BBVA Research

JUNE, 2026

Brazil Economic Outlook

Global outlook: main messages

Global economic activity remains resilient despite higher inflation and some (limited) financial tightening stemming from the conflict in Iran, which has been lasting more than initially anticipated. The ongoing AI boom and other tailwinds continue to sustain global growth.

Growth will be weaker than previously forecast, particularly in Europe. However, a sharp slowdown will likely be avoided, assuming energy prices moderate from 2H26 and severe energy supply disruptions do not trigger non-linear effects.

Inflation will be higher than expected, above 3% in both the US and Europe in 2H26. Still, absent second-round effects, it should moderate in 2027. The Fed is likely to keep rates unchanged until at least mid-2027, while the ECB is expected to adjust rates slightly upward going forward

Risks are large and tilted to the downside. Oil reserve withdrawals have so far cushioned demand, but this buffer is temporary and vulnerabilities will increase if the conflict persists. Beyond geopolitics, potential risks also stem from AI, US policies, and sovereign debt markets, among others.

Brazil outlook: main messages

Growth is expected to remain around 2% in 2026–27. The 2026 forecast has been revised up by 0.4pp to 2.1%, reflecting resilient economic activity and pre-election fiscal stimulus. The 2027 forecast has been revised down by 0.2pp to 2.0%, on higher-than-expected inflation and interest rates.

Inflation has recently surprised to the upside, largely reflecting higher input costs following the outbreak of the Iran war, but also persistent demand pressures. Inflation is now expected to be around 5.0% in the second half of the year and to converge to 4.0% in 2027, with risks tilted to the upside.

The less favorable inflation outlook leaves less room for monetary easing. While the central bank is still likely to continue cutting rates by 25bp at upcoming meetings, taking the Selic rate to 13.0% by year-end, inflation concerns could force the monetary authority to delay the easing cycle.

The real is likely to weaken ahead, reflecting uncertainty ahead of the 4Q26 general elections and a narrowing interest rate differential with the US. Nevertheless, if fiscal imbalances are reined in as expected, relatively high interest rates should continue to support the currency.

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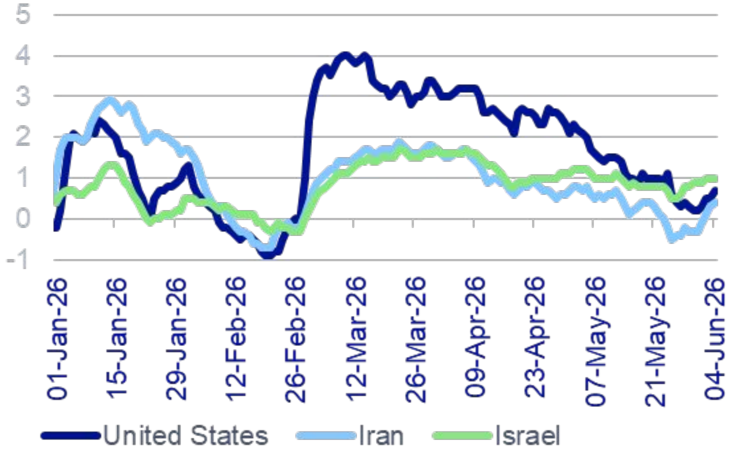
Global Outlook

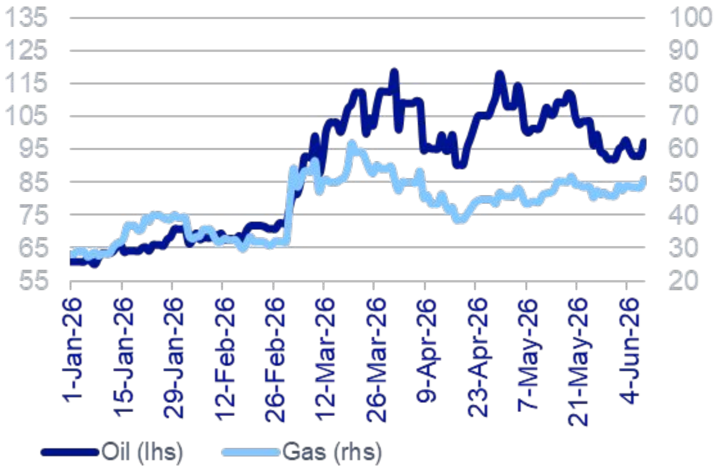
The US-Iran conflict keeps energy prices high and volatile, despite post-ceasefire easing and hopes for a deal

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



Source: BBVA Research

BRENT AND EUROPEAN GAS PRICES
(USD PER BRENT BARREL;EUROS PER MWh)

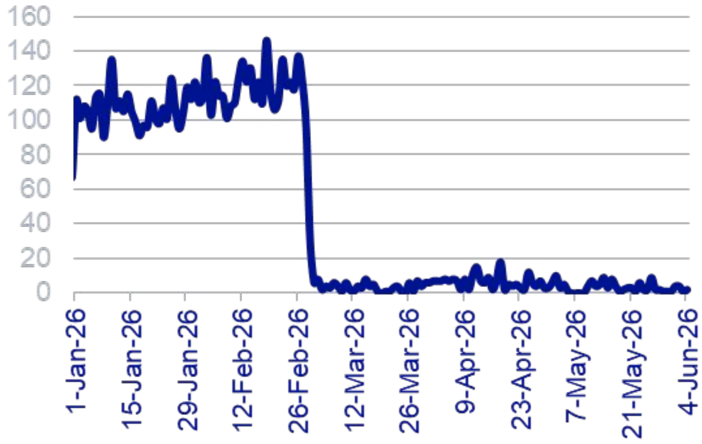


Source: BBVA Research based on data from Haver

While a deal to end the US–Iran conflict may be within reach, the situation remains highly complex and uncertain, with non-negligible risks of more persistent tensions

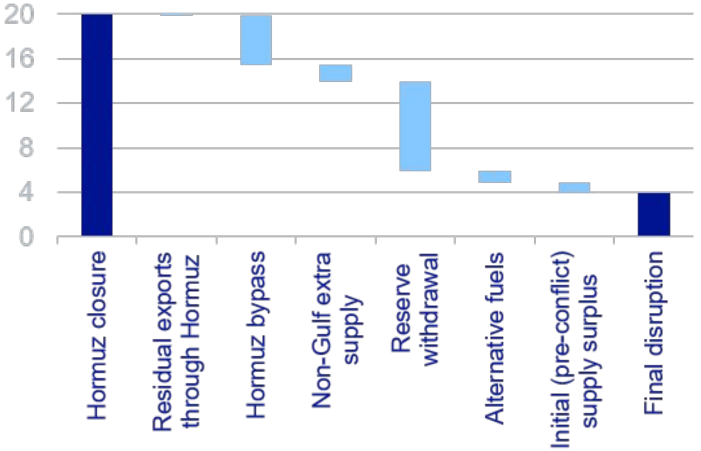
Factors offsetting oil disruptions are insufficient and temporary; a prolonged war poses large, non-linear risks

TRANSIT THROUGH STRAIT OF HORMUZ
(NUMBER OF VESSELS)



Source: BBVA Research based on data from Haver

SHORT-TERM OIL MARKET BALANCE UNDER A STRAIT OF HORMUZ CLOSURE
(MILLION BARRELS A DAY)

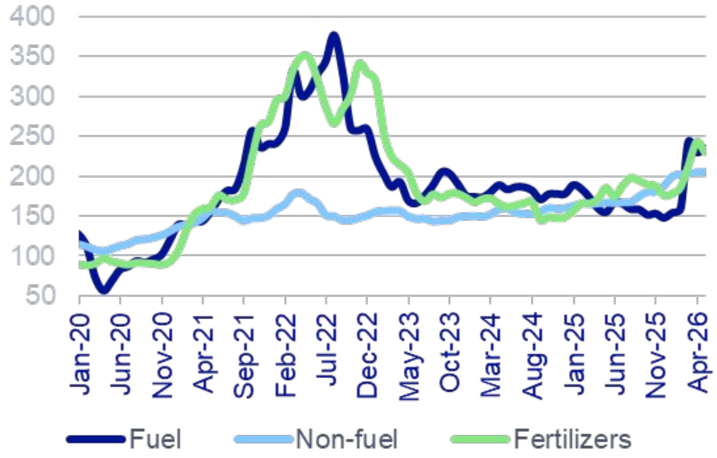


Source: BBVA Research

With the Strait of Hormuz practically closed, countries have been relying on reserve withdrawals to avoid sharper demand adjustments, but concerns are that inventories may be depleted over the next few months

