

238th

Minutes of the Meeting of the
Monetary Policy Committee — Copom

May 4-5, 2021

Date: May 4-5, 2021

Place: BCB Headquarters' meeting rooms on the 8th floor – Brasília – DF – Brazil

Starting and ending times: May 4: 10:17 AM – 1:01 PM; 2:19 PM – 6:39 PM
May 5: 2:35 PM – 6:37 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**

(May 4):

Alan da Silva Andrade Mendes – *Department of Foreign Reserves*
André de Oliveira Amante – *Open Markets Operations Department*
Euler Pereira Gonçalves de Mello – *Research Department* (also present on May 5)
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

(May 4):

Arnildo da Silva Correa – *Head of the Office of Economic Advisor*
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 – *Deputy 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 scenario¹

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 could result in a more challenging environment for emerging economies.
2. Turning to the Brazilian economy, recent indicators are evolving better than expected in spite of the second wave of the pandemic being more intense than anticipated. Prospectively, uncertainty about economic growth still remains larger than usual but should gradually return to its normal level.
3. The various measures of underlying inflation are at the top of the range compatible with meeting the inflation target.
4. Inflation expectations for 2021, 2022, and 2023 collected by the Focus survey are around 5.0%, 3.6%, and 3.25%, respectively.
5. With the exception of oil, commodity prices continued to increase, impacting food and industry price projections. Additionally, the transition to higher energy prices related to the electricity tariff flag system should keep inflation under pressure in the short run. 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\$5.40/US\$² and evolving according to the purchase power parity (PPP), stand around 5.1% for 2021 and 3.4% for 2022. This scenario assumes a path for the Selic rate that ends 2021 at 5.50% p.a. and rises to 6.25% p.a. in 2022. In this scenario, inflation projections for administered prices are 8.4% for 2021 and 5.0% 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, economic recovery from the pandemic can be slower than estimated, producing a lower-than-expected prospective inflation trajectory.
9. On the other hand, further extensions of fiscal policy responses to the pandemic that aggravate the fiscal path, or a frustration with the continuation of the reform agenda, may add pressure to the country's risk premium. The relative increase of 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.

¹ Unless explicitly stated otherwise, this update takes into account changes that occurred since the March Copom meeting (237th meeting).

² Value obtained according to the usual procedure of rounding the average USD/BRL 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”, in particular about the risk of a lasting inflation increase in the United States, 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 considered that, despite the greater-than-expected intensity of the second wave of the pandemic, the latest available economic activity data have surprised positively. For the Committee, the second half of the year should bring a robust recovery, as the effects of the vaccine rollout are felt more broadly.

12. The Copom members then debated the level of economic slack. Although the economic slack as a whole is returning to the late 2019 level in the coming quarters, the Committee considered that the pandemic produced heterogeneous effects across economic sectors. Whereas the goods sector operates with low slack, the service sector is struggling to recover. 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 slightly below the target for 2022. The Committee pondered that short-term fiscal risks remain high, implying an upward bias in these projections. This asymmetry in the balance of risks affects the appropriate degree of monetary stimulus, therefore justifying a 0.75 p.p. increase in the interest rate in this meeting.

14. The Copom then evaluated different normalization paths for the Selic rate. Considering the baseline scenario and the balance of risks, the Committee deemed appropriate another adjustment of the same magnitude in the next meeting, unless inflation determinants change. Additionally, the Committee noted that subsequent uninterrupted increases in the interest rate up to the level considered neutral imply projections considerably below the inflation target at the relevant horizon. The Copom reinforced that its views for the next meeting may be altered if there is a change in inflation projections or in the balance of risks, since the decision will continue to depend on the evolution of economic activity, the balance of risks, and the inflation projections and expectations.

15. The Committee then discussed the communication of monetary policy and, in particular, the reference to a “partial normalization” of the interest rate. The Committee members pointed out that “partial normalization” reflects their opinions on the appropriate monetary policy for the convergence of inflation to target over the relevant horizon. The Copom understands that the reference to “partial normalization”, as well as the disclosure of the implicit neutral rate and the output gap in the models used by the Committee, increases the transparency of the Central Bank’s reaction function and, consequently, improves monetary policy efficiency. Naturally, the Copom reevaluates its scenario at every meeting committed to the convergence of inflation to the target over the relevant horizon.

D) Monetary policy decision

16. 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 3.50% 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 price stability, this decision also implies smoothing of economic fluctuations and fosters full employment.

17. At this moment, the Copom's baseline scenario indicates that a partial normalization of the policy rate remains appropriate to keep some degree of monetary stimulus during the economic recovery. However, the Committee 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.

18. For the next meeting 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 will continue to depend on the evolution of economic activity, the balance of risks, and inflation projections and expectations.

19. 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.