

Global Emerging Markets Year Ahead Conference - Bank of America

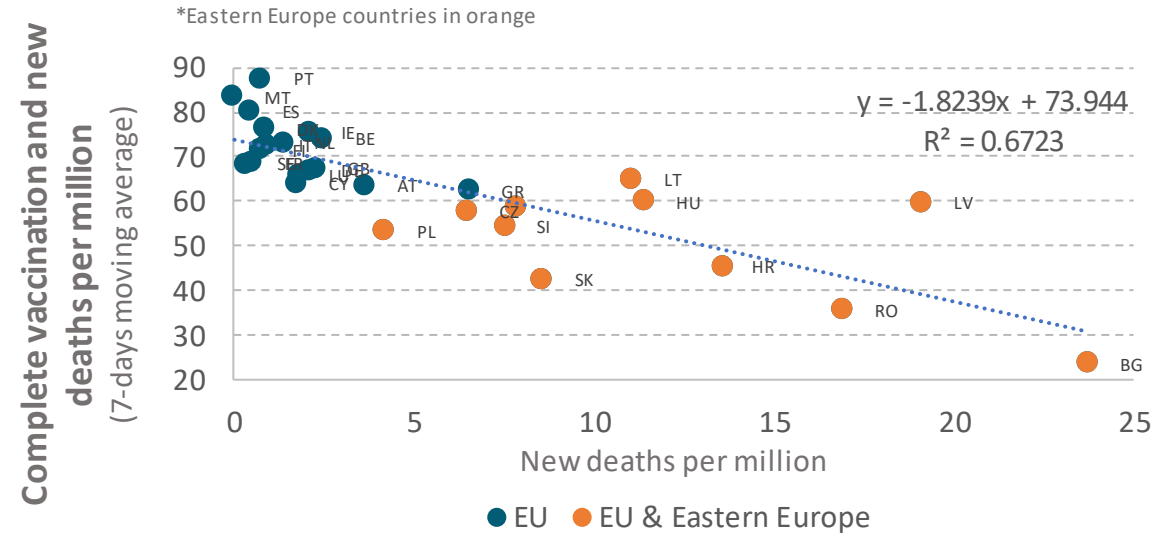
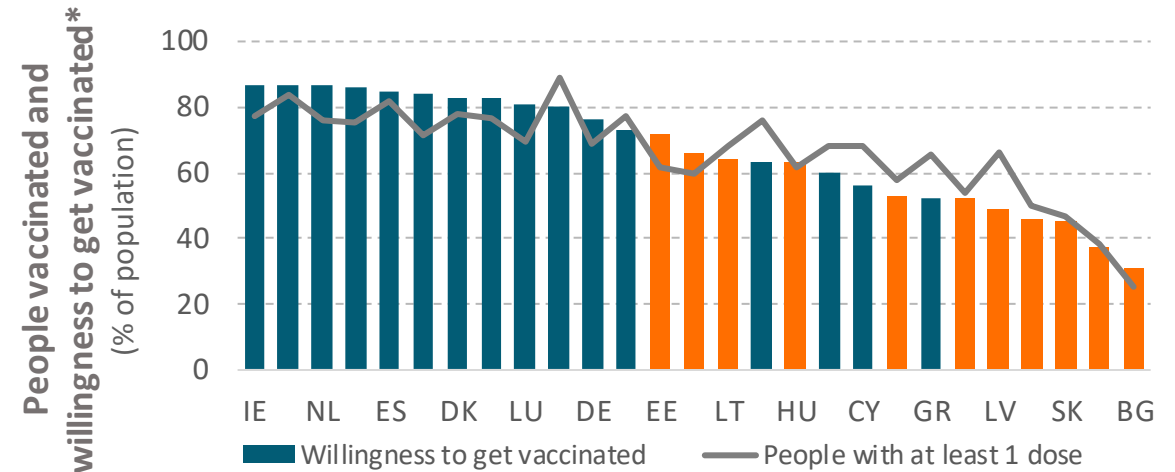
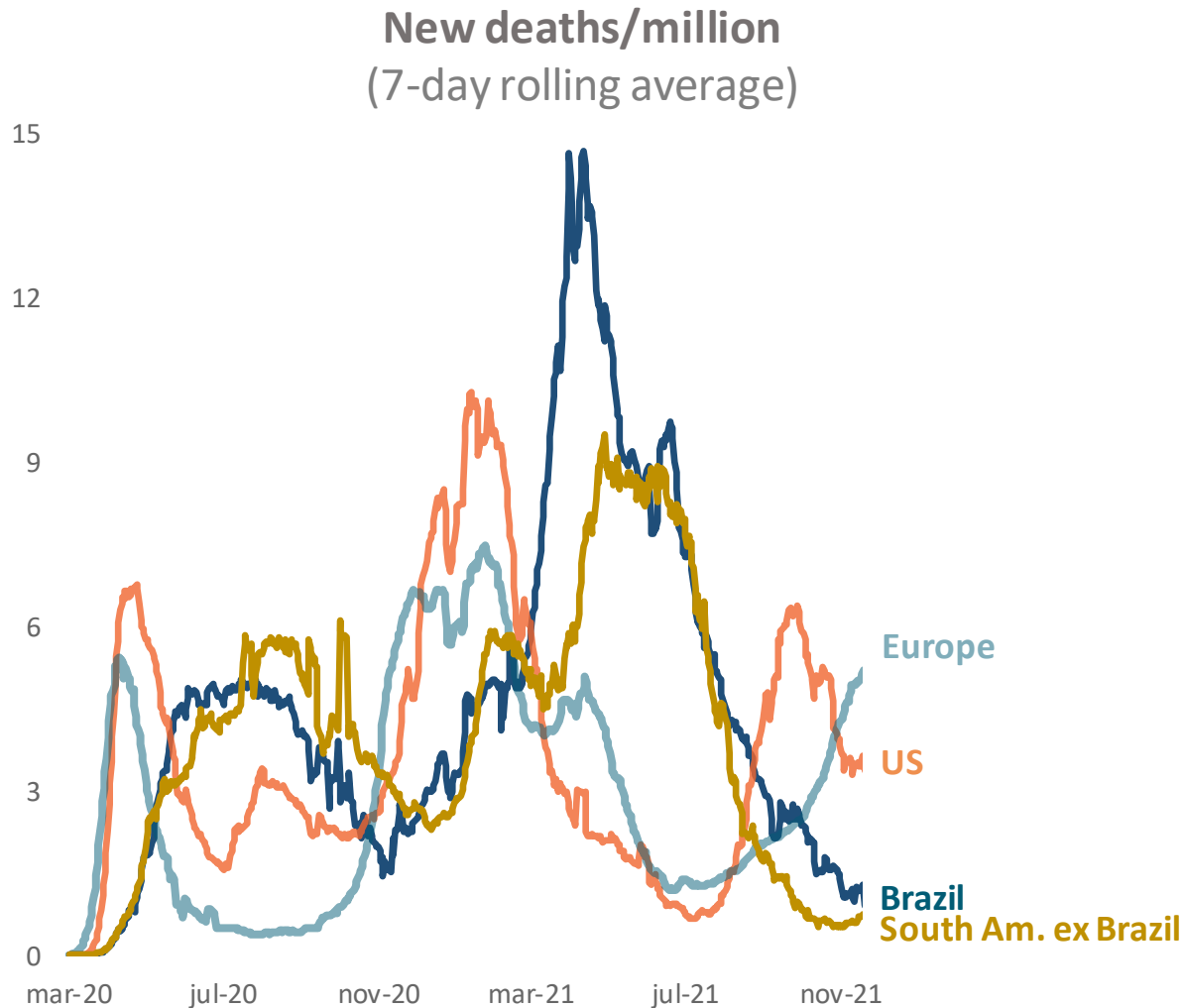
Brazil's Economic Outlook and Agenda BC#

Roberto Campos Neto
Governor of Banco Central do Brasil

November 24, 2021

Covid-19: new deaths and vaccination

Deaths rising in Europe, specially in Eastern Europe, where vaccination is lower and there is less disposition to be vaccinated.

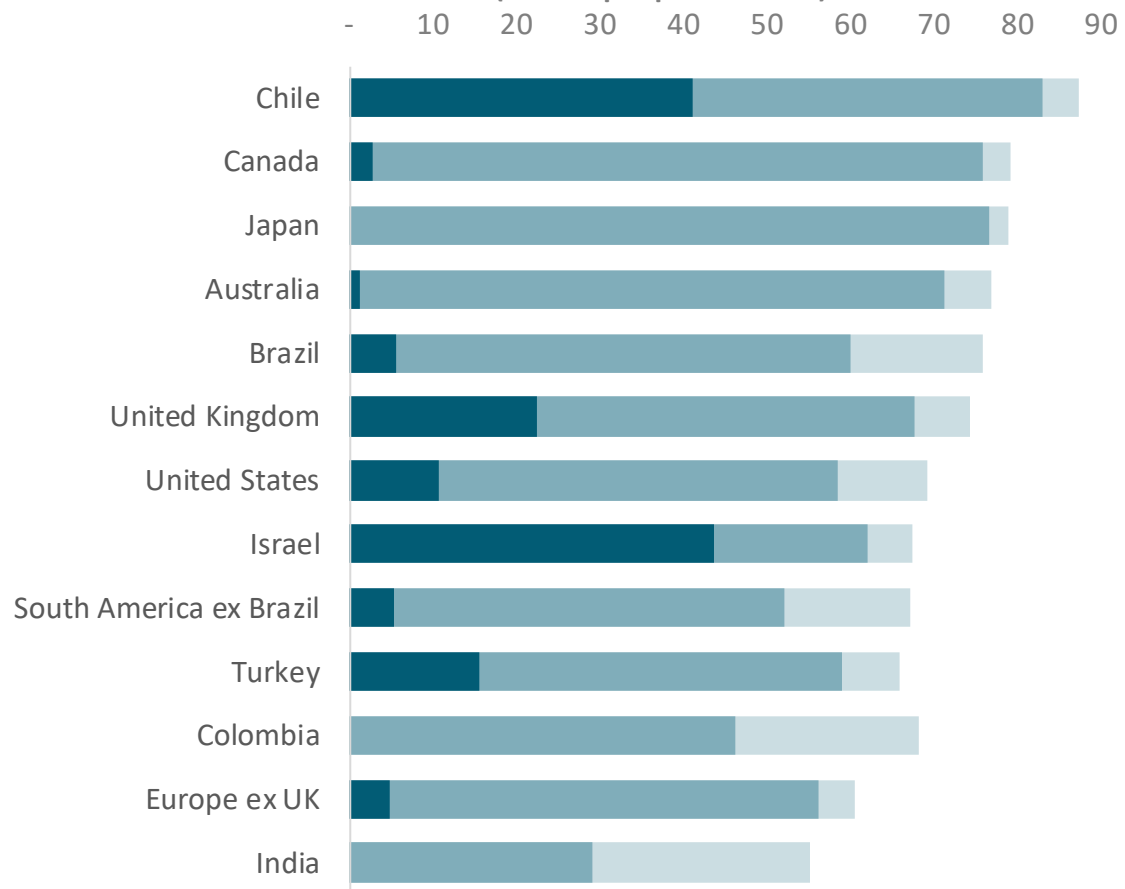


List of countries: IE–Ireland, MT–Malta, NL–Netherlands, BE–Belgium, ES–Spain, SE–Sweden, DK–Denmark, FI–Finland, LU–Luxemburg, PT–Portugal, DE–Germany, IT–Italy, EE–Estonia, CZ–Czech Republic, LT–Lithuania, FR–France, HU–Hungary, AT–Austria, CY–Cyprus, SI–Slovenia, GR–Greece, PL–Poland, LV–Latvia, HR–Croatia, SK–Slovakia, RO–Romania, BG–Bulgaria.

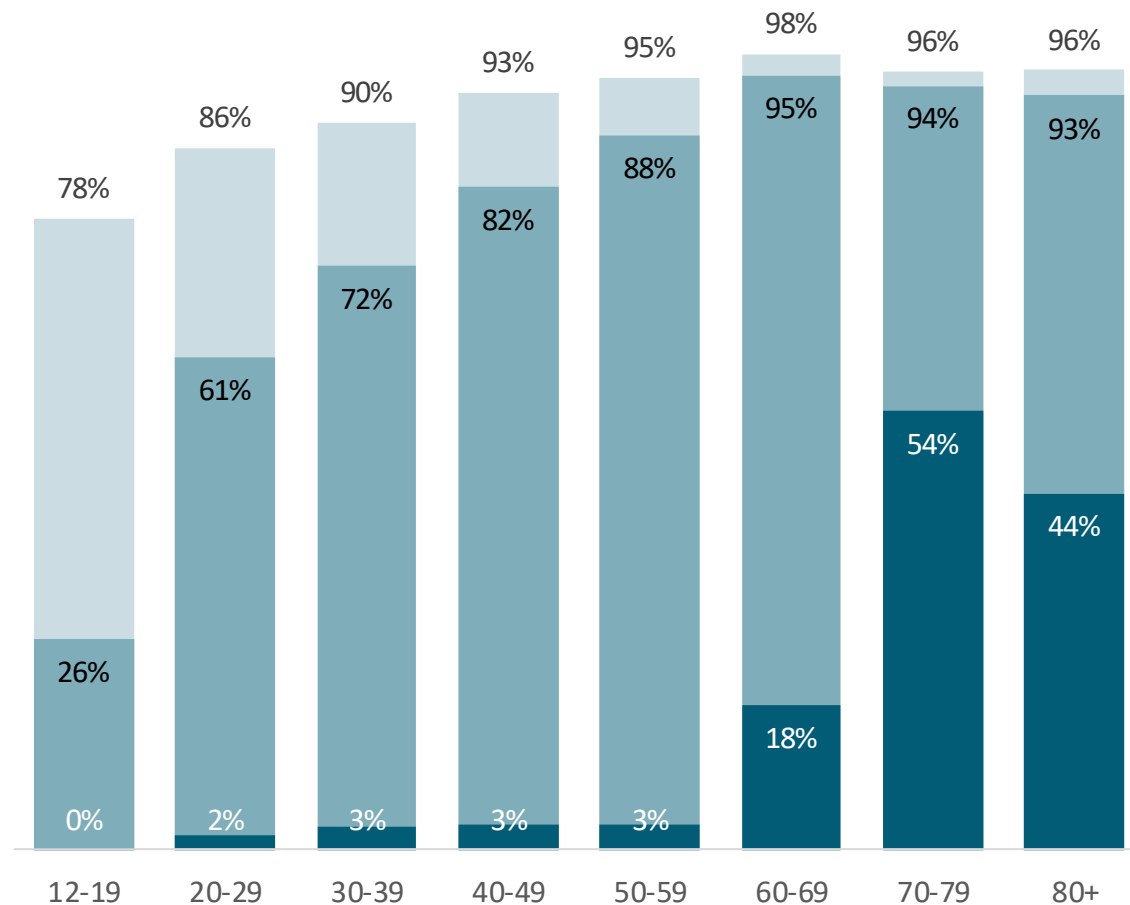
Brazil: Covid-19 vaccination

Brazilian vaccination campaign has advanced.

Share of population vaccinated (% of population)



Brazil: vaccination by age group (%)



