



# **Policy Responses to Commodity Price Movements – The Brazilian Experience**

**Carlos Hamilton Araújo**  
Istanbul, Turkey, April 7, 2012

# Outline

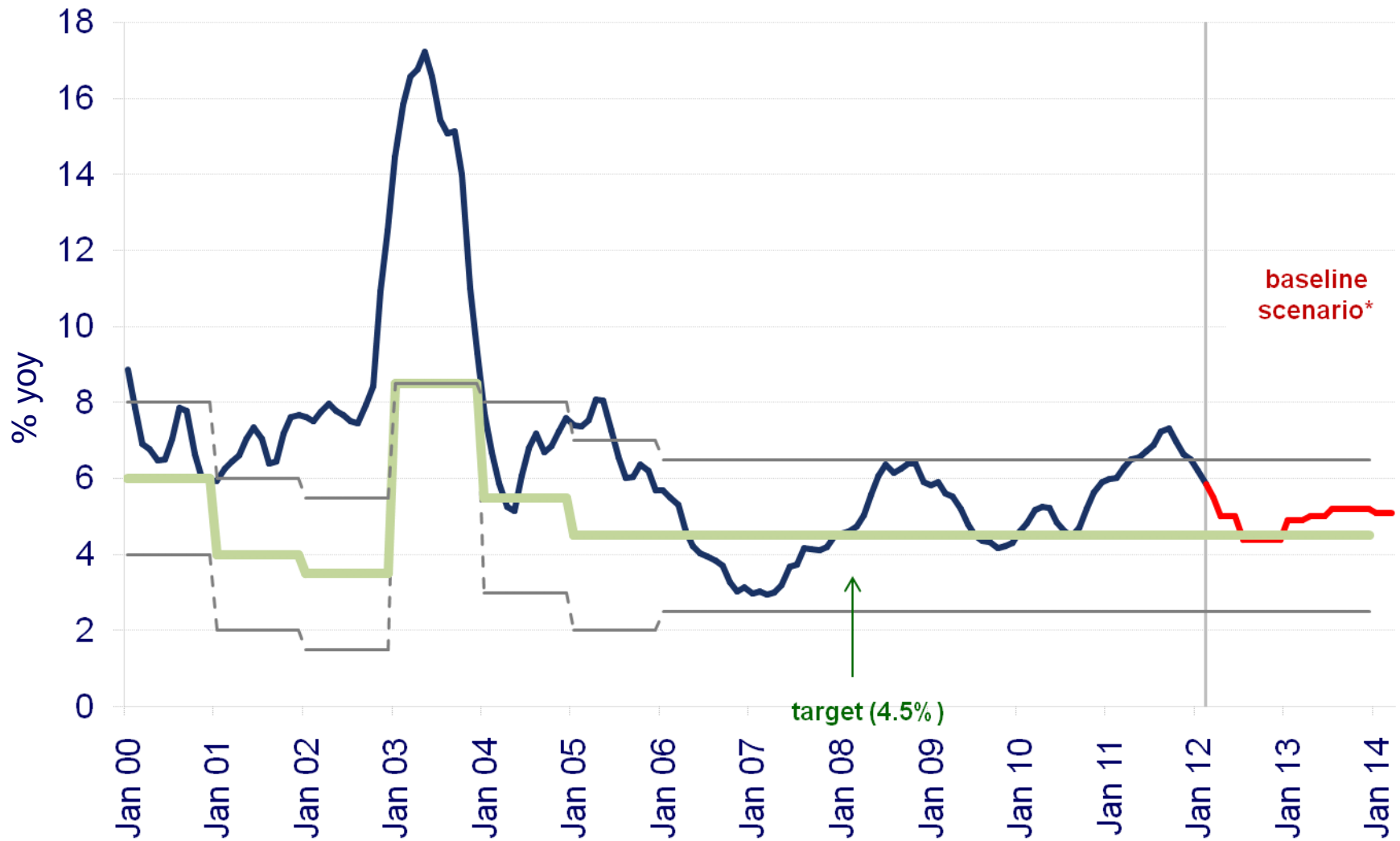
---

- Brazilian Macroeconomic Framework
- Commodity Price Shocks
- Policy Responses
  - Monetary policy
  - Fiscal Policy
  - Exchange Rate Policy
  - International Reserves
  - Macroprudential Policy
- Conclusions

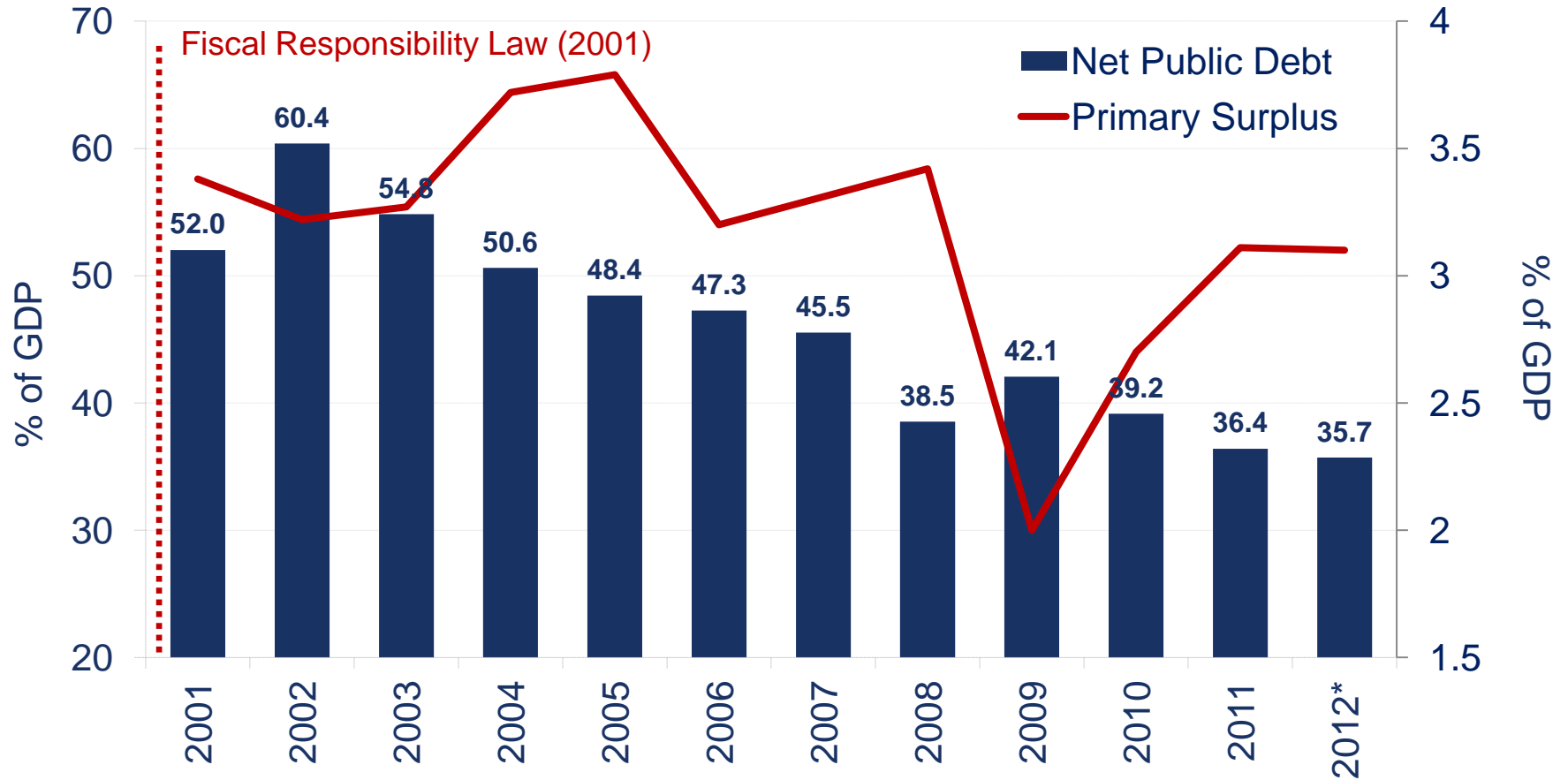
# Macroeconomic Policy

- Framework
  - Inflation targeting
  - Fiscal responsibility
  - Exchange rate flexibility
- Complemented by
  - Prudential policy and bank supervision
  - International reserves

