

# Brazil: Economic Overview

Ilan Goldfajn

Governor of the Central Bank of Brazil

The Wharton School at the University of Pennsylvania

January 06, 2019

# Outline

## I. General overview

- i. General information
- ii. Macroeconomic framework

## II. Macroeconomic outlook

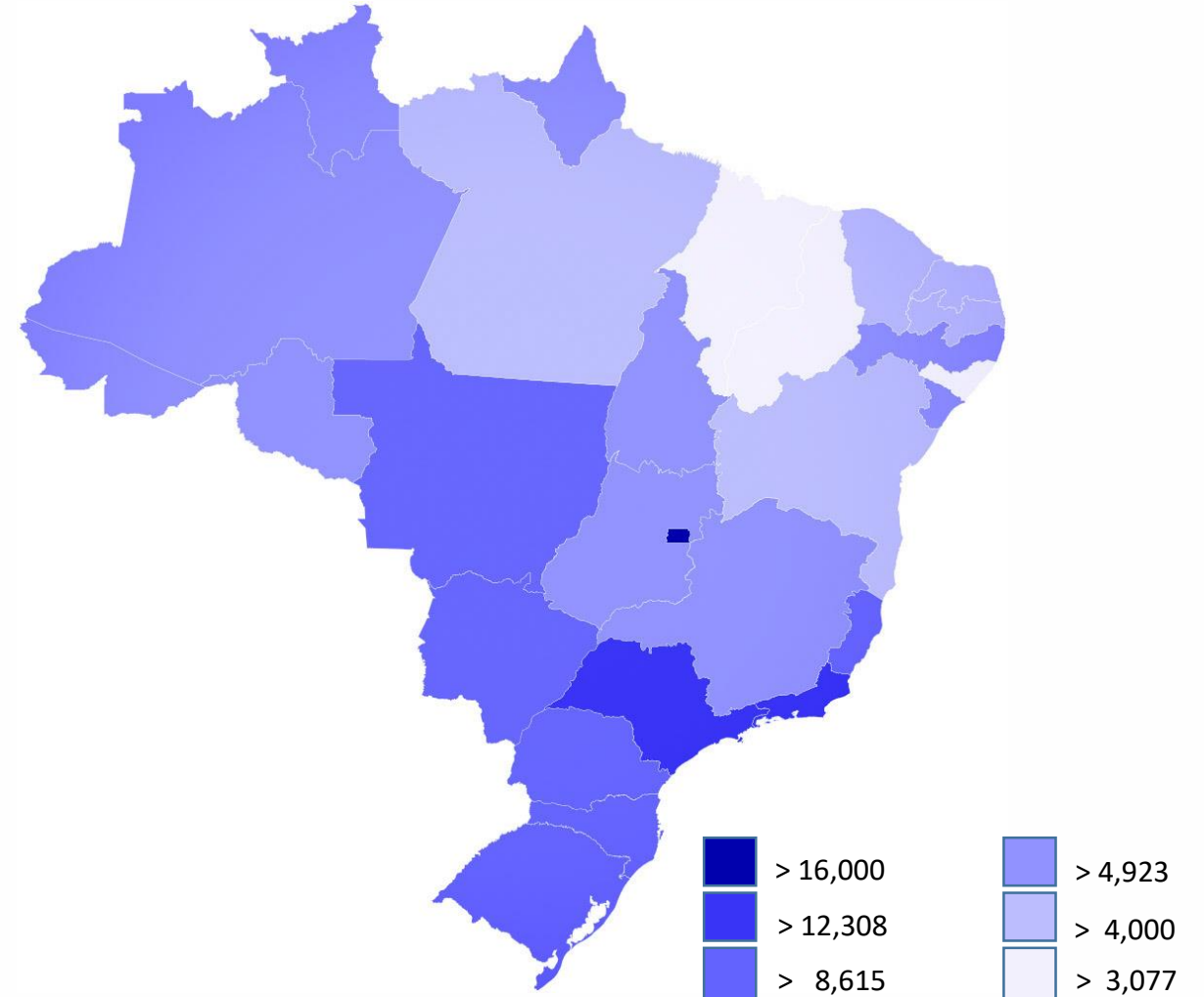
- i. Inflation and expectations around the target
- ii. Interest rates at historical low levels
- iii. Economic recovery
- iv. Global outlook and Brazilian buffers

## III. Final remarks

# General information about Brazil

- Large closed economy.
- Vast natural resources, including recently discovered large offshore oil fields.
- Heterogeneous country. See graph.
- Democracy, with several small fragmented parties, hard to advance reforms.

GDP per capita – 2016 (in US\$)



