BRAZIL ECONOMIC OUTLOOK

MARCH 2026

FERNANDA GUARDADO

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1 LATIN AMERICA

Latin America Outlook

- Despite the complex global backdrop, the growth picture in Latam emerges better than expected. 2026 will continue to bring moderate growth, with declining inflation (except in Colombia);
- Central banks in the region will show bigger divergence, with Brazil's BCB set to initiate an easing cycle in March while BanRep will be hiking;
- We expect continued fiscal challenges in Brazil, Chile, Colombia and Mexico. While allowing further disinflation, declining GDP growth rates will make both debt sustainability and fiscal constraints more challenging;
- Elections should remain an important driver for asset prices and expectations, as markets track the possibility of change to fiscal policies. Elections in 2026 (Brazil and Colombia) might weigh on country's risk and perceptions, depending on the prospects of fiscal consolidation or fresh expansion. Markets will also be reacting to prospects of changes in ruling coalitions and future policies.
- Political developments related to reforms will also be important in Mexico, Chile and Argentina.

Latam: Implications of a persistent shock to energy prices

Country	Energy basket weight on CPI (pp)	Fiscal smooth mechanisms for energy	Energy trade balance (LTM USD bn)	Energy trade balance (LTM % of GDP)	10y Correlation Energy trade balance and Brent
Argentina	7.10	No	7.7	1.1%	* Energy balance turned positive in 2024.
Brazil	6.16	Petrobras	26.2	3.9%	0.47
Colombia	7.15	No	10.2	2.0%	0.68
Chile	7.54	MEPCO	-12.9	-2.8%	-0.97
Mexico	8.05	Gasoline IEPS	-25.5	-1.40%	-0.92

Note: 10-year correlation is estimated with annual average data for oil prices and annual data for oil trade balance. *We currently estimate that a 10% rise in oil prices improves the current account balance by 0.2 % of GDP.

Sources: BCB, DANE, Banxico, BCCh, BNP Paribas

Argentina: Larger trade surplus, but inflation risks

Brazil: Big inflation risks, minor trade balance gain

Chile: Potential inflation impact suggests BCCh should remain on hold

Colombia: Price distortions and inflation risks outweigh gains for the external sector

Mexico: Inflation risks could be contained

See more: [Latam: Implications of a persistent shock to energy prices]

Latin America: Baseline Scenario

		2026	2027	2026				2027			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Argentina	**Growth (% y/y and % q/q)**	2.5%	3.0%	0.7%	1.1%	1.0%	0.8%	0.8%	0.6%	0.3%	0.8%
	Inflation avg (% y/y)	29.0%	20.0%	32.0%	31.0%	30.0%	27.0%	22.0%	20.0%	18.0%	17.0%
	Policy rate (end-period)	27.0%	20.0%	33.00%	32.00%	31.00%	27.00%	25.00%	23.00%	21.00%	20.00%
Brazil	**Growth (% y/y and % q/q)**	1.8%	1.5%	0.9%	0.4%	0.3%	0.2%	0.5%	0.3%	0.1%	0.1%
	Inflation avg (% y/y)	3.6%	3.8%	3.8%	3.5%	3.6%	3.9%	3.9%	3.9%	3.8%	3.8%
	Policy rate (end-period)	12.50%	11.00%	14.50%	13.50%	12.50%	12.50%	11.75%	11.25%	11.00%	11.00%
Chile	**Growth (% y/y and % q/q)**	2.7%	3.0%	1.0%	0.8%	1.2%	1.0%	0.6%	0.5%	0.5%	0.5%
	Inflation avg (% y/y)	2.8%	3.1%	2.6%	2.8%	2.6%	2.9%	3.2%	3.1%	3.1%	3.0%
	Policy rate (end-period)	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Colombia	**Growth (% y/y and % q/q)**	2.0%	2.5%	0.8%	0.3%	0.2%	0.3%	0.5%	0.9%	1.2%	1.0%
	Inflation avg (% y/y)	6.2%	5.5%	5.5%	6.0%	6.5%	6.7%	6.3%	5.7%	5.1%	4.8%
	Policy rate (end-period)	12.50%	8.00%	10.75%	12.00%	12.50%	12.50%	11.25%	9.75%	8.75%	8.00%
Mexico	**Growth (% y/y and % q/q)**	1.5%	1.8%	0.2%	0.4%	0.2%	0.3%	0.5%	0.6%	0.6%	0.5%
	Inflation avg (% y/y)	4.0%	3.6%	4.3%	3.7%	3.7%	4.0%	3.6%	3.6%	3.6%	3.7%
	Policy rate (end-period)	6.50%	6.50%	7.00%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%

