Economic Outlook

May 2025

Global

Introduction

Global

Trade deals reduce tariffs and risks of global recession

- **More positive global environment with (at least) temporary reduction of current trade tariffs between the U.S. and China and announcement of first trade deals.**

- **U.S.** Lower tariffs ease the impact on inflation and economic activity, but postpone Fed rate cuts. We maintained our GDP growth forecast at 1.2% for 2025 and increased our projection for 2026 to 1.5% from 1.0%. We reduced the number of Fed rate cuts this year from two to one (in December) and maintained two expected cuts for next year.

- **Europe:** We maintain our GDP forecasts at 0.8% in 2025 and 1.5% in 2026, as monetary and fiscal stimuli offset the impact of tariffs. We expect the ECB to end the easing cycle with rates at 2.0% (previously 1.75%) amid some relief in the global environment.

- **China**: We have increased our 2025 growth estimate to 4.5% from 4.2%, considering tariffs at 30% (compared to 60% in the previous scenario). A more positive environment for economic activity reduces the need for additional stimuli.

- **Latin America:** Shifting external headwinds.

Highlights

Global

Our forecasts:

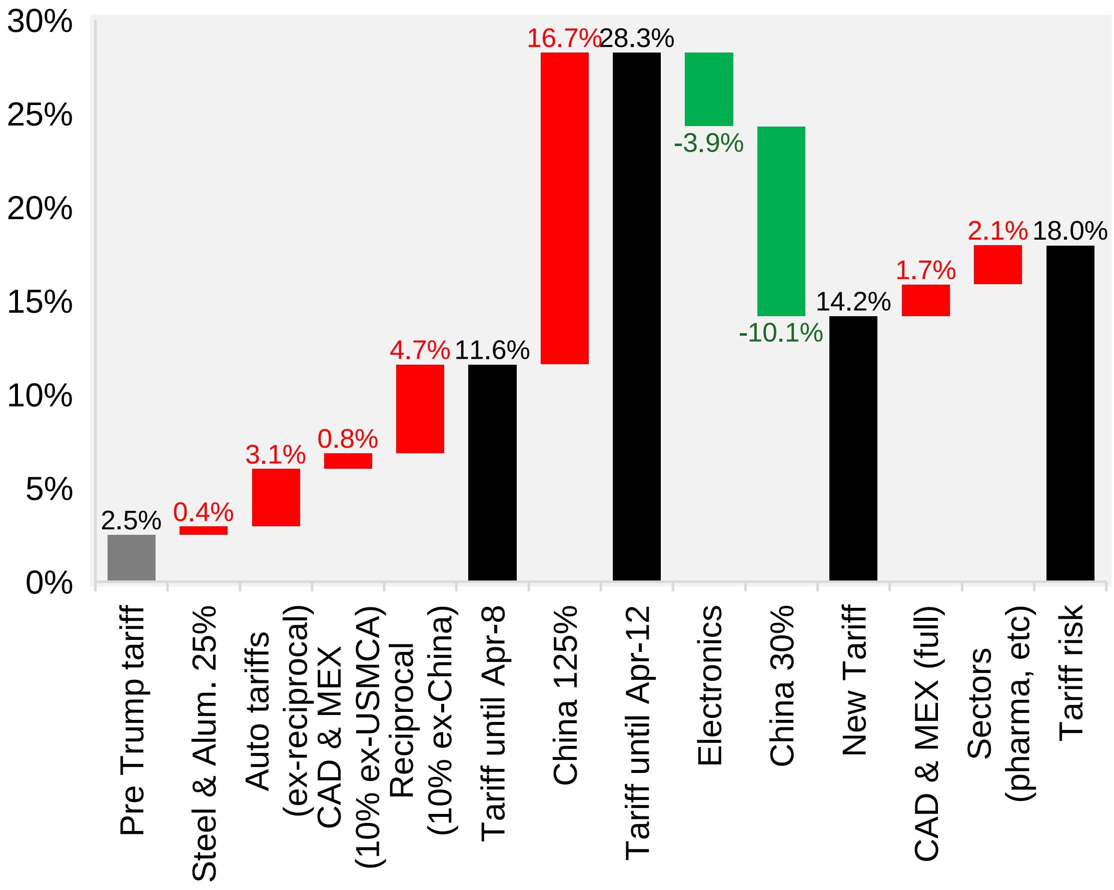
	2019	2020	2021	2022	2023	2024	2025	2026
World	2.8	-2.8	6.3	3.5	3.2	3.2	2.8	2.8
U.S.	2.6	-2.2	6.1	2.5	2.9	2.8	1.2	1.5
Euro Zone	1.6	-6.2	6.3	3.6	0.4	0.8	0.8	1.5
China	6.0	2.3	8.4	3.0	5.2	5.0	4.5	4.0
Fed Funds	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	4.00-4.25	3.50-3.75
10Y U.S. Treasury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

Source: FMI, Bloomberg, Itaú

Global

More positive global environment after agreement between US and China

Tariffs: impact on effective tariff (pp)



Source: Itaú

1. The U.S. and China have announced a temporary 90-day trade deal with significant tariff reductions. The additional tariff on Chinese imports went from 145% to 30% and from 125% to 10% on US imports entering in China.

