Macro Brazil

June 18, 2025

Copom: a pause in sight

- Contrary to our call, but in line with market pricing, the Copom delivered a 25-bp rate hike, taking the Selic rate to 15.00%. The committee indicated that without data surprises it will not move the base rate in its next policy meeting, to be held on July 29-30. Policymakers reiterated their concern with inflation prospects, which is complicated by still un-anchored expectations. Inflation forecasts at the policy horizon remain unchanged, probably incorporating a wider output gap.
- The authorities state that interest rates will need to remain at a contractionary level for a lengthy period, and that they may resume hiking, if needed. Whether or not this will be the case, data will tell. The fact is that, historically, once a hiking cycle is paused, the Copom stays on hold for 4-5 meetings before it moves in the other direction.
- For now we see the Copom keeping rates unchanged at 15.00% until early 2026, when it should start a 200-bp easing cycle. BRL appreciation might bring this forward, while a stronger than expected economy might lead the Copom to delay easing.
- We´ll learn more about the rationale for today´s decision with the release of the meeting minutes on Tuesday, June 24, and the Quarterly Inflation Report on Thursday, June 26.

Main changes in inflation forecasts and balance of risks

Inflation forecasts presented in the latest meetings by the Copom

Period	January	March	May	June
IPCA 2025	5.2%	5.1%	4.8%	4.9%
Relevant Horizon (RH)**	4.0% (3Q26)	3.9% (3Q26)	3.6% (4Q26)	3.6% (4Q26)
Market-set prices 2025	5.2%	5.4%	5.3%	5.2%
Market-set prices RH**	3.8% (3Q26)	3.8% (3Q26)	3.4% (4Q26)	3.4% (4Q26)
Regulated prices 2025	5.2%	4.3%	3.5%	3.8%
Regulated prices RH**	4.6% (2Q26)	4.2% (3Q26)	4.0% (4Q26)	4.1% (4Q26)
Exogenous variables				
Exchange rate* (BRL/USD)	6.00	5.80	5.70	5.60
Selic rate (Focus) 2025	15.00%	15.00%	14.75%	14.75%
Selic rate (Focus) 2026	12.50%	12.50%	12.50%	12.50%
Inflation expectations (Focus) 2025	5.50%	5.66%	5.53%	5.25%
Inflation expectations (Focus) 2026	4.22%	4.48%	4.51%	4.50%

*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)					
March		**May**		**June**	
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 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 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

Macro Research – Itaú
Mario Mesquita – Chief Economist

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