BBVA Research

DECEMBER 2025

Brazil Economic Outlook

Global economy: main messages

The global economy remains unstable but is faring better than expected. The AI boom is boosting aggregate demand, adding to other tailwinds like fiscal stimulus, lower interest rates, financial wealth effects, and low energy prices. Together, they are offsetting the negative—but so far milder than expected—effects of protectionism, migration curbs, and uncertainty.

Global growth will likely be around 3.2% between 2025 and 2027—higher than previously anticipated, but slightly below the two-decade average. Growth is projected to stay near 2% in the US, slightly above 1% in the Eurozone, and to slow in China from 5% in 2025 to 4% in 2027. Short-term forecasts have been revised slightly upwards, mainly due to positive incoming data.

Inflation prospects remain broadly unchanged. In the US, tariffs and other shocks will likely keep inflation near 3%, limiting the Fed's room to further cut rates. In the Eurozone, inflation is expected to stay around 2%, with no further monetary easing anticipated. In China, deflation concerns may prompt some (limited) rate cuts.

Risks are now somewhat more balanced. Tariffs, migration policies, US policy uncertainty, and geopolitical tensions remain key concerns. However, upside risks linked to AI are growing. Beyond boosting demand, AI could eventually lift productivity. A stock market correction, however, remains a distinct possibility.

Brazil: main messages

Growth is expected to be around 2% in 2025–27, with GDP forecast to expand by 2.2% in 2025, 1.6% in 2026, and 2.2% in 2027. Tighter monetary conditions and a weaker fiscal impulse will bring growth closer to its potential, below the 3.2% average seen in 2022–24. Risks to the outlook are broadly balanced.

Inflation will likely remain near the upper bound of the 1.5%–4.5% target range. Recent readings have surprised to the downside, mainly due to weaker demand pressures, a stronger currency, and subdued commodity prices. Convergence to 3% seems unlikely, at least without clear fiscal consolidation or a sharper-than-expected growth slowdown.

A monetary easing cycle is expected to begin in early 2026. The ongoing moderation in domestic demand and inflation supports the view that the Selic rate could end 2026 around 11.50% and converge to neutral levels in 2027. Stronger fiscal spending ahead of the 4Q26 elections poses upside risks to this outlook.

The Brazilian real is likely to weaken somewhat moving forward, reflecting a more hawkish Fed, a declining Selic, and pre-election uncertainty. This expected depreciation, along with soft demand prospects, should help narrow the current account deficit, which has edged up recently.

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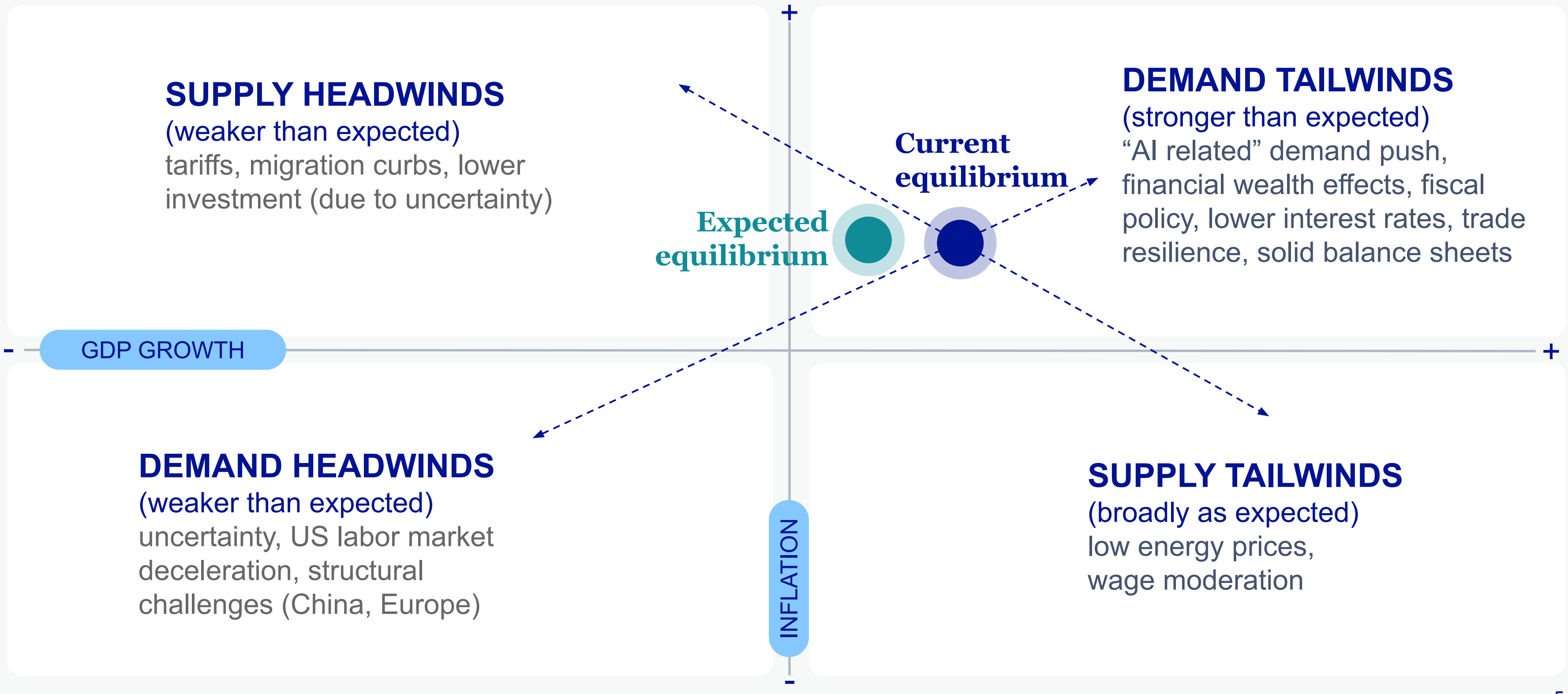
Global Economic Outlook

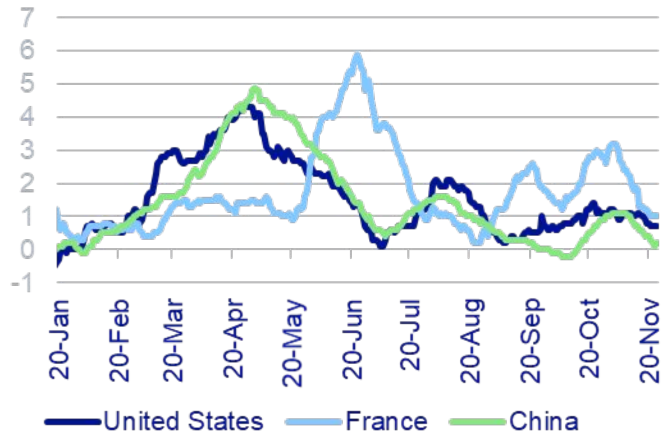
The global economy remains unstable, but is faring better than expected

GLOBAL ECONOMY: KEY DRIVERS OF THE CURRENT EQUILIBRIUM



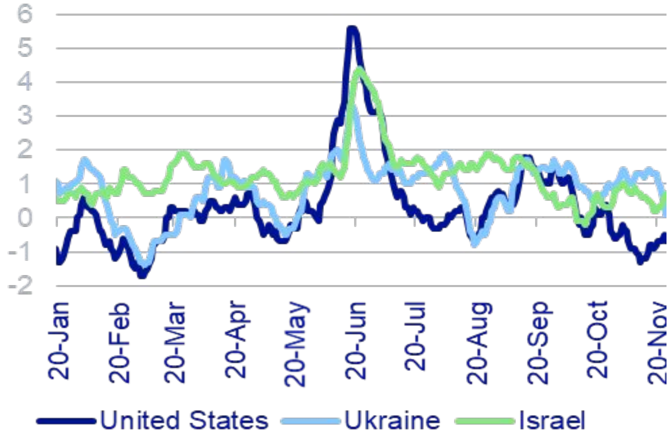
Supply and demand headwinds: uncertainty remains in place, despite recent signs of easing

ECONOMIC POLICY UNCERTAINTY INDEX: 2025 (HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

GEOPOLITICAL RISK INDEX: 2025 (HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)

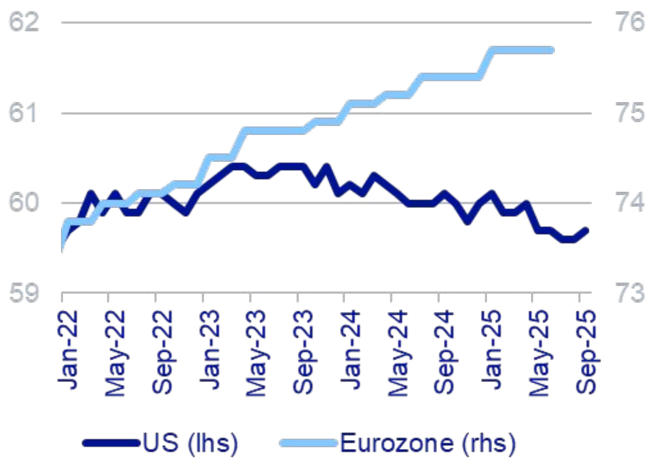


Source: BBVA Research

The US-China trade deal, US tariff cuts (mostly on some agricultural goods), the Gaza ceasefire, talks about a peace deal in Ukraine, among other factors, have contributed to reduce concerns on economic policies and geopolitics in the last few months

