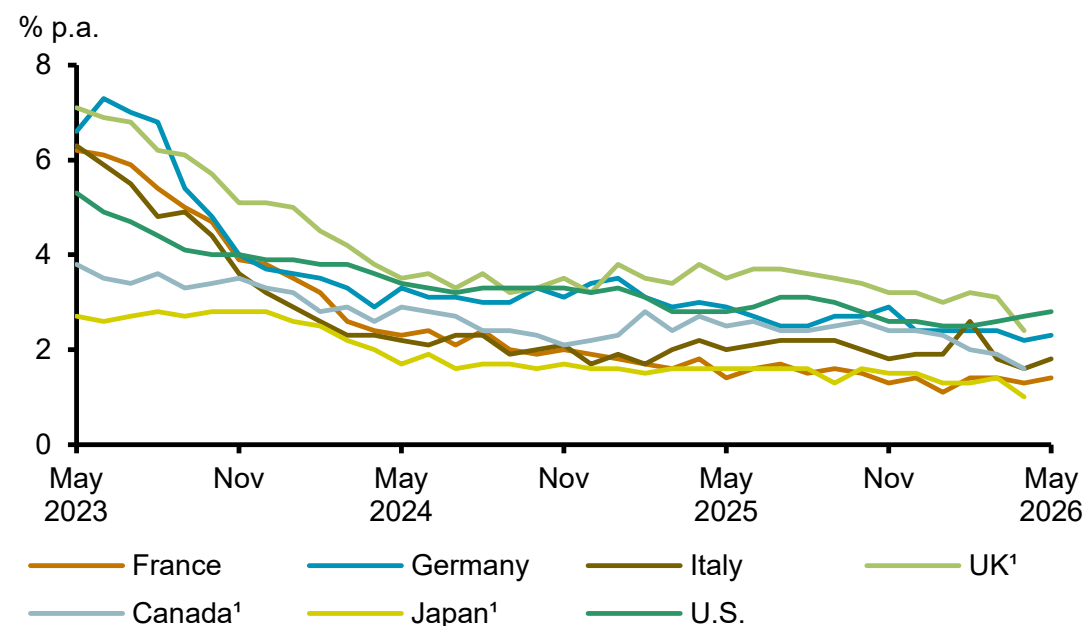
After some years of disinflation – which, although slow, had been relatively steady – global inflation has started to rise again since March, due to the conflict in the Middle East and the consequent supply shock. In the U.S., inflation has risen in recent months, mainly due to higher energy prices. In many economies, core inflation was at its lowest levels since the Covid-19 pandemic, although remaining above the target, as evidence of the incomplete dissipation of previous global shocks.

CPI – Advanced economies



Source: Bloomberg
1/ Until April 2026

CPI core – Advanced economies

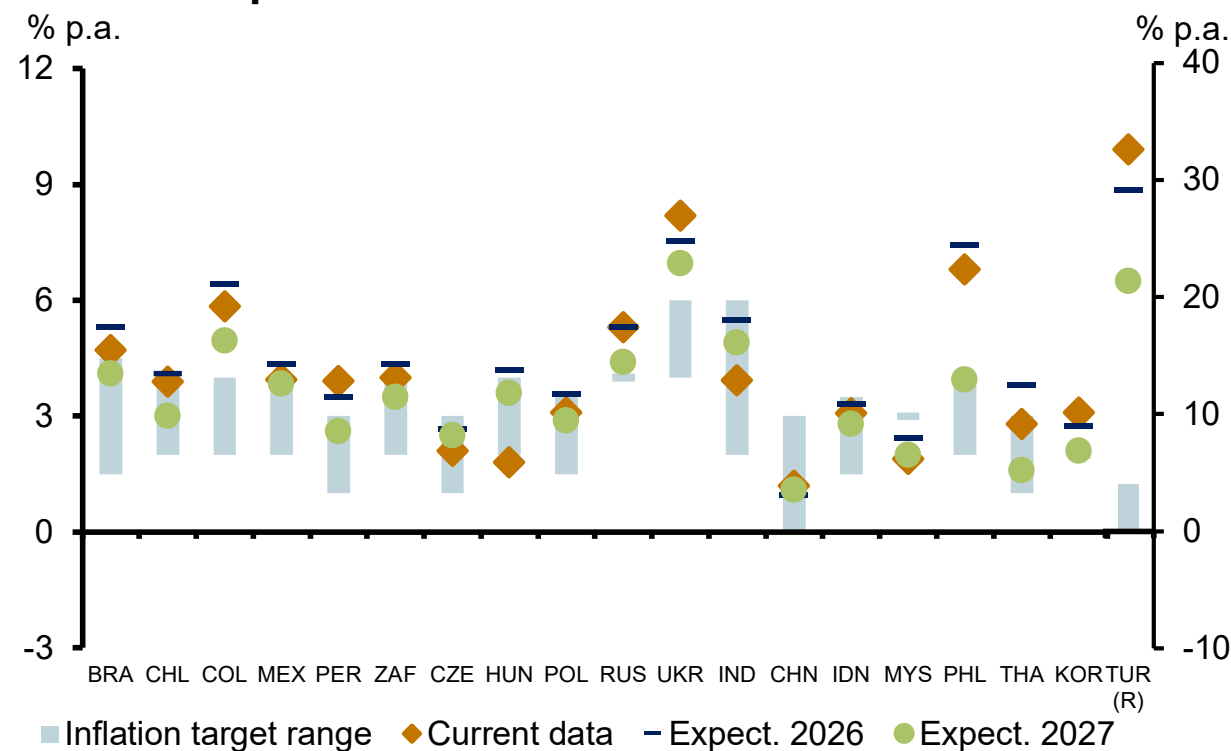


Source: Bloomberg
1/ Until April 2026

External scenario – Inflation expectations

Inflation expectations for the end of 2026 point to rates outside the target interval in several of main emerging market economies. For 2027, expectations remain preponderantly within the target bands, although the risks have increased.

Inflation expectations¹



Sources: Bloomberg and central banks' surveys

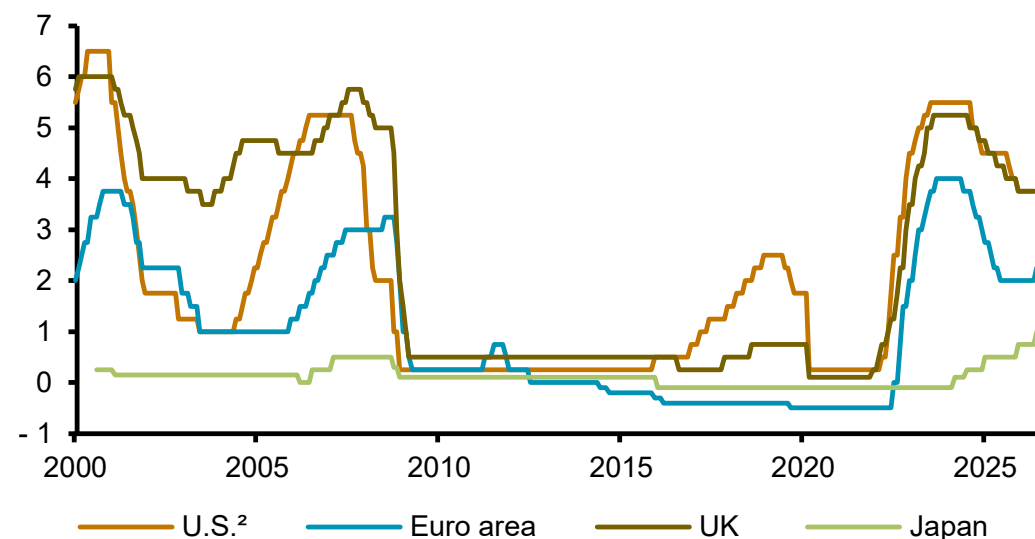
1/ Until June 12.

External scenario – Monetary policy

Central banks had different responses to the shock in energy prices, depending on their exposure and on economic and financial conditions at the beginning of the conflict. The uncertain global scenario makes it more difficult the monetary policy conduct, particularly due to need to monitor the second-round effects of the supply shock and to avoid the risk of dealing with persistent price increases as transitory.

Monetary policy rates¹

% p.a.

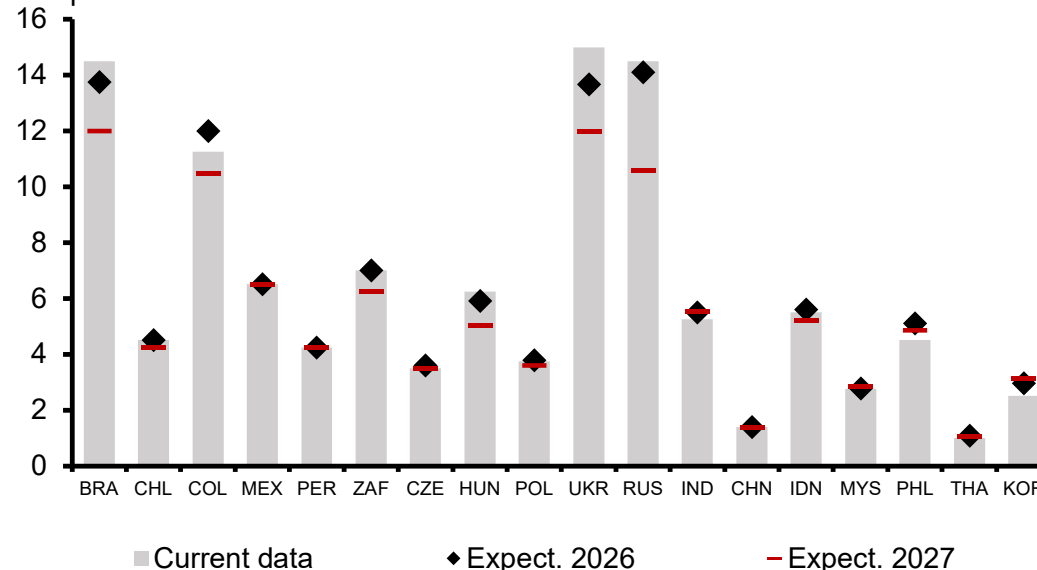


Source: Bloomberg

1/ Until June 17, 2026. 2/ US refers to the upper bound of the monetary policy rate.

Policy interest rates¹

% p.a.



Sources: Bloomberg and central banks' surveys

1/ Until June 12.



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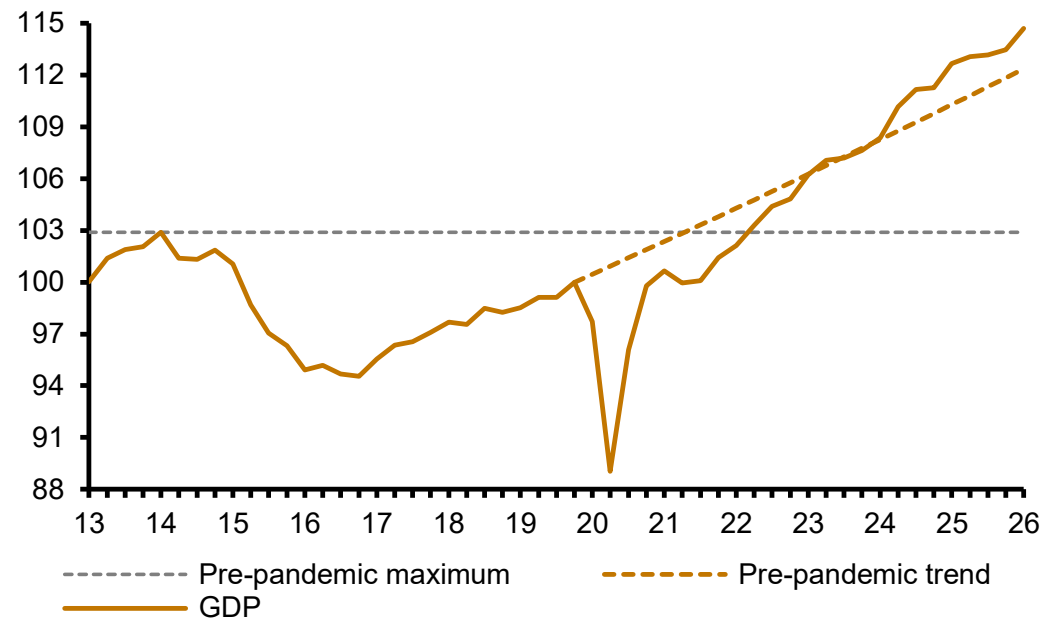
Economic outlook

Domestic outlook

Economic activity

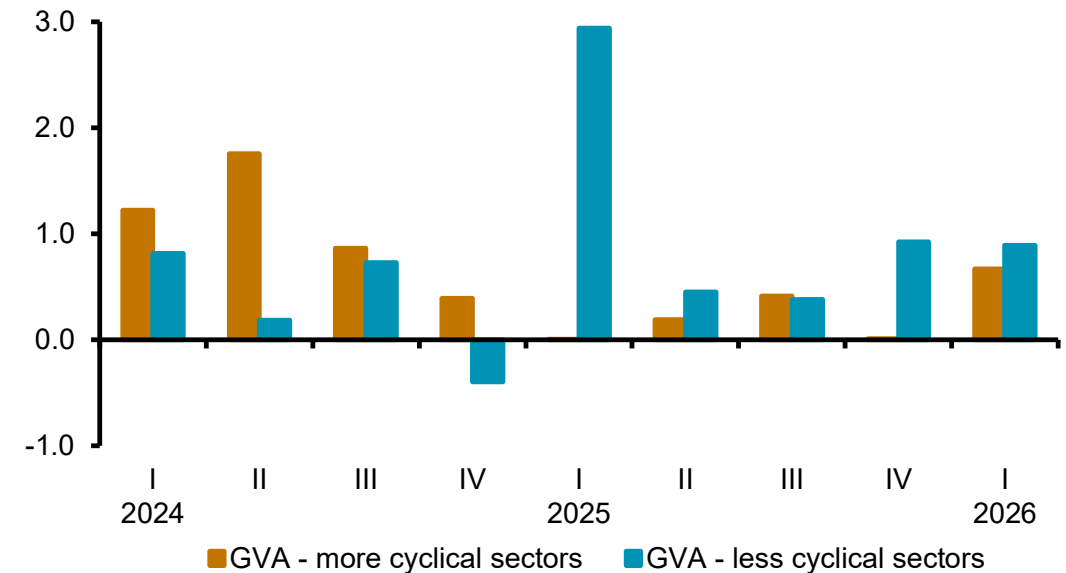
As expected, economic activity growth was strong in 2026Q1. This growth reflected another sharp increase in less cyclical components and an acceleration in the components more sensitive to the economic cycle.

Gross Domestic Product



Source: IBGE

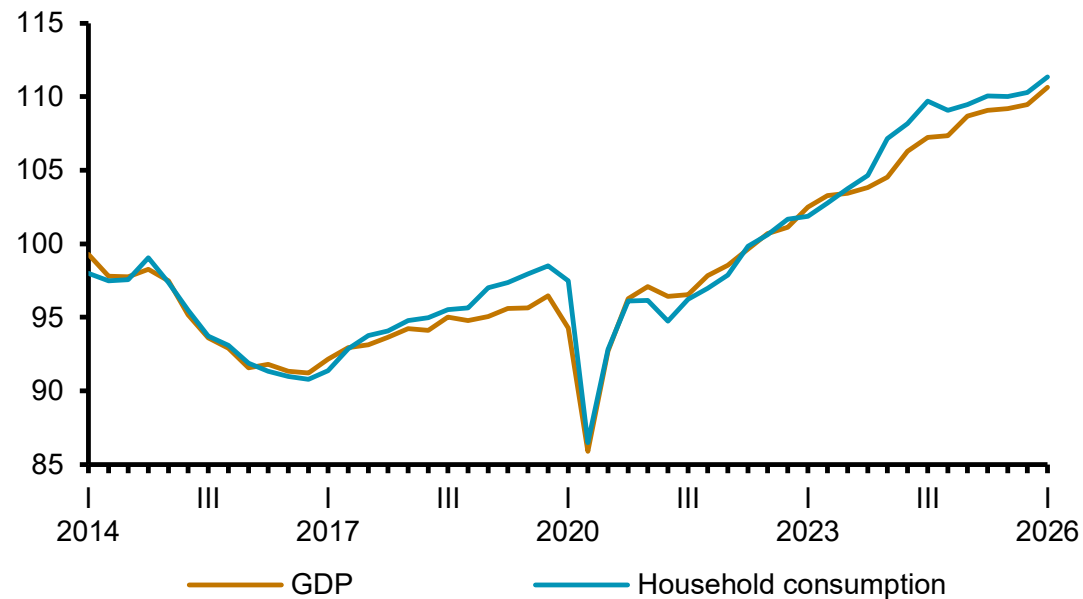
GDP and more and less cyclical sectors GVA



Sources: IBGE and BCB

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

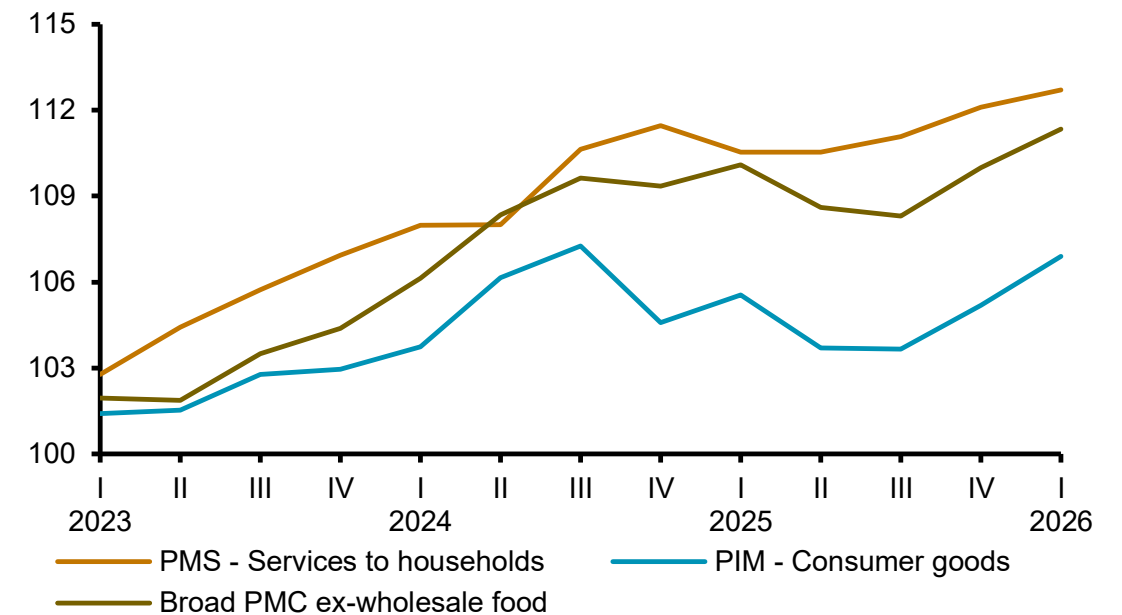
GDP and household consumption



Source: IBGE

Household consumption indicators

2022 = 100, s.a.