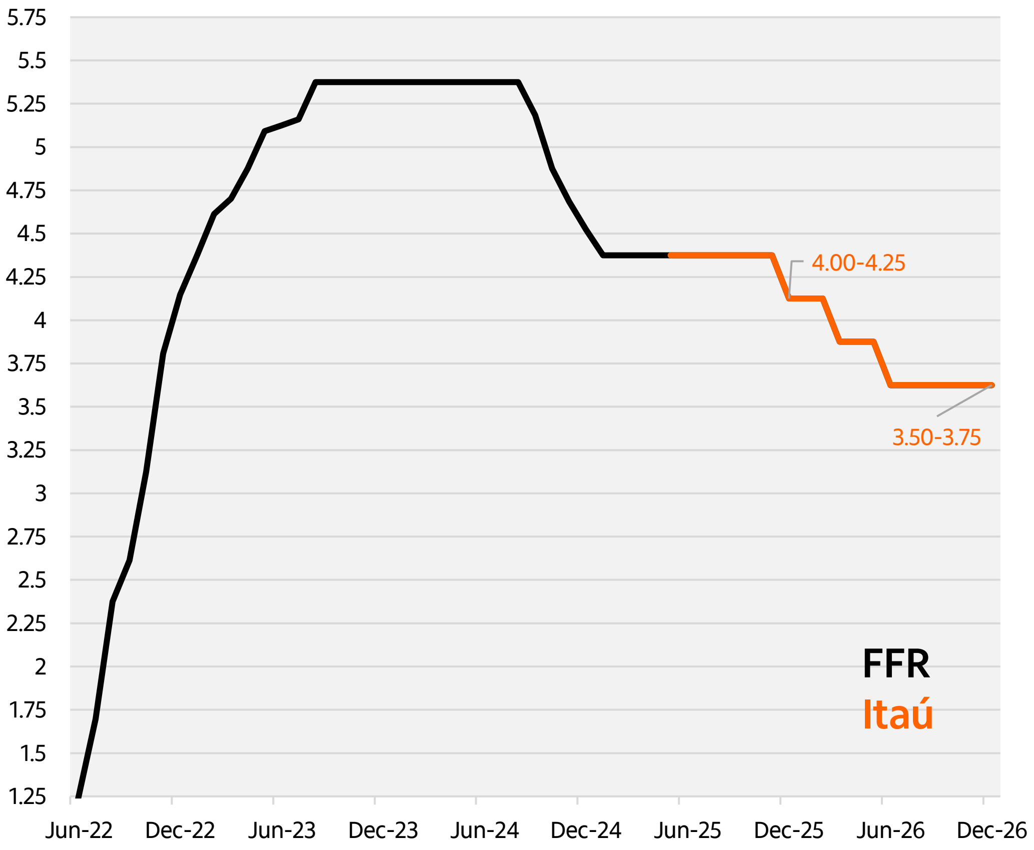
2. In addition to this deal, the U.S. government appears to have made progress in negotiations with other countries, as was the case with the United Kingdom. However, up to date, the minimum level of 10% for all countries has been maintained, which is also significantly higher compared to last year.

3. Therefore, we now assume in our baseline scenario that the current tariff levels will be maintained (30% on China and 10% universal for the rest of the world), which implies a total effective U.S. tariff of 14% (a 12pp increase, compared to a 17pp increase in our previous scenario).

4. We view future risks to tariffs as more balanced. However, new increases remain more likely than decreases..

U.S.: agreement with China postponed Fed cuts

Fed Funds Rate



For the U.S. scenario, a lower tariff on China alleviates the impact on inflation and economic activity, but postpones Fed rate cuts. We expect the inflationary effect of the new set of tariffs to be around +100-150 bps on inflation (down from 150-200 bps previously). 1

With a moderate slowdown in economic activity and the continued risk of more persistent inflation, we have postponed our expectation for the Fed's first rate cut to December (from September previously), reducing the number of cuts this year from two to one. 2

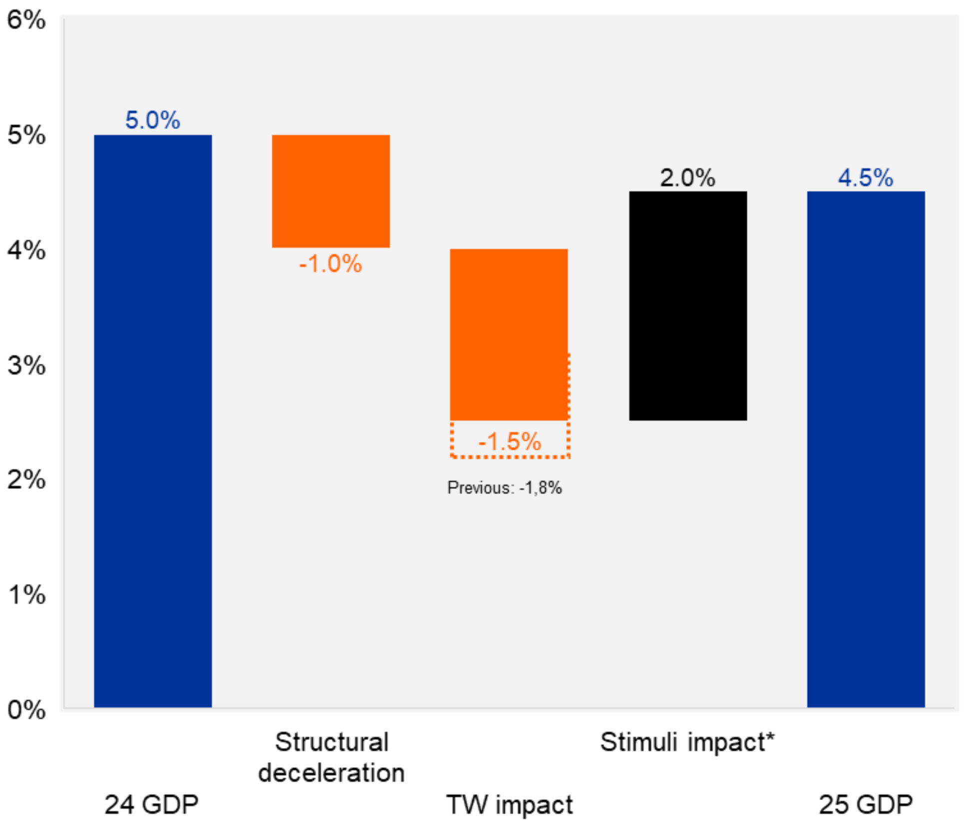
For GDP, the smaller supply shock has a lower impact on households' real income and companies' costs. Therefore, we have revised our 2026 GDP growth projection to 1.5% (up from 1.0% previously). 3

