

*Brazilian American Chamber of Commerce*

# Economic outlook for Brazil during and after this Covid-19 crisis

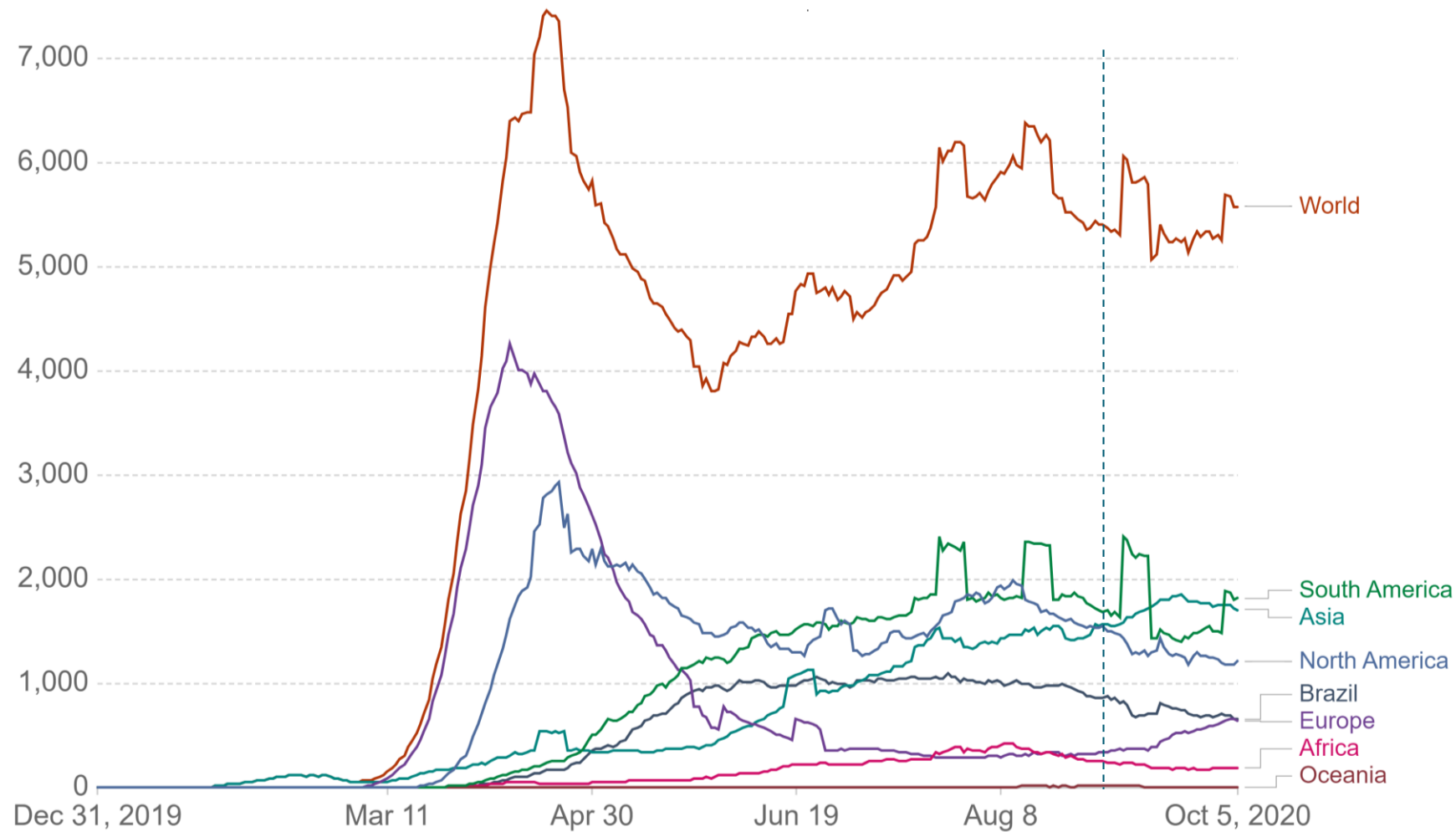
Roberto Campos Neto  
Governor of Banco Central do Brasil



# Covid-19: new deaths slowly decreasing

Daily new confirmed deaths, rolling 7-day average

**COVID-19**  
Brazil and other regions



Source: European CDC – Situation Update Worldwide – Last updated 5 October, 10:36 (London time)

