Economic Outlook

July 2025

Global

Introduction

Global

Declining attractiveness of US assets, weaker USD

- **The weak U.S. dollar trend is likely to persist**. This movement stems from both structural and cyclical factors, such as the worsening US fiscal outlook, erratic trade policy, geopolitical risks, and attacks on the Fed's independence; all while growth in the rest of the world remains stable. We now forecast the EUR at 1.20 (previously 1.12) and the CNY at 7.15 (from 7.20). However, the impact may differ for each country.

- **U.S.:** We continue to expect only one Fed rate cut this year (in December), given the still-resilient labor market and uncertainty over the inflationary impact of the tariff shock.

- **Europe:** We expect growth of 0.8% in 2025 and have lowered our 2026 forecast to 1.2% (from 1.5%), reflecting expectations of a slower implementation of German defense spending.

- **China**: We maintain our growth forecasts at 4.5% for 2025 and 4.0% for 2026. Resilient activity, supported by exports excluding the U.S. and the implementation of the already announced fiscal package, reduces the need for additional stimulus.

- **Latin America:** Tariff uncertainty looms.

Highlights

Global

Our forecasts:

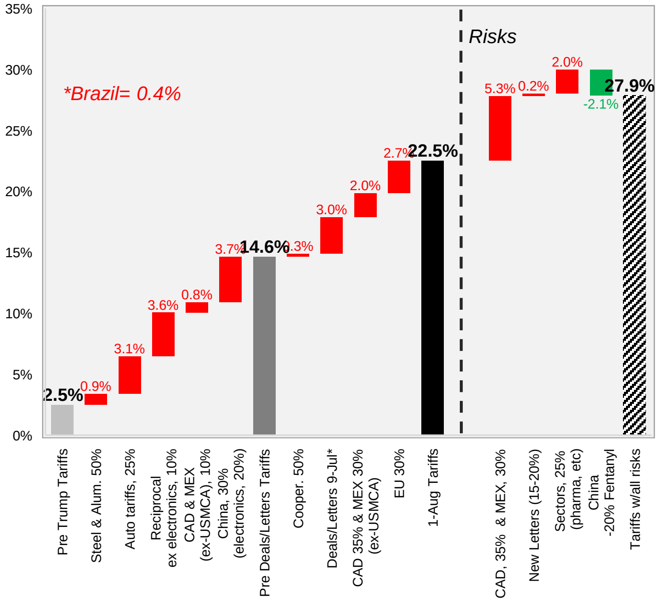
	2019	2020	2021	2022	2023	2024	2025	2026
World	2.8	-2.8	6.3	3.5	3.2	3.2	2.9	2.8
U.S.	2.6	-2.2	6.1	2.5	2.9	2.8	1.7	1.5
Euro Zone	1.6	-6.2	6.3	3.6	0.4	0.8	0.8	1.2
China	6.0	2.3	8.4	3.0	5.2	5.0	4.5	4.0
Fed Funds	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	4.00-4.25	3.50-3.75
10Y U.S. Treasury	2.0	0.9	1.5	3.9	3.9	4.6	4.50	4.25

Source: FMI, Bloomberg, Itaú

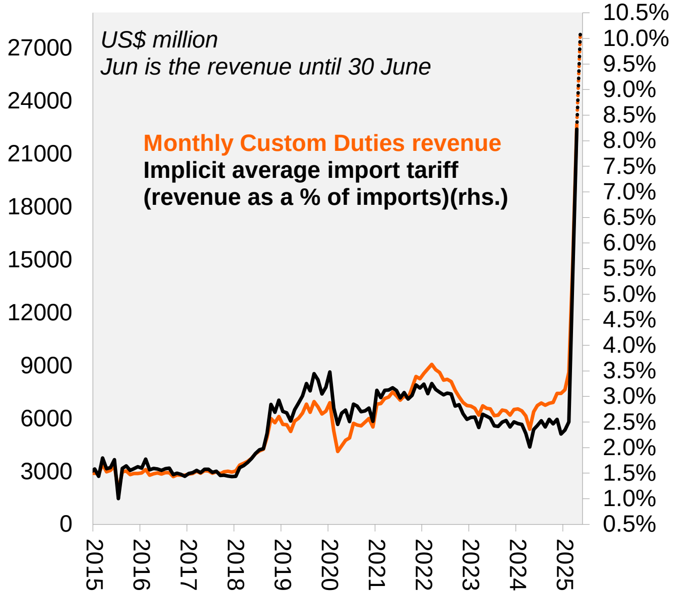
Global

High uncertainty amid new round of tariff threats

Tariffs: impact on effective US tariff (pp)



Implicit US custom duties already at 10%



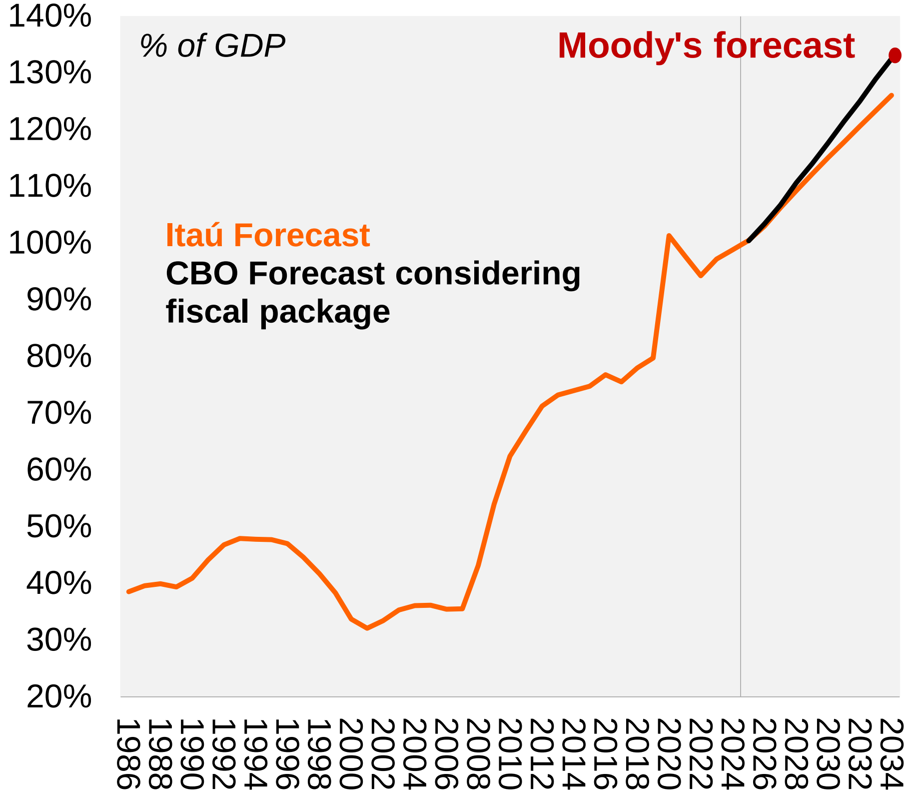
Source: Itaú

The Trump administration postponed the deadline for the reinstatement of reciprocal tariffs from July 9th to August 1st, while simultaneously notifying several countries of its intention to increase tariffs to levels, on average, close to those promised in April, in addition to a 50% tariff on copper imports. The new round of threats, even if ultimately not implemented, keeps uncertainty at high levels and should contribute to a cautious approach by the Fed in assessing the impacts and the outlook for inflation and economic activity. **Progress in reaching final trade agreements remains limited, and, going forward, it will be important to monitor tariffs for the United States' key trading partners, such as Europe, Canada and Mexico, which have also faced new threats of tariff increases, while China's deadline is August 12.** 1

