

BRAZILIAN-AMERICAN CHAMBER OF COMMERCE OF FLORIDA (BACCF)

ECONOMIC CHALLENGES IN TIMES OF CRISIS

ROBERTO CAMPOS NETO

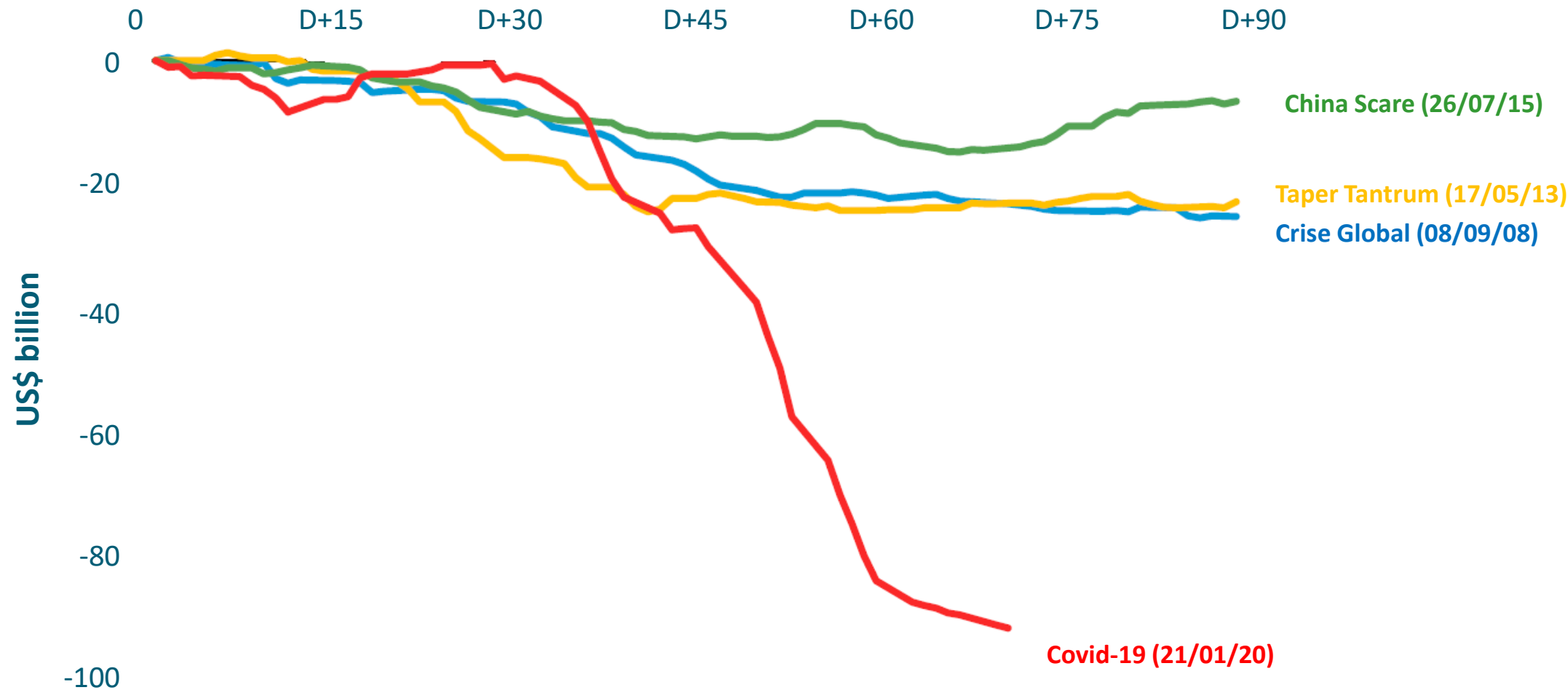
Presidente do Banco Central do Brasil

June 26, 2020

Capital Outflows – Non Residents

Accumulated balances since the informed date

Global Shock
Emerging Economies

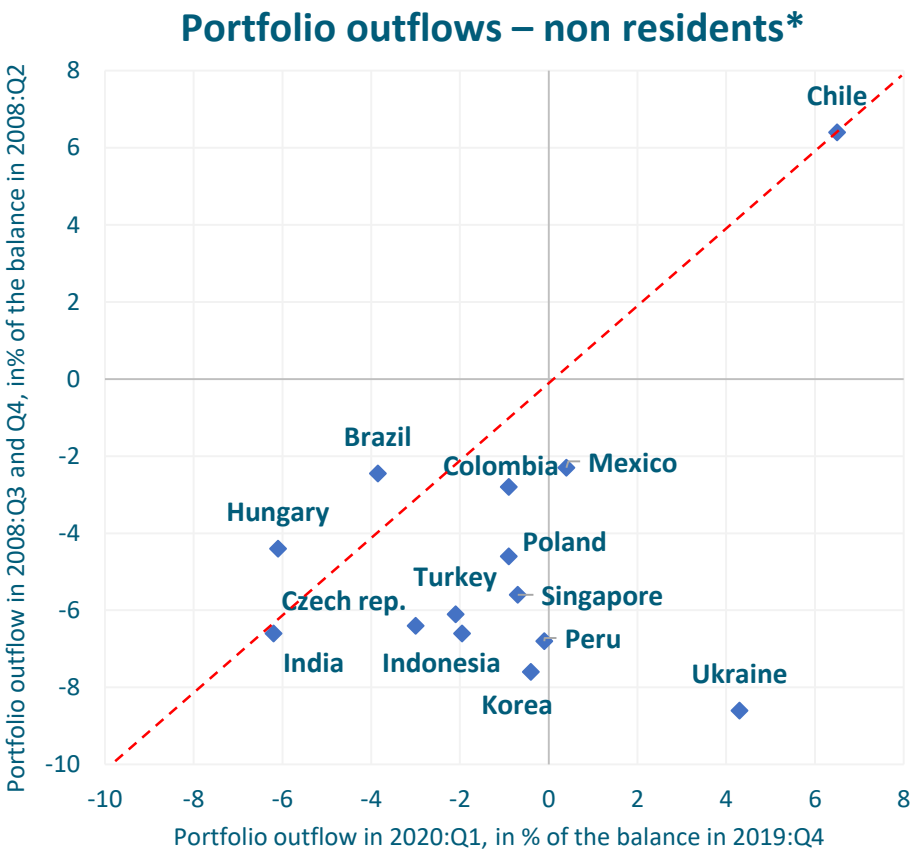


Source: IIF

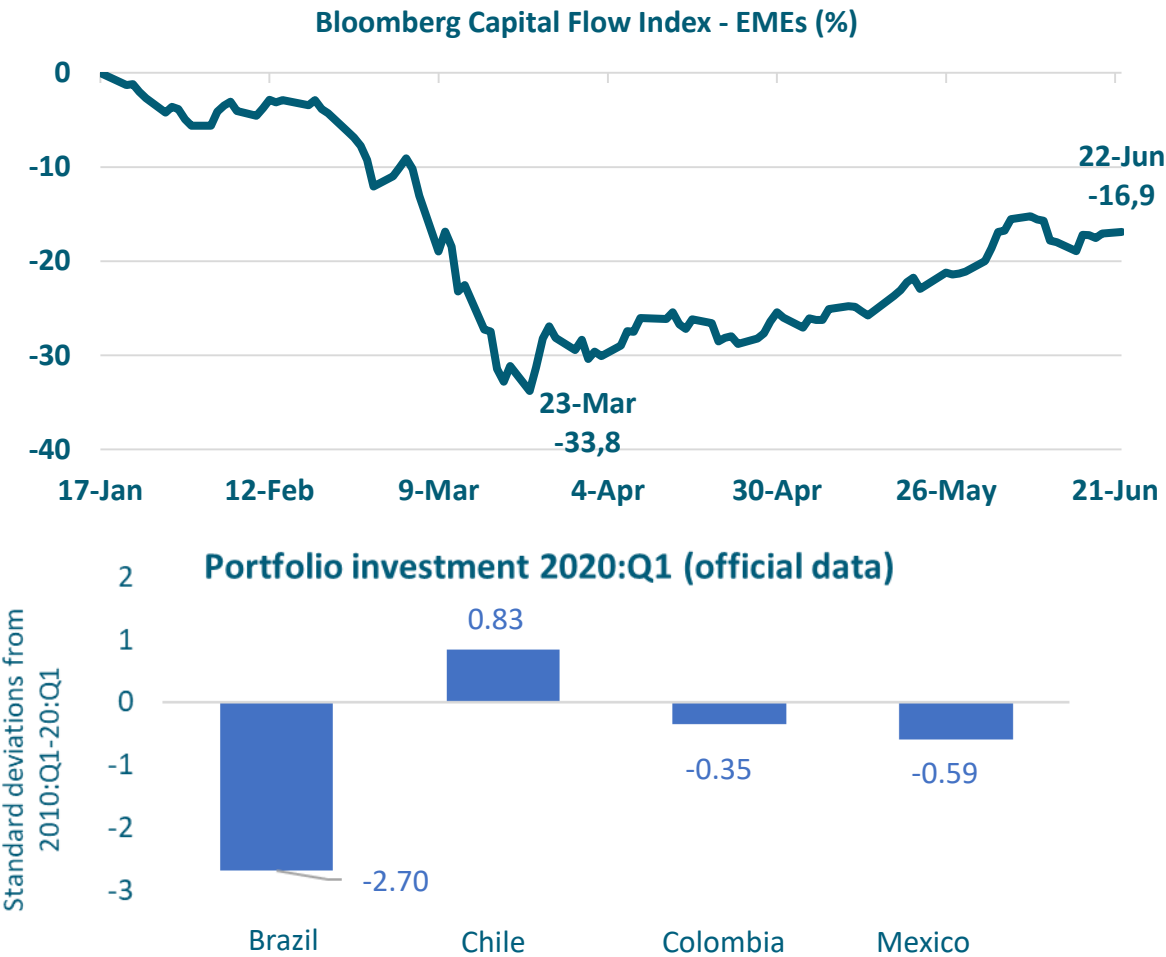
Capital Outflows – Non Residents

Recent accommodation, but accumulated outflow in the year is still substantial

Global Shock
Emerging Economies



*Resized by the share of each country prior to the exit episode



Source: Central banks of Chile, Colombia, Peru and Mexico, Bloomberg, IIF

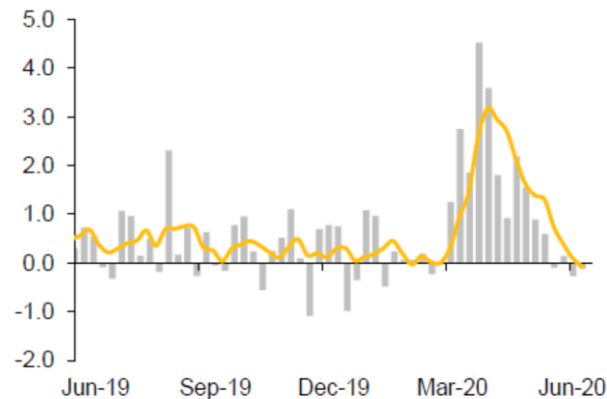
Normalization of investments

Flows to investment funds* tend to usual levels

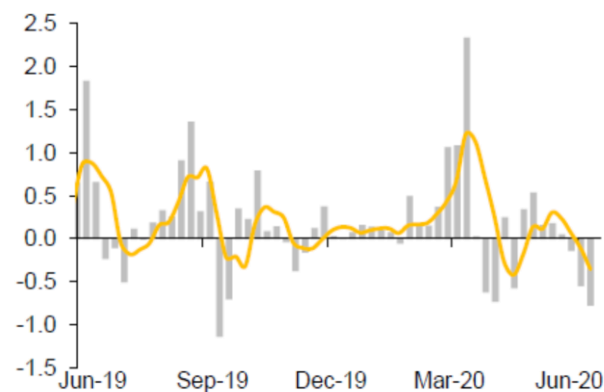
Global Shock

Recovery Signs

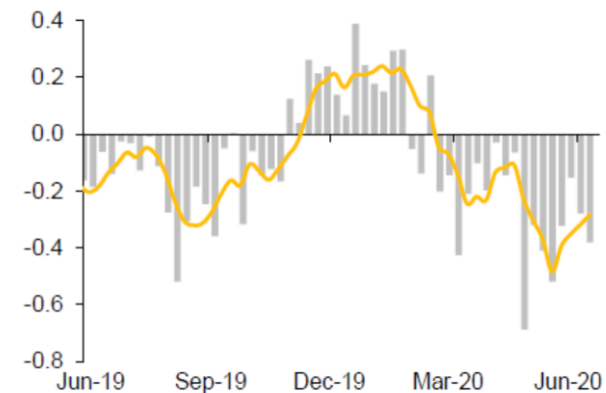
Money market



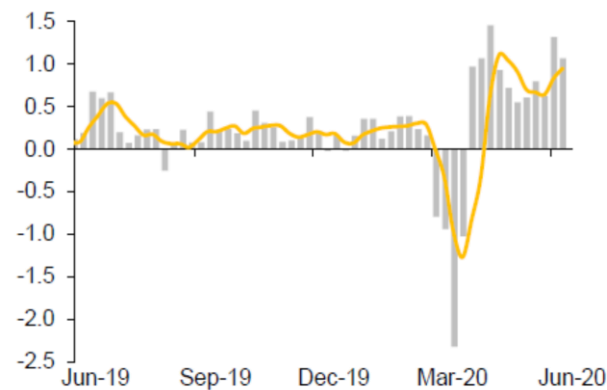
Government bonds



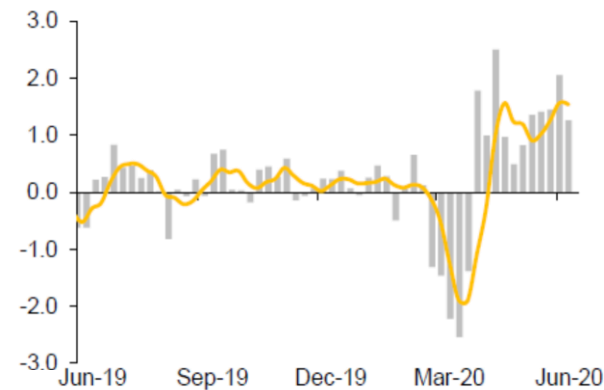
Emerging market equities



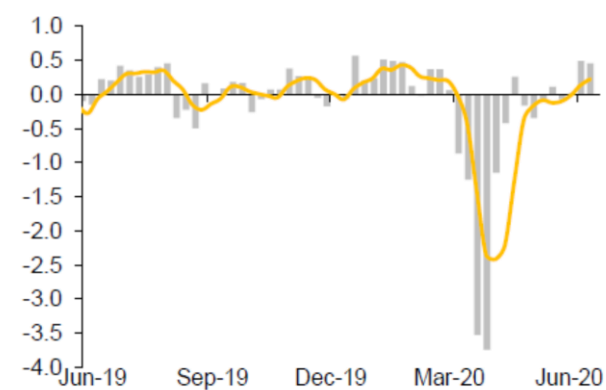
Credit



High yield bonds



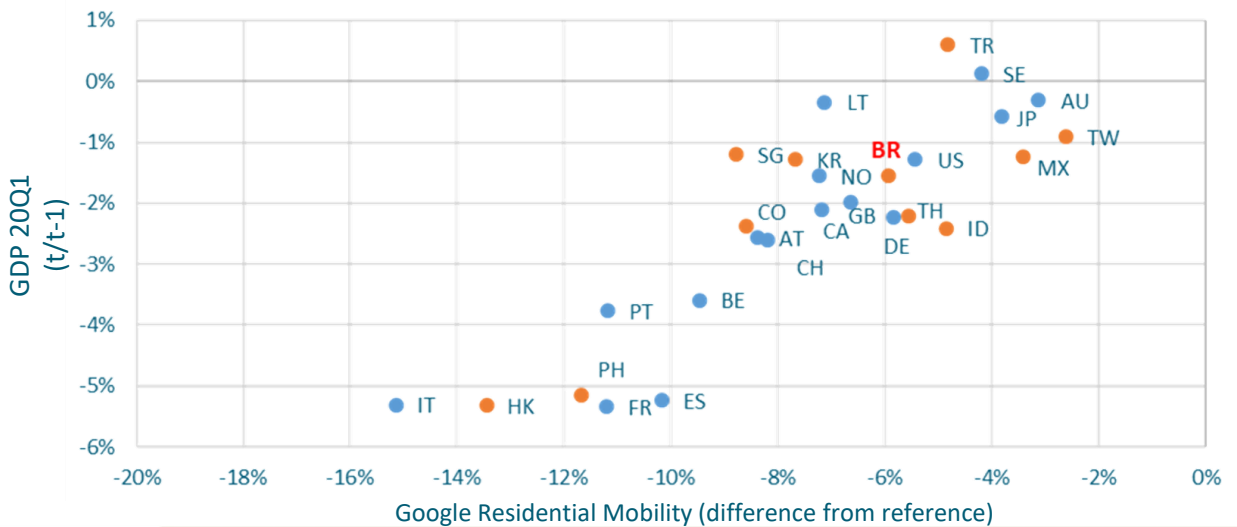
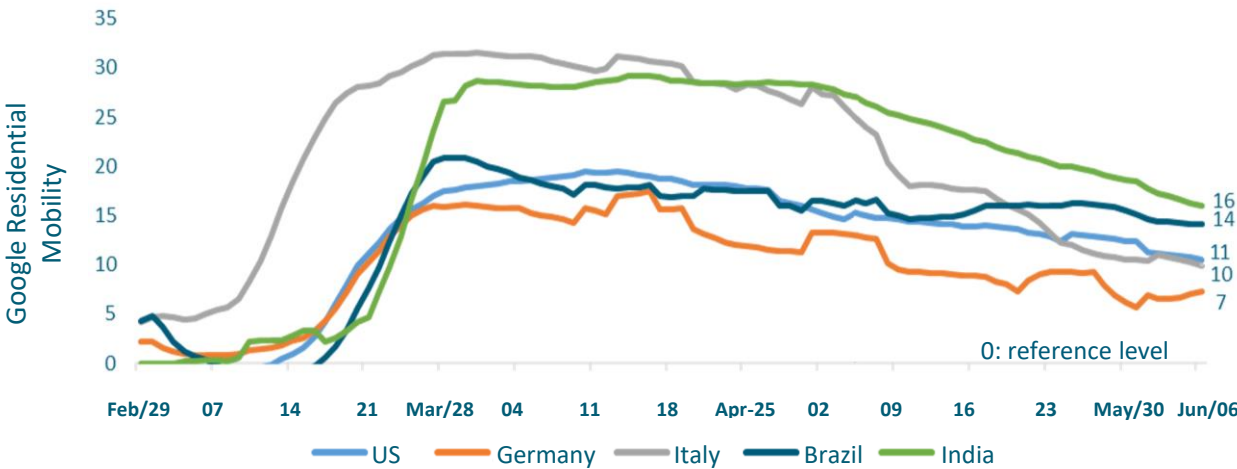
Emerging market bonds



