Economic Outlook

March 2025

Global

Global

Despite the weaker dollar, risks and uncertainties are higher

- The more unclear outlook for U.S. economic growth exceptionalism is providing temporary relief to currencies around the globe, but this movement is unlikely to continue due to sustained U.S. economic growth and inflationary risks from tariffs hikes.
- **U.S.** Slowdown in January data, greater uncertainty, and tariffs. Stronger inflation does not allow for a return to interest rate cuts.
- **China:** We have revised our GDP growth forecast to 4.5% (from 4.0%), but uncertainties remain on the external front.
- **Europe:** Germany's fiscal package represents a significant positive change for the region's outlook. We have revised our 2026 GDP growth forecast to 1.5% (from 1.0%) and our euro forecast to 1.08 (from 1.00).
- **Latin America:** A more challenging growth outlook in Mexico.

Highlights

Global

Our forecasts:

	2019	2020	2021	2022	2023	2024	2025	2026
World	2.8	-2.8	6.3	3.5	3.2	3.2	3.2	3.1
U.S.	2.6	-2.2	6.1	2.5	2.9	2.8	2.0	2.0
Euro Zone	1.6	-6.2	6.3	3.6	0.4	0.8	0.8	1.5
China	6.0	2.3	8.4	3.0	5.2	5.0	4.5	4.0
Fed Funds	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	4.25-4.50	4.25-4.50
10Y U.S. Treasury	2.00	0.93	1.47	3.88	3.88	4.58	4.50	4.50

Source: FMI, Bloomberg, Itaú

Doubts about continuation of US growth exceptionalism weaken the dollar

Impact of Trade Tariffs (and Threats)		
	Previous Scenario	New Scenario
Increase in Effective Global U.S. Tariff	4%	10%
Tariff Breakdown	10 pp effective tariffs on China; 25 pp on cars from Europe.	20 pp effective tariffs on China; 25 pp on cars from Europe; 5 pp reciprocal tariffs from the rest of the world.
U.S. Inflation (Core PCE)*	0.5%	0.8%
U.S. GDP	0%	-0.5%
Europe GDP	-0.4%	-0.6%
China GDP**	-1%	-1%

* Assuming 75% pass-through

** Assuming 10% triangulation

Source: Haver. Itaú

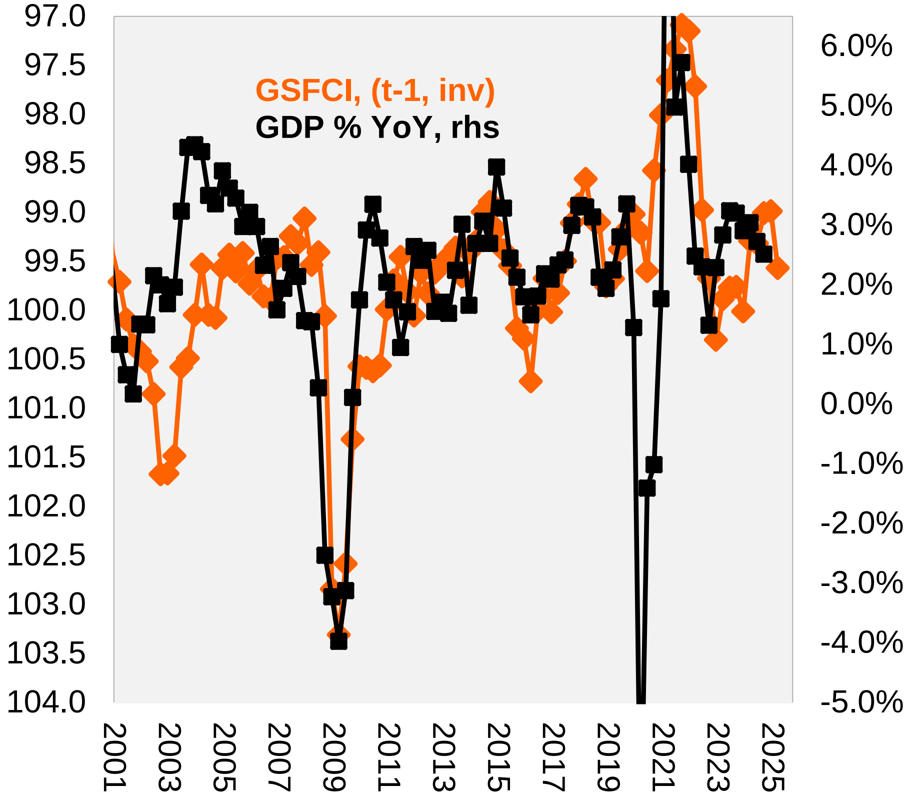
The perception that U.S. economic growth will continue to outpace that of other economies, the so-called "American exceptionalism", has diminished. On the one hand, other countries' economies will likely grow faster, particularly Europe after the announcement of significant fiscal impulse in Germany (see discussion below), which has led to an upward revision of our forecast for European GDP. On the other hand, there is increased uncertainty, mainly related to the form, intensity, and speed of implementation of the Trump administration's tariff, tax, and immigration policies, which, together with weaker data from the beginning of the year, have resulted in a downward revision of U.S. GDP forecasts. 1

This change in outlook has led to a weakening of the dollar, but we believe that inflationary risks from tariffs and the stabilization of U.S. growth are likely to limit the continuation of this trend. 2

We have incorporated the impact of reciprocal tariffs into our base case (see below), which increases our 2025 inflation forecasts for the U.S., taking estimated Core PCE to 2.8% (up from the previously expected 2.5%) and Core CPI to 3.3% (up from 3.0%). Additionally, we expect U.S. growth to slow due to the tariffs and uncertainty but to stabilize at a 2.0% pace going forward. With inflation pressure and growth still close to potential, we continue to expect the Fed not to cut rates this year nor in 2026. 3

U.S.: uncertainty shock

US: FCI indicates GDP around 2.0-2.5%



1 The weaker January data, likely due to seasonal effects and anticipation of import tariffs, significantly reduced the GDP tracker for the first quarter, from 2.5% to 1.2%.