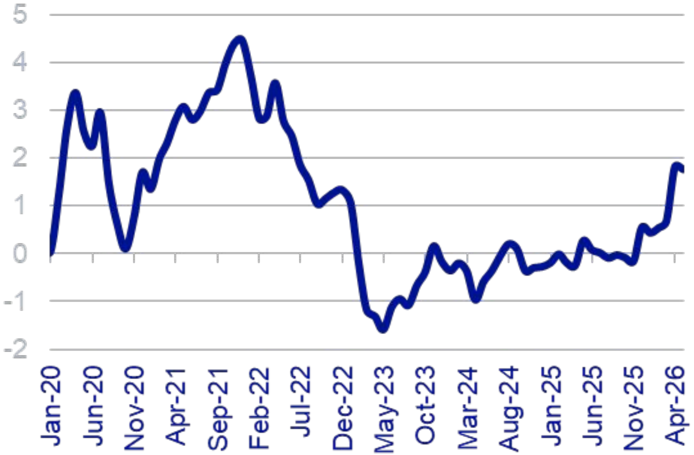
Beyond oil and gas prices, the Iran conflict is affecting some non-energy inputs and stressing supply chains

COMMODITY PRICES
(SPOT PRICES, INDEXES: 2016=100)



Source: BBVA Research based on data from IMF

GLOBAL SUPPLY CHAIN PRESSURE INDEX
(STANDARD DEVIATIONS FROM AVERAGE VALUE)

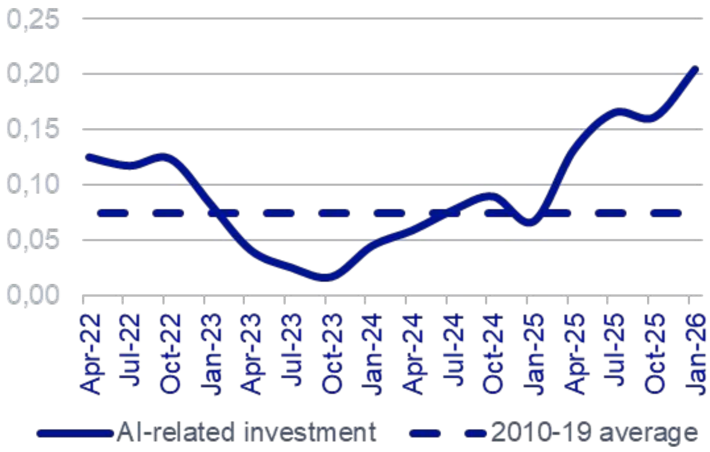


Source: BBVA Research based on data from the NY Fed

Fuel and fertilizer prices have risen more than after Russia's invasion of Ukraine in 2022, adding pressure on other input prices and disrupting supply chains; however, commodity prices and bottleneck pressures remain generally below levels seen four years ago; lower oil-use intensity helps mitigate the shock impact

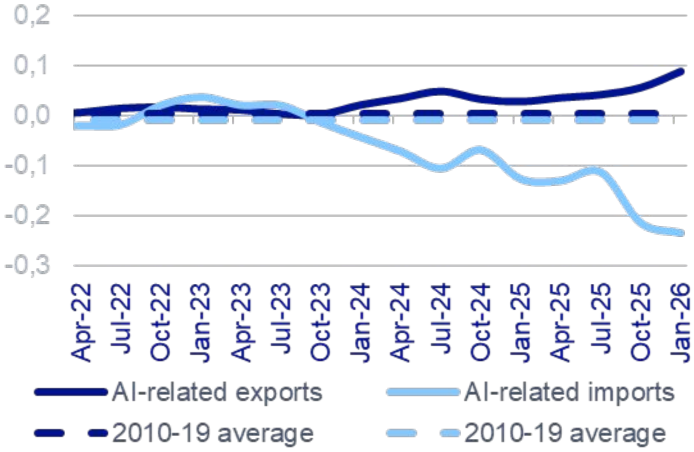
Despite the Iran conflict, growth and market sentiment are being sustained by the AI boom and other tailwinds

US: AI-RELATED INVESTMENT (*)
(CONTRIBUTION TO QUARTERLY GDP GROWTH; FOUR-QUARTERS MOVING AVERAGE: PP)



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

US: AI-RELATED EXPORTS AND IMPORTS (*)
(CONTRIBUTION TO QUARTERLY GDP GROWTH; FOUR-QUARTERS MOVING AVERAGE: PP)

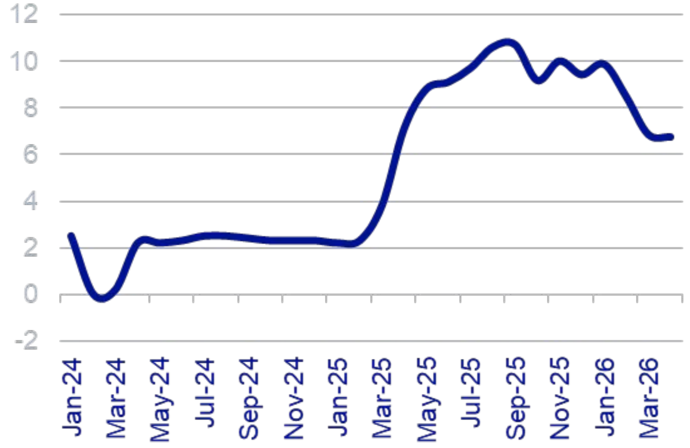


(*) AI-related exports (imports) defined as exports (imports) of computer, peripherals and parts and of telecommunications, computer, and information services.
Source: BBVA Research based on data from US Census Bureau

AI is boosting economic activity through investment, trade and consumption (due to wealth effects), mainly in the US; other tailwinds include fiscal stimuli (reinforced by recent mitigatory measures), defense spending, robust labor markets, sound private balance sheets, and demand for green products

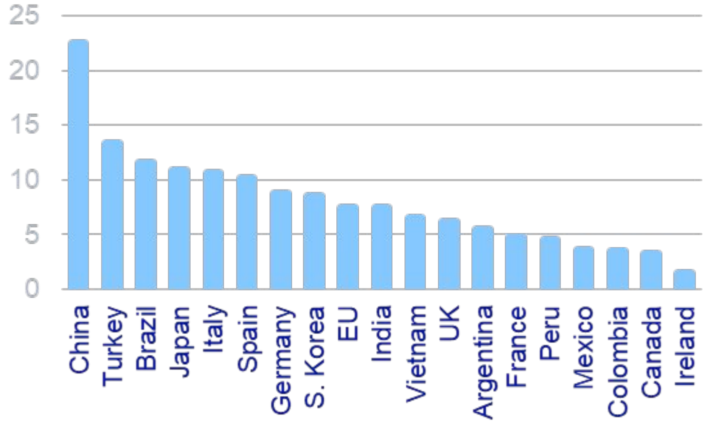
US tariffs have been declining, but recent developments indicate new protectionism measures are likely ahead

US EFFECTIVE TARIFF
(PP)



Source: BBVA Research based on data from the USITC

US EFFECTIVE TARIFF: MARCH, 2026
(PP)

