Macro scenario - Global

March 17, 2025

Despite the weaker dollar, risks and uncertainties are higher

- The more unclear outlook for U.S. economic growth exceptionalism is providing temporary relief to currencies around the globe, but this movement is unlikely to continue due to sustained U.S. economic growth and inflationary risks from tariffs hikes.
- **U.S.:** Slowdown in January data, greater uncertainty, and tariffs. Stronger inflation does not allow for a return to interest rate cuts.
- **Europe**: Germany's fiscal package represents a significant positive change for the region's outlook. We have revised our 2026 GDP growth forecast to 1.5% (from 1.0%) and our euro forecast to 1.08 (from 1.00).
- **China**: we have revised our GDP growth forecast to 4.5% (from 4.0%), but uncertainties remain on the external front.
- **Latin America**: A more challenging growth outlook in Mexico.

Doubts about continuation of US growth exceptionalism weaken the dollar

The perception that U.S. economic growth will continue to outpace that of other economies, the so-called "American exceptionalism", has diminished. On the one hand, other countries' economies will likely grow faster, particularly Europe after the announcement of significant fiscal impulse in Germany (see discussion below), which has led to an upward revision of our forecast for European GDP. On the other hand, there is increased uncertainty, mainly related to the form, intensity, and speed of implementation of the Trump administration's tariff, tax, and immigration policies, which, together with weaker data from the beginning of the year, have resulted in a downward revision of U.S. GDP forecasts.

This change in outlook has led to a weakening of the dollar, but we believe that inflationary risks from tariffs and the stabilization of U.S. growth are likely to limit the continuation of this trend. We have incorporated the impact of reciprocal tariffs into our base case (see below), which increases our 2025 inflation forecasts for the U.S., taking estimated Core PCE to 2.8% (up from the previously expected 2.5%) and Core CPI to 3.3% (up from 3.0%). Additionally, we expect U.S. growth to slow due to the impact of tariffs and uncertainty but to stabilize at a 2.0% pace going forward. With inflation pressure and growth still close to potential, we continue to expect the Fed not to cut rates this year nor in 2026.

Impact of Trade Tariffs (and Threats)

	Previous Scenario	New Scenario
Increase in Effective Global U.S. Tariff	4%	10%
Tariff Breakdown	10 pp effective tariffs on China; 25 pp on cars from Europe.	20 pp effective tariffs on China; 25 pp on cars from Europe; 5 pp reciprocal tariffs from the rest of the world.
U.S. Inflation (Core PCE)*	0.5%	0.8%
U.S. GDP	0%	-0.5%
Europe GDP	-0.4%	-0.6%
China GDP**	-1%	-1%

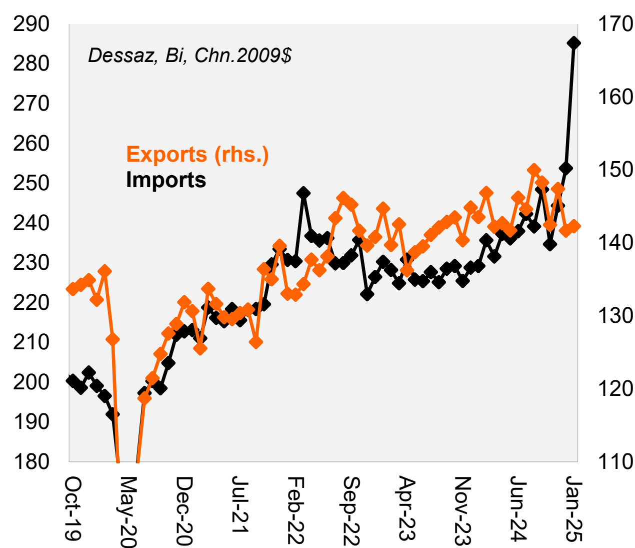
* Assuming 75% pass-through
** Assuming 10% triangulation

U.S.: uncertainty shock

The weaker January data, likely due to seasonal effects and anticipation of import tariffs, significantly reduced the GDP tracker for the first quarter, from 2.5% to 1.2%. Seasonal distortions likely affected retail sales data for January, while the strong increase in imports, largely explained by the anticipation of tariffs, also contributed to the reduction in the GDP tracker, although there was a smoothing of the movement in inventories.

