

# Brazil Economic Overview

Brazilian Chamber of Commerce

**Reinaldo Le Grazie**

Deputy Governor for Monetary Policy

London, United Kingdom

November, 2017

# Summary

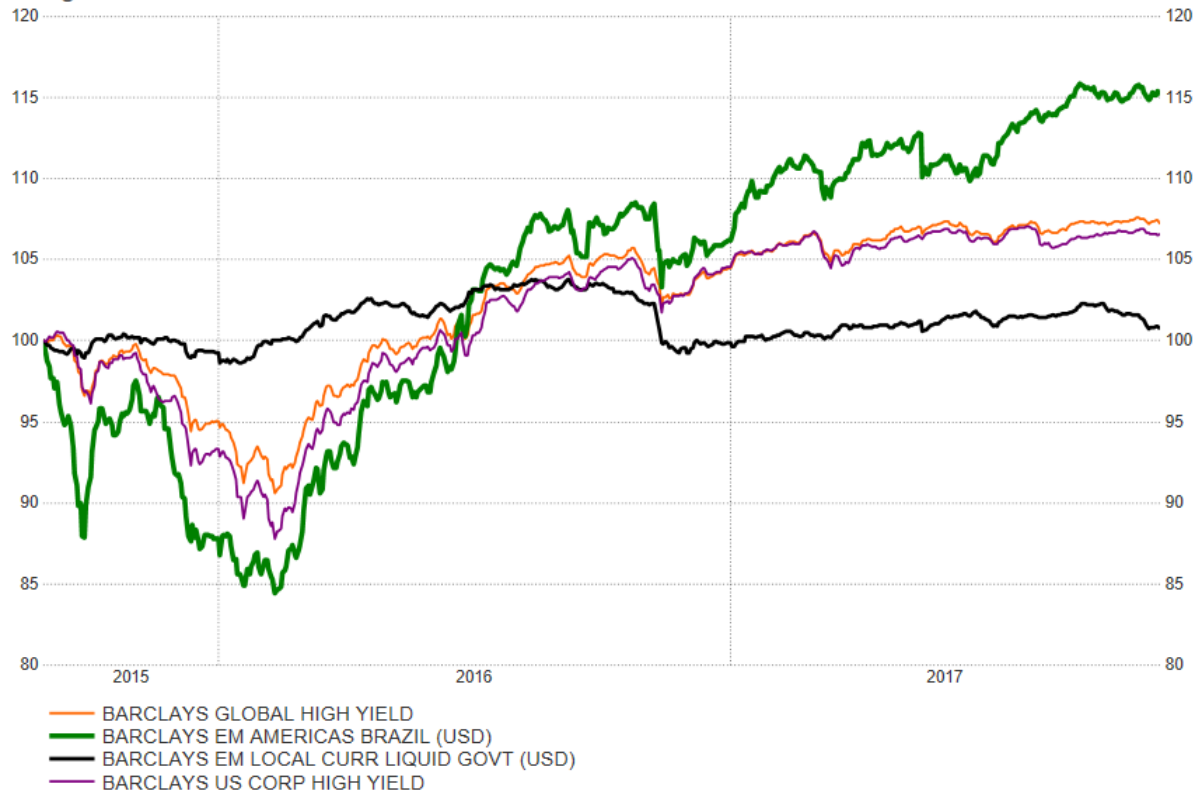
1. International Overview
2. External Sector
3. Monetary Policy
4. Credit Market
5. Economic Activity and Business Environment
6. “Agenda BC+”