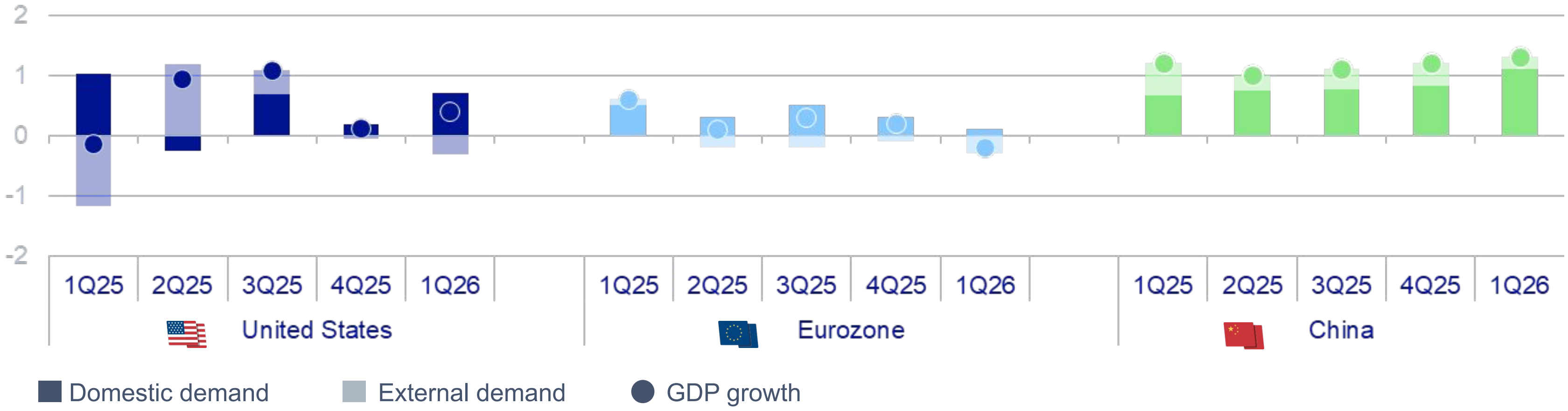


Source: BBVA Research based on data from the USITC

The US government has signaled it may raise tariffs on EU automobiles by 10pp to 25% and has indicated that new tariffs of at least 10%, under Section 301 of the Trade Act of 1974, could replace the temporary 10% universal levies announced after the legal suspension of reciprocal and fentanyl tariffs

Growth was weaker than expected in 1Q26, with stagnation in the Eurozone and more resilience in the US and China

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

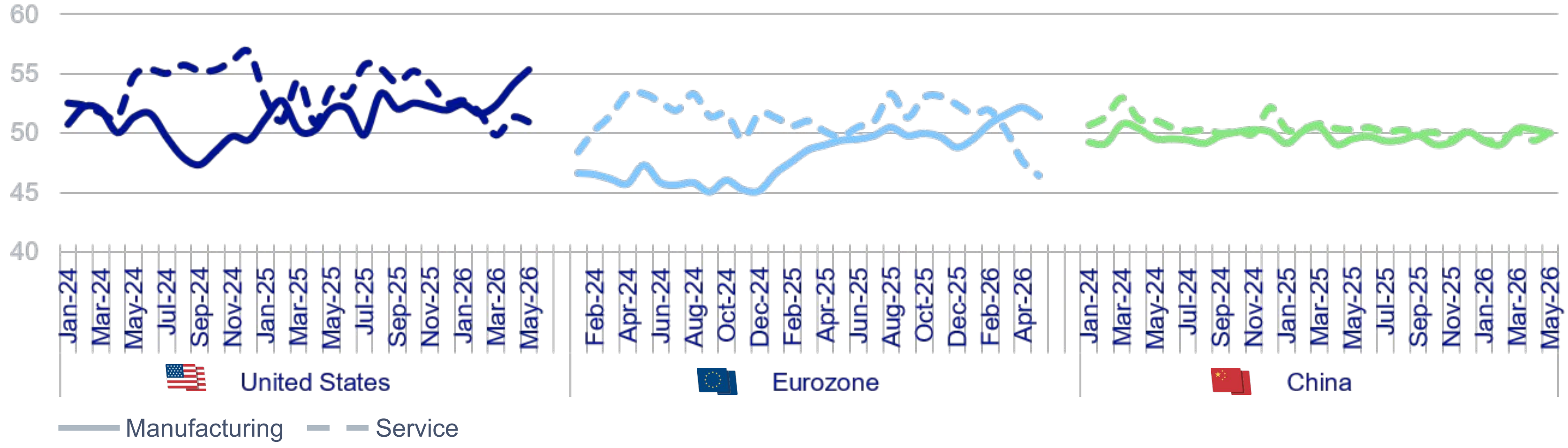


Source: BBVA Research based on data from Haver

Consumption moderation and weak net exports weighed on US and Eurozone growth in 1Q26, with AI-driven investment providing support in the former; in China, domestic demand remains constrained by the housing market adjustment, although exports continue to provide support

High-frequency data point to an impact of Iran tensions on activity, particularly in services and in Europe

PMI INDICATORS (HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)

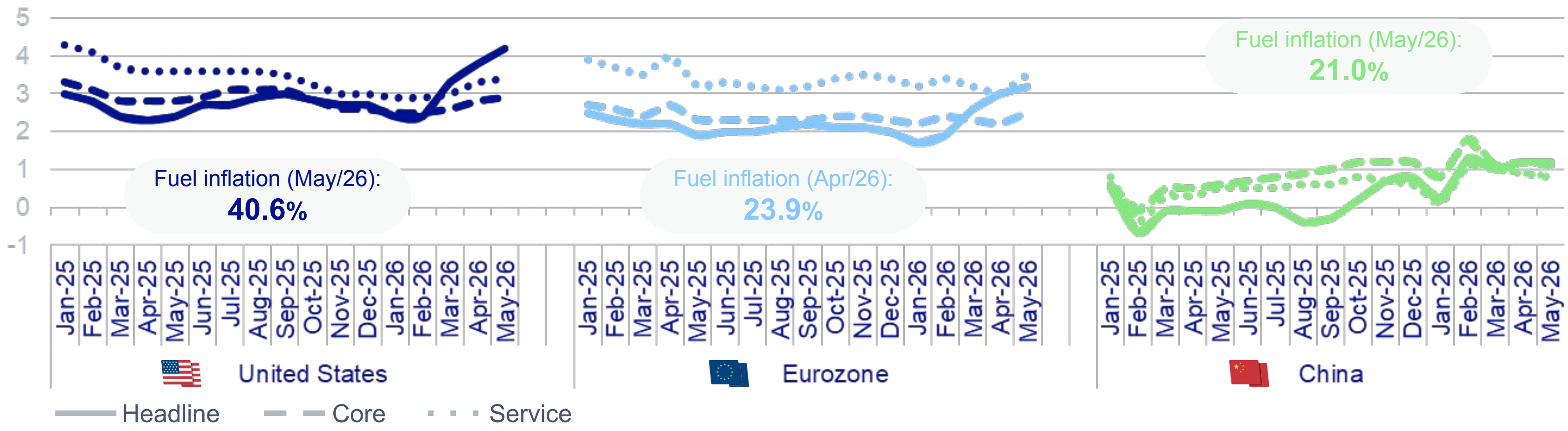


Source: BBVA Research based on data from Haver

Manufacturing continues to improve, possibly reflecting the AI adoption boom; labor market data point to resilience, and even some improvement in the US, while soft indicators are increasingly concerning in Europe

Inflation has accelerated after the recent surge in energy prices, with no clear second-round effects, so far

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

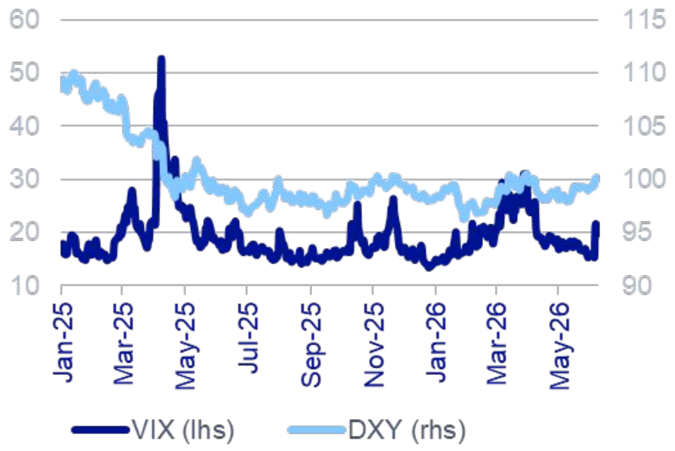


Source: BBVA Research based on data from Haver

Core inflation has increased slightly since tensions in Iran began; wages continue to grow significantly less than in previous years, despite some persistence; short-term inflation expectations have risen lately, but long-term expectations remain broadly anchored

