

Chicago Booth School of Business

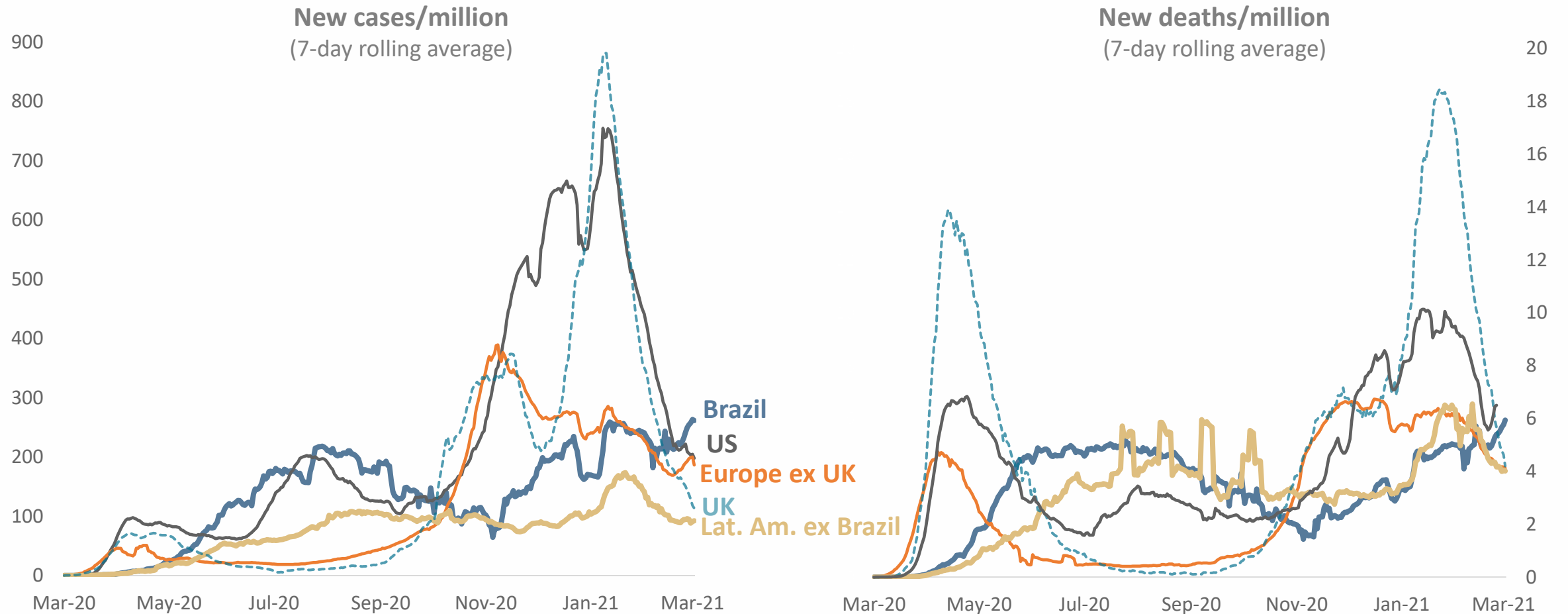
Central Banking in Brazil in Times of Covid

Roberto Campos Neto

Governor of Banco Central do Brasil

- Pandemic
- Global Economy
- Measures to face the crisis in Brazil
- The Brazilian outlook
- Technology and sustainability agendas
- Vision for the future

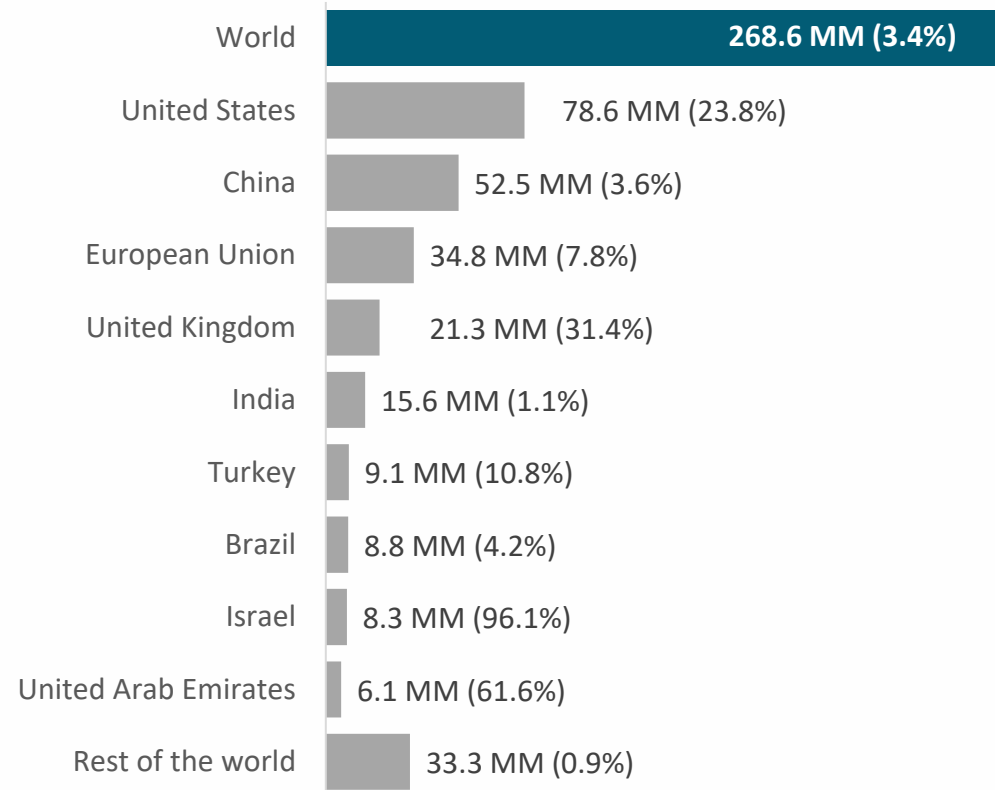
New cases and deaths falling in UK and US.



Source: Our World in Data. Last data available: Mar 03, 2021.

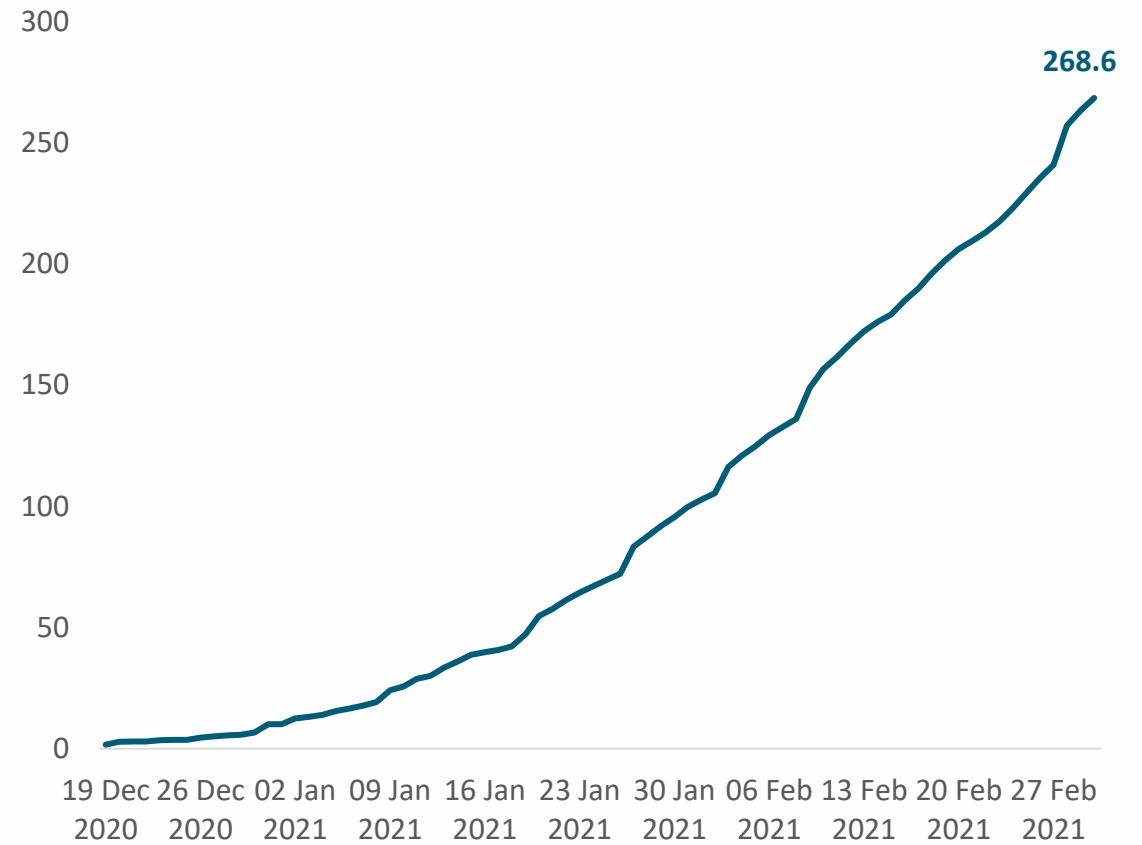
The biggest vaccination campaign in history

Millions of administered doses
(in millions and in % of population*)



Note: * The number of administered doses is less than or equal to the number of people vaccinated. In some countries, some people have already taken the second dose. Therefore, the percentage in relation to the population should be understood as "maximum percentage of the vaccinated population".

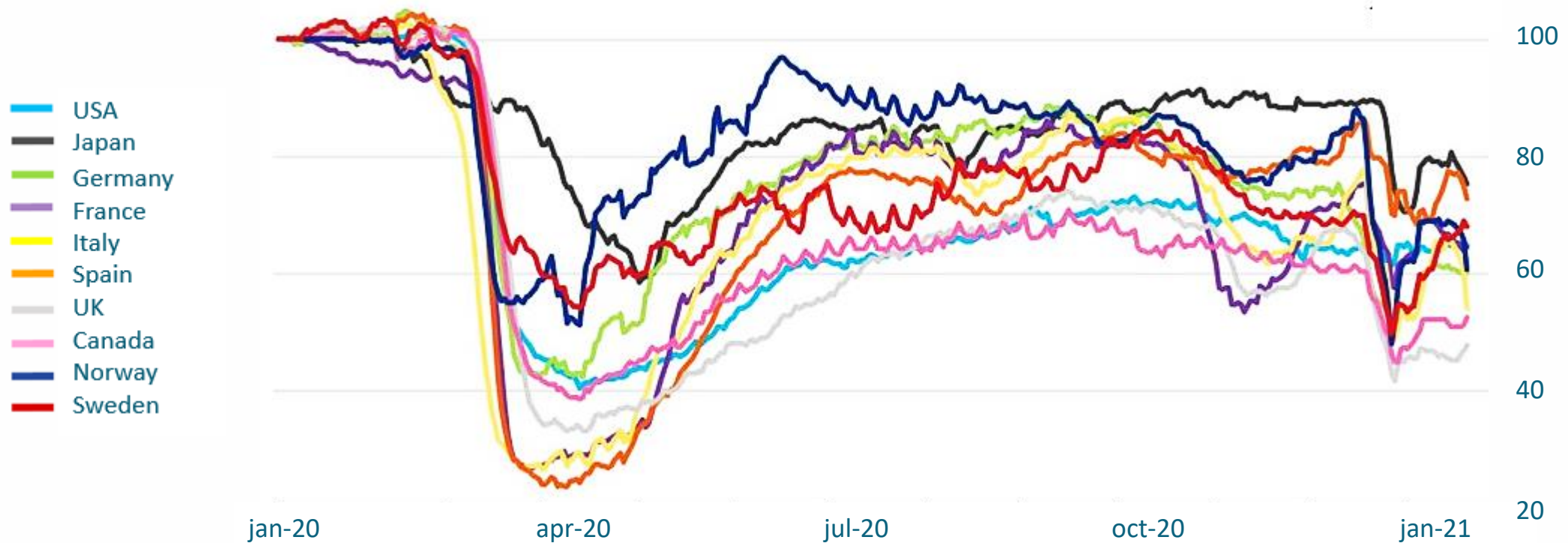
Global evolution
(millions of administered doses)



