



# Economic Outlook

May 2026



**Global**

## **Uncertainty in the Middle East persists**

- **Geopolitics:** Lower willingness for escalation in the conflict, but a diplomatic resolution remains uncertain.
- **United States:** With a resilient labor market and pressured inflation, the Fed is expected to keep rates stable for the remainder of the year. We revised our 2026 GDP growth forecast from 2.6% to 2.4% due to a weaker first quarter, but we expect resilience ahead.
- **Europe:** The central bank is expected to raise interest rates in June and July to 2.50% (vs. 2.0% previously) in response to the extension of the conflict.
- **China:** No need for stimulus, for now, amid resilient exports.
- **Latin America:** Rising inflation risks, cautious monetary policy, uneven growth.



## **Highlights**

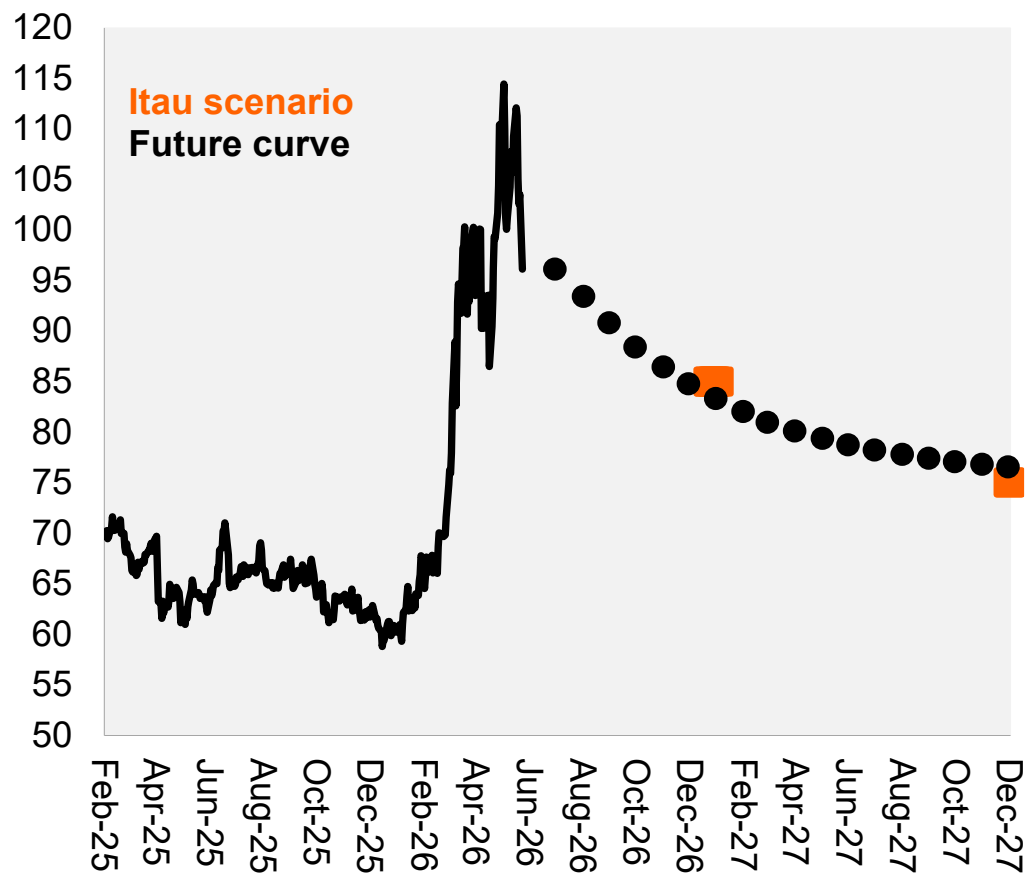
	2023	2024	2025	2026F		2027F	
				Current	Previous	Current	Previous
<b>GDP Growth</b>							
<b>World GDP growth - %</b>	3.2	3.2	3.3	<b>3.2</b>	3.3	<b>3.4</b>	3.4
USA - %	2.9	2.2	2.2	<b>2.4</b>	2.6	<b>2.2</b>	2.2
Euro Area - %	0.5	0.9	1.5	<b>0.9</b>	0.9	<b>1.2</b>	1.2
China - %	5.4	5.0	5.0	<b>4.7</b>	4.7	<b>4.5</b>	4.5
<b>Inflation</b>							
U.S. Core CPI - %, eop	3.9	3.2	2.6	<b>3.0</b>	3.2	<b>3.0</b>	3.3
<b>Interest rates and currencies</b>							
Fed Funds - %, eop	5.38	4.52	3.63	<b>3.63</b>	3.63	<b>3.13</b>	3.13
U.S. 10 Year Treasury - %, eop	3.88	4.58	4.18	<b>4.25</b>	4.25	<b>4.00</b>	4.00
USD/EUR - eop	1.10	1.04	1.17	<b>1.18</b>	1.18	<b>1.18</b>	1.18
CNY/USD - eop	7.13	7.30	6.99	<b>6.90</b>	6.90	<b>6.90</b>	6.90
DXY Index* - eop	101.3	108.5	98.3	<b>98.2</b>	98.2	<b>97.8</b>	97.8

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.

