

OCTOBER, 2026

Brazil Economic Outlook

Global outlook: main messages

The global economy continues to grow, with higher but contained inflation



and limited financial stress. AI demand, defense spending and inflation-focused central banks are helping offset global headwinds, including escalating Middle East tensions, which have further pushed energy prices up, and the ongoing trend of rising long-term yields.

Growth prospects remain broadly unchanged.



In the US, GDP growth will likely stay just above 2%, while in China it is forecast to keep converging down toward 4%. In the Eurozone, this year's outlook has improved on stronger incoming data, but prospects for next year remain unchanged despite higher oil prices, rates and inflation.

Commodity prices will keep inflation under pressure



in the short run. Still, inflation could ease next year if tensions in Iran subside as assumed in our baseline scenario. Tighter monetary conditions should also help contain inflation: policy rates are likely to soon reach 4.25% in the US and 2.75% in the Eurozone.

Uncertainty remains very high.



Escalation in the Middle East or in Ukraine, weather shocks, policy uncertainty, rising public debt and sovereign yields, protectionism, AI and other factors could eventually erode global resilience and trigger macro and financial instability. Higher oil prices for longer would make inflation and rates edge higher.

Brazil outlook: main messages

Growth continues to soften and is now forecast to reach 2.1% in 2026 and 1.8% in 2027, with risks tilted to the downside. The slowdown is likely to be driven by tight monetary conditions, despite the gradual decline in the Selic rate; the impact of a more severe El Niño, particularly on the primary sector; and an eventual, though still uncertain, fiscal consolidation following the 4Q26 elections.



Inflation will likely rise over the next few months, mainly due to the effects of El Niño and persistent tensions in the Middle East. However, subdued domestic demand should help contain inflationary pressures, with inflation expected to end this year and next at around 4.8% and 4.0%, respectively, close to the target range's upper-bound (4.5%).



The door for further monetary easing remains open. Slowing activity, signs of credit stress and a broadly stable exchange rate should allow the Selic rate to decline to 13.25% by Dec/26 and continue falling in 2027, provided fiscal risks are addressed as expected. Still, given higher Fed rates, the easing cycle will likely proceed more gradually than previously anticipated.



The post-election political landscape remains highly uncertain and will be key to shaping the outlook and balance of risks. Fiscal policy will be at the center of attention, with measures needed to stabilize, or at least slow the rise in, public debt. A failure to move in this direction could trigger renewed macroeconomic and financial volatility.

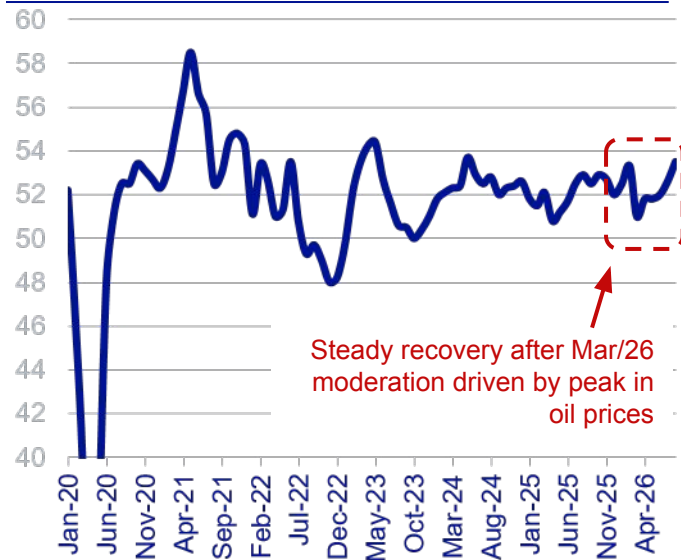


Global Outlook

The global economy has remained resilient despite multiple shocks, which have lately shown little sign of abating

GLOBAL COMPOSITE PMI

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



GLOBAL HEADWINDS

- geopolitical fragmentation, conflicts
- energy and commodity shocks
- climate shocks
- rising public debt and long-term yields
- policy uncertainty
- protectionism
- China's structural slowdown
- ageing

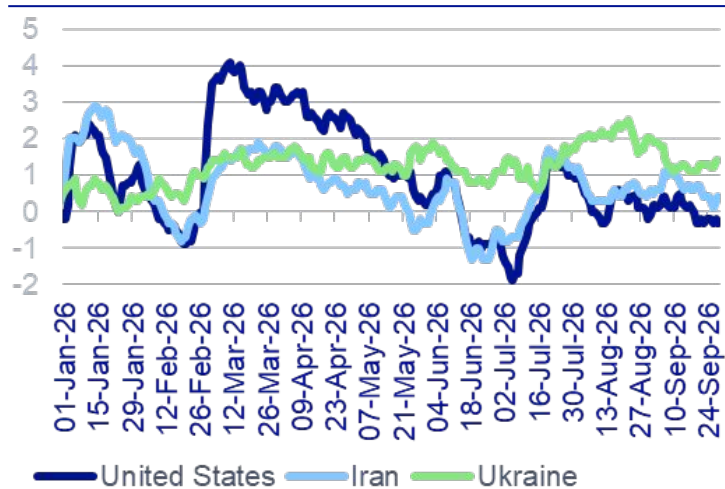
GLOBAL TAILWINDS

- AI adoption
- defense spending
- inflation-focused central banks
- solid private balance sheets
- fiscal impulse
- resilient labor markets
- supply-chain reconfiguration
- green investment, energy diversification

US-Iran tensions escalated again, with conflict spreading to the Red Sea, pushing up energy prices and uncertainty

GEOPOLITICAL RISK INDEX

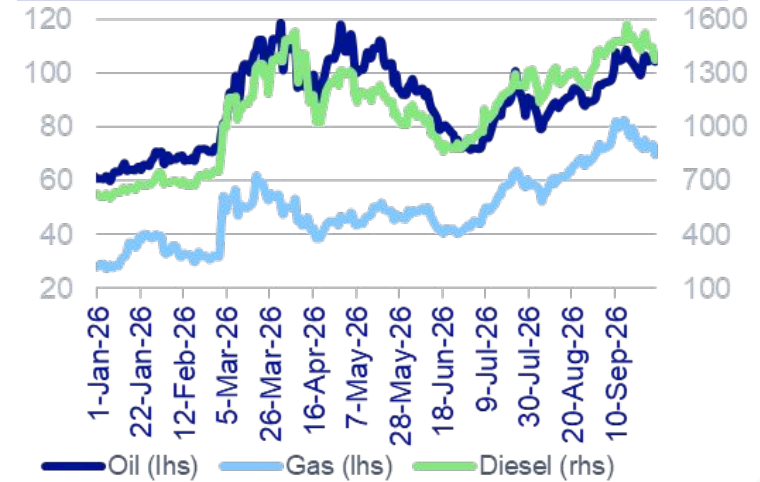
(AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

BRENT, EUROPEAN GAS AND DIESEL PRICES^(*)

(USD PER BRENT BARREL; EUROS PER MWh, USD PER METRIC TONS)



(*) Diesel: low sulphur gas oil future (ICE Futures Europe)

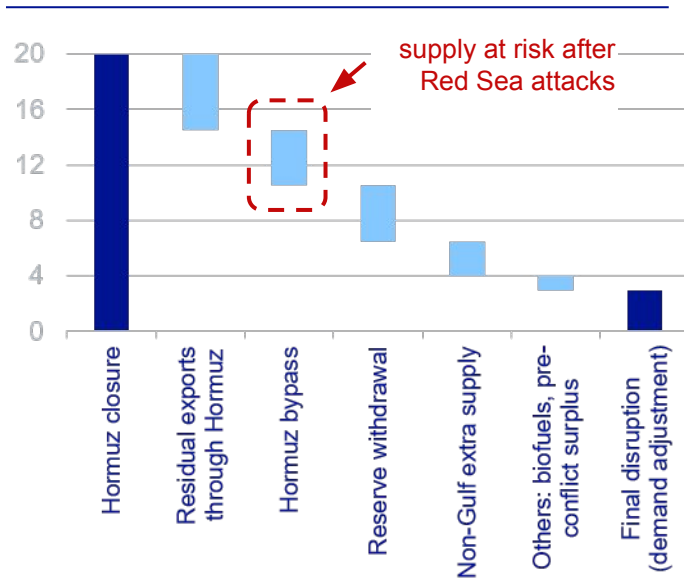
Source: BBVA Research based on data from Haver

US-Iran diplomacy stalled over ceasefire terms and control of Hormuz; Washington then intensified economic pressure by expanding sanctions on Iran's allies; fighting has since resumed, with the Houthis attacking alternative oil routes in the Red Sea

Supply disruptions persist, with some offsetting factors now at risk, adding volatility to energy prices

