

Macro scenario - Brazil



June 1, 2026

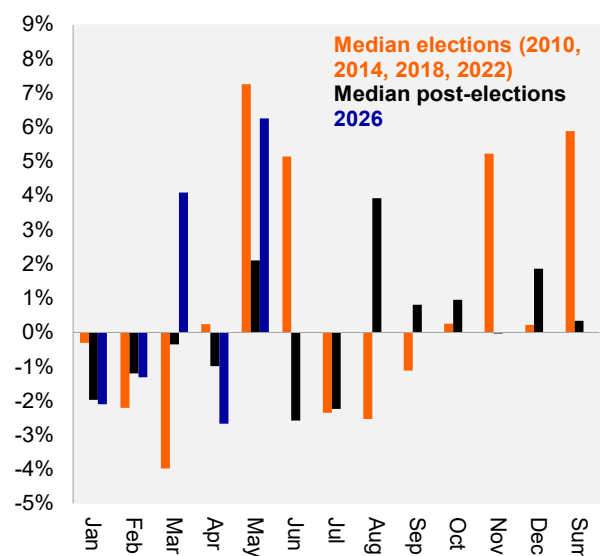
Inflation and economic activity pressure the Central Bank

- ▶ We maintained our exchange rate projection at R\$/US\$ 5.15 in 2026 and R\$/US\$ 5.35 in 2027. Fundamentals continue to support the currency in the near term, but the uncertainty typical of election years justifies our projection of some depreciation throughout the year.
- ▶ We revised our 2026 GDP projection to 2.1% (from 1.9%) and maintained the 2027 projection at 1.7%. For 2026, we have incorporated the impact of recently announced stimulus measures, resulting in a more balanced risk outlook. On the labor market, we maintained our unemployment rate estimates at 5.7% in 2026 and 6.0% in 2027.
- ▶ We maintained our primary balance projection at -0.5% of GDP in 2026 and -0.6% in 2027. The prospect of expanding transfer expenditures, associated with the reduction of the INSS queue backlog, is expected to increase the fiscal impulse during the year and prevent the situational improvement in revenues from translating into an improvement in public finances.
- ▶ We revised our IPCA projections to 5.4% in 2026 (from 5.2%) and 4.5% in 2027 (from 4.3%). For 2026, the revision mainly reflects the greater indirect pass-through from the oil price shock, while for 2027 the combination of higher inflation inertia and additional food pressure weighs in. The risk balance remains asymmetric to the upside in both years, with fuel prices as the main near-term upside risk factor, and for next year, risks tied to fertilizers and El Niño increasing uncertainty around food inflation.
- ▶ Given the renewed deterioration of the inflation outlook and resilient activity, the room for rate cuts is even more limited. We revised our terminal Selic rate projection to 13.75% (from 13.25%), maintaining the easing pace at 25 bps, with no room for acceleration.

BRL: Fundamentals remain constructive, but electoral volatility is on the radar

We maintained our exchange rate projection at R\$/US\$ 5.15 in 2026 and R\$/US\$ 5.35 in 2027. Over the past month, the real gave back some of the gains recorded since the outbreak of the Middle East war, pressured by a marginally stronger dollar globally, reflecting the continuation of the conflict and the repricing of interest rates in developed economies, and by the deterioration of domestic risk perception. Even so, the elevated interest rate, more favorable terms of trade, and portfolio rotation towards emerging markets continue to support the currency in the near term. Our projection, however, continues to incorporate some depreciation throughout the year, justified by the volatility typically observed in election years.

Risk premium rising as typically seen in election years



Source: BBG, Itaú

We maintained our current account deficit projection at US\$ 69 billion in 2026, but revised 2027 to US\$ 72 billion (from US\$ 77 billion). The revision for next year incorporates higher grain prices affecting the trade balance, now projected at US\$ 80 billion (from US\$ 75 billion).

