

MNI Brazil Central Bank Preview: June 2025

Monetary policy decision and Copom statement release: 2230BST / 1730ET, Wednesday June 18, 2025

MNI POV: Hike or Hold, Caution to Prevail

A narrow majority of analysts lean towards the BCB keeping the Selic rate steady in June at 14.75%. This follows lower-than-anticipated inflation figures last week, better behaved inflation expectations and the strong performance for the Brazilian real across 2025. However, with economic activity appearing resilient and the labour market still tight, the Copom may opt to hike rates by a further 25bp, as the committee continues to stubbornly pursue the convergence of inflation to target. BCB officials have clearly indicated that rates will then remain high for longer to ensure the re-anchoring of inflation expectations, while guidance at this juncture will likely not commit to a definitive end to the cycle.

Copom To Maintain Cautious Stance

After 425bp of rate hikes since September, recent softer-than-expected inflation data, moderation in inflation expectations and BRL gains bolster the case for the Copom to remain on hold this week. The decision will be a close call however, with risks of a further hike, as inflation and inflation expectations remain above target despite the recent improvement, and the economy is continuing to grow at an above-trend pace. Ongoing fiscal uncertainties also keep pressure on the Copom to maintain a hawkish stance, regardless of its decision on Wednesday.

Following the expected 50bp Selic rate hike in May, the Copom struck a slightly more dovish tone as it noted that the risks to inflation are now more symmetric and that the risks – both to the upside and downside – are higher than usual. The committee provided no guidance for the meeting this month, given the heightened uncertainties and advanced stage of the tightening cycle, which it said requires additional caution and flexibility to respond to the incoming data. Notably, the Board signalled that the scenario requires a “significantly contractionary monetary policy for a prolonged period” to ensure the convergence of inflation to target.

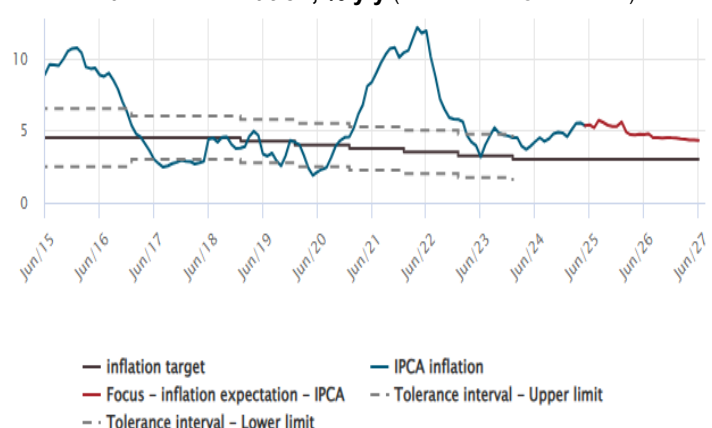
Governor Galipolo Reiterates High For Longer Message

Since then, BCB Governor Galipolo has reiterated that high for longer view, saying earlier this month that interest rates need to be kept high long enough to anchor inflation expectations and bring inflation back to target. Once again, he also noted the surprising resilience of economic activity and said that the Board is still discussing the tightening cycle and can't commit to forward guidance amid the uncertainty.

BCB monetary policy director Nilton David also echoed Galipolo's remarks, noting separately that the Copom was unanimous in agreeing that the Selic rate must remain at a restrictive level for longer. David flagged the usual concerns about unanchored expectations but said that monetary policy is working. He also noted that economic data have lags and that the central bank expects a bumpy period over the coming months. However, policymakers expect to have more conviction in the final quarter of the year, he said. Meanwhile, BCB director Paulo Picchetti said that he expects GDP growth to remain robust, helped by the agricultural sector, but that elevated uncertainty makes it harder for the BCB to give guidance.

