Macro scenario - Brazil

December 17, 2025

Higher bar for interest rate cuts in January

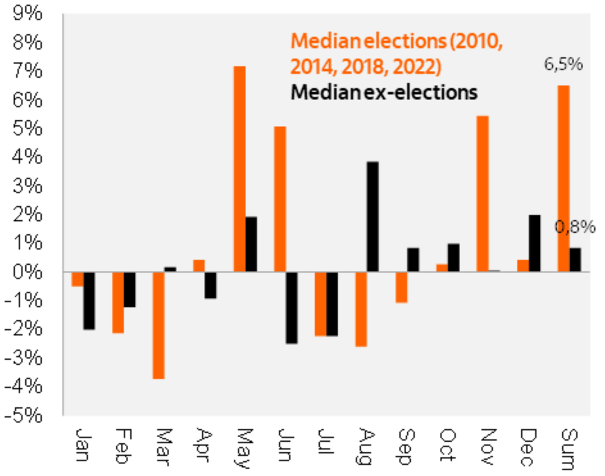
- We maintained our forecast for the exchange rate at BRL/USD 5.50 for 2026. The increase in risk premium, typically observed in election years, limits the potential appreciation of the real, which offsets expectations for a more favorable external environment next year. For 2027, we forecast the exchange rate at 5.70.
- We revised our GDP growth forecast for 2025 from 2.2% to 2.3%, reflecting stronger-than-expected performance in the agricultural sector. For 2026, we maintained our projection at 1.7%, with an upward bias given the potential implementation of new countercyclical measures and a more robust credit performance. For 2027, we also forecast GDP growth at 1.7%. In the labor market, we reduced the unemployment rate forecast to 5.8% (from 6.2%) in 2025 and to 6.0% (from 6.4%) in 2026, consistent with revised assumptions for the labor force participation rate.
- We revised the inflation forecast for 2025 to 4.4% (from 4.5%) and for 2026 to 4.0% (from 4.2%), reflecting disinflation in industrial goods, driven by high inventories, weaker demand, and declining IGPs, as well as expectations for lower gasoline prices in January. The risk balance is skewed downward, especially among tradable items. For 2027, we project inflation at 4.0%.
- We reduced our primary result forecast to -0.5% (previously -0.6%) of GDP in 2025, incorporating better royalty revenue performance, and expect the government to meet the lower bound of the primary result target. Looking ahead, we maintained the primary result projection at -0.8% of GDP in 2026 and expect further deterioration to -0.9% in 2027, assuming the current fiscal framework remains and no new revenue sources are introduced.
- The Central Bank's Monetary Policy Committee (Copom) continues to gain confidence that the current monetary policy strategy is having the desired effect. The scenario has evolved favorably, with signs of slowing activity and qualitative improvement in inflation, creating conditions for the start of the cutting cycle next year. Nevertheless, recent communications indicate a cautious central bank, in no rush to begin easing and maintaining a data-dependent stance. For now, we maintain the projection for the start of the cycle in January, although we recognize that there is a higher bar for this move. We expect the Selic rate to reach 12.75% p.a. in 2026 and 11.75% p.a. in 2027.

Real: limited by domestic factors

We maintained our projection for the exchange rate at BRL/USD 5.50 for 2026. For 2027, we forecast the exchange rate at 5.70. A more benign external scenario, with expectations for further cuts in U.S. interest rates and additional dollar weakening next year, would normally create room for a stronger real. However, domestic factors limit such movement. Historically, the risk premium tends to be more pressured in election years, impacting the exchange rate and partially offsetting the more favorable external environment.

We maintained our projection for the current account deficit at USD 78 billion (3.5% of GDP) in 2025 and USD 77 billion (3.1% of GDP) in 2026. For 2027, we project a deficit of USD 71 billion (2.8% of GDP). This projection remains above the historical average, close to 2.2% of GDP, but points to a gradual convergence trajectory, in line with the expected slowdown in economic activity over the coming years. Additionally, BRL depreciation over the period should act in the same direction.

