Macro Brazil

March 25, 2025

Copom minutes: not stopping now

- The Copom meeting minutes released today have a generally hawkish tone, with a single possibly dovish twist. While noting incipient signs of an economic slowdown, the authorities stress that there is much uncertainty about the state of economic activity and its immediate prospects. On the other hand, the text is quite stark and straightforward when it refers to inflation and its undoubtedly challenging prospective scenario. It also comes up with a hawkish view on the potential impact of changing external conditions (that in their view might lead to currency depreciation in emerging economies). On communication about future moves, the Copom signals it will slow down the pace of tightening, rather than pausing the cycle, to take into account the lagged effects of past policy moves. But the fact that, even though dismissing the idea, policymakers refer to the end of the adjustment process, may be seen as a sign that this discussion is alive within the committee.
- All in all, we reckon the document is consistent with our call that the Copom will implement two further hikes, to end the cycle with the Selic at 15.25% pa. We'll learn more about the Copom's thinking with the release of the Quarterly Inflation Report, and the related press conference, on Thursday.

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	November	December	January	March
IPCA 2025	3.9%	4.5%	5.2%	5.1%
Relevant Horizon (RH)**	3.6% (2Q26)	4.0% (2Q26)	4.0% (3Q26)	3.9% (3Q26)
Market-set prices 2025	3.8%	4.5%	5.2%	5.4%
Market-set prices RH**	3.4% (2Q26)	3.8% (2Q26)	3.8% (3Q26)	3.8% (3Q26)
Regulated prices 2025	4.2%	4.5%	5.2%	4.3%
Regulated prices RH**	4.3% (2Q26)	4.6% (2Q26)	4.6% (3Q26)	4.2% (3Q26)
Exogenous variables				
Exchange rate* (BRL/USD)	5.75	5.95	6.00	5.80
Selic rate (Focus) 2025	11.50%	13.50%	15.00%	15.00%
Selic rate (Focus) 2026	9.75%	11.00%	12.50%	12.50%
Inflation expectations (Focus) 2025	4.03%	4.59%	5.50%	5.66%
Inflation expectations (Focus) 2026	3.61%	4.00%	4.22%	4.48%

*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.

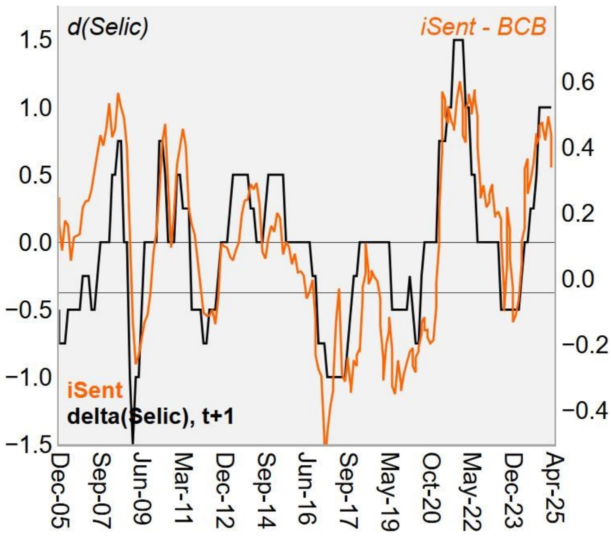
Source: Central Bank, Itaú.

Factors mentioned in the balance of risks by the Copom in the latest meetings (orange = change compared to the previous meeting)					
December		January		March	
Upside risks	Downside risks	Upside risks	Downside risks	Upside risks	Downside risks
(i) a more prolonged period of unanchoring 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 an inflationary impact, for example, through a persistently more depreciated currency	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening	(i) a more prolonged period of unanchoring 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 **greater-than-expected** inflationary impact, for example, through a persistently more depreciated currency	(i) **impacts on the inflation outlook from a potential domestic economic slowdown** that is more pronounced than projected; (ii) **a less inflationary scenario for emerging economies resulting from shocks to international trade and global financial conditions**	(i) a more prolonged period of unanchoring 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 greater-than-expected inflationary impact, for example, through a persistently more depreciated currency	(i) impacts on the inflation outlook from a potential domestic economic slowdown that is more pronounced than projected; (ii) a less inflationary scenario for emerging economies resulting from shocks to international trade and global financial conditions

iSent, Itaú's Central Bank Sentiment Classifier

Our iSent Central Bank Classifier[1] remains in positive territory (0.37).

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).*

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