

CONFERENCE CALL - CITIBANK

FACING THE ECONOMIC CRISIS OF COVID-19

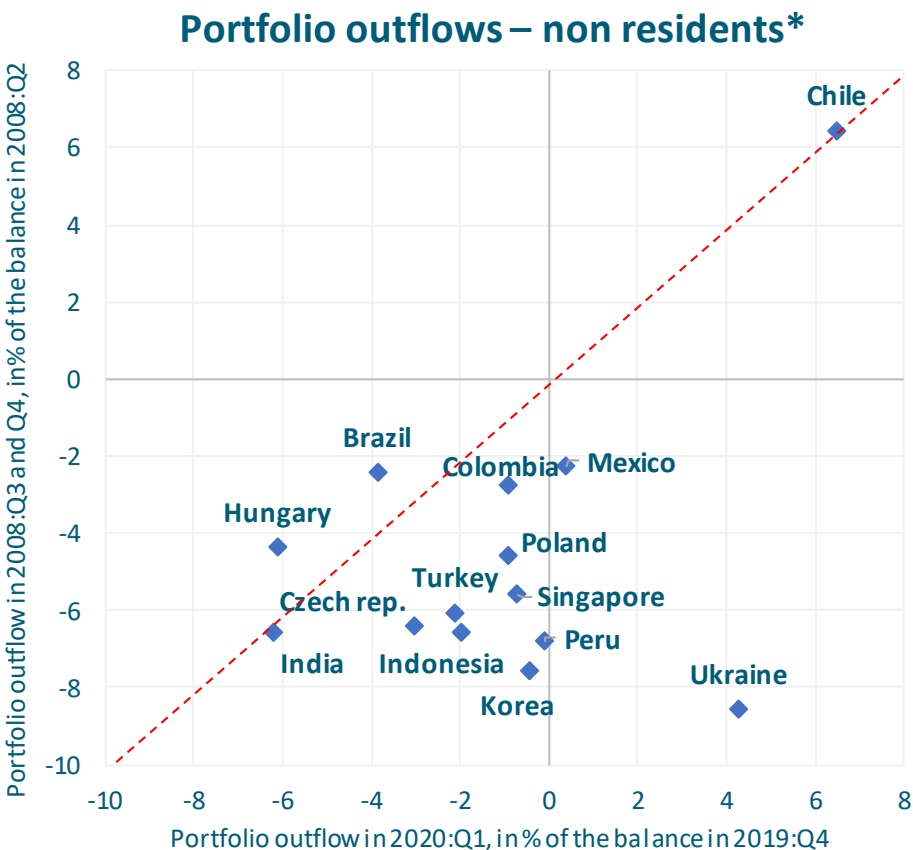
ROBERTO CAMPOS NETO
Governor of Banco Central do Brasil

July 14, 2020

Capital outflows – Non residents

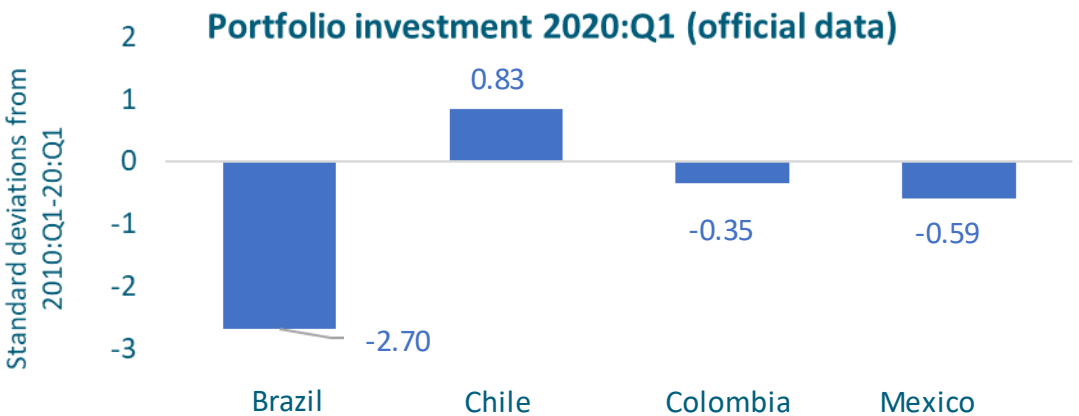
Recent accommodation, but accumulated outflow in the year is still substantial

Global Shock
Emerging Economies



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

Bloomberg EM Capital Flow Index (%)

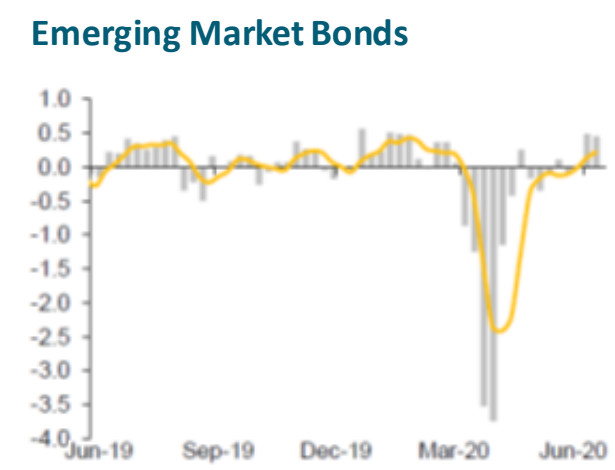
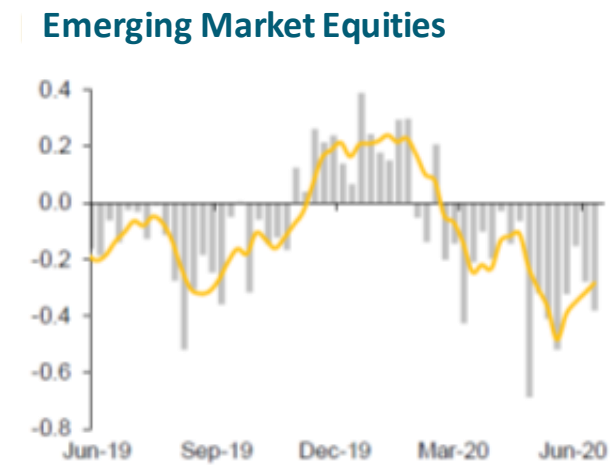
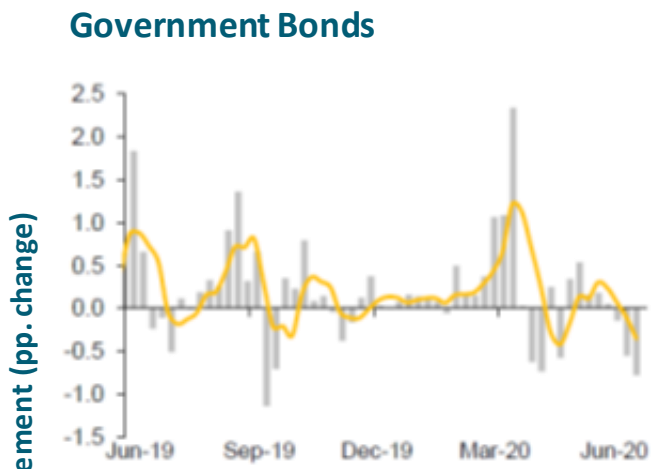
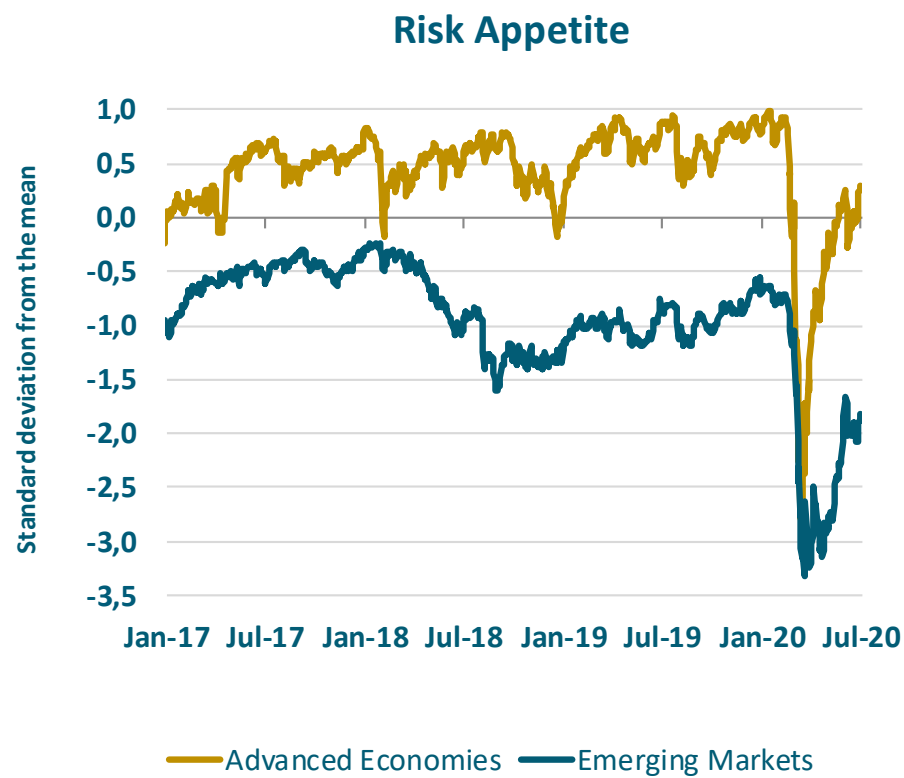


Source: Central banks of Chile, Colombia, Peru and Mexico, Bloomberg, IIF

Normalization of investments

Risk appetite and flows to investment funds* tend to usual levels

Global Shock
Recovery Signs

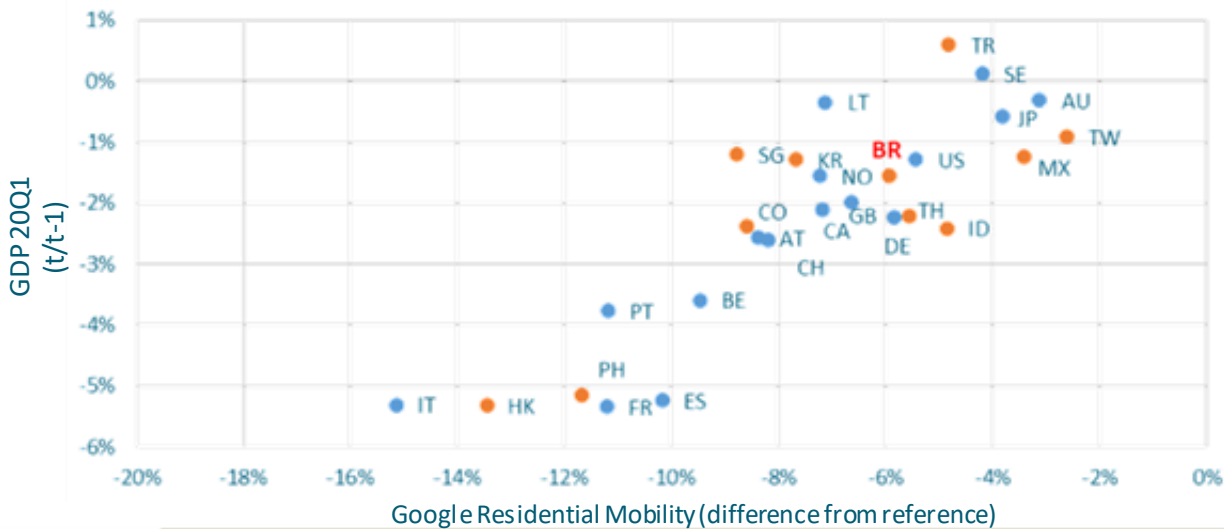
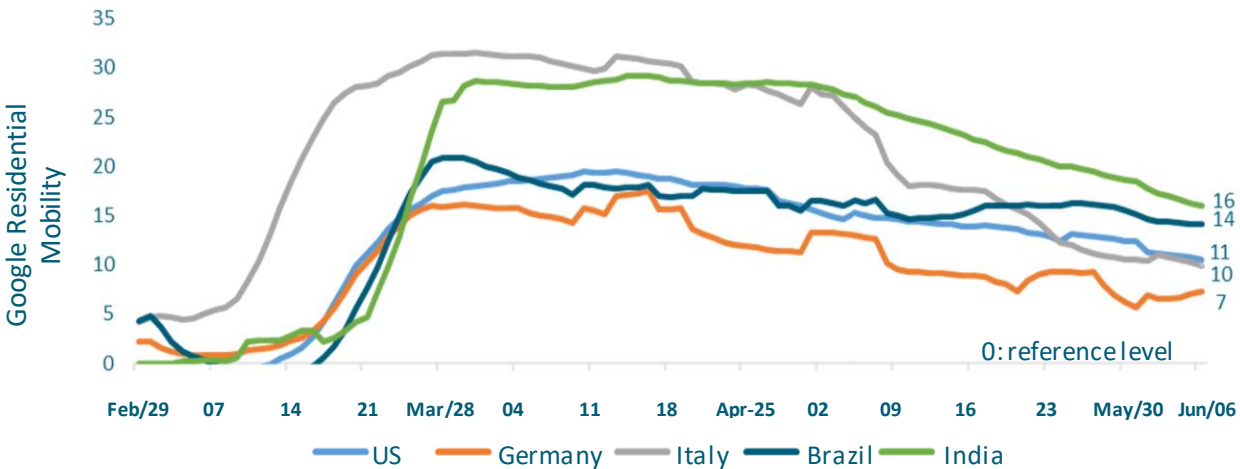


Source: Commerzbank, EPFR

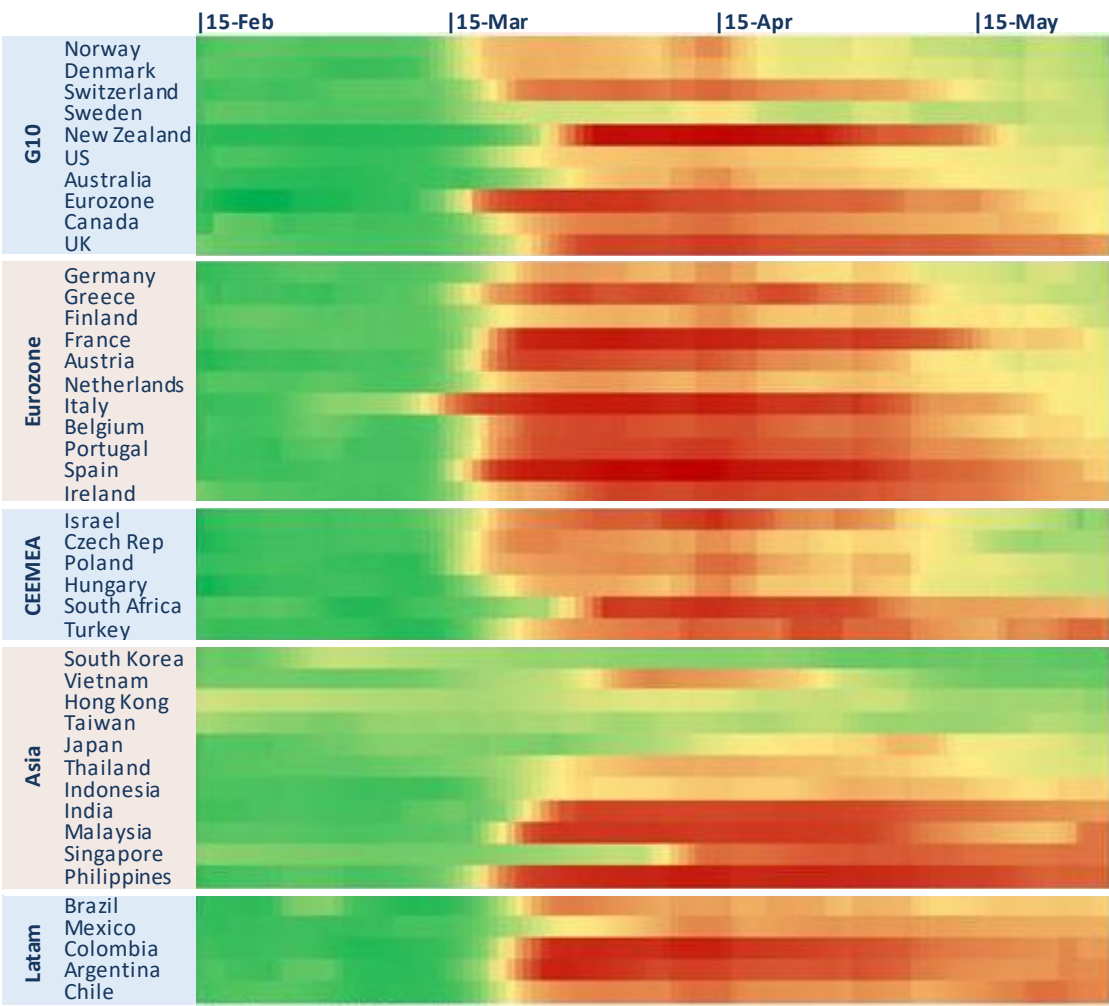
* - Four weeks moving average in yellow.

