

## Monetary Policy Report: forecasts consistent with caution ahead

- ▶ The March Monetary Policy Report (MPR) revealed an inflation projection of 3.3% for 4Q27, which will be the relevant horizon for the next monetary policy decision in April. This represents stability relative to the projection seen at last week's meeting (when the relevant horizon was still 3Q27), which underpinned the decision to deliver an initial 25-bp cut in the Selic rate.
- ▶ This projection was obtained even with the incorporation of oil prices following the market futures curve through the end of this year (a more benign assumption that had not been made as explicit in the post-Copom documents). In addition, we note that the BCB reaches this estimate using projections that, in our view, underestimate near-term inflation readings. Importantly, the inflation projection for the longest horizon presented (3Q28) is also noteworthy, as it suggests that the monetary authority does not see full convergence to the inflation target when assuming the interest rate path reported in the Focus survey.
- ▶ In our view, this set of information (still subject to change depending on the geopolitical context) reduces the scope for an acceleration in the pace of monetary easing at the April meeting.
- ▶ As usual, the MPR included interesting studies on relevant topics. Among them, we highlight the estimates of exchange-rate pass-through to the IPCA, the response of bank lending to changes in the Selic rate, and a study on the balance of payments. The first shows that, as expected, exchange-rate pass-through is higher for industrial goods and at-home food consumption, while it is close to zero for services. The balance-of-payments study explains the recent trend toward a wider current account deficit as the result of structural factors (spending on digital services), cyclical factors (exchange rate movements and household income affecting travel), and regulatory factors (tax incentives for equipment leasing in the oil industry). Finally, the Central Bank identifies a negative causal relationship between the Selic rate and long-term non-earmarked bank lending, consistent with the standard monetary policy transmission channel.

### Central Bank forecasts

The table below shows the inflation estimates released for the reference scenario.

	Central Bank inflation (IPCA) forecasts											
	2026				2027				2028			
	I	II	III	IV	I	II	III	IV	I	II	III	
IPCA	3.6	3.7	3.8	3.9	3.6	3.4	3.3	3.3	3.2	3.2	3.1	
Difference to previous MPR (pp)	0.0	0.1	0.2	0.4	0.4	0.2	0.1	0.2	0.2	0.2	-	
Market-set prices	3.3	3.3	3.5	3.7	3.5	3.4	3.3	3.3	3.2	3.1	3.1	
Difference to previous MPR (pp)	-0.2	-0.1	-0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	-	
Regulated prices	4.5	4.9	4.9	4.3	3.8	3.6	3.2	3.4	3.3	3.2	3.1	
Difference to previous MPR (pp)	0.4	0.8	1.2	1.1	0.7	0.2	0.0	0.2	0.2	0.2	-	

\*Painted area = forecasts.

Source: Central Bank

Compared with the estimates presented in the December report, inflation projections increased across all quarters through the end of the projection horizon. The estimates for the first half of 2028 move away from the 3% target, and the projection for 3Q2028 (shown for the first time) stands slightly above the monetary authority's target.

The report cites the factors behind the upward revision to projections, with higher international oil prices standing out. It also mentions a revision to the output gap assumption (details follow), while noting that the appreciation of the real relative to December levels and a marginal decline in inflation expectations acted as downside factors for the projection changes.

The GDP growth estimate for 2026 was kept at 1.6%, unchanged from the previous report, preserving the expectation of moderate expansion throughout the year. In our view, the overall set of information reinforces the reading that the scenario remains conditioned by a restrictive monetary policy stance, amid lower idle capacity and greater uncertainty in the external environment.

Keeping the annual GDP growth forecast unchanged at 1.6% reflects the 4Q25 outcome broadly in line with expectations and the preserved outlook for moderate quarterly growth throughout 2026, in a scenario conditioned, among other factors, by restrictive monetary policy, low spare capacity, and the absence of the agricultural impulse observed in 2025. The report also continues to incorporate estimates of the effects of recent measures that could support domestic demand, such as the real increase in the minimum wage and the exemption or discount in personal income tax (IRPF) for the lowest income brackets. In terms of composition, on the supply side, agriculture was revised up (to 1.0% from 0.5%) and services were revised up (to 1.7% from 1.6%), while industry was revised down (to 1.2% from 1.9%), reflecting weaker-than-expected fourth-quarter performance in segments such as manufacturing and construction. On the demand side, forecasts for household consumption and gross fixed capital formation were revised to 1.4% (from 1.5%) and 0.5% (from 1.0%), while government consumption was raised to 2.0% (from 1.5%); in the external sector, the export forecast was raised to 2.5% (from 2.0%) and the import forecast was kept at 1.0%. The report also notes that the recent conflict in the Middle East increases uncertainty around the forecasts and, if prolonged, tends to resemble a negative supply shock, raising inflation and lowering growth, even though some sectors may benefit.

