

Macro scenario - Brazil



February 27, 2026

Stronger BRL, disinflation, and lower interest rates

- ▶ We revised our FX forecast to BRL/USD 5.40 for 2026 and 5.60 for 2027 (from 5.50 and 5.70, respectively). A global environment of more appetite for risk assets has supported the BRL, but the rise in local risk premium typically seen around elections still limits a more meaningful appreciation.
- ▶ We maintained our 2025 GDP growth estimate at 2.3% and kept our forecasts for 2026 and 2027 unchanged at 1.9% and 1.7%, respectively. For 2026, the balance of risks remains tilted to the upside, given the possibility of additional countercyclical measures and stronger-than-expected credit dynamics. In the labor market, we also kept our unemployment rate forecasts at 5.7% in 2026 and 6.0% in 2027.
- ▶ We also revised our 2026 IPCA inflation forecast to 3.8% (from 4.0%), mainly reflecting a stronger currency and its disinflationary effects on tradable items – particularly food and industrial goods. The balance of risks remains skewed to the downside. For 2027, we lowered the forecast to 3.9% (from 4.0%), incorporating lower inflation inertia.
- ▶ With a stronger currency and downward inflation revisions, we updated our Selic rate forecast to 12.25% at end-2026 (from 12.75%) and 11.25% at end-2027 (from 11.75%). Even so, we still expect a contained easing cycle, since disinflation remains concentrated in tradables (and therefore more dependent on FX dynamics) and the labor market remains resilient, keeping underlying inflation risks in place.
- ▶ We maintained our primary deficit forecast at 0.8% of GDP in 2026 and 0.9% in 2027. Beyond the estimated 0.3% of GDP gap to meet the 2026 target, we foresee the need for structural adjustments – particularly on the expenditure path – from 2027 onward, to stabilize public debt and lay the groundwork for sustainable growth with lower real interest rates.

BRL supported by a more benign external environment

We revised our FX forecast to BRL/USD 5.40 in 2026 (from 5.50) and BRL/USD 5.60 in 2027 (from 5.70). A more benign external backdrop, combined with a still-contained domestic risk premium and a wide interest-rate differential, has allowed the BRL to trade at more appreciated levels early this year. The currency has strengthened amid foreign inflows in a global environment of more appetite for risk. However, the expected rise in local risk premium ahead of elections remains the main depreciation driver through the year, limiting further appreciation.

We maintained our current account deficit forecast at USD 70 billion (2.8% of GDP) in 2026 and USD 68 billion (2.7% of GDP) in 2027. These levels remain above the historical average (around 2.2% of GDP), but we do not anticipate further deterioration relative to the

deficit observed in 2025. On the one hand, we forecast a stronger trade balance, reaching USD 74 billion in 2026 and USD 75 billion in 2027. On the other hand, we expect services and income deficits to remain pressured, limiting a more consistent improvement in the current account. Despite the historically large deficit, the broader external accounts backdrop is more benign, mainly due to improved external financing, with stronger foreign inflows in both direct investment and portfolio flows.

Activity: GDP growth of 2.3% in 2025

We estimate GDP grew 2.3% in 2025. Given weaker indicators in December, we assess 4Q25 GDP likely posted only a small sequential gain, close to flat qoq/sa. By sector, we believe services accelerated – highlighting resilience amid a still-tight labor market – while industry declined, led by manufacturing.

Despite the weak December reading, we expect some recovery in activity momentum in 1Q26. Our forecast is for GDP to rise by around 1.0% qoq/sa in 1Q26, supported, among other factors, by the income tax cut. Our IDAT data suggests the economy has been broadly flat early this year. However, we expect the income tax cut to become more visible in household consumption over February and March.

For 2026, we kept our GDP growth forecast at 1.9%, with an upward bias. This reflects the possibility of countercyclical fiscal and quasi-fiscal measures that could soften the slowdown in activity. In addition, we see upside risks from stronger-than-expected credit

performance, particularly in housing, given reserve requirement changes implemented last year.

For 2027, we forecast GDP growth of 1.7%, with reduced fiscal impulse partly offset by a less contractionary monetary policy stance.