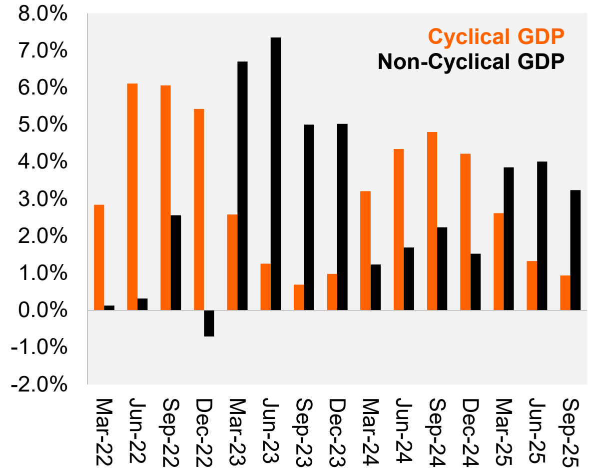
Risk premium month by month in election- and non-election years



Risk premium measured from 3M Vol, implicit 3Y–5Y premium, emerging-markets equity performance versus Brazil.

Source: BBG, Itaú

Cyclical and non-cyclical GDP (yoy % change)



Non-Cyclical GDP:agriculture; mining; financial activities, insurance, and related services; real estate activities; and public administration, defense, health and education, and social security. Cyclical GDP: other activities.

Source: BCB, IBGE, Itaú

On the financing side, the recent highlight has been the stronger inflow of foreign capital, both in direct investment and fixed income portfolio investments. At the margin, these flows have more than offset the current account deficit and the outflow of Brazilian capital abroad, supporting a somewhat more comfortable external position than observed throughout this year.

Activity: 3Q25 GDP confirms economic slowdown

The 3Q25 GDP grew 0.1% qoq/sa (1.8% yoy), in line with expectations for slowing economic activity. This result reinforces the picture of diminishing momentum, especially among components most sensitive to monetary policy, which have shown more pronounced slowdown in recent quarters, advancing 0.9% in 3Q25 after a 1.3% increase in 2Q25. In contrast, segments less sensitive to interest rates show greater resilience, mainly supported by the performance of the agricultural sector and extractive industry. **On the demand side, annual growth in household consumption fell from 2.2% in 1Q25 to 1.8% in 2Q25, and to just 0.4% in the third quarter.**

For 4Q25, we forecast a stable quarterly GDP change, and 1.7% annual growth. Our daily activity indicator (IDAT-Activity) points to an annual decline similar to that observed in recent quarters, with some improvement at the margin, possibly influenced by slightly more favorable credit conditions and Black Friday effects.

We slightly revised our 2025 GDP growth upward, from 2.2% to 2.3%, mainly reflecting a stronger performance in the agricultural sector. The robust Q3 result, combined with upward revisions to first-half data, led us to raise our projection for agricultural GDP in 2025 to 11%, from 8.3% in the previous scenario. We also made a marginal adjustment to the industry forecast, largely offset by a small downward revision in expectations for the services sector.

For 2026, we maintained our GDP growth projection at 1.7%, with an upward bias, in light of the possible adoption of fiscal and quasi-fiscal countercyclical measures that may mitigate the slowdown in activity. In addition, there is potential for stronger-than-expected performance in credit, both for households and non-financial corporations, considering the stronger data at the margin.

For 2027, we forecast GDP growth of 1.7%, with lower fiscal stimulus expected to be offset by a less contractionary monetary policy stance.

