Macro Brazil

May 13, 2025

Copom minutes: signaling the end

- The Copom minutes released this morning suggest, in our view, that the committee has paused its hiking cycle. Copom members seem to work under a very strong conviction that policy is in a highly contractionary stance, and this colors their overall assessment of the conjuncture. The committee is confident the economy is already slowing down, and already sees signs of easing in the labor market. Copom members envisage a credit slowdown, as a consequence of past tightening, and downplay the potential impact of new rules for payroll-backed loans. The text repeats mention of the level attained by the policy instrument, and of the need to wait for lagged effects of prior moves, both signs of the willingness to stay put. We estimate the forecast (not presented in the text) based on a constant Selic rate over the policy horizon would be 3.3%, probably close enough to the target for the committee.
- While the minutes do not close the door to an extra hike, they seem to set a high bar for such a move. We thus revise our end-of-cycle Selic rate to 14.75%. This should also be the year-end rate, as we do not envisage conditions, in the coming quarters, that would enable the Copom to start easing – this will come in early 2026.

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	December	January	March	May
IPCA 2025	4.5%	5.2%	5.1%	4.8%
Relevant Horizon (RH)**	4.0% (2Q26)	4.0% (3Q26)	3.9% (3Q26)	3.6% (4Q26)
Market-set prices 2025	4.5%	5.2%	5.4%	5.3%
Market-set prices RH**	3.8% (2Q26)	3.8% (3Q26)	3.8% (3Q26)	3.4% (4Q26)
Regulated prices 2025	4.5%	5.2%	4.3%	3.5%
Regulated prices RH**	4,6% (2Q26)	4,6% (2Q26)	4,2% (3Q26)	4,0% (4Q26)
Exogenous variables				
Exchange rate* (BRL/USD)	5.95	6.00	5.80	5.70
Selic rate (Focus) 2025	13.50%	15.00%	15.00%	14.75%
Selic rate (Focus) 2026	11.00%	12.50%	12.50%	12.50%
Inflation expectations (Focus) 2025	4.59%	5.50%	5.66%	5.53%
Inflation expectations (Focus) 2026	4.00%	4.22%	4.48%	4.51%

*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.

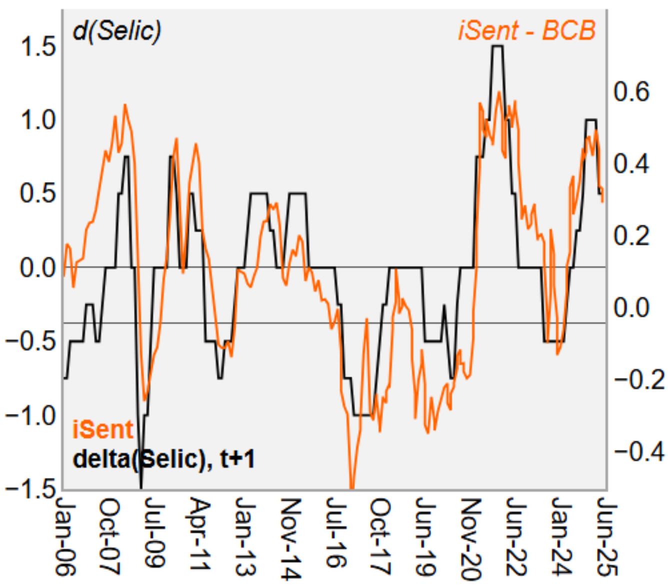
Source: Central Bank, Itaú.

Factors mentioned in the balance of risks by the Copom in the latest meetings (orange = change compared to the previous meeting)					
January		March		May	
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 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**

iSent, Itaú's Central Bank Sentiment Classifier

Our [iSent Central Bank Classifier][1] remains in positive territory (0.33), but receding at the margin.

Classifier receding at the margin



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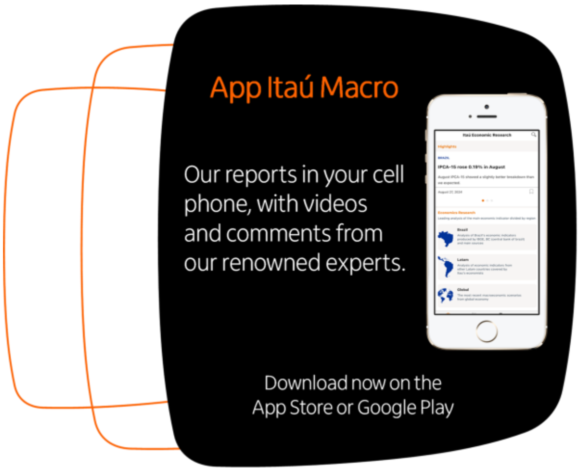
To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis



Relevant Information