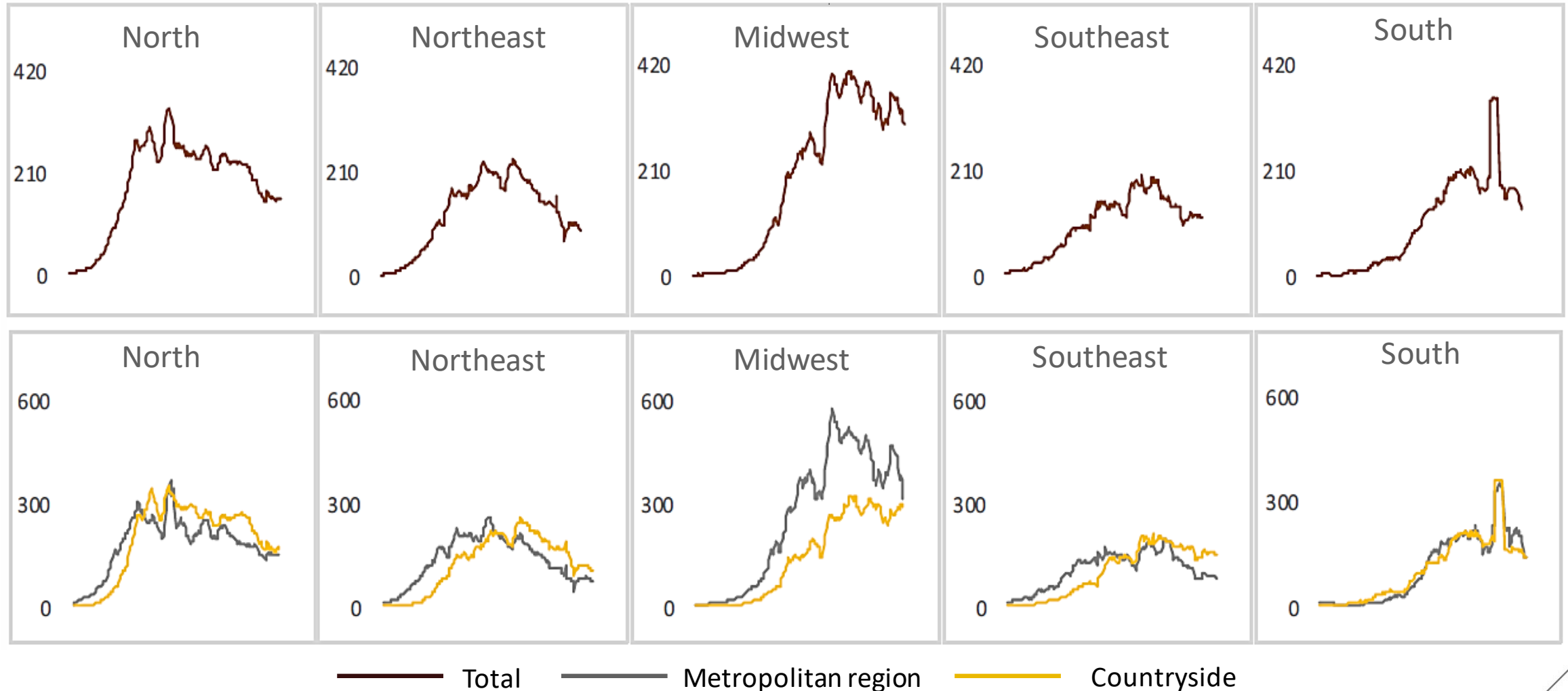
CC BY

Source: Our World in Data, October 6/2020

# The disease across Brazilian regions

COVID-19

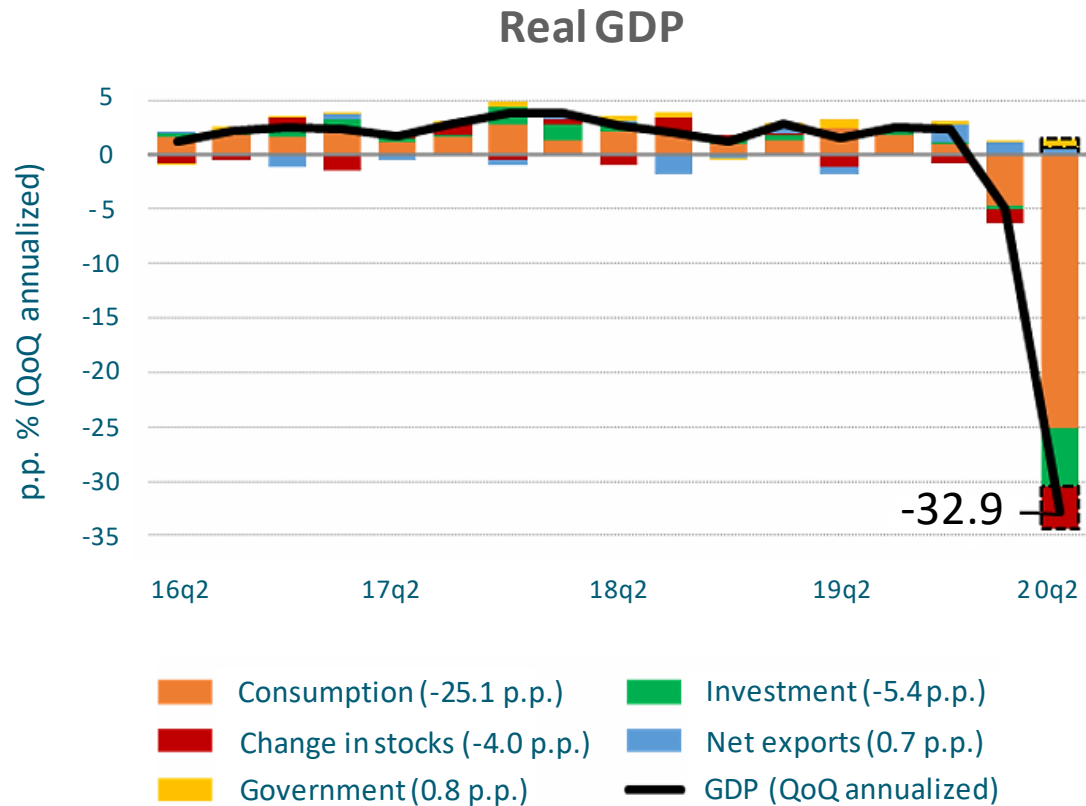
New daily cases per million, 7 - days moving average, 04/Apr – 26/Sep



