



The Changing Nature and Geography of Global Finance

Monetary Policy and challenges ahead: Brazil's perspective

Fernanda Nechio

Deputy Governor for International Affairs and Corporate Risk Management

July 18, 2019

Overview

- ▶ International context
 - ▶ Some risks have declined but others remain
- ▶ Domestic outlook
 - ▶ Halt on economic recovery
 - ▶ Inflation under control
 - ▶ Comfortable international position
 - ▶ Challenging fiscal side
 - ▶ Accommodative monetary policy
- ▶ Upcoming developments
 - ▶ Changes to legislation and regulatory framework
 - ▶ Microeconomic initiatives

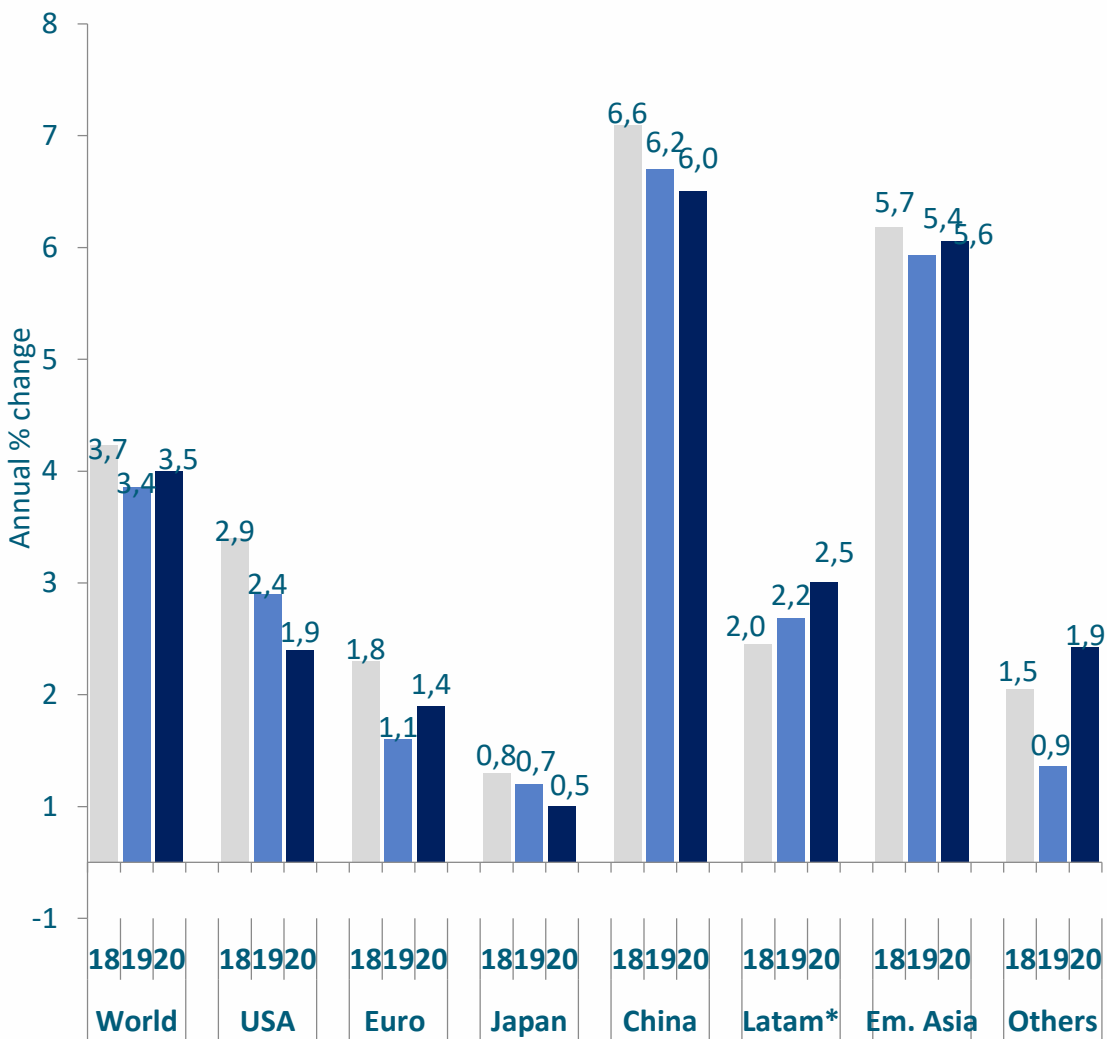
International context

Global outlook remains challenging

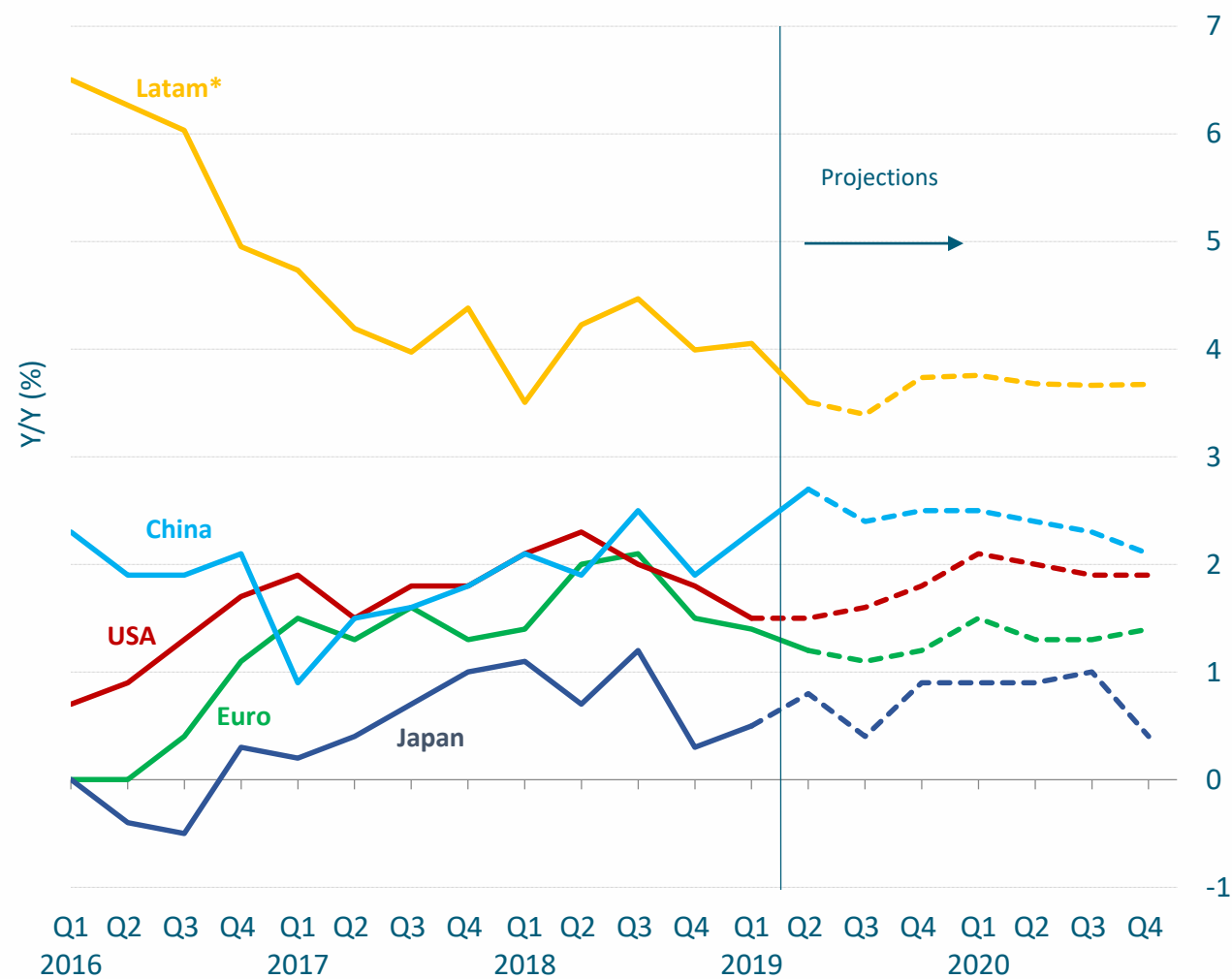
- ▶ Some risks dissipating
 - ▶ the normalization of interest rates in some advanced economies
 - ▶ developed world revising to more flexible monetary policies
- ▶ Others remain
 - ▶ trade tensions
 - ▶ global economic slowdown
 - ▶ risk aversion towards emerging economies