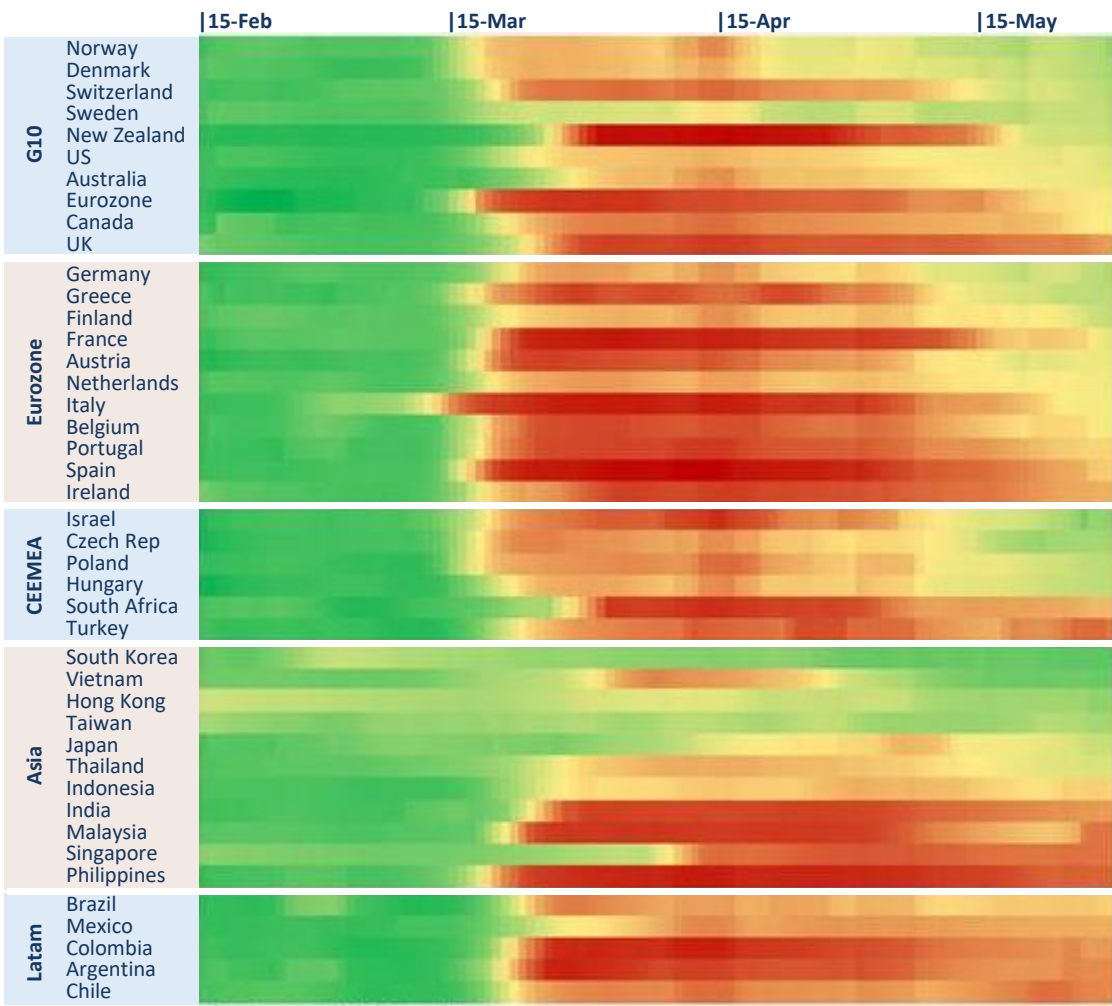
Source: Commerzbank, EPFR

Mobility

Gradual reduction in social distancing at uneven paces across countries



Global Shock Recovery Signs

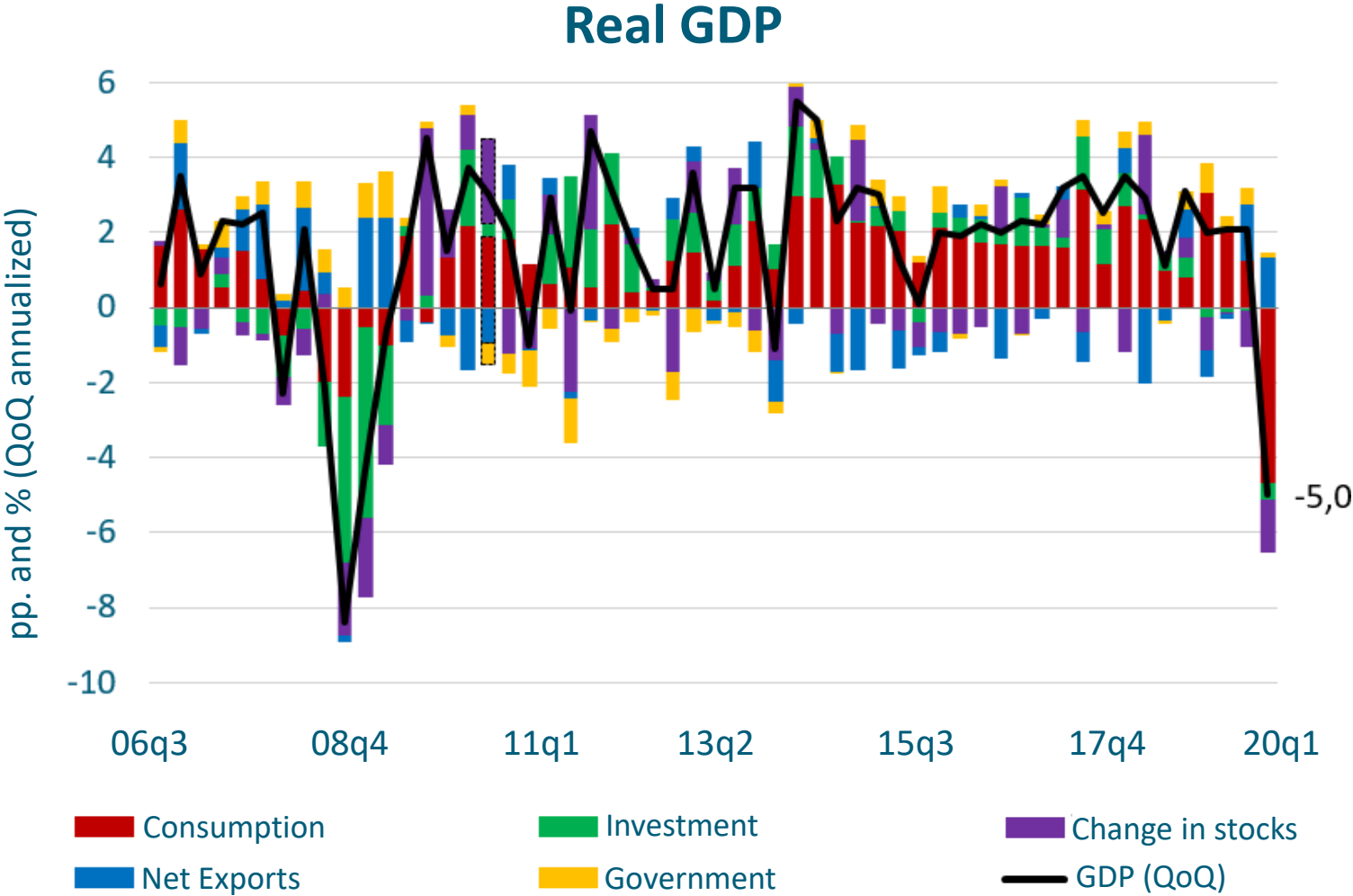


Source: Deutsche, Gavekal

USA: Economic Activity

Strong decline led by sharp fall in consumption

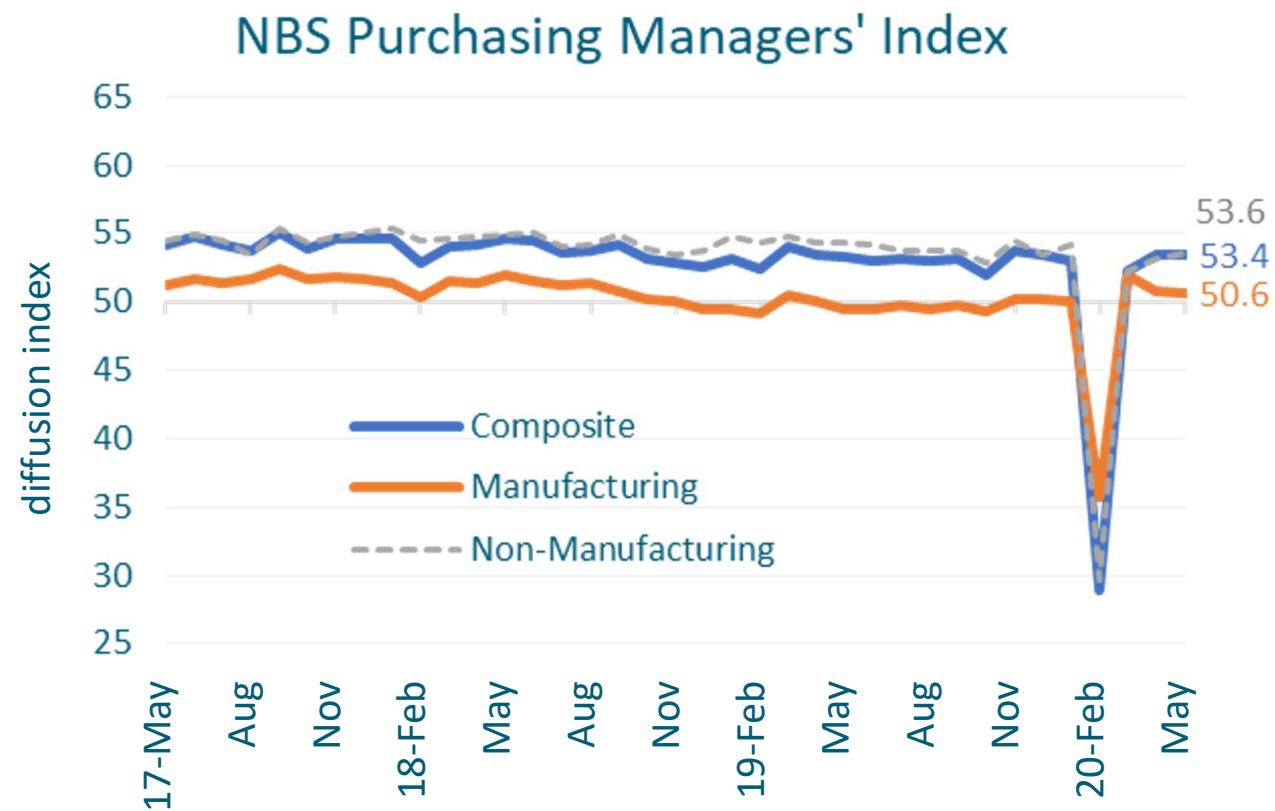
Global Shock
Global Economy



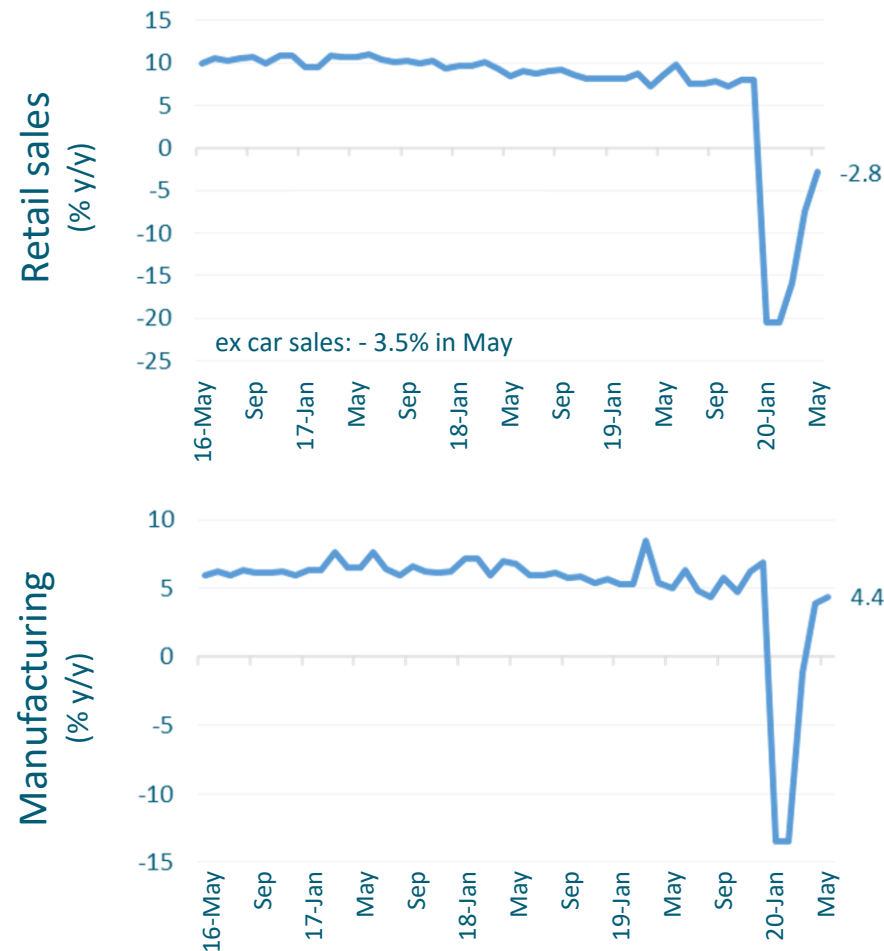
Source: Bloomberg

China: Economic Activity

Faster economic recovery on supply side



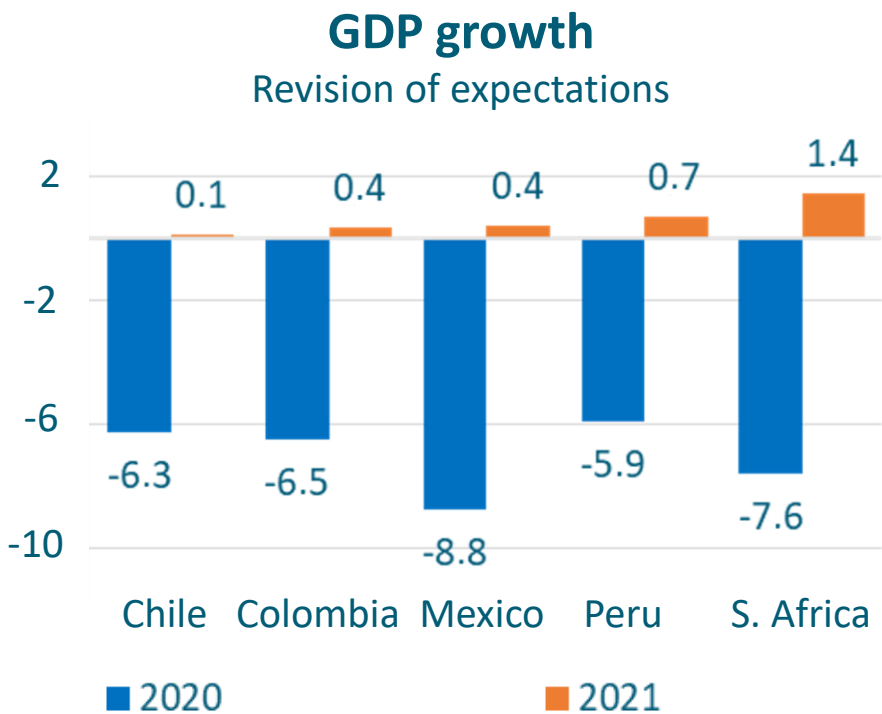
Global Shock Global Economy



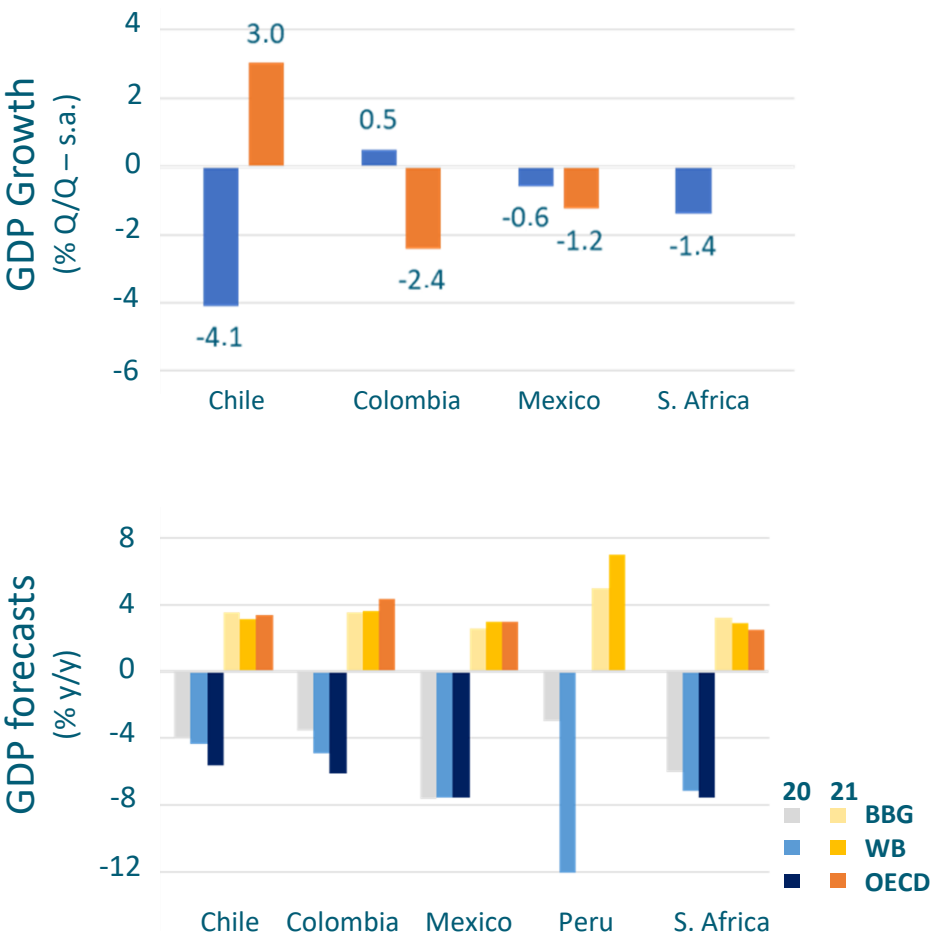
Source: NBS and Bloomberg

EMEs: Economic Activity

Strong revisions of growth expectation



Global Shock Emerging Economies

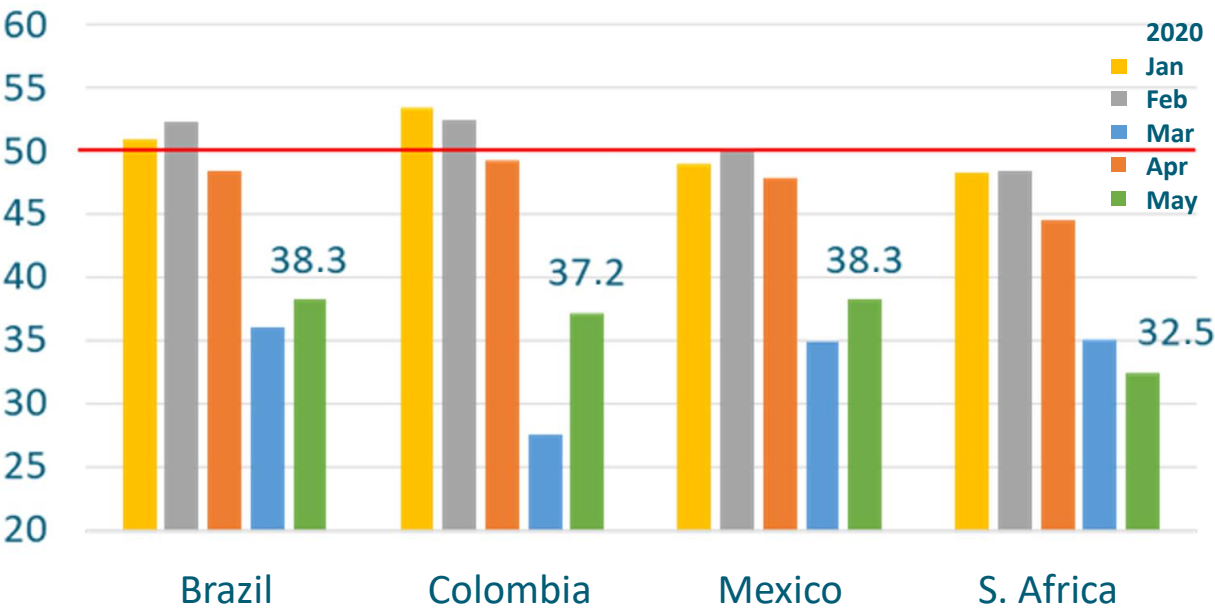


Source: Bloomberg and central banks.

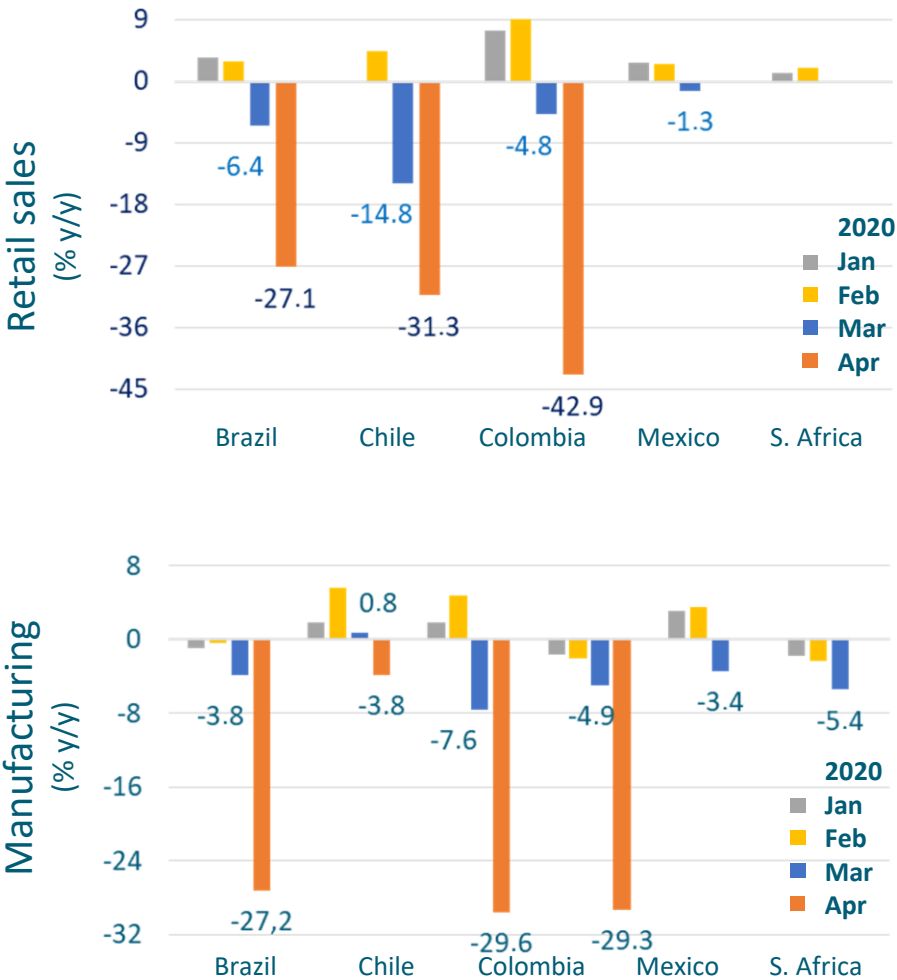
EMEs: Economic Activity

Indicators show additional deterioration on 20q2.

PMI Manufacturing



Global Shock Emerging Economies

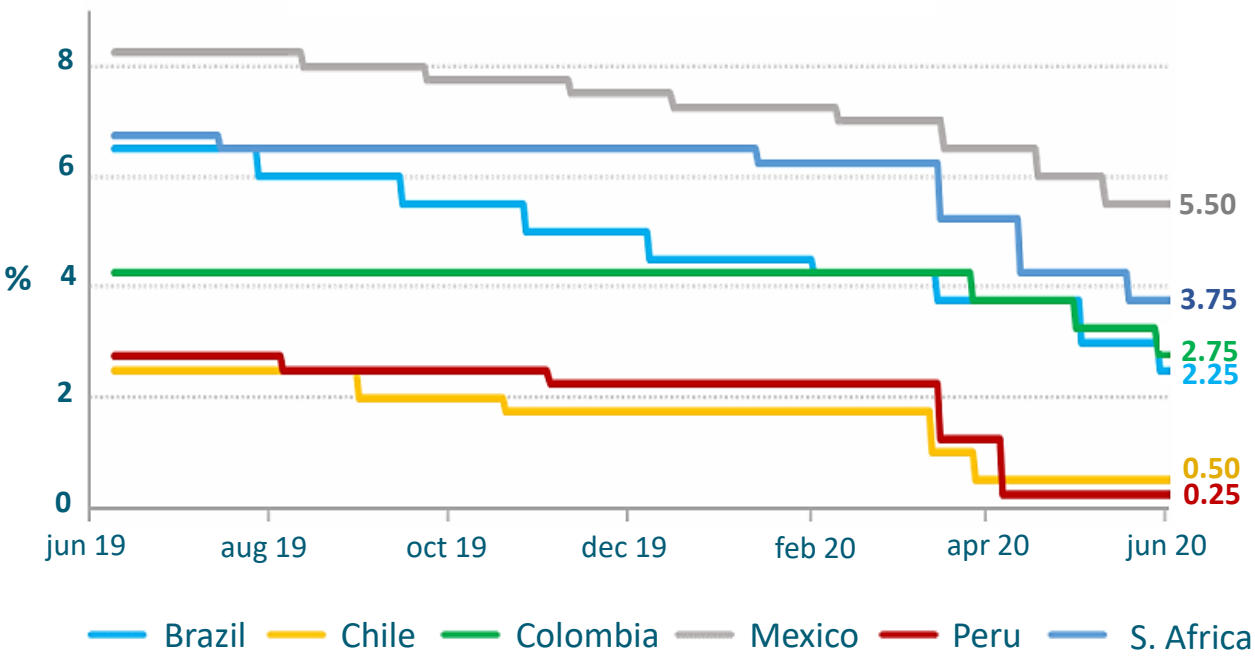


Source: Bloomberg and central banks.

Emerging Markets: monetary conditions

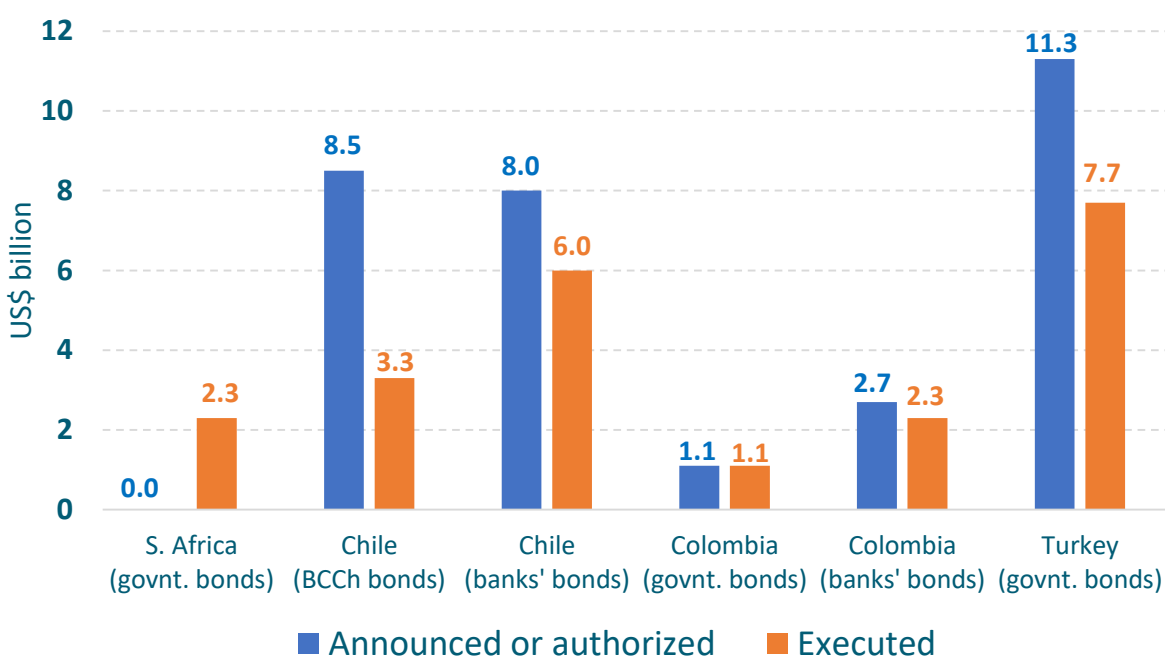
Monetary policy easing, and programs of asset purchases.

