

239th

Minutes of the Meeting of the  
**Monetary Policy Committee — Copom**

June 15-16, 2021

**Date:** June 15-16, 2021

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

**Starting and ending times:** June 15: 10:18 AM – 12:57 PM; 2:39 PM – 7:00 PM  
June 16: 2:32 PM – 6:40 PM

**In attendance:**

**Members of the Copom**

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

**Department Heads in  
charge of technical  
presentations  
(June 15):**

Alan da Silva Andrade Mendes – *Department of Foreign Reserves*  
André de Oliveira Amante – *Open Markets Operations Department*  
André Minella – *Research Department (also present on June 16)*  
Fabia Aparecida de Carvalho – *Department of International Affairs*  
Ricardo Sabbadini – *Department of Economics*  
Rogério Antônio Lucca – *Department of Banking Operations and Payments System*

**Other participants  
(June 15):**

Arnildo da Silva Correa – *Head of the Office of Economic Advisor*  
Eduardo José Araújo Lima – *Head of the Deputy Governor for Economic Policy's Office*  
Euler Pereira Gonçalves de Mello – *Deputy Head of the Research Department*  
Julio Cesar Costa Pinto – *Head of the Deputy Governor for Monetary Policy's Office*  
Leonardo Martins Nogueira – *Executive Secretary*  
Olavo Lins Romano Pereira – *Deputy Head of the Department of International Affairs*  
Pedro Henrique da Silva Castro – *Deputy Head of the Department of Economics*  
Rafael Mendonça Travassos Andrezo – *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.

This document represents Copom's best effort to provide an English version of its policy meeting minutes. In case of inconsistency, the Portuguese version prevails.

### A) Update of economic outlook and Copom's baseline scenario<sup>1</sup>

1. Regarding the global outlook, fiscal and monetary stimuli in some developed countries promote a robust economic recovery. Due to economic slack, central bank communication from major economies suggests monetary stimuli will last long. However, uncertainty remains high and a new round of market discussion regarding inflationary risks in these economies could result in a challenging environment for emerging economies.
2. Turning to the Brazilian economy, despite the intensity of the second wave of the pandemic, recent indicators continue to evolve better than expected, implying relevant revisions in growth forecasts. Risks to economic recovery were significantly reduced.
3. The various measures of underlying inflation are above the range compatible with meeting the inflation target.
4. Inflation expectations for 2021, 2022, and 2023 collected by the Focus survey are around 5.8%, 3.8%, and 3.25%, respectively.
5. The persistence of inflationary pressure was more intense than expected, especially in industrial goods. Additionally, the slow pace of supply normalization, the resilience of demand and implications of the energy scenario deterioration over electricity fares contribute to keeping inflation under pressure in the short run, despite the Brazilian *real* (BRL) recent appreciation. The Committee continues to closely monitor the evolution of shocks and their possible second-round effects, as well as the behavior of service prices as the immunization effects over the economy become more relevant.
6. The Copom's inflation projections in its baseline scenario, with interest rate path extracted from the Focus survey and exchange rate starting at USD/BRL 5.05<sup>2</sup> and evolving according to the purchase power parity (PPP), stand around 5.8% for 2021 and 3.5% for 2022. This scenario assumes a path for the Selic rate that ends 2021 at 6.25% p.a. and rises to 6.50% p.a. in 2022. In this scenario, inflation projections for administered prices are 9.7% for 2021 and 5.1% for 2022. The energy flag is assumed to be neutral, remaining at "red level 1" in December each year.

### B) Risks around the baseline inflation scenario

7. The Copom's baseline scenario for inflation encompasses risk factors in both directions.
8. On the one hand, a possible reversion, even if partial, of the recent increase in the price of international commodities measured in local currency would produce a lower-than-projected inflation in the baseline scenario.
9. On the other hand, further extensions of fiscal policy responses to the pandemic that increase aggregate demand and deteriorate the fiscal path may pressure the country's risk premium. Despite the improvement of debt sustainability indicators, the elevated fiscal risk creates an upward asymmetry in the balance of risks, *i.e.*, in the direction of higher-than-expected paths for inflation over the relevant horizon for monetary policy.

<sup>1</sup> Unless explicitly stated otherwise, this update takes into account changes that occurred since the March Copom meeting (238<sup>th</sup> meeting).

<sup>2</sup> Value obtained according to the usual procedure of rounding the average USD/BRL exchange rate observed on the five business days ending on the last day of the week before the Copom meeting.