Speaking to MNI recently, former secretary of industry and commerce development at the Ministry of Economy Caio Megale said that the lack of guidance doesn't necessarily signal the end of the tightening cycle, rather it reflects the flexibility the committee has been emphasising in the face of heightened uncertainty. (See MNI Policy Team Insights below.) Nonetheless, analysts do not currently expect the tightening cycle to extend beyond this week and see the Selic rate remaining around these levels for several months, ending the year at 14.75%, according to the BCB's Focus survey.

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



Inflation Expectations Edge Lower

That same Focus survey has also shown a gradual improvement in inflation expectations, which have edged lower in recent weeks. According to the most recent survey, inflation is seen ending this year at 5.25%, down from 5.55% ahead of the May 7 Copom meeting and 5.66% in March. End-2026 estimates have remained more stable, however, continuing to hold around 4.50%.

The gradual moderation in near-term inflation expectations has come as CPI inflation pressures have begun to ease. Latest IPCA data showed a larger-than-expected dip in headline inflation to 5.32% y/y in May, from 5.53%, the first decline since January. Core inflation also edged lower, with the average of the core metrics declining to 5.3% on a 3mma sa annualised basis, from 5.7%, while underlying services inflation showed some improvement, although it remains at an elevated level. While this improvement will give some encouragement to the central bank, both inflation and inflation expectations remain well above target for now. Indeed, the stickiness of longer-term inflation expectations remain a concern, as emphasised by the BCB's Picchetti, who noted last month that inflation expectations remain unanchored until 2028.

Service Sector Continuing To Support Growth

Meanwhile, economic activity remains resilient, with the economy growing by 1.4% q/q and 2.9% y/y in the first quarter, close to expectations. The data revealed that service sector activity remains robust, with private consumption rebounding in the quarter, aided by a still tight labour market. More timely monthly data since then have been a bit more mixed, with industrial production slowing more than expected in April, but retail sales growth beating expectations and services volume remaining firm. Overall, economic growth came in slightly above expectations in April at 0.16% m/m (+2.46% y/y), aided by a 0.4% m/m rise in services activity.

Looking ahead, while most analysts remain cautious on the short-term trajectory for growth, given the uncertain external outlook, the economy should be supported by the expected impact of the release of court ordered payments, scheduled for July, and new payroll loans, both of which should boost economic activity in the second half of the year. Analyst GDP forecasts have risen slowly recently, with the economy now expected to grow by 2.20% this year and 1.83% in 2026, according to the latest Focus survey, up from 2.00% and 1.70%, respectively, in early May.

Congress Opposed To Fiscal Measures Without Structural Spending Cuts

On the other hand, the fiscal outlook remains uncertain, amid ongoing challenges in meeting the fiscal targets. Last week, the government issued a decree to partially reduce the recent IOF tax hikes, as well as a provisional measure on the taxation of financial investments and assets aimed at offsetting the lost revenue from these changes to the IOF tax. The provisional measure includes a 17.5% income tax on financial investments and increases the tax on income on equity to 20%.

Finance Minister Haddad said that if the government's fiscal plan is approved by Congress, then it will be able to reach its 2026 fiscal target. He initially sounded relatively optimistic on prospects of reaching an agreement with Congress over the proposals. However, it has emerged subsequently that Congress remains opposed to any measures that do not include structural spending cuts, with House Speaker Hugo Motta saying that the country is worn out by tax hikes. Haddad said that he is ready to debate structural spending cuts with Congress, but so far there has been little progress. Meanwhile, risks remain that President Lula could push for higher spending ahead, amid an ongoing slide in this approval rating. Against this backdrop, the Copom is seen maintaining a cautious stance, maintaining a restrictive mode for most of the rest of this year, whether or not it hikes this week.

USDBRL Maintain Bearish Tone

Analysts have taken the recent commentary from Governor Galipolo and other BCB officials on stubbornly pursuing the inflation target, as reinforcing the high rates for longer theme, keeping the BRL attractive from a carry perspective. USDBRL has subsequently fallen below the key medium-term pivot point of 5.60 this month, bolstering the bearish technical theme that persists. Sights are on 5.5065, the 50.0% retracement of the July '23 - December '24 bull cycle, which has been pierced. A clear break of this level would open the 5.40 handle. Firm resistance to watch is 5.7632, the May 7 high. Clearance of this level would instead highlight a potential reversal. Initial resistance is at 5.6036, the 20-day EMA.