Policy rate



Global Shock Emerging Economies

Asset purchases



Source: BIS, Bloomberg, SARB, PBoC, Banxico, BCR, Banrep, BCCh, BRP. CBRT.

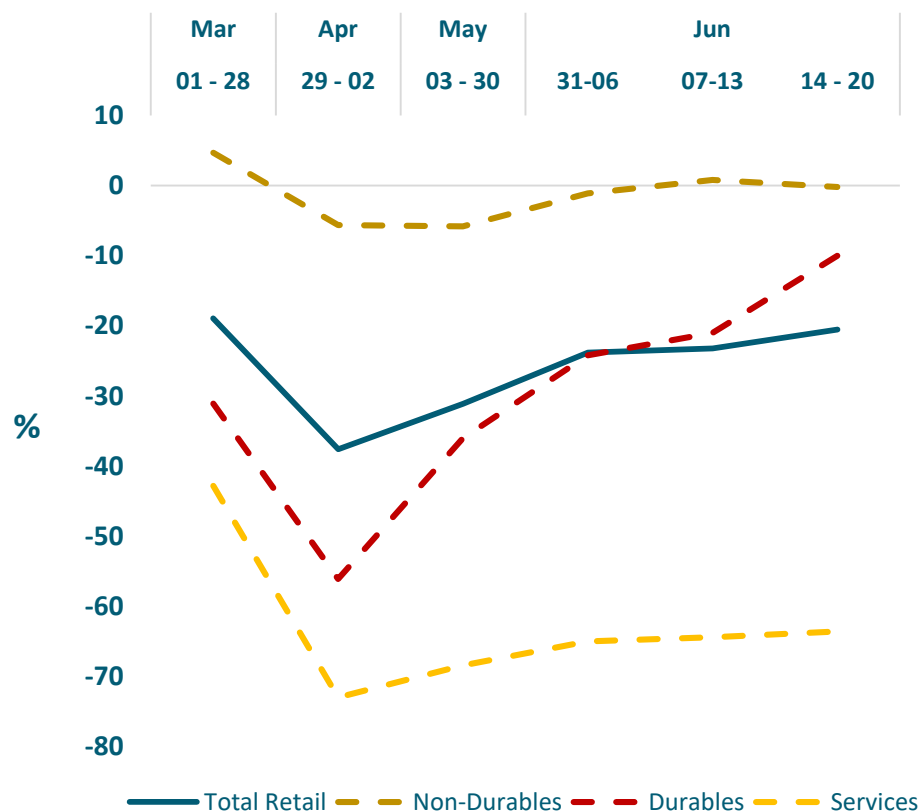
Brazil: Impact of Covid-19

Preliminary retail data indicate some recovery, except for services. Focus survey point to a strong decline in activity for 2020.

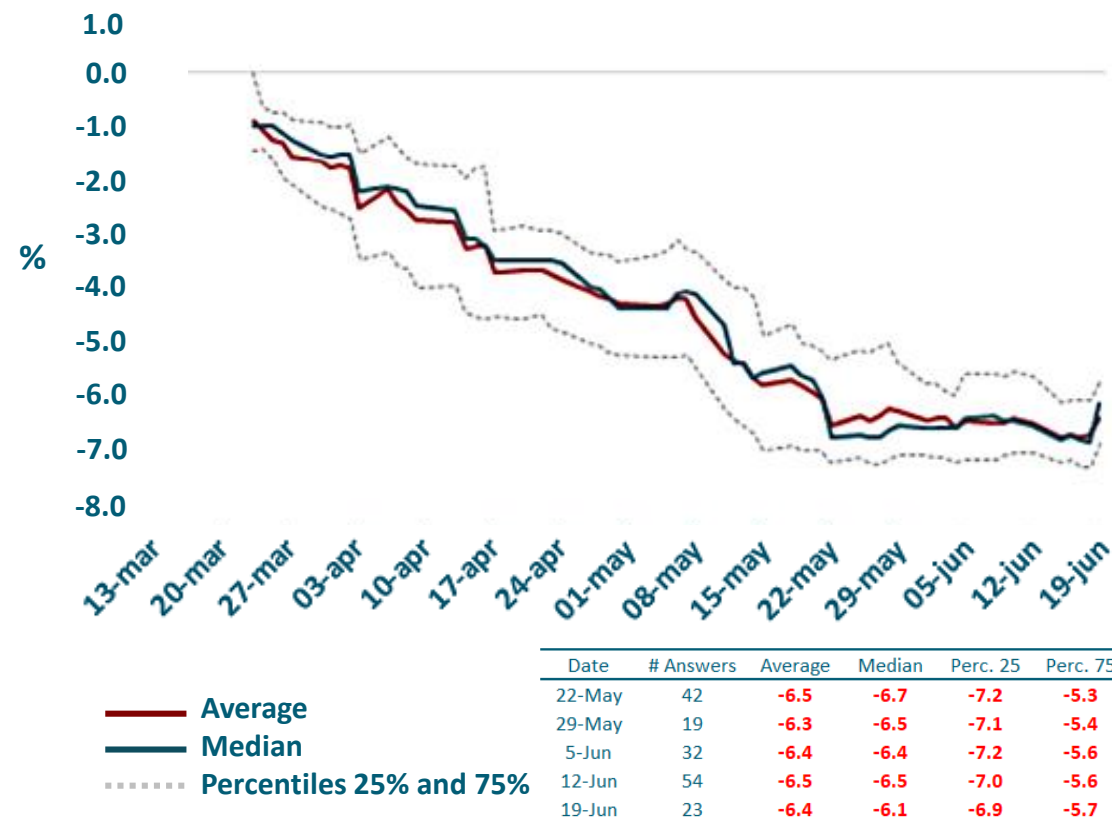
Shock on activity

Domestic Economy

Retail sales – Cielo*



Focus expectations – Growth for 2020



Source: Cielo

Source: BCB, Focus (06/19/2020)

Brazil: Impact of Covid-19

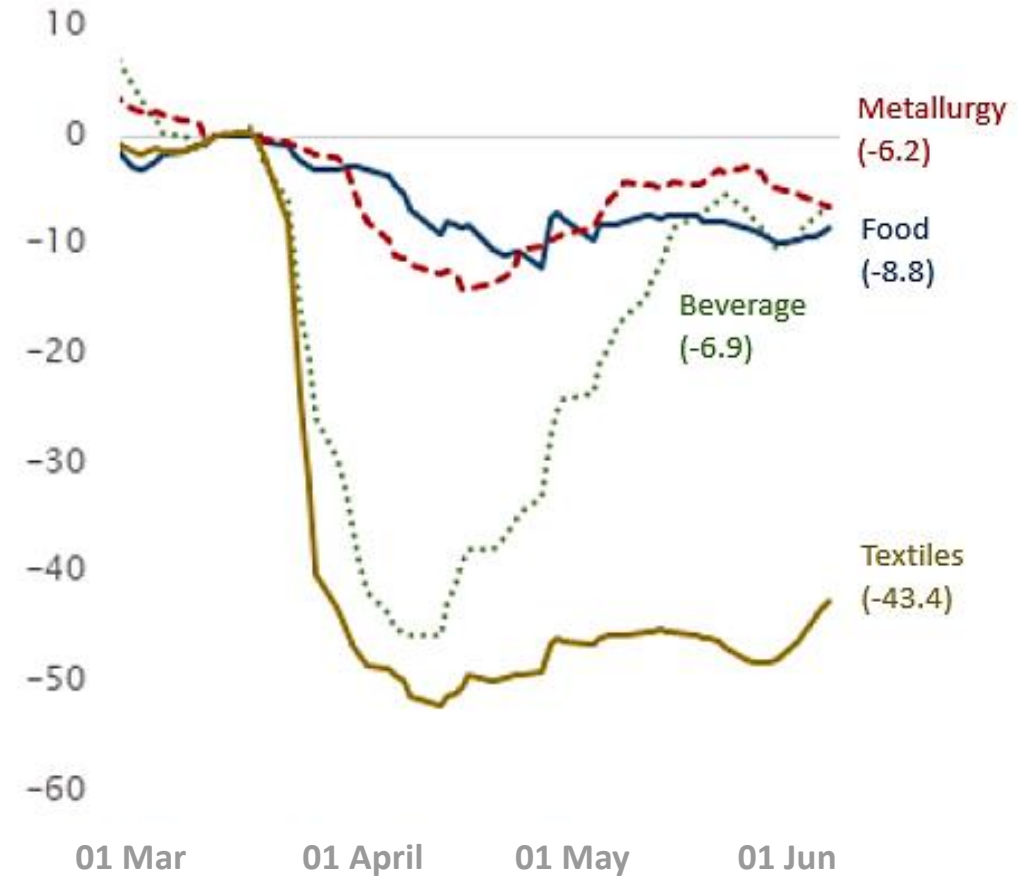
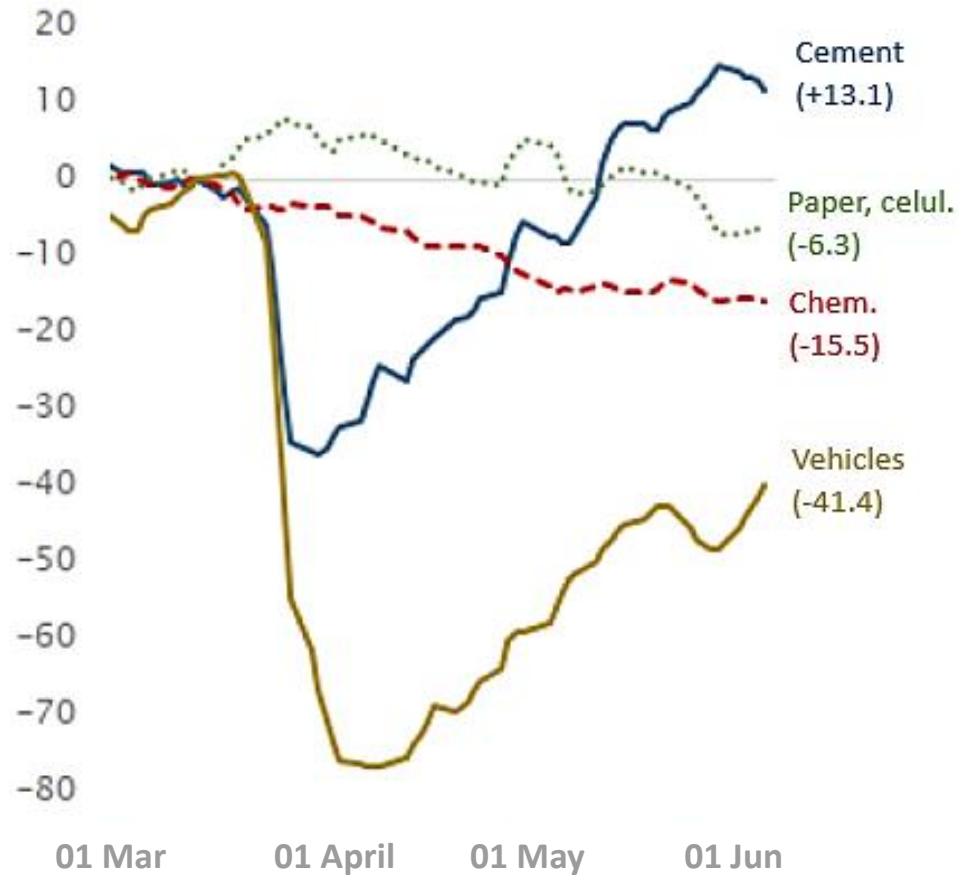
Uneven paths of fall and recovery among sectors of manufacturing industry

Shock on activity

Domestic Economy

Electricity consumption by manufacturing industry (free market)

Percentage change regarding 09-13 March



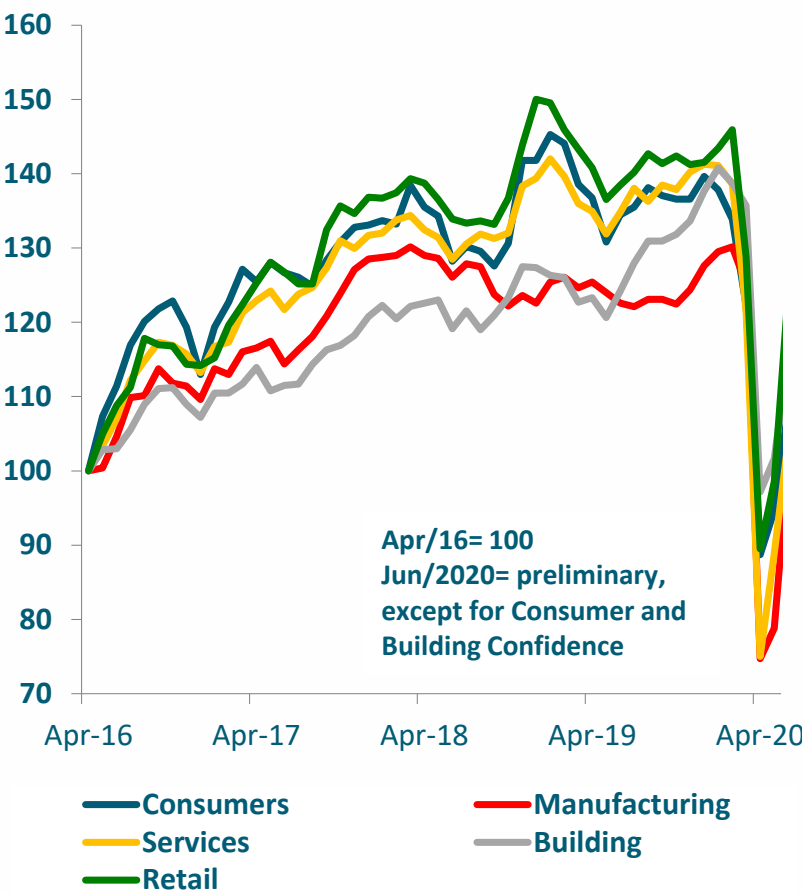
Source: CCEE

Brazil: Impact of Covid-19

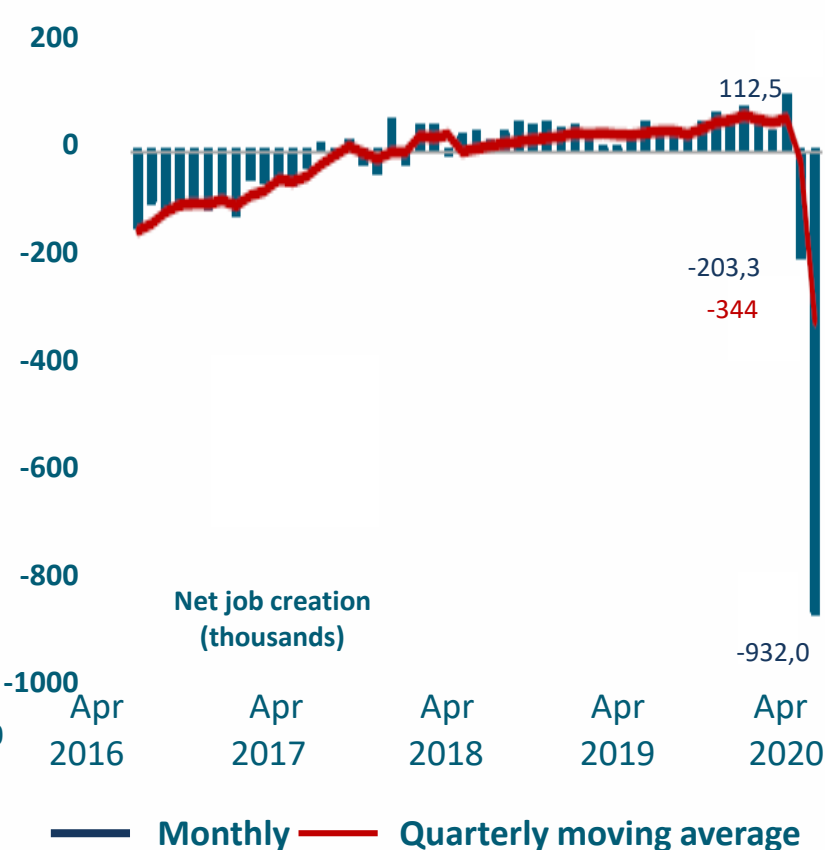
Widespread effect on the economy

Shock on activity
Domestic Economy

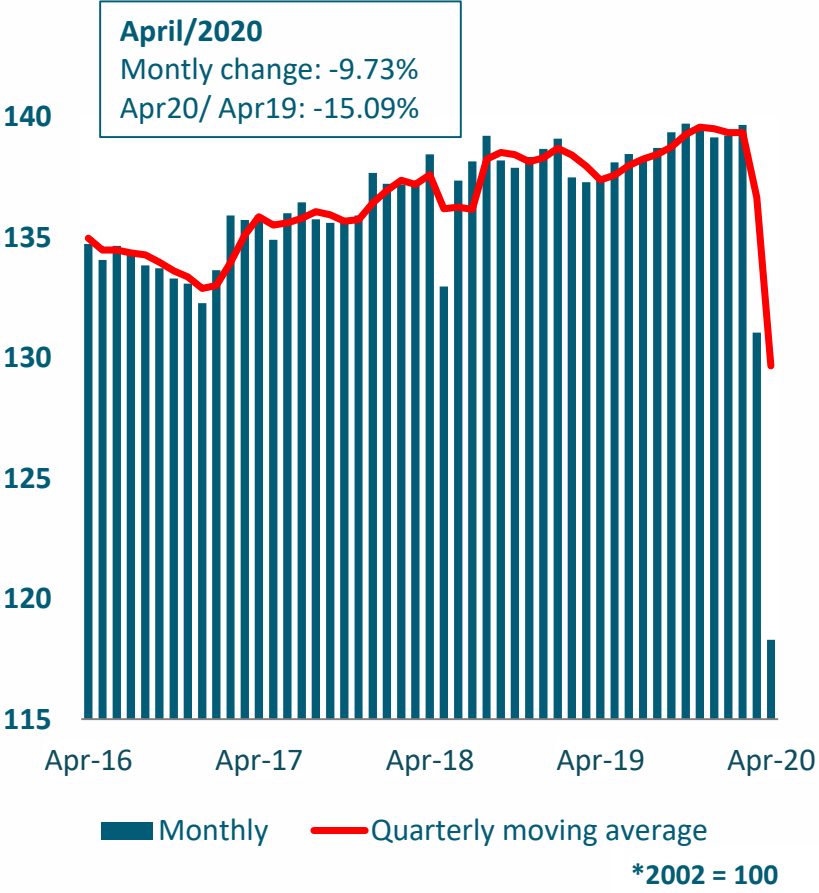
Confidence indicators



Employment - Caged



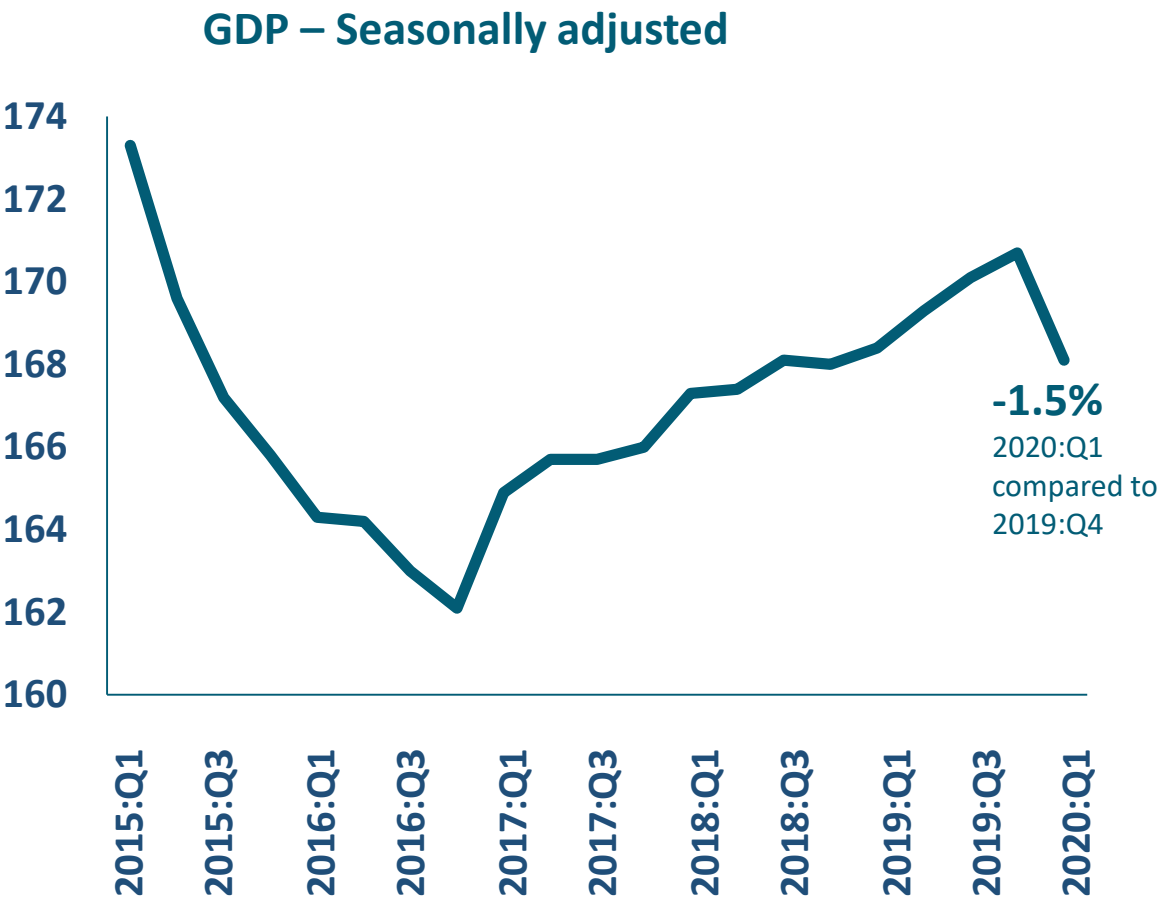
IBC-BR*



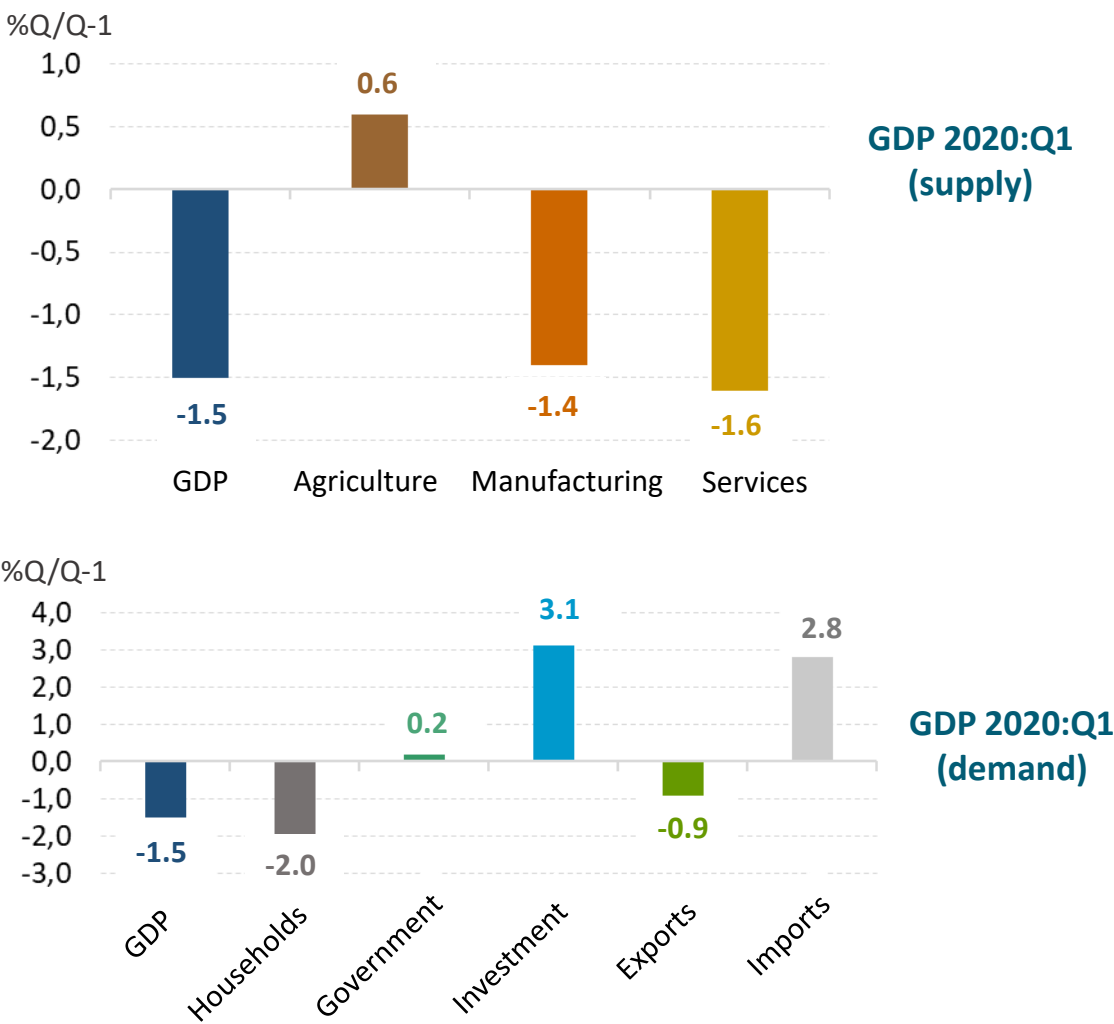
All data are seasonally adjusted. Sources: Ministry of the Economy and BCB

