INTERNATIONAL MONETARY FUND

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BRAZIL

July 2026

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BRAZIL

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with Brazil, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 20, 2026 consideration of the staff report that concluded the Article IV consultation with Brazil.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 20, 2026, following discussions that ended on May 29, 2026, with the officials of Brazil on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 2, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Brazil.

The documents listed below have been or will be separately released.

Financial Stability System Assessment

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR26/257

IMF Executive Board Concludes 2026 Article IV Consultation with Brazil

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) concluded the 2026 Article IV consultation with Brazil on July 20, 2026.
- Brazil's economy has remained remarkably resilient in the face of multiple shocks. Growth is projected to rise in 2026 and strengthen to about 2.5 percent over the medium term supported by structural factors, including the ongoing implementation of the landmark 2023 VAT reform.
- Inflation is expected to temporarily pick up in 2026, reflecting high global oil prices. Interest rate cuts have been consistent with Brazil's well-established inflation targeting framework. Maintaining flexibility on next steps is appropriate given high global uncertainty and inflation pressures from global energy prices.
- To put public debt on a firmly downward path and open space for priority investments, saving oil-related revenue windfalls and implementing a more ambitious fiscal effort are warranted, while protecting targeted social spending.

Washington, DC – July 23, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Brazil.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Brazil's economy has shown remarkable resilience despite a series of shocks, and is relatively cushioned from global oil price increases stemming from the war in the Middle East by its status as a net oil exporter and the high share of electricity from renewable energy sources. The 2026 Financial Sector Assessment Program (FSAP) found that the financial sector remains resilient with systemic risks contained.

Growth is projected to rise to 2.4 percent in 2026, amid positive terms of trade associated with higher global oil prices and fiscal support, before easing in 2027 on account of still-restrictive monetary conditions aimed at returning inflation to target. Over the medium term, growth is forecasted to recover to 2.5 percent, supported by the normalization of monetary policy and structural factors, notably the implementation of the efficiency-enhancing VAT reform approved in 2023, and the acceleration in hydrocarbon production. Inflation is expected to reach 5.6 percent by end-2026, before gradually converging to the 3 percent target by mid-2028.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Option 1: Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Brazil page.

Risks to the growth outlook are tilted to the downside amid heightened global uncertainty. The main risk is an escalation of geopolitical tensions, especially in the Middle East, which could increase inflation and, through tighter financial conditions and lower global demand, reduce economic activity. Global trade tensions could weigh on foreign investment and trade. Domestically, a weaker-than-envisaged fiscal effort could increase uncertainty and add to inflationary pressures, resulting in higher borrowing costs and, ultimately, weaker growth. Upside risks to growth include stronger-than-expected household consumption in the context of a still tight labor market and, over the medium term, from faster implementation of productivity-enhancing reforms and the ecological transformation.

Executive Board Assessment[3]

Executive Directors welcomed Brazil's continued economic resilience, despite the challenging external environment, alongside declining poverty and inequality. Positively noting Brazil's strong buffers and policy frameworks, Directors encouraged the authorities to strengthen fiscal sustainability, ensure inflation converges to target, and advance structural reforms to boost inclusive growth.

Directors commended the authorities' ongoing efforts and welcomed their continued commitment to improving the fiscal position over the medium term. They broadly agreed that, amid persistent fiscal pressures and elevated interest costs, a more ambitious fiscal effort would help place public debt on a firm downward path and create space for priority investments. Saving oil-related revenue windfalls, reducing spending rigidities, enhancing expenditure efficiency, and phasing out inefficient tax expenditures—while protecting targeted social spending—would support these objectives. Directors also saw merit in strengthening the fiscal framework, including through comprehensive spending limits, a binding medium-term debt anchor, and linking spending growth to structural revenues. Incorporating oil price volatility considerations into the fiscal framework would also be important.

Directors commended the Central Bank of Brazil's commitment to price stability and agreed that a slower normalization of monetary policy than expected before the Middle East war was appropriate. They stressed that monetary policy should remain data-dependent and flexible amid elevated global uncertainty. Directors also noted that a stronger fiscal stance would support disinflation and pave the way for lower interest rates. They agreed that the flexible exchange rate regime and adequate international reserves remain important shock absorbers. Directors recommended phasing out the multiple currency practice and exchange restriction arising from the financial transaction tax.

Directors welcomed that the financial system remains resilient, with banks well-capitalized, liquid, and systemic risks contained. They encouraged further strengthening banking and securities market supervision, including by completing the bank resolution framework and enhancing supervisory capacity. Directors welcomed the authorities' deployment of the macroprudential toolkit and supported additional steps to address rising household indebtedness. They also welcomed the authorities' efforts to strengthen crypto asset regulation and address cybersecurity risks.

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the authorities' progress in their structural reform agenda. They agreed that continued implementation of the landmark 2023 VAT reform, improvements in the business environment, stronger governance, and greater labor force participation, particularly among women, would help raise productivity and medium-term growth. Directors also emphasized continuing to strengthen anti-corruption and AML/CFT frameworks and advancing skills development and AI adoption. They positively noted Brazil's leadership in the climate agenda and encouraged continued implementation of the Ecological Transformation Plan. Directors also welcomed progress in deepening and diversifying trade linkages, including through recent trade agreements, and commended Brazil's commitment to multilateralism and its important role in supporting an open, rules-based trading system.

Table 1. Brazil: Selected Economic Indicators

I. Social and Demographic Indicators

Area (thousands of sq. km.)	8,510	Health	
Agricultural land (percent of land area)	30.2	Physicians per 1000 people (2024)	2.8
Population (2025, est.)		Hospital beds per 1000 people (2026) 1/	2.5
Total (millions)	213.4	Access to safe water (2022)	88.0
Annual rate of growth (percent)	0.4	Education (2024)	
Density (per sq. km.)	25.1	Adult illiteracy rate	5.3
Unemployment rate	6.0	Net enrollment rates, percent in:	
Population characteristics (2022)		Primary education	99.5
Life expectancy at birth (years)	76.6	Secondary education	93.5
Infant mortality (per thousand live births)	12.3	Poverty rate (in percent, 2024) 2/	23.1
Income distribution		GDP, local currency (2025)	R$12,739 billion
Palma ratio (2024) 3/	3.3	GDP, dollars (2025	US$2,280 billion
Gini coefficient (post taxes and transfers, 2024)	50.4	GDP per capita (2025)	US$10,683

Main export products: airplanes, metallurgical products, soybeans, automobiles, electronic products, iron ore, coffee, and oil.

II. Economic Indicators

				Proj.					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
National accounts and prices	(Annual percentage change)								
GDP at constant prices	3.2	3.4	2.3	2.4	2.2	2.4	2.5	2.5	2.5
Consumption	3.4	4.5	1.5	1.9	1.8	1.9	2.2	2.3	2.3
Investment (GFCF)	-3.0	6.9	2.9	4.1	0.7	1.9	2.1	2.1	2.1
Consumer prices (IPCA, end of period)	4.6	4.8	4.3	5.6	3.2	3.1	3.1	3.1	3.1
GDP deflator	5.2	4.1	5.7	4.0	5.1	3.6	3.6	3.6	3.6
Gross domestic investment	(Percent of GDP)								
Private sector	12.0	12.8	13.7	13.6	13.5	13.4	13.4	13.3	13.2
Public sector	3.8	4.2	3.4	3.8	3.6	3.6	3.6	3.6	3.6
Gross national saving									
Private sector	21.8	19.6	21.2	22.5	21.3	20.4	20.5	20.3	20.3
Public sector	-7.3	-5.6	-7.1	-7.6	-6.5	-5.5	-5.4	-5.2	-5.2
Public sector finances									
Central government primary balance (national representation, incl. BCB) 4/	-2.4	-0.4	-0.5	-0.4	-0.2	0.4	0.7	1.0	1.1
General government NLB primary balance	-2.2	-0.3	-0.1	-0.3	-0.2	0.4	0.7	1.0	1.1
General government NLB structural primary bal. (in percent of potential GDP)	-1.8	-1.9	-0.8	-1.3	-0.6	0.4	0.7	1.0	1.1
General government NLB	-7.7	-6.3	-7.4	-8.2	-7.0	-6.0	-5.9	-5.7	-5.7
Net public sector debt	60.4	61.3	65.2	72.3	75.0	77.4	79.3	80.1	80.4
General government gross debt, Authorities' definition	73.8	76.3	78.6	86.6	88.7	90.8	92.5	93.5	94.1
General government gross debt	84.0	87.0	93.3	97.8	100.0	102.0	103.7	104.8	105.3
Of which: Foreign currency linked	3.5	4.4	3.8	3.8	3.8	3.9	3.9	4.0	4.0
Money and credit	(Annual percentage change)								
Base money 5/	20.4	13.2	5.5	6.5	7.4	6.0	6.2	6.2	6.2
Broad money 6/	15.5	12.4	9.6	8.1	8.0	6.0	6.3	6.2	6.2
Bank loans to the private sector	6.9	11.4	10.1	8.3	7.8	6.0	6.2	6.2	6.2
Balance of payments	(Percent of GDP, unless otherwise specified)								
Trade balance	4.2	3.0	2.6	2.8	3.0	3.1	3.1	3.2	3.2
Exports	15.7	15.5	15.4	14.7	14.1	13.9	13.7	13.5	13.2
Imports	11.5	12.5	12.8	11.9	11.1	10.9	10.6	10.3	10.0
Current account	-1.2	-3.0	-2.9	-2.5	-2.4	-2.1	-1.9	-1.8	-1.7
Capital account and financial account	1.2	3.3	2.8	2.5	2.4	2.1	1.9	1.8	1.7
Foreign direct investment (net inflows)	1.7	2.2	2.1	1.9	1.8	1.8	1.8	1.8	1.7
Terms of trade (percentage change)	2.4	3.1	-1.9	2.9	-0.7	-1.5	-0.1	-0.5	-0.4
Total external debt	33.4	32.8	35.9	31.5	30.2	29.5	28.3	27.1	25.9
Memorandum items:	(Percent, unless otherwise specified)								
Output Gap	0.6	1.3	0.8	0.5	0.2	0.1	0.1	0.0	0.0
SELIC policy rate, end of period	11.8	12.3	15.0	14.0	9.3	8.0	8.0	8.0	8.0
Unemployment rate	8.0	6.9	6.0	6.2	6.8	7.2	7.4	7.4	7.4
Gross official reserves (in US$ billions)	355	330	358	358	358	358	358	358	358
REER (annual average in percent; appreciation +)	4.9	-4.1	-2.5	...	...	...	...	...	

Sources: Central Bank of Brazil, Ministry of Finance, IBGE, IPEA, and Fund staff estimates.

1/ Includes inpatient beds and complementary beds.

2/ Computed by IBGE using World Bank's 2024 threshold for upper-middle income countries (U$6.85/day).

3/ Share of income of the top 10% divided by share of income of the bottom 40%

4/ Includes federal government, Central Bank, and the social security system (INSS). The 2023 primary balance excludes pandemic-related funds from PIS/PASEP, as per BCB definition.

5/ Currency issued, required deposits held at the Central Bank plus other Central Bank liabilities to other depository corporations

6/ Currency outside depository corporations, transferable deposits, other deposits and securities other than shares.

INTERNATIONAL MONETARY FUND

BRAZIL

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

July 2, 2026

KEY ISSUES

Context. Brazil's economy has shown remarkable resilience in recent years despite a series of shocks, including global trade tensions. Resilience is being tested again by the economic fallout of the war in the Middle East. Growth moderated in 2025 amid tight monetary policy and a gradual withdrawal of fiscal support, narrowing the positive output gap which, together with strong currency appreciation, supported disinflation. Medium-term inflation expectations remain above target. The Central Bank of Brazil (BCB) delivered three quarter-point cuts to the policy rate in the first half of 2026, after being on hold since mid-2025, but signaled greater caution regarding future interest rate cuts in light of upside inflation risks. Meanwhile, important fiscal and structural challenges remain, including high and rising public debt, and lagging productivity growth. General elections will be held in October 2026.

Outlook. Brazil is relatively cushioned from oil price increases stemming from the war in the Middle East by its status as a net oil exporter and the high share of electricity from renewable energy sources. Growth is projected to strengthen in 2026, amid the positive terms-of-trade shock and fiscal support, before easing in 2027 on account of still-restrictive monetary conditions aimed at returning inflation to target. Thereafter, growth is expected to recover, supported by normalization of monetary policy and supportive structural factors, including implementation of the efficiency-enhancing VAT reform and increased hydrocarbon production. Inflation is expected to temporarily pick up in 2026 and converge to the 3 percent target by mid-2028. The fiscal outlook features a gradual improvement in the primary balance, contingent on the implementation of measures, with general government gross debt stabilizing at 106 percent of GDP over the extended policy horizon.

Risks. Risks to growth are tilted to the downside. The main risk is an escalation of geopolitical tensions, especially in the Middle East, which could increase inflation and, through tighter financial conditions and lower global demand, reduce economic activity. Global trade tensions could weigh on foreign investment and trade. Domestically, a weaker-than-envisaged fiscal effort could increase uncertainty and add to inflationary pressures, resulting in higher borrowing costs and, ultimately, weaker growth. Upside risks to growth include stronger-than-expected household consumption in the context of a still tight labor market and, over the medium term, from faster implementation of productivity-enhancing reforms and the ecological transformation.

Policy Recommendations

Fiscal Policy. The 2027 draft Budget Guidelines Law provides a welcome medium-term perspective with a rising path of primary surpluses. To put public debt on a firmly downward path, staff recommends saving the oil-related revenue windfall and implementing a more ambitious fiscal effort, while protecting targeted social spending. An enhanced fiscal framework with comprehensive spending limits and a binding medium-term debt anchor would support fiscal credibility and sustainability. Addressing entrenched spending rigidities and phasing out inefficient and regressive tax expenditures, alongside efforts to improve spending efficiency, are critical to achieving the required adjustment.

Monetary and Exchange Rate Policy. The BCB's slower normalization of policy than expected before the war is appropriate for containing inflationary pressures from the oil price shock. Maintaining flexibility in the pace and timing of future steps is warranted. Closely monitoring the distribution of medium-term inflation expectations—still above target and with wide dispersion across forecasters—along with market perceptions of the BCB's reaction function and labor market indicators will help determine when a change in the policy stance is needed. The flexible exchange rate continues to play an important shock-absorbing role, supported by adequate reserves.

Financial Sector Policies. The financial sector remains resilient with systemic risks contained. Bolstering supervision and crisis management—including by addressing BCB staffing shortages and strengthening staff legal protections—are priorities, as the 2026 Financial Sector Assessment Program (FSAP) highlights. The macroprudential toolkit has been well deployed and some expansion of tools is warranted. Additional steps are needed to mitigate risks of future debt buildup, such as introducing a debt service-to-income ratio (DSTI) cap, enhancing consumer protections, and promoting financial education.

Structural Reforms and Trade Policy. Continued implementation of the VAT reform and steps to strengthen the business environment would support productivity and investment. Fostering competition, innovation, and AI adoption, improving governance, and supporting labor force participation—particularly among women—would further raise resilience and medium-term growth. The authorities are actively building trade partnerships with other regions, including the recently ratified EU-Mercosur agreement which is entering the implementation stage. Further diversification of trading partners could enhance resilience amid global trade tensions. The rising commodity concentration in exports also highlights the importance of maintaining exchange rate flexibility and anchoring fiscal efforts in structural terms to mitigate the impact of terms-of-trade shocks.

Approved By
Ana Corbacho (WHD) and Anna Ivanova (SPR)

Discussions took place in Brasília, São Paulo, and Rio de Janeiro during May 18-29, 2026. The mission met with Finance Minister Durigan, Central Bank Governor Galípolo, other senior public officials, and representatives of academia, the private sector, and civil society. The team was headed by Daniel Leigh and comprised Marco Arena, Philip Barrett, and Chao He (all WHD), Longmei Zhang (SPR), and Rui Xu (MCM). André Roncaglia, Felipe Antunes and Pedro Miranda (OED) participated in many of the discussions. Nigel Chalk, Ana Corbacho (both WHD), and Jennifer Elliott (MCM) joined the concluding meetings. Samir Jahan, Virginia Alonso, and Gemma Preston (FAD) and Paula Zarazinski (LEG) contributed inputs on government spending efficiency and governance; Gyorgy Molnar (ICD) on macroeconomic modeling; Adam Jakubik (SPR) on trade policy; Kathleen Kao (LEG) on AML/CFT; Laura Gomez and Christopher Evans (both WHD) on exchange rate dynamics; Eric Huang (WHD) on the distribution of inflation expectations; Diego Calderón (RES) on interest-growth differentials; and Marina Tavares (RES) on structural reforms. Nicolas Landeta and Astrid Baigorria Borea (both WHD) provided editorial assistance. Laura Gomez (WHD) provided research assistance.

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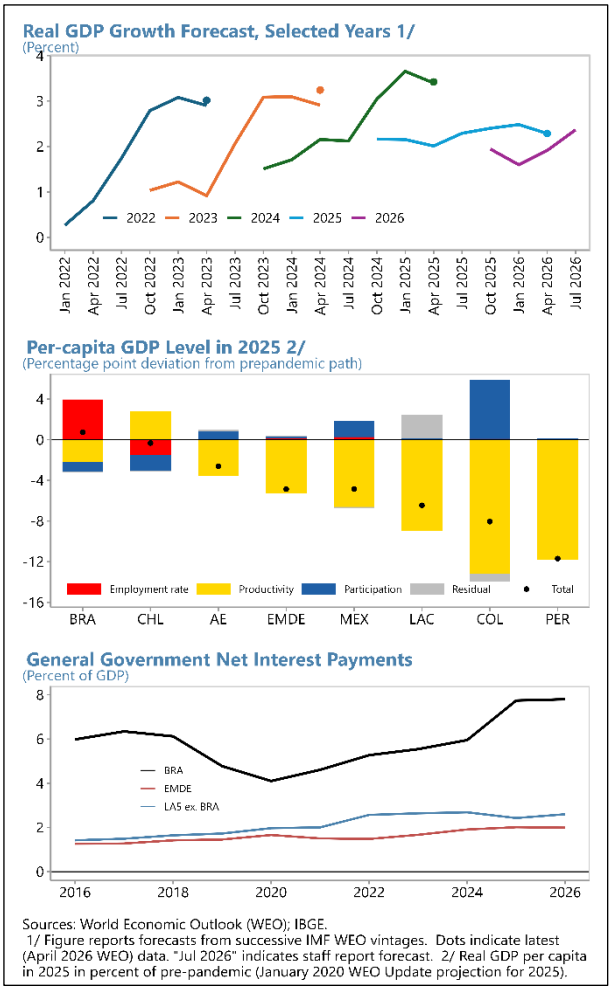
A RESILIENT ECONOMY BEING TESTED AGAIN

1. Despite multiple shocks, the Brazilian economy has shown remarkable resilience in recent years. Growth has repeatedly beaten expectations, and Brazil is among the few major economies whose per-capita income in 2025 exceeded its pre-pandemic path. This over-performance was driven by a rise in employment (rather than productivity growth or investment). On the demand side, private consumption with strong fiscal support led the post-pandemic recovery (see Box 1). Growth slowed in 2025, reflecting the effects of monetary restraint aimed at returning inflation back to target and a withdrawal of fiscal support.



Sources: World Economic Outlook (WEO); IBGE.
1/ Figure reports forecasts from successive IMF WEO vintages. Dots indicate latest (April 2026 WEO) data. "Jul 2026" indicates staff report forecast. 2/ Real GDP per capita in 2025 in percent of pre-pandemic (January 2020 WEO Update projection for 2025).

2. Brazil's economy is relatively well-positioned to manage the economic fallout from the war in the Middle East. The war has triggered higher global energy and fertilizer prices. Brazil is a net oil exporter—implying an income windfall from higher oil prices—and has one of the cleanest electricity mixes in the world based on renewable sources.[1] In addition, Brazil's adequate FX reserves, low reliance on FX debt, large government cash buffers, well-established inflation targeting framework, and a flexible exchange rate continue to support resilience. At the same time, Brazil is a net importer of fertilizers, and supply disruptions—should the conflict become more protracted—pose a potential challenge for the agricultural sector. Higher global prices are also expected to increase domestic inflationary pressures.

3. Longstanding fiscal and structural challenges remain. Rising mandatory primary spending, extensive tax expenditures, and a high interest bill have constrained productive investments. Public debt has been on an upward path and is projected to reach about 98 percent of GDP in 2026—(general government, gross)—a nearly 14 percentage point of GDP increase over the last four years. The authorities are implementing reforms aimed at enhancing efficiency and productivity, notably the value added tax (VAT) reform (approved in December 2023, with full

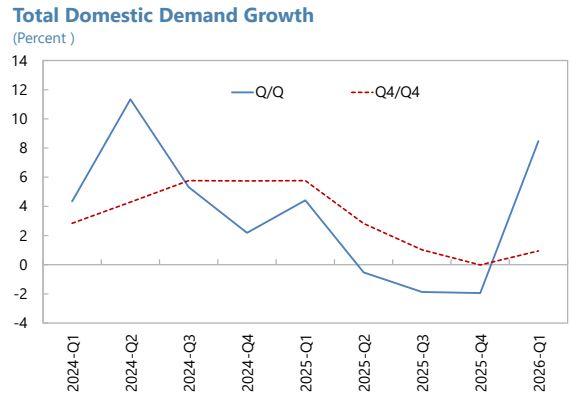
[1] Renewable sources—hydropower, solar, and wind—comprise about 90 percent of the national electricity supply. For an assessment of Brazil's clean energy matrix, see IMF 2025, Country Report No. 25/194, Annex X). Also, Brazil has one of the cleanest energy mixes in the world with a share of renewable sources in total energy supply of around 50 percent.

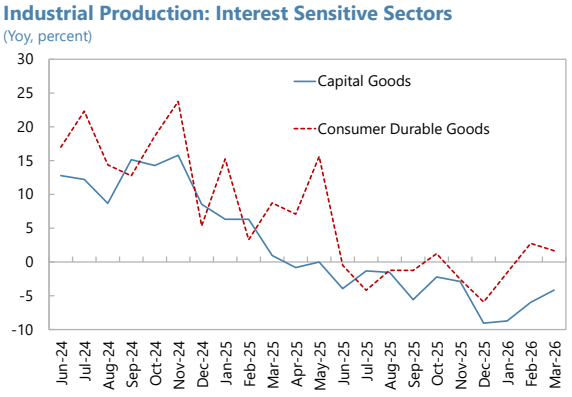
implementation expected by 2033). The authorities' recent reduction in tax expenditures, the approval of the EU-Mercosur trade agreement, and continued efforts to accelerate Brazil's ecological transformation are welcome. At the same time, elevated borrowing costs, bottlenecks due to tax system complexities, infrastructure gaps, and rigid legal frameworks continue to constrain business investment and potential growth.

4. Brazil will hold general elections on October 4, 2026. Voters will elect the president, members of the National Congress, and state governors. If no candidate secures an absolute majority in the first round, a second-round presidential vote is to be held on October 25.

RECENT DEVELOPMENTS

5. Growth has picked up since late 2025. Growth slowed from 3.6 percent in the first half of 2025 (at an annualized rate) to 0.3 percent in the second half, reflecting monetary restraint and a reduction in fiscal support. The slowdown was broad-based, affecting all components of domestic demand, although interest-sensitive sectors, such as durable consumer goods, saw deeper and more persistent slowdowns. Private consumption growth slowed to 2.1 percent and gross fixed capital investment to 1.5 percent in 2025, from 5.1 percent and 6.9 percent in 2024, respectively. On the supply side, strong harvests—especially of soy—resulted in agriculture contributing almost 1 percentage point to 2025 real GDP growth. Overall, output grew by less than staff's estimate of potential for much of 2025, narrowing the positive output gap. However, the deceleration in growth bottomed out in 2025Q3 as expected future looser monetary policy neared, and the latest data show a rebound in the first quarter of 2026, in part reflecting another strong harvest.

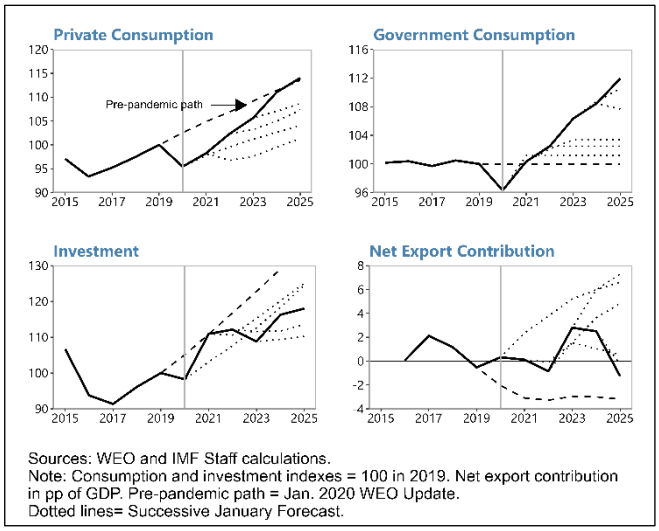




Sources: Haver; and IMF Staff calculation.

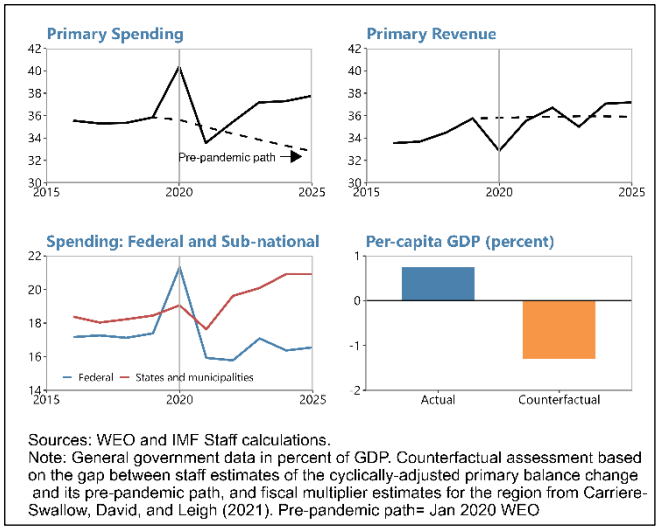
Box 1. A Recovery with Strong Consumption and Fiscal Support[1]

A rebound in private consumption has underpinned Brazil's post-pandemic expansion. Against a background of a tight labor market, strong income gains, and robust credit growth, private consumption has repeatedly exceeded IMF staff forecasts made at the start of each year since 2021 (growth has exceeded forecasts of private sector analysis by even wider margins, see IMF 2025, Country Report No. 25/194). Although investment has also expanded, it remains below its prepandemic path. The contribution of net exports to real GDP has exceeded its prepandemic path on account of strong exports—notably of hydrocarbons—and imports remaining below their prepandemic path, partly reflecting the incomplete recovery of investment, which is relatively import-intensive.



Sources: WEO and IMF Staff calculations.
Note: Consumption and investment indexes = 100 in 2019. Net export contribution in pp of GDP. Pre-pandemic path = Jan. 2020 WEO Update.
Dotted lines= Successive January Forecast.

Sustained fiscal support, which aimed to facilitate the recovery from the pandemic, has significantly contributed to output. Government consumption repeatedly surprised on the upside and total primary government spending including transfers also exceeded forecasts, reflecting rising spending by states and municipalities partly financed by federal government transfers. The rise in spending has been partially offset by increases in government revenue, from both the economic growth and tax policy measures. Overall, staff assesses that fiscal support since the pandemic has added (through its contemporaneous and lagged effects) about 2 percent to the level of real GDP by 2025. This support contributed to output rising above potential, implying a procyclical boost.



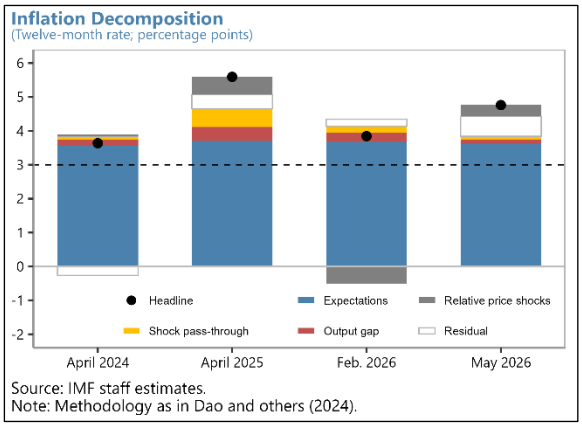
Sources: WEO and IMF Staff calculations.
Note: General government data in percent of GDP. Counterfactual assessment based on the gap between staff estimates of the cyclically-adjusted primary balance change and its pre-pandemic path, and fiscal multiplier estimates for the region from Carriere-Swallow, David, and Leigh (2021). Pre-pandemic path= Jan 2020 WEO

[1] Prepared by Daniel Leigh.

6. The labor market has remained tight, and poverty and inequality have continued to decline. The (seasonally-adjusted) unemployment rate fell to 5.3 percent in December 2025—a record low—reflecting both job growth and the participation rate stabilizing below pre-pandemic levels, at around 62 percent. The unemployment rate has since increased modestly, to 5.5 percent in April, with a lagged response to the business cycle. The number of employed people grew by 1.2 percent during 2025, compared with 2.9 percent during 2024. Meanwhile, the share of workers with a formal employment contract is at its highest level in ten years, excluding the COVID-19 crisis. The tight labor market and reinforced social safety net programs—notably, increased benefits from

Brazil's flagship *Bolsa Família* targeted cash transfer program—have supported gains in social inclusion. Income gains have been especially strong among lower-income households, resulting in record low measures of inequality. With poverty falling to unprecedented lows (23.1 percent in 2024), Brazil exited the United Nations Hunger Map in 2025.

7. The rise in global energy prices stemming from war in the Middle East is interrupting progress in reducing inflation. After peaking at 5.5 percent in April 2025, twelve-month inflation declined to a low of 3.8 percent in February 2026, inside the BCB's target tolerance interval (3 percent ± 1.5 percentage points). Staff analysis indicates that the bulk of the disinflation reflected favorable relative price movements—including lower food prices associated with strong domestic supply growth and an appreciating *real*—and their pass-through into underlying (core) inflation. The narrowing output gap also contributed to disinflation, but only modestly, and its estimated impact on underlying inflation remains limited. Since end-2024, Brazil's *real* has appreciated by 26 percent against the US dollar (as of mid-May) and by 18 percent in nominal effective terms. Staff analysis indicates that global factors account for around twice as much of this appreciation against the dollar as local factors do (Box 2). Staff also estimates that currency movements since end-2024 have reduced twelve-month headline consumer price (IPCA) inflation by 1.0 percentage point as of May.[2] Inflation rebounded, reaching 4.7 percent in May, on the back higher food prices as well as energy price increases related to the war in the Middle East. Medium-term inflation expectations had eased over 2025 but picked up modestly in March, and remain above the 3 percent inflation target by about 0.5 percentage point—close to their level since mid-2023 (see Figure 2 and Box 6).



Source: IMF staff estimates.
Note: Methodology as in Dao and others (2024).

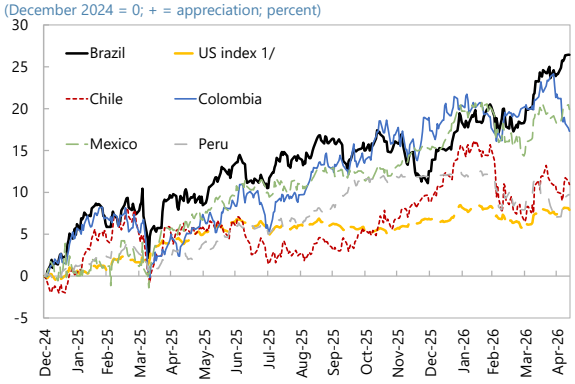
[2] See Country Report No. 25/194 for details on staff estimates of exchange rate pass-through to prices in Brazil. Both goods and services prices are found to respond to exchange rate movements, with services inflation responding more slowly than goods inflation. Pass-through to the headline consumer price index from a 10 percent depreciation of the nominal effective exchange rate is estimated to reach 0.9 percent after 12 months.

Box 2. Understanding Brazil's Exchange Rate Movements[1]

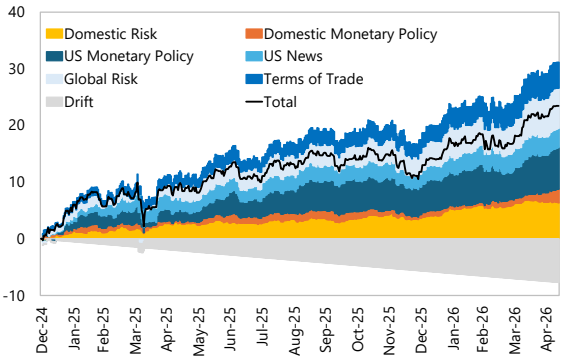
Since December 2024, the Brazilian *real* has appreciated by 26 percent against the US dollar (as of May 13, 2026). Other economies in the region have also seen their currencies appreciate and the US dollar has depreciated by about 8 percent in trade-weighted (nominal effective) terms. Still, Brazil's appreciation has been greater than that of other economies in the region, suggesting a role for Brazil-specific drivers in addition to global factors.

Staff analysis provides a deeper investigation of the relative importance of different forces affecting the exchange rate. The exchange rate can respond to a variety of domestic and foreign monetary, financial, and real factors. To distinguish between these drivers, staff uses a daily Structural Vector Autoregression (SVAR) model to decompose movements in the exchange rate of the *real* versus the US dollar (BRL/USD) since December 2024 using six variables.[2] Different types of shocks are identified from the sign of their daily impact. For example, positive domestic monetary policy shocks are identified from increases in the interest rate, contemporaneous with a stronger currency and a lower domestic stock market.

US Dollar Exchange Rate
(December 2024 = 0; + = appreciation; percent)



Currency Appreciation Decomposition
(December 2024 = 0; + = appreciation; percent; log points)



Source: IMF staff estimates.
1/ "US index denotes US dollar depreciation based on US nominal effective exchange rate."

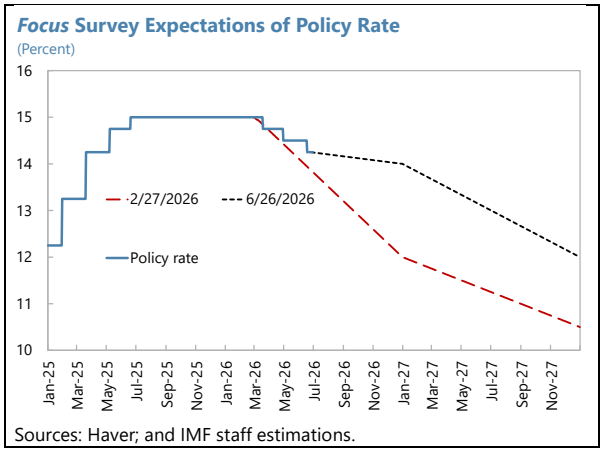
This analysis shows that global shocks account for more than twice as much of the recent appreciation as domestic shocks do. On the external side, the largest global contributions come from US monetary policy and global risk sentiment, which together make up roughly two-thirds of the global contribution, reflecting stronger investor appetite for emerging market assets and expectations of a less restrictive US monetary policy stance. Additional support comes from terms-of-trade improvements, linked to higher oil and soybean prices, and market perceptions of weaker US macroeconomic news.

Yet domestic shocks have also contributed meaningfully. Around 72 percent of the domestic contribution to exchange rate movements reflects an improvement in domestic risk perceptions, which have also been visible in measures of perceived fiscal risk (see Box 8), and in the context of strong growth in Brazilian equity market valuations. The remainder reflects perceived monetary policy shocks; additional analysis indicates that the BCB's tightening started to contribute to appreciation already in late 2024.

[1] Prepared by Laura Gomez.

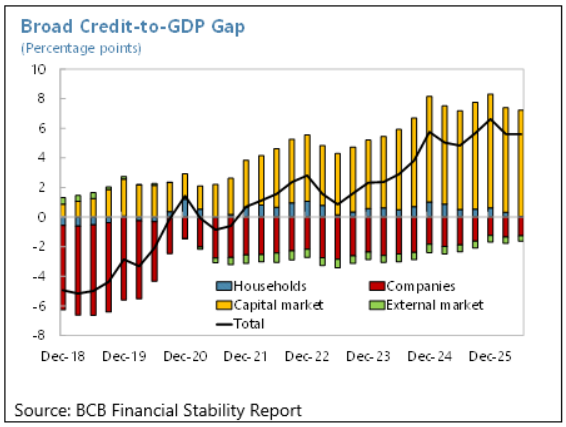
[2] See Box 3 in IMF, 2025, Country Report No. 25/194, and Evans and Gomez (forthcoming) for further details. The model includes a deterministic trend ("Drift" in the figure) that reflects such factors as long-term inflation differentials.

