

# Brazil Flash

## CB leaves the SELIC unchanged and reinforces “stability” view

The SELIC was kept at 7.25% as expected and the accompanying statement brought no surprises. We expect the SELIC to remain stable at least until the end of 2013. In our view, a downward adjustment of interest rates would only be triggered by an “accident” in developed economies, which we see not likely.

- **“Stability of monetary conditions for a sufficiently prolonged period”**

The COPOM members decided unanimously to leave the SELIC rate unchanged at 7.25%, as widely expected. The communiqué was identical to that released after the previous meeting in October, maintaining the reference to the stability of monetary conditions for a sufficiently prolonged period and inflation’s non-linear convergence to target: “Considering the balance of risks for inflation, the recovery in domestic activity and the complexity involving the international environment, the Committee understands that the stability of monetary conditions for a sufficiently prolonged period is the most adequate strategy to ensure convergence of inflation to the target, albeit in non-linear manner”. We expect economic recovery to increasingly add to the pressures on inflation (which we do not expect to converge to the 4.5% target anytime soon). We think inflation pressures will not trigger a SELIC hike next year, and inflation will rather be kept under control by the use of fiscal policy, exchange rates, macroprudentials and/or tax cuts. Even though global stress and uncertainty about the strength of domestic recovery (especially after Q3) are sparking talks about a new SELIC cut, we would only expect a downward SELIC adjustment in the case of an “extreme event” in developed economies, which we see not likely and, actually, less likely than some months ago.

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## El BC mantiene el SELIC sin cambios y refuerza la perspectiva de estabilidad de la política monetaria

Los tipos SELIC se mantuvieron sin cambios en 7,25%, en línea con lo esperado, y el comunicado de la decisión no supuso una sorpresa. Esperamos que los tipos SELIC permanezcan estables al menos hasta el final de 2013. En nuestra opinión, una nueva reducción del SELIC solo se produciría por un “accidente” en las economías desarrolladas, lo que no vemos probable.

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