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FEATURED Q&A

What Is Holding Back Brazil's Economic Growth?

Brazil's economy, the largest in Latin America, grew 0.5 percent in the quarter as compared to the first. São Paulo is pictured. // File Photo: Jose Luis Stephens via Adobe Stock.

Q Brazil's economy grew 0.5 percent in the second quarter of 2026, slowing from 1.1 percent growth in the first quarter, according to the country's IBGE statistics agency. Agriculture and extractive industries helped propel growth above expectations, but household consumption and services weakened. What explains these GDP figures, and what do they reveal about the underlying state of the economy? What are the factors constraining growth? How will the current level of Brazil's economic growth affect the 2026 presidential election?

A Monica de Bolle, senior fellow at the Peterson Institute for International Economics and director for Latin American studies and emerging markets at the Johns Hopkins University School of Advanced International Studies: "Brazil's latest GDP figures brought both signs of resilience and concerning trends. On the positive side, agriculture and mining continued to drive growth despite a relatively hostile external environment affected by U.S. tariffs, conflicts and heightened uncertainty. The resilience shown by these sectors may help maintain at least some growth momentum amid increasing institutional stress from the latest scandals involving Brazil's Supreme Court. The unsurprising weakness in consumption and services stems from cost-of-living pressures, which have remained stubbornly high, as well as very high levels of household indebtedness. Alleviating the burden of household debt will be one of the main challenges facing the incoming government in 2027. Pressures on Brazilian households from both cost-

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BUSINESS

Brazil's Chief Justice Orders Unsealing of Bank Probe

Brazil's chief justice on Thursday ordered the unsealing of thousands of pages of an investigation into an alleged multibillion-dollar fraud tied to failed lender Banco Master. The move came amid a feud between two of the court's justices.

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ECONOMIC

Bolivia's Central Bank Sells Dollars to Back Currency

Bolivia's central bank began offering dollars to local financial institutions in order to support the South American country's currency.

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POLITICAL

Peru to Join U.S.-Led 'Shield of the Americas'

Peru will become a member of the U.S.-led "Shield of the Americas" coalition, President Keiko Fujimori announced during a visit by U.S. Secretary of State Marco Rubio.

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Rubio met with Fujimori on Thursday. // Photo: U.S. State Department.

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POLITICAL NEWS

Peru to Join U.S.-Led 'Shield of the Americas' Coalition

Peru will become a member of the U.S.-led "Shield of the Americas Coalition," against drug cartels, President Keiko Fujimori said Thursday during U.S. Secretary of State Marco Rubio's visit to the country, Reuters reported. Joining the coalition will strengthen U.S.-Peruvian efforts to fight criminal groups that operate across borders and also speed intelligence-sharing, Fujimori said. "We appreciate this opportunity because for us, having previously had to tackle terrorism, [we] know how difficult it is to confront criminality today," Fujimori said in an apparent reference to the Maoist Shining Path insurgency in the 1990s during the government of her father, Alberto Fujimori, the wire service reported. Rubio welcomed Peru's decision to join the initiative. The United States "getting involved in the region is not a favor. It is essential to our own security, to our own well-being in America. And this administration is committed to this," said Rubio. The secretary of state's visit to Peru was the last stop in a three-day visit to South America, which also included stops in Colombia and Ecuador, where he met with those countries' presidents. Colombia also recently joined the Shield of the Americas under new President Abelardo de la Espriella. Ecuador is also a member of the initiative, and President Daniel Noboa participated in the group's inaugural summit in Florida last March. Rubio said Thursday that the United States would not take action in Latin American countries without its allies' approval, the Associated Press reported. While Washington has "the capacity to act unilaterally," it prefers to work with its allies because that is "the most effective way to do it," Rubio said. The U.S. military said Wednesday that it destroyed an alleged drug trafficking boat in the Caribbean, killing three people. Similar strikes in the Caribbean and eastern Pacific have killed at least 230 people since they began a year ago. U.S. forces in recent weeks have also destroyed six large boats allegedly used to refuel drug trafficking vessels off the coast of Ecuador. The boats were destroyed after U.S. forces' removed the vessels' crews.

ECONOMIC NEWS

Bolivia's Central Bank Sells Dollars to Support Currency

Bolivia's central bank began offering U.S. dollars to local financial institutions Wednesday in an effort to stabilize the boliviano, which has lost more than a fifth of its value since the country adopted a flexible exchange-rate re-

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of-living strains and elevated debt burdens have created an environment in which the electorate is increasingly disillusioned. Presidential candidates, including President Lula, have failed to outline priorities and policies to help households, contributing to widespread voter malaise. The risk is that whoever is elected president in October will face, in addition to the institutional crisis underway, a serious legitimacy crisis, undermining growth in sectors beyond agribusiness and extractive industries."

