

Economic Outlook

October 2025

The word "Global" is centered in a white, sans-serif font. It is surrounded by several thin, orange, hand-drawn style lines that form an irregular, rounded rectangular frame around the text. The background is solid black.

Global

Divergence between growth and employment in the US

- **US:** We improved our growth forecasts to 2.0% in 2025 (from 1.7%) and 2.0% in 2026 (from 1.5%) due to upside surprises in the 2Q revision and strong tracking in 3Q, but we continue to expect three more Fed cuts, sequentially until the January 2026 meeting, aiming to contain the weakening of the labor market.
- **Europe:** Economic activity remains the key parameter to monitor for future ECB decisions. We expect growth of 1.1% in 2025 and 1.2% in 2026.
- **China:** We maintain our growth forecast of 4.7% for this year, conditional on the implementation of targeted fiscal stimulus, and 4.0% for 2026.
- **Latin America:** Growth, inflation, and monetary policy forecasts largely unchanged this month.

Highlights

Global Our forecasts:

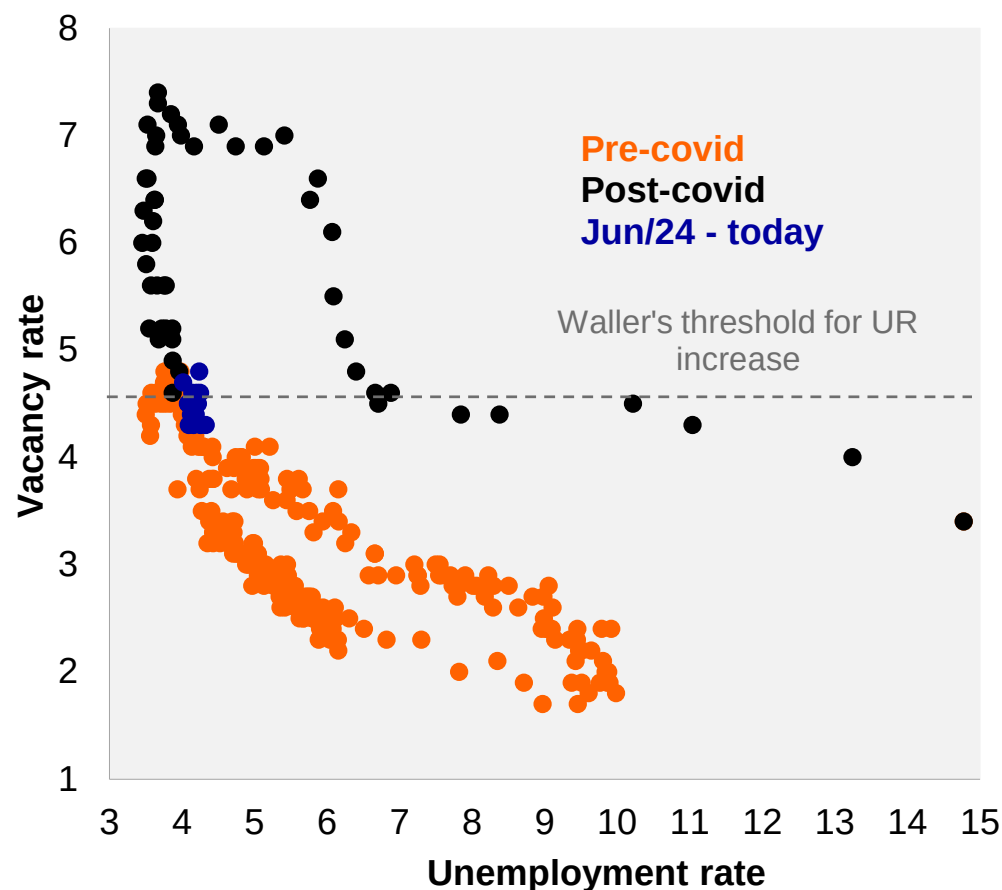
	2020	2021	2022	2023	2024	2025F		2026P	
						Current	Previous	Current	Previous
GDP Growth									
World GDP growth - %	-2.8	6.3	3.5	3.2	3.2	3.1	3.0	3.0	2.8
USA - %	-2.1	6.2	2.5	2.9	2.8	2.0	1.7	2.0	1.5
Euro Area - %	-6.2	6.3	3.6	0.7	0.9	1.1	1.1	1.2	1.2
China - %	2.0	7.7	3.0	5.4	5.0	4.7	4.7	4.0	4.0
Inflation									
U.S. Core CPI - %, eop	1.6	5.5	5.7	3.9	3.2	3.5	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	3.38	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	1.20	1.20	1.20	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	95.8	95.8	95.4	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.

Strong growth, but weak employment still leads to rate cuts; institutional risk continues to weight on the dollar

Beveridge Curve



US growth remains strong despite the slowdown and risks of job losses. 2Q GDP was revised up (from 3.3% to 3.8% annualized) driven by domestic demand (consumption was revised from 1.7% to 2.5%), while the 3Q tracking also saw a significant upward revision (from around 2.0% to 3.2% currently), indicating only a moderate slowdown and still strong domestic demand.

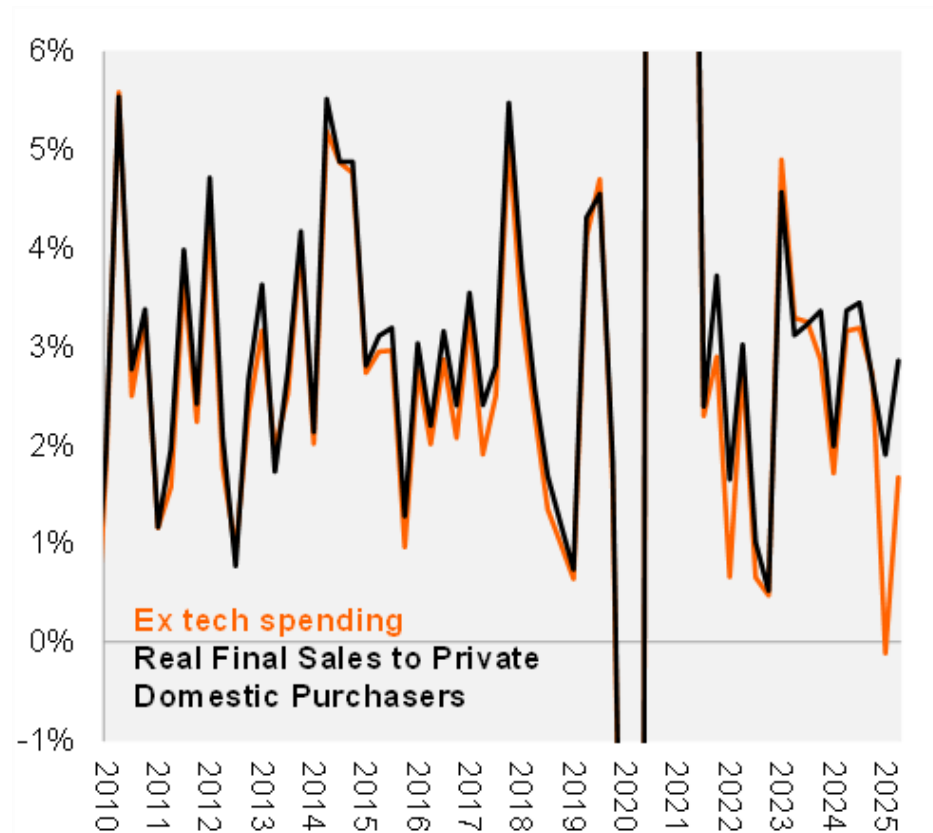
As a result, we revised our GDP projections for 2025 to 2.0% (from 1.7%) and for 2026 to 2.0% (from 1.5%). Despite this, the labor market continued to weaken. The pace of payroll hiring slowed to 29k in the 3-month moving average (from 83k in the first half average), while other metrics even showed negative prints like the September ADP, and the Beveridge Curve shows employment well balanced and back to pre-covid levels since last June (see chart).