Activity: stronger economy on the back of stimulus measures

1Q26 GDP grew 1.1% q/q (seasonally adjusted) and 1.8% y/y. From the supply side, the result reflected the resilience of the services sector, which rose 0.5% q/q (from 0.7% q/q in 4Q25), and the recovery of industry, which advanced 1.0% q/q (vs. -0.7% q/q). From the demand side, there was an acceleration in household consumption, sustained by a still-firm labor market and fiscal stimulus, as well as investment growth, favored by base effects and platform imports during the period.

Given Q1-26 performance and the set of fiscal and credit measures recently announced, we revised our 2026 GDP growth projection to 2.1% (from 1.9%). In our scenario, we incorporated the impacts of the New Desenrola program and the subsidized financing lines aimed at renewing the bus and truck fleet, as well as the transfer impulse resulting from the reduction of the INSS queue.

After the revision, the bias for 2026 GDP has become more balanced. Additional fiscal measures under consideration that could boost growth this year are offset by downside risks associated with a potential prolongation of conflicts and their spillovers to the domestic economy.

For 2027, we maintain the growth projection at 1.7%. The expected fading of fiscal impulse should be partially offset, over time, by less restrictive monetary policy.

On the labor market, we do not yet see a clear deceleration trend. We therefore maintained our unemployment projections at 5.7% in 2026 and 6.0% in 2027. Going forward, the expectation of activity growth close to the neutral rate, combined with a slight rise in the participation rate, should lead to a continuous — albeit modest — increase in unemployment over the coming months.

Fiscal: new upward revenue revision offset by higher transfer expenditures

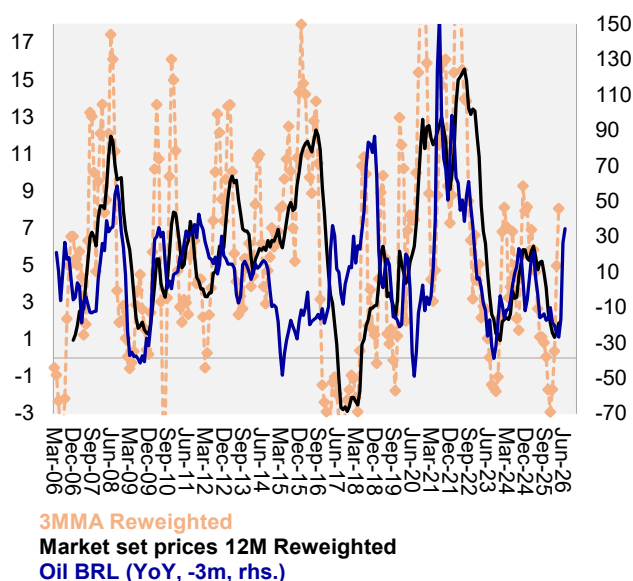
We maintained the 2026 primary balance projection at -0.5% of GDP, with the revenue improvement being absorbed by expenditures linked to the reduction of the INSS queue. Higher oil prices and higher inflation support more robust tax collection during the year. However, in the latest bimonthly budget report, the government signaled a greater effort to reduce the INSS backlog, implying an additional demand impulse. We incorporated this increase in transfer spending into our scenario (previously reflected only in the risk balance), and consequently the cyclical improvement in revenues continues not to translate into a more favorable fiscal outcome.

For 2027, we maintained the primary balance at -0.6% of GDP. The structural challenge remains significant: we estimate that, under current rules and without any course correction, the fiscal adjustment needed to stabilize public debt, currently around 4 p.p. of GDP, will continue to increase and at a faster pace.

Inflation: new upward revisions in 2026 and 2027

We revised our 2026 IPCA projection to 5.4% (from 5.2%), incorporating a greater indirect effect from oil prices. This indirect channel materializes when higher oil and derivatives prices raise the cost of inputs and services throughout production chains, pushing costs up and, with some lag, putting pressure on free-market prices. Even if, in the near term, pressure for additional fuel price adjustments, particularly gasoline, may be mitigated by measures such as tax cuts and subsidies, the indirect effects of the shock have already begun to appear in producer price indexes and are becoming more visible in the IPCA itself, which should keep inflation under pressure throughout the year. The risk balance remains asymmetric to the upside, with additional increases in gasoline and diesel as the main risk factor for 2026.

