

Macro scenario - Brazil



November 13, 2025

Paving the way for the cut

- ▶ We maintained our exchange rate forecast at R\$/US\$ 5.35 for 2025 and R\$/US\$ 5.50 for 2026. Domestic factors and lower conviction regarding further US dollar weakening beyond current levels limit the prospects for scenarios of a much stronger Real.
- ▶ We maintained our 2025 GDP growth forecast at 2.2%, reflecting indicators that confirm a loss of momentum in the second half of the year. For 2026, we revised GDP up to 1.7% (from 1.5%), incorporating the impact of fiscal and credit measures announced in recent months. The balance of risks remains tilted to the upside, given the possibility of new countercyclical measures. In the labor market, recent data point to resilience with early signs of cooling, consistent with a modest increase in the unemployment rate, which we expect to end 2025 at 6.2%. For 2026, considering the upward revision to growth, we adjusted the unemployment forecast to 6.4% (from 6.5%).
- ▶ We revised our inflation forecast to 4.5% (from 4.6%) for 2025 and 4.2% (from 4.3%) for 2026. The balance of risks for 2025 is symmetric, with the chance of lower food pressure offsetting the possible triggering of the yellow energy flag at the end of the year. For 2026, the bias is slightly downward, reflecting the drop in IGPs, high inventories, and the potential reduction in oil prices. On the other hand, the labor market remains the main upside risk factor for inflation, especially for services.
- ▶ We maintained our primary balance forecast at -0.6% in 2025 and -0.8% in 2026. In light of the current fiscal rules, we see the government close to meeting the lower bound of the target in 2025 and facing a 0.4% of GDP challenge in 2026, with risks associated with adopting measures that directly or indirectly weaken the constraints imposed by the current fiscal framework, as well as reduce its transparency.
- ▶ The Copom seems to be gaining confidence that the current monetary policy strategy (keeping the Selic rate at 15% for an extended period) is working. There are signs of moderation in economic activity, a decline in current inflation and inflation expectations, as well as a reduction in the inflation projection for the relevant horizon. We maintain our forecast for the start of the easing cycle in January next year, taking the Selic rate to 12.75% p.a. in 2026.

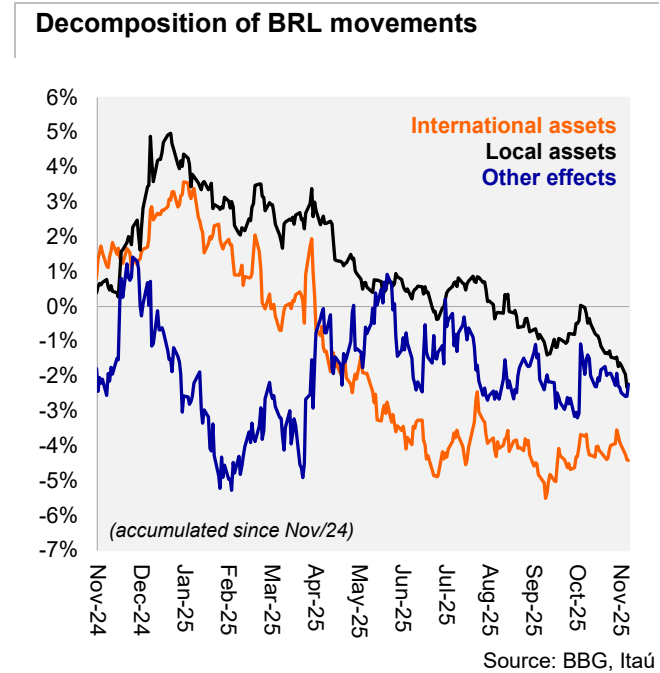
BRL: limited appreciation ahead

We maintained our exchange rate forecast at R\$/US\$ 5.35 for 2025 and R\$/US\$ 5.50 for 2026. The appreciation of the Brazilian real over the year has been largely explained by the weakening of the US dollar, a movement that seems to have stabilized in recent months. Going forward, we do not see additional upside for the currency. From an external perspective, we have less conviction about the prospect of further dollar weakness beyond current levels. In turn, domestic fundamentals also limit more benign scenarios. Among these, we do not anticipate a reduction in the risk premium, in a context of narrowing interest rate differentials and continued poor performance of external accounts.

We revised our current account deficit forecast to US\$ 78 billion in 2025 (from US\$ 75 billion previously) and maintained our US\$ 77 billion forecast for 2026. The worsening in the short-term forecast reflects higher Profits & Dividends remittances at the margin. For next year, the negative revision in the income account deficit was offset by an upward revision in the trade balance, driven by higher exports.

