



BANCO CENTRAL DO BRASIL

Apontamentos do presidente do Banco Central do Brasil

Roberto Campos Neto

UBS High-level macro event

The global economic and monetary policy outlook

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Economic outlook

Global economy

- The global outlook has been challenging for the EMEs, although becoming less so in the recent months, owing it to changes in the prospects for monetary policy in major economies.
 - Major central banks clearly indicated a willingness to provide additional monetary stimuli in case of need, which has contributed to easing global financial conditions.
- Nevertheless, the risks associated with a slowdown in global growth remain.
 - We judge that the risks associated with a slowing global economy remain and that economic policy and geopolitical may contribute to an even lower global growth.
 - In light of evidence of economic slowdown in several countries, the global environment may be more relevant to the dynamics of economic activity than previously anticipated.
- Macroeconomic conditions across EMEs are heterogeneous.
 - Institutions in EMEs are still “under construction”. It means that central banks in EMEs need to constantly foster credibility and that fiscal policy is often under scrutiny and exposed to stress risks.
 - Supply shocks are also stronger and “sudden stops” more frequent, resulting in higher FX, inflation and GDP volatility.
 - However, the macroeconomic conditions (fundamentals, buffers, policy stance etc) vary among EMEs, and some countries are more exposed or sensitive to movements in international financial markets.
- Policy makers must be vigilant with global economy developments, but, due to our buffers, Brazil is currently better prepared to withstand a setback in the international scenario. We count on:
 - A solid domestic financial system;
 - A robust balance of payment position (FDI around 5.2% of GDP, almost seven times the current account deficit);
 - A floating exchange rate regime;
 - An adequate level of international reserves (around 20% of GDP);
 - A low inflation and a well-anchored scenario of inflation expectations;

- Prospects of future structural reforms; and
- Resumption of economic recovery ahead.

Domestic economy

- In the domestic economy, recent data on economic activity indicate a halt in the process of economic recovery in the past quarters, but our baseline scenario assumes resumption of this process ahead, in a gradual fashion.
 - To a large extent, the effects on economic activity of the main shocks suffered by the Brazilian economy throughout 2018 have already dissipated.
 - In addition, financial conditions – which had tightened significantly between the second and fourth quarters of 2018 – have already moved into more stimulative territory.
- There are risks around this baseline scenario in both directions.
 - On the one hand,
 - (i) the high level of economic slack may continue to produce lower-than-expected prospective inflation trajectory.
 - On the other hand,
 - (ii) a possible frustration of expectations regarding the continuation of reforms and necessary adjustments in the Brazilian economy may affect risk premia and increase inflation over the relevant horizon for the conduct of monetary policy. Risk (ii) intensifies in case
 - (iii) the global outlook for emerging economies deteriorates.
 - Although the balance of risks has evolved favorably, risk (ii) prevails at this time.

Reforms

- Brazil falls behind the average of the AEs in the progress of structural reforms that support free market outcomes, although they have potentially high impacts on productivity and long-term growth.
- Fiscal sustainability is fundamental to reduce uncertainties, to increase confidence and investment, and consequently to foster long-term economic growth.
 - The advancement of structural reforms, in particular the public pension reform, is necessary.
- An acceleration of the pace of recovery of the economy to more robust levels will also depend on other initiatives aimed at productivity increases, efficiency gains, greater flexibility of the economy, and improvements in the business environment.

- A recent IMF study¹ shows that we have work to do in many dimension, such as:
 - Labour and products markets;
 - Legal system; and
 - Trade openness.
- In addition to that, there are reforms to be conducted in the banking sector.
 - In fact, among those, banking sector reforms are estimated to have the largest impact on productivity growth. Further, banking sector reforms are those that have more support among the population.
- In this regard, the BCB has a lot to contribute, and we are doing so through the Agenda BC#.

Agenda BC#

- Agenda BC# adopts as principle a broad process financial democratization, freeing the markets from the need to finance the Government and opening up space for private entrepreneurship.
- We aim at simplifying savings instruments and democratizing access to them, regardless of the national origin of funds or whether they come from small or large investors.
- For that, we consider that technological evolution is crucial and our work has been organized along four dimensions:
 - **Inclusion:** to give simple access to markets for all investors – domestic and foreign, large and small;
 - **Competitiveness:** improve price formation through instruments of competitive access to markets;
 - **Transparency:** enhance the provision of information from the market and about the actions of the Central Bank.
 - **Financial education:** to promote the market participation of all types of agents, and to foster a culture of savings.

Agenda BC# - Main actions

- This is being achieved through many working groups. To give a few examples:
 - **Capital markets:**
 - Creating a regulatory sandbox;
 - Improving instruments to use real estate as loan collateral (e.g.; reverse mortgage);

¹ Brazil: boom, bust and road to recovery; Spilimbergo, Antonio & Srinivasan, Krishna; International Monetary Fund, June 2019.

- Fostering the provision of FX hedge by the financial markets;
- Allowing the issuing of foreign currency debt in the domestic market by non-financial corporations;
- **Instant payments:** we have already started a set of measures to create a system of instant payments in Brazil.
- **Open Banking:** studies for the development of an open banking model for Brazil and discussions with markets participants are progressing. We expect to have concrete results on the coming months;
- Another important initiative is the movement towards full convertibility of the Real. The general objective here is to:
 - simplify bureaucracy; and
 - reduce costs for foreign capital to access the Brazilian market.
- These changes are expected to:
 - facilitate FX operations involving both capital flows and trade;
 - reduce costs to foreign investors;
 - increase local market liquidity and depth, helping to reduce markets volatility; and
 - turn the Real into a potential reference currency for the South America in the near future.

Ending

- We must focus on the design of the financial system of the future.
- Without forgetting our missions of ensuring price stability and a solid and efficient financial system, it is important to be prepared for a technological and inclusive future.