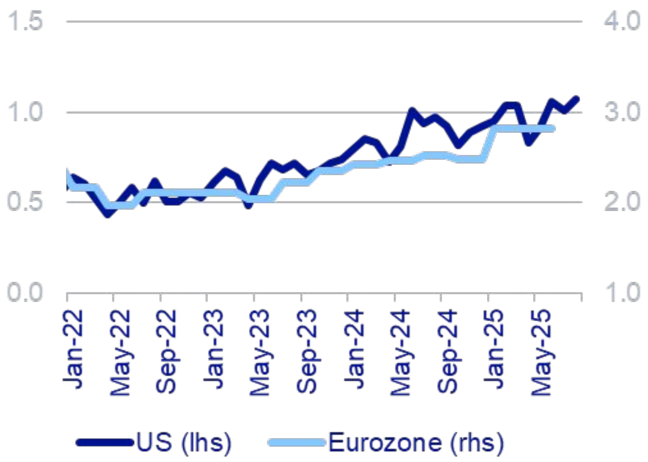
Demand headwinds: labor markets are losing steam, mainly in the US

EMPLOYMENT-POPULATION RATIO (%)



Source: BBVA Research based on data from Fred and Eurostat

UNEMPLOYED PERSONS PER JOB VACANCY (NUMBER OF PERSONS)

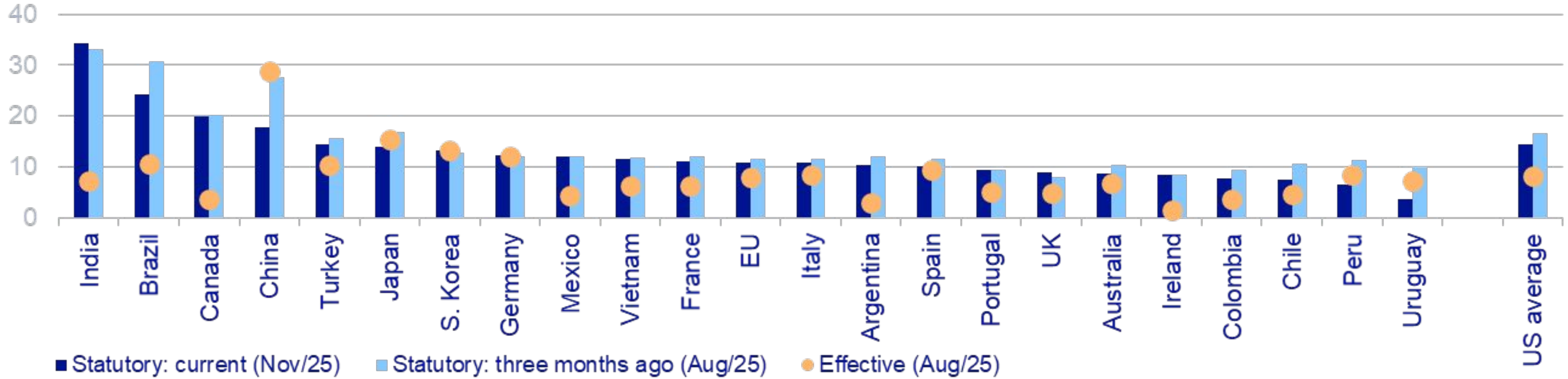


Source: BBVA Research based on data from Fred and Eurostat

The unemployment rate has reached 4.4% in Sep/25 in the US, 1pp higher than the post-pandemic low, but still relatively low; in the Eurozone, it remains close to historical lows (6.3% in Sep/25)

Supply headwinds: US tariffs have recently declined, with effective rates in general below statutory levels

US STATUTORY AND EFFECTIVE TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 (*) (PP)



(*) Statutory tariffs: BBVA Research calculation following recent trade deals and US announcements. Based on general tariffs set for each country (reciprocal and/or fentanyl), specific tariffs on some sectors (steel, aluminum, automobiles, autoparts, pharma...) and exempted goods (selected electronics, oil...). Considering measures announced untill November 26. Sectoral weights are calculated according to 2024 trade flows. Effective tariffs: BBVA Research calculations (total US tariff revenues divided by total US imports, by country) based on data from the USITC.
Source: BBVA Research

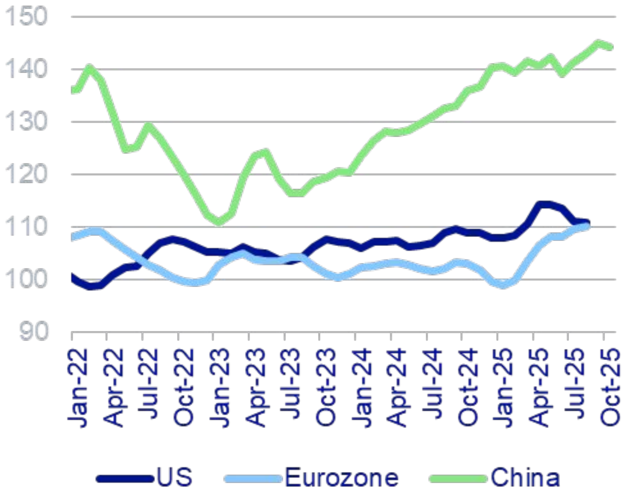
US trade deals -including with China- and exemptions for some goods (mainly agricultural) imply lower tariff levels; yet uncertainty persists, mainly due to possible legal overruling of reciprocal and fentanyl tariffs

Demand tailwinds: global trade has surged ahead of tariffs; and it remains resilient despite moderation signs

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

Source: BBVA Research based on data from Haver

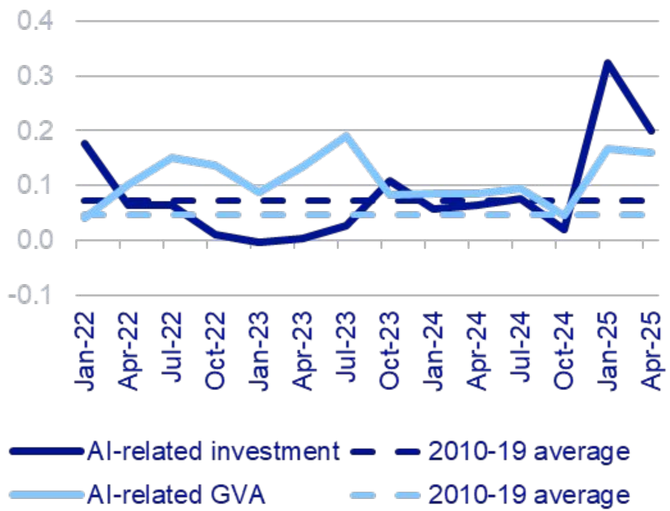
EXPORTS OF GOODS (VOLUME): US, CHINA AND EUROZONE
(4Q19=100; THREE-MONTH MOVING AVERAGE)



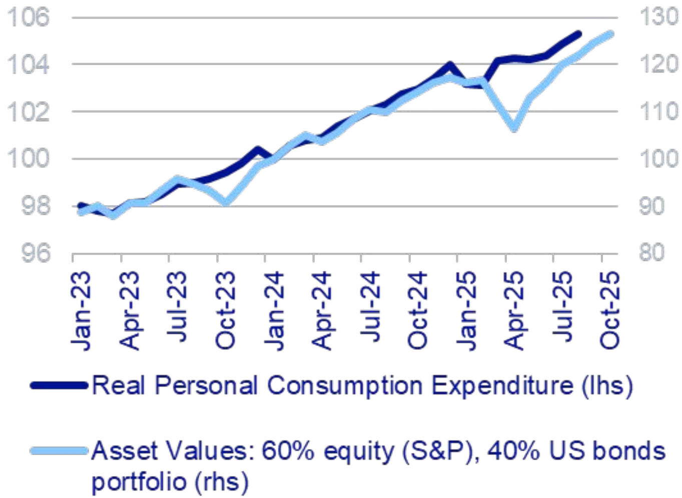
Source: BBVA Research based on data from Haver

Demand tailwinds: the AI boom is supporting US demand

US: AI-RELATED INVESTMENT AND GROSS VALUE ADDED (GVA) (*)
(CONTRIBUTION TO QUARTERLY GDP GROWTH: PP)



US: PERSONAL CONSUMPTION AND ASSET VALUES: IN REAL TERMS (*)
(INDEX: JAN/24=100)

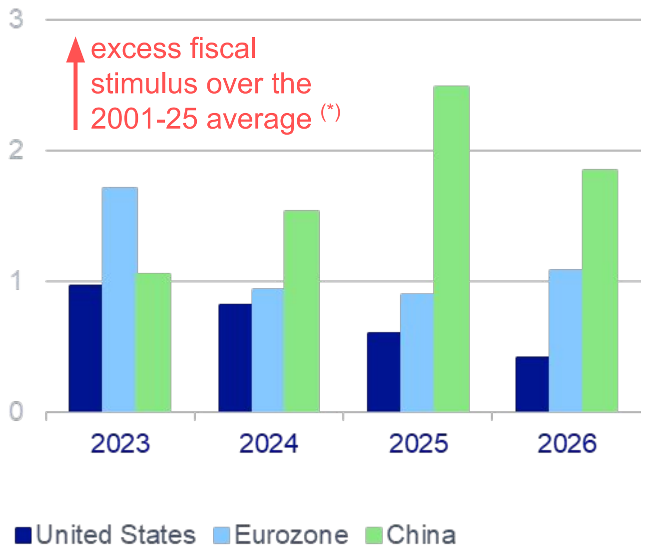


(*) AI-related investment defined as investment in information processing and investment in softwares.
Source: BBVA Research based on data from FRED and US Census Bureau

