Economic Outlook

April 2025

Global

Global

Global recession in sight?

- **Tariff increases (and uncertainties) are a negative shock to the global scenario.**
- **U.S.** We expect weaker growth (1.2% in 2025 and 1.0% in 2026, from 2.0% previously) and higher inflation (+150-200bps) leading to limited Fed cuts (two 25 bps cuts in 2025 and another two of the same magnitude in 2026 to 3.25-3.5%), with risks of higher and persistent inflation leading to fewer rate cuts.
- **Europe:** Fiscal and monetary stimulus can offset tariff shocks. We maintain our growth projections at 0.8% for 2025 and 1.5% for 2026. We expect the euro to appreciate (1.10 vs. 1.08 previously) amid heightened concerns about the U.S. economy.
- **China**: We revised our GDP growth projection from 4.5% to 4.2% given the significant tariff increase, even assuming some negotiation with the U.S. The government's stance remains reactive, and stimulus should only be announced after a clear slowdown in activity.
- **Latin America:** Facing rising external headwinds.

Highlights

Global

Our forecasts:

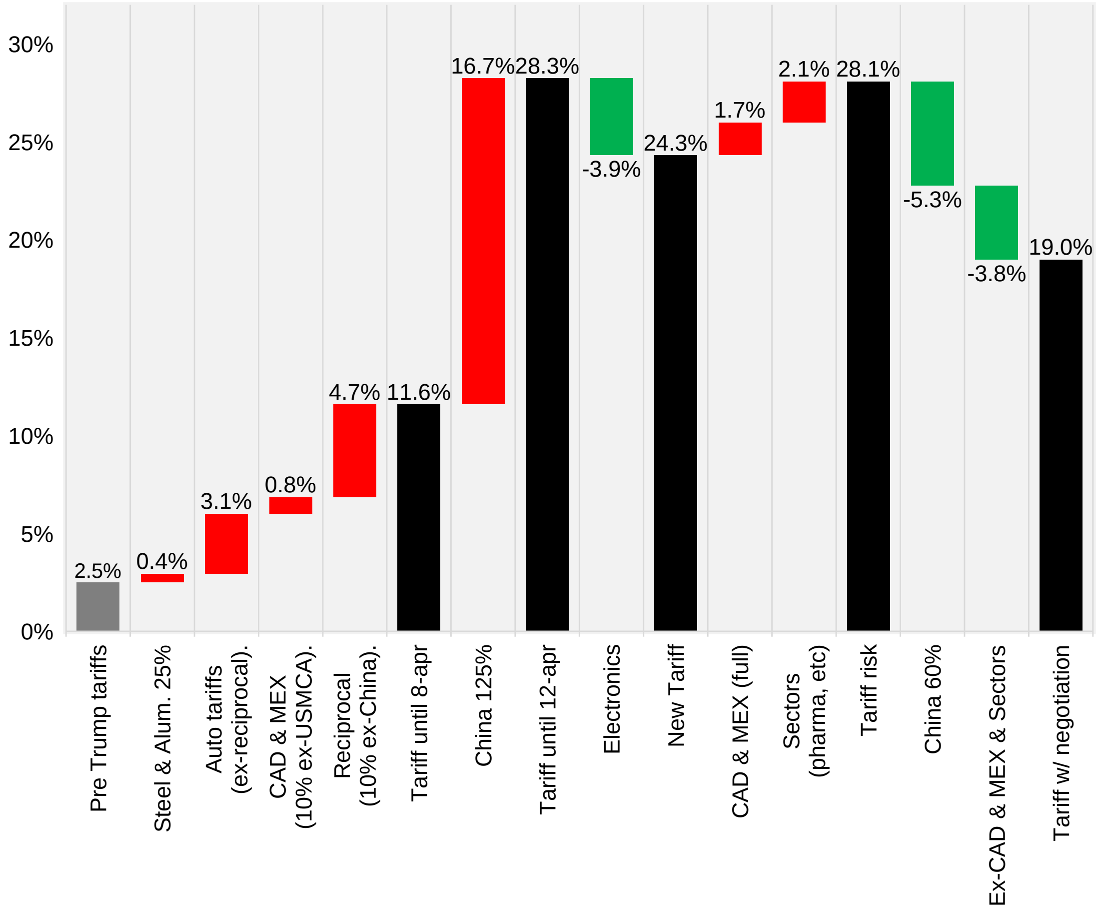
	2019	2020	2021	2022	2023	2024	2025	2026
World	2.8	-2.8	6.3	3.5	3.2	3.2	2.7	2.6
U.S.	2.6	-2.2	6.1	2.5	2.9	2.8	1.2	1.0
Euro Zone	1.6	-6.2	6.3	3.6	0.4	0.8	0.8	1.5
China	6.0	2.3	8.4	3.0	5.2	5.0	4.2	4.0
Fed Funds	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	3.75-4.00	3.25-3.50
10Y U.S. Treasury	2.0	0.9	1.5	3.9	3.9	4.6	4.0	4.0

Source: FMI, Bloomberg, Itaú

Global

Increased tariffs (and uncertainties) are a negative shock to the global scenario

Tariffs: Impacts on U.S. effective import tariffs



Source: Itaú

1. The U.S. government announced an increase in (so-called) reciprocal trade tariffs but later partially withdrew it following negative impacts on asset prices and escalating retaliatory measures—particularly with China.

2. Until this moment, we have calculated that the effective tariff increase in force is approximately 22 percentage points, bringing the effective tariff level to 24%.