We have revised our trade surplus projection for 2026 to US\$ 65 billion (from US\$ 58 billion). This upward revision stems from the removal of the expected negative impact of tariffs on exports, an effect that had been incorporated into the projection at the time of the announcement, but which has not materialized so far. The recent growth in export volumes, despite the decline in sales to the United

States, suggests that Brazil has been successful in redirecting part of its trade flows and strengthening ties with new partners.



*Where 'International assets' refers to the joint movement of the BRL with a basket of currencies; 'Local assets' refers to the joint movement of the BRL with other Brazilian assets (CDS, stock market...); and 'Other effects' is the residual.

Activity: Upward revision of 2026 GDP, incorporating fiscal and credit measures

The most recent indicators confirm the continued slowdown in activity in 3Q25. We maintain our estimate of 0.3% growth on the margin (seasonally adjusted) and 1.9% year-over-year for the period.

For 2025, we maintained our GDP growth forecast at 2.2%. The balance of risks remains tilted to the downside, due to credit market dynamics, influenced especially by INSS payroll-deductible loans and tax changes (IOF), although lending to individuals and companies has shown a recent improvement, reducing the probability of these downside risks materializing.

For 2026, we revised our GDP growth forecast to 1.7% (from 1.5% in the previous scenario), incorporating the fiscal and credit measures announced in recent months¹. The upward revision mainly reflects: i) expansion of the Minha Casa, Minha Vida program (housing); ii) Luz para Todos (electricity); iii) Gás do Povo (cooking gas); iv) reduction of reserve requirements for mortgage lending; and v) credit lines for home renovations. On the other hand, we included the negative impact of changes in credit granting rules linked to the FGTS birthday withdrawal.

GDP 2026				
Measure	Description	R\$	GDP impact	In our baseline
Measures incorporated in previous scenarios				
New private payroll-deductible loans	Broader eligible public. Current data shows BRL 250-300mm new loans per working day.	70/80 billion	+0.20p.p.	+0.2p.p.
Income tax table revision	Full tax exemption for incomes up to 5k/month, partial up to 7.4k.	35 billion	+0.30p.p.	+0.30p.p.
Total already incorporated				+0.5p.p.
Measures to be incorporated in this scenario				
Minha Casa Minha Vida (housing)	Increase funding in 2026.	5.6 billion	+0.05p.p.	+0.05p.p.
Luz para todos (electricity)	Zero tariff for consumers up to 80kWh/month.	7.1 billion	+0.03p.p.	+0.03p.p.
Gás do Povo (cooking gas)	Free gas for vulnerable families.	2 billion	+0.00p.p.	+0.00p.p.
Reserve requirements	Reduction from 20% to 15%.	40 billion	+0.15p.p.	+0.10p.p.
Birthday withdrawal	Limits on anticipated withdrawal (from Nov/25) and associated loans.	-30 billion	-0.11p.p.	-0.11p.p.
Credit for home renovation	Subsidized credit for renovations, operated by Caixa Econômica Federal.	40 billion	+0.15p.p.	+0.10p.p.
Total incorporated in this scenario				+0.3p.p. +0.2p.p.

Even with the revision, we maintained an upward bias for 2026 GDP, in light of the potential adoption of countercyclical fiscal and parafiscal measures.

Finally, regarding the labor market, more recent indicators suggest resilience, but with incipient signs of cooling, in line with our expectation of a slight increase in the unemployment rate in the coming months. We maintain our unemployment rate forecast at 6.2% in 2025, but adjust 2026 to 6.4% (from 6.5%), given the upward revision to activity growth.

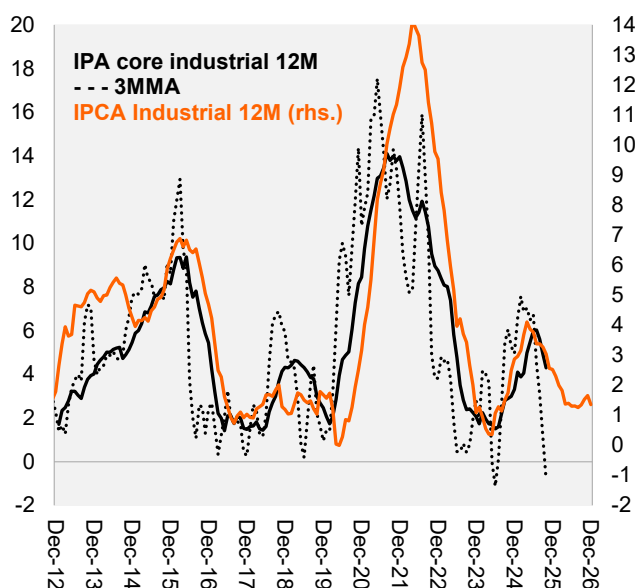
¹ It is worth noting that the impacts of the new private payroll-deductible loan (+0.2 p.p.) and the exemption from personal income tax (+0.3 p.p.) had already been incorporated into the previous scenarios.

