Brazil Macro Scenario Update
Shifting Risks

- We have made minor revisions to our outlook, maintaining our expectation of continued resilient growth in 2026, supported by fiscal stimulus that keeps consumption high, as well as by favorable exports. We forecast a slowdown in 2027.
- The external environment has become more restrictive, reflecting a more cautious Federal Reserve, while the normalization of oil prices has partially eased pressures on domestic inflation.
- We have raised our Selic rate projection, reflecting higher inflation expectations, a more persistent boost to economic activity, and a more challenging external environment, while keeping our other projections virtually unchanged.

Brasil Macroeconomics

Our latest review incorporates only marginal changes to our macroeconomic assumptions, preserving our baseline scenario for the Brazilian economy while altering the composition of the main risk drivers. Globally, the U.S. economy remains resilient, with a solid labor market, steady activity, and inflation above target, leading the Federal Reserve to be more cautious.

This environment keeps global financial conditions restrictive, supports a strong USD, and poses additional challenges for emerging markets. Along with our other revisions, we lowered our expectations for oil prices, reflecting the normalization of supply conditions. Although we continue to project relatively elevated commodity prices, supported by El Niño-related weather risks and structural demand for industrial metals, lower oil prices have partially eased inflationary pressures.

On the domestic front, we have maintained our GDP growth forecast at 1.8% for 2026 and raised our forecast for 2027 to 1.3% from 1.0%, reflecting a less pronounced slowdown in domestic demand than previously expected. Economic activity remains resilient in the near term, supported by household consumption, exports, and the remaining effects of fiscal stimulus, while the labor market continues to show gradual signs of cooling, and credit increasingly reflects the transmission of restrictive monetary policy.

We also maintain a constructive view on the external sector, supported by a robust trade surplus, a favorable outlook for export volumes of Brazil's main commodities, and a gradual improvement in the current account deficit over the forecast horizon.

Against this backdrop, we have lowered our 2026 IPCA forecast to 5.0% from 5.2%, reflecting lower pressures on fuel, industrial goods, and logistics costs, while we have kept our forecast for 2027 unchanged at 4.0%, as we continue to see substantial risks related to the exchange rate, the labor market, and the effects of El Niño on food prices.

This recomposition of the balance of risks led us to raise our Selic rate forecast, reflecting tighter external financial conditions, still-elevated inflation expectations, and persistent quasi-fiscal stimulus to activity. Finally, we kept our fiscal projections broadly unchanged, with revenue supported by the resilience of economic activity and the expectation that this year's fiscal target will be met, although the public debt trajectory remains challenging.

Santander Brasil Macroeconomics

COMMODITIES

Commodity markets will continue to be influenced by geopolitical and climate-related risks throughout 2026-27. Recently, a more hawkish stance from the Fed has also weighed on commodity prices. In agriculture, grain fundamentals still point to relatively comfortable supply conditions. However, the El Niño event expected in 2026-27 increases the risk of weather-related disruptions across key producing regions in the world, from South America to Southeast Asia. As a result, we see asymmetric upside risks for several agricultural commodities over the medium term. In energy, expectations of an oil flow resumption have caused prices to return to February levels. We revised our Brent forecasts to USD 80/bbl (from USD 90/bbl) for 2H26, but we see higher demand from countries building strategic inventories as a precautionary measure. We also expect a recovery in Chinese oil imports, which have declined sharply recently. In metals, we remain constructive on industrial metals, supported by structural demand linked to AI, electrification, and infrastructure. Overall, we continue to project higher commodity prices in both 2026 and 2027.

Figure 1. Historical Path and Forecasts (% YoY)

YE	2023	2024	2025	2026e	2027e
BCOM Agri	373	344	351	344	383
BCOM Energy	338	340	333	376	351
BCOM Metals	253	276	315	337	354
BCOM	**478**	**505**	**591**	**630**	**652**

YE YoY	2023	2024	2025	2026e	2027e
BCOM Agri	-12%	-8%	2%	-2%	11%
BCOM Energy	-23%	0%	-2%	13%	-7%
BCOM Metals	-13%	9%	14%	7%	5%
BCOM	**-11%**	**6%**	**17%**	**7%**	**4%**