Sources: BNP Paribas forecasts

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BRAZIL

Brazil: 2025/26 key events

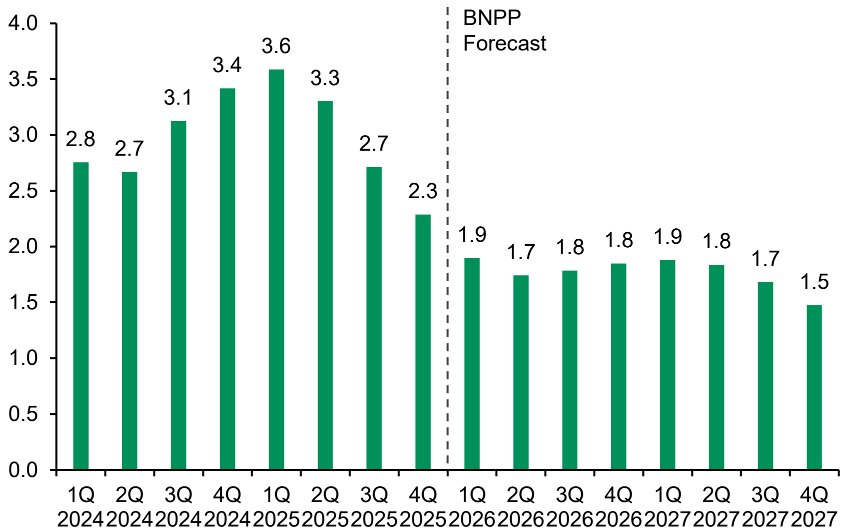
Brazil's key events

March	April	May	June	July
Monetary policy decision: we forecast the first interest rate cut, to 14.75% (18 Mar) First 2026 revenues and expenses bi-monthly report (24 Mar) Parliamentarians will be allowed to switch parties in order to run in the 2026 elections	Deadline for representatives in Executive or Legislative to leave their positions to run for 2026 elections (4 Apr) Monetary policy decision: we forecast an interest rate cut to 14.50% (29 Apr) The Superior Electoral Court is publishing the election rules. The expectation is that restrictions on digital platforms and the use of artificial intelligence in election campaigns will be defined.	Second 2026 revenues and expenses bi-monthly report (24 May)	Q1 2026 GDP result – we expect a 0.9% q/q and 1.9% y/y (4 Jun) Monetary policy decision: we forecast a 50bps cut, to 14.00% (18 Jun) According to the Budget Guidelines Law, by the end of June the federal government must obligatorily implement 65 % of the individual parliamentary amendments and those from state caucuses, out of a total of BRL 37.8bn.	Beginning of the party conventions for the official selection of presidential candidates (20 Jul). Third 2026 revenues and expenses bi-monthly report (24 July)

Sources: IBGE, BCB, Brazilian Congress, BNP Paribas

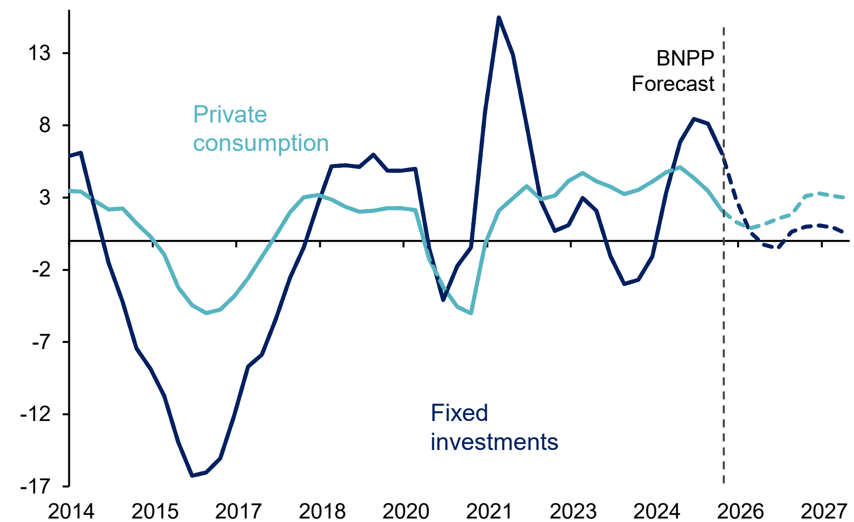
GDP: Deceleration in sight

GDP - Annual growth (4-quarter moving average, s.a.)



Sources: IBGE, BNP Paribas estimates

GDP - Private consumption and fixed investments (4-quarter moving average, s.a.)



