

Macro scenario - Brazil



March 30, 2026

Adjusting to the oil shock

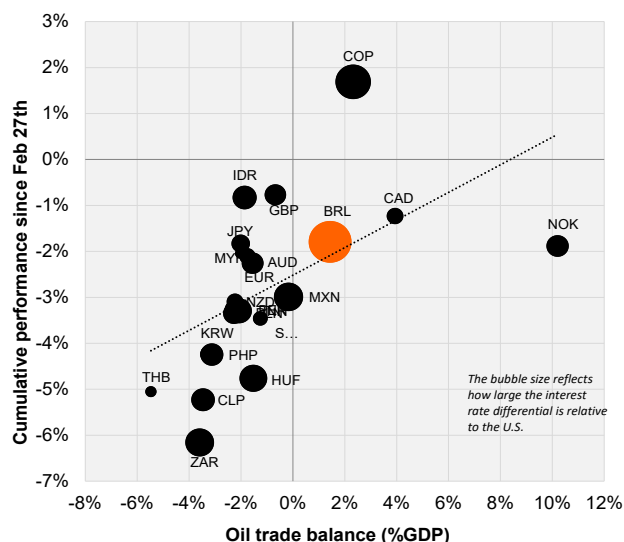
- ▶ We maintained our FX forecasts at BRL/USD 5.40 for 2026 and BRL/USD 5.60 for 2027. The external environment has become more uncertain due to the war in the Middle East, but the BRL has shown resilience, supported by improving terms of trade and a wide interest-rate differential. We revised our current account deficit forecast to USD 66 billion (from USD 70 billion) in 2026, incorporating the outlook for a stronger trade surplus this year (USD 80 billion, from USD 74 billion).
- ▶ We maintained our GDP growth forecasts at 1.9% for 2026 and 1.7% for 2027. For 2026, the slight downward revision to our global GDP forecast and the prospect of greater monetary tightening will be offset by the positive effect of higher oil prices and the incorporation of a more positive scenario for housing credit. It is worth noting, however, that the upside bias that existed for 2026 has diminished in light of a potential sharper global slowdown resulting from the conflict. In the labor market, we also kept our estimates for the unemployment rate at 5.7% in 2026 and 6.0% in 2027.
- ▶ We revised our primary balance forecasts to -0.5% of GDP (from -0.8%) in 2026 and to -0.6% (from -0.9%) in 2027. In addition to the positive 0.4 p.p. of GDP effect on oil-related revenues, we assume the government will deploy around 0.2 p.p. of the resulting fiscal space toward new initiatives to mitigate, at least in the near term, the recent rise in fuel prices – the design of which remains undefined.
- ▶ We revised our 2026 IPCA inflation forecast to 4.5% (from 3.8%), reflecting more pressured recent readings and higher fuel prices amid a higher oil equilibrium price, even assuming conflict resolution in the coming months. For 2027, we raised our forecast to 4.1% (from 3.9%), incorporating higher inflation inertia. The balance of risks is tilted to the upside for both years, with additional fuel price increases as the key risk for 2026 and higher inflation inertia and fertilizer prices for 2027.
- ▶ The Copom has initiated a gradual easing and calibration cycle, seeking to reduce the degree of monetary restriction. In light of the oil shock and the deterioration of the inflation outlook, we revised our terminal Selic rate forecast to 13.00% at end-2026 (from 12.25%).

BRL: resilient amid a more challenging external environment

We maintained our FX forecast at BRL/USD 5.40 in 2026 and BRL/USD 5.60 in 2027. Looking at fundamentals, the external environment has become more uncertain over the past month, with some global dollar strengthening in response to the conflict. Even so, the BRL has shown resilience against its peers, supported by improving terms of trade and a wide interest-rate differential. The main risks to this outlook are, from an external standpoint, a longer conflict with more intense consequences and, domestically, the pick-up in volatility that is typically seen in election years.