Source: Haver, Itaú

Global

China: trade agreement improved growth outlook

China GDP



*Stimuli aleady anounced for 2025

Source: BBG

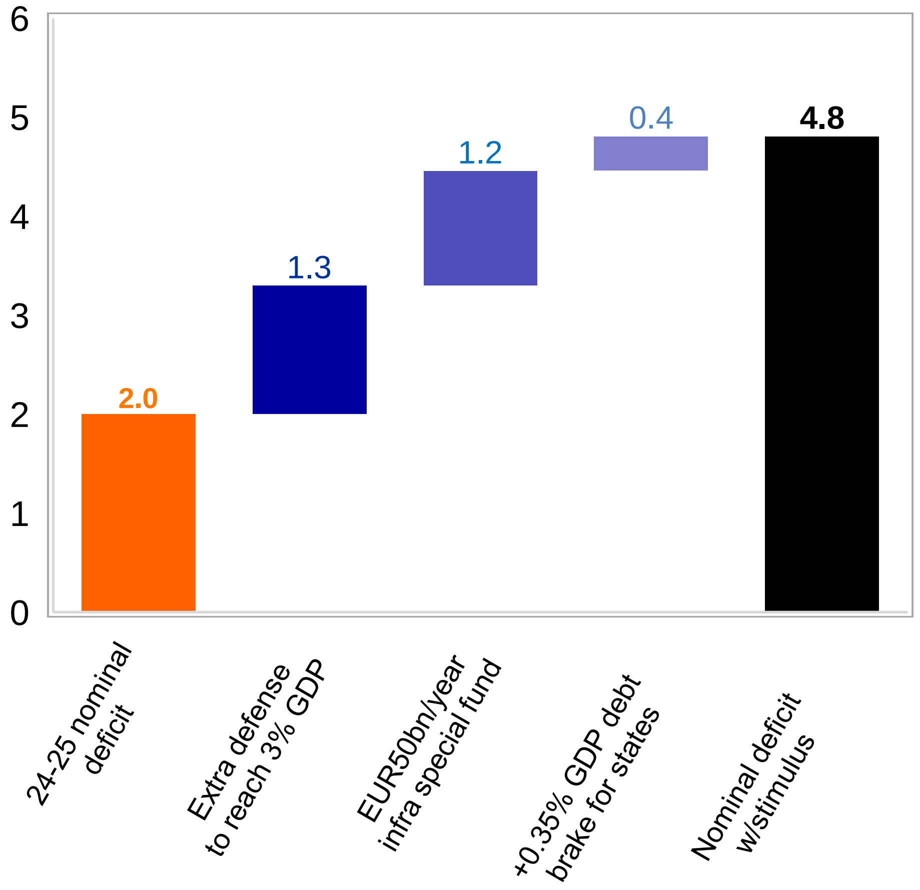
1. We have increased our growth forecast to 4.5% from 4.2% in 2025 and maintained it at 4.0% for 2026. With the trade deal, the tariff on exports from China to the U.S. is set at 40% (increase of 30%; compared to 10% until the end of 2024), a level that does not entirely halt trade between the two countries. We estimate that current tariffs reduce Chinese growth by 1.5pp (compared to 1.8pp in the previous scenario), considering that 10% of China's export decline can be redirected through other countries

2. This more favorable scenario removes the urgency for a new round of fiscal stimulus and should mean a more appreciated Chinese currency against the dollar (at 7.20 compared to 7.40 in the previous scenario).

Global

Europe: we continue to forecast growth of 0.8% in 2025 and 1.5% in 2026

GE: fiscal stimulus could up to 3% of GDP



We continue to forecast growth of 0.8% in 2025 and 1.5% in 2026. Our scenario assumes a 10% increase in the effective U.S. tariff on the region, with a negative impact of 0.7 percentage points on GDP. This impact is expected to be offset – particularly in 2026 – by fiscal stimulus measures in Germany and also by the interest rate cut cycle. 1

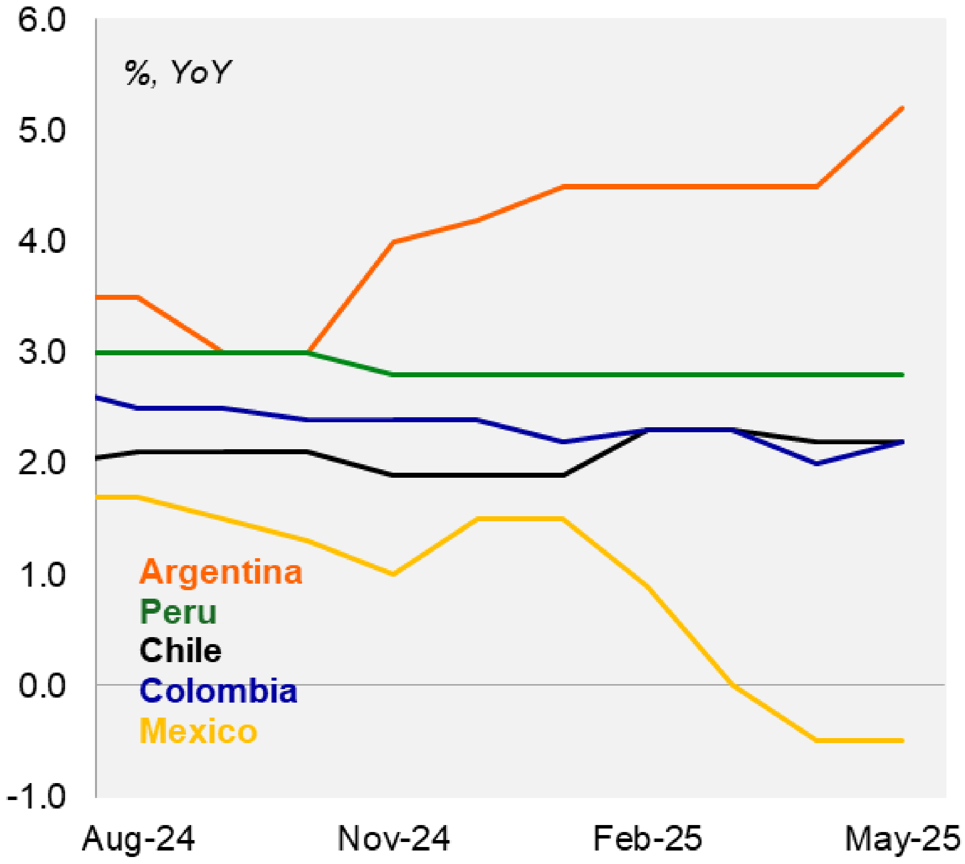
Regarding the ECB, we expect only one additional rate cut in June, ending the cycle with a terminal rate of 2.0% (compared to 1.75% in our previous scenario), amid a more favorable global environment. Monetary policy committee members acknowledge that tariffs pose a downside risk to economic activity but present an uncertain risk to inflation. 2

