

Brazil: Economic and monetary outlook

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Overview

- ▶ International scenario
 - ▶ Some risks have declined but others remain
- ▶ Domestic outlook
 - ▶ Gradual economic recovery
 - ▶ Comprehensive reform agenda
- ▶ Monetary policy
 - ▶ Inflation within target range
 - ▶ Anchored inflation expectations

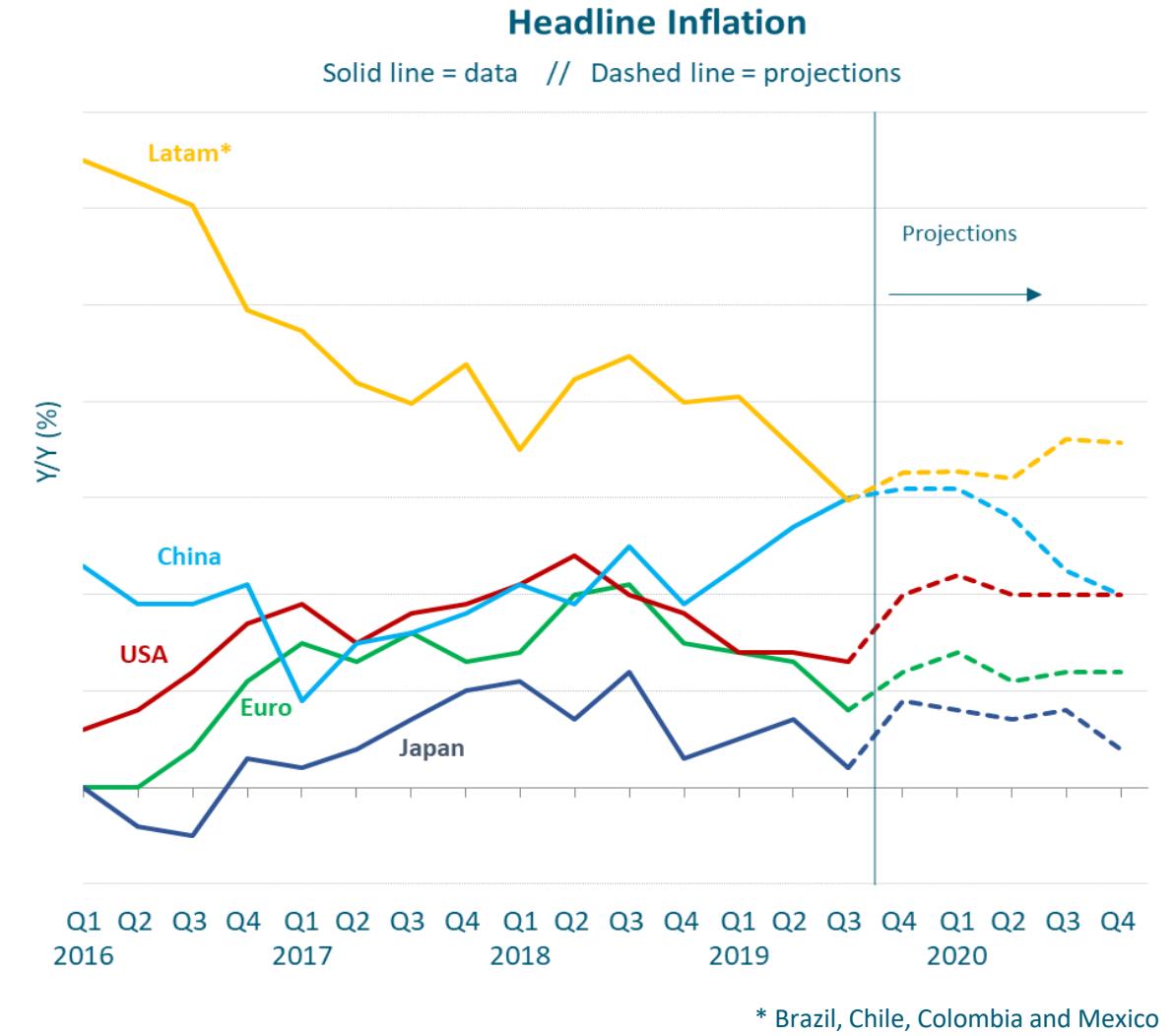
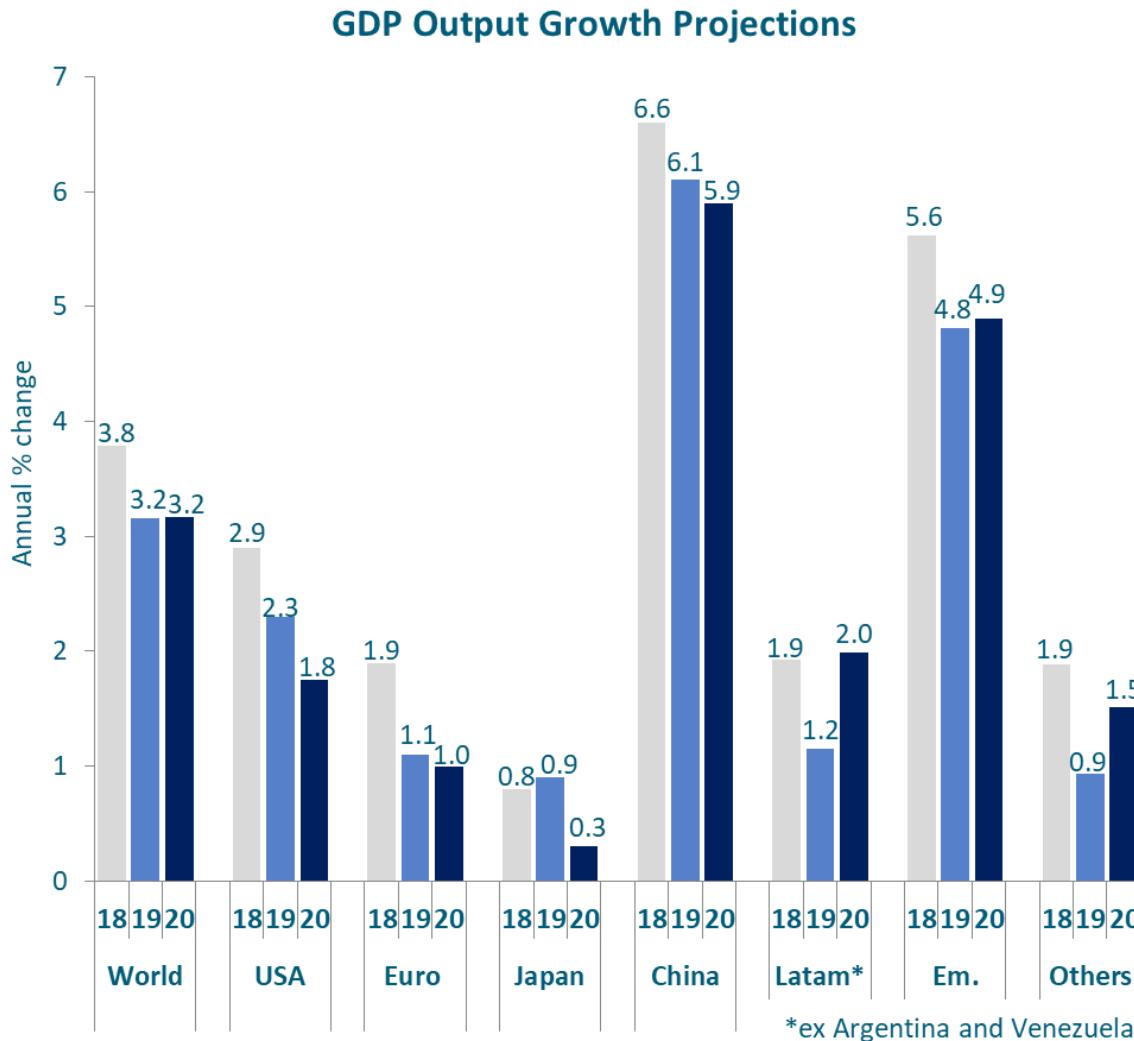
International context

Global outlook remains uncertain

“The provision of additional monetary stimulus in major economies, in a context of economic slowdown and below-target inflation, has been able to generate a relatively favorable environment for emerging economies. The outlook remains uncertain, however, and risks of a more pronounced slowdown in global growth persist.”

226th Copom Minutes;
October 29-30, 2019.

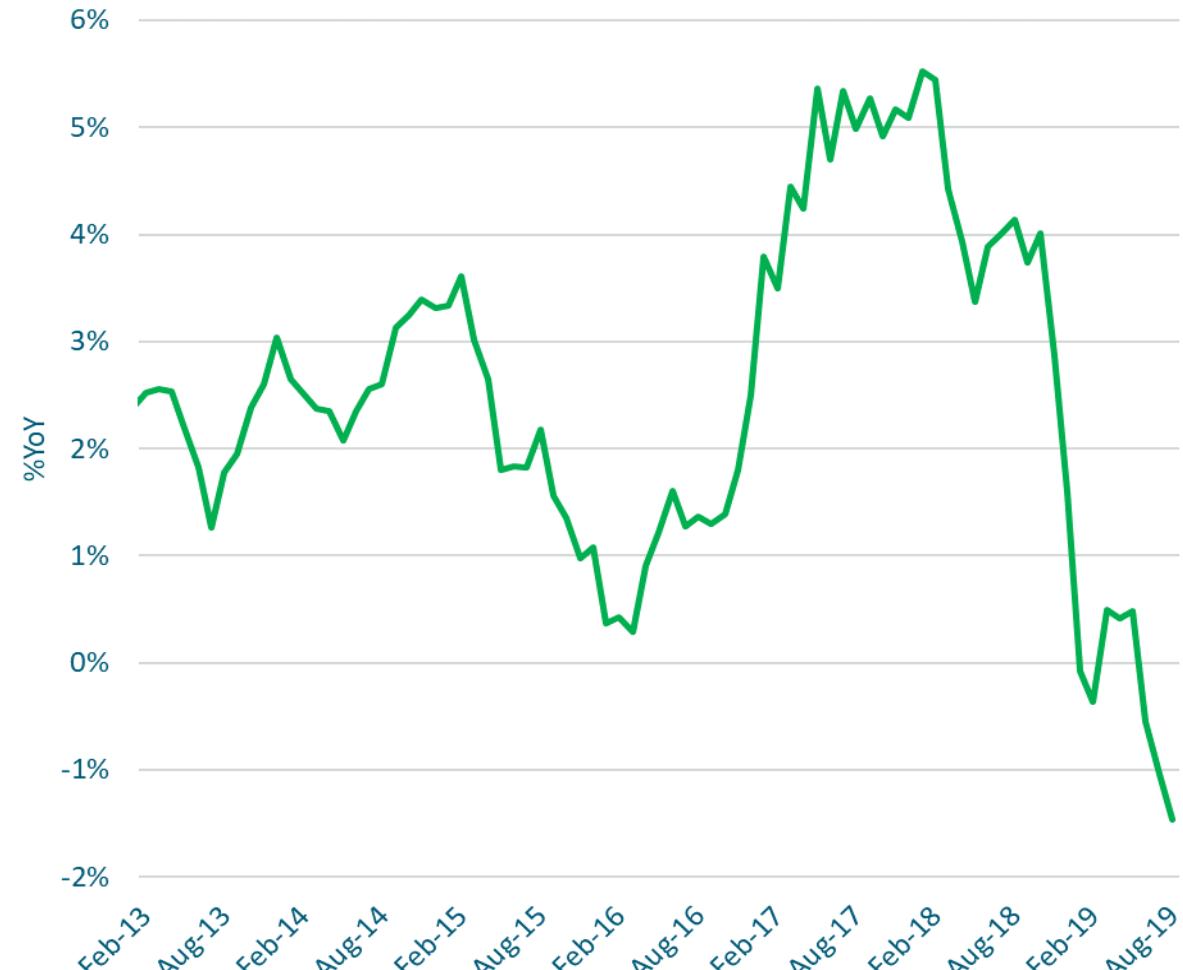
Growth slowdown and subdued inflation readings