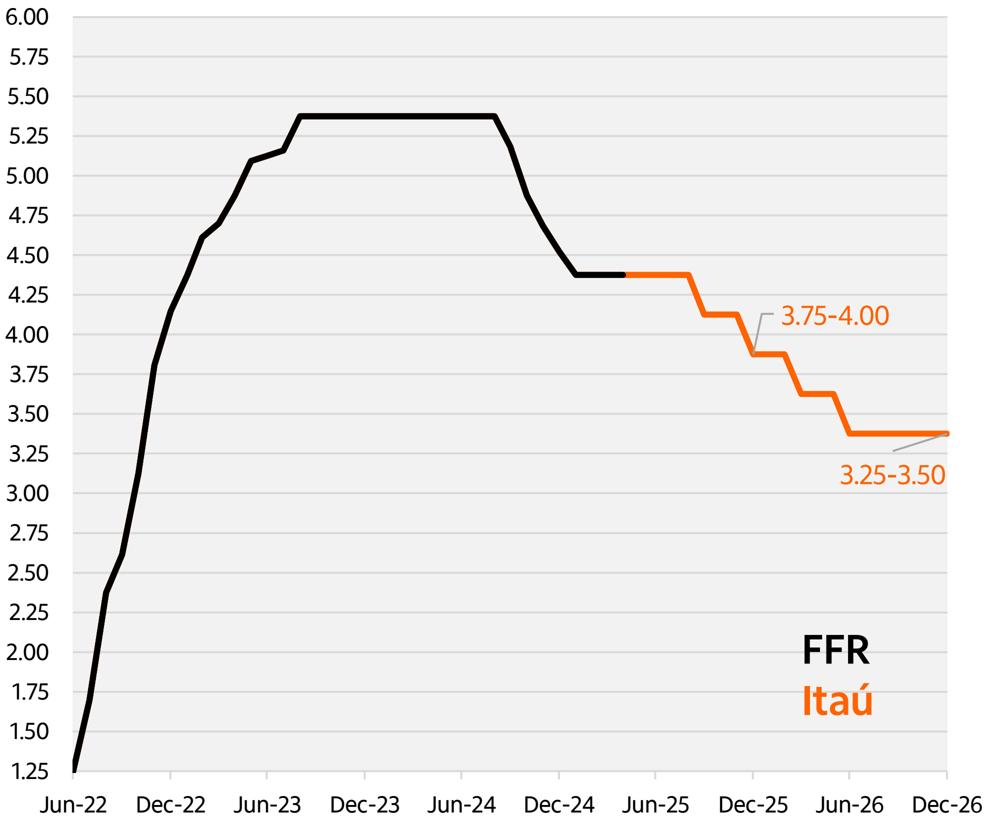
3. The significant increase in tariffs represents a negative supply shock, with a strong stagflationary impact on the American economy, raising concerns about a global recession.

4. In our scenario, we assume that negotiations will prevent reciprocal tariffs from rising beyond the current 10% level, and that the U.S. and China will reach an agreement that reduces the U.S. effective tariff to around 20%. We expect global GDP to grow by 2.7% in 2025 and 2.6% in 2026, compared with 3.2% and 3.1% in the previous scenario and 3.2% in 2024.

5. Lower global growth is also putting downward pressure on oil prices. We have revised our projection for a barrel of oil from \$70 to \$65 by the end of 2025 and 2026, reflecting the impact of weaker global demand. We estimate that each 1% reduction in global GDP results in a 9.5% decline in oil prices.

U.S.: we expect weaker growth and higher inflation leading to limited Fed cuts

Fed Funds Rate



1 We now expect growth of 1.2% in 2025 and 1.0% in 2026, compared to 2.0% in the previous scenario for both years. The supply shock resulting from the tariffs is likely to have a significant impact on private consumption and inflation.

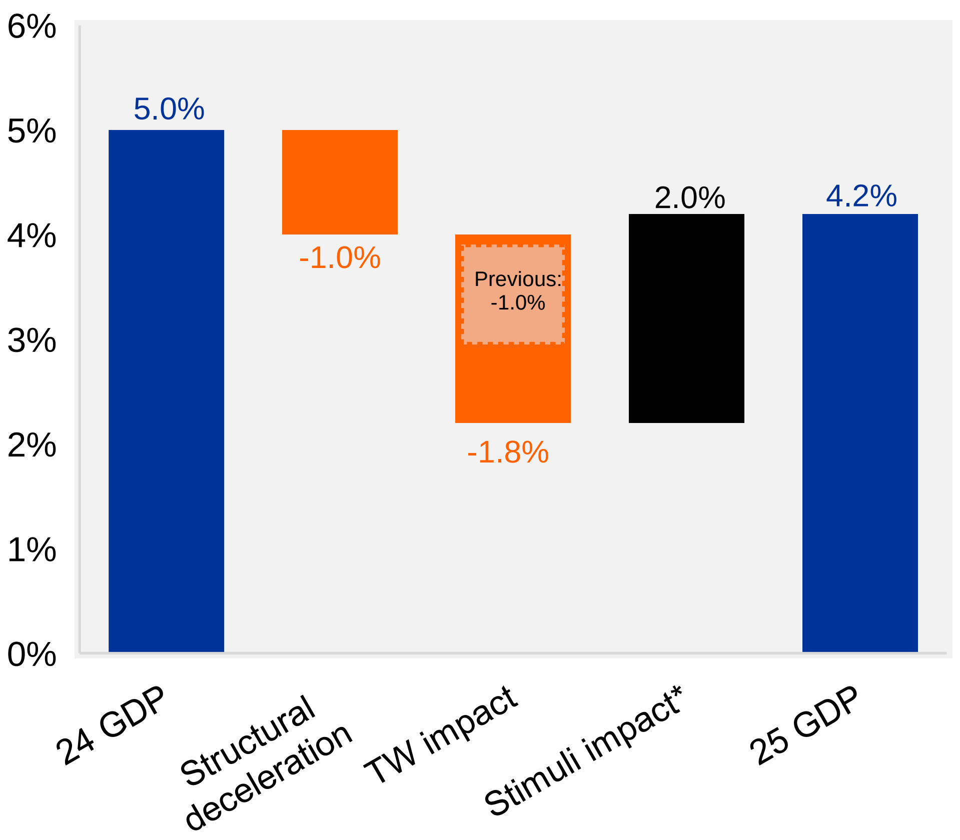
2 One risk to our scenario is that elevated uncertainty may persist, further weighing on U.S. growth—and, by extension, the global economic outlook.