Looking ahead, there are risks of higher tariffs, driven by the challenges of negotiating comprehensive trade agreements and the potential for sector-specific tariffs, which are expected to be discussed later this year. We forecast that the current average tariff rate would rise from 14.6% to 22.5% (see chart) if the tariff increases notified to countries so far are implemented and could reach 27.9% if the risks of sector-specific tariffs and a hike in reciprocal tariffs on the rest of the world materialize. **Considering the ratio between tariff revenues and imports, the implied tariff rate in the US is currently estimated at 10%.** 2

U.S.: We continue to expect this scenario to lead the Fed to cut rates only in December

EUA: public debt increasing sharply



1 **Despite the uncertainty, the US economy continues to demonstrate resilience in the labor market and moderate inflation. However, we expect the inflationary impact of tariffs to emerge in the future**. The impact of tariffs on inflation has taken longer than expected to materialize, showing little effect in the May CPI and with only modest acceleration expected for June. Nevertheless, we continue to expect the tariff-driven inflation shock to be significant, pushing the CPI core to 3.8% and the PCE core to 3.5%.

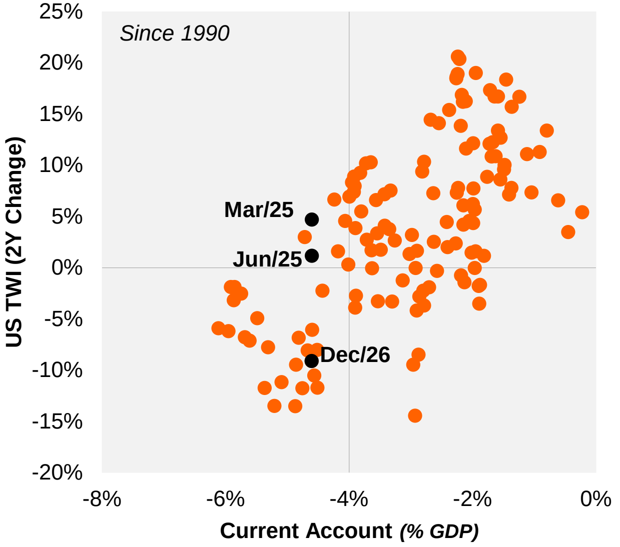
2 **We continue to expect this scenario to lead the Fed to cut rates only in December**. The June FOMC meeting revealed a significant split among members' rate-cut projections, with 8 out of 19 members expecting two cuts this year, while 7 members expect no cuts. This division suggests that a resilient economy and inflation beginning to show some tariff-related effects are likely to delay rate cuts.

3 **The final approval of the fiscal package confirms a scenario of rising deficit and accelerating debt ahead, putting pressure on long-term interest rates and the attractiveness of the US dollar**. Congress approved the final package projecting a nominal fiscal deficit rising to 6.5–7.0% of GDP in the coming years, compared to an estimate of 5.5–6.0% for this year . The lack of urgency in addressing the negative fiscal trajectory is expected to continue pressuring long-term Treasury yields and is one of the main drivers behind our projection of the 10-year Treasury yield at 4.5% this year. This scenario has intensified the recent weakening of the dollar amid a global context of reduced attractiveness of US assets.

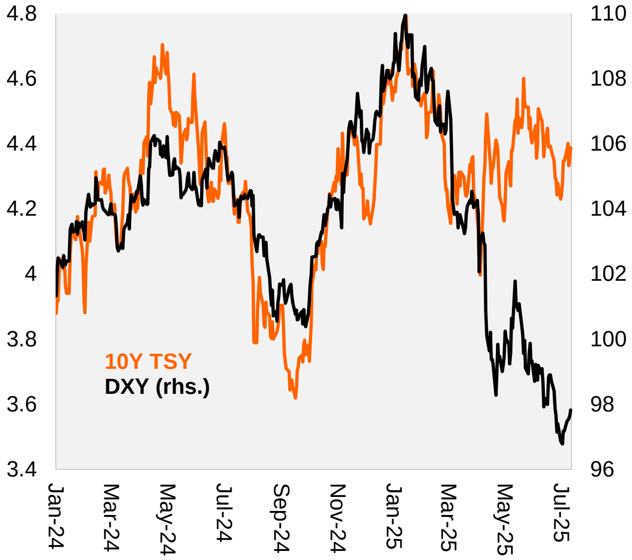
Source: Haver, Itaú

U.S.: The weak US dollar scenario is likely to continue going forward

With current account > 4% GDP, USD tends to depreciate



USD has decoupled from rates



The dollar remains on a downward trend driven by both structural and cyclical factors, including the negative fiscal outlook mentioned above, a high current account deficit, erratic tariff policies, geopolitical risks, attacks on the Fed's independence, and stable growth in the rest of the world. The first chart shows that the high current account deficit, currently at 6% in 1Q25, is historically consistent with an additional dollar depreciation of 5 to 10%. **4**

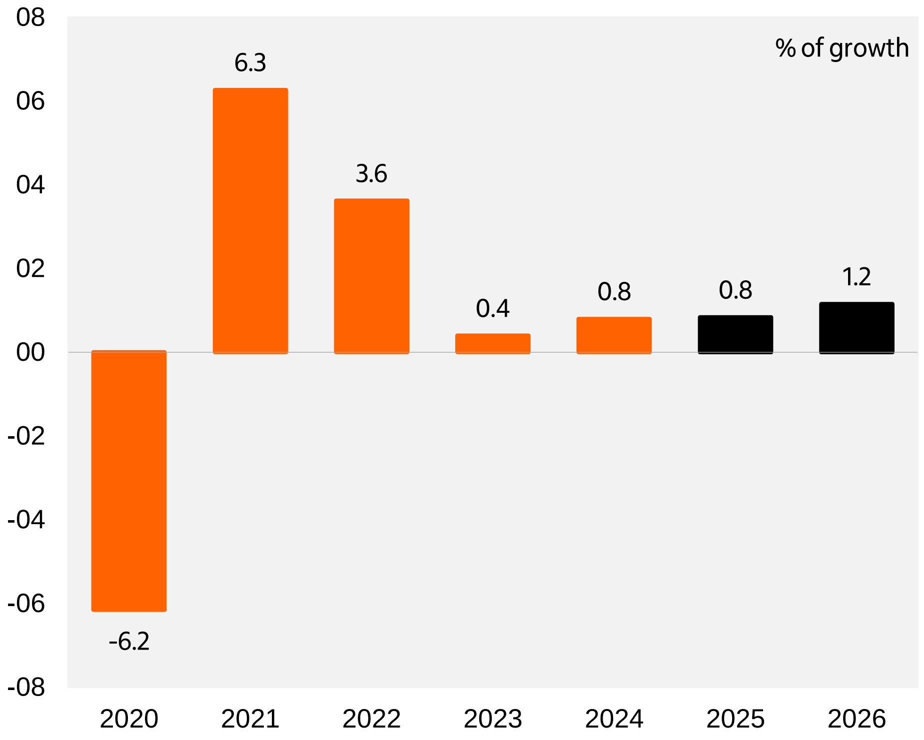
These factors questioning American exceptionalism amid geopolitical and economic policy turmoil have led to decreased sensitivity and a decoupling of the relationship between the currency and interest rates – something that is likely to continue going forward. **Given this environment of greater global aversion to American assets, we have revised our projections for the EUR (from 1.12 to 1.20) and the CNY (from 7.20 to 7.15).** **5**

