

Brazil: Economic outlook

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April 20, 2020

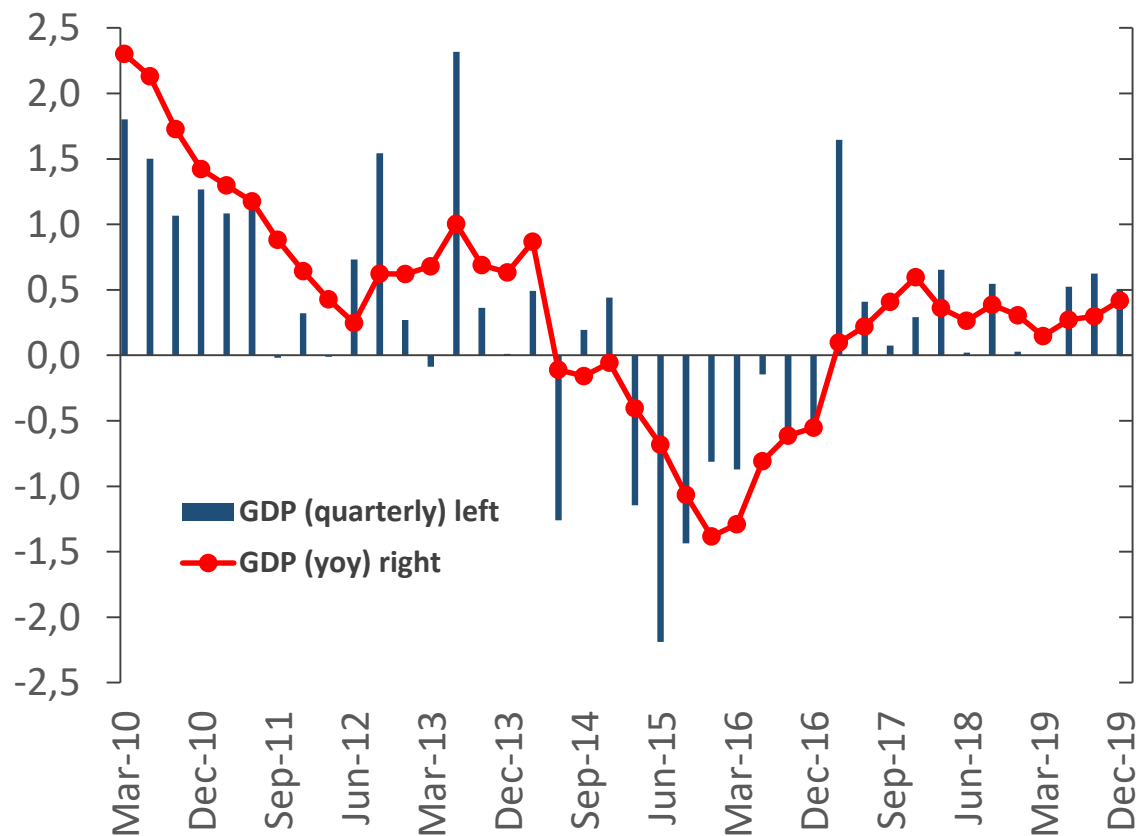
Overview

- ▶ Brazil before Covid-19
 - ▶ Improving fundamentals, gradual recovery, inflation within target
- ▶ Pandemic impact
 - ▶ Virus spread
 - ▶ Economic impact
- ▶ Response to the crisis
 - ▶ Central Bank guaranteeing liquidity and financial stability
 - ▶ Government implementing measures to mitigate the economic impact
- ▶ What's next?

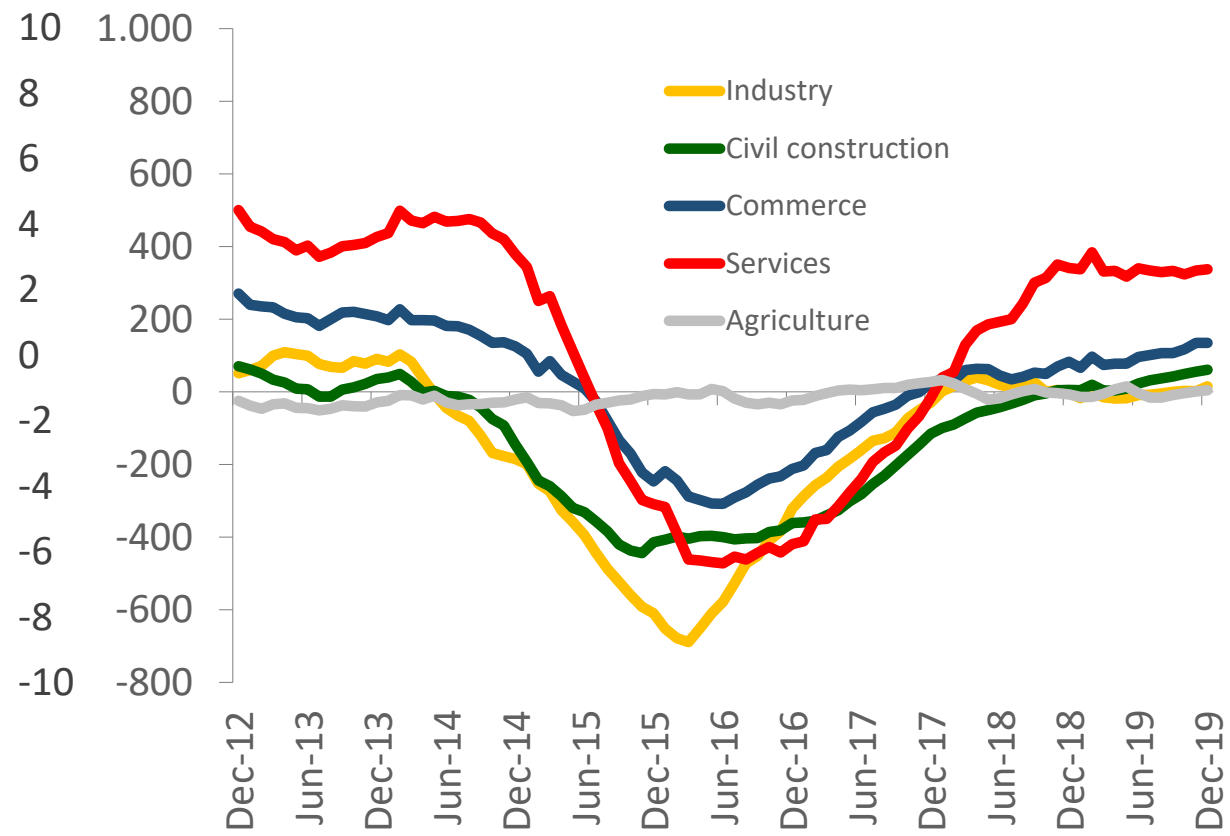
Brazil before the pandemic

Gradual economic recovery

Gradual economic recovery...



... in all sectors
(Net employment – thousands)



