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**BOFIT Anniversary Conference**  
Helsinki, Finland

November, 22<sup>nd</sup> 2016

# Outline

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1. Ample Global liquidity (UMP) and its effects on EMEs and Brazil
2. Effects of capital flows surge in Brazil (2009-2012)
3. Benign interregnum or (gradual but volatile) transition to global policy normalization
4. Brazilian economy is resilient to go through this transition
5. Conclusions

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# **Ample Global liquidity (UMP) and its effects on EME and Brazil**

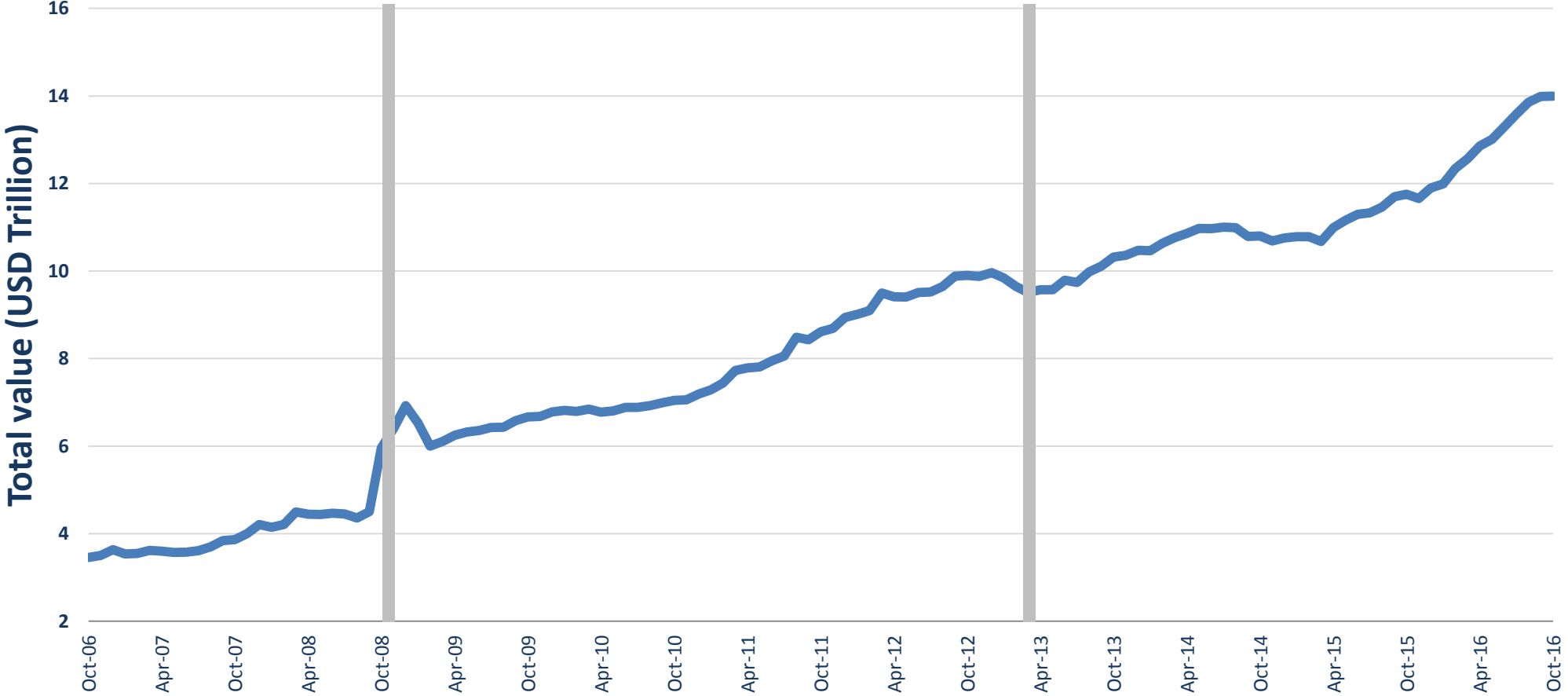
# Global UMP and its Potential Effects for Emerging Economies

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- After end-2008 crisis, advanced economies pursued unconventional monetary policies to reinvigorate economic activity
- EMEs economies were affected by sudden floods of capital, and were subjected to effects like:
  - ✓ High values for assets price and equity prices
  - ✓ Exchange rate appreciation
  - ✓ Increased corporate forex exposure

