Economic Outlook

June 2025

Global

Introduction

Global

Waiting for the tariff shock

- **In a context of rising geopolitical tensions, trade agreements continue pending negotiations, and the risk still appears to be higher tariffs ahead.**
- **U.S.** resilient activity and an upcoming inflation shock make the Fed wait to cut interest rates (we continue to expect a cut in December), amid a scenario of fiscal deterioration.
- **Europe:** the central bank signaled a higher bar for interest rate cuts ahead, in line with our terminal scenario at the current 2.0% pa. With the environment of less interest in US assets, we revised our euro projection to 1.12 (from 1.10, previously).
- **China**: resilient activity supported by exports removes the urgency of new stimulus, for now. We maintain our GDP growth forecasts at 4.5% for 2025 and 4.0% for 2026.
- **Latin America:** Separating the signal from the noise – growth revised up.

Highlights

Global

Our forecasts:

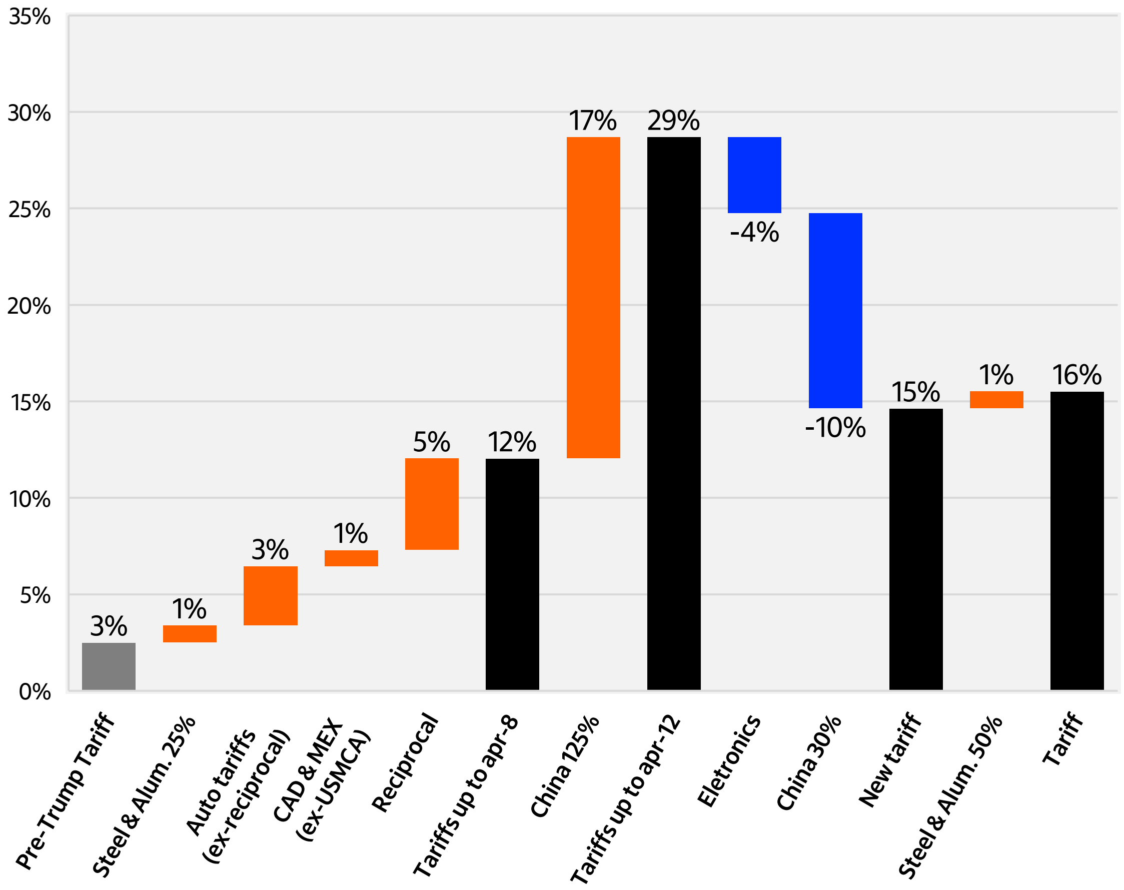
	2019	2020	2021	2022	2023	2024	2025	2026
World	2.8	-2.8	6.3	3.5	3.2	3.2	2.9	2.8
U.S.	2.6	-2.2	6.1	2.5	2.9	2.8	1.7	1.5
Euro Zone	1.6	-6.2	6.3	3.6	0.4	0.8	0.8	1.5
China	6.0	2.3	8.4	3.0	5.2	5.0	4.5	4.0
Fed Funds	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	4.00-4.25	3.50-3.75
10Y U.S. Treasury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

Source: FMI, Bloomberg, Itaú

Global

Uncertainty still high, awaiting the tariff shock

Tariffs: impact on effective US tariff (pp)



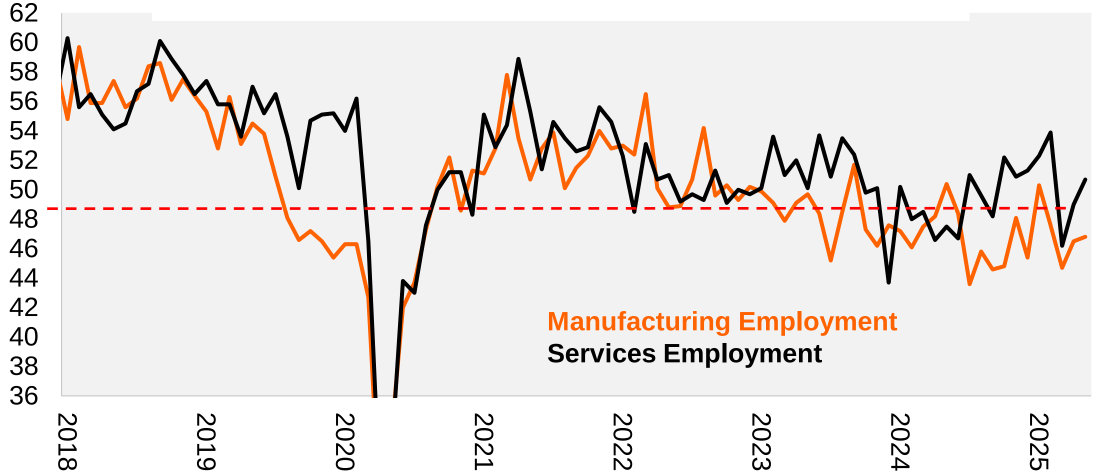
Source: Itaú

Following the truce between the US and China, there have been no announcements of agreements by the US government with other countries. The current tariff level stands at 30% on all Chinese exports – comprised of 20% as a penalty related to fentanyl and 10% as a reciprocal measure – and 10% for other countries. Certain sectors, such as aluminum and steel, receive differentiated treatment, with tariffs on these products doubled to 50% at the end of May. Overall, the effective average US tariff is 14.6%, reflecting a 12-percentage point increase. 1

