Economic Outlook

November 2025

Global

Introduction

Global

Fewer Fed cuts amid stronger global growth

- **Global:** US-China deal limits escalation in the short term and Fed's stance leads to a stronger USD.
- **US:** we expect only one more rate cut in December (instead of cuts in December and January, previously) given the more hawkish communication from the Fed on the extent of the cycle.
- **Europe:** stronger activity in 2025 (1.3%, from 1.1%) with resilient domestic demand and a smaller impact from tariffs. For 2026, we maintain our 1.2% estimate, considering the implementation of the German fiscal package.
- **China:** 5% growth target achieved this year amid resilient exports and fiscal stimulus supporting short-term activity. For 2026, we now expect GDP growth of 4.5% (up from 4.0% previously).
- **Latin America:** policy rate paths revised higher.

Our forecasts:

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
GDP Growth									
World GDP growth - %	-2.8	6.3	3.5	3.2	3.2	**3.2**	3.1	**3.2**	3.0
USA - %	-2.1	6.2	2.5	2.9	2.8	**2.0**	2.0	**2.0**	2.0
Euro Area - %	-6.2	6.4	3.7	0.6	0.8	**1.3**	1.1	**1.2**	1.2
China - %	2.0	7.7	3.0	5.4	5.0	**5.0**	4.7	**4.5**	4.0
Inflation									
U.S. Core CPI - %, eop	1.6	5.5	5.7	3.9	3.2	**3.1**	3.5	**3.0**	3.0
Interest rates and currencies									
Fed Funds - %, eop	0.13	0.13	4.15	5.38	4.52	**3.63**	3.63	**3.63**	3.38
U.S. 10 Year Treasury - %, eop	0.93	1.47	3.88	3.88	4.58	**4.10**	4.10	**4.00**	4.00
USD/EUR - eop	1.22	1.13	1.07	1.10	1.04	**1.15**	1.20	**1.15**	1.20
CNY/USD - eop	6.54	6.37	6.92	7.13	7.30	**7.15**	7.15	**7.15**	7.15
DXY Index* - eop	89.9	95.7	103.5	101.3	108.5	**99.8**	95.8	**99.2**	95.4

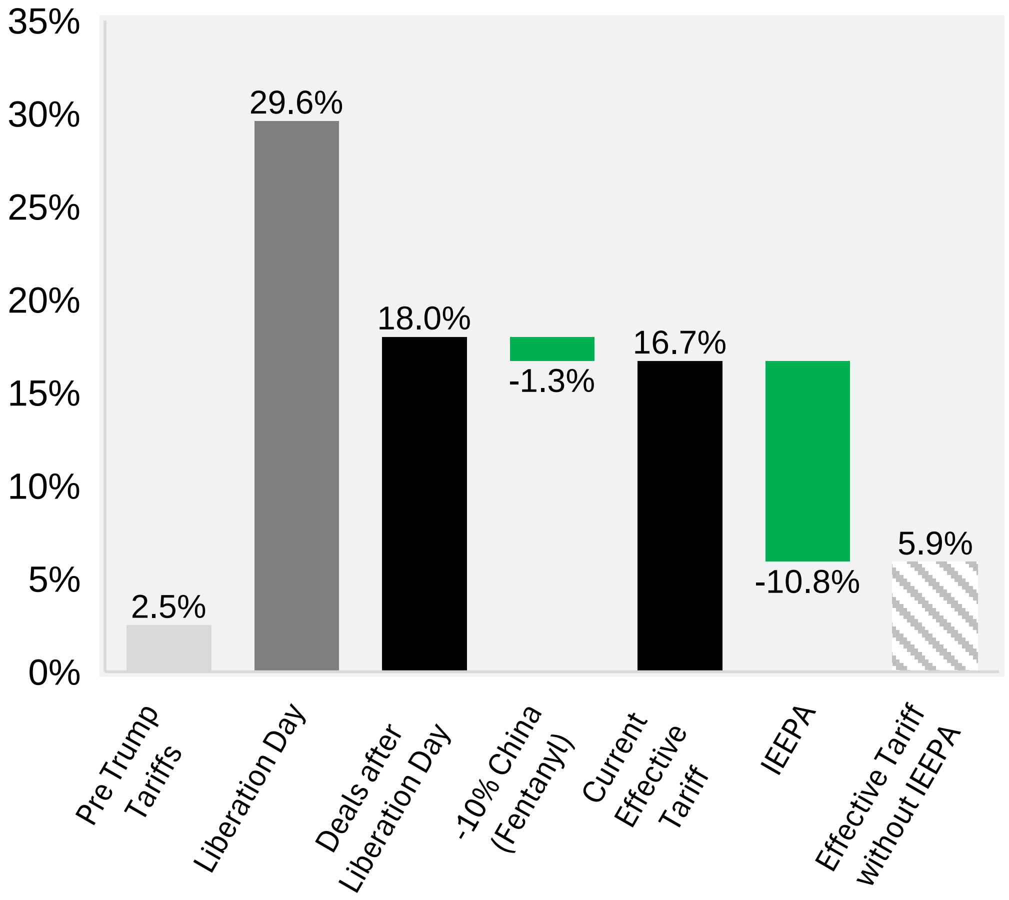
Source: IMF, Bloomberg and Itaú

* The DXY is a leading benchmark for the international value of the U.S. dollar, measuring its performance against a basket of currencies that includes the euro, yen, pound, Canadian dollar, Swiss franc and Swedish krona.

Source: FMI, Bloomberg, Itaú

US-China deal brings tariff relief and eases short-term escalation risk

Effective tariffs and risks



Source: Itaú

1 **The deal between the US and China brings tariff relief and reduces the risk of escalation in the short term.** The agreement between Trump and Xi was an important relief in geopolitical tensions. The US agreed to reduce fentanyl-related tariffs to 10% (from 20%) and postponed for one year the implementation of export controls on semiconductors for companies with at least 50% Chinese ownership.

