Research

OCTOBER 2025

Brazil Economic Outlook

Brazil: main messages

Growth deceleration prospects remain unchanged: GDP is forecast to expand 2.2% in 2025 and 1.5% in 2026, less than in recent years, mostly due to tighter monetary conditions, a smaller fiscal impulse and US tariffs. Still, tight labor markets and potential stimulus ahead of 4Q26 elections should prevent a sharper slowdown.

Inflation has eased more than expected lately, and is set to decline further. Year-end forecasts have been revised down to 4.8% for this year and 3.7% for next. Softer domestic demand and a stronger Brazilian real are the main drivers of the expected moderation.

Policy interest rates will likely remain unchanged at 15% through 2025, with a monetary easing expected to begin in early 2026. They are forecast to gradually converge to 11% by the end of the next year, still a restrictive level.

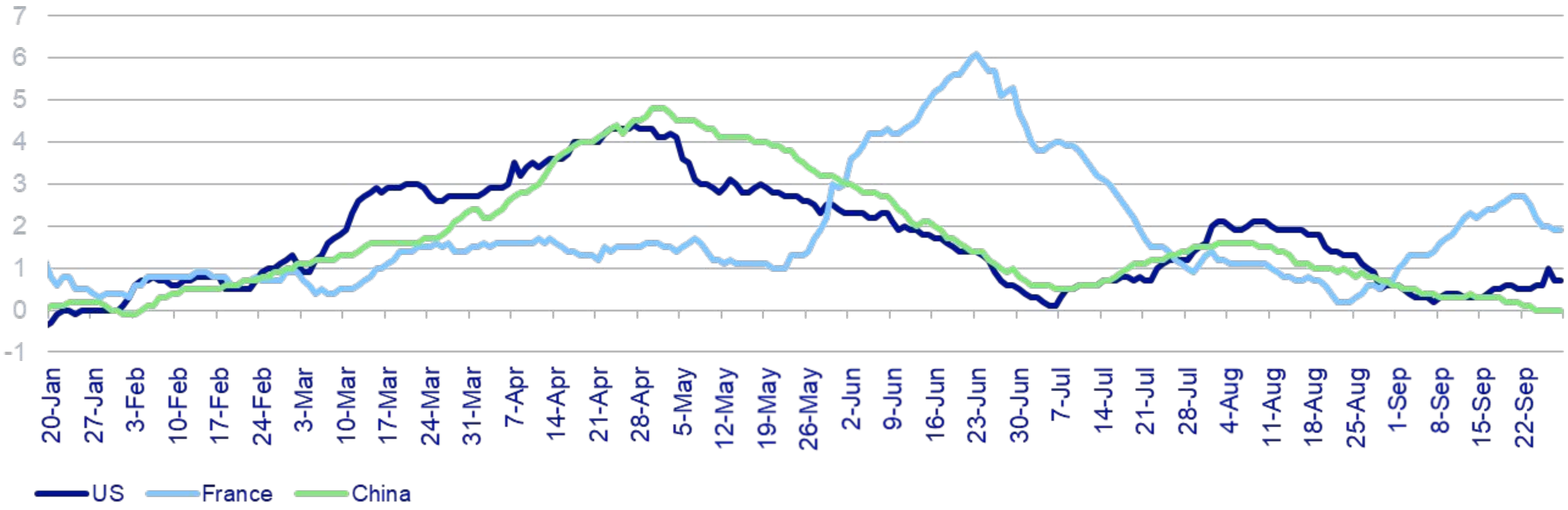
A deterioration in relations with the US, political tensions, and fiscal and climate shocks are the main sources of risk. Still, if managed effectively, Brazil's could grow above 2% from 2027 onwards, exceeding current expectations.

Research

Global Outlook

Protracted uncertainty on tariff news, pressure on the Fed, immigration policies, debt risks, geopolitical tensions…

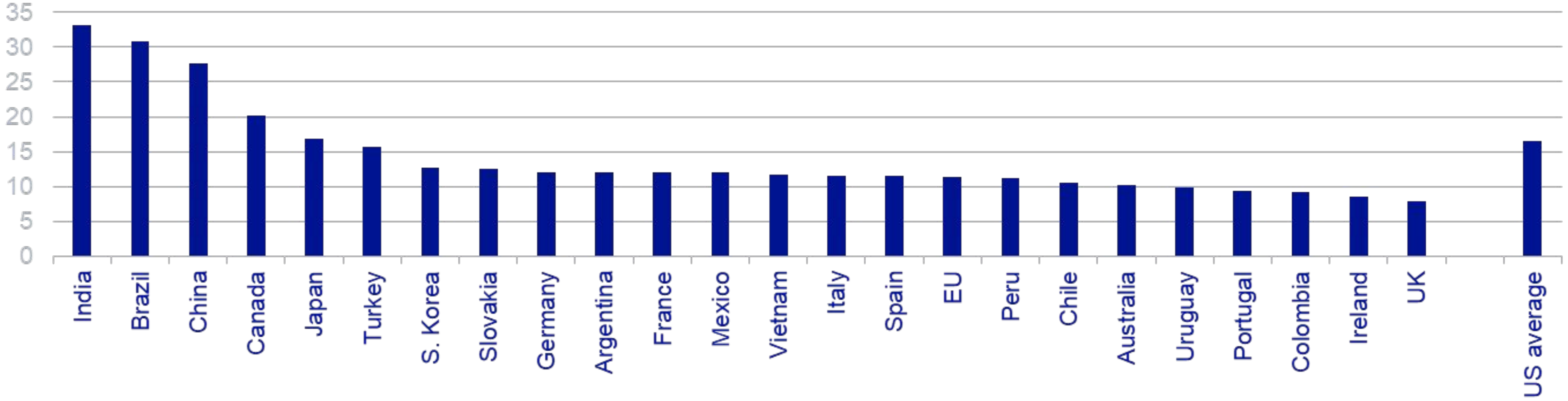
ECONOMIC POLICY UNCERTAINTY INDEX (2025): UNITED STATES, FRANCE AND CHINA (*)
(INDEX: HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



(*) Last available data: September 28, 2025
Source: BBVA Research

Protectionism: US tariffs have reached high levels, especially for some targeted countries

US TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 UNTIL SEPTEMBER 26 (*)
(PP)