Source : Health Ministry

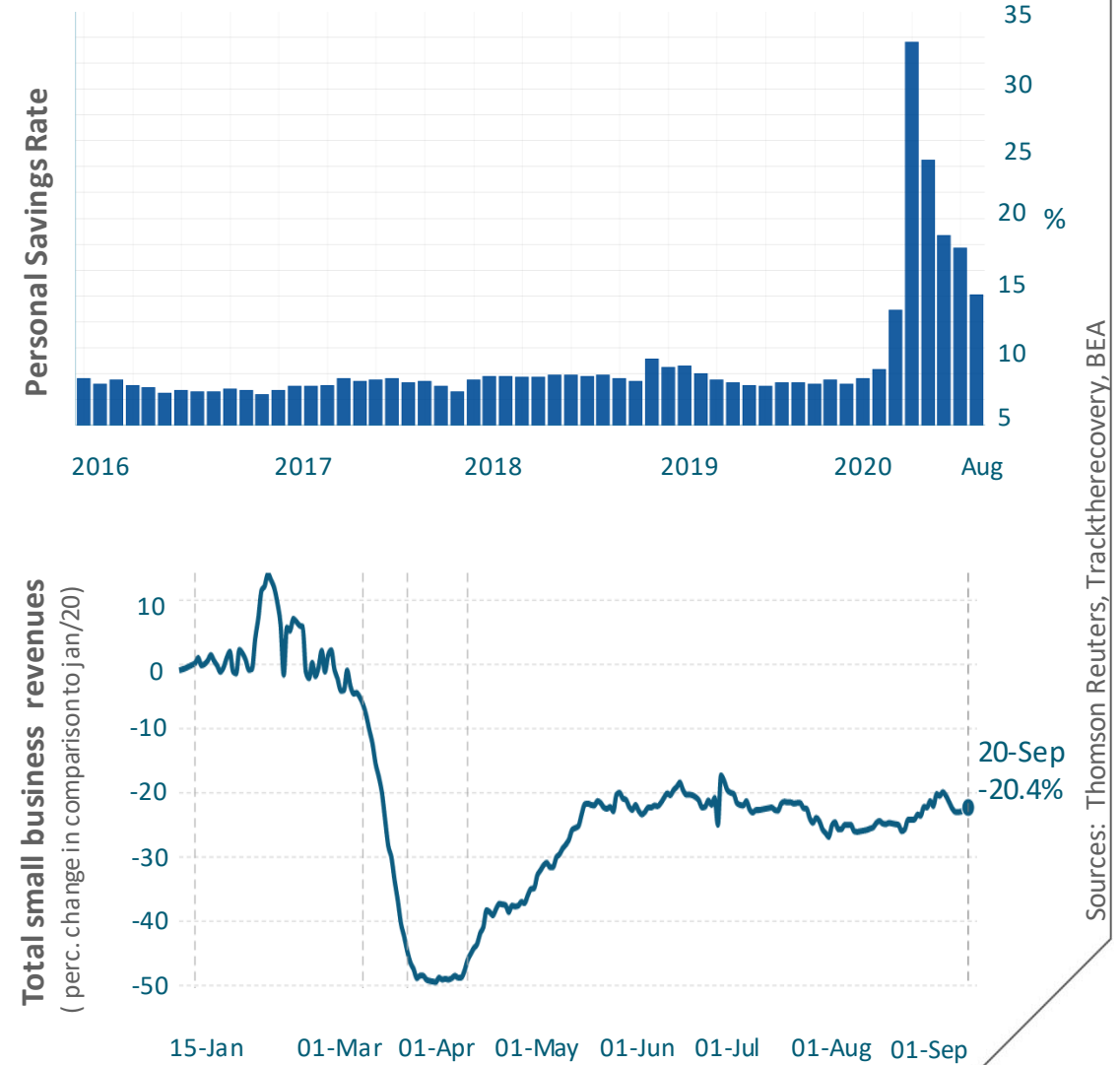
# United States

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



# GLOBAL ECONOMY

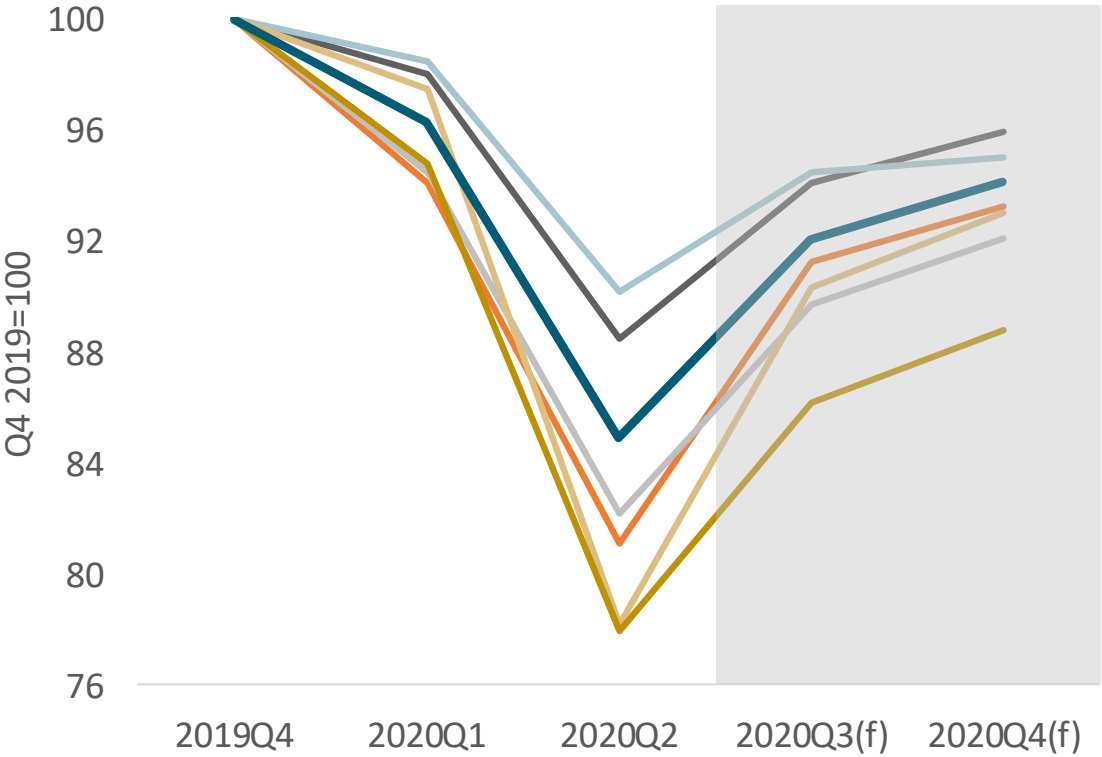
Covid-19: Shock and impacts



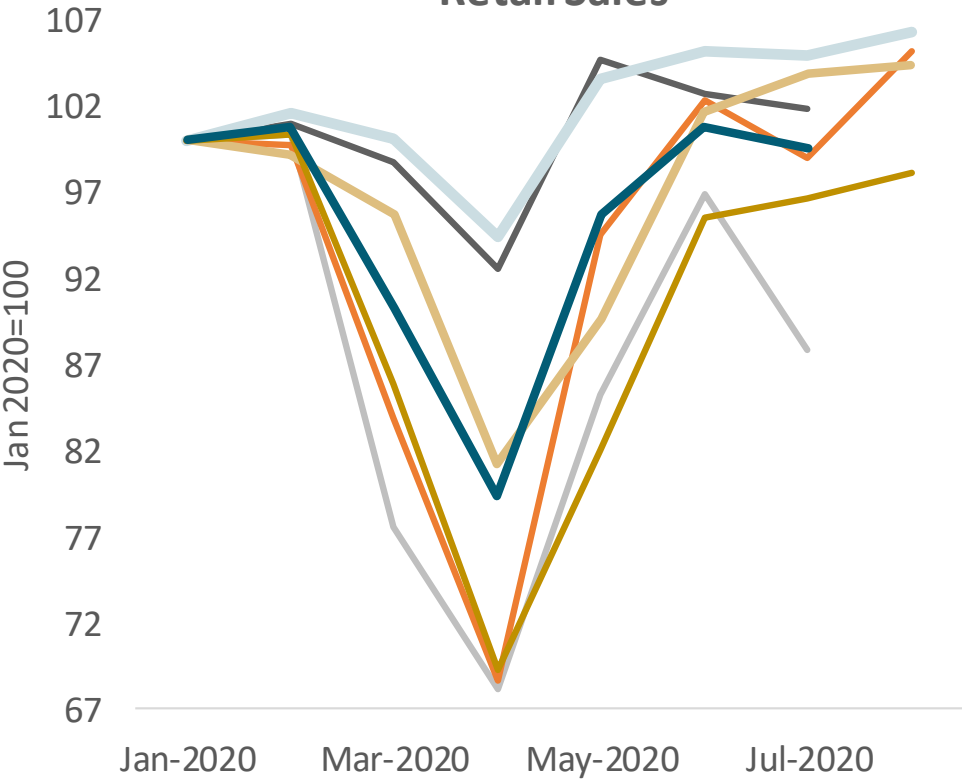
# Europe

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

GDP



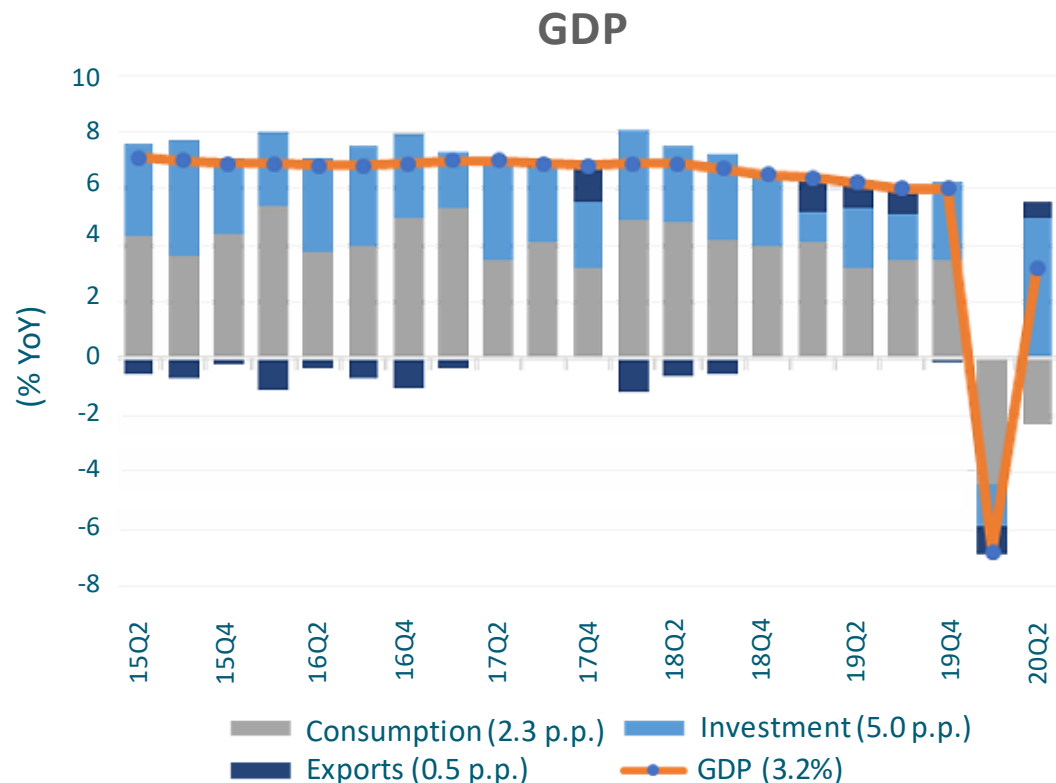
Retail Sales



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

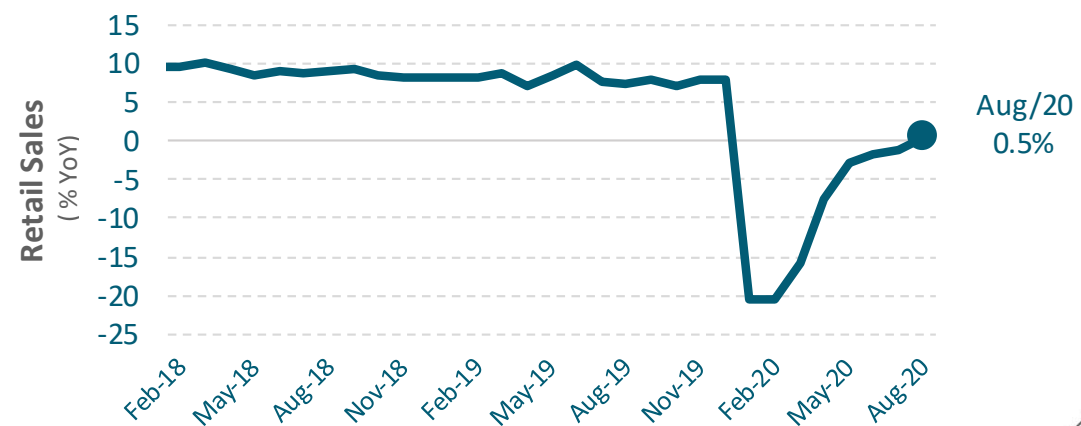
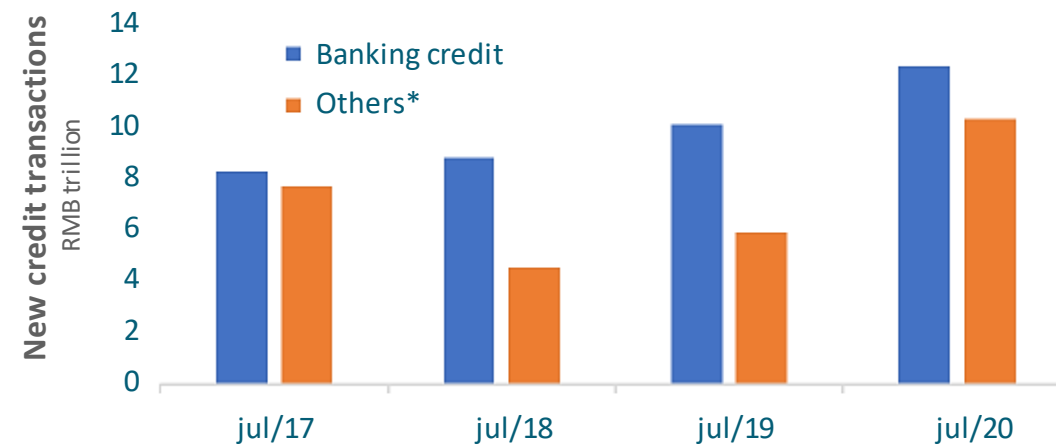
# China

