

Brazil: Economic and monetary outlook

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October 2019

Apresentação sobre conjuntura econômica utilizada nas reuniões com grupos de investidores em Washington e Nova Iorque, EUA, de 18 a 22.10.2019

Overview

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

International context

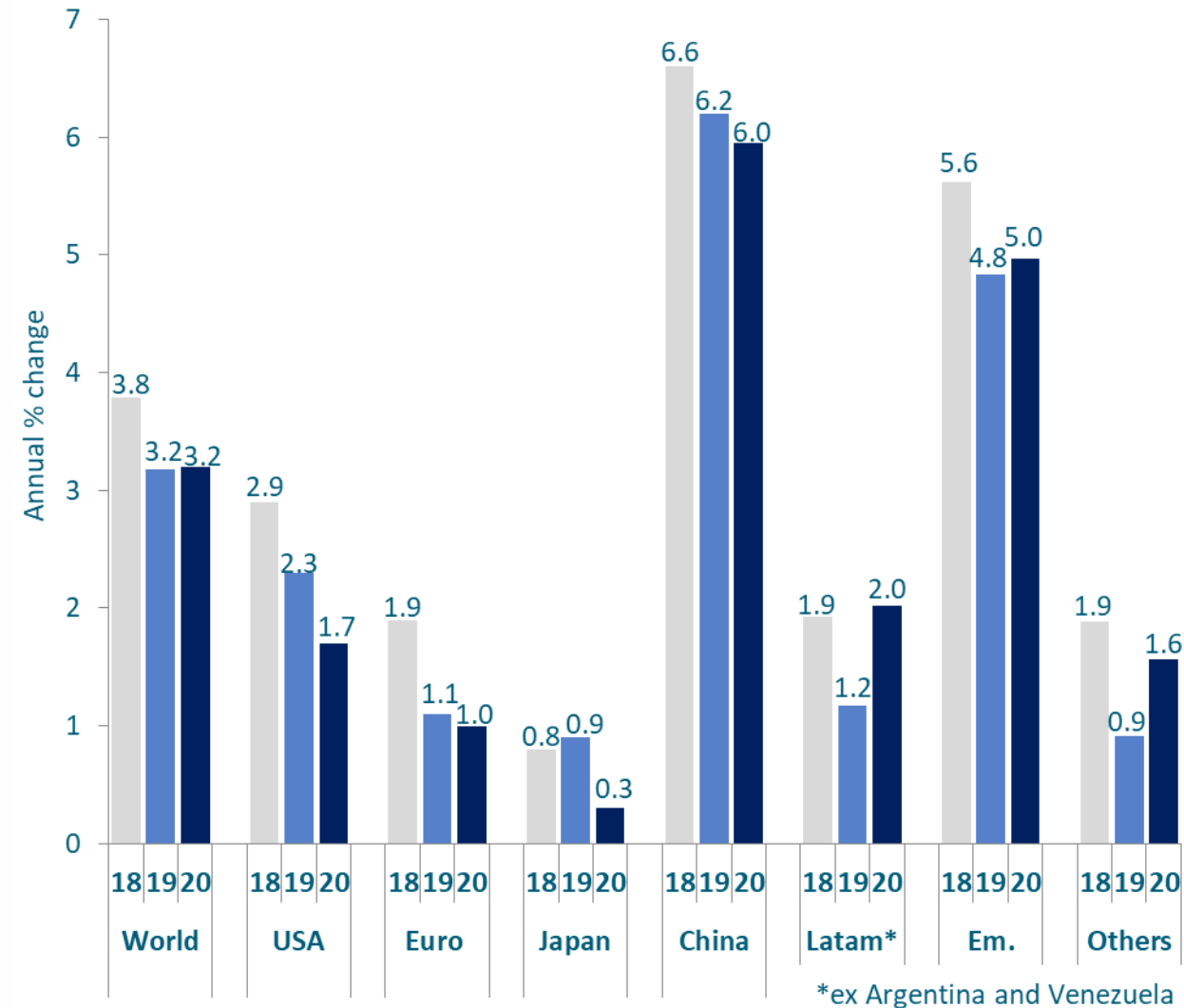
Global outlook remains uncertain

“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.”

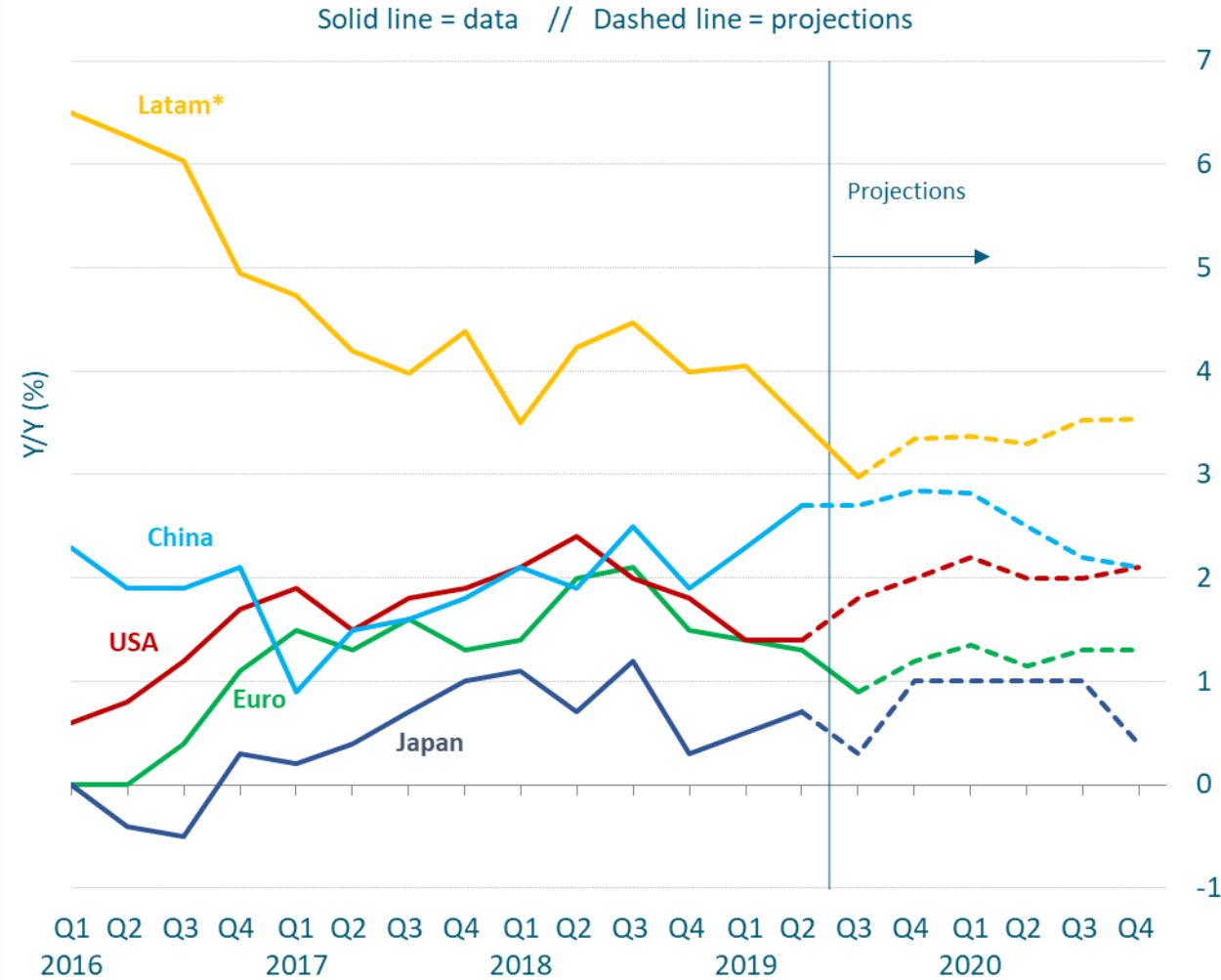
225th Copom Minutes;
September 17-18, 2019.