Global growth slowdown

GDP Output Growth Projections



Headline Inflation

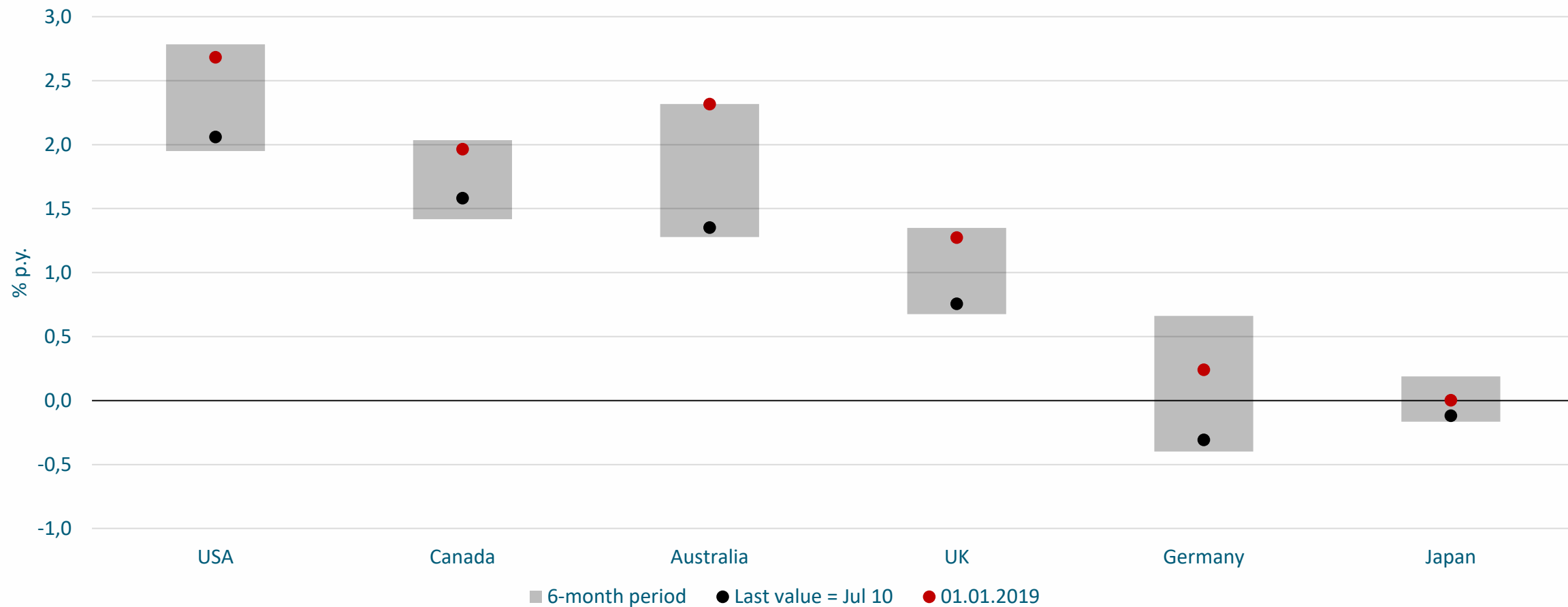


*LATAM ex Argentina and Venezuela

Source: Bloomberg

Central banks revising monetary policies

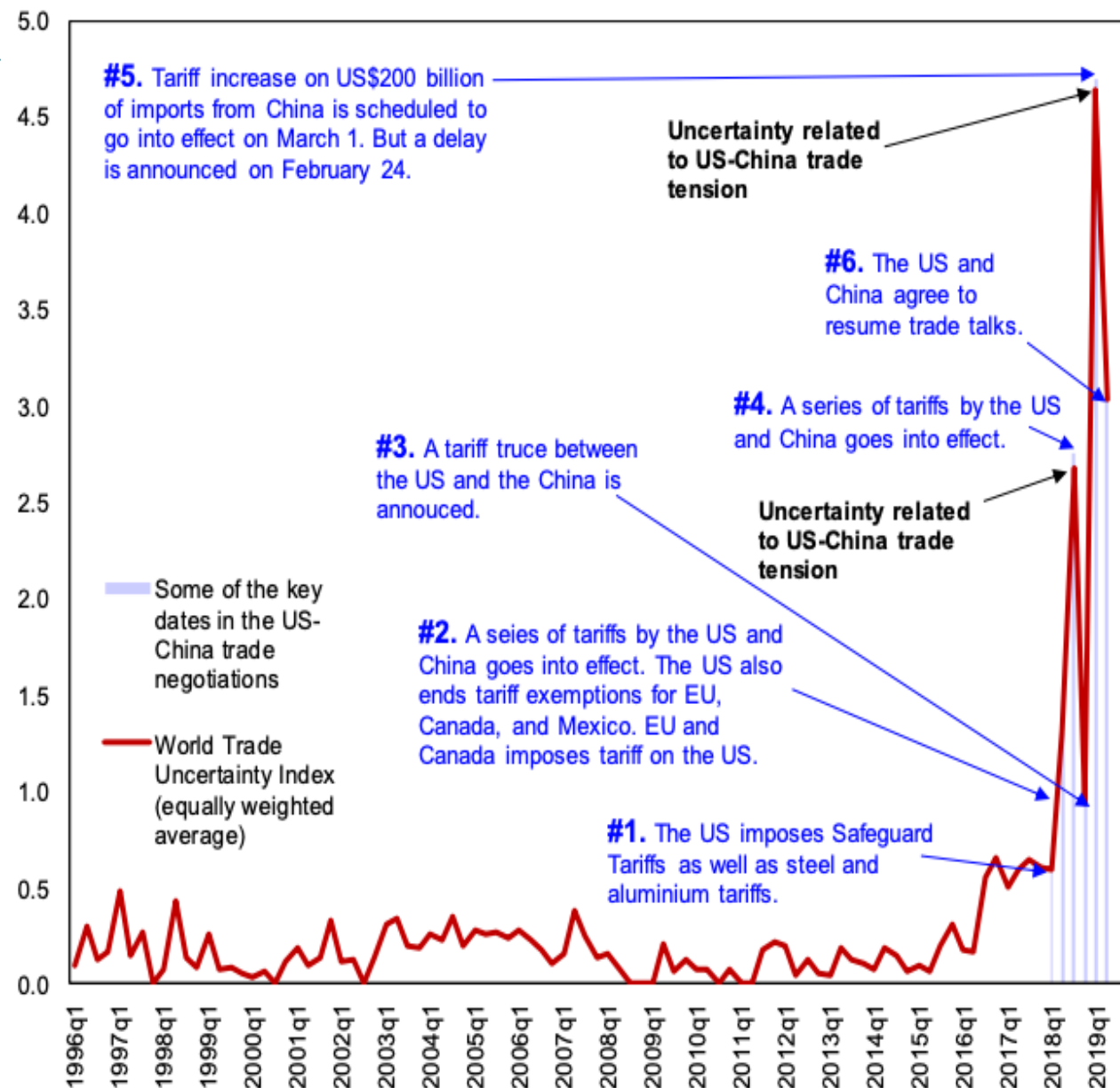
Sovereign bonds (10-year yields)



