BANCO CENTRAL DO BRASIL

Apresentação do Diretor de Assuntos Internacionais e Gestão de Riscos Corporativos do Banco Central do Brasil, Tiago Couto Berriel, no evento *Americas Government Funds Roundtable*, organizado pelo *Sovereign Investor Institute (SII),* na cidade do Rio de Janeiro.

Brasília, 22 de setembro de 2016.

Brazilian Economic Outlook

Regaining Confidence

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SII Americas Government Funds Roundtable
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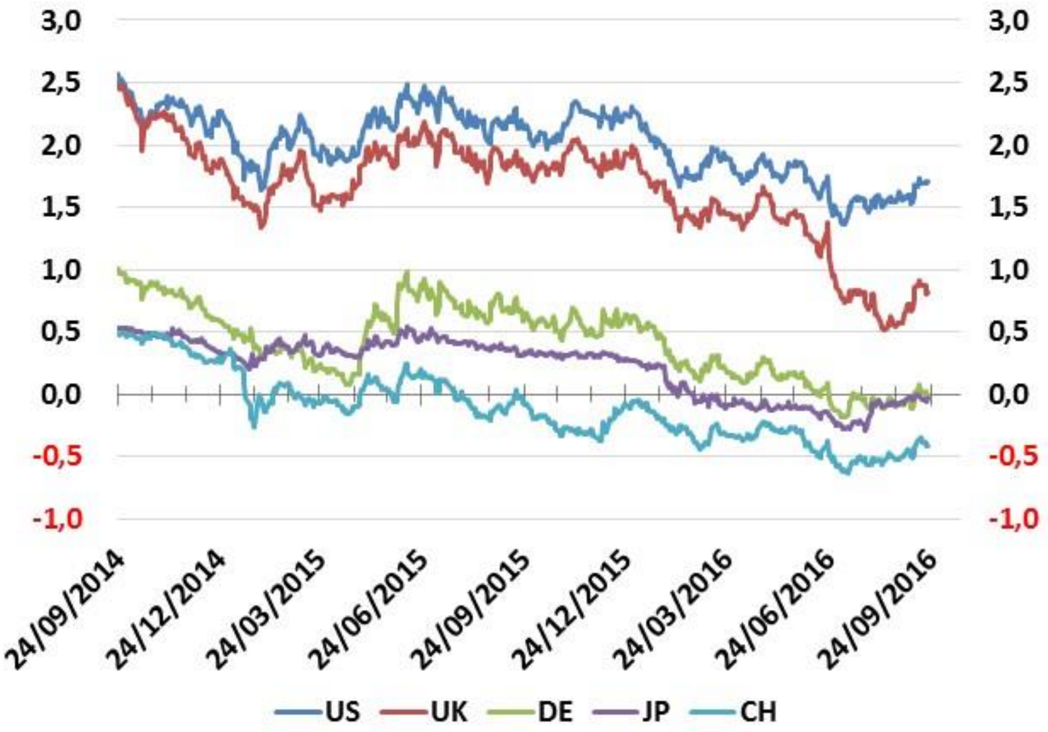
Overview

- Brazil in a Low Yields and High Liquidity World
- Brazilian Context: Regaining confidence in a virtuous transition
- Monetary Policy: Inflation Convergence and Risks
- Resilience Factors in the recovery

Brazil in a Low Yields and High Liquidity World

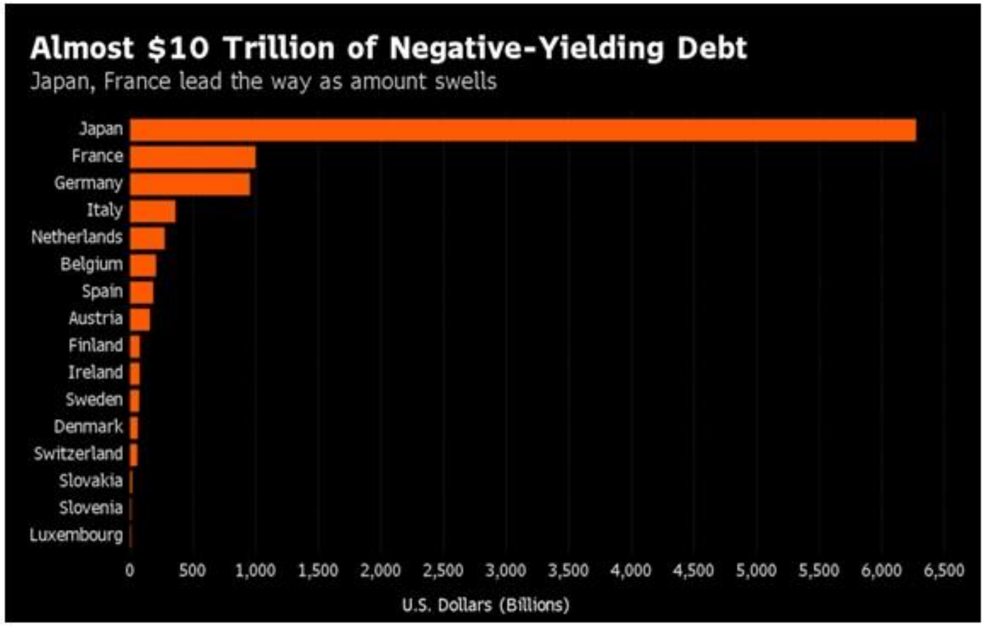
World Scenario: Low Yields and High Liquidity

10 Year Government Bond Yields (%)



Bonds Worldwide * – US$ BI

Negative x Positive



* Maturities from 2017 to 2056

Sources: Bloomberg; BCB.

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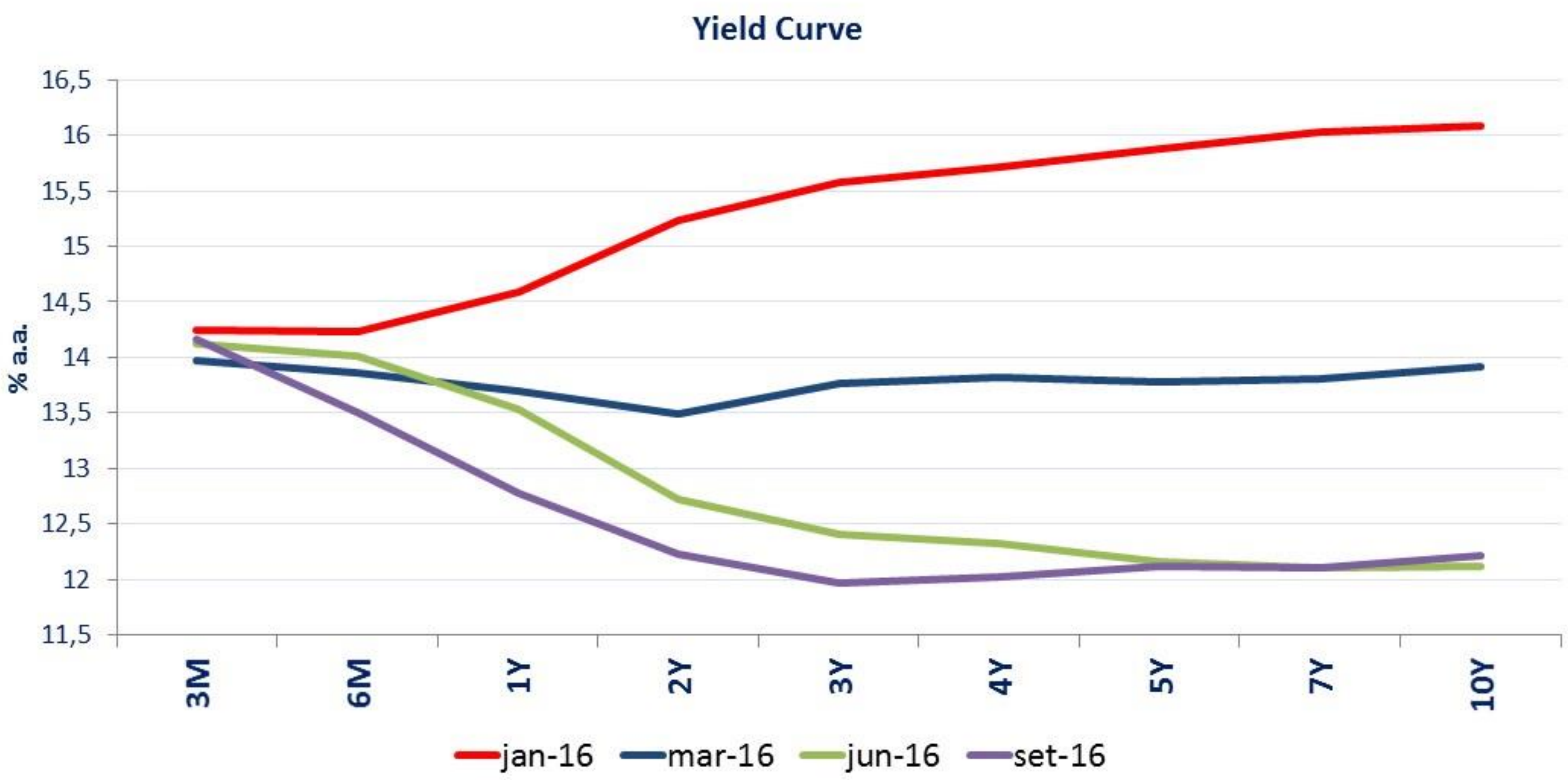
Brazilian Case: Nominal Interest Rates have been falling



Sources: BM&FBovespa; BCB.