In a scenario of reduced aversion to the dollar, we maintain our euro forecast at 1.10. 3

Source: Haver. Itaú

Latin America: Facing rising external headwinds

2025 LatAm GDP Growth Forecasts



Source: BBG. Itaú

1 **Swift progress on US-China trade negotiation ripples through our forecasts for the region.** Improved growth outlooks for the US and China have driven upward revisions in several economies, while a more gradual Fed easing path suggests caution from central banks; despite recent tariff de-escalation between the US and China offering some relief, trade policy uncertainty remains high, leaving Andean economies vulnerable to potential tariffs on copper and other goods.

2 **Mexico avoided a technical recession, but a contraction this year seems almost inevitable.** The 1Q25 flash estimate showed a 0.2% sequential GDP expansion, with a surprise in the agricultural sector preventing a technical recession. However, weakening external impulses and mixed domestic fundamentals lead us to maintain our forecast of a 0.5% annual GDP contraction in 2025. For 2026, we revised our growth forecast to a sharper rebound of +1.0% (from 0.5%), driven by expectations of higher US growth.

3 **Upgrading GDP growth forecasts in Chile and Colombia.** Despite last month's downward revisions due to US growth outlook, lower commodity prices, and policy uncertainty, recent data and indicators show sustained positive momentum, with Chile and Peru benefiting from a mining-led investment recovery.

4 **In Argentina ... so far, so good.** Following the liberation of the "cepo," the exchange rate has floated within the band with volatility but without BCRA intervention. Economic stabilization continues, prompting revisions to year-end forecasts: exchange rate to 1,300, inflation to 30%, and monetary policy rate to 29%. Gradual activity recovery supports upward adjustments to GDP forecasts: 5.2% for 2025 and 3.5% for 2026.

5 **On monetary policy...** The BanRep cut the rate to 9.25% (in a unanimous and unexpected decision), but inflation surprises, expectations above the target, and fiscal uncertainty suggest a more gradual easing, with projections of 8.50% by the end of 2023 and 7.75% by 2026. Banxico is expected to maintain 50 bps cuts in May and June, followed by 25 bps cuts, reaching 7.5% in September. In Chile, controlled inflation and improved expectations support the projection of 4.5% by year-end, with the possibility of two 25 bps cuts. In Peru, after a 25 bps cut in May, the rate could reach 4.25% this year. Narrow interest rate differentials with the U.S. and fluctuations in copper price expectations are likely to keep CLP and PEN volatility elevated.

LatAm: compared scenario

World

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.2	3.2	**2.8**	2.7	**2.8**	2.6

Latin America and Caribbean

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	2.4	2.4	**2.2**	1.9	**2.2**	1.9

Brazil

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.2	3.4	**2.2**	2.2	**1.5**	1.5
BRL / USD (eop)	4.86	6.18	**5.75**	5.75	**5.75**	5.75
Monetary Policy Rate (eop,%)	11.75	12.25	**14.75**	15.25	**12.75**	13.25
IPCA (%)	4.6	4.8	**5.5**	5.5	**4.4**	4.4

Mexico

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.3	1.5	**-0.5**	-0.5	**1.0**	0.5
MXN / USD (eop)	17.0	20.8	**21.0**	21.0	**21.3**	21.3
Monetary Policy Rate (eop,%)	11.25	10.00	**7.50**	7.50	**7.00**	7.00
CPI (%)	4.7	4.2	**3.9**	3.9	**3.6**	3.6

Argentina

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-1.6	-1.7	**5.2**	4.5	**4.0**	4.0
ARS / USD (eop)	809	1033	**1300**	1375	**1515**	1600
Reference rate (eop,%)	100.0	32.0	**29.0**	35.0	**20.0**	20.0
CPI (%)	211.4	117.8	**30.0**	37.5	**20.0**	20.0

Chile

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.5	2.6	**2.2**	2.2	**2.0**	1.8
CLP / USD (eop)	879	996	**970**	970	**940**	940
Monetary Policy Rate (eop,%)	8.25	5.00	**4.50**	4.50	**4.00**	4.00
CPI (%)	3.9	4.5	**4.0**	4.0	**3.0**	2.9

Colombia

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.7	1.7	**2.2**	2.0	**2.6**	2.3
COP / USD (eop)	3822	4409	**4400**	4400	**4300**	4200
Monetary Policy Rate (eop,%)	13.00	9.50	**8.50**	8.25	**7.75**	7.50
CPI (%)	9.3	5.2	**4.8**	4.5	**3.5**	3.3

Peru

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-0.4	3.3	**2.8**	2.8	**2.7**	2.7
PEN / USD (eop)	3.70	3.80	**3.80**	3.80	**3.80**	3.80
Monetary Policy Rate (eop,%)	6.75	5.00	**4.25**	4.25	**4.00**	4.00
CPI (%)	3.2	2.0	**2.3**	2.3	**2.0**	2.0

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**	90	**85**	80
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9050**	9050	**9350**	9350
Corn (Usd/bu)	437	592	656	480	444	**450**	450	**410**	410
Soy (Usd/bu)	1207	1290	1474	1311	984	**980**	980	**950**	950
Wheat (Usd/bu)	604	790	749	619	548	**600**	650	**630**	630
Sugar (Usd/lb)	15	19	20	22	20	**18**	18	**18**	18
Coffee (Usd/lb)	123	235	166	188	321	**360**	360	**280**	280

Source: BBG, Itaú

Source: Bloomberg, Itaú

Brazil

Introduction

Brazil

The end of the tightening cycle, but still with no cuts

- We maintain our GDP growth forecasts at 2.2% for 2025 and 1.5% for 2026. The slowdown in economic activity is set to become more evident in the second half of the year, after strong performance at the beginning of 2025 driven by the agricultural sector and income-driven consumption. Regarding the labor market, we maintained our unemployment rate projection at 6.8% in 2025 and 7.3% in 2026.