Brazil: Impact of Covid-19

GDP 2020:Q1 shows a sharp drop in activity



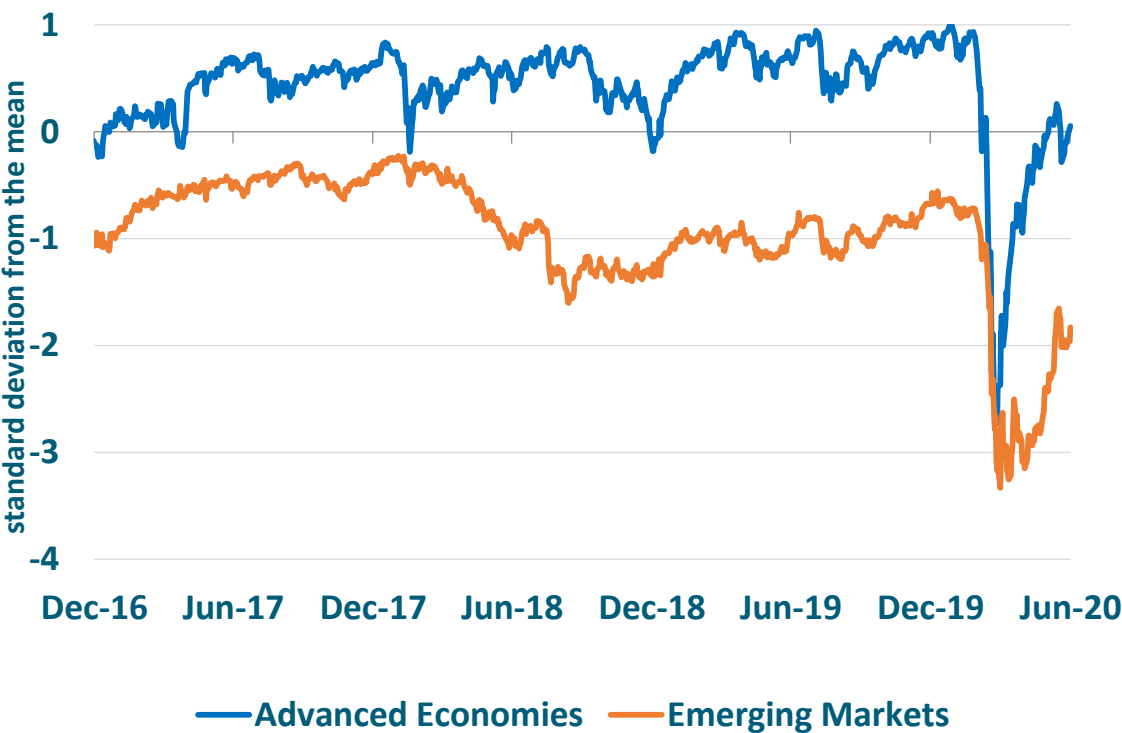
Shock on activity Domestic Economy



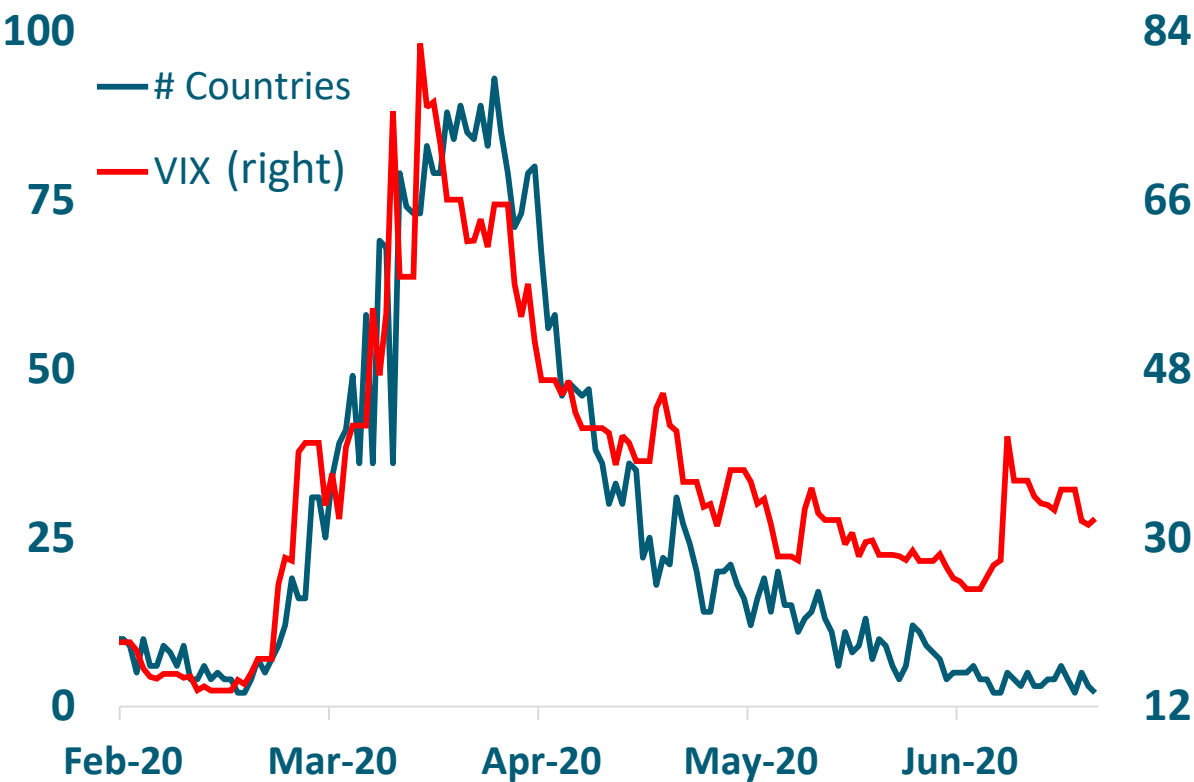
Source: IBGE

Pandemics: risk perception

Risk Appetite



New Covid-19 cases* vs. VIX



*Number of countries with daily growth of new cases higher than 5%; sample of 105 countries.

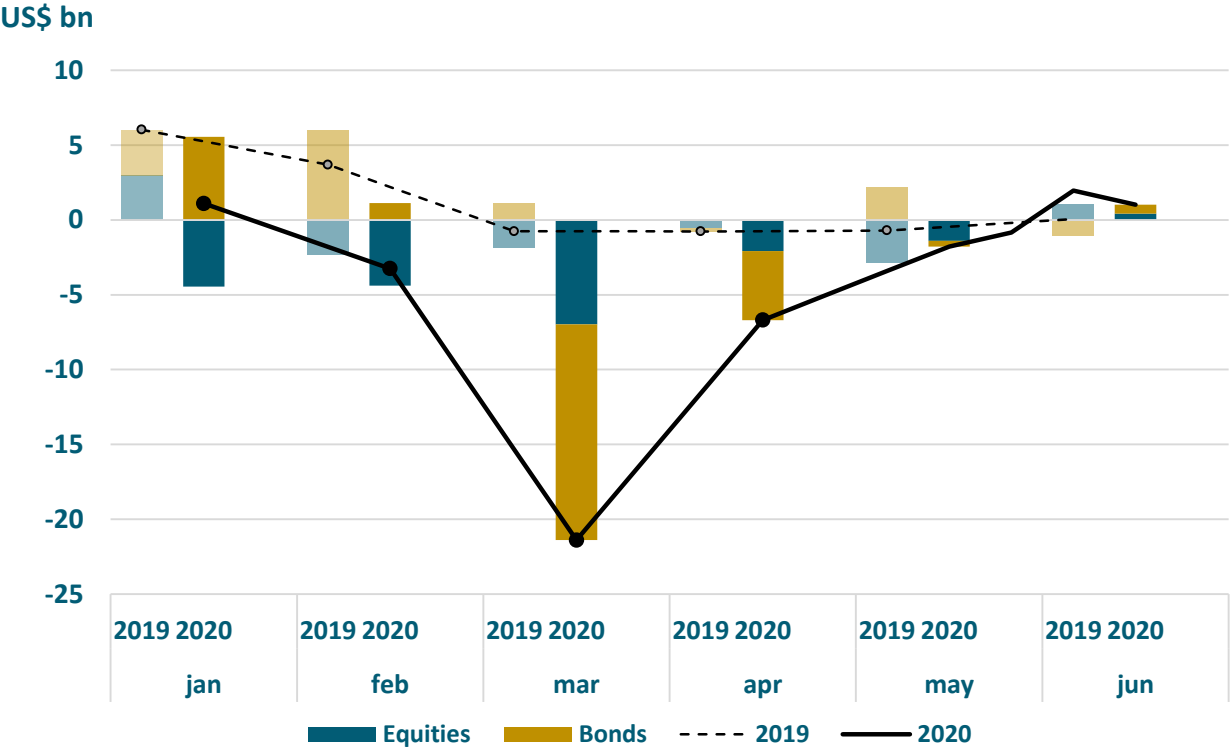
Source: FED, ECB, Bloomberg

External Problems + Domestic Situation

Capital flows and local currency were severely affected in Brazil

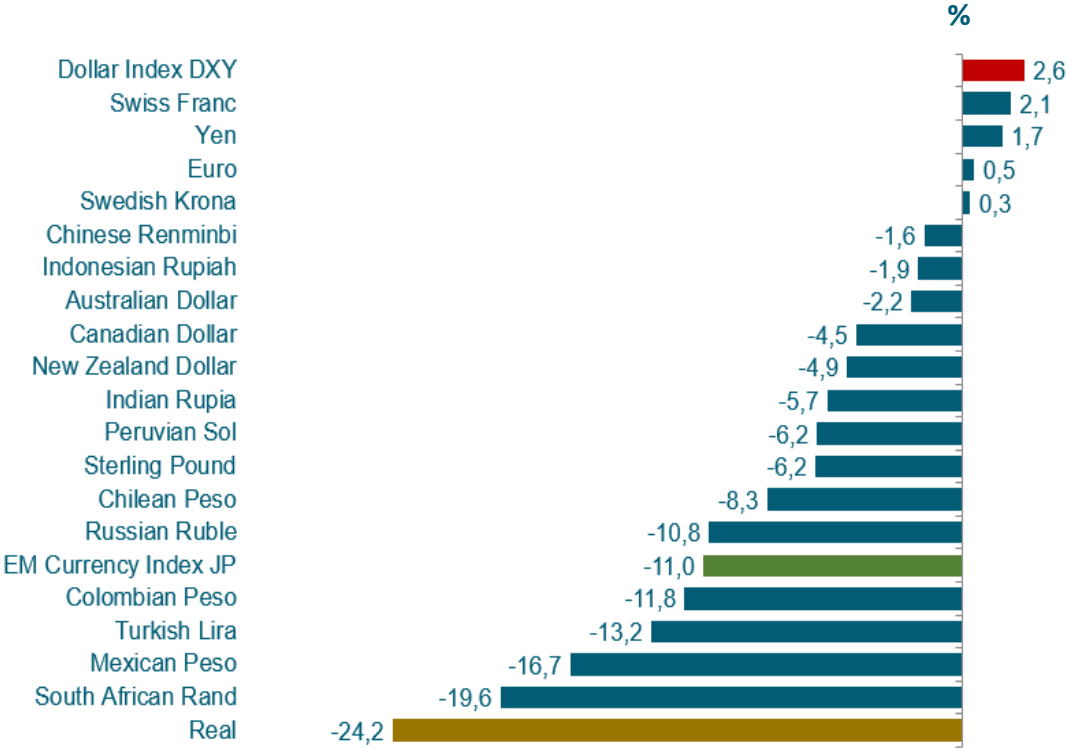
Global Shock
Domestic Markets

Capital Flows



Source: Nacional Accounts/BCB, 06/18/2020

FX Change YTD against USD



Source: Bloomberg, 06/24/2020

Local Assets Performance

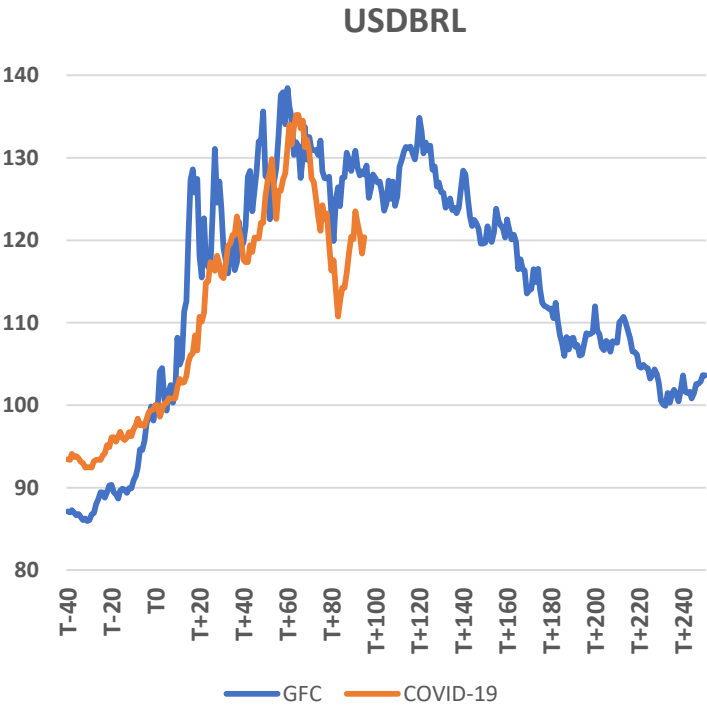
GFC vs. Covid-19

Global Shock
Domestic Markets

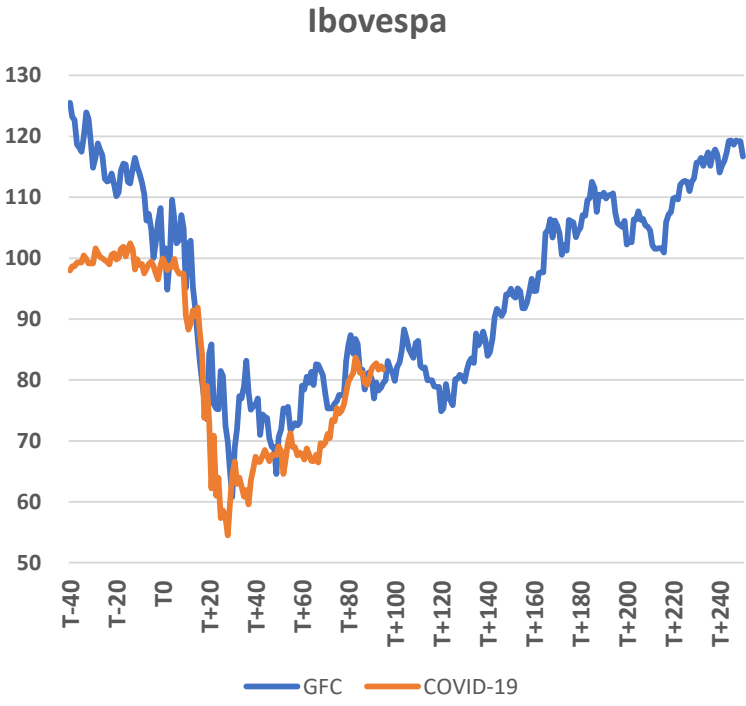
BCB Interventions (US\$ mi)

	FX Swap	Spot	Others
GFC	34,256.00	14,499.90	16,380.20
Covid-19	21,516.50	18,314.36	12,027.51