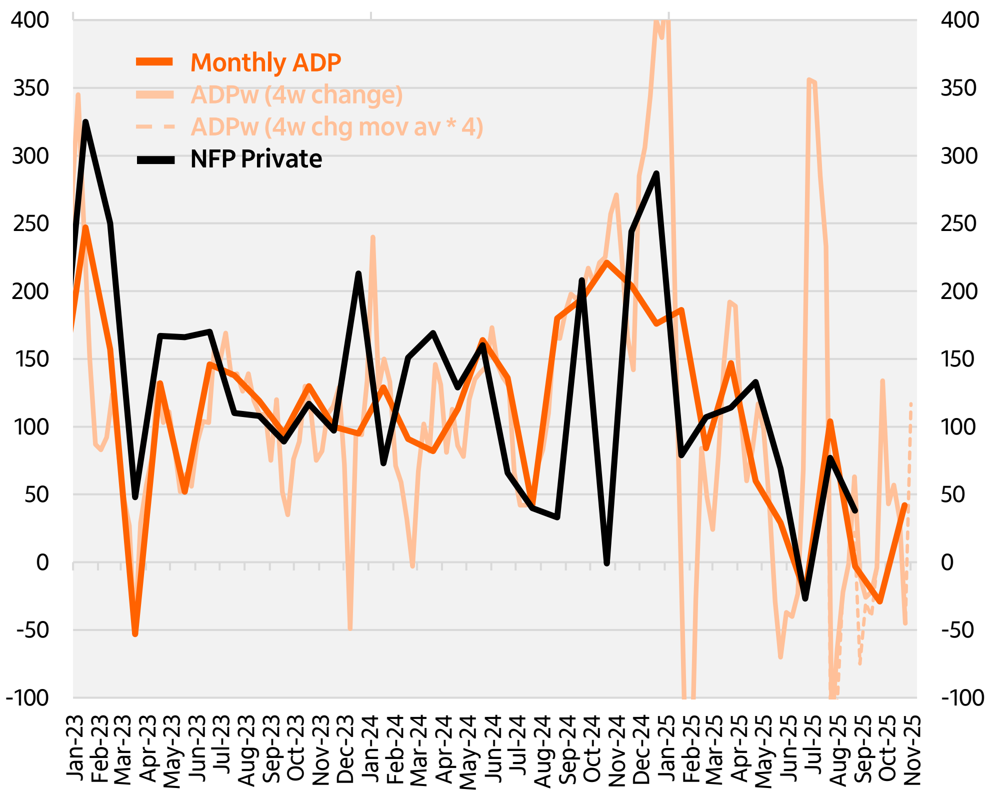
2 **On China's side, the country agreed to resume purchases of soybeans and other agricultural products, suspend for a year restrictions on rare earth exports, and committed to intensify efforts to contain fentanyl exports.** Both sides agreed to eliminate tariffs and shipping fees and to properly resolve issues related to TikTok.

3 **With this truce, we estimate that the effective US import tariff rate is now 17% (vs. 30% on "Liberation Day" and 18% before the fentanyl deal), and that the gap between tariffs applied to China and other Asian countries narrowed to 10 p.p. (vs. 20 p.p. in July).** However, this truce is likely to be unstable, as tensions may resurface over rare earths and access to semiconductor technology.

4 **The US Supreme Court is expected to rule soon on the validity of IEEPA tariffs, which could block up to 10 p.p. of the effective US import tariff.** In a preliminary hearing, SCOTUS justices indicated reluctance regarding this tariff instrument. However, even if the blockage occurs, we believe the US government has other avenues to reinstate the blocked tariffs, and we expect the total effective tariff will ultimately return to a level very close to the current one.

More hawkish Fed communication signals the end of the easing cycle is near; FX: we now assess that the USD will remain more supported in the short term

Private employment: ADP Weekly and Payroll



NFP: Nonfarm Payroll, number of workers in the U.S. except those employed on farms, in private households, nonprofit organizations, self-employed individuals, and military personnel.

Source: BLS, ADP, Itaú

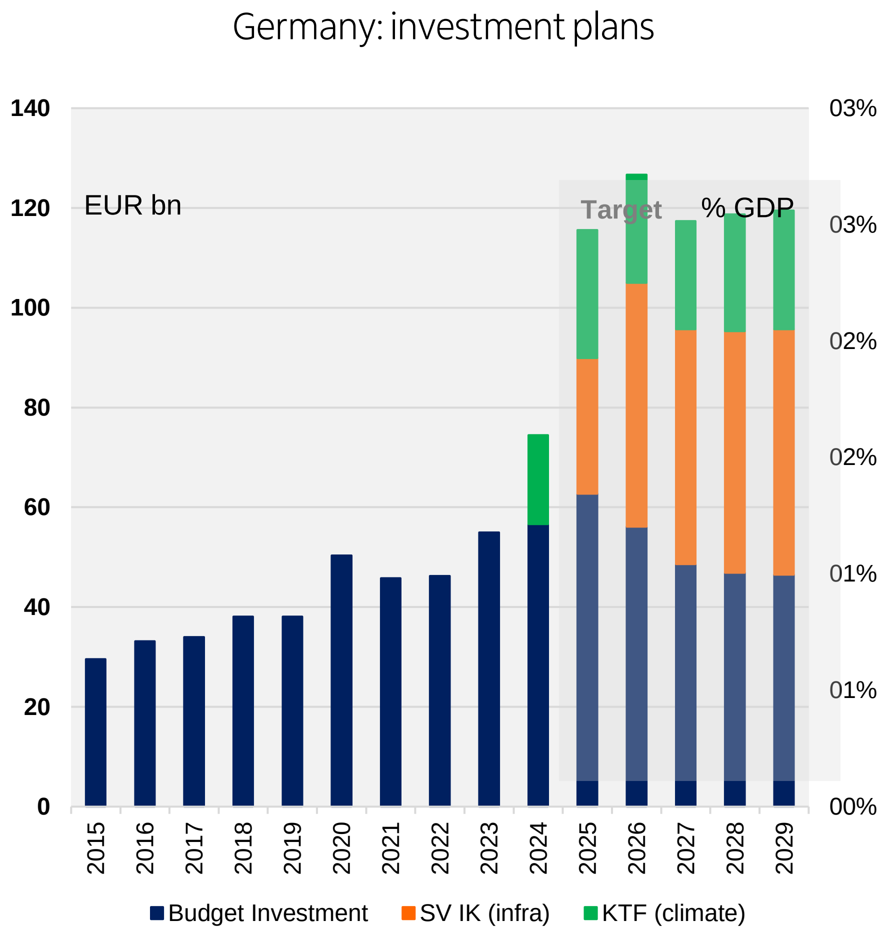
1 **In the US, alternative data still shows employment deceleration, while inflation gradually slows down.** The extension of the government shutdown until mid-November delayed the release of official data, such as Payroll, CPI, GDP, and others. Analyzing a set of alternative employment data from private sources, we observe that the labor market continues to show signs of deceleration. Despite the economy growing at a strong pace (we estimate 3.2% q/q saar in 3Q25), employment shows only incipient signs of recovery. Moreover, the September CPI showed a lower-than-expected monthly change in core inflation (0.2%, versus 0.3% expected), but the annual deceleration remains slow, around 3%, still well above the 2% target.

2 **More hawkish Fed communication signals the end of the easing cycle is near. We revised our projection to only one cut in December (instead of cuts in December and January, previously expected).** At the latest FOMC meeting, Chair Powell questioned further rate cuts amid divisions within the committee on policy restraint. For the Fed to hold in December, a modest downside surprise versus September SEP projections may be needed. Data distortions from the shutdown—Payroll expected at -50k and unemployment up 30–40 bps—add uncertainty. Overall, policy restraint has eased per financial conditions, but the cycle is likely to end above the 3.0% neutral rate estimate.

3 **For currencies, we now assess that the USD will remain more supported in the short term, amid lower uncertainty regarding tariffs and the more hawkish Fed stance.** As a result, we have revised our euro forecast from 1.20 to 1.15. Going forward, the main risk for a return to a weaker dollar is an increase in expectations of more aggressive interest rate cuts in the US, in the context of selecting a successor to the Fed chair more aligned with the Trump administration.

