268th

Minutes of the Meeting of the

Monetary Policy Committee — Copom

January 28-29, 2025

BANCO CENTRAL DO BRASIL

Date: January 28-29, 2025

Place: BCB Headquarters' meeting rooms on the 8th floor (1/28 and 1/29 on the morning) and 20th floor (1/29 on the afternoon) – Brasilia – DF – Brazil

Starting and ending times: January 28: 10:04 AM – 12:12 PM; 2:15 PM – 6:17 PM
January 29: 10:07 AM – 11:22 AM; 2:30 PM – 6:42 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 1/28 and on the morning of 1/29):

Alan da Silva Andrade Mendes – *Department of Foreign Reserves*
André Minella – *Research Department* (also attending on the afternoon of 1/29)
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 1/28 and on the morning of 1/29):

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*
Cristiano de Oliveira Lopes Cozer – *General Counsel*
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*
Enrico Bezerra Ximenes de Vasconcelos – *Head of the Secretariat of Governance, Coordination, and Strategic Monitoring*
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*
Luís Guilherme Siciliano Pontes – *Deputy Head of the International Reserves Department*
Marcos Ribeiro de Castro – *Deputy Head of the Research Department*
Olavo Lins Romano Pereira – *Deputy Head of the Department of International Affairs*
Renata Modesto Barreto – *Deputy Head of the Department of Banking Operations and Payments System* (attending on 1/28)
Renato Baldini Junior – *Head of the Department of Statistics*
Renato Kiyotaka Uema – *Head of the Financial System Regulation Department*
Ricardo Eyer Harris – *Head of Office of the Deputy Governor for Regulation*
Ricardo Franco Moura – *Head of the Prudential and Foreign Exchange Regulation Department*
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 challenging due mainly to the economic policy and outlook in the United States, which poses questions about the pace of economic deceleration, disinflation and, consequently, about the Fed's monetary policy stance.

2. 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 continues to require caution from emerging market economies.

3. Regarding the domestic scenario, the set of indicators on economic activity and labor market has been exhibiting strength.

4. Headline inflation and measures of underlying inflation remain above the inflation target and have again increased in recent releases. Inflation expectations for 2025 and 2026 collected by the Focus survey increased significantly and stand at 5.5% and 4.2%, respectively.

B) Scenarios and risk analysis

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

6. Over the past quarters, economic activity, despite the contractionary monetary policy, has surprised positively and remained strong. In particular, the pace of growth of household consumption and gross fixed capital formation highlights that domestic demand has been growing at a fairly strong pace. As in previous analyses, the Committee assesses that the combination of a robust labor market, expansionary fiscal policy, and vigorous broad credit granting have supported consumption and aggregate demand. Similarly, over the past quarters, the labor market has been tight, as demonstrated by measures of unemployment rate, employment level, and number of voluntary layoffs. Nominal wages increase at a high rate, although there is some moderation in the pace of real wage growth.

7. The Committee continues to evaluate that the prospective baseline scenario involves a slowdown in activity, which is part of the monetary policy transmission process and an element necessary for the convergence of inflation to the target. More recent data provide early signs that some growth moderation, in line with the baseline scenario, may be starting, particularly in the goods sector and in the more credit-sensitive sectors. However, some mitigating factors suggest caution in the conclusions. Data are still of high frequency, and the difficulties involving seasonality and frequent revisions in those series demand greater caution in the analysis. Moreover, it was recalled that, in the past, data also suggested an economic slowdown, but this perception was reverted in subsequent months, reflecting only volatility in the series, with no change in the growth trend, which showed remarkable resilience. Finally, as the labor market remains heated, it is difficult to assess to what extent a possible slowdown would reflect weakening demand or supply pressures, with different impacts on inflation. The Committee will continue to monitor economic activity and reiterates that the aggregate demand slowdown is an essential element of the supply-demand rebalancing process in the economy and inflation convergence to the target.

8. The credit market has also remained strong in recent quarters due to the dynamism of the labor market and economic activity. However, in line with the current scenario of

[1] Unless explicitly stated otherwise, this update considers changes since the December Copom meeting (267th meeting).

tightening financial conditions and rising risk premium, bank credit has shown some inflection more recently, especially in low-risk household lines. Conversely, the private securities market continues to show a higher-than-expected volume growth and spread reduction. Then, a multifaceted scenario is anticipated, marked by high household debt service-to-income ratio, along with a dynamic private securities market.

9. Regarding the economic policy more broadly, 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. More recently, agents' perception about the fiscal regime and debt sustainability continued to impact asset prices and expectations significantly. 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. It was emphasized again that maintaining unobstructed the monetary policy channels, with no elements mitigating their action, contributes to a more effective and efficient conduct.

10. Inflation expectations, measured by different instruments and obtained from different groups of agents, have risen significantly in all terms, indicating further deanchoring and thus 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.

11. Short-term inflation scenario remains adverse. Food prices have risen significantly, due to, among other factors, the drought observed throughout the year and the rise in beef prices, also affected by the cattle cycle. This increase tends to spread over the medium term given the presence of important inertial mechanisms in the Brazilian economy. Regarding industrialized goods, the recent exchange rate movement has pressured prices and margins, suggesting a greater increase in these components in the coming months. Finally, services inflation, which has greater inertia, remains above the level required to meet the inflation target in a context of dynamic activity and has accelerated in the most recent readings. In the short-term analysis it was highlighted that, if confirmed the reference scenario projections, the 12-month inflation will remain above the upper limit of the inflation target tolerance interval for the next six consecutive months. Therefore, there would be a target breach with the June 2025 inflation under the new inflation-targeting framework.