# International Overview

## HY vs. Emerging Markets Indexes Fixed Income: total return

### Global HY vs. Mercados Emergentes

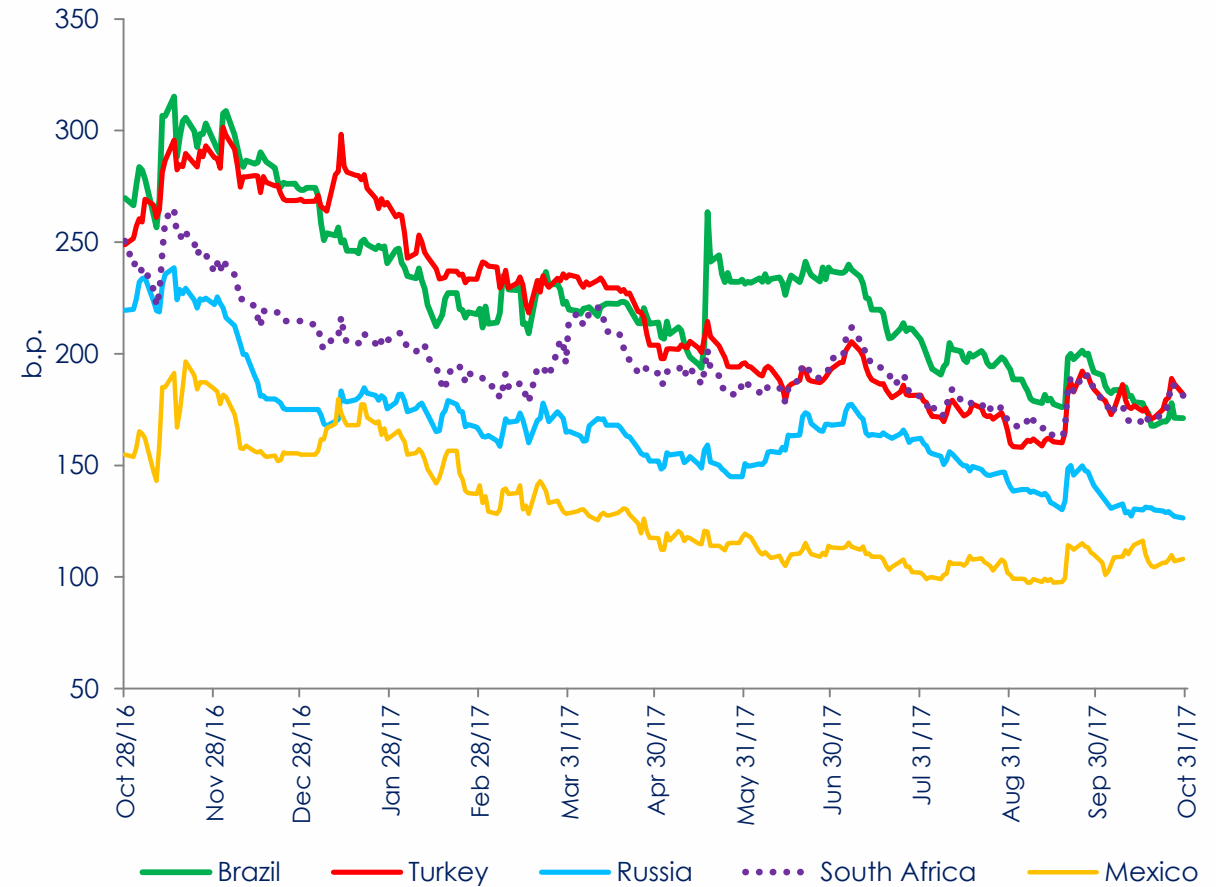
Ago 2015 = 100



Fonte: Thomson Reuters Datastream

\*As of November 6th

## CDS 5 years - Sovereign



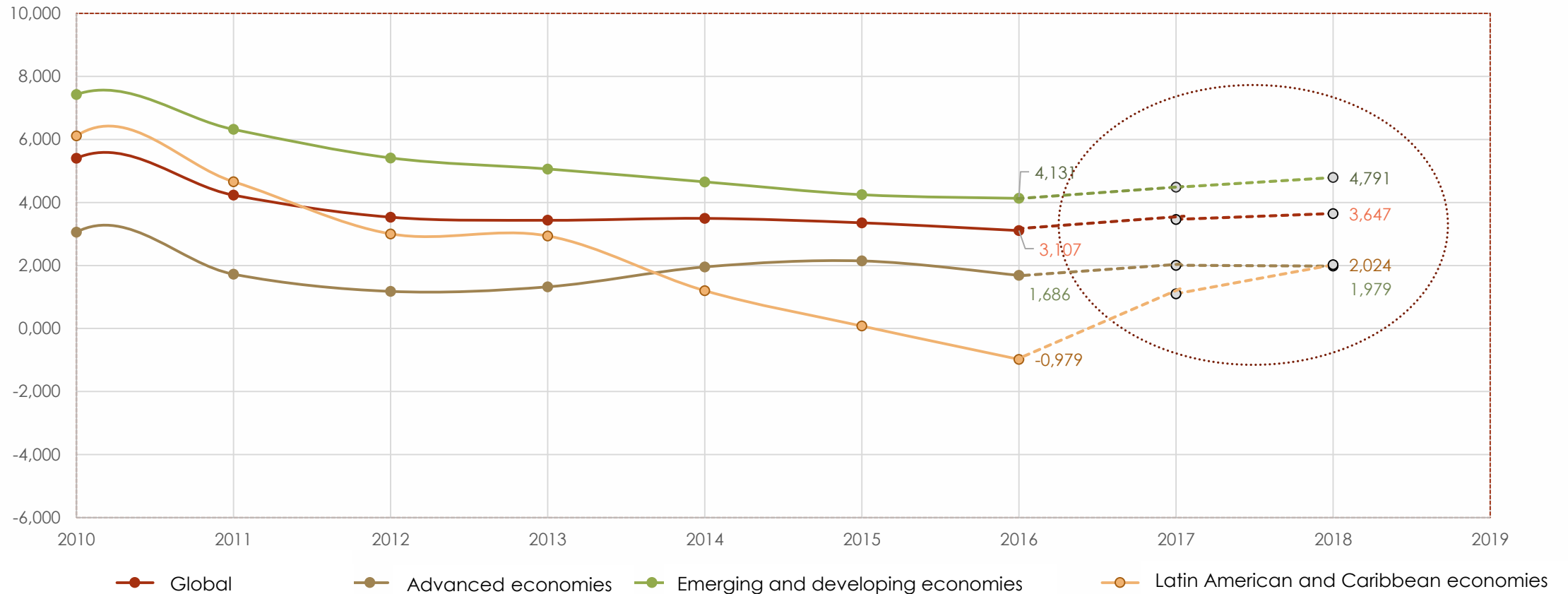
Source: Thomson Reuters Datastream

\*As of October 31st

# International Overview

## Growth Recovery

GDP: Global, Advanced, Emerging and Developing Economies



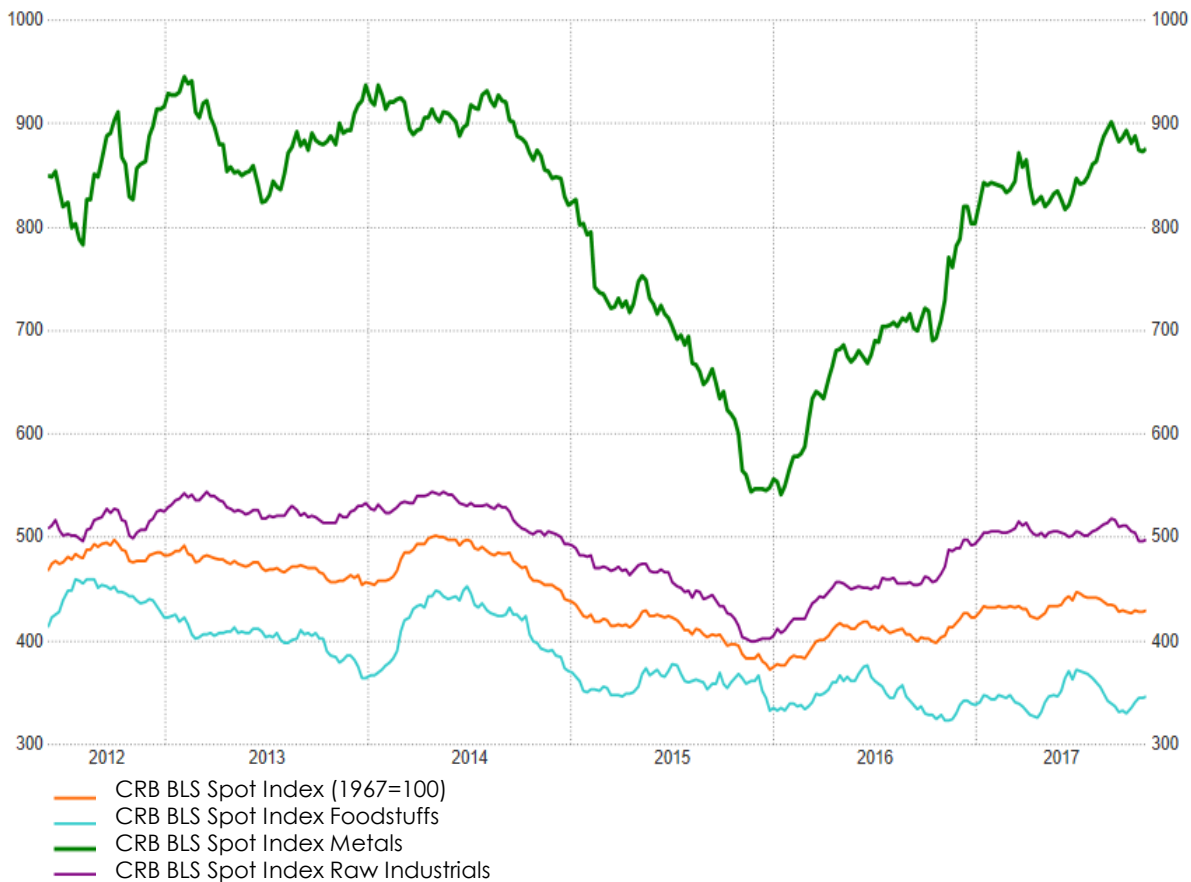
Source: International Monetary Fund, World Economic Outlook Database, April 2017

\*Projection: 2017/2018

# International Overview

## Commodities

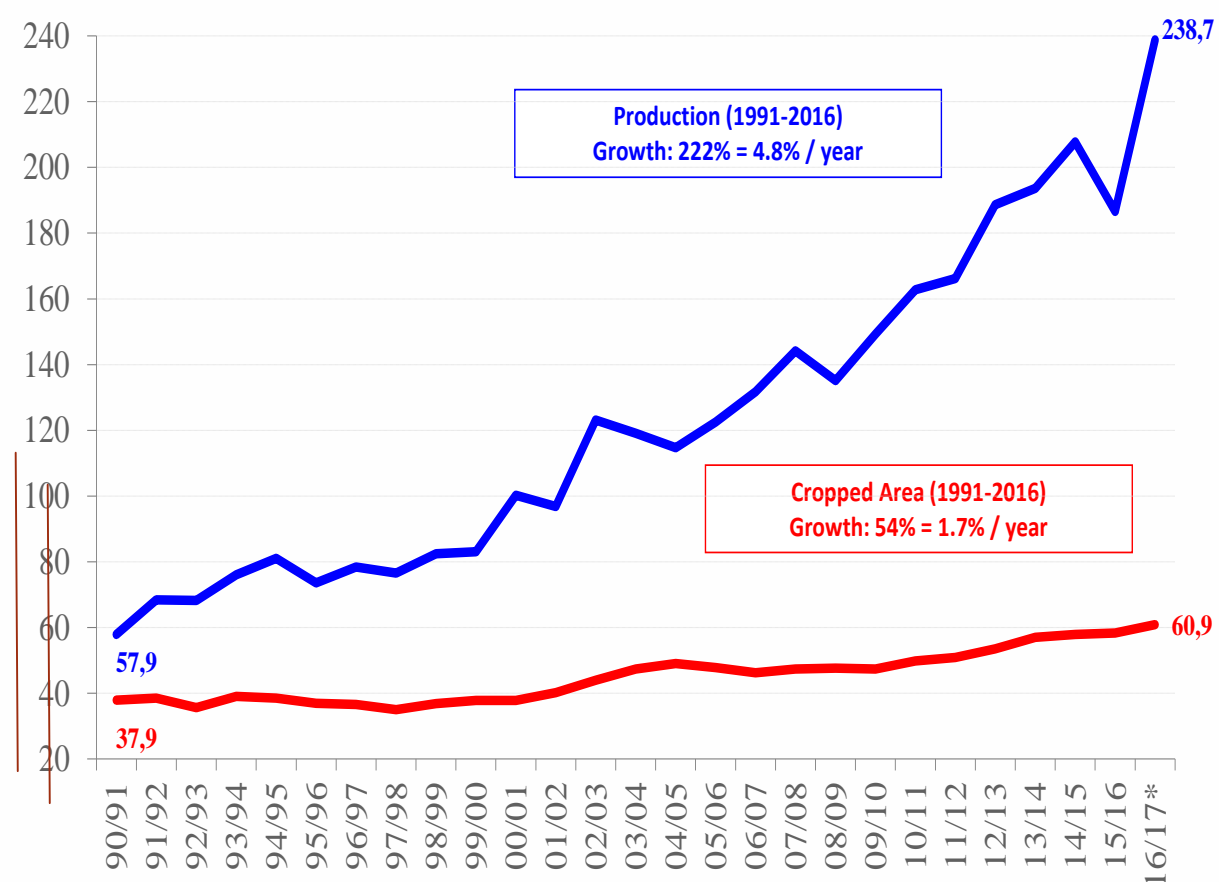
### CRB index and sub indexes



\*As of November 6th

Source: Thomson Reuters Datastream

### Grains, Production and Cropped Area



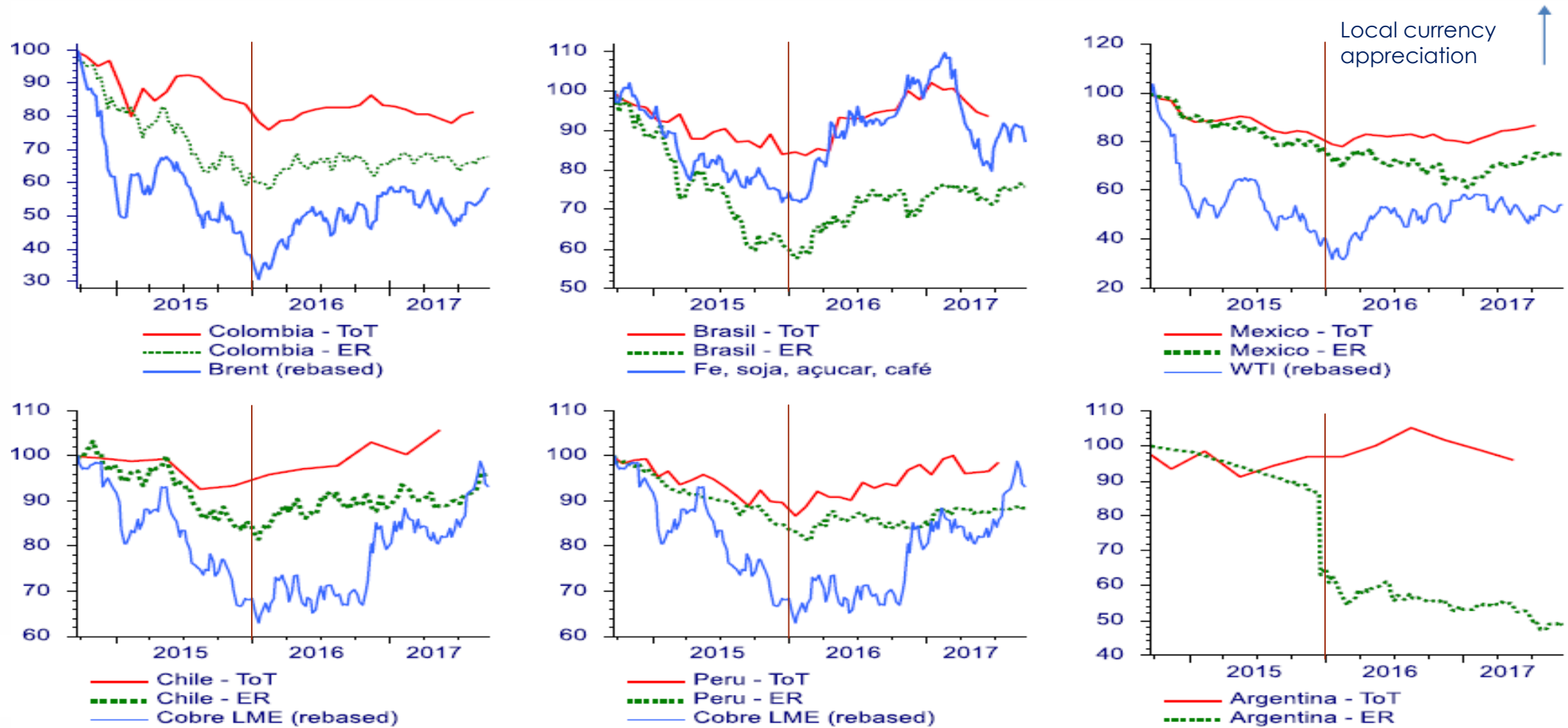
\*average estimate in Aug 17

Source: Conab

# International Overview

## Latin America

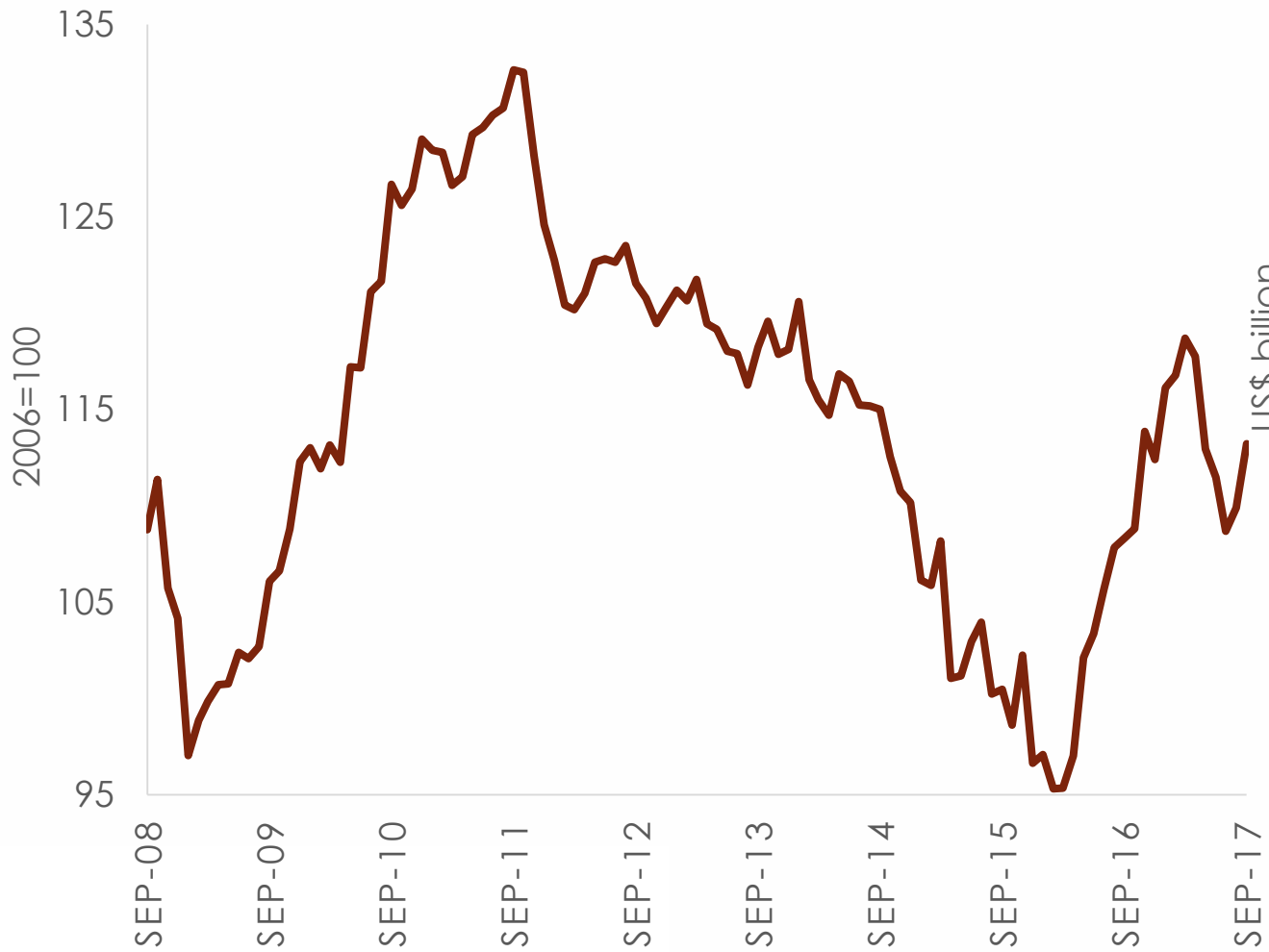
Terms of Trade (ToT) and Exchange rates (ER)