1

2

Strong growth, but weak employment still leads to rate cuts; institutional risk continues to weight on the dollar

GDP growth and tech related
(%q/q saar)



Possible explanations for the disconnect between current activity and the labor market could be the impact of AI, restrictions on immigration and uncertainties in the economy. Domestic demand show a much weaker growth pace when excluding the lines most correlated with technology, which highlights the possible positive impact of AI. This positive impact of AI on growth via productivity gains without generating additional employment could be an important explanation for the disconnect between the two metrics.

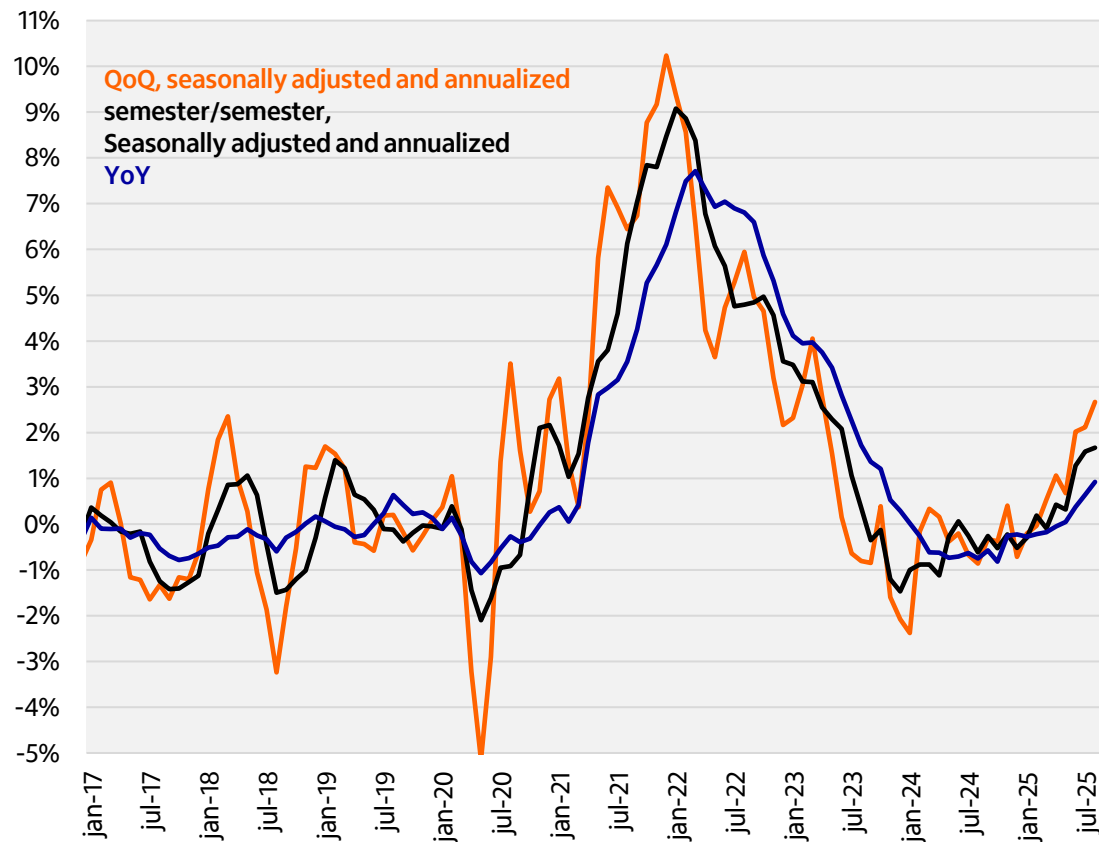
Other possible causes could be the reduction in immigration, which constrains labor supply and is responsible for the slowdown in Payrolls, and greater business uncertainty, which limits hiring, but the former would also lower potential GDP and the latter would also result in a decline in investment, which does not seem to be the case so far.

1

2

U.S.: weaker employment and still-moderate impact of tariffs on inflation allow the Fed to ease

CPI Core Goods ex-Used cars



Inflation remains elevated, although with only a moderate impact from tariffs. Core inflation measures show signs of persistence above target: core CPI is at 3.1% in August on a year-over-year basis, while core PCE is at 2.9% with a monthly pace of 0.20-0.26% from May to August this year.

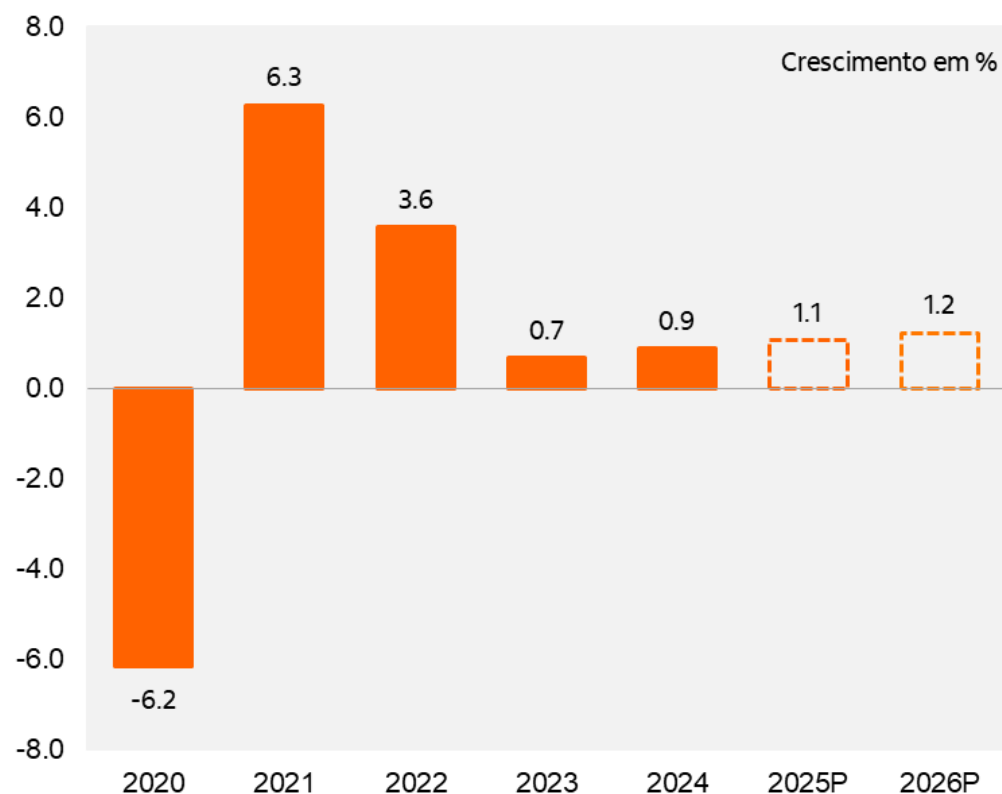
We continue to expect rate cuts at the October and December meetings this year, and the end of the cycle in January next year, with a terminal rate of 3.25-3.50%. At the September meeting, the Fed showed a more dovish view in its reaction function, projecting two more cuts this year even with upward revisions to inflation and downward revisions to next year's unemployment. Although we expect employment to stabilize and inflation to persist at elevated levels, the more dovish FOMC indication points to a willingness to bring rates closer to neutral.