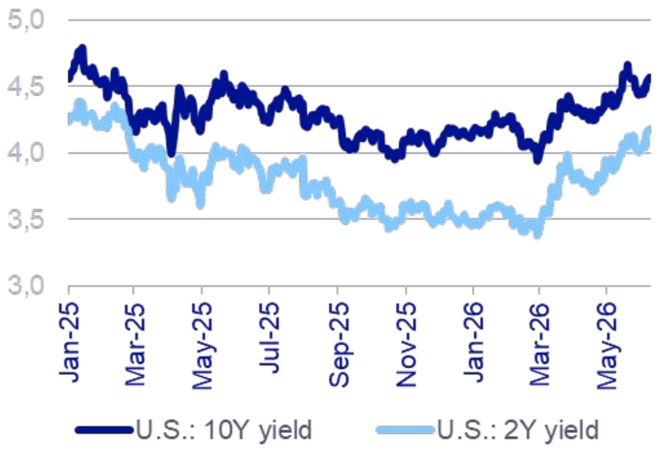
Market sentiment remains benign, but sovereign yields continue to trend up on inflation and fiscal concerns

VOLATILITY (VIX); US DOLLAR (DXY)
(INDEXES)



Source: BBVA Research based on data from Haver

US SOVEREIGN YIELDS
(%)

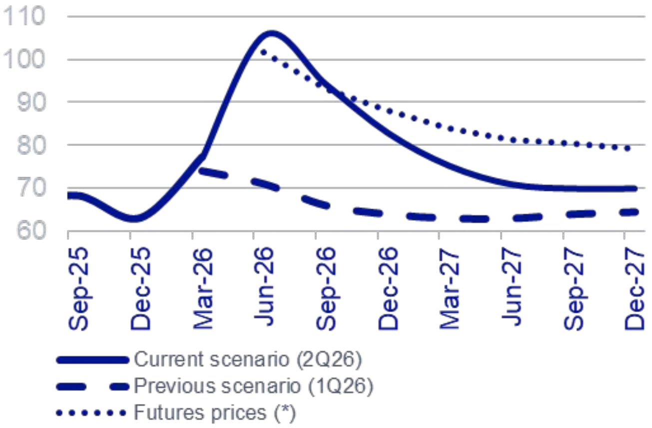


Source: BBVA Research based on data from Haver

Markets are now pricing in a 25bp rate hike by the Fed and two additional rate hikes by the ECB this year

The baseline assumes a more adverse and persistent shock from the war in Iran, although not a disruptive one

BRENT PRICES: BBVA RESEARCH FORECASTS, FUTURES PRICES (USD/BARREL)



	2026 average	2027 average
2Q26 Baseline scenario	90	72
1Q26 Baseline scenario	69	64

- **More prolonged tensions than anticipated,** consistent with Hormuz reopening around mid-year.
- **Slow normalization of energy prices**:
  - geopolitical risk premium to remain in place.
  - affected production infrastructure.
  - slow logistical normalization.
  - strategic reserves rebuilding.
- **Some factors could favor low energy prices**:
  - UAE exit from OPEC risks spurring price war.
  - potential lifting of sanctions on Iran.
- **Higher prices of non-energy inputs and supply bottlenecks** add to the energy shock.

(*) As of the beginning of June 2026.
Source: BBVA Research based on data from Haver

Commodity prices are expected to remain higher than previously anticipated and above 2025 levels over 2026-27

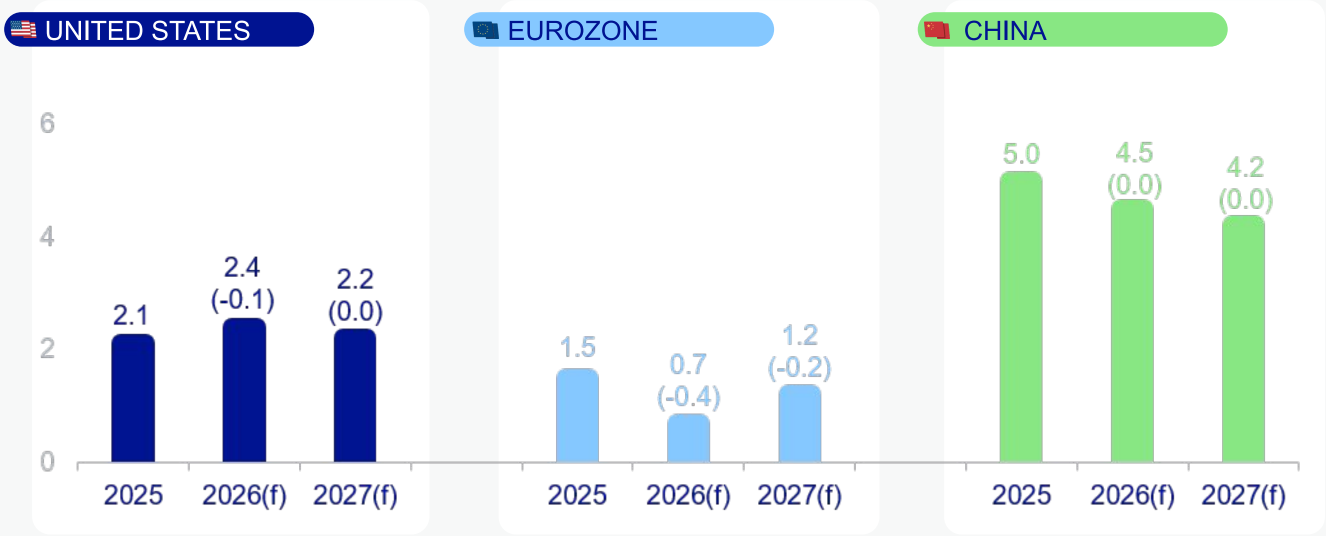
COMMODITY PRICE FORECASTS, COMPARED TO PREVIOUS FORECASTS AND 2025 LEVELS
(%, ANNUAL AVERAGES)

Source: BBVA Research

Higher energy prices tend to raise other commodity prices through higher production costs and demand for biofuels; in addition, the Hormuz closure also directly disrupts the global supply of fertilizers, sulfur, helium, and other critical inputs, further increasing food and metal prices

Growth will stay firm in the US and China but weaker in the EZ; a sharp slowdown will be avoided if the war does not drag on

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



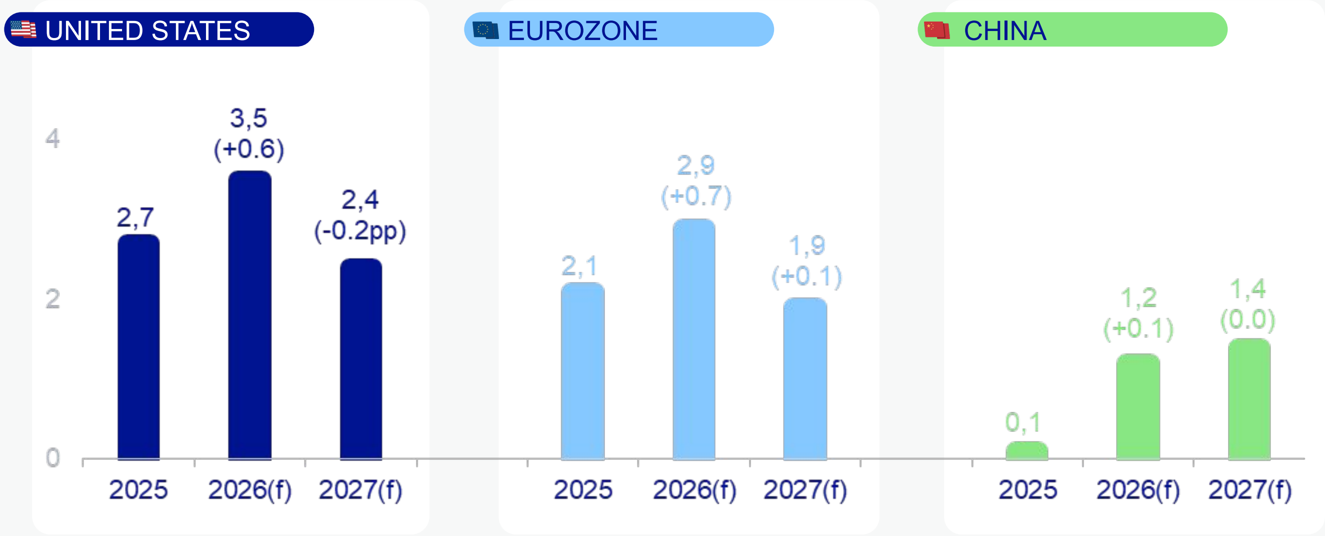
Weaker-than-expected 1Q26 data and a prolonged conflict lead to a slight downgrade of US growth and a larger cut to the Eurozone forecast; China's slowdown outlook remains unchanged despite strong exports and resilient activity