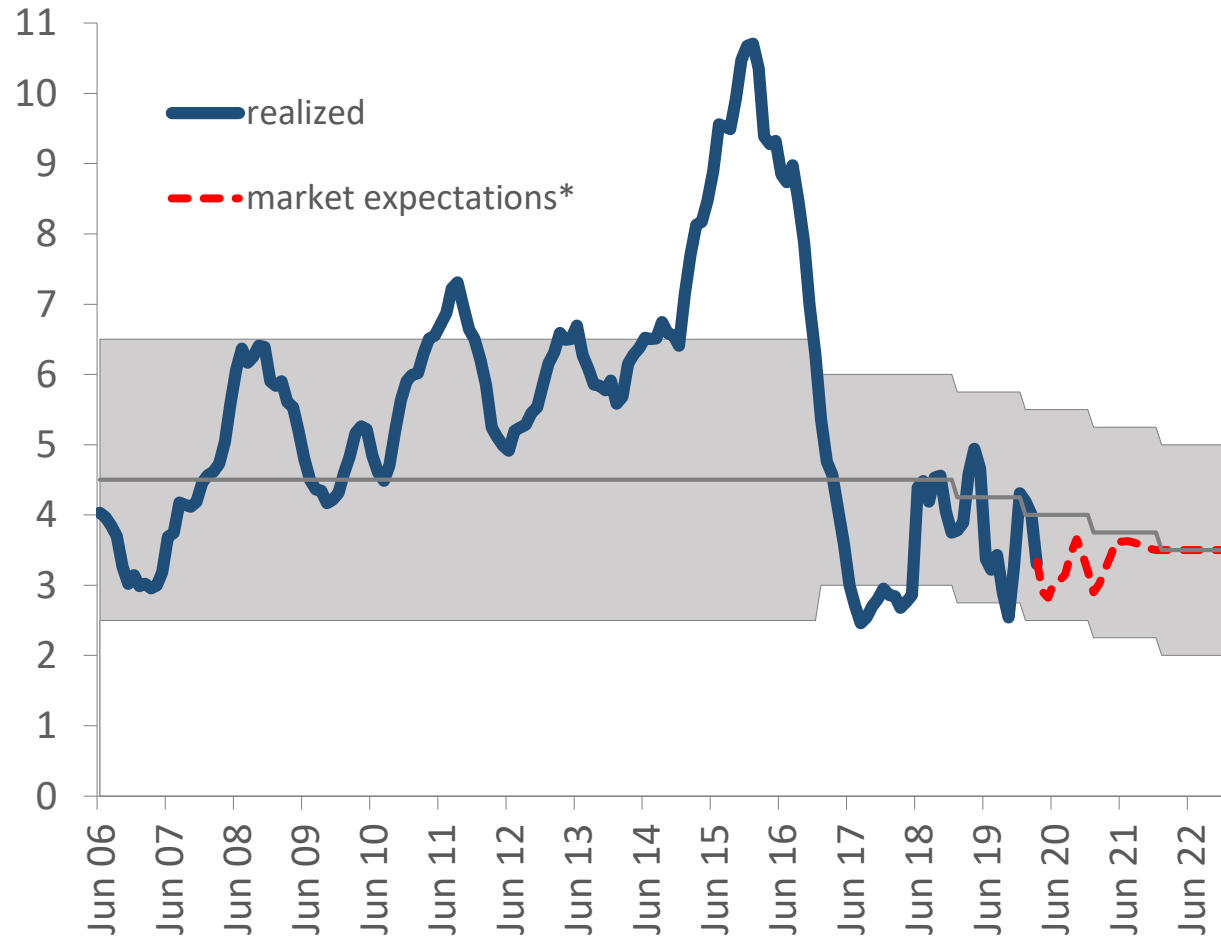
Source: IBGE / ME

Improving fundamentals with reform agenda

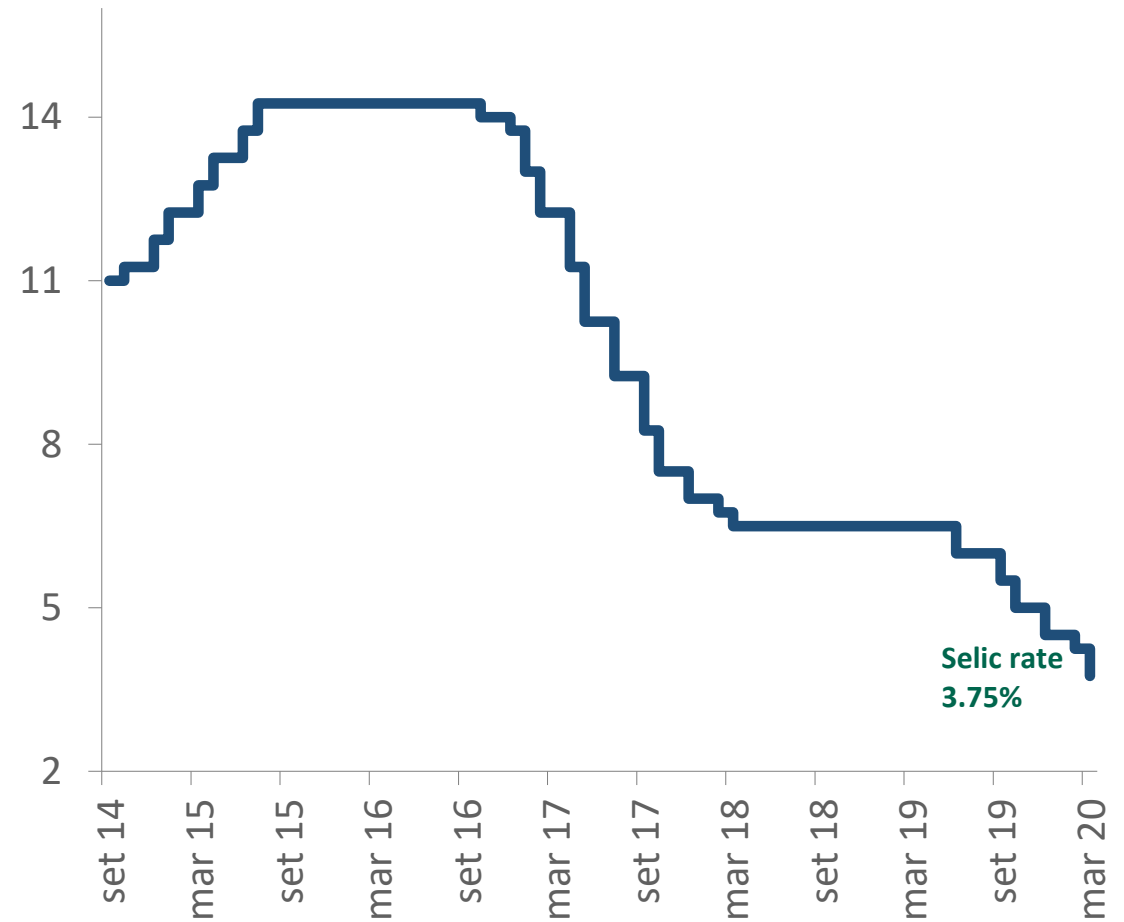
- ▶ Labor market reform
- ▶ Spending cap law
- ▶ Comprehensive pension reform
- ▶ Divestments and privatization program
- ▶ Foreign exchange market modernization (in Congress)
- ▶ Other: credit registry law, trade agreements, improvements in business conditions, OECD liberalization benchmarks convergence