However, we reckon the impact may differ for each country. In particular, countries that, for instance, face relatively larger tariff increases and/or demonstrate more domestic challenges could see higher risk premium levels offsetting the weaker US dollar. **6**

Source: Haver, Itaú

Europe: we maintain our growth projection for 2025 at 0.8%, but for 2026, we revise it down to 1.2% (from 1.5%)

Euro Zone: GDP growth



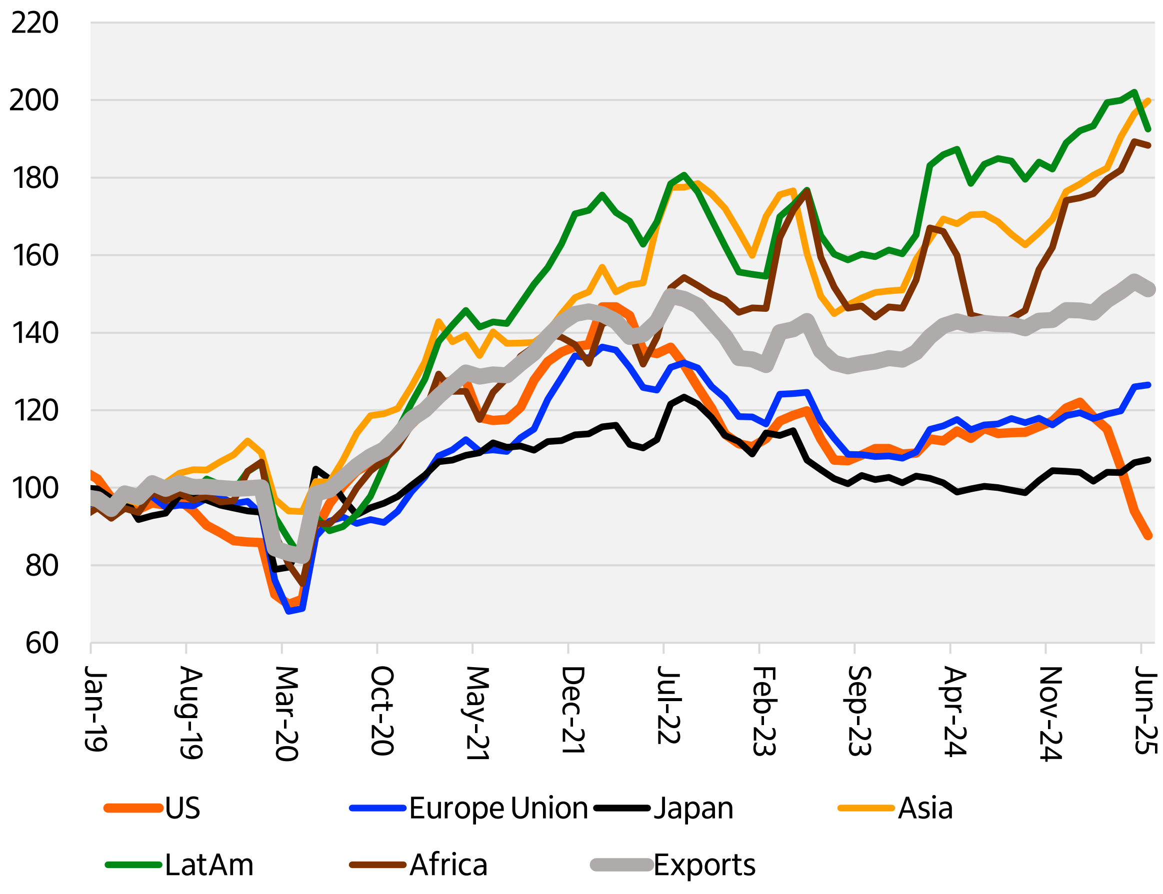
For Europe, we maintain our growth projection for 2025 at 0.8%, but for 2026, we revise it down to 1.2% (from 1.5%) due to expectations of slower implementation of German fiscal stimulus. Growth remains supported by the effects of lower interest rates and the front load of exports. For 2QGDP, growth may be marginally negative (-0.3% quarter-on-quarter; Q1 was 0.6%) due to the payback from strong exports earlier in the year, but this does not change the positive fundamentals and is unlikely to lead to new interest rate cuts by the European Central Bank, which is expected to keep the policy rate at 2.0%. 1

For 2026, the German government has started discussing the implementation of the fiscal stimulus announced in March. The signaling was for a rapid rollout, especially for infrastructure (~1.2% of GDP per year), but a slower pace for defense spending (3.5% by 2029, vs. 3.0% by 2026 we had previously considered). Thus, the fiscal stimulus for next year was reduced (1.8% of GDP vs. 3.0%), leading us to lower our eurozone growth projection from 1.5% to 1.2%. Nevertheless, this does not change our view that the German fiscal announcement was relevant for the region as a whole. 2

Source: Haver. Itaú

China: activity remains resilient due to expanding exports (excluding the US) and the rapid implementation of the fiscal package