(*) After expanding by 3.5% in 2025, global GDP is forecast to grow by 3.1% in 2026 (0.1pp lower than the previous forecast) and by 3.3% in 2027 (unchanged from the previous forecast).
(f): forecast.
Source: BBVA Research

The 2026 inflation outlook has worsened sharply, but inflation should ease in 2027 absent widespread second-round effects

HEADLINE CPI INFLATION

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

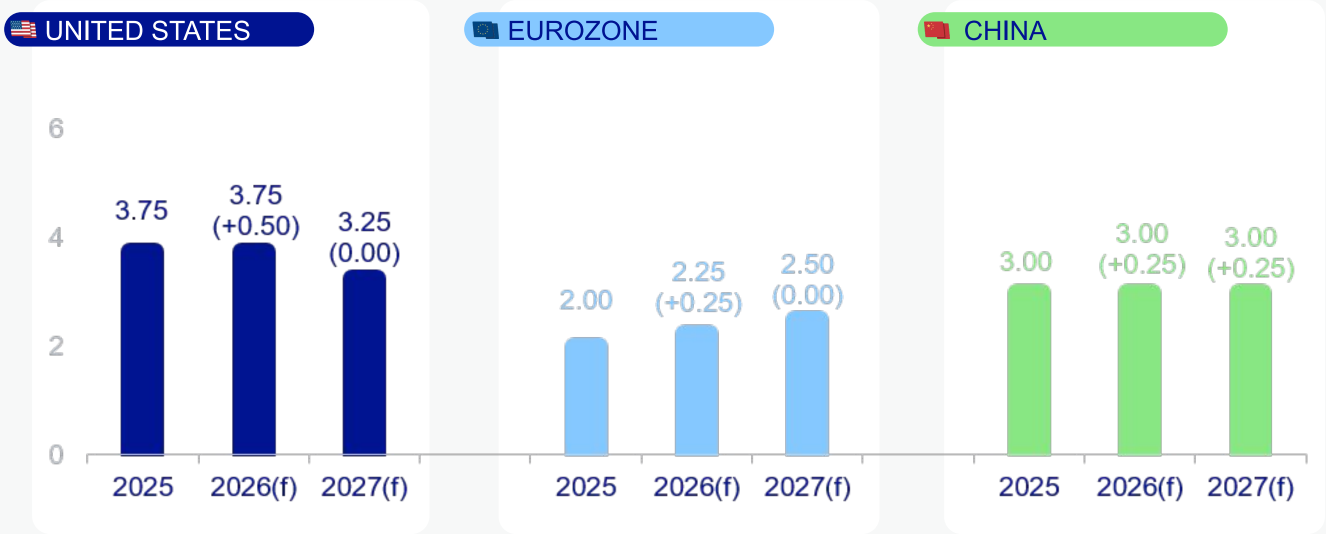


(f): forecast.
Source: BBVA Research

Inflation forecasts have been revised upwards in response to adverse incoming data and expectations of higher energy and food prices; with limited second-round effects, core inflation will be within 2% and 3% in the US and the EZ; upside risks if the Strait of Hormuz remains closed for an extended period

Inflation pressures make central banks more cautious, leading to higher-than-expected rates, mostly in 2026

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



Policy rates are now expected to remain unchanged until mid-2027 in the US and longer in China; the ECB, facing a sharper growth-inflation trade-off, is expected to bring forward a rate hike

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

Risks

If the conflict persists, inventory depletion could push oil prices sharply higher and trigger non-linear effects

Risks go beyond geopolitics:

1. AI: two-sided,
2. US policies and institutions: Fed, tariffs, mid-term elections,
3. Financial stability: sovereign debt markets, private credit, equity correction, shadow banking;
4. China: structural slowdown, housing market, deflation;
5. Others: climate change, demographics

OIL PRICES WITH DIFFERENT COMBINATIONS OF SUPPLY DISRUPTIONS AND DEMAND PRICE ELASTICITY (*)
(US DOLLARS PER BARREL)

SUPPLY DISRUPTION (MILLION BARRELS A DAY): less disruption (-) → more disruption (+)

PRICE ELASTICITY OF DEMAND: less demand reaction (-) → more demand reaction (+)

PRICE ELASTICITY OF DEMAND	4	8	12
0.05	117	169	221
0.10	91	117	143
0.15	82	100	117

now: 4 million barrels a day (117 / 91)

after reserve depletion?: 12 million barrels a day (143 / 117)

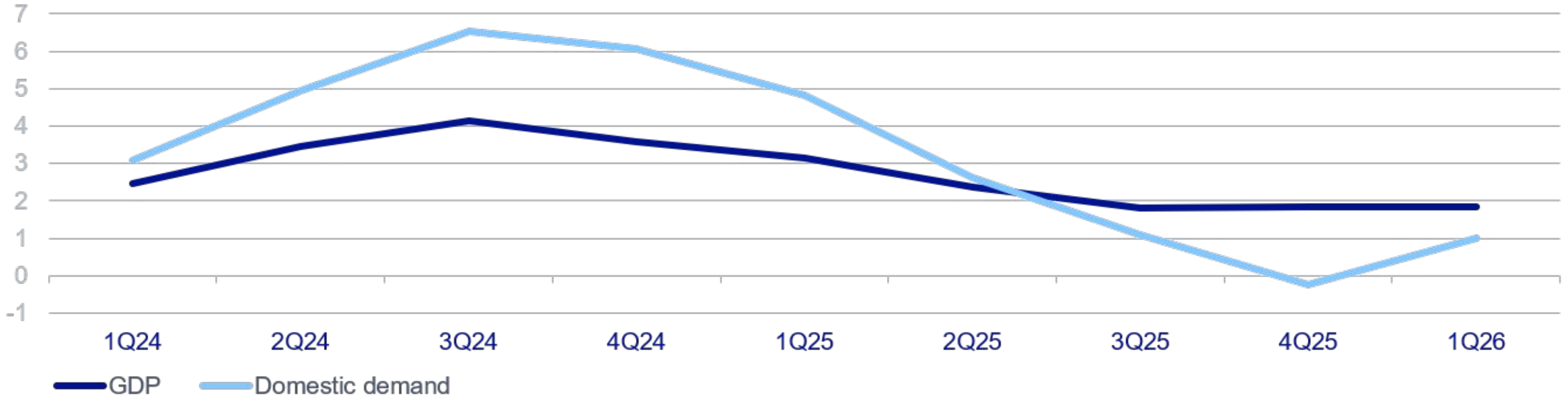
(*) Based on an equilibrium oil price of $65.
Source: BBVA Research

Research

Brazil Outlook

Despite some recovery of domestic demand, growth remained relatively contained at the beginning of the year

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

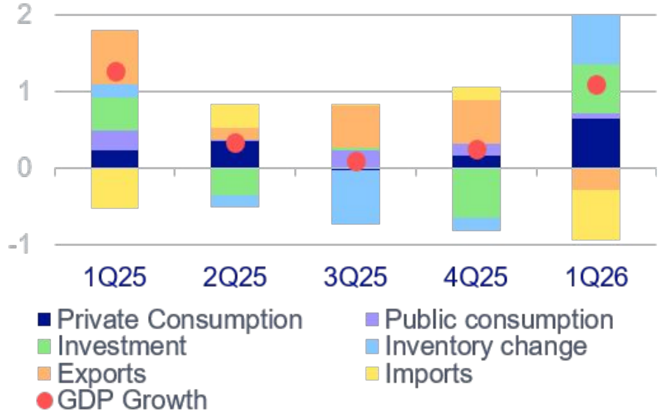


Source: BBVA Research based on data from IBGE

GDP grew by 1.8% y/y in 1Q26, unchanged from 4Q25 and below the 3% y/y average pace of 2023–25; on a quarterly basis, GDP expanded by 1.1% q/q, driven by a recovery in domestic demand, which grew 2.1% q/q after three consecutive quarters of contraction