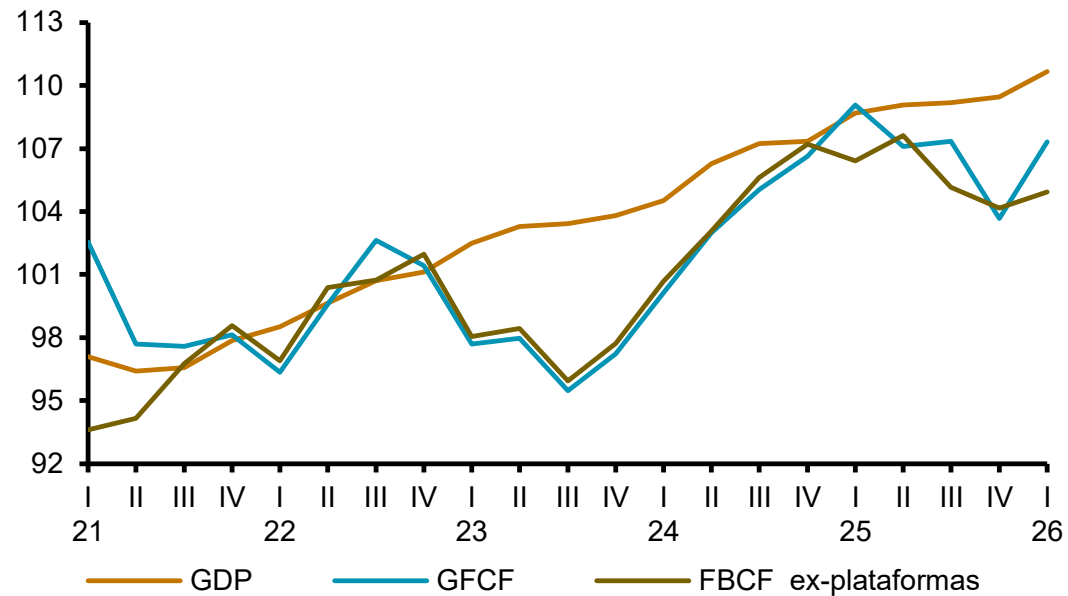
Sources: IBGE and BCB

Economic activity

GFCF increased in 2026Q1, recovering from the contraction observed in 2025Q4.

GDP and GFCF

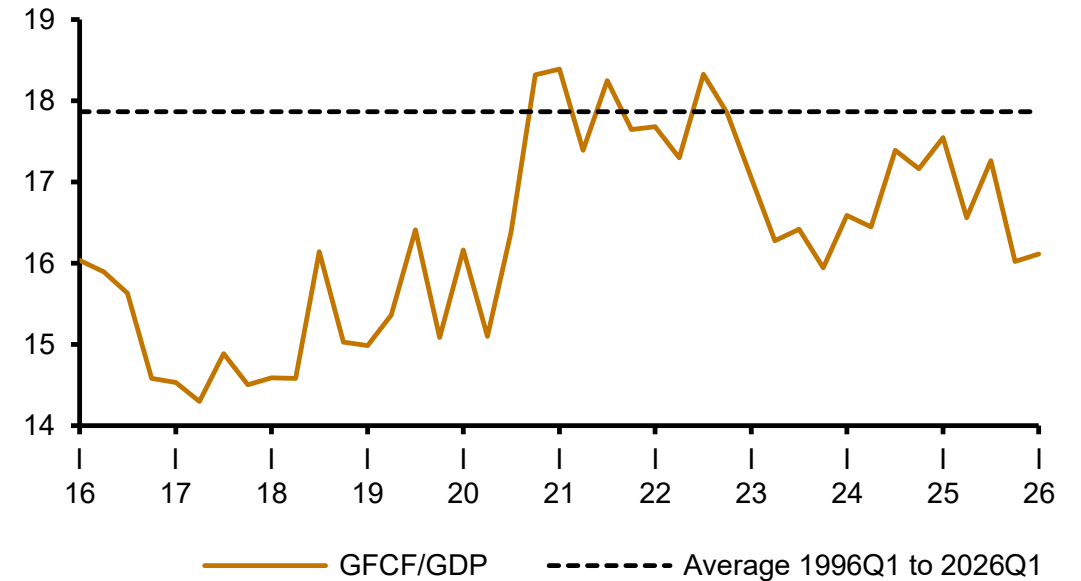
2022 = 100, s.a.



Source: IBGE and BC

GFCF/GDP at current prices

%, s.a.

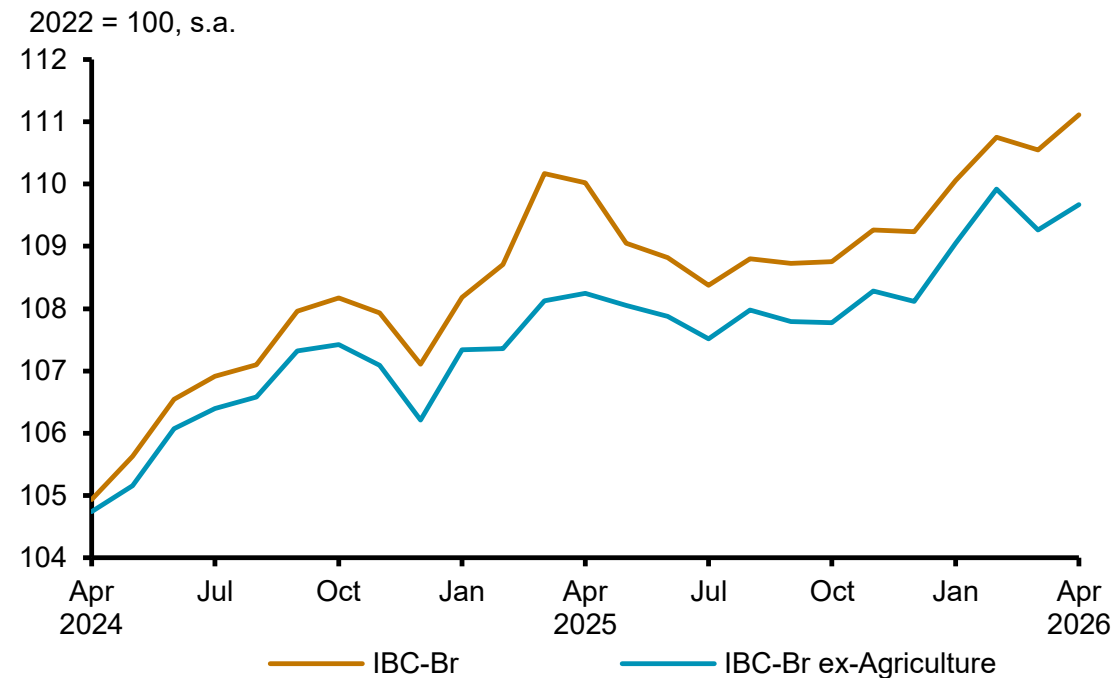


Source: IBGE

Economic activity

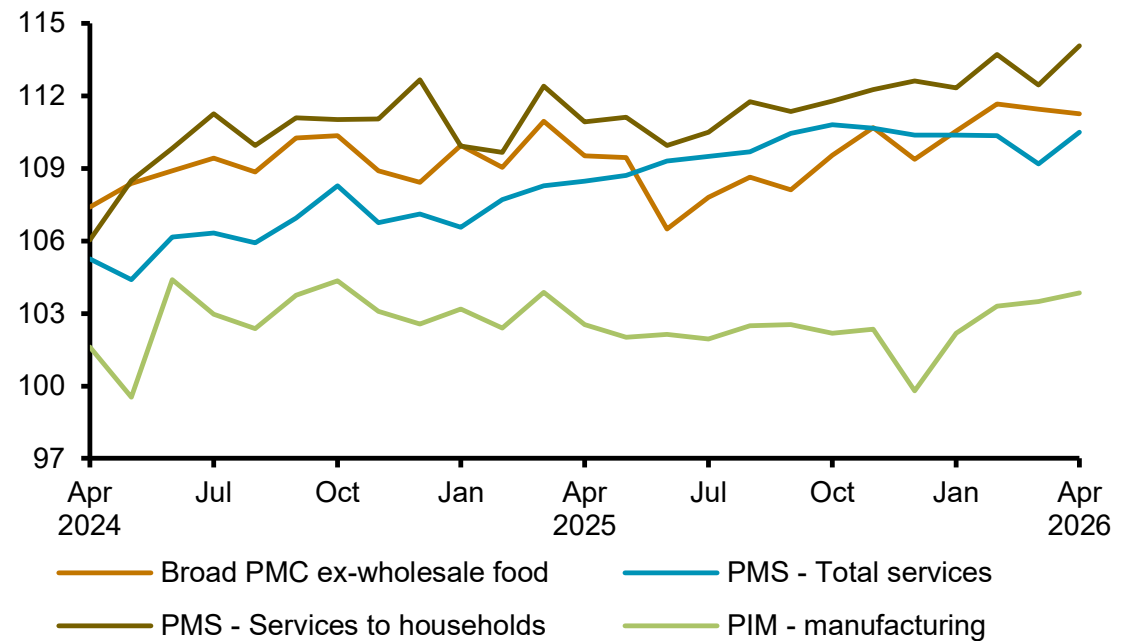
The IBC-Br and its components corroborate the assessment of a widespread activity growth in 2026Q1. For 2026Q2, data available for April and May showed mixed results but, together, point to slower economic growth compared with 2026Q1.

BCB's Economic Activity Index (IBC-Br)



Economic activity indicators

2022 = 100, s.a.



Sources: IBGE and BCB

Revision of the GDP projection for 2026

Gross domestic Product

% growth

	2024	2025	2026 ^{1/}	
			Mar	Jun
GDP at market prices	3,4	2,3	1,6	2,0
Taxes on products	5,7	1,7	1,6	2,0
Value added at basic prices	3,1	2,4	1,5	2,0
Supply				
Agriculture and livestock	-3,7	11,7	1,0	1,7
Industry	3,1	1,4	1,2	2,3
Services	3,8	1,8	1,7	1,9
More cyclical	4,2	1,4	1,4	2,0
Less cyclical	1,7	3,7	1,8	2,1
Demand				
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
Net trade contribution (p.p.)	-1,9	0,3	0,3	0,2

Sources: IBGE and BCB

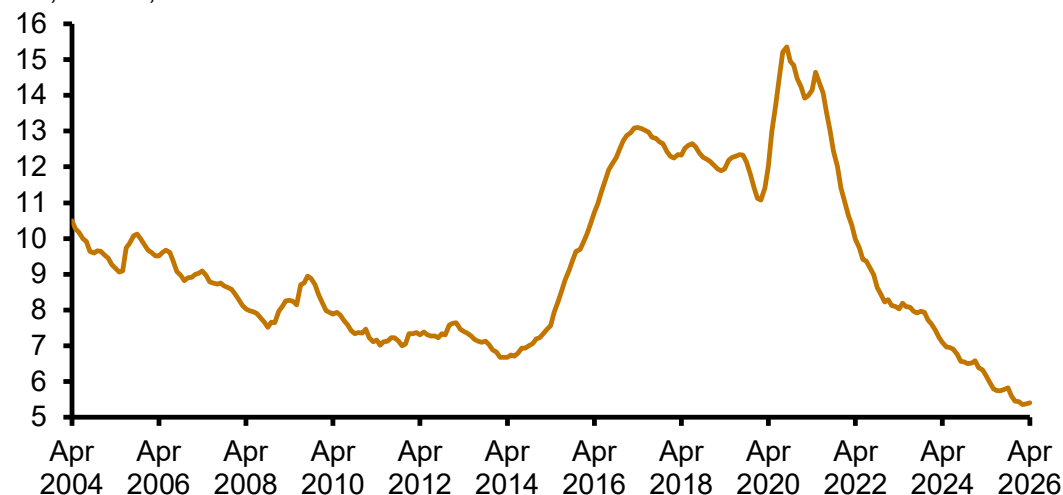
1/ Estimates.

- **GDP growth forecast rose from 1.6% to 2.0%.**
 - 2026Q1 GDP was above expectations, with widespread positive surprises, particularly on the demand side.
- **Revisions were widespread across the three main sectors and on the demand, influenced by:**
 - Surprises in 2026Q1;
 - Improved outlook for agriculture and mining;
 - Expectations of higher demand, largely driven by fiscal and credit stimuli measures.
- **The outlook for moderate growth in next quarters remains unchanged.**
 - A context of tightening monetary policy and low levels of slack of production factors.
- **Compared with 2025, it is projected:**
 - Higher growth in more cyclical sectors;
 - Lower growth in less cyclical sectors.

The labor market remains heated, with low unemployment and significant formal job creation. The unemployment rate remained at its historical low, but the growth in the employed population was more moderate in the last quarter. Formal job creation remains strong, albeit lower than in 2025.

Unemployment rate¹

%, 3MMA, s.a.

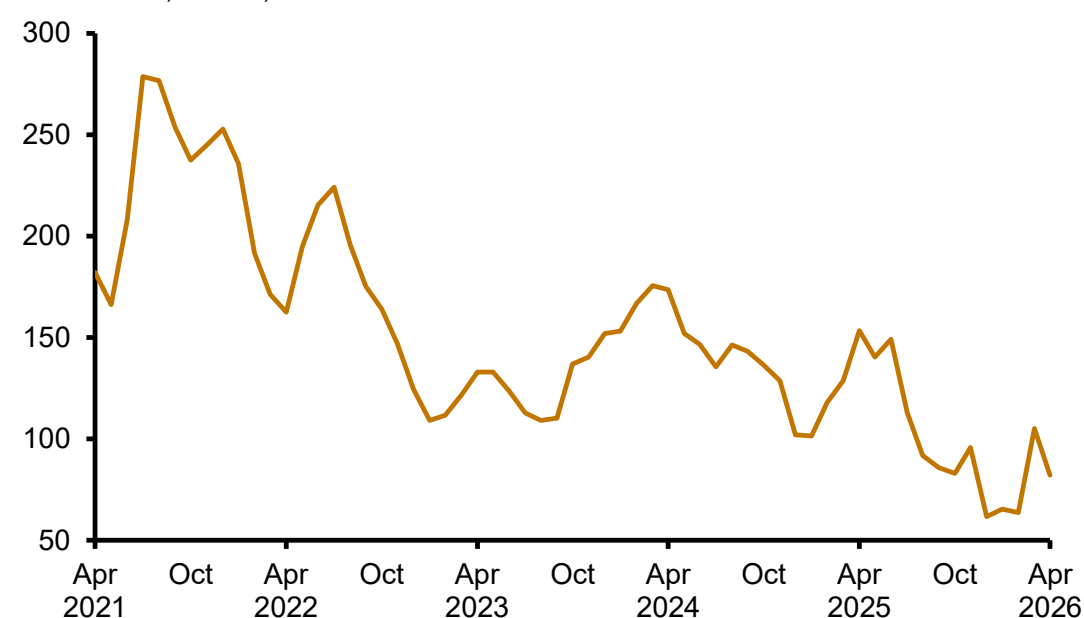


¹ Historical unemployment rate estimates following Alves, S. A. L. and Fasolo, A. M., "Not just another mixed frequency paper", (Working Paper Series 400, Banco Central do Brasil, 2015).

Sources: IBGE and BCB

Net formal job creation

Thousand, 3MMA, s.a.