Source: Thomson Reuters Datastream

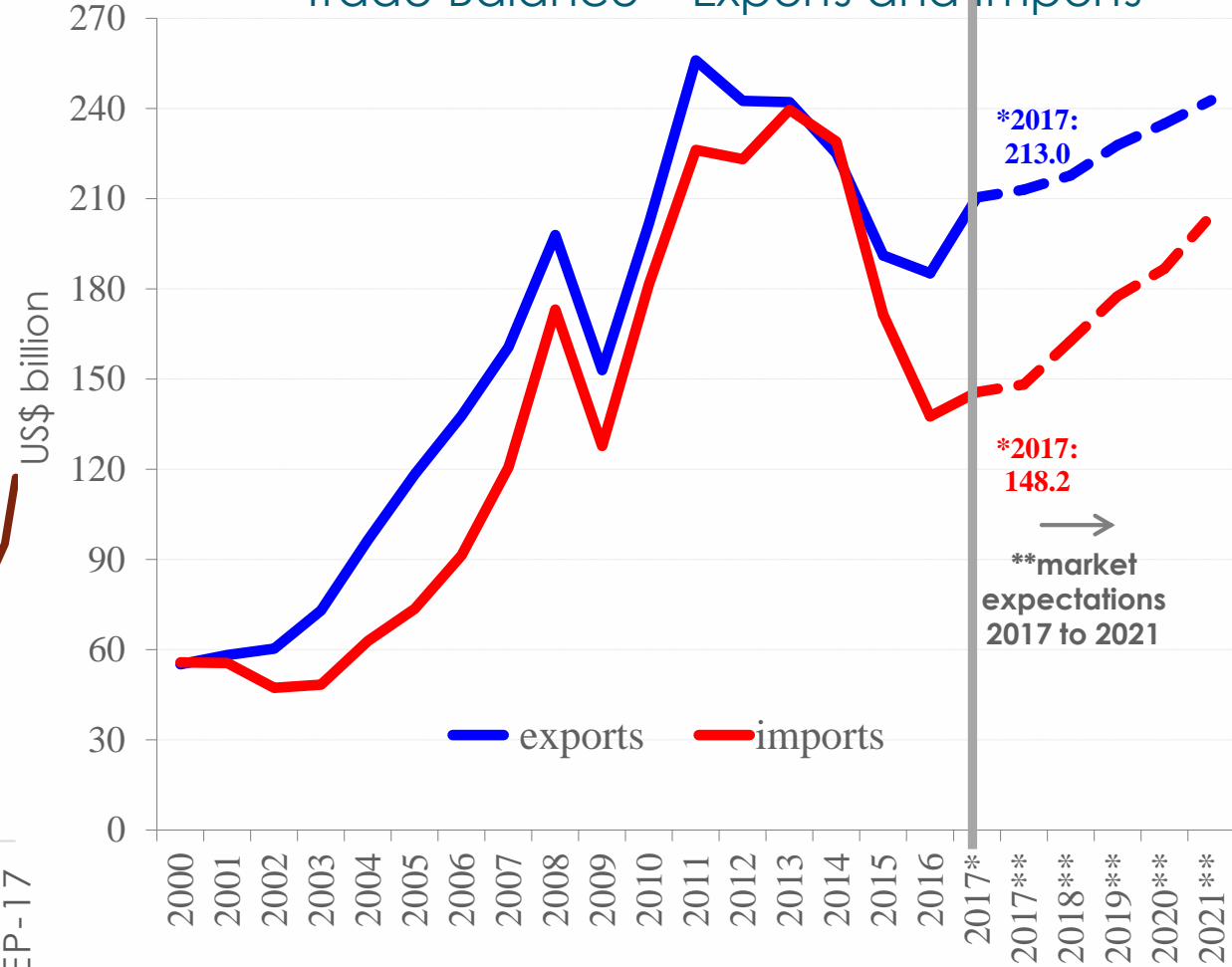
# External Sector Commerce

## Terms of Trade



Source: Funcex

## Trade Balance – Exports and Imports



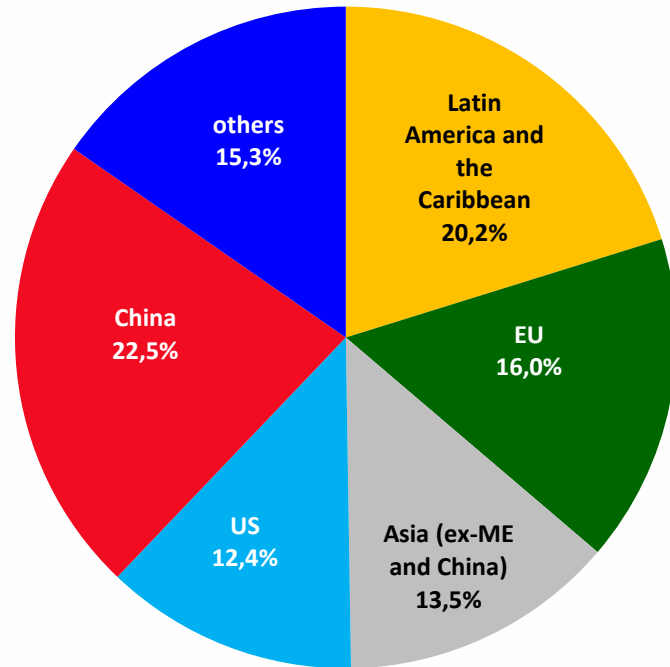
Source: MDIC/BCB(Focus)

\*12 months until Sep 17  
\*\*as of October 27th

# External Sector

## Exports by Destination

Oct/16 – Sep/17



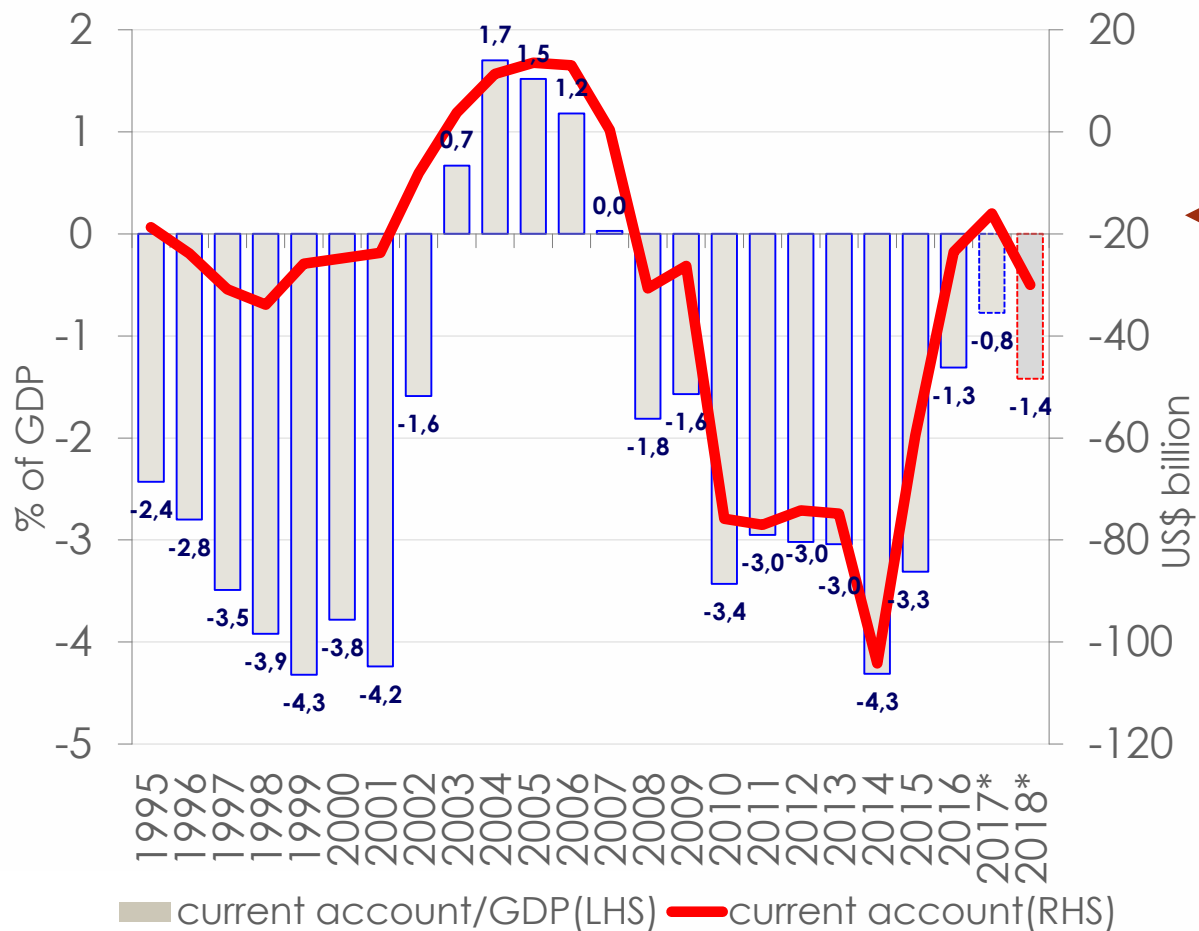
	12m until Sep/17
	Exports/GDP
<b>Total exports</b>	<b>10.6%</b>
Latin America and the Caribbean	2.1%
EU	1.7%
Ásia (ex-ME and China)	1.4%
US	1.3%
China	2.4%
others	1.6%