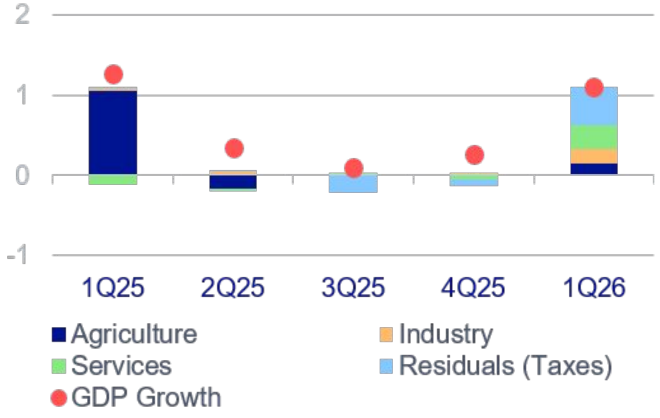
A recovery of investment and private consumption, coupled with lower imports, helped sustain growth in 1Q26

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)

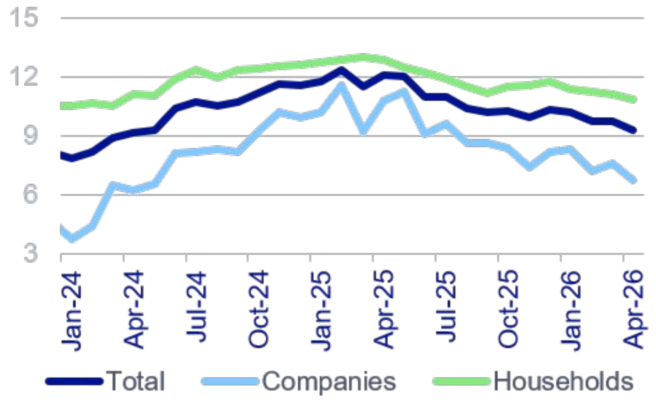


Source: BBVA Research based on data by IBGE.

Inventory accumulation also boosted quarterly growth in 1Q26, offsetting a contraction in exports after their robust performance in 2025; from a supply-side perspective, there was a widespread improvement at the beginning of 2026

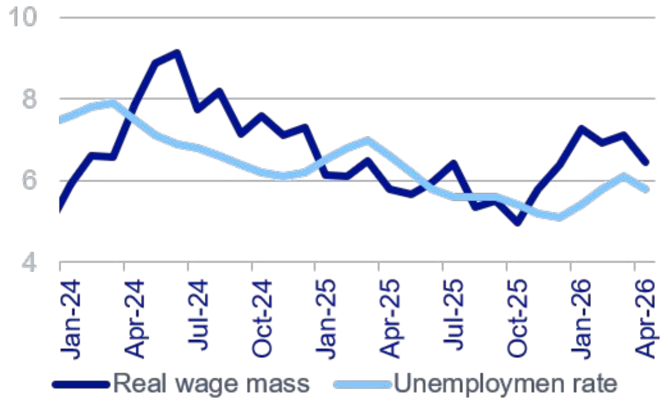
Credit markets continue to lose steam, while the labor market remains broadly supportive

CREDIT STOCK
(Y/Y %)



Source: BBVA Research based on data by the BCB

REAL WAGE MASS AND UNEMPLOYMENT RATE (Y/Y %; %)

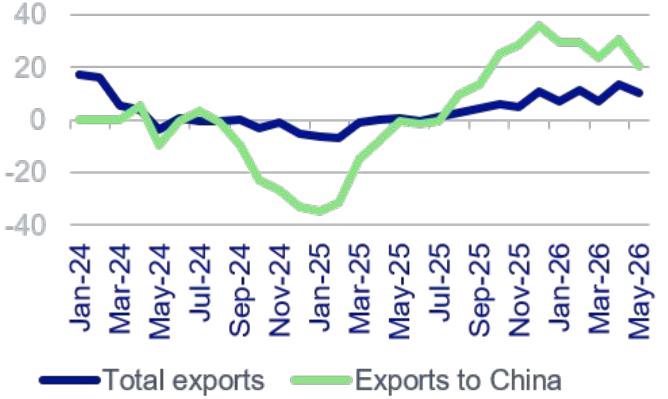


Source: BBVA Research based on data by the BCB and FGV

Elevated interest rates and a historically high household debt service as a share of income (around 30% in Mar/26) continue to constrain credit markets; the labor market remains robust, backed by structural factors (demographics, educational improvements, and the growth of platform-based employment)

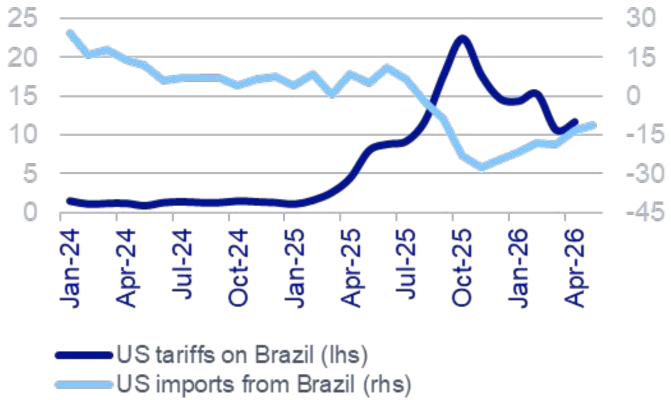
Exports to China are broadly offsetting the fall in exports to the US, which could weaken further given new tariff risks

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



Source: BBVA Research based on data by MDIC

US EFFECTIVE TARIFF ON BRAZIL AND US IMPORTS FROM BRAZIL (%)

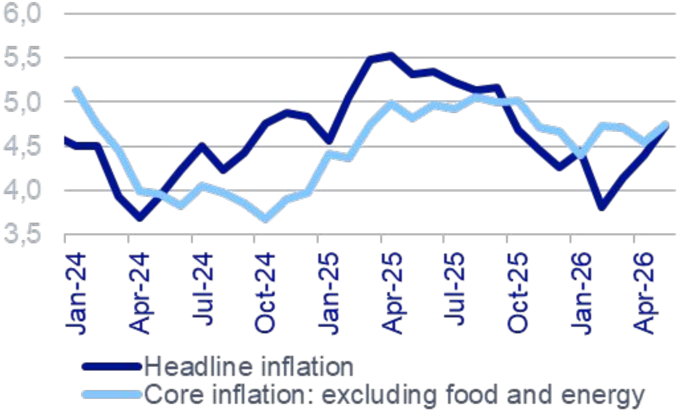


Source: BBVA Research based on data by USITC and MDIC

Exports to China and other countries, mainly commodities, are expanding, while exports to the US remain weak, despite a modest recovery following the reduction in US tariffs, and could weaken further if a proposed 25% tariff on Brazilian exports is implemented

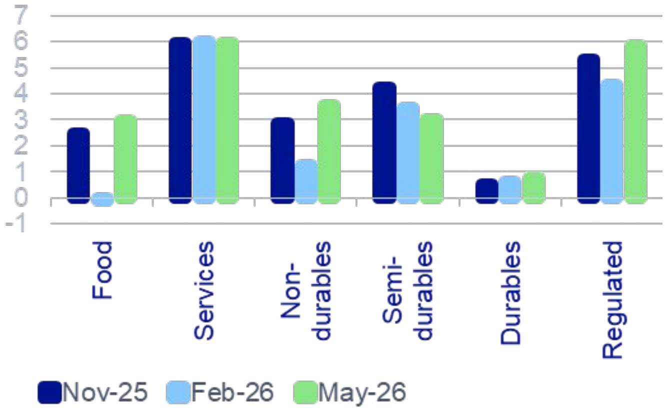
Inflation has stopped falling and has recently started to rise again, driven by supply shocks and resilient demand

INFLATION
(IPCA-BASED; Y/Y %)



Source: BBVA Research based on data by the BCB

INFLATION BY MAIN COMPONENTS
(IPCA-BASED, Y/Y %)