2 We have revised our U.S. GDP growth forecasts to 2.0% (from 2.5%) in both 2025 and 2026, considering not only the lower tracking but also a slowdown due to higher uncertainty and lower confidence.

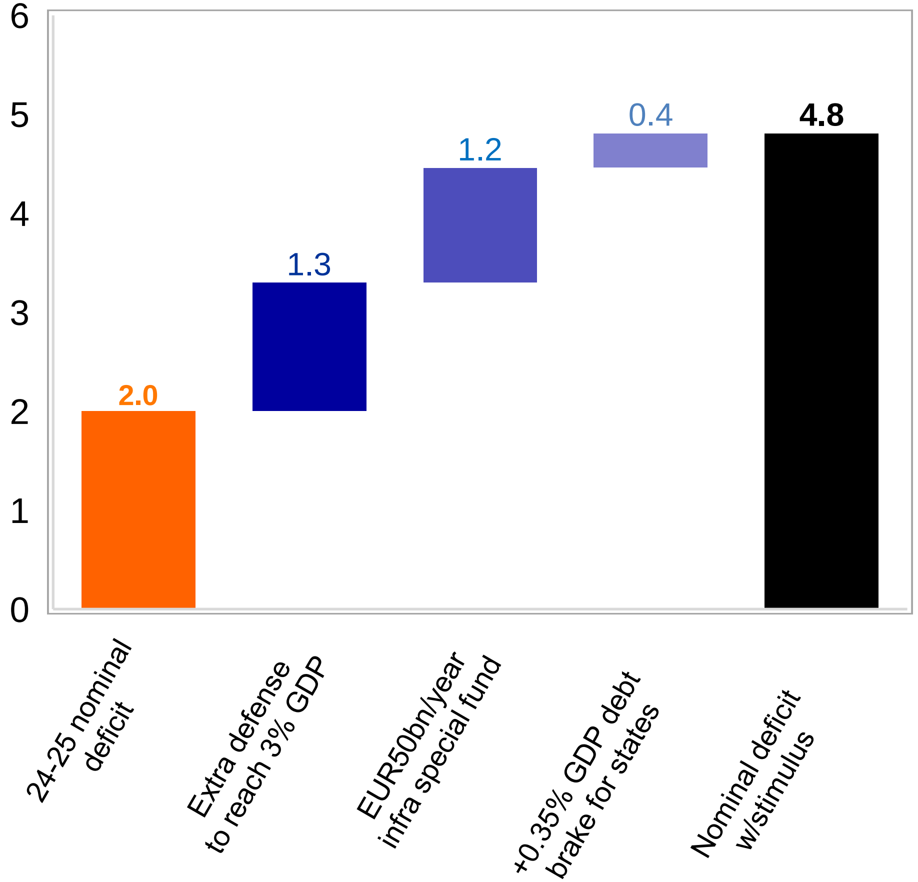
3 Growth stabilization and inflation risk will probably not allow for rate cuts at the moment. We still consider the risk of recession to be modest, due to the favorable fundamentals of households' balance sheets and the gradual slowdown in employment and income. Despite the significant correction in the markets, financial conditions still point to growth of around 2.0%-2.5% (see chart). In addition, fiscal policy is unlikely to cause major changes in fiscal momentum going forward, which should remain neutral with high deficits. The growth stabilization, inflationary risks from tariffs hikes and the impacts of lower immigration on the already tight labor market, as well as the recent increase in consumer inflation expectations are all likely to keep the Fed cautious going forward.

Source: Census e Itaú BBA

Global

Europe: Germany's fiscal package marks a significant change in the region's economic outlook

GE: fiscal stimulus could reach at least 3% GDP



Germany's aggressive fiscal package could mark a positive turning point for the region's economic outlook. 1

The shift comes in response to the country's weak economic activity since the end of the pandemic, the Russian gas shock, the decline in China's importance in global manufacturing, and, more recently, the Trump administration's pressure on Europe to increase defense spending 2

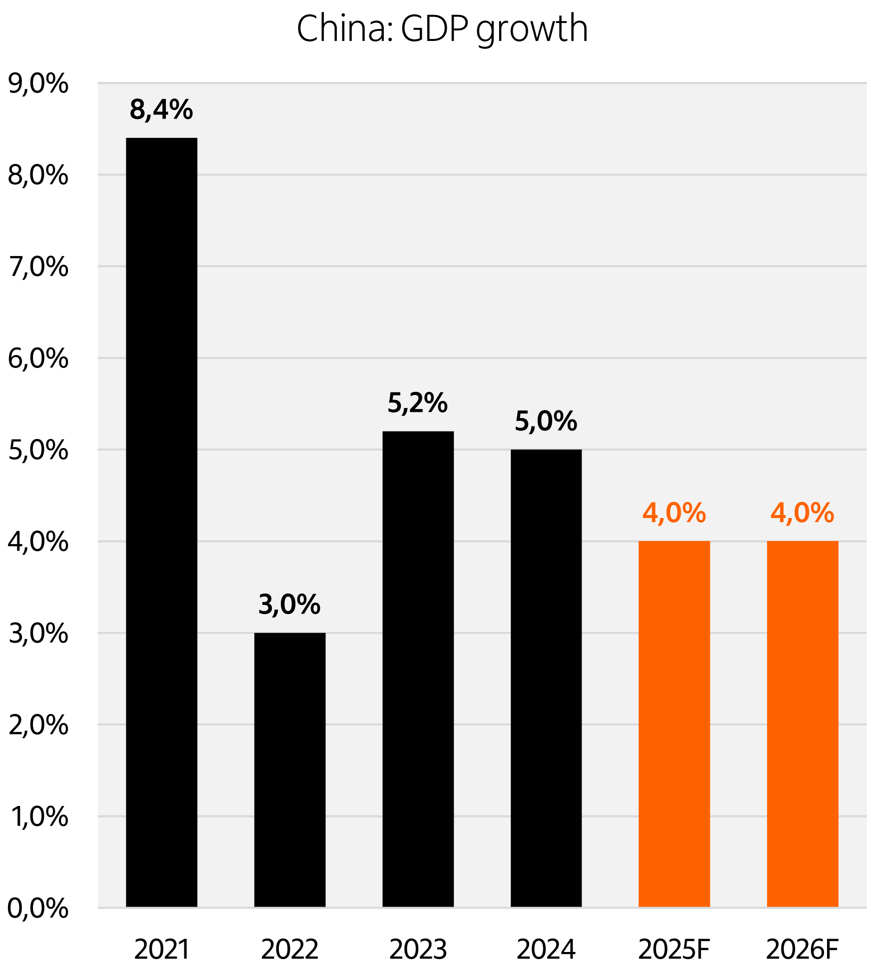
In this context, we have revised our 2026 GDP growth forecast for Germany to 1.5% (from 1.0%), incorporating the impacts of fiscal stimulus, which tend to offset the implementation of higher trade tariffs than we previously expected. 3