Source: IBGE and BCB

# Macroeconomic policy

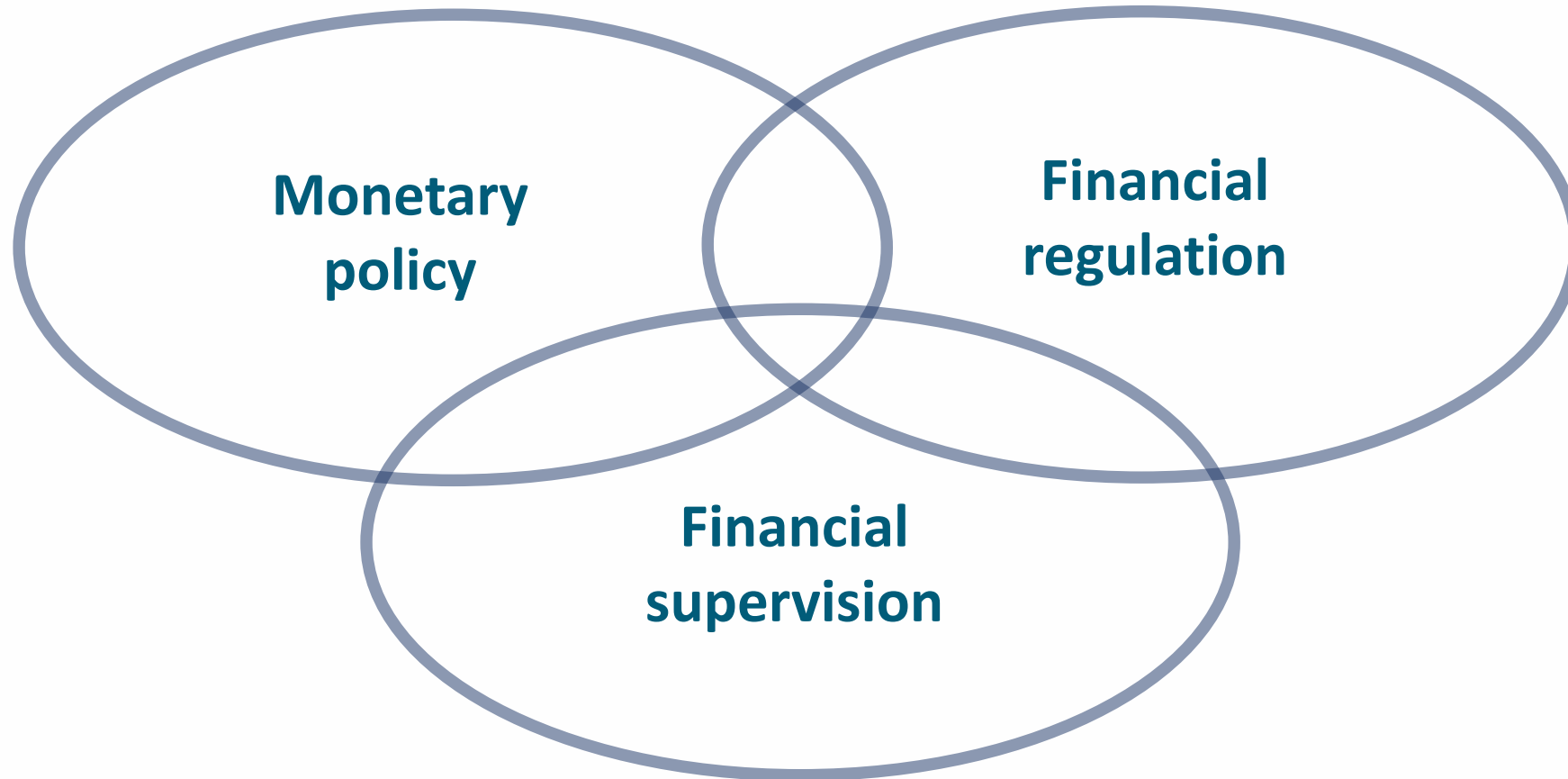
- Main features of the macroeconomic policy:
  - Inflation targeting
  - Fiscal responsibility law
  - Exchange rate flexibility

