

Brazil | The COPOM is still concerned about inflation

Enestor Dos Santos

The minutes of [last week's monetary policy meeting](#) show that the Monetary Policy Committee (COPOM) is concerned about the fact that both market inflation expectations and some of its own forecasts continue to show inflation above 4.5% at the end of 2017. Taking that into account, the monetary authority concluded that "...there is no room for the easing of monetary policy".

Market expectations and some COPOM forecasts for 2017 are around 5.3%, still above the 4.5% target...

As [last week's accompanying statement](#), the minutes of the most recent monetary policy meeting were also presented in a new format. While the former is now longer and more detailed, the latter is shorter but more direct than the previous minutes. Moreover, the minutes now explicit precisely what was discussed in terms of monetary policy (one of the four sections of the new minutes is about "discussion about monetary policy conduction") In the case of last week's meeting, in which the Selic rate was left unchanged at 14.25%, minutes show that the COPOM sees advances regarding the prospects for disinflation. However, it is concerned mainly about the fact that markets continue to expect inflation to be above the 4.5% target at the end of the next year (the market consensus for the period is currently at 5.3%) and also about the fact that the COPOM's alternative scenario for inflation, which takes market consensus for the exchange and the policy rates as inputs for its model, continues to show inflation above the before-mentioned target, also around 5.3% (in its baseline scenario, in which both exchange and interest rates are assumed to be constant at the current levels, the COPOM forecasts inflation to converge to 4.5% by the end of the next year).

...which leaves no room for the COPOM to start a monetary easing cycle

The minutes reveal that the monetary authority is still not comfortable with the prospects for inflation. In practice, that suggests that the Selic rate will remain at 14.25% for some further time, until the beginning of 2017 in our view, when we expect market forecasts and all COPOM's forecasts for inflation for the end of 2017 to be close to 4.5%. However, as highlighted in the minutes, if there are positive surprises regarding the implementation of the fiscal adjustment by the government, then an earlier cut of the Selic rate could be delivered.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.