Sources: Bloomberg, Santander

BALANCE OF PAYMENTS

The 12-month current account deficit stood at 2.6% of GDP as of May 2026. The trade surplus has been increasing despite strong import growth. Given our downward revision to oil prices for 2026, we lowered the value of oil exports, but export volumes for Brazil's main commodities continue to show a positive outlook, supported by growing agricultural oil production. We also expect agricultural commodity prices to recover further through 2026–27 given rising climate-related risks owing to the El Niño event. Meanwhile, the services account deficit remains structurally elevated, largely reflecting growing consumption of digital services abroad, while remittances of profits and dividends continue to pressure the primary income account. Still, we expect slower domestic growth to help moderate import demand and partially offset external pressures. In the financial account, stronger inflows have contributed to a continued accumulation of international reserves. We forecast the current account deficit to improve to 2.2% of GDP for YE2026 and 1.8% of GDP for YE2027.

Figure 2. Current Account vs FDI (USD billion)

	2023	2024	2025	2026e	2027e
Current Account Balance	**-25**	**-65**	**-67**	**-57**	**-38**
Trade Balance	**92**	**66**	**60**	**75**	**80**
Exports	344	340	351	358	365
Imports	252	274	291	283	285
Services	**-40**	**-54**	**-51**	**-55**	**-50**
Transport	-13	-15	-14	-14	-13
Tourism	-8	-11	-12	-14	-13
Operational Leasing	-9	-11	-12	-13	-10
Intellectual Property	-5	-9	-11	-13	-11
Telecom	-6	-7	-8	-9	-9
Other	1	-1	7	8	6
Primary Income	**-79**	**-81**	**-81**	**-80**	**-71**
Profits and Dividends	-50	-51	-54	-52	-45
Interest	-25	-27	-24	-25	-23
Other	-4	-4	-4	-3	-3
Secondary Income	**3**	**5**	6	3	3
Net FDI	37	48	48	50	50
Ext. Fin. Need (-=shortage/+=excess)	13	-18	-19	-7	12

Sources: BCB, Santander

FX RATE

Since mid-May, the BRL has depreciated against the USD, reversing part of the gains accumulated earlier in the year. The move was driven mainly by external factors, especially the strengthening of the USD, as the DXY moved higher given a more hawkish Fed, higher U.S. future rates, and reduced expectations of near-term monetary easing. This global repricing weighed broadly on EM currencies, and the BRL followed the broader USD-driven move. Domestic fundamentals remained relatively supportive, with still-attractive real interest-rate differentials and resilient external accounts. Although the Central Bank continued the easing cycle, the pace and communication have remained cautious enough to preserve attractive real interest-rate differentials. Fiscal concerns remain an important medium-term vulnerability, especially as political uncertainty gradually increases ahead. We keep our forecasts at USD/BRL 5.40 at 4Q26 and USD/BRL 5.50 at 4Q27.

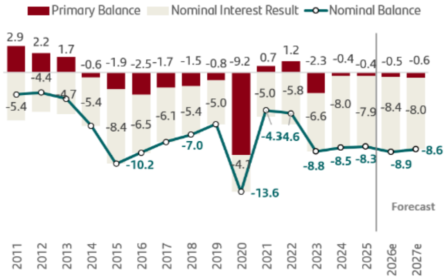
Figure 3. USD/BRL – Monthly Trajectory

Sources: Bloomberg, Santander

FISCAL POLICY

We left our fiscal projections unchanged. We continue to expect revenue to perform well, supported by resilient economic activity, with oil prices remaining the main source of support in the near term. Against this backdrop, we see compliance with this year's primary balance target band (+0.25% of GDP ±0.25pp) as increasingly likely, although our baseline scenario still points to a consolidated public sector primary deficit of 0.5% of GDP. For 2026, we continue to estimate a fiscal impulse of around 1.5% of GDP, with spending remaining heavily front-loaded in 1H26, which we believe will continue to support GDP growth. Looking ahead to 2027, we expect the fiscal stance to become broadly neutral, consistent with a fiscal adjustment of around 0.5% of GDP. Regarding public debt, we forecast gross debt to end 2027 at just under 84% of GDP, still constrained by a nominal deficit close to 9% of GDP.

