MNI Brazil Central Bank Preview: May 2025

Monetary policy decision and Copom statement release: 2230BST / 1730ET, Wednesday May 7, 2025

MNI POV: 50BP Hike Expected, Tightening Cycle End Nears

The Copom is expected to deliver a smaller 50bp Selic rate hike on Wednesday to 14.75%, consistent with the guidance for a slowdown in the tightening pace from prior 100bp increments. Governor Galipolo recently said the board is responding to an inflation dynamic that is challenging, and that the current tightening bias in place remains valid. However, given an uncertain external outlook that demands caution and a well-behaved BRL, a below-consensus 25bp hike should not be ruled out. Furthermore, any signals on whether the BCB is nearing the end of the tightening cycle will be eagerly awaited.

Guidance For Smaller Rate Hike Remains Valid

After hiking by another 100bp at the March meeting, the Copom adjusted its guidance to signal a smaller hike at the upcoming meeting in May. While continuing to emphasise the usual concerns about elevated inflation and de-anchored inflation expectations, the Copom also referenced the heightened uncertainty and lags in monetary policy transmission which left it anticipating "an adjustment of lower magnitude in the next meeting".

Speaking in recent days, BCB Governor Gabriel Galipolo said that the March forward guidance is still valid, and that concerns remain surrounding the current inflation dynamics and unanchored inflation expectations. Galipolo reiterated comments that the economy is showing very early signs of cooling but added that the Copom needs to have confidence that monetary policy is having the desired effects. As such, he said that the central bank needs to gather as much data as possible to see that tight monetary policy is making inflation converge as they want.

Galipolo's remarks were seen as providing some push back against market speculation of an end to the tightening cycle. As such, analysts widely expect the BCB to deliver a 50bp Selic rate hike to 14.75% this week, with risk of a smaller move, and for it to keep the door open to a further possible hike after that. Indeed, speaking to MNI recently, former BCB deputy for monetary policy Luiz Fernando Figueiredo said that the BCB is likely to hike by 50bp and might leave options open for further decisions amid increasing uncertainty surrounding US trade policy. However, he said that the tightening cycle appears to be nearing its end. (See MNI Policy Team Insights below.)

BCB's Guillen Sees No Firm Evidence of Growth Slowdown

Meanwhile, BCB Economic Policy Director Diogo Guillen said that a moderation in growth is important to bring inflation down to target, but he added that he sees no concrete evidence of a slowdown yet. He said that the Copom sees mixed messages on growth, depending on which sector they look at, but noted that the previous categorisation of the slowdown as incipient was a good one. In February, the economy activity index rose by a more moderate 0.44% m/m (vs. +0.92% previously), but annual growth still picked up to 4.1% y/y, from 3.56%, above expectations. However, growth does appear to have moderated slightly from Q4. Analysts see the economy growing by 2.00% this year and 1.70% in 2026, according to the BCB's Focus survey, as compared to 1.99% and 1.60%, respectively, prior to the March meeting.

Guillen also said that tail risks have increased on both sides of the external scenario, which has moved the outlook to one of higher uncertainty. On inflation, Guillen said that unanchored expectations were a bit more stable than last year but added that the base scenario is for inflation to remain sticky even as the economy slows. Meanwhile, BCB Deputy Governor for Monetary Policy Nilton David said that there is consensus in the committee that monetary policy is in contractionary territory. He explained that the Copom is convinced that Brazil's economy grew beyond potential over the last couple of years, while highlighting that its goal is not activity, but inflation.

David pointed out that implied inflation has moved a lot lower since March and reaffirmed that the behaviour of inflation expectations remains a key point of attention. He said that the BCB sees signs of credit plateauing, while activity data show that monetary policy is working. He noted that the labour market will be the last to react to the higher rates. In February, the unemployment rate edged up to 7.0%, from 6.8%, taking it to a 10-month high, albeit leaving it at a relatively low level still, from a historical perspective.