Mobility

Gradual reduction in social distancing at uneven paces across countries



Global Shock Recovery Signs



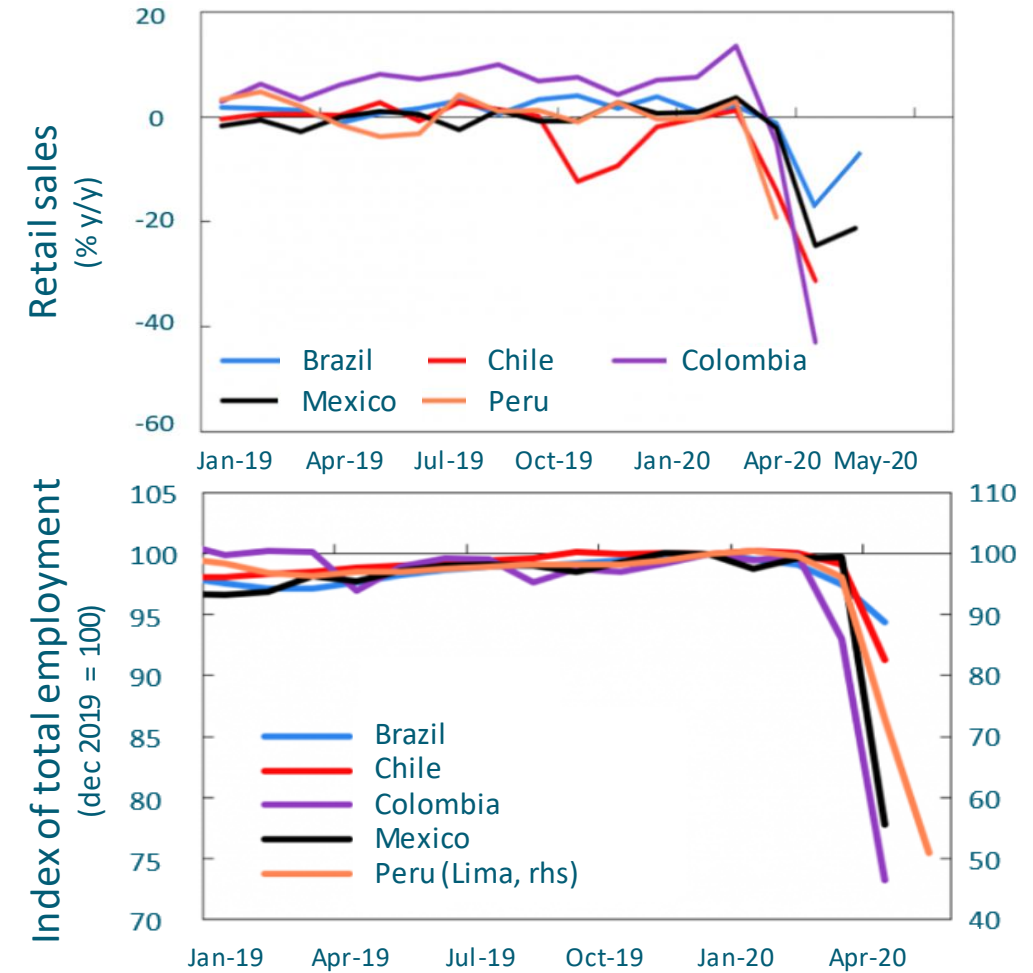
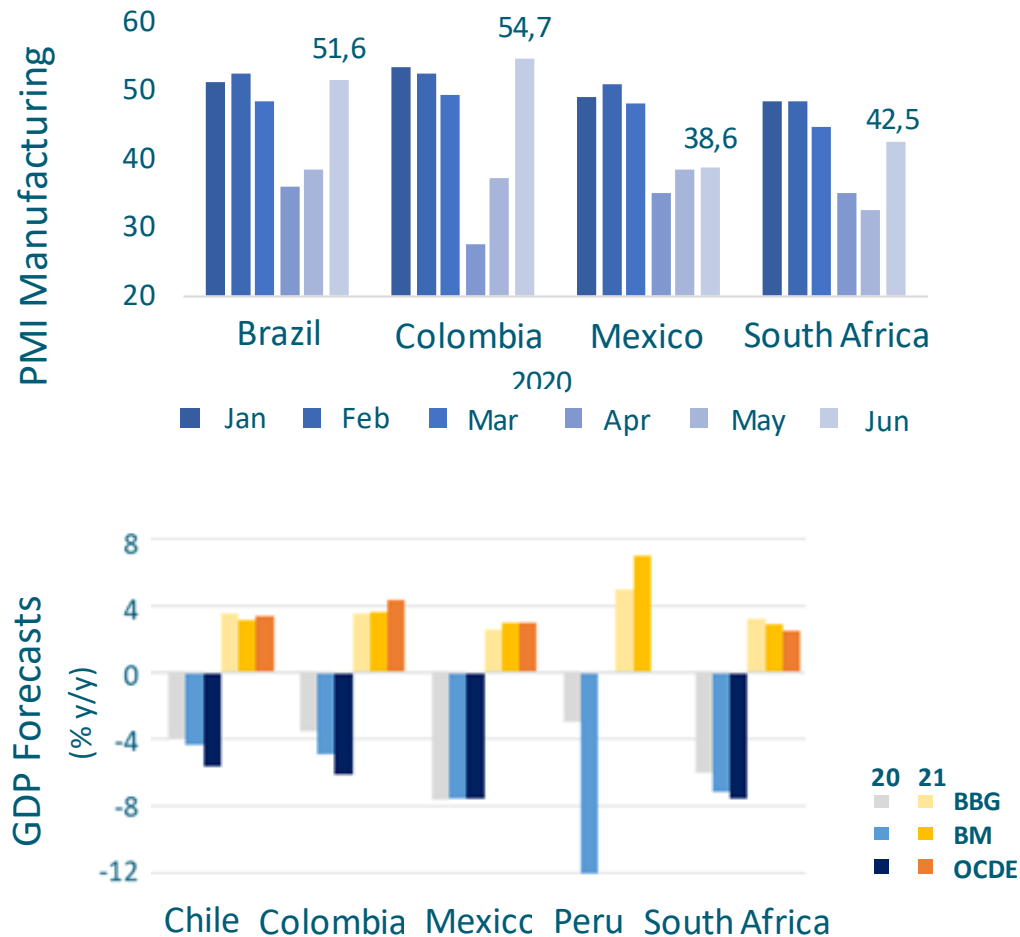
Source: Deutsche, Gavekal

EMEs: Economic activity

Indicators show additional deterioration in the second quarter, and recovery ahead.

Global Shock

Emerging Economies

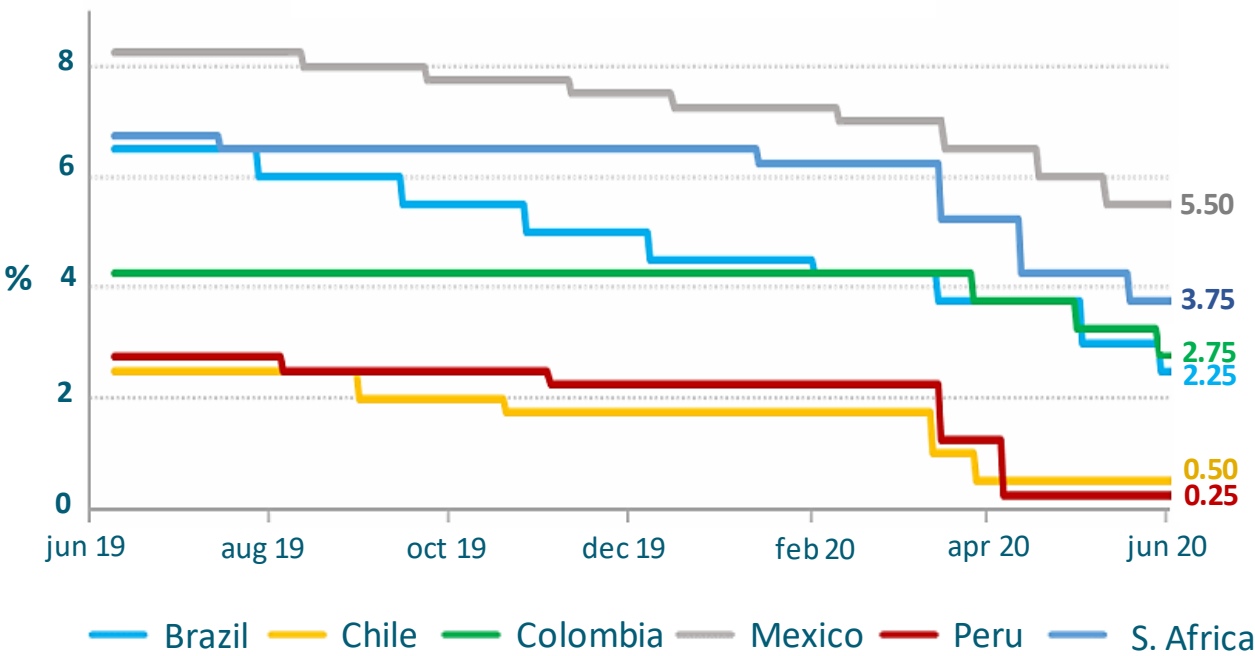


Source: Markit, FMI.

EMEs: Monetary conditions

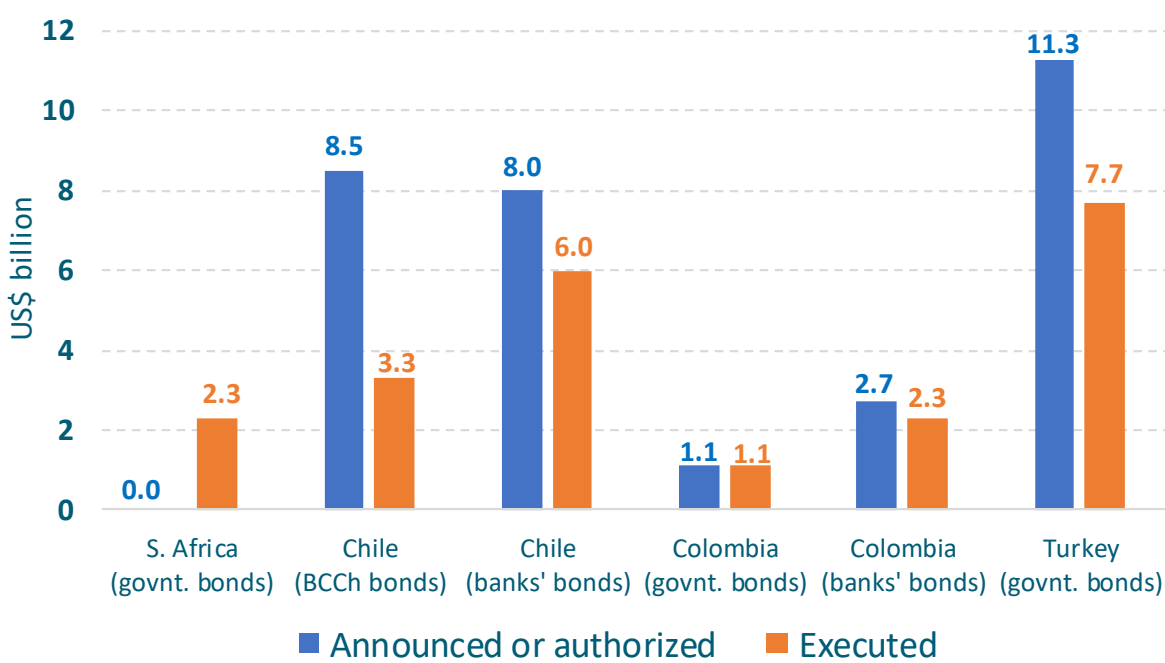
Monetary policy easing, and programs of asset purchases.

Policy rate



Global Shock Emerging Economies

Asset purchases

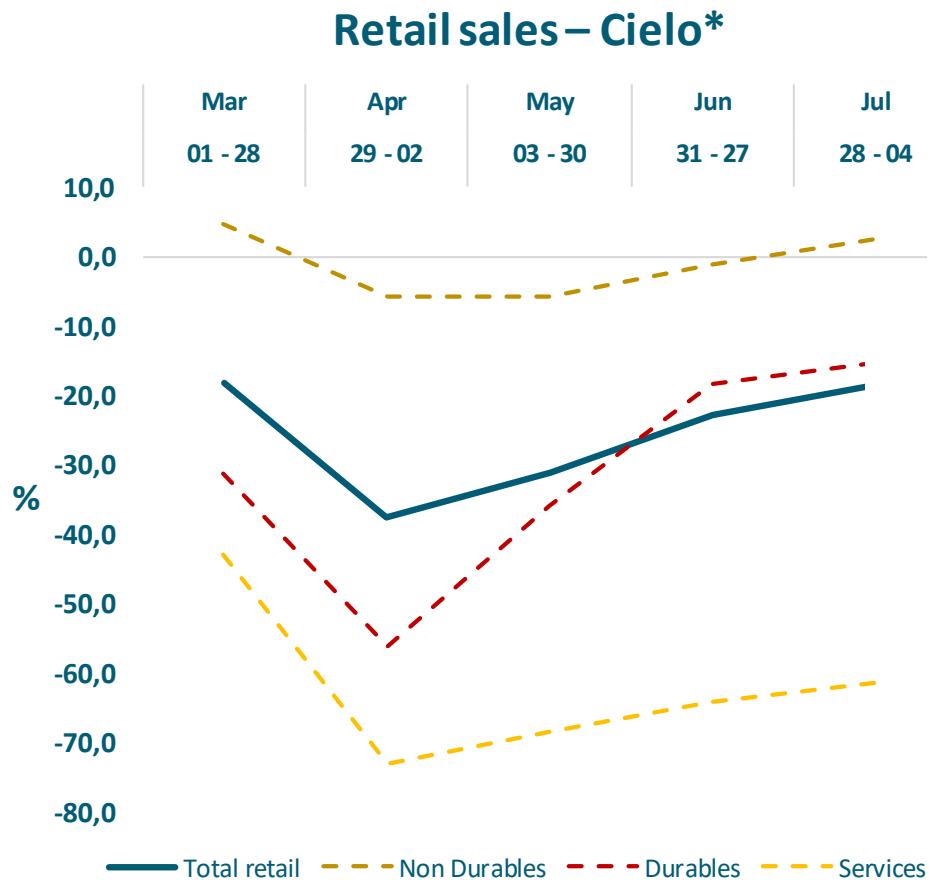


Source: BIS, Bloomberg, SARB, PBoC, Banxico, BCR, Banrep, BCCh, BRP. CBRT.

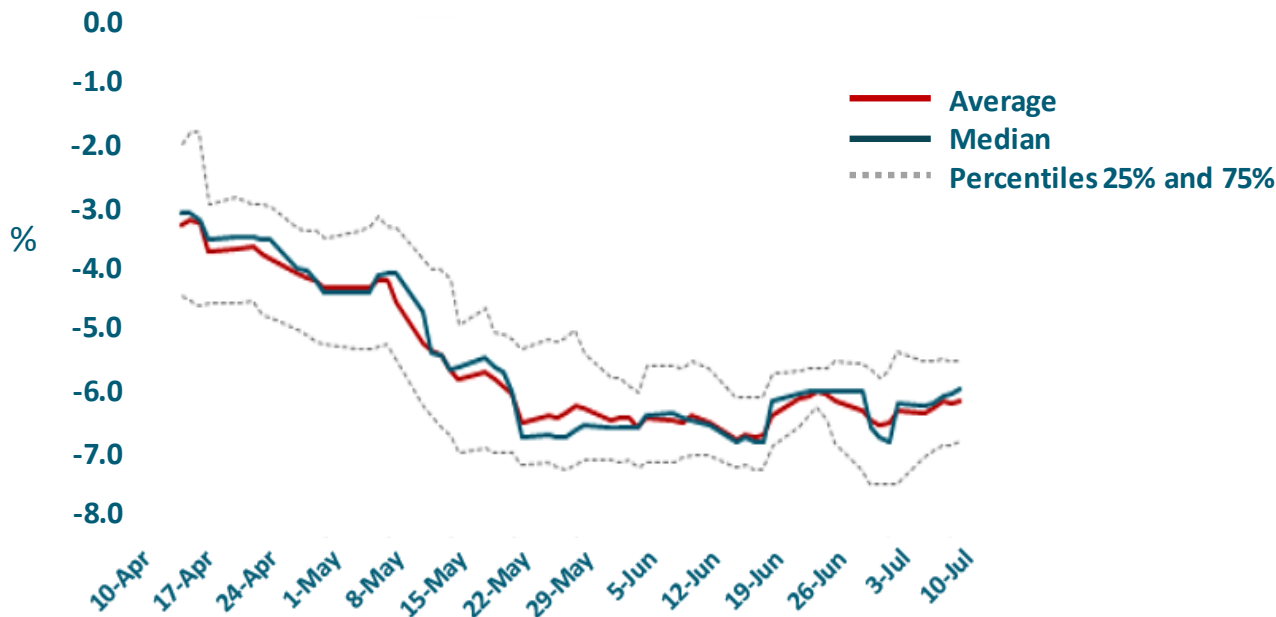
Brazil: Impact of Covid-19

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



Focus Expectations – Growth for 2020



Date	# Answers	Average	Median	Perc.25	Perc.75
12-jun	54	-6.5	-6.5	-7.0	-5.6
19-jun	23	-6.4	-6.1	-6.9	-5.7
26-jun	26	-6.1	-6.0	-6.8	-5.5
3-jul	25	-6.3	-6.2	-7.5	-5.4
10-jul	34	-6.2	-5.9	-6.8	-5.5

Source: Cielo

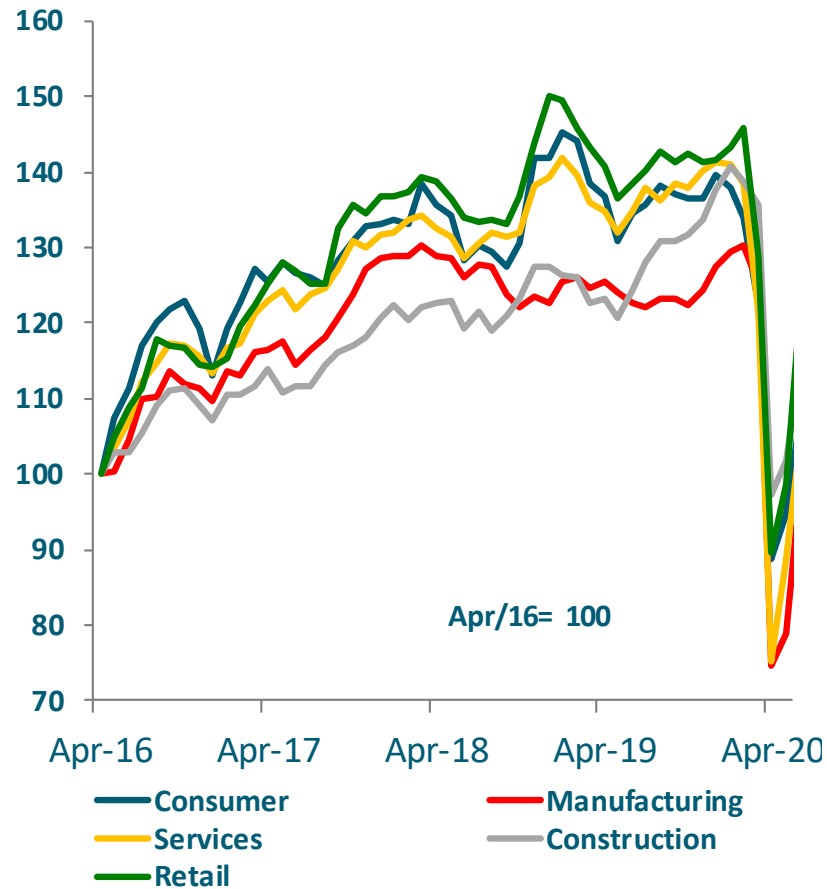
Source: BCB, Focus (07/13/2020)

