March/2026

Monthly Scenario: Breaking Down Our Projections

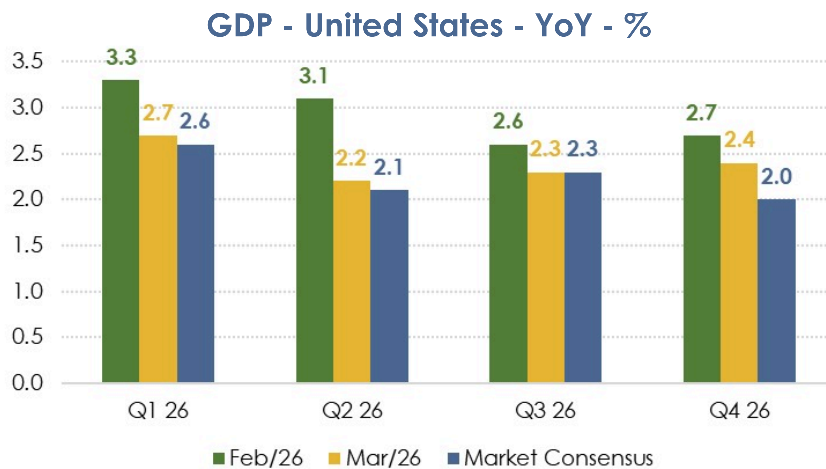
International Scenario - United States

Economic Activity

We revised our U.S. growth forecast for 2026 from 2.7% to 2.4%, incorporating two main factors. On the one hand, the statistical carryover from Q4 2025 came in weaker, with the Bureau of Economic Analysis second estimate confirming growth of only 0.7% annualized. On the other hand, the conflict in the Middle East is expected to put upward pressure on energy costs, reduce households' real income, and weaken both business and consumer confidence.

The quarterly path suggests a "U-shaped" trajectory, with a more pronounced loss of momentum in the first half of the year, bringing GDP down to 2.2% in Q2. The second quarter should mark the most acute phase of this adjustment, as the energy shock compresses households' disposable income, geopolitical uncertainty weighs on investment decisions, and services consumption begins to reflect the impact of higher fuel prices. From that point onward, we project a gradual recovery, with growth rising to 2.3% in Q3 and 2.4% in Q4.

In the second half of the year, the recovery should continue to be supported by the same structural drivers highlighted previously, including investment in artificial intelligence infrastructure and data centers, wealth effects sustaining consumption among higher-income households, and the still-present impulse from fiscal stimulus. This recovery phase is also expected to benefit from a partial dissipation of the energy shock.



Source: BEA e Buysidebrazil.

Labor Market

We maintain our unemployment forecast at 4.5% throughout the projection horizon, broadly in line with market consensus. The nature of the current shock—primarily driven by higher energy costs and the resulting tightening in financial conditions—is more likely to operate through a moderation in demand rather than an abrupt contraction in activity. As a result, the labor market adjustment should occur mainly through a slowdown in hiring and a decline in job openings, rather than through large-scale layoffs. While more energy- and transportation-intensive sectors may face localized adjustments, employment in services sectors is expected to keep the unemployment rate close to 4.5% over the course of the year.

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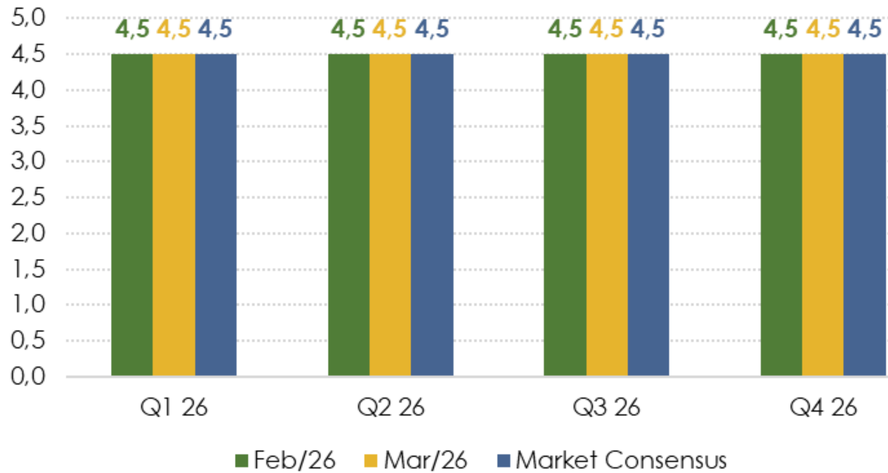


