

# **Minutes of the 227<sup>th</sup> Meeting of the Monetary Policy Committee (Copom\*) Banco Central do Brasil**

December 10-11, 2019



\* 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:** December 10-11, 2019

**Place:** BCB Headquarters' meeting rooms on the 8th floor (December 10) and 20th floor (December 11)  
– Brasília – DF – Brazil

**Starting and ending times:** December 10: 10:10 AM – 1:04 PM; 3:13 PM – 7:38 PM  
December 11: 2:30 PM – 6:11 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 December 10)**

Alan da Silva Andrade Mendes – Department of Foreign Reserves  
André Minella – Research Department (also present on December 11)  
André de Oliveira Amante – Department of Open Market Operations  
Flávio Túlio Vilela – Department of Banking Operations and Payments System  
João Barata Ribeiro Blanco Barroso – Department of International Affairs  
Tulio José Lenti Maciel – Department of Economics

**Other participants (present on December 10)**

Adalberto Felinto da Cruz Júnior – Executive Secretary  
André Luiz Caccavo Miguel – Head of the Financial System Monitoring Department  
Carlos Eduardo de Almeida – Senior Advisor at the Deputy Governor for Licensing and Resolution's Office  
Eduardo José Araújo Lima – Head of the Deputy Governor for Economic Policy's Office  
Enrico Bezerra Ximenes de Vasconcelos – Secretary of the Financial Stability Committee and Advisor to the Board  
Fabia Aparecida de Carvalho – Deputy Head of the Research Department  
Fabio Araujo – Head of the Economic Advisors' Office  
Fernando Alberto Sampaio Rocha – Head of the Department of Statistics  
Leonardo Martins Nogueira – Head of the Governor's Office  
Márcio Antônio Estrela – Head of the Deputy Governor for International Affairs and Corporate Risk Management's Office  
Mauro Zanatta – Press Officer  
Ricardo Franco Moura - Head of the Prudential and Foreign Exchange Regulation Department  
Ricardo Sabbadini – Deputy Head of the Department of Economics  
Rogério Antônio Lucca – Head of the Deputy Governor for Monetary Policy's Office  
Sílvio Michael de Azevedo Costa - Deputy Head of the Department of International Affairs

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. Economic activity data as of the second quarter indicate that the recovery process of the Brazilian economy picked up relative to the first quarter of 2019. Copom's baseline scenario assumes that this recovery will occur at a gradual pace.

2. Data suggest that the economy continues to operate with a high level of economic slack, as reflected in the low readings of traditional measures of industrial capacity utilization and, mainly, in the unemployment rate.

3. Regarding the global outlook, the provision of monetary stimulus in major economies, in a context of below-target inflation, has been able to generate a relatively favorable environment for emerging economies.

4. Various measures of underlying inflation are running at comfortable levels, including the components that are most sensitive to the business cycle and monetary policy.

5. Inflation expectations for 2019, 2020, 2021, and 2022 collected by the Focus survey are around 3.8%, 3.6%, 3.75%, and 3.5%, respectively.

6. The Copom's inflation projections in the scenario with interest rate and exchange rate paths extracted from the Focus survey stand around 4.0% for 2019, 3.5% for 2020, and 3.4% for 2021. This scenario assumes a path for the Selic rate that ends 2019 at 4.50% p.a., falls to 4.25% p.a. at the beginning of 2020, ends that year at 4.50% p.a., and rises to 6.25% p.a. in 2021. It also assumes a path for the exchange rate that ends 2019 at R\$4.15/US\$, 2020 at R\$4.10/US\$ and 2021 at R\$4.00/US\$. In this scenario, inflation projections for administered prices are 5.1% for 2019, 3.6% for 2020, and 3.5% for 2021.

7. The hybrid scenario with a constant exchange rate at R\$4.20/US\$<sup>2</sup> and the interest rate path from the Focus survey yields inflation projections around 4.0% for 2019, 3.7% for 2020, and 3.7% for 2021. In this scenario, inflation projections for administered prices are 5.1% for 2019, 3.9% for 2020, and 4.1% for 2021.

<sup>1</sup>Unless explicitly stated otherwise, this update takes into account changes occurred since the October Copom meeting (226<sup>th</sup> 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, (i) the high level of economic slack may continue to produce a lower-than-expected prospective inflation trajectory.