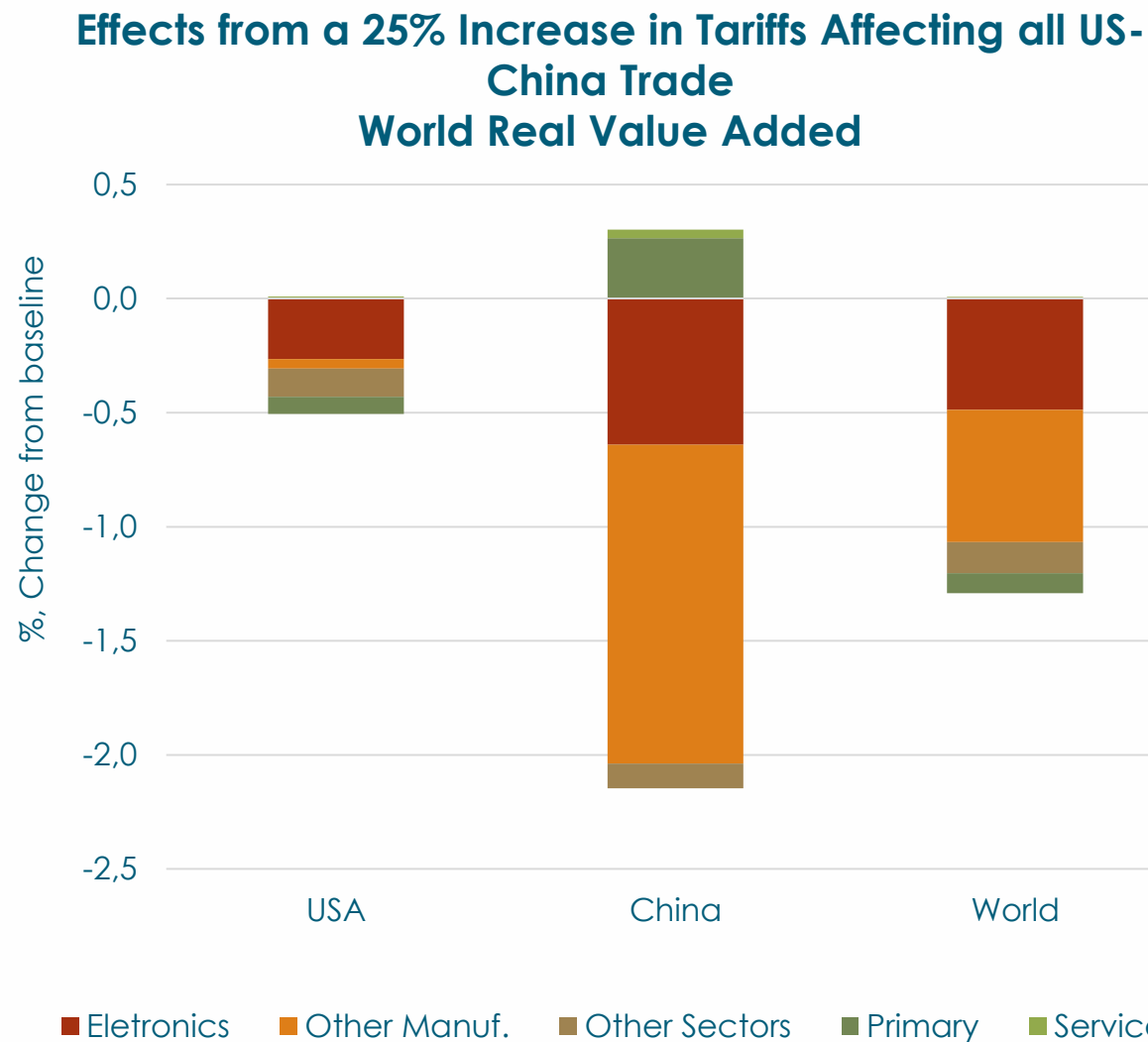
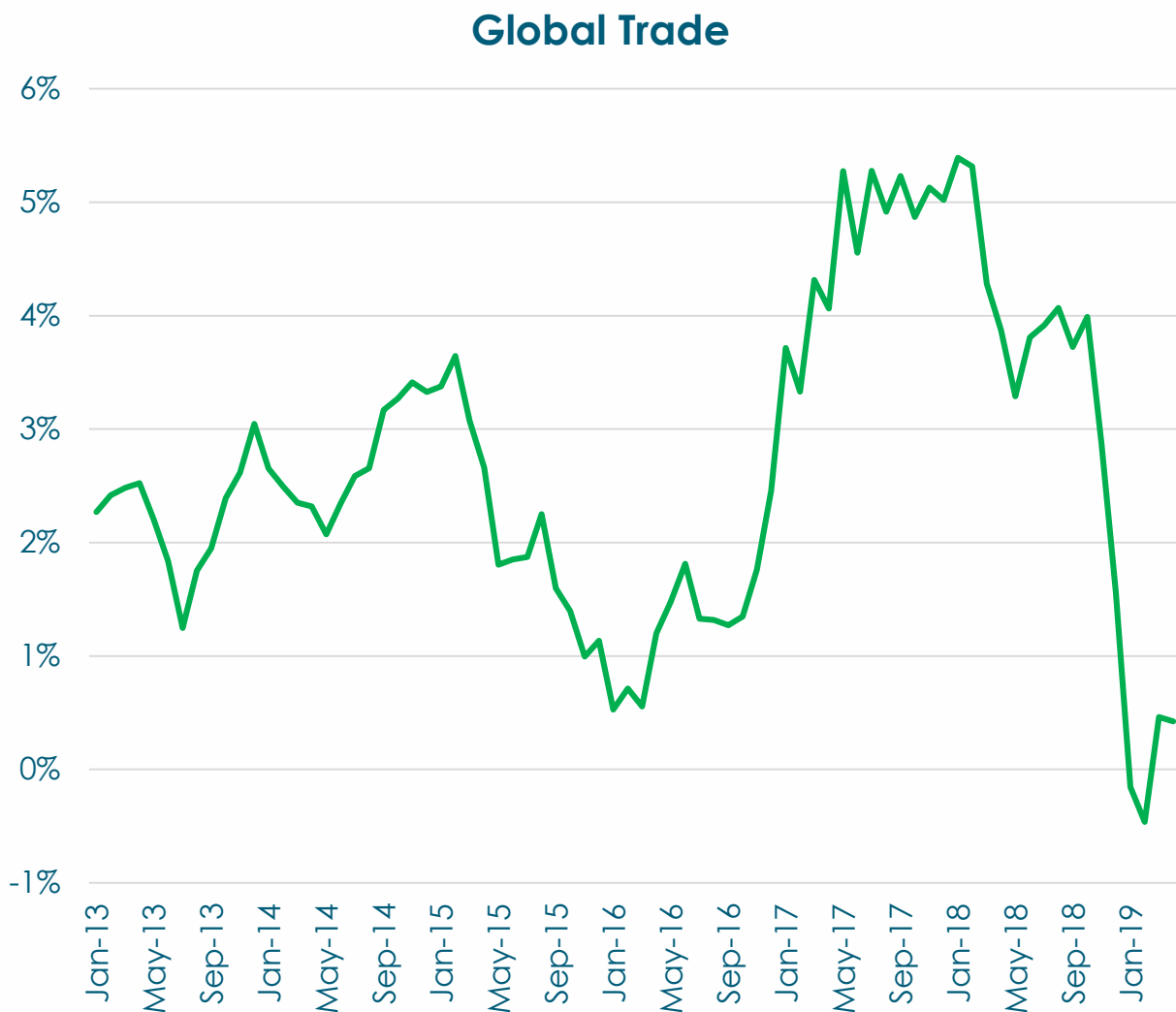
Source: Bloomberg