Source: BBVA Research based on data from FRED and Haver

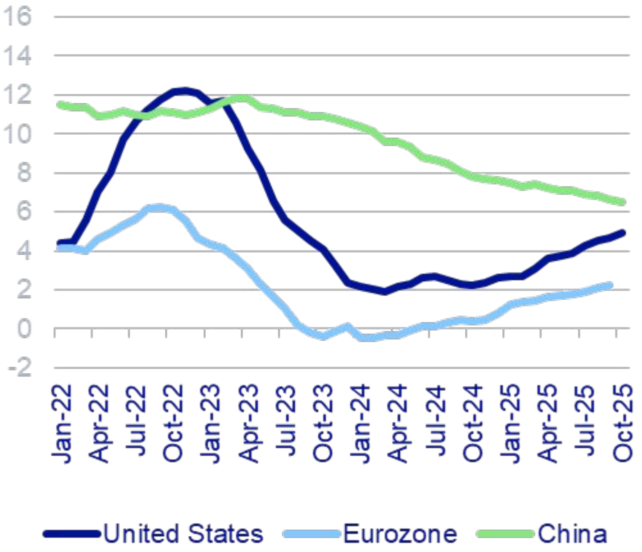
Demand tailwinds: fiscal policy remains supportive, and lower interest rates are now feeding through the economy

CYCLICALLY-ADJUSTED PRIMARY FISCAL BALANCE GAP (*) (% OF GDP)



(*) Deviation of the cyclically-adjusted primary balance (CAPB) from its estimated equilibrium (average relationship between the CAPB and GDP growth over 2001–2025). 2025 and 2026 estimates are based on GDP and fiscal forecasts by the IMF.
Source: BBVA Research based on data from the IMF

BANKING CREDIT: STOCK (Y/Y %)



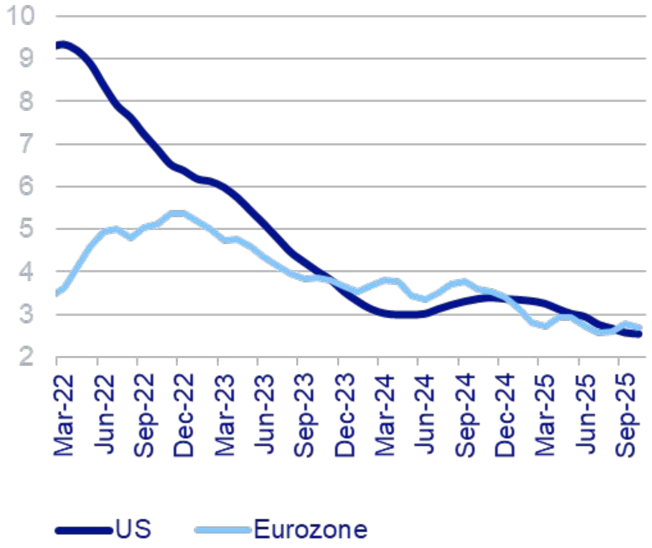
Source: BBVA Research based on data from FRED and Eurostat

Supply tailwinds: energy prices remain at low levels, while wages continue to slow

BRENT PRICES
(USD PER BRENT BARREL)

Source: BBVA Research based on data from Haver

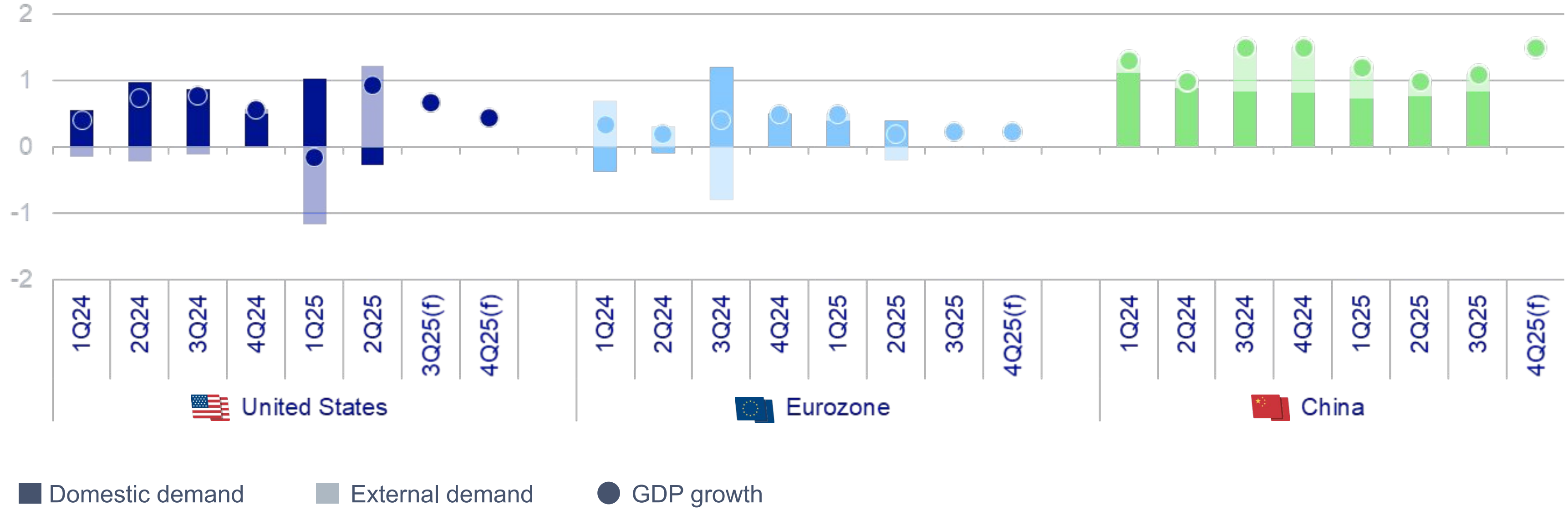
NOMINAL WAGES: INDEED WAGE TRACKER
(Y/Y %, 3-MONTH MOVING AVERAGE)



Source: BBVA Research based on data from Indeed

Activity: GDP growth has remained broadly resilient, in general beating expectations

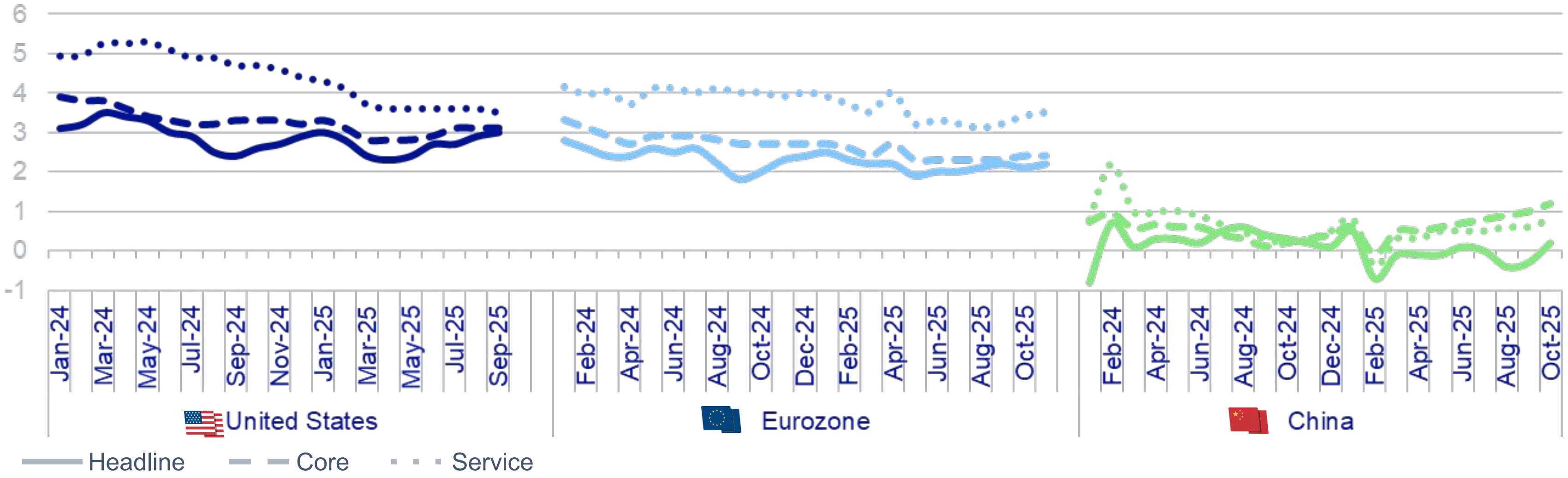
GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH (*)
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



(*) BBVA Research forecast for 3Q25 in the US, and for the 4Q25 in the US, Eurozone and China
Source: BBVA Research based on data from Haver and China's NBS

Inflation: increasing due to tariff effects in the US, stable around 2% in the Eurozone, and still very low in China

