

Brazil Watch

The holding days are over: BCB cuts 50bp

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GEM Economics
LatAm | Brazil

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BCB cut rates by 50bp, starting the easing cycle

In a split decision, the Monetary Policy Committee (COPOM) cut the Selic rate by 50bp to 13.25%, as we had expected for a while. Of the nine board members, five voted for a 50bp clip and four for 25bp. Market participants were also divided about today's decision between 25bp and 50bp – but most economists expected a 25bp cut. The board already mentioned that upcoming cuts will be of the same magnitude, also in line with our expectations.

Table 1: Selic rate cut

Reduction pace in line with our expectations

Announced:	Wednesday, May 03, 5:30pm ET
Actual:	13.25%
Previous:	13.75%
Consensus:	13.50%
BofAe:	13.25%

Source: Brazil Central Bank, BofA Global Research

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Trying to suppress expectations for pace acceleration

On the external front, the board noted an overall disinflationary trend, but underlying inflation and labor market data remains resilient. Regarding the domestic economy, board members acknowledged the improvement in inflation, inflation expectations and underlying measures. Activity data continues to point toward the expected slowdown. On the fiscal side, the statement drops the reference to uncertainty regarding the progress of the fiscal framework. The message reinforced the goal of maintaining a contractionary monetary stance to pursue an inflation expectations anchor on the relevant horizon (2024 and 2025 – to a smaller degree). This combined, with the split vote and the mention of the upcoming cut pace at 50bp, seems an attempt to suppress

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Timestamp: 02 August 2023 08:10PM EDT

expectations for an easing pace acceleration ahead.

BCB inflation forecasts revised down

Under BCB's reference scenario (Selic at 12.00% for '23 and 9.25% for '24; BRL at 4.75 and evolving with PPP), the 23' inflation forecast was revised down, now at 4.9% (from 5.0%), while 24' remained at 3.4%. Inflation would hit the target in 2025. BCB maintained the energy flag extra tariff on electricity bills on green for 2023, now extending it for 2024 and 2025 amid favorable energy supply conditions.

We continue to expect Selic at 11.75% YE23

Given deterioration of the credit market, the activity slowdown and inflation deceleration, we expect cuts of 50bp per meeting ahead, reaching 11.75% at the end of 2023 and 9.50% in 2024.

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