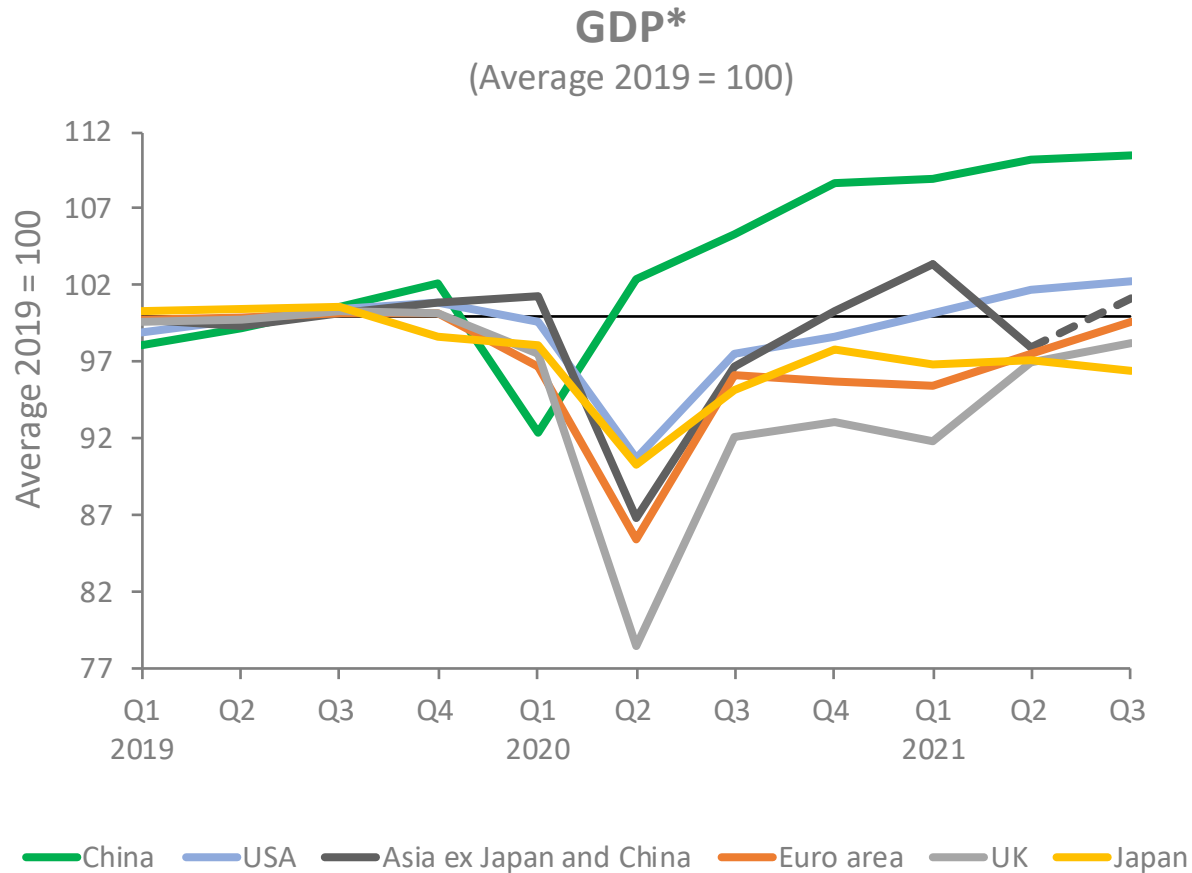
At least one dose

Fully vaccinated

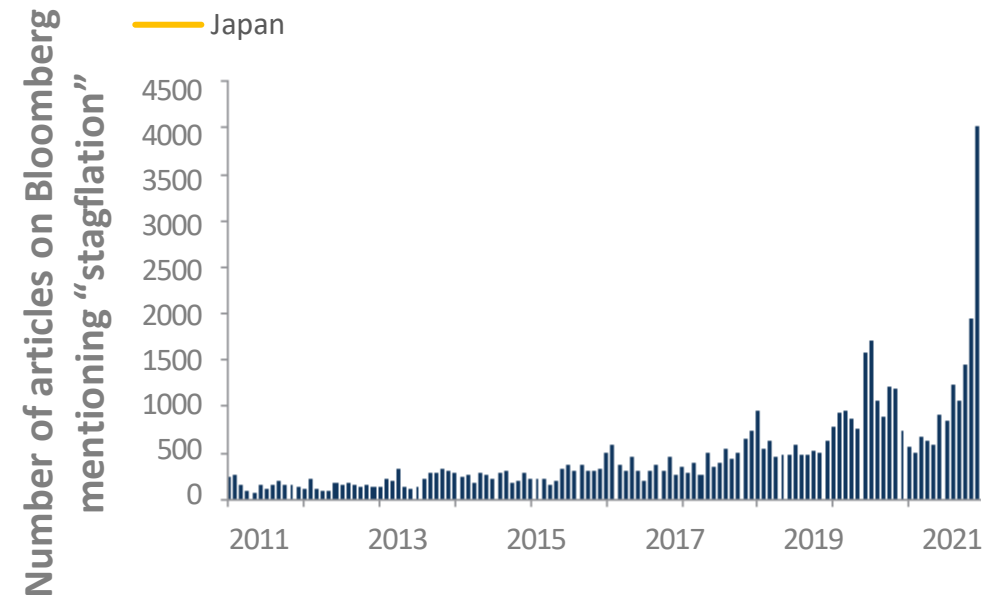
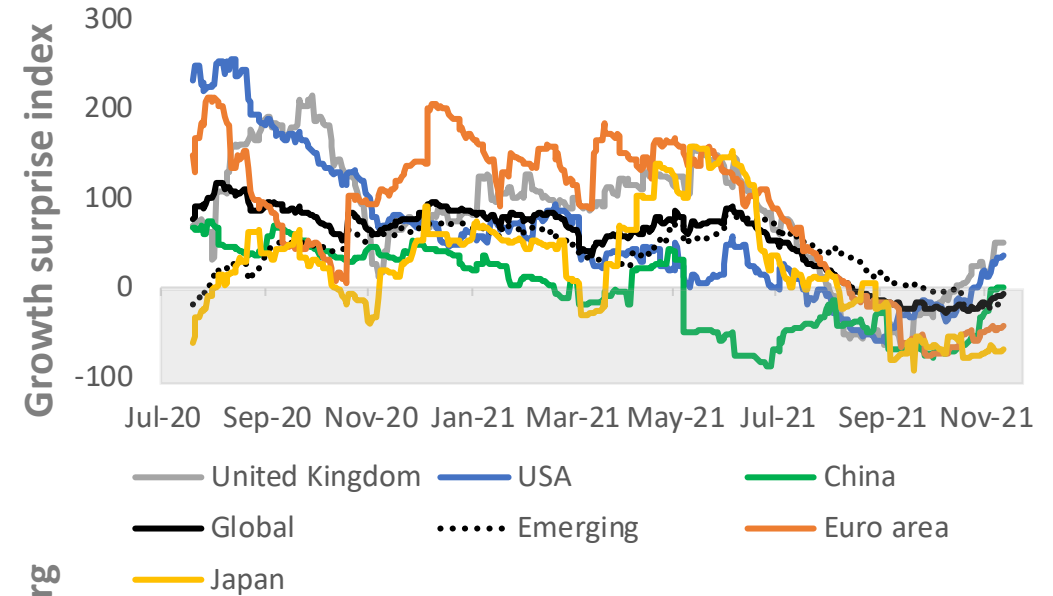
Booster dose

Economic activity

Downward revisions to 2022 GDP have intensified amid negative surprises in activity and supply bottlenecks.

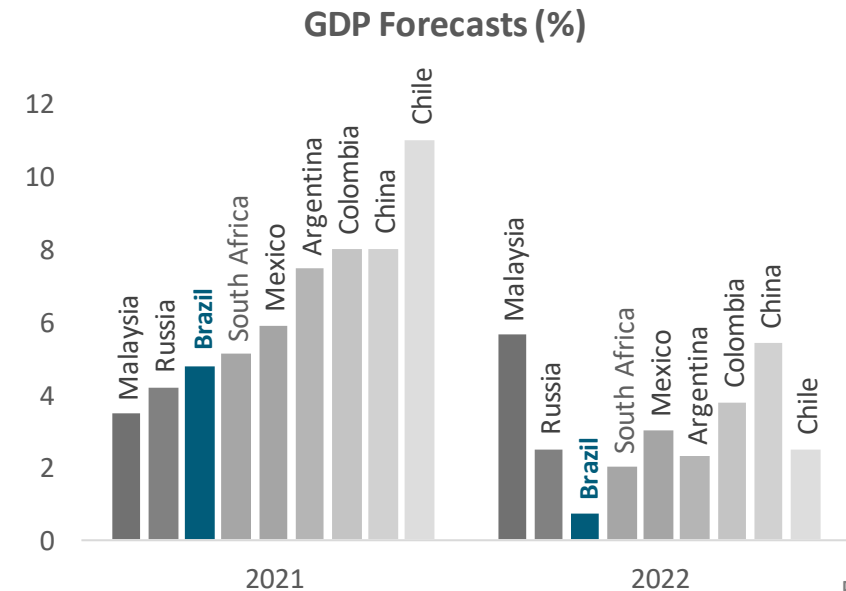
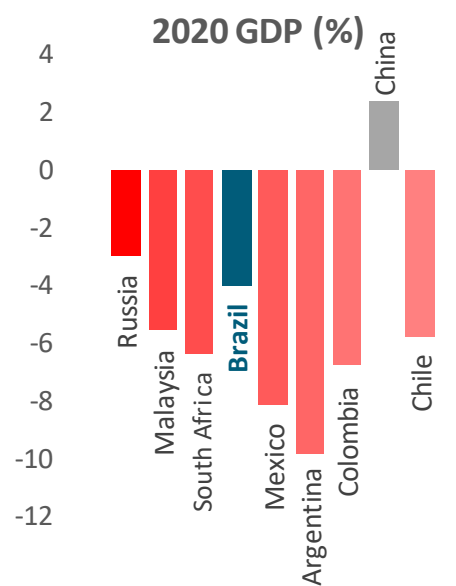
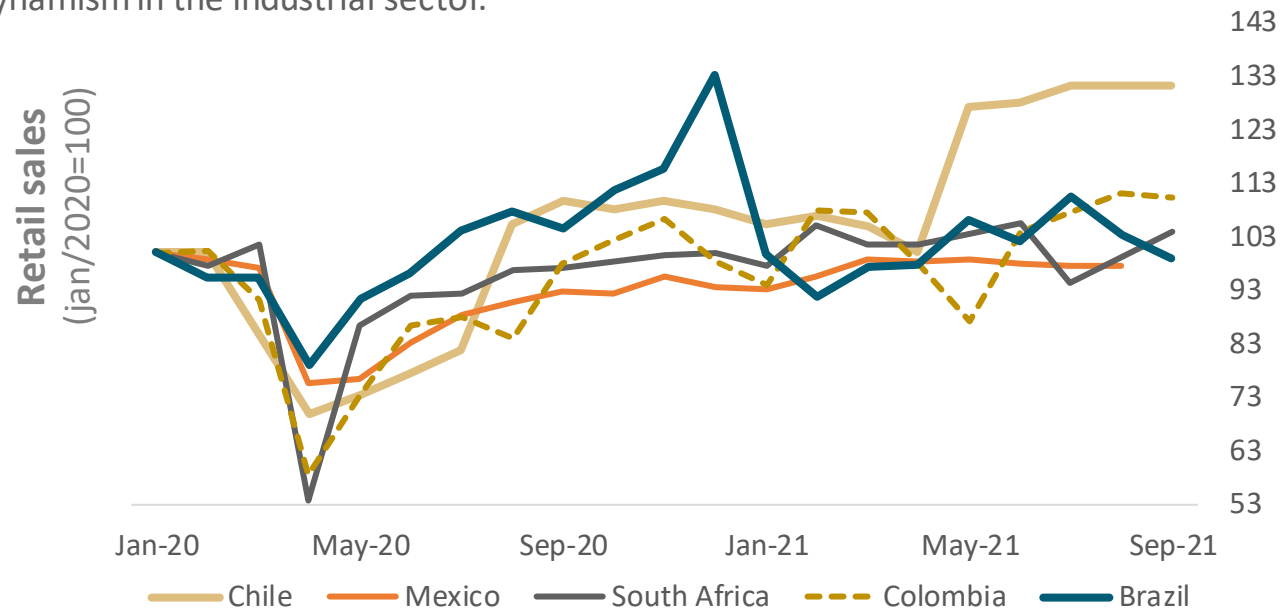
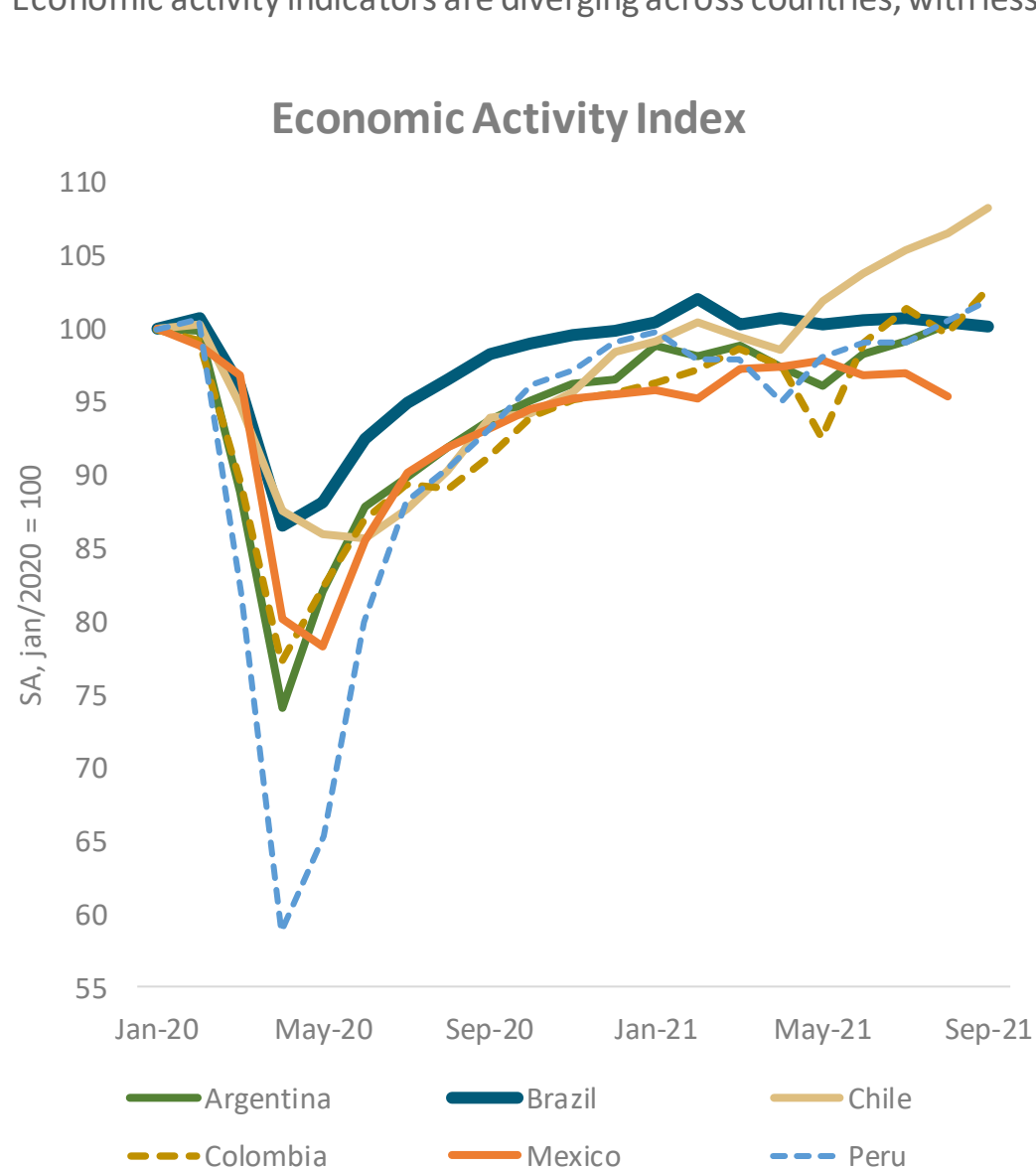


* Series at constant prices, seasonally adjusted. The series 'Asia ex. Japan and China' was calculated as a weighted average of Singapore, South Korea, Hong Kong, India, Indonesia, Philippines, Malaysia, Thailand, Taiwan and Turkey. The series of Singapore, India and Indonesia are not seasonally adjusted. Dotted lines are Bloomberg forecasts for Q3 2021.



Emerging economies: economic activity

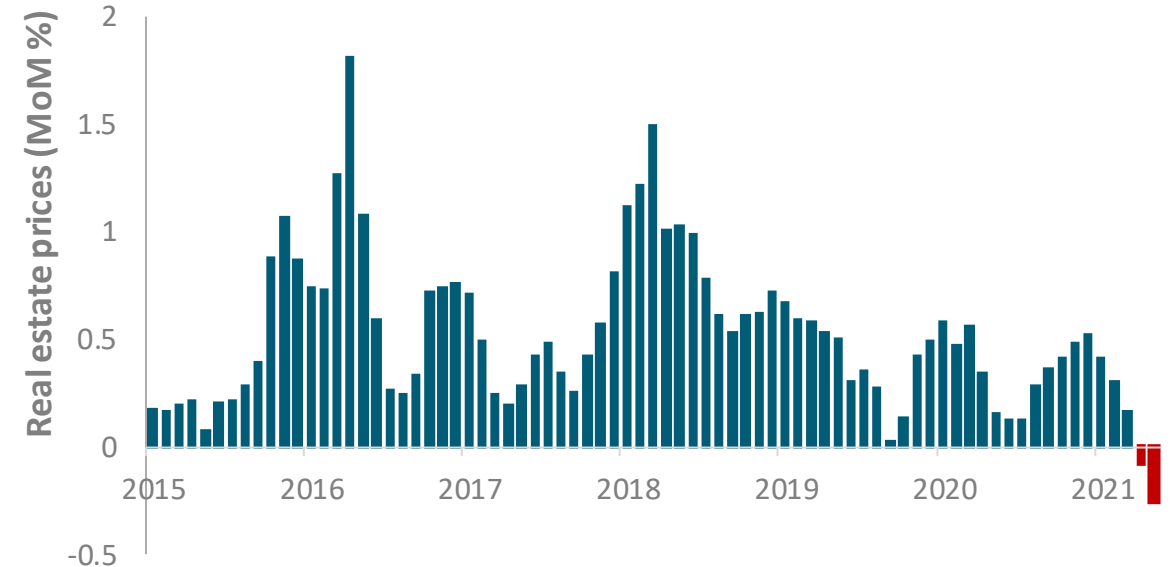
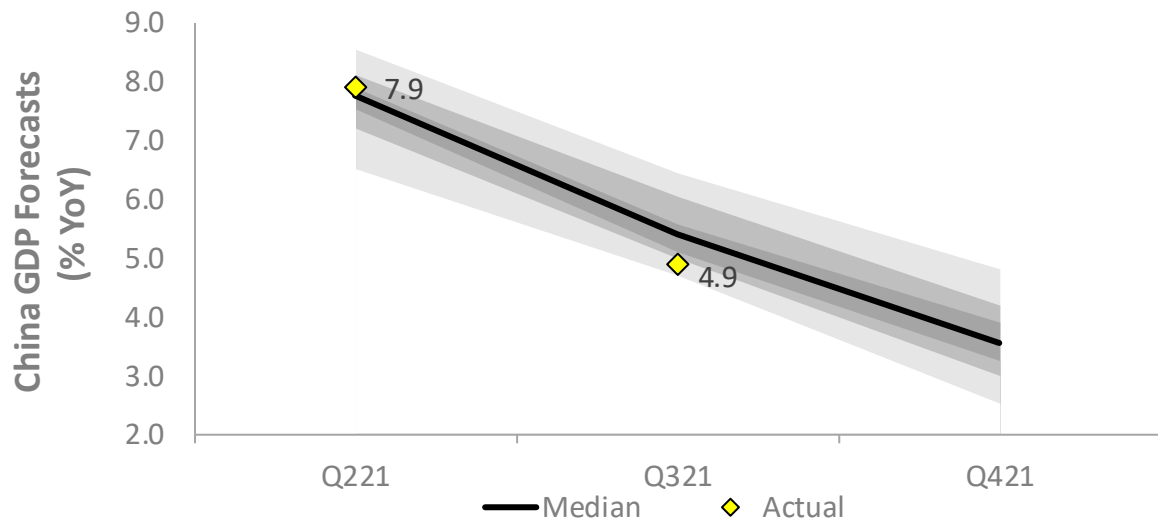
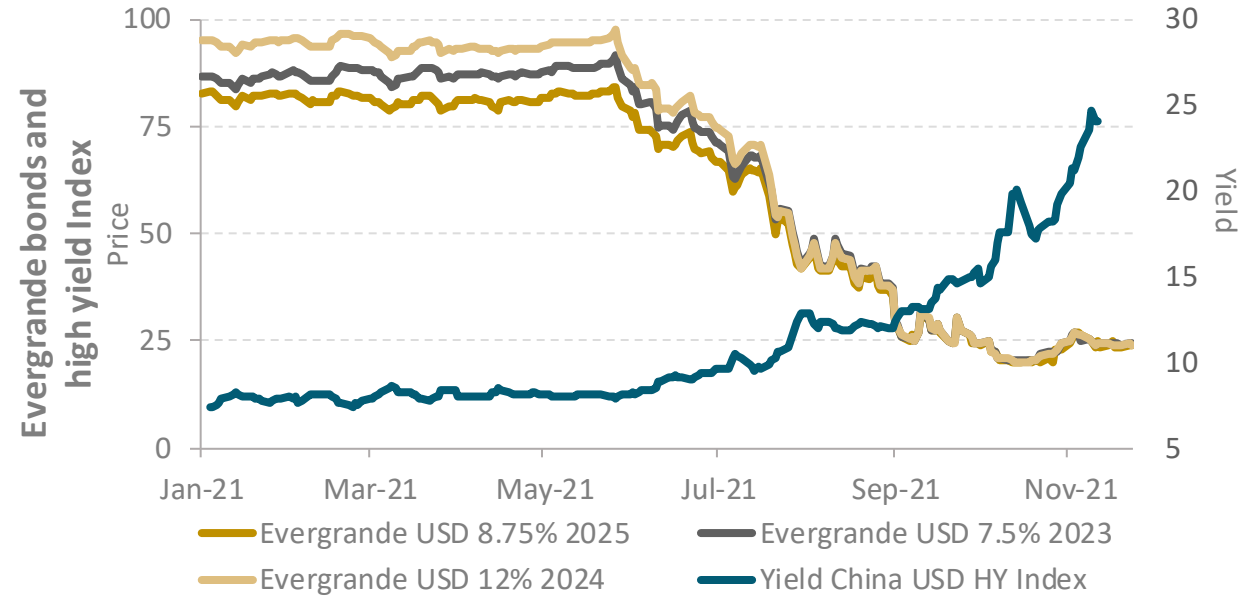
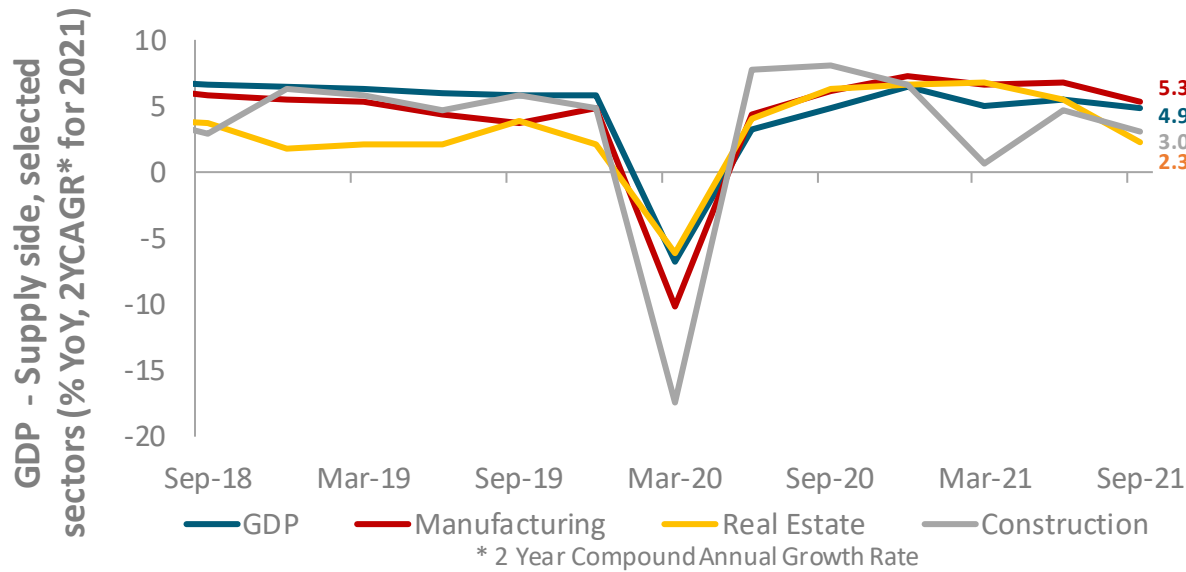
Economic activity indicators are diverging across countries, with less dynamism in the industrial sector.