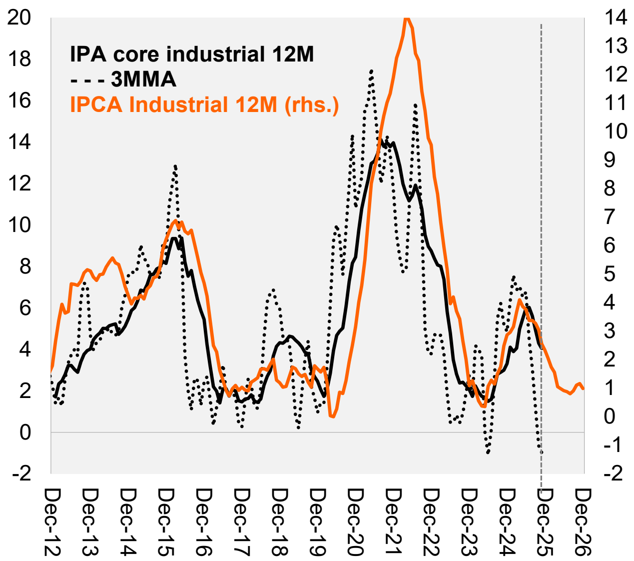
For the labor market, we revised our unemployment rate forecast downward, from 6.2% to 5.8% in 2025 and from 6.4% to 6.0% in 2026. For 2027, we project an unemployment of 6.2%. Although recent indicators continue to show signs of slowdown, the recent drop in the participation rate has contributed to keeping the unemployment rate at low levels. In this context, we adjusted the participation rate assumption, which is now expected to remain stable until the end of this year, with a slight recovery throughout 2026.

Inflation: downward revision

We revised our inflation forecast to 4.4% for 2025 (from 4.5%) and to 4.0% for 2026 (from 4.2%), incorporating a more benign dynamic for industrial goods and the expectation of a cut in refinery gasoline prices as early as January. The decline in IGPs (wholesale prices), especially in final consumer goods components, has already been passed through to the IPCA, reinforcing the trend of disinflation in industrial goods. This process is amplified by inventories above the historical average and weaker demand for credit-sensitive goods, factors that should sustain continued goods disinflation in 2026.

The balance of risks for this forecast remains skewed downward for tradable items. We assess that both food prices and industrial goods prices could surprise to the downside if protein supply remains high and industrial sector inventories stay elevated in a weaker demand environment, respectively. For 2027, we expect inflation at 4.0%, again above the inflation target of 3.0%.

Goods disinflation in 2026



Source: FGV, IBGE, Itaú

Fiscal: meeting the 2025 target does not prevent future deterioration under current rules

We reduced our primary result forecast from -0.6% to -0.5% of GDP in 2025, incorporating better royalties' revenue performance. Despite slowing tax revenues, due to moderating economic activity, and increased spending execution in the second half, we expect the government to meet the lower bound of this year's primary result target (-0.6% of GDP, considering deductions and the lower band of the official target of 0%).

Looking ahead, we maintained the primary result projection at -0.8% of GDP in 2026 and expect further deterioration to -0.9% in 2027, assuming the current fiscal framework remains and no new revenue sources are introduced. For 2026, we continue to see a 0.4% of GDP challenge to meet the lower bound of the target. The increase in royalty revenue and that linked to the labor market was offset by higher personnel expenses. For next year, the main risk remains the adoption of measures that directly or indirectly weaken the restrictions imposed by the fiscal framework, a rule that in its current format is already insufficient to ensure a surplus trajectory capable of stabilizing public debt.

Monetary policy: higher bar for cuts in January

The Copom continues to gain confidence that the current monetary policy strategy is having the desired effect. The scenario has evolved favorably over recent months, with signs of slowing activity, incipient signs of labor market cooling and qualitative improvement in inflation. Inflation projections for the relevant horizon (2Q27) fell to 3.2% (previously 3.3% at the November meeting), approaching the inflation target.

Nevertheless, recent communications indicate a cautious central bank, in no rush to begin easing and maintaining a data-dependent stance. Such communication sets a higher bar for the start of cuts in January, indicating that an appreciation of the currency relative to current levels and/or further improvement in dataset would be necessary.

We maintain our expectation for a monetary easing cycle of 225 bps in 2026, bringing the Selic rate to 12.75% p.a., even if the start of the cut cycle may be postponed to March. For 2027, we project the Selic at 11.75%.

