Perspectives on the global and domestic economic environment

Banco Central do Brasil

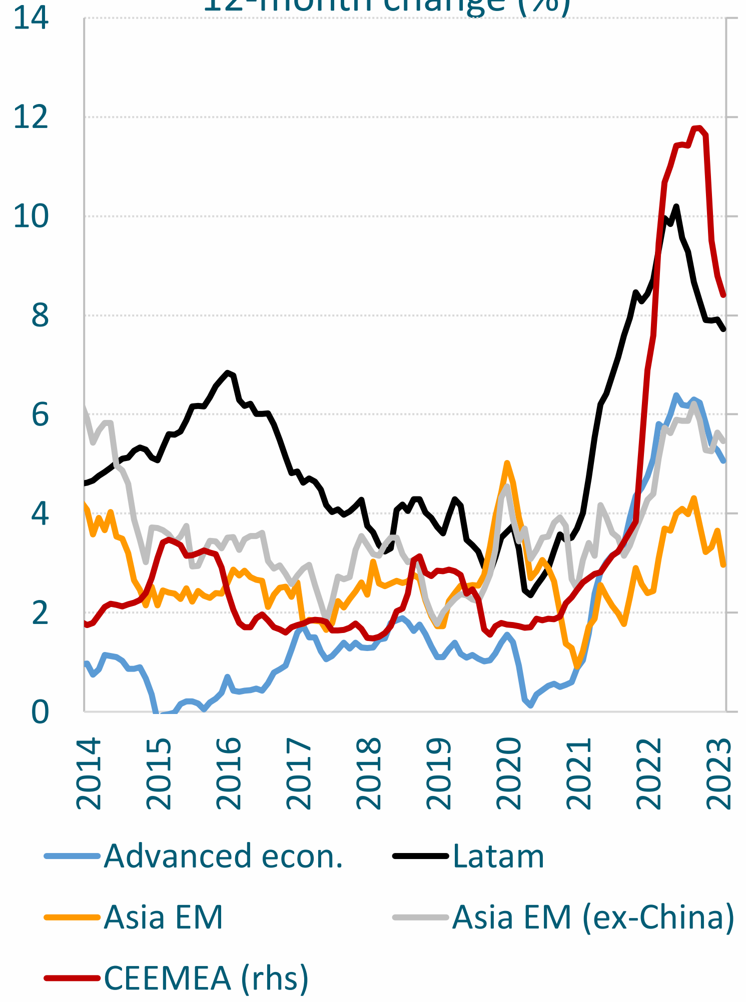
Diogo Guillen – Deputy Governor of Economic Policy

March 28th, 2023

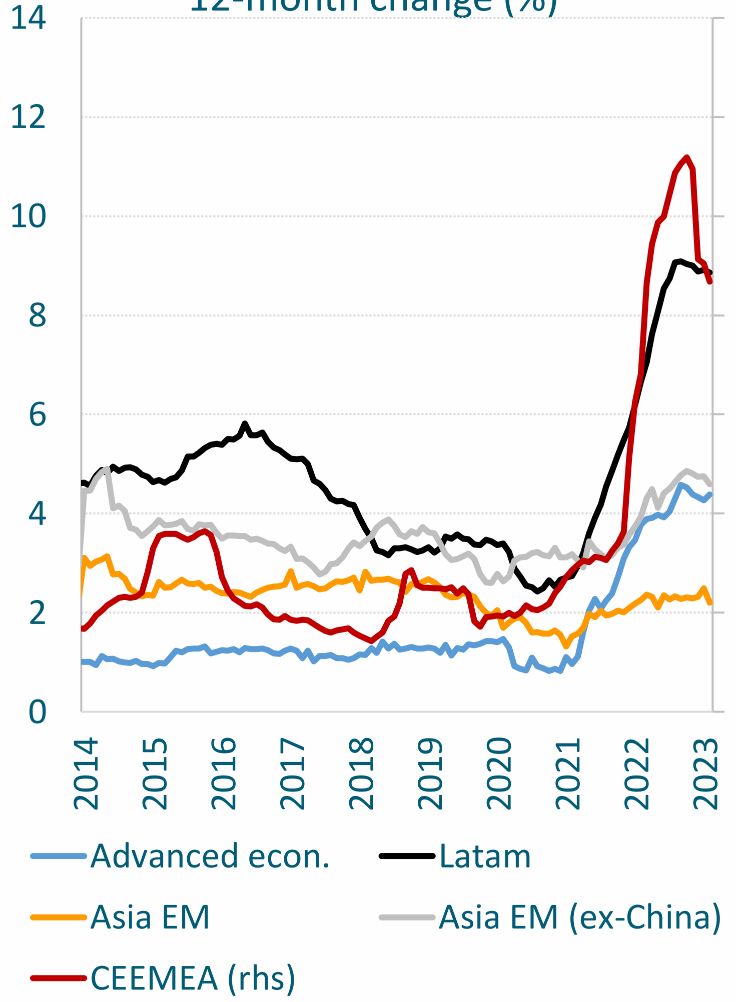
Global outlook

CPIs and core inflation

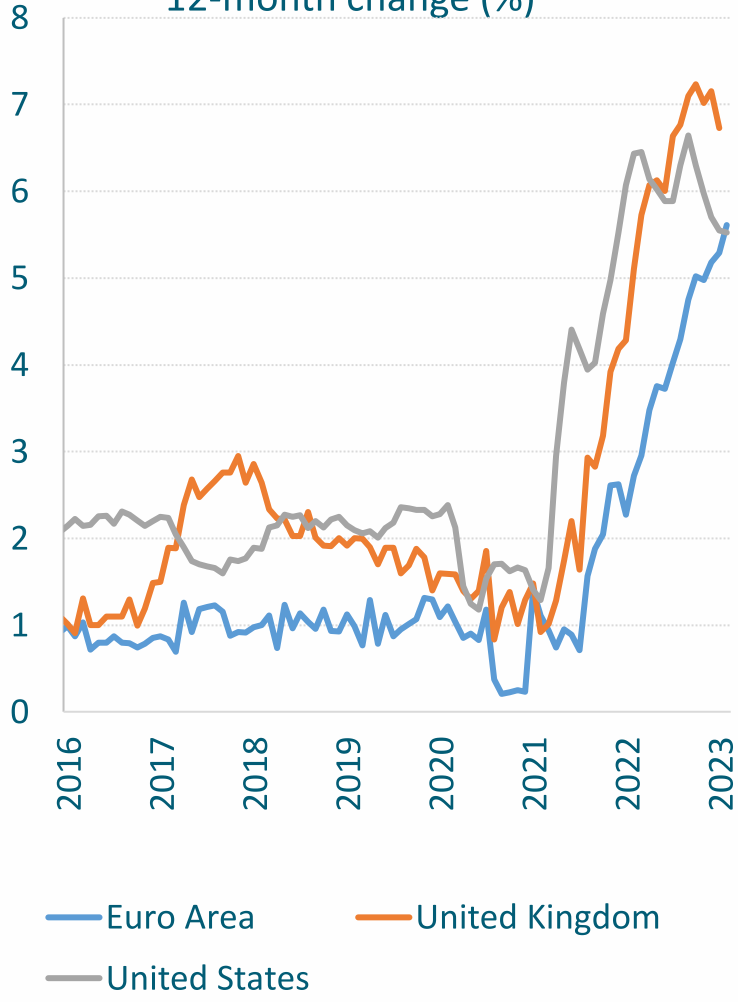
CPI[1/]
12-month change (%)



Core CPI[1/]
12-month change (%)