OIL MARKET BALANCE: AUG/26

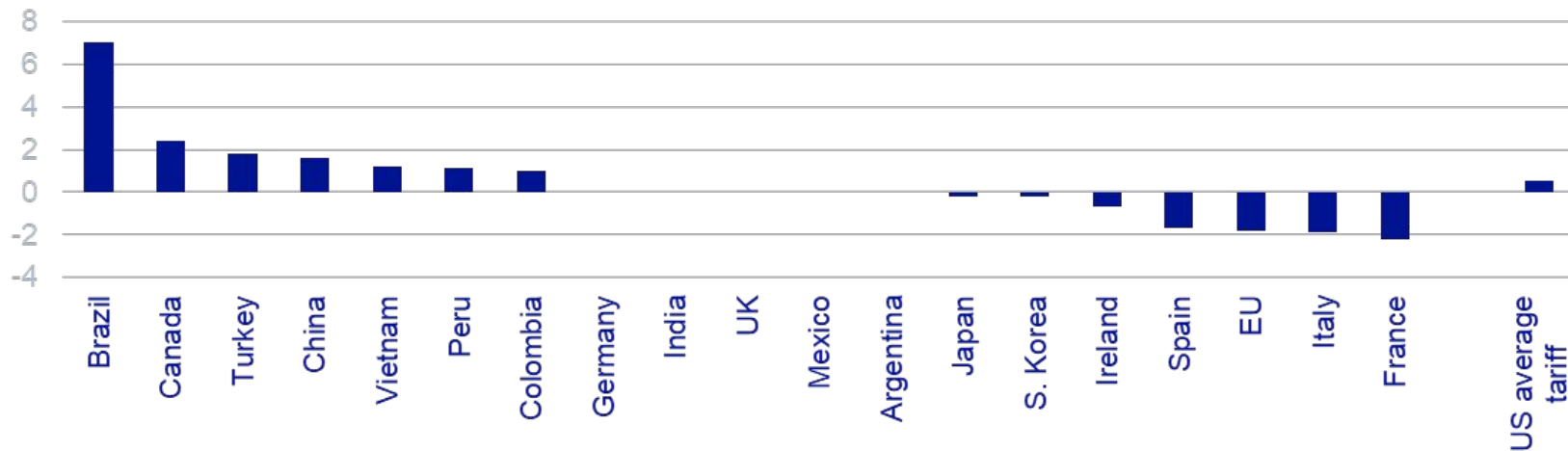
(MILLION BARRELS A DAY)



- Despite data uncertainty, there are signs that oil exports through Hormuz have increased, due to a larger flow of oil from US allies
- Bypassing routes through the Red Sea have helped cushion supply losses, but escalating attacks in the region have caused fresh, seemingly temporary disruptions
- Reserve liberation, particularly by China, continues to provide support, but non-linearity risks remain in place
- Increasing production by other countries, especially in the Americas, is also preventing oil prices from moving even higher

Tariffs: the recent changes leave the average US tariff mostly unchanged, despite varying effects across countries

US STATUTORY TARIFFS: CHANGES DUE TO THE EXPIRATION OF “UNIVERSAL” TARIFFS (BASED ON SECTION 122), ADOPTION OF “FORCED LABOR” TARIFFS (BASED ON SECTION 301) AND IMPLEMENTED NEW TARIFFS ON CANADA AND BRAZIL (*) (PP)



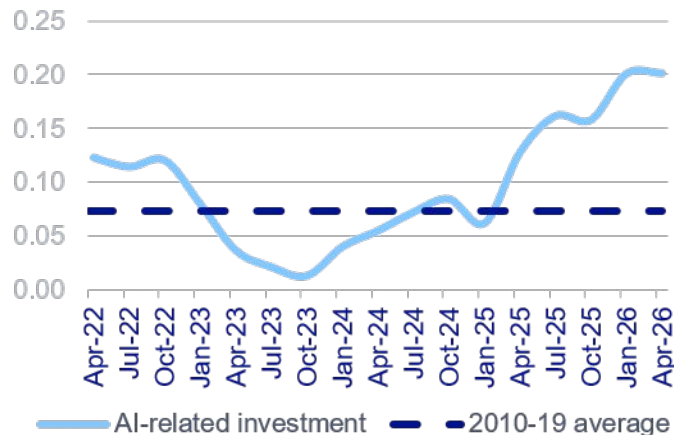
(*) It does not consider higher tariffs on Canadian cars, trucks, automobiles parts and steel announced to take place on January 2027, nor the recently announced tariffs cuts between the US and China, which are still pending implementation.
Source: BBVA Research

The average effective US tariff is likely to remain close to 7%; extra US tariffs scheduled to be effective next year would raise Canada's tariff by 2pp to 6pp, depending on whether the targeted goods will still benefit or not from USMCA exemptions; the recent US-China deal could reduce tariffs on China by 1pp to 2pp

Rising AI investment is supporting aggregate demand, mainly in the US, but also in other countries

US: AI-RELATED INVESTMENT (*)

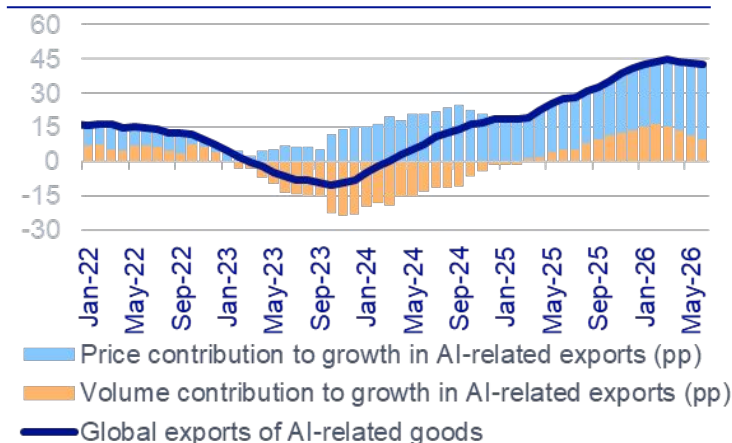
(CONTRIBUTION TO QUARTERLY GDP GROWTH;
FOUR-QUARTERS MOVING AVERAGE: PP)



(*) 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

GLOBAL EXPORTS OF AI-RELATED GOODS

(Y/Y%, 12-MONTH MOVING AVERAGE)

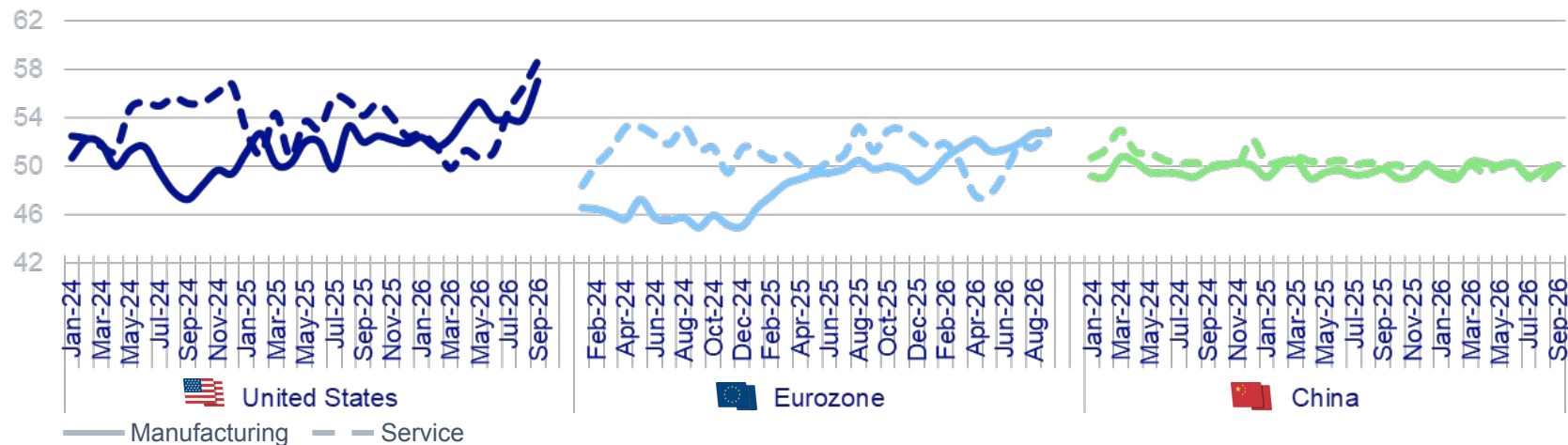


(*) AI-related goods exports include key inputs at the 6-digit level (energy and power, the semiconductor ecosystem, AI hardware, and connectivity) used in AI production.
Source: BBVA Research based on data from UN Comtrade, China's GAC, and Taiwan Customs.