Sources: Bloomberg, IBGE and BCB (Focus Report).

China

Chinese economy slowdown. Delta variant, real estate sector and energy crisis responsible for downturn.

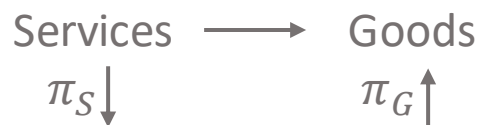


The shaded area is composed by the 10th, 25th, 35th, 65th, 75th and 90th percentiles.

Activity and inflation

The expected rebalancing of the inflation of goods and services after the reopening of the economies has not happened.

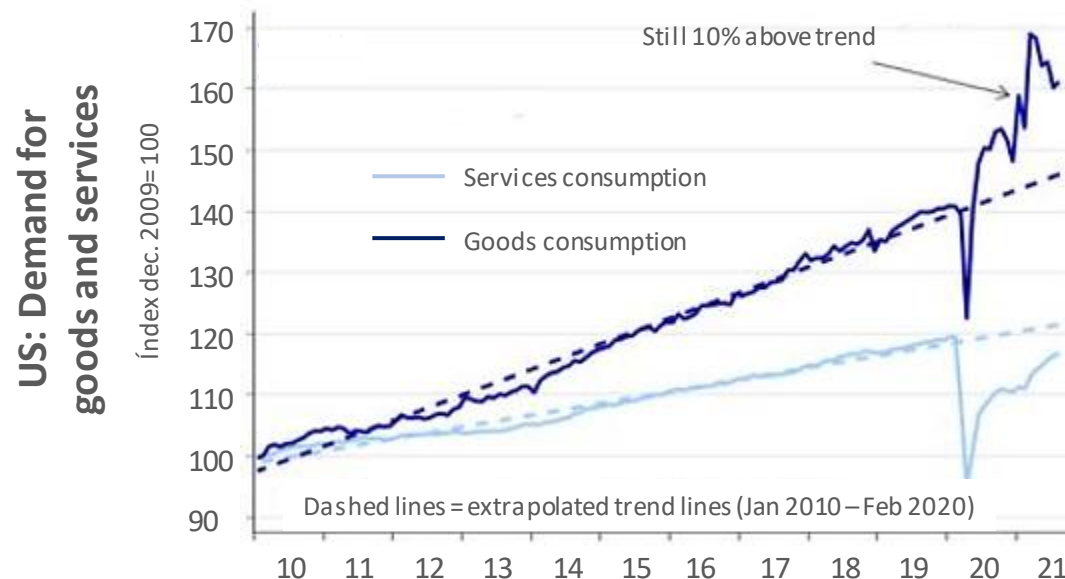
Covid crisis (lockdown)



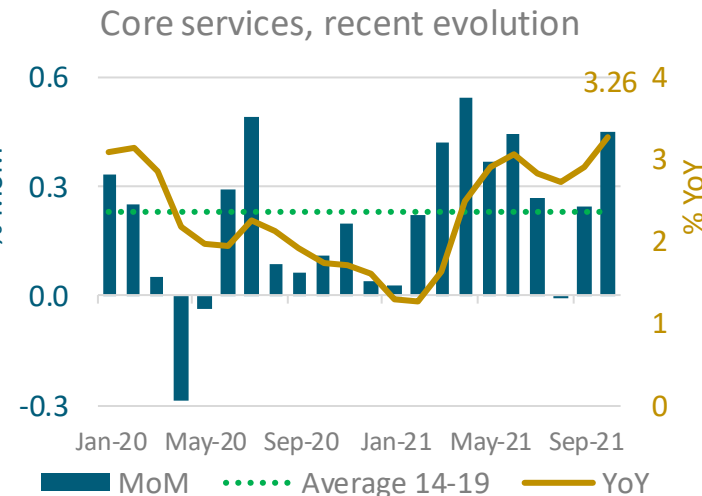
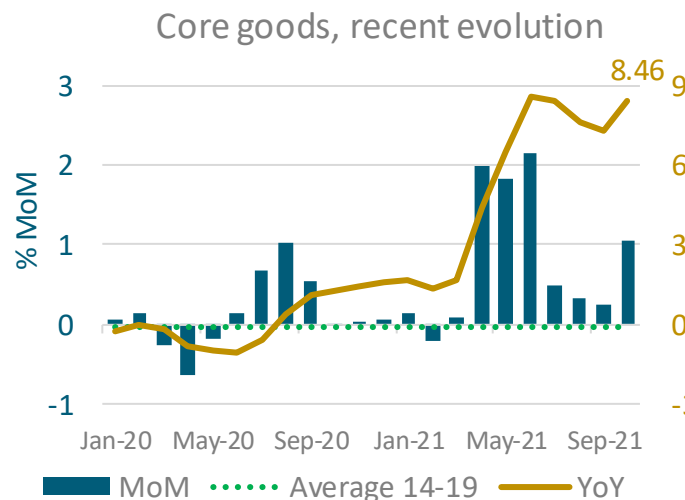
With the reopening, it was expected:



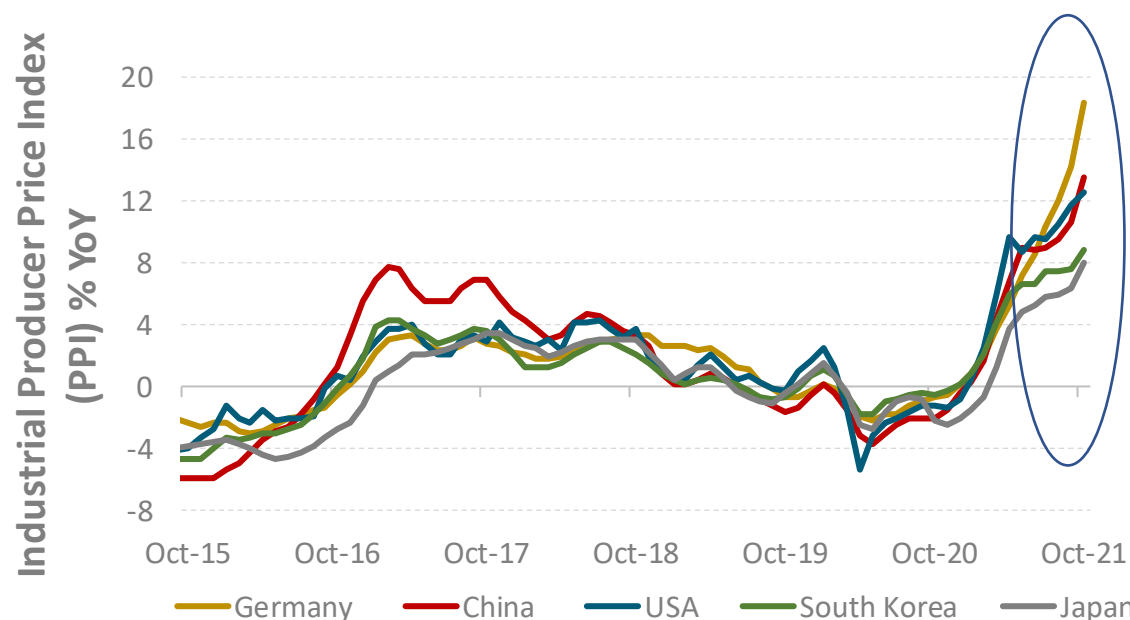
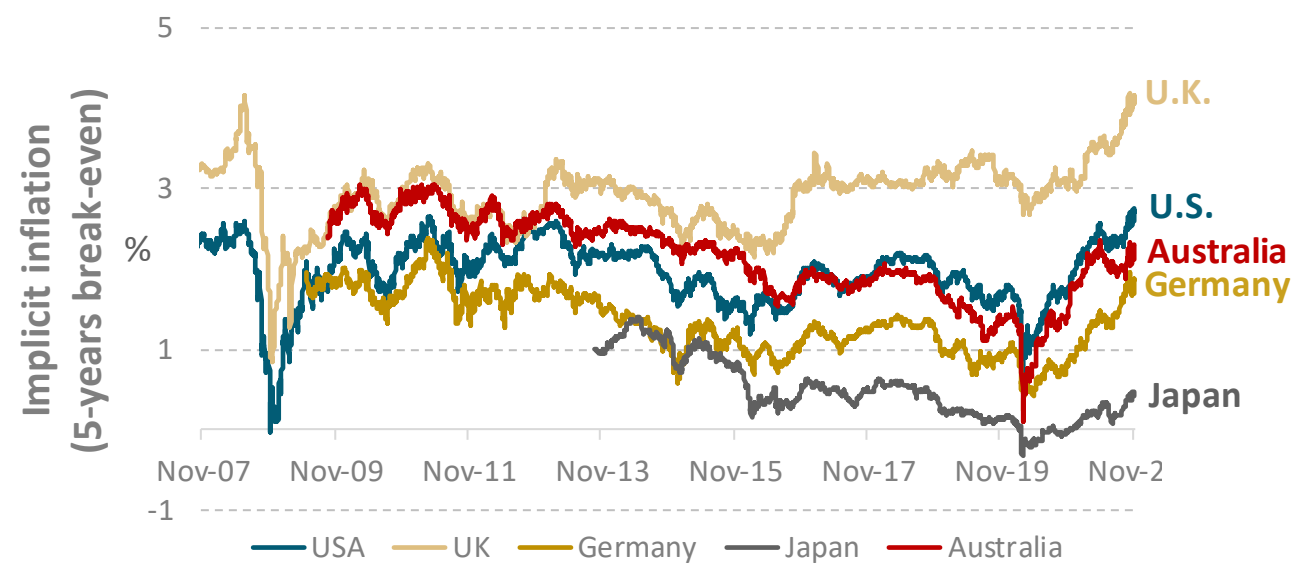
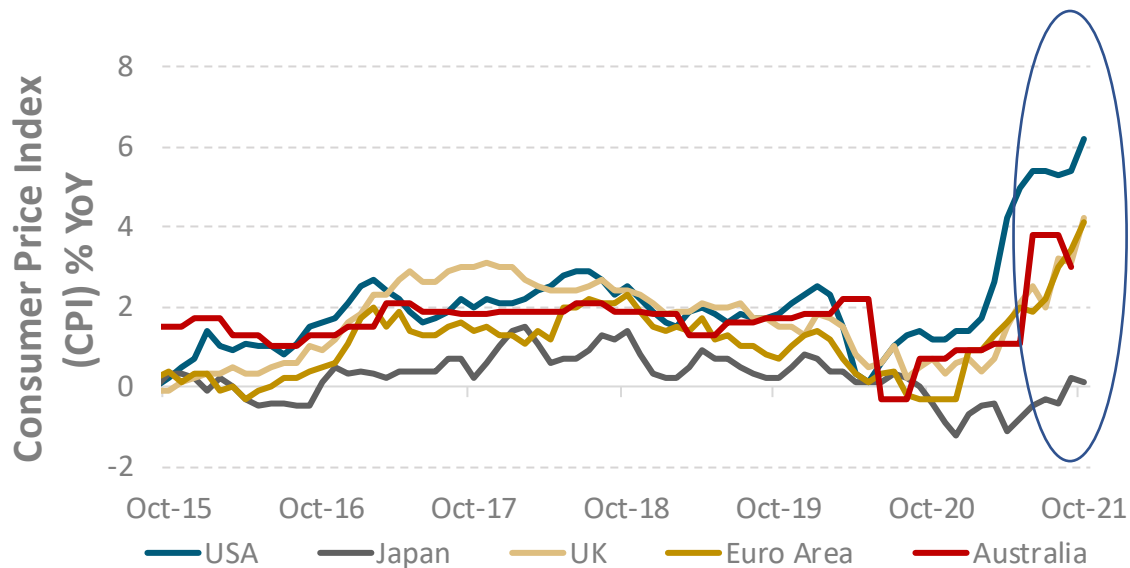
But this has not happened.



US: CPI – Goods and services core

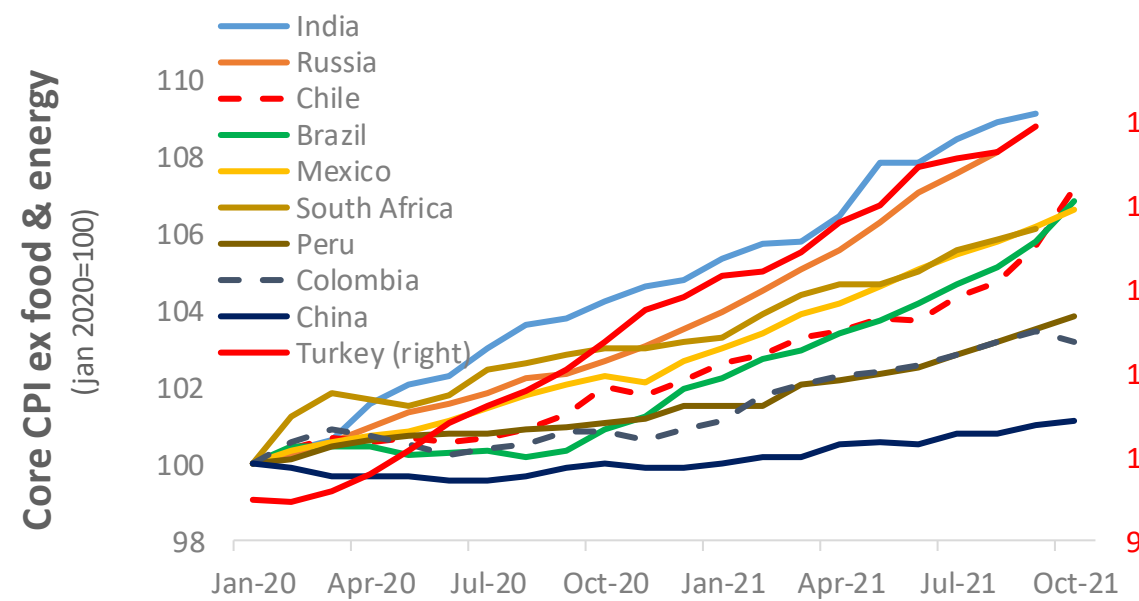
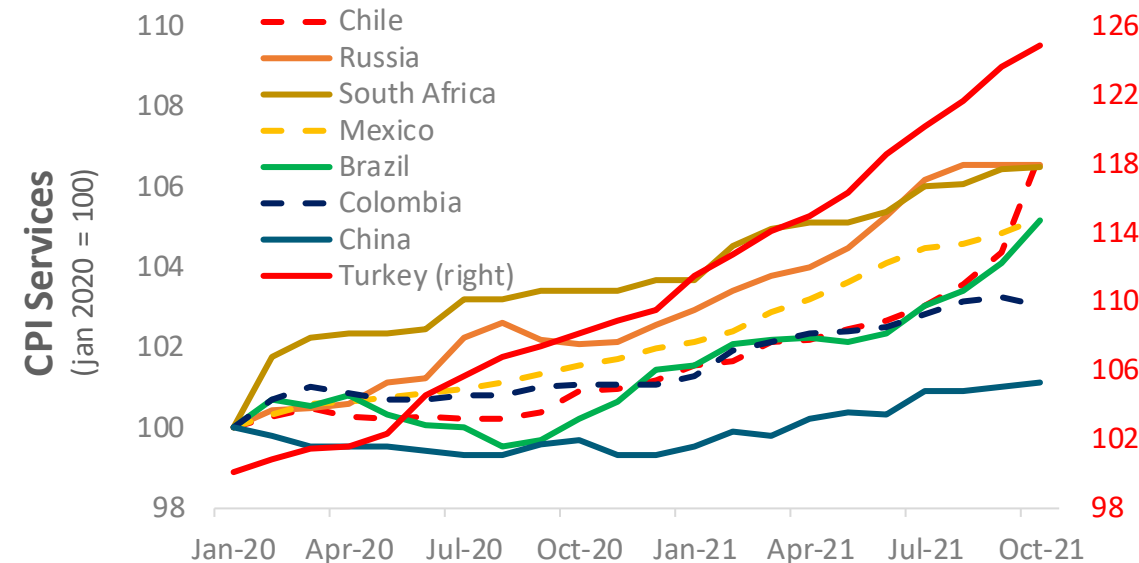
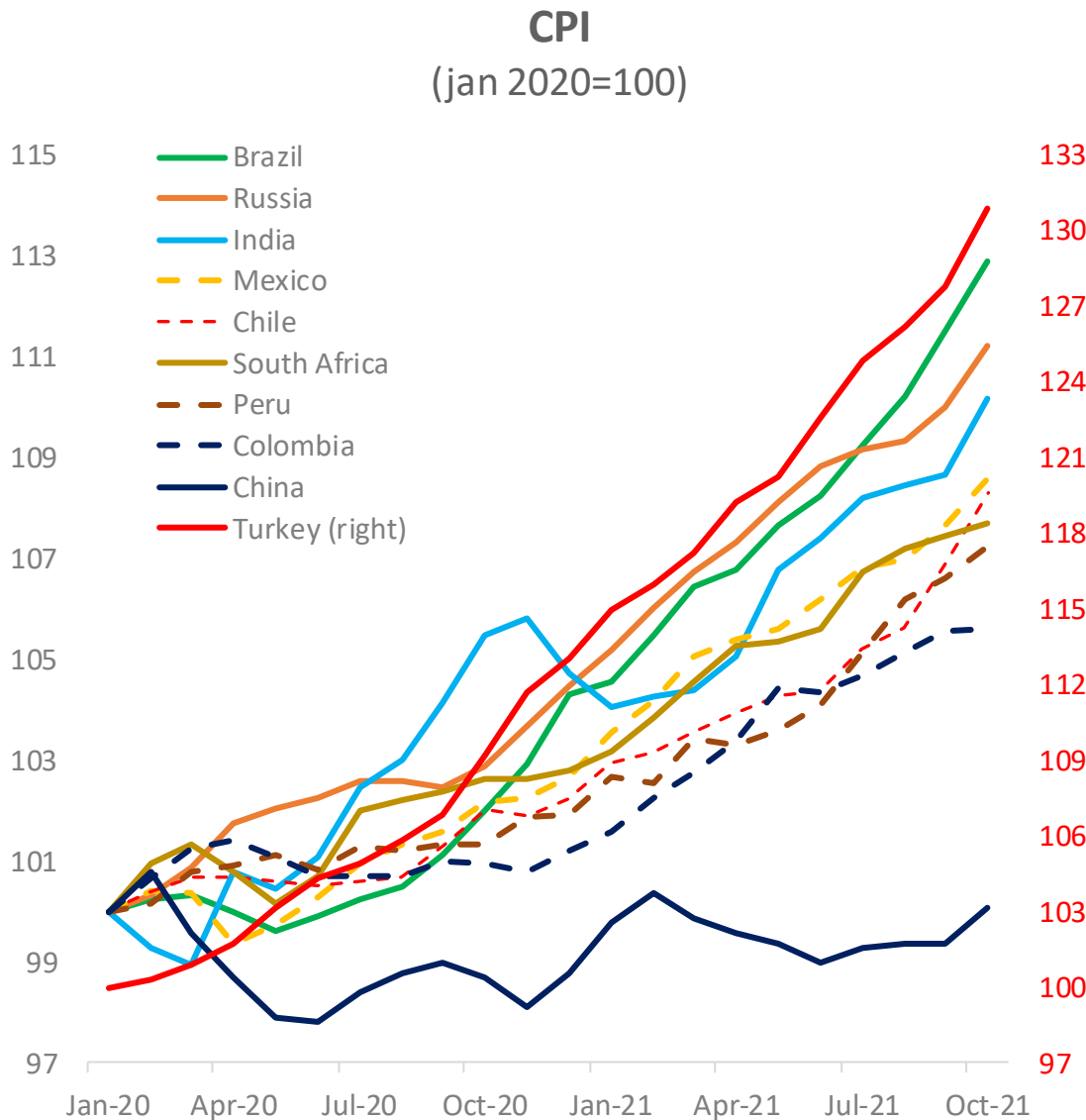