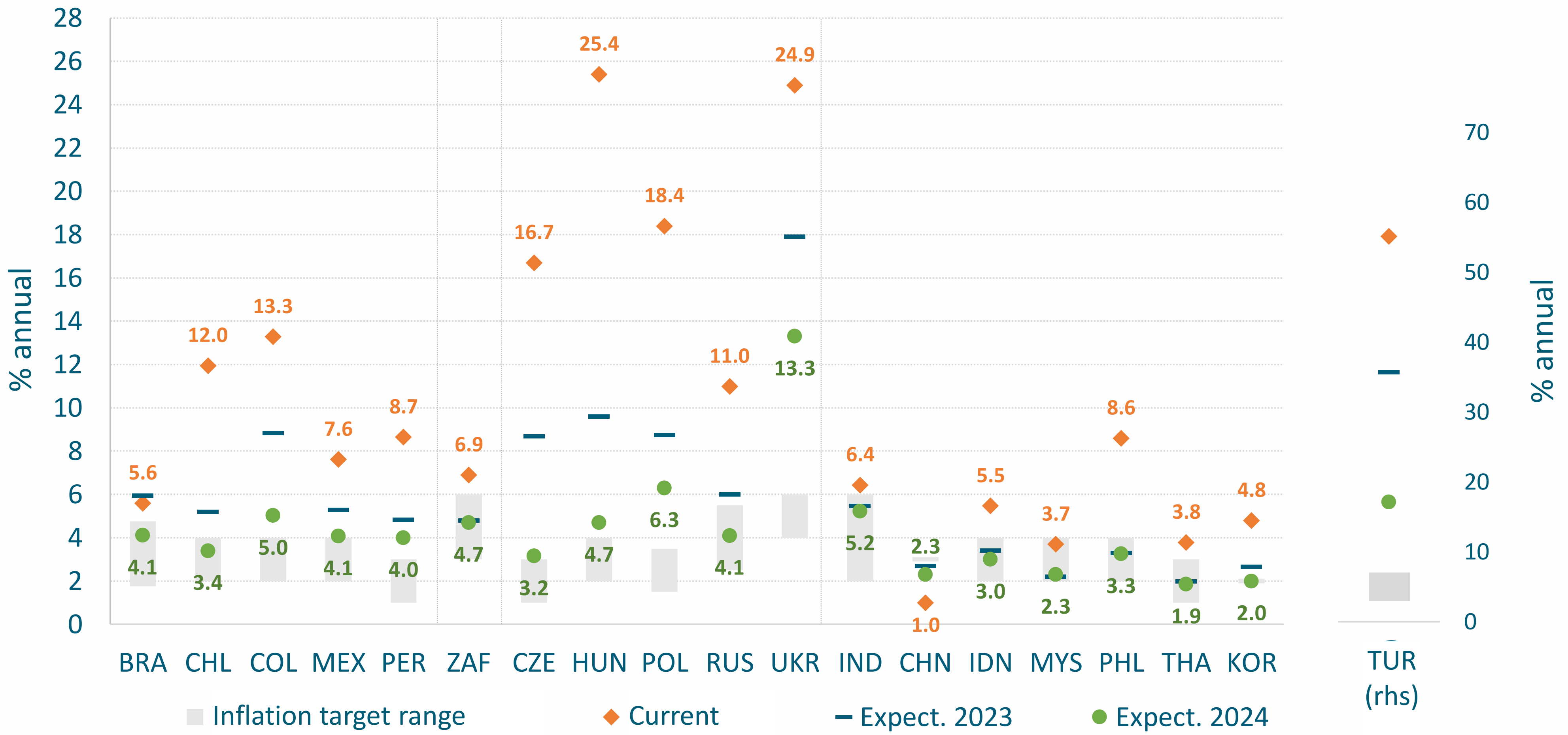


Core CPI – Advanced economies
12-month change (%)



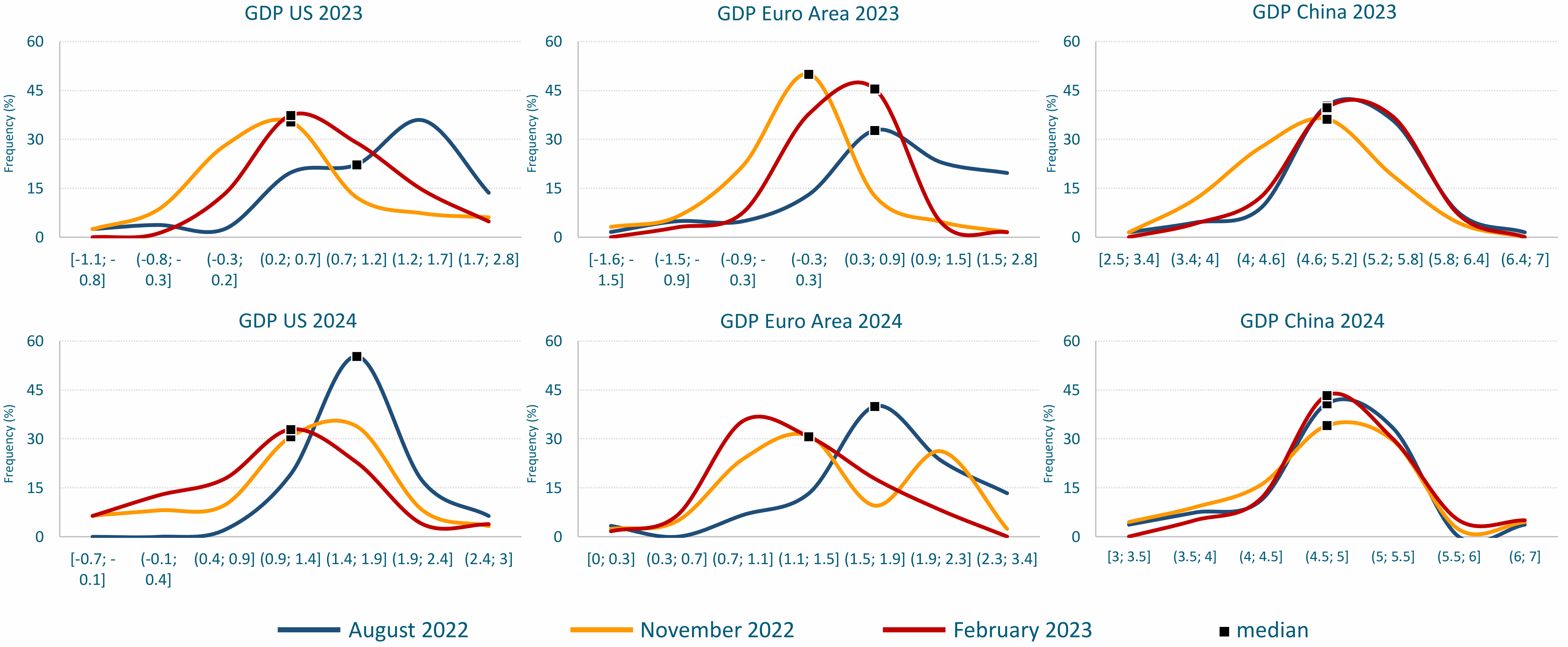
1/ Weighted by PPP; Latam: BRA, MEX, CHL, COL, PER; CEEMEA: TUR, RUS, BGR, CZE, HUN, POL, ROU, SVK; Asia EM: CHN, IDN, IND, KOR, HKG, MYS, PHL, SGP, TWN, THA; Advanced economies: DEU, FRA, ITA, GRC, PRT, IRL, ESP, CHE, NOR, SWE, DNK, FIN, USA

