BUFF/16/73

October 27, 2016

Statement by the Staff Representative on Brazil
Executive Board Meeting
October 31, 2016

1. **This note reports on information that has become available since the staff report (SM/16/291) was issued and does not alter the thrust of the staff appraisal.**

- The constitutional amendment that limits the annual growth of federal primary spending to inflation in the previous year has passed by a wide margin the first and second votes in the lower house of Congress. The amendment will now go to the Senate, where it must be voted twice.

- High-frequency data suggest economic activity continued to contract in the third quarter. In particular, the central bank's monthly activity index (a good proxy for GDP) fell sharply in August (0.9 percent m/m), driven by a sharp drop in retail sales, industrial output, and services activity.

- Headline 12-month inflation decelerated to 8.3 percent in mid-October (compared to 8.8 percent in mid-September), with a print of 0.19 percent m/m. The median market forecast for annual inflation in 2017 fell to 5 percent on October 21, and is now 0.5 percentage points above the central bank's target of 4.5 percent.

- The central bank lowered the policy rate by 25 bps to 14 percent in its October Monetary Policy meeting, citing declines since the last policy meeting in inflation, inflation expectations, and the central bank's own inflation forecasts in the constant-policy-rate scenario. The central bank signaled that further easing of monetary conditions would be gradual and moderate.

- Petrobras announced a new pricing policy for gasoline and diesel at the refinery gate, and lowered these prices slightly. According to the new policy, fuel prices will be updated monthly based on changes in international prices, exchange rates, transportation margins, and domestic market conditions, and will not be allowed to fall below import parity.

- Moody's upgraded all ratings, from B3 to B2, of Petrobras and those based on Petrobras' guarantees, including the company's senior unsecured debt and corporate family rating, citing lower liquidity risk and improved prospects for operational performance in the medium term.