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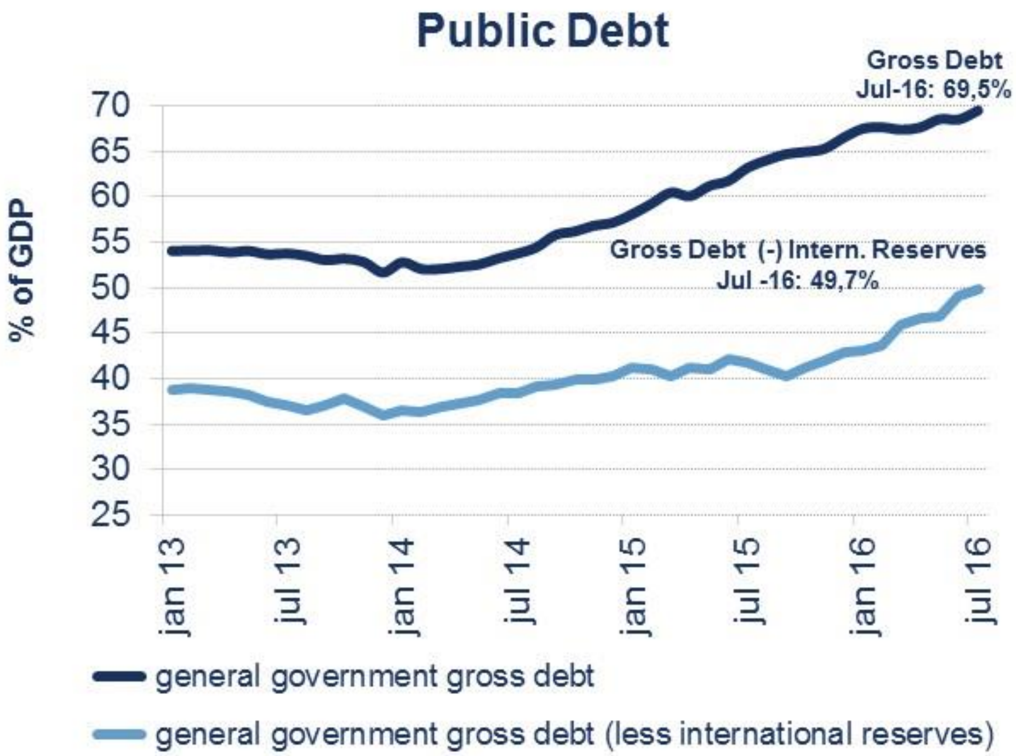
Starting Point

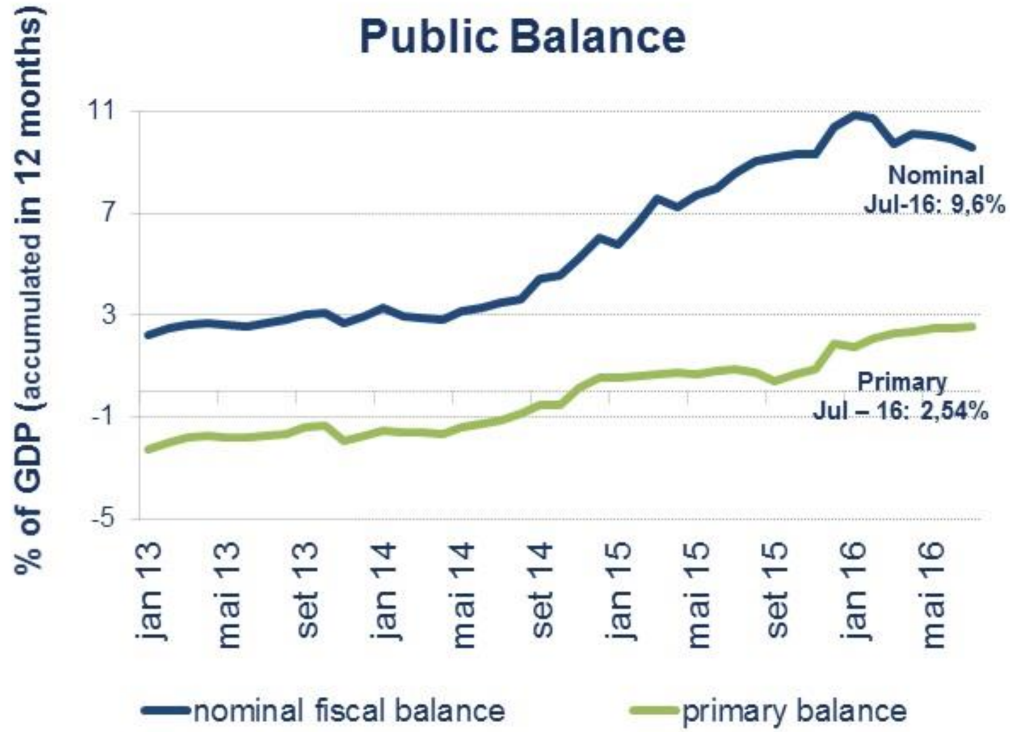
Starting Point

- Economic and political turmoil until the **first quarter of 2016.**

- Recent changes in the economic policy agenda and a recover in confidence are changing the outlook

1Q 2016 Scenario: Fiscal





Sources: BCB

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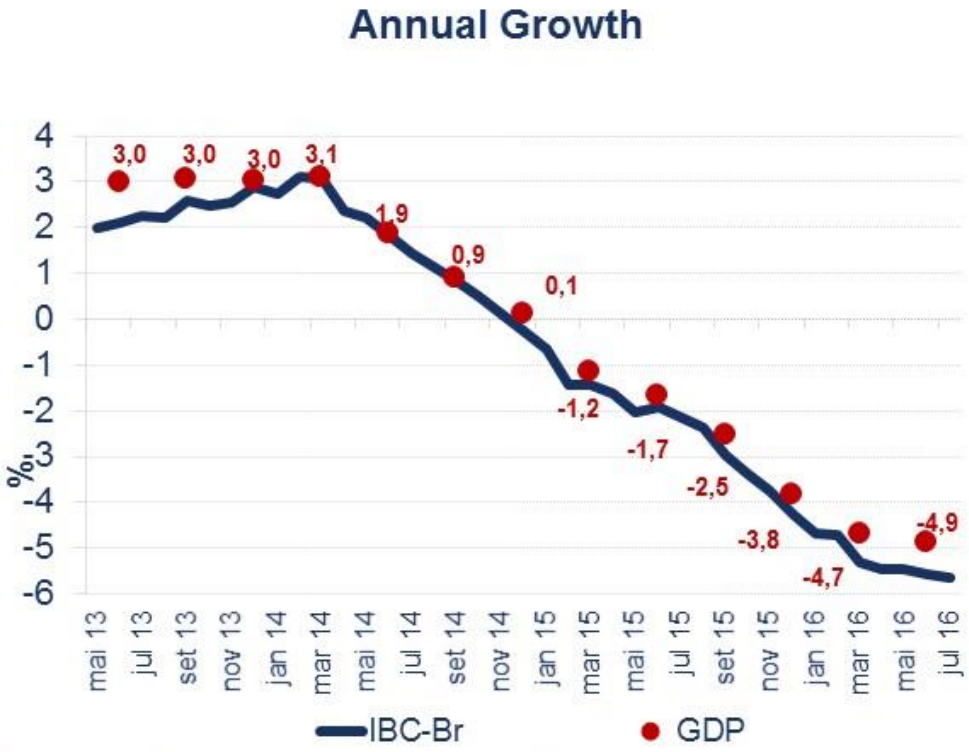
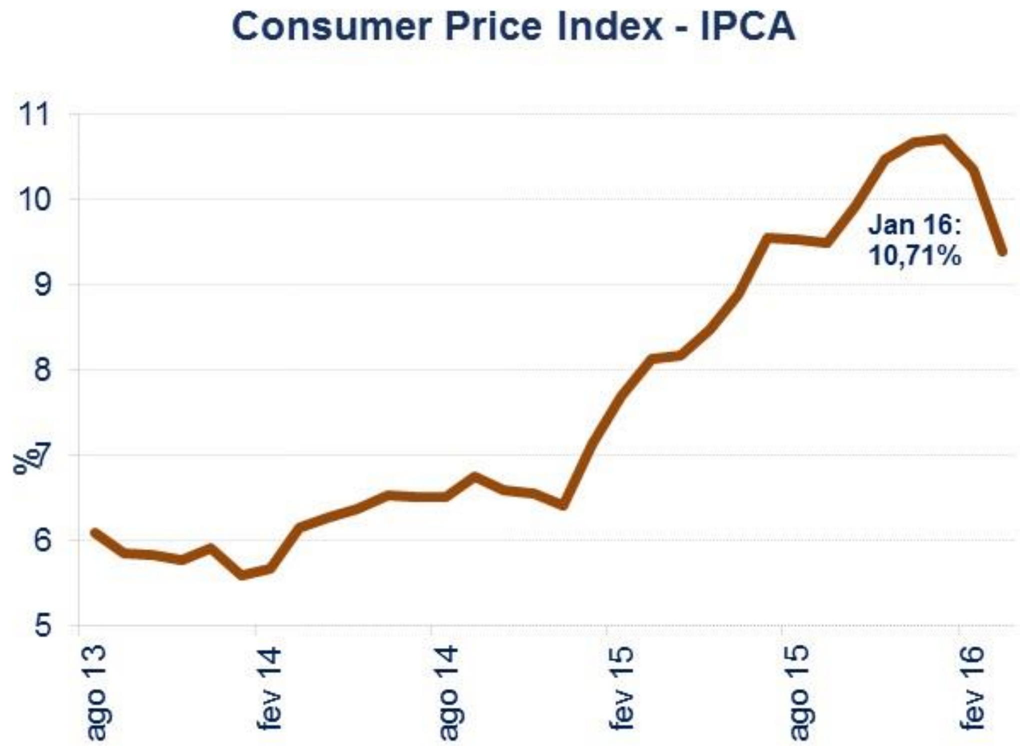
1Q 2016 Scenario: Growth and Prices