Extraordinary AI demand is also putting strong pressure on related prices, potentially creating risks to global inflation

High-frequency indicators reinforce the view that growth is still robust in the US and is improving in Europe

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

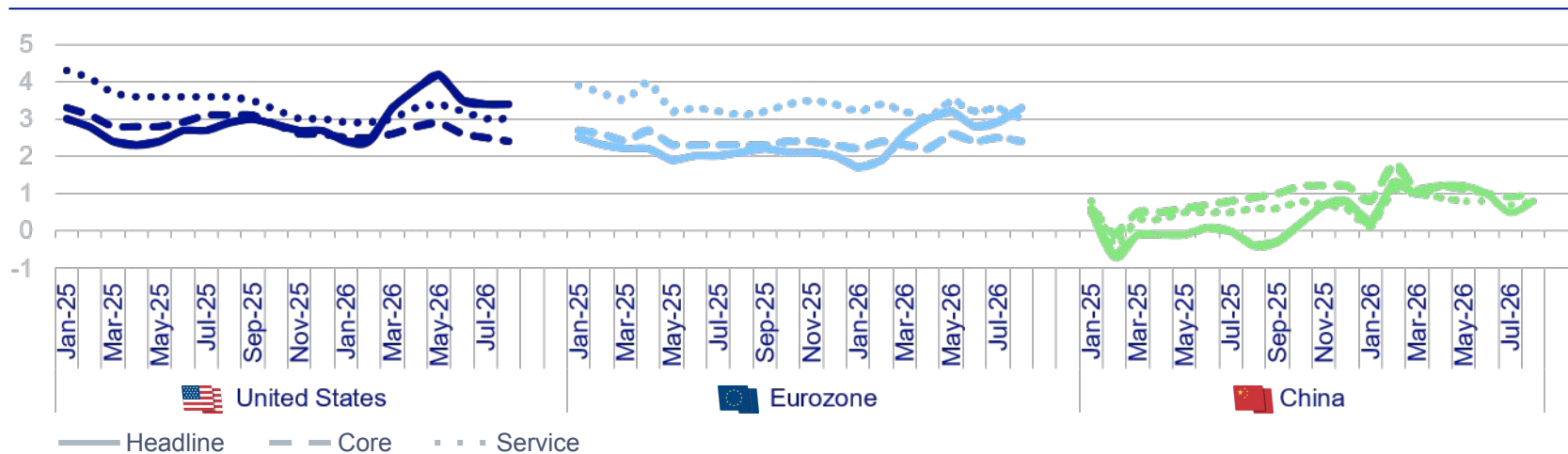


Source: BBVA Research based on data from Haver

2Q26 GDP surprised to the upside in the Eurozone, supported by resilient consumption and stronger net exports, but disappointed in the US despite robust domestic demand, and mainly in China despite very strong exports

Inflation is running above 3% both in the US and in the Eurozone amid higher energy prices and resilient demand

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

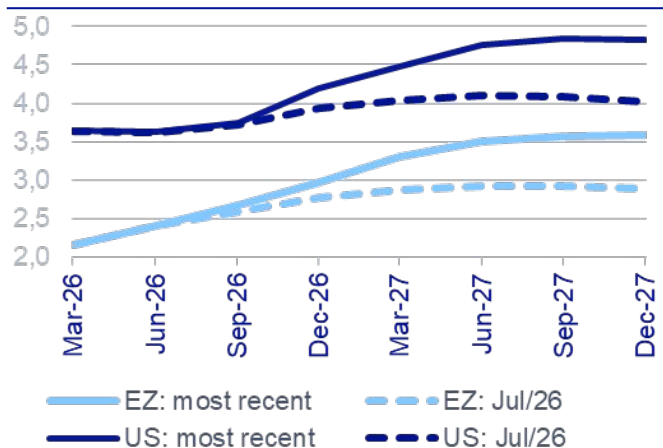


Source: BBVA Research based on data from Haver

Although headline inflation continues to be under pressure, core and service figures have exhibited a (timid) downward trend over the last few months, which suggest no significant second-order effects from the commodity shock so far

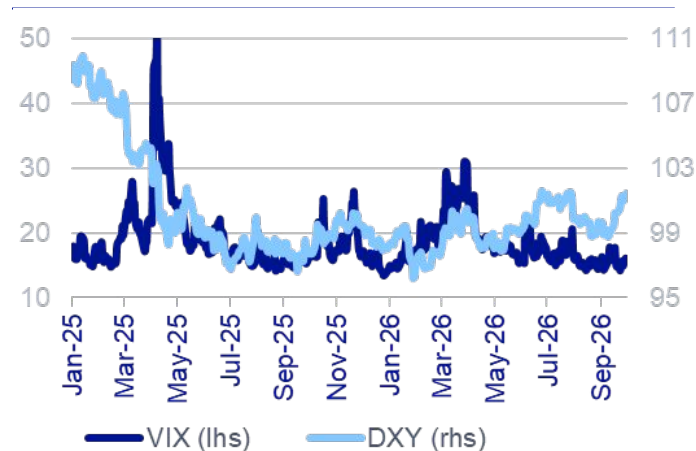
Markets expect both the Fed and the ECB to continue tightening monetary conditions ahead

INTEREST RATES IMPLIED BY FED FUNDS
AND EURIBOR FUTURES (%)



Source: BBVA Research based on data from Haver

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



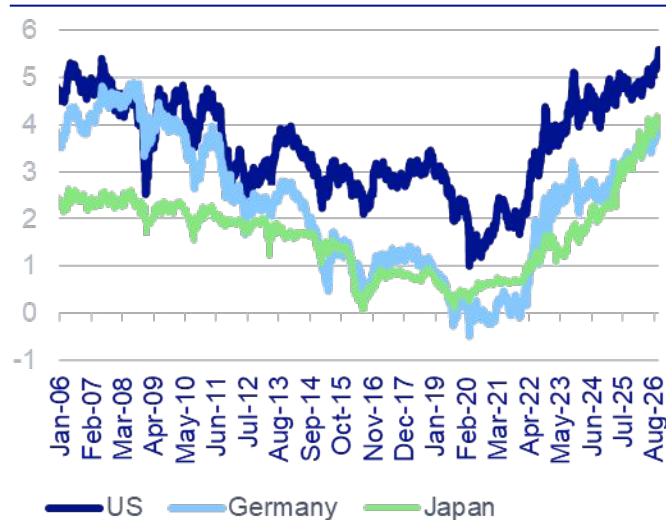
(*) A higher DXY represents a stronger US dollar
Source: BBVA Research based on data from Haver

The ECB and the Fed have recently raised rates to 2.5% and 4.0%, respectively, with markets pricing in further hikes; the VIX has remained subdued, while the US dollar has appreciated somewhat

Long-term sovereign yields continue to rise globally, prompting a policy response from the US Treasury

30-YEAR SOVEREIGN YIELDS

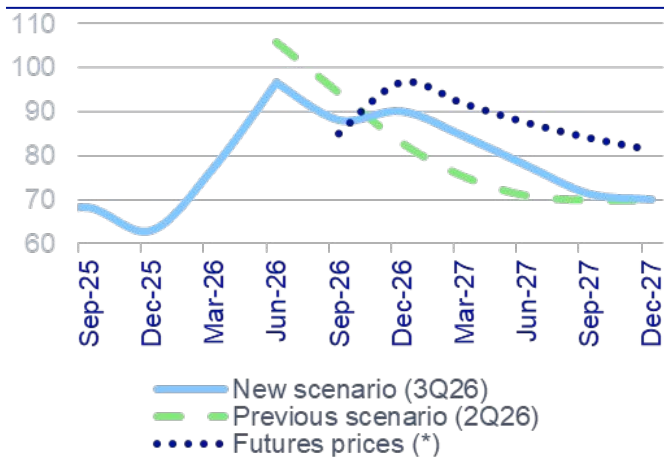
(%)



- **Long-term sovereign yields have continued to trend up, accelerating recently**, mostly due to higher real interest rates (driven by inflation pressures and resilient growth) while the term premia remains higher than in the past years (mostly due to fiscal issues)
- **The US Treasury has tried to contain the trend** by increasing bond buybacks and supporting the yen, while seeking to limit Japan's sales of US Treasuries
- **The moves had only limited impacts** as they don't structurally address the drivers of their upward trend; moreover, they may eventually clash with Fed's goals

Our scenario assumes that oil prices will be contained and decline gradually next year, despite risks

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



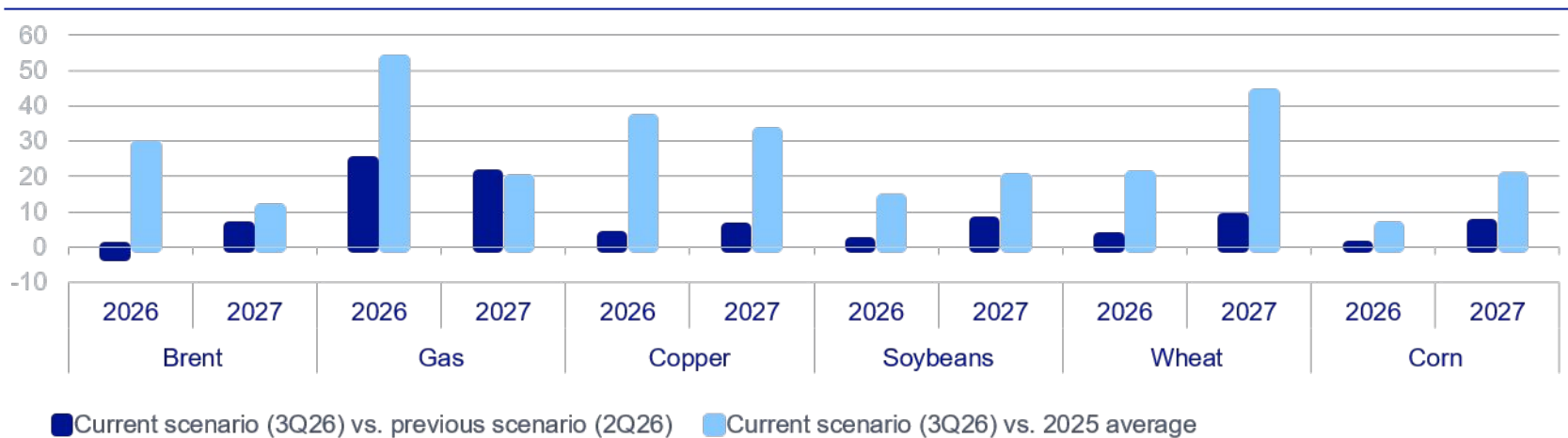
	2026 average	2027 average
New baseline scenario (3Q26)	88	76
Previous baseline scenario (2Q26)	90	72

