

# Brazil: Economic and Monetary Outlook

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**1. International Context**

**2. Domestic Scenario**

**3. Monetary Policy**

**4. Agenda BC+**

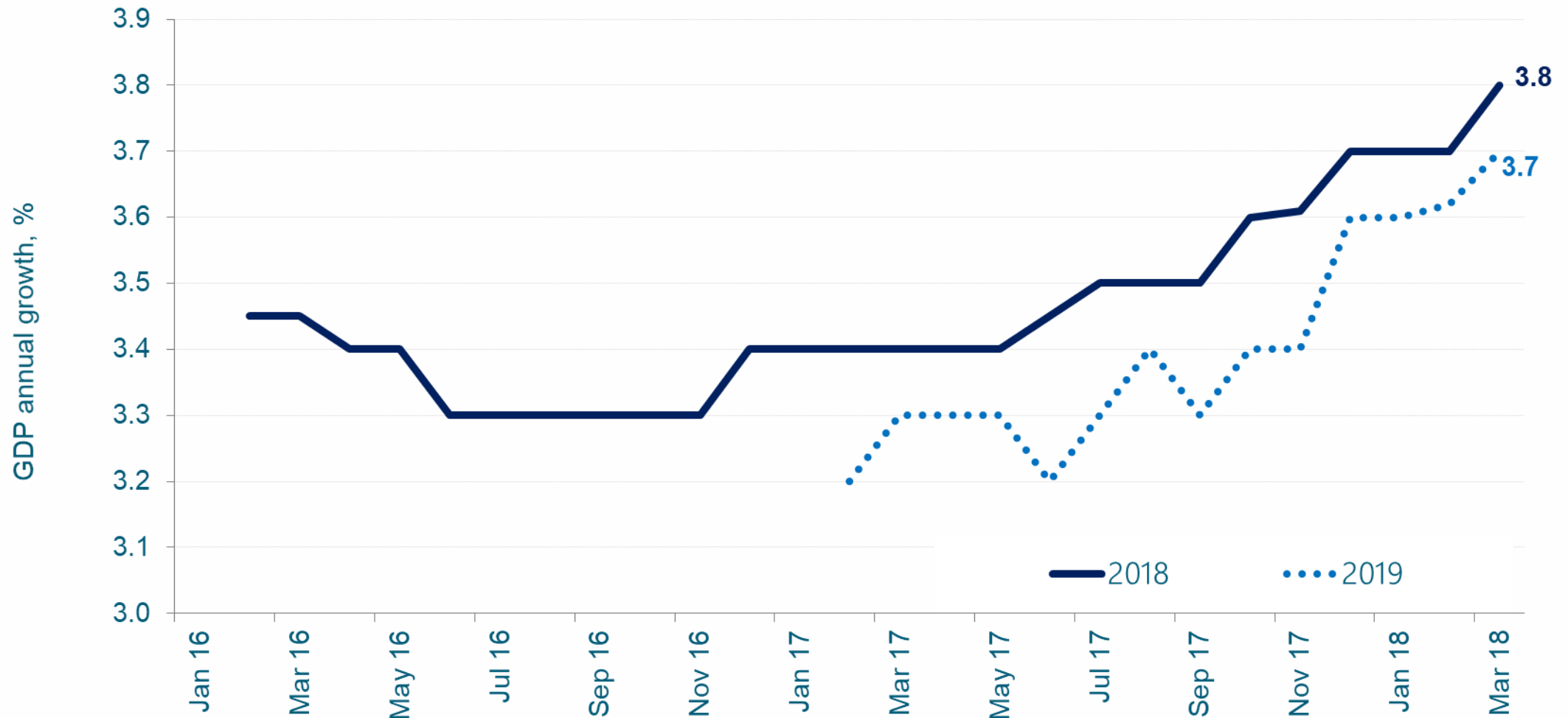
# 1. International Context

# Positive scenario and risk appetite for EMEs

- Positive outlook for central economies, despite recent monetary policy adjustments
- Monetary policy re-pricing in central economies with limited impact on EMEs
- Risk appetite for EMEs remains high:
  - Global economy has strengthened over the past year
  - Gradual and well-communicated adjustment in monetary policy by central banks in major economies
  - Resilient capital flows and asset prices
- Main risks:
  - Faster than expected MP tightening in AEs due to revision in expected inflation path
  - Sustainability of current growth momentum
  - Protectionism

# Expectations of global growth

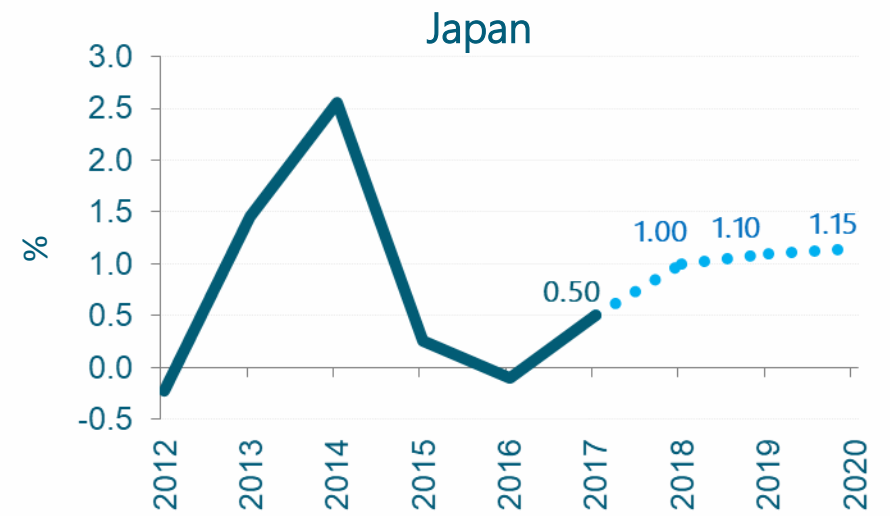
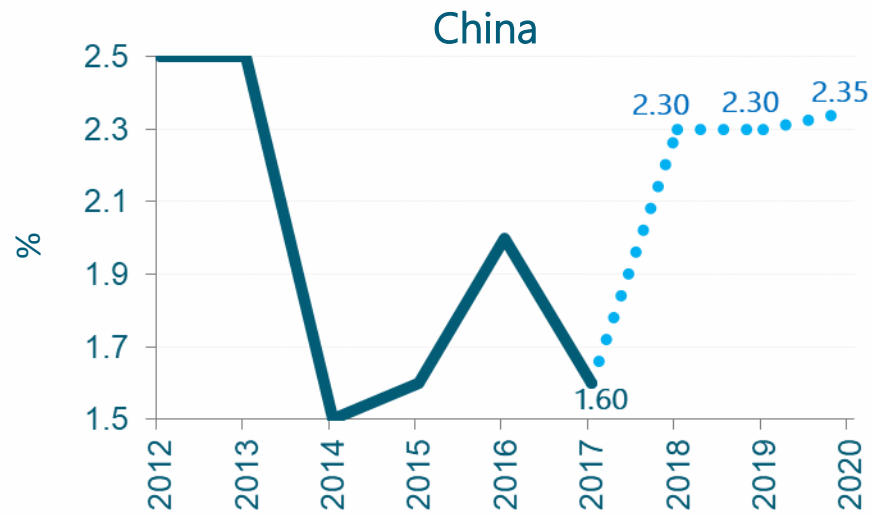
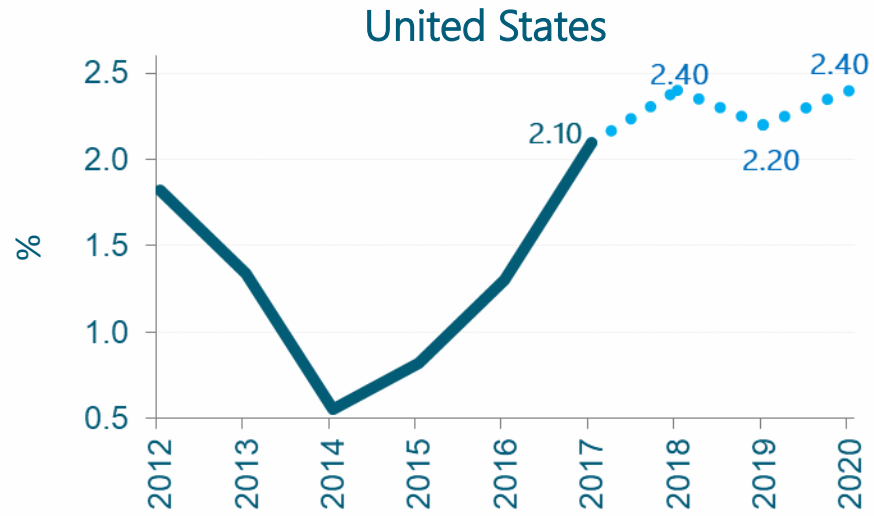
## GDP Growth expectations



Up to Mar 16th

Source: Bloomberg

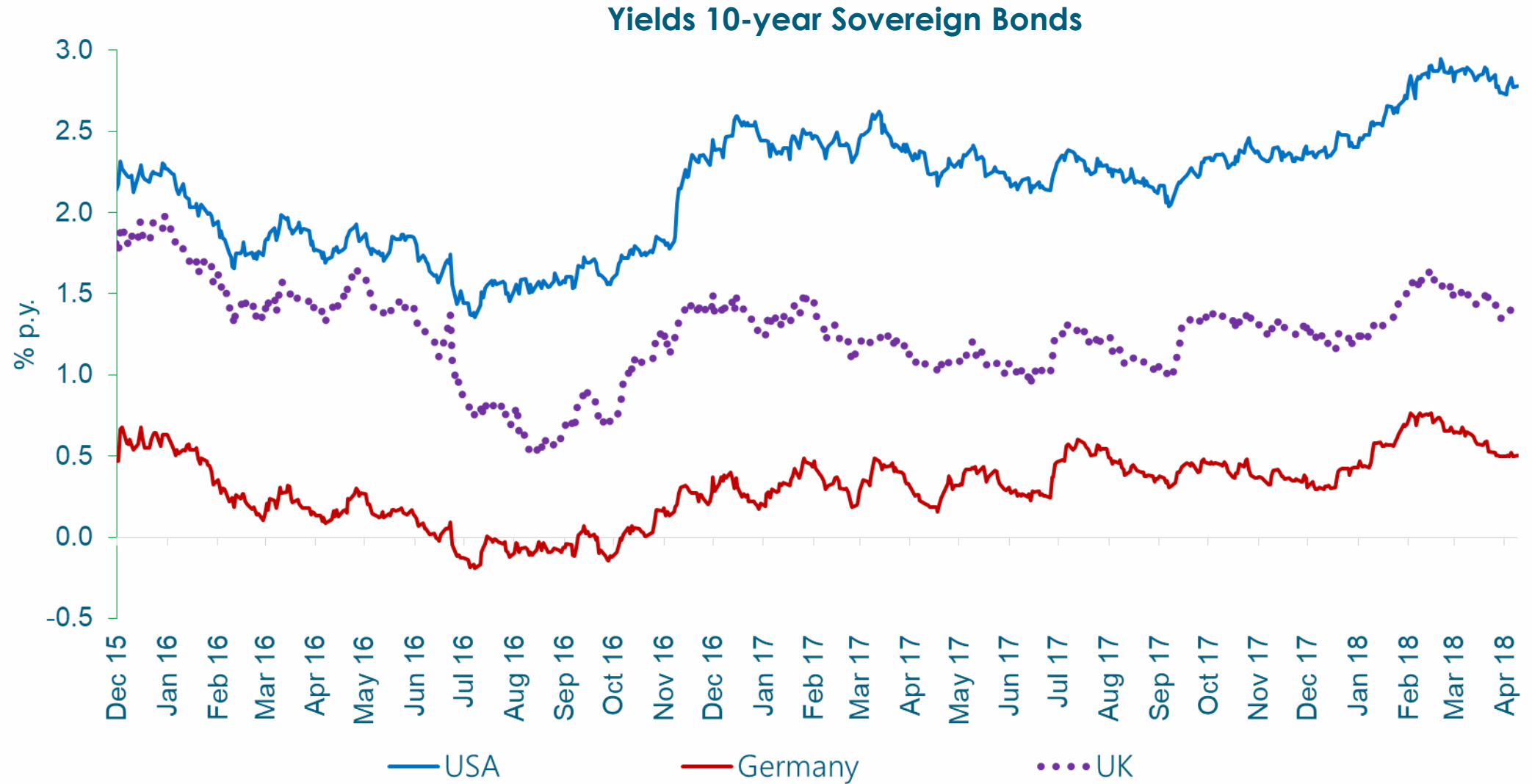
# Inflation



2017/2018/2019/2020: projection

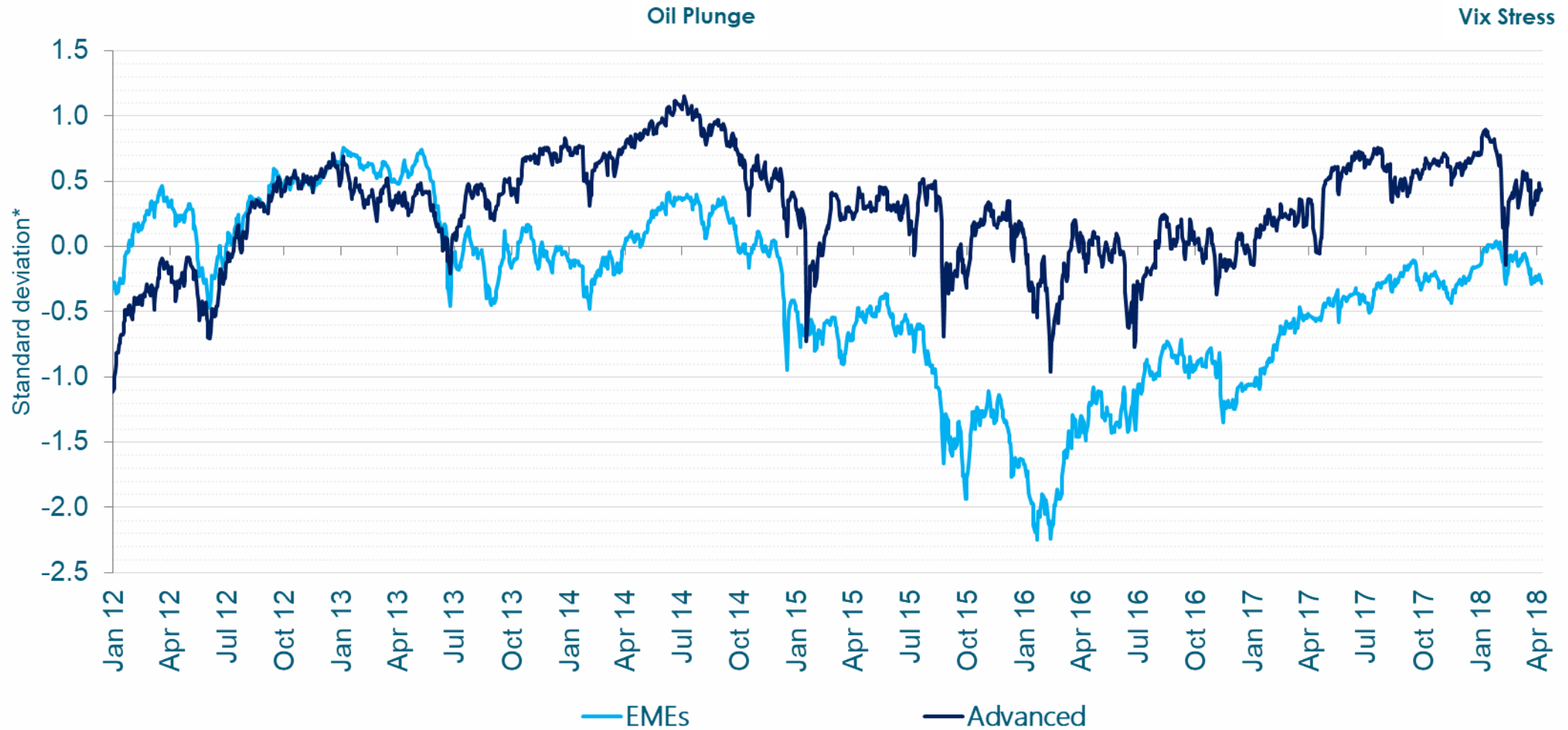
Source: Bloomberg

# International Context



Source: Thomson Reuters Datastream

# Risk appetite for EMEs



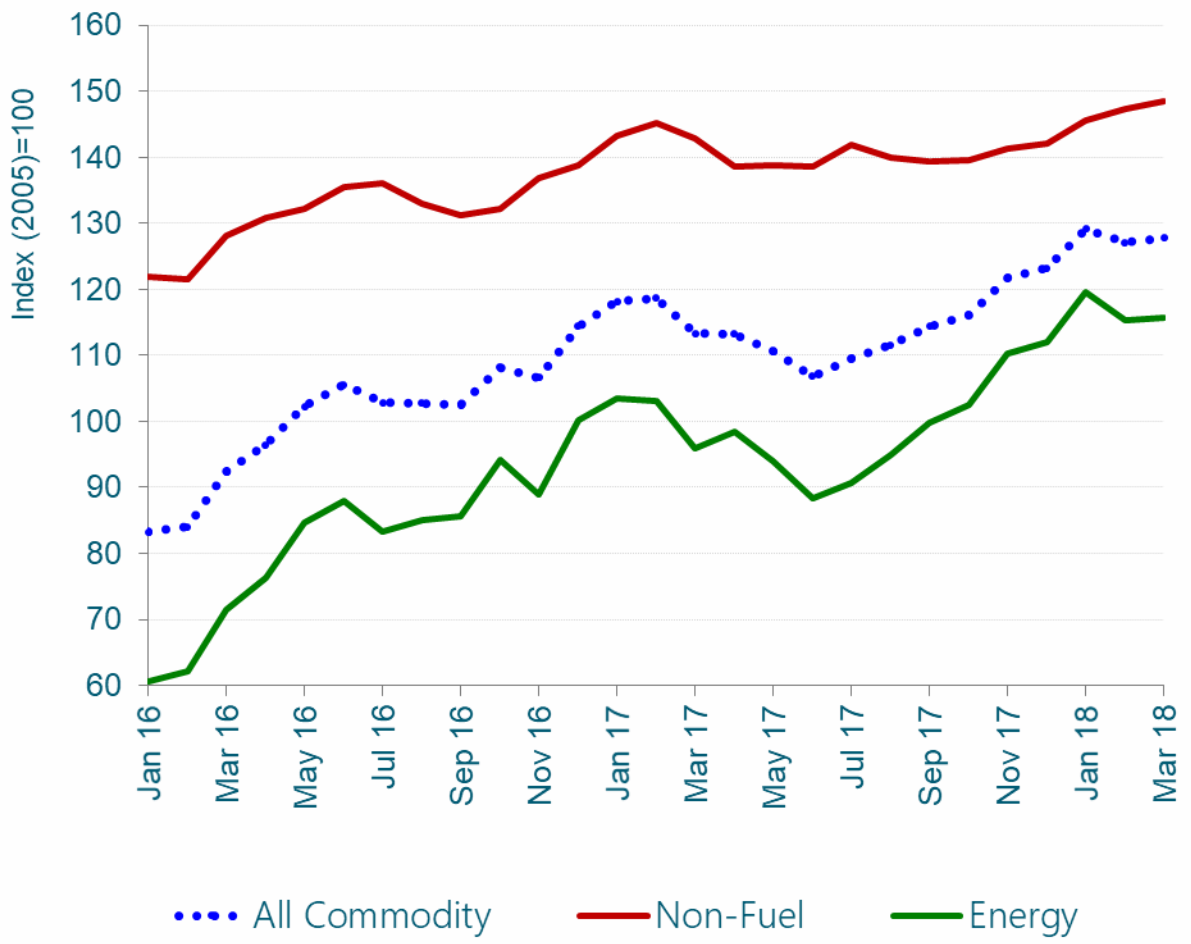
\*Average daily average of the daily measures from January 2003 to the current data

