

Minutes of the 221st Meeting of the Monetary Policy Committee (Copom)* of the Banco Central do Brasil**

March 19th and 20th, 2019



* The Monetary Policy Committee of the Banco Central do Brasil is herein referred to as the “Copom” and the “Committee”.

** These minutes represent Copom's best effort to provide an English version of the minutes of its policy meeting. In case of any inconsistency, the original version in Portuguese prevails.

Date: March 19th and 20th, 2019

Place BCB Headquarters' meeting rooms on the 8th floor (March 19th) and 20th floor (March 20th) – Brasília – DF – Brazil

Starting and ending time: March 19th: 10:04 AM – 12:40 AM; 2:28 PM – 6:15 PM
March 20th: 2:00 PM – 6:04 PM

In attendance:

Members of the Copom

Roberto Oliveira Campos Neto – Governor
Bruno Serra Fernandes
Carlos Viana de Carvalho
Carolina de Assis Barros
João Manoel Pinho de Mello
Maurício Costa de Moura
Otávio Ribeiro Damaso
Paulo Sérgio Neves de Souza
Tiago Couto Berriel

Department Heads in charge of technical presentations (present on March 19th)

Alan da Silva Andrade Mendes - Department of Foreign Reserves
André Minella - Research Department (also present on March 20th)
André de Oliveira Amante – Department of Open Market Operations
Flávio Túlio Vilela – Department of Banking Operations and Payments System
João Barata Ribeiro Blanco Barroso – Department of International Affairs
Tulio José Lenti Maciel – Department of Economics

Other participants (present on March 19th)

Adalberto Felinto da Cruz Júnior – Executive Secretary
Angelo José Mont'Alverne Duarte – Analyst of the Economic Advisor's Office
Antônio Geraldo Filho – Head of Division of the BCB's Internal Auditing
Enrico Bezerra Ximenes de Vasconcelos – Secretary of the Financial Stability Committee and Advisor to the Board
Eugênio Pacceli Ribeiro – Head of the Deputy Governor for Economic Policy's Office
Fabia Aparecida de Carvalho – Deputy Head of the Research Department
Fabio Araujo – Head of the Economic Advisors' Office
Fernando Alberto Sampaio Rocha – Head of the Department of Statistics
Gilneu Francisco Astolfi Vivan – Head of the Financial System Monitoring Department
Leonardo Martins Nogueira – Head of the Governor's Office
Márcio Antônio Estrela – Head of the Deputy Governor for International Affairs and Corporate Risk Management's Office
Mauro Zanatta – Press Officer
Ricardo Eyer Harris – Head of the Deputy Governor for Regulation's Office
Ricardo José de Souza Oliveira – Analyst of BCB's Internal Auditing
Rogério Antônio Lucca – Head of the Deputy Governor for Monetary Policy'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.

A) Update of economic outlook and Copom's baseline scenario¹

1. Recent data on economic activity came in below expectations. Nevertheless, the Brazilian economy remains on a gradual recovery path.

2. The economy continues to operate with a high level of economic slack, as reflected in the low industrial capacity utilization indexes and, mainly, in the unemployment rate.

3. The global outlook remains challenging. On the one hand, the risks associated with normalization of interest rates in some advanced economies have receded since the previous Copom meeting. On the other hand, the risks associated with a slowdown in global growth, as a result of several uncertainties, are more elevated.

4. Various measures of underlying inflation are running at appropriate or comfortable levels. This includes the components that are most sensitive to the business cycle and monetary policy;

5. Inflation expectations for 2019, 2020 and 2021 collected by the Focus survey are around 3.9%, 4.0% and 3.75%, respectively.

6. The Copom's inflation projections in the scenario with interest rate and exchange rate paths extracted from the Focus survey stand around 3.9% for 2019 and 3.8% for 2020. This scenario assumes, among other hypotheses, a path for the Selic rate that ends 2019 at 6.50% p.a. and increases to 7.75% p.a. over the course of 2020. It also assumes a path for the exchange rate that ends 2019 at R\$3.70/US\$, and 2020 at R\$3.75/US\$. In this scenario, inflation projections for administered prices are 5.1% for 2019, and 4.7% for 2020.