1

2

Europe: we maintained our growth projections at 1.1% in 2025 and 1.2% of the GDP for 2026

Euro Zone: GDP Growth



In the case of the Europe, economic activity remains the main parameter to be monitored to assess the future decisions of the ECB. Activity is surprising upwards in 3Q with the September Composite PMI at 51.2. Inflation remains in line with ECB models, signaling convergence towards the 2% target. We maintain our view that the ECB has already ended its rate-cutting cycle.

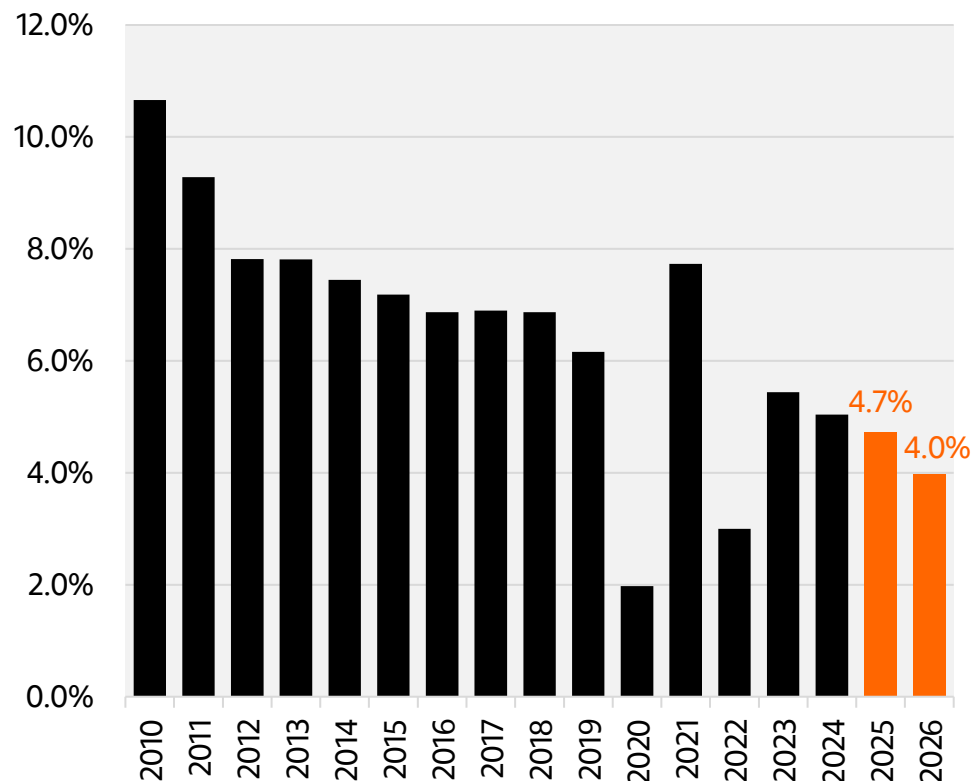
On the political front, the focus has shifted back to France with the resignation of another prime-minister amid difficulties in reaching a consensus on the 2026 budget, increasing the likelihood of new parliamentary elections. We assess that the main consequence is that fiscal adjustment in the country will not occur in the short term, raising France's long-term interest rates, without necessarily affecting the euro.

1

2

We maintain our GDP forecast at 4.7% for 2025 and 4.0% for 2026, with additional stimulus measures expected

GDP China (var.%)



For China, we maintain our growth forecast of 4.7% this year, conditional on the implementation of targeted fiscal stimulus, and 4.0% for 2026. We expect stimulus aimed at the services and infrastructure sectors to be announced in October, with an estimated amount of 0.5 to 1.0 trillion RMB, which would represent approximately 0.5% of China's GDP. Without such measures, 2025 growth would be considerably below the official target of "around 5%". Monetary stimulus should also occur, but to a lesser extent, with only 10-bp or 20-bp additional cuts.

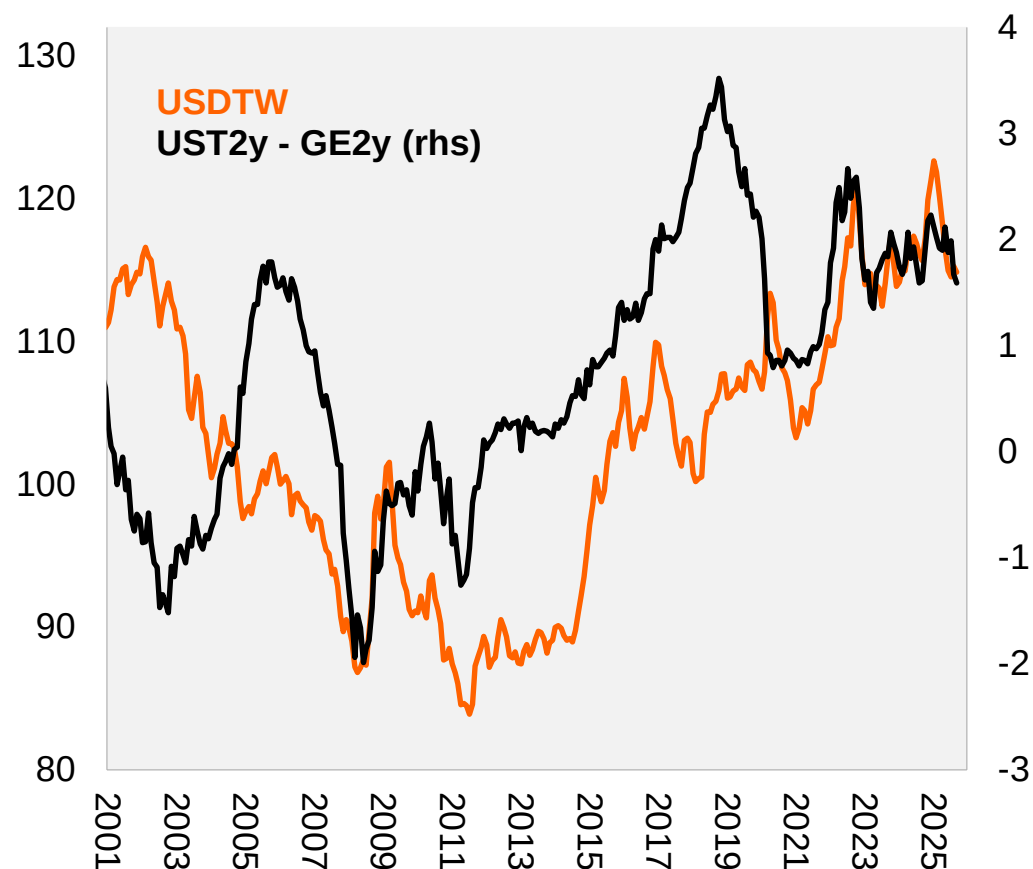
The Chinese government will also announce the 15th Five-Year Plan, which will detail the strategic direction for economic growth over the next five years, including 2026. In our assessment, for China to sustain high growth rates, it will be crucial to strengthen domestic consumption, ideally through enhancements to social security, which would boost household confidence and stimulate domestic demand. Thus, China's economic performance in the coming years will depend on the government's ability to diagnose the economy and calibrate economic policies in a way that sustains domestic confidence.