Oct/16 – Sep/17: US\$210.5 billion



# External Sector

## Current Account

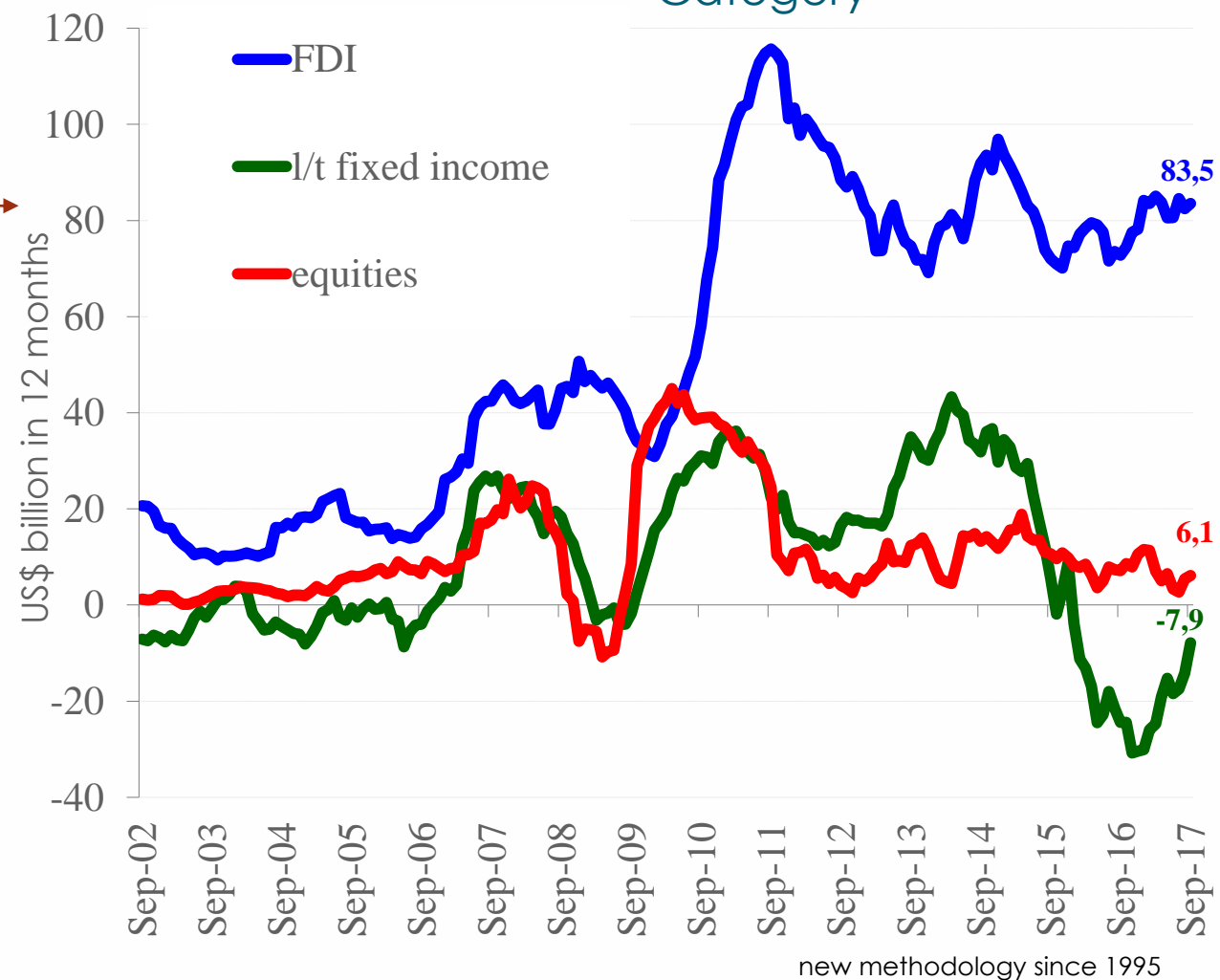


Source: BCB

From 1995 on, methodology according to BPM6

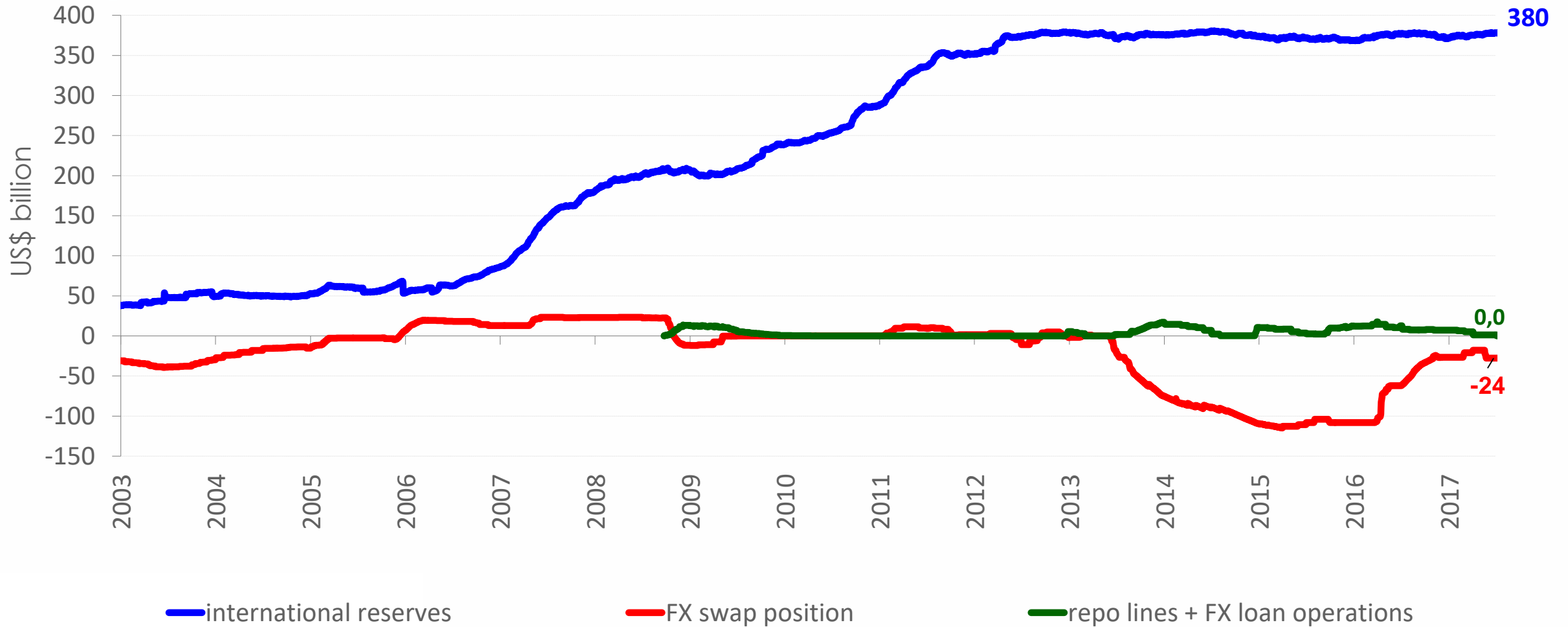
\* BCB forecast

## Net Foreign Investment Flow, by Category



# External Sector

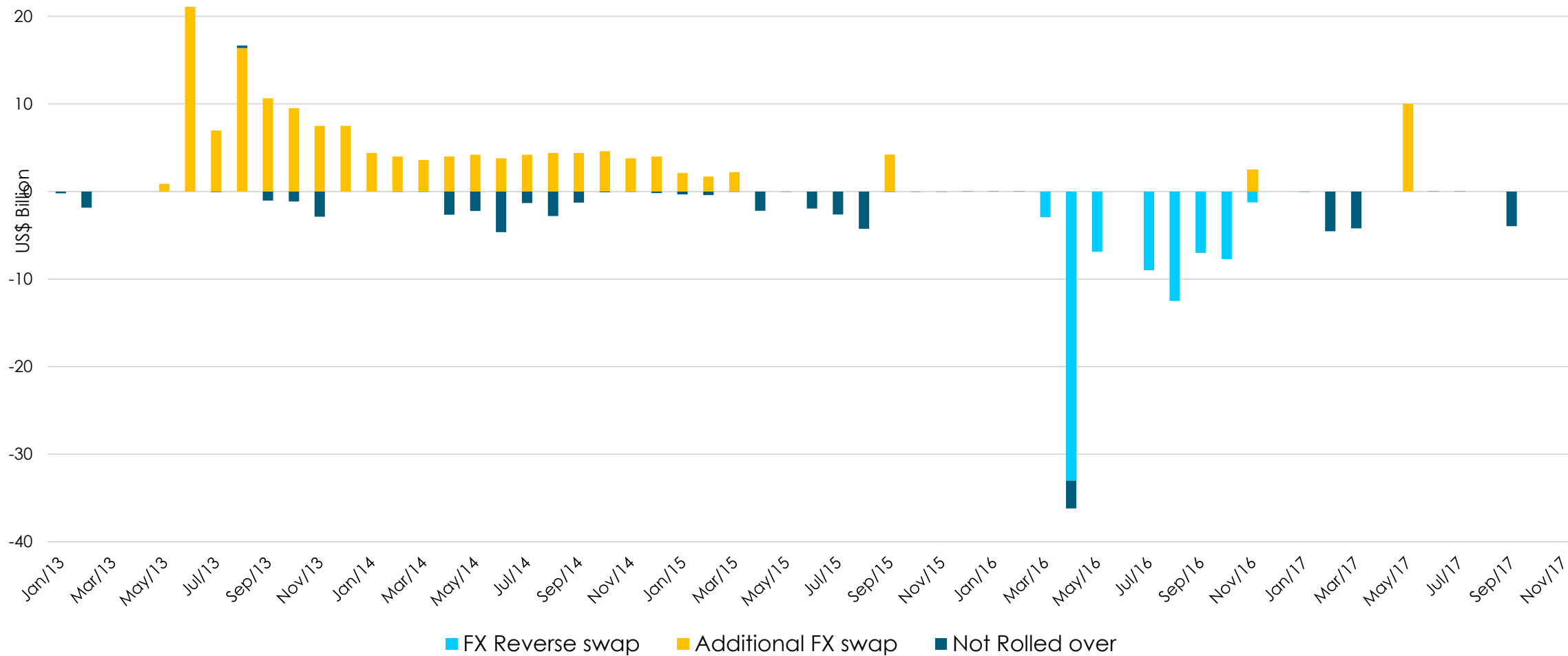
## International Reserves and FX Swap



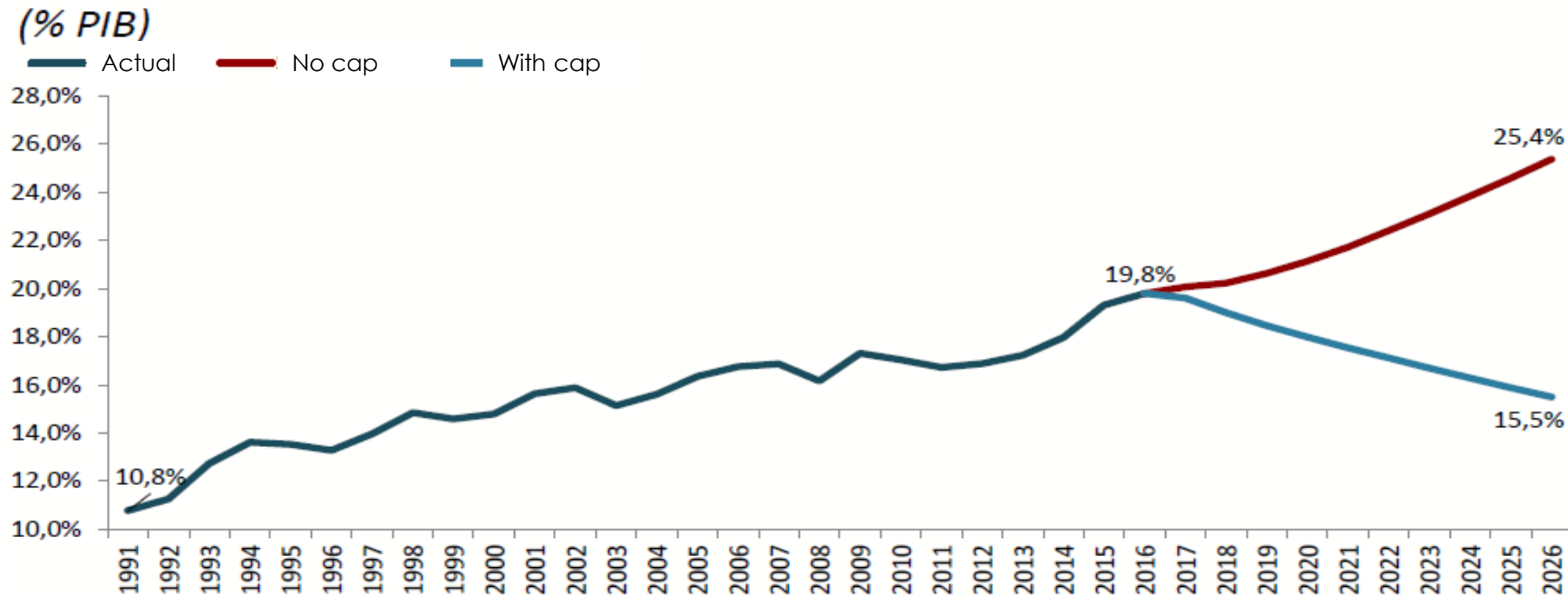
Source: BCB

\*through October 26<sup>th</sup>

# External Sector FX Swaps



# Fiscal Public Debt Ceiling

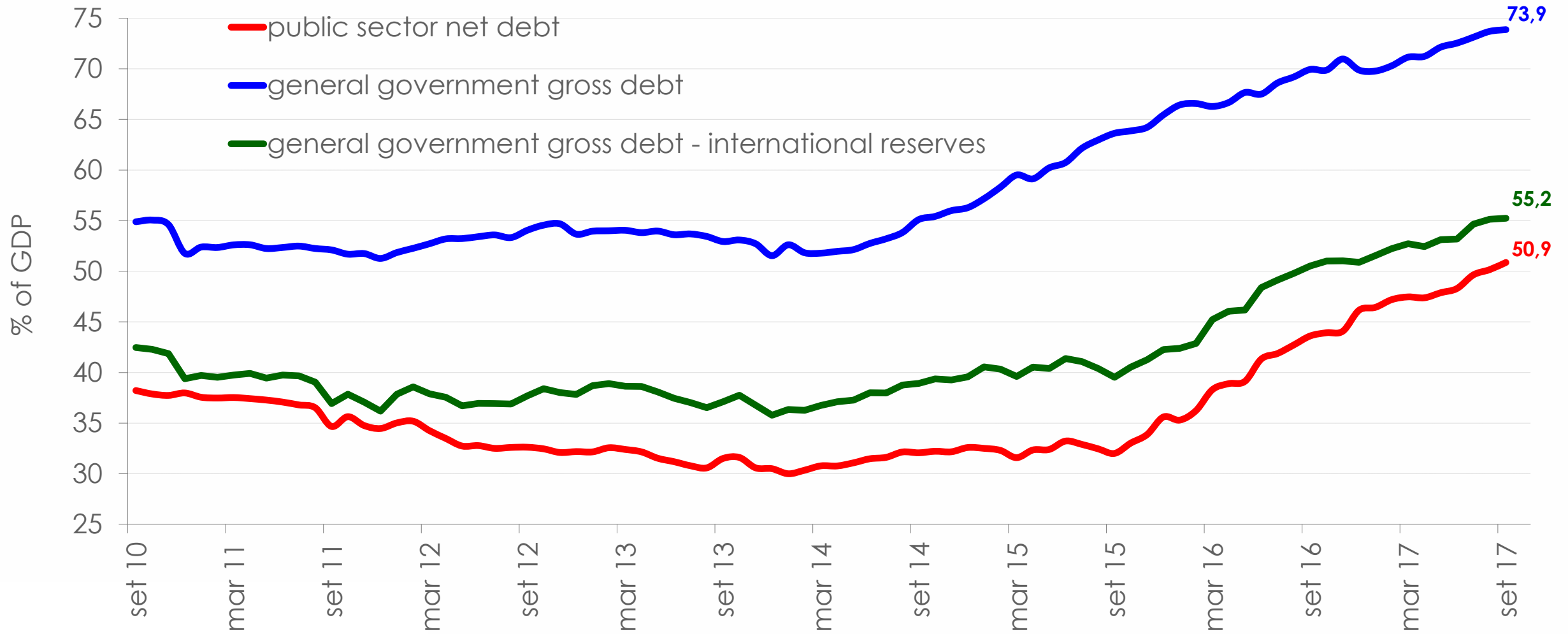