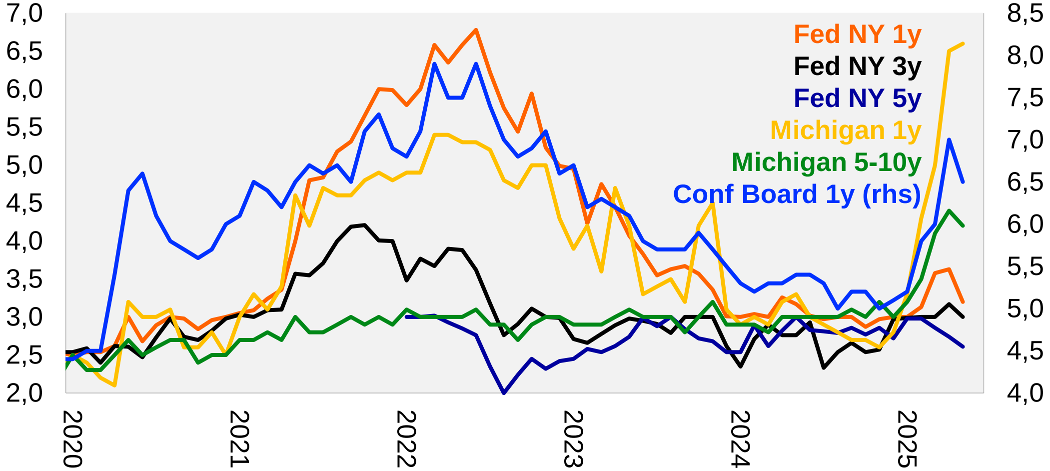
With negotiation deadlines approaching, further increases seem more likely than reductions from current levels. The next relevant dates are July 9 and August 12, when the reciprocal tariff truces with the rest of the world and China, respectively, are set to expire. In our view, it is unlikely that the US government will ease fentanyl-related tariffs on China, despite recent efforts to improve dialogue. In addition, there is still a risk of sectoral tariffs on copper, pharmaceuticals and semiconductors. Investigations into these sectors are ongoing but have not yet been concluded. 2

U.S.: Fed increases caution in face of economic resilience and fiscal risks

EUA: ISM Employment with some payback



EUA: Consumer inflation expectations improved at the margin



Source: Haver, Itaú

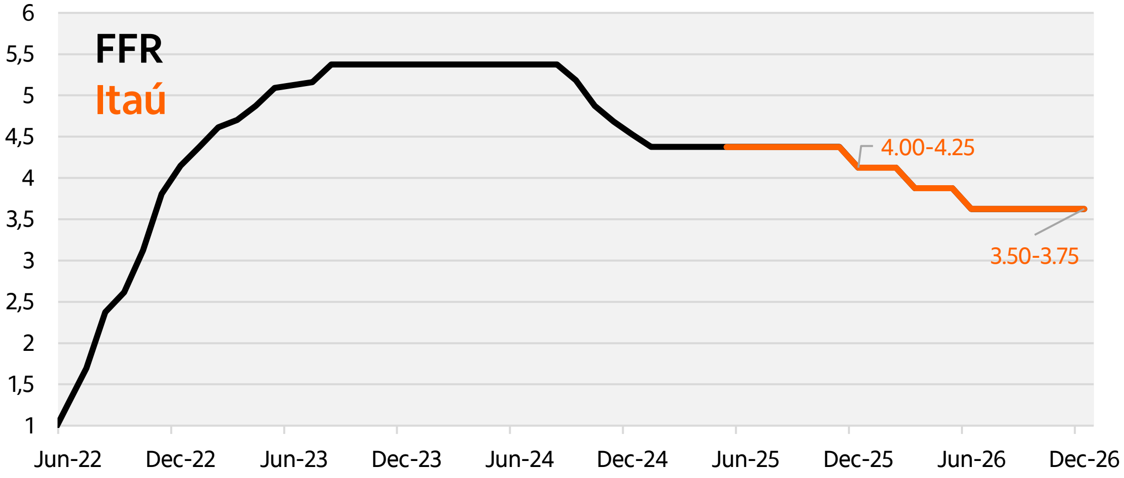
In the US, economic activity remains resilient and inflation moderate, but the inflationary shock still lies ahead. Since GDP data has been quite distorted by the front-loading of imports ahead of tariffs and the subsequent payback, the indicator has not been the best metric to understand the pace of the economy (GDP contracted 0.3% in Q1, and we estimate a 3.5% expansion in Q2). The labor market has been a better guide and the most recent Payroll data show job creation still resilient, with the 3-month moving average at 135k and unemployment stable at 4.2%. 1

Inflation has remained moderate in recent months, though still elevated. We continue to expect a significant inflationary impact from tariffs, pushing core CPI to 3.8% and core PCE to 3.5%. 2

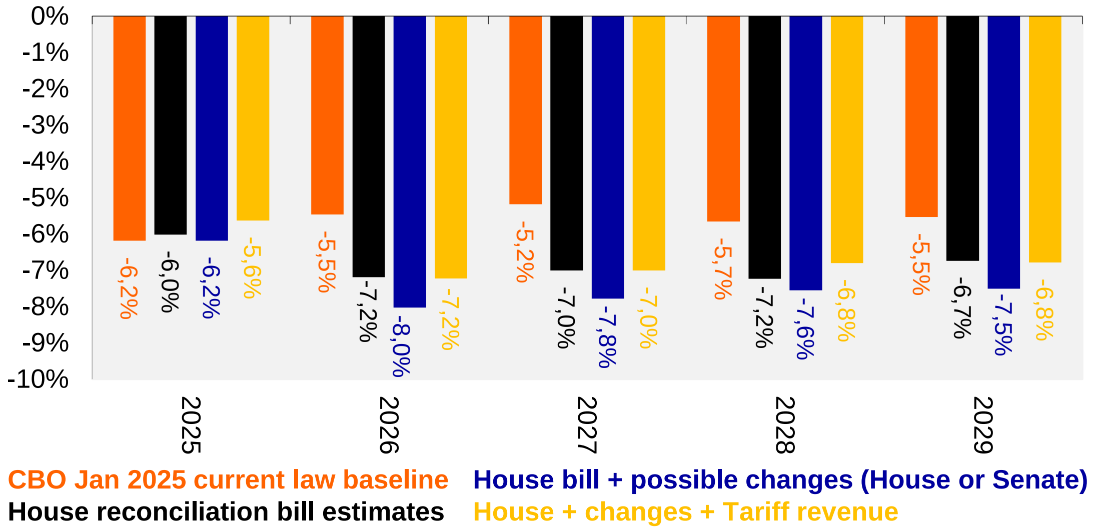
Tail risks from weaker activity and higher-than-expected inflation have eased at the margin, with consumer and business surveys pessimism reaching a bottom and inflation expectations receding. 3