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

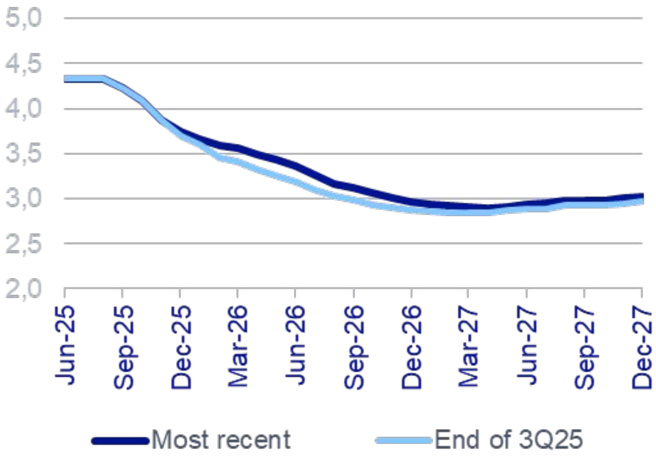


Source: BBVA Research based on data from Haver

In the US, goods inflation is rising amid high tariffs, offsetting the deceleration in services, led by a moderation in shelter prices; in contrast, industrial prices are under control and service prices are increasing at a faster pace in the Eurozone, and to some extent also in China

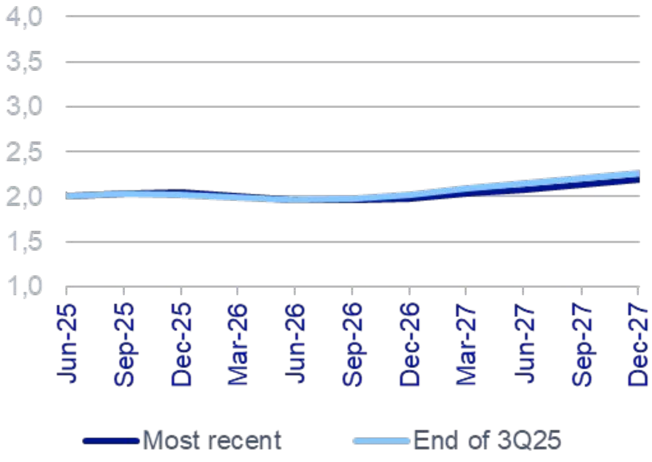
Rate expectations: a more gradual easing and a higher terminal rate for the Fed and stability for the ECB

US: IMPLICIT RATE IN FED FUND FUTURES
(%)



Source: BBVA Research based on data from Haver

EZ: IMPLICIT RATE IN EURIBOR FUTURES
(%)

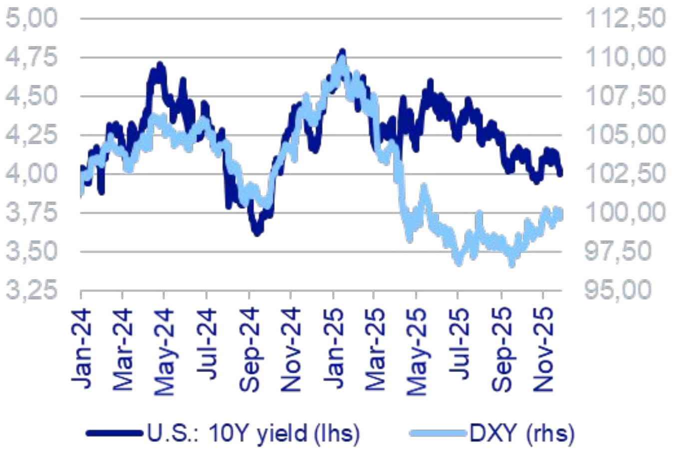


Source: BBVA Research based on data from Haver

The Fed has cut rates by 25 bps in each of its last two meetings to reduce risks of labor market deceleration, but has recently sounded more hawkish de to rising inflation; the ECB has kept rates unchanged at 2% lately and suggested risks are now more balanced

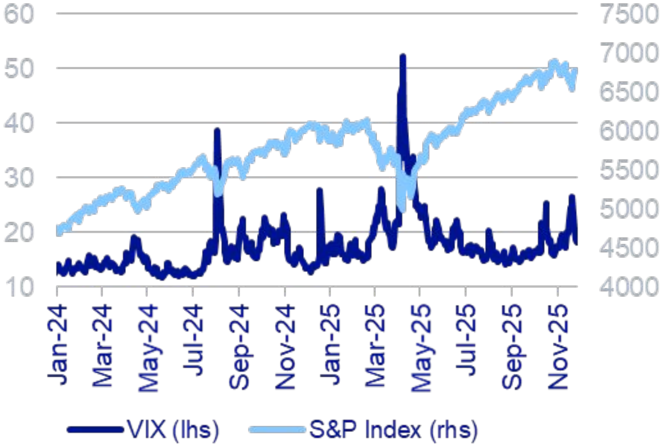
Markets: prospects of higher US rates have driven yields up, backed the USD, and helped triggering an equity correction

US SOVEREIGN YIELDS; US DOLLAR (DXY)
(%)



Source: BBVA Research based on data from Haver

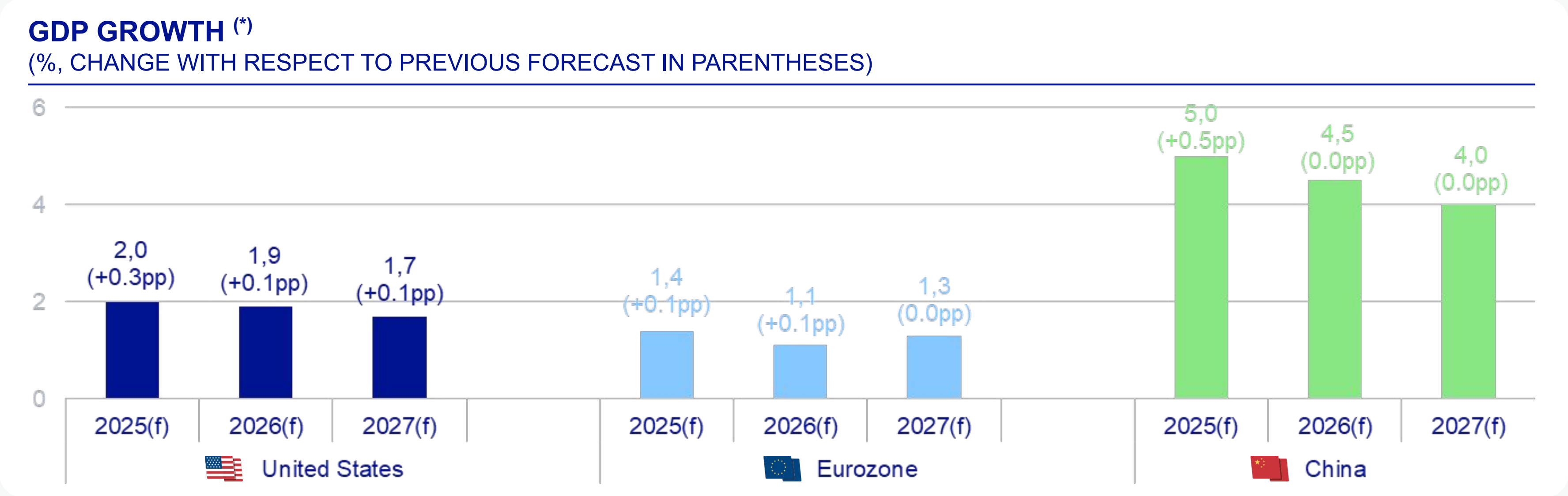
VOLATILITY (VIX); US EQUITY (S&P)
(INDEXES)



Source: BBVA Research based on data from Haver

Following a rally in US equity markets, driven by AI-related stocks, concerns have recently emerged over excessive valuations, with subsequent market corrections and increased volatility

Growth forecasts have been revised slightly to the upside, mostly on incoming data

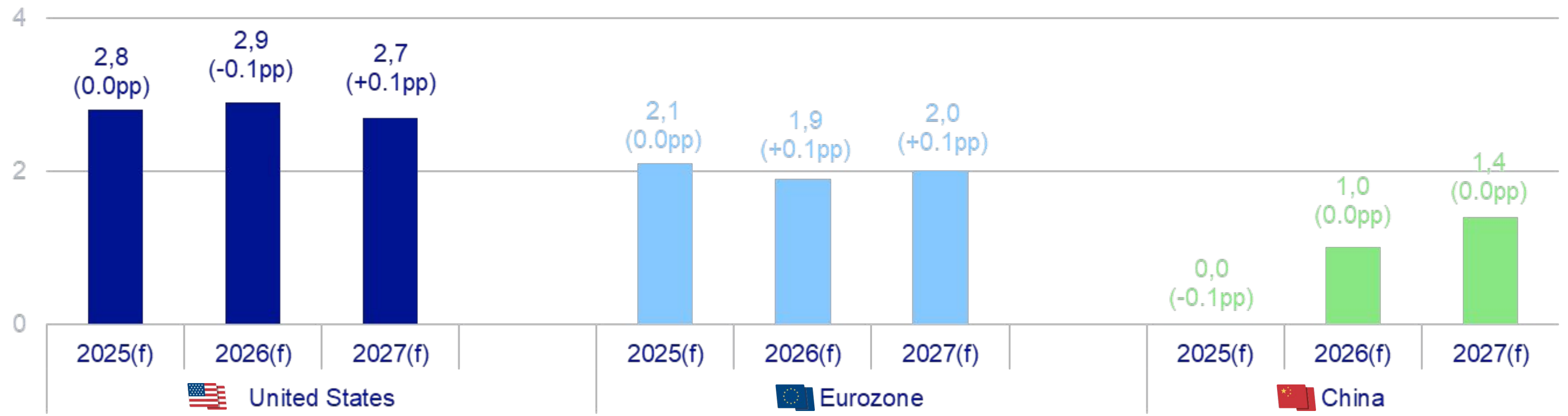


(*) Global GDP is forecast to grow 3.2% in 2025, 3.1% in 2026 and 3.2% in 2027, respectively 0.2pp, 0.0pp and 0.0 higher than the previous forecasts.
(f): forecast.
Source: BBVA Research