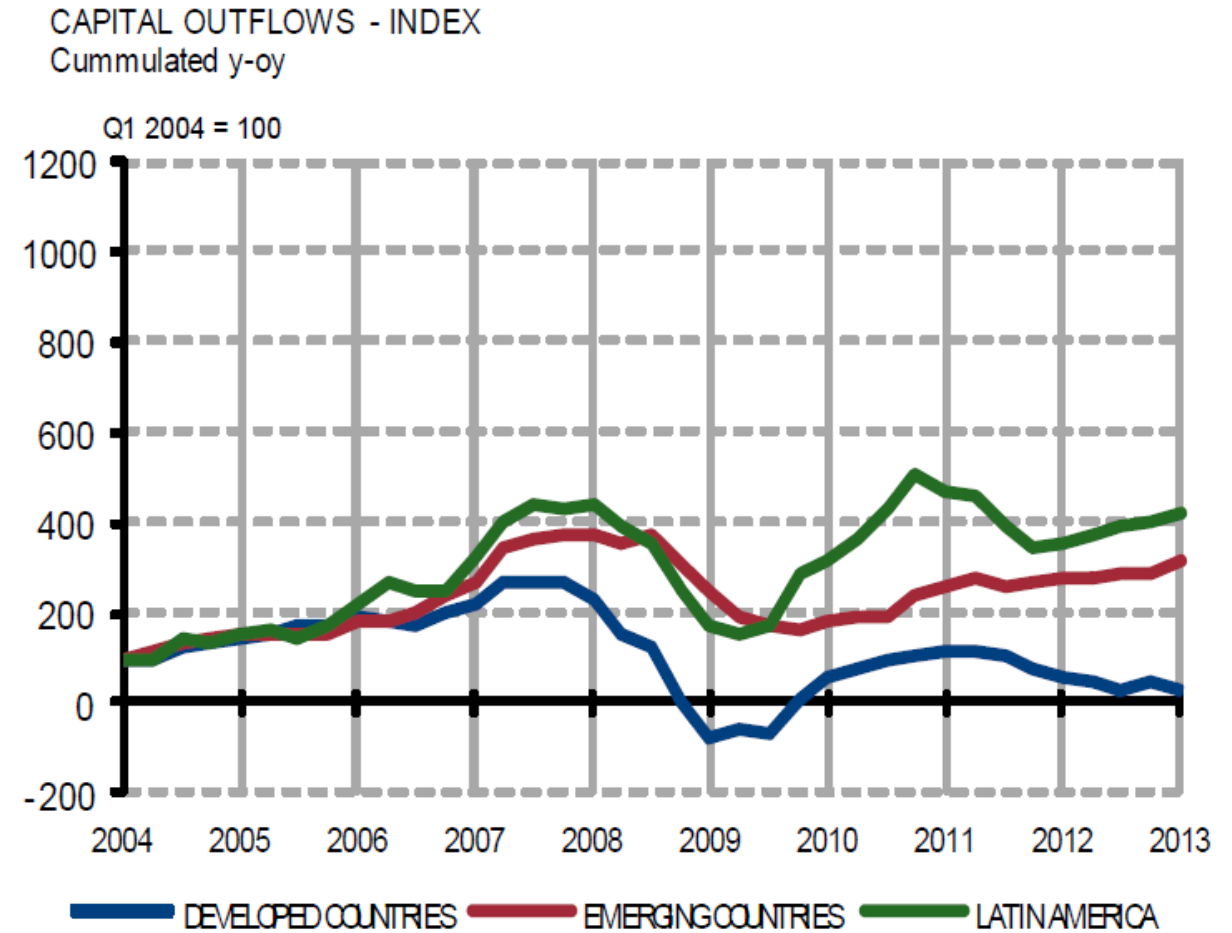
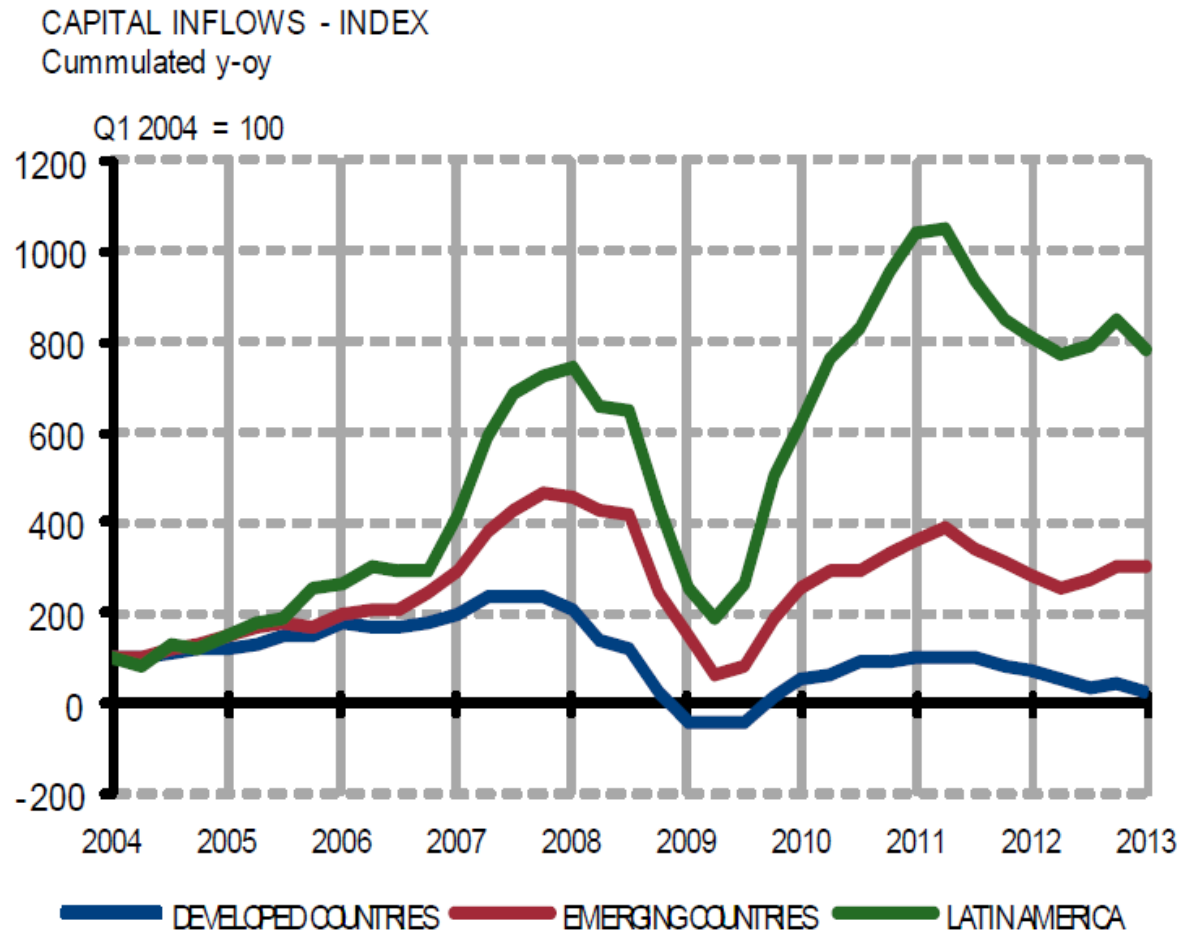
# Unconventional Monetary Policy (UMP)

Central Bank Balance Sheet (Fed, ECB, BoE, BoJ)