Growth slowdown and subdued inflation readings

GDP Output Growth Projections



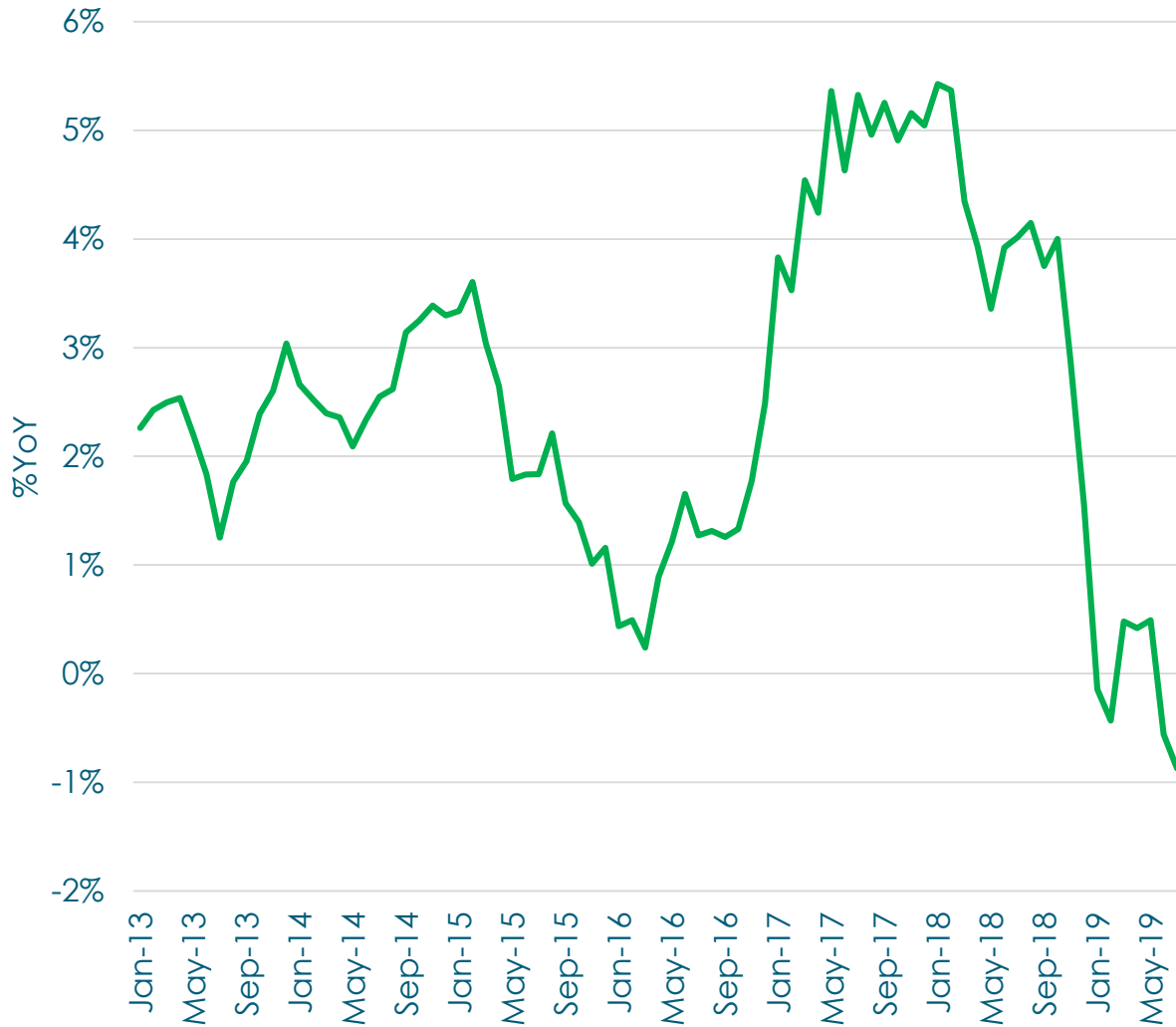
Headline Inflation



Source: Bloomberg

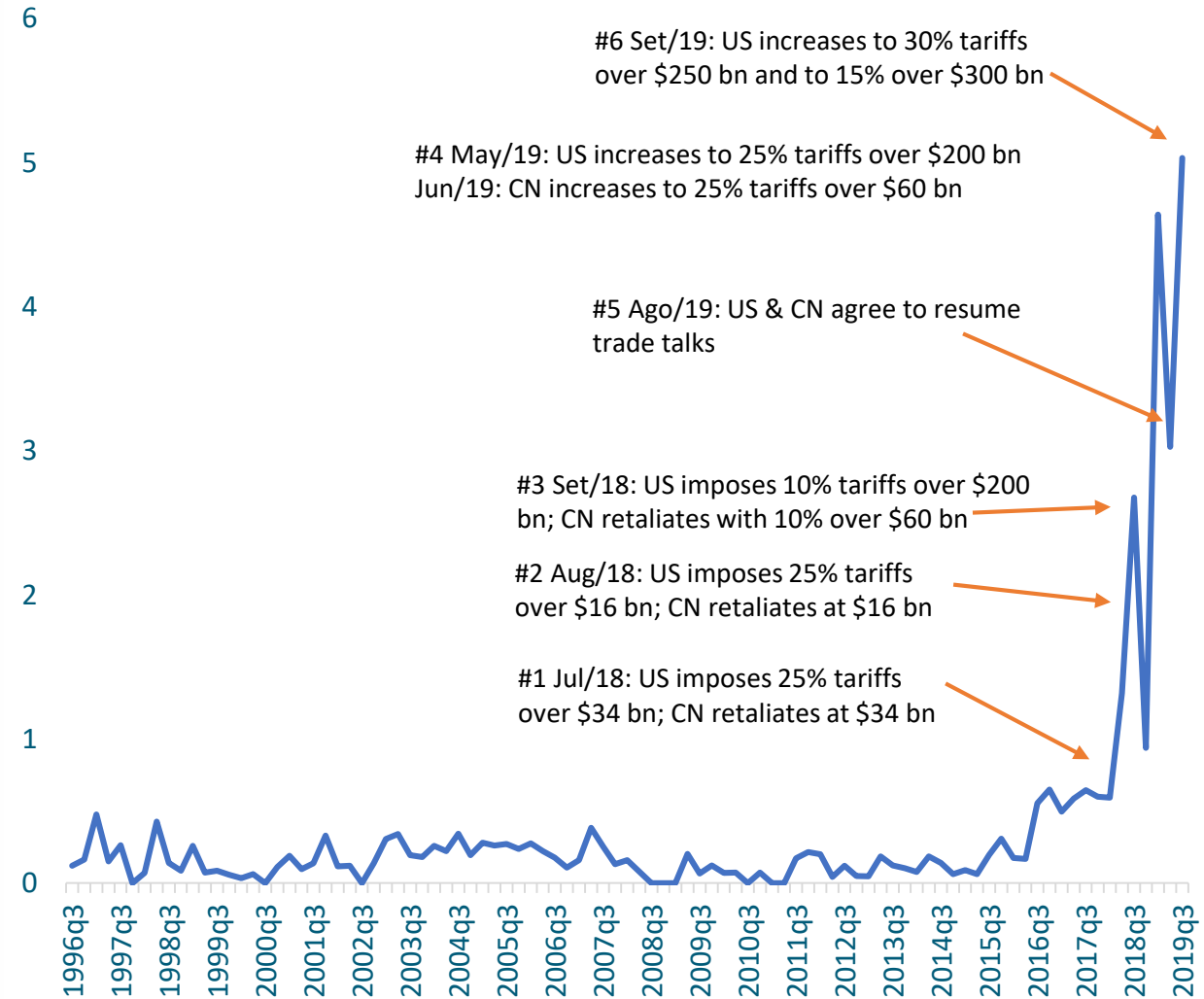
Elevated uncertainty and large decline in global trade

Global Trade Growth



Sources: CPB World Trade Monitor (mm3m %yoy)

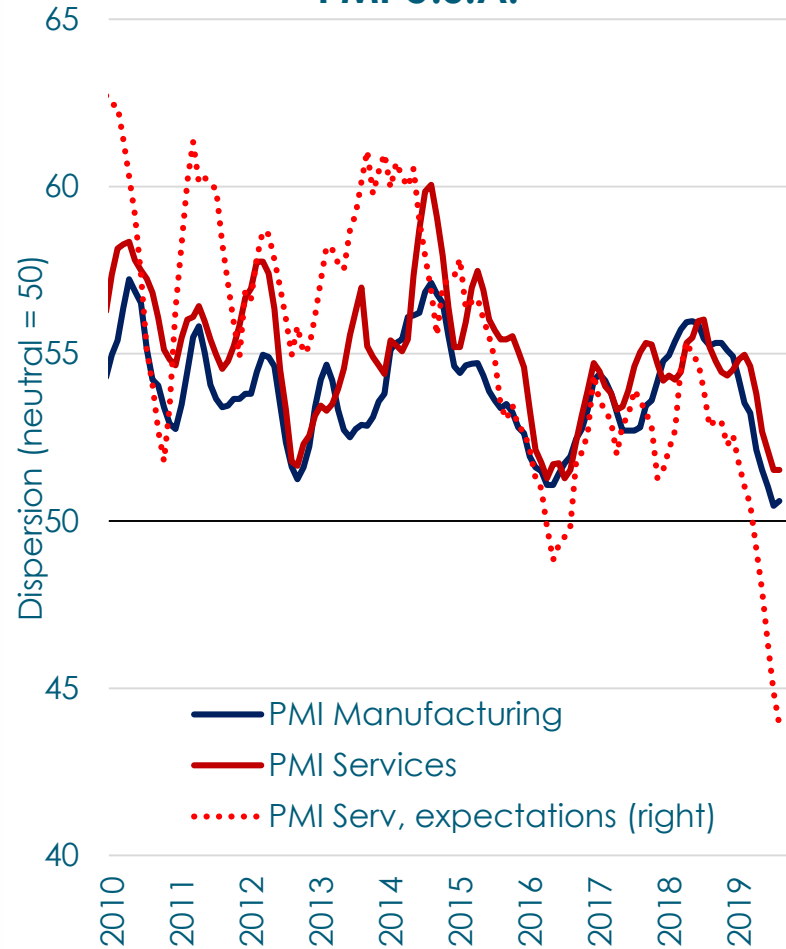
World Uncertainty Index (WUI)



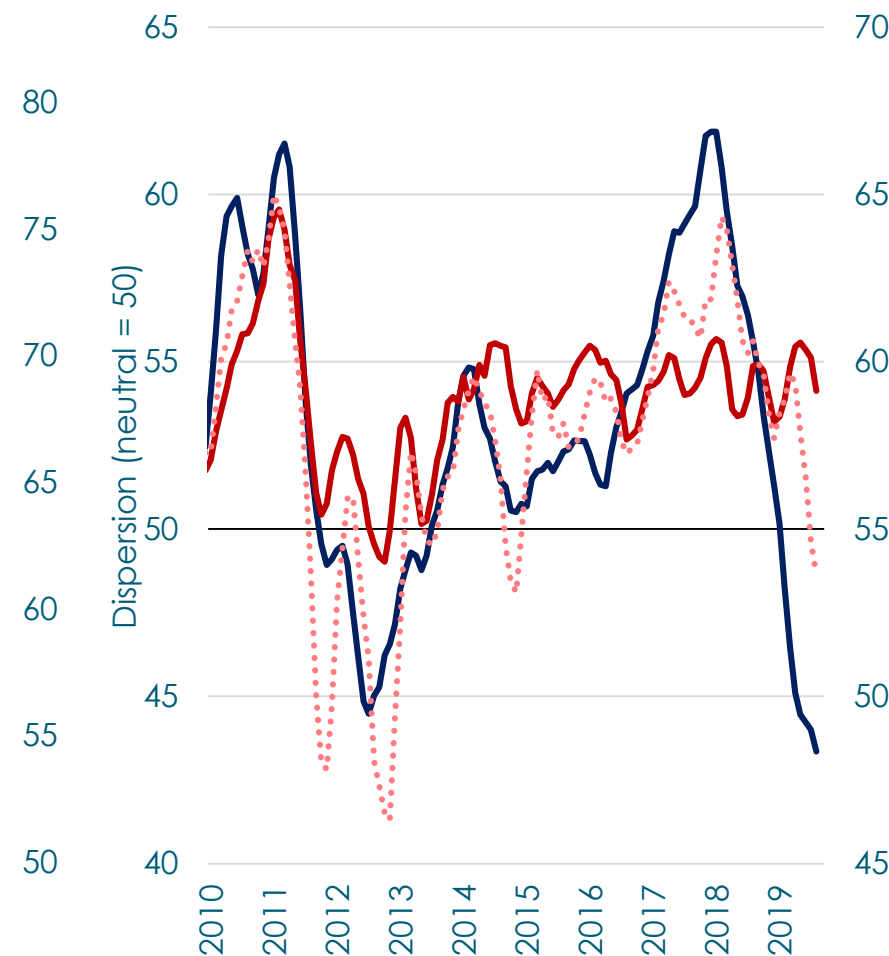
Sources: CPB & Ahir, Bloom & Furceri (2018)

Early signs of service sector slowdown in G3

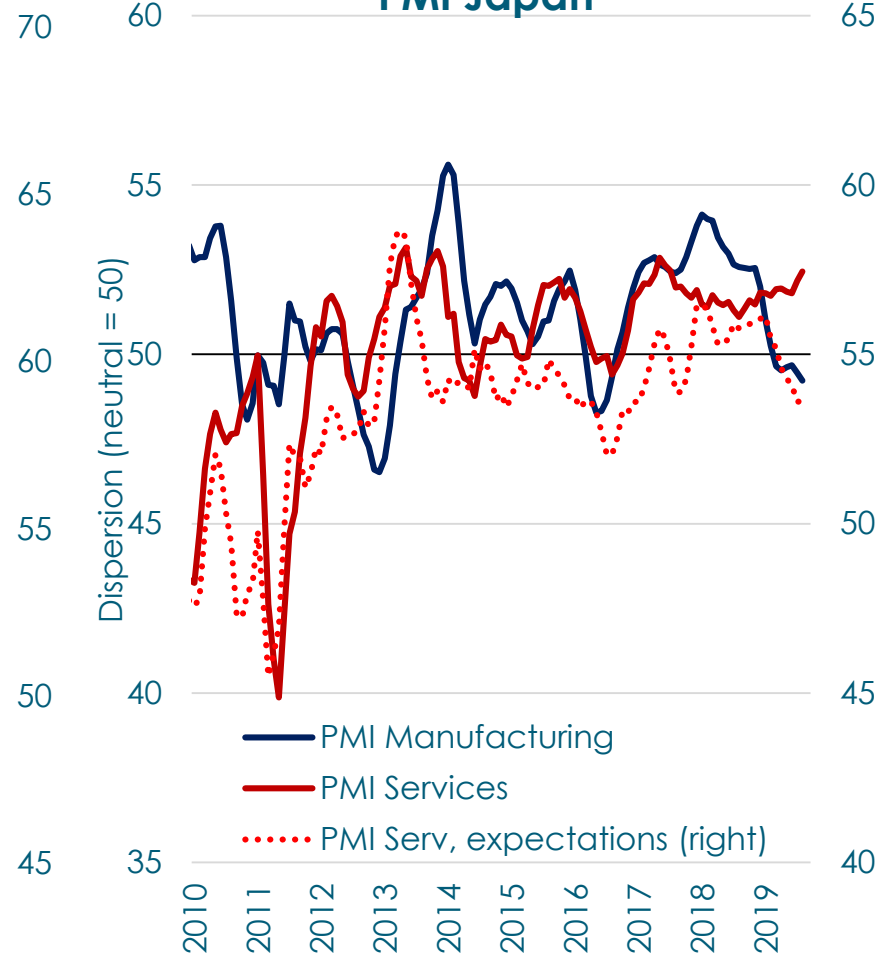
Manufacturing and Services PMI U.S.A.