Even with higher growth, the European Central Bank is set to continue cutting rates to a terminal level of 2.00% - the neutral level. As a result, we have revised our estimate for the euro-dollar exchange rate to 1.08 (from 1.00). 4

In parallel, the Trump administration has been working to end the conflict between Russia and Ukraine. 5

Source: Haver. Itaú

China: We have revised our GDP growth estimate to 4.5%, but external uncertainties persist



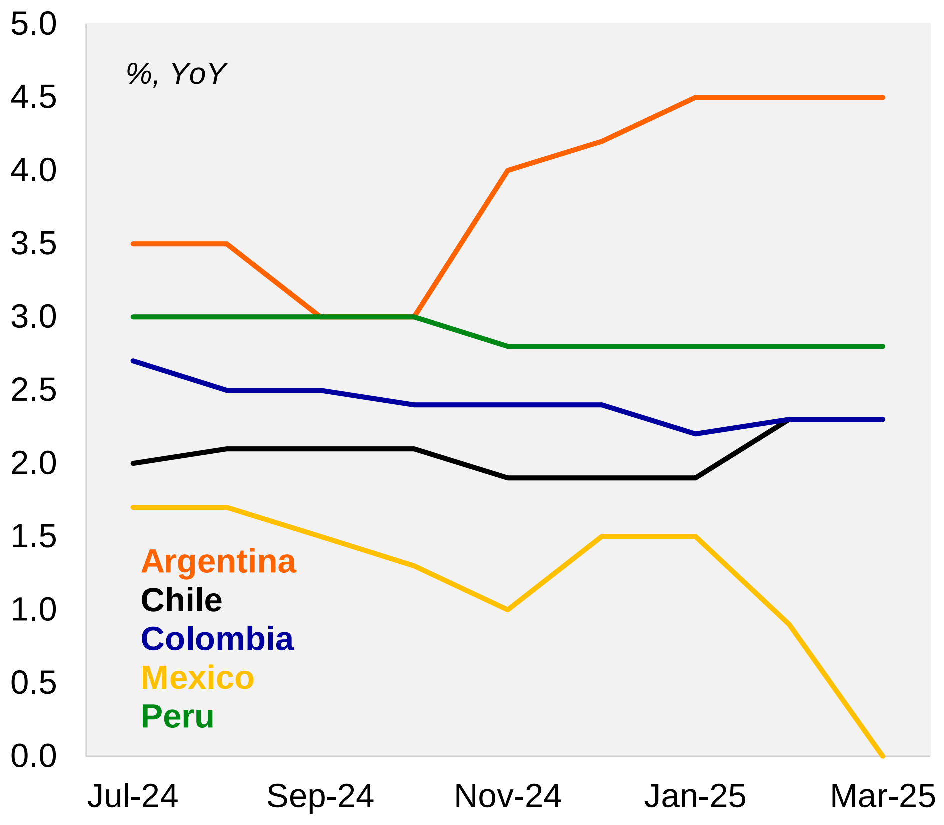
China's congress set a 2025 GDP growth target of 5%, the same as in 2023 and 2024, but has been more fiscally conservatives. 1

We have revised our 2025 growth forecast for China from 4.0% to 4.5%, but uncertainties remain on the external front. The Trump administration has already announced a 20-pp increase in tariffs on all Chinese imports, and there is no indication that either country is seeking an agreement. In our view, the Trump administration's stance toward China is likely remain aggressive, as its use of tariffs is not merely a negotiating strategy but rather represents a vision for global trade aimed at reducing dependence of sectors of the US economy on China 2

Source: Itaú

Latin America: Minor growth revisions, with an upside inflation bias

2025 LatAm GDP Growth Forecasts



1. A downward revision to our forecast for US growth (to 2.0% from 2.5%) and persistently elevated policy uncertainty led us to revise our 2025 GDP growth forecast in Mexico down for the second consecutive month, this time to 0.0% (from 0.9% last month, and 1.5% before), reflected in a weaker expected performance in manufacturing exports and services such as freights and wholesale trade.

2. We maintained our growth forecasts elsewhere in the region.

3. Monetary policy may need to be more supportive in Mexico. The swift deterioration of the growth outlook in Mexico, mainly because of changes in the US, should keep Banxico on track to easing this year. Our base case remains for a 50-bp cut this month, and then smaller cuts to a terminal of 8.5%. The bias to an additional 50-bp cut in May remains challenging given elevated policy uncertainty in the U.S., domestic CPI dynamics, and lack of easing by the FOMC in the short term.

