Brazil Macro Special Report

How Copom Tone Anticipates the Selic

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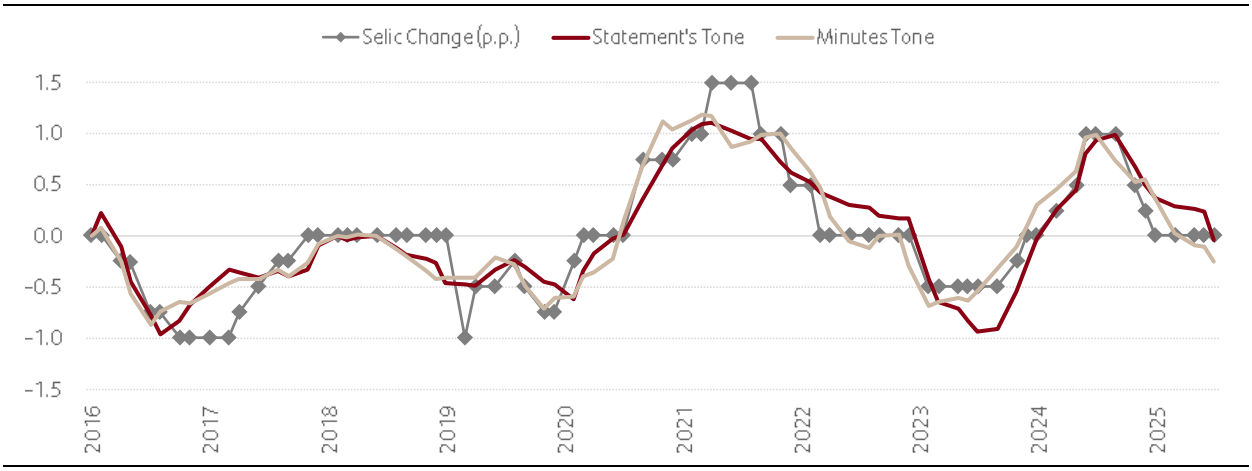
- **Over the past decade, Copom communication has evolved into a central component of monetary policy, with statements and minutes jointly shaping Selic expectations by updating the Committee's perceived reaction function, albeit with distinct timing and informational roles.**
- **Using an LLM-based tone index, we show that communication shocks systematically anticipate Selic movements, even after controlling for macro fundamentals. Statements primarily affect the timing of policy adjustments, while minutes shape the depth and persistence of the cycle.**
- **Selic response to tone shocks increased after 2019 amid heightened macro volatility. In the most recent period, peak responses occur earlier but with more moderate magnitudes, suggesting evolving alignment between tone, decision timing, and the effective policy reaction function**

Introduction

Modern monetary policy is conducted through both interest-rate decisions and communication. In Brazil, official Copom documents have evolved significantly since Ilan Goldfajn's tenure, incorporating more detailed diagnostics, explicit balances of risk, and increasingly forward-looking guidance. As communication expanded, it became a central component of policy implementation and expectation management.

In this Special Report, we provide a systematic quantification of how the tone of Copom communication anticipates Selic movements and how this relationship has evolved over time. To do so, we employ a communication-tone index generated by a Large Language Model (LLM), applied to the Statements and Minutes of BCB decisions since 2016 and calibrated in Selic-equivalent units (basis points). This indicator is then embedded in a Vector Autoregressive (VAR) framework alongside the Selic rate, the output gap, the USD/BRL exchange rate, and deviations of inflation expectations from the target based on the Focus Survey.

Figure 1: Sentiment Indexes and the Selic Rate (in Selic Change-Equivalent Units – p.p.)



Source: BCB, Santander.

Within this setting, we identify communication-tone shocks — innovations in the implicit policy tone embedded in Copom texts — and assess how these shocks anticipate future policy-rate decisions. We then extend the analysis using an Interactive VAR (I-VAR), allowing the transmission of communication-tone shocks to vary across presidencies of the BCB. For the Galípolo period, we include his tenure as a voting director of Copom, thereby expanding the sample.

