271st

Minutes of the Meeting of the

Monetary Policy Committee — Copom

June 17-18, 2025

BANCO CENTRAL DO BRASIL

Date: June 17-18, 2025

Place: BCB Headquarters' meeting rooms on the 8th floor (6/17 and 6/18 on the morning) and 20th floor (6/18 on the afternoon) – Brasilia – DF – Brazil

Starting and ending times: June 17: 10:11 AM – 11:56 AM; 2:32 PM – 6:16 PM
June 18: 10:10 AM – 11:11 AM; 2:36 PM – 6:32 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 6/17 and on the morning of 6/18):

André Minella – *Research Department* (also attending on the afternoon of 6/18)
André de Oliveira Amante – *Open Market Operations Department*
Fábio Martins Trajano de Arruda – *Department of Banking Operations and Payments System*
Luís Guilherme Siciliano Pontes – *International Reserves Department*
Marcelo Antonio Thomaz de Aragão – *Department of International Affairs*
Ricardo Sabbadini – *Department of Economics*

Other participants (attending on 6/17 and on the morning of 6/18):

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*
Erasto Villa Verde de Carvalho Filho – *General Counsel*
Euler Pereira Gonçalves de Mello – *Deputy Head of the Research Department*
Fernando Augusto Ferreira Lemos – *Head of the Department of Statistics*
Isabela Ribeiro Damaso Maia – *Head of the Sustainability and International Portfolio Investors Unit* (present on the morning of 6/17)
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*
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 da Costa Martinelli – *Deputy Head of the International Reserves Department*
Ricardo Franco Moura – *Head of the Prudential and Foreign Exchange Regulation Department*
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.

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

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

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

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

4. 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 5.2% and 4.5%, respectively.

B) Scenarios and risk analysis

5. 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.

6. The global environment has been adverse and particularly uncertain. The Committee assessed that there were some developments that could suggest an improvement in the global scenario, such as the partial reversal of tariffs, but the prevailing view remained that the international scenario is still uncertain and volatile. In particular, the Committee continues to assess that the uncertainty shock may be significant. It is also unclear what the fiscal trajectory will be in the U.S., both in terms of the magnitude of the stimulus and the final fiscal consolidation. Moreover, the geopolitical conflict in the Middle East and its potential consequences for the oil market also add uncertainty to the prospective external environment. This scenario 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.

7. The global financial conditions that will prevail in this adverse scenario will be particularly important, in an environment of heightened economic and geopolitical uncertainty. Once again, the pattern of asset correlations, including currencies, during episodes of risk aversion shocks was unusual. 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 context of greater global uncertainty and more abrupt exchange rate movements requires greater caution in the conduct of domestic monetary policy.

8. Domestic economic activity is still characterized by mixed signs regarding the activity deceleration but some growth moderation is observed. The release of first-quarter GDP data indicated, as expected, strong growth in sectors less sensitive to the economic cycle, particularly agriculture. There was some moderation in the other sectors, although several subsectors still showed a certain degree of dynamism. In this context,

[1] Unless explicitly stated otherwise, this update considers changes since the May Copom meeting (270th meeting).

there was a partial reversal in household consumption after a decline in the previous quarter, along with an expansion in investment. In terms of consumption, resilience may be linked to the continued strength of the labor market, which is sustaining a high pace of income growth, and to the credit market, which has shown signs of inflection but remains dynamic. According to the most recent economic activity data, the growth moderation process continues, albeit rather gradually. The latest indicators for trade, services, and industry suggest more moderate growth, and confidence indicators remain at lower levels, despite some recent reversal. In view of the lags inherent to the monetary policy transmission mechanisms, these effects are expected to deepen in the coming quarters. The Committee reiterates that the aggregate demand slowdown is an essential element of supply-demand rebalancing in the economy and convergence of inflation to the target.

9. 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. The most recent data support the interpretation of a dynamic labor market, with significant formal job creation and a decline in the unemployment rate. Conversely, there has been some deceleration in earnings, but they still remain at a high level, supporting the growth of overall household income. It was emphasized that the labor market inflection is also part of the transmission mechanisms of monetary policy and should become more evident and stronger over time, consistent with a restrictive monetary policy scenario.