4. Upside risks to growth in Argentina, supported by an agreement with the IMF. In Argentina, we forecast 2025 GDP growth at 4.5%, with upside risks mainly due to a high carryover. On the demand side, the recovery in real wages and lower borrowing rates are likely to support private consumption.

Source: BBG. Itaú

Global

LatAm: compared scenario

World

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.2	**3.2**	**3.2**	3.2	**3.1**	3.2

Latin America and Caribbean

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	2.1	**2.3**	**2.1**	2.5	**2.2**	2.2

Brazil

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.2	3.4	**2.2**	2.2	**1.5**	1.5
BRL / USD (eop)	4.86	6.18	**5.75**	5.90	**5.75**	5.90
Monetary Policy Rate (eop,%)	11.75	12.25	**15.25**	15.75	**13.25**	13.75
IPCA (%)	4.6	4.8	**5.7**	5.8	**4.5**	4.5

Mexico

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.3	1.5	**0.0**	0.9	**1.4**	1.4
MXN / USD (eop)	16.97	20.8	**21.0**	21.0	**21.3**	21.3
Monetary Policy Rate (eop,%)	11.25	10.00	**8.50**	8.50	**8.00**	8.00
CPI (%)	4.7	4.2	**3.9**	3.9	**3.6**	3.6

Argentina

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-1.6	**-1.8**	**4.5**	4.5	**3.0**	3.0
ARS / USD (eop)	809	1033	**1175**	1175	**1324**	1324
Reference rate (eop,%)	100.0	32.0	**25.0**	25.0	**20.0**	20.0
CPI (%)	211.4	117.8	**25.0**	25.0	**18.0**	18.0

Chile

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.2	**2.5**	**2.3**	2.3	**2.0**	2.0
CLP / USD (eop)	879	996	**955**	955	**930**	930
Monetary Policy Rate (eop,%)	8.25	5.00	**5.00**	5.00	**4.50**	4.50
CPI (%)	3.9	4.5	**4.1**	4.1	**3.0**	3.0

Colombia

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.7	1.7	**2.3**	2.3	**2.6**	2.6
COP / USD (eop)	3822	4409	**4300**	4400	**4100**	4200
Monetary Policy Rate (eop,%)	13.00	9.50	**8.00**	8.00	**6.50**	6.50
CPI (%)	9.3	5.2	**4.5**	4.5	**3.3**	3.3

Peru

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-0.6	**3.3**	**2.8**	2.8	**3.0**	3.0
PEN / USD (eop)	3.70	3.80	**3.80**	3.80	**3.80**	3.80
Monetary Policy Rate (eop,%)	6.75	5.00	**4.75**	4.75	**4.75**	4.75
CPI (%)	3.2	2.0	**2.3**	2.0	**2.2**	2.0

Source: Itau

Commodities forecasts:

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	**70**	70	**70**	70
Iron Ore (USD/tonne)	153	116	110	135	103	**90**	85	**80**	75
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9500**	9500	**9500**	9500
Corn (Usd/bu)	437	592	656	480	444	**450**	460	**410**	410
Soy (Usd/bu)	1207	1290	1474	1311	984	**980**	1000	**950**	950
Wheat (Usd/bu)	604	790	757	619	548	**680**	680	**650**	650
Sugar (Usd/lb)	15	19	20	22	20	**18**	18	**18**	19
Coffee (Usd/lb)	123	235	166	188	321	**360**	360	**280**	280

Source: BBG, Itaú

Source: Bloomberg, Itaú

Brazil

Some relief amid still-high uncertainty

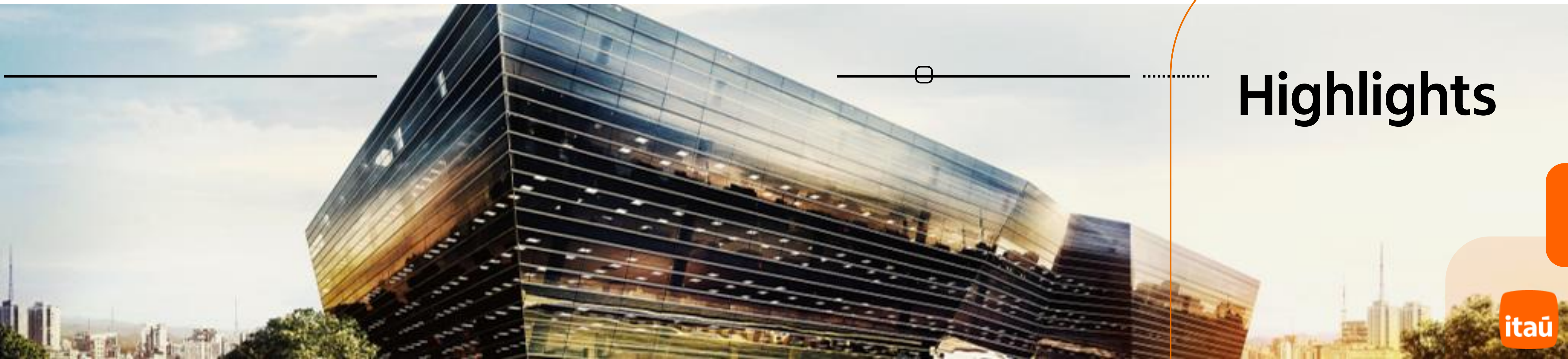
- Given the easing of the international environment and the expectation of a global weakening of the dollar, we have revised our exchange rate projections for 2025 and 2026 to BRL 5.75 per dollar (from BRL 5.90).