Manufacturing and Services PMI Germany



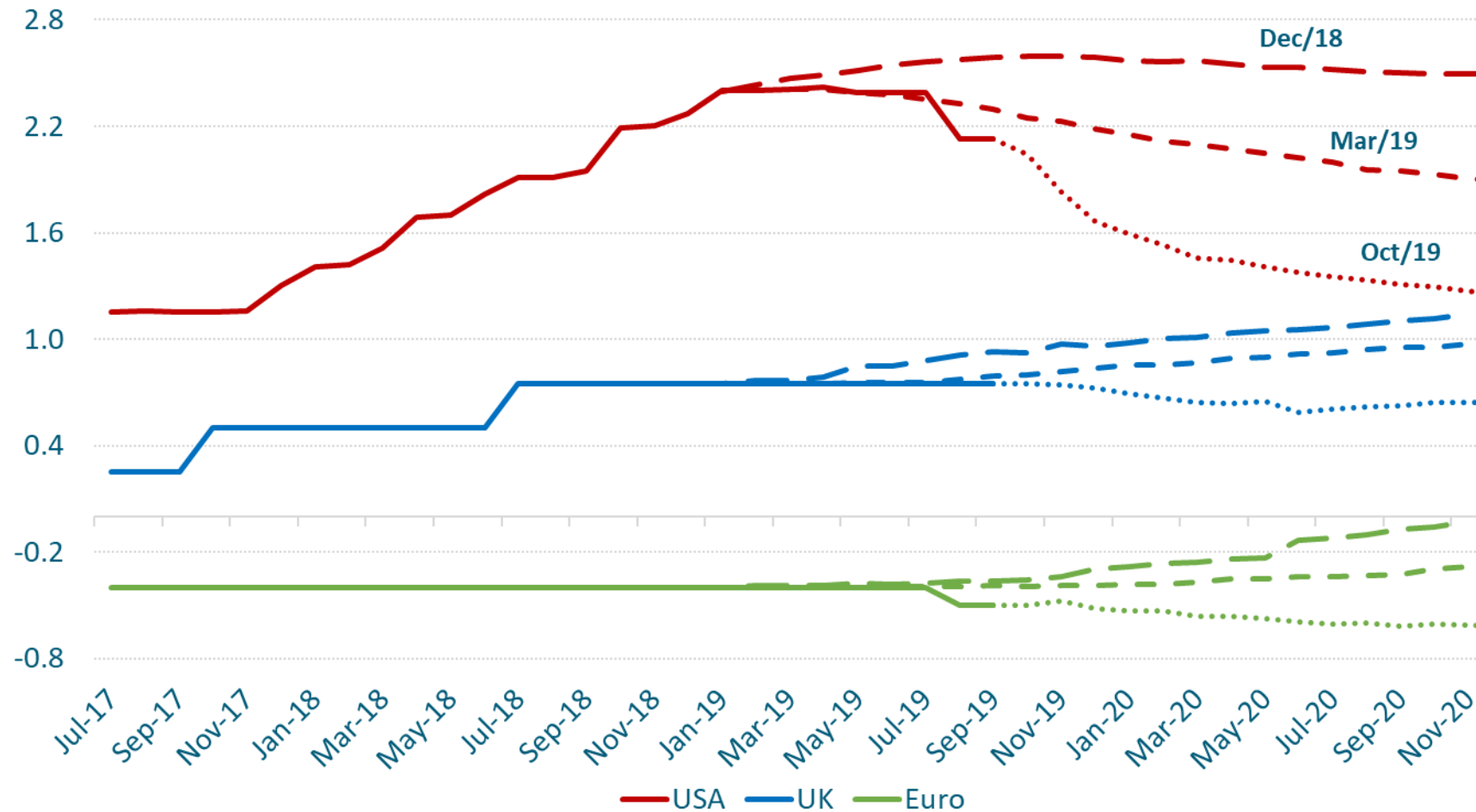
Manufacturing and Services PMI Japan



Source: Thomson Reuters

Central banks revising monetary policies

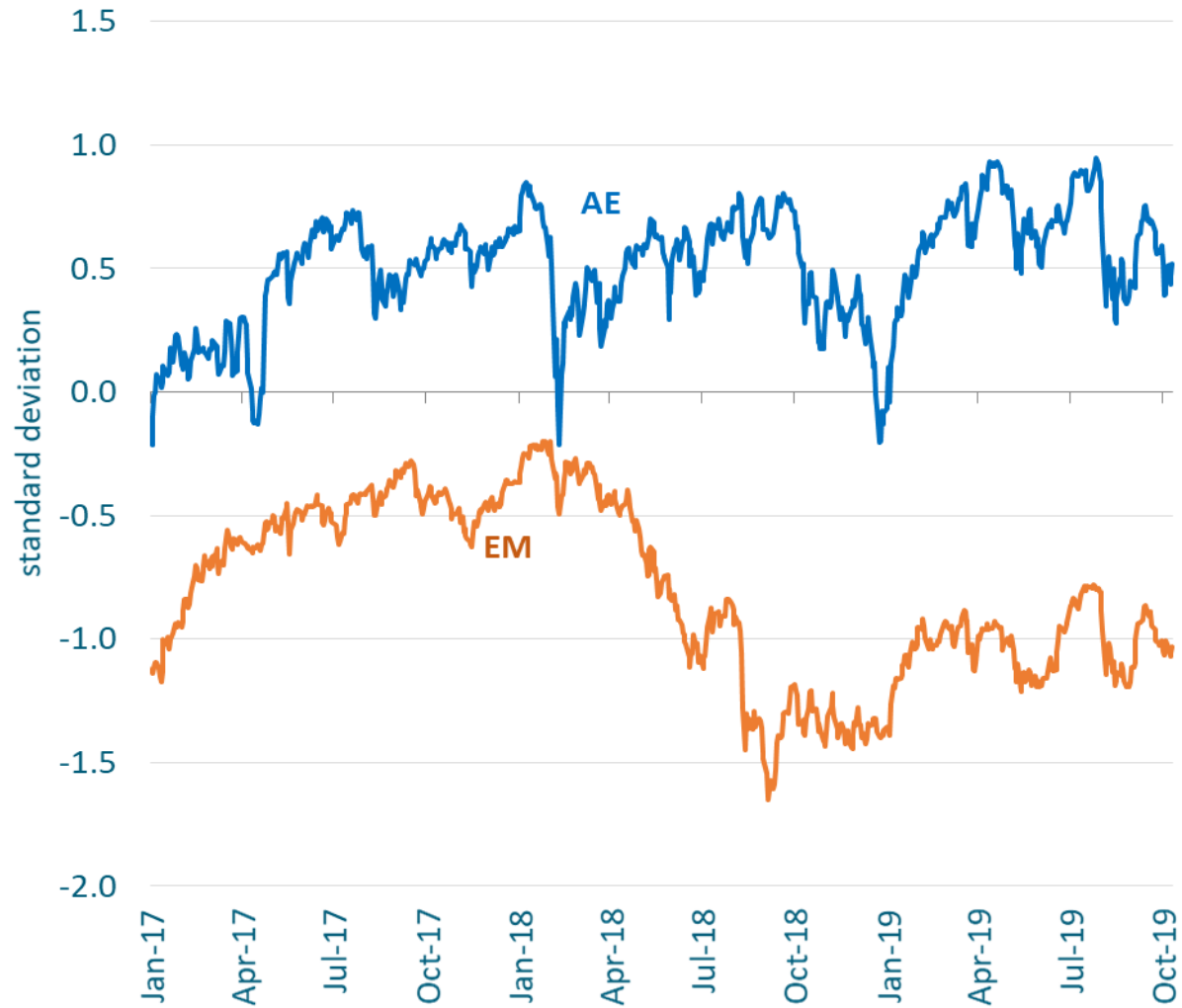
Interest rates and market expectations (% p.a.)



Source: Bloomberg & Thomson Reuters

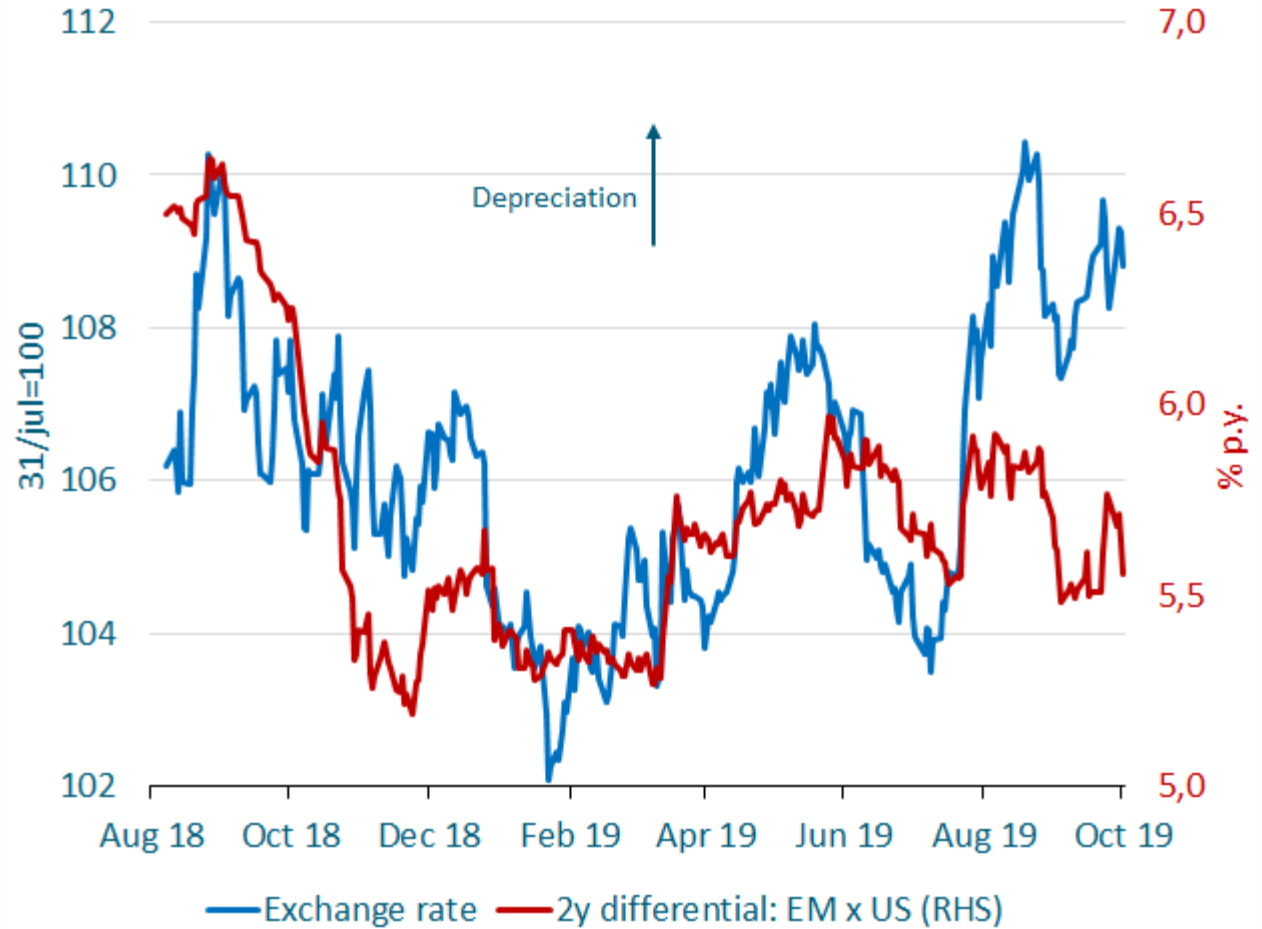
Risk appetite improving but strong dollar

