

## Monetary Policy Report: forecasts still inconsistent with rate cuts before 2026

- ▶ The September Monetary Policy Report reinforced the signal given at the last Copom meeting: current numbers still do not support a discussion about interest rate cuts in 2025 (in line with our current scenario). The output gap estimate was revised upward, as expected, but may still undergo further adjustment after the approval of the income tax reform.
- ▶ This quarter's edition featured a rich array of studies, with a deep dive in labor market topics – a choice that underscores the current importance of unemployment and wage dynamics for the outlook on inflation and the next steps in monetary policy.

### Central Bank forecasts

The table below shows the inflation estimates released for the reference scenario<sup>1</sup>.

	Central Bank inflation (IPCA) forecasts														
	2024		2025				2026				2027				2028
	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
IPCA	4.4	4.8	5.5	5.4	5.3	4.8	4.0	4.1	4.0	3.6	3.4	3.4	3.3	3.2	3.1
Difference to previous IR (pp)	[0,0]	[0,0]	[0,0]	[0,0]	[-0,1]	[-0,1]	[-0,2]	[-0,1]	[0,2]	[0,0]	[0,0]	[0,0]	[0,0]	[0,0]	-
Market-set prices	4.1	4.9	5.6	5.4	5.4	5.0	4.3	4.2	4.1	3.5	3.3	3.2	3.2	3.1	3.0
Difference to previous IR (pp)	[0,0]	[0,0]	[0,0]	[-0,2]	[-0,6]	[-0,2]	[-0,2]	[-0,1]	[0,3]	[0,1]	[0,0]	[0,0]	[0,0]	[0,0]	-
Regulated prices	5.5	4.7	5.1	5.2	5.0	4.3	3.4	3.8	3.7	3.8	3.8	3.7	3.6	3.6	3.4
Difference to previous IR (pp)	[0,0]	[0,0]	[0,0]	[0,0]	[1,1]	[0,5]	[0,2]	[0,1]	[-0,2]	[-0,3]	[-0,1]	[0,0]	[0,0]	[0,0]	-

\*Painted area = forecasts.

Source: Central Bank

Compared to the estimates presented in the June report, there was a change only in the inflation projections for the end of 2025 and the beginning of 2026, with a slight decline. The figures for the end of 2026, 1Q2027 (the relevant policy horizon), and the end of 2027 remained unchanged. The projection for early 2028 was presented for the first time, at 3.1%, close to the target center – but not there yet.

The BCB revised its assumptions regarding the output gap, bringing them closer to our expectations for GDP trajectory over the coming quarters. This confirms our hypothesis about what was behind the stable inflation forecast of 3.4% for 1Q2027, disclosed at the last Copom meeting and interpreted by the market as a hawkish signal. This revision was enough to offset the recent improvement in market expectations for inflation and the appreciation of the exchange rate, both of which would otherwise have pulled the committee's inflation forecasts downward.

At first glance, it appears that the BCB has incorporated into its baseline scenario almost all the activity-related factors it had previously treated as uncertain – with the exception of the income tax table revision, which, if approved, could still lead to further adjustments in the projections.

<sup>1</sup> With the Decree 12.709/2024, starting in January 2025, the target refers to the accumulated inflation over 12 months, calculated month by month, also known as the "continuous target". The window of the projection horizon was set at ten quarters.

In our view, the overall set of information – especially the inflation forecast still far from the target at the relevant horizon – reinforces the interpretation that there is little room for rate cuts before 2026.

More details about economic activity: the GDP growth forecast for 2025 was revised to 2.0% from 2.1%, while the forecast for 2026 (presented for the first time) stands at 1.5%. Authorities maintained the expectation of continued moderation in economic activity throughout the second half of this year, a trend that is expected to extend into the following year. The slight reduction in 2025 resulted from the still uncertain effects of the increase in U.S. import tariffs, as well as signs of economic moderation in the 3Q25, only partially offset by more favorable forecasts for agriculture and the extractive industry.

Gross domestic product forecasts (accumulated in the year)						
	September	December	March	June	September	
	2025	2025	2025	2025	2025	2026
<b>GDP (current prices)</b>	2.0%	2.1%	1.9%	2.1%	2.0%	1.5%
Agriculture and livestock	2.0%	4.0%	6.5%	8.0%	9.0%	1.0%
Industry	2.4%	2.4%	2.2%	1.9%	1.0%	1.4%
Services	1.9%	1.9%	1.5%	1.8%	1.8%	1.5%
Household consumption	2.2%	2.4%	1.5%	2.1%	1.8%	1.4%
Government consumption	2.0%	1.6%	1.6%	1.2%	0.5%	1.0%
Gross fixed capital formation	2.0%	2.9%	2.0%	2.8%	3.3%	0.3%
Exports	2.5%	2.5%	4.0%	3.5%	3.0%	2.5%
Imports	2.5%	2.5%	4.0%	3.5%	4.5%	1.0%

Source: Central Bank.

The projection for credit balance growth in 2025 was slightly revised upward, to 8.8% from 8.5%, reflecting, in particular, the better-than-expected performance of earmarked corporate credit. The credit balance growth rate is expected to decline to 8.0% in 2026.