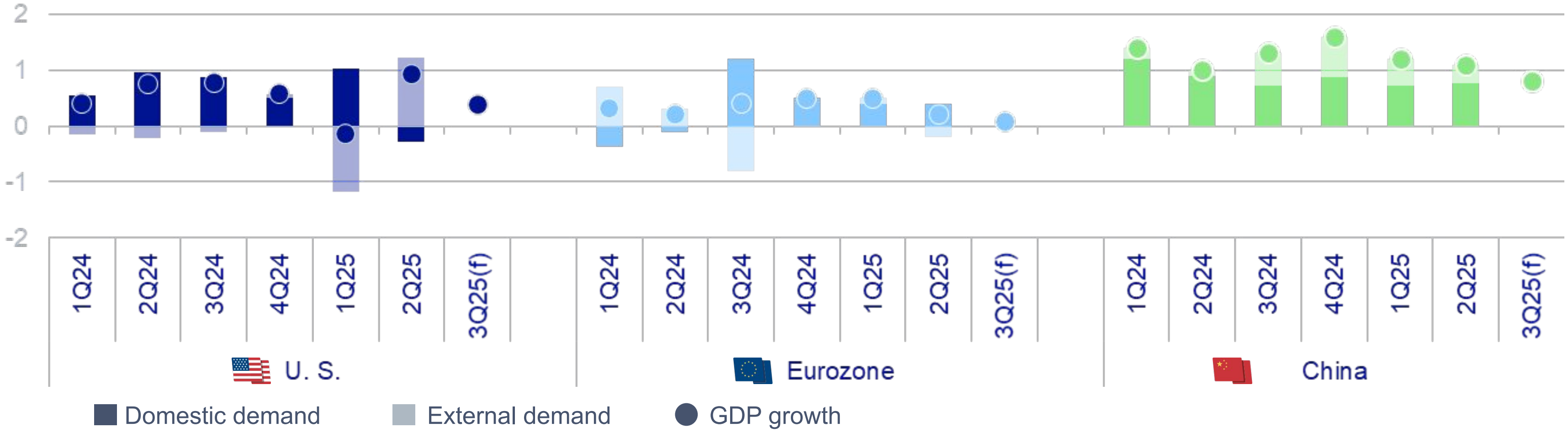


(*) Following recent trade deals and unilateral US announcements. Based on general tariffs set for each country (reciprocal and/or fentanyl), specific tariffs on some sectors (steel, aluminun, automobiles, autoparts...) and exempted goods (selected electronics, oil...). Sectoral weights are calculated according to 2024 trade flows.
Source: BBVA Research

Despite US trade deals with the EU, UK, Japan, Vietnam, etc., uncertainty on tariffs remain given still unsettled negotiations, legal challenges and the view that they are now part of the US policy toolkit; preliminary evidence suggest that effective tariffs are below face-value tariffs

GDP growth has remained broadly resilient in the first half of the year, despite deceleration signs

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



(f): BBVA Research forecast
Source: BBVA Research based on data from Haver and China's NBS

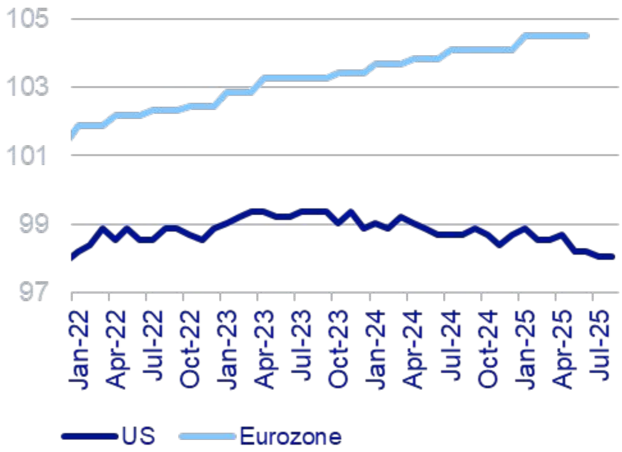
GDP data surprised upwards in 1H25; consumption has slowed, but remained relatively robust; investment has been supported by AI spending; exports have stayed resilient

Global trade surged ahead of tariffs, but has slowed lately; US labor markets have eased amid lower immigration flows

GLOBAL EXPORTS OF GOODS: VOLUME
(4Q19=100; THREE-MONTH MOVING AVERAGE)

Source: BBVA Research based on data from Haver

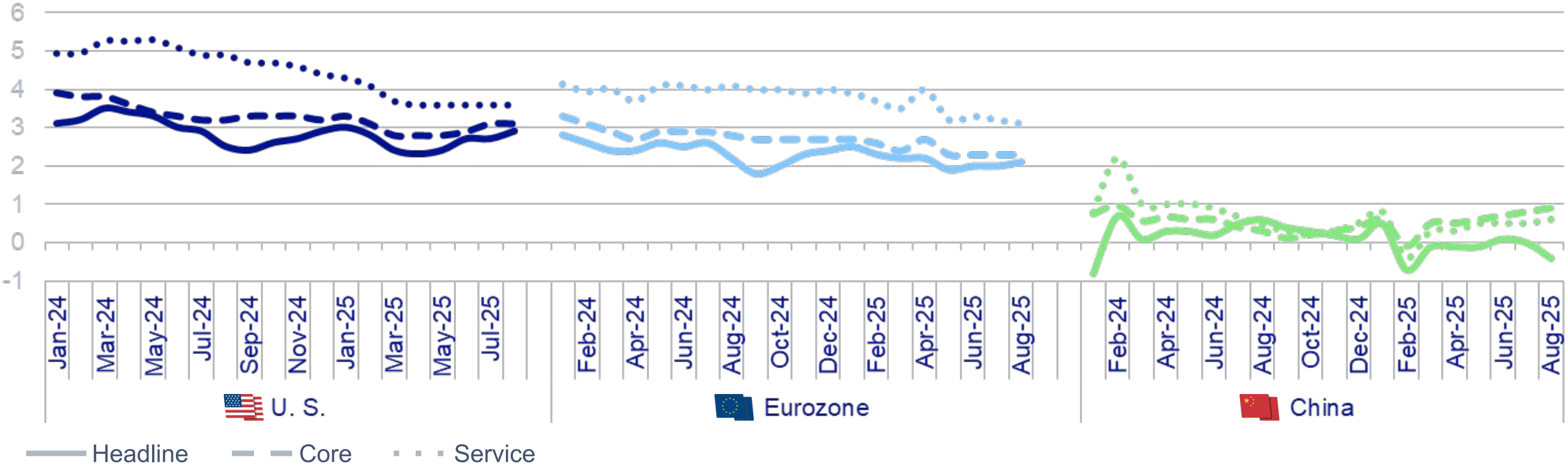
EMPLOYMENT-POPULATION RATIO
(INDEX: 2019 AVERAGE = 100)



Source: BBVA Research based on data from Fred and Eurostat

Inflation has risen (but less than expected) in the US; it remains close to 2% in the Eurozone and very low in China

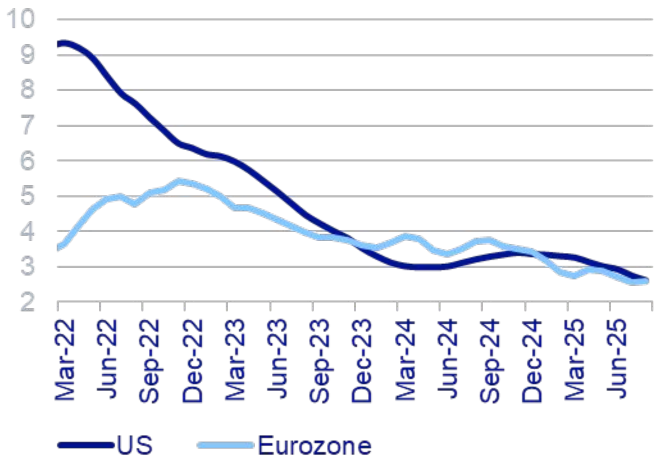
CPI INFLATION: HEADLINE, CORE AND SERVICE
(Y/Y %)



Source: BBVA Research based on data from Haver

Wage moderation and lower energy prices have taken some pressure off inflation

NOMINAL WAGES: INDEED WAGE TRACKER (Y/Y %, 3-MONTH MOVING AVERAGE)