*average of 12 months/average of the previous 12 months



Sources: BCB / IBGE

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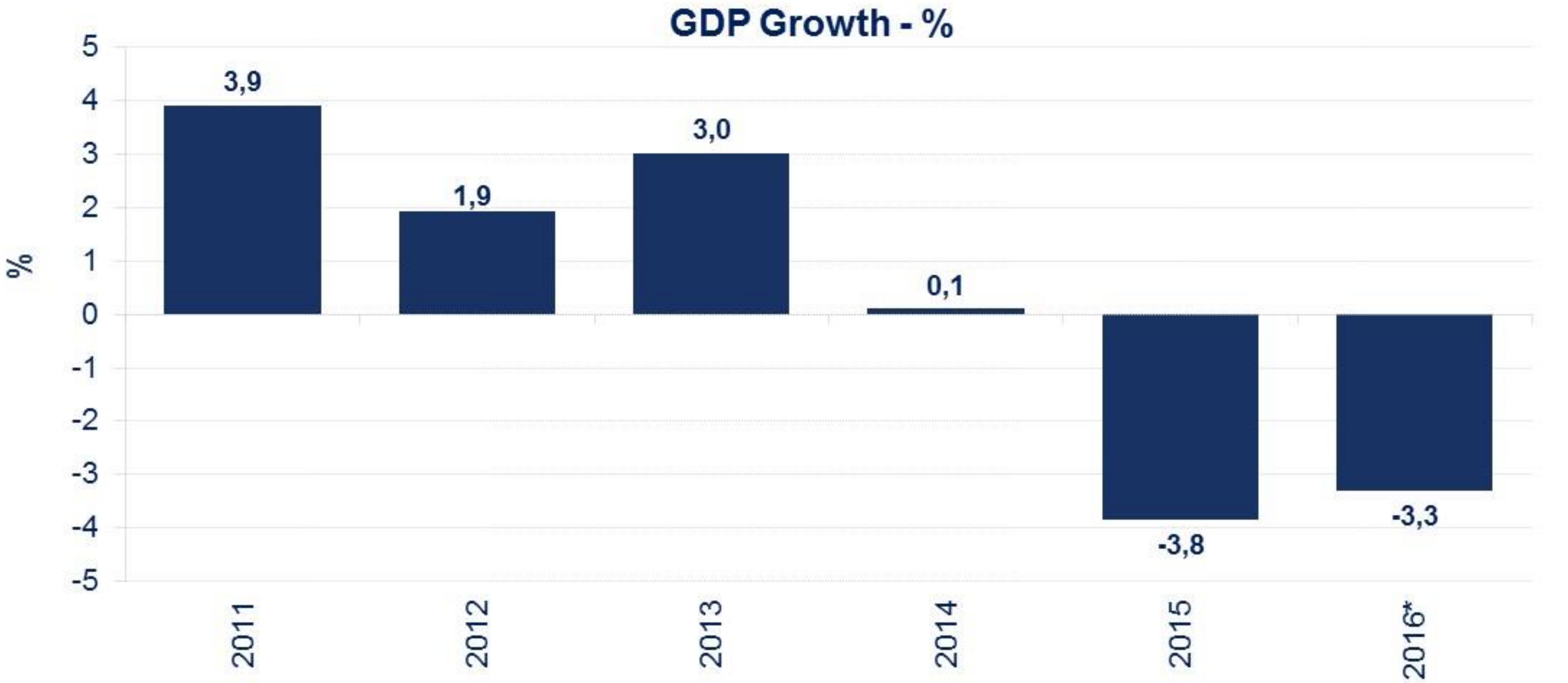
1Q 2016 Scenario: Growth



* Central Bank of Brazil Forecast (Inflation Report – Jun 16)

Sources: BCB / IBGE

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1Q 2016 Scenario: Risk Premmia was high

Source: Bloomberg

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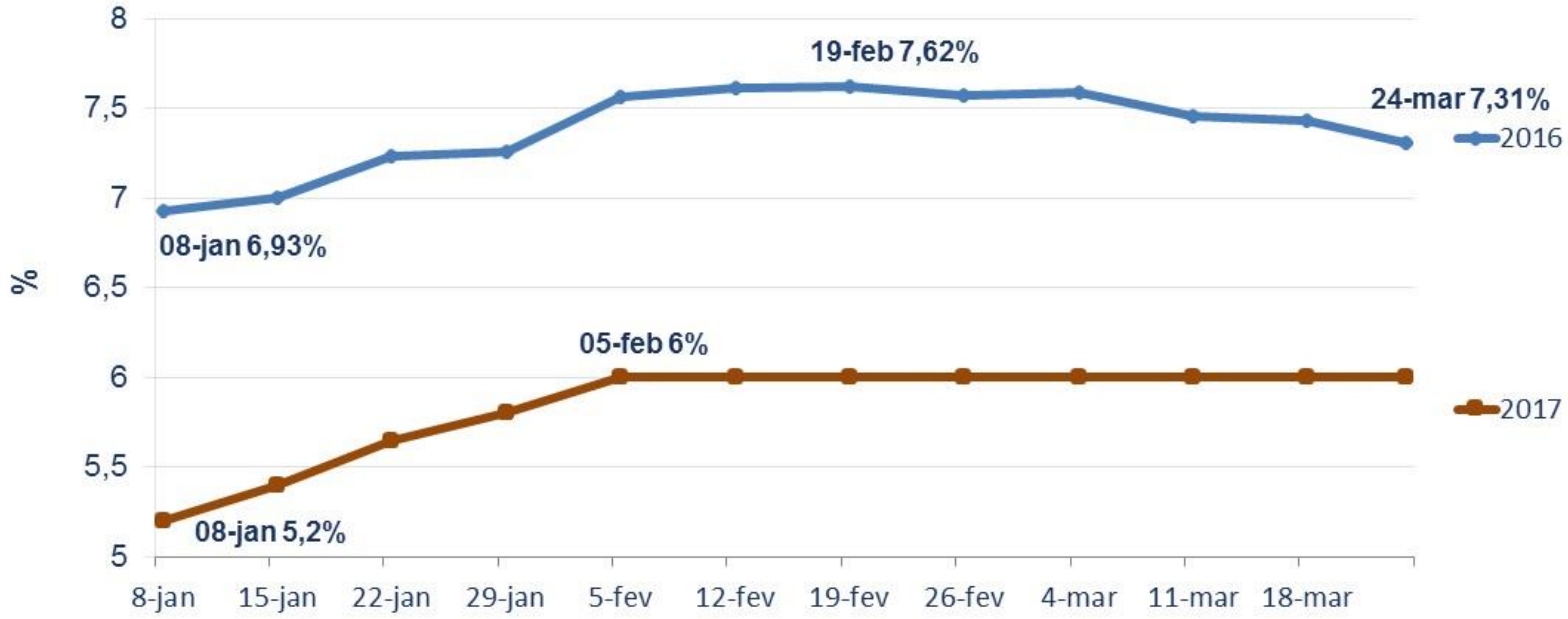
1Q 2016 Scenario: Inflation Expectations were high



*Median of Expectations

Source: BCB - Focus

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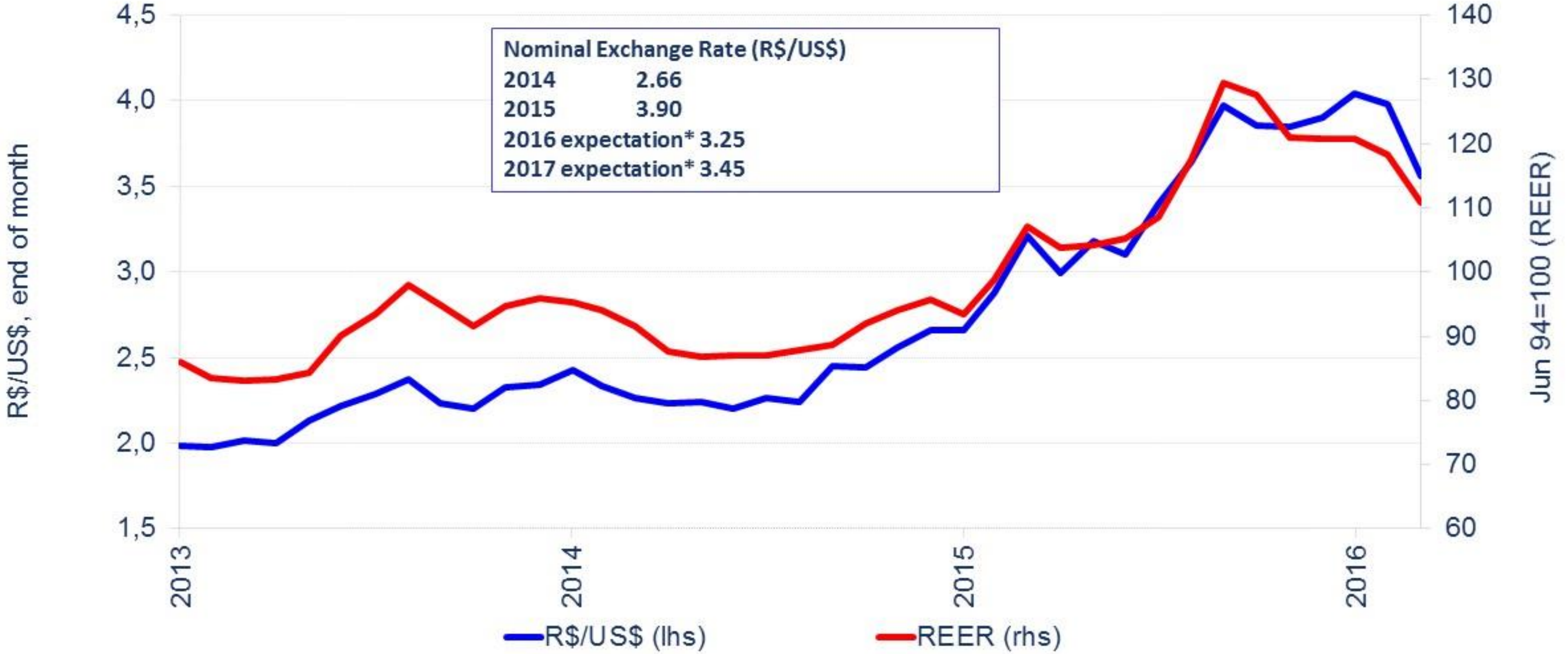
1Q 2016 Scenario: Exchange Rate was depreciated



R$/US$ through Aug/16, REER through Jul/16; *median of expectations on September 9th (end of period)

Source: BCB

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1Q 2016 Scenario: Real Interest Rates

Sources: Bloomberg; BCB.

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Expectations Reversal:

Regaining confidence in a virtuous transition

What has happened since then?

