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FEATURED Q&A

What Is Causing Brazil's Stubborn Rate of Inflation?

Brazil's central bank (pictured) last month increased its benchmark interest rate by a full percentage point and is expected to hike the rate again by the same amount in March. // File Photo: Agência Brasil.

Q The rate-setting committee of Brazil's central bank on Jan. 29 unanimously raised the benchmark Selic interest rate by a full percentage point, bringing it to 13.25 percent. The central bank signaled another rate hike of a similar size in March, as it raised expectations for inflation this year to 5.2 percent, well above its target of 3 percent. What is putting upward pressure on inflation in Brazil? What do rising interest rates in Brazil mean for the country's banks and credit markets, as well as for investment in the country? How do monetary policy and inflation expectations in Brazil compare to those of other major economies in the Western Hemisphere?

A Joel Korn, president of WKI Brasil and senior international partner at UPITE Consulting Services: "Inflationary pressures this year in Brazil are expected to last longer than anticipated at the end of last year, notwithstanding the central bank's proactive monetary policy. The anticipated one percentage point Selic interest rate hike in January and an additional one percentage point increase in March will not be sufficient to curb inflation at the required pace, within an environment of a vulnerable fiscal policy, an ongoing significant surge in food prices, effects of potential currency devaluation, rising global trade protectionism, and political and economic uncertainties. Revised market expectations of inflation of 5.2 percent will exceed the 4.5 percent upper limit of the target inflationary band for the year. As such, the central bank is likely to raise the Selic interest rate an additional full percentage point in the third quarter, beyond the projected increase to 14.25 percent in March. Borrowing costs will reach even more prohibitive

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TODAY'S NEWS

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Kenyan Officer Killed in Shootout With Haitian Gang

A police officer who was part of the Kenya-led force fighting gangs in Haiti was killed in a shootout with gang members in Haiti's western Artibonite region.

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BUSINESS

Nubank Expecting to Announce New Market This Year

Brazilian digital bank Nubank is expecting to announce its entrance into a new market this year, a executive told Reuters last week. Nubank currently has operations in Brazil, Mexico and Colombia.

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BUSINESS

Ecopetrol Plans Two New Gas Import Facilities

Colombian state-run energy company Ecopetrol is planning to open new natural gas import facilities next year, Chief Executive Officer Ricardo Roa told Bloomberg News.

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Roa // File Photo: Ecopetrol.

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POLITICAL NEWS

Kenyan Police Officer Killed in Shootout With Haitian Gang

A Kenyan police officer who was part of the security mission aiming to wrest control away from the gangs that control much of Haiti was killed there in a confrontation with gang members, Kenyan authorities said Sunday, the Associated Press reported. The officer was killed in Haiti's western Artibonite region. Kenyan police were sent to the Port-Sonde area in Artibonite after residents there pleaded for help to fight the gangs, the AP reported. "This is the price our courageous officer paid—he was killed while fighting for the people of Haiti," Jack Ombaka, an official of the security mission, said in a statement, the wire service reported. "We salute our fallen hero," he added. Officials provided few details about the shootout, though the Gran Grif gang controls the area, the AP reported. Kenya, which heads the U.N. mission, has sent about 800 police officers to Haiti. They are joined by police officers and soldiers from other countries, including Guatemala, Jamaica and El Salvador. The Kenyan officer's death followed last week's decision by the administration of U.S. President Donald Trump to end protections from deportation, known as temporary protected status, of more than 500,000 Haitians living in the United States. The status will end on Aug. 3, BBC News reported.

BUSINESS NEWS

Colombia's Ecopetrol Plans to Open Two Gas Import Facilities

Colombian state-run energy firm Ecopetrol plans to open two natural gas import facilities next year in order to reduce domestic fuel prices, CEO Ricardo Roa told Bloomberg News last week in an interview, the news service reported Friday. By the end of next year, Ecopetrol aims to open a liquefied natural gas processing plant attached to an existing oil platform on the Caribbean coast in the La Guajira department with 200 million cubic feet per day of capacity, as well as another facility with 60 million cubic feet per day in natural gas processing capacity along the Pacific coastline near Buenaventura, Roa told Bloomberg News. The two import facilities will supply fuel for around one quarter of Colombia's domestic gas market, Roa said. Hydrocarbon exploration has slowed in Colombia in recent years, widening the country's growing gulf between natural gas supply and demand. Natural gas demand in the country is expected to be 17 percent higher than domestic production in 2026, according to Bloomberg News. Colombia's natural gas reserve levels fell by around 7 percent in 2024, Colombian newspaper La República reported. [Editor's note: See related **Q&A** in the Oct. 25 issue of the weekly Energy Advisor.]