8. The Central Bank of Brazil (BCB) cut interest rates three times in the first half of 2026. At its February meeting, the BCB Monetary Policy Committee (COPOM) signaled that rate cuts would likely start the following month. Following the outbreak of war, the rate cut in March (by 25 basis points) was smaller than initially expected, and the futures curve shifted up, tightening financial conditions. The BCB followed this with two further expected cuts in in April and June, each by 25 basis points, bringing the policy rate to 14.25 percent. Market analysts surveyed by the central bank currently expect rates to ease to 14 percent by year-end, about 200 basis points higher than expected before the war and well above staff's estimate of the medium-term neutral rate of 8 percent.



Sources: Haver; and IMF staff estimations.

9. Credit growth has eased, reflecting Brazil's restrictive monetary policy stance. Growth in total credit to households in high-risk categories and in bank credit to companies has slowed, but corporate debt market financing remains strong, contributing to a positive credit gap. Corporate bankruptcy and household indebtedness have risen amid high rates, but credit risks are covered by adequate provisioning. Banks reported strong liquidity coverage at 199 percent and a Common Equity Tier 1 capital ratio of 15.5 percent at end-2025. Profitability dipped due to higher provisions under new IFRS9 standards. In November, the BCB liquidated a mid-sized bank; over 90 percent of its deposits were insured by the Credit Guarantee Fund (FGC), equivalent to 0.4 percent of GDP and about 40 percent of FGC's cash reserves. This incident was isolated and did not have broader contagion implications. The FGC asked banks to make mandatory advances to restore its capital position and this process is now largely completed.



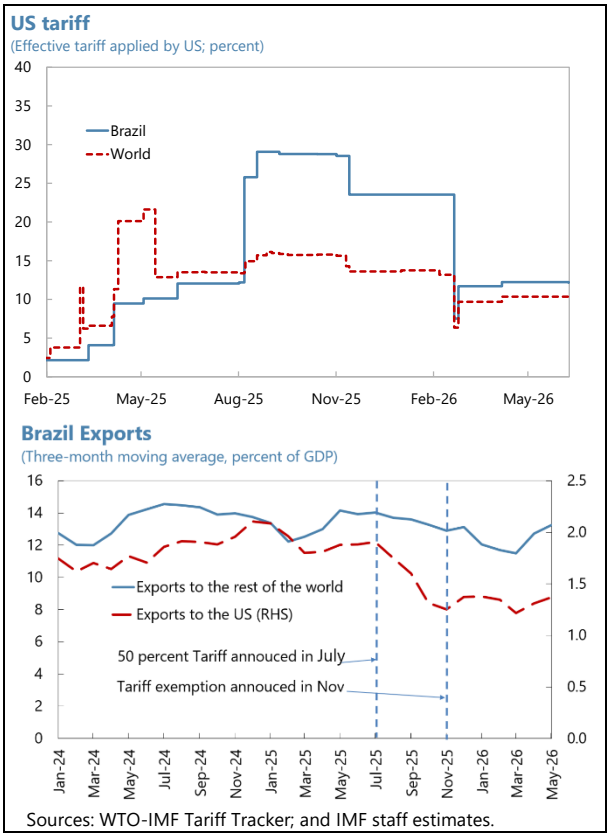
Source: BCB Financial Stability Report

10. The fiscal policy stance tightened in 2025 but is estimated to be expansionary in 2026. The general government primary fiscal deficit narrowed by 0.2 percentage point of GDP in 2025. The fiscal stance is estimated to have tightened in 2025: after adjusting for the moderation in economic activity and one-off items, staff estimates that the general government structural primary deficit narrowed by 1.1 percent of GDP. For 2026, staff estimates that oil-related fiscal windfalls are being largely used on fuel price measures, contributing to a supportive fiscal stance with the structural primary deficit widening by about 0.5 percent of GDP. Fiscal policy changes supporting economic activity include:

- *Fuel price measures*. To mitigate the economic and social impact of higher international oil prices associated with the war in the Middle East, the authorities introduced time-bound fuel price measures in March, with most measures initially limited to two months and some extended until December, subject to review every two months. The measures focus on fuel used in freight transportation, combining federal tax (PIS and Cofins) exemptions and subsidies on diesel prices (recently extended until December 2026). They also include subsidies on gasoline and cooking gas and a tax exemption on aviation fuel. The fiscal cost of these measures, estimated at about 0.4 percent of GDP for 2026, is expected to be financed by a temporary 12 percent *ad valorem* tax on the value of crude oil exports as well as oil-related fiscal revenue windfalls.[3]

- *Personal income tax (PIT) reform*. The reform enacted in 2025 and effective from January 2026 raised the PIT exemption threshold from R$3,036 to R$5,000 monthly. The resulting revenue loss of about 0.2 percent of GDP is offset by introducing a minimum income tax across five brackets, reaching up to 10 percent for individuals earning over R$50,000 monthly, along with a new withholding tax on dividends. The reform is revenue-neutral but expected to be expansionary, shifting disposable income from high-income earners to upper-middle-income workers with a higher marginal propensity to spend.

11. Brazil's exports have remained resilient despite elevated US tariffs, and the current account deficit narrowed slightly to 2.9 percent of GDP in 2025. US tariffs on most imports from Brazil increased to 50 percent in August 2025, resulting in an effective tariff rate of 29.1 percent—well above the average US tariff for other economies. US tariffs subsequently declined in November 2025 for numerous agricultural products and fell further in February 2026. As a result, the current effective tariff rate is 12.2 percent. Brazil's exports to the United States initially contracted following the tariff hikes last August, but have been gradually recovering since November 2025. As exports to the US accounted for less than 2 percent of GDP before the tariff hikes and exports to other regions grew, the direct macroeconomic impact of the tariffs was limited. Increased soybean exports to China played a central role in this process (Box 3). Overall, Brazil's goods trade surplus narrowed, with this change broadly offset by smaller services trade and income account deficits. FDI



Sources: WTO-IMF Tariff Tracker; and IMF staff estimates.

[3] Petrobras, the majority state-owned oil company, has remained profitable while moderating the pass-through of international energy price shocks to domestic fuel prices, in line with its commercial pricing strategy introduced in 2023.

remained strong, at 3.4 percent of GDP in 2025. Portfolio investment recorded outflows in early 2025, but rebounded in late 2025 and early 2026. In June 2026, following the conclusion of Section 301 investigations into Brazil's trade policies and practices and enforcement of forced labor import prohibitions, the United States proposed a 25 percent tariff on Brazilian exports and a separate 12.5 percent tariff on Brazil and other economies, with exemptions for a number of products (such as coffee, beef, energy products and aircraft parts). If approved, these measures could take effect in July as the current 10 percent Section 122 tariffs expire. Given numerous exemptions to these measures and Brazil's limited reliance on the US market (accounting for 11 percent of Brazil's exports in 2025), their potential macroeconomic impact is expected to be modest.

12. The 2025 external position is assessed to be moderately weaker than the level implied by medium-term fundamentals and desirable policies (Annex I). The cyclically-adjusted current account balance is estimated at -2.9 percent of GDP in 2025, compared with an estimated norm of -1.4 percent of GDP, implying a gap of -1.5 percent of GDP. This gap mainly reflects a fiscal deficit wider than its desirable policy setting and a small positive credit gap. The fiscal consolidation and slowing credit envisaged over the coming years are expected to bring the current account closer to its norm. Since late June 2025, the BCB has largely refrained from intervention in spot FX markets and has been gradually reducing the stock of FX swaps, including through the most recent standalone reverse FX swap operations. Foreign exchange reserves grew by about US$29 billion in 2025 to US$358 billion at end-2025, remaining in line with adequacy ranges (121 percent of the IMF ARA metric).

OUTLOOK AND RISKS

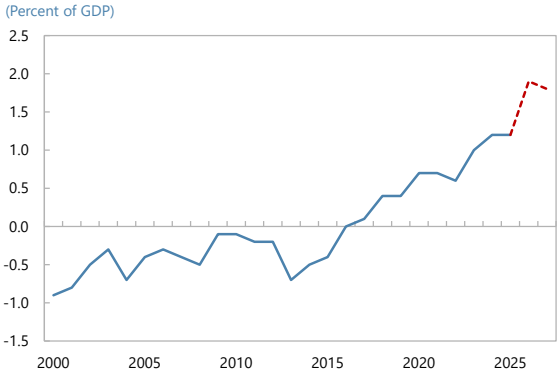
13. Growth is projected to remain below potential in the near term, strengthening to 2.5 percent over the medium term.[4]

- **Growth.** Staff projects a slight rise in growth from 2.3 percent in 2025 to 2.4 percent in 2026. A strong first quarter of 2026 featured broad-based growth, driven by robust private consumption, supportive fiscal policies, and a strong harvest. Staff expects real activity to moderate in the second half of the year and into 2027. This is due, domestically, to the still-restrictive monetary conditions weighing on household and corporate debt servicing costs and an expected withdrawal of fiscal policy support in 2027, and, externally, to elevated uncertainty and a slowdown in global growth. The war in the Middle East is expected to impact Brazil's economy through three main channels. First, given Brazil's status as a net oil and gas exporter, higher global energy prices improve Brazil's terms-of-trade and the external and fiscal balances, with the additional income stimulating private consumption and investment. Second, higher energy prices—including diesel (Brazil imports about one-quarter of its diesel consumption)—are expected to add to underlying inflationary pressures and, as the BCB responds, result in a more

[4] Staff's baseline forecast is predicated on the full set of price futures for Brazil's main commodity exports and imports as of May 15, which features an average price of oil in US dollars a barrel of $68 in 2025 (simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil), $89 in 2026, and $79 in 2027, as well as persistently higher prices of fertilizers.

restrictive monetary policy stance than expected before the onset of the war. Third, weaker global demand will also moderate growth, with slower export growth than initially expected. Overall, staff assesses that the gains from Brazil's status as a net oil exporter dominate, supporting growth by about 0.4 percentage point in 2026 compared to pre-war projections, with the effect fading in 2027. At the same time, commodity prices and global financial conditions are volatile in the context of the war, adding uncertainty to the outlook. In subsequent years, growth is forecast to gradually recover to its potential rate of 2.5 percent, supported by the normalization of monetary policy and supportive structural factors, including implementation of the efficiency-enhancing VAT reform and increased hydrocarbon production.

- **Inflation and Monetary Policy Stance.** Staff expects headline inflation to pick up during 2026 and reach 5.6 percent by end-2026. This pattern is driven by upside inflation surprises in the first quarter, base effects coming from declines in food prices in 2025, and higher global oil prices passing through to domestic prices. Currency appreciation provides a partial offset. Headline inflation is expected to converge to the 3 percent target by mid-2028. The BCB policy rate is expected to gradually decline, reaching the estimated neutral nominal rate of 8.0 percent in the first half of 2028, predicated on staff's baseline forecast where inflation and inflation expectations decline over the medium term.



Source: IMF staff estimates.
Note: The dashed line indicates IMF staff forecast.

- **Fiscal Balance and Government Debt.** Staff projects the federal primary balance to be broadly unchanged in 2026 and to rise gradually from a deficit of 0.4 percent of GDP in 2026 to a surplus of 1.1 percent of GDP in 2031, contingent on the implementation of measures. The general government overall fiscal deficit is projected to widen to 8.2 percent of GDP in 2026 before narrowing to 5.7 percent of GDP in 2031. General government gross debt is projected to rise from 98 percent of GDP in 2026 and stabilize by 2035 at 106 percent of GDP.[5]

- **Current Account.** The current account deficit is expected to narrow from 2.9 percent of GDP in 2025 to 2.5 percent of GDP in 2026, reflecting higher oil prices in the context of the Middle East war and lower imports as domestic demand slows. Over the medium term, the current account deficit is expected to narrow to 1.7 percent of GDP, reflecting the closing output gap and smaller services deficit, as well as further expansion in agricultural and hydrocarbon exports.

[5] The IMF staff definition of public sector debt corresponds to general government gross debt. Unlike the authorities' definition, the IMF staff definition includes treasury bills on the central bank's balance sheet not used under repurchase agreements. Public debt based on the authorities' definition and staff's macroeconomic framework is projected to stabilize by 2035 at 95 percent of GDP.

14. Risks to the growth outlook are tilted to the downside amid heightened global uncertainty (Annex II). Risks to the inflation outlook are tilted to the upside.

- **Upside Risks.** In the near term, higher growth could stem from stronger-than-expected domestic demand in the context of a still tight labor market, and more supportive fiscal policies in response to the war in the Middle East. Over the medium term, upside risks stem from faster implementation of productivity-enhancing reforms and the Ecological Transformation Plan (see below), and further developments in the biofuel and rare earths sectors.

- **Downside Risks.** International events are the most likely source of downside risks to growth. Although Brazil's status as an oil exporter provides some positive income effects in the near term, an escalation of geopolitical tensions—especially in the Middle East—that triggers higher global energy prices and a tightening of global financial conditions would lower growth and increase inflation in Brazil. Further escalation of global trade tensions could also weigh on FDI and trade. The agricultural sector, which has been a strong source of growth in the last few years, is particularly exposed, notably to disruptions to the global supply of fertilizers. Under the April 2026 WEO severe downside scenario,[6] staff assesses that annual real GDP growth in Brazil could be lower in 2026 by 0.4 percentage point and inflation could be 1.1 percentage points higher in 2026. As in other economies, uncertainty regarding the external environment risks weighing on investment and growth. Domestic risks include a lower-than-envisaged fiscal effort which, while supporting growth in the near term, could increase policy uncertainty and put pressure on public debt and inflation, resulting in higher interest rates and weaker investment that would subsequently weaken growth. Parts of Brazil are also exposed to extreme weather events, including those associated with El Niño, particularly in the agriculture and power generation sectors, with potential repercussions for inflation and growth.

- **Buffers and Resilience Factors.** A sound financial system; adequate FX reserves; low reliance on FX debt; large government cash buffers; and a flexible exchange rate continue to support Brazil's resilience.

Authorities' Views

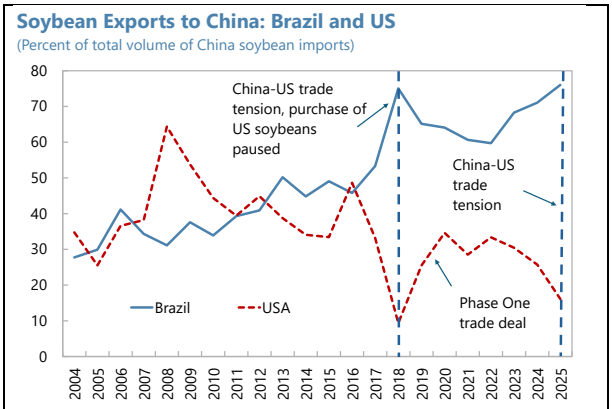
15. The authorities broadly shared staff's views on the outlook. They expected growth to recover moderately in the near term, emphasizing that fuel subsidies were relevant to mitigating the impact of the global oil shock. In the longer term, authorities highlighted the role of structural reforms undertaken in recent years and the landmark VAT reform in boosting potential growth. They broadly agreed about the main drivers in the balance of risks to growth as considered in the staff's assessment, particularly regarding the role of heightened geopolitical uncertainty. They saw the impact of the war as having relatively small effects on activity as Brazil's position as an oil

[6] The scenario features a greater and more persistent rise in commodity prices, including an average petroleum spot price index of about $110 per barrel in 2026 and about $125 in 2027; higher inflation expectations in both advanced and emerging market and developing economies; and a significant risk-off episode that pushes up corporate and sovereign risk premiums (see the April 2026 WEO for details).

exporter acts as a counterbalance to higher production costs. The BCB broadly concurred with staff's assessment of exchange rate and inflation drivers but considered that inflationary pressures in 2026 were slightly lower than in staff's projection.

Box 3. Brazil's Soybean Exports: Spillovers from China-US Trade Tensions[1]

Brazil has emerged as the world's leading soybean exporter over the past decade, with China being the primary destination. As of 2025, Brazil accounted for about 54 percent of global soybean exports, while the US, the second-largest exporter, accounted for about 30 percent. This rise has been underpinned by significant gains in agricultural productivity, with yields per acre roughly doubling since the 1990s. Soybean farmland has also increased more than threefold. China is the dominant destination, absorbing about three-quarters of Brazil's soybean exports. In turn, soybeans account for roughly one-third of Brazil's total exports to China, some 1.7 percent of GDP. This high degree of concentration makes soybean exports both strategically important and sensitive to spillovers from US–China trade tensions.



Sources: World Integrated Trade Solution; and World Bank.

In recent years, Brazil's soybean exports to China have responded countercyclically to US–China trade tensions. Exports have risen during periods of escalation and moderated when tensions ease. During the 2018 trade tensions, Brazil's share of China's soybean imports increased from about 50 percent to around 75 percent. These gains were partially reversed following the subsequent trade agreements between the United States and China, which led to a resumption of Chinese purchases from the United States. More recently, amid renewed trade tensions in 2025, Brazil's soybean exports to China strengthened again, accounting for 76 percent of China's total soybean imports, as Chinese purchases from the United States declined.

The evolution of US–China trade tensions are expected to continue to have important spillovers for Brazil's soybean exports. Historically, Brazil has redirected shipments to other markets when exports to China weakened, partially mitigating the impact of adverse external developments. Further diversification of export destinations would continue to strengthen the economy's resilience to trade tension spillovers.

[1] Prepared by Adam Jakubik and Longmei Zhang.

POLICY DISCUSSIONS

A. Managing the Oil Windfall and Placing Public Debt on a Downward Path

16. The 2027 draft Budget Guidelines Law (PLDO) published in April provides a welcome medium-term perspective. It reaffirms the federal primary surplus target of 0.25 percent of GDP for 2026, sets a surplus target of 0.5 percent of GDP for 2027, and announces an indicative target path to a surplus of 1.5 percent of GDP by 2030. The authorities plan to achieve the fiscal targets through a mix of additional revenue mobilization and spending controls, including the activation of an automatic adjustment mechanism introduced in 2024, which caps real personnel expenditure growth at 0.6 percent from 2027 to 2030. Based on more favorable macroeconomic assumptions than staff, notably on interest rates, the authorities estimate that achieving the fiscal targets (within the target tolerance interval, after allowed deductions—see Box 4) would place public debt (authorities' definition) on a downward path after 2029.

17. Staff's baseline forecast features a gradual improvement in the fiscal position, broadly in line with the authorities' path, with debt stabilizing over the extended policy horizon. Staff forecasts a federal primary deficit of 0.4 percent of GDP for 2026, within the target tolerance interval (0.25 ±0.25 percent of GDP) after allowed deductions (0.5 percent of GDP). Fiscal revenue windfalls associated with higher oil prices—estimated at about 0.5 percent of GDP—are, at the federal government level, expected to be largely offset by increased social spending, including measures to mitigate the impact of the energy price shock, and transfers to subnational governments. Overall, at the *general* government level, staff expects about 0.1 percentage point of GDP of the oil-related revenue windfall to be saved.[7] For subsequent years, staff forecasts a gradual fiscal effort with the federal primary balance rising from –0.2 percent of GDP in 2027 to 1.5 percent of GDP by 2035. This projection assumes that federal spending growth moderates in line with the fiscal rule and includes (currently unallocated) measures totaling 1.3 percent of GDP, drawing on the authorities' intention to continue broadening the tax base, including by gradually phasing out tax expenditures, and improving spending efficiency. With this path for the federal primary balance, and subnational primary balances remaining near zero, general government gross debt reaches 105 percent of GDP in 2031 and stabilizes at 106 percent of GDP by 2035 (a flattening of the debt ratio path under the baseline).[8] In a passive scenario with no additional (unallocated) measures, the primary balance path remains in deficit and the public debt-to-GDP ratio continues to rise.

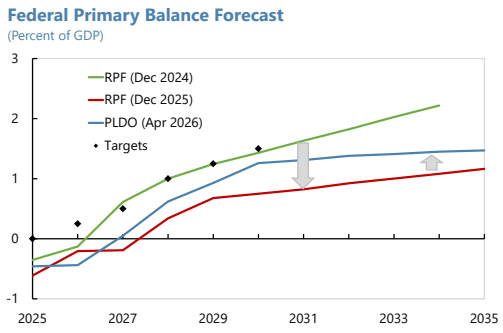
[7] Staff has revised oil-related general government revenues up by 0.5 percentage point of GDP for 2026 on account of the increase in oil prices—compared with forecasts made before the war in the Middle East. Staff has also revised the general government primary fiscal balance up by 0.1 percentage point of GDP for 2026, consistent with most of the windfall being spent. The oil-related revenue windfall associated with the spike in oil prices in 2026 fades during 2027-28 under staff's baseline oil price assumptions.

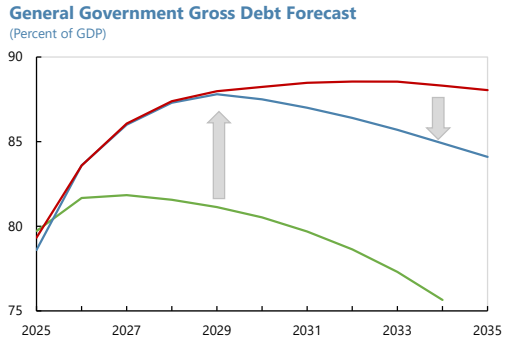
[8] This estimate is supported by staff's Debt Sustainability Analysis (DSA), which suggests debt stabilization requires improving the primary balance to about 1.5 percent of GDP over the medium term. The projected fiscal path would contribute to bringing Brazil's current account balance closer to the level consistent with medium-term fundamentals and desirable policies, consistent with addressing the fiscal policy gap (Annex I).

Box 4. Brazil's Fiscal Framework[1]

Brazil's fiscal framework introduced in 2023 includes both a primary balance rule and an expenditure rule. The primary balance target is set in the PLDO one year in advance with a tolerance interval of ±0.25 percent of GDP. The PLDO also sets indicative (non-binding) targets for subsequent years. The expenditure rule limits real expenditure growth to a fixed fraction of past real revenue growth, with an expenditure growth corridor of between 0.6 percent and 2.5 percent to constrain spending and limit its procyclicality. The fiscal framework also incorporates automatic adjustment mechanisms, including a cap on real personnel expenditure growth of 0.6 percent in case of a primary deficit. This cap has been triggered on account of the primary deficit in 2025 and applies from 2027 to 2030. To protect investment, the new fiscal framework includes a floor for federal public investment spending of 0.6 percent of GDP.

Increasing exceptions to the fiscal rules have reduced the primary balance path consistent with meeting the targets. In 2025, Congress approved increases in government expenditures that can be deducted for the purpose of evaluating compliance with the primary balance targets, with the allowed deductions reaching up to 0.7 percent of GDP in 2027.[2] Some of the allowed deductions are not related to unexpected developments. The increased deductions reduced the path of future primary balances compliant with the targets and increased the long-term debt path, as published in the December 2025 National Treasury *Fiscal Outlook Report*. However, in the April 2026 PLDO, the authorities specified fewer allowed deductions than initially projected, which raised the primary balance path and reduced the debt path. Overall, the April 2026 PLDO forecasts the primary balance to remain below the midpoint of the target tolerance interval by an average of 0.4 percentage point of GDP during 2027-2030.



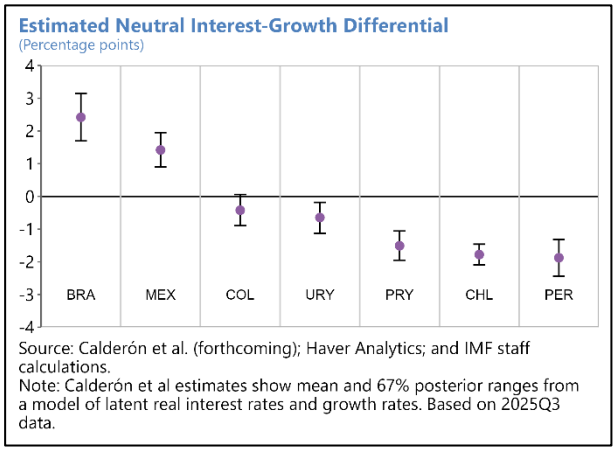


Sources: National Treasury *Fiscal Outlook Report* (RPF); and draft Budget Guidelines Law (PLDO).

[1] Prepared by Chao He.

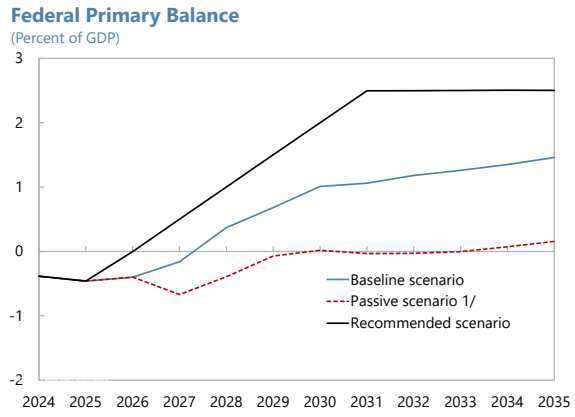
[2] A constitutional amendment enacted in 2025 permits the exclusion of up to 90 percent of federal *precatórios*—court-ordered government payments—from the primary balance target starting in 2027, with this exclusion gradually tapering to zero over ten years; and full exclusion of federal *precatórios* permanently from the spending corridor starting in 2026. Legislation passed in 2025 also allows certain defense investments to be excluded from the primary balance target until 2031.

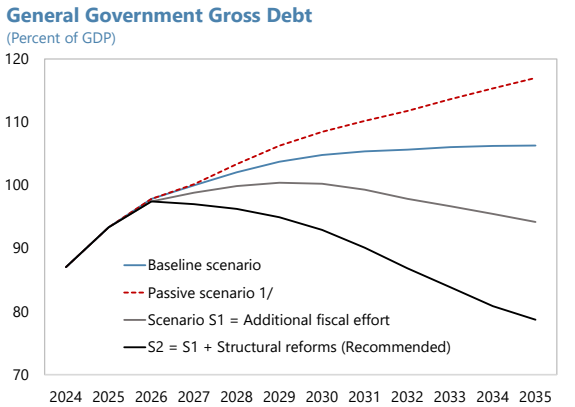
18. Staff's debt sustainability assessment finds risks of debt distress for the general government to be moderate under the baseline forecast (Annex III). Large cash buffers of the government (14.4 percent of GDP as of April); the BCB's substantial holdings of government securities (22.4 percent of GDP as of April), which are automatically rolled over by law; and limited FX and foreign-law debt mitigate risks and provide room for fiscal consolidation to proceed steadily over the medium term. Staff's assessment also suggests that Brazil has some fiscal space to respond to temporary shocks. Still, the debt trajectory remains highly sensitive to shocks to borrowing costs, real GDP growth, and the materialization of contingent liabilities. The rise in debt, despite primary surpluses over the medium term, reflects Brazil's unfavorable interest rate-growth differential (Annex III). Staff estimates that Brazil's differential is above that of peer economies in the region, on account of persistently high borrowing costs.



Source: Calderón et al. (forthcoming); Haver Analytics; and IMF staff calculations.
Note: Calderón et al estimates show mean and 67% posterior ranges from a model of latent real interest rates and growth rates. Based on 2025Q3 data.

19. To put public debt on a firmly downward path, staff recommends saving near-term oil-related revenue windfalls and implementing a more ambitious fiscal effort in the near to medium term. For 2026, staff recommends that the authorities save oil-related revenue windfalls to improve the fiscal position, implying a rise in the primary fiscal balance by about 0.5 percentage point of GDP. For subsequent years, staff recommends a path for the federal primary fiscal balance that starts with reaching the midpoint of the 0.5 percent of GDP surplus target tolerance interval (without deductions) in 2027 followed by further improvements averaging 0.5 percentage point of GDP per year, reaching 1.5 percent of GDP in 2029 (six years earlier than in staff's baseline forecast) and a surplus of 2.5 percent of GDP by 2031. Such a path, together with growth-enhancing structural reforms (see below) would put general government gross debt on a firmly downward trend from 2027, support a decline in inflation expectations and policy interest rates, and, over the medium term, increase space for productivity-raising





Source: Fund staff estimates.
1/ Scenario with no additional (unallocated) measures.

investments.[9] Securing the total recommended adjustment of 3 percentage points of GDP over five years (2026-2031) calls for enhancing the fiscal framework, tackling spending rigidities, and phasing out costly and inefficient tax expenditures.

20. An enhanced fiscal framework with comprehensive spending limits and a binding medium-term debt anchor would support fiscal credibility and sustainability. Exceptions to the framework have increased since 2024, with the primary balance path shifting down and long-term debt projections shifting up (see Box 4), despite meeting the fiscal targets after allowed deductions. To re-anchor the fiscal path, potential enhancements to the framework include: limiting exceptions to well-defined economic escape clauses to manage shocks and bringing all primary spending within the fiscal target; establishing a binding fiscal anchor that places debt on a firmly downward path over the medium term; linking federal spending growth to structural revenues, fully excluding volatile non-recurring commodity revenues to further reinforce countercyclicality and sustainability; and hardening subnational budget constraints (see IMF, 2023, Country Report No. 23/288). Considering the need for fiscal buffers, staff estimates an adequate anchor for the longer term could be a general government gross debt level of about 85 percent of GDP, consistent with staff's recommended scenario.[10] An enhanced framework could provide additional guidance for dealing with major downside risks—such as those in staff's severe downside scenario—with a predefined trigger and correction mechanism for returning to the pre-shock debt path.[11] Moreover, with government oil-related revenue fluctuating in the 2–3 percent of GDP range in recent years and set to increase, the authorities could consider greater use of market insurance to hedge against swings in commodity prices.[12]

21. Ensuring that measures in response to the war in the Middle East are offset by fiscal savings and remain temporary, while improving their targeting, would support efforts to improve the fiscal position and protect the vulnerable. The measures initially introduced by the authorities were timely, clearly communicated, and accompanied by steps that, together with oil-related revenue windfalls, offset their fiscal cost. Staff assesses that the measures will mitigate the impact of higher energy costs on headline and core inflation, amid still de-anchored inflation

[9] Staff's scenario for putting debt on a downward path includes two layers. The first layer (S1) features the recommended additional fiscal effort increasing the primary surplus to 2.5 percent of GDP by 2031 combined with macroeconomic responses, including slower growth in the near term and lower inflation and policy rates. The second (S2) adds real GDP growth gains from structural reforms (an additional 1.5 percentage points per year during 2026-30) discussed below.

[10] Such a debt level would correspond to about 60 percent of GDP based on the authorities' definition.

[11] IMF staff analysis finds that countries that have introduced robust correction mechanisms—including with predefined triggers, timelines, and corrective measures—have experienced a median sovereign spread reduction of about 75 basis points (see Acalin, Martinez, and Roch. 2025. "Fiscal Rules, Robust Correction Mechanisms, and Sovereign Spreads." IMF Working Paper No. 25/195).

[12] IMF staff analysis (Ma and Valencia 2024) finds that the Mexican authorities' approach to hedging of oil price risks through the purchase of put options, at an annual cost of about 0.1 percent of GDP, moderated income volatility and reduced risk spreads on sovereign debt by about 20 basis points. Ecuador has recently adopted similar hedging strategies.

expectations.[13] The authorities' tripling of coverage of cooking gas subsidies (Gas do Povo—cooking gas vouchers for low-income households) to about one-quarter of the population, with a modest increase in fiscal cost, is providing targeted relief to households. Similar effects arise from the recent expansions in electricity subsidies (regulated low-income electricity tariffs financed through cross-subsidization). While targeted, these measures weaken price signals that could more fully support the necessary demand adjustment to higher energy costs and, in this respect, are less effective than direct income support. In addition, while the diesel price measures have helped contain freight costs, they are less efficient at supporting the most vulnerable and relatively costly from a budgetary perspective. Ensuring that the measures remain fiscally neutral and timebound will be important to preserve fiscal room for maneuver amid high uncertainty. In the event of more persistent energy price increases, as in staff's severe downside scenario, the authorities should consider one-off transfers via Brazil's social safety net programs targeted to the most vulnerable rather than extending more costly price measures. These efforts should be compensated by fiscal measures or windfall revenues that preserve progress toward staff's total recommended adjustment of 3 percentage points of GDP over five years. Financing the cost of measures using a pre-defined excess profits tax on energy companies, rather than the new temporary export tax on crude oil, would improve tax predictability. In the event of faster-than-expected declines in energy prices, tapering fiscal support measures would be important to support efforts to improve the fiscal position.

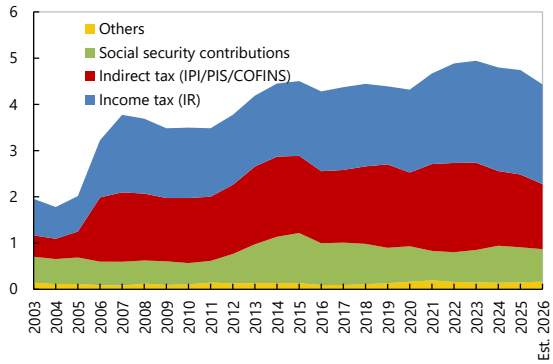
22. Reforms to tackle spending rigidities remain essential for durably improving the fiscal position. Discretionary federal spending in the budget accounts for only 1.6 percent of GDP, or 8.5 percent of federal primary spending in 2025—about half the level seen in the late 2000s. This decline reflects a persistent crowding out by mandatory expenditures, including spending indexed to the minimum wage or earmarked from revenue such as on pensions, health, and education. Furthermore, some expenditures budgeted as discretionary have become in practice non-discretionary, including, notably, parliamentary amendments (Box 5). After accounting for these items and basic administrative costs, discretionary spending is merely 0.3 percent of GDP, leaving virtually no room to reduce the fiscal deficit or respond to new priorities or shocks without reforms. Spending reforms to curb indexation and open fiscal room for both federal and subnational governments include: de-linking the growth of minimum pension and social assistance benefits from the minimum wage; further curbing the growth rate of the real minimum wage; and eliminating the constitutional floors on health and education spending. Additional spending reforms include containing non-indexed expansions in personnel, pensions, and social expenditures. The cap on personnel expenditure real growth of 0.6 percent between 2027 and 2030, implying a declining share in GDP, is a welcome step. Brazil's public pension expenditure (old-age, disability, and survivors)—about 13 percent of GDP, above the average of advanced economies and more than double the average of emerging economies—is projected to rise due to adverse demographic trends and parametric adjustments are needed to reign in the pension system deficit, building on

[13] Staff analysis (Barrett and others, 2026, "Anchoring Inflation Expectations: Evidence from Latin America during the Post-COVID Stress Test." Departmental Paper No 2026/007.) indicates that in economies where inflation expectations are less well-anchored, external shocks have larger and more persistent effects on inflation.

the 2019 reform. Unifying social assistance programs—building on the model of the 2003 *Bolsa Família* reform—would enhance coverage and targeting while eliminating program overlaps. Overall, these measures could contribute to raising the primary balance by 2 percent of GDP over the medium term.[14]

23. Further enhancing government spending efficiency could raise economic growth while safeguarding social needs. The authorities have made significant recent progress, including the creation of the Secretariat for Monitoring and Evaluation of Public Policies and Economic Affair (SMA) in 2023, the introduction of the Medium-Term Budget Framework (MOMP) in 2025, the modernization of procurement through the 2021 law, and enhanced transparency of parliamentary amendments (Annex IV). At the same time, efficiency gaps remain. Staff estimates indicate that closing efficiency gaps in health and education spending and in public investment by 2040 could each boost the level of GDP by 5 percent. To fully harness these gains, spending reviews and policy evaluations should be institutionalized and integrated into budget preparation, supporting more efficient spending allocation. Similarly, the MOMP could be aligned with the fiscal framework that underpins binding fiscal targets and spending reviews, ensuring consistency in fiscal objectives and reinforcing the effectiveness of spending management tools. Greater emphasis on rigorous implementation of the preparatory phases of procurement and adoption of robust procurement strategies would further maximize the benefits of the 2021 procurement law innovations. To further strengthen the governance of parliamentary amendments, a clearer attribution of responsibility across their lifecycle, strengthened conflict-of-interest frameworks, enhanced ex-post expenditure verification with measurable indicators, and effective remedial action on irregularities are essential. Finally, fiscal savings from addressing spending rigidities and inefficiencies could be redeployed to priority investments to foster productivity while maintaining the overall effort to improve the fiscal position and put debt on a firmly declining path.

24. Phasing out expensive, ineffective, and regressive tax expenditures would support the adjustment. Federal tax expenditures have grown from 2 percent of GDP annually in the early 2000s to 4-5 percent of GDP in recent years. In 2025, the government successfully phased out 0.1 percent of GDP in tax expenditure in the exhibition sector and began phasing out payroll tax exemptions, with annual savings expected to reach 0.2 percent of GDP by 2028. In late 2025, Congress approved a law to trim tax expenditures by one-tenth and strengthen oversight, with annual savings of 0.1 percent of GDP (exceptions accounting for about three-quarters of total tax expenditures limit the revenue gain). Congress also passed



Sources: DGT Bases efetivas DGT PLOA 2026; and IMF Staff calculations.

