BBVA | RESEARCH

Economic Watch

Brazil

Madrid, 28 July 2011
Economic Analysis

Enestor Dos Santos
enestor.dossantos@bbva.com
+34 91 537 68 87

The minutes of last week's monetary meeting highlight "increasing" external risks and show higher confidence that the economy is slowing down. We expect the SELIC rate to be raised by extra 25bps in August

Brazil: CB sees a more favourable outlook for inflation

- **The Central Bank released today the minutes of last week's monetary policy meeting** in which the monetary authority decided to increase the SELIC rate by 25bps to 12.50%.
- **As in the previous minutes, the Central Bank sees a more favourable outlook for inflation.** This time, however, this affirmation contrasts with "slightly" higher inflation forecasts for the end of 2011 and 2012, which were presented by the monetary authority in the document released today.
- **We see in this contradiction a dovish sign that shows the Central Bank is trying to find room for putting an end to the monetary cycle amidst an environment** where inflation is running at six-year highs and most (including the CB) expect inflation to meet the target only in the first half of 2013.
- **We see support for this view on CB's higher confidence that economy is moderating** and on the references to "increasing" (and deflationary) external risks.
- **In any case, the monetary authority refrained** from committing to any specific strategy.
- **We see, however, no room for the CB maintaining interest rates unchanged** in August without facing high reputational costs. We, therefore, expect one additional (and final) 25bps adjustment of the SELIC in the end of the next month.

For more on Brazil, click here

DISCLAIMER