Risk appetite indicator



Source: BCB/Deriv

EMs*: Exchange rate and interest (2 years)



*EMs: Brazil, Chile, Colombia, India, Indonesia, Mexico, South Africa, Russia and Turkey

Source: Thomson Reuters

Domestic scenario

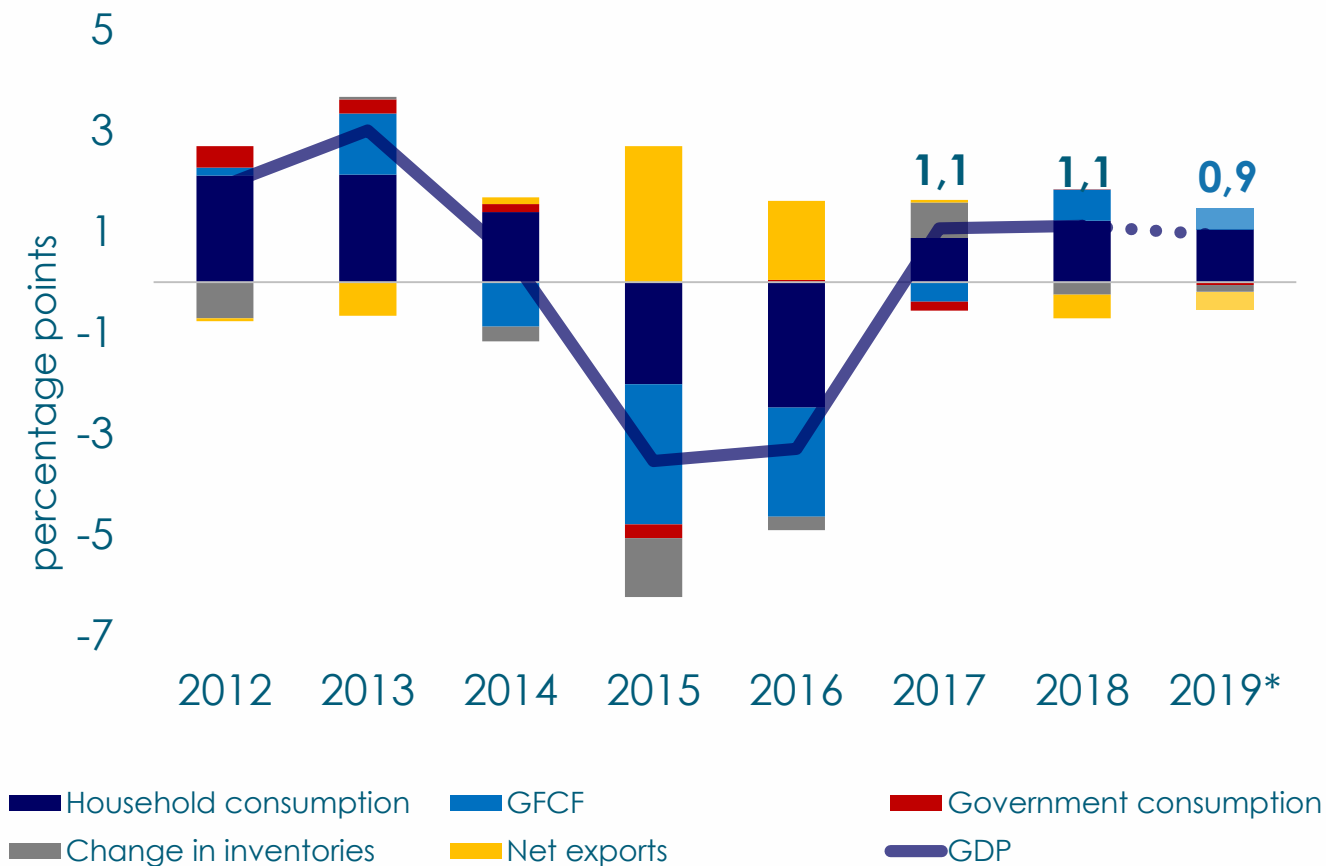
Gradual economic recovery

“Data on economic activity since the previous Copom meeting suggest resumption of the process of economic recovery. Copom's baseline scenario assumes that this recovery will occur at a gradual pace.”

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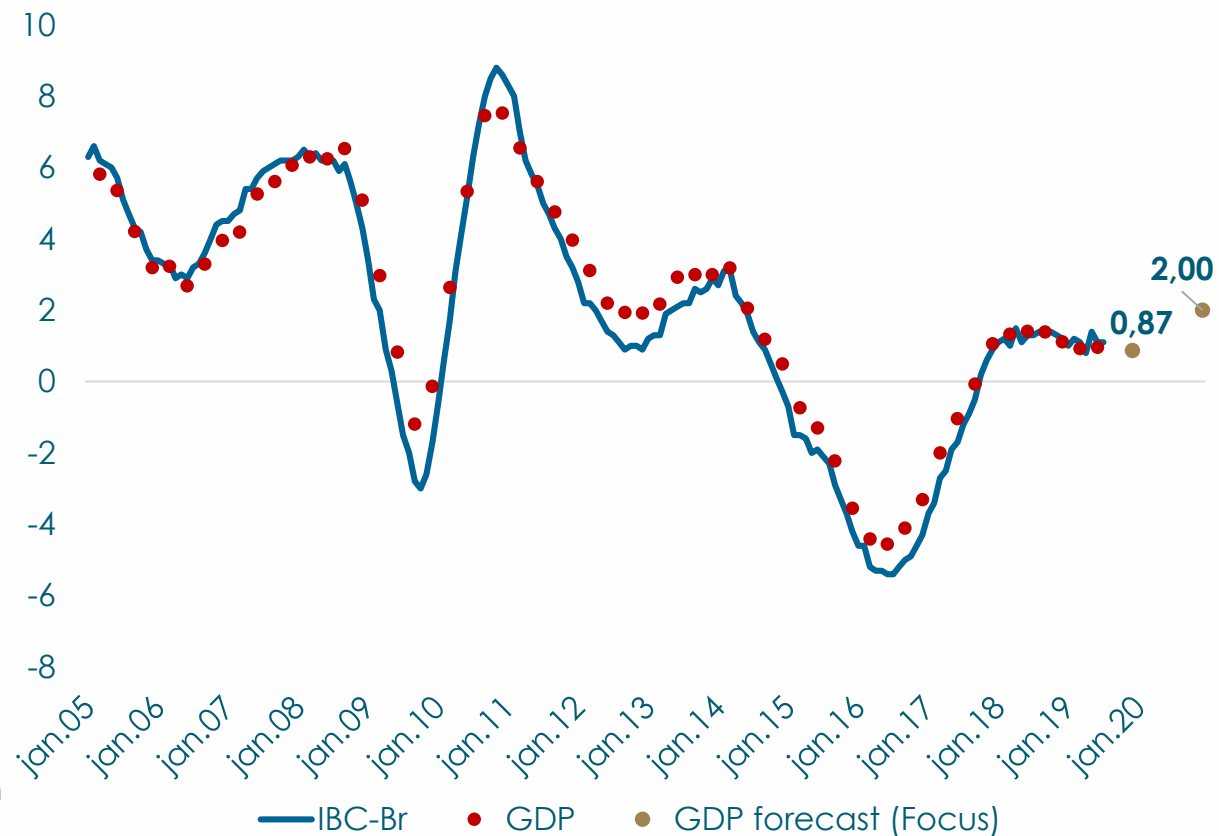
Gradual recovery from a deep recession

Annual contribution to real GDP growth

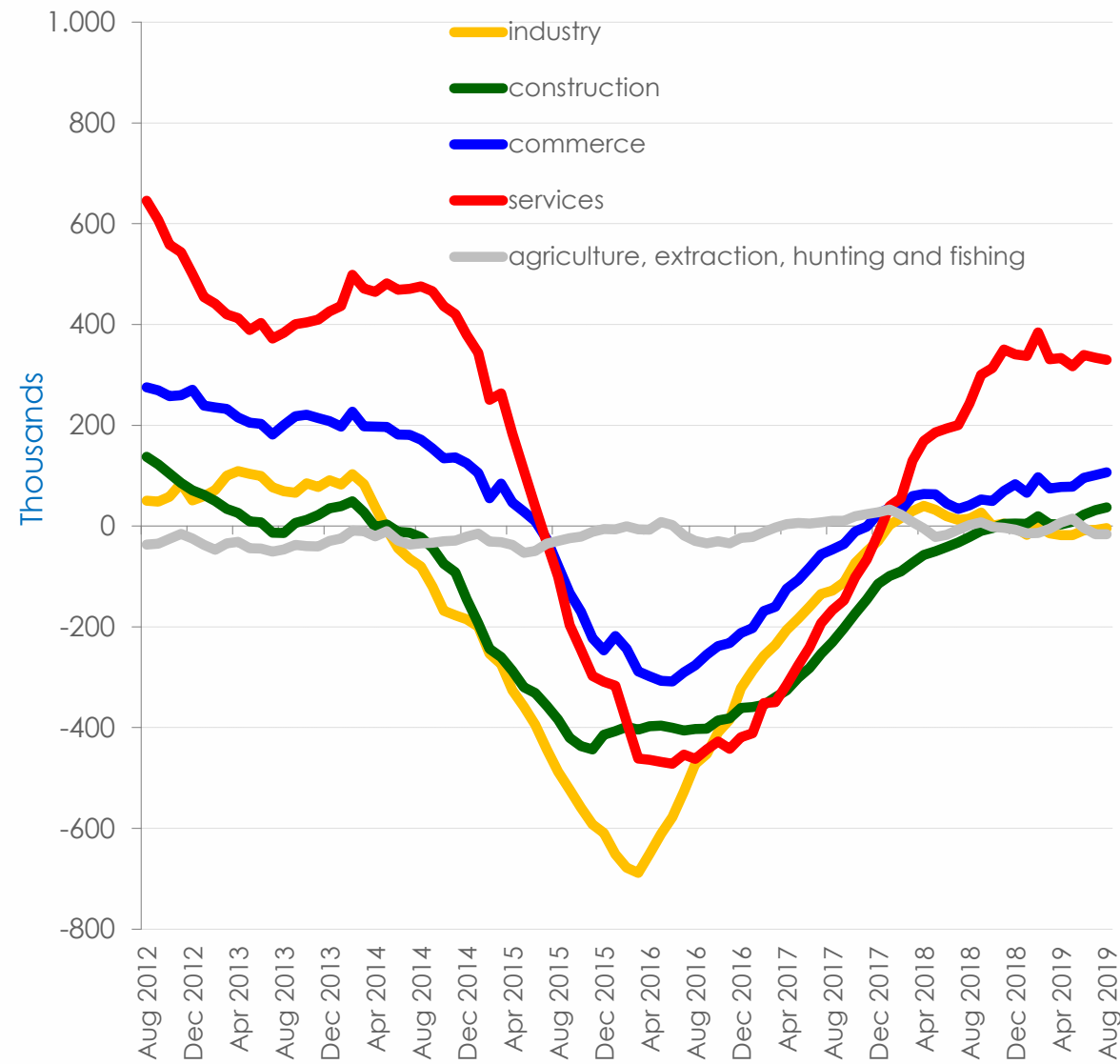
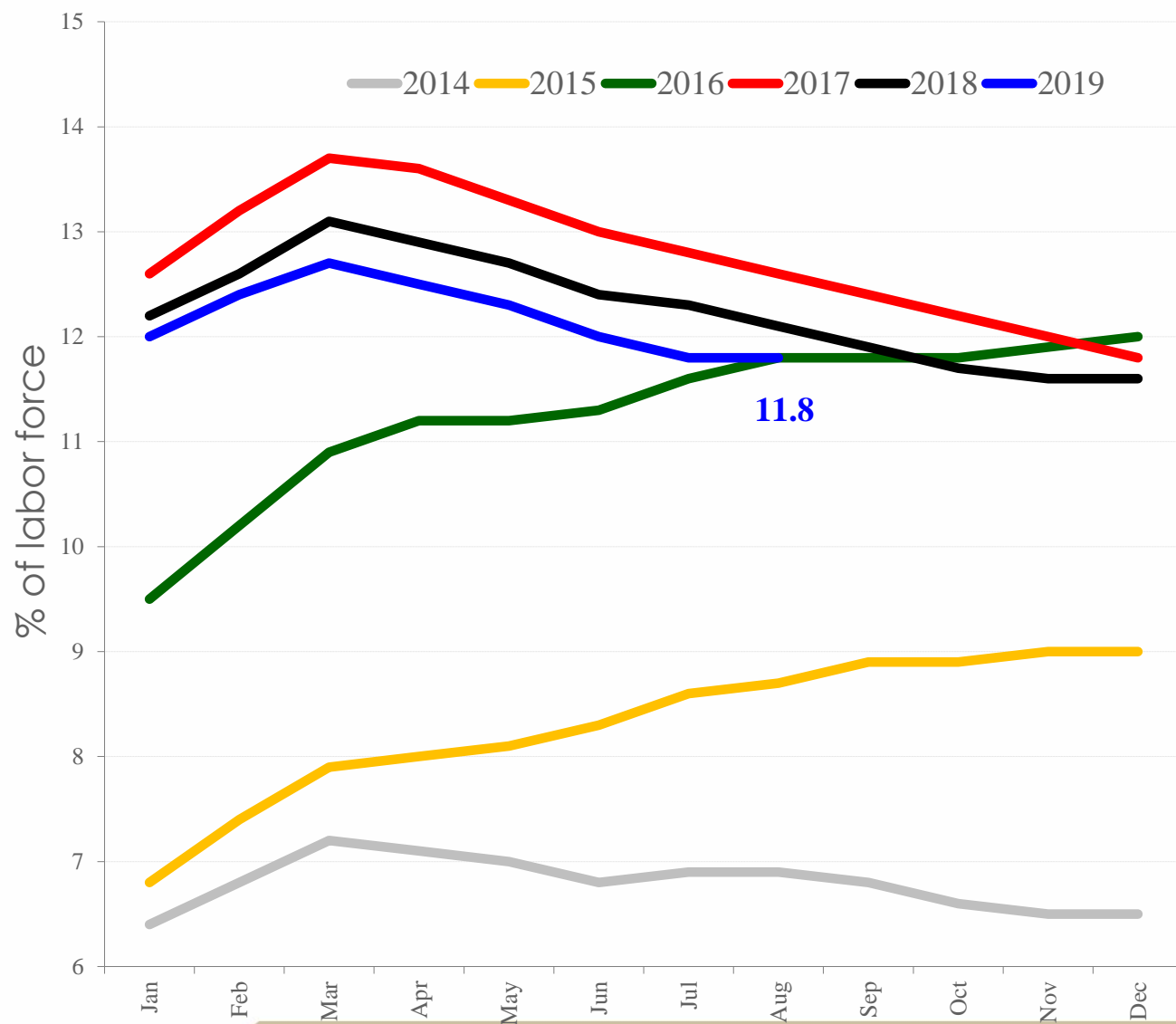