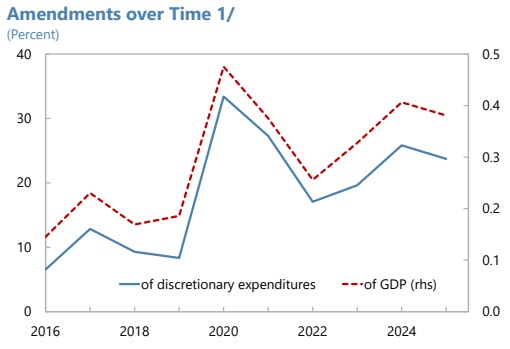
[14] Longer-horizon risks—including climate-related shocks and natural disasters—could weaken growth and worsen debt dynamics. These risks reinforce the case for maintaining fiscal space and strengthening resilience. Over the longer term, the DSA flags aging-related spending pressures and judicial claims as material risks to the debt path.

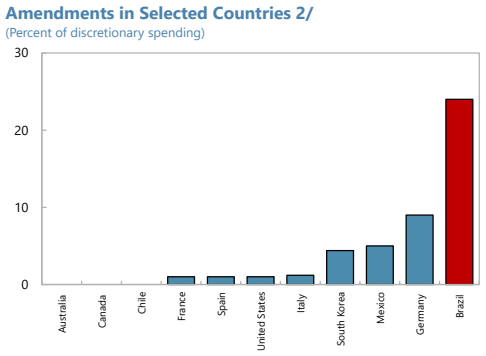
legislation in late 2025 to limit PIS/COFINS tax credit offsets to those related to taxpayers' economic activities, anticipated to generate about 0.1 percent of GDP annually. Further gains could come from eliminating regressive exemptions on health and education expenses that mainly benefit relatively wealthy households, and by lowering the eligibility threshold for the SIMPLES tax regime, to discourage PIT evasion (high-income self-employed professionals masking as firms) and reduce disincentives for corporate growth (IMF, 2023, Country Report No. 23/288). Staff analysis finds that tax-incentivized bonds mainly benefit large corporates and distort risk pricing, with a fiscal cost in terms of foregone tax revenue estimated at nearly 0.3 percent of GDP in 2025, while evidence of their impact on productive investment is limited (see Box 9). This suggests a need for careful cost-benefit analysis and possibly a gradual phaseout.

Box 5. Strengthening Fiscal Transparency and Governance: The Case of Parliamentary Amendments[1]

Parliamentary amendments (*emendas parlamentares)* are additions, modifications, or cancellations of budget appropriations by Congress. They allow legislators to address region-specific needs which may not be fully captured through centralized budget planning. Individual amendments (RP6, also known as "*emendas PIX*") and state caucus amendments (RP7) are mandatory and must be executed since 2015 and 2019, respectively. Commission amendments (RP8) are discretionary. Amendments now represent about one-quarter of discretionary spending and have expanded from below 10 percent a decade ago.

In other countries that also allow amendments, they typically account for a smaller share of discretionary spending, are subject to clearer justification requirements, and remain subject to executive discretion and prioritization. By contrast, in Brazil, amendments account for a much larger share of discretionary spending, and certain categories are effectively non-discretionary once approved in the budget law. They are allocated across a fragmented set of projects and jurisdictions, often without systematic reference to a structured national database of high-quality public investment projects, and with limited ex-ante constraints. This can constrain executive discretion during budget execution, complicates traceability and oversight, while also weaking accountability for project outcomes.





Sources: Federal Budget Panel; Haver Analytics; Tollini and Mendez (2024); and IMF staff calculations.
1/ Current Appropriation.
2/ Approved budget amendments as a share of discretionary spending in 2024 or recent years. Amendments are negligible in Chile, Canada and Australia. In the United States, amendments reallocating resources to states and municipalities are legally capped at 1 percent of discretionary spending. In Spain and France, amendments remain below 1 percent of discretionary spending and must be fully offset through spending cuts or revenue increases. In Germany (about 9 percent) and South Korea (about 4.4 percent), amendments do not increase total spending, as they must be compensated by reductions elsewhere. In Mexico, amendments fall within a 1–5 percent range.

[1]Prepared by Paula Zarazinski.

Box 5. Strengthening Fiscal Transparency and Governance: The Case of Parliamentary Amendments (concluded)

Building on notable progress made so far, there is further scope to address the challenges and mitigate the governance risks posed by amendments. Beginning with the 2022 ruling by the Supreme Federal Court (STF) on the unconstitutionality of rapporteur amendments, the governance and accountability framework for amendments expenditure has been strengthened. An increase in fiscal transparency has played a central role, with the Comptroller General of the Union (CGU) undertaking published audits of amendments expenditure, including risk-based audits in response to the STF's ruling. Public reporting and transparency requirements and functionality have also been substantially expanded. Despite this progress, weak traceability, broad discretion and limited oversight of "emendas PIX" and may pose corruption risks. CGU audits have identified irregularities in the execution of these amendments, including risks of misappropriation, misalignment with public policy priorities, and diversion of funds from their intended purpose. The STF has also highlighted persistent shortcomings in compliance with transparency and traceability requirements, including deficiencies in procurement processes associated with amendments.

25. Enhancing progressivity of the tax system while bolstering revenues is warranted. Despite recent progress, Brazil's tax system remains regressive due to heavy reliance on consumption taxes and reductions in corporate tax liabilities (Plomo et al. 2025). The 2025 revenue-neutral PIT reform appropriately introduced a minimum tax on high incomes and a new tax on dividends, broadening the tax base and increasing progressivity. At the same time, the reform's increase in the personal exemption threshold mostly benefits upper-middle-income workers, limiting the reform's overall progressivity. The phased implementation of the landmark 2023 VAT reform starting in 2026 is expected to significantly simplify the tax system and boost productivity over the medium term, with efforts rightly aimed at revenue neutrality (Cebreiro et al., 2025). The VAT reform's cashback mechanism for low-income households is designed to mitigate the regressivity of consumption taxes and staff analysis (Cebreiro and Kolerus, 2026) suggests that expanding the cashback, while removing concessions to preserve revenue, could amplify the reform's equity gains by raising the disposable income of low-income households by up to 25 percent.

Authorities' Views

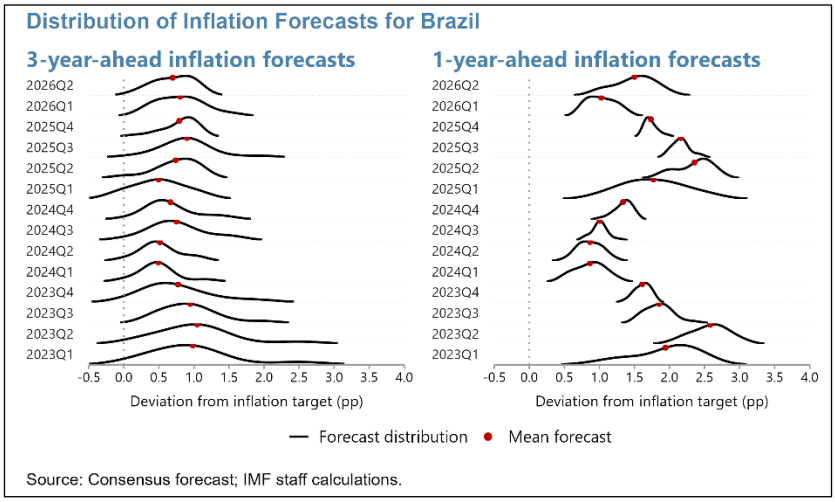
26. The authorities reaffirmed their commitment to their fiscal targets, while emphasizing the continued need of protecting the most vulnerable. They blocked discretionary expenditure of 0.2 percent of GDP to comply with the 2026 spending limit, as mandatory social spending was expected to exceed the amount projected in the budget. They plan to use part of the oil-related windfall to finance fuel price measures, now extended until the end of the year with reassessment of the need for continued support every two months. They view these measures as important for social protection, supporting growth, and mitigating the rise in consumer prices. They continue to project a federal primary deficit of 0.4 percent of GDP in 2026, in line with staff's projections. They assessed the targeted primary balance path for 2027-30 as sufficient for achieving a stabilization of the public debt ratio by 2029. The authorities expressed interest in assessing how the increased role of volatile oil-related revenues could be reflected in fiscal planning and in further analysis of options to

address oil-price related windfall profits. They concurred with the need to cut tax expenditures and address mandatory spending pressures.

B. Reducing Inflation and Setting the Course for Lower Rates

27. Amid heightened uncertainty surrounding the war in the Middle East and the global outlook, maintaining flexibility in the pace and timing of future monetary policy steps is warranted. The BCB's decision to loosen interest rates in the first half of 2026 was appropriate and consistent with bringing inflation and inflation expectations back to the 3 percent target, in line with Brazil's well-established inflation target framework. Although the cuts were smaller than anticipated before the war, communication by BCB officials allowed markets to adjust before the policy move. By opting for quarter-point cuts, the BCB also retained the flexibility to respond to evolving international conditions.

28. A slower normalization of policy than expected before the war is appropriate for containing inflationary pressures from the oil price shock. The BCB's aggressive response to rising inflation in 2024 reinforced its already strong inflation-fighting credentials (Box 6) and monetary policy remains firmly contractionary. The BCB's continued clear public commitment to the 3 percent target is supportive of a decline in medium-term inflation expectations. Although monetary policy will eventually need to move to a more neutral stance, a slower pace of normalization is appropriate to offset the erosion of real rates from recently higher inflation and help contain the risk of second-round effects of price pressures. Consequently, staff expects interest rates to remain well above neutral throughout 2027. While the precise timing of future monetary easing is uncertain, closely monitoring the distribution of medium-term inflation expectations—still above target and wide across forecasters—along with market perceptions of the BCB's reaction function and labor market indicators will help determine when a change in the policy stance is needed. In staff's severe downside scenario—where inflation rises by 1.1 percentage points and 1.2 percentage points in 2026 and 2027, respectively, relative to the baseline forecast—monetary policy would be expected to tighten further, necessitating higher interest rates, and an even stronger response if medium-term inflation expectations were to drift further above target.



Source: Consensus forecast; IMF staff calculations.

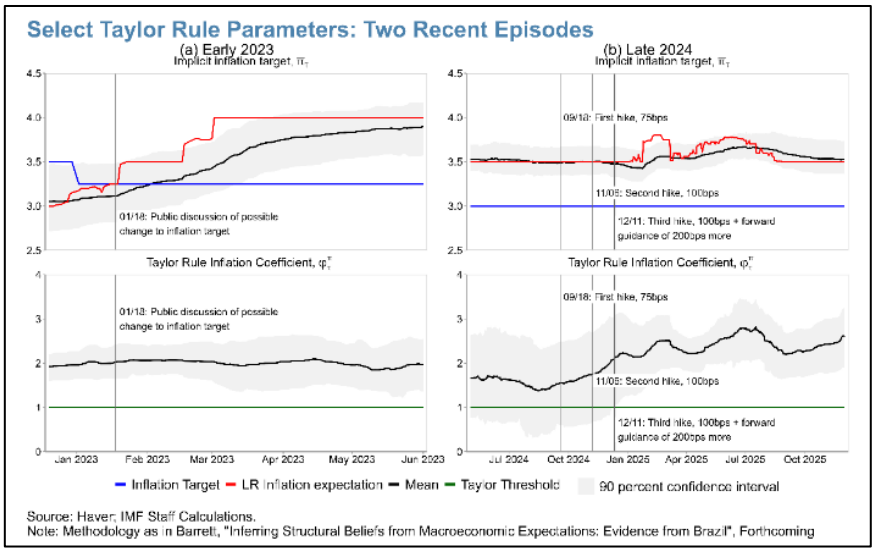
29. While primary responsibility for price stability rests with the BCB, a stronger fiscal stance would help to reduce inflation and pave the way for lower interest rates. Staff analysis

using a semi-structural macroeconomic model suggests that implementing the additional staff-recommended fiscal policy adjustment would allow for an additional 0.7 percentage point reduction in interest rates by end-2028 compared to staff's baseline (see Box 7 and Annex V). This effect operates through both moderation in aggregate demand and narrowing risk premiums associated with lower government debt and stronger fiscal credibility. Lower policy interest rates could, in turn, further improve debt dynamics, given Brazil's high share of floating-rate government liabilities (nearly 50 percent), reinforcing the decline in risk premiums. Consistent with this, staff analysis confirms that sovereign risk premiums in Brazil respond favorably to increased fiscal credibility and reductions in policy rates (Box 8). Overall, a stronger macroeconomic policy mix could facilitate a virtuous cycle of lower inflation, interest rates, and declining debt.

Box 6. Beliefs About Systematic Monetary Policy: Evidence from Expectations[1]

Brazil's inflation expectations have changed noticeably in recent years but such changes are hard to interpret in real time. Higher expected inflation can reflect news about shocks, changing views of transmission, a perception that the implicit inflation target (the long-run anchor) has increased, or a perceived weakening in the systematic reaction of policy to inflation deviations from target—the Taylor rule inflation coefficient.

To distinguish between these potential interpretations, staff analysis combines Brazil's daily, multi-horizon survey of professional forecasters (*Focus*) and a structural model of expectations. This analysis infers market beliefs about how the economy works, including the transmission of monetary policy, the perceived implicit inflation target, and the perceived systematic response of policy to inflation. This framework accounts for other unknown confounding factors, such as beliefs about the neutral rate, the strength of the transmission of monetary policy, or the output gap.



Source: Haver; IMF Staff Calculations.
Note: Methodology as in Barrett, "Inferring Structural Beliefs from Macroeconomic Expectations: Evidence from Brazil", Forthcoming

The results suggest that, in early 2023, inflation expectations de-anchored. Amid prominent public policy debate about potentially raising the inflation target, the perceived implicit target rose. At the same time, the perceived monetary policy response to inflation weakened significantly. The joint movement of both parameters suggests a shift in beliefs about both the anchor and the expected policy response—not just near-term inflation news.

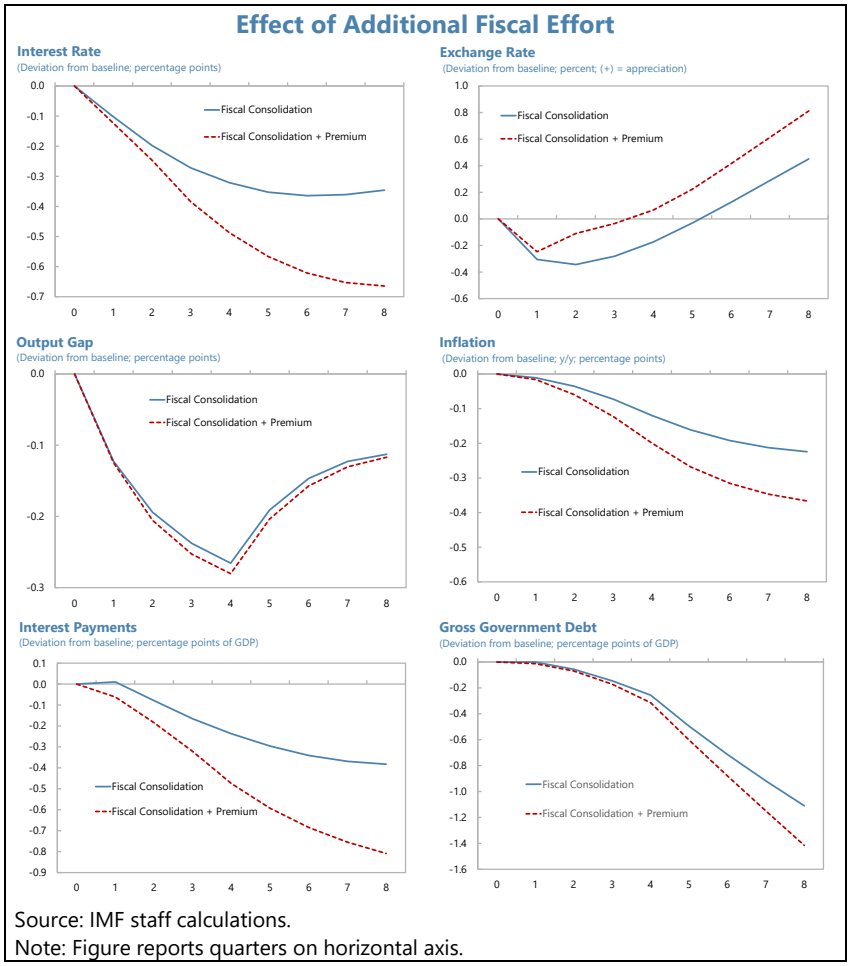
In contrast, the analysis suggests that the BCB's pivot to a tightening cycle in late 2024 was seen as reflecting a shift to a more aggressive anti-inflation policy rule. While inflation and inflation expectations picked up in late 2024, this was not interpreted as a further de-anchoring. Instead, the structural model reveals a credible long-run anchor coupled with an increased intolerance for inflation deviations from target. This was particularly true of the December 2024 decision, where the BCB's explicit forward guidance contributed to market analysts signi ficantly revising up their beliefs about the BCB's willingness to raise rates in response to higher inflation.

[1] Prepared by Philip Barrett.

Box 7. Better Together: Macroeconomic Policy Mix Implications[1]

Staff assesses the complementary role that fiscal policy can play alongside monetary policy in reducing inflation and interest rates using a semi-structural quarterly projection model (QPM) calibrated for Brazil. The basic structure of the QPM relies on a standard macroeconomic model, capturing how monetary policy affects the real economy and the exchange rate, which in turn pin down inflation (for details on the QPM model, see, for example IMF 2021 and Annex VI). Monetary policy is assumed to respond systematically to inflation expectations and the output gap. The model also features a fiscal block where public debt issuance affects the macroeconomy via a sovereign risk premium: lower public debt reduces the risk premium, thereby strengthening the currency and—other things equal—reducing interest rates.

The model simulations suggest that implementing staff's recommended fiscal policy adjustment would reduce inflation by an additional 0.2-0.4 percentage point by 2028 and allow for a 0.4-0.7 percentage point reduction in interest rates, relative to the baseline scenario. The recommended fiscal adjustment (see paragraph 19) raises the fiscal effort (change in the structural primary balance) by an additional 0.6 percentage point of GDP relative to baseline over 2026-2028. The total structural adjustment is 1.8 percent of GDP, compared with 1.2 percent of GDP in the baseline. The policy rate declines further as aggregate demand, inflation, and inflation expectations moderate. However, the size of the interest rate cut enabled by the fiscal adjustment depends on its credibility. When the model's risk premium is allowed to be debt-dependent the policy rate declines by 0.3 percentage point more than when it is not debt-dependent. Inflation declines by a further 0.15 percentage point, reflecting the appreciation of the exchange rate. Overall, interest payments fall by 0.8 percentage points of GDP and government debt falls by 1.5 percentage points of GDP after two years, relative to staff's baseline forecast.



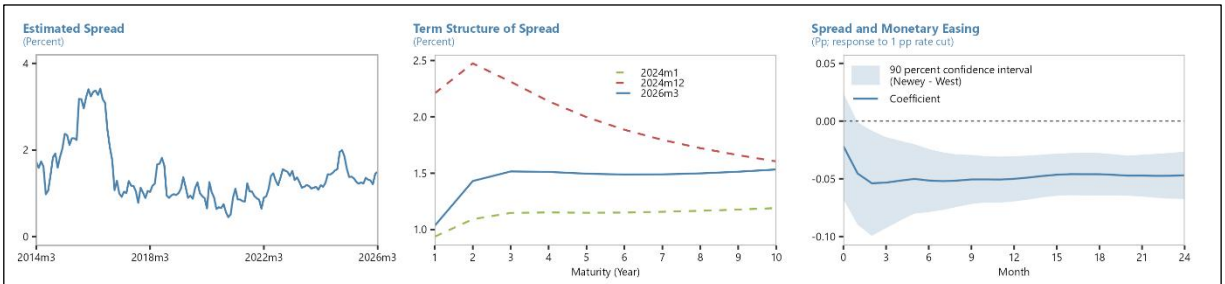
Source: IMF staff calculations.
Note: Figure reports quarters on horizontal axis.

[1] Prepared by Marco Arena (WHD) and Gyorgy Molnar (ICD).

Box 8. Tracking Local Currency Sovereign Risk[1]

To obtain a market-based local currency sovereign risk premium, staff constructs the spread between Brazil's sovereign yield and supranational bond (supra) yield at constant maturity. Brazil's foreign currency sovereign risk premium is typically gauged by the Credit Default Swap (CDS) spread, but about 96 percent of Brazilian sovereign debt is now in local currency, for which a direct measure is not readily available.[2] Supranational institutions, such as the World Bank, issue AAA-rated bonds in local currency, which are considered credit risk-free due to strong backing from global governments. Staff fits a time series of the Supra yield curve using bond transaction data (Nelson-Siegel methodology) to construct the sovereign–supra spread (see Annex VII for details).[3]

The sovereign–supra spread tracks key fiscal events. The spread spiked during the 2014–2016 crisis and increased in 2024 when concerns regarding the fiscal framework's credibility arose. It has eased since the passage of a package of fiscal measures in December 2024. Nonetheless, the risk premium remains above its level at the start of 2024, suggesting lingering uncertainties.



Sources: Haver; LSEG Datastream; LSEG Workspace; and IMF staff calculations
Note: Five-year constant maturity, unless otherwise specified

The sovereign-supra spread also responds to monetary policy changes. A 100 basis point monetary policy rate cut—other things equal—reduces the risk premium at the five-year constant maturity by about 5 basis points.[3] This link could reflect the fact that about 50 percent of Brazil's government debt consists of floating-rate liabilities and about 20 percent needs to be rollover each year due to short maturity structure, implying that the debt trajectory is highly sensitive to interest rate changes.

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[1] Prepared by Chao He.

[2] Foreign currency CDS spreads do not fully reflect local currency risk due to complexities such as the possibility of selective default, soft default, currency depreciation correlated with default, capital controls, and market segmentation.

[3] The sovereign bond market is typically much more liquid than the supranational bond market; hence the spread could be even wider if corrected for liquidity differences. The measure abstracts from tax and regulatory differences and market segmentation, whose effects are ambiguous. [3] Staff estimates the relation using the local projection approach of Jordà and Taylor (2025) and Ramey and Zubairy (2018), with the following specification:

$$s_{t+h}^{\tau} - s_{t-1}^{\tau} = \beta_0 + \beta_1^h (i_{t+h} - i_{t-1}) + \Sigma_{l=1}^{12} \beta_2^l (s_{t-l}^{\tau} - s_{t-l-1}^{\tau}) + \epsilon_t,$$

where s_t^{τ} is the sovereign-supra spread at time t with maturity τ and $\tau = 5$, i_t is the Selic rate, $h = 0,1,\ldots,24$ is the forecast horizon, and β_1^h is the coefficient of interest. The result is similar when instrumenting policy rate changes with monetary policy shocks, as constructed by Leigh and Xu (2025). The sample spans January 2017 to March 2026.

30. Brazil's flexible exchange rate continues to act as a valuable shock absorber. There has been no change in the BCB's long-standing flexible exchange rate policy and its adherence to the inflation-targeting framework. The flexible exchange rate regime and adequate FX reserves remain valuable shock buffers and continue to support Brazil's resilience. In general, FX intervention could be used to address destabilizing premia from arbitrage frictions in shallow FX markets, as was the case in December 2024, without substituting for necessary adjustment of macroeconomic policies. The BCB's recent efforts to reduce the high stock of FX swaps are welcome and further reductions, as market conditions permit, are warranted to create additional policy room for maneuver.

31. Staff highly recommends reducing the financial tax on certain exchange transactions and eliminating the associated multiple currency practice (MCP) and exchange restriction. The authorities broadened the scope of and raised the rate on the longstanding tax on certain financial transactions (*Imposto sobre Operações Financeiras*, IOF) from May 23, 2025 to June 26, 2025, and, following a brief pause, again from July 16, 2025 onward. The IOF on certain exchange transactions (IOF-FX)[15] gives rise to an MCP with respect to current and capital international transactions, as the effective exchange rate of exchange transactions subject to the IOF-FX has continuously exceeded the permissible margin under the Fund's new MCP policy since the effectiveness of this policy (on February 1, 2024). At the same time, this tax is also an exchange restriction with respect to payments and transfers for current international transactions as well as a capital flow management measure (CFM) with respect to capital transactions. The IOF-FX tax increases transaction costs for FX transactions. The overall impact on the FX market and the broader economy has been muted. The authorities are not requesting approval and staff does not recommend it.

Authorities' Views

32. The authorities agreed that monetary policy is consistent with reducing inflation to target. The BCB remains firmly committed to the inflation targeting framework and agreed with staff that maintaining flexibility on the future path of policy was appropriate given the uncertainties

[15] The IOF-FX giving rise to an MCP and an exchange restriction was previously applied on exchange transactions carried out by institutions participating in cross border payment arrangements to fulfill their obligations arising from the customers' transactions related to the purchases of goods/ services abroad and cash withdrawals abroad using payment instruments as well as for the acquisition of traveler's checks and loading prepaid cards to cover travel expenses abroad. The applicable rate had been on a declining path from 6.38 percent in 2022 to 5.38 percent in January 2023, 4.38 percent in January 2024, and 3.38 percent in January 2025. It was then increased to 3.5 percent from May 23, 2025 until June 26, 2025 and from July 16, 2025 onward, with the previously scheduled phase-out no longer contemplated. In addition, from May 23, 2025 until June 26, 2025 and from July 16, 2025 onward, the number of exchange transactions subject to the IOF-FX tax with rates up to 1.10 percent was decreased and additional current and capital international transactions became subject to the IOF-FX at 3.5 percent. These are exchange transactions related to: (i) the acquisition of FX cash; (ii) transfers abroad to residents or their close relatives; (iii) obtaining external loans (which are subject to registration with the CBB) with a duration of less than one year; (iv) other not exempted/ not covered transfers abroad (for instance, payments for the importation of services, payments of insurance premiums to foreign insurers, and some payments of investment income to nonresidents). The IOF-FX has been also assessed as a CFM to the extent it applies to capital transactions. The application of the IOF-FX tax on FX operations on transfers of funds abroad for investment purposes by Brazilian residents at 1.1 percent and on other FX operations related to capital inflows (including FDI) at 0.38 percent remain a CFM and does not give rise to an MCP.

over the external environment and its impact on the Brazilian economy. The BCB emphasized the importance of maintaining the credibility of monetary policy by anchoring longer-term inflation expectations. They reiterated their commitment to exchange rate flexibility and highlighted their strategy of reducing the stock of FX swaps when market conditions are conducive, while emphasizing that a positive stock would preserve market functioning.

C. Reinforcing Financial Sector Resilience

33. The financial sector remains resilient with systemic risks contained. The banking sector is profitable, well-capitalized, and liquid. The 2026 FSAP found that in an adverse scenario featuring a synchronized global economic slowdown with a sharp GDP contraction, and sovereign debt distress with elevated interest rates resulting from a fiscal confidence shock, a number of banks would fall below regulatory capital requirements. While these banks are not systemic and the aggregate capital shortfall is small (0.1 percent of total system assets), continued monitoring of profit retention and resilience of systemic banks is encouraged. The planned phase-out of deferred tax assets will improve capital quality, though it might temporarily impact some banks' resilience.[16] Corporate sector stress tests indicate that firms' debt-servicing capacity is vulnerable to stagflation shocks, with these findings fully incorporated in the bank stress tests. Bank liquidity tests confirmed overall stability, with isolated stress in worst-case scenarios. At the same time, banks and investment funds have strong interconnectedness, increasing contagion risk. The insurance sector can withstand severe market shocks. Physical climate risks generate uneven but limited impacts on banks, with losses partly covered via insurance, which relies on a diversified but bilaterally dependent reinsurance market.

34. Reinforcing banking and securities markets supervision—including by addressing staffing shortages and strengthening staff legal protections—and completing the bank resolution framework are priorities. The BCB's regulatory and supervisory framework for banks is advanced, including through extensive use of technology and sophisticated analytics. However, the FSAP concluded that BCB staff shortages and limited budgetary autonomy have reduced onsite inspections and constrained analytical depth. Legal protection and independence of BCB staff have improved since 2018, although strengthening them further is needed to ensure continued timely and thorough supervision. In addition, a modernized resolution regime remains a work in progress with legislation before Congress since 2019. Completing the framework would give the authorities a full range of tools and is critical to the ability to fully address potential distress in the banking sector. Growth in equity and bond markets highlights the need for robust regulation and more resources for the Securities and Exchange Commission of Brazil. The BCB has prioritized addressing rising cybersecurity risks and established a regulatory framework broadly aligned with international standards. Further steps can be taken to strengthen cybersecurity supervision, as noted in the FSAP,

[16] Brazilian banks provision for credit risk losses based on BCB prudential rates, but these provisions are tax-deductible only upon recognizing and writing off a loss. This timing difference creates deferred tax assets (DTAs). From 2025, Law 14,467 aligns tax deductibility with accounting recognition, reducing new DTAs. Existing DTA stock at end-2025 can be amortized over 7 or 10 years, as per bank choice.

including enhanced cyber risk oversight of Financial Market Infrastructures (FMIs), assessment of workforce needs, and improved standards for incident reporting and testing.

35. The macroprudential toolkit has been well deployed and expanding the toolkit is advisable. Macroprudential policies are appropriately calibrated, with the countercyclical capital buffer set at zero. The FSAP highlights substantial progress since 2018, including a more explicit BCB mandate, enhanced interagency cooperation, structured and comprehensive risk analysis, and an expanded scope of surveillance activities. Further expanding these activities to monitor new markets, including in crypto and structured debt, will be important as the financial sector evolves. The macroprudential toolkit has been applied more proactively to reinforce resilience throughout economic cycles. The authorities are advancing towards a positive-neutral countercyclical capital buffer (PN-CCyB) framework, which would further enhance Brazil's macroprudential instruments. As the DSTI reached record highs in 2025, the case for borrower-based macroprudential policy tools such as DSTI caps has risen. Staff analysis shows a DSTI cap of 40 percent on new loans granted in 2025 could have prevented the further increase in household debt service burdens. A gradual introduction of this measure should begin with a flexible limit, while efforts continue to standardize definitions of verifiable income and debt servicing across lenders (including non-banks) and financial products. Consumer protection improvements, including additional safeguards against predatory lending and increased lender responsibilities, would help ensure suitability and affordability of credit products.

36. The government is implementing a new debt renegotiation program, *Novo Desenrola Brasil*, to improve household financial health. As was the case with the earlier *Desenrola Brasil* program during July 2023–May 2024, the new program, launched in May, assists households in default to renegotiate delinquent debts.[17] Workers earning up to five minimum wages can now use up to 20 percent of their *Fundo de Garantia do Tempo de Serviço* (FGTS, mandatory workers' severance fund) balance to repay delinquent high-cost debt. Additional steps are needed to prevent risks of moral hazard and a future debt buildup. Introducing a DSTI cap, enhancing consumer protections, and promoting financial education would help manage and mitigate these risks.

37. Brazil has taken decisive steps in crypto regulation and next steps call for clearer legal foundations and a stronger oversight framework. As noted in the Financial Sector Stability Assessment (FSSA), cross-border crypto asset flows—especially stablecoins pegged to the US dollar—have risen since 2017, though not currently affecting financial stability.[18] The BCB has brought crypto-asset service providers (CASPs) under supervision, aiming to strengthen monitoring of crypto flows and mitigate FX-related risks. Going forward, the authorities should finalize legal and regulatory frameworks for CASPs, ensure customer asset protection, implement risk-based capital

[17] The *Novo Desenrola Brasil* program also includes renegotiation of overdue educational loans, business loans to small and medium-sized enterprises, and some rural credit.

[18] The BCB has published statistics on crypto asset transactions between residents and non-residents since 2019. Data collection on cross-border flows has been strengthened in recent years through enhanced reporting requirements, notably the separate identification of stablecoin and non-backed crypto transactions.

requirements, and improve guidance on market integrity and investor protection. Issuance should be regulated, and stablecoin activity requires special attention, including robust oversight of cross-border payment schemes and cooperation with global issuers. As the market grows, it will be essential to further develop the monitoring framework for interlinkages with the banking and payments sectors.

38. There is scope for enhancing the efficiency of capital market financing for infrastructure. Infrastructure investment is increasing, with a shift from the National Development Bank (BNDES) to private financing, but still falls short of development needs. Incentivized debentures have helped develop capital markets for long-term finance, yet fiscal costs are sizeable and rising and investment impacts limited (see Box 9). Efficiency could be enhanced by conducting cost-benefit analyses on the option to phase out the incentives gradually, reviewing eligible sectors, and establishing stricter standards for the use of proceeds. Pension funds represent a largely untapped source of long-term capital for infrastructure, calling for an assessment of investment rules, fund portability, and withdrawal regulations, and streamlining oversight.

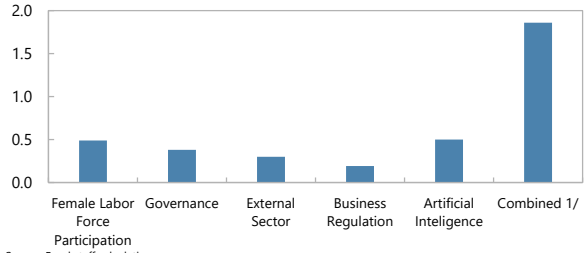
Authorities' Views

39. The authorities agreed with the systemic risk assessment and broadly supported FSAP's recommendations. They noted a shared view of the potential risks facing the financial sector including rising household and corporate indebtedness and welcomed FSAP's finding that banks and insurers are able to absorb potential losses under adverse scenarios. The authorities agreed that elevated household indebtedness warrant further work on strengthening macroprudential measures and prudential safeguards aimed at promoting responsible and sustainable household borrowing and enhancing financial stability. They recognized the urgent need to address staffing shortages and strengthen staff protections to enhance financial supervision, and remain committed to advancing legislation for a modernized bank resolution framework. The authorities noted ongoing efforts on crypto-asset supervision and highlighted recent steps to strengthen financial regulation and supervision to further enhance banking system resilience.

D. Fostering Productivity, Investment, and Trade

40. Recent structural reforms have lifted Brazil's medium-term growth prospects and continued reform momentum could deliver further gains. IMF staff revised up medium-term growth projections from 2.0 percent to 2.5 percent at the time of the 2024 Article IV Consultations on account of the landmark 2023 VAT reform and acceleration in hydrocarbon output. At the same time, as noted above, investment, productivity, and labor force participation have lagged gains in employment during the post-pandemic recovery. Staff

Impact of Reforms: Average Annual Growth Over Five Years
(Average yearly pp. change in real GDP PPP)



Source: Fund staff calculations.
1/ This is a linear approximation and does not take into account the interaction between the various reforms.
Notes: The analysis on governance, external sector, and business regulation, prepared by Andrea Medici and Marina Tavares (both RES), builds on Budina and others (2023), "Structural Reforms to Accelerate Growth, Ease Policy Trade-offs, and Support the Green Transition in Emerging Market and Developing Economies," International Monetary Fund Staff Discussion Note SDN/2023/007. The impact on structural reforms is based on 'major historical reform' which is defined as two-standard deviation increase in the underlying indicator, based on the sample of EMDEs. Estimation of the impact of AI adoption is based on Rockall, Tavarez, and Pizzinelli (2024).

estimates, based on Budina and others (2023),[19] suggest that closing relevant gaps in "first-generation reform areas" (business regulation, governance, and the external sector) could raise annual growth by a further one percentage point per year on average for five years. An additional medium-term growth gain of nearly one percentage point could come from reforms to facilitate female labor force participation, which has declined in recent years (2025 Article IV Staff Report and IMF Country Focus, 2026) and steps to foster AI adoption, including expanding the necessary training (IMF 2026). Overall, these reforms could raise medium-term growth from the currently projected 2.5 percent to over 4 percent.

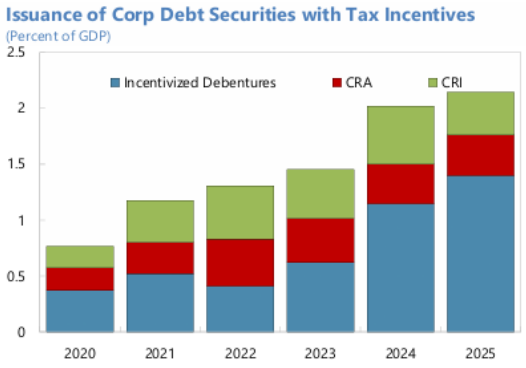
[19] See 2025 Article IV Staff Report (Section D) for an application of the methodology to Brazil.