Source: BCB / Bloomberg / Reuters

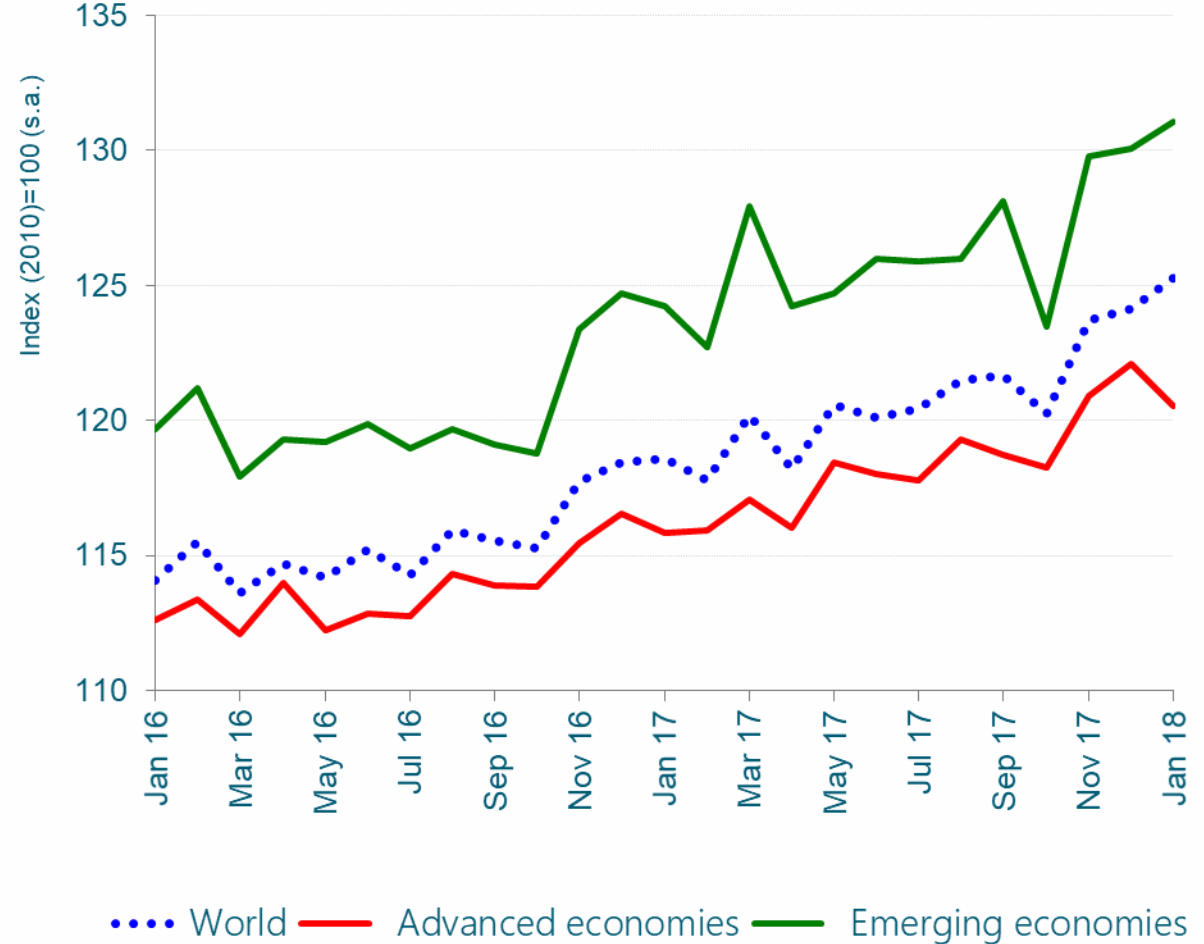


# Positive scenario for EMEs

## Commodities prices indexes



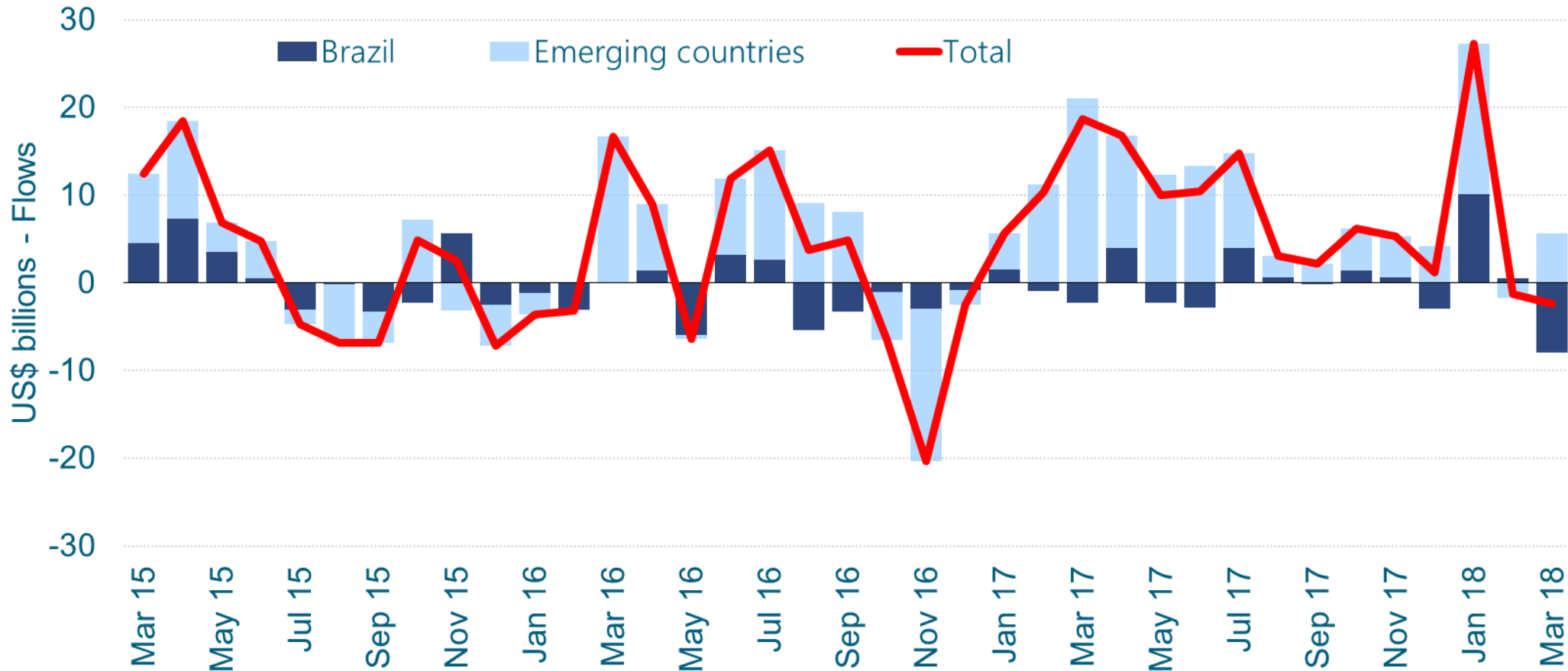
## Trade volume indexes



Source: Bloomberg

# EME – Capital Flows

Portfolio Flows - EME - Monthly



Emerging markets: SAF, UAE, KOR, IND, IDN, PAK, THA, TUR, VNM

Source: Bloomberg

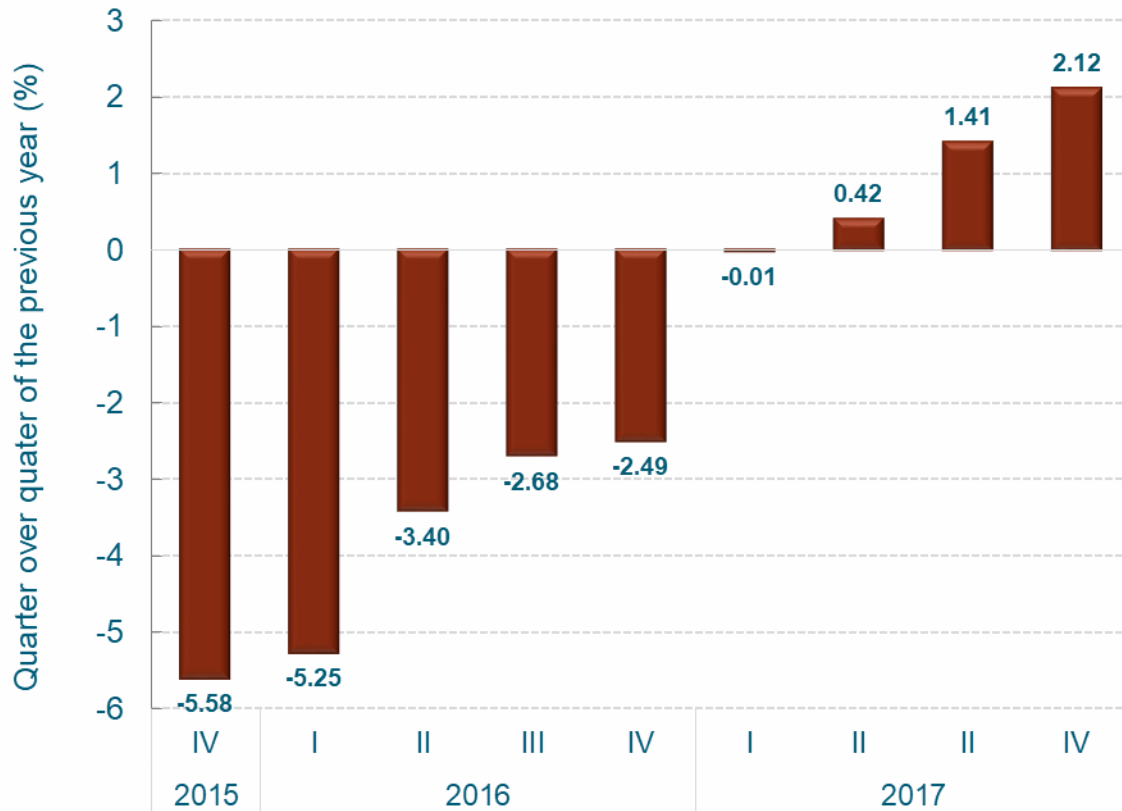
## 2. Domestic Scenario

# Domestic Scenario

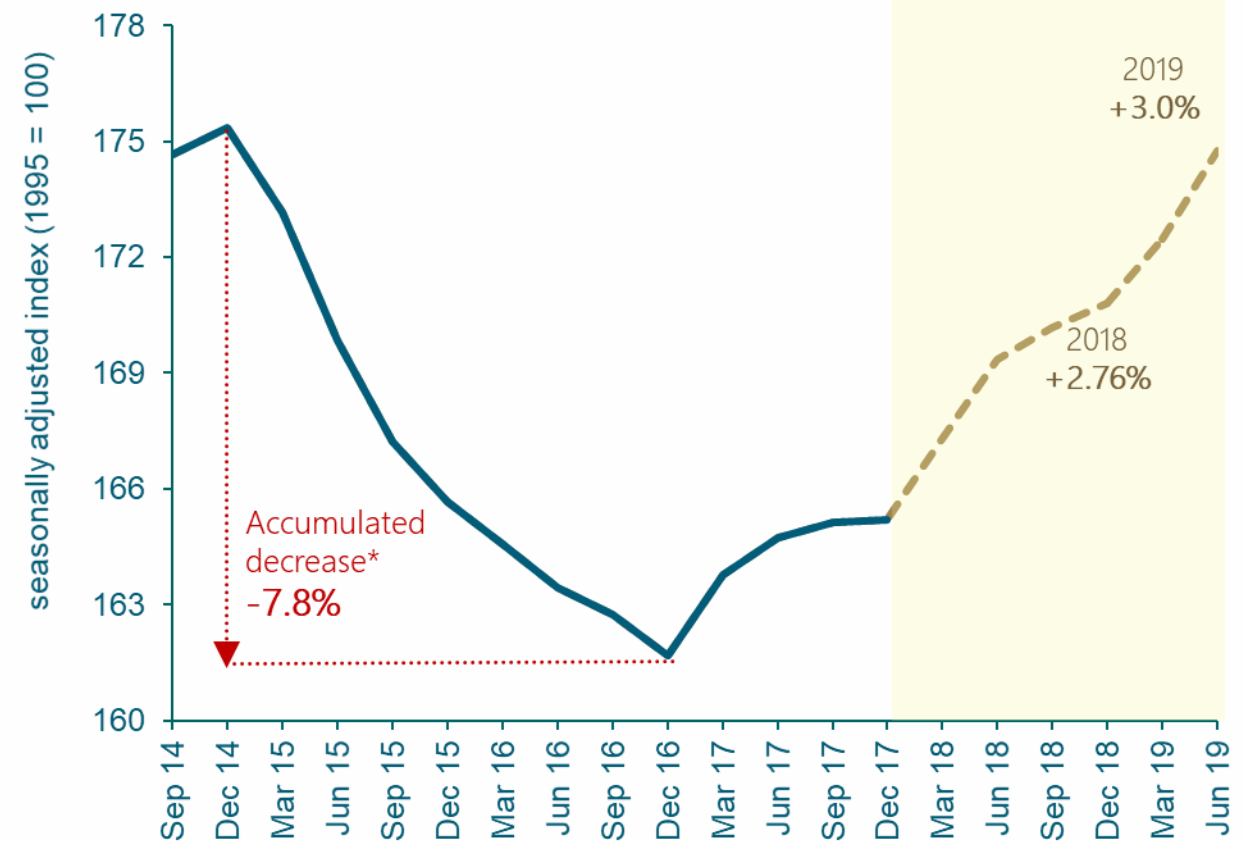
- Brazil is recovering consistently
  - Growth recovery
  - Consumption growth, advanced deleveraging process of households and low inflation
- A sustainable growth will demand recovery in investments and implementation of reforms, notably those of a fiscal nature
- Brazil is now less vulnerable to external shocks
  - External accounts and international reserves
  - Low inflation

# Economic activity has been recovering

## GDP quarterly growth (%)



## GDP real growth (%)

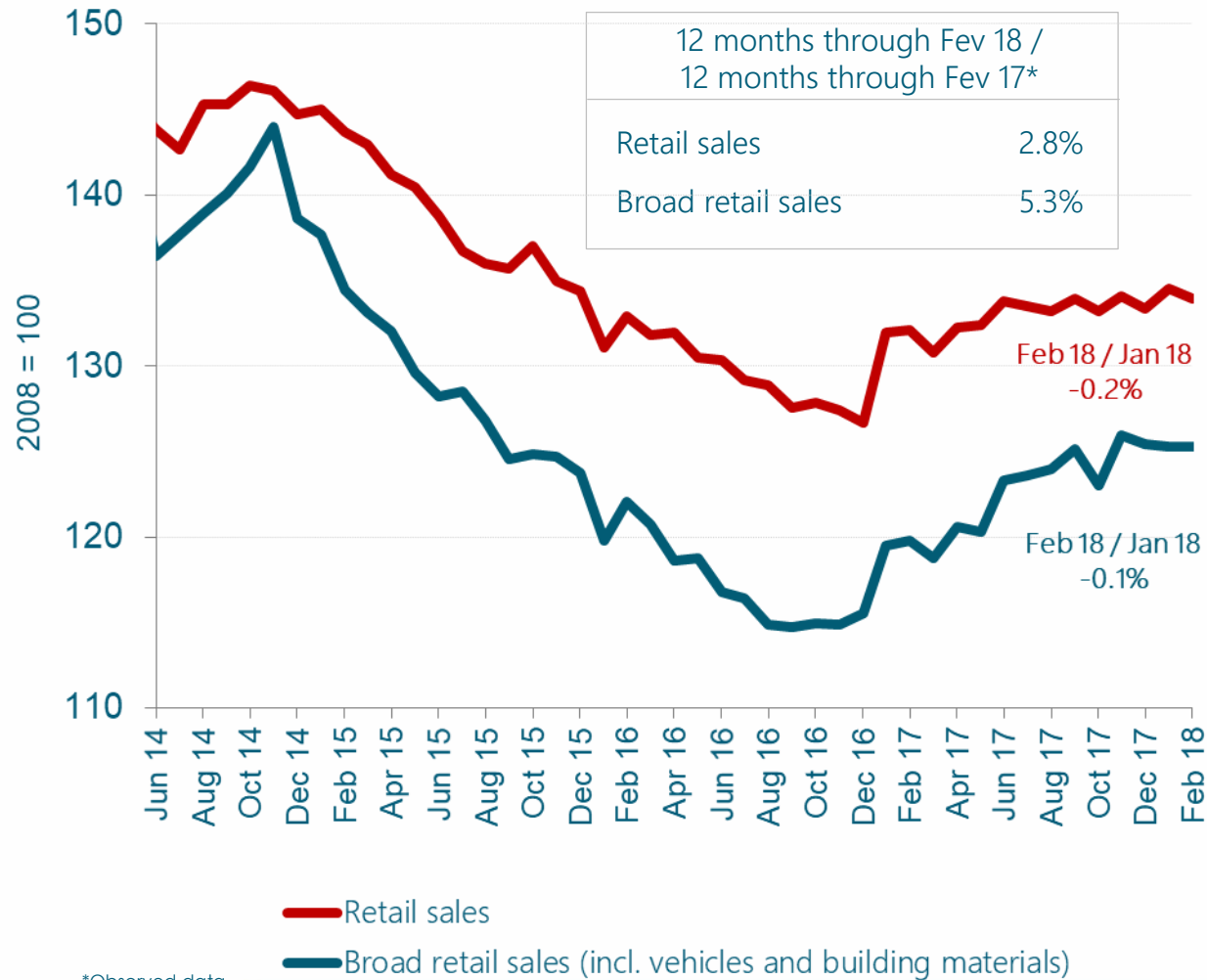


In yellow, market expectations (Focus survey, April 4<sup>th</sup>, 2018).  
 \*Growth between the fourth quarter of 2014 and the fourth quarter of 2016