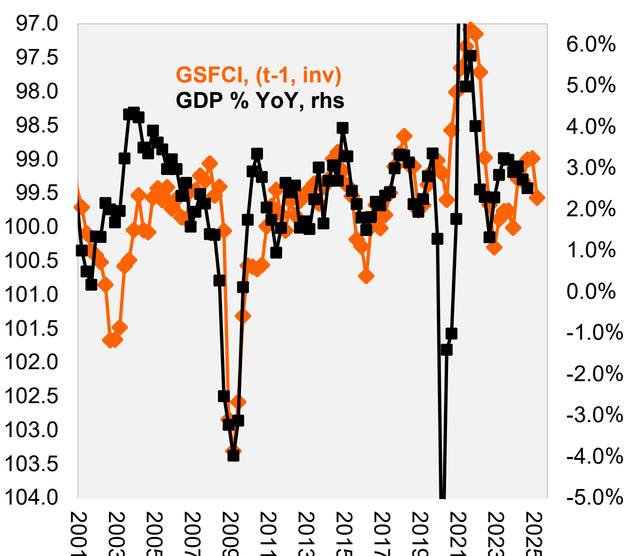
Please refer to the last page of this report for important disclosures, analyst and additional information. Itaú Unibanco or its subsidiaries may do or seek to do business with companies covered in this research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should not consider this report as the single factor in making their investment decision.

Goods balance: imports surge



Source: Haver, Itaú

US: FCI indicates GDP around 2.0-2.5%



Source: Goldman Sachs, Haver, Itaú

We have revised our U.S. GDP growth forecasts to 2.0% (from 2.5%) in both 2025 and 2026, considering not only the lower tracking but also a slowdown due to higher uncertainty and lower confidence. We now estimate that continued high economic policy uncertainty and falling U.S. business investment (capex) expectations could bring the pace of aggregate demand growth down to 2.0% (from 2.5% in our previous forecast).

Growth stabilization and inflation risk will probably not allow for rate cuts at the moment. We still consider the risk of recession to be modest, due to the favorable fundamentals of households' balance sheets and the gradual slowdown in employment and income. Despite the significant correction in the markets, financial conditions still point to growth of around 2.0%-2.5% (see chart). In addition, fiscal policy is unlikely to cause major changes in fiscal momentum going forward, which should remain neutral with high deficits. The growth stabilization, inflationary risks from tariffs hikes and the impacts of lower immigration on the already tight labor market, as well as the recent increase in consumer inflation expectations are all likely to keep the Fed cautious going forward. We estimate that the tariff hike will add 80 bps to U.S. inflation this year, taking Core PCE to 2.8% (up from the previously expected 2.5%) and Core CPI to 3.3% (up from the previously expected 3.0%) for this year. As a result, we continue to not expect interest rate cuts, and we believe that a sharper slowdown in the economy would be needed for cuts to come back onto the radar.

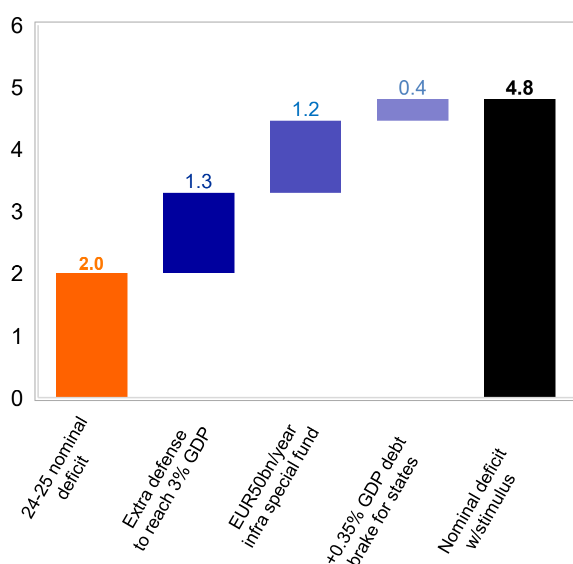
Europe: Germany's fiscal package marks a significant change in the region's economic outlook

Germany's aggressive fiscal package could mark a positive turning point for the region's economic outlook. In early March, after the parliamentary elections, the German government announced a significant fiscal impulse plan aimed at boosting spending, mainly on infrastructure and defense. This could lead to a fiscal expansion of 3 percentage points of GDP per year, bringing the German government's nominal deficit closer to 5% of GDP (see chart), a level similar to those of France and Italy. The plan will likely be made possible by a special off-budget investment fund (EUR 500 billion, or 11.2% of GDP over 10 years), the exclusion of defense spending from the debt limit rule (for amounts above 1% of GDP) and an increase in the annual debt limit for states (from 0% to 0.35% of GDP, the same level as for the federal government).