# Banco Central do Brasil – Main Goals

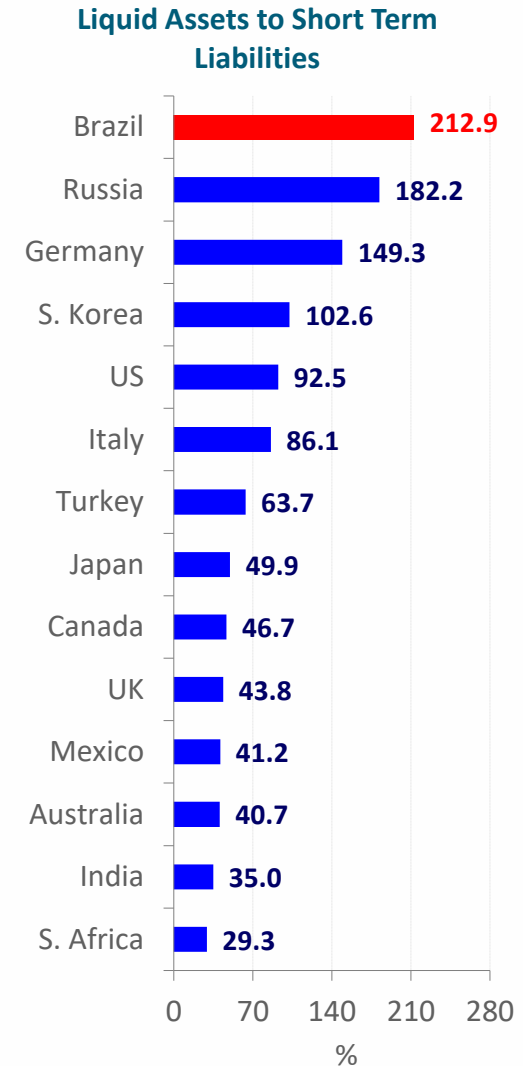
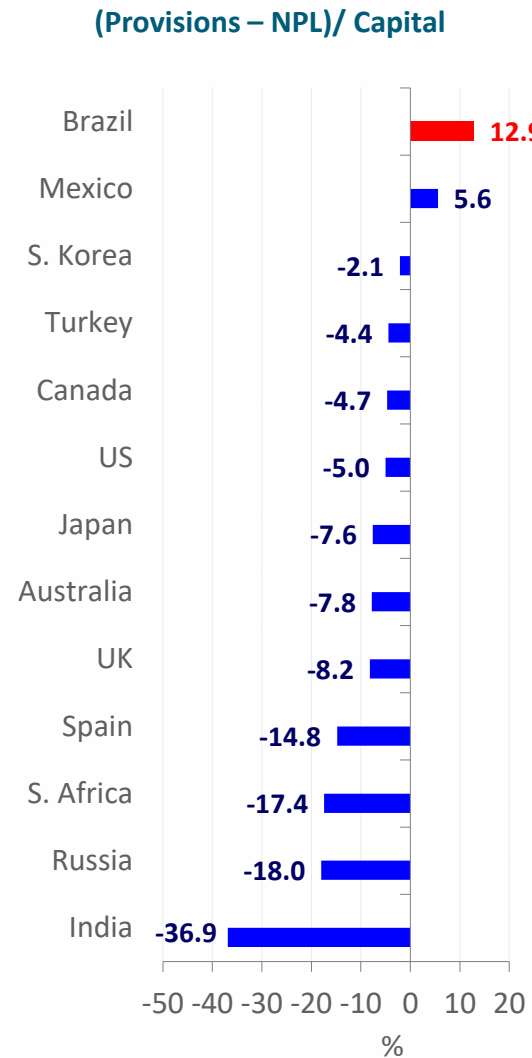
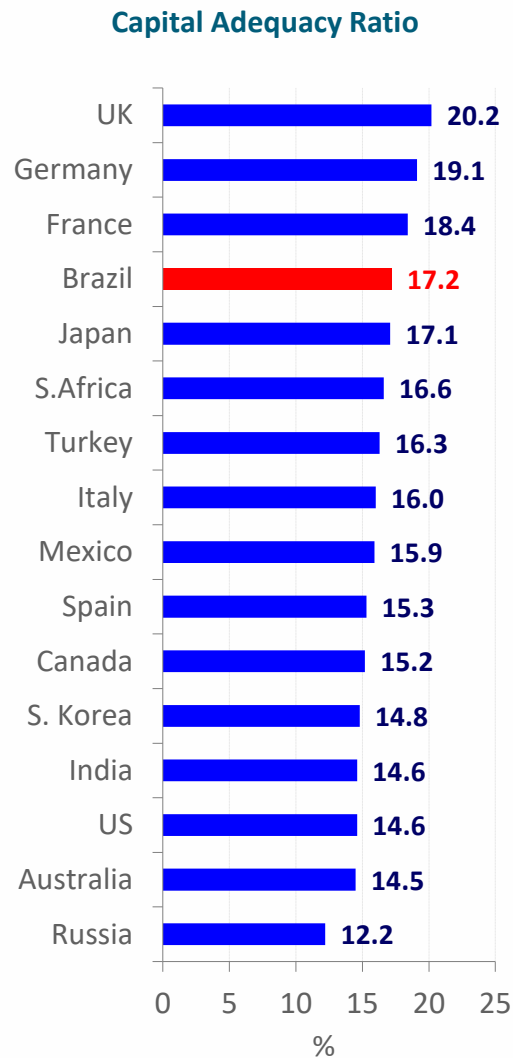
- To ensure price stability and a solid and efficient financial system.
- The mission to ensure price stability is accomplished through the inflation-targeting framework, the targets are defined by the National Monetary Council (CMN).