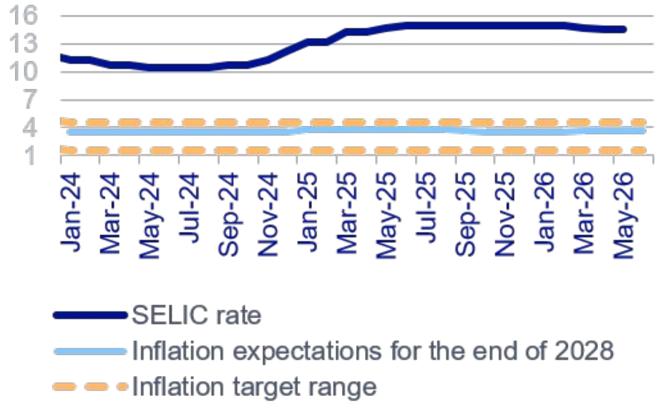


Source: BBVA Research based on data by the BCB

Inflation has exceeded expectations in recent months, reflecting higher global oil and fertilizer prices, local supply issues, and resilient domestic demand; inflection in inflation trend has occurred despite exchange rate appreciation at the beginning of the year

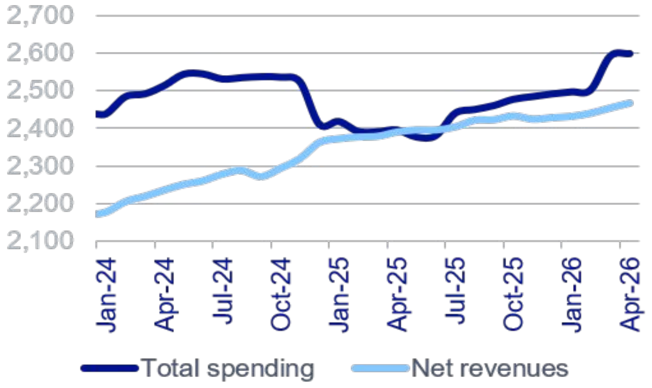
The Selic is falling more gradually than expected amid the global shock, rising inflation, and a growing fiscal impulse

SELIC INTEREST RATE, INFLATION EXPECTATIONS (%)



Source: BBVA Research based on data by the BCB

CENTRAL GOVERNMENT PRIMARY RESULT: ACCUMULATED OVER THE LAST 12 MONTHS
(R$ BILLION; CONSTANT PRICES, AS OF APR/26)

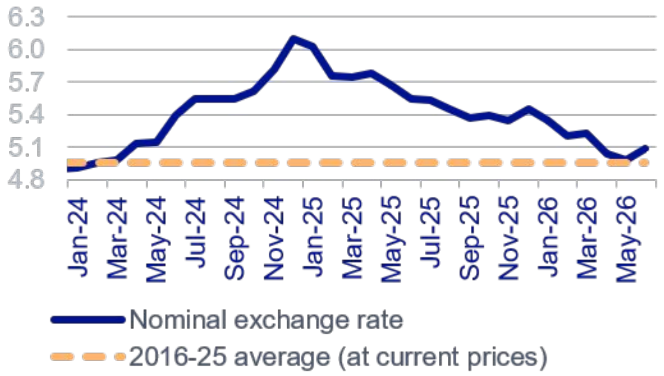


Source: BBVA Research based on data by the BCB

Inflation prospects have worsened, with market expectations for 2028 reaching 3.7% in May/26, 0.2pp higher than in Feb/26 and above the 3.0% target; in this context, the central bank has cut the Selic rate by 25bps in each of the last two meetings, less than anticipated, taking the Selic to 14.5%

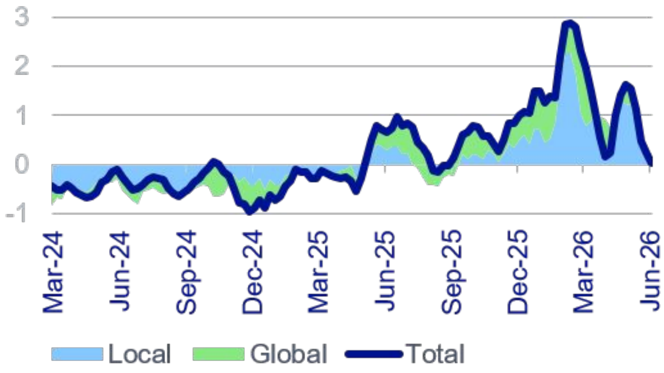
High interest rates and Brazil's limited exposure to tensions in the Middle East have helped support the real

NOMINAL EXCHANGE RATE (*)
(BRAZILIAN REAL PER USD)



(*) Monthly averages until May/26. Jun/26 figure corresponds to information until June 9th
Source: BBVA Research based on data by the BCB

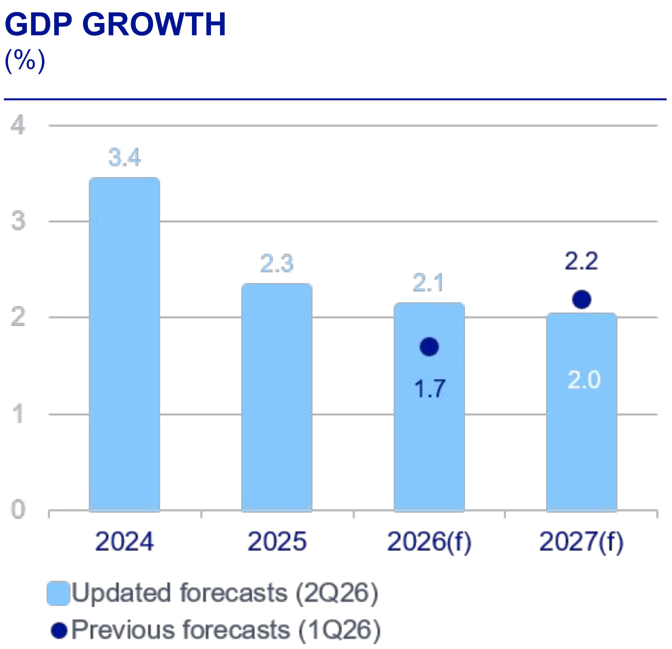
PORTFOLIO FLOWS TO BRAZIL: LOCAL AND GLOBAL FACTORS DECOMPOSITION
(4-WEEK MOVING AVERAGE, Z-SCORES)



Source: BBVA Research based on data by Haver

In the year, so far, the real has strengthened more than expected, even after the beginning of the conflict in Iran, but it has recently lost some steam amid concerns about higher interest rates in the US, rising inflation and political uncertainty ahead of 4Q26 elections

Growth will likely be higher than previously anticipated in 2026, and lower in 2027, but should remain close to 2%

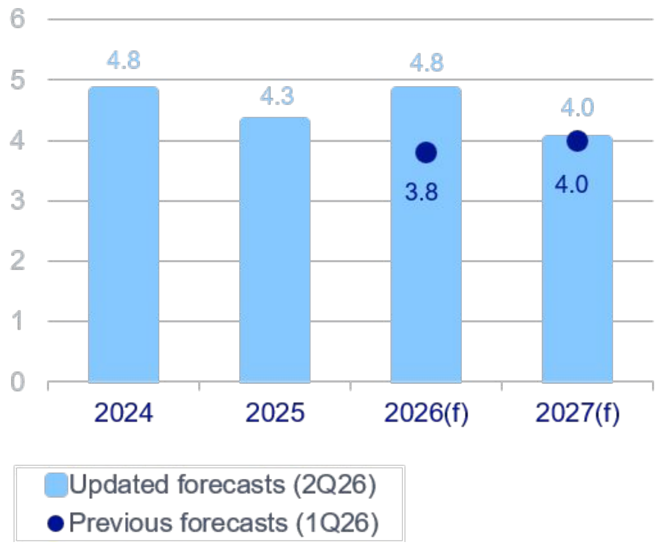


- **Upward revision in 2026 growth forecast** thanks to incoming data showing higher than expected growth at the beginning of the year, in a context where the economy is benefitting from the dynamism of the primary sector (which is favored by the recent increase in energy prices) and policy measures to support activity ahead of elections.
- **Downward revision in 2027 growth forecast** mostly due to the impact on domestic demand of higher inflation and tighter monetary conditions than previously anticipated; fiscal consolidation after 4Q26 elections would also favor lower growth next year

(f): forecast.
Source: BBVA Research

Inflation will likely be around 5.0% in 2026, above the 4.5% upper bound of the target range, with upside risks