Accommodative monetary policy and inflation within target range

Headline inflation and expectations



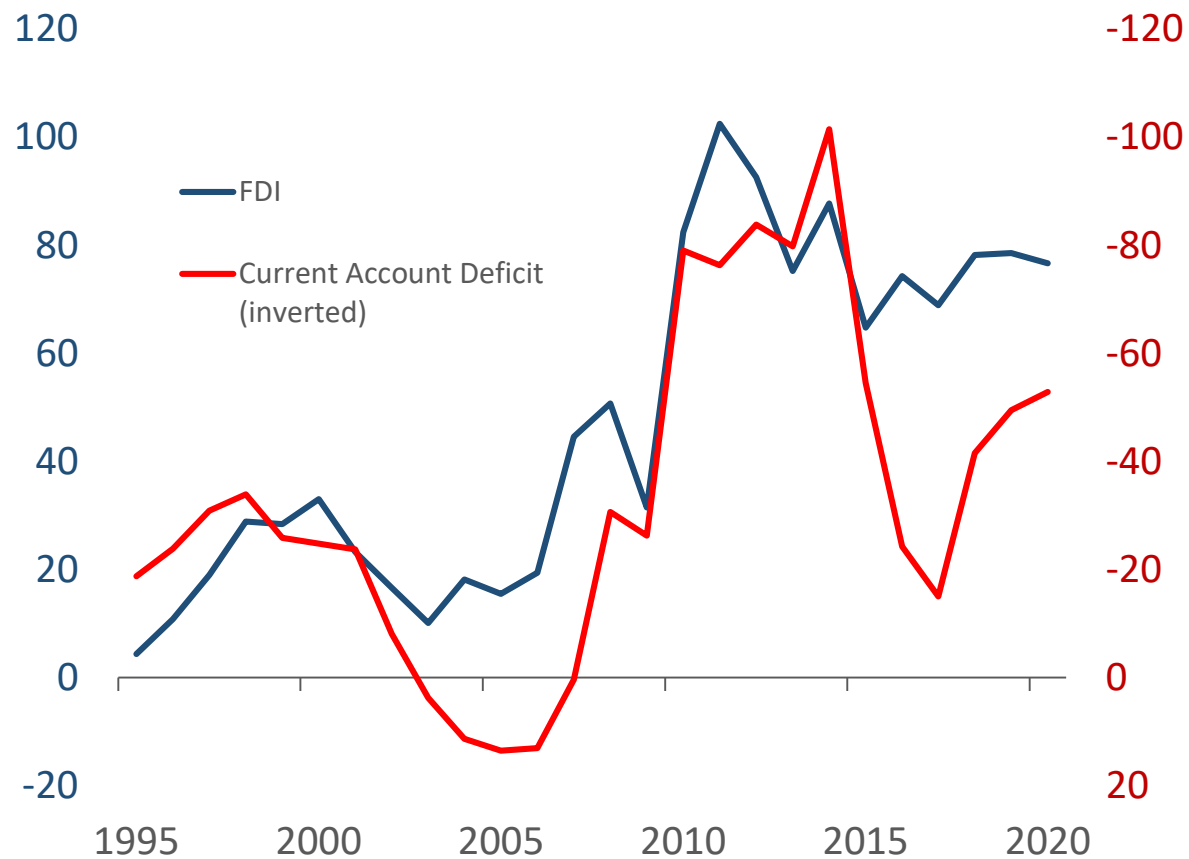
Main policy rate



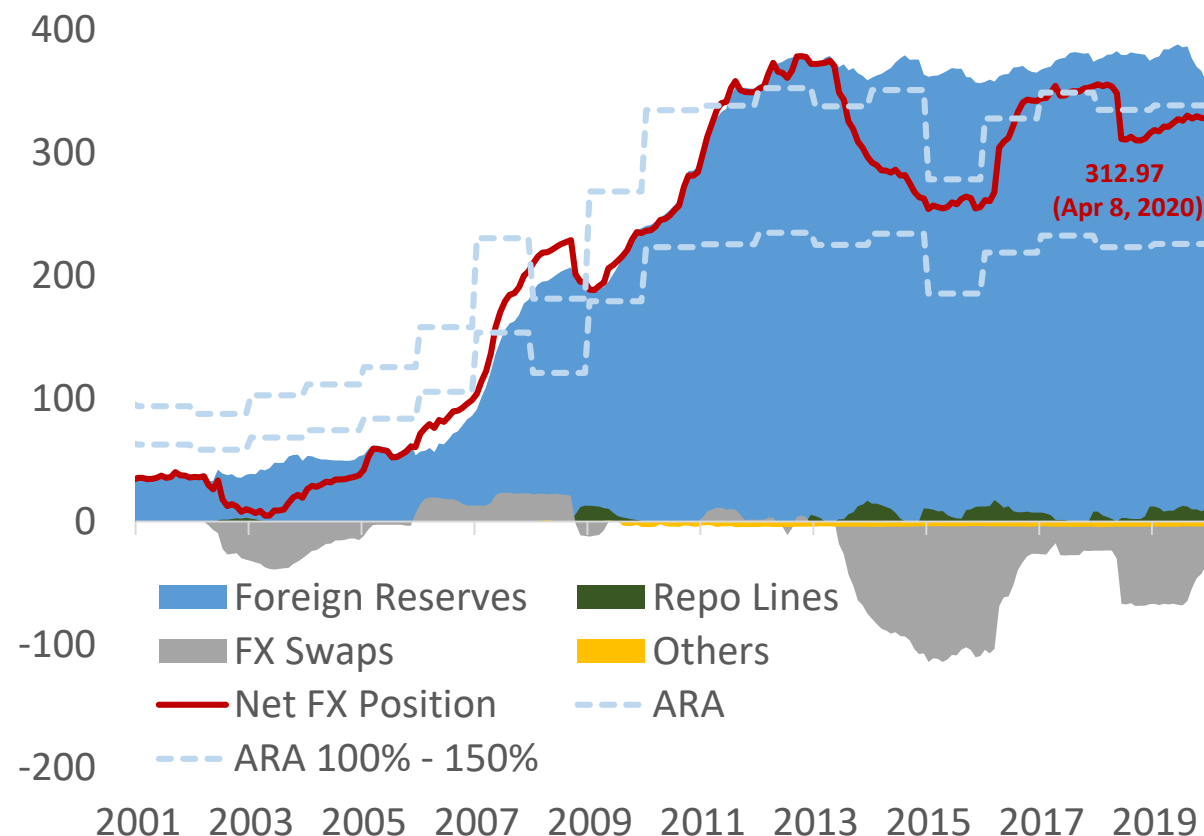
Source: BCB

Comfortable international position

CA deficit more than financed by FDI
(US\$ billion)

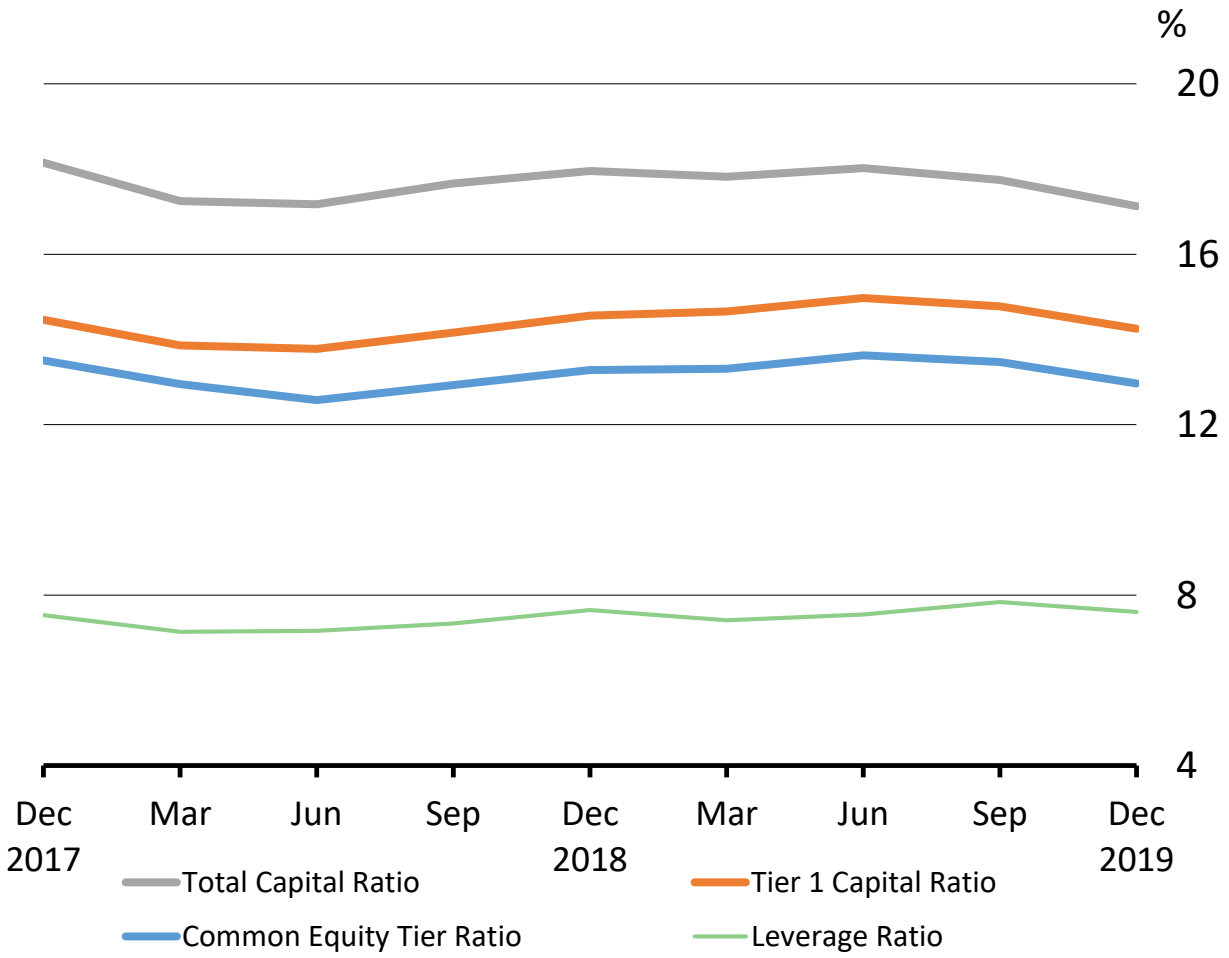


Sizable buffers against shocks
(US\$ billion)