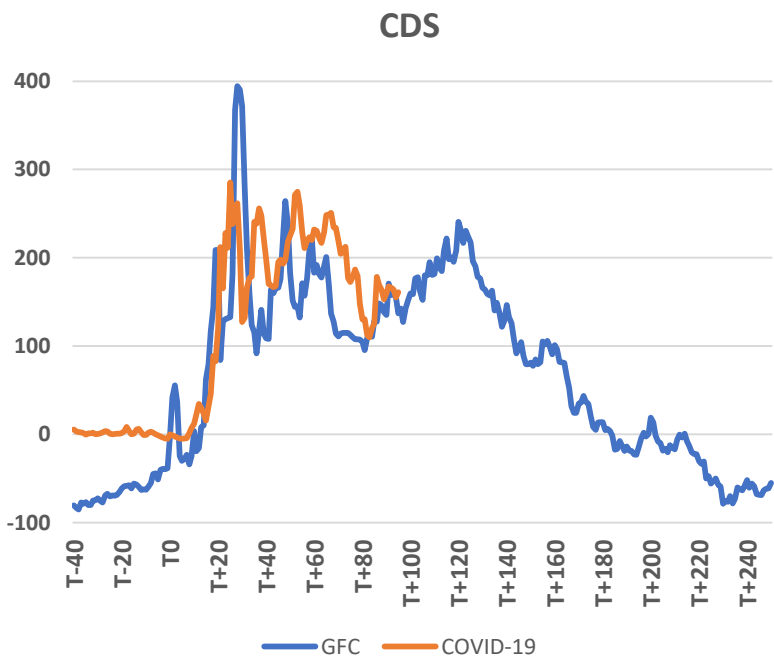
T0: Index = 100



T0: Index = 100



T0: Points = 0

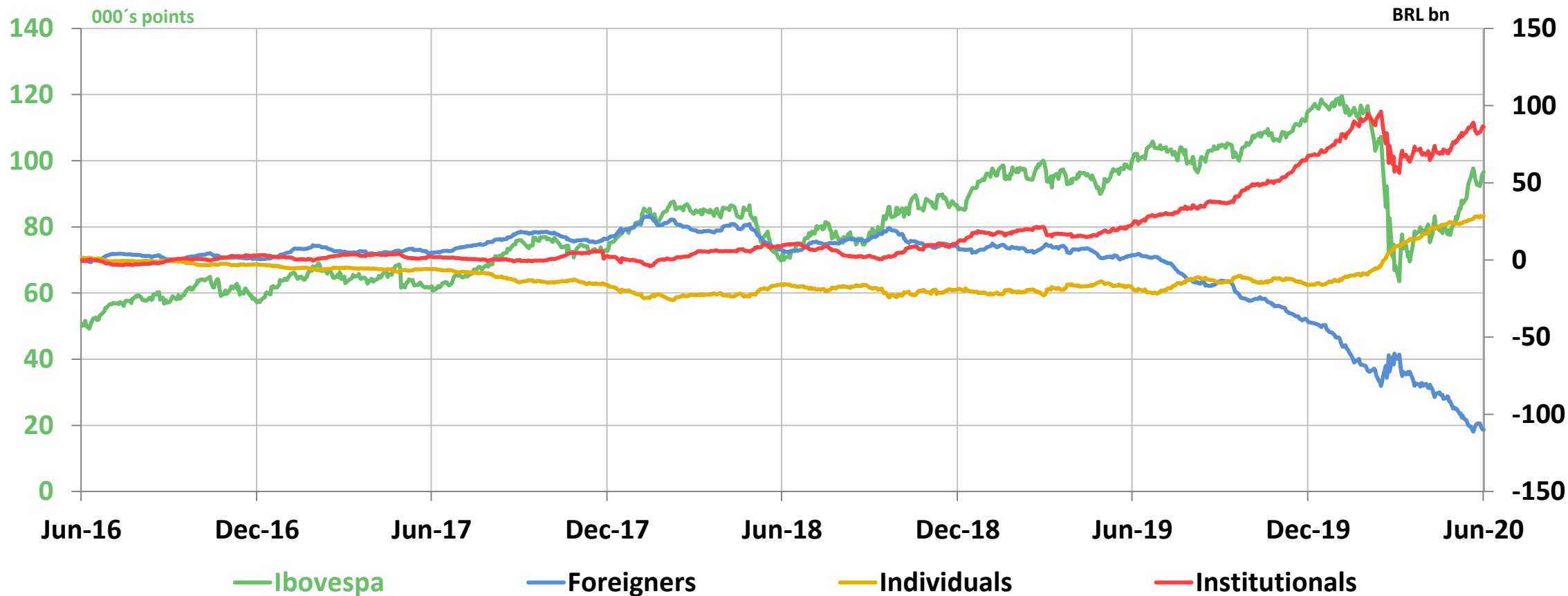


Source: Bloomberg, BCB

Ibovespa Flows

Investors' reaction

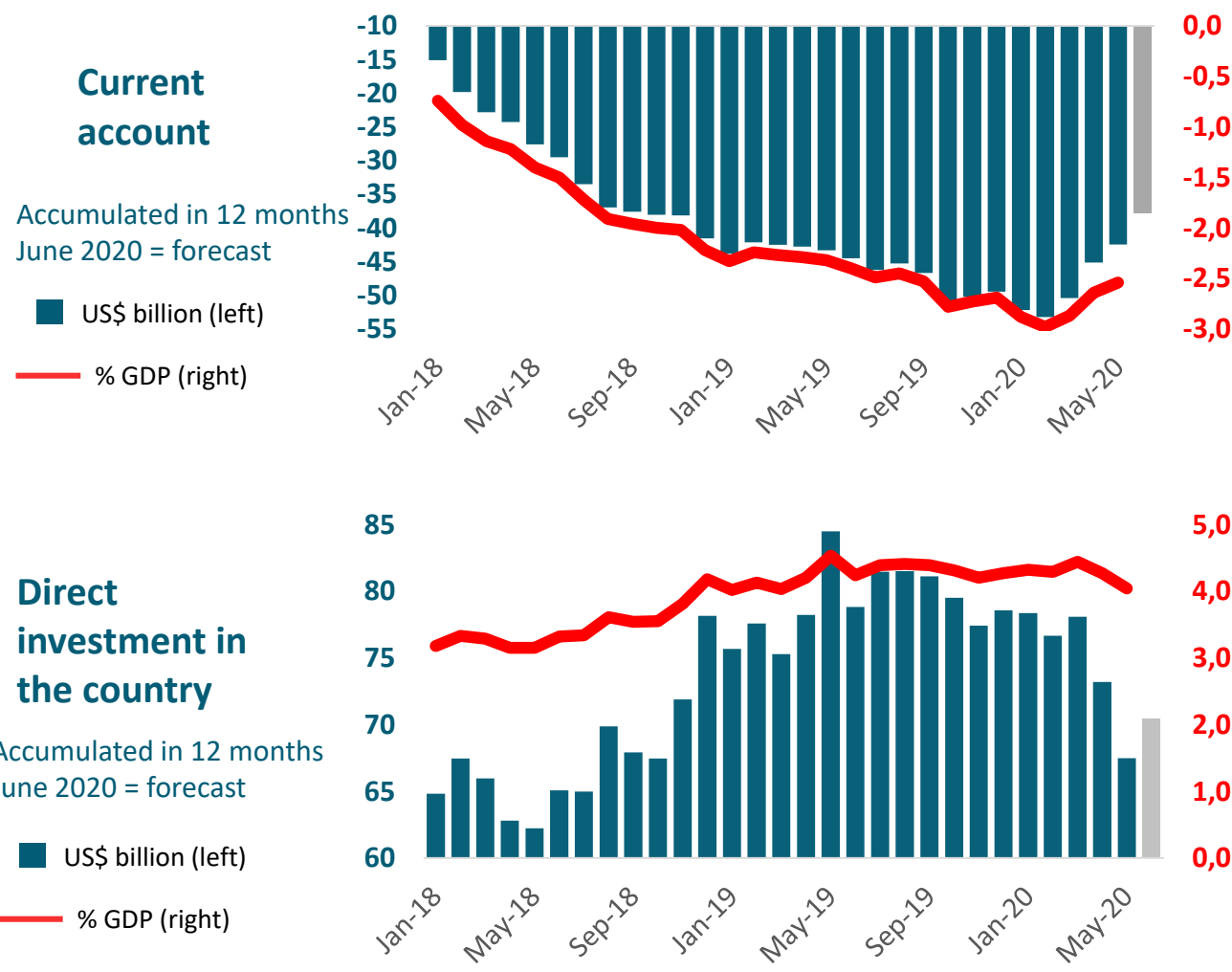
Global Shock
Domestic Markets



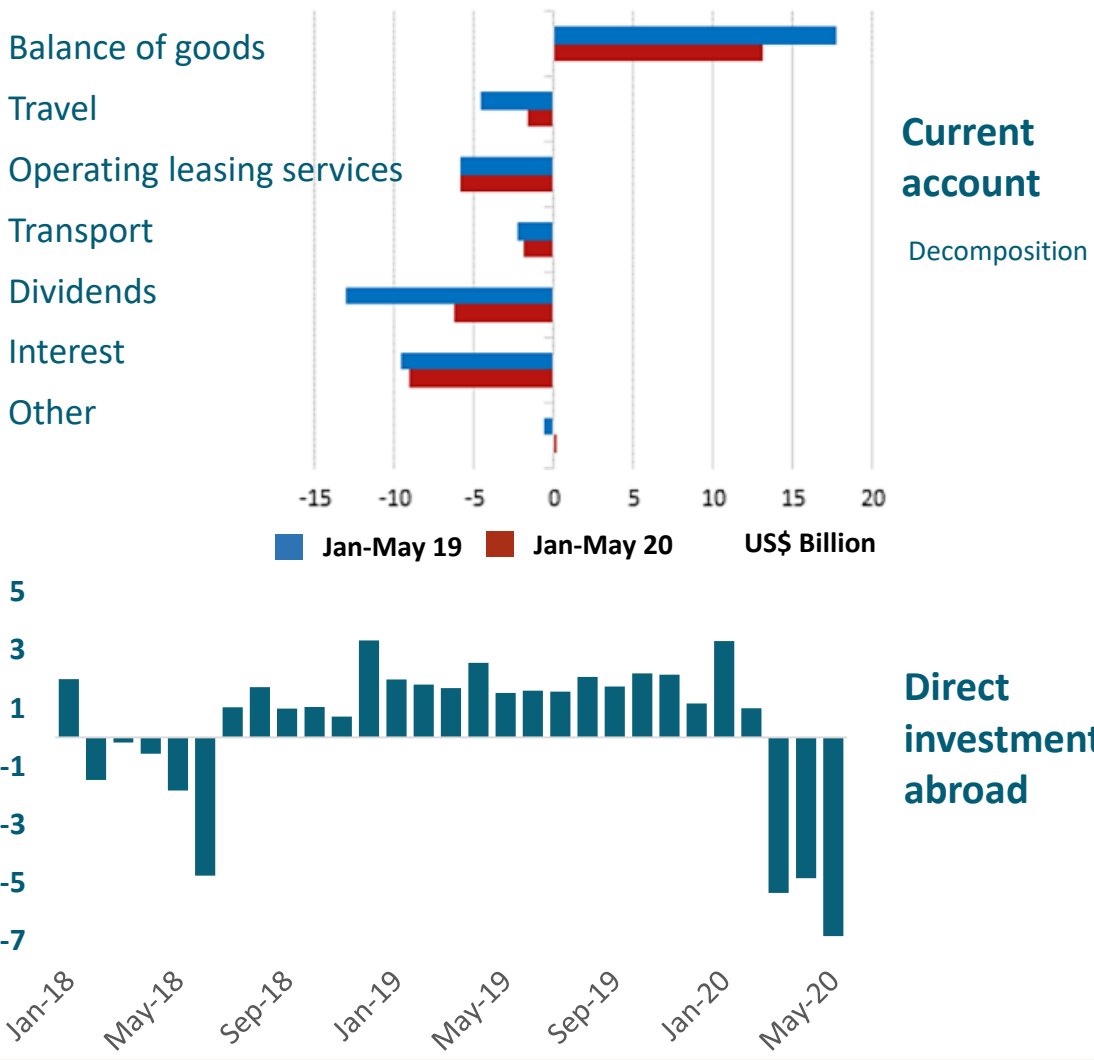
Source: B3

External accounts

Capital outflows will accommodate and external accounts will improve



Global Shock Domestic Economy

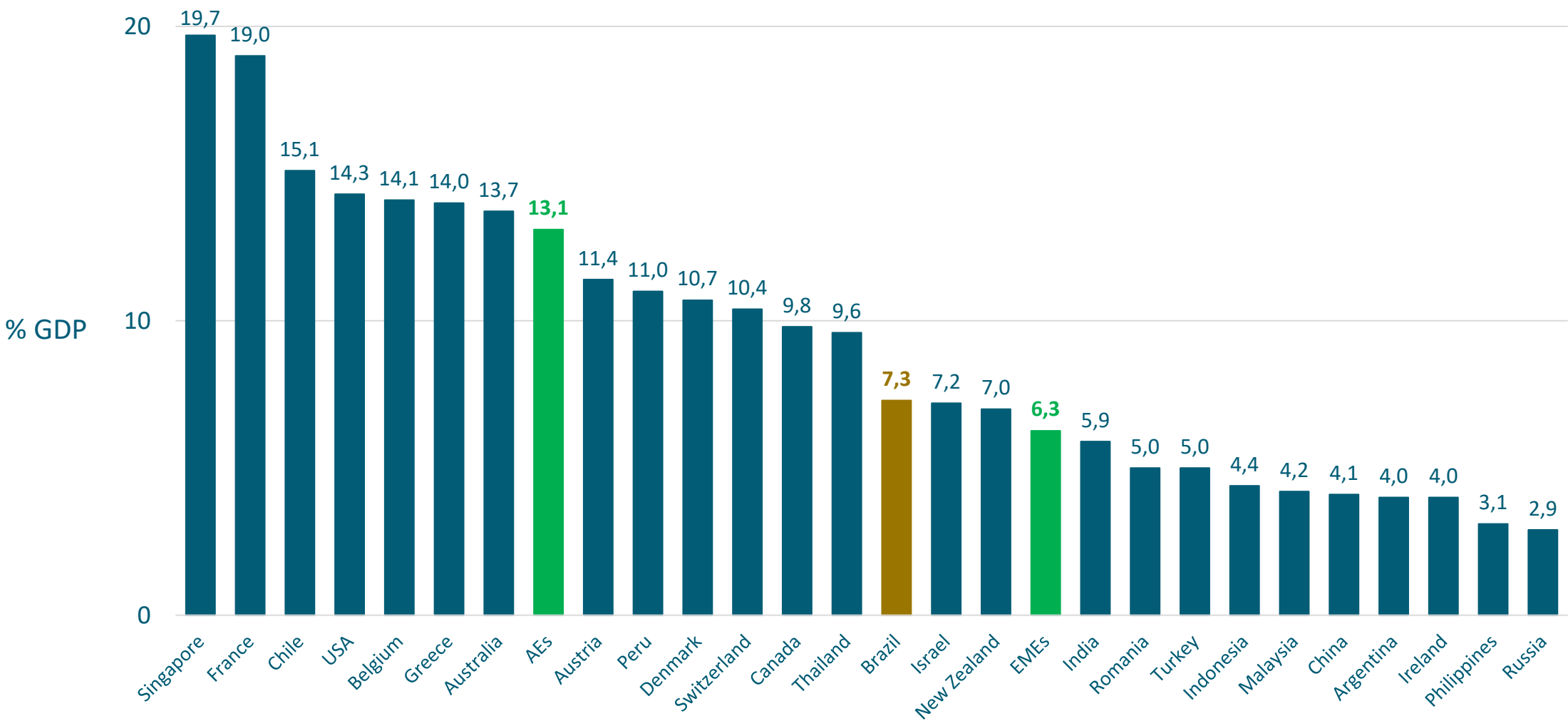


Source: BCB

Fiscal Response

Comparative vision

Global Shock
Facing the crisis

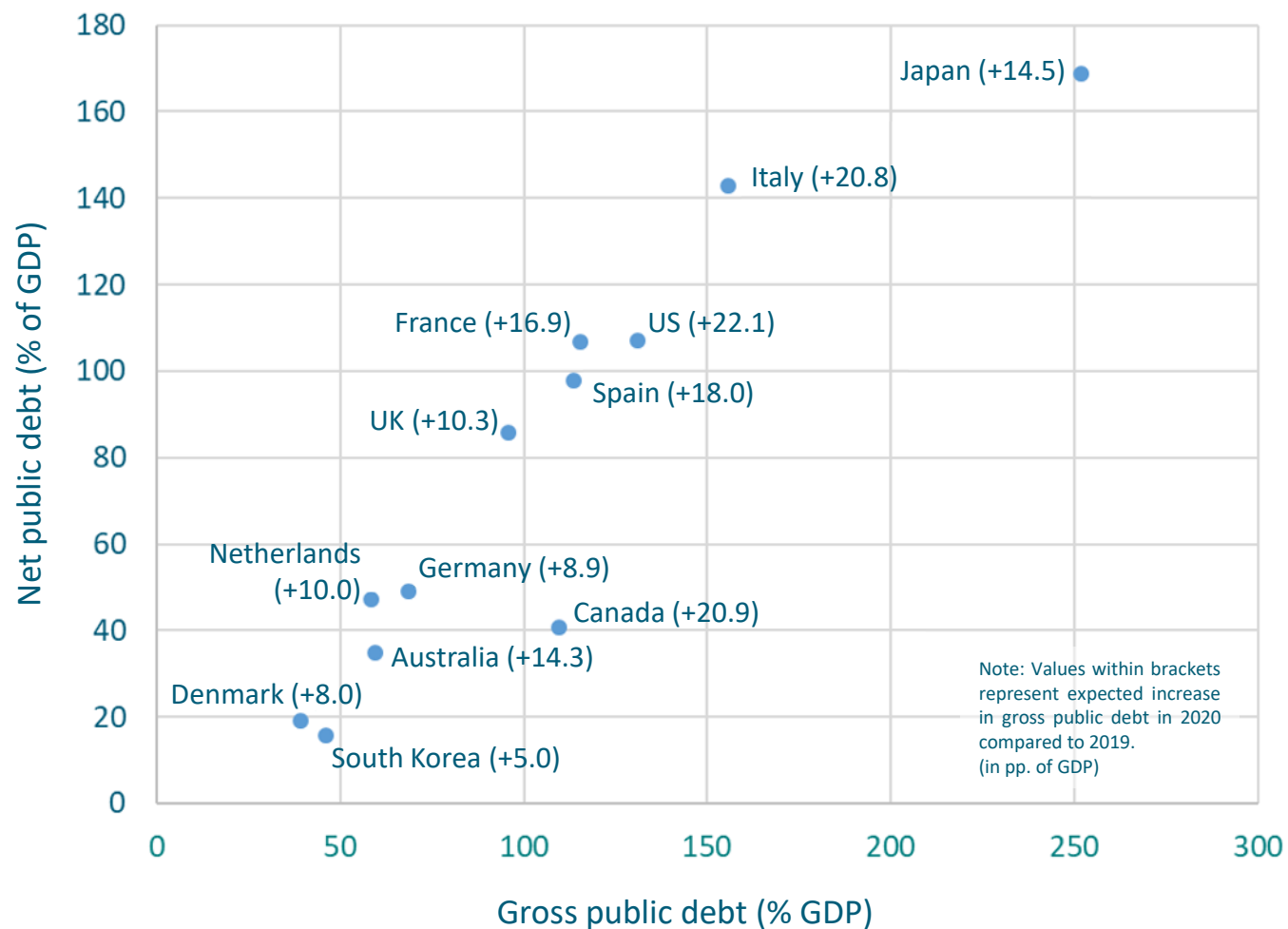


Fiscal Response

Current responses shall surpass that of the GFC – WEO projections for 2020

Global Shock

Facing the crisis

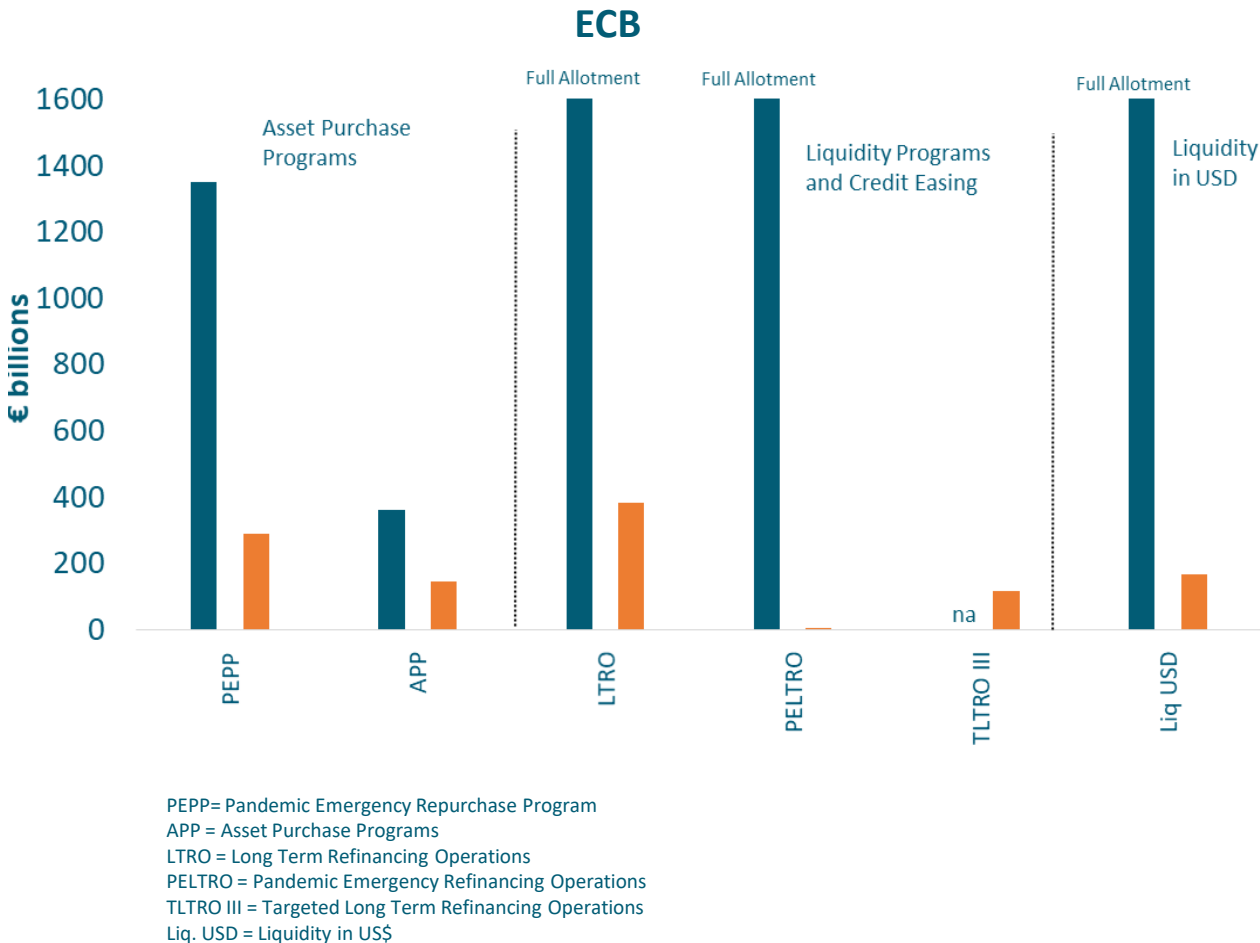
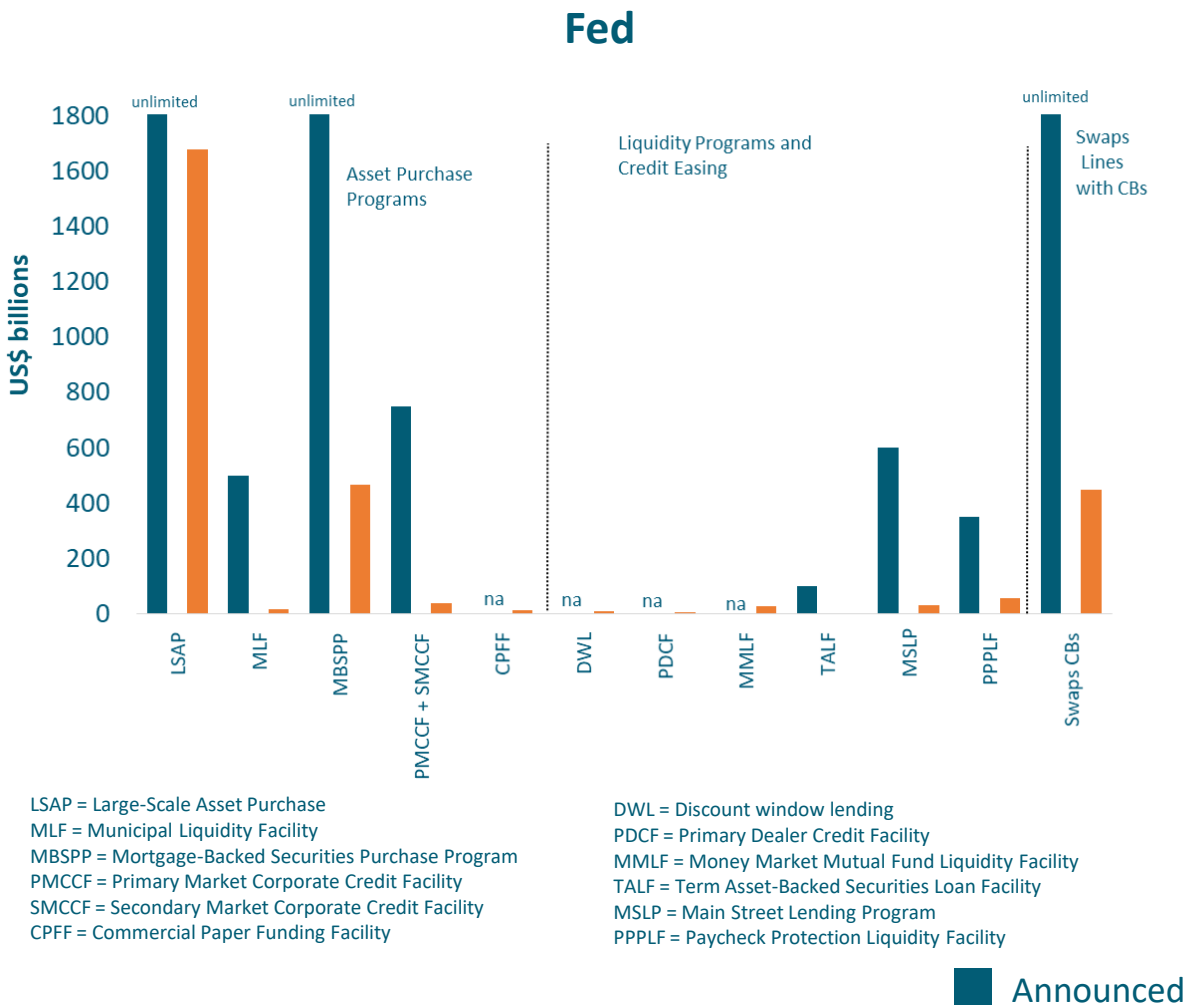