Inflation: downward revisions

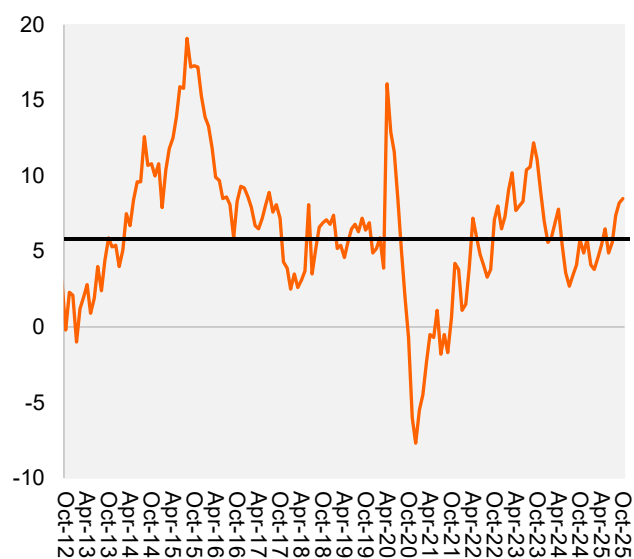
We revised our inflation forecast for 2025 down to 4.5% (from 4.6%), incorporating recent downside surprises. We assess that risks are balanced. Food prices may face less pressure, either from a slower reversal of the livestock cycle or from prices of perishable items. On the other hand, lower rainfall increases the chance of triggering the yellow tariff flag by year-end, which could raise electricity costs.

For 2026, we revised our inflation forecast down to 4.2% (from 4.3%), incorporating lower industrial goods inflation. The balance of risks is tilted to the downside. The recent decline in the General Price Indexes (IGPs), especially in components linked to final consumer goods, combined with inventories above historical averages, tends to reduce inflationary pressures on industrial goods next year. Additionally, the expected drop in oil prices could lead to further downward adjustments in refinery fuel prices. On the other hand, the resilient labor market, with unemployment still below neutral, remains the main upward pressure factor on the IPCA, especially on services.

Industrial PPI decline passing through to IPCA



Inventories above historical average

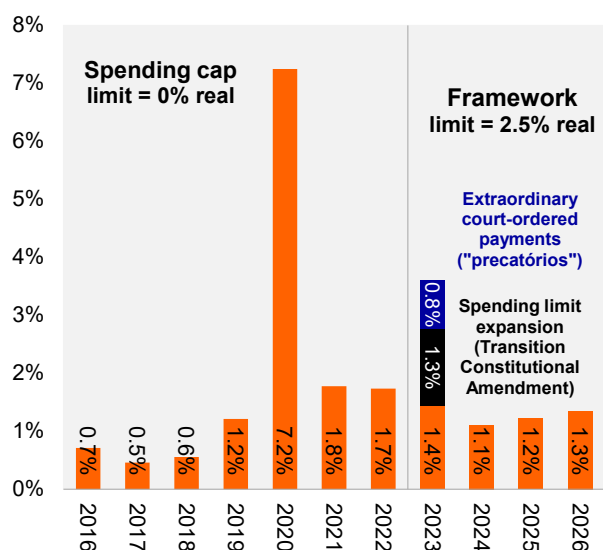


Fiscal: major challenges with weaker rules

We maintained our primary balance forecasts at -0.6% and -0.8% of GDP in 2025 and 2026, respectively. For the current year, despite a deceleration in tax collection and an increase in the pace of expenditure execution, we continue to see the government close to meeting the lower limit of the -0.6% of GDP target (considering discounts and the lower bound of the official 0% target). For 2026, we still see a 0.4% of GDP challenge to meet the lower limit of the target, with a cyclical revenue drop being offset by the effects of limiting tax compensation.

The main fiscal risk ahead is the adoption of measures that directly or indirectly weaken the constraints imposed by the current fiscal framework. In a country with high and rising public debt, the credibility of fiscal policy depends on comprehensive, predictable, and binding rules to anchor expectations. In this context, we view with concern the high and growing number of exceptions to the spending cap, even under a regime that already allows for significant expansion of primary expenditures.

Primary expenditures outside fiscal rules



Source: National Treasury, Itaú

We maintain our expectation for the start of the easing cycle in January 2026, with a 0.25pp cut, taking the Selic rate to 12.75% p.a. over the year.

The Central Bank's model should show inflation closer to the target over the relevant horizon at the January meeting, allowing for the start of a gradual monetary easing. For this to occur, however, additional adjustments to the committee's communication will be necessary at the December meeting, eliminating the passage in which the Copom states that "it will not hesitate to resume the tightening cycle, if deemed appropriate" and qualifying at what stage the aforementioned "quite prolonged period" finds itself.