China: Exports redirectioned by region



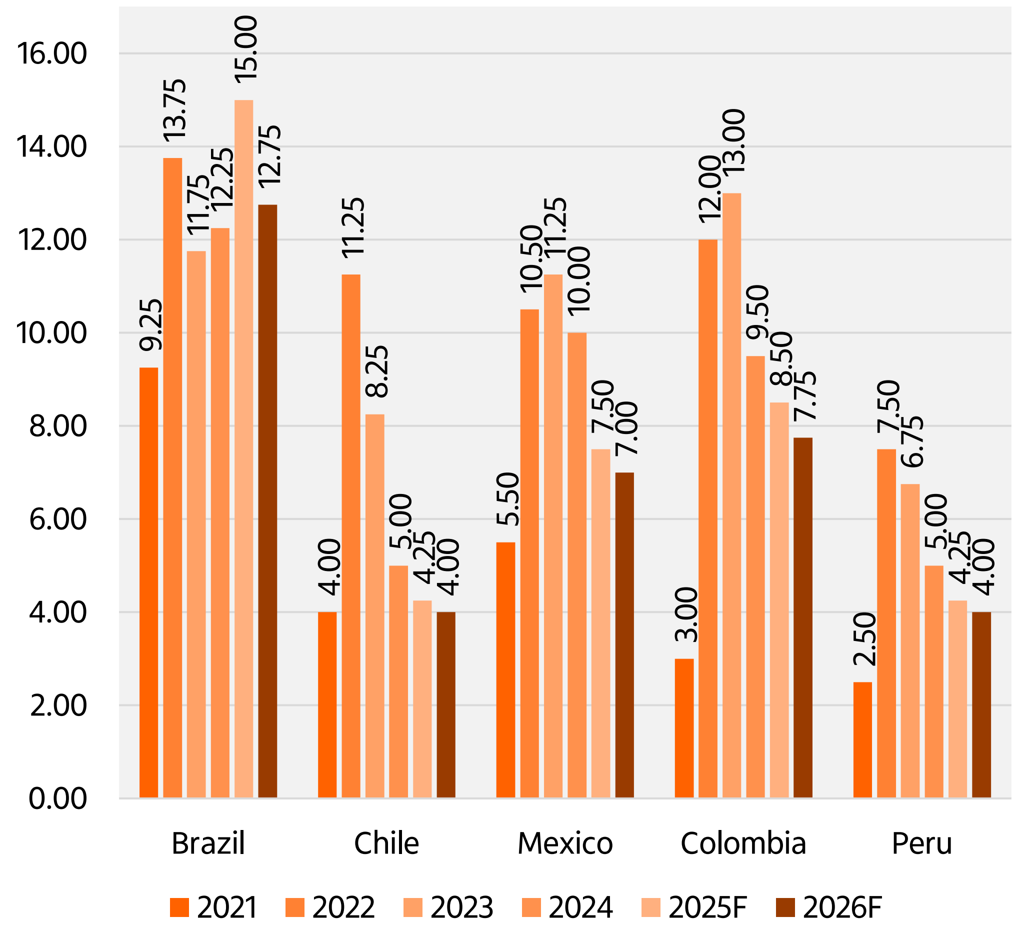
Source: BBG

For the China scenario, activity remains resilient due to expanding exports (excluding the US) and the rapid implementation of the fiscal package, which (for now) reduces the need for new stimulus measures. We maintain our growth projections at 4.5% for 2025 and 4.0% for 2026. Activity in the first half of the year was supported by two factors: first, the rapid rollout of the fiscal stimulus announced for the year, which has helped infrastructure investment; second, exports continue to grow positively, with Chinese products being redirected through Asian countries. 1

The increase in tariffs on Asian countries (such as Vietnam) is expected to reduce this redirection at the margin. Additionally, subsidies for the purchase of electronics, appliances, and automobiles have provided temporary support to consumption. Therefore, we do not expect new stimulus packages, and we assess that any potential discussion of new fiscal announcements is likely to be postponed to 2026 (instead of July this year), considering the smaller-than-expected impact on activity compared to the worst period of trade tensions, as well as the current marginal resilience of the data. 2

Latin America: Tariff uncertainty looms

LatAm monetary policy



Source: BBG. Itaú

Exchange rates throughout the region swing on US tariff effects. Even though we expect tariff-related uncertainty to maintain upward pressure on exchange rates in the near term, over time, we believe currencies throughout the region will strengthen due to the weakening of the global dollar (Argentina an exception, see final paragraph). As such, we revised our yearend currency forecasts towards a moderate appreciation in Chile, Colombia, Peru, and Mexico. 1

Minor tweaks to our inflation forecasts. Recent inflation dynamics and upside surprises led us to revise our 2025 yearend inflation forecast in Mexico up to 4.1%, from 3.9%, and 3.7% for year-end 2026, from 3.6%. In Chile, we maintained our year-end forecast at 3.8%, despite an important downside surprise in inflation in June. We revised our year-end inflation call in Peru down slightly to 2.2%, from 2.3%, driven by oil prices and the currency's performance. Finally, we maintained our year-end inflation forecast in Colombia (5.1%). 2

Fiscal woes lead to fewer cuts in Colombia. We still expect monetary policy to become less contractionary in several economies in the region. In Mexico, even though we revised inflation up, we maintained our call for Banxico to slow the pace of cuts to 25bps in the following two meetings reaching 7.5%, and then down to 7.0% next year. In Chile, the path is clear to resume cuts in the July monetary policy meeting, with a 25bp cut to 4.75%; our scenario considers another two cuts to 4.25% by year-end. In Colombia, we believe that fiscal concerns are likely to lead BanRep to adopt a more cautious approach, now considering only two cuts for the rest of the year to 8.75% (previously 8.5%), and then to 7.75% in 2026. 3

A weaker nominal exchange rate and higher inflation in Argentina. We revised our year-end CAD forecast to 1.9% of GDP, up from 1.3% in our previous scenario. We revised our exchange rate forecast to ARS/USD 1,400 by year end, from 1,300 in our previous scenario, leading to an upward revision to our year-end inflation forecast to 28.5%, from 27.5%. 4

Global

LatAm: compared scenario

World

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.2	**2.9**	2.9	**2.8**	2.8

Latin America and Caribbean

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	2.4	**2.4**	2.4	**2.2**	2.2

Brazil

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.4	**2.2**	2.2	**1.5**	1.5
BRL / USD (eop)	6.18	**5.65**	5.65	**5.65**	5.65
Monetary Policy Rate (eop,%)	12.25	**15.00**	15.00	**12.75**	12.75
IPCA (%)	4.8	**5.2**	5.3	**4.4**	4.4

Mexico

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.4	**0.2**	0.2	**1.0**	1.0
MXN / USD (eop)	20.8	**19.0**	20.0	**19.5**	20.5
Monetary Policy Rate (eop,%)	10.00	**7.50**	7.50	**7.00**	7.00
CPI (%)	4.2	**4.1**	3.9	**3.7**	3.6

Argentina

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	-1.7	**5.2**	5.2	**4.0**	4.0
ARS / USD (eop)	1033	**1400**	1300	**1630**	1515
Reference rate (eop,%)	32.0	**29.0**	29.0	**20.0**	20.0
CPI (%)	117.8	**28.5**	27.5	**20.0**	20.0

Chile

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	2.6	**2.6**	2.6	**2.0**	2.0
CLP / USD (eop)	996.5	**930.0**	940.0	**900.0**	910.0
Monetary Policy Rate (eop,%)	5.00	**4.25**	4.25	**4.00**	4.00
CPI (%)	4.5	**3.8**	3.8	**3.0**	3.0

Colombia

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.7	**2.5**	2.5	**2.5**	2.5
COP / USD (eop)	4409	**4100**	4300	**4100**	4200
Monetary Policy Rate (eop,%)	9.50	**8.75**	8.50	**7.75**	7.75
CPI (%)	5.2	**5.1**	5.1	**3.6**	3.6

Peru

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.3	**2.9**	2.8	**2.7**	2.7
PEN / USD (eop)	3.80	**3.60**	3.80	**3.60**	3.80
Monetary Policy Rate (eop,%)	5.00	**4.25**	4.25	**4.00**	4.00
CPI (%)	2.0	**2.2**	2.3	**2.0**	2.0

Paraguay

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	4.2	**4.3**	3.5	**3.5**	3.5
PYG / USD (eop)	7913	**8000**	8000	**8125**	8125
Monetary Policy Rate (eop,%)	6.00	**6.00**	6.00	**5.50**	5.50
CPI (%)	3.8	**4.0**	4.0	**3.5**	3.5

Uruguay

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.1	**2.3**	2.3	**2.5**	2.5
UYU / USD (eop)	44.1	**41.7**	42.6	**42.5**	43.5
Monetary Policy Rate (eop,%)	8.75	**8.50**	9.25	**8.00**	9.00
CPI (%)	5.5	**4.5**	4.7	**4.5**	4.7

