Policy Responses to Commodity Price Movements – The Brazilian Experience

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Outline

• Brazilian Macroeconomic Framework
• Commodity Price Shocks
• Policy Responses
  – Monetary Policy
  – Fiscal Policy
  – Exchange Rate Policy
  – International Reserves
  – Macroprudential Policy
• Conclusions
Macroeconomic Policy

- Framework
  - Inflation targeting
  - Fiscal responsibility
  - Exchange rate flexibility

- Complemented by
  - Prudential policy and bank supervision
  - International reserves
Inflation – IT Period

Sources: IBGE and BCB
Fiscal – IT Period

Fiscal Responsibility Law (2001)

Net Public Debt

Primary Surplus

Source: BCB

Brazilian Macroeconomic Framework

*Forecast
FX and International Reserves

Brazilian Macroeconomic Framework

Source: BCB
Financial System - General Features

• All financial institutions are regulated and supervised

• Regulation is mostly infralegal

• Convergence to international standards (IFRS, Basel II, IOSCO)

• Brazil has been member of international forums (BCBS, G20, FSB)

• Regulation has generally been conservative
Capital Adequacy Ratio

leverage ratio: 9.9

Source: BCB
Commodity Shocks

- IC-Br
- From 2000 to 2012, three commodity shocks (+20% yoy, as measured in USD)
  - Inflationary pressures
  - Improvement in terms of trade and external accounts
  - High capital inflow
  - Fast credit expansion
Commodity Shocks

Sources: Thomson Datastream and BCB

Data until Feb 12
Commodity Prices and Inflation

Source: BCB
Commodity Prices and Terms of Trade

Commodity Price Shocks

CRB (lhs)

Terms of Trade (rhs)

1st Shock

2nd Shock

3rd Shock

Source: BCB
Commodity Prices and Current Account

- Commodity Price Shocks
- CRB, Spot, USD
- Current Account (12 months)

Source: BCB
Commodity Prices and Capital Inflow*

Commodity Price Shocks

Capital Inflow (12 months)

CRB, USD

1st Shock
2nd Shock
3rd Shock

Dec 05=100

USDbn

Source: BCB

* net portfolio, credit and fdi flows
Commodity Prices and Credit

2005-2008: 25.2% (average growth of nominal credit)
2009-2012: 13.4% (average growth of nominal credit)

Source: BCB
Monetary Policy Response

• Accommodation of first round effects

• Combat second round effects
  – Expectations
  – Indexation
Interest Rate Response

Source: BCB
Other Policy Responses

- Fiscal Policy
- International Reserve Accumulation
- Exchange Rate Appreciation
- Macroprudential Measures
Fiscal Policy

Fiscal Responsibility Law (2001)

% of GDP

1st Shock 2nd Shock 3rd Shock

Year: 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012*

Source: BCB
International Reserves

Source: BCB

(*) without IMF liabilities, available as reserves until 2006
Macroprudential - Credit

Source: BCB
Macroprudential - Capital Flows

Source: BCB
• In general, commodity shocks have represented a source of inflationary pressures and improved terms of trade

• These shocks have also been associated with high capital inflows and fast credit expansion
Summary – Policy Responses

• 1\textsuperscript{st} shock (2003/2004): The previous partial reversion of the exchange rate overshooting and tight fiscal stance helped monetary reaction

• 2\textsuperscript{nd} shock (2006/2008): The response encompassed exchange rate appreciation, international reserves accumulation and monetary reaction

• 3\textsuperscript{rd} shock (2010/2011): Excessive credit growth and short-term capital inflow, less scope for appreciation and reserve accumulation paved the way for the introduction of macroprudential measures, to complement fiscal and monetary actions
Commodity Prices in the Longer Run

CRB (constant US$)

Jan/51=100 (deflated by US CPI)

Source: Thomson Datastream  data until Feb 12
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