# Inflation – IT Period

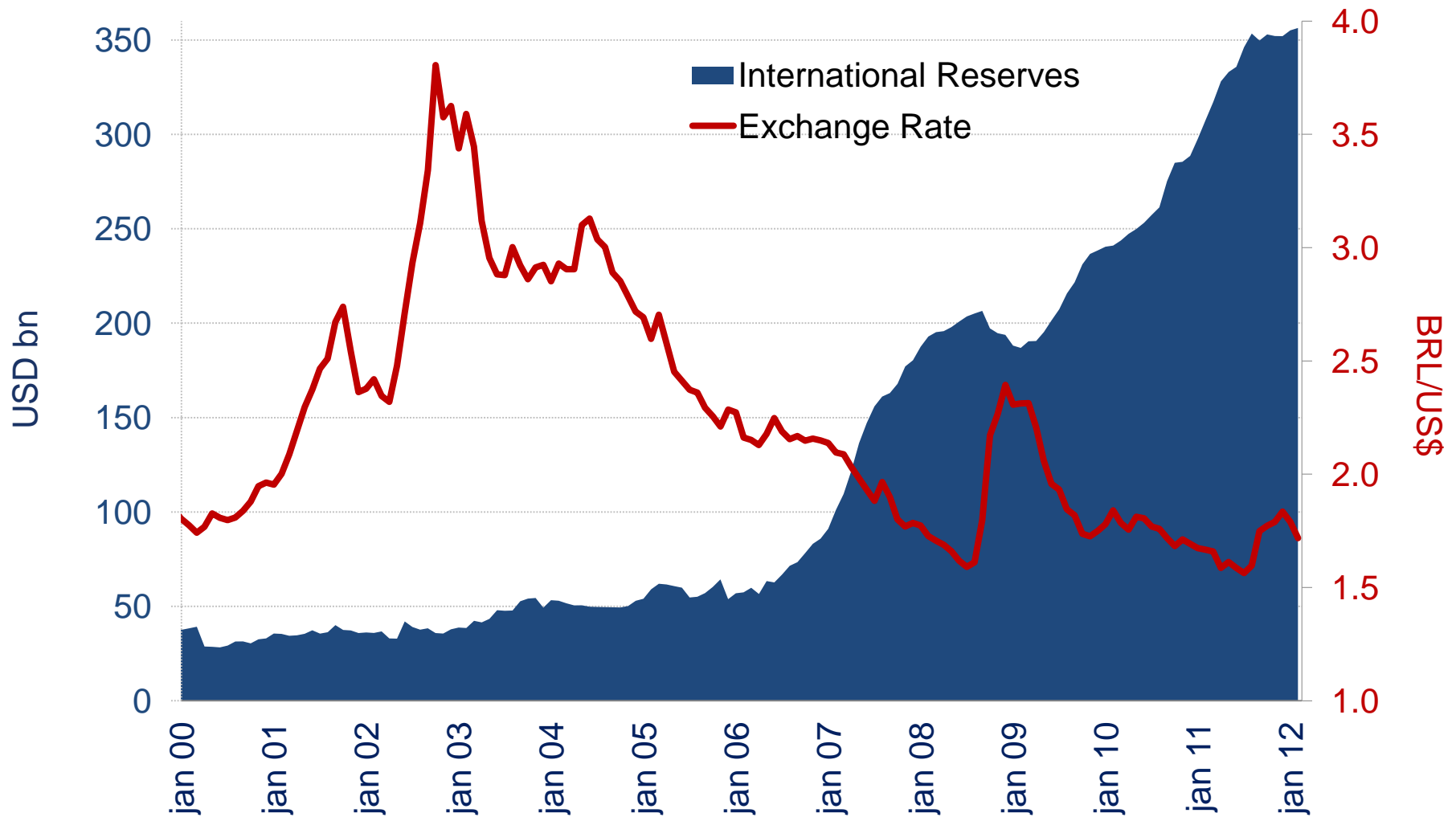


# Fiscal – IT Period



\*Forecast

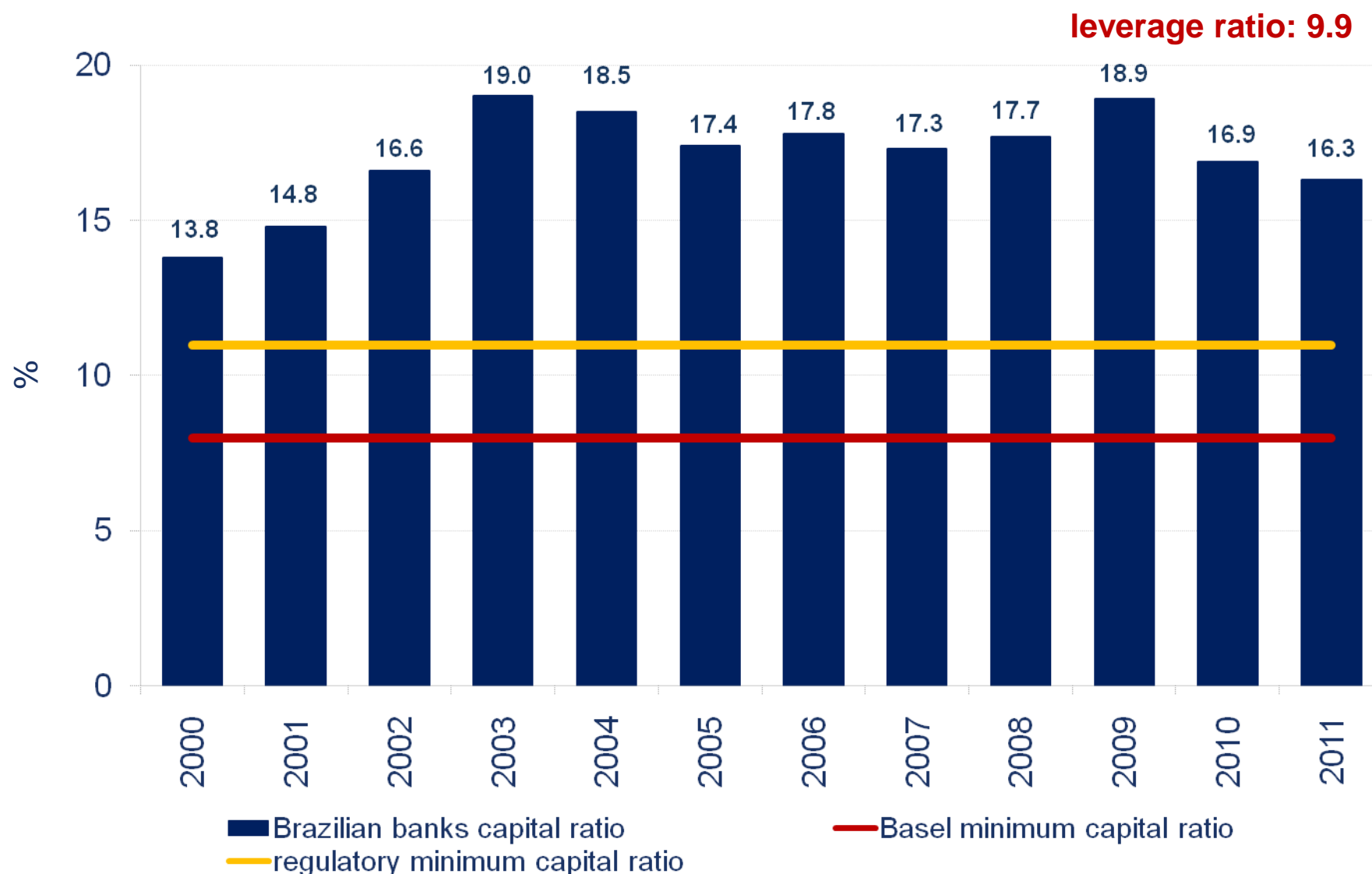
# FX and International Reserves



# Financial System - General Features

- All financial institutions are regulated and supervised
- Regulation is mostly infralegal
- Convergence to international standards (IFRS, Basel II, IOSCO)
- Brazil has been member of international forums (BCBS, G20, FSB)
- Regulation has generally been conservative

