

# **Minutes of the 229<sup>th</sup> Meeting of the Monetary Policy Committee (Copom\*) Banco Central do Brasil\*\***

March 17-18, 2020



\* The Monetary Policy Committee of the Banco Central do Brasil is herein referred to as the "Copom" and the "Committee".

\*\* These minutes represent Copom's best effort to provide an English version of the minutes of its policy meeting. In case of any inconsistency, the original version in Portuguese prevails.

**Date:** March 17-18, 2020

**Place:** BCB Headquarters' meeting room on the 8<sup>th</sup> floor – Brasilia – DF – Brazil

**Starting and ending times:** March 17: 10:04 AM – 1:23 PM; 3:20 PM – 6:45 PM  
March 18: 2:00 PM – 6:06 PM

**In attendance:**

**Members of the Copom**

Roberto Oliveira Campos Neto – Governor  
Bruno Serra Fernandes  
Carolina de Assis Barros  
Fabio Kanczuk  
Fernanda Feitosa Nechio  
João Manoel Pinho de Mello  
Maurício Costa de Moura  
Otávio Ribeiro Damaso  
Paulo Sérgio Neves de Souza

**Department Heads in charge of technical presentations (present on March 17 during their presentations)**

Alan da Silva Andrade Mendes – Department of Foreign Reserves  
André Minella - Research Department (present on March 17-18)  
André de Oliveira Amante – Department of Open Market Operations  
Cynthia Freitas Azevedo – Advisor to the Department of Banking Operations and Payments System  
Fabia Aparecida de Carvalho – Department of International Affairs  
Tulio José Lenti Maciel – Department of Economics

**Other participants (present on March 17)**

Adalberto Felinto da Cruz Junior – Executive Secretary  
Leonardo Martins Nogueira – Head of the Governor's Office

The members of Copom analyzed the recent performance and prospects for the Brazilian and international economies, under the monetary policy framework, whose objective is to comply with the inflation targets established by the National Monetary Council.

## A) Update of Economic Outlook and Copom's Baseline Scenario<sup>1</sup>

1. Regarding the global outlook, the novel coronavirus pandemic is causing a significant global growth slowdown, a fall in commodity prices, and an increase in asset prices volatility. With this background, the environment for emerging economies has become challenging, despite the additional provision of monetary stimulus in major economies.

2. Data on economic activity released since the previous meeting remains in line with the process of the gradual recovery of the Brazilian economy. However, these data do not yet reflect the impact from the COVID-19 pandemic.

3. Several measures of underlying inflation are running at levels compatible with meeting the inflation target at the relevant horizon for monetary policy.

4. Short-term projections have been significantly affected by recent commodity price movements. In particular, the substantial international oil price retraction may quickly affect domestic fuel prices. The implications of the pandemic on the service segment, notably on airfare prices, are likely to be reflected in the monthly inflation readings, mainly from May onwards.

5. Inflation expectations for 2020, 2021 and 2022 collected by the Focus survey are around 3.1%, 3.65% and 3.5%, respectively.

6. In the hybrid scenario with interest rate path extracted from the Focus survey and constant exchange rate at R\$4.75/US\$<sup>2</sup>, projections stand around 3.0% for 2020, and 3.6% for 2021. This scenario assumes a path for the Selic rate that ends 2020 at 3.75% p.a. and rises to 5.25% p.a. in 2021. In this scenario, inflation projections for administered prices are 1.5% for 2020 and 3.9% for 2021.

7. The scenario with constant interest rate at 4.25% p.a. and constant exchange rate at R\$4.75/US\$ yields inflation projections around 3.0% for 2020, and 3.6% for 2021. In this scenario, inflation projections for administered prices are 1.5% for 2020 and 3.9% for 2021.

<sup>1</sup> Unless explicitly stated otherwise, this update takes into account changes occurred since the February Copom meeting (228th meeting).

## B) Risks Around the Baseline Inflation Scenario

8. The Copom's baseline scenario for inflation encompasses risk factors in both directions.

9. On the one hand, economic slack may continue to produce a lower-than-expected prospective inflation trajectory. This risk increases if a worsening of the pandemic implies a larger-than-expected, both in magnitude and in length, increase in uncertainty and decline in demand.

10. On the other hand, the increase in monetary policy power, the deterioration of the external scenario, or the frustration with the continuation of reforms may increase the risk premium and generate a higher-than-expected path for inflation over the relevant horizon for the conduct of monetary policy.

## C) Discussion about the conduct of monetary policy

11. Copom members discussed the evolution of economic activity in light of the available information and indicators. They assessed that the data released since their previous meeting were in line with expectations. However, these data do not yet reflect the impacts of the pandemic in the Brazilian economy, hence, they should have little relevance to prospective analysis.

