MNI Brazil Central Bank Preview: July 2025

Monetary policy decision and Copom statement release: 2230BST / 1730ET, Wednesday July 30, 2025

MNI POV: Copom Set for Extended Pause

Analysts are unanimous that the Copom will leave the Selic rate unchanged at 15.00% this week, after it signalled a pause in the tightening cycle last month to assess the impact of previous rate hikes. Although inflation has begun to edge lower, it remains well above target, and the Board is still concerned about unanchored inflation expectations, despite a recent improvement. With the labour market remaining tight as well, rate cuts are still unlikely to be discussed by the Board at this juncture. Indeed, with officials continuing to stress the high for longer message to ensure the re-anchoring of inflation expectations, guidance is still likely to emphasise the likelihood of an extended pause ahead.

Copom Emphasises High for Longer Message

After delivering a 25bp hike to 15.00% last month, a hawkish Copom signalled a pause in the hiking cycle but emphasised that monetary policy will remain in significantly contractionary territory for a very prolonged period. The decision to hike further came amid still unanchored inflation expectations, elevated inflation projections, resilient economic activity and ongoing labour market pressures. Although it didn't rule out further rate hikes, the bar to further tightening appears to be high given the mounting global uncertainties, which warrant caution. Indeed, the committee clearly signalled that if the scenario materialises as expected, then the Selic rate would likely remain unchanged for some time while it assesses the cumulative impact of previous rate hikes.

This point has been emphasised again multiple times by central bank officials in recent weeks, with the key message being that the Selic rate is likely to remain high for longer. Officials appear to be keen to prevent the market from pricing an early start to the easing cycle to ensure that financial conditions remain tight until they are confident that inflation is on course to converge to target.

Broad Concern About Unanchored Expectations

This cautious messaging was reinforced in the central bank's Q2 monetary policy report last month, which showed inflation above the 3% target all the way through to end 2027, ending that year at 3.2%. Speaking after the report's publication, BCB Governor Galipolo reiterated the BCB's complete commitment to the CPI target and fight against unanchored inflation expectations and said that the Copom wants more certainty about the data to avoid volatility.

Similarly, BCB Economic Policy Director Diogo Guillen maintained that hawkish messaging as he emphasised the broad concern within the Copom about unanchored expectations and high inflation, which he said is explained by resilient demand and activity. While he noted some signs of a moderation in activity recently, he highlighted the central bank's above-target inflation forecasts through 2027 and said that rate cuts are not currently part of the discussion. Meanwhile, BCB's Monetary Policy Director Nilton David said earlier this month that the entire board sees rates as restrictive and that they will have to remain restrictive for longer than usual amid the heightened uncertainty. While he sees reasonably clear signs that monetary policy is working, he stressed that it would take a long time for the data to be where the central bank wants it.

As a result, most analysts expect the Selic rate to remain on hold for the remainder of this year, with an easing cycle beginning only in early 2026. According to the latest BCB Focus survey, the Selic rate is seen ending this year at 15.00%, before falling to 12.50% by end-2026. However, some still see scope for a rate cut before year-end, especially if inflation starts to fall and activity weakens. Speaking to MNI recently, former BCB deputy governor for economic policy Fabio Kanczuk said that the Copom has signalled that it has no intention to hike rates again in future meetings and in his view, might start cutting by the end of this year. He doesn't think inflation needs to fall by much for them to start reducing rates, and that it's enough if activity stops growing so strongly. (See MNI Policy Team Insights below.)