Source: Our World in Data, information until 2021, Mar 03, 2021

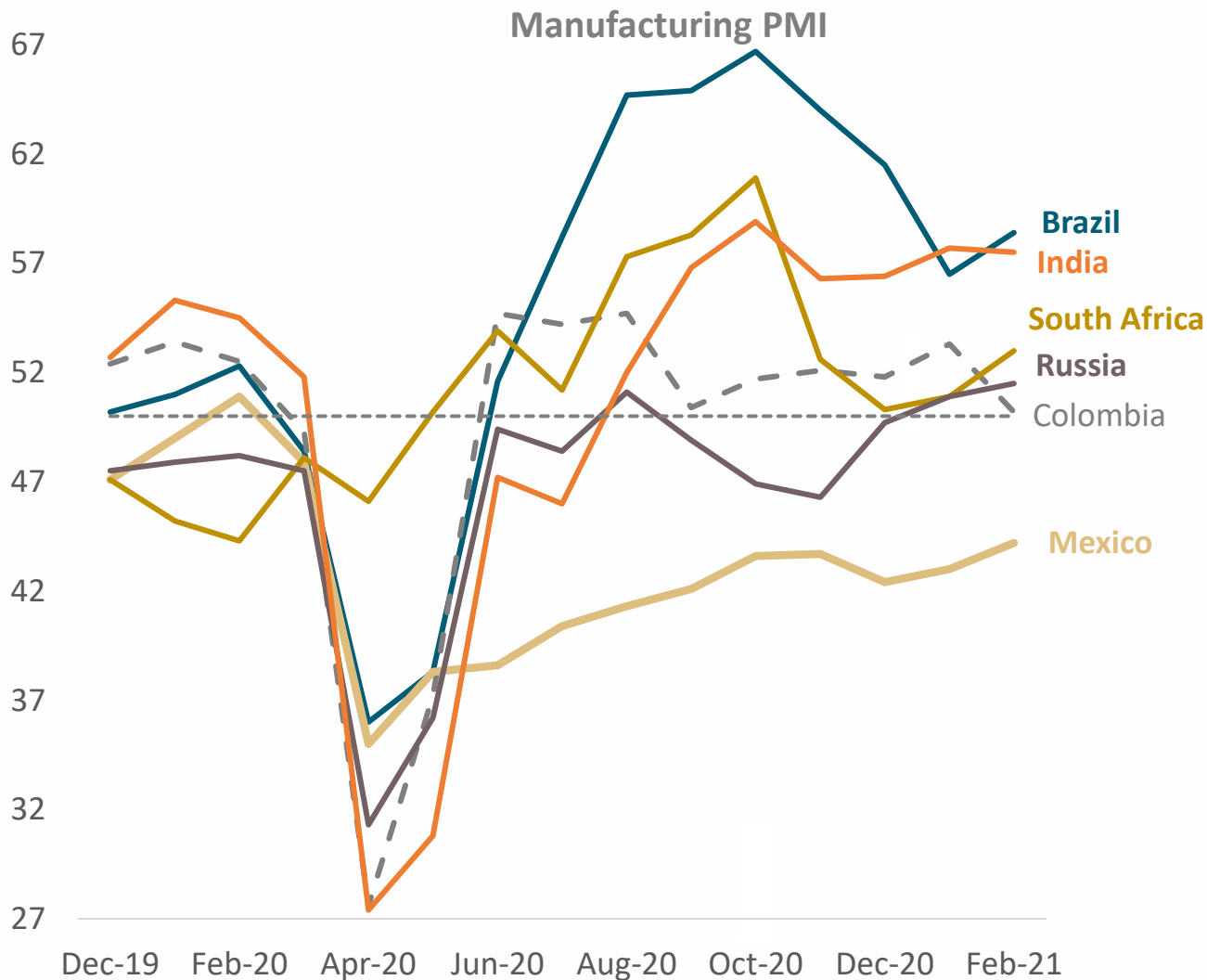
Economic activity is off to a slow start of the year

Activity index
(per country*)

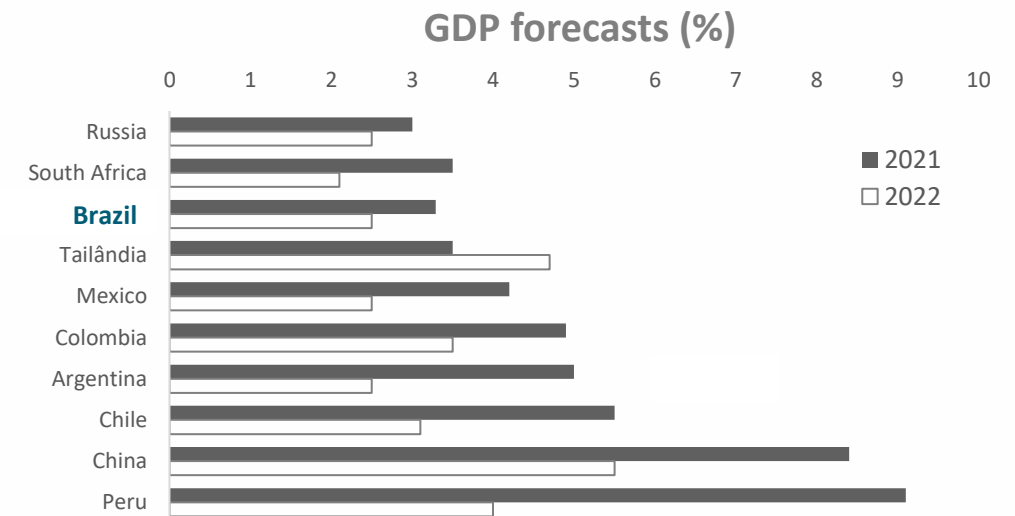
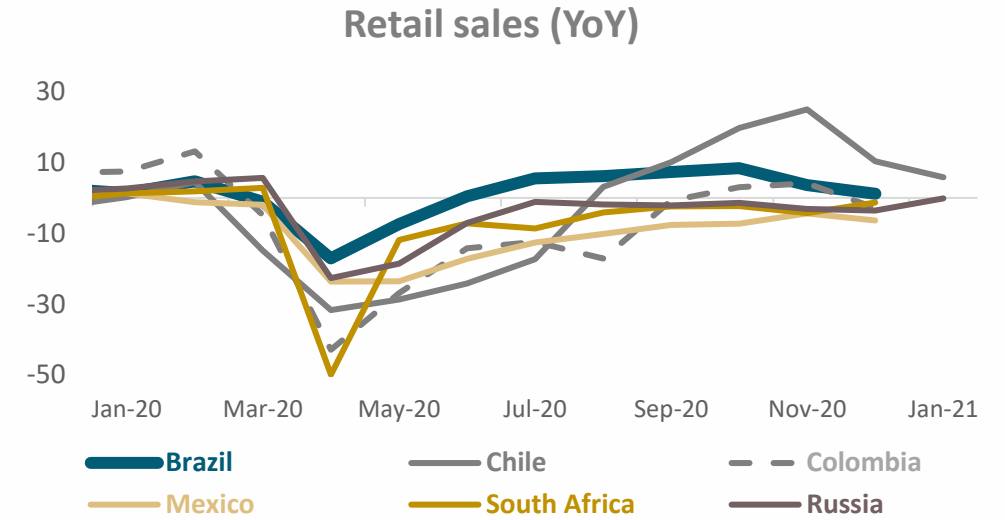


Source: Bloomberg

* 01/08/2020 = 100

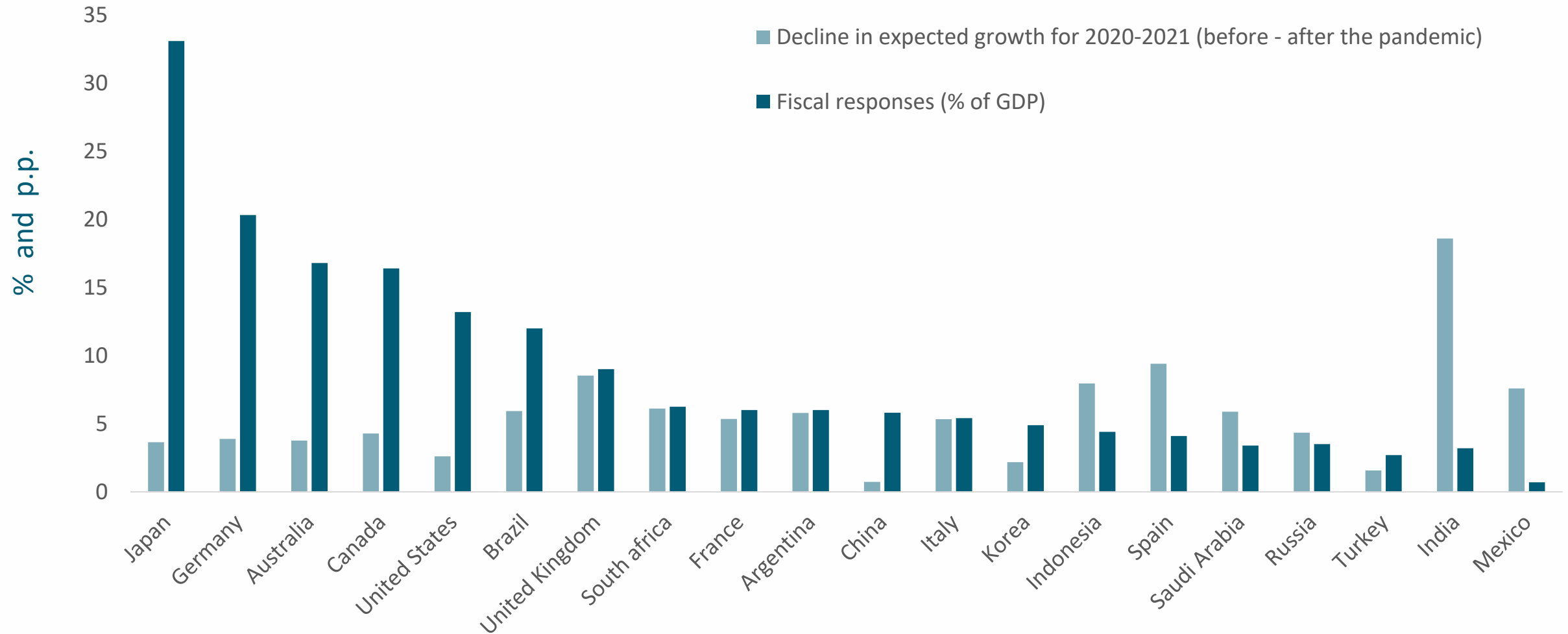


Sources: ABSA and Markit.



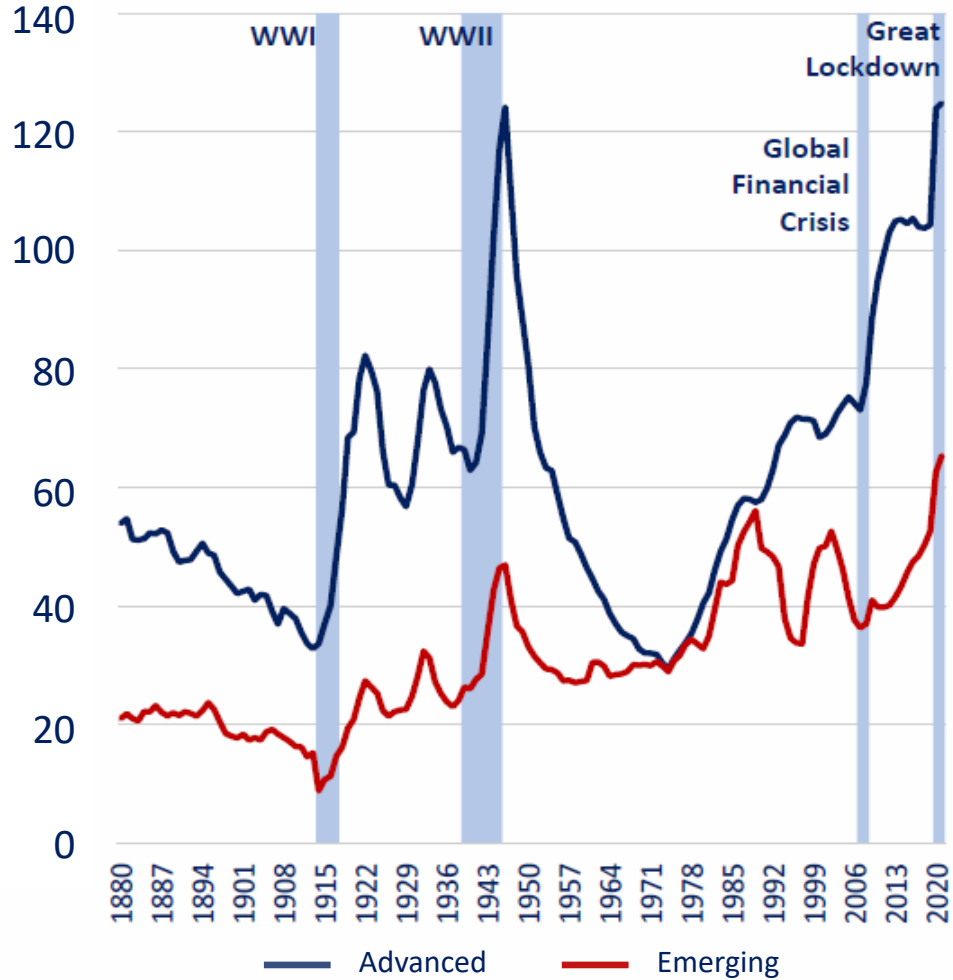
Sources: Bloomberg and Focus Report.