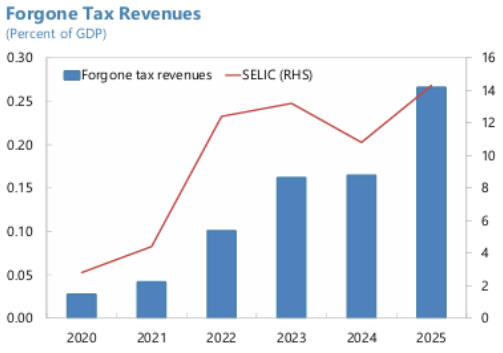
Box 9. The Expansion of Tax-Incentivized Bonds[1]

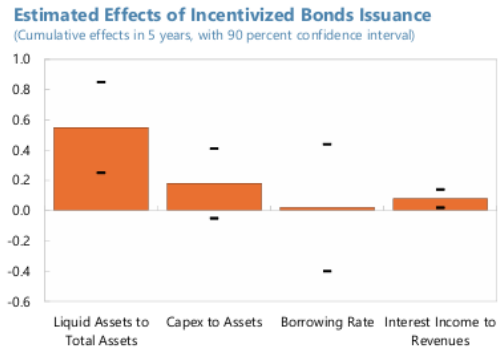
Since 2023, demand for tax-incentivized bonds has expanded significantly. Interest income and capital gains from these bonds, known as *Debêntures Incentivadas*, are not subject to income tax. Introduced with the objective of supporting infrastructure investment, the bonds must have a maturity of at least four years, be issued in Brazilian *reais*, and be traded domestically. Because tax exemption depends on the amount of interest earned, the benefits grow when interest rates rise. Issuance of incentivized bonds and other tax-free debt instruments amounted to 2.1 percent of GDP in 2025.

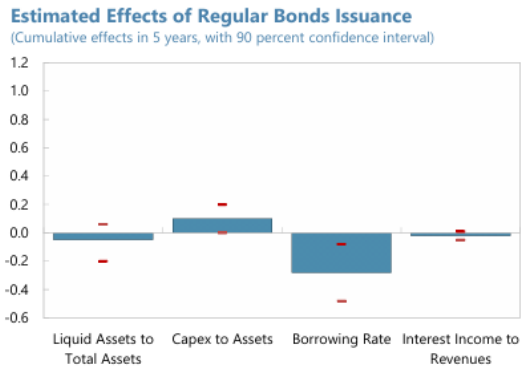
The tax incentives introduce imbalances in the bond market and their fiscal cost has increased. Many of the incentivized bonds are tied to inflation and compete directly with government-issued inflation-linked bonds for investors. Because of their tax-exempt status, these bonds saw their average yield fall below that of government bonds in late 2025, even for those with lower credit ratings. The high demand for these incentivized bonds results in foregone tax revenue estimated at nearly 0.3 percent of GDP in 2025.

Staff analysis finds that incentivized bonds primarily increase holdings of interest-earning assets by large firms with limited effects on capital investment.[2] Staff estimates that firms keep 50 percent of the incentivized bond proceeds in the first five years after issuance, with the associated interest income also growing. These results suggest that firms may engage in strategic over-issuance of incentivized bonds to improve cash buffers and generate financial returns rather than making the intended capital investments. Staff analysis also finds that the bonds have been disproportionately issued by a broadly unchanged number of large firms, with relatively limited use by small- and medium-sized enterprises.









Note: CVM and IMF staff calculations

[1] Prepared by Rui Xu.

[2] For detailed analysis, see Xu, forthcoming, "Brazil's Corporate Bond Boom and the Missing Investment".

41. Continued implementation of the Ecological Transformation Plan would further reinforce resilience. Efforts are appropriately focused on mobilizing financing for investments in decarbonization technologies, renewable energy, sustainable agriculture, and research and development through the *Eco Invest Brasil* program and the issuance of sustainable sovereign bonds. Brazil's past investments in these areas are helping to shield the economy from the ongoing external energy shocks, including by achieving one of the cleanest electricity mixes worldwide. The authorities' continued support of the energy transition, including by lowering transportation emissions through increased biofuel mix-ins and use of sustainable aviation fuels, is welcome. Deforestation significantly declined in recent years, and Brazil's Sustainable Taxonomy became operational in 2025, playing a crucial role in defining qualification criteria for various climate related instruments.

Further Strengthening Trade Integration and Competitiveness

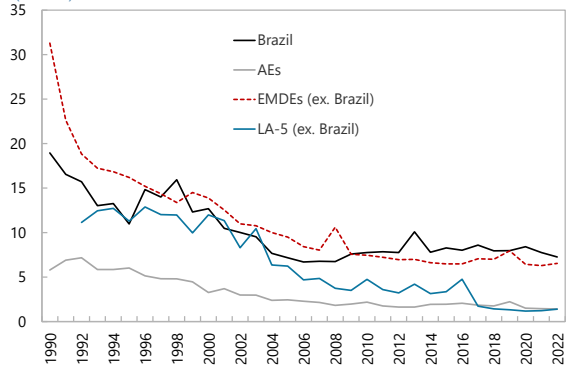
42. Brazil's trade composition has shifted markedly over recent decades alongside greater trade openness. Successive waves of liberalization have led to tariff reductions and increases in trade integration (Annex VIII). At the same time, Brazil's trading partners have changed significantly, with China emerging as the largest, absorbing more than 30 percent of exports as of 2025, followed by the US and EU, accounting for 12 percent and 11 percent, respectively. While trade within the Mercosur bloc remains important, its relative share has declined. The evolving composition of trading partners has been accompanied by rising commodity concentration in Brazil's exports. Agricultural products account for more than 40 percent of total exports as of 2025, with soybeans the dominant component. Oil exports represent 16 percent, while iron ore accounts for 10 percent. In contrast, the share of manufactured goods has declined to below 30 percent in recent years (Annex VIII).

43. Further trade integration could strengthen resilience, and recent progress in deepening and diversifying trade linkages through trade agreements is welcome. Brazil's current effective tariff rate is broadly in line with the average for other emerging market and developing economies, although there is room to further liberalize compared to regional peers. Non-tariff barriers also remain high, and the authorities have made efforts to streamline custom clearance procedures and licensing requirements. Brazil's recent ratification of the EU–Mercosur Free Trade Agreement is a significant achievement, creating one of the world's largest free trade areas, significantly reduce tariffs, and boost trade flows between Europe and South America. The agreement has entered into force in May.[20] Staff analysis suggests that the agreement could boost Brazil's agricultural exports to Europe, while increasing imports from the EU across a broad range of manufactured goods (Annex VIII). The authorities are also actively building partnerships with other regions: Brazil signed a trade agreement with the European Free Trade Association in September, which, together with an earlier agreement signed with Singapore, is awaiting congressional approval. Continuing to strengthen trade relationships with existing and new partners through bilateral and plurilateral agreements, while engaging constructively in efforts to promote a more

[20] In the EU, this has been through provisional application, pending final approval by the European Parliament.

open, stable, and transparent trading system, including at the World Trade Organization, would boost global value chain participation and enhance resilience amid heightened trade policy uncertainty.

44. Rising commodity export concentration and exposure to volatile global prices underscores the importance of robust and credible macroeconomic policy frameworks. The expansion of agricultural and mineral exports has supported Brazil's economic growth and the external position but also increased exposure to terms of trade shocks: commodity price cycles tend to amplify Brazil's business cycle fluctuations (Annex VIII). Policies that could help manage these shocks include strengthening the fiscal framework, as already noted, including anchoring fiscal effort in structural terms (net of fluctuations in commodity-related revenues) to limit pro-cyclicality and facilitate building buffers during commodity upswings for use during downturns. Maintaining exchange rate flexibility remains essential to facilitate macroeconomic adjustment to terms-of-trade shocks.



Source: World Integrated Trade Solution Database; and IMF staff calculations.
Notes: AEs (Advance Economies), EMDEs (Emerging Market and Developing Economies), LA5 (Colombia, Chile, Mexico, Peru, Brazil).

45. Brazil is advancing green and technological upgrading with targeted industrial policies. The *Nova Indústria Brasil* policy launched in January 2024 aims to provide support for six priority areas, including sustainable and digital agroindustry, health, infrastructure, industrial digitalization, green transition, and defense and aerospace. The policy tools include public financing, including subsidized credit and grants, as well as tax incentives and public procurement policies. To minimize implementation risks and trade and investment distortions, such policies should be targeted narrowly to specific objectives in sectors with well-identified market failures, time-bound, subject to regular cost benefit assessments, avoid discriminating between domestic and foreign firms, and be consistent with commitments in Brazil's trade agreements. More generally, reforms to enhance the business environment to foster productivity growth and private sector–led diversification into new industries are warranted to reinforce Brazil's resilience.

Further Strengthening the Business Environment

46. Further steps to reduce costs of doing business would support business investment and productivity. Through the *Custo Brasil* initiative, the authorities together with the private sector have identified a range of structural, legal, and operational bottlenecks that raise operating costs for companies within the country and make investment less attractive. Among such bottlenecks are bureaucratic and regulatory hurdles, a complex tax system, logistical and infrastructure challenges, and rigid legal frameworks. To address these bottlenecks, the government has taken initiatives to make the country's logistics structure more efficient, increase access to electricity on more competitive terms, simplify the tax system, expand internet connectivity, open the market of natural

gas, and increase firms' access to credit. A proposed constitutional amendment under discussion in Congress would reduce the workweek from 44 to 40 hours and guarantee two days of rest per week, with no change in pay. Retaining flexibility over which days are worked, allowing for a phased reduction in hours, and intensifying efforts to facilitate labor force participation and strengthen productivity are warranted to limit potential trade-offs, including higher unit labor costs and informality. Further efforts to promote cost efficiency and competition, including lowering barriers to entry for firms and bolstering competition authorities, would enhance business investment and productivity growth.

47. Continued efforts to improve enforcement of the anti-corruption framework and safeguard judicial integrity would further support the business environment.[21] Brazil has made recent progress in combatting corruption and money laundering linked to organized crime, establishing the Judicial Integrity and Transparency Observatory, and expanding the Office of the Comptroller General of Brazil's audit activities. Investigations into fraud involving social security benefits and financial sector oversight highlight vulnerabilities in critical sectors. Continued attention to integrity and accountability frameworks for senior officials, including the judiciary, will be important to mitigate remaining risks. Strengthening integrity frameworks for senior officials in regulatory roles would reduce risks of undue influence and regulatory capture. Publication of asset declarations of senior officials and criminalization of illicit enrichment would further support ongoing efforts to combat corruption.

48. Strengthening Brazil's AML/CFT regime would help combat financial crime and mitigate the ensuing economic impact. Brazil has improved its AML/CFT framework by establishing a licensing regime for CASPs, and enacting regulations to create a beneficial ownership register held and managed by the Revenue Authority (RFB). Next steps include ensuring effective implementation of "Travel Rule"[22] and beneficial ownership reporting requirements. These efforts will help ensure that AML/CFT tools are more effectively leveraged to detect, deter, and combat illicit activity, such as transnational organized crime, tax crimes, corruption, and fraud. The authorities' efforts to build the capacity of COAF (the Financial Intelligence Unit)—including re-integration of CASPs into the suspicious transaction reporting portal and enhancements to COAF's human and IT resources—are also welcome and are expected to bolster COAF's abilities to develop quality and timely financial intelligence. Strengthening the important role of the RFB in support of the overall AML/CFT system will contribute further to mitigating economic risks from ML/TF, and other financial crimes.

Authorities' Views

49. The authorities highlighted their reform agenda continues to foster even stronger sustainable growth and inclusion. The authorities continue to advance their reform agenda to improve the business environment, including expanding and diversifying the logistics network,

[21] See October 2025 *Fiscal Monitor*.
[22] Requirements, *inter alia*, for the originator and receiver CASPs to collect and hold beneficiary and recipient information.

promoting a more balanced mix of transport modes to reduce infrastructure gaps and logistics costs, and increasing connectivity to strengthen the digital economy and enhance competitiveness. The authorities mentioned that Brazil's industrial policy continues to support innovation, industrial modernization, and the green transition. Under the *Plano Brasileiro de Inteligência Artificial*, the authorities continue the implementation of the AI strategy, including the development of AI infrastructure and AI for business innovation and public services. On trade, the authorities emphasized they are actively pursuing trade agreements with other regions to strengthen economic resilience and diversify external partnerships. Other regional trade agreements are currently under ratification or active negotiation, including those with Singapore, and the European Free Trade Association (EFTA), and Canada, among others. Regarding the AML/CFT regime, the authorities are confident in the effectiveness of the new CASP licensing regime and beneficial ownership registry and acknowledged the importance of continuing to strengthen AML/CFT systems to address ever evolving risks. The imminent increase in FIU resources (which will more than double the current staffing) and improvements to FIU's IT systems are expected to bolster its abilities to produce quality strategic and operational analysis.

STAFF APPRAISAL

50. Growth is projected to rise gradually to 2.5 percent over the medium term. Staff assesses that favorable terms of trade—stemming from Brazil's status as a net oil exporter—will likely outweigh negative effects due to the war in the Middle East, supporting growth in 2026. Growth is forecast to ease slightly in 2027, as still-restrictive monetary conditions and reduced fiscal support moderate activity and terms-of-trade gains partially unwind. Growth is forecast to gradually recover to its estimated potential rate of 2.5 percent, supported by the normalization of monetary policy and structural factors, including implementation of the efficiency-enhancing VAT reform and increased hydrocarbon production. Staff expects headline inflation to reach 5.6 percent by end-2026, before converging to the 3 percent target by mid-2028. Staff assessed the external position in 2025 as moderately weaker than the level implied by medium-term fundamentals and desirable policies.

51. Risks to the growth outlook are tilted to the downside amid heightened global uncertainty. Upside risks to growth could stem from stronger-than-expected domestic demand in the context of a still tight labor market, more supportive fiscal policies, and faster implementation of productivity-enhancing reforms. Downside risks to growth stem, externally, from a tightening of global financial conditions and disruptions to the global supply of fertilizers should the war in the Middle East continue, and, domestically, from a lower-than-envisaged fiscal effort, which could increase policy uncertainty and pressures on public debt and inflation, resulting in higher borrowing costs and weaker investment. Brazil's net oil exporter status, clean electricity mix, adequate FX reserves, low reliance on FX debt, large government cash buffers, well-established inflation targeting framework, and a flexible exchange rate continue to support resilience.

52. Staff recommends saving oil-related fiscal revenue windfalls and implementing a more ambitious fiscal effort to put public debt on a firmly downward path. Ensuring that measures in

response to the war in the Middle East are offset by fiscal savings and remain temporary, while improving their targeting, would support efforts to improve the fiscal position and protect the vulnerable. Staff's debt sustainability assessment finds risks of debt distress for the general government to be moderate under the baseline forecast, and Brazil has some fiscal space to respond to temporary shocks. At the same time, additional fiscal measures are needed to build fiscal buffers and enhance Brazil's resilience to shocks. For 2026, staff recommends that the authorities save oil-related windfalls to improve the fiscal position, implying a rise in the primary fiscal balance by about 0.5 percentage point of GDP. For subsequent years, staff recommends a path for the federal primary fiscal balance that starts with reaching the midpoint of the 0.5 percent of GDP surplus target tolerance interval (without deductions) in 2027 followed by further improvements averaging 0.5 percentage point of GDP per year, reaching 1.5 percent of GDP in 2029 and a surplus of 2.5 percent of GDP by 2031. Such a path, together with growth-enhancing structural reforms would put general government gross debt on a firmly downward trend from 2027, support a decline in inflation expectations and policy interest rates, and increase space to respond to shocks.

53. Securing the total recommended fiscal adjustment of 3 percentage points of GDP calls for enhancing the fiscal framework, tackling spending rigidities, and phasing out costly and inefficient tax expenditures. An enhanced fiscal framework with comprehensive spending limits and a binding medium-term debt anchor would support fiscal credibility and sustainability. Potential enhancements include: limiting exceptions to well-defined economic escape clauses to manage shocks and bringing all other primary spending within the fiscal target; establishing a binding fiscal anchor that places debt on a firmly downward path over the medium term; linking federal spending growth to structural revenues, excluding volatile, non-recurring commodity revenues to further reinforce countercyclicality and sustainability; and hardening subnational budget constraints. Spending reforms to curb indexation and open fiscal room for both federal and subnational governments include: de-linking the growth of minimum pension and social assistance benefits from the minimum wage; further curbing the growth rate of the real minimum wage; and eliminating the constitutional floors on health and education spending. Further enhancing government spending efficiency could raise economic growth while safeguarding social needs. Phasing out expensive, ineffective, and regressive tax expenditures would support the adjustment. Bolstering revenues using regulatory taxes—such as the IOF or import tariffs—risks distorting economic decisions and should be avoided.

54. A slower normalization of monetary policy than expected before the war is appropriate for containing inflationary pressures from the oil price shock. Maintaining flexibility in the pace and timing of future monetary policy steps is warranted amid heightened uncertainty surrounding geopolitical tensions, especially in the Middle East, and the global outlook. The BCB's decision to loosen interest rates in the first half of 2026 was appropriate and consistent with bringing inflation and inflation expectations back to the 3 percent target, in line with Brazil's well-established inflation target framework. The flexible exchange rate regime and adequate FX reserves remain valuable shock buffers and continue to support Brazil's resilience. Recent efforts to reduce the stock of FX swaps are welcome and should continue as market conditions allow. Brazil maintains an MCP, which is also an exchange restriction, arising from the IOF-FX tax (see ¶31 and

footnote 15). The authorities are not requesting approval and staff does not recommend it. Staff highly recommends the removal of the MCP and the exchange restriction.

55. While primary responsibility for price stability rests with the BCB, a stronger fiscal stance would help to reduce inflation and pave the way to lower interest rates. The staff-recommended fiscal policy adjustment would allow for additional reductions in interest rates by end-2028 compared to staff's baseline. Lower policy interest rates could, in turn, further improve debt dynamics and, given Brazil's high share of floating-rate government liabilities, reinforce the decline in risk premiums and increase buffers to respond to shocks.

56. The financial sector remains resilient with systemic risks contained. To further enhance financial sector resilience, reinforcing banking and securities markets supervision—including by addressing BCB staffing shortages and strengthening staff legal protections—and completing the bank resolution framework are priorities. The macroprudential toolkit has been well deployed and, to address rising household debt service burdens, the government is implementing a new debt renegotiation program, *Novo Desenrola Brasil*. Additional steps are needed to mitigate risks of moral hazard and future debt buildup, such as introducing a DSTI cap, enhancing consumer protections, and promoting financial education. Brazil has taken decisive steps in crypto regulation and next steps call for clearer legal foundations and a stronger oversight framework. There is scope for enhancing the efficiency of capital market financing for infrastructure, by conducting cost-benefit analyses on the option to phase out the incentivized debentures gradually, reviewing eligible sectors, and establishing stricter standards for the use of proceeds.

57. Recent structural reforms have lifted Brazil's medium-term growth prospects and continued reform momentum could deliver further gains. Closing remaining gaps in key reform areas—including business regulation, governance, and the external sector—would further support economic growth. Additional gains could come from reforms that encourage female labor force participation and measures to foster AI adoption, including expanding relevant training and skills development. Continued implementation of the Ecological Transformation Plan would further reinforce resilience. Industrial policies to advance green and technological upgrading should be targeted narrowly to specific objectives in sectors with well-identified market failures, time-bound, subject to regular cost benefit assessments; avoid discriminating between domestic and foreign firms; and be consistent with commitments in Brazil's trade agreements. Further steps to reduce costs of doing business would support business investment and productivity. Continued efforts to improve enforcement of the anti-corruption framework and safeguard judicial integrity would further support the business environment. Strengthening Brazil's AML/CFT regime would help combat financial crime and mitigate its economic impact.

58. Further trade integration could strengthen resilience, and recent progress in deepening and diversifying trade linkages through trade agreements is welcome. Brazil's recent ratification of the EU–Mercosur Free Trade Agreement is a significant achievement. Continuing to strengthen trade relationships with existing and new partners through bilateral and plurilateral agreements, while engaging constructively in efforts to promote a more open, stable, and transparent trading system, including at the World Trade Organization, would boost global

value chain participation and enhance resilience amid heightened trade policy uncertainty. Rising commodity export concentration and exposure to volatile global prices underscores the importance of robust and credible macroeconomic policy frameworks.

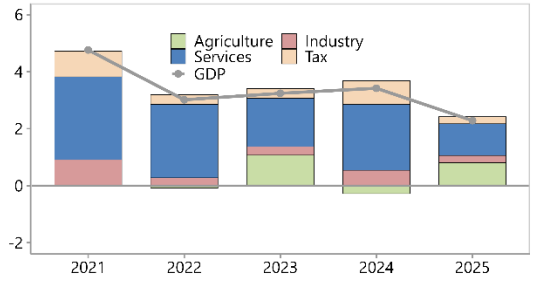
59. Staff recommends that the next Article IV consultation for Brazil be held on the standard 12-month cycle.

Figure 1. Brazil: Real Sector Developments

Growth in 2025 eased, with a strong harvest softening the slowdown.

Contribution to Growth

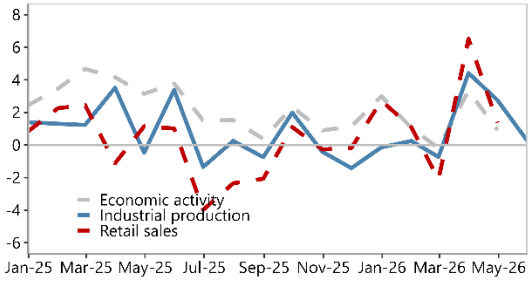
(YoY percent;pp)



High-frequency indicators suggest the slowdown bottomed out in late 2025…

Industrial Production, Retail Sales and Economic Activity

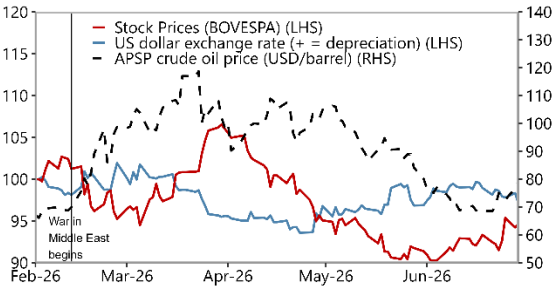
(YoY percentage change)



…although war in the Middle East raised market concerns.

Stock Prices, US dollar FX, and Oil price

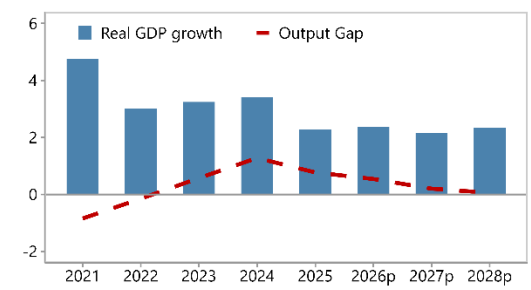
(LHS: index, Feb-2026 = 100)



As a result, the output gap is expected to close later this year.

Real GDP Growth and Output Gap

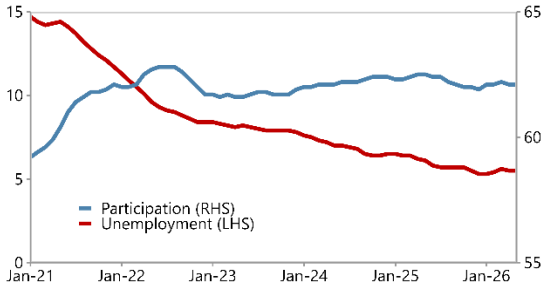
(Percent change and percent of potential output)



Nevertheless, labor market remains tight…

Labor Market: Participation and Unemployment

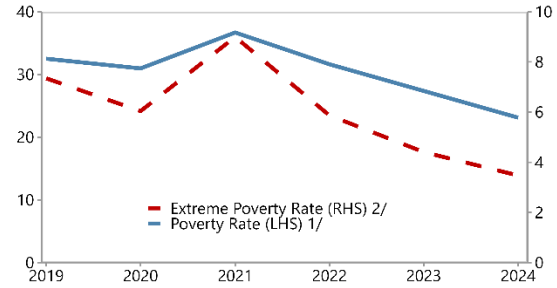
(Percent, monthly)



…helping to reduce poverty.

Poverty Rates

(Percent)

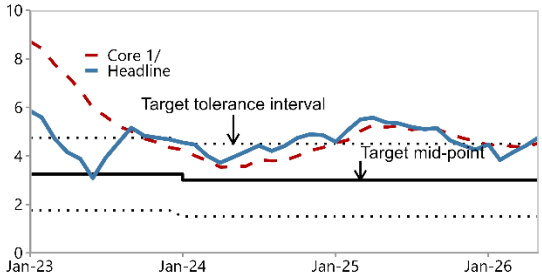


Sources: IBGE; CNI; Haver Analytics; Bloomberg; and Fund staff calculations.
1/ Less than US$ 6.85 per person per day (PPP 2017). 2/ Less than US$ 2.15 per person per day (PPP 2017).

Figure 2. Brazil: Inflation Developments

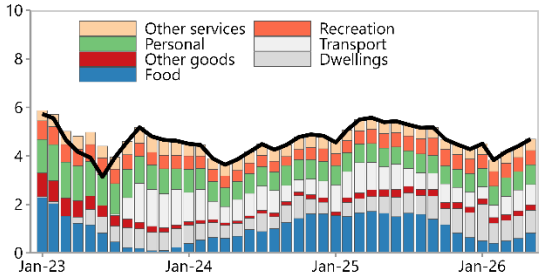
Inflation fell during 2025, to within the target tolerance interval...

Headline and Core Inflation
(Seasonally adjusted, YoY percent change)



...with food prices helping the disinflation.

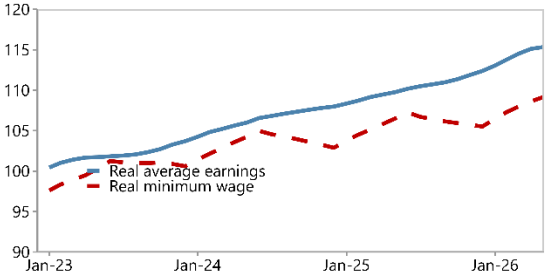
Contribution of Major Inflation Categories
(YoY, percentage points)



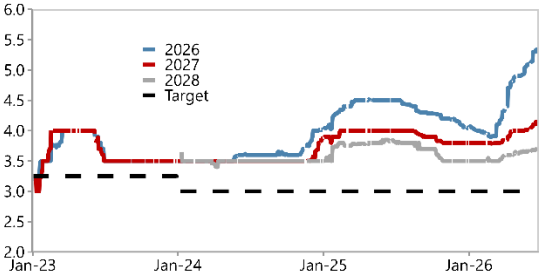
Wages and earnings continued to grow in real terms.

Inflation expectations have fallen but remain above target.

Wage and Earnings Growth
(Index, Jan 2017 = 100, 6-month moving average)



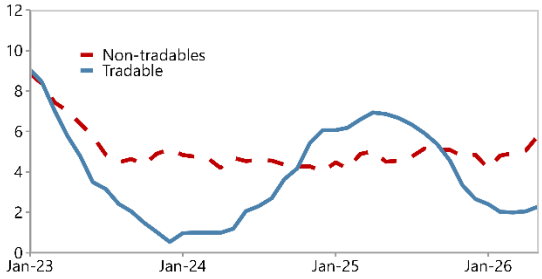
Inflation Expectations
(Focus Survey; percent; year-end)



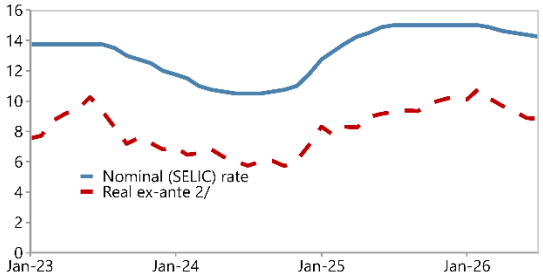
Exchange rate appreciation in 2025 has helped lower inflation.

Monetary policy started to ease again in March.

Tradables and Non-tradables
(NSA, YoY percent change)



Monetary Policy Interest Rate
(Monthly average, percent)

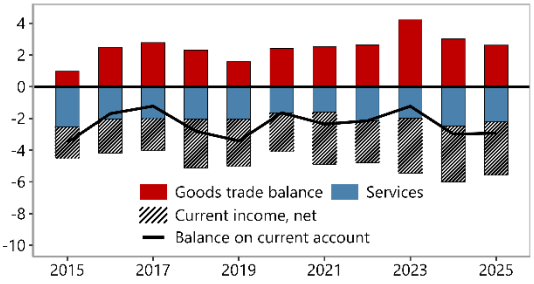


Sources: IBGE; CNI; Haver Analytics; and Fund staff calculations.
1/ Average of five measures of core inflation (IPCA DP, MS, P55, EX3 and EX0). 2/ Real ex-ante rate is calculated as the difference between nominal interest rate and projected one-year ahead inflation.

Figure 3. Brazil: External Sector Developments

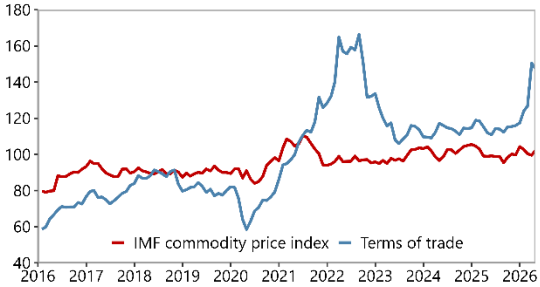
The current account deficit narrowed slightly in 2025, with the decline in the goods trade surplus broadly offset by smaller services trade and income account deficits.

Composition of the Current Account
(Percent of GDP, net)



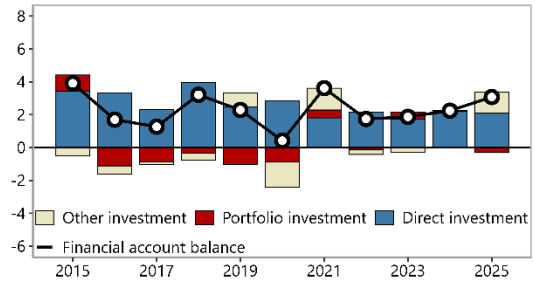
The terms of trade weakened in 2025, but improved in recent months amid higher oil prices.

Terms of Trade and Commodity Prices
(Index, 2010 = 100)



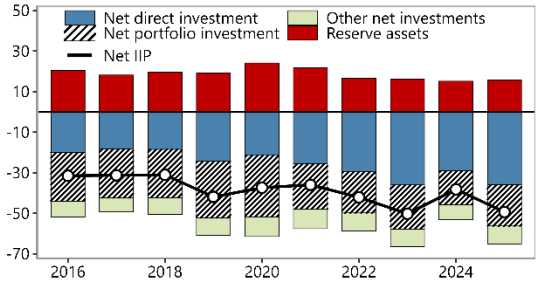
FDI inflows remained strong in 2025, while other investment inflows also increased markedly.

Financial Account Composition
(Percent of GDP, net)



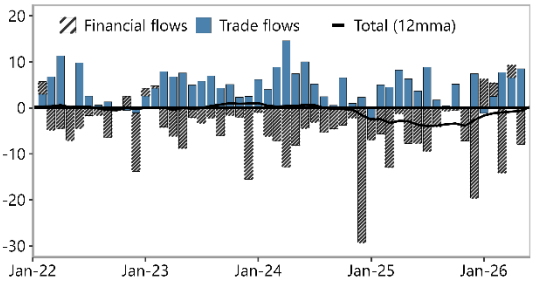
The NIIP deteriorated, driven by rising FDI liabilities.

Net International Investment Position
(Percent of GDP, net)



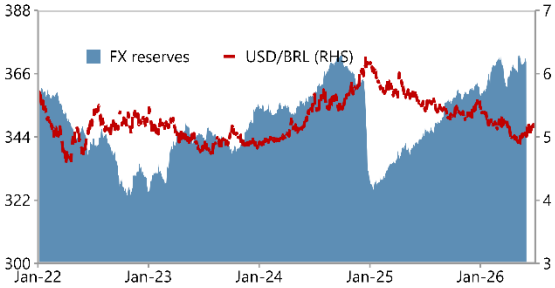
FX market flows have become more balanced following large outflows in early 2025.

Breakdown of Monthly FX Flows
(Billions USD)



The exchange rate appreciated strongly, and FX reserves have recovered to pre-intervention levels.

International Reserves & Spot FX
(Billions USD, left; USD/BRL, right)

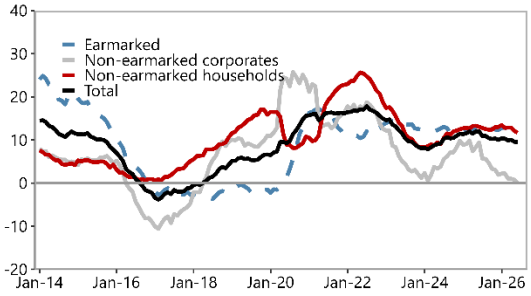


Sources: BCB; Haver Analytics; Bloomberg; and Fund staff calculations.

Figure 4. Brazil: Financial Sector Developments

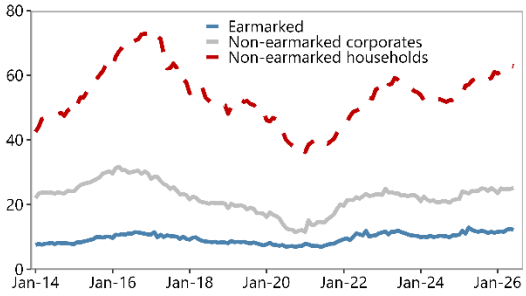
Credit growth slowed in 2025 due to weak credit to firms...

Credit Growth
(Yoy, percent)



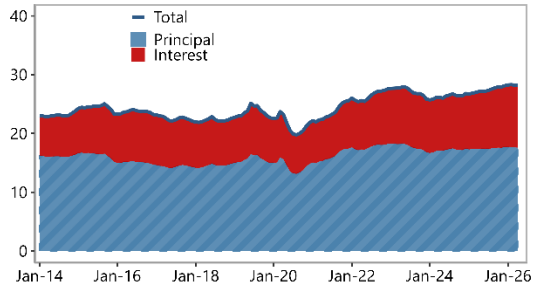
... as lending rates rose in line with policy rates.

Lending Rates
(Yoy, percent)



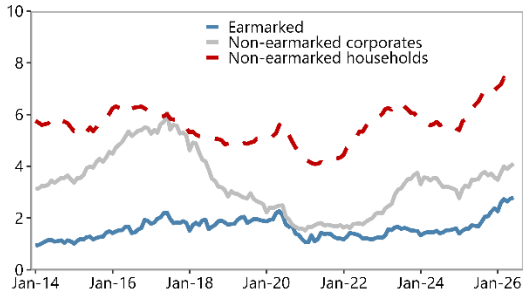
The household debt service-to-income ratio continues to increase...

Household Debt Service to Income Ratio
(Percent)



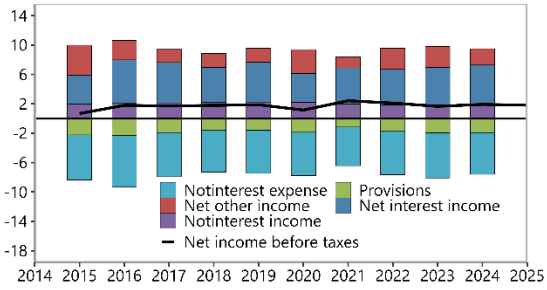
... and is accompanied by higher NPL ratios for household loans.

NPL Ratios
(Percent)



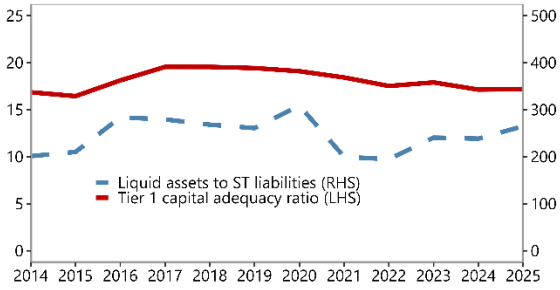
Bank profitability declined in 2025 due to higher provisioning required by the new accounting rules.

Income Statement of Banking Sector
(Percentage of GDP)



The financial system maintains adequate capital and high liquidity.

Capital and Liquidity
(Percent)

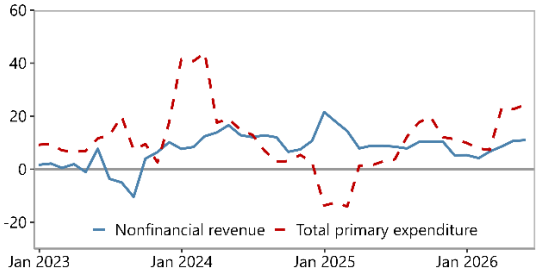


Sources: IBGE; BCB; CNI; Haver Analytics; CEIC; Serasa; and Fund staff calculations.