# Banco Central do Brasil – Main activities



# Financial soundness indicators

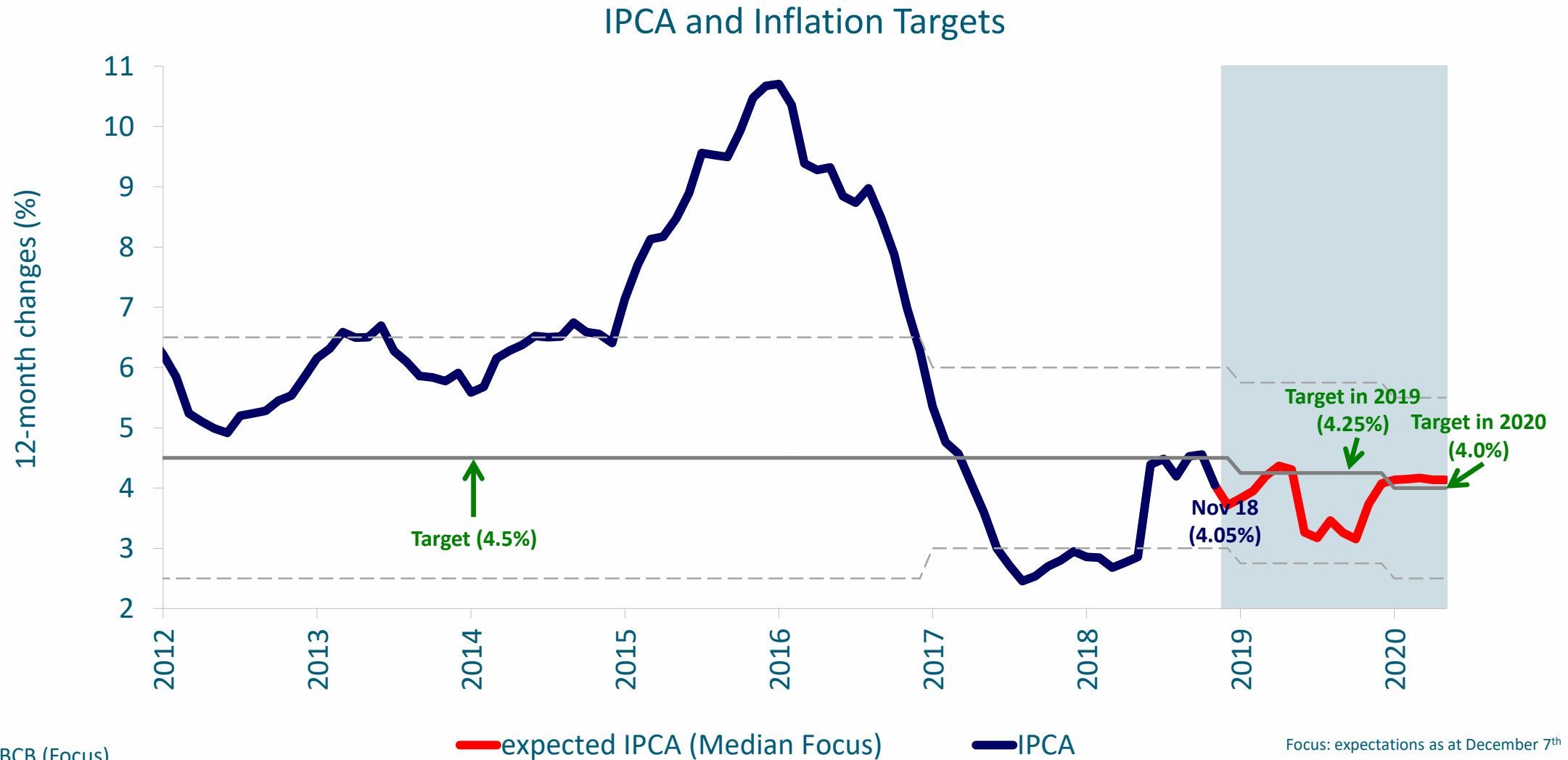


Source: FMI (FSI) – latest available data

# Macroeconomic outlook



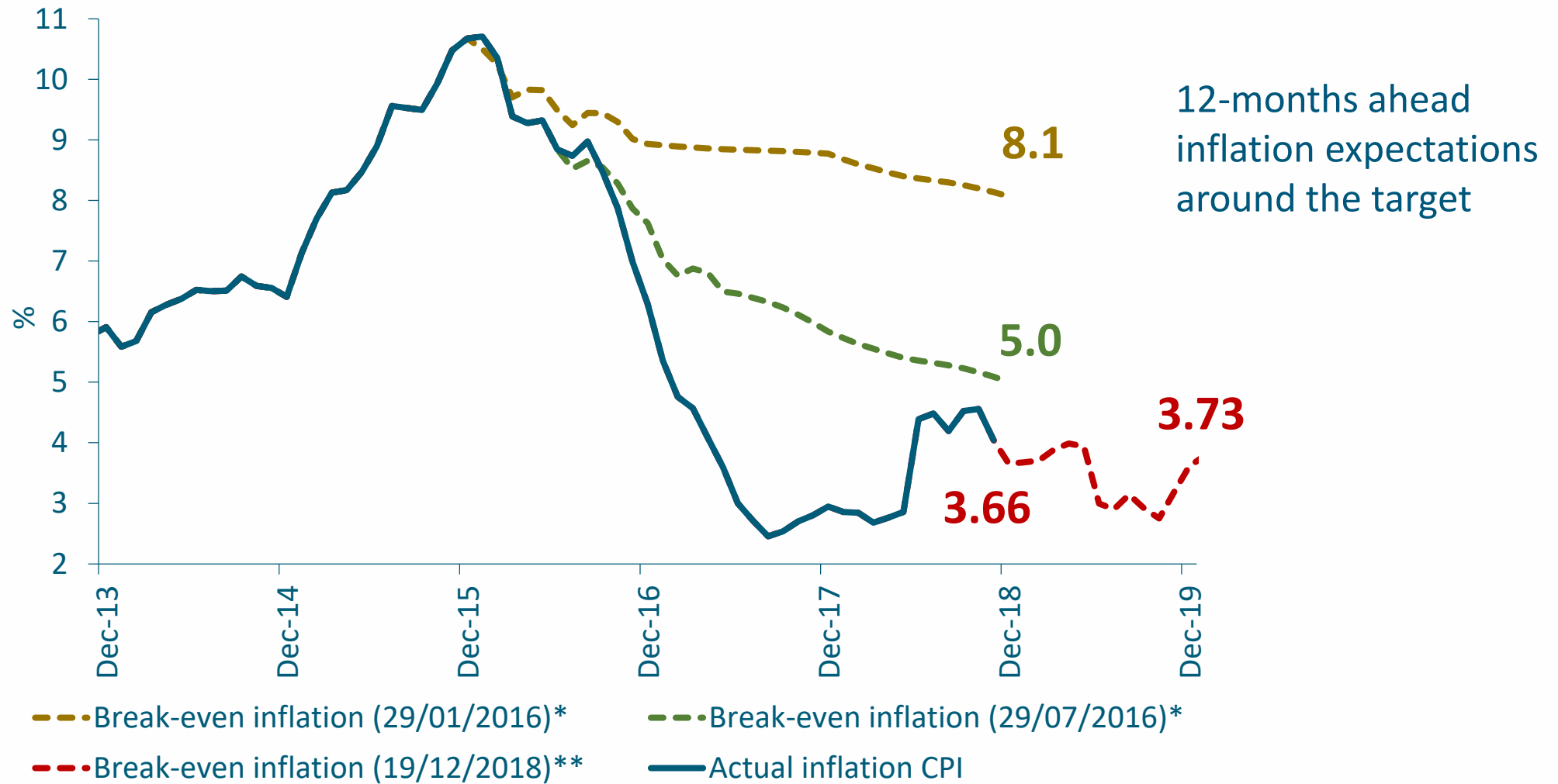
# Inflation around the target



Source: IBGE and BCB (Focus)