- The fiscal challenge, however, remains significant. We expect primary deficits of 0.7% of GDP in both 2025 and 2026. We believe that the announcement of a significant containment of discretionary expenses of roughly BRL 35 billion and the inclusion of extrabudgetary expenses within the limits of the fiscal rules would at least mitigate the risk of loss of credibility in the framework as a fiscal anchor; such a credibility loss could lead to a further worsening in the perception of fiscal risk.

- Our GDP growth estimates for 2025 and 2026 remain unchanged at 2.2% and 1.5%, respectively. Despite the weaker GDP result in 4Q24, data indicate that the economy performed better in January and February, in line with our expectation of a gradual slowdown throughout the year. For the labor market, we still forecast the unemployment rate ending this year at 6.8% and then rising to 7.3% in 2026.

- We have revised our inflation projection for 2025 to 5.7% (from 5.8%) and maintained our 2026 projection at 4.5%. For the first time since September 2024, we do not see an asymmetric balance of risks to the upside for this year; on the contrary, the downside risks – due to the effect of the stronger currency on industrial, food, and gasoline prices – outweigh the upside risks.

- With expectations unanchored and the output gap in positive territory, the Central Bank will need to continue moving into contractionary territory. However, the stronger currency and some downside risks for inflation will likely prompt the monetary policy authority to end the interest rate hiking cycle at a lower level than we previously expected. We now project the Selic rate reaching 15.25% per year (previously 15.75%) by the end of the first half of this year.



Brazil Forecasts:

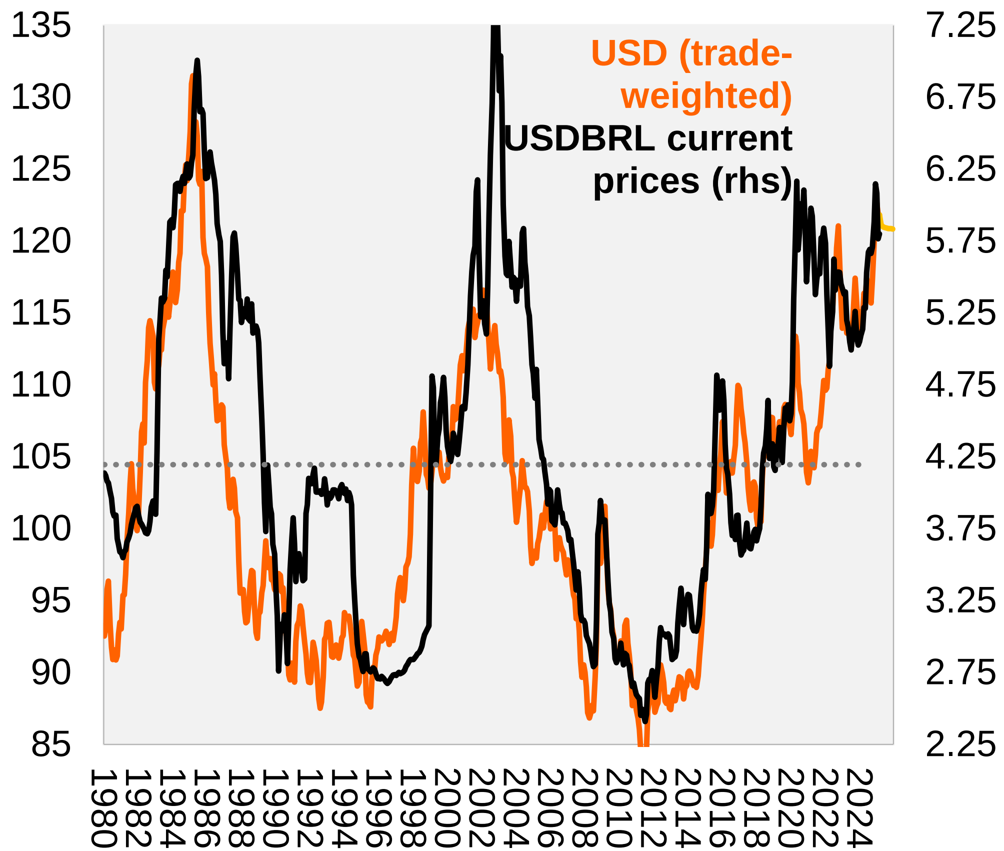
	2019	2020	2021	2022	2023	2024	2025	2026
Economic activity								
GDP (%)	1.2	-3.3	4.8	3.0	3.2	3.4	2.2	1.5
Unemployment rate (%) – Dec.	11.7	14.7	11.6	8.4	7.9	6.6	6.8	7.3
Inflation								
IPCA (%)	4.3	4.5	10.1	5.8	4.6	4.8	5.7	4.5
IGP-M (%)	7.3	23.1	17.8	5.5	-3.2	6.5	5.9	4.3
Monetary Policy								
Selic rate (%, eop)	4.50	2.00	9.25	13.75	11.75	12.25	15.25	13.25
Selic rate (%, avg)	5.96	2.81	4.81	12.63	13.25	10.92	14.71	13.71
Public accounts								
Primary result (% GDP)	-0.8	-9.2	0.7	1.2	-2.3	-0.4	-0.7	-0.7
Gross debt (% GDP)	74.4	86.9	77.3	71.7	73.8	76.5	79.6	84.7
Growth of public spending (% real, pa*)	2.3	29.2	-24.7	6.0	7.6	3.2	2.9	2.8
External sector								
BRL/USD (eop)	4.03	5.19	5.57	5.28	4.85	6.18	5.75	5.75
BRL/EUR (eop)	4.52	6.34	6.30	5.65	5.34	6.40	6.21	6.21
Current Account (% GDP)	-3.6	-1.7	-2.4	-2.2	-1.3	-2.8	-2.2	-2.2
Trade balance (USD bi.)	35	50	61	62	99	75	79	80

