270th

Minutes of the Meeting of the

Monetary Policy Committee — Copom

May 6-7, 2025

BANCO CENTRAL DO BRASIL

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Date: May 6-7, 2025

Place: BCB Headquarters' meeting rooms on the 8th floor (5/6 and 5/7 on the morning) and 20th floor (5/7 on the afternoon) – Brasilia – DF – Brazil

Starting and ending times: May 6: 10:11 AM – 12:08 PM; 2:37 PM – 5:58 PM
May 7: 10:06 AM – 11:17 AM; 2:35 PM – 6:36 PM

In attendance:

Copom Members

Gabriel Muricca Galípolo – *Governor*
Ailton de Aquino Santos
Diogo Abry Guillen
Gilneu Francisco Astolfi Vivan
Izabela Moreira Correa
Nilton José Schneider David
Paulo Picchetti
Renato Dias de Brito Gomes
Rodrigo Alves Teixeira

Department Heads in charge of technical presentations (attending on 5/6 and on the morning of 5/7):

Alan da Silva Andrade Mendes – *Department of Foreign Reserves* (attending on the mornings of 5/6 and 5/7)
André Minella – *Research Department* (also attending on the afternoon of 5/7)
André de Oliveira Amante – *Open Market Operations Department*
Fábio Martins Trajano de Arruda – *Department of Banking Operations and Payments System*
Marcelo Antonio Thomaz de Aragão – *Department of International Affairs*
Ricardo Sabbadini – *Department of Economics*

Other participants (attending on 5/6 and on the morning of 5/7):

Alexandre de Carvalho – *Office of Economic Advisor*
André Maurício Trindade da Rocha – *Head of the Financial System Monitoring Department*
Arnaldo José Giongo Galvão – *Press Office Advisor*
Edson Broxado de França Teixeira – *Head of Office of the Deputy Governor for Supervision*
Eduardo José Araújo Lima – *Head of Office of the Deputy Governor for Economic Policy*
Euler Pereira Gonçalves de Mello – *Deputy Head of the Research Department*
Fernando Augusto Ferreira Lemos – *Deputy Head of the Department of Statistics*
Isabela Ribeiro Damaso Maia – *Head of the Sustainability and International Portfolio Investors Unit*
Julio Cesar Costa Pinto – *Head of Office of the Governor*
Laura Soledad Cutruffo Comparini – *Deputy Head of the Department of Economics*
Leonardo Martins Nogueira – *Head of Office of the Deputy Governor for Monetary Policy*
Lucas Alves Freire – *Acting General Counsel*
Luís Guilherme Siciliano Pontes – *Deputy Head of the International Reserves Department*
Mardilson Fernandes Queiroz – *Head of the Financial System Regulation Department*
Mario Rubem do Coutto Bastos – *Deputy Head of the Department of Banking Operations and Payments System*
Olavo Lins Romano Pereira – *Deputy Head of the Department of International Affairs*
Ricardo Eyer Harris – *Head of Office of the Deputy Governor for Regulation*
Ricardo Franco Moura – *Head of the Prudential and Foreign Exchange Regulation Department* (attending on the afternoon of 5/6 and on the morning of 5/7)
Rogerio Antonio Lucca – *Executive Secretary*
Simone Miranda Burello – *Advisor in the Office of the Deputy Governor for Monetary Policy*

Copom members analyzed the recent performance and prospects for the Brazilian and international economies, under the monetary policy framework, whose objective is to achieve the inflation target set by the National Monetary Council.

BANCO CENTRAL DO BRASIL

A) Update of the economic outlook and the Copom's scenario[1]

1. The global environment is adverse and particularly uncertain due to the economic policy and economic outlook in the United States, regarding mainly its trade policy and its effects.

2. The trade policy has added uncertainties to the global economy, particularly regarding the extent of the economic slowdown and the heterogeneous effects on the inflation outlook across countries, significantly impacting the conduct of monetary policy.

3. In addition, the behavior and the volatility of different asset classes have also been impacted, significantly altering global financial conditions. This scenario continues to require caution from emerging market economies amid greater geopolitical tension.