Fiscal response versus GDP

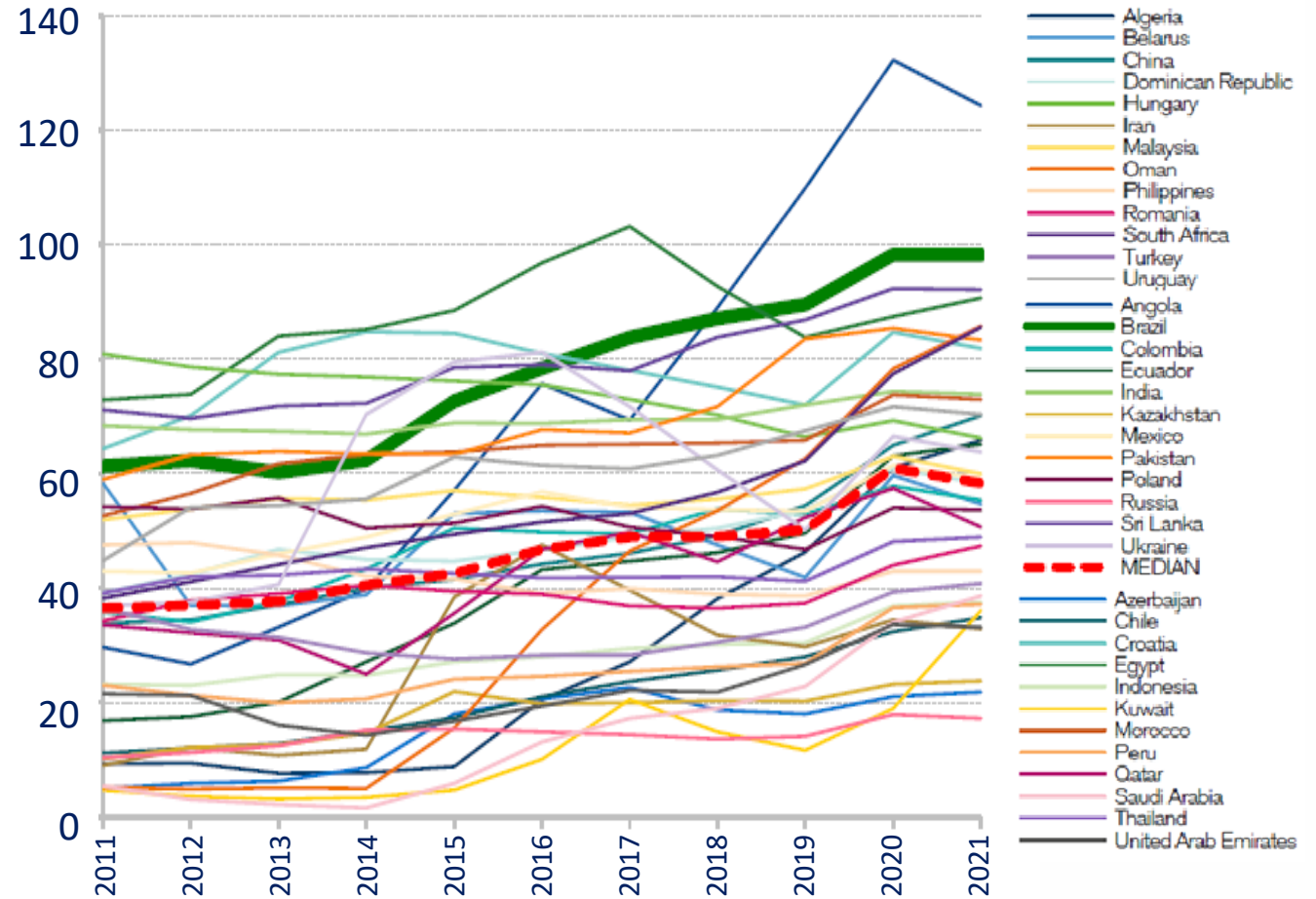


Sources: FMI, Bloomberg, Focus Report for Brazilian GDP. Last updated in Mar 2, 2021.

Historical pattern of general government debt (% of GDP)



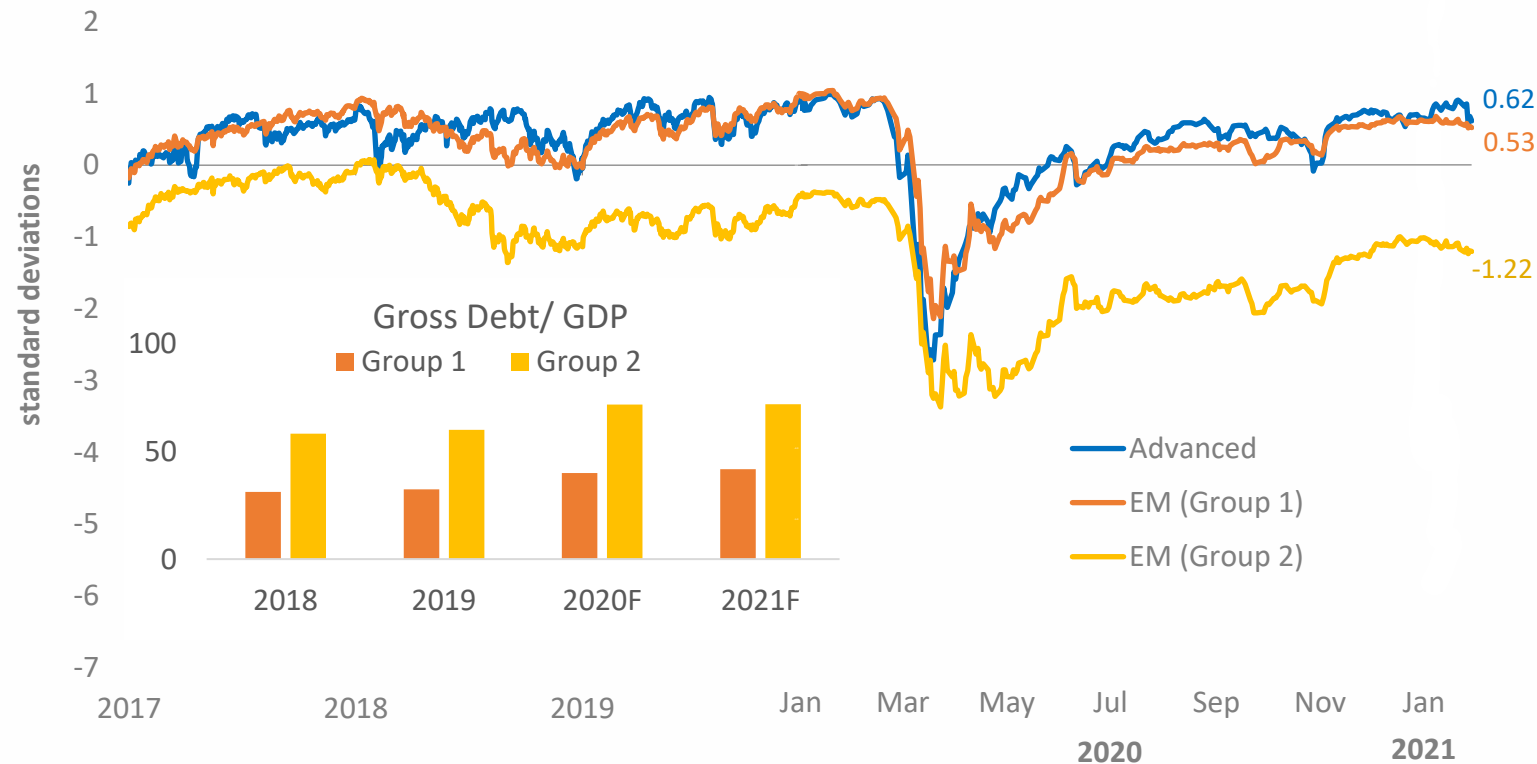
Gross Debt – emerging markets (% of GDP)



Sources: FMI Fiscal Monitor oct/20 and oct/19, Credit-Suisse, BCB.

Smaller risk appetite for emerging economies with weaker economic fundamentals remains.

Risk Appetite



EME Group 1:

Malaysia, Indonesia, Chile, and Russia.

Gross Debt/GDP (average 2020) = 40%

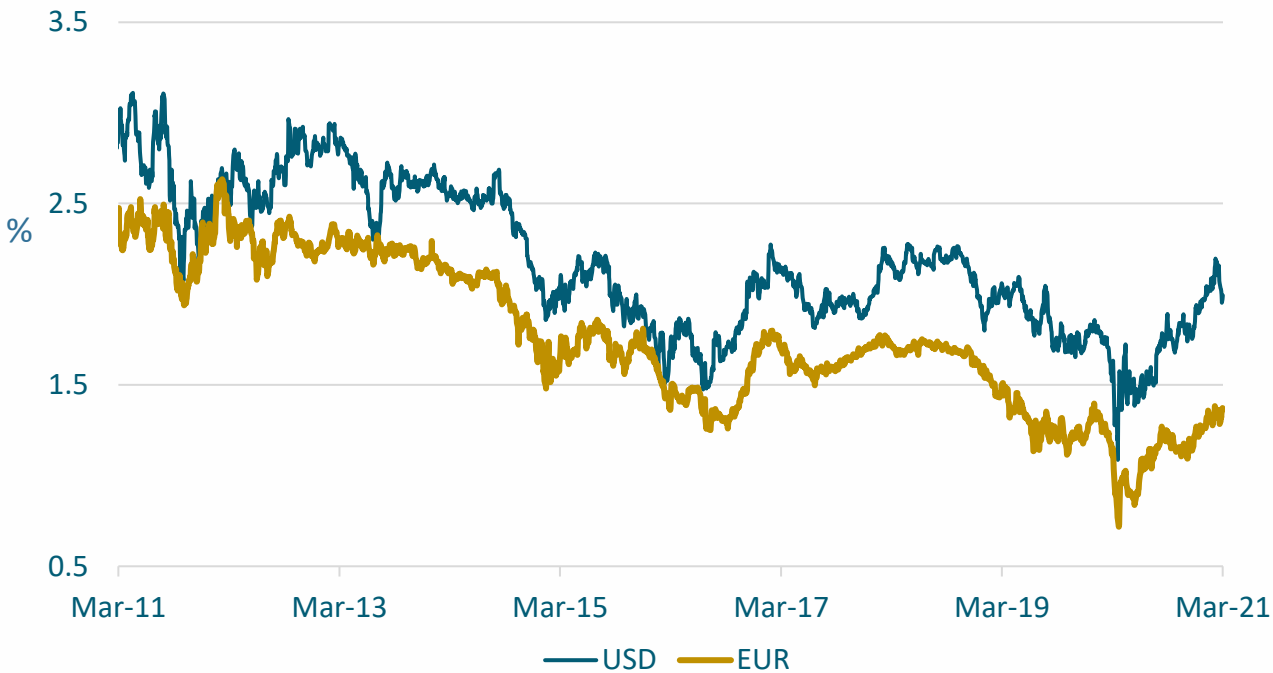
EME Group 2:

Brazil, South Africa, Turkey, Colombia, Mexico, and India.