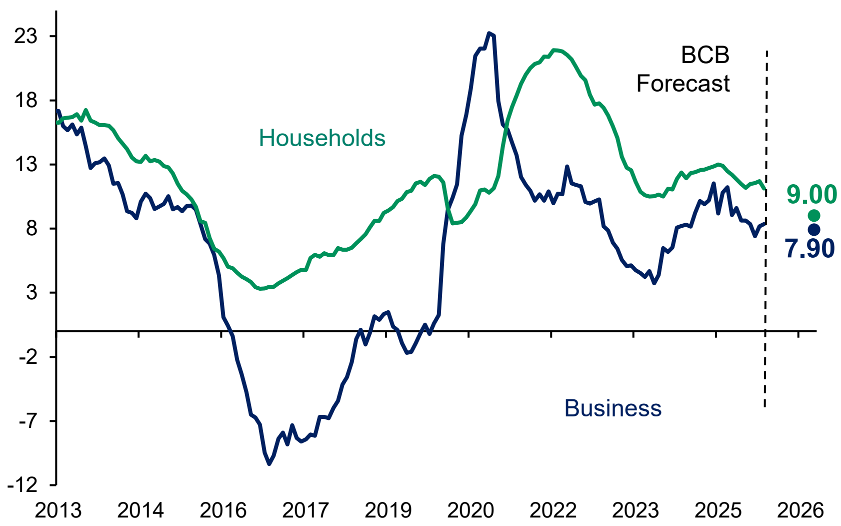
Sources: IBGE, BNP Paribas estimates

- **Strong 2026:** For 2026, we project a 1.8% GDP growth rate, with an upward bias due to the influence of household demand policies aimed at increasing disposable income.

- **Consumption leads growth**: Consumption has shown consistent growth since 2021, driven by higher Government spending, rising wages, and lower unemployment;

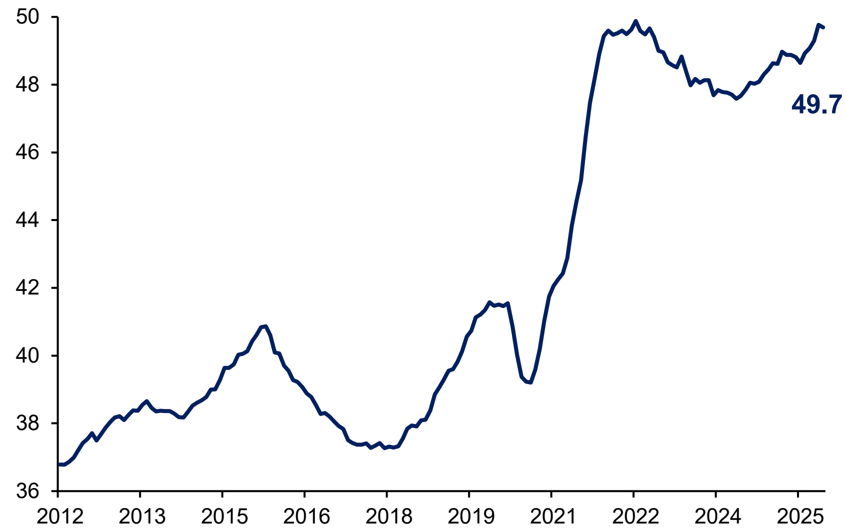
Credit: Moderation ahead

Outstanding credit (% YoY, nominal terms)



Sources: BCB

Household debt (% 12m cumulative income)

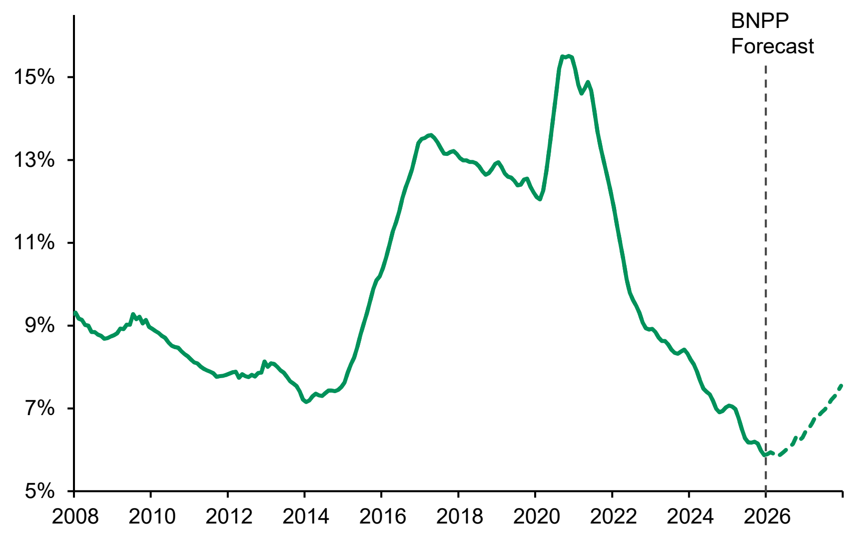


Sources: BCB

- **Expected slowdown in 2026:** Household credit is decelerating as restrictive interest rates take effect, but the slowdown remains moderate.
- The deceleration in business credit concession appears to have reversed in late 2025 and beginning of 2026, with January data showing growth driven primarily by "emergency lines", such as short-term working capital financing and household credit card lines.
- **Household indebtedness still high:** Household debt stays elevated at roughly 50% of annual income;
- Non-performing loans remain relatively low, but their share is gradually increasing.