Brazil | Forecasts and Data

	2021	2022	2023	2024	2025F		2026F		2027F
					Current	Previous	Current	Previous	Current
Economic Activity									
Real GDP growth - %	4.8	3.0	3.2	3.4	**2.3**	2.2	**1.7**	1.7	**1.7**
Nominal GDP - BRL bn	9,012	10,080	10,943	11,779	**12,718**	12,646	**13,348**	13,299	**14,111**
Nominal GDP - USD bn	1,670	1,951	2,192	2,186	**2,279**	2,265	**2,458**	2,449	**2,516**
Population (millions)	210.1	210.9	211.7	212.6	**213.4**	213.4	**214.2**	214.2	**215.0**
Per Capita GDP - USD	7,949	9,255	10,356	10,281	**10,677**	10,612	**11,473**	11,430	**11,705**
Nation-wide Unemployment Rate - year avg, NSA	13.5	9.5	8.0	6.9	**6.0**	6.0	**5.9**	6.2	**6.0**
Nation-wide Unemployment Rate - year end (*)	11.6	8.4	7.9	6.6	**5.8**	6.2	**6.0**	6.4	**6.2**
Inflation									
IPCA - %	10.1	5.8	4.6	4.8	**4.4**	4.5	**4.0**	4.2	**4.0**
IGP–M - %	17.8	5.5	-3.2	6.5	**-0.9**	-0.4	**3.1**	3.3	**3.7**
Interest Rate									
Selic - eop - %	9.25	13.75	11.75	12.25	**15.00**	15.00	**12.75**	12.75	**11.75**
Balance of Payments									
BRL / USD - eop	5.57	5.28	4.86	6.18	**5.35**	5.35	**5.50**	5.50	**5.70**
BRL / USD - average	5.40	5.17	4.99	5.39	**5.58**	5.56	**5.43**	5.43	**5.61**
Trade Balance - USD bn	61	62	99	75	**65**	66	**65**	65	**70**
Current Account - % GDP	-2.4	-2.2	-1.2	-3.0	**-3.5**	-3.5	**-3.1**	-3.1	**-2.8**
Direct Investment (liabilities) - % GDP	2.8	4.0	2.9	3.4	**3.7**	3.8	**3.7**	3.7	**4.1**
International Reserves - USD bn	362	325	355	330	**360**	360	**360**	360	**360**
Public Finances									
Primary Balance - % GDP	0.7	1.2	-2.3	-0.4	**-0.5**	-0.6	**-0.8**	-0.8	**-0.9**
Nominal Balance - % GDP	-4.3	-4.6	-8.8	-8.5	**-8.5**	-8.8	**-8.8**	-9.3	**-8.5**
Gross Public Debt - % GDP	77.3	71.7	73.8	76.3	**78.8**	79.4	**84.0**	85.0	**88.1**
Net Public Debt - % GDP	55.1	56.1	60.4	61.3	**65.6**	66.2	**71.0**	71.9	**75.3**
Growth of public spending (% real, pa, **)	-24.7	6.0	7.6	3.2	**4.2**	4.2	**3.4**	2.7	**2.5**

Source: IBGE, FGV, BCB and Itaú

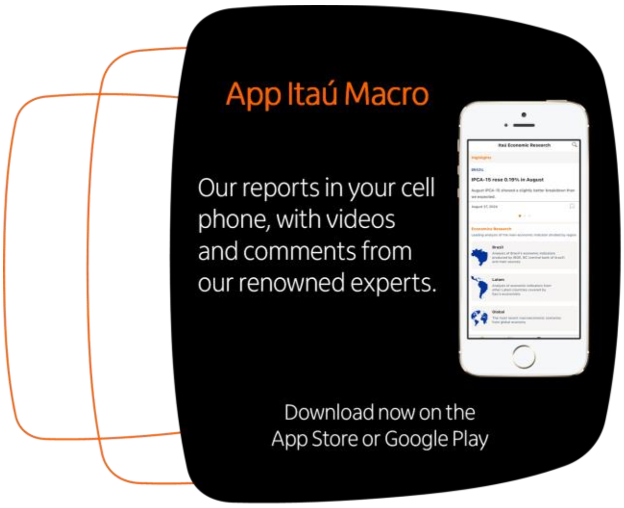
(*) Nation-wide Unemployment Rate measured by PNADC.

(**) 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.
5. This report may include sections generated with the support of artificial intelligence tools. All content has been reviewed and validated by the authors to ensure the accuracy and integrity of the information presented.

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.

SAC Itaú: 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/atendimento-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.