Source: Bloomberg

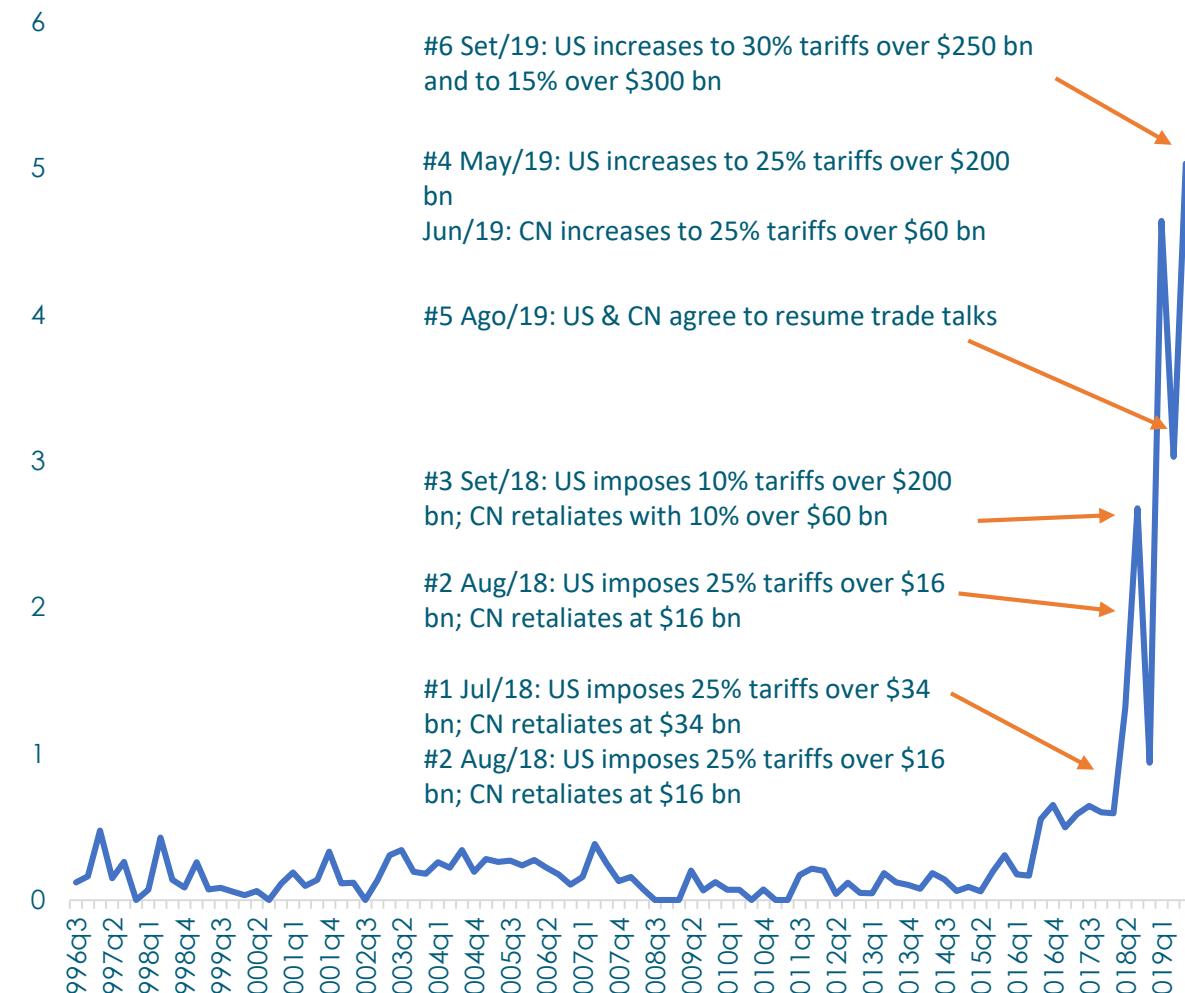
Elevated uncertainty and large decline in global trade

Global Trade Growth



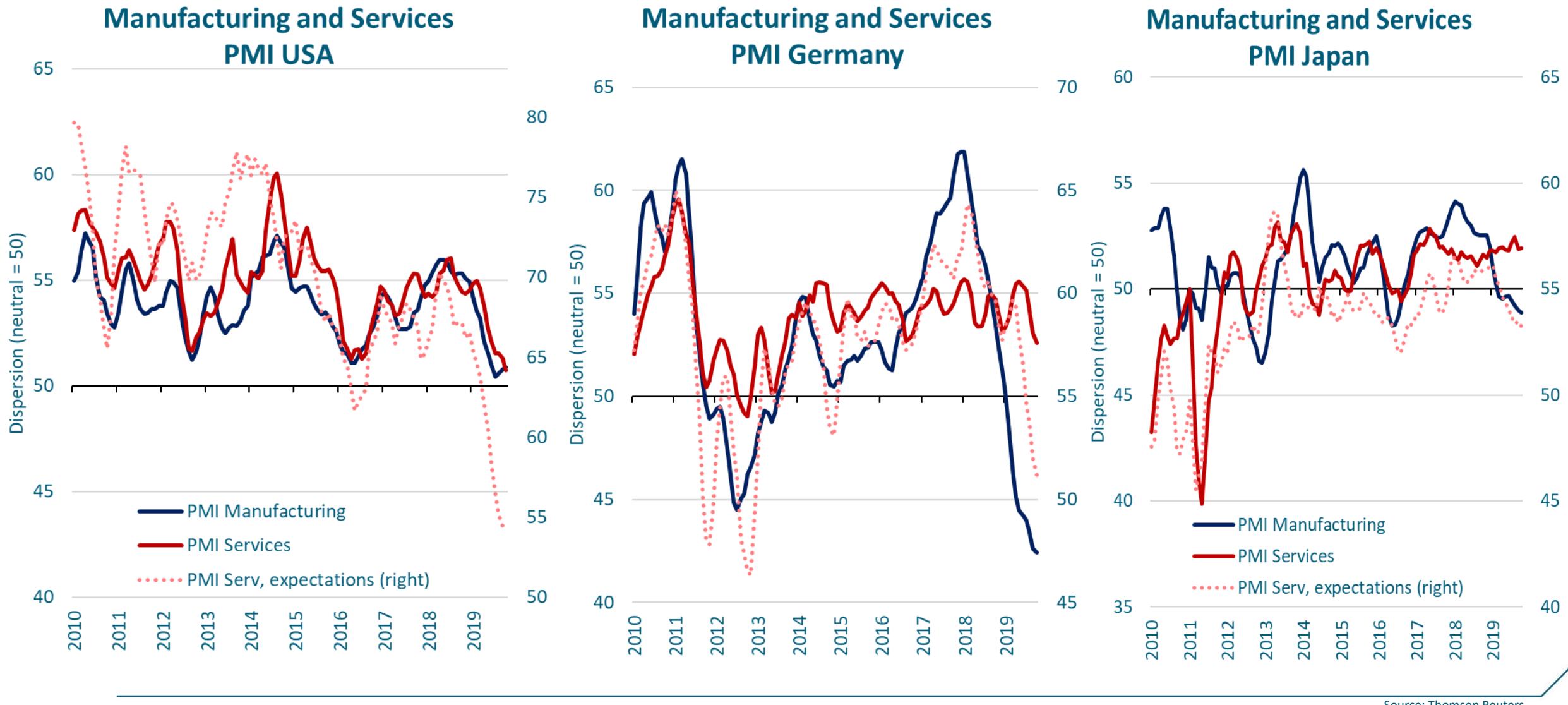
Sources: CPB World Trade Monitor (mm3m %yooy)

World Uncertainty Index (WUI)