The shift comes in response to the country's weak economic activity since the end of the pandemic, the Russian gas shock, the decline in China's importance in global manufacturing, and, more recently, the Trump administration's pressure on Europe to increase defense spending. The package marks a structural shift in the stance of the German government, which has stricter spending rules and has maintained significantly lower public debt compared with other governments in the region (around 60% of GDP, versus above 100% for France and Italy). Approval of the package is likely to take place before

March 24, supported by the governing coalition's current parliamentary majority of more than two-thirds – a substantial majority that it might not maintain in the newly elected parliament. In addition to the German fiscal package, the European Commission is also discussing an increase of EUR 800 billion (4.7% of GDP) in the defense budget, with the majority of that (EUR 650 billion, or 3.8% of GDP) to be derived from the relaxation of fiscal rules and the remainder from a joint bond issuance. The latter plan is still being debated, but this format seems likely to lead to increased defense spending for countries with fiscal space such as Germany.

GE: fiscal stimulus could reach at least 3% GDP



Source: Itaú

In this context, we have revised our 2026 GDP growth forecast for Germany to 1.5% (from 1.0%), incorporating the impacts of fiscal stimulus, which tend to offset the implementation of higher trade tariffs than we previously expected. The impact on activity tends to become tangible only in 2026 and is driven more by infrastructure spending than by defense spending, given that, in the latter case, there is limited local capacity to produce military equipment. We assume multipliers of 0.8 and 0.2 for infrastructure and military spending, respectively (see table below for simulations with different multipliers). In addition, we are incorporating into our scenario a 5-pp increase in tariffs on all exports to the United States, amid the U.S. government's signaling of reciprocal tariffs, in addition to the 25-pp sectoral tariff increase for cars that we had already included in the scenario. For 2025 we are leaving our growth forecast unchanged at 0.8%, since there is a gap between the approval of a fiscal package and the execution of related spending.

Even with higher growth, the European Central Bank is set to continue cutting rates to a terminal level of 2.00% - the neutral level. As a result, we have revised our estimate for the euro-dollar exchange rate to 1.08 (from 1.00).

GE/EZ GDP impact under different multipliers scenario

GDP Multiplier		1.3% GDP for defense					
		0.2		0.6		1.0	
1.5% for infra	0.6	1.2	0.3	1.7	0.5	2.2	0.7
	0.8	1.5	0.4	2.0	0.6	2.5	0.8
	1.0	1.8	0.5	2.3	0.7	2.8	0.8

In parallel, the Trump administration has been working to end the conflict between Russia and Ukraine. However, disagreements between the parties remain unresolved, with Russia refusing to accept security guarantees for Ukrainian territory. The impact on eurozone activity of a possible peace agreement between Russia and Ukraine is likely to be significant only if it were to occur alongside a return of Russian gas flows to the bloc. However, this scenario is unlikely, as gas pipelines such as Nord Stream have been inoperative since 2022 due to explosions and there is political resistance from European leaders to returning to energy dependence on Russia. Another potential impact would come from a peace deal's impulse to overall sentiment in the region.

China: We have revised our GDP growth estimate to 4.5%, but external uncertainties persist

China's congress set a 2025 GDP growth target of 5%, the same as in 2023 and 2024, but has been more fiscally conservative. The fiscal stimulus announced was conservative and close to our estimates, totaling an additional 1.6 percentage points of GDP compared with 2024, excluding the 0.4 percentage points of GDP earmarked for bank recapitalization, which has no direct impact on economic activity. Specifically, the fiscal deficit was set at 4% of GDP (vs. 3% in previous years), and the off-budget share of central government bond issuance was set at RMB 1.8 trillion (1.3% of GDP, compared with RMB 1.0 trillion or 0.75% of GDP in 2024), with RMB 500 billion (0.4% of GDP) allocated to bank recapitalization. For local governments, the quota was set at RMB 4.4 trillion (3.3% of GDP, compared with RMB 3.9 trillion or 2.9% of GDP in 2024). The target plan addressed concerns about consumption, but

actual actions taken were limited, consisting of measures such as extending subsidies for home appliances and electronics. The tone regarding the private sector was also more positive, signaling a more pro-market stance, in contrast to the regulatory tightening carried out after the pandemic. Regarding the real estate sector, no additional measures were announced, but the administration continues to work to stabilize the sector's decline. Finally, the government also adjusted the inflation target from 3% to 2%, recognizing the low-inflation environment that existed even before the pandemic.