- Decrease in political uncertainty
- Adoption of a Comprehensive Economic Policy Agenda
- **Result: Clear progress in Regaining Confidence**

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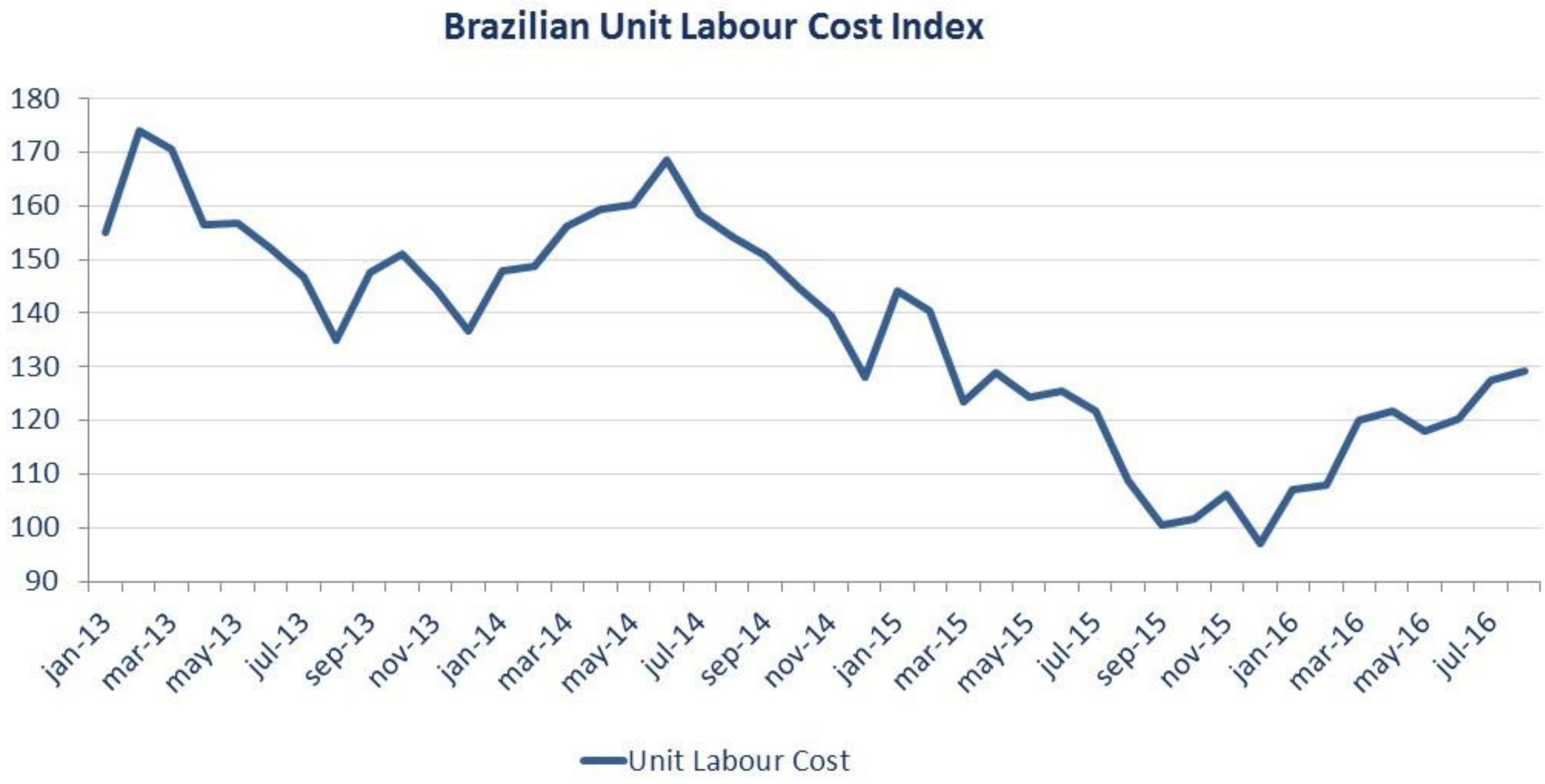
External Adjustment: Unit Labour Cost Decreasing



Source: BCB.

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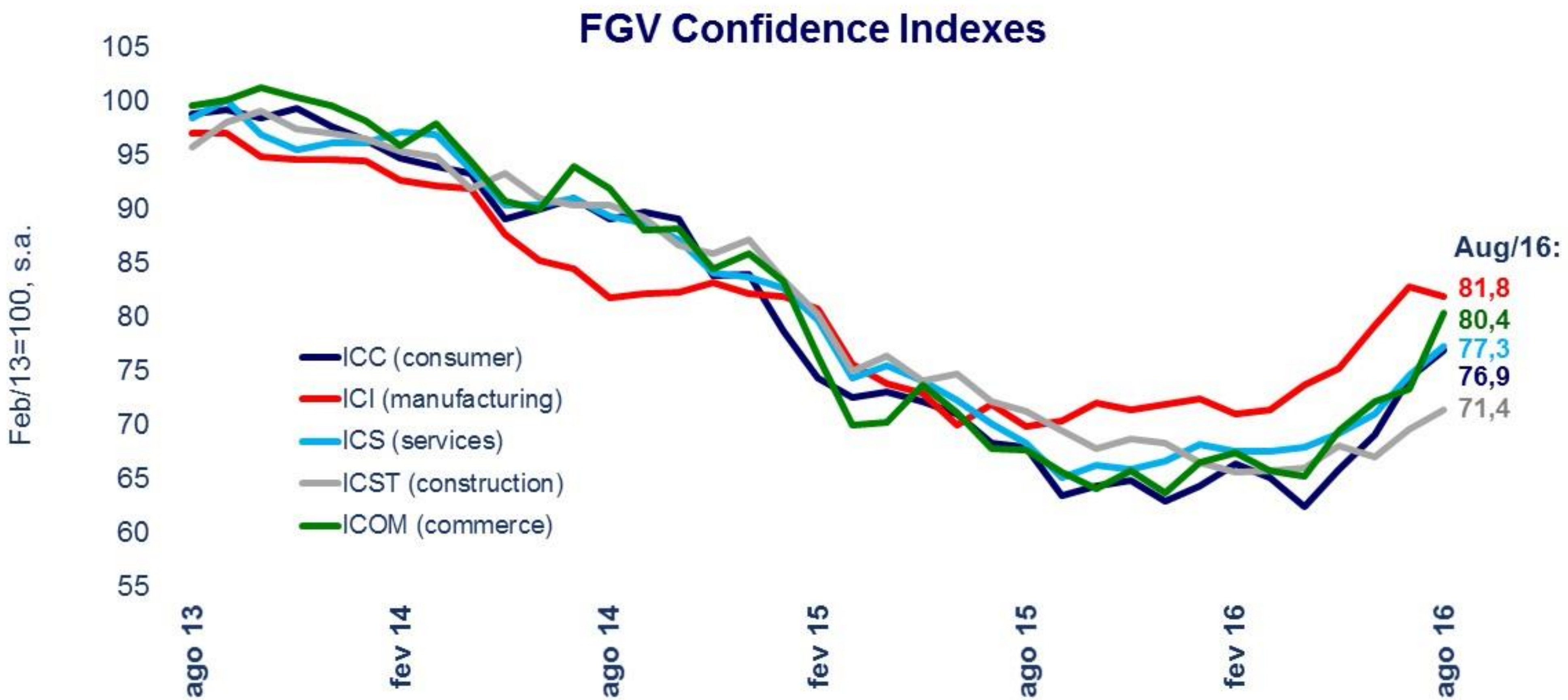
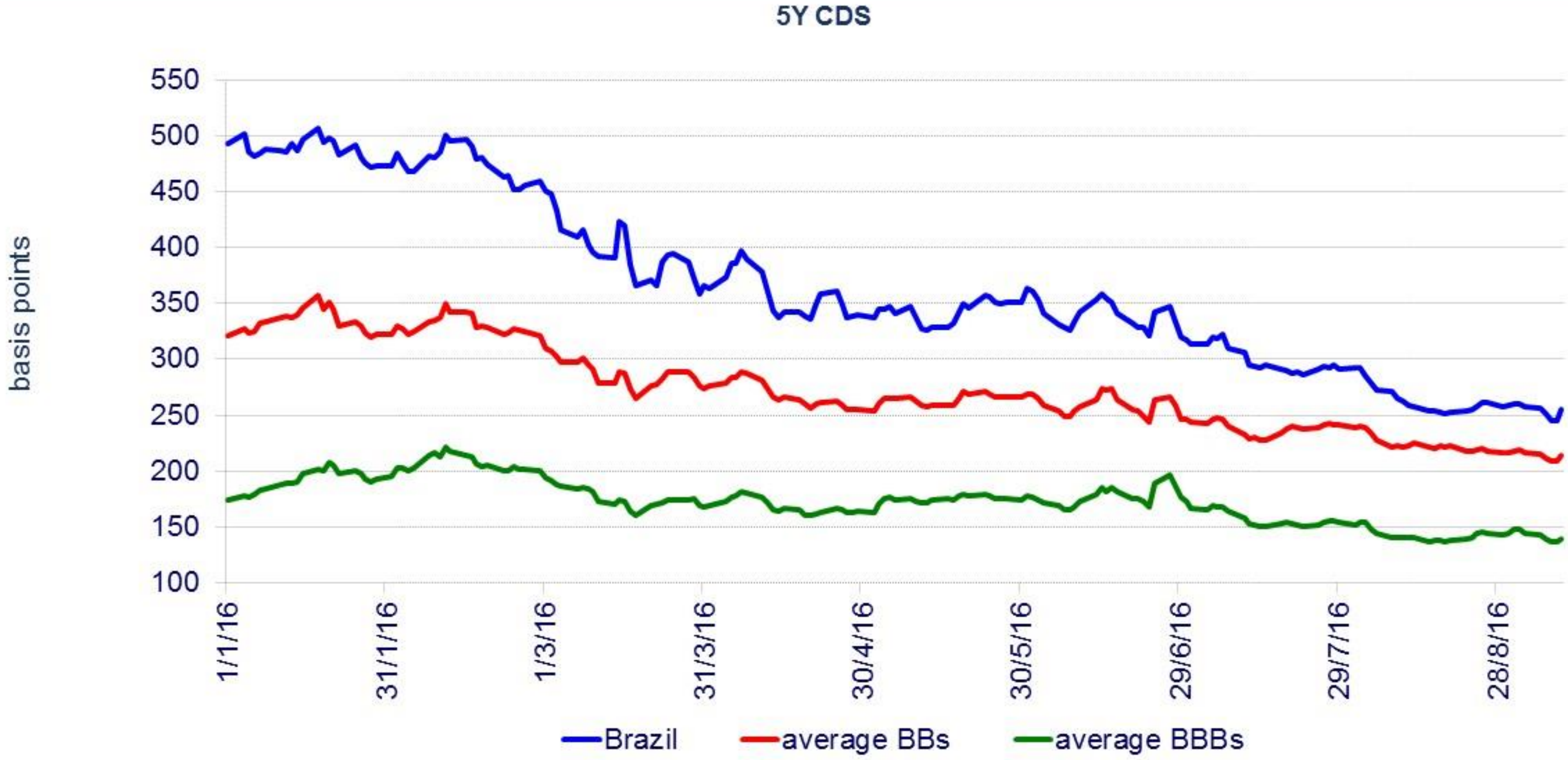
Regaining Confidence: Confidence Indexes