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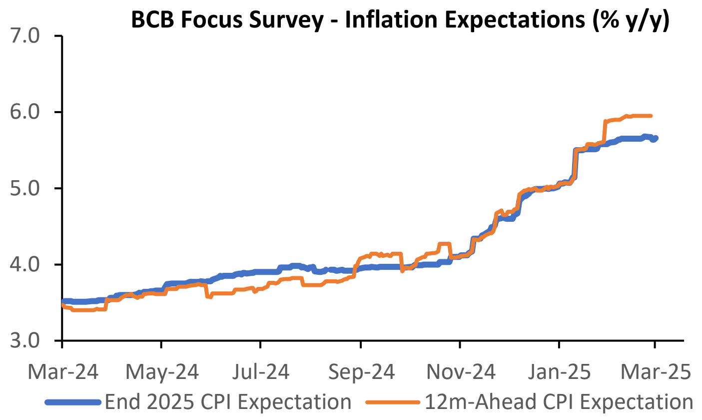
Inflation Dynamics Remain Challenging

Inflation pressures have risen further since the last meeting, even as analyst inflation expectations have begun to stabilise, with headline IPCA CPI inflation rising to 5.49% y/y in the first half of April, up from around 5% in February, before the March Copom meeting. Underlying services inflation remains elevated, although it is showing some improvement at the margin. However, this is being offset somewhat by the continued normalisation of underlying goods inflation from low levels. Overall, the average of the core inflation measures only fell by 20bp to 5.8% on a 3mma saar basis in the first half of April. Galipolo reiterated that inflation dynamics remain challenging and said that the central bank will set interest rates at the level necessary to reach the CPI target.



Source: MNI/Bloomberg

On the other hand, analyst inflation expectations appear to have stabilised in recent weeks, according to the BCB's Focus survey, with end-2025 estimates even starting to edge lower. In the latest survey, analysts saw inflation ending this year at 5.53%, as compared to 5.66% ahead of the March decision, while the end-2026 estimate sits at 4.51%, as compared to 4.48% in March. Most notably in the latest Focus Survey, the median forecast for the year-end Selic rate moved down to 14.75% from 15%, potentially indicating a tempering of tightening expectations this year, or even incorporating easing later in 2025.

Government Maintains Primary Surplus Targets

In terms of fiscal developments, Galipolo said earlier in April that while it is not the central bank's role to comment on fiscal policy, the Copom is analysing the market's view of Brazilian fiscal policy. In its March statement, the Copom said that it "continues to monitor closely how the developments on the fiscal side impact monetary policy and financial assets. The perception of agents about the fiscal regime and debt sustainability continues to significantly impact asset prices and expectations".

In the 2026 Budget Guidelines bill which was presented to congress last month, the government confirmed that it would continue to target a 0.25% of GDP primary fiscal surplus next year, as expected, while targeting primary surpluses through 2027 and 2028, with the aim of reaching a 1.25% of GDP surplus in 2029. The proposal also expects an increase in the minimum wage to BRL 1,630 per month next year, from BRL 1,518 currently, while social spending will be cut by BRL 50.8bn from 2025 until 2029. The maintenance of the primary surpluses was a mild positive, but ultimately the key will be delivery on these goals. Market expectations are that the government will fall short of the targets and that additional spending cuts will be needed.

Aside from this, focus remains on the government's income tax exemption proposal, which has been discussed by congress. Lower house speaker Hugo Motta said that congress backs the proposal but added that the compensation to ensure fiscal neutrality of the measure is still unknown. He said that congress will find less damaging ways to offset the measure and reiterated that the government should present a proposal to cut public spending. Motta also said that a special committee to discuss the income tax exemption measure will be installed after the May 1 holiday. Depending on the proposal for compensation for the exemption, he said that the text would have to be approved by both houses by September 30 for the measure to be valid for next year.