*BCB forecasts (Inflation Report – Sep 19)

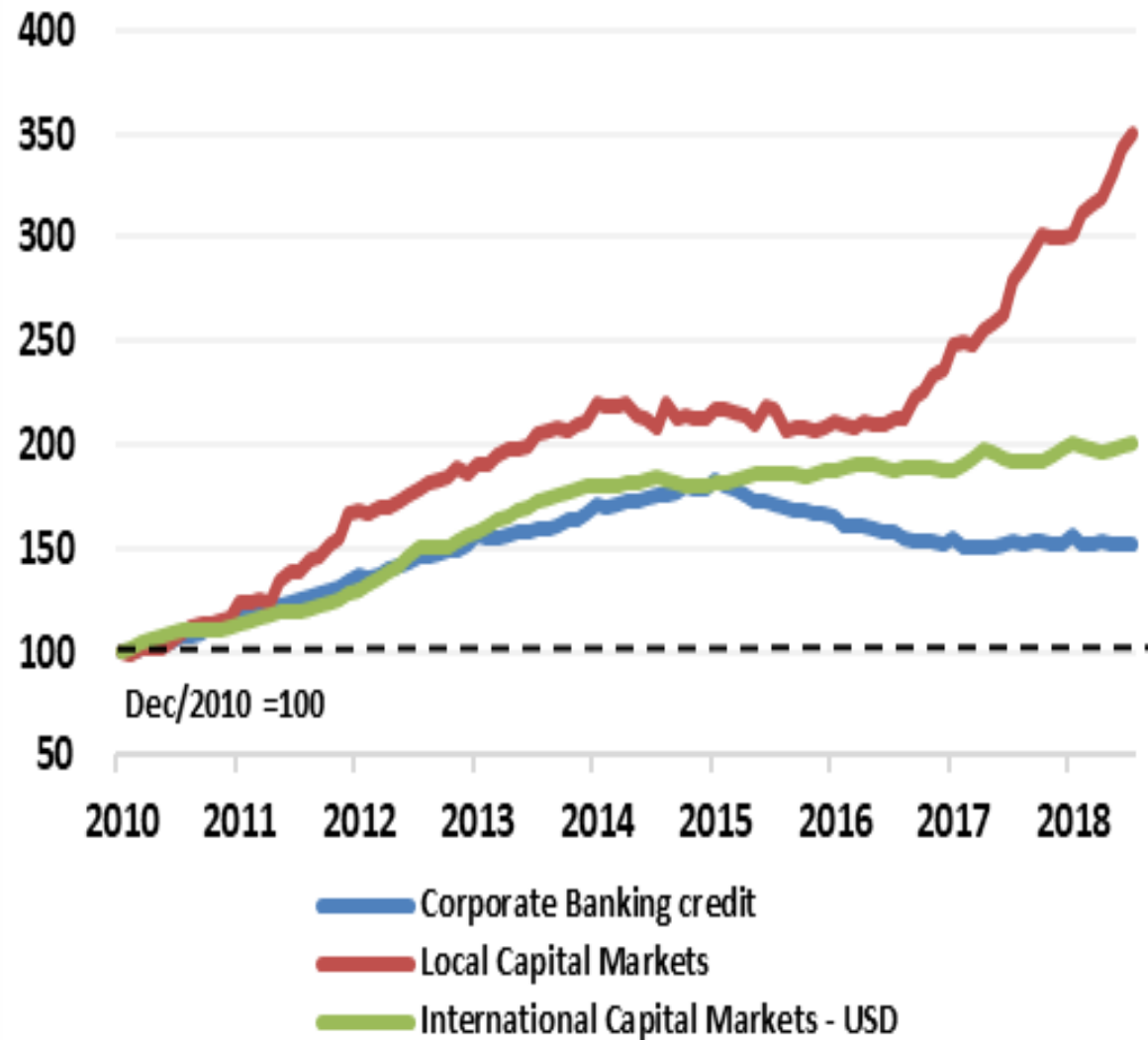
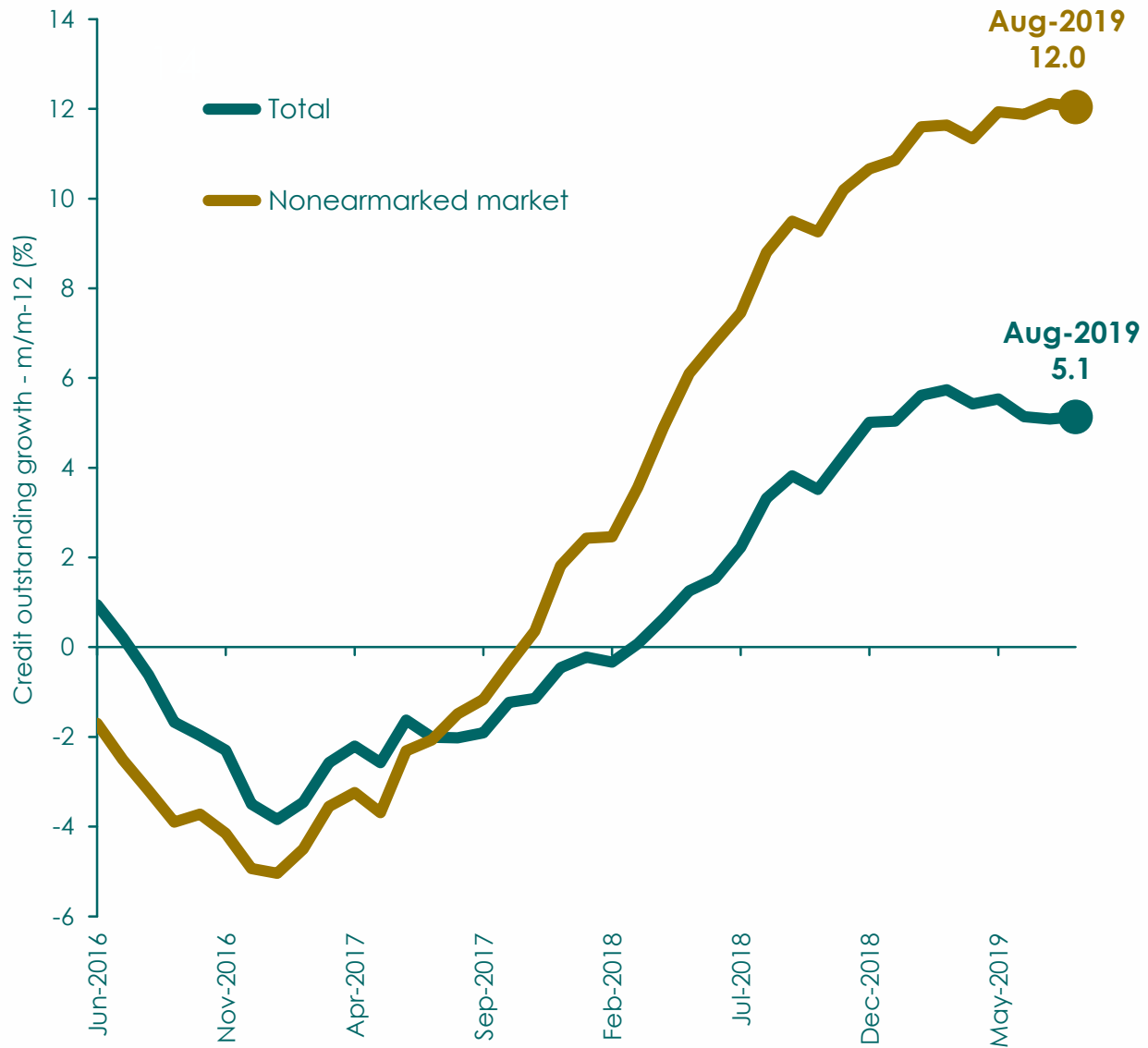
GDP and IBC-Br (%p.y.*)