Source: BCB

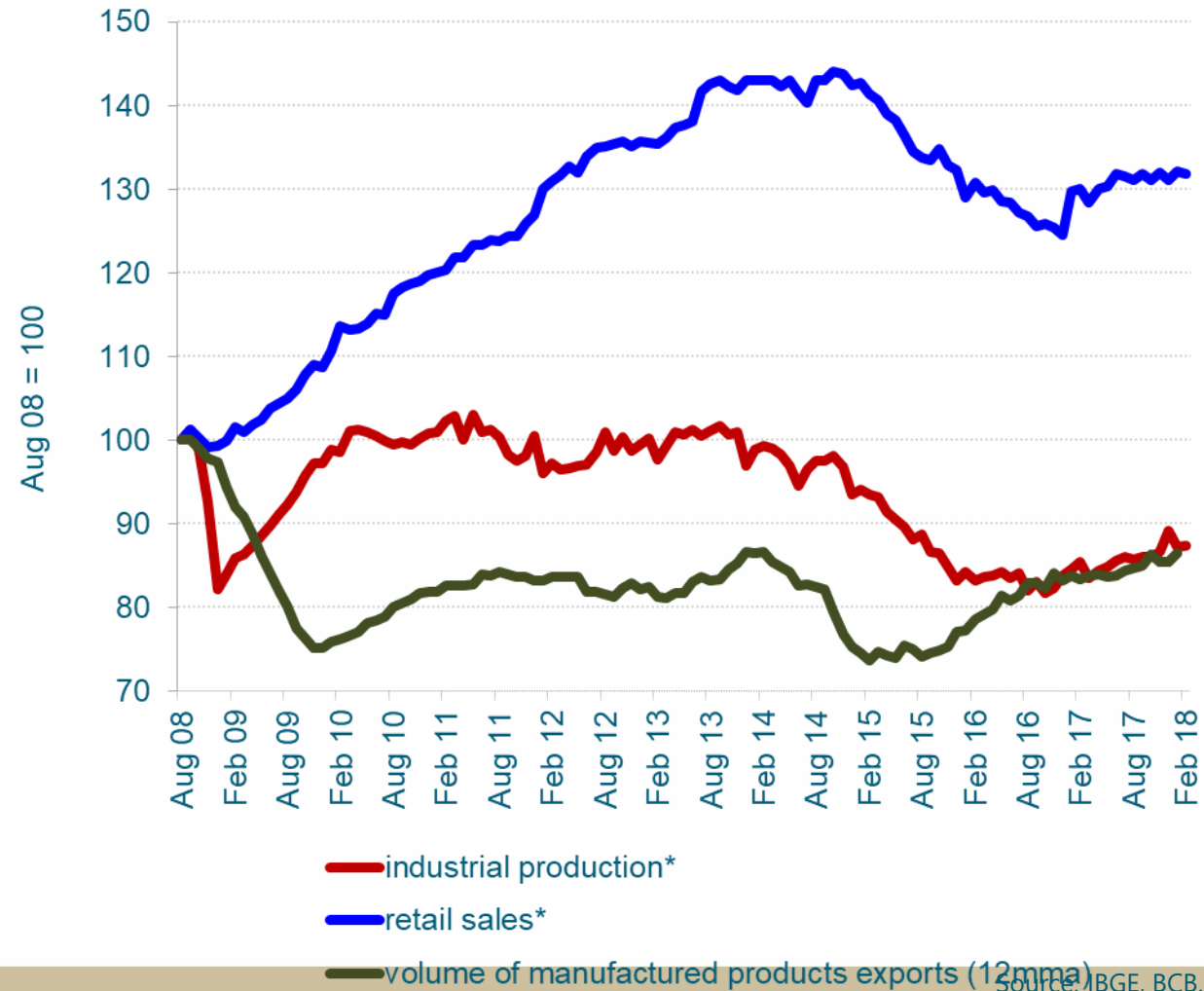
# Retail sales

## Retail sales indexes



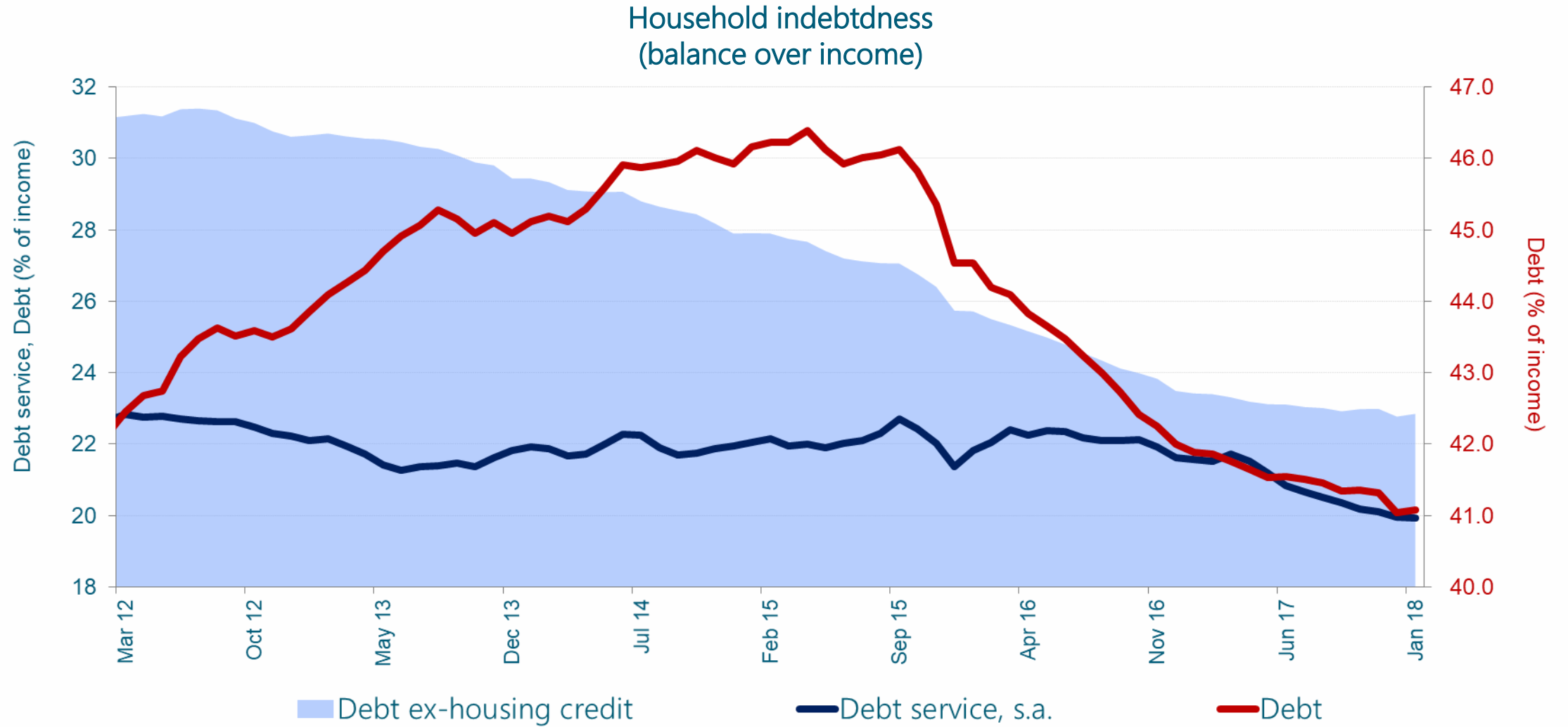
\*Observed data

## Retail sales and exports



Source: IBGE, BCB.

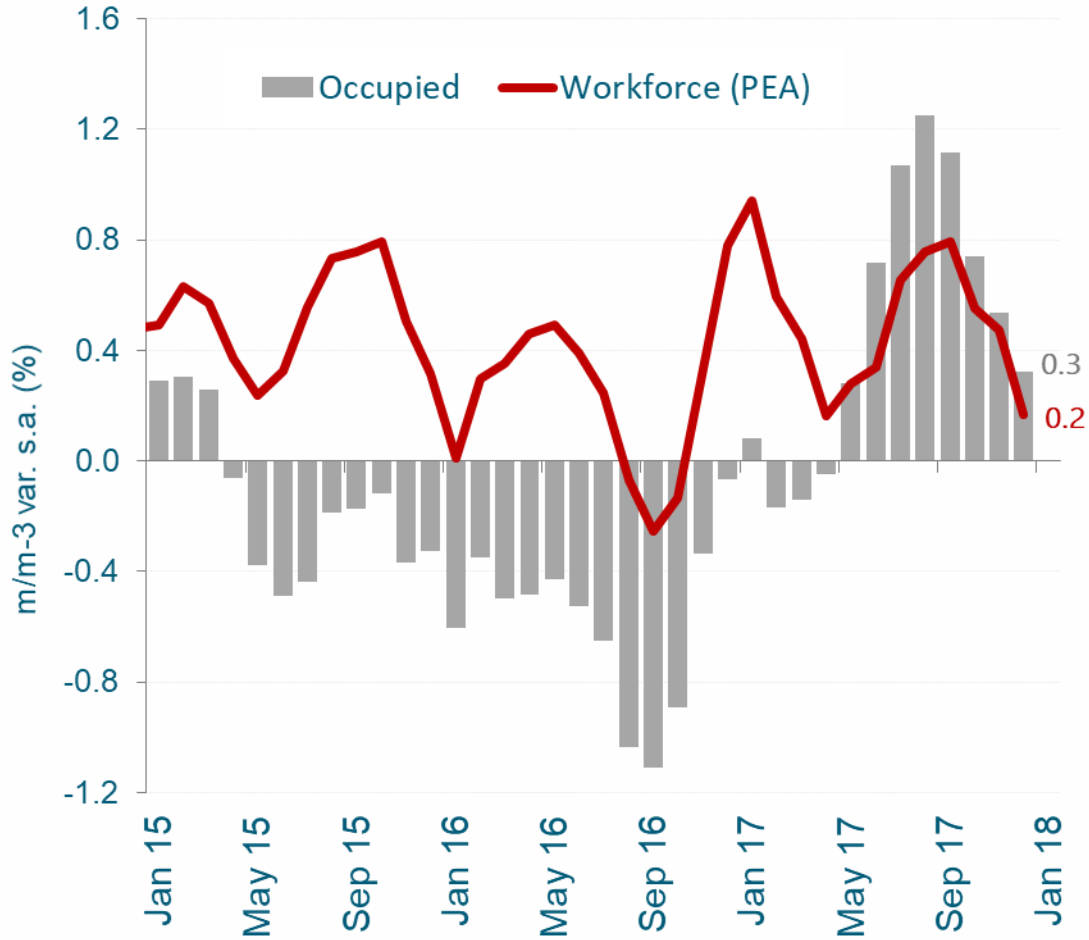
# Household deleveraging



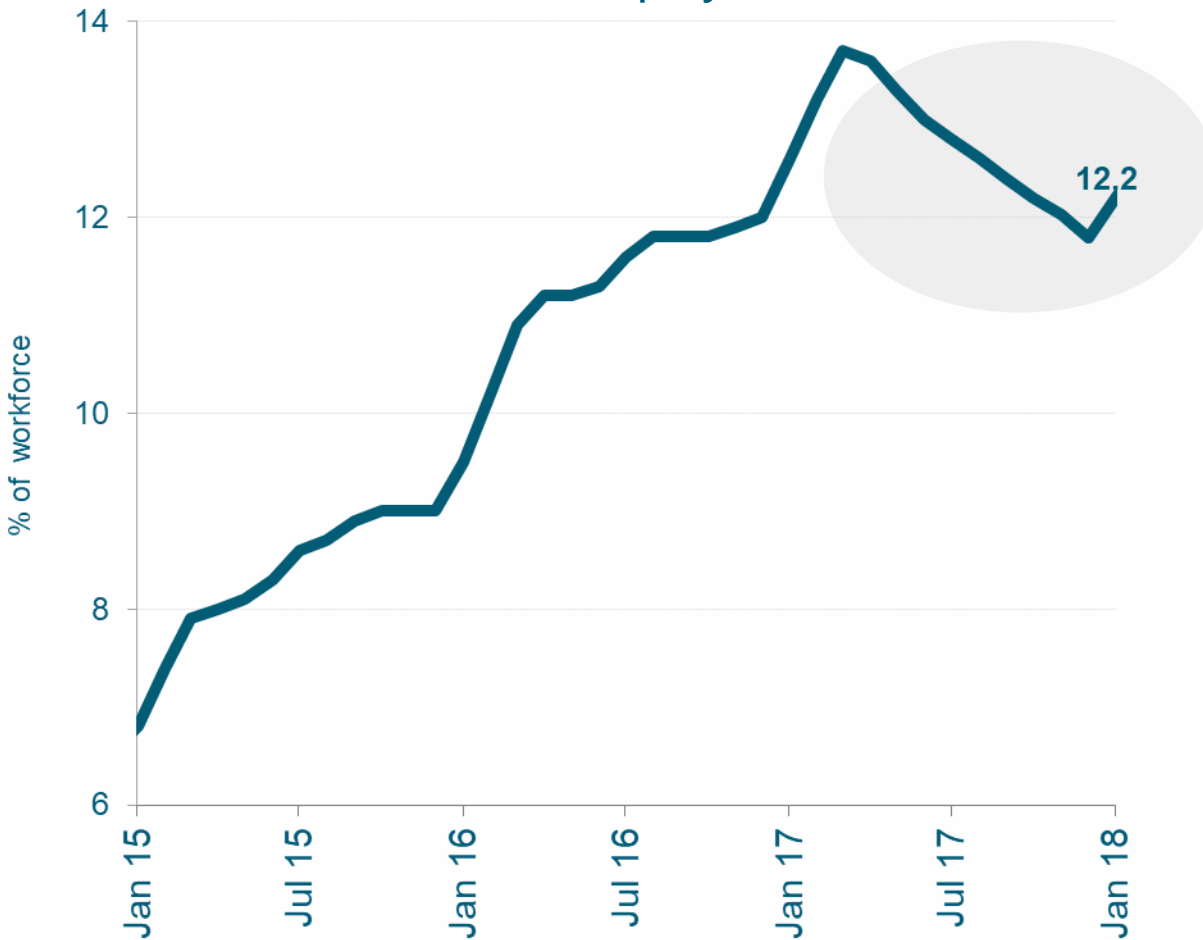
Source: BCB

# Improvements in the labor market

### Workforce



### Unemployment

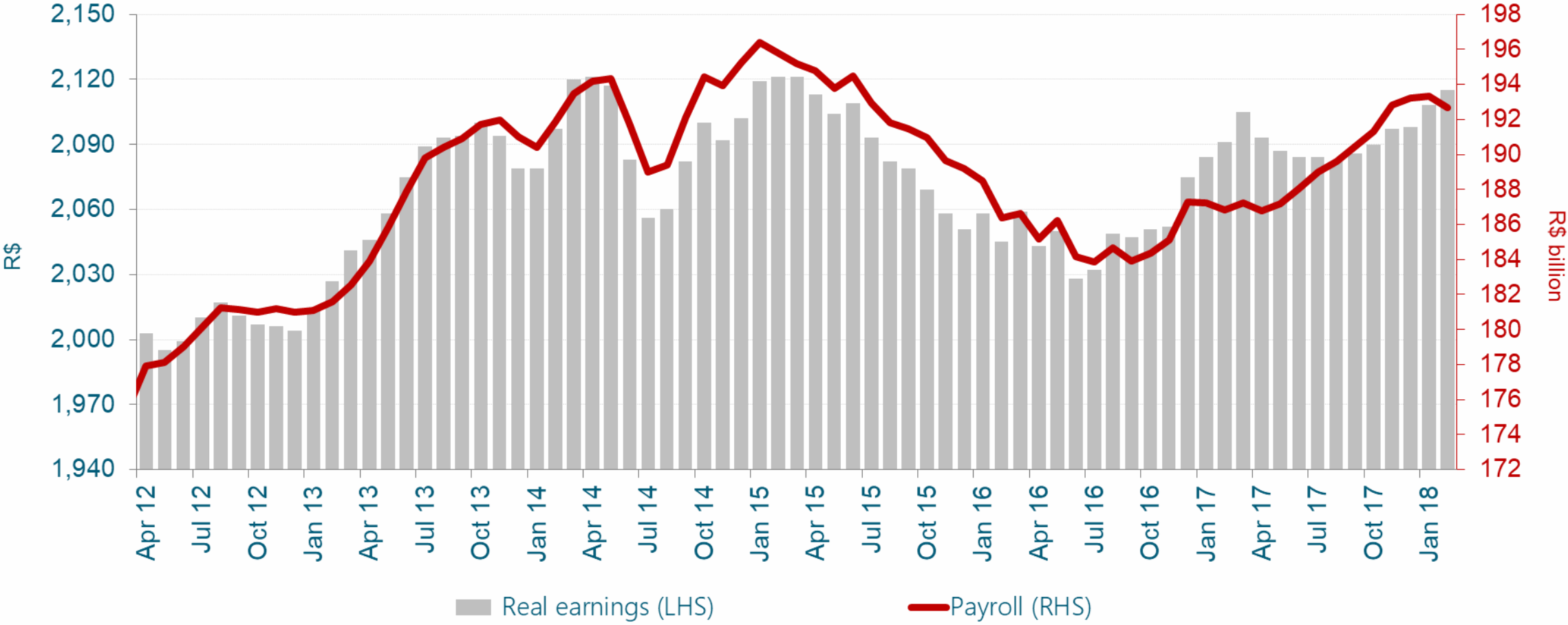


Source: IBGE (PNADC)