The negative impact of tariffs and other supply shocks is expected to be broadly offset by AI demand (mainly in the US) and fiscal spending (mainly in the Eurozone); higher AI-driven productivity is an upward risk in the medium term; a structural slowdown is still expected in China

Inflation prospects remain broadly unchanged, with smaller downside risks in Europe and upward risks in the US

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

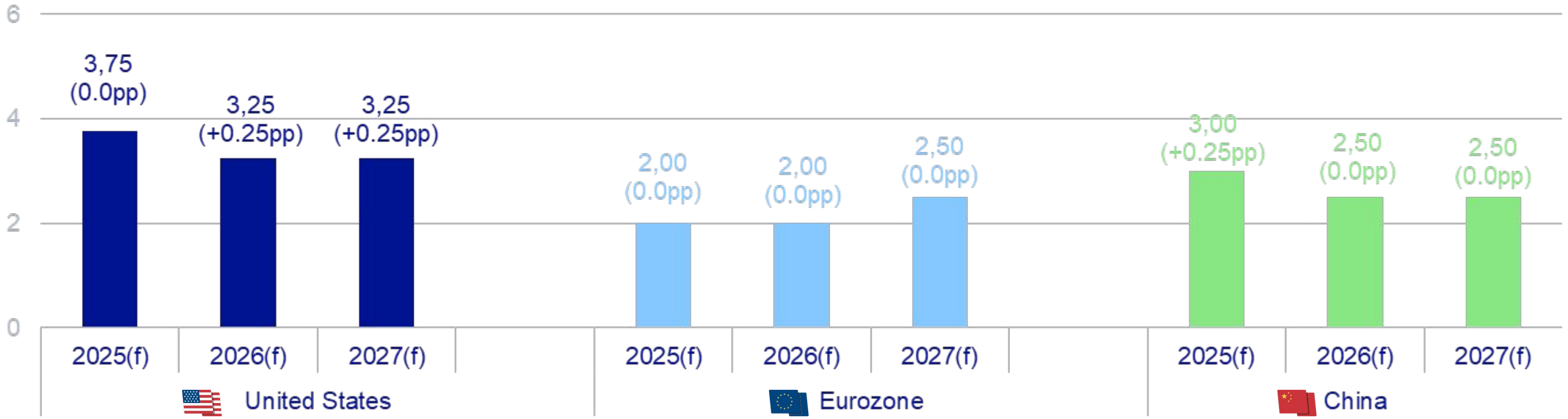


(f): forecast.
Source: BBVA Research

Inflation is still expected to hover around 3% in the US, driven by tariffs, and near 2% in the Eurozone; in China, while further government measures are anticipated to address deflation concerns, risks remain tilted to the downside

Growth resilience and inflation pressures will limit the Fed easing; no additional cuts by the ECB are expected

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

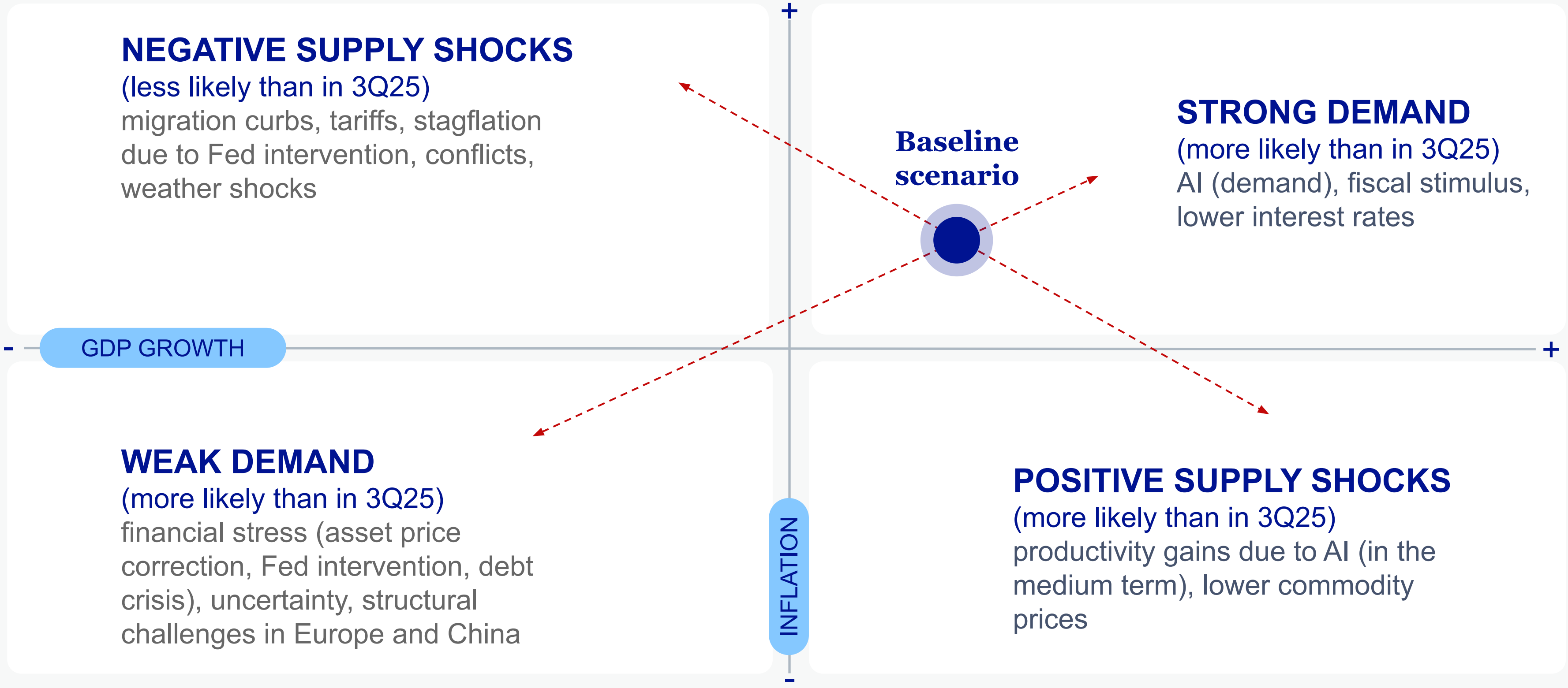


(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research.

US rates are now closer to neutral levels and the convergence to the (higher-than-expected) terminal rate could be more gradual, but there is uncertainty related to the upcoming changes in the Fed board; in the Eurozone, there is room for rates to get closer to the estimated neutral rate in the medium run

More balanced risks: rising odds of medium-term AI productivity gains amid persistent supply concerns

GLOBAL ECONOMY: MAIN RISKS AROUND BBVA RESEARCH BASELINE SCENARIO



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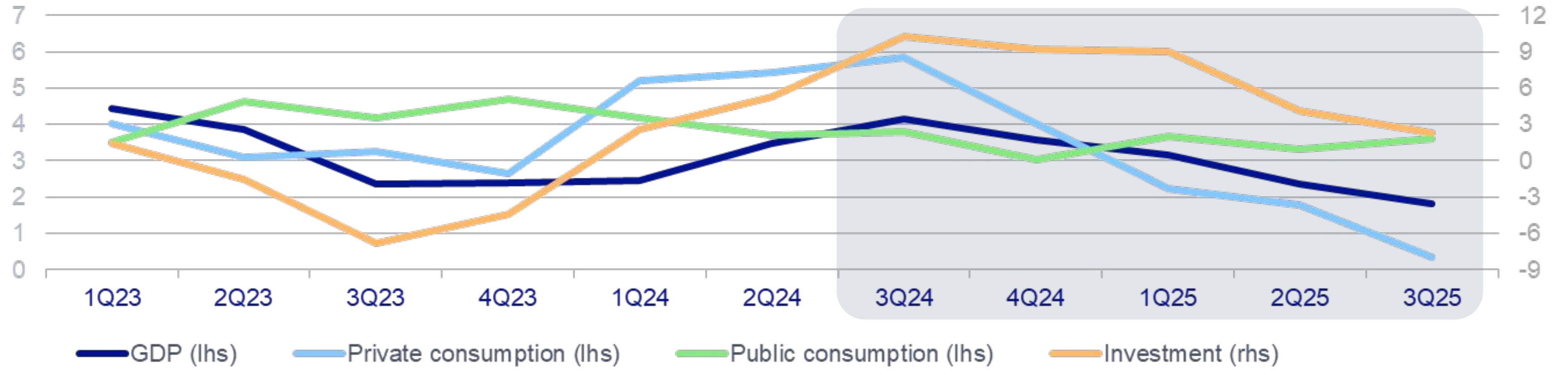
Brazil Outlook