Advanced economies: inflation



Source: Bloomberg

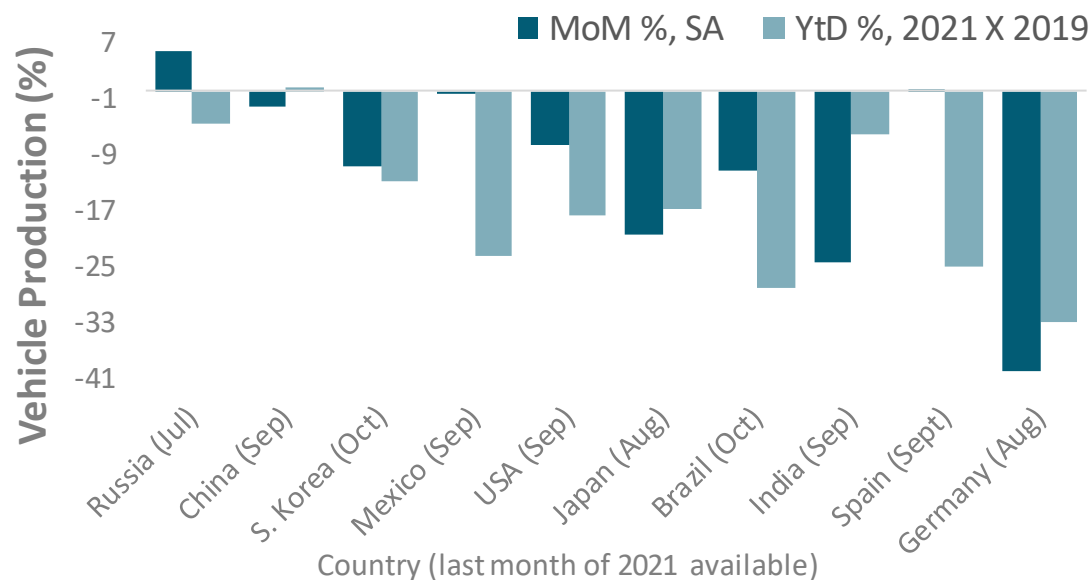
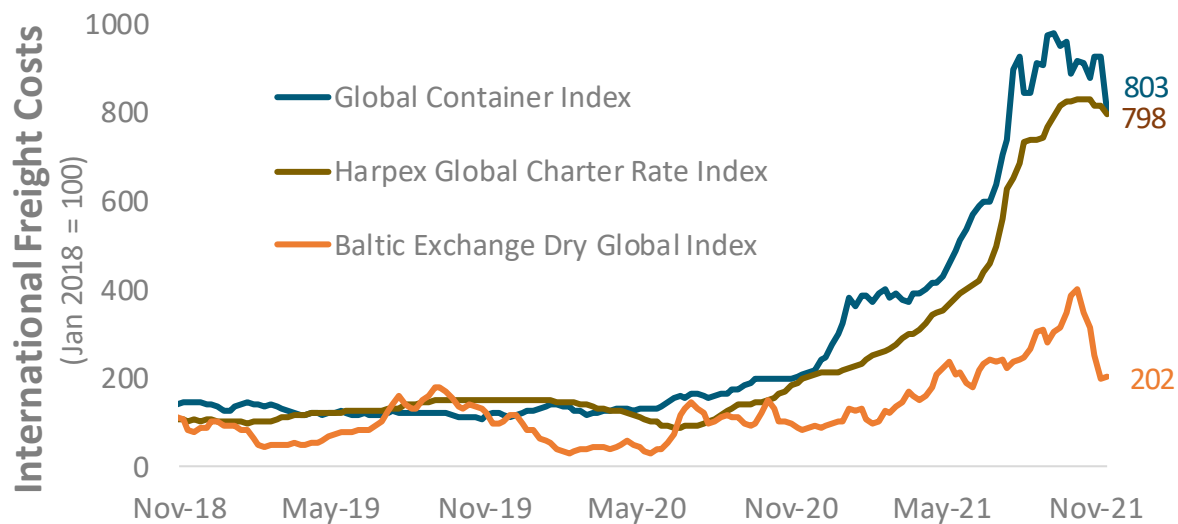
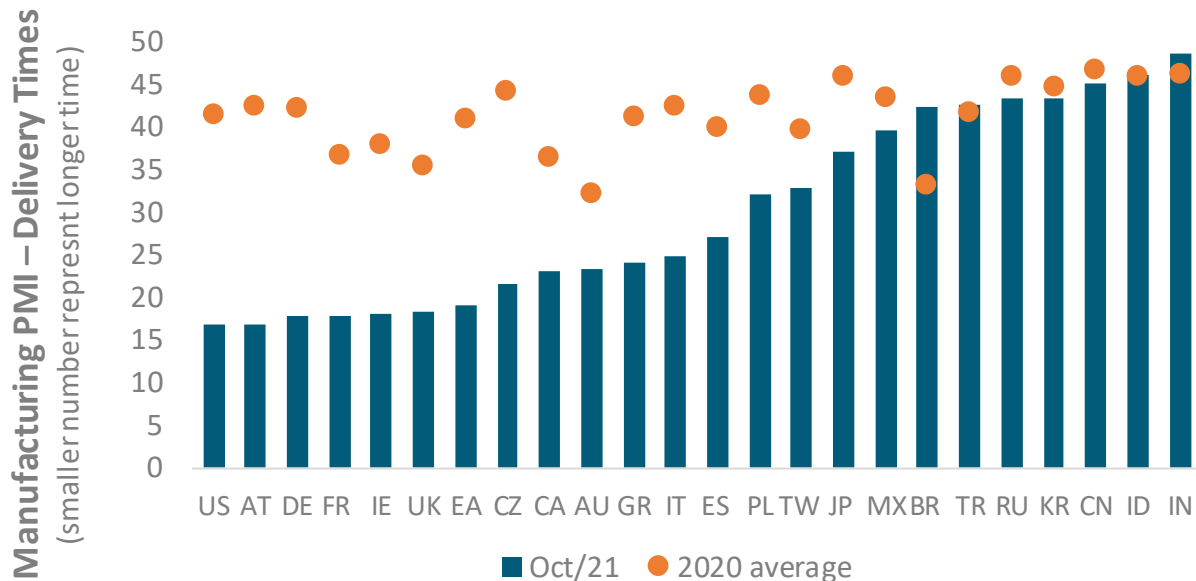
Emerging economies: inflation



Source: Bloomberg.

Sectoral bottlenecks

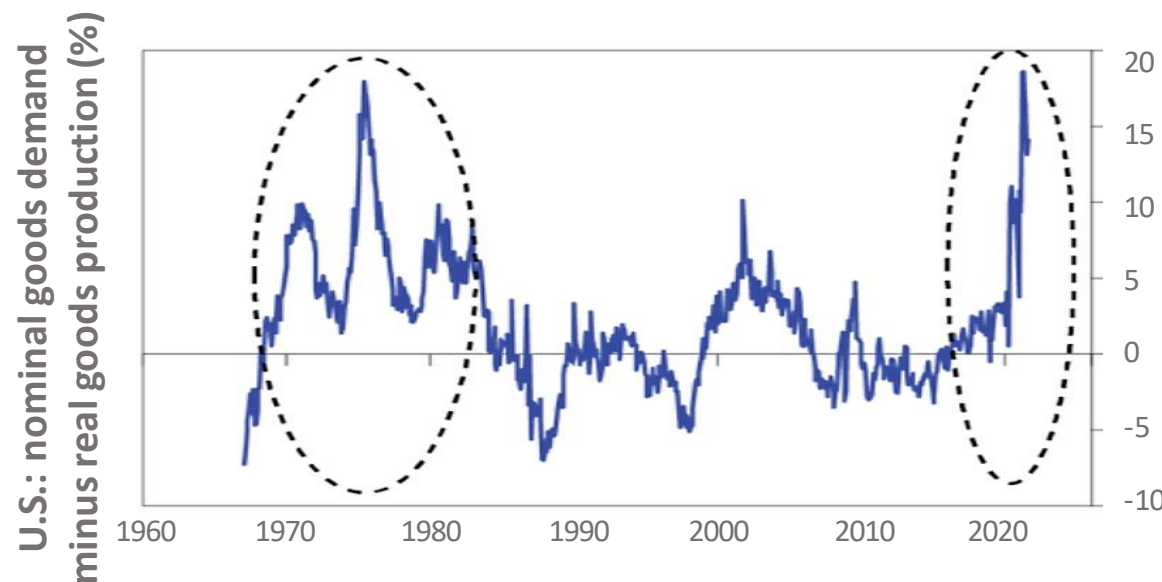
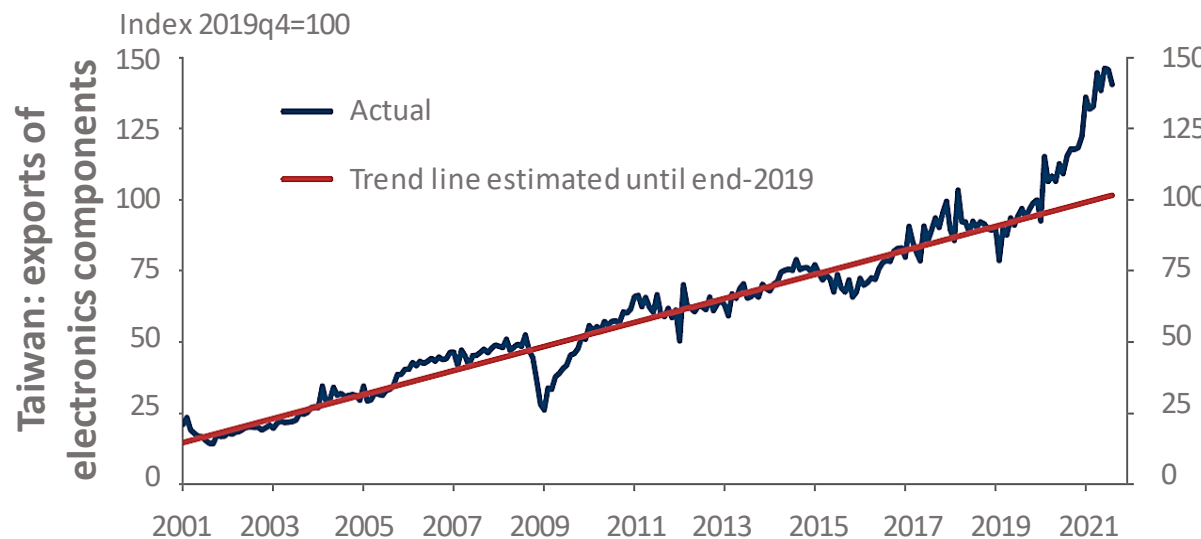
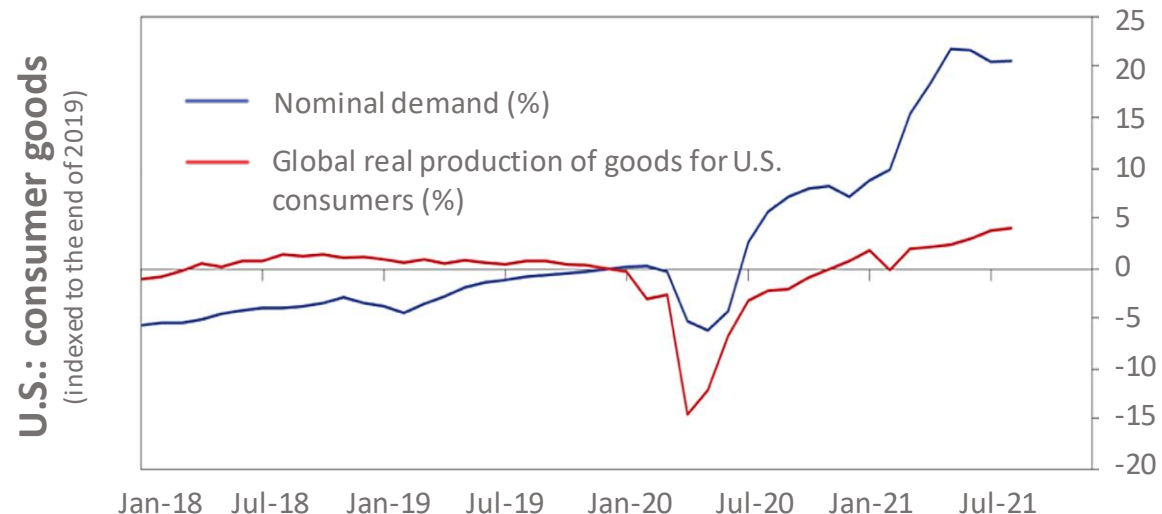
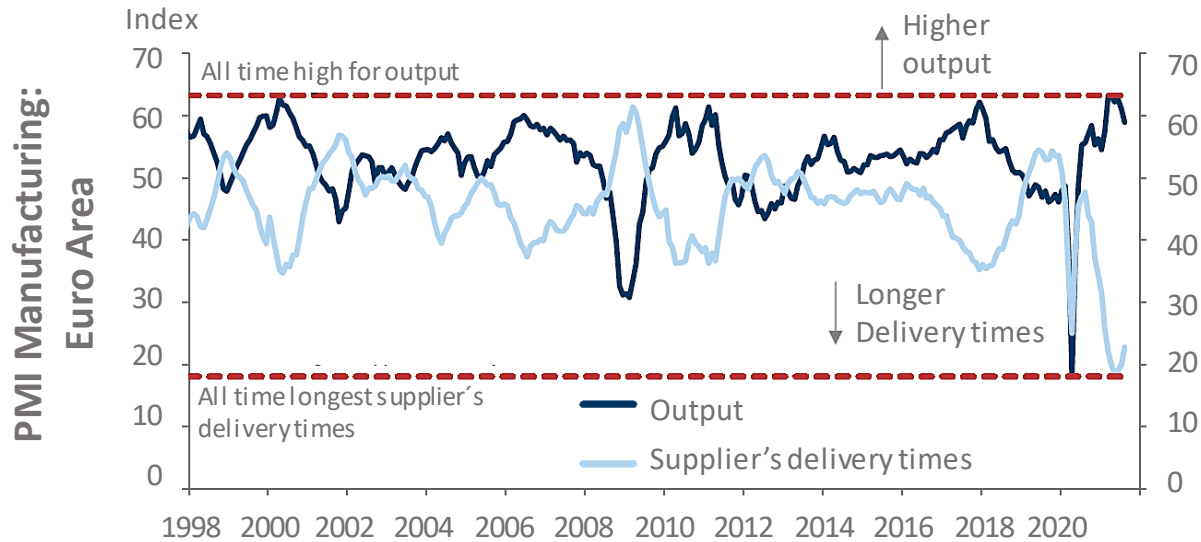
Indicators suggest bottlenecks in the global economy.



Sources: Bloomberg, Refinitiv, LMC Automotive, CEIC.

Bottlenecks: supply or demand?