Source: FGV

Regaining Confidence: Risk Premmia



*through September 9th

Source: Bloomberg

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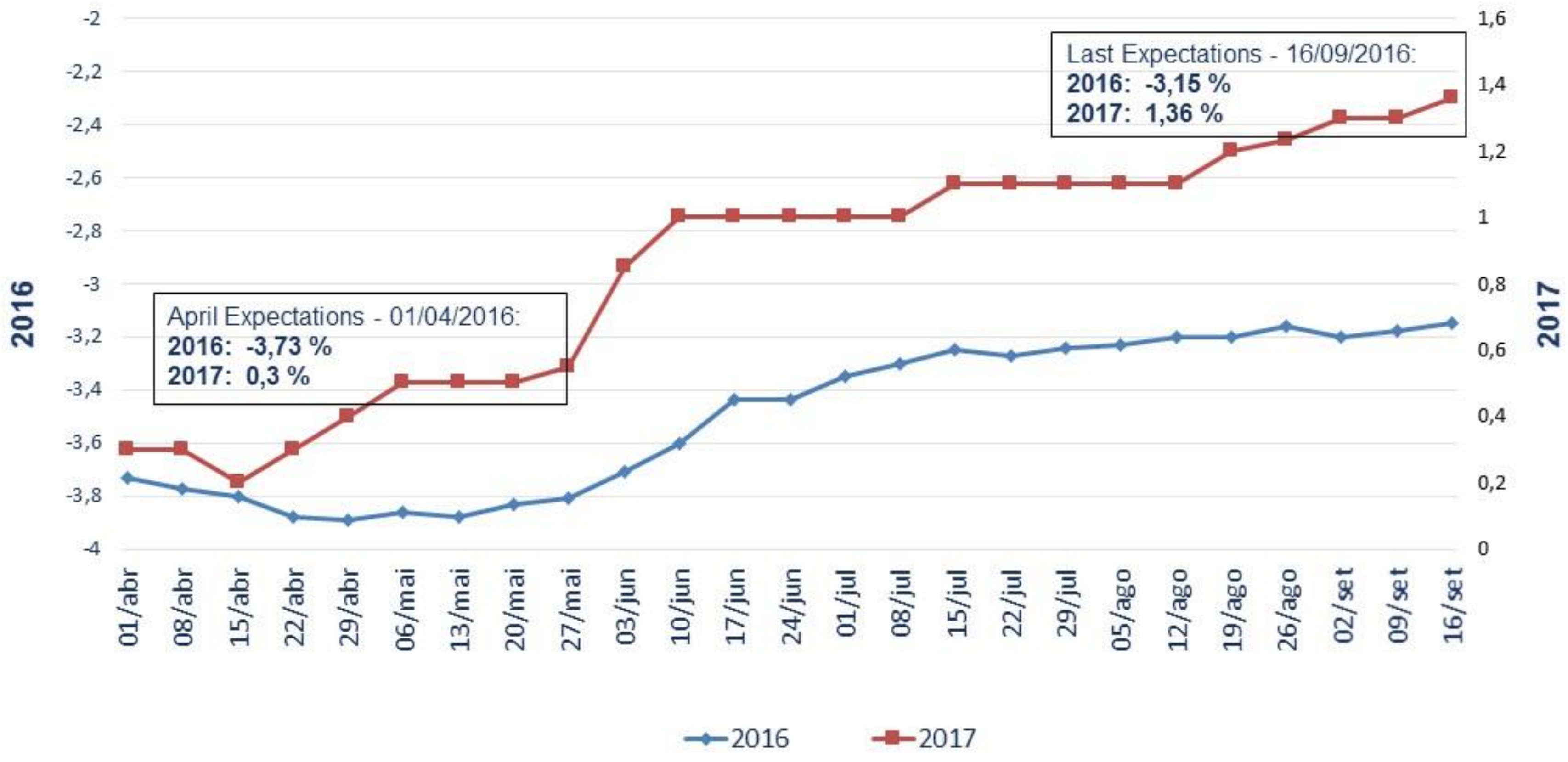
Regaining Confidence

GDP Growth Expectations – 2016/2017 (%)



Source: BCB - Focus

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Sources: BCB / IBGE

*median of market expectations as of September 16th

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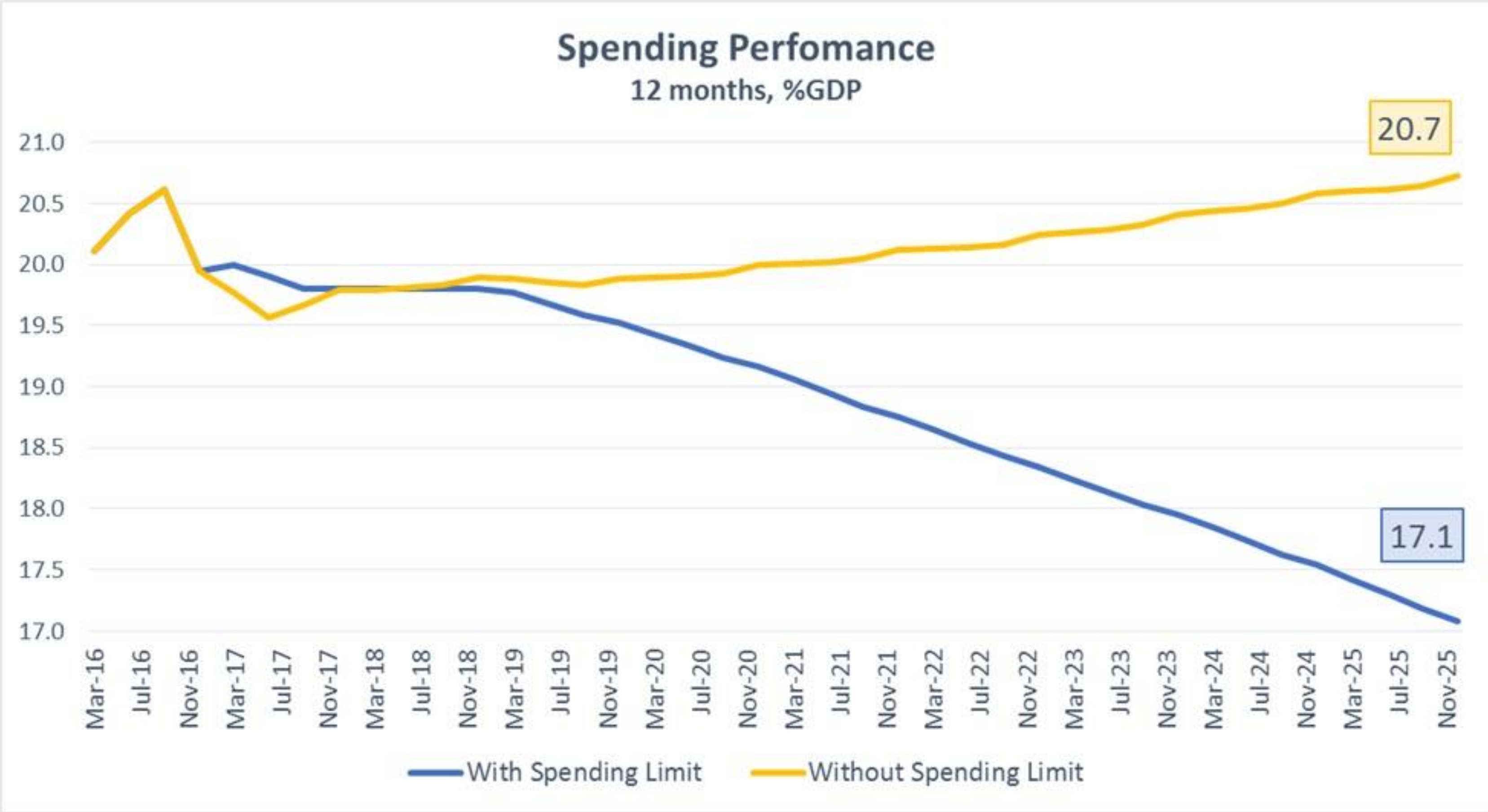
Comprehensive New Economic Policy Agenda (I)

- *Structural Fiscal Reform*
- *Transparency and Clear Objectives in Monetary Policy*
- *Floating Exchange Rate Regime*
- *Concessions to the private sector*

Comprehensive New Economic Policy Agenda (II)

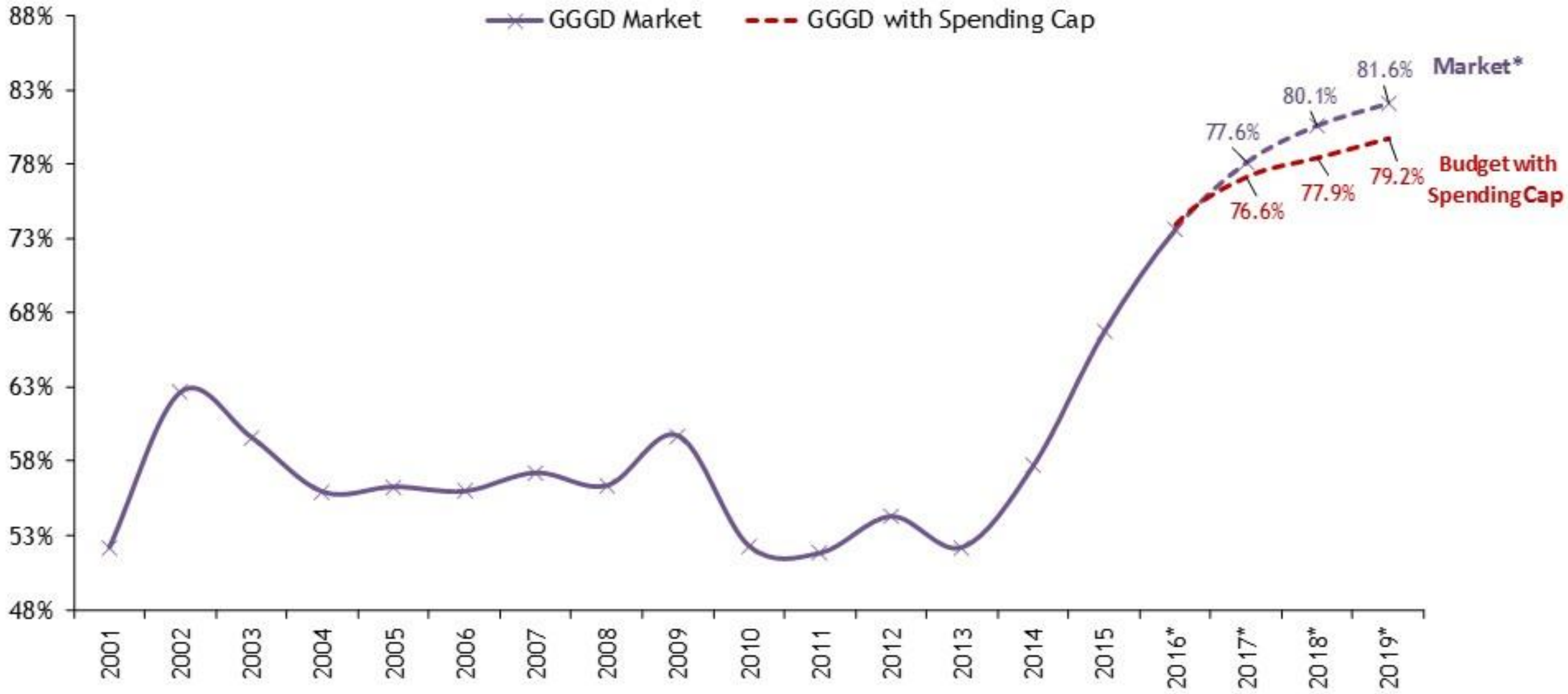
- We are starting implementation of these policies
- Higher gains when the reforms are delivered