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

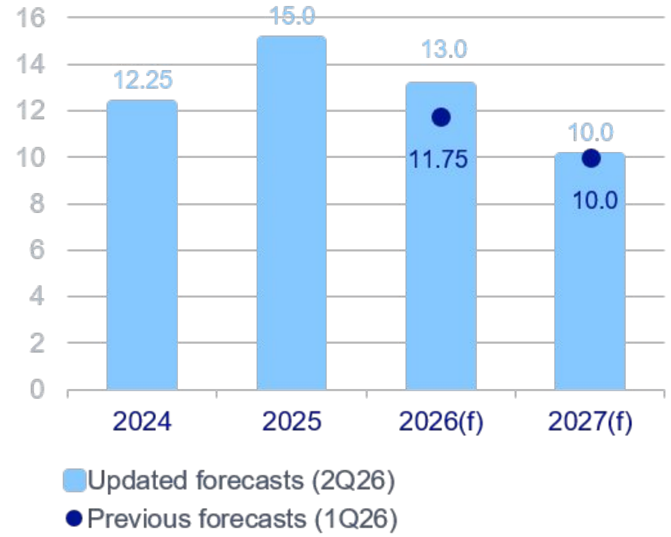


- **Inflation will be significantly higher than previously expected,** driven by higher energy and food prices and resilient domestic demand, despite a more appreciated exchange rate than previously envisaged.
- **The evolution of global commodity prices will be key**: if energy, fertilizer and other input prices refrain from moderating in the 2H26, inflation could be higher than forecast.
- **There are also upside risks related to adverse climate shocks,** particularly the increasing likelihood of a strong El Niño event.

(f): forecast.
Source: BBVA Research

Higher inflation will limit the room for additional monetary easing, but extra Selic cuts are still likely

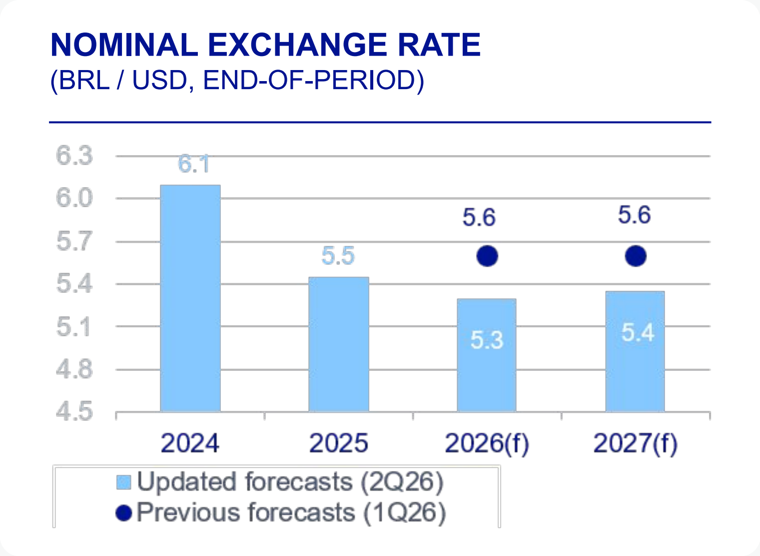
SELIC INTEREST RATE
(YOY%, END-OF-PERIOD)



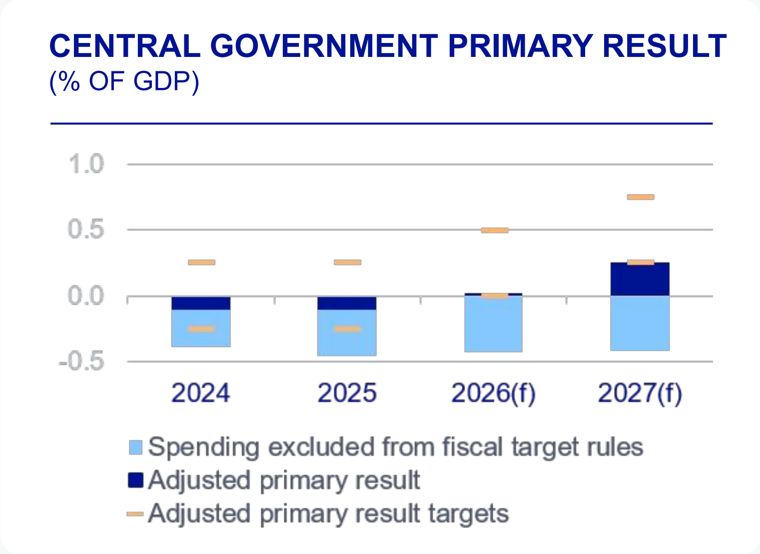
- **A slower monetary easing than discounted before the energy shock is now likely** given the sharp and sudden increase of inflation over the last few months and some (limited) increase in inflation expectations for the coming years.
- **The central bank is likely to continue reducing the policy rate** at a slow and gradual pace while maintaining a restrictive monetary stance.
- Although **we expect the monetary authority to continue cutting rates by 25 bps per monetary policy meeting,** persistent inflation concerns could lead it to pause the easing cycle and delay further rate cuts.

(f): forecast.
Source: BBVA Research

The real is still likely to weaken, though high interest rates should support it, provided fiscal risks are reined in



(f): forecast.
Source: BBVA Research

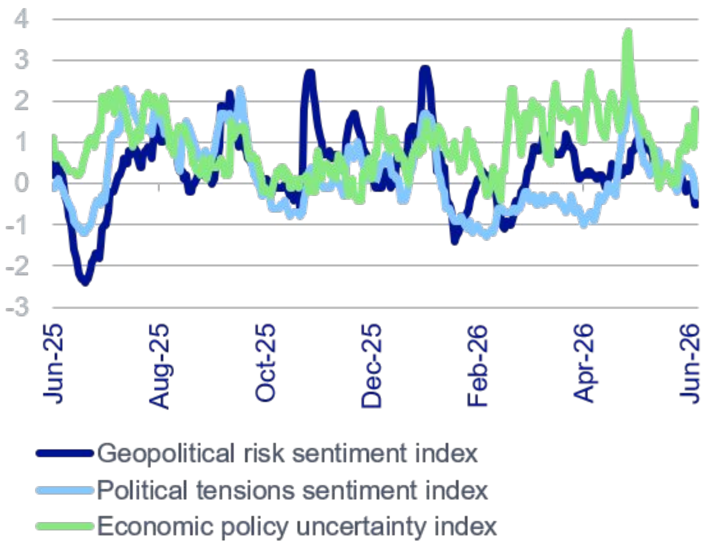


(f): forecast.
Source: BBVA Research

Pre-election uncertainty and narrowing interest rate differentials with the US favor some currency depreciation; but if fiscal risks are properly managed (some fiscal consolidation is likely next year), high Selic rates should prevent a sharper weakening of the real ahead

Risks mainly stem from this year's general elections, relations with the US, and fiscal accounts

BRAZIL: GEOPOLITICAL RISK, POLITICAL TENSIONS, ECONOMIC POLICY UNCERTAINTY
(AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

- **The general elections in Oct/26, with a possible runoff in Nov/26, are a major source of uncertainty,** mainly given heightened political polarization and the contrasting agendas of the leading presidential candidates.
- **Fiscal measures ahead of the elections and any ensuing consolidation will be key to shaping macroeconomic dynamics and the balance of risks;** higher inflation, tighter monetary conditions, and climate shocks could also result in more adverse scenarios than currently anticipated.
- **Targeted US measures**, including higher tariffs on Brazilian goods and the designation of local criminal groups as terrorist organizations, are a source of concern.

BBVA Research forecasts for Brazil

		2023	2024	2025	2026 (f)	2027 (f)
GDP (%)	Updated (1Q26)	3.2	3.4	2.3	2.1	2.0
	Previous (4Q25)				1.7	2.2
Inflation (%, end-of-period)	Updated (1Q26)	4.6	4.8	4.3	4.8	4.0
	Previous (4Q25)				3.8	4.0
Policy rate (%, end-of-period)	Updated (1Q26)	11.75	12.25	15.00	13.00	10.00
	Previous (4Q25)				11.75	10.00
Exchange rate (end-of-period)	Updated (1Q26)	4.90	6.10	5.45	5.3	5.4
	Previous (4Q25)				5.60	5.60

(f): forecast.
Source: BBVA Research

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