10. On the other hand, (ii) in the context of changes in financial intermediation, the current degree of monetary stimulus, which affects the economy with lags, increases the uncertainty about the transmission channels and may raise the path for inflation over the relevant horizon for the conduct of monetary policy. Risk (ii) intensifies in case of (iii) a deterioration of the outlook for emerging economies or (iv) a possible frustration regarding the continuation of reforms and the perseverance in the necessary adjustments in the Brazilian economy.

## 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 concluded that data released since their previous meeting suggest that the Brazilian economy growth has picked up. Subsequent quarters should show some acceleration, which should be reinforced by the stimuli resulting from the release of FGTS and PIS-PASEP resources – impacting mainly the last quarter of 2019. Copom's baseline inflation scenario assumes that the pace of underlying economic activity growth – which excludes the effects of temporary stimuli – will be gradual.

12. Copom members also evaluated the evolution of financial conditions indicators. They concluded that the conditions are favorable, despite some volatility inherent to those measures. The environment with favorable financial conditions results from the increase in the degree of monetary stimulus, the relatively favorable external environment for emerging economies and the prospects for improving the fundamentals of the Brazilian economy, as a result of the reform agenda and necessary adjustments. This easing of financial conditions has been more clearly reflected in the dynamics of non-earmarked credit and capital markets, which are growing at robust rates in this stage of the economic cycle. Some Copom

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

members pointed out that there is evidence of the beginning of a gradual process of financial disintermediation.

13. The Committee also discussed the characteristics of the current business cycle, with a smaller role for the public sector in the economy, and its possible implications for monetary policy. Some Copom members pointed out that changes in the credit market and financial intermediation, such as the greater role played by non-earmarked credit and capital markets, may have an impact on the monetary policy transmission channel. Copom members also conjectured about the sensitivity of macroeconomic variables to monetary policy, since there are no historical precedents in the Brazilian history for the current degree of stimulus. Copom members judge that changes in the credit and capital markets tend to bolster the power of monetary policy.

14. Copom members also reflected on the level of economic slack. Some members argued that the latest activity data and the greater efficiency of the credit and capital markets may result in a faster decline in economic slack than anticipated, and thus produce upward pressure on inflation. On the other hand, the members of the Committee stressed that the dynamics of the inflation cores measures indicate that the level of economic slack is still high.

15. Regarding the global outlook, the Committee members deemed the scenario as relatively favorable for emerging economies. Central banks of several economies – some major economies included – have provided monetary stimuli, which contribute to easing global financial conditions.

16. In the relevant horizon for monetary policy, the scenario with the interest rate path from the Focus survey and a constant exchange rate results in inflation slightly below the 2020 target and around the 2021 target. Short-term projections were particularly affected by the effects of the proteins price shock, which occurred more intensely and earlier than anticipated. The projections consider a direct effect more concentrated in the last two months of this year, constituting the main factor that increased 2019 projections. Regarding administered prices, benign conditions for the occurrence of minor adjustments in electricity rates were mentioned. This process has been occurring in recent months and will probably continue over the next quarters.

17. The Copom members assessed that the economic conditions with anchored inflation expectations, underlying inflation measures at comfortable levels, scenarios with projected inflation below or around target for the relevant horizon of monetary policy, and the high level of slack in the economy prescribe stimulative monetary policy, i.e., interest rates below

the structural level. The Committee members expressed the view that the current level of *ex-ante* real interest rates provides stimulus to the economy.

## D) Monetary Policy Decision

18. 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 0.5 percentage point, to 4.50% p.a. The Committee judges that this decision reflects its baseline scenario for prospective inflation and the associated balance of risks, and it is consistent with convergence of inflation to its target over the relevant horizon for the conduct of monetary policy, which includes 2020 and, to a lesser extent, 2021.

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

20. The Copom sees progress in the process of reforms and necessary adjustments in the Brazilian economy. The Committee emphasizes that persevering in this process is essential to allow for the consolidation of the reduction of the structural interest rate and for a sustainable economic recovery. The Committee stresses that the perception of the continuation of the reform agenda affects current expectations and macroeconomic projections.

21. The Copom judges that the current stage of the business cycle recommends caution in the conduct of monetary policy. The Copom emphasizes that its next steps will continue to depend on the evolution of economic activity, the balance of risks, and inflation projections and expectations.

22. 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.