# Payroll and Real Earnings

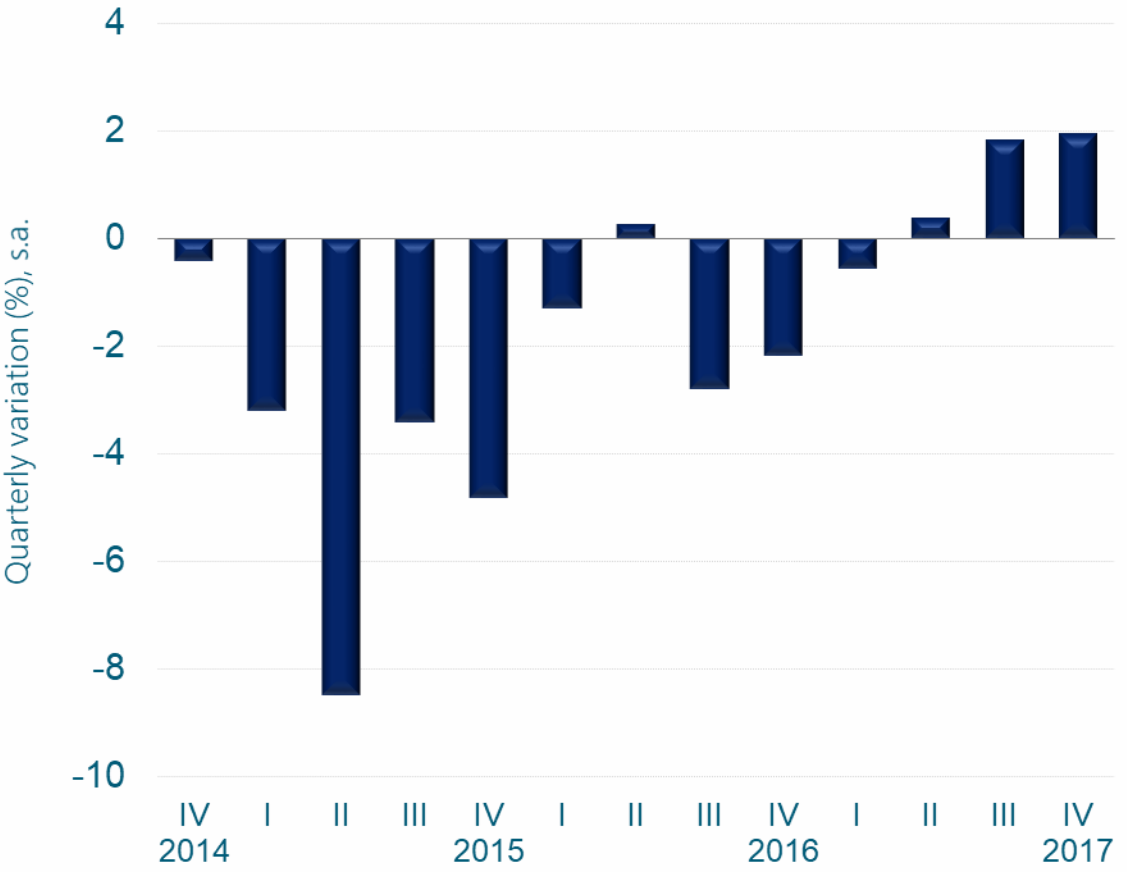
Payroll and real earnings



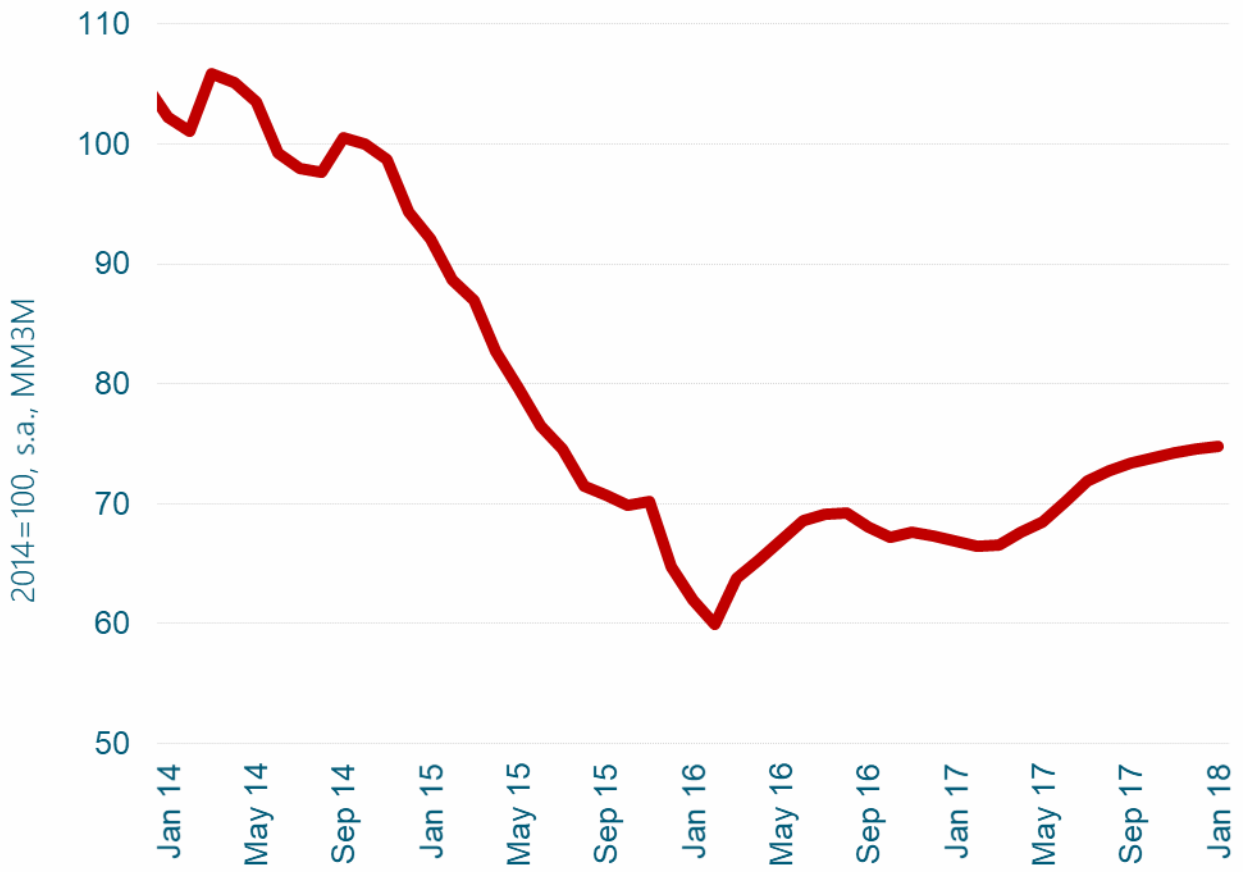
Source: IBGE

# Effective recovery of investment

## Gross Fixed Capital Formation (FBCF)



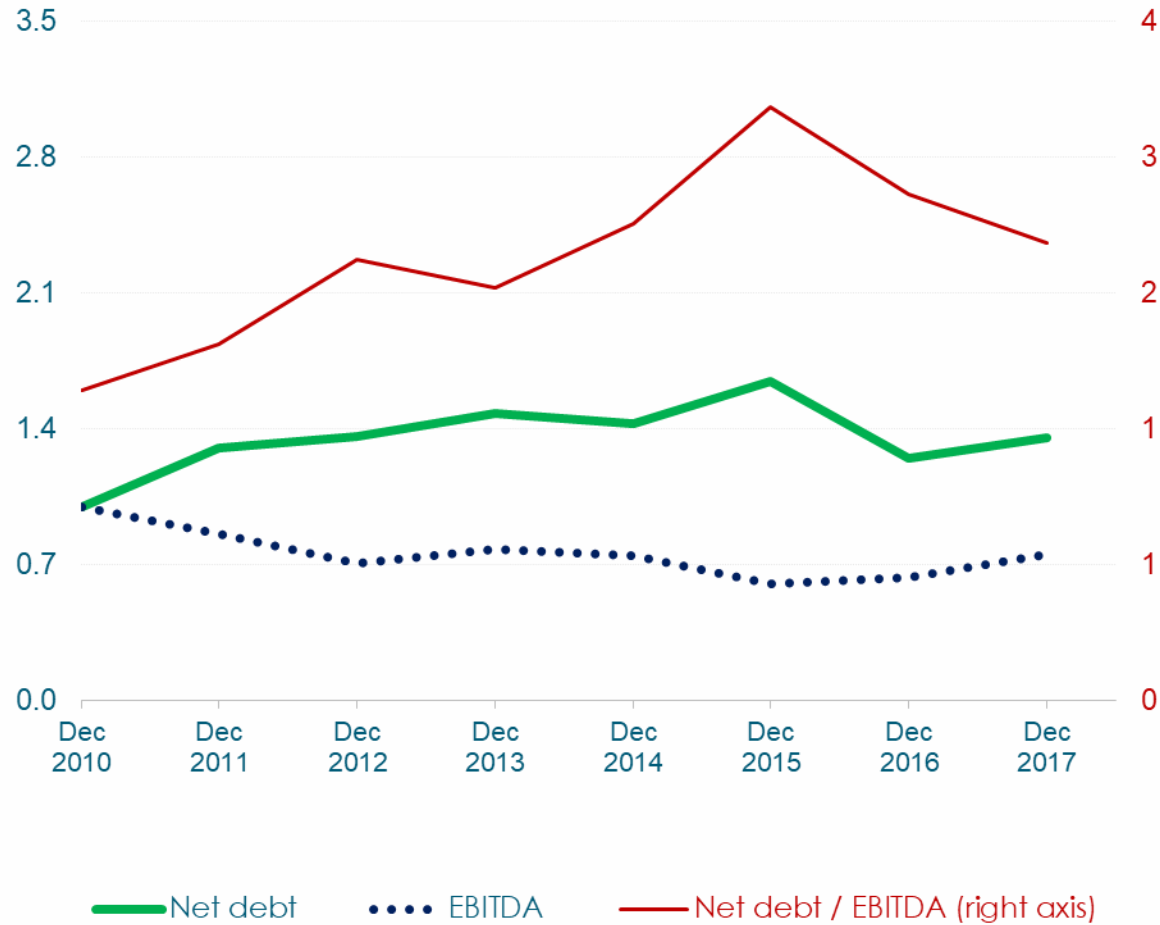
## Capital Goods Production



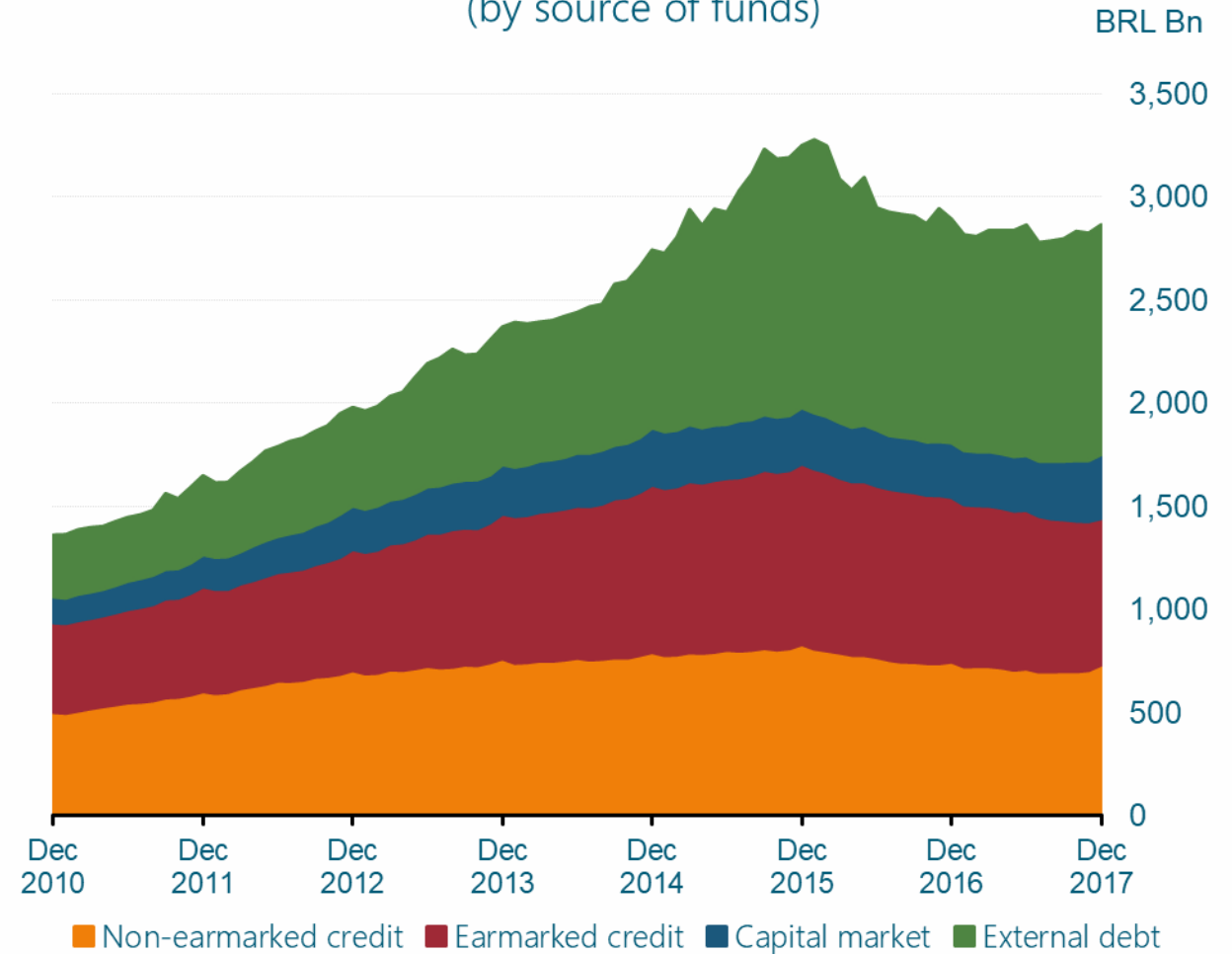
Source: IBGE

# Corporate financing

Publicly traded companies: Net debt / EBITDA (median)  
 Numerator and denominator (deflated): Dec/2005 = 1

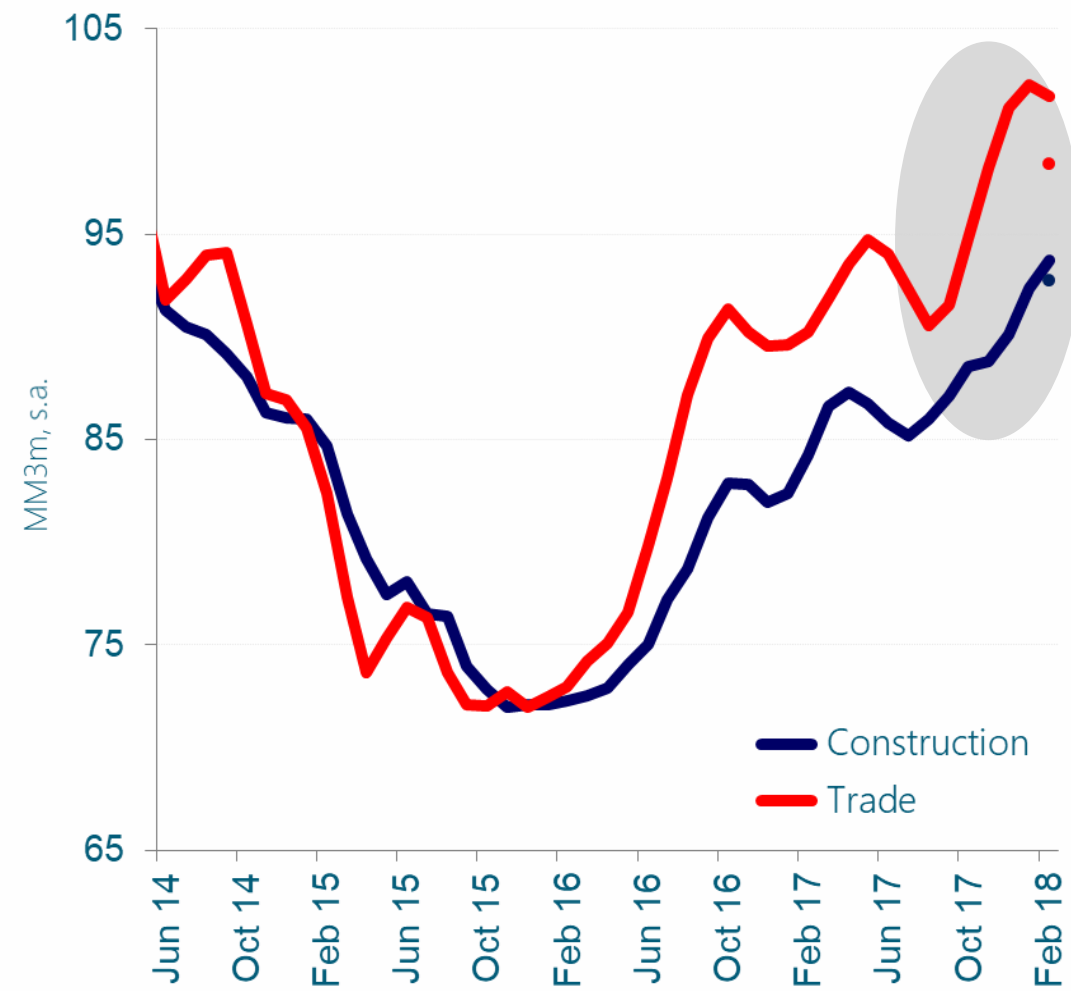
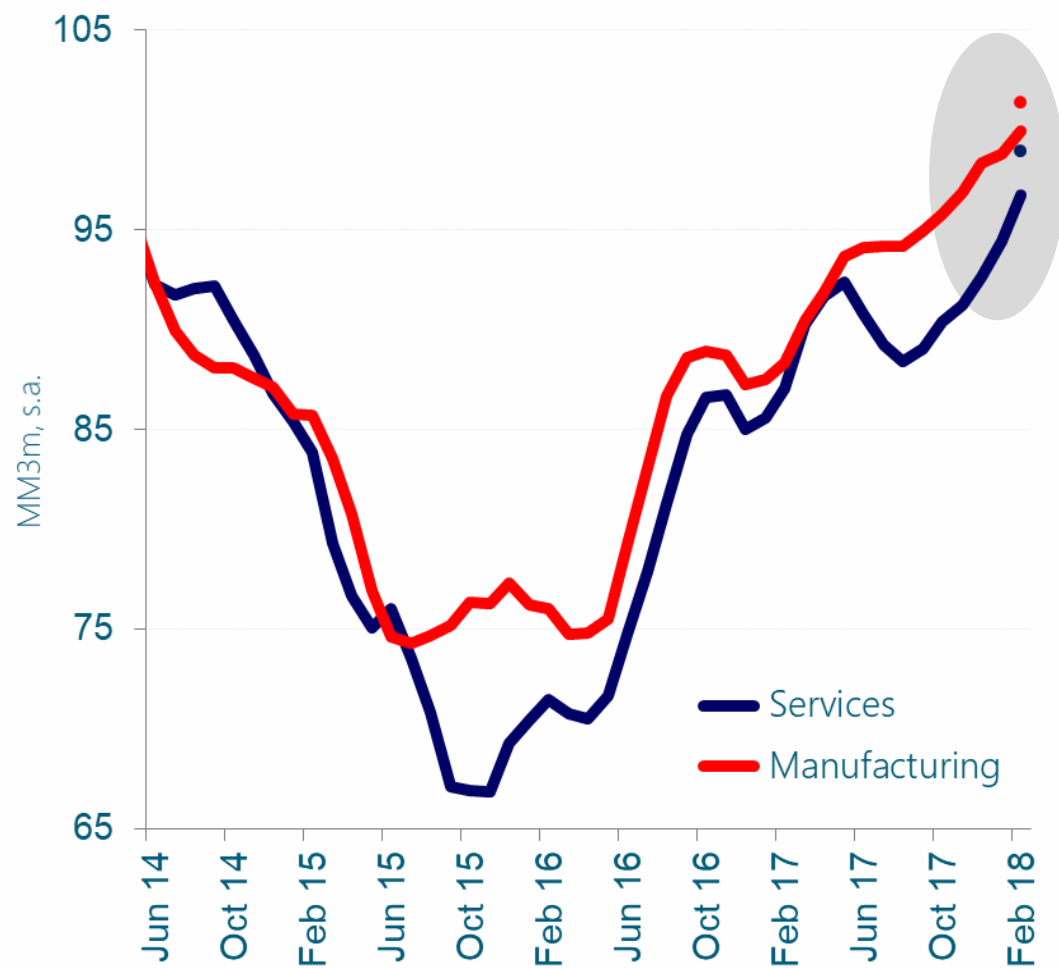


Legal entities credit portfolio  
 (by source of funds)