## Awaiting conflict resolution, we maintained our oil scenario

Oil scenarios (US\$/bbl) in the next months



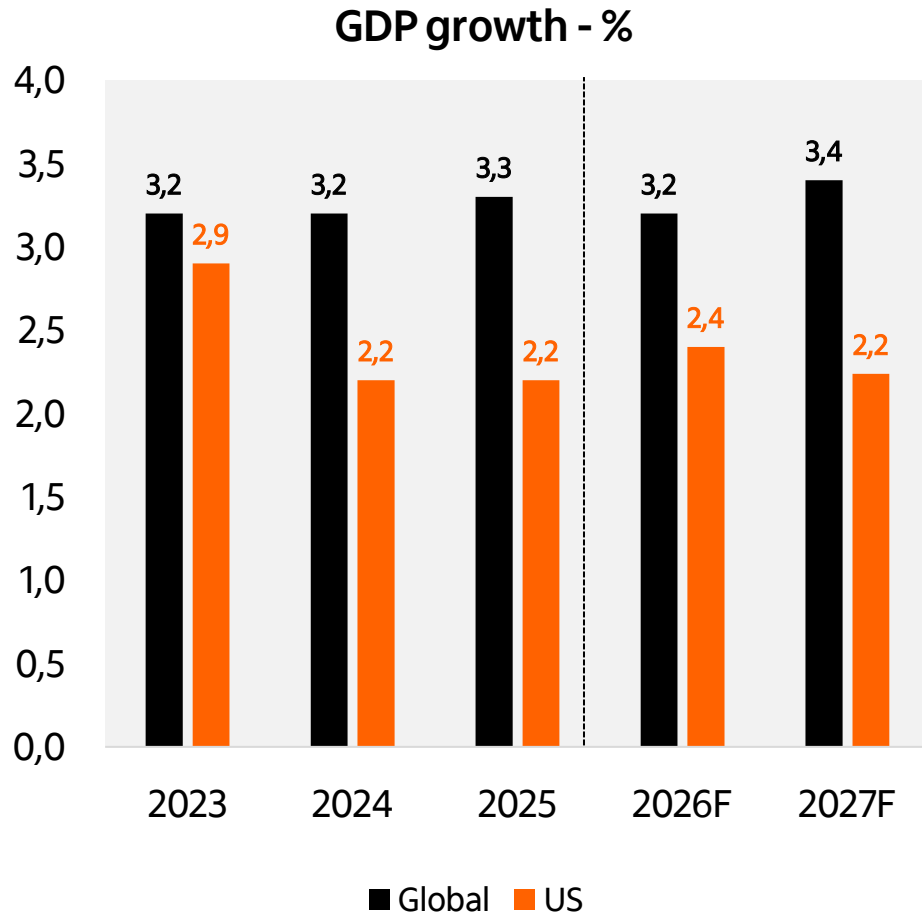
We maintain our oil scenario assuming the resolution of the conflict before the end of the first half of the year, **with the commodity price at US\$85/bbl by year-end and declining to US\$75/bbl by end-2027**. We see lower willingness for an escalation of the conflict, but, so far, a diplomatic resolution remains uncertain.

**Even with the ceasefire in place since early April, the Strait of Hormuz still shows no significant recovery in shipping traffic in the region.** Right now, there is another attempt at a diplomatic resolution involving other countries in the Middle East. The main points of disagreement remain uranium enrichment and Iran's nuclear issue, as well as the governance and control of the strait in the post-conflict period.

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## In the United States, activity remains resilient, supported by improvements in labor market



Despite elevated inflation weighing on real income (and likely on consumption), we still expect resilient GDP growth in 2Q26 of 2.7% (quarter-over-quarter annualized), and 3.0% for domestic demand. We revised **our 2026 GDP forecast from 2.6% to 2.4% due to downside surprises in the 1Q26 result**, but growth should remain strong in the remaining quarters of the year (2.7%). Spending associated with infrastructure in the artificial intelligence sector has been one of the main drivers of the US economy and should continue to support investment.

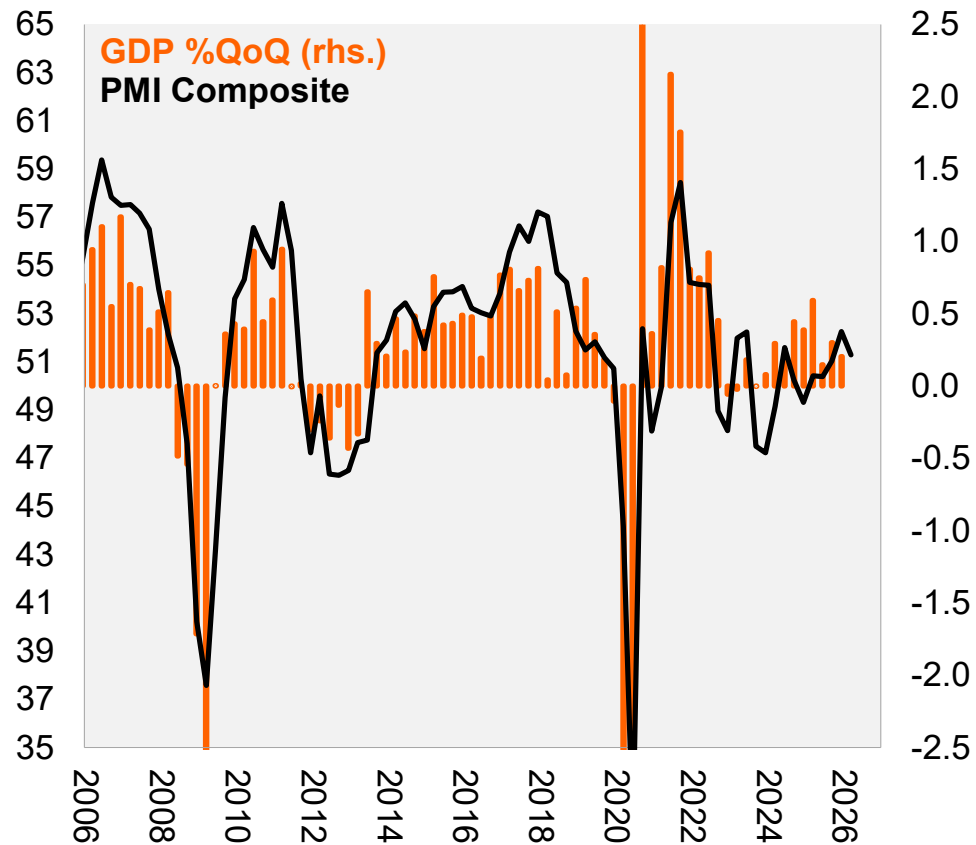
**Inflation shows no signs of improvement, making rate cuts unlikely this year by the Fed, which now has Kevin Warsh as Chair.** Inflation, which was already proving more persistent before the conflict, has moved even further away from target. CPI rose to 3.8% in April (from 3.3% in March) year-over-year, core CPI to 2.8% (from 2.6%), and we estimate that core PCE increased to 3.3% (from 3.2%). **As a result, we expect the Fed to remain on hold until mid-next year**, and Kevin Warsh is not expected to significantly alter the reaction function in the short term.

