

Economic Watch

Brazil

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Economic Analysis

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

Brazil: CB adjusts the SELIC by only 25bps and loses an opportunity to show a stronger commitment to inflation

- The Monetary Policy Committee of the Central Bank of Brazil (COPOM) increased the SELIC interest rate by 25bps to 12.00%. The decision was not unanimous as five members voted for a 25bps hike and two for a 50bps one.
- The COPOM's accompanying statement was as follows: "Continuing the process of adjustment of monetary conditions, the COPOM decided to increase the SELIC rate to 12.00%, without bias, with five favourable votes and two members voting for a 50bps increase of the SELIC rate. Considering the balance of risks for inflation, the still uncertain pace of moderation of the economic activity, as well as the complexity of the current international environment, the Committee believes that, at this moment, the adjustment of monetary conditions for a sufficiently long period is the most adequate strategy to guarantee the convergence of the inflation to the target in 2012" (free translation).
- The 25 bps SELIC hike was lower than BBVA and an important part of the market were expecting (50bps).
- In our view, the CB lost a good opportunity to show its commitment to controlling inflation in an environment where domestic prices are running out of control and a 50bps would have had a relatively small cost (up to some few days ago a 50bps hike was fully incorporated).
- This decision should, therefore, favour a further deterioration of inflation expectations, especially for 2012 which are now running around 5.0%/y. On the other hand, the CB decision could take some pressure off the Real.
- Taking into accounting the wording of COPOM's accompanying statement, especially the mention to "a sufficiently long period" of adjustment of monetary conditions, we think the COPOM could increase the SELIC by other 25bps in its next meeting on June 8th. However, given the recent dovishness showed by the monetary authority, the stability of the SELIC rate at 12.00% should not be seen with surprise.
- The minutes of COPOM's meeting will be released next week, on April 28th. More information on the future path of monetary policy should be provided.

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