264th

Minutes of the Meeting of the

Monetary Policy Committee — Copom

July 30-31, 2024

BANCO CENTRAL DO BRASIL

BANCO CENTRAL DO BRASIL

Date: July 30-31, 2024

Place: BCB Headquarters' meeting rooms on the 8th floor (7/30 and 7/31 on the morning) and 20th floor (7/31 on the afternoon) – Brasilia – DF – Brazil

Starting and ending times: July 30: 10:06 am – 12:02 pm; 2:49 pm – 6:12 pm
July 31: 10:10 am – 11:25 am; 2:32 pm – 6:35 pm

In attendance:

Copom Members

Roberto de Oliveira Campos Neto – *Governor*
Ailton de Aquino Santos
Carolina de Assis Barros
Diogo Abry Guillen
Gabriel Muricca Galípolo
Otávio Ribeiro Damaso
Paulo Picchetti
Renato Dias de Brito Gomes
Rodrigo Alves Teixeira

Department Heads in charge of technical presentations (attending on 7/30 and on the morning of 7/31):

Alan da Silva Andrade Mendes – *Department of Foreign Reserves*
André Minella – *Research Department* (also present on the afternoon of 7/31)
André de Oliveira Amante – *Open Market Operations Department*
Marcelo Antonio Thomaz de Aragão – *Department of International Affairs*
Ricardo Sabbadini – *Department of Economics*
Rogério Antônio Lucca – *Department of Banking Operations and Payments System*

Other participants (attending on 7/30 and on the morning of 7/31):

André Maurício Trindade da Rocha – *Head of the Financial System Monitoring Department*
Arnaldo José Giongo Galvão – *Press Office Advisor*
Arnildo da Silva Correa – *Head of Office of the Economic Advisor*
Edson Broxado de França Teixeira – *Head of Office of the Deputy Governor for Supervision*
Euler Pereira Gonçalves de Mello – *Deputy Head of the Research Department*
Fábio Martins Trajano de Arruda – *Deputy Head of the Department of Banking Operations and Payments System* (present on the morning of 7/30)
Gilneu Francisco Astolfi Vivan – *Head of the Financial System Regulation Department*
Isabela Ribeiro Damaso Maia – *Head of the Sustainability and International Portfolio Investors Unit*
Julio Cesar Costa Pinto – *Head of Office of the Deputy Governor for Monetary Policy*
Laura Soledad Cutruffo Comparini – *Deputy Head of the Department of Economics*
Leonardo Martins Nogueira – *Executive Secretary*
Lucas Alves Freire – *General Counsel*
Luís Guilherme Siciliano Pontes – *Deputy Head of the International Reserves Department*
Mariane Santiago de Souza Nogueira – *Head of the Governor's Office*
Olavo Lins Romano Pereira – *Deputy Head of the Department of International Affairs*
Renato Baldini Junior – *Deputy Head of the Department of Statistics*
Ricardo Eyer Harris – *Head of Office of the Deputy Governor for Regulation*
Simone Miranda Burello – *Advisor in the Office of the Deputy Governor for Monetary Policy*

The 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 targets established by the National Monetary Council.

A) Update of the economic outlook and the Copom's scenario[1]

1. The global environment remains adverse because of the uncertainty about the effects and extension of the easing cycle in the United States and the dynamics of activity and inflation in many countries.

2. The central banks of major economies remain committed to bringing inflation back to its targets in an environment characterized by labor market pressures. The Committee judges that the external environment, also marked by less synchrony in monetary policy cycles across countries, continues to require caution from emerging market economies.

3. Regarding the domestic scenario, the set of indicators on economic activity and labor market continues to exhibit more strength than expected by Copom.

4. The disinflation measured by the headline IPCA has slowed down, while various measures of underlying inflation are above the inflation target in recent releases. Inflation expectations for 2024 and 2025 collected by the Focus survey are around 4.1% and 4.0%, respectively.

B) Scenarios and risk analysis

5. In the reference scenario, the interest rate path is extracted from the Focus survey, and the exchange rate starts at USD/BRL 5.55[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 of years 2024 and 2025. In an alternative scenario presented, the assumption of a constant interest rate over the relevant monetary policy horizon is used.

6. Copom maintained its usual understanding, without any change, that the relevant horizon for monetary policy is six quarters ahead, now corresponding to the first quarter of 2026. In line with the continuous inflation-targeting system established by the Decree 12,079/2024, the Committee chose to communicate not only the calendar year projections, but also the relevant horizon projections, thus contributing to the transparency in the monetary policy communication.

7. In both scenarios presented – reference and alternative – there is a process of disinflation over the horizon, but the projection for the relevant horizon is above the inflation target of 3%. In the reference scenario, the four-quarter inflation projection for the first quarter of 2026 is 3.4% and, in the alternative scenario, 3.2%.