U.S.: Fed increases caution in face of economic resilience and fiscal risks

Fed Funds Rate



US: Nominal Deficit Estimates (% GDP)



Source: Haver, Itaú

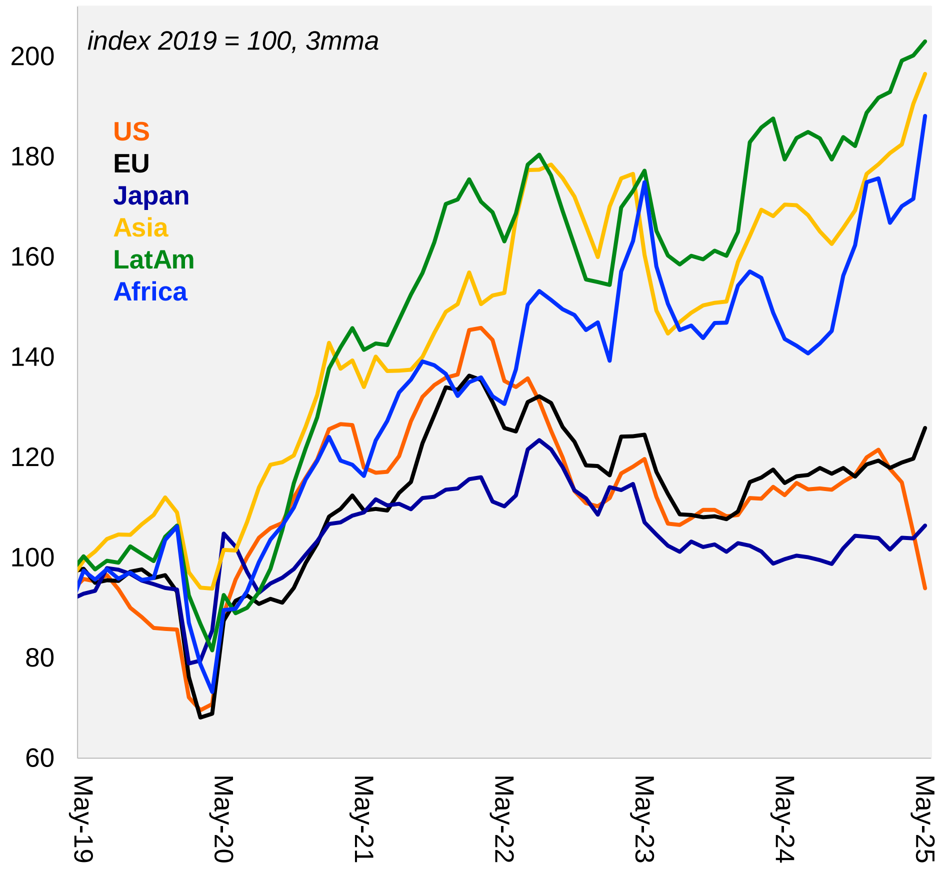
4 We continue to expect this scenario to lead to a Fed rate cut only in December. Resilient activity and a lack of clarity in trade negotiations are prompting the Fed to wait and see what the effect on the economy will be. Recent statements from Fed officials have cautiously moved in this direction, signaling limited appetite for rate cuts until the economic impacts become clearer.

5 The approval of the new fiscal package in the House of Representatives points to a scenario of accelerating deficit and debt growth, putting upward pressure on long-term interest rates and reducing the attractiveness of the dollar. The fiscal package approved by the House – known as the One Big Beautiful Bill (OBBA) – suggests the fiscal deficit could rise to 6.5–7.0% of GDP in the coming years, compared to an estimated 5.5–6.0% for this year.

6 Although final approval still requires passage by both houses of Congress, we do not expect significant changes in Senate. The lack of urgency in addressing the worsening fiscal trajectory has already increased pressure on long-term Treasury yields, a trend we expect to continue. As a result, we have revised our year-end projection for the 10-year Treasury yield to 4.50% (up from 4.25%). This environment has also contributed to the recent weakening of the dollar, amid a broader decline in the attractiveness of U.S. assets globally.

China: shifting in trade flows sustain exports

China: Exports breakdown by region



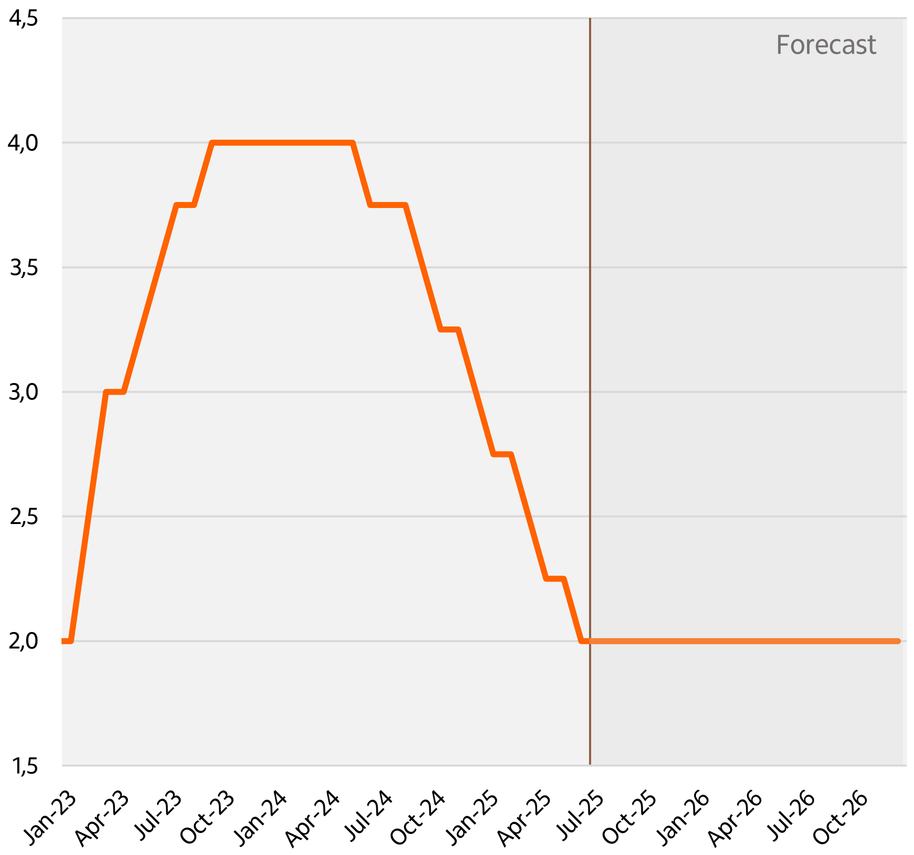
Source: BBG

Despite global tensions, exports remain resilient, reducing the need for a new round of stimulus measures in the short term. Exports continue at a positive pace as Chinese products are redirected to other destinations – such as Asian countries – offsetting the sharp decline in U.S. demand (see chart). The recent truce between the U.S. and China, whose initial deadline expires in August, has not yet been reflected in the May trade balance data. We expect exports to remain resilient in the short term, driven by the redirection to other countries and, to a lesser extent, by anticipatory purchases. 1