Escalating Trade Tensions Warrant Cautious Approach

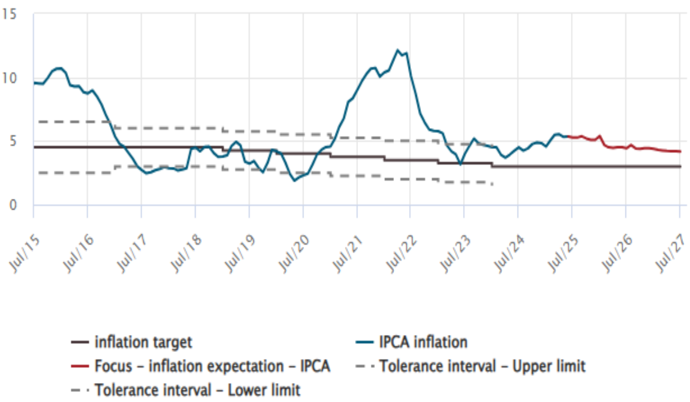
The central bank's cautious stance will have been reinforced by the further escalation in trade tensions this month, after President Trump threatened to impose a 50% tariff on Brazilian imports from August 1. Trump cited what he called unfair treatment of former President Jair Bolsonaro and demanded that the authorities drop charges against him over an alleged coup attempt. In response, President Lula has struck a defiant tone, saying that the government does not want a fight but will not run away. While he has indicated a willingness to talk, he has also said that the government will respond to tariffs through its reciprocity law, and will appeal to the WTO, if necessary.

Tensions escalated further when a Brazilian court authorised police to carry out a search of Jair Bolsonaro's home and ordered that he wear an ankle monitor amid concerns he was about to flee the country and seek political asylum in the US. In response, Bolsonaro denied that he was about to leave the country and said it that seems as if the government wants a confrontation with the US, even though in his view, Trump is seeking negotiation.

With no sign that Trump or Lula is willing to back down, this dispute looks set to drag on, although Vice President Alckmin said last week that he had good talks with US Secretary of Commerce, Howard Lutnick, where he stressed Brazil's desire to negotiate. From a monetary policy perspective, however, former BCB deputy governor for international affairs Tony Volpon told MNI that he doesn't expect the central bank to change its plans due to the 50% tariff threat, adding that the effects on the economy will depend on the outcome of the diplomatic response and whether or not there will be negotiations. He emphasised that Brazilian exports to the US represent only 2% of GDP and could be redirected to other countries.

Inflation Edging Lower

Brazil IPCA Inflation, % y/y (Source: Brazil Central Bank)



Against this backdrop, CPI inflation remains well above target, while inflation expectations are still unanchored, despite some signs of improvement recently. In June, IPCA inflation was steady at 5.35% y/y, up marginally from 5.32% in May, but still below the 5.53% April peak. Most of the slight upside surprise was concentrated in non-core items, while the BCB's core inflation average came within the range consistent with the seasonally adjusted target.

Meanwhile, the central bank's Focus survey has revealed a further gradual moderation in 2025 year-end CPI expectations, which declined to 5.10% in the most recent survey, from 5.25% ahead of the June Copom meeting and 5.55% in May. In contrast, longer-term expectations have remained stickier, although the end-2026 estimate finally dipped by 5bp last week to 4.45%, after months of sitting at 4.50%. As noted, unanchored inflation expectations remain a concern for the central bank, and with inflation expected to remain above target through 2027, rate cuts are still unlikely to be discussed by the Board at this juncture.

Activity Beginning to Slow

Although economic growth remains relatively strong, latest activity data have reinforced signs of a softening of momentum in the second quarter. Retail sales and industrial production both fell on the month in May, while services volume edged up by a smaller-than-expected 0.1% m/m. Overall, economic activity fell by 0.7% m/m in May, the first decline this year, taking the annual rate of growth to 3.2% y/y, well below the 4.1% consensus.

Nonetheless, while analysts remain cautious on the short-term trajectory for growth due to the tariff-related uncertainties, factors such as the release of court-ordered government payments and increase in private payroll loans are seen being supportive of growth. The labour market also remains relatively robust. Overall, analyst GDP forecasts have edged up marginally since the June Copom meeting, with growth expected to be 2.23% this year and 1.88% next, according to the Focus survey (as compared with 2.20% and 1.83%, respectively, last month).

Meanwhile, political tensions have stayed high as uncertainty remains over the government's commitment to its fiscal targets, with the administration reluctant to cut spending ahead of next year's Presidential elections, and Congress becoming increasingly resistant to further tax hikes. Although Congress tried to overturn the government's IOF tax hike decree, the Supreme Court upheld most of that decree this month, prompting Finance Minister Haddad to say that the government is increasingly confident that it will end the year with a good primary balance result. Next year's outlook remains more uncertain, however, with the income tax bill progressing through Congress, but still requiring full approval in the second half of the year, and other debates on important fiscal measures ongoing. Against this backdrop, the Copom is seen maintaining a cautious stance and preserving a very restrictive monetary policy setting, while it assesses the impact of previous rate hikes.