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# In Europe, activity shows signs of weakness amid the energy shock

## PIB (QoQ, %) vs. PMI composite



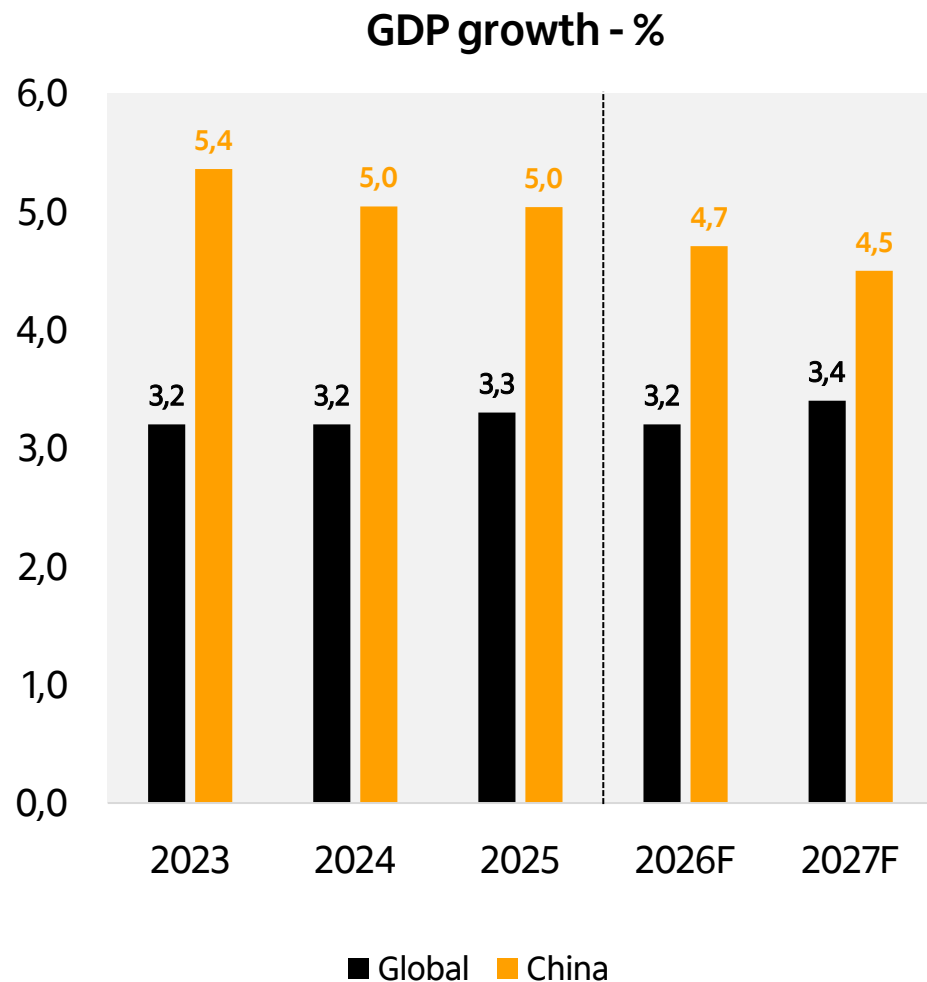
In Europe, we now expect **the central bank to raise rates in June and July to 2.50% (vs. 2.0% previously)**, in response to **the prolonged conflict**. Activity in the region is already showing signs of slowdown amid higher energy prices, with the composite PMI pointing to marginally negative growth in the second quarter and a cooling labor market.

However, central bank members have signaled that, even in the event of a swift resolution of the conflict, the impact of **higher energy prices will persist, requiring a preventive response to preserve monetary policy credibility** – that is, as a mechanism to keep inflation expectations anchored amid the energy shock. Therefore, we now expect two rate hikes in June and July. That said, there is a chance the central bank could deliver only one hike if energy prices correct quickly and there are further signs of activity slowdown between the June and July meetings

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## In China, recent activity data came in weaker, with growth supported by exports



In China, we maintain **our growth projections at 4.7% for 2026 and 4.5% for 2027**. Activity data for April came in weaker on the domestic demand side, with some early signs of the impact of the energy shock, particularly a decline in refined oil production.

On the other hand, exports remain the main pillar of Chinese growth, now supported by the artificial intelligence cycle, which keeps the urgency for domestic demand stimulus low. However, this could change if global growth slows down amid the oil shock.

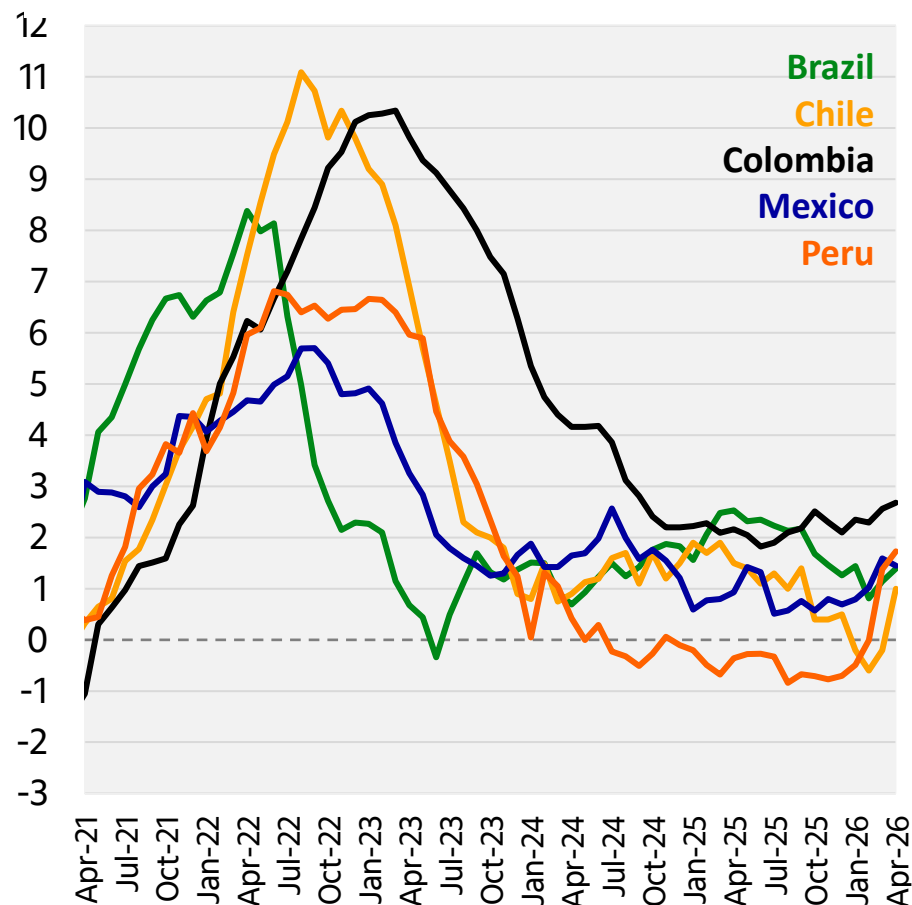
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# LatAm – Inflation: fuel pass-through, food tail risks