Ongoing Reforms – Fiscal Adjustment



Source: National Treasury

Ongoing Reforms – Fiscal Adjustment



» A significant part of the GG Gross Debt responds to:

1. Loans to Public Banks -> This policy has been reversed as of Jan-2015 -> which represents 9.6% GDP
2. REPO Operations -> Collateral for sterilization -> Increase in FX-reserves -> which represents 20.8% GDP

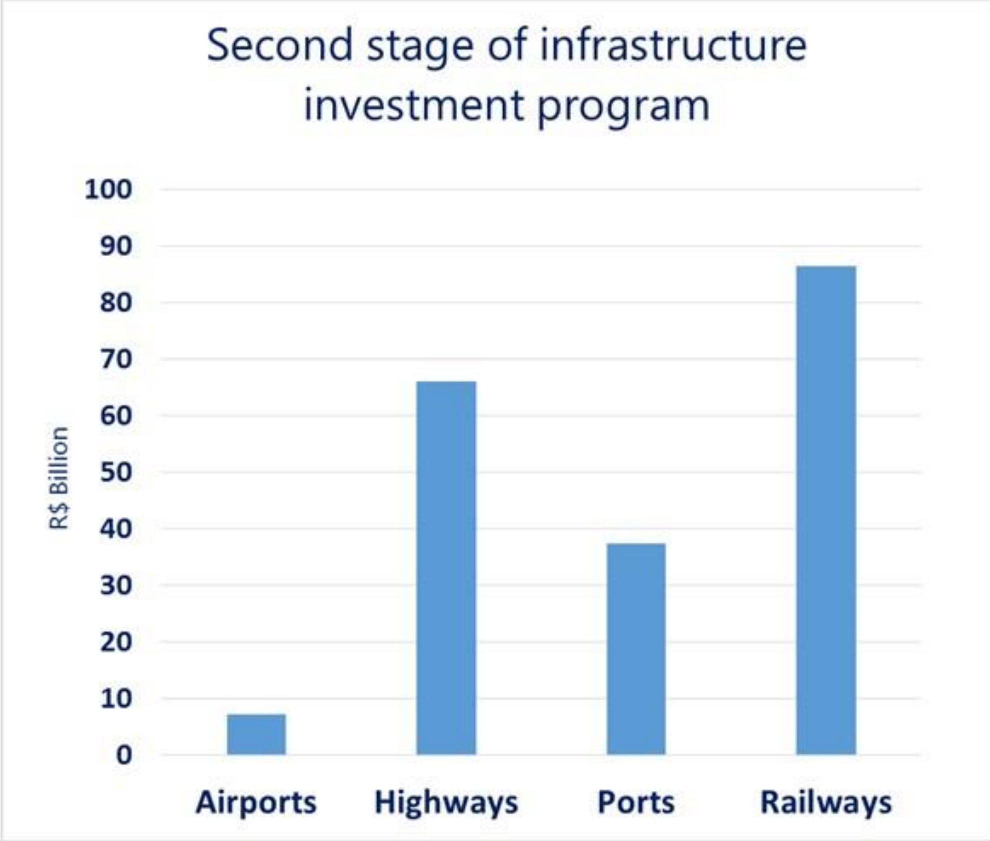
Source: National Treasury

The projections are made based in a real GDP growth of -3.1%, 1.2%, 2.5% and 2.5% in 2016, 2017, 2018 and 2019, respectively.
*Market projection (FOCUS) takes into account market macroeconomic parameters and the National Treasury's model.

Logistics Investment Program (PIL)

- Brazil launched the second stage of infrastructure investment program: estimated investment of about R$200 billion.

- Regulatory stability



Source: Ministry of Planning

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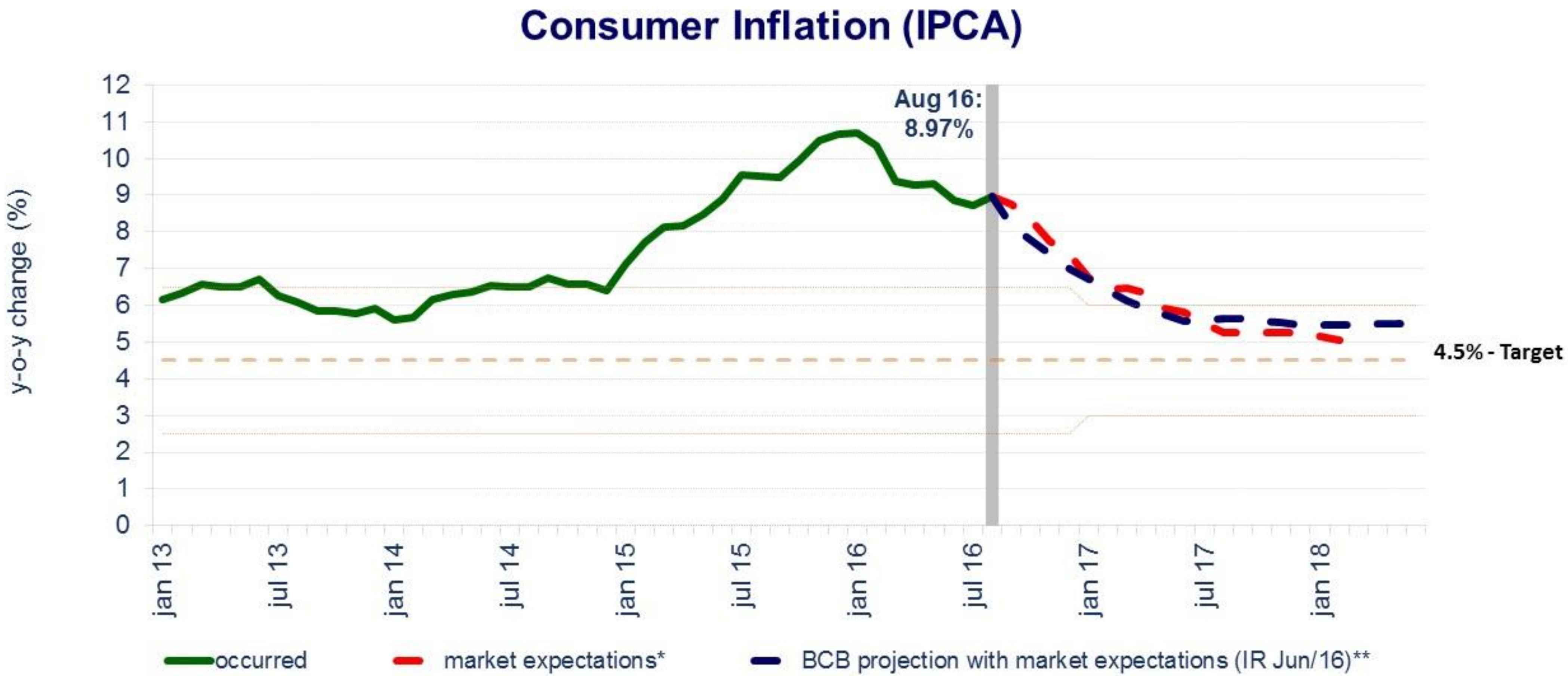
Focus on Monetary Policy: Inflation Convergence and Factors Monitored

Monetary Policy

- We can see the inflation gradually converging to the target

Regaining Confidence



*as of September 9th, up to Feb 18; **up to Jun 18

Source: BCB

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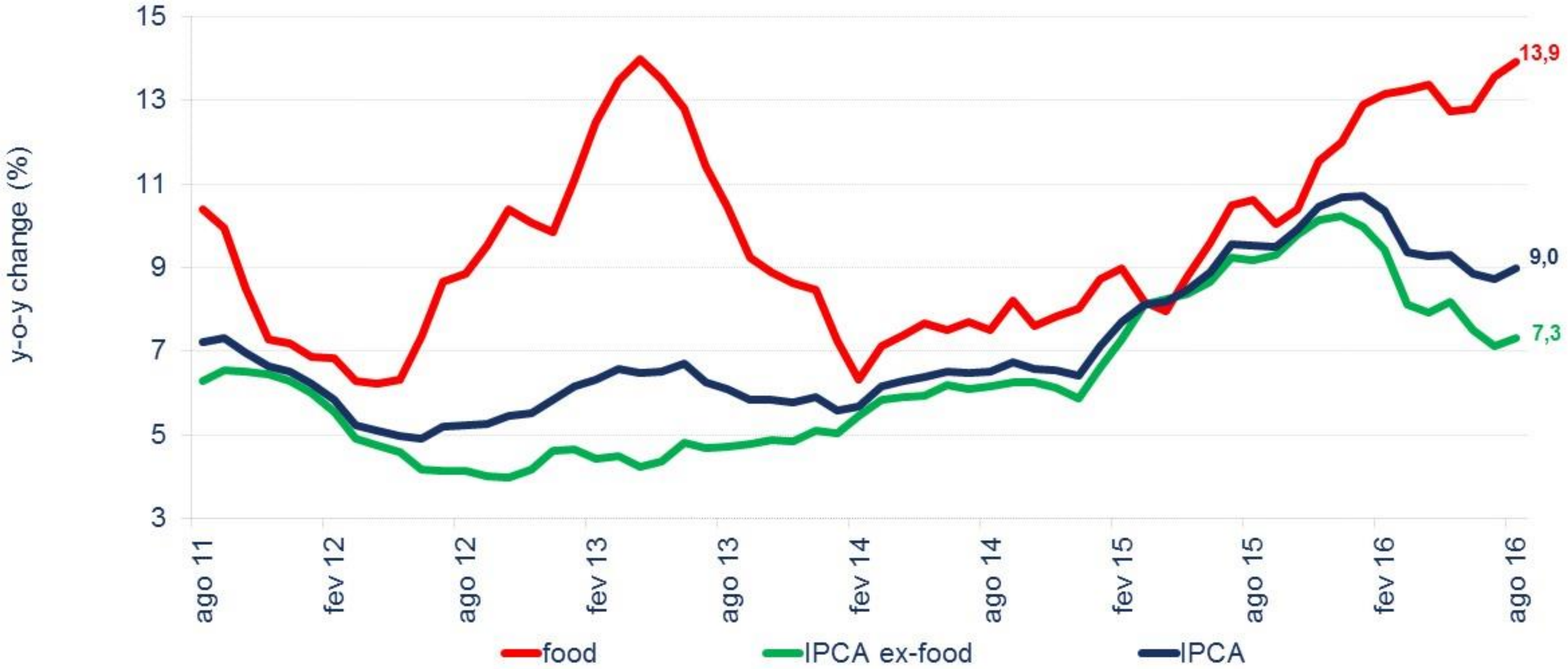
Central Bank is monitoring the following factors for Monetary Policy