(*) As of September 17, 2026.
Source: BBVA Research based on data from Haver

- **With Hormuz transit constrained for longer, prices are assumed to be slightly higher** than the previous assumption, although they were below the previous forecast in 3Q26
- **The new scenario is still consistent with a gradual improvement of energy flows** through Hormuz moving forward
- **Upside risks** to the oil baseline are relevant as tensions could avoid a reopening of the Strait, severely hit bypassing routes through the Red Sea and trigger nonlinearities
- **But oil prices could decline faster than forecast** if eventually a new deal is reached

Commodity prices will be supported not only by geopolitical tensions, but also by weather shocks and AI demand

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



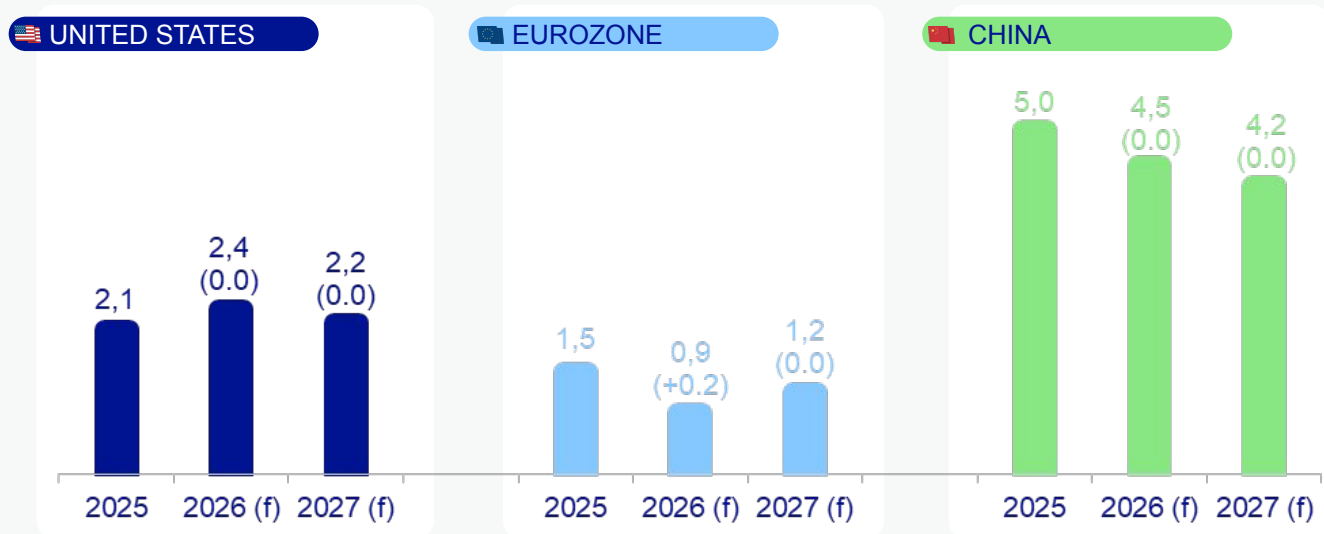
Source: BBVA Research

While the Middle East conflict is pushing up a broad range of input prices (notably energy and fertilizers), further pressure will come from low inventories (gas), the Russia-Ukraine war (now hitting wheat exports), weather shocks (El Niño and hot weather in the EU and US) and resilient demand (particularly AI-related demand for copper, energy and other inputs)

Broadly unchanged GDP forecasts despite a better outlook for Europe this year, supported by stronger incoming data

GDP GROWTH (*)

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



Growth is expected to be slightly above 2% in the US and converge to 4% in China, despite 2Q26 negative surprises.

In **Europe**, the impact of higher interest rates will be mostly offset by the effects of a weaker euro

(*) After expanding by 3.5% in 2025, global GDP is still forecast to grow by 3.1% in 2026 and by 3.3% in 2027 (unchanged figures).

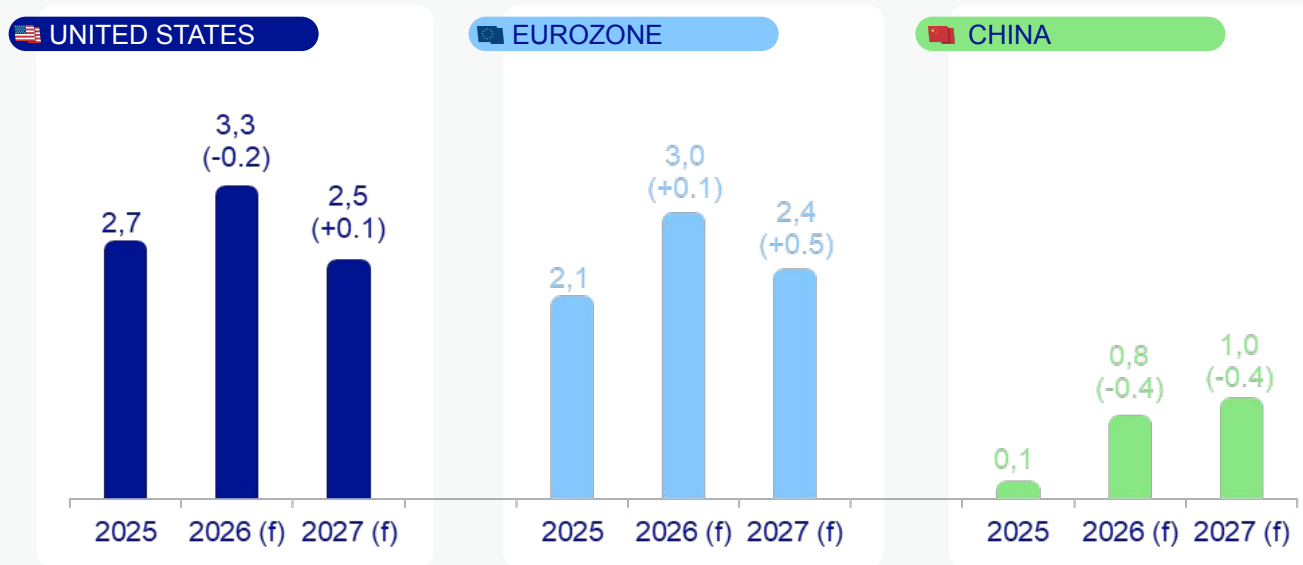
(f): forecast.

Source: BBVA Research

Commodity prices and demand resilience will help to keep inflation under pressure, at least in the short-run

HEADLINE CPI INFLATION

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



Inflation will remain high, above previous expectations in Europe, amid higher energy prices and resilient growth

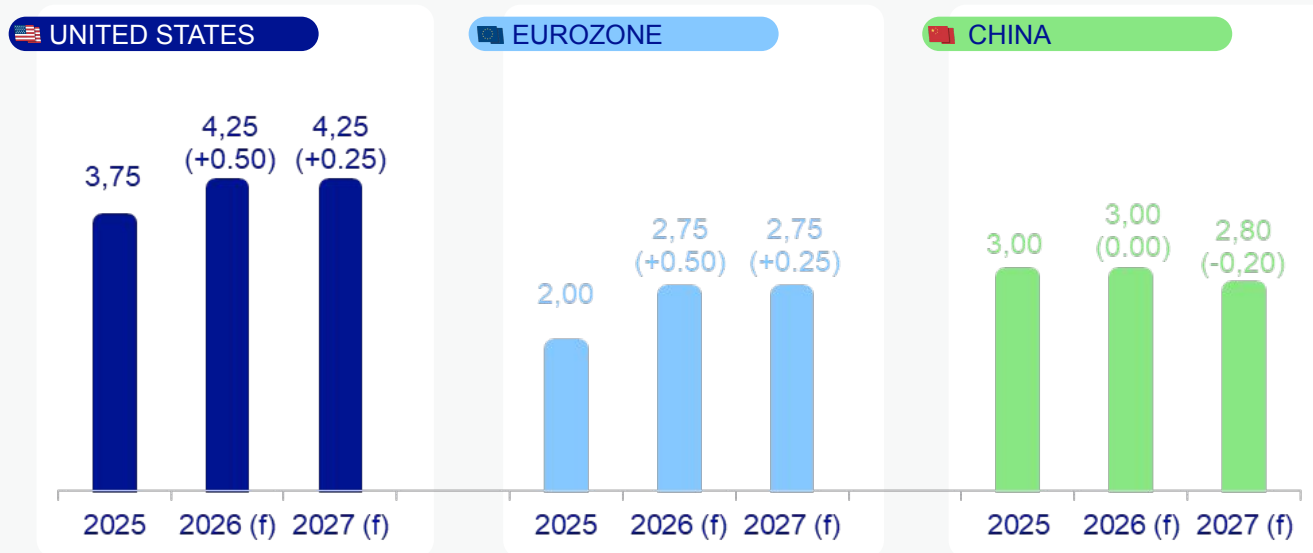
It is forecast to ease next year, with core prices staying contained, provided energy prices decline as assumed

(f): forecast.
Source: BBVA Research

Fed and ECB are set to hike again in Dec/26 and keep rates on hold in 2027, despite upside risks