Source: Itau

Global

Commodities forecasts:

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	**65**	65	**65**	65
Iron Ore (USD/tonne)	153	116	110	135	103	**95**	95	**85**	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9400**	9400	**9650**	9500
Corn (Usd/bu)	437	592	656	480	444	**415**	430	**415**	400
Soy (Usd/bu)	1207	1290	1474	1311	984	**1000**	1000	**1000**	970
Wheat (Usd/bu)	604	790	749	619	548	**600**	600	**630**	630
Sugar (Usd/lb)	15	19	20	22	20	**18**	18	**18**	18
Coffee (Usd/lb)	123	235	166	188	321	**250**	340	**260**	280

Source: BBG, Itaú

Source: Bloomberg, Itaú

Brazil

Introduction

Brazil

Tariffs stall improvements

– In recent weeks, the external environment has undergone developments that have influenced the dynamics of Brazilian assets. The expansionary fiscal and protectionist trade policy in the United States has narrowed the growth differential between the U.S. and the rest of the world, contributing to a weaker dollar globally. This, combined with a reduction in geopolitical tensions, supported the appreciation of emerging market assets, including the BRL. This trend would likely have continued, had it not been for the announcement of 50% tariffs on Brazilian exports to the U.S. **With opposing forces at play, we maintained our exchange rate forecast at BRL 5.65 for both 2025 and 2026.**

– **We maintained our GDP growth forecast at 2.2% for 2025 and 1.5% for 2026**. For this year, we revised the balance of risks from neutral to tilted to the downside, reflecting weaker-than-expected economic activity in 2Q25 and the impact of U.S.-imposed tariffs on growth going forward. For 2026, however, we continue to see upside risks to our projection. Regarding the labor market, our unemployment rate forecasts remain at 6.4% for 2025 and 6.9% for 2026.

– **We revised our 2025 IPCA inflation forecast to 5.2% from 5.3%, with the main drivers being lower food prices, influenced by the drop in corn prices, and the reduction of the IPI (industrialized products tax) on automobiles**. These effects are only partially offset by specific, already announced price adjustments in electricity and lottery services. The balance of risks for the year is tilted slightly to the downside. For 2026, we maintained our forecast at 4.4%.

– **We have kept our primary balance forecast at -0.6% for 2025 and updated it to -0.9% (from -0.8%) for 2026**. While the revenue loss in 2025 due to the reduction of the IOF tax is expected to be offset by extraordinary pre-salt surplus auctions in the next bimonthly report (July 22), we do not anticipate an immediate offset for 2026, which still leads to a worsening of the fiscal outlook for that year.

– Given the high uncertainty and the lagged effects of monetary policy, the Brazilian Central Bank's Monetary Policy Committee (Copom) likely ended the tightening cycle at its last meeting, keeping the rate at 15.00%. The monetary authority also signaled that interest rates will remain at this level for a rather extended period. **We expect the beginning of rate cuts only in the first quarter of next year, with the Selic rate ending 2026 at 12.75% per year**. Risks remain tilted toward an even later start to rate cuts, unless there are significant disinflationary shocks.

Brazil Forecasts:

	2019	2020	2021	2022	2023	2024	2025	2026
Economic activity								
GDP (%)	1.2	-3.3	4.8	3.0	3.2	3.4	2.2	1.5
Unemployment rate (%) – Dec.	11.7	14.7	11.6	8.4	7.9	6.6	6.4	6.9
Inflation								
IPCA (%)	4.3	4.5	10.1	5.8	4.6	4.8	5.2	4.4
IGP-M (%)	7.3	23.1	17.8	5.5	-3.2	6.5	1.3	3.6
Monetary Policy								
Selic rate (%, eop)	4.50	2.00	9.25	13.75	11.75	12.25	15.00	12.75
Selic rate (%, avg)	5.96	2.81	4.81	12.63	13.25	10.92	14.56	13.46
Public accounts								
Primary result (% GDP)	-0.8	-9.2	0.7	1.2	-2.3	-0.4	-0.6	-0.9
Gross debt (% GDP)	74.4	86.9	77.3	71.7	73.8	76.5	79.7	85.0
Growth of public spending (% real, pa*)	2.3	29.2	-24.7	6.0	7.6	3.2	3.2	2.3
External sector								
BRL/USD (eop)	4.03	5.19	5.57	5.28	4.85	6.18	5.65	5.65
BRL/EUR (eop)	4.52	6.34	6.30	5.65	5.34	6.40	6.78	6.78
Current Account (% GDP)	-3.6	-1.7	-2.4	-2.2	-1.3	-2.8	-2.6	-2.4
Trade balance (USD bi.)	35	50	61	62	99	75	71	74

(*) We do not consider the 2023 payment of extraordinary court-ordered debts (precatórios). Including it, spending grew by 12.5% in 2023 and fell by 0.9% in 2024.

Source: Itaú

Brazil

BRL: Weaker USD helps, but tariffs and domestic risks limit more favorable scenarios

Main Brazilian exports to the U.S. and respective tariffs

	Exports BZ-US (USD bn)	% of Total	Tariffs Jul/2025	Impact (USD bn)
Sectoral Tariffs	**10.1**	**25%**		**1.1**
Oil and derivatives	7.6	19%	0%	-
Steel	1.6	4%	50%	0.8
Vehicle parts	0.3	1%	25%	0.1
Vehicles	0.2	1%	25%	0.1
Copper	0.2	1%	50%	0.1
Aluminium	0.2	0%	50%	0.1
Manufactured Goods	**15.3**	**38%**		**7.7**
Machinery/equipment/engines	4.2	10%	50%	2.1
Aircraft	2.7	7%	50%	1.3
Others	8.4	21%	50%	4.2
Metallic/Extractive "Commodities"	**9.6**	**24%**		**4.8**
Iron	5.5	14%	50%	2.7
Wood and pulp	2.4	6%	50%	1.2
Others	1.7	4%	50%	0.8
Agricultural "Commodities"	**5.3**	**13%**		**2.6**
Coffee	2.1	5%	50%	1.0
Meats	1.0	3%	50%	0.5
Juice and fruits	1.3	3%	50%	0.7
Others	0.9	2%	50%	0.4
TOTAL	**40.2**	**100%**	**40%**	**16.2**

1 **The BRL had been benefiting from a favorable external environment, marked by a globally weaker dollar**. Although not the main driver of currency appreciation, the high-interest rate differential has also contributed as a supporting factor.