- The international environment is being the main driver for the currency. On the one hand, progress in tariff negotiations between the U.S. and China reduces the likelihood of a more intense slowdown worldwide and increases the attractiveness of risk assets. On the other hand, reduced trade tensions between the United States and other countries increase the chance of keeping the American exceptionalism in place, resulting in a stronger dollar globally. For now, we maintain our exchange rate projection at BRL 5.75 per dollar in 2025 and 2026.

- We also maintained our forecast for the IPCA at 5.5% in 2025 and 4.4% in 2026. The balance of risks for this year is symmetrical. A potential decrease in trade flows between China and the United States and the lower price of metal commodities could result in a more benign industrial items inflation. However, reduced rainfall increases the probability of triggering higher-cost energy tariff flags at the end of the year.

- Significant fiscal challenges persist. We maintained our primary result estimate of -0.8% in 2025 and 2026, but we believe it is important for the government to announce spending control measures in the next bimonthly report.

- In its recent communication, the Central Bank appears to have gained confidence that monetary policy is at a significantly contractionary level and that economic activity is slowing down. In addition, the authorities have apparently opted for a high-for-long strategy. We now expect the Selic rate to remain stable at 14.75% pa until the end of the year. We see cuts only next year (to 12.75%).

Highlights

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	6.8	7.3
Inflation								
IPCA (%)	4.3	4.5	10.1	5.8	4.6	4.8	5.5	4.4
IGP-M (%)	7.3	23.1	17.8	5.5	-3.2	6.5	4.7	4.3
Monetary Policy								
Selic rate (%, eop)	4.50	2.00	9.25	13.75	11.75	12.25	14.75	12.75
Selic rate (%, avg)	5.96	2.81	4.81	12.63	13.25	10.92	14.42	13.21
Public accounts								
Primary result (% GDP)	-0.8	-9.2	0.7	1.2	-2.3	-0.4	-0.8	-0.8
Gross debt (% GDP)	74.4	86.9	77.3	71.7	73.8	76.5	79.6	84.2
Growth of public spending (% real, pa*)	2.3	29.2	-24.7	6.0	7.6	3.2	2.9	2.7
External sector								
BRL/USD (eop)	4.03	5.19	5.57	5.28	4.85	6.18	5.75	5.75
BRL/EUR (eop)	4.52	6.34	6.30	5.65	5.34	6.40	6.33	6.33
Current Account (% GDP)	-3.6	-1.7	-2.4	-2.2	-1.3	-2.8	-2.4	-2.3
Trade balance (USD bi.)	35	50	61	62	99	75	76	77

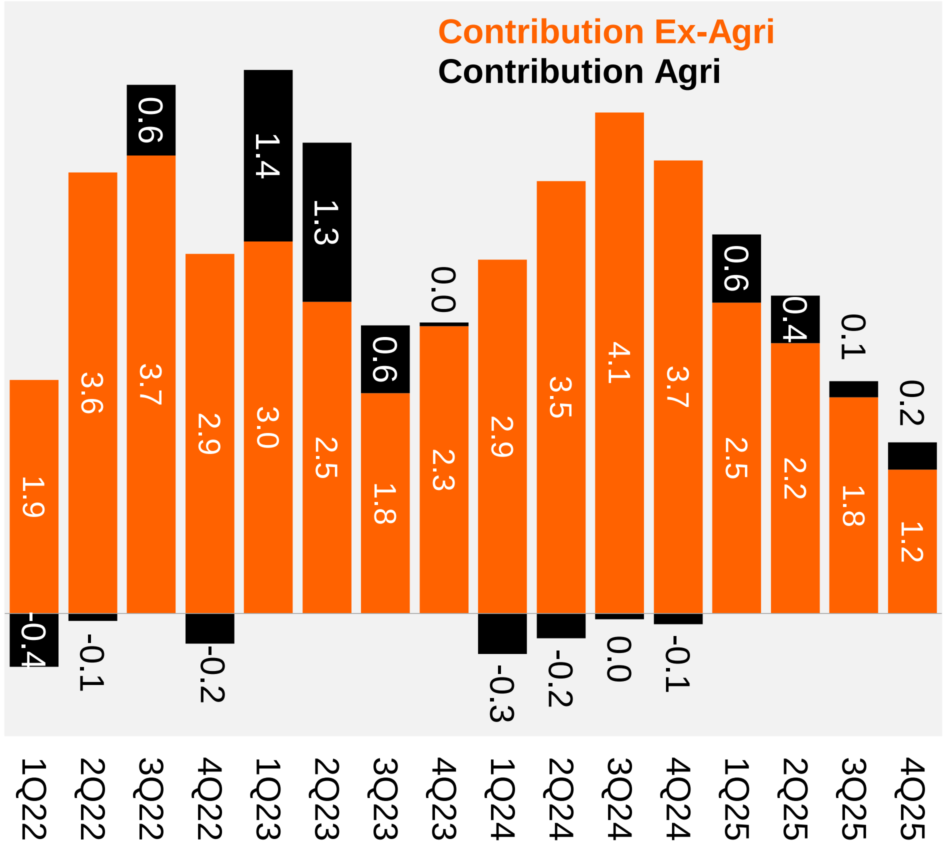
(*) We do not consider the 2023 payment of extraordinary court-ordered debts (precatórios). Including it, spending grew by 12.5% in 2023 and fell by 0.9% in 2024.