POLICY INTEREST RATES (*)

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



Policy rates will be higher than previously expected to address increasingly challenging inflation risks

Further tightening will likely be limited, if inflation eases as expected during 2027, but risks are tilted upwards

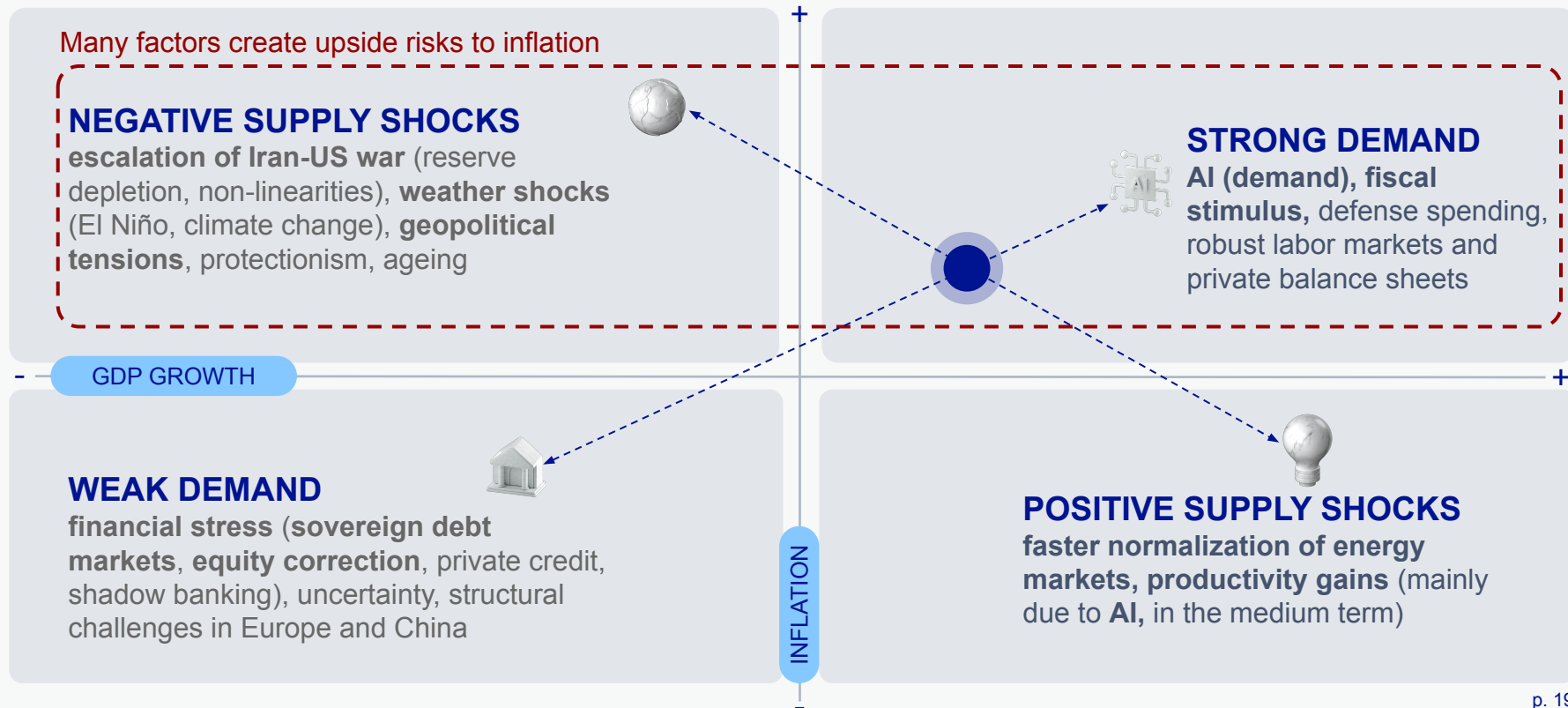
(f): forecast.

(*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research

Risks: geopolitical conflicts, weather shocks and financial stress, but also stronger demand

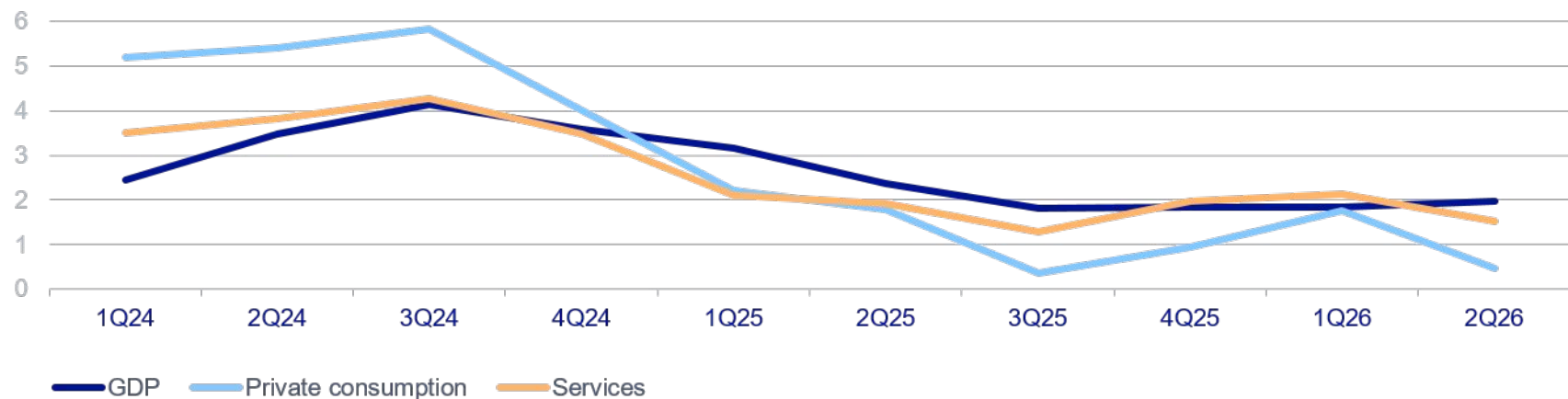
GLOBAL ECONOMY: MAIN RISKS AROUND BBVA RESEARCH BASELINE SCENARIO



Brazil Outlook

Growth remains relatively weak as some key drivers of expansion in previous years lose momentum

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

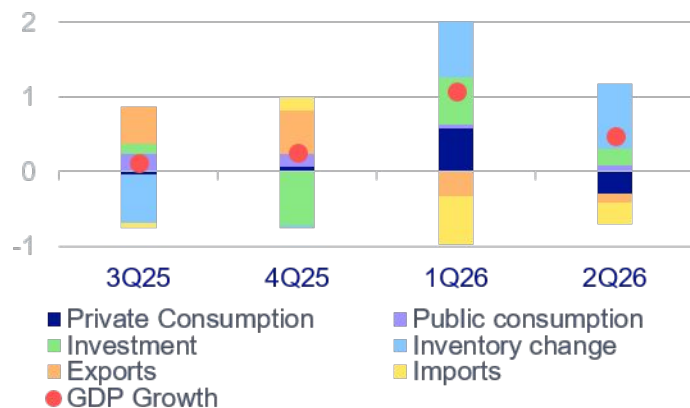


Source: BBVA Research based on data from IBGE

GDP grew by 2.0% y/y in 2Q26, close to the 1Q26 pace but below the 3% average recorded in 2023–25. On a quarterly basis, GDP expanded by 0.5% q/q, well below the 1.1% q/q recorded in the previous quarter and broadly in line with expectations; incoming data suggest weaker GDP growth in 3Q26

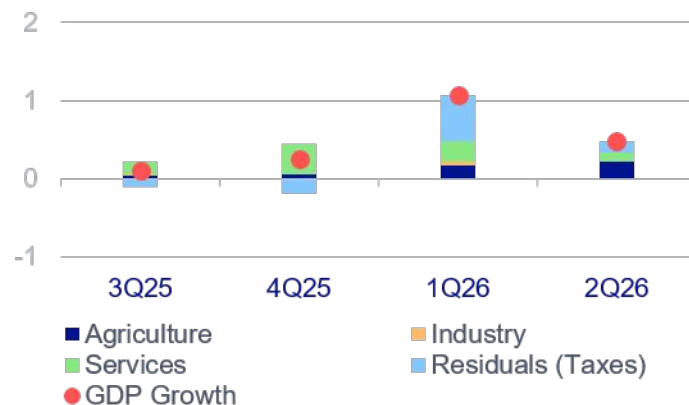
Alongside softer private consumption and services, growth has been weighed down by weak net exports

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)



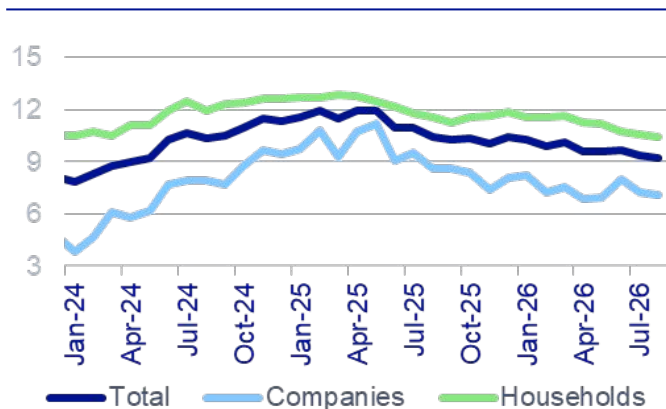
Source: BBVA Research based on data by IBGE