Fast recovery, although incomplete. Investment is the main driver



# GLOBAL ECONOMY

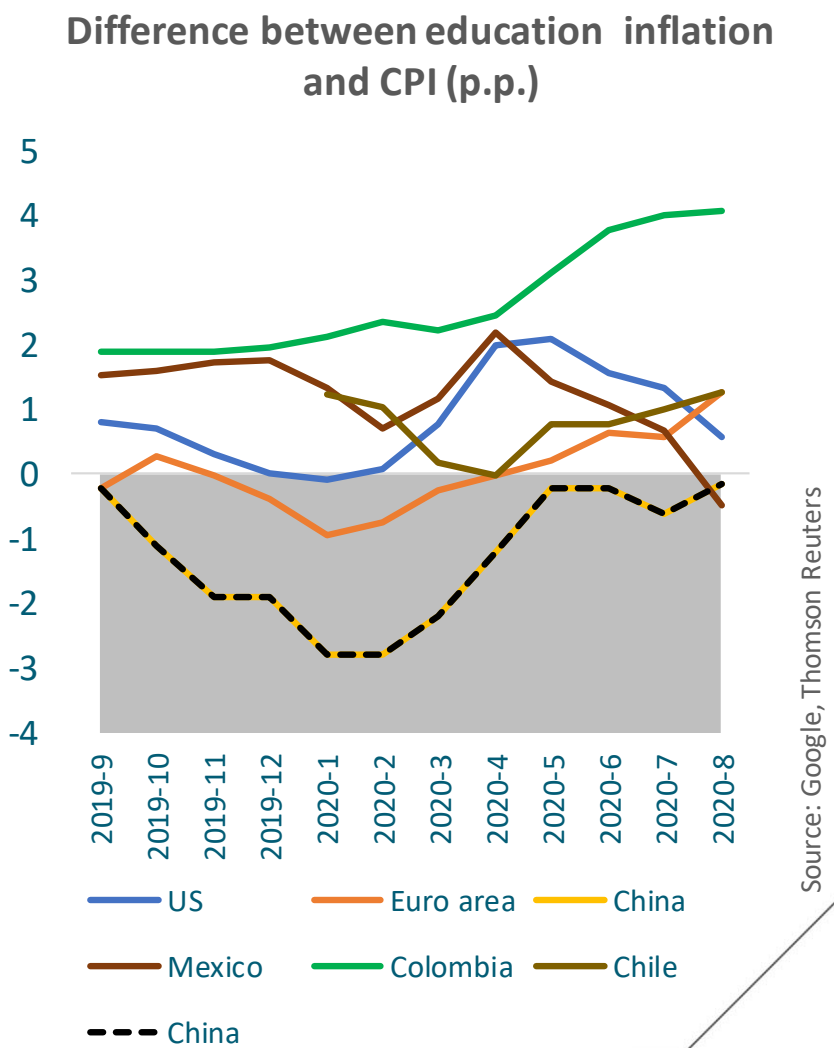
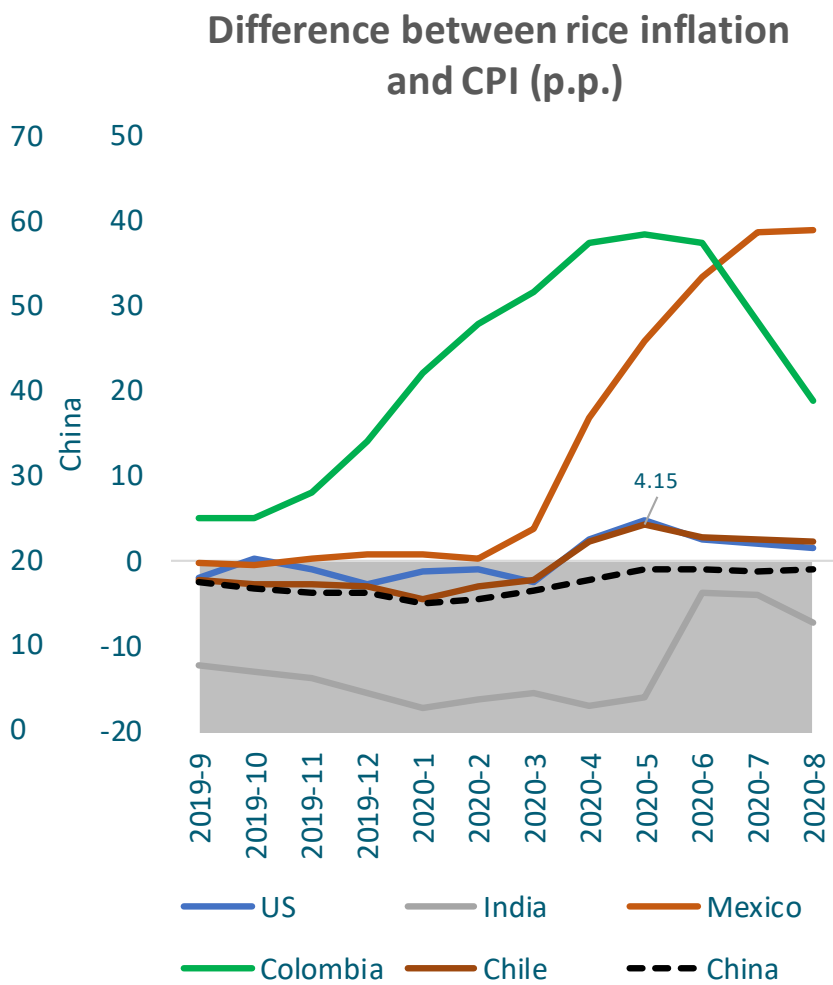
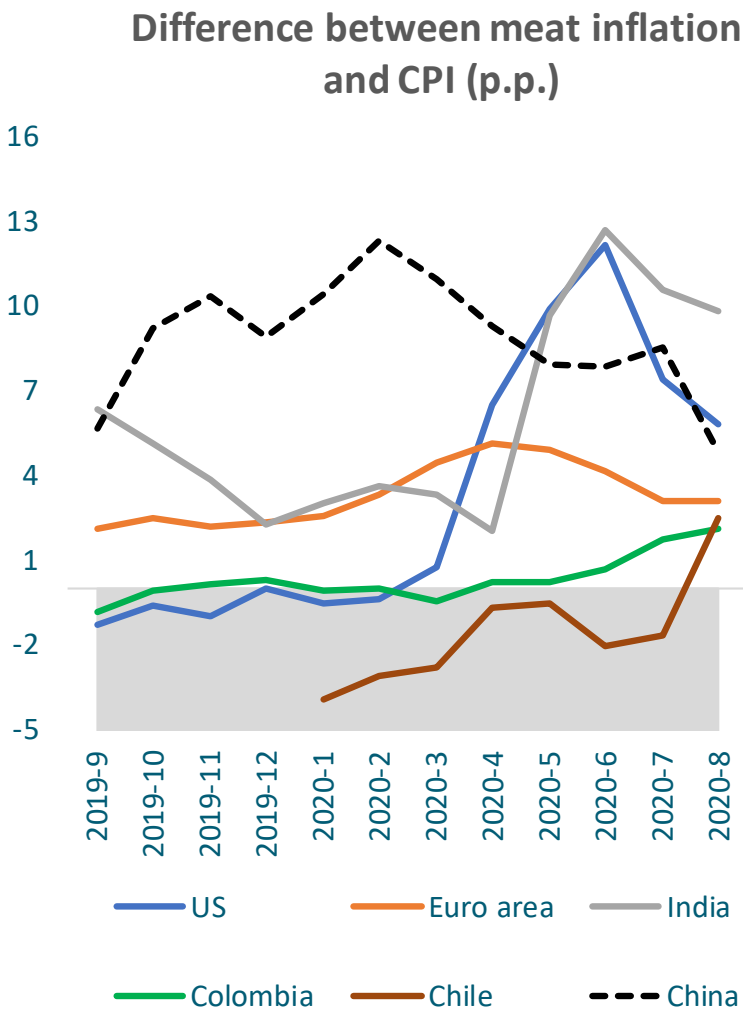
Covid-19: Shock and impacts