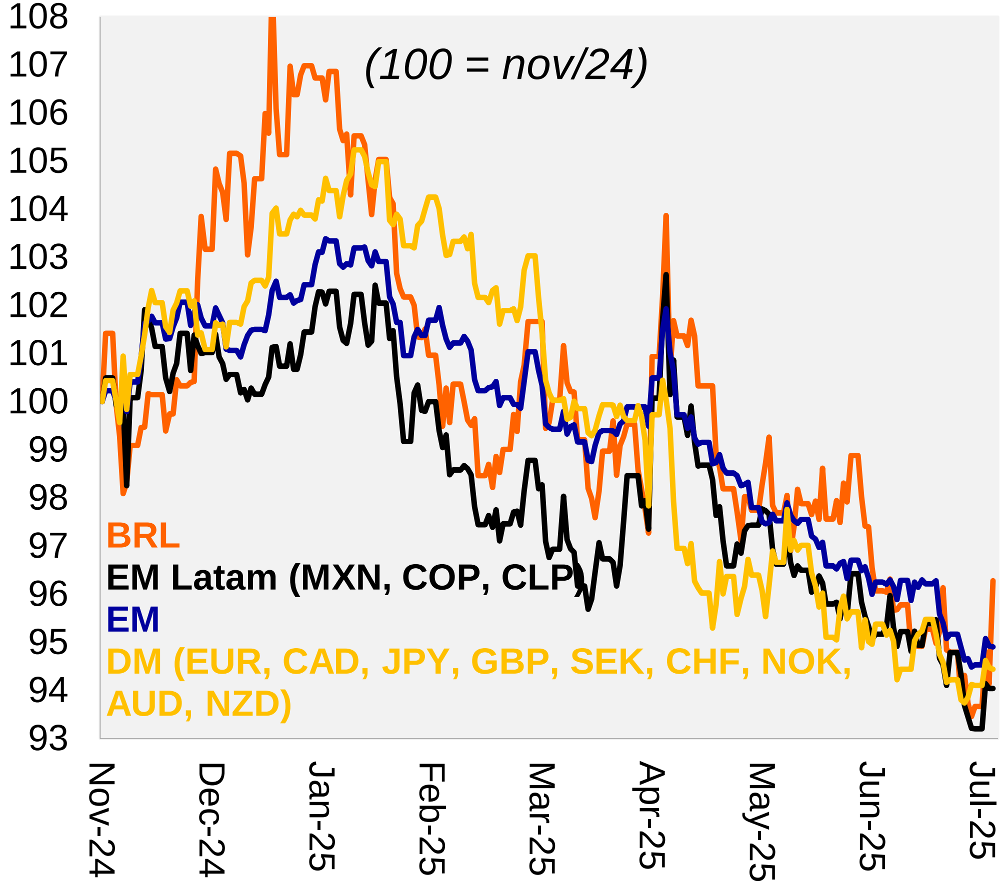
2 **In recent days, however, the announcement of 50% tariffs on U.S. imports from Brazil partially reversed this benign dynamic.** According to our estimates, the effective tariff rate should be around 40% (already accounting for sector-specific rates). If applied to the USD 40 billion in annual exports to the U.S., this could reduce export flows by up to USD 16 billion. That said, this impact appears overstated, as it is reasonable to assume some trade reallocation of taxed goods to other destinations. Still, the dollar inflow to Brazil is likely to decline, acting as a depreciation vector for the currency.

Source: IBGE. Itaú

Brazil

BRL: Weaker USD helps, but tariffs and domestic risks limit more favorable scenarios

A globally weaker dollar favored the BRL and other EM currencies



With opposing forces at play, we maintained our exchange rate forecast at BRL 5.65 for both 2025 and 2026. The international outlook, with a weaker global dollar, could lead to a more appreciated exchange rate. However, the tariffs imposed, combined with fiscal uncertainty (highlighted by doubts surrounding the IOF and changes to the personal income tax), limit the currency's upside. 3

Even before the tariffs, the balance of payments had already been showing signs of fragility, with a structural widening of current account deficit and a decline in the quality of external financing. We forecast a trade surplus of USD 71 billion and USD 74 billion in 2025 and 2026, respectively, and current account deficits of 2.6% and 2.4% of GDP in 2025 and 2026 – above the average of the past four years (approximately 2% of GDP). It is worth noting that we have not incorporated the impact of the tariffs into our external sector projections, as they only take effect in August and may still be subject to negotiation. 4

Source: IBGE. Itaú

Brazil

Activity: More modest growth in 2Q25 and downside risks for the year

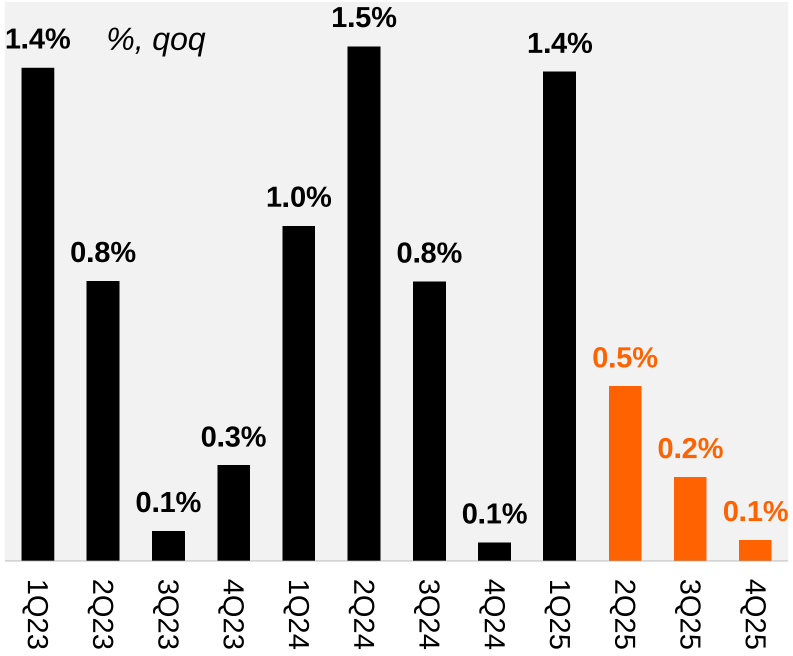
IDAT Heatmap (YoY, nsa)

Breakdown	mar-25	abr-25	mai-25	jun-25	3T24	4T24	1T25	2T25
IDAT-Activity	2.4%	2.5%	2.8%	-1.1%	6.4%	4.6%	4.3%	1.4%
IDAT-Services	6.6%	3.1%	4.5%	-1.2%	6.7%	5.7%	6.6%	2.1%
IDAT-Goods	-1.7%	1.9%	1.2%	-1.1%	6.2%	3.6%	2.1%	0.7%
IDAT-Goods sensitive to income	5.3%	6.1%	9.5%	5.3%	5.6%	7.0%	6.8%	7.0%
IDAT-Goods sensitive to credit	-4.7%	-7.1%	-4.4%	-7.7%	6.4%	7.0%	0.9%	-6.4%

*Considering data up to 30-Jun

We maintained our growth projection for 2025, but adjusted its distribution throughout the year

Quarterly GDP



Source: IBGE, Itaú

1. **We maintained our GDP growth forecast at 2.2% for 2025.** However, we revised the balance of risks from neutral to tilted to the downside, due to weaker-than-expected activity data in 2Q25 and the potential impact of the newly imposed tariffs.

2. **Regarding 2Q25, the bias is downward relative to our forecast of +0.5% q/q and +2.4% y/y.** In May, manufacturing posted its second consecutive decline, while broad retail (excluding wholesale specialized in foods) remained flat after a sharp drop in April.