Juliana Trece, coordinator of the National Accounts Center at Brazilian Institute of Economics of the Getulio Vargas Foundation: "The Brazilian economy's growth of 0.5 percent in the second quarter as compared to the first points not only to an economic slowdown, but also to growth concentrated in sectors that are less sensitive to high interest rates, such as agriculture and extractive industries. Agricultural performance is driven mainly by weather conditions,

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NEWS BRIEFS

BRICS Members to Gather in India Amid War Divide

India hosts the BRICS Leaders' Summit Saturday and Sunday in New Delhi, seeking to raise the bloc's profile even as the U.S.-led war on Iran divides members Tehran and the United Arab Emirates, Reuters reported Thursday. The conflict has disrupted shipping through the Strait of Hormuz and pushed oil above $100 a barrel. The UAE suspended trade with Iran in August. Analysts said a joint declaration bridging the two sides would signal bloc unity despite Western sanctions. Foreign Minister Mauro Vieira is representing Brazil at the summit.

Brazil's Nubank Expands Into U.S. Market

Brazilian digital bank Nubank began offering U.S. financial products Thursday through bank partners, including high-yield savings accounts, credit cards and remittances, Reuters reported. CEO David Vélez and co-founder Cristina Junqueira said the bank expects full U.S. operations next year, pending approval by the Federal Reserve and the Federal Deposit Insurance Corporation approval following a conditional charter approval in January by the Office of the Comptroller of the Currency. Nubank may later add crypto trading, investments, insurance and small business accounts, Vélez said.

Peru Leaves Key Interest Rate Unchanged for 12th Consecutive Month

Peru's central bank on Thursday kept its benchmark interest rate unchanged at 4.25 percent for the 12th straight month, Bloomberg News reported. The decision came as policymakers have seen an increase in inflation as temporary and based on higher fuel prices. Consumer price increases have exceeded the central bank's 3 percent target for six months, hitting 4.44 percent in August.

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gime in June, a shift that ended years of a fixed peg to the dollar, Bloomberg News reported. The central bank said the dollar sales are a complementary measure to recent monetary and exchange-rate policy decisions, aimed at curbing what it called unnecessary disruptions in the currency market that are inconsistent with the country's economic fundamentals, according to a statement posted on the central bank's X account. The terms of the offer, including the applicable exchange rate and participation rules for financial institutions, fall under the currency operations framework approved in a June 26 board resolution. The bank sold $35 million at an exchange rate of 12.10 bolivianos per dollar, according to a document published on the central bank's website. The intervention marks one of the clearest steps yet by Bolivian authorities to manage the currency's depreciation since abandoning its long-standing fixed exchange rate earlier this year, a shift that has coincided with persistent fuel shortages and dollar scarcity across the country.

BUSINESS NEWS

Brazil's Chief Justice Orders Unsealing of Banco Master Probe

Brazil's chief justice, Edson Fachin, on Thursday ordered the unsealing of thousands of pages from an investigation into an alleged multibillion-dollar fraud tied to failed lender Banco Master, a case implicating central bank officials, politicians and Supreme Court justices, Reuters reported. Justice André Mendonça, who has overseen the case, quickly complied, according to a court ruling seen by Reuters. The move comes amid a widening crisis over alleged ties between Banco Master's former chief executive, Daniel Vorcaro, and senior officials from both the government and opposition, unfolding weeks before a tightly contested presidential race between President Luiz Inácio Lula da Silva and Senator Flávio Bolsonaro, Reuters reported. Compounding the turmoil, the Supreme Court canceled a second consecutive deliberation session Thursday, a rare move Fachin ordered as he works to contain a public feud between Mendonça and Justice Alexandre de Moraes, the Associated Press reported. The court will reconvene Tuesday, outside its normal schedule, so its 10 justices can consider whether de Moraes should face investigation over his alleged links to Vorcaro. The dispute began Sept. 1, when Mendonça unsealed police files showing that Vorcaro sought legal advice from De Moraes, deepening tensions between the two justices, according to the AP. De Moraes has not publicly addressed the allegations since then.

THE DIALOGUE CONTINUES

How Is Ecuador Balancing Ties With China & the United States?