Gradual gains in employment

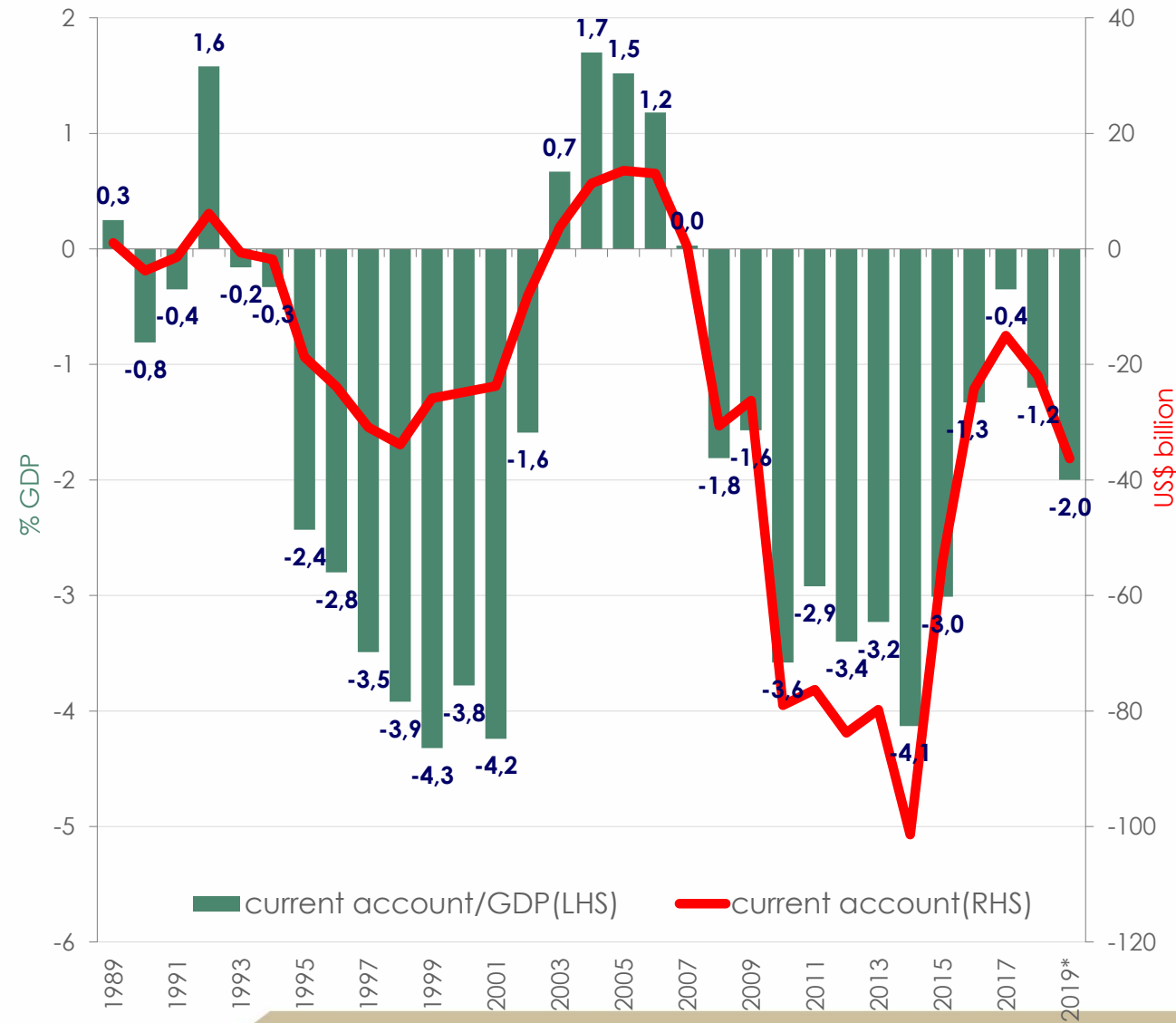


Robust credit growth

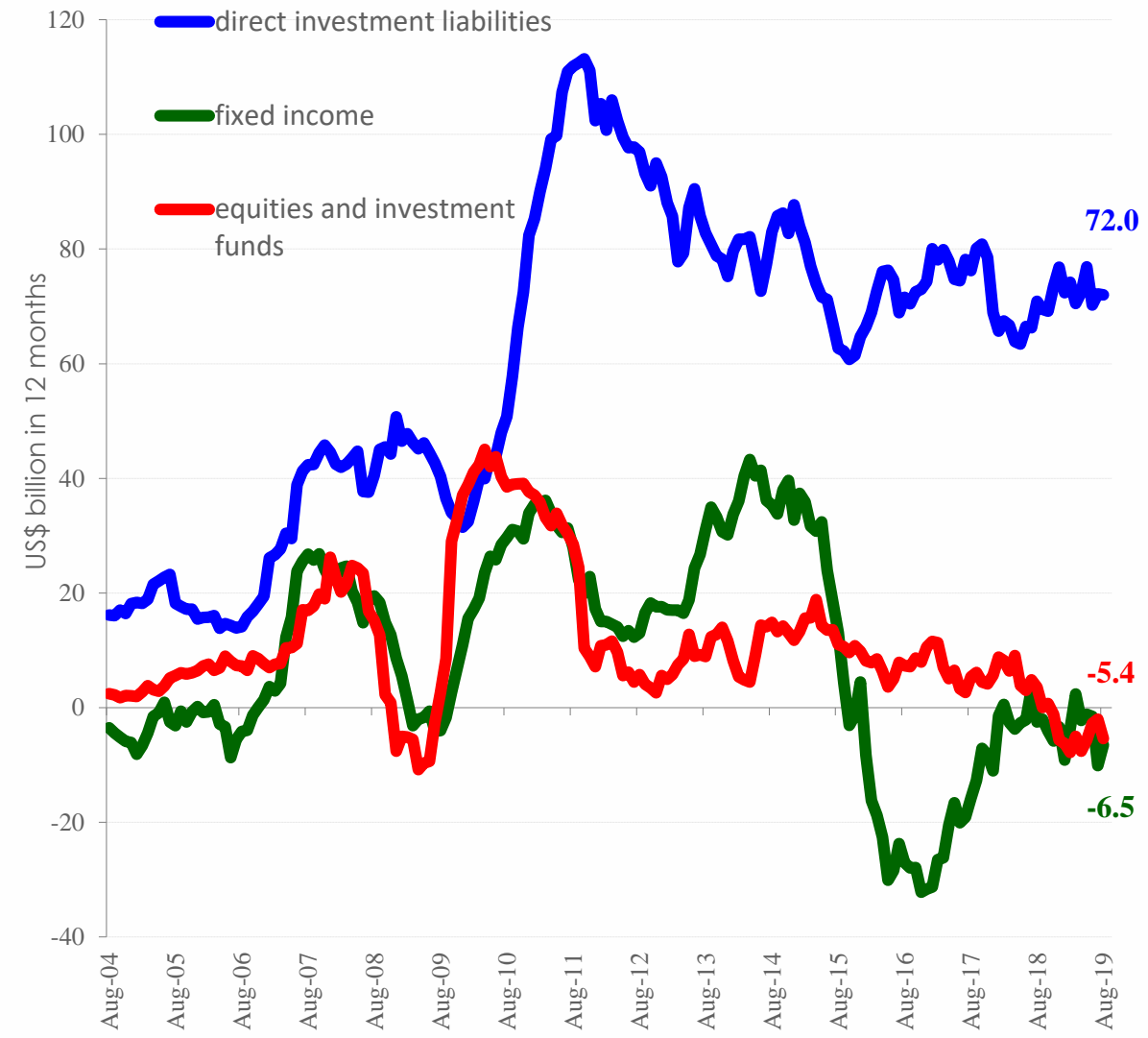


Comfortable external sector outlook

Current account

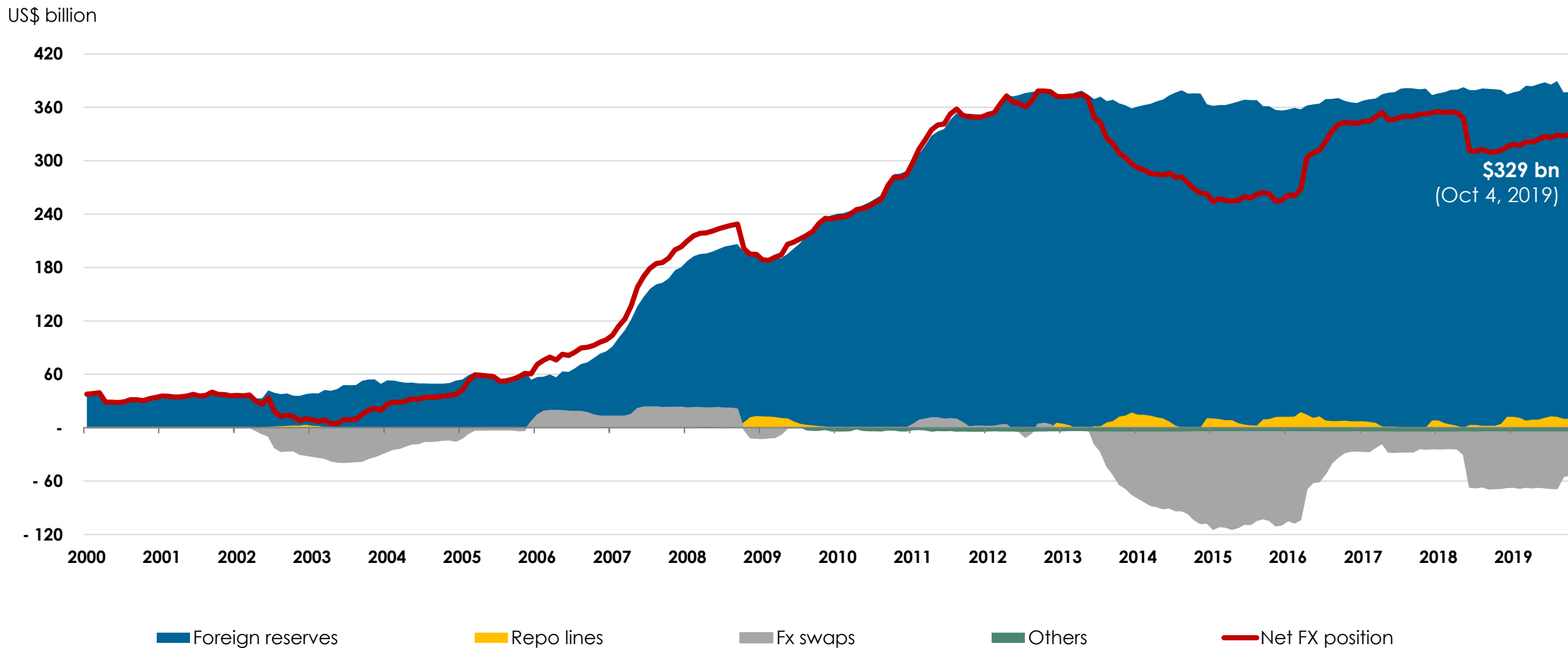


Net Foreign Investment Flow



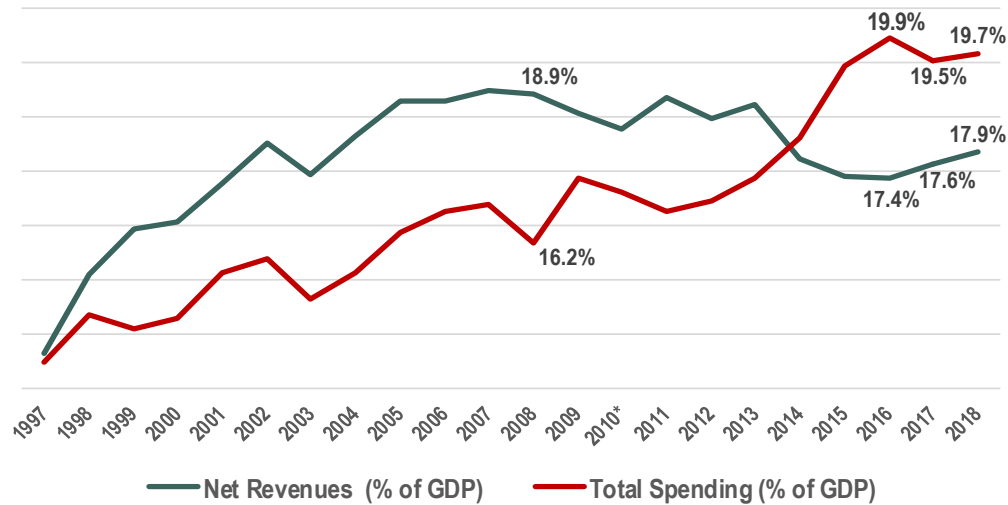
Comfortable level of international buffers

