

# Brazil Flash

## COPOM focuses on inflation and increases the pace of monetary tightening

The Monetary Policy Committee (COPOM) decided to adjust the SELIC rate by 50bp to 8.0%. The decision was in line with our call, but surprised most analysts, who expected a 25bp hike. By taking a tougher monetary stance, the monetary authority gains credibility to try to anchor expectations and prevent high inflation from eroding private consumption (and therefore growth). We expect another 50bp hike in July and then a final adjustment of 25bp in August.

- **Unanimous decision “to put inflation on decline”**

The statement released after the monetary policy meeting ended yesterday after financial markets closed in Brazil revealed that all members of the COPOM favored the 50bp adjustment (in contrast with [the previous decision in April](#)) and that the focus of all attention is now inflation (references to caution and to domestic and external uncertainties were taken out of the statement): “Giving continuation to the adjustment of the benchmark interest rate, the COPOM decided unanimously to raise the SELIC rate to 8 percent a year, without bias. The committee considers that this decision will contribute to put inflation on a decline and assure that this trend will persist next year.”

- **We expect the monetary tightening to continue in spite of weak growth figures**

According to the [data released yesterday](#), economic activity remains weak in spite of the series of incentives being introduced lately. However, [inflation is currently close to the upper-bound of the target range](#) (2.5% - 6.5%) and expectations are not well-anchored. In addition, the recent depreciation of the exchange rate, which reached 2.11 yesterday, the weakest in the year to date, adds to the long list of factors fueling inflation. In this challenging environment for the Central Bank of Brazil, we regard as positive the decision of the monetary policy to focus on inflation and hike the SELIC by 50bp. As GDP figures released yesterday revealed, among other painful problems, inflation reduces consumers’ purchasing power and can drive growth down. Looking ahead, we expect the COPOM to bring the SELIC up to 8.50% in July, to 8.75% in August and to leave it unchanged in the remainder of the year.

For more on Brazil, [click here](#)

## El COPOM se centra en la inflación e incrementa el ritmo del ajuste monetario

El Comité de Política Monetaria (COPOM) decidió ajustar el tipo SELIC en 50 puntos hasta el 8.00%. La decisión estuvo en línea con nuestras expectativas, pero sorprendió a la mayoría de analistas que esperaban un incremento de 25 puntos. Por medio de una política más restrictiva, la autoridad monetaria gana credibilidad para intentar anclar las expectativas y prevenir que la alta inflación merme el consumo privado (y por consiguiente, el crecimiento). Esperamos una subida adicional de 50 puntos en julio, y un ajuste final de 25 puntos en agosto.

Para ver más acerca de Brasil, [haga clic aquí](#)

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