We have revised our 2025 growth forecast for China from 4.0% to 4.5%, but uncertainties remain on the external front. The Trump administration has already announced a 20-pp increase in tariffs on all Chinese imports, and there is no indication that either country is seeking an agreement. In our view, the Trump administration's stance toward China is likely remain aggressive, as its use of tariffs is not merely a negotiating strategy but rather represents a vision for global trade aimed at reducing dependence of sectors of the US economy on China.

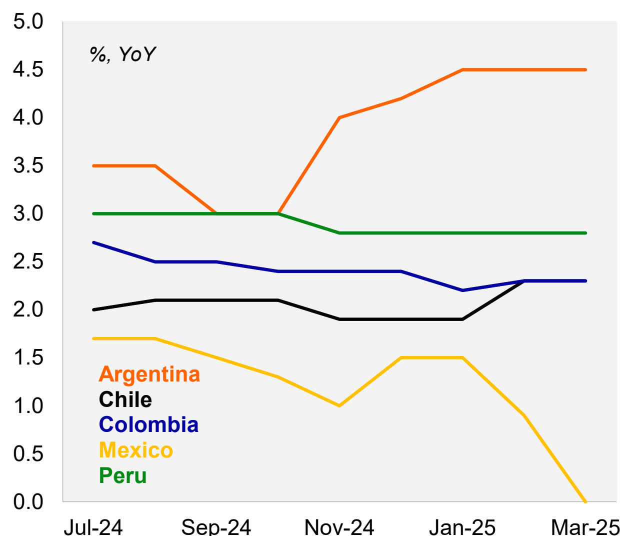
Latin America: A more challenging growth outlook in Mexico

When push comes to shove … A downward revision to our forecast for US growth (to 2.0% from 2.5%) and persistently elevated policy uncertainty led us to revise our 2025 GDP growth forecast in Mexico down for the second consecutive month, this time to 0.0% (from 0.9% last month, and 1.5% before), reflected in a weaker expected performance in manufacturing exports and services such as freights and wholesale trade. The still resilient labor market continues to support private consumption, mitigating a more important slowdown of the economy. While we maintained our 2026 GDP growth forecast at 1.4%, we believe the potential upside effects of the nearshoring phenomenon are not in the cards in the near term, which should keep investment dynamics subdued.

We maintained our growth forecasts elsewhere in the region. In Chile's case, sequential growth has been stronger than expected, which should slow due to transitory one-off factors in February; we continue to forecast 2025 GDP growth at 2.3%, with investment leading indicators confirming our expectation of a recovery after two consecutive years of contraction. In Peru, our 2025 GDP growth forecast of 2.8% also has upside risks, as authorities are focusing on further boosting growth through deregulation and tax incentives; the potential approval of another pension fund withdrawal this year (the eighth …) could boost private consumption, at the cost of further erosion of domestic savings and the capital market, while maintaining policy uncertainty high.

Monetary policy may need to be more supportive in Mexico. The swift deterioration of the growth outlook in Mexico, mainly because of changes in the US, should keep Banxico on track to easing this year. Our base case remains for a 50-bp cut this month, and then smaller cuts to a terminal of 8.5%. The bias to an additional 50-bp cut in May remains challenging given elevated policy uncertainty in the U.S., domestic CPI dynamics, and lack of easing by the FOMC in the short term. A lower terminal rate depends, in our view, also on the response of the USD/MXN to narrower interest rate differentials. In Colombia, while fundamentals point to another pause, BanRep could still lean toward a cut, prioritizing the recovery of economic activity; we maintained our call of a year-end rate at 8.0% this year and 6.5% for 2026. In Chile we kept our call for a steady 5.0% policy rate this year, and down to 4.5% next year. Inflation forecasts were little changed throughout the region.

Upside risks to growth in Argentina, supported by an agreement with the IMF. In Argentina, we forecast 2025 GDP growth at 4.5%, with upside risks mainly due to a high carryover. On the demand side, the recovery in real wages and lower borrowing rates are likely to support private consumption. Inflation is likely to decline significantly this year, supported by base effects and the appreciation of the ARS. Our scenario assumes inflation ending 2025 at 25% yoy, well below last year's 117.8%. The current crawling-peg policy is likely to remain in place for the rest of the year, thanks to IMF support, resulting in a nominal exchange rate of 1,175 ARS/USD for YE25. On monetary policy, our baseline scenario is that the central bank will also cut the policy rate by 400 bps, to 25%, before the end of the year. With all eyes are on the October midterm elections, which could either give the administration greater bargaining power in Congress or create headwinds for the presidential election in 2027. While the midterm elections may well lead to a meaningful increase in the current administration representation in Congress, given the low base, market focus will be on the results from the vote-rich province of Buenos Aires as a key bellwether for the 2027 election.



