

Americas Society and Council of the Americas

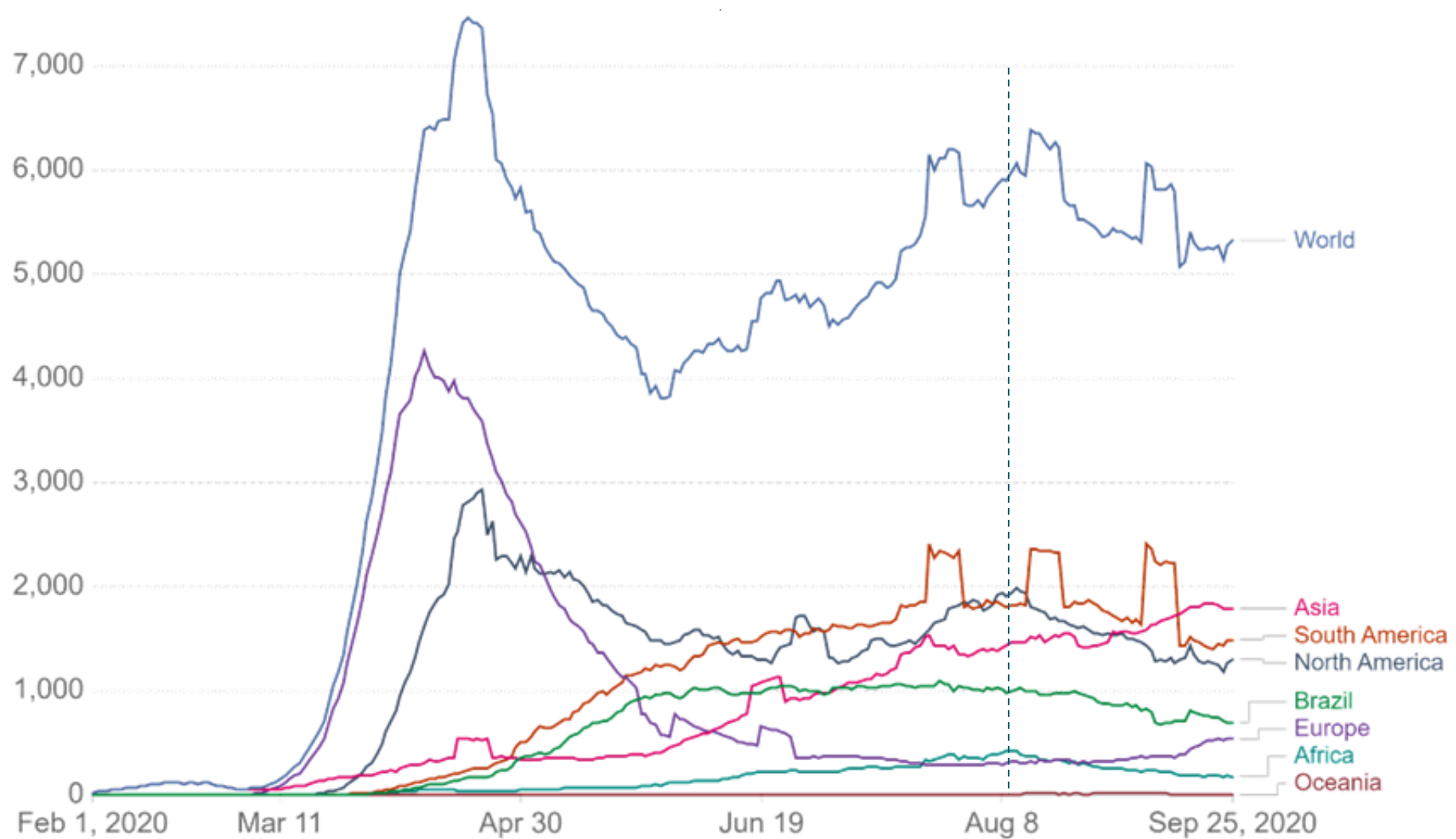
Brazilian Economic Outlook and Agenda BC#

Roberto Campos Neto
Governor of Banco Central do Brasil

September 30, 2020

Covid-19: new deaths slowly decreasing

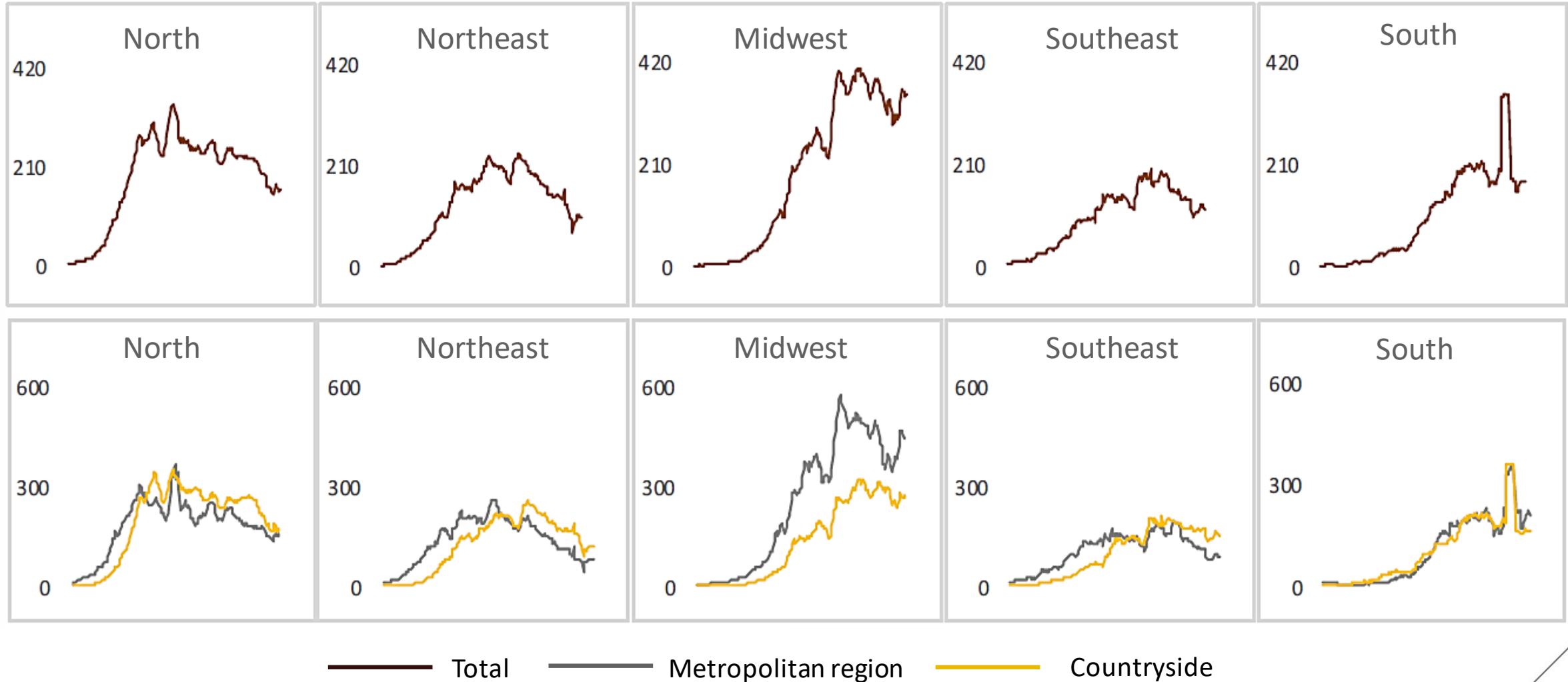
Daily new confirmed deaths, rolling 7-day average



Source: Our World in Data, 25 Sep/2020

The disease across Brazilian regions

New daily cases per million, 7 - days moving average, 04/Apr – 19/Sep

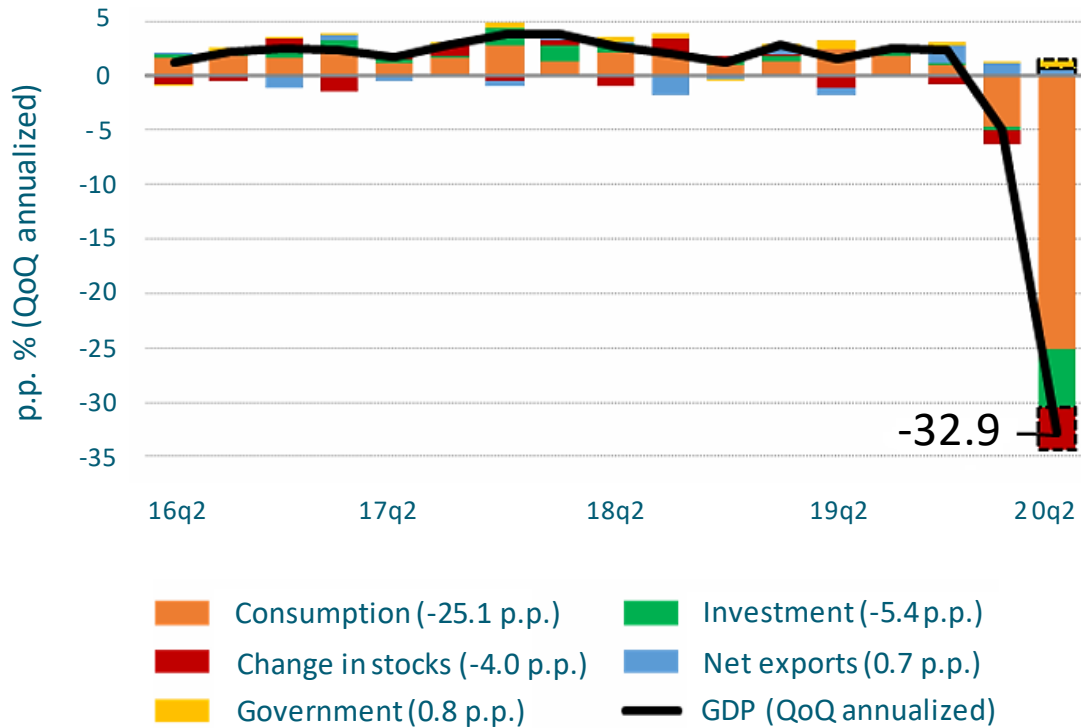


Source : Health Ministry

United States

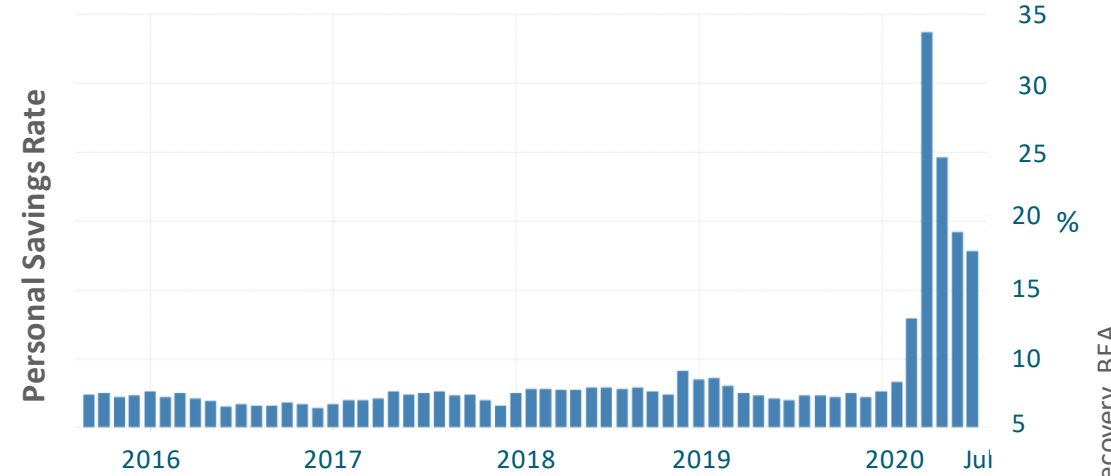
Strong decline in economic activity in the 2nd quarter. Recent data suggest consumer spending is returning to the pre-crisis levels

Real GDP



GLOBAL ECONOMY

Covid-19: Shock and impacts



Sources: Thomson Reuters, Tracktherecovery, BEA

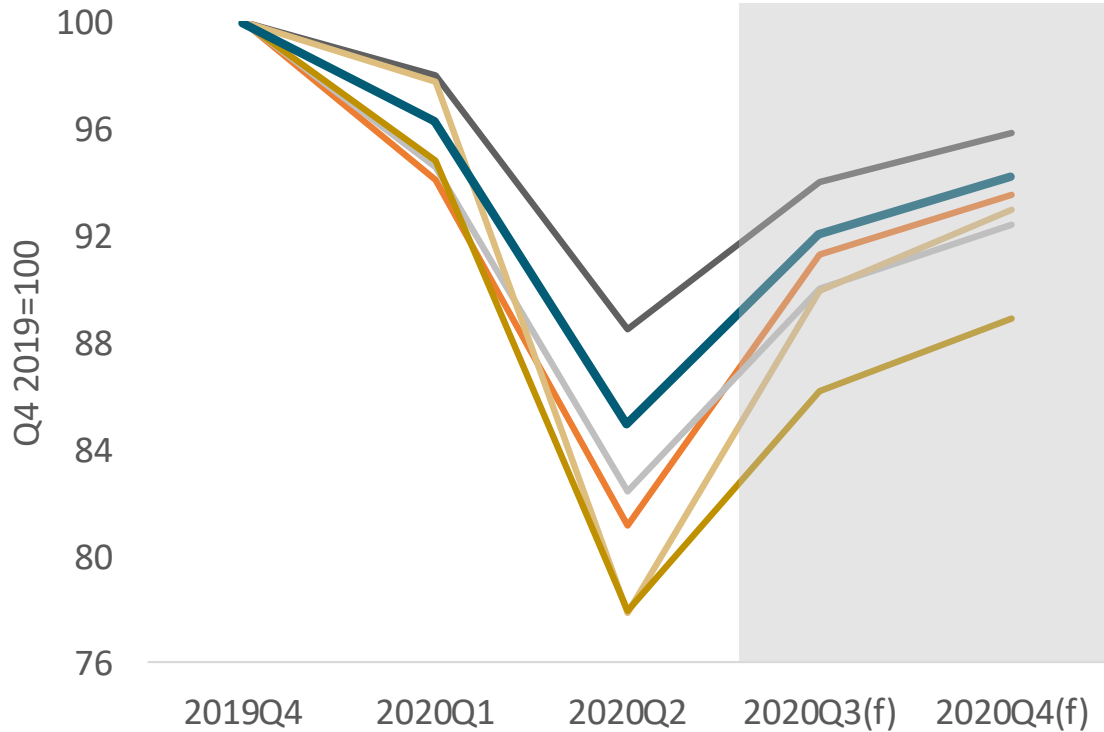
Europe

GLOBAL ECONOMY

Covid-19: Shock and impacts

The Covid-19 shock was simultaneous, but it affected countries and sectors asymmetrically. Recovery began in May, after severe losses in April