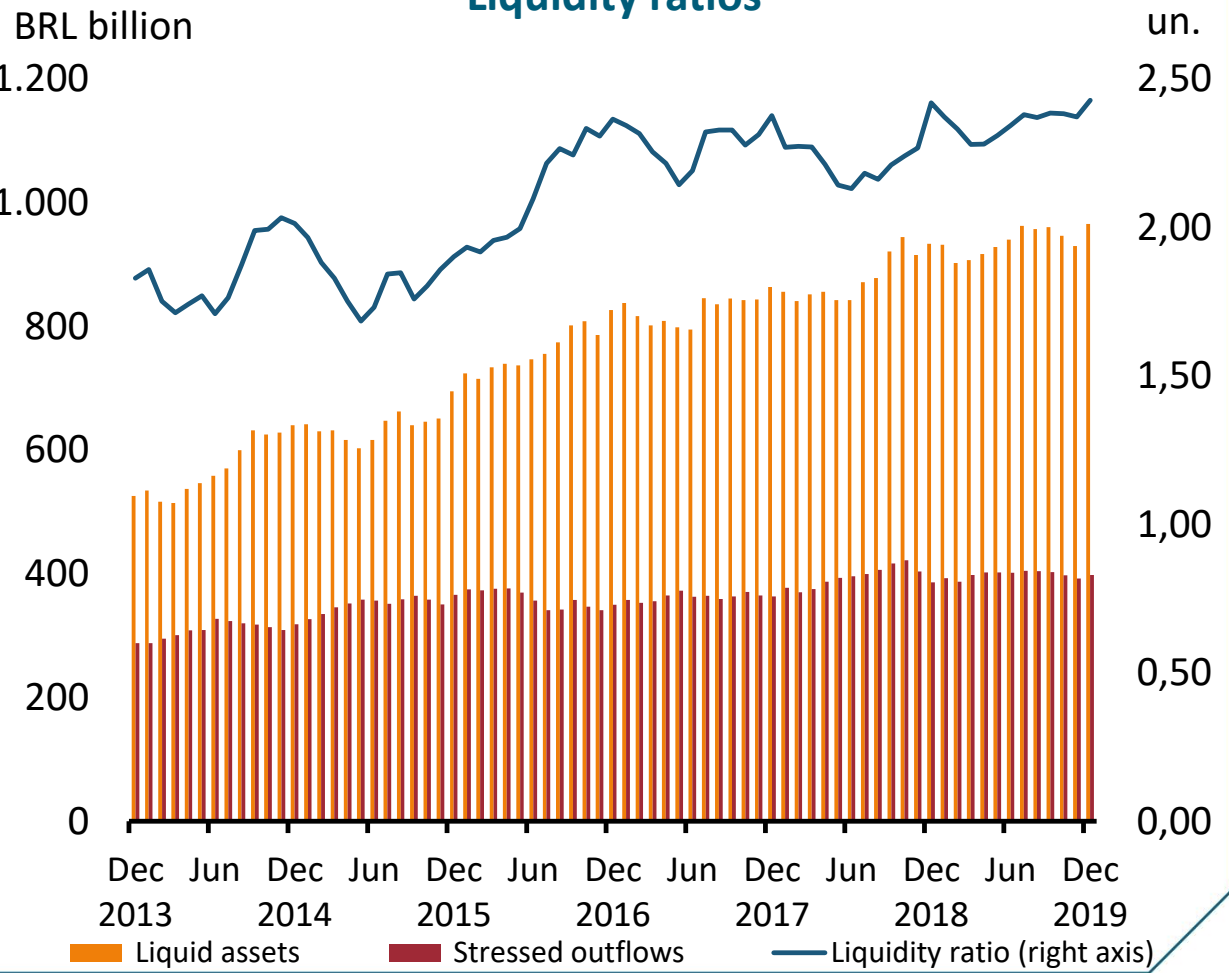


Liquid and well-capitalized banking system

Capital Ratios



Liquidity ratios



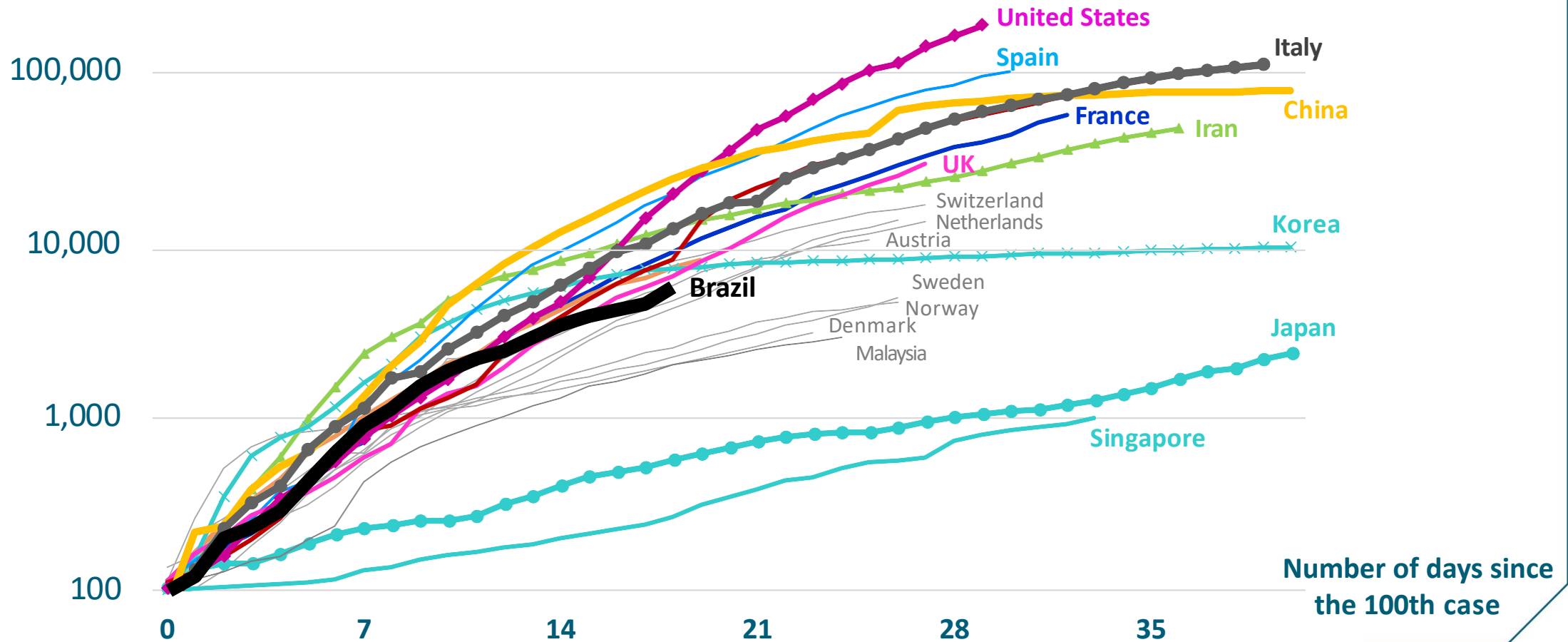
Source: BCB

The pandemic impact

Early in the contagion curve

Speed of Spread – Covid-19 Tracker

Reference date: April 2nd



*Numbers as of April 12, 2020

Uneven but widespread contagion

Confirmed cases

38.654

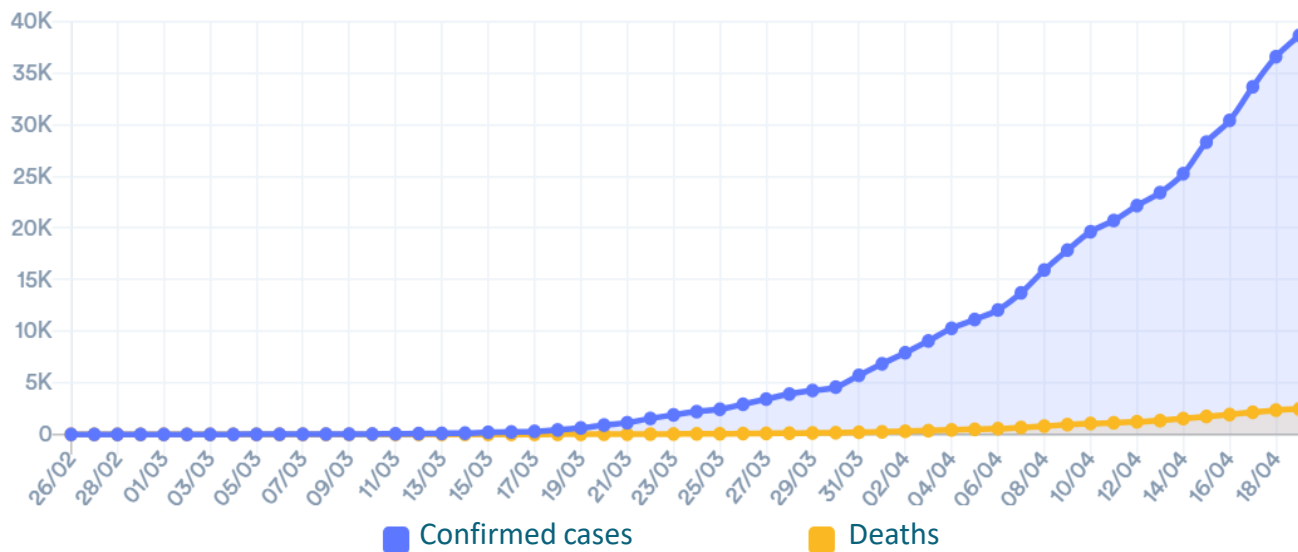
Deaths

2.462

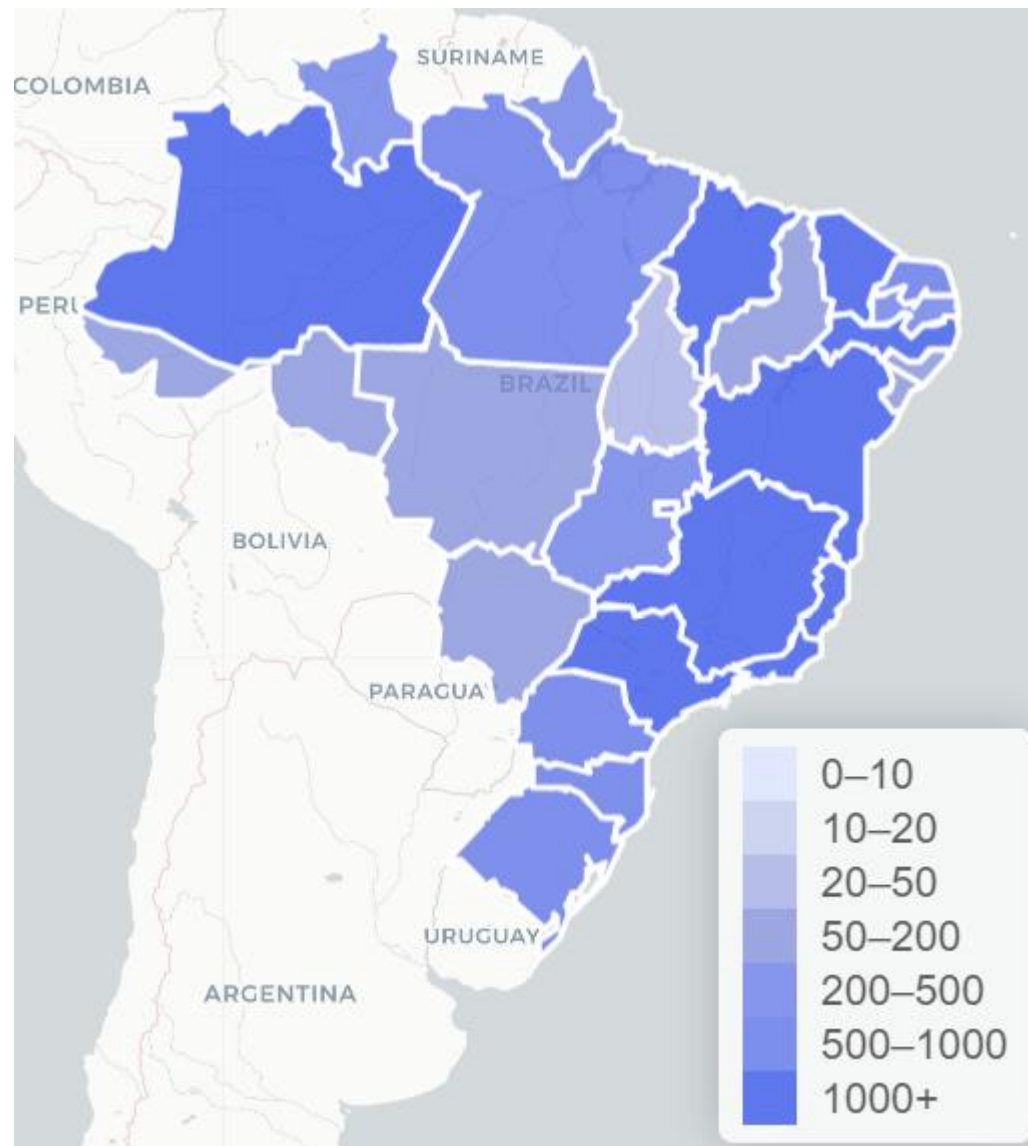
Lethality

6,4%

Accumulated cases since the first case



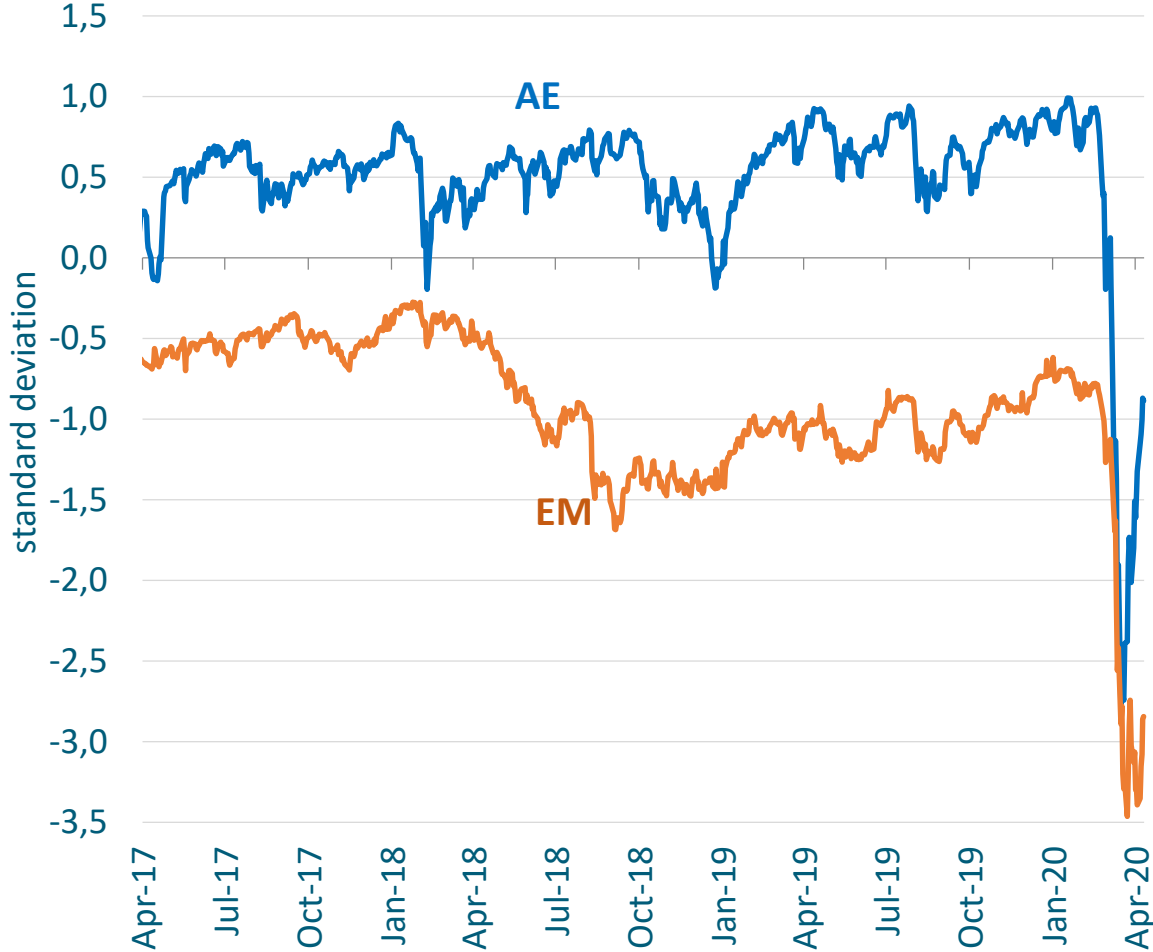