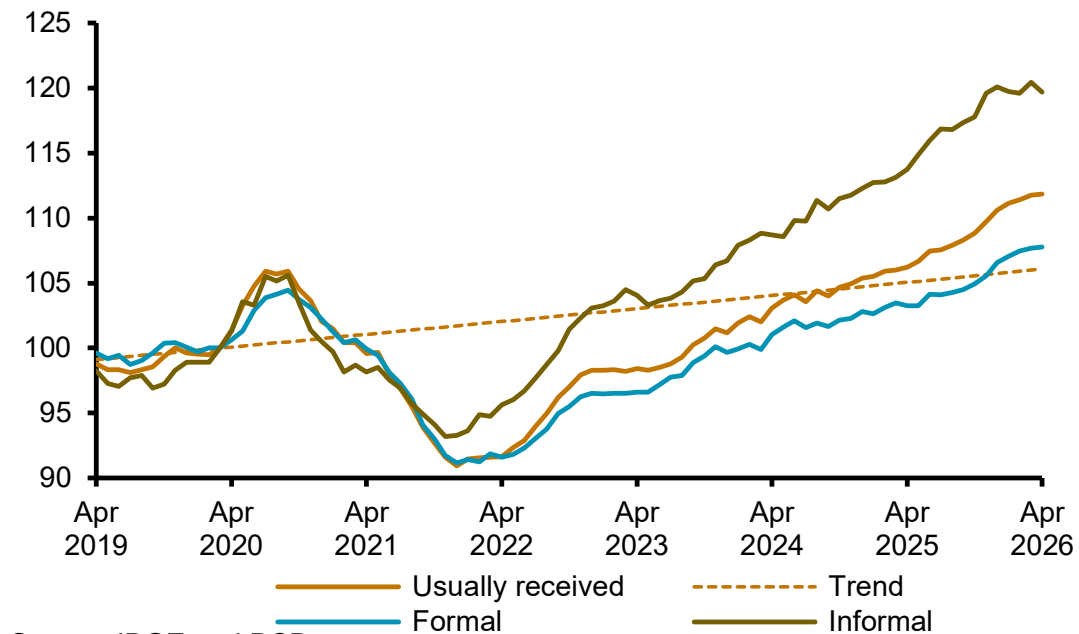


Source: Ministry of Labor and Employment

The average labor income measured by the PNAD Continuous is still growing at a strong pace. In YoY terms, complementary indicators of salary dynamics also point to real growth, albeit to a lesser extent than those of PNAD.

Real average labor income

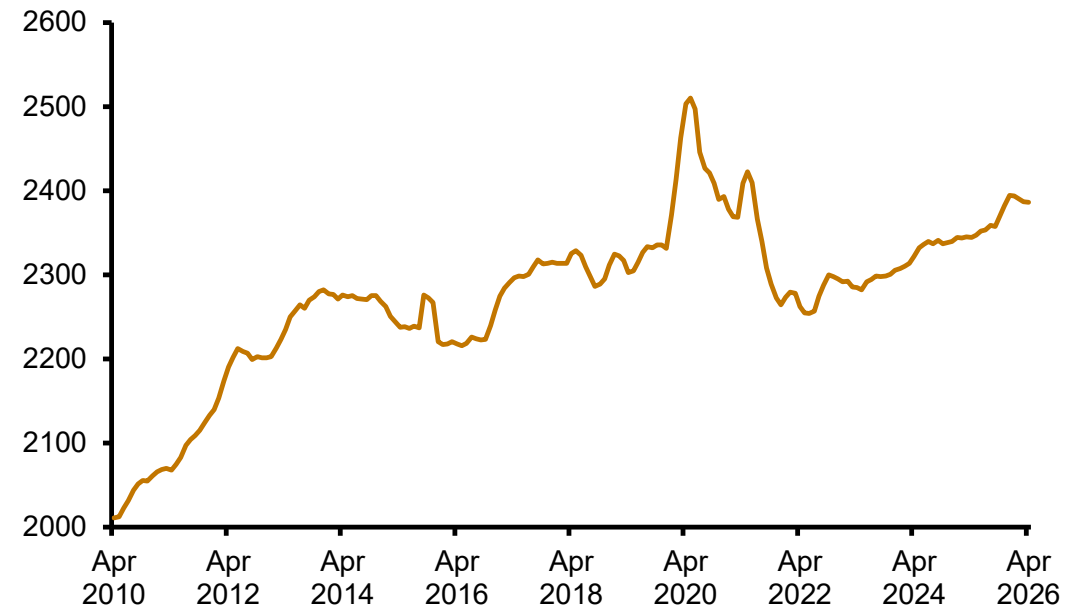
Dec 2019 = 100, 3MMA, s.a.



Source: IBGE and BCB

Hiring salary

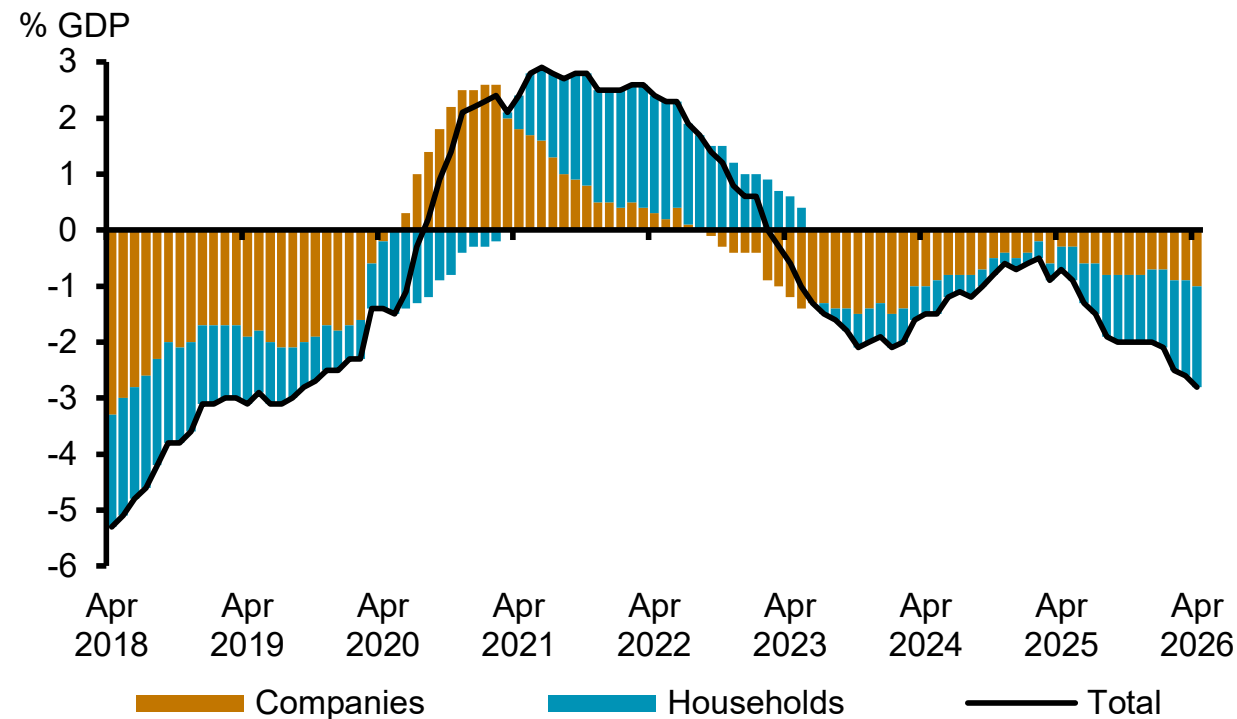
Apr 2026 BRL, 3MMA, s.a.



Source: Ministry of Labor and Employment

In the context of a tightening monetary policy, the credit market continues to slow down. The financial flow in credit operations moved further into negative territory, indicating an increase in net payments from the real sector to the SFN.

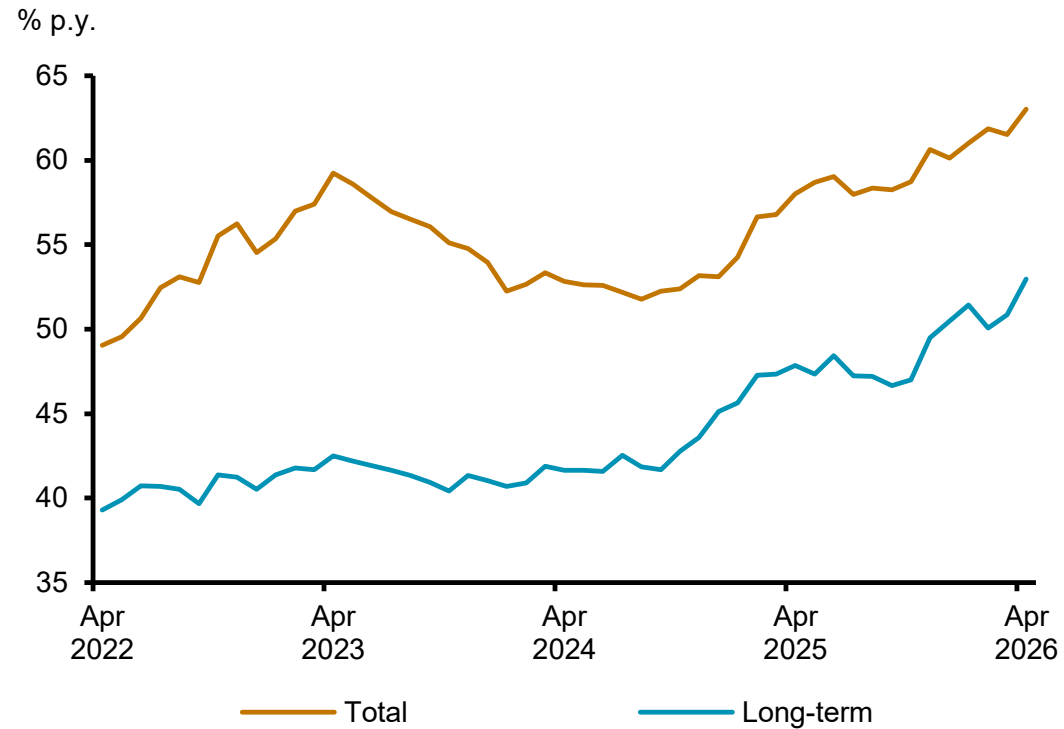
Financial flow accumulated in 12 months



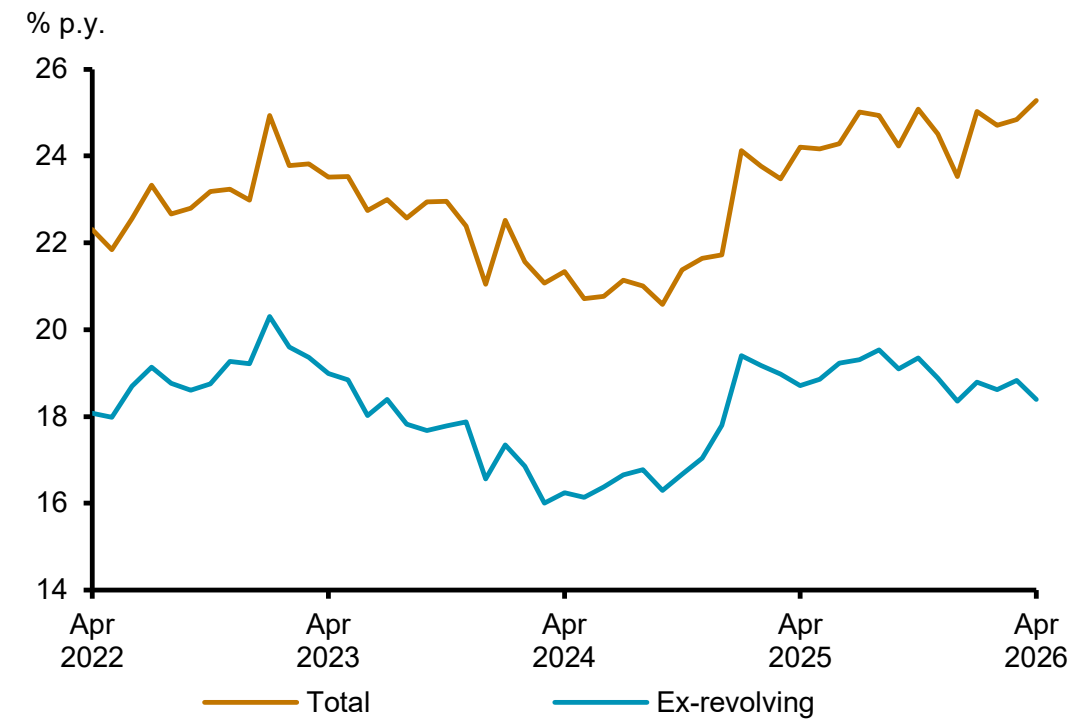
Financial flow: Granting - Payments

Interest rates on non-earmarked credit fluctuated slightly during the quarter, with greater variations in operations without collaterals.

Non-earmarked interest rates - Households



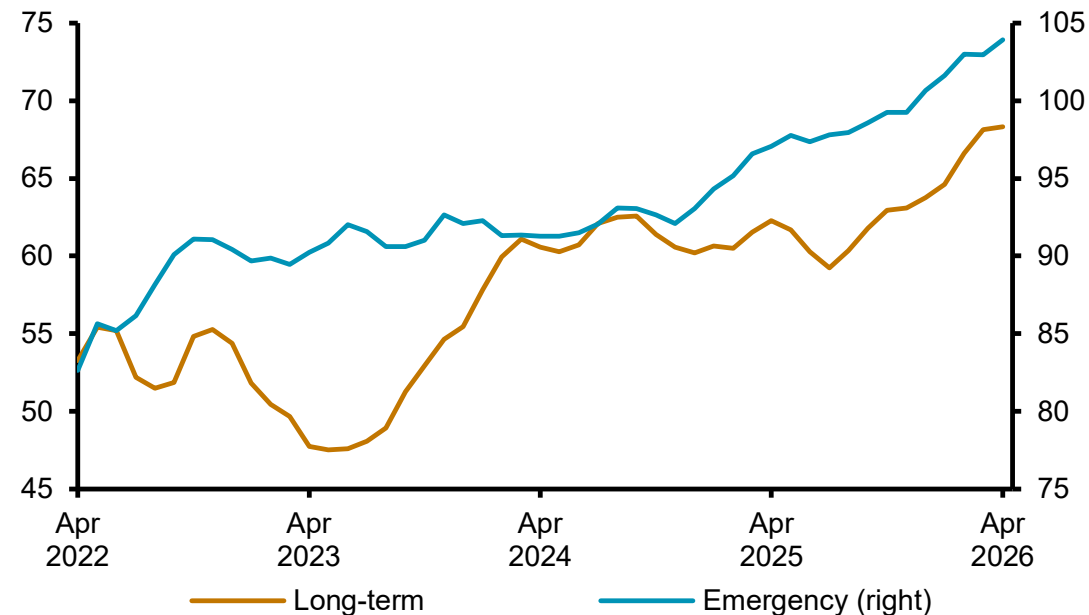
Non-earmarked interest rates - Companies



Non-earmarked household credit continues to grow, albeit at a more moderate pace. Non-earmarked corporate credit granting also increased during the quarter, driven by short-term loans.

Non-earmarked household credit granting

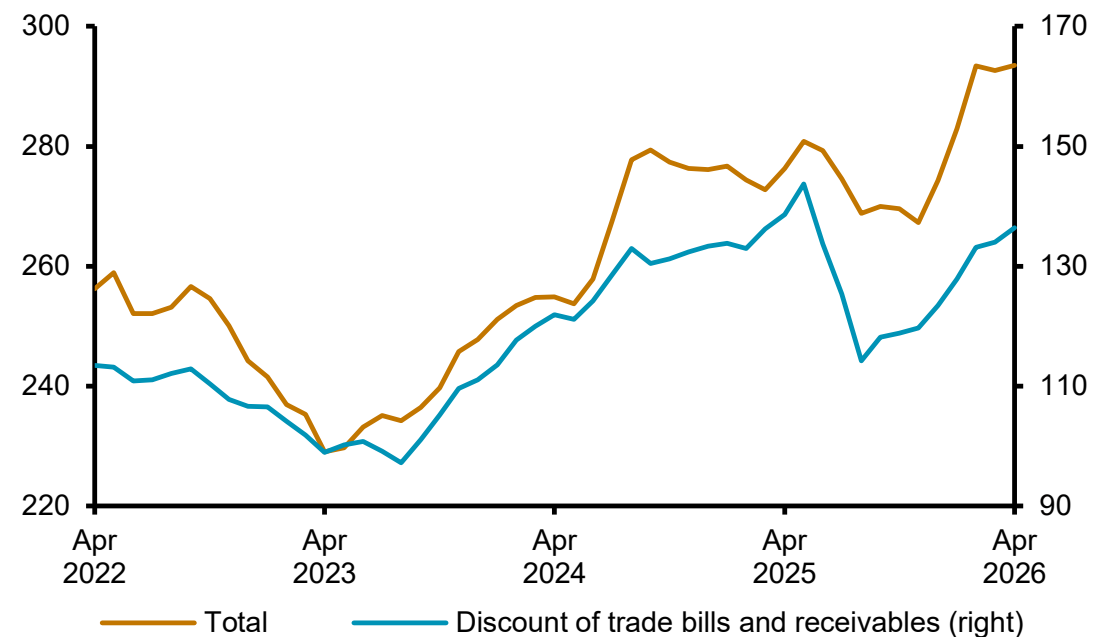
BRL billion of Apr 2026, s.a., 3MMA



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

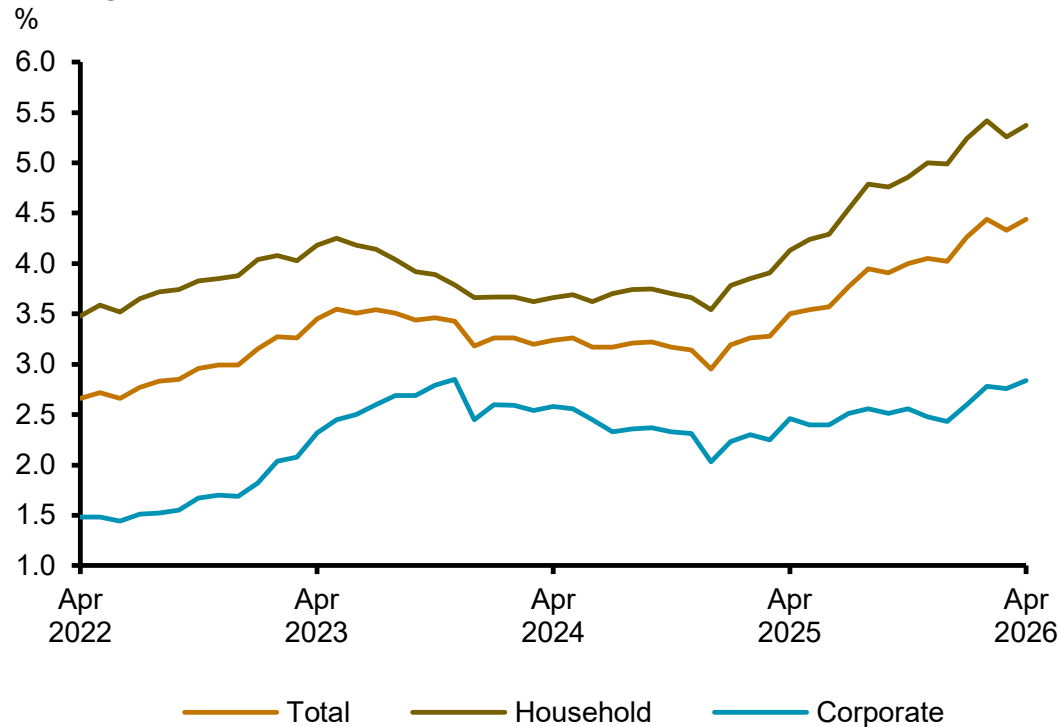
Non-earmarked grants to non-financial corporations