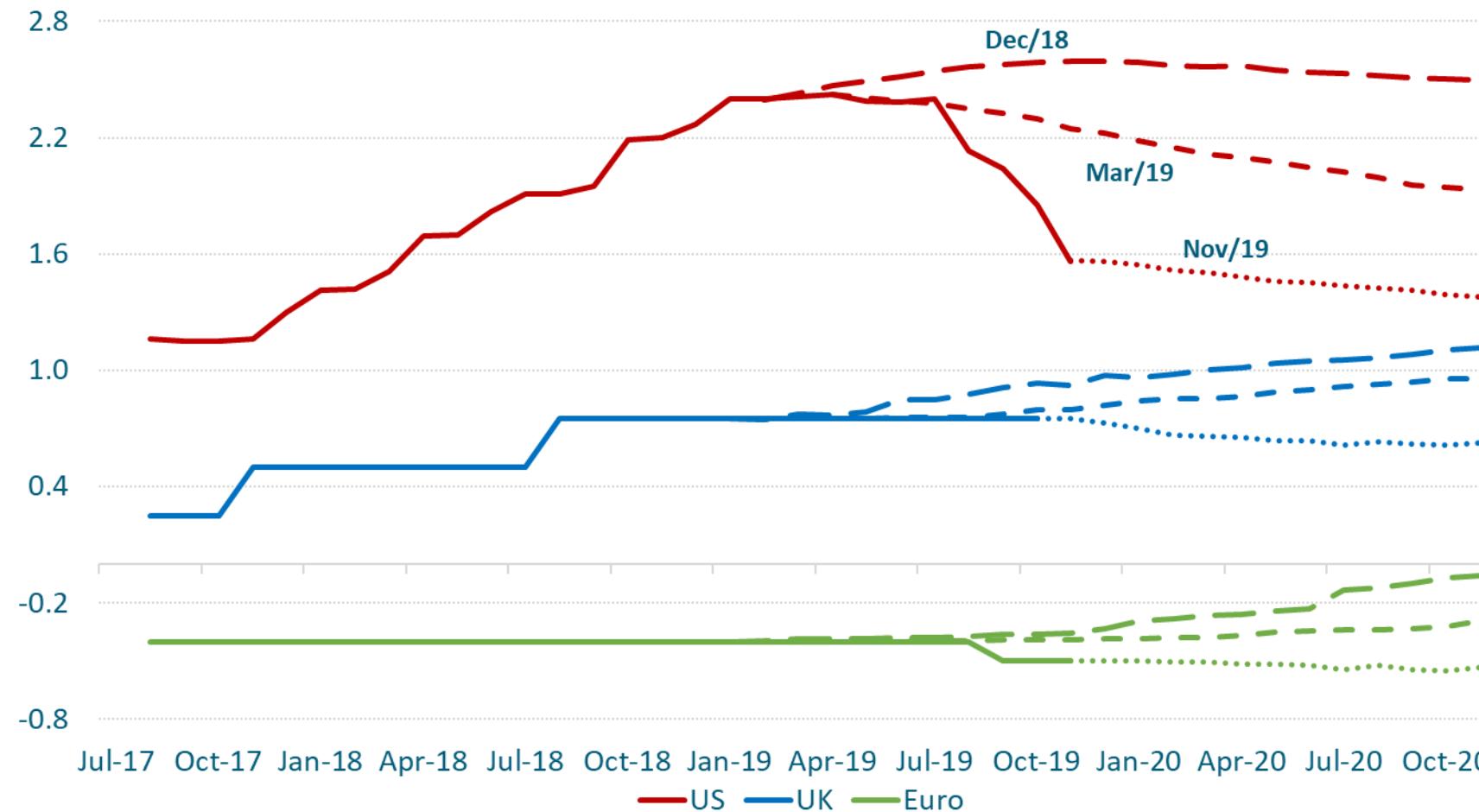
Sources: CPB & Ahir, Bloom & Furceri (2018)

Early signs of service sector slowdown in G3



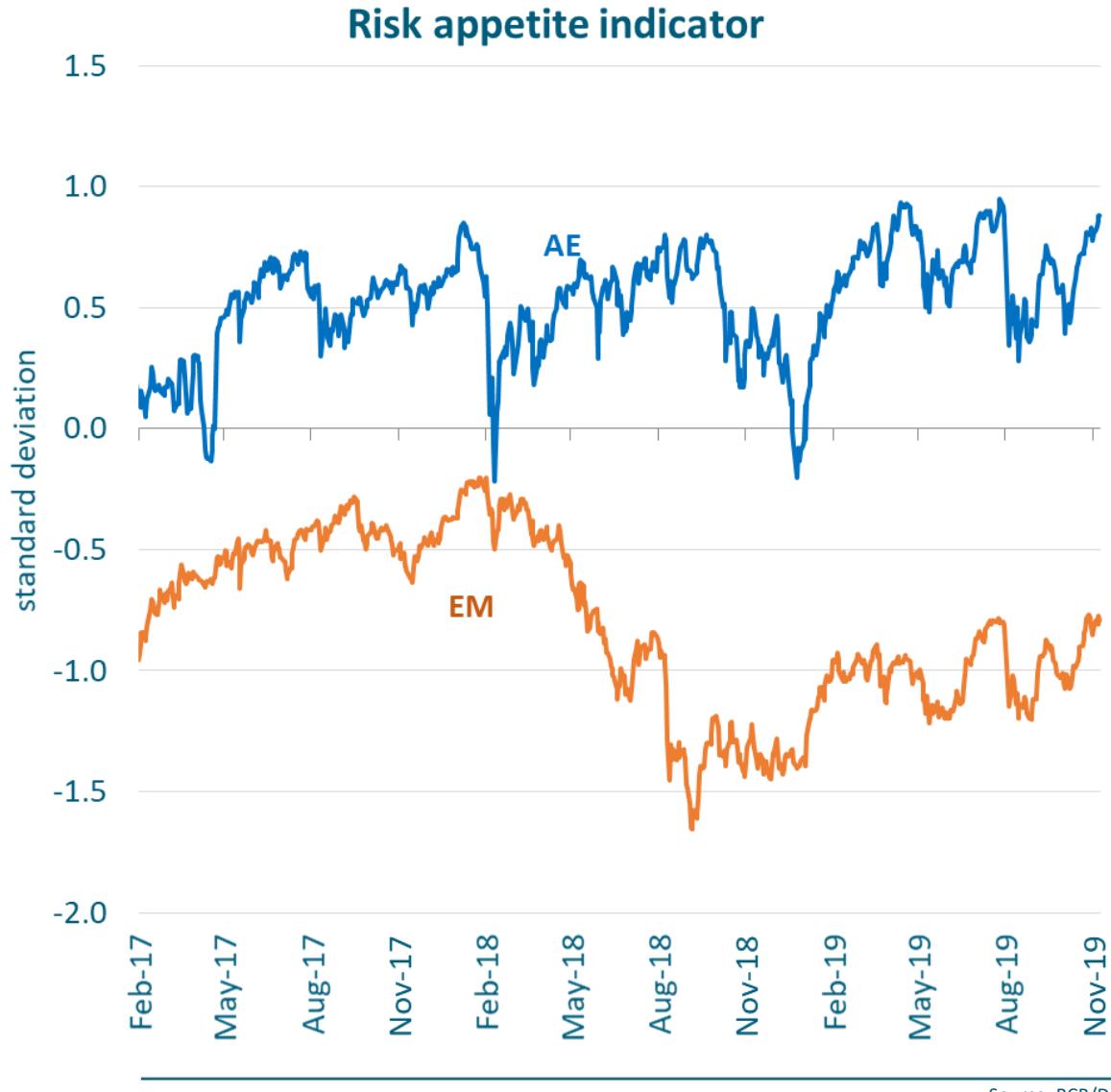
Central banks revising monetary policies

Interest rates and market expectations (% p.a.)

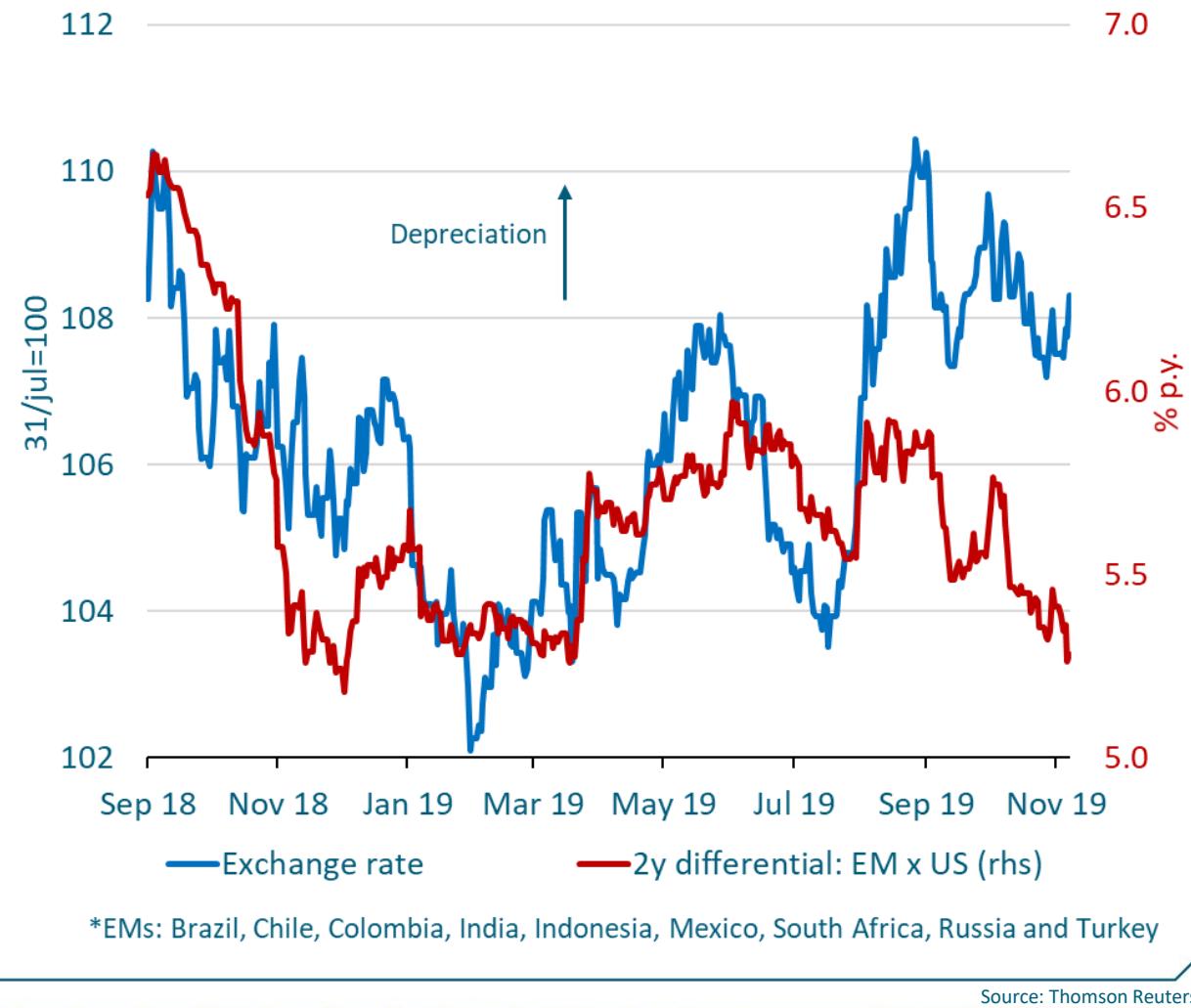


Source: Bloomberg & Thomson Reuters

Risk appetite improving but strong dollar



EMs*: Exchange and interest rates (2 years)