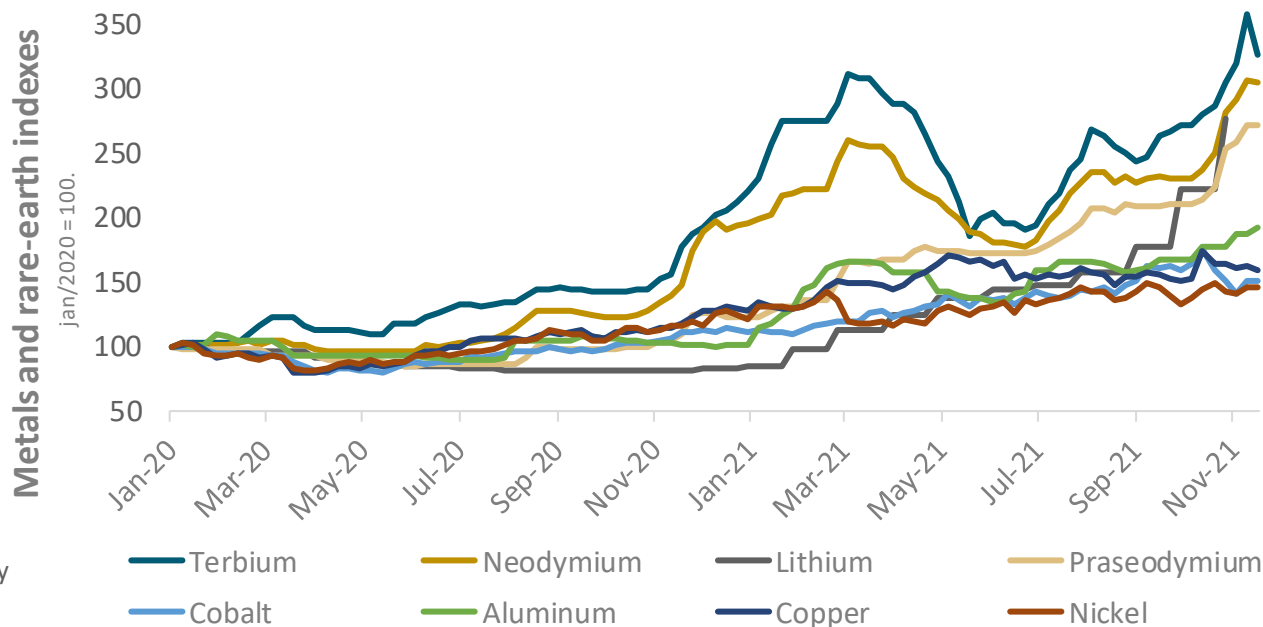
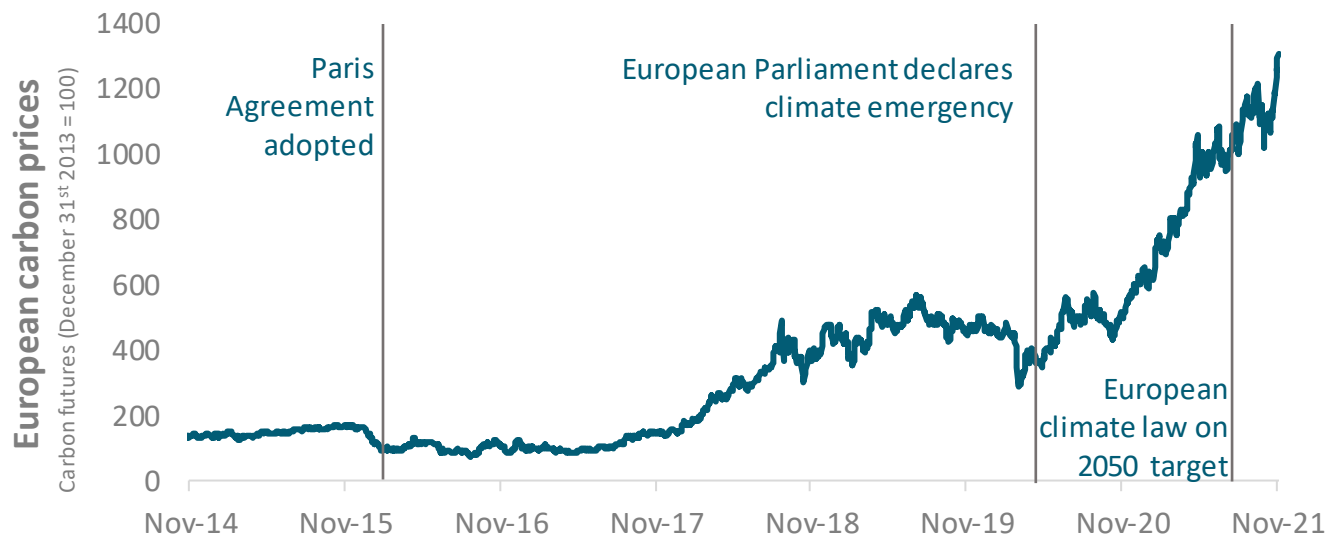
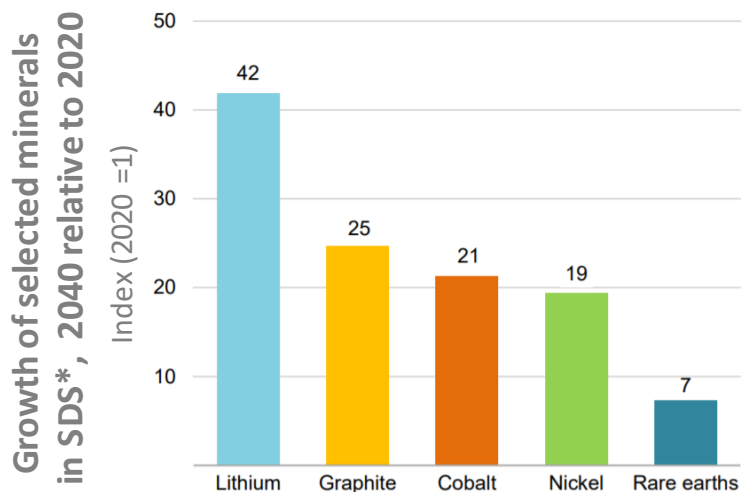
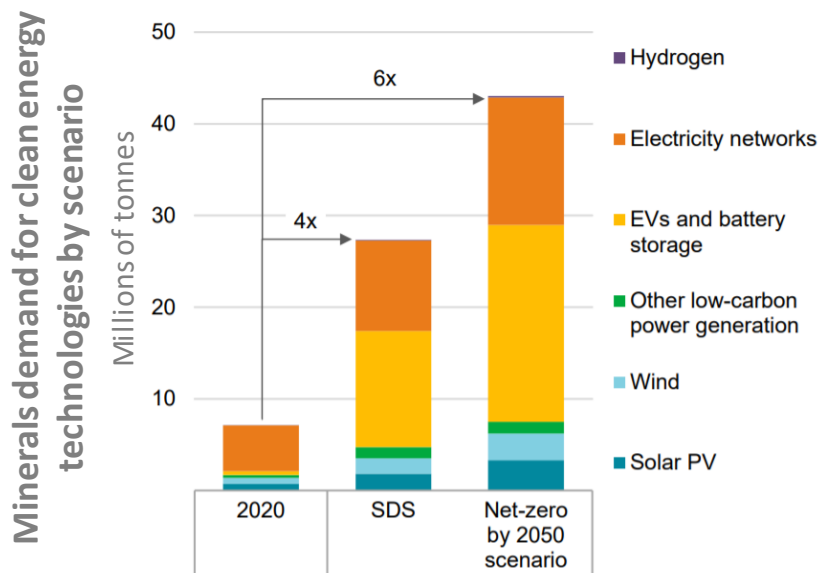
Elevated manufacturing output suggest bottlenecks are being mostly caused by strong demand rather than weak supply.



Sources: Goldman Sachs, Bridgewater Associates.

Green inflation

The transition for a greener economy is fueling a huge demand for key raw materials and adding to the global inflation

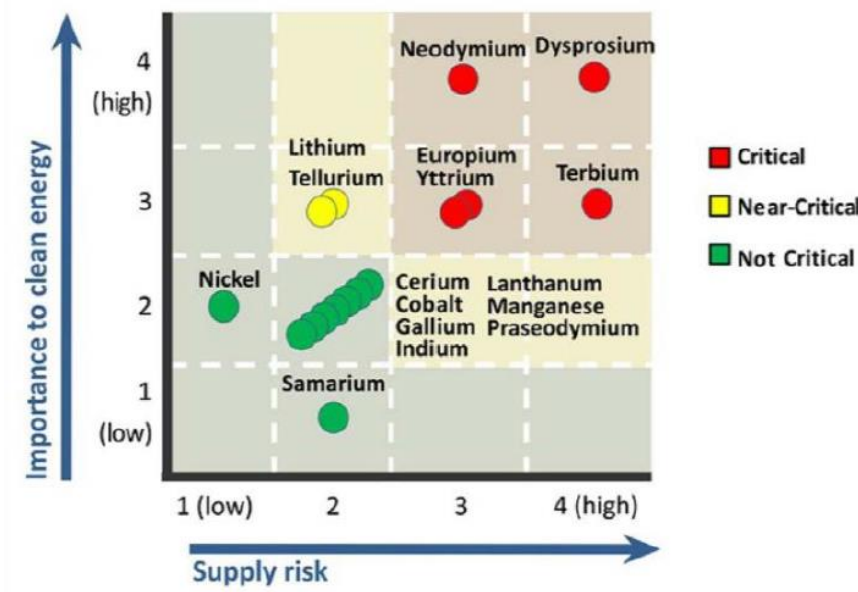


*SDS = Sustainable Development Scenario, indicating what would be required in a trajectory consistent with meeting the Paris Agreement goals.
Source: International Energy Agency (IEA), Bloomberg.

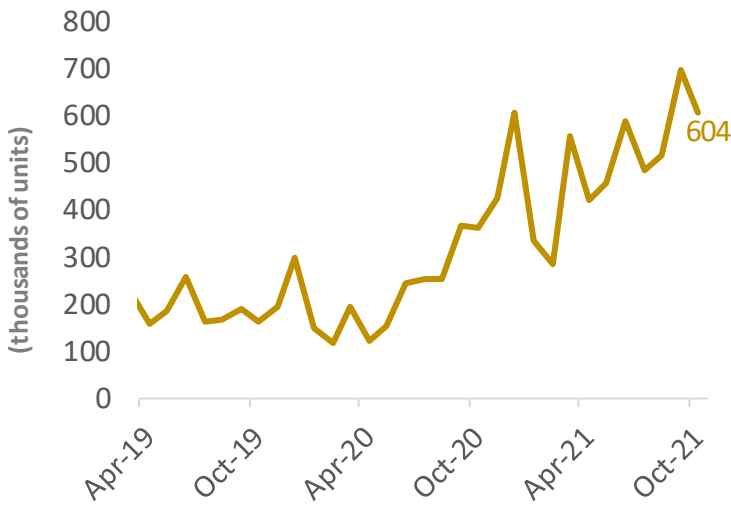
Rare-earth metals



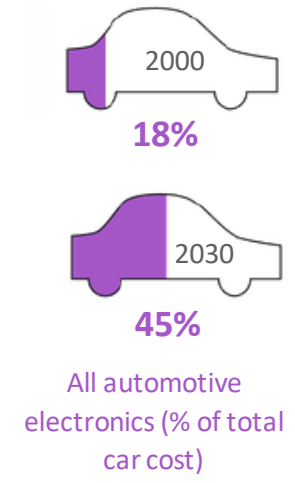
Supply risks and importance to clean energy of rare-earth metals



Global Electric Vehicle Sales (thousands of units)



Cost of electronics in cars (%)

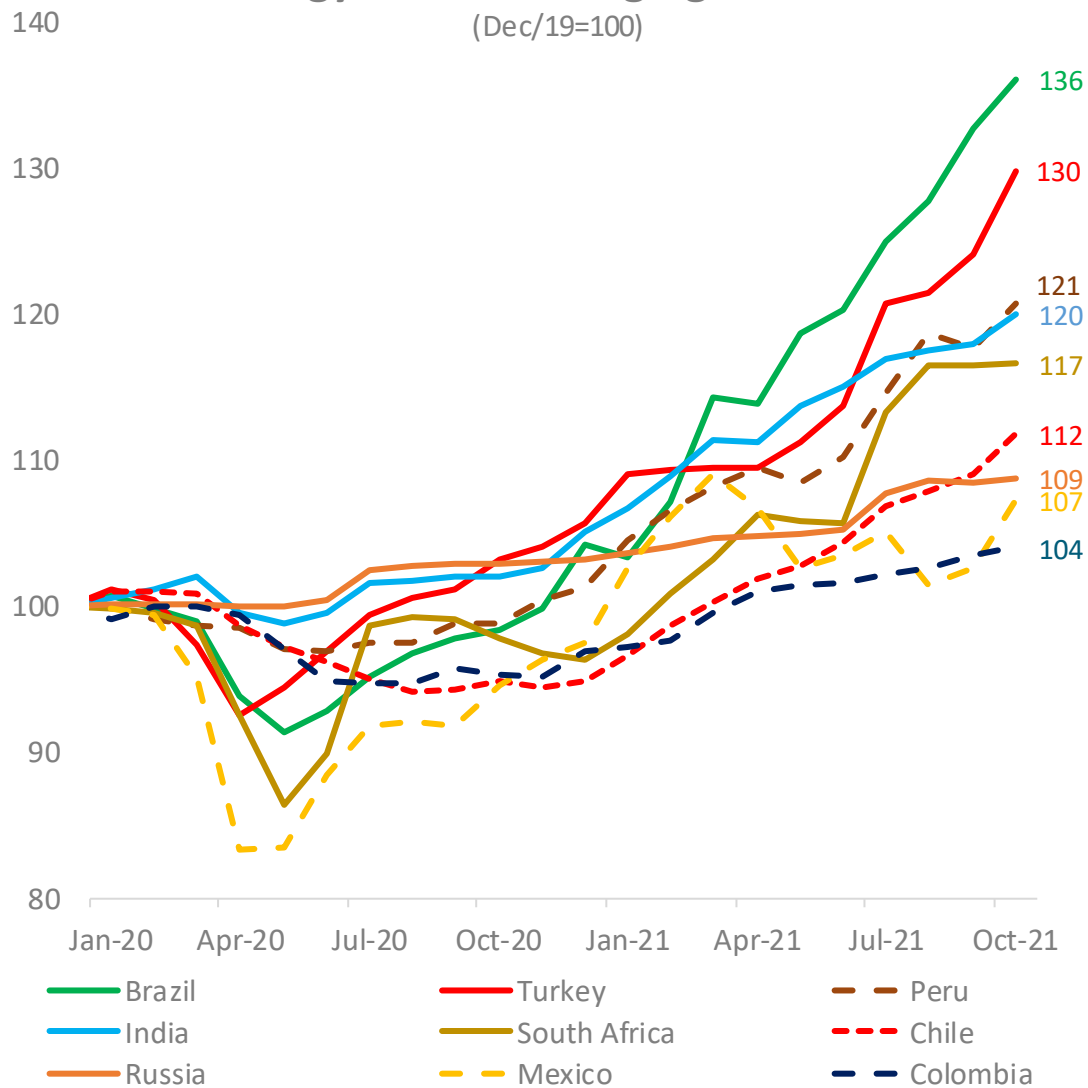


Energy prices

Higher demand for goods has led to increased energy consumption and prices.

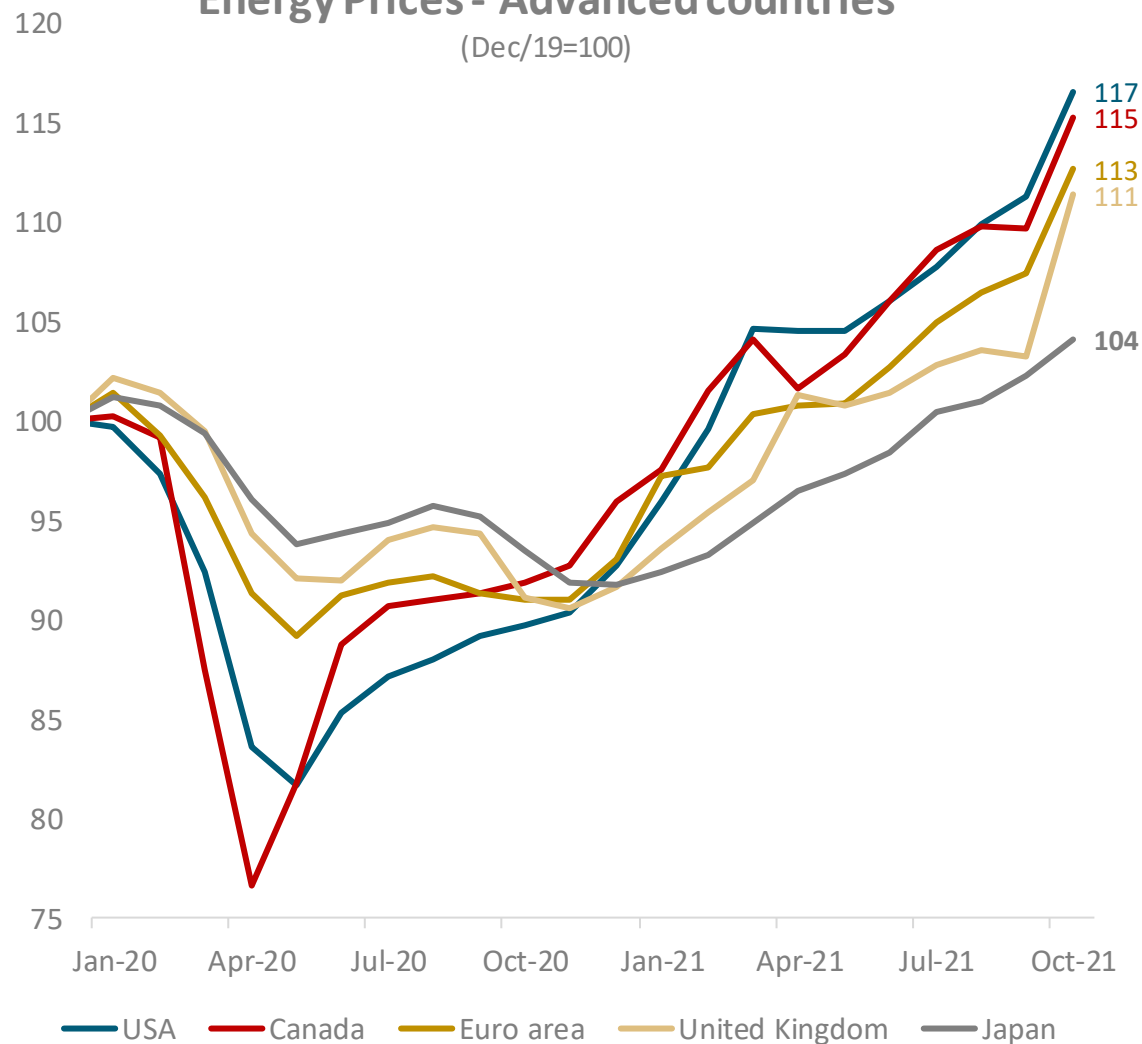
Energy Prices - Emerging countries

(Dec/19=100)



Energy Prices - Advanced countries

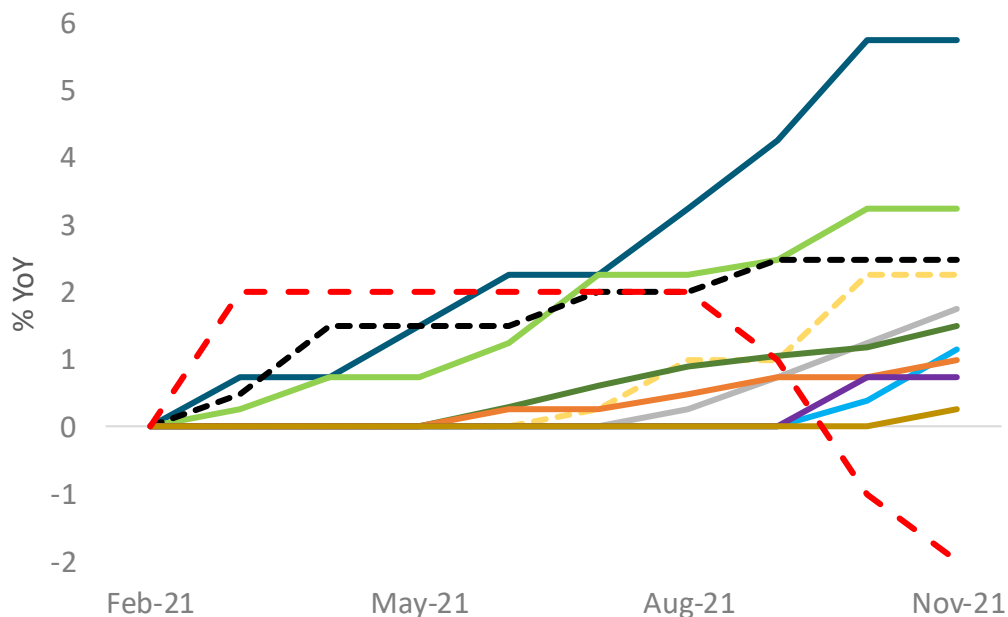
(Dec/19=100)



Source: Bloomberg.