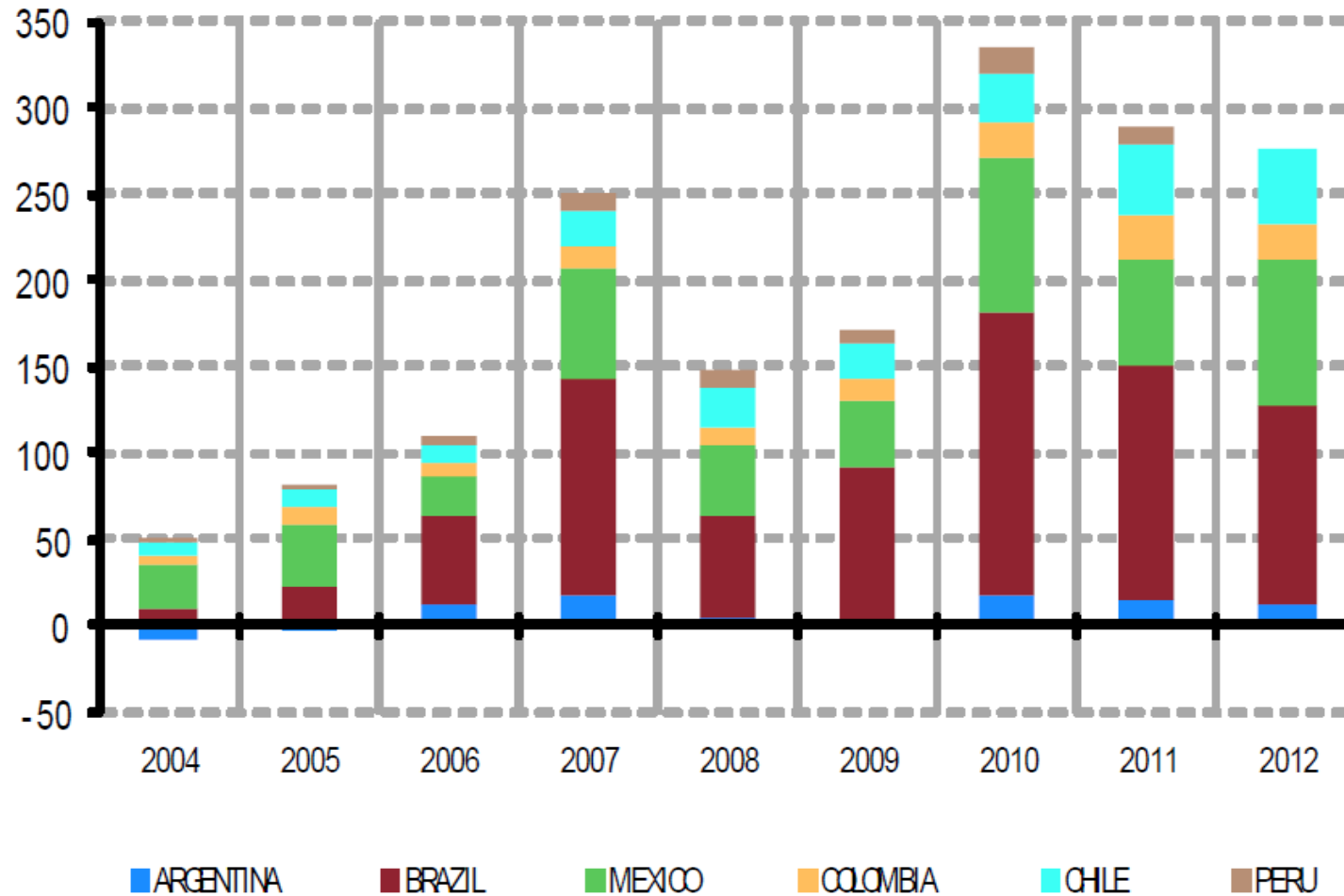
Source: Bloomberg

# Capital Flows Surge in EME and Latin America 2009-2013

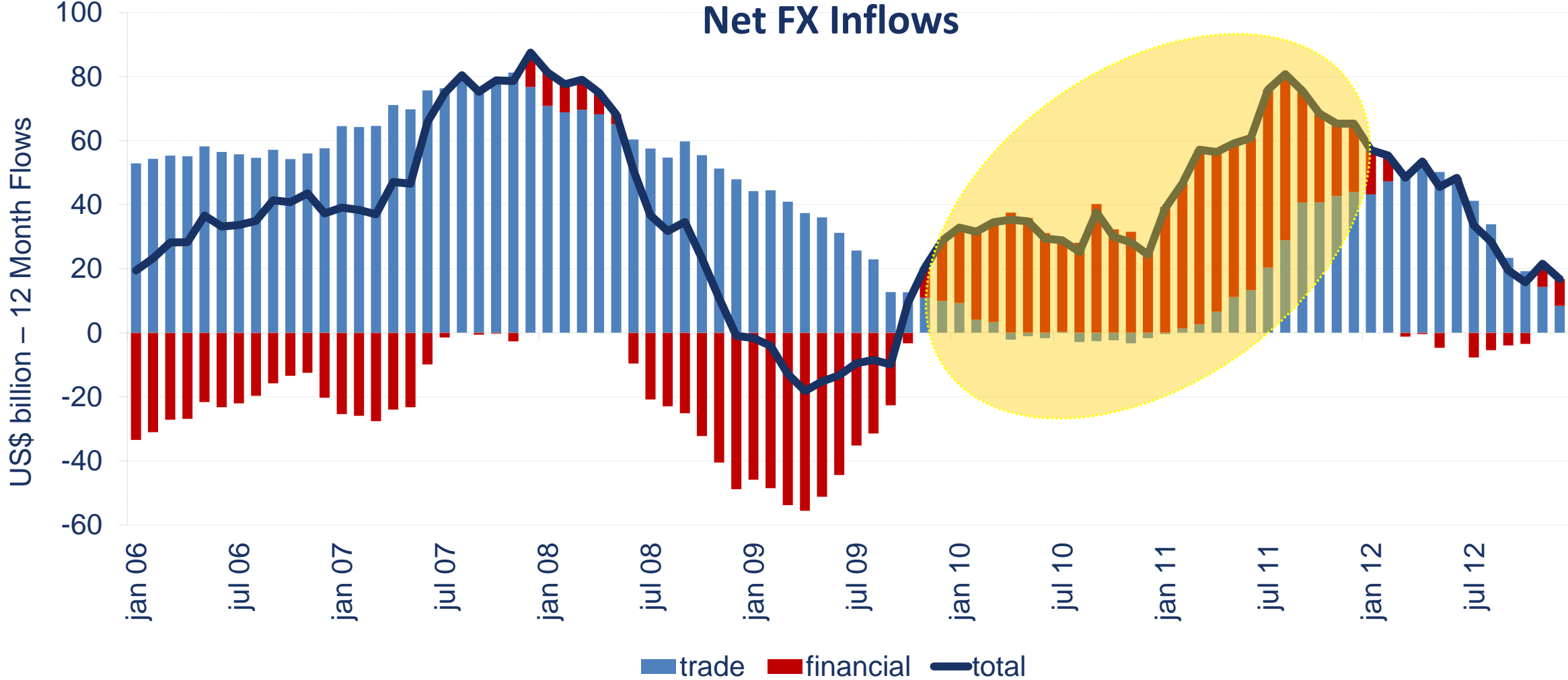


# Capital Flows Surge in LA: Country Evolution (2009-2012)

LATIN AMERICA CAPITAL INFLOWS  
Cumulated y-o-y  
mm USD



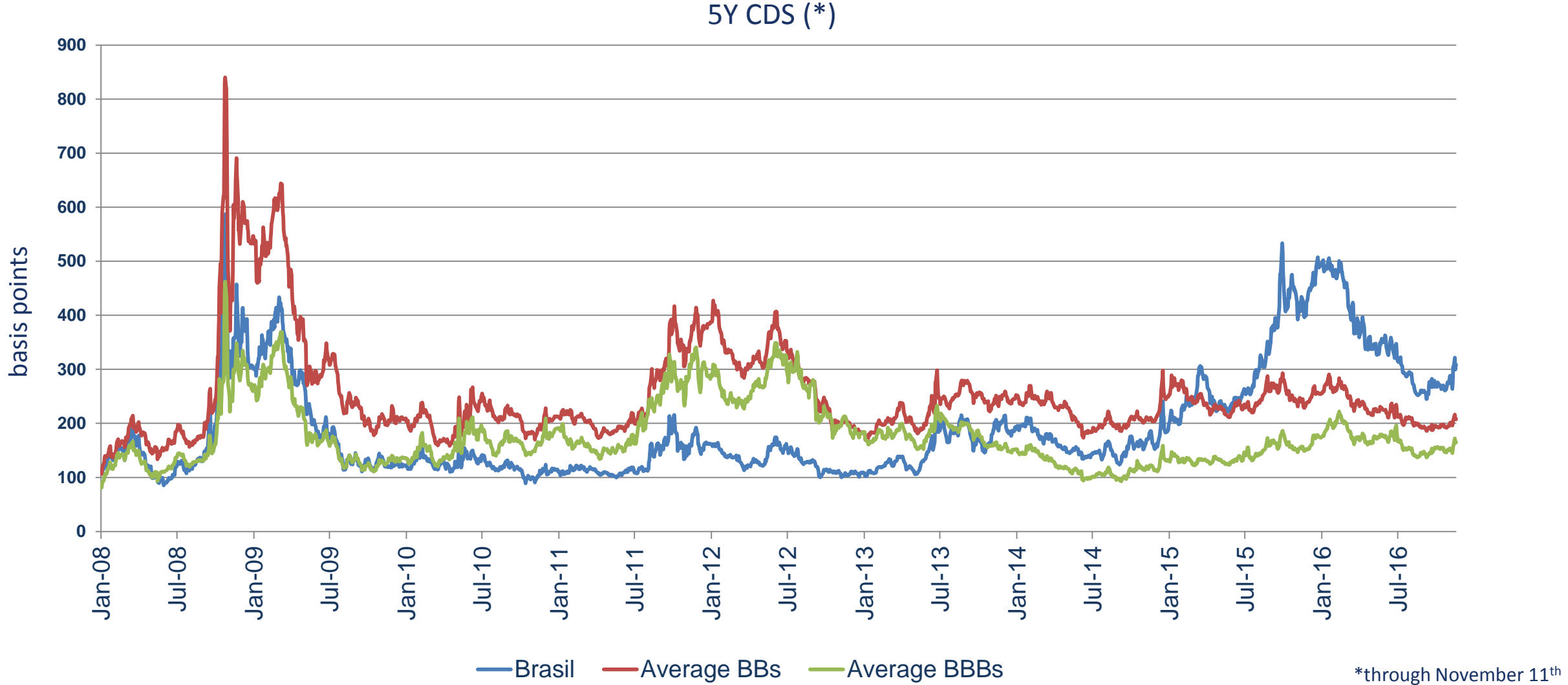
# Financial and Trade related net capital inflows in Brazil: Surge Evidence