In the labor market, we maintained our unemployment rate forecasts at 5.7% in 2026 and 6.0% in 2027. GDP growth around 2%, combined with a lower labor force participation rate assumption, should keep the labor market relatively tight and unemployment low for longer.

IDAT Heatmap (YoY, nsa)									
Breakdown	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
IDAT-Activity	-1.1%	-0.7%	-1.1%	-0.9%	-0.6%	-1.3%	1.0%	-0.2%	-2.8%
IDAT-Services	-1.2%	0.1%	0.6%	-2.2%	-0.6%	-1.4%	-1.4%	-1.3%	-3.1%
IDAT-Goods	-1.1%	-1.5%	-2.7%	0.3%	-0.5%	-1.2%	3.5%	1.1%	-2.6%
IDAT-Goods sensitive to income	5.3%	4.2%	0.6%	2.8%	3.0%	3.0%	2.9%	3.5%	-0.6%
IDAT-Goods sensitive to credit	-7.7%	-8.5%	-8.6%	-2.4%	-6.2%	-7.4%	2.1%	-6.1%	-12.7%

*Considering data up to Feb 21

Inflation: downward revisions for 2026 and 2027

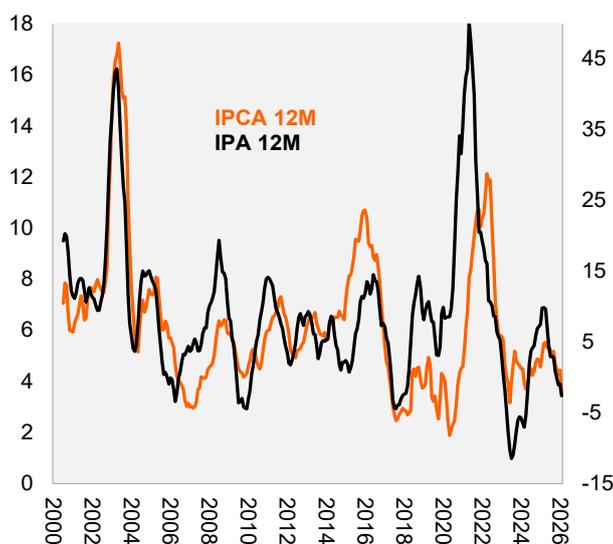
We revised our 2026 IPCA forecast to 3.8% (from 4.0%), mainly reflecting a stronger exchange rate and its disinflationary effects on tradables.

Currency appreciation tends to improve the inflation outlook for food and industrial goods. In this regard, we have already seen declines in these groups in producer price indices, which should translate into a more benign consumer inflation trajectory ahead.

The balance of risks remains skewed to the downside for tradable items. Further currency appreciation could generate disinflationary surprises, especially in food and industrial goods. Safeguards imposed by China on Brazilian beef imports may also contribute to lower food inflation if supply is not significantly reallocated.

For 2027, we revised our inflation forecast to 3.9% (from 4.0%), incorporating lower inflation inertia carried over from 2026.

A stronger exchange rate and disinflation in producer prices should help the IPCA



Source: IBGE, Itaú, FGV

Monetary policy: lower rates

The Copom signaled the start of the easing cycle for the next meeting in March, supported by a stronger currency and benign current inflation, despite a still-resilient labor market. With the exchange rate at current levels and absent near-term inflation surprises, the Central Bank's model should show inflation projections over the relevant horizon (3Q27) around the target and below the 3.2% projection from the last meeting, supporting the start of the cycle with a 50-bp cut – already expected in the Focus survey and largely priced in by the market.

Regarding the size of the cycle, we revised our terminal Selic rate forecast to 12.25% in 2026 (from 12.75%), mainly reflecting a stronger currency and the resulting downward inflation revisions. The Central Bank has reiterated that the magnitude and duration of the cycle will be defined over time, noting that the current phase is still one of policy calibration – consistent with a more contained easing cycle. Despite recent disinflation, it remains concentrated in tradables, benefiting from currency appreciation, while the labor market remains tight and wage growth continues to run above inflation and productivity, keeping relevant underlying inflation pressures in place. In this context, a materially larger cycle than currently priced would require a structurally stronger currency – a less likely scenario in an election year.