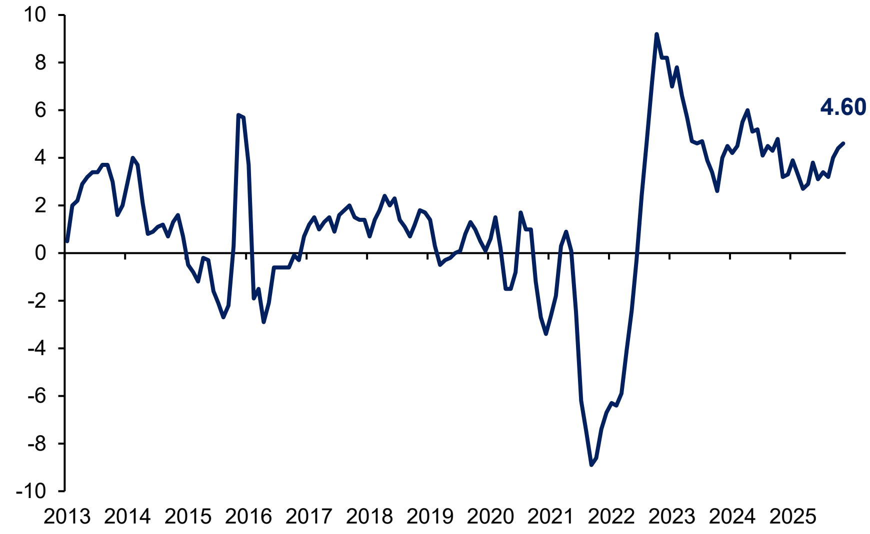
Labor market: Employment and income remain resilient

Unemployment rate s.a. (%)



Sources: IBGE, BNP Paribas estimates

Real wages PNAD (% YoY)



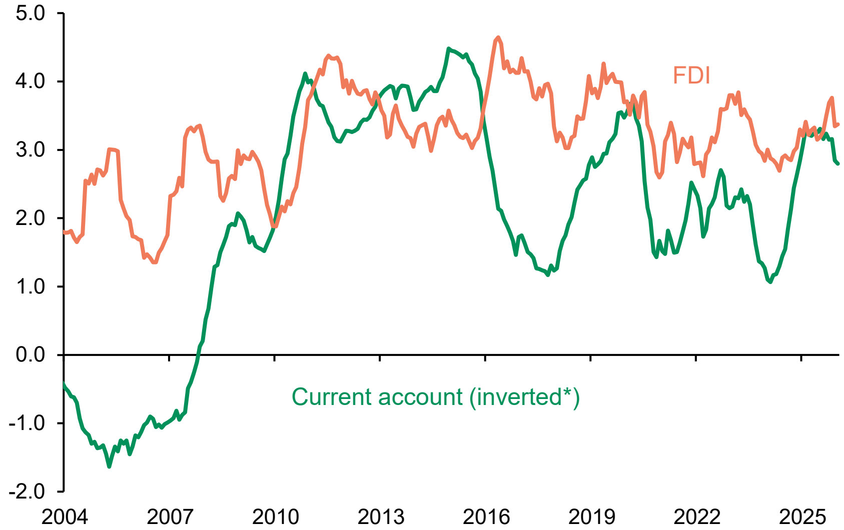
Sources: IBGE

- **Labor market remains tight**: Unemployment rate fell to its lowest historical level in 2025 (5.1%). It is currently at 5.4%.
- We expect a partial reversal throughout 2026.

- **Real earnings still robust:** Real average wages keep advancing robustly, driven by higher minimum-wage levels and a heated labor market;
- Real wage growth remains above productivity growth, supporting elevated service-inflation pressures.

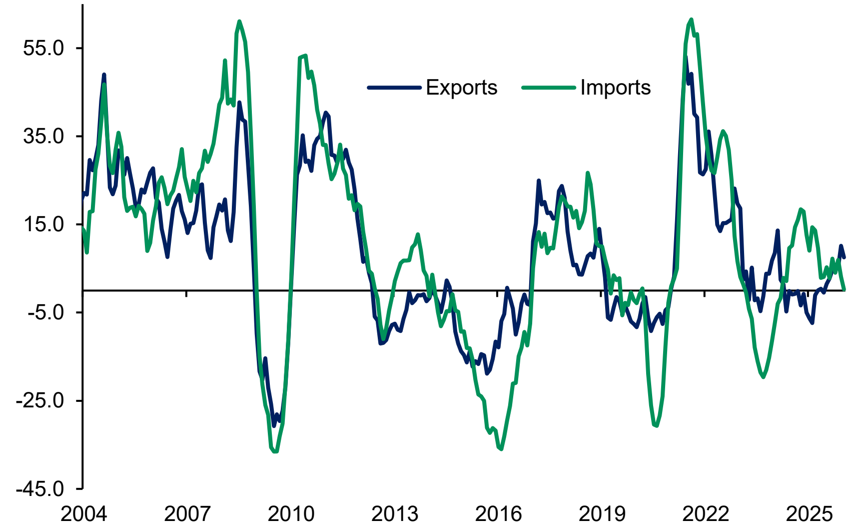
External accounts: An increasing deficit