Source: BCB



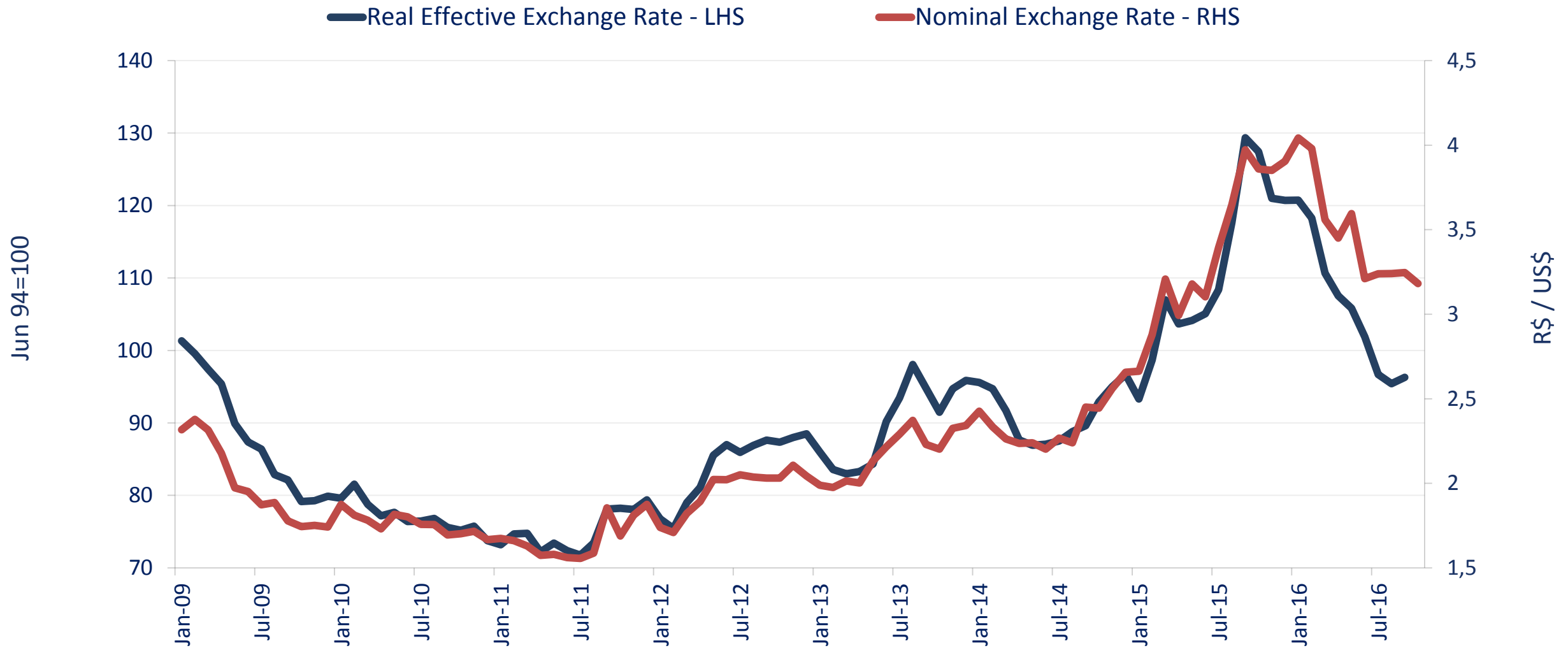
# Risk Premium thru BBBs and BBs: Brazil below average in 2010-2013



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# Effects of capital flows surge in Brazil (2009-2012)

# Nominal and Real Effective Exchange Rate (\*) Appreciation



\* 15-currency basket

# International Reserves Accumulation



Source: BCB

# Policy Responses in Brazil involved various tools

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- Prudential measures
  - Central bank intervention
  - IOF tax as a capital flows management tool
- ✓ Quantitative effects on each of these measures to decrease macroeconomic volatility due to capital inflows are still a matter of research.

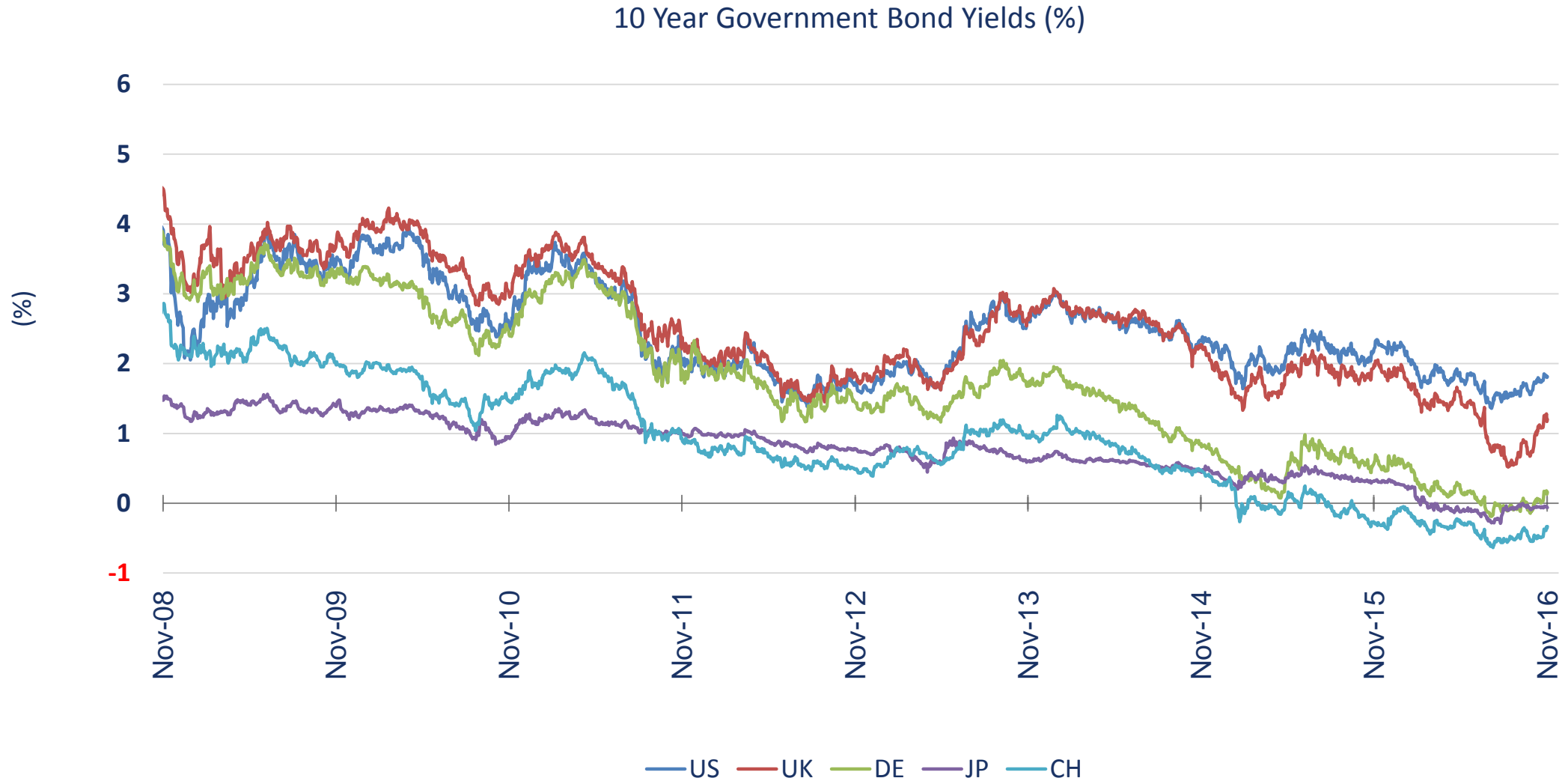
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**Benign interregnum or (gradual  
but volatile) transition to global  
policy normalization**