Brazilian Real Remains on Front Foot Despite Volatile April

Despite a volatile month in April that incorporated President Trumps 'Liberation Day' tariff announcements and the subsequent 90-day pause, an optimistic tone for the Brazilian Real is prevailing. USD/BRL has recently been consolidating back below its 50-day exponential moving average, which now intersects around 5.77. This signals scope for a deeper retracement and attention is on 5.5933, the Apr 3 low and a key support. Clearance of this level would open 5.4969, the Oct 8 '24 low. Initial firm resistance to watch is 5.9187, the Apr 11 high. A break of this level would highlight a potential reversal. Surveyed economists currently expect the year-end USD/BRL rate at 5.86.

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	5.5	4.8	↑	4.4	↑					2.01
Core CPI	% m/m	0.5	0.5	↑	0.3	↑					0.44
Oil Price (WTI Active)	$	57.36	70.78	↓	67.70	↓					-2.28
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	50.3	50.7	↓	52.9	↓					-0.34
GDP	% q/q	0.2	1.0	↓	0.7	↓					-1.09
Industrial Man Prod	% y/y	1.5	1.6	↓	2.3	↓					-0.71
Economic Activity IGAE	% y/y	4.10	3.96	↑	3.82	↑					-0.31
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	6527.6	6692.4	↓	6372.6	↑					1.22
Non-Fin Corp Credit	% y/y	174.6	169.5	↑	166.4	↑					1.17
Household Credit	% y/y	35.8	34.6	↑	34.1	↑					1.73
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	0.5	-0.2	↑	0.6	↓					0.26
Consumer Confidence (Q)	Index	84.8	86.2	↓	92.8	↓					-0.89
Unemployment Rate	%	7.0	6.2	↑	6.4	↑					1.67
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Ibovespa	Index	135,134	126,135	↑	129,713	↑					1.50
Jan 2034 DI Swap Rate	%	13.82	14.57	↓	12.73	↑					-0.13

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)

The majority of analysts in the latest Bloomberg survey (19/20) expect a further 50bp hike in the Selic rate to 14.75% this week. The remaining analyst sees a smaller 25bp move.

Bank of America: Expecting Copom to Indicate Data-Dependent Mode Ahead

- BofA expect the BCB to deliver a 50bps hike in this meeting, in line with the guidance provided in the last meeting, of a hike smaller than 100bps. Focus on the wording of the statement. BofA expect the BCB to bring a data dependent mode highlighting the increase in uncertainty in the scenario.

BNY Mellon: Hike 50 in Reiteration of Commitment to Control Inflation Expectations

- Brazil’s central bank is likely to raise the Selic rate by 50bp to 14.75%. April’s inflation came in hotter than expected, accelerating to 5.49% from 4.7% in March. Services and regulated prices were key drivers of the monthly 0.43% increase.
- Policymakers have reiterated their commitment to controlling inflation expectations, even at the expense of short-term growth.
- BCB President Galípolo recently warned that inflation expectations remained “unanchored.” COPOM has emphasized a data-dependent approach, but the inflation surprise has shifted market consensus toward further tightening to regain credibility.

Goldman Sachs: Copom Will Not Close Door for Residual Smaller Hike in June

- Given the recent domestic and external macro-financial developments and Copom guidance Goldman Sachs forecast a 50bp Selic rate hike to 14.75%.
- In the post-meeting policy statement, GS will be paying particular attention to the forecasts for year-end 2025 and 4Q2026 (relevant horizon encompasses 6-quarters ahead) and the magnitude of the deviation from the 3.00% target. These forecasts will be key to calibrate the Selic rate path and depth of hiking cycle. GS expect the policy statement to acknowledge that although inflation expectations seem to have stabilized at the margin, they remain well above the target and so have been recent headline and core inflation prints.
- The Copom is expected to stress a macro environment with significant external uncertainty and that the real business cycle while still resilient may have peaked.