Sources: NBS, Bloomberg

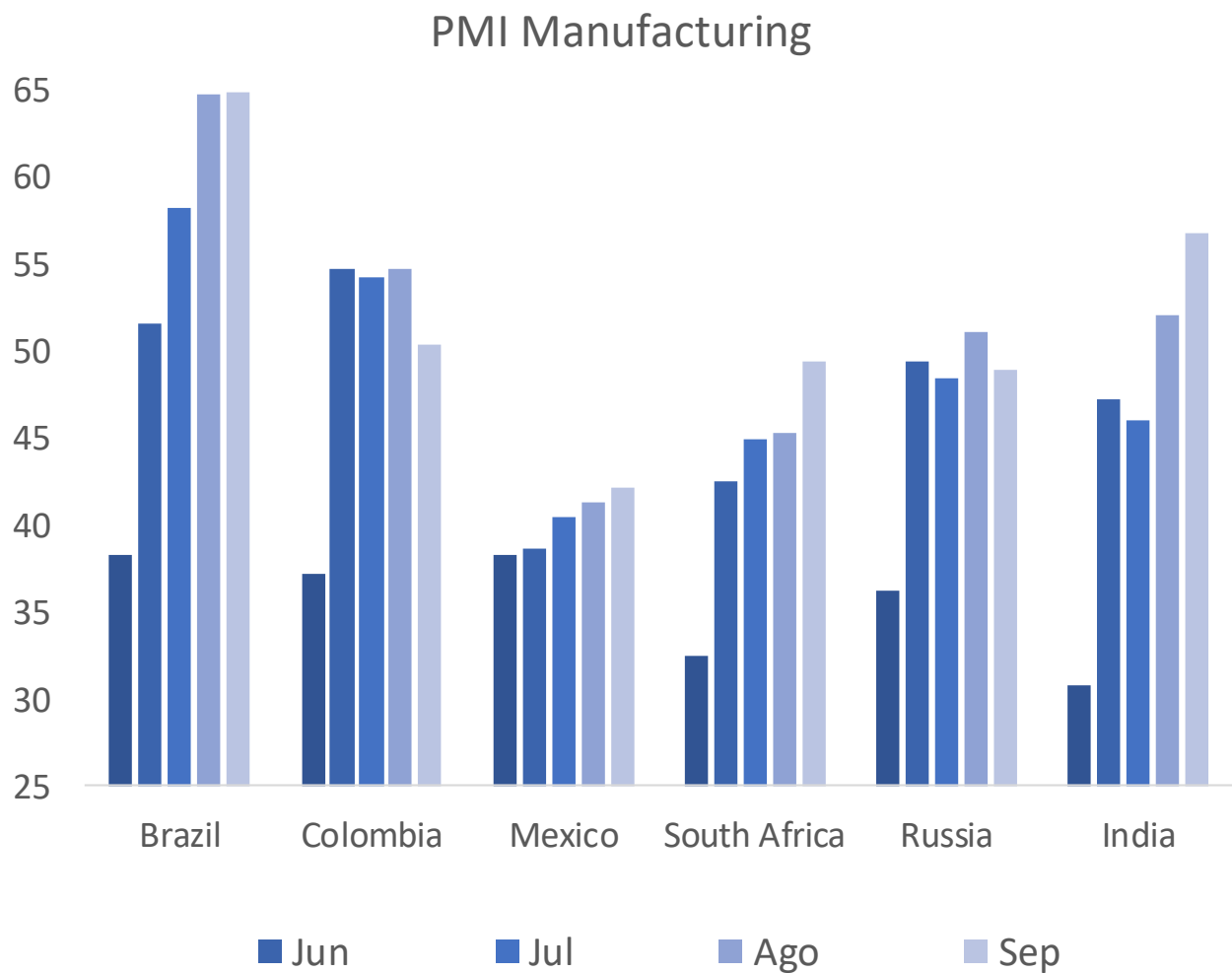
# Inflation

Rise in food prices and education



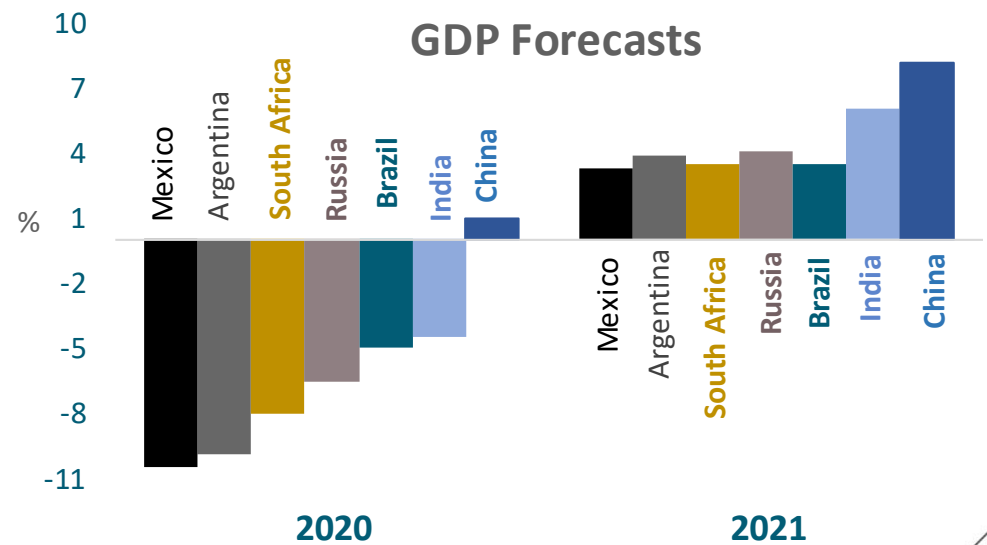
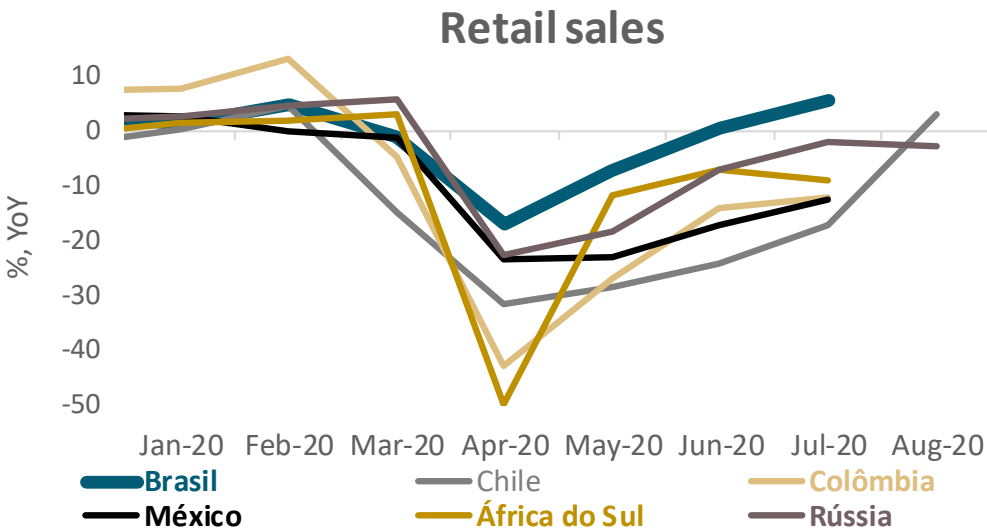
# Emerging Markets