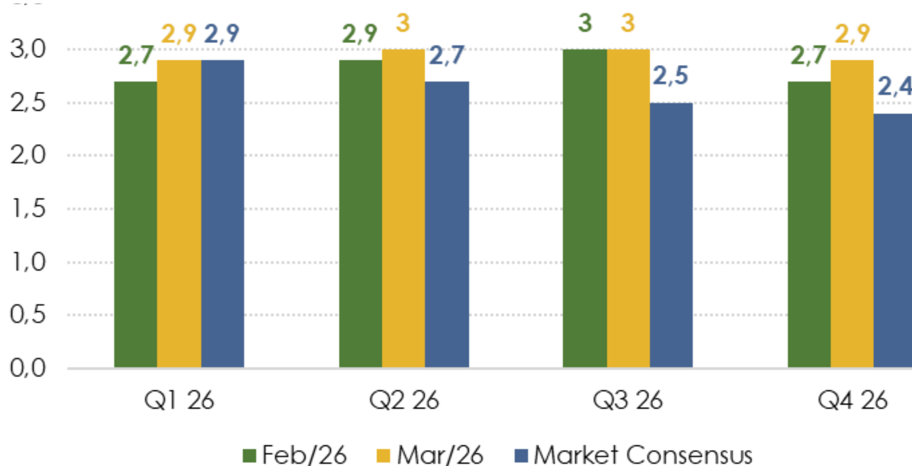
Source: BLS e Buysidebrazil.

Inflation

Inflation dynamics throughout 2026 are expected to be characterized by a gradual disinflation process, though still influenced by cost pressures, particularly those related to energy, tariffs, and goods transportation. Even in a context of somewhat softer activity, these factors are likely to pass through along the production chain, initially affecting goods prices and, with a lag, services inflation.

In this context, our estimates suggest that, starting from a baseline of USD 70 per barrel, each USD 10 increase in Brent crude oil prices generates an impact of approximately 0.2 percentage points on Core PCE over subsequent quarters, reflecting both direct and second-round effects. This impact, combined with tariff pass-through and the inflation inertia in the services sector, contributes to a slower disinflation process than currently anticipated by market consensus.

Relative to market consensus, our higher Core PCE projection is primarily driven by three factors: (i) indirect cost effects, especially from energy and tariffs, not yet fully incorporated into forecasts; (ii) persistent inflation inertia in the services sector; and (iii) a gradual slowdown in activity that is insufficient to produce a rapid decline in inflationary pressures. This environment is likely to lead the Federal Reserve to maintain interest rates at restrictive levels for longer, as underlying inflation is expected to remain above target throughout 2026 despite moderating growth.