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

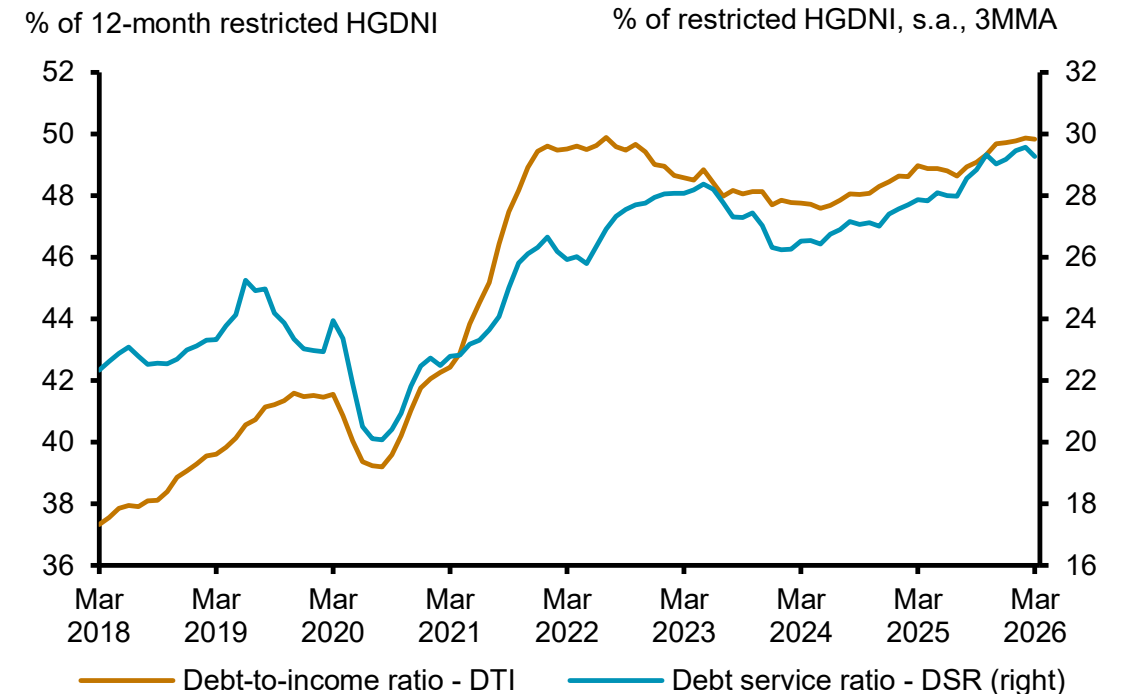


Delinquency in SFN credit remained at a historically high level in the first months of 2026. The recent increase was mainly driven by non-earmarked credit, with emphasis on higher delays on vehicles financing, non-payroll-deducted personal credit, and payroll-deducted credit for private sector workers. Household DTI and DSR indicators also remained high.

90 days past due loans



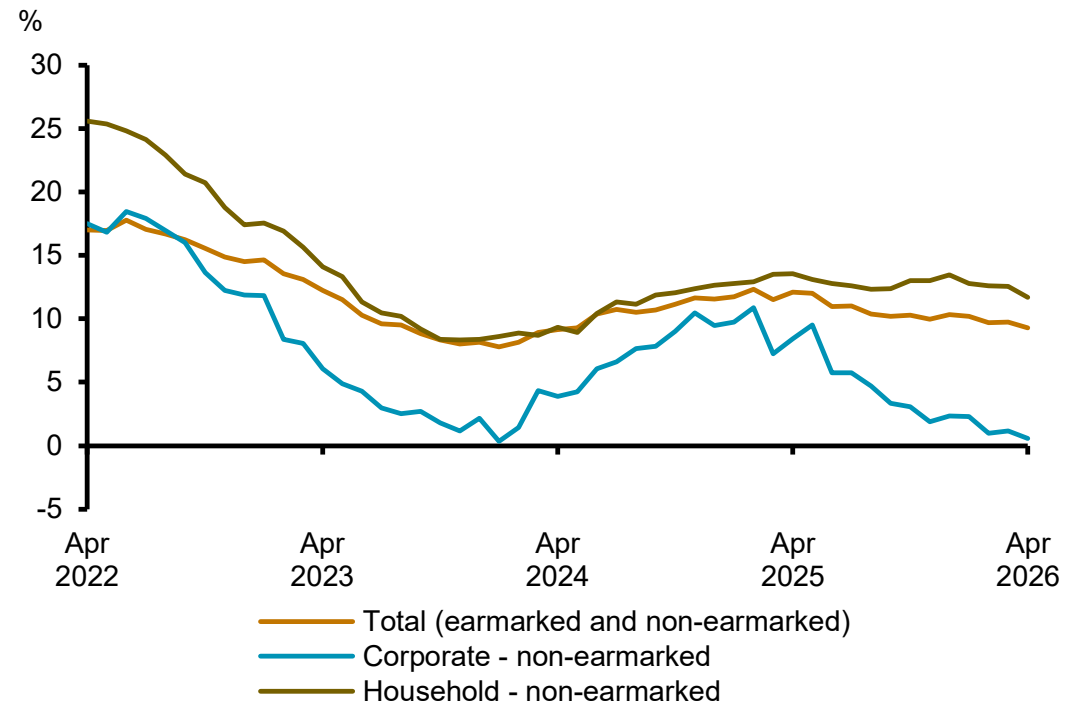
Household DTI and DSR



Despite a high level of credit granting, growth in the SFN credit balance declined, more strongly in non-earmarked credit portfolios.

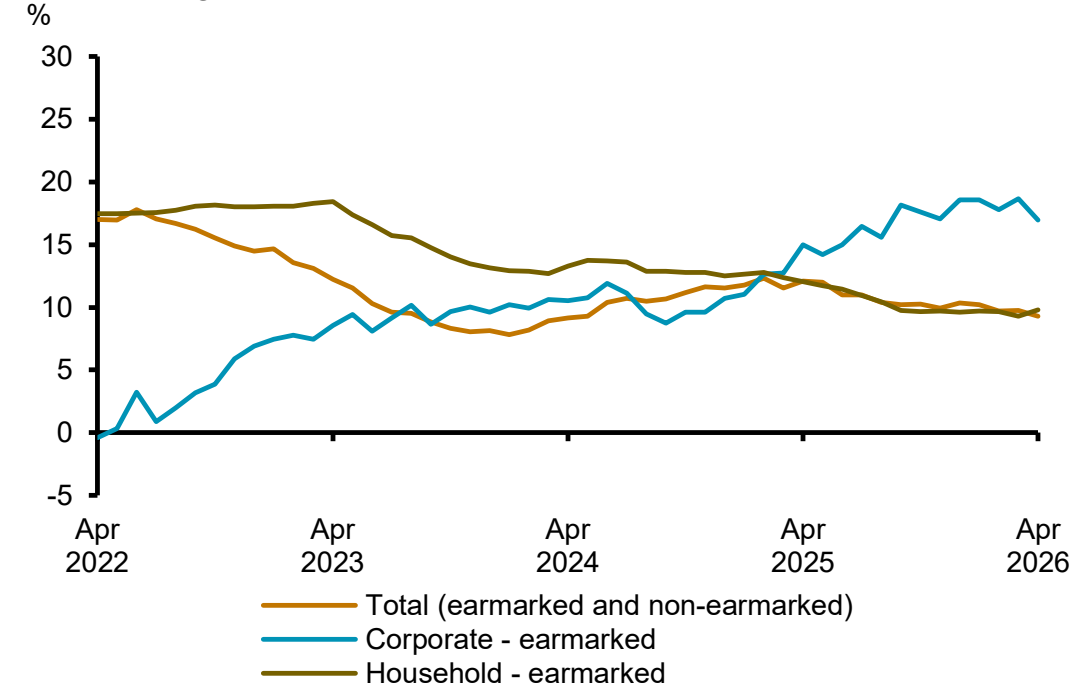
Non-earmarked credit balance

YoY change



Earmarked credit balance

YoY change



Projections for credit growth in 2026

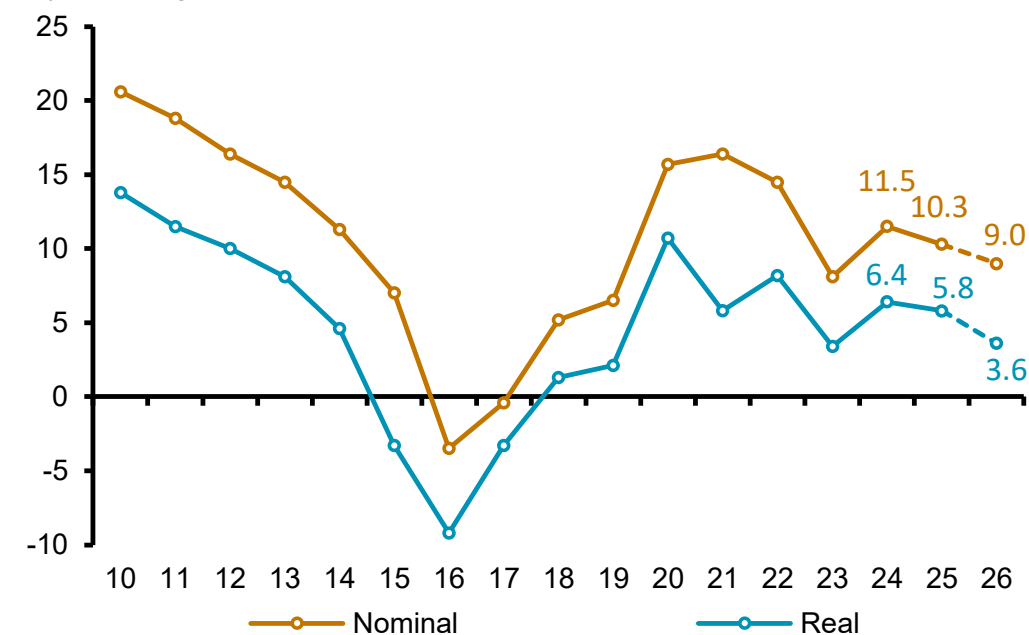
- The projection for nominal growth in SFN credit balance for 2026 was maintained at 9.0%, with lower growth in the non-earmarked segment and higher in the earmarked segment.
- The updated forecast continues to indicate credit growth deceleration for the second consecutive year.

Credit balance

	12-month % change				
	Occurred		Proj. 2026		
	2024	2025	Apr 2026	Previous	Current
Total	11.5	10.3	9.3	9.0	9.0
Non-earmarke	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 Househo	12.6	11.7	10.8	9.5	9.8
Total Corporat	9.9	8.2	6.7	8.2	7.8

Total credit outstanding

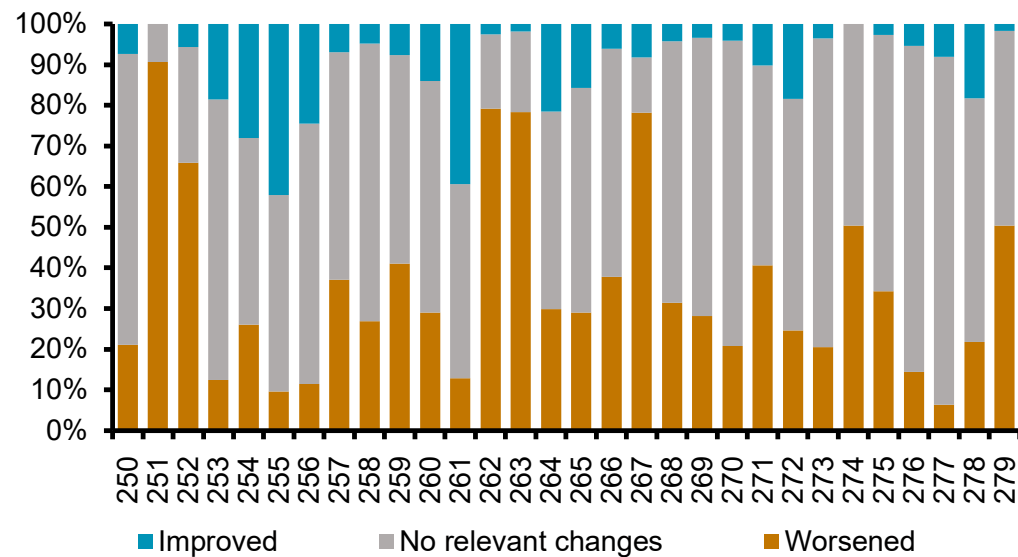
% year change



Despite the adoption of several measures with fiscal impact since March, primary balance projections for 2026 and 2027 have remained stable. As in the previous MPR, the assessment that the public debt/GDP ratio will remain on an upward trajectory in upcoming years remains. In contrast with the relative stability of quantitative projections, the perception of some analysts about the fiscal situation, considering both the central scenario and the risks involved, has worsened since the previous MPR.

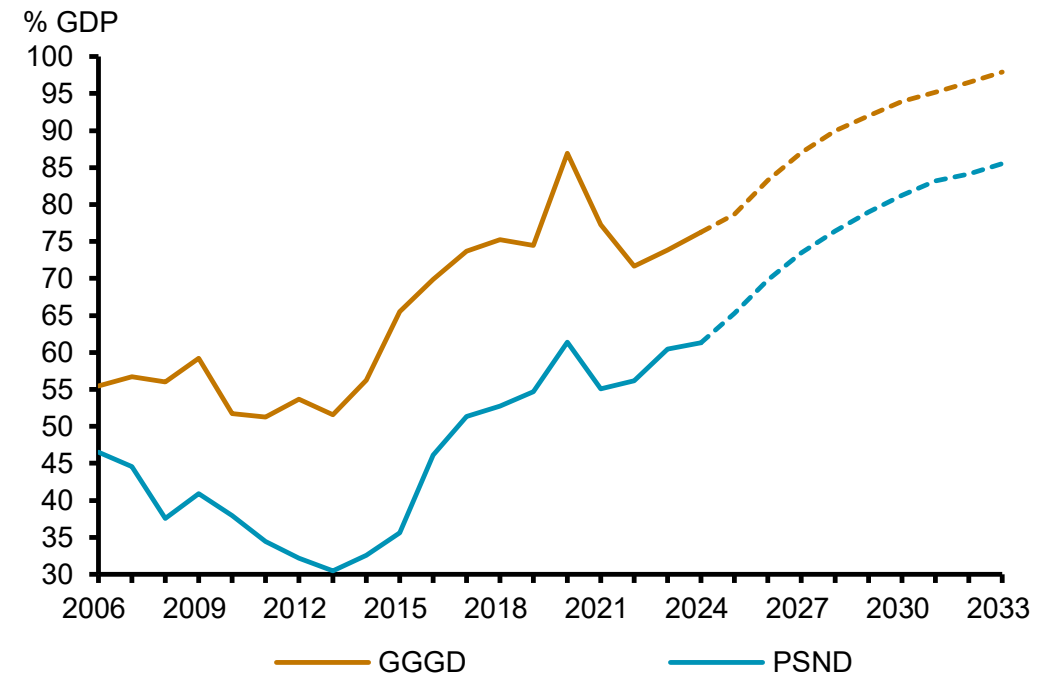
PCQ: Assessment of fiscal situation

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?