Brazil: Impact of Covid-19

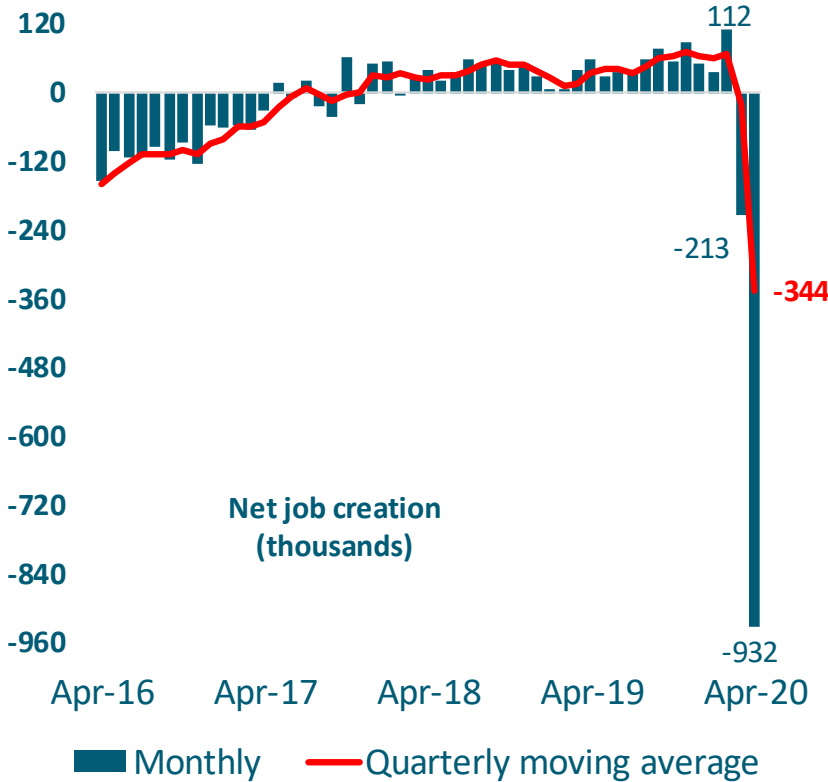
Widespread effect on the economy

Shock on activity
Domestic Economy

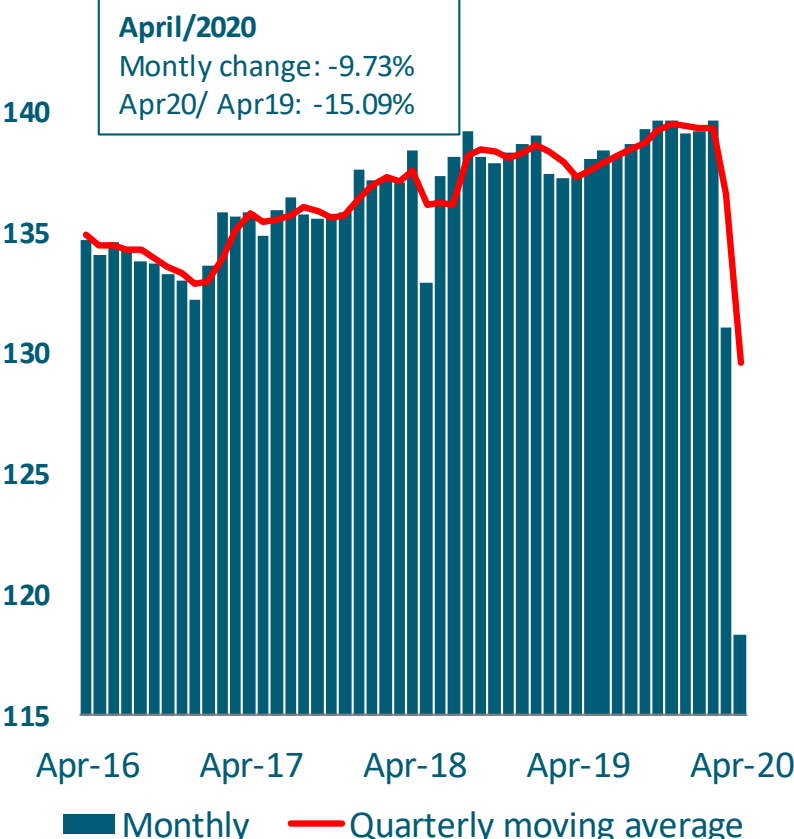
Confidence indicators



Employment - Caged



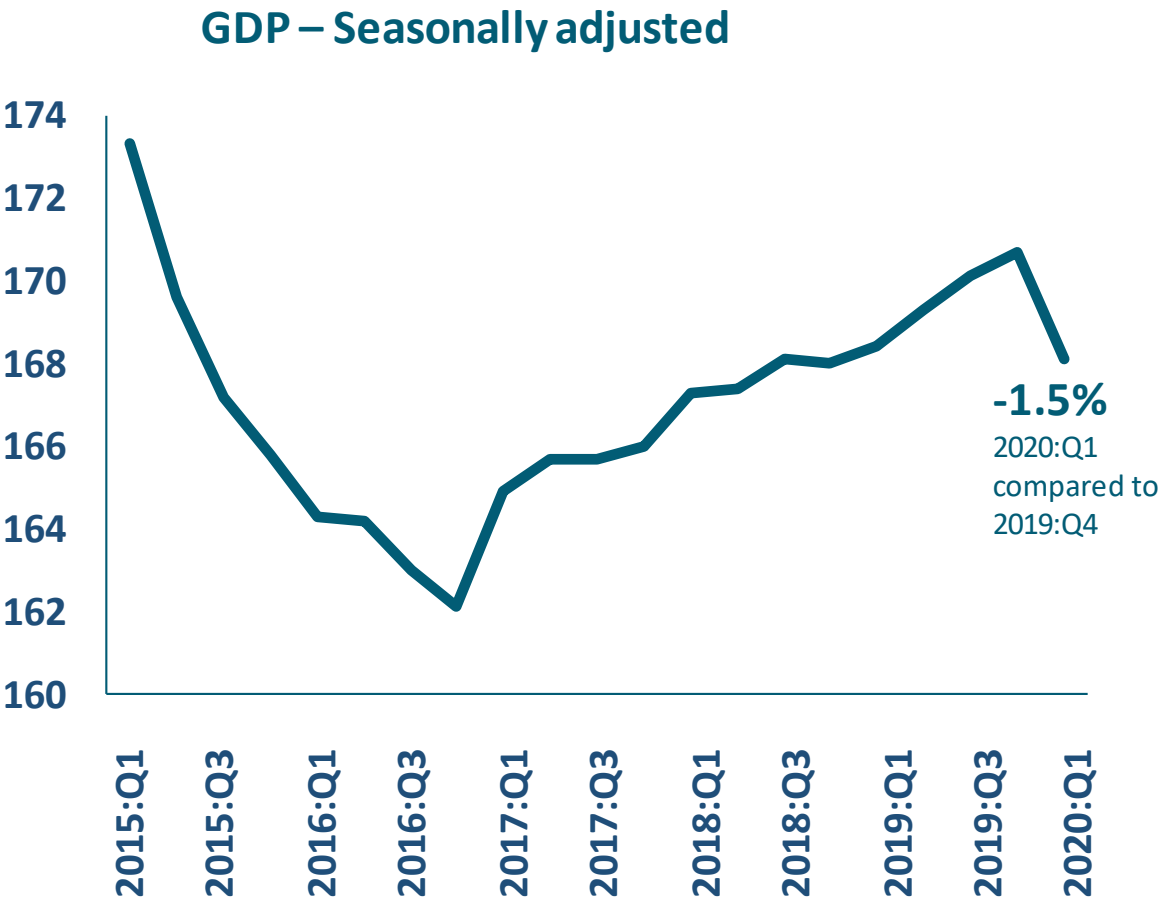
IBC-BR*



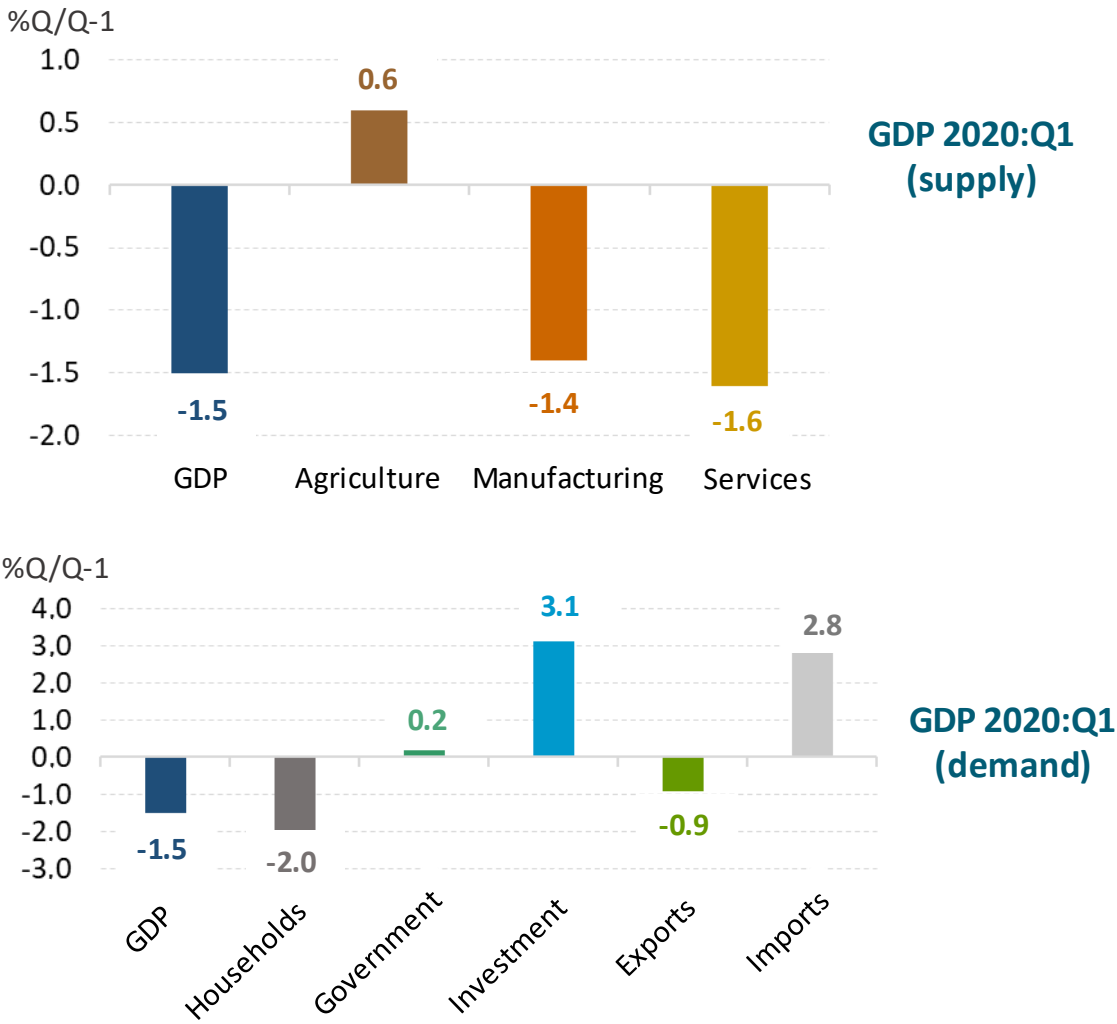
All data are seasonally adjusted. Sources: Ministry of the Economy, FGV and BCB

Brazil: Impact of Covid-19

GDP 2020:Q1 shows a sharp drop in activity



Shock on activity Domestic Economy



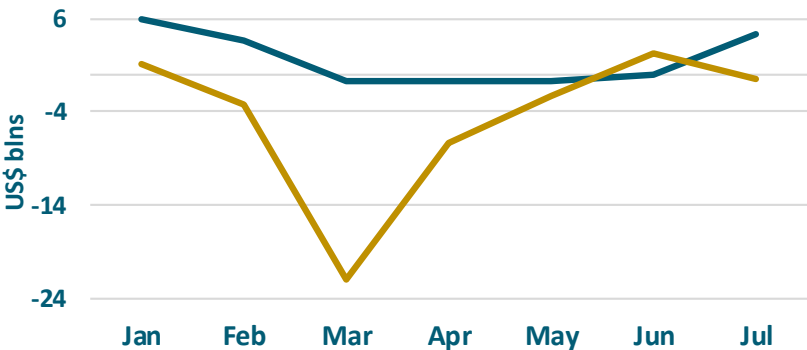
Source: IBGE

Local assets performance and flows

Compared numbers

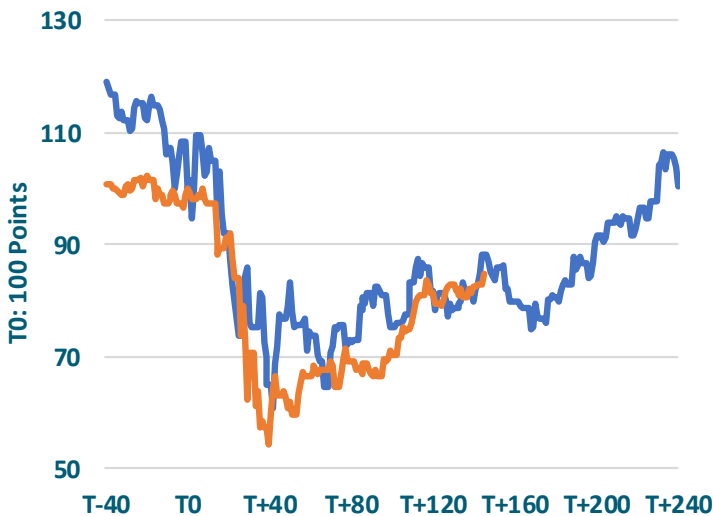
Flows:
Equities
+ Fixed
Income

2019
2020

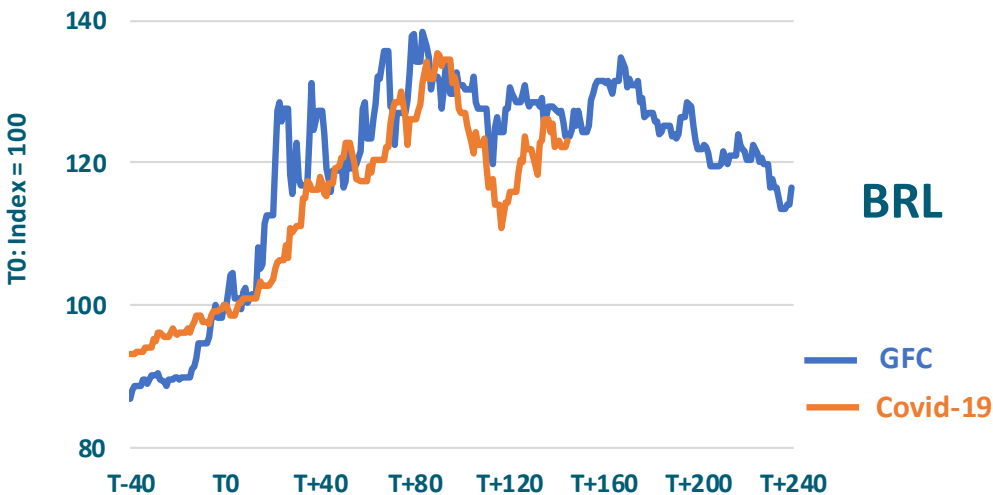
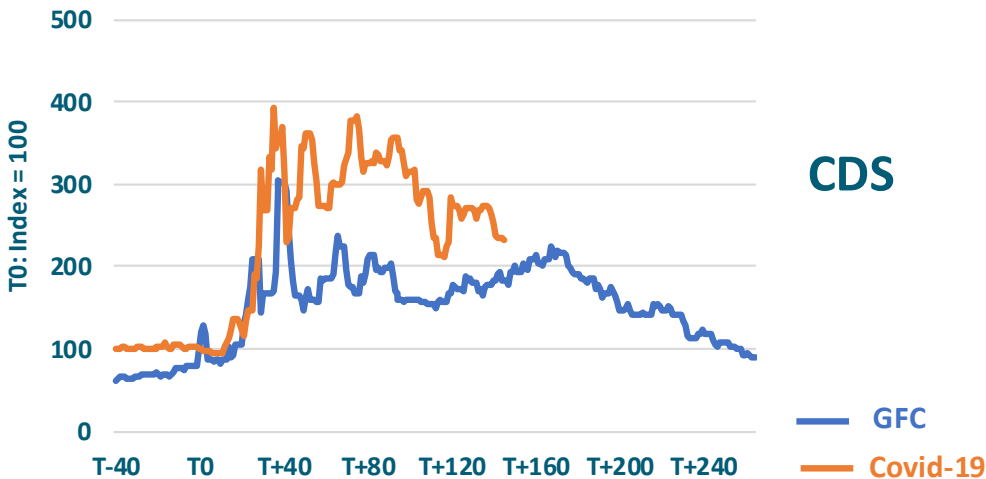


Ibovespa

GFC
Covid-19



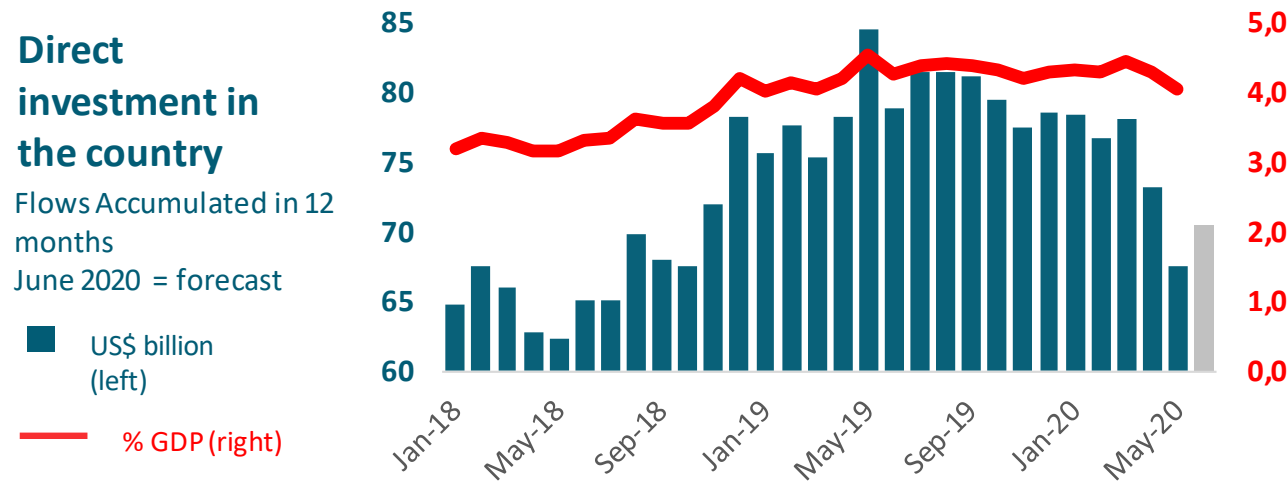
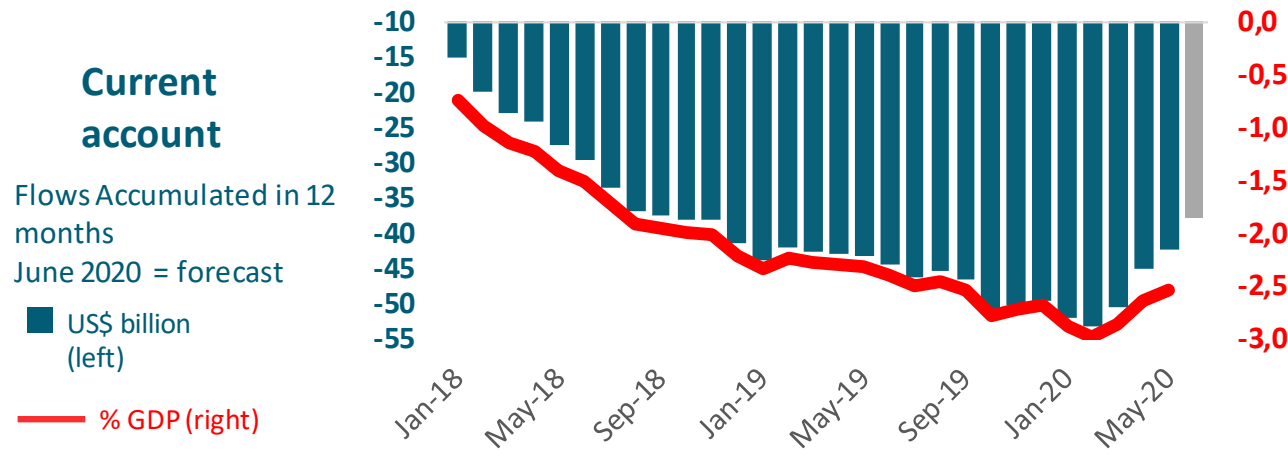
Global Shock Domestic Markets