Current Account and FDI, % of GDP (12m rolling)



** Current account deficit plotted inverted for comparison with FDI*
Sources: BCB

Exports and imports growth (3-month moving average YoY %)



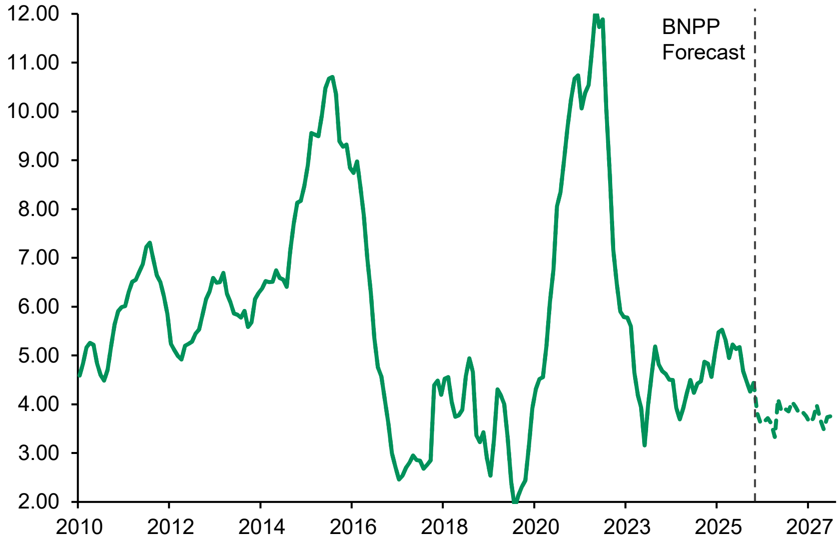
Sources: BCB, BNP Paribas estimates

- **The deterioration of the balance of payments deserves close attention.** In 2025 the current-account deficit reached 3.0% of GDP versus an FDI surplus of 3.4% of GDP. For 2026, we anticipate a 3.1% current-account deficit – still driven by higher deficits on services and primary income balances – not offset by a 3.0% surplus in FDI.

- The anticipated slowdown in economic activity in 2026 should continue to show the decelerations of imports observed in Q4/2025. We expect export growth to hold steady while import volumes fall, allowing the external sector to keep the trade balance in surplus.
- Nevertheless, the political environment surrounding the presidential election raises the likelihood of another wave of profit remittances and other income outflows during the year, which would keep the current-account deficit around 3.1% of GDP.

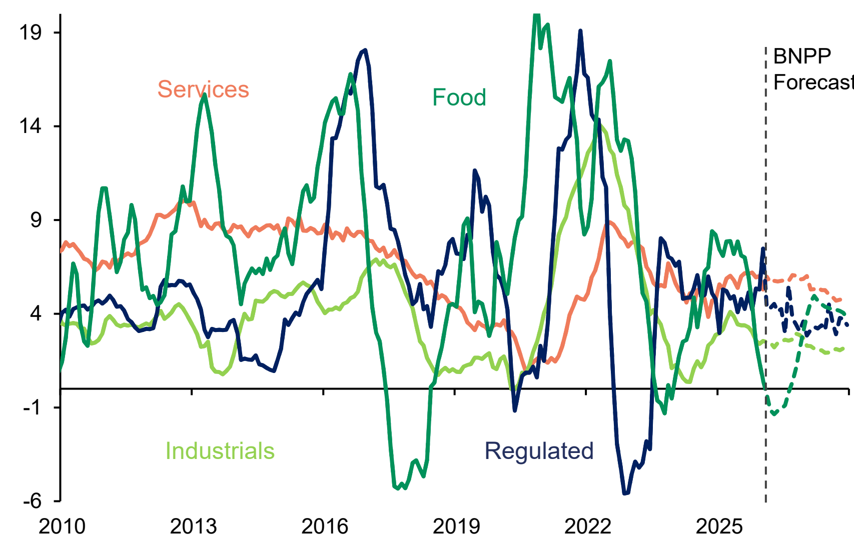
Inflation: Gradual moderation

IPCA (% 12m cumulative)



Sources: BCB, BNP Paribas estimates

IPCA components (% 12m cumulative)