We revised our trade surplus forecast to USD 80 billion in 2026 (from USD 74 billion in our previous scenario) and kept our 2027 estimate unchanged at USD 75 billion. The revision reflects a stronger-than-expected performance at the start of this year, driven mainly by volume gains, as well as the projected improvement in terms of trade ahead, in a context of higher commodity prices. Accordingly, we also revised our current account deficit forecast to USD 66 billion in 2026 (from USD 70 billion) and maintained the estimate of USD 68 billion for 2027, incorporating the outlook for a stronger trade balance this year.

BRL supported by improving terms of trade and a wide interest-rate differential



Source: Bloomberg, Itaú

Activity: Stronger January data do not change the full-year forecast

January activity data reinforce our assessment that the economy should post some recovery in activity momentum at the margin in 1Q26, following the weakness observed at the end of 2025. According to data released by the IBGE, the monthly advance was relatively broad-based across sectors, with highlights for manufacturing and retail trade, while services also contributed, albeit with a more heterogeneous composition.

In this context, we expect GDP growth of 1.1% qoq/sa in 1Q26 (1.8% yoy). Despite the improvement at the margin, the annual rate running at a pace similar to end-2025 suggests that the economy underwent a

more pronounced slowdown since the second half of 2025 and that, more recently, growth appears to be stabilizing.

For 2026, we maintained our GDP growth forecast at 1.9%. The slight downward revision to our global GDP forecast, combined with the prospect of greater monetary tightening will be offset by the positive effect of higher oil prices and the incorporation of a more favorable scenario for housing credit. It is worth noting, however, that the upward bias for 2026 – reinforced in our recent scenarios – has diminished. On the domestic front, we continue to monitor factors that could generate positive surprises, such as the possibility of countercyclical fiscal and quasi-fiscal measures. On the downside, the key risk is a more adverse international environment. A potential prolongation of the conflict could push commodity prices higher – a channel that may be positive for terms of trade and GDP – but this effect is likely to be more than offset by weaker global GDP and tighter financial conditions.

For 2027, we maintain our growth forecast at 1.7%. The fading fiscal impulse should be partially offset, over time, by a less contractionary monetary policy stance.

In the labor market, we maintained our unemployment rate forecasts at 5.7% and 6.0% for 2026 and 2027, respectively. Unlike activity data, which have shown signs of deceleration, labor market indicators have yet to show evidence of cooling. Going forward, the prospect of activity growth close to the neutral rate, combined with a labor force participation rate below its historical average, should keep the labor market relatively tight.