The risk, albeit slightly lower at the margin, remains tilted towards delaying the start of the easing cycle.

Stronger growth, prompting a further upward revision to the output gap, or a labor market that continues to surprise with its resilience, or even a more conservative stance from the central bank could postpone the start of rate cuts.

Monetary policy: gaining confidence

The Copom continues to reaffirm its commitment to keeping the interest rate at a high level for a prolonged period in order to ensure inflation convergence to the target over the relevant horizon, and seems to be gaining confidence that the current monetary policy strategy is working. There are signs of moderation in economic activity, a decline in current inflation and inflation expectations, especially in the short term, but also beyond the relevant horizon. Inflation projections for the same (2Q27) fell to 3.3% (from 3.4% in the latest Monetary Policy Report), even incorporating the upward impact of the measure to expand the income tax exemption, indicating a committee that sees lower risk of output gap and, consequently, inflation, compared to October.

Brazil | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-3.3	4.8	3.0	3.2	3.4	2.2	2.2	1.7	1.5
Nominal GDP - BRL bn	7,610	9,012	10,080	10,943	11,745	12,646	12,658	13,299	13,359
Nominal GDP - USD bn	1,475	1,670	1,951	2,192	2,179	2,265	2,269	2,449	2,460
Population (millions)	209.2	210.1	210.9	211.7	212.6	213.4	213.4	214.2	214.2
Per Capita GDP - USD	7,050	7,949	9,255	10,356	10,251	10,612	10,632	11,430	11,482
Nation-wide Unemployment Rate - year avg, NSA	13.5	13.5	9.5	8.0	6.9	6.0	6.1	6.2	6.4
Nation-wide Unemployment Rate - year end (*)	14.7	11.6	8.4	7.9	6.6	6.2	6.2	6.4	6.5
Inflation									
IPCA - %	4.5	10.1	5.8	4.6	4.8	4.5	4.6	4.2	4.3
IGP-M - %	23.1	17.8	5.5	-3.2	6.5	-0.4	1.1	3.3	3.4
Interest Rate									
Selic - eop - %	2.00	9.25	13.75	11.75	12.25	15.00	15.00	12.75	12.75
Balance of Payments									
BRL / USD - eop	5.19	5.57	5.28	4.86	6.18	5.35	5.35	5.50	5.50
BRL / USD - average	5.16	5.40	5.17	4.99	5.39	5.58	5.56	5.43	5.43
Trade Balance - USD bn	50	61	62	99	75	66	65	65	58
Current Account - % GDP	-1.6	-2.4	-2.2	-1.2	-3.0	-3.5	-3.3	-3.1	-3.1
Direct Investment (liabilities) - % GDP	3.0	2.8	4.7	2.8	3.2	3.8	3.7	3.7	3.7
International Reserves - USD bn	356	362	325	355	330	360	330	360	330
Public Finances									
Primary Balance - % GDP	-9.2	0.7	1.2	-2.3	-0.4	-0.6	-0.6	-0.8	-0.8
Nominal Balance - % GDP	-13.3	-4.3	-4.6	-8.8	-8.5	-8.8	-8.7	-9.3	-9.3
Gross Public Debt - % GDP	86.9	77.3	71.7	73.8	76.5	79.4	79.1	85.0	84.4
Net Public Debt - % GDP	61.4	55.1	56.1	60.4	61.5	66.2	67.4	71.9	72.9
Growth of public spending (% real, pa, **)	29.2	-24.7	6.0	7.6	3.2	4.2	4.0	2.7	2.9

Source: IBGE, FGV, BCB and Itaú

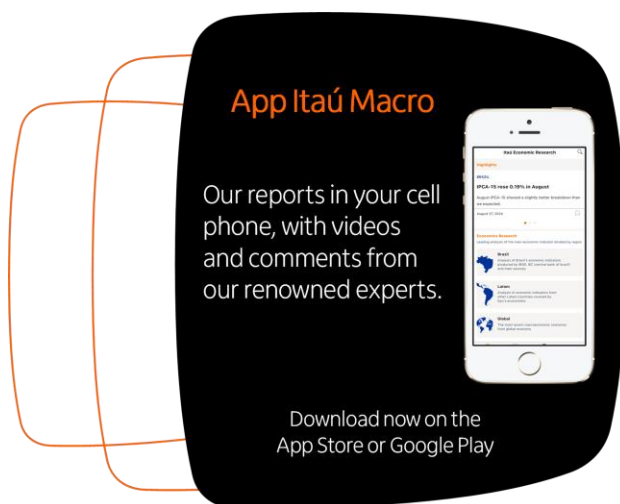
(*) Nation-wide Unemployment Rate measured by PNADC.

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

Macro Research – Itaú

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