Inflation expectations



Sources: Bloomberg and surveys of central banks

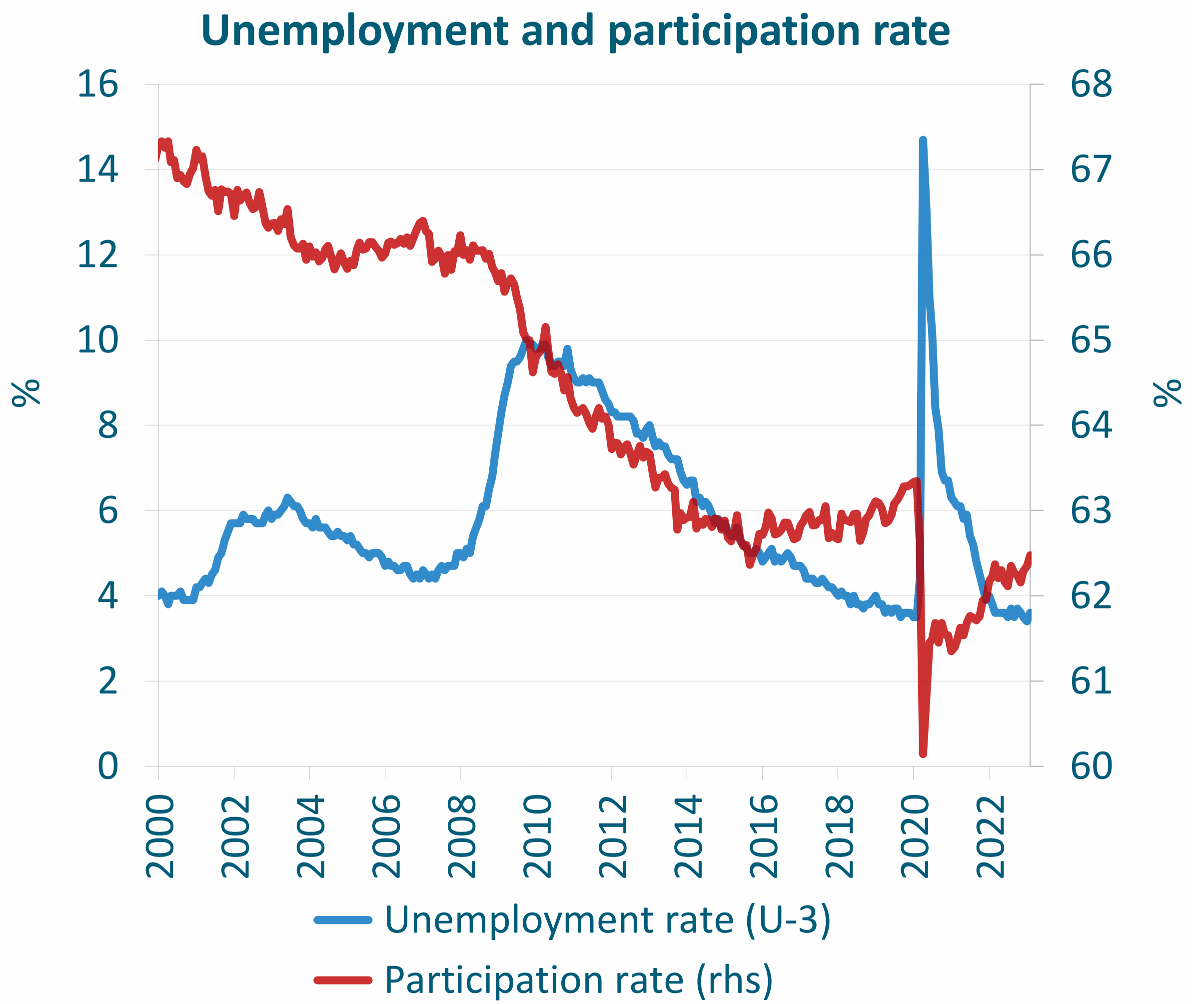
GDP growth expectations

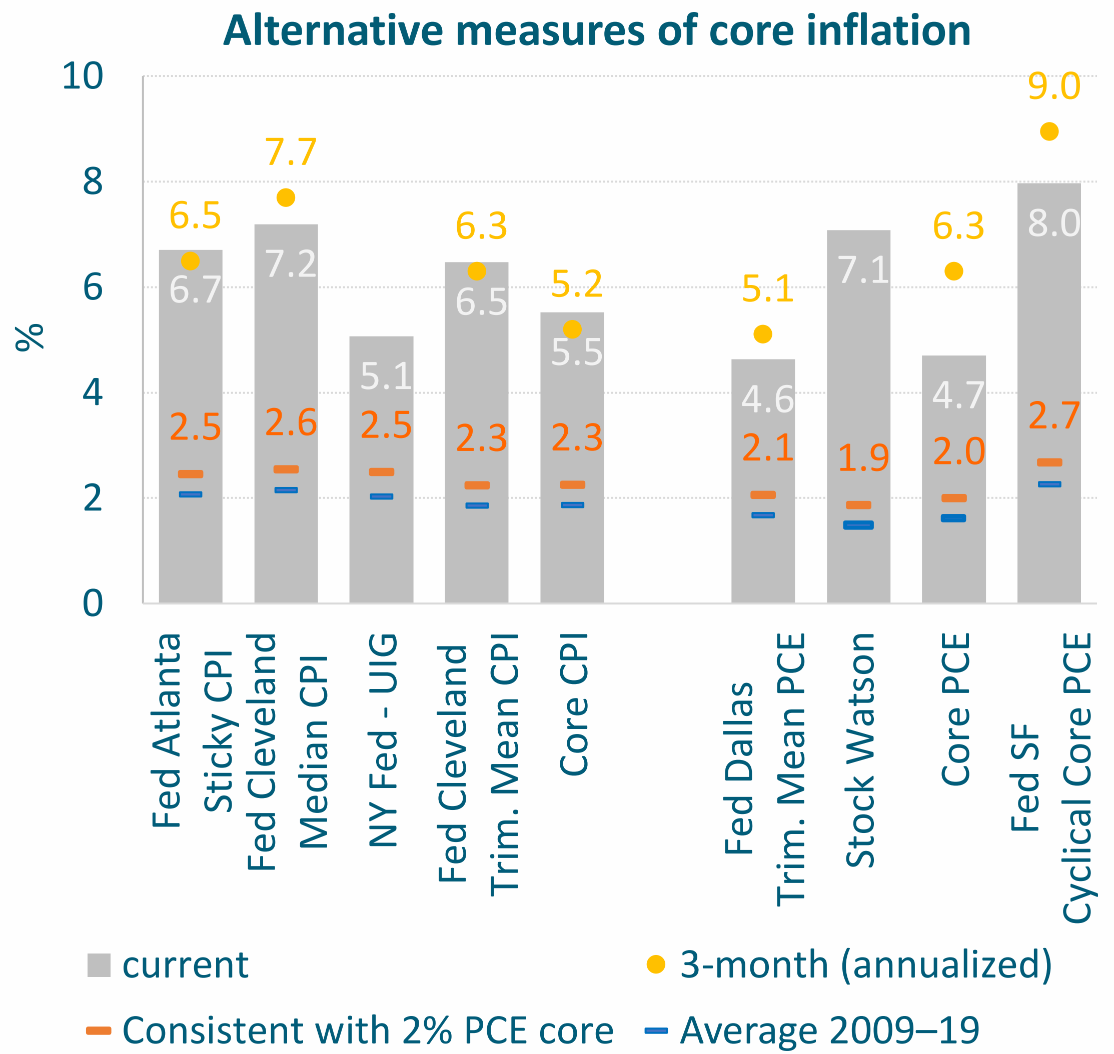


Source: Bloomberg

BANCO CENTRAL DO BRASIL

US economy

