Brazil

Economic Watch

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Economic Analysis

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Brazil: SELIC adjusted up by 50bps to 11.75%

- The Monetary Policy Committee of the Central Bank decided unanimously to raise the SELIC by 50bps to 11.75%. The decision was widely expected, although in the last days some analysts had suggested a 75bps adjustment could have been implemented.
- The tightening of the monetary policy is consistent with the sharp deterioration of inflation figures. Observed inflation moved up to 6.0%y/y in January from 4.5% in August of 2010 (February's inflation will be released tomorrow and we expect it to remain close to 6.0%y/y). Inflation expectations for the end of 2011 are currently at 5.8%y/y, well above the 4.5% target.
- The Central Bank's accompanying statement was briefer than usual and did not suggest any change in the current tone of monetary policy: "Following the process of adjustment of monetary conditions, the Monetary Policy Committee decided, unanimously, to raise the SELIC rate to 11.75%, without a bias."
- Economic activity should moderate and take some steam off inflation in coming months. Accordingly, the Central Bank should raise the SELIC by 50bps more in the next Monetary Policy meeting on April 20th and then put an end to monetary tightening.
- In case the economy refrains from moderating as we are currently expecting, the Central Bank should then implement more macro-prudential measures. In this scenario, the chance of more fiscal measures is higher, in our view, than the market is currently discounting. We see extra hikes of the SELIC as a last resource instrument in this situation.
- Regarding oil price pressures, we don't take for granted that they will necessarily justify additional monetary tightening as the high prices of crude would also dampen growth perspectives and offset at least part of the direct impact on domestic prices.
- Next week, on March 10th, the minutes of yesterday's meeting will be released and more information on the future path of monetary policy should be provided.

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