7. In the scenario with a constant Selic rate at 6.50% p.a., and a constant exchange rate at R\$3.85/US\$², Copom's inflation projections stand around 4.1% for 2019, and 4.0% for 2020. In this scenario, inflation projections for administered prices are 5.4% for 2019, and 4.8% for 2020.

¹ Unless explicitly stated otherwise, this update takes into account changes occurred since the February Copom meeting (220th meeting).

B) Risks around the baseline inflation scenario

8. The Copom's baseline scenario for inflation encompasses risk factors in both directions.

9. On the one hand, (i) the high level of economic slack may lead to a lower-than-expected prospective inflation trajectory.

10. On the other hand, (ii) frustration of expectations regarding the continuation of reforms and necessary adjustments in the Brazilian economy may affect risk premia and increase the path for inflation over the relevant horizon for the conduct of monetary policy. Risk (ii) intensifies in case (iii) the global outlook for emerging economies deteriorates.

11. The Committee judges that the balance of risks for inflation is symmetric.

C) Discussion about the conduct of monetary policy

12. The Committee members discussed the evolution of economic activity in light of available data. They confirmed the slowdown in activity during the last quarter of 2018, which ran below the expected pace. They also assessed available projections for economic growth in 2019, including those from the Focus survey. The projections have declined since the release of the 2018Q4 National Accounts, reflecting, to a large extent, the lower level for GDP at the end of 2018 – that is, the so-called "statistical carry-over". Part of the revisions for 2019 growth also seems to reflect preliminary indicators available for the first months of the current quarter. These revisions notwithstanding, the projections for GDP growth at the margin — that is, from the first or second quarters onwards, relative to previous quarters — have not changed significantly. These dynamics are consistent with the Copom's baseline scenario of recovery of the Brazilian economy at a gradual pace.

13. Copom members considered that the Brazilian economy has experienced several shocks throughout 2018, including the temporary halt in the transportation sector in May, the adverse global environment for emerging economies from the second quarter onwards, and high uncertainty about the direction of Brazilian economic policies to be pursued in the coming years. These factors impacted the economy and led to a relevant tightening of financial conditions, whose effects

² Value obtained according to the usual procedure of rounding the average R\$/US\$ exchange rate observed on the five business days ending on the Friday prior to the Copom meeting.

on economic activity persist even after their direct effects cease. Committee members judge that these shocks must have significantly reduced the growth that the Brazilian economy would have experienced in their absence. They also point out that an acceleration in the pace of economic recovery to more robust levels will depend on a reduction of uncertainties regarding the approval and implementation of reforms — notably those of a fiscal nature — and adjustments that the Brazilian economy requires. Moreover, they stress the importance of other initiatives aimed at productivity increases, efficiency gains, greater flexibility of the economy, and improvements in the business environment. These efforts are fundamental for the resumption of economic activity and the development of the Brazilian economy.

14. Regarding the global outlook, the Committee members considered that it remains challenging for emerging economies. The Committee discussed the contrast of different scenarios for the evolution of the US economy. The first scenario comprises a significant deceleration of economic activity. The second scenario assumes continuity of the strength exhibited in recent years. These two scenarios have opposite implications for the conduct of monetary policy by the Fed, which signaled that it intends to wait for the resolution of this uncertainty over time. In addition, Copom members recognized that, given the slowdown in activity in some relevant economies, the risks associated with a weakening in the global economy have intensified. Europe is showing signs of a significant economic slowdown and uncertainty drivers can contribute to even slower global growth. In this context, the Copom members once again highlighted the capacity of the Brazilian economy to withstand a setback in the international scenario, given its robust balance of payments, anchored inflation expectations, and prospects of economic recovery.

15. Committee members discussed recent inflation projections and the levels of various measures of underlying inflation. They assessed that those measures are at appropriate or comfortable levels, and that inflation projections indicate convergence of inflation to target over the course of 2019 and 2020. The Committee foresees an increase in inflation during the next months, which should lead twelve-month inflation to reach a peak around April or May. Subsequently, twelve-month inflation should recede and close the year at the levels projected in paragraphs 6 and 7. The Copom members emphasized, however, that the consolidation of this favorable scenario in the medium and long terms depends on the pace of necessary reforms and adjustments in the Brazilian economy, which are essential for the sustainability of the environment with anchored inflation expectations.