# Transition to Normalization in US amid UMP in other globe areas

- Context suggested a **transition to normalization in a relatively smooth path**:
  - ✓ Supportive monetary condition maintains risk appetite for EME's assets
  - ✓ Improvement in growth expectations for China and certain accommodation in commodity prices
  - ✓ Relative recovery in emerging markets asset prices
- But EME will be subjected to **bouts of volatility along the transition**:
  - Impacts from Brexit had been short lived and reversed through time
  - Uncertainty based on yield curve movements after USA's elections risks

# Benign Interregnum: Low yields and high liquidity are yet prevailing

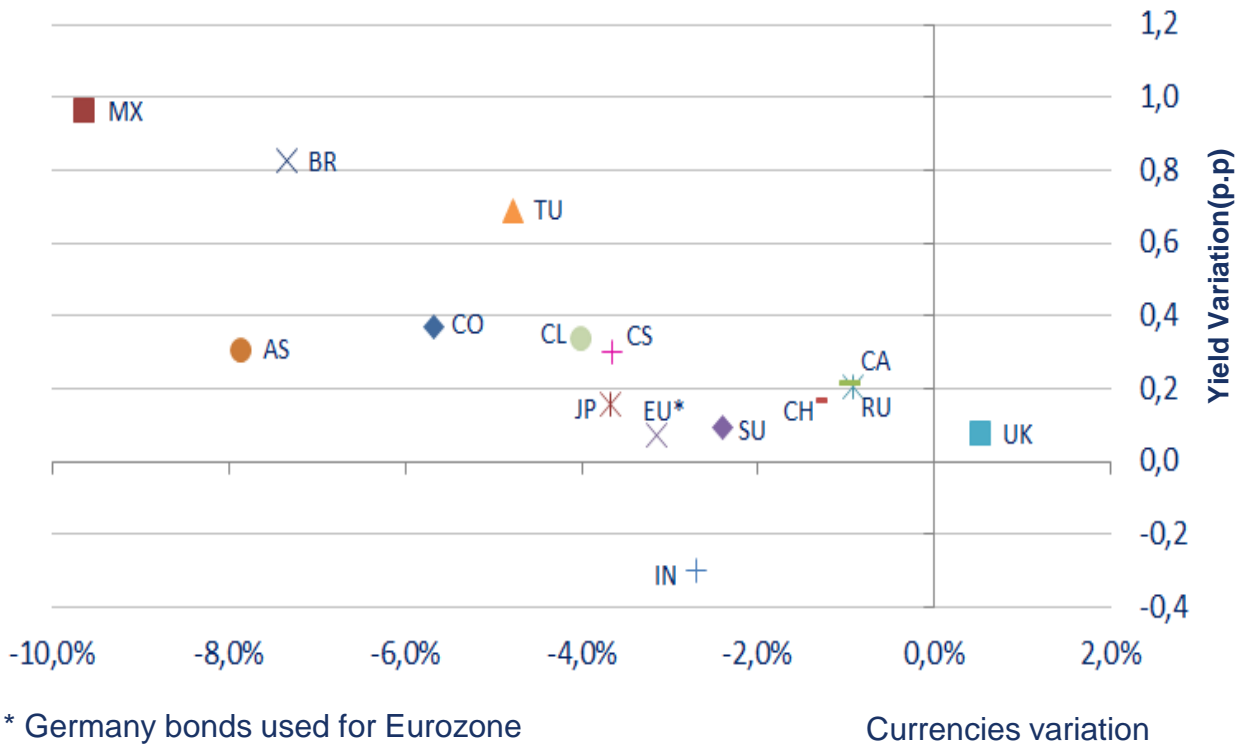




# Transition with Volatility: EME's yields and forex movements

Sustained recovery in EME's currencies despite short term (after Nov) movements

Currencies and 5-yr bond yields variation (%)  
after November

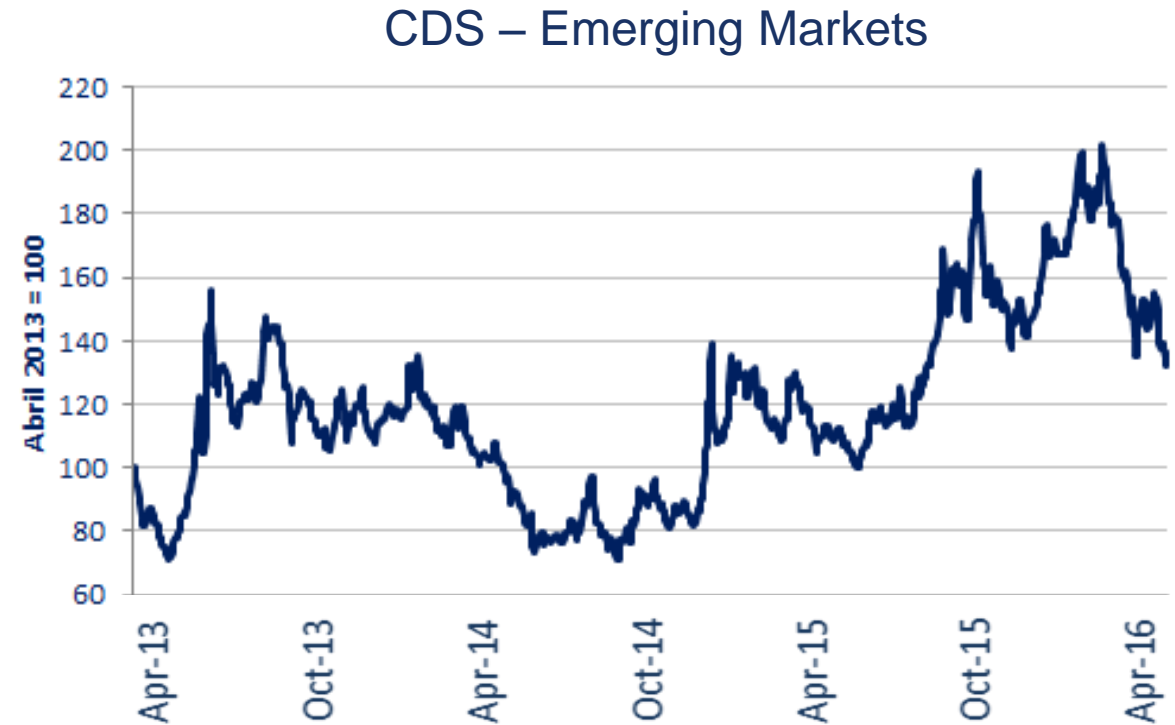