Domestic scenario

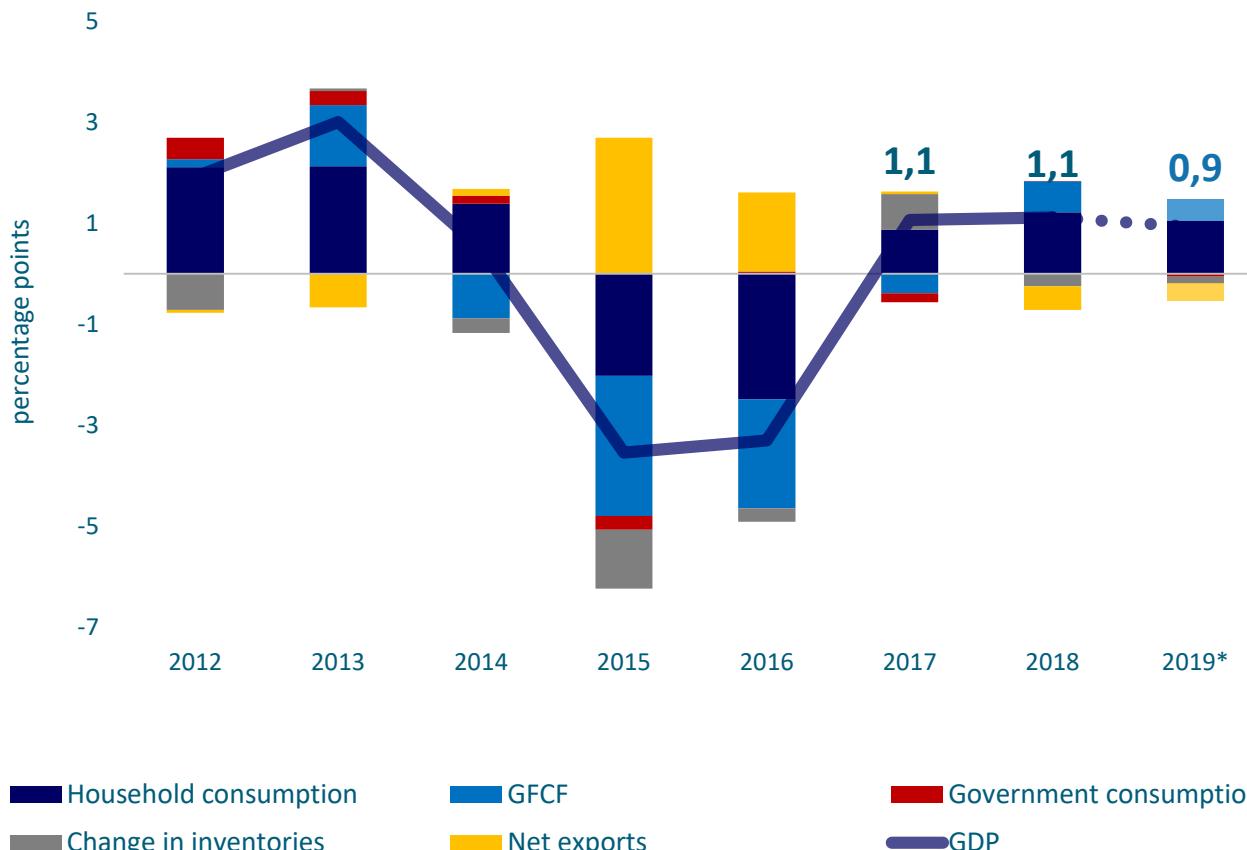
Gradual Economic Recovery

“Data on economic activity since the previous Copom meeting reinforce the continuity of the Brazilian economy recovery process. Copom’s scenario assumes that this recovery will occur at a gradual pace.”

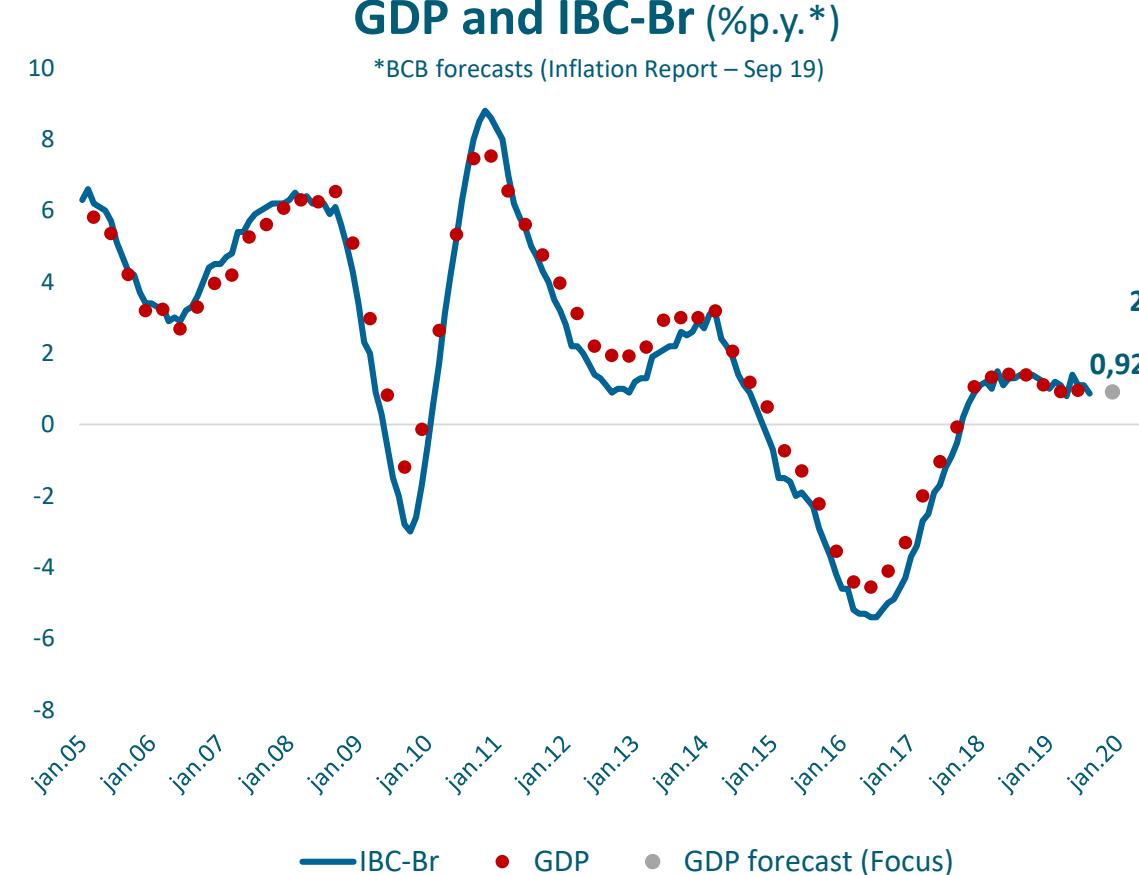
226th Copom Minutes
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Gradual recovery from a deep recession