GDP

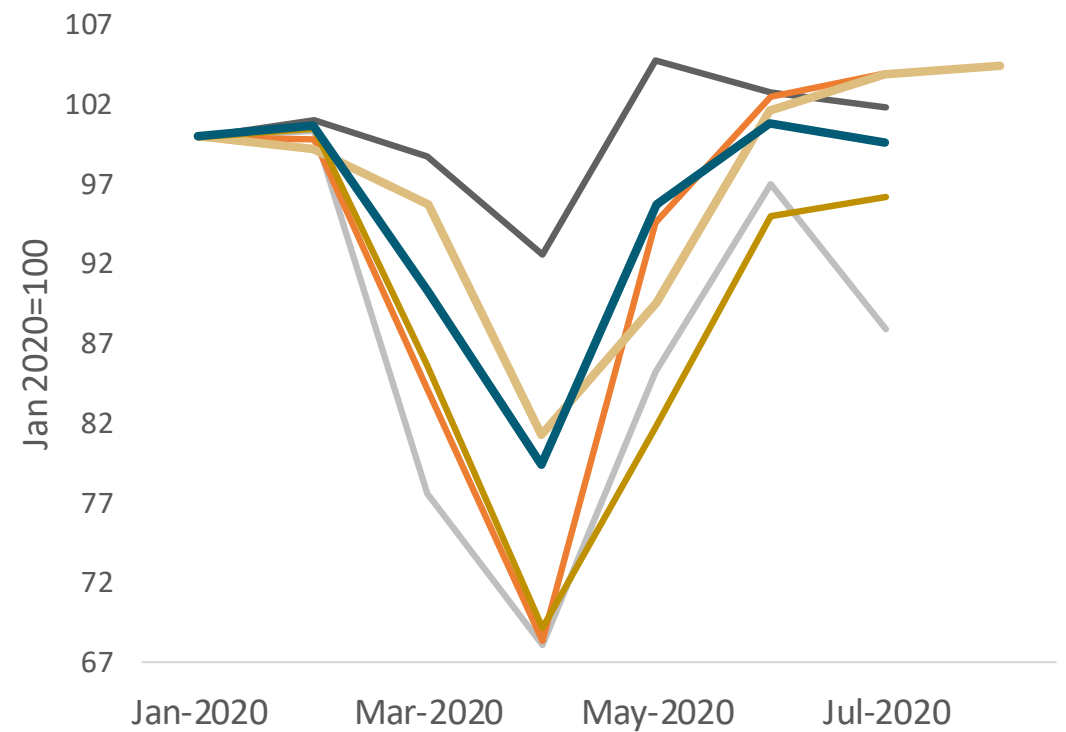


Germany

Italy

France

Retail Sales



United Kingdom

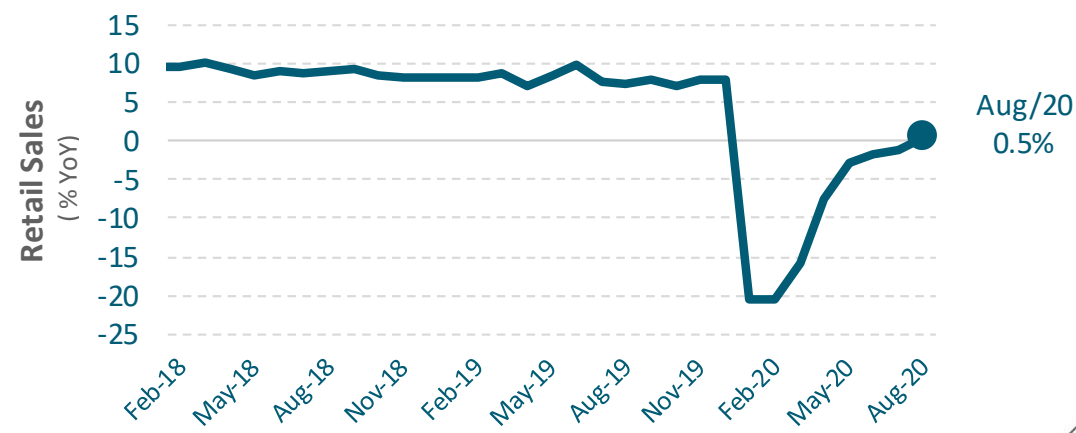
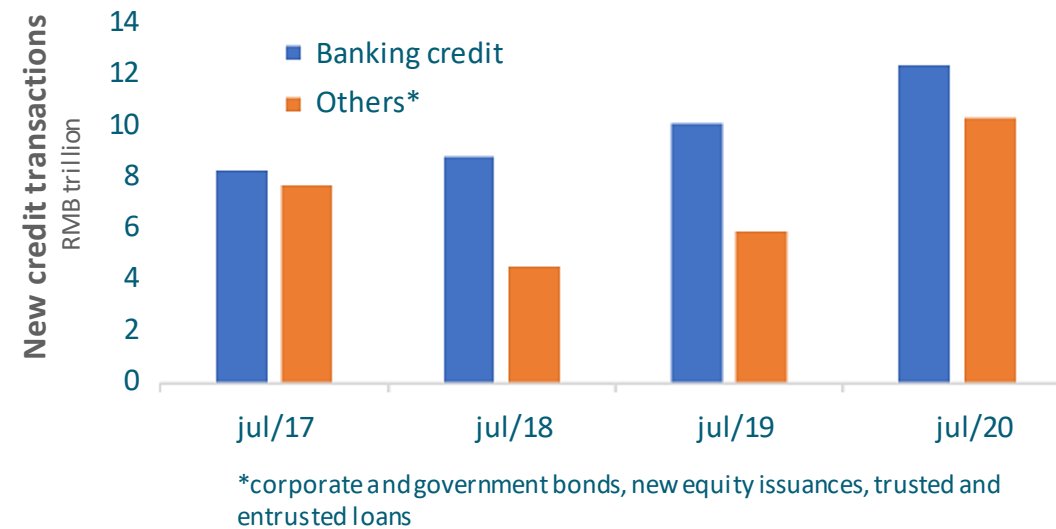
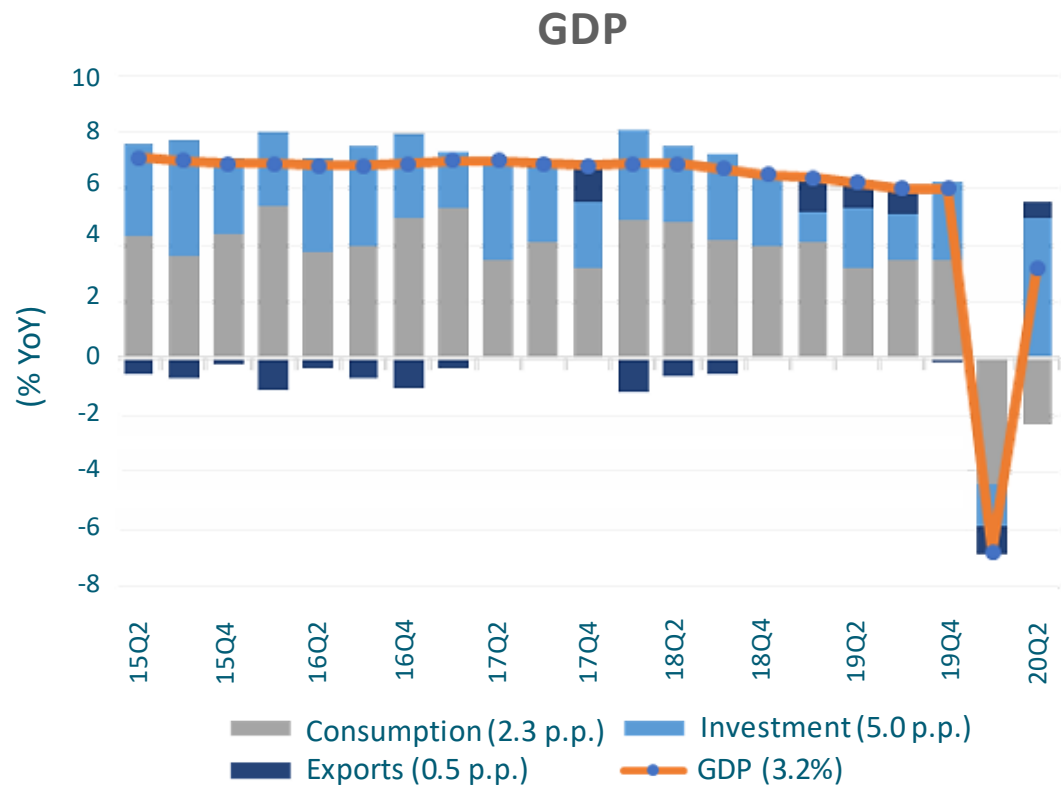
Spain

Euro Area

Source: OECD Statas and Bloomberg forecasts at September 29th, 2020. Data are seasonally adjusted.

China

Fast recovery, although incomplete. Investment is the main driver



Sources: NBS, Bloomberg

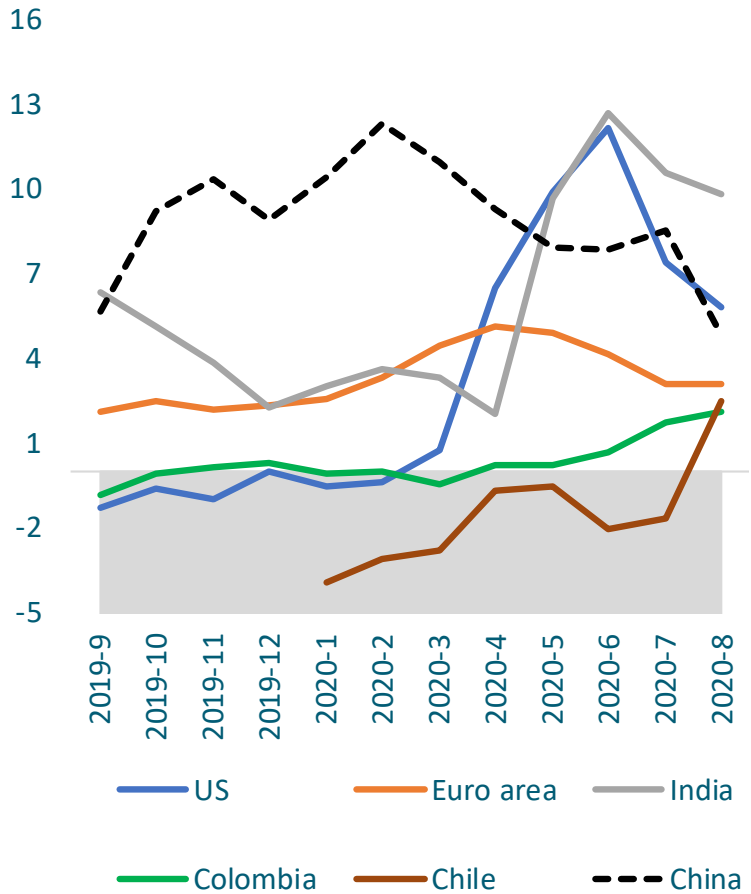
Inflation

Rise in food prices and education

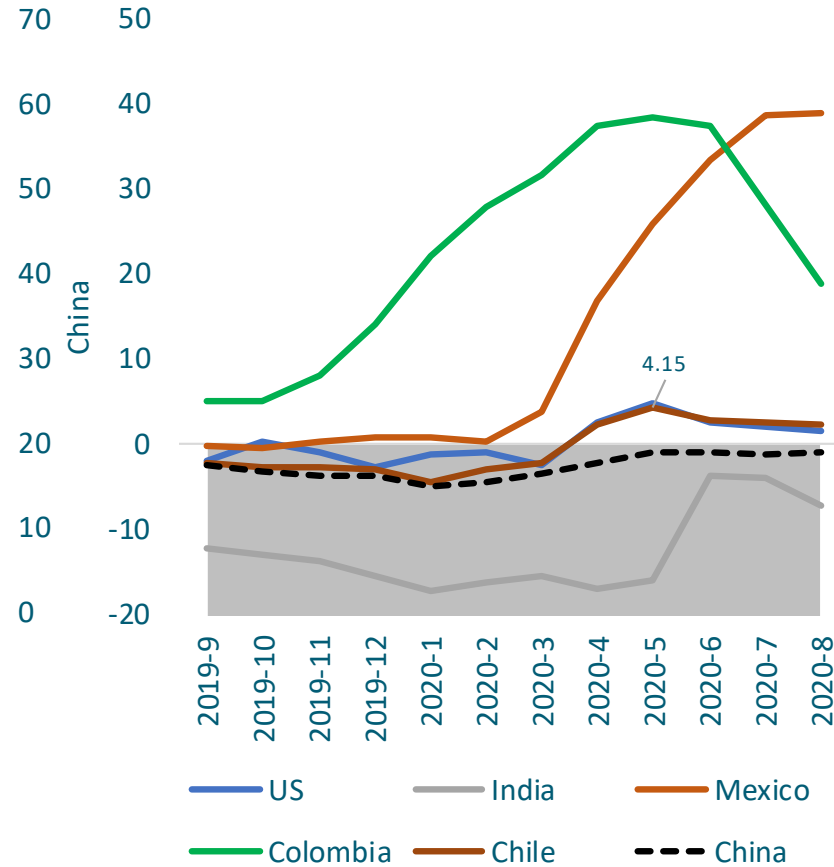
GLOBAL ECONOMY

Covid-19: Shock and impacts

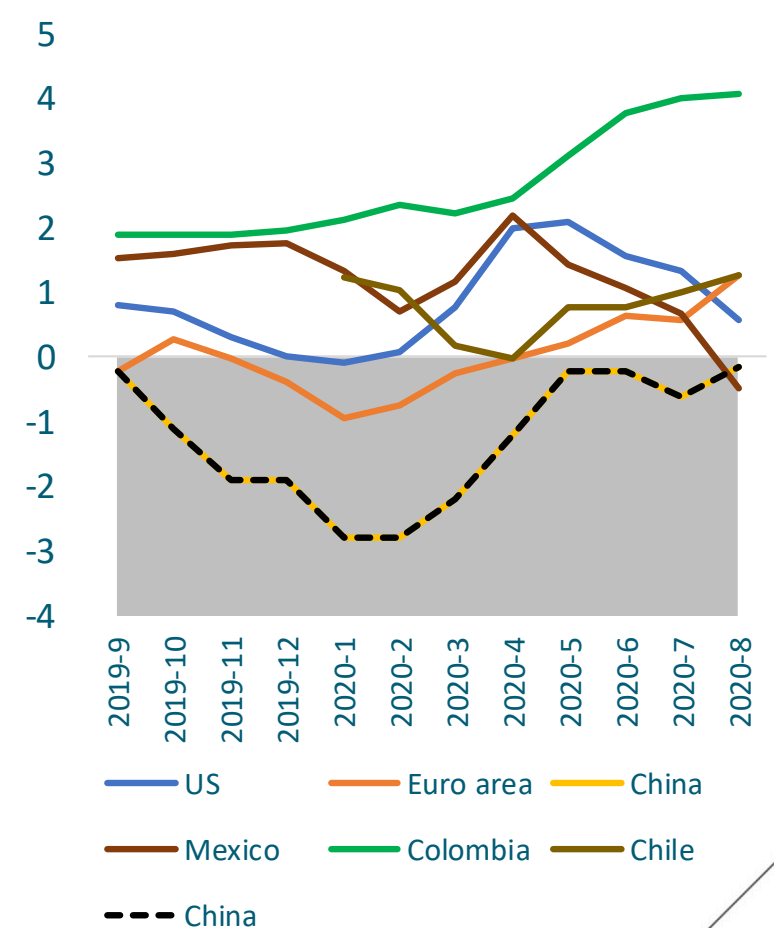
Difference between meat inflation and CPI (p.p.)



Difference between rice inflation and CPI (p.p.)



Difference between education inflation and CPI (p.p.)