Global

Stronger growth in Europe



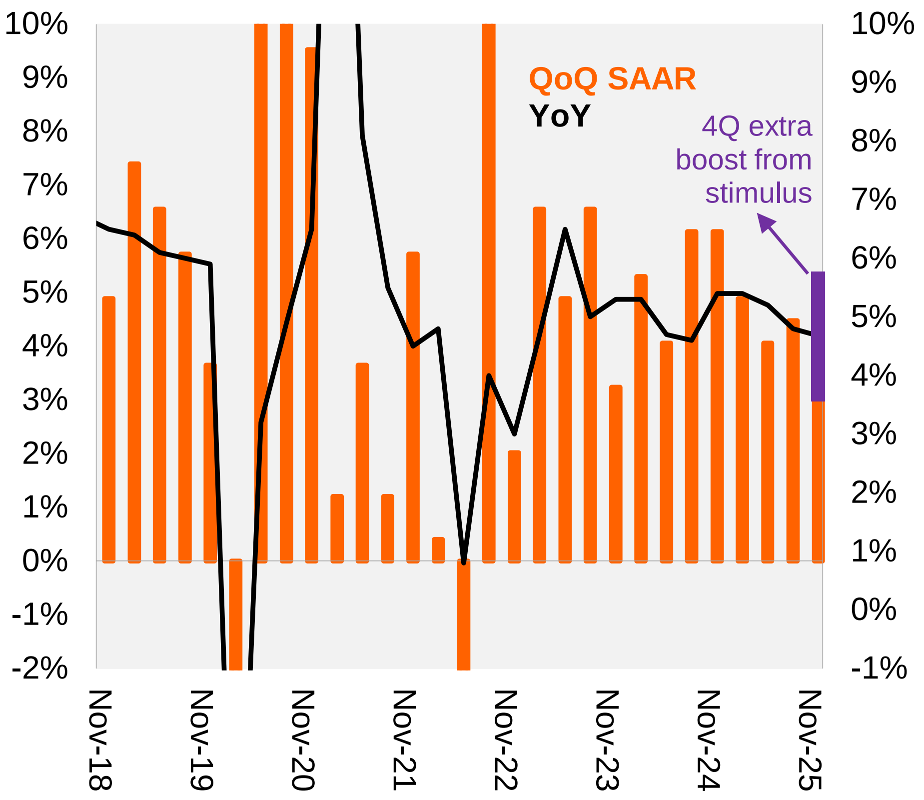
As for Europe, we now forecast growth of 1.3% (previously at 1.1%) with a smaller-than-expected tariff impact and strong domestic demand amid lower interest rates. For 2026, we maintain our GDP forecast at 1.2%, considering the impact of fiscal stimulus in Germany. Activity continued to surprise positively, with 0.2% q/q growth in 3Q and the October Composite PMI at 52.5, reinforcing that the good momentum extended into the last quarter of the year. Moreover, the impact of the 15% tariffs on exports to the US has been lower than anticipated, amid resilient global growth. Inflation remains in line with ECB models, signaling convergence toward the 2% target. In this environment, we continue to consider that the ECB has already ended its rate-cutting cycle. 1

For 2026, the focus is on the implementation of Germany's fiscal package announced earlier this year. We expect a stimulus of 1.8% of GDP, which should generate an impact of 1.2 p.p. for German GDP and 0.4 p.p. for the euro area, considering spending on both defense and infrastructure. The budget details are expected to be voted on by late November. 2

Source: BLS, ADP, Itaú

China: growth revised to 5.0% for 2025 on export resilience and fiscal support

China: stimulus already announced for the 5% target



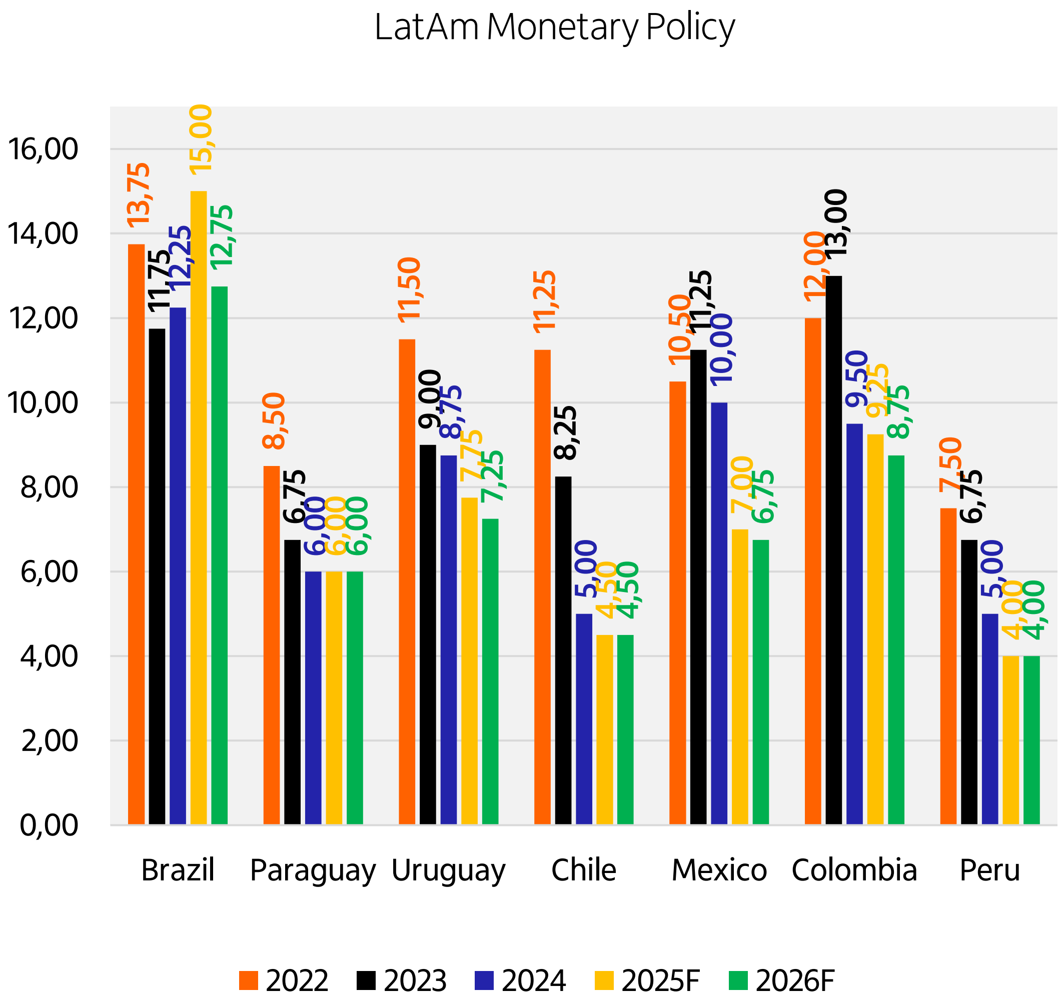
1 **For China, we revised growth to 5.0% (from 4.7%) in 2025, driven by resilient exports – despite tariffs – as well as fiscal stimulus to support activity in 4Q.** Between September and October, the government announced two programs to support activity in the short term: (i) a special fund of RMB500bn (0.35% of GDP) to promote infrastructure (channeled through state-owned banks) and (ii) the use of RMB500bn (0.35% of GDP) in local government bonds by the end of 2025. Unlike in 2023 and 2024, the announcements were made discreetly, but in sufficient amounts to ensure the 5% growth target this year.

