

Economic Watch

Brazil

Madrid, 16 June 2011
Economic Analysis

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The minutes of the most recent monetary policy meeting highlighted the risks related to both the external environment and domestic wages' adjustments

Brazil: CB sees "increasing external risks" and "more favourable inflation outlook"

- **The minutes of the monetary policy meeting that set the SELIC to 12.25% -up by 25bps- suggested one more 25bps hike will likely be implemented in July.** At the same time, however, the minutes released today left the door open for the CB keeping the SELIC rate unchanged at the next monetary meeting. They also refrained from showing strong support to additional monetary adjustment after July.
- **The COPOM sees now a more benign inflation outlook than before. This view is based on lower inflation forecasts for 2011,** preliminary signs of activity moderation in the second quarter of the year, and evidences that consumer prices have already incorporated the effect of recent supply shocks.
- **In addition to that, the COPOM puts more emphasis than before on external risks:** "concerns with sovereign and bank's debt in Europe and with the deceleration of economic activity in China are now higher".
- **After digesting today's minutes we believe the most likely scenario is for the monetary tightening cycle coming to an end after the SELIC is adjusted by 25bps in July.**
- **As the COPOM, however, emphasizes, uncertainty is unusually high.** Therefore, interest rates could continue being adjusted upwards after July if the "very important risks" of wages increasing more than productivity materialize, or could even be left unchanged on July if the external environment deteriorates.

For more on Brazil, click [here](#)

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