

Brazil

# Economic Watch

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## Economic Analysis

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## Monetary policy in Brazil

### Unusual uncertainties and unusual reliance on macro-prudential measures

- Today, the Monetary Policy Committee (COPOM) released the minutes of its meeting last week in which the monetary authority decided to hike the SELIC upward by 50bps to 11.75%.
- According to these minutes, the prospective scenario for inflation has not evolved positively since January. The COPOM cites the recent upward adjustments on both the market's inflation expectations and its own inflation forecasts.
- In addition, the COPOM observed "that volatility and risk aversion in international markets increased since the last meeting," that there exist "relevant risks derived from a persistent mismatch between supply and demand," and that there are also important "risks related to the commodity price trajectories in international markets".
- In our view, these ingredients support not only last week's SELIC hike, but also another 50 bps adjustment on April 20th.
- For the remainder of the year, the path of the SELIC will depend clearly on the risks cited in the minutes which include those related to the implementation of the recently announced fiscal cuts. We, however, stand by our current view that the monetary authority will call for a stop to the SELIC increases after April's adjustment and will then announce more macro-prudential measures to moderate not only credit expansion but also the dynamism of domestic demand.
- We see support for this call on the frequent references to the role and impact of macro-prudential measures on the minutes released today:
- The COPOM reiterates that although [macro-prudential measures] aim at the stability of the financial sector, [they also work] as an instrument to moderate domestic demand... Available information corroborates this view as it shows the relevant impact [of macro-prudential measures] on credit markets' prices and volumes."

- The current regulatory environment [after the implementation of macro-prudential measures in December], in comparison to the previous environment, is likely to increase the impact of conventional monetary policy measures.
- The implementation of macro-prudential actions could provide the opportunity for a re-evaluation of monetary policy.

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