Source: BCB

# Economic agents confidence – entrepreneurs expectations

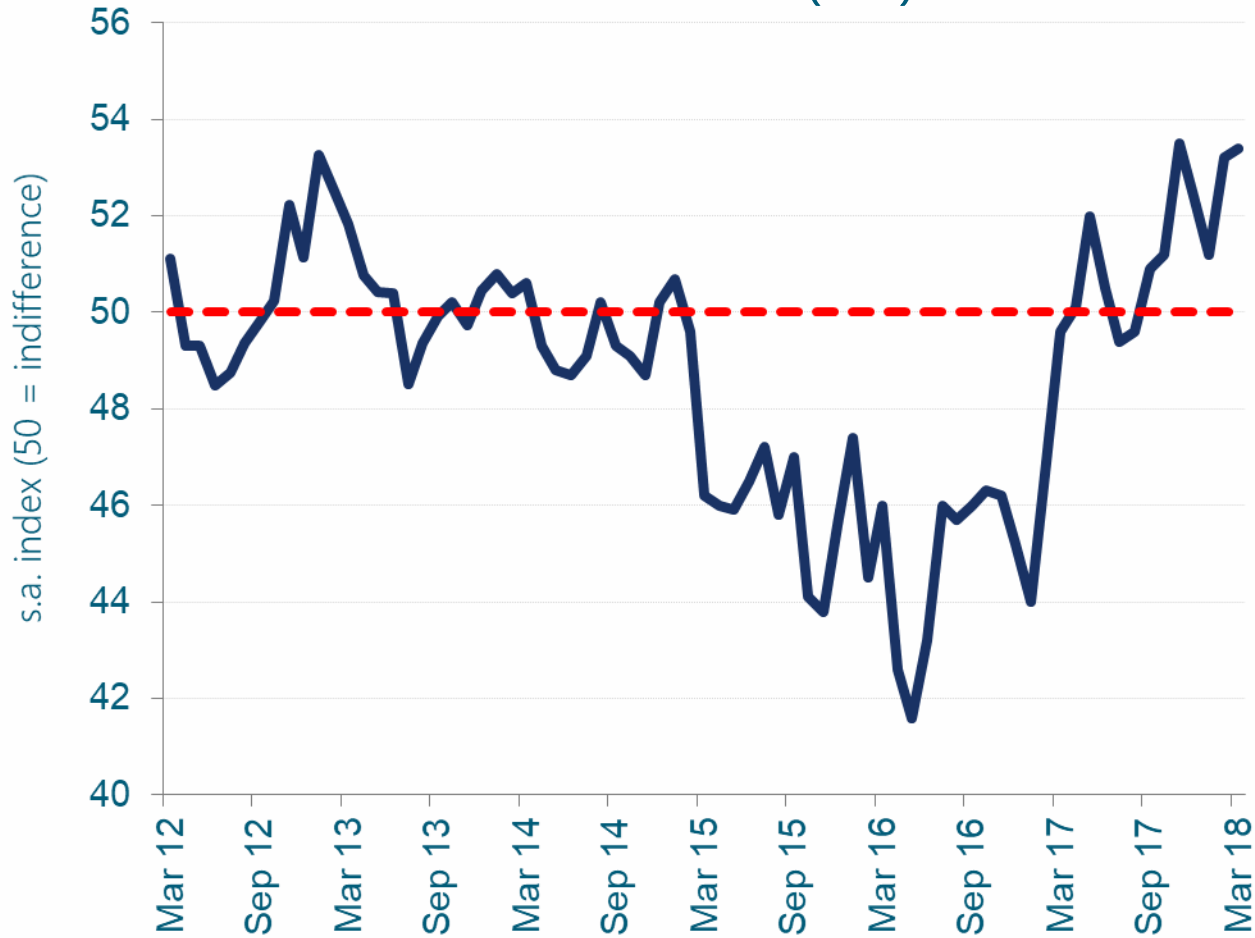


Obs.: Positive response ratio – negative response ratio + 100

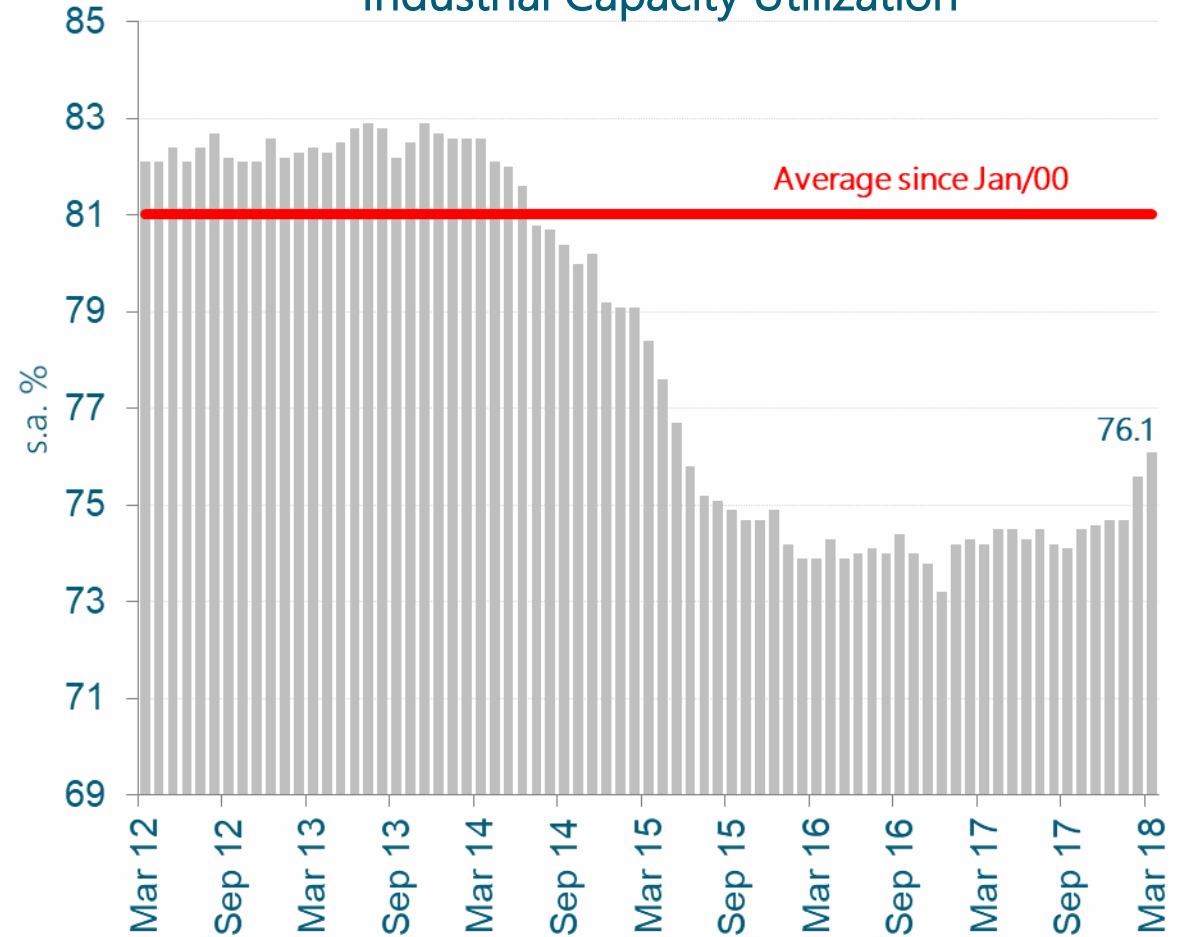
Source: FGV

# Industrial Capacity

## Industrial Production (PMI)



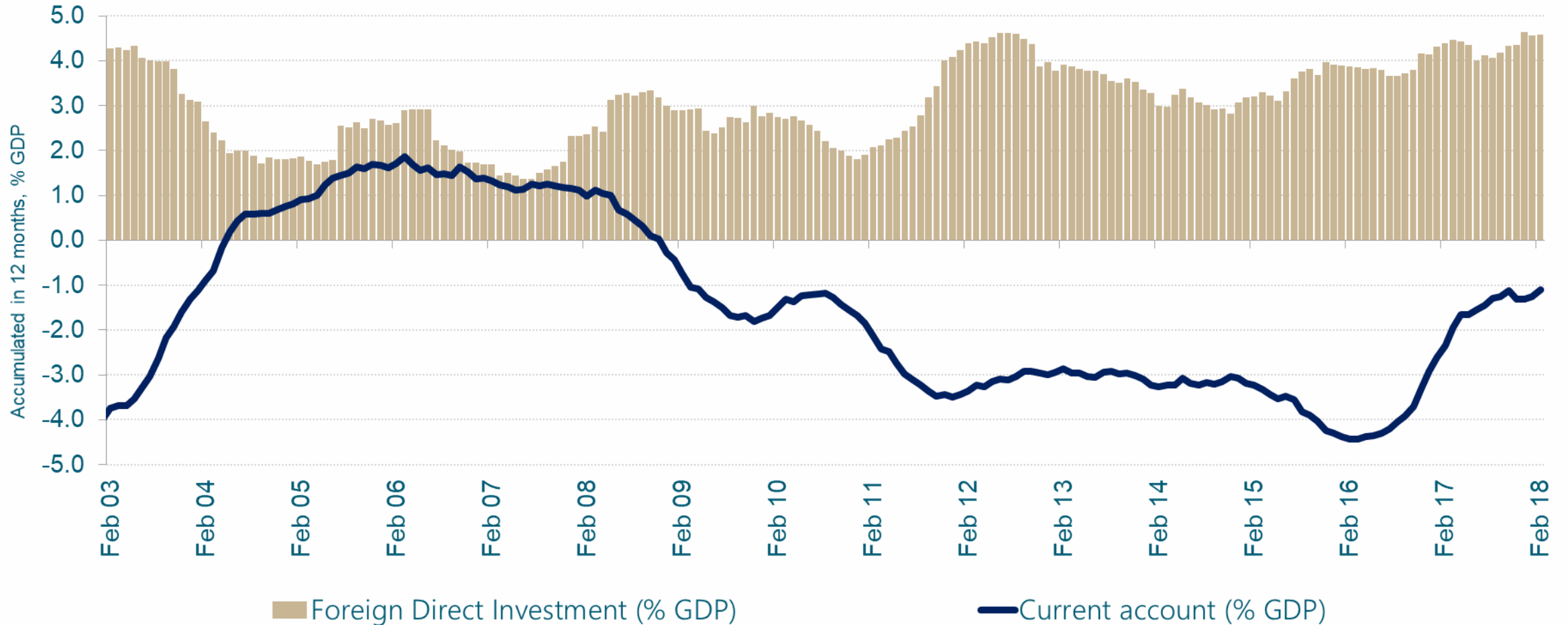
## Industrial Capacity Utilization



Source: FGV

# Robust External Accounts

## Current account and Foreign Direct Investment

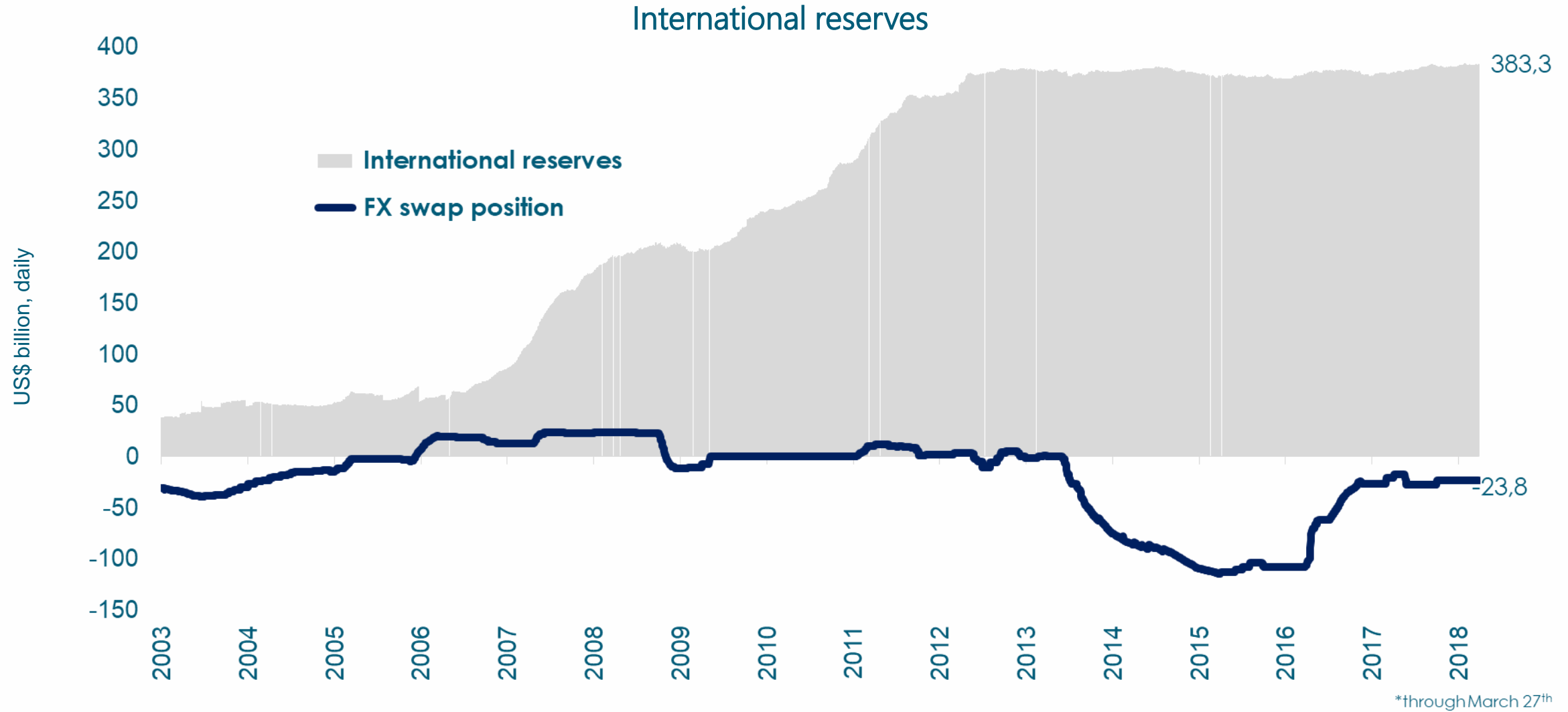


From 1995 on, methodology according to BPM6

\* BCB forecast

Source: BCB / MDIC

# Robust External Accounts

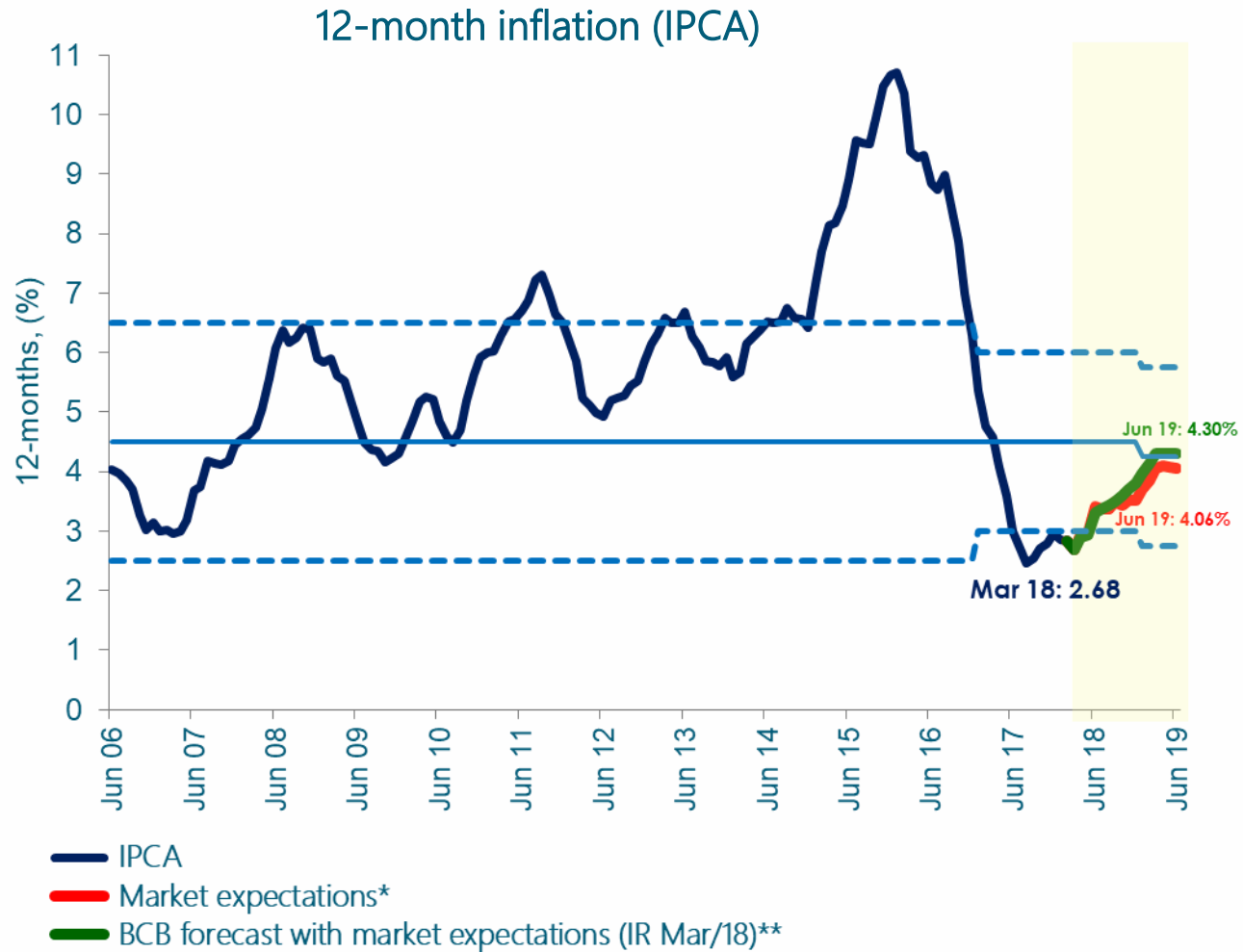


Source: BCB / MDIC