Source: BBVA Research based on data from Indeed

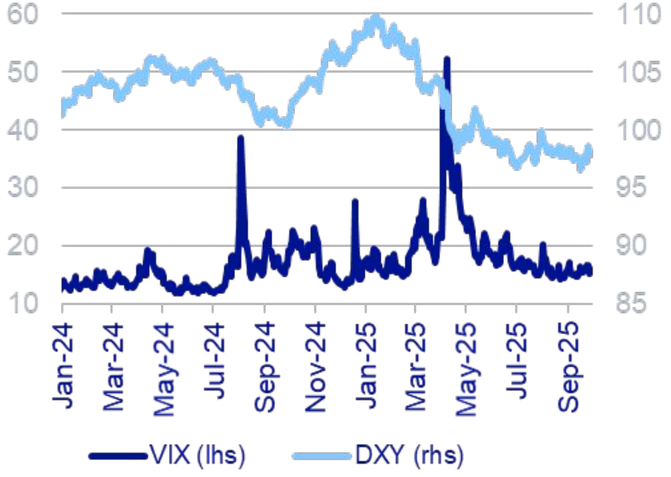
BRENT PRICES (*)
(USD PER BRENT BARREL)

(*) Last available data: September 29, 2025
Source: BBVA Research based on data from Haver

Wage growth has slowed despite immigration curbs while oil prices have remained low despite ongoing geopolitical tensions; their effects are helping to offset the initial impact of tariffs

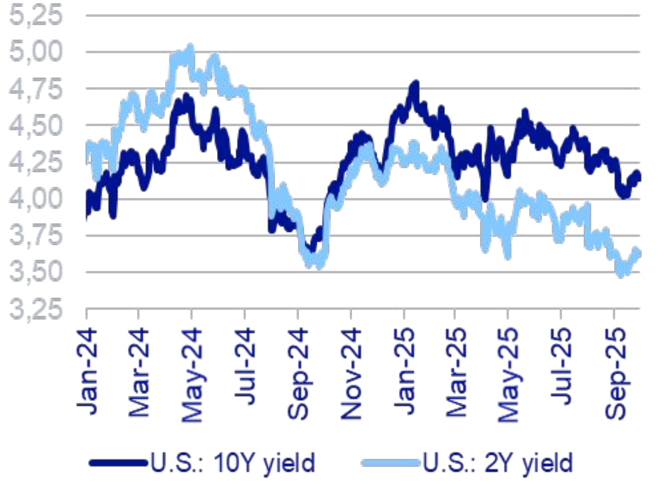
Financial markets continue to exhibit a positive tone, supported by prospects of lower interest rates in the US

EQUITY VOLATILY (VIX); US DOLLAR (DXY)
(INDEXES)



(*) A lower DXY represents a weaker US dollar. Last available data: September 29, 2025.
Source: BBVA Research based on data from Haver

US SOVEREIGN YIELDS
(%)



(*) Last available data: September 29, 2025.
Source: BBVA Research based on data from Haver

Unsettling US policies are likely to hit the global economy, even though impact could be more gradual than expected

Global resiliency, so far, due to fiscal stimulus, AI boom, looser monetary conditions, weaker dollar, preemptive exports, effective tariffs below nominal levels, etc.

More disruptive US policies: tariffs rose beyond expectations, attacks on institutions and immigration curbs have been harsher than anticipated, fiscal deficits will stay high, geopolitical conflicts remain unresolved...

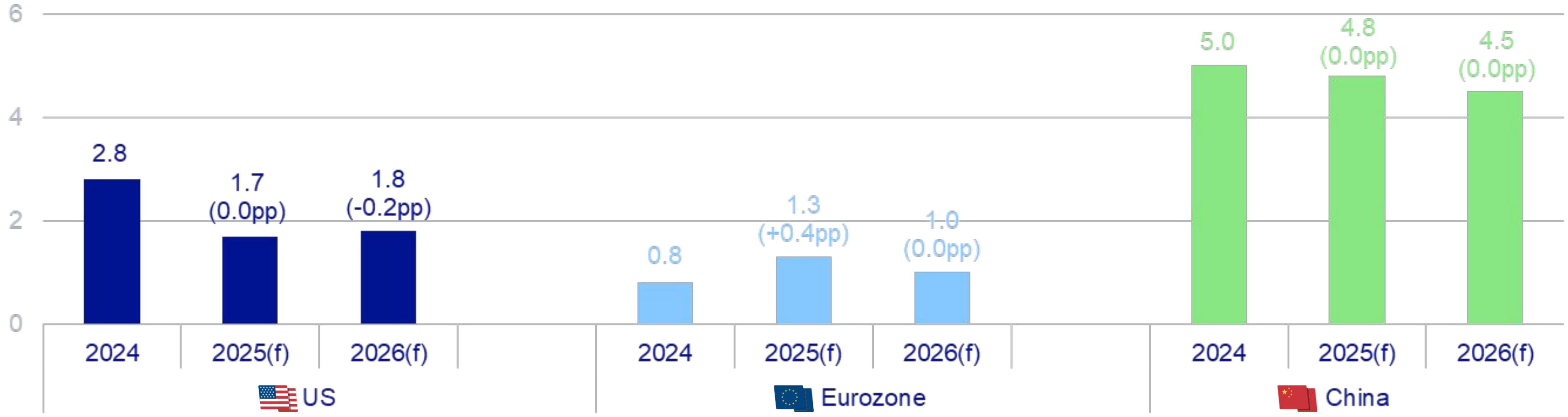
Global growth will likely slow; policy rates are expected to converge to 3% in the US and remain at 2% in Europe; inflation to remain high in the US, under control in Europe and low in China

Risks are rising; they include more negative supply shocks on tariffs, immigration policies... and stress due to Fed intervention; and also a positive AI wave

Global growth is forecast to moderate gradually moving forward, from 3.3% in 2024 to 3.0% in 2025 and 3.1% in 2026

GDP GROWTH

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

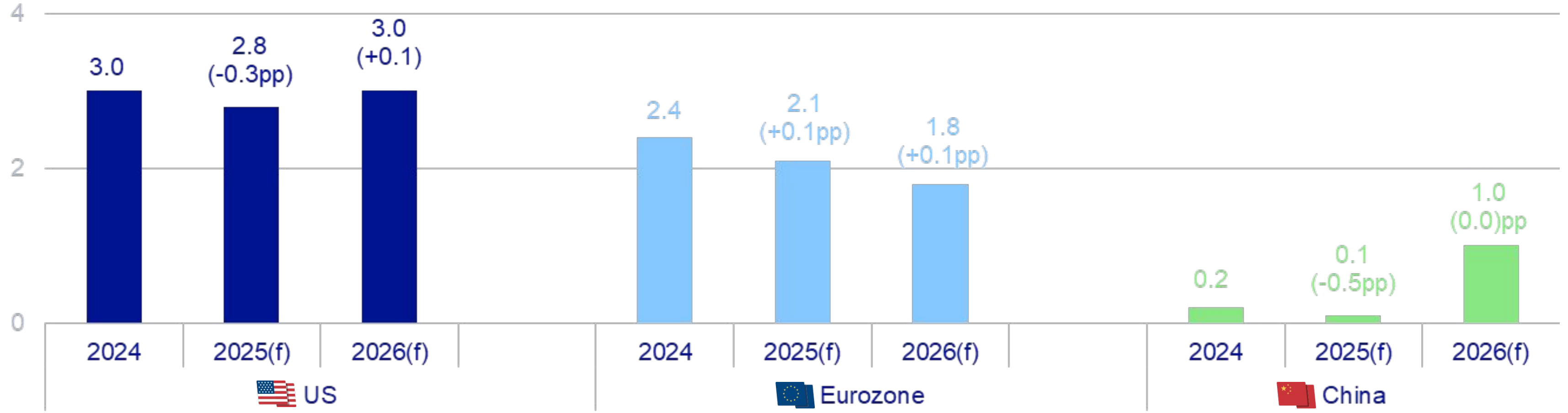


(*) Global GDP grew by 3.3% in 2024 and is forecast to expand by 3.0% in 2025 and 3.1% in 2026, unchanged in comparison to previous forecasts.
(f): forecast.
Source: BBVA Research