1

2

The weak dollar scenario is expected to continue

USD vs Rates differential (US - GE)



We continue to expect further weakening of the dollar ahead. The real broad dollar has remained relatively stable since July, after the sharp depreciation that began in February, following the exceptionally strong level recorded in January. On one hand, the Fed's interest rate differential versus the rest of the world points to a stable dollar ahead, which suggests little room for further depreciation if we consider that our scenario has a bit less Fed cuts than market pricing (terminal around 3.0%, versus our scenario of 3.4%) and close to what the market is pricing for the ECB (terminal around 2.0%).

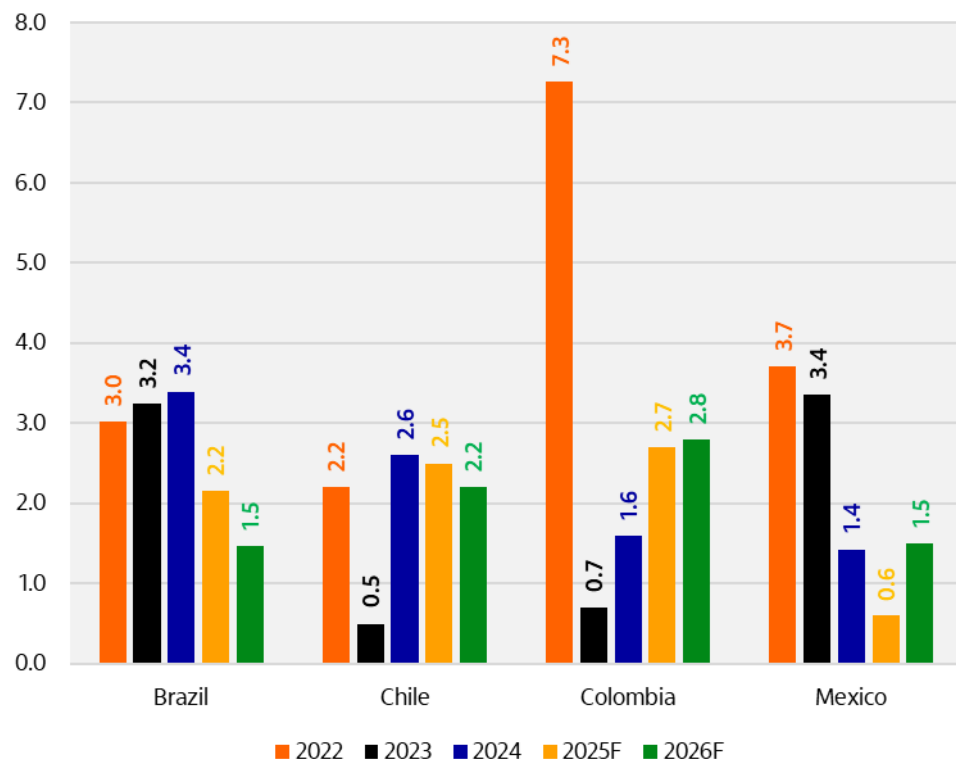
However, we consider that the US institutional risk perception factor is an important component that may continue to pull the dollar to lower levels ahead, a risk that could be amplified in the discussion of the succession to the Fed's presidency. We expect the Euro at 1.20 and, for the DXY, we expect a decline to 95.9 by the end of this year, versus the current level around 98.

1

2

Latin America: forecasts largely unchanged this month.

GDP Growth in LatAm countries

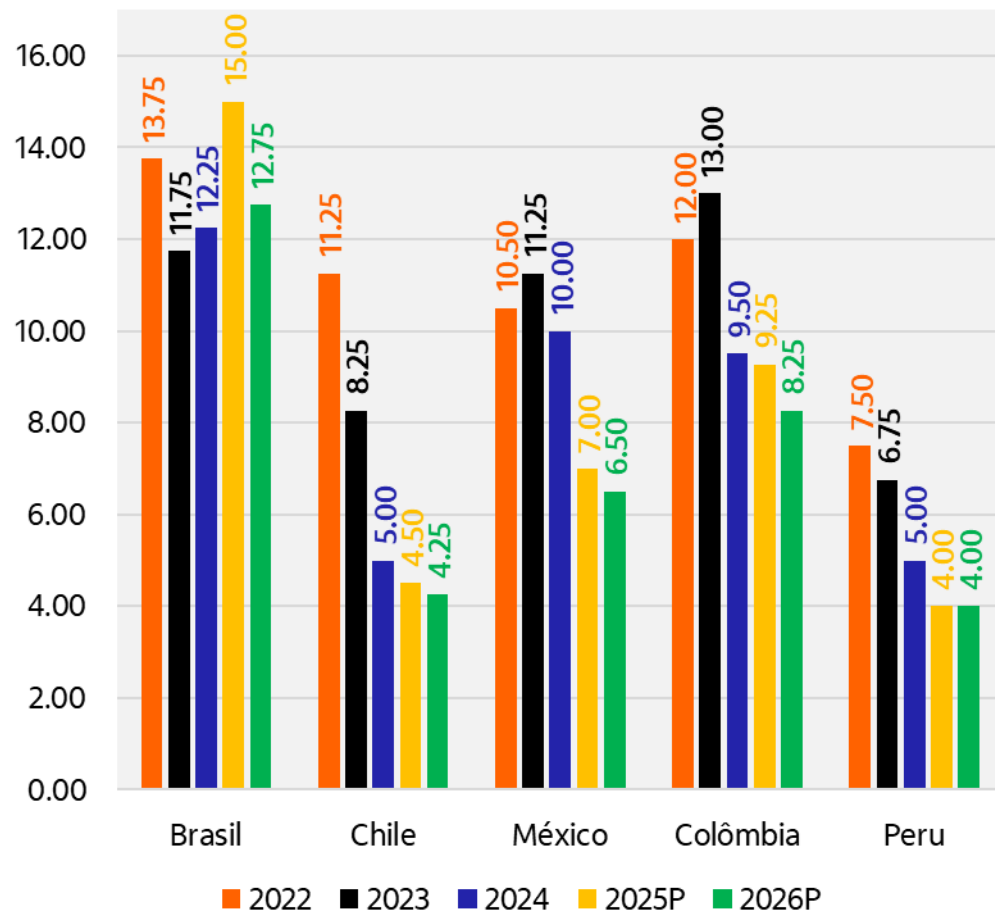


Positive spillovers from higher US growth. We revised our 2026 GDP growth forecast up in Mexico, to 1.5% from 1.2%, driven by an upward revision to our US growth forecast, stronger fiscal spending, and lower rates. At the margin, following the activity contraction in the quarter ending in July (0.4% QoQ/SAAR), leading indicators for the rest of 3Q suggest a more positive outlook, leading us to leave our 2025 GDP growth forecast at 0.6%. We also slightly raised our 2025 growth forecast in Peru to 3.0%, from 2.9%, mainly because of better-than-expected prints at the margin, as terms-of-trade continue to provide an important tailwind.