Recent USDBRL Gains Considered Corrective

USDBRL fell to a fresh cycle low at the start of July, before rebounding amid the escalation of trade tensions. The pair in now in consolidation mode, although it maintains a bearish tone and recent strong gains are, for now, considered corrective. Nonetheless, the pair has traded through resistance at 5.5675, the 50-day EMA. A clear break of this average would signal scope for a stronger short-term recovery and open 5.7448, the May 23 high. For bears, a resumption of weakness would refocus attention on 5.4027, the Jul 4 low. Clearance of this level would resume the downtrend and open 5.3153, the 61.8% retracement of the July 28 ‘23 - December 18 ‘24 bull cycle.

MNI Brazil Central Bank Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	5.4	5.5	↓	4.8	↑					1.39
Core CPI	% m/m	0.4	0.5	↓	0.5	↓					-0.78
Oil Price (WTI Active)	$	66.15	68.99	↓	69.15	↓					-0.26
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	48.3	51.8	↓	50.4	↓					-1.37
GDP	% q/q	1.4	1.5	↓	0.1	↑					1.19
Industrial Man Prod	% y/y	3.3	1.3	↑	1.6	↑					0.55
Economic Activity IGAE	% y/y	3.16	4.32	↓	3.71	↓					-0.40
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M2 Money Supply	% y/y	6854.6	6645.0	↑	6498.1	↑					1.62
Non-Fin Corp Credit	% y/y	180.8	170.9	↑	166.7	↑					1.74
Household Credit	% y/y	36.4	34.9	↑	33.6	↑					1.67
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	-0.2	0.8	↓	-0.2	→					-0.03
Consumer Confidence (Q)	Index	86.7	84.8	↑	86.2	↑					0.22
Unemployment Rate	%	6.2	6.8	↓	6.1	↑					-0.76
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Ibovespa	Index	134,043	130,260	↑	120,283	↑					1.36
Jan 2034 DI Swap Rate	%	13.89	14.82	↓	15.06	↓					-1.28

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Analyst Views (Alphabetical Order)

All 24 analysts in the latest Bloomberg survey expect the Copom to remain on hold at 15.00% this week.

BofA: Expect 50bp Selic Rate Cut in December

- With recent BCB official communication supporting BofA's view that the hiking cycle is over, BofA expects the central bank to begin its easing cycle with a 50bp cut in December to 14.50%. They then see the Selic rate falling to 11.25% by end-2026.
- Real rates are now running close to 10%, and even after BCB starts its easing cycle, it will be a long period before one can say monetary conditions are loose.
- BofA believes that 3Q25 quarterly GDP growth will be negative and the inflexion point to economic activity. That print is scheduled to be released on December 4, opening the door for the BCB to begin its easing cycle later that month.
- Inflation by end-2025 should consolidate around 5.4%, with a downside risk. By then, the BCB's relevant horizon for monetary policy will be 2Q27 and, provided no external shock to the scenario, their inflation model should have already converged to a level around its target.
- One key risk to follow is the evolution of underlying inflation. Were core measures, particularly services, to reaccelerate before year-end, rate cut would be harder. If the market does not migrate to BofA's view, and inflation expectations for '26 and '27 remain above target, the BCB will be under a lot of pressure to keep rates unchanged. The deteriorating fiscal outlook also has the potential to prevent the BCB from cutting.

BNY Mellon: BCB Expected to Keep Selic Rate on Hold

- BNY note that the BCB is expected to keep its benchmark Selic rate on hold at 15%, maintaining its pause in rate hikes after the June decision to raise the rate by 25bps. This comes as tightening effects are still being felt and inflation remains well above the 3% target, with projections of around 5.2% for 2025 and GDP growth forecast at roughly 2.2% in 2025 and 1.7% in 2026.
- They note that markets expect the Selic rate to remain unchanged through year-end, delaying any prospect of rate cuts until 2026, reflecting the central bank's commitment to a prolonged restrictive stance to anchor inflation expectations, and the bank reiterated it will not hesitate to resume hikes if inflationary pressures persist.