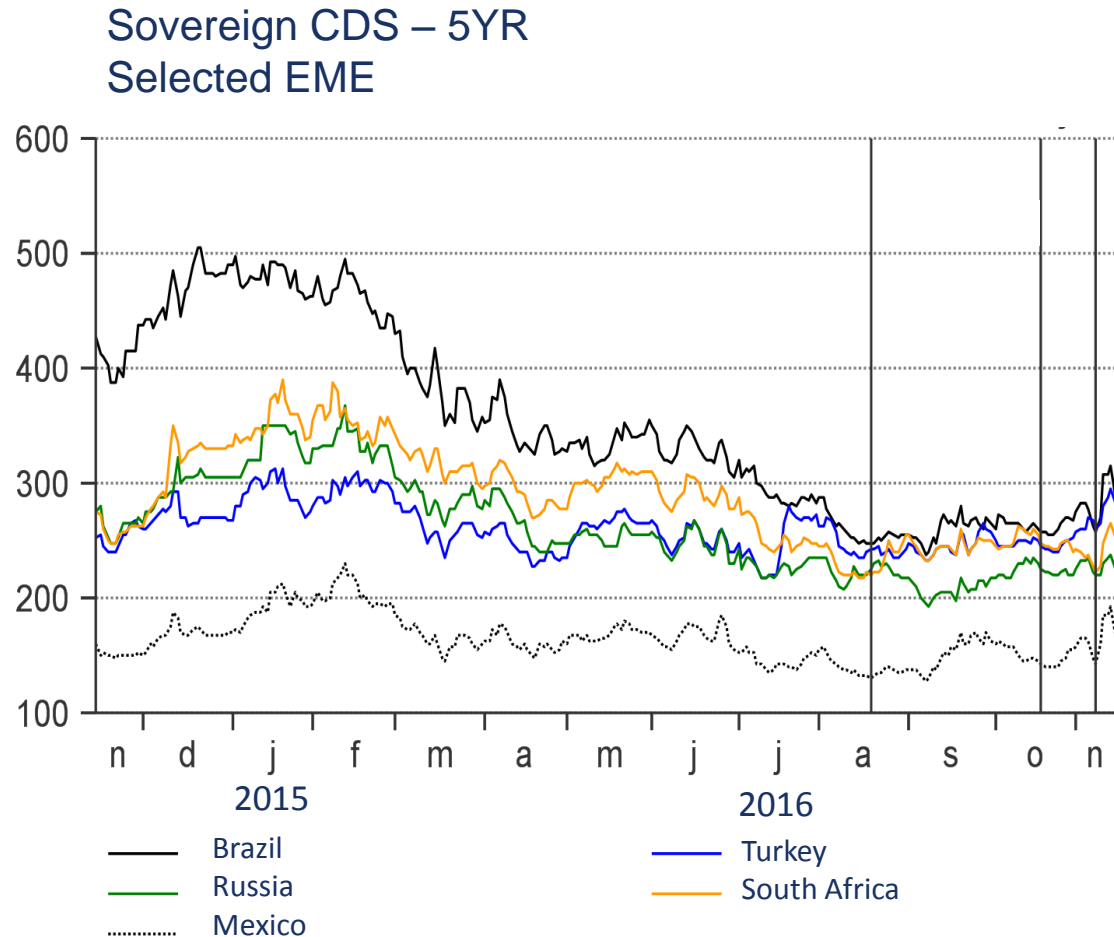


Exchange – Emerging Markets



# Transition with Volatility: EME's risk premiums

EME: Despite recent volatility risk premiums were relatively well behaved



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**Brazilian Economy is  
resilient to global  
monetary policy transition**

# Resilience Factors in Brazil: Financial System and External Accounts

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- Low overall exposure to forex liabilities including corporates, large domestic investor base for public debt financing and sound current account financing through FDI assure resilience to (negative) headwinds from the international economy and limit contagion from external volatility
- Financial system with solid capital structure and limited leverage, despite historically large recession.

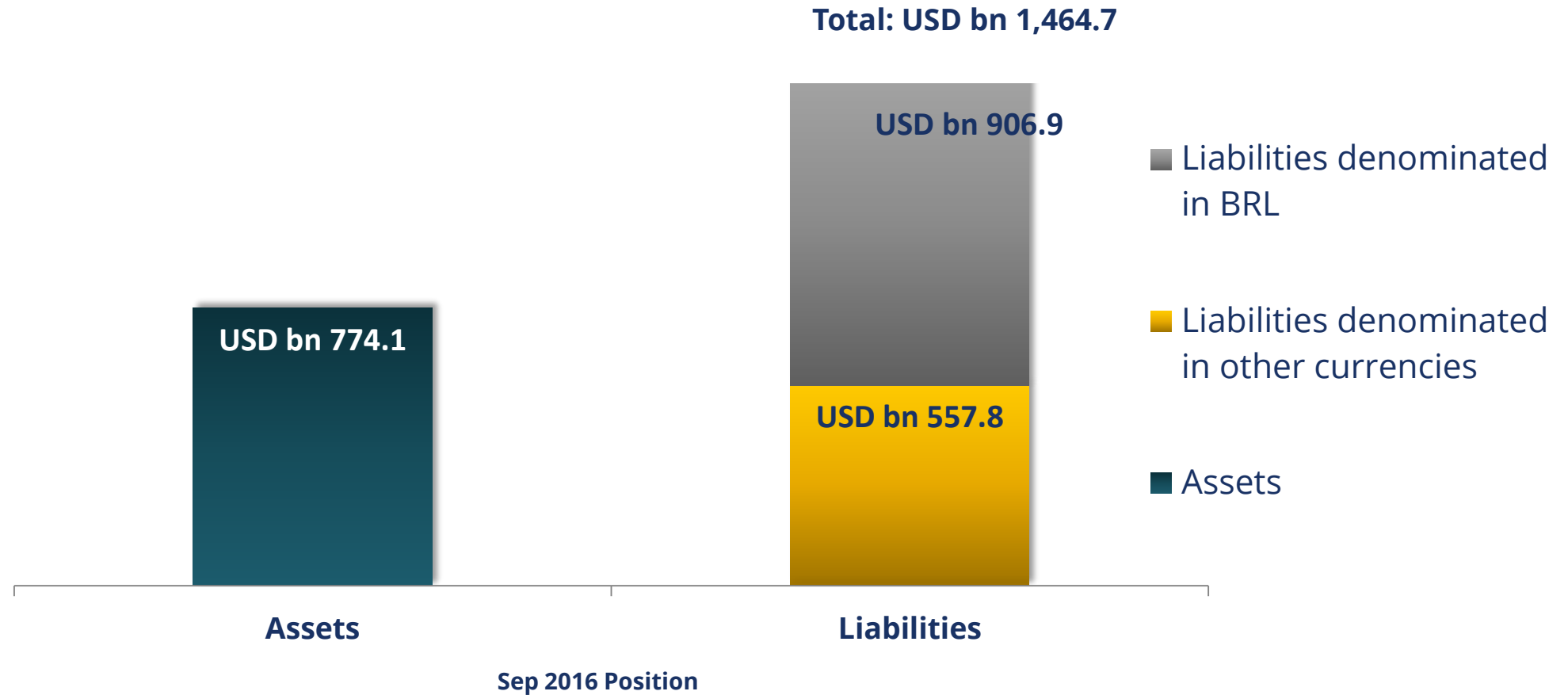
# Resilience Factors in Brazil: Fiscal and Monetary Policies