3 For the Fed, we expect two 25-basis-point cuts in 2025, followed by another two cuts of the same magnitude in 2026, bringing interest rates down to 3.25–3.5%. The projected rate cuts will depend on the Fed's assessment of the degree of transitory inflation. Therefore, it will be crucial to monitor the risk of rising inflation expectations and increases in the more inertial components of current inflation.

Source: Haver, Itaú

China: prohibitive tariffs bring 2025 GDP closer to 4%

China GDP



*Stimuli already announced for 2025

1 Even with an agreement that reduces the effective tariff from the current 104% to around 60%, China's exports to the U.S. remain virtually unviable. We have revised our estimate of the negative impact of the trade shock from 1.0 p.p. to 1.8 p.p. of GDP.

2 Our projection for China's growth in 2025 has been revised to 4.2% (previously 4.5%), while remaining unchanged at 4.0% for 2026. Annualized growth above 5% in Q1 and announced stimulus measures are expected to boost the economy, with new infrastructure-focused actions anticipated from July.

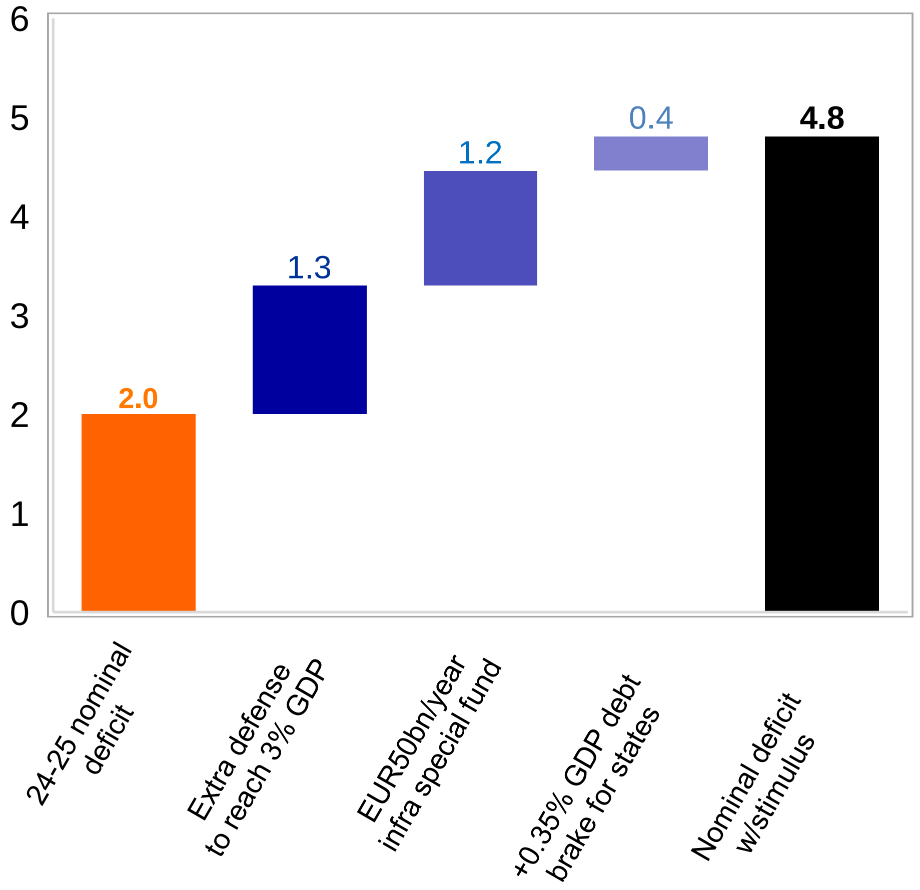
3 Furthermore, we see signs that Chinese authorities are avoiding a sharper depreciation of the currency. We have revised our projection for a more appreciated RMB, now forecasting 7.40 to the U.S. dollar (compared to 7.50 in the previous scenario).

Source: BBG

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



1. 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.