Annual contribution to real GDP growth

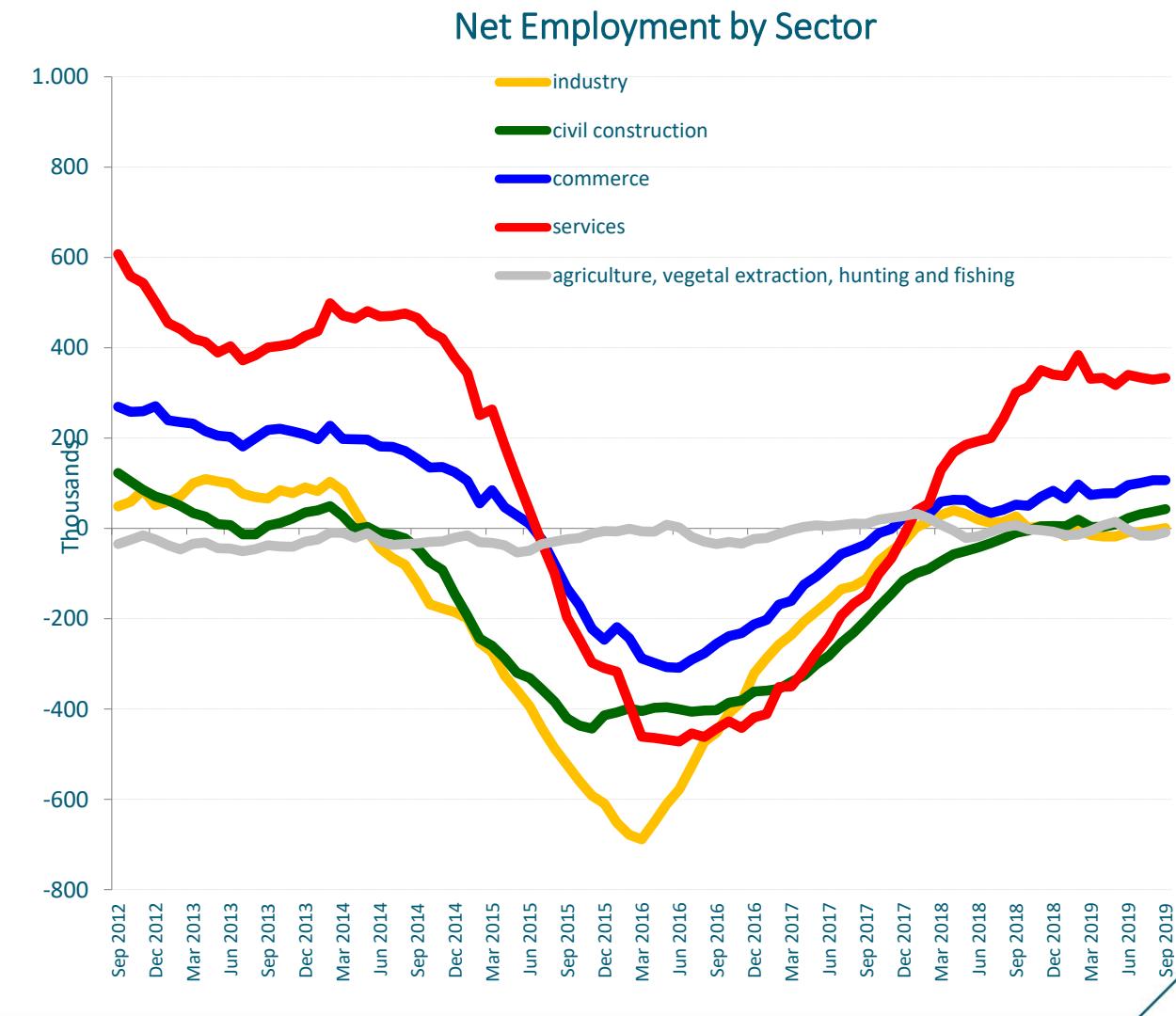
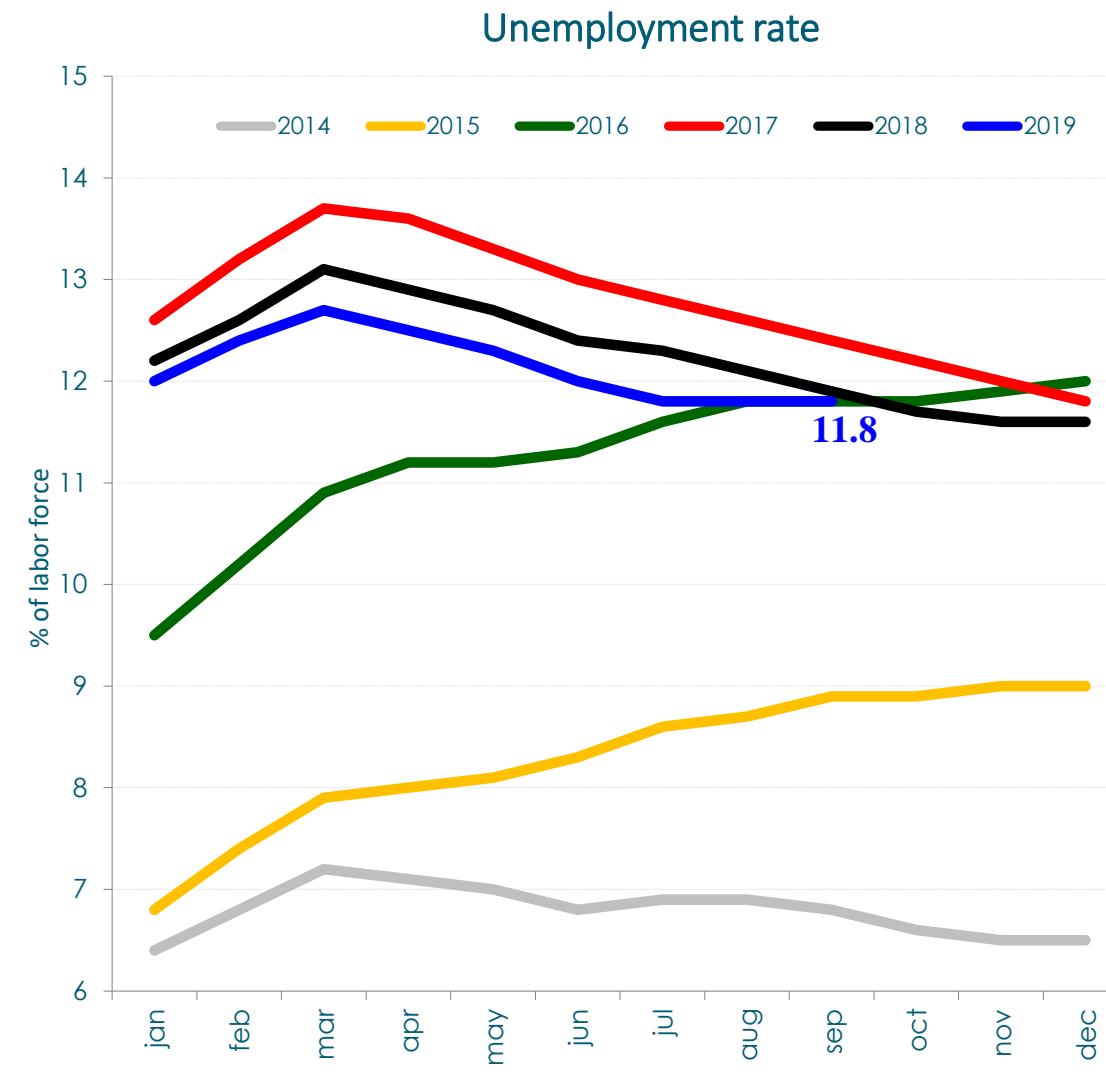


GDP and IBC-Br (%p.y.*)

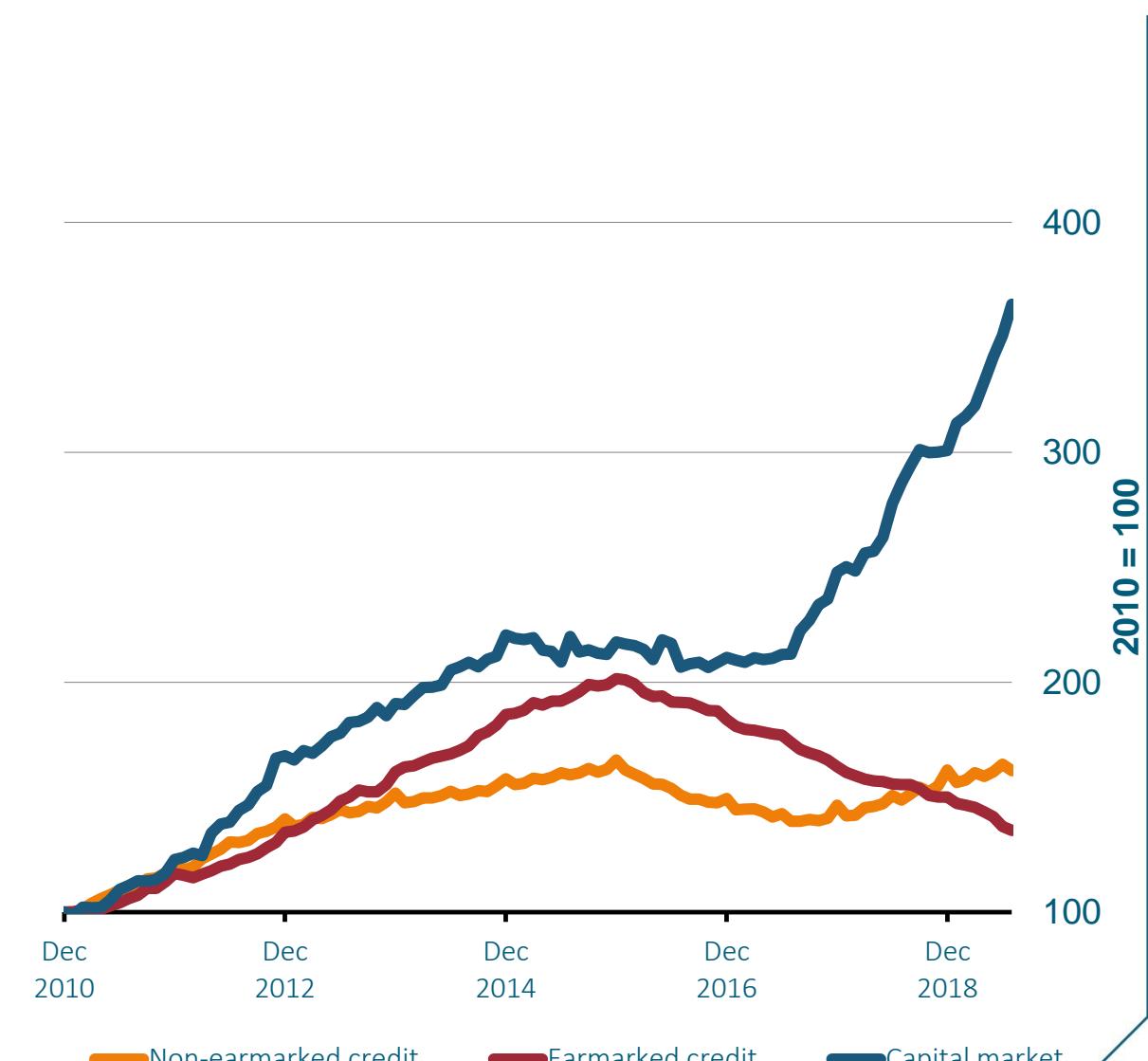
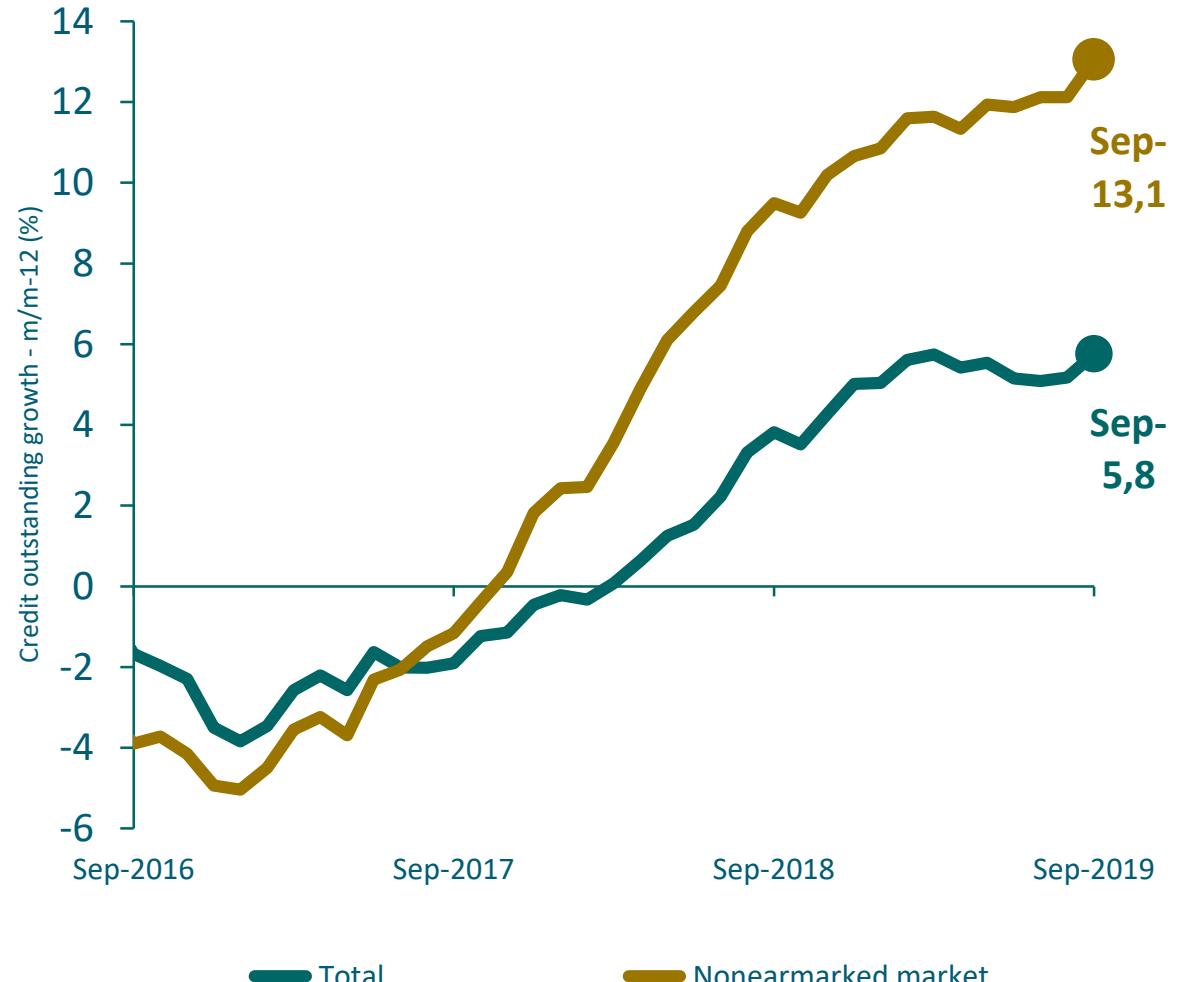