- Given a highly uncertain external backdrop GS expect the Copom not to close the door for a residual smaller hike in June, but to refrain from offering specific guidance for the June meeting (including by not stating that the hiking cycle is over).
- The inflation forecasts are expected to have declined slightly given a stronger BRL/USD and lower oil/commodity prices. In the Reference Scenario, GS expect the conditional inflation forecast for 4Q25/4Q26 to moderate by 10bp to 20b, from 5.1%/3.7%, respectively.

Itaú: Expecting Two 50BP Hikes to Cycle Ending 15.25%

- For now, Itaú have maintained their end-of-cycle call for monetary policy at 15.25% per year for the June meeting – a level expected to be maintained through the end of the year. Itaú anticipate two 50bp hikes at the next two meetings, although they have less conviction about the second hike, as its implementation will depend on the evolution of the international scenario and its impact on the exchange rate and commodity prices.
- Itaú have revised their inflation projection for 2025 from 5.7% to 5.5%, incorporating the expected reduction in gasoline prices at refineries and the impact of declining metal commodity prices on industrial goods inflation. Risks remain asymmetric, with a downward bias reflecting the potential for further declines in oil and metal commodity prices if the global slowdown intensifies.
- On the other hand, upside risks are concentrated in domestic agricultural commodity prices, due to increased exports resulting from the trade war between the U.S. and China, with services inflation still under pressure. For 2026, Itaú have lowered their inflation projection to 4.4% (from 4.5%), reflecting reduced inflationary inertia.
- The fiscal challenge remains significant. Given the expectation of lower revenues due to inflation and declining oil prices, it is even more important for the government to announce measures to contain spending.

JP Morgan: Forecasting 50BP Hike, Easing to Start in November

- JP Morgan anticipate a 50bp hike, raising the policy rate to 14.75%. While the hike is widely expected, attention will be focused on forward guidance, as adverse external conditions start to impact domestic activity prospects.
- JPM's baseline suggests that COPOM will not further tighten monetary conditions after this week's hike, and they project an easing cycle to start as early as November. This is based on their expectations for lower-than-consensus GDP growth over the next two years, which partly explains why they foresee a more pronounced disinflation process next year.

Natixis: Forecast The Terminal Rate At 15.00%

- The BCB is likely to reduce the pace of hikes by raising the Selic rate by 50 bps to 14.75%. Moreover, Natixis believe that the forward-looking language in the communique will suggest that the end of the hiking cycle is near.
- Since the last COPOM in March the BRL path looks less volatile on a slightly appreciating path. In our view, this is not only due to the high carry, but mainly to the weakness of the dollar. The dollar weakness is such that its impact on the BRL outweighs the downward correction in iron ore prices which tends to influence the exchange rate. A stable/appreciating BRL would allow the BCB to hike less despite risks on the fiscal front, sticky inflation and unanchored inflation expectations. Inflation expectations remain sticky and above the 3.0% target for the next couple of years.
- The consensus of economists' forecasts inflation at 4.51% in 2026 and 4.00% in 2027. This is problematic because inflation expectations have remained high despite very tight monetary policy. We forecast the IPCA to be slightly above 5.0 % y/y by end- 2025, which is well above the upper limit of the target band (3.0 % +/- 1.5 %).
- Natixis forecast the terminal rate at 15.00%, which implies an additional hike of 25bps in June. However, Natixis believe that as the risks of a global slowdown increase towards the end of the year, the BCB will start cutting rates either in late 2025 or early 2026, depending on the severity of the slowdown. They forecast the Selic to end 2026 at 11.25%.

Scotiabank: Gearing Down

- After three 100bps hikes in a row following milder increases that began last September, Banco Central do Brasil is expected to downshift back to a 50bps hike on Wednesday, according to Scotiabank. That would take the cumulative tightening to 425bps.
- Here too, we have a central bank that tees up subsequent decisions rather explicitly. It said at the March meeting that "The Committee anticipates an adjustment of lower magnitude in the next meeting, if the scenario evolves as expected."
- So, has it evolved as expected? Yes and no. Inflation in April was stuck at 5.5% y/y, but measures of inflation expectations have edged a touch lower. Scotiabank suggest watching the revised inflation forecasts carefully.