Source: Ministry of Finance/Brazil

\*1991 through 1996 data: Giambiagi and Castelar (2012), "Além da Euforia"

\*\*2010 does not include Petrobrás capitalization

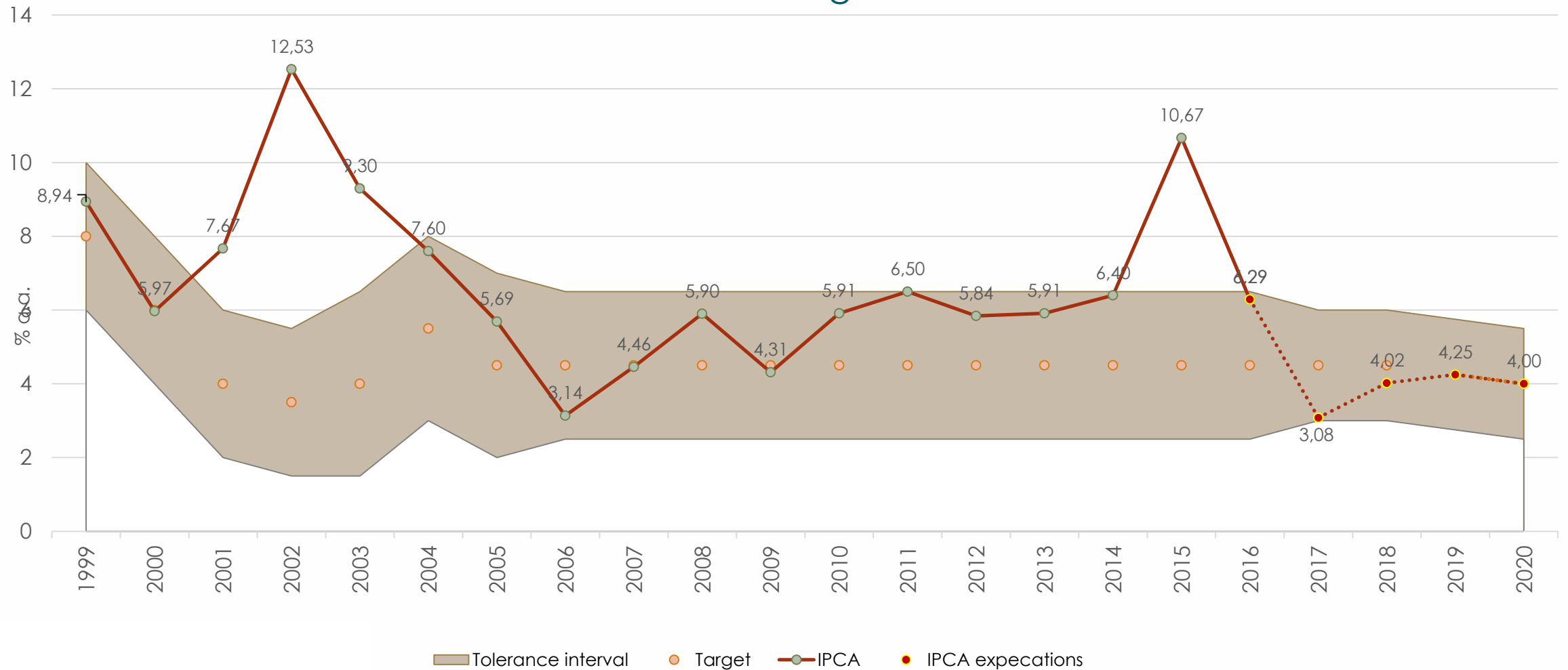
# Fiscal Public Debt



Source: BCB

\*As of November 6th

# Monetary Policy Inflation Targets



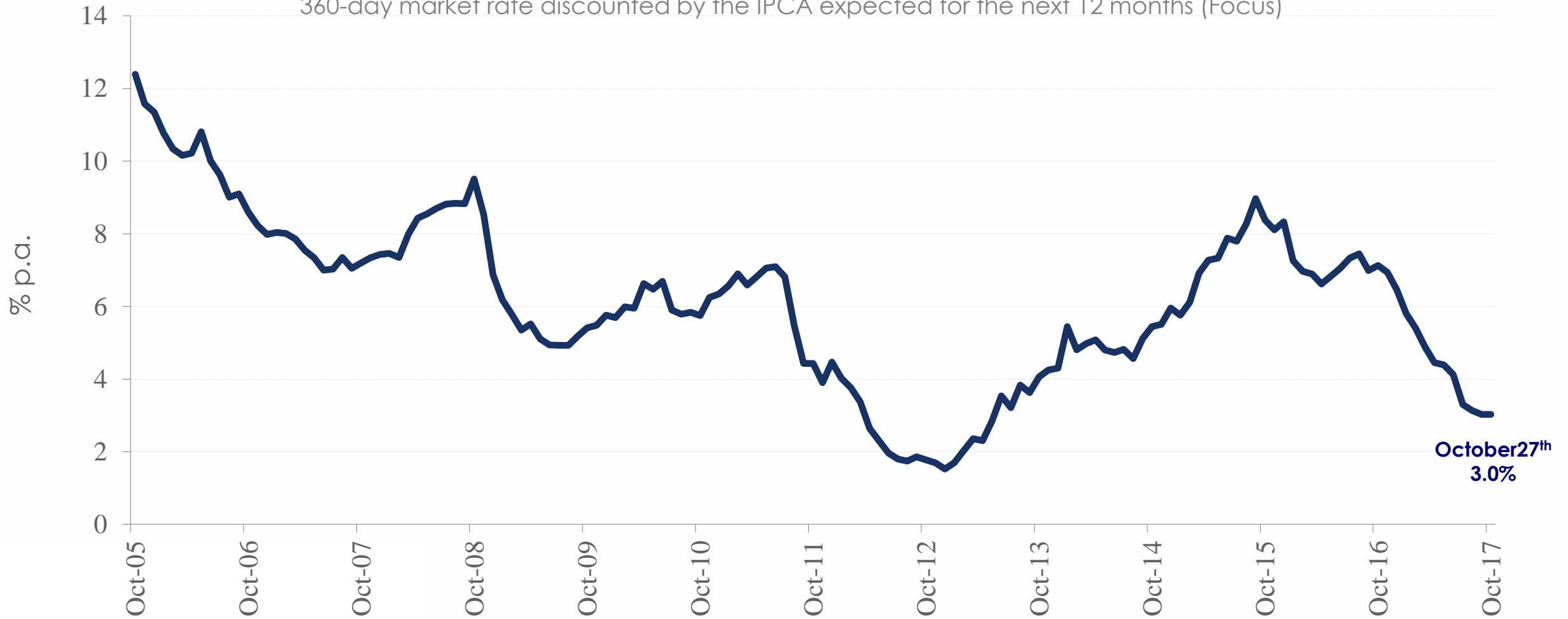
Source: BCB/IBGE/FIPE/FGV

\*Median market expectations as for Nov 3<sup>rd</sup>

# Monetary Policy

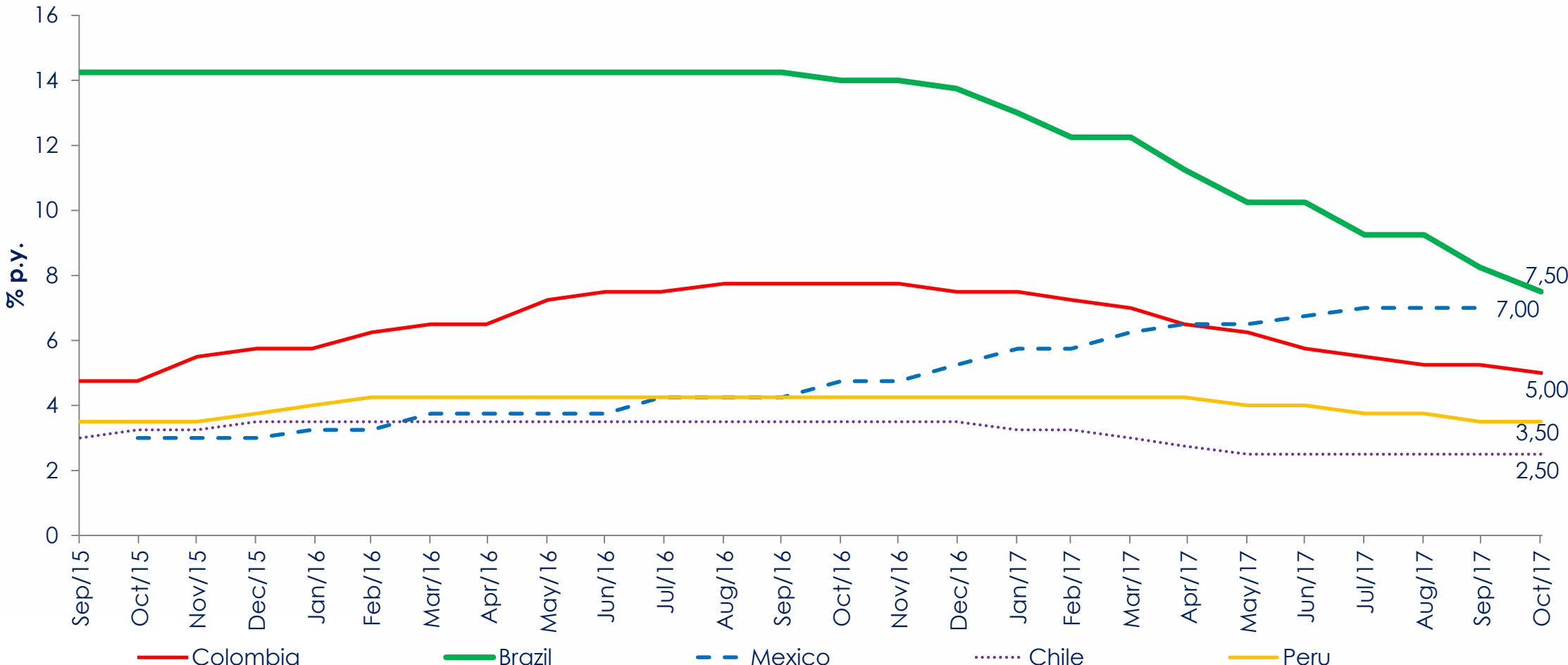
## Real Interest Rates

360-day market rate discounted by the IPCA expected for the next 12 months (Focus)