# Capital Adequacy Ratio

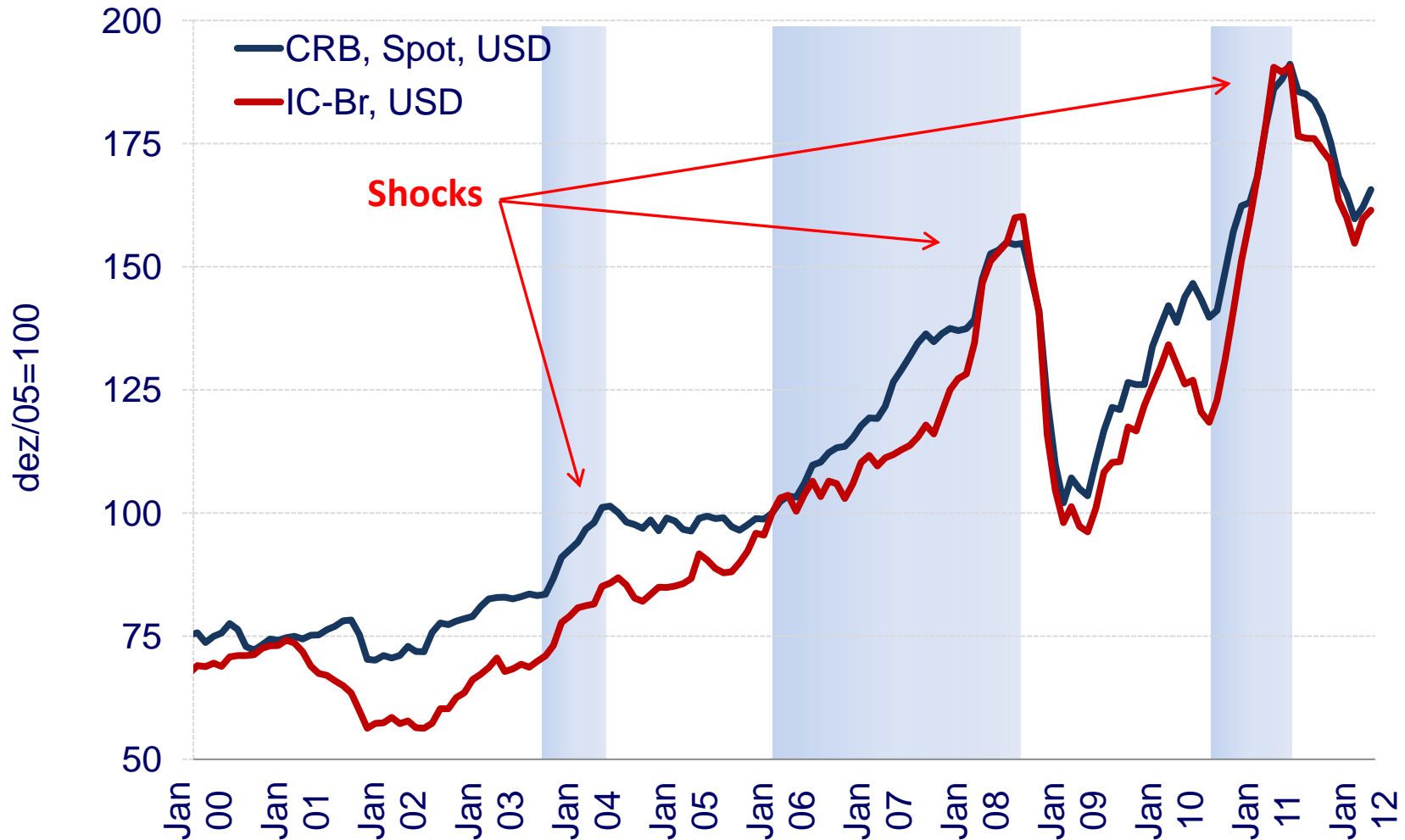




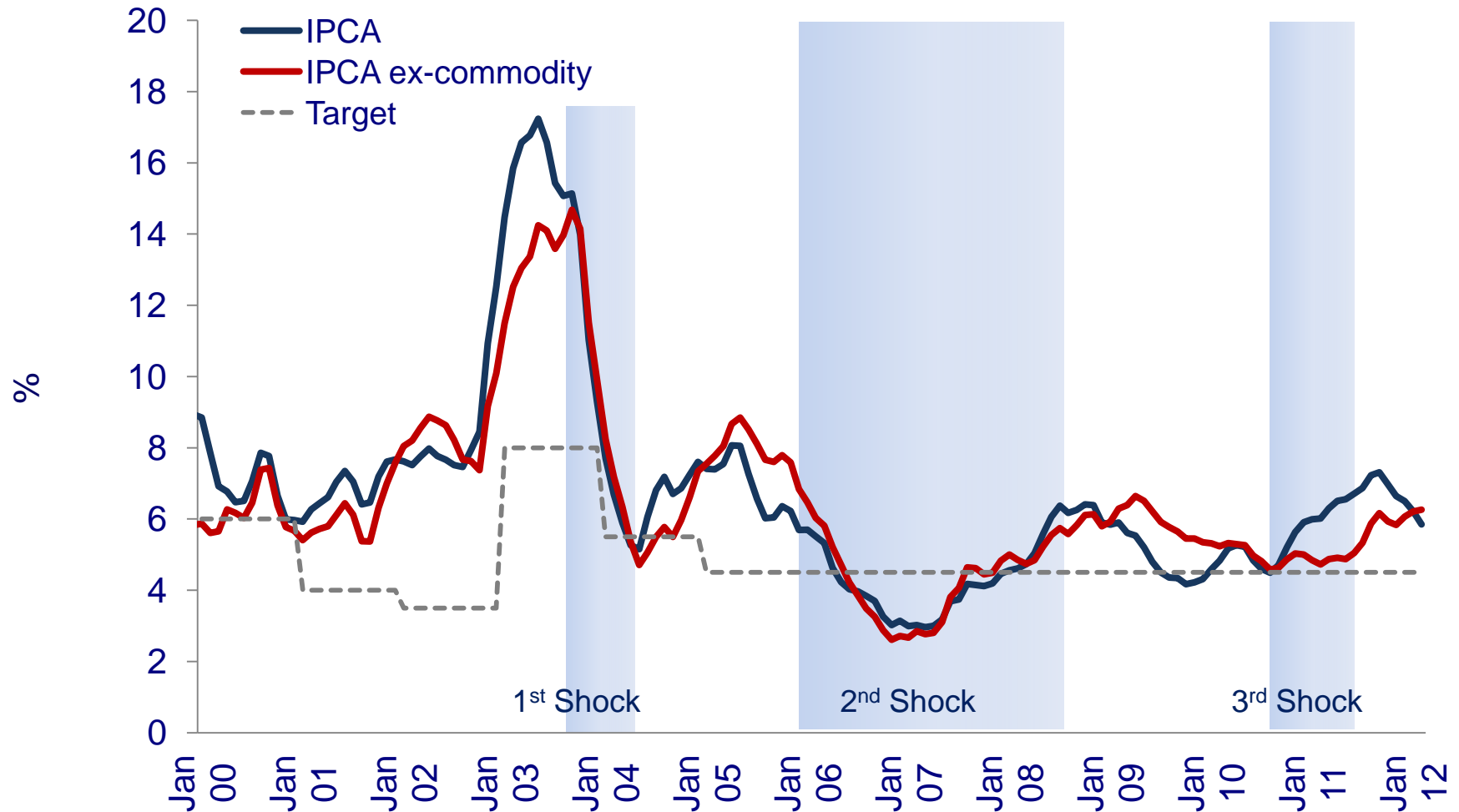
# Commodity Shocks

- IC-Br
- From 2000 to 2012, three commodity shocks (+20% yoy, as measured in USD)
  - Inflationary pressures
  - Improvement in terms of trade and external accounts
  - High capital inflow
  - Fast credit expansion