Debt forecasts



Forecast from 2026 on correspond to 06.12.2026 Focus

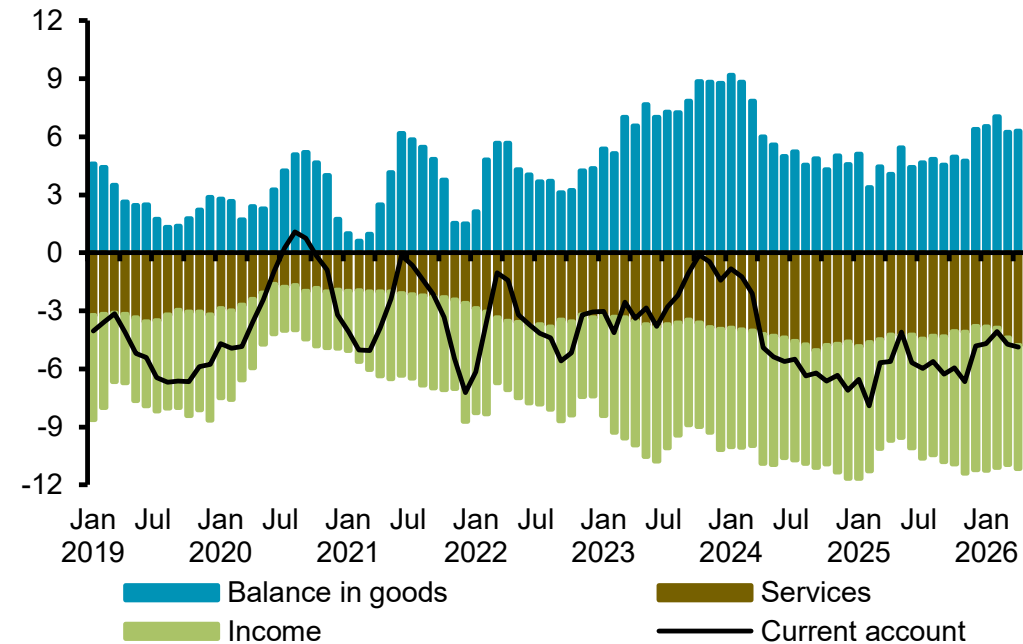
External accounts

Since the end of 2025, the 12-month current account deficit has declined, anchored in the services account and, more recently, in a higher trade surplus.

In the financial account, direct investment liabilities remain strong while net inflows of portfolio investment have increased substantially in April. Net inflows of direct investment liabilities, in the seasonally adjusted series, have remained at a similar level to that registered in recent years.

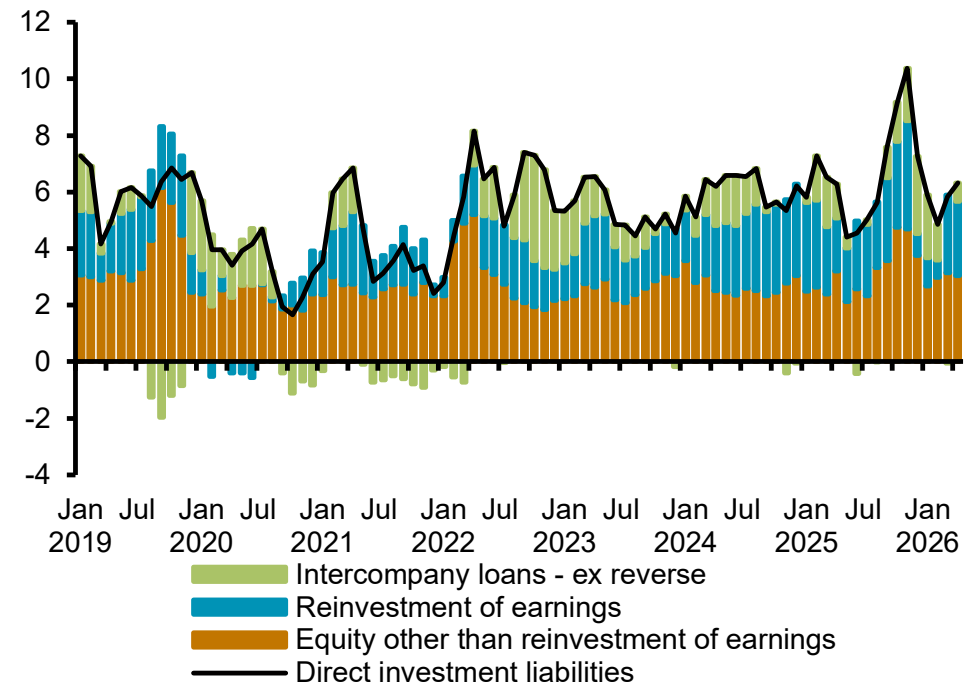
Current account

USD billion, 3MMA s.a.



Direct investment liabilities

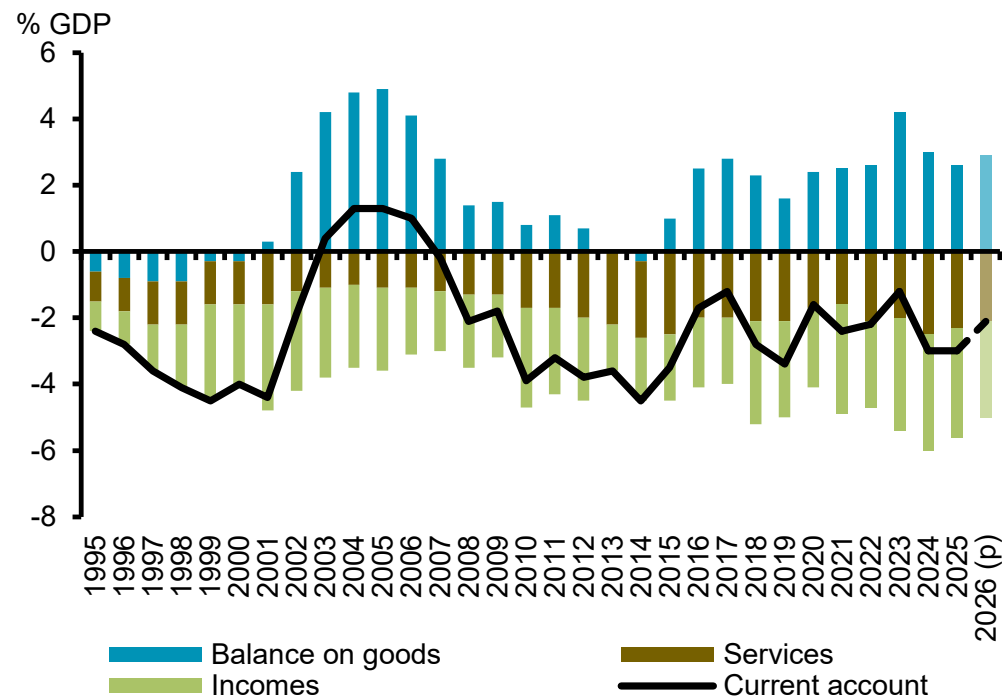
USD billion, 3MMA s.a.



Projections for the evolution of external accounts in 2026

- The current account deficit projection for 2026 has been revised to USD 56 billion (2.1% of GDP), slightly below that projected in the previous MPR. Rising oil prices have boosted expectations of a larger trade balance surplus and explain most of this revision.
- The projection for net inflows of direct investment liabilities increased to USD 75 billion (2.8% of GDP).
- Risks remain higher than usual due to the repercussions of the conflict in the Middle East.

Current account



Projections for the external accounts

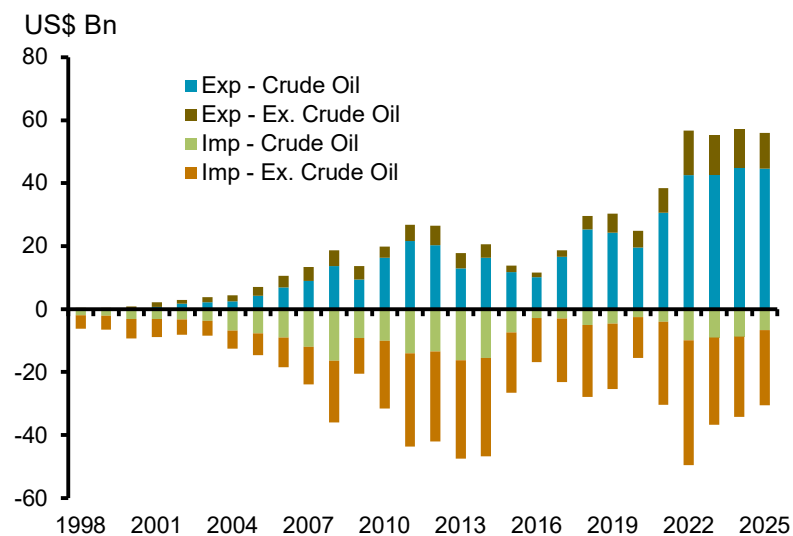
Itemization	USD billion			
	2025	2026	2026 Forecast	
	Year	Jan	Previous	Current
Current account	-67	-22	-58	-56
Balance on goods	60	22	73	78
Exports	351	117	374	385
Imports	291	95	301	307
Services	-51	-17	-54	-56
of which: Travel	-12	-4	-14	-15
of which: transportation	-14	-4	-14	-15
Primary income	-81	-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

Early impacts of the Middle Eastern conflict on the trade balance

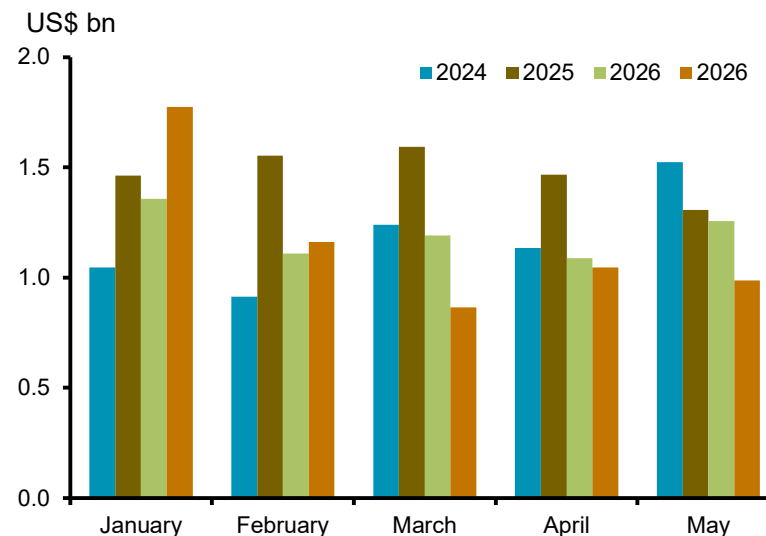
- The impact on the trade balance of oil and derivatives tends to be positive. In 2025, the balance reached a USD 25 billion surplus, derived from USD 56 billion in exports and USD 31 billion in imports.
- Brazil exported USD 16.1 billion to the Middle East in 2025: 4.6% of total exports in the year, or 0.7% of GDP. Significant in terms of specific sectors (chicken, corn) but with little overall impact. At the margin, exports declined.
- The shock occurred in a period potentially less adverse for Brazilian imports of fertilizers, which are concentrated in the second half of the year, particularly in the case of nitrogen fertilizers.

Crude oil and petroleum products trade balance



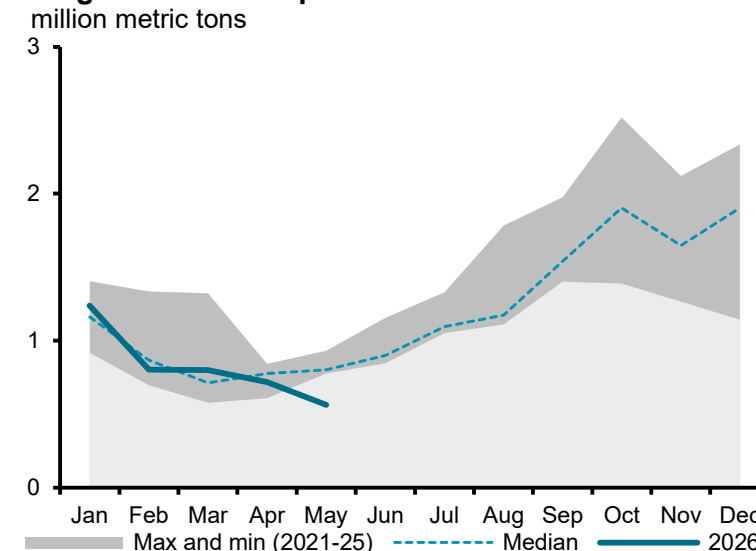
Source: Secex/MDIC

Brazilian exports to the Middle East



Source: Secex/MDIC

Nitrogen fertilizer imports - volume

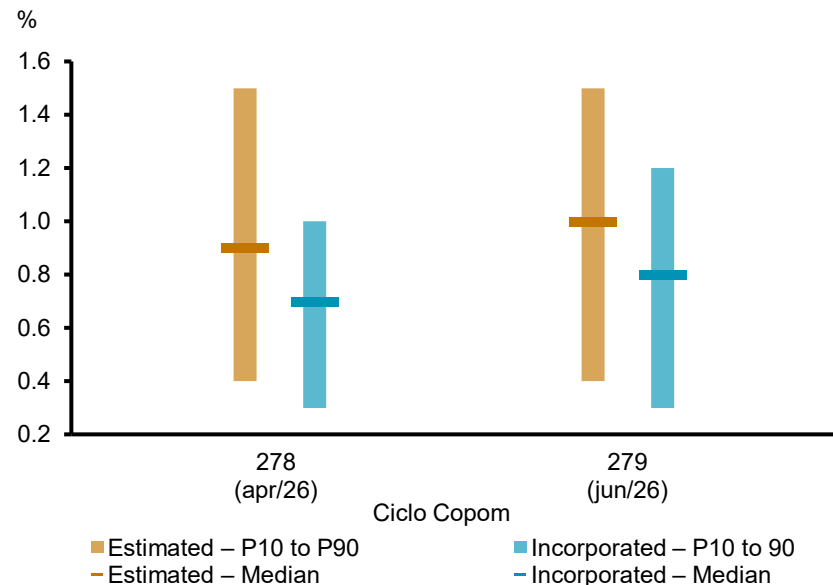


Source: Secex/MDIC

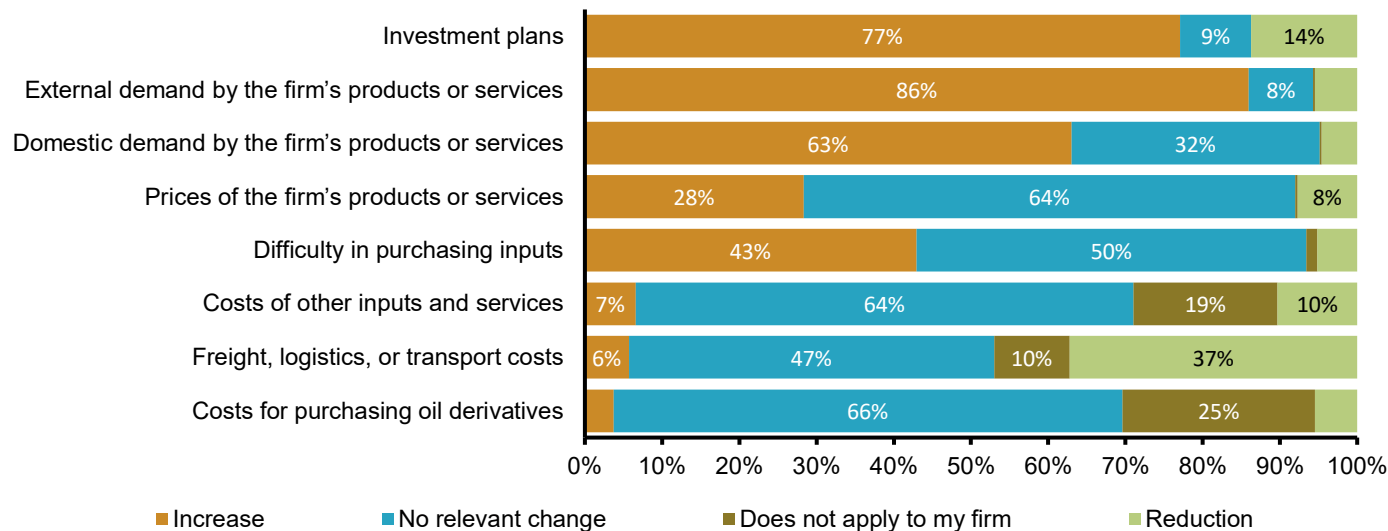
Impacts of the Middle Eastern conflict on the BCB's surveys

- In the **PCQ**, analysts project a significant impact on inflation (short-term surprises, including on items not related to the shock) but only minor effects on economic activity.
- In the **Firmus**, companies report a significant costs increase, a partial pass-through to prices, squeezed margins, and rise of inflation expectations. The perception of the shock is widespread across companies but varies in intensity.

QPC – Impact of the conflict on IPCA 2026



Firmus Survey – Impacts of the conflict





MONETARY POLICY REPORT

Prices

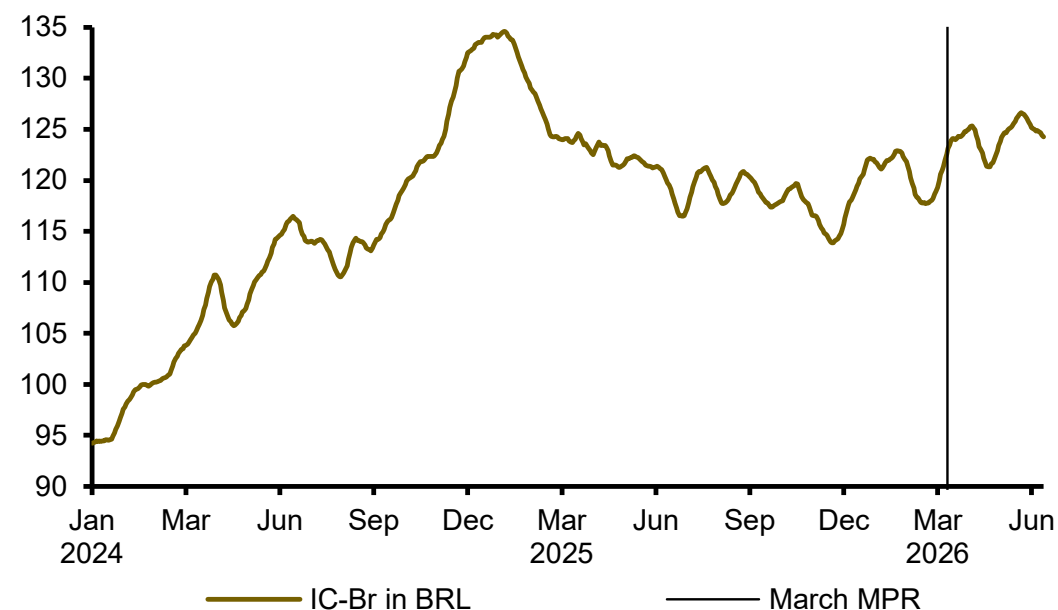
Domestic outlook

Commodity prices

Commodity prices in BRL began to rise again, despite the exchange rate movement in the opposite direction.