Source: BCB/Inflation Report

Continuing gains in employment



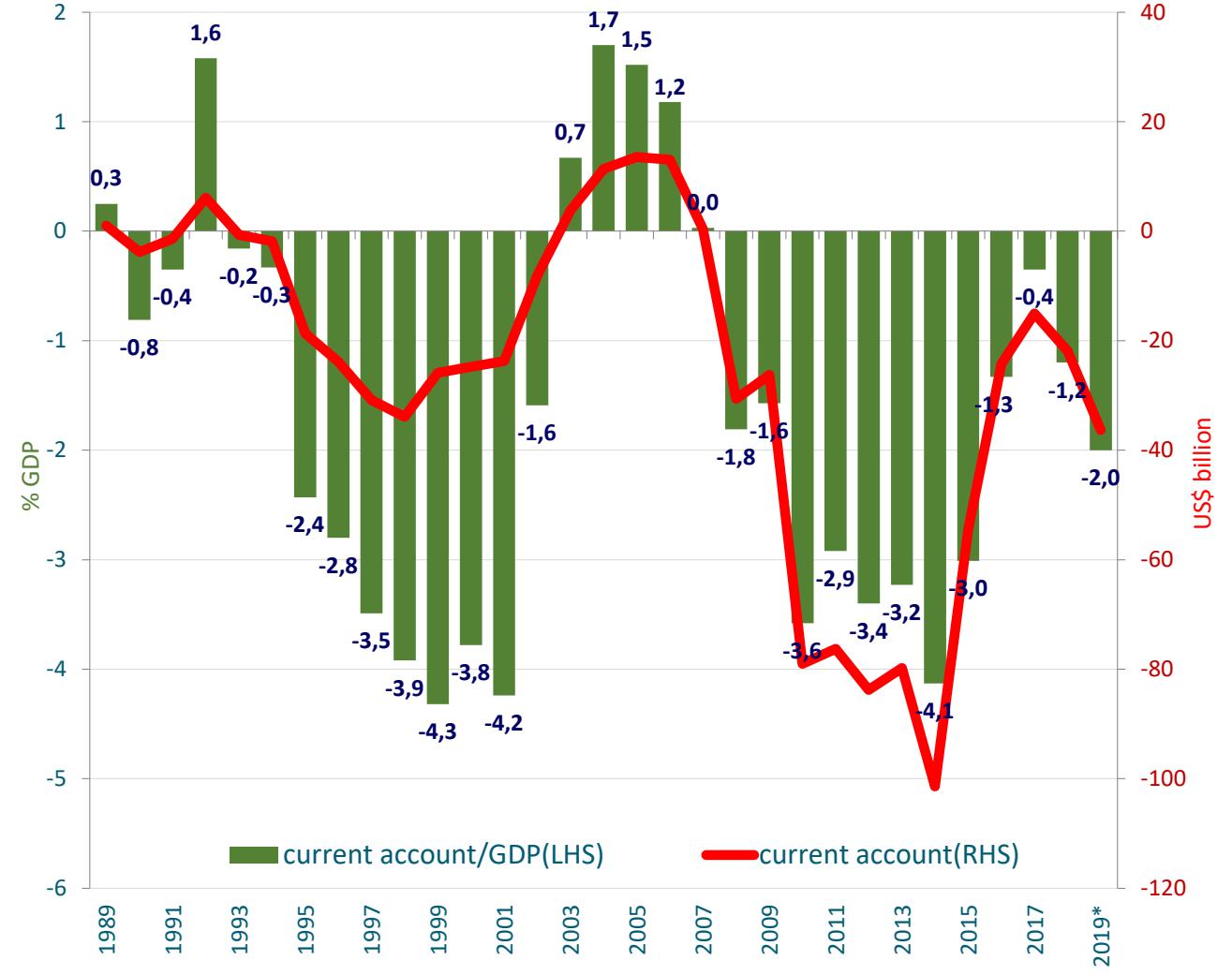
Robust credit growth



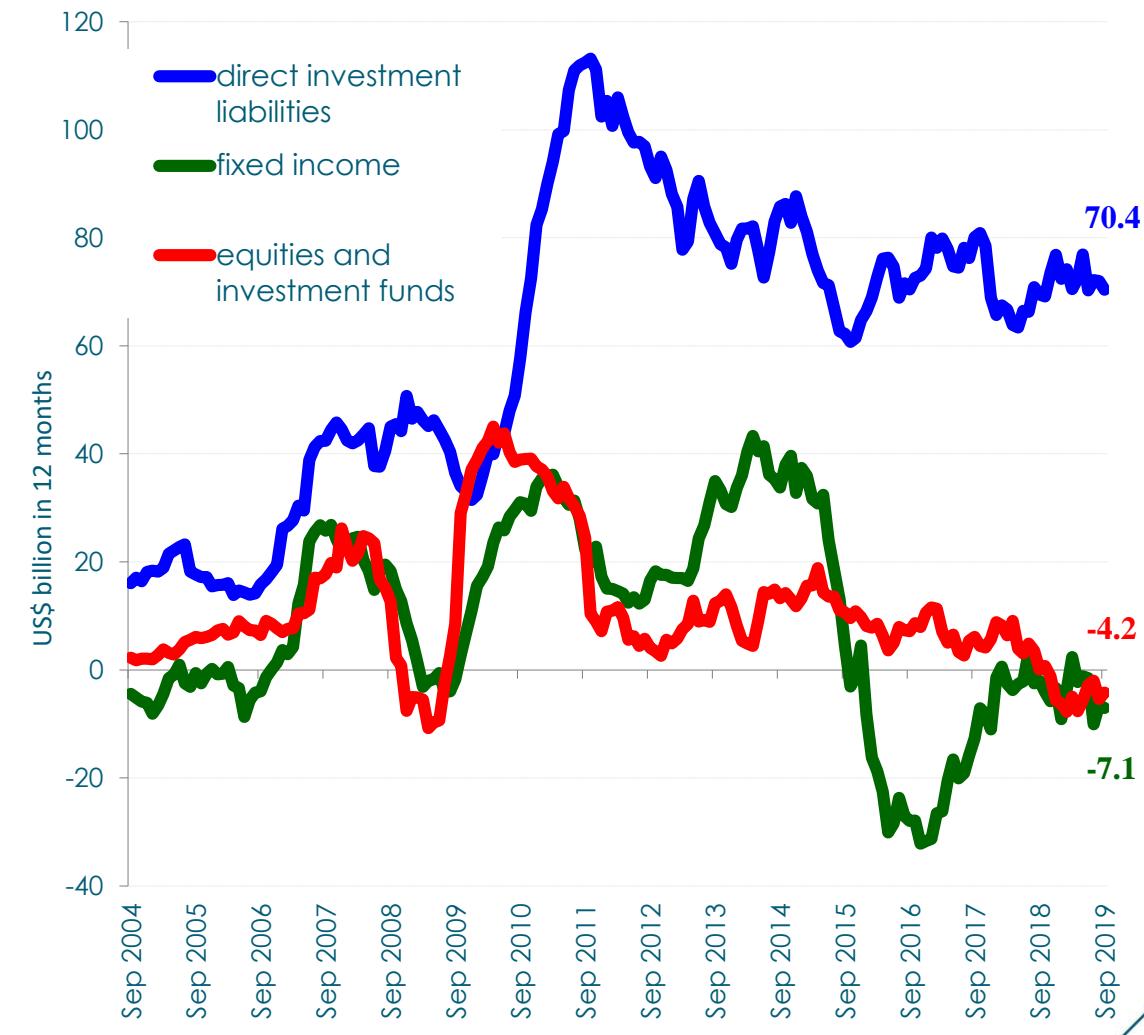
Source: BCB

Comfortable external sector outlook

Current account



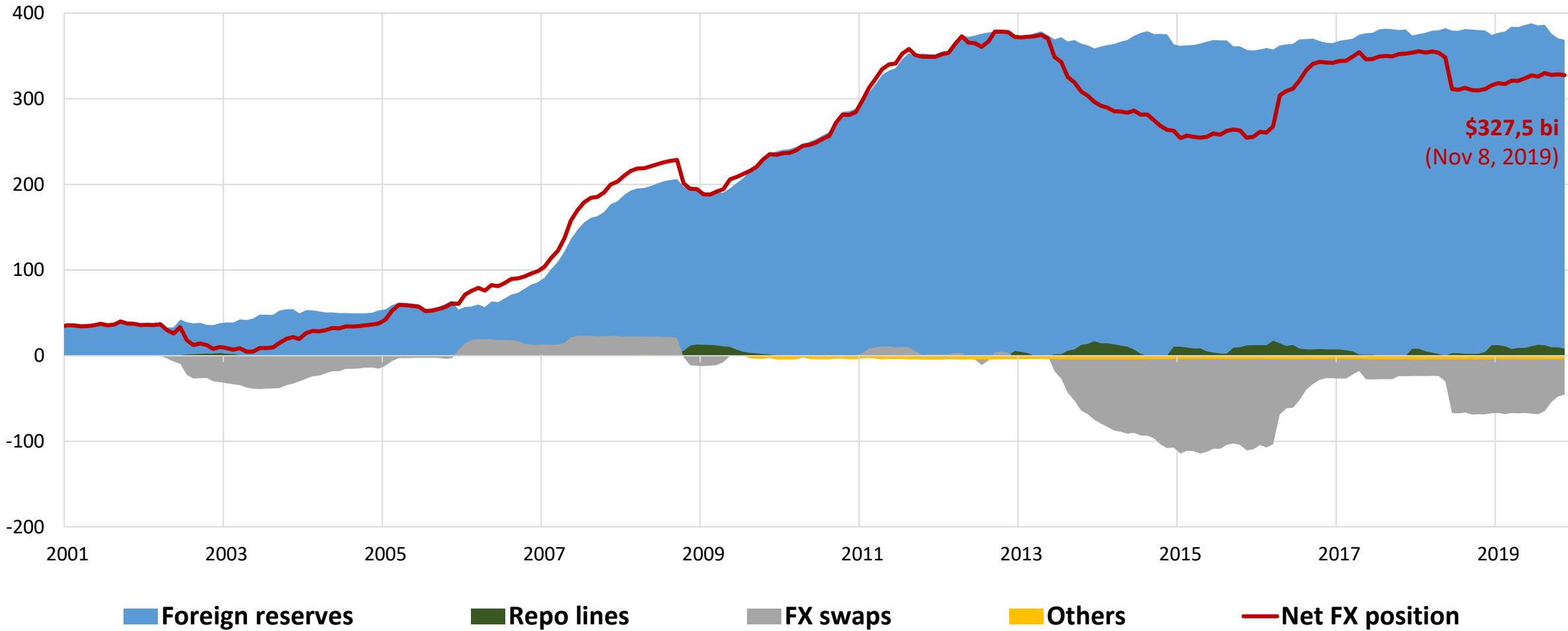
Net Foreign Investment Flow



Source: BCB

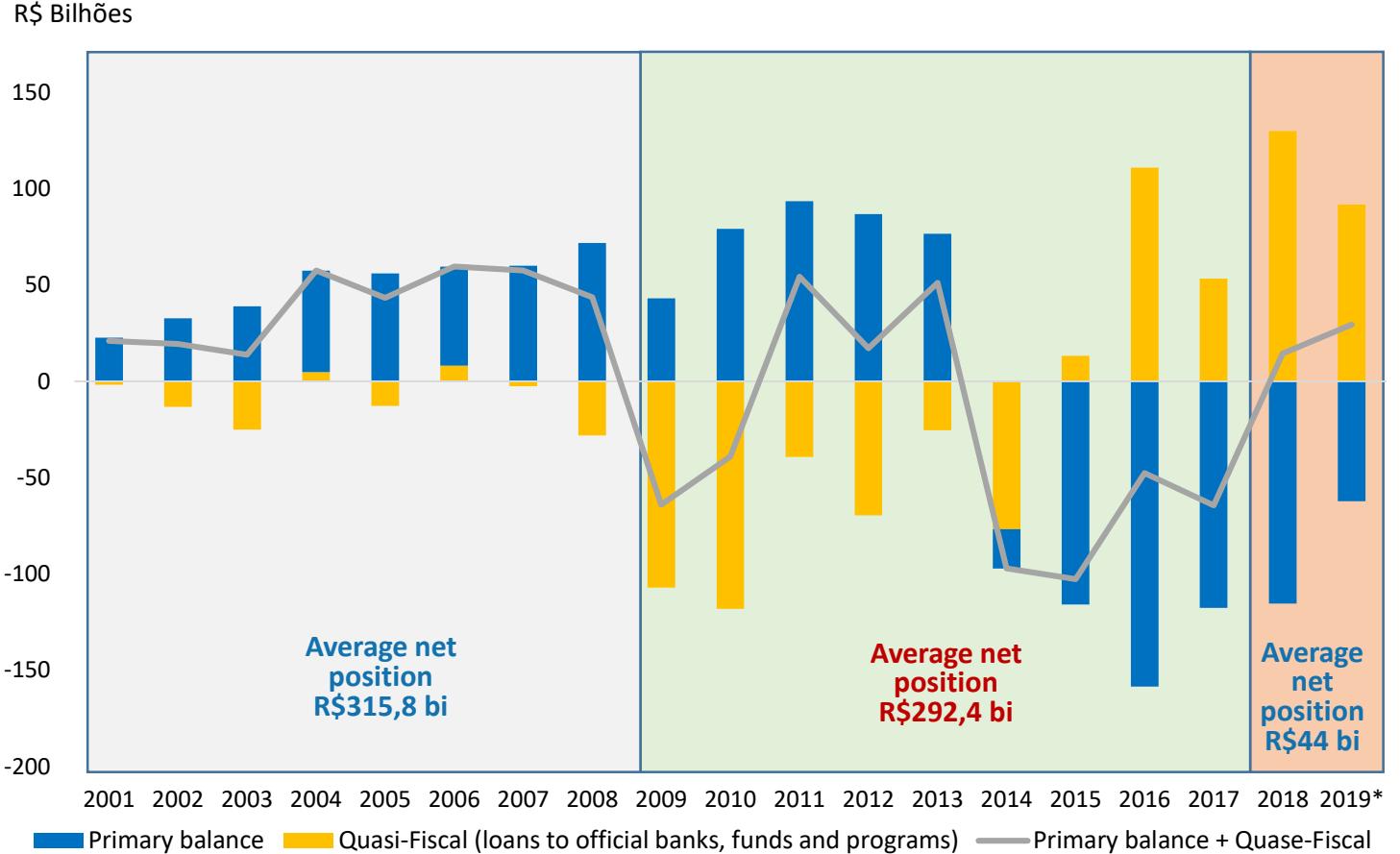
Comfortable level of international buffers

International reserves, Net FX position, and FX swaps



Fiscal policy overhaul

Fiscal adjustment beyond primary results



Ongoing reform agenda

- ▶ Comprehensive pension reform approved by Congress
 - ▶ Significant government savings
- ▶ Public sector divesting and privatization program
- ▶ Foreign exchange market modernization
- ▶ Other: credit registry law, trade agreements and openness, improvements in business conditions, convergence to OECD liberalization benchmarks

Foreign exchange market modernization

- ▶ Main objectives:
 - ▶ Modernization
 - ▶ Simplification