Growth continued to lose momentum in 3Q25 amid tighter monetary conditions and a smaller fiscal impulse

ACTIVITY GROWTH: GDP AND DOMESTIC DEMAND COMPONENTS (Y/Y %)

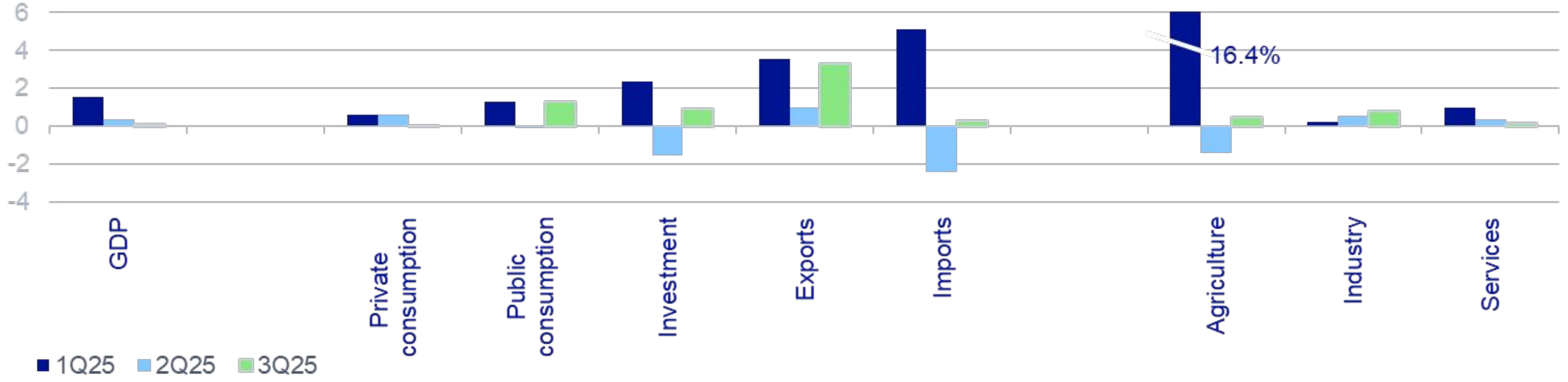


Source: BBVA Research based on data from IBGE.

GDP grew 1.8% YoY (0.1% QoQ) in Q3 2025, in line with BBVA Research's forecast (1.8% YoY; 0.0% QoQ); revised official data show that the slowdown since mid-2024 has been sharper than previously estimated, driven by a steeper decline in private consumption and investment

Private consumption weakened, while investment, public spending and especially exports rebounded in 3Q25

ACTIVITY GROWTH: GDP, DEMAND AND SUPPLY COMPONENTS (Y/Y %)

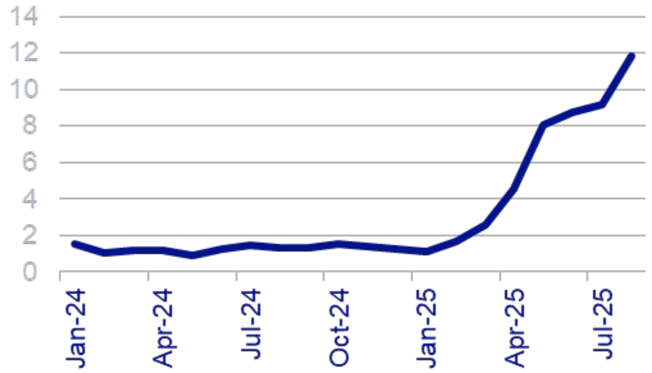


Source: BBVA Research based on data from IBGE.

Services slowed more than expected; industry picked up, driven mainly by the extractive sector, while agriculture recovered

Goods exports continue to grow despite a sharp decline in sales to the US following the imposition of high tariffs

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



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

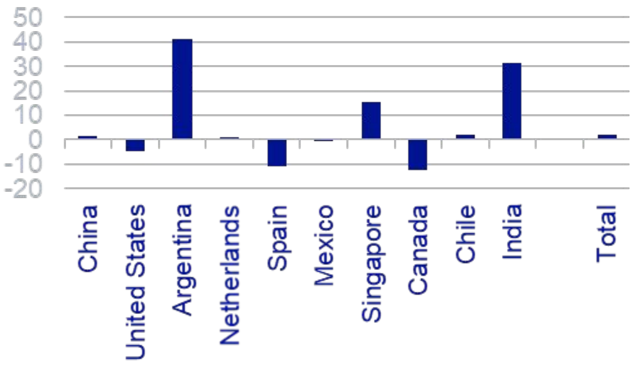
BRAZIL: NOMINAL EXPORTS
(Y/Y %, 3-MONTH MOVING AVERAGE)

Source: BBVA Research based on data by MDIC

US tariffs on Brazilian exports have increased sharply in 1H25; they probably peaked around 30% in the 3Q25 before declining to slightly more than 20% in 4Q25 following the recent exemption of many goods from the US tariffs

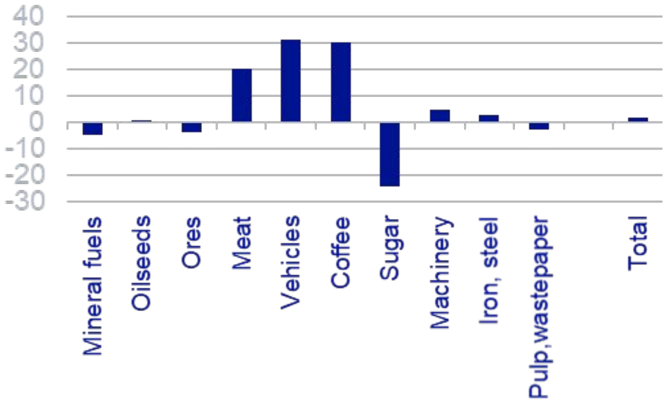
An increase in goods exports to other countries, mainly Argentina, has offset the decline in exports to the US

BRAZIL: NOMINAL EXPORTS, MAIN DESTINATIONS (% GROWTH IN 2025 EXPORTS THROUGH NOV/25 VS. SAME PERIOD OF 2024)



Source: BBVA Research based on data by MDIC

BRAZIL: NOMINAL EXPORTS, MAIN GOODS (% GROWTH IN 2025 EXPORTS THROUGH NOV/25 VS. SAME PERIOD OF 2024)

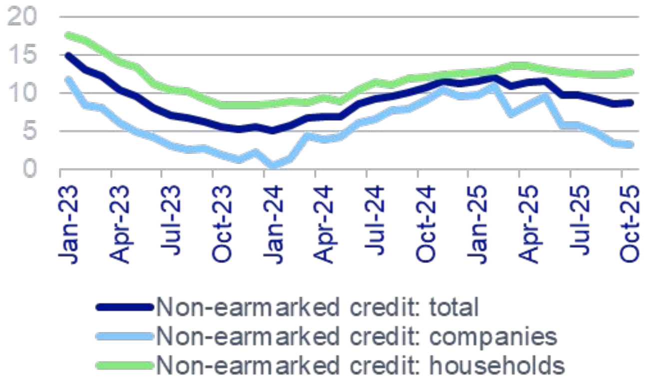


Source: BBVA Research based on data by MDIC

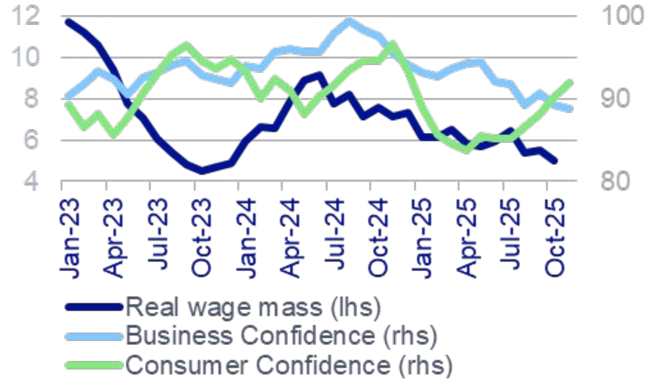
Despite overall export resilience so far, some sectors have already been affected by US tariffs, and more significant impacts may emerge in the coming years as global protectionism becomes more entrenched

Credit and labor markets continued to weaken over the past few months

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



REAL WAGE MASS; BUSINESS AND CONSUMER CONFIDENCE (Y/Y %; INDEX)



Source: BBVA Research based on data by the BCB.

Source: BBVA Research based on data by the BCB and FGV.

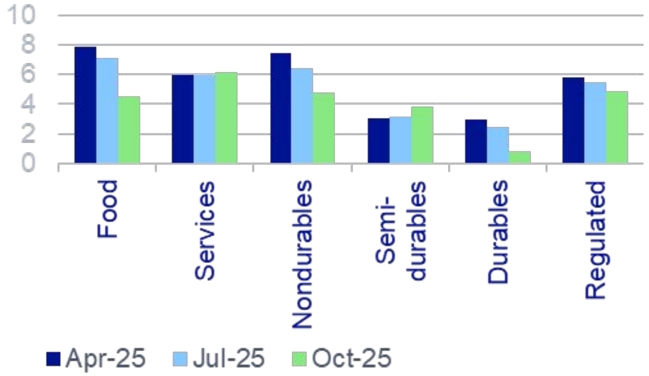
Business confidence kept deteriorating, while consumer sentiment has rebounded somewhat since mid-year

Inflation continues to trend downwards, with a deceleration in most groups (but not yet in services)

HEADLINE INFLATION: IPCA
(%)

Source: BBVA Research based on data by the BCB.