8. Copom's inflation projections for the calendar years, in the reference scenario, stand at 4.2% for 2024 and 3.6% for 2025. In this scenario, inflation projections for administered prices are 5.0% for 2024 and 4.0% for 2025. In the alternative scenario with constant interest rate throughout the relevant horizon, inflation projections stand at 4.2% for 2024 and 3.4% for 2025.

9. The Committee judges that the global environment remains adverse. Less synchrony in the easing cycles, which have already begun in some advanced economies and are yet to begin in others, contributes to the volatility of market variables. In addition, it was noted that monetary authorities have indicated cautious cycles, with corresponding impacts on the pricing of financial assets. Finally, capital flows also reflect a global phenomenon of risk aversion, which, depending on the fundamentals of each emerging market economy, pressures the exchange rate with variable intensity. In the case of the

[1] Unless explicitly stated otherwise, this update considers changes since the June Copom meeting (263rd meeting).
[2] 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.

U.S. economy, uncertainties about the pace of economic activity persist, since, on the one hand, current data suggests resilience, and, on the other hand, employment data slowed down and financial conditions have remained tight for an already prolonged period. In any case, a scenario of a gradual decline in inflation and activity and a cautious start to monetary easing is perceived.

10. In emerging market economies, faced with a more challenging scenario, the cycle of interest rate cuts has continued cautiously in some countries and has been interrupted in others. The exchange rates of emerging market economies have depreciated recently, reflecting a more challenging scenario for these economies.

11. Copom reinforced that there is neither mechanical relationship between the conduct of the U.S. monetary policy and the determination of the domestic policy interest rate nor between the exchange rate and the determination of the domestic interest rate. As usual, the Committee will focus on the transmission mechanisms from the external environment to the domestic inflationary dynamics and its effect on the prospective scenario. It was also emphasized that a scenario of greater global uncertainty and more abrupt exchange rate movements requires greater caution in the conduct of domestic monetary policy.

12. Economic activity and labor market data continue to exhibit more strength than expected by Copom. This movement occurs in a context of an output gap close to neutrality, making the process of inflation convergence to the target more challenging. The dynamism of higher frequency indicators, such as of trade and services, reinforces the prospect of resilience in domestic activity and sustained consumption over time, in contrast to the scenario of gradual deceleration originally anticipated by the Committee. Regarding the labor market, it was pointed out that the level of employment, the unemployment rate, and income have been systematically surprising. The Committee again assessed that these recurring surprises point to high dynamism in the labor market, which has shown to be tight.

13. Copom reinforced its view that the lack of commitment to structural reforms and fiscal discipline, the increase of earmarked credit granting, and the uncertainties about the stabilization of the public debt have the potential to raise the neutral interest rate of the economy, with harmful impacts on the power of monetary policy and, consequently, on the cost of disinflation in terms of activity.

14. The Committee closely monitors how the recent developments on the fiscal side impact monetary policy and financial assets. Moreover, it was noted that more recent market agents' perception of public spending growth and of the sustainability of the current fiscal framework, coupled with other factors, has had a significant impact on asset prices and expectations. The Committee stresses that a credible fiscal policy, committed to debt sustainability, contributes to the anchoring of inflation expectations and to the reduction in the risk premia of financial assets, therefore impacting monetary policy. Synchronous and countercyclical monetary and fiscal policies help ensure price stability and, without prejudice to its fundamental objective, smooth out fluctuations in the economic activity level and foster full employment.

15. The Committee unanimously believes that the reanchoring of inflation expectations, seen as an essential element to ensure inflation convergence to the target, should be pursued. The Committee believes that the conduct of monetary policy is a key factor in reanchoring expectations and will continue to make decisions that safeguard credibility and, consequently, reduce the cost of disinflation. The Committee will not shy away from its commitment of reaching the inflation target and understands the fundamental role of expectations in the inflation dynamics.

16. Recent movements in some of the conditioning factors for inflation dynamics, such as inflation expectations and the exchange rate, were thoroughly discussed. It was noted that, if these movements are persistent, the resulting inflationary impacts may be significant and will be duly incorporated by the Committee. As a result, the

Committee considered that it is time for diligent monitoring of the determinants of inflation and greater vigilance in face of a more challenging scenario.

17. The credit cycle remains benign, with volume expansion and rate reductions in most credit lines. However, some members emphasized again that the recent increase of longer-term rates could result in lower credit market dynamics. In turn, the capital market funding remains strong. These members highlighted the importance of longer vertices in the yield curve in the determination of credit supply and demand.