12. Prospectively, the Committee will monitor the pace of economic activity, which is fundamental in determining inflation, particularly services inflation; the exchange rate pass-through to inflation, after a process of depreciation and increased exchange rate volatility; and inflation expectations, which have shown further deanchoring and are drivers of the future inflation behavior. It was emphasized that inflationary vectors remain adverse, such as a positive output gap, exchange rate depreciation, higher current inflation, and more deanchored inflation expectations.

13. The external environment remains challenging, with significant economic and geopolitical uncertainties. Although the baseline scenario used by the Committee has not significantly changed, it was assessed that more extreme scenarios, with different impacts on the inflation in emerging market economies, are more likely to materialize than in the previous meeting. Copom's baseline scenario continues to predict a gradual and orderly slowdown of the U.S. economy, but, in addition to the inherent uncertainties of the economic environment, there are doubts about the conduct of economic policy in various dimensions, such as possible fiscal stimuli, labor supply restrictions, introduction of import tariffs, and significant changes in relative prices resulting from shifts in the energy matrix, which could negatively impact financial conditions and capital flows to emerging market economies. 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. 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.

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 6.00[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 2025.

15. In the reference scenario, four-quarter inflation projections for 2025 and for the third quarter of 2026 – the current relevant monetary policy horizon – are 5.2% and 4.0%, respectively (Table 1).

16. The balance of risks remains asymmetrical, indicating a greater probability of higher inflation than that in the baseline scenario. However, in its analysis of the balance of risks, the Committee updated and changed some of the risks.

17. A recurring risk theme in the Committee's debate has been the deanchoring of inflation expectations, including for long terms. This deanchoring process leads to price and wage adjustments above the inflation target, requiring a more contractionary policy than would alternatively be necessary if no such deanchoring existed. The Committee believes that this risk remains as the deanchoring becomes persistent and changes the magnitude and frequency of adjustments in prices and wages. Another highly relevant risk concerns the degree of overheating in the economy, particularly, its effects on services inflation. Over the last quarters, as a result of activity data and scenario updating, the Committee has changed its assessment of the degree of economic slack, considering the output gap as positive. There is also a risk of higher inflation related to the conduct of domestic and foreign economic policies, with a primary impact through the exchange rate. The Committee closely followed the movements of the exchange rate, which has reacted notably to domestic fiscal news, U.S. economic policy news, and the interest rate differential. The implementation of certain policies in the U.S. may pressure domestic asset prices. It was then assessed that the previous view of the possibility of a rise in inflation resulting from a more depreciated exchange rate remained valid. Thus, although some of the risks have materialized, the Committee considered that they are still present prospectively.

18. Conversely, the Committee considered that some of the downside risks to inflation were no longer present, while others appeared more strongly in the debate. The possibility of a slowdown in global activity or stronger-than-expected impacts of the monetary tightening on global disinflation seems less likely, in light of resilient activity data and the monetary easing cycles underway by several central banks. However, the Committee pointed out, as a risk in an environment of contractionary rates and tightened financial conditions, the possibility of a stronger-than-expected domestic slowdown, which could generate disinflationary impacts over time. Conversely, the debate reinforced that the baseline scenario already contemplates a slowdown and that there is no evidence, even incipient, of an abrupt slowdown. Furthermore, the trade policy and financial conditions prevailing in the U.S., with uncertain impacts on the conduct of monetary policy in that country and on global growth, also introduce risks to domestic inflation, either upside, as previously reported, or downside, as the baseline

[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.

scenario now incorporated into prices may not materialize. Therefore, the Committee assessed that the probabilities of the distribution tails of the variables of the external scenario have increased.

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. The Committee assessed that the shorter-term determinants – such as the exchange rate and current inflation – and the medium-term determinants – such as the output gap and inflation expectations – still requires a more contractionary monetary policy.

21. In the Committee's analysis, the scenario unfolded in such a way that the previous indication of a 1.00 p.p. increase in the Selic rate deemed to be the right decision. Copom also concluded that the previous indication of the anticipation of an adjustment of the same magnitude at the next meeting was still appropriate.

22. Beyond the next meeting, the total magnitude of the tightening cycle 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 projections, on the inflation expectations, on the output gap, and on the balance of risks.

D) Monetary policy decision

23. The current scenario is marked by additional deanchoring of inflation expectations, an increase of inflation projections, resilience on economic activity and labor market pressures, which requires a more contractionary monetary policy.

24. Copom therefore decided to increase the Selic rate by 1.00 p.p. to 13.25% 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. In light of the continuation of the adverse scenario for inflation convergence, the Committee anticipates another adjustment of the same magnitude in the next meeting, if the scenario evolves as expected. Beyond the next meeting, the Committee reinforces that the total magnitude of the tightening cycle 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 projections, on the inflation expectations, on the output gap, and on the balance of risks.

26. 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	2026Q3
IPCA	5.2	4.0
IPCA market prices	5.2	3.8
IPCA administered prices	5.2	4.6