Signs of recovery



# GLOBAL ECONOMY

Covid-19: Shock and impacts

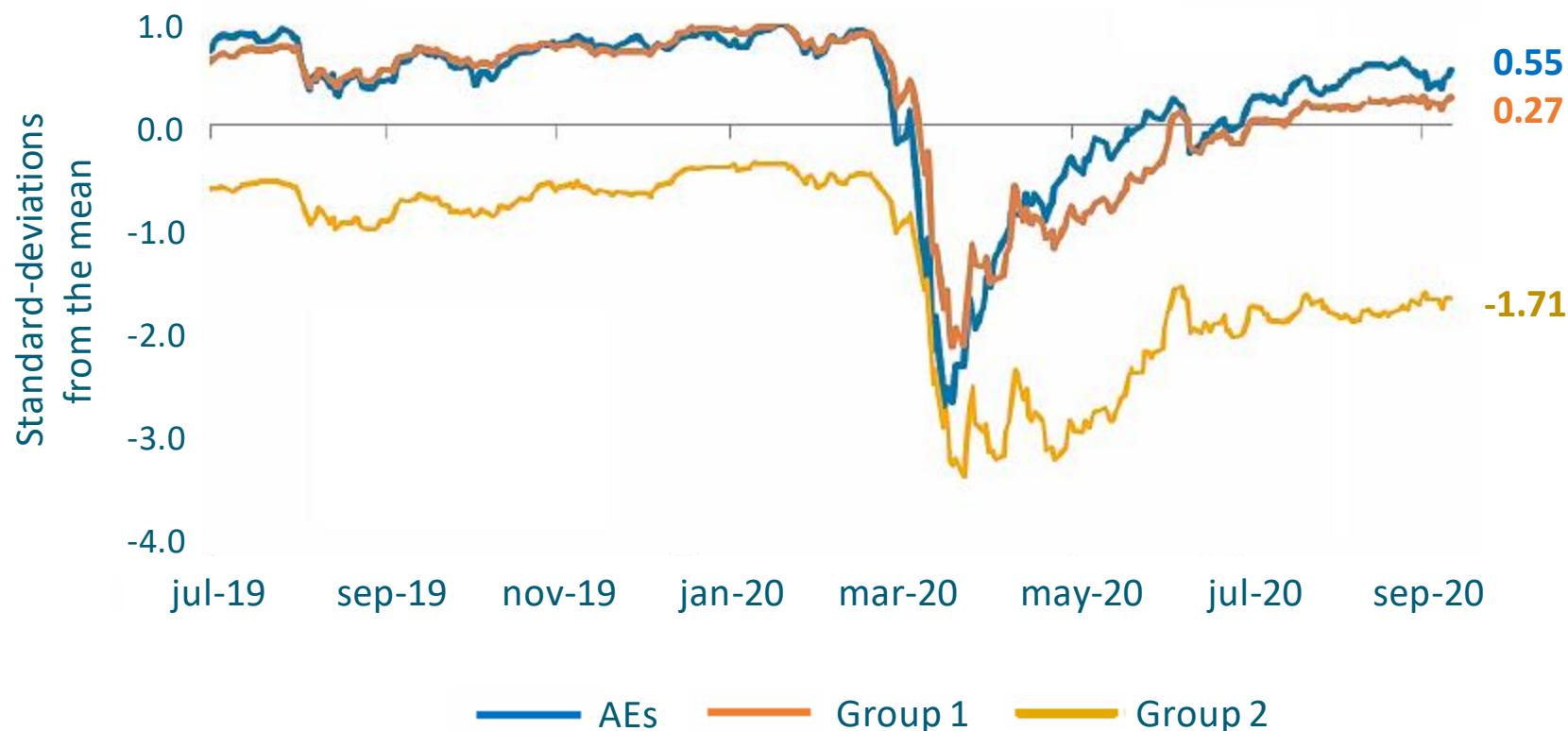


Sources: Markit; Focus Market expectations in 2 Oct for Brazil and June IMF forecasts for the other countries; Bloomberg



Financial conditions still restrictive for emerging countries with unfavorable economic fundamentals