IC-Br in BRL

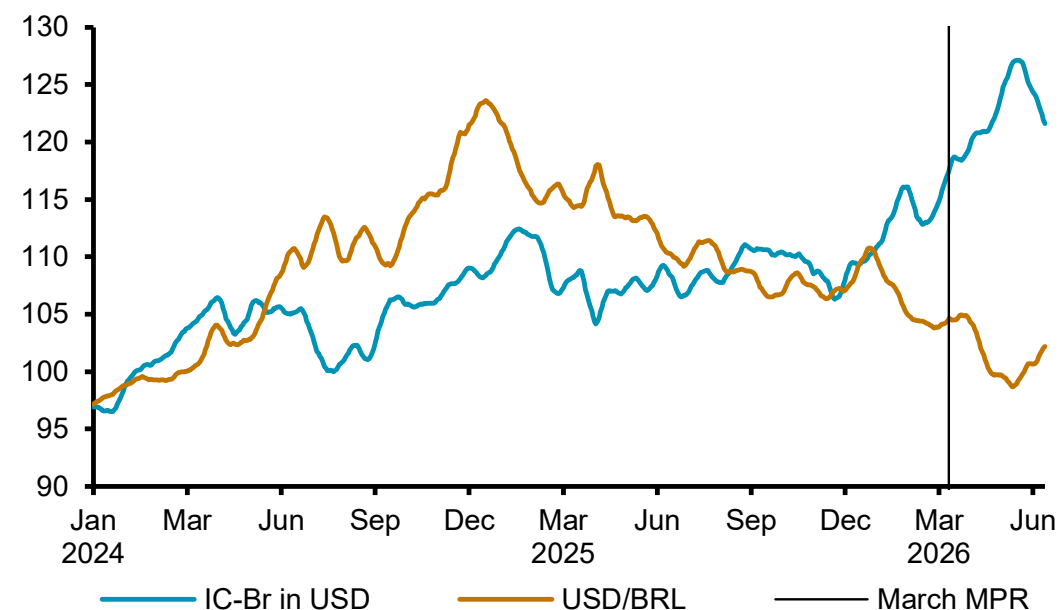
10-day moving average; 2023 = 100



Sources: Bloomberg and BCB

IC-Br and foreign exchange rate

10-day moving average; 2023 = 100

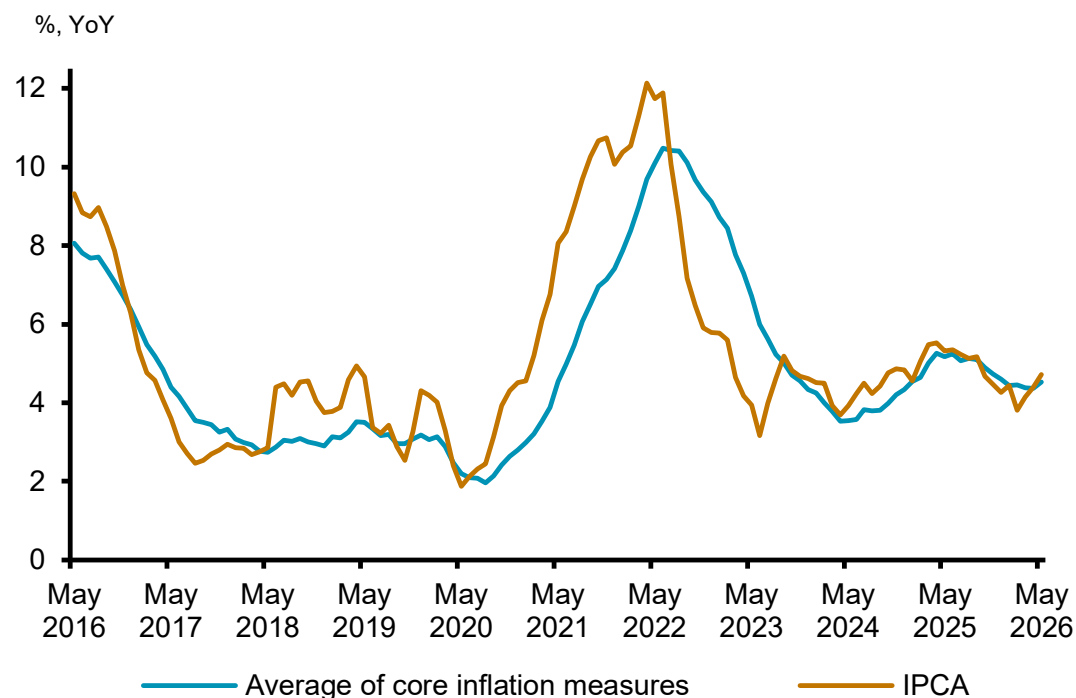


Sources: Bloomberg and BCB

Consumer prices (IPCA)

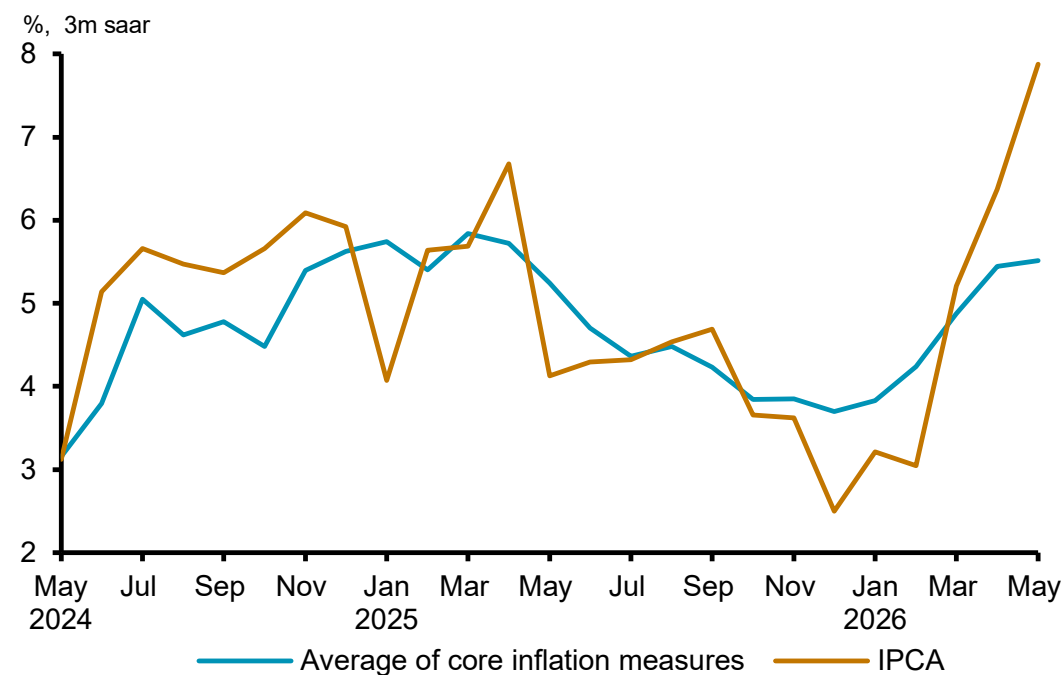
Since the previous MPR, consumer inflation has risen, remaining above the tolerance interval around the inflation target. The average of core inflation measures also indicated inflation at a high level.

IPCA and core inflation



Sources: IBGE and BCB

IPCA and core inflation

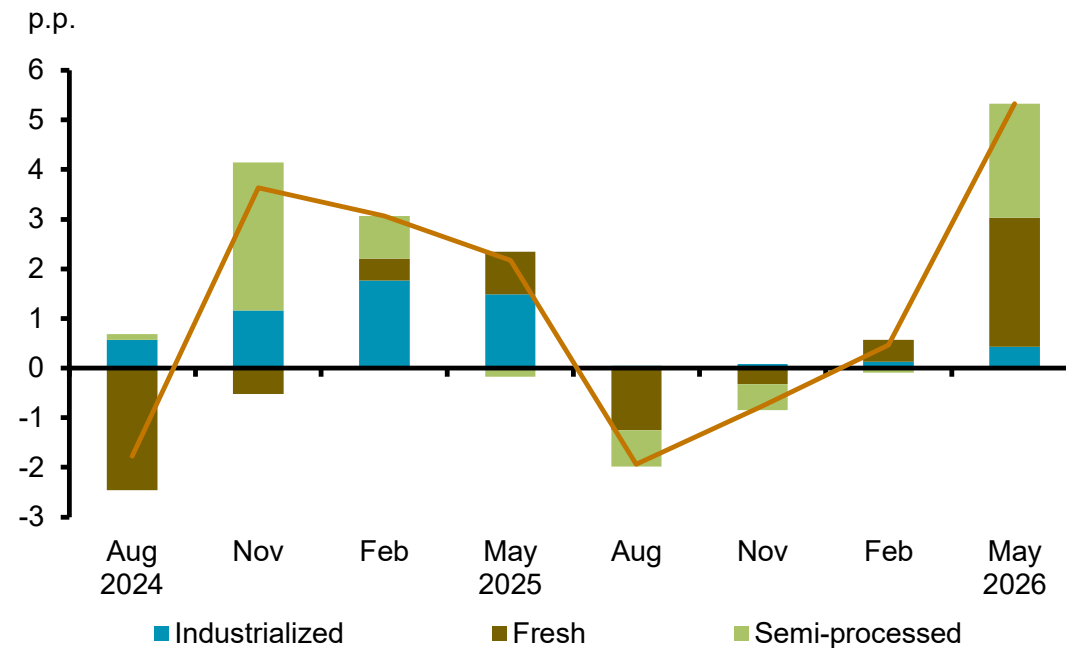


Sources: IBGE and BCB

Consumer prices (IPCA)

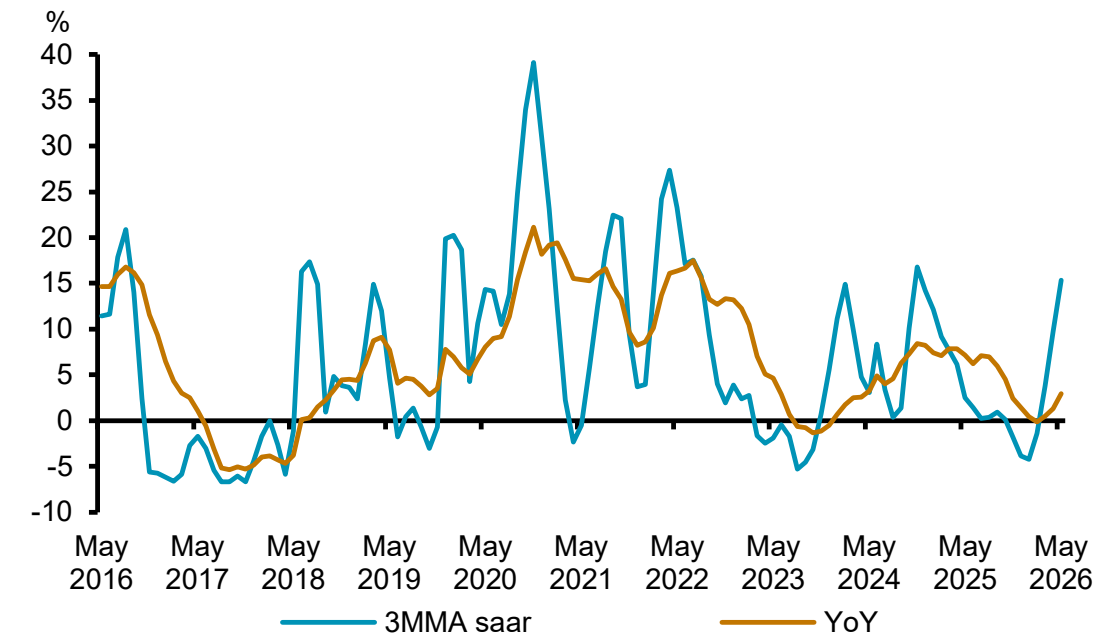
Consumer food prices, which had been declining until then, increased sharply in the quarter.

Contributions to quartely changes in food-at-home prices – IPCA



Sources: IBGE and BCB

Food-at-home inflation

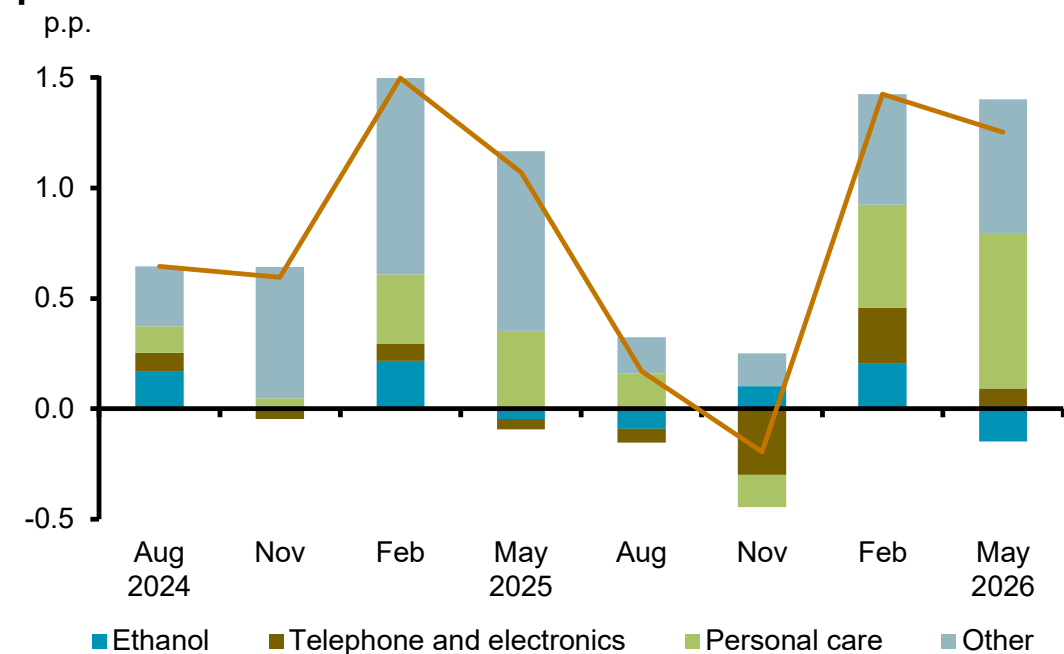


Sources: IBGE and BCB

Consumer prices (IPCA)

Prices of industrial goods started to increase strongly again in this quarter. Alternative measures that exclude the most volatile items in the segment also show higher changes than in previous quarters, at an elevated level for the segment and above the inflation target.