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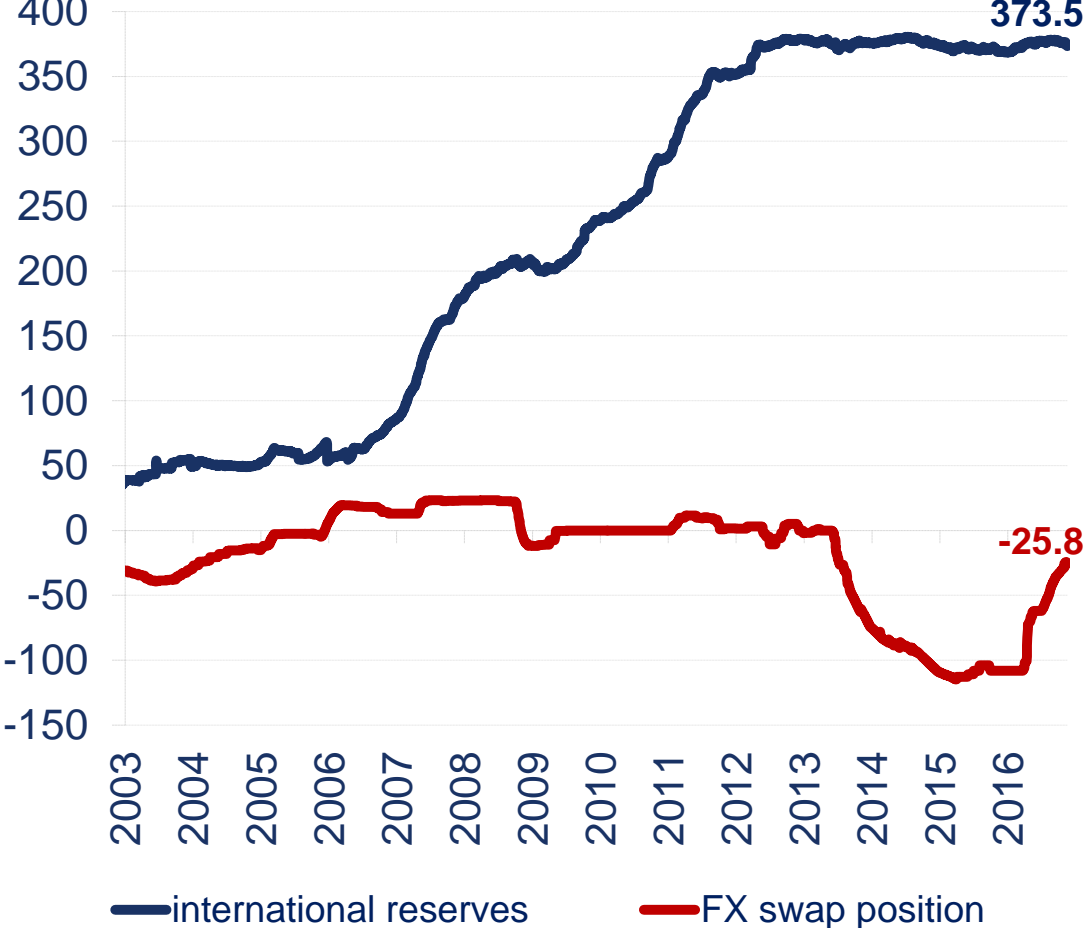
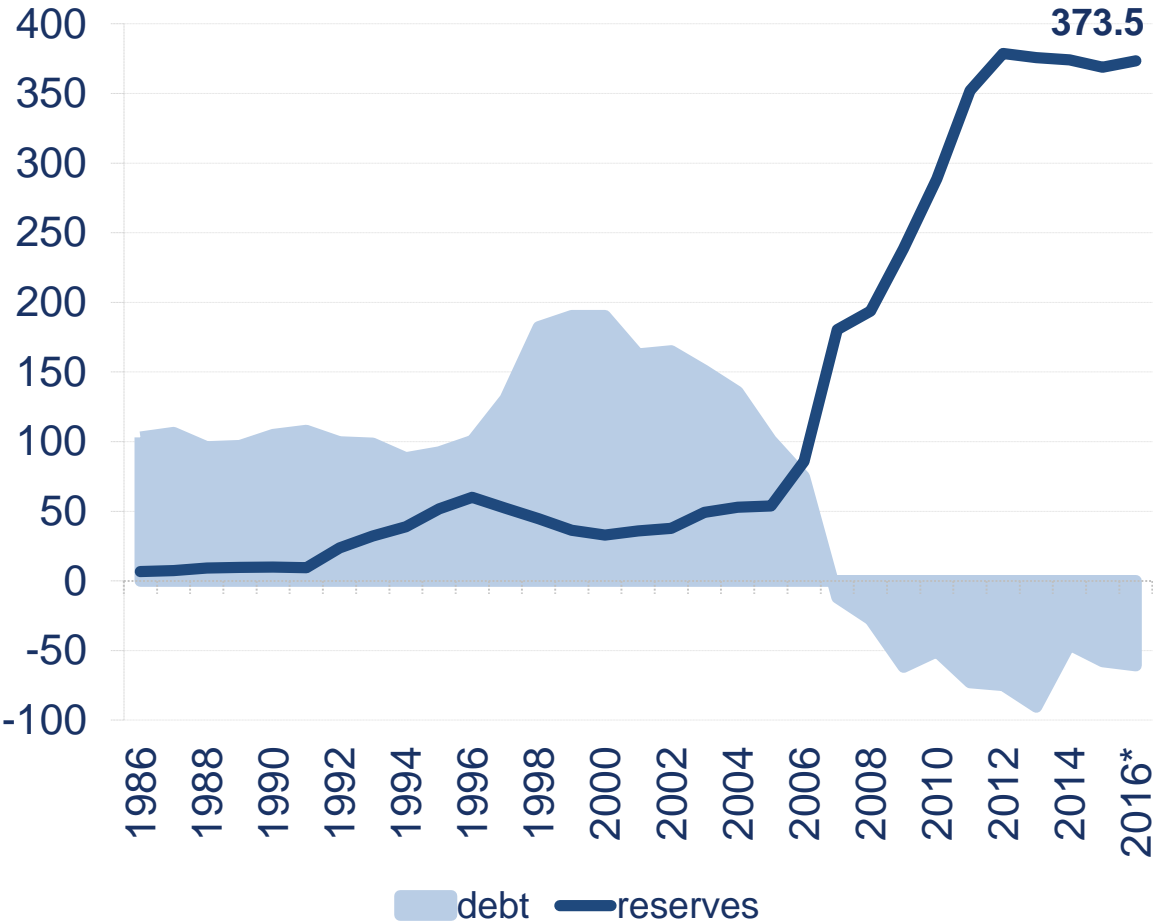
- Fiscal Reforms are underway. Constitutional Amendment that leads to a government expenditure cap is to be approved this year. Social security reform will be discussed in congress next year.
- Monetary policy transparent in its goal to achieve the inflation target of 4.5% in 2017 and 2018.