Goldman Sachs: Stable Selic Rate and Hawkish Guidance Expected

- Goldman Sachs note that the June forward guidance suggested a high likelihood that the hiking cycle ended with the 25bp June hike.
- A backdrop of high above-target inflation, unanchored short- and medium-term inflation expectations, inflation forecasted above the target throughout the entire relevant horizon, positive output gap, and FX and current account risks related to the risk of higher US import tariffs, is consistent with keeping the Selic at a restrictive 15.00% with hawkish guidance, Goldman say.
- The central bank's inflation forecasts are expected to have been favored by a slightly stronger BRL/USD since the last meeting, lower oil price path and also slightly lower inflation expectations.

Itaú See Selic Rate on Hold Until Q1 2026

- Given the high uncertainty and the lagged effects of monetary policy, the Copom likely ended the tightening cycle at its last meeting, at 15.00%. The monetary authority also signalled that interest rates will remain at this level for an extended period.
- Itaú expects the beginning of rate cuts only in the first quarter of next year, with the Selic rate ending 2026 at 12.75%. Risks remain tilted toward an even later start to rate cuts, unless there are significant disinflationary shocks from a larger appreciation of the exchange rate or a sharper economic slowdown.
- In their latest macro scenario, Itaú kept their GDP growth forecasts at 2.2% for 2025 and 1.5% for 2026. However, they now see risks tilted to the downside this year, following weaker-than-expected Q2 data and the impact of US tariffs. For 2026, they still see upside risks to their projection.
- On inflation, they have lowered their 2025 IPCA forecast to 5.2%, from 5.3%, with risks tilted slightly to the downside. For 2026, they still see inflation at 4.4%.

- They still see a primary fiscal deficit of 0.6% of GDP this year, but have raised their 2026 deficit forecast to 0.9%, from 0.8%. While the revenue loss in 2025 due to the reduction of the IOF tax is expected to be offset by extraordinary measures, they do not anticipate an immediate offset for 2026, leading to a worsening of the fiscal outlook.

JP Morgan: Still See Copom On Hold Until December

- JP Morgan expects the BCB to deliver on its guidance of an interruption of the cycle at the Copom meeting and keep the Selic rate unchanged at 15.00%. With very few public appearances recently, it seems that BCB board members are comfortable with the high-for-long message that has prevailed in recent communication.
- While the escalating tensions and expected increase on tariffs on Brazilian exports to the US may contribute to Brazil's economic slowdown, JPM assumes that the board will prefer to highlight the uncertainty over the eventual second-round effects of this potential shock rather than draw conclusions at this point.
- Although some macro indicators are responding to the tightening of monetary policy, the labour market remains tight and medium-term inflation expectations continue to be un-anchored. This will likely continue to be a point of explicit discomfort for BCB members. In this context, the central bank will likely need time for this process of pass-through of monetary tightening to the economy to mature before it changes its stance.
- That's why the signal of a prolonged pause should continue to be the focus of the BCB's message. The BCB will likely emphasise its vigilance and perseverance in maintaining high rates until the disinflation process is firmly established. The rest of the outlook characterisation should remain broadly unchanged, although the BCB may discuss the impact of tariffs, a topic likely to be addressed in the subsequent meeting minutes.
- JPM continues to expect the BCB to keep rates at 15% at the next three meetings, starting a cutting cycle in December with an initial 25bp cut, followed by back-to-back 50bp cuts until the Selic rate reaches 10.75% by the end of next year.

