BANCO CENTRAL DO BRASIL

Copom lowers Selic rate to 2.00% p.a.

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In its 232nd meeting, the Copom unanimously decided to lower the Selic rate to 2.00% p.a.

The following observations provide an update of the Copom's baseline scenario:

· Regarding the global outlook, the COVID-19 pandemic keeps causing the largest economic downturn since the Great Depression. Against this backdrop, despite some promising signs of recovery in major economies, and some moderation in financial assets volatility, the environment for emerging economies remains challenging;

· Turning to the Brazilian economic activity, recent indicators suggest a partial recovery. Sectors more directly affected by social distancing measures remain depressed despite the offsetting effects of the government transfer programs. Prospectively, uncertainty about economic growth remains larger than usual, especially for the period starting at the end of this year, concurrently with the expected winding up of the emergency transfer programs;

· The Committee judges that the various measures of underlying inflation remain below the level compatible with meeting the inflation target at the relevant horizon for monetary policy;

· Inflation expectations for 2020, 2021, and 2022 collected by the Focus survey are around 1.6%, 3.0%, and 3.5%, respectively;

· The Copom's inflation projections in the hybrid scenario with interest rate path extracted from the Focus survey and constant exchange rate at R$5.20/US$* stand around 1.9% for 2020, 3.0% for 2021 and 3.4% for 2022. This scenario assumes a path for the Selic rate that ends 2020 at 2.00% p.a., rises to 3.00% p.a. in 2021 and 5.00% p.a. in 2022; and

· The scenario with constant interest rate at 2.25% p.a. and constant exchange rate at R$5.20/US$* yields inflation projections around 1.9% for 2020, 3.0% for 2021 and 3.7% for 2022.

The Committee emphasizes that risks to its baseline scenario remain in both directions.

On the one hand, economic slack may continue to produce a lower-than-expected prospective inflation trajectory. This risk increases if a slower reversion of the pandemic effects lengthens the environment of high uncertainty and precautionary savings.

On the other hand, fiscal policy responses to the pandemic that permanently aggravate the fiscal path or a frustration with the continuation of the reform agenda may increase the risk premium. Additionally, the credit and transfer programs implemented in response to the pandemic may cause a smaller-than-estimated decline in aggregate demand, introducing an asymmetry to the balance of risks. This set of factors could potentially result in a higher-than-expected path for inflation over the relevant horizon for monetary policy.

The Committee believes 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 uncertainty regarding the continuation of the reform agenda and permanent changes to the fiscal consolidation process could result in an increase in the structural interest rate.

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 in 0.25 percentage points to 2.00% 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 for monetary policy, which includes 2021 and, to a lesser extent, 2022.

The Copom believes that the current economic conditions continue to recommend an unusually strong monetary stimulus but it recognizes that, due to prudential and financial stability reasons, the remaining space for monetary policy stimulus, if it exists, should be small. Consequently, possible future adjustments to the current degree of monetary stimulus would occur with additional gradualism and would depend on the perception of the fiscal trajectory, as well as on new information that changes the Committee's current assessment about prospective inflation.

Despite the asymmetry on its balance of risks, the Copom does not foresee reductions in the monetary stimulus unless inflation expectations, as well as its baseline scenario inflation projections, are sufficiently close to the inflation target at the relevant horizon for monetary policy, which currently includes 2021 and, to a lesser extent, 2022. This intention is conditional on the maintenance of the current fiscal regime and on the anchoring of long-term inflation expectations.

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.

*Value obtained according to the usual procedure of rounding the average R$/US$ exchange rate observed on the five business days ending on the last day of the week before the Copom meeting.

Note: This press release represents the Copom's best effort to provide an English version of its policy statement. In case of any inconsistency, the original version in Portuguese prevails.