Figure 4. Public Sector Primary Balance (% GDP)



Sources: BCB, Santander

ECONOMIC ACTIVITY – CORE

We maintain our 2026 GDP growth forecast at 1.8%, as recent activity data remain broadly consistent with our projection of stronger momentum concentrated in 1H26, supported by resilient household consumption, frontloaded fiscal spending, and a higher contribution from exports. For 2027, we revised our GDP projection upward to 1.3% from 1.0%, reflecting a less pronounced slowdown in demand-related components than previously anticipated. That said, we continue to expect growth to moderate next year, as the lagged effects of restrictive monetary policy and the expected fiscal adjustment are likely to weigh on activity. Overall, the scenario still points to a gradual cooling in core activity, with risks related to financial conditions, labor market resilience, and agriculture remaining considerable over the forecast horizon.

Figure 5. GDP Growth (% full year)

GDP Breakdown

	2024	2025	2026e	2027e
	3.4	**2.3**	**1.8**	**1.3**
Farm Output	-3.7	11.7	0.1	1.0
Industry	3.1	1.4	1.7	1.5
Services	3.8	1.8	2.0	1.0
Household Consumption	5.1	1.3	2.3	1.3
Government Consumption	2.0	2.1	2.2	0.5
Investments	6.9	2.9	-1.2	1.0
Exports	2.8	6.2	5.4	2.0
Imports	15.6	4.5	3.8	1.0

Sources: IBGE, Santander

ECONOMIC ACTIVITY – LABOR MARKET

We maintain our labor market projections, with the unemployment rate (s.a.) expected to close 2026 at 5.7% before rising to 6.4% by year-end 2027. On the wage bill side, we project real wage bill growth to average 5.4% YoY in 2026 and 4.5% in 2027. The latest PNAD release reinforced signs of gradual softening, with modest employment gains, slower YoY employment growth, and, most importantly, weaker real income and wage bill dynamics at the margin. That said, unemployment remains low, participation is broadly stable, and the labor force still shows resilience, suggesting that the adjustment remains gradual rather than abrupt. From a broader macro perspective, lagged effects from restrictive monetary policy, slower activity momentum, and a lower fiscal impulse ahead could continue to weigh on labor demand and wage dynamics over the forecast horizon. We note, however, initial risks of softer-than-expected wage bill growth.

Figure 6. Labor Markets Projections Summary

		Mar-26	Jul-26
Unemployment Rate (avg)	2025	5.9%	5.9%
	2026	5.9%	5.5%
	2027	6.6%	6.0%
Unemployment Rate (YE, sa)	2025	5.5%	5.4%
	2026	6.3%	5.7%
	2027	7.0%	6.4%
NAIRU* (avg)	2025	7.3%	7.3%
	2026	6.6%	6.6%
	2027	6.8%	6.8%
Real Wage Bill (12m, % YoY)	2025	6.7%	6.7%
	2026	4.0%	5.4%
	2027	2.5%	4.5%

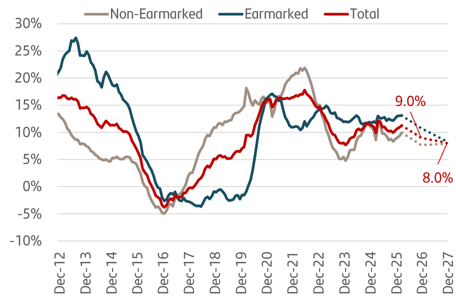
*non-accelerating inflation rate of unemployment

Sources: IBGE, Santander

ECONOMIC ACTIVITY – CREDIT

We revised our 2026 credit growth forecast downward, to 9.0% from 9.5%, mainly reflecting a stronger-than-expected deceleration in non-earmarked corporate credit, for which we lowered our projection to 4.0% from 6.1%. This revision reinforces our view that restrictive monetary conditions are increasingly weighing on credit dynamics, particularly in more interest-sensitive and market-driven segments. Within earmarked credit, we also revised the composition of growth, reducing our forecast for earmarked household credit to 8.5% from 10.1%, while raising earmarked corporate credit to 15.0% from 12.0%. These changes offset each other, leaving our total earmarked credit growth projection unchanged at 10.8%. Overall, the new scenario points to a weaker credit outlook in 2026, with downside risks still concentrated in non-earmarked segments, while earmarked credit remains more resilient.