(*) 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

BRL: Some relief from the international environment

Weaker USD is contributing to a more appreciated exchange rate



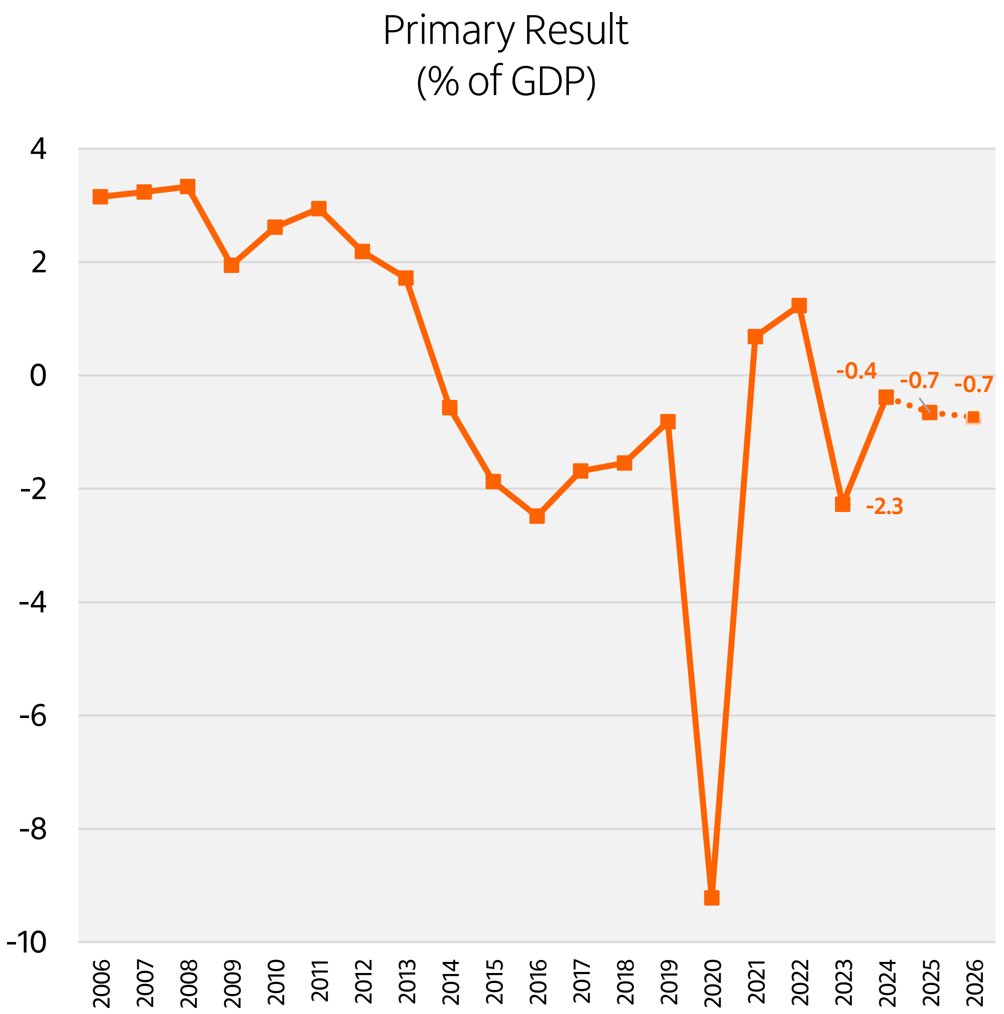
1 **After reaching BRL 6.30 per dollar at the end of 2024, the Brazilian real regained strength in the first months of this year.** This appreciation was driven by an increase in the interest rate differential and, primarily, by relief in the international scenario. On the external front, the trend of global dollar strengthening lost momentum amid new fiscal stimulus in the eurozone and the uncertainties generated by Trump's aggressive stance on tariffs, which could negatively affect U.S. economic growth.

2 **We have revised our exchange rate projection to BRL 5.75 per dollar at the end of both this year and next (previously BRL 5.90 per dollar).** On the one hand, the widening interest rate differential and the expectation of a weaker dollar are contributing to a more appreciated exchange rate. On the other hand, this appreciation is likely to be limited by the high Brazilian risk premium due to fiscal uncertainties and the deterioration recently seen in the external accounts.

Source: BBG. Itaú

Brazil

Fiscal: No signs of a route adjustment



1 **We expect primary deficits of 0.7% of GDP in both 2025 and 2026.** For 2025, for now, we do not expect the target of -0.6% of GDP to be met (considering accounting exceptions and the 0% lower limit of the official target range), although we recognize that there is a risk of a better result than what we are currently estimating, given the government's continuing efforts on its revenue agenda. For 2026, the main risk lies in the implementation of initiatives that explicitly or implicitly alter, circumvent, or distort fiscal rules, resulting in higher rates of growth in primary expenditure and/or more revenue foregone.