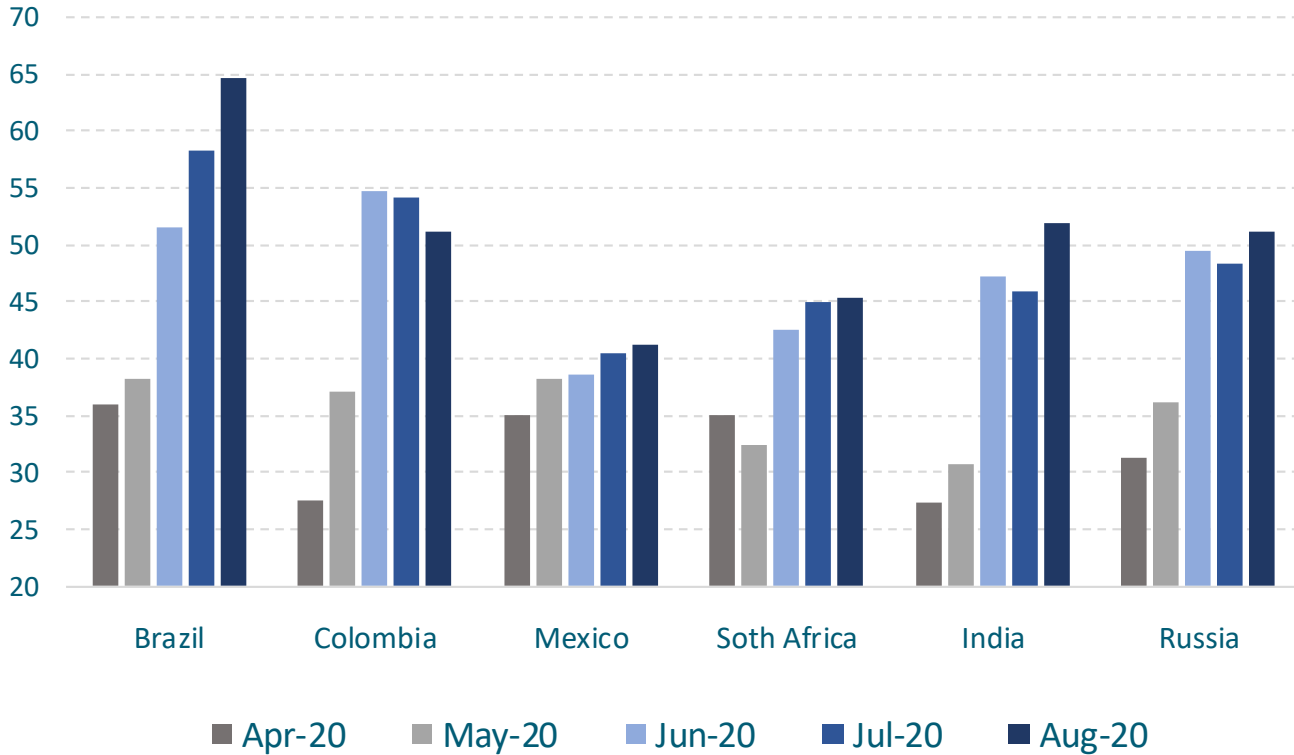


Source: Google, Thomson Reuters

Emerging Markets

Signs of recovery

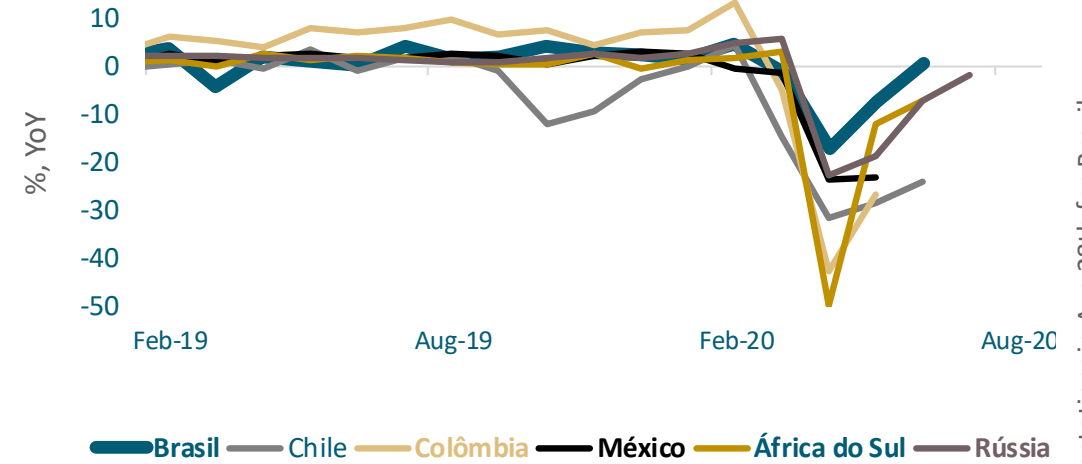
PMI Manufacturing



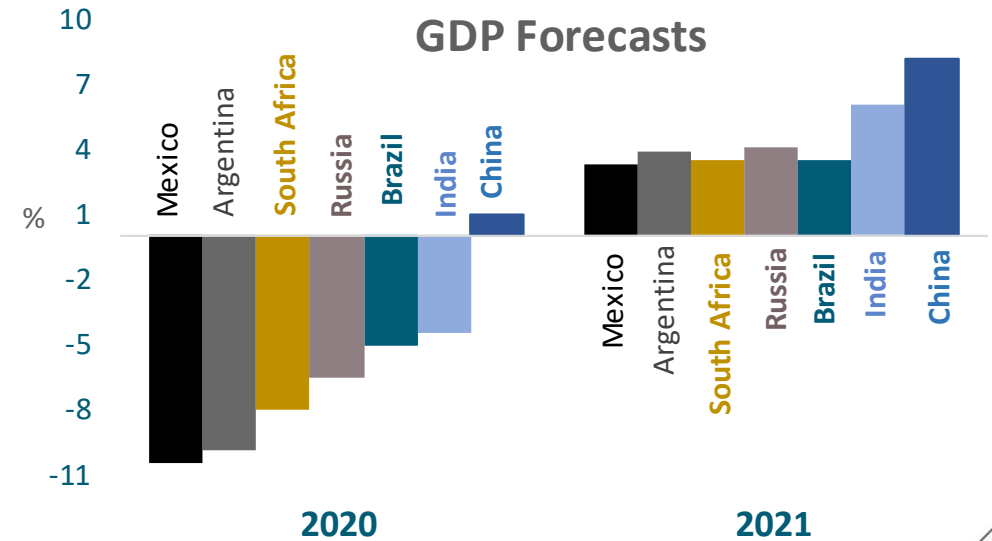
GLOBAL ECONOMY

Covid-19: Shock and impacts

Retail sales



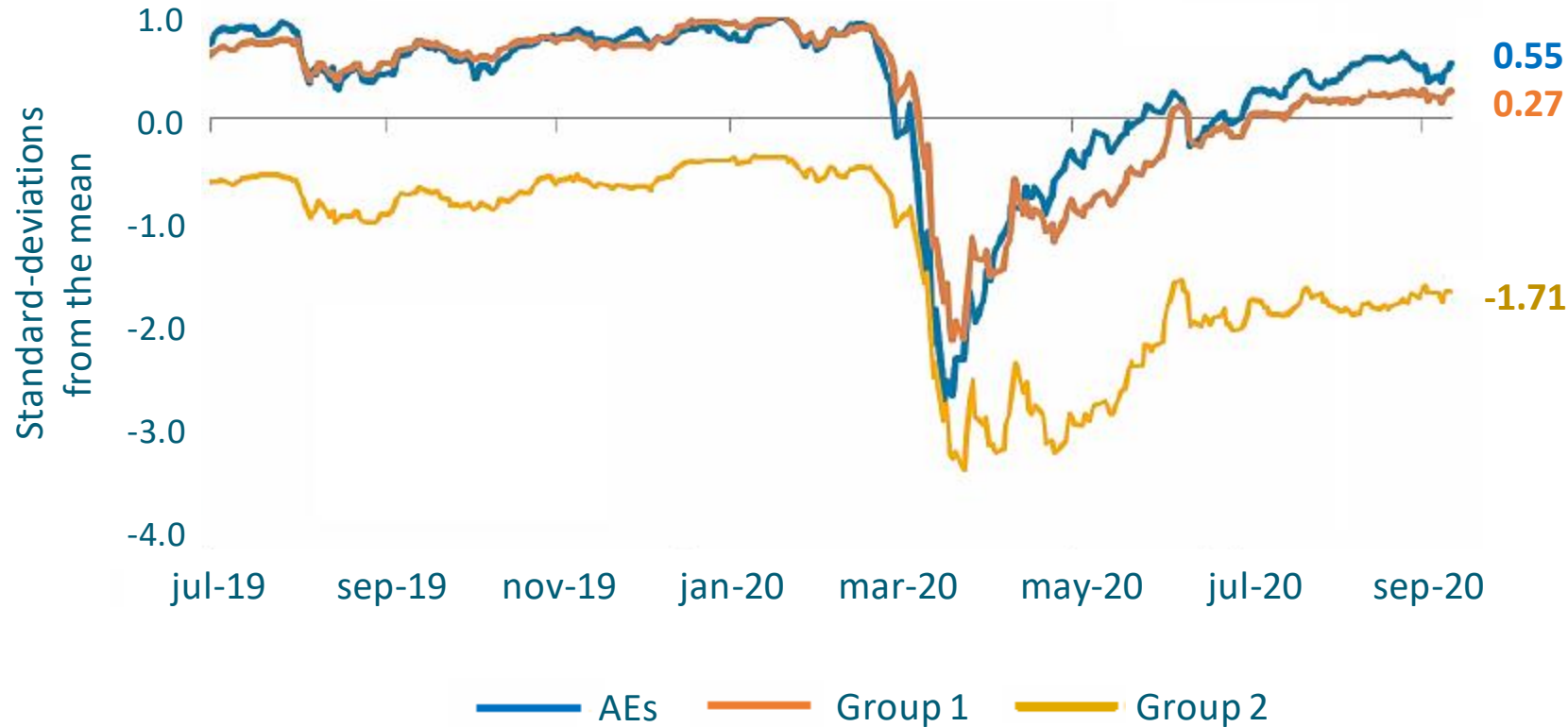
GDP Forecasts



Sources: Markit; Focus Market expectations in Aug 28th for Brazil and June IMF forecasts for the other countries; Bloomberg

Financial conditions still restrictive for emerging countries with unfavorable economic fundamentals

Risk Appetite



Group 1:
Malaysia, Indonesia, Poland, Chile and Russia.

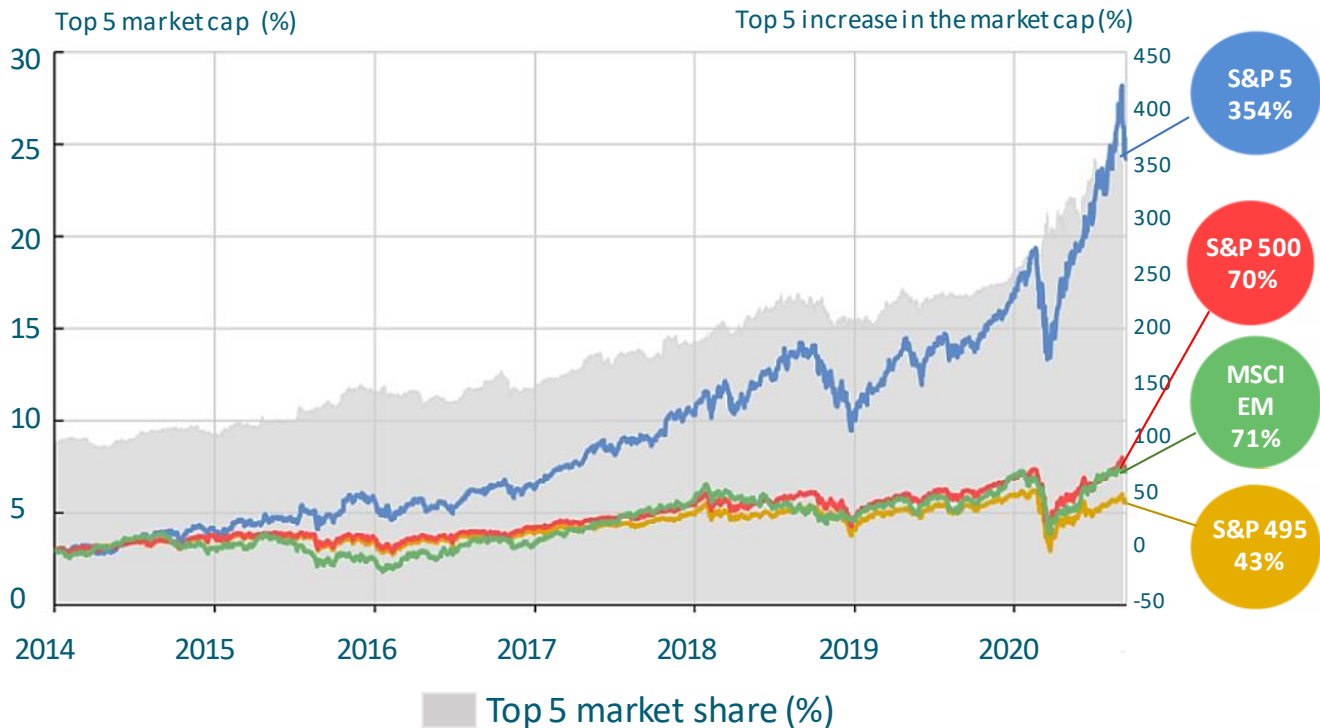
Gross Debt/GDP (average) = 35.7%

Group 2:
Brazil, South Africa, Turkey, Colombia, Mexico and India.

Gross Debt/GDP (average) = 61.1%

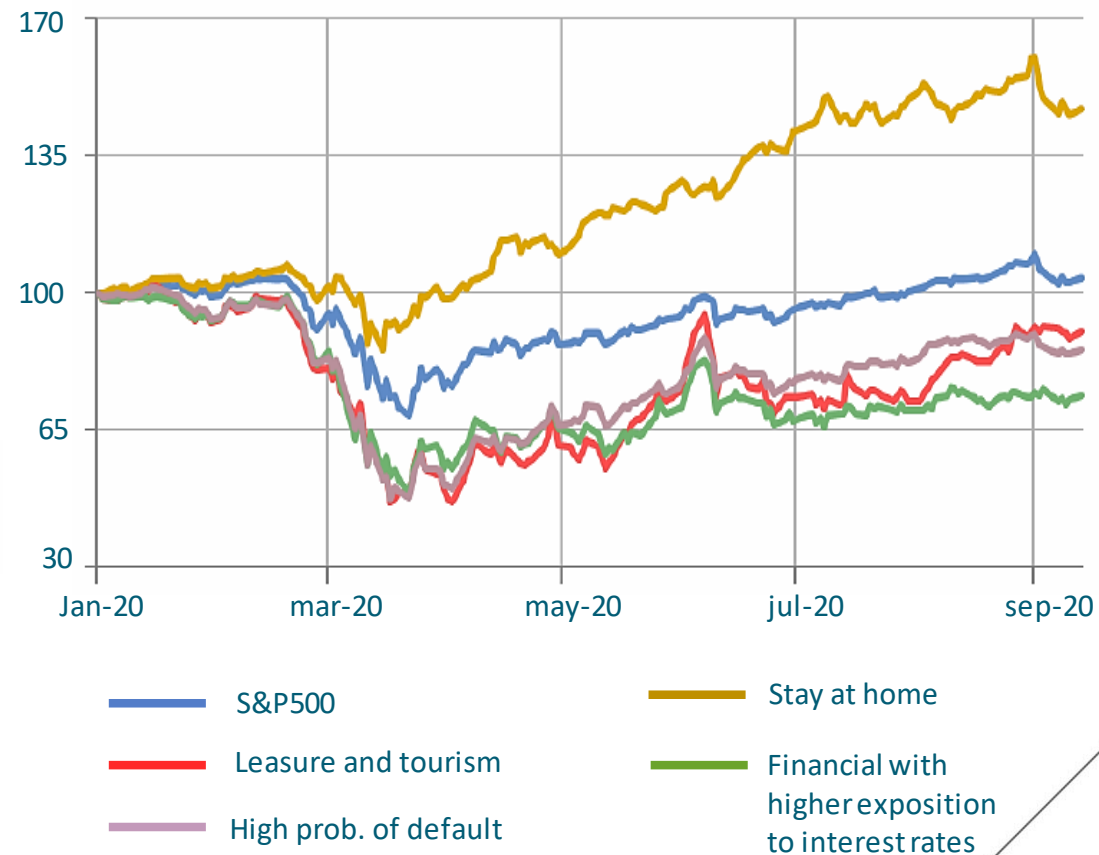
Source: BCB, Bloomberg. Gross Debt: IMF.

Top 5 show strength in the stock market, despite the recent drop. Recovery is uneven. Low interest and default risks harm the financial sector.