Figure 7. Outstanding Credit Projections (% YoY)

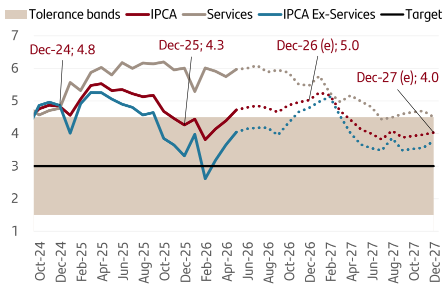


Sources: BCB, Santander

INFLATION

We revised our 2026 IPCA forecast down to 5.0% (from 5.2%) and kept our 2027 forecast unchanged at 4.0%. The revision reflects the incorporation of a lower oil price trend, easing pressures on industrial goods, fuels, freight, and fertilizers. In addition, current oil prices and the possibility of a partial reversal of the fuel price increases recorded in the first half of the year leave the balance of risks for 2026 inflation tilted to the downside, even considering a potential reduction in fuel subsidies. Our baseline already incorporates the effects of a strong El Niño event, with impacts concentrated on fresh food prices. As a result, food-at-home inflation accelerates through February 2027 before easing thereafter. We made only marginal adjustments to our 2027 inflation forecast, as lower inflation in 2026 and a higher Selic rate largely offset the effects of lower oil prices. The main risks to our outlook remain the exchange rate, the pace of economic activity, and labor market pressures on costs.

Figure 8. IPCA Forecasts (% YoY)

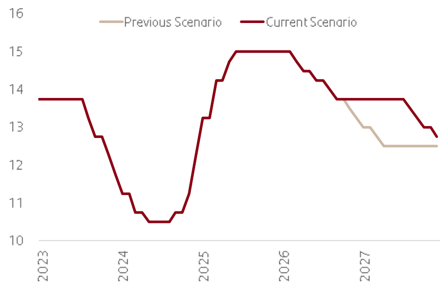


Sources: IBGE, BCB, Santander

MONETARY POLICY

The latest Monetary Policy Report reinforced our view that the Copom is, in principle, working with an interest rate path that lies between the one implied by the Focus Survey and an early pause in the Selic rate for an extended period. Using the Focus figures in the Reference Scenario (13.75% at the end of 2026 and 12.0% at the end of 2027 at that time), the BCB projects inflation of 3.2% in 1H28 and 3.1% in 2H28, suggesting that a less expansionary path than that estimated by analysts would be sufficient, according to the Central Bank's model, to ensure inflation converges to the target. In our scenario, however, a more depreciated FX rate, further upward revisions to inflation expectations, and a greater quasi-fiscal impact on economic activity (concentrated in 2027) tend to limit this room for maneuver. Accordingly, we have revised our Selic rate projection to 13.75% at the end of 2026 (from 13.25%) and 12.75% at the end of 2027 (from 12.50%).

Figure 9. Selic Rate Forecasts (% p.a.)



Sources: BCB, Santander.

Figure 10. Santander Macro Forecasts for Brazil – Summary

Macroeconomic Variables		Previous		Current
GDP(%)	2026E	1.8		1.8
	2027E	1.0	▲	1.3
IPCA (%)	2026E	5.2	▼	5.0
	2027E	4.0		4.0
Selic Rate (% end of period)	2026E	13.25	▲	13.75
	2027E	12.50	▲	12.75
FX Rate - USD/BRL (end of period)	2026E	5.40		5.40
	2027E	5.50		5.50
Current Account Balance (% of GDP)	2026E	-2.2		-2.2
	2027E	-1.8		-1.8
Primary Fiscal Balance (% of GDP)	2026E	-0.5		-0.5
	2027E	-0.6		-0.6
Primary for Target Compliance (% of GDP)	2026E	0.1		0.1
	2027E	-0.1		-0.1
Gross Public Debt (% of GDP)	2026E	83.7		83.7
	2027E	88.8		88.8

Source: Santander.

Note: The arrows denote the direction of changes since our previous scenario publication (May 15, 2026) Available here.

Brasil Macroeconomics. Disclaimer

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