Credit balance growth forecasts (12-month change)						
	September	December	March	June	September	
	2025	2025	2025	2025	2025	2026
<b>Total</b>	10.3%	9.6%	7.7%	8.5%	8.8%	8.0%
Non-earmarked	10.2%	9.6%	7.9%	8.3%	8.4%	7.7%
Households	11.0%	10.0%	8.5%	10.0%	10.5%	8.5%
Corporations	9.0%	9.0%	7.0%	6.0%	5.5%	6.5%
Earmarked	10.5%	9.7%	7.5%	8.8%	9.5%	8.3%
Households	10.5%	10.0%	7.5%	8.5%	8.0%	8.0%
Corporations	10.5%	9.0%	7.5%	9.5%	12.5%	9.0%
Total households	10.8%	10.0%	8.0%	9.3%	9.4%	8.3%
Total corporations	9.5%	9.0%	7.2%	7.3%	8.0%	7.4%

Source: Central Bank.

Finally, on external accounts, the authorities expect a more pressured scenario in 2025 compared to the previous report, with an increase in the current account deficit, now estimated at USD 70 billion, up from USD 58 billion previously. In 2026, an increase in the trade surplus is expected to allow a reduction of the current account deficit to USD 58 billion.

External accounts forecasts (USD billion)						
	September	December	March	June	September	
	2025	2025	2025	2025	2025	2026
<b>Current account</b>	<b>-60</b>	<b>-58</b>	<b>-62</b>	<b>-58</b>	<b>-70</b>	<b>-58</b>
Trade balance	64	65	61	60	54	61
Exports	341	338	343	340	338	345
Imports	277	274	282	280	285	284
Services	-49	-49	-52	-50	-53	-51
Primary income	-75	-75	-72	-70	-73	-72
Investment - liabilities	85	85	80	75	85	75

Source: Central Bank.

## Summary of the studies

We present below summaries of the studies published in this edition, with links for the complete reports.

### Effects of App-Based Work on the Labor Market

Full study (in Portuguese) [here](#).

- The study examines the impact of the expansion of digital platforms for passenger transportation and goods delivery on the Brazilian labor market. Between 2015 and 2025, the number of app-based workers increased by 170%, rising from 770 thousand to 2.1 million, equivalent to 2.1% of the employed population.
- Two exercises were conducted to assess the effects of this phenomenon on the Brazilian labor market. Both showed that the advent of digital platforms contributed to higher employment and labor force participation rates, and to a lower unemployment rate, representing a structural change in the labor market.
- The estimated impacts up to the second quarter of 2025 were +0.8pp/+0.7pp for employment, +0.2pp/+0.6pp for labor force participation, and -0.6pp/-0.3pp for the unemployment rate, according to models 1 and 2, respectively.

### Job changes and wage premium

Full study (in Portuguese) [here](#).

- This piece presents complementary indicators that corroborate the assessment of a heated labor market in Brazil, with emphasis on worker mobility and the wage premium associated with job changes. The objective of the study was to analyze market dynamism through the average time to reemployment, job change and turnover rates, as well as the wage premium from changing jobs, using data from PNAD and Caged.
- The analysis shows that the average time to find a new job is at a historically low level, below 10 months in 2025, reflecting high mobility and low slack in the labor market. Job change and turnover rates have reached elevated levels, indicating greater competition for workers and more opportunities for movement. The wage premium for job changes, according to PNAD data, is at a historically high level (4% to 5% in 2024 and 2025), while Caged data show a decline in this premium over the past three years, especially among voluntary terminations, with the downward trend spread across education levels and age groups.
- In summary, labor market dynamism is reflected in mobility and reemployment indicators, while the evolution of the wage premium diverges depending on the data source used. The results reinforce the scenario of a heated labor market but suggest caution in analyzing the wage premium, given the differences between the PNAD and Caged databases.

## Trend of wage inflation by sector and age group

Full study (in Portuguese) [here](#)

- This box introduces a new measure of wage inflation trend in the Brazilian formal sector, constructed from the variation in nominal admission and termination wages recorded by Caged, segmented by economic sector and age group. The objective is to capture the persistent and transitory components of wage growth, using a dynamic factor model with time-varying parameters.
- The analysis shows that common macroeconomic factors exert a strong influence on the aggregate wage trend, as evidenced by the high correlation across sectors and age groups. The services sector stands out for its decisive role in the deceleration of wages since mid-2024, while retail also contributed to the decline, especially in termination wages. Industry and construction maintained stable participation, and agriculture had a more limited impact.
- In the age group breakdown, workers up to 50 years old account for most of the aggregate trend, with the intermediate age groups (25 to 50 years) being most affected by the recent decline in admission wages. For terminations, the deceleration was led by groups above 35 years old.

## Impact of Education and Demographics on Labor Market Indicators

Full study (in Portuguese) [here](#).

