January 27, 2025

BRAZIL – Interest rate cycles in Brazil

- At its latest meeting in December, the Brazilian Central Bank's Monetary Policy Committee (Copom) decided to raise the benchmark Selic rate by 100bps - a pace rarely seen in tightening or easing cycles in recent years. The committee also conveyed expectations of two additional increments of the same magnitude in the first meetings of 2025.
- This descriptive study analyzes 15 interest rate cycles since October 2002 to identify recurrences and patterns in monetary policy decisions. We define interest rate cycles as time windows in which the committee raised or lowered the benchmark rate without pause. Interest rate cycles are symmetrical, with moves of similar magnitude in periods when the Selic is raised or reduced. The average adjustment pace ranges from 50bps to 75bps, and the median pace is 50bps. The committee usually starts with 25bps or 50bps and ends monetary easing or tightening cycles at this pace as well.
- On few occasions, the adjustment was greater than 100bps. In previous tightening cycles, it happened twice: in March 2021, when the Selic was at a historically low level and the constitutional amendment proposal on court-ordered payments was being discussed, and in October 2002, when inflation expectations were more than 2pp above the target. In easing cycles, the Selic was reduced by more than 100bps on only two occasions: June 2003, when the benchmark rate was above 15%, and in January 2009, during the global financial crisis.
- Regarding the current cycle, we believe that the optimal monetary policy strategy is to fully commit to recent signals, while remaining vigilant about unanchored expectations and reaffirming the commitment to inflation convergence to the target over the relevant horizon. In this sense, it is appropriate to maintain the 100bps pace in the first two meetings of the year, without closing the door to additional increases of the same magnitude in subsequent meetings, depending on the evolution of the scenario, in particular inflation dynamics and expectations.

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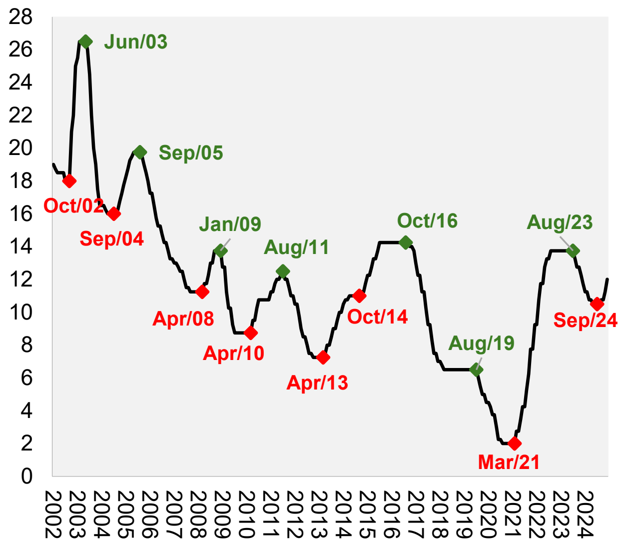
15 interest rate cycles (8 tightening cycles and 7 easing cycles)



Source: BCB, Itau

Interest rate cycles are symmetrical, with moves of similar magnitude in periods when the Selic is raised or reduced. Since October 2002, the Copom announced 54 decisions to raise the benchmark rate, and 70 decisions to reduce the Selic. The average pace of hikes and cuts is quite similar, between 50bps and 75bps (average hike is 68bps and average cut is 64bps). The median pace is 50bps in both cases. The committee usually starts with moves between 25bps and 50bps, the same pace at which it usually ends monetary easing or tightening cycles.

Approximately 20% of decisions involved 25bps, 40-50% involved 50bps, and 10-15% involved 75bps. In about 10% of cases, the committee opted for 100bps, and the pace was greater than this in less than 10% of these situations.

Pace bps	Interest rates hiking cycles	Interest rates easing cycles
# movements	57	70
Min	25	25
Max	300	250
Average	68	64
Median	50	50
% 25bps	19%	21%
% 50bps	47%	44%
% 75bps	12%	14%
% 100bps	12%	13%
% > 100bps	9%	7%

*Since Oct/02, current cycle until Dec/24

Nearly all cycles had at least one announcement of 75bps, but in some tightening cycles (September 2004, April 2013 and October 2014) no moves were greater than 50bps. In easing cycles, a reduction of 75bps only failed to take place in the latest cycle, which began in August 2023.