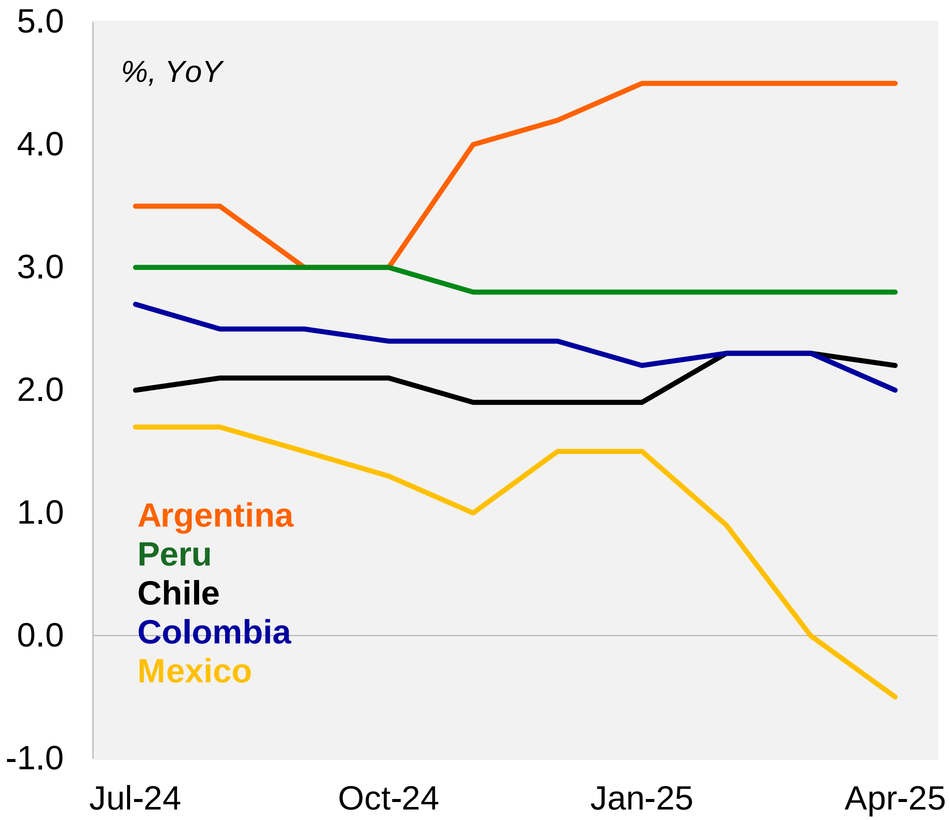
2. For the ECB, with inflation continuing to decline and external uncertainty increasing, we see conditions for further interest rate cuts and now expect a terminal rate of 1.75%. Fiscal and monetary stimulus, combined with heightened global risk aversion, contribute to a stronger euro – now projected at 1.10 in 2025, compared to 1.08 previously.

3. We note that the risk-averse environment – which could intensify if the prospects for trade agreements with the U.S. deteriorate – can lead to appreciation in developed market currencies while exerting downward pressure on emerging market currencies.

Source: Haver. Itaú

Latin America: Facing rising external headwinds

2025 LatAm GDP Growth Forecasts



Source: BBG. Itaú

1 **Shifts in US trade policy: Is the region really better off?** We believe the market's initial reaction to the April 2 tariff announcements was that the region emerged relatively unscathed, with Mexico being exempt and most economies only receiving the 10% base tariff. However, in our view, the tariffs were a negative surprise for Andean countries that have a free-trade agreement with the US, and several even have a goods trade deficit with the US.

2 **A recession in Mexico is now our base case.** We have revised our 2025 GDP forecast downward for the third consecutive month, now predicting a full recession with 0.5% QoQ GDP contraction in 1Q25 (compared to zero growth in our previous scenario), following a 0.6% decline in 4Q24, indicating a technical recession.

3 **Slashing GDP growth forecasts in the Andeans.** After the April 2nd announcements, sequential downward revisions to the U.S. growth outlook, lower commodity prices, and the effects of elevated policy uncertainty led us to slightly revise our 2025 and 2026 GDP growth forecasts downward in Chile, Peru, and Colombia.

4 **Weaker activity and the Fed pave the way for more easing.** As described earlier, our global scenario now considers two 25-bp cuts by the Fed this year and another two next year. Combined with well-behaved inflation prints, this paves the way for several central banks in the region to extend their easing cycles further.

5 **Argentina floats the currency within a wide exchange rate band.** The BCRA surprised by announcing important changes to its exchange rate framework that have the objective of further reducing inflation, and boost investment, employment, and activity over time. We maintained our 2025 GDP growth forecast at 4.5%, with upside risks despite rising global uncertainties, supported by a high carryover.

LatAm: compared scenario

World

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.2	3.2	**2.7**	3.2	**2.6**	3.1

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	**15.25**	15.25	**13.25**	13.25
IPCA (%)	4.6	4.8	**5.5**	5.7	**4.4**	4.5

Argentina

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-1.6	-1.7	**4.5**	4.5	**4.0**	3.0
ARS / USD (eop)	809	1033	**1375**	1175	**1600**	1324
Reference rate (eop,%)	100.0	32.0	**35.0**	25.0	**20.0**	20.0
CPI (%)	211.4	117.8	**37.5**	25.0	**20.0**	18.0

Colombia

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.7	1.7	**2.0**	2.3	**2.3**	2.6
COP / USD (eop)	3822	4409	**4400**	4300	**4200**	4100
Monetary Policy Rate (eop,%)	13.00	9.50	**8.25**	8.00	**7.50**	6.50
CPI (%)	9.3	5.2	**4.5**	4.5	**3.3**	3.3

Source: Itau

Latin America and Caribbean

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	2.3	2.3	**1.9**	2.1	**1.9**	2.2

Mexico

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.3	1.5	**-0.5**	0.0	**0.5**	1.4
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**	8.50	**7.00**	8.00
CPI (%)	4.7	4.2	**3.9**	3.9	**3.6**	3.6

Chile

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.5	2.6	**2.2**	2.3	**1.8**	2.0
CLP / USD (eop)	879	996	**970**	955	**940**	930
Monetary Policy Rate (eop,%)	8.25	5.00	**4.50**	5.00	**4.00**	4.50
CPI (%)	3.9	4.5	**4.0**	4.1	**2.9**	3.0

Peru

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-0.4	3.3	**2.8**	2.8	**2.7**	3.0
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**	4.75	**4.00**	4.75
CPI (%)	3.2	2.0	**2.3**	2.3	**2.0**	2.2

Commodities forecasts:

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	**65**	70	**65**	70
Iron Ore (USD/tonne)	153	116	110	135	103	**90**	90	**80**	80
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9050**	9500	**9350**	9500
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	**650**	680	**630**	650
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

Brazil

At the whim of the global environment

– The global scenario remains marked by high uncertainty, with trade tariffs at the center of the debate. For Brazil, we identify two main channels of impact: (i) the direct channel – through trade – tends to be limited, given the low degree of trade openness in the Brazilian economy; and (ii) the indirect channel – through a global slowdown, falling commodity prices, and financial flows in a risk-averse environment – which may be more significant. Our baseline scenario assumes some degree of external relief through tariff negotiations, yet with significant risks of an escalation in the trade war, including retaliatory measures and a potential global recession. This leads us to adopt a cautious stance in our projections.

