BANCO CENTRAL DO BRASIL

Copom increases the Selic rate to 15.00% p.a.

In its 271st meeting the Copom decided to increase the Selic rate to 15.00% p.a.

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

Regarding the domestic scenario, the set of indicators on economic activity and labor market is still showing some strength, even though we observe some moderation in growth. 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. Copom's inflation projections for 2026, currently the relevant horizon for monetary policy, stand at 3.6% in the reference scenario (Table 1).

The risks to the inflation scenarios, both to the upside and to the downside, continue to be higher than usual. 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 o 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.

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.

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 fo 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 ful employment.

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.

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

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 powe 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. 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.