

Flash Brasil

Las condiciones monetarias han sido ajustadas para prevenir que la inflación salga de control

El Comité de Política Monetaria (COPOM) decidió incrementar el SELIC en 25 puntos hasta el 7.50%, en línea con nuestras expectativas. Aumentando el tipo de interés de referencia, el COPOM pretende controlar la inflación (especialmente las expectativas de mediano-plazo), a expensas de afrontar mayores riesgos, tanto internos como externos. Esperamos no más de tres incrementos adicionales de 25bp cada uno en los próximos meses y, por tanto, que el SELIC continúe a relativamente bajos niveles al final de este ciclo de ajuste.

Monetary conditions are tightened to prevent inflation from running out of control

The Monetary Policy Committee (COPOM) decided to raise the SELIC rate by 25bp to 7.50%, in line with our call. By hiking the reference interest rate, the COPOM is attempting to rein-in inflation (especially medium-term expectations) at the expense of potentially higher risks on both the domestic and also the external front. We expect no more than three further 25bp hikes ahead, and thus the SELIC rate to continue at relatively low levels (for Brazilian standards) at the end of this tightening cycle.

- **“Domestic and especially external uncertainties ... require that monetary policy be managed with caution”**

The decision to hike the SELIC by 25bp was non-unanimous: two out of the eight members of the COPOM favored the stability of the SELIC rate at 7.25%. The decision was aligned with our call, but did not match the expectations of a relevant part of the market (many were expecting the SELIC to be left unchanged while others forecasted a 50bp adjustment). In the accompanying statement, the monetary authority revealed that inflation is currently the main source of concerns, even though domestic and especially external uncertainties remain high, requiring caution ahead. The statement was as follows: “The COPOM decided to raise the SELIC rate to 7.5 percent a year, without bias, by six votes in favor and two for holding the rate at 7.25 percent a year. The Committee considers that the high level of inflation and the dispersion of price increases, among other factors, contribute to the resilience of inflation and require a monetary policy response. On the other hand, the COPOM considers that domestic and principally external uncertainties surrounds the prospective inflation outlook and requires that monetary policy be managed with caution.”

- **A soft monetary tightening cycle ahead**

Considering that inflation is currently above the 6.5% target ceiling, price pressures are widespread (as signalled by diffusion indexes), and, most importantly, inflation expectations are not well-anchored (expectations for the end of 2014 are around 5.7% -well above the 4.5% target- and increasing), the decision to start a monetary tightening cycle should be seen as good news. However, this decision is not costless. On the one hand, it should have a negative (although relatively small) impact on economic growth and on credit markets. On the other hand, it could generate appreciatory pressures on the exchange rate, which could end up triggering the adoption of more measures to prevent the Brazilian Real from appreciating more sharply. Taking into account these costs, the natural dovishness of this BCB board and our perception that this cycle will be adopted to anchor medium-term inflation expectations around 5.5% (and not to drive domestic demand down in order to guarantee that inflation converges to the 4.5% target) we expect this monetary tightening cycle to be relatively soft. More precisely, we forecast three 25bp adjustments in the next three monetary meetings (in May, July and August), although the last of these three hikes could be aborted as by then we expect inflation pressures to ease somewhat.

Enestor Dos Santos
enestor.dossantos@bbva.com
+34 639 82 72 11

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