<b>Gross domestic product forecasts (accumulated in the year)</b>		
	<b>Current</b>	<b>Previous</b>
	<b>2026</b>	<b>2026</b>
<b>GDP (current prices)</b>	<b>1.6%</b>	<b>1.6%</b>
Agriculture and livestock	1.0%	0.5%
Industry	1.2%	1.9%
Services	1.7%	1.6%
Household consumption	1.4%	1.5%
Government consumption	2.0%	1.5%
Gross fixed capital formation	0.5%	1.0%
Exports	2.5%	2.0%
Imports	1.0%	1.0%

Source: Central Bank.

Nominal outstanding credit balance growth projections were revised up for 2026. The 2026 forecast rose to 9.0% from 8.6%, reflecting mainly stronger-than-expected recent dynamics. The report notes that credit in the National Financial System (SFN) grew 10.3% in 2025, above the projection published in the previous MPR (9.4%), with outcomes exceeding expectations mainly in non-earmarked household credit and earmarked corporate credit. For 2026, the revision reflects, in particular, higher projections for non-earmarked household credit (9.5%) and earmarked corporate credit (11.5%), as well as an increase in earmarked household credit (9.5%), maintaining the reading of a slowdown in credit growth for the second consecutive year.

Credit balance growth forecasts (12-month change)		
	Current	Previous
	2026	2026
<b>Total</b>	<b>9.0%</b>	<b>8.6%</b>
Non-earmarked	8.1%	7.8%
Households	9.5%	9.0%
Corporations	6.0%	6.0%
Earmarked	10.2%	9.7%
Households	9.5%	9.0%
Corporations	11.5%	11.0%
Total households	9.5%	9.0%
Total corporations	8.2%	7.9%

Source: Central Bank.

Finally, on external accounts, the report expects a smaller current account deficit in 2026 than previously projected, estimated at US\$58 billion (2.2% of GDP), due to an improvement in the trade balance forecast. The report records that the 2025 current account deficit was US\$69 billion, below what was expected in the last report (US\$76 billion), with the surprise concentrated in exports at the end of the year. For 2026, the trade balance is projected to rise, supported by export growth outpacing import growth, and the net inflow of foreign direct investment (FDI) is expected to remain at US\$70 billion (2.7% of GDP). In this section, the report also highlights that risks and uncertainty around the forecast are higher than usual due to the conflict in the Middle East and its potential effects on international trade, supply chains, logistics, and global financial conditions.

External accounts forecasts (USD billion)		
	Current	Previous
	2026	2026
<b>Current account</b>	<b>-58</b>	<b>-60</b>
Trade balance	73	64
Exports	374	355
Imports	301	291
Services	-54	-51
Primary income	-82	-78
FDI	70	70

Source: Central Bank.

## Summary of the studies

We present below summaries of the studies published in this edition. Full studies (in Portuguese) [here](#).

### Seasonal adjustment and uncertainty about the pace of growth in early 2026

- The box shows that the interpretation of the 2025 GDP deceleration depends heavily on the seasonal-adjustment method: while the direct adjustment indicates weakening throughout the year, the indirect method points to stable growth in non-agricultural GDP, around 0.4% per quarter.
- The pre-Copom questionnaire (QPC) with market participants shows projections for 2026Q1 that signal an acceleration in quarter-on-quarter growth, but part of this increase reflects the seasonal-adjustment methodology. Simulations show that the direct method systematically produces higher growth rates than the indirect one for both aggregate GDP and non-agricultural GDP.
- For year-over-year variations near QPC medians, direct adjustment suggests quarterly growth of about 1.0% for GDP and 0.8% for non-agricultural GDP, whereas indirect adjustment points to 0.7% and 0.5%, respectively. The discrepancy is concentrated in the first quarter and narrows over the year.
- The box concludes that assessing early-2026 economic momentum requires caution, given its sensitivity to the adjustment method. Monitoring a broad set of indicators remains essential for a more accurate evaluation of growth dynamics.

### **Recent evolution of labor productivity**

- This study analyzes labor productivity growth since 2019 and shows that its increase has been modest, driven mainly by composition effects associated with employment reallocation toward more productive sectors, while within-sector gains remained virtually null.
- Agriculture stood out as the main contributor to productivity gains, supported by strong output expansion and reduced employment; excluding this sector, cumulative growth was limited and the direct effect turned negative.
- Some service segments registered positive contributions, possibly linked to greater technological adoption, whereas most remaining sectors displayed moderate or adverse performance.
- Finally, it is concluded that persistently modest productivity gains, combined with constraints on labor-force growth, may restrict the economy's potential expansion and heighten susceptibility to inflationary pressures when demand accelerates.

