266th

Minutes of the Meeting of the

Monetary Policy Committee — Copom

November 5-6, 2024

BANCO CENTRAL DO BRASIL

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Date: November 5-6, 2024

Place: BCB Headquarters' meeting rooms on the 8th floor (11/5 and 11/6 on the morning) and 20th floor (11/6 on the afternoon) – Brasilia – DF – Brazil

Starting and ending times: November 5: 10:09 AM – 11:50 AM; 2:43 PM – 5:42 PM
November 6: 10:19 AM – 11:17 AM; 2:38 PM – 6:31 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 11/5 and on the morning of 11/6):

Alan da Silva Andrade Mendes – *Department of Foreign Reserves*
André Minella – *Research Department* (also present on the afternoon of 11/6)
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 11/5 and on the morning of 11/6):

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*
Eduardo José Araújo Lima – *Head of Office of the Deputy Governor for Economic Policy*
Erasto Villa Verde de Carvalho Filho – *General Counsel*
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 11/5
Gilneu Francisco Astolfi Vivan – *Head of the Financial System Regulation Department*
Isabela Ribeiro Damaso Maia – *Head of the Sustainability and International Portfolio Investors Unit* (present on the afternoon of 11/5)
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*
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 – *Head of the Department of Statistics*
Ricardo Eyer Harris – *Head of Office of the Deputy Governor for Regulation*
Ricardo Franco Moura – *Head of the Prudential and Foreign Exchange Regulation Department*
Simone Miranda Burello – *Advisor in the Office of the Deputy Governor for Monetary Policy*

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 set by the National Monetary Council.

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

1. The global environment remains challenging, due mainly to the uncertain economic outlook in the United States, which poses questions about the pace of economic deceleration, disinflation and, consequently, about the Fed's monetary policy stance.

2. The central banks of major economies remain committed to bringing inflation back to its targets in a context 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 strength.

4. Headline inflation and 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 4.6% 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 5.75[2] and evolves according to the purchasing power parity (PPP). In this scenario, 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 "yellow" in December of years 2024 and 2025.

6. In the reference scenario, Copom's projections are still above the 3.0% target for the current relevant monetary policy horizon. The four-quarter inflation projection for the second quarter of 2026 is 3.6% (Table 1). Inflation projections for the calendar years 2024 and 2025 are 4.6% and 3.9%, respectively.

7. The external environment remains challenging, with significant economic and geopolitical uncertainties. Regarding the U.S., high uncertainty persists about the pace of disinflation and of the economic activity slowdown. At the same time, the possibility of changes in the conduct of economic policy also brings additional uncertainty to the scenario, particularly with possible fiscal stimuli, restrictions on labor supply, and the introduction of import tariffs. The Committee's reference scenario continues to be for a gradual and orderly slowdown of the U.S. economy. The Committee discussed the Chinese slowdown more thoroughly, trying to break down the cyclical and structural aspects involved. In addition, the recently announced fiscal and monetary responses may provide some support for short-term growth, but challenges remain for medium-term growth. Finally, more recent data from several countries corroborate a scenario of greater differentiation in growth and inflation cycles as the effects from the global pandemic shock dissipate. Thus, less correlation in financial conditions and less synchronization in monetary policy cycles across countries is expected in the future.

8. Still on the international scenario, the Committee highlighted the role of fiscal policies as drivers of demand after the pandemic but stressed that the scope for fiscal policy has become more limited with the increase in public debt and concerns about fiscal sustainability. Discussions on spending restraint and debt sustainability have been recurrent in several countries. In turn, monetary policies, in such an uncertain environment, remain reactive and data-dependent in most countries, also causing inherent volatility to the markets. The Committee reinforced that the central banks' commitment to achieving their targets is a fundamental ingredient in the disinflationary

[1] Unless explicitly stated otherwise, this update considers changes since the September Copom meeting (265th meeting).
[2] It 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.

process, corroborated by recent indications of cautious monetary policy cycles in several countries.

9. Domestic asset prices showed volatility in the period and increased risk premium, reflecting several uncertainties in the domestic and international scenario. As usual, the Committee will focus on the transmission mechanisms from the external environment to the domestic inflation dynamics and their impact on the outlook. Copom also emphasized that a context of greater global uncertainty and more abrupt exchange rate movements requires greater caution in the conduct of domestic monetary policy.

10. The Committee assesses that domestic economic activity and the labor market remain dynamic. More recently, some indicators such as trade and earnings have shown incipient signs of moderation. This, however, does not imply an inflection in the labor market or in the pace of growth. The Committee will continue to closely monitor economic activity, since the dynamic pace of activity growth, in the context of an output gap assessed as positive, makes inflation convergence to the target more challenging. The combination of a robust labor market, expansionary fiscal policy, and vigorous lending to households continue to support consumption and, consequently, aggregate demand. In summary, there has been no significant change in the prospective growth scenario compared with the previous meeting.