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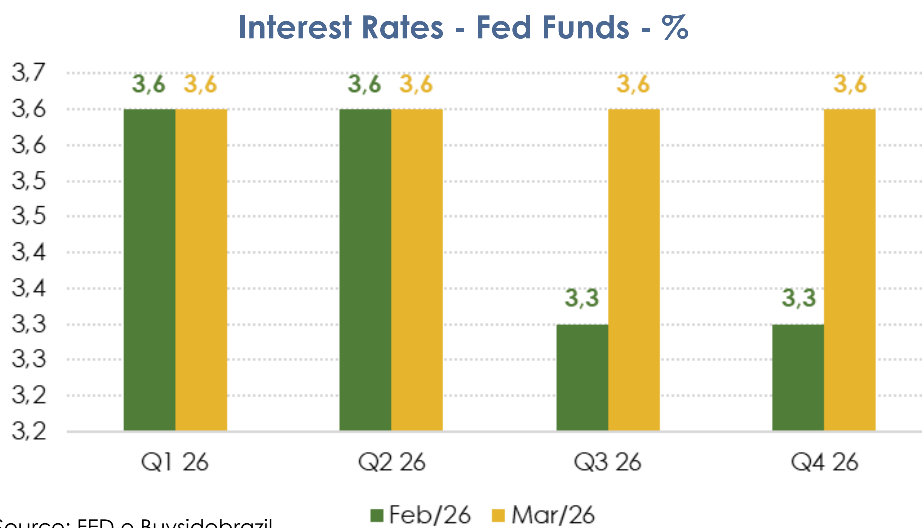
Monetary Policy

We revised our Fed Funds projection to 3.75% by the end of 2026. At the March meeting, the Federal Open Market Committee kept the policy rate unchanged within the 3.50%–3.75% range, and the dot plot revealed increasing dispersion among participants: 14 out of 19 members now project between zero and one rate cut for the year, with the median signaling only a single adjustment.

Our assessment is more conservative than the FOMC median itself. With Core PCE starting the year at 2.9%, rising to around 3.0% by mid-year, and ending 2026 still close to 2.9%, we judge that the monetary authority will lack sufficient confidence to initiate an easing cycle at any point over the horizon.

The recent increase in energy prices makes monetary policy management more challenging for the Federal Reserve. Even if the direct impact on headline inflation fades over time, the primary concern lies in potential pass-through to core components and, more importantly, in the risk of de-anchoring inflation expectations. This represents an adverse supply shock that simultaneously compresses households' real income and weakens the pace of activity, while pushing inflation higher in the near term. As a result, the central bank faces a less favorable trade-off between inflation control and growth support.

In this environment, the Federal Reserve is likely to adopt a more cautious stance, keeping interest rates at restrictive levels for longer until clearer evidence of convergence in underlying inflation emerges. Our baseline of unchanged rates throughout the projection horizon reflects this setting, in which inflation remains above target and activity slows only gradually, failing to generate sufficient labor market deterioration to justify the start of an easing cycle.



Source: FED e Buysidebrazil.

Domestic Scenario

Economic Activity

Our GDP projection for 2026 remains unchanged from the previous report, with annual growth of 1.8%. In the Focus Survey, the median forecast is also unchanged, although the Top 5 Medium-Term forecasts still point to an upward bias. It is worth noting that both our projection and the market's remain above the estimate published by the Banco Central do Brasil in the March Monetary Policy Report, which indicates growth of 1.6% for 2026. This difference mainly reflects a more favorable outlook for the agricultural and industrial sectors.

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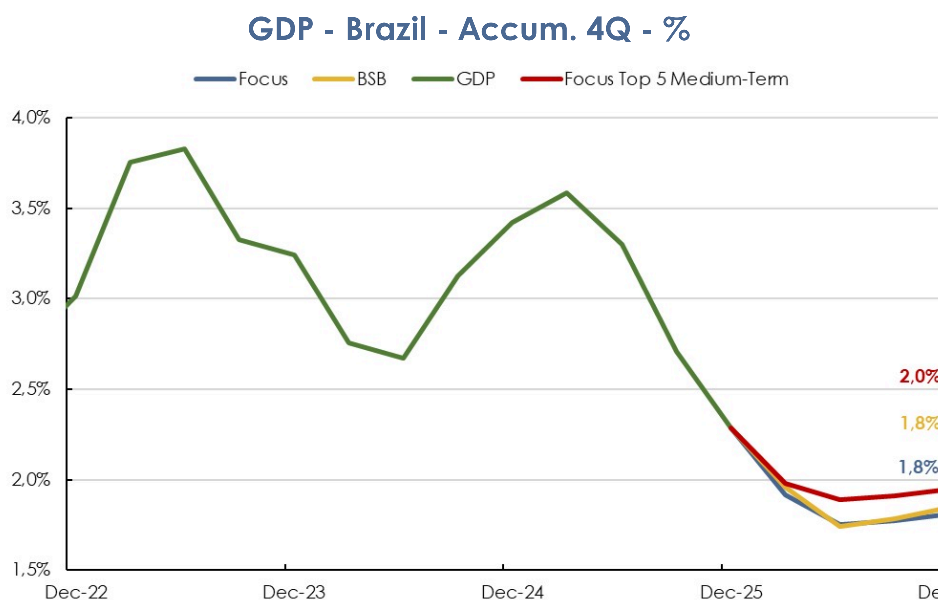
In agriculture, data from the IBGE Systematic Survey of Agricultural Production point to a slightly smaller grain harvest in 2026 compared to 2025, although still with record soybean output. This suggests somewhat stronger sector performance than that incorporated by the central bank for the first half of the year. The monetary authority itself revised its projection upward following stronger readings from Conab and IBGE, although it still assumes a lower level of activity than observed in 2025.

