RESEARCH

Economic Watch

Brazil

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Economic Analysis

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Monetary policy in Brazil: no hurry to bring inflation down

- Today, the Central Bank (CB) released the minutes of last week's monetary policy meeting in which the SELIC rate was adjusted up by 25 bps.
- According to these minutes, the dominant vision among the members of the Monetary Policy Committee (COPOM) is that "a substantial anti-inflationary effort was already implemented in the last four months, and that there are lags in the mechanism of transmission of these efforts into activity and prices which, in addition to the decision to extend the adjustment cycle, would recommend a revaluation of the monetary policy strategy".
- The COPOM recognized in the minutes that the inflation outlook has not evolved favorably since the previous meeting on March 2nd. The CB's inflation forecasts for both the end of 2011 and 2012 actually increased (numbers were not revealed). At least part of this deterioration comes from higher oil prices that are now expected by the CB to increase 2.2% this year instead the 0.0% that the monetary authority was using before.
- In comparison to previous minutes, those released today emphasized the power and the need of macro-prudential measures less, which could mean a focus on more traditional measures from now on.
- In our view, the minutes released today show the CB concerned with bringing inflation down to the target by the end of 2012 and willing to pay the cost for waiting to see whether past monetary tightening will be enough to bring inflation down or not. In other words, we see the CB trying to buy some time by extending a softer (25bps instead of 50bps) monetary adjustment.
- Taking all this into account, the CB should increase the SELIC once more by 25bps to 12.25% on June 8th and then reassess the inflationary outlook hoping that by then the past monetary actions will have had a more significant impact on prices and that commodity prices will have moderated.
- In the current juncture, we stick to our 12.25% call for the SELIC by the end of the year, although we do not rule out additional increases, especially if the inflation outlook for the end of 2012 continues to deteriorate.

For more on Brazil, click here

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