# Monetary Policy

## Latin America Basic Interest Rates

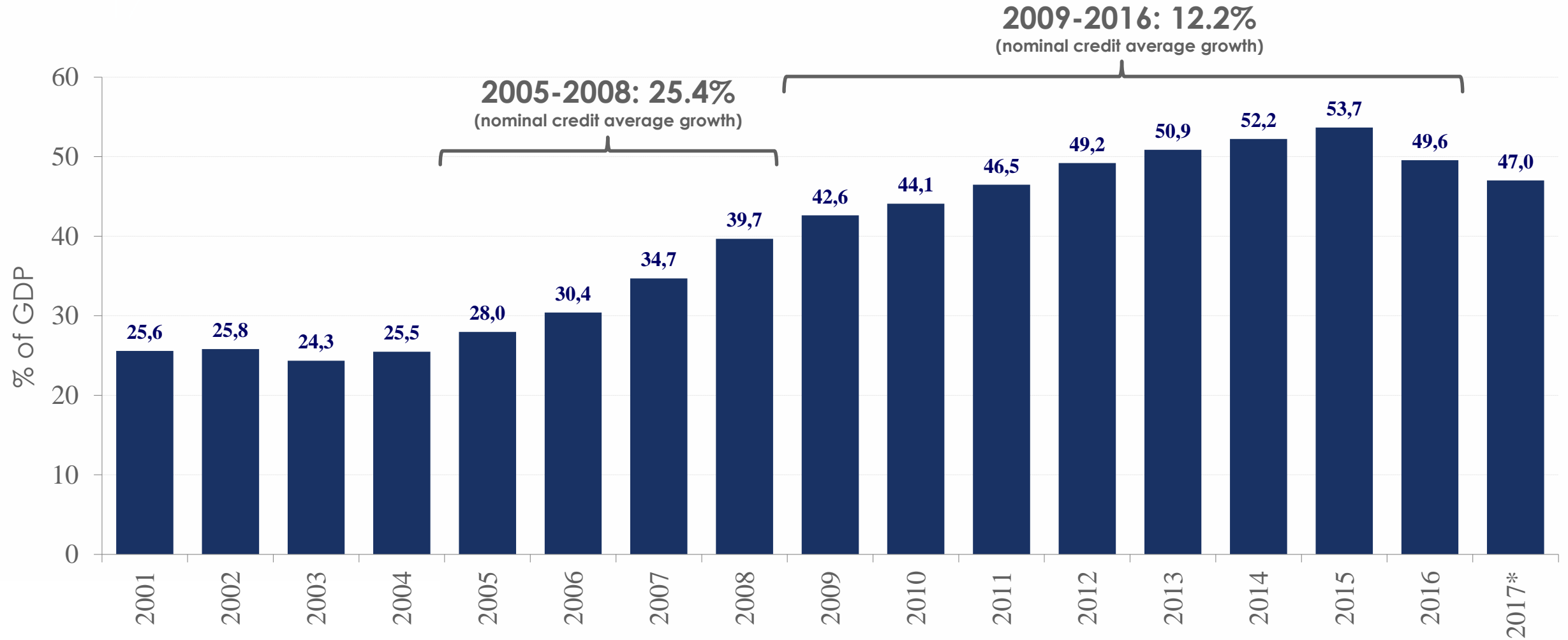


Source: Thomson Datastream



# Credit Market

## Credit / GDP



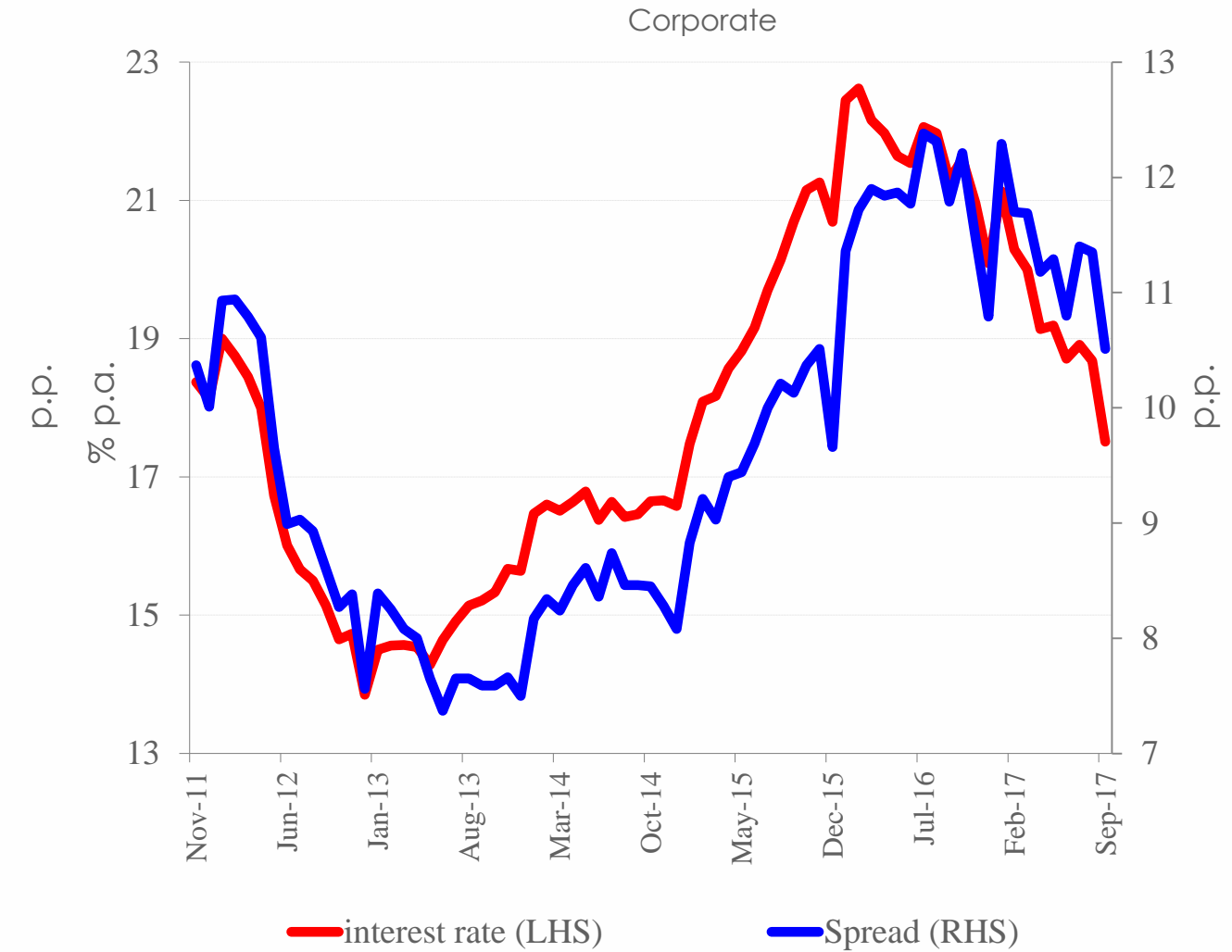
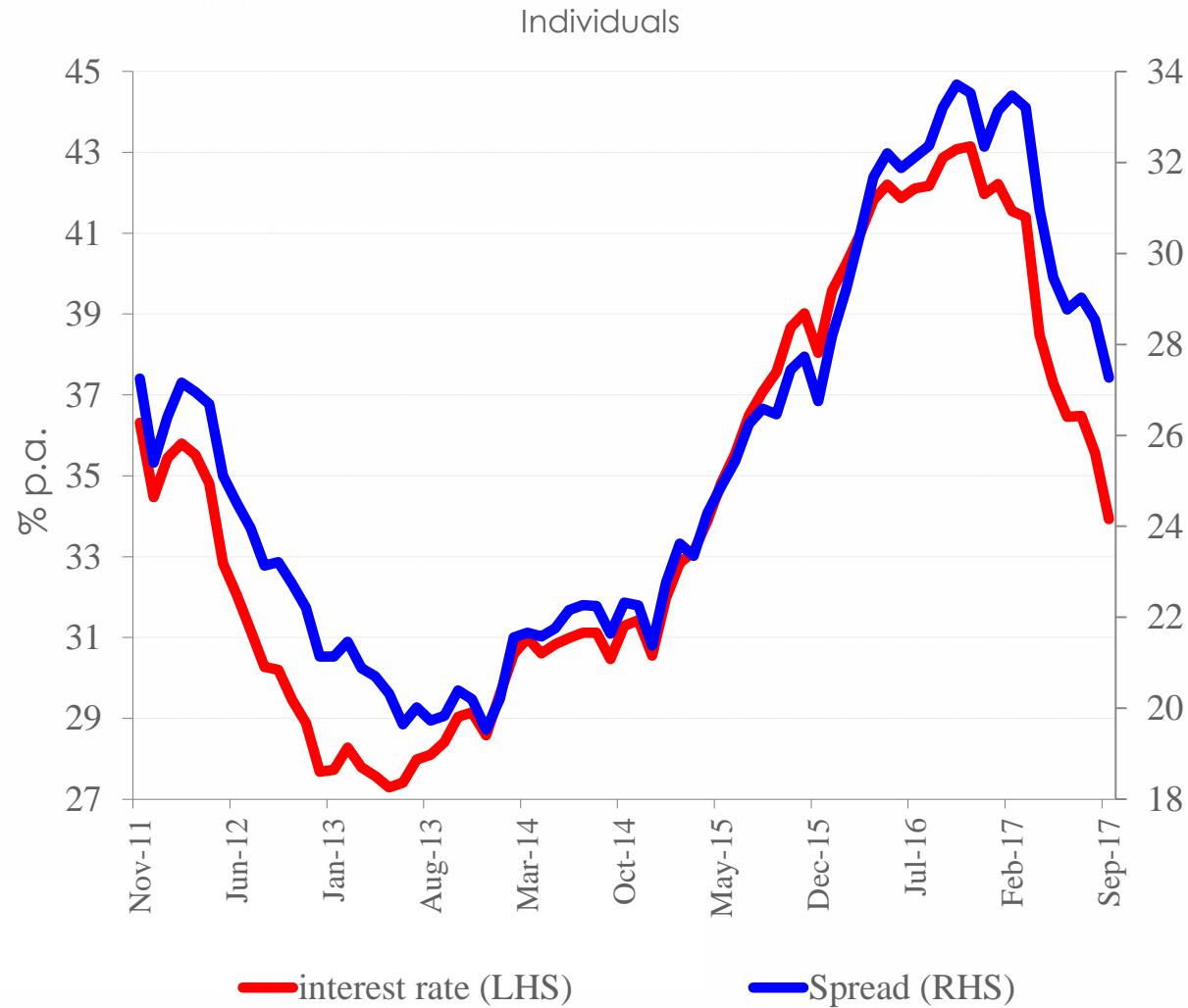
Source: BCB

