

Brazil

# Economic Watch

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## Economic Analysis

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## Monetary policy in Brazil: SELIC rate left unchanged

- The Central Bank of Brazil left the reference interest rate SELIC unchanged at 10.75% as BBVA and most of market analysts anticipated. The decision, announced yesterday after the closing of the markets in Brazil, was unanimous among the members of the Central Bank's Monetary Policy Committee.
- Monetary authority's statement: "In evaluating the macroeconomic environment and the inflation outlook, the COPOM unanimously decided to keep the SELIC rate at 10.75%, without bias. Facing an outlook that is less favourable than was observed at the last meeting, but recognizing that additional time will be needed to better assess the effects of Central Bank's recently introduced macro-prudential measures regarding the credit and liquidity conditions on the monetary conditions, the Committee agreed that it would not be convenient to reevaluate the monetary policy strategy at this meeting. The Committee agreed to closely monitor the evolution of the macroeconomic scenario until the next meeting, in order to define the following steps in its monetary policy strategy." (free translation)
- The statement clearly recognizes that inflation pressures intensified significantly recently but in our opinion this doesn't mean that a new monetary cycle will necessarily be soon implemented.
- Although the likelihood that the Central Bank starts a new monetary tightening cycle in the beginning of 2011 increased recently, we think that the chances of the SELIC remaining stable next year are higher than markets are currently discounting. The recent comments from government officials supporting a tighter fiscal policy as well as the increase in both [reserve and capital requirements announced last week](#) support, in our opinion, this view.
- We expect the minutes of yesterday's meeting (which will be released the next week on December 16th) to provide more information on SELIC's future path.
- This was the last meeting under Henrique Meirelles' Presidency. For the next one, scheduled to January 19th, Alexandre Tombini will be in charge of commanding the Monetary Policy Committee.

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