

## Copom: rebuilding trust

- ▶ The Copom delivered the expected decision, leaving the Selic rate unchanged at 10.50% pa, unanimously. The statement noted that the committee is monitoring the implications of fiscal policy to monetary policy and asset prices (read, the BRL). It also presented forecasts with an unchanged Selic rate at 10.50%, with inflation at 4.0% and 3.1% by end 2024 and 2025, respectively, providing support for its option. The Copom also notes that inflation expectations have deviated some more from the target. The authorities retain a symmetrical balance of risks around their central scenario, and mention eventual future adjustments (both ways) of the Selic, no longer citing rate cuts.
- ▶ In our view, this textbook decision and statement, unanimously supported by Copom members, should help rebuild confidence in the committee's commitment to the inflation target, which, right or wrong, had apparently been dented by the previous dissent.
- ▶ We still expect the Selic rate to end this year and next at the current 10.50% level.
- ▶ Another important step to rebuild trust would be the publication of the decree regulating the compliance with the permanent 3.0% target. Opting for a lengthy convergence period would be seen as a signal of lenience with inflation, and work against the Copom's effort to re-anchor and tame inflation expectations.

## Main changes in inflation forecasts and balance of risks

Inflation forecasts presented in the latest meetings by the Copom						
Period	December	January	March	May	June**	
	Reference	Reference	Reference	Reference	Reference	Alternative (constant Selic rate)
IPCA 2024	3.5%	3.5%	3.5%	3.8%	4.0%	4.0%
IPCA 2025	3.2%	3.2%	3.2%	3.3%	3.4%	3.1%
Regulated prices 2024	4.5%	4.2%	4.4%	4.8%	4.4%	-
Regulated prices 2025	3.6%	3.8%	3.9%	4.0%	4.0%	-
Exogenous variables						
Exchange rate* (BRL/USD)	4.90	4.95	4.95	5.15	5.30	
Selic rate (Focus) 2024	9.25%	9.00%	9.00%	9.63%	10.50%	
Selic rate (Focus) 2025	8.50%	8.50%	8.50%	9.00%	9.50%	
Inflation expectations (Focus) 2024	3.93%	3.81%	3.79%	3.72%	3.96%	
Inflation expectations (Focus) 2025	3.50%	3.50%	3.52%	3.64%	3.80%	

\*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.

\*\*At the June meeting, the Copom presented an alternative scenario (in addition to the reference scenario) for its inflation projections, considering the Selic rate constant at the current level throughout the relevant horizon.

Source: Central Bank, Itaú.

Factors mentioned in the balance of risks by the Copom in the latest meetings (orange = new inclusion compared to the previous meeting)					
March		May*		June	
Upside risks	Downside risks	Upside risks	Downside risks	Upside risks	Downside risks
(i) persistence of global inflationary pressures (ii) stronger than expected resiliency on services inflation due to a tighter output gap	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening	(i) persistence of global inflationary pressures (ii) stronger than expected resiliency on services inflation due to a tighter output gap	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening	(i) persistence of global inflationary pressures (ii) stronger than expected resiliency on services inflation due to a tighter output gap	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening
Symmetrical		Symmetrical		Symmetrical	

\*Despite keeping the balance of risks unchanged at the May meeting, the Copom mentioned that the domestic and external scenario will remain more uncertain, requiring greater caution in the conduct of monetary policy.

Source: Central Bank, Itaú.

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