

# **Minutes of the 219<sup>th</sup> Meeting of the Monetary Policy Committee (Copom) \* of the Central Bank of Brazil \*\***

December 11<sup>th</sup> and 12<sup>th</sup>, 2018



\* The Monetary Policy Committee of the Central Bank of Brazil 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:** December 11<sup>th</sup> and 12<sup>th</sup>, 2018

**Place:** BCB Headquarters' meeting rooms on the 8<sup>th</sup> floor (December 11<sup>th</sup>) and 20<sup>th</sup> floor (December 12<sup>th</sup>) – Brasília – DF – Brazil

**Starting and ending time:** December 11<sup>th</sup>: 9:45 am–12:44 pm; 2:33 pm–4:36 pm  
December 12<sup>th</sup>: 2:30 pm–6:20 pm

**In attendance:**

**Members of the Copom**

Ilan Goldfajn – Governor  
Carlos Viana de Carvalho  
Carolina de Assis Barros  
Maurício Costa de Moura  
Otávio Ribeiro Damaso  
Paulo Sérgio Neves de Souza  
Reinaldo Le Grazie  
Sidnei Corrêa Marques  
Tiago Couto Berriel

**Department Heads in charge of technical presentations (present on December 11<sup>th</sup>)**

Alan da Silva Andrade Mendes - Department of Foreign Reserves  
André Minella - Research Department (*also present on December 12<sup>th</sup>*)  
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 December 11<sup>th</sup>)**

Adalberto Felinto da Cruz Junior – Secretário Executivo  
Enrico Bezerra Ximenes de Vasconcelos – Secretary of the Financial Stability Committee and Senior 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  
Gustavo Paul Kurre – Press Officer  
Leonardo Martins Nogueira – Head of the Governor's Office  
Márcio Antonio Estrela – Head of the Deputy Governor for International Affairs and Corporate Risk Management's Office  
Paula Ester Farias de Leitão – Head of the Deputy Governor for Regulation's Office  
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 scenario<sup>1</sup>

1. Recent data on economic activity continue to indicate gradual recovery of the Brazilian economy.
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 for emerging economies. The main risks are associated with an increase in risk aversion in global financial markets, with normalization of interest rates in some advanced economies, and with uncertainty regarding global trade.
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 2018, 2019 and 2020 collected by the Focus survey are around 3.7%, 4.1% and 4.0%, respectively. Expectations for 2021 are around 3.75%.
6. The Copom's inflation projections in the scenario with interest rate and exchange rate paths extracted from the Focus survey stand around 3.7% for 2018, 3.9% for 2019, and 3.6% for 2020. This scenario assumes, among other assumptions, a path for the Selic rate that ends 2018 at 6.5% p.a., increases to 7.5% p.a. over the course of 2019, and reaches 8.0% p.a. by 2020. It also assumes a path for the exchange rate that ends 2018 at R\$/US\$ 3.78, and ends both 2019 and 2020 at R\$/US\$ 3.80. In this scenario, inflation projections for administered prices are 6.1% for 2018, 5.1% for 2019 and 3.9% 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 3.7% for 2018, 4.0% for 2019, and 4.0% for 2020. In this scenario, inflation projections for administered prices are 6.1% for 2018, 5.2% for 2019, and 4.0% for 2020.

<sup>1</sup> Unless explicitly stated otherwise, this update takes into account changes occurred since the October Copom meeting (218<sup>th</sup> meeting).

## B) Risks around the baseline inflation scenario

8. The Copom's baseline scenario for inflation encompasses risk factors in both directions, but with larger weight on the last two risks, listed below.
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. This risk intensifies in case (iii) the global outlook for emerging economies deteriorates.
11. The Committee judges that risk (i) has increased, whereas risk (ii) has moderated.

## C) Discussion about the conduct of monetary policy

12. The Committee members discussed the evolution of economic activity in light of available data. They concluded that the data indicate continuation of the gradual recovery of economic activity in Brazil.
13. Regarding the global outlook, the Committee members considered that it remains challenging for emerging economies. They recognized the continuity of greater volatility in the prices of risky assets and debated the possible negative effects of increased risk aversion in global markets. The Copom's baseline scenario assumes gradual normalization of monetary policy in some central economies. The Committee members also mentioned the uncertainty associated to the continued expansion of international trade, with possible impacts on global growth, and on the Chinese economy, in particular. 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 and the environment of anchored inflation expectations and prospects of economic recovery.

14. The members of the Committee discussed the drop in recent inflation projections and the levels of various

<sup>2</sup> 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.



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. This path is consistent with inflation expectations, which remain anchored. The Copom members emphasized, however, the existence of risks to the consolidation of this scenario in the medium and long terms, especially those related to the continuation of reforms and necessary adjustments in the Brazilian economy.

15. The Copom assessed that, since its previous meeting, the risk that the high level of economic slack may lead to a lower-than-expected prospective inflation trajectory has increased, while the risk related to the frustration of expectations regarding the continuation of reforms and necessary adjustments in the Brazilian economy has decreased. However, the members highlighted that upside risks to inflation remain significant, and with larger weight in their balance of risks. Therefore, the Committee concluded that the balance of risks remains asymmetric, albeit to a lesser degree.

16. 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 accommodative 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.

17. The Committee also discussed the conditionalities that would prescribe accommodative monetary policy. All members agreed that the appropriate level of stimulus depends on economic conditions, inflation expectations, balance of risks and inflation projections. Importantly, the provision of monetary stimulus requires an environment with anchored inflation expectations.

18. 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.

19. 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 October meeting (218<sup>th</sup> meeting). They unanimously decided to maintain the Selic rate at 6.50% p.a.

20. The Copom then discussed the advisability of signaling the future evolution of monetary policy. All members

considered that the current environment prescribes retaining greater flexibility in the conduct of monetary policy, which requires refraining from providing indications of its next steps. The members of the Copom reinforced the importance of emphasizing their commitment to conducting monetary policy in order to maintain the path for prospective inflation in line with inflation targets.

21. 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. In this context, they reasserted 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.

22. The Copom pondered 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. The Committee understands that decisions governed by these principles provide good guidance for monetary policy.

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 also notes that the perception of continuity in the reform agenda affects expectations and current macroeconomic projections.

24. Finally, the Copom members stressed 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.

## D) Monetary Policy Decision

25. 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 a smaller weight, 2020.

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

27. 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.

28. In the Copom's assessment, the evolution of the baseline scenario and the balance of risks prescribes keeping the Selic rate at its current level. 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 inflation projections and expectations.

29. The following members of the Committee voted for this decision: Ilan Goldfajn (Governor), Carlos Viana de Carvalho, Carolina de Assis Barros, Maurício Costa de Moura, Otávio Ribeiro Damaso, Paulo Sérgio Neves de Souza, Reinaldo Le Grazie, Sidnei Corrêa Marques, and Tiago Couto Berriel.