Overall, the evidence points to a more intensive use of communication as a policy instrument, especially from the Campos Neto period onward. For investors, this reinforces the need to treat the policy statement as the main timing signal for the Selic path — indicating when policy adjustments are more likely to occur — while the minutes play a complementary role by shaping the intensity and persistence of the adjustment, refining scenarios about how far and how durably the policy rate may ultimately move.

Empirical Strategy

1. Data and Sample

The empirical analysis is conducted at the Copom-meeting frequency, covering 77 meetings from July 2016 to January 2026. The dataset includes:

- BCB's communication tone: LLM-based tone indices calibrated in Selic-equivalent units.
- Selic rate: policy rate decided at each meeting.
- Output gap: proxy based on BCB's latest available estimate[1].
- Inflation expectations gap: deviation of Focus median IPCA expectations (12 months ahead) from the target.
- ΔUSD/BRL: included to capture external and financial conditions relevant to the reaction function.

All macro variables are aligned to reflect information available prior to each meeting.

2. Identification of Communication Surprises

To isolate the informational content of communication, we decompose the sentiment index into an expected and an unexpected component. The expected tone is estimated as a function of macroeconomic conditions observed before the meeting — namely the output gap, the deviation of inflation expectations from the target, and the exchange rate fluctuations. The residual from this projection is interpreted as a communication surprise, capturing deviations in tone that are not mechanically explained by fundamentals.

This approach follows the logic of state-contingent news shocks and allows communication innovations to be interpreted as genuinely new information revealed by the Copom.

3. Reference VAR Specification

We estimate two separate VARs: one using surprises in the statement tone and another using surprises in the minutes tone ($T_t = statement\ or\ minutes$). This avoids identification issues arising from the high correlation between the two and allows for a clean comparison of how each communication tool affects the Selic path. The vector of endogenous variables in the reference VAR model is:

$$Y = [T, Output\ Gap, \Delta\, USD/BRL\,, IPCA\ Focus\ Gap, Selic\,]$$

Output and inflation gaps, as well as the FX rate, are treated as endogenous but effectively function as controls for the state of the economy and the policy reaction function. We adopt a recursive (Cholesky) identification scheme in which the shock of interest originates in communication — an innovation not explained by the other state variables. The Selic response to this shock over subsequent meetings is the core object of analysis.

[1] A limitation of the analysis is the use of a non-vintage output gap, which may differ from the real-time information available to the Copom at each meeting. While unavoidable given data constraints, this limitation is standard in literature and unlikely to alter the qualitative conclusions.

Results

1. Full Sample VAR Results

Communication-tone shocks from statements and minutes generate qualitatively similar Selic responses over a 16-meeting horizon, indicating that both documents operate through the same fundamental channel: updating the perceived reaction function of the Committee.

