

Domestic inflation shows a more benign trajectory, while the fiscal impasse underscores the government's coordination challenges

Highlights

On the domestic front, Brazilian inflation once again surprised to the downside in September.

The headline IPCA rose 0.48% MoM, below our forecast (0.53%) and the market consensus (0.52%). The result reinforced the ongoing disinflation trend and pointed to a qualitative improvement in its composition, with notable moderation in core services and stability in industrial goods. Downward pressures became more widespread, reflecting both accumulated cost relief in recent months and the recent appreciation of the exchange rate. Among services, inflation was more contained, with food away from home and vehicle maintenance helping to ease sectoral pressures, while administered prices were affected by specific adjustments in electricity and fuel. Even though part of this easing may partially reverse in coming months due to seasonal factors such as food and public tariffs, the moderation trend remains intact, with declining core measures and signs of gradual convergence toward the 2026 target. On the monetary policy front, recent remarks by Copom members maintained a cautious tone and indicated that the Selic rate at 15% remains appropriately restrictive, likely to be kept at this level for an extended period until inflation expectations are firmly anchored and full convergence to the target is ensured.

On the fiscal side, the government suffered another setback in Congress with the withdrawal of Provisional Measure 1303, which sought to replace IOF revenues and secure additional funding for the 2026 budget.

The decision, approved by a vote of 251 to 193, was seen as a political defeat for Finance Minister Fernando Haddad and once again exposed the administration's difficulty in passing measures with fiscal implications, even after multiple concessions during negotiations. In a press conference, Haddad emphasized that the proposal stemmed from a political agreement and was essential to preserve fiscal balance, criticizing maneuvers that, in his view, aim to disrupt the budget for electoral purposes. Against this backdrop, the economic team is now seeking alternatives to offset the revenue loss, including the reintroduction of rules limiting tax offsets, potentially generating around R\$10 billion, and possible cuts to parliamentary amendments. Meanwhile, President Lula signaled greater fiscal flexibility by supporting a bill that excludes Defense expenditures from the fiscal target calculation, a move that reduces the transparency of fiscal rules but seeks to ease political pressure on the government. The sequence of congressional setbacks highlights the challenge of rebuilding political coordination and maintaining credibility around fiscal adjustment commitments amid the growing friction between the Executive and Legislative branches.

On the external front, the U.S. government shutdown remains unresolved, entering its second week and amplifying both economic and political effects.

More than 250,000 federal employees have already missed paychecks, and another 2 million are expected to be affected by next week, with a risk that even the military could miss salaries for the first time in decades. The standoff between President Donald Trump and Congress is starting to erode the administration's popularity as flight delays, national park closures, and disruptions in essential services accumulate. As highlighted in the previous week, the suspension of government operations has also halted the publication of official data, leaving both the administration and the Federal Reserve largely without key indicators to assess the economy. In this context, the Bureau of Labor Statistics (BLS) was authorized by the White House to recall part of its staff to finalize the September CPI report, which is essential for the Social Security cost-of-living adjustment (COLA). Data collection has been completed, but the analysis phase will likely delay publication, originally scheduled for October 15. Even so, the goal is to release the report by the end of the month, ensuring that the COLA announcement proceeds without major delays and that the CPI is available ahead of the next Fed meeting. On Wednesday, the release of the September FOMC minutes reaffirmed that the Committee acknowledges the slowdown in activity and the labor market but still sees upside risks to inflation, maintaining the signal of gradual rate cuts. The prolonged shutdown and the scarcity of official data, however, heighten uncertainty around the Fed's next steps and may complicate the calibration of future policy decisions.

Economic Calendar

In **Brazil**, the domestic agenda will be dominated by economic activity indicators for August, particularly the Services Survey (PMS), Retail Trade Survey (PMC), and the Economic Activity index. In addition, wholesale inflation data for October will also be released.

On **the international front**, the week features inflation and activity data in the United States. It is worth noting that the ongoing government shutdown may once again affect the release of these indicators, with only the CPI currently rescheduled. In the Euro Area, the highlight will be the release of September inflation data.

Date	Country	Event	Period	Survey	Prior
10/10/25	Monday				
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-
13:10	US	Speech by A. Paulson (Fed - Philadelphia)	-	-	-
15:00	Brazil	Weekly Trade Balance	-	-	-
-	US	National Holiday - Columbus Day	-	-	-
10/11/25	Tuesday				
3:00	Germany	Harmonized CPI (YoY)	Sep	-	2,4%
7:00	US	Small Business Confidence	Sep	-	100,8
9:00	Brazil	Systematic Survey of Agricultural Production	Sep	-	-
9:00	Brazil	Services Volume (MoM)	Aug	-	0,30%
16:30	US	Speech by S. Collins (Fed - Boston)	-	-	-
22:30	China	PPI (YoY)	Sep	-2,30%	-2,90%
22:30	China	CPI (YoY)	Sep	-0,20%	-0,40%
10/12/25	Wednesday				
6:00	Eurozone	Industrial Production (MoM)	Aug	-1,8%	0,3%
9:00	Brazil	Retail Sales (MoM)	Aug	-	-0,3%
		Broad Retail Sales (MoM)		-	1,3%
9:30	US	Empire Manufacturing	Oct	-	-8,7
14:30	Brazil	Foreign Exchange Transactions	-	-	-
15:00	US	Beige Book	Sep	-	-
10/13/25	Thursday				
9:00	Brazil	Economic Activity Index (MoM)	Aug	-	-0,5%
9:30	US	Retail Sales (MoM)	Sep	0,3%	0,6%
		Core (MoM)	Sep	0,4%	0,7%
9:30	US	PPI (MoM)	Sep	0,3%	-0,1%
		Core (MoM)	Sep	0,2%	-0,1%
9:30	US	Philadelphia Fed Manufacturing Survey	Oct	9,0	23,20
9:30	US	Initial Jobless Claims	-	-	-
11:00	US	Homebuilder Confidence	Oct	-	32,0
10/14/25	Friday				
5:00	Brazil	IPC-FIPE (MoM)	2 ^o q - Oct	-	0,7%
6:00	Eurozone	CPI (YoY)	Sep	2,2%	2,2%
		Core (YoY)		2,3%	2,3%
8:00	Brazil	IGP-10 (MoM)	Oct	-	0,2%
9:30	US	Housing Starts	Sep	-	1307k
10:15	Brazil	GDP Monitor (MoM)	Aug	-	-
10:15	US	Industrial Production (MoM)	Sep	-	0,1%
In the week					
	China	Monthly Trade Balance	Sep	\$99,3b	\$102.33b

Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025	2026
Brazil GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	2,1	1,8
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	6,3	6,7
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	4,6	4,1
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	15,00	12,25
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,84	6,19	5,50	5,50
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-56,0	-76,3	-74,9
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	-3,5	-3,3
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	52,6	53,6
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	66,8	75,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	3,1	3,3
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-43,0	-73,9	-67,8
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	-0,6	-0,5
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	-42,5	-37,8
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,4	-0,3	-0,3
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	79,4	83,7
United States - GDP (%)	2,5	-2,2	6,1	2,5	2,9	2,8	1,7	2,0
United States - PCE (%)	1,4	1,1	4,1	6,6	3,8	2,5	3,5	2,8
United States - Fed Funds Rate (end of period, %)	1,8	0,3	0,3	4,0	5,5	4,5	3,75	3,00

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