Source: FED, ECB, BoE and BCB

Central banks' response

Programs result in large injection of liquidity into financial systems

Global Shock
Facing the crisis

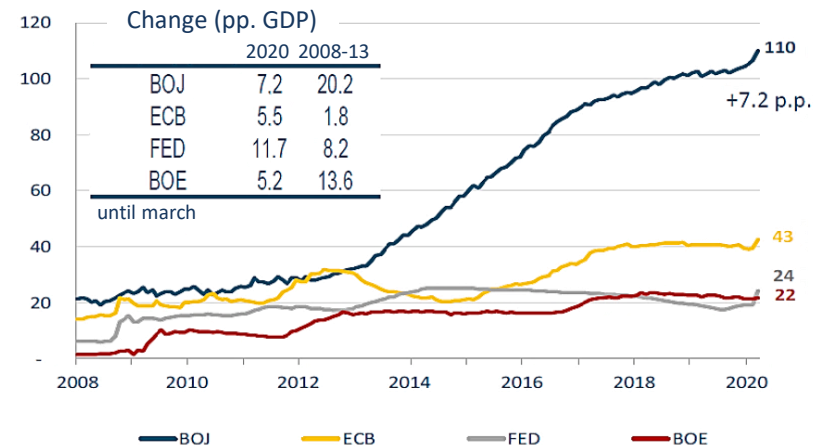


Source: Fed, BOJ, Bloomberg, Thomson Reuters

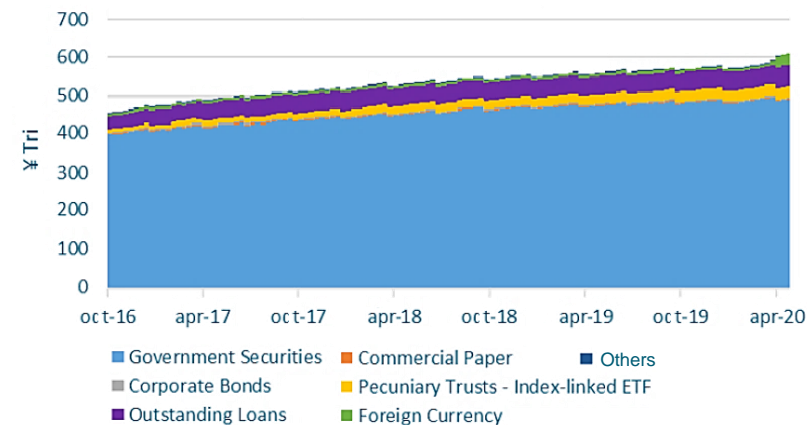
Central banks' response

Sharp balance sheets expansion

Central banks balance sheets

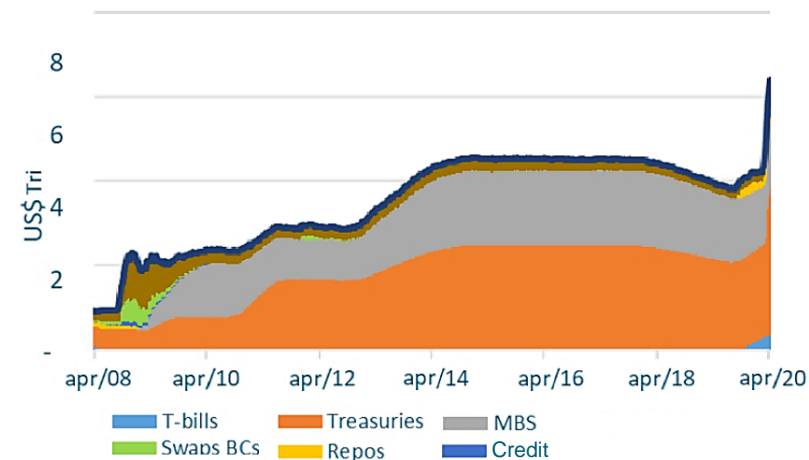


Bank of Japan

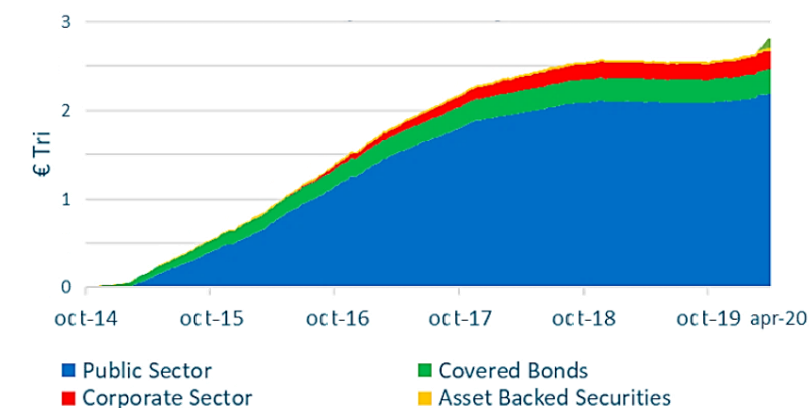


Global Shock Facing the crisis

Federal Reserve USA



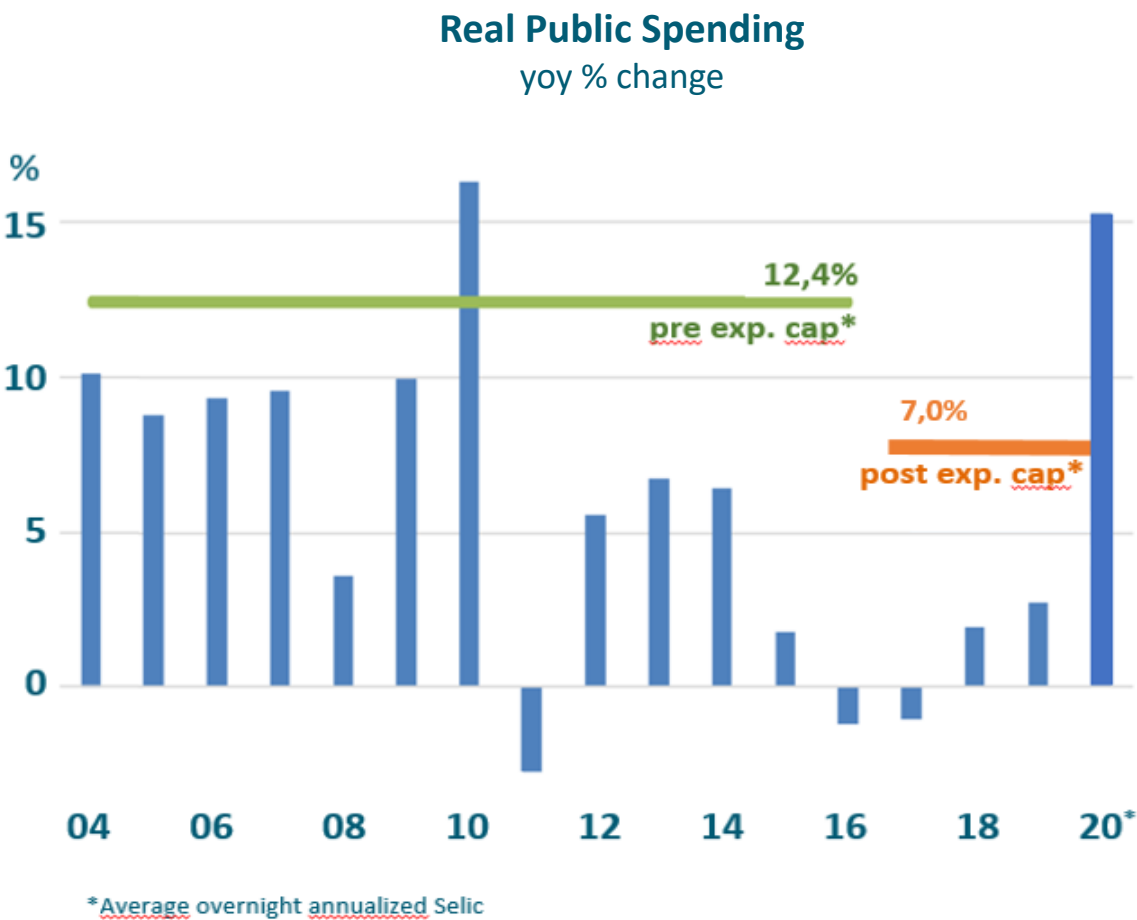
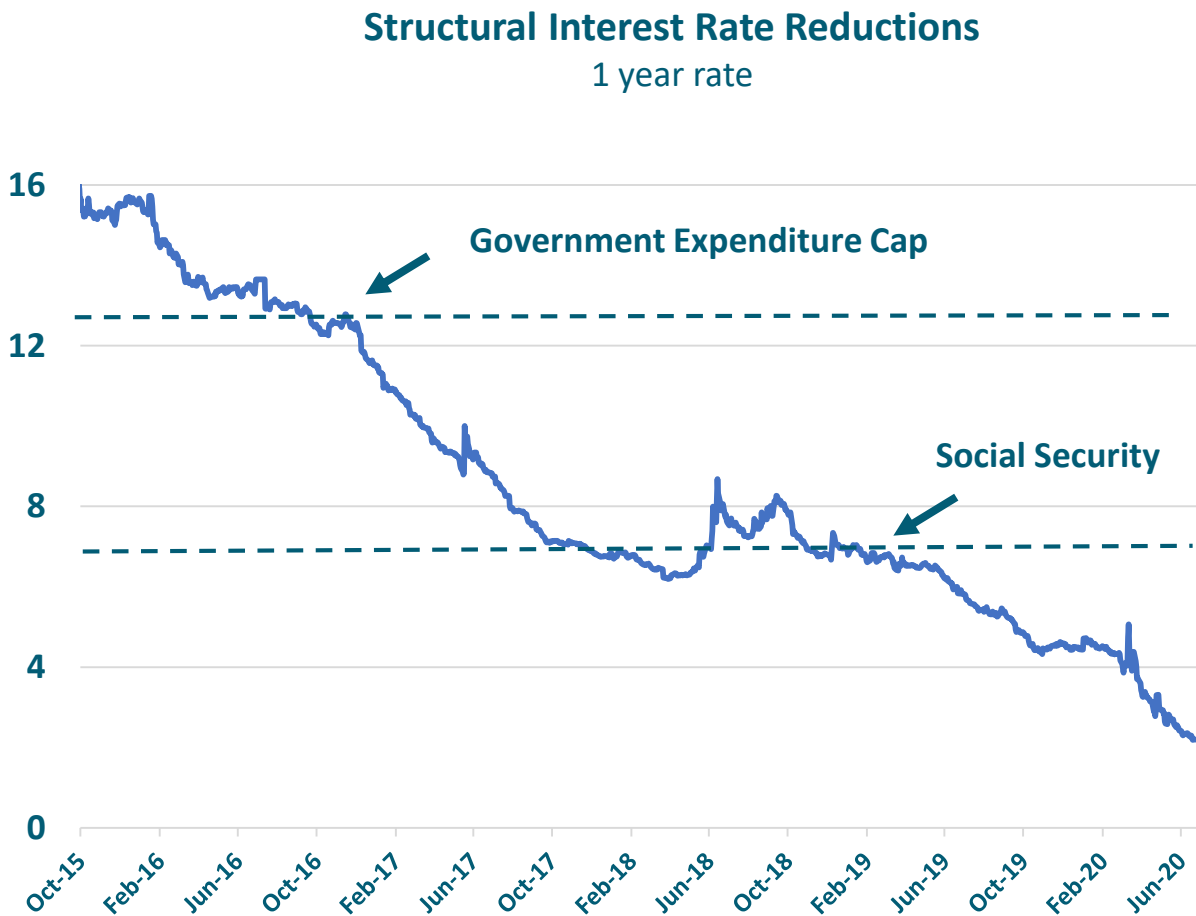
European Central Bank



Source: FED, ECB, BOJ and Bloomberg

Room for conventional policies

Brazil: cautious MP actions



Source: Bloomberg

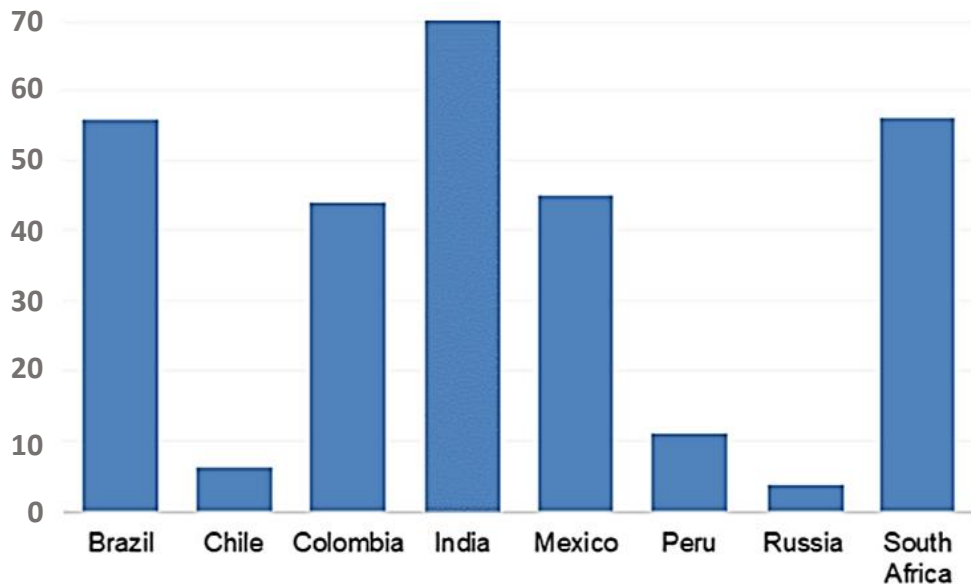
Source: BCB, 2020 forecast

Room for conventional MP

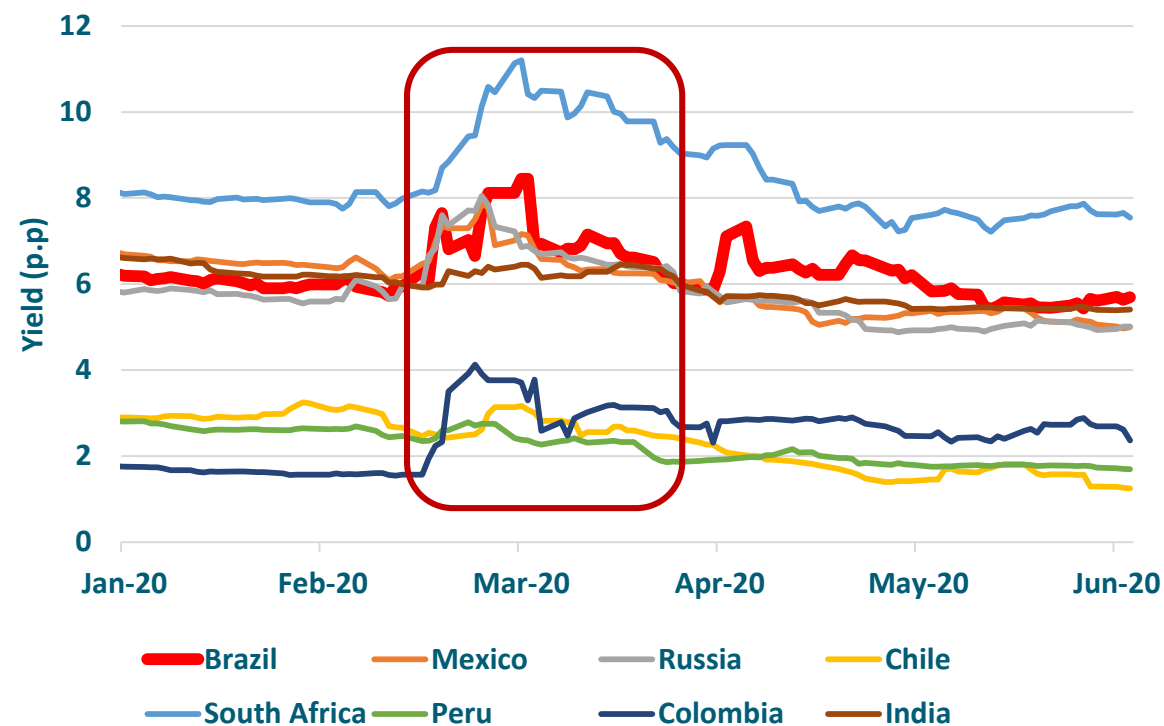
Part of EMEs faces policy constraints

High debt: relevant risk factor

Net public debt
2019



Five years yield



Fonte: IMF, Standard & Poor's

Source: Bloomberg

- In its last meeting, the Copom unanimously decided to lower the Selic rate by 0.75 percentage point to 2.25% p.a.
- The Copom believes that the current state of affairs continues to recommend an unusually strong monetary stimulus, but it recognizes that the remaining space for monetary policy stimulus is uncertain and should be small.
- For the next meetings, the Committee sees as appropriate to evaluate the impact of the pandemic and of the set of credit and transfer programs in place and foresees that any possible adjustment to the monetary stimulus would be residual.
- The Committee recognizes that the variance of its balance of risks has increased and that further information on the evolution of the pandemic, as well as a decline in fiscal uncertainty, will be essential to determine its next steps.

The roles of monetary and fiscal policies

Monetary and fiscal policies have well-defined roles

Macroeconomic Outlook

Domestic Economy

Monetary Policy

Liquidity



Fiscal Policy

Solvency



If not properly managed, liquidity problems can become solvency problems.

Summary

Measures' impacts

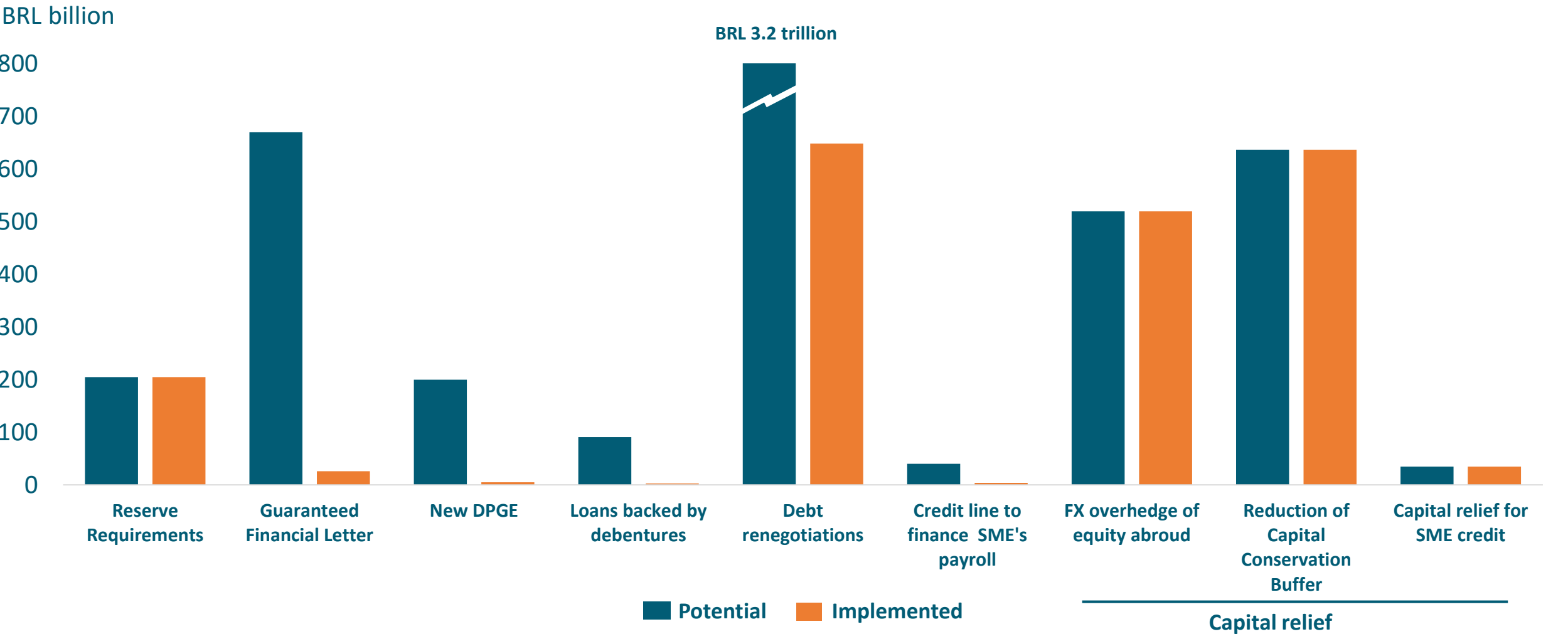
Measure	2020		
	Potencial	Implemented	2008
Liquidity support			
Reserve requirements + change in LCR regulation	R\$ 135 bi	R\$ 135 bi	–
Additional reduction in reserve requirements	R\$ 70 bi	R\$ 70 bi	R\$ 82 bi
More flexibility on LCA regulation	R\$ 2.2. bi	R\$ 2,2 bi	–
Loan backed by LFs guaranteed by credit operations	R\$ 670 bi	R\$ 26 bi	–
One-year term repos backed by federal govnt. Bonds	R\$ 50 bi	R\$ 22 bi	R\$ 25 bi
New Term Deposit with Special Guarantees (NDPGE)	R\$ 200 bi	R\$ 5.3 bi	R\$ 10 bi
Loans backed by debentures	R\$ 91 bi	R\$ 3 bi	–
Change in reserve requirements on savings deposits	R\$ 55.8 bi	**	–
Total	R\$ 1274.0 bi	R\$ 263.5 bi	R\$ 117 bi
Capital Relief ¹			
Overhedge	R\$ 520 bi	R\$ 520 bi	–
Reduction of the Additional Principal Capital (ACP) factor	R\$ 637 bi	R\$ 637 bi	–
Reduction in the capital for credit operations for SMEs	R\$ 35 bi	R\$ 35 bi	–
Reduction in capital for S5 segment	R\$ 16.5 bi	**	–
Reduction in capital for DPGE exposures	R\$ 12.7 bi	**	–
Working capital for business preservation (CGPE)	R\$ 127 bi	**	–
Total	R\$ 1348.2 bi		–
More flexibility for credit renegotiations	*R\$ 3200 bi	R\$ 648.8 bi	–
Asset Purchases			
Asset purchases in secondary markets	N.D.	**	–
Other measures			
Swap lines with the Federal Reserve	US\$ 60 bi		US\$ 30 bi
Creation of special credit lines for SMEs	R\$ 40 bi	R\$ 3.9 bi	–
Real estate backed loans	R\$ 60 bi	**	–