– The BRL has primarily responded to the international environment, exhibiting high volatility in reaction to shifts in global risk aversion. Given the significant uncertainty surrounding the global outlook, we maintain our exchange rate forecast at BRL 5.75 per US dollar for 2025 and 2026.

– We have maintained our GDP growth estimate for 2025 at 2.2%. While we believe the global slowdown and the decline in commodity prices will have a negative impact on activity, this should be offset by the expansion of new private payroll loans. This year's GDP forecast remains unchanged, though we note a downward bias due to the high risk of a more pronounced global economic slowdown. For 2026, we maintain our GDP growth forecast at 1.5%, with somewhat balanced risks.

– We have revised our inflation projection for 2025 from 5.7% to 5.5%, incorporating the expected reduction in gasoline prices at refineries and the impact of declining metal commodity prices on industrial goods inflation. Risks remain asymmetric, with a downward bias reflecting the potential for further declines in oil and metal commodity prices if the global slowdown intensifies. On the other hand, upside risks are concentrated in domestic agricultural commodity prices, due to increased exports resulting from the trade war between the U.S. and China, with services inflation still under pressure. For 2026, we have lowered our inflation projection to 4.4% (from 4.5%), reflecting reduced inflationary inertia.

– The fiscal challenge remains significant. We have revised our primary balance forecast to -0.8% (from -0.7%) for 2025 and 2026. Given the expectation of lower revenues due to inflation and declining oil prices, it is even more important for the government to announce measures to contain spending.

– For now, we have maintained our end-of-cycle call for monetary policy at 15.25% per year for the June meeting – a level expected to be maintained through the end of the year. We anticipate two 50-basis-point hikes at the next two meetings, although we have less conviction about the second hike, as its implementation will depend on the evolution of the international scenario and its impact on the exchange rate and commodity prices.

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	4.8	4.3
Monetary Policy								
Selic rate (%, eop)	4.50	2.00	9.25	13.75	11.75	12.25	15.25	13.25
Selic rate (%, avg)	5.96	2.81	4.81	12.63	13.25	10.92	14.71	13.71
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	79.8	84.5
Growth of public spending (% real, pa*)	2.3	29.2	-24.7	6.0	7.6	3.2	3.0	2.6
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	6.32	6.32
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

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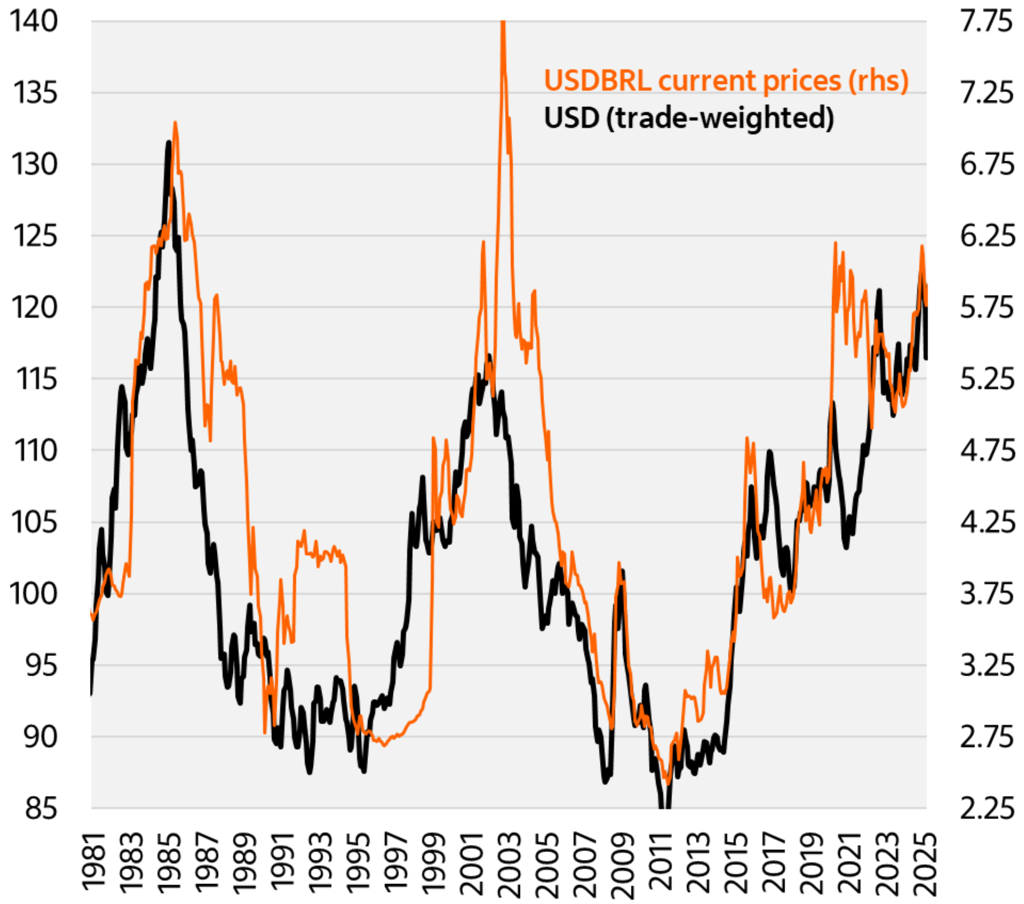
BRL: High volatility

BRL vs USD REER



1 **The BRL has responded primarily to international factors, particularly shifts in global risk aversion**. In tariff negotiation scenarios, the BRL could appreciate due to a weaker dollar and high-interest rate differential, while a trade war escalation could also cause a global recession, increasing risk aversion and causing currency depreciation.