Gross Debt/GDP (average 2020) = 71.7%

Reflation trade – Bigger move in the US compared to AEs in Europe

5-year implicit inflation



Source: Bloomberg

Commodity price index – CRB



US 10-year yield (%)

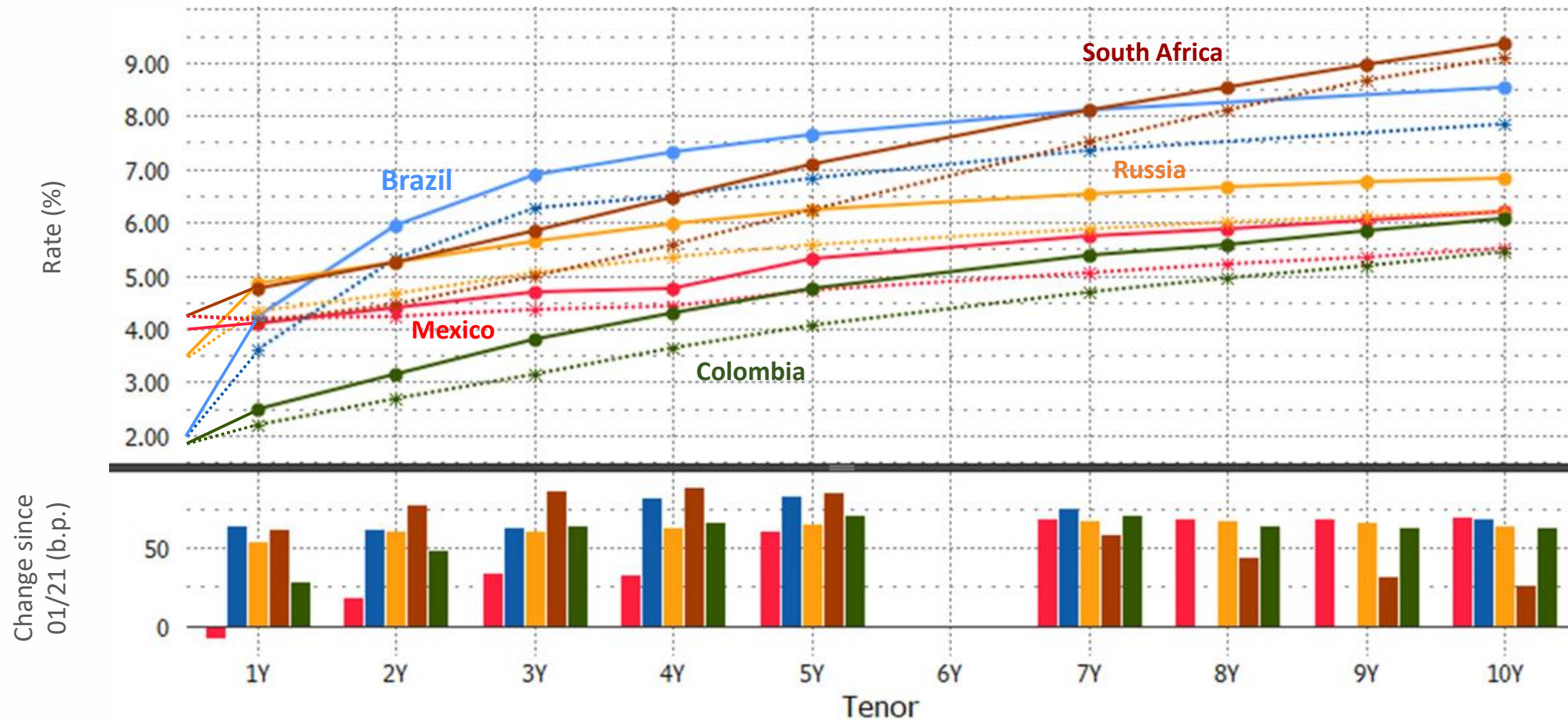


MONETARY POLICY PRICING						
Region/Country	Real Rate (%)	Nominal Rate (%)	2/26/2021		Monetary policy rate interval since 2008 vs. current rate	
			last	Pricing 6M (b.p)		Pricing 1Y (b.p)
Americas						
United States	-1.15	0.13		+1	+2	
Canada	-0.40	0.25		+4	+11	
Mexico	1.07	4.00		-5	+20	
Chile	-2.40	0.50		+20	+90	
Brazil	-2.21	2.00		+219	+422	
Colombia	0.13	1.75		+9	+76	
EMEA						
Euro Zone	-0.24	-0.50		-1	-1	
United Kingdom	0.54	0.10		+2	+5	
Russia	-0.65	4.25		+76	+105	
South Africa	-0.41	3.50		+25	+87	
Turkey	2.09	17.00		-128	-92	
Asia/Pacific						
Australia	-0.59	0.10		+3	+8	
New Zealand	-1.17	0.25		+2	+11	
Japan	1.16	-0.10		-3	-2	
China	3.64	2.20		+46	+57	
India	-0.56	4.00		+34	+73	
Korea	-0.02	0.50		+2	+28	

* ex-post annual rates

Upward shift in the yield curves

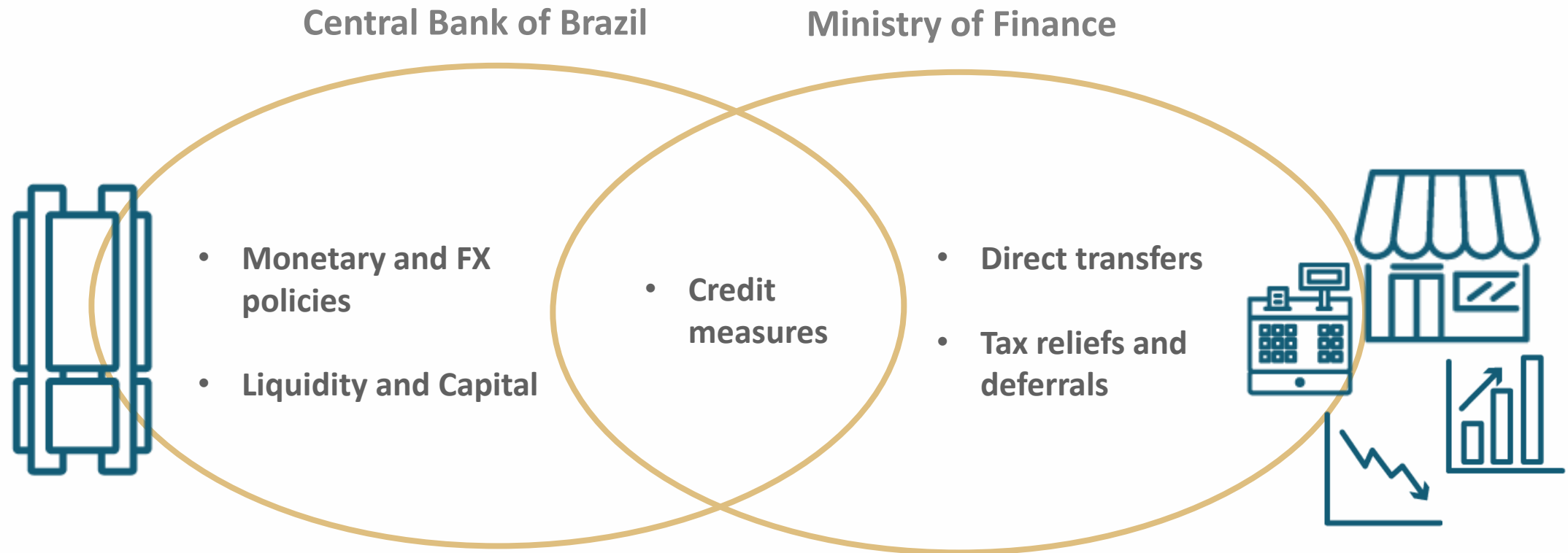
Yield curves



Brazil: unprecedented shock to the real economy and financial intermediation

1. The BCB acted promptly to stabilize financial and credit markets.
 - The credibility of monetary and fiscal policies was essential for the success of the stabilization strategy.
2. The Brazilian banking sector was and remains well capitalized.
3. Strong demand for liquidity across the economy and the financial system.
 - The BCB injected unprecedented liquidity.
4. Congress gave the BCB new tools, allowing it to intervene in capital markets and make direct purchases of financial assets.

Central Bank of Brazil and Ministry of Finance measures



Measures impact's

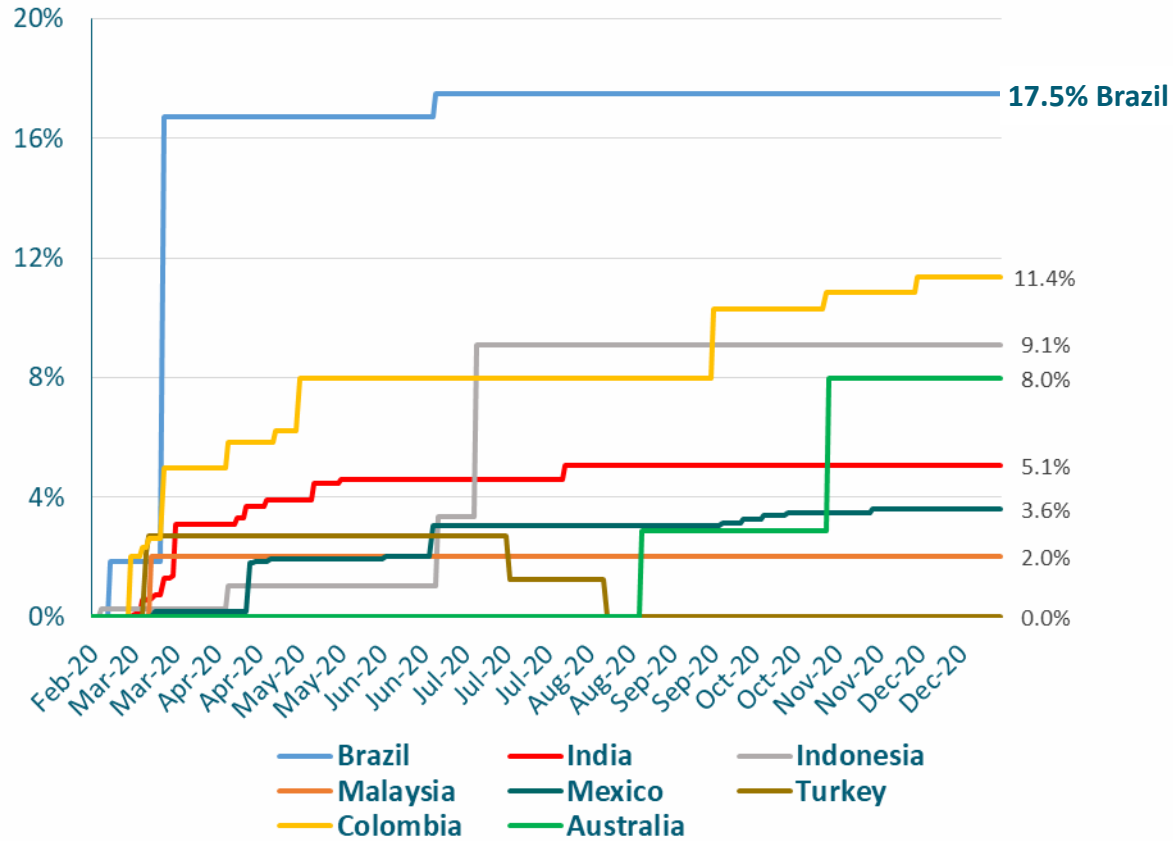
Measure	2020		2008
	Potential	Implemented	
Liquidity support			
Reserve requirements + change in LCR regulation	R\$ 135 bn	R\$ 135 bn	–
Additional reduction in reserve requirements	R\$ 70 bn	R\$ 70 bn	R\$ 82 bn
More flexibility on LCA regulation	R\$ 2.2 bn	R\$ 2.2 bn	–
Loan backed by LFs guaranteed by credit operations	R\$ 670 bn	R\$ 105.1 bn	–
One-year term repos backed by federal govnt. Bonds	R\$ 50 bn	R\$ 23.2 bn	R\$ 25 bn
New Term Deposit with Special Guarantees (NDPGE)	R\$ 200 bn	R\$ 24.2 bn	R\$ 10 bn
Loans backed by debentures	R\$ 91 bn	R\$ 3 bn	–
Change in reserve requirements on savings deposits	R\$ 55.8 bn	R\$ 64.4 bn	–
Total	R\$ 1274 bn	R\$ 427.1 bn	R\$ 117 bn
Capital Relief ¹			
<i>Overhedge</i>	R\$ 520 bn	R\$ 520 bn	–
Reduction of the Additional Principal Capital (ACP) factor	R\$ 637 bn	R\$ 637 bn	–
Reduction in the capital for credit operations for SMEs	R\$ 35 bn	R\$ 35 bn	–
Reduction in capital for S5 segment	R\$ 16.5 bn	R\$ 16.5 bn	–
Reduction in capital for DPGE exposures	R\$ 12.7 bn	R\$ 2.3 bn	–
Working capital for business preservation (CGPE)	R\$ 127 bn	R\$ 14.4 bn	–
Total	R\$ 1348.2 bn		–
More flexibility for credit renegotiations	*R\$ 3200 bn	R\$ 971.5 bn	–
Asset Purchases			
Asset purchases in secondary markets	N.D.	–	–
Other measures			
Swap lines with the Federal Reserve	US\$ 60 bn		US\$ 30 bn
Creation of special credit lines for SMEs	R\$ 40 bn	R\$ 8 bn	–
Real estate backed loans	R\$ 60 bn	–	–

¹ Potential impact on credit provision.