- *Food Prices evolution and secondary effects*
- *Inflation persistence and sensitivity to monetary policy and output gap*
- *Clear progress in implementing fiscal reforms*

Consumer Inflation (IPCA) and Food Prices



Food weight: 26.1%

Source: IBGE

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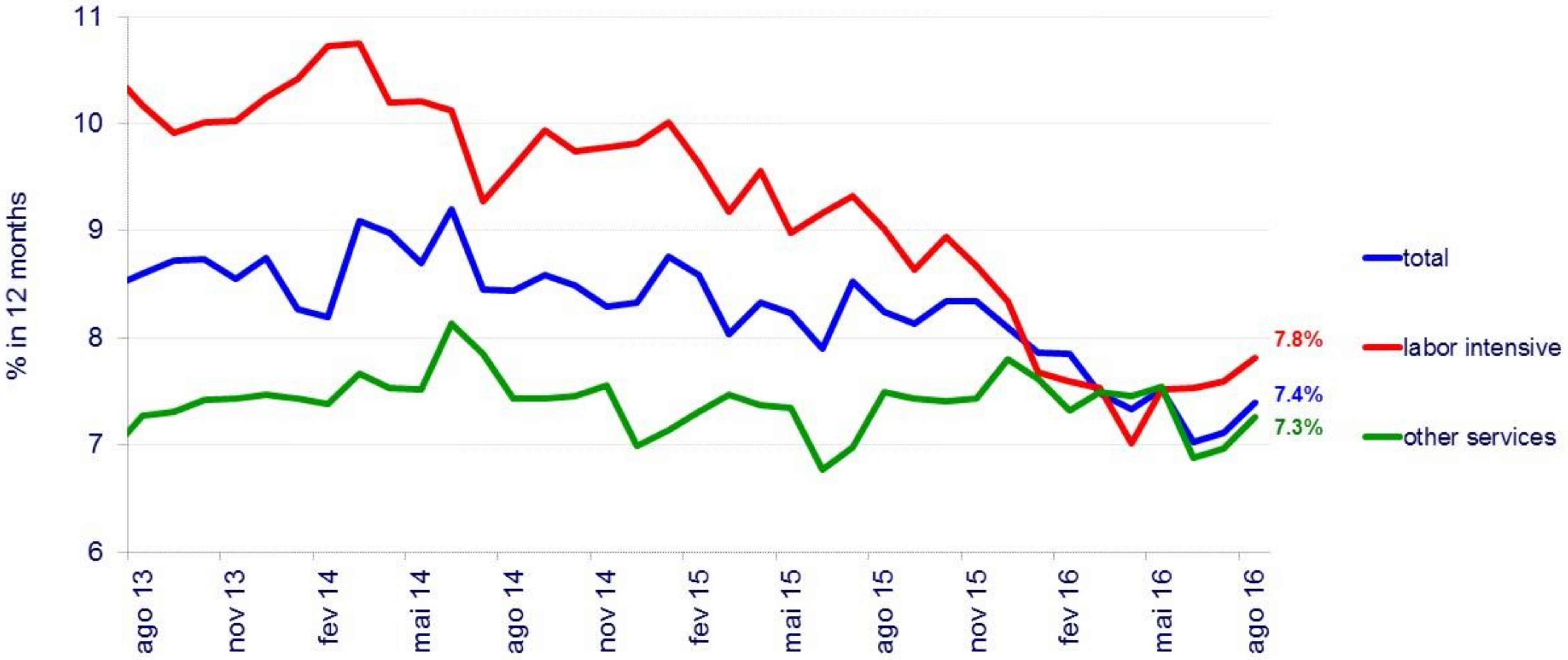
Services Inflation



Source: IBGE

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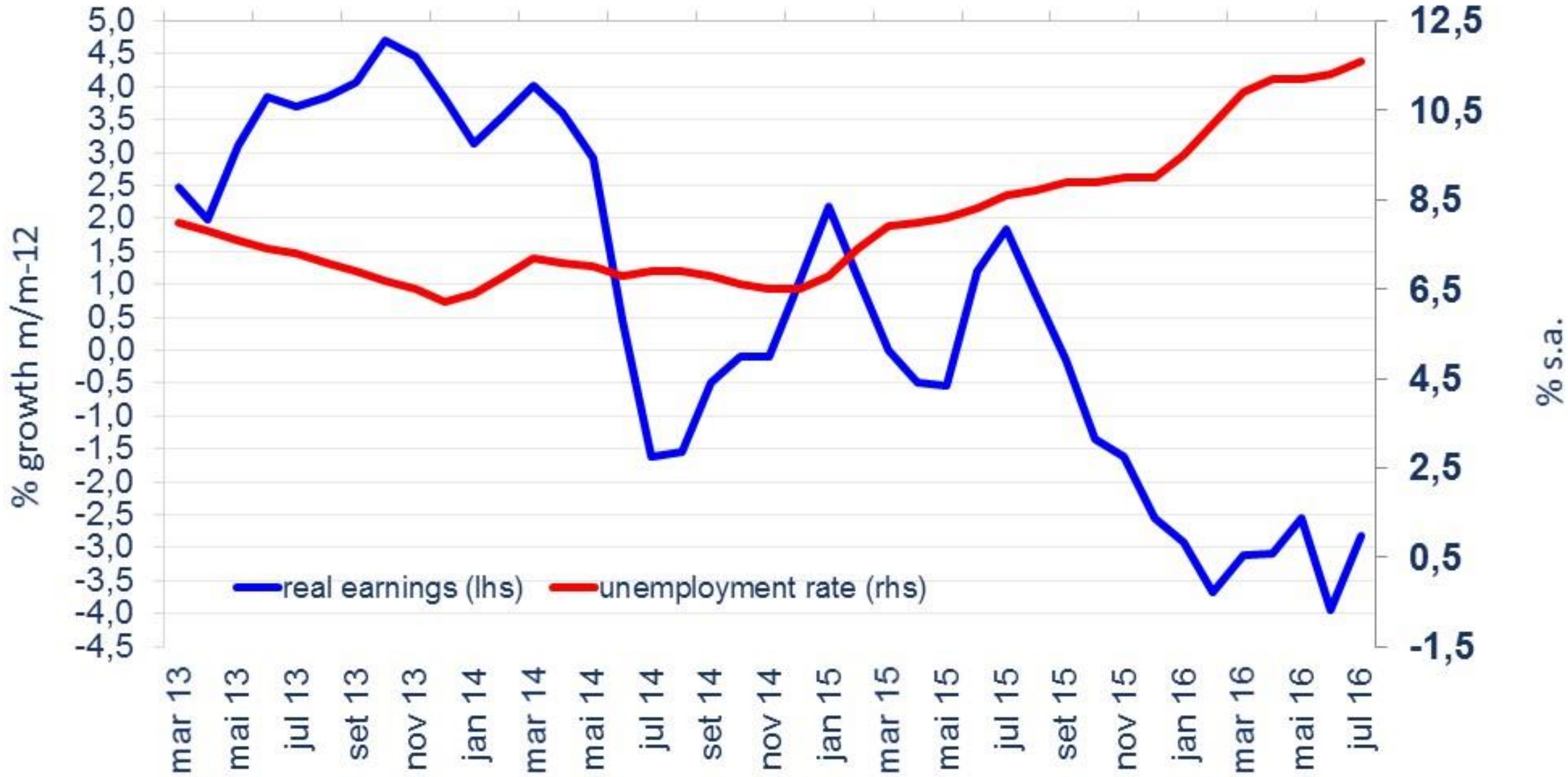
Real Wages and Unemployment



Source: IBGE (Continuous PNAD)

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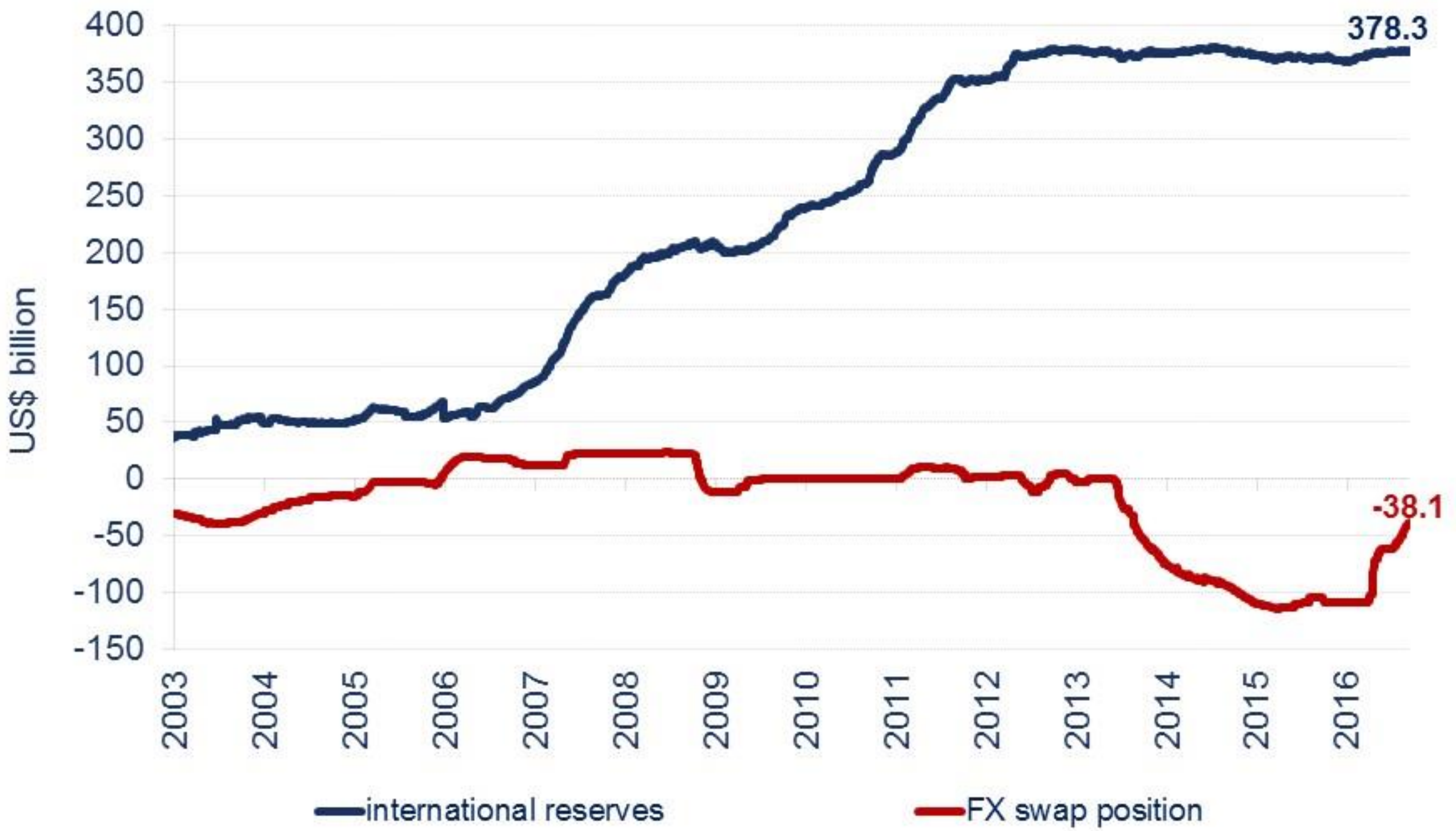
Resilience factors