At the same time, part of the support for activity should come from sectors more sensitive to income and investment. The initial effects of the income tax reform are likely to support the services sector in the first half of the year, while construction-related stimulus, including the expansion of Minha Casa Minha Vida and ongoing infrastructure projects, should also provide additional support to the economy. Our baseline, however, remains one of a gradual loss of momentum in the second half of the year, reinforcing the view of a more moderate and evenly distributed slowdown throughout 2026.

This relatively more constructive view, however, has not translated into a higher growth projection for 2026 because the recent increase in oil prices represents a supply shock with potentially negative effects on activity. This new factor adds uncertainty to the outlook and offsets part of the upside risk associated with the resilience of agriculture and income- and investment-sensitive sectors. As a result, we maintain our growth forecast at 1.8%, now with a more balanced distribution of risks in both directions. Prior to the conflict, the balance of risks was predominantly tilted to the upside.



Source: IBGE, BCB e Buysidebrazil.

Labor Market

For 2026, both our assessment and market expectations point to a gradual cooling of the labor market following the historically low unemployment rate observed at the end of 2025. Still, this slowdown is expected to be more limited than previously anticipated. We revised our end-2026 unemployment rate forecast from 5.7% to 5.3%, indicating a tighter labor market than expected in February. Broadly, this revision is aligned with the shift in market expectations, with the Focus Survey median moving from 5.8% to 5.6%, while the Top 5 medium-term forecasts remained at 5.4%.

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The revision reflects, first, a milder loss of momentum at the beginning of the year, consistent with stronger-than-expected data in the early months and still favorable survey indicators. During the first half, the unemployment rate is expected to rise more noticeably due to seasonal factors. In the second half, however, seasonality should work in the opposite direction, supporting some improvement. This dynamic is also likely to be sustained by election-related stimulus, the resilience of the services sector, and the continuation of government programs, particularly incentives for construction, which are already showing results.

When shifting from the end-of-year perspective to the annual average, the picture also points to a somewhat tighter labor market than previously projected. We expect an average unemployment rate of 5.5% in 2026, below the 5.6% projected by the Focus Top 5 medium-term forecasts. Even so, this outcome remains consistent with some normalization relative to 2025. The difference is that last year's average was affected by a higher unemployment rate at the start of the year, whereas in 2026 the year begins from a lower level, which in itself contributes to a lower annual average.

Source: IBGE, BCB e Buysidebrazil.

Fiscal Policy

We revised our fiscal scenario for 2026 in light of the first bimonthly report on revenues and expenditures. Table I compares the three available snapshots: the budget approved in December, the government's first bimonthly report, and our BSB 2026 scenario. The main divergence remains on the expenditure side. We project BRL 2.65 trillion in primary spending, above both the approved budget (BRL 2.6135 trillion) and the first bimonthly report (BRL 2.6368 trillion). Our projections for mandatory spending, at BRL 2.4041 trillion, exceed by BRL 11.4 billion the cap of BRL 2.3927 trillion imposed by the fiscal framework, which would require additional cuts of the same magnitude in discretionary spending over the course of the year. The phasing of the commitment schedule, which left BRL 43.4 billion undistributed between November and December, acts as a buffer to accommodate these adjustments, in line with the pattern observed in previous years.