Source: Itaú

Global | Forecasts and Data

	2019	2020	2021	2022	2023	2024	2025F		2026P	
							Current	Previous	Current	Previous
GDP Growth										
World GDP growth - %	2.8	-2.8	6.3	3.5	3.2	**3.2**	**3.2**	3.2	**3.1**	3.2
USA - %	2.6	-2.2	6.1	2.5	2.9	2.8	**2.0**	2.5	**2.0**	2.5
Euro Area - %	1.6	-6.2	6.3	3.6	0.4	0.8	**0.8**	0.8	**1.5**	1.0
China - %	6.0	2.3	8.4	3.0	5.2	5.0	**4.5**	4.0	**4.0**	4.0
Interest rates and currencies										
Fed Funds - %, eop	1.63	0.13	0.13	4.4	5.4	4.4	**4.4**	4.4	**4.4**	4.4
U.S. 10 Year Treasury - %, eop	2.00	0.93	1.47	3.88	3.88	4.58	**4.50**	4.50	**4.50**	4.50
USD/EUR - eop	1.12	1.22	1.13	1.07	1.10	1.04	**1.08**	1.00	**1.08**	1.00
CNY/USD - eop	7.0	6.5	6.4	6.9	7.1	7.3	**7.5**	7.5	**7.5**	7.5
DXY Index* - eop	96.4	89.9	95.7	103.5	101.3	108.5	**104.6**	110.4	**103.9**	109.9

Source: IMF, Bloomberg and Itaú

* The DXY is a leading benchmark for the international value of the U.S. dollar, measuring its performance against a basket of currencies that includes the euro, yen, pound, Canadian dollar, Swiss franc and Swedish krona.

Compared scenario

World

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

Latin America and Caribbean

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	2.1	**2.3**	**2.1**	2.5	**2.2**	2.2

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**	5.90	**5.75**	5.90
Monetary Policy Rate (eop,%)	11.75	12.25	**15.25**	15.75	**13.25**	13.75
IPCA (%)	4.6	4.8	**5.7**	5.8	**4.5**	4.5

Mexico

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.3	1.5	**0.0**	0.9	**1.4**	1.4
MXN / USD (eop)	16.97	20.8	**21.0**	21.0	**21.3**	21.3
Monetary Policy Rate (eop,%)	11.25	10.00	**8.50**	8.50	**8.00**	8.00
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	**-1.8**	**4.5**	4.5	**3.0**	3.0
ARS / USD (eop)	809	1033	**1175**	1175	**1324**	1324
Reference rate (eop,%)	100.0	32.0	**25.0**	25.0	**20.0**	20.0
CPI (%)	211.4	117.8	**25.0**	25.0	**18.0**	18.0

Chile

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.2	**2.5**	**2.3**	2.3	**2.0**	2.0
CLP / USD (eop)	879	996	**955**	955	**930**	930
Monetary Policy Rate (eop,%)	8.25	5.00	**5.00**	5.00	**4.50**	4.50
CPI (%)	3.9	4.5	**4.1**	4.1	**3.0**	3.0

Colombia

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

Peru

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-0.6	**3.3**	**2.8**	2.8	**3.0**	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	**4.75**	4.75	**4.75**	4.75
CPI (%)	3.2	2.0	**2.3**	2.0	**2.2**	2.0

Source: Itau

Commodities

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	**70**	70	**70**	70
Iron Ore (USD/tonne)	153	116	110	135	103	**90**	85	**80**	75
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9500**	9500	**9500**	9500
Corn (Usd/bu)	437	592	656	480	444	**450**	460	**410**	410
Soy (Usd/bu)	1207	1290	1474	1311	984	**980**	1000	**950**	950
Wheat (Usd/bu)	604	790	757	619	548	**680**	680	**650**	650
Sugar (Usd/lb)	15	19	20	22	20	**18**	18	**18**	19
Coffee (Usd/lb)	123	235	166	188	321	**360**	360	**280**	280

Source: BBG, Itaú

Macro Research – Itaú

Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis

itaú BBA extel

Itaú BBA and Extel.
Your vote makes
a difference.

Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. ("Itaú Unibanco"). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report ("relatório de análise") for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.
2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.
3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.
4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

Additional Note: This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú's CSCC: 0800 728 0728. Or contact us through our portal https://www.itau.com.br/atenda-itau/para-voce/. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.