	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
Economic Indicators (%YoY)													
Manufacturing industry	2.1%	3.0%	-2.2%	2.4%	-2.2%	-0.9%	-1.7%	1.4%	-2.2%	-2.5%	-1.6%	-1.9%	
Broad retail ex wholesales	4.1%	-0.7%	1.7%	2.0%	-2.9%	-1.6%	-2.1%	0.1%	-0.7%	-0.3%	1.9%	1.0%	
Total services	4.4%	1.9%	1.9%	4.0%	3.0%	2.8%	2.5%	4.2%	2.2%	2.7%	3.6%	3.3%	
Services provided to households	-0.1%	3.8%	4.8%	2.9%	-0.9%	-1.6%	1.6%	-0.3%	0.8%	-0.1%	0.6%	0.5%	
IDAT income-sensitive goods	6.6%	5.3%	6.1%	9.5%	5.3%	4.2%	0.6%	2.8%	3.0%	3.0%	2.9%	3.5%	-1.6%
IDAT credit-sensitive goods	1.8%	-4.7%	-7.1%	-4.4%	-7.7%	-8.5%	-8.6%	-2.4%	-6.2%	-7.4%	2.1%	-6.1%	-9.2%
IDAT services	4.6%	6.6%	3.1%	4.5%	-1.2%	0.1%	0.6%	-2.2%	-0.6%	-1.4%	-1.4%	-1.3%	-3.8%
Capacity Utilization Rate (NUCI)	0.2%	0.3%	0.3%	1.1%	1.6%	1.0%	0.0%	-0.9%	-0.8%	-1.3%	-1.7%	-1.7%	-0.8%
Business confidence	-1.1%	-2.0%	-1.9%	-1.3%	-3.7%	-6.3%	-10.3%	-7.9%	-8.5%	-7.1%	-5.4%	-1.5%	-0.6%
Anfavea (vehicle production)	17.4%	-0.5%	4.8%	32.0%	-0.5%	-2.8%	-4.5%	5.8%	-0.5%	-8.2%	-3.9%	-9.8%	-8.2%
ABCR (heavy vehicle flow)	3.4%	2.9%	-0.6%	5.2%	-0.1%	2.5%	-0.5%	4.1%	2.0%	2.7%	4.3%	0.5%	-1.7%
Empapel corrugated paper shipments)	-1.8%	0.8%	-3.6%	1.6%	-1.6%	1.5%	-1.8%	3.2%	-0.1%	-1.1%	0.2%	2.6%	0.3%
Labor Market Indicators													
CAGED net formal job creation (3mma/sa)	141	165	145	126	117	105	87	86	83	93	63	82	
Unemployment rate (sa)	6.3%	6.3%	6.2%	6.0%	5.9%	5.8%	5.8%	5.8%	5.7%	5.6%	5.4%	5.3%	5.3%
Employed population (%YoY)	2.8%	2.3%	2.3%	2.3%	2.4%	2.4%	2.4%	1.4%	1.4%	1.4%	1.1%	1.1%	1.1%
Jobs hard to get	49	46	43	40	43	40	37	40	42	42	39	38	36
Quits Rate (Voluntary resignations / EP)	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	
IDAT-LM (Employed population %YoY)	4.6%	3.8%	4.3%	3.8%	4.2%	3.7%	3.2%	3.6%	3.2%	2.5%	2.9%	2.3%	1.9%
CAGED wages (%YoY)	6.3%	6.6%	6.5%	6.6%	6.5%	6.5%	6.5%	6.4%	6.5%	6.6%	6.6%	6.9%	
PNAD wages (%YoY)	8.2%	8.9%	8.5%	8.2%	8.5%	9.4%	8.6%	8.8%	8.5%	9.2%	9.4%	9.2%	8.7%
IDAT-LM (Wages %YoY)	6.2%	5.8%	6.3%	4.4%	5.8%	5.3%	5.6%	5.2%	5.1%	5.2%	6.1%	5.1%	3.9%

Green indicates more heated activity, while red indicates less heated activity. The gradation is applied row by row, that is, for each indicator.

*Ex cash and carry

Source: Itaú, TEM, IBGE, FGV/IBRE, ABCR, Empapel, Anfavea

Fiscal: Near-term revenue improvement, but structural challenge remains

We revised our 2026 primary balance forecast to -0.5% of GDP (from -0.8%), reflecting higher oil-related revenues and partial use of the resulting fiscal space to contain fuel prices in the near term.

In a scenario where the average oil price for the year is around 23% above our previous assumption (USD 80/barrel on average vs. USD 65/barrel previously), we incorporate approximately 0.4% of GDP in additional revenues into the primary balance. However, the oil shock is likely to lead the government to deploy part of this gain to mitigate the recent pressure on fuel prices, in addition to measures already taken through oil export taxes. As such, we assume the use of around 0.2% of GDP in new initiatives, the design of which remains undefined. On balance, we assess that the government is close to meeting the effective target of -0.5% of GDP (considering the lower bound and allowed deductions), although its achievement remains sensitive to the evolution of the external environment, the government's response to the oil shock, and adherence to the fiscal framework.