International reserves, Net FX position, and FX swaps



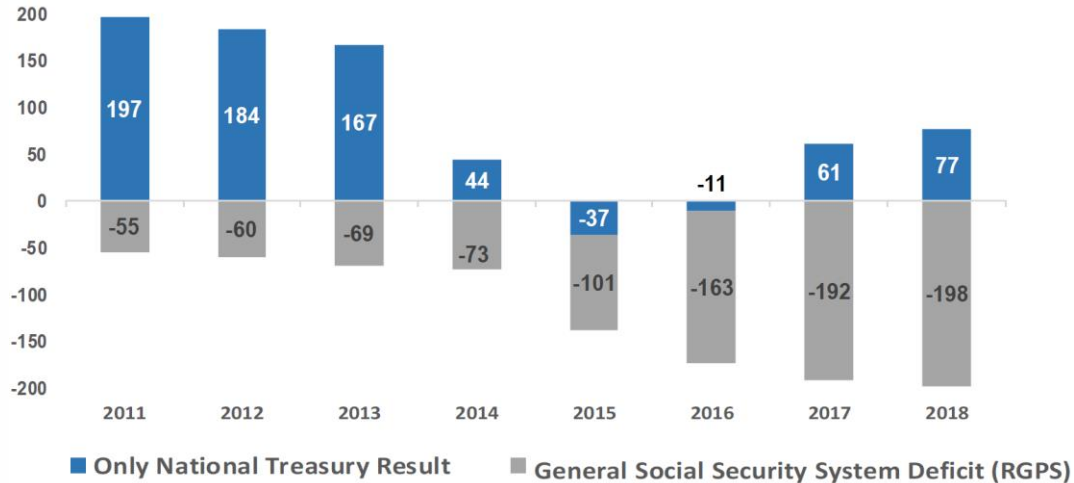
Deep recession uncovered fiscal challenges

Central Government Net Revenues and Spending (% of GDP)

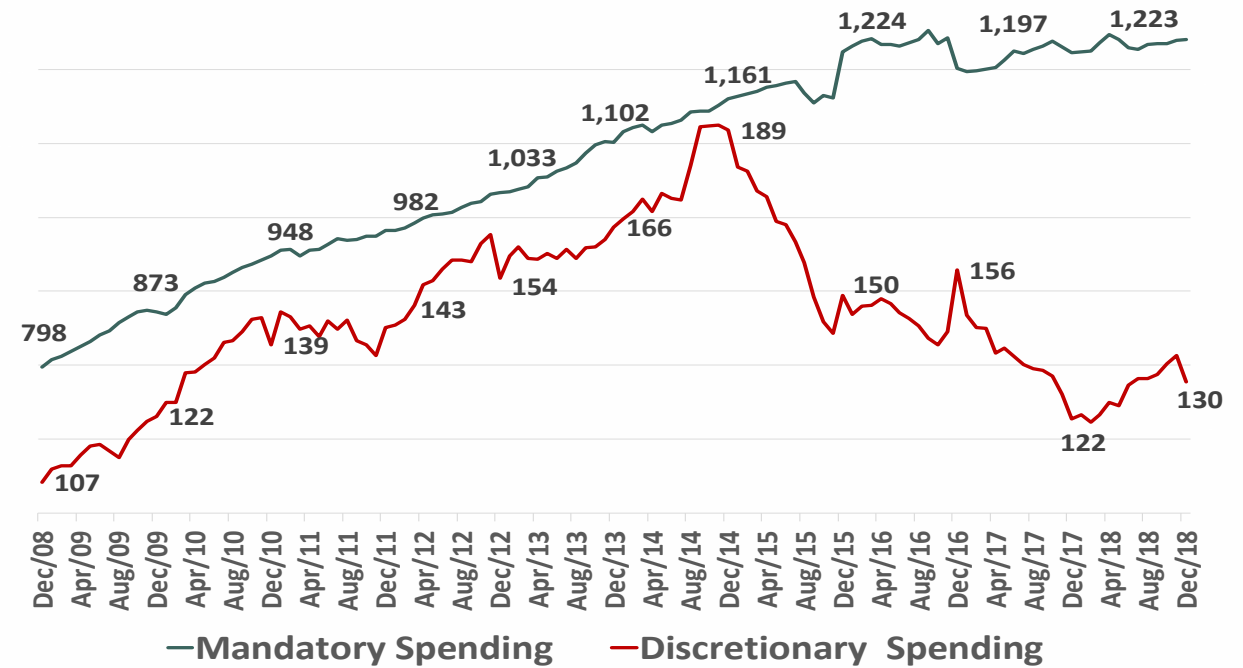


Source: National Treasury

Central Government Fiscal Result (BRL/billion 2011-2018)



Central Government Spending (BRL billion)



Source: National Treasury

- The economic recession in 2015 and 2016 strongly impacted public revenues
- Sharp decline in discretionary spending, but insufficient to curb total spending
- Pension system is a major source of public spending pressures

Ongoing fiscal adjustment and reforms

- Pension reform to be 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:
 - ▶ Simplification
 - ▶ Consolidation
 - ▶ Legal certainty
- ▶ 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

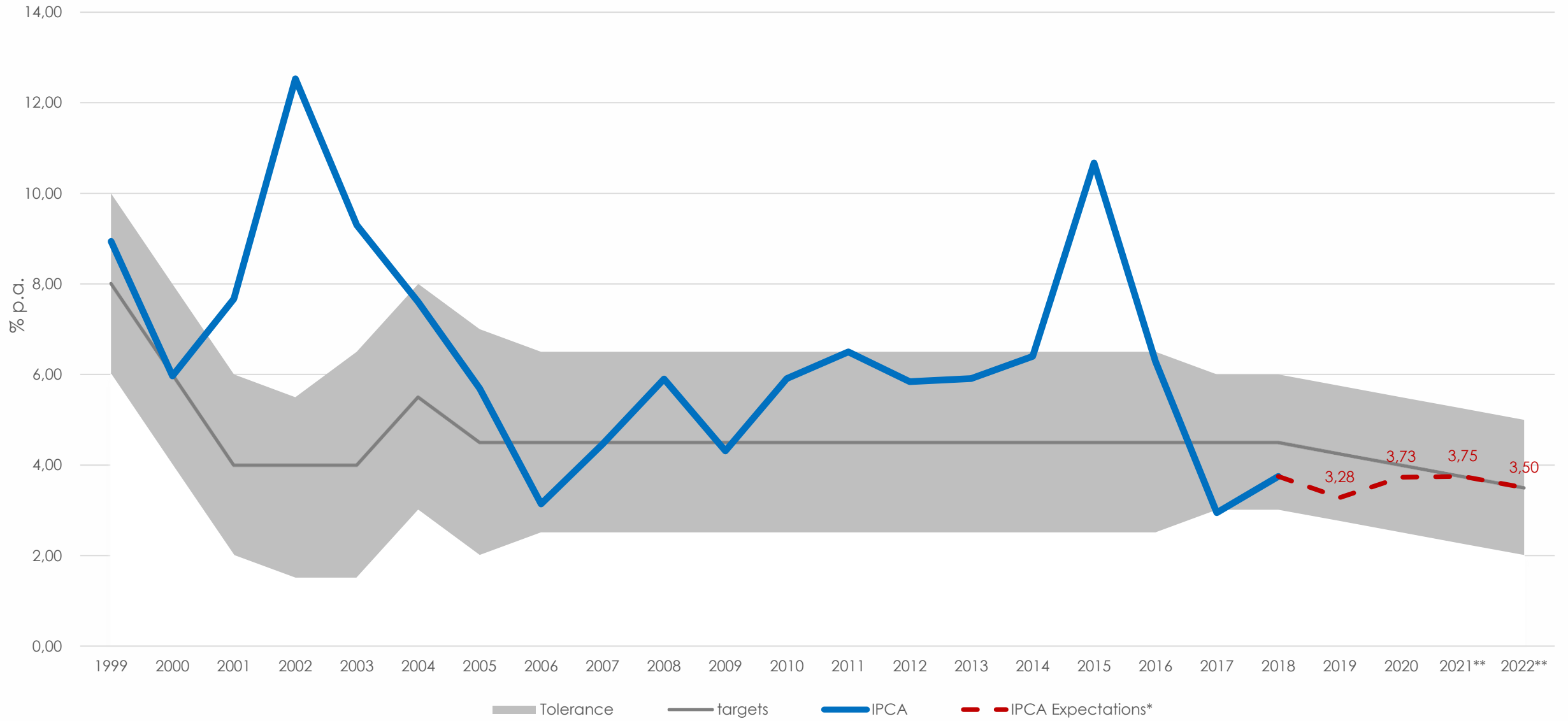
Monetary policy

Monetary policy decision

“Taking into account the baseline scenario, the balance of risks, and the wide array of available information, the Copom unanimously decided to lower the Selic rate to 5.50% 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.”