4. Regarding the domestic scenario, the set of indicators on economic activity and labor market is still exhibiting strength, even though we observe an incipient moderation in growth.

5. In recent releases, headline inflation and measures of underlying inflation remained above the inflation target. Inflation expectations for 2025 and 2026 collected by the Focus survey remained above the inflation target and stand at 5.5% and 4.5%, respectively.

B) Scenarios and risk analysis

6. The inflation outlook remains challenging in several dimensions. Copom assessed the international scenario, economic activity, aggregate demand, inflation expectations, and current inflation. Copom then discussed inflation projections and expectations before deliberating on the current decision and future communication.

7. The global environment is adverse and particularly uncertain. The impacts of the tariffs shock and the uncertainty shock, despite all measurement attempts, are still highly uncertain. Layers of uncertainty involve the U.S. tariff policy determination itself, the tariff response of other countries to the U.S. tariff policy, the response of firms to these policies, with possible impacts on global production chains, and consumers' response to price changes. The scenario has been therefore much more uncertain, which has already led to changes in investment and consumption decisions. It is still early to conclude what the magnitude of the impact will be on the domestic economy. On the one hand, it seems less affected by the recent tariffs than other countries, but, on the other, it is impacted by an adverse global scenario. Furthermore, the global financial conditions that will prevail will be particularly important amid an environment with magnified economic and geopolitical uncertainties. Copom's baseline scenario of the latest meetings already assumed two axes: increased uncertainty and deterioration of the global growth scenario, with a gradual and orderly deceleration of the U.S. economy. Both vertices have deteriorated and deepened. Uncertainty has become much higher than expected, and the U.S. economy is now expected to slow down more sharply than previously forecasted. Another relevant development refers to the dilemmas faced by the conduct of U.S. monetary policy resulting from the effects of the tariff policy, with a concomitant increase in the prices level and a reduction in the pace of activity growth. The Committee reinforced that the central banks' commitment to achieving their targets is a fundamental ingredient in the disinflationary process, corroborated by recent indications of cautious monetary easing cycles in several countries and the focus on anchoring expectations. As usual, the Committee will focus on the transmission mechanisms from the external environment to the domestic inflation dynamics and their impact on the outlook. It was also emphasized that a

[1] Unless explicitly stated otherwise, this update considers changes since the March Copom meeting (269th meeting).

context of greater global uncertainty and more abrupt exchange rate movements requires greater caution in the conduct of domestic monetary policy.

8. The activity outlook is still characterized by mixed signs regarding the activity deceleration, although an incipient growth moderation is observed. This is not divergent from the Copom's baseline scenario, which involves a turnaround in the current period for then reducing dynamism in the subsequent quarters. The Committee continues to evaluate that the prospective baseline scenario involves a slowdown in economic activity, which is part of the monetary policy transmission process and an element necessary for the convergence of inflation to the target. The Committee reiterates that the aggregate demand slowdown is an essential element of supply-demand rebalancing in the economy and inflation convergence to the target. Some of the factors listed during the meeting continue to give the Committee confidence that the growth moderation process should take place, after several years of surprising dynamism.

9. The significantly contractionary monetary policy has already contributed and will continue contributing to the growth moderation. The Committee assessed the several monetary policy channels and assesses that the restrictive monetary policy has already had effects on the credit market, business surveys, the exchange rate market, corporate balance sheets, as well as in the moderation of certain activity and labor market indicators. Such impacts are expected and required for the convergence of inflation to the target. In view of the lags inherent to the monetary policy mechanisms, these effects are expected to deepen in the coming quarters. Particularly regarding credit, some inflection is already observed in some lines and, in the case of households, an increased debt-to-service ratio may be anticipating lower credit demand. It was emphasized again that building the required confidence to set the appropriate degree of monetary restriction over time requires that monetary policy channels are unobstructed and with no elements mitigating their action. For the fulfillment of its mandate and the convergence of inflation to the target at the lowest cost, monetary policy must be able to act with all channels unobstructed.