*Numbers of April 19, 2020



Source: Brazilian Ministry of Health

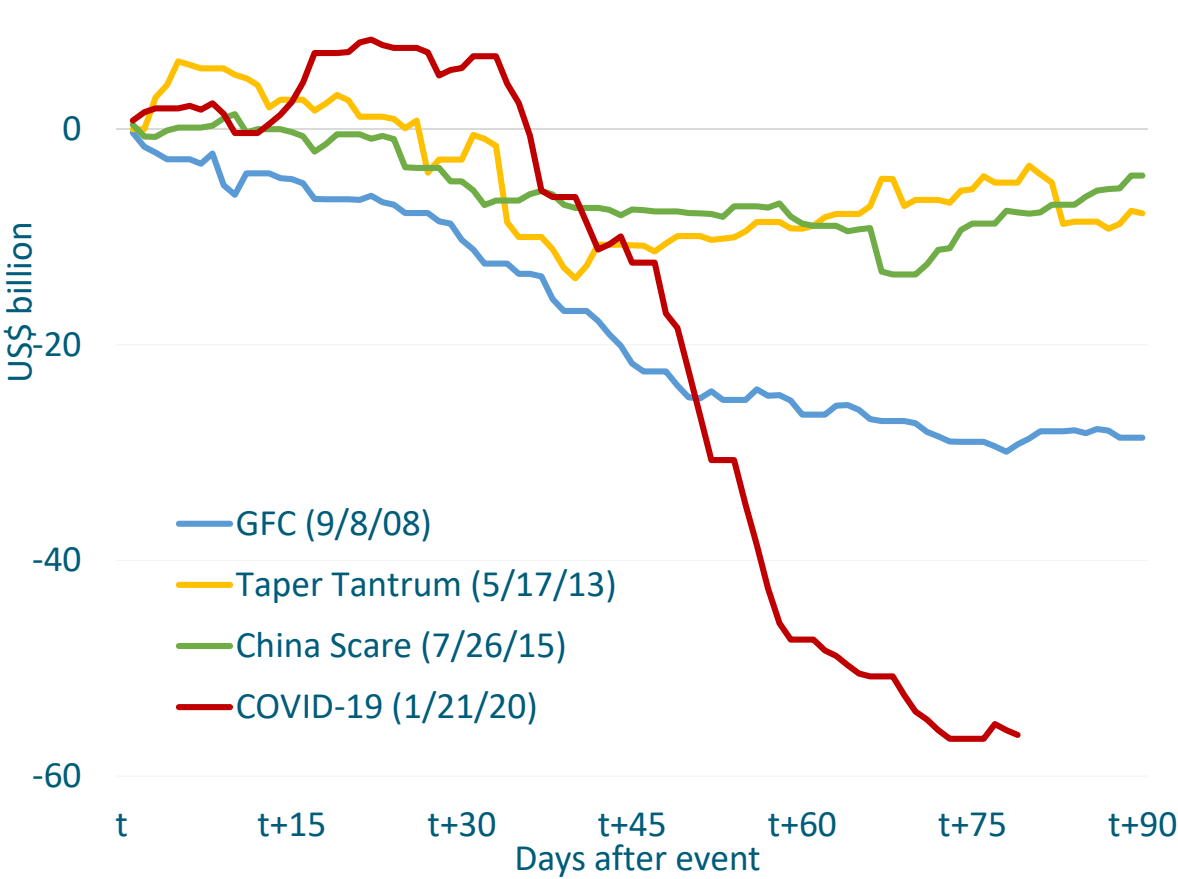
Severe strains in emerging markets

Risk appetite indicator



Source: BCB/Derin

Accumulated non-resident portfolio flows to EM* since indicated date

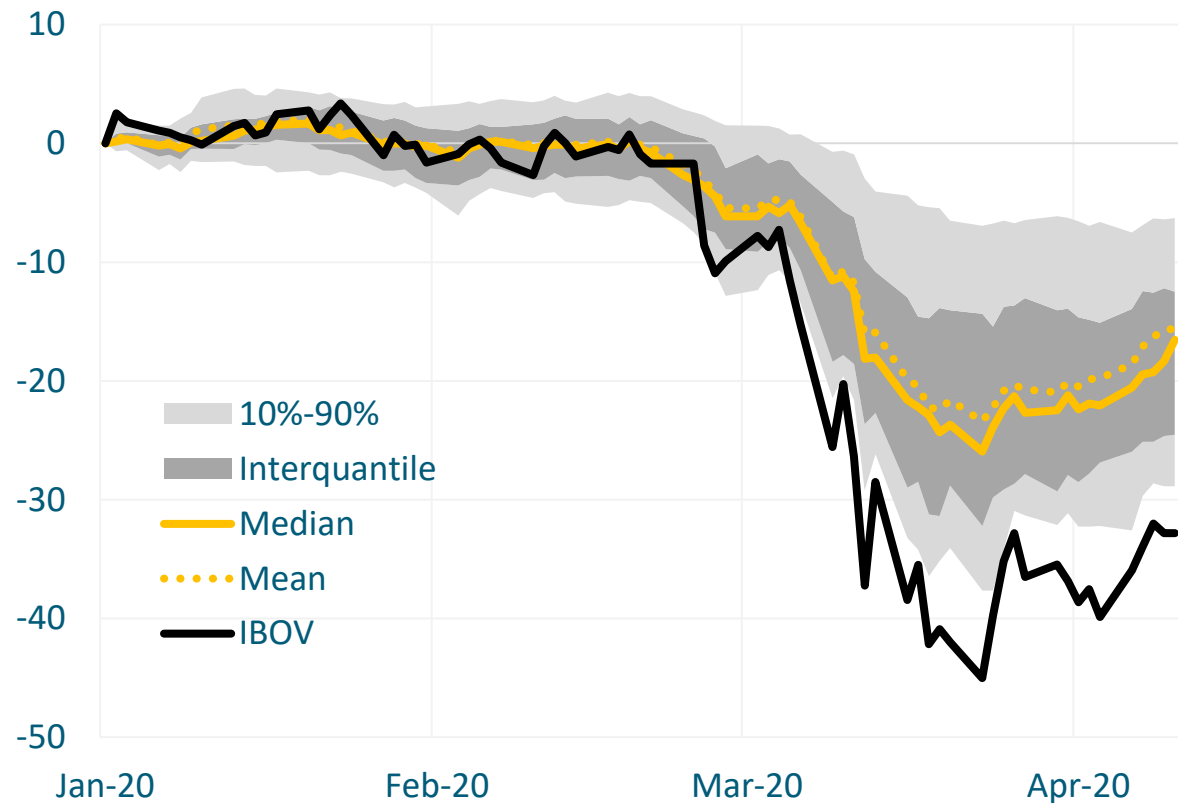


* Daily net total flows for Mexico, Korea, Taiwan, India, Indonesia, South Africa, Thailand, Philippines, Sri Lanka, and Vietnam; daily equity flows for Brazil, UEA, Malaysia, Ukraine, and Pakistan.

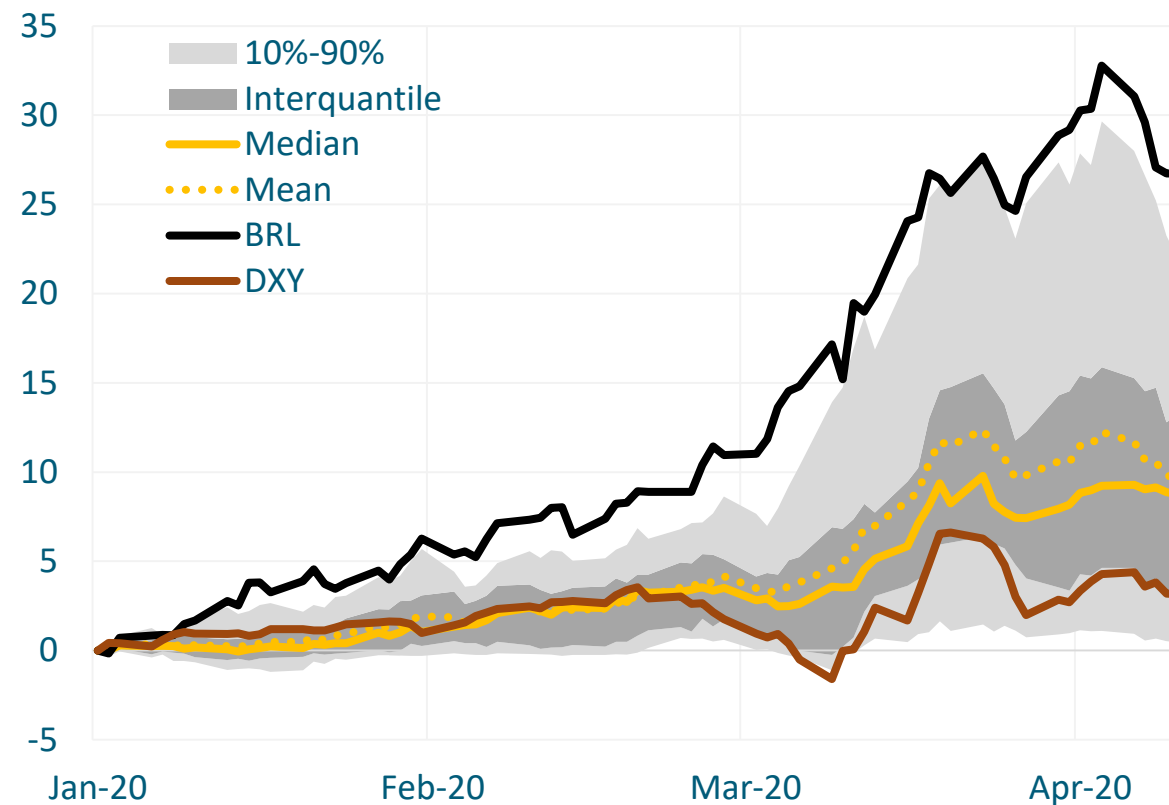
Source: Bloomberg, DERIN, Thomson Reuters

Deep impact in prices of main financial assets

EME equity indexes*



EME currencies**



* Composite of equity indexes of China, Hong Kong, India, Indonesia, Malaysia, Mongolia, Pakistan, Philippines, Sri Lanka, South Korea, Taiwan, Thailand, Vietnam, Bosnia, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Poland, Romania, Serbia, Slovak, Turkey, Ukraine, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, Panama, Abu Dhabi, Egypt, Ghana, Israel, Jordan, Kenya, Kuwait, Lebanon, Mauritius, Morocco, Nigeria, Oman, Qatar, Saudi Arabia, South Africa, and Tunisia.