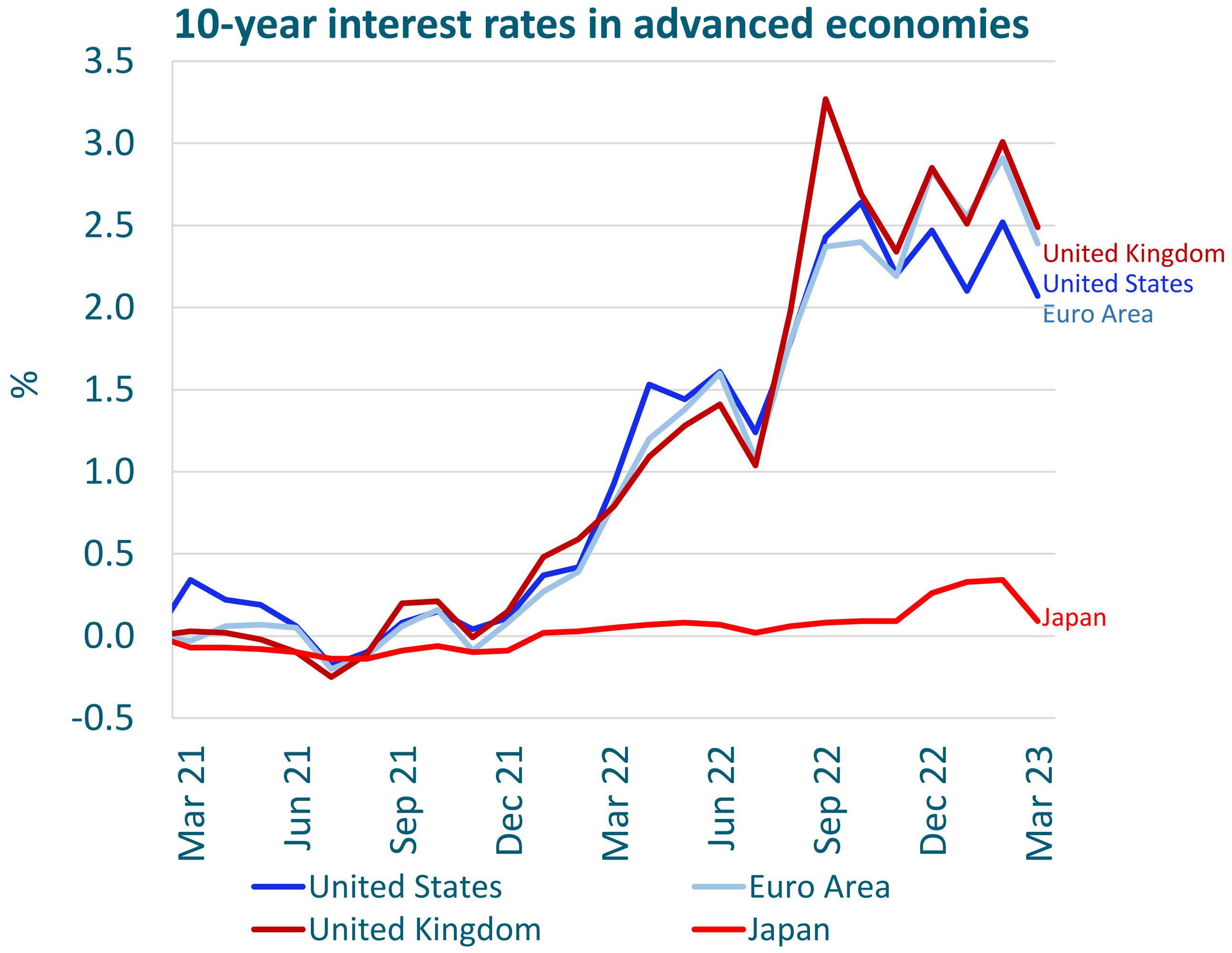


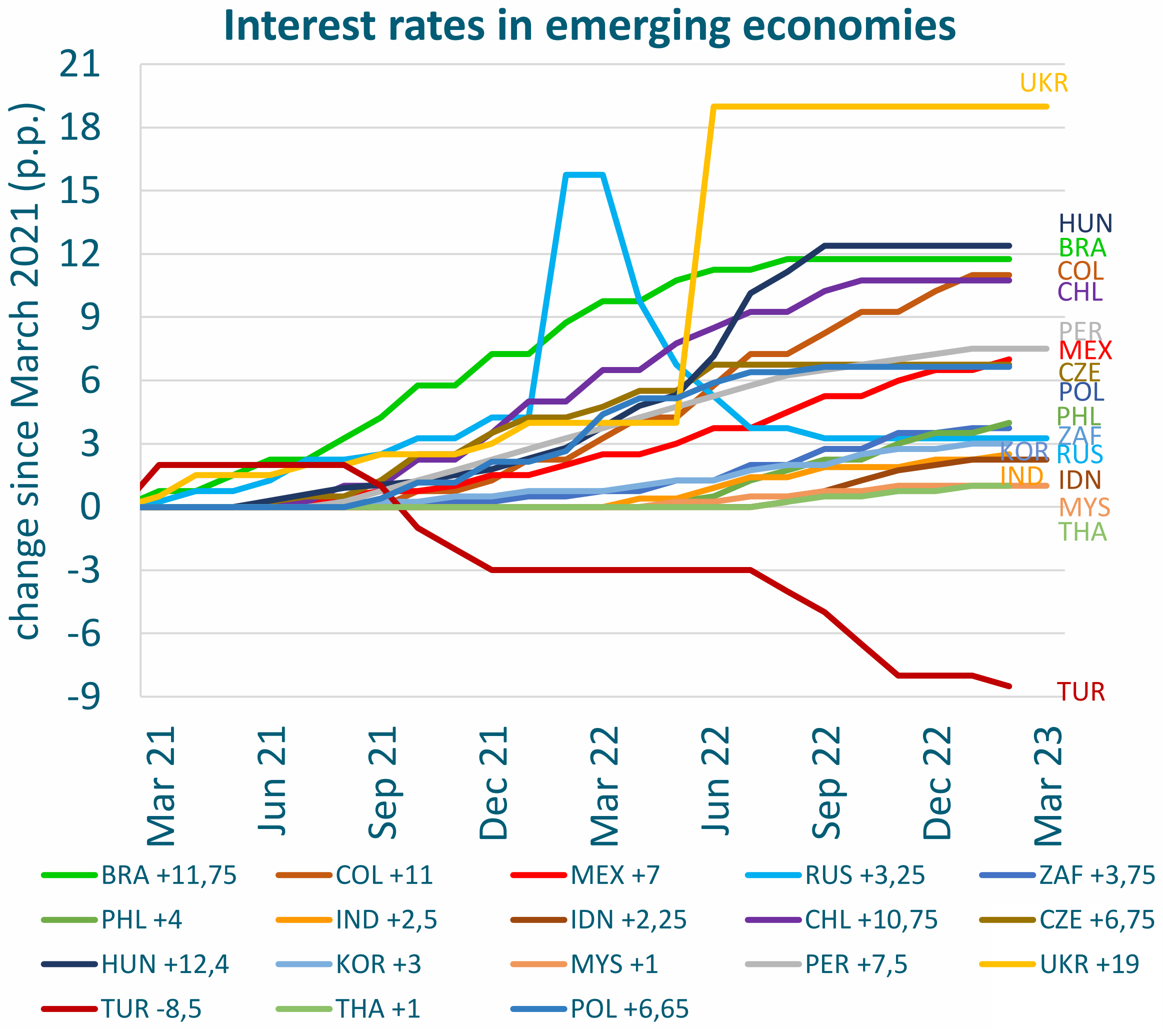


Source: Bloomberg

BANCO CENTRAL DO BRASIL

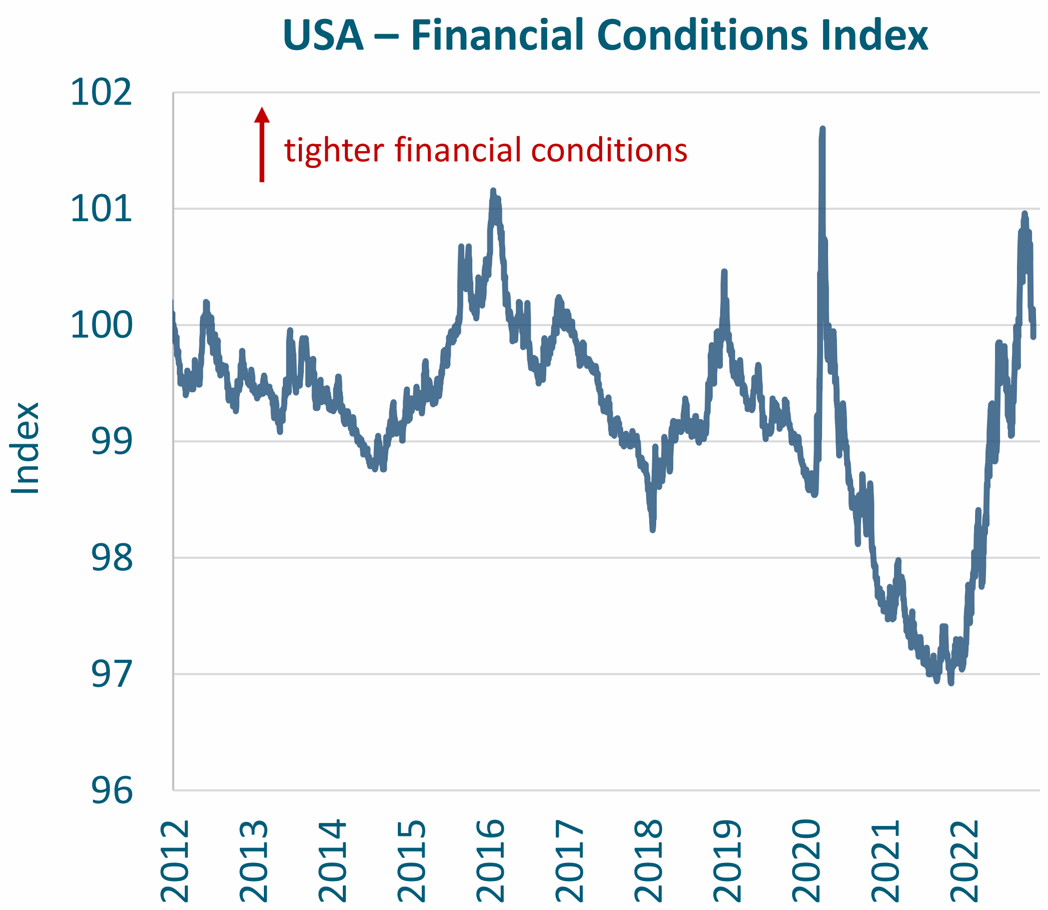
Normalization of monetary policy

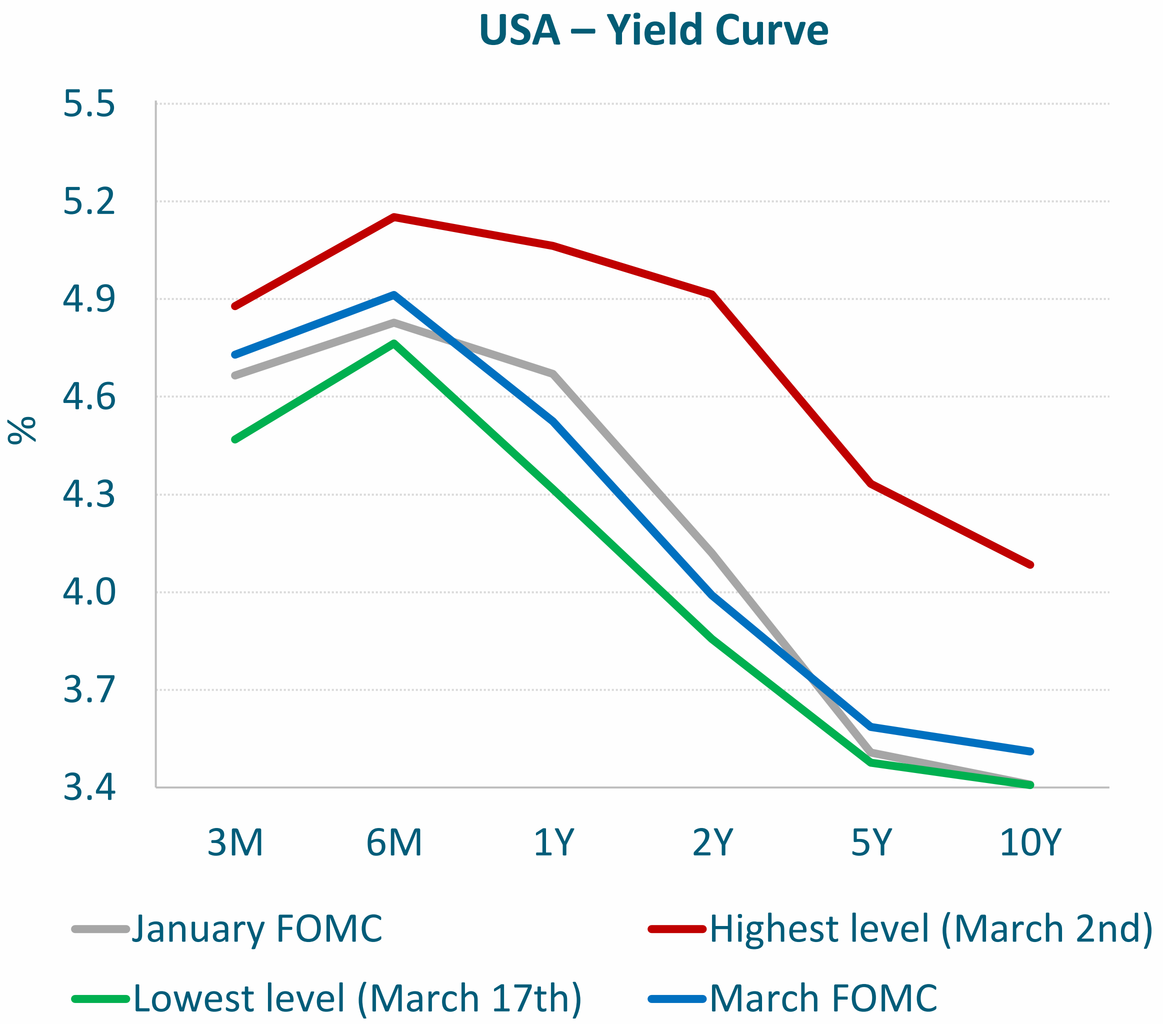




