

# Macro scenario - Brazil



April 30, 2026

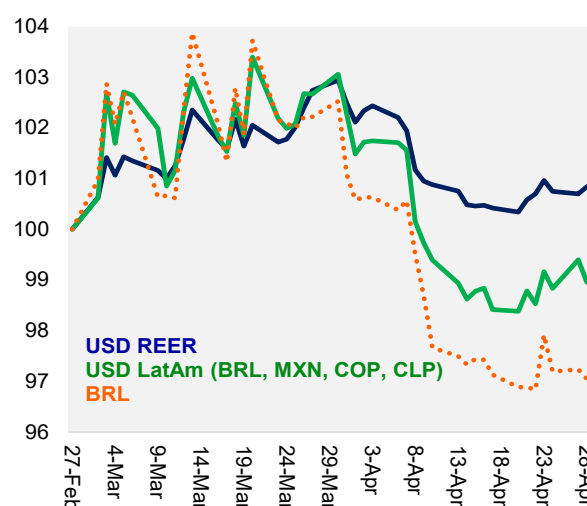
## Inflationary shock tests the limits for the easing cycle

- ▶ We revised our exchange rate forecast to BRL/USD 5.15 (from BRL/USD 5.40) in 2026 and to BRL/USD 5.35 (from BRL/USD 5.60) in 2027. Looking ahead, fundamentals are more constructive, with a structurally weaker USD and a more positive environment for Latin American currencies.
- ▶ We kept our GDP growth forecasts at 1.9% in 2026 and 1.7% in 2027. For 2026, the upward bias remains, albeit limited by the risks associated with the external environment and a possible slowdown in domestic credit. Regarding the labor market, we kept our unemployment rate estimates at 5.7% in 2026 and 6.0% in 2027.
- ▶ We maintained our primary result forecast at -0.5% of GDP in 2026 and -0.6% in 2027. With extraordinary revenues being linked to potential cuts in fuel taxes, the government is set to give up part of the cyclical fiscal improvement provided by the external shock and prioritize mitigating the domestic impact of the war in the Middle East.
- ▶ We revised our 2026 IPCA forecast to 5.2% (from 4.5%), reflecting more pressured near-term readings, mainly from fuels, and higher food inflation, owing to the effects of El Niño on fresh food items and lower milk supply. The balance of risks for 2026 remains tilted to the upside, with additional gasoline and diesel hikes as the main risk. For 2027, we revised our forecast to 4.3% (from 4.1%), incorporating greater inflation inertia. The balance of risks also remains skewed to the upside.
- ▶ The Copom continued the gradual easing cycle, seeking to calibrate the degree of monetary restriction. In view of the renewed deterioration of the inflation outlook, a new round of worsening expectations, and a deterioration in the balance of risks, we revised the Selic rate to 13.25% in 2026 (from 13.00%).

### BRL: more favorable external fundamentals

**We revised our exchange rate forecasts to BRL/USD 5.15 in 2026 (from BRL/USD 5.40) and to BRL/USD 5.35 in 2027 (from BRL/USD 5.60).** The BRL has performed well since the start of the conflict in the Middle East, supported in part by Brazil's position as a net oil exporter and in part by still-high interest rates. Looking ahead, fundamentals are also more constructive, with a structurally weaker USD and a more positive capital-flow environment for emerging economies, including Latin America. Even so, our forecast continues to incorporate some currency depreciation over the course of the year, reflecting greater volatility and a higher risk premium as the electoral cycle advances.

**Weaker USD versus LatAm emerging markets**  
(Feb 27 = 100)



Source: Bloomberg, Itaú

**We revised our current account deficit forecast to USD 69 billion in 2026 (from USD 66 billion) and to USD 77 billion in 2027 (from USD 68 billion).** The deterioration reflects the effects of a stronger exchange rate, with the most relevant impact coming from the income account. We kept the trade surplus forecasts at USD 80 billion in 2026 and USD 75 billion in 2027, as the negative FX effects were offset by other factors, in particular higher oil prices.

## Stable economic activity

**Activity data point to a slightly stronger 1Q at the margin, but with year-on-year growth still similar to that observed in the second half of last year.** IBGE indicators showed widespread expansion across sectors in February. Manufacturing maintained its upward trajectory, while segments more sensitive to income and credit, notably automobiles, advanced, and household services surprised to the upside.