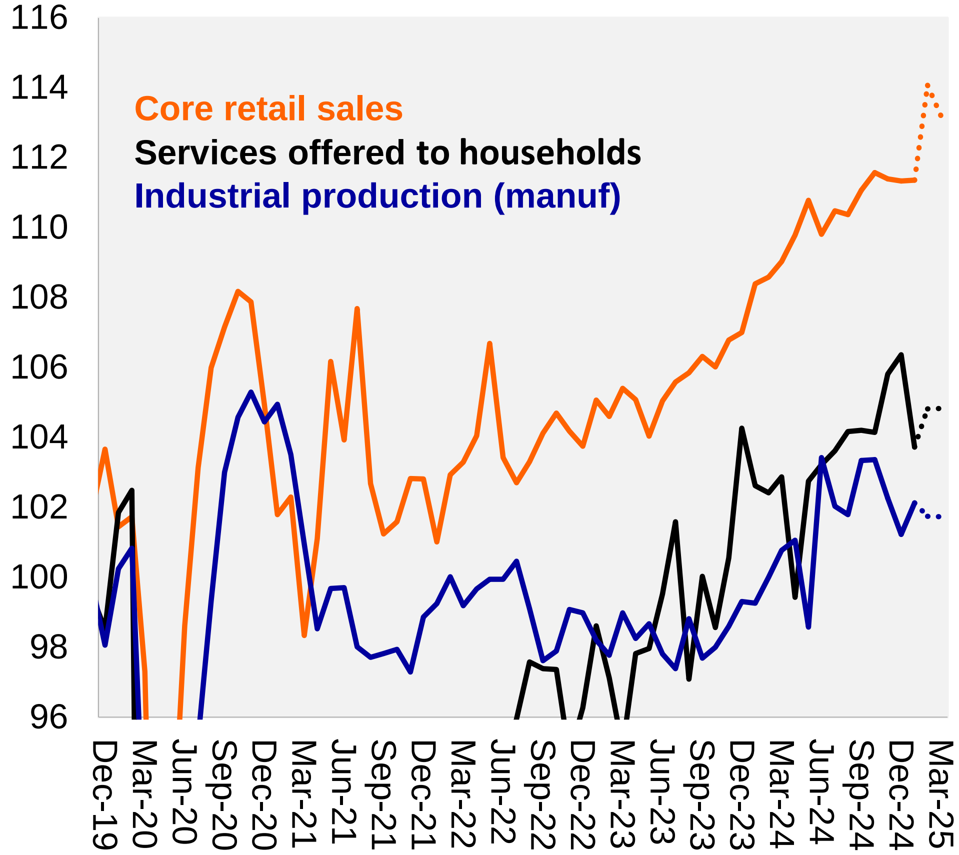
2 **In terms of expenditures, we believe that it will be important for the government to announce a significant cut in discretionary spending, on the order of BRL 35 billion, as a way of reinforcing its commitment to its fiscal plan.** The announcement of a robust expenditure cut in the first bimonthly review in March would signal greater prudence in budget execution in light of the risk of disappointing extraordinary revenues and the potential for a further underestimation of mandatory expenses (as occurred in 2024, mainly with Social Security and BPC). In addition to this initiative, including extrabudgetary expenses within the limits of the fiscal rules would at least mitigate the risk of a loss of credibility in the framework as a fiscal anchor; such a credibility lost could lead to a further worsening in the perception of fiscal risk.

Source: Itaú

Brazil

Activity: we expect a pick-up in 1Q25

Resilient activity in 1Q25



Source: BCB, Itaú

1. **We have left our GDP growth estimate for 2025 unchanged at 2.2%.** Despite the weaker GDP data for 4Q24, particularly regarding household consumption, we expect the economy to accelerate in the first three months of the year, driven mainly by strong performance in the agricultural sector and the adjustment of the minimum wage.

2. **We project year-over-year growth of 3.1% in 1Q25.** The January data released by IBGE, along with the February figures from our daily activity indicator (IDAT-Activity), suggest that the economy has accelerated again on a margin basis in the first months of the year.

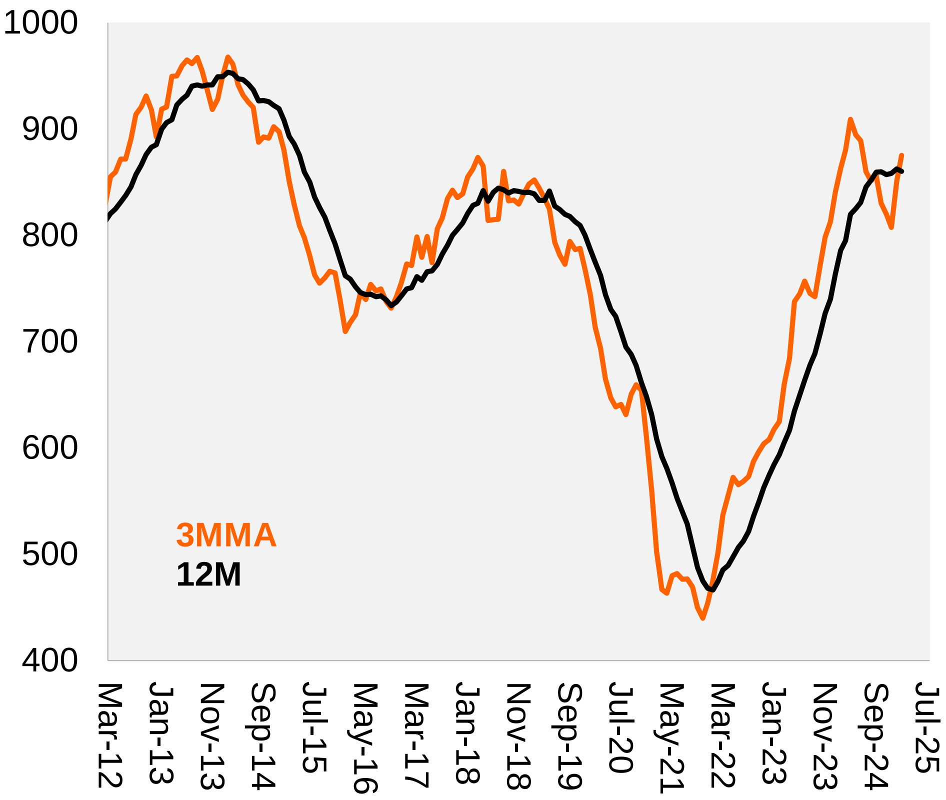
3. **The economic slowdown is likely to be gradual and will probably become more apparent in the second half of the year.** The slowdown in fiscal impulse (via transfers) and the intensification of the lagging effects of contractionary monetary policy will likely put pressure on activity in the second half. As a result, we expect GDP to remain relatively stable over this period.