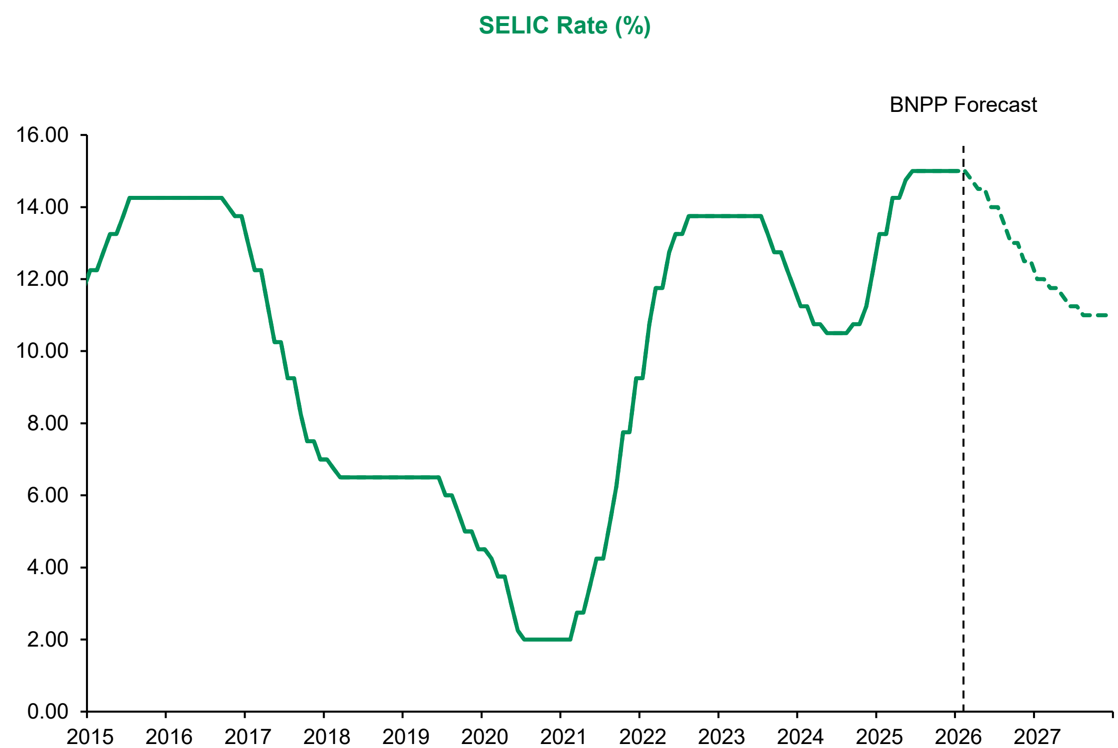


Sources: BCB, BNP Paribas estimates

- **Whitin the target, far from converging:** We forecast inflation at 3.9% for 2026 and 3.7% for 2027;
- The 3% target aligns Brazil with other Latin-American economies and would bring greater macro-economic predictability – but it is unlikely to be attained before 2027.

- **Disinflationary factors are losing momentum:** Industrial goods and food prices were the primary drivers of disinflation in 2025, driven by BRL appreciation;
- Services continue to exhibit persistent inflation around 5.5/6%, leaving little room for improvement. The services sector remains the most inertial component of overall inflation.

Monetary Policy: Easing cycle ahead

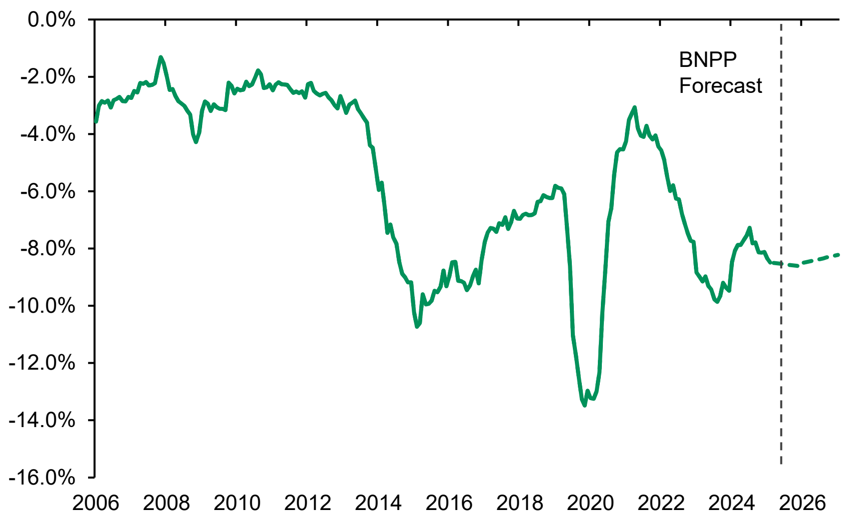


Sources: BCB, BNP Paribas estimates

- We expect the easing cycle to begin at the next meeting (18 March), bringing the policy rate down to approximately 12.50% by year-end.
- The extent of the easing cycle will be highly dependent on how the election and the BRL developments.