In the US, more disruptive policies favor weaker growth despite supportive 2Q25 GDP data and positive AI effects; in Europe, recent data support higher growth in 2025, while 2026 outlook stays unchanged: defense stimulus to offset tariff impact; in China, slowdown prospects remain in place

Inflation: tariff effects are still expected; mostly unchanged prospects in Europe; lingering deflation risks in China

HEADLINE CPI INFLATION
(Y/Y %, PERIOD AVERAGE, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

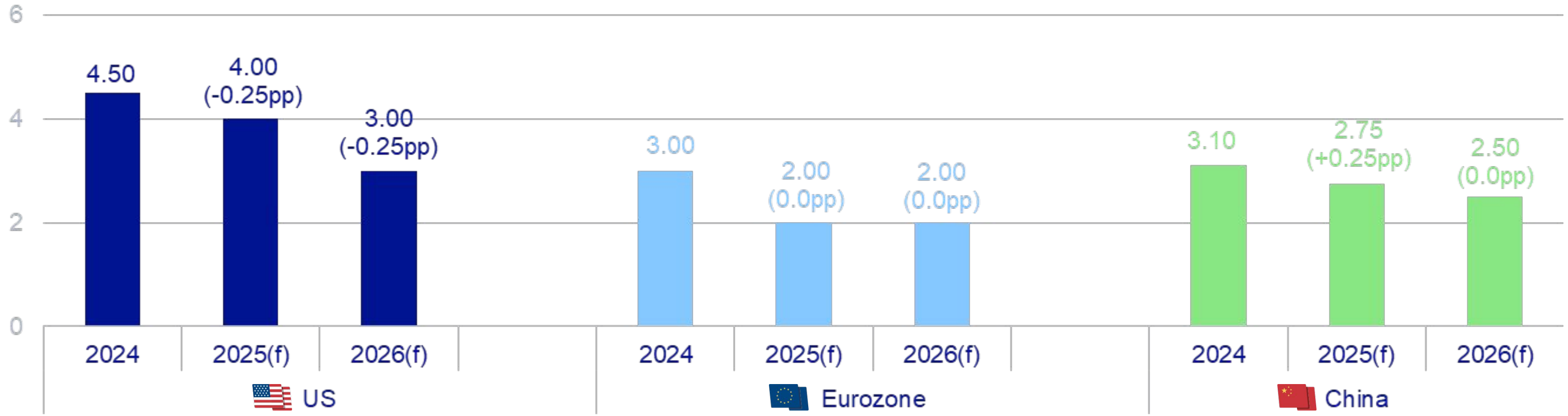


(f): forecast.
Source: BBVA Research

US inflation has surprised downward, but tariffs and immigration curbs will keep it around 3%; in the Eurozone inflation will likely be slightly higher than previous forecasts but still very close to 2%; In China, moving out of the low-inflation regime is proving increasingly challenging

A more dovish Fed will keep easing monetary conditions, likely lowering rates to 3% in 2026; ECB to hold at 2%

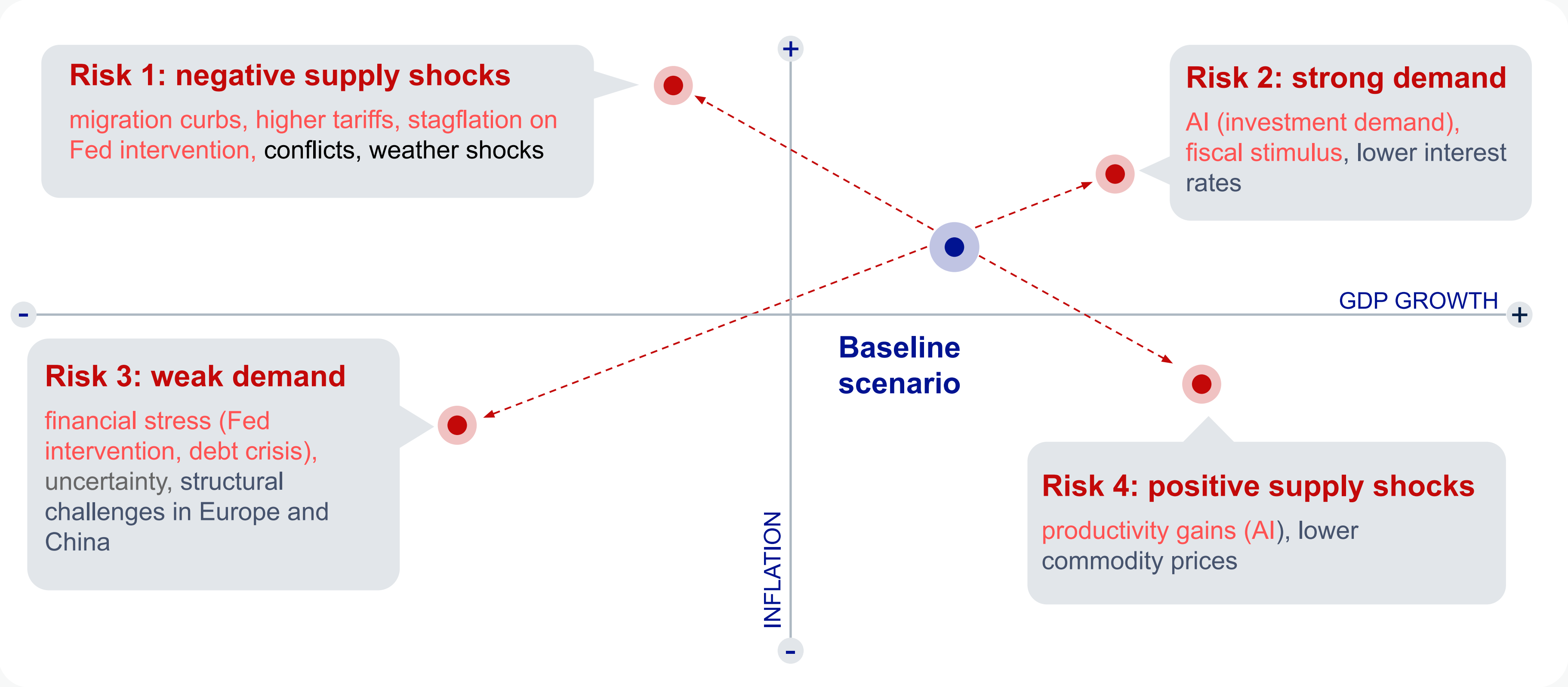
POLICY INTEREST RATES(*)
(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research.

