Flash Brasil

El gobierno da pasos hacia la normalización de la política económica

Tanto el fracaso de las políticas económicas adoptadas en los últimos años para impulsar el crecimiento y mantener la inflación bajo control (reflejados, por ejemplo, en la reducción de la perspectiva del rating de Brasil desde estable a negativo por S&P) como la perspectiva de retirada de las políticas de estímulo en Estados Unidos han apoyado una cierta normalización de las políticas económicas en Brasil. Creemos que este proceso de normalización es positivo, pero no esperamos que el cambio hacia una política más ortodoxa sea de la magnitud necesaria para restaurar la credibilidad perdida en los últimos años.

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Government takes steps toward the normalization of economic policies

The failure of economic policies adopted in the last few years to drive growth up and keep inflation under control (reflected, for example, in the downgrade of Brazil's rating outlook from stable to negative by S&P) together with the prospects of reversal of expansive monetary policies in the US have been triggering some normalization of economic policies in Brazil. We regard this normalization process as positive, but we do not expect this rebalance toward more orthodox policies to be complete enough to restore the credibility lost in the last years.

- **Inflation is put on the spotlight and monetary policy is tightened…**

  The first step toward the adoption of more orthodox policies regards monetary policy. The Central Bank of Brazil (BCB) started to focus on (increasing) inflationary risks and downplayed concerns about low domestic growth and the external environment. The change in the tone was accompanied by action: the monetary authority hiked the SELIC rate by 25bps in April and by 50bps and in May. Moreover, we expect this tightening cycle to continue ahead. The BCB's focus on domestic prices and the measures taken to prevent inflation from running out of control contrast with the tone and the actions adopted by the BCB since the middle of 2011 till very recently. In such period, an aggressive monetary easing was implemented (the SELIC went down from 12.50% to 7.25%) in spite of high inflation (5.9% on average).

- **…capital controls are eased.**

  At the beginning of June the government decided to cut the financial operations tax (IOF) to zero following the recent depreciation of the Brazilian real, which breached the ceiling of the 1.95 - 2.10 range it had been trading in the last few months. The Finance Minister Guido Mantega said that the government "observed a reduction in the international liquidity", that the Brazilian real (BRL) "has been heading toward a natural equilibrium" and that with the removal of the barriers "we are heading toward normality and a floating currency with less intervention." In addition, few days later, the government announced the removal of the 1% IOF tax on increases in USD short positions.

- **Adjustments in fiscal and credit policies are required for an effective normalization of economic policies.**

  In our opinion, both the focus of monetary policy on inflation and the unwinding of the measures adopted in the past few years to prevent the appreciation of the exchange rate are a consequence of i) the lack of success of (more heterodox) policies to support domestic activity and tackle inflation; and ii) the prospects for withdrawal of incentives by the Fed. The recent measures announced by Brazilian authorities could help the country to address some of the problems the country has been facing lately (especially inflation) and restore some of the credibility lost lately. Even though the government is sufficiently pragmatic to adjust its economic policies, we regard the actions taken by local policy-makers in the last weeks more as a way to calm financial markets than a sign of a genuine, long-lived commitment with orthodox policies. In addition, some policy-related issues remain unaddressed, such as the sharp growth in credit in public banks (which now accounts to practically 50% of the credit stock vs. 34% in 2007) and the expansive tone of fiscal policy (fiscal goals were eased and there is now more uncertainty regarding their fulfilling; see our most recent Brazil Economic Outlook for more on this issue). If these issues are not addressed, then the concerns regarding domestic policies (and, consequently, the doubts about economic performance) will persist and the risks related to the Fed' quantitative easing exit will increase.

For more on Brazil, **click here**

Enestor Dos Santos
enestor.dossantos@bbva.com
+34 639 82 72 11

BBVA | RESEARCH | Pº Castellana 81, Floor 7, 28046 Madrid | Tel.: +34 91 374 60 00 | www.bbvaresearch.com

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