Macro Brazil

August 5, 2025

Copom Minutes: A cautious approach

- The Copom minutes released today emphasized, as in the statement last week, that the economy is losing steam at an expected pace, while the labor market still shows dynamism. It also highlights the need for caution in the context of heightened external uncertainty, mixed signals from economic indicators and doubts about credit market developments going forward. Regarding inflation expectations, the recent drop in breakeven inflation measures is mentioned for the first time, but survey measures for longer horizons have not changed significantly, according to the Copom. All in all, it seems the committee is gaining confidence in the economic slowdown, according to their expectations and, therefore, there is no need to adjust their view on rates. We continue to project the Copom to leave the Selic unchanged at 15% until year-end, and to begin a modest easing cycle by 1Q26.

Main changes in inflation forecasts and balance of risks

In the tables below, we repeat the projections and balance of risks already presented in our report on the Copom decision last week. The inflation and Selic rate forecasts extracted from the Focus survey also refer to those published in the week of the decision.

Inflation forecasts presented in the latest meetings by the Copom

Period	March	May	June	July
IPCA 2025	5.1%	4.8%	4.9%	4.9%
IPCA 2026	-	3.6%	3.6%	3.6%
Relevant Horizon (RH)**	3.9% (3Q26)	3.6% (4Q26)	3.6% (4Q26)	3.4% (1Q27)
Market-set prices 2025	5.4%	5.3%	5.2%	5.1%
Market-set prices 2026	-	3.4%	3.4%	3.5%
Market-set prices RH**	3.8% (3Q26)	3.4% (4Q26)	3.4% (4Q26)	3.3% (1Q27)
Regulated prices 2025	4.3%	3.5%	3.8%	4.4%
Regulated prices 2026	-	4.0%	4.1%	4.0%
Regulated prices RH**	4.2% (3Q26)	4.0% (4Q26)	4.1% (4Q26)	3.9% (1Q27)
Exogenous variables				
Exchange rate* (BRL/USD)	5.80	5.70	5.60	5.55
Selic rate (Focus) 2025	15.00%	14.75%	14.75%	15.00%
Selic rate (Focus) 2026	12.50%	12.50%	12.50%	12.50%
Inflation expectations (Focus) 2025	5.66%	5.53%	5.25%	5.09%
Inflation expectations (Focus) 2026	4.48%	4.51%	4.50%	4.44%

*Average observed on the ten business days ending on the last day of the week before the Copom meeting. Additionally, the exchange rate starts at the mentioned values and evolves according to the purchasing power parity (PPP) afterwards.
**Projection for six quarters ahead, the current relevant horizon for monetary policy, according to the new continuous inflation target system, effective from January 1, 2025 onwards.

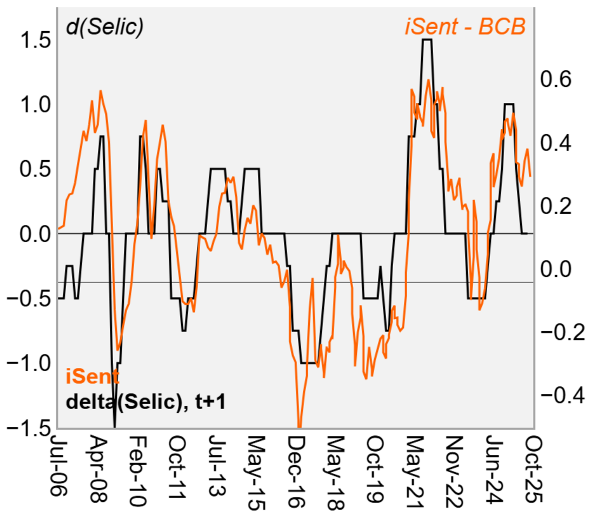
Source: Central Bank, Itaú.

Factors mentioned in the balance of risks by the Copom in the latest meetings (orange = change compared to the previous meeting)					
May		June		July	
Upside risks	Downside risks	Upside risks	Downside risks	Upside risks	Downside risks
(i) a more prolonged period of deanchoring of inflation expectations; (ii) a stronger-than-expected resilience of services inflation due to a more positive output gap; (iii) a conjunction of internal and external economic policies with a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency	(i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; **(ii) a steeper global slowdown stemming from the trade shock and the scenario of heightened uncertainty;** **(iii) a reduction in commodity prices with disinflationary effects**	(i) a more prolonged period of deanchoring of inflation expectations; (ii) a stronger-than-expected resilience of services inflation due to a more positive output gap; (iii) a conjunction of internal and external economic policies with a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency	(i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; (ii) a steeper global slowdown stemming from the trade shock and the scenario of heightened uncertainty; (iii) a reduction in commodity prices with disinflationary effects	(i) a more prolonged period of deanchoring of inflation expectations; (ii) a stronger-than-expected resilience of services inflation due to a more positive output gap; (iii) a conjunction of internal and external economic policies with a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency	(i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; (ii) a steeper global slowdown stemming from the trade shock and the scenario of heightened uncertainty; (iii) a reduction in commodity prices with disinflationary effects

iSent, Itaú's Central Bank Sentiment Classifier

Our iSent Central Bank Classifier[1] remains in positive territory (0.325).

Classifier in positive territory



Source: BCB, Itaú

[1] *Based on GPT-4, developed by our data science team using sentences published in central bank's official documents labeled by our economists. Our labeled dataset consists of approximately 1,000 sentences extracted from official documents published by the Brazilian Central Bank. Each sentence was classified as dovish, neutral, hawkish, or out of context. the index is constructed on the relative presence of each class. The index ranges from -1 to 1, getting higher as the tone is perceived as more hawkish. iSent-BCB shows good adherence to current and future moves in interest rates in Brazil (correlation around 0.8).*

Macro Research – Itaú

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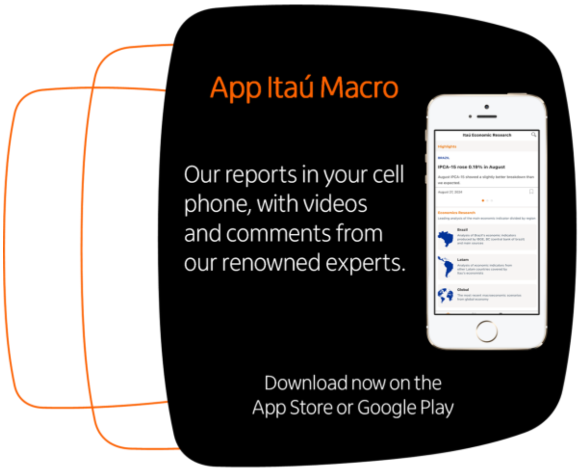

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