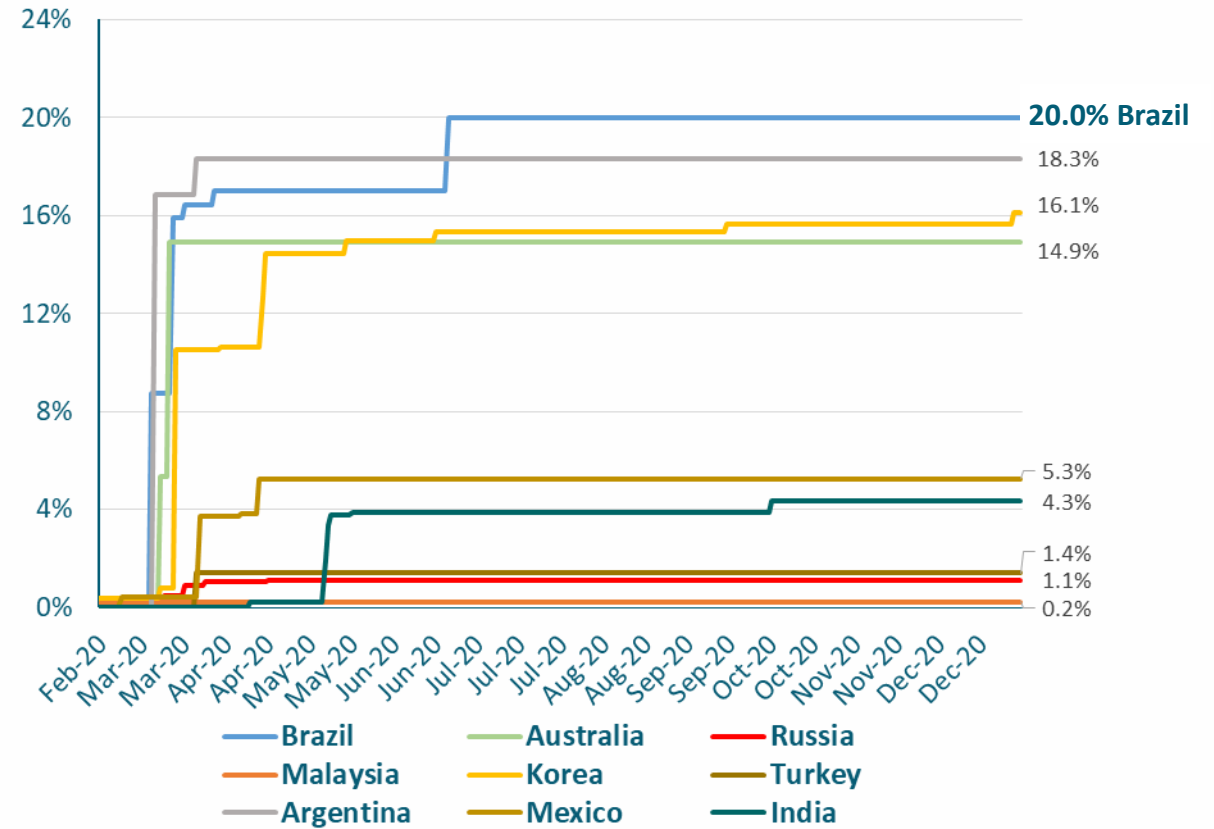
* Credit operations volume potentially benefited by the measure.

EMEs – Comparative overview of announced measures

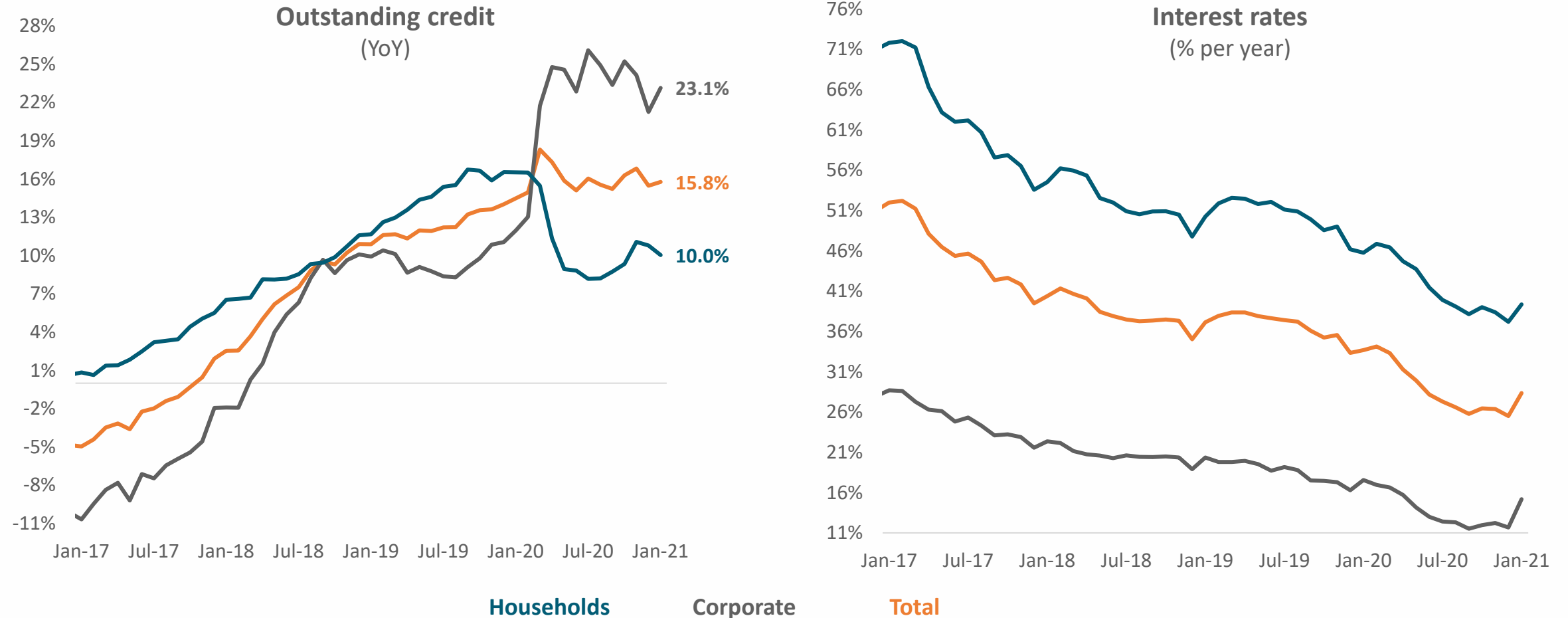
Liquidity Support (% of GDP)



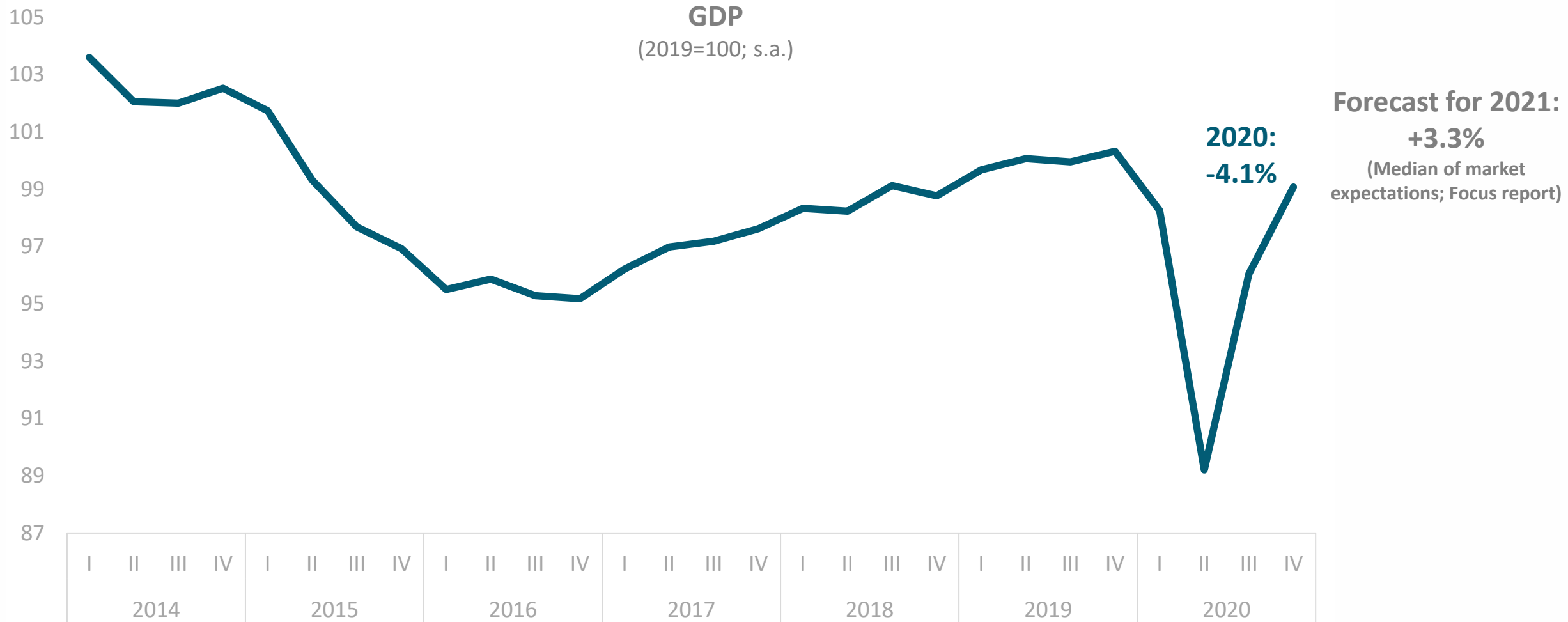
Credit Support (% of GDP)



Credit increase amid the crisis. Interest rates at historically low levels.



Source: BCB



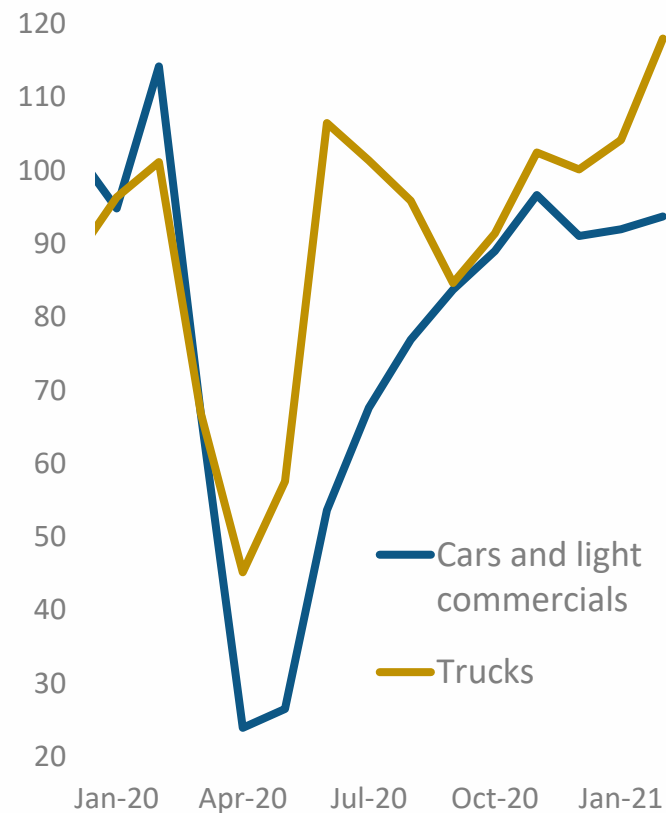
Electricity demand

(mm7d; 2019=100)



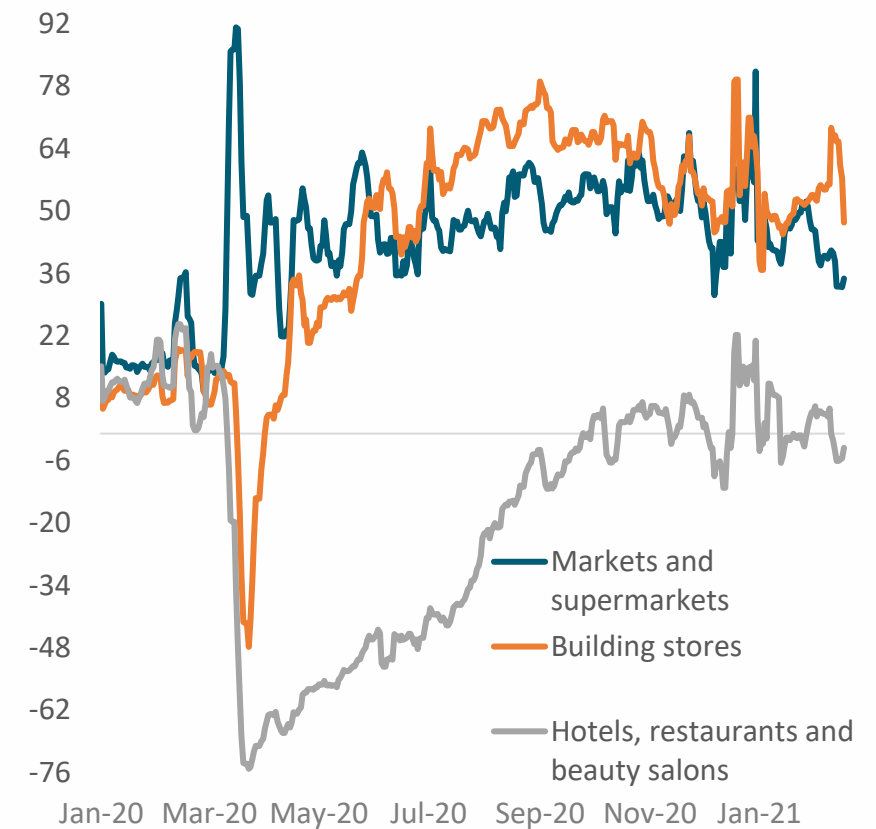
Vehicle sales

(2019=100; s.a.)