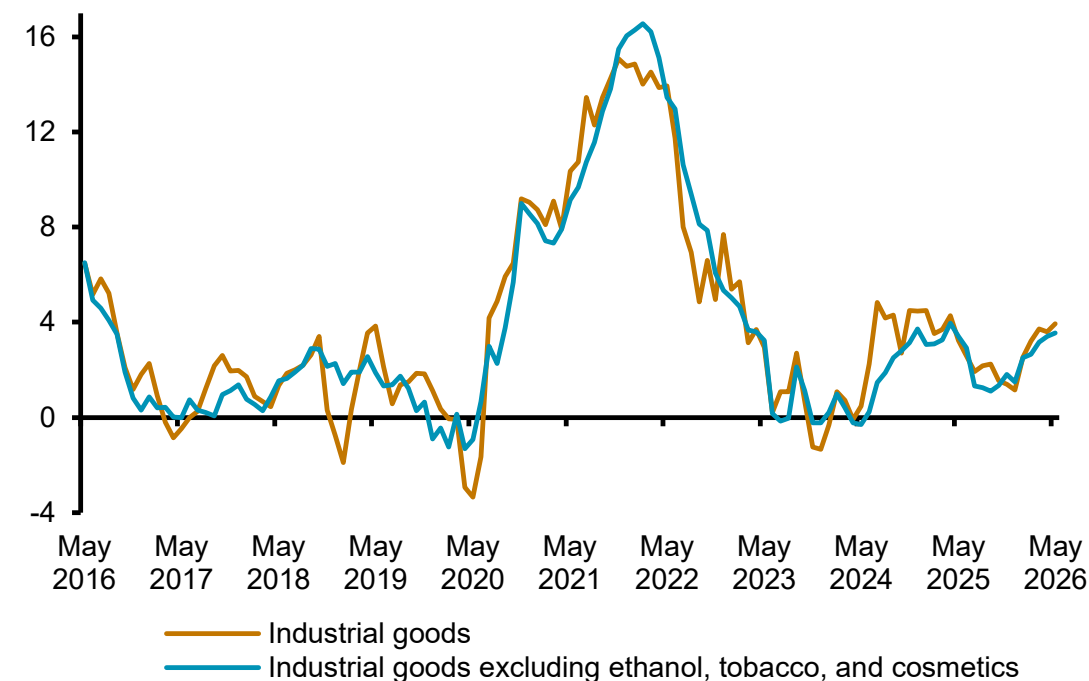
Contributions to quartely changes in industrial goods prices – IPCA



Sources: IBGE and BCB

Industrial goods inflation

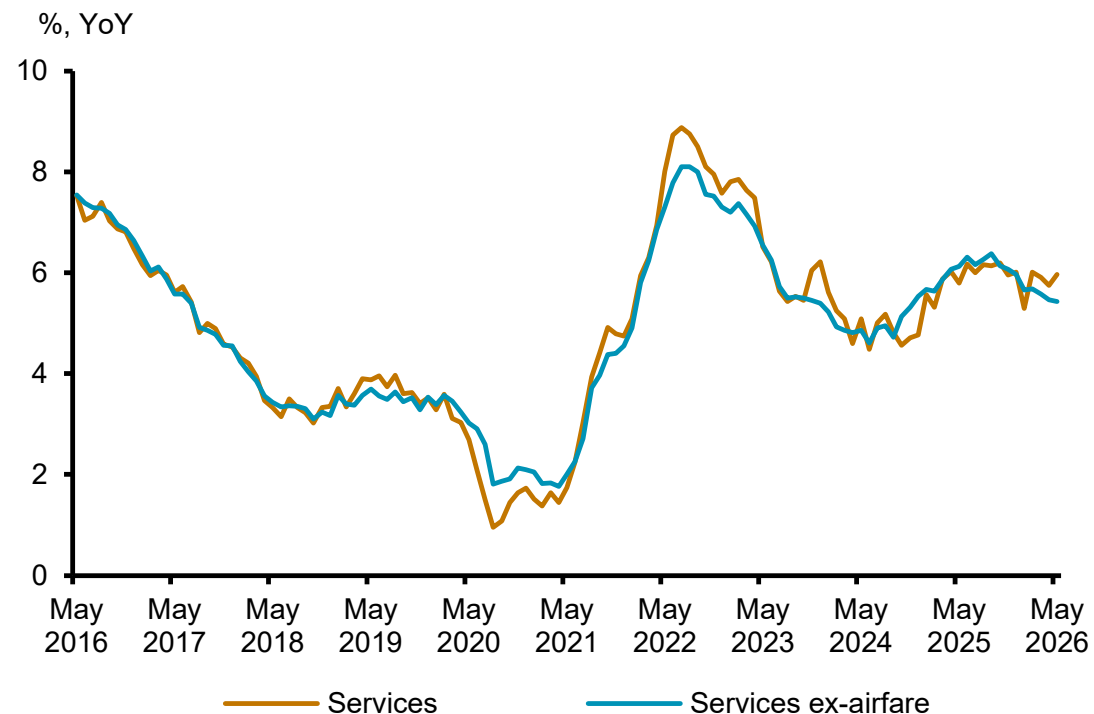
%, 3MMA saar



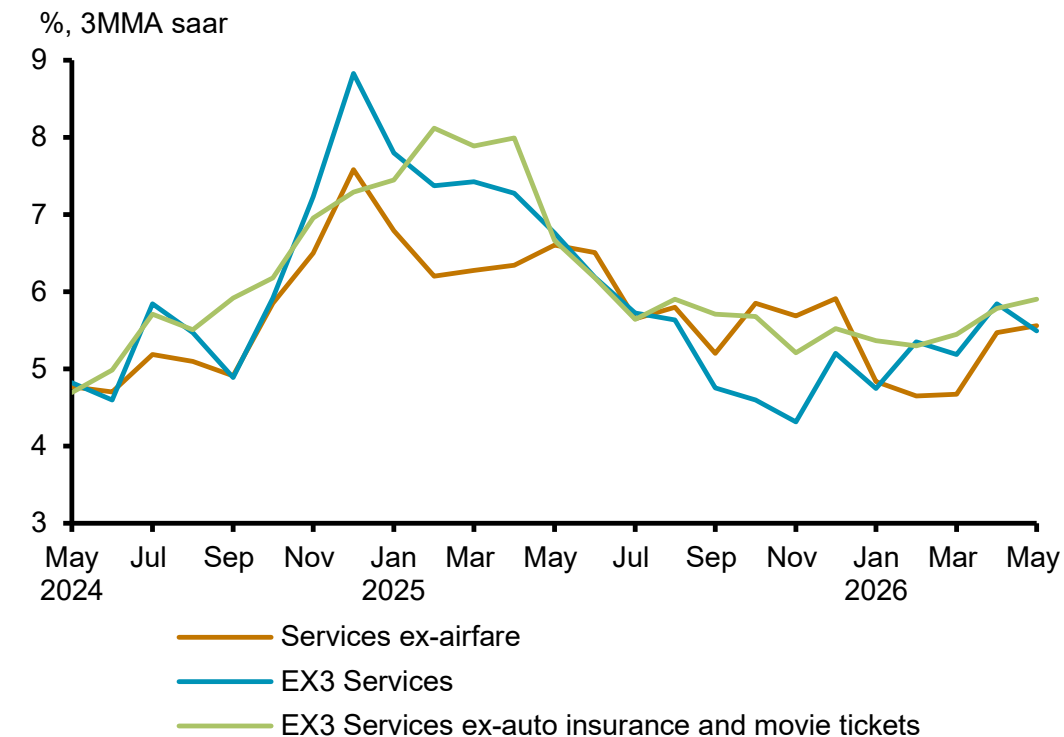
Consumer prices (IPCA)

Services inflation remained high, both in terms of the 12-month change and of seasonally adjusted underlying measures.

Services inflation



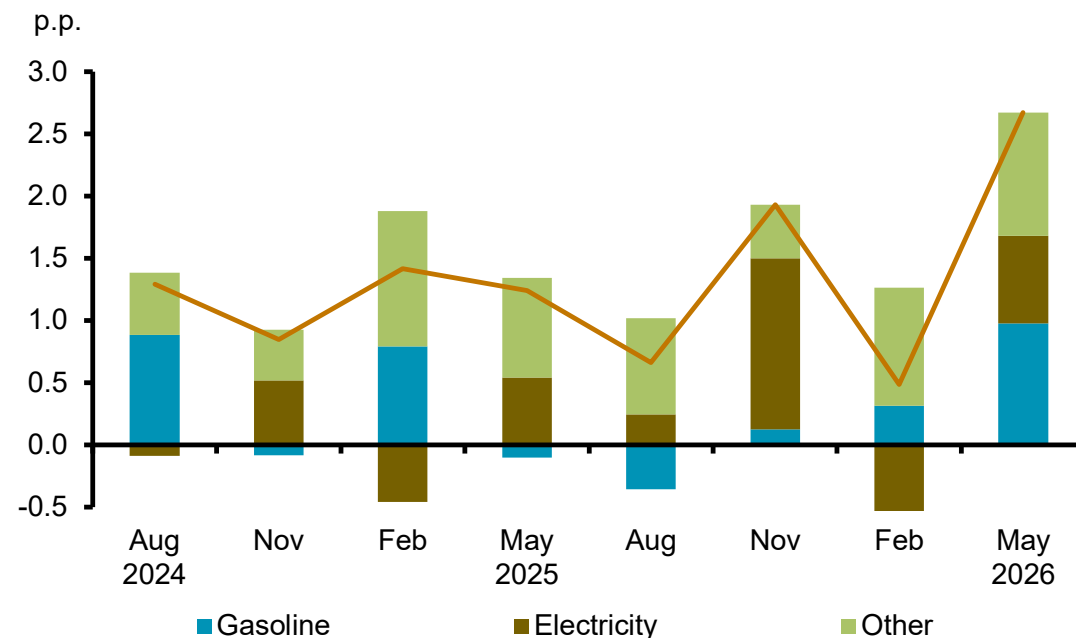
Services inflation



Consumer prices (IPCA)

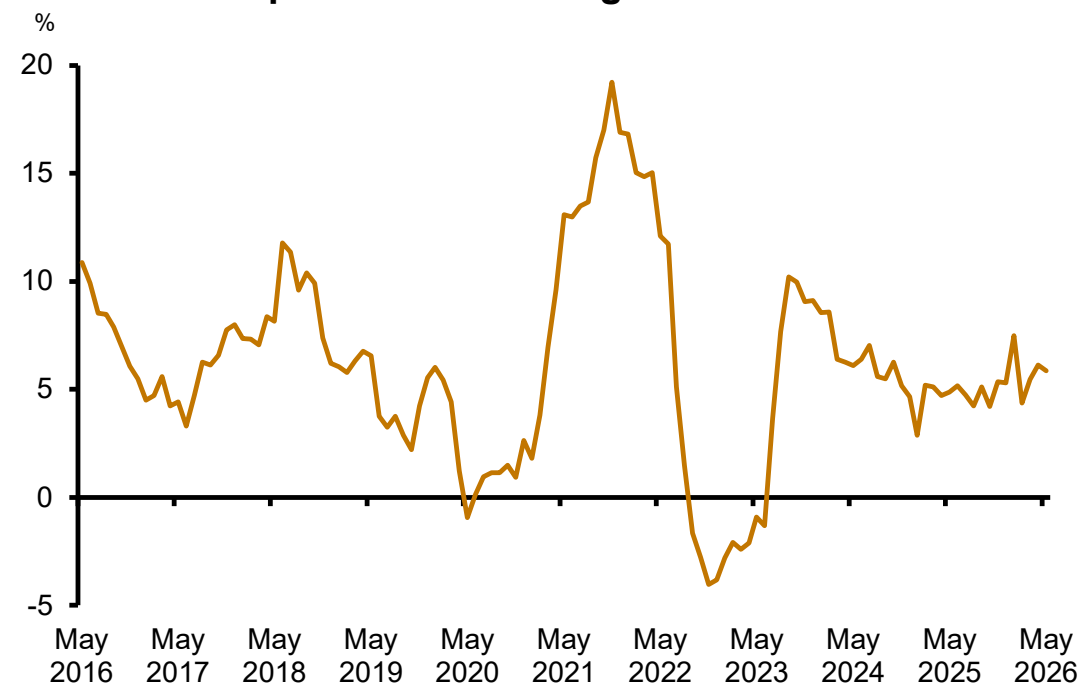
Administered prices increased sharply in the quarter, reflecting higher oil prices and the more restrictive electricity tariff flag.

Contributions to quarterly changes in administered prices – IPCA



Sources: IBGE and BCB

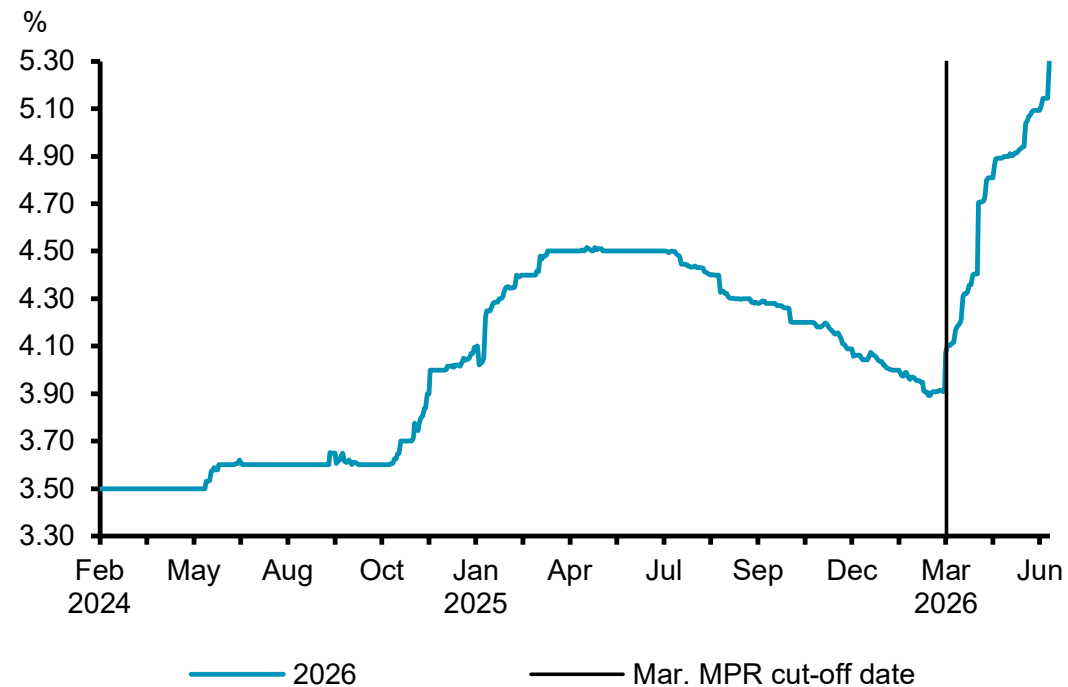
Administered prices – YoY change



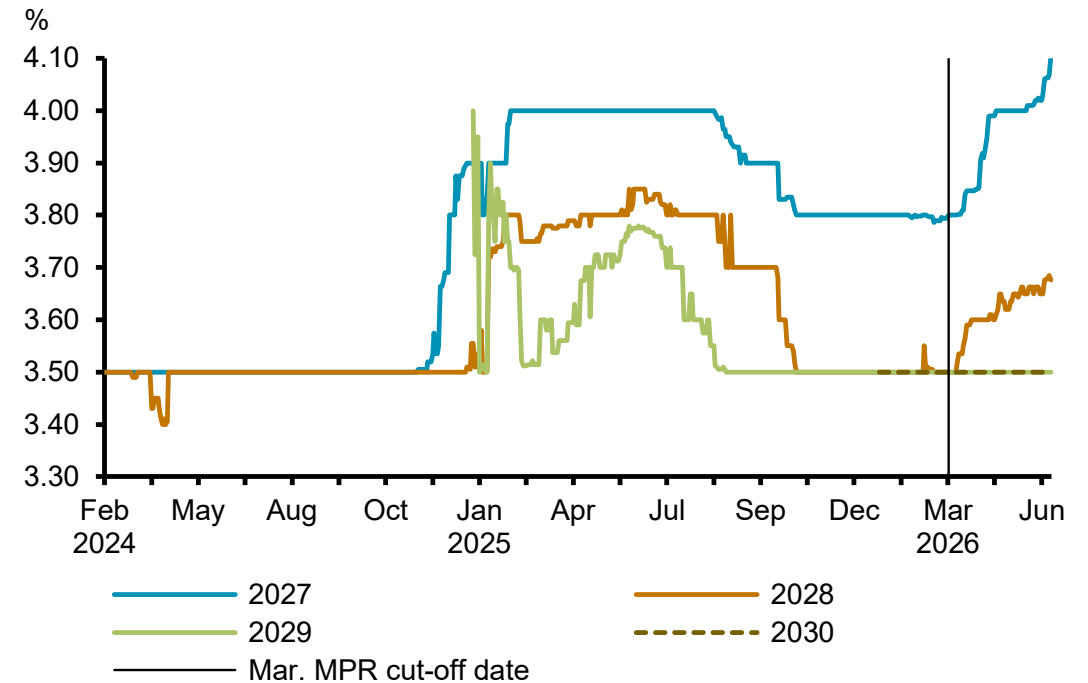
Consumer prices – Expectations

Inflation expectations increased sharply for 2026 and, to a lesser extent, for 2027 and 2028. Inflation expectations remain above the 3% inflation target throughout all horizons considered by the Focus survey.

Median market expectations (Focus) – Annual IPCA in 2026



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





MONETARY POLICY REPORT

Inflation outlook

Short-term reference scenario

IPCA – Inflationary surprise

	% change				
	2026				
	Mar	Apr	May	Quarterly up to Aug	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.

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.

Surprises

Consumer inflation in the Mar-May quarter was much above expectations, with surprises concentrated in food-at-home and fuels.

- In the food segment, fresh food registered a significant surprise. Meat, milk and beans also came in above expectations.

Projections

Short-term monthly projections indicate that inflation will remain above the upper limit of the target interval.

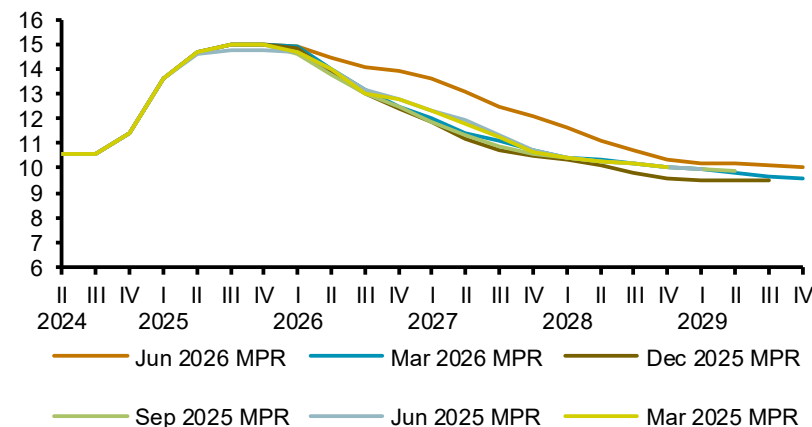
- Food: lower change rate, due to seasonality. El Niño adds uncertainty.
- Administered: fuel prices remain conditioned by oil prices and to subsidies; transition to more restrictive electricity tariff flags.
- Industrial goods: higher changes than those observed in the second half of 2025, partially due to increase in cost pressures.
- Services: underlying inflation measures are expected to remain under pressure, in line with price inertia and a still strong labor market.