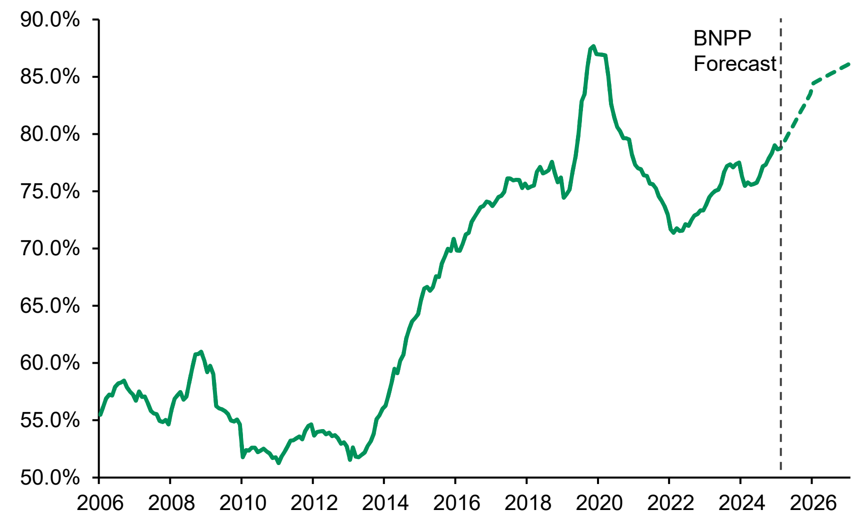
Fiscal scenario: No surplus in sight

Nominal deficit, Central government (% GDP)



Sources: STN

Gross debt/GDP (%)



Sources: STN, BNP Paribas estimates

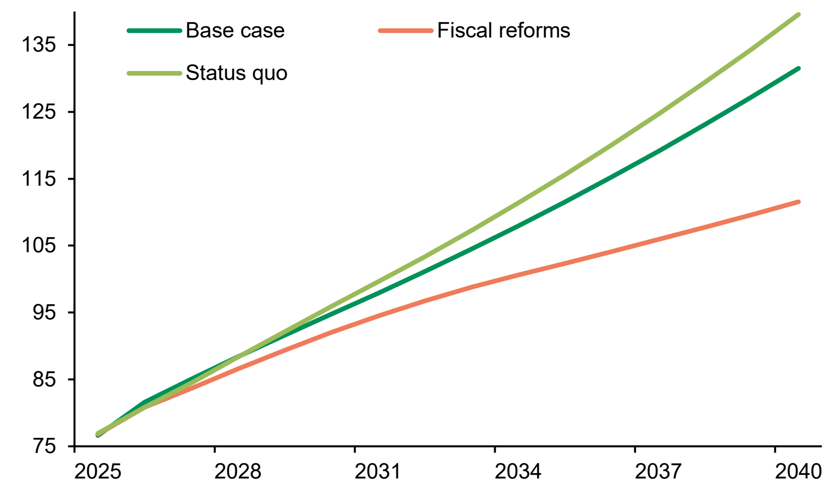
- **High nominal deficit:** At close to 8 % of GDP, the government's deficit keeps interest-rate pressures high and amplifies the country's macro-economic vulnerabilities.

- **Debt trajectory is challenging:** Brazil has a high debt level compared to its emerging peers, which is approaching 80%;
- Without a rise in fiscal savings, debt sustainability will become increasingly uncertain in the coming years.

Fiscal scenario: Rising debt

		Baseline	Fiscal reforms	Status quo
2025	Inflation	4.3		
	GDP	2.3		
	Policy rate	15.0		
	USDBRL (annual average)	5.6		
2026	Inflation	3.9	3.5	5.2
	GDP	1.8	1.9	1.5
	Policy rate	12.5	11.0	13.0
	USDBRL (annual average)	5.4	5.2	6.0
2027	Inflation	3.8	3.2	4.8
	GDP	1.5	1.7	1.3
	Policy rate	11.0	9.0	12.0
	USDBRL (annual average)	5.2	5.0	6.3

Scenarios for the Central Government's gross debt (% of GDP)