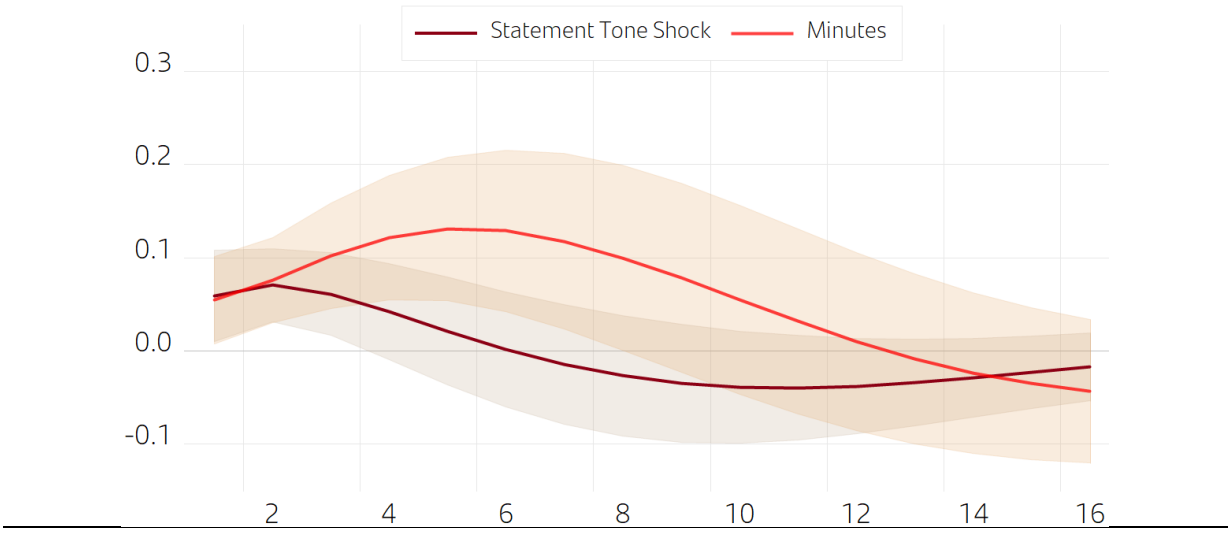
The key difference lies in timing. Statement-tone shocks are inclined to provoke a rapid Selic response, peaking around the second Copom meeting following the shock. Minutes-tone shocks tend to produce a more gradual response, peaking only from the fifth meeting onward. This reflects institutional design: statements are well-suited to convey short-term policy signals, whereas minutes articulate the broader rationale, trade-offs, and balance of risks.

In terms of magnitude, the cumulative Selic response associated with minutes-tone shocks is larger than that associated with statement-tone shocks. This indicates that, while statements may well coordinate the timing of policy adjustments, the tone of the minutes might play a central role in shaping the depth and durability of the Selic path over the cycle.

Crucially, the slower transmission of minutes-based shocks reflects not weaker informational content, but a different role in the policy process: minutes influence how far and how persistently policy adjusts, rather than when the adjustment begins.

Summarizing the impulse responses along timing and magnitude clarifies the functional separation of Copom communication tools. The tone of statements moves the Selic rate sooner, concentrating near-term signals. The tone of minutes moves the Selic more, shaping the total adjustment over the cycle. Communication thus operates along two dimensions, speed and depth, rather than through a single channel.

Figure 3: Selic Response to Shocks in Copom's Official Communication

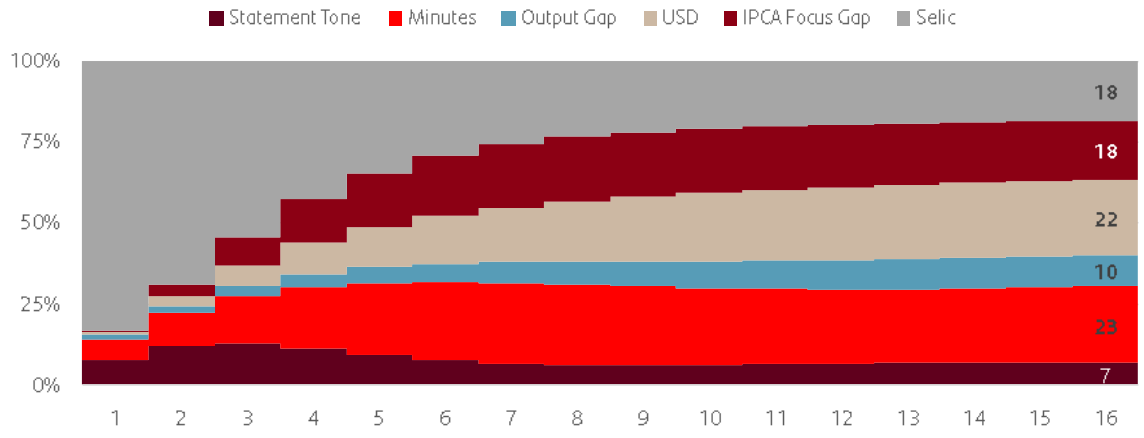


Source: Santander.