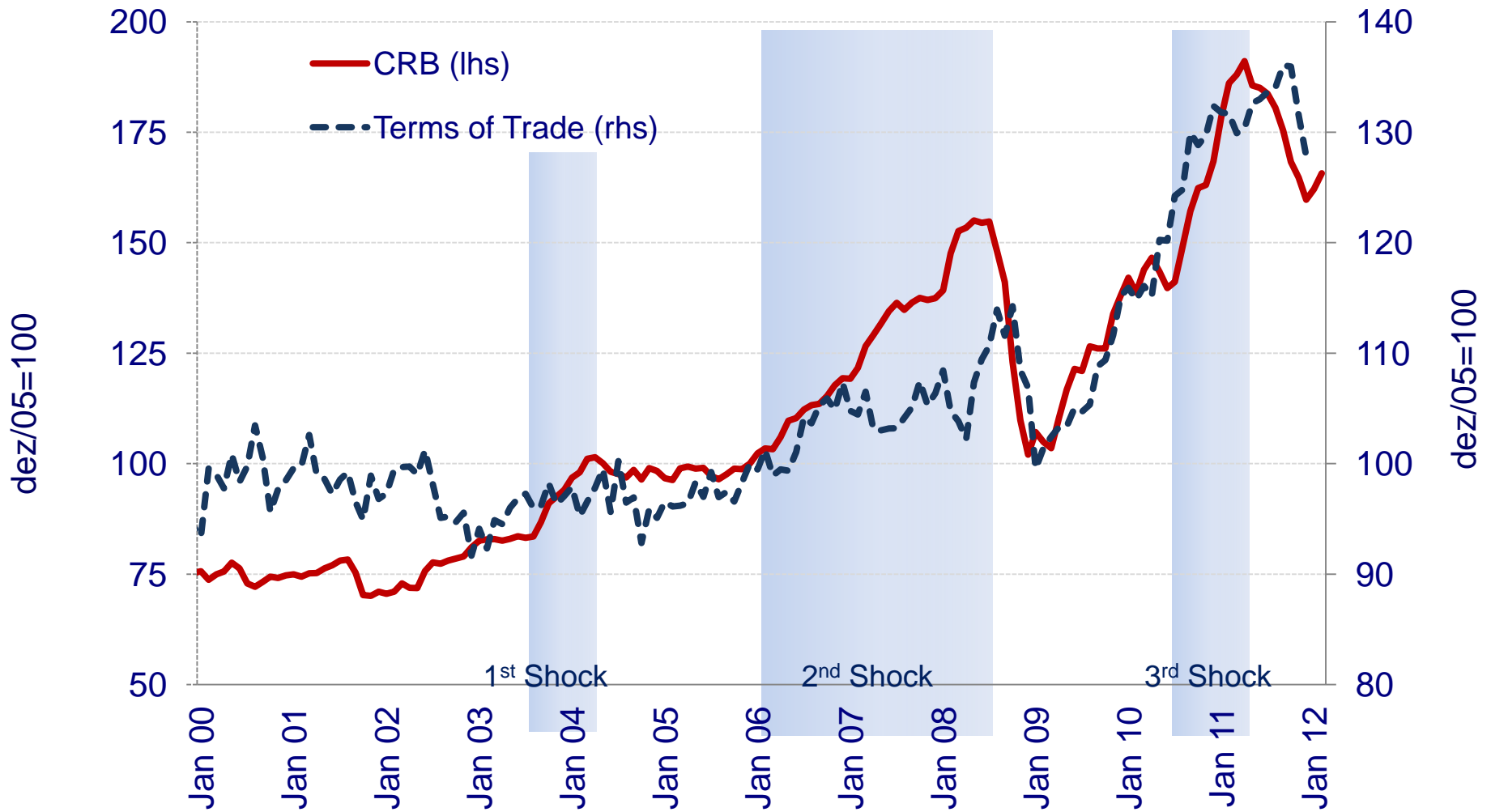
# Commodity Shocks



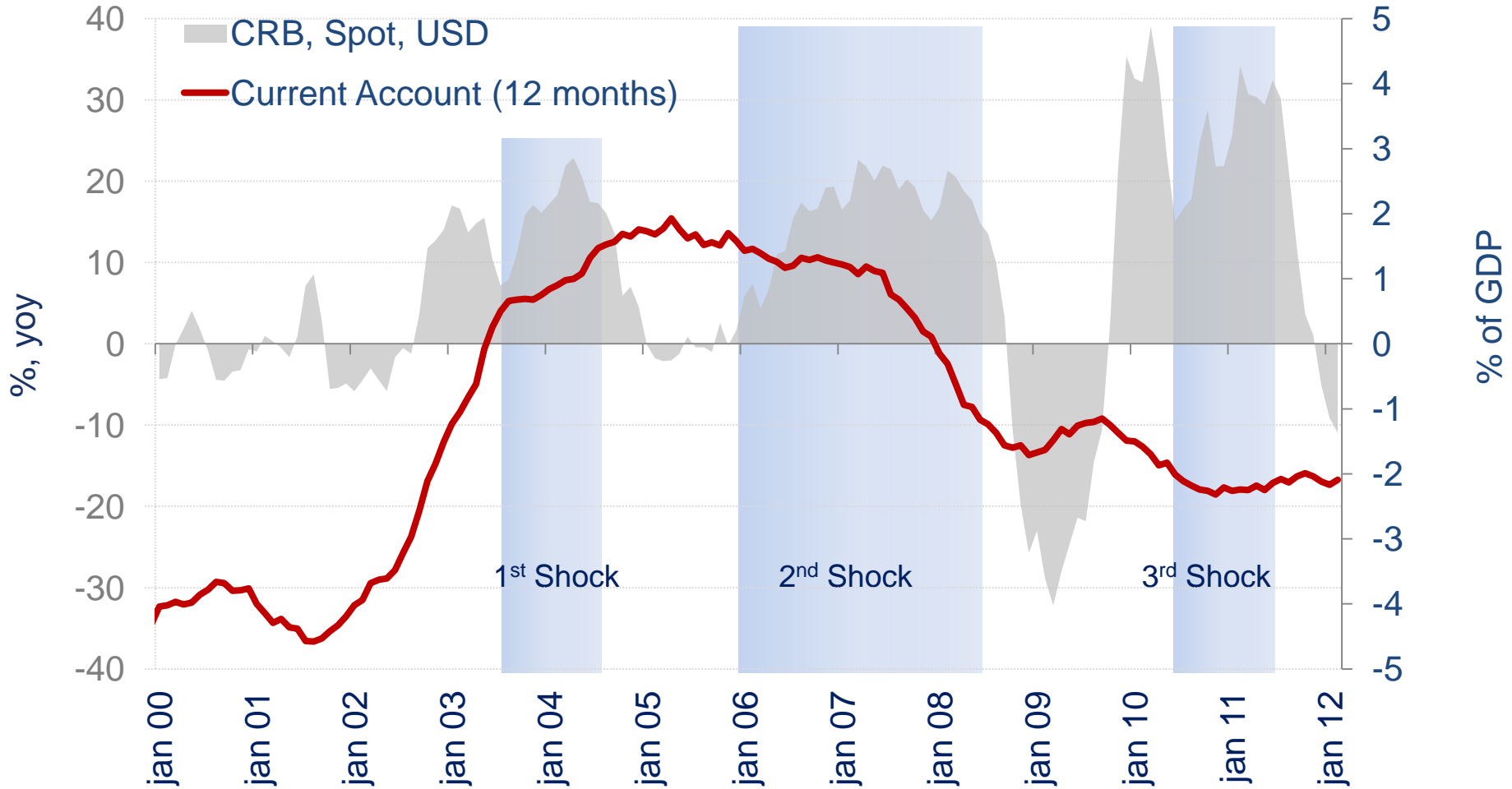
# Commodity Prices and Inflation



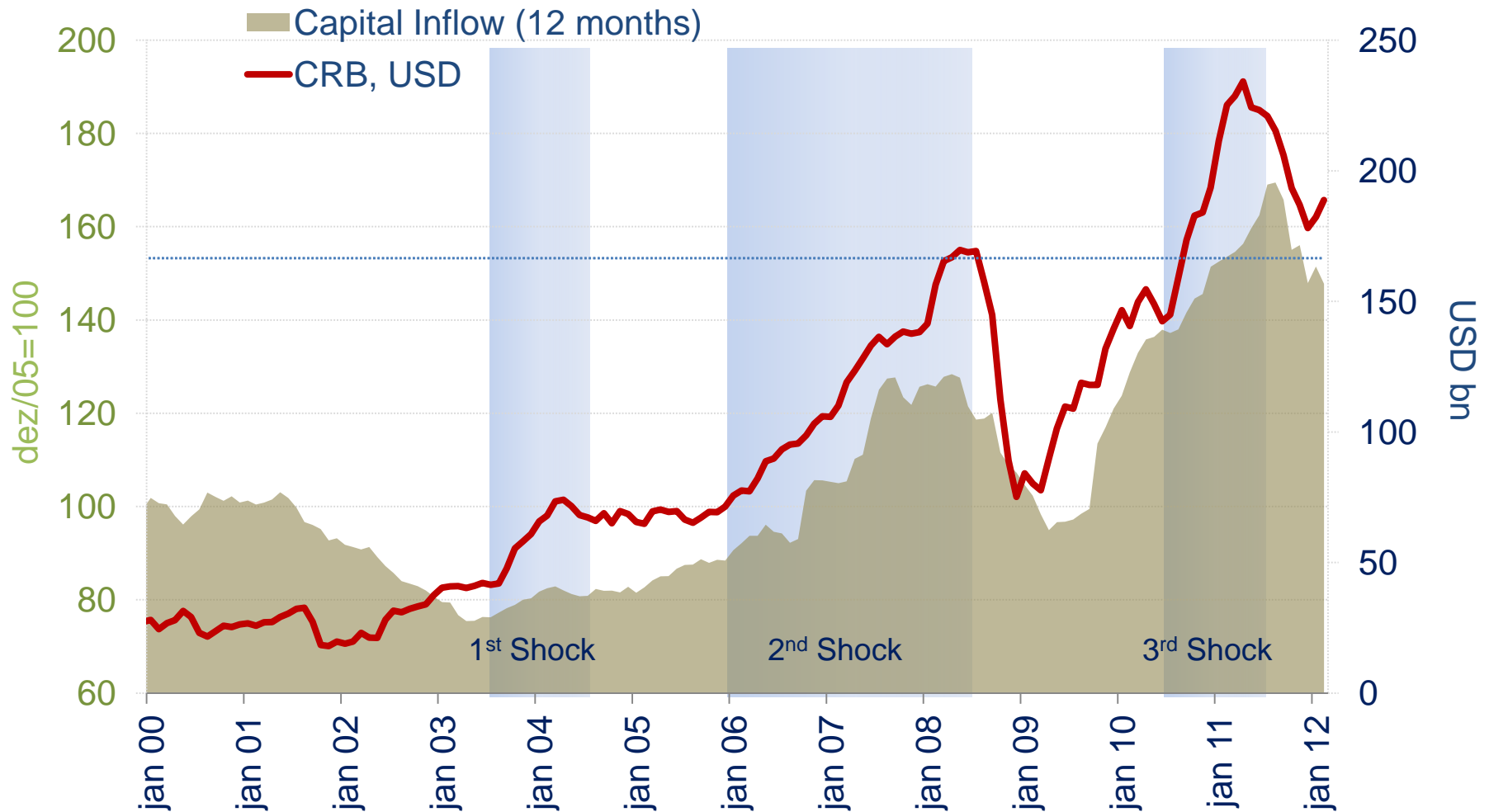
# Commodity Prices and Terms of Trade



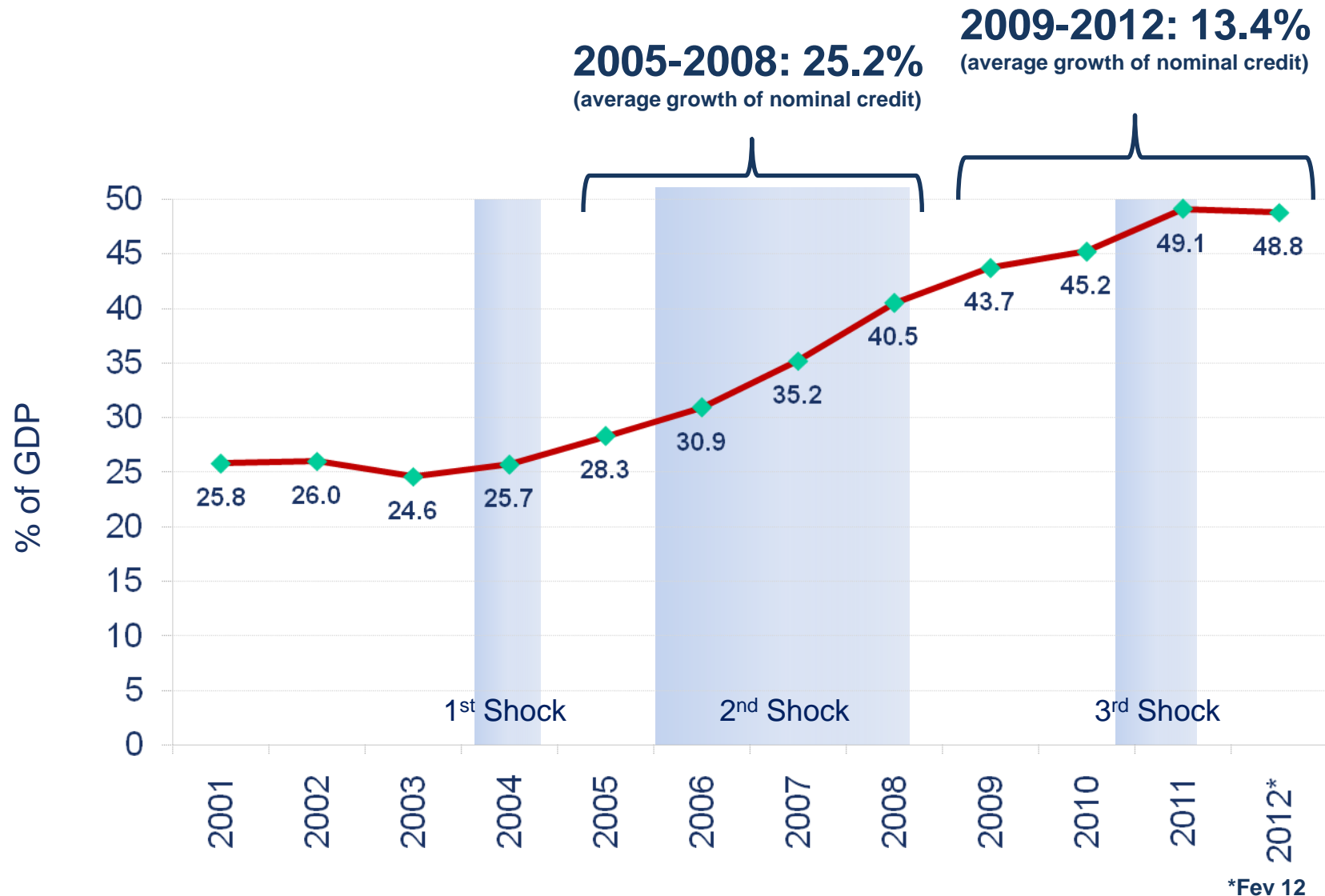