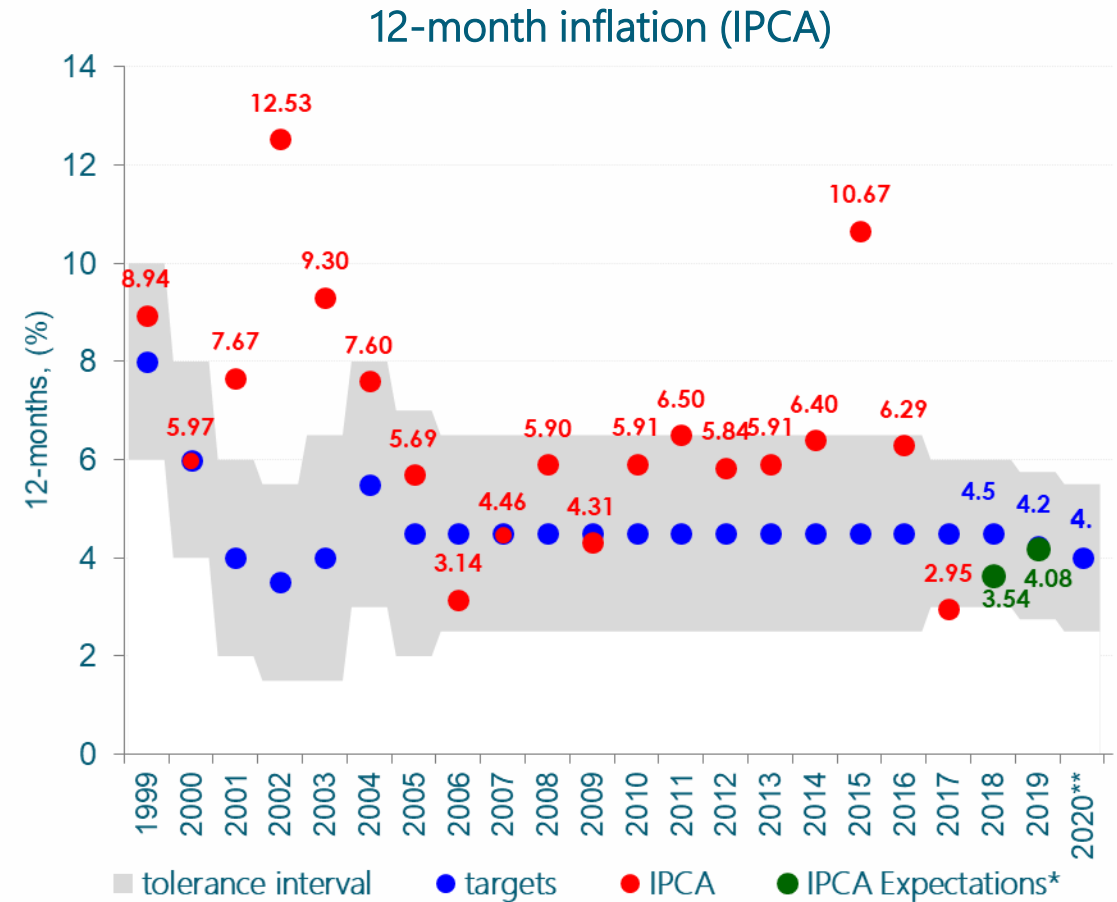
# 3. Monetary Policy



# Consumer Price Inflation converging to the targets



\*as of March 29th, up to Jun 19; \*\*up to Jun 19

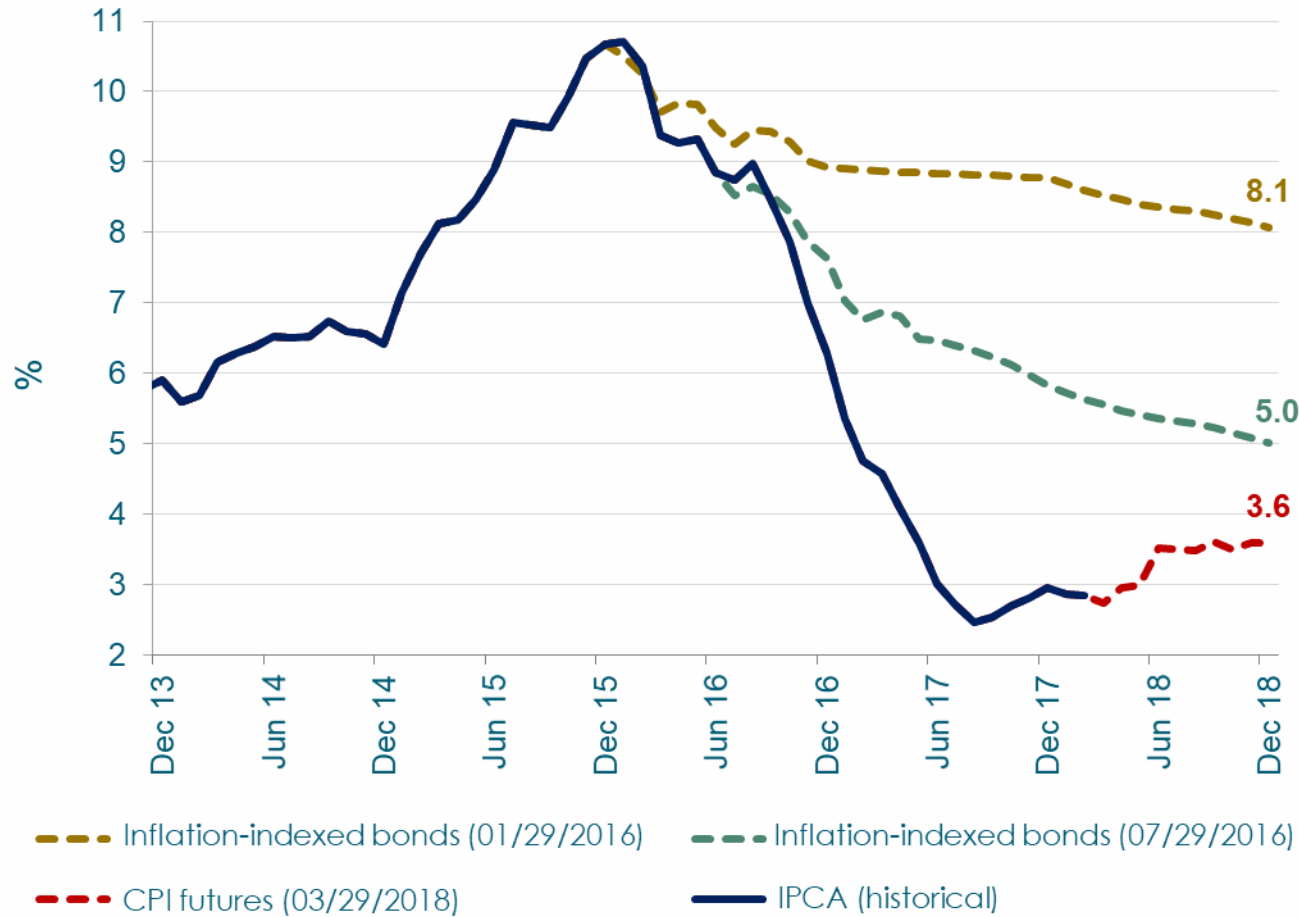


\*medians of Market expectations<sup>1)</sup>; \*\* IPCA expectation = target

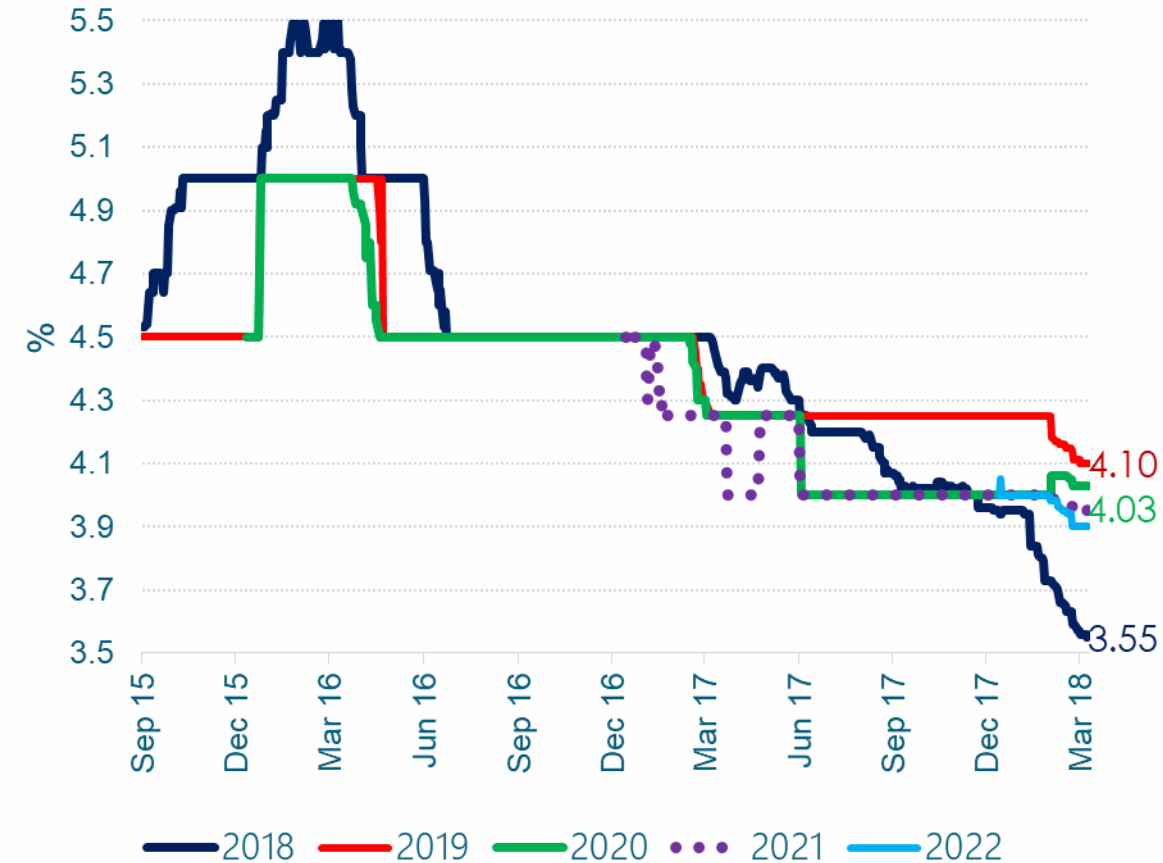
Source: BCB, IBGE

# Anchored market expectations

IPCA: historical and expectations



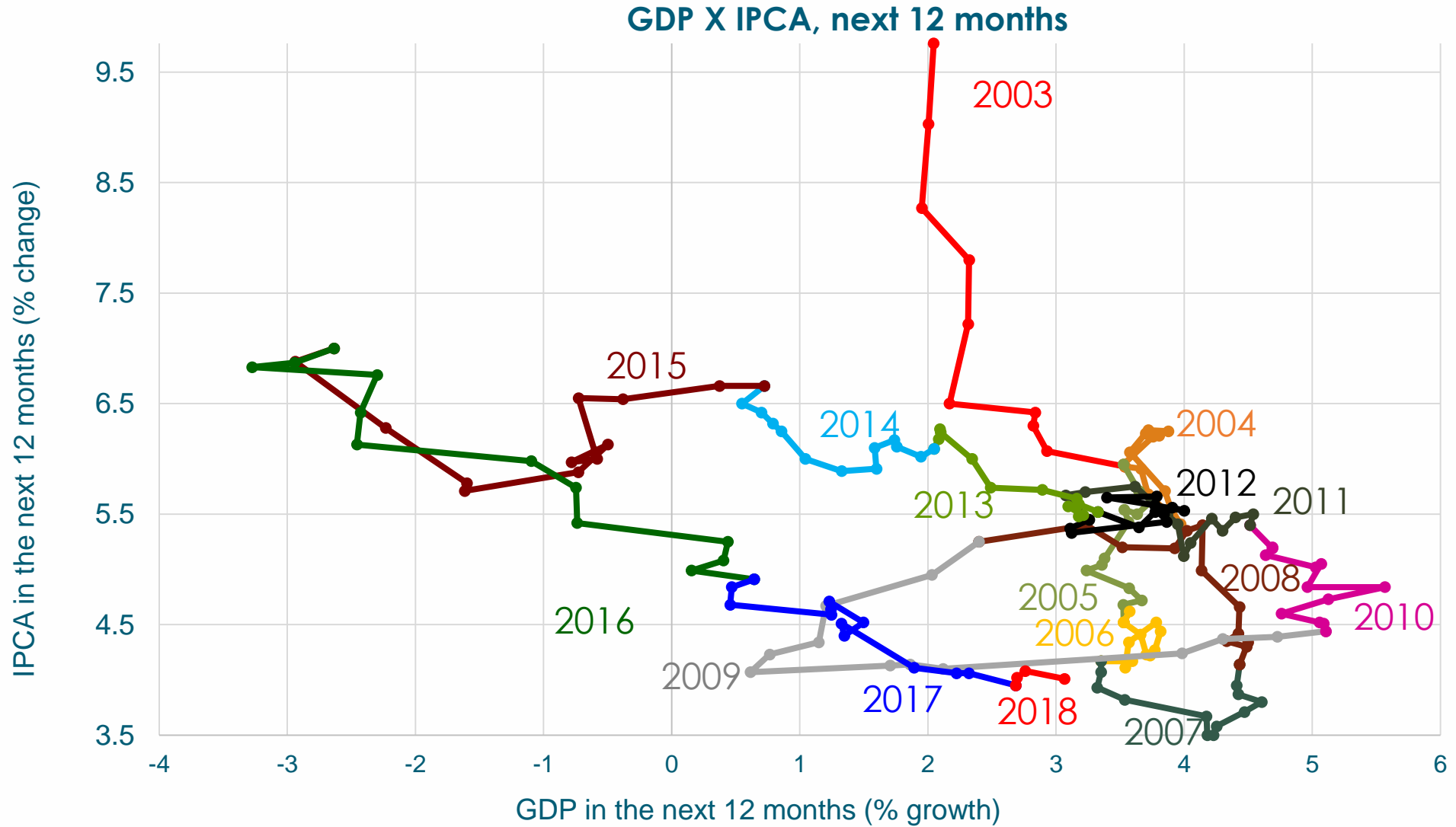
Market expectations evolution for IPCA 2018-2022



\*Up to Apr 6th

Sources: BCB / IBGE

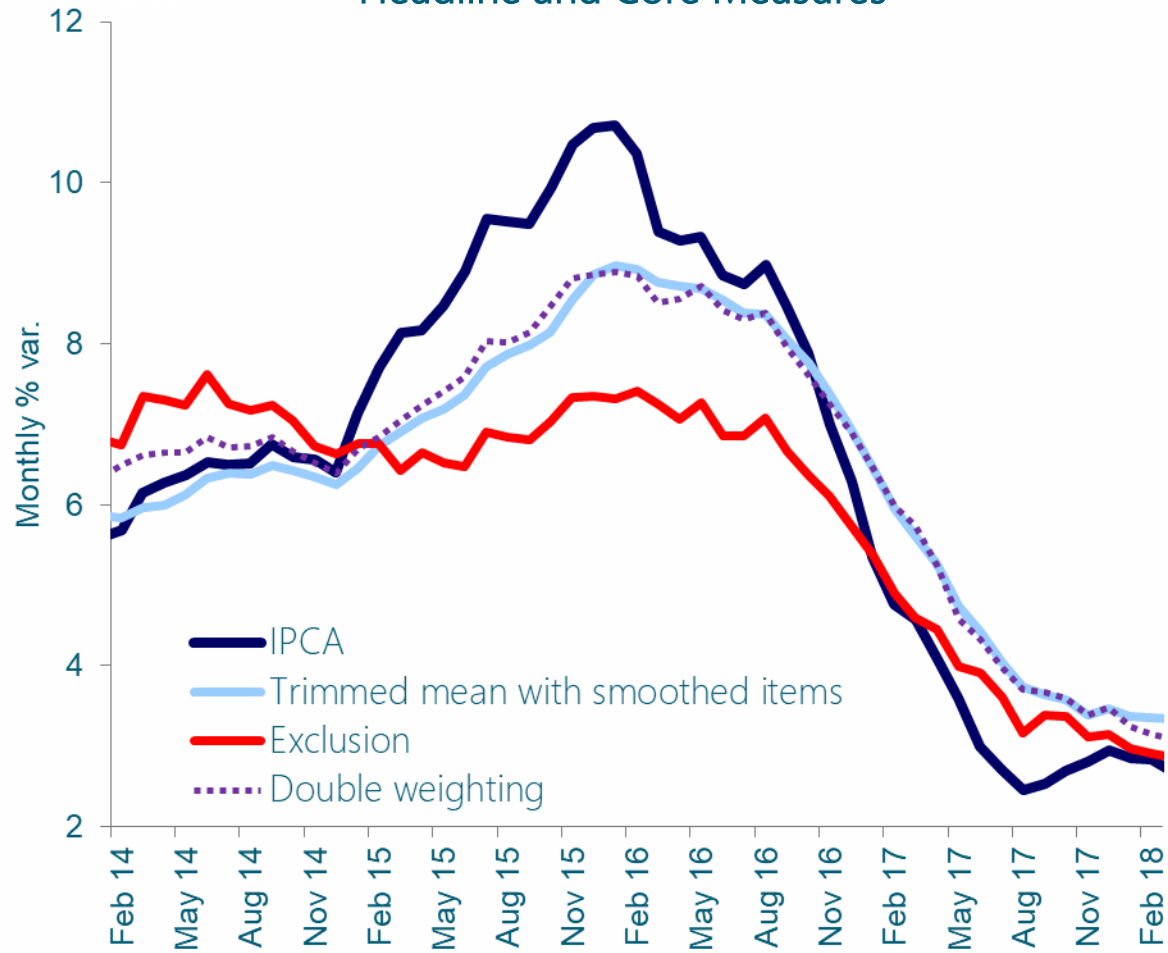
# Market Expectations



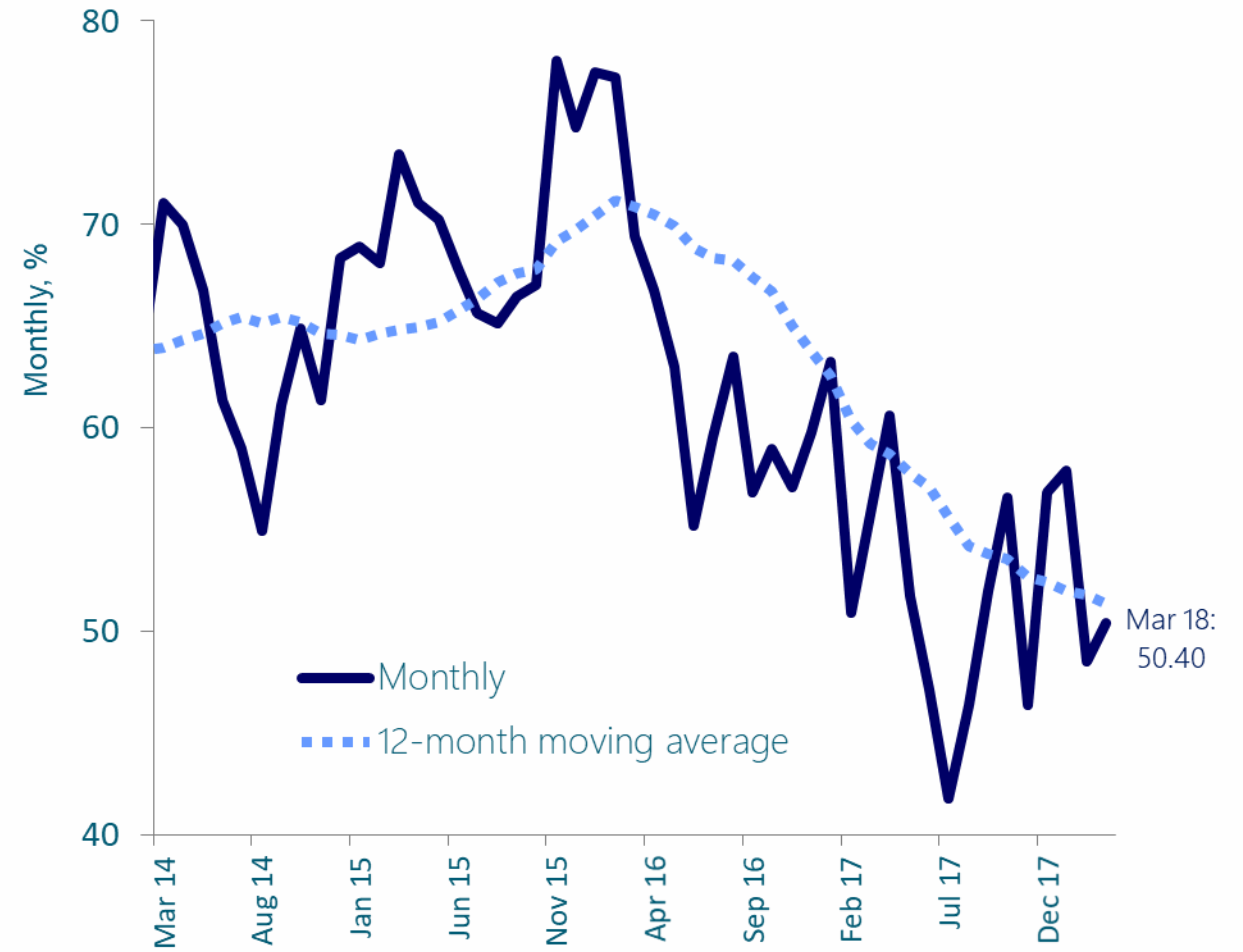
Sources: BCB and IBGE.