Fed's easing path towards 3% in 2026 will depend on upcoming inflation and labor market outcomes; the riks is that rates are cut twice, rather than only once, in 4Q25; ECB expected to hold rates at 2%, with risk of one more cut on weak growth, trade uncertainty, and euro strength

Risks are mounting amid heightened uncertainty, recurring shocks, weaker global cooperation and potential non-linearities

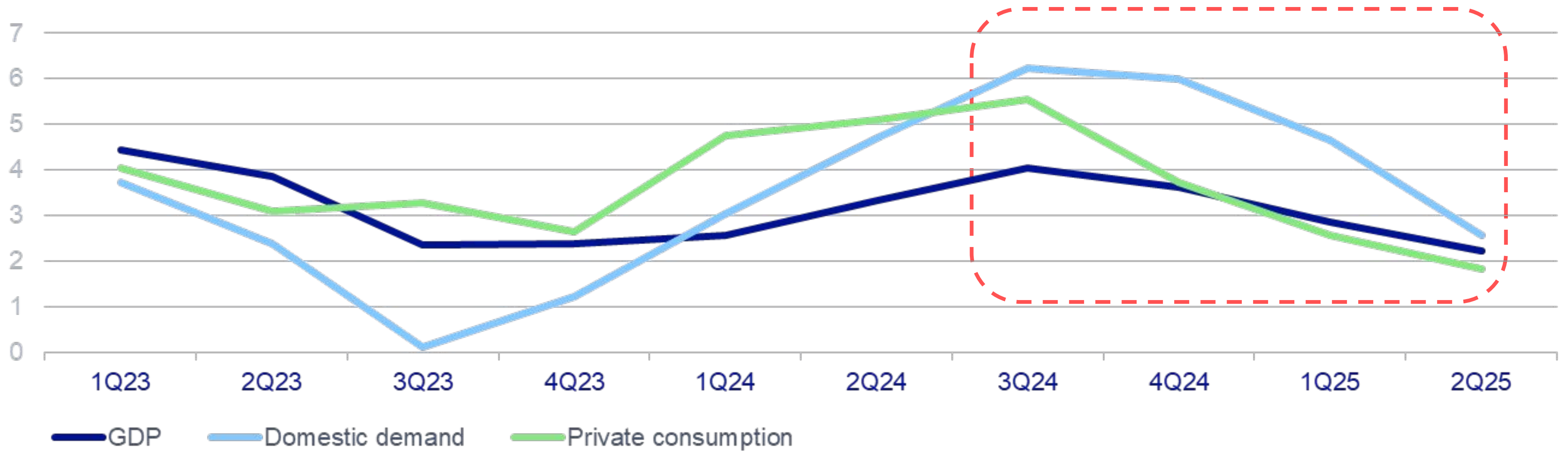


Research

Brazil Outlook

Growth has lost momentum during the first half of 2025

ACTIVITY GROWTH: GDP, DOMESTIC DEMAND AND PRIVATE CONSUMPTION
(Y/Y %)

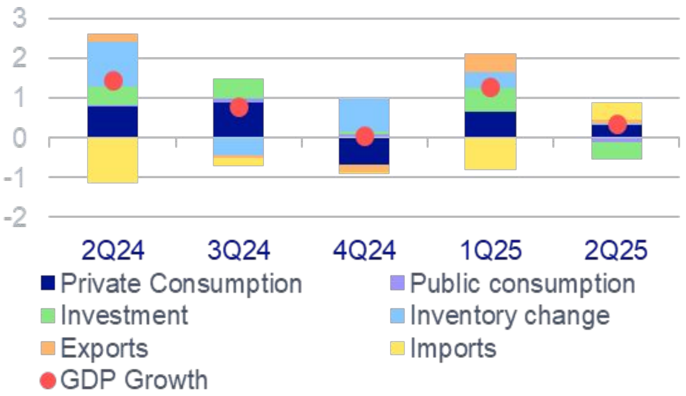


Source: BBVA Research based on data from IBGE.

Growth has gradually moderated over the last few quarters, amid tighter monetary conditions and lower fiscal impulse; most resilient segments, such as domestic demand and private consumption, in particular, have also decelerated lately

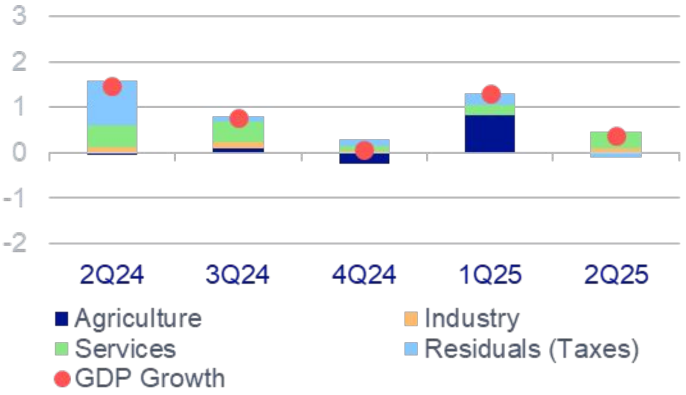
Private consumption and services continue to support growth, but less than in the previous years

CONTRIBUTION OF DEMAND COMPONENTS TO QUARTERLY GDP GROWTH (GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GROWTH: PP)



Source: BBVA Research based on data by IBGE.

CONTRIBUTION OF SUPPLY COMPONENTS TO QUARTERLY GDP GROWTH (GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GROWTH: PP)

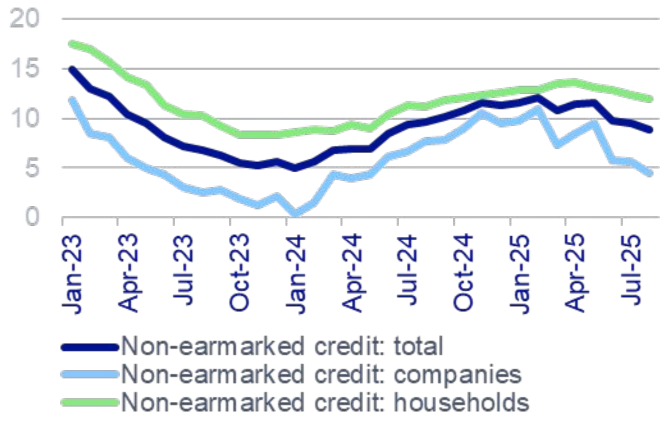


Source: BBVA Research based on data by IBGE.

After expanding by 1.3% q/q in the 1Q25 (mostly due to the strong performance of the primary sector), GDP growth slowed to 0.4% q/q in 2Q25, slightly above our forecast (0.2% q/q)

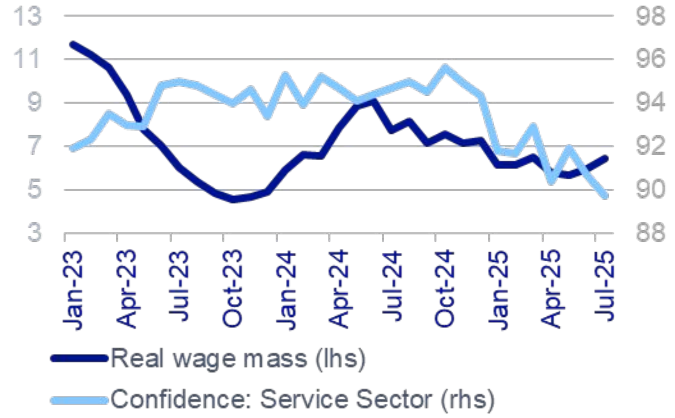
Most activity indicators confirm that growth has been weakening, but the labor market remains tight

CREDIT STOCK:
NOW-EARMARKED LOANS (Y/Y %)



Source: BBVA Research based on data by the BCB.