# Commodity Prices and Current Account



# Commodity Prices and Capital Inflow\*



# Commodity Prices and Credit



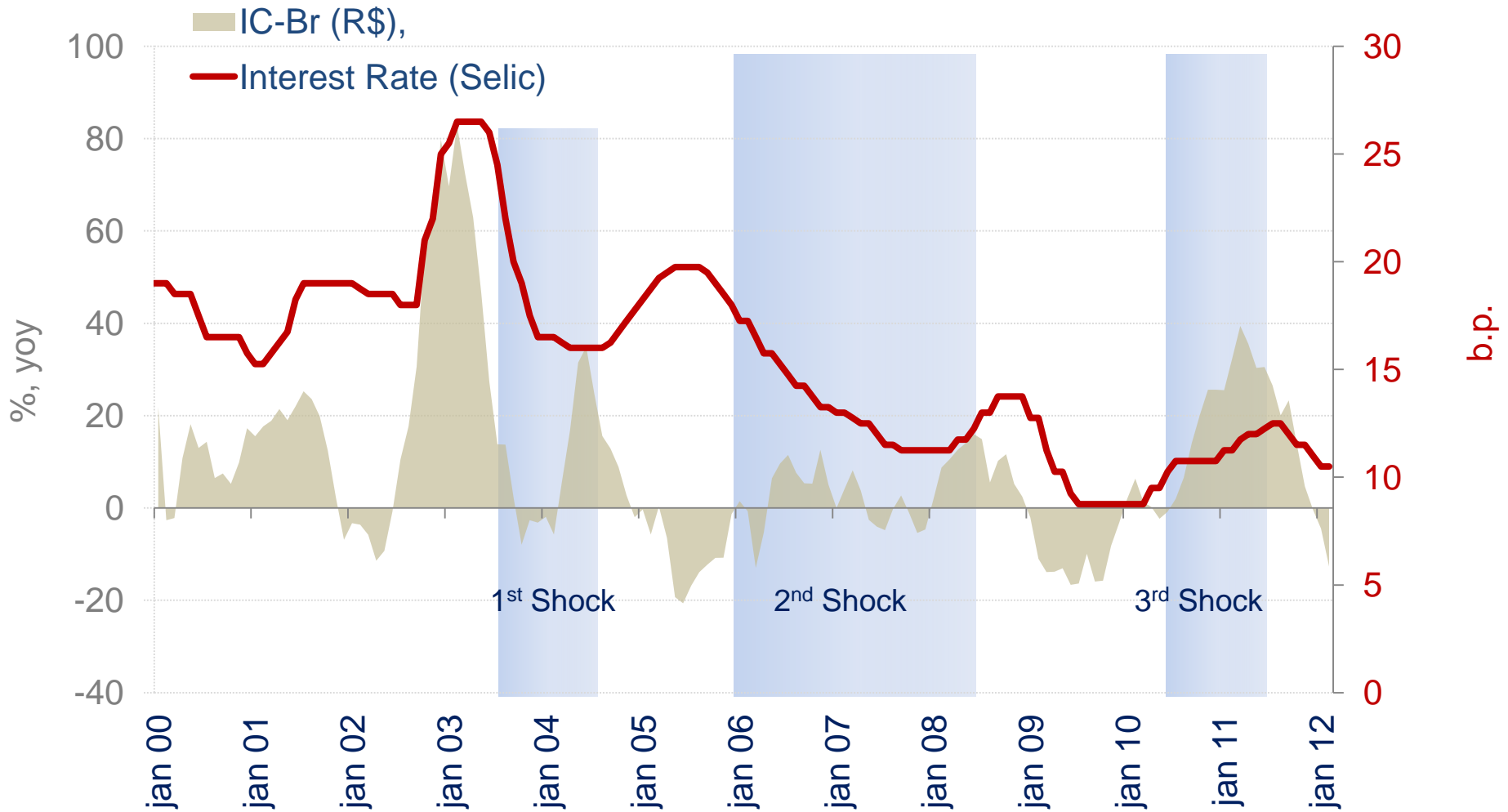
# Monetary Policy Response

---

- Accommodation of first round effects
- Combat second round effects
