Macro scenario - Brazil

August 15, 2025

Minor revisions in a still uncertain environment

- The official announcement of tariffs imposed by the United States on imports from Brazil brought some relief due to exemptions for certain products, reducing the estimated effective tariff to 30% from 40%. This relief comes on top of a weaker global dollar and high domestic interest rates, favoring the BRL. As a result, we have revised our exchange rate forecasts to R$/US$ 5.50 for 2025 and 2026, down from R$/US$ 5.65. However, fiscal uncertainties and the deterioration of external accounts limit more positive scenarios for the currency. We've adjusted our current account deficit estimates to 3.0% and 3.1% of GDP for 2025 and 2026, respectively, up from 2.6% and 2.4%, reflecting the impact of tariffs, a slower deceleration of imports, and the Central Bank's revision of the income account.

- Economic activity is slowing down due to a contractionary monetary impulse and a smaller fiscal impulse compared to recent years. We have maintained our GDP growth forecast at 2.2% for 2025, with a slight downside bias. For 2026, we maintain an upside bias in our forecast of 1.5%. Regarding the labor market, our estimates for the unemployment rate remain at 6.4% for 2025 and 6.9% for 2026.

- We revised our 2025 IPCA inflation forecast from 5.2% to 5.1% due to the more appreciated exchange rate, which should impact food prices this year. For 2026, we maintained the forecast at 4.4%.

- We maintained our primary balance projections at -0.6% for 2025 and -0.9% for 2026. Compliance with the primary target in 2025 became a more concrete possibility after the IOF increase, but the challenge remains significant for the following year. The 2026 budget, to be sent by month-end, will likely require an adjustment of 0.5% of GDP to ensure compliance with the official target's lower limit of 0.25%.

- The Copom ended the Selic rate hiking cycle at 15% pa, signaling a prolonged hold amid external uncertainties and mixed signals from the domestic economy. We project rate cuts only in the first quarter of 2026, but risks remain tilted towards an even later cut, barring significant disinflationary shocks.

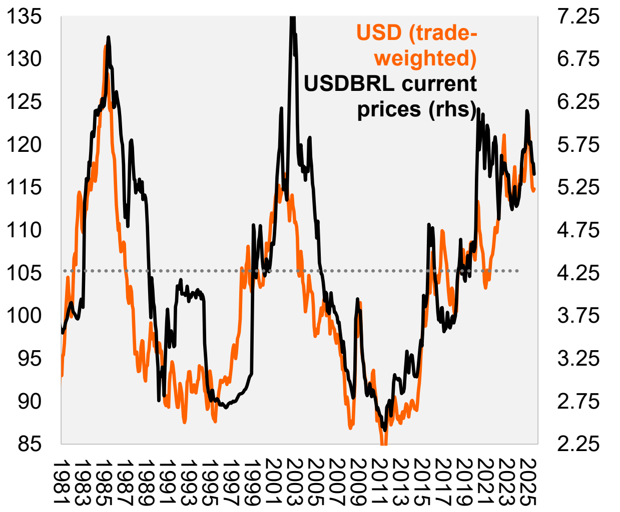
Stronger BRL driven by external backdrop, interest rate differential and some tariff relief

After weeks of uncertainty surrounding the trade tariffs imposed by the United States on Brazil, the announcement on July 30th brought some relief. The extensive list of exemptions released by the U.S. government – including sectors such as orange juice, aviation, and a significant portion of iron and steel exports – has reduced the expected impact. In practice, the effective tariff rate is likely to be around 30%, lower than the initially announced 40%, which lessens the pressure on trade flows with the U.S.

We have revised our exchange rate forecast to R$/US$ 5.50 for 2025 and 2026, down from R$/US$ 5.65 previously. With the imposition of tariffs on Brazilian exports to the US, the dollar inflow via trade is likely to decrease, but the impact should be smaller than initially anticipated. This, combined with a weaker global dollar driven by a reduction in American exceptionalism, and high interest-rate differentials, should continue to favor the BRL. However, fiscal uncertainties and the deterioration of external accounts limit more optimistic scenarios for the currency.

Please refer to the last page of this report for important disclosures, analyst and additional information. Itaú Unibanco or its subsidiaries may do or seek to do business with companies covered in this research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should not consider this report as the single factor in making their investment decision.