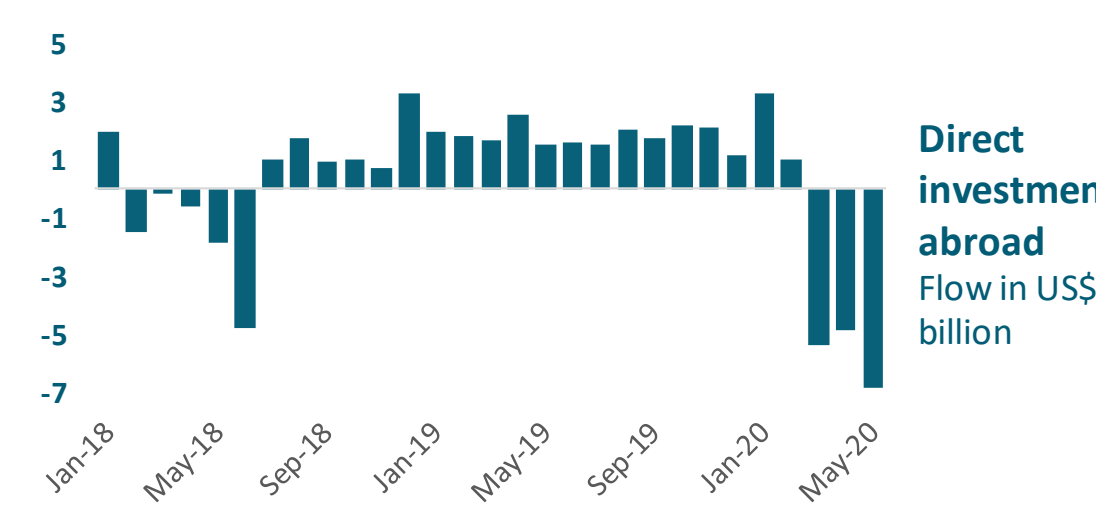
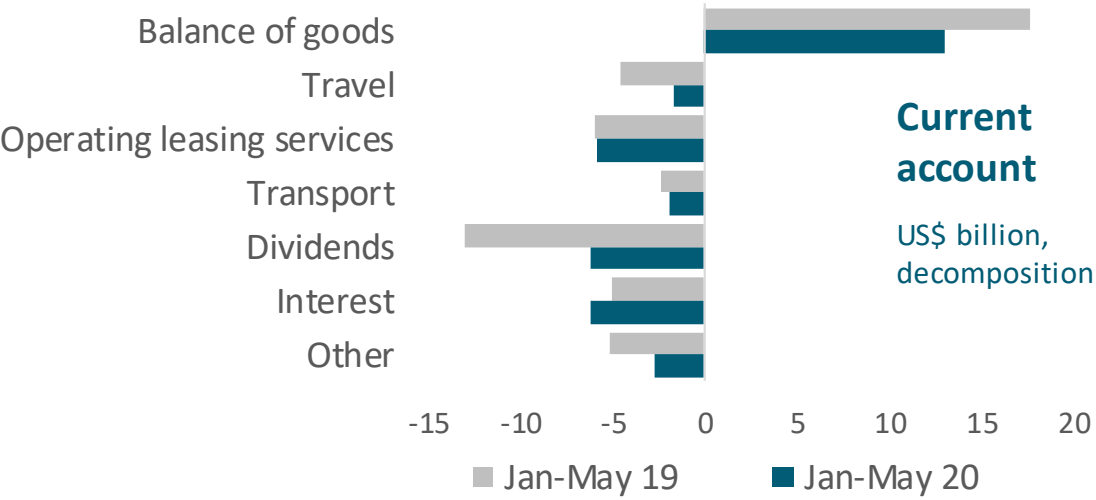
Source: Bloomberg, BCB