REAL WAGE MASS; CONFIDENCE:
SERVICE SECTOR (Y/Y %; INDEX)

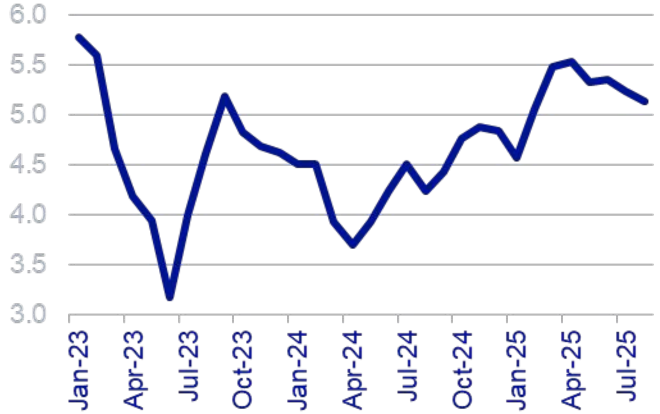


Source: BBVA Research based on data by the BCB.

Labor market relative strength suggest that, despite the ongoing growth slowdown, the economy will continue to be supported by the dynamism of private consumption and services

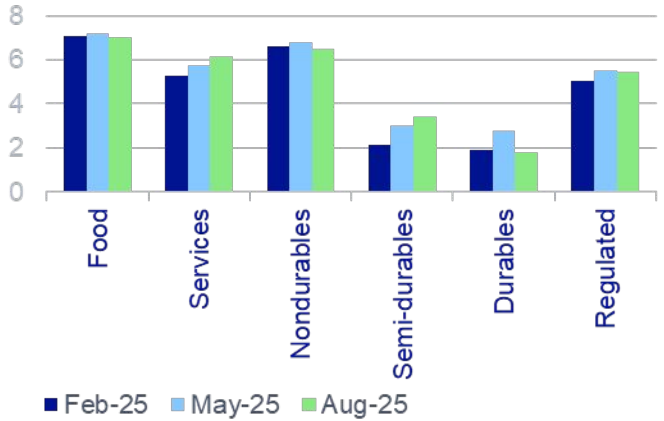
Inflation has fallen more than expected, but it is still above the target range

HEADLINE INFLATION: IPCA
(%)



Source: BBVA Research based on data by the BCB.

INFLATION COMPONENTS: IPCA
(%)

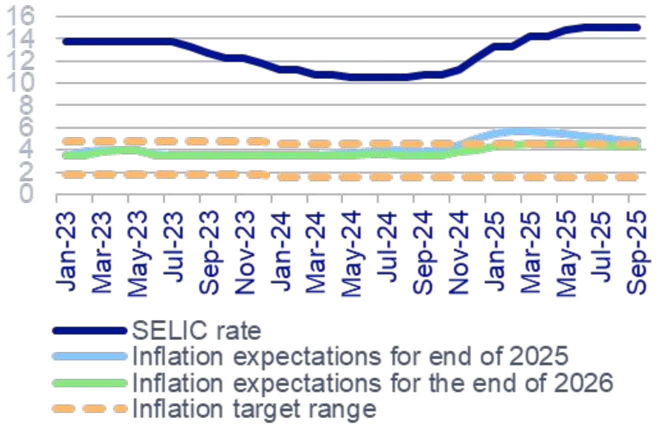


Source: BBVA Research based on data by the BCB.

Inflation is still above the 1.5%-4.5% target range, but has declined over the last few months in a context of growth moderation and exchange rate appreciation

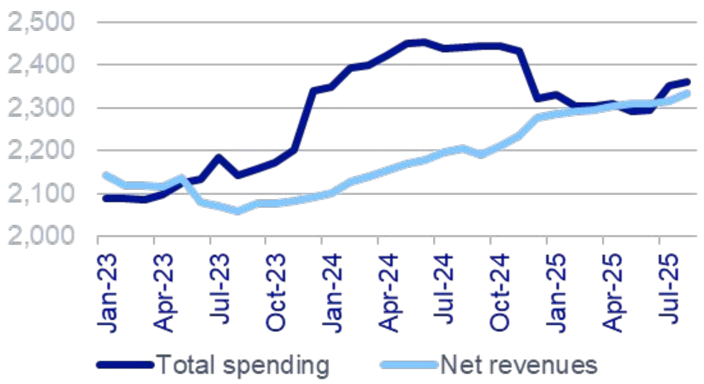
The central bank has suggested that the SELIC rate will remain unchanged, at restrictive levels, in the short term

SELIC INTEREST RATE, INFLATION EXPECTATIONS (%)



Source: BBVA Research based on data by the BCB.

CENTRAL GOVERNMENT PRIMARY RESULTS: ACCUMULATED OVER THE LAST 12 MONTHS
(R$ BILLION; CONSTANT PRICES, AS OF AUG/25)

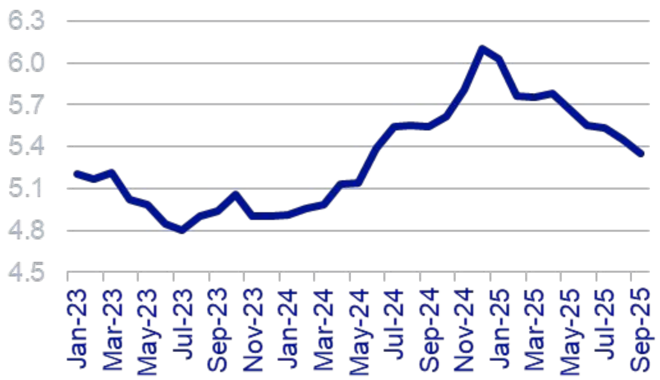


Source: BBVA Research based on data by the BCB.

The central bank has kept policy rates at 15% in the last months, and has indicated that no cuts will be announced this year as inflation expectations are not yet fully anchored; fiscal spending was kept mostly unchanged in 1H25, but seems to be accelerating more recently

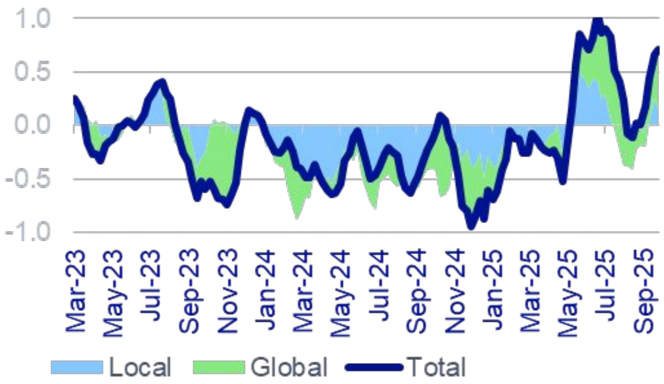
The Brazilian real has further appreciated in the last few months, mainly due to a global weakening of the US dollar

NOMINAL EXCHANGE RATE
(BRAZILIAN REAL PER USD)



Source: BBVA Research based on data by the BCB.

PORTFOLIO FLOWS TO BRAZIL: LOCAL AND GLOBAL FACTORS DECOMPOSITION
(4-WEEK MOVING AVERAGE, Z-SCORES)

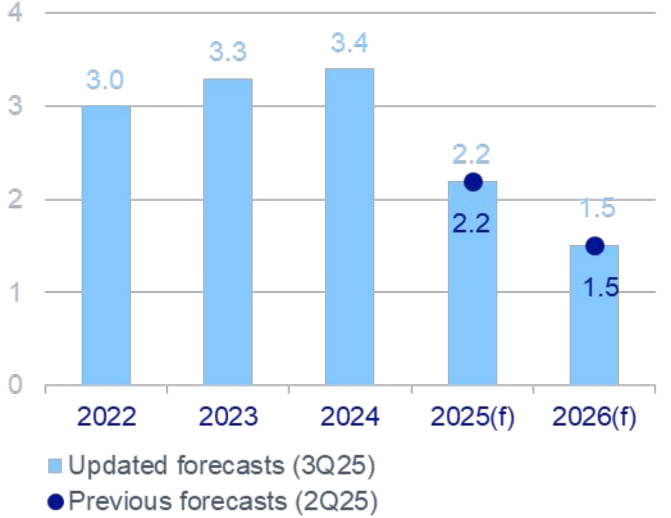


Source: BBVA Research based on data by Haver.

