

Brazil: Slight Uptick in 2026 and 2028 Inflation Expectations, Softer Growth, Stable Selic Rate Expectations (Ramos)

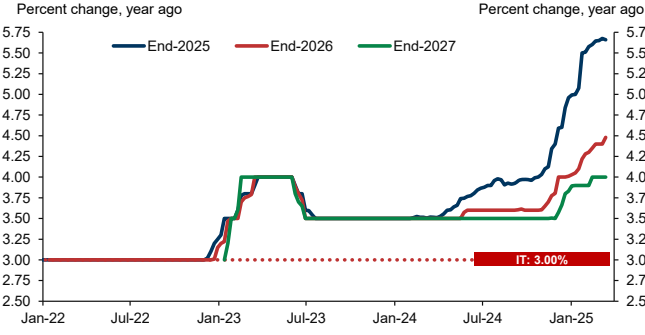
Bottom Line: *Inflation expectations for 2026 and 2028 moved further up in the latest weekly central bank Focus survey (unchanged for 2027) and growth expectations for 2025-26 deteriorated slightly. Year-end 2025 inflation expectations declined a minor 2bp to 5.66% (still significantly above the 3.0% target) but for 2026 rose 8bp to 4.48% (unchanged at 4.00% for 2027, and up 3bp to 3.78% for 2028). The expectations for 2025/26/27 real GDP growth are now at 1.99% (-2bp)/ 1.60% (-10bp)/2.00% (unchanged). The expected Selic path for end-2025/26/27/28 remained at 15.00%/12.50%/10.50%/10.00%. The median expectation for the primary fiscal balance of 2025/26/27/28 remains in negative (deficit) territory: -0.60%/-0.65%/-0.40%/-0.22% of GDP; contrary to the government's targets of non-negative prints, attesting to the low credibility and weak anchoring effect of the fiscal framework. The nominal fiscal deficit is expected to remain deep in the red over the medium term: 8.97%/8.50%/7.15% for 2025/26/27. Prolonged above-target medium-term inflation expectations (2026-28) harden price-formation mechanisms and make it more costly for the central bank to deliver inflation at the target.*

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DETAILS:

1. According to the central bank's weekly survey of market analysts, the median inflation expectation for year-end 2025 declined 2bp to 5.66% (still well above the 3.0% target). 12-month ahead inflation expectations declined 7bp to 5.23%.
2. The median inflation expectation for 2026 rose 8bp to 4.48%, for 2027 remained at 4.00%, and for 2028 rose 3bp to 3.78%.
3. The median market expectation for the Selic for end-2025/26/27/28 remained at 15.00%/12.50%/10.50%/10.00%.
4. The expectation for real GDP growth in 2025 is at 1.99% (2.01% a week ago), and for 2026 at 1.60% (1.70% a week ago).
5. The median expectation for the primary fiscal balance remains in the red through 2028: -0.60%/-0.65%/-0.40%/-0.22% of GDP, contrary to the government's path of rising primary surpluses. This is consistent with the expectation of continuously rising public sector debt.
6. The BRL/USD median expectation for year-end 2025 is at 5.98 (5.99 a week ago) and for year-end 2026 at 6.00 (6.00 a week ago).

Median Inflation Expectations: Deteriorating 2026 Expectations



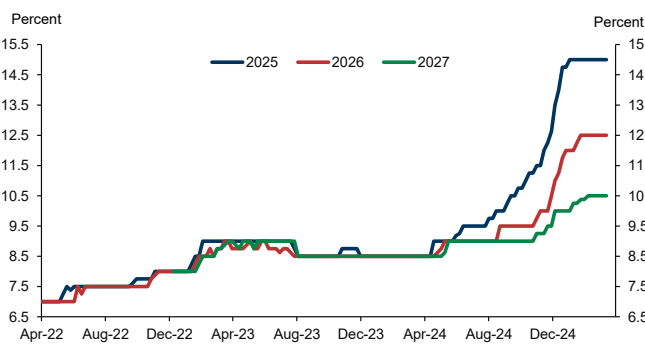
Source: BCB, Haver Analytics, Goldman Sachs Global Investment Research

12-Month Ahead Inflation Expectations



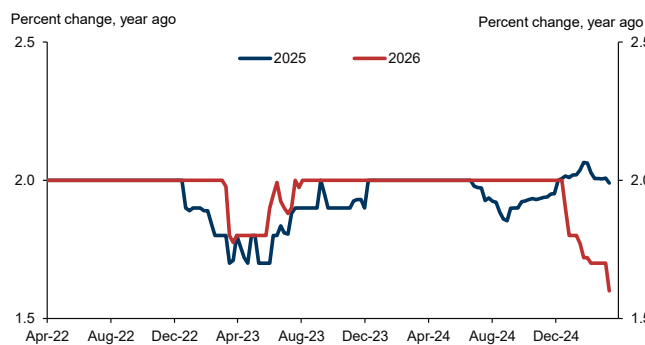
Source: BCB, Haver Analytics, Goldman Sachs Global Investment Research

Median Selic Policy Rate Expectations



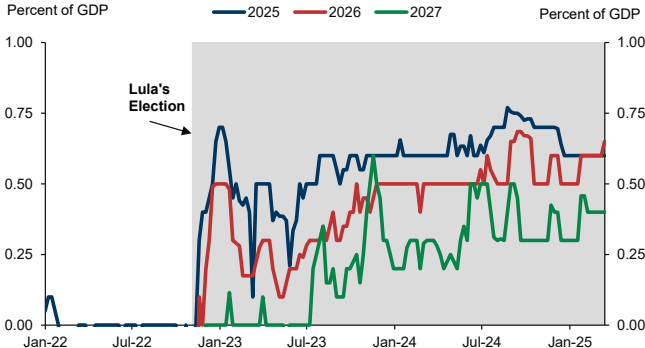
Source: BCB, Haver Analytics, Goldman Sachs Global Investment Research

Median Real GDP Growth Expectations



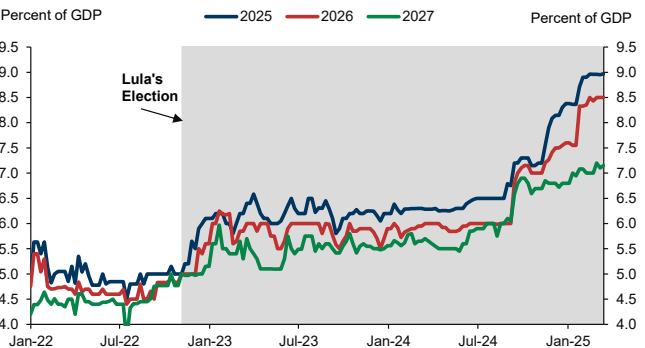
Source: BCB, Haver Analytics, Goldman Sachs Global Investment Research

Median Primary Fiscal Deficit Expectations



Source: BCB, Haver Analytics, Goldman Sachs Global Investment Research

Median Overall Fiscal Deficit Expectations



Source: BCB, Haver Analytics, Goldman Sachs Global Investment Research

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