External accounts

Capital outflows will accommodate and external accounts will improve



Global Shock Domestic Economy

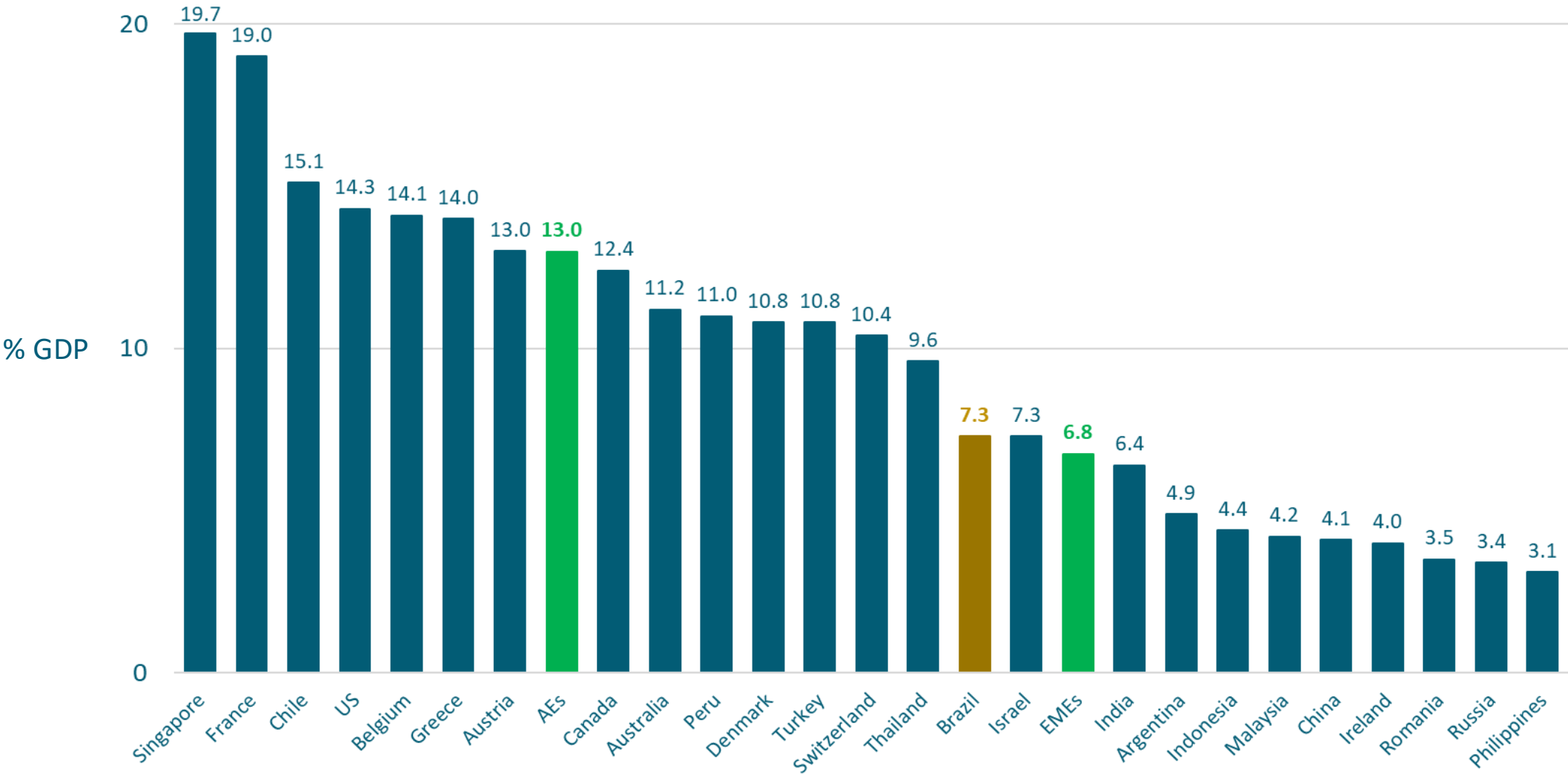


Source: BCB

Fiscal Response

Comparative vision

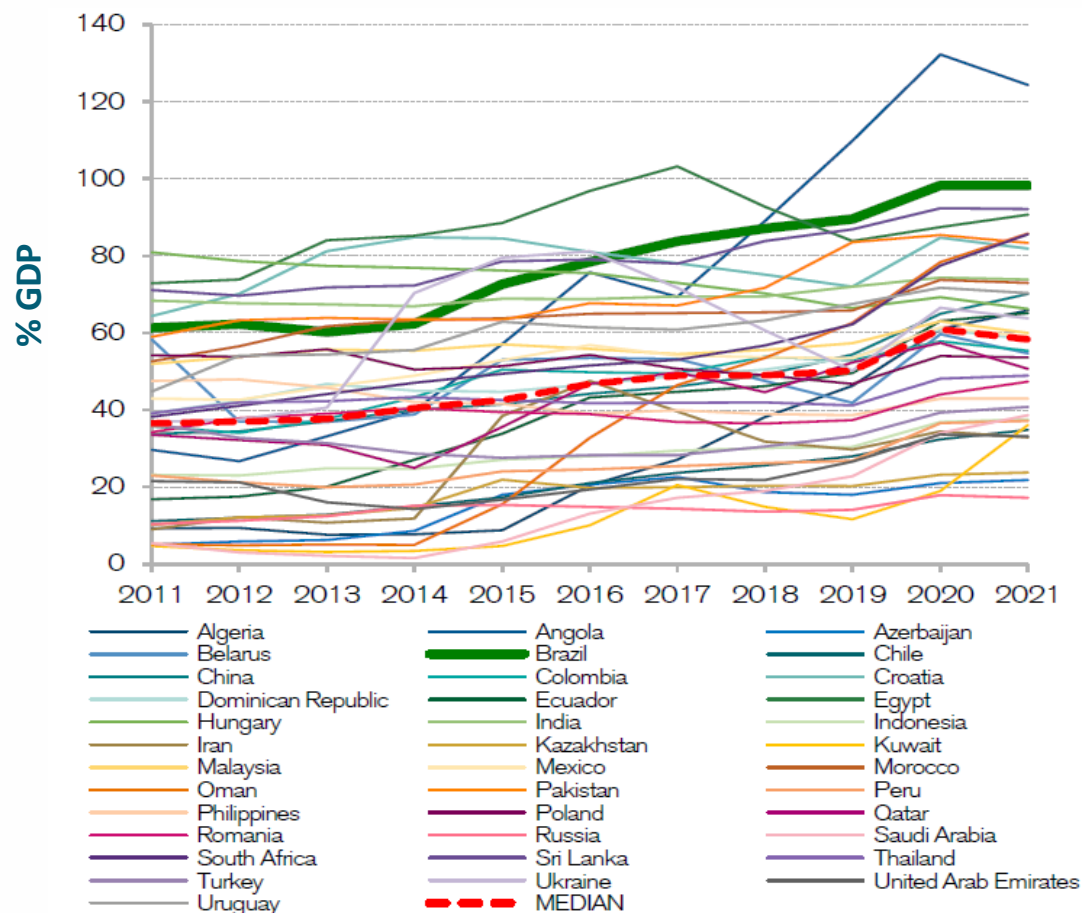
Global Shock
Facing the crisis



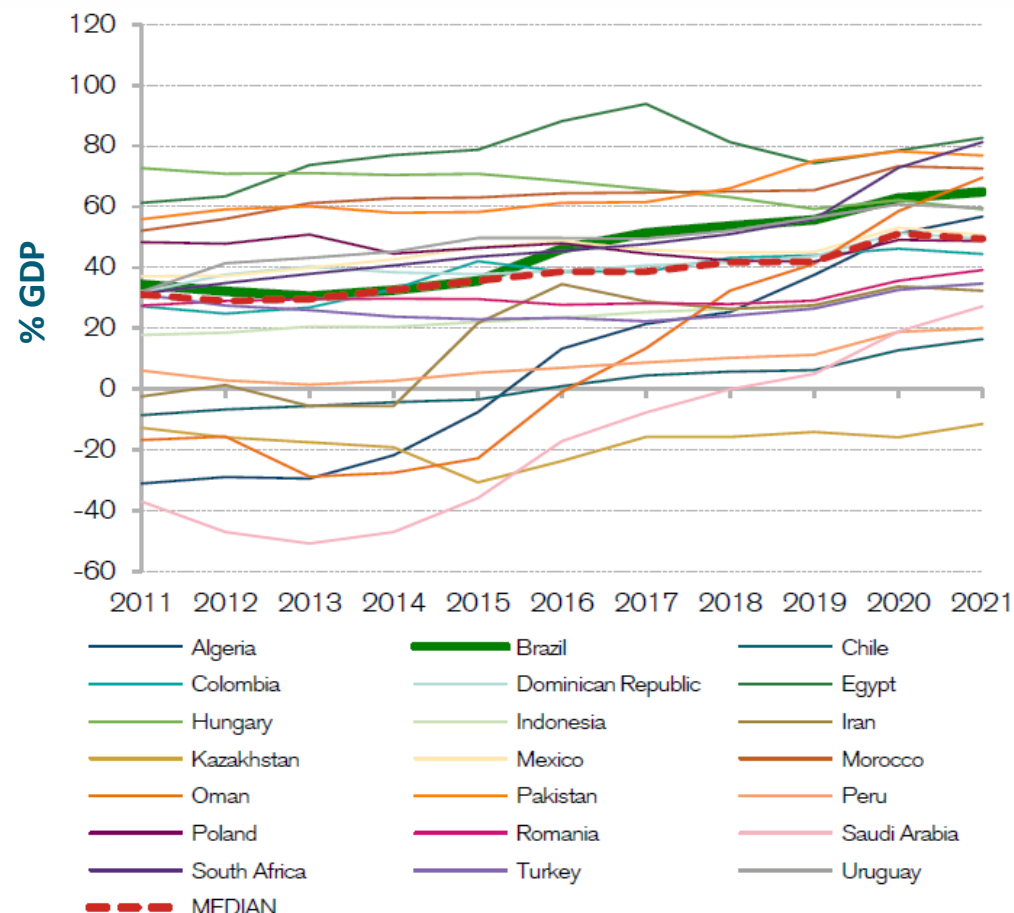
EMEs: Debt evolution

Global Shock
Facing the crisis

Gross Debt



Net Debt

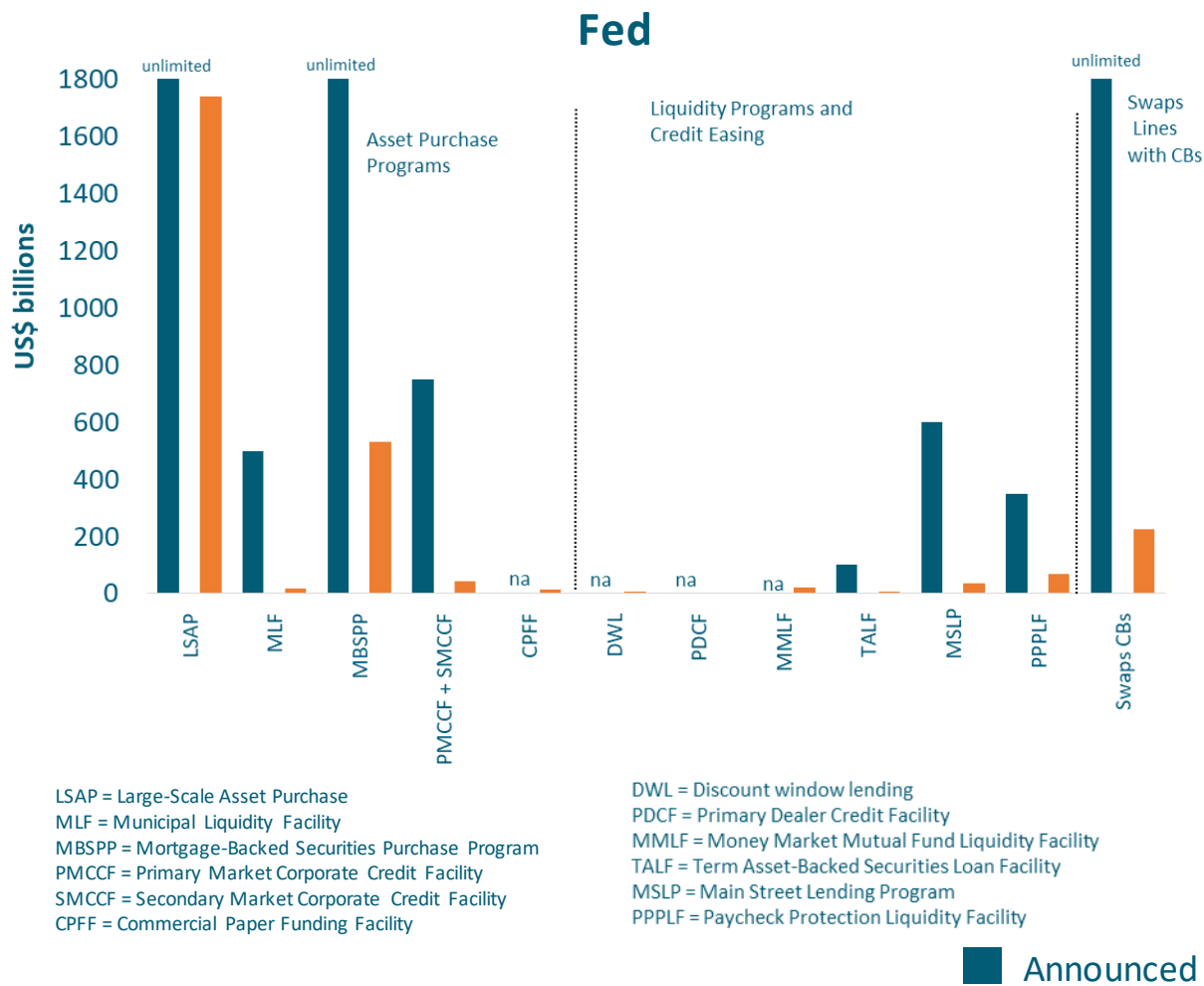


Source: FMI, Credit Suisse

Central Banks' response

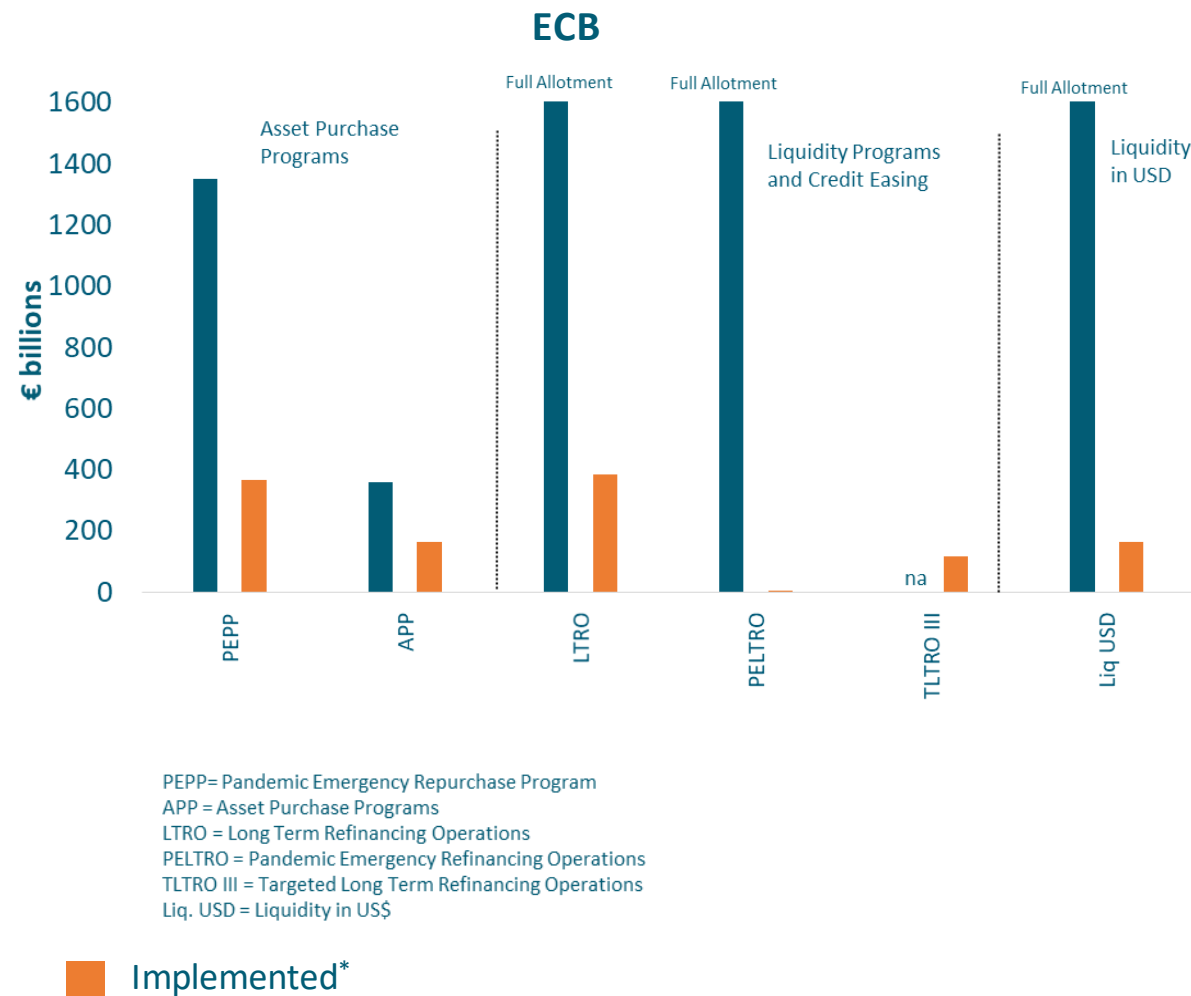
Programs result in large liquidity injection into financial systems

Global Shock
Facing the crisis



LSAP = Large-Scale Asset Purchase
MLF = Municipal Liquidity Facility
MBSP = Mortgage-Backed Securities Purchase Program
PMCCF = Primary Market Corporate Credit Facility
SMCCF = Secondary Market Corporate Credit Facility
CPFF = Commercial Paper Funding Facility

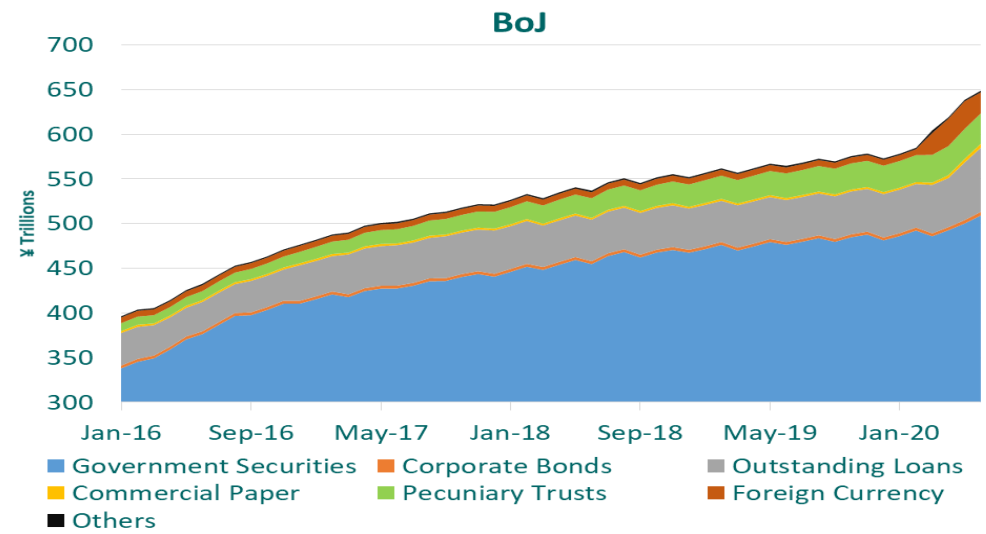
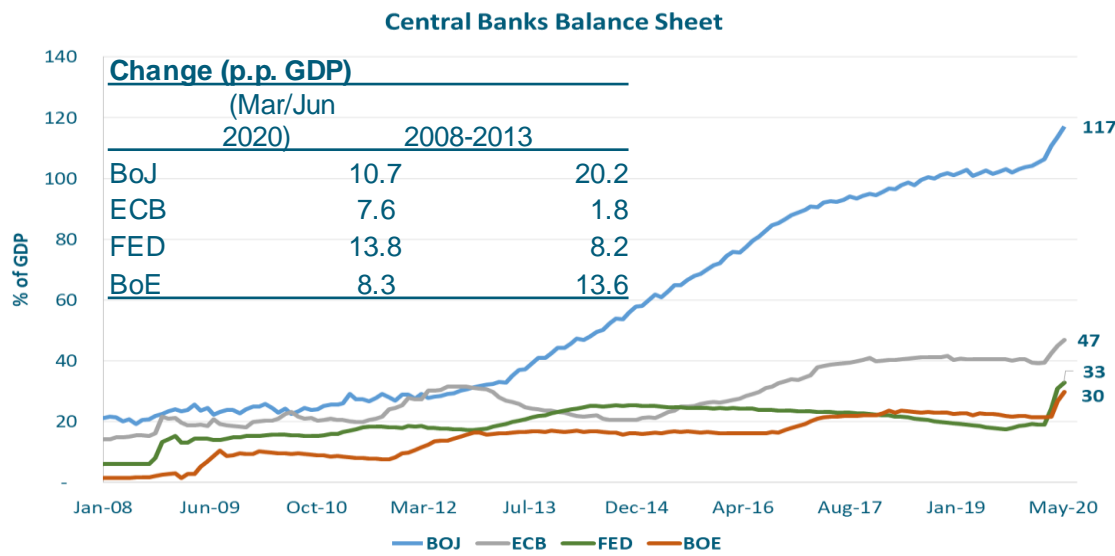
DWL = Discount window lending
PDCF = Primary Dealer Credit Facility
MMLF = Money Market Mutual Fund Liquidity Facility
TALF = Term Asset-Backed Securities Loan Facility
MSLP = Main Street Lending Program
PPPLF = Paycheck Protection Liquidity Facility



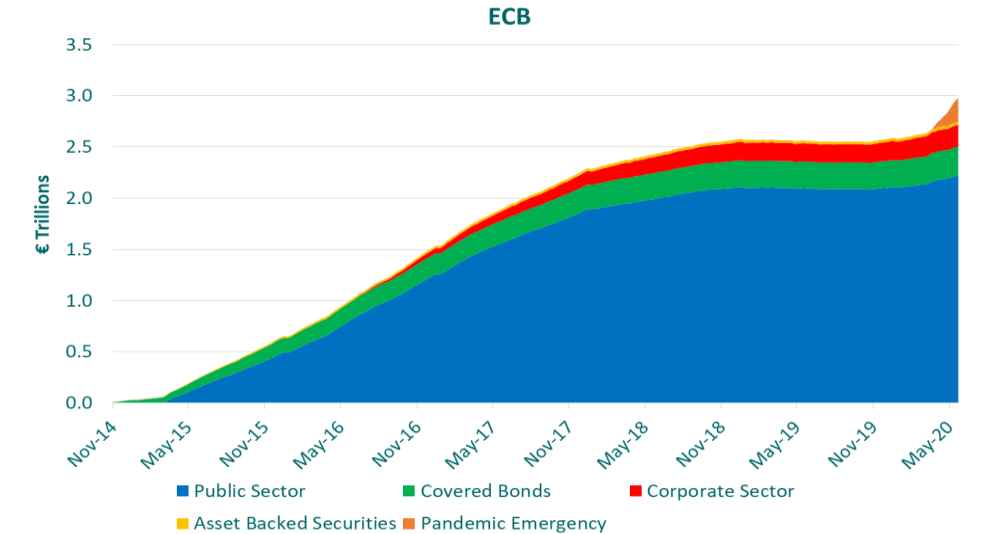
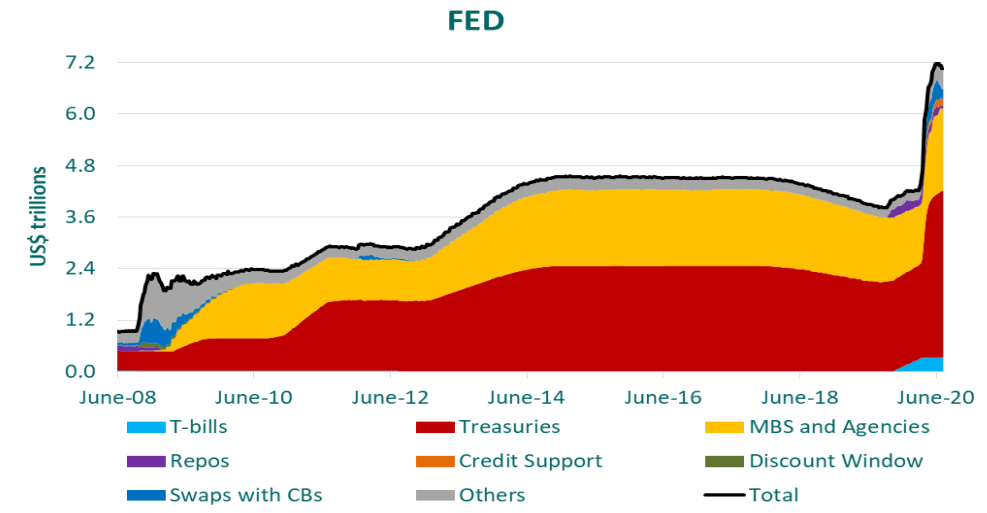
PEPP = Pandemic Emergency Repurchase Program
APP = Asset Purchase Programs
LTRO = Long Term Refinancing Operations
PELTRO = Pandemic Emergency Refinancing Operations
TLTRO III = Targeted Long Term Refinancing Operations
Liq. USD = Liquidity in US\$