Forecast-error variance decompositions in Figure 4 quantify the contribution of communication-tone shocks to Selic fluctuations. At a horizon of four meetings, statement-tone shocks explain about 10% of Selic variance, while minutes-tone shocks explain roughly 25%. At eight meetings, the contribution of statement tone declines to 6%, whereas minutes tone rises to around 34%.

These results confirm that communication tone is quantitatively relevant for Selic dynamics. Statements matter primarily for near-term coordination, while minutes dominate the medium-term variability of the policy rate.

Figure 4: Forecast Error Variance Decomposition of the Selic Rate



Source: Santander.

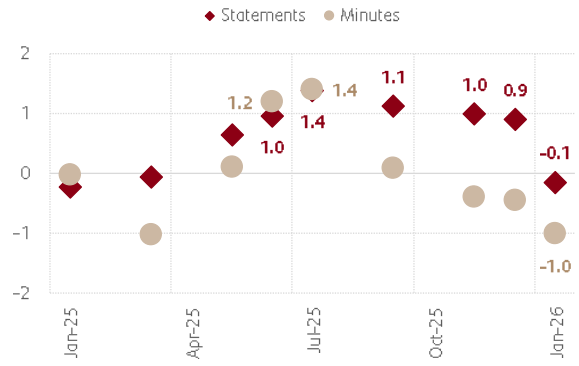
2. Short-term Communication Dynamics

To illustrate the real-time applicability of our framework, Figure 5 compares the tone implied by macro fundamentals ("expected tone") with the realized tone embedded in Copom statements and minutes. The difference between the two corresponds to the estimated communication-tone surprise.

In December 2025, the policy statement registered a +0.9 standard-deviation hawkish surprise, indicating that the tone was firmer than what macro conditions alone would imply. Consistent with our impulse-response results, this episode reinforced the near-term timing signal for the Selic path.

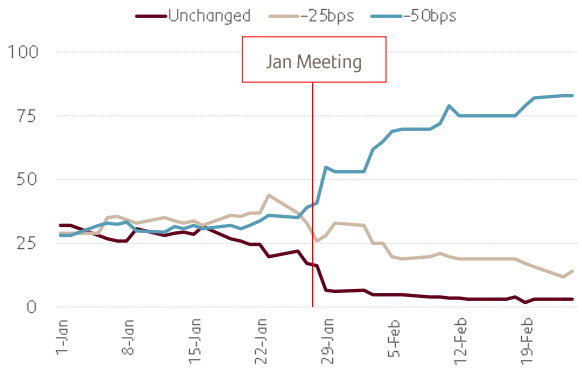
In January 2026, the statement explicitly referenced a baseline scenario consistent with easing in March. Yet the associated tone surprise was close to zero (-0.1 standard deviations), suggesting that such guidance was broadly aligned with what fundamentals already implied rather than constituting incremental information. The minutes, however, displayed a -1.0 standard-deviation dovish surprise, pointing to a moderate softening in tone relative to expectations. It is worth remembering that our change of view on the path/total budget of the Selic rate ahead was also due to this dovish surprise.

Figure 5: Expected vs. Realized Tone (z-score since 2016)



Source: Santander.

Figure 6: Odds for Copom's Mar-26 Meeting – Option Market



Source: B3, Santander.

3. Heterogeneity Across Terms: I-VAR Results

To capture changes in the transmission of communication shocks over time, we extend the model to an Interactive VAR in which the impact of communication shocks is allowed to vary across Copom presidencies, while the remaining VAR dynamics are kept common across terms.