# IPCA – Headline, Cores and Diffusion Index

## Headline and Core Measures



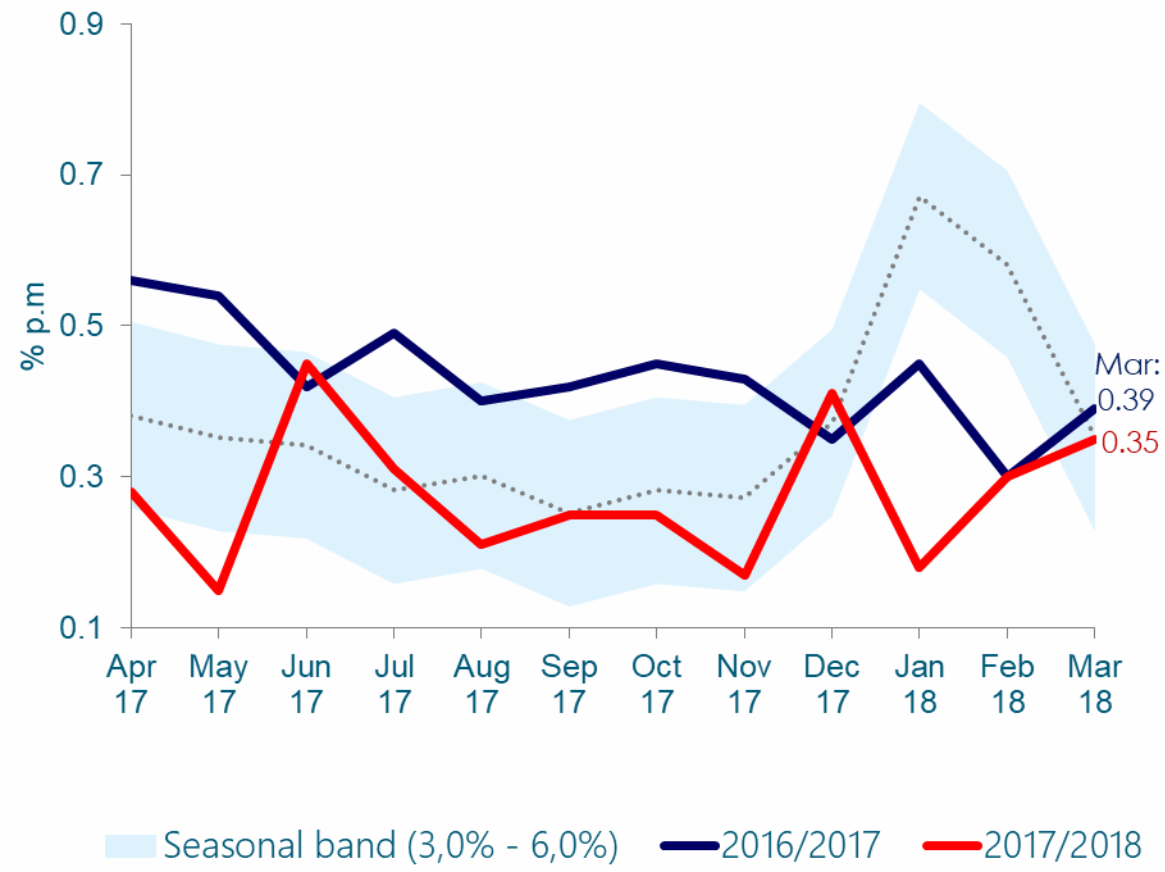
## Broad IPCA - Diffusion Index



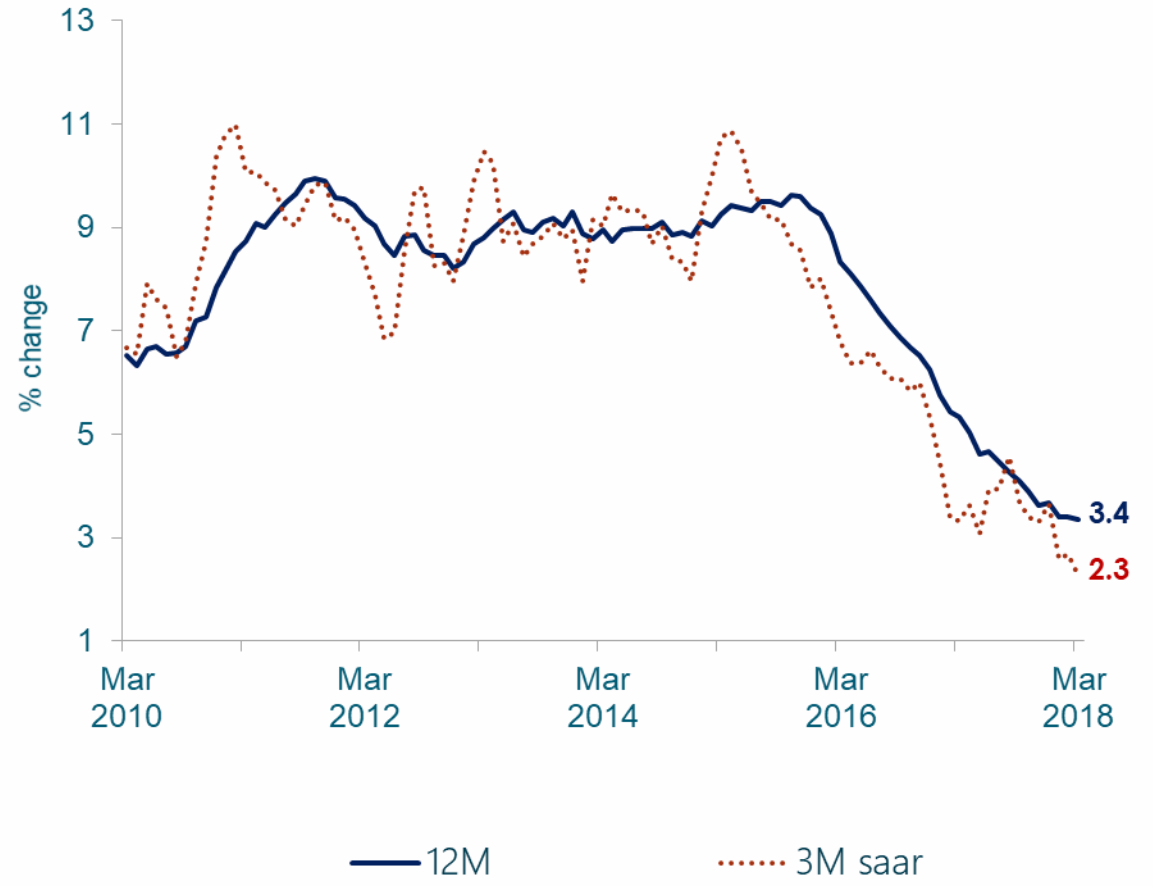
Source: IBGE

# Underlying inflation measures

## Underlying service inflation



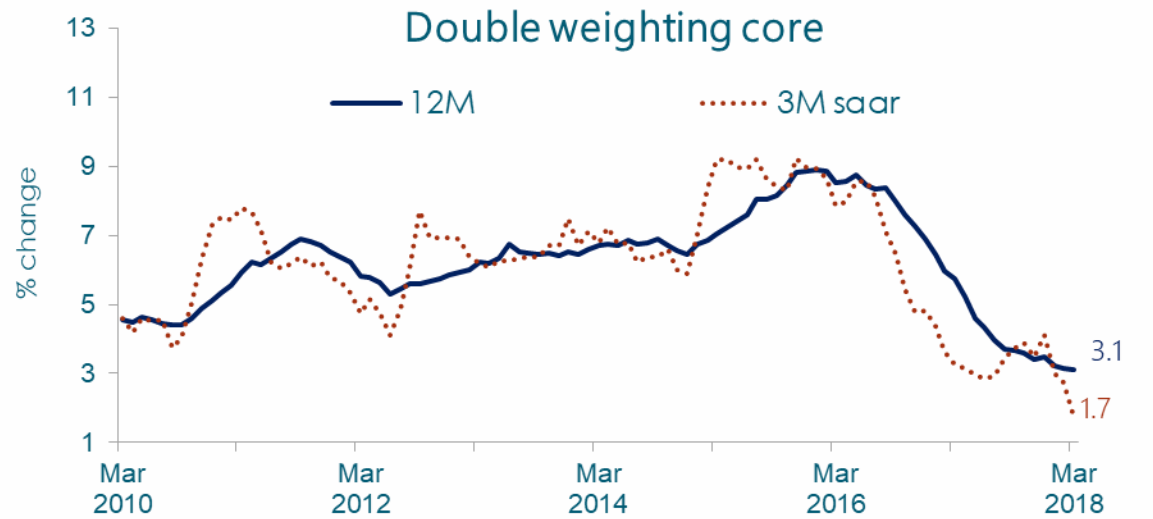
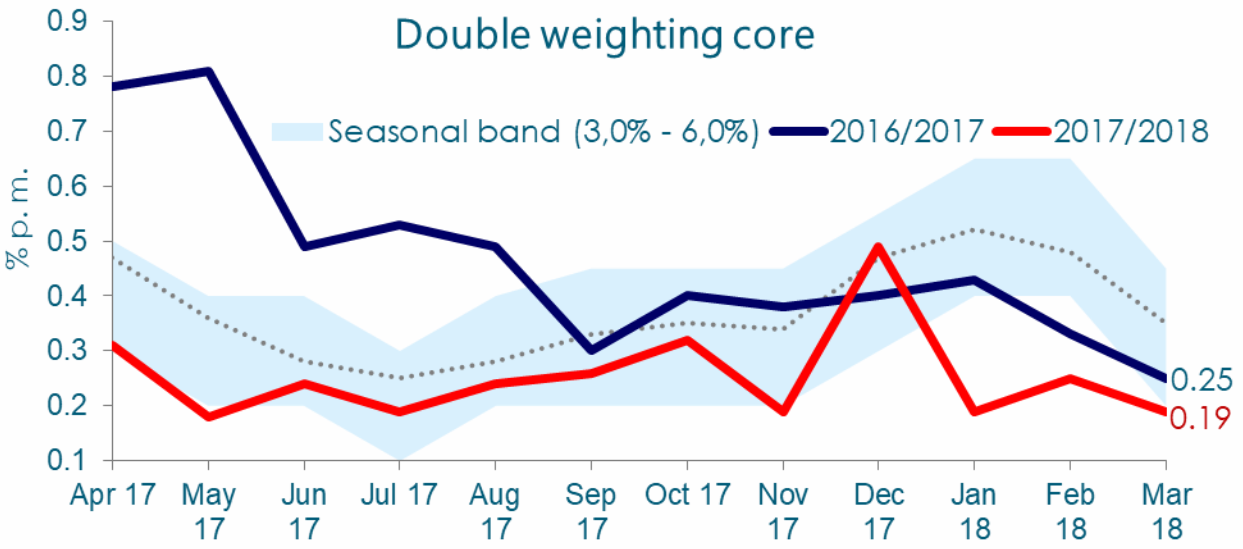
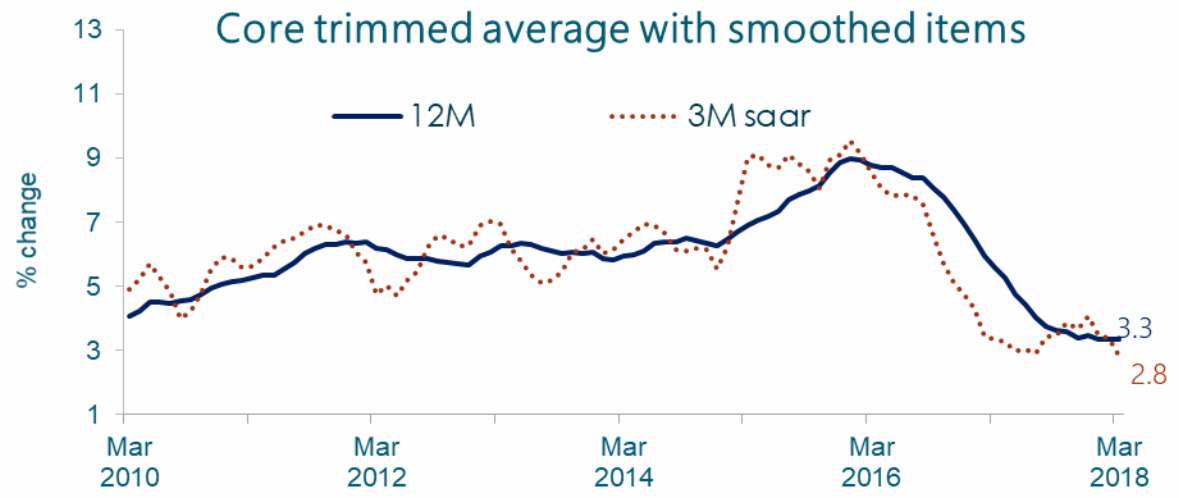
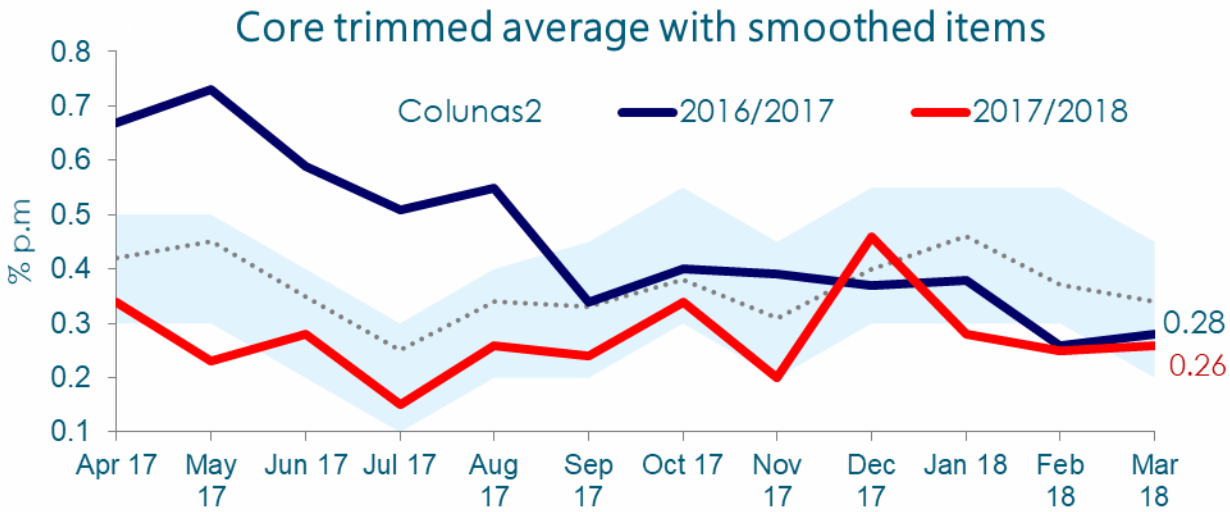
## Underlying service inflation