Source: BCB

Central Bank of Brazil Response

Liquidity support and capital relief

Global shock
Facing the crisis



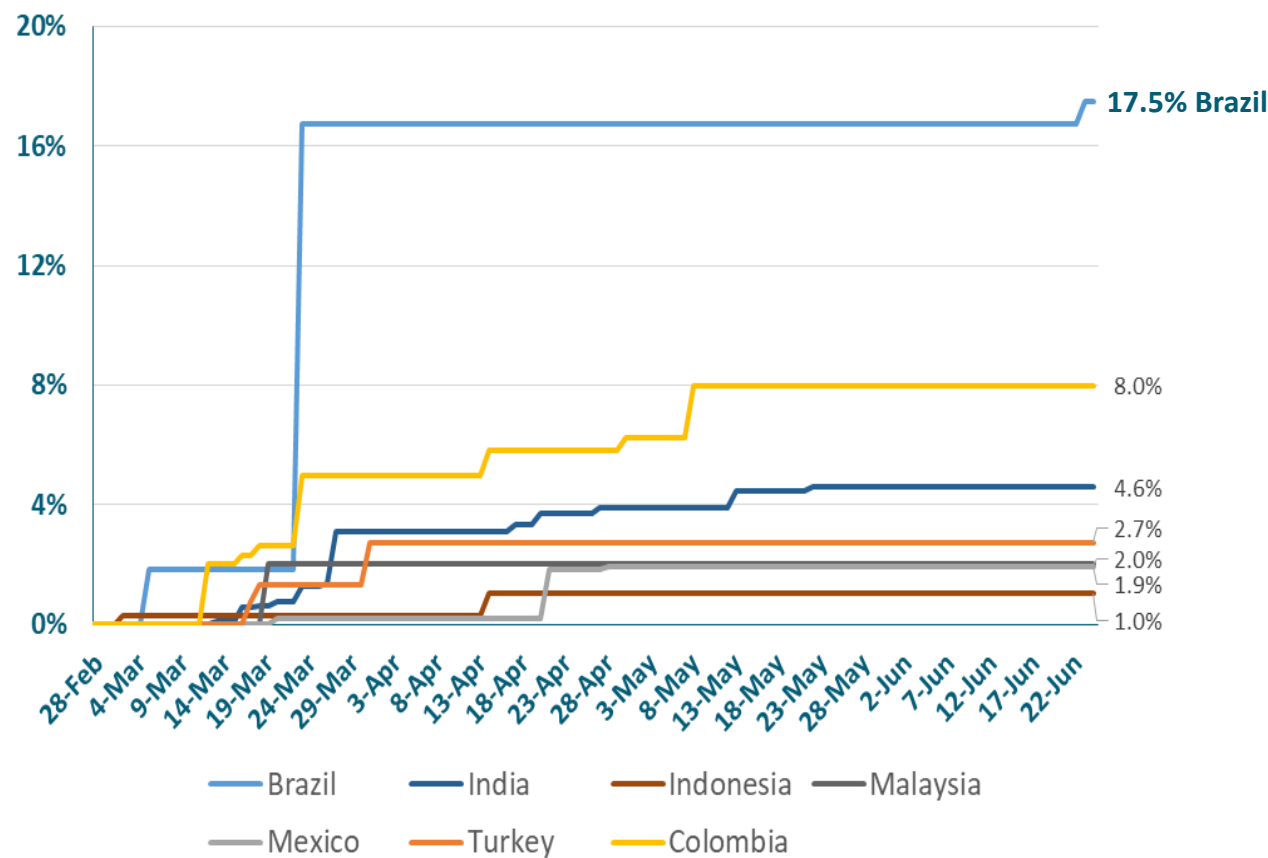
Source: BCB

Emerging Markets Economies

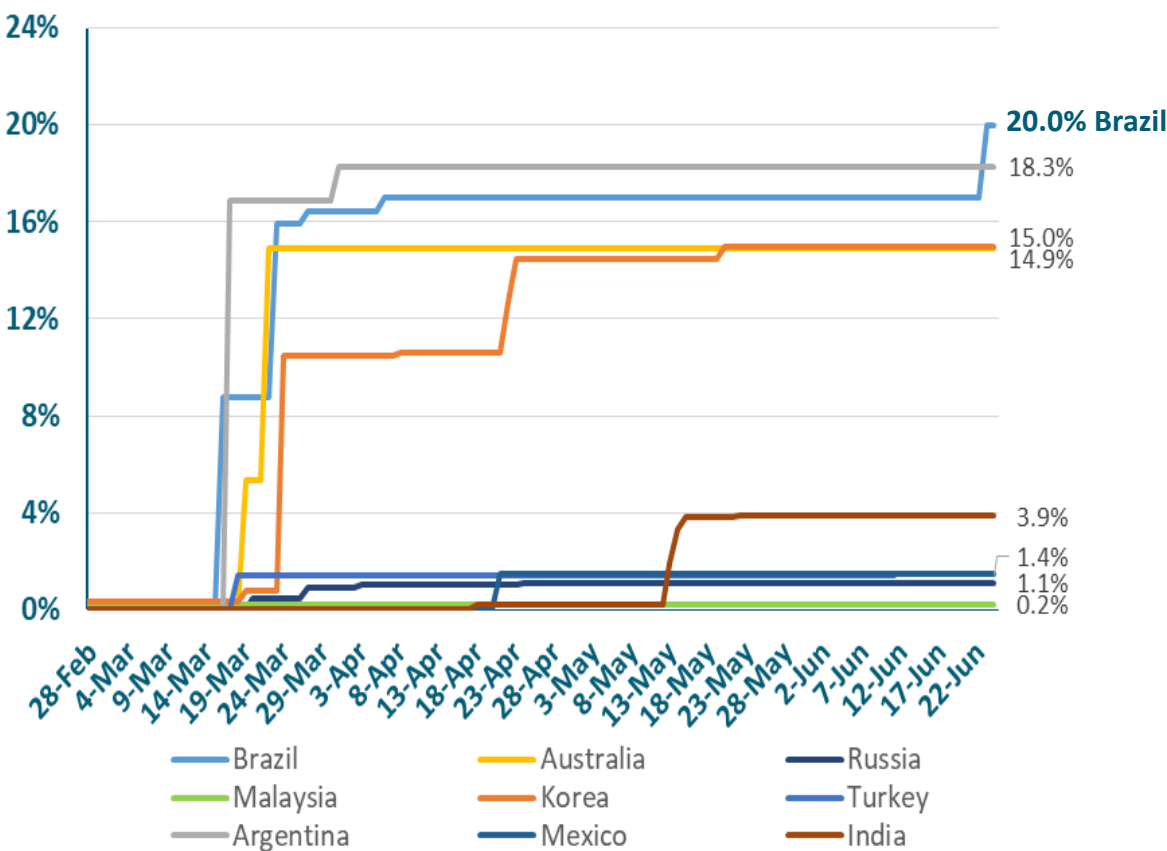
Covid-19 Measures -Comparative overview

Covid-19 Outbreak
Facing the crisis

Liquidity Support
(% of GDP)



Credit Support
(% of GDP)



Source: FSB/BCB – until June 23th

Non-banking funding

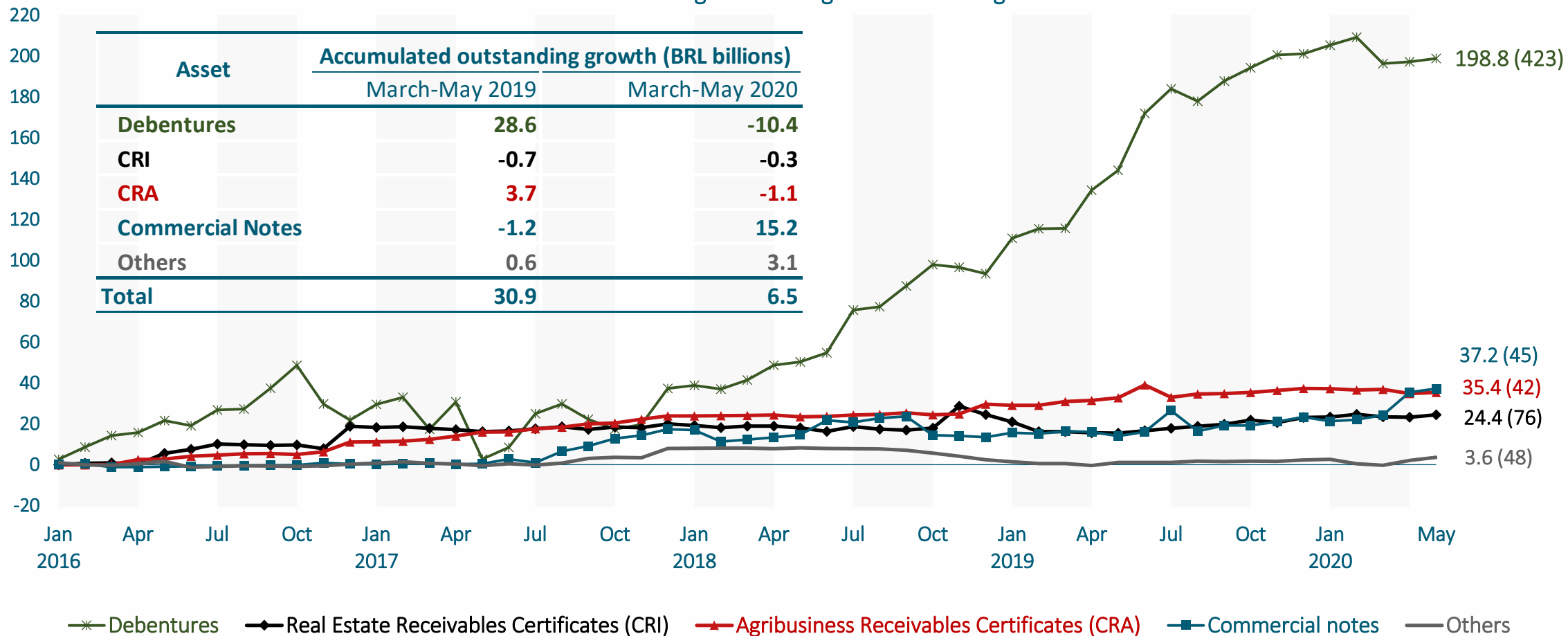
Debentures outstanding fell more than other non-bank assets issued

Private bonds

Domestic Economy

BRL billion

Non-bank fund raising outstanding – accumulated growth



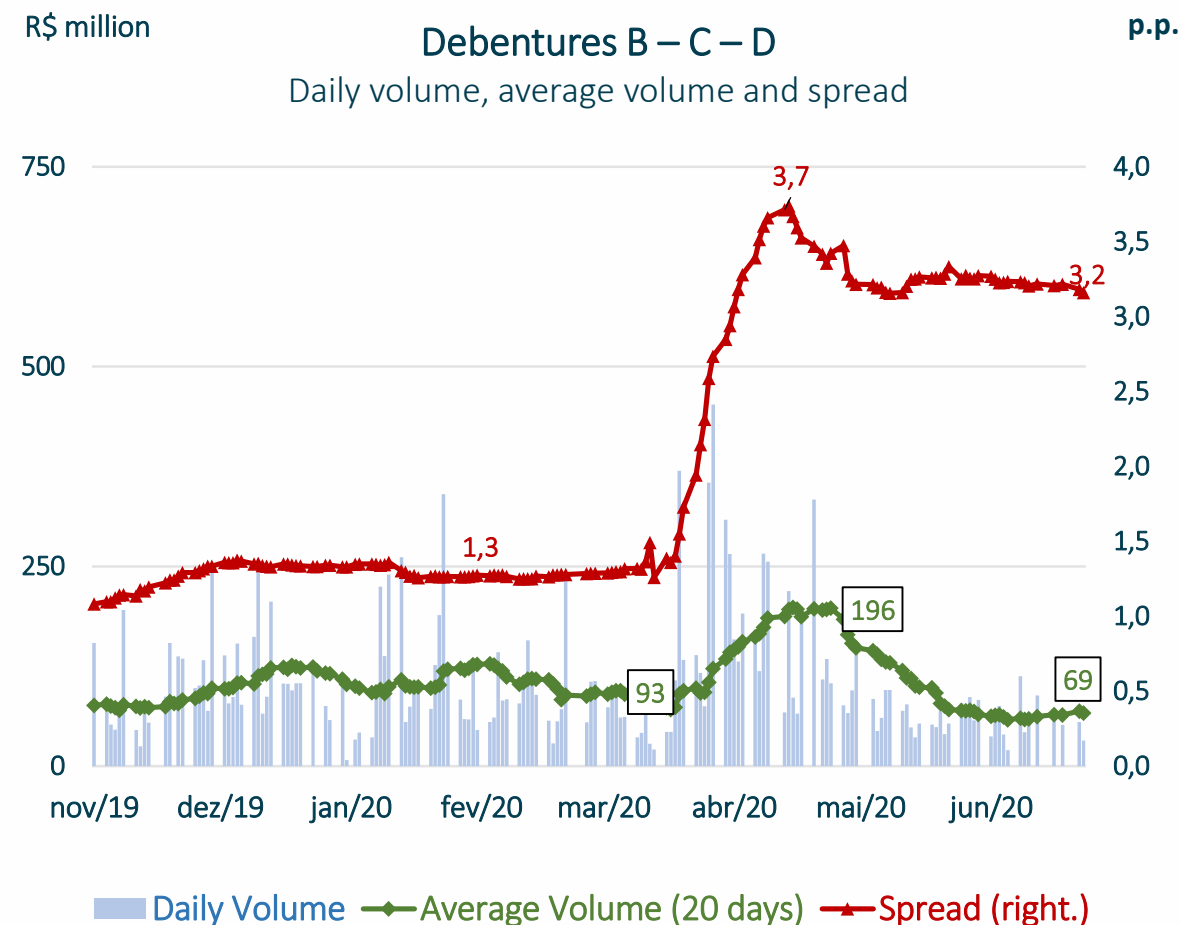
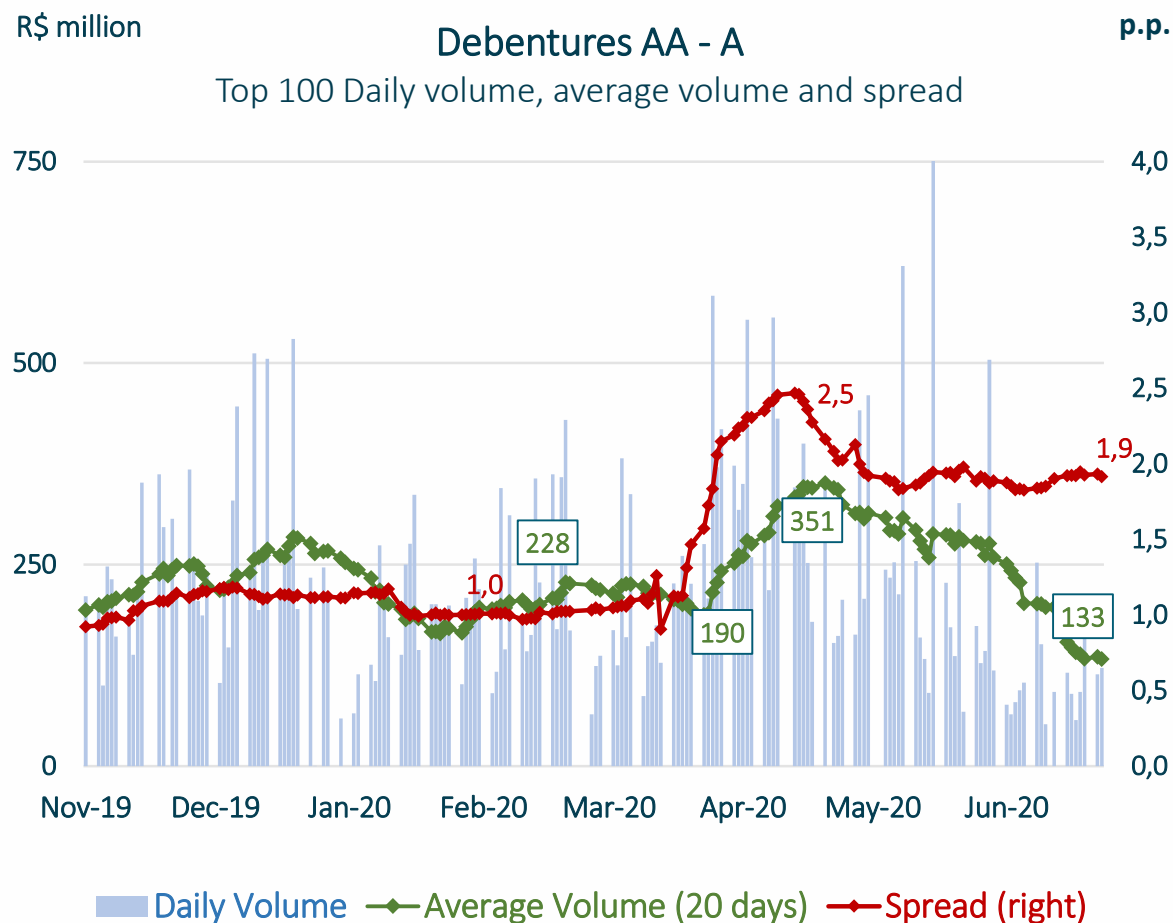
Source: Cetip

Debentures Trading on the Secondary Market

Trading volumes and spreads of the top 100 negotiated debentures are close to pre-Covid19 crisis level. Higher risk debentures still trade at higher spreads.

Private bonds

Domestic Economy

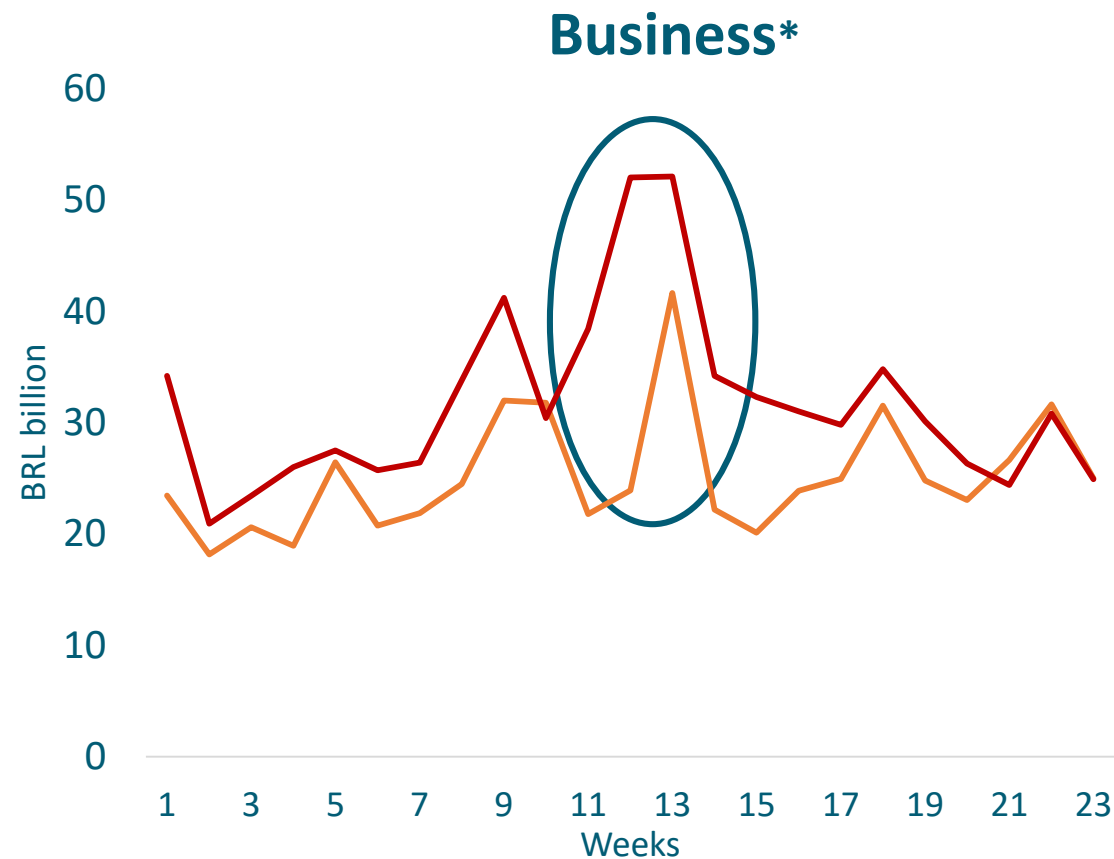


* Data until June 23rd 2020.

Source: B3, Cetip

Nonearmarked new credit transactions

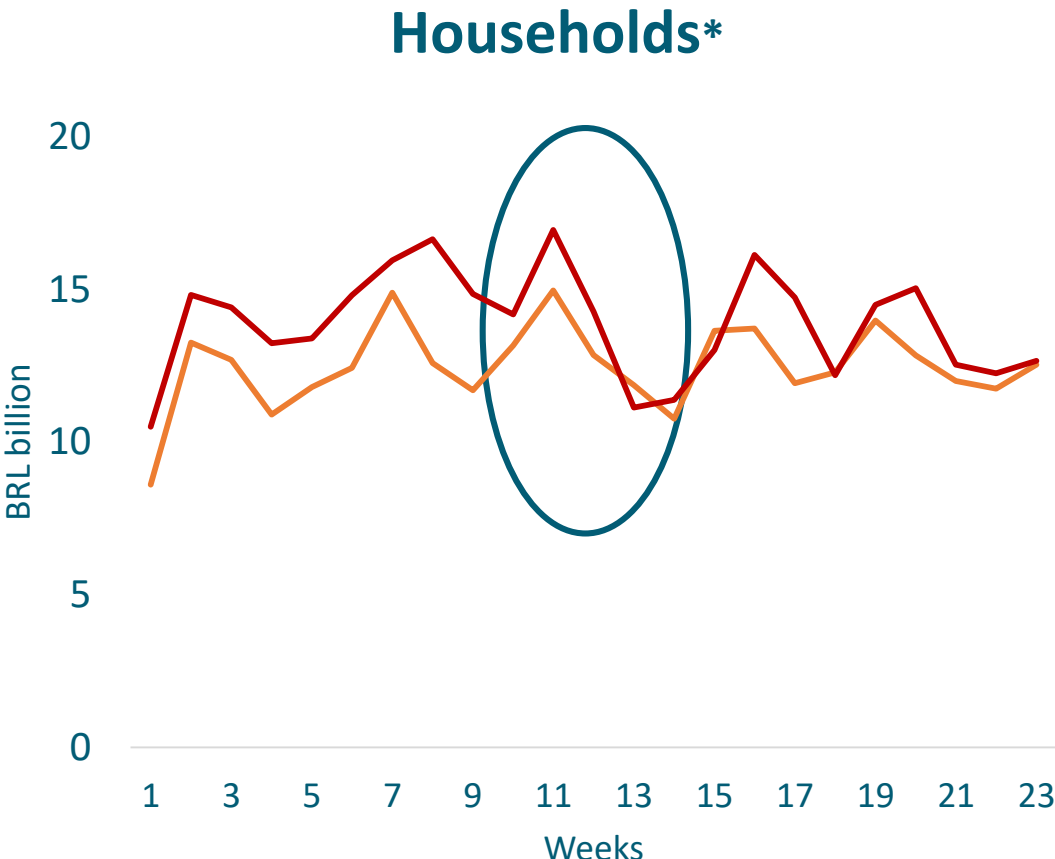
Increase in credit to firms amid the crisis