The Brazilian real has appreciated around 13% year-to-date, after a 25% loss in 2024, mostly due to global drivers, such as the USD weakness and the risk-on mood, but also on some local factors, including high SELIC rate levels and more controlled fiscal concerns

Growth prospects remain broadly unchanged: a gradual deceleration is still expected

GDP GROWTH
(%)



— **Growth is expected to slow**, mostly due to tight monetary conditions and weaker fiscal impulse than in the previous years

— **US tariffs on many Brazilian goods** were lifted to 50% in Aug/25, reinforcing deceleration expectations

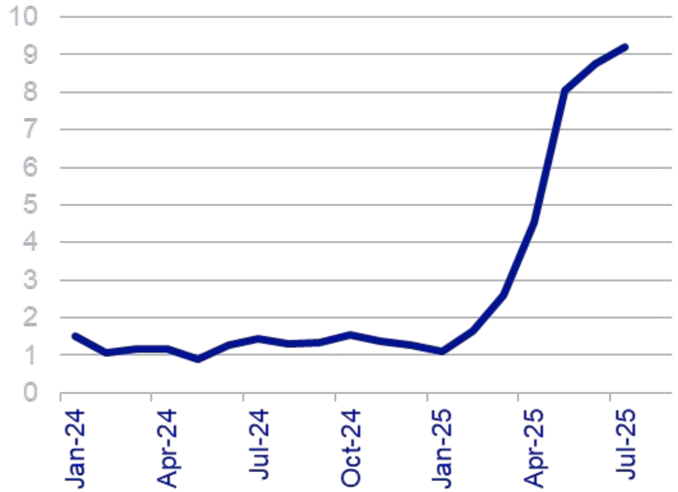
— Moderation prospects also reflect a likely **weaker contribution from the primary sector next year**

— **Higher-than-expected incoming data, resilient labor markets, larger stimulus ahead of 4Q26 elections** and some one-offs (private payroll credit reform, tax cuts for low-income households) will likely avoid a sharper growth slowdown

(f): forecast.
Source: BBVA Research.

US effective tariffs on Brazilian exports are likely to be close to 30%, probably reducing GDP by around 0.4pp in 2025-26

EFFECTIVE TARIFF OF BRAZIL'S EXPORTS TO THE US (BASED ON CUSTOM DUTIES) (*)
(%)

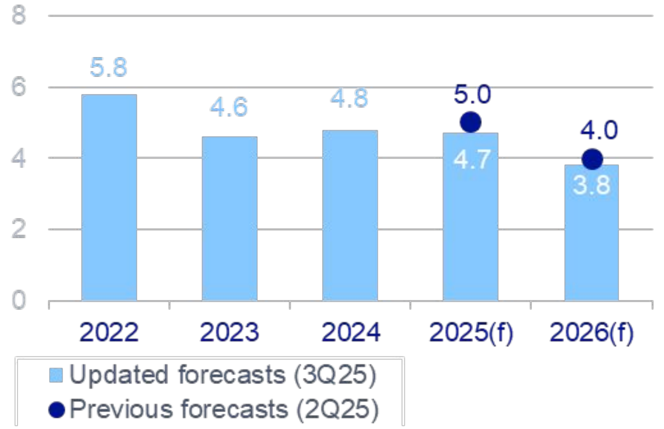


- **US "reciprocal" tariffs have been lifted sharply to 50% in Aug/25** from 10%; taking into account multiple exceptions and specific tariffs for some sectors, the average tariffs faced by Brazilian exports would be around 30% (the double than estimated three months ago)
- **The impact of the current tariffs on GDP is likely to be around -0.4pp** in 2025-26 (vs. -0.2pp estimated three months ago)
- **Preliminary figures, based on US customs data, show that the average tariff on Brazil is increasing**, but less than expected

(*): Calculated as the value of customs duties as a percentage of the value of imports.
Source: BBVA Research based on data by USITC

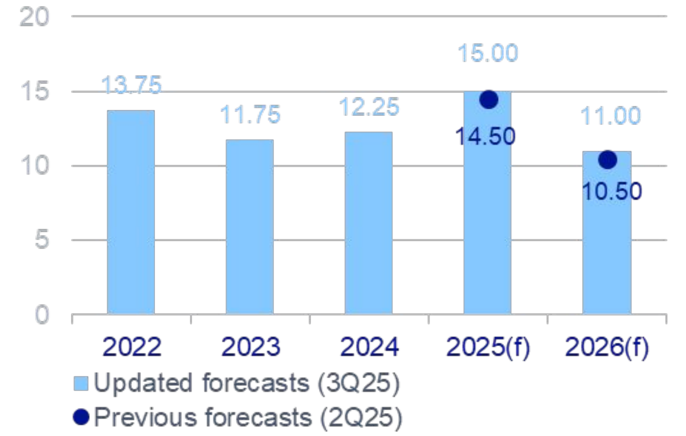
Growth and inflation deceleration will pave the way for SELIC cuts from 1Q26

HEADLINE INFLATION: IPCA
(YOY%, END-OF-PERIOD)



(f): forecast.
Source: BBVA Research.

SELIC INTEREST RATE
(YOY%, END-OF-PERIOD)

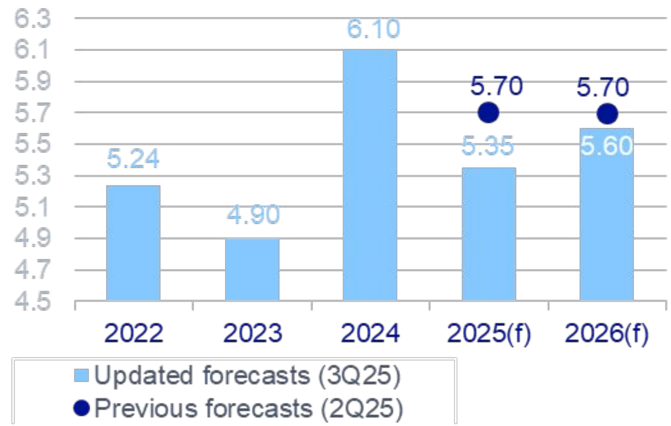


(f): forecast.
Source: BBVA Research.