### **C) Discussion about the conduct of monetary policy**

10. Regarding the international outlook, the Committee assessed that the fiscal and monetary stimuli are promoting robust economic growth and that the latest inflation releases were surprising in several countries, both developed and emerging. For the Committee, further discussions about the risk of permanent increase in inflation in the United States could result in a challenging environment for emerging economies. The Copom noted that inflation of tradable goods in Brazil was higher than in several of its peer countries and that this process may reverse in the future, creating a new downside risk to inflation. The recent rise in the weight of tradable items in the inflation index should increase the relevance of this event.

11. The Copom members discussed the evolution of domestic economic activity in light of the available information and indicators. They considered that despite the intensity of the second wave of the pandemic, the latest available data have surprised positively. The duration of the problems of the supply chains were also discussed. For the Committee, the second half of the year should bring a robust recovery, as the effects of the vaccination are felt more broadly. The Committee noted that median Focus survey growth projections were significantly revised and became more optimistic than those in its baseline scenario. The Committee also assessed that the downside risks to inflation stemming from risks to the economic recovery have reduced significantly.

12. The Copom members then debated the level of economic slack. Although the economic slack as a whole is rapidly returning to the late 2019 level, the Committee considered that the pandemic is still producing heterogeneous effects across economic sectors, with consequences for recent and prospective inflation dynamics. The Copom judges that economic activity and formal labor market data suggest that the overall slack has declined faster than anticipated, despite the increase in the unemployment rate.

13. Next, the Copom discussed the implementation of monetary policy, considering not only the baseline scenario, but also the balance of risks for inflation. According to the baseline scenario, which uses the interest rate path extracted from the Focus survey, inflation projections are in line with the target for 2022. The Committee judged that despite the more positive recent evolution, fiscal risks continue implying an upward bias in the projections. This asymmetry in the balance of risks affects the appropriate degree of monetary stimulus, thus justifying a path for monetary policy that is less stimulative than the path used in the baseline scenario.

14. The Copom then evaluated different normalization paths for the Selic rate. Considering the baseline scenario and the balance of risks, the Committee assessed that –should there be no changes in the inflation conditioning factors– subsequent uninterrupted interest rate increases, up to the level considered neutral, imply projections around the inflation target in the relevant horizon. Therefore, a normalization of the interest rate to this level has become appropriate. The Committee decided to communicate this decision, maintaining transparency about the monetary policy path implied in its projections, and reaffirming that this view will be systematically reassessed as changes in inflation determinants or in the balance of risks occur.

15. In light of the revision of the monetary policy path implied in its projections, the Committee evaluated a quicker reduction of monetary stimulus already on this meeting. Considering the various alternative scenarios, the Committee decided that the best strategy would be to maintain the current pace of stimulus reduction but highlighting the possibility of a quicker adjustment in the next meeting. In the Committee's view, this strategy has the following two advantages.

16. First, to accumulate more information regarding the traditional determinants of inflation and, in particular, some of its qualitative aspects: (i) the evolution of more inertial prices, as the services sector recovers, and (ii) the behavior of inflation expectations, both from the Focus survey and from market prices.

17. Second, to clarify the distinction between transparency about conditional projections and invariant monetary policy intentions. The unequivocal commitment of the Banco Central do Brasil is to inflation convergence to its target over the relevant horizon, and future monetary policy steps are freely adjusted to this objective as new information becomes available. Thus, indications about the future path of interest rates, whether for the next meeting or for the final level, are useful elements for understanding the response function of monetary policy. The information obtained in the period between Copom meetings modifies the assumptions present in the baseline scenario and in the balance of risks, and naturally changes the future path of interest rates.

#### **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 increase the Selic rate by 0.75 p.p. to 4.25% 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 2022. Without compromising its fundamental objective of ensuring price stability, this decision also implies smoothing of economic fluctuations and fosters full employment.

19. At this moment, the Copom's baseline scenario indicates, as appropriate, a normalization of the policy rate to a level considered neutral. This adjustment is necessary to mitigate the dissemination of the temporary shocks to inflation. However, the Committee again emphasizes that there is no commitment with this plan, and that future steps of monetary policy could be adjusted to assure the achievement of the inflation target.

20. For the next meeting, the Committee foresees the continuation of the monetary normalization process with another adjustment of the same magnitude. However, a deterioration of inflation expectations for the relevant horizon may require a quicker reduction of the monetary stimulus. The Copom emphasizes that its view will also depend on the evolution of economic activity, the balance of risks, and how these factors affect inflation projections.

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