We maintain our Chinese growth forecasts at 4.5% for 2025 and 4.0% for 2026. The growth model remains anchored in exports and the manufacturing sector. Additionally, the implementation of this year's fiscal stimulus has advanced more rapidly than in 2024, providing further support to short-term activity. As a result, we do not expect additional stimulus measures and believe that any discussion of new fiscal announcements will likely be postponed until 2026 (rather than July of this year), in light of the recent data and also given that the shock was milder than it seemed at the peak of trade tensions. 2

Europe: monetary easing cycle approaches the end as growth outlook holds the same

ECB Deposit Rate



The central bank signaled a higher threshold for further rate cuts, reinforcing our view of a terminal rate at the current 2.0% level. The June monetary policy meeting confirmed that the rate-cutting cycle is nearing its end, as inflation projections continue to converge toward the 2% target. There was a signal of increased confidence that economic activity is continuing without, at least for now, showing a significant slowdown due to the tariff shock. We maintain our growth forecasts at 0.8% for 2025 and 1.5% for 2026, incorporating the expected boost from Germany's fiscal stimulus next year. 1

In an environment of declining interest in U.S. assets amid uncertainty over economic policy, we have revised our euro forecast to 1.12 (from 1.10) for both 2025 and 2026. While the monetary policy differential between the U.S. and the euro area would typically support a weaker euro, persistent risk aversion toward U.S. assets is likely to remain the dominant driver. 2

Source: Haver. Itaú

Latin America: Separating the signal from the noise

Key Electoral Dates		
Argentina	September 7, 2025	Local Congressional Election in Buenos Aires
	October 26, 2025	National Congressional Elections
	December 10, 2025	Elected National Congressmen begin their term
Brazil	October 4, 2026	General Elections
	October 25, 2026	Second round
Chile	June 29, 2025	Governing coalition's presidential primary
	November 16, 2025	Presidential and Congressional Elections
	December 14, 2025	Presidential runoff (if needed)
	March 11, 2026	New presidential and congressional terms begin
Colombia	March 8, 2026	Congressional Elections
	May 31, 2026	Presidential first-round
	June 21, 2026	Presidential runoff (if needed)
Mexico	September 1, 2025	New justices, magistrates, and judges begin their terms
Peru	April 12, 2026	General Elections
	June 7, 2026	Presidential runoff (if needed)
	July 28, 2026	Elected officals begin their term

Source: Itaú based on official sources.

The global outlook has been exceptionally uncertain in recent months, with shifting forecasts on growth, inflation, and the policy rate outlook in major advanced economies, which have rippled through our views for the region. We revised growth in the region upwards with an improved external scenario, positive data and favorable terms of trade. Trade uncertainty persists, but US long-term interest rates are unlikely to tighten local conditions, with a weaker dollar. 1

Growth up. We revised Mexico's GDP forecast for 2025 to 0.2% from -0.5%, with improved data and higher growth in the US. We also raised projections for Chile (2.6%) and Colombia (2.5%), with an upward bias for Peru (2.8%). The mining-led recovery is advancing in Chile and Peru, despite weaknesses in the labor and credit markets. Argentina continues to have the strongest growth in the region (5.2%), driven by statistical carryover and improving fundamentals.. 2

Minor tweaks to our inflation forecasts. We revised Chile's inflation forecast to 3.8% (from 4.0%) on lower cumulative inflation, a favorable exchange rate and falling oil prices. In Colombia, we raised our forecast to 5.1% on pressure from rents and indexation. In Mexico, we maintained our projections (3.9% in 2025 and 3.6% in 2026), despite recent volatility in food and persistent inflation in services. 3

An earlier restart to the easing cycle in Chile. Despite the positive revision in Chile, the decline in core inflation and external risks have created room for a resumption of rate cuts: we project three 25 bps cuts, starting in July, with a final rate of 4.25% in 2025. In Mexico, we expect a 50 b.p. cut in June and a more cautious pace to 7.50% in September. In Colombia, we foresee a pause followed by gradual cuts to 8.50%, despite fiscal uncertainty. 4

An eye on fiscal accounts. We have maintained our fiscal projections, but revisions to targets in Chile (structural deficit of 1.6%) and Peru (nominal deficit of 2.8%) are noteworthy. In Colombia, the use of the escape clause is expected to push the deficit to 7.0%, well above the target. The weakening of fiscal frameworks and rising debt raise risks to macro stability. 5

Markets are keeping an eye on elections in several economies this year and next. Argentina holds congressional elections in October 2025; Chile follows with presidential and congressional elections in November 2025. In Peru, general elections are scheduled for April 2026, marking the return of the Senate, with voters electing 60 new senators. Colombia will hold congressional elections in March 2026 and presidential elections in May. Brazil rounds out the cycle with general elections in October 2026. 6

Source: BBG. Itaú

LatAm: compared scenario

World

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

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**	5.75	**5.65**	5.75
Monetary Policy Rate (eop,%)	12.25	**14.75**	14.75	**12.75**	12.75
IPCA (%)	4.8	**5.3**	5.5	**4.4**	4.4

Argentina

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	-1.7	**5.2**	5.2	**4.0**	4.0
ARS / USD (eop)	1033	**1300**	1300	**1515**	1515
Reference rate (eop,%)	32.0	**29.0**	29.0	**20.0**	20.0
CPI (%)	117.8	**27.5**	30.0	**20.0**	20.0

Colombia

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.7	**2.5**	2.2	**2.5**	2.6
COP / USD (eop)	4409	**4300**	4400	**4200**	4300
Monetary Policy Rate (eop,%)	9.50	**8.50**	8.50	**7.75**	7.75
CPI (%)	5.2	**5.1**	4.8	**3.6**	3.5