Seasonal band: seasonal pattern compatible with inflation target

Sources: IBGE and BCB

# Underlying inflation measures

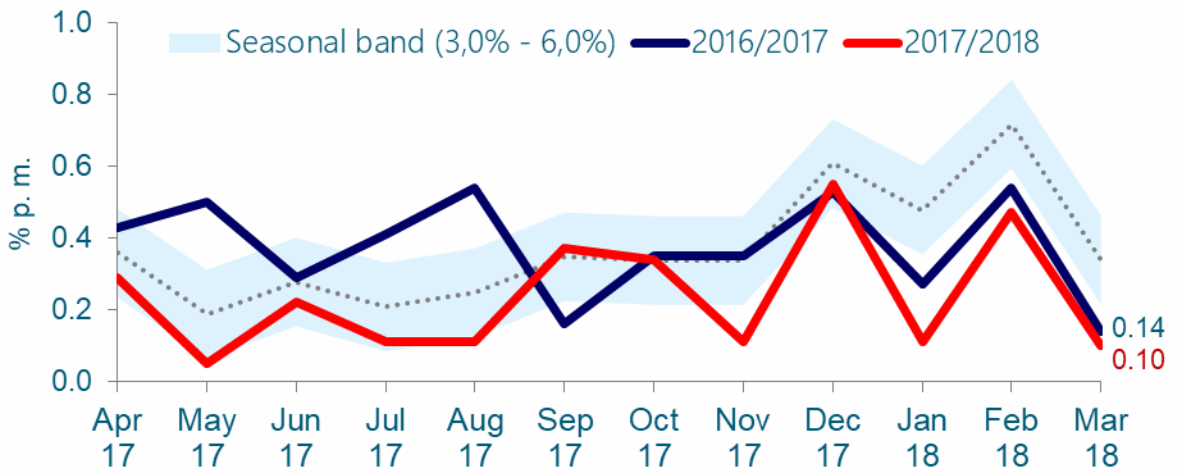


Seasonal band: seasonal pattern compatible with inflation target

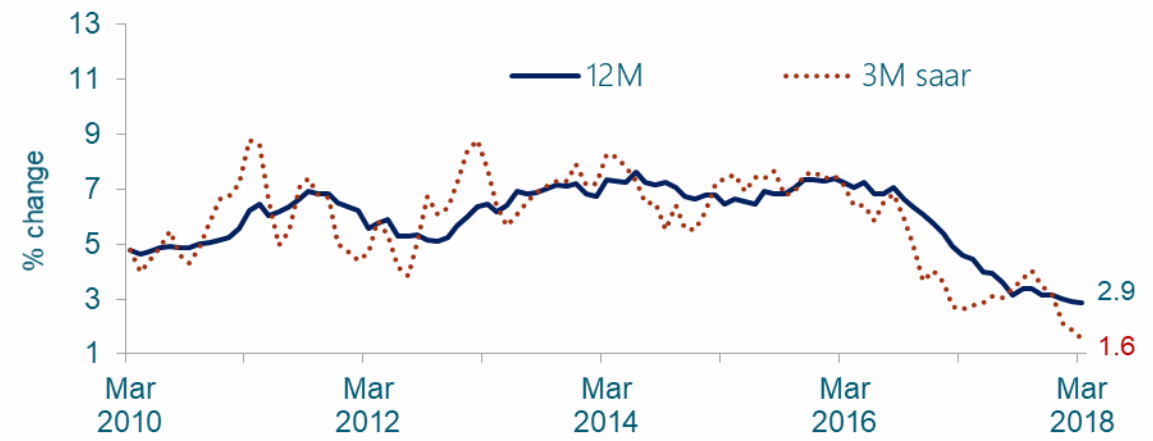
Sources: IBGE and BCB

# Underlying inflation measures

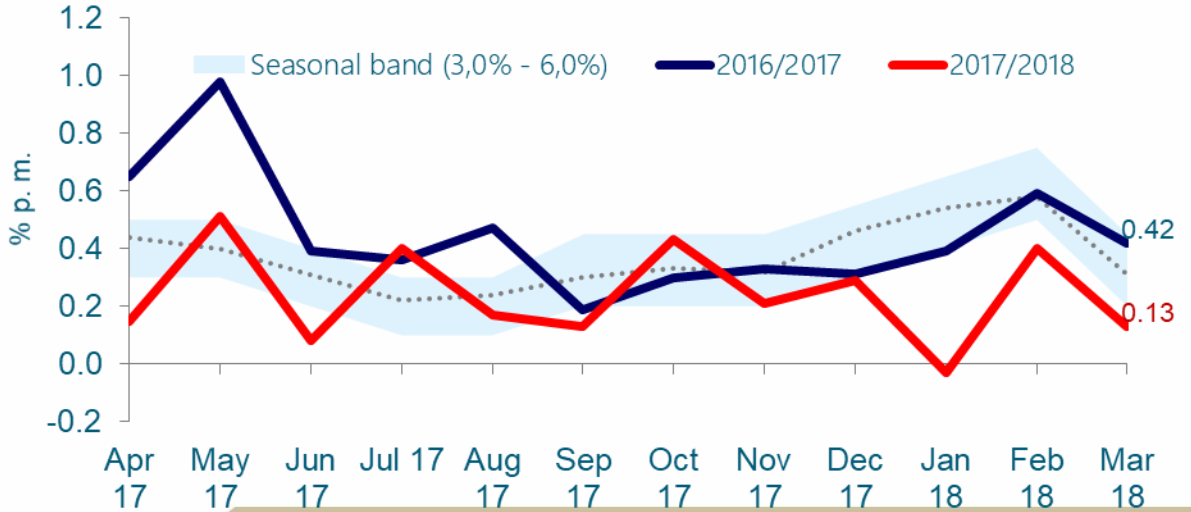
### EX0 Core



### EX0 Core



### EX1 Core



### EX1 Core

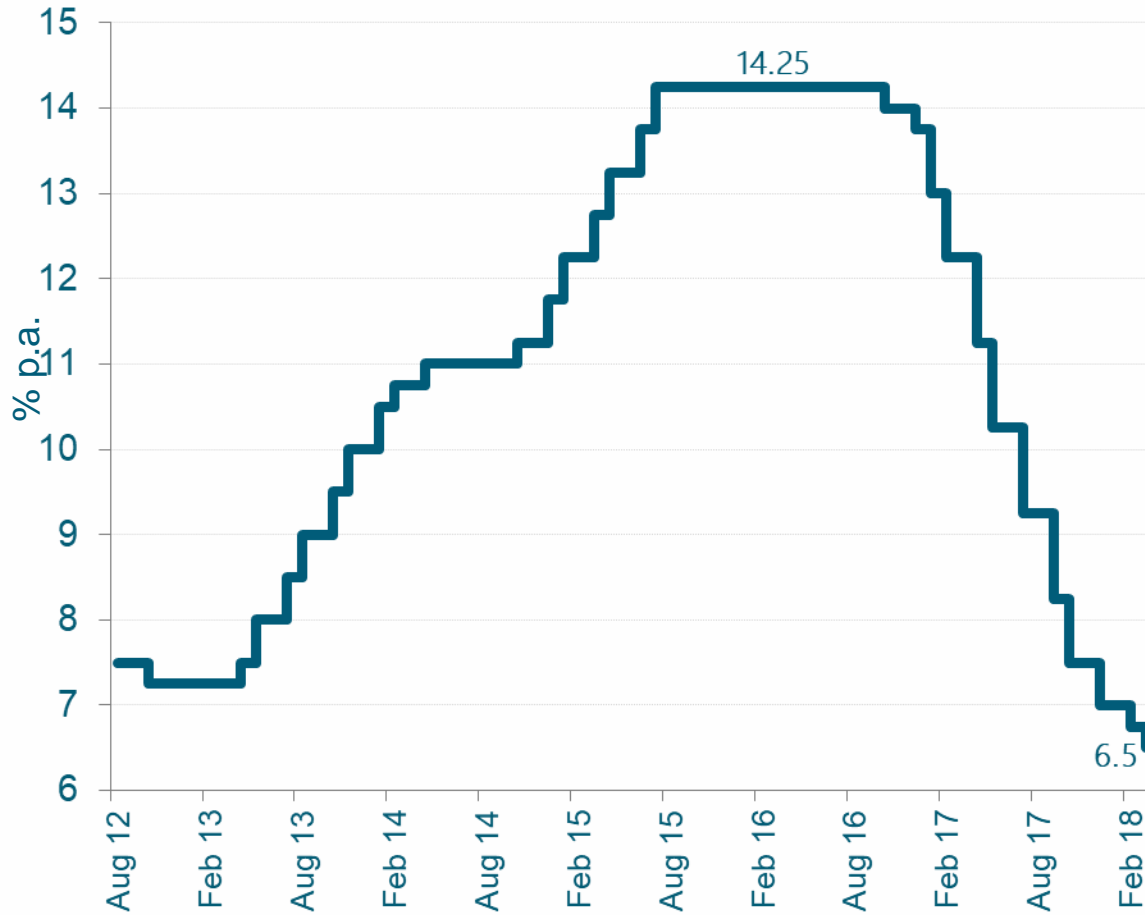


Seasonal band: seasonal pattern compatible with inflation target

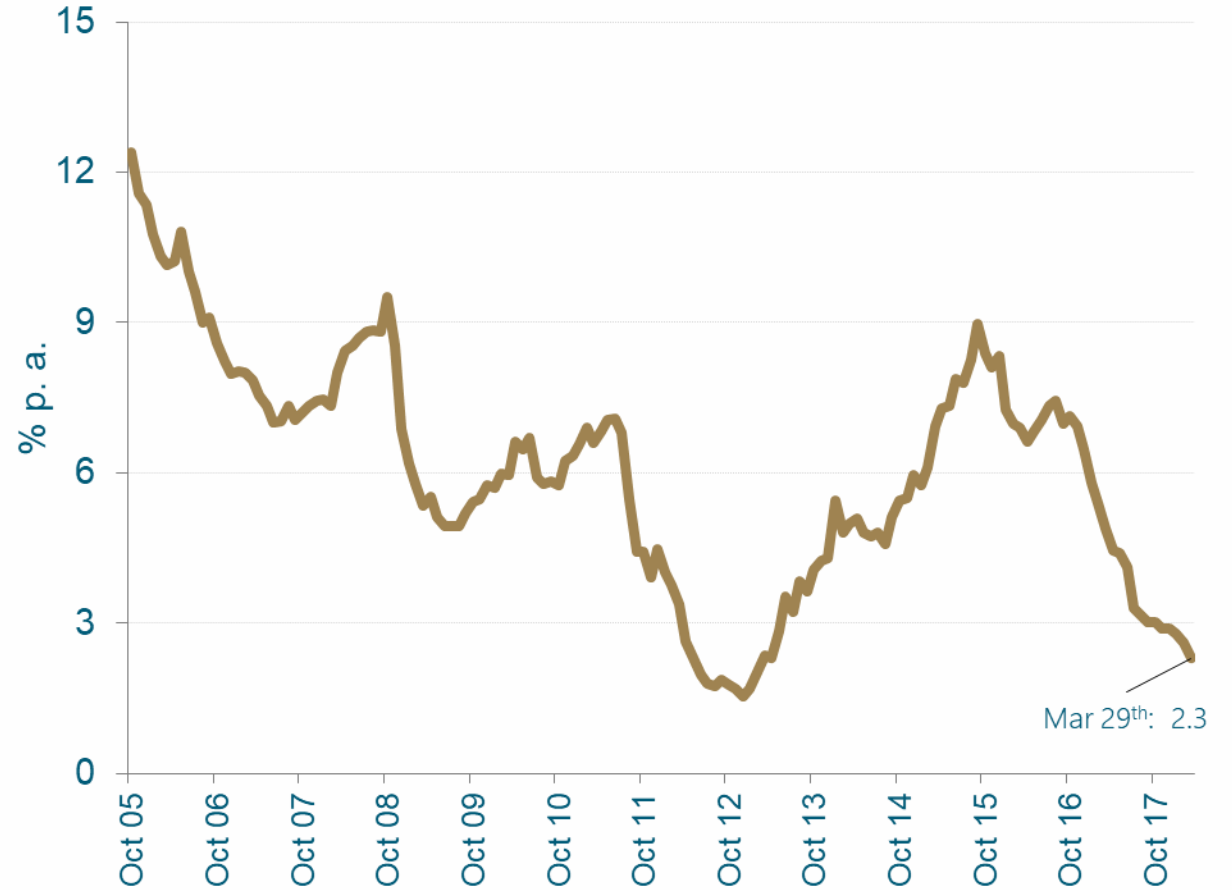
Sources: IBGE and BCB

# Interest Rate Decline

## Monetary Policy Interest rate (Selic Rate)



## Real ex ante interest rate\*



\* 12-month pre-fixed interest rate (from the swap DI market) minus 12-months expected inflation (Focus survey)

Source: BCB, Bloomberg

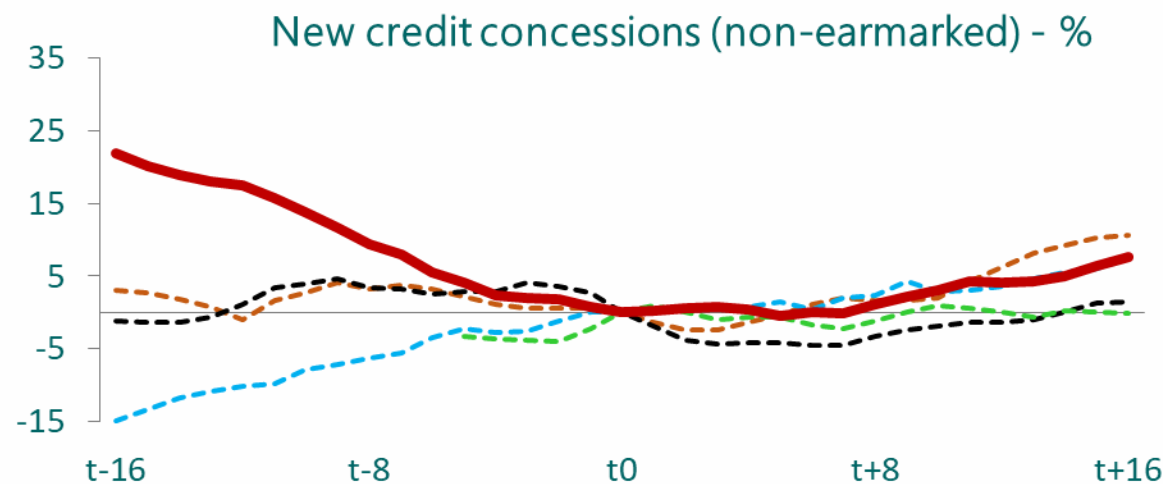
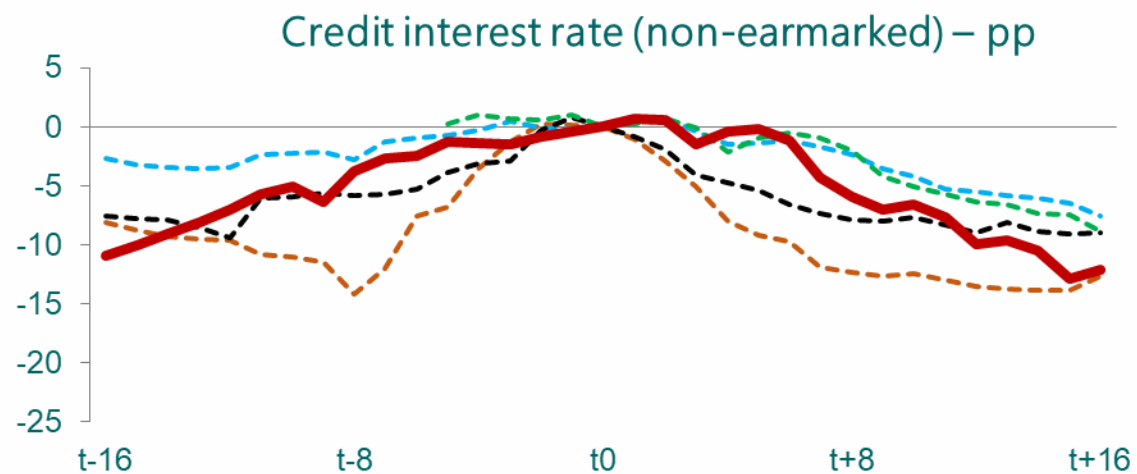
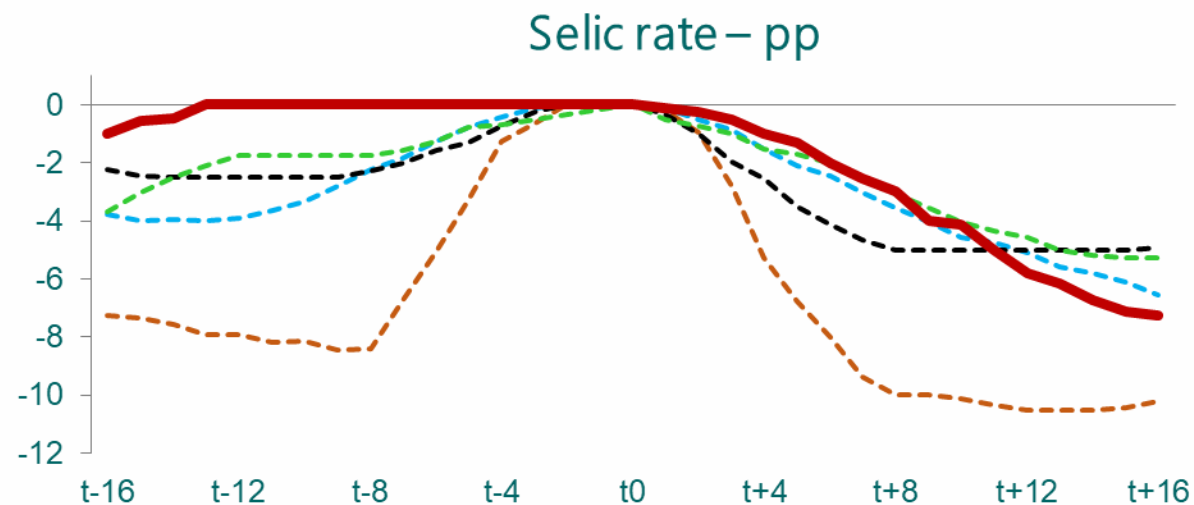


# Is this cycle different?

Variations from the start of the cycle (t0)

	t-16	t0 <sup>1</sup>	t+16
1° cycle	Jan/02	Mai/03	Sep/04
2° cycle	Apr/04	Aug/05	Dec/06
3° cycle	Aug/07	Dec/08	Apr/10
4° cycle	Apr/10	Aug/11	Dec/12
5° cycle (current)	May/15	Sep/16	Jan/18

1/ For each cycle, t<sub>0</sub> refers to month immediately preceding the first fall of the Selic rate.



# Monetary Policy

- Basic interest rate reduction by 0.25 percentage point, to at 6.5% p.y.
- Baseline scenario involved risks in both directions:
  - On the one hand, (i) the possible propagation, through inertial mechanisms of low inflation levels, may lead to a lower-than-expected prospective inflation trajectory.
  - On the other hand, (ii) frustration of expectations regarding the continuation of reforms and necessary adjustments in the Brazilian economy may affect risk premia and increase the path for inflation over the relevant horizon for the conduct of monetary policy; (iii) this risk intensifies in the case of a reversal of the current benign global outlook for emerging economies.

# Monetary Policy

- Monetary Policy Committee's perspective at this time (baseline scenario):
  - For the next meeting: The Committee views an additional moderate monetary easing as appropriate and judges that this additional stimulus mitigates the risk of delayed convergence of inflation toward the targets.
  - Beyond the next meeting: The Committee deems appropriate to interrupt the monetary easing process, with the aim of evaluating next steps, in light of the relevant horizon for monetary policy at that time.
- The Committee emphasizes that the next steps in the conduct of monetary policy will continue to depend on:
  - The evolution of economic activity
  - The balance of risks
  - Possible reassessments of the extension of the cycle
  - Inflation projections and expectations

# Monetary Policy

- The Monetary Policy Committee understands that monetary policy has to balance two dimensions:
  - Reacting to ensure that inflation converges to target at a proper pace
  - Guaranteeing that the achievement of a low inflation environment endures, even in the event of adverse shocks
- The Committee reaffirms that monetary policy has the flexibility to react to risks in both directions

## 4. Agenda BC+

# Agenda BC+: lower neutral rate and higher MoP Effectiveness

- The main goal is to pursue a more efficient financial system, with more free market credit, contributing to increase the power of monetary policy

- Based on four Pillars:

I. Increase financial citizenship

II. Increase financial system efficiency



III. Improve legal framework

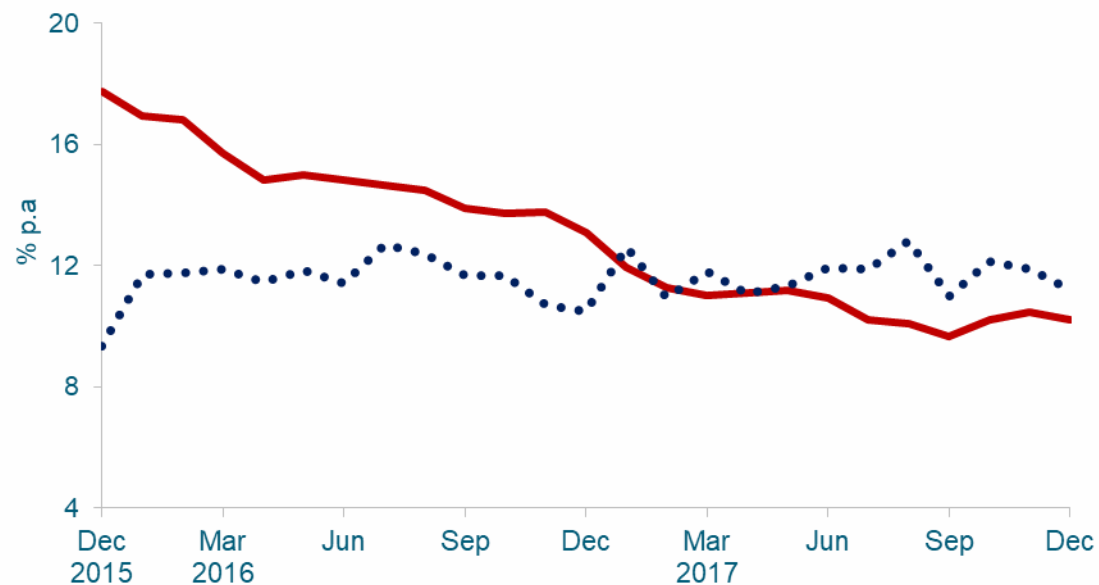
IV. Reduce cost of credit

# Tackling old problems

1. New funding rate for BNDES operations (TLP)
2. Deal with depositors on economic plans of the 1980s and 1990s
3. New legislation on enforcement tools
4. Centralized settlement of payment schemes
5. Improvement of collateral and guarantees electronic registration
6. Credit card – new rules for revolving credit lines, and legalization of price differentiation among payment methods
7. Check – settlement period of one business day (T+1)

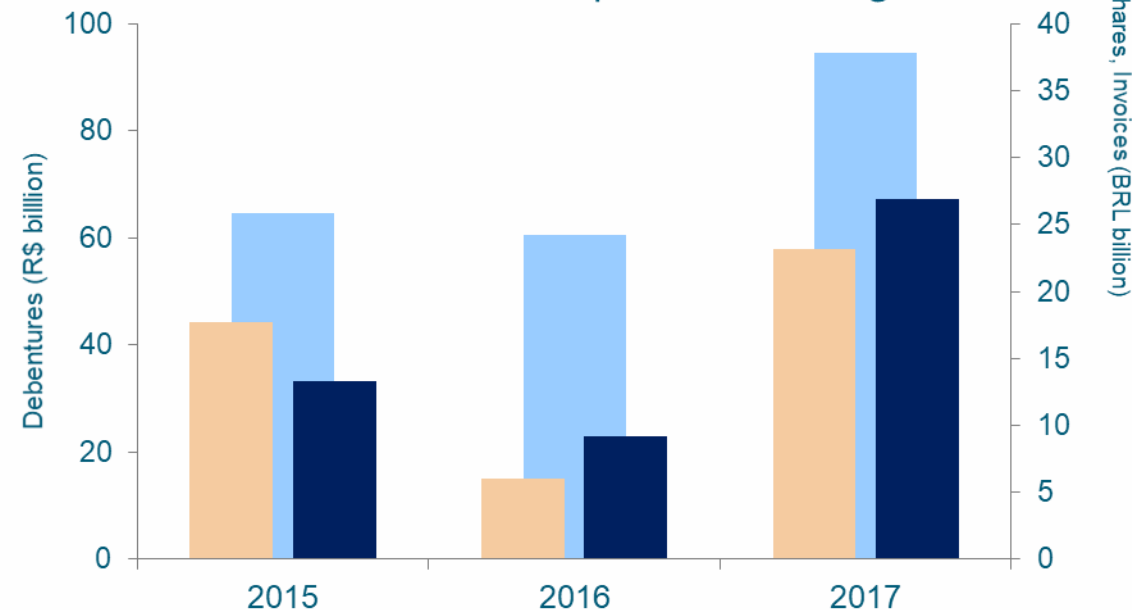
# TLP reform and its first impacts on capital markets

## Cost of financing



— Corporate bonds (aggregate)    ..... Credit with BNDES funding

## Sources of corporate financing



■ Debentures    ■ Shares (RHS)    ■ Negotiable invoices (right)

Source: BCB



# Constitutional Funds

- Brazil's Constitutional Funds seek to contribute to the economic and social development of the Northeast, North and Center-West regions.
- Progress in expanding the interest rate reform beyond TLP, with rates based on market prices of government securities
  - Less discretionary in its definition, generating more transparency and predictability;
  - Predictability of fiscal costs and increase in the transmission power of monetary policy;
  - Contribution to the sustained fall in the structural interest rate of the economy;
  - Ensuring that the funds promote the relative development of the regions benefiting from the use of the CDR, in addition to ensuring lower rates than other more widely administered rates such as the TLP.
- Provisional Measure 812, of December 2017, modernizes the calculation of the non-rural financial charges of the Constitutional Funds, based on the TLP.
- Next step: rural credit.

# Some initiatives in progress

1. Central Bank autonomy
2. Fostering competition among financial institutions
3. Relationship between the Central Bank and the Administrative Council for Economic Defense
4. Improvement of the positive credit bureau (Cadastro Positivo)
5. Bank interest rate spread (overdraft, reserve requirements, etc.)
6. Reduce the use of cash (incentive of debit card and technology in payment systems)
7. Voluntary deposits as an auxiliary monetary instrument
8. Relationship between the Central Bank and the National Treasury

# Thank you!

Tiago Berriel

Deputy Governor for International Affairs and Corporate Risk Management