Top 5: Amazon, Apple, Facebook, Google, Microsoft

Baskets of S&P and reopening



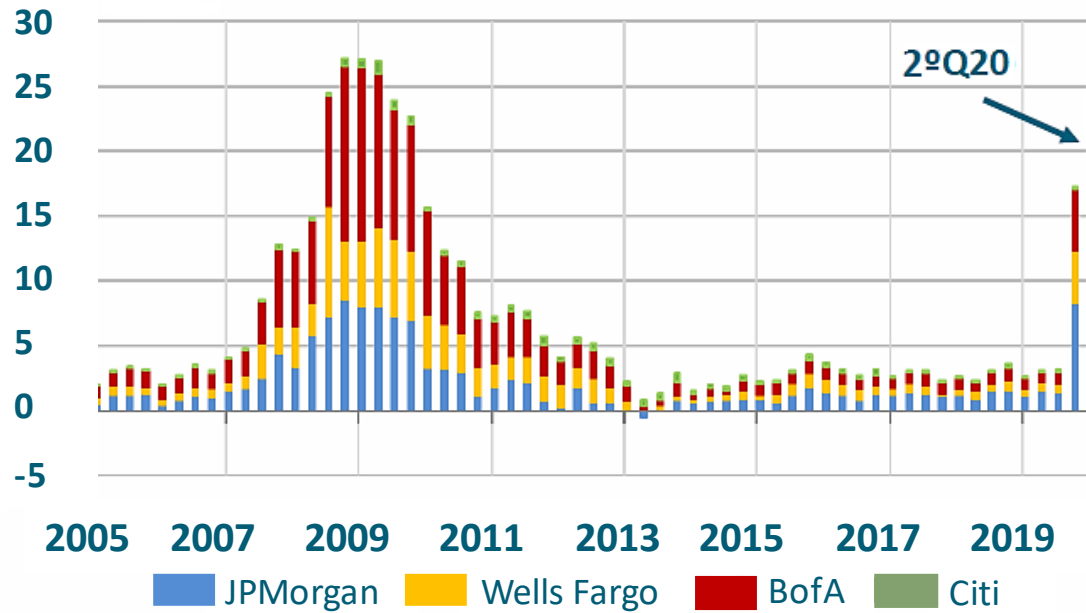
Source: Bloomberg, GS

Loss provisions

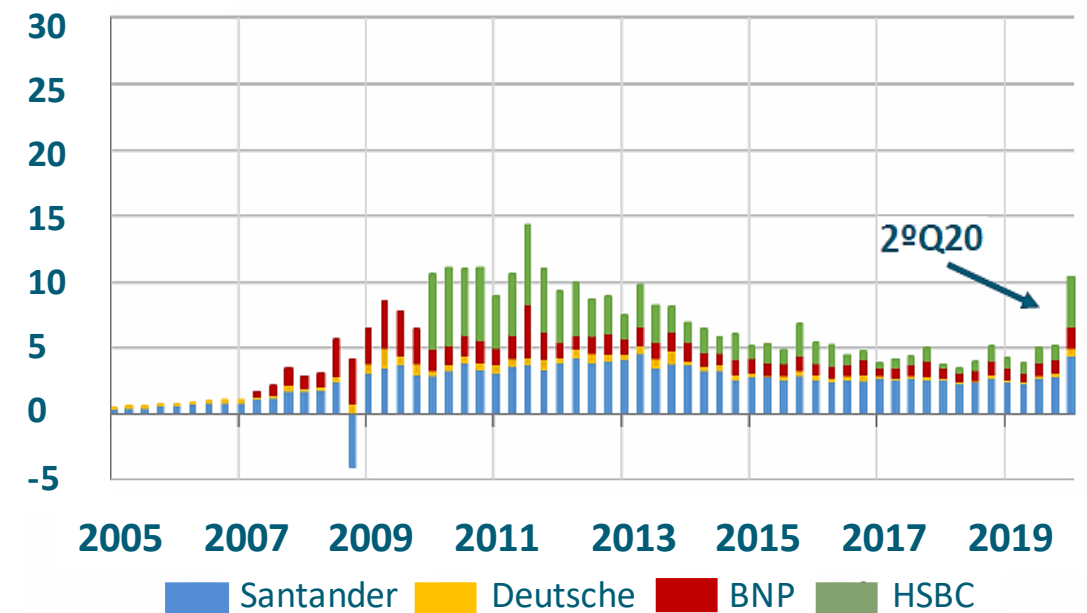
Increase in loss provisions still suggests caution

Loss Provisions (US\$ bn)

US



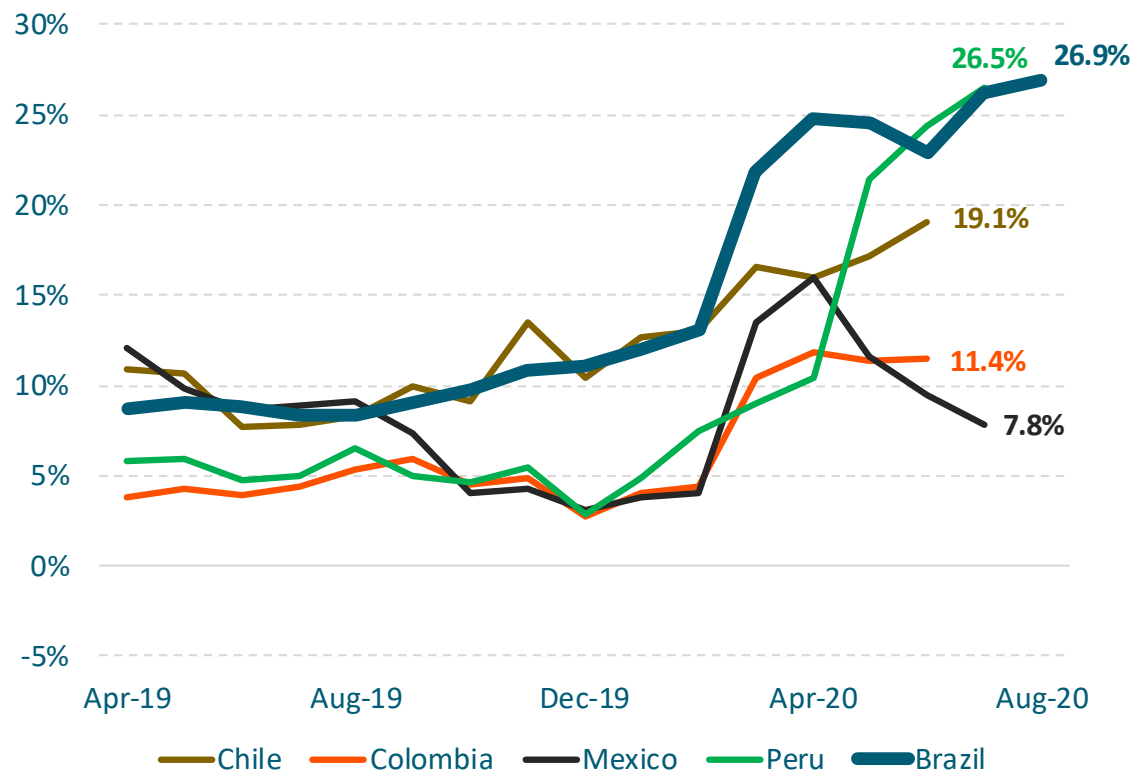
Europe



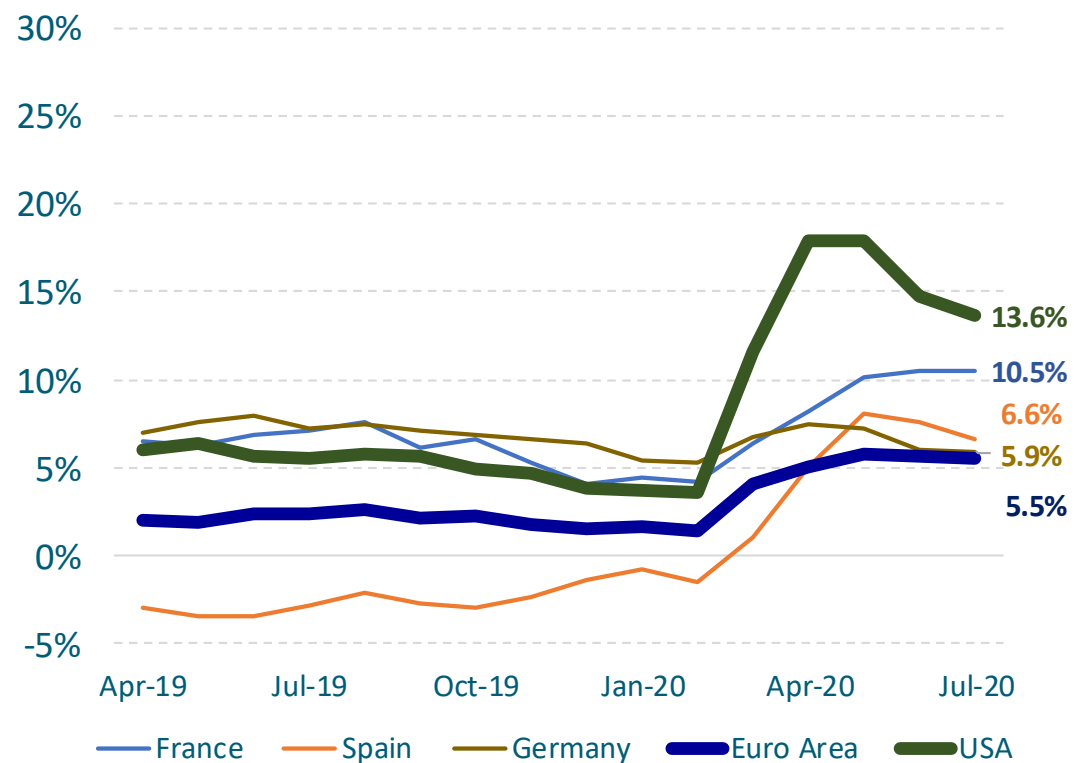
Source: Bloomberg

Credit growth for business

EMEs (% Y/Y)



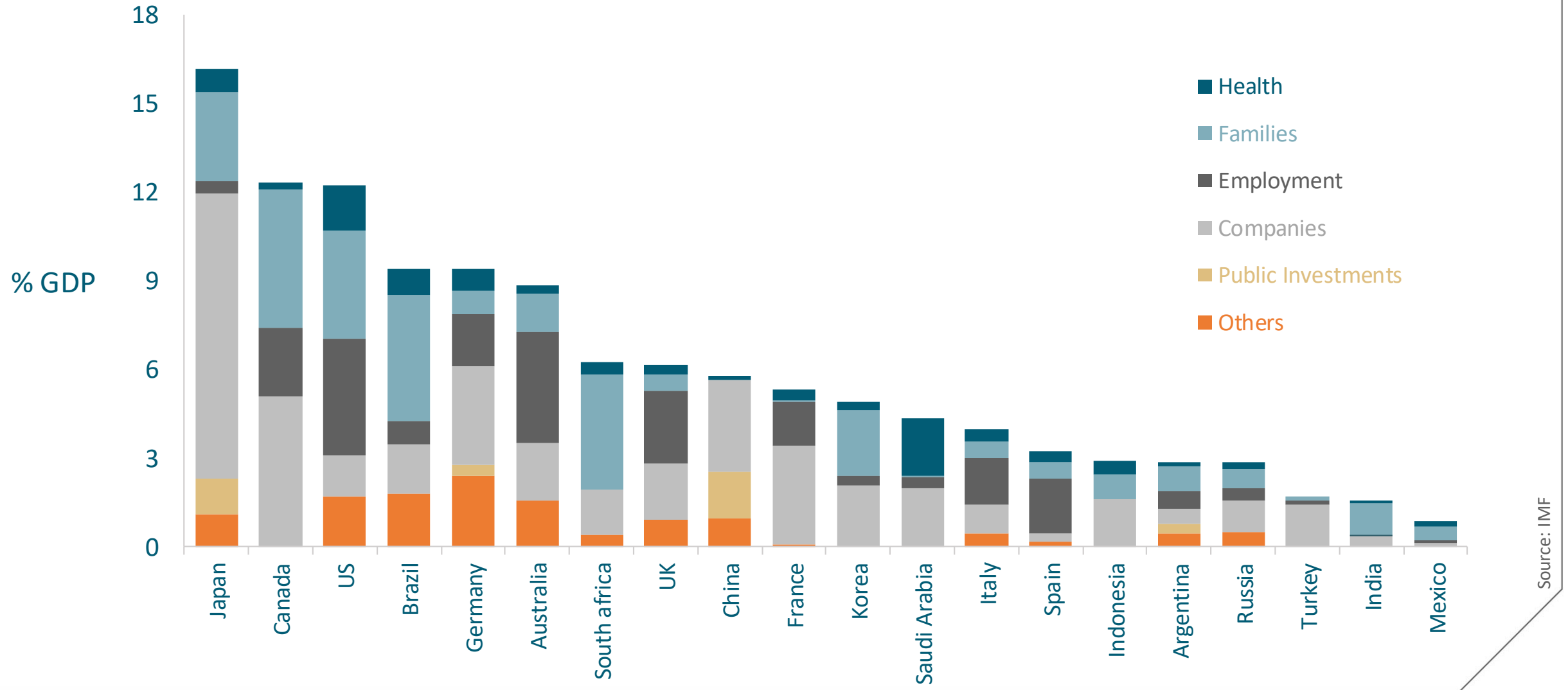
AEs (% Y/Y)



Sources: BCB, Datastream, Bloomberg. Brazilian data refers to nonmarket credit to business.

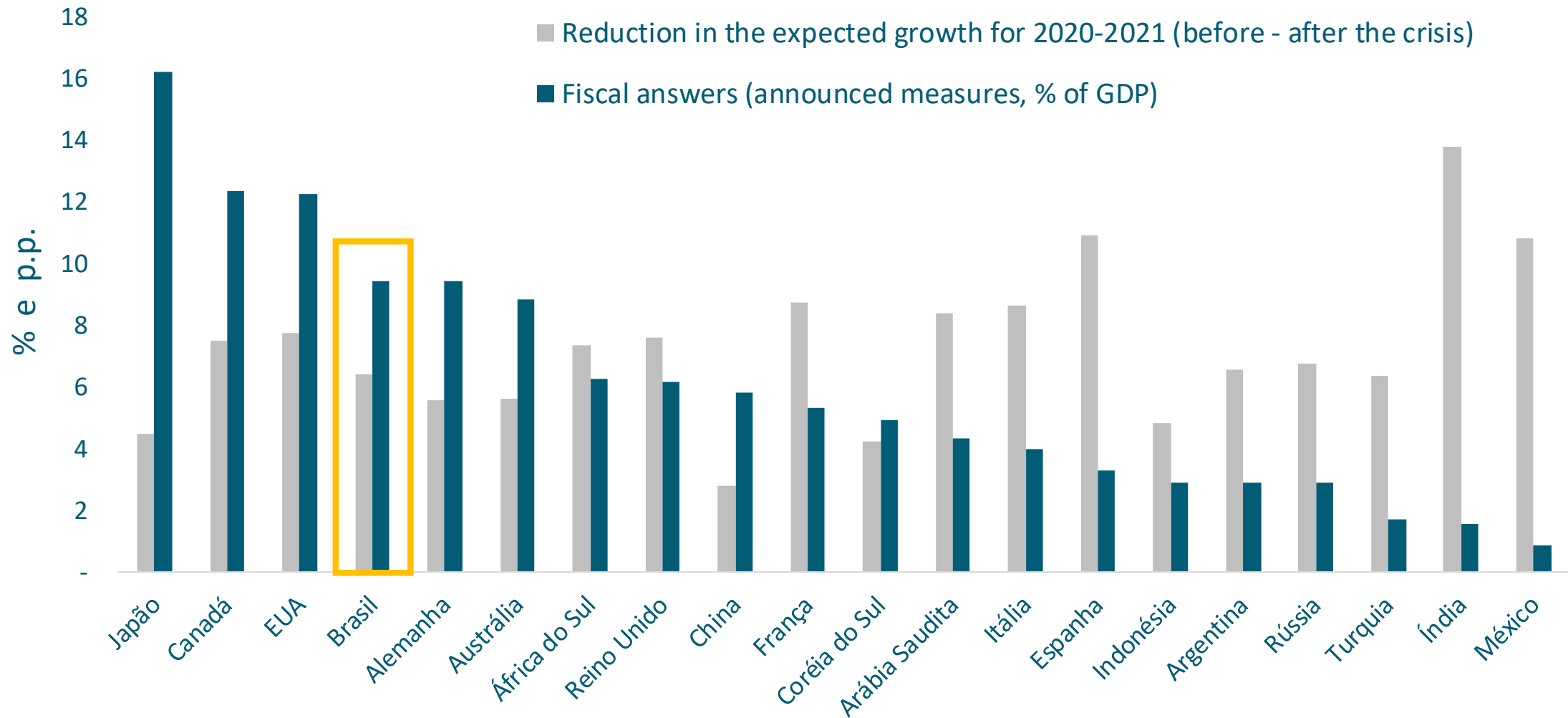
Fiscal response

Announced measures – comparative view



Source: IMF

Fiscal response x GDP



Source: IMF. Expected growth before the pandemics: WEO October 2019.; Brazilian growth = Focus

The roles of monetary and fiscal policies

Monetary and fiscal policies have well-defined roles

Monetary Policy Liquidity



Fiscal Policy Solvency



If not properly managed, liquidity problems can become solvency problems

The roles of monetary and fiscal policies

Central Bank of Brazil and Ministry of Finance measures

Central Bank of Brazil

Ministry of Finance



- Monetary and FX policies
- Liquidity and Capital

- Credit measures

- Direct transfers
- Tax reliefs and deferrals



Summary of measures: BCB

Measures' impacts

Updated to 09/25

¹Potencial impact on credit provision.

* Credit operations volume potentially benefited by the measure.