Sources: Bloomberg and central banks

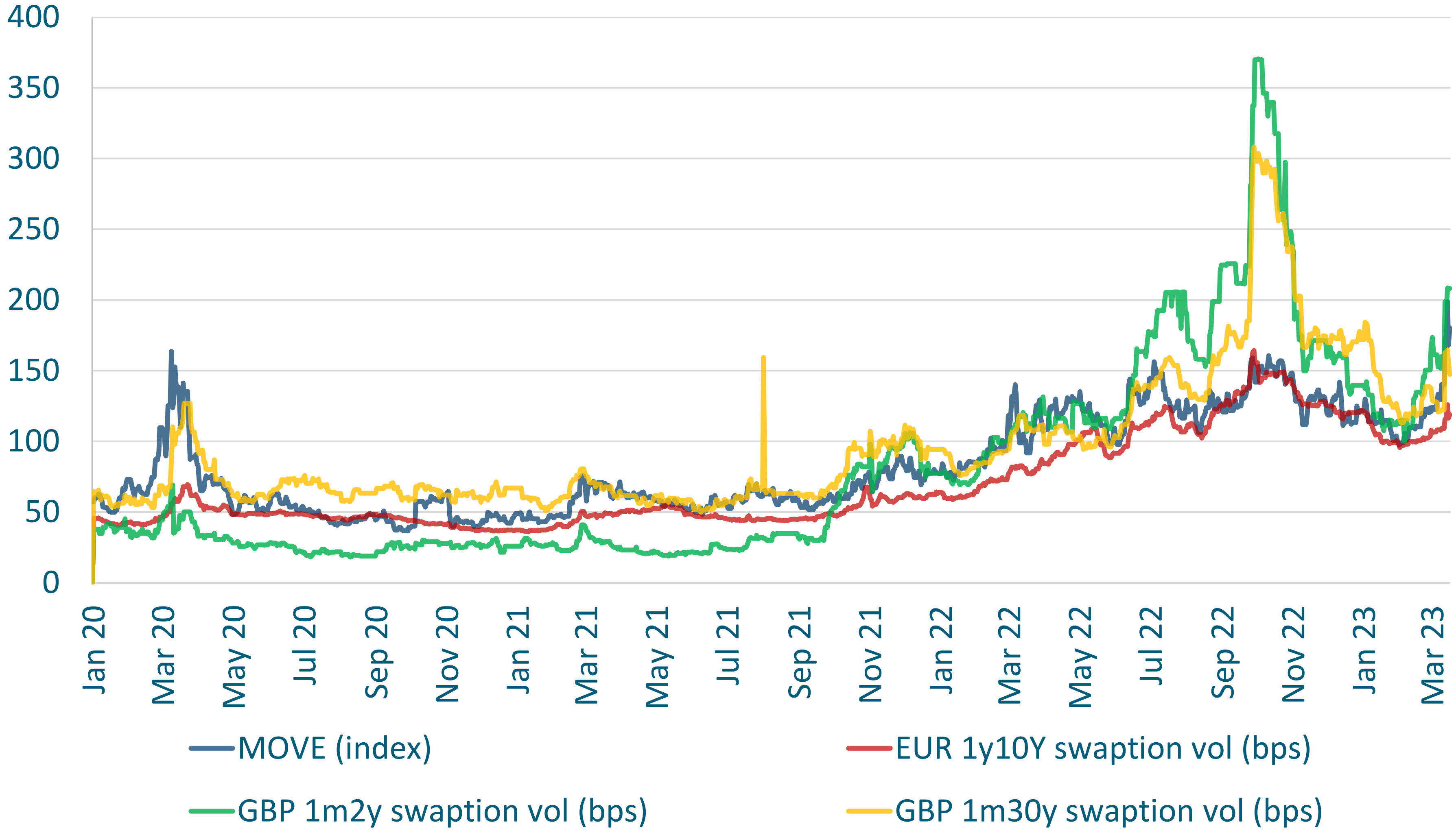
Tightening of financial conditions





Sources: Goldman Sachs and Bloomberg

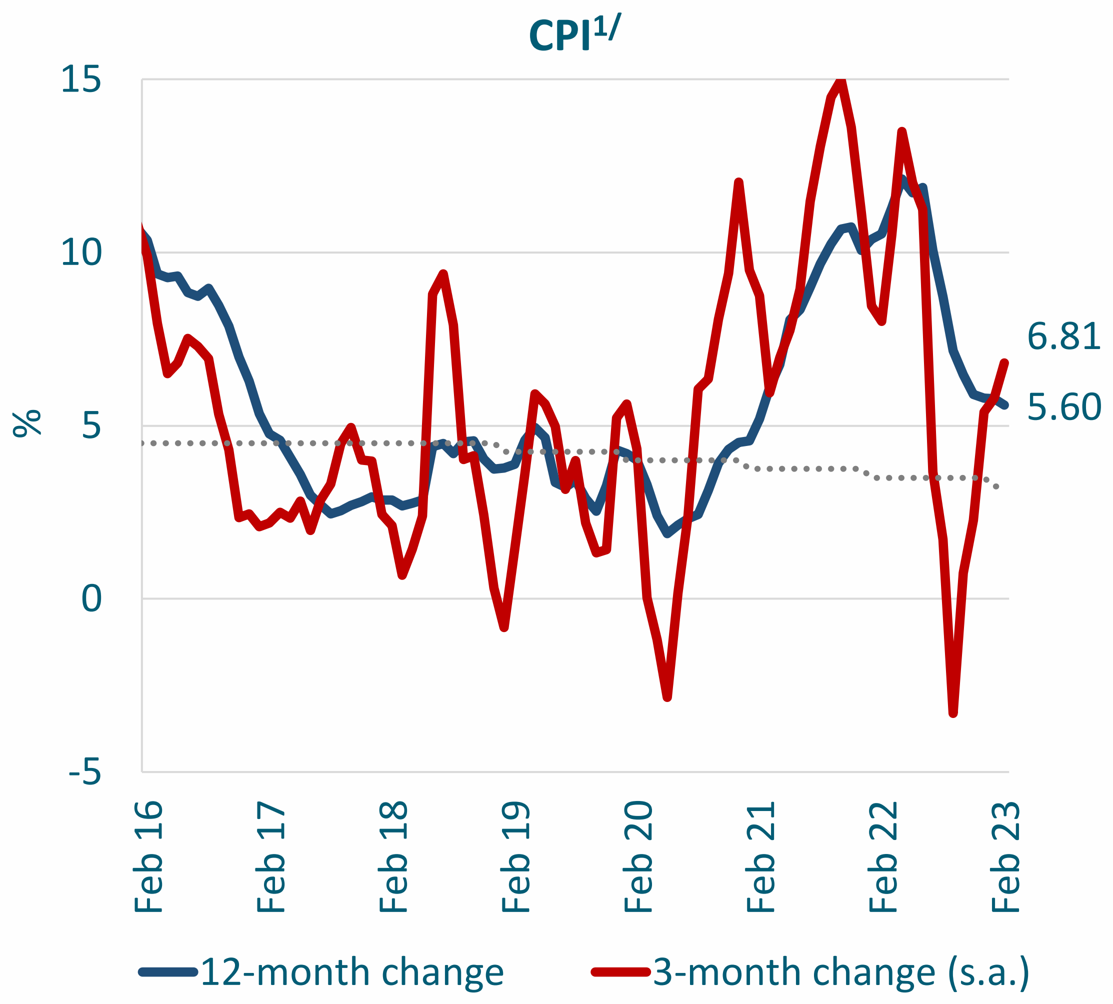
Volatility

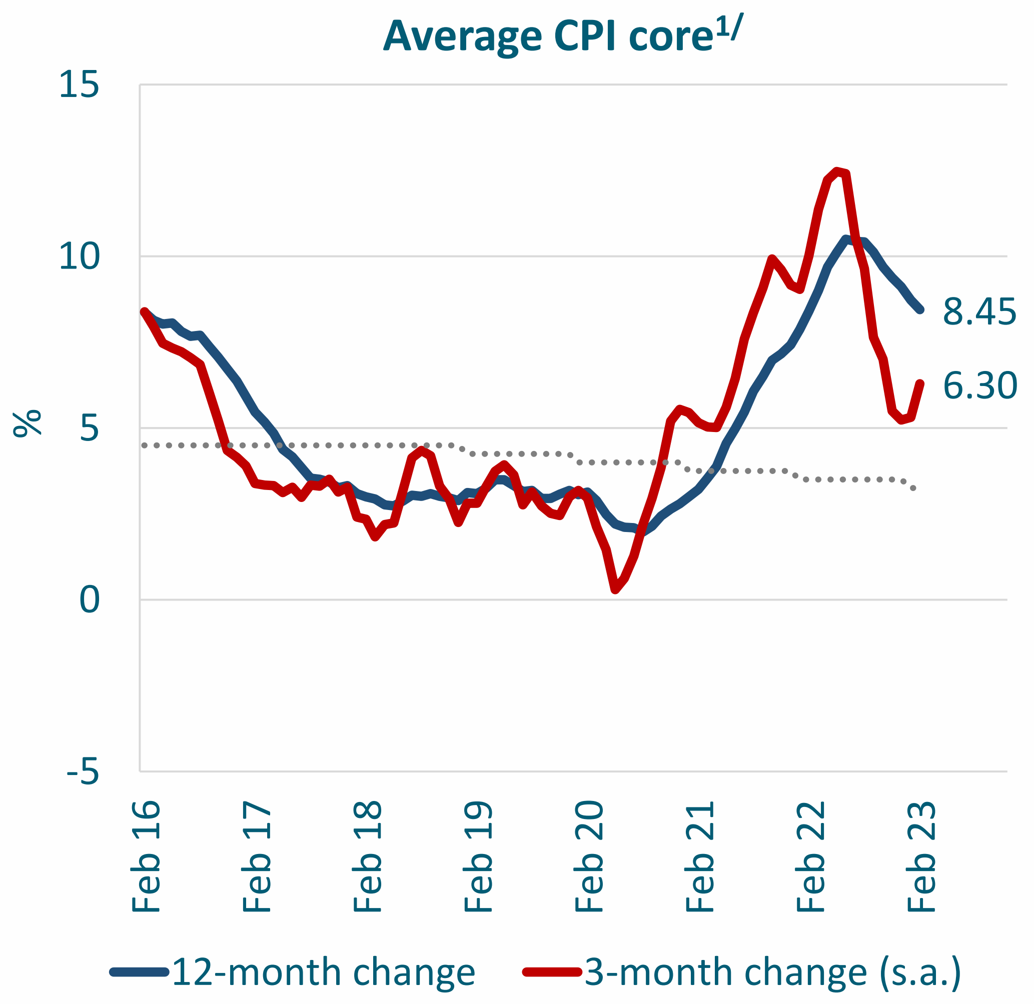