**We estimate GDP growth of 1.0% qoq/sa (1.8% yoy) in 1Q26.** Our tracking for the period is hovering slightly above this expectation, suggesting a modest upward bias to the quarterly result, though without a relevant impact on the full-year forecast.

**We kept our 2026 GDP growth forecast at 1.9%.** In this scenario, the revision in oil prices was offset by a downward revision in global GDP. We still see an upward bias, although attenuated by the high volatility of the external environment and a more challenging credit backdrop, especially for corporates. On the upside, we continue to monitor the effects of recently announced fiscal and quasi-fiscal measures. On the downside, it is worth noting that a prolonged conflict would tend to weigh negatively on the domestic economy.

**For 2027, we kept our growth forecast at 1.7%.** The fading fiscal impulse should be partially offset over time by less contractionary monetary policy.

**In the labor market, inflection signals remain ambiguous.** Accordingly, we kept our unemployment forecasts at 5.7% in 2026 and 6.0% in 2027. Going forward, the expectation of growth around potential, combined with a slight increase in the participation rate, should lead to a small uptick in unemployment over the coming months.

## Fiscal: cyclical improvement consumed by measures to cushion pressure on domestic prices

**We kept our 2026 primary balance forecast at -0.5% of GDP, with an upward bias from revenues linked to even higher oil prices, which are being consumed by measures to cushion the rise in domestic prices.** Our new scenario assumes even higher average oil prices (USD 84/bbl on average, vs. USD 80/bbl previously). However, with the government's proposal to link the additional revenues from higher oil prices to potential cuts in federal fuel taxes, the government is set to give up part of the fiscal improvement provided by the external shock and prioritize mitigating the domestic impact of the war in the Middle East. Although the format is not yet defined, we incorporate a partial reduction in gasoline taxes and the postponement of diesel subsidies until year-end.

**For 2027, we kept the primary balance at -0.6% of GDP.** Despite a slightly more favorable starting point relative to the pre-war scenario, the structural challenge remains relevant. We estimate that, under current rules and with no course correction, the fiscal adjustment required to stabilize public debt – currently around 4 p.p. of GDP – will be increasing and of even more sizable magnitudes.

## Inflation: another upward revision for 2026 and 2027

**We revised our 2026 IPCA forecast to 5.2% (from 4.5%), reflecting greater near-term pressure, mainly from fuels and food.** The revision incorporates the impact of the El Niño phenomenon, especially on fresh food items. In addition, we project more pressured milk prices, owing to lower supply this year.

**In the short term, with international oil prices still at elevated levels, the pressure tends to come from additional gasoline price hikes, given the gap between domestic and external prices.** We assume, however, that there will be mitigation measures, such as new tax cuts, limiting the immediate upward impact on inflation.

**The balance of risks for the forecast remains tilted to the upside.** Additional gasoline and diesel price hikes are the main risk for this year.

**Federal tax cuts could offset higher gasoline prices at the refinery level**

	Impact (bps) / Equivalent Refinery Price Adjustment	PIS/Cofins Gasoline C + CIDE			
		0.68	0.48	0.28	0.00
ICMS	1.57	0 / 0%	-15 / 11%	-29 / 22%	-50 / 38%
	1.07	-37 / 28%	-52 / 39%	-66 / 50%	-87 / 66%
	0.57	-74 / 56%	-88 / 67%	-103 / 78%	-124 / 93%
	0.00	-116 / 87%	-131 / 98%	-145 / 110%	-166 / 125%

Source: Itaú

**For 2027, we revised our inflation forecast to 4.3% (from 4.1%), incorporating greater inflationary inertia.** The balance of risks remains skewed to the upside and is associated, above all, with rising fertilizer prices and the possibility of a more intense El Niño – factors that tend to pressure agricultural production costs and, consequently, food inflation.

**Monetary policy: even less room for rate cuts**

**The Copom continued the easing cycle with another 25-bp cut amid still-high uncertainty.** The

monetary authority continues to emphasize that this will be a calibration cycle for monetary policy – that is, a cycle that will still end in contractionary territory, given the starting point of unanchored inflation expectations and a positive output gap.