2020

2019

Effects of measures Credit Distribution

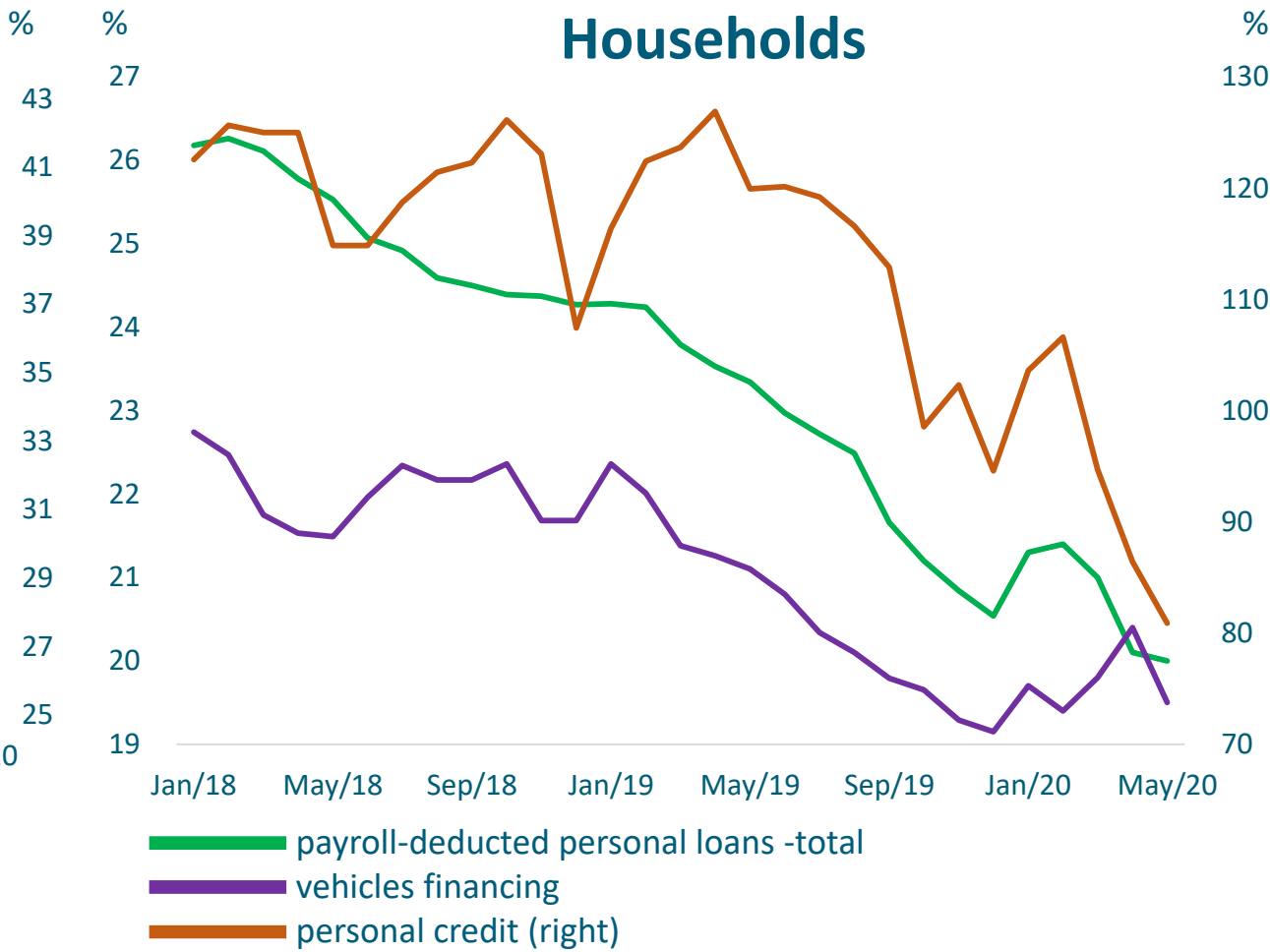
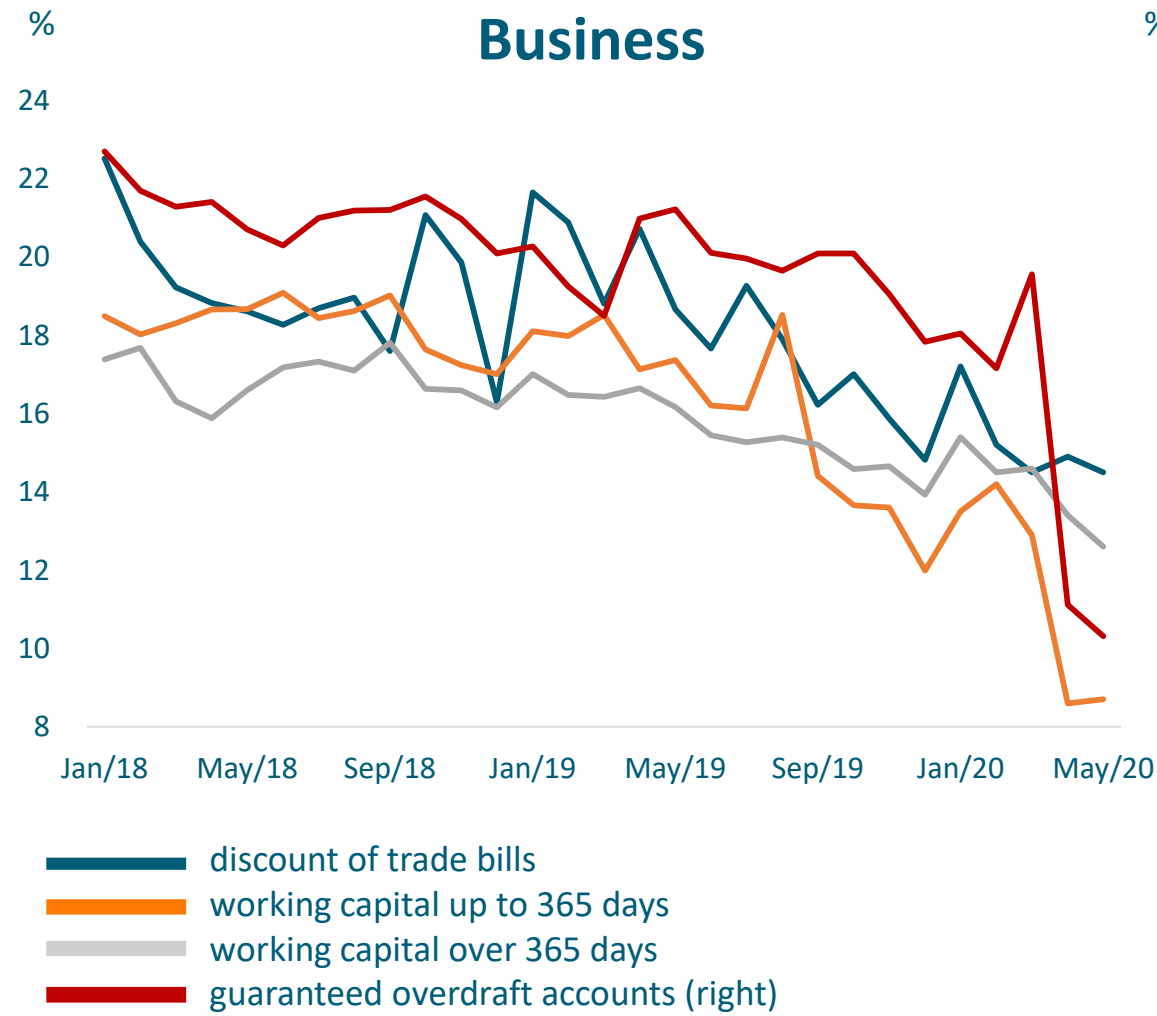


Source: BCB

Average interest rates: new credit transactions

Effects of measures
Credit Cost

Non earmarked credit (% p.y.)



Source: BCB

New transactions and credit renewals

From March 16th to June 12th

Effects of measures
Credit Distribution

Segments	BRL billions									
	New transactions (1)					Credit renewals (2)				
	Corporate	Middle	SME	Household	Total	Corporate	Middle	SME	Household	Total
S1 - public	31.6	11.2	14.8	61.0	118.7	7.7	16.2	20.7	50.2	94.8
S1 - private	169.8	28.8	27.9	55.6	282.1	77.6	15.3	8.2	26.8	128.0
S2	31.7	5.1	1.1	12.2	50.0	3.7	0.4	0.1	0.2	4.3
S3	32.2	10.2	2.4	16.7	61.6	10.7	2.0	1.0	5.3	19.1
S4	8.8	6.0	1.4	4.5	20.8	1.7	3.2	0.2	2.7	7.8
Total	274.2	61.3	47.7	150.1	533.2	101.4	37.1	30.1	85.3	253.9

S1 = large banks, separated by public and private sector
S2 = medium banks
S3 and S4 = small banks

(1) Includes debentures totaling BRL 30.3 billions. (2) Includes: full renewal of the credit operation, including new credit; as well as renegotiations with changes in interest rate and guarantees.

New transactions



Credit renewals



Total



■ S1 – public ■ S1 – private

Source: BCB

Debt renegotiation: operations that had installments extended after the new CMN and BCB's regulation

From March 16th to June 12th

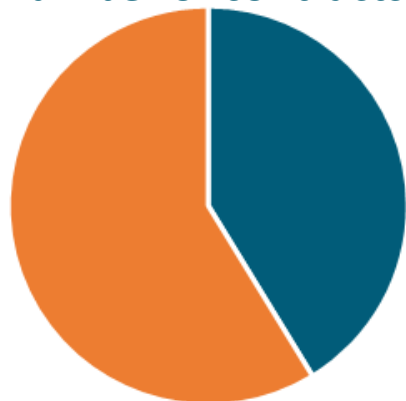
Effects of measures

Credit Distribution

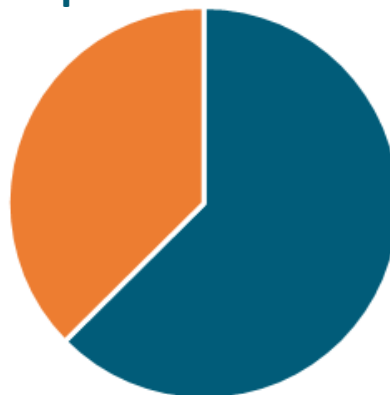
Extension of loan installments, with the same interest rate – values in BRL billions

Seg- ments	Corporate			Middle			SME			Household			Total		
	Number of contracts	Value of operations	Install- ments value	Number of contracts	Value of operations	Install- ments value	Number of contracts	Value of operations	Install- ments value	Number of contracts	Value of operations	Install- ments value	Number of contracts	Value of operations	Install- ments value
S1 - public	858	9.3	1.4	10,517	15.5	3.4	476,552	31.4	6.9	3,392,363	248.5	17.4	3,880,290	304.8	29.0
S1 - private	4,514	24.6	9.9	99,987	23.7	7.7	600,942	35.3	4.6	4,957,111	103.3	8.3	5,662,554	186.9	30.5
S2	1,096	16.0	1.3	10,222	87.5	7.1	43,755	1.1	0.1	1,058,361	22.0	1.3	1,113,434	126.5	9.9
S3	982	2.2	0.7	39,546	7.5	1.2	11,209	1.2	0.1	144,432	8.7	3.7	196,169	19.6	5.7
S4	330	0.6	0.3	57,139	6.1	2.9	6,589	1.5	0.3	79,948	2.9	0.2	144,006	11.0	3.7
Total	7,780	52.6	13.5	217,411	140.3	22.3	1,139,047	70.5	12.0	9,632,215	385.3	30.9	10,996,453	648.8	78.8

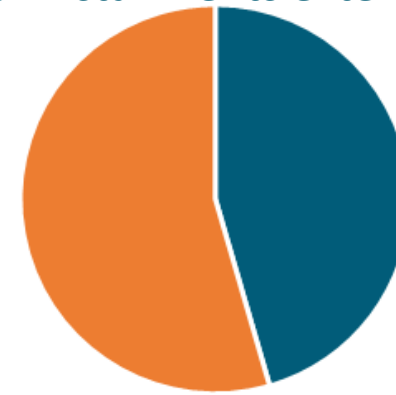
Number of contracts



Value of operations extended



Value of installments extended



■ S1 – public ■ S1 – private

Source: BCB

PESE – Emergency Employment Support Program

Effects of measures Credit Distribution

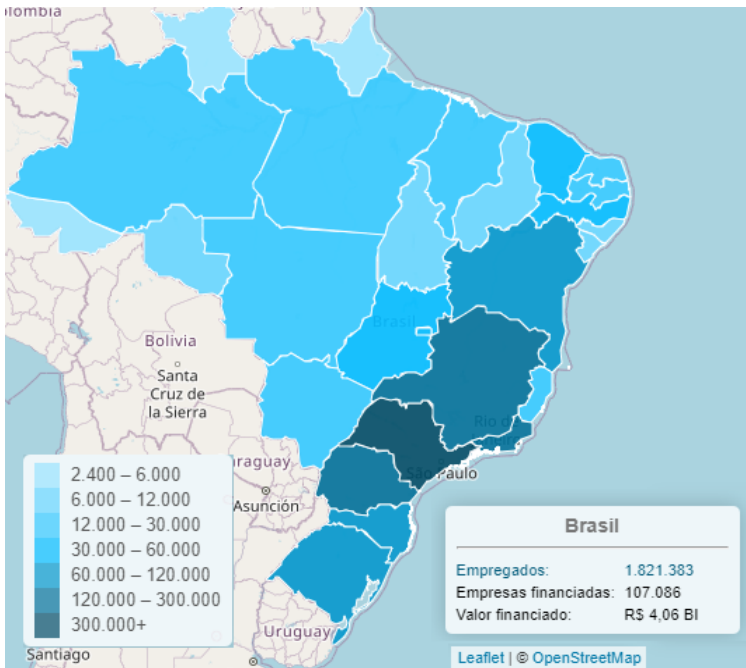
The program* strongly benefits low wage employees in the whole country

1.821.383
employees

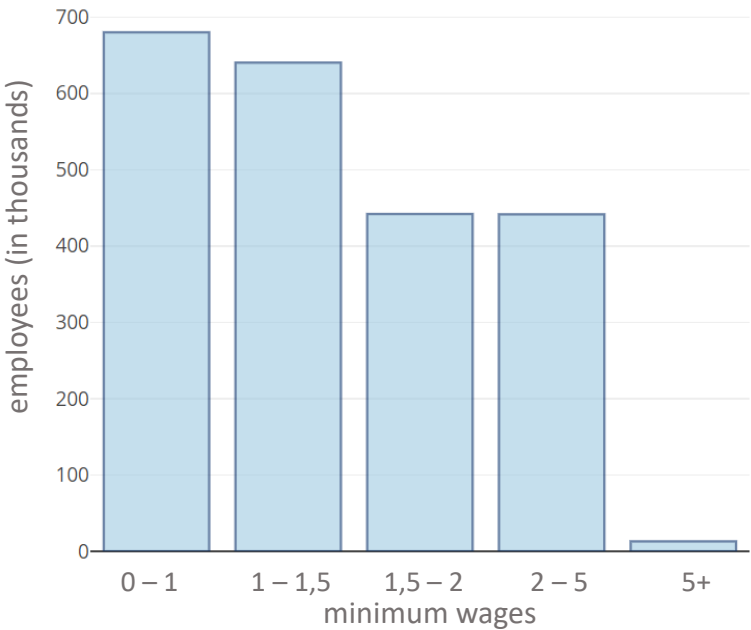
107.086
funded firms

R\$ 4.057.483.792,66
amount financed

Geografic Distribution



Wage Distribution



Program enhancement – MP 944/20

- 1) To include firms with higher revenues in 2019: R\$ from 10 to R\$ 50 millions.
- 2) Extension of the program by 2 month.
- 3) Credit to firms keeping at least 50% of their employees.

Expected additional impact:**

- 1) R\$ 5 billion: additional months to currently eligible firms;
- 2) R\$ 5 billion: extension to new firms.

Total program:**

R\$ 15.5 billion

* Data updated up to 06/19/2020

** Preliminary values reflecting potential demand based upon pre-crisis data (subject to future revision)



INCLUSION



COMPETITIVINESS

BC#



TRANSPARENCY



EDUCATION

INCLUSION

COMPETITIVENESS

TRANSPARENCY

EDUCATION

COOPERATIVE CREDIT



MICROCREDIT



CURRENCY CONVERTIBILITY



INITIATIVES FOR CAPITAL MARKET (IMK)



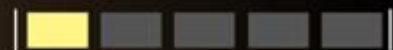
INNOVATION



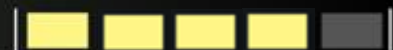
MARKET EFFICIENCY



INTERNATIONAL RESERVES



RURAL CREDIT



HOUSING CREDIT



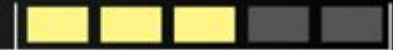
RELATIONSHIP WITH CONGRESS



TRANSPARENCY OF MONETARY POLICY



COMMUNICATION PLAN FOR BCB ACTIONS



RELATIONSHIP WITH FOREIGN INVESTORS



FINANCIAL EDUCATION



Agenda BC# – Instant payments

Instant payments - PIX

- > Public consultation completed
- > Financial institutions applied to membership and started homologation cycle starts with mandatory testing
- > To be launched in November 2020



Availability



Convenience



Various use cases



Speed



Open environment



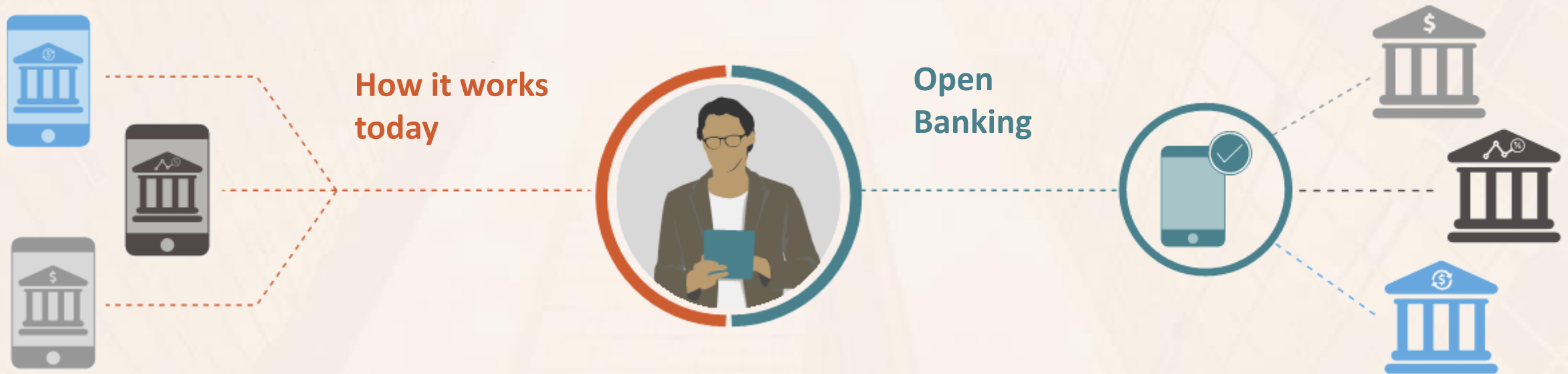
Safety



Enriched Data

Agenda *BC#* – Open banking

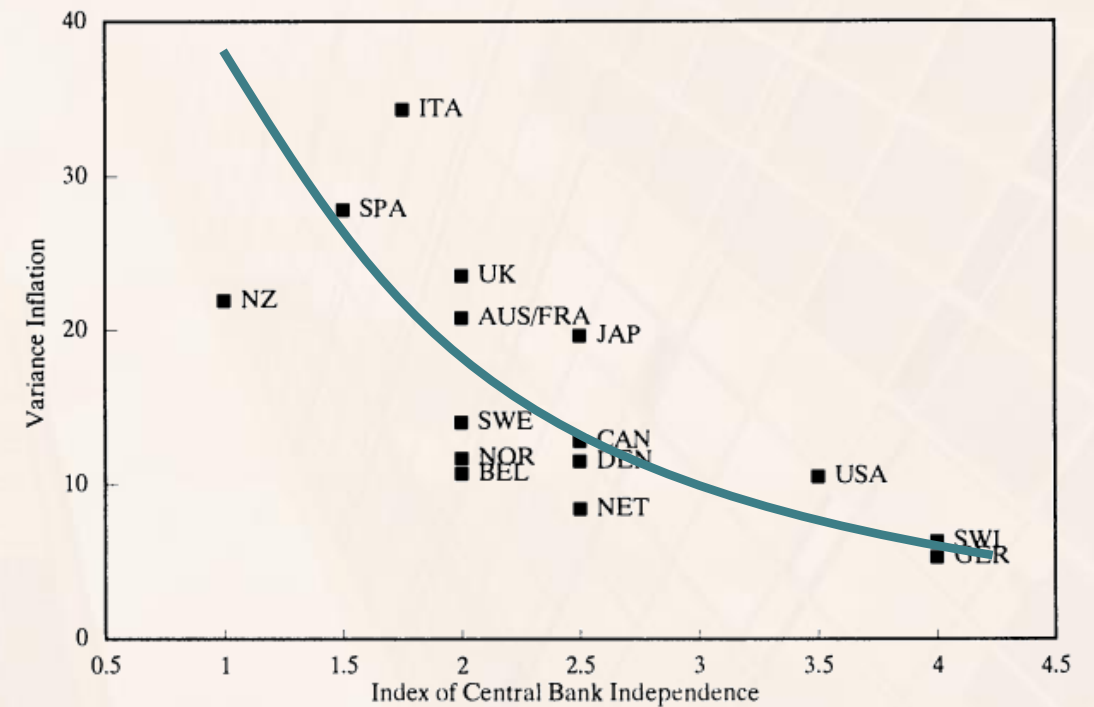
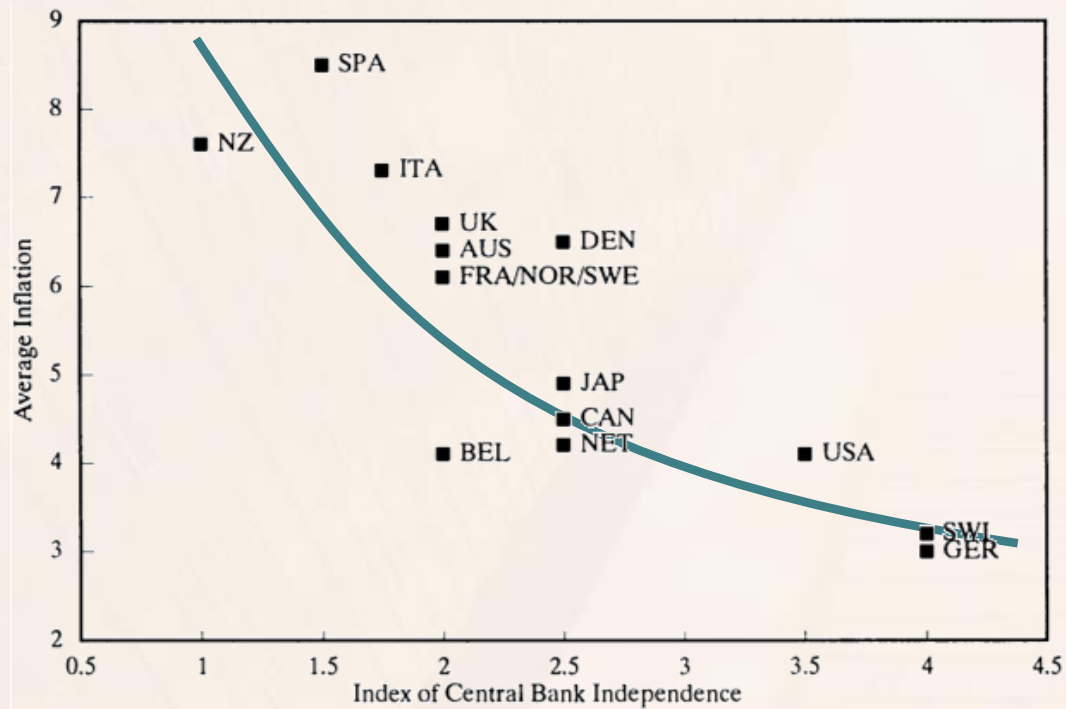
- > Operating rules approved
- > Implementation schedule




Agenda BC# – BCB Autonomy

Highlights for 2020

> Countries with more autonomous CBs have lower inflation level and volatility



Agenda BC# – Main Achievements

- Measures to fight the economic effects of the Covid-19 crisis
- Regulation on issuance of electronic trade receivables
- Open-banking regulation
- PIX – BCB's Instant Payment arrangement
 - 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

THANK YOU

ROBERTO CAMPOS NETO
Presidente do Banco Central do Brasil

June 26, 2020