SocGen: Continue to Expect BCB’s Easing Cycle to Begin Early Next Year

- In general, SocGen believes that the BCB will cut rates significantly in 2026 and 2027, with the easing cycle beginning early next year. The risks to their 2026 Selic rate forecast of 12.25% are probably still balanced at this stage.
- The latest BCB survey showed year-end inflation expectations for 2026 falling for the first time in months. Inflation remains well above the BCB’s target range, but moderating inflation expectations can help refocus attention on when the BCB might begin its easing cycle.
- The fiscal outlook remains under a cloud, partly because the country is heading into a general election next year, and the current effort towards fiscal consolidation appears very sluggish.
- Meanwhile, tariff-related uncertainties could heap further pressure on Brazilian financials - a key factor that affects inflation expectations too. It is also not clear if the Brazilian government will opt for reciprocal tariffs on August 1 or wait for negotiations.
- The economy looks on course for a meaningful deceleration from 2H25 onwards as tighter policy takes hold. However, pockets of the economy remain resilient as of now, and a lot also depends on external sector impulses. The current interest rate levels are not sustainable.

XP Investments: Tariffs Will Reinforce BCB Caution

- XP Investments says that the tariffs announced by President Trump on Brazil will reinforce the BCB’s cautious scenario and ensure that rate cuts are not brought forward. XP still expects the first rate cut to come in January, with the Selic rate ending next year at 12.50%.
- XP estimates that higher tariffs could reduce Brazilian GDP growth by 0.3pp in 2025 and 0.5pp in 2026. Increased tariffs are likely to impact domestic activity through the trade balance and tightening financial conditions. Exports to the US would fall by $6.5bn in 2025 and $16.5bn the following year.
- XP doesn’t see a material impact on inflation unless Brazil retaliates. In this case, production costs would increase across various sectors, especially pharmaceuticals and transportation, due to fuel costs. Even so, considering that Brazilian imports from the US are limited, the impact on inflation would not be severe, in their view.
- The exchange rate remains the main driver of inflationary concerns. Recent FX strength has helped to moderate short-term inflation pressures. However, this could be reversed if the perception of risk toward Brazil increases amid persistent trade tensions.

MNI Policy Team Insights

MNI EM WATCH: BCB To Hold Rates At 15% Amid 50% Tariff Concerns

By Larissa Garcia
Jul 28, 2025

BRASILIA - The Central Bank of Brazil is expected to keep its official Selic rate on hold at 15% Wednesday, as previously signaled, despite increasing uncertainty around U.S. trade policy with the imposition of a 50% tariff starting August 1.

At its last meeting, the board indicated that its 25-basis-point interest rate hike likely marked the end of the tightening cycle, barring an unforeseen worsening of inflation — which has not been observed so far.

"If the expected scenario materializes, the Committee foresees an interruption of the rate-hiking cycle to examine its yet-to-be-seen cumulative impacts, and then evaluate whether the current interest rate level, assuming it remains stable for a very prolonged period, will be enough to ensure the convergence of inflation to the target," the statement said.

INFLATION DATA

Brazil's IPCA inflation stood at 5.35% in June, slightly up from 5.32% in May. The data has remained above the upper limit of the BCB's 3% target range for six consecutive months, prompting the central bank to publish a letter explaining the deviation. In the letter, the bank said it expects inflation to return to the target range — which allows a 1.5 percentage point deviation in either direction — in the first quarter of 2026.

According to the BCB’s Focus market survey, inflation is expected to end the year at 5.10%. Expectations remain unanchored over longer horizons, with forecasts at 4.45% for 2026, 4.00% for 2027, and 3.80% for 2028.

Analysts expect the Selic rate to remain at 15% this year before gradually falling to 12.50% in 2026 and reaching 10% in 2028.

2025 CUT LIKELY

Former BCB deputy governor for economic policy Fabio Kanczuk told MNI in an interview that Copom is signaling it has no intention of hiking rates again in future meetings and is likely to start cutting them at the end of this year, especially if inflation starts to fall and economic activity weakens. (See MNI INTERVIEW: No BCB Rate Hike Ahead, 2025 Cut Likely-Kanczuk)

Former deputy governor for international affairs Tony Volpon told MNI that the BCB is unlikely to change its plans due to the 50% trade tariff imposed by the United States, adding that the effects on the economy will depend on the outcome of the diplomatic response and whether or not there will be negotiations. (See MNI INTERVIEW: No BCB Shift After U.S. 50% Tariffs - Volpon)

Also in an interview, former foreign trade secretary Welber Barral told MNI that Brazil should continue negotiating for better trade terms with the United States even if the announced 50% tariff takes effect on August 1, adding that Brazilian companies have already begun to feel the impact of the new measure even before its implementation. (See MNI INTERVIEW: Brazil Must Keep Negotiating On Tariffs -Barral)

MNI EM INTERVIEW: No BCB Shift After U.S. 50% Tariffs - Volpon

By Larissa Garcia
Jul 10, 2025

The Central Bank of Brazil is unlikely to change its plans due to the 50% trade tariff imposed by the United States, former deputy governor for international affairs Tony Volpon told MNI, adding that the effects on the economy will depend on the outcome of the diplomatic response and whether or not there will be negotiations.