# Brazil's Liabilities Position: Relatively Low Exposure to Forex

## Brazil's International Investment Position



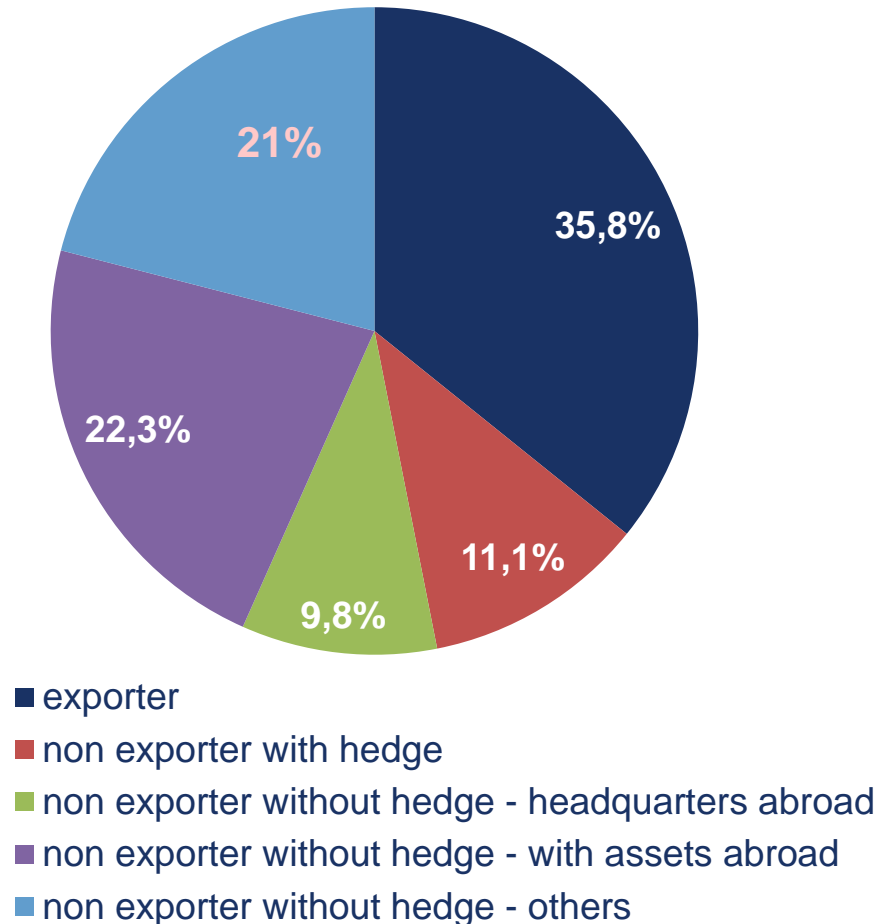
# Brazil: Solid External Debt and International Reserves Positions(\*)



\*debt in Sep/16; reserves on November 17<sup>th</sup>

# Brazilian Case: Low Corporate's Unhedged Forex Exposure

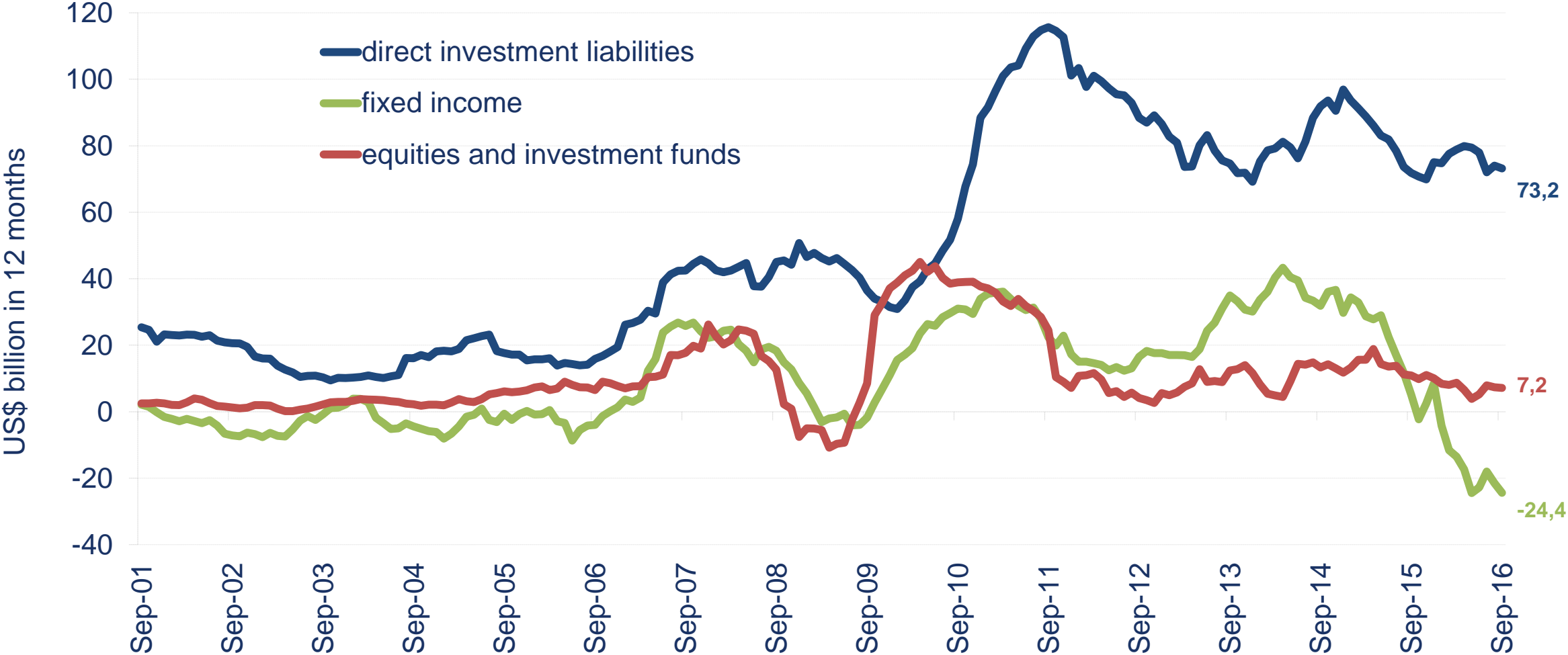
## Debt in Foreign Currency by Type of Debtor (\*)



\*through June 2016



# Brazil: Solid Net Foreign Direct Investment Flows (\*)



\* According to the new methodology as of 1995

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# Conclusions

# Conclusions and Possible Topics for Discussion

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- Spillovers and spillbacks of UMP has received great interest and sparked renewed efforts of international policy coordination in a global scale.
- These spillovers and spillbacks of UMP and a normalization process will most likely affect the policy mix in EME.
- No silver bullet (just keep doing the right things):
  - ✓ Sound fiscal policies that boost confidence
  - ✓ International Reserves
  - ✓ Monetary Policy seeking a clear target
  - ✓ Regulatory framework that guarantees stable financial system



# ***Thank You!***

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