Source: Bloomberg

Brazilian economy

CPI and core inflation



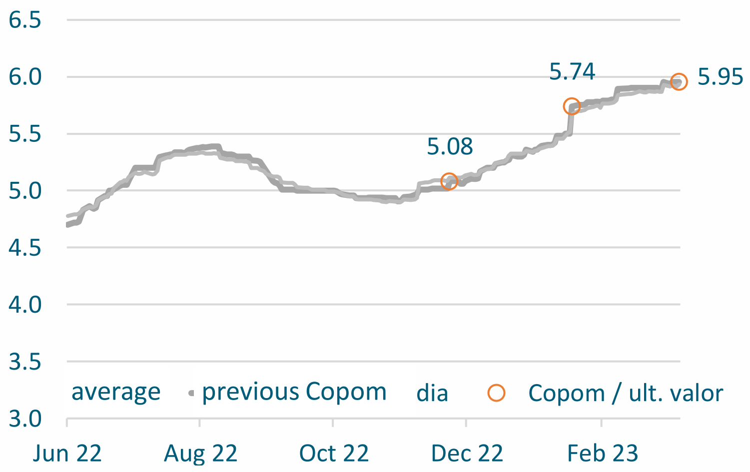


Sources: IBGE and BCB

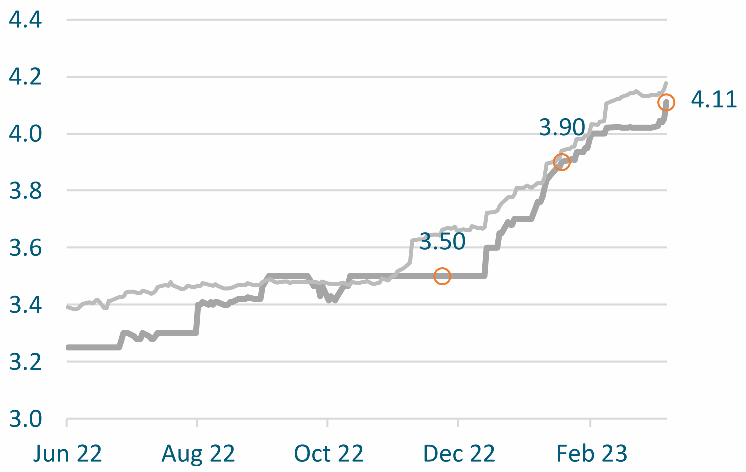
1/ IPCA 12-month accumulated and 3-month accumulated annualized seasonally adjusted