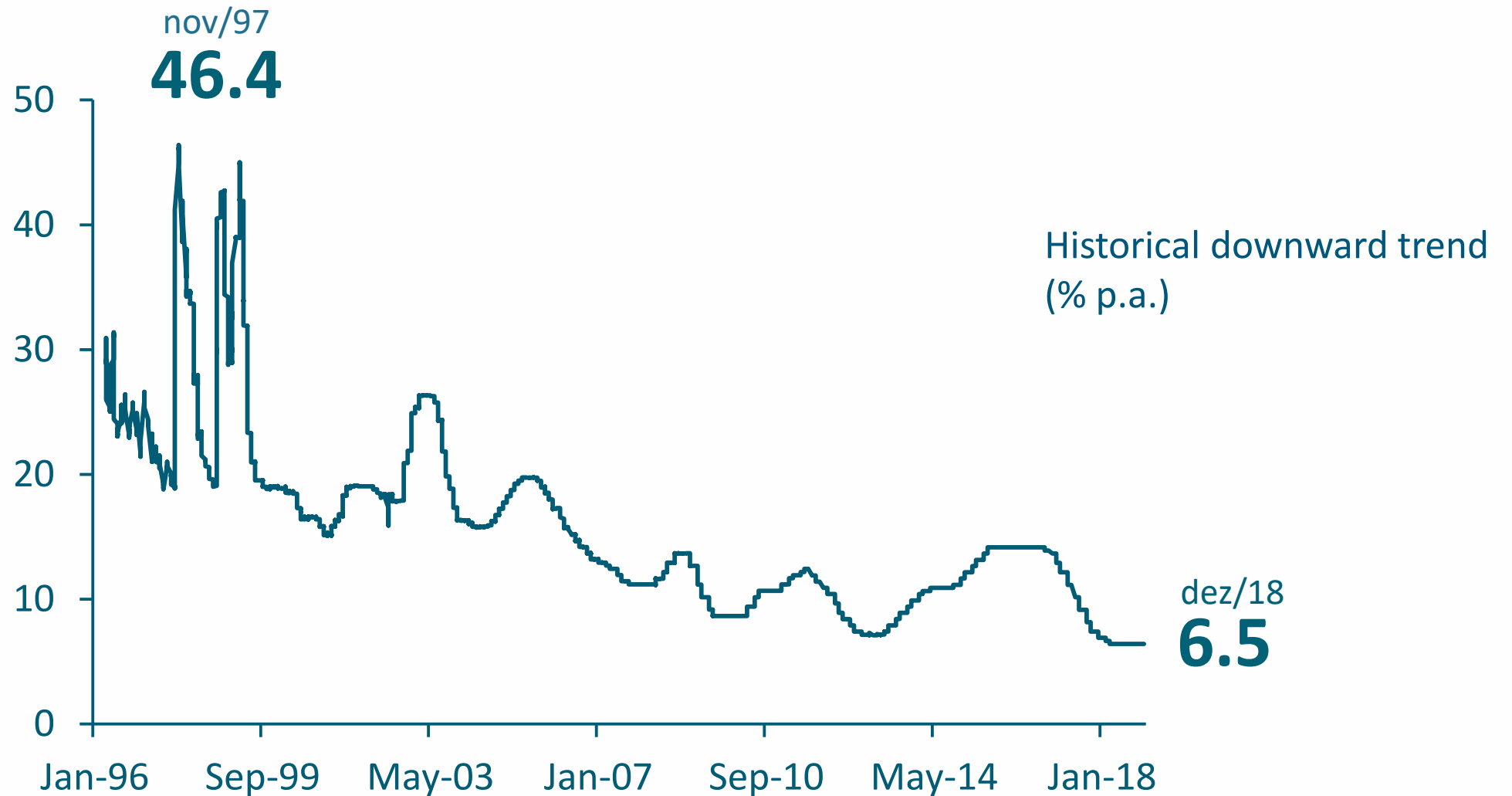
Focus: expectations as at December 7<sup>th</sup>

