

# Copom Minutes

27 September 2022

## Same tone as of Copom statement

### Central Bank (CB) views

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**Global scenario:** The global environment remains adverse and volatile. The labor market in advanced economies remains heated, however, the reversal of countercyclical policies in major economies, the persistence of the war in Ukraine and the continuation of the Covid-19 policy in China reinforce a prospect of a slowdown in global growth in the coming quarters. The inflationary environment remains challenging, and the process of normalization of monetary policy in advanced economies continues towards contractionary rates in a synchronized way.

**Economic activity:** Second quarter GDP came stronger than expected. The indicators released since the previous Copom meeting suggest that the economy kept growing at the margin, albeit more moderately. Besides, the labor market continued to expand, although not completely reverting the real income decline observed in recent quarters.

**Inflation:** Despite the recent reduction in prices of more volatile items and the impacts of tax measures, consumer inflation remains high. The recent releases have been strongly influenced by the reduction in administered prices, due to both the decrease in taxes and, to a lesser extent, the drop in international fuel prices.

CB inflation model results in inflation of 5.8%, 4.6% and 2.8%, respectively for 2022, 2023 and 2024. In such scenario, Copom considers market expectation for Selic, FX rates starting at 5.20 and moving by the Purchasing Power Parity, oil prices following the futures curve for the next six months, increasing 2% per year after this period and energy flag at green by the end of 2022, and yellow in the end of 2023 and 2024. On the horizon referring to the first quarter of 2024, the twelve-month inflation projection stands at 3.5%.

**Monetary policy:** The currently monetary tightening cycle has been quite intense and timely, due to the long variable monetary policy legs, much of the expected contractionary effect and its impact on current inflation are still to be seen. These impacts should become clearer in the activity indicators throughout the second half of the year, but the Committee anticipates that measures to sustain aggregate demand hinder a more precise evaluation about the stage of the economic cycle and the impacts of monetary policy.

### Our expectation

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The minutes came roughly in line with the statement, so there is no reason to change our mind on Selic policy rate ahead: maintenance of Selic at 13.75% until July next year, followed by a gradual declining path, conditioned on the inflation expectation around the central target in 2024. For instance, Central Bank reinforced its objective for a gradual convergence of inflation to the midpoint target in 2024.

Risks to resumption of monetary tightening at this moment seems to be low, once Central Bank might wait a bit longer until the cumulative effects of interest rate hikes already implemented take full effect. However, we cannot discard a resumption of rate hike in case of higher and unexpected global inflationary pressures, and/or increase of domestic fiscal risks amid a new administration.

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