### Risk Appetite



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

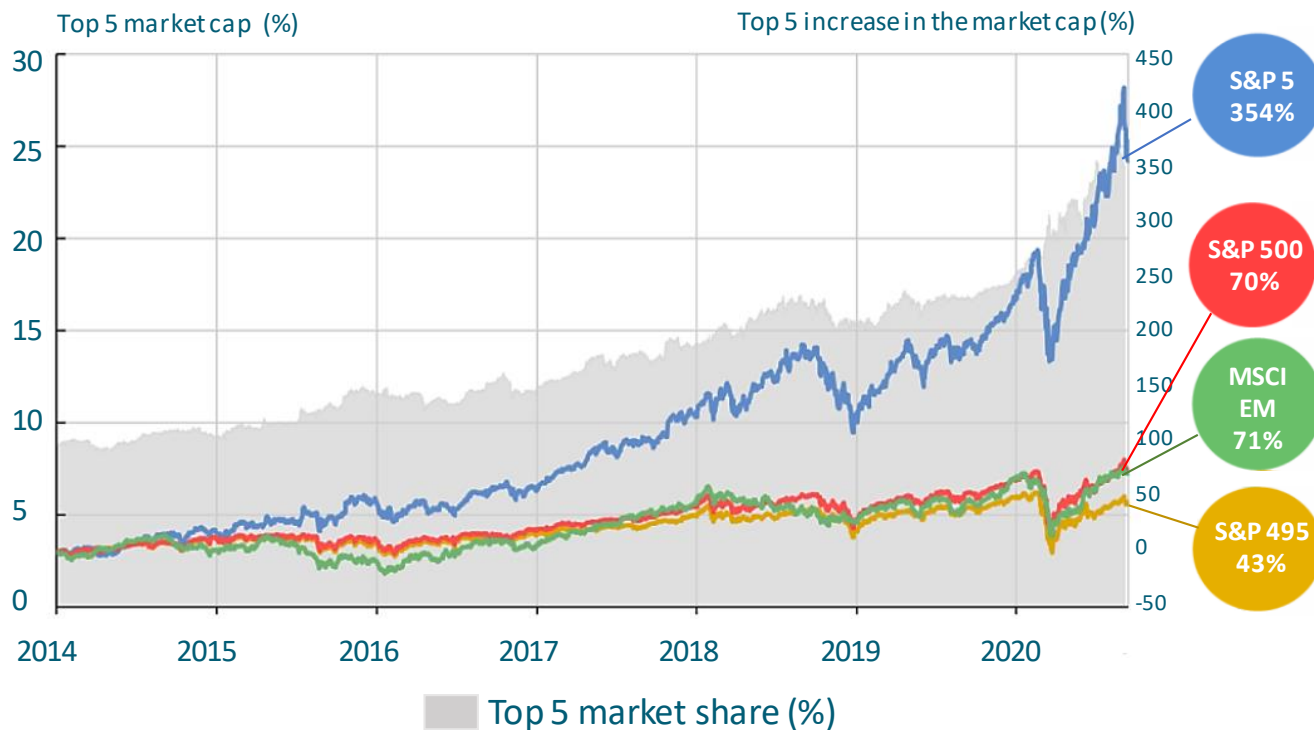
Gross Debt/GDP (average) = 35.7%

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

Gross Debt/GDP (average) = 61.1%

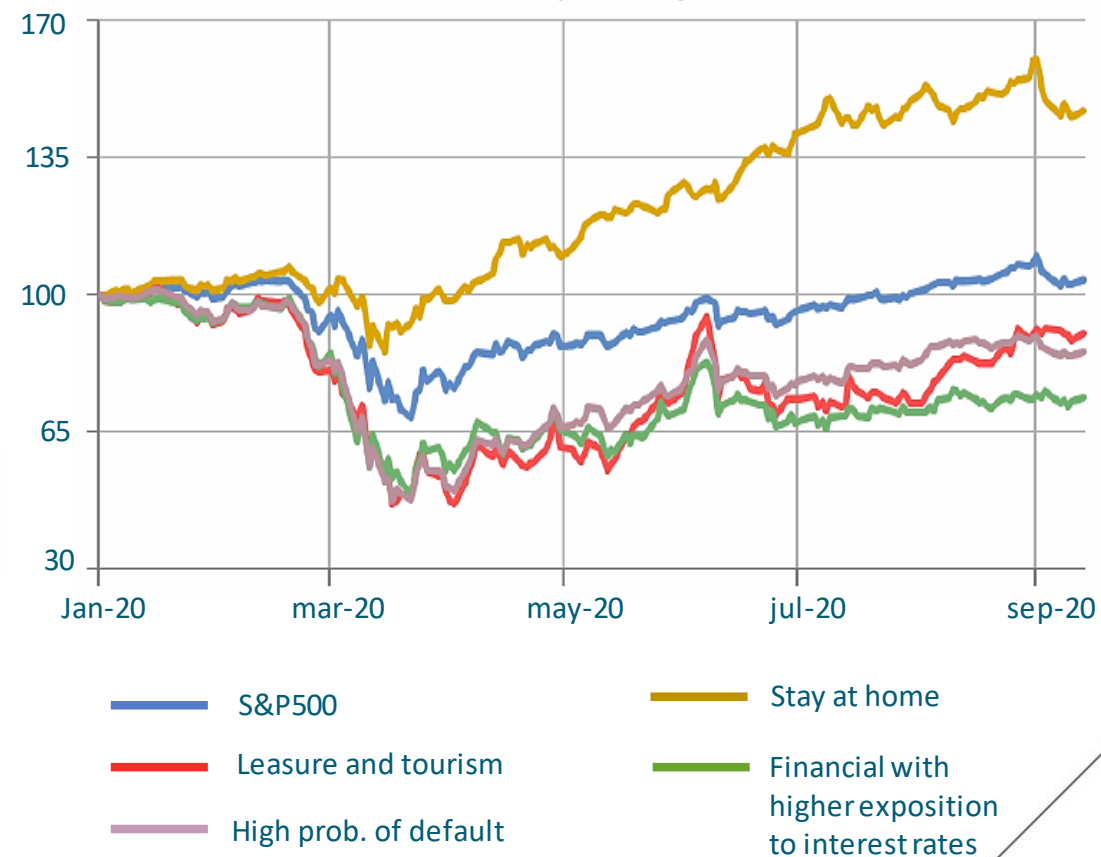
Source: BCB, Bloomberg. Gross Debt: IMF.

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

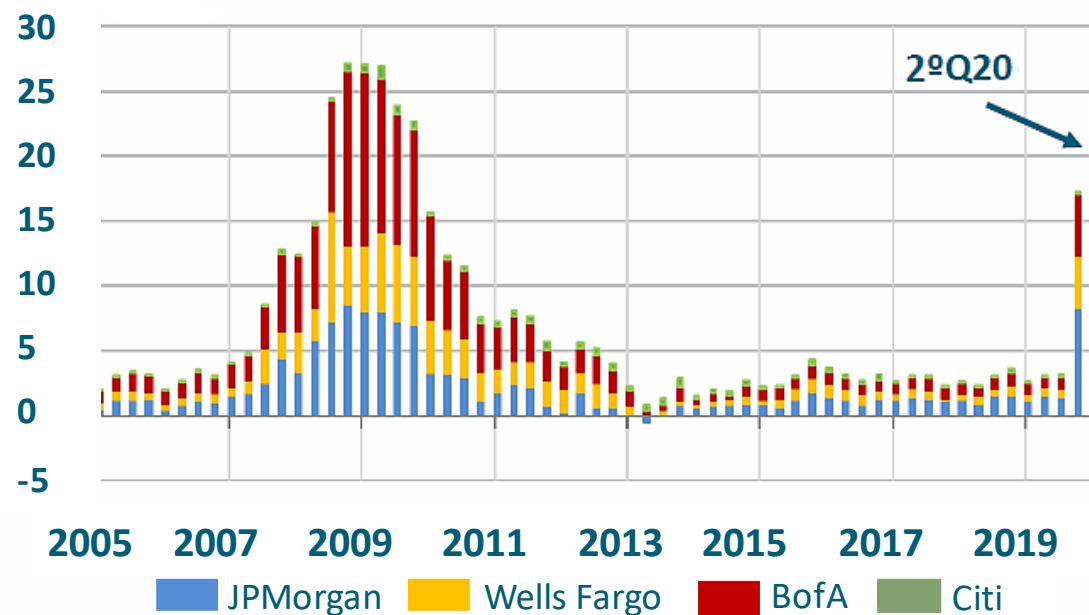
Increase in loss provisions still suggests caution