18. The Committee assessed that inflation data suggested a path that did not diverge significantly from what was expected but that the disinflationary process has slowed down in the more recent period. Industrial goods and food-at-home inflation rates maintained their recent trajectories, no longer contributing to disinflation at this stage of the disinflationary process. At the same time, services inflation, which has greater inertia, plays a major role in the disinflationary dynamics at the current stage. Copom members then discussed the role of labor market dynamics and inflation expectations in determining services inflation. Copom concluded that the disinflationary process has slowed down and that current inflation levels above the target – in a context of dynamic economic activity – make inflation convergence to the target more challenging.

19. Copom concluded that the inflation outlook has become more challenging, with the increase of medium-term inflation projections, even conditioned on a higher interest rate path. There was a unanimous conclusion on the need for an even more cautious monetary policy and a diligent monitoring of the unfolding scenario.

20. The Committee emphasizes that risks to its scenarios remain in both directions. Among the upside risks for the inflationary scenario and inflation expectations, it should be emphasized (i) a more prolonged period of deanchoring of inflation expectations; (ii) a stronger-than-expected resilience of services inflation due to a tighter output gap; and (iii) a conjunction of internal and external economic policies with an inflationary impact, for example, through a persistently more depreciated currency. Among the downside risks, it should be noted (i) a greater-than-projected deceleration of global economic activity; and (ii) an impact on global inflation larger than expected from monetary policy tightening. During the discussions, all members agreed that there are more upside risks for inflation, and several members even emphasized the asymmetry of the balance of risks.

21. The Committee judges that the domestic and international environments require even greater caution on the conduct of monetary policy. In particular, the inflationary impacts of the movements of market variables and inflation expectations, if persistent, corroborate the need for more vigilance.

C) Discussion of the conduct of monetary policy

22. Copom then discussed the conduct of monetary policy, considering the set of projections evaluated, as well as the balance of risks for the prospective inflation.

23. The Committee unanimously decided to maintain the Selic rate at 10.50%. Regarding the domestic economy, the labor market and the economic activity, in particular household consumption, have been surprising, diverging from the expected slowdown scenario. Furthermore, inflation projections for the relevant monetary policy horizon increased again, despite a new rise in the Selic rate path extracted from the Focus survey. Similarly, inflation expectations have shown further deanchoring since the previous meeting. Moreover, the external environment remains adverse, because of the uncertainty about the effects and extension of the easing cycle in the United States.

24. Thus, the Committee considered that the monetary policy should continue being contractionary for sufficient time at a level that consolidates both the disinflation

process and the anchoring of expectations around the target.

25. The scenario marked by higher projections and more upside inflation risks is challenging, and the Committee believes that the unfolding of the scenario will be particularly important to define the next monetary policy steps. Therefore, the Committee unanimously believes that the current stage is of even greater caution and of diligent monitoring of inflation conditioning factors, without committing to future strategies. In the light of this monitoring, the Committee will assess which is the best strategy. On the one hand, whether the strategy of maintaining the interest rate for a sufficiently long time will bring inflation to the target over the relevant horizon and, on the other hand, Copom unanimously reinforced that it will not hesitate to raise the interest rate to ensure inflation convergence to the target if it deems it appropriate. As usual, the strategies adopted by the Committee will reflect its commitment of reaching the inflation target, while also aiming to reanchor inflation expectations so as to minimize the cost of disinflation. The Committee will remain vigilant and reminds that potential future changes in the interest rate will be determined by the firm commitment of reaching the inflation target.

D) Monetary policy decision

26. Considering the evolution of the disinflationary process, the assessed scenarios, the balance of risks, and the broad array of available information, Copom decided to maintain the Selic rate at 10.50% 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.

27. The current context, characterized by a stage in which the disinflationary process tends to be slower, further deanchoring of inflation expectations, and a challenging global outlook, requires serenity and moderation in the conduct of monetary policy.

28. The Committee unanimously decided to keep the interest rate unchanged, highlighting that the uncertain global scenario and the domestic scenario, marked by resilient economic activity, an increase in its own inflation projections and deanchored expectations require diligent monitoring and even greater caution. The Committee also stresses that monetary policy should continue being contractionary for sufficient time at a level that consolidates both the disinflation process and the anchoring of expectations around the target. The Committee will remain vigilant and reminds that potential future changes in the interest rate will be determined by the firm commitment of reaching the inflation target.

29. The following members of the Committee voted for this decision: Roberto de Oliveira Campos Neto (Governor), Ailton de Aquino Santos, Carolina de Assis Barros, Diogo Abry Guillen, Gabriel Muricca Galípolo, Otávio Ribeiro Damaso, Paulo Picchetti, Renato Dias de Brito Gomes and Rodrigo Alves Teixeira.