SocGen: Expecting Cycle Peak at 15.0%

- The consensus seems to be converging towards a 50bp rate hike in May. With the growth outlook facing challenges from both external (global demand) and domestic (tighter policies) sources, the BRL gaining ground strongly this year, and the near-term inflation expectations seemingly stabilizing, the Copom is likely to opt for a measured pace of tightening in May (SGe: +50bp to 14.75%) rather than opting for an aggressive 75bp hike – and leaving the option to tighten again in June. SocGen expect the Selic rate to peak at 15.0% this quarter.
- Nevertheless, in recent weeks, the risk of the BCB not raising rates beyond May has risen substantially, and believe there is a low probability of Selic rate tightening continuing beyond 15.0%.
- Despite the challenges, real interest rates are now firmly in contractionary zone and the pressure on the BRL has
- declined. Bloomberg's market implied policy rate function (MIPR) now expects peak Selic rate at 14.91% within three months, meaning the market certainly doesn't expect tightening beyond the 15.0% mark. SocGen also only assign a c.20% probability to such a scenario.

Wells Fargo: Expecting Back-to-Back 50BP Hikes

- Wells Fargo expect policymakers to increase the benchmark Selic rate by 50 bps to 14.75%. Among the factors underpinning the BCB's continued tightening cycle is some pickup of inflation (in next week's data for example, the April CPI inflation rate is forecast to quicken to 5.55% year-over-year) and relatively steady growth in economic activity.
- Perhaps most important, concerns over a lack of fiscal discipline from the Lula administration are also a significant contributing factor to BCB tightening. There are concerns that fiscal discipline may erode further as we get closer to the 2026 presidential elections.
- While reasons for further tightening remain in place, the central bank's signalling of less aggressive tightening and relative stability in the currency recently should allow for a less forceful move on the part of the central bank.
- Against that backdrop, Wells Fargo forecast an additional, and final, 50 bps hike in June, which would bring the Selic to a peak of 15.25%.

MNI Policy Team Insights

MNI EM INTERVIEW: Brazil's Hiking Cycle Nearing End - Figueiredo

By Larissa Garcia
May 1, 2025

The Central Bank of Brazil is likely to hike its interest rate by 50 basis points to 14.75% next week and might leave options open for further decisions amid increasing uncertainty surrounding U.S. trade policy, former BCB deputy for monetary policy Luiz Fernando Figueiredo told MNI.

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The tightening cycle appears to be nearing its end, Figueiredo said in an interview.

"The BCB will probably hike by 50 basis points at the next meeting and leave the guidance a bit open for the following ones. We don't know what's going to happen in the external environment, there are moments when you need to stay calm to assess the next steps," he said.

In this case being cautious means continuing to hike, "but not too much," he said.

"Some things have improved since the last meeting. Currencies around the world have strengthened against the dollar. In addition, inflation expectations have stopped worsening amid uncertainties about economic activity."

"That's why it makes sense for the central bank to raise by a normal step, which is 50 basis points. And then, for the next meeting, we'll see what happens," he added.

The BCB raised interest rates by 100 basis points in March, to 14.25%, and signaled a smaller hike in May.

BEYOND MAY

Beyond May, Figueiredo believes the most likely scenario is that the Monetary Policy Committee (Copom) will go for one more smaller hike of 25 basis points and then stop the cycle. "But there's still a lot of uncertainty around that."

The board has been talking about early signs of economic slowdown and whether the level of monetary tightening will be sufficient to bring inflation down to the 3% target. The former deputy said it is still not possible to tell if it will be enough, but the economy is indeed showing signs of cooling.

"We still can't measure the intensity [of the slowdown]. So it's not possible to know whether it will be enough or not, based on the data we have today. But it seems we're not too far from the end of the hiking cycle," he said.