For 2027, we revised our primary balance forecast to -0.6% of GDP (from -0.9%), with an improved starting point but a still-relevant structural challenge. The change reflects the expectation that oil prices will stabilize at higher levels. We estimate that, under the current rules and absent any course correction, the fiscal adjustment required to stabilize public debt – currently around 4 p.p. of GDP – will continue to increase.

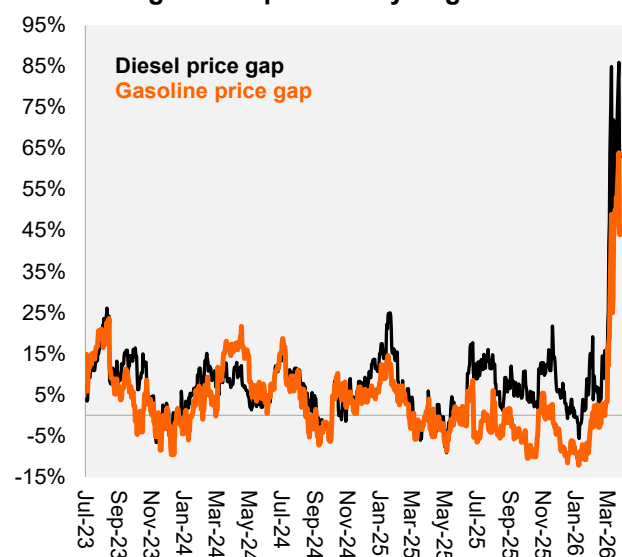
Inflation: Upward revision due to the oil shock

We revised our 2026 IPCA forecast to 4.5% (from 3.8%), mainly reflecting more pressured recent readings and higher fuel prices. We incorporated the recent increases in gasoline and diesel prices at the pump. In addition, we factor in fuel price adjustments over the medium term, reflecting a structurally higher post-war oil equilibrium price (USD 75/barrel by year-end, vs. USD 65/barrel previously), with pass-through to gasoline, food and industrial goods (via higher freight costs from diesel prices) and airfares (via higher jet fuel costs).

In the near term, with international prices still above this new equilibrium, the pressure is likely to be for additional pass-through, given the lag between domestic and international prices. We assume, however, that mitigation measures – such as new tax cuts or subsidies – will be introduced, limiting the immediate impact on inflation.

The balance of risks for the forecast has shifted to the upside, after several months of a downside skew. Additional increases in gasoline and diesel prices, as well as the lack of payback from the upside surprises seen in airfares in recent readings, are the main risks for this year.

The gap between domestic and international diesel and gasoline prices very large



Source: Abicom, Itaú

restriction while still ending the cycle in contractionary territory, given a positive output gap and unanchored inflation expectations.

We revised our terminal Selic rate forecast to 13.00% in 2026 (from 12.25%), reflecting the oil shock and the deterioration of the inflation outlook. Given that uncertainty is likely to remain high until the next Copom meeting, and that our base case assumes conflict resolution only at end-April and normalization of the Strait of Hormuz in May, we expect another cut of the same magnitude (-25 bps) at the next meeting. Recent communication, however, does not set a high bar for a larger cut (-50 bps) in April, should oil supply normalization occur more swiftly.

For 2027, we maintain our expectation of continued monetary easing, with the Selic converging to 12.00% (from 11.25%).

For 2027, we revised our inflation forecast to 4.1% (from 3.9%), incorporating higher inflation inertia.

The balance of risks is also tilted to the upside, stemming from higher inflation inertia carried over from 2026, as well as rising fertilizer prices in the event of a prolonged conflict, which could push up agricultural production costs and weigh on food inflation. This risk is greater for next year, as the purchases required for this year's crop have already been made.