2 **Additionally, exports remain resilient, with the redirection of goods to the US by Asian countries and a more diversified export basket supported by strong global growth.** For 2026, we now project GDP of 4.5% (from 4.0%), as the strong growth momentum should lead the government to announce a higher growth target (in March) than we previously anticipated.

3 **The Chinese economy continues to seek new sources of growth, now focusing on technology and artificial intelligence.** The initial discussion of the five-year plan for 2026-30 reinforced the need for investments in the technology sector to achieve self-sufficiency, especially amid the dispute in the semiconductor sector with the US.

Source: Haver, Itau

Latin America: policy rate paths revised higher



We tweaked our monetary policy forecasts slightly higher in Mexico, Chile, and Colombia, driven by different factors. In Mexico, even though Banxico delivered the expected 25-bp cut in the last policy meeting to 7.25%, the shift in guidance toward a meeting-by-meeting approach led us to expect higher sensitivity to the Fed in upcoming decisions. As a result, we envisage a 25-bp cut in December, leading to a year-end monetary policy rate of 7.0%. However, we now expect only one 25-bps cut in February next year, with the terminal rate at 6.75% in 2026 (up from 6.5%). 1

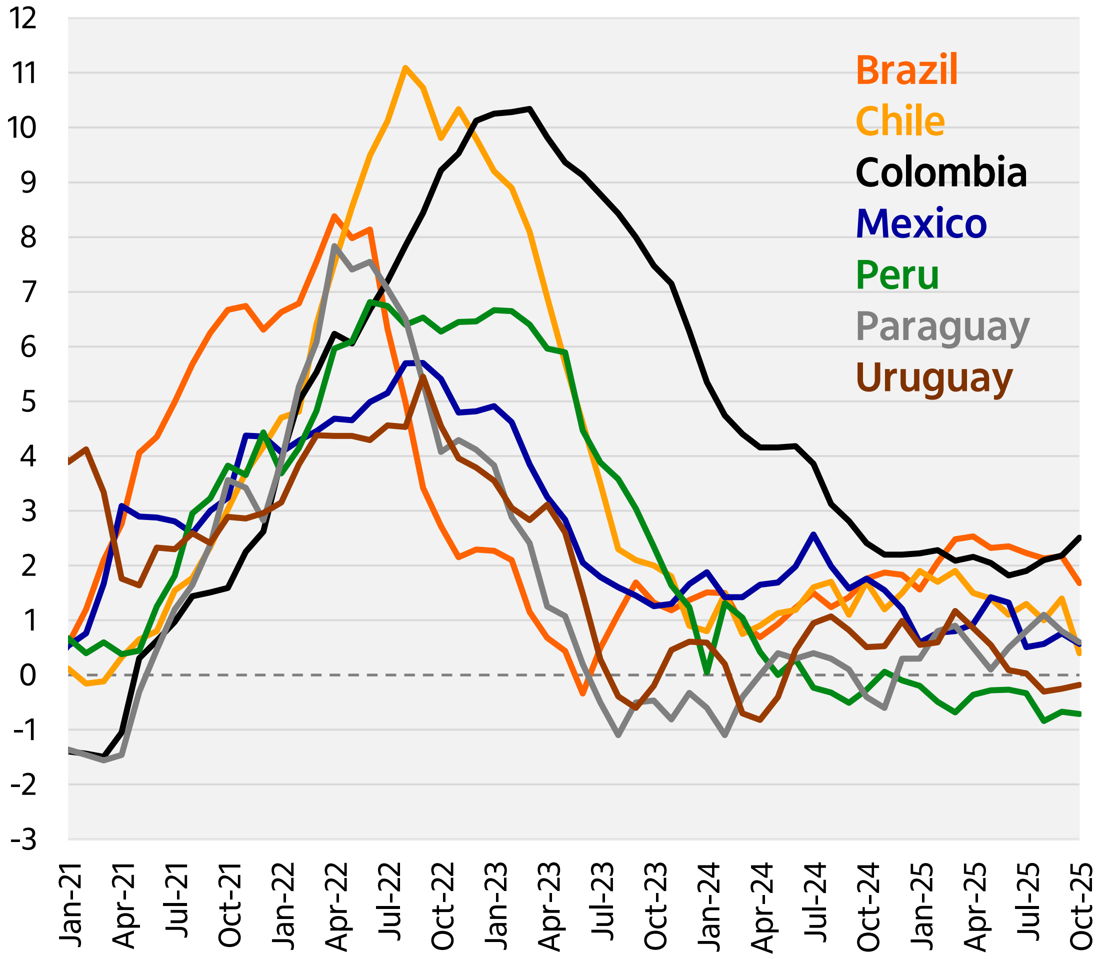
In Chile, we expect continued soft inflation data relative to the BCCh's projections to keep the December meeting live, as suggested by market pricing. We forecast core inflation ending the year 10–20bps below the BCCh's 3.7% estimate. However, given our revised outlook of one fewer Fed rate cut and the BCCh's inclination toward the upper bound of the neutral rate range, we now expect the easing cycle to conclude in December at 4.5% (+25bps). 2

In Colombia, given persistent inflation, above target inflation expectations, and pressure on the fiscal accounts, we still see BanRep leaving the policy rate unchanged through year end at 9.25% but pencil in a total of 50-bps of cuts in 2026, ending the year at 8.75% (8.25% in the previous scenario). 3

Source: Itaú

Latin America: policy rate paths revised higher

Distance between headline inflation and the target



Source: Itaú

1 **In Mexico, we revised our year-end 2025 CPI forecast down to 3.8% (from 4.1%), reflecting relief in core inflation and muted pressure on non-core items as the year ends.** Core inflation has been relatively stable, slightly above the 4.0% annual ceiling. We remain cautious in 2026, as non-core items could return to their higher historical average, leading us to maintain our forecast at 3.7%. In Chile, recent data leads us to revise our year-end inflation forecast by -0.2pp to 3.7%. Normalizing wage growth, subdued global oil prices, and a strengthening CLP should help consolidate the path toward the 3% target by the end of 1Q26. In Peru, we revised our 2025 year-end inflation forecast down to 1.6% from 1.8%, due to persistent downside inflation surprises, the appreciation of the PEN, and low oil prices. For 2026, we expect CPI to rise towards the BCRP's 2% inflation target.