Debit card sales

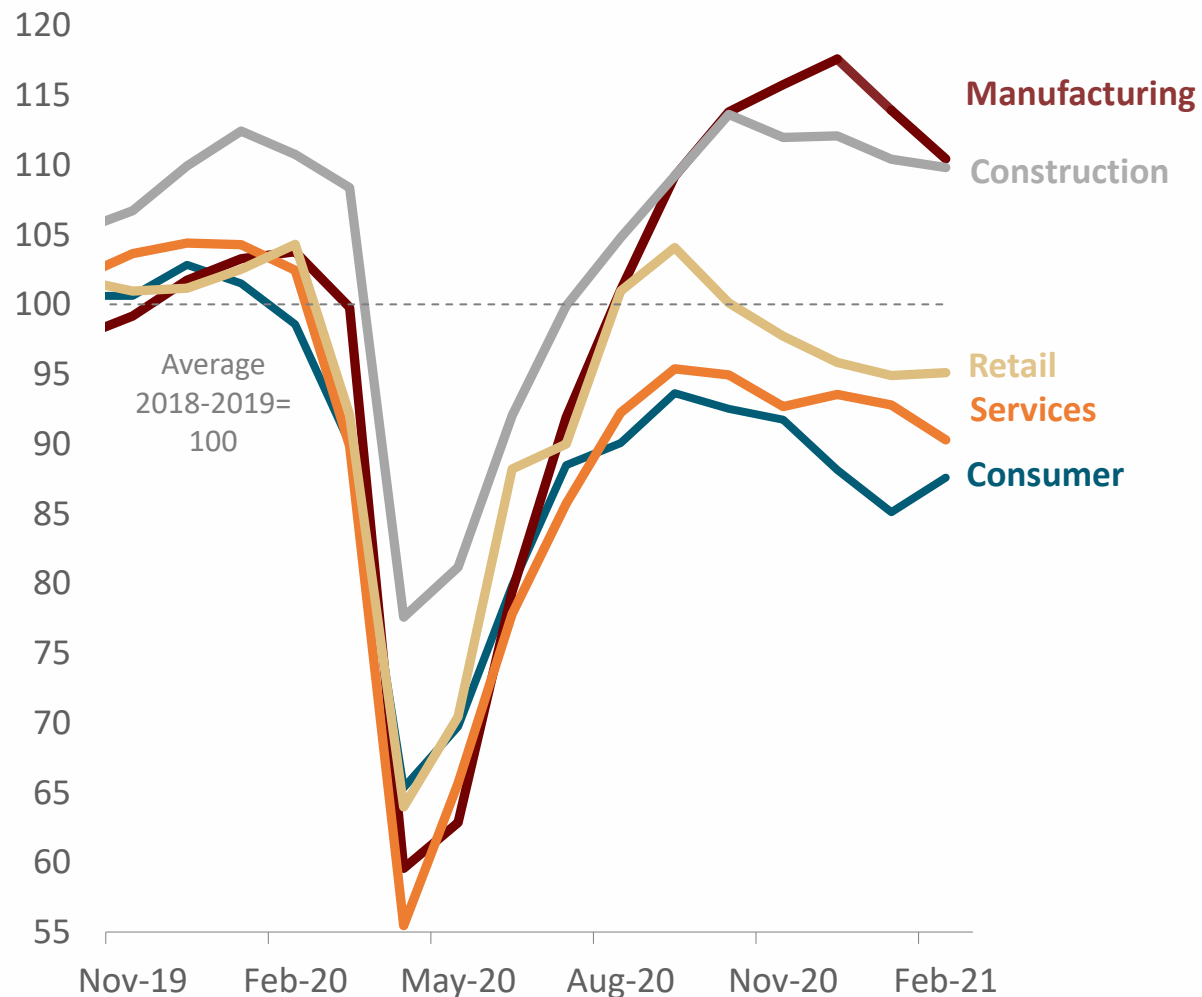
Selected sectors, Nominal values
YoY change, 7-day moving average



Sources: ONS, seasonally adjusted by BCB; Fenabrave.

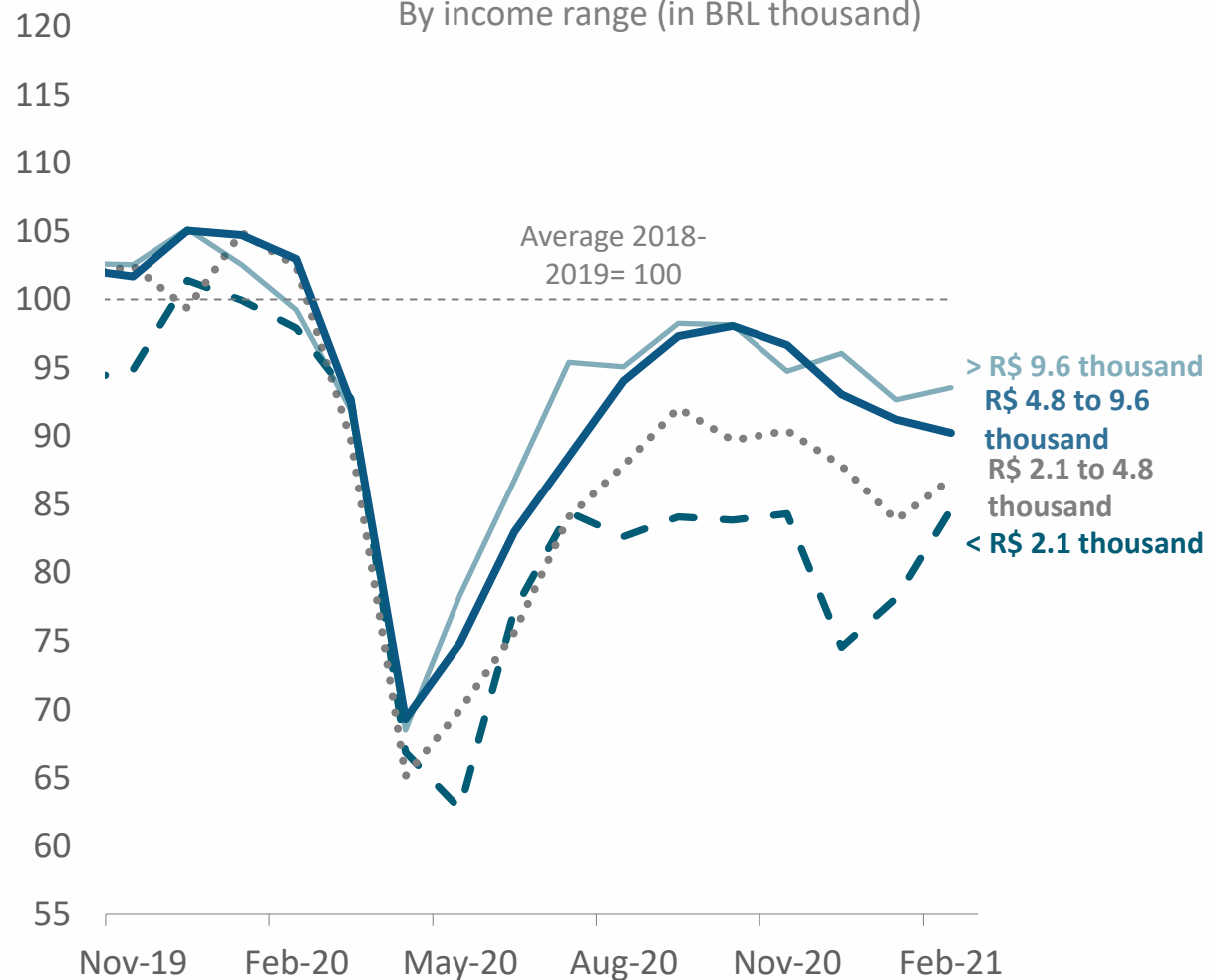
Source: Câmara Interbancária de Pagamentos (CIP)

Business confidence X consumer confidence



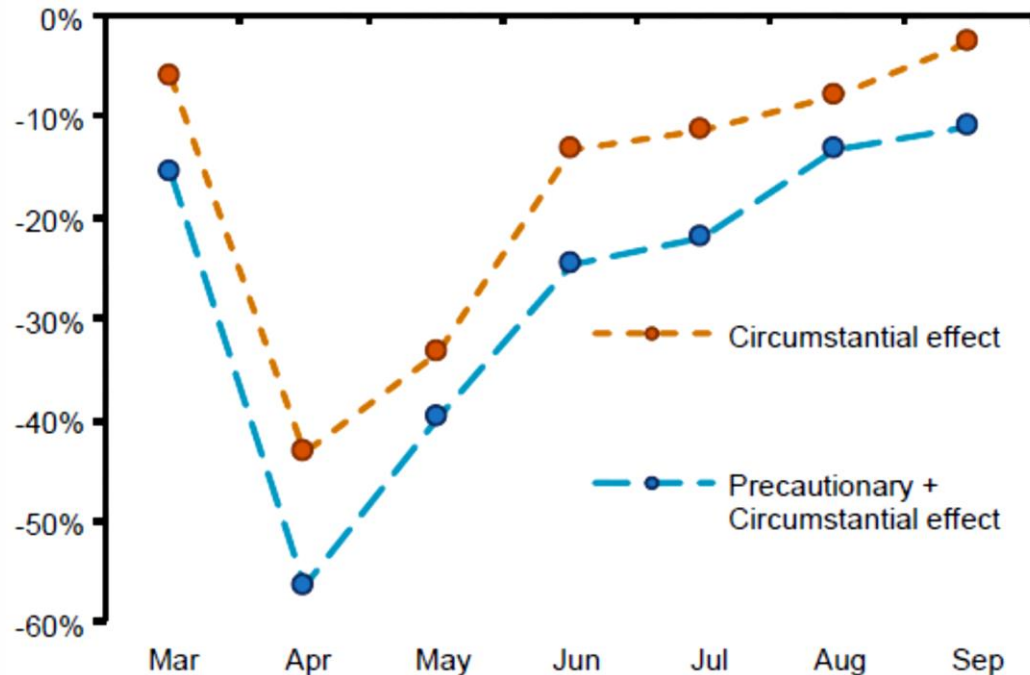
Consumer confidence

By income range (in BRL thousand)



Sources: FGV. Seasonally adjusted data.