Central Banks' response

Sharp balance sheets expansion



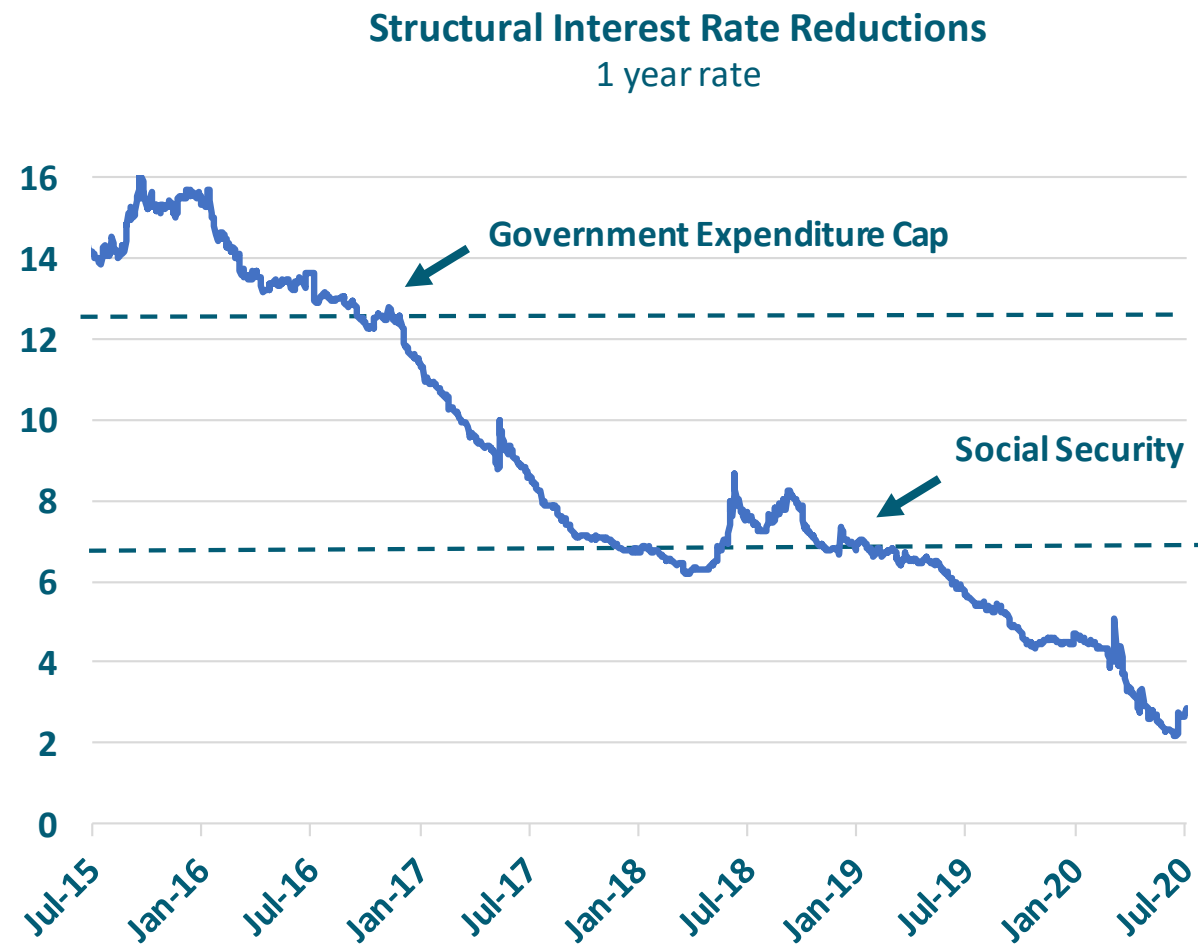
Global Shock Facing the crisis



Source: FED, ECB, BOJ e Bloomberg

Room for conventional policies

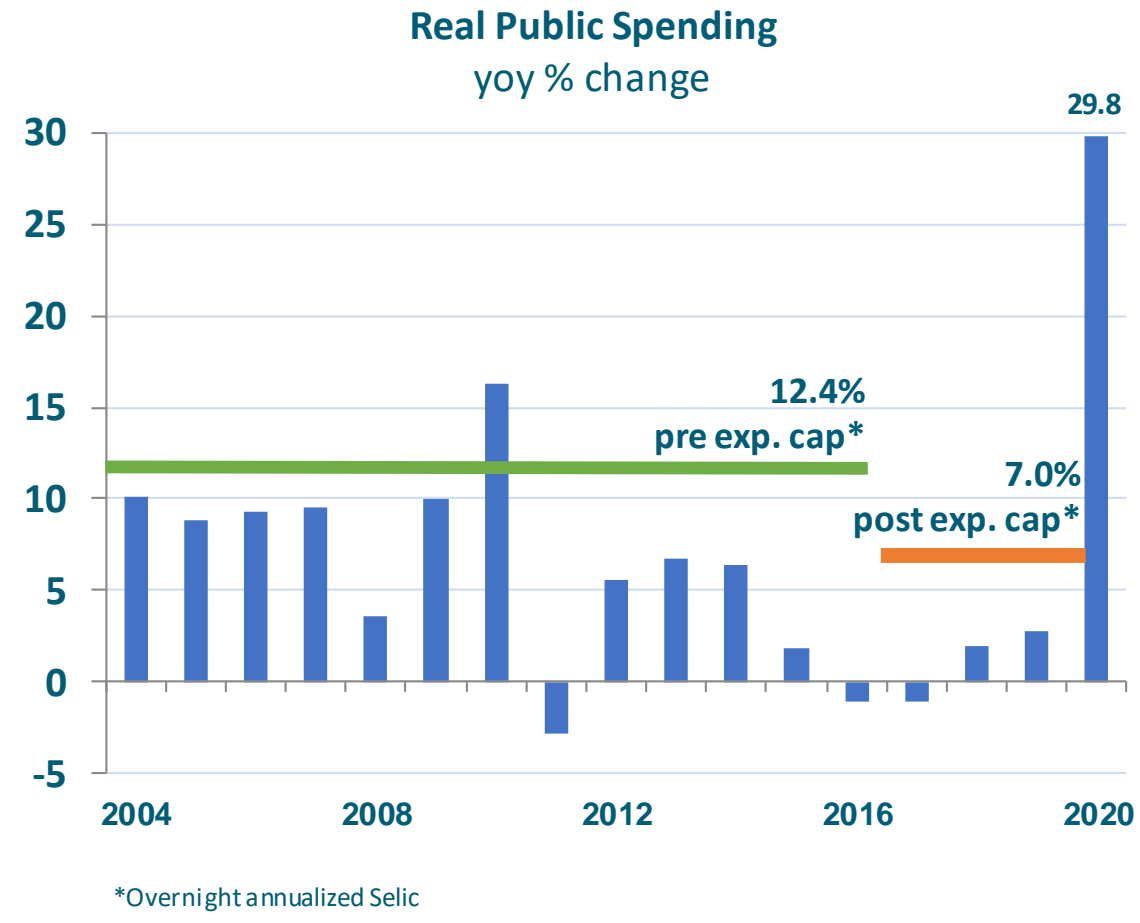
Brazil: cautious MP actions



Source: Bloomberg

Macroeconomic Outlook

Monetary Policy

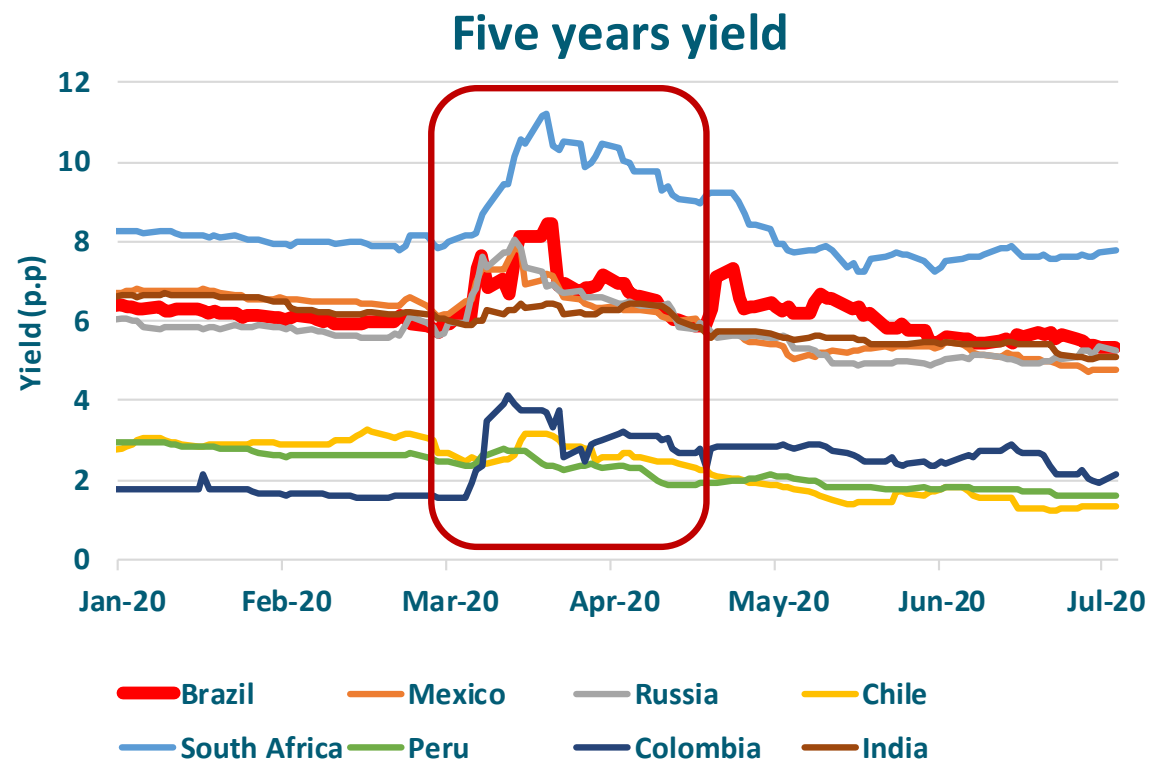
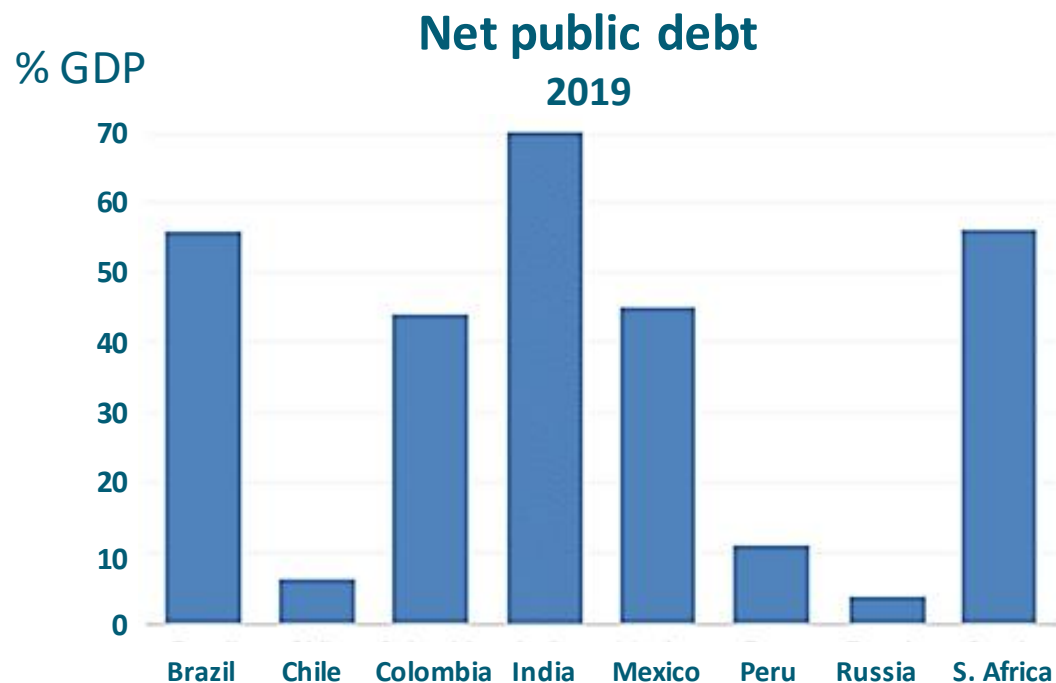


Source: BCB, 2020 forecast

Room for conventional MP

Part of EMEs faces policy constraints

High debt: relevant risk factor



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

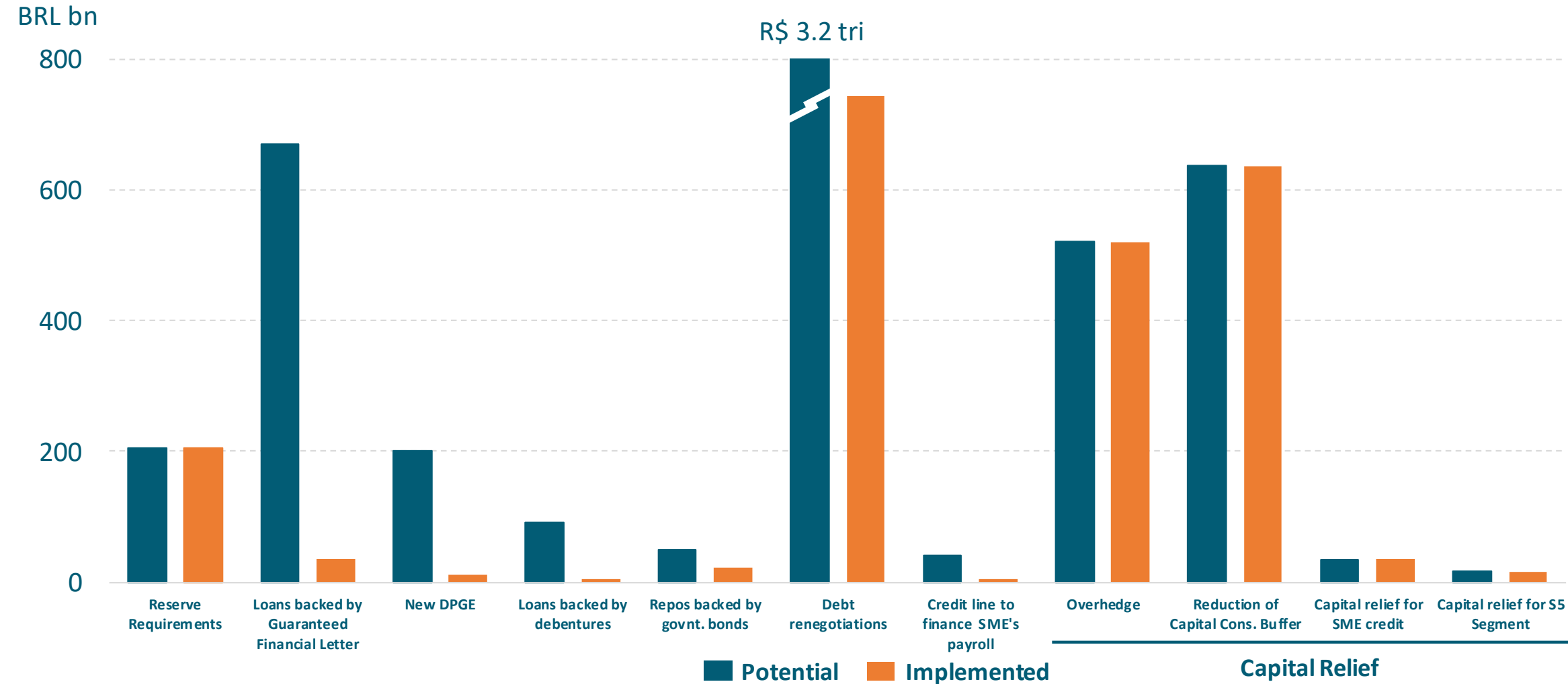
Measure	2020		
	Potencial	Implemented	2008
Liquidity support			
Reserve requirements + change in LCR regulation	R\$ 135 bn	R\$ 135 bn	—
Additional reduction in reserve requirements	R\$ 70 bn	R\$ 70 bn	R\$ 82 bn
More flexibility on LCA regulation	R\$ 2.2 bn	R\$ 2.2 bn	—
Loan backed by LFs guaranteed by credit operations	R\$ 670 bn	R\$ 35.2 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\$ 10.7 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\$ 0.7 bn	—
Total	R\$ 1274.0 bn	R\$ 280.0 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	**	—
Working capital for business preservation (CGPE)	R\$ 127 bn	**	—
Total	R\$ 1348.2 bn	—	—
More flexibility for credit renegotiations	*R\$ 3200 bn	R\$ 744.5 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\$ 4.5 bn	—
Real estate backed loans	R\$ 60 bn	**	—

Source: BCB

Central Bank of Brazil Response

Liquidity support and capital relief

Measures
Facing the crisis



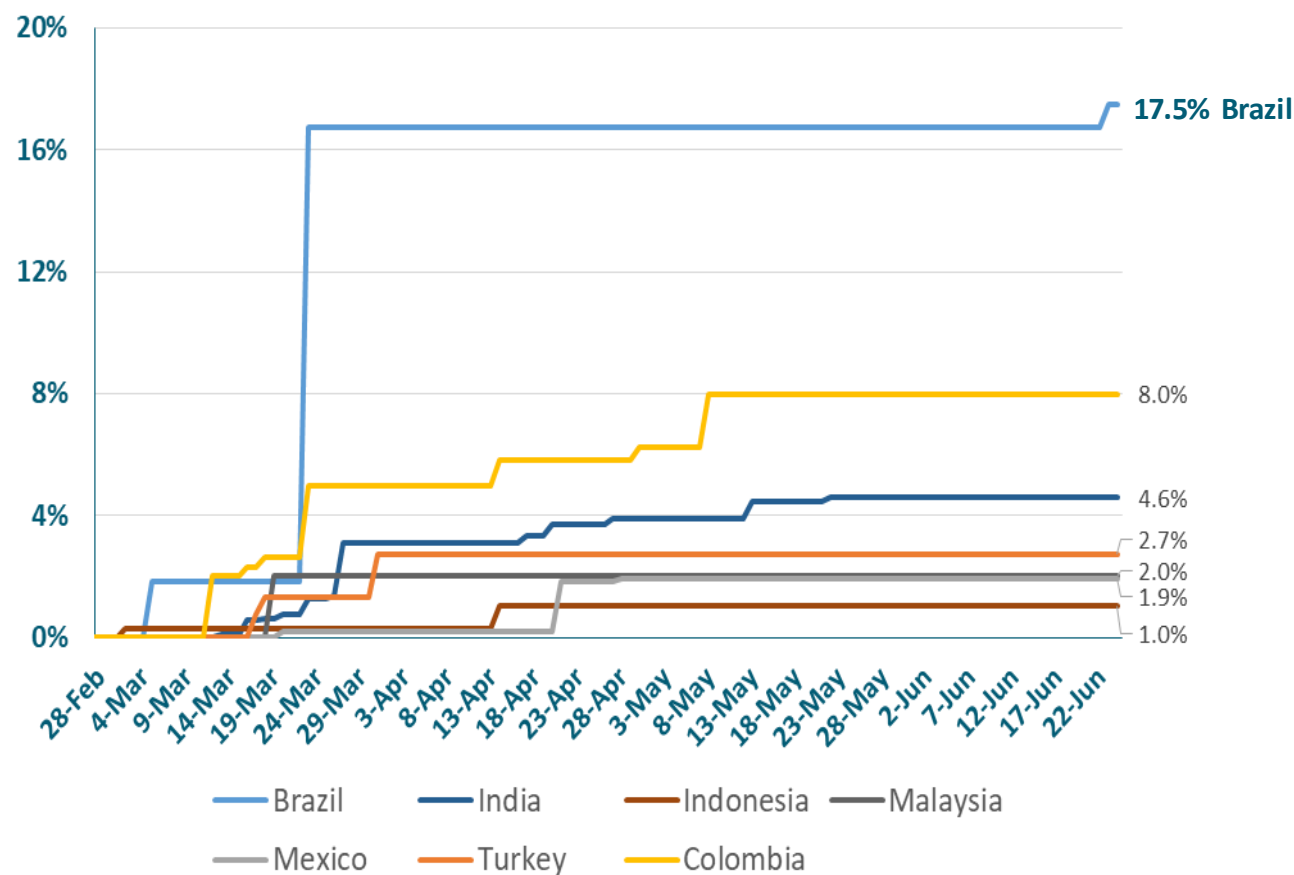
Source: BCB

Updated to 07/13.

Emerging markets economies

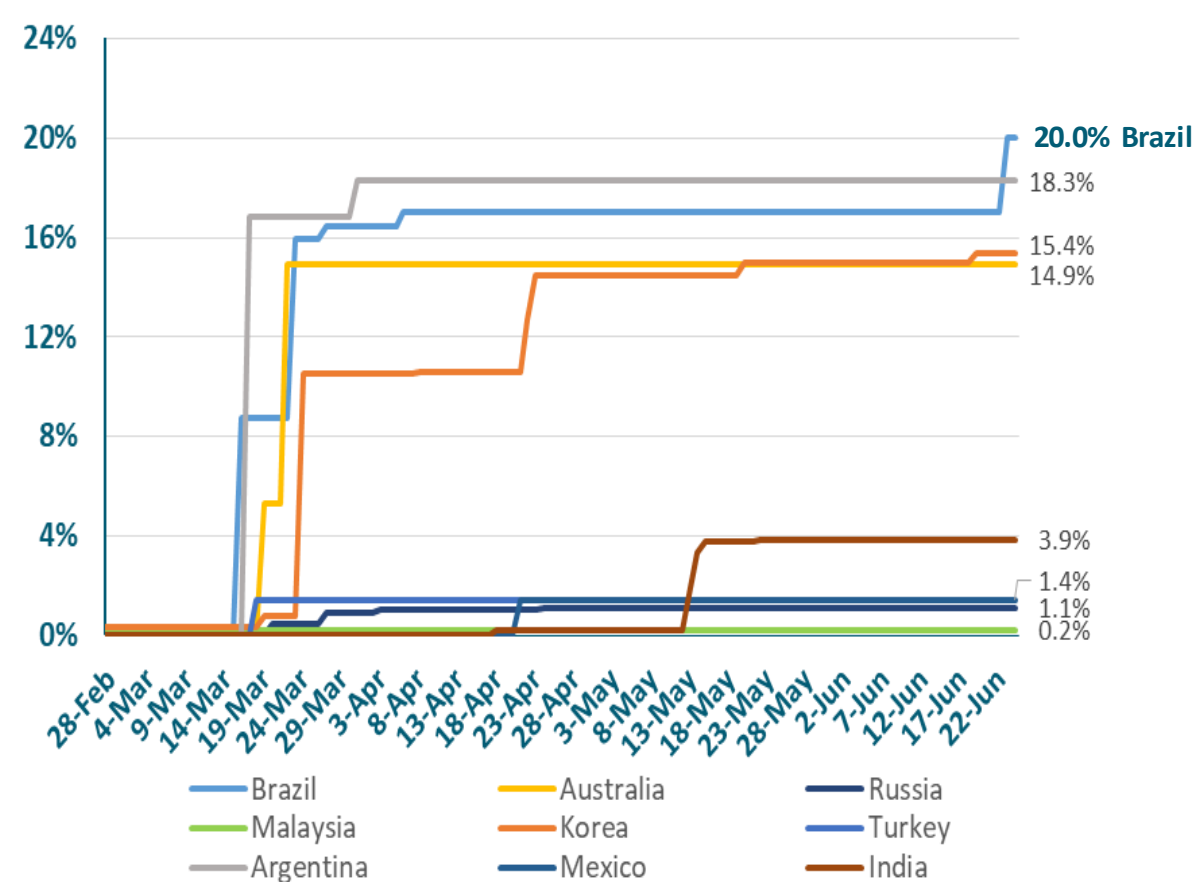
Covid-19 measures – Comparative overview

Liquidity Support (% of GDP)



Covid-19 Outbreak Facing the crisis

Credit Support (% of GDP)



