June 24, 2025

Copom minutes: a high bar for a new hike, a long way from the first cut

- The Copom minutes released just now emphasized, from a handful of angles, that rate cuts should not be on the table for a while – also vowing to hike again if necessary (although the bar for that seems fairly high). The committee mentioned more than once that the effects of the recent tightening cycle are not yet at their full magnitude: the credit market had an inflection but remains robust, the labor market is still hot. The recurrence of the wording that monetary policy is set to remain at restrictive levels for "quite a long period", suggests that the authorities might be trying to set a minimum of policy meetings before starting to ease. In recent episodes (2015 and 2022) when the wording was "sufficiently long period", the BCB was on hold for 9 and 7 meetings respectively.

- It wasn't made clear, in this document, if the BCB has already revised their estimates for the output gap (this should push inflation forecasts upwards when it does happen), but we'll know more about that soon, when the Quarterly Inflation Report is released after tomorrow.

- We expect the Selic rate to remain on hold at 15% pa until year-end, with the first easing movement only into 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	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

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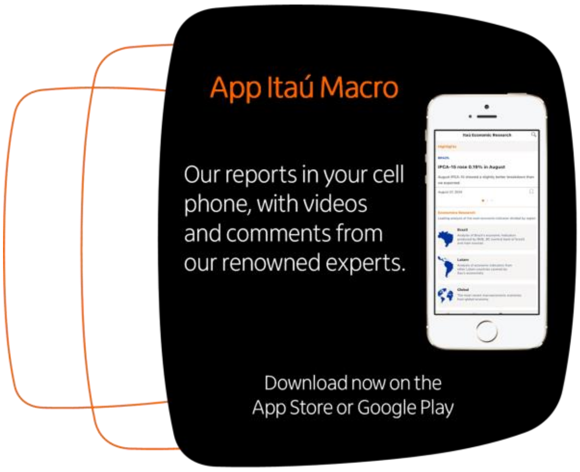

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