Inflation risks are skewed to the upside across the set of countries, led by energy costs and weather-related supply shocks (notably El Niño)

Distance between headline and the target



Colombia is the clearest case of persistent underlying pressure: monthly inflation remains firm, core is still elevated, and climate dynamics raise the probability of a renewed food-and-energy impulse into 2H26, **consistent with CPI forecasts staying high at 7.0% in 2026 and 5.7% in 2027**, alongside high food inflation.

Chile is experiencing a headline inflation rebound dominated by fuel pass-through; core remains better behaved and expectations appear largely anchored at the policy-relevant horizon, but near-term prints are the key test for second-round effects. **In this context, we revised our CPI forecast in Chile up to 4.5%, from 4.3%.**

Mexico looks comparatively better on underlying dynamics: core disinflation is advancing, but services remain sticky, and El Niño adds tail risk through food prices; **we maintained our forecast at 4.1% for YE26 and 3.8% for YE27, respectively.**

Peru has moved into a re-acceleration phase (transport/energy-led), with expectations drifting higher and weather risks adding volatility; after successive significant inflation surprises, we revised **our YE26 inflation forecast up to 4.4%, from 2.8%.**

In Argentina, the disinflation process is back on track, helped by a stronger currency and restrained fuel prices, though the “last mile” remains challenging and shocks (including weather) could still complicate the path; **we maintained our year-end inflation call at 30%.**

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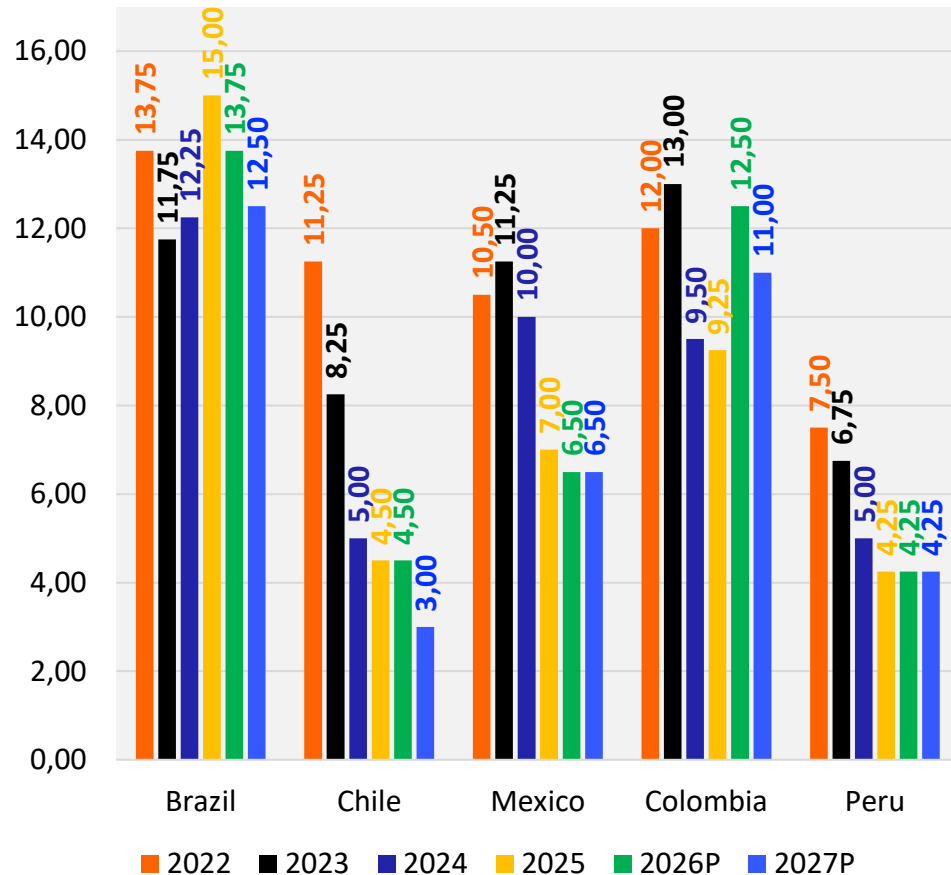
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# LatAm – Monetary policy: caution-first central banking

Central banks are increasingly forced into a “caution-first” stance as inflation risks rise

## Monetary policy in LatAm



Colombia’s central bank is framed as pausing temporarily but retaining a **tightening bias**, with the baseline calling for hikes to resume at the June policy meeting, with **the policy rate ending 2026 at 12.5%, followed by gradual easing toward 11% by end-2027**, as inflation converges only slowly.

The Central Bank of Chile manages a delicate trade-off: policy is held at restrictive/near-neutral real levels with an explicit meeting-by-meeting approach, and risks to the rate path remain tilted upward if expectations de-anchor.

After delivering a final 25-bp cut to 6.5%, with guidance explicitly signaling the end of the cycle, the Central Bank of Mexico shifted to a data-dependent stance. While a more benign inflation, stable FX, and activity backdrop could eventually allow for a new easing cycle, this would likely require further progress on disinflation, which would enhance the board’s confidence about the outlook.

Facing persistent inflation surprises and a jump in inflation expectations, amid stronger activity, **we adjusted our policy rate call in Peru from a hold at 4.25% to a 50-bp hiking cycle later this year.**

In Argentina, the central bank emphasizes operational and communication improvements and reserve accumulation, with a framework aimed at supporting disinflation while keeping financial conditions from tightening abruptly.

