The Changing Nature and Geography of Global Finance

Monetary Policy and challenges ahead: Brazil’s perspective

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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

Annual % change

181920 181920 181920 181920 181920 181920 181920 181920
World USA Euro Japan China Latam* Em. Asia Others

3.7 3.5 2.9 2.4 1.9 1.8 1.4 0.8 0.7 0.5 6.6 6.0 6.2 6.0 5.7 5.4 5.6

Headline Inflation

% Y/Y

Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2016 2017 2018 2019 2020

Japan USA Euro China Latam*

-1 0 1 2 3 4 5 6 7

Projections

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

Global Trade

Effects from a 25% Increase in Tariffs Affecting all US-China Trade
World Real Value Added

Sources: CPB & IMF Oct WEO
Domestic scenario
Halt on economic recovery

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

Unemployment Rate (s.a.**)

*average of last 12 months/average of previous 12 months

**last month of the quarterly moving average
Inflation within target range

- 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

-120 -100 -80 -60 -40 -20 0 20
-5 -3 -1 1 3 5 7 9 11 13 15 17 19

Current account/GDP (LHS)

current account (RHS)

Banco Central do Brasil
Challenging fiscal side

Public Debt

- public sector net debt
- general government gross debt
- general government gross debt - international reserves

% of GDP


78.7 56.8 54.7
Uncertainty remains elevated

Economic Uncertainty Index

- Uncertainty
- Moving average (6m)
Policy rate at historically low

Selic Rate

6.5% p.a.
Upcoming developments
Consistent policies toolkit

- Inflation targeting
- Fiscal consolidation
- Exchange rate flexibility
- Strong prudential policy
- Intensive banking supervision
- International insertion (including Brazil’s convergence to the OECD)

NEXT STEPS

Central Bank autonomy

Bank resolution

- New laws & regulations
- OECD Codes adherence

Macroprudential policy coordination

FX modernization
Costly pension system

Source: OECD, UN
Pension reform to improve fiscal position

Primary surplus (%GDP)

With pension reform
Without pension reform
Realized

Public debt (general government (%GDP))

With pension reform
Without pension reform
Realized

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!

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