Breakdown of circumstantial and precautionary effects



- **Circumstantial effect (CE):** direct result of restrictions imposed on economic activities and changes in behavior to mitigate exposure to the virus. Phase-out of this effect with vaccination;

- **Precautionary effect (PE):** resulting from the impact of the pandemic on economic activity (employment and future income) and may remain due to the usually slower adjustment of the labor market;

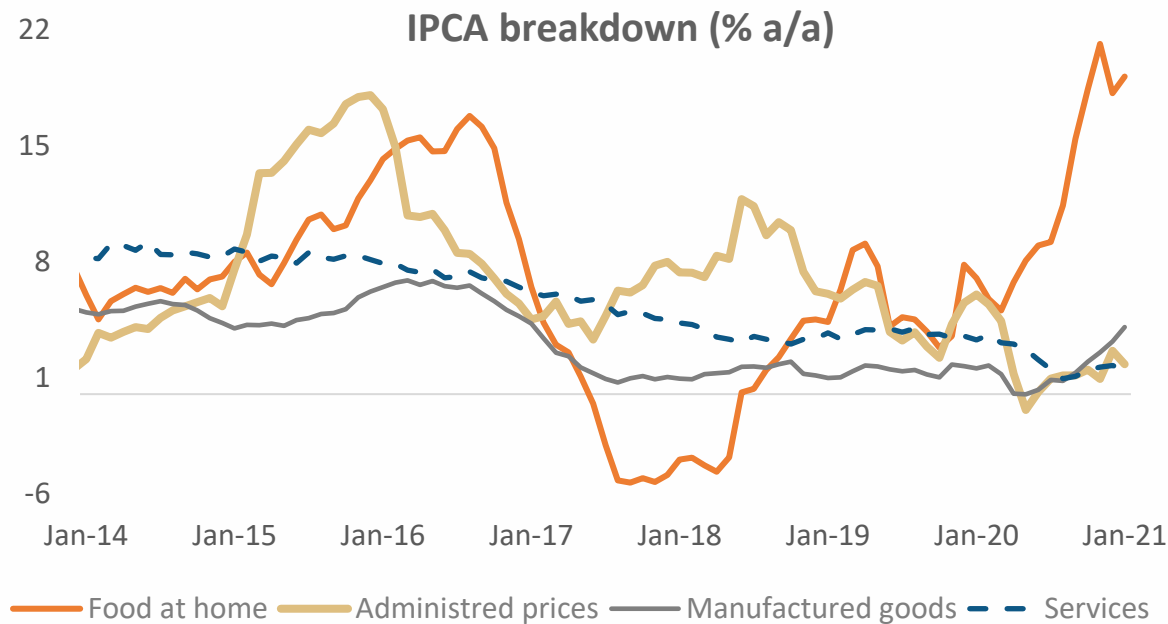
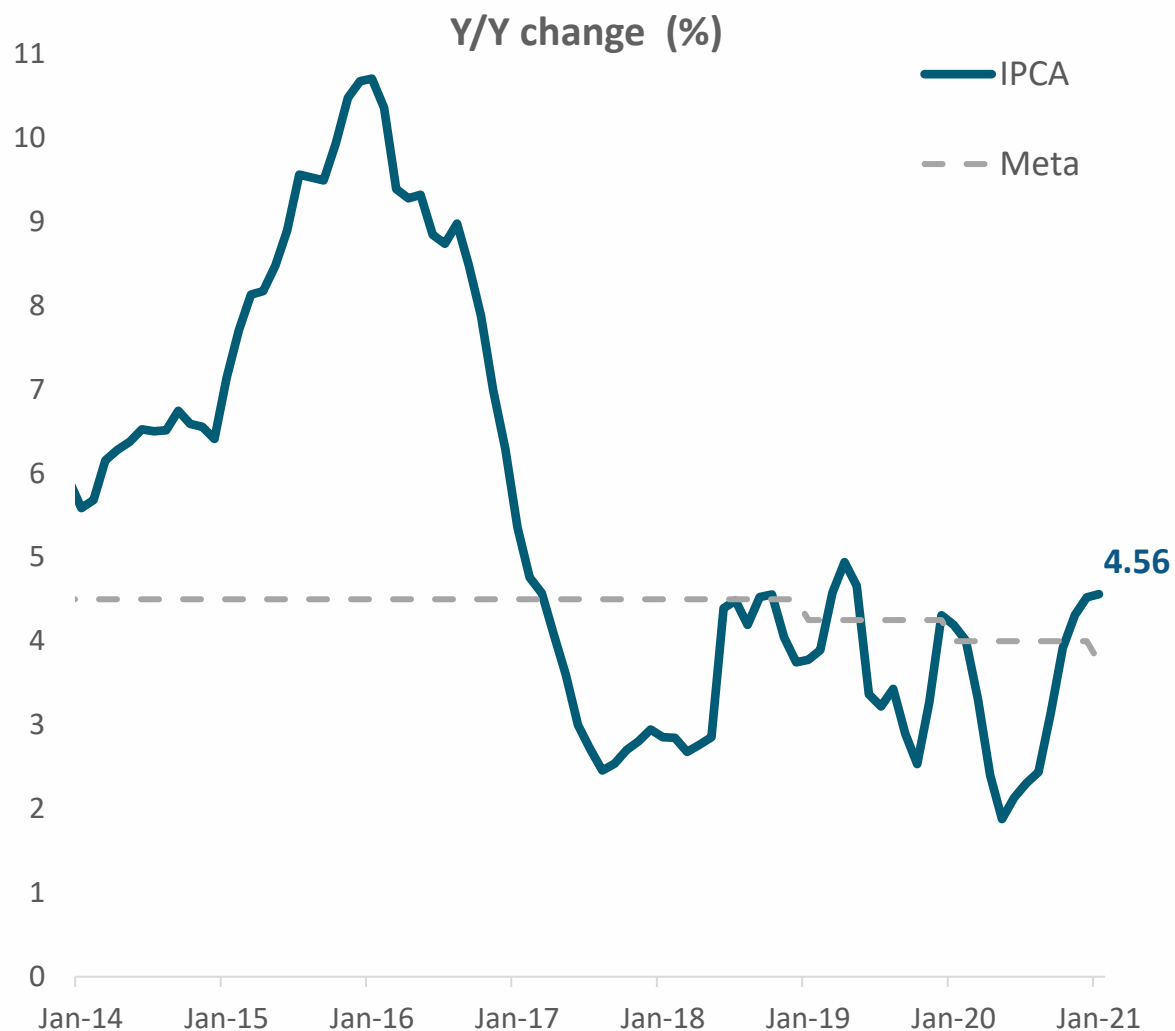
- Credit card and formal labor market data identifying that:

- Civil servants, due to employment stability, have been less affected by PE;
- Older workers most affected by CE.

- CE predominates with trough in April 2020;

- PE predominates marginally.

- Potentially relevant, given the lag in labor market adjustment.



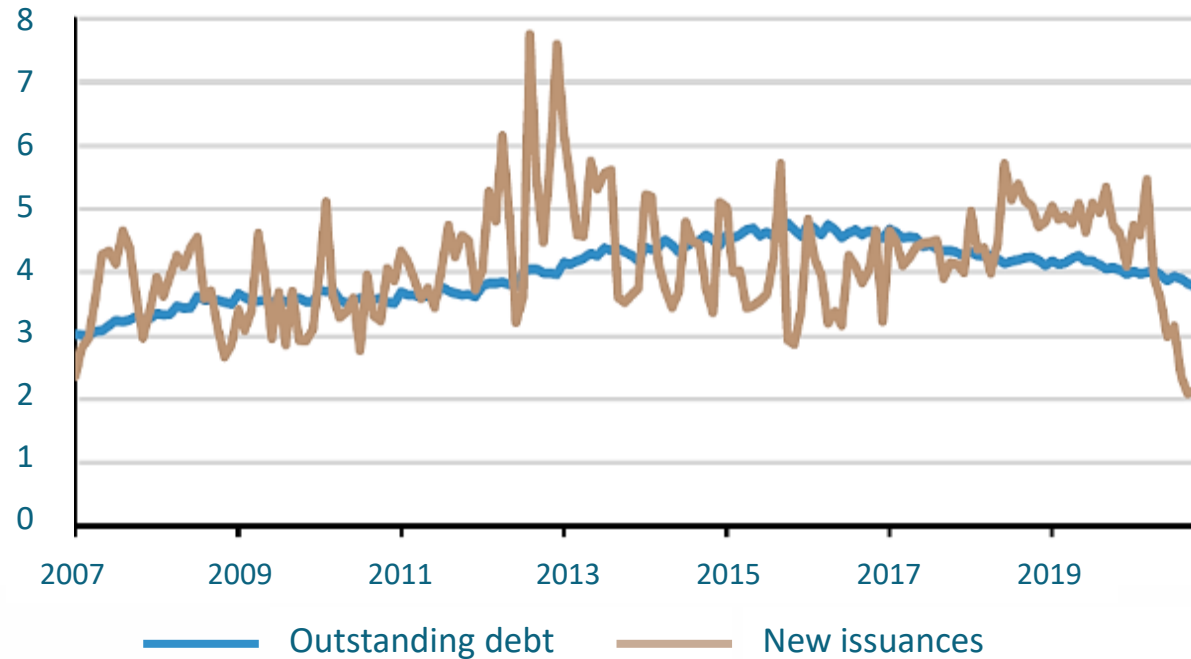
Market expectations (Focus)

In February 26, 2021

	2021	2022	2023
Inflation target (%)	3.75	3.50	3.25
Median of expectations (%)	3.87	3.50	3.25

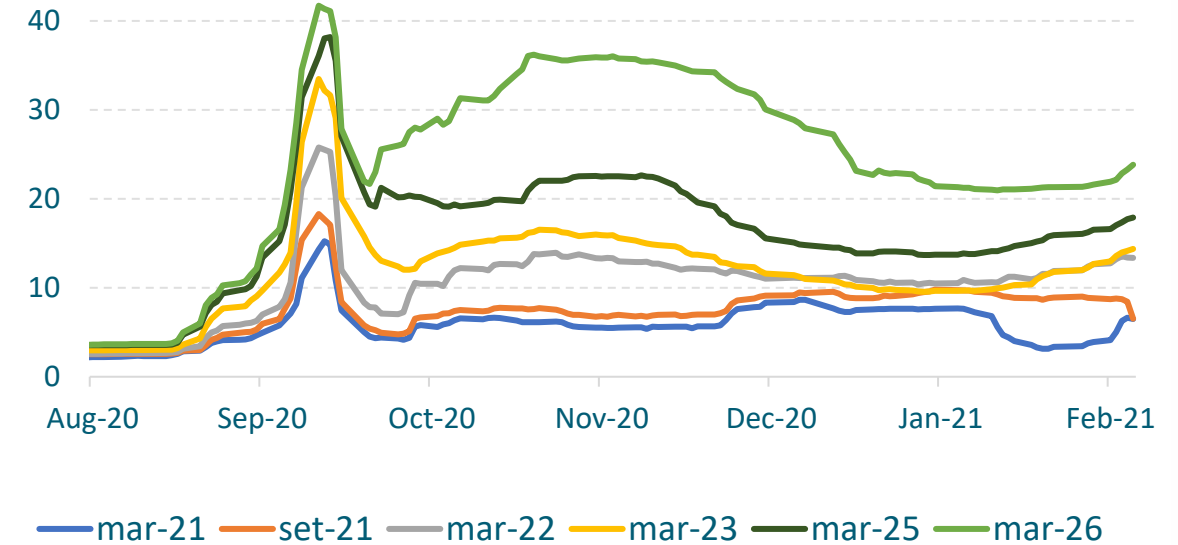
New issuances vs total outstanding debt average maturity

Average maturity
in years



LFT risk premium

bp



Source: STN, UBS.

236th Copom meeting statement

- In its 236th meeting, the Copom unanimously decided to maintain the Selic rate at 2.00% p.a.
- The Committee judges that this decision reflects its baseline scenario for prospective inflation, a higher-than-usual variance in the balance of risks, and it is consistent with the convergence of inflation to its target over the relevant horizon for monetary policy, which includes 2021 and, mainly, 2022.
- According to the forward guidance introduced in the 232nd meeting the Copom would not reduce the monetary stimulus as long as specified conditions were met. Based on new information, the Committee judges that those conditions no longer hold, as inflation expectations, as well as inflation projections for its baseline scenario, are sufficiently close to the inflation target over the relevant horizon for monetary policy. Therefore, the forward guidance no longer holds and, henceforth, monetary policy will follow the usual analysis of the balance of risks for the prospective inflation.
- The Copom reiterates that the removal of the forward guidance does not mechanically imply interest rates increases, since, at this moment, uncertainties regarding the evolution of growth still prescribe an extraordinarily strong monetary stimulus.