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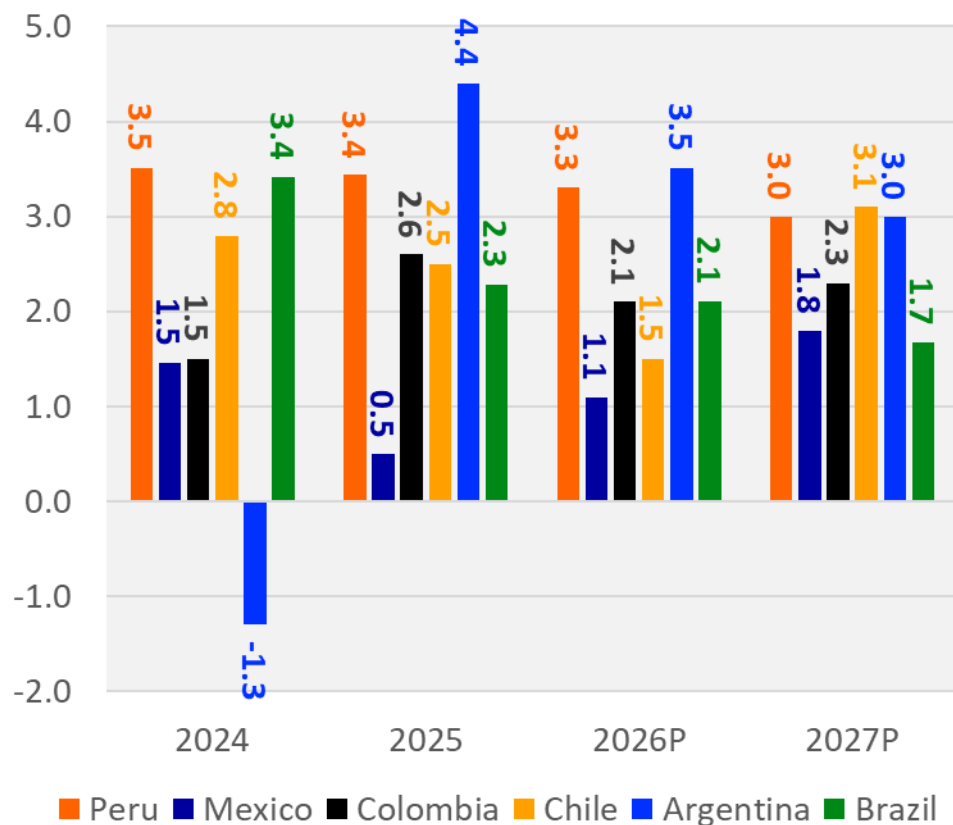
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# LatAm – Growth: uneven momentum, asymmetric risks

GDP real growth (%)



Colombia surprised to the upside in 1Q26 on domestic demand (public/private consumption) and investment, but the medium-term narrative remains constrained by fiscal consolidation needs and sectoral drags (construction/mining), **keeping the baseline around 2.1% for 2026 and 2.3% for 2027.**

In Mexico, activity is stabilizing after a soft start to the year; consumption is cushioned by real income dynamics, but investment lags, and the outlook remains hostage to external catalysts (notably USMCA clarity) and fiscal/rating constraints.

Chile's growth outlook is soft in the near term (export drag and weak momentum), yet the medium-term story improves materially via an investment pipeline concentrated in mining/energy/infrastructure, implying weaker 2026 but stronger 2027 as projects materialize. **We revised 2026 GDP down to 1.5% but up to 3.1% in 2027.**

Peru is the strongest cyclical story, with robust domestic demand, strong private investment, and a very strong external position, though domestic policy uncertainty and coastal El Niño risk add volatility.

In Argentina, we keep a relatively constructive 2026 growth view based on investment, agriculture, and easing financial conditions, but consumption remains the weak link, and low carryover makes the balance of risks more fragile.

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# LatAm: compared scenario

## World

	2025	2026		2027	
		Current	Previous	Current	Previous
GDP (%)	3.3	<b>3.2</b>	3.3	<b>3.4</b>	3.4

## Brazil

	2025	2026		2027	
		Current	Previous	Current	Previous
GDP (%)	2.3	<b>2.1</b>	1.9	<b>1.7</b>	1.7
BRL / USD (eop)	5.47	<b>5.15</b>	5.15	<b>5.35</b>	5.35
Monetary Policy Rate (eop,%)	15.00	<b>13.75</b>	13.25	<b>12.50</b>	12.25
IPCA (%)	4.3	<b>5.4</b>	5.2	<b>4.5</b>	4.3

## Argentina

	2025	2026		2027	
		Current	Previous	Current	Previous
GDP (%)	4.4	<b>3.5</b>	3.5	<b>3.0</b>	3.0
ARS / USD (eop)	1459	<b>1600</b>	1700	<b>2100</b>	2100
Reference rate (eop,%)	27.00	<b>26.00</b>	26.00	<b>25.00</b>	25.00
CPI (%)	31.5	<b>30.0</b>	30.0	<b>25.0</b>	25.0

## Colombia

	2025	2026		2027	
		Current	Previous	Current	Previous
GDP (%)	2.6	<b>2.1</b>	2.1	<b>2.3</b>	2.3
COP / USD (eop)	3757	<b>3600</b>	3600	<b>3600</b>	3600
Monetary Policy Rate (eop,%)	9.25	<b>12.50</b>	12.50	<b>11.00</b>	11.00
CPI (%)	5.1	<b>7.0</b>	7.0	<b>5.7</b>	5.7

Source: Itau

## Latin America and Caribbean

	2025	2026		2027	
		Current	Previous	Current	Previous
GDP (%)	2.6	<b>2.5</b>	2.5	<b>2.5</b>	2.5

## Mexico

	2025	2026		2027	
		Current	Previous	Current	Previous
GDP (%)	0.5	<b>1.1</b>	1.1	<b>1.8</b>	1.8
MXN / USD (eop)	18.0	<b>18.4</b>	18.4	<b>18.9</b>	18.9
Monetary Policy Rate (eop,%)	7.00	<b>6.50</b>	6.50	<b>6.50</b>	6.50
CPI (%)	3.7	<b>4.1</b>	4.1	<b>3.8</b>	3.8