Figure 5. Brazil: Fiscal Sector Developments

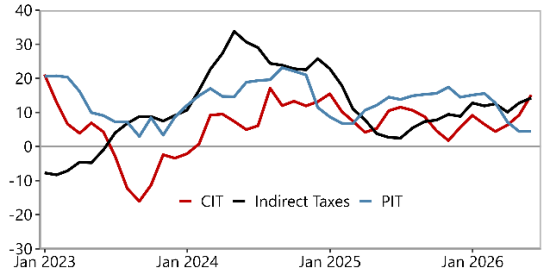
Revenue growth accelerated with economic activity, while expenditure front-loading, energy price measures, and low base led to high expenditure growth.

Central Government Real Primary Revenue and Expenditure
(3 month-moving average, yoy growth)



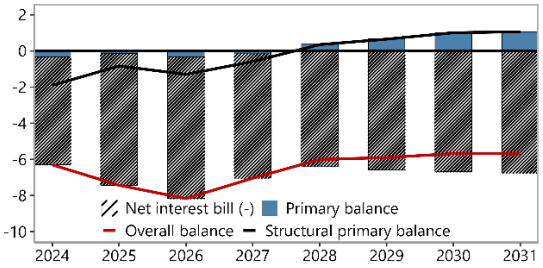
Strong labor market conditions supported high PIT growth in 2025.

Central Government Tax Revenue Components
(3 month-moving average, yoy growth)



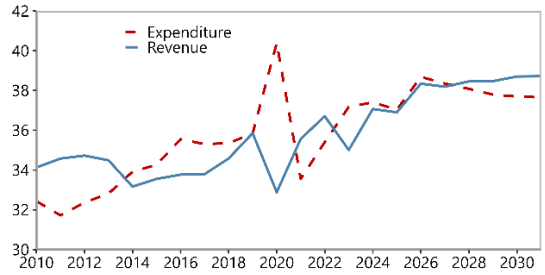
The structural balance improved and is expected to rise further over the medium term.

General Government Primary and Overall Balances
(Percent of GDP)



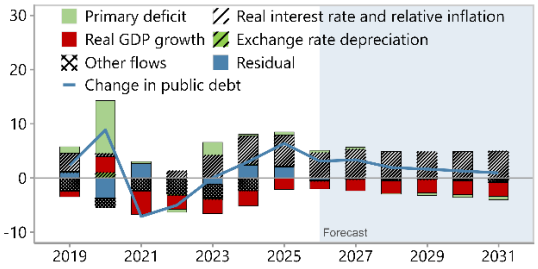
The general government primary expenditure-to-GDP ratio is expected to increase further in 2026 before gradually trending down from 2027 onwards.

General Government Primary Revenue and Expenditure
(Percent of GDP)



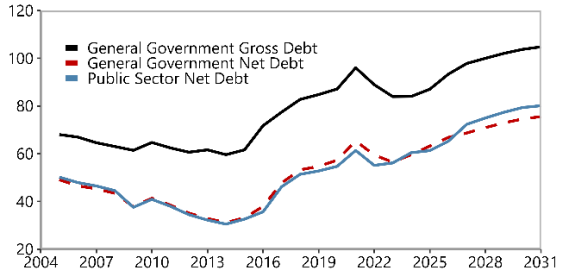
Unfavorable interest-rate growth differentials are expected to add to debt in the coming years.

Debt Drivers
(Percent of GDP)



Gross and net debt ratios are expected to increase over time.

Gross and Net Public Debt
(Percent of GDP)



Sources: Treasury; BCB; Haver Analytics; and Fund staff calculations.

Table 1. Brazil: Selected Economic Indicators, 2023-2031

I. Social and Demographic Indicators

Area (thousands of sq. km.)	8,510	Health	
Agricultural land (percent of land area)	30.2	Physicians per 1000 people (2024)	2.8
		Hospital beds per 1000 people (2026) 1/	2.5
Population (2025, est.)		Access to safe water (2022)	88.0
Total (millions)	213.4		
Annual rate of growth (percent)	0.4	Education (2024)	
Density (per sq. km.)	25.1	Adult illiteracy rate	5.3
Unemployment rate	6.0	Net enrollment rates, percent in:	
		Primary education	99.5
Population characteristics (2022)		Secondary education	93.5
Life expectancy at birth (years)	76.6		
Infant mortality (per thousand live births)	12.3	Poverty rate (in percent, 2024) 2/	23.1
Income distribution		GDP, local currency (2025)	R$12,739 billion
Palma ratio (2024) 3/	3.3	GDP, dollars (2025)	US$2,280 billion
Gini coefficient (post taxes and transfers, 2024)	50.4	GDP per capita (2025)	US$10,683

Main export products: airplanes, metallurgical products, soybeans, automobiles, electronic products, iron ore, coffee, and oil.

II. Economic Indicators

				Proj.					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
National accounts and prices				(Annual percentage change)					
GDP at constant prices	3.2	3.4	2.3	2.4	2.2	2.4	2.5	2.5	2.5
Consumption	3.4	4.5	1.5	1.9	1.8	1.9	2.2	2.3	2.3
Investment (GFCF)	-3.0	6.9	2.9	4.1	0.7	1.9	2.1	2.1	2.1
Consumer prices (IPCA, end of period)	4.6	4.8	4.3	5.6	3.2	3.1	3.1	3.1	3.1
GDP deflator	5.2	4.1	5.7	4.0	5.1	3.6	3.6	3.6	3.6
Gross domestic investment				(Percent of GDP)					
Private sector	12.0	12.8	13.7	13.6	13.5	13.4	13.4	13.3	13.2
Public sector	3.8	4.2	3.4	3.8	3.6	3.6	3.6	3.6	3.6
Gross national saving									
Private sector	21.8	19.6	21.2	22.5	21.3	20.4	20.5	20.3	20.3
Public sector	-7.3	-5.6	-7.1	-7.6	-6.5	-5.5	-5.4	-5.2	-5.2
Public sector finances									
Central government primary balance (national representation, incl. BCB) 4/	-2.4	-0.4	-0.5	-0.4	-0.2	0.4	0.7	1.0	1.1
General government NLB primary balance	-2.2	-0.3	-0.1	-0.3	-0.2	0.4	0.7	1.0	1.1
General government NLB structural primary balance (in percent of potential GDP)	-1.8	-1.9	-0.8	-1.3	-0.6	0.4	0.7	1.0	1.1
General government NLB	-7.7	-6.3	-7.4	-8.2	-7.0	-6.0	-5.9	-5.7	-5.7
Net public sector debt	60.4	61.3	65.2	72.3	75.0	77.4	79.3	80.1	80.4
General government gross debt, Authorities' definition	73.8	76.3	78.6	86.6	88.7	90.8	92.5	93.5	94.1
General government gross debt	84.0	87.0	93.3	97.8	100.0	102.0	103.7	104.8	105.3
Of which: Foreign currency linked	3.5	4.4	3.8	3.8	3.8	3.9	3.9	4.0	4.0
Money and credit				(Annual percentage change)					
Base money 5/	20.4	13.2	5.5	6.5	7.4	6.0	6.2	6.2	6.2
Broad money 6/	15.5	12.4	9.6	8.1	8.0	6.0	6.3	6.2	6.2
Bank loans to the private sector	6.9	11.4	10.1	8.3	7.8	6.0	6.2	6.2	6.2
Balance of payments				(Percent of GDP, unless otherwise specified)					
Trade balance	4.2	3.0	2.6	2.8	3.0	3.1	3.1	3.2	3.2
Exports	15.7	15.5	15.4	14.7	14.1	13.9	13.7	13.5	13.2
Imports	11.5	12.5	12.8	11.9	11.1	10.9	10.6	10.3	10.0
Current account	-1.2	-3.0	-2.9	-2.5	-2.4	-2.1	-1.9	-1.8	-1.7
Capital account and financial account	1.2	3.3	2.8	2.5	2.4	2.1	1.9	1.8	1.7
Foreign direct investment (net inflows)	1.7	2.2	2.1	1.9	1.8	1.8	1.8	1.8	1.7
Terms of trade (percentage change)	2.4	3.1	-1.9	2.9	-0.7	-1.5	-0.1	-0.5	-0.4
Total external debt	33.4	32.8	35.9	31.5	30.2	29.5	28.3	27.1	25.9
Memorandum items:				(Percent, unless otherwise specified)					
Output Gap	0.6	1.3	0.8	0.5	0.2	0.1	0.1	0.0	0.0
SELIC policy rate, end of period	11.8	12.3	15.0	14.0	9.3	8.0	8.0	8.0	8.0
Unemployment rate	8.0	6.9	6.0	6.2	6.8	7.2	7.4	7.4	7.4
Gross official reserves (in US$ billions)	355	330	358	358	358	358	358	358	358
REER (annual average in percent; appreciation +)	4.9	-4.1	-2.5	...	...	...	...	...	

Sources: Central Bank of Brazil, Ministry of Finance, IBGE, IPEA, and Fund staff estimates.

1/ Includes inpatient beds and complementary beds.

2/ Computed by IBGE using World Bank's 2024 threshold for upper-middle income countries (U$6.85/day).

3/ Share of income of the top 10% divided by share of income of the bottom 40%.

4/ Includes federal government, Central Bank, and the social security system (INSS). The 2023 primary balance excludes pandemic-related funds from PIS/PASEP, as per BCB definition.

5/ Currency issued, required deposits held at the Central Bank plus other Central Bank liabilities to other depository corporations.

6/ Currency outside depository corporations, transferable deposits, other deposits and securities other than shares.

Table 2. Brazil: Balance of Payments

				Proj.					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
	(In billions of U.S. dollars, unless otherwise indicated)								
Current Account	**-27.0**	**-65.3**	**-66.7**	**-66.2**	**-67.9**	**-63.4**	**-57.9**	**-59.0**	**-59.7**
Trade balance	92.3	65.8	59.7	75.4	85.5	90.6	97.8	103.9	110.7
Exports (fob)	343.8	339.9	350.5	391.3	403.2	413.5	428.2	443.3	459.3
Imports (fob)	251.5	274.0	290.8	316.0	317.7	322.9	330.4	339.3	348.6
Service balance	-43.7	-54.3	-50.6	-53.6	-52.6	-53.0	-53.6	-55.2	-56.8
Income, net	-75.6	-76.8	-75.8	-87.9	-100.9	-101.0	-102.1	-107.7	-113.5
Capital and Financial Account	**26.9**	**71.1**	**64.1**	**66.2**	**67.9**	**63.4**	**57.9**	**59.0**	**59.7**
Capital account	-0.6	-2.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Financial account 1/	27.6	73.2	64.3	66.4	68.1	63.6	58.1	59.2	59.9
Direct investment, net	37.6	47.8	47.5	50.3	52.3	54.2	56.2	58.3	60.3
Assets	25.1	26.3	30.2	32.0	33.2	34.5	35.7	37.0	38.3
Liabilities	62.8	74.1	77.7	82.3	85.4	88.7	92.0	95.3	98.6
Portfolio investment, net	9.3	1.1	-7.0	10.2	9.8	11.3	12.8	14.2	15.6
Financial Derivatives, net	8.0	-2.2	2.9	2.5	2.7	2.9	1.8	2.7	2.6
Other investment, net	-6.0	0.2	29.6	3.4	3.3	-4.8	-12.7	-15.9	-18.6
Change in Reserve Assets, net	-21.4	26.4	-8.7	0.0	0.0	0.0	0.0	0.0	0.0
	(In percentage of GDP, unless otherwise indicated)								
Current Account	**-1.2**	**-3.0**	**-2.9**	**-2.5**	**-2.4**	**-2.1**	**-1.9**	**-1.8**	**-1.7**
Trade balance	4.2	3.0	2.6	2.8	3.0	3.1	3.1	3.2	3.2
Exports (fob)	15.7	15.5	15.4	14.7	14.1	13.9	13.7	13.5	13.2
Imports (fob)	11.5	12.5	12.8	11.9	11.1	10.9	10.6	10.3	10.0
Service balance	-2.0	-2.5	-2.2	-2.0	-1.8	-1.8	-1.7	-1.7	-1.6
Income, net	-3.45	-3.51	-3.32	-3.30	-3.53	-3.41	-3.27	-3.27	-3.27
Capital and Financial Account	**1.2**	**3.3**	**2.8**	**2.5**	**2.4**	**2.1**	**1.9**	**1.8**	**1.7**
Capital account	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account 1/	1.3	3.4	2.8	2.5	2.4	2.1	1.9	1.8	1.7
Direct investment, net	1.7	2.2	2.1	1.9	1.8	1.8	1.8	1.8	1.7
Assets	1.1	1.2	1.3	1.2	1.2	1.2	1.1	1.1	1.1
Liabilities	2.9	3.4	3.4	3.1	3.0	3.0	2.9	2.9	2.8
Portfolio investment, net	0.4	0.0	-0.3	0.4	0.3	0.4	0.4	0.4	0.4
Financial Derivatives, net	0.4	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other investment, net	-0.3	0.0	1.3	0.1	0.1	-0.2	-0.4	-0.5	-0.5
Change in Reserve Assets, net	-1.0	1.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**0.1**	**-5.7**	**2.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:									
Gross reserves (eop) 1/									
In billions of U.S. dollars	355.0	329.7	358.2	358.2	358.2	358.2	358.2	358.2	358.2
In percent of GDP	16.2	15.1	15.7	13.4	12.6	12.1	11.5	10.9	10.3
Export volume (yoy change, in percent)	9.5	3.3	6.6	2.2	5.4	4.0	3.6	3.3	3.3
Import volume (yoy change, in percent)	0.7	18.0	5.4	2.4	2.2	1.5	2.2	2.1	2.1
Export price index (yoy change, in percent)	-6.5	-3.3	-2.4	8.6	-2.5	-1.6	-0.2	-0.2	-0.1
Import price index (yoy change, in percent)	-8.8	-6.1	-0.5	5.5	-1.9	-0.1	-0.1	0.3	0.3
Terms of trade (yoy change, in percent)	2.4	3.1	-1.9	2.9	-0.7	-1.5	-0.1	-0.5	-0.4
Oil price (Brent blend; US$ per barrel)	80.6	79.2	67.7	82.2	76.0	74.2	73.9	73.7	73.3
Nominal exchange rate (R$/US$, annual average)	5.0	5.4	5.6	5.1	5.1	5.2	5.3	5.3	5.3
REER (annual average in percent; appreciation +)	4.9	-4.1	-2.5	...	...	...	...	...	...
GDP in billions of U.S. dollars	2,191	2,186	2,280	2,665	2,854	2,964	3,125	3,294	3,472

Sources: Central Bank of Brazil; and Fund staff estimates and projections.

1/ Historical numbers include valuation changes.

Table 3. Brazil: Main Fiscal Aggregates, Federal Government National Representation

(In percent of GDP, unless otherwise indicated)

				Proj.					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
Nonfinancial revenue	**21.5**	**22.7**	**22.8**	**24.0**	**23.7**	**24.0**	**24.0**	**24.2**	**24.2**
Revenue administered by SRF	13.2	14.3	14.6	15.1	14.8	14.8	14.8	14.8	14.8
PIT	3.0	3.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4
CIT	4.7	4.9	4.8	4.9	4.9	4.9	4.9	4.9	4.9
Indirect taxes	4.6	5.3	5.3	5.4	5.4	5.4	5.4	5.4	5.4
Trade taxes	0.5	0.7	0.7	1.0	0.7	0.7	0.7	0.7	0.7
Other	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Social security contributions	5.4	5.4	5.6	5.8	5.8	5.8	5.8	5.8	5.8
Other revenue	2.9	3.0	2.6	3.1	2.6	2.6	2.6	2.6	2.5
Of which: royalties and dividends from resource extraction	1.3	1.3	1.3	1.6	1.3	1.3	1.3	1.3	1.2
Unallocated measures	0.0	0.0	0.0	0.0	0.5	0.8	0.8	1.0	1.1
Total primary expenditure	**23.6**	**23.1**	**23.3**	**24.4**	**23.9**	**23.6**	**23.3**	**23.2**	**23.2**
Current expenditures	22.9	22.4	22.6	23.8	23.2	23.0	22.6	22.6	22.5
Personnel	3.3	3.1	3.2	3.4	3.3	3.3	3.2	3.1	3.1
Pension benefits	8.2	8.0	8.1	8.4	8.4	8.3	8.2	8.2	8.2
Transfer to subnational governments	4.1	4.4	4.5	4.7	4.6	4.6	4.6	4.6	4.6
Other	7.2	6.9	6.9	7.3	6.9	6.7	6.6	6.6	6.6
Capital expenditures	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Methodological and statistical discrepancy	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	**-2.4**	**-0.4**	**-0.5**	**-0.4**	**-0.2**	**0.4**	**0.7**	**1.0**	**1.1**
Overall balance	-8.0	-7.6	-7.5	-8.8	-7.2	-5.5	-5.4	-5.2	-5.2
Memorandum items									
Federal net interest expenditure	5.6	7.3	7.0	8.4	7.0	5.9	6.0	6.2	6.3
Public sector net debt 1/	60.4	61.3	65.2	72.3	75.0	77.4	79.3	80.1	80.4
General government gross debt, Authorities' definition	73.8	76.3	78.6	86.6	88.7	90.8	92.5	93.5	94.1
General government gross debt 2/	84.0	87.0	93.3	97.8	100.0	102.0	103.7	104.8	105.3
Nominal GDP (billions of reais)	10,943	11,779	12,739	13,567	14,568	15,448	16,405	17,421	18,500

Sources: Central Bank of Brazil; Ministry of Finance; Ministry of Planning; and Fund staff estimates and projections.

1/ Includes assets, which mainly comprise international reserves, outstanding liabilities of public financial institutions to the Treasury, financial assets of public enterprises, and assets of the federal labor fund (FAT).

2/ Unlike the authorities' definition, gross general government debt comprises treasury bills at the central bank's balance sheet not used under repurchase agreements.

Table 4. Brazil: Depository Corporations and Monetary Aggregates

(End of period, in billions of reais, unless otherwise stated)

	2021	2022	2023	2024	2025
			I. Central Bank		
Net foreign assets	**2,016.9**	**1,690.7**	**1,716.9**	**2,035.6**	**1,963.2**
Net international reserves	1,901.9	1,579.5	1,691.3	1,955.1	1,904.7
Other foreign assets (net)	114.9	111.2	25.6	80.5	58.5
Net domestic assets	**-1,196.6**	**-733.9**	**-564.5**	**-731.0**	**-587.6**
Net claims on public sector	218.2	361.3	810.6	975.6	780.1
Net credit to other depository corporations	-924.8	-876.7	-1,149.6	-1,188.2	-931.5
Other items (net)	490.0	218.5	225.5	518.3	436.2
Base money	**820.3**	**956.8**	**1,152.3**	**1,304.6**	**1,376.6**
Currency issued	339.0	342.3	341.6	355.9	368.6
Liabilities to other depository corporations	475.5	605.9	747.6	854.5	907.4
Reserve deposits	70.2	77.3	81.1	95.4	78.5
Liabilities to other sectors	5.8	8.6	63.1	94.3	100.5
			II. Depository Corporations 1/		
Net foreign assets	**1,439.2**	**1,181.1**	**1,184.7**	**1,468.3**	**1,360.0**
Net international reserves	1,901.9	1,579.5	1,691.3	1,955.1	1,904.7
Other foreign assets (net)	-462.7	-398.4	-506.6	-486.8	-544.7
Net domestic assets	**7,145.0**	**8,309.8**	**9,782.0**	**10,858.3**	**12,148.0**
Net claims on public sector	4,192.6	4,608.5	5,559.9	6,002.5	7,066.5
Credit to other financial corporations	492.9	582.8	623.3	786.1	845.9
Credit to private sector	6,200.8	7,116.9	7,778.0	8,908.8	9,567.0
Of which: loans to private sector	4,414.7	5,057.2	5,408.2	6,027.3	6,635.8
Other items (net)	3,939.3	4,196.7	4,406.8	5,106.7	5,624.1
Capital	1,625.0	1,475.4	1,701.6	2,144.4	2,086.6
Other liabilities excluded from broad money	2,314.3	2,721.3	2,705.2	2,962.4	3,537.5
Broad money (M2) 2/	**8,584.2**	**9,490.9**	**10,966.7**	**12,326.6**	**13,509.0**
Currency in circulation	286.0	293.2	288.8	304.2	321.5
Demand deposits	363.9	349.3	434.7	464.4	442.3
Quasi-money liabilities	7,934.4	8,848.4	10,243.3	11,558.0	12,745.3
			(Percent of GDP)		
Base money	9.1	8.7	9.8	10.2	10.1
Broad money (M2)	95.3	86.7	93.1	96.8	99.6
Financial sector credit to the private sector	68.8	65.0	66.0	69.9	70.5
Of which: bank loans to private sector	49.0	46.2	45.9	47.3	48.9
			III. Other Financial Corporations		
Net foreign assets	**64.6**	**45.9**	**54.7**	**68.7**	**26.6**
Net domestic assets	**2,332.3**	**2,572.6**	**2,814.8**	**3,048.3**	**3,381.6**
Net claims on public sector	365.7	430.4	464.5	499.5	482.5
Credit to private sector	1,788.9	1,865.6	2,140.4	2,254.7	2,182.9
Of which: loans to private sector	197.8	215.5	225.6	238.3	239.8
Claims on depository corporations	883.6	919.3	1,026.9	1,132.0	1,124.4
Other items (net)	-713.7	-654.7	-836.2	-862.4	-421.5
Memorandum item:					
GDP (in billions of reais)	9,012	10,943	11,779	12,739	13,567

Sources: Central Bank of Brazil; and Fund staff estimates.

1/ Includes the Central Bank of Brazil, commercial banks, multiple banks, financial (money market) investment funds, Banco do Brasil, Federal Savings Bank, state savings bank, investment banks, National Bank for Economic and Social Development (BNDES), state development banks, finance and investment companies, housing credit companies, and mortgage companies.

2/ M2 includes the liabilities to other financial corporations, state and municipal governments, nonfinancial public enterprises, other nonfinanical corporations, and other resident sectors.

Table 5. Brazil: Medium-Term Macroeconomic Framework, Balance of Payments, and External Debt

	2023	2024	2025	Proj. 2026	2027	2028	2029	2030	2031
MACROECONOMIC FRAMEWORK				(Percent of GDP, unless otherwise specified)					
GDP growth at constant prices (percent)	3.2	3.4	2.3	2.4	2.2	2.4	2.5	2.5	2.5
Consumer prices (IPCA, end of period, percent)	4.6	4.8	4.3	5.6	3.2	3.1	3.1	3.1	3.1
Gross domestic investment	15.8	17.0	17.1	17.4	17.1	17.0	17.0	16.9	16.8
Private sector	12.0	12.8	13.7	13.6	13.5	13.4	13.4	13.3	13.2
Public sector	3.8	4.2	3.4	3.8	3.6	3.6	3.6	3.6	3.6
Gross domestic saving	14.5	14.0	14.1	14.9	14.7	14.9	15.1	15.1	15.1
Private sector	21.8	19.6	21.2	22.5	21.3	20.4	20.5	20.3	20.3
Public sector	-7.3	-5.6	-7.1	-7.6	-6.5	-5.5	-5.4	-5.2	-5.2
External current account balance	-1.2	-3.0	-2.9	-2.5	-2.4	-2.1	-1.9	-1.8	-1.7
Central government primary balance	-2.4	-0.4	-0.5	-0.4	-0.2	0.4	0.7	1.0	1.1
General government NLB primary balance	-2.2	-0.3	-0.1	-0.3	-0.2	0.4	0.7	1.0	1.1
General government NLB	-7.7	-6.3	-7.4	-8.2	-7.0	-6.0	-5.9	-5.7	-5.7
Public sector net debt 1/	60.4	61.3	65.2	72.3	75.0	77.4	79.3	80.1	80.4
General government gross debt, Authorities' definition	73.8	76.3	78.6	86.6	88.7	90.8	92.5	93.5	94.1
General government gross debt 2/	84.0	87.0	93.3	97.8	100.0	102.0	103.7	104.8	105.3
EXTERNAL DEBT 3/ 4/				(Billions of U.S. dollars)					
Total external debt	**731.5**	**717.9**	**819.5**	**839.6**	**860.6**	**875.5**	**884.6**	**891.9**	**897.9**
Medium- and long-term	651.0	633.7	706.9	724.3	742.4	755.3	763.1	769.4	774.6
Short-term	80.5	84.3	112.5	115.3	118.2	120.2	121.5	122.5	123.3
Nonfinancial public sector	221.3	212.8	263.5	269.9	276.7	281.5	284.4	286.7	288.7
Public sector banks	41.0	42.1	44.5	45.6	46.7	47.5	48.0	48.4	48.8
Private sector	469.2	463.0	511.5	533.6	556.5	578.3	599.0	619.9	641.1
Medium- and long-term external debt service	**112.3**	**112.3**	**110.5**	**115.7**	**145.2**	**148.7**	**153.3**	**156.8**	**158.7**
Amortization	84.7	87.8	83.2	80.2	104.7	107.2	110.8	113.6	115.0
Interest	27.6	30.1	27.3	35.5	40.5	41.5	42.5	43.3	43.7
				(Percent of GDP)					
Total external debt	**33.4**	**32.8**	**35.9**	**31.5**	**30.2**	**29.5**	**28.3**	**27.1**	**25.9**
Medium- and long-term	29.7	29.0	31.0	27.2	26.0	25.5	24.4	23.4	22.3
Short-term	3.7	3.9	4.9	4.3	4.1	4.1	3.9	3.7	3.6
Nonfinancial public sector	10.1	9.7	11.6	10.1	9.7	9.5	9.1	8.7	8.3
Public sector banks	1.9	1.9	2.0	1.7	1.6	1.6	1.5	1.5	1.4
Private sector	21.4	21.2	22.4	20.0	19.5	19.5	19.2	18.8	18.5
				(Percent of gross international reserves)					
Medium- and long-term external debt service	**31.6**	**34.1**	**30.8**	**32.3**	**40.5**	**41.5**	**42.8**	**43.8**	**44.3**
Amortization	23.9	26.6	23.2	22.4	29.2	29.9	30.9	31.7	32.1
Interest	7.8	9.1	7.6	9.9	11.3	11.6	11.9	12.1	12.2
Short-term debt	22.7	25.6	31.4	32.2	33.0	33.6	33.9	34.2	34.4
MEMORANDUM ITEMS:									
Gross reserves (eop) 4/									
In billions of U.S. dollars	355.0	329.7	358.2	358.2	358.2	358.2	358.2	358.2	358.2
In percent of external short-term debt (maturity basis)	441.1	391.2	318.4	310.7	303.2	298.0	294.9	292.5	290.6
In months of prospective GNFS imports	11.3	10.0	10.9	10.1	10.0	9.9	9.7	9.5	9.2
In percent of external short-term debt (residual maturity)	210.9	196.9	185.9	162.8	158.9	155.1	152.4	150.9	149.6
Short-term debt in percent of total external debt	11.0	11.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7
Intercompany debt (in billions of U.S. dollars)	265.0	256.4	274.3	290.6	307.4	324.9	343.0	361.8	381.2
In percent of GDP	12.1	11.7	12.0	10.9	10.8	11.0	11.0	11.0	11.0
GDP (billion US$)	2,191	2,186	2,280	2,665	2,854	2,964	3,125	3,294	3,472

Sources: Central Bank of Brazil; and Fund staff estimates and projections.

1/ Includes assets, which mainly comprise international reserves, outstanding liabilities of public financial institutions to the Treasury, financial assets of public enterprises, and assets of the federal labor fund (FAT).

2/ Unlike the authorities' definition, gross general government debt comprises treasury bills at the central bank's balance sheet not used under repurchase agreements.

3/ Includes intercompany debt.

4/ Historical numbers include valuation changes.

Table 6. Brazil: External Vulnerability

(In billions of U.S. dollars, unless otherwise indicated)

	2023	2024	2025	Proj. 2026	2027	2028	2029	2030	2031
Trade									
Exports of goods and services (annual percentage change)	2.3	-0.1	4.1	10.9	2.8	2.3	3.3	3.1	3.2
Imports of goods and services (annual percentage change)	-8.1	10.8	4.9	8.0	0.3	1.4	2.1	2.4	2.5
Terms of trade (annual percentage change)	2.4	3.1	-1.9	2.9	-0.7	-1.5	-0.1	-0.5	-0.4
Current account									
Current account	-27.0	-65.3	-66.7	-66.2	-67.9	-63.4	-57.9	-59.0	-59.7
In percent of GDP	-1.2	-3.0	-2.9	-2.5	-2.4	-2.1	-1.9	-1.8	-1.7
Capital and financial account	26.9	71.1	64.1	66.2	67.9	63.4	57.9	59.0	59.7
Capital Account	-0.6	-2.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Financial Account	27.6	73.2	64.3	66.4	68.1	63.6	58.1	59.2	59.9
Portfolio investment (net)	9.3	1.1	-7.0	10.2	9.8	11.3	12.8	14.2	15.6
Foreign direct investment (net)	37.6	47.8	47.5	50.3	52.3	54.2	56.2	58.3	60.3
Of which: intercompany loans (net)	9.6	9.5	14.7	15.6	16.2	16.8	17.4	18.0	18.7
Short-term external liabilities of commercial banks	57.6	58.8	88.3	90.5	40.6	39.7	39.1	38.7	38.4
External debt									
Total external debt 1/	731.5	717.9	819.5	839.6	860.6	875.5	884.6	891.9	897.9
In percent of gross reserves	206.0	217.7	228.8	234.4	240.2	244.4	246.9	249.0	250.6
Amortization of external MLT debt (in percent of exports)	24.6	25.8	23.7	20.5	26.0	25.9	25.9	25.6	25.0
External interest payments (in percent of exports)	8.0	8.9	7.8	9.1	10.0	10.0	9.9	9.8	9.5
Reserves									
Gross reserves	355.0	329.7	358.2	358.2	358.2	358.2	358.2	358.2	358.2
In months of prospective imports	11.3	10.0	10.9	10.1	10.0	9.9	9.7	9.5	9.2
In percent of broad money (M2)	15.7	16.6	14.6	12.3	11.8	11.2	10.6	10.1	9.6
In percent of short-term external debt (maturity basis)	210.9	196.9	185.9	162.8	158.9	155.1	152.4	150.9	...
Exchange rate									
REER (annual average in percent; appreciation +)	4.9	-4.1	-2.5	...	...	...	...	...	...

Sources: Central Bank of Brazil; Bloomberg; and Fund staff estimates.
1/ Includes intercompany loans.

Table 7. Brazil: General government, GFSM 2014

(In percent of GDP, unless otherwise indicated)

				Proj.					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue	**37.6**	**39.4**	**39.5**	**40.7**	**40.3**	**40.5**	**40.4**	**40.7**	**40.7**
Taxes	23.7	25.6	25.7	26.4	26.3	26.3	26.3	26.3	26.3
Income, profits and capital gains	8.6	9.0	9.2	9.3	9.3	9.3	9.3	9.3	9.3
Payroll and workforce	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Property taxes	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Goods and services	12.5	13.9	13.8	14.1	14.2	14.2	14.3	14.3	14.3
International trade and transactions	0.5	0.7	0.7	1.0	0.7	0.7	0.7	0.7	0.7
Social contributions	7.4	7.5	7.6	7.9	7.9	7.9	7.9	7.9	7.9
Social security contributions (RGPS)	5.2	5.3	5.4	5.7	5.7	5.7	5.7	5.7	5.7
Other social contributions (RPPS)	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Other revenue	6.5	6.3	6.3	6.4	5.6	5.5	5.4	5.4	5.3
Interest	2.6	2.3	2.6	2.4	2.1	2.0	2.0	2.0	1.9
Other	3.9	4.0	3.7	4.0	3.5	3.5	3.5	3.5	3.4
Total expenditure	**45.3**	**45.7**	**46.9**	**48.9**	**47.4**	**46.5**	**46.3**	**46.3**	**46.4**
Expenses	44.9	45.0	46.6	48.3	46.9	46.0	45.8	45.8	45.9
Compensation of employees	10.8	10.9	11.0	11.3	11.3	11.3	11.2	11.2	11.2
Use of goods and services	5.6	5.9	5.7	5.9	5.9	5.9	5.9	5.9	5.9
Consumption of fixed capital	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Interest	8.1	8.3	9.9	10.2	9.0	8.4	8.5	8.6	8.7
Subsidies and grants	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Social benefits	16.0	15.8	15.7	16.4	16.4	16.2	16.0	15.9	15.9
Social security	8.9	8.7	8.8	9.1	9.1	9.0	8.9	8.9	8.9
Social assistance	2.5	2.6	2.5	2.6	2.6	2.6	2.5	2.5	2.5
Other social benefits (RPPS)	4.6	4.5	4.5	4.6	4.6	4.6	4.5	4.5	4.5
Other	2.5	2.4	2.5	2.8	2.6	2.5	2.5	2.5	2.5
Net investment in non-financial assets	0.4	0.7	0.4	0.6	0.5	0.5	0.5	0.5	0.5
Net lending and borrowing	**-7.7**	**-6.3**	**-7.4**	**-8.2**	**-7.0**	**-6.0**	**-5.9**	**-5.7**	**-5.7**
Methodological and statistical discrepancy	1.1	2.1	0.8						
Overall balance (national representation, includes BCB)	-8.8	-8.4	-8.3						
Net lending and borrowing primary	**-2.2**	**-0.3**	**-0.1**	**-0.3**	**-0.2**	**0.4**	**0.7**	**1.0**	**1.1**
Methodological & statistical discrepancy	0.1	0.0	0.3						
Primary balance (national representation, includes BCB)	-2.3	-0.3	-0.4						

Sources: Treasury; and Fund staff estimates and projections.

Table 8. Brazil: States, GFSM 2014

(In percent of GDP, unless otherwise indicated)

				Proj.					
	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue	**12.4**	**13.0**	**12.9**	**12.9**	**12.8**	**12.8**	**12.7**	**12.7**	**12.7**
Taxes	7.6	8.0	7.9	8.0	8.0	8.0	8.0	8.0	8.0
Property taxes	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Goods and services	6.7	7.1	7.0	7.1	7.1	7.1	7.1	7.1	7.1
of which: ICMS	6.4	6.8	6.7						
Social contributions	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Grants and transfers	2.8	3.0	2.9	3.1	3.0	3.0	3.0	3.0	3.0
Other revenue	1.0	1.0	1.1	0.8	0.8	0.8	0.8	0.8	0.8
Total expenditure	**13.4**	**13.4**	**13.7**	**13.8**	**13.7**	**13.6**	**13.6**	**13.6**	**13.5**
Expenses	13.2	13.2	13.4	13.6	13.5	13.4	13.3	13.3	13.3
Compensation of employees	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Wages	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Social contributions	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Use of goods and services	1.7	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Consumption of fixed capital	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Interest	1.1	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.8
Grants	2.3	2.5	2.4	2.6	2.5	2.5	2.5	2.5	2.5
Social benefits	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.3
Social assistance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other social benefits (RPPS)	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other	0.7	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Non-financial assets transactions	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net lending and borrowing	**-0.9**	**-0.5**	**-0.8**	**-1.0**	**-0.9**	**-0.9**	**-0.8**	**-0.8**	**-0.8**
Methodological and statistical discrepancy (net interest)	-0.3	0.0	0.0						
Overall balance (national representation)	-0.6	-0.5	-0.7						
Net lending and borrowing primary	**-0.1**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Methodological and statistical discrepancy	-0.3	0.0	0.0						
Primary balance (national representation)	0.3	0.2	0.0						

Sources: Treasury; and Fund staff estimates and projections.

Table 9. Brazil: Municipalities, GFSM 2014

(In percent of GDP, unless otherwise indicated)

	2023	2024	2025	Proj. 2026	2027	2028	2029	2030	2031
Revenue	**10.4**	**10.9**	**11.1**	**11.2**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**
Taxes	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Property taxes	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Goods and services	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Social contributions	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Grants and transfers	6.9	7.4	7.5	7.9	7.7	7.7	7.7	7.7	7.7
Other revenue	0.9	0.9	0.8	0.5	0.5	0.5	0.5	0.5	0.5
Total expenditure	**10.3**	**11.1**	**10.5**	**11.1**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**
Expenses	9.8	10.4	10.3	10.7	10.6	10.6	10.6	10.6	10.6
Compensation of employees	4.4	4.5	4.6	4.7	4.7	4.7	4.7	4.7	4.7
Wages	3.7	3.9	3.9	4.0	4.0	4.0	4.0	4.0	4.0
Social contributions	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Use of goods and services	3.1	3.4	3.1	3.3	3.3	3.3	3.3	3.3	3.3
Consumption of fixed capital	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social benefits (RPPS)	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Other	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9	0.9
Non-financial assets transactions	0.4	0.6	0.3	0.5	0.4	0.4	0.4	0.4	0.4
Net lending and borrowing	**0.1**	**-0.1**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Methodological and statistical discrepancy (net interest)	0.2	0.1	0.6						
Overall balance (national representation)	-0.1	-0.3	0.0						
Net lending and borrowing primary	**-0.2**	**-0.4**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Methodological and statistical discrepancy	-0.2	-0.2	0.2						
Primary balance (national representation)	-0.1	-0.2	0.0						

Sources: Treasury; and Fund staff estimates and projections.