2 **In Colombia, we revised our year-end 2025 CPI forecast up to 5.3% (from 5.2%), following the upside surprise in October.** We also increased our YE26 forecast to 4.5% (from 4.2%), incorporating the risk of a large minimum wage adjustment, while other upside risks linger. Materialization of additional upside inflation risks in Colombia would challenge our call for even a moderate cycle of policy rate cuts in 2026 and set the stage for a swing towards hikes.

3 **In Argentina, following the administration's better-than-expected results in the midterm elections, the focus now shifts to the reform effort.** We expect the exchange rate We foresee inflation reaching 29.5% by YE25, down from 30.5% previously, given stronger ARS. We maintained our GDP growth forecasts for 2025 and 2026 at 3.8% and 2.5%, respectively. Finally, in Chile, all eyes are on the general elections scheduled for November 16, amid heightened public concern over crime, safety, and employment. Polls suggest a presidential runoff is likely, as platforms have focused on prioritizing growth, facilitating investment, and eradicating crime, among others.

Global

LatAm: compared scenario

World

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**3.2**	3.1	**3.2**	3.0

Latin America and Caribbean

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.4**	2.4	**2.3**	2.2

Brazil

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.2**	2.2	**1.7**	1.5
BRL / USD (eop)	**5.35**	5.35	**5.50**	5.50
Monetary Policy Rate (eop,%)	**15.00**	15.00	**12.75**	12.75
IPCA (%)	**4.5**	4.6	**4.2**	4.3

Mexico

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**0.6**	0.6	**1.5**	1.5
MXN / USD (eop)	**19.0**	19.0	**19.5**	19.5
Monetary Policy Rate (eop,%)	**7.00**	7.00	**6.75**	6.50
CPI (%)	**3.8**	4.1	**3.7**	3.7

Argentina

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**3.8**	3.8	**2.5**	2.5
ARS / USD (eop)	**1500**	1600	**1800**	1900
Reference rate (eop,%)	**35.0**	45.0	**25.0**	35.0
CPI (%)	**29.5**	30.5	**20.0**	20.0

Chile

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.5**	2.5	**2.2**	2.2
CLP / USD (eop)	**930.0**	930.0	**880.0**	880.0
Monetary Policy Rate (eop,%)	**4.50**	4.50	**4.50**	4.25
CPI (%)	**3.7**	3.9	**3.0**	3.0

Colombia

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.7**	2.7	**2.8**	2.8
COP / USD (eop)	**3900**	4000	**3900**	4000
Monetary Policy Rate (eop,%)	**9.25**	9.25	**8.75**	8.25
CPI (%)	**5.3**	5.2	**4.5**	4.2

Peru

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**3.0**	3.0	**2.7**	2.7
PEN / USD (eop)	**3.50**	3.50	**3.50**	3.50
Monetary Policy Rate (eop,%)	**4.00**	4.00	**4.00**	4.00
CPI (%)	**1.6**	1.8	**2.0**	2.0

Paraguay

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**5.0**	5.0	**4.0**	4.0
PYG / USD (eop)	**7150**	7150	**7200**	7200
Monetary Policy Rate (eop,%)	**6.00**	6.00	**6.00**	6.00
CPI (%)	**3.9**	4.2	**3.5**	3.5

Uruguay

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.3**	2.3	**1.8**	1.8
UYU / USD (eop)	**40.5**	40.5	**41.0**	41.0
Monetary Policy Rate (eop,%)	**7.75**	7.75	**7.25**	7.25
CPI (%)	**3.9**	3.6	**4.5**	4.5

Source: Itau

Global

Commodities forecasts:

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	**65**	65	**60**	60
Iron Ore (USD/tonne)	153	116	110	135	103	**100**	95	**90**	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	**10350**	9900	**10250**	10150
Corn (Usd/bu)	437	592	656	480	444	**430**	415	**415**	415
Soy (Usd/bu)	1207	1290	1474	1311	984	**1110**	1030	**1070**	1070
Wheat (Usd/bu)	604	790	749	619	548	**550**	550	**600**	600
Sugar (Usd/lb)	15	19	20	22	20	**15**	16	**16**	16
Coffee (Usd/lb)	123	235	166	188	321	**400**	350	**300**	300

Source: BBG, Itaú

Source: Bloomberg, Itaú

Brazil

Introduction

Brazil

Paving the way for the cut

- **We maintained our exchange rate forecast at R$/US$ 5.35 for 2025 and R$/US$ 5.50 for 2026.** Domestic factors and lower conviction regarding further US dollar weakening beyond current levels limit the prospects for scenarios of a much stronger Real.

- **We maintained our 2025 GDP growth forecast at 2.2%, reflecting indicators that confirm a loss of momentum in the second half of the year.** For 2026, we revised GDP up to 1.7% (from 1.5%), incorporating the impact of fiscal and credit measures announced in recent months. The balance of risks remains tilted to the upside, given the possibility of new countercyclical measures. In the labor market, recent data point to resilience with early signs of cooling, consistent with a modest increase in the unemployment rate, which we expect to end 2025 at 6.2%. For 2026, considering the upward revision to growth, we adjusted the unemployment forecast to 6.4% (from 6.5%).

- **We revised our inflation forecast to 4.5% (from 4.6%) for 2025 and 4.2% (from 4.3%) for 2026.** The balance of risks for 2025 is symmetric, with the chance of lower food pressure offsetting the possible triggering of the yellow energy flag at the end of the year. For 2026, the bias is slightly downward, reflecting the drop in IGPs, high inventories, and the potential reduction in oil prices. On the other hand, the labor market remains the main upside risk factor for inflation, especially for services.

- **We maintained our primary balance forecast at -0.6% in 2025 and -0.8% in 2026.** In light of the current fiscal rules, we see the government close to meeting the lower bound of the target in 2025 and facing a 0.4% of GDP challenge in 2026, with risks associated with adopting measures that directly or indirectly weaken the constraints imposed by the current fiscal framework, as well as reduce its transparency.

- **The Copom seems to be gaining confidence that the current monetary policy strategy (keeping the Selic rate at 15% for an extended period) is working.** We maintain our forecast for the start of the easing cycle in January next year, taking the Selic rate to 12.75% p.a. in 2026.