** New measures.

Measure	2020		
	Potential	Implemented	2008
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\$ 50.5 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\$ 18 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\$ 40 bn	–
Total	R\$ 1274 bn	R\$ 341.9 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\$ 1.9 bn	–
Working capital for business preservation (CGPE)	R\$ 127 bn	R\$ 3.8 bn	–
Total	R\$ bn	–	–
More flexibility for credit renegotiations	*R\$ 3200 bn	R\$ 857.9 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\$ 5.3 bn	–
Real estate backed loans	R\$ 60 bn	**	–

Source: BCB

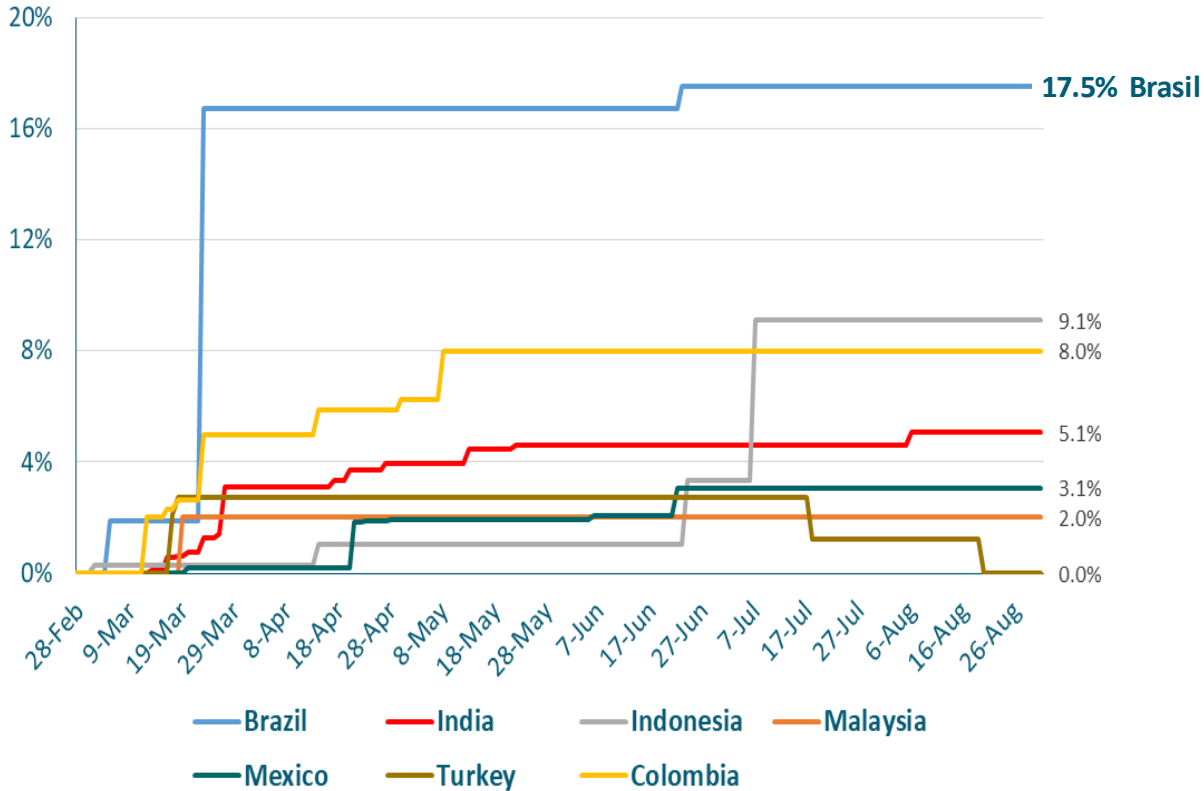
BCB's response

EMEs' Comparative Overview

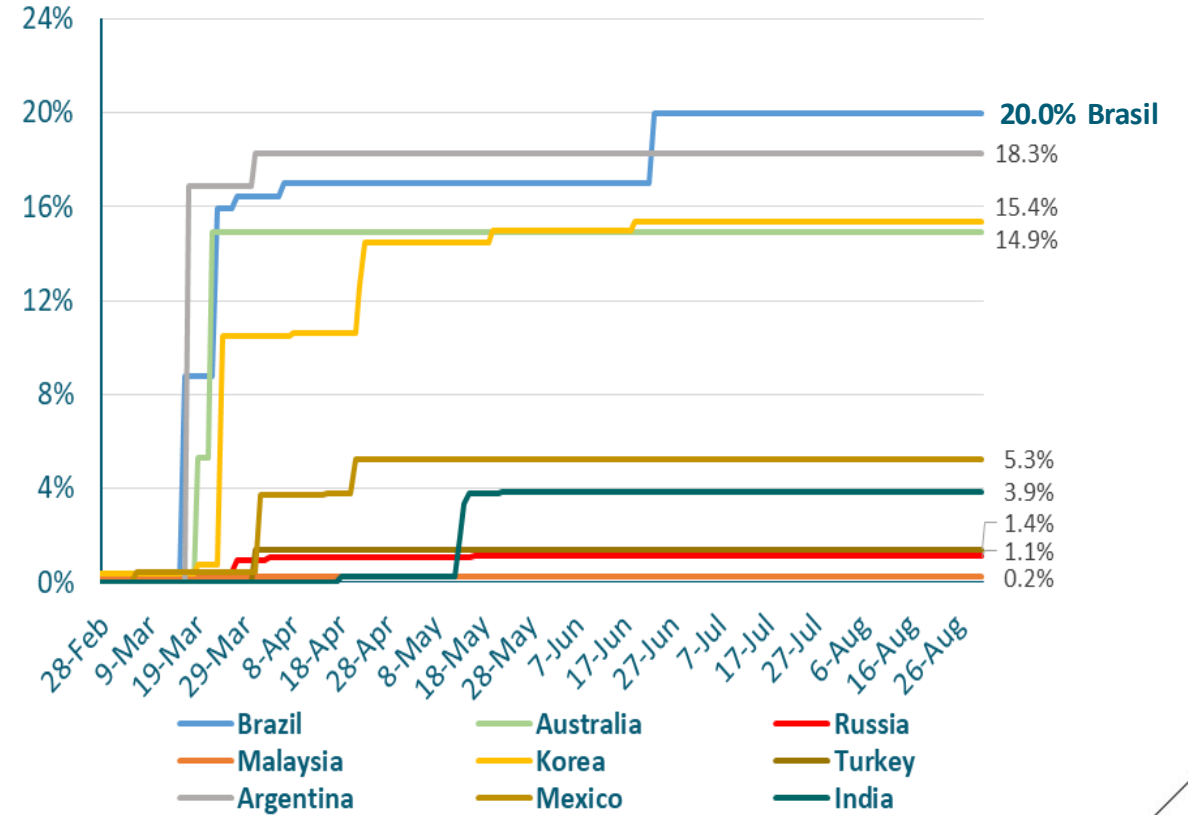
DOMESTIC ECONOMY

Facing the crisis

Liquidity Support (% of GDP)



Credit Support (% of GDP)



Sources: FSB/BCB – up to September 22nd

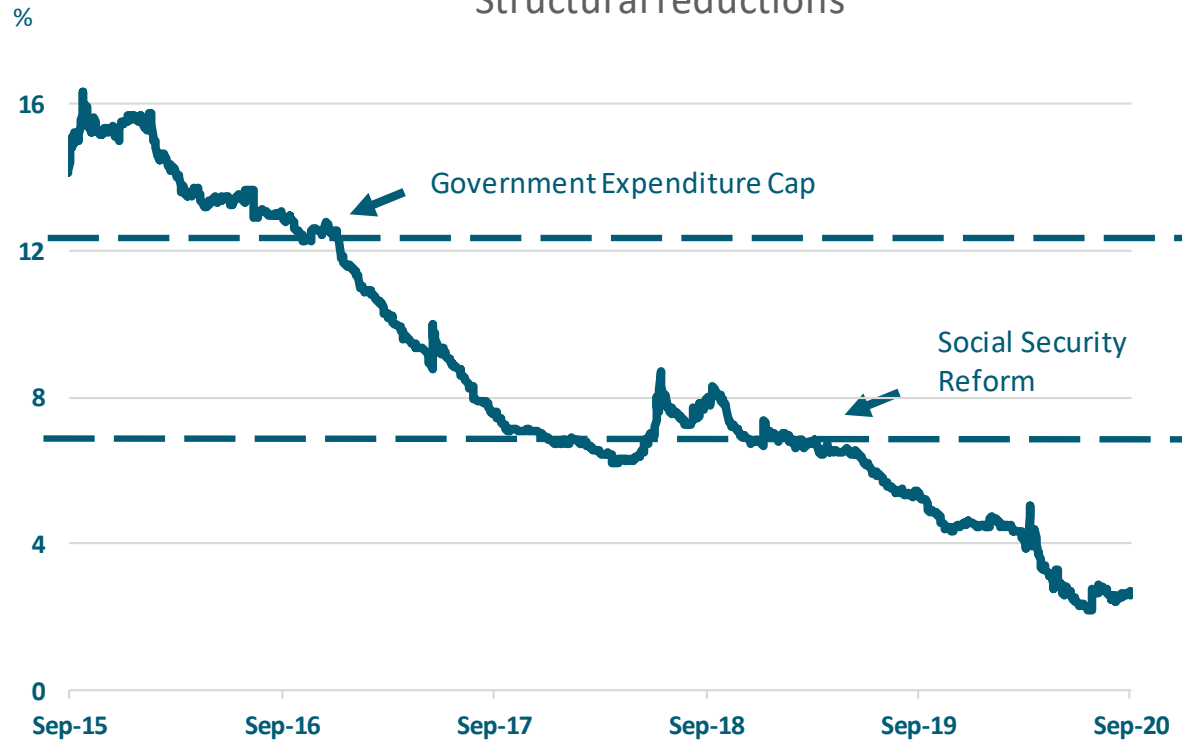
Room for conventional policies

Brazil: cautious MP actions

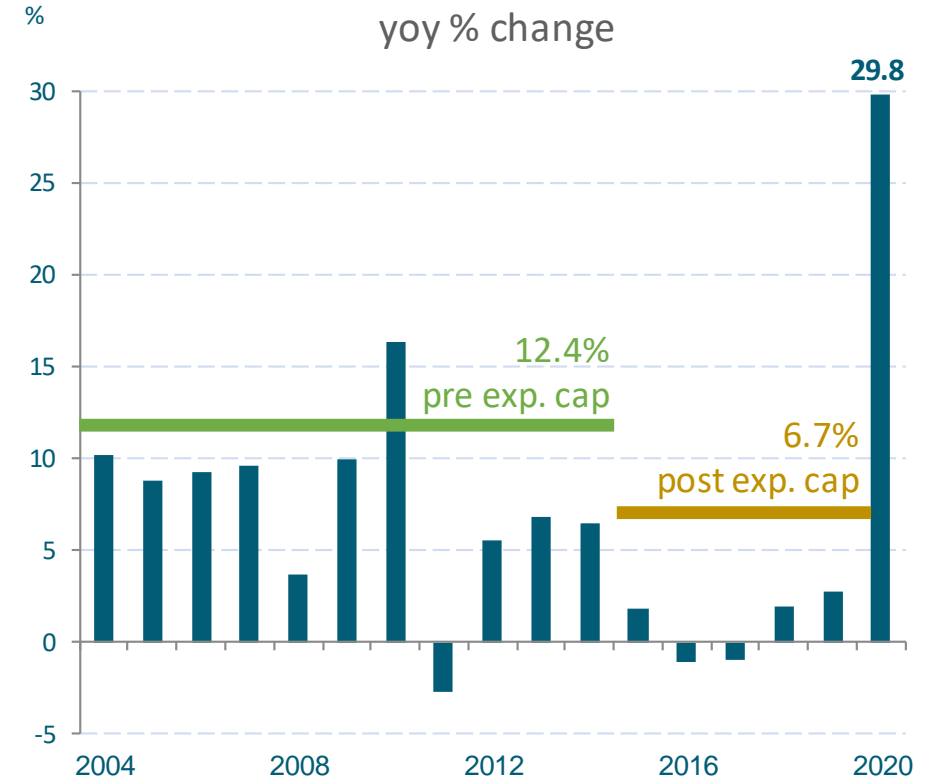
DOMESTIC ECONOMY

Fiscal and monetary policies interaction

1 Year Rate Structural reductions



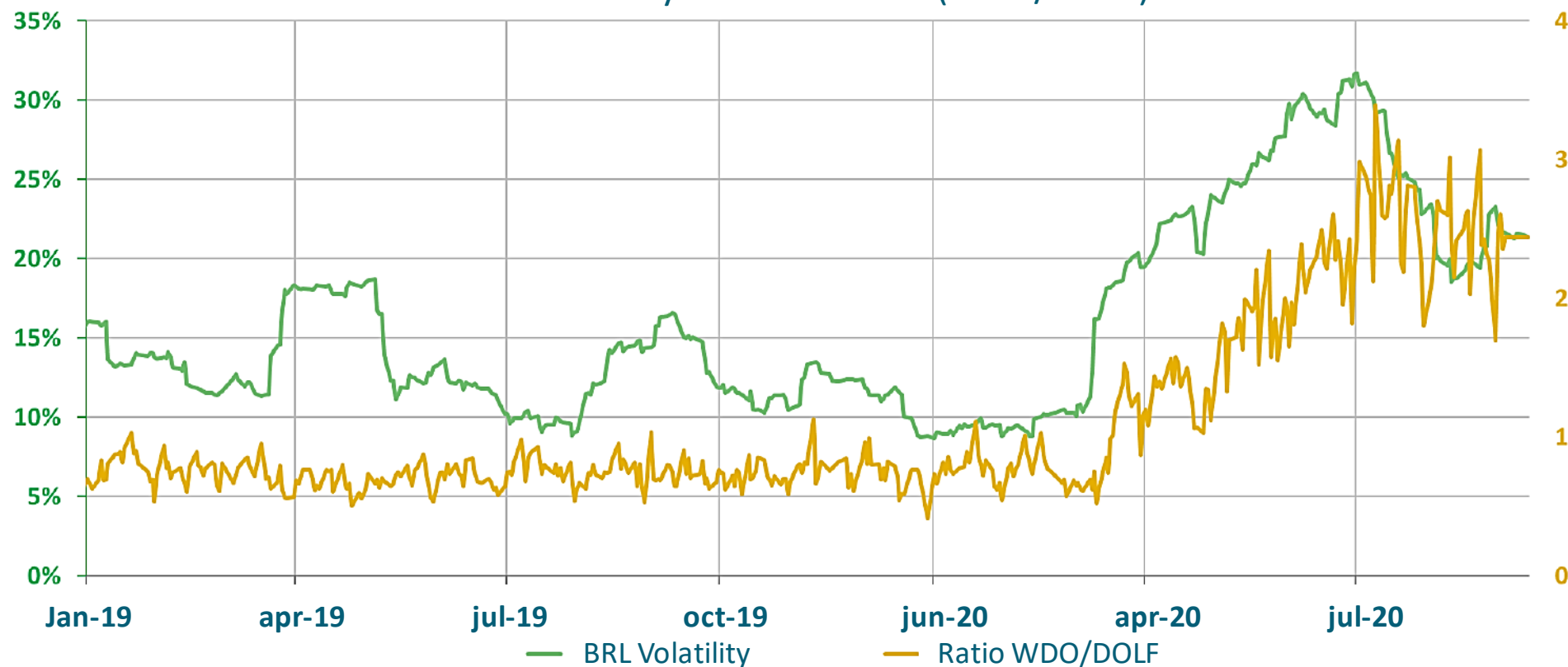
Real Public Spending yoy % change



Source: Bloomberg, BCB, 2020 forecast

- In other markets, the growth of mini-contracts usually increases liquidity and reduces bid / offer spreads.
- In the local FX market, there has been a coincident increase in volatility and the proportion of mini-contracts in the total volume. **There is not necessarily a causal relationship.**

BRL Volatility x Ratio Volume (WDO/DOLF)