 - ▶ Consolidation
- ▶ Other features:
 - ▶ Internationalization of the Brazilian currency
 - ▶ More efficient monitoring and supervision of FX market

BCB microeconomic initiatives

- ▶ Inclusion – foster access to capital markets by households and firms
 - ▶ Ex: credit unions, FX modernization
- ▶ Competitiveness – promote adequate pricing of services
 - ▶ Ex: fintechs, instant payments, open banking
- ▶ Transparency – improve communication with society
 - ▶ Ex: communication with domestic and international players
- ▶ Financial education – promote financial literacy
 - ▶ Ex: partnerships with schools, currency museum

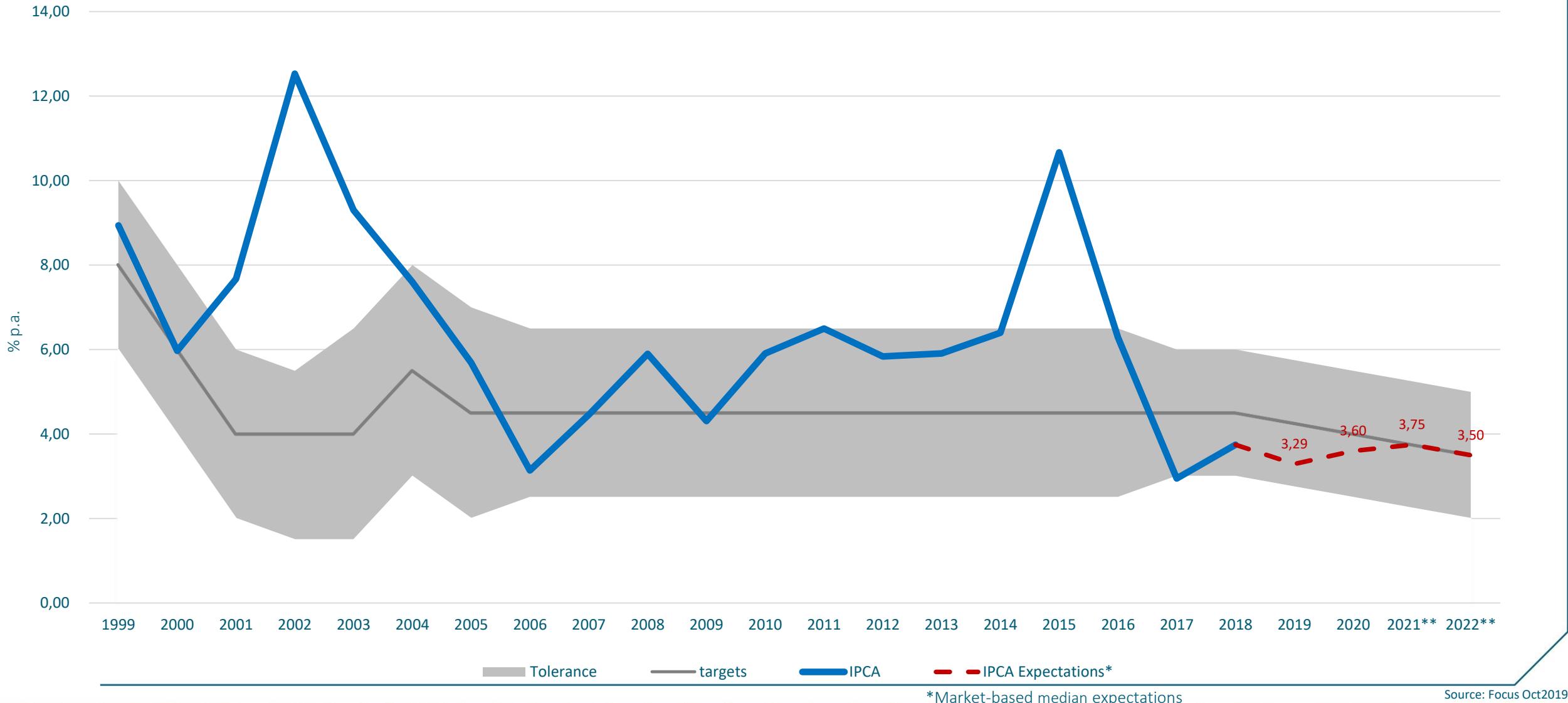
Monetary policy

Monetary policy decision

“Taking into account the baseline scenario, the balance of risks, and the broad array of available information, the Copom unanimously decided to lower the Selic rate to 5.00% 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 2020 and, to a lesser extent, 2021.”