Conditional inflation projections: conditioning assumptions

Selic rate target assumption for projections – Focus survey expectations

Quarterly averages

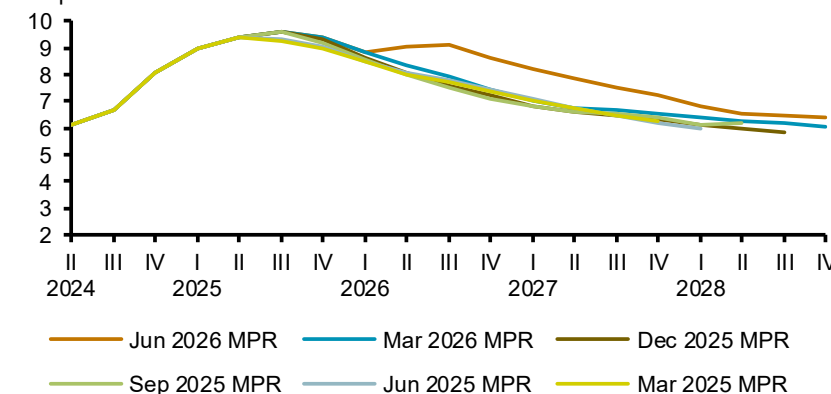
% p.a.



Four-quarter-ahead real Selic

Quarterly averages

% p.a.



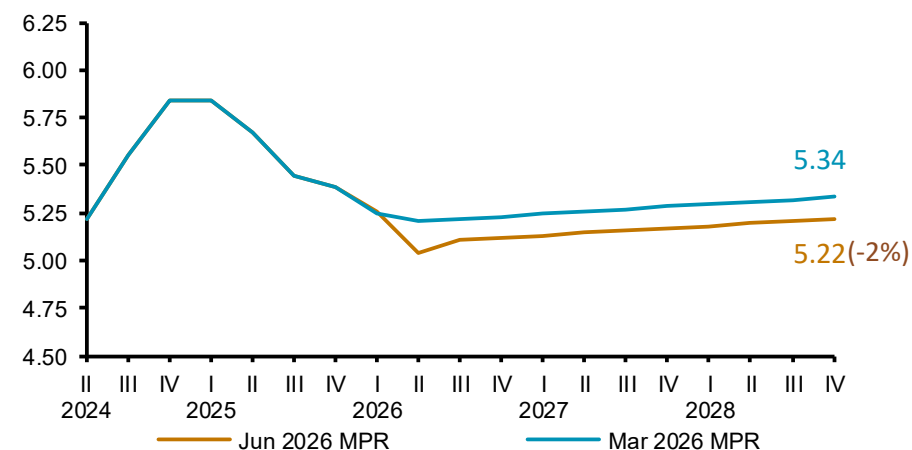
Real neutral
interest rate of
5.00%

Note: Real Selic calculated as the four-quarter-ahead Selic rate, discounted from inflation expectations for the same period, both variables extracted from the Focus survey.

Exchange rate assumption for projections – PPP trajectory

Quarterly averages

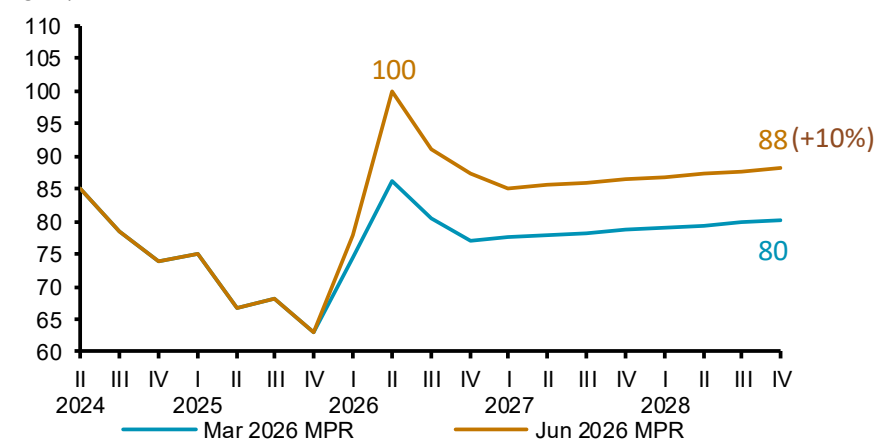
USD/BRL



Brent-type oil price

Quarterly averages

USD/Barrel

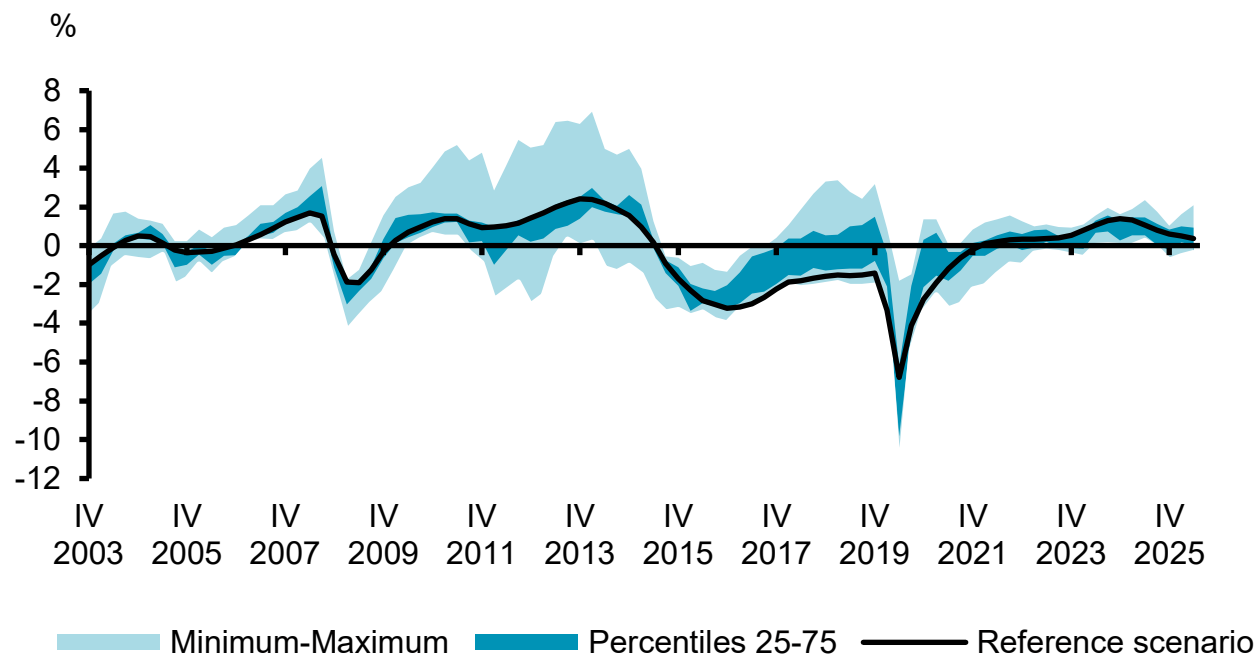


Sources: Bloomberg and BCB

Output gap

The estimated output gap is currently positive but is projected to decline over the coming quarters.

Output gap: estimates and dispersion



- 2026Q2 output gap estimated at 0.4%.
- 2027Q4 output gap estimated at -0.5%.

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.

Conditional inflation projections: reference scenario

Inflation projections – Reference scenario

YoY IPCA inflation

	2025			2026				2027				2028				%
Price index	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	3.3	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]	[0.1]	[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	3.3	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]	[0.1]	[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	3.5	3.4	3.4	
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]	[0.3]	[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.

- Main factors for **upside projections** in the relevant horizon:
 - Upside surprise in the actual IPCA;
 - Upside revision in the estimated and projected output gap trajectory;
 - Rising prices of oil and derivatives and of commodities in general;
 - Increased inflation expectations.
- Main factors for **downside projections** in the relevant horizon:
 - Higher considered path for the Selic rate;
 - Exchange rate appreciation.

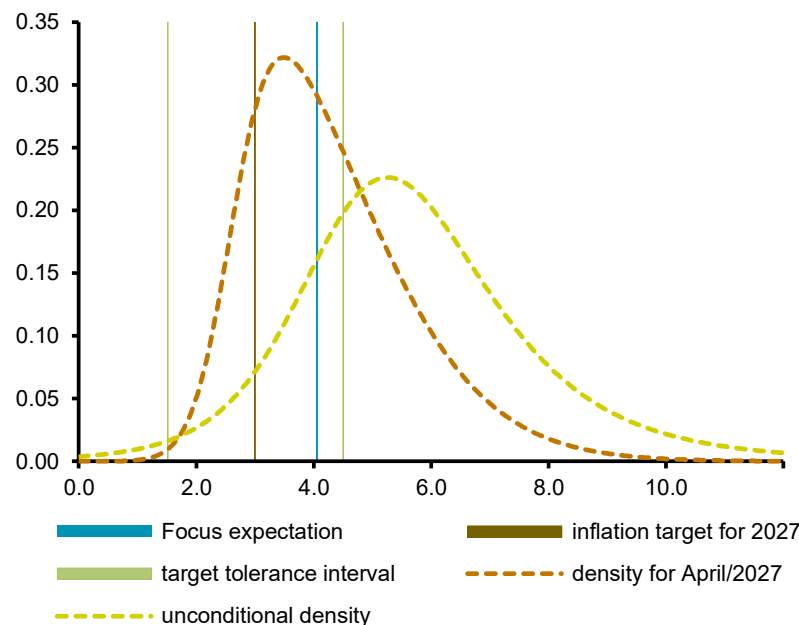
Analysis of inflation and economic activity risks

- Complementary tools to assess the balance of macro risks:
- Inflation-at-risk: López-Salido and Loria (2024)
- Growth-at-risk: Adrian et al. (2019)

The exercises allow to:

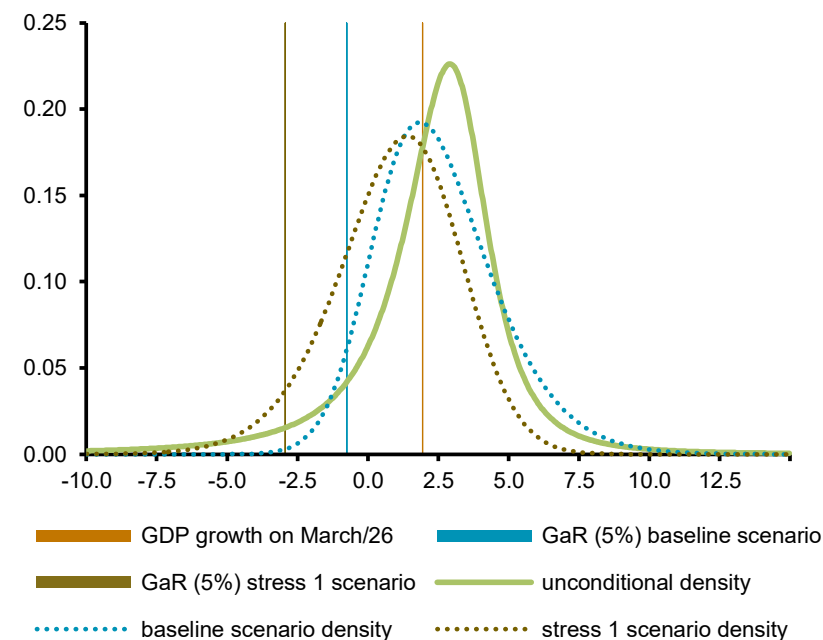
- Map nonlinearities using quantile regression;
- Estimate conditional densities for scenarios and risk measures.

Inflation Density Forecast



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

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

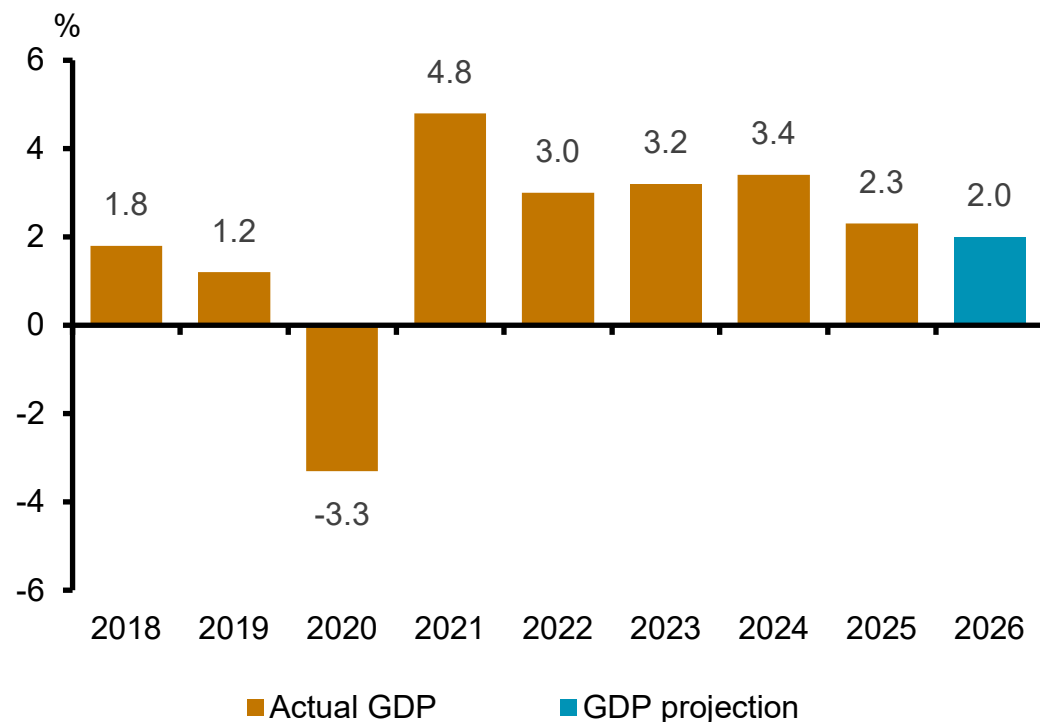


Main results:

- **Inflation**: Demand shocks and imported inflation increase the likelihood of higher future inflation.
- **GDP**: Deterioration in financial conditions and in the yield curve increase the risk of a recession or low growth.

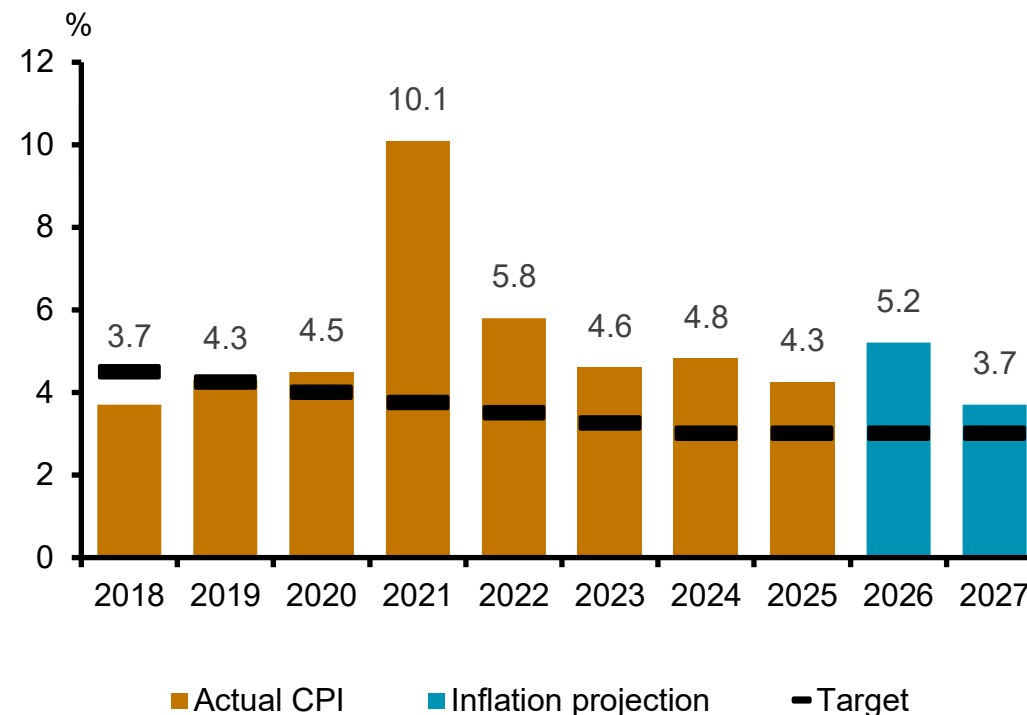
GDP and IPCA projections

Actual GDP and GDP projection



Sources: IBGE and BCB

Actual CPI and inflation projection – IPCA



Sources: IBGE and BCB

Final considerations – Balance of risks

The risks to inflation, both to the upside and to the downside, remain higher than usual, with an upward asymmetry.

- Among the **upside risks** for the inflation outlook and inflation expectations, it should be emphasized :
 - i. a more prolonged period of deanchoring of inflation expectations, with longer horizons incorporating potential second-round effects stemming from supply shocks in oil and its derivatives, and to climate effects upon agricultural productivity and energy costs;
 - ii. a stronger-than-expected resilience of services inflation due to a more positive output gap;
 - iii. a conjunction of internal and external economic policies with a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency; and
 - 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

Final considerations – Balance of risks

- Among the **downside risks**, it should be noted:
 - i. a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario;
 - ii. a steeper global slowdown stemming from the trade and oil shocks and the scenario of heightened uncertainty; and
 - iii. a reduction in commodity prices with disinflationary effects.



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