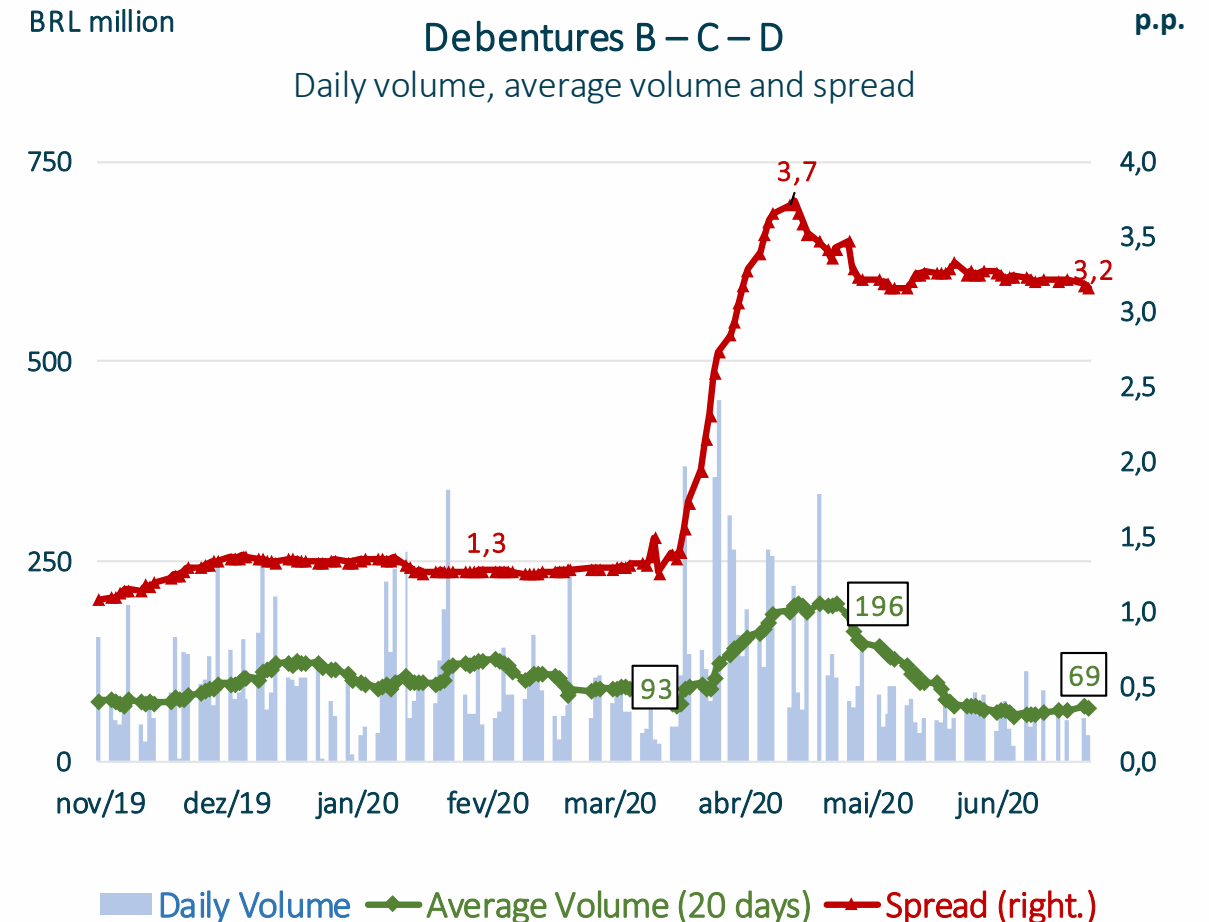
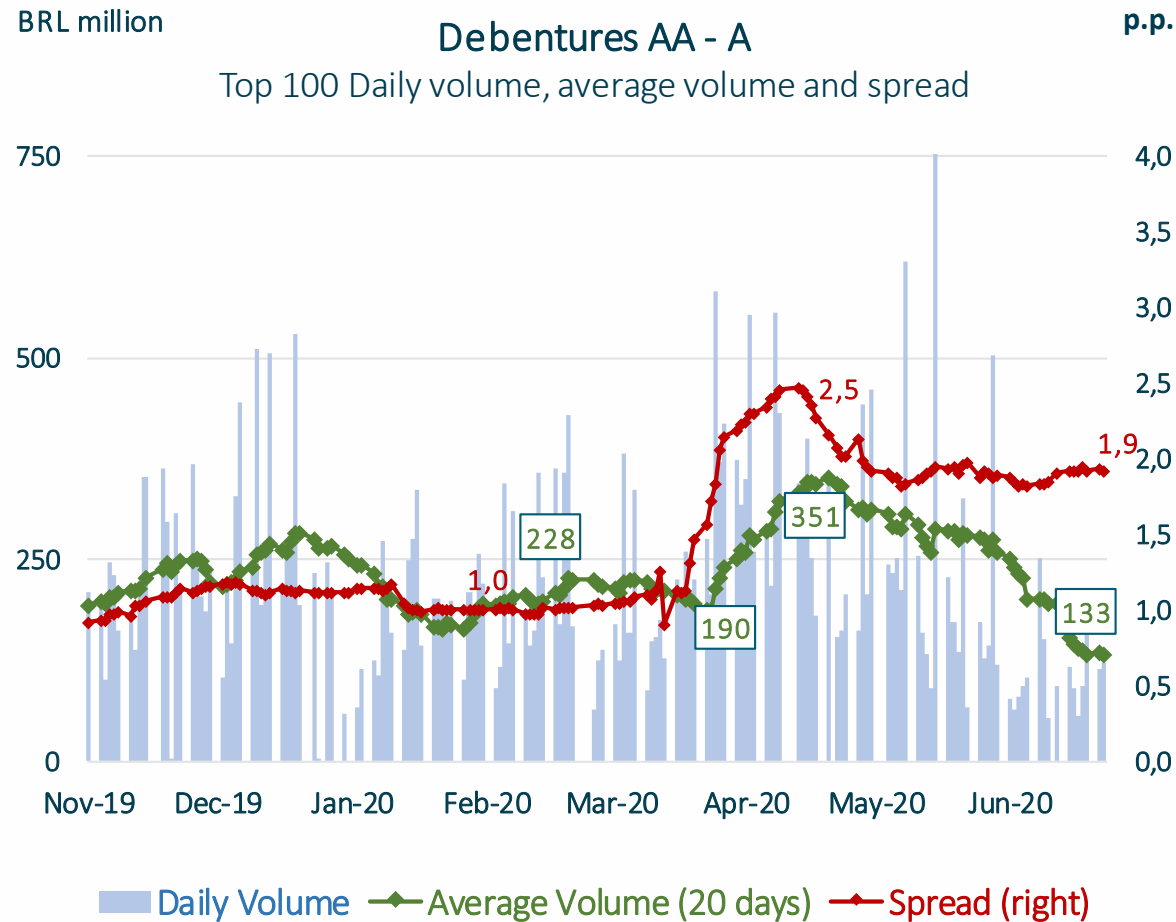
Source: FSB/BCB – until July 7th

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

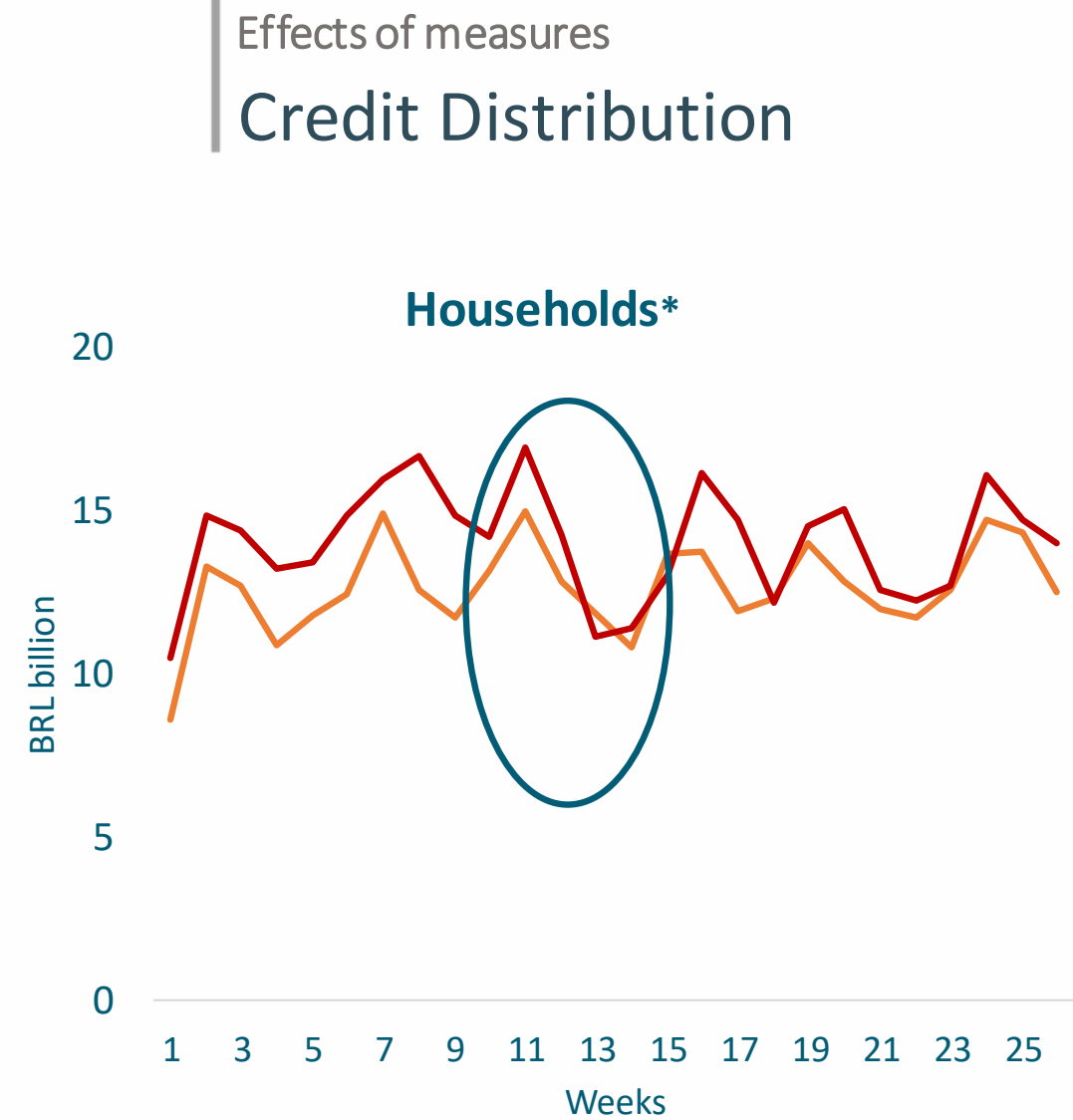
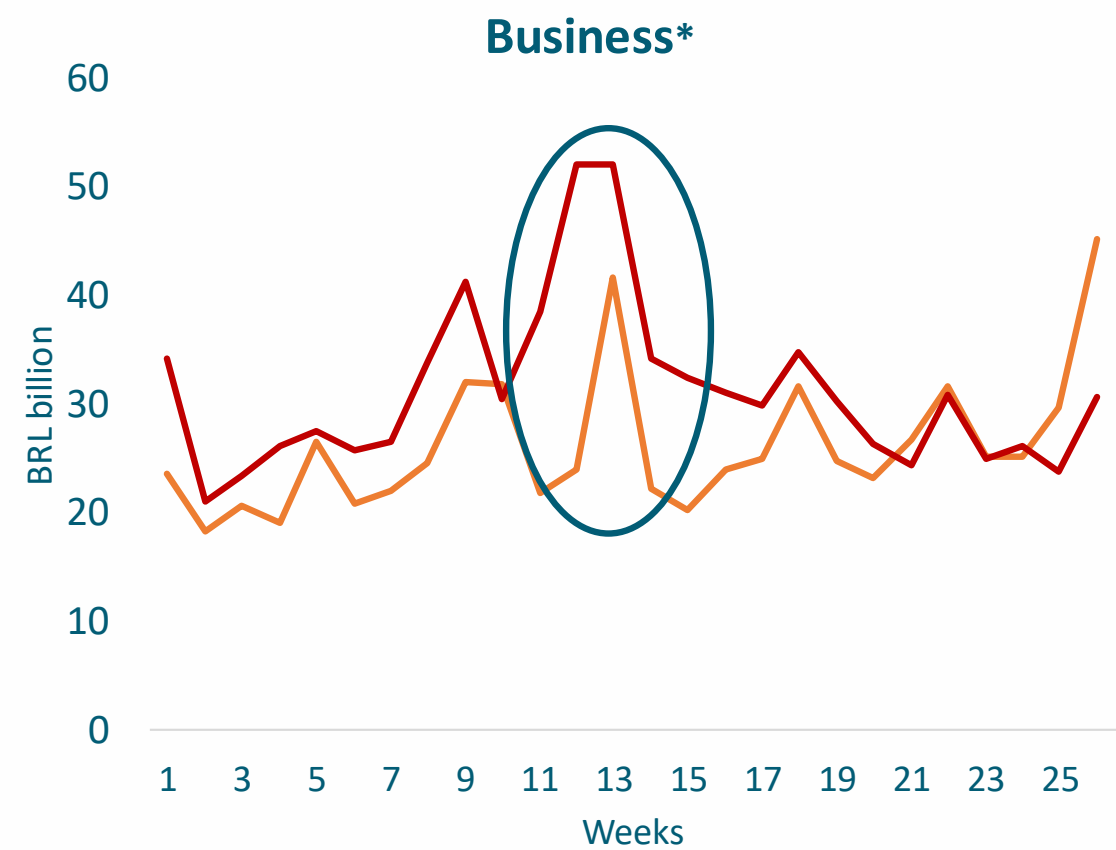


* Data until June 23rd 2020.

Sources: B3, Cetip

Nonearmarked new credit transactions

Increase in credit to firms amid the crisis

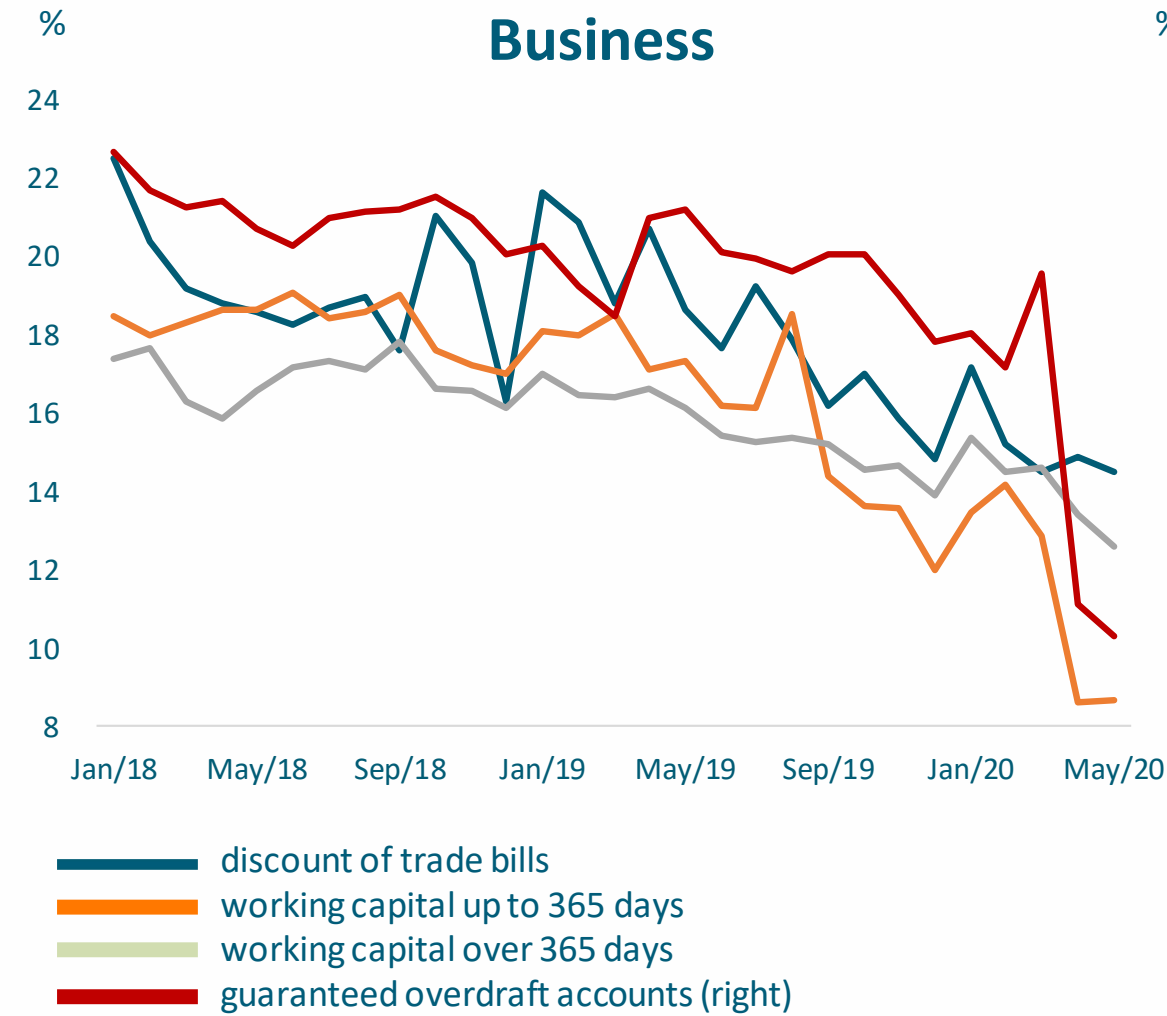


2020 2019

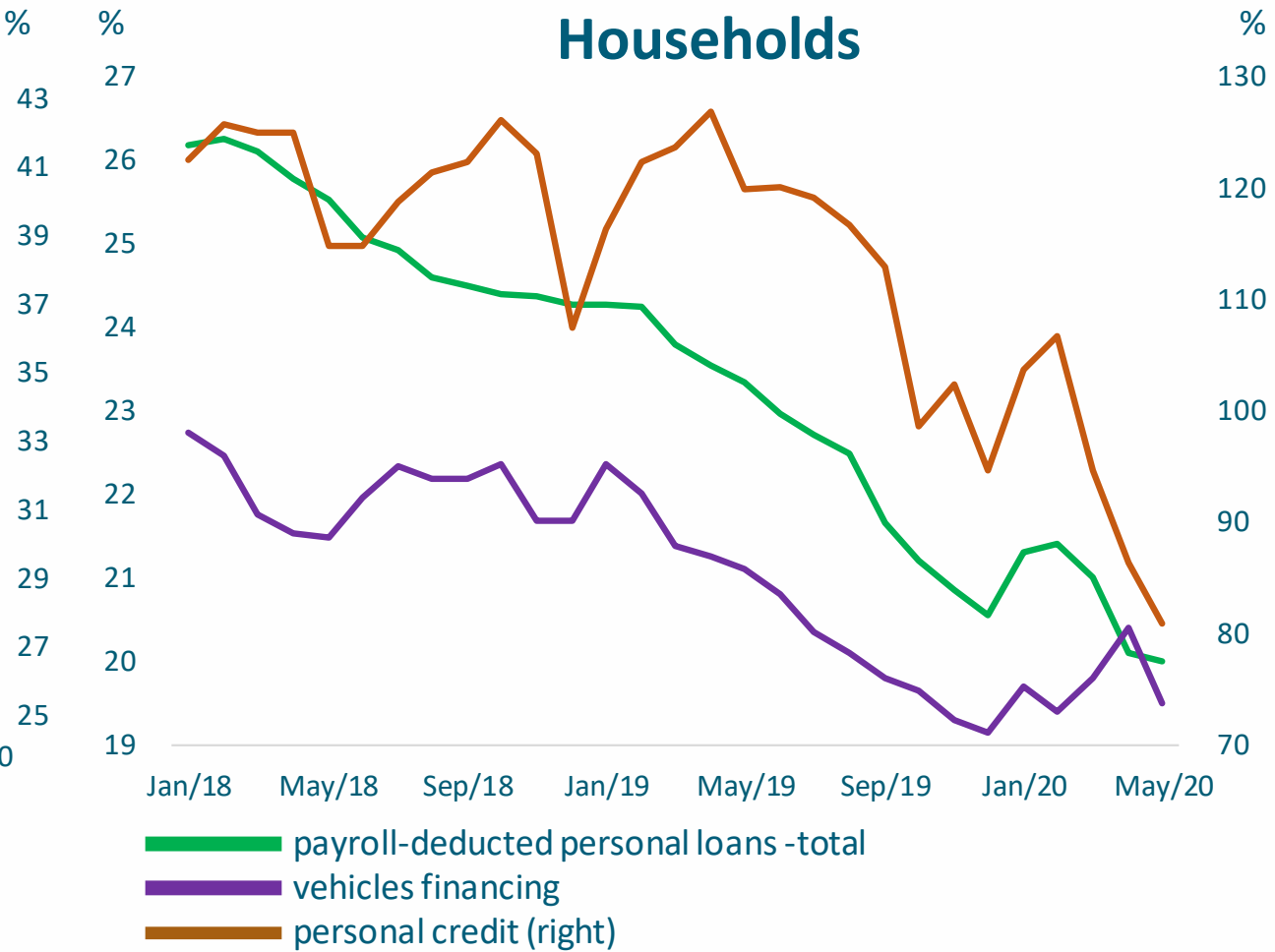
Source: BCB

Average interest rates: new credit transactions

Non earmarked credit (% p.y.)