Source: Itaú

Brazil

Activity: robust 1Q growth

Activity still resilient in Q1, but set to slow down throughout the year



Source: Itaú

1 **We maintained our GDP growth estimate for 2025 at 2.2%.** After strong growth at the beginning of the year, the slowdown in economic activity is set to be more pronounced in 2H25 due to a global loss of momentum and the delayed effects of monetary tightening.

2 **Our 1Q25 tracking points to a 1.8% qoq/sa growth (3.3% yoy), exceeding our estimate of 1.6% (3.1% yoy).** March data shows strong momentum, led by the agricultural sector and steady household income, with demand for income-sensitive items outpacing credit-dependent ones.

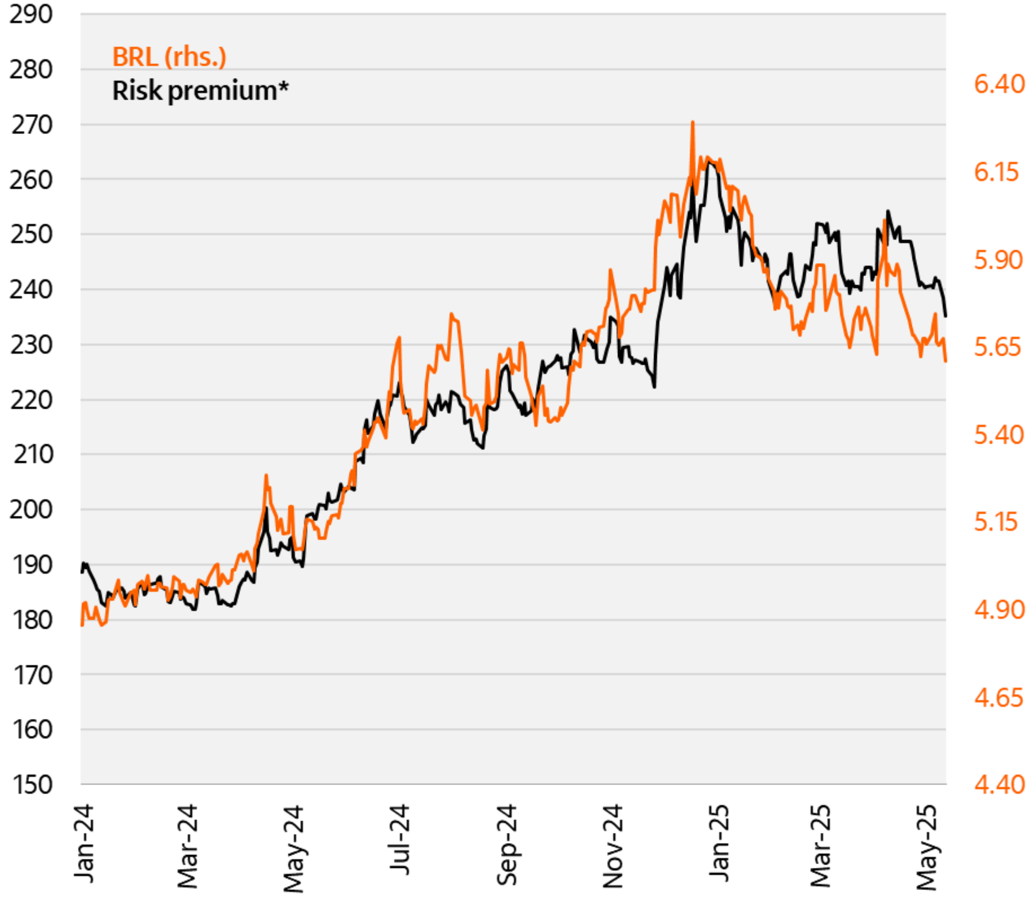
3 **On the other hand, April data indicate a sharper slowdown.** Our IDAT-Activity showing declines in services and credit-sensitive goods, while income-sensitive goods displayed resilience. Extended holidays, particularly in Rio de Janeiro, may have impacted results, making May data critical for refining 2Q25 GDP projections.

4 **For 2026, we maintained our GDP growth estimate at 1.5%.** While the international outlook remains challenging, potential countercyclical fiscal and parafiscal policies could offset external pressures and boost economic activity.

5 **Finally, we maintained our estimates for the labor market, with unemployment rates projected at 6.8% for 2025 and 7.3% for 2026.** Despite some volatility, data continue to indicate a booming labor market.