10. Another factor that has contributed to the activity dynamism in recent years has been the labor market. Both from the perspective of income – with real gains above productivity – and employment – with an increase in the employment level and a significant decrease in the unemployment rate to historically low levels – the labor market has greatly supported consumption and income. It was emphasized that the labor market inflection is also part of the transmission mechanisms of monetary policy and is expected to deepen over time, consistently with a restrictive monetary policy scenario.

11. Finally, as mentioned earlier, the credit market has also remained buoyant in recent quarters due to the dynamism of the labor market and economic activity, contributing to the dynamism of activity. Recently, in line with the current scenario of tighter financial conditions and higher risk premia, bank credit has shown inflection, with an increase in interest rates, lower risk appetite in the credit supply, and a slower pace of credit granting. Copom incorporated into its baseline scenario some impact of the changes in the private payroll-deducted loans on growth, but mostly through an increase of disposable income from debt swap, which has a milder effect on the aggregate projection. There is still much uncertainty about the full effect of the program, so far in its early stages. Therefore, the Committee will monitor data carefully to refine the estimated impacts on the credit market and on activity. This measure should not be interpreted as a cyclical measure and possibly represents a structural market change. In any case, in the conduct of monetary policy, such measures will be duly incorporated to properly determine the required monetary restriction for inflation to converge to the target.

12. A significant stimulus in recent years has come from fiscal policy. Copom assesses that a fiscal policy that contributes to the reduction in the risk premium and with a

countercyclical action contributes to the convergence of inflation to the target. In addition, agents' perception about the fiscal regime and debt sustainability continues to impact asset prices and agent's expectations. Copom continues using the fiscal policy as an input in its assessment and, given the current and future fiscal policies, will adopt the appropriate conduct of monetary policy for the convergence of inflation to the target. Copom reinforced its view that the slowdown in structural reform efforts and fiscal discipline, the increase in earmarked credit, and uncertainties over the public debt stabilization have the potential to raise the economy's neutral interest rate, with deleterious impacts on the power of monetary policy and, consequently, on the cost of disinflation in terms of activity. While analyzing activity, the Committee remained firmly convinced that policies must be predictable, credible, and countercyclical. In particular, the Committee's debate once again highlighted the need for harmonious fiscal and monetary policies.

13. Inflation expectations, measured by different instruments and obtained from different groups of agents, remained above the inflation target at all horizons, making the inflation scenario more adverse. Deanchored inflation expectations is a factor of discomfort shared by all Committee members and must be tamed. Copom highlighted that environments with deanchored expectations increase the disinflation cost in terms of activity. The scenario of inflation convergence to the target becomes more challenging with deanchored expectations for longer horizons. When discussing inflation expectations, the main conclusion obtained and shared by all members of Copom was that, in an environment of deanchored expectations, greater monetary restriction is required for a longer period than would be otherwise appropriate.

14. Short-term inflation scenario remains adverse. Services inflation, which has greater inertia, remains above the level required to meet the inflation target, in a context of a positive output gap. Regarding industrialized goods, the exchange rate movement to more depreciated levels has pressured prices and margins, already materialized in a rise in wholesale prices and now affecting retail prices. Food prices remain high and tend to spread over other prices on the medium term given the presence of inertial mechanisms in the Brazilian economy. Beyond the changes in items, or even short-term oscillations, Copom assessed that core inflation measures have remained above the value consistent with the target achievement for months, corroborating the interpretation that inflation is pressured by demand.

15. Copom then addressed the projections. In the reference scenario, the interest rate path is extracted from the Focus survey, and the exchange rate starts at USD/BRL 5.70[2] and evolves according to the purchasing power parity (PPP). The Committee assumes that oil prices follow approximately the futures market curve for the following six months and then start increasing 2% per year. Moreover, the energy tariff flag is assumed to be “green” in December of the years 2025 and 2026.

16. In the reference scenario, four-quarter inflation projections for 2025 and for 2026 – the current relevant monetary policy horizon – are 4.8% and 3.6%, respectively (Table 1).