Latin America and Caribbean

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

Mexico

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.4	**0.2**	-0.5	**1.0**	1.0
MXN / USD (eop)	20.8	**20.0**	21.0	**20.5**	21.3
Monetary Policy Rate (eop,%)	10.00	**7.50**	7.50	**7.00**	7.00
CPI (%)	4.2	**3.9**	3.9	**3.6**	3.6

Chile

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	2.6	**2.6**	2.2	**2.0**	2.0
CLP / USD (eop)	996	**940**	970	**910**	940
Monetary Policy Rate (eop,%)	5.00	**4.25**	4.50	**4.00**	4.00
CPI (%)	4.5	**3.8**	4.0	**3.0**	3.0

Peru

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.3	**2.8**	2.8	**2.7**	2.7
PEN / USD (eop)	3.80	**3.80**	3.80	**3.80**	3.80
Monetary Policy Rate (eop,%)	5.00	**4.25**	4.25	**4.00**	4.00
CPI (%)	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**	95	**85**	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9400**	9050	**9500**	9350
Corn (Usd/bu)	437	592	656	480	444	**430**	450	**400**	410
Soy (Usd/bu)	1207	1290	1474	1311	984	**1000**	980	**970**	950
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	**340**	360	**280**	280

Source: BBG, Itaú

Source: Bloomberg, Itaú

Brazil

Introduction
Brazil

No room nor urgency to cut

– We maintained our GDP growth forecasts at 2.2% for 2025 and 1.5% for 2026. However, we made a slight adjustment to the distribution of growth throughout 2025. Recent data point to a weaker performance in the second quarter. On the other hand, the economic impact of court-ordered government payments (precatórios) and the expansion of private payroll loans is likely to be more pronounced in the second half of the year. In the labor market, we revised our unemployment rate estimates to reflect the positive surprises seen earlier this year. For 2025, we lowered the unemployment projection from 6.8% to 6.4%, and for 2026, from 7.3% to 6.9%, both below the neutral rate of around 8.0%. That being said, our proprietary labor market indicators show signs of moderation in the May reading.

– The weakening of the dollar against emerging market currencies has contributed to the appreciation of the BRL. Nevertheless, external uncertainties and fiscal risks justify a cautious revision of the exchange rate forecast to BRL 5.65 for both 2025 and 2026 (compared to BRL 5.75 previously). External accounts remain under pressure. Given a weaker-than-expected trade balance, driven by slower deceleration in imports, we now project a current account deficit of 2.6% of GDP in 2025 and 2.4% in 2026 (revised from 2.4% and 2.3%, respectively).

– We revised our IPCA inflation projection for 2025 to 5.3%, reflecting lower inflation in industrial goods – driven by a stronger exchange rate – and in food, particularly due to falling corn prices. The balance of risks for this year remains symmetrical: additional relief from lower food prices (especially proteins) may be offset by upward pressure on electricity costs, given the risk of tariff flags being triggered. For 2026, we maintained our projection at 4.4, as the tight labor market and the continued unanchoring of long-term inflation expectations are set to exert upward pressure.

– We revised our primary result projection for 2025 to -0.6% of GDP (from -0.8%) and maintained the forecast at -0.8% for 2026. The revision incorporates additional revenues from private fund withdraws and the partial impact of the IOF (Tax on Financial Transactions) increase, bringing the 2025 result closer to the target (including legal exceptions). In the remainder of this year, spending is likely to accelerate again, while revenue performance will depend on one-offs and the outcome of the measures currently under discussion.

– The Copom is set to end the monetary tightening cycle in June, keeping the Selic rate at 14.75%, while signaling that it will remain at this level for an extended period. Given that inflation remains above target, expectations are unanchored, and economic activity is resilient, we see no room for rate cuts in 2025. We expect the easing cycle to begin only in 2026, with risks tilted toward a later start – unless there is a significant currency appreciation or an abrupt slowdown in economic activity.

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	5.3	4.4
IGP-M (%)	7.3	23.1	17.8	5.5	-3.2	6.5	3.8	4.0
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	-0.6	-0.8
Gross debt (% GDP)	74.4	86.9	77.3	71.7	73.8	76.5	79.4	84.0
Growth of public spending (% real, pa*)	2.3	29.2	-24.7	6.0	7.6	3.2	3.1	2.4
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	6.33	6.33
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

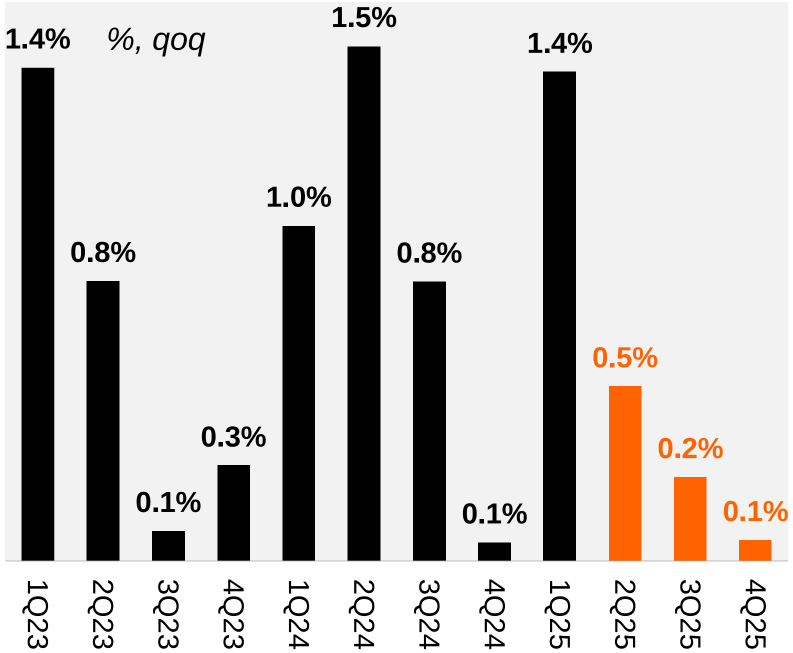
Activity: 2Q started weaker

IDAT Heatmap (YoY, nsa)							
Breakdown	Feb-25	Mar-25	Apr-25	May-25	4Q24	1Q25	2Q25
IDAT-Activity	7.5%	2.4%	2.5%	2.8%	4.6%	4.3%	2.7%
IDAT-Services	8.4%	6.6%	3.1%	4.5%	5.7%	6.6%	3.8%
IDAT-Goods	6.5%	-1.7%	1.9%	1.2%	3.6%	2.1%	1.5%
IDAT-Goods sensitive to income	11.1%	5.3%	6.1%	9.5%	7.0%	6.8%	7.9%
IDAT-Goods sensitive to credit	7.3%	-4.7%	-7.1%	-4.4%	7.0%	0.9%	-5.8%

*Considering data up to 31 of may

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.** Although 1Q25 GDP came in slightly below expectations, the data continued to show resilience in services (+0.3% m/m sa) and household consumption (+1.0% m/m sa), which offset the decline at the end of 2024.