Elsewhere, we kept our growth forecasts unchanged. In Chile, we are looking through the recent mining-related activity disappointment that took place in August and maintained our 2025 GDP growth forecast at 2.5% and at 2.2% in 2026. Strong capital imports growth, improving household and business sentiment, along with a gradual positive swing in commercial credit suggest the non-mining investment recovery may gain further steam towards next year. In Colombia, we left our 2025 GDP growth forecast at 2.7% and 2.8% in 2026, with activity remaining resilient at the margin and the labor market tight, despite monetary policy well within contractionary territory.

Latin America: Inflation is still a source of concern in many economies

Latam: Monetary Policy



Inflation remains a concern in several economies of the region, as we flagged last month. In Colombia, we raised our year-end CPI forecasts to 5.2% from 5.1% in 2025 and to 4.2% from 4.0% in 2026, as upside risks we had flagged in previous months have begun to materialize. Medium-term survey-based inflation expectations continue to drift further from the 3% target, posing risks of greater inflation inertia and an erosion of the target's credibility. In Mexico, even though core inflation dynamics improved recently, we kept our CPI forecasts at 4.1% in 2025, and 3.7% in 2026. Similarly, we kept our CPI forecasts in Chile at 3.9% and 3.0% in 2025, and 2026 respectively. The outlier is Peru, in which we revised our yearend inflation forecast down to 1.8%, from 2.0%,

Terminal rates unchanged. As expected, Banxico cut the policy rate again by 25-bps to 7.5% in the last meeting and kept the forward guidance unchanged. Barring any shocks, if the current dynamics remain in place, and in the context of a widening negative output gap, Banxico is likely to maintain its forward guidance in November, pointing towards an extension of the cycle into 2026. We maintained our year-end forecast for the monetary policy rate at 7.0% in 2025 and 6.5% in 2026, and we continue to expect consecutive cuts. In Chile and Peru, we kept our policy rate forecasts unchanged, ending the respective cycles at neutral levels (4.25% and 4.0%, respectively). In Colombia, concerning inflation dynamics and resilient activity lead us to envisage BanRep staying on hold for longer, with the policy rate at 9.25% through yearend and the first half of 2026. We see an easing cycle, with continuous moves, starting in the second half of 2026 to end at 8.25%.

Never a dull moment in Argentina. Although support from the US Treasury should reduce pressure on the currency, we expect a weaker ARS by the end of the year, in order to encourage USD purchases and reserve accumulation. Assuming a limited pass-through for the remainder of the year, we foresee inflation reaching 30.5% by YE25, up from 29.5% previously.

LatAm: compared scenario

World

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	3.1	3.0	3.0	2.8

Brazil

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	2.2	2.2	1.5	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 (%)	4.7	5.0	4.3	4.4

Argentina

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

Colombia

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	2.7	2.7	2.8	2.8
COP / USD (eop)	4000	4000	4000	4000
Monetary Policy Rate (eop,%)	9.25	9.25	8.25	8.25
CPI (%)	5.2	5.1	4.2	4.0

Paraguay

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	5.0	4.3	4.0	3.5
PYG / USD (eop)	7150	7400	7200	7450
Monetary Policy Rate (eop,%)	6.00	6.00	6.00	6.00
CPI (%)	4.2	4.2	3.5	3.5

Source: Itau

Latin America and Caribbean

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	2.4	2.4	2.2	2.1

Mexico

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	0.6	0.6	1.5	1.2
MXN / USD (eop)	19.0	19.0	19.5	19.5
Monetary Policy Rate (eop,%)	7.00	7.00	6.50	6.50
CPI (%)	4.1	4.1	3.7	3.7

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	4.25	4.25
CPI (%)	3.9	3.9	3.0	3.0

Peru

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	3.0	2.9	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 (%)	1.8	2.0	2.0	2.0

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	8.00	7.25	7.25
CPI (%)	3.6	3.6	4.5	4.5

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	95	95	85	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	9900	9400	10150	9650
Corn (Usd/bu)	437	592	656	480	444	415	415	415	415
Soy (Usd/bu)	1207	1290	1474	1311	984	1030	1030	1070	1070
Wheat (Usd/bu)	604	790	749	619	548	550	550	600	600
Sugar (Usd/lb)	15	19	20	22	20	16	16	16	16
Coffee (Usd/lb)	123	235	166	188	321	350	350	300	300

Source: BBG, Itaú

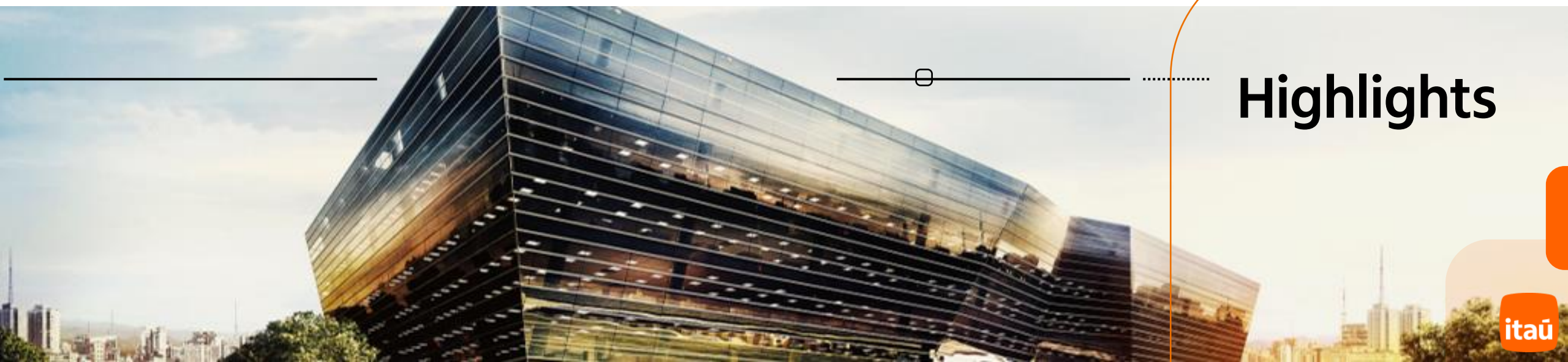
An abstract graphic consisting of several overlapping, hand-drawn orange lines that form a large, irregular, rounded shape, resembling a stylized oval or a series of concentric loops. The lines are thin and have a slightly textured, sketchy appearance.

Brazil

Introduction – Brazil

The economy slows down, uncertainties remain

- We kept our forecasts for the exchange rate at R\$/US\$ 5.35 for 2025 and R\$/US\$ 5.50 for 2026. The BRL benefits from the weak-dollar environment, but domestic factors tend to limit further gains of the currency. We revised our forecast for the current account deficit to 3.3% of GDP in 2025 (from 3.2% previously) and kept the 2026 forecast at 3.1%.
- **The latest data points to a continued slowdown of the Brazilian economy in the third quarter of 2025.** We maintained our GDP growth forecasts at 2.2% for 2025, with a slight downside bias, and at 1.5% for 2026, with an upside bias. Recent data shows that the labor market remains resilient, but incipient signs of cooling are emerging, in line with our expectation of a slight increase in the unemployment rate in the coming months, ending the year at 6.2% in 2025 and 6.5% in 2026 – levels below the neutral rate, which we estimate around 8.0%.
- We revised our 2025 IPCA inflation forecast from 5.0% to 4.7% incorporating the surprises from the latest releases, with the main contribution coming from **the food group for the remainder of the year.** For 2026, we revised it to 4.3% (from 4.4%), reflecting lower inflation inertia.
- **We kept our primary balance projection at -0.6% in 2025 and revised it to -0.8% in 2026 (from -1.0%).** With the approval of the income tax reform in the Lower House in similar terms to those sent by the government, we now incorporate a full (previously only partial) compensation for the income tax exemption. However, the challenge to meet the lower bound of the 2026 target remains high (around 0.4% of GDP).
- **The Copom has reaffirmed its commitment to keeping interest rates high for an extended period to ensure inflation convergence to the target.** Despite mixed signs of economic deceleration and falling inflation, the labor market remains resilient and expectations continue substantially above the target. We maintain our projection for the start of the easing cycle in 1Q26, taking the Selic rate to 12.75% p.a. in 2026.