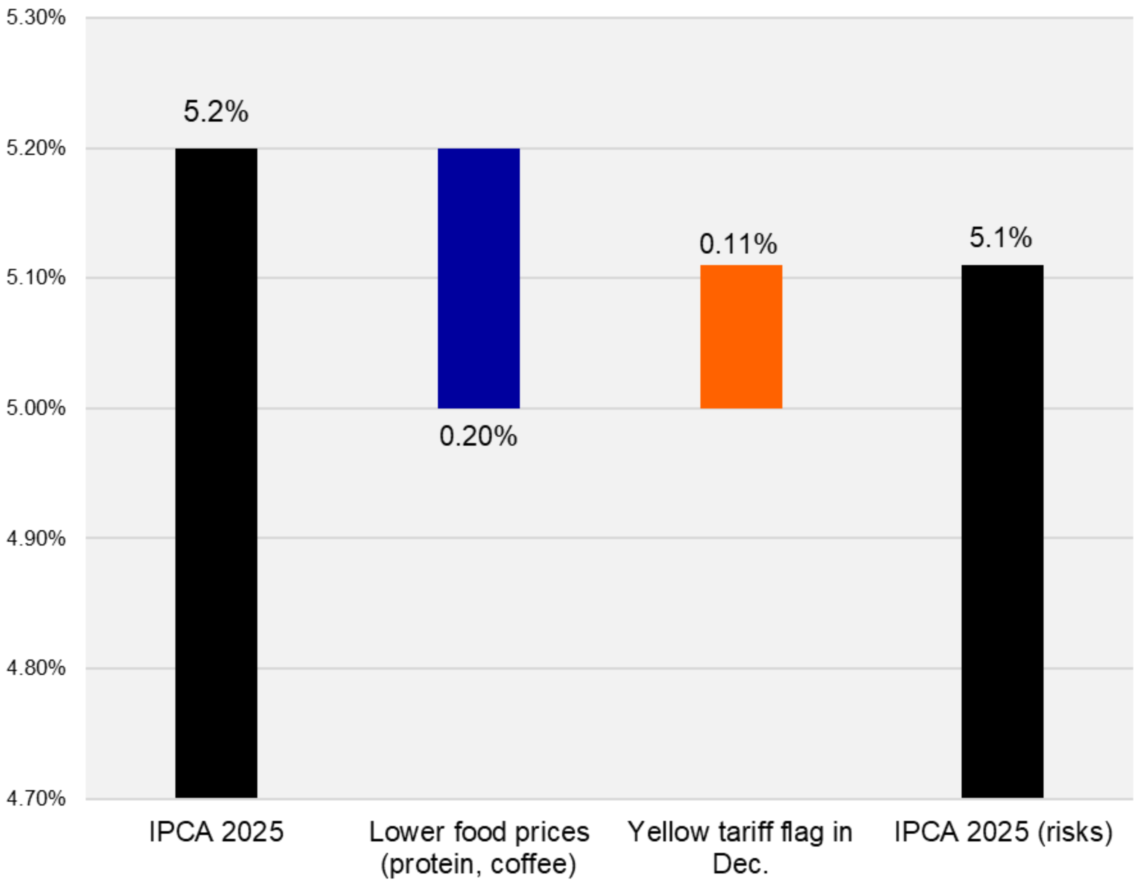
3. **If the announced tariffs take effect, the impact on economic activity could range from -0.2pp to -0.6pp over 12 months.** These estimates carry a high degree of uncertainty, as they depend on assumptions regarding trade reallocation of taxed goods and potential retaliatory measures – hence our decision not to include them in our baseline scenario at this time.

4. **Despite the weaker-than-expected performance in the second quarter and the risks stemming from tariffs, some factors could support economic activity in the second half of 2025.**

5. **Finally, we maintained our unemployment rate projections at 6.4% for 2025 and 6.9% for 2026.** Short-term data reinforce our expectation that the labor market should remain resilient in the near term, mainly supported by the formal sector.

Inflation: Lower IPCA in 2025, but unchanged forecast for 2026

IPCA 2025: balance of risks

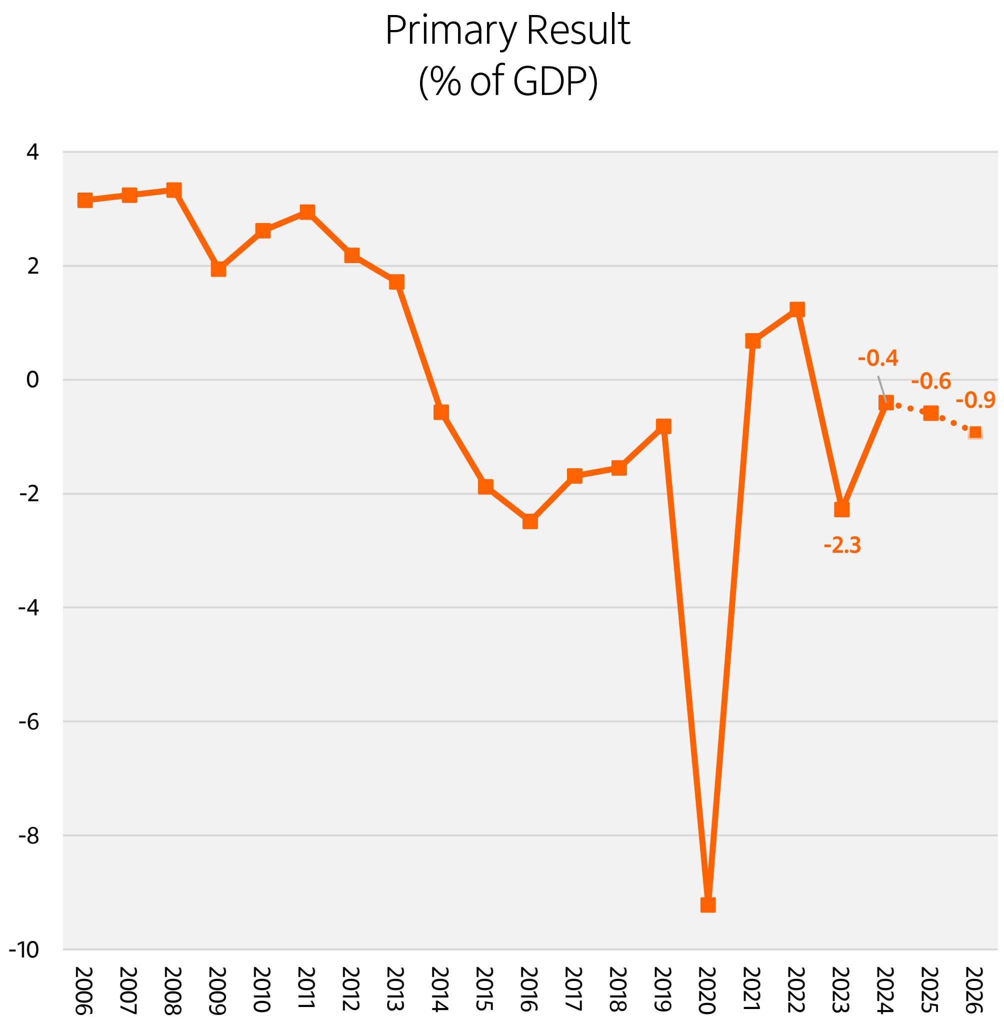


We revised our 2025 IPCA inflation forecast downward, to 5.2% from 5.3%. The main contribution came from a downward revision in food items, driven by falling corn prices – which also had secondary effects on services inflation, particularly in the "food away from home" category. Additionally, we incorporated the reduction of the IPI (industrialized products tax) on automobiles. These effects were partially offset by short-term pressures, such as ENEL's electricity tariff adjustment in São Paulo, which came in above expectations, and the increase in lottery prices. 1