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	5.3	5.1	↑	4.9	↑					1.34
Core CPI	% m/m	0.4	0.4	↓	0.4	↑					-0.93
Oil Price (WTI Active)	\$	71.86	68.38	↑	66.87	↑					-1.20
Economic Activity		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
PMI Manufacturing	Index	49.4	53.0	↓	52.3	↓					-0.79
GDP	% q/q	1.4	1.5	↓	0.1	↑					1.19
Industrial Man Prod	% y/y	-0.3	1.3	↓	6.0	↓					-1.32
Economic Activity IGAE	% y/y	2.46	3.63	↓	7.19	↓					-1.07
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	6693.8	6531.4	↑	6418.3	↑					1.42
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	0.8	-0.2	↑	0.6	↑					0.38
Consumer Confidence (Q)	Index	86.7	83.6	↑	94.4	↓					-0.31
Unemployment Rate	%	6.6	6.5	↑	6.2	↑					0.40
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Ibovespa	Index	137,213	122,799	↑	125,668	↑					1.50
Jan 2034 DI Swap Rate	%	13.66	15.07	↓	13.39	↑					-0.46

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)

A narrow majority of analysts in the latest Bloomberg survey (15/26) expect the Copom to remain on hold at 14.75% this week. The other 11 analysts are forecasting a further 25bp hike to 15.0%.

Bank of America: Slowing Economic Activity to Support Rate Hold

- BofA expects the Copom to keep rates unchanged at 14.75%, in a unanimous decision. Monetary policy remains contractionary (12-month ex-ante real interest rate still close to 9.5%) and quite far from the 5.0% that the Central Bank views as neutral.
- The incipient inflation deceleration and slowing economic activity should support the decision.

BBVA: Final 25bp Selic Hike, Rates to Stay Restrictive for Extended Period

- BBVA still expects a final 25bp hike in June, given resilient domestic demand, according to their latest economic outlook. An easing cycle may begin at the end of the year, when inflation will likely be more controlled, growth will have weakened, and the Fed resumed easing. However, rates are expected to remain at restrictive levels during 2025-26 as inflation pressures are unlikely to fully subside.
- BBVA forecasts GDP growth to slow to 2.2% in 2025 and 1.6% in 2026, from 3.4% in 2024. Tighter economic policies and a less supportive global environment are likely to weigh, particularly in 2026.
- They continue to expect additional fiscal measures to help the government to reduce the fiscal impulse and meet the adjusted fiscal targets. However, risks persist, as structural problems remain unaddressed and the government's commitment to consolidation is still uncertain.
- BBVA still sees a muddle-through scenario — where a fiscal crisis is avoided — as the most likely outcome, although there is a risk that policy mismanagement could further worsen fiscal expectations, triggering macroeconomic and financial turbulence.

BNY Mellon: Hold Most Likely While Assessing Impact of Prior Tightening

- The BCB is expected to maintain the Selic rate at 14.75%, following a 50bp hike in May that brought borrowing costs to a near two-decade high.
- May's IPCA inflation slowed more than anticipated in April, although it remains above the 3% ±1.5pp target range. Core services inflation also moderated, reflecting a cooling economy under tight monetary conditions.
- Governor Galípolo emphasised "flexibility and caution," indicating that policy decisions will remain data-dependent amid ongoing fiscal concerns and elevated inflation expectations.

- With inflation still exceeding the target and economic activity showing signs of deceleration, the central bank is likely to hold rates steady while assessing the impact of previous tightening measures.

Goldman Sachs: Copom Should Hike the Selic Rate 25bp to 15.00%: Will It?