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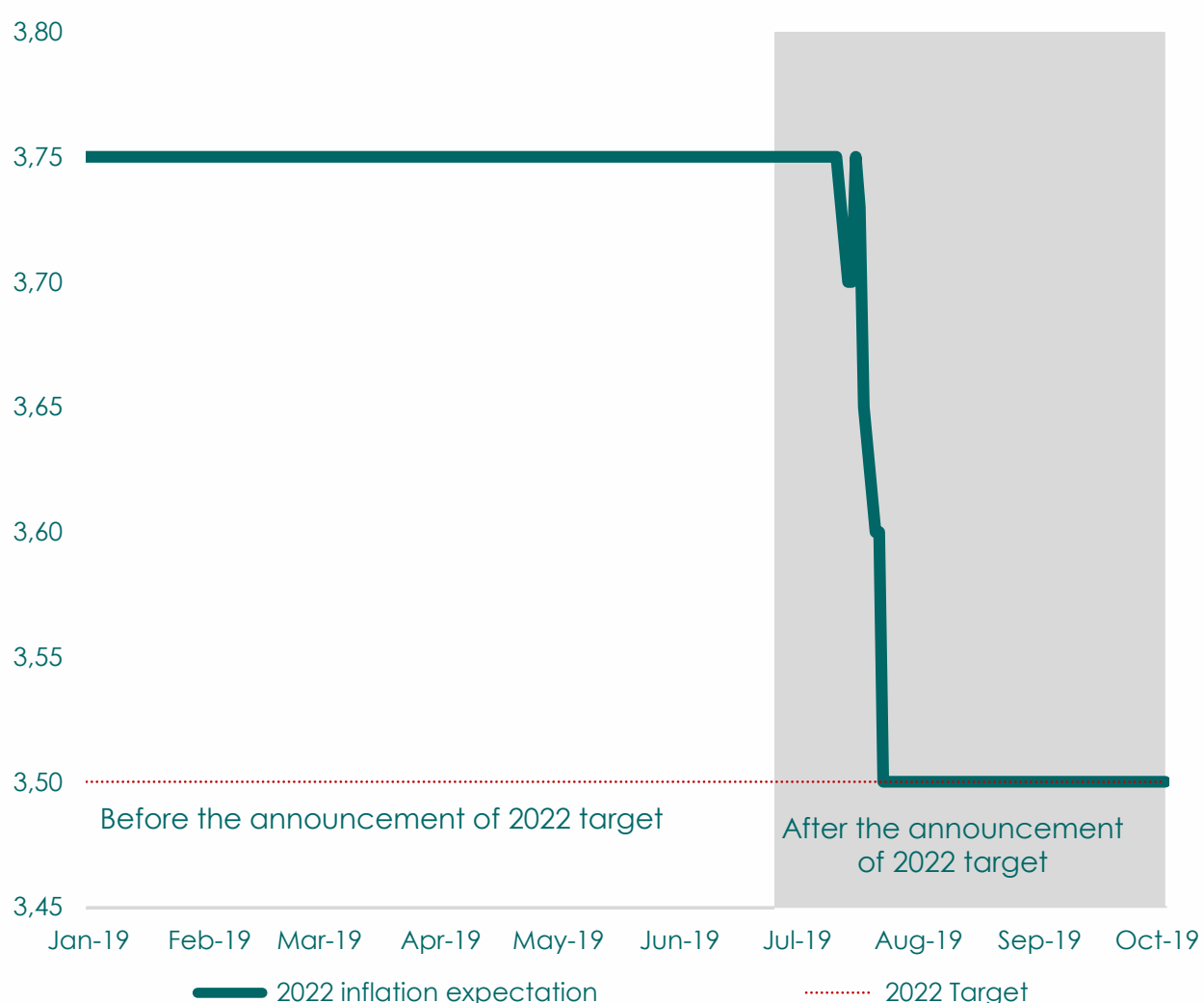
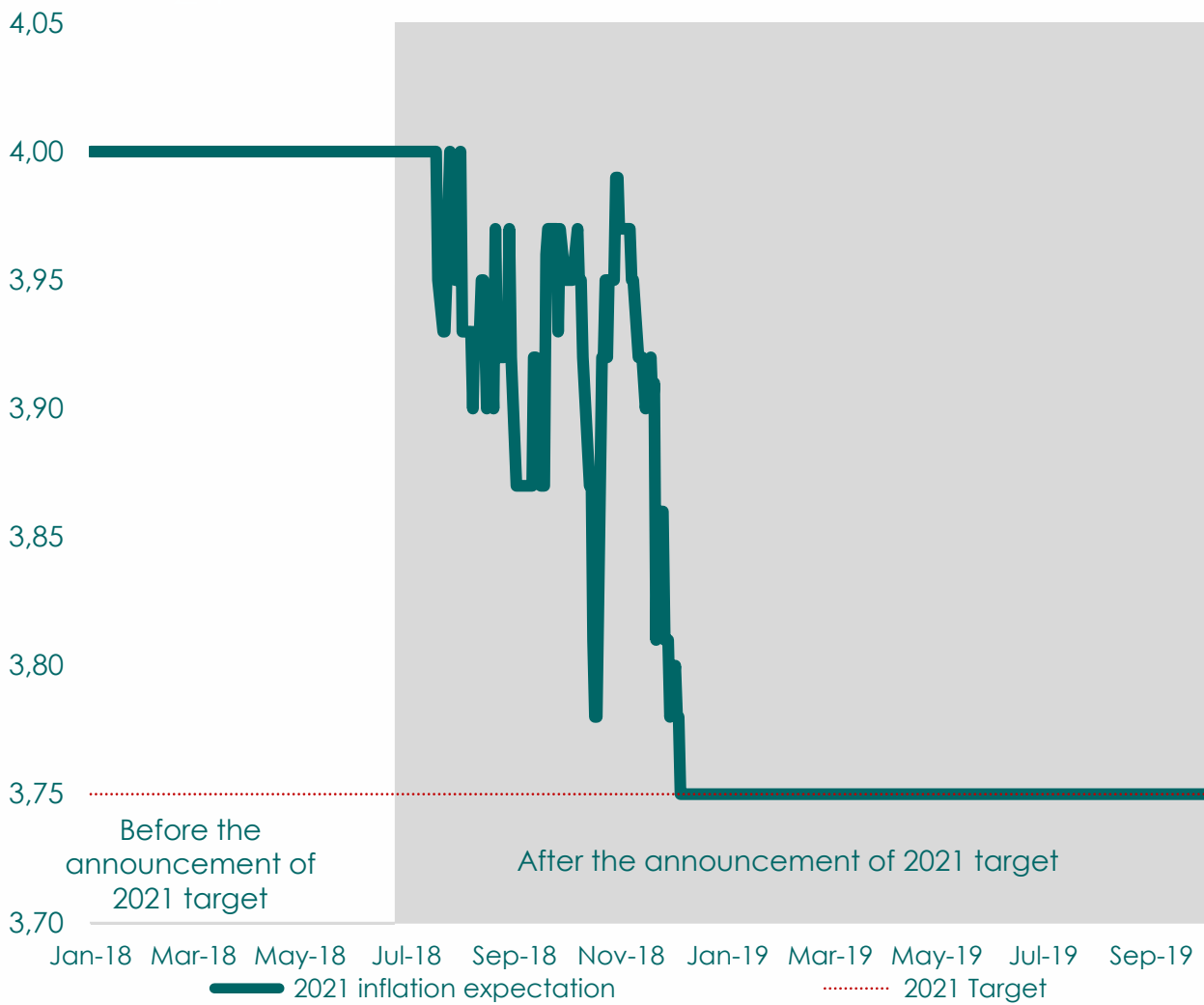
Inflation within target range



*Market-based median expectations (Focus Oct2019)

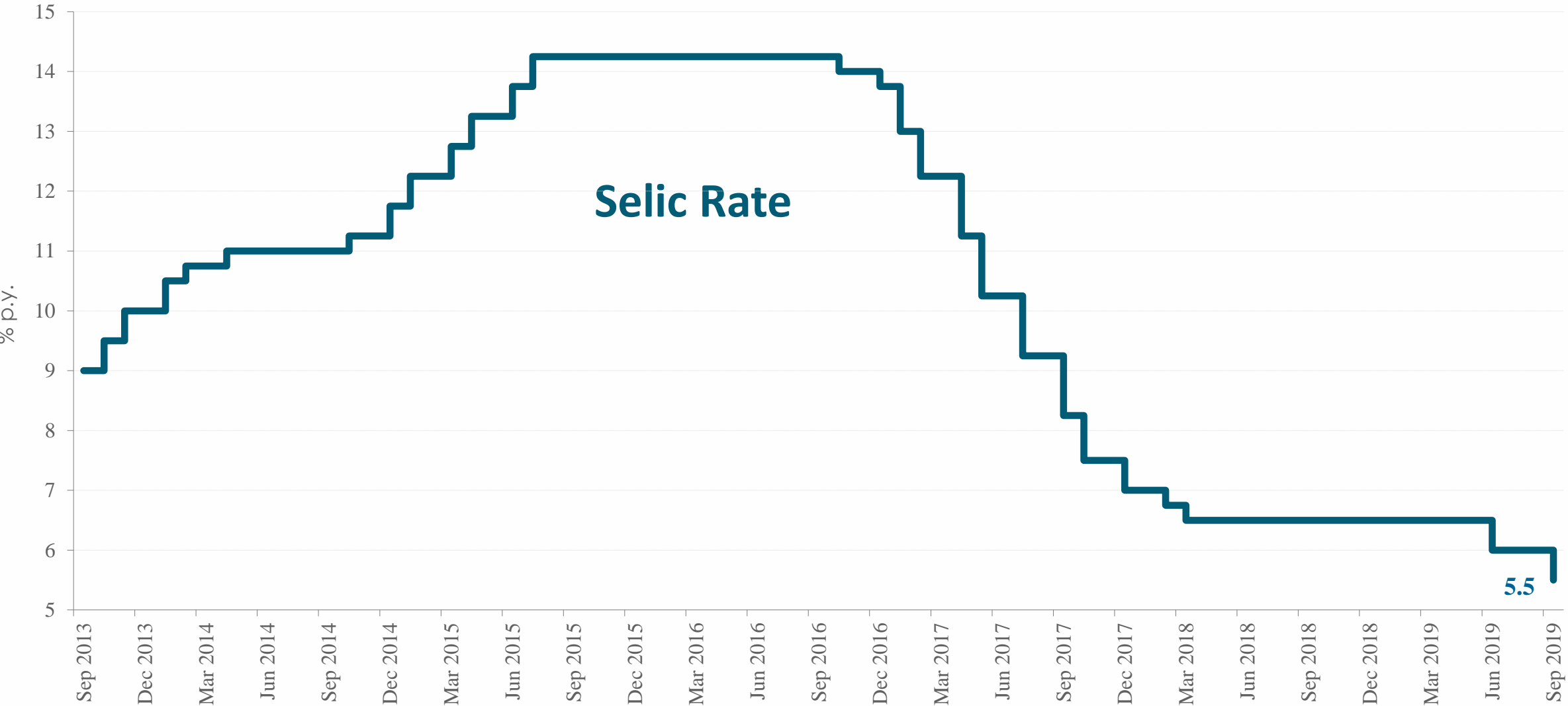
Increasing central bank credibility

Fast convergence of expectations after CMN defines new inflation targets



Source: Focus forecasts

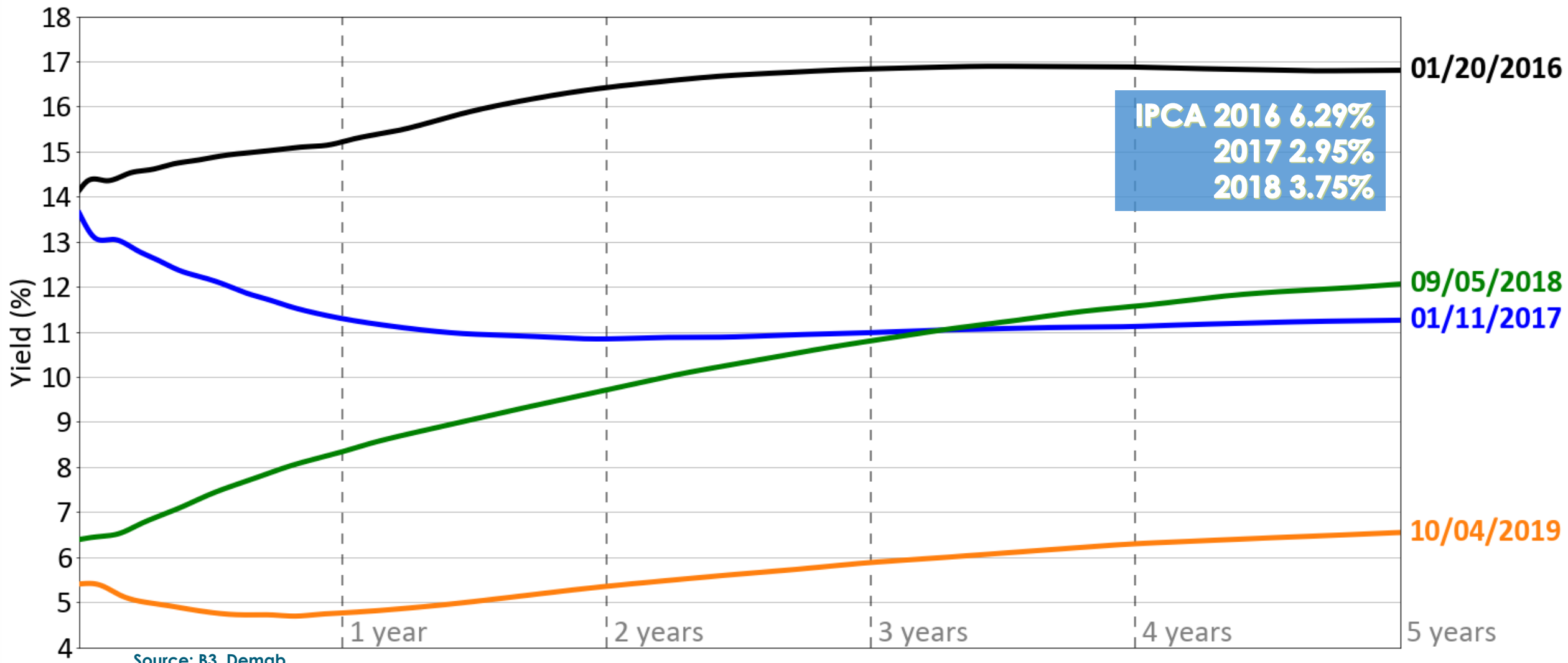
Policy rate at historically low level



Summing up

Yield curve 2016-2019

2019 Decline in risk premium



Source: B3, Demab

Thank you!

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