Inflation expectations

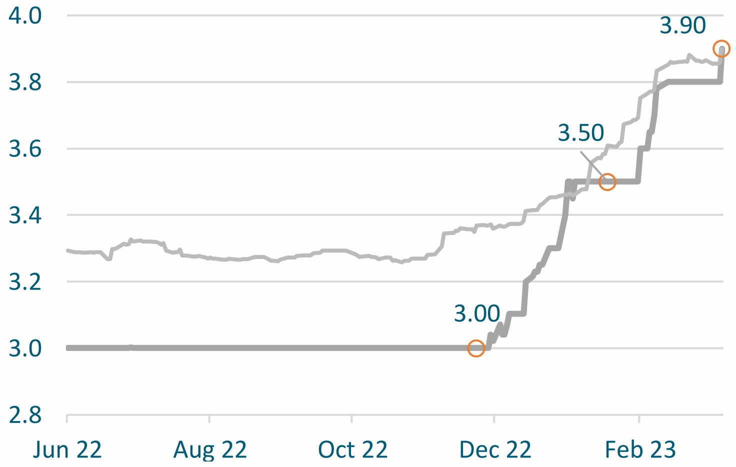
Median Focus expectations – IPCA 2023



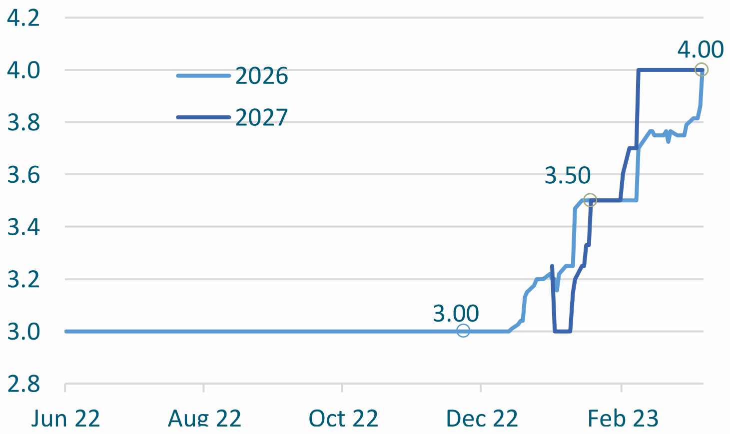
Median Focus expectations – IPCA 2024



Median Focus expectations – IPCA 2025

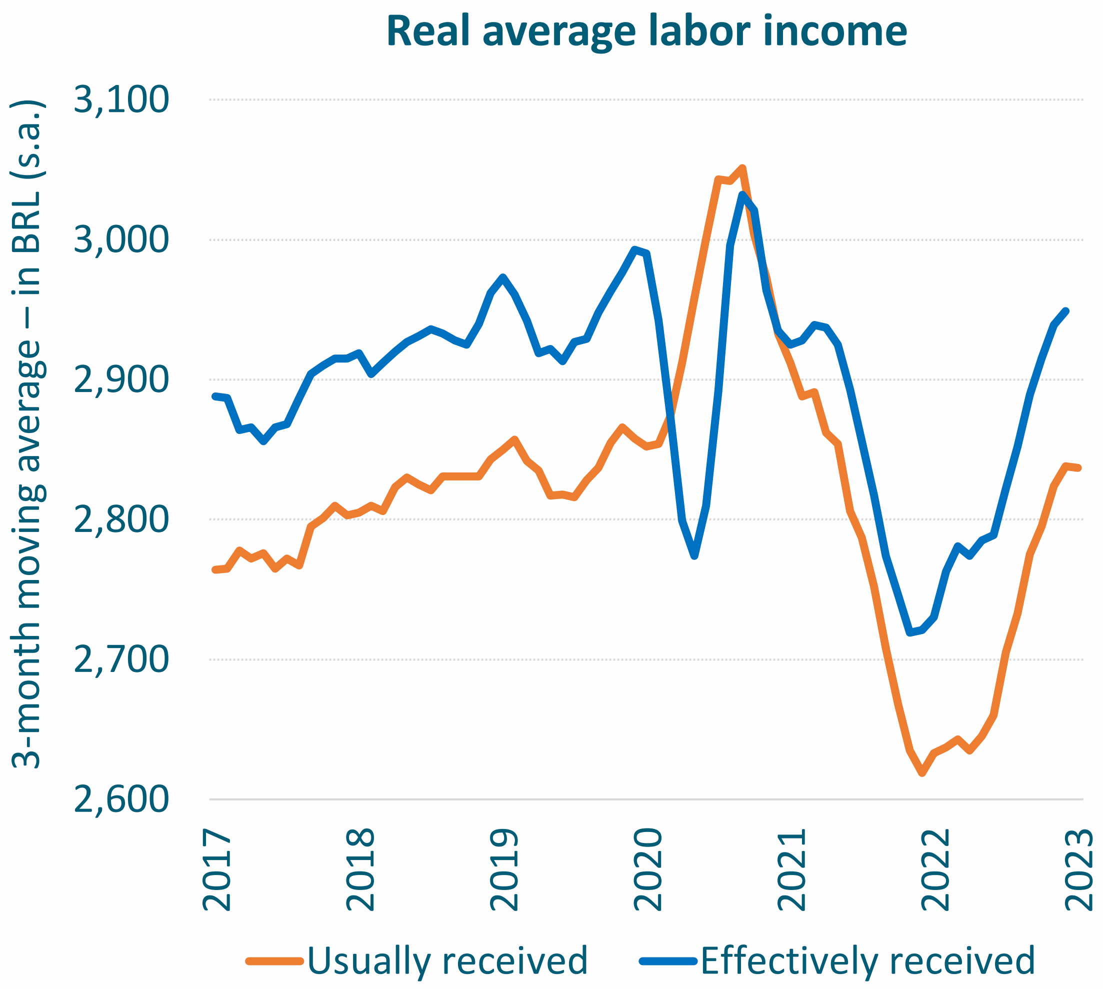


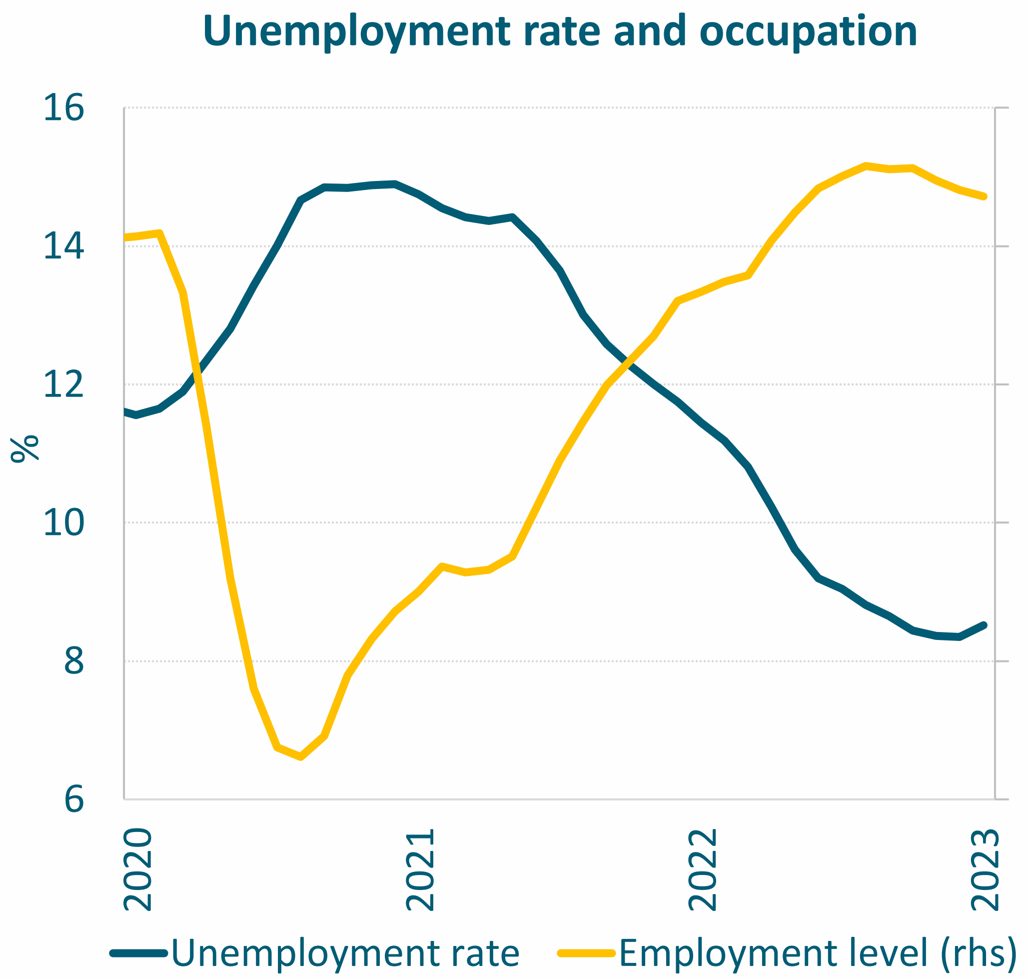
Median Focus expectations – IPCA 2026 and 2027