10. The credit market has also remained buoyant in recent quarters due to the dynamism of the labor market and economic 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 the interest rates, lower risk appetite in the credit supply, and a slower pace of credit granting. There was a decline in non-earmarked credit granting, while earmarked credit granting remained more resilient. In particular, regarding household credit, there has been an increase in the household debt-service ratio and a deepening of the negative credit flow – that is, households repaying more debt than taking on.

11. Fiscal policy has a short-term impact, mainly through stimulating aggregate demand, and a medium-term impact, which incorporates the effects of the term premium in the yield curve. A fiscal policy that acts countercyclically and contributes to reducing the risk premium favors the convergence of inflation to the target. Thus, the recent debate, with an emphasis on the structural dimension of the fiscal budget and the gradual reduction of tax expenditures over time, has potential to influence perceptions of debt sustainability and to impact the term premium in the yield curve. 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 discussion once again highlighted the need for harmonious fiscal and monetary policies.

12. Inflation expectations, as measured by different instruments and obtained from various groups of agents, remained above the inflation target at all horizons, making the inflation outlook more adverse. For shorter-term horizons, following the release of the most recent data, there has been a decline in inflation expectations. For longer-term horizons, however, there has been no significant change between Copom meetings. 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 this topic, the main conclusion obtained and shared by all members of Copom was that, in an environment of deanchored expectations – as currently is the case – greater monetary restriction is required for a longer period than would be otherwise appropriate.

13. The short-term inflation scenario remains adverse but has shown downside surprises compared with analysts' forecasts. Industrial goods inflation, which had already shown weaker wholesale price pressures, continued to ease in the most recent period. Food prices also displayed slightly weaker-than-expected dynamics. Finally, services inflation, which has greater inertia, remains above the level required to meet the inflation target, in a context of a positive output gap. 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 and requires a contractionary monetary policy for a very prolonged period.

14. 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 5.60[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 onwards. Moreover, the energy tariff flag is assumed to be "green" in December of the years 2025 and 2026.

15. In the reference scenario, four-quarter inflation projections for 2025 and 2026 – the current relevant monetary policy horizon – are 4.9% and 3.6%, respectively (Table 1).

16. Regarding the balance of risks, it was assessed that the scenario of greater uncertainty continues to present higher-than-usual upside and downside risks to the inflation outlook. 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 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.

17. 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 high inflation projections. This scenario prescribes a significantly contractionary monetary policy for a very prolonged period to ensure the convergence of inflation to the target.

C) Discussion of the conduct of monetary policy

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

[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.

19. The Committee opted for an increase of 0.25 p.p., assessing that the economy is still resilient, which makes the convergence of inflation to the target difficult and requires greater monetary tightening. Conversely, it was emphasized that the tightening cycle undertaken so far was particularly quick and very firm, reinforcing the understanding that, given the inherent lags to the monetary policy effects, a great part of the impacts of the more contractionary rate is yet to come. As a result, the Committee communicated that it foresees an interruption of the rate hiking cycle to examine the yet-to-be-seen cumulative monetary policy impacts. It was emphasized again that building the required confidence to set the appropriate degree of monetary restriction over time requires that monetary policy channels be unobstructed and with no elements mitigating their action.

20. Following a swift and firm interest rate hike cycle, the Committee anticipates, as its monetary policy strategy, the interruption of the rate hiking cycle to observe the effects of the cycle already implemented and then evaluate whether the current interest rate is appropriate to ensure the convergence of inflation to the target. It was emphasized that, once the appropriate interest rate is determined, it should remain at a significantly contractionary level for a very prolonged period due to deanchored expectations. The Committee emphasizes that it will remain vigilant, that future monetary policy steps can be adjusted and that it will not hesitate to proceed with the rate hiking cycle if appropriate.

D) Monetary policy decision

21. 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. Ensuring the convergence of inflation to the target in an environment with deanchored expectations requires a significantly contractionary monetary policy for a very prolonged period.

22. Copom decided to increase the Selic rate by 0.25 p.p. to 15.00% 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.

23. If the expected scenario materializes, the Committee foresees an interruption of the rate hiking cycle to examine its yet-to-be-seen cumulative impacts, and then evaluate whether the current interest rate level, assuming it stable for a very prolonged period, will be enough to ensure the convergence of inflation to the target. The Committee emphasizes that it will remain vigilant, that future monetary policy steps can be adjusted and that it will not hesitate to proceed with the rate hiking cycle if appropriate.

24. 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	4.9	3.6
IPCA market prices	5.2	3.4
IPCA administered prices	3.8	4.1