Reduced CB Vulnerability: FX Repos and Reserves Cushion



*data until September 8th

Source: BCB

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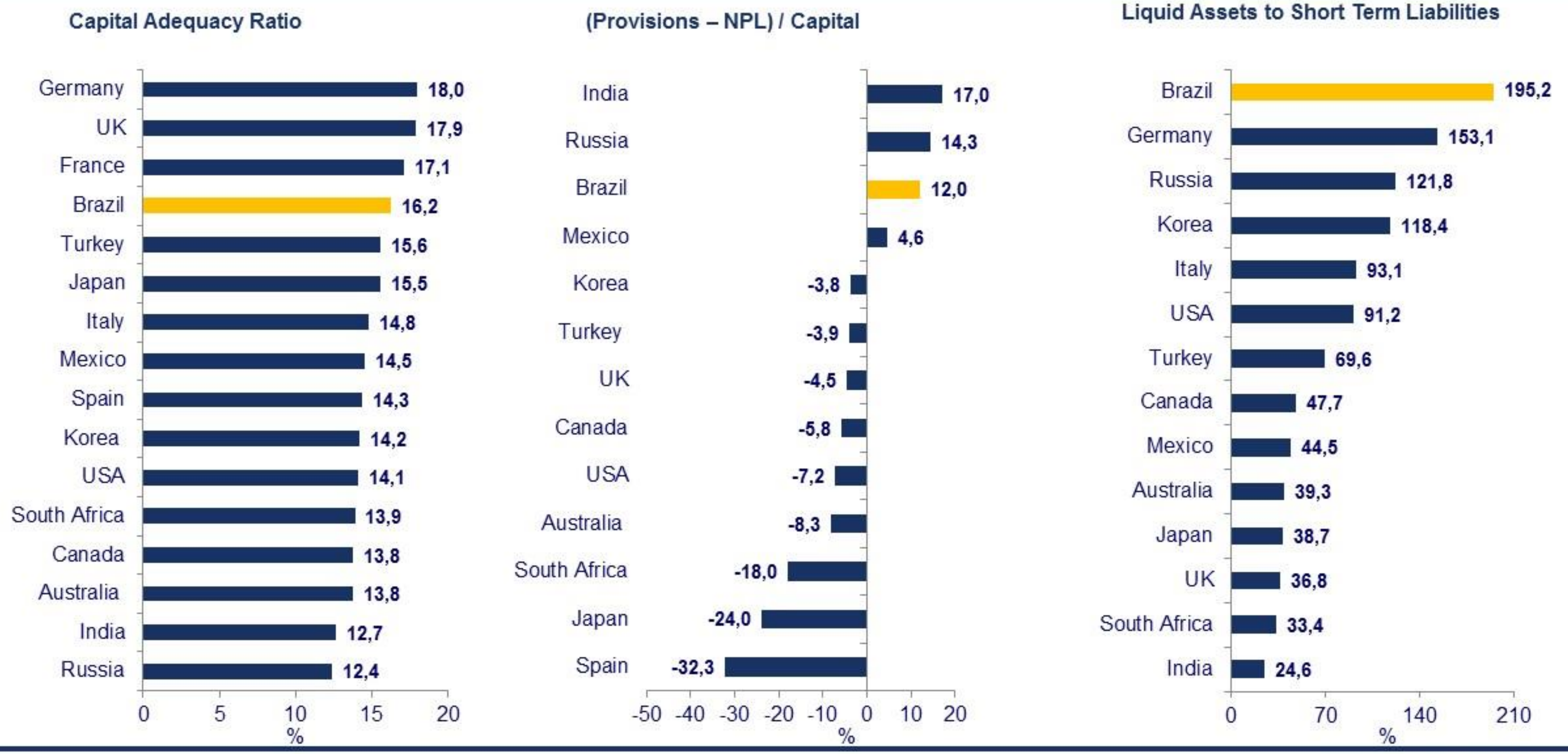
Brazil: Comparative Financial Soundness Indicators (*)



Source: IMF (FSI) – (*)latest available data

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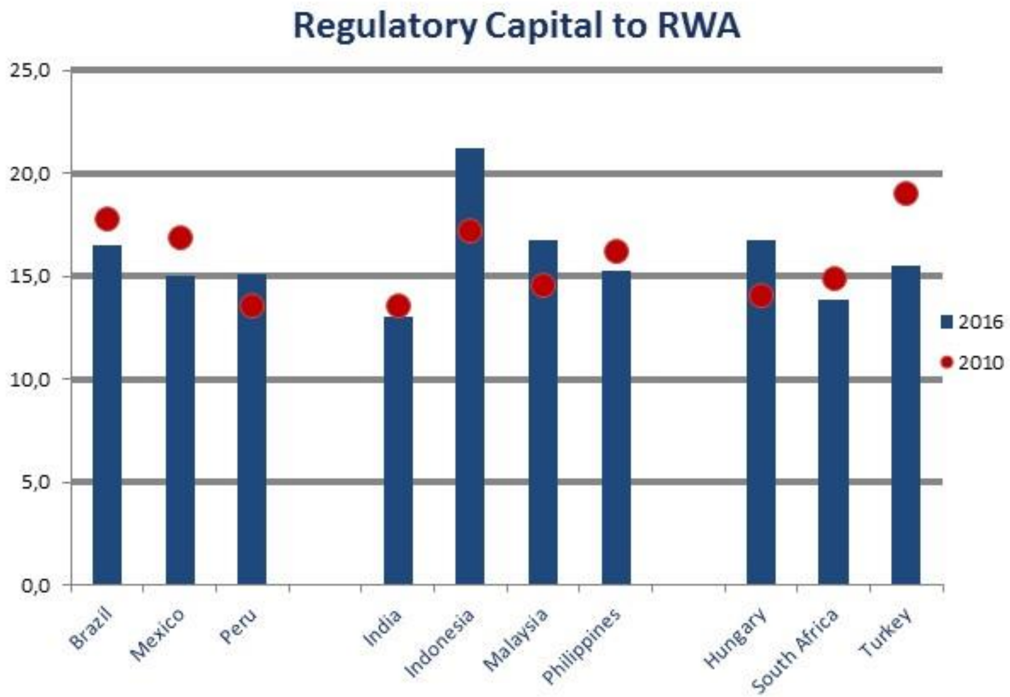
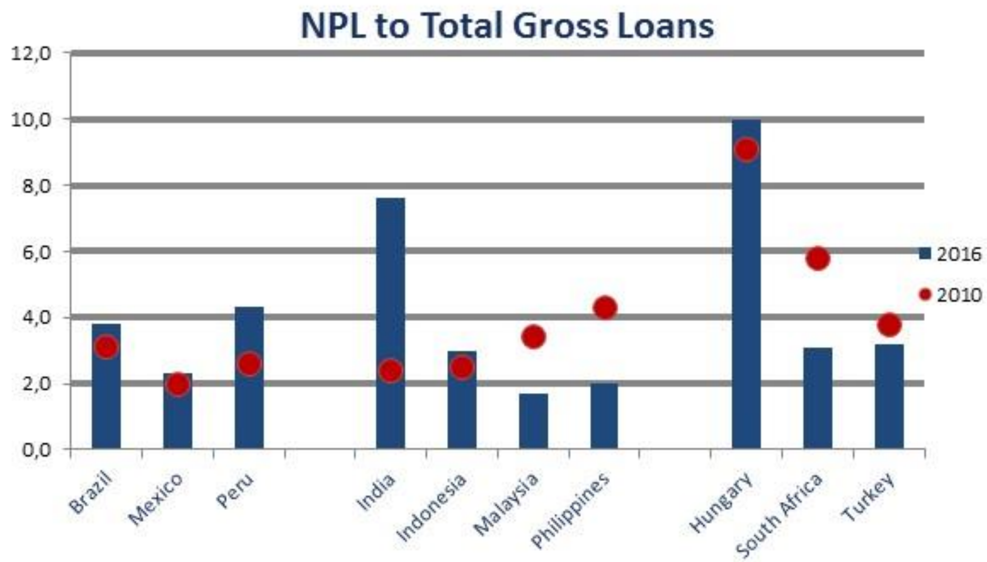
EM and Brazil: Banking sector in stronger position





Source: IMF (FSI).

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Outlook: Resilience Factors amid a Virtuous Transition

- Low exposure to forex liabilities and sound current account financing assure resilience to (negative) headwinds from the international economy and limit contagion from external volatility

- Financial system with solid capital structure and limited leverage open room for consumer, investment and housing financing

Outlook: Conclusions

- Brazil can withstand external headwinds
- There is a firm commitment to new comprehensive policy agenda.
- Despite transitional risks, Brazil can show gradual but firm progress addressing domestic challenges
- Final goal is to recover sound fiscal dynamics, converge to inflation target and achieve sustainable growth