Formally, the I-VAR is specified as:

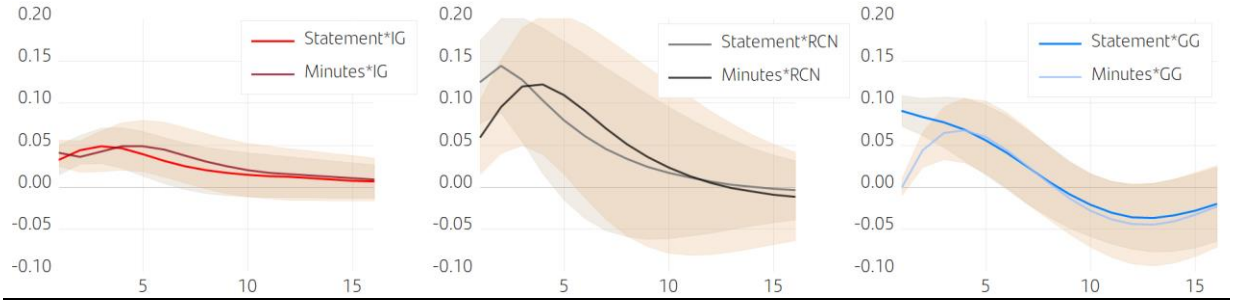
$$Y_t = c + \sum_{j=1}^{p} A_j Y_{t-j} + \sum_{\kappa \in \{IG,RCN,GG\}} D_t^{\kappa} b^{\kappa} \varepsilon_t^{tone} + u_t$$

Where:

- ε_t^{tone} denotes the communication shock (the surprise BCB's tone).
- D_t^{κ} are regime dummies indicating whether meeting t occurs under which chairman.
- b^{κ} captures the regime-specific transmission of communication shocks into the system.

This specification allows the Selic response to the same shock in tone along the years, without requiring a full re-estimation of the entire VAR structure for each term. Across communication approaches, the sensitivity of the Selic rate to tone shocks varies markedly. Under Goldfajn, responses are moderate and gradual, with statements and minutes playing statistically similar roles. Under Campos Neto, the transmission of communication-tone shocks is characterized by larger and more front-loaded Selic responses, particularly through statements. This amplified response is consistent with an environment of heightened macroeconomic volatility — including the pandemic shock and subsequent inflationary pressures — in which communication tone carried greater marginal information about upcoming policy adjustments. Under Galípolo, combining his periods as voting director and chairman, the estimated responses lie between the two previous frameworks. Short-term signals tend to be concentrated in the statement, while the minutes might retain medium-term depth; peak effects also occur earlier suggesting quicker alignment between tone and policy action. These effects, however, exhibit somewhat smaller magnitudes and should be interpreted with caution given the shorter sample.

Figure 7: Selic Response to Shocks in Copom's Official Communication – by Chairmen[1]



Source: Santander. [1] IG = Ilan Goldfajn, RCN = Roberto Campos Neto, GG = Gabriel Galípolo.

Some Interpretations and Implications

The evidence in this report shows that the tone of Copom communication has become a core component of monetary-policy transmission in Brazil in the last decade. Statements and minutes affect the Selic through the same fundamental channel — updating the perceived reaction function — but with distinct informational roles.

Statements increasingly concentrate timing-relevant signals, coordinating when policy moves are likely to occur. Minutes, by contrast, shape the intensity, persistence, and medium-term variability of the Selic path, influencing how far and how durably policy ultimately adjusts. The results are therefore consistent with a gradual front-loading of short-term signals into the statement, without implying any displacement of informational depth from the minutes.

More broadly, these findings matter in a world where markets increasingly process central-bank communication through AI and machine-learning-based tools. As language is continuously quantified and translated into actionable signals, communication itself becomes part of the effective policy infrastructure. In this environment, understanding how tone maps into expectations, prices, and decisions is not a secondary analytical exercise – it is a necessary condition for effective monetary policy.

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