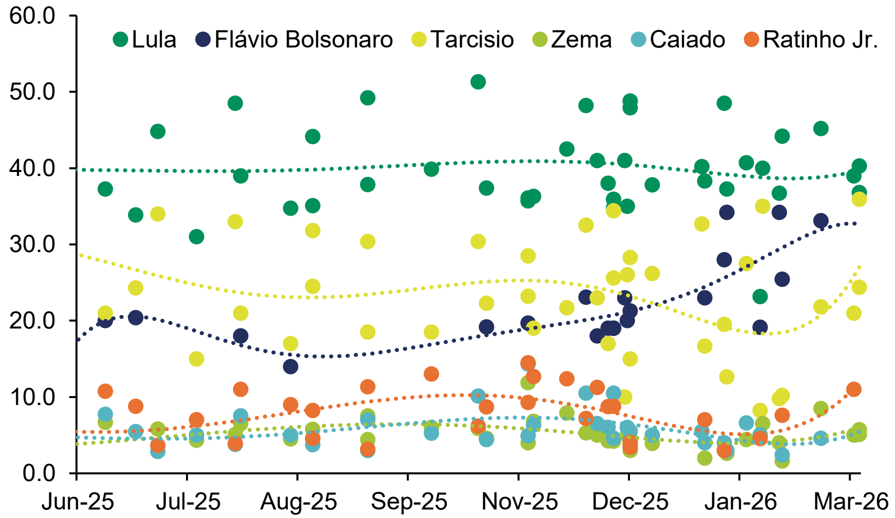


Sources: BNP Paribas

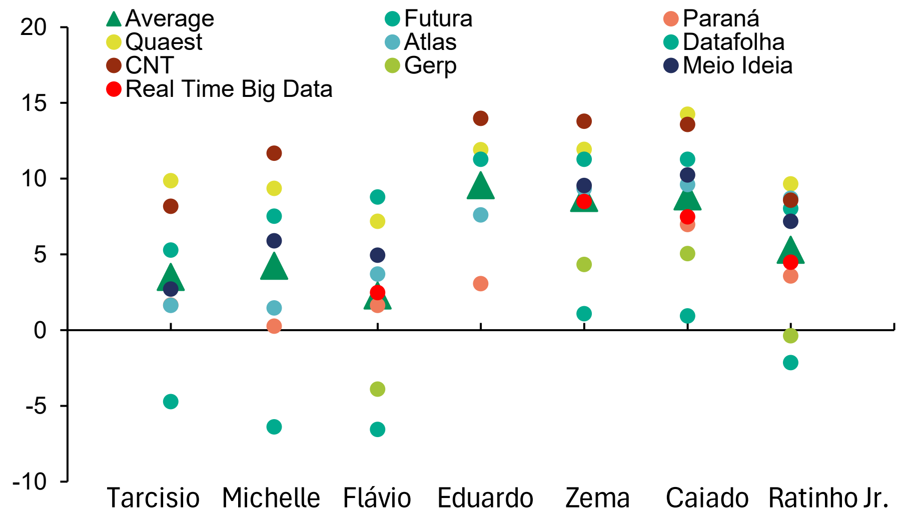
- **Challenging fiscal outlook:** In our base case scenario, public debt exceeds 100 % of GDP by 2033, assuming real government-expenditure growth of 1.5 % per year.
- In the pessimistic scenario, fiscal debt could rise to almost 140 % of GDP by 2040.

2026 presidential election

Poll of polls – first-round voting intentions (%)



Second round scenarios – difference between Lula and other candidates (%) – by Poll



- **Presidential election front-runners:** Our latest "poll of polls" suggests a very tight race between Luiz Inácio Lula da Silva and Flávio Bolsonaro. We think that the race will remain undecided well into the second round;
- **Other contenders:** In addition to Freitas, two other provincial governors appear in the polls as candidates: Ratinho Júnior of Paraná and Romeu Zema of Minas Gerais. Both have lingered in the single-digit range since the first rounds of polling, occasionally approaching the 10% mark but never quite breaking through. Their performances have been modest, yet steady enough to keep them in the picture as potential swing-vote aggregators for a broader centrist coalition in the second round.

Sources (for all charts): Datafolha, Parana Pesquisas, Quaest, Atlas Polls, Futura, CNT, Meia Ideia, IPEC Ipsos, Real Time Big Data, Data Povo, Colectta

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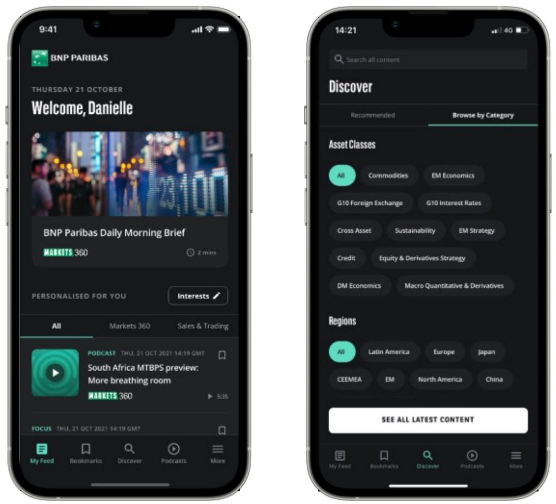

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