This more pessimistic view on expenditures reflects our assessment that the political environment in 2026, marked by instability and the proximity of elections, is likely to put upward pressure on spending. In addition, higher oil prices, by creating a perception of greater fiscal space, increase the likelihood of additional expenditures throughout the year. Under these assumptions, we continue to project a Central Government primary balance of -0.55% of GDP (BRL -75.0 billion), implying a residual adjustment of around BRL 11.6 billion to reach the lower bound of the fiscal target.

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Table I: Central Government Primary Balance

Description	LOA 2026		1st Bimonthly Assessment 2026		BSB 2026		BSB - 1st Bimonthly 2026	
	BRL billions	% GDP	BRL billions	% GDP	BRL billions	% GDP	BRL billions	% GDP
1. Total Primary Revenue	3.198,1	23,1	3.197,5	23,5	3.200,0	23,5	2,5	0,0
2. Revenue-Sharing Transfers	607,5	4,4	620,6	4,6	625,0	4,6	4,4	(0,0)
3. Net Revenue (1) - (2)	2.590,6	18,7	2.576,9	18,9	2.575,0	18,9	(1,9)	0,0
4. Primary Expenditures	2.613,5	18,9	2.636,8	19,4	2.650,0	19,5	13,2	0,1
Mandatory	2.373,2	17,2	2.392,1	17,6	2.404,1	17,7	12,0	0,1
Executive Branch Discretionary (net of spending freeze)	240,3	1,7	244,7	1,8	245,9	1,8	1,2	0,0
5. Central Government Primary Balance (3) - (4)	(22,9)	(0,2)	(59,8)	(0,4)	(75,0)	(0,6)	(15,2)	(0,2)
6. CA 136 & CLs 221 and 223/2025 Deductions	57,8	0,4	63,4	0,5	63,4	0,5	—	(0,0)
7. Central Government Primary Balance after Deductions (5) + (6)	34,9	0,3	3,5	—	(11,6)	(0,1)	(15,1)	(0,1)
8. Fiscal Target (art. 2, caput, LDO 2026)	34,3	0,2	34,3	0,2	34,3	0,3	—	0,1
9. Lower Bound of Fiscal Target (art. 2, § 1, II, LDO 2026)	—	—	—	—	—	—	—	—
10. Room (+) / Adjustment (-) to Lower Bound (7) - (9)	**34,9**	**0,3**	**3,5**	**—**	**(11,6)**	**(0,1)**	**(15,1)**	**(0,1)**

Source: MPO e Buysidebrazil.

On the revenue side, the main source of improvement comes from natural resource extraction. We built a sensitivity model that decomposes the impact of higher oil prices into four direct revenue channels: royalties, special participation, corporate income taxes (IRPJ/CSLL) from oil companies, and the government's profit oil marketed by PPSA under pre-salt production-sharing contracts. Our previous baseline assumed an exchange rate of BRL 5.40 and Brent crude oil at USD 70, close to the updated assumptions published by the Secretaria de Política Econômica in the first bimonthly report (USD 73.09). With oil prices consistently trading above USD 85 in recent weeks and briefly exceeding USD 100, we now consider a Brent scenario of USD 85, keeping the exchange rate unchanged at BRL 5.40. Under this shift, the estimated additional revenue relative to our previous baseline is on the order of BRL 35 billion, considering only these four direct effects.

This figure, however, is gross. We estimate that roughly half, around BRL 17.5 billion, effectively accrues to the Central Government, contributing to net federal revenue. This represents a meaningful fiscal tailwind, which could support both compliance with the lower bound of the fiscal target and the financing of new measures to mitigate the inflationary effects of higher oil prices. Heatmap I below illustrates the sensitivity of total federal revenue to different combinations of exchange rates and oil prices.

