Executive summary

The global environment remains volatile, with debates about the beginning of the easing cycle in major economies and the speed of sustained disinflation in many countries. The central banks of major economies remain committed to bringing inflation back to its targets in an environment characterized by labor market pressures. The environment continues to require caution from emerging market economies.

Regarding the domestic scenario, the set of indicators on economic activity remains consistent with the scenario of deceleration expected by Copom. GDP was stable in the second half of 2023, after strong growth in the first half of the year. Data already available for early 2024, however, suggest that the economy is heating up and has led to a revision in the GDP growth projection for this year, from 1.7% to 1.9%. The credit market, which slowed down in 2023, is showing signs of recovery, with an increase in granting and a fall in interest and delinquency rates. The labor market has shown dynamism, with a resumption of the fall in the unemployment rate and stronger wage growth.

The twelve-month inflation, as measured by the Extended National Consumer Price Index (IPCA), has fallen since the previous Inflation Report (IR), from 4.68% to 4.50%. However, in the quarterly seasonally adjusted metric, headline inflation and the average of core inflation measures increased to levels that exceed the inflation target. The IPCA change was 0.54 p.p. above that of the baseline scenario presented in the previous IR. This upward surprise was due to the administered prices and food-at-home segments. In the services segment, its underlying component surprised upward.

Despite higher short-term inflation, inflation expectations for 2024 fell from 3.93% to 3.79%, according to the Focus survey median. However, expectations for the following years remained stable at 3.5%, above the inflation target.

The projections presented use information available up to the 261st Copom meeting, held on March 19-20, 2024. As for the conditioning factors used in the projections, especially those from the Focus survey, the cut-off date is March 15, 2024, unless otherwise stated.

Regarding the conditional inflation projections, in the baseline scenario, the interest rate path is extracted from the Focus survey, and the exchange rate starts at USD/BRL 4.95 and evolves according to the purchasing power parity (PPP). Oil prices follow approximately the futures market curve for the following six months and then start increasing 2% per year onwards. Compared with the previous IR, inflation projections, in the baseline scenario, remained at 3.5%, 3.2%, and 3.2% for 2024, 2025, and 2026, respectively. In this scenario, inflation projections for administered prices are 4.4% for 2024, 3.9% for 2025, and 3.4% for 2026.

In its most recent meeting (261st), considering the evolution of the disinflationary process, the assessed scenarios, the balance of risks, and the broad array of available information, Copom decided to reduce the Selic rate by 0.50 percentage points, to 10.75% p.a., and judges that this decision is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon for monetary policy, which includes the year of 2024 and, to a larger degree, 2025. Without compromising its fundamental objective of ensuring price stability, this decision also implies smoothing economic fluctuations and fostering full employment.

The current context, characterized by a stage in which the disinflationary process tends to be slower, with only partial reanchoring of inflation expectations and a challenging global outlook, requires serenity and moderation in the conduct of monetary policy. The Committee reinforces the need to persist on a contractionary monetary policy until the disinflationary process consolidates and inflation expectations anchor around its targets.

The committee judges that the baseline scenario has not changed substantially. Due to heightened uncertainty and the need for more flexibility in the conduct of monetary policy, the Committee members unanimously decided to communicate that, if the scenario evolves as expected, they anticipate a reduction of the same magnitude in the next meeting. The Committee judges that this monetary policy stance is appropriate to keep the necessary contractionary monetary policy for the disinflationary process.

The Committee emphasizes that the total magnitude of the easing cycle throughout time will depend on the inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity, on inflation expectations, in particular the longer-term ones, on its inflation projections, on the output gap, and on the balance of risks.