Monetary policy

Policy rate change since Feb/21



- Brazil +5.75
- Russia +3.25
- - - Ukraine +2.50
- - - Chile +2.25
- Peru +1,75
- Hungary +1.50
- Poland +1.15
- Mexico +1.0
- Colombia +0.75
- South Africa +0.25
- - - Turkey -2.0

MONETARY POLICY PRICING

	Change in 2021 b.p.	Present policy rate (%)	6 Mounths pricing b.p.	1 Year pricing b.p.
Americas				
USA	0	0.13 ▬	+15	+57
Canada	0	0.25 ▬	+66	+127
Mexico	75	5.00 ↑	+136	+231
Chile	225	2.75 ↑	+277	+275
Brazil	575	7.75 ↑	+570	+563
Colombia	75	2.50 ↑	+221	+410
EMEA				
Euro area	0	-0.50 ▬	+1	+14
UK	0	0.10 ▬	+60	+107
Russia	325	7.50 ↑	+206	+101
Africa do Sul	25	3.75 ↑	+112	+194
Turkey	-200	15.00 ↓	+463	+559
Asia/Pacific				
Australia	0	0.10 ▬	+16	+87
New Zeland	25	0.50 ↑	+114	+198
Japan	0	-0.10 ▬	+6	+6
China	0	2.20 ▬	+15	+24
India	0	4.00 ▬	+86	+135
Korea	25	0.75 ▬	+57	+108

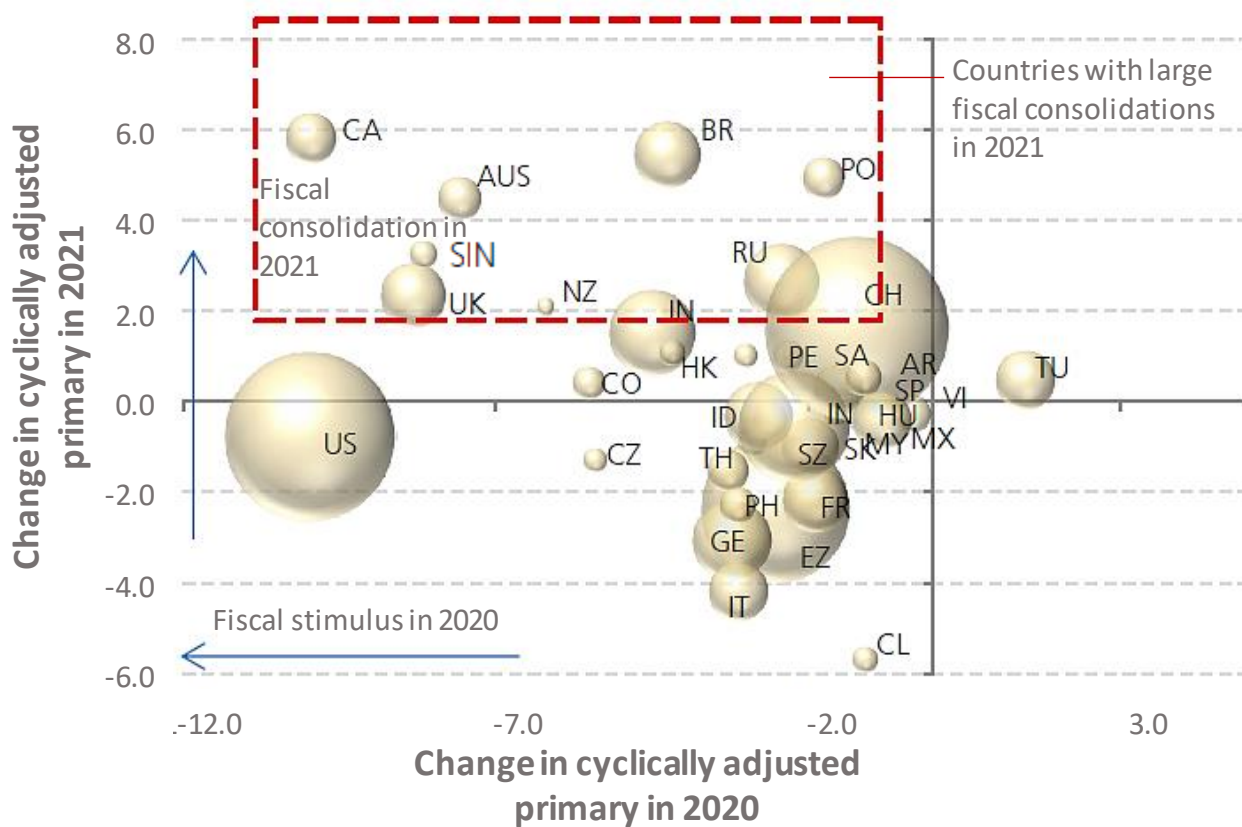
Updated until 11/22/2021

Fiscal adjustment

Fiscal change is 5 times higher than post-GFC as a proportion of global GDP. Brazil is among the countries with the greatest fiscal consolidation in 2021.

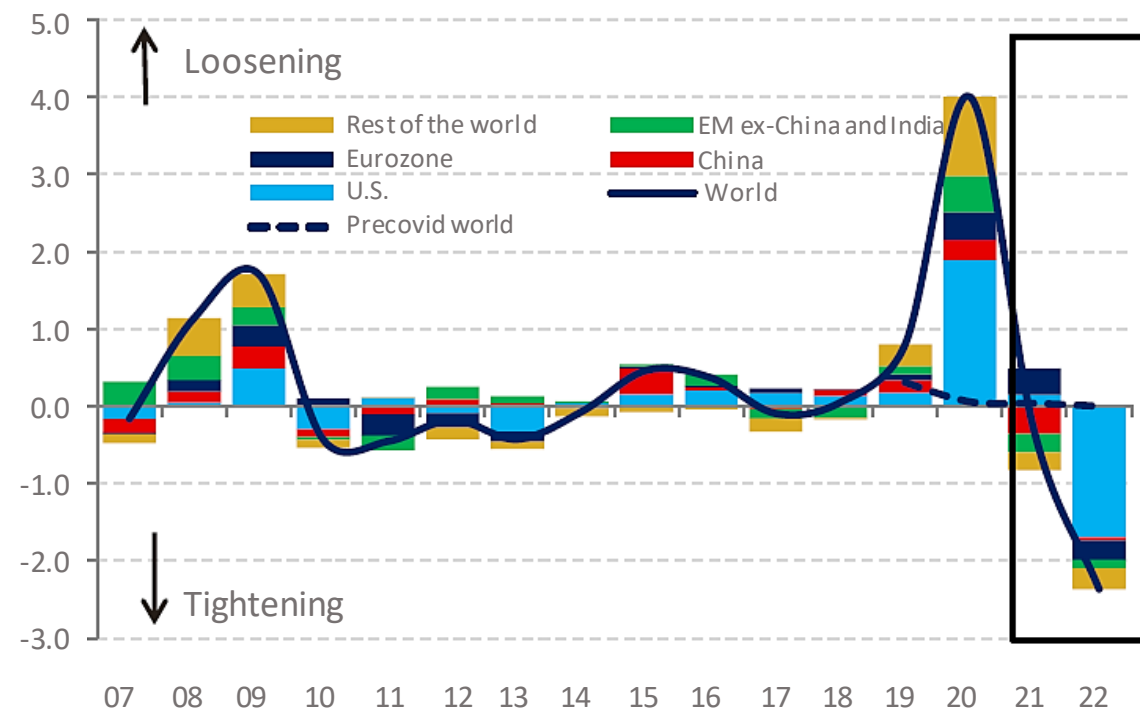
Fiscal impulse 2020 vs. 2021

Where is fiscal consolidation largest in 2021?



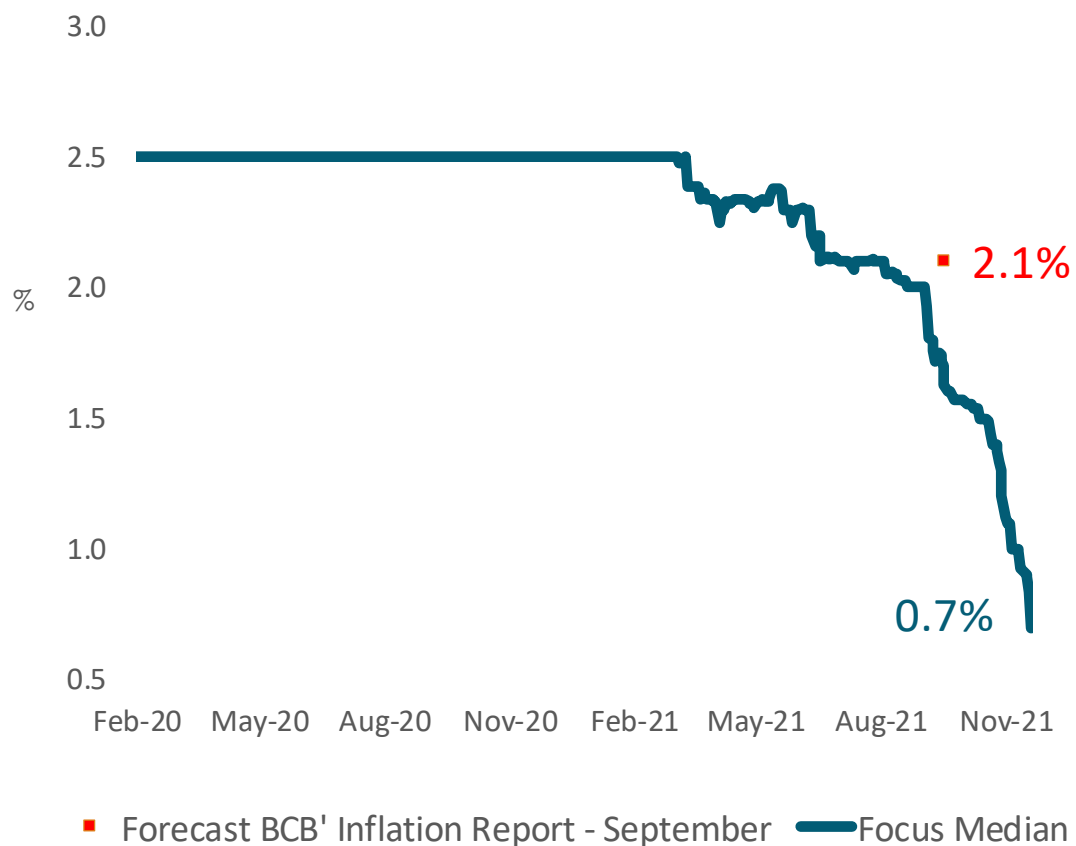
Change in primary fiscal balance

Cyclically adjusted, as % of global GDP



Brazil's GDP: forecasts for 2022

GDP – Evolution of the 2022 GDP projection



Assumptions for BCB's forecast in September's Inflation Report

- Decrease in uncertainty over time;
- Maintenance of the fiscal regime;
- Higher electricity prices, but no rationing;
- Pandemic continuing to recede.

There is a downside bias to the projection.

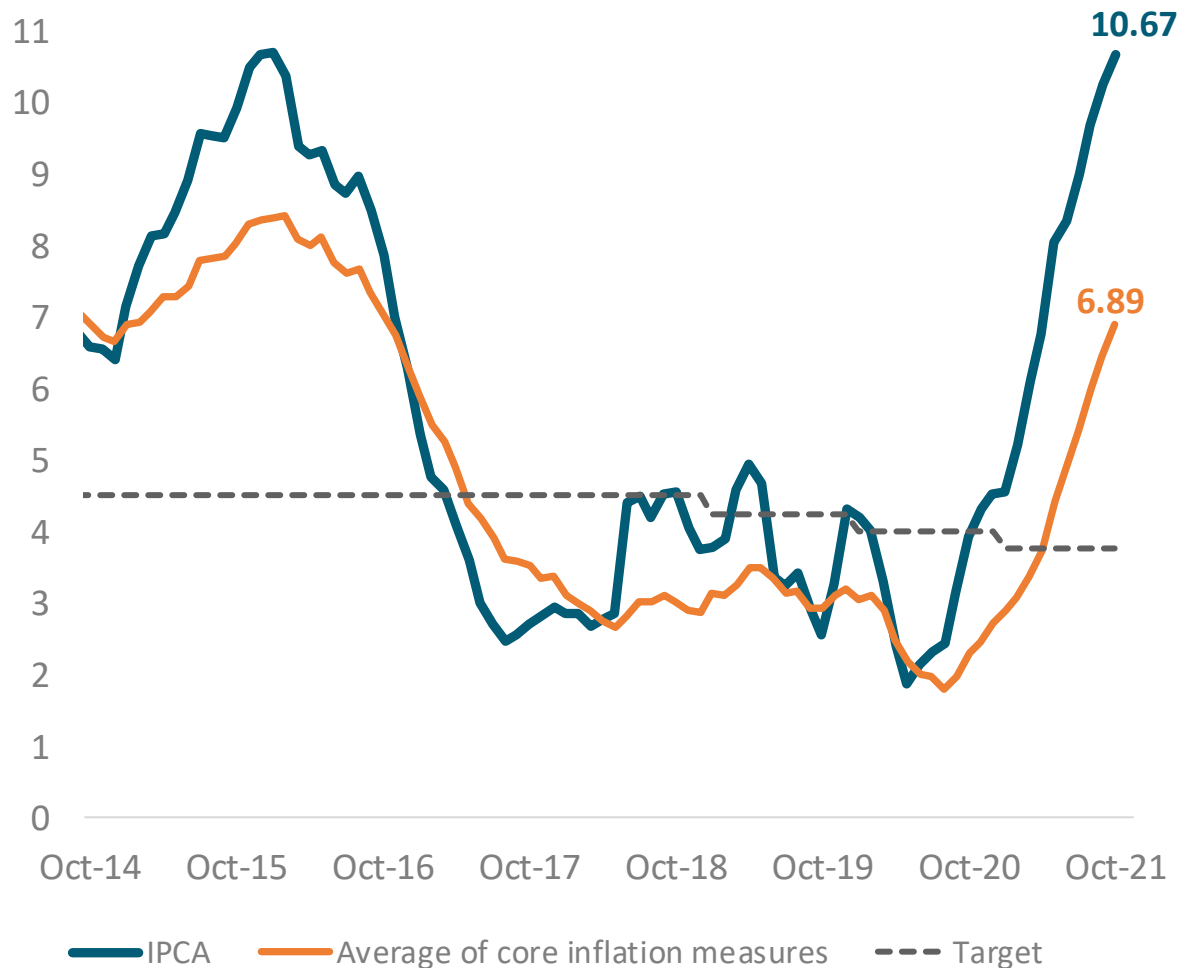
- Higher fiscal uncertainty;
- Expectations of tighter monetary policy;
- Negative surprises of high frequency indicators.

However, some factors are expected to contribute to the 2022 GDP:

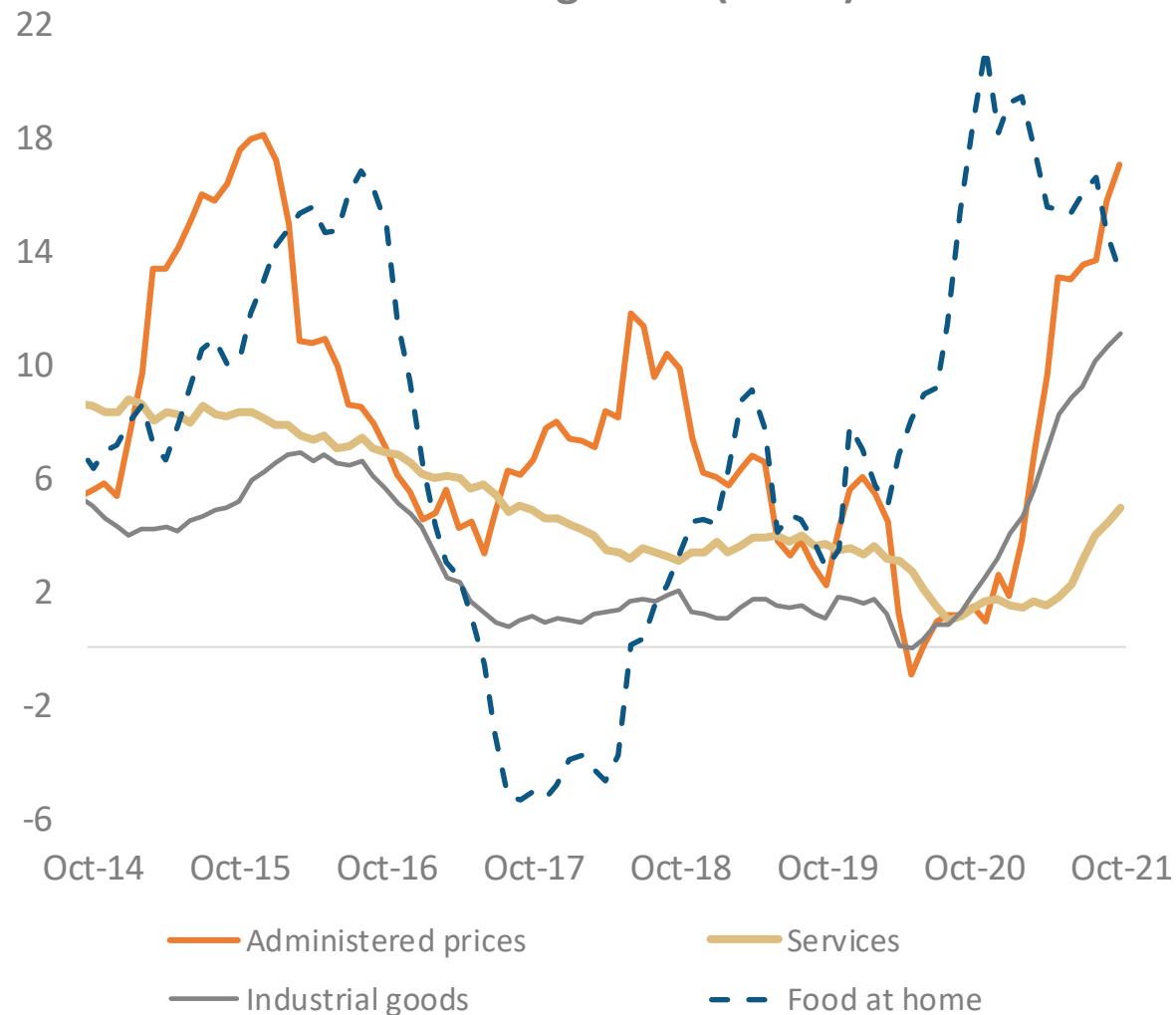
- Favorable perspectives for agriculture and extractive activity;
- Sectors that are still depressed and that should continue to benefit from the opening of the economy (such as Government and Other services);
- Expectation that the normalization process in the supply of inputs will contribute favorably to the activity in 2022.

