



**BANCO CENTRAL DO BRASIL**

Washington, EUA, 18 de abril de 2018

Apontamentos do Presidente do Banco Central do Brasil, Ilan Goldfajn

IMF Seminar

**Flexible Inflation Targeting**

**Advancing the Frontiers of Monetary Policy Making**



***Question: Please, Mr. Goldfajn, talk about experience with inflation targeting. How does a natural resource intensive emerging economy affect its implementation, especially the role of the exchange rate? How would an outflow of capital, for example because of tightening U.S. monetary policy, be handled under your frameworks?***

***Answer:*** I regard Inflation targeting as a successful framework for the conduct of the monetary policy. In my experience, it has been useful not only during stable times but in turbulent periods as well.

When I took office as the governor of the BCB in June 2016, the challenge was to bring inflation down to target, within an uncertain macroeconomic environment and a strong recession. We succeeded. We managed to change from a combination of recession with inflation above target and high interest rate to a state of low inflation, economic recovery and historic low interest rates. It was crucial to be firm and perseverant in the conduct of monetary policy. We gave high priority to anchoring inflation expectations before entering an easing cycle of the policy instrument.

It is important to mention that the change in the economic policy orientation, aiming at controlling fiscal imbalances, was a pre-condition for these results, also supported by a floating exchange rate regime and a robust volume of foreign reserves, of about 20% of GDP.

In addition, an improvement in the communication strategy was crucial. It worked as an efficient tool to guide the markets. We have improved communication of monetary policy decisions with the following measures:

- The language has become clearer and more direct. The role of “key words” has been downplayed;
- The balance of risks to inflation has gained a more prominent role, and additional scenarios have been presented;
- The informational content of the monetary policy committee statement has increased substantially;
- Inflation projections are now disclosed in both the minutes and the statements of the Copom meeting;
- The Governor participates of the press interview when the inflation Report is released.

Regarding the prospects of higher US interest rates, emerging market economies must work preemptively and take advantage of the positive international growth momentum and the favorable financial environment.

In Brazil, the government is working on an extensive agenda of adjustments and reforms. Because of the economic policy reorientation, the Brazilian economy is now less vulnerable to external shocks and the balance of payment position has improved.

- Floating exchange regime is our first line of defense against external shocks, what does not prevent the BCB from using the instruments at our disposal to avoid excessive volatility in the FX market.



- Building buffers and avoiding large currency mismatches is an important part of the effort.
  - Our stock of international reserves exceeds US\$380 billion, around 20% of the GDP, and works as insurance during periods of market turbulence.
  - The BCB reduced the stock of FX swaps from US\$108 billion to a current level of US\$24 billion.
- In February, the current account deficit decreased to 0.4% of GDP in twelve months from 3.3% at the end of 2015. At the same time, foreign direct investment reached 3.1% of GDP, almost eight times the deficit.
- With inflation under control and expectations anchored, the Brazilian economy is more resilient to reversals in the global outlook.

The financial system and the corporate sector in Brazil are currently very resilient to exchange rate fluctuations, and the external public debt is not a problem.

- Foreign sources of funding represent only a small part of banking system liabilities, and strict regulation prevents financial institutions from being excessively exposed to exchange rate risks.
- The corporate sector is already largely hedged against domestic currency depreciation.
- The Brazilian banking system has enough capital and liquidity buffers to withstand losses from a scenario of severe economic conditions.
- The level of total external indebtedness of nonfinancial sector has declined since 2015 and is currently around 17% of GDP.
- The debt maturity has steadily increased over the years.

Ultimately, resilience is a result of persistent improvement of economic fundamentals through robust macroeconomic policies that preserves sustainable growth. In this regard, the progress in the agenda of structural reforms is of utmost importance.