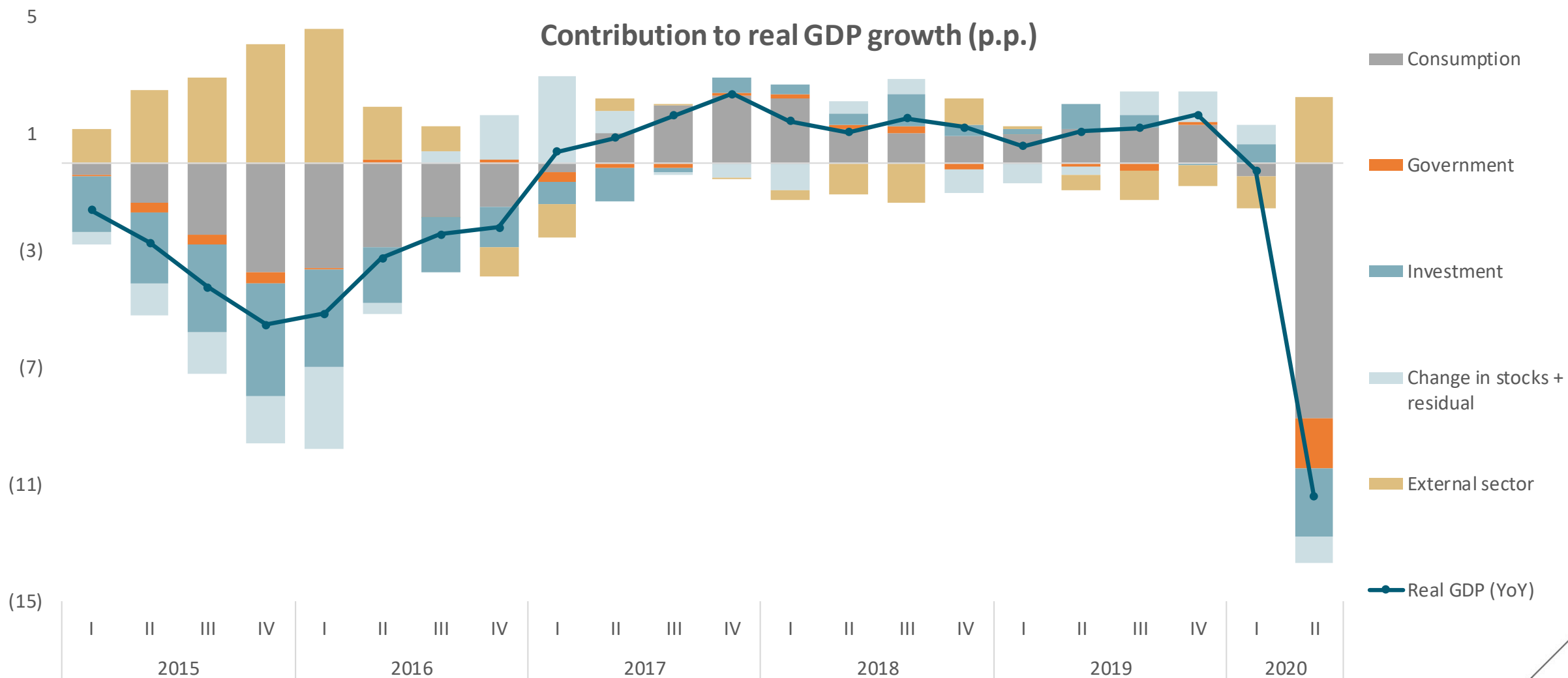
Sources: BCB and B3

Strong fall in 2Q2020 GDP

DOMESTIC ECONOMY

Covid-19: Shock and impacts

Consumption and investment fell



Source: IBGE

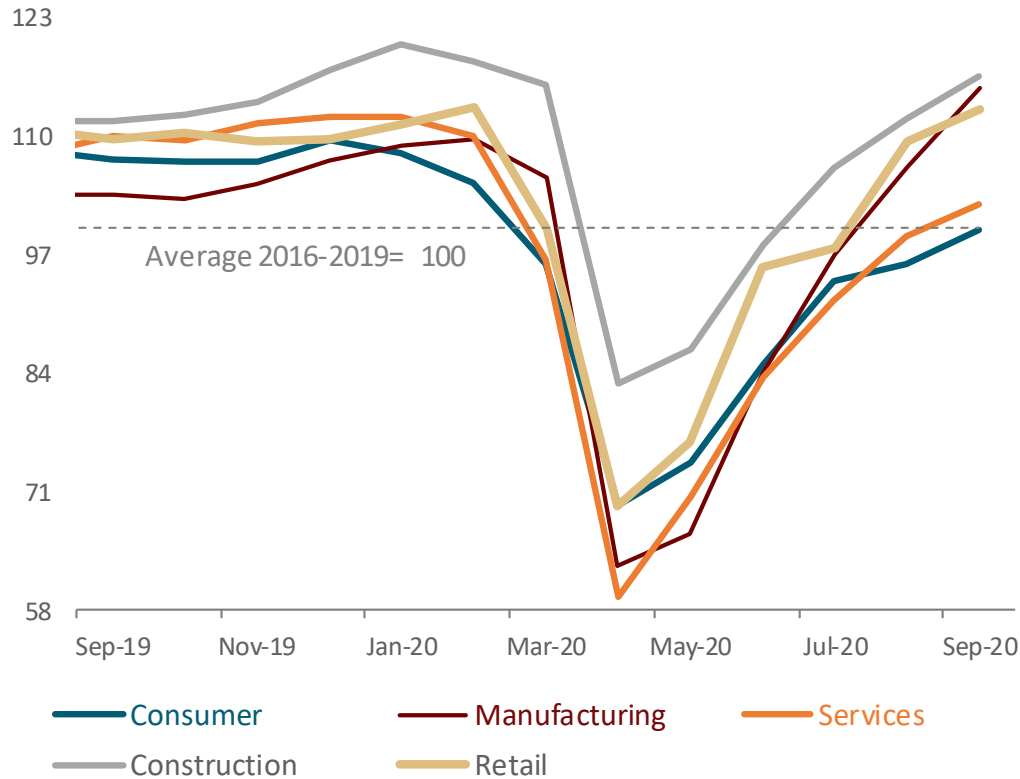
Impact of Covid-19: economic activity

DOMESTIC ECONOMY

Covid-19: Shock and impacts

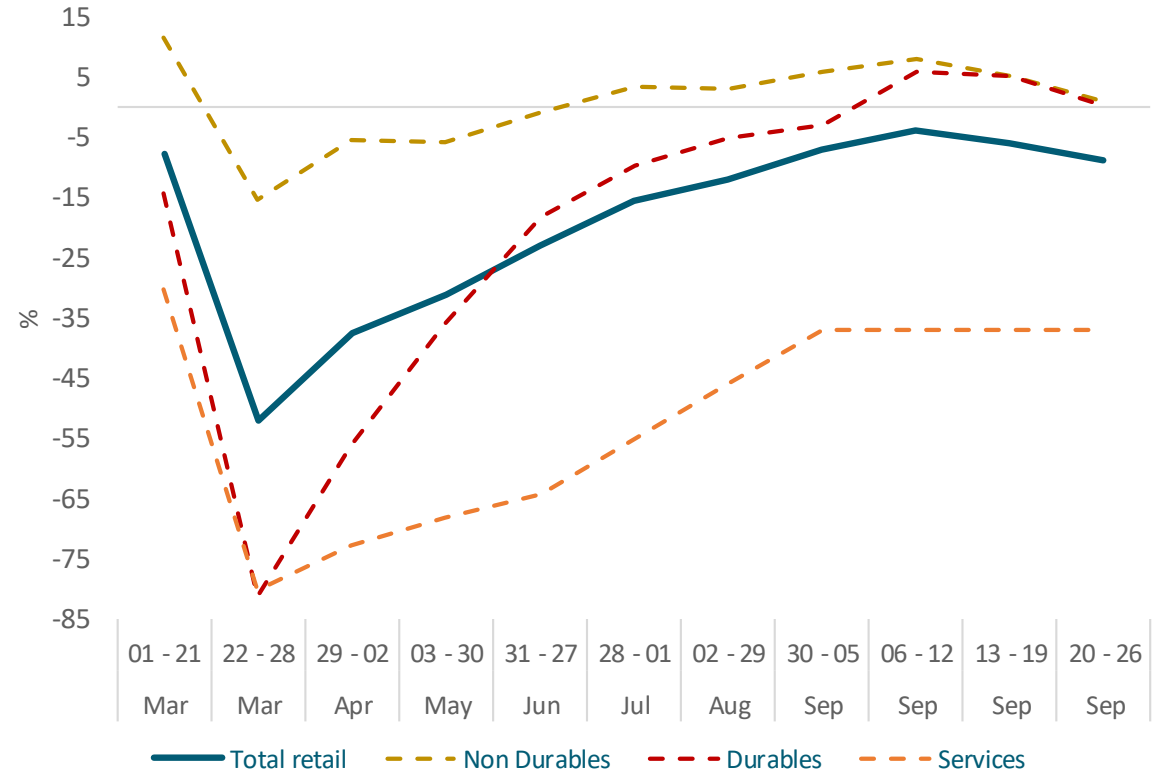
Partial recovery of activity. Sectors most directly affected by social distancing remain depressed.

Confidence indicators



Seasonally adjusted data.

Retail Sales – Cielo*



*Change in revenues in relation to the same days of Feb/20, with calendar adjustments.

Sources: FGV and Cielo

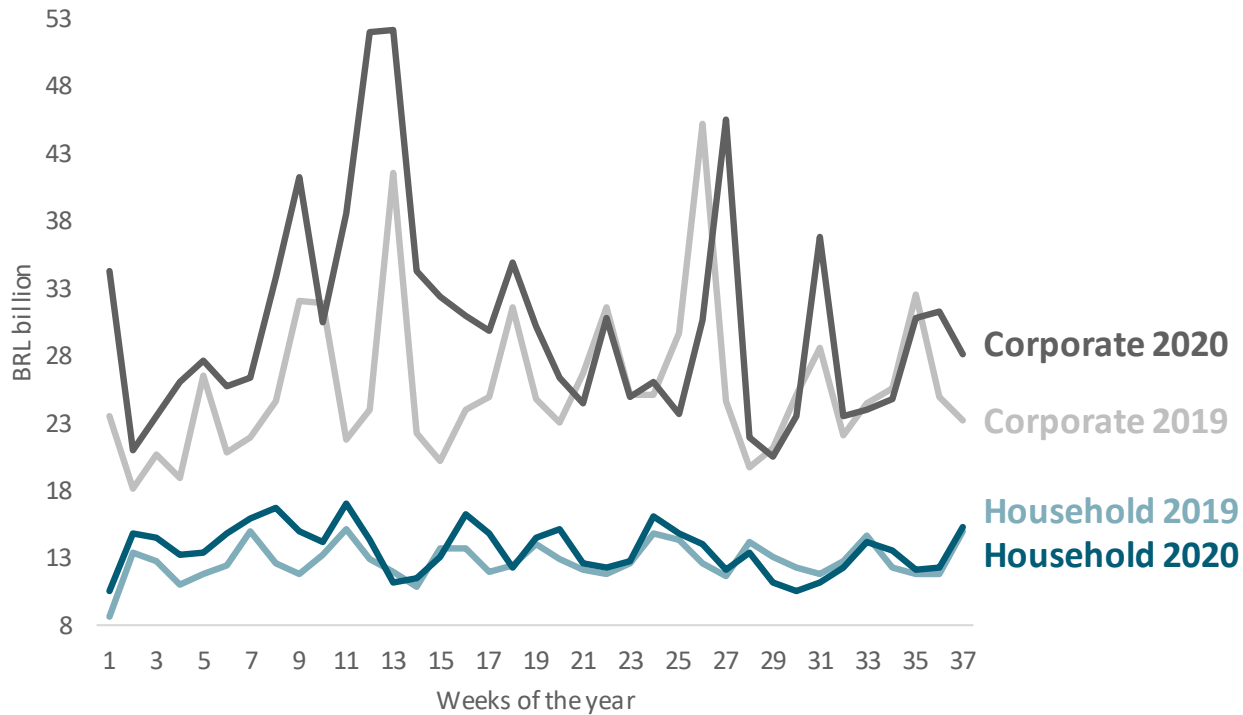
Nonearmarked credit

DOMESTIC ECONOMY

Outcomes: credit distribution

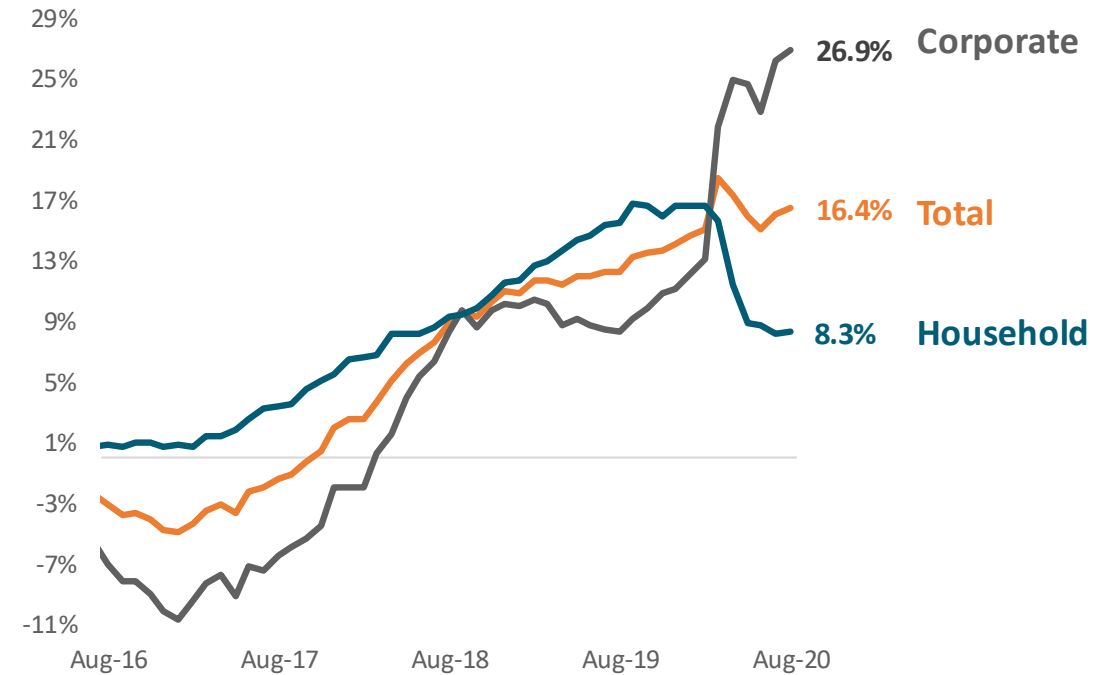
Credit increase amid the crisis. Corporate credit rises faster than household credit

Weekly new credit transactions*



Outstanding credit

(% m/m(-12))



* Not including overdraft and credit card. Weekly data, accumulated over the last five working days, up to September 11th.