In his view, the BCB will keep interest rates at 15.00% in the upcoming meetings, as already signaled.

He emphasized that Brazilian exports to the U.S. represent only 2% of GDP and could be redirected to other countries, since they mostly consist of low value-added commodities like soybeans.

In addition, a potential loss in export revenue could be offset by the exchange rate, which would keep revenue in reais more or less balanced, noted Volpon, now a professor at Georgetown University.

"The exchange rate adjustment wouldn't be significant. So if the dollar goes back to 5.70 or 5.80, it won't change things much. I don't think this changes the BCB's path, they won't have to hike rates again because of it," he emphasized.

TRADE REARRANGEMENT

There could be a trade rearrangement, the former official noted. "For example, if the U.S. stops buying from Brazil and starts buying from Argentina, then Argentina might stop selling to another country, and Brazil could step in to supply that market."

He mentioned a potential stumbling block around Embraer - a Brazilian aerospace company and major exporter - noting that it has a factory in the United States. "I'm not exactly sure how those issues would be handled," he said.

Volpon added the market is not betting that this situation will spiral out of control, which is why the BRL is strengthening today. "It's not an apocalypse."

In the worst-case scenario where the conflict escalates and both countries increase retaliatory measures, the exchange rate could worsen significantly and the economic impact could be greater, he said.

FINANCIAL EXPOSURE

"We don't have major trade exposure, but we do have significant financial exposure to the U.S. If the threat of a 100% tariff materializes, for example, or if President Lula refuses to negotiate and the tariff war intensifies, we could start facing financial and banking sanctions. That scenario is not close to happening, but we can't say there's no risk."

He fears that President Luiz Inácio Lula da Silva (PT) might see political advantage in internationalizing the 'us versus them' narrative. "He was already using this rhetoric in the IOF debate —but now, the villain wouldn't be Congress, but Donald Trump and the United States. He would be entering a very dangerous path if Trump decides to retaliate."

Some analysts are projecting a drop in Brazil's GDP due to the U.S. tariffs, and Volpon said this could, on one hand, help the BCB curb inflation, but the depreciation of the real could have the opposite effect. "The board will have to assess which effect will prevail."

MNI EM INTERVIEW: No BCB Rate Hike Ahead, 2025 Cut Likely - Kanczuk

By Larissa Garcia
Jun 30, 2025

The Central Bank of Brazil is signaling that it has no intention to hike rates again in future meetings and is likely to start cutting rates at the end of this year, especially if inflation starts to fall and activity weakens, former BCB deputy governor for economic policy Fabio Kanczuk told MNI.

The central bank's message about keeping interest rates high for an extended period aims to curb bets on premature cuts in the yield curve, Kanczuk said, adding that the fact that it raised rates by 25 basis points to 15% at the last meeting while signaling an interruption in the cycle implies little willingness to resume hiking.

"I find it strange that the Copom hiked and then said it's done. For some reason, the committee believes rates are already very high, but at the same time, they're concerned about the curve because long-term rates are what really impact the economy," Kanczuk, now head of macroeconomics at ASA Financial Institution, said in an interview.

"In practice, they raised by 25bp but announced the interruption, which canceled out the tightening effect of the hike. It's a signal that if you're having such a hard time hiking further, it's because you're actually eager to cut," he added.

BEST MONETARY STRATEGY

The former deputy governor said the best strategy would have been to hike without declaring the end of the cycle and to commit to cutting only if certain conditions are met, such as current inflation being close to 3%, expectations remaining anchored, or unemployment rising above 8%, for example.