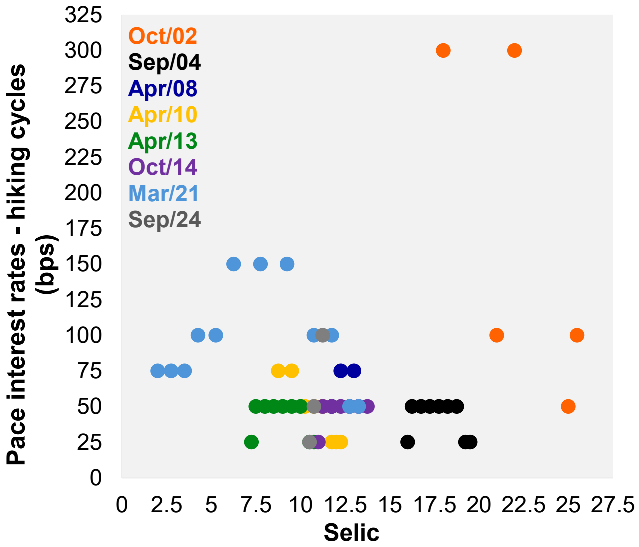
		Selic start	Selic end	Cycle (bps)	Duration - months	Months on hold after the end of the cycle	Pace bps						Inflation and output gap (beginning of the cycle)			
							1st 3 meetings	Last 3 meetings	Min	Max	Average	Median	IPCA %	Expect 1.5Y - target	Expect 3Y - target	Unemployment
Interest rates hiking cycles	Oct-02	18.00	26.50	850	5	3	300/100/300	-/50/100	50	300	170	100	8.4	167	15	10.2
	Sep-04	16.00	19.75	375	9	3	25/50/50	50/25/25	25	50	42	50	6.7	123	33	10.0
	Apr-08	11.25	13.75	250	6	3	50/50/75	-/-/75	50	75	63	50/75	5.0	-16	-31	8.7
	Apr-10	8.75	12.50	375	16	-	75/75/50	25/25/25	25	75	47	50	5.3	22	0	8.5
	Apr-13	7.25	11.00	375	13	5	25/50/50	50/25/25	25	50	42	50	6.5	104	79	7.5
	Oct-14	11.00	14.25	325	10	14	25/50/50	50/50/50	25	50	46	50	6.6	158	90	7.0
	Mar-21	2.00	13.75	1175	18	11	75/75/75	100/50/50	50	150	98	100	6.1	25	31	14.4
	Sep-24	10.50	-	-	-	-	25/50/100	-	25	100	-	-	4.4	89	67	6.5
Interest rates easing cycles	Jun-03	26.50	16.00	1050	11	4	50/150/250	100/25/25	25	250	117	100	16.6	269	93	10.8
	Sep-05	19.75	11.25	850	25	6	25/50/50	50/50/25	25	75	47	50	6.0	24	-1	10.5
	Jan-09	13.75	8.75	500	7	8	100/150/100	-/100/50	50	150	100	100	5.8	18	-10	8.5
	Aug-11	12.50	7.25	525	15	4	50/50/50	50/50/25	25	75	53	50	7.2	68	19	7.6
	Oct-16	14.25	6.50	775	18	16	25/25/75	50/25/25	25	100	65	75	7.9	38	30	12.2
	Aug-19	6.50	2.00	450	13	6	50/50/50	75/75/25	25	75	50	50	3.4	-3	18	12.0
	Aug-23	13.75	10.50	325	10	3	50/50/50	50/50/25	25	50	46	50	4.6	93	59	7.7

*current cycle until the December/24 meeting

On few occasions, the Copom adjusted the interest rate by more than 100bps. In all these situations, the cycle was marked by exceptionality to some extent.

Tightening cycles only included moves greater than 100bps on two occasions: in March 2021, when the Selic was at a historically low level and the constitutional amendment proposal on court-ordered payments was being discussed, and in the 2002 cycle, when inflation expectations were more than 2pp above the target and the very continuity of the regime was being questioned.