# Well anchored expectations



Source: BCB/IBGE

# Policy rate (Selic) at a historical low



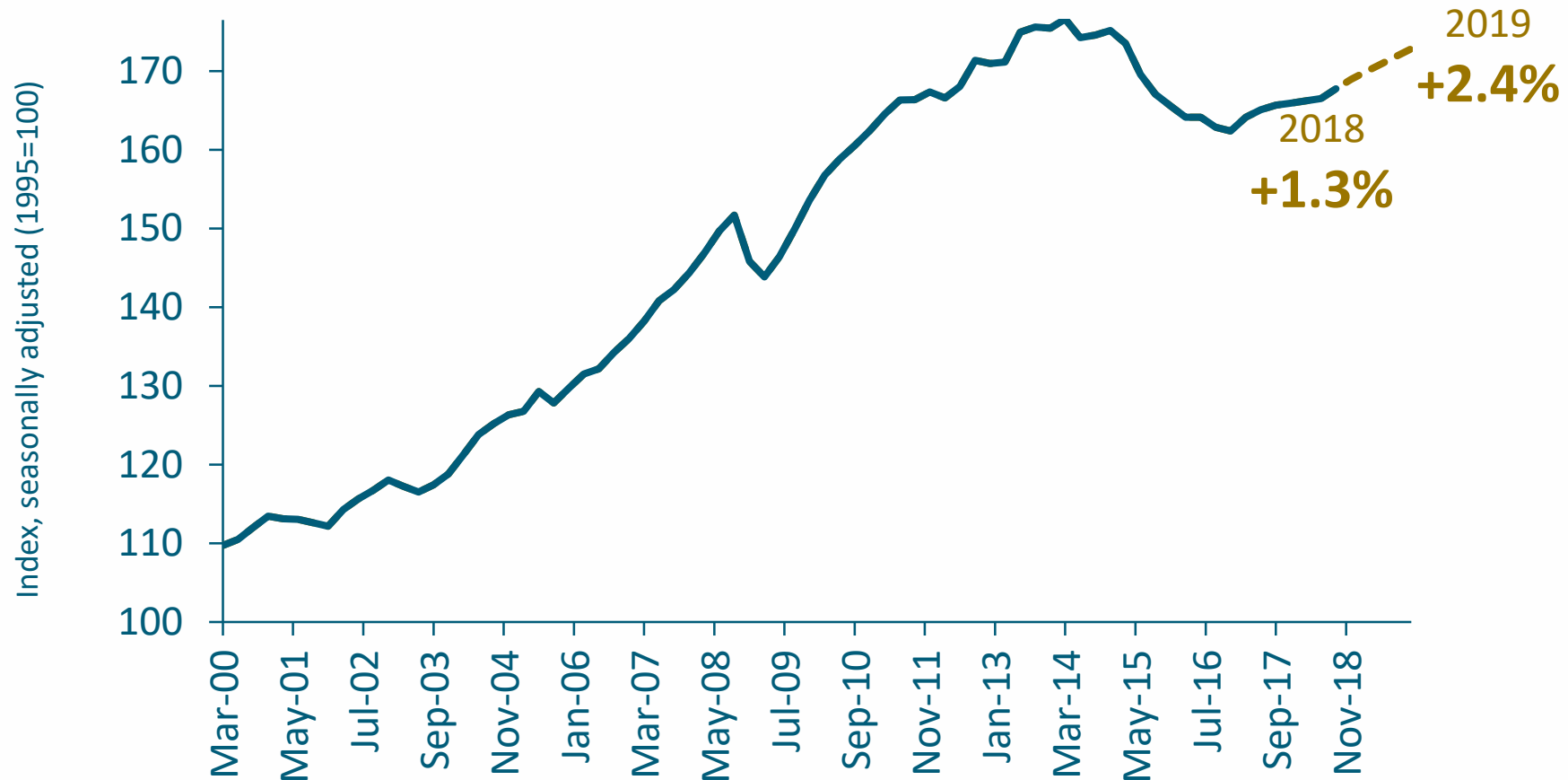
Source: BCB

# Falling long-run real interest rate



Source: Bloomberg

# Economic recovery (GDP)

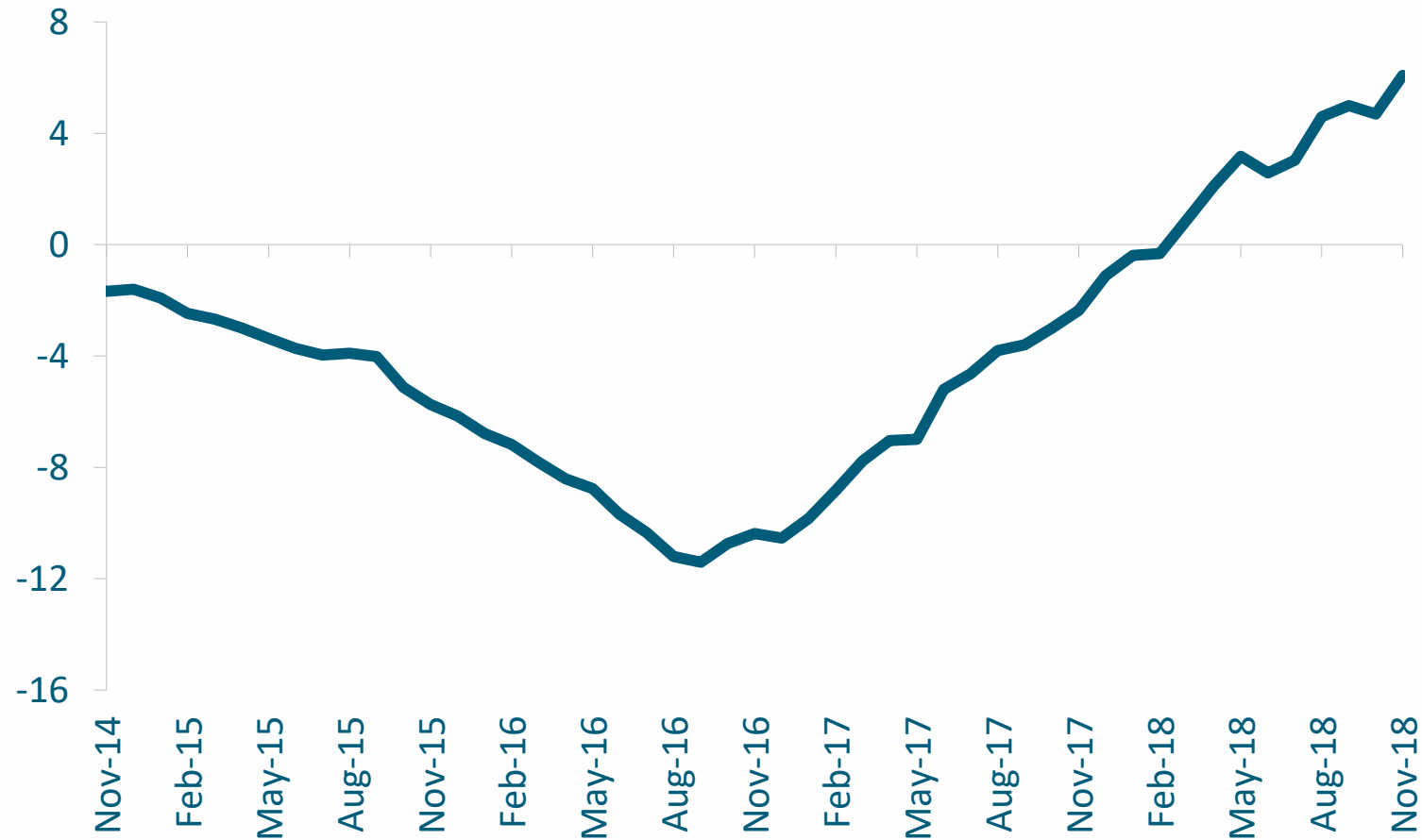


Source: IBGE and BCB

# Credit recovery

## Outstanding credit operations\*

Deflated year-over-year change (%)



Source: BCB