## Chile

	2025	2026		2027	
		Current	Previous	Current	Previous
GDP (%)	2.5	<b>1.5</b>	2.1	<b>3.1</b>	2.8
CLP / USD (eop)	901	<b>860</b>	880	<b>850</b>	860
Monetary Policy Rate (eop,%)	4.50	<b>4.50</b>	4.50	<b>4.50</b>	4.50
CPI (%)	3.5	<b>4.5</b>	4.3	<b>3.0</b>	3.0

## Peru

	2025	2026		2027	
		Current	Previous	Current	Previous
GDP (%)	3.4	<b>3.3</b>	3.1	<b>3.0</b>	3.0
PEN / USD (eop)	3.36	<b>3.40</b>	3.40	<b>3.40</b>	3.40
Monetary Policy Rate (eop,%)	4.25	<b>4.75</b>	4.25	<b>4.75</b>	4.25
CPI (%)	1.5	<b>4.4</b>	2.8	<b>2.6</b>	2.2

# Commodities forecasts

	2020	2021	2022	2023	2024	2025	2026F		2027F	
							Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	61	<b>85</b>	85	<b>75</b>	75
Iron Ore (USD/tonne)	153	116	110	135	103	104	<b>95</b>	95	<b>75</b>	75
Copper (USD/tonne)	7788	9525	8402	8489	9030	11763	<b>12600</b>	11050	<b>12100</b>	11050
Corn (Usd/bu)	437	592	656	480	444	444	<b>500</b>	450	<b>500</b>	420
Soy (Usd/bu)	1207	1290	1474	1311	984	1077	<b>1150</b>	1100	<b>1250</b>	1000
Wheat (Usd/bu)	604	790	749	619	548	532	<b>700</b>	600	<b>700</b>	610
Sugar (Usd/lb)	15	19	20	22	20	15	<b>15</b>	15	<b>16</b>	16
Coffee (Usd/lb)	123	235	166	188	321	360	<b>250</b>	300	<b>250</b>	250

Source: BBG, Itaú

The image features the word "Brazil" in a bold, white, sans-serif font, centered on a black background. The text is enclosed within a decorative frame composed of several overlapping, hand-drawn orange lines that create a rounded, irregular shape around the word.

**Brazil**

**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.**

**Highlights**

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
<b>Economic Activity</b>								
Real GDP growth - %	3.0	3.2	3.4	<b>2.3</b>	<b>2.1</b>	1.9	<b>1.7</b>	1.7
Nominal GDP - BRL bn	10,080	10,943	11,779	<b>12,739</b>	<b>13,543</b>	13,457	<b>14,457</b>	14,294
Nominal GDP - USD bn	1,951	2,192	2,186	<b>2,278</b>	<b>2,651</b>	2,622	<b>2,749</b>	2,718
Population (millions)	210.9	211.7	212.6	<b>213.4</b>	<b>214.2</b>	214.2	<b>215.0</b>	215.0
Per Capita GDP - USD	9,255	10,356	10,281	<b>10,676</b>	<b>12,374</b>	12,239	<b>12,790</b>	12,646
Nation-wide Unemployment Rate - year avg	9.5	8.0	6.9	5.9	<b>5.5</b>	5.5	<b>5.8</b>	5.8
Nation-wide Unemployment Rate - year end (*)	8.4	7.8	6.5	5.4	<b>5.7</b>	5.7	<b>6.0</b>	6.0
<b>Inflation</b>								
IPCA - %	5.8	4.6	4.8	4.3	<b>5.4</b>	5.2	<b>4.5</b>	4.3
IGP-M - %	5.5	-3.2	6.5	-1.0	<b>6.5</b>	5.7	<b>4.5</b>	3.8
<b>Interest Rate</b>								
Selic - eop - %	13.75	11.75	12.25	15.00	<b>13.75</b>	13.25	<b>12.50</b>	12.25
<b>Balance of Payments</b>								
BRL / USD - eop	5.28	4.86	6.18	5.47	<b>5.15</b>	5.15	<b>5.35</b>	5.35
BRL / USD - average	5.17	4.99	5.39	5.59	<b>5.11</b>	5.11	<b>5.26</b>	5.26
Trade Balance - USD bn	62	99	75	68	<b>80</b>	80	<b>80</b>	75
Current Account - % GDP	-2.2	-1.2	-3.0	-2.9	<b>-2.6</b>	-2.6	<b>-2.6</b>	-2.8
Direct Investment (liabilities) - % GDP	4.0	2.9	3.4	3.4	<b>3.5</b>	3.5	<b>3.8</b>	3.8
International Reserves - USD bn	325	355	330	358	<b>360</b>	360	<b>360</b>	360
<b>Public Finance</b>								
Primary Balance - % GDP	1.2	-2.3	-0.4	-0.4	<b>-0.5</b>	-0.5	<b>-0.6</b>	-0.6
Nominal Balance - % GDP	-4.6	-8.8	-8.5	-8.3	<b>-8.9</b>	-8.8	<b>-8.6</b>	-8.5
Gross Public Debt - % GDP	71.7	73.8	76.3	78.6	<b>82.6</b>	82.5	<b>86.0</b>	86.2
Net Public Debt - % GDP	56.1	60.4	61.3	65.2	<b>70.9</b>	71.1	<b>74.6</b>	75.0
Growth of public spending (% real, pa, **)	6.0	7.6	3.2	4.2	<b>5.3</b>	4.7	<b>1.3</b>	1.4