Table 10. Brazil: Financial Soundness Indicators, 2019-2025

(In percent)

	2019	2020	2021	2022	2023	2024	2025
Capital Adequacy							
Regulatory capital to risk-weighted assets	19.4	19.1	18.4	17.5	17.9	17.1	17.2
Regulatory Tier 1 capital to risk-weighted assets	16.0	16.4	16.0	15.3	15.8	15.4	15.5
Tier 1 capital to assets	9.6	8.7	8.8	8.8	8.9	8.2	8.3
Gross asset position in financial derivatives to capital	11.8	18.7	15.5	17.8	12.1	20.4	6.0
Gross liability position in financial derivatives to capital	14.1	20.5	15.8	16.8	12.0	18.9	5.4
Non-performing loans net of provisions to capital	-12.4	-16.6	-13.3	-13.7	-11.7	-10.6	-13.4
Asset Quality							
Non-performing loans to total gross loans	2.7	1.9	2.1	2.6	2.8	2.7	3.9
Earnings and Profitability							
Return on assets	2.0	1.9	2.4	2.1	1.6	1.8	1.6
Return on equity	15.8	11.7	14.9	15.3	13.7	15.3	14.9
Non-interest expenses to gross income	55.5	51.6	52.0	50.1	53.0	51.6	49.4
Interest margin to gross income	62.1	63.4	65.4	65.4	67.3	75.9	69.4
Liquidity							
Liquidity coverage ratio	221.5	229.0	173.9	169.8	184.6	188.9	199.4
Liquid assets to short-term liabilities	260.8	308.5	199.7	194.5	240.5	238.4	264.9
Liquid assets to total assets	13.6	16.3	12.7	11.7	13.8	13.4	15.0
Net open position in foreign exchange to capital	0.2	0.6	2.3	3.3	2.0	3.7	4.2
Real Estate Markets							
Residential Real Estate Prices	5.0	8.9	6.2	1.8	4.8	6.1	4.4
Commercial Real Estate Prices	-2.6	-1.2	0.0	-0.4	-0.6	0.4	2.6

Sources: Central Bank of Brazil; and Fund staff calculations.

Annex I. External Sector Assessment[1]

Overall Assessment: *The external position in 2025 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. The CA deficit narrowed slightly to 2.9 percent of GDP and is projected to decline further to 1.7 percent of GDP over the medium term, supported by rising oil exports and public saving. Risks to Brazil's external position over the medium term relate to geopolitical tensions and trade disruptions, volatility in global commodity markets, and insufficient progress on fiscal adjustment and structural reforms to boost competitiveness.* **Potential Policy Responses:** Policies to bring the external position in line with medium-term fundamentals and desirable policy settings include raising national saving, which would also increase scope for priority investments. A sustained and more ambitious fiscal consolidation would help increase net public saving. Industrial policies should be targeted to where externalities or market failures prevent effective market solutions, while minimizing trade and investment distortions. Given the complexity of the trade environment, the authorities should continue to promote transparent and predictable trade policy frameworks and their recent progress in deepening integration through trade agreements is welcome.					
Foreign Asset and Liability Position and Trajectory	**Background.** Brazil's NIIP fell to –49.4 percent of GDP in 2025, from –38.2 percent of GDP in 2024 and an average of –41.5 percent of the GDP during 2020–23. The NIIP decrease in 2025 reflected a 1.9 percentage points of GDP rise in gross foreign assets from 2024 alongside a much larger, 13 percentage points of GDP increase in gross foreign liabilities, driven by continued strong FDI inflows, a pickup in portfolio inflows, and valuation effects from currency appreciation. FDI accounts for about 70 percent of total liabilities. At the end of 2025, external debt rose to 35.9 percent of GDP and202.4 percent of exports, from about 32.8 percent of GDP and184.6 percent of exports in 2024. **Assessment.** The NIIP has remained negative since the series was first published in 2001. Over the medium term, gross external financing needs are expected to remain moderate, at about 10 percent of GDP annually. The NIIP is projected to stabilize around –44 percent of GDP, as continued CA deficits are broadly offset by robust nominal GDP growth.				
Acy 2025 (% GDP)	NIIP: -49.4	Gross Assets: 47.1	Reserve Assets: 15.7	Gross Liab.: 96.5	Debt Liab.: 35.9
Current Account	**Background.** During 2020-2023, the CA deficit averaged 1.8 percent of GDP. It widened to 3 percent in 2024 and lowered to 2.9 percent in 2025. A narrowing goods trade balance (from 3.0 to 2.6 percent of GDP) was offset by a smaller service deficit (–2.2 percent of GDP from –2.5 percent of GDP in 2024) and a reduced primary income deficit (–3.6 percent of GDP from –3.7 percent of GDP in 2024). From a saving-investment perspective, national saving has declined slightly, with an increase in private saving more than offset by a deterioration in public saving. Investment also edged down, driven by the private sector, leaving the overall deficit slightly smaller. The CA deficit is expected to narrow to 1.7 percent of GDP over the medium term, supported by rising oil exports and public saving. **Assessment.** In 2025, the cyclically adjusted CA balance was –2.9 percent of GDP and EBA estimates suggest a cyclically-adjusted CA norm of –1.4 percent of GDP. IMF staff estimates the CA gap to be in the range of -1.9 to -1.0 percent of GDP, with a midpoint of –1.5 percent. EBA-identified policy gaps explain most of the CA gap and are estimated at –1.2 percent of GDP, mainly reflecting a larger overall fiscal deficit in Brazil compared to trading partners, as well as a small positive credit gap in Brazil compared with a generally negative credit gap among trading partners.				
2025 (% GDP)	CA: -2.9	Cycl. Adj. CA: -2.9	EBA Norm: -1.4	EBA Gap: -1.5	Staff Adj.: 0	Staff Gap: -1.5
Real Exchange Rate	**Background.** The REER appreciated by 10 percent in 2025 at a 12-month rate as of end-2025, following a sharp 17 percent depreciation in 2024. The average REER in 2025 depreciated by 2.5 percent compared to 2024. The nominal exchange rate against the US dollar strengthened by 11 percent on a 12-month basis by December 2025. In early 2026, despite the war in Middle East, the exchange rate has appreciated further, both against the US dollar and in REER terms. As of March 2026, the REER was 5.5 percent above the 2025 average. **Assessment.** The IMF staff's CA gap estimate implies a REER gap of 11.2 percent in 2025 (applying an estimated elasticity of 0.13). The REER index model suggests a REER gap of –30.4 percent and the REER level model suggests a gap of –21.3 percent. Consistent with the CA gap, the staff assesses the REER gap to be in the range of 7.8 to 14.7 percent, with a midpoint of 11.2 percent.				
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Brazil continues to attract sizable capital flows. Net FDI flows have consistently financed the CA deficit, averaging 2.8 percent of GDP during 2015–24 and remaining a sizable 2.1 percent of GDP in 2025. Portfolio investment rebounded strongly in the second half of 2025, although net annual flows registered a modest outflow of 0.4 percent of GDP. **Assessment.** The composition of capital flows is expected to maintain a favorable risk profile over the medium term, with sustained net FDI inflows outweighing relatively small and volatile net portfolio flows, and with foreign liabilities increasingly dominated by FDI liabilities. However, tighter global financial conditions and the risk of limited progress on domestic reforms pose downside risks to these capital flows. The IOF-FX tax applicable to capital transactions, assessed to be a capital flow management measure under the Institutional View, should be phased out.				
FX Intervention and Reserves vel	**Background.** Brazil has a floating exchange rate. During 2020-22 and 2024, the authorities intervened in the FX markets (including spot, repo, and FX swap markets) to ensure smooth market functioning and reduce excessive volatility. In 2025, the authorities largely refrained from spot FX intervention, while unwinding the FX swap stock accumulated from previous interventions. International reserves increased by US$ 28.5 billion to US$ 358 billion at the end of 2025, largely reflecting valuation effects. **Assessment.** The flexible exchange rate has continued to serve as an important shock absorber. Reserves remain adequate, including according to the IMF's reserve adequacy metric, which stood at 121 percent at the end of 2025, providing insurance against external shocks. In general, FX intervention could be used to address episodes of higher risk premia when FX liquidity becomes shallow, without substituting for warranted adjustment of macroeconomic policies.				

[1] Prepared by Longmei Zhang (SPR). The assessment is preliminary and the final version will be included in the external sector report.

Annex II. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
Domestic Risks			
Downside Risks			
Slower-than-envisaged fiscal consolidation. Fiscal measures envisaged in the baseline forecast do not materialize or yield less than the expected fiscal consolidation.	**High**	**Medium.** While supporting growth in the near term, slower-than-envisaged fiscal consolidation raises pressures on public debt, risk premiums, and borrowing costs, which subsequently weaken investment and growth. Currency depreciation occurs amid lower investor sentiment. Medium-term inflation expectations remain unanchored.	Efforts to strengthen the fiscal position, supported by an enhanced fiscal framework, a further broadening of the tax base, and reforms that tackle spending rigidities should accelerate, while protecting the most vulnerable through targeted support. Monetary policy should remain guided by incoming data and the evolution of inflation expectations.
Natural disasters. Extreme weather events in parts of Brazil lead to casualties, infrastructure damage, food insecurity, supply disruptions, and dampened growth.	**Medium**	**Medium.** The electricity sector, with its significant contribution from hydropower, experiences swings in production and cost increases. Mudslides and flooding destroy buildings and livelihoods in parts of the country.	The government can provide targeted support to mitigate the impact of natural disasters on the most vulnerable and establish funds for reconstruction. Policies should aim to diversify energy sources by further broadening solar and wind energy; adjust grids and storage capacity for electricity; invest in safer infrastructure; and protect biomes to conserve precipitation patterns. Strengthened early warning systems could help to mitigate risks from mud slides and flooding.
Upside Risks			
Faster-than-expected implementation of structural reform agenda, including the Ecological Transformation Plan.	**High**	**High.** Higher-than-expected medium-term growth with increased labor force participation, productivity, and investment.	Additional steps aimed at enhancing human capital, including adult education and vocational training programs, would complement such reforms and sustain labor market gains in an inclusive manner. Facilitating workers' participation in social security programs and promoting private savings would provide buffers for vulnerable workers.

[1] Preapred by Marco Arena (WHD).

Risks	Likelihood	Impact	Policy Response
Global Risks			
Downside Risks			
Trade-related risks: protectionism and trade disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.	**High**	**Medium.** Elevated input costs could intensify inflationary pressures, while a potential decline in global productivity and investment confidence may dampen economic activity. At the same time, Brazil's largely domestically-drive economy weathered the 2025 trade shocks with limited macroeconomic effects and could again experience positive trade diversion effects even if these could be offset by global policy uncertainty.	Exchange rate flexibility should remain instrumental to absorb shocks. Monetary policy should remain data-dependent and adjust the pace of the easing cycle to the incoming data. Targeted fiscal support could be provided to vulnerable households and firms, with a pre-defined plan for returning to the pre-shock fiscal path. An enhanced fiscal framework with a binding medium-term anchor would support policy credibility during that process. Continued engagement with trading partners to diversify and deepen trade relationships and reforms to enhance competitiveness are warranted to enhance resilience to external shocks.
Commodity price volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	**High**	**Medium.** Low or volatile oil prices could retard investment and growth. However, high oil prices could raise income through the favorable terms-of-trade effect for Brazil, given its net oil exporter status. Increased inflation expectations could require higher policy interest rates and sap consumer demand.	Higher oil prices should be allowed to pass through to consumers, accompanied by targeted and temporary support for vulnerable population. Monetary policy should remain data-dependent and calibrate future policy changes to the incoming data and the evolution of inflation expectations.
Geopolitical tensions and intensification of conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	**High**	**Medium.** Supply chain disruptions could increase input costs and increase inflationary pressures. Financial frictions and market volatility could create capital outflow pressures, giving rise to a repricing of risk assets, dent growth through lower investment confidence, and increase depreciation and further increase inflationary pressures.	Exchange rate flexibility should remain instrumental to absorb shocks. Monetary policy should remain data-dependent and adjust accordingly to incoming data. Targeted fiscal support could be provided to vulnerable households within the budget envelope.

Risks	Likelihood	Impact	Policy Response
Fiscal vulnerabilities and higher interest rates. Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Capital outflows from emerging and developing economies elicit a sharp increase in short-term rates.	High	Medium. Sharp increase in long-term rates could put pressure on the entire yield curve and worsen Brazil's debt dynamics, which are sensitive to interest rate movements.	Efforts to strengthen the fiscal position, supported by an enhanced fiscal framework, and reforms that tackle spending rigidities should accelerate to put public debt on a firmly downward trajectory.
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	High	Medium. Cyberattacks could disrupt economic activity and damage parts of the financial sector given the high degree of digitalization in Brazil. The resulting loss of confidence could hinder progress on digitalization.	Continue to extensively monitor risks and regularly perform cybersecurity tests. Build resilience by further strengthening cybersecurity frameworks and ensuring robust cybersecurity laws.
Disorderly AI Correction. An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.	High	Medium. A disorderly AI correction could translate into decline in foreign demand (global demand shock) for Brazil and a tightening of external financial conditions.	Exchange rate flexibility should remain instrumental to absorb shocks. Monetary policy should remain data-dependent and adjust accordingly to incoming data. Efforts to strengthen the fiscal position, supported by an enhanced fiscal framework should accelerate. Targeted fiscal support could be provided to vulnerable households within the budget envelope.

Annex III. Debt Sustainability Analysis

Figure 1. Brazil: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Moderate**	The overall risk of sovereign stress is moderate, where a high fan chart signal is weighted against a relatively low level of vulnerability in the near-term and moderate levels of vulnerability in the medium-term (due to strong cash buffers, limited FX/foreign law debt, and a large domestic creditor base), and long-term horizons.
Near term 1/	...	...	...
Medium term	**High**	**Moderate**	Despite the high levels of debt, medium-term risks are assessed as moderate under staff's baseline. Mitigating factors like a large domestic investor base, large liquid assets held by the Treasury allow for the smoothing of the impact of any temporary shock and could contribute to reduce uncertainty around the baseline (width of the fan chart). Also, under the current fiscal framework, authorities' fiscal projections of the primary balance need to ensure the stabilization of general government gross debt over a period of 10 years, which contributes to mitigating the probability of debt non-stabilization. The mitigating factors mentioned above also reduce liquidity and re-financing risks.
Fanchart	**High**	...	
GFN	**Moderate**	...	
Stress test	Comm. Prices Nat. Diast.	...	
Long term	...	**Moderate**	Over the long-term, risks are assessed as moderate. Rollover risks are mitigated by the country's capabilities to implement proactive debt management. Increases in aging-related expenditures on health and social security are expected to be addressed through reforms that tackle the sizeable deficits of the social security regimes.
Sustainability assessment 2/			
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Overall risk of stress is moderate. Under the baseline scenario, debt is projected to continue increasing in the medium-term, before stabilizing around 106 percent of GDP over the extended policy horizon, contingent on gradual fiscal adjustment. Medium-term liquidity risks as analyzed by the GFN module are moderate given significant cash buffers (14 percent of GDP as of April) and a large share of the general government gross debt (22 percent of the total as of April) held by the central bank that poses negligible refinancing risks. These mitigating factors could also allow to smooth the impact of any temporary shock. Debt projections are highly sensitive to changes in interest rates given the high share of short-term and variable coupon debt. Over the longer run, Brazil should continue with reforms to tackle risks arising from population aging which will deepen the already sizable deficits of the social security regimes. As judicial claims pose an important medium-term risk to debt sustainability, the authorities' ongoing efforts to reduce the stock of claims would be key to mitigate this risk.

Source: IMF staff estimates.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases.

Figure 2. Brazil: Debt Coverage and Disclosures

							Comments
1. Debt coverage in the DSA: 1/			CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?							n.a.	
2. Subsectors included in the chosen coverage in (1) above:								
			Subsectors captured in the baseline				Inclusion	
CPS	NFPS	GG: expected	CG	1	Budgetary central government		Yes	
				2	Extra budgetary funds (EBFs)		No	Not applicable
				3	Social security funds (SSFs)		Yes	
				4	State governments		Yes	
				5	Local governments		Yes	
				6	Public nonfinancial corporations		No	
				7	Central bank		No	
				8	Other public financial corporations		No	
3. Instrument coverage:						Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	
4. Accounting principles:					Basis of recording		Valuation of debt stock			
					Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:							Consolidated	Non-consolidated		

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

				Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt								0
				2	Extra-budget. funds								0
				3	Social security funds								0
				4	State govt.								0
				5	Local govt.								0
				6	Nonfin pub. corp.								0
				7	Central bank								0
				8	Oth. pub. fin. corp								0
					Total	0	0	0	0	0	0	0	0	0

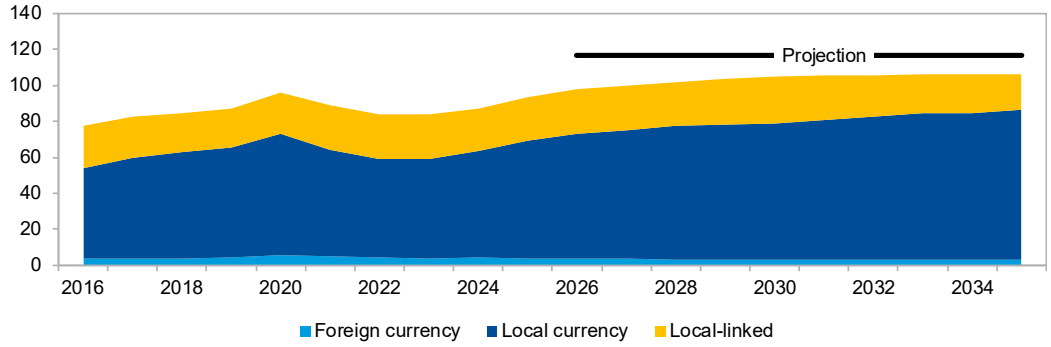
Commentary: Gross debt covers the General Government (GG) following the GFSM 2014 manual. GG gross debt includes all Treasury securities on the BCB balance sheet. The authorities' definition of GG gross debt includes the stock of Treasury securities used for monetary policy purposes by the BCB (those pledged as security in reverse repo operations) but excludes the rest of the government securities held by the BCB.

Source: IMF.

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

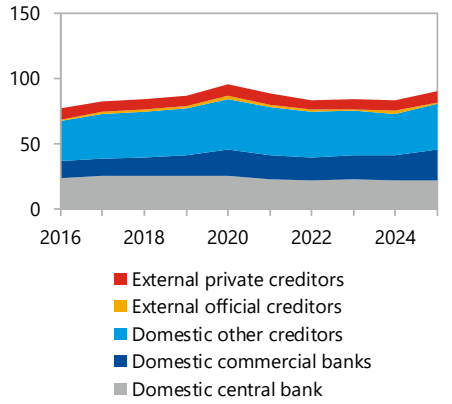
Figure 3. Brazil: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



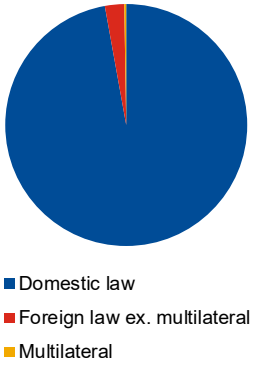
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



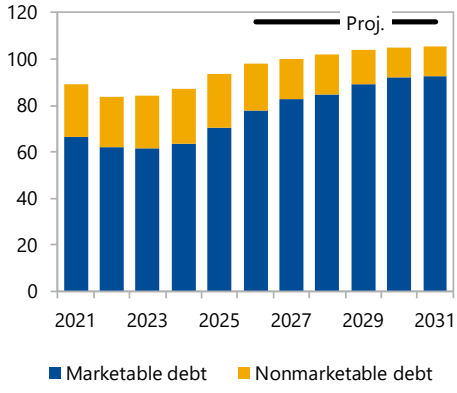
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2025 (Percent)



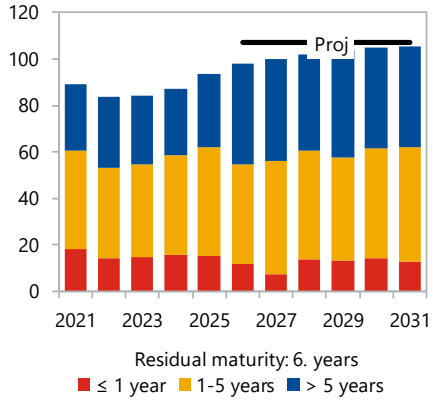
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: Debt composition is favorable with small amounts of FX and foreign law debt, limited reliance on foreigners for local currency debt, and a large stock securities held by the BCB that pose neglible refinancing risks. Investment funds (pensions) held about 21 (23) percent of federal debt. This structure is similar to the one observed in 2015 (20 and 21 percent, respectively). Debt projections are highly sensitive to changes in interest rates given the relatively high share of short-term and variable coupon debt.

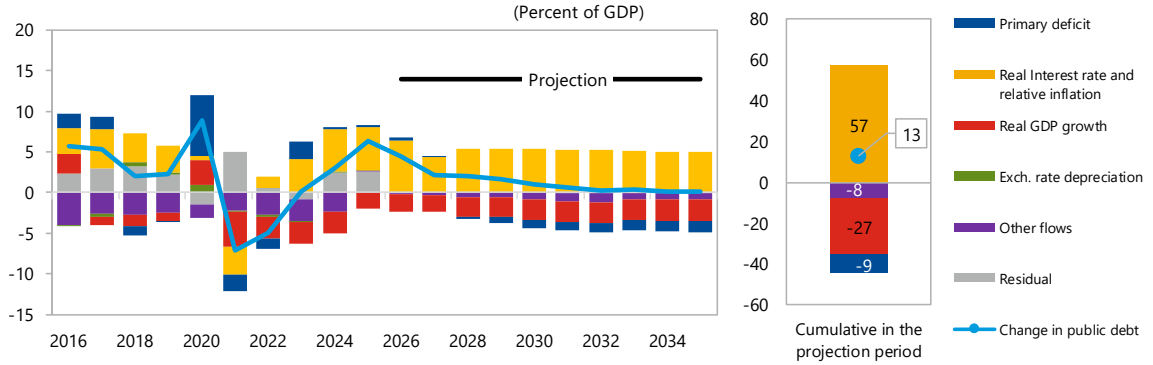
Source: IMF staff estimates and projections.

Figure 4. Brazil: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Public debt	93.3	97.8	100.0	102.0	103.7	104.8	105.4	105.6	106.0	106.2	106.3	106.3
Change in public debt	6.3	4.5	2.2	2.1	1.7	1.1	0.6	0.3	0.4	0.2	0.1	0.0
Contribution of identified flows	3.8	4.5	2.1	2.0	1.6	1.0	0.6	0.3	0.4	0.2	0.1	0.0
Primary deficit	0.1	0.3	0.2	-0.4	-0.7	-1.0	-1.1	-1.2	-1.3	-1.3	-1.5	-1.5
Noninterest revenues	37	38	38	38	38	39	39	39	39	39	39	39
Noninterest expenditures	37	39	38	38	38	38	38	38	37	37	37	37
Automatic debt dynamics	3.5	4.3	2.3	3.0	2.8	2.9	2.7	2.7	2.5	2.4	2.4	2.4
Real interest rate and relative inflation	5.4	6.5	4.4	5.3	5.3	5.4	5.3	5.2	5.1	5.0	5.0	5.0
Real interest rate	5.3	6.4	4.3	5.3	5.3	5.4	5.2	5.2	5.0	4.9	4.9	4.9
Relative inflation	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Real growth rate	-1.9	-2.2	-2.1	-2.3	-2.5	-2.5	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...	...
Other identified flows 1/	0.1	-0.1	-0.3	-0.6	-0.5	-0.8	-1.0	-1.2	-0.8	-0.8	-0.8	-0.9
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-2.6	-2.4	-2.1	-2.0	-2.0	-2.0	-1.9	-1.9	-1.9	-2.0	-2.0	-2.0
Other transactions	2.7	2.3	1.8	1.4	1.4	1.1	0.9	0.8	1.1	1.1	1.1	1.1
Contribution of residual	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	26.1	14.5	17.1	11.6	21.1	20.2	19.1	19.5	17.4	14.0	19.3	18.3
of which: debt service	28.6	16.6	19.1	14.0	23.7	23.2	22.1	22.6	20.6	17.3	22.7	21.8
Local currency	27.9	12.4	16.1	10.1	21.0	19.2	17.0	17.5	15.8	13.0	17.2	17.6
Foreign currency	0.7	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.4
Memo:												
Real GDP growth (percent)	2.3	2.4	2.2	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Inflation (GDP deflator; percent)	5.7	4.0	5.1	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Nominal GDP growth (percent)	8.1	6.5	7.4	6.0	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Effective interest rate (percent)	12.3	11.3	9.8	9.2	9.1	9.1	8.9	8.8	8.7	8.5	8.5	8.5

Contribution to Change in Public Debt

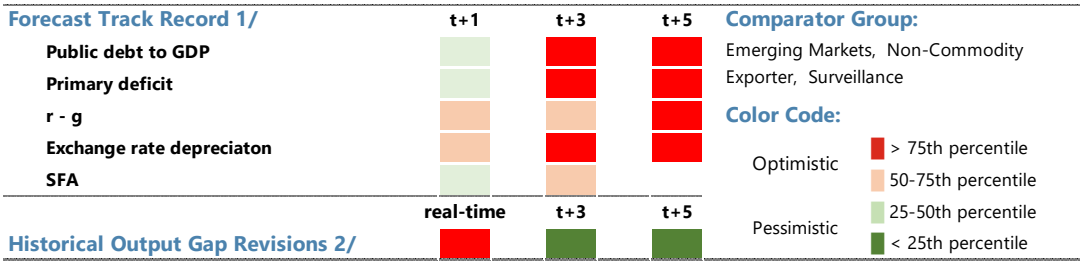


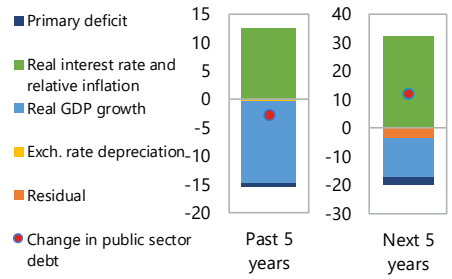
Staff commentary: Public debt will rise over the medium- and long- term largely due to unfavorable interest rate-growth diferential (r-g) dynamics. Under staff's baseline, a primary balance of 1.6 percent of GDP is expected to stabilize debt at the level of 2030 about 105 percent of GDP.

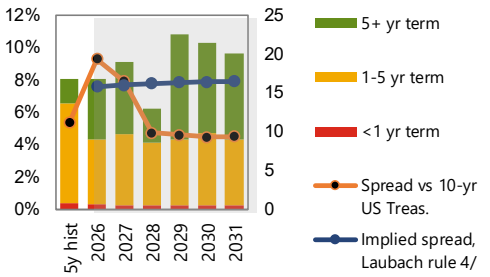
Source: IMF staff estimates and projections.

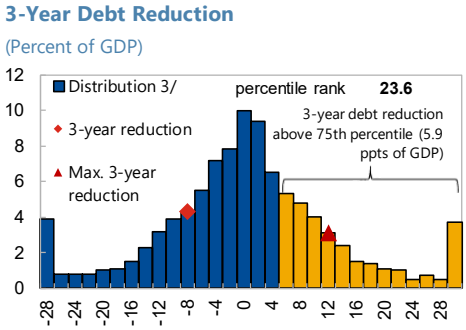
1/ Negative values in the projections primarily reflect the use of interest rate revenues from the TSA account to finance debt.

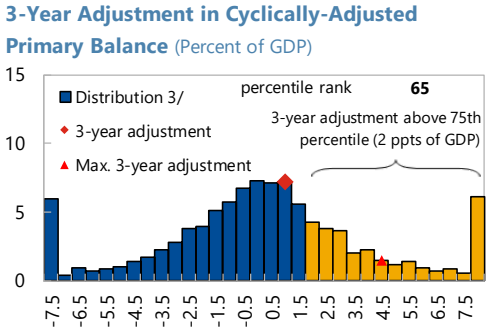
Figure 5. Brazil: Realism of Baseline Assumptions

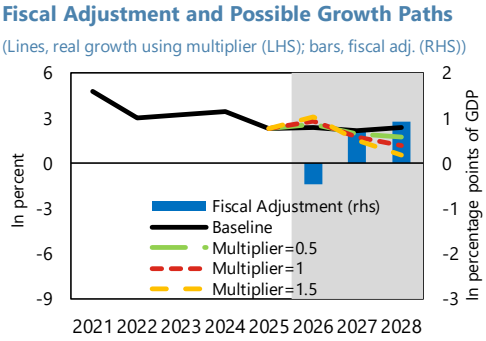


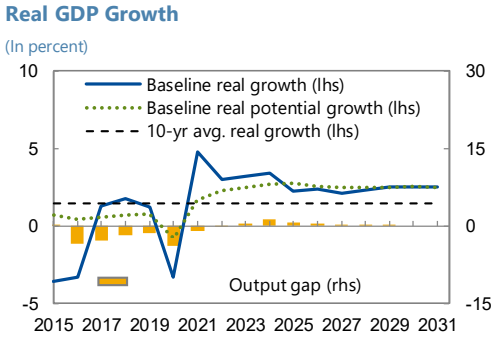












Commentary: The composition of debt creating flows shows the impact of higher real interest rates compared to the lower rates prevailing during the pandemic. The 3-year adjustment in the cyclically primary balance is within historical norms.

Source : IMF staff estimates and projections.

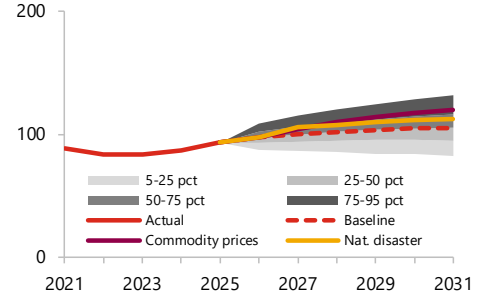
1/ Projections made in the October and April WEO vintage.
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

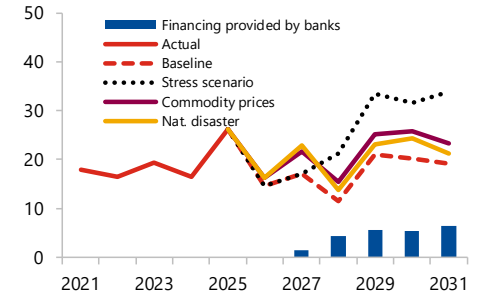
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Brazil: Medium-Term Risk Assessment

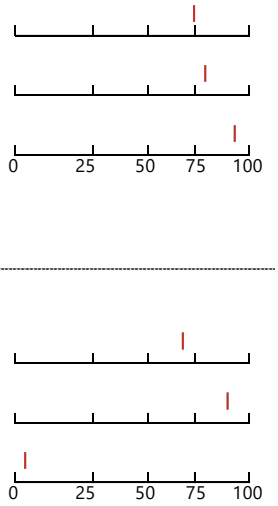
Final Fanchart (Percent of GDP)



Gross Financing Needs (Percent of GDP)



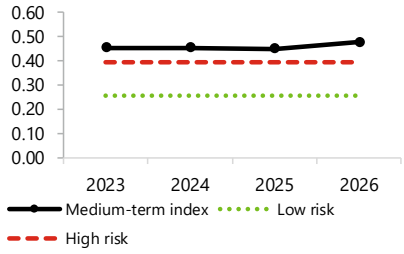
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	49.8	0.7	
Probability of debt non-stabilization *(percent)*	82.2	0.7	
Terminal debt-to-GDP x institutions index	74.4	1.6	
Debt fanchart index (DFI)		3.0	
Risk signal: 3/		High	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	17.3	5.9	
Initial Banks' claims on the gen. govt *(pct bank assets)*	26.5	8.6	
Chg. In banks' claims in stress *(pct banks' assets)*	0.5	0.2	
GFN financeability index (GFI)		14.7	
Risk signal: 4/		Moderate	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	3.0	0.7	0.5	0.3
GFN finaceability index	14.7	0.3	0.5	0.1
Medium-term index		0.5		
Risk signal: 5/		High		
Final assessment:		Moderate		

Prob. of missed crisis, 2026-2031, if stress not predicted: 54.5 pct.
Prob. of false alarms, 2026-2031, if stress predicted: 3.4 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to high level of risk, while the GFN financeability module suggests a moderate, level of risk. The large availability of liquid assets (14 percent of GDP in cash buffers as of April), not included in the module, could help lower the terminal level of debt in the long run while the negligible refinancing risks for central bank held securities (which must be rolled over by law) further mitigate GFN risks.

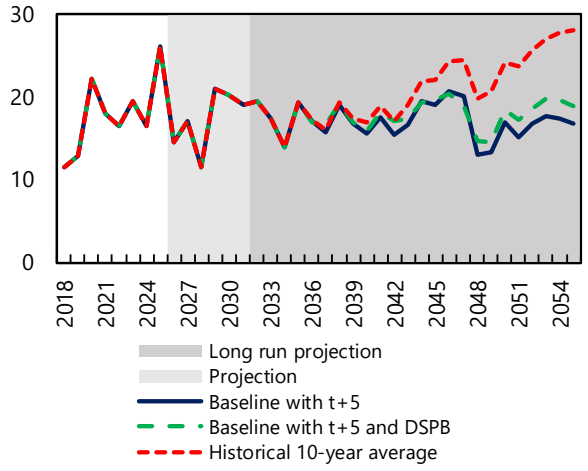
Source: IMF staff estimates and projections.
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Brazil: Triggered Modules

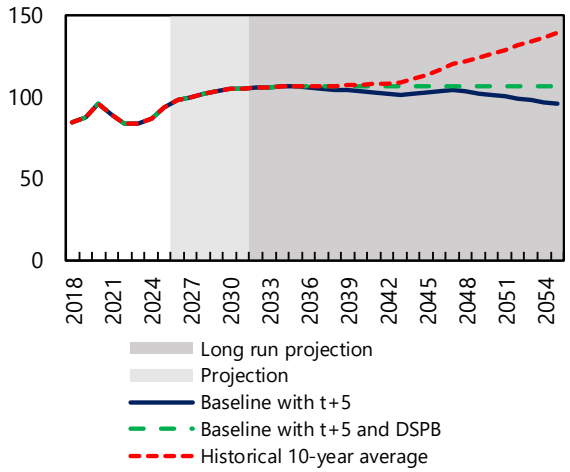
Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

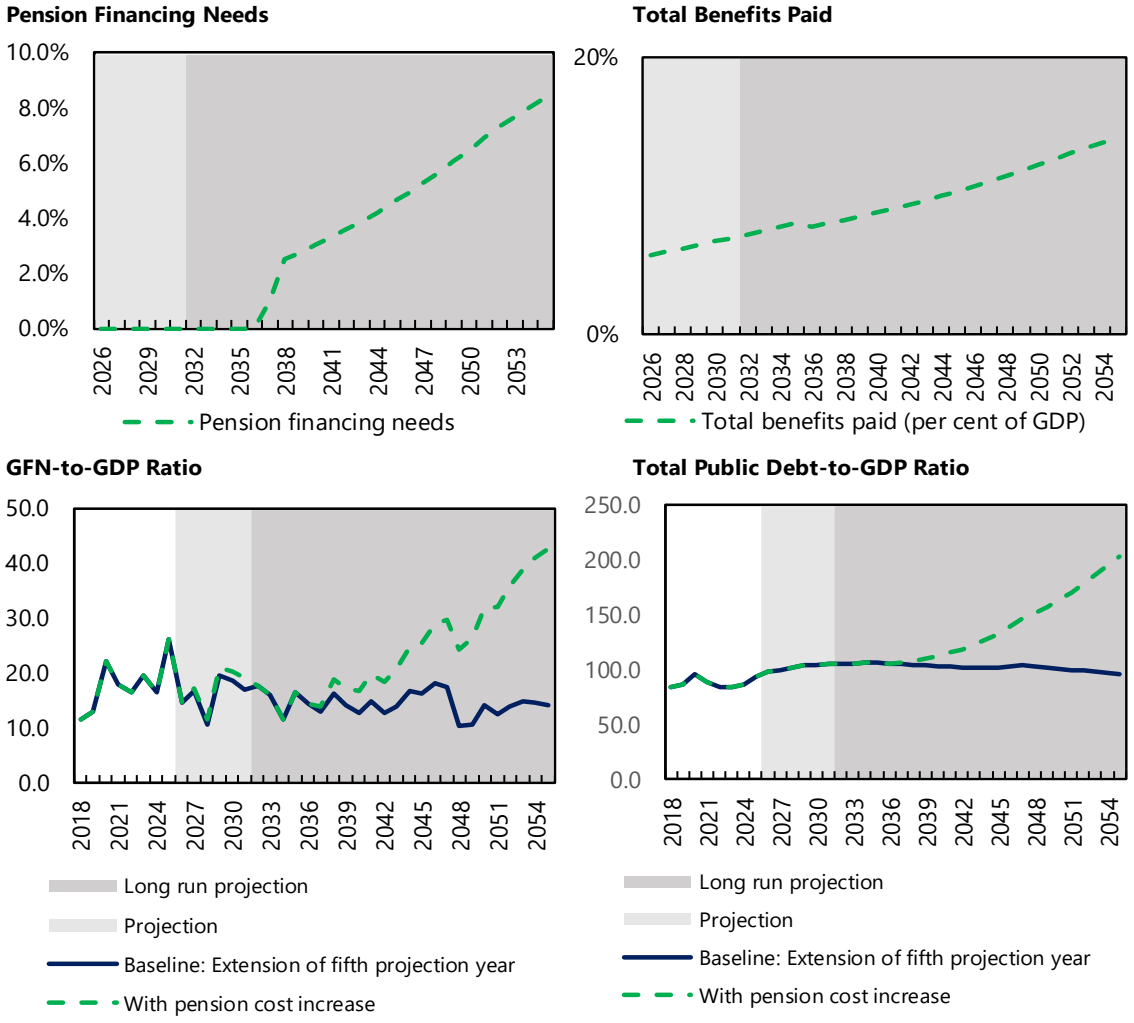


Commentary: Over the long-term, Brazil's rollover risk is moderate. In the event of abnormally large amortization, staff factored in the country's capabilities to engage in proactive debt management. Refinancing risks are mitigated by the large domestic investor base, large liquid assets held by the treasury and the substantial Central Bank holdings of federal securities that pose negligible refinancing risks. The historical scenario simulation might not be representative as it reflects historically elevated deficit, including the impact of the COVID-19 pandemic.