Heatmap I: Change in Total Revenue (R$ Billions)

(USD/BRL) \ Brent (US$/bbl) →	60	70	80	90	100	110	120
5,00	-32,0	-12,5	6,9	26,3	45,7	65,1	84,6
5,10	-29,2	-9,4	10,4	30,2	50,0	69,8	89,6
5,20	-26,5	-6,3	13,9	34,1	54,3	74,5	94,7
5,30	-23,7	-3,1	17,5	38,0	58,6	79,2	99,8
5,40	-21,0	0,0	21,0	42,0	62,9	83,9	104,9
5,50	-18,2	3,1	24,5	45,9	67,2	88,6	110,0
5,60	-15,5	6,3	28,0	49,8	71,5	93,3	115,0
5,70	-12,7	9,4	31,6	53,7	75,8	98,0	120,1
5,80	-10,0	12,5	35,1	57,6	80,1	102,7	125,2
5,90	-7,2	15,7	38,6	61,5	84,4	107,4	130,3
6,00	-4,5	18,8	42,1	65,4	88,7	112,0	135,4

It is worth noting that our estimates are conservative along at least three dimensions. We do not include the impact of Petrobras dividends to the federal government, we do not account for the premium of Brazilian oil relative to Brent crude oil, and we also do not model indirect effects. The conclusion is that oil alone does not solve the fiscal challenge, but it provides a meaningful short-term boost. Our current balance of risks is tilted toward a better fiscal outcome than projected, both because revenues may surprise to the upside relative to our conservative assumptions and because part of the spending pressures embedded in our scenario may not fully materialize.

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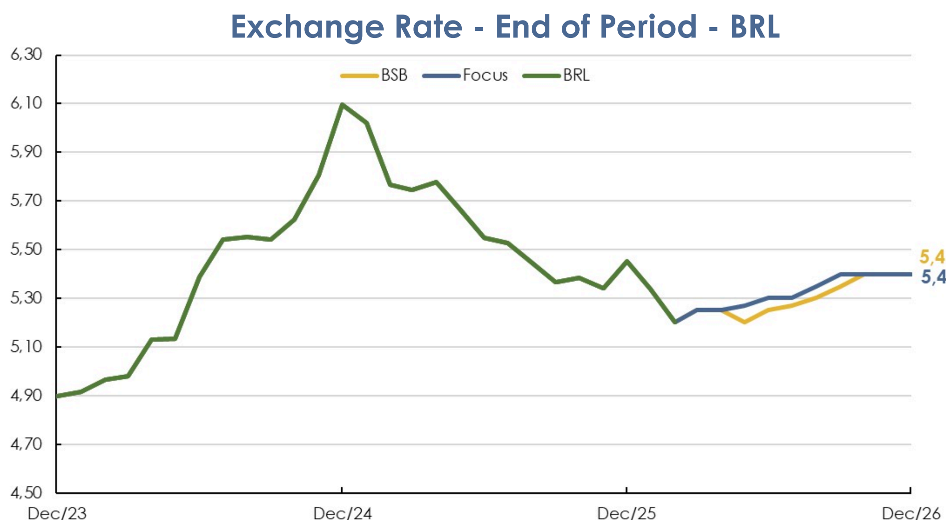
Exchange Rate

In the current environment of heightened geopolitical uncertainty, the Brazilian real has shown relatively stronger performance than its peers, even amid rising global risk aversion. This behavior largely reflects Brazil's position as a net commodity exporter, which acts as a buffer during episodes of higher oil prices and improved terms of trade. As a result, despite the ongoing conflict and the elevated level of uncertainty, we assess that the exchange rate is likely to remain relatively well-behaved in the short term, particularly during the first half of the year, with a marginal appreciation bias.

