

237<sup>th</sup>

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

March 16-17, 2021

**Date:** March 16-17, 2021

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

**Starting and ending times:** March 16: 10:10 AM – 12:58 PM; 2:40 PM – 6:48 PM  
March 17: 2:37 PM – 6:45 PM

**In attendance:**

**Members of the Copom** 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  
Paulo Sérgio Neves de Souza

**Department Heads in charge of technical presentations (March 16):** Alan da Silva Andrade Mendes – *Department of Foreign Reserves*  
André Minella – *Research Department (also present on March 17)*  
André de Oliveira Amante – *Open Market Operations Department*  
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 (March 16):** Arnildo da Silva Correa – *Head of the office of Economic Advisor*  
Eugênio Pacceli Ribeiro – *Executive Secretary*  
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 – *Head of the Governor's Office*  
Pedro Henrique da Silva Castro – *Deputy Head of the Department of Economics*  
Sílvia Michael de Azevedo Costa – *Deputy Head of the Department of International Affairs*

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, new fiscal stimuli in some developed countries and the advancement of the Covid-19 immunization programs should promote a more robust economic recovery throughout the year. Economic slack and central bank communication from major economies suggest monetary stimuli will last long. However, market discussion regarding inflationary risks in these economies, and the associated repricing of financial assets, could result in a more challenging environment for emerging economies.

2. Turning to the Brazilian economy, recent indicators, particularly the GDP growth in the fourth quarter of 2020, continued to suggest a consistent economic recovery in spite of the reduction in the emergency income transfers. In general, higher frequency indicators suggest that this movement probably stretched until February, but this view requires caution given the greater difficulty in applying seasonal adjustments, due to recent volatility of data series and the changes to the holiday schedule at the state level. Besides, the latest readings do not capture the effects of the recent sharp increase in the number of Covid-19 cases. Prospectively, uncertainty about economic growth remains larger than usual, especially for the first and second quarters of this year.

3. The various measures of underlying inflation are in levels above the range compatible with meeting the inflation target.

4. Inflation expectations for 2021, 2022, and 2023 collected by the Focus survey are around 4.6%, 3.5%, and 3.25%, respectively.

5. The continuing increase in commodity prices, measured in local currency, is affecting current inflation, and has triggered additional increases in inflation forecasts for the next months, especially through its effects on fuel prices. Despite these stronger and more persistent than expected short-term inflationary pressures, the Committee maintains the diagnosis that the current shocks are temporary but continues to closely monitor its evolution.

6. The Copom's inflation projections in its baseline scenario, with interest rate path extracted from the Focus survey and exchange rate starting at R\$5.70/US\$<sup>2</sup>, and evolving according to the purchase power parity (PPP), stand around 5.0% for 2021 and 3.5% for 2022. This scenario assumes a path for the Selic rate that ends 2021 at 4.50% p.a. and rises to 5.50% p.a. in 2022. In this scenario, inflation projections for administered prices are 9.5% for 2021 and 4.4% for 2022.

### **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, the worsening of the pandemic may delay the economic recovery, producing a lower-than-expected prospective inflation trajectory.

9. On the other hand, an extension of fiscal policy responses to the pandemic that aggravates the fiscal path or a frustration with the continuation of the reform agenda may increase the risk premium. The relative increase in the risks of these events implies an upward asymmetry to the balance of risks, *i.e.*, in the direction of higher-than-expected paths for inflation over the relevant horizon for monetary policy.

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<sup>1</sup> Unless explicitly stated otherwise, this update takes into account changes that occurred since the January Copom meeting (236<sup>th</sup> meeting).

<sup>2</sup> Value obtained according to the usual procedure of rounding the average R\$/US\$ exchange rate observed in the five business days ended in the last day of the week prior to the Copom meeting.

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

10. Regarding the global outlook, the Committee assessed that the progress in the implementation of Covid-19 immunization programs, the new fiscal stimuli in some developed countries, and the communication by central banks of major economies that monetary stimuli will be long-lasting should imply robust economic growth during the year. However, the discussion about reflation has increased volatility in some markets. This repricing of important financial assets could result in a more challenging environment for emerging economies.