12. The Copom members continued the debate on the size of the economic slack. Given the available data, the Copom concluded that the economy continued to recover gradually and close its gap. However, in the current context of the pandemic, measures of economic slack have become dated.

13. The Committee understands that the available information is enough to demonstrate that the pandemic will have an extremely significant contractionary effect on global activity. The fiscal and monetary measures adopted by the main economies tend to mitigate only a small share of these effects. Regarding emerging countries, the outlook has quickly changed from favorable to challenging. As in other international crises, the increase in risk aversion and the resulting reallocation of assets are causing a substantial tightening of financial conditions.

14. The Committee then discussed how the pandemic affects the Brazilian economy and, particularly, the scenarios for prospective inflation. The Copom

<sup>2</sup> Value obtained according to the usual procedure of rounding the average R\$/US\$ exchange rate observed on the five business days ending on the Friday prior to the Copom meeting.

concluded that there are three main transmission channels. First, a supply shock, derived from the interruption of production chains. Second, a production costs shock, measured by the commodity price variation and important financial assets. Third, a shortage of demand, derived from an increased uncertainty and the restrictions imposed by the pandemic.

15. The Committee judges that the first effect will have small quantitative importance, due to the Brazilian economy's poor interconnection with global production chains. The second effect will probably imply a strong disinflationary impact in the short term. However, its importance should be put into perspective due to its temporary nature and to the volatility of commodity prices measured in local currency. Finally, the third effect tends to be quite significant at the relevant horizon for monetary policy because the effects of the pandemic on activity could be substantial. According to simulations presented at the Copom meeting, to offset this third effect, it would be necessary to reduce the policy rate by more than 0.50 percentage point.

16. The Copom conjectured on the economy's structural interest rate and how it may evolve in the coming months. In the Committee's view, the possible interaction between the deterioration of the external scenario, the frustrations regarding the continuity of the reforms and the possible permanent changes in the public accounts adjustment process, may threaten the fall in structural interest rates observed in recent years.

17. In light of this perception, the Committee considered that a reduction in the basic interest rate beyond 0.50 percentage point could become counterproductive and could result in tighter financial conditions, thus leading to the opposite desired effect. Based on the information available so far, the Committee sees the maintenance of the Selic rate at its new level as appropriate. However, the Committee recognizes that new information on economic conditions will be essential to determine its next steps.

18. The Copom members also discussed the effectiveness of monetary policy to stimulate demand. They concluded that, although limited so far, the effects will become relevant for accelerating economic recovery when the restrictions imposed by the pandemic start to be lifted.

19. Finally, the Copom evaluated the balance of risks around the baseline scenario. The Committee concluded that, at the moment, the balance of risks has higher variance than usual. In the Committee's view, the greater variance in the balance of risks does not necessarily imply gradualism in the conduct of monetary policy, but that the magnitude of

forthcoming monetary policy decisions is subject to greater uncertainty.

## D) Monetary Policy Decision

20. Taking into account the baseline scenario, the balance of risks, and the broad array of available information, the Copom unanimously decided to lower the Selic rate by 0.50 percentage point to 3.75% p.a. The Committee judges that this decision reflects its baseline scenario for prospective inflation, a higher-than-usual variance in the balance of risks, and it is consistent with convergence of inflation to its target over the relevant horizon, which includes 2020 and, mainly, 2021.

21. The Copom reiterates that economic conditions prescribe stimulative monetary policy, i.e., interest rates below the structural level.

22. The Committee emphasizes that persevering in the process of reforms and necessary adjustments in the Brazilian economy is essential for a sustainable economic recovery. The Copom also stresses that questions about the continuation of the reform agenda and permanent changes to the fiscal consolidation process could result in a higher structural interest rate. Under such circumstances, additional monetary easing may be counterproductive and result in tighter financial conditions.

23. The Copom understands that the current environment recommends caution in the conduct of monetary policy and, at this moment, deems appropriate to keep the Selic rate at its new level. However, the Committee recognizes that the variance of its balance of risks has increased and that further economic data will be essential to determine its next steps.

24. The Banco Central do Brasil stresses that it will continue to deploy its arsenal of monetary, exchange rate and financial stability policies to fight the current crisis.

25. The following members of the Committee voted for this decision: Roberto Oliveira Campos Neto (Governor), Bruno Serra Fernandes, Carolina de Assis Barros, Fabio Kanczuk, Fernanda Feitosa Nechio, João Manoel Pinho de Mello, Maurício Costa de Moura, Otávio Ribeiro Damaso, and Paulo Sérgio Neves de Souza.