Highlights

	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	12,658	12,663	13,359	13,405
Nominal GDP - USD bn	1,475	1,670	1,951	2,192	2,179	2,269	2,266	2,460	2,468
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	10,632	10,616	11,482	11,522
Nation-wide Unemployment Rate - year avg, NSA	13.5	13.5	9.5	8.0	6.9	6.1	6.1	6.4	6.4
Nation-wide Unemployment Rate - year end (*)	14.7	11.6	8.4	7.9	6.6	6.2	6.2	6.5	6.5
Inflation									
IPCA - %	4.5	10.1	5.8	4.6	4.8	4.7	5.0	4.3	4.4
IGP-M - %	23.1	17.8	5.5	-3.2	6.5	1.1	2.0	3.4	3.5
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	5.57	5.43	5.43
Trade Balance - USD bn	50	61	62	99	75	65	65	58	58
Current Account - % GDP	-1.6	-2.4	-2.2	-1.2	-3.0	-3.3	-3.2	-3.1	-3.1
Direct Investment (liabilities) - % GDP	3.0	2.8	4.7	2.8	3.2	3.7	3.8	3.7	3.7
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	-0.8	-1.0
Nominal Balance - % GDP	-13.3	-4.3	-4.6	-8.8	-8.5	-8.7	-8.8	-9.3	-9.5
Gross Public Debt - % GDP	86.9	77.3	71.7	73.8	76.5	79.1	79.2	84.4	84.4
Net Public Debt - % GDP	61.4	55.1	56.1	60.4	61.5	67.4	67.4	72.9	72.9
Growth of public spending (% real, pa, **)	29.2	-24.7	6.0	7.6	3.2	4.0	3.7	2.9	2.9

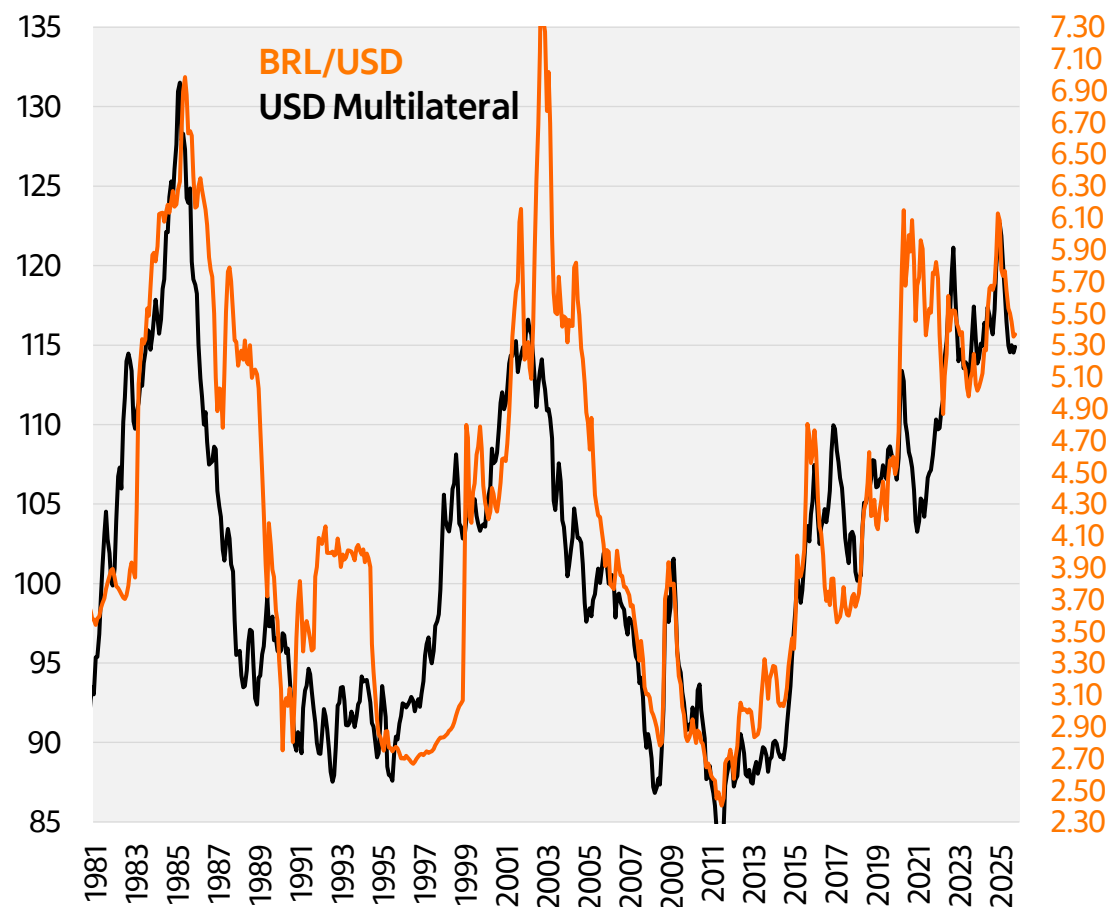
Source: IBGE, FGV, BCB and Itaú

(*) 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.

BRL: supported by external factors, but local fundamentals may weigh ahead

Weaker dollar globally supports the BRL



We maintained our exchange rate forecasts at R\$/US\$ 5.35 for 2025 and R\$/US\$ 5.50 for 2026. In the short term, the Real remains supported by the Federal Reserve's interest rate cuts and the expectation of a weaker dollar level than observed in recent years. However, domestic fundamentals may limit a more benign scenario, as the interest rate differential tends to narrow when the Central Bank starts cutting the Selic rate, the risk premium tends to be more pressured, given the trajectory of public debt, and the performance of external accounts is expected to remain weak.