Highlights

Forecasts

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-3.3	4.8	3.0	3.2	3.4	**2.2**	2.2	**1.7**	1.5
Nominal GDP - BRL bn	7,610	9,012	10,080	10,943	11,745	**12,646**	12,658	**13,299**	13,359
Nominal GDP - USD bn	1,475	1,670	1,951	2,192	2,179	**2,265**	2,269	**2,449**	2,460
Population (millions)	209.2	210.1	210.9	211.7	212.6	**213.4**	213.4	**214.2**	214.2
Per Capita GDP - USD	7,050	7,949	9,255	10,356	10,251	**10,612**	10,632	**11,430**	11,482
Nation-wide Unemployment Rate - year avg, NSA	13.5	13.5	9.5	8.0	6.9	**6.0**	6.1	**6.2**	6.4
Nation-wide Unemployment Rate - year end (*)	14.7	11.6	8.4	7.9	6.6	**6.2**	6.2	**6.4**	6.5
Inflation									
IPCA - %	4.5	10.1	5.8	4.6	4.8	**4.5**	4.6	**4.2**	4.3
IGP–M - %	23.1	17.8	5.5	-3.2	6.5	**-0.4**	1.1	**3.3**	3.4
Interest Rate									
Selic - eop - %	2.00	9.25	13.75	11.75	12.25	**15.00**	15.00	**12.75**	12.75
Balance of Payments									
BRL / USD - eop	5.19	5.57	5.28	4.86	6.18	**5.35**	5.35	**5.50**	5.50
BRL / USD - average	5.16	5.40	5.17	4.99	5.39	**5.58**	5.56	**5.43**	5.43
Trade Balance - USD bn	50	61	62	99	75	**66**	65	**65**	58
Current Account - % GDP	-1.6	-2.4	-2.2	-1.2	-3.0	**-3.5**	-3.3	**-3.1**	-3.1
Direct Investment (liabilities) - % GDP	3.0	2.8	4.7	2.8	3.2	**3.8**	3.7	**3.7**	3.7
International Reserves - USD bn	356	362	325	355	330	**360**	330	**360**	330
Public Finances									
Primary Balance - % GDP	-9.2	0.7	1.2	-2.3	-0.4	**-0.6**	-0.6	**-0.8**	-0.8
Nominal Balance - % GDP	-13.3	-4.3	-4.6	-8.8	-8.5	**-8.8**	-8.7	**-9.3**	-9.3
Gross Public Debt - % GDP	86.9	77.3	71.7	73.8	76.5	**79.4**	79.1	**85.0**	84.4
Net Public Debt - % GDP	61.4	55.1	56.1	60.4	61.5	**66.2**	67.4	**71.9**	72.9
Growth of public spending (% real, pa, **)	29.2	-24.7	6.0	7.6	3.2	**4.2**	4.0	**2.7**	2.9

Source: IBGE, FGV, BCB and Itaú

(*) Nation-wide Unemployment Rate measured by PNADC.

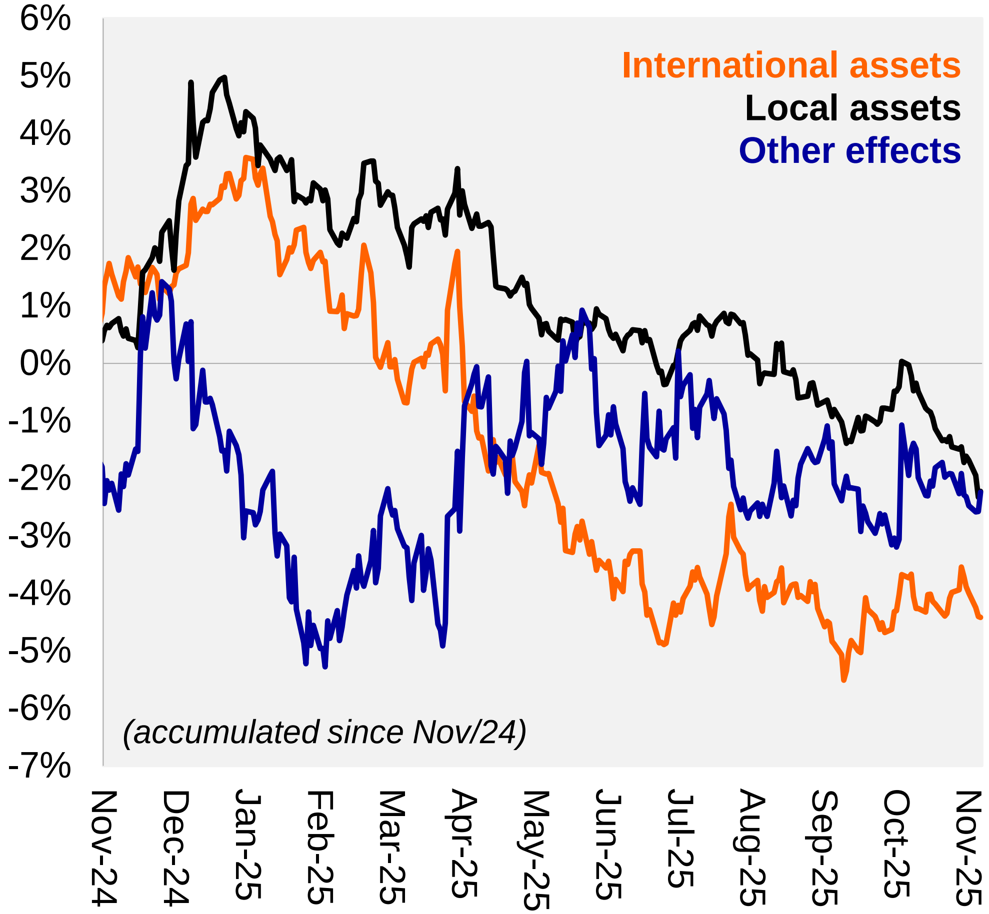
(**) We do not consider the 2023 payment of extraordinary court-ordered debts (precatórios). Including it, spending grew by 12.5% in 2023 and fell by 0.9% in 2024.

Source: Itaú

Brazil

BRL: limited appreciation ahead

Decomposition of BRL movements



1 **We maintained our exchange rate forecast at R$/US$ 5.35 for 2025 and R$/US$ 5.50 for 2026.** The appreciation of the Brazilian real over the year has been largely explained by the weakening of the US dollar, a movement that seems to have stabilized in recent months. Going forward, we do not see additional upside for the currency. From an external perspective, we have less conviction about the prospect of further dollar weakness beyond current levels. In turn, domestic fundamentals also limit more benign scenarios. Among these, we do not anticipate a reduction in the risk premium, in a context of narrowing interest rate differentials and continued poor performance of external accounts.

2 **We revised our current account deficit forecast to US$ 78 billion in 2025 (from US$ 75 billion previously) and maintained our US$ 77 billion forecast for 2026.** The worsening in the short-term forecast reflects higher Profits & Dividends remittances at the margin. For next year, the negative revision in the income account deficit was offset by an upward revision in the trade balance, driven by higher exports.

3 **We have revised our trade surplus projection for 2026 to US$ 65 billion (from US$ 58 billion).** This upward revision stems from the removal of the expected negative impact of tariffs on exports, an effect that had been incorporated into the projection at the time of the announcement, but which has not materialized so far. The recent growth in export volumes, despite the decline in sales to the United States, suggests that Brazil has been successful in redirecting part of its trade flows and strengthening ties with new partners.