Private consumption and services remained soft in 2Q26 amid still-tight monetary conditions and higher inflation following the spike in global energy prices; exports fell after a strong expansion in 2025, while imports remained resilient, supported by some recovery in investment

Credit markets continue to lose steam amid tight monetary conditions and concerns over household indebtedness

CREDIT STOCK

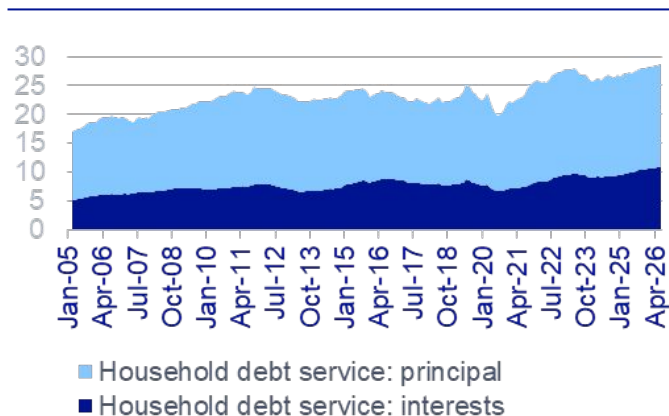
(Y/Y %)



Source: BBVA Research based on data by the BCB

HOUSEHOLD DEBT SERVICE

(% OF GROSS DISPOSABLE NATIONAL INCOME)



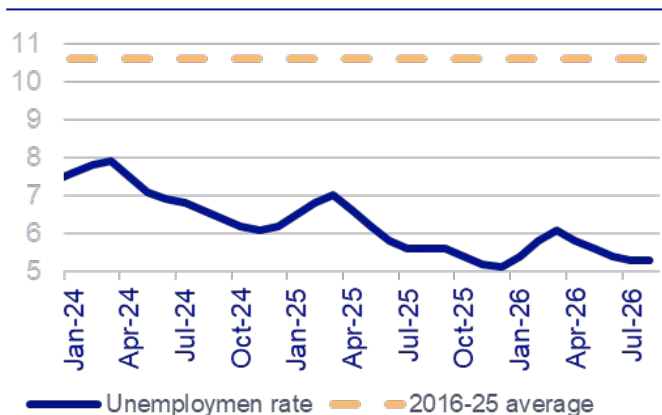
Source: BBVA Research based on data by the BCB

Credit moderation, largely due to past monetary tightening, has been a key driver of growth slowdown; non-performing loans have been rising, while household debt service is at a multi-decade high

The labor market remains broadly supportive

UNEMPLOYMENT RATE

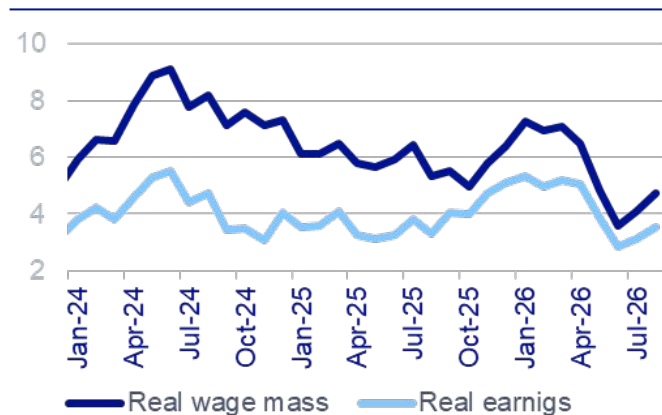
(%)



Source: BBVA Research based on data by the BCB

REAL WAGE MASS AND REAL EARNINGS

(Y/Y %)



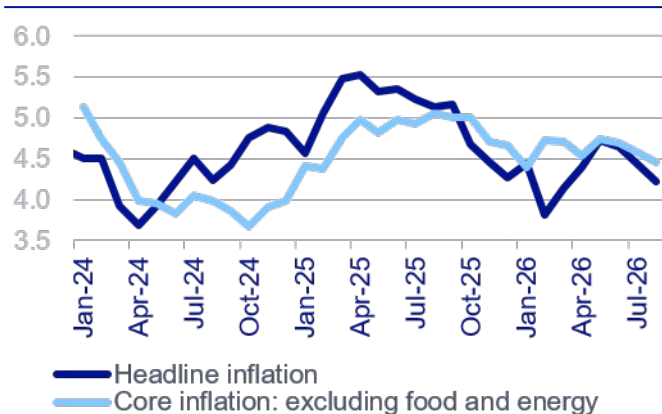
Source: BBVA Research based on data by the BCB and FGV

The labor market remains robust, backed by structural factors (demographics, educational gains, and platform-based employment); still, real wage mass and average earnings are now growing at a softer pace

Inflation has declined more than expected over the last few months

INFLATION

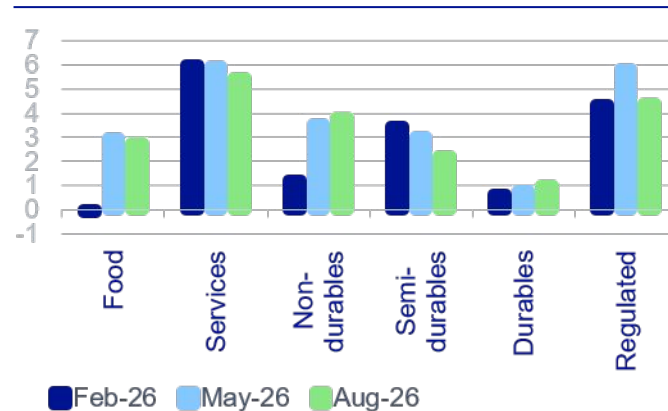
(IPCA-BASED; Y/Y %)



Source: BBVA Research based on data by the BCB

INFLATION BY MAIN COMPONENTS

(IPCA-BASED, Y/Y %)



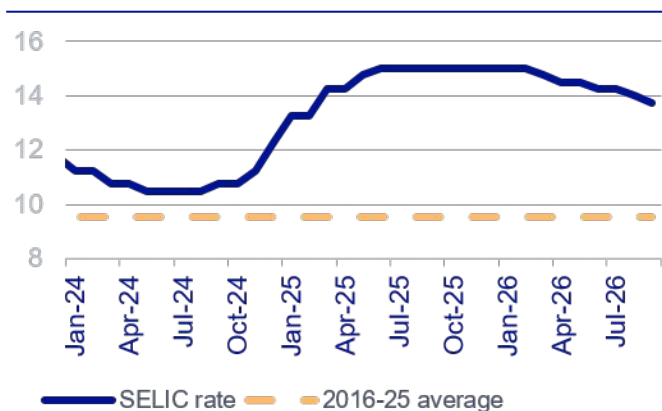
Source: BBVA Research based on data by the BCB

The slowdown in economic activity and the relative strength of the Brazilian real have contributed to a moderation of inflation from more than 5% during most of 2025 to 4.2% in Aug/26, even though labor market remains resilient and global commodity prices continue to be under pressure

The Selic continues to decline, even though fiscal policy continues to support activity (and, thus, inflation)

SELIC INTEREST RATE

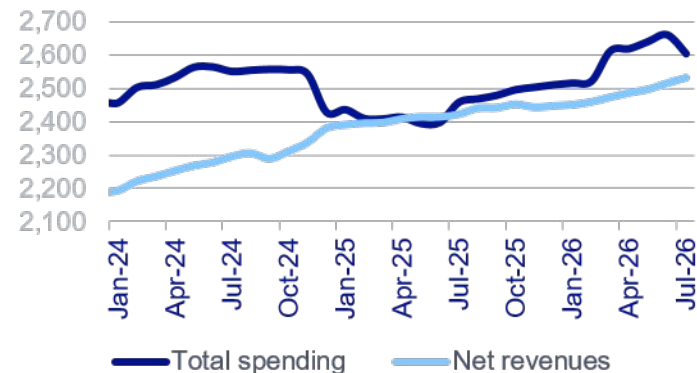
(%)



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 JUL/26)



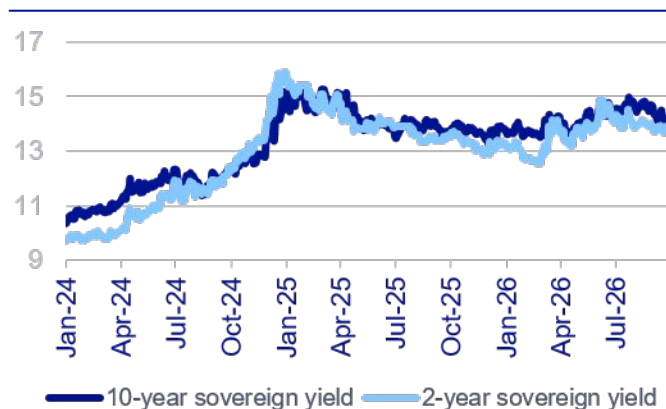
Source: BBVA Research based on data by the BCB

The deceleration in domestic demand and inflation has created room for the SELIC rate to continue declining by 25bp at each monetary policy meeting, reaching 13.75% by Sep/26 (vs. 15% at the start of the year), despite the recent hawkish shift by the Fed and other central banks