- While a very close call, Goldman Sachs expects the Copom to hike the Selic one final time by 25bp to 15.00% given first and foremost the continued strength of the real economy and above-target inflation forecasts over the relevant horizon for monetary policy. GS assesses, however, a 45% probability of a hold at 14.75%.
- GS believes that the Copom judges that the policy rate is already at a significantly restrictive level and that it anticipates the need to keep the policy rate at a restrictive level for a prolonged period of time. However, notwithstanding heightened domestic and external uncertainty GS expects the Copom to be sensitive to the macro picture and the still significant challenges in the quest to drive inflation to the target.
- In Goldman's assessment, the macro and tactical case for a 25bp hike is more compelling than the case to hold. That is, a commitment to keep the Selic unchanged for a prolonged period of time is a poor substitute for action in June. Ultimately, it may be easier for the Copom to justify a hike than a hold, given broader developments.

Itaú: On Hold, But No Room For Rate Cuts In 2025

- Itaú believes the Copom is set to end the monetary tightening cycle in June, keeping the Selic rate at 14.75%, while signalling that it will remain at this level for an extended period. Given that inflation remains above target, expectations are unanchored, and economic activity is resilient, Itaú sees no room for rate cuts in 2025. They expect the easing cycle to begin only in 2026, with risks tilted toward a later start – unless there is a significant currency appreciation or an abrupt slowdown in economic activity.
- Itaú maintained their GDP growth forecasts at 2.2% for 2025 and 1.5% for 2026. However, they made a slight adjustment to the distribution of growth throughout 2025. Recent data point to a weaker performance in the second quarter. On the other hand, the economic impact of court-ordered government payments (precatórios) and the expansion of private payroll loans is likely to be more pronounced in the second half of the year.
- The weakening of the dollar against emerging market currencies has contributed to the appreciation of the BRL. Nevertheless, external uncertainties and fiscal risks justify a cautious revision of the exchange rate forecast to BRL 5.65 for both 2025 and 2026 (compared to BRL 5.75 previously).

JP Morgan: Expecting Unchanged Decision

- JP Morgan expects the BCB to keep the Selic rate unchanged at 14.75% on June 18, in line with prevailing consensus forecasts. The decision will be a close call, but the combination of the BCB's data dependency mode and latest better-than-anticipated CPI figures support their call.
- Beyond this, JPM expects the Selic rate to remain unchanged until the BCB commences a rate-cutting cycle in December, leading rates to a below-consensus and market pricing of 10.50% by the end of next year.
- In the case of a hold next week, JPM says that the communication is likely to emphasise the duration of its restrictive stance, as well as define the decision as a pause, rather than the end of the cycle, to better observe the unfolding of a very uncertain outlook at this moment.
- On the other hand, should the BCB hike by 25bp, the communication would likely reinforce more the option of a higher terminal rate than the duration of the restrictive stance. In this case, JPM anticipates that the central bank would leave the possibility of further hikes open ahead, albeit without clear guidance on next steps.

Natixis: BCB Most Likely Done Hiking, Let the Long Pause Begin

- Natixis believes that the BCB will keep the Selic rate at a terminal rate of 14.75% in June, but that the forward guidance paragraph will probably leave the door open to additional hikes. However, unless inflation accelerates again due to strong demand-side pressures or the BRL depreciates significantly, Natixis believes the BCB will keep the Selic rate unchanged for the rest of the year.
- In their view, the two main recent developments are that inflationary pressures seem to be easing, and the USD/BRL exchange rate continues to appreciate.

- Inflation expectations for December 2025 have also decreased, while remaining broadly unchanged for 2026, 2027 and 2028. Although expectations are above the 3.0% target, they are within the inflation band, and, more importantly, they have stopped increasing.

Santander: Now Expect 25bp June Hike

- Recent Copom communications have prompted Santander to revise their baseline scenario to include a 25bp Selic hike in June. While inflation prints surprised to the downside, domestic activity remains resilient - particularly the labour market - and global growth fears have eased.
- Against this backdrop, the BCB appeared uncomfortable with market pricing a definite no-hike and actively steered expectations toward tightening.
- Santander now sees the Selic rate reaching 15% and remaining there through year-end, albeit July's decision is likely to be data-dependent once again. For 2026, Santander's terminal rate forecast remains at 13%, reflecting a cautious stance given still-uncertain fiscal and inflation expectations.