** Composite of currencies of Brazil, Mexico, Argentina, Chile, Colombia, Peru, China, Hong Kong, Taiwan, India, Indonesia, South Korea, Malaysia, Singapore, Thailand, Philippines, Russia, Turkey, Czech Republic, Bulgaria, Romania, Hungary, Poland, and South Africa.

Source: BCB/Derin

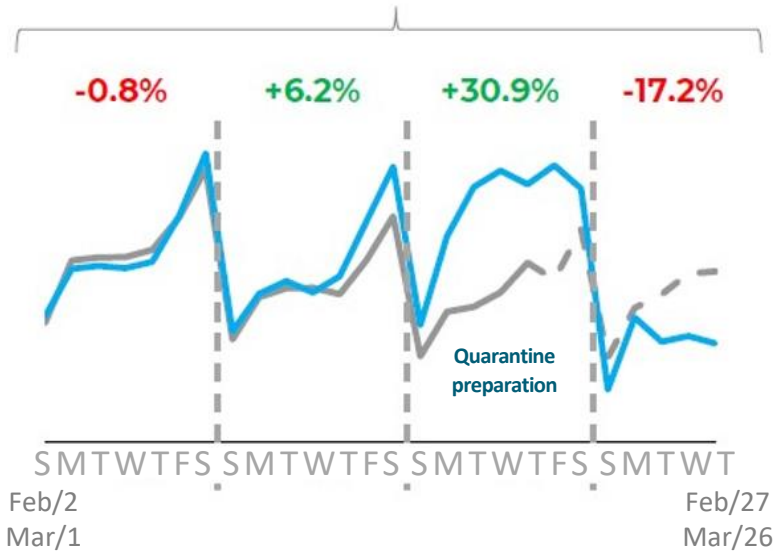
Source: Thomson Reuters

Soft data signaling severe economic impact

Nominal sales by sector (Cielo Index Feb 2=100)

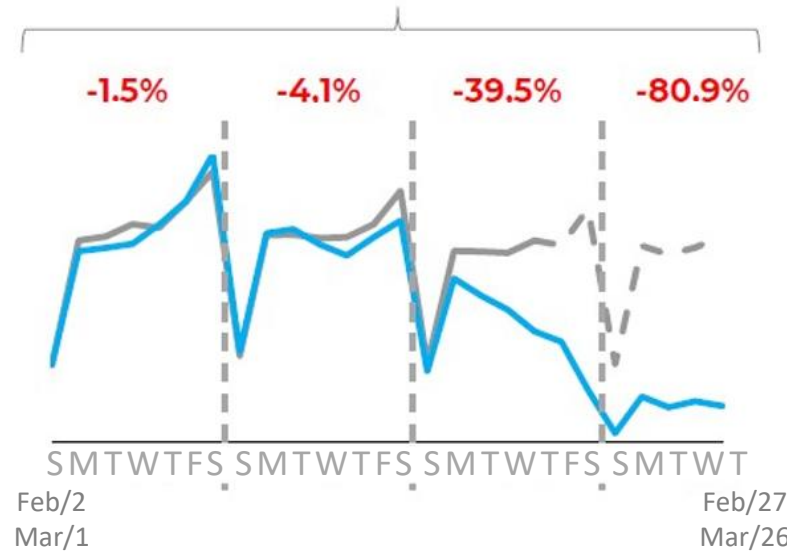
Non-durable goods

+6.3%



Durable goods

-25.9%



Services

-39.5%



Mar-20

Feb-20, seasonally adjusted

Source: Cielo, proprietary data.

Response to the crisis

Timely and robust BCB response

Measures:	Amounts (R\$ billion)		
	2020	2008	
Liquidity support			
Term-deposit reserve requirements from 31% to 25% and regulation enhancements on Liquidity Coverage Ratio (LCR)	135	-	
Term-deposit reserve requirements from 25% to 17%	68	82	
Regulatory easing on Agrobusiness Credit Bills	2.2	-	
Loans backed by financial notes guaranteed by sovereign bonds and debentures	670	-	
Repos with sovereign global bonds	50	25	
Term deposits guaranteed by deposit insurance (NDPGE)	200	10	
Repo backed by debentures and reserve requirements	91	-	
	Total	1216.2	117
	% GDP	16.7%	3.5%
Capital relief			
Overhedge	520	-	
Decline of Capital Conservation Buffer	637	-	
	Total	1157	0
	% GDP	15.8%	0%
Exemptions for new loan-loss provisions	3.2*	-	
Other measures			
Swap line with the Fed	US\$ 60 bi	US\$ 30 bi	
Credit line for SMEs	R\$ 40 bi	-	

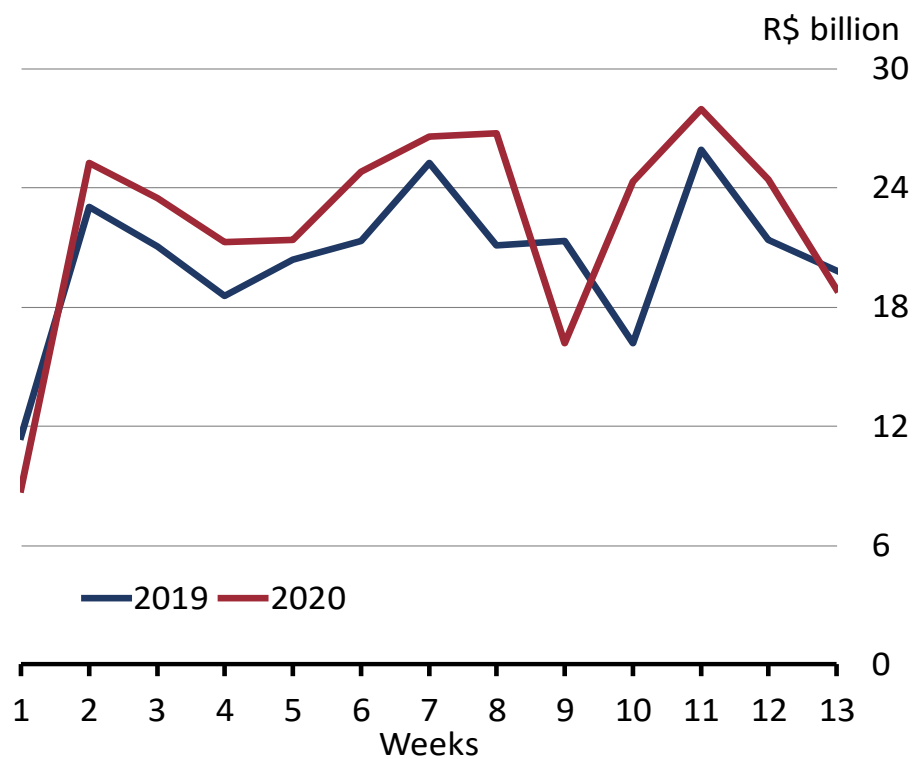
For details see:

<https://www.bcb.gov.br/en/about/covid-19-measures>

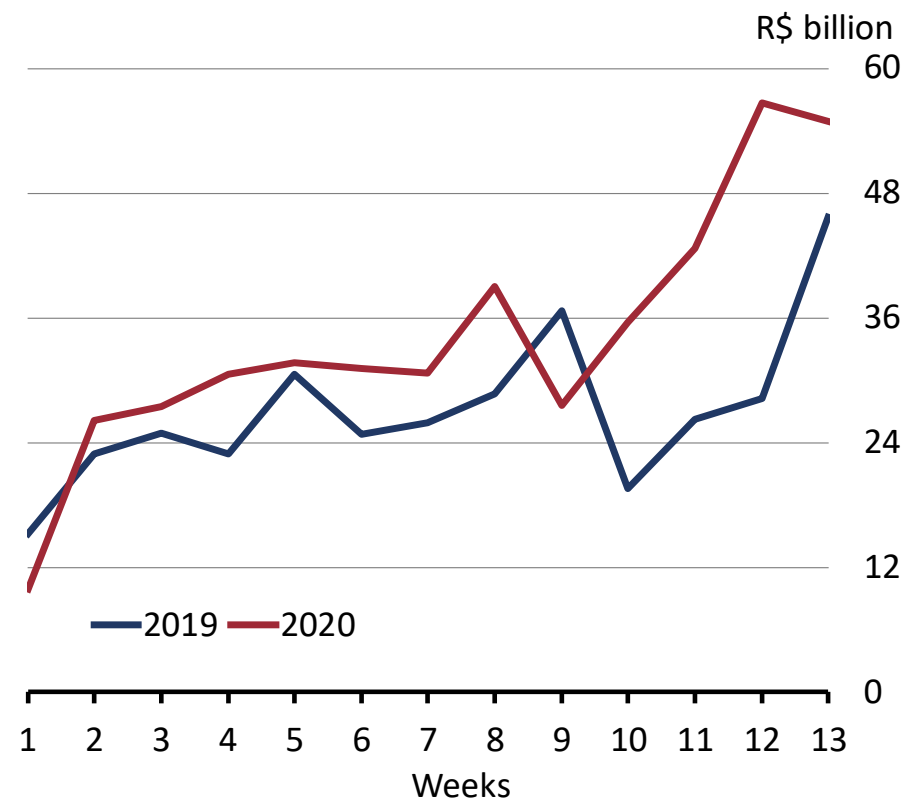
Credit markets responding to demand

Non-earmarked credit for households and businesses

Households



Business



Government responses

- Decline in import tariffs for medical supplies and raw materials
- Hiring of doctors and nurses, and increased supply of hospital beds, respirators, covid-19 tests
- Transfers to retirees, low-income households, informal sector, SMEs
- Aid for tourism, airline and other most impacted sectors
- Aid for states and municipalities
- For details and other measures: www.gov.br - Covid-19

What's next?

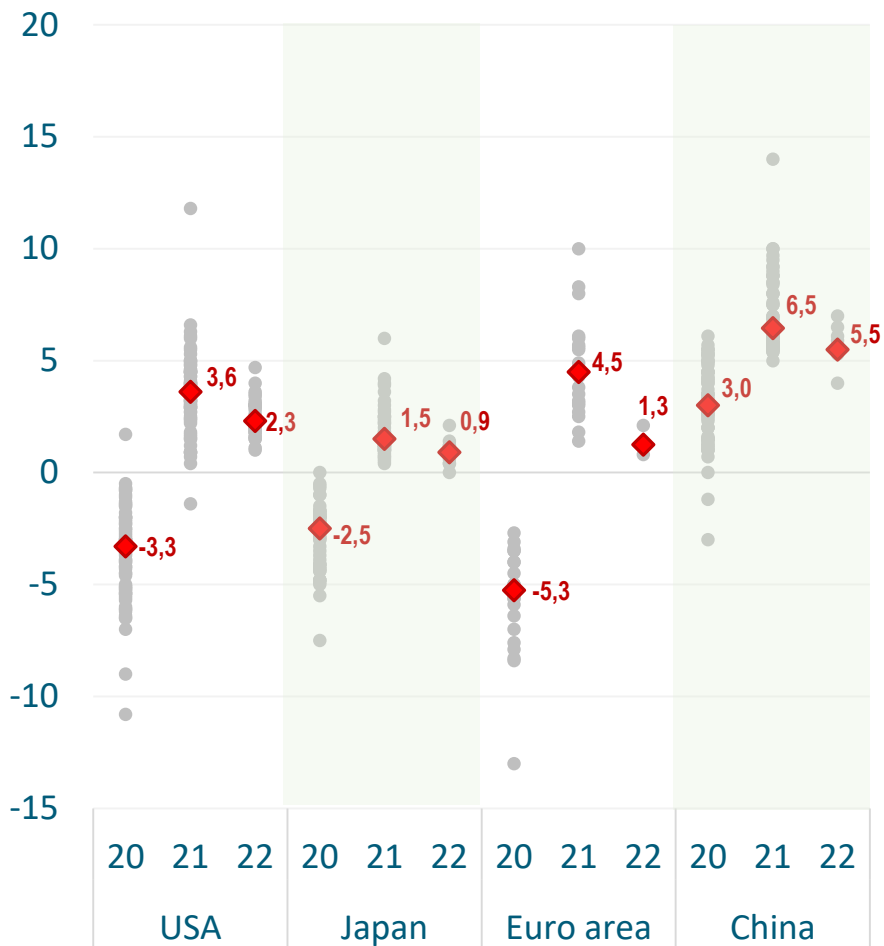
Uncertainty outlook

- ▶ Human and capital losses
- ▶ Length of lockdowns
- ▶ Unwinding of lockdown
- ▶ Pace of economic recovery
- ▶ Reversal of fiscal policy measures

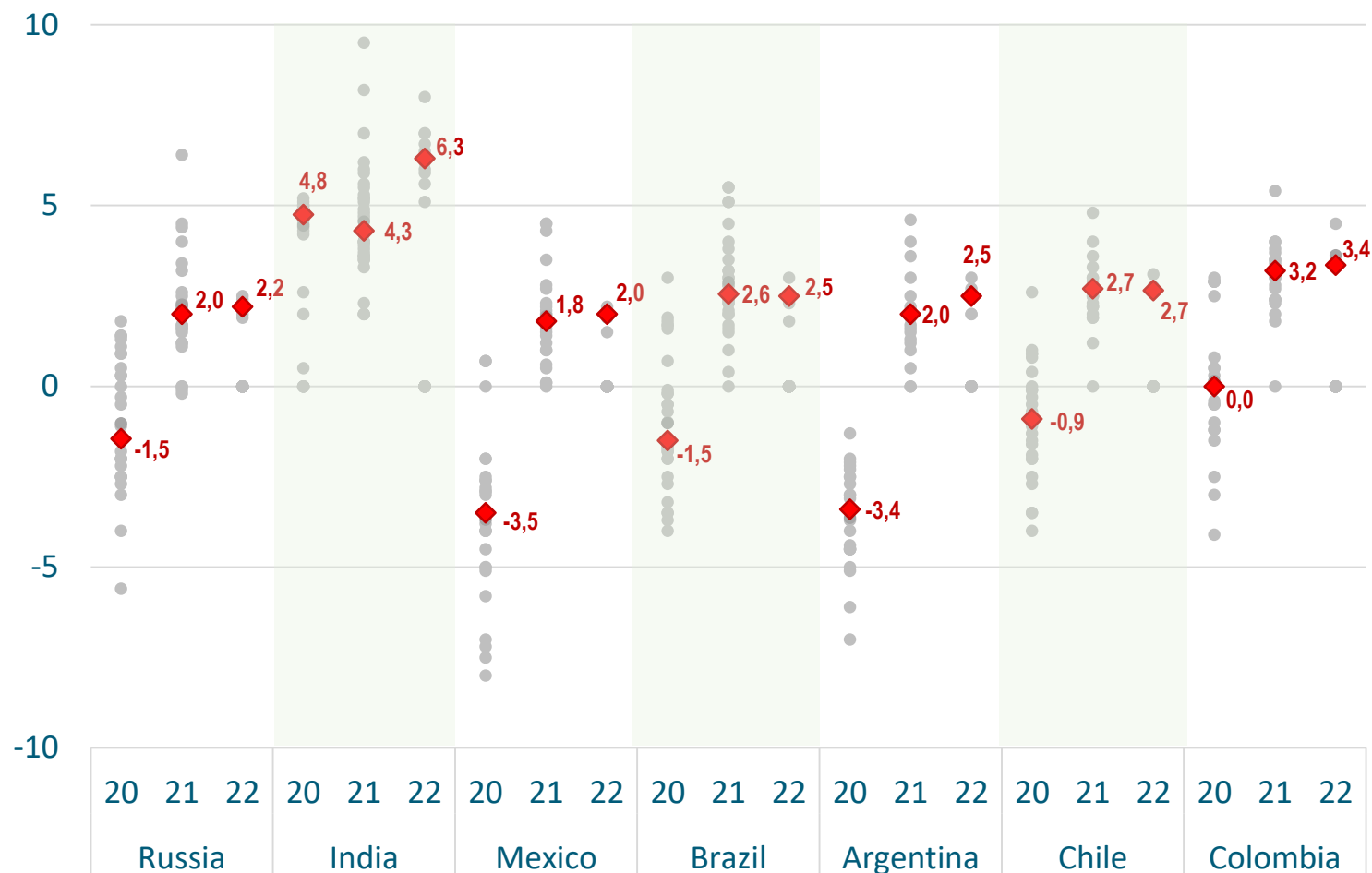
Source: BCB/Inflation Report

Wide range of forecasts

Main Economies – growth (% yoy)



Emerging Economies – growth (% yoy)



*Numbers as of April 13, 2020

Source: Bloomberg

“The Central Bank of Brazil stresses that it will continue to deploy its arsenal of monetary, exchange rate and financial stability policies to fight the current crisis.”

229th Copom Minutes
March 18, 2019

Thank you!

Fernanda Nechio

Deputy Governor for International Affairs and Corporate Risk Management