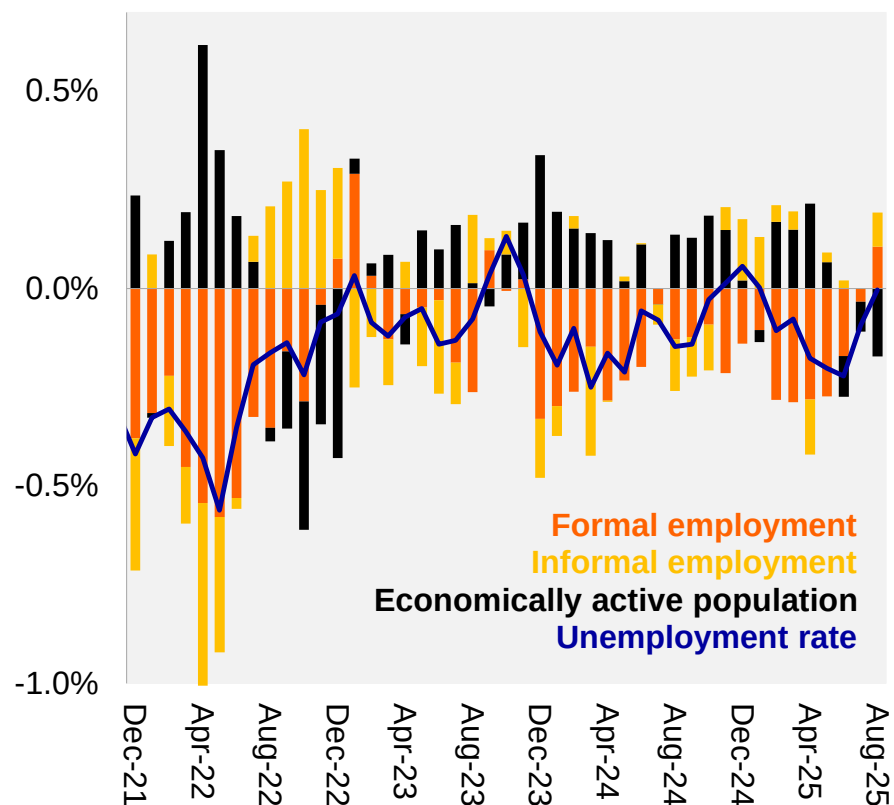
We revised our forecast for the current account deficit to 3.3% of GDP in 2025 (from 3.2% previously) and maintained our projection of 3.1% in 2026. The deterioration in the short-term forecast reflects the latest revision to the Income timeseries, which increased Profit and Dividend outflows in 2024 and 2025, as well as the increase in the net external liability that remunerates these flows, reflecting the appreciation of the Real observed this year.

1

2

Activity: data shows slowdown in 3Q25

Breakdown of the unemployment rate variation



The latest data indicates a continuation of the economic slowdown process in 3Q25. Despite a slight improvement in the services sector in August, our daily activity indicator (IDAT-Activity) signals another contraction in goods and services spending in September. **For 3Q25, we maintain our estimate of a 0.3% quarter-over-quarter increase (seasonally adjusted) and a 1.9% year-over-year rise.** This projection takes into account the temporary boost to consumption from the payments of court-ordered debts released in late July and early August, with more evident effects in August and, especially, in September, in line with our internal data

Given this picture, we maintained our GDP growth forecast at 2.2% for 2025, with a slight downside bias, reflecting uncertainties in the credit market. Payroll-deducted loan disbursements to INSS retirees have been recovering more slowly than expected following the biometric authentication requirement imposed. If the volume of disbursements does not return to previous levels, we estimate a -0.1pp impact on GDP this year. In the balance of risks, we also highlight the effects of the IOF changes, so far concentrated on short-term lines, with the possibility of spillover into medium-term maturities, which could further impact economic activity. **For 2026, we maintained the growth projection of 1.5%, with repetition of the seasonal pattern seen in recent years: higher dynamism in the first half, followed by slowdown in the second half.** The balance of risks remains with an upside bias, in light of the potential adoption of countercyclical fiscal and quasi-fiscal measures.

Finally, the most recent indicators suggest a still resilient labor market, but with incipient signs of cooling, in line with our expectation of a slight rise in the unemployment rate in the coming months. The Caged for August registered the creation of 48,000 jobs, decelerating from previous months and below the estimated neutral level of 60,000. The unemployment rate remains at a historically low level — 5.7% with seasonal adjustment in the August reading —, but, unlike in previous releases, this stability was sustained by a drop in the participation rate, since both formal and informal employment declined in the month. Formal employment fell for the first time since September 2023. Our IDAT - Labor Market for September, in turn, pointed to a slight deceleration in wages and the employed population in the three-month moving average, across all sectors. We maintained our projection for the unemployment rate at 6.2% in 2025 and 6.5% in 2026.

Inflation: downward revision

Weight		2023	2024	2025	2026
100.0	IPCA	4,6	4,8	4.7	4.3
74.1	Market-set prices	3.1	4.9	4.7	4.5
15.9	Food at home	-0.5	8.2	4.0	5.3
22.5	Industrials	1.1	2.9	3.1	2.2
35.8	Services	6.2	4.8	6.0	5.6
25.9	Regulated prices	9.1	4.7	4.8	3.6
3.9	Electricity	9.5	-0.4	5.3	4.1
5.1	Gasoline	12.1	9.7	3.5	3.0

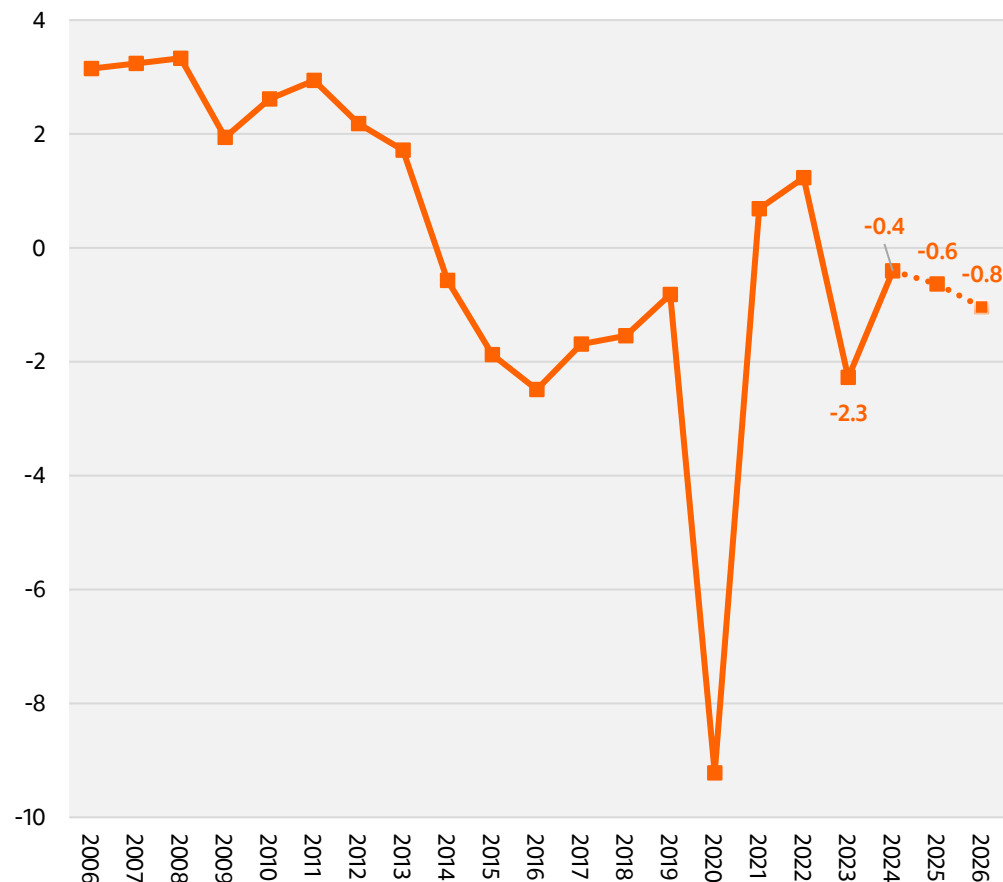
We have reduced again our forecast for the 2025 IPCA consumer inflation, from 5.0% to 4.7%. We incorporated the surprises from the latest releases, with the main contribution coming from the short-term revision of the food group.