With the end of the tightening cycle approaching, the market is already starting to price in the beginning of rate cuts, but these will depend more on the external scenario than on domestic factors, according to Figueiredo.

"If U.S. President Donald Trump acts more rationally, and that seems to be the case, it's possible the central bank could start cutting a bit earlier than expected. But it's still very hard to say when."

"The uncertainty coming from abroad has become very significant. But the fiscal issue is still relevant and will continue to be. The government might ease up a bit on its expansionary stance because of this uncertainty. If that happens, it would be a good thing," he concluded.

MNI EM INTERVIEW: BCB Might Cut Sooner as Activity Slows - Serra

By Larissa Garcia
Mar 26, 2025

Brazil's economy is likely to weaken more sharply than expected with real interest rates already at 10%, dampening inflation and possibly prompting a shift to rate cuts by the end of this year or early 2026, former Central Bank of Brazil deputy governor for monetary policy Bruno Serra told MNI.

"With a real interest rate of 10%, in a normal cycle, we should be worried about a recession, not inflation. But everyone is very concerned about inflation, as reflected in expectations," Serra, now a portfolio manager for the "Janeiro" fund family at Itau Asset, said in an interview.

The BCB is likely to hike by 50 basis points at its next meeting in May, he noted, while the June meeting remains "open," with a possible final tightening move of 25bp. The BCB's Copom committee hiked its Selic rate by 100 basis points again this month to 14.25%, taking rates to 10% in real terms based on 12-month inflation expectations, according to Serra.

"For May, the minutes leave multiple options open. Copom could hike by 25 to 75 basis points at the next meeting. But honestly, a 75bp hike is not credible. The most likely scenario is a 50bp increase, with some chance of 25bp," he said.

"If I had to pick an alternative scenario, it would be 25bp rather than 75bp. And June is entirely open, it may not hike at all. But my baseline case is another 25bp hike in June."

Janeiro fund forecasts inflation closer to 5% for all of 2025, compared to the consensus of 5.65%, implying that rate cuts will come sooner, according to Serra. He is also more optimistic about the exchange rate, as U.S. policy points to a weaker dollar, while Brazil's domestic conditions support a stronger real.

FISCAL OUTLOOK

Exceptionally strong monetary tightening has been unaccompanied by significant fiscal expansion as seen previously, he noted.

"This year, real government spending is expected to decline by about 2%, adjusted for inflation. That's a contraction in public spending growth even larger than during the spending cap period."

At the same time, a major driver of GDP is agriculture, which tends to ease inflationary pressure, he said.

"Each increase in our harvest translates directly into export momentum and lower food prices in Brazil. So, GDP dynamics are actually positive for the central bank," said Serra.

"I'd say that by the end of this year, we'll already be discussing rate cuts. At the May meeting, Copom will be looking at 12-month inflation for Q4 2026, which should be around 3.6%, closer to the 3% target."

APART FROM CONSENSUS

The BCB could start cutting in the last quarter of 2025, with more significant cuts early next year, he said, adding that any shift to market optimism about Brazil's 2026 elections would find plenty of room for easing in the first half of next year, possibly bringing the Selic back near 10%.

"If markets remain concerned about the transition, the easing cycle could be more cautious. Right now, the market is betting entirely on the negative scenario, but I see significant upside risks," Serra said.

From the second half of this year, the BCB board will start focusing on Q1 2027 inflation, which should be around 3.3%, he noted.

"When we raised rates to 13.75% in the last tightening cycle, it was very close to nominal GDP, which is historically normal. Today, nominal GDP is at 7.5%, while the Selic is going to 15%, double the level. The only time we saw this kind of gap was during the 2015 recession, and what happened to inflation after that? It fell below 3%," Serra said.

The central bank began hiking aggressively in December, and Serra noted that monetary policy operates with a lag of around four quarters.

"The effects will start to become visible in Q3, and that's when monetary policy will begin to weigh on the economy," he said.

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