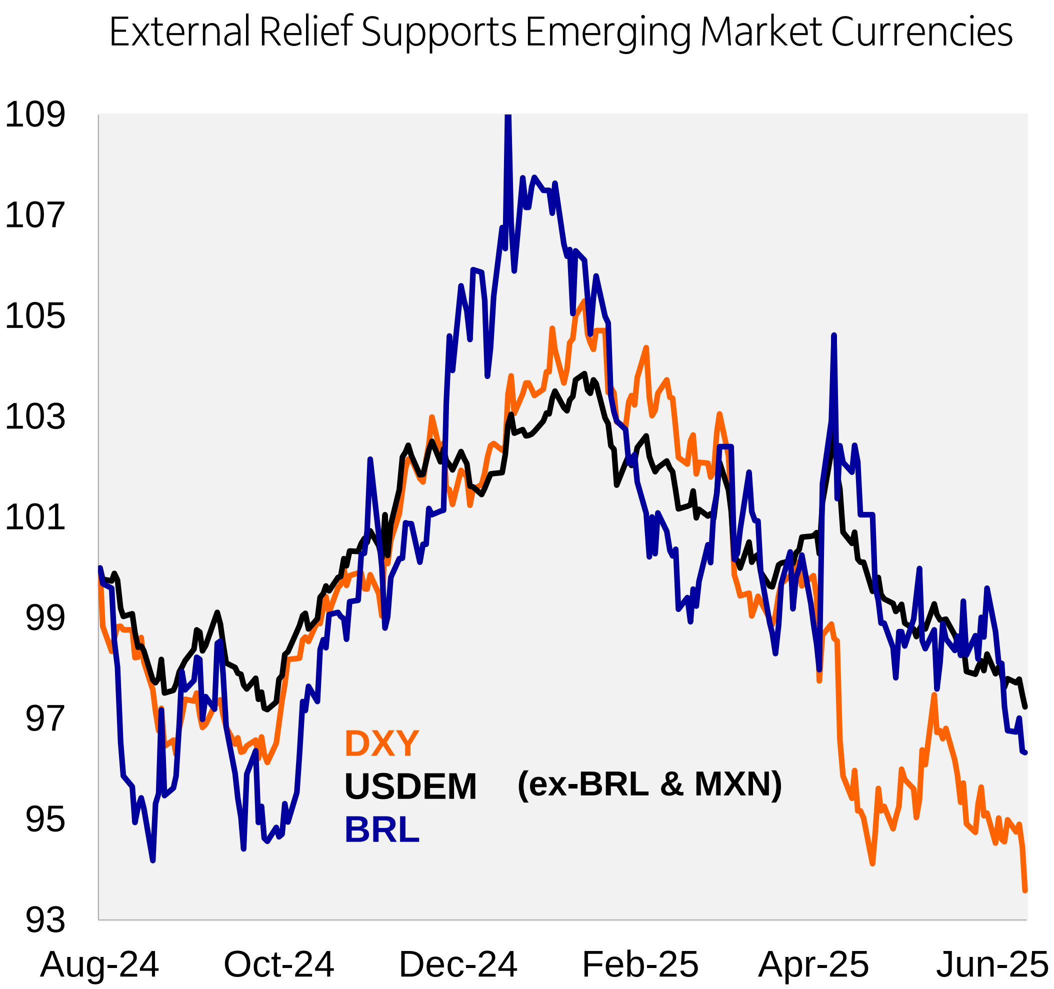
2 **Despite this, we have adjusted the distribution of growth throughout 2025.** Recent data from IBGE and our IDAT-Activity point to a moderation in the pace of the economy in the short term. As a result, we revised our GDP growth projection for 2Q25 to 2.4% y/y (0.5% q/q), from 2.6% y/y (0.6% q/q).

3 **On the other hand, we have revised upward our GDP projections for the second half of 2025.** Our forecast, previously stable, now points to a 0.2% increase in the margin, reflecting the expected impact of the release of court orders in July and the new payroll loans, which should boost activity in the second half of the year.

4 **For 2026, we have maintained our growth projection at 1.5%, although the balance of risks remains tilted to the upside**. While downside risks from the international environment have eased, the possible adoption of countercyclical fiscal and parafiscal measures to contain the slowdown in activity in 2025 remains on the radar.

5 **Finally, we revised our unemployment rate estimates downward, reflecting positive short-term surprises.** For 2025, the projection was revised from 6.8% to 6.4%, and for 2026, from 7.3% to 6.9%, both below our NAIRU estimate (8.0%). The revision reflects a more resilient labor market, with emphasis on the formal sector.