Consumer inflation

IPCA and target (% YoY)

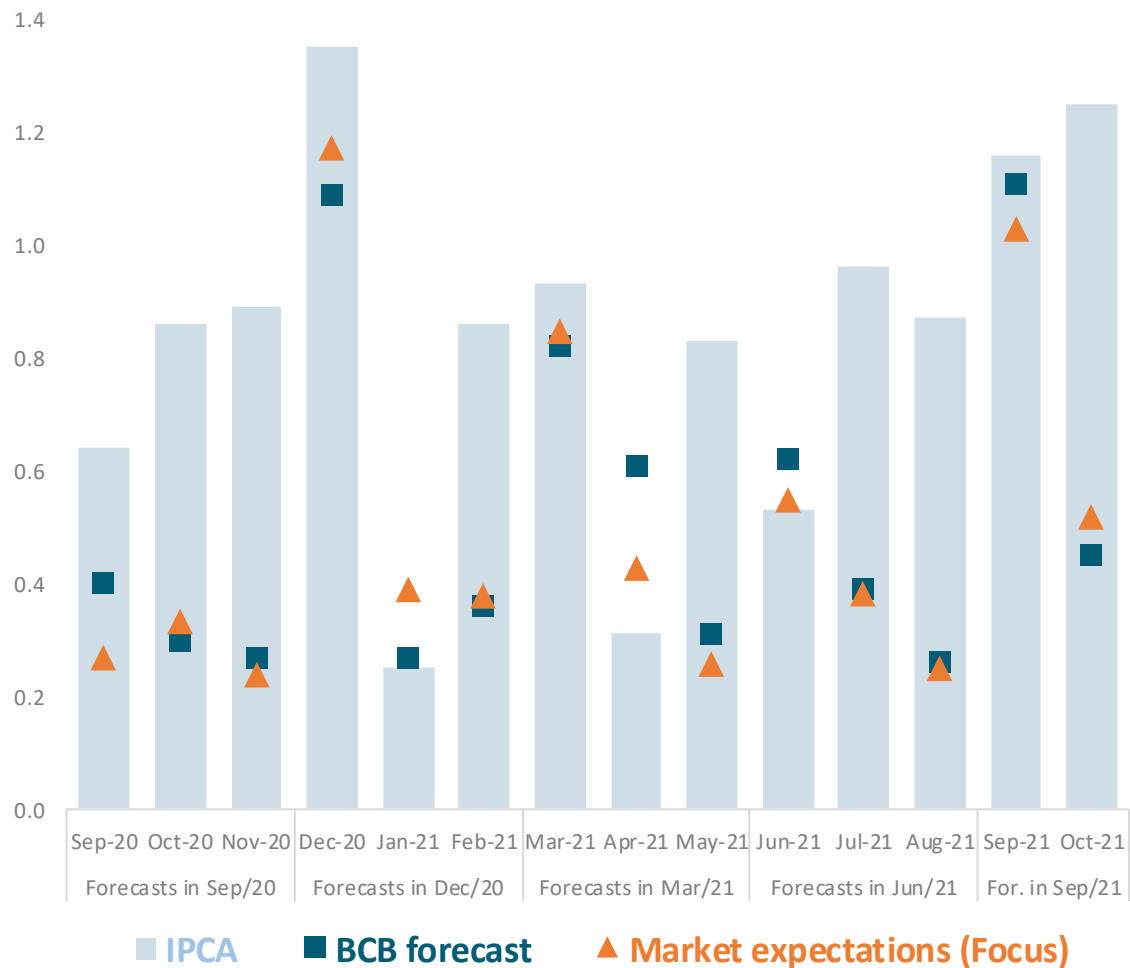


Inflation segments (% YoY)

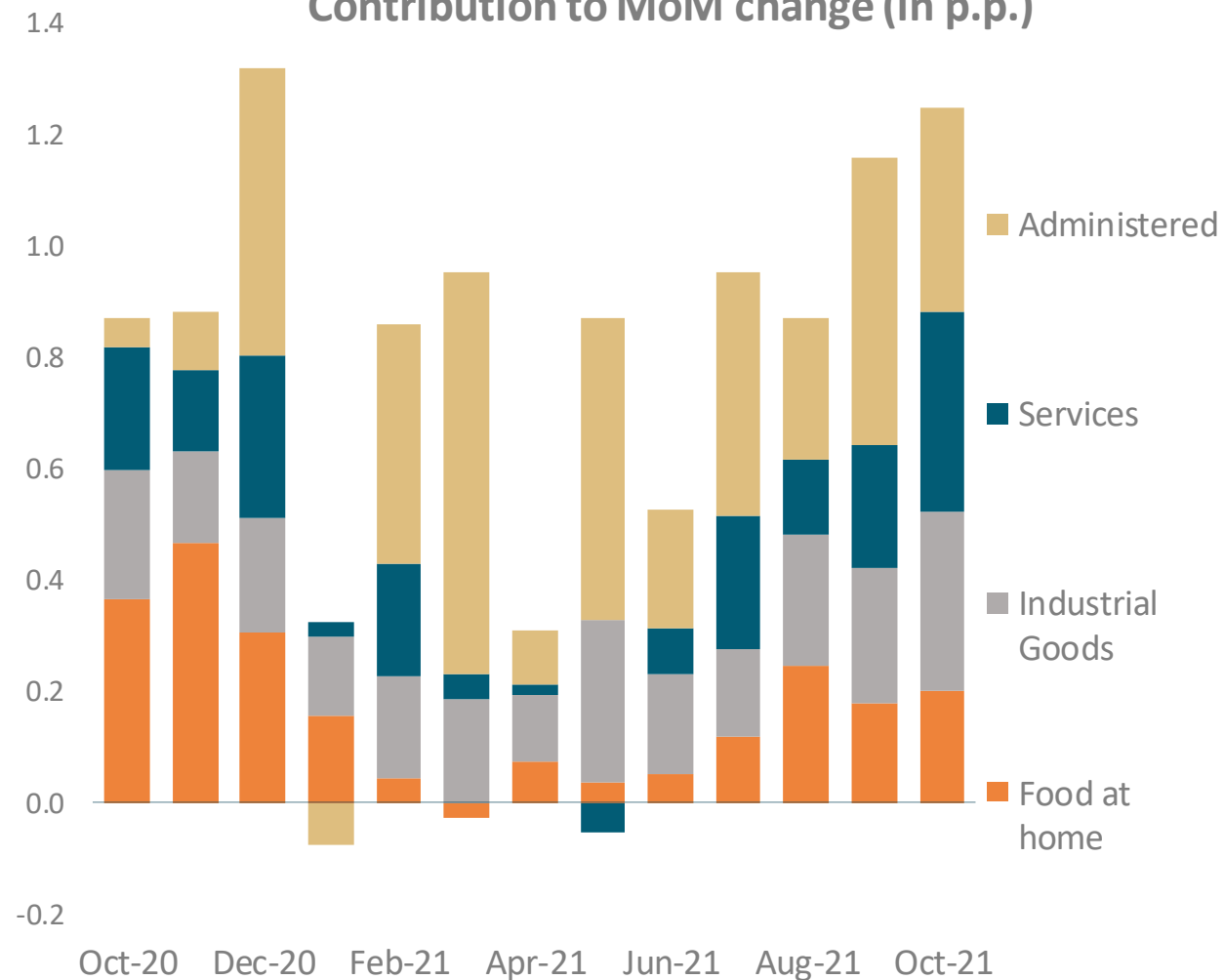


CPI: surprises and decomposition

CPI surprises (% MoM)



Contribution to MoM change (in p.p.)

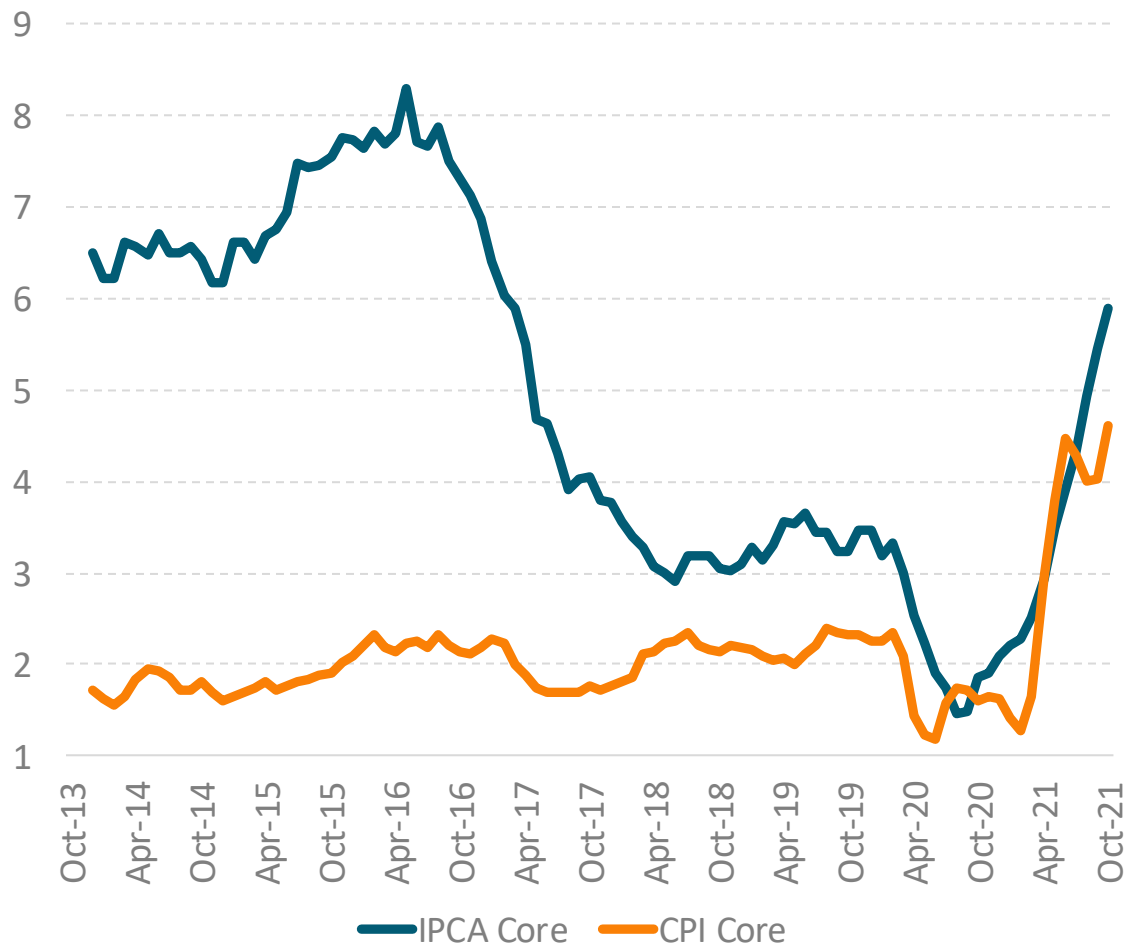


The date of the projections (in September, December, March and June) corresponds to the cutoff date of the Central Bank of Brazil Inflation Report.

Sources: IBGE, BCB.

IPCA: core and energy and fuels inflation

Core inflation*: Brazil and U.S. (% Y/Y)



*Ex-food and energy

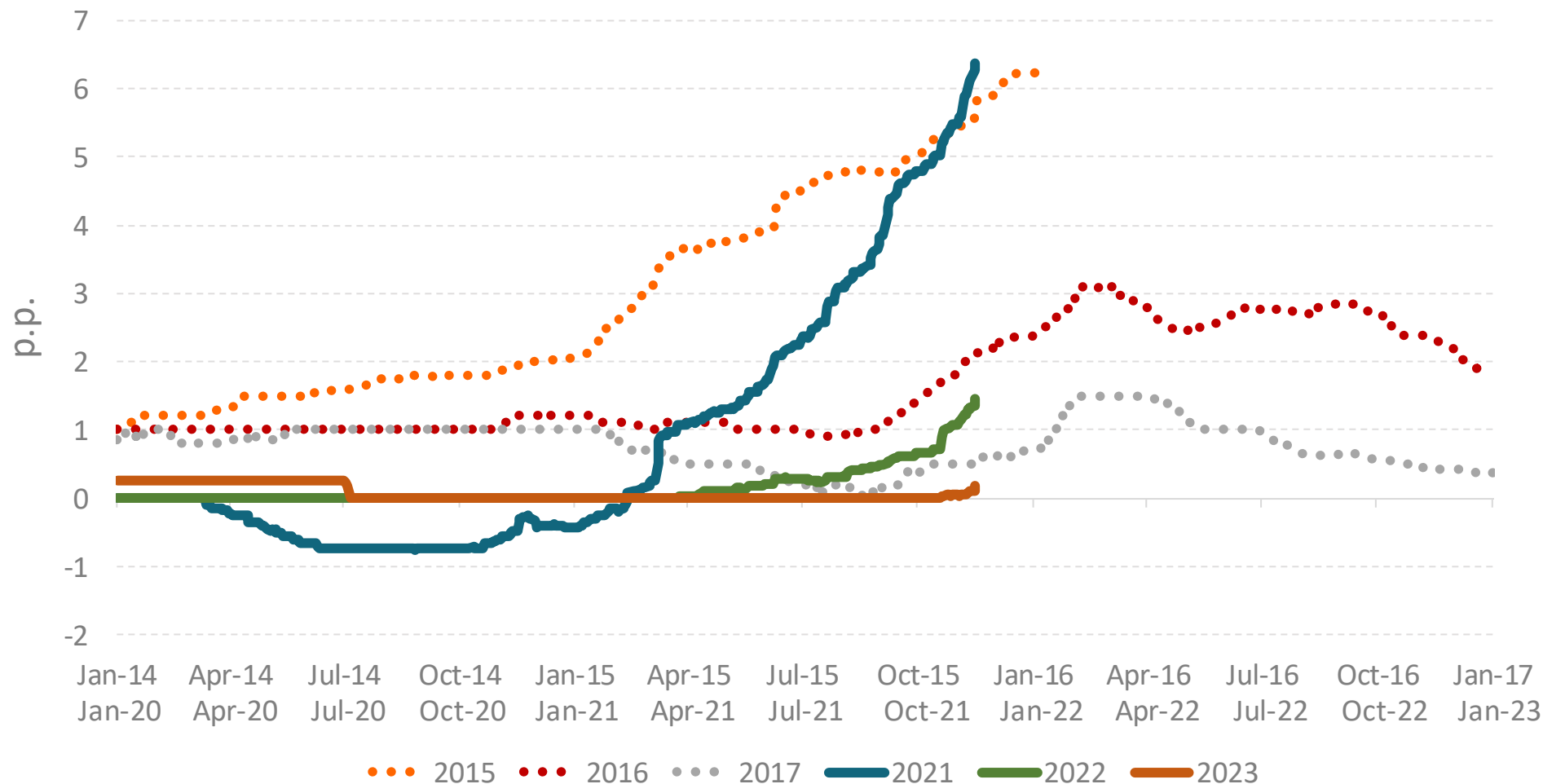
Energy: Fuels+ Electricity (% Y/Y)



Inflation expectations

Inflation Expectations

Deviation from the target

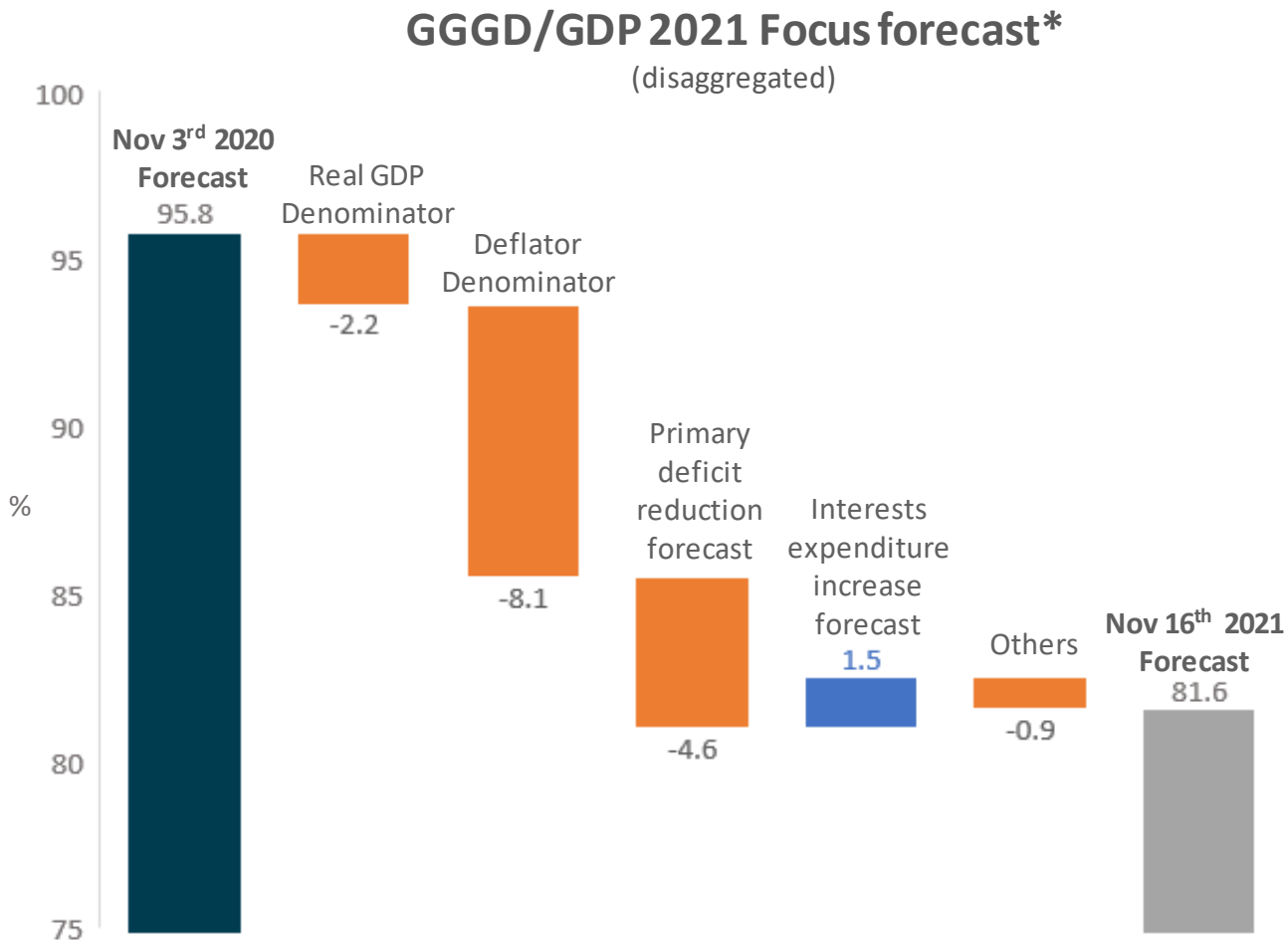
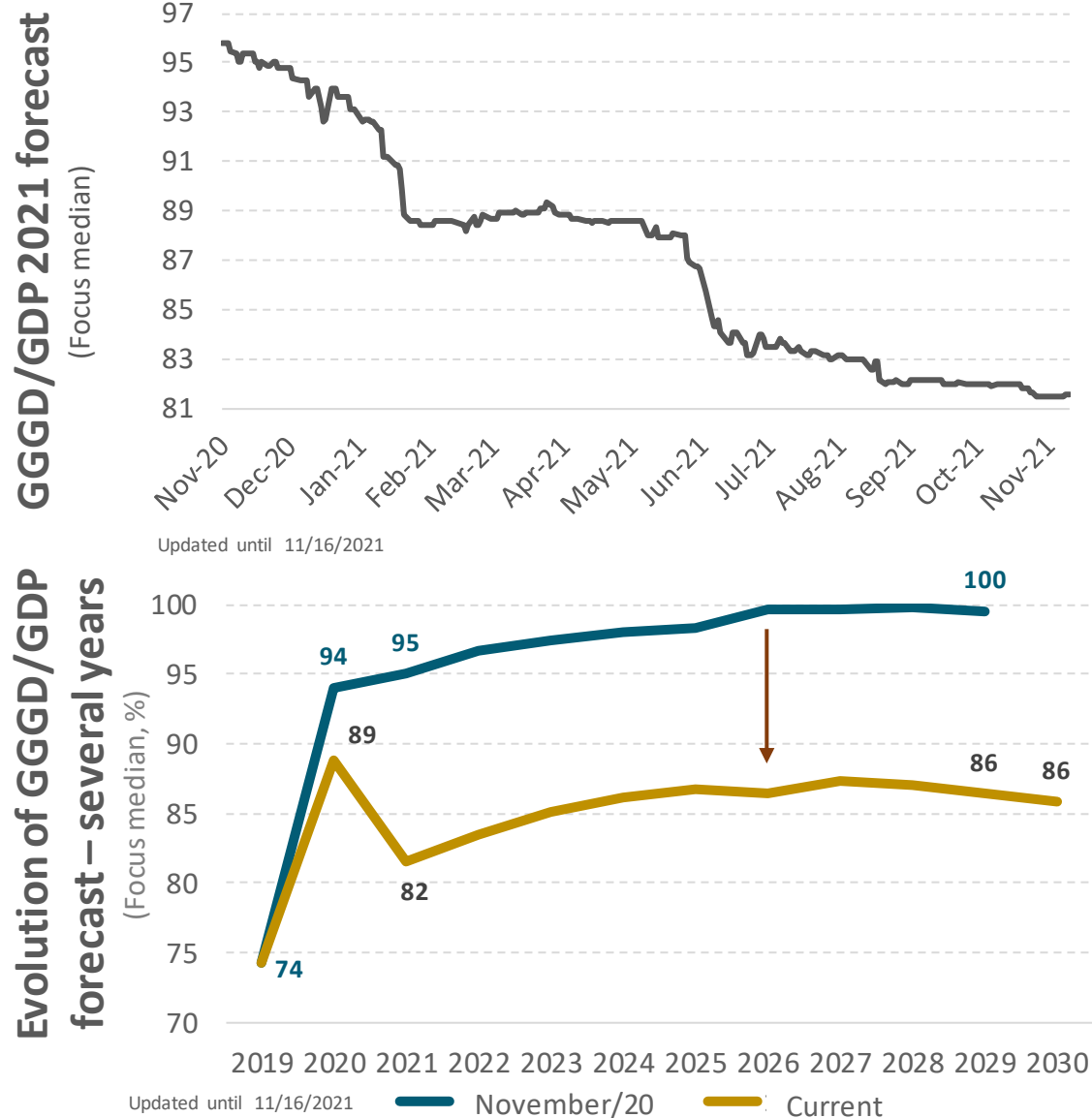


