



Banco Central do Brasil

Money Markets and Coordination with Monetary Policy: The Brazilian Experience

1st Regional Workshop in Developing Government Bond Markets in Latin America

Rio de Janeiro, June 2001



Monetary Policy in Brazil

- ❖ **Monetary Policy in an Inflation Targeting Framework**
- **July/1999: Implementing new Monetary Regime**
- **Floating exchange rate regime**
- **Declining inflation targets: 8% for 1999, 6% for 2000, 4% for 2001 and 3.5% for 2002, with $\pm 2\%$ tolerance interval**
- **Central Bank: operational independence , accountability and transparency**
- **Well-succeeded experience: Inflation in the targeted range in 1999 and in 2000**



Monetary Policy in Brazil

- ❖ Main instrument: target for the Selic rate (overnight rate for government bonds in the *Sistema Especial de Liquidação e Custódia*)
- Changes in Selic rate move the interest rate term structure;
- in consequence, affect inflation with a lag (transmission mechanisms of monetary policy → aggregate demand, exchange rate , expectations and credit channel)
- topic interventions to avoid volatility



Domestic Debt Management Policy

- ❖ Objectives for domestic debt management policy
- Maturity lengthening of National Treasury issues
- Increase the share of fixed-rate securities, and price-indexed long-term securities
- Gradually reduce the share of US dollar and overnight-indexed securities on total outstanding
- Reduce the borrowing costs for the government
- Expand the secondary market for government bonds



Domestic Debt Management Policy

❖ Brazilian “peculiarities”

- Approximately 38% of federal debt maturing in the next 12 months;
- low share of fixed-rate securities in total outstanding - domestic debt carries interest and exchange rate risks;

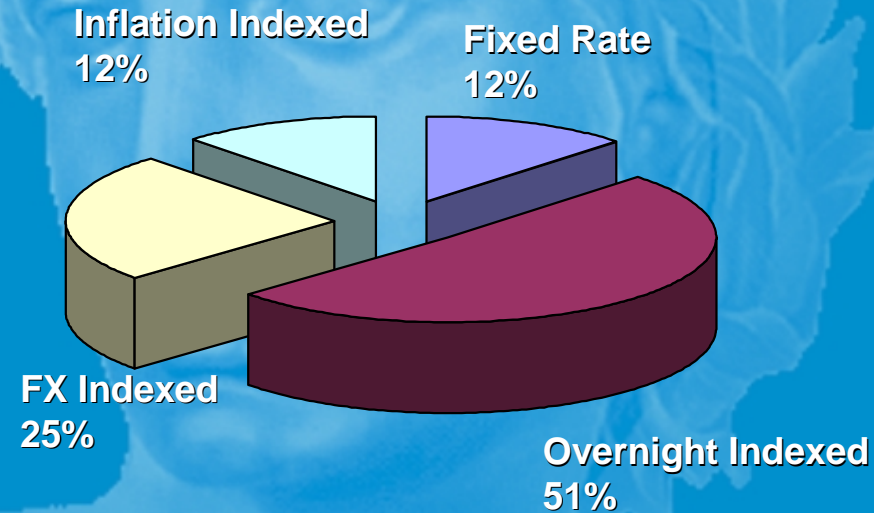
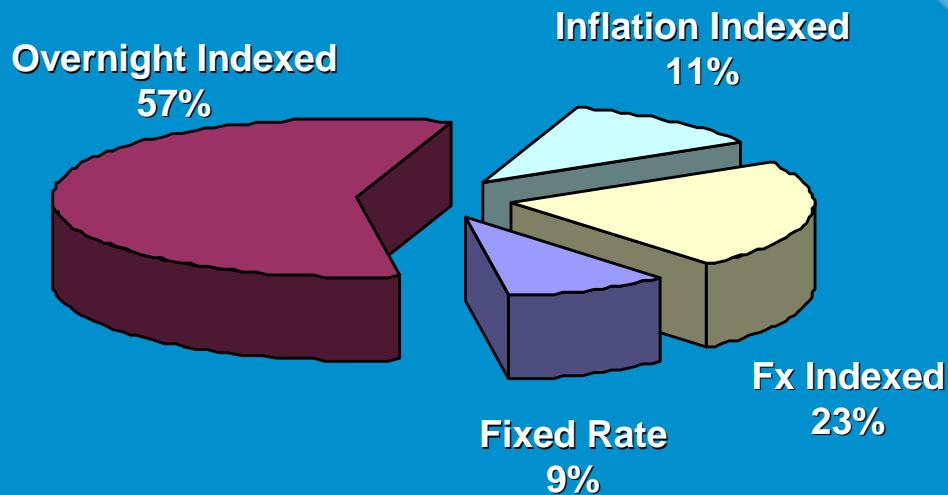