For 2025, we assess that inflation risks are skewed to the downside. Food prices may face less pressure, either due to a slower reversal of the livestock cycle or perishable item prices. Additionally, a more appreciated currency and lower oil prices increase the chance of gasoline price cuts. On the other hand, lower rainfall increases the likelihood of triggering the yellow tariff flag by year-end, which could raise electricity costs.

For 2026, we revised our inflation forecast to 4.3% (from 4.4%), reflecting lower inflation inertia. The currency appreciation observed this year should be passed through with a lag to industrial goods prices, but the expectation of a more depreciated currency throughout 2026 tends to offset this effect, limiting more lasting relief on inflation. The balance of risks is symmetric: on one side, the heated labor market remains the main upside driver for IPCA; on the other, a more appreciated currency than projected would have a downward effect on the inflation of tradable goods.

Public accounts: primary balance improvement with prospect of full compensation for income tax exemption

Primary Result
(% of GDP)



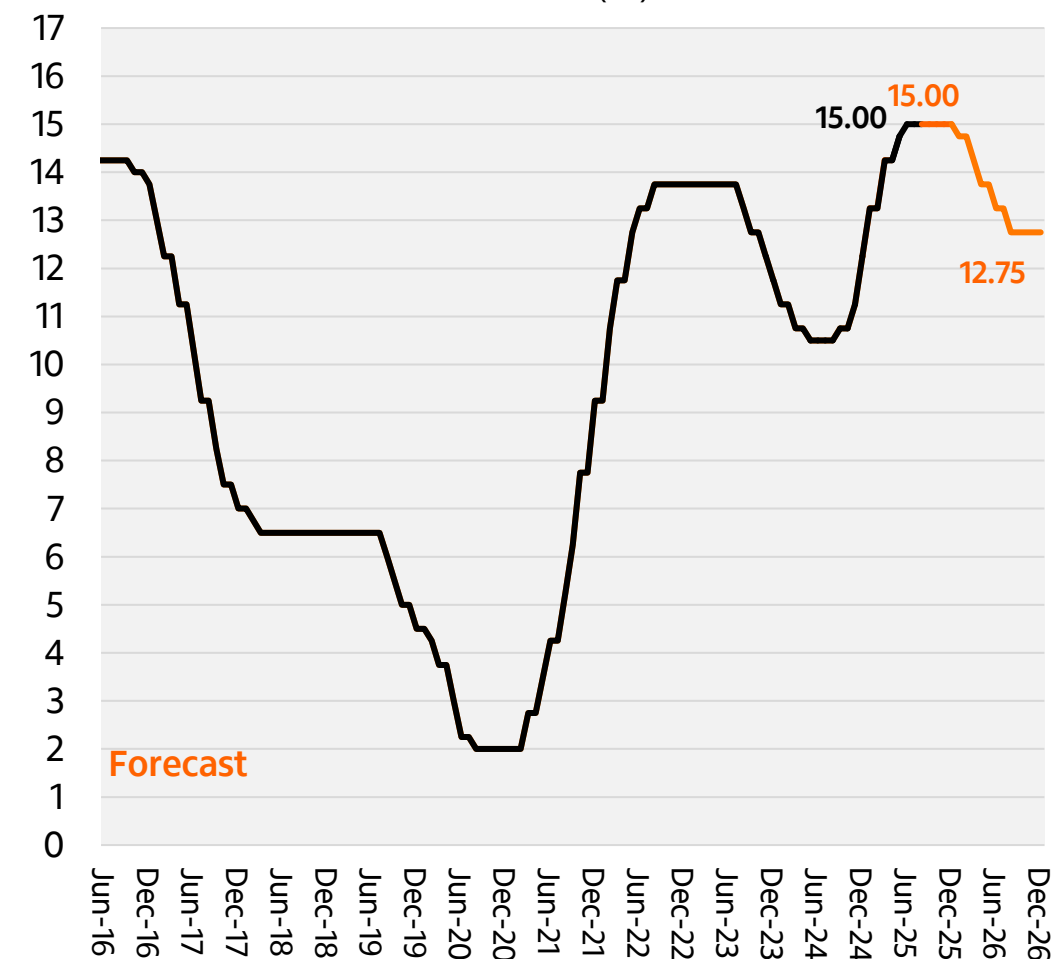
We have kept our primary balance projection at **-0.6% of GDP in 2025**. Current data shows tax collection still at high levels, with non-recurring factors offsetting the deceleration in tax revenues, while expenditure accelerated in recent months. For the year, we continue to see the government close to meeting the lower bound of the -0.6% of GDP target (considering discounts and the lower bound of the official 0% target).

For 2026, we have revised our projection for the primary balance from **-1.0% to -0.8% of GDP**. With approval of the income tax reform in the Lower House in similar terms to those proposed by the government, we now incorporate a full compensation (previously only partial) for the income tax exemption. Despite the improvement, the challenge to meet the lower bound of the target (-0.4% of GDP, considering deductions and the 0.25% lower bound) remains high, heavily reliant on uncertain or extraordinary revenues.

Going forward, the main risk is the implementation of initiatives that alter, circumvent, or disfigure fiscal rules, explicitly or implicitly, accommodating higher growth rates of primary expenditures and/or larger revenue waivers. We believe that structural measures addressing the rigidity and high growth of mandatory expenditures would bring greater credibility to the fiscal adjustment needed to ensure public debt sustainability.

Monetary policy: perseverance, firmness and serenity

Selic Rate (%)



The Copom continues to reaffirm its commitment to keeping the interest rate at a high level for a prolonged period, in order to ensure the convergence of inflation to the target over the relevant horizon. In its recent communications (the minutes of the September meeting and the 3rd Monetary Policy Report), the Central Bank presented inflation projections that remain above the target until 1Q28 and, therefore, do not support the discussion of interest rate cuts before the end of this year. The estimate for the output gap was once again revised upwards, and is likely to undergo further adjustment after the approval of the income tax reform.

It is now possible to observe some signs of the impact of monetary policy on the economy, but with data still ambiguous, caution and perseverance in the monetary policy strategy are essential. The exchange rate has appreciated, aided by the external conditions, but also supported by a high-interest rate differential. The 2Q25 GDP and 3Q25 activity indicators reinforce the view of a gradual slowdown in activity, although signals remain divergent, with the labor market still resilient. Current inflation has declined, but inflation expectations measured by the Focus survey remain substantially above the target for different time horizons.

We maintain our expectation for the start of the easing cycle in January 2026, with an initial reduction of 0.25pp, taking the Selic rate to 12.75% p.a. over the year. The Central Bank's model should show inflation closer to the target, at the relevant horizon, at the January meeting, allowing for the start of a gradual monetary easing – that is, at a slow pace and with a smaller cycle than (the 275-bp reduction) currently expected by market agents in the Focus survey. There are risks to this scenario: stronger growth, which could motivate a further revision of the output gap, or a labor market that continues to surprise with its resilience, or even a more conservative stance by the Central Bank, could delay the start of the cuts. It is worth noting that a cycle of the size currently expected in the Focus Survey (with the Selic rate reaching 12.25% still in 2026) only seems possible if there is a more significant currency appreciation.

Would you like to continue this conversation?

With the Itaú Economic Research app you will be up to date with the latest data releases and reports.

Download it now on your app store.



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.itaubr.com/atendaitau/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.