Technology Agenda

INCLUSION

- Cooperative credit
- Microcredit
- Currency convertibility
- Initiatives for capital market



COMPETITIVENESS

- Innovation
- Market efficiency
- International reserves



TRANSPARENCY

- Rural credit
- Housing credit
- Relationship with Congress
- Transparency of Monetary Policy
- Communication plan for BCB actions
- Relationship with foreign investors



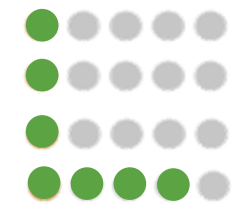
EDUCATION

- Financial education

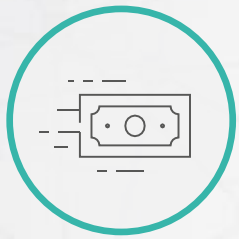



SUSTAINABILITY

- BCB's S&E responsibility
- Regulation
- Supervision
- Partnerships



Pix: The Brazilian Instant Payment



Speed



Availability



Safety



Convenience



Multiple features



Enriched data

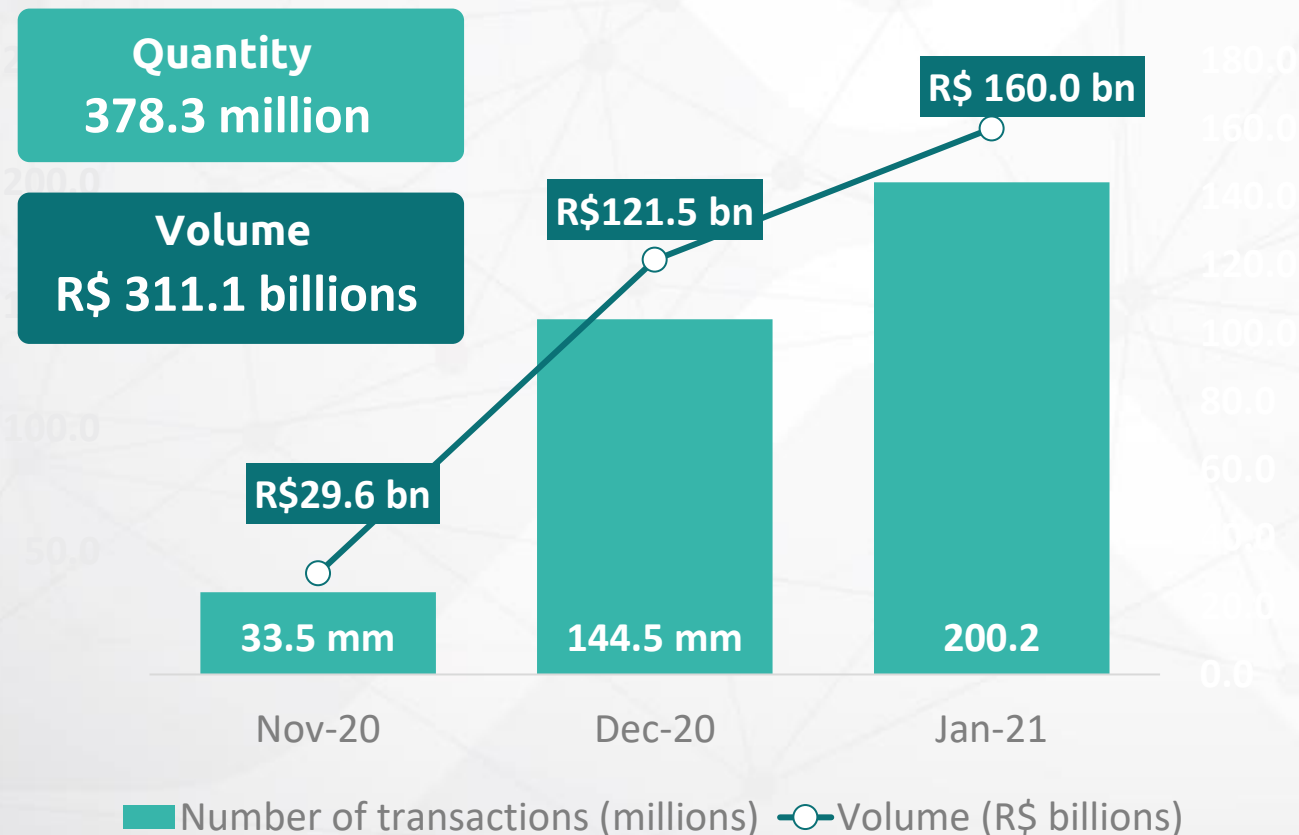


Open Environment

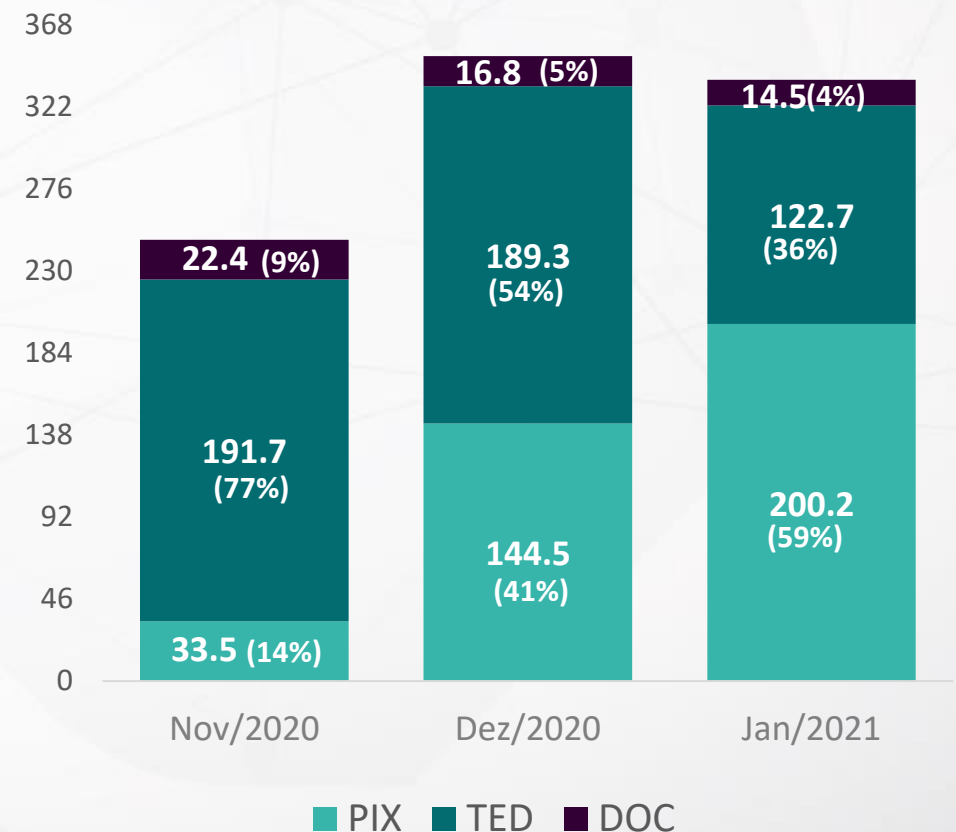
Pix transactions

Number of registered keys: 159 million

Number of transactions and volume
(million of transactions and BRL billions)

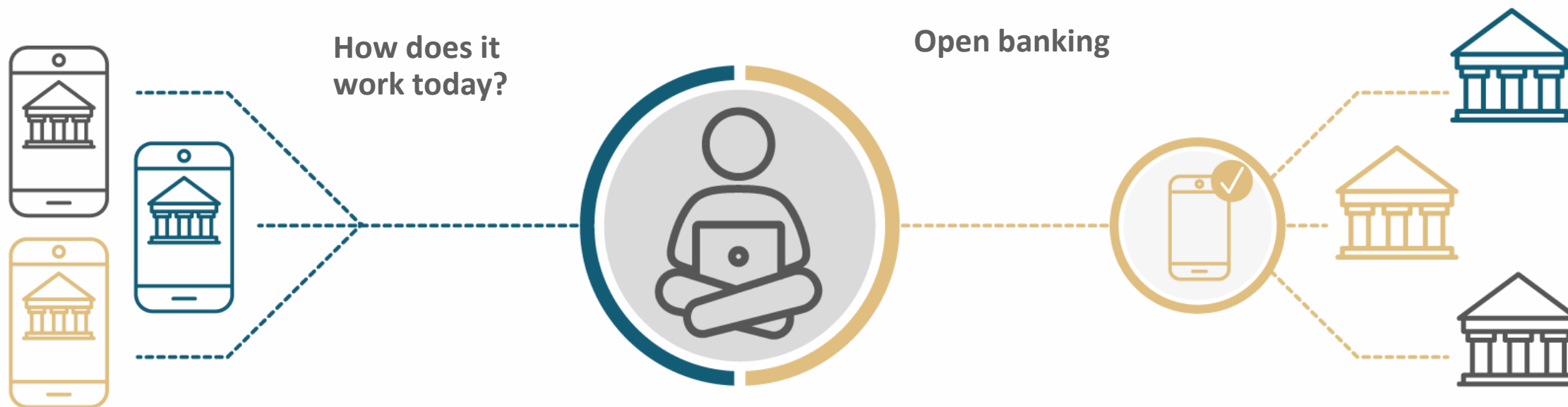


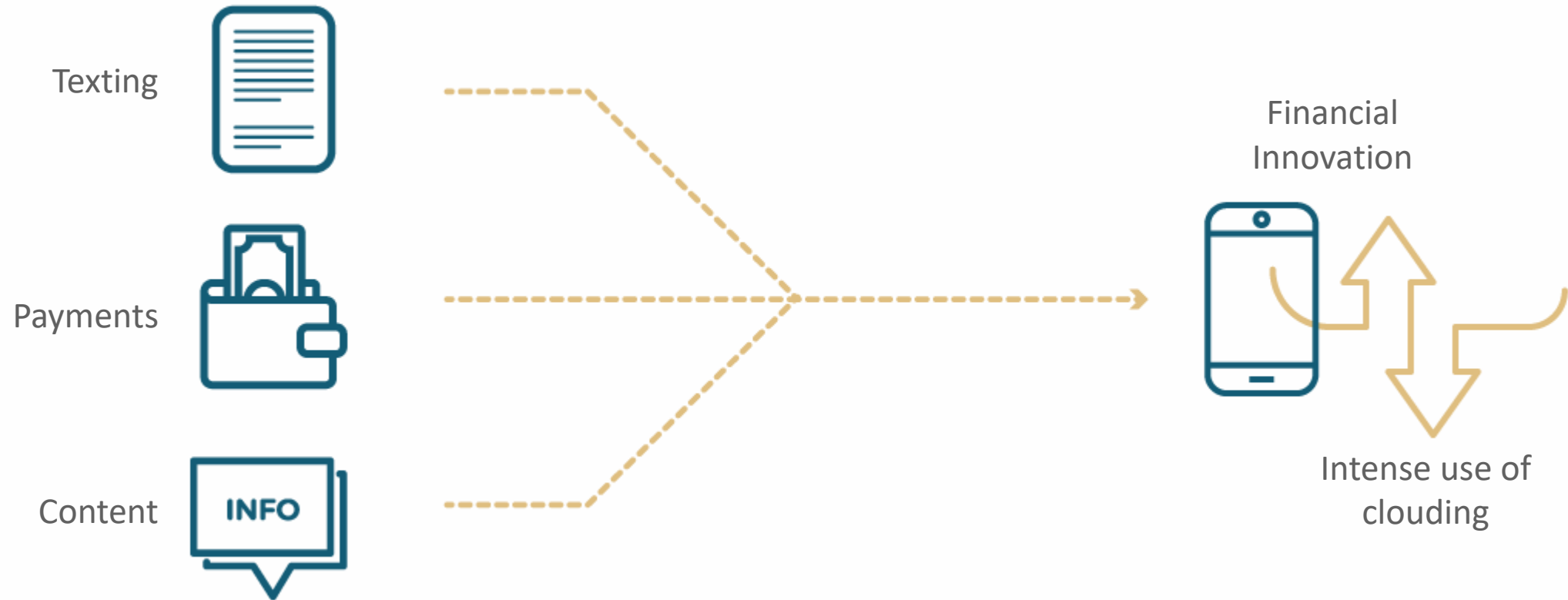
Pix versus other instruments
(in millions of transactions and % of total)



Open Banking

- Operating rules approved
- Implementation schedule







Open Banking

Innovation in the currency



2021/2022

- Simplification
- Internationalization
- Convertibility



Digital currency



Sustainability

Measures:

- **BCB's S&E Responsibility**
- **Partnerships**
- **Policies**
- **Supervision**
- **Regulation**

Vision for the future

More technology

The epidemic has accelerated technological change in medicine, education, finance, communication

Common factors in the recovery

More sustainable and more inclusive growth

World trade

Changes in global value chains

Low interest rates and high liquidity in the world

There are challenges, but also opportunities to reinvent the economy with private resources

A changing world

Change in standards of consumption and production

Secular change in the workforce

Government actions

Technology

Thank you!

Roberto Campos Neto
Governor of Banco Central do Brasil
March 4, 2021



**BANCO CENTRAL
DO BRASIL**