# Sustainable recovery

## Reforms and adjustments

- Fiscal reforms
  - Pension system reform etc.
- Central Bank autonomy
- Agenda BC+ : structural reforms promoted by the BCB
  - TLP: National Developing Bank (BNDES) funding rate, innovation etc.
- Productivity Reforms
- Trade openness

# Challenging global outlook

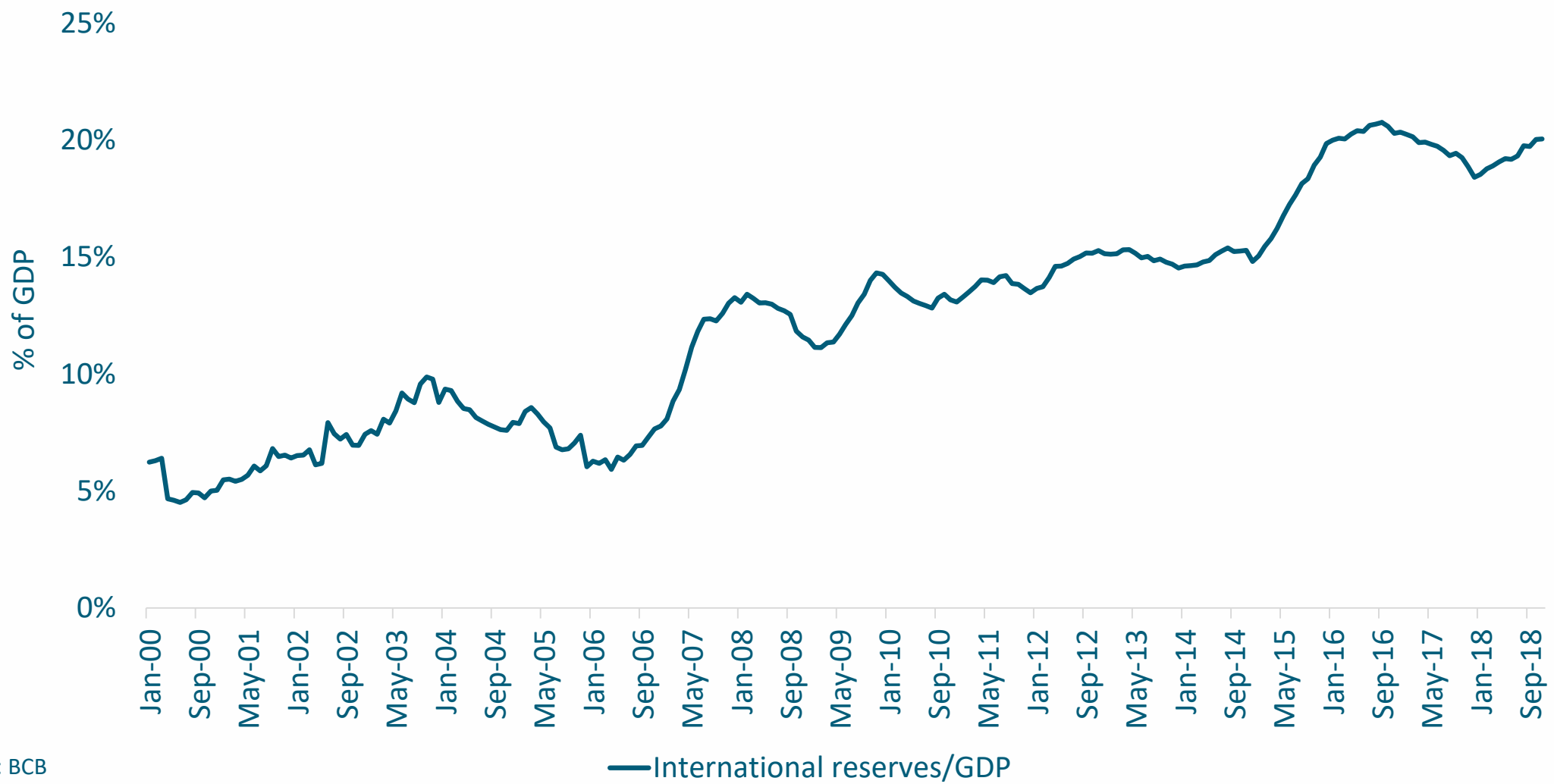
## Global economy brings challenges to emerging markets