Bond market volatility has risen amid global tensions, political uncertainty, high rates and rising public debt

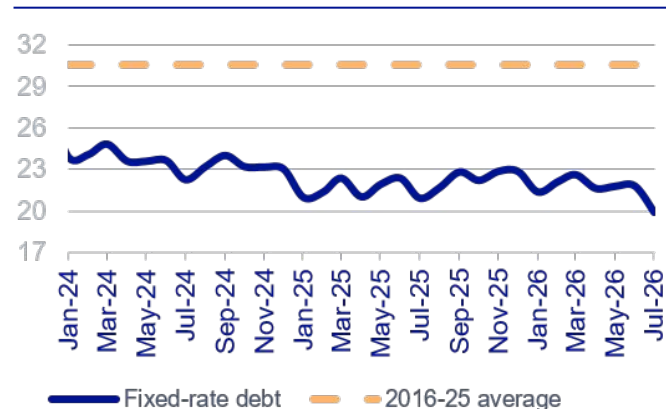
10-YEAR SOVEREIGN YIELDS

(%)



FIXED-RATE PUBLIC DEBT

(% OF TOTAL PUBLIC DEBT)



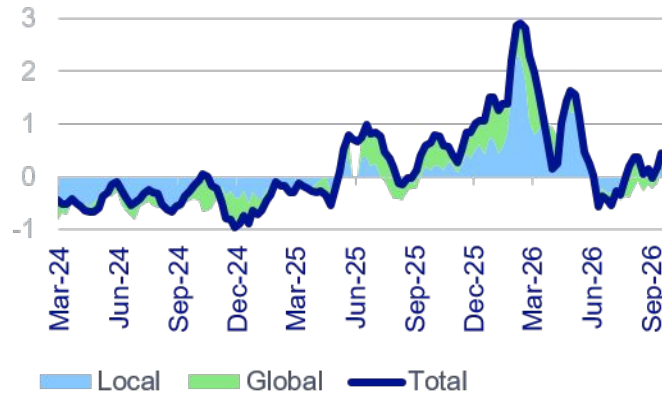
Source: BBVA Research based on data by Haver

Source: BBVA Research based on data by the BCB

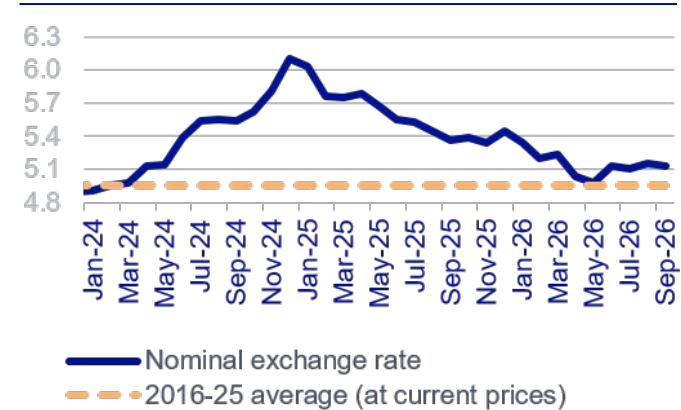
Brazil's long-term interest rates are being pushed up by higher global sovereign yields, political uncertainty ahead of 4Q26 elections, still high domestic interest rates and rising public debt (82.5% of GDP in Jul/26, 5.3pp higher than one year ago)

Capital inflows have weakened, while the real has stopped appreciating but remains relatively strong

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



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



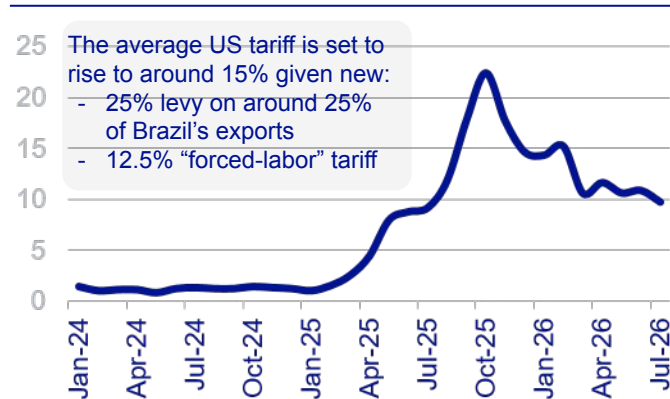
Source: BBVA Research based on data by Haver

(*) Monthly averages. The Sep/26 figure corresponds to information until September 28th
Source: BBVA Research based on data by the BCB

Global and local factors have moderated capital inflows into Brazil, reducing support for the real, which remains relatively strong on wide interest-rate differentials, favorable terms of trade and a relatively weak US dollar; despite election uncertainty, exchange-rate volatility remains contained

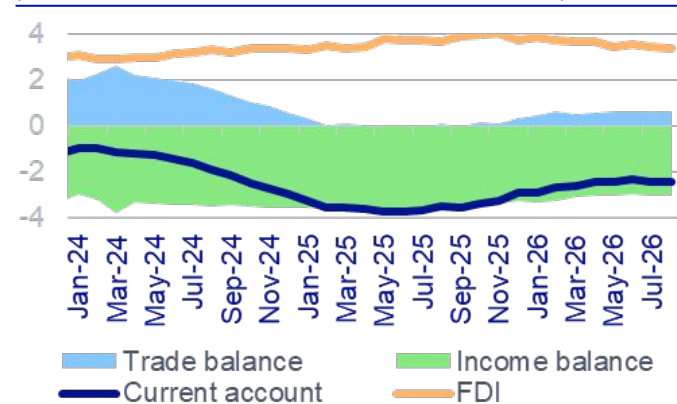
The trade balance remains positive despite US tariffs, helping to keep external accounts under control

US EFFECTIVE TARIFF ON BRAZIL (%)



Source: BBVA Research based on data by USITC

CURRENT ACCOUNT AND FOREIGN DIRECT INVESTMENT (FDI)
(% OF GDP, ACCUMULATED IN 12 MONTHS)



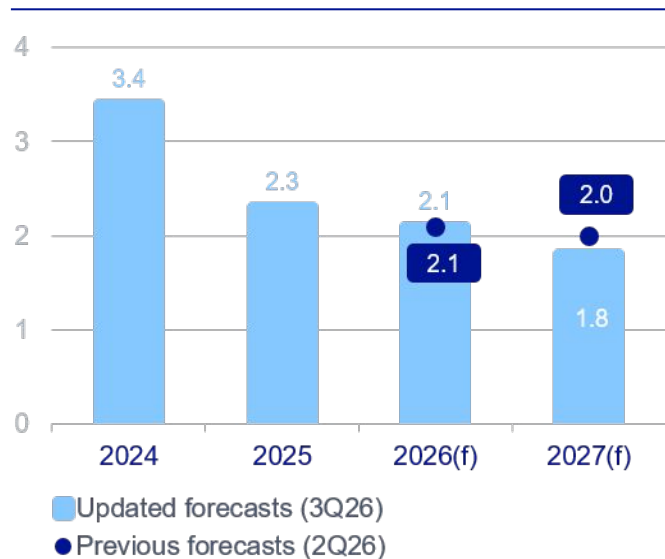
Source: BBVA Research based on data by MDIC

US tariffs, which are set to rise again following recent announcements, are weighing on exports to the US, but the impact is being broadly offset by stronger exports to other markets (mainly China), rising oil demand and relatively supportive terms of trade

GDP growth: a gradual slowdown from above 3% in 2022-24 to below 2% in 2027

GDP GROWTH

(%)

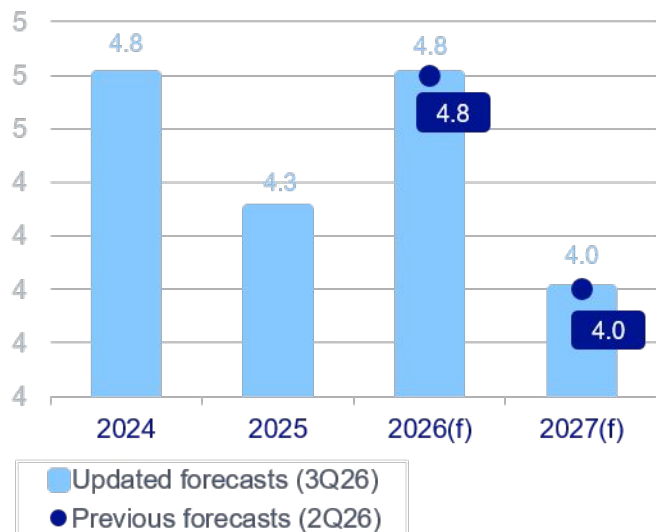


- **Growth is forecast to continue slowing**, from 3.2% on average in 2022-24 and 2.3% in 2025, to 2.1% in 2026 and 1.8% in 2027 mostly due to:
 - tight monetary and credit conditions
 - impact of El Niño
 - eventual fiscal consolidation after elections
 - higher US tariffs
- **While the 2026 forecast remains unchanged**, a more gradual monetary easing than previously expected and a more severe El Niño explain the -0.2pp downward revision in the 2027 forecast
- **Uncertainty ahead of 4Q26 elections is large**; risks are mostly tilted to the downside, due to both global and local factors