new methodology since Mar 07

\*Sep17

# Credit Market

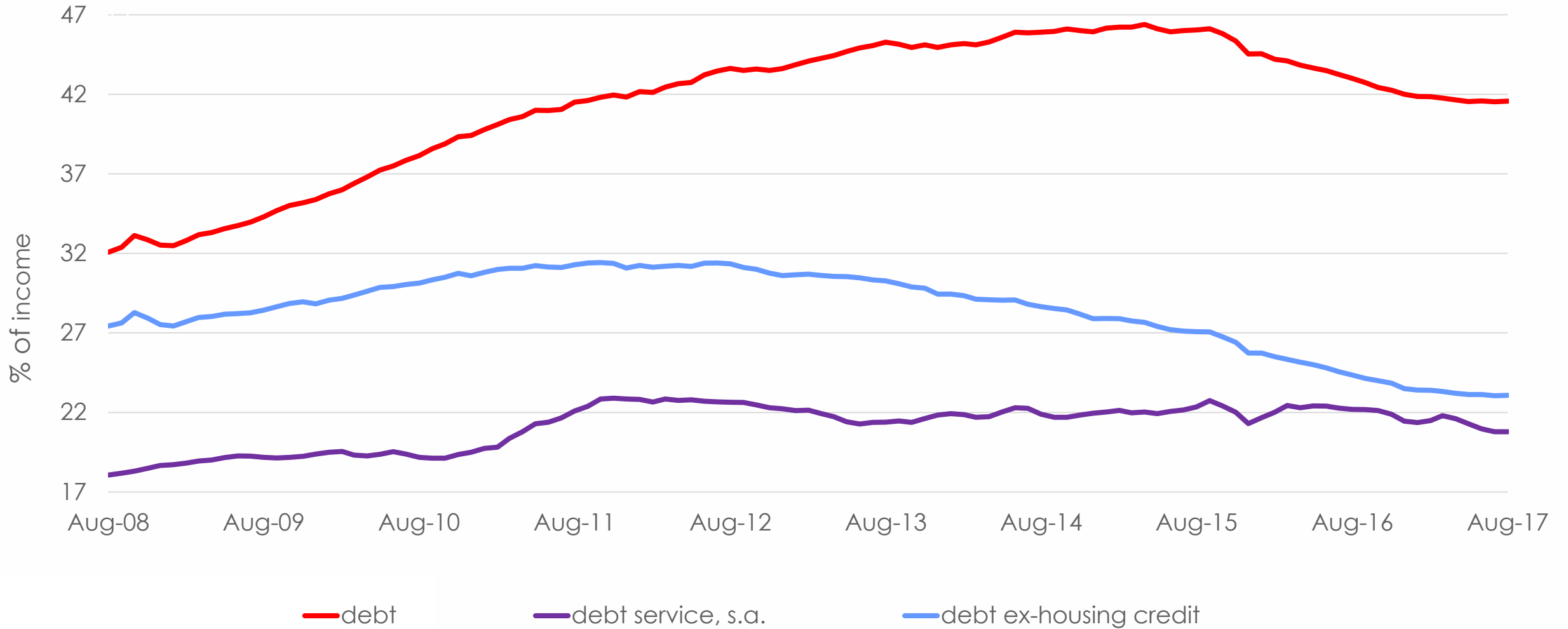
## Credit Interest Rate and Spread



Source: BCB

# Credit Market

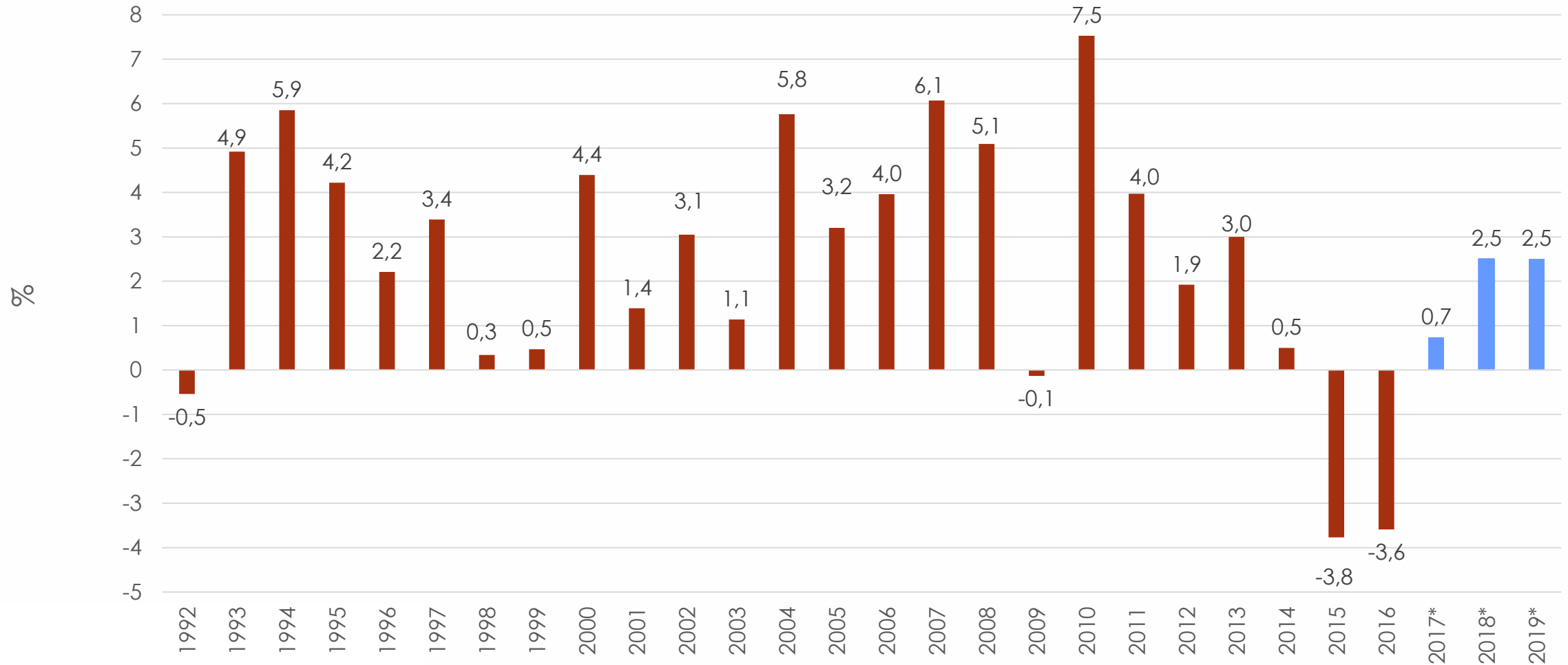
## Household Debt and Debt Service



Source: BCB

# Economic Activity and Business Environment

## GDP Real Growth



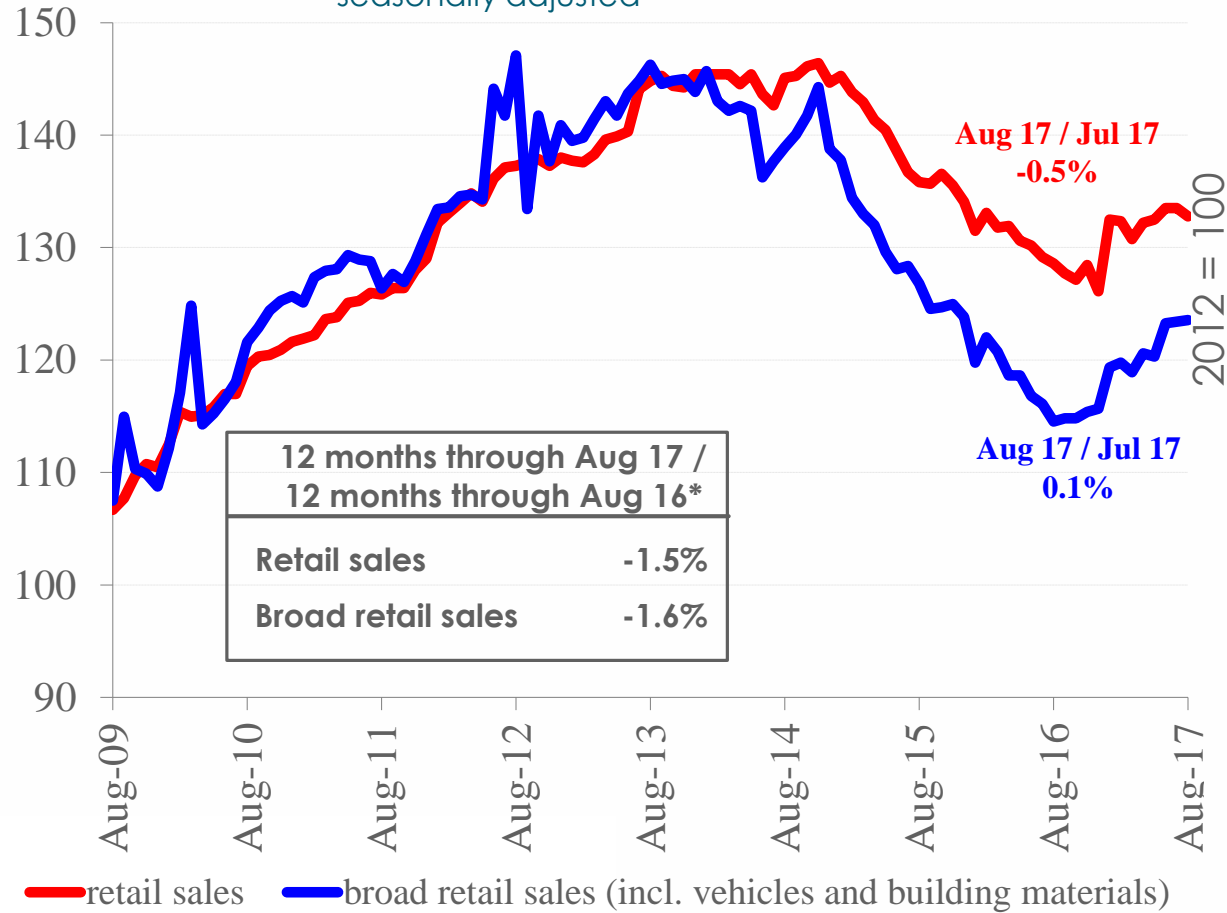
Source: BCB

\*Median market expectations as for Oct 27th

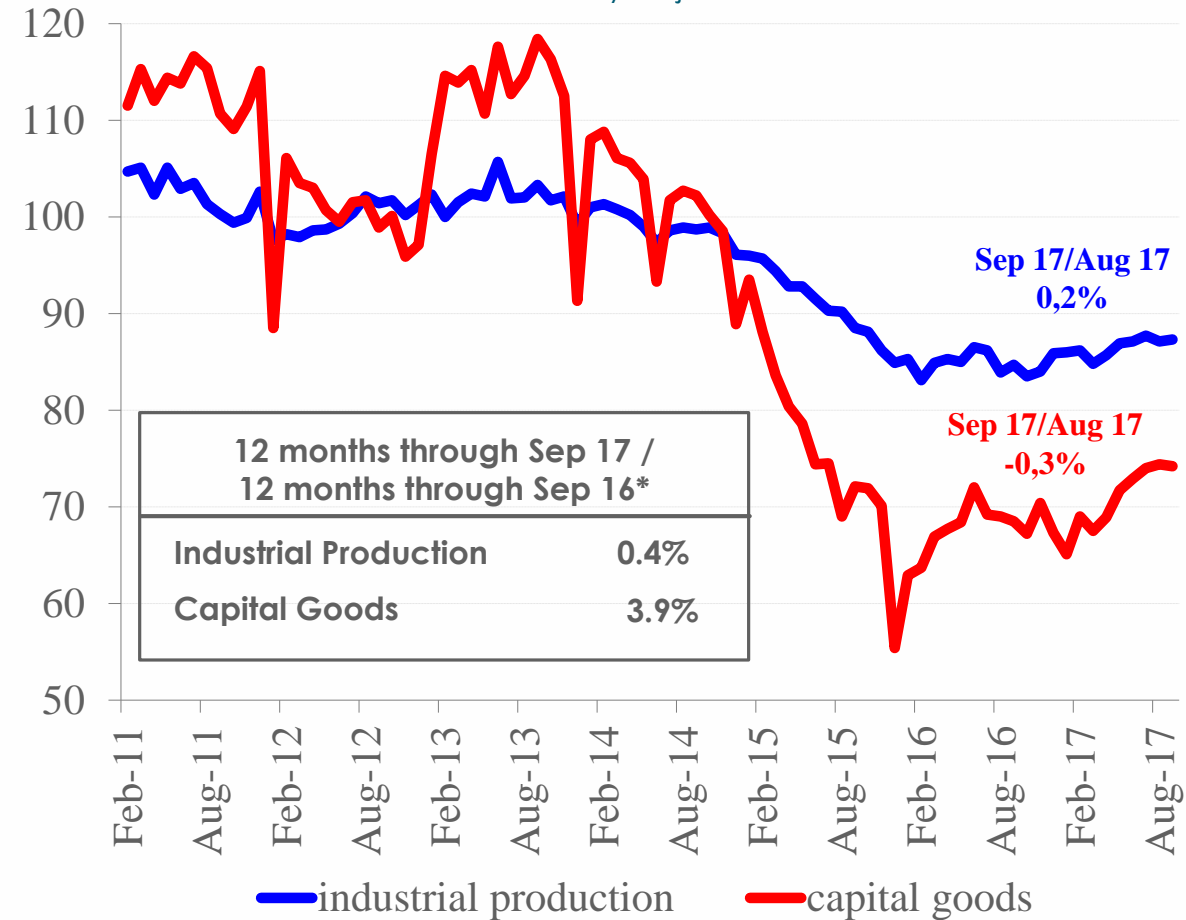
# Economic Activity and Business Environment

## Growth Recovery

Retail Sales:  
seasonally adjusted



Industrial Production:  
seasonally adjusted



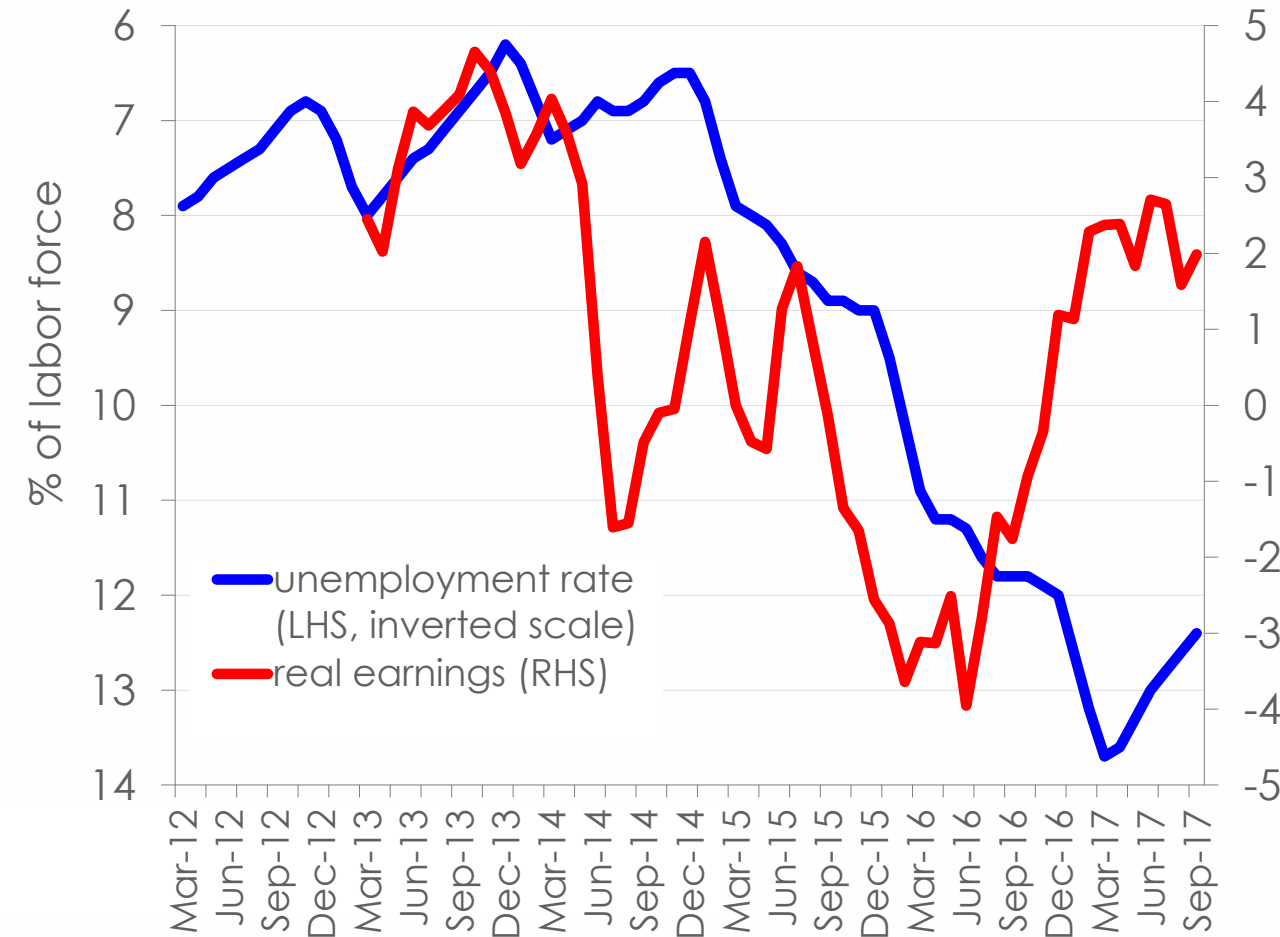
Sources: IBGE

\*As of August/2017

# Economic Activity and Business Environment

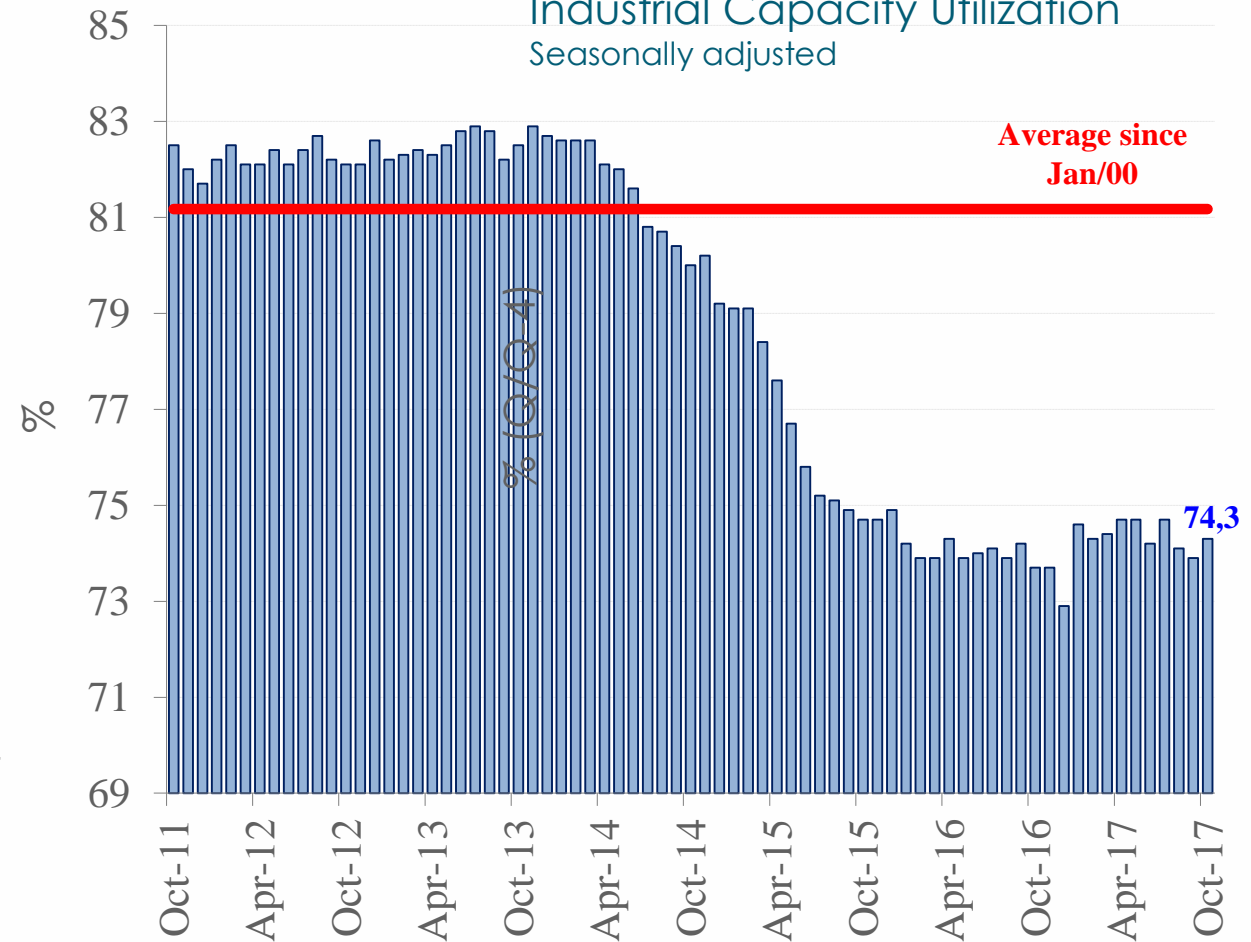
## Room for Growth

### Unemployment vs. Real Earnings



### Industrial Capacity Utilization

Seasonally adjusted



Source: FGV

last month of the quarterly moving average

Source: FGV

# Agenda BC+

## Business environment and efficiency

- Lowering the cost of credit in the system, reducing compliance costs
  - Cooperation in financial infrastructures
  - Simplification of reserve requirements rules and calculations
  - Segmentation of banking regulation
- Stimulating operations with collaterals
  - Greater security and efficiency in credit deals guaranteed by receivables
  - Improvement of financial assets issued by financial institutions
  - Covered bond (LIG)

# Agenda BC+

## Monetary Policy Framework

- Greater effectiveness of Monetary Policy
  - Voluntary Deposit in the CB, as an auxiliary instrument
  - Modernization of the base rate for earmarked loans
- Communication and transparency
  - The language has become clearer and more direct
  - The balance of risks to inflation has gained a more prominent role, and additional scenarios have been presented
  - The informational content of the Copom statement has increased substantially
  - Inflation projections are now disclosed in both the minutes and the statement of the Copom meeting
  - The minutes of the Copom meeting and the quarterly Inflation Report have been restructured, now shorter and with a more direct language. The date of release of the Copom minutes has been brought forward by two days



# Agenda BC+

## Efficiency and Innovation

- Promotion of financial citizenship
- Support innovation in payment systems with cost reduction in the process
- Increase the offering of financial products
- Modernization of foreign exchange contracts process
- Revision of the legal framework for punitive actions

***Thank you!***

***Reinaldo Le Grazie***

Deputy Governor for Monetary Policy

Central Bank of Brazil