



BANCO CENTRAL DO BRASIL

Copom increases the Selic rate to 10.75% p.a.

In its 265th meeting the Copom decided to increase the Selic rate to 10.75% p.a.

The global environment remains challenging, due to the inflection point of the economic cycle in the United States, which poses questions about the pace of economic deceleration, disinflation and, consequently, about the Fed's monetary policy stance. The central banks of major economies remain committed to bringing inflation back to its targets in a context characterized by labor market pressures. The Committee judges that the external environment, also marked by less synchrony in monetary policy cycles across countries, continues to require caution from emerging market economies.

Regarding the domestic scenario, the set of indicators on economic activity and labor market has been exhibiting more strength than expected by Copom, which led to a reassessment regarding the output gap being positive. Headline inflation measured by IPCA as well as various measures of underlying inflation are above the inflation target in recent releases.

Inflation expectations for 2024 and 2025 collected by the Focus survey are around 4.4% and 4.0%, respectively. Copom's inflation projections for the first quarter of 2026, current relevant horizon for monetary policy, stand at 3.5% in the reference scenario (Table 1).

The Committee judges that the risks to its inflation scenarios are tilted to the upside. 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 tighter output gap; and (iii) a conjunction of internal and external economic policies with an 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 global economic activity; and (ii) an impact on global inflation larger than expected from monetary policy tightening.

The Committee monitors closely how the recent developments on the fiscal side impact monetary policy and financial assets. The perception of agents about the fiscal scenario, coupled with other factors, has also impacted asset prices and expectations. The Committee stresses that a credible fiscal policy, committed to debt sustainability, contributes to the anchoring of inflation expectations and to the reduction in the risk premia of financial assets, therefore impacting monetary policy.

The scenario, marked by resilient economic activity, labor market pressures, positive output gap, an increase in the inflation projections, and deanchored expectations, requires a more contractionary monetary policy. Considering the evolution of the disinflationary process, the assessed scenarios, the balance of risks, and the broad array of available information, Copom unanimously decided to increase the Selic rate by 0.25 p.p. to 10.75% 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.

The pace of future adjustments of the interest rate and the total magnitude of the cycle that just started will be determined by the firm commitment of reaching the inflation target and will depend on the inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity, on the inflation expectations, on the inflation projections, on the output gap, and on the balance of risks.

The following members of the Committee voted for this decision: Roberto de Oliveira Campos Neto (Governor), Ailton de Aquino Santos, Carolina de Assis Barros, Diogo Abry Guillen, Gabriel Muricca Galípolo, Otávio Ribeiro Damaso, 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	2024	2025	2026Q1
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IPCA	4.3	3.7	3.5
IPCA market prices	4.4	3.6	3.4
IPCA administered prices	4.2	4.0	3.9

In the reference scenario, the interest rate path is extracted from the Focus survey, and the exchange rate starts at USD/BRL 5.60 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 "yellow" in December of years 2024 and 2025. The value for the exchange rate was obtained according to the usual procedure.

Note: This press release represents the Copom's best effort to provide an English version of its policy statement. In case of any inconsistency, the original version in Portuguese prevails.