Weaker demand will help keep inflation under control, but supply-side pressures will sustain it above the 3% target

HEADLINE INFLATION: IPCA

(YOY%, END-OF-PERIOD)

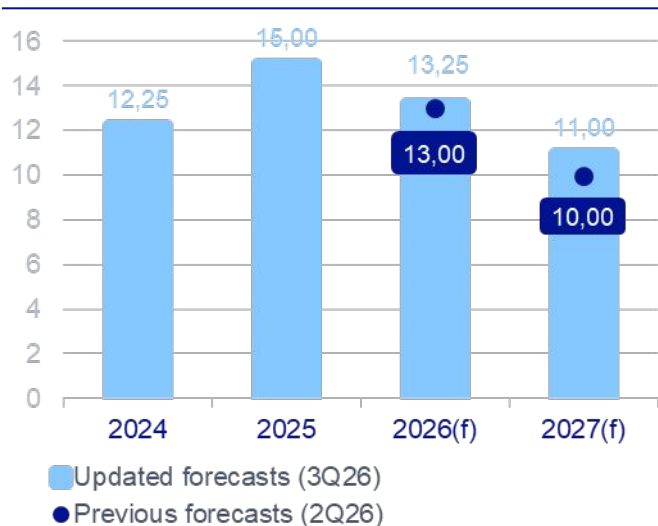


- Inflation is forecast to move up at the end of this year and beginning of the next due to the likely effects of El Niño on food prices and more persistent pressures related to the conflict in Iran
- But inflation is forecast to moderate after the beginning of 2027, at least if supply shocks prove to be temporary, as assumed
- Anyway, inflation will be shaped by the political context emerging after the elections: a higher (lower) fiscal risk and weaker (stronger) real would drive inflation higher (lower) than anticipated

There is still some room for the Selic to continue falling gradually, despite higher Fed rates

SELIC INTEREST RATE

(YOY%, END-OF-PERIOD)

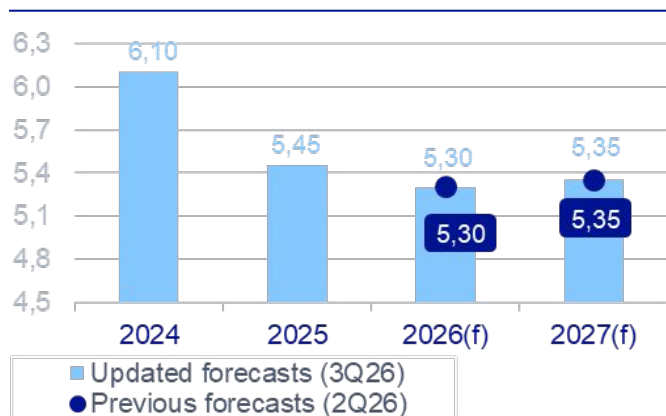


- The clear slowdown of both growth and inflation leaves **the door open for extra monetary easing**; the incoming signs of stress in local credit markets and the relative stability of the exchange rate despite nearing elections also make Selic cuts more likely
- We expect **extra 25bps cuts in the next two monetary policy meetings** in 2026 to take the Selic to 13.25% at the end of this year
- The **monetary easing is likely to continue in 2027**, at least if a fiscal consolidation by the next government keeps the fiscal risk and the real under control, as expected
- Anyway, a more prolonged conflict in the Middle East and higher interest rates by the Fed support the view that **monetary easing will be more gradual** than previously anticipated

A narrowing interest rate differential will weigh on the real, while politics and fiscal policy remain key potential drivers

NOMINAL EXCHANGE RATE

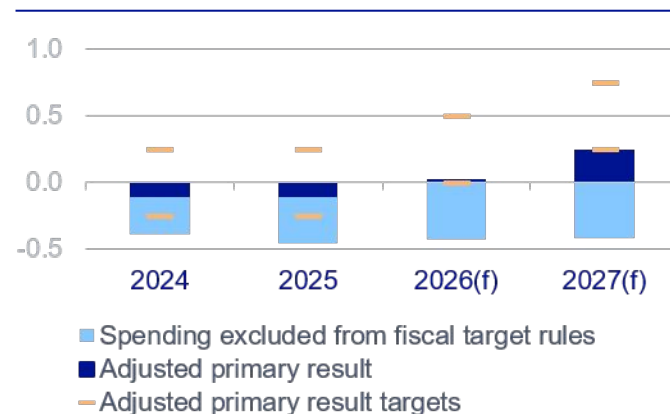
(BRL / USD, END-OF-PERIOD)



(f): forecast.
Source: BBVA Research

CENTRAL GOVERNMENT PRIMARY RESULT

(% OF GDP)

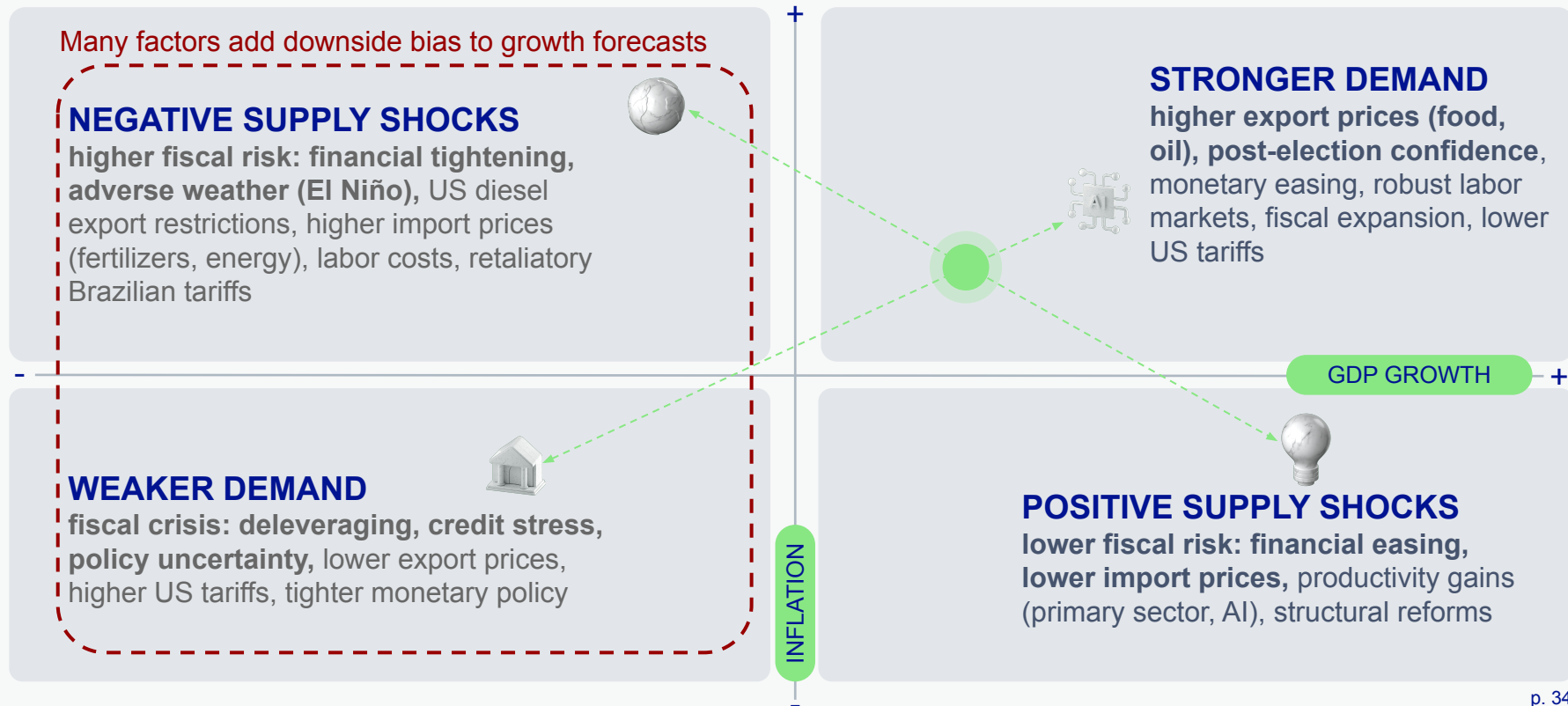


(f): forecast.
Source: BBVA Research

If fiscal risks are reined in, as expected, the exchange rate could stay broadly stable in real terms, or even appreciate somewhat; however, uncertainty is high and volatility before or after the elections cannot be ruled out

The (uncertain) post-election political landscape will shape the outlook and risks, especially on the fiscal front

BRAZIL: MAIN SHORT-TERM RISKS AROUND BBVA RESEARCH BASELINE SCENARIO



BBVA Research forecasts for Brazil

		2023	2024	2025	2026 (f)	2027 (f)
GDP (%)	Updated (3Q26)	3.2	3.4	2.3	2.1	1.8
	Previous (2Q26)				2.1	2.0
Inflation (% , end-of-period)	Updated (3Q26)	4.6	4.8	4.3	4.8	4.0
	Previous (2Q26)				4.8	4.0
Policy rate (% , end-of-period)	Updated (3Q26)	11.75	12.25	15.00	13.25	11.00
	Previous (2Q26)				13.00	10.00
Exchange rate (end-of-period)	Updated (3Q26)	4.90	6.10	5.45	5.30	5.35
	Previous (2Q26)				5.30	5.35

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