The Copom surprisingly increases the Selic rate

The Brazilian Central Bank’s Monetary Policy Committee (Copom) increased the benchmark interest rate (Selic) by 25 basis points to 11.25% p.a. It was a split decision, with five members voting for an increase and three voting to maintain the Selic rate at 11.00%.

The post-meeting statement mentioned worsening of the balance of risks. The decision to adjust monetary conditions preemptively aims to reduce the cost of controlling inflation in the years ahead:

“The Copom decided to raise the Selic rate to 11.25% p.a., without bias, with five votes in favor of the move and three votes for maintaining the Selic rate at 11.00% p.a.

For the Committee, since its last meeting, among other factors, the intensification of relative prices adjustments in the economy made the balance of risks for inflation less favorable. Facing this, the Committee found it timely to adjust monetary conditions so as to ensure, at a lower cost, the prevalence of a more benign scenario for inflation in 2015 and 2016.

The following Committee members voted to increase the Selic rate to 11.25% p.a.: Alexandre Antonio Tombini (Chairman), Aldo Luiz Mendes, Anthero de Moraes Meirelles, Carlos Hamilton Vasoncelos Araújo and Sidnei Corrêa Marques. The following Committee members voted to maintain the Selic rate at 11.00% p.a.: Altamir Lopes, Luiz Awazu Pereira da Silva and Luiz Edson Feltrim.”

According to the statement, the Copom saw a deterioration in the balance of risks for inflation since its last meeting due “to the intensification of the adjustments in relative prices in the economy”, among other factors. We interpret this as a reference to the recent depreciation in the exchange rate and its effects on future inflation.

By stating that today’s decision aims to ensure a lower cost of disinflation, the Copom signals that it is acting preemptively. In other words, a prompt – and possibly smaller – adjustment in interest rates would prevent a larger increase in the future in order to keep inflation within its target range.

Going forward, we expect another 25 bp rate increase in December, with the Selic ending the year at 11.50%. For 2015, the scenario will be depend on exchange rate and inflation developments and also on the new economic team.

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