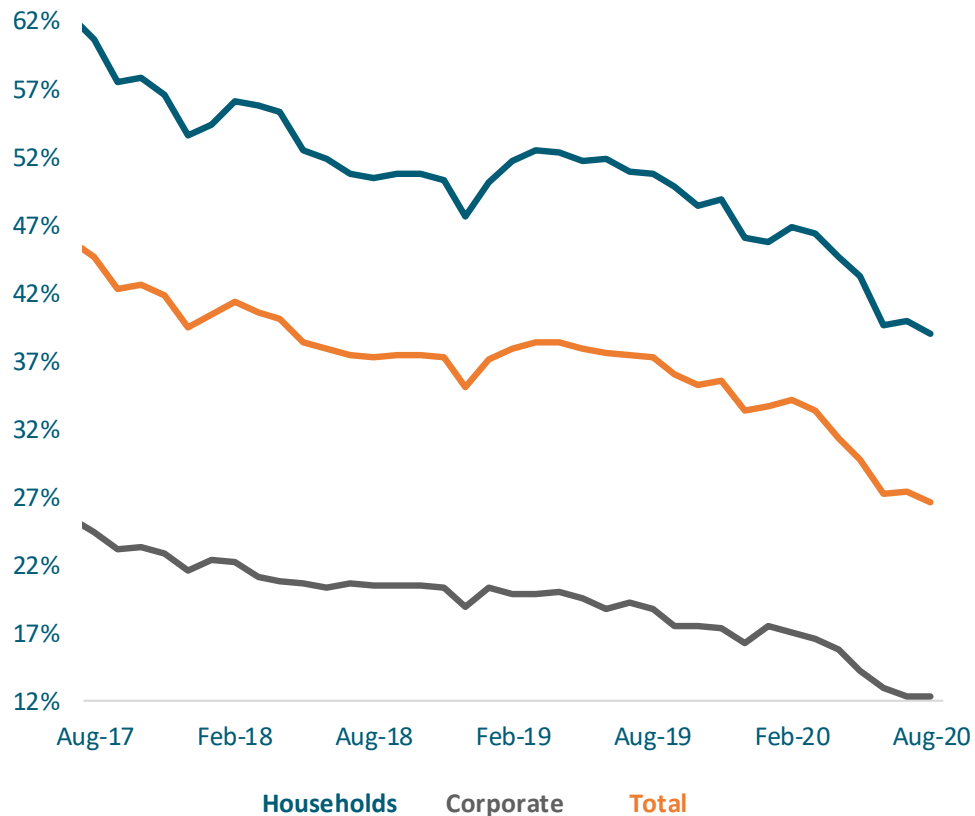
Interest rates: new credit transactions

DOMESTIC ECONOMY

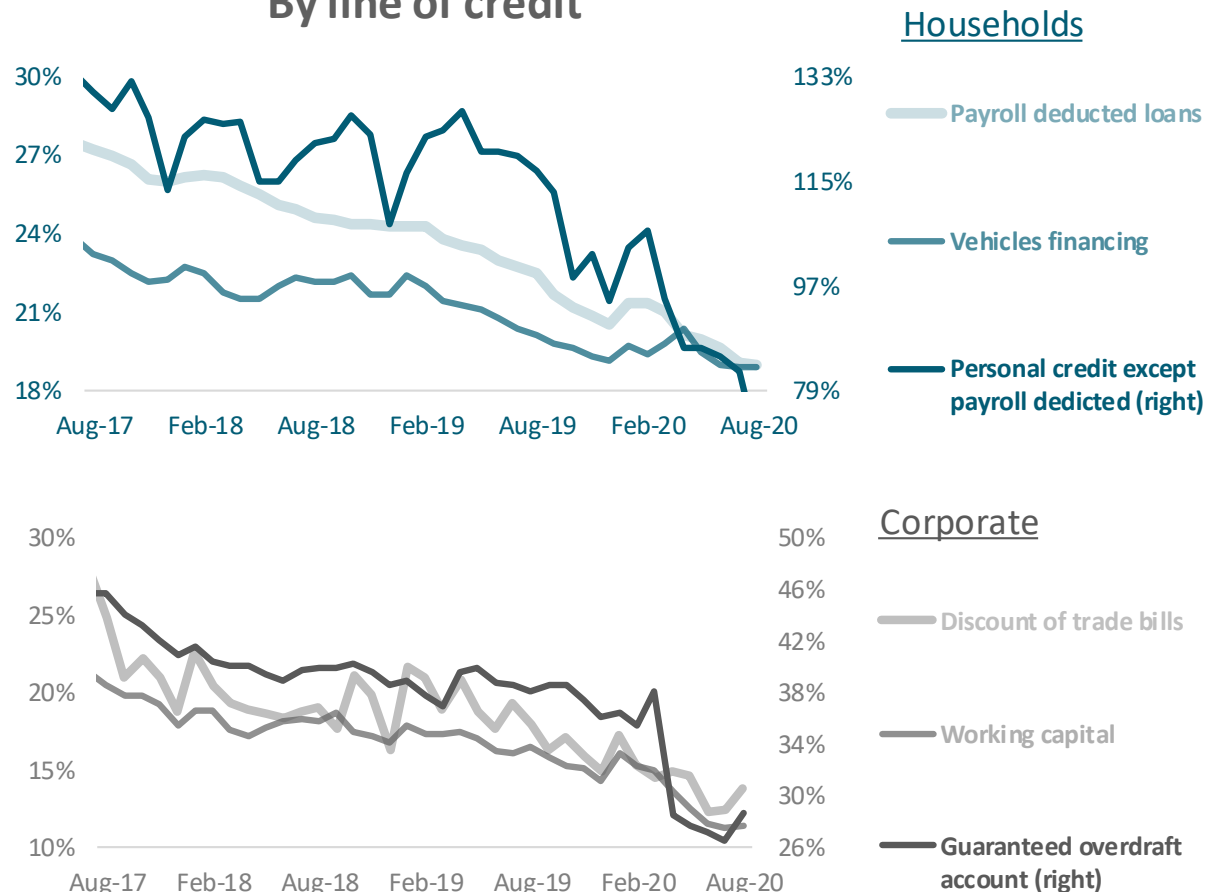
Outcomes: credit cost

Interest rates are falling

Interest rate
(% per year)



By line of credit



Source: BCB. Data refer to average interest rate in nonrenewed new credit transactions

New transactions and credit renewals

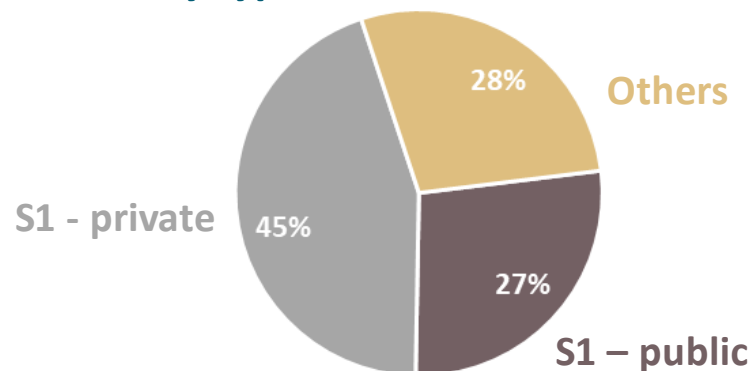
DOMESTIC ECONOMY

Outcomes: credit distribution

From March 16th to September 18th, in BRL billions

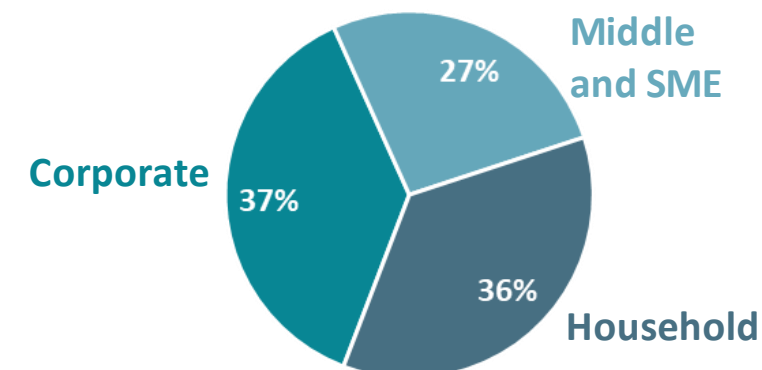
Type of financial institution	Segment	New transactions (1)					Credit renewals (2)				
		Corporate	Middle	SME	Household	Total	Corporate	Middle	SME	Household	Total
Banks	S1 - public	48.9	20.4	49.1	156.0	274.4	11.6	36.7	25.5	109.6	183.3
	S1 - private	304.4	70.4	71.6	138.1	584.4	88.1	19.9	15.8	41.5	165.4
	S2	66.2	17.1	2.6	32.9	118.8	5.1	0.6	0.1	0.3	6.1
	S3	63.9	27.7	6.1	44.9	142.6	15.6	3.3	1.5	9.6	30.0
	S4	19.5	19.4	4.3	12.2	55.5	2.3	3.7	0.2	6.2	12.4
Cooperatives	S3, S4 and S5	2.7	18.7	28.4	48.2	97.9	0.7	2.5	2.8	3.9	9.9
Total		505.5	173.7	162.1	432.2	1,273.5	123.4	66.7	45.9	171.1	407.1

By type of financial institution



New transactions + credit renewals

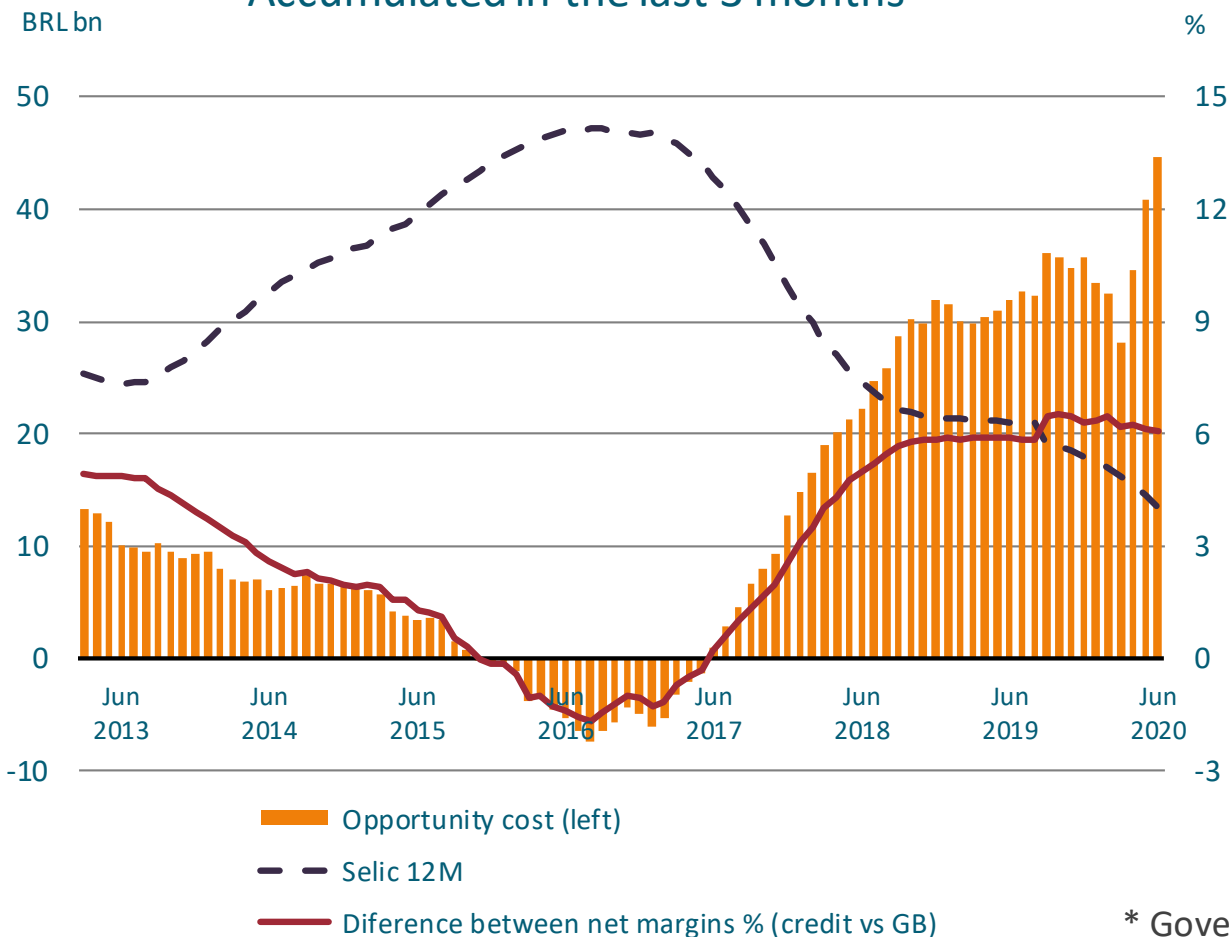
By type of client



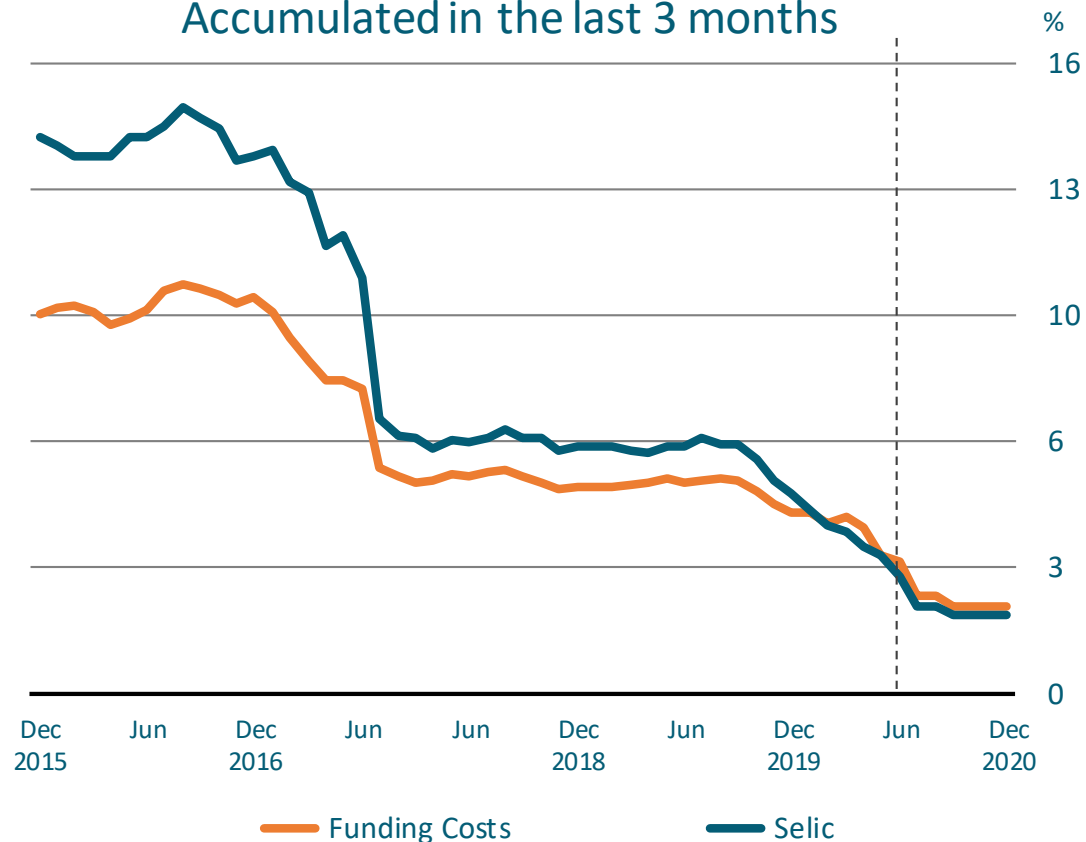
(1) Includes debentures totaling BRL 46.2 billions. (2) Includes: full renewal of the credit operation, including new credit; as well as renegotiations with changes in interest rate and guarantees.

Source: BCB

Opportunity costs - credit vs GB* Accumulated in the last 3 months



Funding costs – Banking System Accumulated in the last 3 months

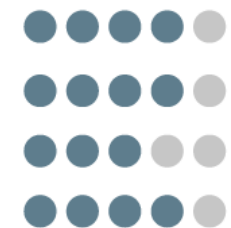


* Government bonds

Source: BCB

INCLUSION

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



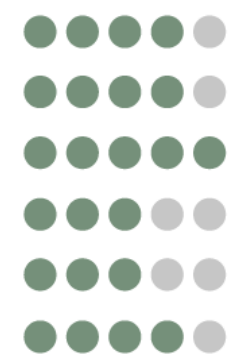
COMPETITIVENESS

- 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





Means of payment - Pix

- Financial and payment institutions applied to membership and started homologation cycle
- Regulation approved
- To be launched in November 2020