Source: BBG, Itaú

Activity: upward revision of 2026 GDP, incorporating fiscal and credit measures

GDP 2026				
Measure	**Description**	**R$**	**GDP impact**	**In our baseline**
Measures incorporated in previous scenarios				
New private payroll-deductible loans	Broader elligible public. Current data shows BRL 250-300mm new loans per working day.	70/80 billion	+0.20p.p.	+0.2p.p.
Income tax table revision	Full tax exemption for incomes up to 5k/month, partial up to 7.4k.	35 billion	+0.30p.p.	+0.30p.p.
Total already incorporated				**+0.5p.p.**
Measures to be incorporated in this scenario				
Minha Casa Minha Vida (housing)	Increase funding in 2026.	5.6 billion	+0.05p.p.	+0.05p.p.
Luz para todos (electricity)	Zero tariff for consumers up to 80kWh/month.	7.1 billion	+0.03p.p	+0.03p.p
Gás do Povo (cooking gas)	Free gas for vulnerable families.	2 billion	+0.00p.p.	+0.00p.p.
Reserve requirements	Reduction from 20% to 15%.	40 billion	+0.15p.p.	+0.10p.p.
Birthday withdrawal	Limits on anticipated withdrawal (from Nov/25) and associated loans.	-30 billion	-0.11p.p.	-0.11p.p.
Credit for home renovation	Subsidized credit for renovations, operated by Caixa Econômica Federal.	40 billion	+0.15p.p.	+0.10p.p.
Total incorporated in this scenario			**+0.3p.p.**	**+0.2p.p.**

Source: BBG, Itaú

1 **The most recent indicators confirm the continued slowdown in activity in 3Q25.** We maintain our estimate of 0.3% growth on the margin (seasonally adjusted) and 1.9% year-over-year for the period.

2 **For 2025, we maintained our GDP growth forecast at 2.2%.** The balance of risks remains tilted to the downside, due to credit market dynamics, influenced especially by INSS payroll-deductible loans and tax changes (IOF), although lending to individuals and companies has shown a recent improvement, reducing the probability of these downside risks materializing.

3 **For 2026, we revised our GDP growth forecast to 1.7% (from 1.5% in the previous scenario), incorporating the fiscal and credit measures announced in recent months.** The upward revision mainly reflects: i) expansion of the Minha Casa, Minha Vida program (housing); ii) Luz para Todos (electricity); iii) Gás do Povo (cooking gas); iv) reduction of reserve requirements for mortgage lending; and v) credit lines for home renovations. On the other hand, we included the negative impact of changes in credit granting rules linked to the FGTS birthday withdrawal.

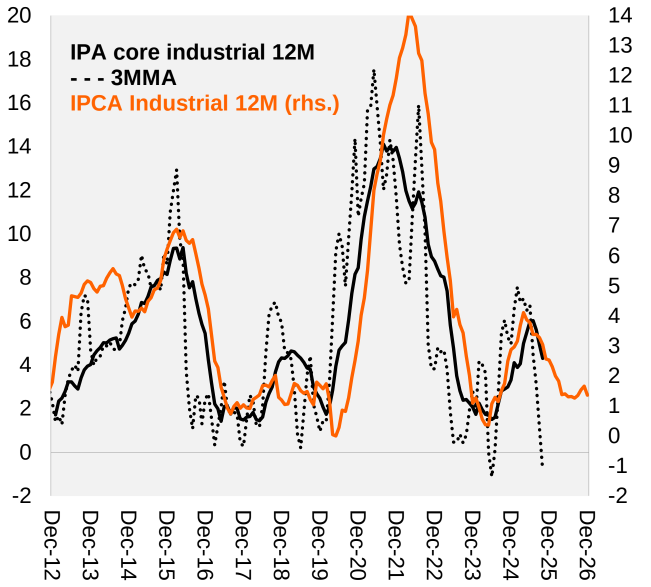
4 **Even with the revision, we maintained an upward bias for 2026 GDP, in light of the potential adoption of countercyclical fiscal and parafiscal measures.**

5 **Finally, regarding the labor market, more recent indicators suggest resilience, but with incipient signs of cooling, in line with our expectation of a slight increase in the unemployment rate in the coming months.** We maintain our unemployment rate forecast at 6.2% in 2025, but adjust 2026 to 6.4% (from 6.5%), given the upward revision to activity growth.

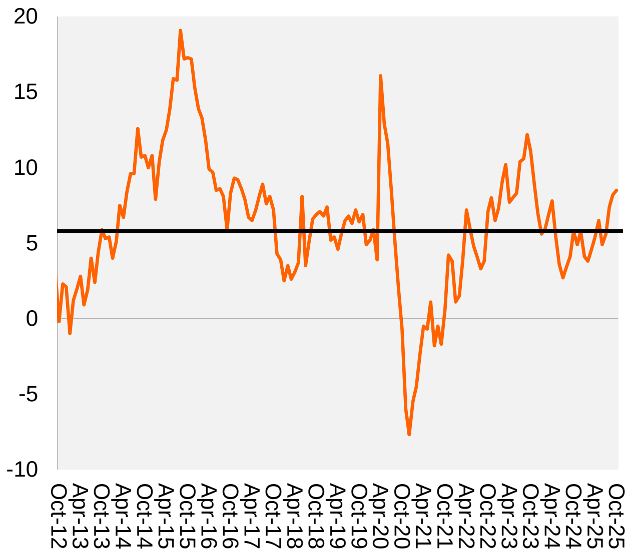
Brazil

Inflation: downward revisions

Industrial PPI decline passing through to IPCA



Inventories above historical average



1

We revised our inflation forecast for 2025 down to 4.5% (from 4.6%), incorporating recent downside surprises. We assess that risks are balanced. Food prices may face less pressure, either from a slower reversal of the livestock cycle or from prices of perishable items. On the other hand, lower rainfall increases the chance of triggering the yellow tariff flag by year-end, which could raise electricity costs.