Scotiabank: External Risks May Motivate More Hawkish Choice

- Markets aren't willing to break the tie regarding expectations for this week's Copom decision, pricing in about 13bp, or a virtual toss-up.
- Like Chile, external risks may motivate Brazilian officials to opt for the more hawkish choice and roll out a quarter-point increase that would likely be the last of the cycle, with higher oil prices also playing a role into their decision considering that inflation remains elevated and inflation expectations only recently seem to have steadied.
- It's going to be a tight one, coming a day after April economic activity figures that should show weakish growth, if only because of base effects that would interrupt the strong trend that Brazil's economy has been in over the past year or so.

SocGen: No Real Need to Tighten Further

- Despite the rebound in growth in 1Q25, the BCB faces limited pressure to tighten further now that the rates are at their highest levels since 2006, the ex-ante real rates are close to double-digits, the BRL is appreciating and the inflation expectations are improving. Inflation declined in May, and cooling food inflation, amid strong agricultural production and an appreciating BRL, is likely to continue to reduce upside risks.
- A tightening at this stage could further cement the BCB's hawkish credentials, but the impact may be no more than symbolic. And then there are growth and fiscal costs attached to tightening at this stage when the financial market hardly demands it.
- Unless new fiscal triggers emerge, the BCB is unlikely to tighten further, especially as the economy appears to be on a bumpy path towards a slowdown. The Copom statement in May acknowledged that, while growth indicators and the labour market remain robust, there are emerging signs of deceleration.
- SocGen expects weaker fiscal stimulus and the effects of tighter monetary policy to slow economic growth ahead and sees the Selic rate remaining unchanged at 14.75% this year. While the risk of an easing cycle beginning this year remains significant – particularly if growth slows more sharply – the BCB is likely wary of repeating its recent course reversal (arguably premature easing in 2023–2024).
- That said, current interest rate levels are unsustainable for an economy that typically struggles to grow above 7.5% in nominal terms. The BCB may seize any opportunity, such as reduced pressure on the BRL and sufficiently lower inflation expectations, to ease the interest rate burden.
- SocGen anticipates more substantial rate cuts in 2026, with the Selic rate projected to fall to 11.75% (consensus: 12.5%). For 2027, they expect the Selic rate to decline further to 9.75% (consensus: 10.5%). SG acknowledges risks to their forecasts are skewed to the upside for both 2026 and 2027, primarily due to Brazil's uncertain fiscal trajectory, particularly with the general election slated for 2026.

Wells Fargo: Expecting Final Hike to 15.00%

- Wells Fargo expects the BCB to raise the benchmark Selic rate by 25bp to 15.00%, likely marking the conclusion of its tightening cycle.

- While headline inflation eased more than expected in May, it remains well above the central bank's 3% target. Policymakers have consistently underscored the importance of maintaining a restrictive stance in the face of unanchored inflation expectations.
- Adding to the BCB's cautious posture are persistent concerns around Brazil's fiscal trajectory. Although recent months have seen some efforts to rein in spending, recent headlines still underscore concerns that President Lula may ramp up social expenditures ahead of the 2026 elections, which would lead to renewed fiscal slippage.
- Against this backdrop, a final rate hike would serve to reinforce the central bank's inflation-fighting credibility, while allowing space for a prolonged pause as policymakers assess the evolving inflation and fiscal outlook.

MNI Policy Team Insights

MNI EM INTERVIEW: Brazil Budget Positive Despite Noise- IFI Head

By Larissa Garcia
May 27, 2025

The Brazilian government's spending freeze in its 2025 budget announced last week was a positive sign on the fiscal front, despite market "noise" created by an increase in the Tax on Financial Transactions (IOF), the director at the Independent Fiscal Institution (IFI), an independent public body, told MNI.