Elevated trade uncertainty

World Trade Uncertainty Index
Ahir, Nicholas Bloom, Davide
Furceri (2019)



Trade tensions affecting global growth

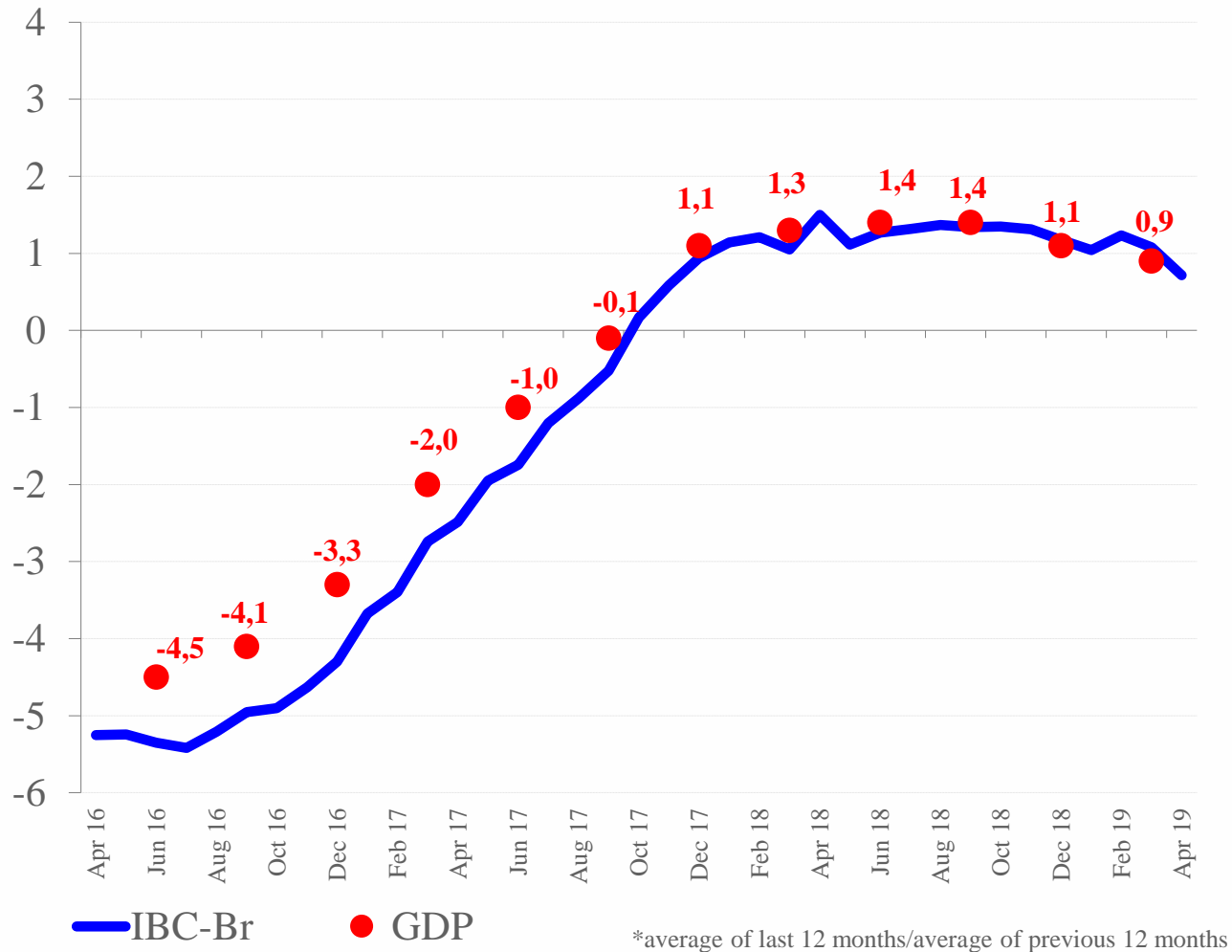


Sources: CPB & IMF Oct WEO

Domestic scenario

Halt on economic recovery

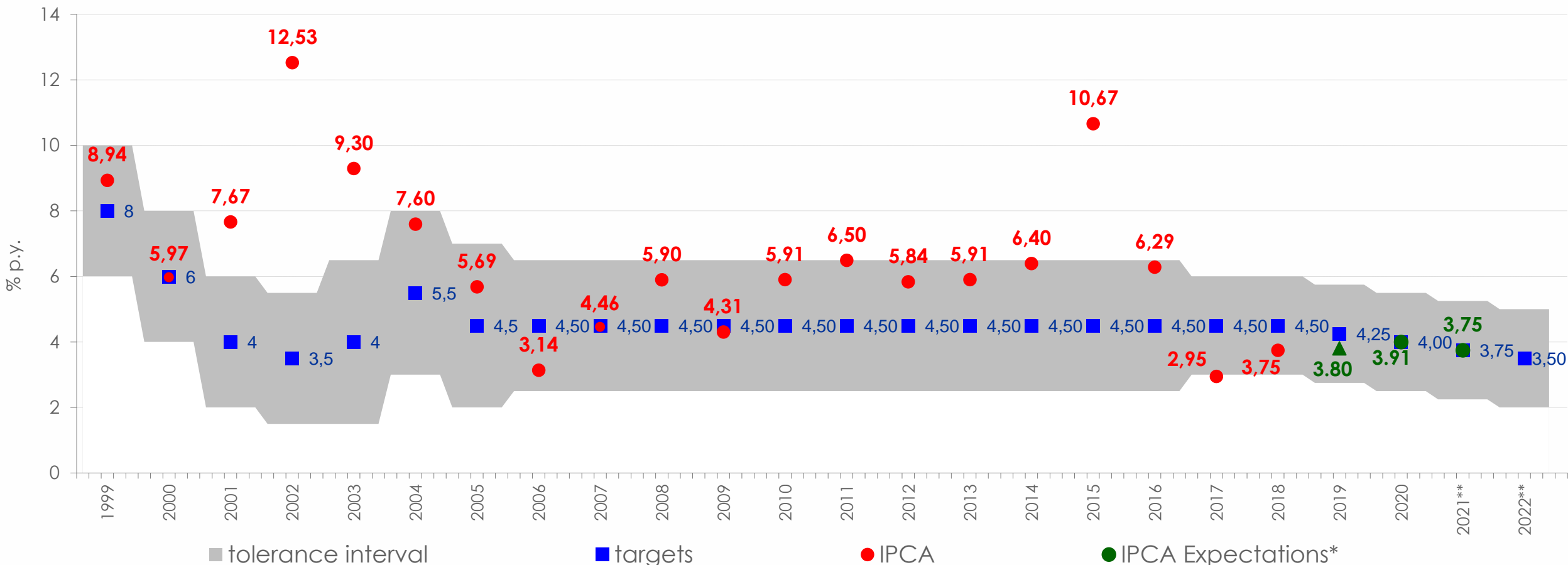
GDP and IBC-Br (%p.y.*)



