# MNI Brazil Central Bank Review – December 2025

### MNI POV: Hawkish Copom Pushes Back on Jan Rate Cut Prospects

**The Copom decided unanimously to keep the Selic rate unchanged at 15.00% for a fourth consecutive meeting, as expected. The statement continued to strike a hawkish tone, however, and notably the committee did not offer any signs that it is considering a start to the easing cycle at the next meeting in January. Instead, it sees keeping the Selic rate at current levels for a very prolonged period as appropriate to ensure the convergence of inflation to target. As a result, many analysts now expect the first cut to happen in March, possibly with a 50bp move, although some see scope for an even later start. To cut in January, the data would need to surprise meaningfully to the downside.**

In a very similar statement, the Copom continued to strike a hawkish tone, stating that heightened uncertainty still requires a “cautious stance”. It also repeated its high for long messaging, saying that “the present strategy of maintaining the interest rate at its current level for a very prolonged period is appropriate to ensure the convergence of inflation to the target”.

Importantly, the committee also retained the tightening reference within the forward guidance, saying that it will remain vigilant and that “as usual” it will not hesitate to resume the hiking cycle if necessary. This suggests that it is unlikely to consider a start to the easing cycle at the next monetary policy meeting in January, unless the data surprise meaningfully to the downside in the meantime, contrary to some expectations.

On the domestic scenario, the Copom continued to note a moderation in growth, as expected, while the labour market remains resilient. Inflation has continued to improve, but remains above target, with risks to the outlook – to the upside and downside – still higher than usual. However, there was a slight improvement in the committee’s inflation forecasts, with inflation now expected to decline to 3.2% in Q2 27 under the reference scenario (vs. 3.3% last month).

On the external front, the committee sounded slightly less cautious about the uncertainty due to US economic policies. However, it continues to monitor how the tariffs on Brazil and domestic fiscal policy impact monetary policy and financial assets, reinforcing its cautious stance in a scenario of heightened uncertainty.

Overall, the committee reiterates that the current scenario still shows unanchored inflation expectations, elevated inflation projections, resilient economic activity and ongoing labour market pressures, which still requires “a significantly contractionary monetary policy for a very prolonged period” to ensure that inflation converges to target. As a result, many analysts now expect the easing cycle to begin at the March meeting, possibly with a 50bp move, with some seeing an even later start. The hawkish lean is seen as being supportive BRL in the near-term.

**Link to the full statement is here:** https://www.bcb.gov.br/en/pressdetail/2642/nota

## Notable Dates:

- **Dec 16 – Copom Minutes**
- **Dec 18 – BCB Monetary Policy Report**
- **Jan 09 – December IPCA Inflation Data**
- **Jan 28 – Next Copom Meeting**

## Analyst Views (Alphabetical Order)

**BBVA: Hawkish Lean Should Support BRL Near Term**

- The BCB’s the decision was fairly hawkish as, contrary to some expectations, the bank did not give any clear signal of a shift in monetary policy that could suggest cuts starting next month. More will be gleaned from the minutes and by listening to central bank speakers. BBVA's expectation has been that the BCB will begin to ease slowly with a 25bp cut in January, although it remains an open question.

- The BCB is possibly being guarded and erring on the side of hawkishness due to recent financial market wobbles, including weakness in the BRL. The hawkish lean relative to expectations should nevertheless support the BRL in the near term, with USDBRL 5.53 (200DMA) as the larger potential inflection point. BRL volatility has jumped in the past week, but remains low on a historical basis and further weakening may be needed to fully derail the BRL carry trade and trigger even larger unwinds.
- At this stage, BBVA believes the first recalibration of BRL weakness after the Flavio Bolsonaro candidacy is close to done, but more meaningful rebounds to recent highs are also less likely.

**Commerzbank: Slight Shift in Dovish Direction, See Initial Rate Cut by March at Latest**

- Although the BCB unanimously left its key interest rate unchanged at 15%, it slightly shifted the accompanying statement in a dovish direction. The real economy is cooling down and inflation is improving, as reflected in lower inflation forecasts for 2027. There was no indication of an initial interest rate cut in January, which is likely to depend on data published by then. However, it is expected to happen by March at the latest.
- Admittedly, monetary policy is not currently playing a decisive role for the currency. This is understandable as long as the BCB does not start cutting interest rates significantly. The decisive impetus is missing. Political developments are currently more important.
- In Brazil, attention is focused on the election scheduled for next autumn. The real has not yet recovered from the announcement of the candidacy of one of former president Jair Bolsonaro's sons, with USDBRL trading at 5.47 despite the USD's weakness in the wake of the Fed meeting.