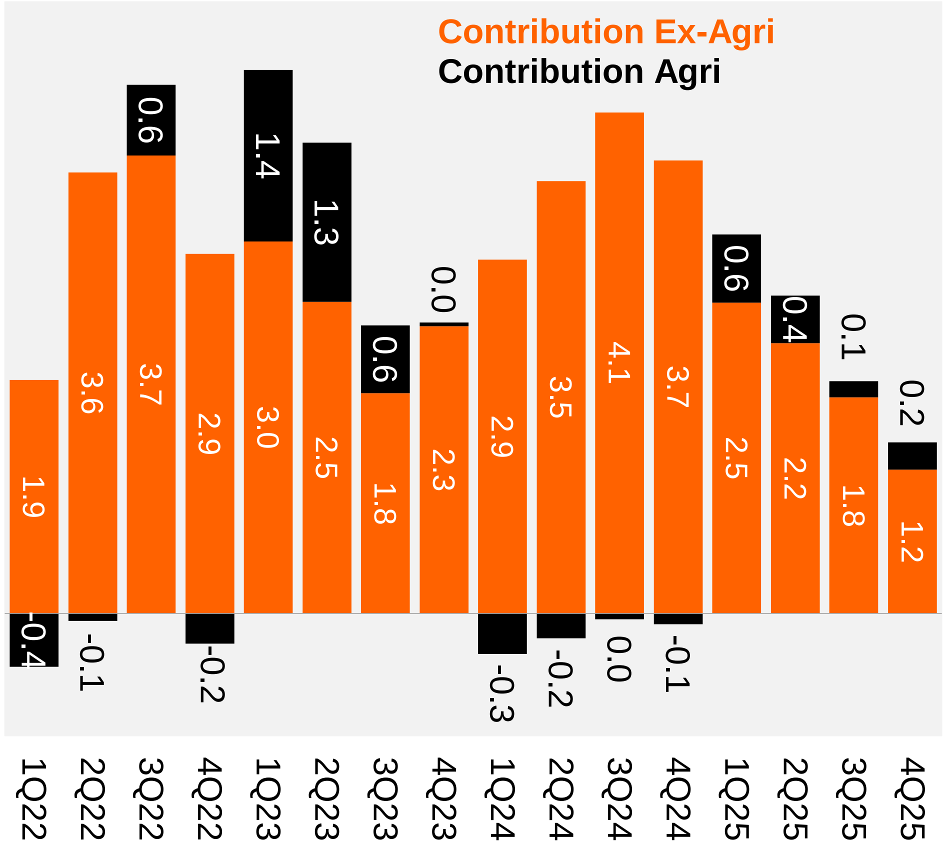
2 **Given the high uncertainty, we have maintained our exchange rate forecast at BRL 5.75 per dollar for 2025 and 2026.** The decline in commodity prices, combined with higher tariffs, will likely reduce the trade balance and widen the current account deficit.

Source: BBG. Itaú

Brazil

Activity: Growth forecasts maintained, but with downside risk for 2025

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



Source: Itaú

1 **We have maintained our GDP growth estimate for 2025 at 2.2%.** However, even though the projection remains unchanged, we note a downward bias due to the high risk of a slowdown in global activity.

2 **In the short term, however, the economy has continued to show resilience.** We expect first-quarter 2025 GDP to grow by 3.1% year-on-year (with 1.6% growth at the margin), driven by strong performance in the agricultural GDP, though all sectors are expected to show positive growth at the margin.

3 **The trade war and its impact on global growth support our expectation of a clearer slowdown in the second half of the year.** The prospect of weaker global GDP, combined with the fiscal slowdown (via transfers) and the lagged effects of contractionary monetary policy, should exert pressure on economic activity in the second half of the year.