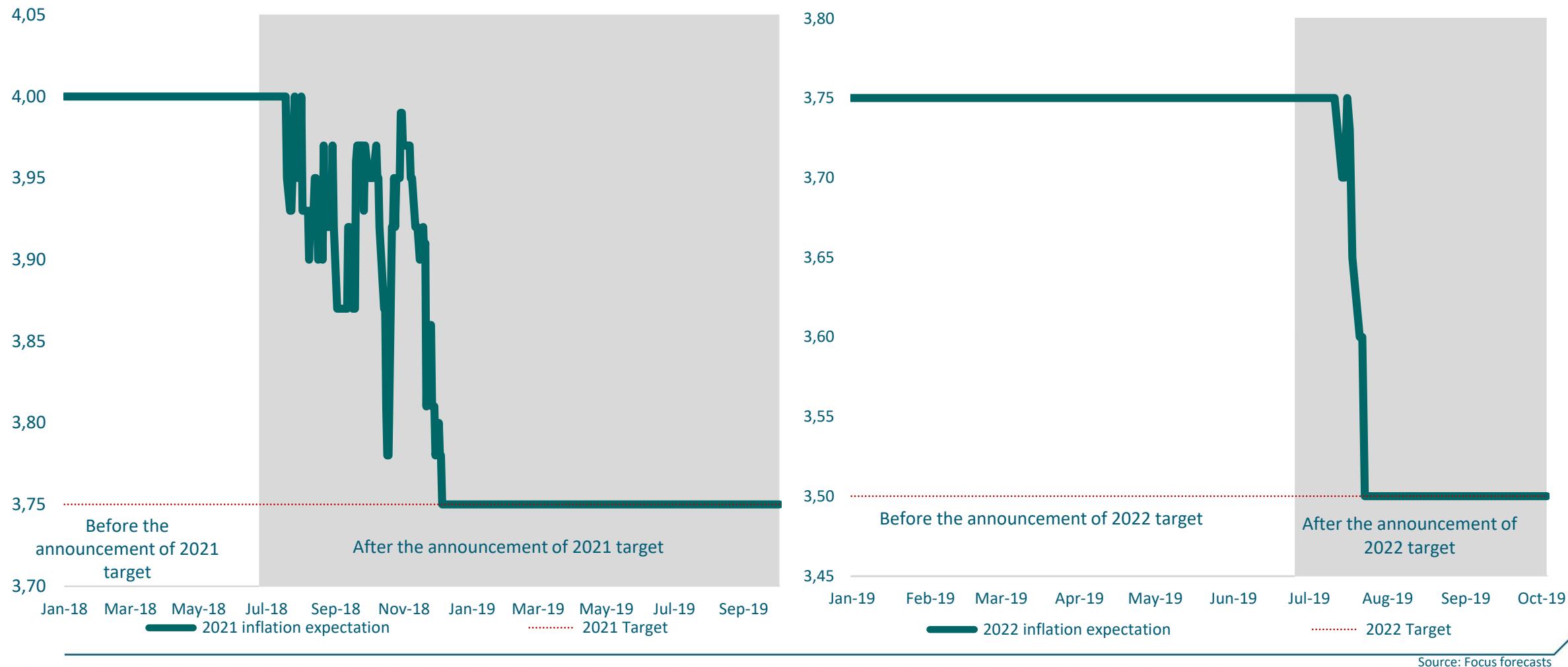
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Inflation within target range

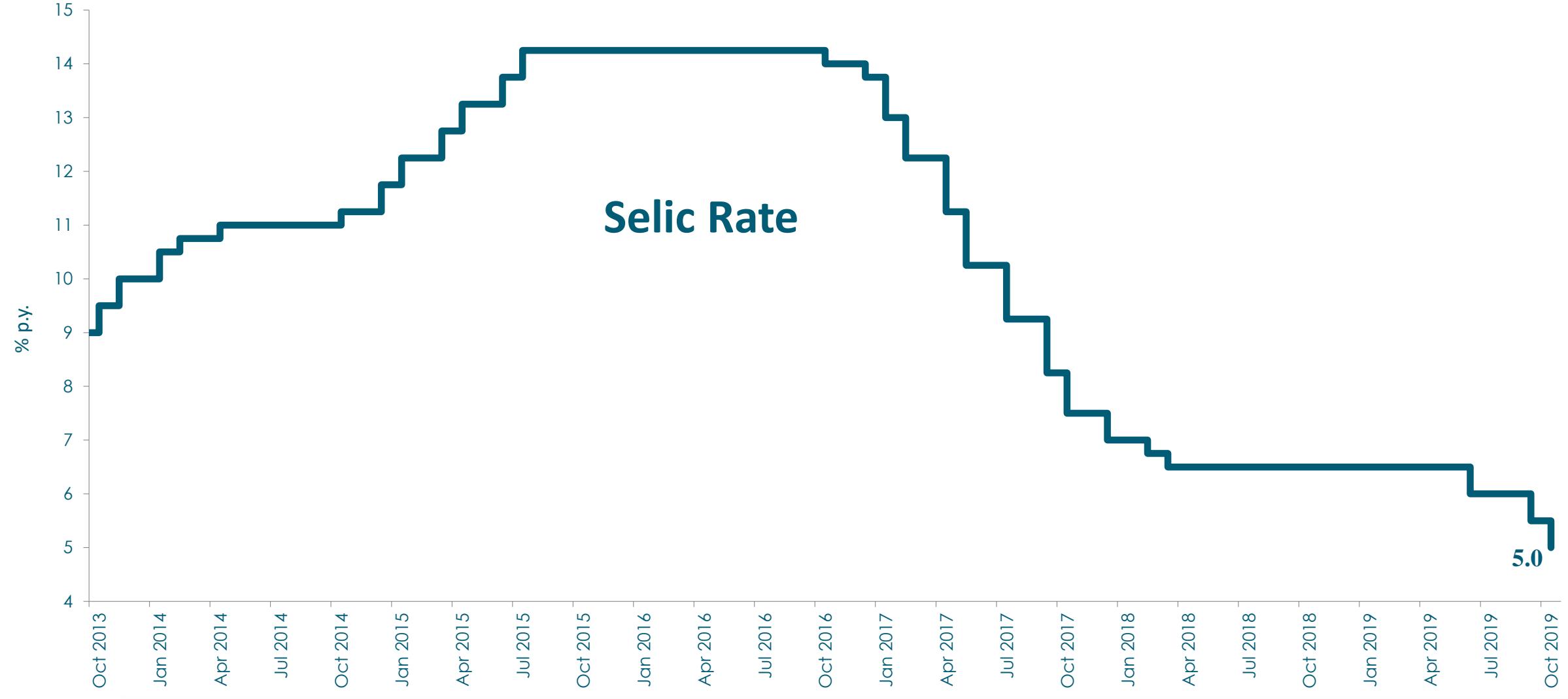


Increasing central bank credibility

Fast convergence of expectations after CMN defines new inflation targets



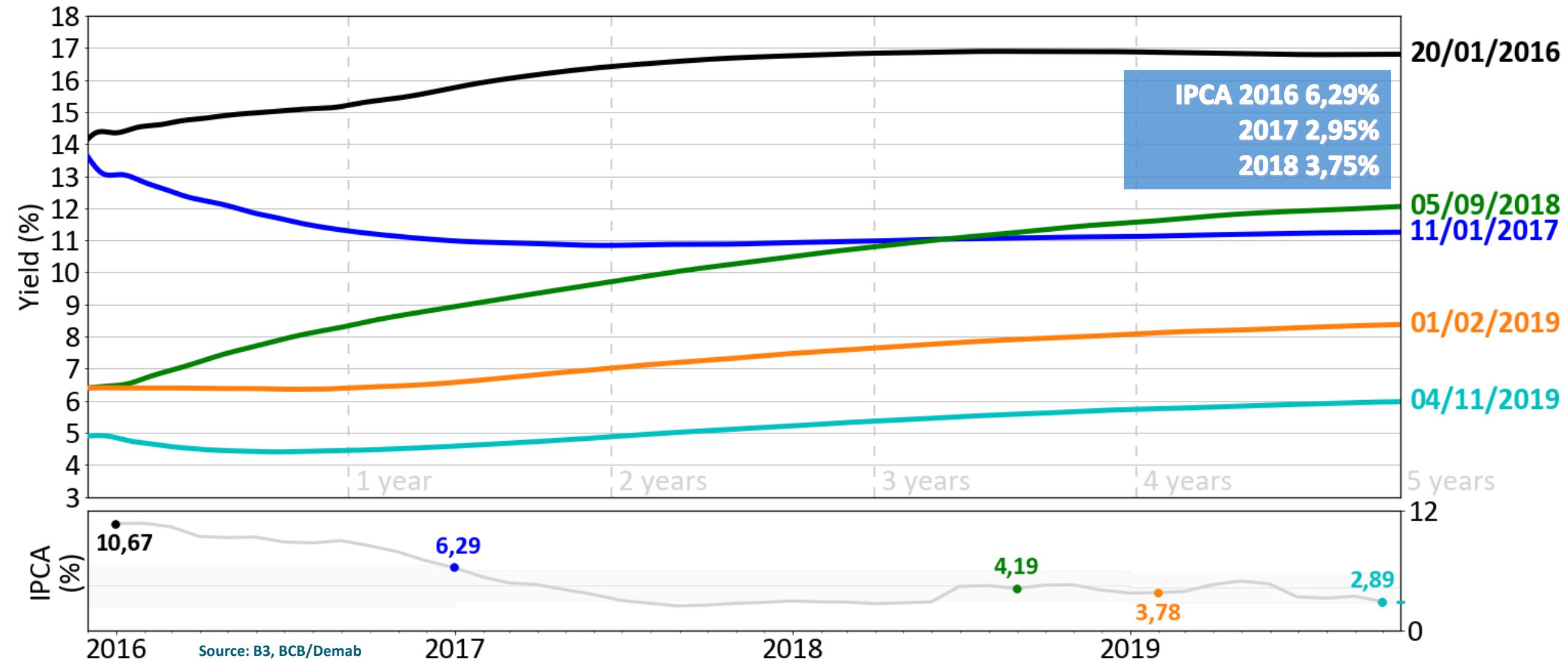
Policy rate at historically low level



Summing up

The experience in Brazil: 2019 Decline in risk premium

Yield curve 2016-2019



Thank you!

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