**Goldman Sachs: No Hint That Normalisation Cycle Could Start in January**

- The policy statement remained hawkish, with minor, mostly innocuous, tweaks, and a minor improvement in inflation forecasts for end-2026 and 1Q27 driven exclusively by regulated/administered prices. The forward guidance did not change in a material way.
- For the Copom, the “ongoing” strategy of maintaining the Selic at the current level for a “very prolonged period” is “adequate” to ensure the convergence of inflation to the target (in the previous statement the strategy of maintaining the Selic at the current level for a prolonged period was seen as “sufficient” to ensure convergence of inflation to the target).
- The Copom reiterates that it will remain vigilant and will, as usual, not hesitate to resume the hiking cycle if appropriate (“as usual” was added to the statement). The balance of risks for inflation did not change with both upside and downside risks still characterised as higher than usual.
- The conditional inflation forecasts for 4Q26 and 2Q27 improved marginally (-10bp to 3.5% and 3.2%) driven by lower forecasts for regulated prices/tariffs. The Copom judges that activity remains, as expected, on a moderation trend/path while the labour market “shows resilience” (vs “shows dynamism” previously). The Copom repeated that recent headline and core inflation measures “have shown some improvement” but remained above the target.
- All in, the policy statement contains no hint that the rate normalisation cycle could start in January. For that to happen, it will likely have to be signalled through Copom-speak until the next meeting or through an improvement in the balance of risks and/or notable dovish break in incoming macro data that leads to materially lower inflation forecasts over the relevant horizon.

**JP Morgan: No Hurry to Begin Easing, See First 50bp Cut in March**

- JP Morgan had anticipated that the BCB would shift from a high-for-long stance to a more data-dependent approach in its communication. However, the accompanying statement showed minimal changes from the previous meeting. In JPM's view, the BCB's statement signals that the central bank is in no hurry to begin easing rates.

- The tone of the statement supports JPM's expectation that the first rate cut will likely come in March next year, for which they expect a 50bp cut, when the BCB should have greater clarity on the pace of the economic slowdown and inflation deceleration.
- The most notable change in the statement was a 10bp reduction in the 2Q CPI projection to 3.2%. By the next meeting, the BCB will be focusing on its forecast for 3Q27, which could be lower, but these forecasts currently assume a 50bp cut in March, ending the year at 12.25%.
- In this sense, the lower forecast for 2Q27 seems to favour a March rather than a January cut. Although the statement offered little indication of an imminent rate cut, JPM still believe a January cut remains a real possibility.
- Looking at the small changes in the statement, the BCB maintained its recent hawkish bias, offering only a brief acknowledgment of developments in the activity and inflation outlook and reiterating that conditions are evolving as expected. Additionally, the BCB now describes the maintenance of high rates for a prolonged period as a "present strategy." This change seems to align with Governor Galípolo's comment that the "prolonged period" clock does not restart at every Copom meeting. The BCB also softened its threat of a hike (if necessary) by adding the phrase "as usual" to the statement.

**SocGen: View April as More Likely Starting Point for Rate Cuts**

- While the decision to hold was in line with expectations, the Copom notably refused to soften its policy stance, signalling that a rate cut in January is now highly unlikely. Given the committee's persistent hawkishness on inflation and the limited signs of growth moderation - particularly with no clear impact on the labour market - SocGen now sees less than a 50% probability that the easing cycle will begin in March. Instead, they view April as a more likely starting point for rate cuts, although they maintain their end-2026 Selic rate forecast at 12.25%.
- The BCB is seeking more definitive evidence of a meaningful economic slowdown, particularly a weakening labour market, to help steer inflation expectations closer to target. While the BCB has marginally reduced its inflation forecasts for 2026 and (policy relevant) 2Q27 it appears to have limited confidence in these projections and is unimpressed by the moderation in consensus expectations.
- Currently, ex-ante and ex-post real interest rates stand at approximately 11% and 10.5%, respectively. The last time inflation and expectations were at similar levels (2017–2019), the BCB's policy rate was nearly half its current level. However, today's fiscal dynamics and the external circumstances are markedly different, and the BCB is proceeding cautiously following the short-lived easing cycle of 2023–24.
- The Copom statement suggests that even a moderate easing cycle will require several conditions: a significant weakening of growth and the labour market, further moderation of inflation expectations, a stable fiscal outlook, and a steady BRL. A rate cut in January is now virtually ruled out unless data surprise markedly to the downside early next year.
- There is a risk the BCB's hawkish stance could eventually leave it behind the curve. SocGen maintain their end-2026 Selic rate forecast at 12.25%, still anticipating accelerated easing in H2 2026. However, given fiscal risks - especially around or after the general election in October 2026 - the medium-term rate outlook remains uncertain. For now, SocGen's 2027 Selic rate forecast stands at 10.25%, below the 10.50% consensus.