For 2025, we assess the balance of risks to inflation as slightly tilted to the downside. Among the main factors that could contribute to lower inflation are the slower reversal of the livestock cycle, which affects both food and services. On the other hand, lower rainfall increases the likelihood of activation of the yellow tariff flag later in the year, which could raise electricity costs. 2

Source: Itaú

Fiscal: Shift in revenue sources in 2025 and deterioration in 2026



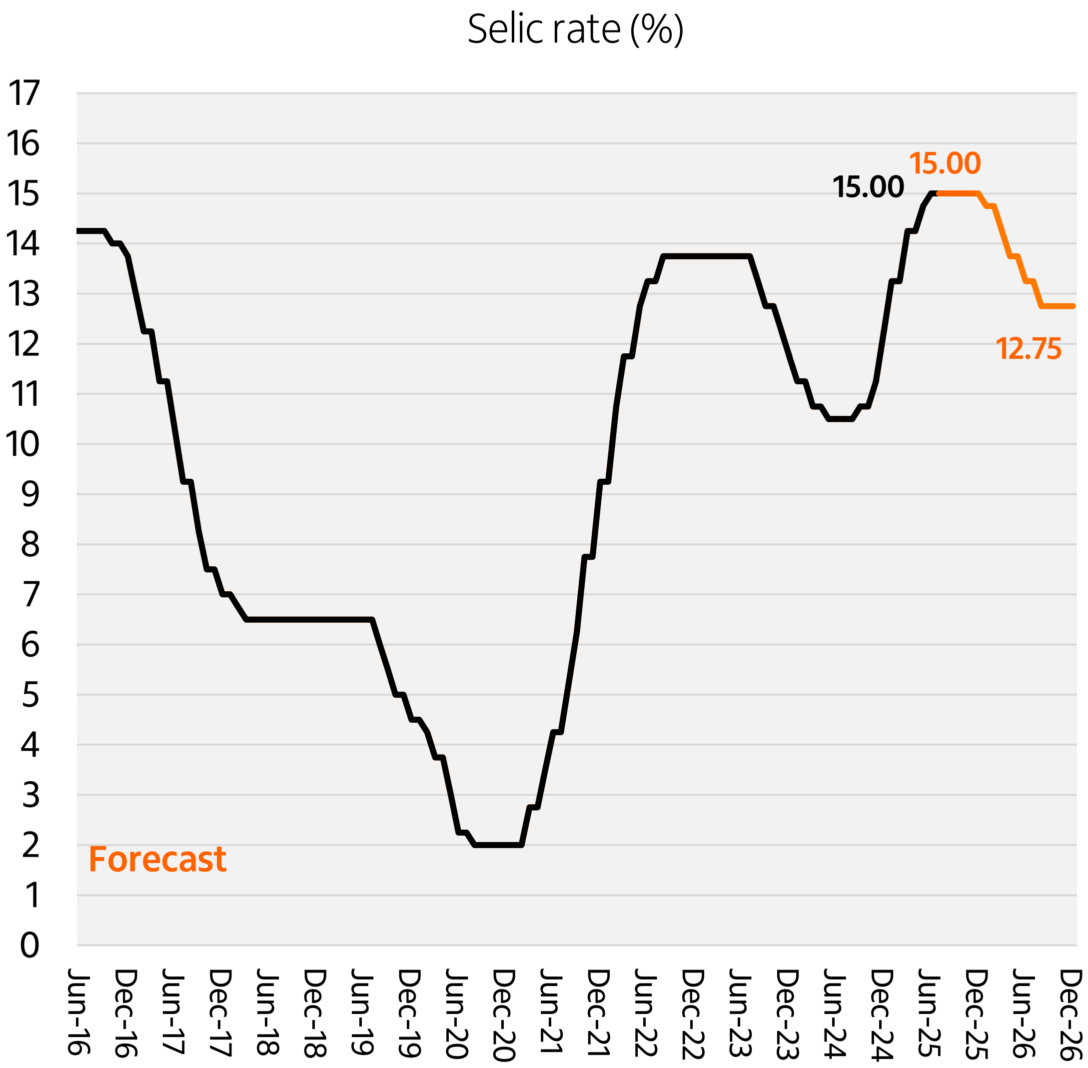
We have maintained our primary balance forecast at -0.6% of GDP for 2025 and revised it to -0.9% (from -0.8%) for 2026. For the 2025 fiscal year, the revenue loss caused by the Congress overturning the IOF tax increase is expected to be offset in the next bimonthly report (July 22) by extraordinary revenues from pre-salt surplus auctions. Thus, we continue to see the government close to meeting the lower limit of the target of -0.6% of GDP (considering abatements and the lower band of the official 0% target). For 2026, the outlook for further deterioration comes from insufficient compensation for the expected IOF revenue loss. Additionally, the main risk is the implementation of initiatives that explicitly or implicitly alter, circumvent, or undermine fiscal rules, enabling higher growth rates of primary spending and/or greater revenue exemptions. 1

In the second half of the year, expenditures are expected to accelerate again, while improvements in revenue will continue to depend on extraordinary sources. After a slowdown in both revenues and expenditures earlier in the year, we expect expenditures to pick up, driven by a reduction in the INSS backlog, payment of public servants' salary adjustments, payment of court-ordered payments postponed from the second to the third quarter, and less restraint on discretionary spending following the budget approval. On the other hand, an improvement in revenue performance will rely on extraordinary revenues (such as oil auctions and dividends from state-owned companies) amid an economic slowdown. 2

Source: Itaú

Brazil

Monetary policy: No change for a rather prolonged period



Source: Itaú

1 **In its most recent decision, the Brazilian Central Bank's Monetary Policy Committee (Copom) raised the Selic rate by 25 bps to 15.00% per year – a move that, barring a significant shock, is likely to have marked the end of the monetary tightening cycle.**

2 **With the rate hike cycle now complete, the automatic question is how long the interval will be before the first interest rate cut – and the committee's answer is: quite prolonged**. The signaling of keeping the Selic rate unchanged for a "rather prolonged period" was prominently featured in the post-meeting communication and, in our view, sets the expectation that the authorities will wait several meetings before even beginning to consider rate reductions.

3 Together, the long-term projections and the unchanged output gap assumption strengthen the message that interest rates will remain on hold for quite a long time, as inflation is not projected to reach the target in any horizon, and the Central Bank may still have to revise its scenario in a more inflationary direction by updating its assumptions about the degree of economic overheating.

4 **We maintain our expectation for the start of interest rate cuts only by the first quarter of 2026, bringing the Selic to 12.75% per year**. We believe risks still lean toward an even later cut than our current forecast. However, we acknowledge that a significant appreciation of the exchange rate or a sharper economic slowdown (for example, due to a smaller-than-expected impact from the new private payroll loans program) could bring forward the beginning of rate cuts to this year.

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