INFLATION COMPONENTS: IPCA
(%)

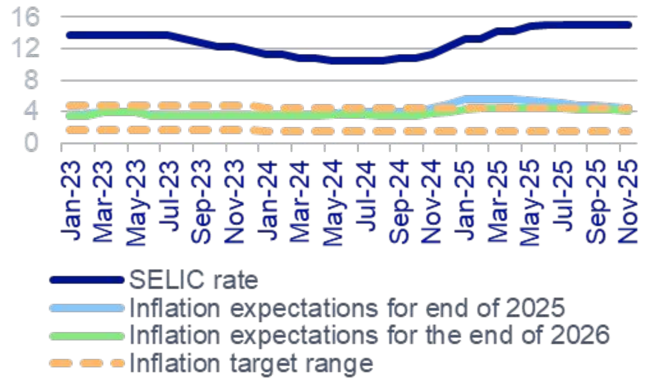


Source: BBVA Research based on data by the BCB.

Inflation has declined more than expected in the last few months; the resilience of service inflation contrasts with the moderation in goods inflation

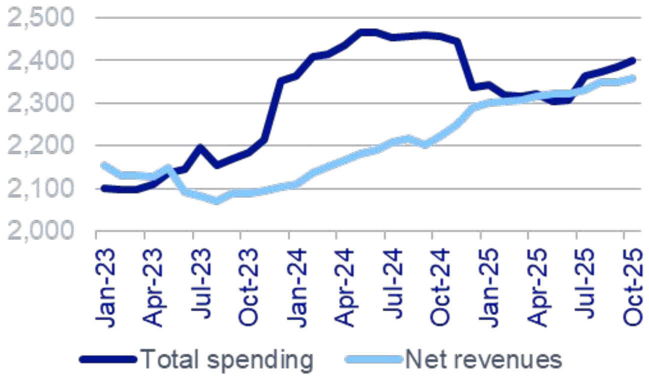
Monetary policy remains highly restrictive, while fiscal policy appears to be turning more expansionary

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 OCT/25)

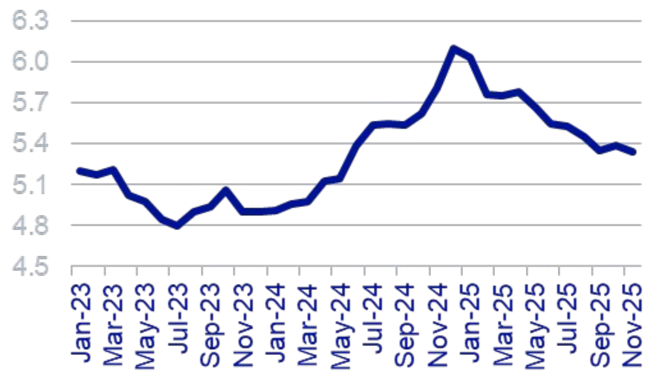


Source: BBVA Research based on data by the BCB.

The Selic rate remains at 15%, while inflation expectations have improved to 4.4% for end of 2025, 4.2% for end of 2026 and 3.8% for end of 2026 (vs. 5.7%, 4.5% and 4.0%, respectively, in Mar/25); fiscal results show an incipient acceleration of spending, with public debt at 78.6% of GDP in Oct/25

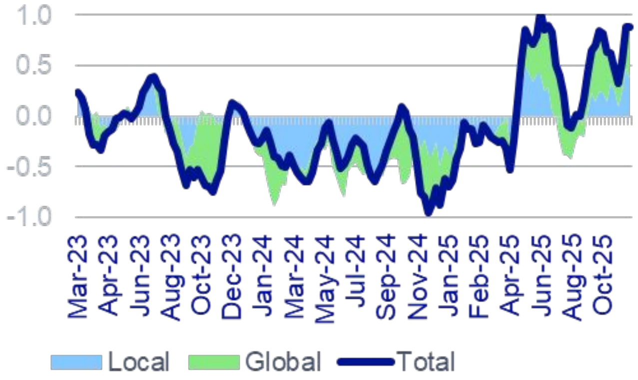
The Brazilian real has been recently more stable as prospects of higher US rates have supported the USD

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)

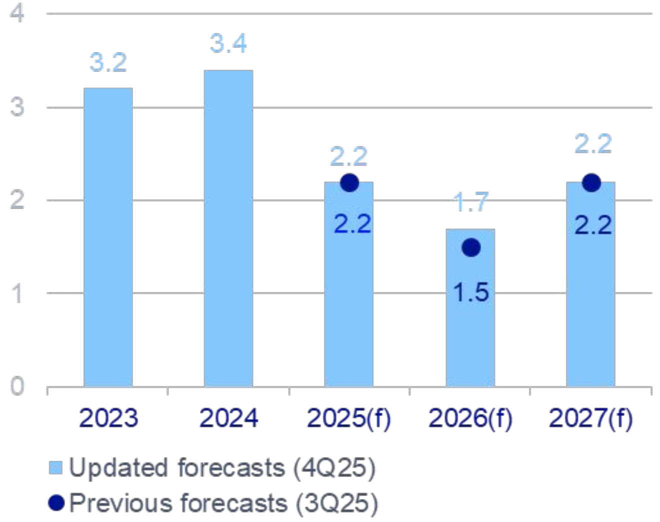


Source: BBVA Research based on data by Haver.

Capital flows into Brazil have been relatively high in the last months, favored by contained local uncertainty and a high Selic rate (the ex-ante real interest rate is now around 11%, among the highest in the world, while the differential with respect to US rates is around 11 pp)

Growth will likely remain close to 2% going forward, below the pace observed in previous years

GDP GROWTH
(%)

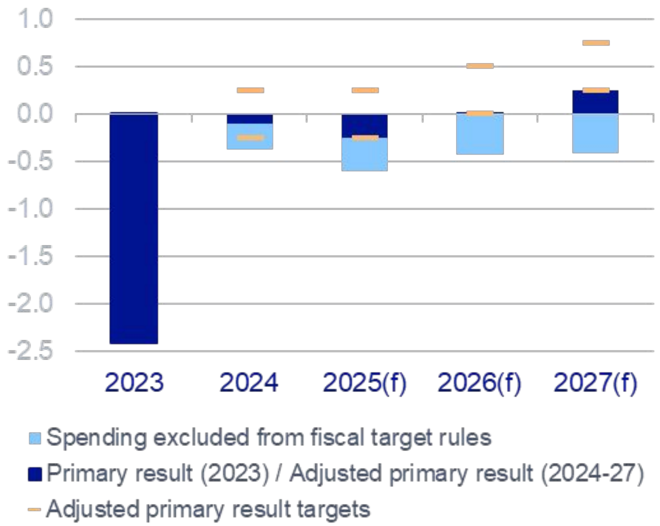


- **Unchanged 2025 GDP forecast:** growth slowed broadly in line with expectations in 3Q25 and is likely to remain weak in 4Q25
- **GDP is expected to grow less than 2% in 2026,** but forecast has been revised slightly up due to i) better prospects for global growth; ii) lower US tariffs on Brazilian exports than previously assumed; and iii) more stimulus ahead of 4Q26 elections
- **In 2027, growth is forecast to move slightly above 2%**, close to the potential rate, while staying below the 2022-24 average (3.2%)
- **Growth risks are broadly balanced:** fiscal spending and the performance of the primary sector could support higher growth; a more gradual Selic easing cycle than expected, heightened domestic uncertainty and climate shocks are downsize risks

(f): forecast.
Source: BBVA Research.

While fiscal targets will likely be achieved, relevant risks persist

CENTRAL GOVERNMENT PRIMARY RESULT
(% OF GDP)

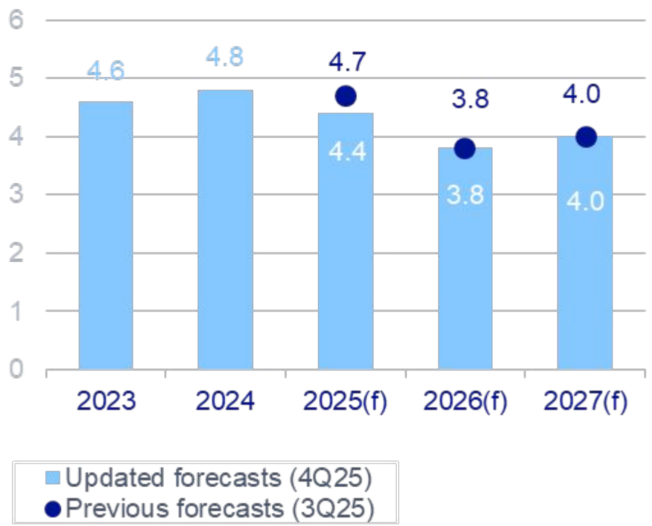


- **Adjusted fiscal targets are expected to be met,** though this hinges on new measures to boost public revenues, as spending cuts appear unlikely ahead of the 4Q26 elections; further easing the targets could fuel market volatility
- **Still, the government is likely to rely on some new measures (not necessarily fiscal) to support the economy** next year
- **Post-election fiscal consolidation will be key** to ensuring debt sustainability and mitigating fiscal risks
- **Market perceptions of the likelihood and credibility of eventual adjustments will be a major driver** of the economy ahead, with both upside and downside risks

(f): forecast.
Source: BBVA Research.