Sources: BCB and IBGE

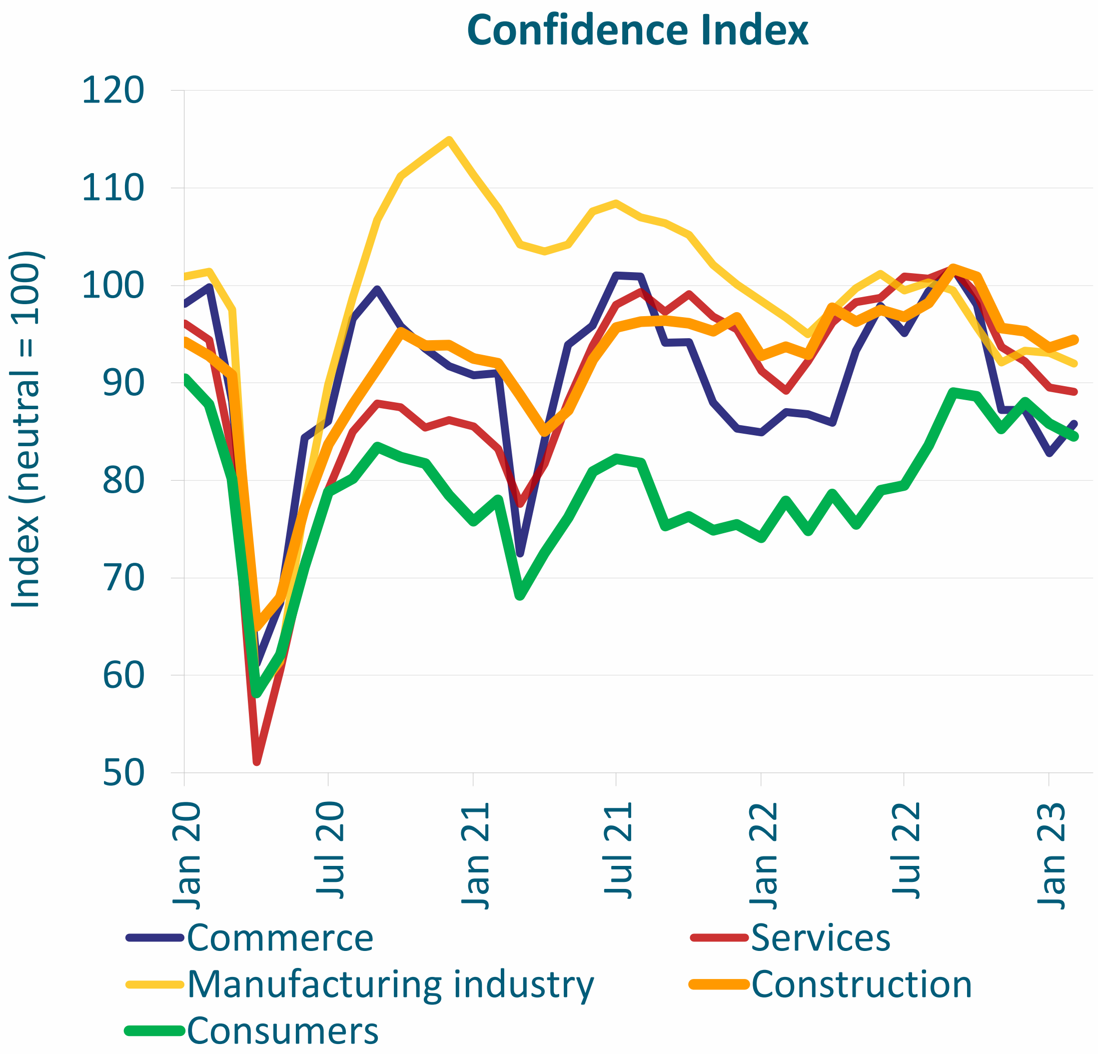
Labor market





Source: IBGE

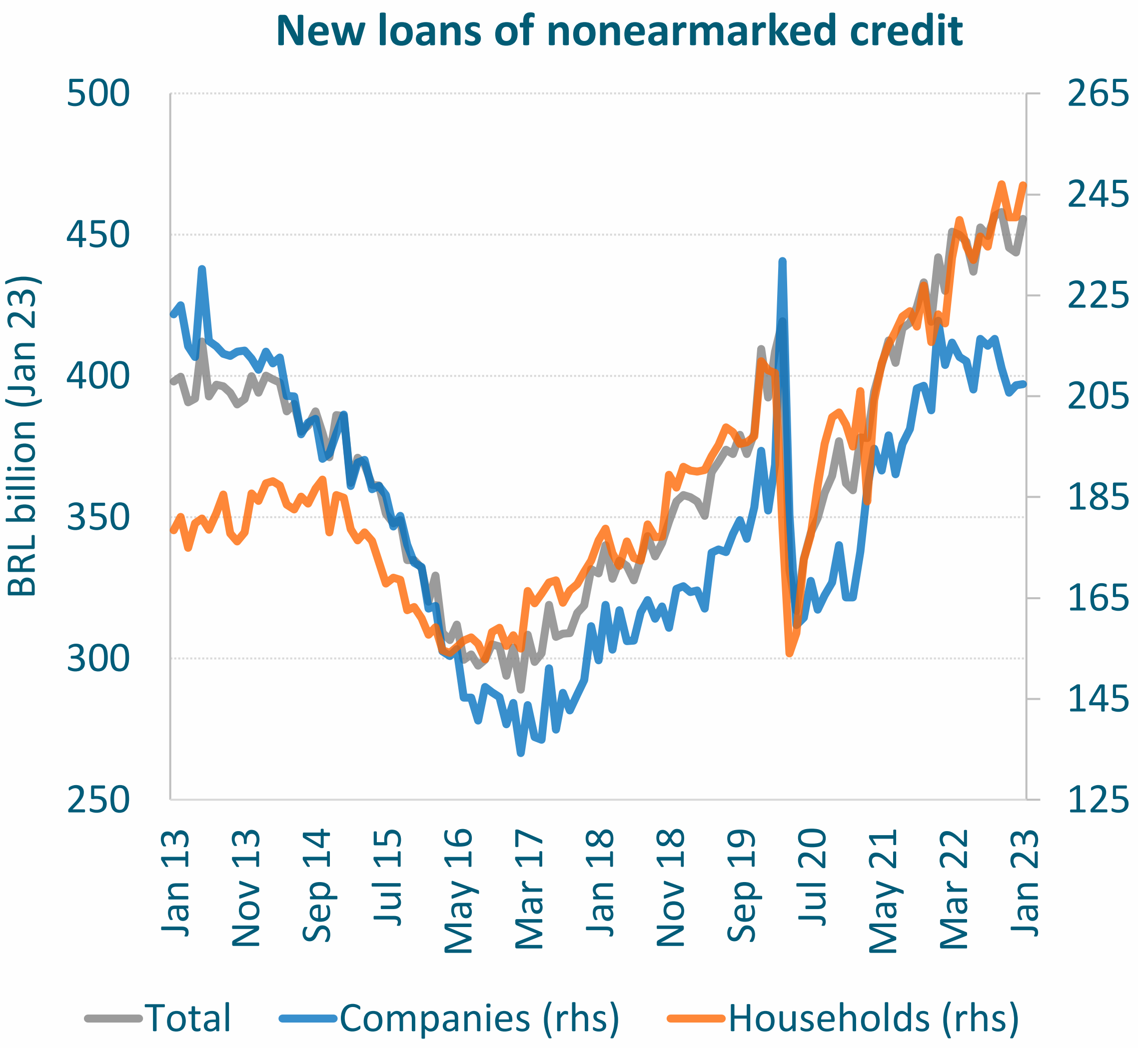
Economic activity and confidence

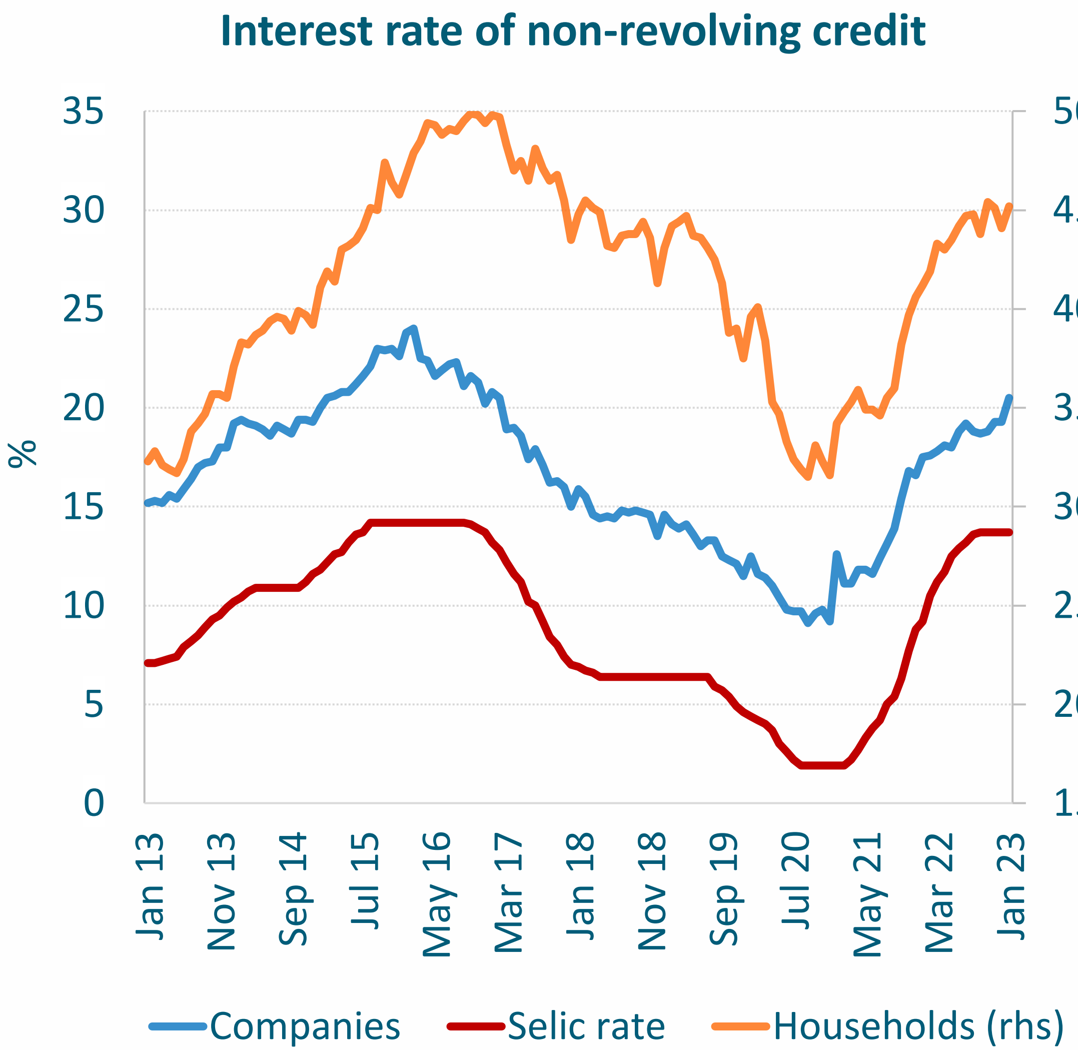


Source: BCB and FGV

1/ Focus expectations updated over the last 5 working days

Credit – New loans and interest rates





Final comments

Final comments – Balance of Risks

Among the upside risks:

- a greater persistence of global inflationary pressures;
- the uncertainty about the fiscal framework and its impacts on the expected path of the public debt; and
- a larger or more persistent deanchoring of long-term inflation expectations.

Among the downside risks:

- an additional reduction in the prices of international commodities measured in local currency;
- a greater than projected deceleration of global economic activity, particularly due to adverse conditions in the global financial system; and
- a slowdown in domestic credit concession larger than what would be compatible with the current stance of monetary policy.

Final comments – Projections

- In the reference scenario, Copom's inflation projections also increased and stand at 5.8% for 2023 and 3.6% for 2024.

- On the six-quarter-ahead horizon, which refers to the third quarter of 2024, the 12-month inflation projection stands at 3.8%.

- The Committee judges that the uncertainty in its assumptions and projections is higher than usual.

Final comments – Monetary policy decision

- Taking into account the uncertainty of the scenarios, the Committee remains vigilant, assessing if the strategy of maintaining the Selic rate for a long period will be enough to ensure the convergence of inflation.

- The Committee emphasizes that it will persist until the disinflationary process consolidates and inflation expectations anchor around its targets, which have shown additional deterioration, especially at longer horizons.

- The Committee reinforces that future monetary policy steps can be adjusted and will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected.

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