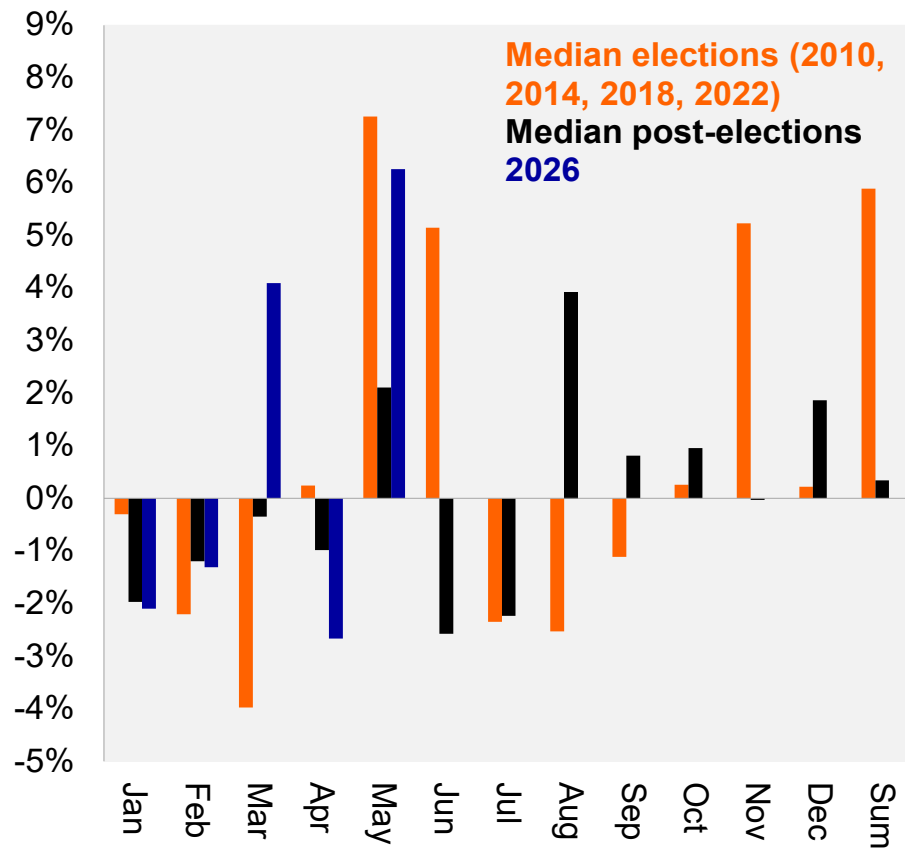
Source: IBGE, FGV, BCB and Itaú

(\*) 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.

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

Risk premium rising as typically seen in election years



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.

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).

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## Activity: stronger economy on the back of stimulus measures

	Supply side			Total GDP
	Agriculture	Industry	Services	
<b>Weights</b>	6%	22%	59%	100%
<b>2019</b>	0.4%	-0.7%	1.5%	1.2%
<b>2020</b>	4.2%	-3.0%	-3.7%	-3.3%
<b>2021</b>	0.0%	5.0%	4.8%	4.8%
<b>2022</b>	-1.1%	1.5%	4.3%	3.0%
<b>2023</b>	16.3%	1.7%	2.8%	3.2%
<b>2024</b>	-3.7%	3.1%	3.8%	3.4%
<b>2025</b>	11.7%	1.4%	1.8%	2.3%
<b>2026</b>	<b>1.5%</b>	<b>2.2%</b>	<b>2.2%</b>	<b>2.1%</b>
<b>2027</b>	<b>3.5%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>1.7%</b>

	Demand side				
	Consumption	Govt Spending	Investments	Exports	Imports
<b>Weights</b>	64%	19%	17%	18%	18%
<b>2019</b>	2.6%	-0.5%	4.0%	-2.6%	1.3%
<b>2020</b>	-4.6%	-3.7%	-1.7%	-2.3%	-9.5%
<b>2021</b>	3.0%	4.2%	12.9%	4.4%	13.8%
<b>2022</b>	4.1%	2.1%	1.1%	5.7%	1.0%
<b>2023</b>	3.2%	3.8%	-3.0%	8.9%	-1.2%
<b>2024</b>	5.1%	2.0%	6.9%	2.8%	15.6%
<b>2025</b>	1.3%	2.1%	2.9%	6.2%	4.5%
<b>2026</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.4%</b>	<b>4.5%</b>	<b>1.5%</b>
<b>2027</b>	<b>1.6%</b>	<b>1.0%</b>	<b>0.5%</b>	<b>2.0%</b>	<b>0.2%</b>

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. **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.

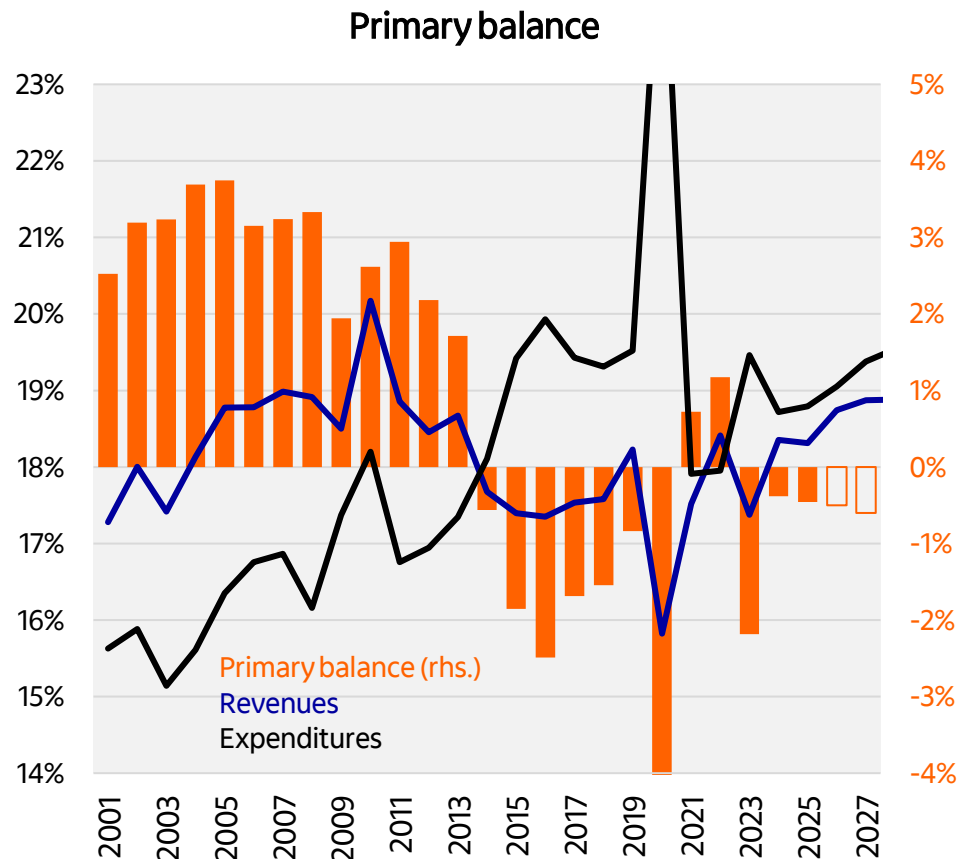
**On the labor market, we do not yet see a clear deceleration trend. We therefore maintained our unemployment projections at 5.7% in 2026 and 6.0% in 2027.** Going forward, the expectation of activity growth close to the neutral rate, combined with a slight rise in the participation rate, should lead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

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# 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.