Inflation is expected to stay close to 4%, remaining within the target range but above the 3% target

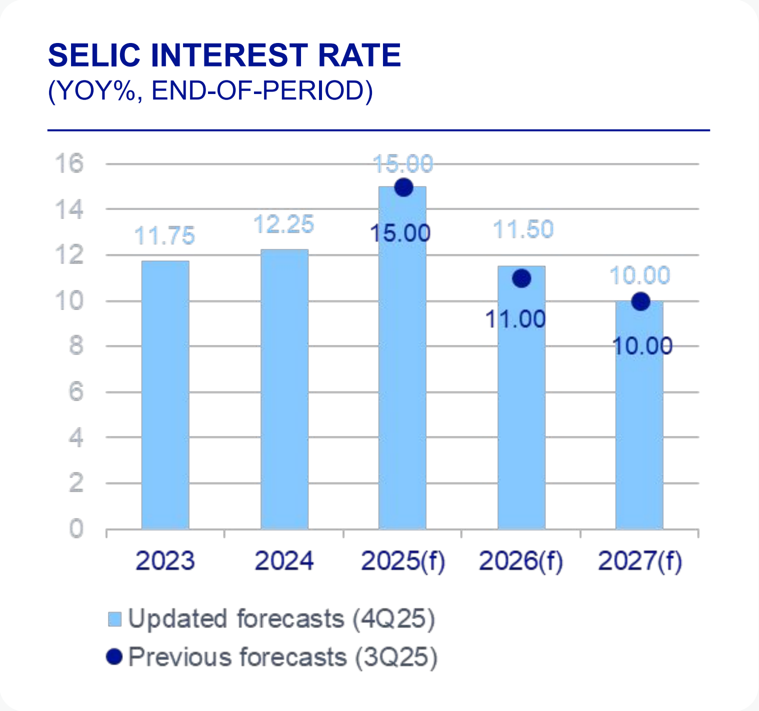
HEADLINE INFLATION: IPCA
(YOY%, END-OF-PERIOD)



- **Inflation will likely close 2025 within the 1.5%-4.5% target range**, following recent downward surprises, driven by demand moderation, a stronger currency and limited commodity prices
- **Inflation is not forecast to hit 3%**, although a further moderation is likely ahead
- **Evidence from the past 25 years (when inflation was at or below 3% less than 10% of the time) suggests that convergence to the target requires either fiscal discipline leading to currency appreciation** or a sharp weakening of demand (due to prolonged monetary tightening, a global slowdown, etc.)
- While these two possible scenarios represent downside risks to inflation, upside risks remain

(f): forecast.
Source: BBVA Research.

A significant monetary easing cycle is expected to commence in early 2026



— **A monetary easing cycle is expected to begin in January 2025 with a 25bp rate cut;** both a 50bps cut and an extended pause until Mar/25 cannot be ruled out

— **Subsequent cuts would bring the Selic rate to 11.50% by end-2026 (still a restrictive level)** and to 10.00% in 2027 (approaching the neutral level)

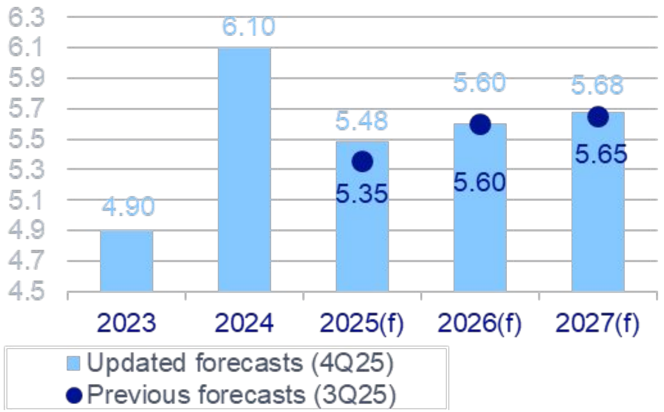
— **The easing cycle is, therefore, expected to be more substantial than currently priced in by markets and most analysts**, though more gradual than we anticipated last quarter, reflecting stronger domestic growth and higher Fed rates

— **A slower pace of rate cuts than forecast could help offset risks from fiscal slippage** and increase the likelihood of inflation converging to 3%, albeit at the cost of a more pronounced growth slowdown

(f): forecast.
Source: BBVA Research.

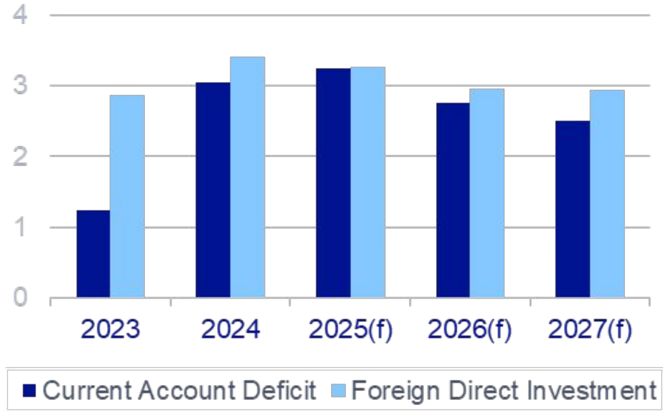
The Brazilian real is likely to weaken somewhat amid a more hawkish Fed, a falling Selic and pre-election uncertainty

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



(f): forecast.
Source: BBVA Research.

CURRENT ACCOUNT DEFICIT AND FOREIGN DIRECT INVESTMENT (% OF GDP)



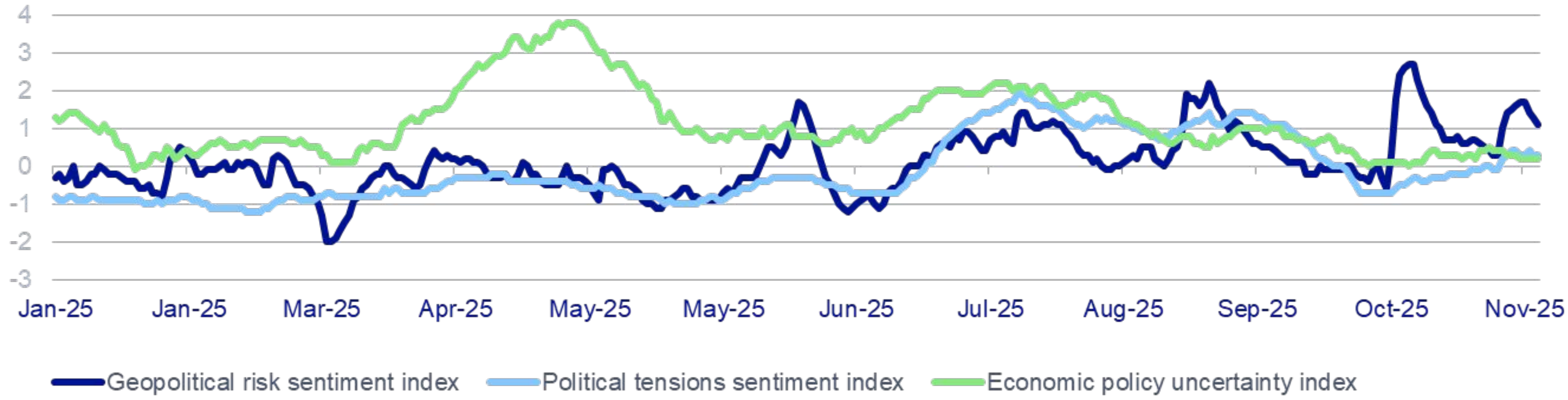
(f): forecast.
Source: BBVA Research and BCB Focus Report .

The expected depreciation of the real and domestic demand weakening are expected to contribute to a reduction in the current account deficit in 2026-27

Political and economic policy uncertainty has remained contained but is expected to rise ahead of Oct/26 elections

GEOPOLITICAL RISK, POLITICAL TENSIONS AND ECONOMIC POLICY UNCERTAINTY IN BRAZIL

(28-DAY MOVING AVERAGE, HISTORICAL AVERAGE = 0)



Source: BBVA Research

Geopolitical tensions have eased following the recent reduction in US tariffs on many Brazil's sectors, but remains high and continues to be a source of risk

BBVA Research forecasts for Brazil

		2023	2024	2025 (f)	2026 (f)	2027 (f)
GDP (%)	Updated (4Q25)	3.2	3.4	2.2	1.7	2.2
	Previous (3Q25)			2.2	1.5	2.2
Inflation (%, end-of-period)	Updated (4Q25)	4.6	4.8	4.4	3.8	4.0
	Previous (3Q25)			4.7	4.0	4.0
Policy rate (%, end-of-period)	Updated (4Q25)	11.75	12.25	15.00	11.50	10.00
	Previous (3Q25)			15.00	11.00	10.00
Exchange rate (end-of-period)	Updated (4Q25)	4.90	6.10	5.48	5.60	5.68
	Previous (3Q25)			5.35	5.60	5.65

(f): forecast.
Source: BBVA Research.

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