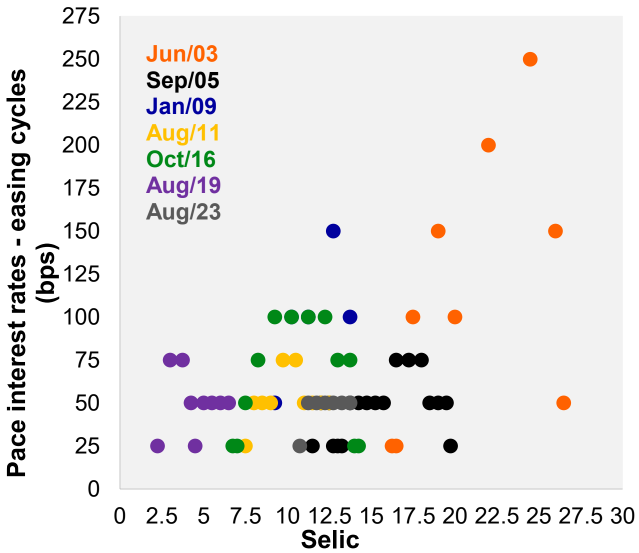
Rate hikes above 100bps only in Mar/21 and Oct/02



*current cycle until Dec/24 Source: BCB, Itaú

In easing cycles, the Selic was reduced by more than 100bps on only two occasions as well: in June 2003, when the benchmark rate was above 15%, and in January 2009, during the global financial crisis.

Rate cuts greater than 100bps in Jun/03 and Jan/09

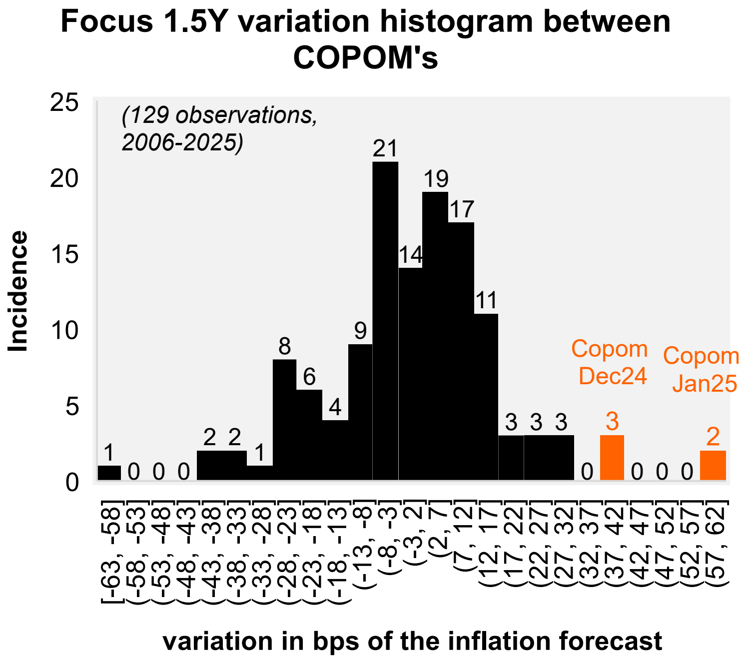


Source: BCB, Itau

Regarding the current cycle, faced with unanchored long-term inflation expectations—with a substantial and swift deterioration lately—the committee opted for a more intense adjustment, lifting the Selic by 100bps and signaling two additional increases of the same magnitude in the following meetings.

The worsening of inflation projections continues, with a recurring deterioration in agents' expectations collected by the Focus survey. In the Dec/24 Copom, projections a year and a half ahead rose 41 b.p. between meetings, the worsening since then was even higher, with an increase of 62 b.p. (see histogram below). This movement continues to indicate the need for adjustments of 100 bp. at Selic, a rate that, as we have shown, was rarely used in interest cycles.

Substantial and swift deterioration in inflation expectations



Source: BCB, Itau

We believe that the optimal monetary policy strategy is to fully commit to recent signals, while remaining vigilant about unanchored expectations and reaffirming the commitment to inflation convergence to the target over the relevant horizon. In this sense, it is appropriate to maintain the 100bps pace in the first two meetings of the year, without closing the door to additional increases of the same magnitude in subsequent meetings, depending on the evolution of the scenario, in particular inflation dynamics and expectations.

Julia Passabom
Julia Gottlieb

Macro Research – Itaú
Mario Mesquita – Chief Economist

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