The minutes had a more dovish tone, he noted, with subtle hints suggesting a high level of confidence that the tightening job is done.

The fiscal section in the minutes also sounded "somewhat odd."

"They said that discussions about eliminating tax expenditures and raising revenues could help reduce risk premiums and improve the effectiveness of monetary policy. Maybe that's a way of supporting the finance ministry, but it could also come across as overly optimistic about the possibility of increasing the tax burden, which is unlikely to happen," he said.

LOW NEUTRAL RATE

The Monetary Policy Report (RPM) numbers were quite striking, Kanczuk stressed, particularly the assumption of a 5% neutral rate, which he called "very low."

"I think it's 8%, and market consensus is closer to 6%. If the neutral rate is really that low, the Selic would have been highly contractionary for quite some time already, and economic activity should be slowing down. But if the central bank truly believes that, it means they see the current rate as extremely high."

Another inconsistency pointed out by Kanczuk is the output gap calculated by the central bank, which narrowed from 0.9% in the first quarter of this year to 0.5% — a significant change in a short period.

"That creates another problem for their forecasts because if the neutral rate is 5%, monetary policy is extremely tight, and inflation falls sharply in their model. That would mean they should start cutting at the next meeting. So to make the projections fit, they need to force the output gap to jump significantly from one quarter to the next to maintain consistency," he said.

BCB CUTTING THIS YEAR

Business Address – MNI Market News, 3rd Floor, 1 Great Tower Street, London, EC3R 5AA

In his view, Copom might start cutting rates by the end of this year. “I don’t think inflation needs to fall much for them to begin reducing. It’s enough if economic activity stops growing so strongly, and I think there’s a reasonable chance of that.”

“Another possibility is the Fed starting to cut, which could give the central bank enough confidence to begin the easing cycle here as well,” he added.

He emphasized that the BCB is facing a credibility issue. “I think it’s already clear that they’re not aiming for the 3% target. If they really wanted to bring inflation to target within the relevant horizon, they would have to raise rates further.”

MNI EM INTERVIEW: BCB To Hold Rates At 15% Until Next Year- Velho

By Larissa Garcia
Jun 25, 2025

The Central Bank of Brazil is likely to hold its official Selic rate at 15.00% at least until the first quarter of the next year, though the board could bring forward rate cuts if the outlook improves, former economic advisor to the Ministry of Planning and Budget Eduardo Velho told MNI.

“The BCB’s projection [for inflation] is currently at 3.6%, which I think is very hard to reach, but if that holds alongside the appreciation of the real, rate cuts could even be brought forward to the last meeting of the year, or even the one before that,” Velho, now chief economist at Equador Investimentos, said in an interview.

“It’s quite possible that by early next year this tightening will have already been transmitted to the economy,” he added. “But I believe the output gap is more positive than the central bank had previously estimated.”

Velho said that the minutes of the BCB’s latest meeting, published on Thursday, confirmed the strategy is to keep rates on hold for some time.

The BCB raised its interest rate by 25 basis points last week to 15.00% and signaled that, if the expected scenario materializes, "the Committee foresees an interruption of the rate-hiking cycle to examine its yet-to-be-seen cumulative impacts."

TIGHTENING IMPACTS

“The committee is counting on slower growth, the lag in the transmission of interest rates to the economy, and also the lag in the effect of the currency depreciation on inflation. They mentioned that there are early signs of a slowdown in some areas of the labor market, but still very moderate. However, there’s always that warning about fiscal policy,” he said.

The recent appreciation of the Brazilian real is driven more by the depreciation of the dollar than by domestic factors, according to Velho.

He noted that monetary policy committee Copom placed heavy emphasis on unanchored inflation expectations, which remain above the 3% target even over longer horizons, and made it clear that it intends to keep rates at contractionary levels until expectations come down.

The economist also highlighted that the BCB will closely monitor moves by the Federal Reserve over the course of this year, which remain uncertain.

He recalled that the board will have to issue a formal letter explaining why inflation has remained above target for six consecutive months after the release of June’s inflation data, due in early July. In that document, the BCB is expected to outline its plan to bring inflation back to target and specify how long that will take.

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