- The study evaluates the effects on the labor market resulting from the evolution of educational attainment and demographic changes in the working-age population (WAP). The study presents counterfactual scenarios in which the structure of the WAP is held constant as of the first quarter of 2014 – the period of lowest unemployment prior to the pandemic.
- From this exercise, the study concludes that there were significant impacts: the labor force participation rate was 2.5 percentage points below the level observed in the second quarter of 2025, while the employment rate was 3.0 percentage points lower. The unemployment rate, in turn, showed a more moderate effect, standing 0.7 percentage points above the current figure. The comparison between the counterfactual scenarios and realized data indicates that, except during the pandemic, changes in the composition of the WAP have contributed to higher labor force participation and employment since early 2014.

## Impact on the delinquency rate from the new accounting rules for financial instruments

Full study (in Portuguese) [here](#).

- The study evaluates the effects of the new accounting rules for financial instruments on the NPL ratio. The new standards, effective since January 2025, introduced gradual provisioning for expected losses and changed the criteria for charge-offs. As a result, delinquent loans have remained longer on banks' balance sheets, increasing the share of loans overdue by more than 90 days.
- It is estimated that around 70% of the increase in the NPL ratio through June 2025 stems from the regulatory change.

## New private payroll-deductible loan

Full study (in Portuguese) [here](#).

- The study presents the changes introduced by the new payroll-deductible credit model for private-sector workers. The new system eliminates the need for agreements between employers and banks, expands access to millions of formal workers, enables the use of public digital platforms, and includes new groups such as rural workers, domestic workers, and self-employed individuals in transport and delivery services.
- Historical evidence from 2022 shows that, following the introduction of private payroll-deductible credit within companies, there was an initial rise in average indebtedness and in the debt-service-to-income ratio. The substitution of more expensive debt with payroll-deductible credit was limited, suggesting that the expansion tends to raise indebtedness in the short term, albeit at a more moderate pace thereafter.

- Between March and July 2025, new private payroll-deductible credit disbursements reached R\$13.6 billion. Interest rates were lower than those of unsecured personal loans but higher than those of traditional payroll-deductible credit. Aggregate indebtedness increased by an amount close to the new disbursements.

## **Firmus Survey – Expectations and perceptions of Brazilian companies**

Full study [here](#).

- In this box, the Central Bank analyzes the expectations and perceptions of companies from the Firmus survey, while also comparing them with the Focus projections. The Firmus survey was recently created and remained in a pilot phase until the third quarter of 2025.
- The results indicate that the medians of inflation expectations collected by Firmus closely track the medians from the Focus survey. At the same time, Firmus adds value by providing additional information, such as sentiment indicators about the economic situation, and expectations regarding costs, final prices, and margins, which offer distinct and complementary inputs for monetary policy decisions. In addition, the inclusion of special questions in some rounds makes it possible to capture companies' perceptions on current issues and shocks of interest.
- However, the box highlights that the analyses should be interpreted with caution, as they are based on a still-expanding sample and a limited number of rounds.

## **Measuring monetary policy communication**

Full study (in Portuguese) [here](#).

- The study describes the application of machine learning techniques to the content of the Central Bank of Brazil's regular official publications. Two types of indicators were developed for textual analysis, both comparable over time. The first indicator seeks to measure text readability—that is, the ease of reading—while the second aims to capture the distribution of topics covered in the publications, namely how much space each theme occupies in the Monetary Policy Committee (Copom) releases and how this composition evolves over time.

## **Note on Noncompliance with the Inflation Target**

Full study (in Portuguese) [here](#).

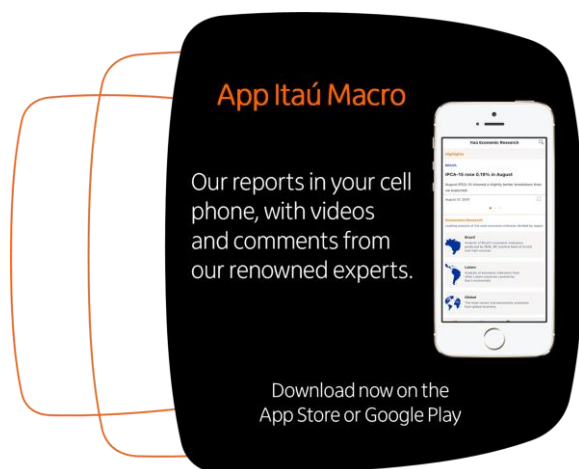
- The note is a mandatory accountability instrument in cases of noncompliance with the inflation target—that is, when the IPCA remains outside the tolerance band for six consecutive months. The IPCA has stayed above the upper limit of the target, and the BCB assesses that this behavior is likely to persist throughout 2025. Factors behind this deviation include stronger-than-expected economic activity, upward pressure from a positive output gap, the exchange rate, and inflation inertia.
- For September, the BC's model estimates that the IPCA will be 2.32 pp above the target, with 0.69 pp explained by twelve-month inertia, 0.68 pp by inflation expectations, 0.47 pp by the output gap, 0.02 by imported inflation, 0.13 by energy tariff flag adjustments, and 0.32 by other factors.
- For the coming quarters, the BCB expects some easing of these pressures, driven by the effects of a prolonged contractionary monetary policy stance, gradual economic slowdown, a stronger exchange rate, and the re-anchoring of expectations.

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