4. **For 2026, we have also left our growth projection unchanged, at 1.5%.** We assume that the intensification of the lagging effects of interest rate hikes will not be offset by countercyclical fiscal and parafiscal policies.

Brazil

Inflation: small downward revision

Level of slaughter of cows suggests a slower turnaround in the cattle cycle



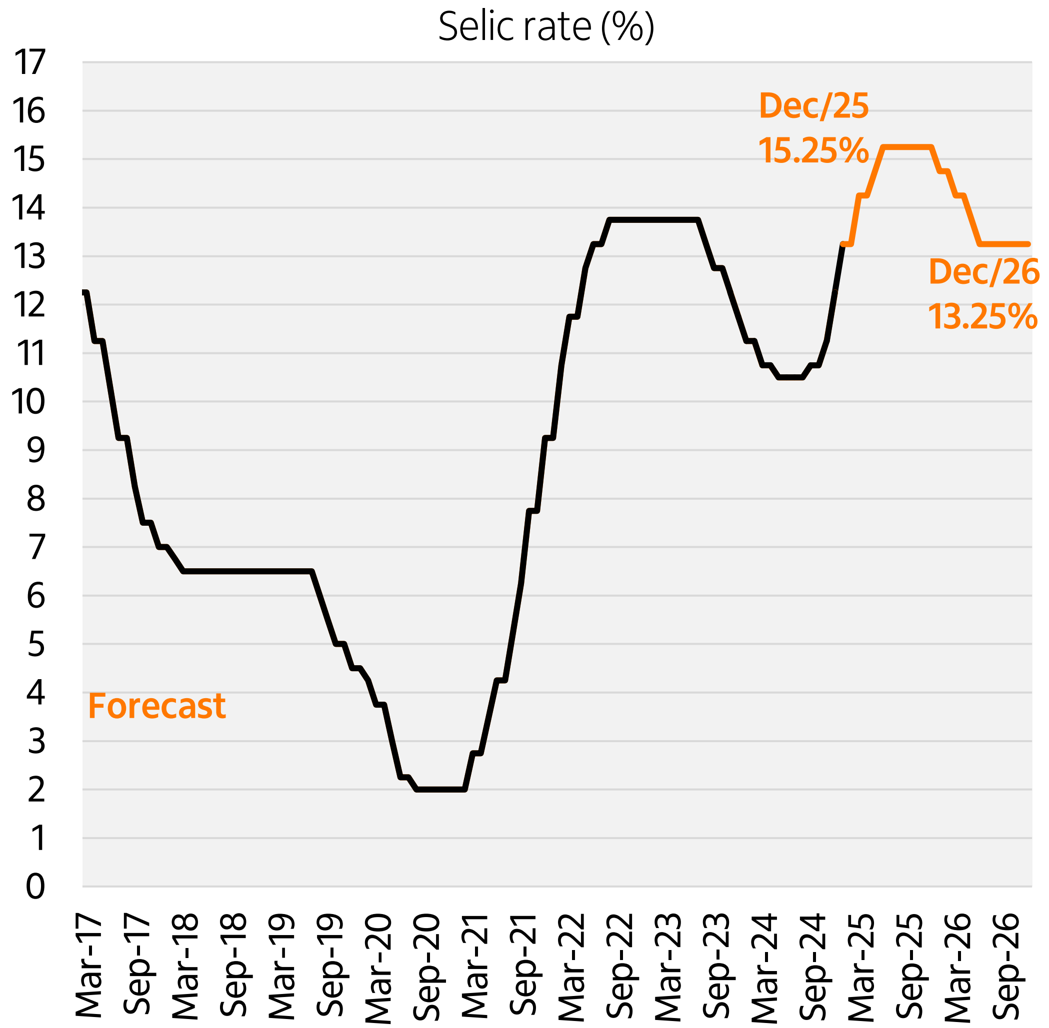
1 **We have revised our inflation projection for 2025 from 5.8% to 5.7%, reflecting developments in the pricing dynamics for household foods, particularly proteins.** The high level of cow slaughter suggests a slowdown at the turn of the cattle cycle, while the appreciation of the currency also affects prices. It is important to note that we did not incorporate the full pass-through of the stronger currency. In the context of an open gap and unanchored expectations, the full pass-through of the depreciation in 2024 would be expected, but it has not yet materialized.

2 **For the first time since September 2024, we do not see an asymmetric balance of risks to the upside**; on the contrary, the downside risks – due to the effects of the stronger currency on the prices of industrial products, food, and gasoline – outweigh the upside risks.

3 **For 2026, we are leaving our inflation projection unchanged at 4.5%.** The main upside risk in this horizon remains the potential for a further unanchoring of long-term expectations.

Source: Itaú

Monetary policy: contractionary, but a smaller cycle



Source: Itaú

The interest rate cycle will likely continue to move into contractionary territory, but it could be shorter. As highlighted by the committee in its latest meeting minutes, the pace of economic activity, the dynamics of the exchange rate and exchange rate pass-through, as well as inflation expectations, will all be crucial in determining the length of the cycle. We continue to assess that unanchored inflation expectations, the positive gap, and the Central Bank's projections are consistent with a continuation of the monetary tightening cycle through the first half of this year. However, we also understand that given the accommodation of the exchange rate at more appreciated levels, the Central Bank is likely to opt for a slightly shorter cycle. 1

We have revised our projection for the end of the cycle to 15.25% per year at the June meeting, with this level likely being maintained until the end of the year (previously 15.75%). We expect a 100-bp increase in March (as has already been signaled by the committee), followed by two final 50-bp increases in May and June. 2

For 2026, we project interest rate cuts throughout the first half of the year bringing the rate down to 13.25% per year. 3

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