  - Expectations
  - Indexation



# Interest Rate Response



# Other Policy Responses

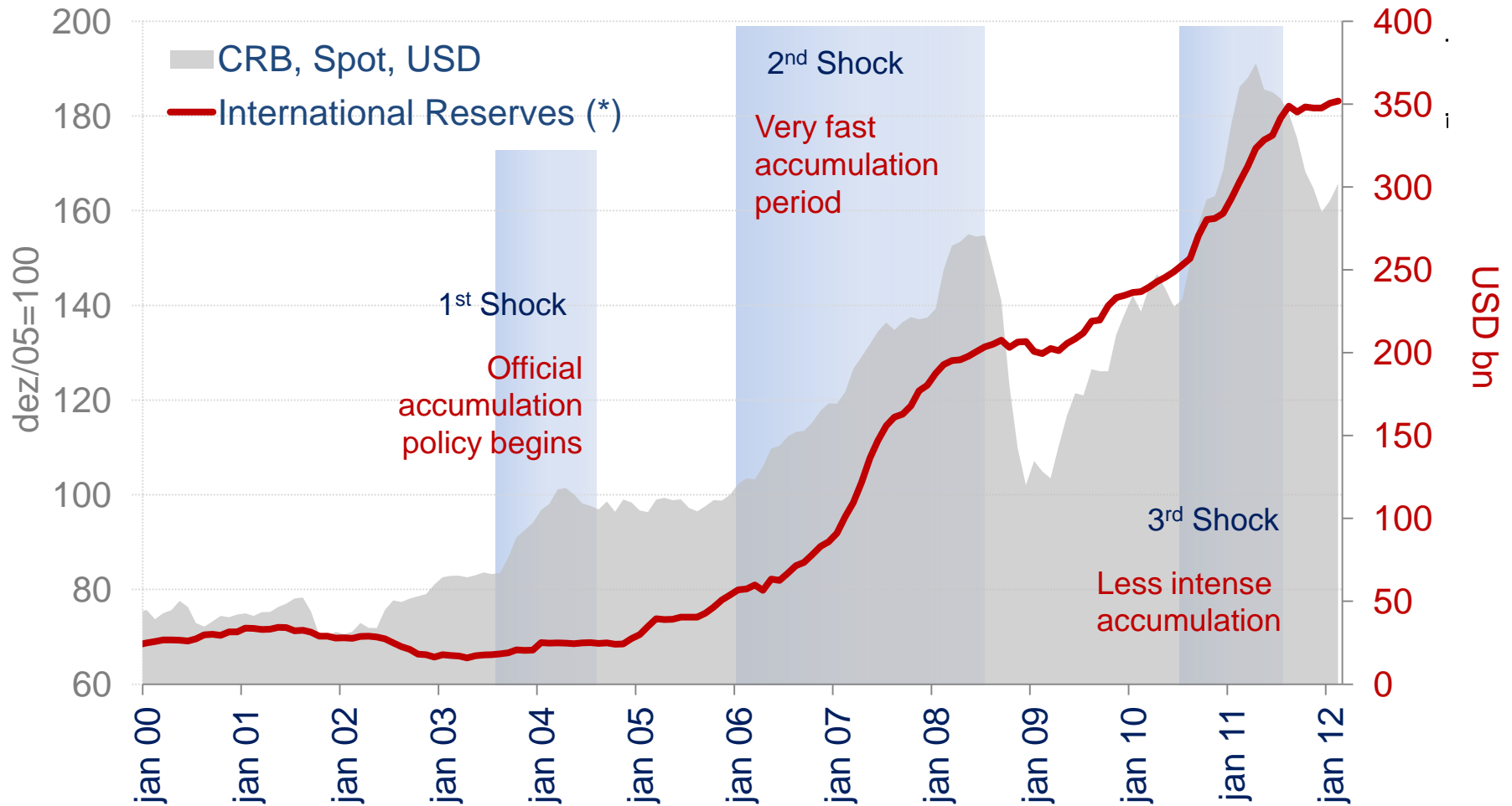
---

- Fiscal Policy
- International Reserve Accumulation
- Exchange Rate Appreciation
- Macroprudential Measures