BRL: Weaker dollar against emerging markets favors the BRL



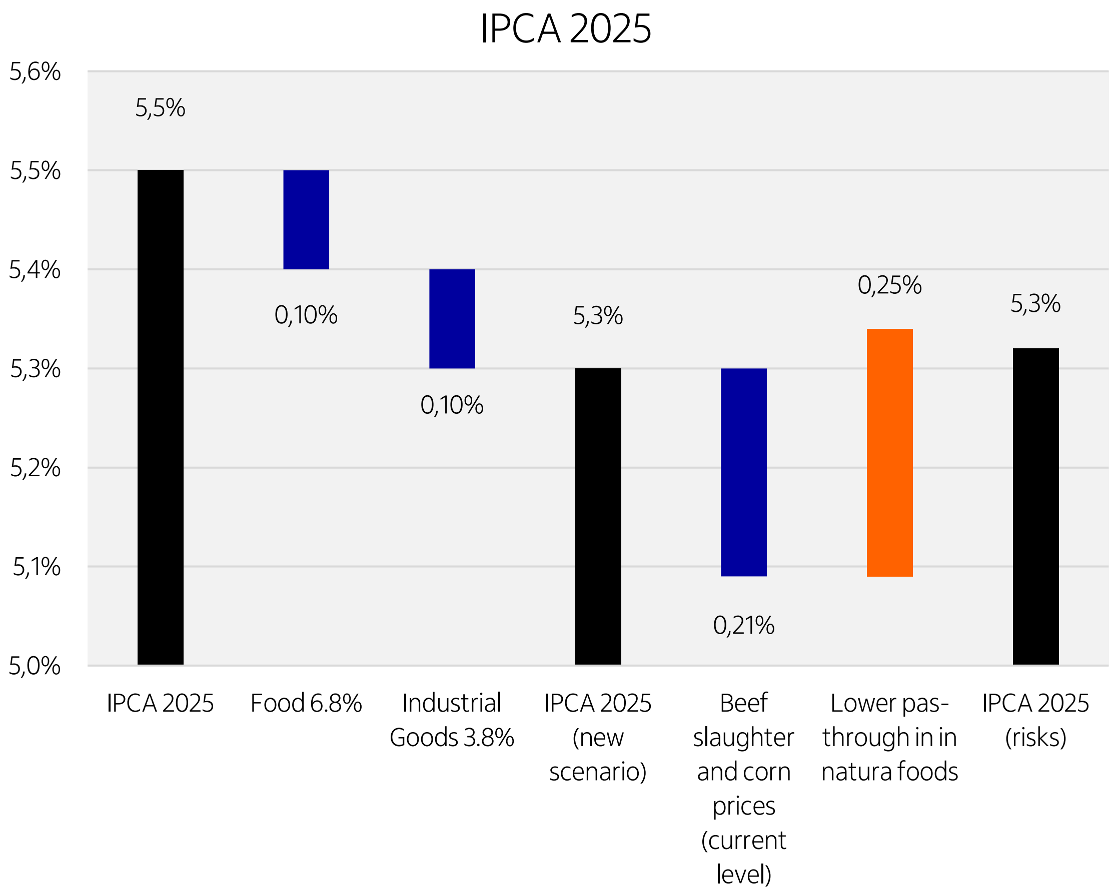
1 **The BRL continues to benefit from the international environment, with the dollar weakening against emerging market currencies.** Given the high interest rate differential, the weaker dollar, and a relatively stable risk premium, our models indicate an even stronger appreciation of the BRL than that observed recently. However, considering the high level of uncertainty in the international outlook and domestic risks related to fiscal dynamics – along with external accounts under pressure – we have chosen to adopt a cautious stance. As a result, we are revising our exchange rate projection to BRL 5.65 for both 2025 and 2026, compared to the previous estimate of BRL 5.75.

2 **On the external accounts front, we have observed a slower-than-expected deceleration of imports, especially those of consumer goods.** Given this trend and the worsening terms of trade, we have revised our projection for the trade balance surplus to US$71 billion in 2025 (down from US$76 billion) and US$74 billion in 2026 (down from US$77 billion). For the current account, we now project deficits of 2.6% of GDP in 2025 (compared to 2.4%) and 2.4% in 2026 (compared to 2.3%). Although foreign direct investment (excluding reinvested earnings) has improved marginally, it remains insufficient to fully cover the current account deficit, limiting the sustainability of a significantly stronger exchange rate.

Source: IBGE. Itaú

Brazil

Inflation: forecasts maintained, and symmetrical balance of risks

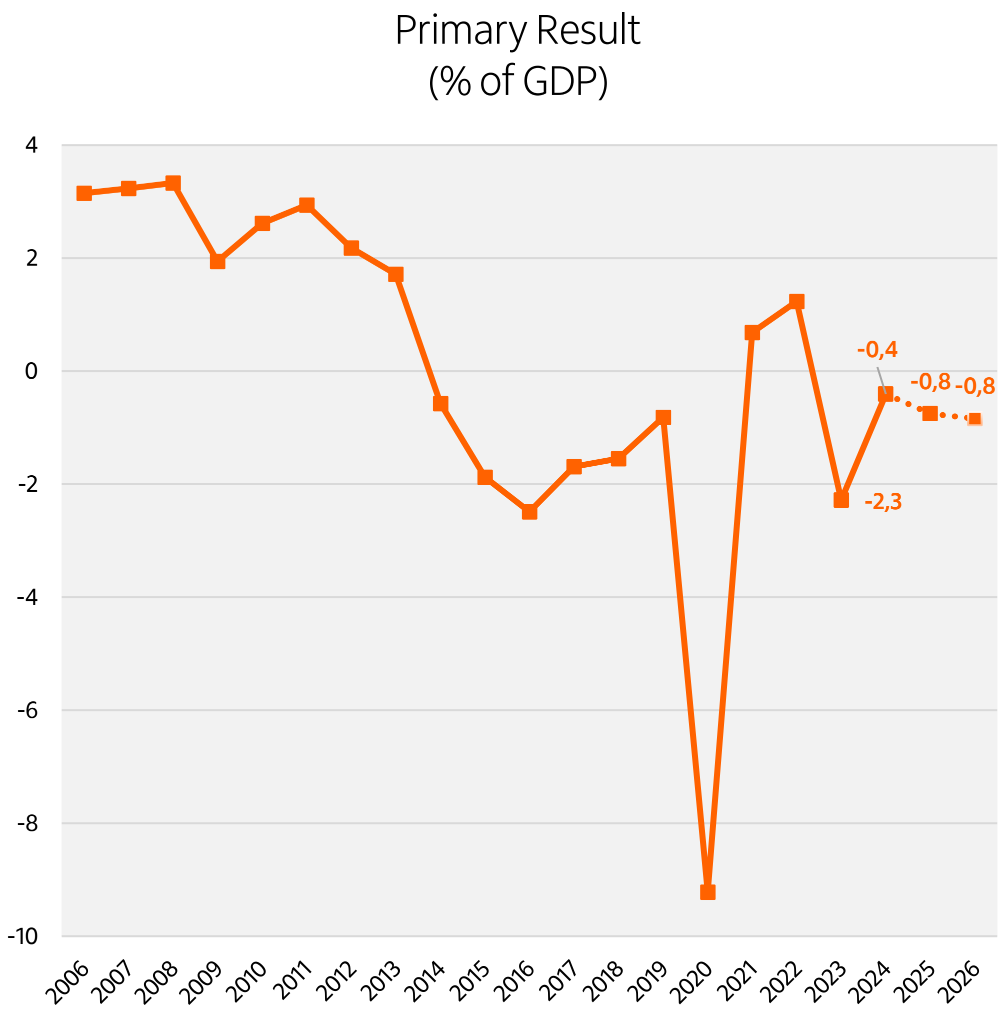


1 **We have reduced our projection for the IPCA in 2025 from 5.5% to 5.3%.** This reflects two main factors: the appreciation of the exchange rate, which tends to ease the prices of industrial goods, and the recent drop in corn prices, which impacts food costs. For 2025, we assess that the risks to inflation are relatively balanced. On one hand, a slower reversal in the beef cycle may keep protein prices at lower levels. On the other hand, reduced rainfall increases the likelihood of triggering the yellow or red electricity tariff flags at the end of the year, putting upward pressure on energy costs.

2 **For 2026, we have maintained our inflation projection at 4.4%.** The balance of risks is asymmetric to the upside, with the labor market still under pressure and the persistence of unanchored inflation expectations over the longer term representing the main upward risks.