Monetary policy

242nd Copom Meeting – October 2021

- In its 242nd meeting, the Copom unanimously decided to increase the Selic rate to 7.75% p.a.
- The Committee judges that this decision reflects its baseline scenario for prospective inflation, a higher-than-usual variance in the balance of risks and is consistent with the convergence of inflation to its target over the relevant horizon for monetary policy, which includes 2022 and 2023.
- The Committee considers that, given the deterioration of the balance of risks and the increase in its inflation projections, this pace is the most appropriate to guarantee inflation convergence to the targets at the relevant horizon.
- At this moment, the Copom's baseline scenario and balance of risks indicate as appropriate to advance the process of monetary tightening even further into the restrictive territory.
- For the next meeting, the Committee foresees another adjustment of the same magnitude. The Copom emphasizes that its future policy steps could be adjusted to ensure the achievement of the inflation target and will depend on the evolution of economic activity, on the balance of risks, and on inflation expectations and projections for the relevant horizon for monetary policy.

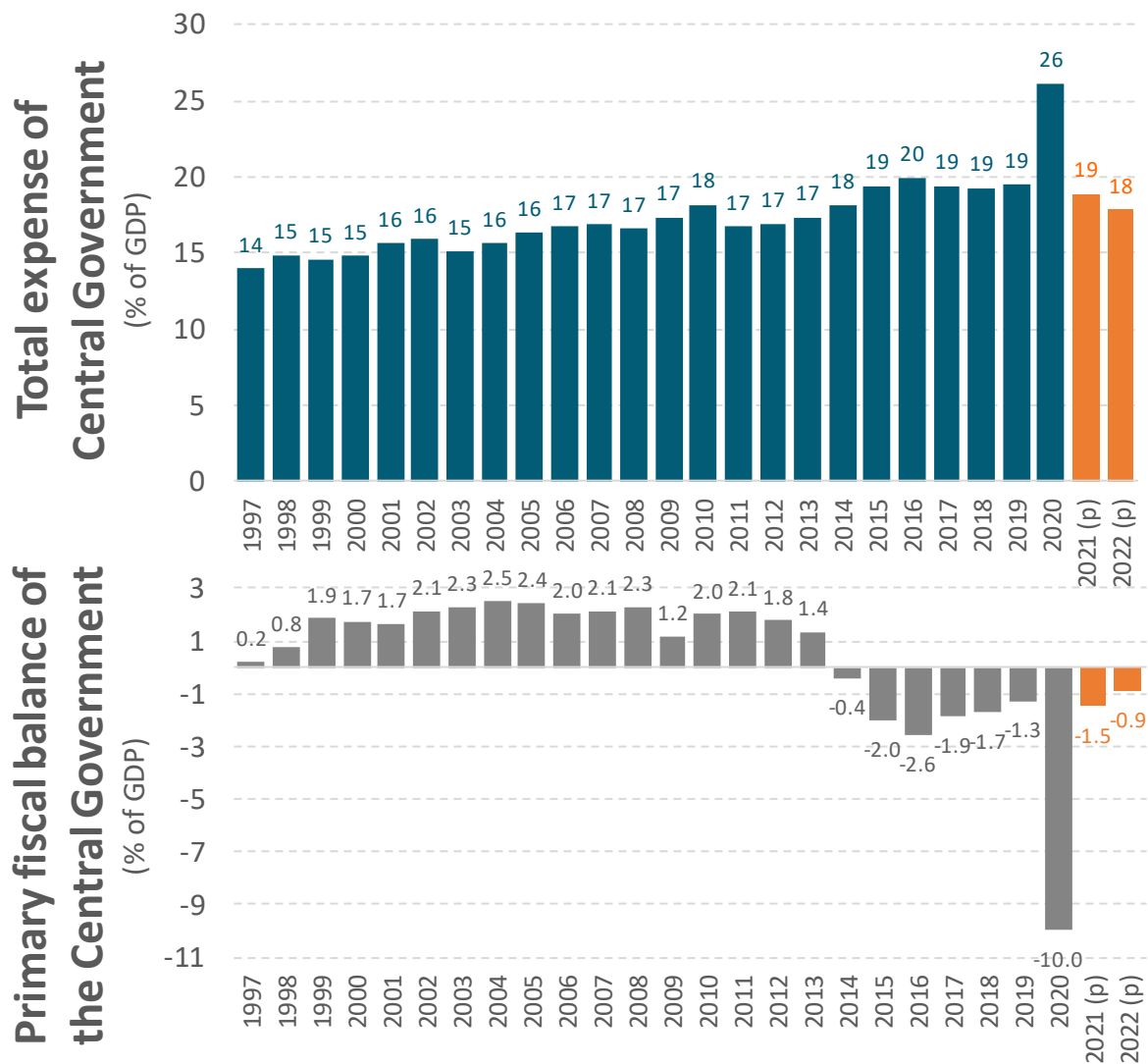
General Government Gross Debt (GGGD)



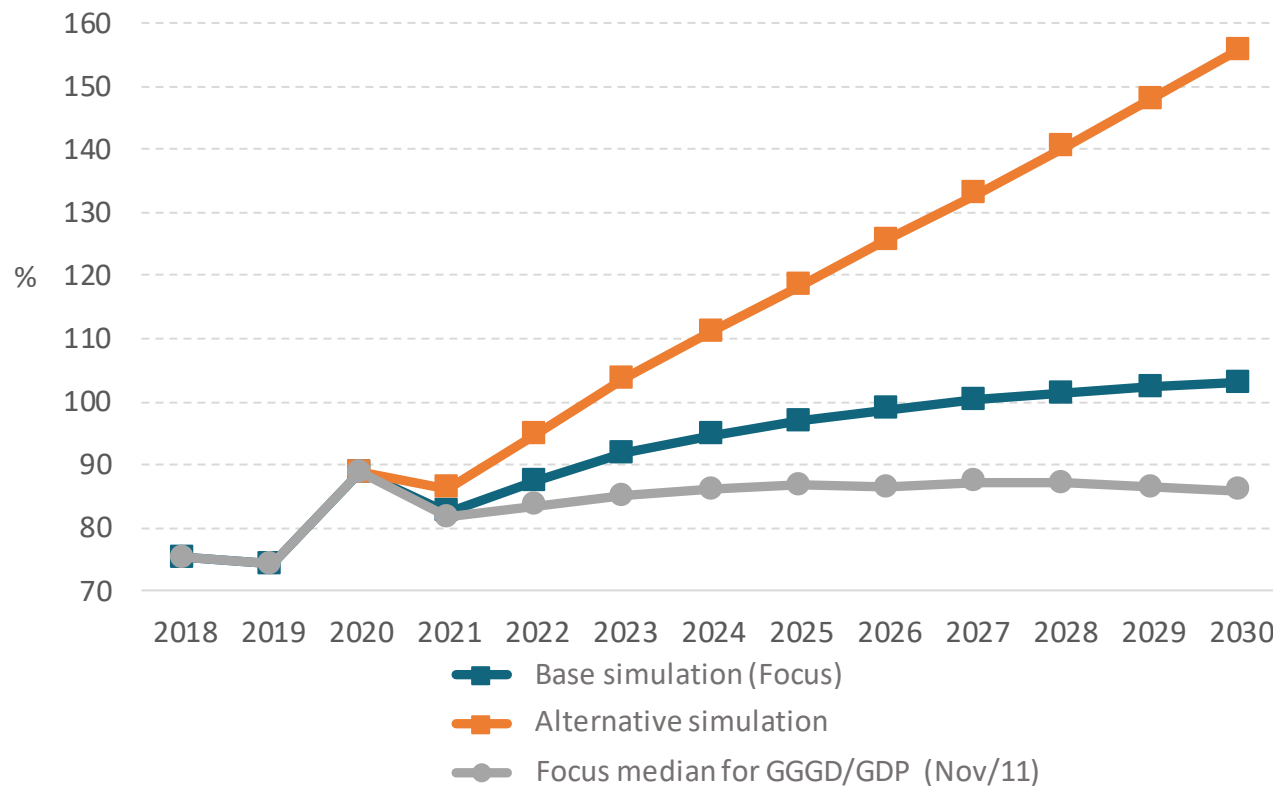
* Approximate decomposition of the Focus median forecast evolution for GGGD/GDP. Each variable median is considered separately. GDB deflator constructed from Focus CPI forecast. Interest expenditure implicitly calculated from primary and nominal fiscal results forecast. "Others" are residuals (approximations, methodological compatibility, etc.).

Fiscal: expenses, primary deficit and simulations of GGGD

Expenses containment and improvement of primary deficit. To improve the fiscal results, we must keep on the path of reforms



Simulations of GGGD/GDP trajectory*



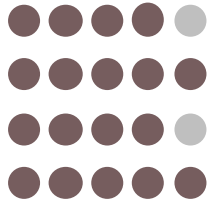
* Simplified simulations of the DBGG/GDP trajectory, built from the debt movement equation. Hypotheses for both exercises: i) Projections for Selic, IPCA, real GDP and primary fiscal deficit/GDP based on the respective Focus medians. In case of not available data, the projection for the last available year is used; ii) Projection of the primary deficit of the general government is equal to the primary deficit of the public sector; iii) To calculate the debt interest rate, the projection of the average Selic for the year is used (obtained as the average of values / projections for December of each year), plus an average spread of the historical series (1 p.p.); iv) GDP deflator constructed considering the IPCA projected by Focus for the year plus 0.6 p.p.; v) GDP data (real and nominal) do not include the revision of the 2019 CNA. **Additional hypotheses for the alternative simulation:** i) Real GDP growth is 1 p.p. lower than the Focus median; ii) Selic is 3.0 p.p. higher than the Focus median for each year; iii) unitary elasticity of net revenue in relation to GDP.

*Expenses and primary fiscal balance forecasts come from "Prisma Fiscal", October 2021. GDP forecast come from QPC, October 2021 and 2019 figures do not include changes from Annual National Accounts of that year.



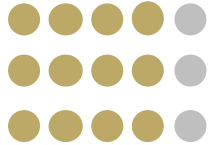
#Inclusion

Cooperative credit
Microcredit
Currency convertibility
Initiatives for capital market



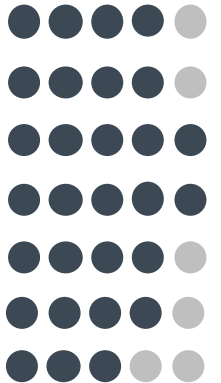
#Competitiveness

Innovation
Market efficiency
International reserves



#Transparency

Rural credit
Housing credit
Relationship with Congress
Transparency of Monetary Policy
Communication for BCB actions
Relationship with foreign investors
Digital Citizenship



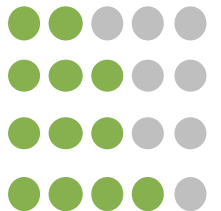
#Education

Financial education



#Sustainability

BCB's S&E responsibility
Regulation
Supervision
Partnerships





Technology Agenda

Pix: Evolution Agenda



*became mandatory **linked to Open Finance ***Publication of Operating Rules by BCB, Go Live to be defined

Open Finance



- Implementation will be gradual

Goals:

- To promote **competition, efficiency and data safety**
- Proper **balanced conditions** between existing financial institutions and new players

Solutions that can be developed from Open Finance:



Devices to compare services and fees



Apps for financial advice and planning



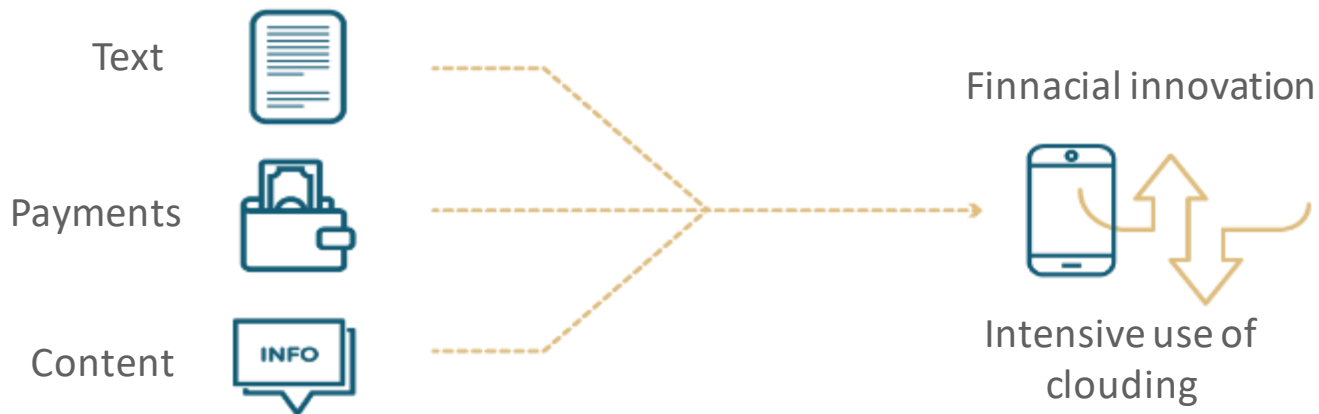
Payment initiation in social medias



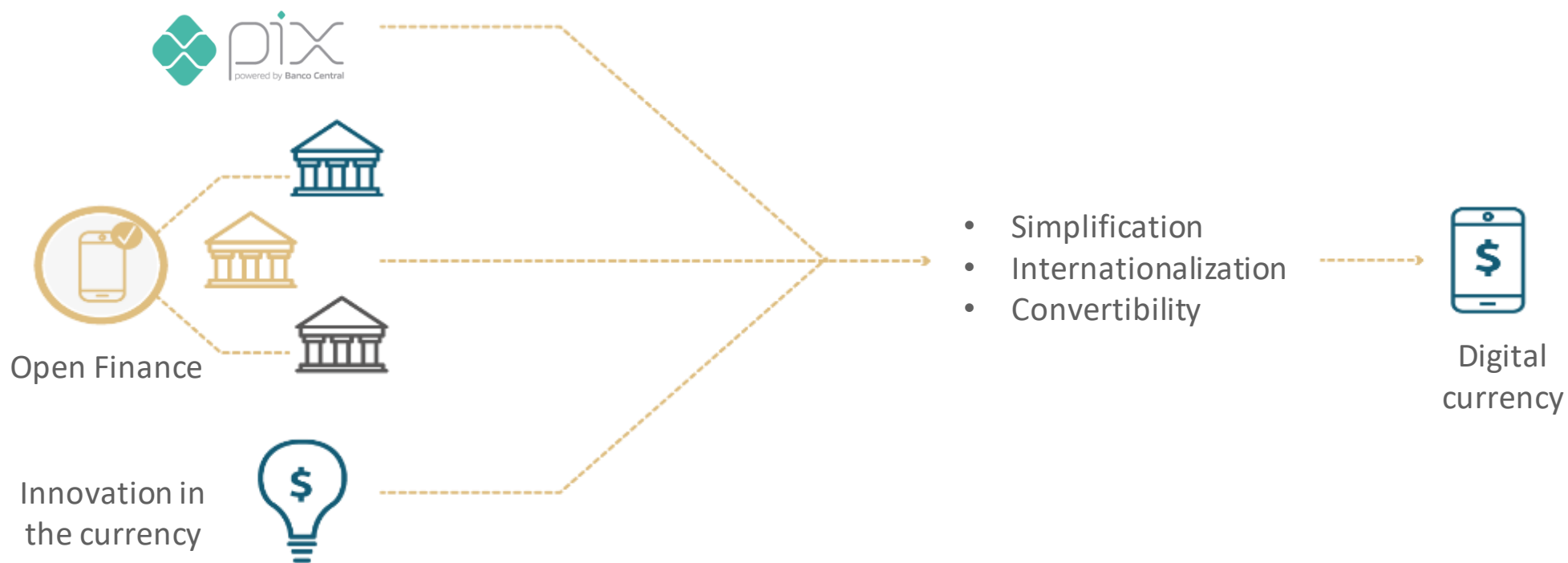
Credit marketplace

Convergence and innovation in the financial system

Convergence



Innovation in the SFN



A CBDC for Brazil: The Digital Real



Guidelines:

- Extension of the Brazilian real
- Retail payments
- Innovative models development
- Not be interest-bearing
- Guarantee of legal certainty
- Data privacy and security
- Preventing and combating money laundering
- Interoperability and integration
- High cyber security



BC# Sustainability

Measures:

- BCB's S&E Responsibility
- Partnerships
- Policies
- Supervision
- Regulation

Vision for the future

More technology

The epidemic has accelerated technological change in medicine, education, finance, communication

Common factors in recovery

More sustainable and more inclusive growth

World trade

Changes in global value chains

Accommodating monetary policy in advanced economies

Impact of possible reflation global conditions on EMEs

Thank you!

Roberto Campos Neto

Governor of Banco Central do Brasil

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