"Overall, I think the outcome was good, except for the IOF issue, which ended up contaminating things a bit and adding noise," Alexandre Andrade said in an interview, in which he said that expansionary fiscal measures were working against contractionary monetary policy.

The government announced a BRL 31.3 billion spending freeze, with BRL10.6 billion of that responding to higher expenses and BRL20.7 billion to lower-than-anticipated revenues. The government also introduced a unified IOF rate of 3.5%, which was effectively an increase. Previously, each item had a different rate.

NEGATIVE REACTION

After a negative market reaction, Finance Minister Fernando Haddad backed down from the decision to increase the IOF on international remittances of investment fund resources — a move that had been seen as a potential exchange rate control measure. The remaining rates were maintained.

"Even though the measure was rolled back for investment funds, it can still be seen, in practice, as an attempt at capital controls. In short, I don't think it was a very good move," Andrade said.

He added that it gave the impression of a lack of coordination within the government regarding the management of fiscal, monetary, and exchange rate policies.

"It is the central bank's role to manage monetary and exchange rate policies, and from what we could see, there seemed to be some miscommunication between the Ministry of Finance and the central bank around this IOF tax increase."

The director said the market response to the IOF increase signaled a limit to the strategy of adjusting through revenue increases without cutting expenses.

MONETARY POLICY

Expansionary fiscal policy is interfering with the conduct of monetary policy, Andrade said.

"Our models show that the output gap is positive, meaning the economy is growing above potential. In such cases, there is no justification for maintaining an expansionary fiscal policy."

The Central Bank of Brazil decided to increase its official Selic rate by 50 basis points this month to 14.75%, offering no forward guidance for upcoming meetings, and stated that borrowing costs should remain restrictive for a "prolonged period."

"Monetary policy is contractionary, but fiscal policy is not. Without a doubt, this shows that fiscal policy is indeed hindering the conduct of monetary policy," Andrade added.

His projection shows the Selic rate reaching 15.25% in June, with one more 50 basis point hike, followed by a pause.

MNI EM INTERVIEW: Lack Of BCB Guidance Doesn't Mean End Of Cycle

By Larissa Garcia

May 16, 2025

The lack of guidance from the Central Bank of Brazil for June does not necessarily signal the end of the tightening cycle, former secretary of industry and commerce development at the Ministry of Economy Caio Megale told MNI, adding that the board could hike 25 basis points to 15% at the next meeting.

"The Copom statement conveyed a tone of caution that was already expected. The absence of clear guidance for June does not necessarily signal the end of the hiking cycle. In our view, it rather reflects the 'flexibility' the committee has been emphasizing in the face of heightened uncertainty," said Megale, now chief economist at XP, in an interview.

For the next meeting, he projects the possibility of one last 25-basis-point adjustment. "Economic activity data to be released by then will likely point to a still-resilient economy. That, combined with persistent inflationary pressures and unanchored expectations, could convince Copom to deliver a final cut to the Selic rate," he explained.

BCB decided to increase its official Selic rate by 50 basis points last week to 14.75%, offering no forward guidance for the next meetings, and stated that borrowing costs should remain restrictive for a "prolonged period."

NO ROOM FOR 2025 CUTS

The BCB's Monetary Policy Committee, known as Copom, seems to be signaling that, regardless of whether it delivers one more hike in June or not, it intends to keep interest rates at a restrictive level for some time, the former official stressed, adding that he sees no room for rate cuts in 2025.

"The challenging inflation outlook and the resilience of economic activity suggest that the Selic rate will remain at a high level at least until mid-2026," he predicted.

His current scenario projects the Selic rate at 15% by the end of this year, with easing beginning only in 2026 — when Copom will be targeting 2027 inflation — and reaching 12.5% by the end of that year.

"It's worth noting that bringing inflation back to target remains a significant challenge, with our projection for 2026 still at 4.7%, above the upper limit of the target range."