For 2027, we forecast further cuts, with the benchmark rate reaching 11.25% (from 11.75%), gradually reducing the degree of monetary restriction.

Fiscal: a 0.3% of GDP gap to meet the 2026 target; necessary structural adjustment ahead

We maintained our primary balance forecast at -0.8% of GDP in 2026. A possible boost in revenues from royalties – due to higher oil prices – should be

offset by a stronger currency and lower inflation. To meet the effective target of -0.5% of GDP (considering allowed deductions and the lower bound), we estimate a gap of 0.3% of GDP, which will depend on the confirmation of extraordinary revenues and strict adherence to the fiscal framework in its current format. On the expenditure side, the risk remains initiatives that increase the fiscal impulse. One example is the normalization of the INSS backlog, which – if it returns to 2024 levels – would imply around BRL 22 billion in additional spending under the fiscal framework's cap.

For 2027, we expect further deterioration to -0.9% of GDP, assuming the current framework remains in place and no additional revenue sources are introduced. We estimate that, under the current rules and absent any course correction, the fiscal adjustment required to stabilize public debt – currently around 4 p.p. of GDP – will rise and become even more sizeable. Therefore, we proposed a comprehensive adjustment package to be implemented from 2027 onward ([see Macro Vision: Lessons and possible fiscal proposals for 2027](#)). The measures could deliver an improvement of 6.8 p.p. by 2036 relative to a no-reform scenario, with around 70% coming from expenditure control. We believe that such effort would be able to bring public debt down – laying the groundwork for sustainable growth with lower real interest rates.

Brazil | Forecasts and Data

	2022	2023	2024	2025F		2026F		2027F	
				Current	Previous	Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	3.0	3.2	3.4	2.3	2.3	1.9	1.9	1.7	1.7
Nominal GDP - BRL bn	10,080	10,943	11,779	12,708	12,708	13,335	13,370	14,100	14,141
Nominal GDP - USD bn	1,951	2,192	2,186	2,273	2,273	2,514	2,437	2,560	2,521
Population (millions)	210.9	211.7	212.6	213.4	213.4	214.2	214.2	215.0	215.0
Per Capita GDP - USD	9,255	10,356	10,281	10,650	10,650	11,738	11,376	11,908	11,705
Nation-wide Unemployment Rate - year avg	9.5	8.0	6.9	5.9	-	5.5	5.6	5.9	5.9
Nation-wide Unemployment Rate - year end (*)	8.4	7.8	6.5	5.4	-	5.7	5.7	6.0	6.0
Inflation									
IPCA - %	5.8	4.6	4.8	4.3	-	3.8	4.0	3.9	4.0
IGP-M - %	5.5	-3.2	6.5	-1.1	-	3.0	3.7	3.7	3.7
Interest Rate									
Selic - eop - %	13.75	11.75	12.25	15.00	-	12.25	12.75	11.25	11.75
Balance of Payments									
BRL / USD - eop	5.28	4.86	6.18	5.47	-	5.40	5.50	5.60	5.70
BRL / USD - average	5.17	4.99	5.39	5.59	-	5.30	5.49	5.51	5.61
Trade Balance - USD bn	62	99	75	68	-	74	74	75	75
Current Account - % GDP	-2.2	-1.2	-3.0	-3.0	-	-2.8	-2.8	-2.7	-2.7
Direct Investment (liabilities) - % GDP	4.0	2.9	3.4	3.7	-	3.6	3.8	4.1	4.1
International Reserves - USD bn	325	355	330	360	-	360	360	360	360
Public Finance									
Primary Balance - % GDP	1.2	-2.3	-0.4	-0.4	-	-0.8	-0.8	-0.9	-0.9
Nominal Balance - % GDP	-4.6	-8.8	-8.5	-8.4	-	-8.8	-8.9	-8.2	-8.4
Gross Public Debt - % GDP	71.7	73.8	76.3	78.8	-	83.4	83.9	87.2	87.9
Net Public Debt - % GDP	56.1	60.4	61.3	65.4	-	71.2	71.0	75.1	75.1
Growth of public spending (% real, pa, **)	6.0	7.6	3.2	4.2	-	3.9	3.7	2.4	2.5

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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