Nubank Expecting to Announce New Market This Year

Brazil's Nubank, the most valuable financial institution in Latin America, will announce where it is expanding to by this year, an executive at the firm told Reuters on Thursday. Jorg Friedemann, Nubank's director of investor relations, told Reuters that the bank expects to announce its newest market, after Brazil, Mexico and Colombia, by the end of this year. "We are not ready yet to make any more specific announcements about where the next geography will be," Friedemann said. In January, the bank's founder and executive president, David Vélez, told Reuters that the company plans to expand. He noted that deregulation could make the U.S. banking sector more appealing for new entrants. The Brazilian fintech announced its fourth-quarter earnings on Thursday, reporting an 87 percent jump in adjusted net profit. Nubank surpassed Itaú Unibanco to become the most valuable Latin American financial institution last May, Bloomberg News reported.

NEWS BRIEFS

Trump's Media Group, Rumble File Motion Against Brazilian Justice

U.S. President Donald Trump's media group and video sharing site Rumble have filed a motion in a U.S. court against Brazilian Supreme Court Justice Alexandre de Moraes, Reuters reported today. The move came after the justice ordered the suspension of Rumble, which hosts Trump's Truth Social platform, until it adheres to court orders. Rumble and Trump Media & Technology Group had earlier sued De Moraes, accusing him of illegal censorship.

Mexico's Inflation Rate Rises Slightly to 3.63% in mid-February

Year-on-year core inflation in Mexico increased slightly in mid-February, reaching 3.63 percent after being recorded at 3.61 percent two weeks prior, Bloomberg News reported, citing data from Mexico's national statistics agency. Analysts polled by the news service had predicted no change in core inflation. Earlier this month Mexican central bankers reduced the country's benchmark interest rate by 50 basis points, citing inflation's ongoing manageability, Bloomberg News reported.

African Ex-Im Bank Plans $1 Bn Fund for Oil Investments in Guyana

The Cairo-based African Export-Import Bank (Afreximbank) plans to establish a $1 billion fund to support African oil companies' involvement in new oil and gas projects in Guyana, the multilateral development finance body announced in a press release on Friday. In future contracts Guyana's government should seek long-term off-take commitments, higher royalty fees for foreign companies and enhanced local labor requirements for the oil sector, Nigerian economist and Afreximbank President Benedict Oramah said in the press release.

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levels to address growing credit delinquency and to protect banks' margins. New direct investments will likewise be hindered by the effects of inflation, reinforcing the outlook for slower economic growth in 2025, at best 2 percent, as opposed to 3.5 percent in the past year. Brazil's current aggressive monetary policy contrasts with the policy rates followed or projected by the United States, eurozone and a vast majority of emerging economies, which are currently following the path of an easier stance in interest rates in response to declining inflation."

Carolina Costa Hurtado, head of policy at Red Flag Global: "Brazil's inflation is being driven by a combination of factors, including the sharp depreciation of the real, which declined more than 20 percent against the dollar last year, raising import costs and fueling price pressures. Additionally, inflationary inertia, where past price hikes influence future expectations, is also at play, making it harder to bring inflation back to target. In response, Brazil's central bank has hiked the Selic rate to 13.25 percent, with another increase expected. While this move is intended to control inflation, it has significant implications for the economy. Higher rates make credit more expensive, tightening lending conditions and slowing the business investment. While foreign investors may be attracted by high yields, domestic growth could take a hit as companies face rising borrowing costs. Compared to similar economies in the region, Brazil's monetary policy is among the most aggressive. Colombia and Mexico, facing their own inflationary challenges, have been more measured in their rate adjustments, opting for a gradual tightening approach. Argentina, meanwhile, has taken a different path, grappling with hyperinflation and extreme policy measures. Looking ahead, Brazil must strike a balance between controlling inflation and sustaining economic growth in the lead-up to the 2026 election. As economic decisions directly affect voter sentiment, fiscal policy and investor confidence will be critical in shaping both the country's economic trajectory and its political future."

Sérgio Goldenstein, chief strategist at Warren Investments: "Brazil's inflation has been pressured by a combination of factors. First, it is worth highlighting the strong exchange rate depreciation that occurred last year, above 25 percent, when the real was affected by a more adverse external scenario and by the increase in the risk premium due to the significant worsening of the perception regarding the country's fiscal outlook. Second, the economy has been growing well above its potential of 2 percent, which generated demand pressures and a tight labor market. Third, adverse weather conditions have put pressure on food prices. The high benchmark Selic interest rate should lead to an increase in household and corporate defaults, in addition to a cooling of debenture issuances, reversing the very expansionary credit cycle. High interest rates should constitute a strong barrier to the expansion of investments and household consumption will moderate due to the lower fiscal impulse in 2025 and restrictive monetary and financial conditions. GDP growth, which was around 3.5 percent in 2023 and 2024, is expected to slow to a variation close to 1.5 percent. A major challenge for monetary policy is that inflation expectations are significantly deviating from the 3 percent target, which ends up raising the inflation forecasts of the central bank and, consequently, generating the need for higher interest rates. The market is pricing in the basic interest rate to reach 15.25 percent, equivalent to a real interest rate close to 10 percent, well above the level of other major economies in the Western Hemisphere."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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