The weak dollar environment favors the BRL



Source: BBG, Itaú

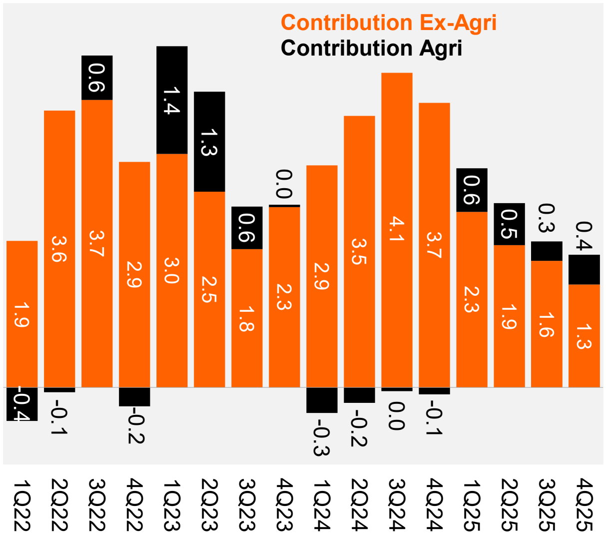
We revised our projections for the current account deficit to 3.0% of GDP in 2025 and 3.1% in 2026, up from 2.6% and 2.4%, respectively. The main change came from the trade balance, with projections lowered to US$ 65 billion in 2025 and US$ 58 billion in 2026, down from US$ 71 billion and US$ 74 billion, respectively. This adjustment incorporates both the impact of tariffs on exports and a slower deceleration of imports amid resilient domestic activity. We also revised the income deficit after the Central Bank incorporated new data on Brazilian capital abroad, which reduced estimates of receipts from reinvested earnings. The marginal improvement in some service lines and the anticipation of exports were not enough to offset this deterioration.

Economic activity decelerating, with a slight downside bias for 2025

Monthly sector surveys and our daily activity indicator (IDAT-Activity) point to a slowdown in activity in the second quarter of the year. This trend seems to have continued in July, with weak IDAT readings particularly in services and credit-sensitive goods. Nevertheless, we expect some recovery in activity in the coming months, which should avoid negative GDP prints. The release of court-ordered debt payments, scheduled for the first half of August, and the acceleration in the granting of new private payroll-deductible loans should stimulate consumption in the second half of the year, partially compensating the weaker performance seen more recently.

We maintained our GDP growth forecast at 2.2% for 2025. The negative impact of tariffs is offset by an upward revision that we made for Agricultural GDP growth, which increased to 8.3% from 7.0%. We continue to assign a slight downside bias to the forecast due to risks associated with the credit market, particularly the impact of the IOF tax and the deceleration of payroll-deducted loans to INSS retirees.

Economic activity decelerating in 2025 (yoy)



Source: IBGE, Itaú

For 2026, we have maintained our growth forecast at 1.5%, with an upside bias. We continue to monitor the possibility of adopting countercyclical fiscal policies, which could be implemented to mitigate the economic slowdown next year.

Finally, we maintain our unemployment rate forecasts at 6.4% for 2025 and 6.9% for 2026. Short-term data indicate that the labor market remains tight. However, considering the lagged impact of economic activity, we expect some moderation in employment over the second half of this year.

Inflation: small downward revision for 2025

We have once again reduced our forecast for 2025 IPCA consumer inflation, from 5.2% to 5.1%. The main contribution to this revision came from the food group, influenced by a stronger BRL, which is likely to impact food costs this year.

For 2025, we assess that the risks to inflation remain skewed to the downside. A further appreciation of the currency could have additional effects on both food and fuel prices. In addition, a slower reversal of the livestock cycle also represents a downside risk to inflation for the year. On the other hand, lower rainfall increases the likelihood of triggering the yellow tariff flag toward the end of the year, which could raise electricity costs.

For 2026, we maintain our inflation forecast at 4.4%. The currency appreciation this year is expected to be passed through with a lag to industrial goods prices, contributing to some deceleration in inflation for this group next year. Nevertheless, this deceleration is not sufficient to prompt a revision of our forecast, especially considering that the balance of risks remains skewed to the upside, with labor market tightness being the main upside risk for the 2026 CPI.

Fiscal: closer to meeting the target in 2025, a significant challenge for 2026

We maintain our primary balance forecast at -0.6% of GDP in 2025 and -0.9% in 2026. For 2025, we anticipate the government will be close to meeting the limit of -0.6% of GDP target (considering discounts and the lower bound of the official 0% target) due to an agenda of revenue increases, including extraordinary revenues such as those related to oil, and the resolution of the dispute at the STF with the increase in the IOF. For 2026, the additional revenue linked to the increase in the tax burden is set to be offset by a decline in recurring revenue due to a more appreciated exchange rate.

We do not expect a change in the 2026 target in the budget submission at the end of August. Despite the significant challenge (around 0.5 percentage points of GDP) to meet the lower limit of the target of -0.4% of GDP (considering discounts and the lower band of the 0.25% target), we believe the executive will include revenue measures as means to avoid worsening the fiscal perception. For example, the approximately R$ 20 billion from MP 1,303, which increases taxes on bets, incentivized securities, IoC, and CSLL, and limits tax offsets. Going forward, the main risk is the implementation of initiatives that alter, circumvent, or explicitly or implicitly disfigure fiscal rules, leading to higher rates of spending growth and/or greater revenue waivers. We assess that structural measures addressing the rigidity and high growth of mandatory expenditure would bring greater credibility to the fiscal adjustment needed for public debt sustainability and are necessary to reduce debt levels.