Acceleration at the Margin for Tradable Items Most Sensitive to Oil Prices



Source: IBGE, Itaú

For 2027, we revised our inflation projection to 4.5% (from 4.3%), incorporating higher inflation inertia and a more pressured food scenario. The expectation of a tighter balance for agricultural commodities throughout next year tends to translate into higher prices and, consequently, higher food inflation in 2027.

The risk balance remains asymmetric to the upside, mainly due to uncertainty about the intensity and persistence of El Niño. Although we have already incorporated higher food prices in 2026, with impacts concentrated on fresh produce items, a stronger climate event tends to have more significant effects in 2027, increasing the risk of productivity and harvest losses and reducing grain supply, especially corn. This upside bias may intensify if the climate shock is accompanied by still-elevated fertilizer costs, which increases the cost of

production cycles, limits productivity gains, and reinforces food price pressures throughout 2027.

Monetary policy: new upward revisions (inflation and activity) further compress room for cuts

The Copom, in its recent communications, continues to reinforce a cautious approach to monetary policy amid high uncertainty. The calibration cycle indicates that the monetary authority intends to close the cycle with the terminal rate still in contractionary territory, against a backdrop of unanchored expectations and a positive output gap.

The inflation outlook continued to deteriorate while activity remains solid. Upward revisions to the IPCA, incorporating indirect effects from the external shock and higher food prices, add to the persistence of core inflation above target and the deterioration of inflation expectations even at longer horizons. This, combined with the output gap in positive territory, reinforces the upside asymmetry in the risk balance and reduces the room for more intensive easing, even with a stronger exchange rate.

We revised the terminal Selic projection to 13.75% (from 13.25%) and reckon that recent data do not open room for an acceleration in the easing pace, even with some moderation in oil prices. We expect three additional 25-bp cuts. We acknowledge that the risk is that the rate-cutting cycle may be halted even earlier, with any additional reductions contingent on more benign behavior of expectations and clear signs of activity deceleration, conditions not yet in place.

For 2027, we project continued easing, with the Selic converging to 12.50%.

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	2.1	1.9	1.7	1.7
Nominal GDP - BRL bn	10,080	10,943	11,779	12,739	13,543	13,457	14,457	14,294
Nominal GDP - USD bn	1,951	2,192	2,186	2,278	2,651	2,622	2,749	2,718
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	12,374	12,239	12,790	12,646
Nation-wide Unemployment Rate - year avg	9.5	8.0	6.9	5.9	5.5	5.5	5.8	5.8
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	5.4	5.2	4.5	4.3
IGP-M - %	5.5	-3.2	6.5	-1.0	6.5	5.7	4.5	3.8
Interest Rate								
Selic - eop - %	13.75	11.75	12.25	15.00	13.75	13.25	12.50	12.25
Balance of Payments								
BRL / USD - eop	5.28	4.86	6.18	5.47	5.15	5.15	5.35	5.35
BRL / USD - average	5.17	4.99	5.39	5.59	5.11	5.11	5.26	5.26
Trade Balance - USD bn	62	99	75	68	80	80	80	75
Current Account - % GDP	-2.2	-1.2	-3.0	-2.9	-2.6	-2.6	-2.6	-2.8
Direct Investment (liabilities) - % GDP	4.0	2.9	3.4	3.4	3.5	3.5	3.8	3.8
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	-0.5	-0.6	-0.6
Nominal Balance - % GDP	-4.6	-8.8	-8.5	-8.3	-8.9	-8.8	-8.6	-8.5
Gross Public Debt - % GDP	71.7	73.8	76.3	78.6	82.6	82.5	86.0	86.2
Net Public Debt - % GDP	56.1	60.4	61.3	65.2	70.9	71.1	74.6	75.0
Growth of public spending (% real, pa, **)	6.0	7.6	3.2	4.2	5.3	4.7	1.3	1.4

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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