### **Monetary Policy and the Credit Channel: the response of bank lending to changes in the Selic rate**

- This text investigates the causal relationship between the Selic rate and bank lending across different credit modalities.
- The study finds a negative causal relationship between the Selic rate and long-term, non-earmarked bank lending, for both households and firms, with statistically significant declines over the horizons considered.
- By contrast, emergency and short-term credit modalities do not show significant responses to interest rate shocks, consistent with their role in providing liquidity relief and the heterogeneity across credit types.
- Overall, the sensitivity of bank lending to the policy rate is more pronounced in long-term credit lines (consistent with the standard monetary policy transmission channel), and analyses based on highly aggregated series may mask these differences by pooling modalities with distinct characteristics.

### **Deficits in services and primary income in the balance of payments: recent dynamics and potential persistence**

- The deficits in the services and primary income accounts of the balance of payments have reached record levels in recent years. Combined, they corresponded to 4.4% of GDP on average between 2010 and 2017. This average increased to 5.3% of GDP between 2018 and 2025.

- Regarding the services account, part of the deficit's behavior over time reflects a combination of cyclical factors (exchange rate and household income affecting travel), regulatory changes (tax incentives for equipment leasing in the oil industry), volatility in international trade and domestic demand for imports (transportation, via freight). In turn, the recent rise in spending on digital services appears to be more structural, as it is associated with changes in household and corporate behavior within a context of new technological dynamics in communication and information.
- As for the primary income account of the balance of payments, net interest expenses remained relatively stable, but net expenditures on profits and dividends increased from 2021 onward and have since stabilized at an average level of 2.2% of GDP, higher than the average recorded in the five previous years (1.3% of GDP). This increase mainly reflects a larger volume of foreign investment, particularly direct investment in equity capital, whose stock rose from 27% of GDP in 2010 to 47% of GDP in 2025.

### Exchange-rate pass-through: estimates using local projections

- The study estimates exchange-rate pass-through to the IPCA and its main components using local projections, emphasizing the heterogeneous effects across price categories and the substantial uncertainty surrounding the estimates.
- Estimated coefficients for headline inflation stand at 0.10 and 0.16 at 12- and 24-month horizons, implying that a 10% depreciation of the exchange rate raises accumulated inflation by about 1 p.p. and 1.6 p.p., respectively.
- Pass-through is highly uneven: it is close to zero for services, while industrial goods and especially food at home display markedly higher sensitivities, with the latter also responding relatively faster.
- The average of core measures shows more moderate pass-through than headline IPCA, consistent with their lower exposure to volatile items, although wide confidence intervals call for cautious interpretation.

### Consolidated methodology of analytical series derived from the IPCA

- The text highlights the technical note published in December 2025, which consolidated into a single document the methodology for analytical series derived from the IPCA, updating calculation criteria and incorporating minor adjustments without materially changing the economic signals conveyed by the series.
- The technical note also enabled the release of substantially longer historical series, expanding the temporal coverage of analytical inflation measures and enhancing their usefulness for monitoring inflation dynamics.

### Breaking down 2025's inflation

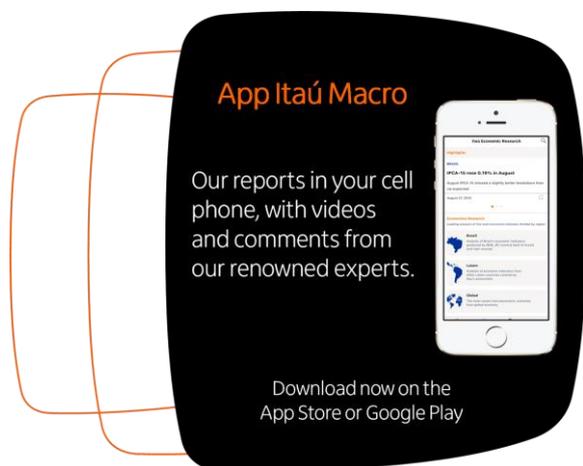
- This annual study aims to measure the contribution of the main factors to the deviation of inflation from the target in 2025, based on the Central Bank's semi-structural models. The deviation is decomposed into five components: i) inertia from the previous year; ii) expectations; iii) imported inflation; iv) output gap; and v) other factors.
- IPCA inflation ended 2025 at 4.26%, 1.26 p.p. above the 3.0% target. The model shows that i) inertia from 2024 contributed 1.13 p.p.; ii) inflation expectations contributed 0.69 p.p., after rising to 5.9% in February and then entering a downward trajectory; iii) imported inflation contributed -0.47 p.p., driven by lower oil prices and exchange-rate appreciation, while commodities measured by the IC-Br were neutral; iv) the output gap added 0.48 p.p., reflecting still-firm economic activity; and v) other factors subtracted -0.57 p.p., notably negative shocks in food at home (-0.66 p.p.) and industrial goods (-0.25 p.p.).
- In conclusion, the decomposition indicates that inertia, expectations and the output gap were the main drivers keeping inflation above the target in 2025, while imported inflation and shocks in food at home and industrial goods acted in the opposite direction.

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