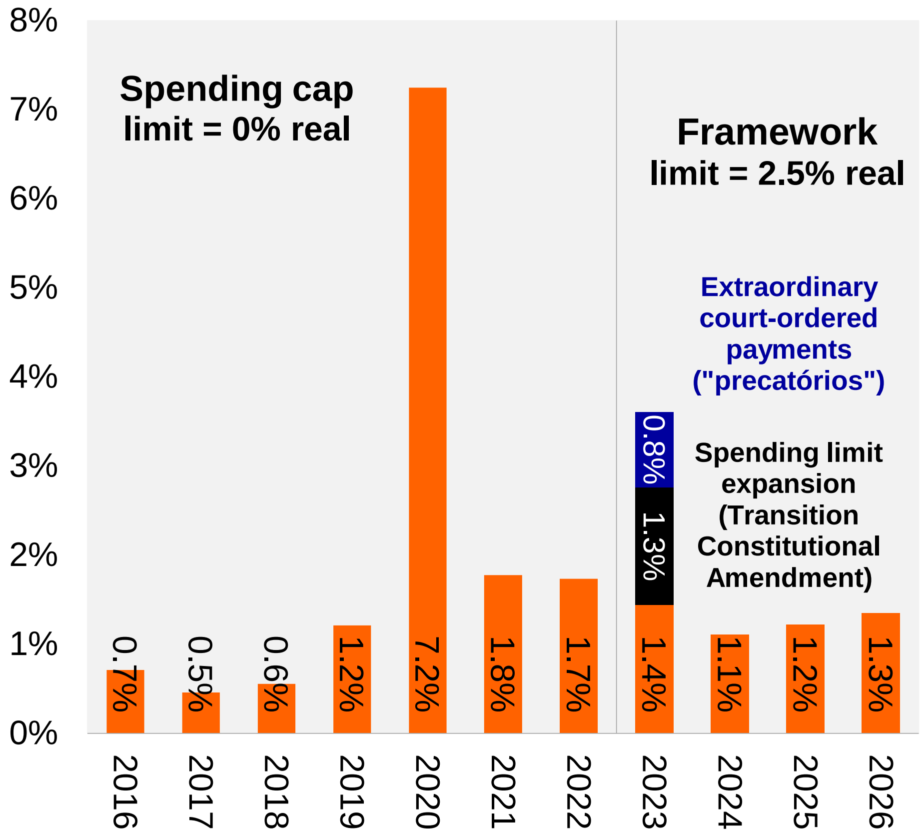
2

For 2026, we revised our inflation forecast down to 4.2% (from 4.3%), incorporating lower industrial goods inflation. The balance of risks is tilted to the downside. The recent decline in the General Price Indexes (IGPs), especially in components linked to final consumer goods, combined with inventories above historical averages, tends to reduce inflationary pressures on industrial goods next year. Additionally, the expected drop in oil prices could lead to further downward adjustments in refinery fuel prices. On the other hand, the resilient labor market, with unemployment still below neutral, remains the main upward pressure factor on the IPCA, especially on services.

Source: BBG, Itaú

Fiscal: major challenges with weaker rules

Primary expenditures outside fiscal rules



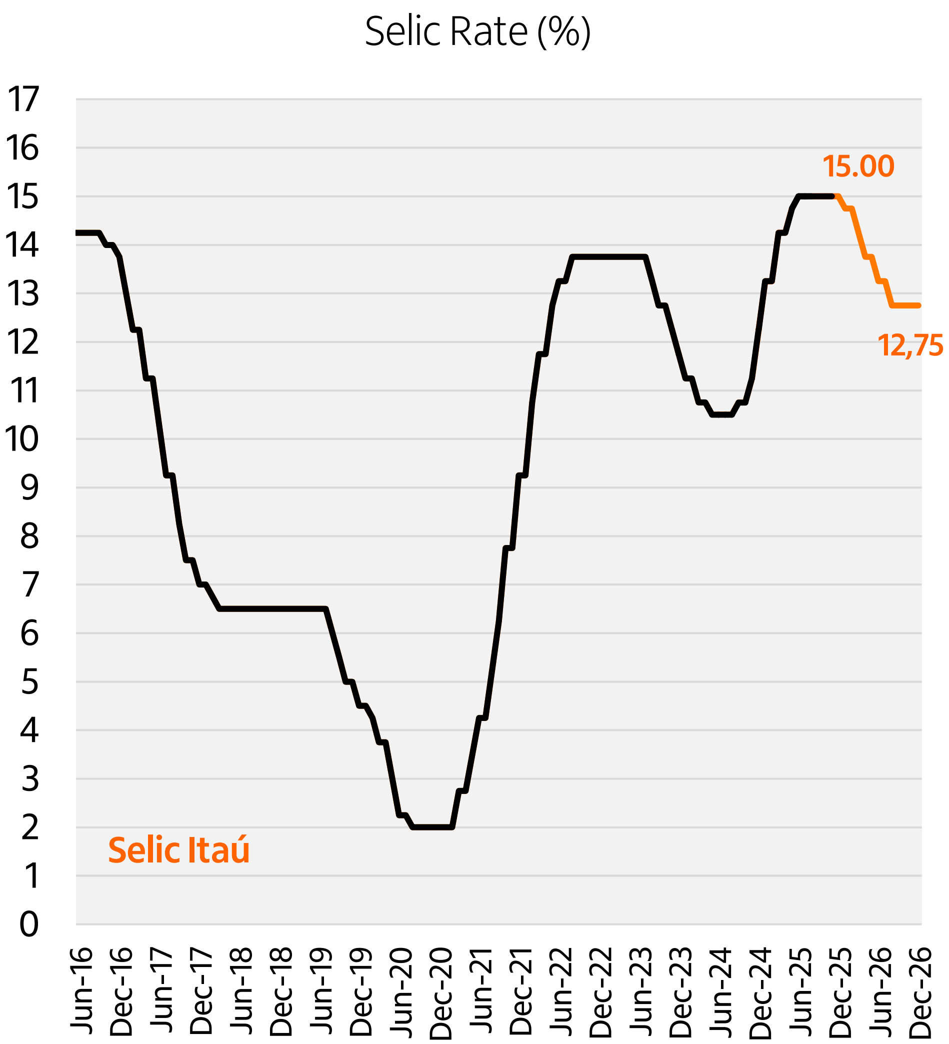
We maintained our primary balance forecasts at -0.6% and -0.8% of GDP in 2025 and 2026, respectively. For the current year, despite a deceleration in tax collection and an increase in the pace of expenditure execution, we continue to see the government close to meeting the lower limit of the -0.6% of GDP target (considering discounts and the lower bound of the official 0% target). For 2026, we still see a 0.4% of GDP challenge to meet the lower limit of the target, with a cyclical revenue drop being offset by the effects of limiting tax compensation. 1

The main fiscal risk ahead is the adoption of measures that directly or indirectly weaken the constraints imposed by the current fiscal framework. In a country with high and rising public debt, the credibility of fiscal policy depends on comprehensive, predictable, and binding rules to anchor expectations. In this context, we view with concern the high and growing number of exceptions to the spending cap, even under a regime that already allows for significant expansion of primary expenditures. 2

Source: Itaú

Brazil

Monetary policy: gaining confidence



1 **The Copom continues to reaffirm its commitment to keeping the interest rate at a high level for a prolonged period in order to ensure inflation convergence to the target over the relevant horizon, and seems to be gaining confidence that the current monetary policy strategy is working.** There are signs of moderation in economic activity, a decline in current inflation and inflation expectations, especially in the short term, but also beyond the relevant horizon. Inflation projections for the same (2Q27) fell to 3.3% (from 3.4% in the latest Monetary Policy Report), even incorporating the upward impact of the measure to expand the income tax exemption, indicating a committee that sees lower risk of output gap and, consequently, inflation, compared to October.

2 **We maintain our expectation for the start of the easing cycle in January 2026, with a 0.25pp cut, taking the Selic rate to 12.75% p.a. over the year.** The Central Bank's model should show inflation closer to the target over the relevant horizon at the January meeting, allowing for the start of a gradual monetary easing. For this to occur, however, additional adjustments to the committee's communication will be necessary at the December meeting, eliminating the passage in which the Copom states that "it will not hesitate to resume the tightening cycle, if deemed appropriate" and qualifying at what stage the aforementioned "quite prolonged period" finds itself.

3 **The risk, albeit slightly lower at the margin, remains tilted towards delaying the start of the easing cycle.** Stronger growth, prompting a further upward revision to the output gap, or a labor market that continues to surprise with its resilience, or even a more conservative stance from the central bank could postpone the start of rate cuts.

Fonte: Itaú

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