Availability



Convenience



Various use cases



Speed



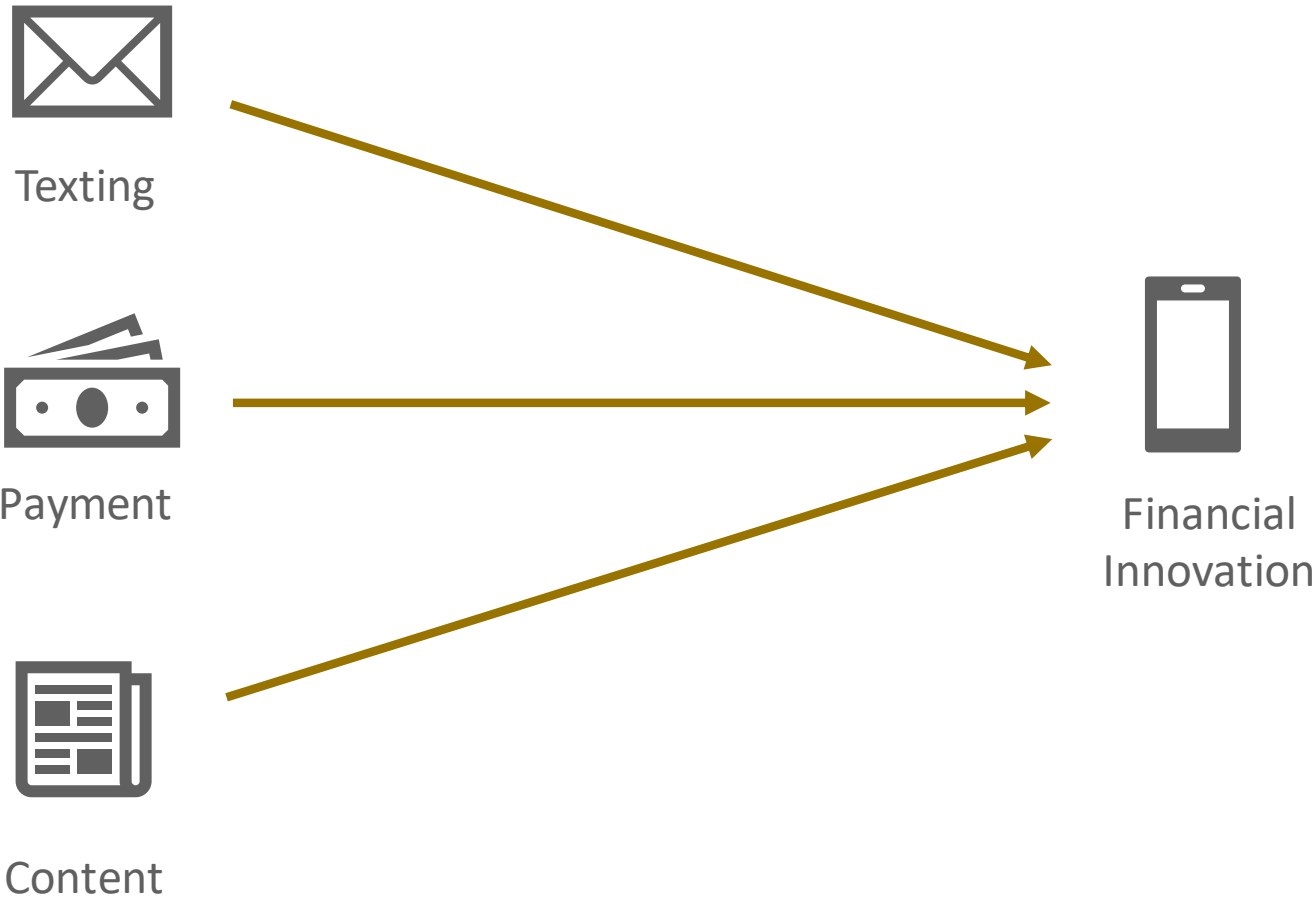
Open environment



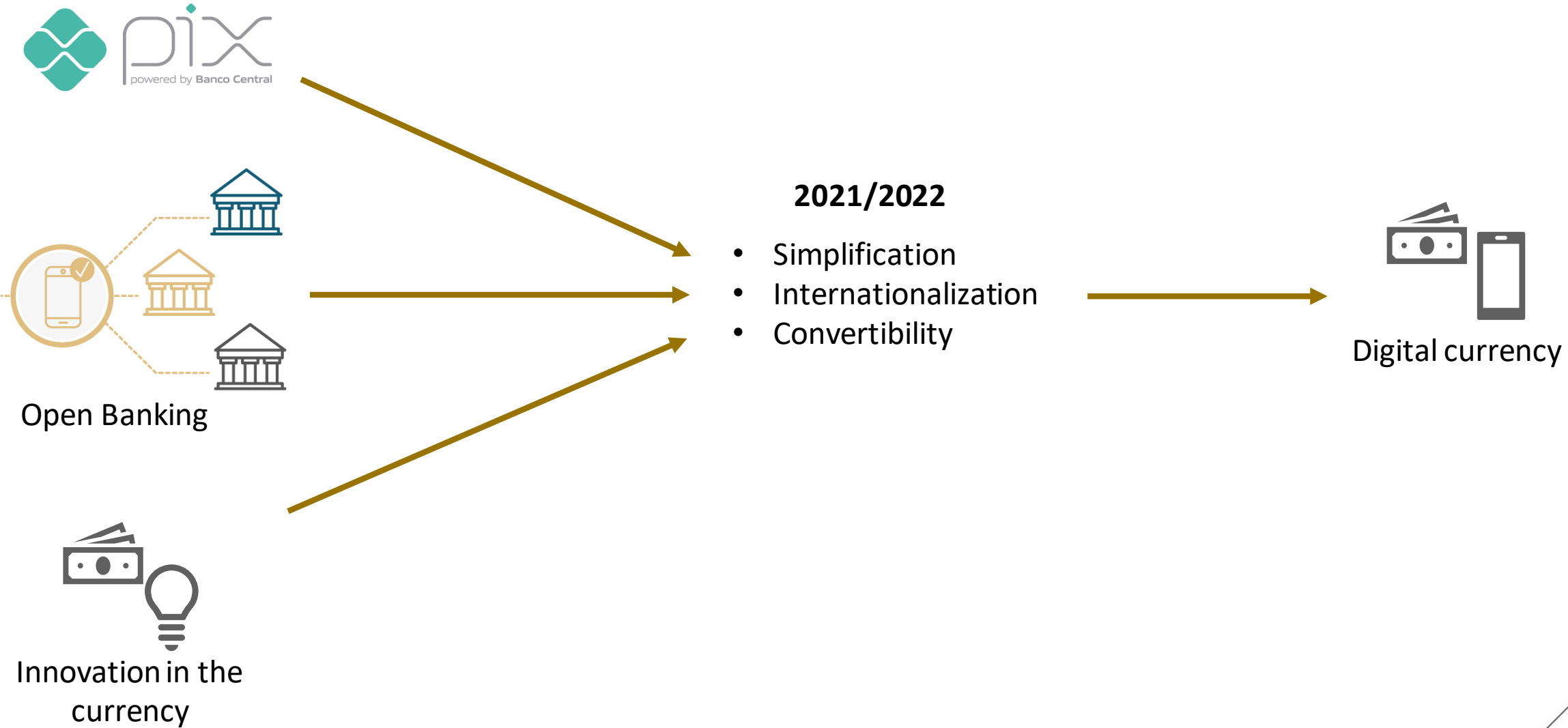
Enriched data



Safety

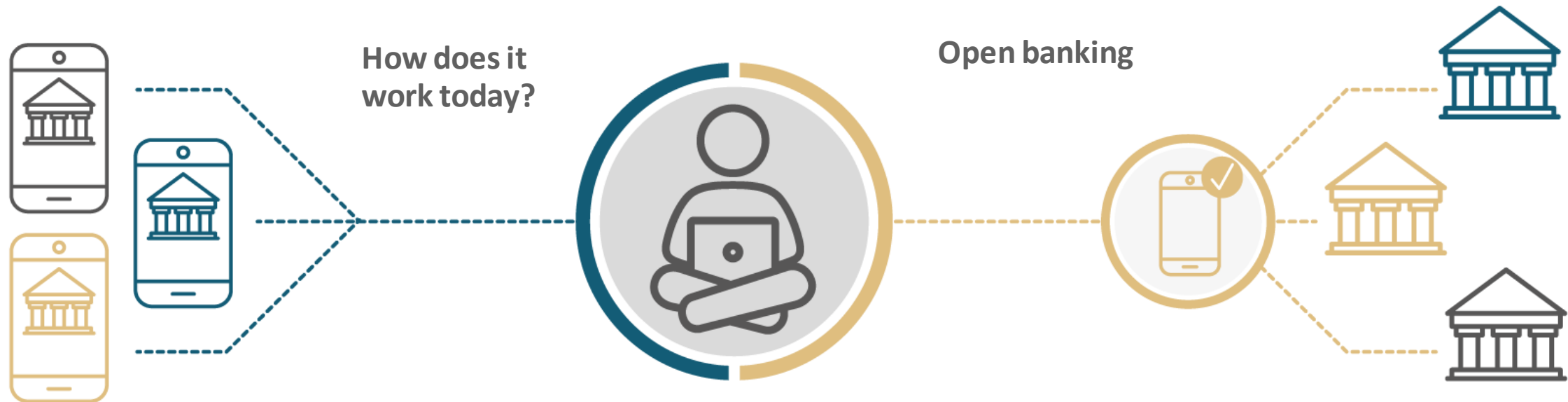


Innovation in the financial system



Open banking

- Operating rules approved
- Implementation schedule



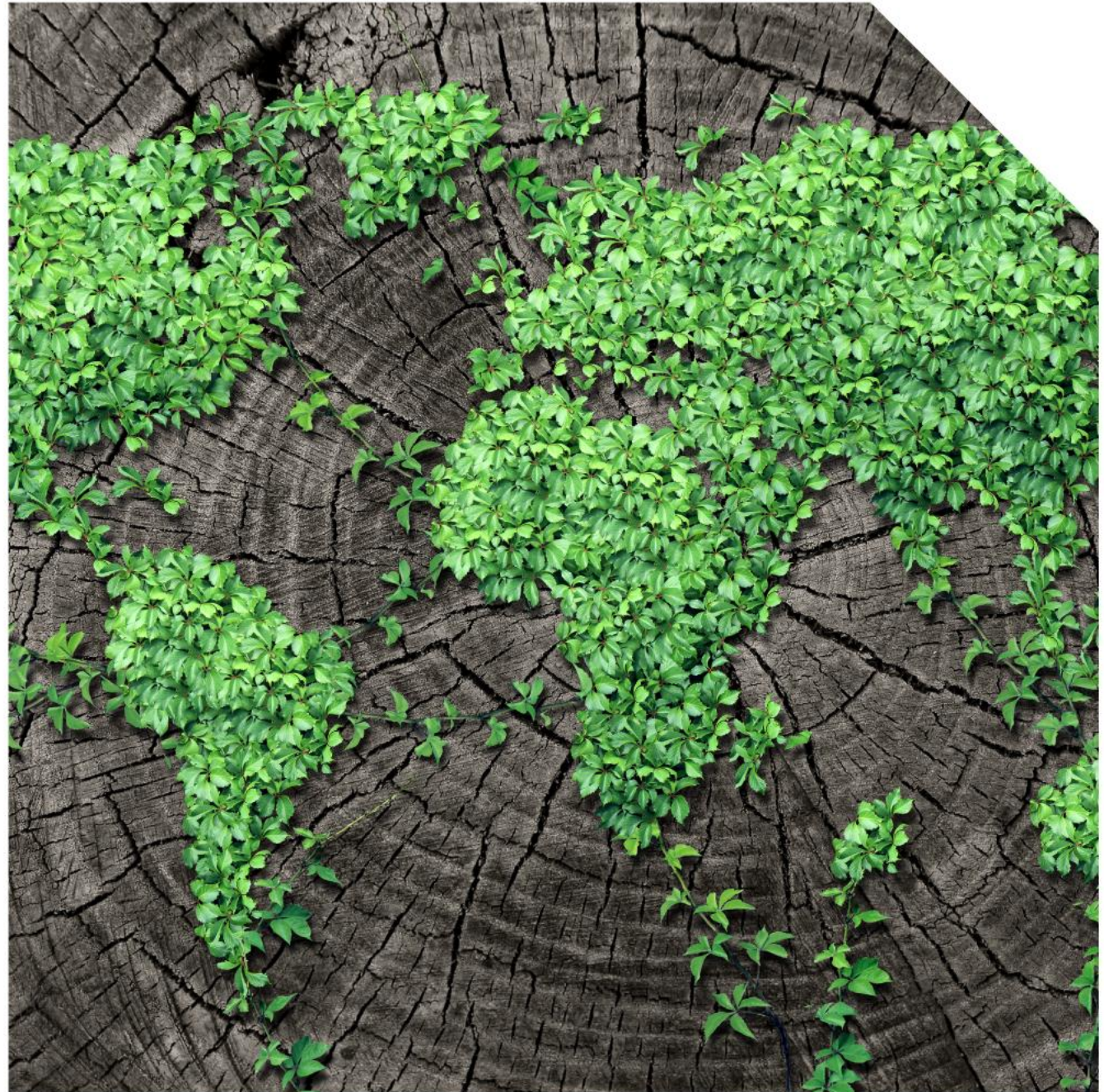
- Measures to fight the economic effects of the Covid-19 crisis
- Regulation on issuance of electronic trade receivables
- Open banking regulation
- PIX - BCB's means of payment
 - Brand launch
 - Homologation phase; public release expected for November/2020
- Credit cooperatives allowed to issue Real Estate Credit Bills (LCI)
- Agreement between BCB and the National Treasury Secretariat (STN) to use instant payments



BCB Sustainability

Measures:

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



#Sustainability: highlights

BCB's social and environmental responsibility

- Strengthening internal environmental awareness
- Inclusion of the theme in the Museum of Economy
- Reduction of the environmental impact of the money cycle
- Review of the BCB's S&E Responsibility Policy
- Implementation of TCFD* recommendations'
- Integrated risk management at the BCB

Partnerships

- BCB joins the Network for Greening the Financial System (NGFS)
- Memorandum of Understanding with the *Climate Bonds Initiative (CBI)*

* TCFD - Task Force on Climate-related Financial Disclosures



#Sustainability: highlights

Policies

- Creation of the 'Green liquidity facility'
- Inclusion of sustainability criteria in the management of international reserves

Supervision

- Structuring and broadening the scope for collecting information on S&E risks
- Monitoring of climate risks and stress tests



#Sustainability: highlights

Regulation

- Management of S&E risks by financial institutions – Regulatory enhancement of Resolution No. 4.327/2014
- Improved transparency based on TCFD recommendations
- Creation of the 'Green Bureau' for rural credit
- Establishing incentives for green rural credit



Additional challenges in the post-Covid-19 period



Common factors in the recovery

More sustainable and
more inclusive growth

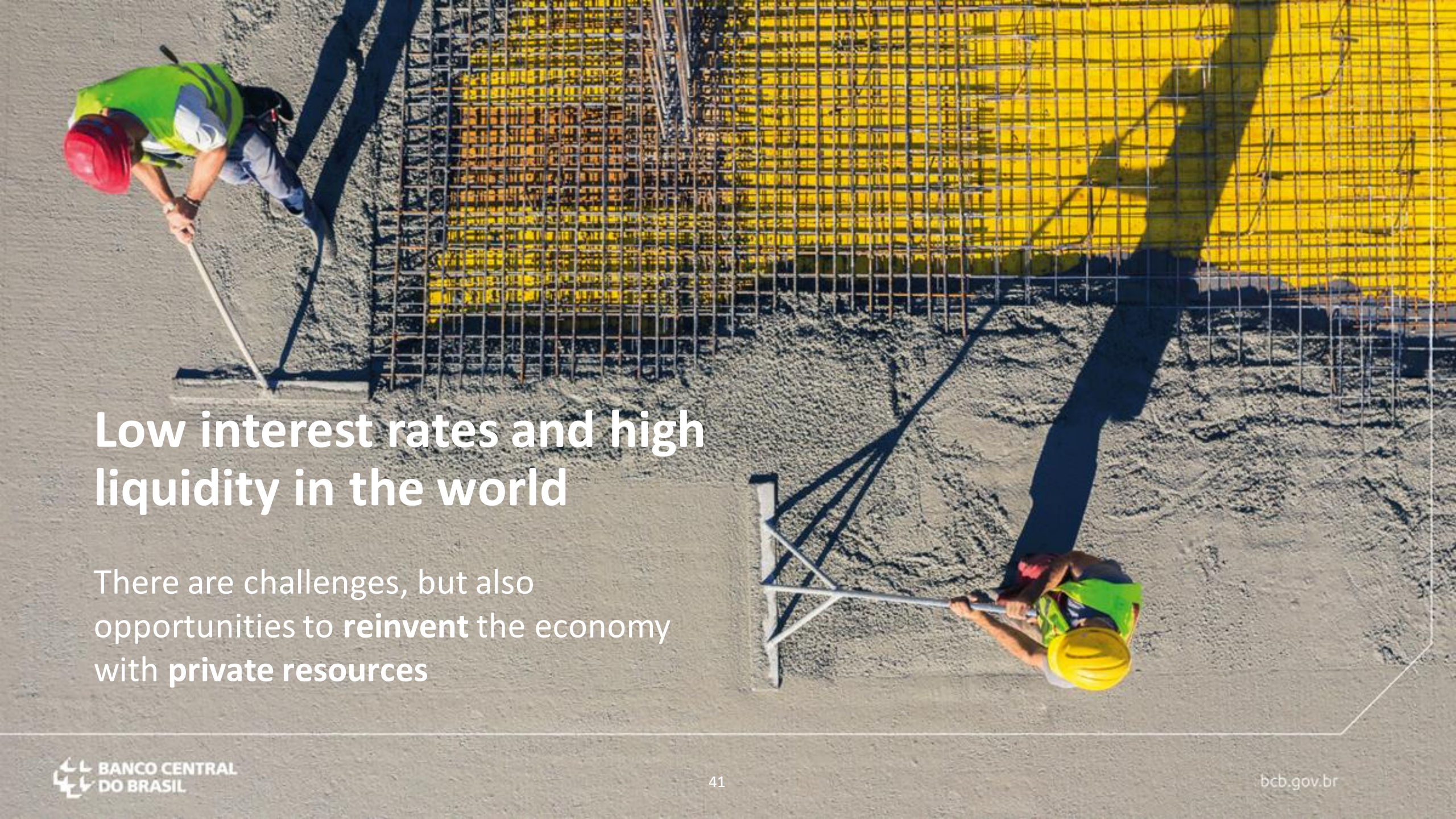
A hand is shown holding a smartphone. The phone's screen displays various data visualizations, including a line graph with multiple colored lines and several circular gauges or progress indicators. The background is a blurred blue-toned image of server racks in a data center, with light trails and a grid pattern. The overall aesthetic is futuristic and technological.

More technology

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

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



Government actions

Technology

Change in standards of consumption and production

Secular change in the workforce





Thank you!

Roberto Campos Neto
Governor of Banco Central do Brasil
September 30, 2020