247th

Minutes of the Meeting of the

Monetary Policy Committee — Copom

June 14-15, 2022

BANCO CENTRAL DO BRASIL

Date: June 14-15, 2022

Place: BCB Headquarters' meeting rooms on the 8th floor (6/14 and 6/15 on the morning) and 20th floor (6/15 on the afternoon) – Brasilia – DF – Brazil

Starting and ending times: June 14: 9:42 AM – 11:25 AM; 2:06 PM – 6:03 PM
June 15: 9:38 AM – 10:35 AM; 2:30 PM – 6:36 PM

In attendance:

Copom Members

Roberto de Oliveira Campos Neto – *Governor*
Bruno Serra Fernandes
Carolina de Assis Barros
Diogo Abry Guillen
Fernanda Magalhães Rumenos Guardado
Maurício Costa de Moura
Otávio Ribeiro Damaso
Paulo Sérgio Neves de Souza
Renato Dias de Brito Gomes

Department Heads in charge of technical presentations (attending on June 14 and on the morning of June 15):

Alan da Silva Andrade Mendes – *Department of Foreign Reserves*
André Minella – *Research Department* (also present on the afternoon of June 15)
André de Oliveira Amante – *Open Market Operations Department*
Fabia Aparecida de Carvalho – *Department of International Affairs*
Fábio Martins Trajano de Arruda – *Department of Banking Operations and Payments Systems*
Ricardo Sabbadini – *Department of Economics*

Other participants (attending on June 14 and on the morning of June 15):

Arnildo da Silva Correa – *Head of the Office of Economic Advisor*
Cristiano de Oliveira Lopes Cozer – *General Counsel*
Edson Broxado de França Teixeira – *Head of the Deputy Governor for Supervision's Office*
Eduardo José Araújo Lima – *Head of the Deputy Governor for Economic Policy's Office*
Julio Cesar Costa Pinto – *Head of the Deputy Governor for Monetary Policy's Office*
Leonardo Martins Nogueira – *Executive Secretary*
Marcos Ribeiro de Castro – *Deputy Head of the Research Department*
Rafael Mendonça Travassos Andrezo – *Head of the Governor's Office*

The Copom members 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 scenario[1]

1. The global environment has deteriorated further, marked by downward revisions on prospective global growth in an environment of strong and persistent inflationary pressures arising from the global recovery after the pandemic period. These pressures have intensified due to the increase of commodity prices in 2022 and, more recently, by the Covid-19 wave in China, further prolonging the process of normalization in the supply of industrial inputs. The reorganization of global production chains, already fueled by the war in Ukraine, is expected to intensify with the search for a greater regional arrangement of the supply of inputs. In Copom's view, these developments might have long-term consequences and lead to more persistent inflationary pressures on global production of goods.

2. The growth of major economies has been revised down for 2022 and 2023 due to the expected reversal of the stimuli implemented during the long pandemic period, in particular by monetary policy action. Negative growth revisions were also noted for China, partially reflecting the zero-Covid policy adopted by that country.

3. Central banks in developed and emerging countries have adopted a more contractionary stance against increased inflation, although, in some of these economies, current interest rates are still at levels evaluated as expansionary. The repricing of monetary policy in advanced economies, the increase in risk aversion, and the change in the growth outlook have affected financial conditions in both advanced and emerging economies. The Committee has also discussed the growing risks involving a global deceleration in a highly pressured inflationary environment.

4. Turning to the Brazilian economy, the set of indicators released since the previous meeting suggests a growth rate above the Committee's expectations. Indicators related to the labor market continue to recover and the release of the 2022Q1 GDP pointed to a higher-than-expected pace of activity, raising the statistical carry-over for this year. Household consumption continues to contribute positively, while, in 2022Q1, Gross Fixed Capital Formation contributed negatively.

5. Consumer inflation remains high, with increases spread among several components, and continues to be more persistent than anticipated. The inflation of services and of industrial goods remain high, and the recent shocks continue to cause a strong increase in food and fuel-related components. Recent readings were higher than expected and the surprise came in both the more volatile components and on items associated with core inflation. The inflation of the components most sensitive to the economic cycle and the monetary policy continues elevated, and the various measures of underlying inflation accelerated, standing above the range compatible with meeting the inflation target. Inflation expectations for 2022, 2023, and 2024 collected by the Focus survey are around 8.5%, 4.7%, and 3.25%, respectively.

B) Scenarios and risk analysis

6. In the reference scenario, the interest rate path is extracted from the Focus survey, and the exchange rate starts at USD/BRL 4.90[2] and evolves according to the purchasing power parity (PPP). This scenario assumes a path for the Selic rate that ends 2022 at 13.25% p.a., falls to 10.0% in 2023 and 7.50% in 2024. The Committee decided to keep the assumption that oil prices follow approximately the futures market curve for the following six months, ending the year at USD 110/barrel, and then start increasing 2% per year in January 2023. Moreover, the energy flag is assumed to be "yellow" in

[1] Unless explicitly stated otherwise, this update takes into account changes that occurred since the May Copom meeting (246th meeting).
[2] 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.

December 2022, 2023, and 2024. In this scenario, Copom's inflation projections stand at 8.8% for 2022, 4.0% for 2023, and 2.7% for 2024. Inflation projections for administered prices are 7.0% for 2022, 6.3% for 2023, and 3.3% for 2024. The projections based on the reference scenario do not incorporate the tax measures on fuels, energy, and telecom prices under the approval process. The Committee judges that the uncertainty in its assumptions and projections is higher than usual and has increased since the previous meeting.