Q Ecuadorean President Daniel Noboa in mid-August made an eight-day state visit to China, where he met with President Xi Jinping. The two discussed opportunities for expanded trade and greater Chinese investment in Ecuador, and Noboa sought to strengthen Ecuador's participation in the Belt and Road Initiative. Noboa, who also visited Singapore and Vietnam during his trip to Asia, called China an important friend and partner. What did Noboa accomplish during his trip, and to what extent is Ecuador deepening its relationship with China? How important is China to Ecuador's economy, and what would China get from closer relations with Ecuador? How is Noboa balancing Ecuador's relationships with China and the United States?

A Diego Andrés Almeida, managing partner at Almeida Guzmán & Asociados in Quito: "Noboa's Asian tour appears to have produced concrete economic and diplomatic results. He advanced efforts to expand Ecuadorean exports, attract Chinese investment and strengthen implementation of the China-Ecuador free-trade agreement. China is already one of Ecuador's most important partners. In 2025, it ranked among Ecuador's top three export markets. According to Ecuador's central bank, exports to China increased during the first half of 2026, representing approximately 19 percent of total exports. China offers Ecuador not only a vast market for shrimp, minerals, agricultural products and other commodities, but also capital, infrastructure, technology and potential investment in energy, mining, logistics and digital industries. For China, closer relations provide continued access to Ecuador's natural resources, while reinforcing its commercial and strategic presence in South America. The Belt and Road framework further consolidates this relationship, although Chinese financing for infrastructure has shown to create significant long-term financial and political obligations for Ecuador. Noboa is not choosing China over the United States. Rather, his policies appear to reflect strategic diversification. While Ecuador has maintained and expanded economic ties with China, Noboa has simultaneously strengthened relations with Washington. The United States remains Ecuador's largest export market and a critical partner in trade, security and investment. During the first half of 2026, Ecuador's exports to the United States exceeded those to China and the European Union. Noboa's strategy is therefore best understood as pragmatic balancing: engaging China for economic opportunity while preserving and improving Ecuador's traditionally strong relationship with the United States."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Sept. 4 issue of the Advisor.

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crop yields, harvest cycles and commodity prices. In the oil industry, key factors include new production platforms coming online, oilfield productivity and international prices. Although interest rates affect investment decisions in both sectors, their impact tends to be less pronounced than in other activities. Excluding agriculture and extractive industries, GDP would have remained flat in the quarter, highlighting those sectors' importance to the overall result. Other industrial activities and services posted modest results, while household consumption declined. This performance is consistent with the difficulty of sustaining stronger growth under restrictive monetary conditions. Despite the central bank's decision to begin an interest-rate-cutting cycle this year, Brazil's benchmark interest rate remains high (14 percent). This backdrop reinforces how high interest rates and Brazil's structurally low investment rate constrain the country's ability to achieve sustained economic growth. Consequently, stronger economic activity can quickly generate inflationary pressures, contributing to persistently high interest rates. Slower growth could hurt the government, although a resilient labor market and further interest-rate cuts may soften the impact, as voters tend to be more influenced by their perceptions of employment and income than by headline GDP figures."

Silvia Matos, professor at the Getulio Vargas Foundation: "Even though Brazil's economy grew 0.5 percent in the second quarter, the growth composition is negative, not only from the supply side, but also on the demand side. The main downward surprises relative to our projections came from household consumption (-0.4 percent seasonally adjusted, quarter-on-quarter), from +0.8 percent in the first quarter). From the supply side, manufacturing and other services came weaker than expected, while agriculture outperformed expectations. Looking ahead, we expect economic activity to continue to moderate further with GDP growth of zero percent quarter-on-quarter, seasonally adjusted in the third quarter and 1.7 percent for the year and 0.9 percent in 2027. Despite a stronger fiscal impulse this year, the anticipated impact on economic activity was already expected to be smaller than what had been observed in previous years. And why is that? The literature on fiscal multipliers helps us understand this specific case. Studies show that the fiscal multiplier depends entirely on the state of the economy—specifically, whether there is idle capacity in the factors of production—and on how the spending is financed. In the Brazilian context—where the real interest rate is already structurally high, the output gap is positive, there is no longer any labor market slack and public spending is being financed through additional debt (which is already at a very high level, thereby exerting further upward pressure on interest rates through various channels)—the fiscal multiplier will ultimately be negative. It is urgent to change Brazil's economic growth pattern, which is characterized by intensive use of labor and extremely low labor productivity. The outlook is uncertain. However, the risk of a technical recession in Brazil in the coming quarters is higher. Consequently, the negative assessment of the government is expected to rise even further, and the probability of President Lula's re-election is decreasing."

> **"It is urgent to change Brazil's economic growth pattern..."**
>
> **— Silvia Matos**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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