16. The Committee members discussed the evolution of the factors highlighted in their balance of risks around the baseline inflation scenario, since its previous meeting. Although with different assessments and weights in

relation to the evolution of each risk in isolation, all agreed that the balance of risks is symmetric.

17. Copom members assessed that caution, serenity, and perseverance in conducting monetary policy decisions, in the face of uncertainties regarding economic scenarios, is the best way of keeping inflation on a trajectory towards the targets.

18. The Copom members assessed that economic conditions with anchored inflation expectations, underlying inflation measures at appropriate or comfortable levels, inflation projected to move toward targets for 2019 and 2020, and high level of slack in the economy prescribe stimulative monetary policy, i.e., interest rates below the structural interest rate level. Although estimates of this rate involve a high degree of uncertainty, the Committee members expressed the view that the current *ex-ante* real interest rates provide stimulus to the economy.

19. The Committee also discussed the conditionalities that would prescribe stimulative monetary policy. All members agreed that the appropriate level of stimulus depends on the outlook conditions, particularly inflation expectations, and the level of slack in the economy, balance of risks and inflation projections. Importantly, the provision of monetary stimulus requires an environment with anchored inflation expectations.

20. The Copom stresses that the continuation of reforms and necessary adjustments in the Brazilian economy is essential to the reduction of its structural interest rate. The Committee will continue to reassess the estimates of this rate over time.

21. The Committee members then discussed the monetary policy decision, in light of the evolution of the baseline scenario and the balance of risks since its February meeting (220th meeting). They unanimously decided to maintain the Selic rate at 6.50% p.a.

22. The Committee members reiterated their preference for communicating the conditionalities for the conduct of monetary policy, which better transmits the economic rationality guiding their decisions. This contributes to increase transparency and enhance Copom's communications. The Committee deems important to observe how the Brazilian economy will behave over time, with lower uncertainty and without the effects of the various shocks that hit the economy last year. The Committee judges that this assessment takes time and should not be completed in the short run. The Copom emphasizes that the next steps in the conduct of monetary policy will continue to depend on the evolution of economic activity, the balance of risks, and on inflation projections and expectations.

23. All Committee members once again emphasized that the approval and implementation of reforms —

notably those of fiscal nature— and adjustments in the Brazilian economy are crucial for the sustainability of the environment of low and stable inflation, for the full operation of monetary policy, and for the reduction of the structural interest rate of the economy, with widespread benefits for society. The Committee stresses that the perception of continuation of the reform agenda affects current expectations and macroeconomic projections.

Carolina de Assis Barros, João Manoel Pinho de Mello, Maurício Costa de Moura, Otávio Ribeiro Damaso, Paulo Sérgio Neves de Souza, and Tiago Couto Berriel.

D) Monetary Policy Decision

24. Taking into account the baseline scenario, the balance of risks, and the wide array of available information, the Copom unanimously decided to maintain the Selic rate at 6.50% p.a. The Committee judges that this decision reflects its baseline scenario for prospective inflation and the associated balance of risks, and is consistent with convergence of inflation to target over the relevant horizon for the conduct of monetary policy, which includes 2019 and, with gradually increasing weight, 2020.

25. The Copom reiterates that economic conditions prescribe stimulative monetary policy, i.e., interest rates below the structural level.

26. The Copom emphasizes that the evolution of reforms and necessary adjustments in the Brazilian economy is essential to maintain low inflation in the medium and long run, for the reduction of its structural interest rate, and for sustainable economic recovery. The Committee stresses that the perception of continuation of the reform agenda affects current expectations and macroeconomic projections.

27. In the Copom's assessment, the evolution of the baseline scenario and of the balance of risks prescribes keeping the Selic rate at its current level. The Committee deems important to observe how the Brazilian economy will behave over time, with lower uncertainty and without the effects of the various shocks that hit the economy last year. The Copom judges that this assessment takes time and should not be completed in the short run. The Copom emphasizes that the next steps in the conduct of monetary policy will continue to depend on the evolution of economic activity, the balance of risks, and on inflation projections and expectations.

28. The Copom asserts that caution, serenity, and perseverance in monetary policy decisions, even in the face of volatile scenarios, have been instrumental in pursuing its primary objective of keeping the inflation path towards the targets.

29. The following members of the Committee voted for this decision: Roberto Oliveira Campos Neto (Governor), Bruno Serra Fernandes, Carlos Viana de Carvalho,