11. The dynamism of the labor market continues to be widely debated by the Committee. The recurring short- and medium-term surprises in the unemployment rate reaffirm a tight labor market, with dynamism in job creation, job changes, and hirings. The Committee assesses that the dynamism observed in the labor market is compatible with services inflation, which remains above the level required to meet the inflation target. The Committee will continue to monitor the timing and magnitude of the transmission channel from wages to prices to ensure that inflation converges to the target.

12. Copom reinforced its view that the slowdown in structural reform efforts and fiscal discipline, the increase in earmarked credit, and uncertainties over the public debt stabilization have the potential to raise the economy's neutral interest rate, with deleterious impacts on the power of monetary policy and, consequently, on the output cost of disinflation.

13. The market agents' more recent perception about the growth of public spending and the sustainability of the current fiscal framework has been having a significant impact on asset prices and expectations. A credible fiscal policy, based on predictable rules and transparency in its accounts, together with the pursuit of fiscal strategies that signal and reinforce the commitment to the fiscal framework in the coming years are important elements for anchoring inflation expectations and reducing the risk premia of financial assets, therefore impacting monetary policy. The Committee incorporates in its scenarios a slowdown in the growth rate of public spending over time and reinforces the need for sustainable fiscal rules.

14. During the meeting, the challenge of stabilizing the public debt due to more structural aspects of the government budget was emphasized. It was mentioned that the reduction of spending growth, especially in a more structural way, could even induce economic growth in the medium term through its impact on financial conditions, risk premium, and better allocation of resources. 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. Deanchoring inflation expectations is a factor of discomfort shared by all Committee members. Reanchoring expectations is an essential element in ensuring that inflation converges to the target at the lowest possible cost in terms of activity. Copom believes that the conduct of monetary policy is a fundamental factor in reanchoring expectations and will continue to make decisions that safeguard credibility and reflect the fundamental role of expectations in inflation dynamics. A further

deterioration in expectations could lead to a more prolonged monetary policy tightening cycle.

16. The Committee believes that the short-term inflation scenario is more challenging. Food prices were reassessed due to many factors, including the drought observed throughout the year. Regarding industrialized goods, the recent exchange rate movement has pressured prices and margins, suggesting a greater increase in these components in the coming months. Finally, services inflation, which has greater inertia, remains above the level required to meet the inflation target in a context of dynamic activity. In fact, an interruption in the disinflationary process has been observed, reflecting a reduction in the strength of the various factors that had been contributing to disinflation. It was again emphasized that the labor market, the output gap, and inflation expectations play a very important role in the medium-term disinflationary dynamics. Current inflation, measured by the headline index or by different core measures, at levels above the target, the dynamism of economic activity, the positive output gap, unanchored expectations, and the recent exchange rate depreciation make the inflation convergence to the target more challenging.

17. The Committee judges that the risks to its inflation scenarios are tilted to the upside. Among the upside risks for the inflation outlook 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.

C) Discussion of the conduct of monetary policy

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

19. Copom assessed that the scenario – marked by resilient economic activity, labor market pressures, positive output gap, an increase in the inflation projections, and deanchored expectations – requires a more contractionary monetary policy.

20. Considering the need for a more contractionary monetary policy, the Committee deemed it appropriate to increase the Selic rate by a larger amount. It was emphasized that a 0.50 percentage point increase is deemed appropriate given current economic conditions and future uncertainties, reflecting the commitment to the inflation convergence to the target, which is essential for the continued building of credibility. In view of the uncertainties involved, the Committee preferred a communication that reinforced the importance of monitoring the scenarios over time, without giving any future indication of its next steps but insisting on its firm commitment to the convergence of inflation to the target.

D) Monetary policy decision

21. The scenario remains marked by resilient economic activity, labor market pressures, positive output gap, an increase in the inflation projections, and deanchored expectations, which requires a more contractionary monetary policy. Considering the evolution of the disinflationary process, the assessed scenarios, the balance of risks, and the broad array of available information, Copom unanimously decided to increase the Selic rate by 0.50 p.p. to 11.25% 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.

22. The pace of future adjustments of the interest rate and the total magnitude of the tightening cycle will be determined by the firm commitment of reaching the inflation target and will depend on the inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks.

23. 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.

Table 1
Inflation projections in the reference scenario
Year-over-year IPCA change (%)

Price Index	2024	2025	2026Q2
IPCA	4.6	3.9	3.6
IPCA market prices	4.5	3.8	3.4
IPCA administered prices	4.9	4.2	4.3