- Risk aversion in global financial markets
- Uncertainties related to trade disputes
- Normalization of interest rates in some advanced economies

But Brazil is well positioned to resist shocks

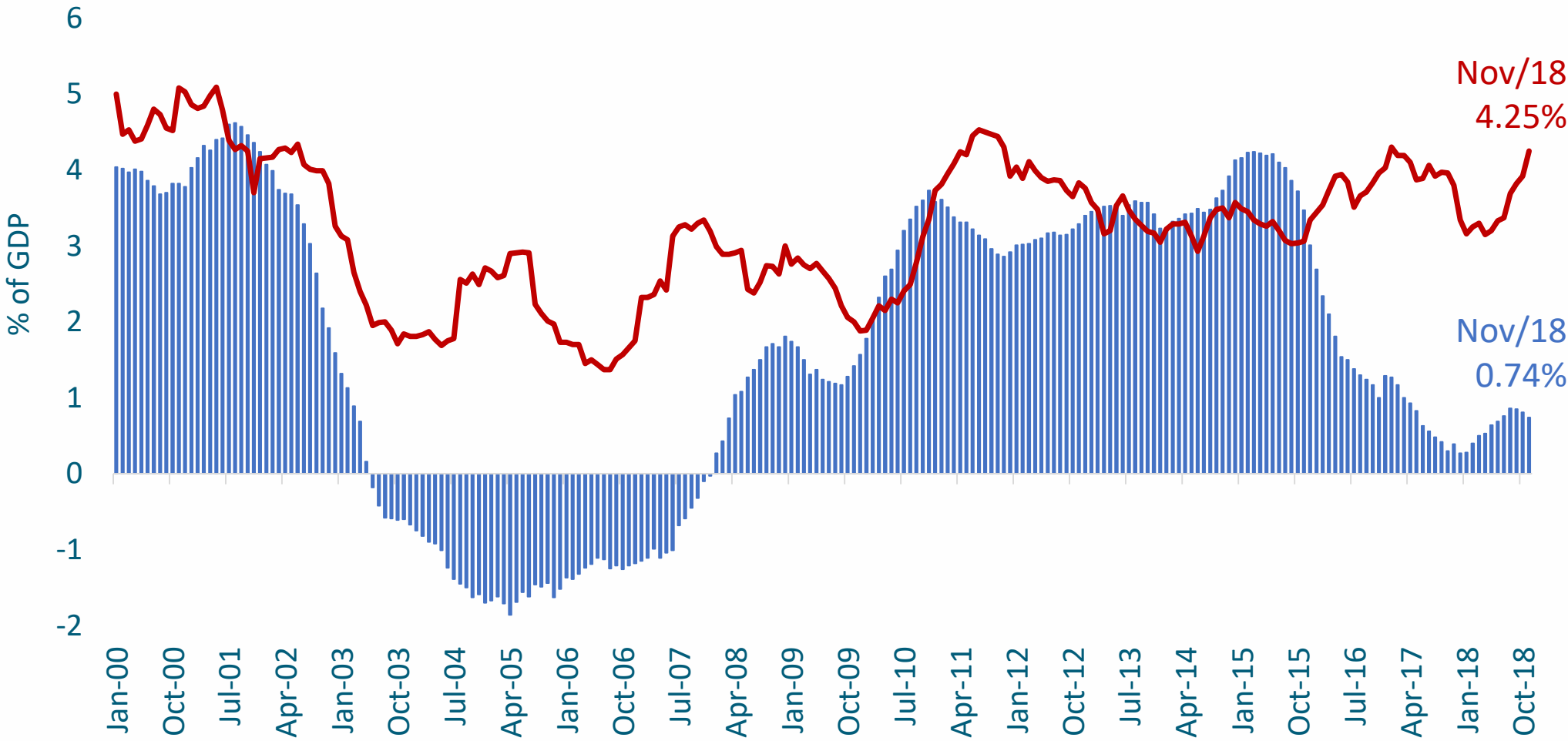


# International reserves



Source: BCB

# Current account and net foreign investment flow



Source: BCB

■ Current account deficit/GDP    — FDI/GDP

Accumulated in 12 months

# Final remarks

- The new direction of economic policy and the firm conduct of monetary policy led to some positive results:
  - Inflation around the target and anchored expectations;
  - Interest rates at historically low levels;
  - Gradual process of recovery of the economy.
- The global outlook is challenging for EMEs, but Brazil is better prepared to face external shocks.
- Brazil needs to continue on the path of adjustments and reforms, especially the pension system reform, in order to ensure confidence on fiscal sustainability and engender higher growth.

# Thank you.

Ilan Goldfajn

Governor of the Central Bank of Brazil

The Wharton School at the University of Pennsylvania

January 06, 2019