Unemployment Rate (s.a.**)



Inflation within target range

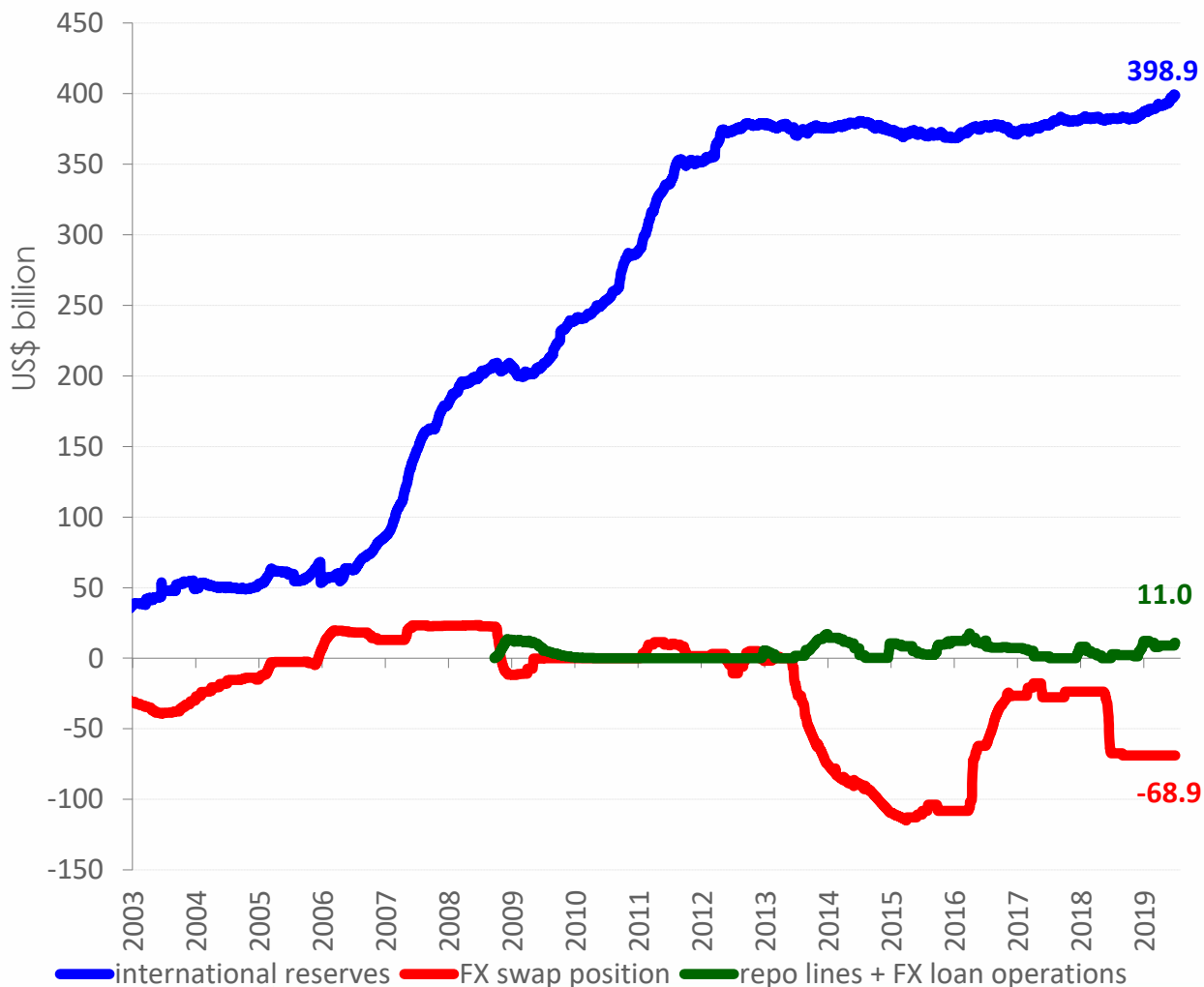


*Market-based median expectations (Focus Jul2019)

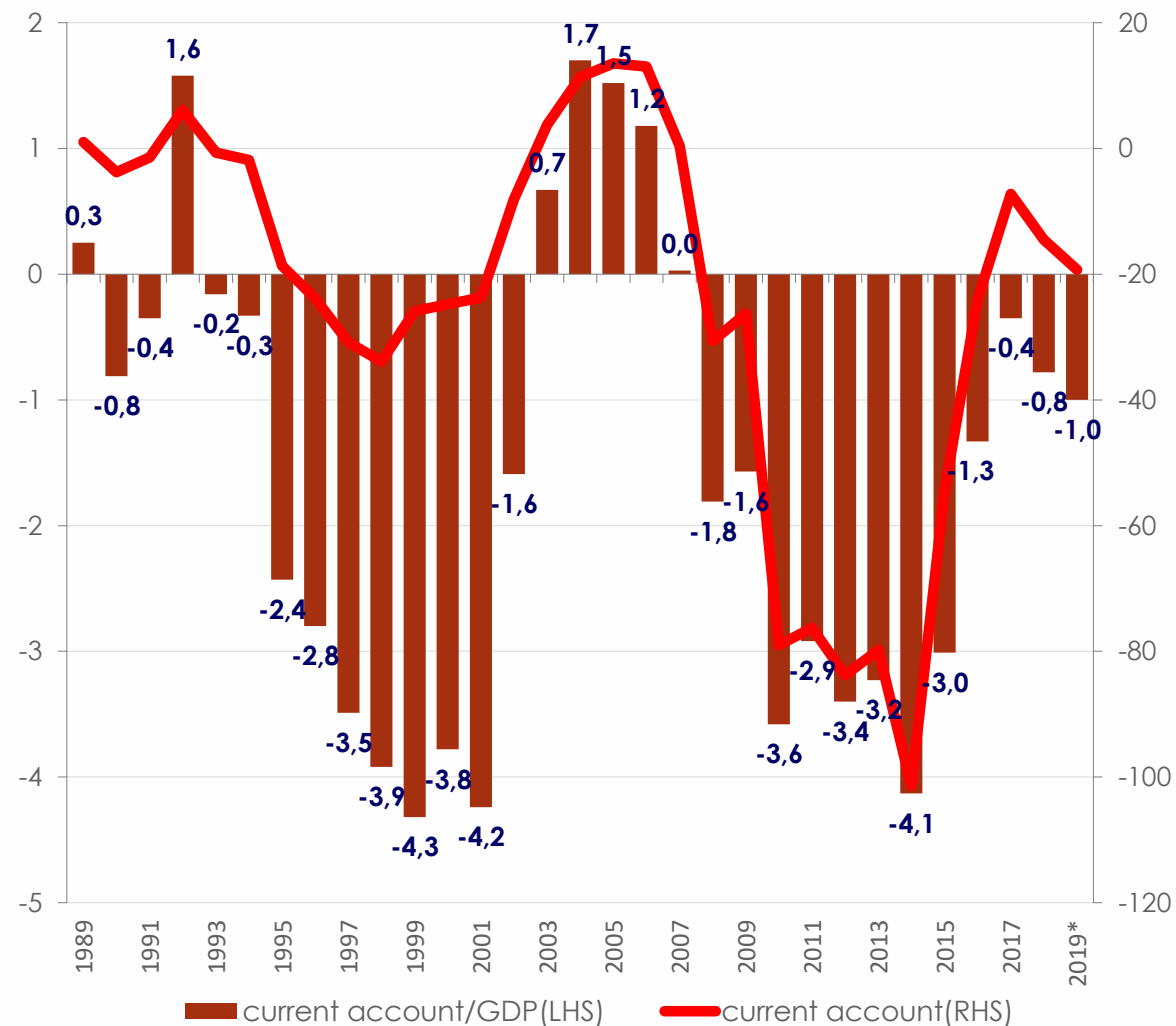
- Measures of underlying inflation running at appropriated levels (including for components sensitive to the business cycle and monetary policy)