Source: IMF staff estimates and projections.

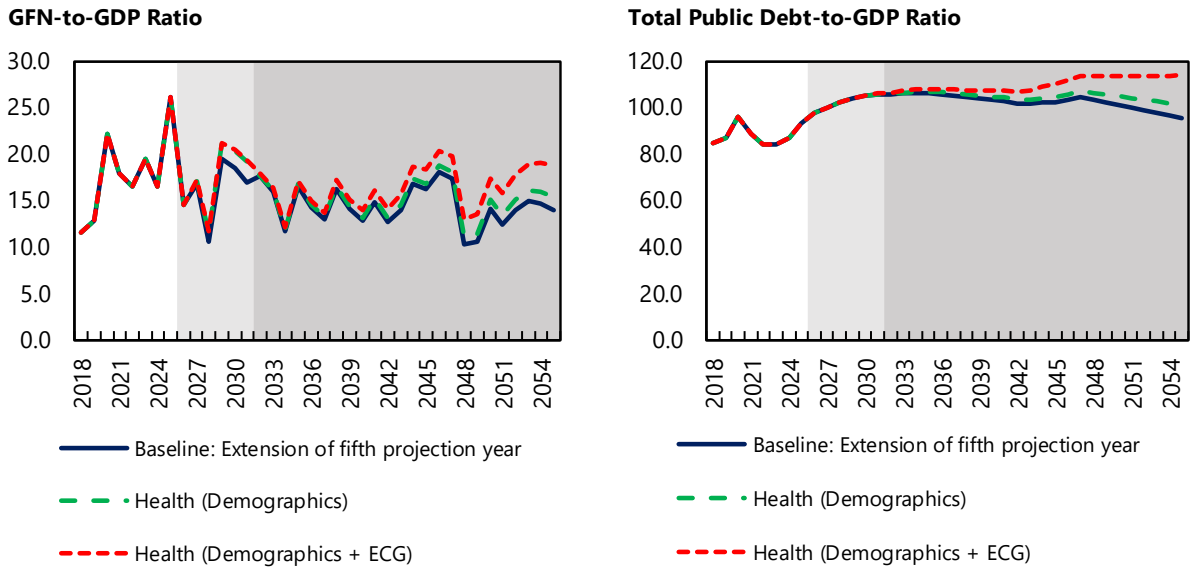
Figure 8. Brazil: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	3.1%	6.5%	9.5%



Commentary: Over the longer run, Brazil should continue with reforms to tackle risks arising from population aging, which will widen the deficits of the social security regimes.

Figure 9. Brazil: Demographics: Health



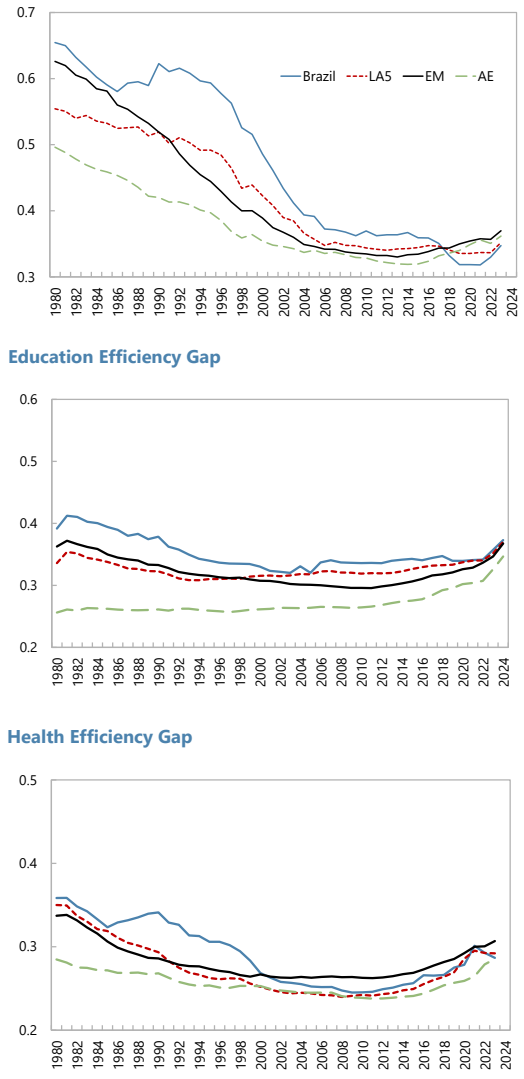
Commentary: Over the longer run, Brazil should continue with reforms to tackle risks arising from population aging which will pressure healthcare spending.

Annex IV. Doing More with Less: Improving Public Spending Efficiency in Brazil[1]

1. Strengthening spending management and governance is central to improving spending efficiency in many countries.[2] Setting aside the design of specific expenditure policies, the institutions and processes that underpin public spending – including their governance – play a key role in determining their efficiency and efficacy. As detailed in the October 2025 IMF *Fiscal Monitor*, stronger institutional frameworks are typically associated with more efficient and pro-growth expenditure. The main components of these frameworks are fiscal governance (low levels of corruption and strong rule of law supported by transparency, audit, and accountability processes), robust policy evaluation (for example, spending reviews and ex-post policy assessment), and fiscal frameworks that help guide macro-fiscal policymaking (for example, through fiscal rules and medium-term budgeting). Strong operational processes in the context of public investment management and procurement are also key to ensuring spending efficiency given the large amounts of public funds involved.

2. Brazil also faces the challenge of navigating long standing spending needs while improving its fiscal position. With significant revenue reforms undertaken, enhancing spending efficiency is crucial. However, more than 90 percent of federal primary expenditure is mandatory, implying significant budgetary rigidity. Although these expenditures reflect social spending priorities in the areas of transfers and pensions, education, and health, their size and projected growth complicate achieving the targeted fiscal path.

Figure 1. Spending Efficiency Gaps



Source: October 2025 IMF.

Notes: The figure shows efficiency gaps, which are distances to the spending efficiency frontier. Efficiency gaps range from 0 (fully efficient) to 1 (fully inefficient). The frontier is estimated using stochastic frontier analysis, as described in Online Annex 1.2 of the October 2025 Fiscal Monitor.

[1] Prepared by Samir Jahan (FAD) with input from Virginia Alonso Albarran and Gemma Preston (both FAD), Paula Zarazinski (LEG), and Thatiana Goncalves (World Bank).

[2] Consistent with the IMF's 2018 Framework for Enhanced Fund Engagement on Governance, strengthening spending efficiency requires efforts to combat corruption and enhance transparency and accountability.

Moreover, by limiting discretionary spending, mandatory spending crowds out growth enhancing capital investment. This can be seen particularly in the rapid and sustained rise in *emendas parlamentares* spending (see Box 5 in the main text).[3] While recent policy efforts – such as the fiscal rule capping real spending growth – seek to help contain spending, there are also legal, social, and economic limits to how much it can be restrained.[4] A key question is then the extent to which expenditures can be made more efficient in delivering their policy objectives and supporting economic growth for given fiscal outlays, including by addressing potential governance and corruption vulnerabilities.

3. Increasing spending efficiency in Brazil could unlock substantial growth gains as the authorities navigate the trade-off between spending and meeting fiscal targets. Figure 1 shows spending efficiency gaps estimated using stochastic frontier analysis in key growth-enhancing areas that broadly correspond to physical and human capital.[5] Although a spending efficiency gap remains relative to peers in education, efficiency gaps for Brazil in health and infrastructure spending have kept pace with LA5 peers while outperforming emerging market comparators. Staff estimates for Brazil, based on the methodology of the October 2025 IMF *Fiscal Monitor*, suggest that closing gaps in human capital and physical capital spending by 2040 could boost output by 5 percent each.

A. Progress in Strengthening the Institutional Framework for Public Spending

4. Brazil has made notable progress in strengthening the institutional framework underpinning spending management in recent years, beginning with policy evaluation. In the area of policy evaluation, the establishment of CMAP (*Public Policy Monitoring and Evaluation Council*)––an inter-ministerial council tasked with undertaking systematic evaluations of federal policies––in 2019 marked the first step in formalizing a culture of policy evaluation at the center of government at a senior level. However, it was the establishment of the SMA in 2023 that saw a more concrete commitment to regular policy evaluation through the formation of a fully staffed unit designed to support CMAP's functions and undertake regular evaluation exercises. Since then, SMA has undertaken targeted evaluations of social security and Proagro spending. Potential saving measures identified in the course of the evaluations have been identified, costed, and published within Annex IV of the 2025 draft PLDO and were estimated to yield just under 0.1 percent of GDP. These measures included increasing medical testing for those receiving temporary disability assistance and reducing the maximum insurance limit for Proagro. The SMA has also developed a standardized methodology for policy evaluation (MAPP) and is enlisting civil servants

[3] *Emendas parlamentares* allow the National Congress to amend budget allocations during the review phase in the preparation of the Annual budget (PLOA). Through these amendments, deputies and senators can influence the allocation of funding for projects at the state and municipal level.

[4] For example, in assessing Brazil's public health system (SUS), the OECD's 2021 Review of Health Systems noted that while there were clear inefficiencies in the SUS, more investment was needed to support healthcare delivery.

[5] See October 2025 Fiscal Monitor Online Annexes for more detail on methodology and estimation.

from other government ministries in evaluation exercises, marking efforts to further embed and expand a culture of policy evaluation.

5. Further enhancements include adding a medium-term aspect to the budget exercise and procurement modernization. While the medium-term fiscal framework (MFMP) was established in 2023 and sets a binding primary balance target for the reference year in the PLDO, the medium-term budget framework (MOMP) was established in 2025 and sets out indicative expenditure forecasts in the Annual Budget Bill (PLOA). In 2025, the forecasts covered one year in the future, but they will be extended to three years in 2026. The medium-term perspective in the MOMP represents an attempt to improve the management of fiscal resources over the medium-term, including the fiscal consequences of rising spending pressures. Regarding procurement, the 2021 procurement law (Lei 14.133) represented a step change in the modernization of Brazil's procurement system, which concerned 6 percent of GDP of spending in 2021 across sectors such as health, education, and infrastructure. By introducing more robust preparatory phases (preliminary studies), competitive dialogue, improved risk management, and widespread digitalization, the law addressed the inefficient formalism and excessive focus on price over quality of the pre-existing legislation. Moreover, the establishment of the National Public Procurement Website (PNCP) has represented a step forward in governance and transparency.

6. Brazil has also been swift to respond to challenges posed by *emendas parlamentares*. Beginning with the 2022 ruling by the Supreme Court (STF) on the unconstitutionality of rapporteur amendments, the governance and accountability framework for *emendas* expenditure has been strengthened.[6] An increase in fiscal transparency has been key to this, with the Office of the Comptroller General of Brazil (CGU) undertaking published audits of expenditure, including risk-based audits in response to the STF's ruling. Public reporting and transparency requirements have also been substantially expanded through *Portal da Transparencia, Painel Emendas*, and Transfergov.br, which aim to collectively provide open data on parliamentarians' requests for *emendas*, the intended beneficiary, and location; proposals, agreements, and workplans for *emendas* spending; and the budgetary execution of *emendas* spending. In addition, citizens can raise concerns about *emendas*-financed projects as well as submit related evidence to the ombudsman through the *Fala Brasil* platform.

B. Further Strengthening the Institutional Framework for Public Spending

7. Building on recent progress is important for closing remaining spending efficiency gaps. Efforts to date provide a strong foundation for more efficient, sustainable, and well-governed spending. Further enhancements would enable Brazil to target remaining spending efficiency gaps

[6] Rapporteur amendments (*emendas relator*), which had allowed the deputy or senator charged with delivery the final opinion on the budget to make amendments, were ruled unconstitutional due to a lack of transparency and traceability.

and the growth that they impede. Moreover, additional enhancements can support the pursuit of fiscal targets.

8. Institutionalizing spending reviews and policy evaluation would further leverage the substantial capacity that has been built. Although strides have been made in establishing a culture of policy evaluation, spending reviews have not been institutionalized, are disconnected from budget timelines, and have a relatively narrow scope. Further, the implementation of efficiency-enhancing policy measures identified in evaluation exercises is not mandatory and there are challenges in monitoring and reporting on the implementation of evaluation outcomes. Ex-ante policy evaluation is not currently conducted but could enhance decision making by clarifying the intended impact or outcome of the policy upfront. Connecting this to consideration of new policy proposals in the budget process over a specified cost threshold is warranted. Overall, a stronger connection between policy evaluation, spending reviews, and the budget would advance gains from the substantial evaluation apparatus that Brazil has built and make policy evaluation a powerful tool for implementing the fiscal framework. Additionally, absent running a more holistic spending review exercise, sectoral spending reviews and policy evaluation exercises could be more closely targeted to areas where spending inefficiency is already documented to be high, such as education.

9. Integrating the MOMP with the fiscal framework and spending reviews could strengthen the fiscal position while improving spending efficiency. At present, the MOMP is a baseline exercise undertaken by line ministries without formal guidance from the Ministry of Finance or Ministry of Planning and Budget on methodologies or macroeconomic parameters to prepare the projections or expenditure ceilings. As expenditure ceilings are – for now – based on the previous year's spending limit, there is limited assessment of cost pressures, and budgetary rigidities are embedded by default. Moreover, the MOMP is not integrated with the fiscal framework and the annual budget and is run as a separate and non-binding exercise relative to the former. Integrating the MOMP with spending reviews and policy evaluation would provide mutual reinforcement for both tools. A target set for a spending review could inform expenditure ceilings in the MOMP while a spending review could also help to deliver the reduction or reallocation of spending needed to fit within the expenditure ceiling. Further integration with the fiscal framework through binding, consistent expenditure ceilings would strengthen all three tools and help unify the goals of spending efficiency and improvement of the overall fiscal position.

10. Strengthening implementation and processes would further enhance procurement. Consistent with the step change in procurement processes posed by Lei 14.133, a range of training exists to support specialists with the new system. However, a greater focus on the preparatory phase – where many of the main weaknesses tend to appear, such as weak preliminary studies, copied or outdated specifications, and generic risk matrices for legal compliance – would strengthen the implementation of the procurement system to ensure transparency and efficiency. More directly, the use of procurement strategies and greater integration of inventory management with procurement planning would improve identification of procurement needs and waste minimization, particularly in the health sector.

11. Further solidification of the accountability framework governing *emendas* would enhance spending efficiency while mitigating governance risks. Ensuring that the *Portal da Transparencia*, *Painel de Emendas*, and Transfergov.br data is complete, integrated, and of high quality will enable the greatest leverage of recent transparency initiatives as well as better evaluation of the effects of this spending at the subnational level. Similarly, more structured ex-post verification of expenditure – such as measurable performance indicators and standardized reporting on project completion and outcomes – would further enhance transparency and governance. A clearer attribution of responsibility across the lifecycle of *emendas* (allocation, approval, and execution) complemented by conflict-of-interest and asset declaration frameworks would help identify points of individual accountability and strengthen deterrence for the misuse of public funds. Finally, ensuring that CGU's audit findings are supported by clear referral pathways and follow-up protocols with other accountability bodies such as the Federal Court of Accounts (TCU) would ensure that identified irregularities trigger effective remedial, disciplinary, or judicial action where warranted and thereby disincentivize abuse. Moreover, there may be value to acting swiftly to build on and strengthen the accountability framework for *emendas*. The rapid expansion and fragmentation of so-called "*emendas PIX*" (special transfers under *emendas individuias*) has begun to pose challenges to effective oversight and may heighten corruption risks. CGU audits have identified irregularities in the execution of these *emendas*, including deficiencies in compliance with transparency and traceability requirements, and risks of misappropriation and misallocation of public funds. STF has also noted recently that harmful practices persist, alongside significant shortcomings in their execution.

12. Addressing some of these challenges will require closer coordination between the different levels of government in Brazil. While expenditure as a share of GDP has declined at the federal government level, rising state and municipal expenditures have raised overall general government spending. The distinction between levels of government is relevant when considering how spending institutions and processes shape outcomes as, in particular, *emendas* expenditure is intended to fund subnational projects and a large share of procurement is undertaken at the state and municipal level. While the interaction between Brazil's fiscal federalism framework and spending processes and institutions is beyond the scope of the analysis in this annex, efforts to further boost spending efficiency will also need to consider this issue.

Annex V. Quarterly Projection Model (QPM): Methodology[1]

1. The quarterly-projection model (QPM) distinguishes between equilibrium levels, or underlying "trends," driven by long-term fundamentals, and deviations from these equilibria—referred to as "gaps"—which are interpreted as business cycle fluctuations. Its semi-structural nature (that is, exclusion of some theoretical restrictions) makes the model flexible and able to replicate central features of the data, while incorporating country-specific aspects, to a greater extent than fully micro-founded models (IMF, 2021).

Equations

The basic structure of the QPM is defined by the following equations:

2. An aggregate demand curve-open economy IS curve, with the output gap ($\hat{y}_t$) depending on its past and expected future value; the real monetary conditions index (mci_t), measured as a weighted average of the deviation of the real interest rate (r_t) from its neutral (noninflationary) equilibrium level ($\widehat{r_t}$) and the deviation of the real effective exchange rate (z_t) from its equilibrium level; the foreign output gap ($\widehat{y^*}_t$); the terms-of-trade gap ($\widehat{tot}_t$), the fiscal impulse (defined as the change in the cyclically adjusted fiscal deficit), and an aggregate demand shock (ε_t^y):

$$\hat{y}_t = a_1\hat{y}_{t-1} + a_2 mci_t + a_3\widehat{y^*}_t + a_4\widehat{tot}_t + a_5 fimp_t + \varepsilon_t^y \quad (1)$$

$$mci = \propto (\hat{r}_t) + (1-\alpha)(-(\hat{z}_t)) \quad (2)$$

where $\widehat{z_t} = z_t - \bar{z}$ and $\widehat{r_t} = r_t - \bar{r}$

3. An aggregate supply curve-open economy forward-looking Phillips curve, with core inflation (π_t^c) depending on its past and expected future value; real marginal costs (rmc_t^c), where the real marginal costs of domestic inputs are approximated by the output gap while the real marginal costs of imported goods are approximated by the exchange rate gap; and cost push shocks (ε_t^π):

$$\pi_t^c = b_1\pi_{t-1}^c + (1-b_1)E_t\pi_{t+1}^c + b_2 rmc_t^c + \varepsilon_t^\pi \quad (3)$$

$$rmc_t^c = \beta\hat{y}_t + (1-\beta)\hat{z}_t \quad (4)$$

4. The model also includes relative price trends anchoring relative headline prices in the long run. A relative price (in logs) for the core component is defined as:

$$rp_t^c = cpi_t^c - cpi_t \quad (5)$$

[1] Prepared by Marco Arena (WHD) and Gyorgy Molnar (ICD).

and decomposed into a gap and a trend component. The gap component is influenced by developments in international food and oil prices.

$$rp_t^c = \overline{rp^c} + \widehat{rp^c} \quad (6)$$

$$\widehat{rp_t^c} = \delta_1 \widehat{rp_{t-1}^c} - \delta_2 \left(\widehat{oil}_t + \hat{z}_t\right) - \delta_3 \left(\widehat{food}_t + \hat{z}_t\right) + \varepsilon_t^{\widehat{rpc}} \quad (7)$$

5. The uncovered interest parity (UIP) condition, which relates the nominal exchange rate (s_t) to its expected future value ($E_t s_{t+1}$); the domestic–foreign nominal interest rate differential ($i_t - i_t^*$); and a risk premium ($prem_t$). The exchange rate is defined as units of domestic currency per one unit of foreign currency.

$$s_t = E_t s_{t+1} + \frac{i_t^* - i_t + prem_t}{4} + \varepsilon_t^s \quad (8)$$

6. *A monetary policy rule*, specified as a forward-looking monetary policy reaction function aimed at stabilizing inflation, where the policy rate, represented by a short-term interest rate, depends on the equilibrium nominal interest rate (i_t^n); the expected deviation of inflation from the target ($E_t \pi_{t+4}^e - \pi_{t+4}^*$); and the output gap ($\hat{y}_t$):

$$i_t = c_1 i_{t-1} + (1 - c_1)(i_t^n + c_2(E_t \pi_{t+4}^e - \pi_{t+4}^*) + c_3 \hat{y}_t) + \varepsilon_t^i \quad (9)$$

7. In addition to the basic structure, a parsimonious fiscal block is added, which provides a consistent stock-flow analysis for the public debt trajectory and government total and primary deficits, all as a share of GDP. Equations (10), (11), (12), and (13) reflect the definitions and relationships of the fiscal block, including: the fiscal deficit (sum of the primary deficit and interest payments), primary deficit (sum of the cyclical-adjusted primary deficit, the cyclical component, and a primary deficit shock), the fiscal impulse, and the debt accumulation equation (fiscal deficit plus debt from the previous period corrected by nominal GDP growth):

$$Def_t = Prim\,Def_t + Int_t \quad (10)$$

$$Prim\,def_t = Str\,Def_t - d_1 \hat{y}_t + \varepsilon_t^{pd} \quad (11)$$

$$fimp_t = Str\,Def_t - Str\,Def_{t-1} \quad (12)$$

$$b_t = Prim\,def_t + Int_t + \frac{b_{t-1}}{1 + \Delta ngdp_t} \quad (13)$$

The fiscal block anchors public debt accumulation as a share of GDP based on a fiscal reaction function (equation 14) for the cyclically adjusted primary deficit ($StrDef_t$). The fiscal rule embodies

two key features. First, the target structural deficit ($StrDef_{tar}$) represents the desired long-run fiscal stance, taking into account long-term spending needs and revenue capacity. Second, the rule implies automatic fiscal adjustment when debt deviates from a reference level: if debt rises above the reference level ($Debt_Dev_t$>0), the structural deficit needs to fall below trend, generating primary surpluses that stabilize debt. The specification also introduces forward-looking behavior: the idea that fiscal policy responds not only to current debt levels but also to the expected debt trajectory, consistent with multi-year budget planning and debt management strategies. The larger the expected deviations of debt from a reference level, the larger the adjustment of the primary deficit. The structural deficit is assumed to be consistent with the debt path under the recommended scenario in paragraph 18 (S2), which combines both the recommended fiscal primary balance and the implementation of structural reforms). For this simulation, the debt reference level is consistent with the debt path under the recommended scenario. The public debt ratio also affects the risk premium from equation (8), the UIP condition, with the risk premium reacting to the debt-to-GDP ratio. As a result, changes of the premium may also affect the neutral interest rate and generates movements in the nominal exchange rate.

$$StrDef_t = d_1 StrDef_{t-1} + (1 - d_1)\left(StrDef_t^{tar} + d_2\,(DebtDev_t)\right) + \varepsilon_t^{strdef} \quad (14)$$

$$DebtDev_t = e_1\left(Debt_t - Debt_t^{ref}\right) + (1 - e_1)\,(DebtDev_{t+1}) \quad (15)$$

$$Prem_t = h_1 Prem_{t-1} + (1 - h_1)\left(Prem_{ss} + h_2\,(DebtDev_t)\right) \quad (16)$$

Calibration And Steady States

8. The parameters of the QPM model are calibrated based on expert judgment, information from peer countries, and desk estimates. For example, calibration of the monetary policy reaction function draws on 2025 Article IV Staff Report, Annex VI, and the BCB's small-scale semi structural model documentation (BCB, 2024). Regarding steady states, the model incorporates the IMF staff potential GDP growth estimate of 2.5 percent, the inflation target of 3.0 percent, and 5.0 percent for the neutral rate of interest.

Table 1. Brazil: Calibration of the QPM Model

IS curve	
Autoregressive term	0.65
Monetary condition index	
Real interest rate gap	0.12
Real exchange rate gap	0.03
Fiscal impulse (a5)	0.30
Terms of Trade (a4)	0.08
Global output gap (a3)	0.25
Phillips curve	
Inflation inertia (b1)	0.60
Expected inflation (1-b1)	0.40
Real marginal costs	
Real exchange rate gap (β*b2)	0.04
Domestic output gap (1-β)*b2	0.16
Taylor rule	
Interest rate smoothing (c1)	0.75
Deviation of inflation expectations from target (c2)	1.50
Output gap (c3)	0.20
Fiscal reaction function	
Lag variable (d1)	0.5
Cyclical-adjusted primary deficit (1-d1)	0.5
Debt deviation (d2)	0.1

Annex VI. A Market-Based Measure of Brazil's Local-Currency Sovereign Risk: The Sovereign–Supra Spread[1]

1. This annex decomposes the local-currency sovereign yield into (i) a credit-risk-free supranational bond (supra) yield and (ii) a sovereign–supra spread that measures local-currency sovereign risk. It first constructs a daily yield curve from transaction prices of AAA-rated supras denominated in reais, which are perceived as free of credit risk, and then computes the spread between the sovereign yield and the supra yield at constant maturity. The resulting spread provides a market-based measure of credit risk for Brazil's predominantly local-currency sovereign liabilities[2]. Credit default swap (CDS) spreads also capture credit risk premia; however, Brazil's sovereign CDS contracts are written on external (mostly USD) debt and may not fully capture local-currency sovereign risk. This reflects the possibility of selective or "soft" default, the interaction between default risk and exchange-rate movements, and market segmentation.

2. The credit-risk-free supra yield curve is estimated from coupon bond transaction data using a parametric approach. Specifically, yields are assumed to follow the parsimonious yet flexible Nelson–Siegel form:

$$y_t^\tau = \beta_{0,t} + \beta_{1,t}\left(\frac{1-e^{-\tau/\lambda_t}}{\tau/\lambda_t}\right) + \beta_{2,t}\left(\frac{1-e^{-\tau/\lambda_t}}{\tau/\lambda_t} - e^{-\tau/\lambda_t}\right),$$

where y_t^τ is the yield at time t for maturity τ and $\beta_{0,t}, \beta_{1,t}, \beta_{2,t}, \lambda_t$ are coefficients. The curve is used to price each bond (coupon or zero-coupon) using standard bond characteristics (including maturity, coupon, period, basis, and issue date) and to compute pricing errors relative to market mid-prices. For each day, the coefficients are estimated by non-linear least squares, minimizing the sum of squared pricing errors weighted by the inverse of each bond's modified duration. To improve numerical stability, the approach ensures that (i) $\beta_0 + \beta_1$ is anchored to the effective overnight Selic rate since the zero-maturity yield should equal the policy rate; and (ii) the previous day's coefficient estimates serve as the current day's initial values for the numerical routine.

3. Daily transactions of AAA-rated supras for 2013–26 are sourced from LSEG Datastream. Illiquid observations with stale prices/yields, wide bid–ask spreads (above 75 bps), or short remaining maturities (less than 183 days), among other outliers, are excluded. The cleaned sample typically contains 20–80 active bonds per day, with a marked decline in the early sample and during the pandemic. Daily estimates of the local-currency sovereign yield curve, USD CDS spread curve, and the effective Selic rate are taken from LSEG Workspace. Other daily and monthly variables are sourced from Haver.

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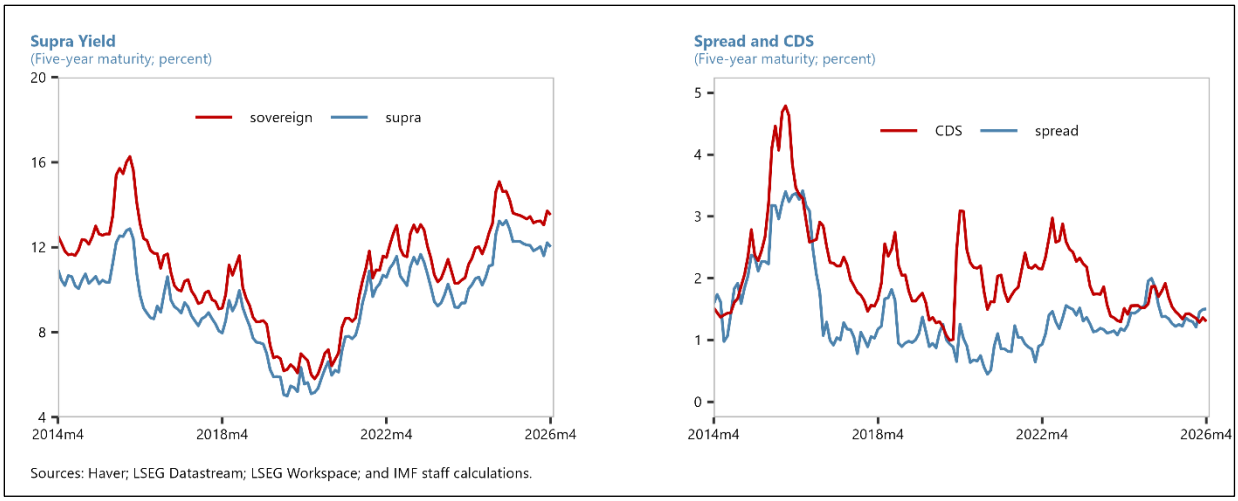
[1] Prepared by Chao He.

[2] The sovereign bond market is typically much more liquid than the supranational bond market; hence the spread could be even wider if corrected for liquidity differences. The measure abstracts from tax and regulatory differences and market segmentation, whose effects are ambiguous.



4. The estimated supra yield closely co-moves with the sovereign yield, and the sovereign–supra spread tracks key fiscal events. The left panel (see text chart) plots the monthly local currency (LC) supra yield against the sovereign yield at the five-year constant-maturity; the close co-movement suggests common macro-financial drivers. The right chart reports how the sovereign–supra spread has moved over the past twelve years. Notable movements include the rise and fall in perceived risks during the 2014-2016 crisis. More recently, the measure of perceived risk rises following the April 2024 downward adjustment of primary balance targets and the November 2024 fiscal package announcement (see IMF, 2025, Country Report No. 25/194 for further details) and declines subsequently suggesting an easing in fiscal risk perceptions. The right chart also indicates that, while the spread and CDS have co-moved, they can diverge, as, for example, during the pandemic, when the CDS increased, possibly reflecting factors that did not relate solely to the perceive of LC sovereign credit risk.

5. The supra yield can be further decomposed into expected short rates and the term premium, providing information on future financing costs implied by the current term structure. Term-structure models typically abstract from default risk. The constructed credit-risk-free supra yield is, therefore, well suited for this decomposition. The analysis assumes that supra yields are pinned down by observable and latent state variables in an observation equation, and that the states evolve according to an AR(1) process:

$$y_{t,\tau} = b_\tau X_t + \Sigma_Y u_t,$$

$$X_t - \mu = \Phi(X_{t-1} - \mu) + \Sigma_X e_t,$$

where $X_t = \left(r_t, X_{2,t}, X_{3,t}\right)$ includes an observable current short rate and two latent factors. Imposing the no arbitrage condition under risk-neutral measure

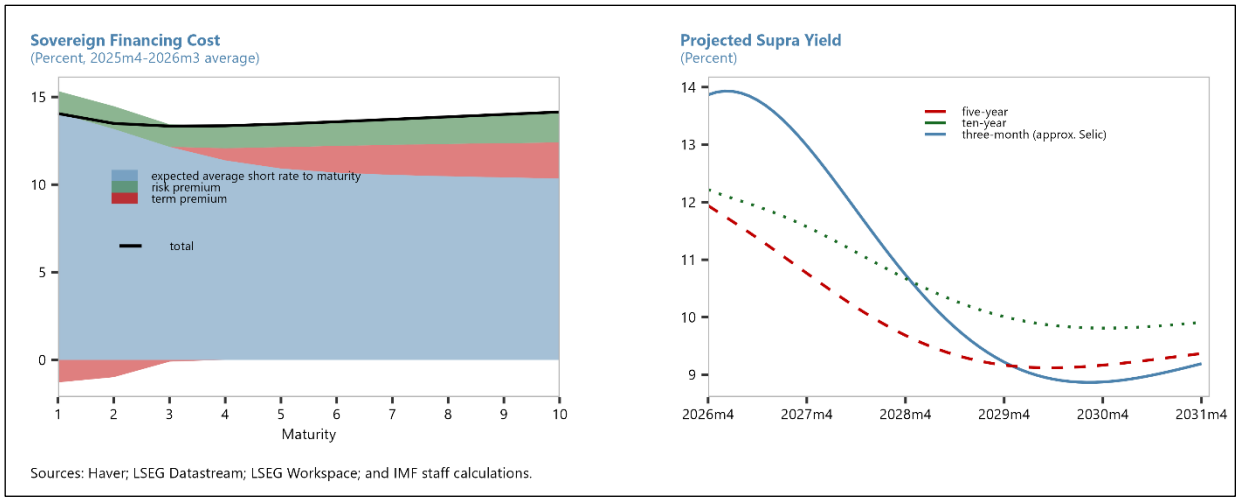
$$P_t^\tau = \mathrm{E}_t^Q(e^{-r_t} P_{t+1}^{\tau-1}),$$

where P_t^τ is the price of a zero-coupon bond with maturity τ, tight parameterization of b_τ with a single time-invariant coefficient γ is available as follows:

$$b_\tau = \left(1,\ 1 - \frac{1-\gamma^\tau}{(1-\gamma)\tau},\ -\gamma^{\tau-1} + \frac{1-\gamma^\tau}{(1-\gamma)\tau}\right).$$

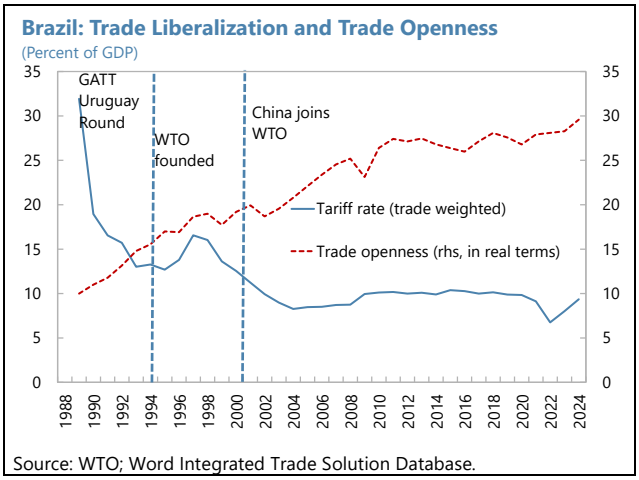
The model is estimated numerically using monthly data for 2013-26 in four steps: (1) regress $Y_t = (y_{t,3m}, y_{t,1y}, y_{t,2y},\ \ldots,\ y_{t,10y})'$ on $B = (b_{3m},\ b_{t,1y}, b_{t,2y},\ \ldots,\ b_{t,10y})'$ to get X_t for each γ in a grid; (2) choose the γ that minimizes the sum of squared errors; (3) regress X_t on its lag to estimate Φ; and (4) compute expected short-rate components and the term premium.

6. The estimated local-currency risk premium averaged 140 basis points and the term premium 90 basis points over the last 12 months, and the model-implied path for the Selic rate bottoms out at around 9 percent by 2030. The left panel of the following chart decomposes the local-currency sovereign yield curve into the risk premium (the sovereign–supra spread), the term premium, and expected average short rates to maturity (the latter two are obtained from the term-structure model). This helps distinguish whether high long-term yields are driven by expectations of high future interest rates or by additional premia for risk and uncertainty. Overall, the model suggests that markets expect interest rates to fall significantly (with, accordingly, relatively moderate expected short rates), but long-term yields remain elevated due to risk and term premia, which increase with maturity. In the right panel, the model implies that market participants expect the Selic rate and the five-year supra yield to decline to about 9 percent over the medium term, while the ten-year supra yield reaches about 10 percent. Assuming the sovereign risk premium remains around current levels, this implies market perceptions of medium-term financing costs of 10.5–11.5 percent.