7. The Committee assesses that the global inflationary scenario continues to be marked by inflationary pressures stemming from both persistently high demand for goods and supply shocks linked to the war in Ukraine and China's Covid-19 policy. The Committee further believes that recent policies restricting trade in agricultural products in commodity-producing countries, coupled with the effects of the war in Ukraine, bring additional risk to global inflationary pressures. In the Copom's view, these developments might have long-term consequences and lead to more persistent inflationary pressures.

8. The Committee then discussed the growing risks involving a sharper global deceleration in a highly pressured inflationary environment. The Committee already anticipates a slowdown in global activity in the coming quarters, due to geopolitical tensions and the monetary policy tightening, as well as financial conditions underway in several central economies. The Committee believes that the global synchrony in the process of stimulus withdrawal introduces additional risks to markets and may boost its impact on the prospective scenario.

9. In this context of global deceleration, Copom considers a possible reversion, even if partial, of the increase in international commodities measured in local currency observed in recent quarters.

10. The Committee reinforces that uncertainty about the future of the country's fiscal framework and fiscal policies that support aggregate demand may bring an upside risk to the inflationary scenario and to inflation expectations.

11. The Committee believes that recent domestic activity data, which have prompted a positive revision to 2022 growth, still reflect, for the most part, the post-pandemic normalization process of the economy, both in the higher consumption of services and in the utilization of the excess savings observed over historical records, and the transitory fiscal stimulus provided in the first half of the year. The Committee assesses that activity should decelerate in the coming quarters when the lagged impacts of monetary policy will be more strongly felt.

12. 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 greater persistence of global inflationary pressures; and (ii) the uncertainty about the country's future fiscal framework and fiscal policies that support aggregate demand, partially incorporated in inflation expectations and asset prices. Among the downside risks, it should be noted (i) a possible reversion, even if partial, of the increase in the price of international commodities measured in local currency; and (ii) a greater deceleration of economic activity than projected. The Committee assessed that the tax measures under the approval process imply a sizable reduction in inflation in the current year, although they raise by a smaller magnitude inflation in the relevant horizon for monetary policy. The Committee assesses that the uncertain and volatile current scenario requires serenity when evaluating the risks.

C) Discussion about the conduct of monetary policy

13. Copom discussed the conduct of monetary policy, considering the set of projections analyzed, as well as the balance of risks for prospective inflation.

14. Copom opened the discussion by evaluating the adjustment cycle carried out up to this meeting. It was emphasized that the current monetary tightening cycle was quite intense and timely and that, due to monetary policy lags, much of the expected contractionary effect and its impact on current inflation are still to be seen.

15. Still, Copom observed deterioration in both the short-term inflationary dynamics and the longer-term projections, even though the scenario is surrounded by higher than usual uncertainty and volatility.

16. The Committee believes, based on the projections used and on its balance of risks, that the strategy required to bring the 4.0% projected inflation to around the target for the relevant horizon combines, on the one hand, a terminal interest rate above that used in the reference scenario and, on the other, the maintenance of the interest rate in significantly contractionary territory for a longer period than that used in the reference scenario. Thus, the strategy of convergence around the target requires a more contractionary interest rate than that used in the reference scenario for the entire relevant horizon.

17. Copom then debated the monetary policy options for this meeting. The Committee concluded that a further adjustment of 0.50 p.p. was appropriate in an environment of high uncertainty and the significantly contractionary stage of monetary policy, which, considering its lags, should affect the economy more strongly as of the second half of 2022.

18. The signaling for the next meeting was then discussed. Given the persistence of the recent shocks, the Committee evaluated that only the perspective of maintaining the Selic rate for a sufficiently long period would not assure, at this moment, the convergence of inflation around the target in the relevant horizon. The Committee then chose to signal a further adjustment, of equal or smaller magnitude. This strategy was deemed more appropriate to ensure the convergence of inflation over the relevant horizon, as well as the anchoring of longer-term inflation expectations, while reflecting the already implemented monetary tightening, reinforcing the cautious monetary policy stance, and emphasizing the uncertainty of the scenario.

D) Monetary policy decision

19. Taking into account the assessed scenarios, the balance of risks, and the broad array of available information, the Copom unanimously decided to increase the Selic rate by 0.50 p.p. to 13.25% p.a. The Committee judges that this decision reflects the uncertainty around its scenarios for prospective inflation, an even higher-than-usual variance in the balance of risks and is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon for monetary policy, which includes 2023. Without compromising its fundamental objective of ensuring price stability, this decision also implies smoothing of economic fluctuations and fosters full employment.

20. The Committee considers that, given its inflation projections and the risk of a deanchoring of long-term expectations, it is appropriate to continue advancing in the process of monetary tightening significantly into even more restrictive territory. The Committee emphasizes that it will persist in its strategy until the disinflation process and the expectation anchoring around its targets consolidate.

21. For its next meeting, the Committee foresees a new adjustment, of the same or lower magnitude. The Committee stresses that the growing uncertainty of the current scenario, coupled with the advanced stage of the current monetary policy cycle, and its impacts yet to be observed, require additional caution in its actions. The Copom emphasizes that its future policy steps could be adjusted to ensure the convergence of inflation towards its targets and will depend on the evolution of economic activity, on the balance of risks, and on inflation expectations and projections for the relevant horizon for monetary policy.

22. The following members of the Committee voted for this decision: Roberto de Oliveira Campos Neto (Governor), Bruno Serra Fernandes, Carolina de Assis Barros, Diogo Abry Guillen, Fernanda Magalhães Rumenos Guardado, Maurício Costa de Moura, Otávio Ribeiro Damaso, Paulo Sérgio Neves de Souza, and Renato Dias de Brito Gomes.