Despite this backdrop, we maintain our exchange rate forecast at BRL 5.40/USD by the end of 2026, in line with market expectations. While the short-term outlook suggests room for a stronger currency, we incorporate into our projection a risk premium associated with the domestic electoral cycle, which is expected to become more relevant in the second half of the year. Thus, we acknowledge a short-term downside bias, but assess that political uncertainty is likely to limit a more sustained appreciation of the currency over the projection horizon.



Source: BCB e Buysidebrazil.

Inflation

We revised our IPCA forecast to 4.3% in 2026, from 3.9%, incorporating the recent deterioration in fuel prices and at-home food inflation. At this stage, our estimate stands above the Focus Survey median of 4.21%, but we see scope for further upward revisions in the coming days, reflecting a scenario in which the geopolitical conflict persists longer than initially expected. We expect these pressures to be concentrated in the coming months, driven by both the oil shock and ongoing pass-through to food prices, but to gradually fade in the second half as these shocks dissipate. Still, the effects should be reflected in the full-year inflation print, albeit more concentrated in these more volatile components.

Despite this short-term dynamic, we assess that the inflation outlook remains relatively constructive at the margin. If the exchange rate appreciates more than assumed in our baseline, where we maintain BRL 5.40/USD, we see room for a more benign trajectory in industrial goods and food prices, with effects that could materialize within the year. These impacts, however, would be more fully reflected through inflation inertia over the course of 2027, contributing to a more favorable inflation composition ahead.

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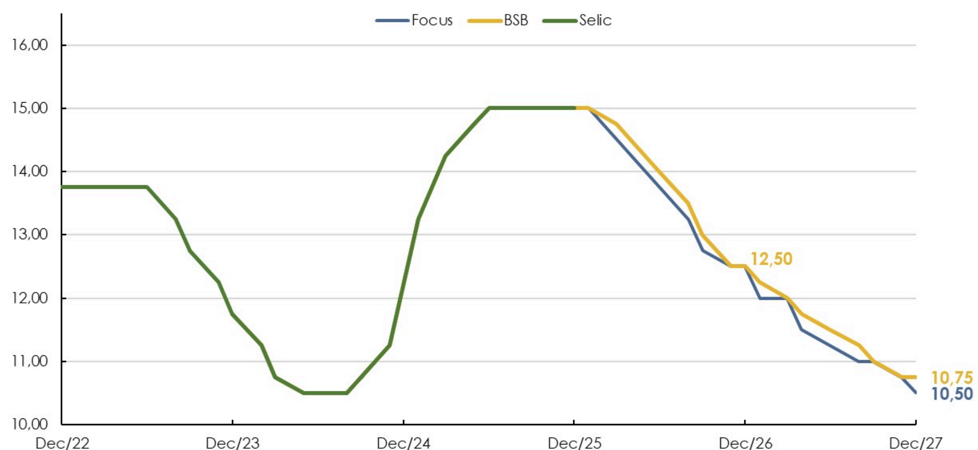
Source: IBGE, BCB e Buysidebrazil.

Monetary Policy

In the monetary policy scenario, we revised our Selic rate projection for end-2026 to 12.50%, from 12.00%, in line with the market median. The change mainly reflects the incorporation of a more adverse and persistent geopolitical backdrop, which has translated into additional pressures on fuel prices. This environment increases uncertainty around the inflation path and worsens the short-term balance of risks, requiring a more contractionary monetary policy stance. Given the upward revision to IPCA, we assess that a higher terminal rate is needed to ensure inflation convergence over the relevant horizon, particularly in light of the diffusion of shocks and their effects on expectations.

In this context, and amid an environment still marked by elevated uncertainty, the Banco Central do Brasil is likely to maintain a cautious and strongly data-dependent stance, calibrating the pace and magnitude of adjustments according to incoming information. We project the Selic rate to end 2026 at 12.50% and then decline over the course of 2027, reaching 10.75% by year-end, as the inflation outlook becomes more benign. The consolidation of this scenario would open room for a more consistent easing cycle, with positive spillovers to expectations.



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