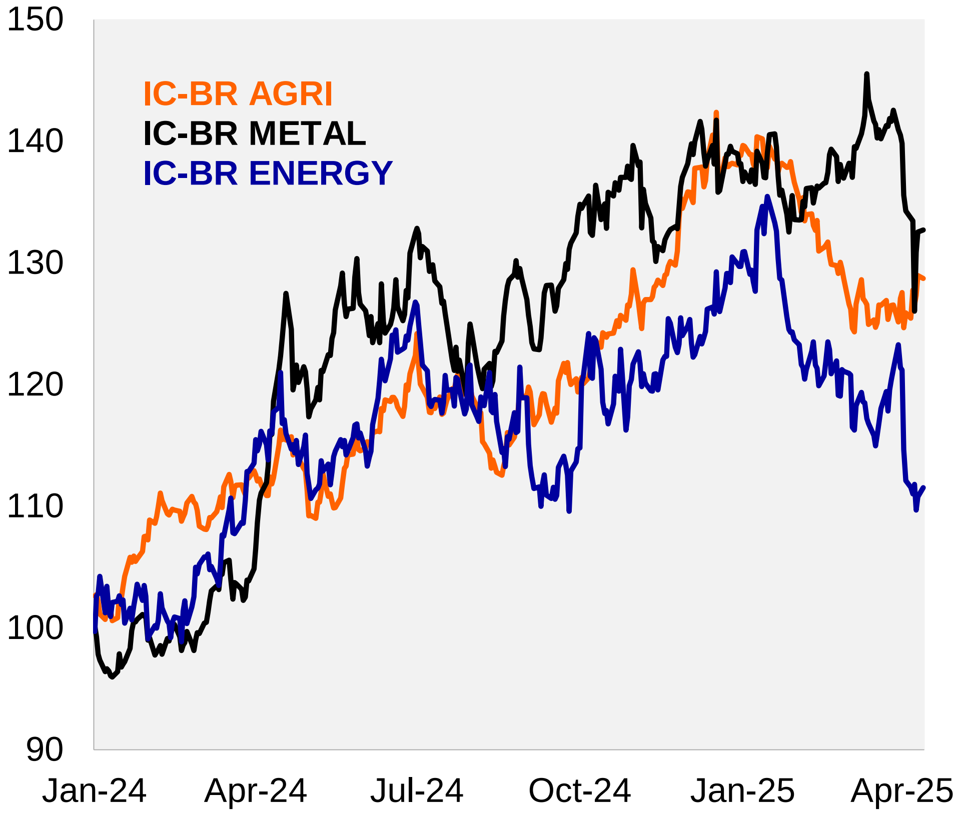
4 **For 2026, we also maintained our projection at 1.5%.** In our scenario, the risks are more balanced, with a more negative outlook in the external scenario offset by the additional effects of new private payroll loans and possible countercyclical fiscal and parafiscal policies.

5 **Finally, we maintained our forecast for the unemployment rate at 6.8% for 2025 and 7.3% for 2026.** Recent data continue to indicate a buoyant labor market, and the impacts of the economic slowdown are expected to be felt in the labor market with some delay.

Brazil

Inflation: Downward revision and balance of risks asymmetric to the downside in 2025

Drop in commodities explains downward revision to inflation

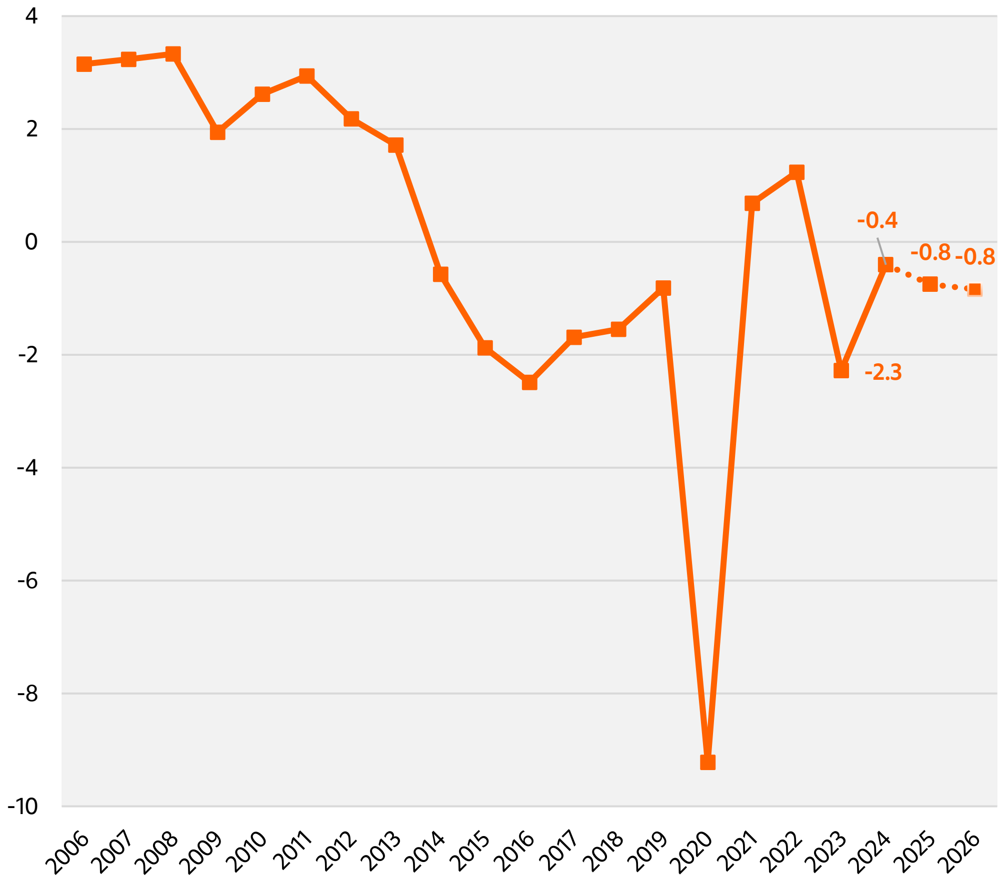


We have revised our inflation projection for 2025 from 5.7% to 5.5%, incorporating two main downward drivers. The first is the expected reduction in gasoline prices, given the current gap between international prices and those charged by Petrobras, which leaves room for a price cut in the short term. The second is the recent drop in metal commodity prices, prompting us to a revise our inflation projection for industrial goods downward. 1

Overall, we assess that the downside risks to inflation continue to outweigh the upside risks in 2025. On one hand, a new round of declines in oil and metal commodity prices could contribute to a more benign inflation rate, though still far from the 3.0% target. On the other hand, the food sector presents upside risks: the increase in exports of agricultural products, driven by tensions in global trade, could generate additional pressure on domestic prices of these commodities. Notably, there was a significant premium in the domestic price of soybeans compared to the international benchmark during the first trade war. 2