Monetary policy: Less room for rate cuts

The Copom initiated the easing cycle at the last meeting, at a moderate pace amid heightened uncertainty. The committee has emphasized that this will be a policy calibration cycle, which in our view signals the intention to reduce the degree of monetary

Brazil | Forecasts and Data

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
Economic Activity								
Real GDP growth - %	3.0	3.2	3.4	2.3	1.9	1.9	1.7	1.7
Nominal GDP - BRL bn	10,080	10,943	11,779	12,739	13,441	13,335	14,264	14,100
Nominal GDP - USD bn	1,951	2,192	2,186	2,278	2,534	2,514	2,590	2,560
Population (millions)	210.9	211.7	212.6	213.4	214.2	214.2	215.0	215.0
Per Capita GDP - USD	9,255	10,356	10,281	10,676	11,831	11,738	12,047	11,705
Nation-wide Unemployment Rate - year avg	9.5	8.0	6.9	5.9	5.5	5.5	5.9	5.9
Nation-wide Unemployment Rate - year end (*)	8.4	7.8	6.5	5.4	5.7	5.7	6.0	6.0
Inflation								
IPCA - %	5.8	4.6	4.8	4.3	4.5	3.8	4.1	3.9
IGP-M - %	5.5	-3.2	6.5	-1.1	4.8	3.0	3.7	3.7
Interest Rate								
Selic - eop - %	13.75	11.75	12.25	15.00	13.00	12.25	12.00	11.25
Balance of Payments								
BRL / USD - eop	5.28	4.86	6.18	5.47	5.40	5.40	5.60	5.60
BRL / USD - average	5.17	4.99	5.39	5.59	5.30	5.49	5.51	5.61
Trade Balance - USD bn	62	99	75	68	80	74	75	75
Current Account - % GDP	-2.2	-1.2	-3.0	-3.0	-2.6	-2.8	-2.6	-2.7
Direct Investment (liabilities) - % GDP	4.0	2.9	3.4	3.4	3.6	3.6	4.0	4.1
International Reserves - USD bn	325	355	330	358	360	360	360	360
Public Finance								
Primary Balance - % GDP	1.2	-2.3	-0.4	-0.4	-0.5	-0.8	-0.6	-0.9
Nominal Balance - % GDP	-4.6	-8.8	-8.5	-8.3	-8.7	-8.8	-8.3	-8.2
Gross Public Debt - % GDP	71.7	73.8	76.3	78.6	82.8	83.4	86.4	87.2
Net Public Debt - % GDP	56.1	60.4	61.3	65.2	70.7	71.2	74.5	75.1
Growth of public spending (% real, pa, **)	6.0	7.6	3.2	4.2	4.9	3.9	1.6	2.4

Source: IBGE, FGV, BCB and Itaú

(*) Nation-wide Unemployment rate measured by PNADC, seasonally adjusted

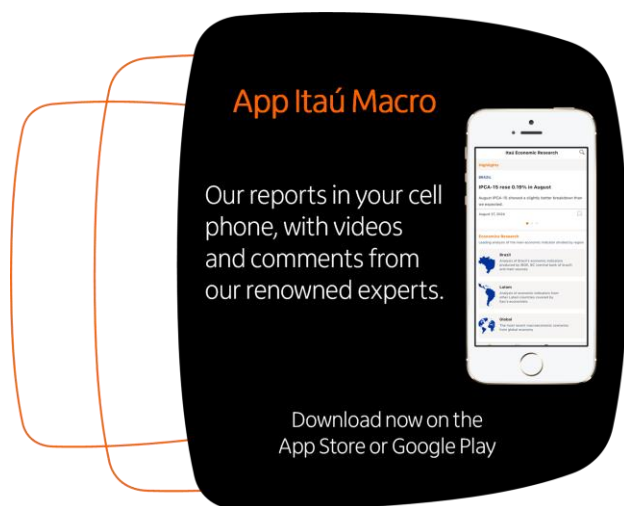
(**) We do not consider the 2023 payment of extraordinary court-ordered debts (precatórios). Including it, spending grew by 12.5% in 2023 and fell by 0.9% in 2024.

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