Comfortable international position

International reserves and FX swaps

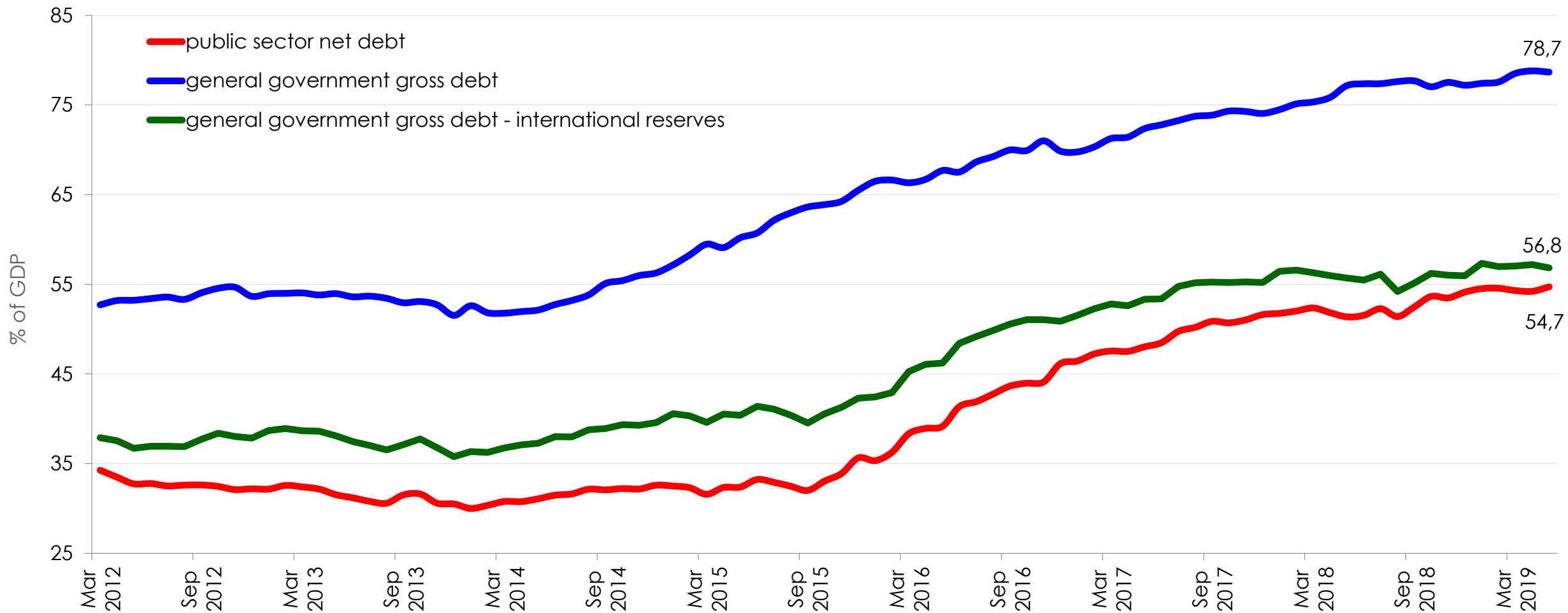


Current account



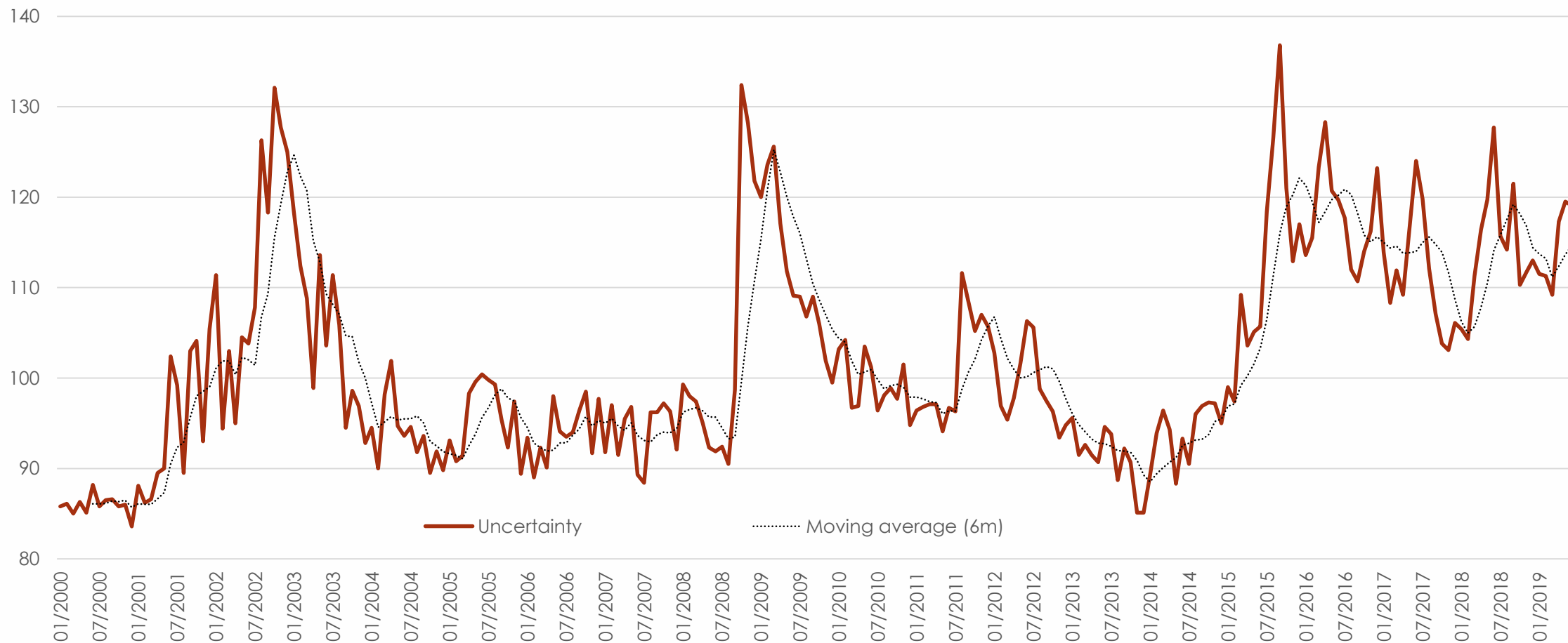
Challenging fiscal side

Public Debt



Uncertainty remains elevated

Economic Uncertainty Index



Policy rate at historically low

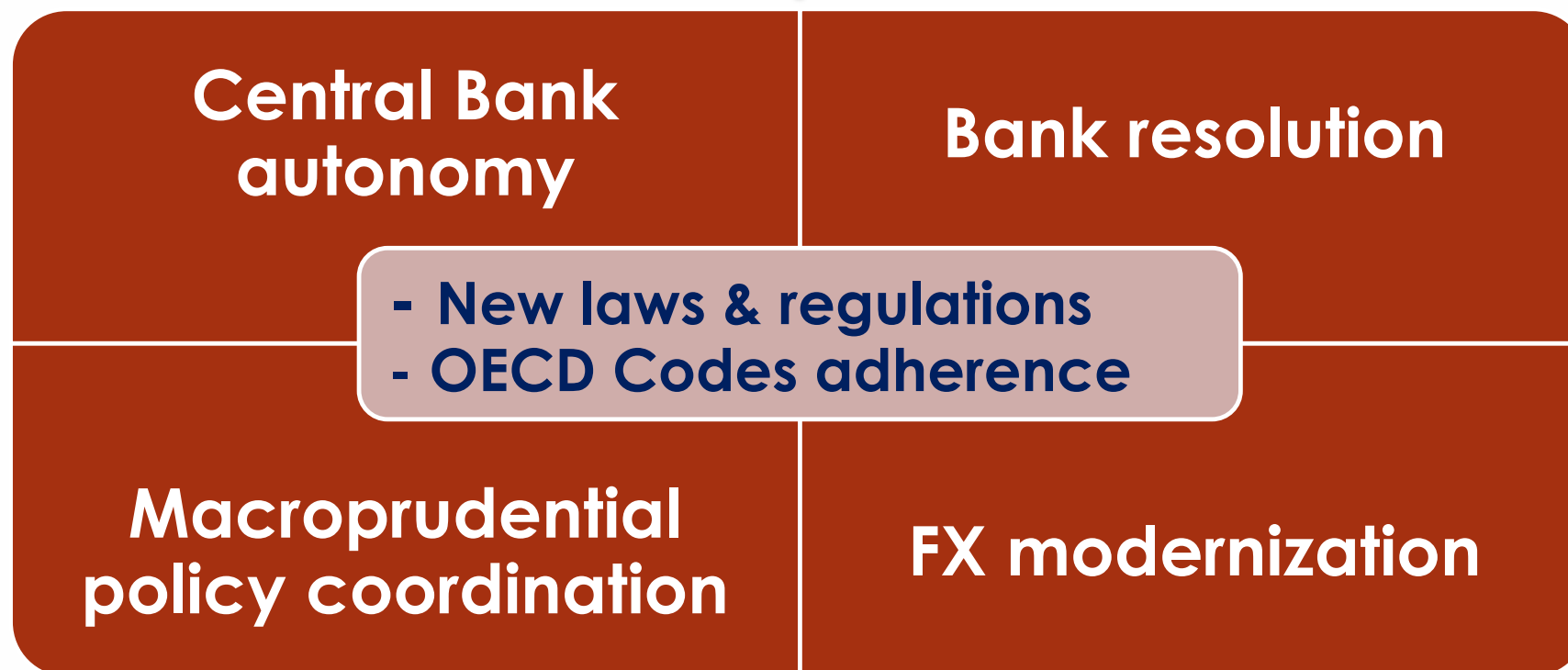


Upcoming developments

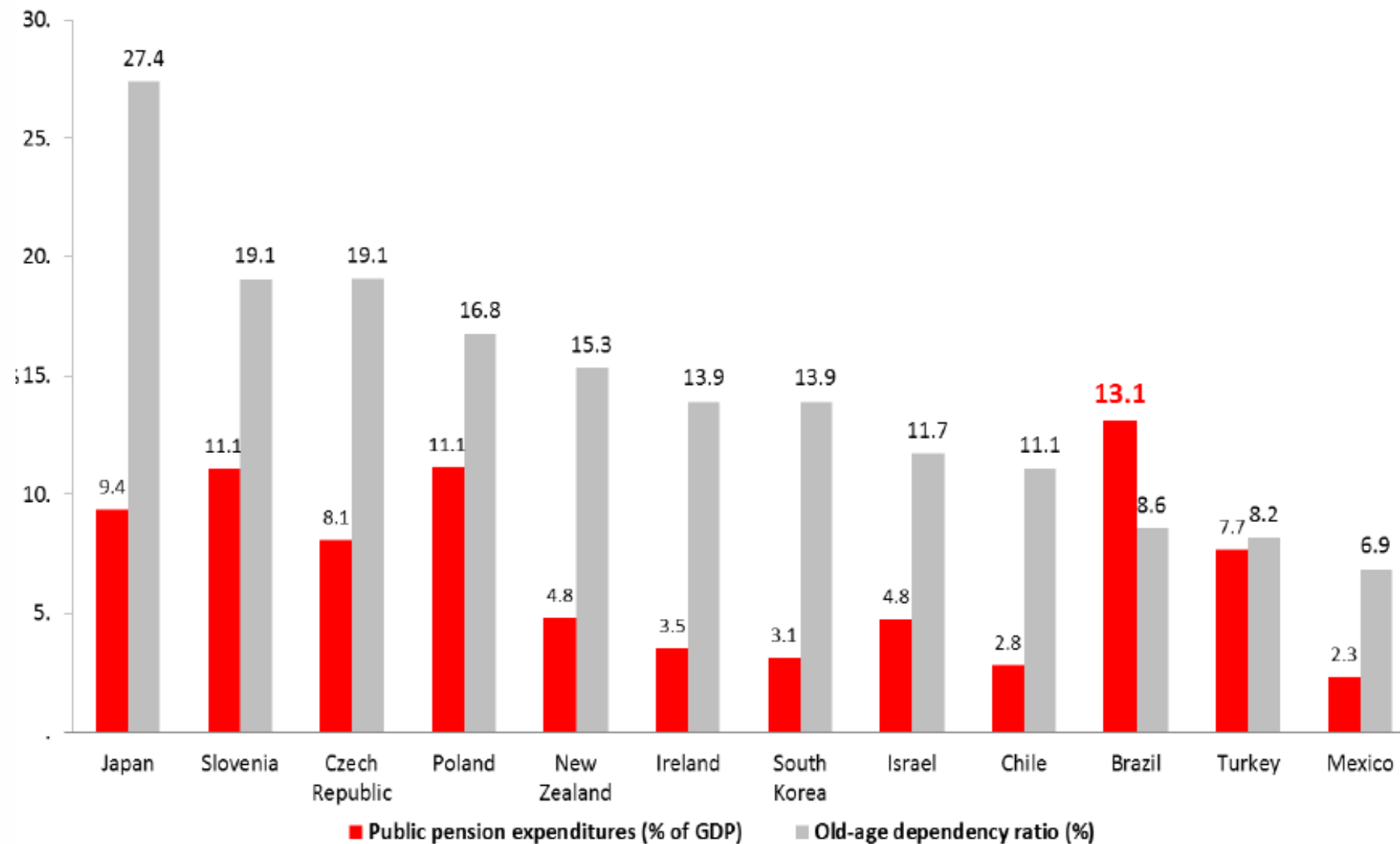
Consistent policies toolkit



NEXT STEPS



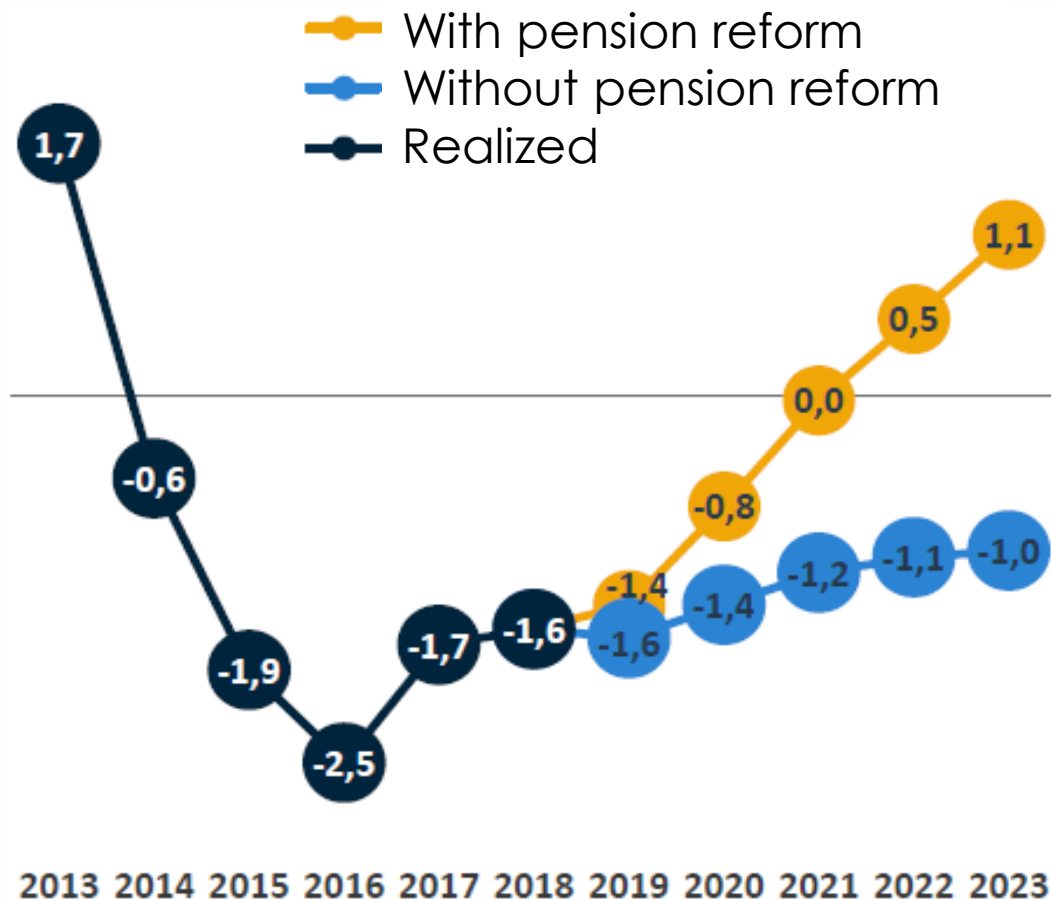
Costly pension system



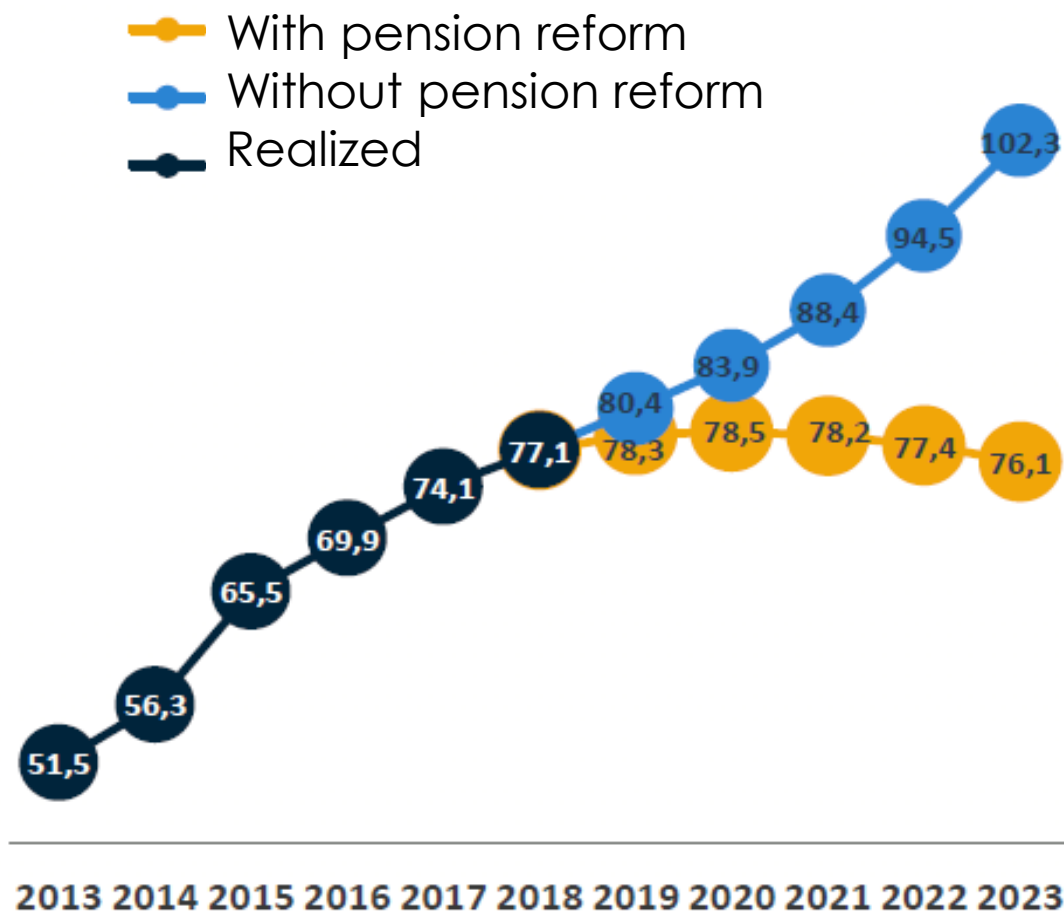
Source: OECD, UN

Pension reform to improve fiscal position

Primary surplus (%GDP)



Public debt (general government (%GDP))



Source: Ministério da Economia (Jul 2019)

Central bank autonomy

- ▶ Some key details on proposed legislation:
 - ▶ Governors and deputies under 4 year mandates
 - ▶ Staggered mandates decoupled from election cycle
 - ▶ Central Bank to attend Senate and special committee hearings
 - ▶ Enhanced transparency and communication

Microeconomic initiatives to foster growth

- “Cadastro positivo”
- Reforms to improve productivity (tax, trade openness)
- Foreign exchange modernization
- Enhancements to macroprudential and supervision measures
- Greater international insertion

Conclusion

- ▶ International scenario and uncertainty holding back recovery
 - ▶ Global growth slowdown and tighter credit conditions
 - ▶ Uncertainty regarding fiscal reforms postponing investment decisions
- ▶ Some scope to withstand setbacks
 - ▶ Anchored inflation expectations
 - ▶ Exchange rate flexibility
 - ▶ Comfortable level of international reserves
- ▶ Recovery to resume with decline in uncertainty and implementation of reforms

Thank you!

Fernanda Nechio

Deputy Governor for International Affairs and Corporate Risk Management