BRL: the international scenario remains the main driver

BRL vs Risk premium



*Measure using vol3M, breakevens 3Y5Y, equities EM vs BZ

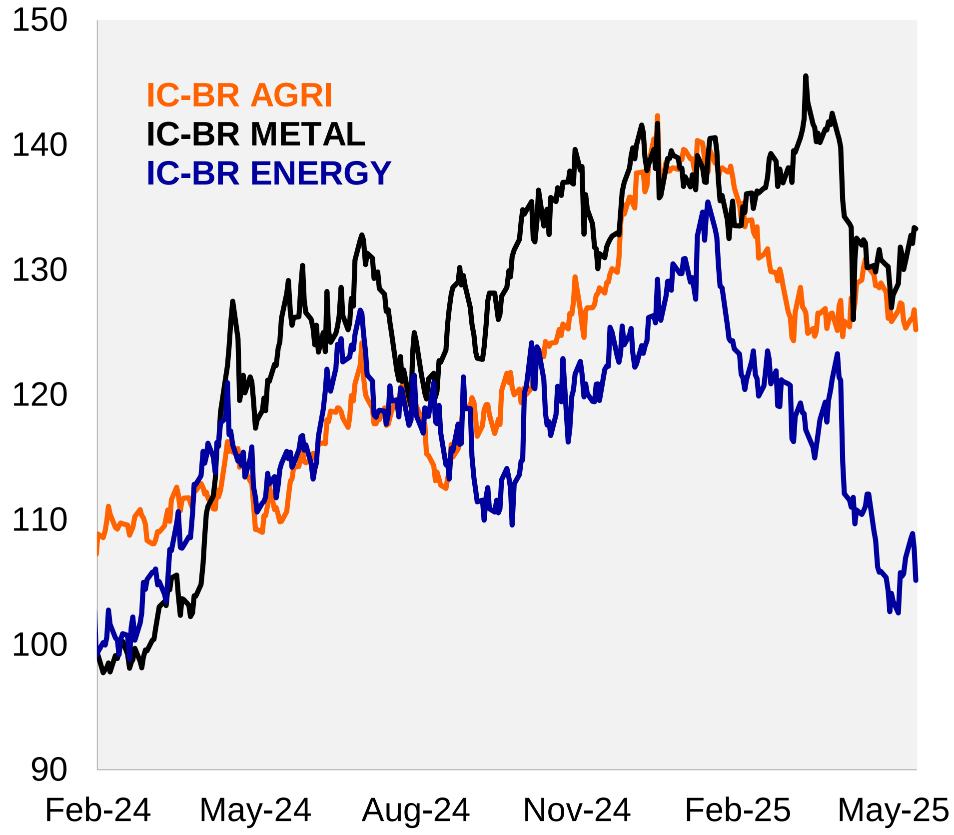
Source: BBG. Itaú

1. **The FX rate is still being mainly driven by external factors.** After reaching BRL 6.00/USD immediately after the announcement of the new U.S. tariffs, the Brazilian currency has been gaining strength against the dollar – in the wake of a weaker dollar globally – reaching highs close to 5.60.

2. **For now, we have maintained our exchange rate projection at BRL 5.75 per dollar for 2025 and 2026.** While progress in G2 tariff negotiations and a high interest rate differential support potential currency appreciation, domestic fiscal uncertainties, external account dynamics, and U.S.-China trade agreements constrain more optimistic scenarios for the Brazilian real.

Inflation: forecasts maintained, and symmetrical balance of risks

Commodity prices currently lower than pre-tariff levels. Reduced trade tensions limit the odds of further declines



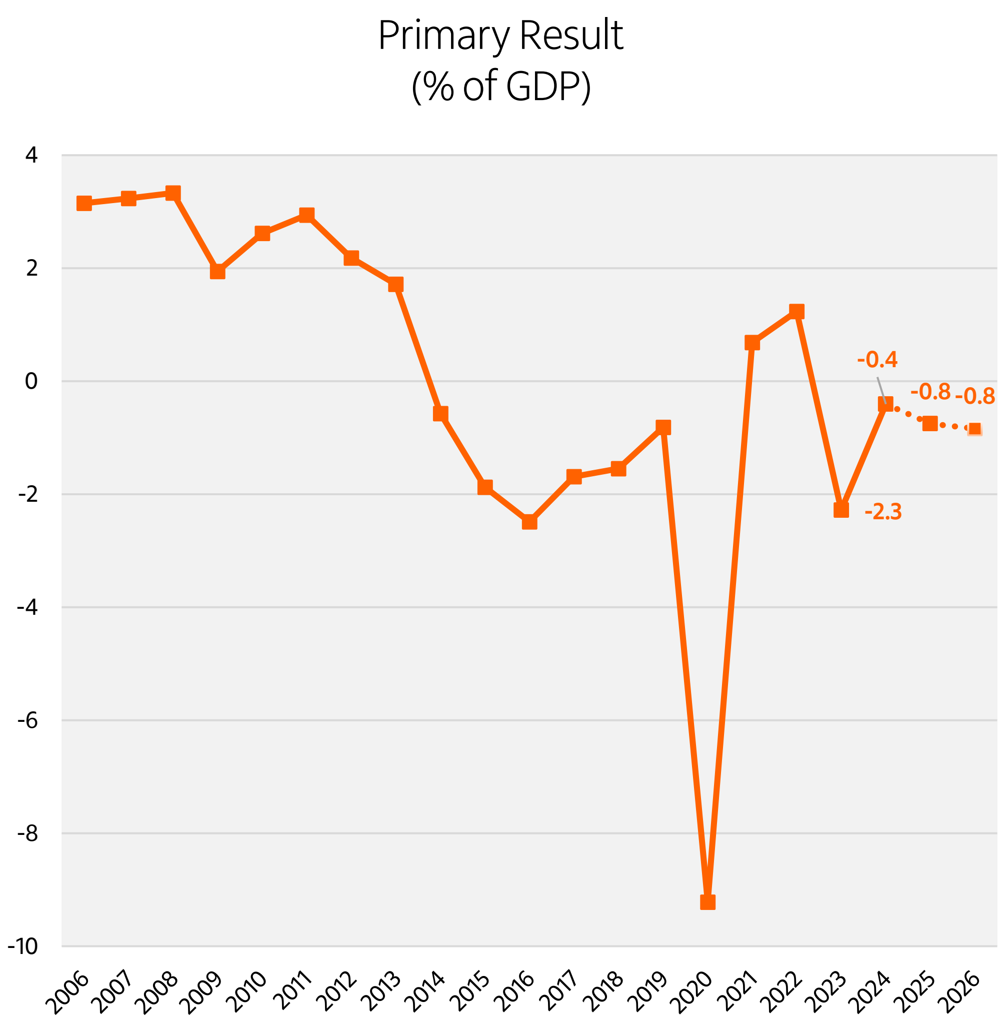
1. **We maintained our projection for the 2025 IPCA at 5.5%. We assess that the downside and upside risks for inflation are balanced in 2025.** On the one hand, a potential decrease in trade flows between China and the United States and the lower prices of metal commodities could result in a more benign industrial inflation rate. On the other hand, reduced rainfall increases the probability of activating yellow and red flag electricity rates at the end of the year.

2. **For 2026, we maintained our inflation estimate at 4.4%.** The balance of risks is asymmetrical, with the labor market still under pressure and persistent unanchored inflation expectations in the long term being the main upside risks.