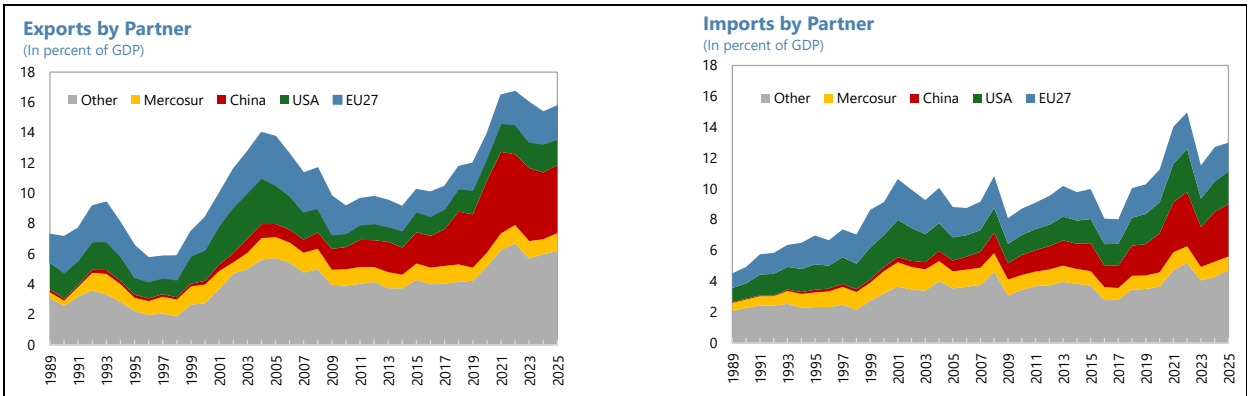
Annex VII. Navigating a Fast-Changing Trade Landscape: From Volatility to Resilience[3]

1. Over the past several decades, Brazil has made significant strides in opening its economy, having undergone multiple waves of trade liberalization. The most pronounced phase occurred in the early 1990s and early 2000s, when tariff rates declined sharply and trade openness increased substantially. Following the Global Financial Crisis, however, this momentum slowed: tariff rates largely stabilized, and gains in trade openness plateaued, broadly in line with global trends. Today, Brazil's average tariff rate is comparable to that of a typical EMDE but remains higher than that of many regional peers and well above levels observed in advanced economies.



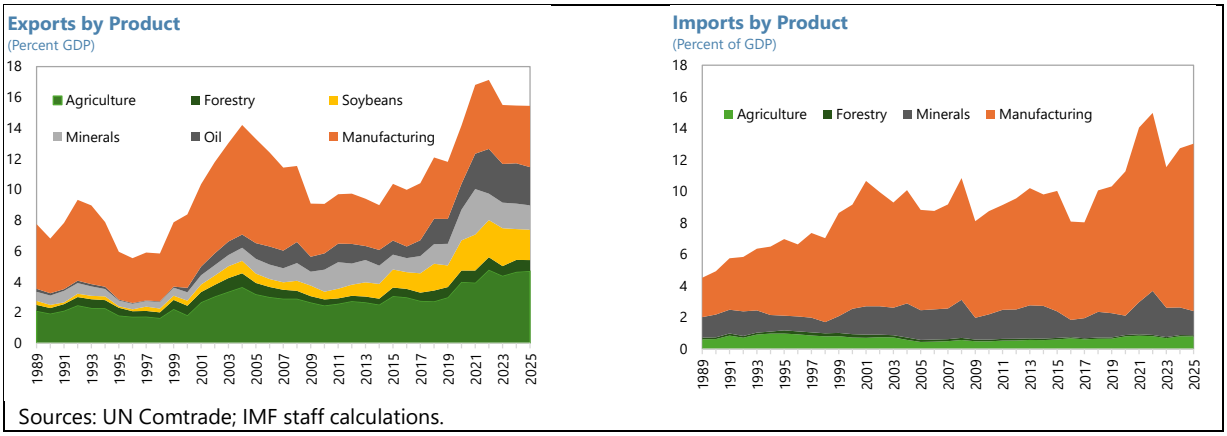
Source: WTO; Word Integrated Trade Solution Database.

2. Brazil's trading patterns have shifted markedly in recent decades, with China becoming its largest trading partner, overtaking the United States and EU. China's share of Brazil's exports has risen from about 3 percent in the early 1990s to nearly 30 percent in 2025. Over the same period, the share of exports to the United States declined from around 25 percent to 11 percent, while the EU's share fell from roughly 30 percent to 12 percent. Mercosur's share has decreased to about 8 percent from a peak of about 19 percent in the late 1990s. On the import side, China accounts for roughly one-quarter of Brazil's imports, followed by the EU (18 percent), the United States (16 percent), and Mercosur (8 percent).



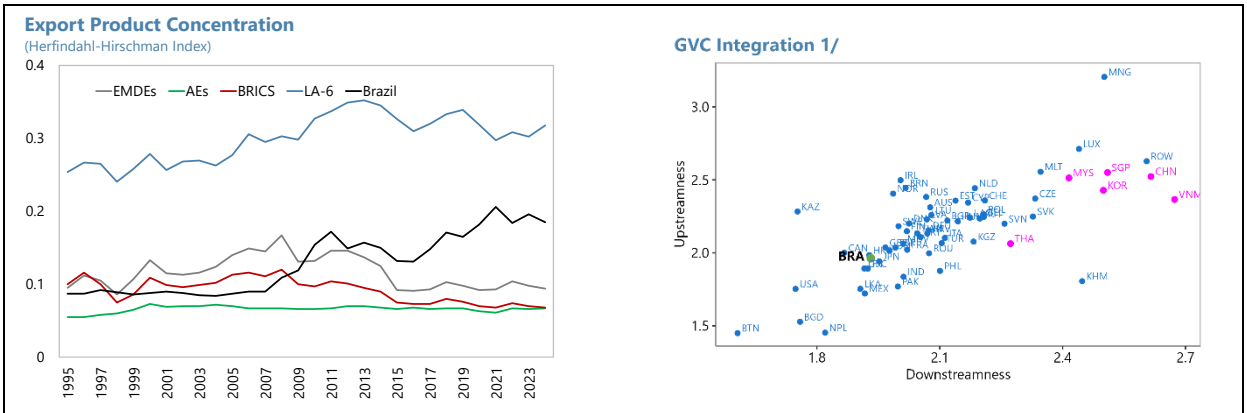
Sources: UN Comtrade; IMF staff calculations.

[3] Prepared by Longmei Zhang and Adam Jakubik (both SPR), with inputs from Lorenzo Rotunno (SPR).



Sources: UN Comtrade; IMF staff calculations.

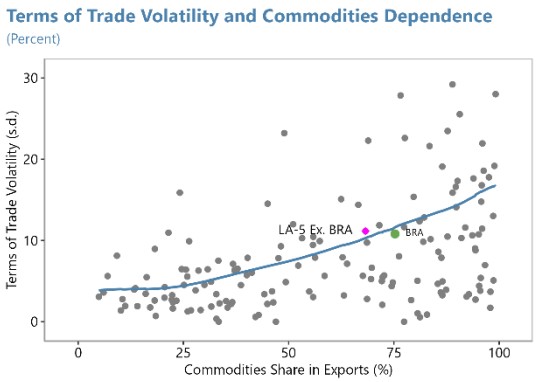
3. Brazil's export structure has also become more concentrated in agricultural and mineral commodities, with limited integration into global value chains. As trade with China has deepened and oil production has expanded, commodities have come to dominate the export mix. Agricultural products now account for more than 40 percent of total exports, with soybeans alone comprising about one-quarter of agricultural exports, followed by oil (16 percent) and iron ore (10 percent). Manufactured goods account for roughly 30 percent of exports. On the import side, manufactured goods account for more than 80 percent of total imports. The rise in export product concentration, as measured by the Herfindahl–Hirschman Index, contrasts with other BRICS economies, where exports have become more diversified and increasingly oriented toward manufacturing. At the same time, Brazil's export concentration is below that of other major Latin American economies, which are more heavily reliant on commodities. Brazil is also less integrated into global value chains—both downstream and upstream—than emerging market economies in East Asia and Emerging Europe.

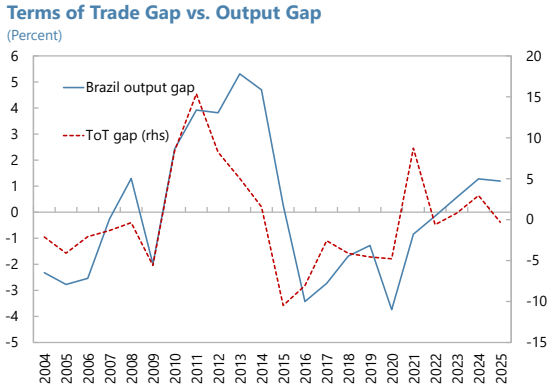


Source: UN Trade and Development, Asian Development Bank, and IMF staff calculations.
1/ Data based on 2024 ADB multi-region input-output tables. Upstreamness measures how far a country or sector's production is on average from final demand (how early it operates in the production chain). Downstreamness measures how far its value added is from primary inputs (how close it is to final assembly or consumption).

4. Greater reliance on commodities is associated with increasing exposure to external price shocks. Cross-country evidence shows that a greater share of commodities in exports is associated with more volatile terms of trade. In Brazil, output has historically moved closely with the

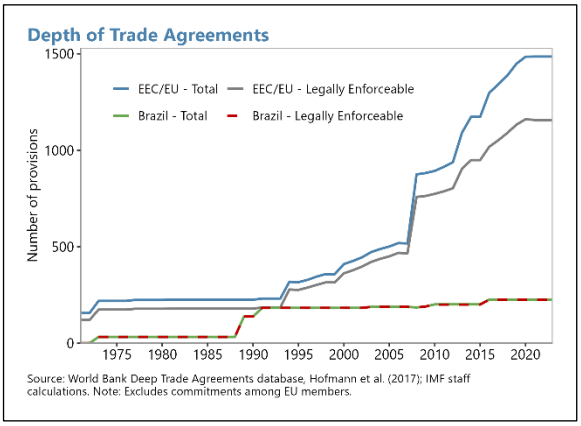
terms of trade[4], with downturns coinciding with commodity price declines, as in 2015. This vulnerability underscores the importance of strong macroeconomic frameworks. Priorities include building buffers during commodity price upswings and preserving space for support in downturns, while maintaining exchange rate flexibility to facilitate adjustment to external shocks.





Source: UN Trade and Development, IMF WEO, and IMF staff calculations.

5. Diversifying trading partners could further enhance resilience, and the recently signed EU–Mercosur deal breaks new ground on deepening trade linkages outside the region. The agreement covers around 2 percent of EU trade and 13-17 percent of Mercosur trade. It provides for Mercosur to phase out tariffs on 91 percent of EU goods over 15 years, and for the EU to eliminate tariffs on 95 percent of Mercosur goods within 12 years, with some agricultural products protected through EU tariff rate quotas (higher tariffs beyond a certain import volume). Beyond tariff liberalization, the agreement includes substantive and legally enforceable commitments across a broad range of areas, including technical and agricultural regulations, services, intellectual property, subsidies, transparency, and government procurement—both extending beyond and consolidating existing WTO disciplines. It also establishes recourse to state-to-state dispute settlement, strengthening policy predictability.

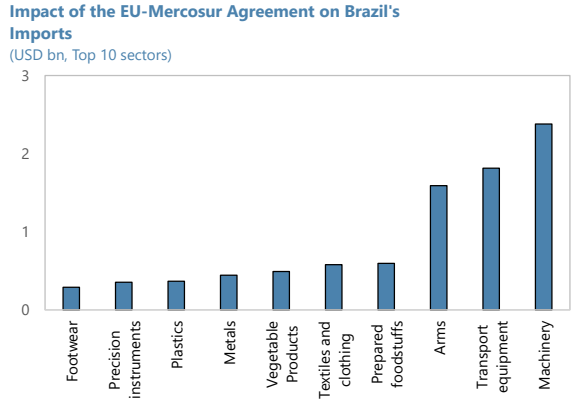


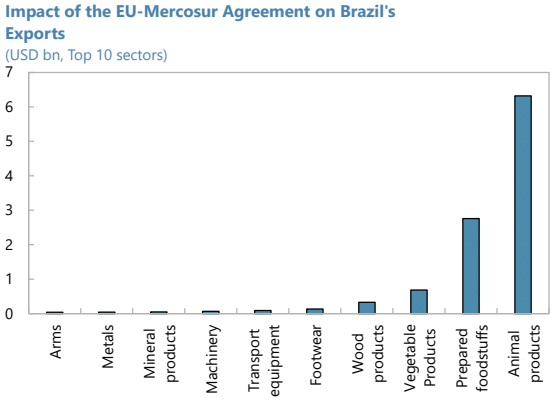
6. Estimates suggest that tariff reductions, complemented with non-tariff provisions under the EU–Mercosur agreement, could bring a significant boost to Brazil's trade and growth. Product-level estimates using trade elasticity point to particularly strong growth concentrated in animal products, foodstuffs, vegetable products, and wood products.[5] By contrast, imports from the EU are expected to rise across a broad range of sectors, reflecting increased

[4] The correlation of the domestic output gap and the terms of trade gap remains significant when controlling for the global output gap.

[5] Growth in manufacturing trade could also be boosted by additional FDI to these sectors which is not modeled here. Deep trade agreement provisions are associated with an increase in inward FDI (Larch and Yotov, 2025).

demand for manufactured goods and capital equipment. These gains are expected to materialize over the medium term as tariff reductions are phased in. Using a structural gravity model, staff analysis finds that tariff reductions alone could increase Brazil's exports to the EU by up to 14 percent, with the largest gains in agriculture and manufactured agricultural products. The estimates for agricultural products could represent an upper bound since they do not account for EU tariff rate quotas on beef, poultry, sugar and bio-ethanol or potential bilateral safeguards in agricultural products. Further analysis incorporating both tariff changes and non-tariff provisions across various policy areas points to even greater trade gains. The effects of these deeper provisions are most pronounced in agriculture and services, while tariff reductions the primary driver in manufacturing. Mining and energy sectors, by contrast, are largely unaffected. Finally, general equilibrium analysis based on Rotunno and Ruta (2026) suggests that the agreement with the EU could increase long-run aggregate trade by 10 percentage points, and real income by 0.22 percentage relative to a no-agreement scenario.





Source: UN Comtrade; Boehm, Levchenko, and Pandalai-Nayar (2023); IMF staff estimates.
Note: Partial equilibrium estimates by sector. Merchandise exports from Brazil to EU in 2025 were $49.8bn and imports $50.3bn.

Box 1. Methodological Note

Staff estimates a structural gravity model using the Poisson Pseudo Maximum Likelihood (PPML) estimator with high-dimensional fixed effects to accommodate the large share of bilateral zero trade flows and heteroskedasticity:

$$Trade_{ijst} = exp\{\beta_1 ln(1 + tariff_{ijst}) + \beta_2 RTA\ Depth_{ijt} + \delta_{ist} + \delta_{jst} + \delta_{ijs}\} \times \varepsilon_{ijst}$$

The analysis covers four broad sectors: agriculture, manufacturing, mining and energy, and services. It finds that the coefficient on tariffs as trade costs is negative and highly significant for agriculture and manufacturing, but not for mining and energy or services. By contrast, the coefficient of RTA depth, measured by the number of legally enforceable provisions (those provisions supported by strong legal language and the availability of a dispute settlement mechanism), is positive and significant for all broad sectors except mining and energy. This finding is consistent with the fact that import tariffs or other barriers on energy imports are typically minimal.

The analysis then simulates a counterfactual scenario for the EU–Mercosur agreement, albeit with some stylized assumptions: (i) tariffs are reduced to zero, and (ii) the depth of the EU–Mercosur agreement, proxied by the number of legally enforceable deep RTA provisions, is the average of the EU's other recent agreements such as with Canada, Japan, Georgia, and Singapore, as measured by the World Bank's Deep Trade Agreements (DTA) database (Hofmann, Osnago, and Ruta, 2017). The impact of simultaneous tariff reductions and deepening of RTA coverage compounds multiplicatively:

$$100\% \times \left(\frac{X' - X}{X}\right) = 100\% \times \left[\left(\frac{1 + \tau'}{1 + \tau}\right)^{\widehat{\beta_1}} \times e^{\widehat{\beta_2}\Delta RTA\ Depth} - 1\right]$$

References

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Hofmann, C., Osnago, A. and Ruta, M., 2017. Horizontal depth: a new database on the content of preferential trade agreements. *World Bank Policy Research Working Paper* No. 7981.

Larch, M. and Yotov, Y.V., 2025. Deep trade agreements and FDI in partial and general equilibrium: a structural estimation framework. *The World Bank Economic Review*, *39*(2), pp.281-307.

Rotunno, L. and Ruta, M., 2026. Trade partners' responses to US tariffs. *IMF Economic Review*, pp.1-38.

Annex VIII. Data Issues

Table 1. Brazil: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating[1]							
A							
Questionnaire Results[2]							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Intersectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	B	A	A		
Granularity[3]	A		A	A	A		
			A		A		
Consistency			B	A		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
[1]The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
[2]The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
[3]The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data is generally timely, comprehensive, and accurate for surveillance across all sectors. Nevertheless, shortcomings exist in some areas of fiscal data, and addressing these shortcomings would help facilitate surveillance work. For example, fiscal statistics are not fully consistent according to a recent IMF TA report (IMF, 2025). There was a discrepancy of about 0.25 percent of GDP in financing in 2025 when measured above and the below the line in the fiscal data compiled broadly consistent with GFSM 2014. This is significantly lower than the average of 1.4 percent during 2019-2021, and may reflect differences in the coverage of institutional units, scope of instruments, moments of recording, and valuation methods (including use of accrual and cash) in the compilation. Materialized precatórios are treated as expenditures and not directly reflected in the Treasury's debt statistics, which can complicate assessing Brazil's public debt stock. In national accounts statistics, a breakdown for gross fixed capital formation is available at annual frequency but not at quarterly frequency.

Changes since the last Article IV consultation. A methodological revision to the cash-based recording of interest in GFS has been completed, with historical series revised back to 2006 for central government and 2010 for general government. The authorities are working towards the TA recommendations.

Corrective actions and capacity development priorities. The authorities received technical assistance from the IMF on Government Finance Statistics (GFS) and Public Sector Debt Statistics in 2024 and have been working on the implementation of the proposed five-year work plan to strengthen the alignment of Brazil's GFS with the GFSM 2014 framework, with the main focus in 2025 on revising the sectorization of the general government. Continued efforts to improve the data quality and methodological compilation of GFS for better alignment with best international standards and practices (including alignment with GFSM 2014) remain capacity development priority.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates lieu of official statistics.

Other data gaps. Not applicable for Brazil.

Table 2. Brazil: Data Standards Initiatives

Brazil adheres to the Special Data Dissemination Standard (SDDS) Plus since November 2019 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Brazil: Table of Common Indicators Required for Surveillance

As of May 29, 2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Expected Frequency[7,8]	Announced Frequency[9]	Expected Timeliness[7,8]	Announced Timeliness[9]
Exchange Rates	2026-05	2026-05	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2026-04	2026-05	M	M	M	...	1W	...
Reserve/Base Money	2026-05	2026-05	D	W	M	M	2W	2W
Broad Money	2026-04	2026-05	M	M	M	M	1M	4W
Central Bank Balance Sheet	2026-04	2026-05	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	2026-04	2026-05	M	M	M	M	1M	4W
Total assets of other depository corporations[2]	2026-04	2026-05	M	M	M	M	1M	4W
Total credit from other depository corporations[2]	2026-04	2026-05	M	M	M	M	1M	4W
Interest Rates[3]	2026-05	2026-05	D	D	D	...	...	...
Consumer Price Index	2026-04	2026-05	M	M	M	M	1M	NLT 15D
Revenue, Expenditure, Balance and Composition of Financing[4]-General Government[5]	2026-04	2026-05	Q/M[10]	Q/M[10]	A	...	2Q	...
Revenue, Expenditure, Balance and Composition of Financing[4]-Central Government	2026-04	2026-05	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2026-04	2026-05	M	M	Q	M	1Q	1M
Total stock of General Government Debt[5]	2026-04	2026-05	M	M	Q	M	4M	1M
External Current Account Balance	2026-04	2026-05	M	M	Q	M	1Q	NLT 4W
Exports and Imports of Goods and Services	2026-04	2026-05	M	M	M	M	8W	NLT 3W
GDP/GNP	Q1 2025	2026-05	Q	Q	Q	Q	1Q	70D
Gross External Debt	Q1 2025	2026-04	Q	Q	Q	Q	1Q	NLT 90D
International Investment Position	Q1 2025	2026-04	Q	Q	Q	Q	1Q	3M

Table 3. Brazil: Table of Common Indicators Required for Surveillance (concluded)

As of May 29, 2026

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic non-bank financing.

[5] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.

[6] Including currency and maturity composition.

[7] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[8] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".

[9] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

[10] The fiscal balance and composition of financing are provided monthly, whereas revenue and expenditure data are available on a quarterly basis.

Annex IX. Past IMF Recommendations and Implementation Status

Past IMF Recommendations	Implementation Status
Monetary Policy	
Ensure flexibility on the pace and length of the hiking cycle given heightened global policy uncertainty and inflation expectations above target-consistent levels.	The BCB's aggressive response to rising inflation has reinforced its already strong inflation-fighting credentials and monetary policy remains firmly contractionary. The BCB's decision to lower interest rates in early 2026 was appropriate.
Fiscal Policy	
Implement a sustained and more ambitious fiscal effort by further mobilizing revenue—including the phasing out of costly and inefficient tax expenditures—and tackling spending rigidities.	Increasing exceptions to the fiscal rules have reduced the primary balance path consistent with meeting the targets. In late 2025, Congress approved a law to trim tax expenditures by one-tenth and strengthen oversight, with annual savings of 0.1 percent of GDP. The authorities activated the cap on personnel expenditure growth of 0.6 percent between 2027 and 2030.
Advance the landmark revenue-neutral Value Added Tax (VAT) reform.	Brazil's VAT reform has shifted from legislation to implementation, with CBS/IBS pilot testing, creation and operationalization of the IBS Management Committee, and publication of key CBS/IBS regulations and digital tax-platform tools.
Enhance tax system progressivity via personal income tax (PIT) reform, while bolstering revenues.	The revenue-neutral PIT reform taking effect in 2026 features a minimum tax for high-income individuals on income including dividends, implying a broadening in the tax base that increases progressivity. At the same time, the provision that increases the personal exemption threshold contributes to reducing progressivity, mainly benefiting upper-middle-income workers.
Financial Sector Policy 1/	
Consider moving to a positive-neutral countercyclical capital buffer (CCyB).	The authorities are advancing towards a positive-neutral countercyclical capital buffer (PN-CCyB) framework, which would further enhance Brazil's macroprudential instruments.
Structural Policy	
Encourage labor force participation, reduce informality and enhance human capital.	Brazil operationalized the National Care Plan to expand childcare and care-worker training, expanded *Cadastro Único*-based productive inclusion, and scaled up apprenticeships alongside expanded vocational and care-economy training.
Further strengthen competition and business environment.	The EU–Mercosur Free Trade Agreement has been ratified and entered into force in May, the VAT reform is advancing, and measures to reduce business costs (*Custo Brasil*), including the expansion and diversification of the logistics network to promoting a more balanced mix of transport modes, streamline regulation and improve governance are ongoing.
Advance ecological transformation.	Brazil approved the Climate Plan, instituted the Brazilian Sustainable Taxonomy, created the extraordinary secretariat for carbon market, rolled out the national bioeconomy development plan, launched Tropical Forests Forever Facility, and issued sovereign sustainable bond.
1/ See Annex II of the 2026 Brazil Financial System Stability Assessment (FSSA) for an update on implementation status of key 2018 FSSA recommendations.	

INTERNATIONAL MONETARY FUND

BRAZIL

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 2, 2026

Prepared By

The Western Hemisphere Department
(In consultation with other departments)

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FUND RELATIONS

(As of May 31, 2026)

Membership Status: Joined January 14, 1946; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	11,042.00	100.00
Fund Holdings of Currency (Exchange Rate)	8,007.26	72.52
Reserve Tranche Position	3,044.13	27.57
Lending to the Fund		
New Arrangement to Borrow	0.00	

SDR Department:

	SDR Million	Percent of Allocation
Net Cumulative Allocation	13,470.34	100.00
Holdings	14,364.20	106.64

Outstanding Purchases and Loans: None

Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
			(SDR Million)	
Stand-by	09/06/2002	03/31/2005	27,375.12	17,199.64
Of which: SRF	09/06/2002	09/05/2003	7,609.69	7,609.69
Stand-by	09/14/2001	09/05/2002	12,144.40	11,385.37
Of which: SRF	09/14/2001	09/05/2002	9,950.87	9,950.87
Stand-by	12/02/1998	09/14/2001	13,024.80	9,470.75
Of which: SRF	12/02/1998	12/01/1999	9,117.36	6,512.40

Projected Payments to the Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2026	2027	2028	2029	2030
Principal		0.00	0.00	0.00	0.00
Charges/Interest		0.06	0.06	0.06	0.06
Total		**0.06**	**0.06**	**0.06**	**0.06**

Safeguards Assessments: A safeguards assessment of the Banco Central do Brasil (BCB) was completed in June 2002 and updated in March 2005.

Exchange Rate Arrangement: Since January 18, 1999, Brazil's de facto and de jure foreign exchange regime has been classified as floating. Brazil accepted the obligations of Article VIII, Sections 2, 3, and 4, effective November 30, 1999.

Brazil maintains a multiple currency practice (MCP) related to current and capital international transactions arising from the *Imposto sobre Operações Financeiras* (IOF) tax on certain exchange transactions (IOF-FX). The MCP arises because the effective exchange rate of exchange transactions subject to the IOF-FX has, since February 1, 2024, continuously exceeded the permissible margin under the MCP policy. Following reforms adopted in 2025, this tax, at 3.5 percent is applicable to exchange transactions related to: (i) those carried out by institutions participating in cross border payment arrangements to fulfill their obligations arising from the customers' transactions related to the purchases of goods/ services abroad and cash withdrawals abroad using payment instruments; (ii) acquisition of traveler's checks and loading of prepaid cards to cover travel expenses abroad; (iii) the acquisition of FX cash; (iv) transfers abroad to residents or their close relatives, (v) obtaining external loans (which are subject to registration with the BCB) with a duration of less than one year, (vi) other not exempted/ not covered transfers abroad (for instance, payments for the importation of services, payments of insurance premiums to foreign insurers and some payments of investment income to nonresidents).

The IOF-FX tax giving rise to the MCP related to payments and transfers for current international transactions that is subject to approval under Article VIII, Section 3 of the Articles of Agreement is also an exchange restriction subject to approval under Article VIII, Section 2 of the Articles of Agreement.

Last Article IV Consultation

The last Article IV consultation with Brazil was concluded by the Executive Board on July 14, 2025. The Financial Sector Assessment Program (FSAP) took place in 2002 and was updated in 2012, 2018 and 2026.

Capacity Development

The Statistics Department provided remote technical assistance on nonfinancial public sector Government Finance Statistics (GFS) data compilation in November 2020 and on Balance of Payments and International Investment Position issues in February 2021. The Monetary and Capital Markets Department has provided technical assistance on debt management issues in May 2023. STA provided technical assistance on GFS improving sectorization and data quality in August 2024. In March 2026, FAD conducted a leadership and change management workshop for senior managers of the Federal Revenue Service, with the aim of helping them manage the adoption of the tax reform, the new organizational structure, and the compliance risk management strategy. It also provided assistance in developing a new strategy aimed at improving customs compliance.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: http://www.worldbank.org/en/country/brazil

Inter-American Development Bank: https://www.iadb.org/en/who-we-are/country-offices/brazil

New Development Bank: https://www.ndb.int/

Statement by Andre Roncaglia, Executive Director for Brazil, Felipe Antunes, Alternate Executive Director, Pedro Miranda, Senior Advisor and Fabiano Gabriel, Government-Provided Advisor
July 20, 2026

On behalf of our Brazilian authorities, we thank Mr. Leigh and his team for the candid and fruitful engagement under the 2026 Article IV consultation. We also thank Ms. Elliott and her team for the constructive discussions under the FSAP. The authorities appreciated the productive policy dialogue, and their views are broadly convergent with those of staff.

Resilient economic growth with declining poverty and inequality despite global shocks

Brazil's strong economic performance continued in 2025. While GDP growth eased through the year, reflecting monetary policy restraint and the gradual fiscal consolidation process underway, per-capita income in 2025 remained above the pre-pandemic growth path. The labor market has been particularly strong, characterized by the lowest unemployment level in the historical series and increasing formalization. Rising income and solid social policies helped reduce poverty and inequality. Brazil left the United Nations Hunger Map and achieved very high human development status according to the latest UNDP data. Inflation declined in 2025, reflecting exchange rate appreciation – driven by both global and domestic factors, including improved domestic risk perceptions –, a record harvest, and the narrowing positive output gap. The current account deficit narrowed to 2.9 percent of GDP, in line with historical patterns, and was more than fully financed by FDI at 3.4 percent of GDP. 2

The economic outlook remains positive despite global shocks. Growth strengthened in early 2026, reflecting the monetary policy shift towards easing, strong agricultural output, and the effects of the progressive personal income tax reform, which boosted household consumption. Nonetheless, the pace of growth is expected to moderate in the coming quarters. The convergence of inflation to the target was temporarily interrupted due to the global energy price shock caused by the war in the Middle East. Overall, Brazil is well- placed to manage the fallout from the war, considering its remarkably clean energy matrix and position as a net oil exporter. Looking ahead, growth will continue to benefit from a wide-ranging structural reform agenda, including the implementation of the VAT reform and the Ecological Transformation Plan.

Fiscal reforms are advancing sustainability, efficiency, and equity

The authorities are committed to ensuring a sustainable path for the primary fiscal balance and public debt. A significant fiscal effort has been undertaken over the past few years, in line with the fiscal framework approved in 2023. The draft budget guidelines published in April set out an indicative target path for the primary balance that will place public debt on a downward path

after 2029. Confirming their commitment to the fiscal framework, authorities have recently blocked 0.2 percent of GDP in discretionary spending to compensate for higher-than-projected mandatory spending on social programs. Temporary fuel tax exemptions and subsidies to mitigate the impact of global shock on the economy and protect the most vulnerable are more than fully financed by windfall revenues and will continue to be reassessed every two months. True to their temporary character, several of the measures have already been discontinued. The authorities have expressed interest in further discussions on how fiscal policy can better incorporate oil price volatility considerations.

The authorities agree that further enhancing spending efficiency is a priority. They welcome the acknowledgement of the significant progress that has been made, including through the establishment of a dedicated secretariat for policy evaluation, the introduction of a medium-term budget framework, and enhanced transparency of parliamentary amendments. The authorities agree that further improving spending efficiency and containing mandatory expenditures are key to increasing fiscal space for priority social and investment spending. In this context, they welcome staff's close engagement on the issue of strengthening consultation. the institutional framework for public spending during the Article IV

Revenue measures have continued to focus on efficiency and progressivity. The authorities achieved important results in 2025 in tackling ineffective and regressive tax expenditures, including by phasing out tax expenditures, as well as approving legislation to further trim tax expenditures and limit tax credits. The revenue-neutral personal income tax reform broadened the tax base and increased progressivity through a new tax on dividends and the introduction of a minimum tax on high incomes. Finally, implementation of the landmark VAT reform will boost productivity by removing distortions in the tax code while increasing progressivity through the cashback mechanism for low-income households.

<u>Ensuring the convergence of inflation to the target</u>

The Central Bank of Brazil (BCB) began easing monetary policy in the first quarter of 2026. After signaling the beginning of rate cuts in February, the BCB cut rates by 25 bps in March, April, and June, bringing the policy rate to 14.25%. The shift to easing policy reflected the growing evidence of the transmission of restrictive monetary policy to the economy, with decelerating economic activity.

Heightened global uncertainty warrants a data-dependent approach to monetary policy. Inflation, which had been declining before the war, began to rise, as did inflation expectations.

Considering the scenario of elevated uncertainty, the BCB has indicated that the magnitude of the monetary policy cycle will be calibrated based on incoming data, so as to ensure the convergence of inflation to the target. The BCB has underscored the importance of anchoring inflation expectations. In this regard, we appreciate staff's analysis of the data from the BCB's survey of professional forecasters, which indicates that monetary policy actions and communication have helped anchor medium-term inflation expectations.

A resilient financial system underpinned by robust regulatory and supervisory frameworks

We welcome the FSAP's assessment that Brazil's financial sector remains resilient, supported by strong capital and liquidity buffers. Even under severe adverse macro- financial scenarios, capital adequacy ratios remain above prudential thresholds. While some smaller banks would fall below regulatory capital requirements under stress, the resulting aggregate capital shortfall amounts to only 0.1 percent of financial system assets. The banking sector holds ample liquidity buffers, with a median Liquidity Coverage Ratio of 205 percent, more than double the Basel minimum requirement. Liquidity stress tests also find the system resilient to a severe outflow scenario, with stress limited to a few banks accounting for only a small fraction of financial system assets. We also appreciate the analysis of climate risks, which suggests that physical risks have overall limited effects on banks while providing useful insights into risk monitoring.

Prudential regulatory and supervisory frameworks are well aligned with Basel III reforms. We welcome the finding that the capital and liquidity framework is aligned with Basel standards and incorporates forward-looking stress testing and capital planning. Banking supervision has strengthened significantly since the 2018 FSAP and benefits from modern regulatory and supervisory practices, supported by extensive use of technology, sophisticated analytics, and risk-based supervision. The assessment of the Basel Core Principles for Banking Supervision highlights the world-class data and analytical capabilities that underpin the BCB's supervisory framework. We welcome the acknowledgment that the macroprudential policy framework has also been strengthened since 2018 and that the authorities have established a robust framework for cybersecurity supervision. Brazil is at the forefront of laying out a regulatory framework for crypto-assets and the authorities are committed to continue developing this framework as the market evolves.

The authorities broadly agree with the recommendations to further strengthen financial stability. Reinforcing banking and securities market supervision, addressing staffing and resource constraints, strengthening legal protections for supervisory staff, and completing the bank

resolution framework remain important priorities. At the same time, they underscore that resource constraints have not prevented the BCB from acting decisively, timely, and credibly to fulfill its mandate. Finally, the authorities disagree with the recommendation to discontinue the open bank assistance function of the deposit insurance scheme (FGC), given its complementary role to the BCB's Emergency Liquidity Assistance framework in managing distress and safeguarding financial stability.

Structural and governance reforms to promote sustainable and inclusive development

The authorities have continued to advance their structural reform agenda to boost sustainable and inclusive development. Following the entry into force of the EU-Mercosur free trade agreement, Brazil has concluded the ratification of trade agreements with Singapore and the European Free Trade Association. Negotiations are ongoing with additional jurisdictions. Continuing to implement initiatives to reduce the cost of doing business, including through the use of digital technologies, is a priority. The reduction in the workweek currently under discussion in Congress is consistent with staff's recommendations and will help reduce inequalities and increase productivity. The implementation of the Ecological Transformation Plan continues to move forward with the publication of Brazil's Sustainable Taxonomy in late 2025.

Fighting organized crime and strengthening the anti-corruption and AML/CFT frameworks continue to be key priorities for the authorities. As noted by staff, Brazil has made progress in applying these frameworks to safeguarding judicial integrity and expanding the Office of the Comptroller General of Brazil's audit activities. Recent improvements to the AML/CFT framework include advances in the oversight of crypto-asset service providers and beneficial ownership registration, as well as an imminent boost to COAF's (Brazil's financial intelligence unit) staff and IT systems. In addition, a series of major intelligence- informed operations have dismantled organized crime networks and shut down their money laundering activities.

Concluding remarks

Brazil's economic policy agenda continues to support sustainable, resilient, and inclusive growth. Macroeconomic policies are helping to mitigate the impact of global shocks and preserve recent social development gains. The BCB has underscored its commitment to calibrating monetary policy based on incoming data to ensure the convergence of inflation to the target level. Fiscal and tax reforms are advancing efficiency and progressivity, while the financial system remains resilient, underpinned by strong buffers and robust oversight. The Ecological

Transformation Plan, trade integration, digitalization, labor-market initiatives, and governance reforms are expected to boost productivity, equity, and sustainability. Our authorities appreciate the Fund's engagement through surveillance and capacity development, which contributes to their efforts to continue moving towards a more efficient, sustainable, and inclusive economy for the benefit of the Brazilian people.