A monetary easing cycle is likely from 1Q26, slightly later than anticipated; weak growth, inflation within the target range and a stronger exchange rate (see next slide) are expected to allow the SELIC to reach 11% by the end of 2026, still a restrictive levels (the neutral rate is estimated to be around 10%)

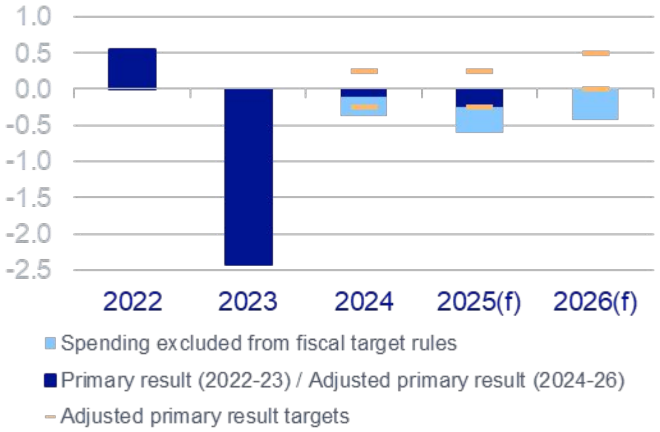
More favorable prospects for the Brazilian real, at least in the short run, and as long as fiscal risks remain controled

NOMINAL EXCHANGE RATE
(BRL / USD, END-OF-PERIOD)



(f): forecast.
Source: BBVA Research.

CENTRAL GOVERNMENT PRIMARY RESULT (% OF GDP)

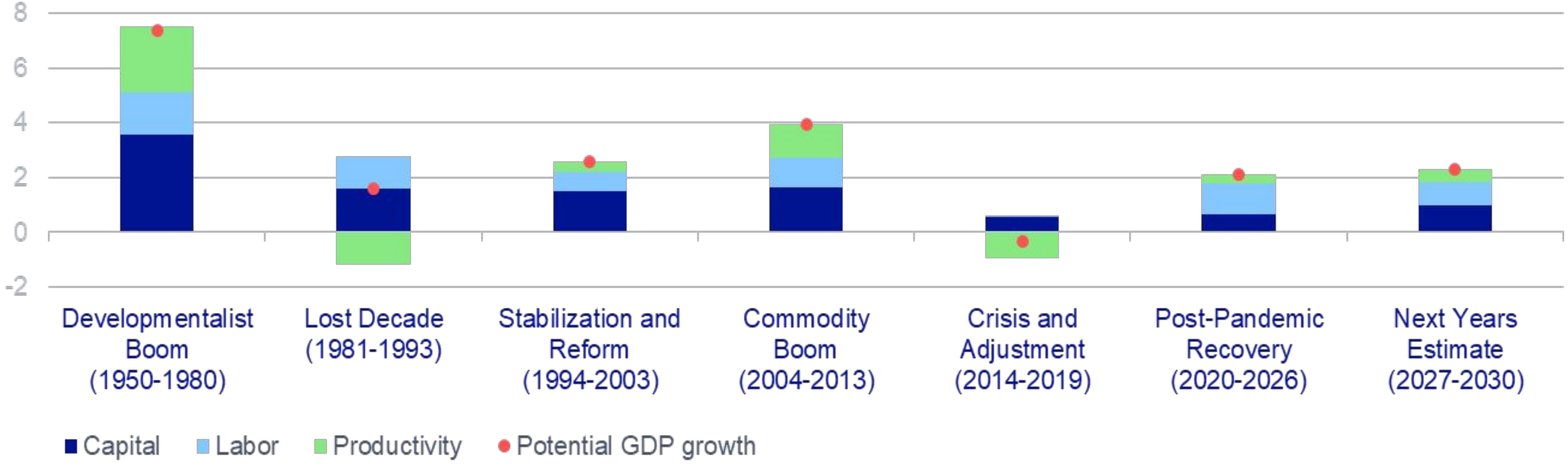


(f): forecast.
Source: BBVA Research.

High SELIC rates coupled with declining Fed rates favor a stronger Brazilian real (BRL) in the next few months; the BRL could weaken somewhat in 2026 as local rates are cut, volatility increases ahead of 4Q26 elections and given larger current account deficits than in the past years (3.5% of GDP in Jul/25)

Potential GDP growth will likely be slightly above 2% going forward

POTENTIAL GDP GROWTH: CONTRIBUTION OF CAPITAL, LABOR AND PRODUCTIVITY
(POTENTIAL GDP GROWTH: %; CONTRIBUTIONS: PP)

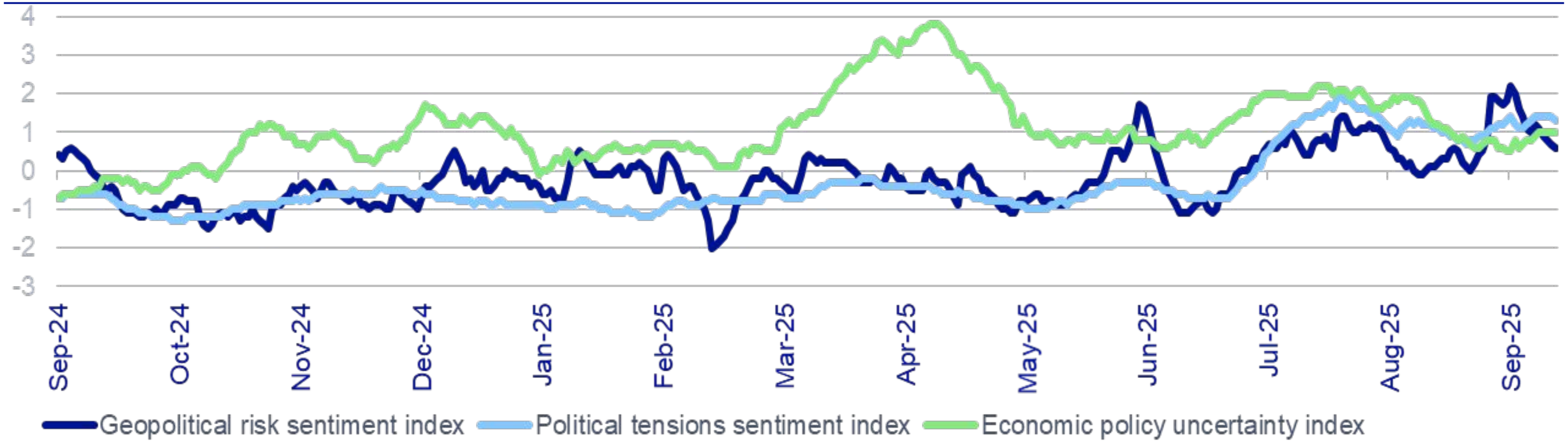


Source: BBVA Research

The increasing productivity of the primary sector, labor market strength, and the impact of some economic reforms are likely to allow the country to grow around 2.3% in a sustainable way over the next few years, at least if local and global risks remain under control

Strained US relations and domestic political polarization reinforce downside risks

GEOPOLITICAL RISK, POLITICAL TENSIONS AND ECONOMIC POLICY UNCERTAINTY IN BRAZIL
(28-DAY MOVING AVERAGE, HISTORICAL AVERAGE = 0)



Source: BBVA Research

An increasing confrontation with the US and local political tensions, together with fiscal and climate risks, are the main sources of concern; they could pave the way for more negative scenarios

BBVA Research forecasts for Brazil

		2022	2023	2024	2025 (f)	2026 (f)
GDP (%)	Updated (3Q25)	3.0	3.2	3.4	2.2	1.5
	Previous (2Q25)				2.2	1.5
Inflation (%, end-of-period)	Updated (3Q25)	5.8	4.6	4.8	4.7	3,8
	Previous (2Q25)				5.0	4.0
Policy rate (%, end-of-period)	Updated (3Q25)	13.75	11.75	12.25	15.00	11.00
	Previous (2Q25)				14.50	10.50
Exchange rate (end-of-period)	Updated (3Q25)	5.24	4.90	6.10	5.35	5.60
	Previous (2Q25)				5.70	5.70

(f): forecast.
Source: BBVA Research.

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