Source: Itaú

Brazil

Fiscal: stricter control over expenses is still very necessary

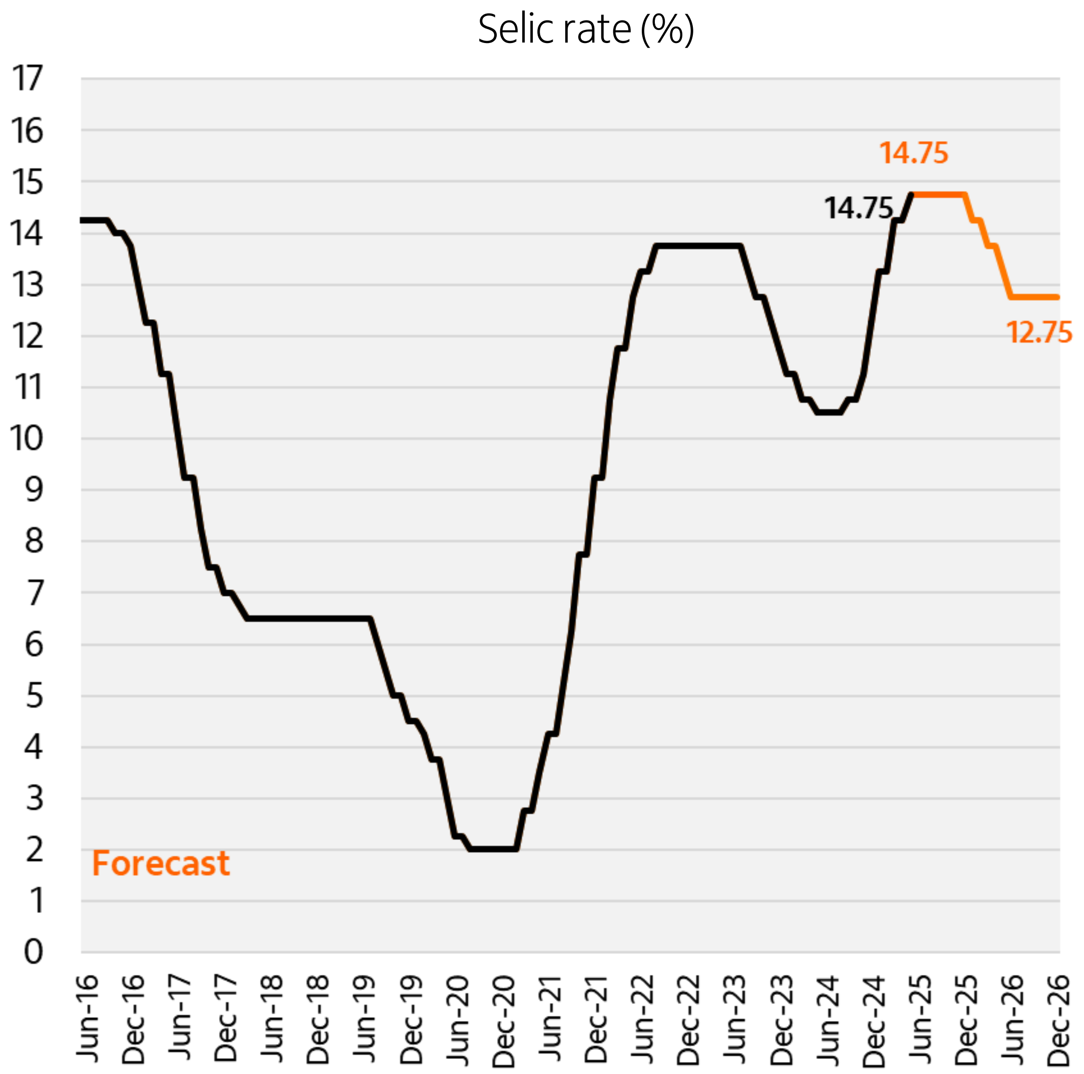


Source: Itaú

We maintained our primary result projection at -0.8% of GDP in 2025 and 2026. For 2025, for now, we do not expect the target of -0.6% of GDP (considering exclusions and the lower limit of the official target of 0%) to be met. This will depend on how successful the government's revenue agenda will be, especially extraordinary revenues such as oil auctions and dividends from state-owned companies. For 2026, the main risk is the implementation of initiatives that explicitly or implicitly change, circumvent, or distort fiscal rules, implementing higher growth rates for primary expenditures and/or greater revenue waivers – which, by the way, has been a typical combination in general election years. 1

We believe it is crucial for the government to announce spending control measures. A substantial budget cut – around BRL 40 billion – in the upcoming bimonthly review on May 22 would signal greater prudence in budget execution, given the risks of disappointing extraordinary revenues and a renewed underestimation of mandatory expenses (as was the case in 2024, particularly with Social Security and the BPC, where anti-fraud initiatives have shown little evidence of success). However, the signs point to a smaller and more gradual adjustment, without completely resolving the issue of off-budget spending, which then contributes to sustaining the high level of fiscal risk. 2

Monetary policy: end of cycle, but still with no cuts



Source: Itaú

In its most recent decision, the Copom raised the Selic rate by 50 bps to 14.75% per year, as expected, without signaling plans for the next meeting. Inflation projections above the target for the relevant horizon (3.6% in 4Q26) likely drove this decision. Authorities' assessment of external environment changes, viewing the balance of risks as symmetrical, suggests a high threshold for another Selic rate adjustment in June. 1

We now expect the Selic rate to remain stable at 14.75% per year until the end of the year. In its recent communication, the Central Bank appears to have gained confidence that the monetary policy is at a significantly contractionary level and that economic activity is slowing down, with signs of a cooling labor market and a change in some credit lines. In addition, the authorities seem to have opted for a high-for-long strategy. According to our simulations, a Selic rate stable at 14.75% would produce an inflation projection in the relevant horizon (4Q26) of around 3.3% - probably close enough to the target for the committee. 2

We do not see room for interest rate cuts this year due to unanchored expectations and resilient economic activity. We project cuts only throughout 2026, when the interest rate will reach the 12.75% level. 3

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