17. As for the balance of risks, all members judged that the risks previously outlined by the Committee were relevant throughout the period and are still relevant in the current outlook. In addition, it was assessed that the scenario of greater uncertainty increased both upside and downside inflation risks for the inflation outlook, with a debate as to whether it still remained slightly asymmetrical, but less asymmetrical than in the previous meeting, or whether it could already be defined as neutral. Copom assessed that, among the upside risks for the inflation outlook and inflation expectations, it should be emphasized (i) a more prolonged period of deanchoring of inflation expectations; (ii) a stronger-than-expected resilience of services inflation due to a more

[2] It corresponds to the rounded value of the average exchange rate observed over the ten working days ending on the last day of the week prior to the Copom meeting, according to the procedure adopted since the 258th meeting.

positive output gap; and (iii) a conjunction of internal and external economic policies with a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency. Among the downside risks, it should be noted (i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; (ii) a steeper global slowdown stemming from the trade shock and the scenario of heightened uncertainty; and (iii) a reduction in commodity prices with disinflationary effects.

18. Prospectively, the Committee will continue monitoring the pace of economic activity, which is a fundamental driver of inflation, particularly services inflation; the exchange rate pass-through to inflation, after a process of increased exchange rate volatility; and inflation expectations, which remain deanchored and are drivers of future inflation behavior. It was emphasized that inflationary vectors remain adverse, such as the economic activity resilience and labor market pressures, deanchored inflation expectations and higher inflation projections. This scenario prescribes a significantly contractionary monetary policy for a prolonged period to assure the convergence of inflation to the target.

C) Discussion of the conduct of monetary policy

19. Copom then discussed the conduct of monetary policy, considering the set of projections evaluated, as well as the balance of risks for prospective inflation.

20. In line with the previous meeting, the Committee opted for an increase of 0.50 p.p., maintaining the way of analysis and response that it has conducted over time and has outlined in its communication. Copom noticed that expectations continued deanchored, inflation projections continued high, economic activity continued resilient, and the labor market, pressured.

21. Regarding the next meeting, the Committee assessed that the scenario of heightened uncertainty, combined with the advanced stage of the current monetary policy cycle and its cumulative impacts yet to be observed, requires additional caution in the monetary policy action and flexibility to incorporate data that impact the inflation outlook.

22. The Committee will remain vigilant and the calibration of the appropriate tightening of the monetary policy will continue to be guided by the objective of bringing inflation back to the target in the relevant horizon. This calibration will depend on the inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks.

D) Monetary policy decision

23. The external environment, in particular the U.S. trade policy, and the domestic environment, particularly the fiscal policy, have been influencing the behavior of asset prices and expectations. The Committee continues to monitor closely how the developments on the fiscal side impact monetary policy and financial assets. The current scenario continues to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity and labor market pressures. This scenario prescribes a significantly contractionary monetary policy for a prolonged period to assure the convergence of inflation to the target.

24. Copom decided to increase the Selic rate by 0.50 p.p. to 14.75% p.a., and judges that this decision is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon for monetary policy. Without compromising its fundamental objective of ensuring price stability, this decision also implies smoothing economic fluctuations and fostering full employment.

25. For the next meeting, the scenario of heightened uncertainty, combined with the advanced stage of the current monetary policy cycle and its cumulative impacts yet to be observed, requires additional caution in the monetary policy action and flexibility to incorporate data that impact the inflation outlook.

26. The Committee will remain vigilant and the calibration of the appropriate tightening of the monetary policy will continue to be guided by the objective of bringing inflation back to the target in the relevant horizon. This calibration will depend on the inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks.

27. The following members of the Committee voted for this decision: Gabriel Muricca Galípolo (Governor), Ailton de Aquino Santos, Diogo Abry Guillen, Gilneu Francisco Astolfi Vivan, Izabela Moreira Correa, Nilton José Schneider David, Paulo Picchetti, Renato Dias de Brito Gomes, and Rodrigo Alves Teixeira.

Table 1
Inflation projections in the reference scenario
Year-over-year IPCA change (%)

Price Index	2025	2026
IPCA	4.8	3.6
IPCA market prices	5.3	3.4
IPCA administered prices	3.5	4.0