11. The Copom members discussed the evolution of domestic economic activity in light of the available information and indicators. They evaluated that, despite the partial reduction in governmental emergency transfer programs, the economic recovery has been better than expected. However, they noted that the latest available data do not yet account for the possible effects of the recent sharp increase in the number of Covid-19 cases, and that there is considerable uncertainty about the pace of economic growth in the first and second quarters of this year. Looking ahead, the Committee assessed that a possible economic recovery setback due to the worsening of the pandemic would be less extreme than the one observed last year and would probably be followed by another fast recovery. For the Committee, the second half of the year may show a robust recovery, as the effects of vaccination are felt more broadly.

12. Next, the Copom members debated on the level of economic slack. The Committee believes that the pandemic produced heterogeneous effects across economic sectors, and that governmental emergency transfer programs reduced the slack in the goods sector. 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 turned to the monetary policy discussion. In the Committee's opinion, in addition to the strong pace of growth in recent months, with a consequent reduction in economic slack, there has been a reversal in inflation expectations. These expectations have moved to the upper part of the tolerance interval of the inflation target for 2021, and to around the target for 2022, the two calendar years within the relevant monetary policy horizon. As a result, the Copom members concluded that the current scenario ceased to prescribe an extraordinary degree of stimulus, and that the Copom should begin a process of partial normalization of the policy rate.

14. The Copom then 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 trajectory extracted from the Focus survey, the inflation projections are near the upper bound of the tolerance interval in 2021, and around the target in 2022. The Committee pondered that despite the recent approval of important reforms, which will bring benefits in the medium term, the fiscal risks remain high in the short term due to the worsening of the pandemic, which implies an upward bias to these projections. This asymmetry in the balance of risks affects the appropriate degree of monetary stimulus, justifying a trajectory with a larger initial increase in the policy rate than that implied by the baseline scenario.

15. The Committee also highlighted that the delay in the normalization of the production chains, which puts pressure on production costs and inflation in specific sectors, suggests that there is also a positive demand shock at work. Several members also stressed that the inflationary pressures observed in 2021 may affect inflation expectations for 2022, risking a de-anchoring of expectations over the relevant horizon for monetary policy. Finally, regarding the recent dynamics of inflation, the Committee pointed out that, despite the diagnosis that the current shocks are temporary, the Brazilian inflation targeting regime aims at headline inflation in the calendar year. All

these factors have contributed to a more assertive stance in the conduct of monetary policy.

16. Based on all these considerations, the Committee concluded that an initial adjustment of 0.75 p.p. in the Selic rate would be the most appropriate. This swifter adjustment of the degree of stimulus is compatible with meeting the target over the relevant horizon, even in a scenario of a temporary increase in social distancing.

17. Similarly, the Committee assessed that for the next meeting it would be appropriate to continue the process of partial normalization of the monetary stimulus with another adjustment of the same magnitude. The Copom reinforced that its views for the next meeting may be altered if there is a significant change in the inflation projections or the balance of risks, and that, ultimately, the decision will continue to depend on the evolution of economic activity, the balance of risks, and the inflation projections and expectations.

#### **D) Monetary policy decision**

18. Considering 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 2.75% 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, mainly, 2022.

19. 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.

20. The Copom members consider that the current conditions ceased to prescribe an extraordinary stimulus. GDP ended 2020 growing strongly at the margin, recovering most of its first half-year decline, and inflation expectations rose above target at the relevant horizon for monetary policy. Additionally, inflation projections increased to levels close to the upper bound of the target for 2021.

21. Therefore, the Copom decided to start a process of partial normalization by reducing the extraordinary degree of monetary stimulus. For all the aforementioned reasons, the Committee considered appropriate an adjustment of 0.75 p.p. in the Selic rate. In the Committee's evaluation, a swifter adjustment has the benefit of reducing the probability of not meeting the inflation target in 2021, as well as of keeping longer horizon expectations well anchored. Additionally, the broad set of information available to the Committee suggests that this strategy is consistent with meeting the 2022 inflation target, even if social distancing increases temporarily.

22. For the next meeting, unless there is a significant change in inflation projections or in the balance of risks, the Committee foresees the continuation of the partial normalization process with another adjustment, of the same magnitude, in the degree of monetary stimulus. The Copom emphasizes that its view for the next meeting will continue to depend on the evolution of economic activity, the balance of risks, and inflation projections and expectations.

23. 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.