Source: Itaú

Fiscal: Revenues are slowing, tighter spending control remains a challenge

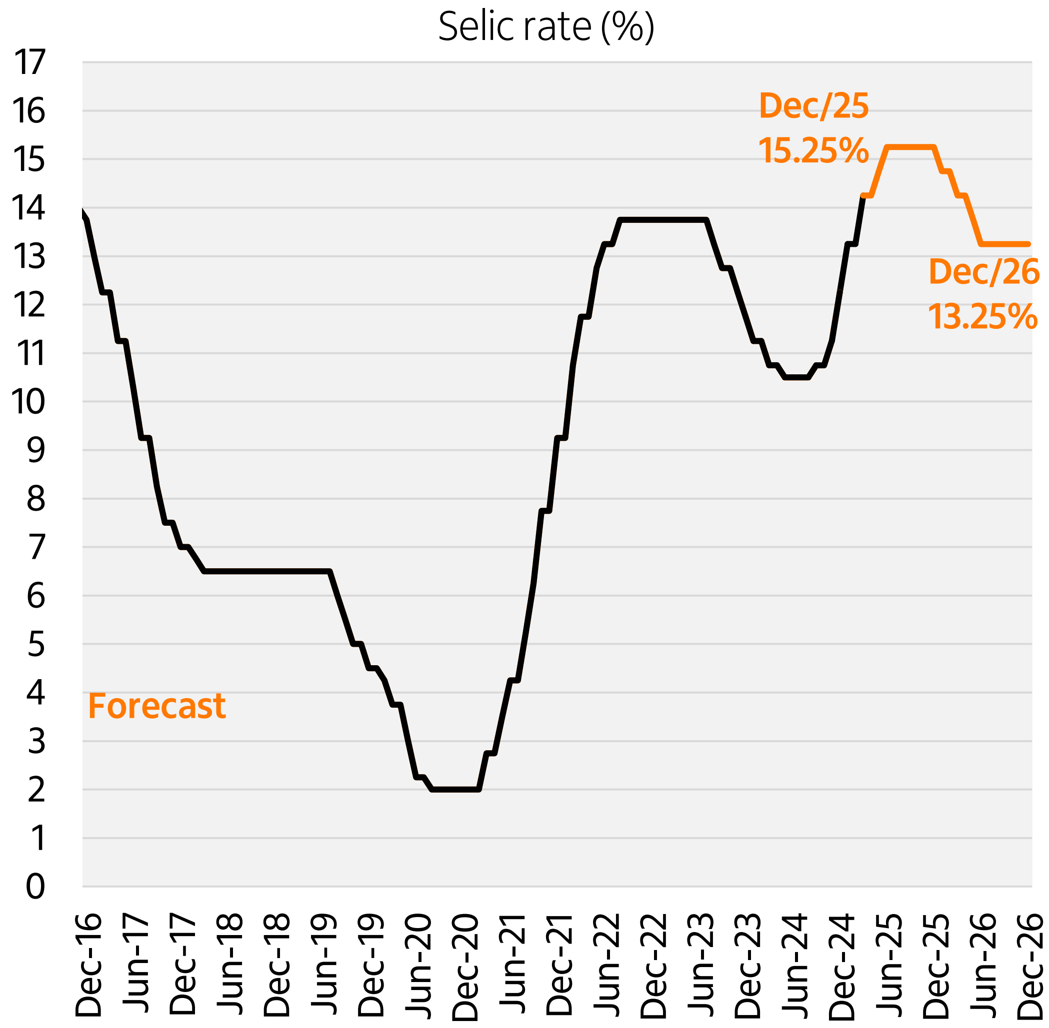


1 **We have revised our primary balance projection to -0.8% of GDP (from -0.7%) for 2025 and 2026,** incorporating the downward revision of inflation and lower oil prices. For 2025, for now, we do not expect the target of -0.6% of GDP (considering rebates and the lower limit of the official target of 0%) to be met. The result may be better than our current estimate if the government is more successful in its revenue agenda, 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 in primary expenditures and/or greater revenue waivers.

2 **With lower revenue growth, it is even more crucial for the government to announce spending control measures.** A substantial budget cut – around BRL 40 billion – in the upcoming bimonthly review in May 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. The recent confirmation of the primary surplus target of +0.25% for 2026 reduces the risk of further deterioration in financial conditions, as seen in 2024. However, it does not eliminate the perception that the pace of fiscal adjustment under the current rules remains insufficient to stabilize public debt.

Source: Itaú

Monetary policy: caution when navigating turbulent seas



Source: Itaú

For now, we maintain our end-of-cycle projection at 15.25% per year at the June meeting, a level that should be maintained until the end of the year. The unanchored inflation expectations, the positive gap, and the Central Bank's projections still reinforce the need to continue advancing the interest rate hike cycle into contractionary territory. 1

We expect two final hikes of 50 bps in the next two meetings, but we recognize the risk that the final hike in June may be smaller or may not occur at all. The trade war could have a net disinflationary impact in Brazil, mainly due to the fall in commodity prices in BRL, depending on where the exchange rate stabilizes. However, we cannot rule out the possibility that the net impact will be inflationary. Evidence of a disinflationary impact could allow an early pause in the interest rate hike cycle. We believe, however, that given the uncertainty and volatility of the current scenario, the Central Bank should be cautious not to make hasty decisions that could incur more inflationary risk in the future, especially considering a scenario of quite unanchored expectations. 2

For 2026, we project interest rate cuts throughout the first half of the year, to 13.25% annually. 3

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