Monetary Policy: cautious approach

In its most recent decision, the Copom concluded the hiking cycle at 15% pa, maintaining the indication that the Selic rate will remain at the current level for an extended period. The committee emphasized the need for caution in a context of increased external uncertainty, noting that the imposition of trade tariffs on Brazil has significant sectoral impacts, though the overall effects remain uncertain. Domestically, there are also factors of uncertainty, with particular attention on the mixed signals from economic and sectoral indicators, such as the divergence between the credit market, which shows a clearer deceleration, and the labor market, which still demonstrates dynamism.

However, the authorities have stated more than once that the economic activity slowdown is unfolding as expected. Additionally, the Copom mentioned for the first time the recent decline in measures of implied inflation, despite noting that longer-term inflation expectations in the Focus survey have not changed significantly.

Overall, it seems that the committee is gaining confidence in the economic slowdown, which aligns with its expectations, and therefore sees no need to adjust its view on the interest rate. We continue to project that Copom will keep the Selic rate unchanged at 15% until the end of the year, initiating a modest monetary easing cycle in the first quarter of 2026, bringing the Selic rate to 12.75.

We understand that risks still lean towards an even later rate cut than our current view. However, we acknowledge that a significant currency appreciation or a sharper economic slowdown – possibly due to a smaller impact from the new private payroll-deductible loan program, for example – could bring the rate cut forward to this year.

Brazil | Forecasts and Data

	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	**1.5**	1.5
Nominal GDP - BRL bn	7,610	9,012	10,080	10,943	11,745	**12,617**	12,611	**13,333**	13,312
Nominal GDP - USD bn	1,475	1,670	1,951	2,192	2,179	**2,239**	2,219	**2,424**	2,356
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	**10,489**	10,396	**11,317**	10,999
Nation-wide Unemployment Rate - year avg, NSA	13.5	13.5	9.5	8.0	6.9	**6.2**	6.3	**6.8**	6.8
Nation-wide Unemployment Rate - year end (*)	14.7	11.6	8.4	7.9	6.6	**6.4**	6.4	**6.9**	6.9
Inflation									
IPCA - %	4.5	10.1	5.8	4.6	4.8	**5.1**	5.2	**4.4**	4.4
IGP–M - %	23.1	17.8	5.5	-3.2	6.5	**1.8**	1.3	**3.7**	3.6
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	**5.50**	5.65	**5.50**	5.65
BRL / USD - average	5.16	5.40	5.17	4.99	5.39	**5.64**	5.66	**5.50**	5.65
Trade Balance - USD bn	50	61	62	99	75	**65**	71	**58**	74
Current Account - % GDP	-1.7	-2.4	-2.2	-1.3	-2.7	**-3.0**	-2.6	**-3.1**	-2.4
Direct Investment (liabilities) - % GDP	3.0	2.8	4.7	2.8	3.2	**3.8**	3.8	**3.8**	3.9
International Reserves - USD bn	356	362	325	355	330	**330**	330	**330**	330
Public Finances									
Primary Balance - % GDP	-9.2	0.7	1.2	-2.3	-0.4	**-0.6**	-0.6	**-0.9**	-0.9
Nominal Balance - % GDP	-13.3	-4.3	-4.6	-8.8	-8.5	**-8.8**	-8.8	**-9.5**	-9.5
Gross Public Debt - % GDP	86.9	77.3	71.7	73.8	76.5	**79.5**	79.7	**84.7**	85.0
Net Public Debt - % GDP	61.4	55.1	56.1	60.4	61.5	**67.4**	67.1	**73.2**	73.1
Growth of public spending (% real, pa, **)	29.2	-24.7	6.0	7.6	3.2	**3.7**	3.2	**2.1**	2.3

Source: IBGE, FGV, BCB and Itaú

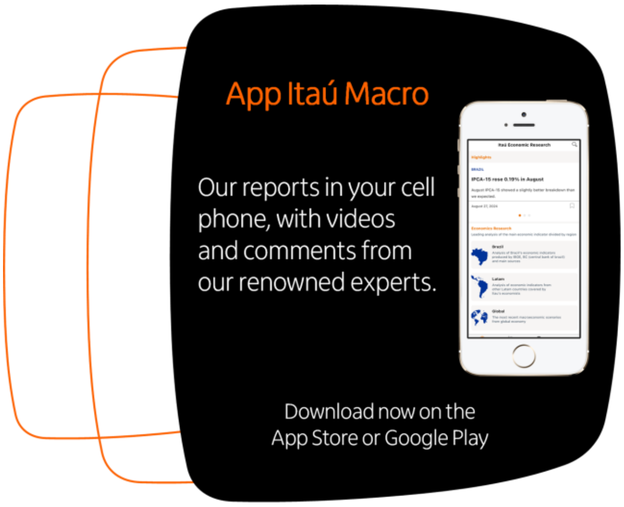
(*) Nation-wide Unemployment Rate measured by PNADC.

(**) 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.

Macro Research – Itaú

Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis



Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. (“Itaú Unibanco”). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report (“relatório de análise”) for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.
2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.
3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.
4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

Additional Note: This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú’s CSCC: 0800 728 0728. Or contact us through our portal https://www.itau.com.br/atenda-itau/para-voce/. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.