Source: Itaú

Fiscal: closer to meeting target

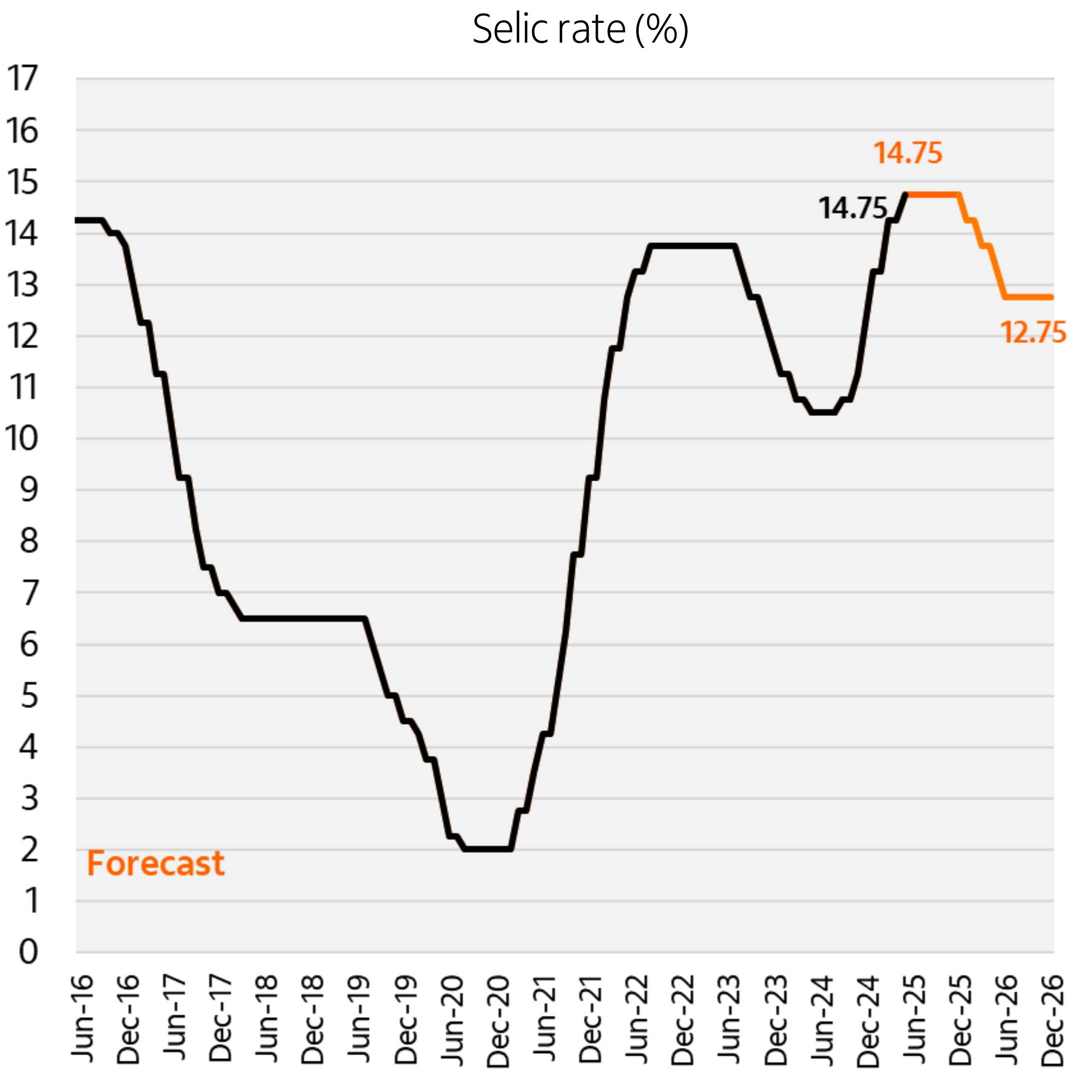


Source: Itaú

1 **We revised our primary balance projection to -0.6% of GDP in 2025 (from -0.8%) and maintained it at -0.8% for 2026**. For 2025, we incorporated one-offs revenues associated with the withdrawal of private funds, and the partial effect of the announced IOF increase. Thus, we see the government closer to meeting the lower limit of the -0.6% of GDP target (considering legal exceptions and -0.25% lower limit of the official 0% target). Note that the surplus level necessary to stabilize the debt is around 2.5% of GDP. For 2026, the main risk is the implementation of initiatives that explicitly or implicitly change, circumvent, or distort fiscal rules, resulting in higher growth rates in primary expenditures and/or greater revenue waivers.

2 **Over the year, spending is poised to accelerate again, while revenue performance will depend on extraordinary revenues and the impact of recently announced measures.** Since the beginning of the year, we have seen a slowdown in both expenses and revenues. However, the slowdown in expenses may be temporary due to factors such as the anticipated normalization of the INSS waiting list, increased budget execution following its approval, retroactive payments of civil servants' salary adjustments, and the postponement of court order payments. In contrast, revenue performance will depend on one-offs (such as oil auctions and dividends from state-owned companies) and the implementation and effects of recently announced measures as alternatives to the increase in the IOF, amid the slowdown in economic activity. Looking ahead, structural measures to address the rigidity and rapid growth of mandatory spending would enhance the credibility of the fiscal adjustment necessary for public debt sustainability.

Monetary policy: contractionary rates for a prolonged period



Source: Itaú

1 Copom will meet again on June 17 and 18, when it is likely to end the current cycle of monetary tightening by unanimously deciding to maintain the Selic rate at the current level of 14.75% pa.

2 In the recent official communication, following the May meeting, we understood that the Central Bank appears confident that monetary policy is at a significantly contractionary level and that economic activity is decelerating, albeit with mixed signals. Additionally, the authorities seemed to indicate a preference for maintaining high interest rates over a prolonged period. Since then, we have not observed significant changes in the background conditions for the monetary policy decision. The international environment remains volatile and highly uncertain. Domestic activity remains resilient but shows ambiguous signals, indicating some moderation. Current inflation is above the target, and expectations remain above target, but in both cases without further deterioration.

3 Therefore, the authorities will likely opt to maintain the Selic rate stable, signaling that the interest rate will remain at the current level for as long as necessary, and that they will not hesitate to resume the tightening cycle if there are changes in the prospective inflation scenario.

4 We do not see room for interest rate cuts this year, given unanchored expectations and still-resilient activity. We project the easing cycle to begin only in early 2026, with the Selic rate declining to 12.75%. We do not expect any rate cuts before then, unless there is a significant appreciation of the currency (to around BRL 5.00/US$) or an abrupt slowdown in economic activity. If anything, the greater risk is that the start of the easing cycle could be postponed until the second quarter of 2026.

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