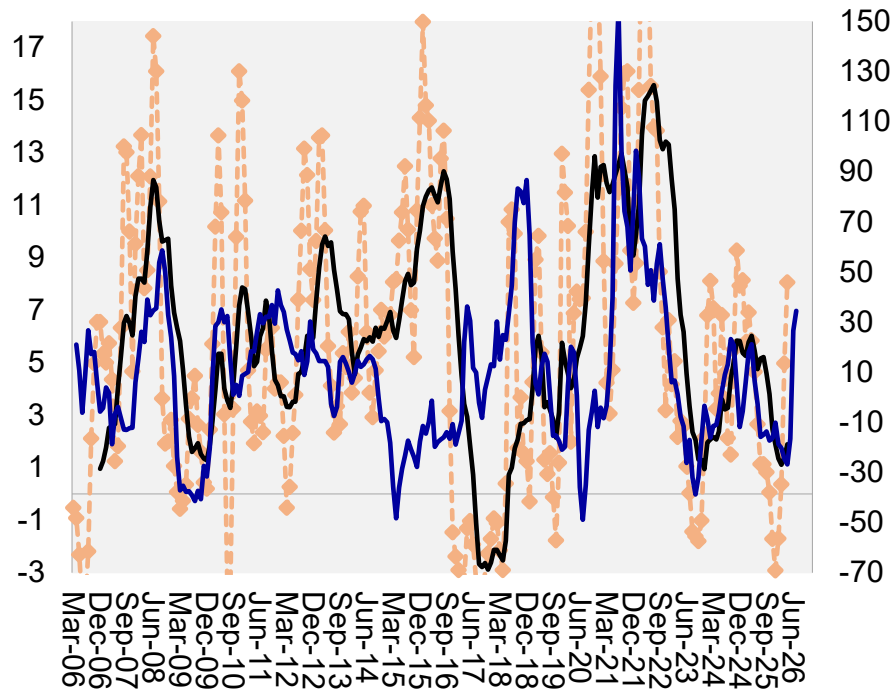
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# Inflation: new upward revisions in 2026 and 2027

Acceleration at the margin for tradable items most sensitive to oil prices



3MMA Reweighted

Market set prices 12M Reweighted

Oil BRL (YoY, -3m, rhs.)

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.

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.

O balanço de riscos permanece assimétrico para cima, principalmente em função da incerteza sobre a intensidade e a persistência do El Niño. Embora já tenhamos incorporado um cenário de alimentos mais pressionados em 2026, com efeitos concentrados em itens in natura, um evento climático mais forte tende a produzir impactos mais relevantes em 2027. Esse viés altista pode se intensificar caso o choque climático venha acompanhado de custos de fertilizantes ainda elevados ao longo de 2027.

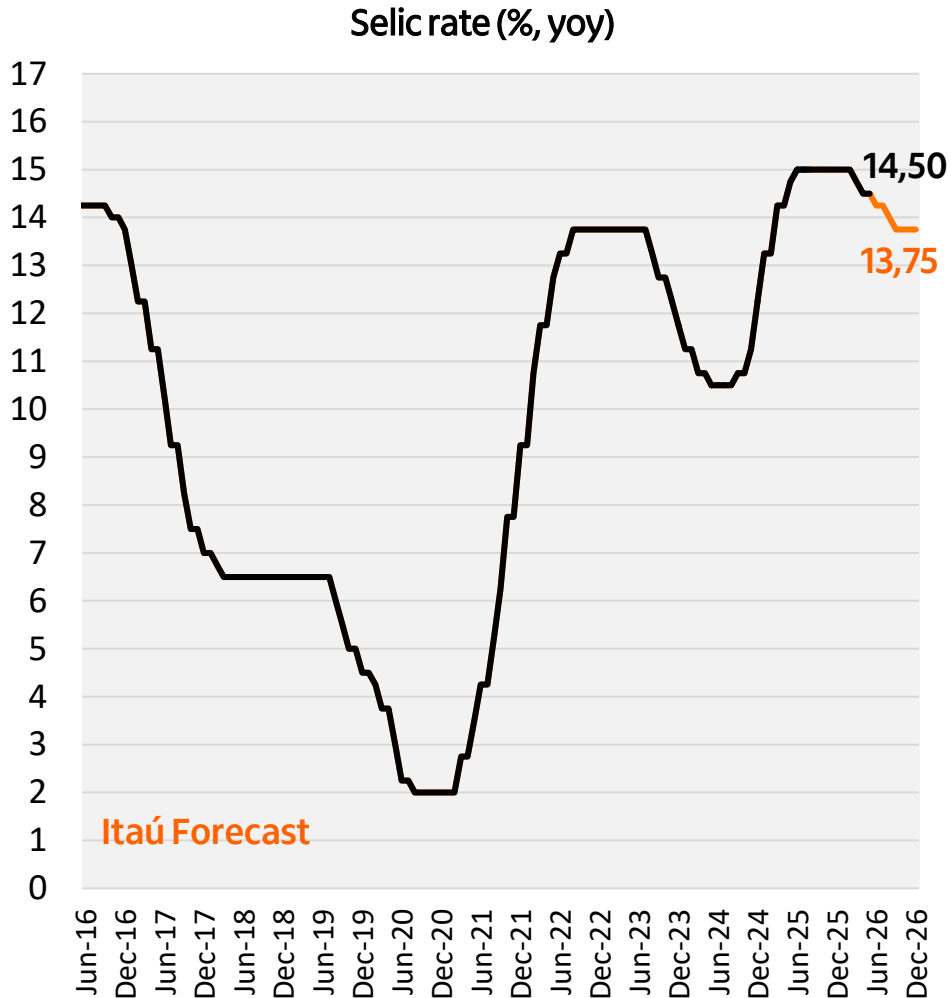
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# Monetary policy: even less room for rate cuts



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

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