**The deterioration of the inflation outlook, the worsening of Focus expectations and of the balance of risks, indicates less room for rate cuts, even with a stronger BRL.** According to our simulations, based on the BCB model, Selic scenarios below 13.00% would require not only an exchange rate below BRL/USD 5.00, but also the absence of further deterioration in expectations – a condition that, at this point, appears unlikely.

**We revised again our terminal Selic forecast to 13.25% in 2026 (from 13.00%).** Once more, still-elevated uncertainty and pressured inflation readings in the coming months should prevent the Central Bank from accelerating the easing pace. We expect another adjustment of the same magnitude (-25 bps) in June.

**For 2027, we maintain the expectation of a continued easing cycle, with the Selic rate converging to 12.25%.**

## Brazil | Forecasts and Data

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
<b>Economic Activity</b>								
Real GDP growth - %	3.0	3.2	3.4	<b>2.3</b>	<b>1.9</b>	1.9	<b>1.7</b>	1.7
Nominal GDP - BRL bn	10,080	10,943	11,779	<b>12,739</b>	<b>13,479</b>	13,441	<b>14,335</b>	14,264
Nominal GDP - USD bn	1,951	2,192	2,186	<b>2,278</b>	<b>2,626</b>	2,534	<b>2,726</b>	2,590
Population (millions)	210.9	211.7	212.6	<b>213.4</b>	<b>214.2</b>	214.2	<b>215.0</b>	215.0
Per Capita GDP - USD	9,255	10,356	10,281	<b>10,676</b>	<b>12,259</b>	11,831	<b>12,682</b>	12,047
Nation-wide Unemployment Rate - year avg	9.5	8.0	6.9	5.9	<b>5.5</b>	5.5	<b>5.8</b>	5.9
Nation-wide Unemployment Rate - year end (*)	8.4	7.8	6.5	5.4	<b>5.7</b>	5.7	<b>6.0</b>	6.0
<b>Inflation</b>								
IPCA - %	5.8	4.6	4.8	4.3	<b>5.2</b>	4.5	<b>4.3</b>	4.1
IGP-M - %	5.5	-3.2	6.5	-1.1	<b>5.7</b>	4.8	<b>3.8</b>	3.7
<b>Interest Rate</b>								
Selic - eop - %	13.75	11.75	12.25	15.00	<b>13.25</b>	13.00	<b>12.25</b>	12.00
<b>Balance of Payments</b>								
BRL / USD - eop	5.28	4.86	6.18	5.47	<b>5.15</b>	5.40	<b>5.35</b>	5.60
BRL / USD - average	5.17	4.99	5.39	5.59	<b>5.13</b>	5.30	<b>5.26</b>	5.51
Trade Balance - USD bn	62	99	75	68	<b>80</b>	80	<b>75</b>	75
Current Account - % GDP	-2.2	-1.2	-3.0	-2.9	<b>-2.6</b>	-2.6	<b>-2.8</b>	-2.6
Direct Investment (liabilities) - % GDP	4.0	2.9	3.4	3.4	<b>3.5</b>	3.6	<b>3.8</b>	4.0
International Reserves - USD bn	325	355	330	358	<b>360</b>	360	<b>360</b>	360
<b>Public Finance</b>								
Primary Balance - % GDP	1.2	-2.3	-0.4	-0.4	<b>-0.5</b>	-0.5	<b>-0.6</b>	-0.6
Nominal Balance - % GDP	-4.6	-8.8	-8.5	-8.3	<b>-8.8</b>	-8.7	<b>-8.5</b>	-8.3
Gross Public Debt - % GDP	71.7	73.8	76.3	78.6	<b>82.5</b>	82.8	<b>86.2</b>	86.4
Net Public Debt - % GDP	56.1	60.4	61.3	65.2	<b>71.1</b>	70.7	<b>75.0</b>	74.5
Growth of public spending (% real, pa, **)	6.0	7.6	3.2	4.2	<b>4.7</b>	4.9	<b>1.4</b>	1.6

Source: IBGE, FGV, BCB and Itaú

(\*) Nation-wide Unemployment rate measured by PNADC, seasonally adjusted

(\*\*) We do not consider the 2023 payment of extraordinary court-ordered debts (precatórios). Including it, spending grew by 12.5% in 2023 and fell by 0.9% in 2024.

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