Domestic Debt Management Policy

- Gradual change in debt composition

December, 1999

April, 2001

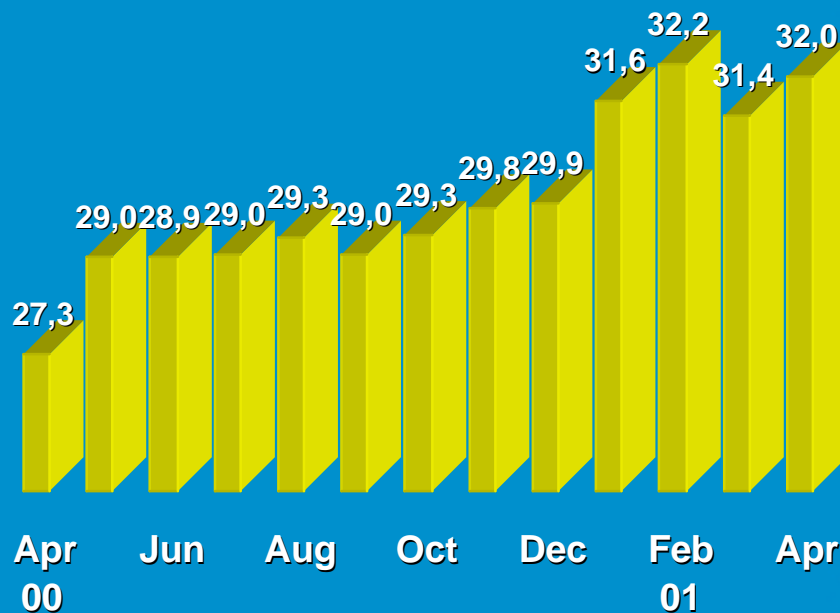




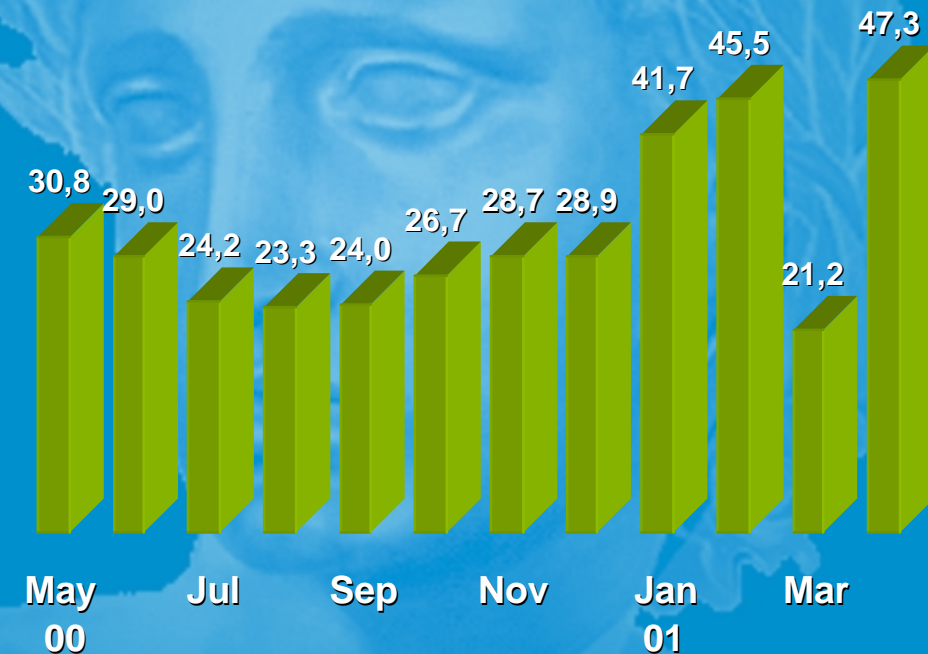
Domestic Debt Management Policy

❖ Lengthening of debt - total outstanding and new issues

Average Maturity - Public Debt



Average Maturity - New Public Bond Issues



In Number of Months



Money Markets

- ❖ **Money Markets - Objective is to manage short-term liquidity**
- **Unstable government cash flows due to government spending, revenues and debt redemption schedule**
- **Net position of the government affects liquidity;**
- **Central Bank operates on daily basis through daily “auctions” to manage liquidity;**
- **Initiatives to foster money market instruments (repurchase agreements, securities lending, new payments system)**



Coordination with Treasury

❖ Weekly meetings to co-ordinate strategy regarding:

- structure of redemptions
- liquidity outlook
- market conditions in relation to type of securities, maturities and volumes
- Treasury cash-flow → Central Bank acts as the payments agent of the Treasury
- Final decision always from the Treasury