Effects of measures
Credit Cost



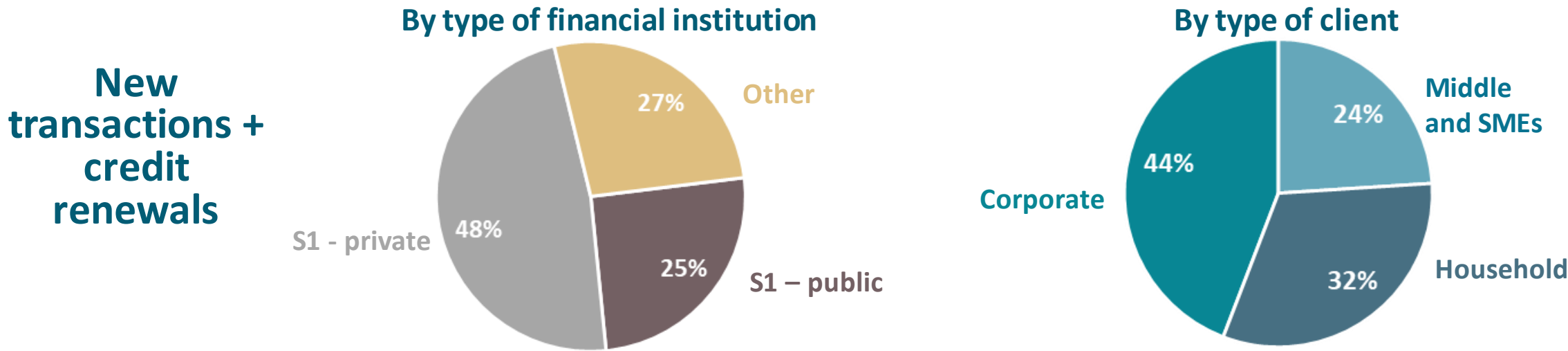
Source: BCB

New transactions and credit renewals

From March 16th to July 3rd, in BRL billion

Effects of measures
Credit Distribution

Type of financial institution	Segment	New transactions (1)					Credit renewals (2)				
		Corporate	Middle	SME	Household	Total	Corporate	Middle	SME	Household	Total
Banks	S1 - public	35.6	13.9	17.7	79.3	146.4	8.3	17.2	21.6	61.2	108.3
	S1 - private	202.4	35.7	34.2	69.5	341.8	79.6	16.3	12.7	29.6	138.1
	S2	44.5	6.8	1.3	16.2	68.8	3.9	0.4	0.1	0.2	4.6
	S3	42.3	14.1	3.0	22.8	82.1	12.2	2.3	1.2	5.6	21.2
	S4	10.7	8.2	1.9	6.2	27.1	1.8	3.3	0.2	3.3	8.6
Cooperatives	S3, S4 and S5	1.7	10.8	13.8	23.0	49.3	0.6	2.0	2.3	3.2	8.1
Total		337.2	89.4	72.0	217.0	715.6	106.4	41.6	38.0	103.0	289.0



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

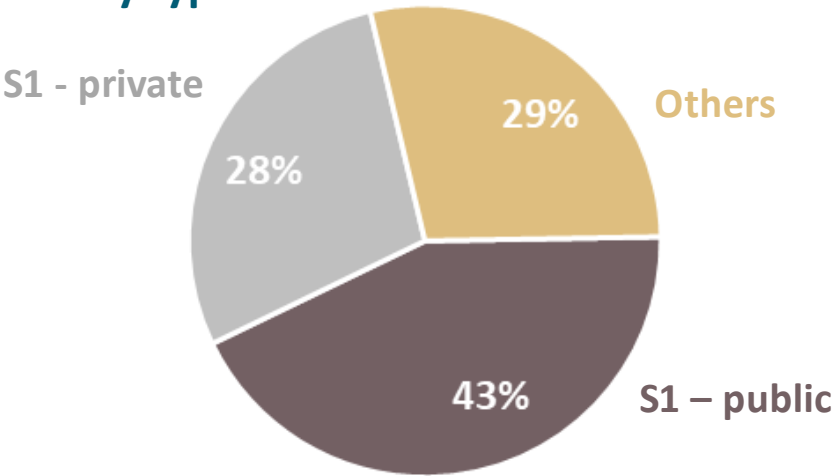
From March 16th to July 3rd, in BRL billion

Effects of measures Credit Distribution

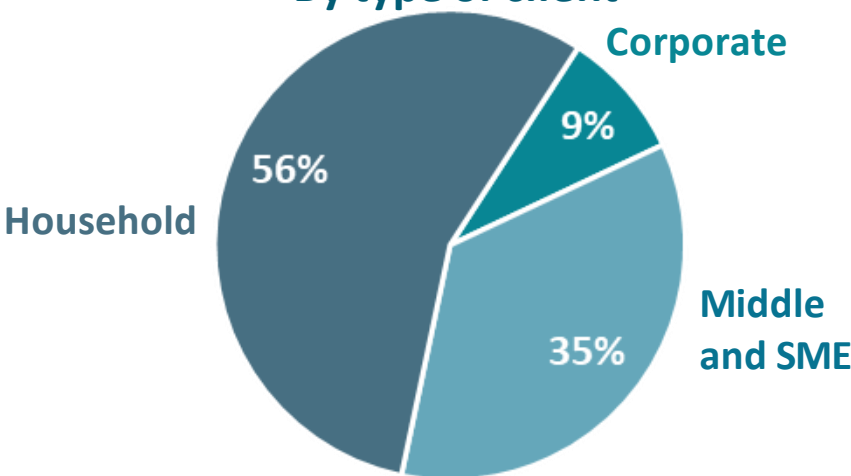
Type of financial institution	Segment	Corporate		Middle		SME		Household		Total		
		Number of contracts	Value of operations	Number of contracts	Value of operations	Number of contracts	Value of operations	Number of contracts	Value of operations	Number of contracts	Value of operations	Installments value
Banks	S1 - public	874	12.0	10,607	15.7	486,840	33.5	3,630,795	259.8	4,129,116	321.0	31.9
	S1 - private	5,347	33.9	111,764	27.1	651,603	38.5	5,651,273	112.1	6,419,987	211.7	36.1
	S2	1,152	16.3	10,375	110.8	44,136	1.1	1,072,510	22.4	1,128,173	150.5	10.2
	S3	1,113	2.5	43,492	7.8	12,407	1.4	156,365	9.9	213,377	21.6	7.1
	S4	344	0.7	57,695	6.3	6,900	1.5	85,403	3.2	150,342	11.7	3.8
Cooperatives	S3, S4 and S5	209	0.3	19,587	7.4	229,400	12.0	501,222	8.4	750,418	28.0	4.7
Total		9,039	65.8	253,520	175.0	1,431,286	87.9	11,097,568	415.7	12,791,413	744.5	93.7

By type of financial institution

Value of operations extended



By type of client



Source: BCB

PESE – Emergency Employment Support Program

Effects of measures Credit Distribution

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



1.941.399
employees

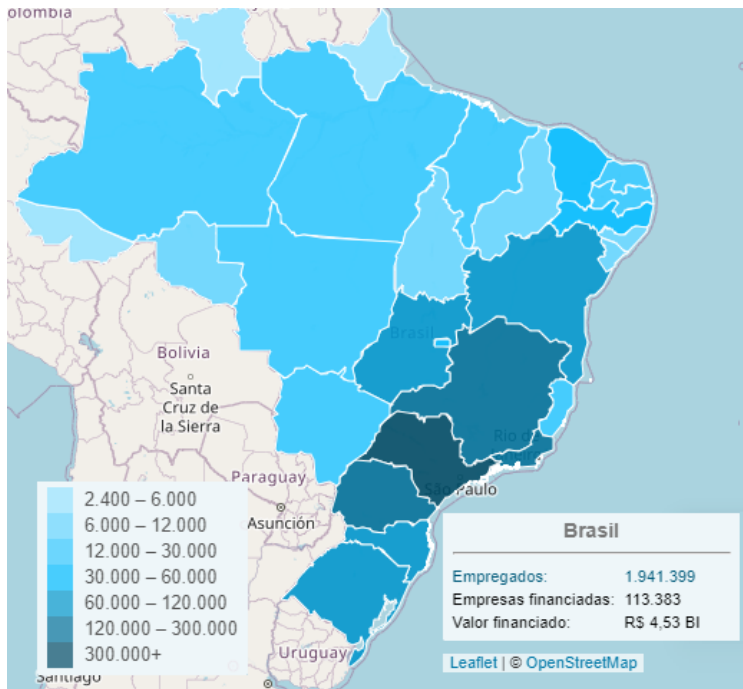


113.383
funded firms

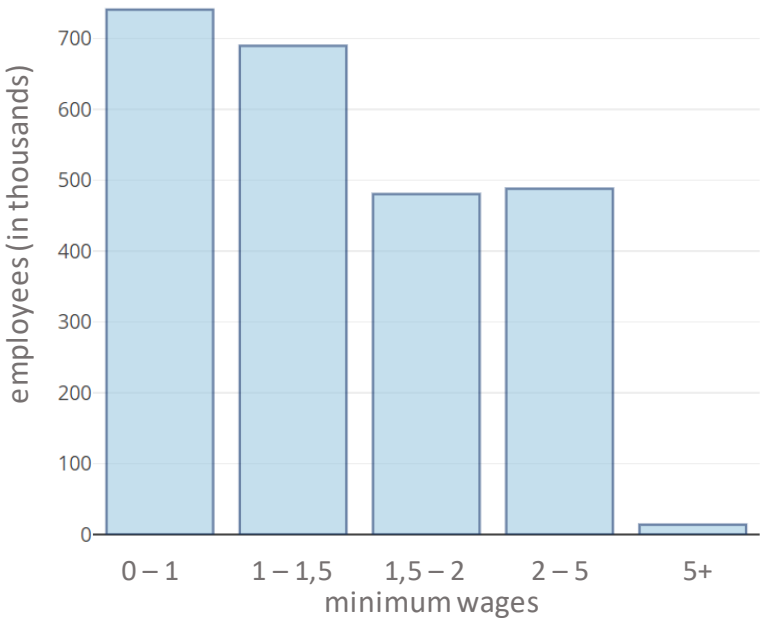


R\$ 4.528.839.058,41
amount financed

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



INCLUSION



COMPETITIVINESS



TRANSPARENCY



EDUCATION

INCLUSION

COMPETITIVENESS

TRANSPARENCY

EDUCATION

COOPERATIVE CREDIT



MICROCREDIT



CURRENCY CONVERTIBILITY



INITIATIVES FOR CAPITAL MARKET (IMK)



INNOVATION



MARKET EFFICIENCY



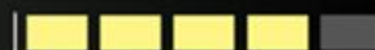
INTERNATIONAL RESERVES



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

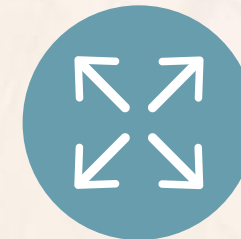
- > Public consultation completed
- > Financial institutions applied to membership and started homologation cycle starts with mandatory testing
- > To be launched in November 2020



Availability



Convenience



Various use cases



Speed



Open environment



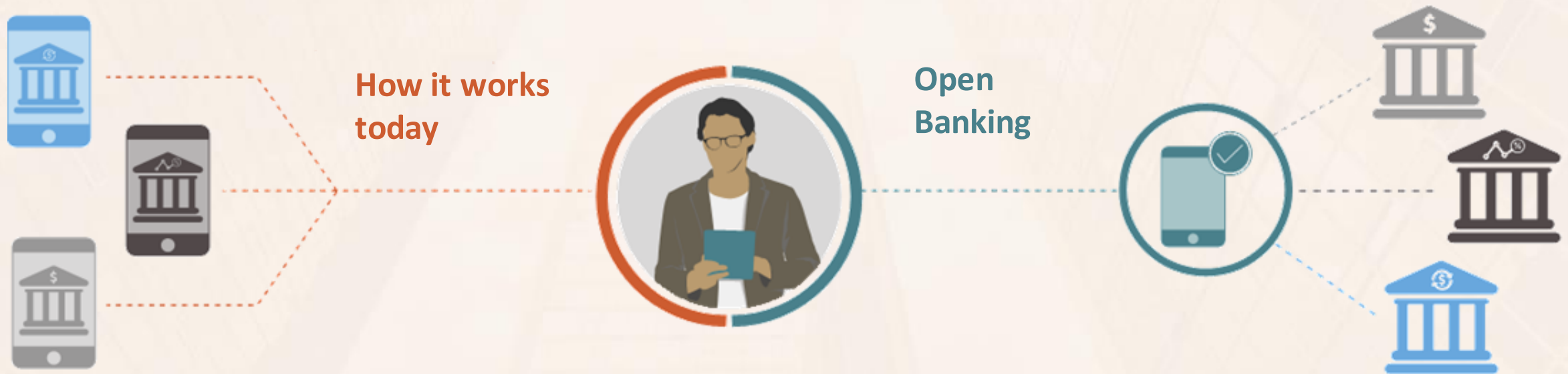
Safety



Enriched Data

Agenda *BC#* – Open banking

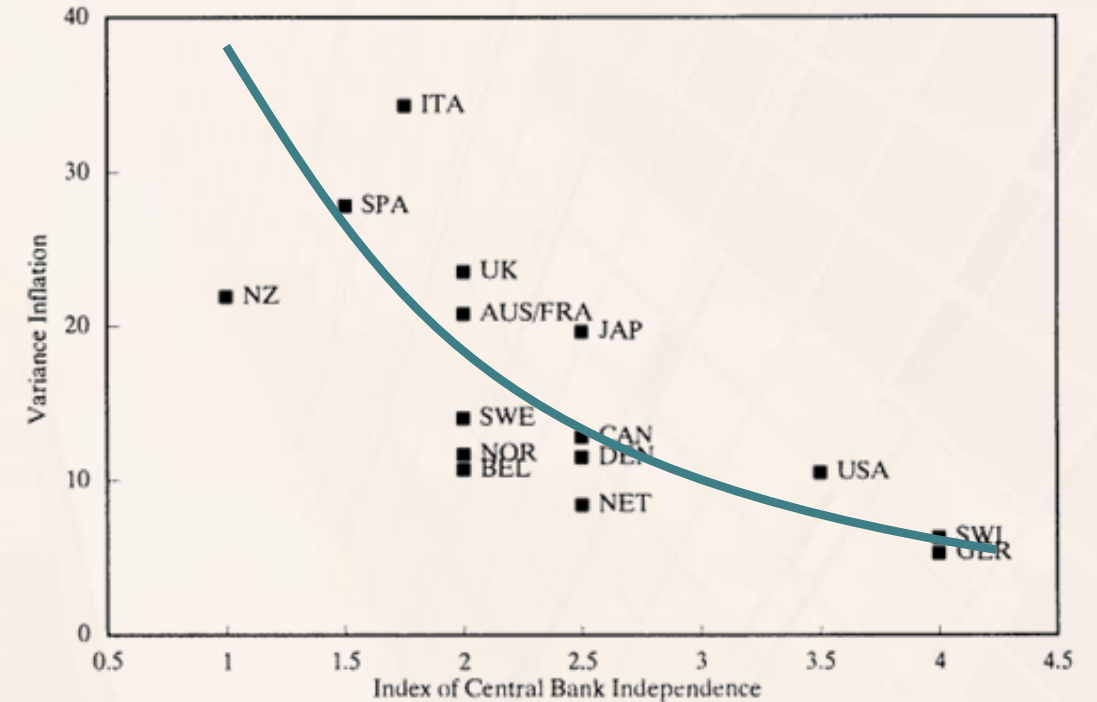
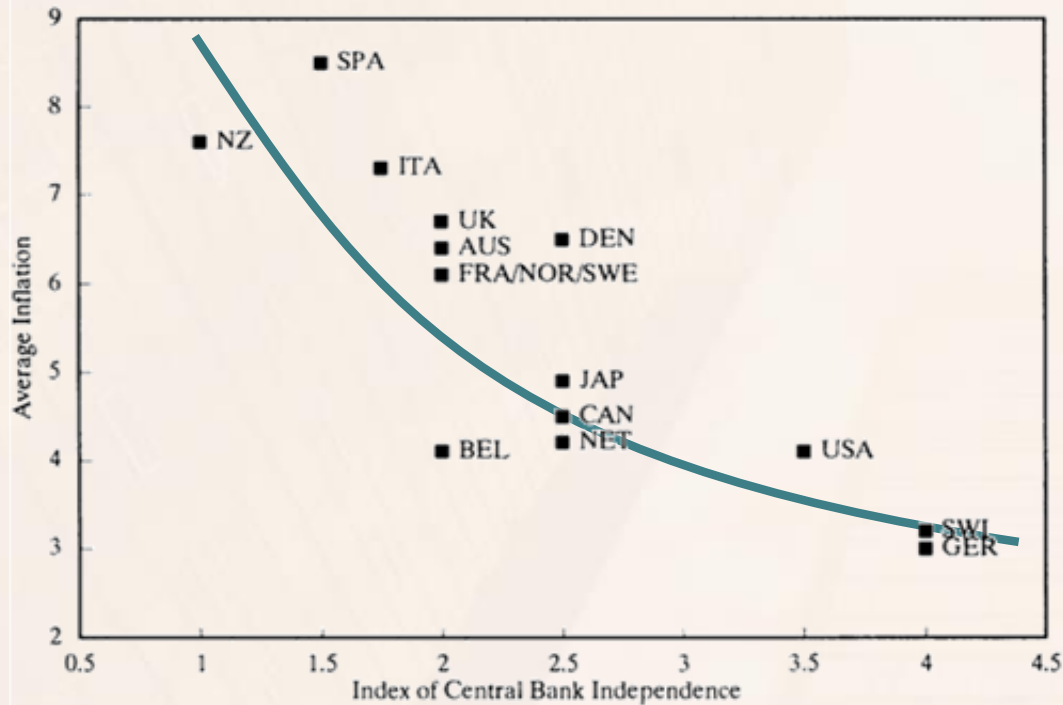
- > Operating rules approved
- > Implementation schedule




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 The PIX logo consists of a green diamond shape with a white 'X' inside, followed by the word 'PIX' in a stylized font. Below it, in smaller text, it says 'powered by Banco Central'.
 - 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
Governor of Banco Central do Brasil

July 14, 2020