Minutes from the last meeting released Tuesday showed the balance of risks is "less asymmetric," but there is no consensus around its being neutral, he said. "In our view, Copom remains more concerned about inflationary risks than risks to activity."

TRUMP'S TARIFFS

"Liberation Day" and U.S. President Donald Trump's tariffs have brought a significant increase in global uncertainty, he noted.

"On the one hand, a weaker dollar helps contain inflationary pressures in Brazil, which is positive. On the other hand, lower commodity prices, especially oil, negatively affect our trade balance and fiscal revenues, making it harder to meet the primary surplus target.

"Brazil has been seen as a 'relative winner' in this trade war because our economy is not heavily reliant on foreign trade, exports account for just 12% of GDP. Also, we are a strong candidate to replace the U.S. as a grain supplier to China. We are already seeing an increase in soybean exports to China, and this trend is expected to intensify," he added.

In addition, he said the market interpreted Trump's recent statements on China more as a negotiating tactic than a definitive break.

"If the United States and China reach an understanding, we could see a reduction in global trade tensions, which would benefit the global economy as a whole. That helps explain the recent positive market reaction."

For Brazil, this could be an interesting opportunity, he said. "Not only could we expand our exports to China, but we could also use this moment to rethink our own tariff policy, which remains one of the highest among emerging markets," he concluded.

MNI EM INTERVIEW: BCB To Hold Rates Steady Until 1Q 2026 - Kawall

By Larissa Garcia
May 9, 2025

The Central Bank of Brazil left the door open for an additional rate hike in June, but it has likely ended its tightening cycle and will probably hold the Selic rate at 14.75% at least through the first quarter of 2026, former Treasury Secretary Carlos Kawall told MNI.

"The bigger discussion now is about when the board would start cutting rates, not so much whether it would deliver an additional hike in June. It's not impossible that it does, but it seems unlikely," Kawall, now a partner at investment manager Oriz, said in an interview.

He pointed out that the BCB didn't commit to any future move and included several elements in the statement suggesting that the board wants to halt hiking.

"First, the statement placed significant weight on global uncertainty. Second, the BCB changed the balance of risks. Previously, the balance was tilted to the upside, but now they presented a balance that — although they didn't use the term 'balanced' — highlighted that both upside and downside risks are higher than usual, conveying a more neutral view."

MARKET REACTION

He noted that the market responded to the Monetary Policy Committee's decision last Wednesday by pricing in future rate cuts. The BCB raised the Selic rate by 50 basis points to 14.75%, offered no forward guidance for its next meeting, and stated that borrowing costs should remain restrictive for a "prolonged period."

"But the main point is: is there really room for rate cuts, as the market reacted? I believe the global disinflationary trend has little to do with our dynamics, given that our inflation problem is much more related to the imbalance between domestic supply and demand in Brazil," Kawall said.

"This is clearly connected to services inflation, a very tight labor market, and an economy that is growing above its potential output. In that sense, inflation is much less tied to exchange rates and commodities, as it often was in the past, and much more to labor market dynamics," he added.

The former official said there's a widespread assumption that U.S. tariff policies promoted by U.S. President Donald Trump will lead to a weak dollar and falling commodity prices.

"But that's not necessarily true. We're seeing that some U.S. economic data don't align with the confidence indicators. Confidence surveys have dropped much more sharply than the real economy data, which haven't yet confirmed that downturn."

EXPANSIONARY FISCAL

Kawall noted the Brazilian government is still pursuing expansionary policies, whether on the fiscal side or through credit initiatives such as private payroll-deductible loans, which have been gaining traction since April and will likely continue to do so in the coming months, sustaining a still-robust level of activity.

"The central bank is managing the possibility of ending the tightening cycle while inflation expectations remain highly unanchored. There are still no conclusive signs of an economic slowdown, and inflation, as measured by core indicators and the services sector, continues to show an upward trend over 12 months," he said.

"In that context, the idea of a falling Selic rate, while public spending and credit policies remain expansionary, seems rather far off," he concluded.