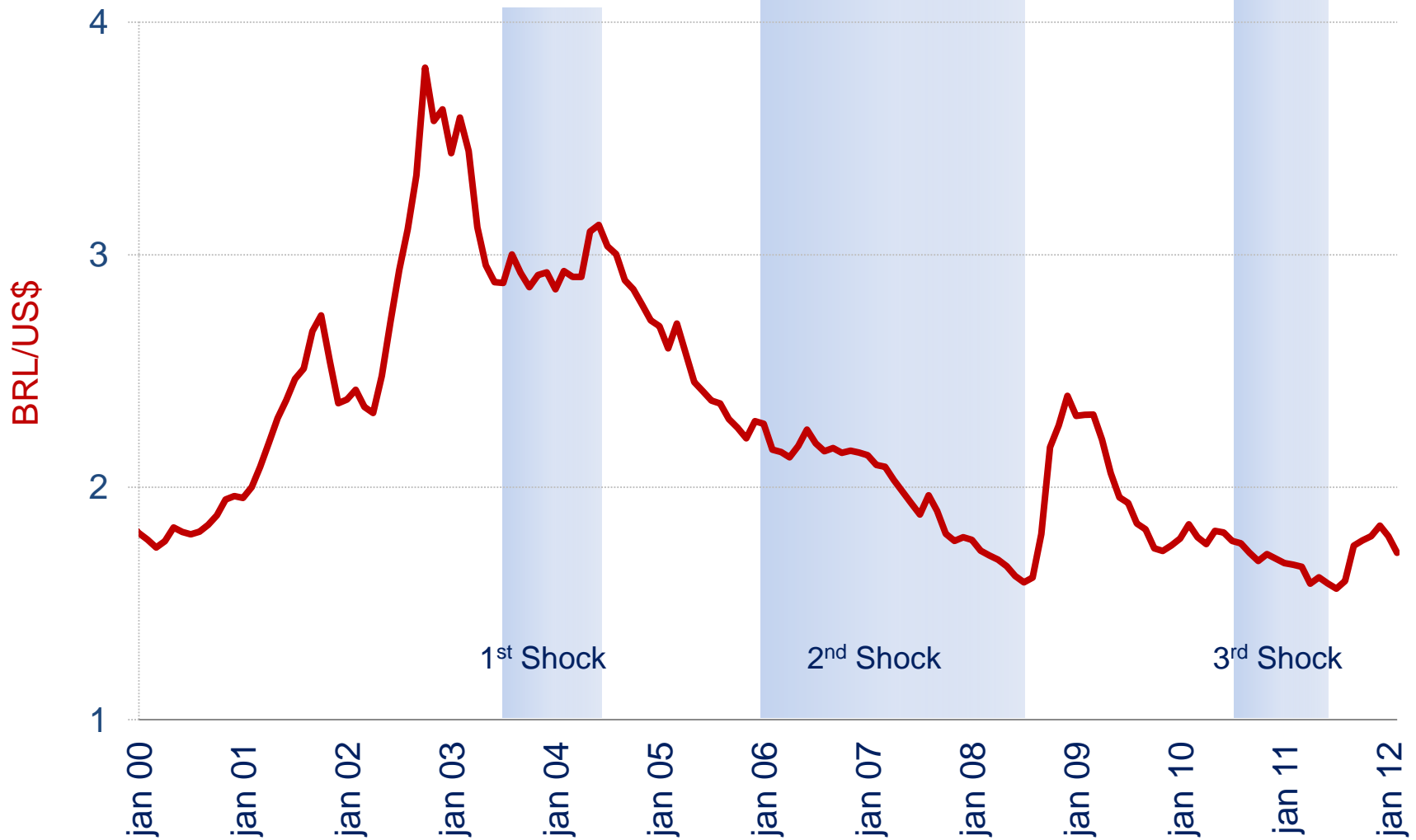
# Fiscal Policy



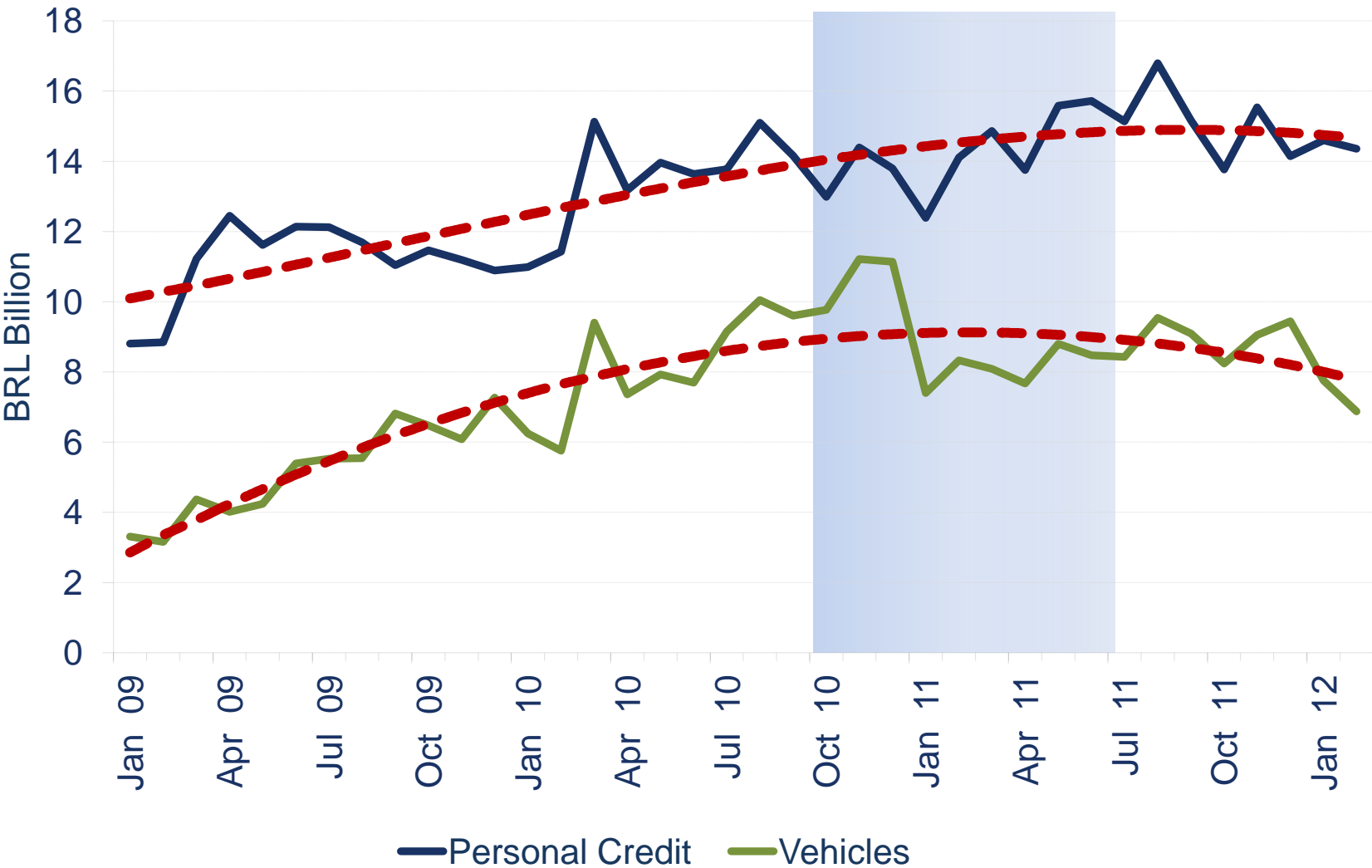
# International Reserves



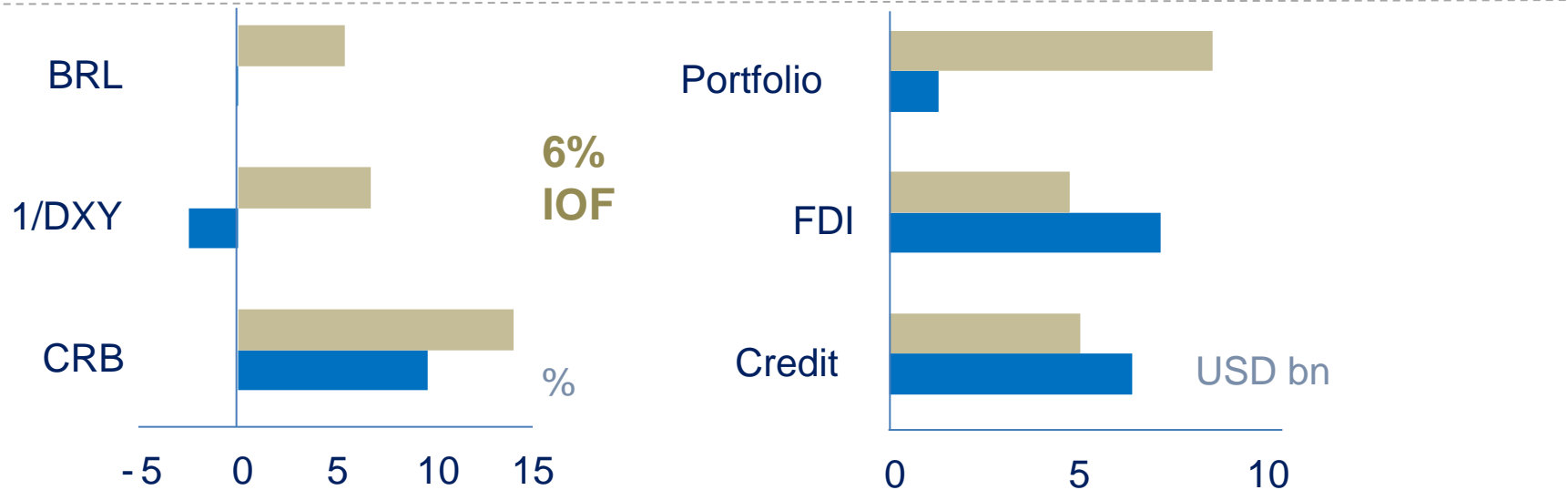
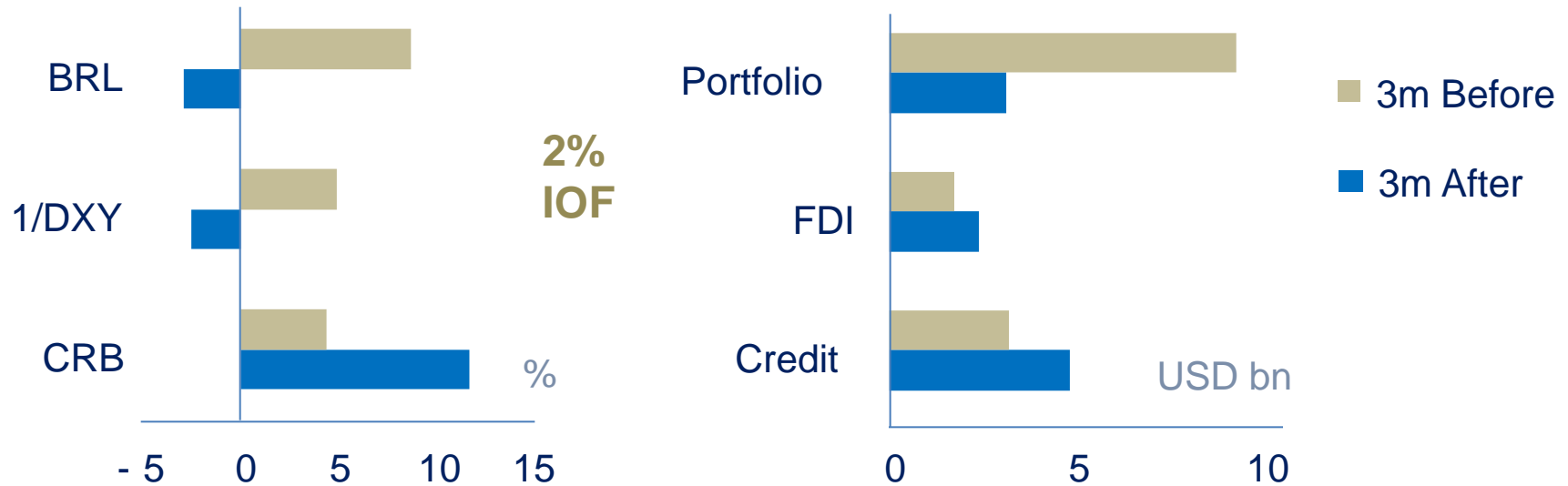
# Exchange Rate



# Macprudential - Credit



# Macprudential - Capital Flows



# Summary – Shocks Characterization

---

- In general, commodity shocks have represented a source of inflationary pressures and improved terms of trade
- These shocks have also been associated with high capital inflows and fast credit expansion

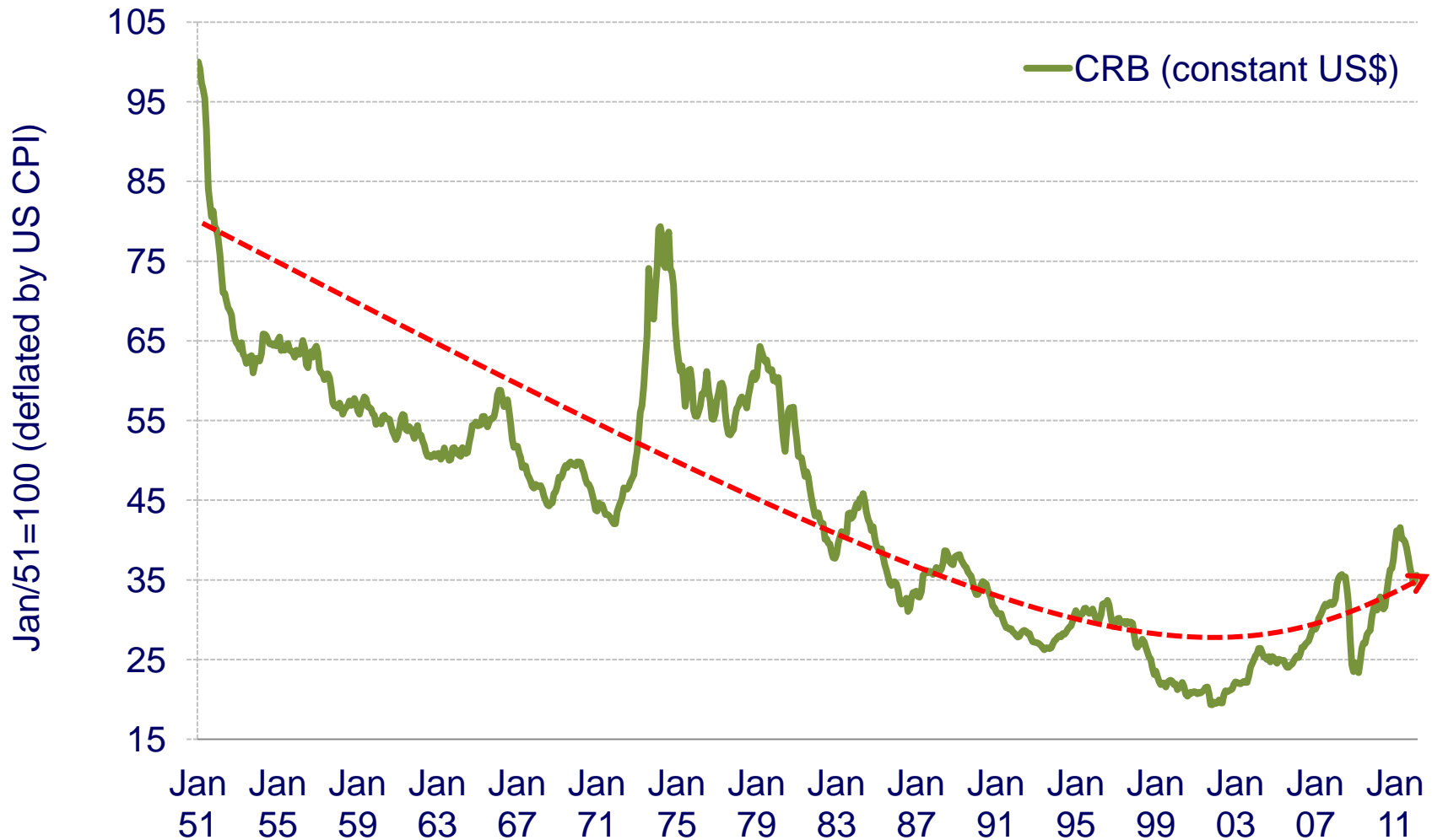


# Summary – Policy Responses

---

- 1<sup>st</sup> shock (2003/2004): The previous partial reversion of the exchange rate overshooting and tight fiscal stance helped monetary reaction.
- 2<sup>nd</sup> shock (2006/2008): The response encompassed exchange rate appreciation, international reserves accumulation and monetary reaction.
- 3<sup>rd</sup> shock (2010/2011): Excessive credit growth and short-term capital inflow, less scope for appreciation and reserve accumulation paved the way for the introduction of macroprudential measures, to complement fiscal and monetary actions.

# Commodity Prices in the Longer Run





# **Policy Responses to Commodity Price Movements – The Brazilian Experience**

**Carlos Hamilton Araújo**  
Istanbul, Turkey, April 7, 2012