## GLOBAL ECONOMY

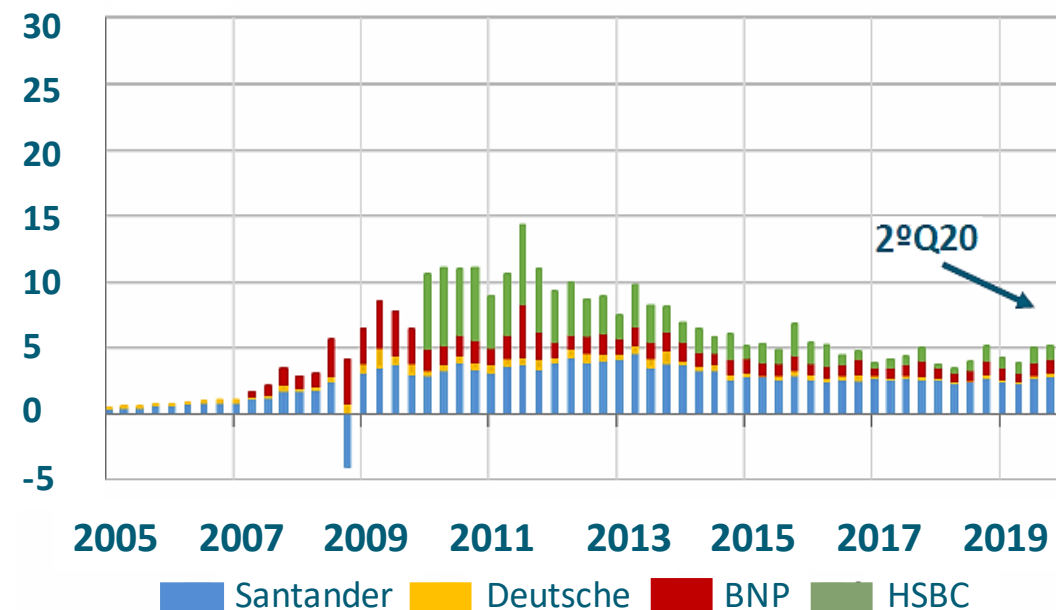
Covid-19: Shock and impacts

### Loss Provisions (US\$ bn)

#### US



#### Europe



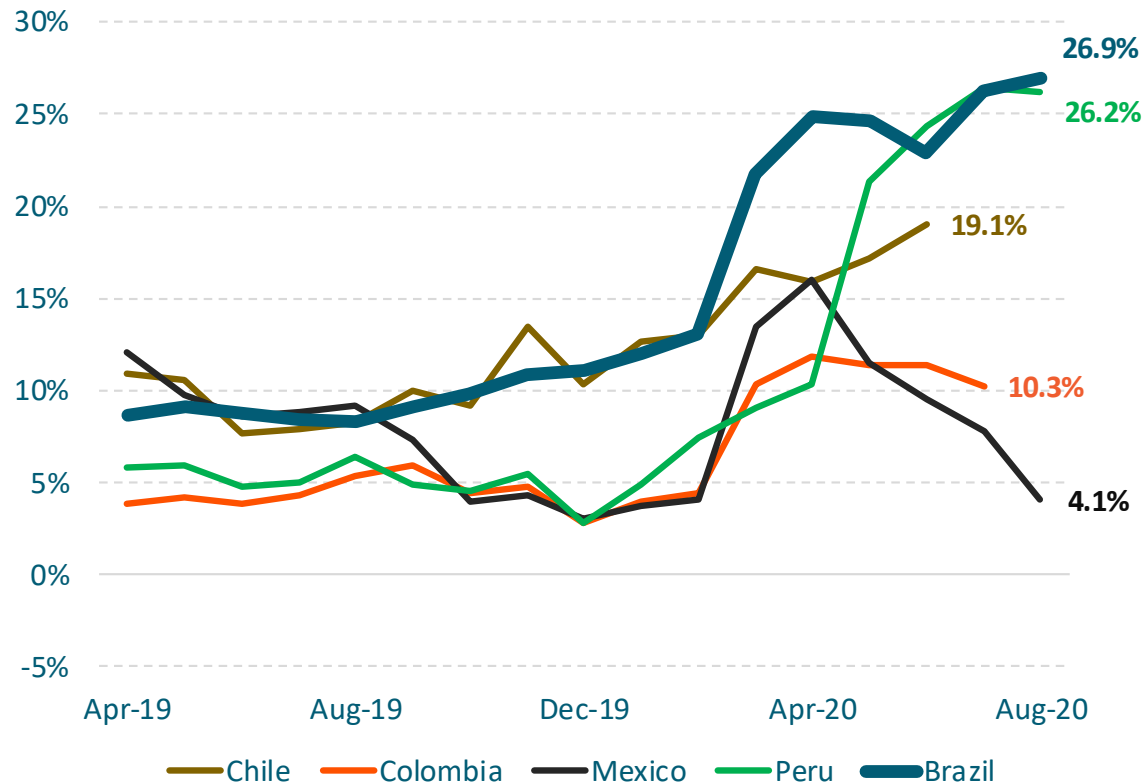
Source: Bloomberg

# Credit growth for business

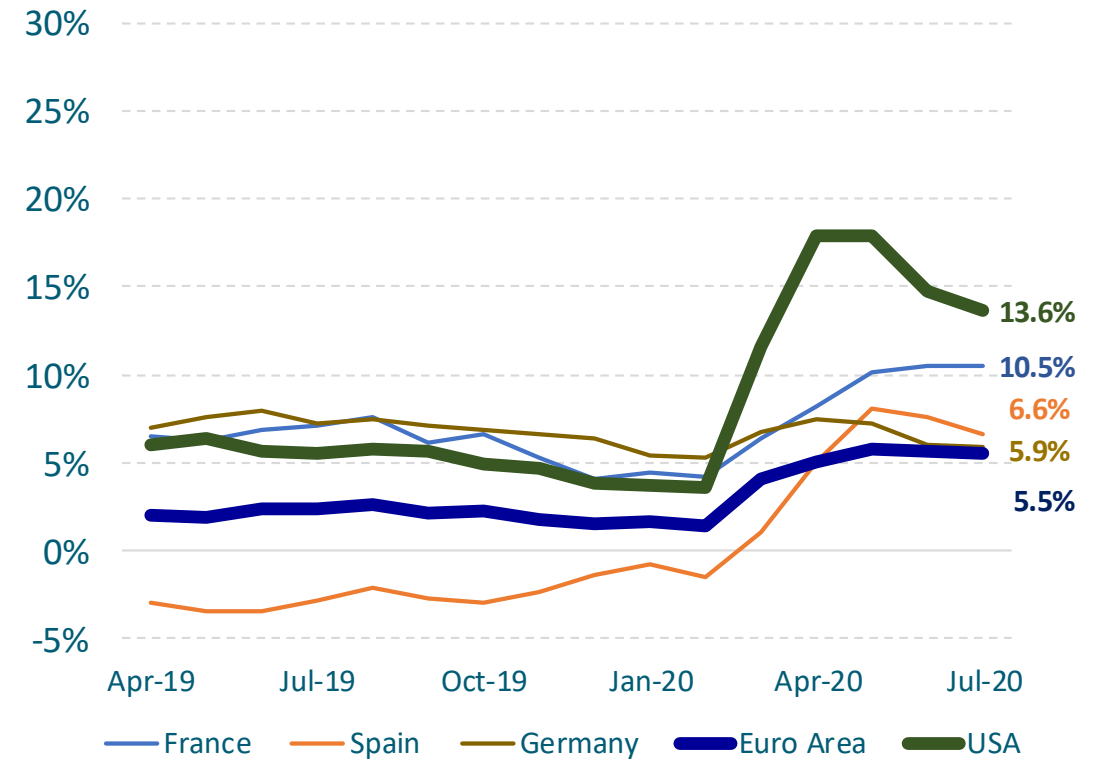
## GLOBAL ECONOMY

Impact on credit market

EMEs  
(% Y/Y)



AEs  
(% Y/Y)



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

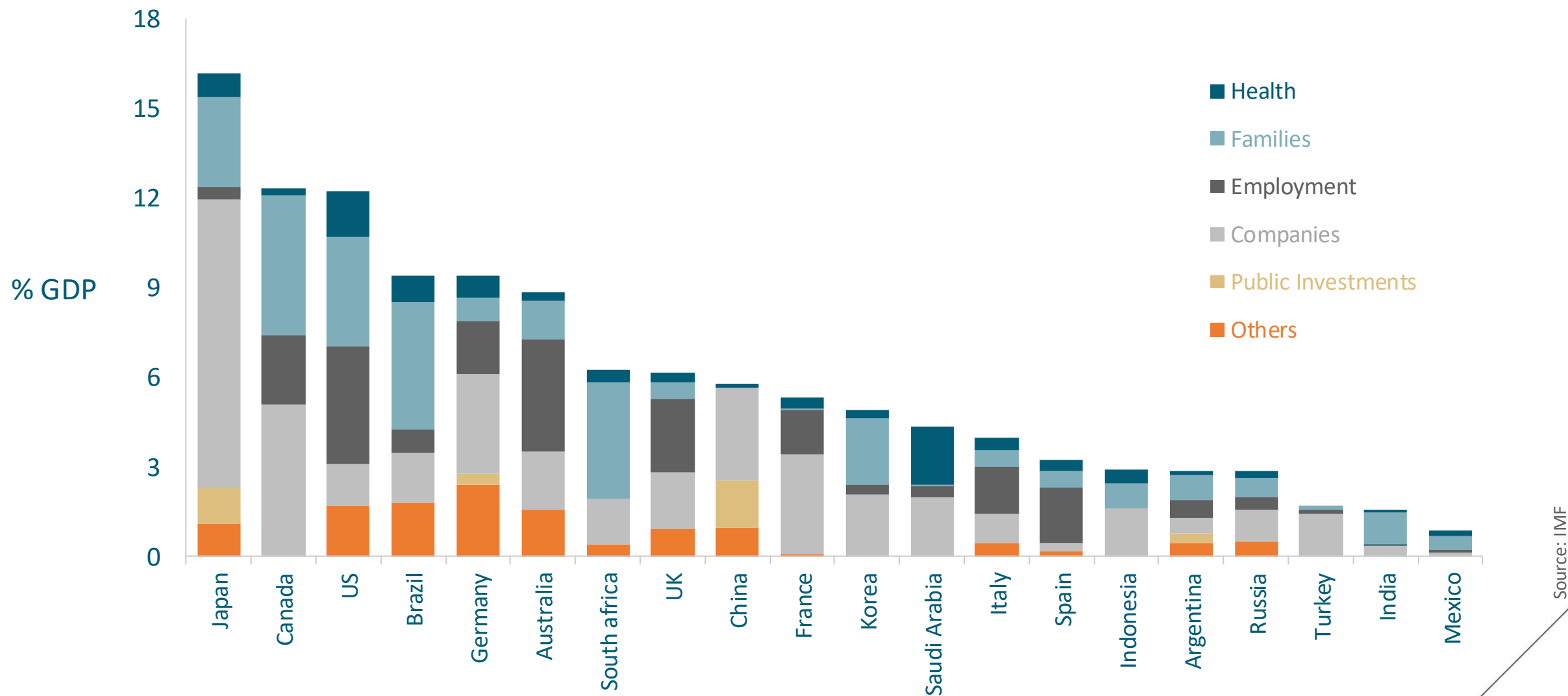


# Fiscal response

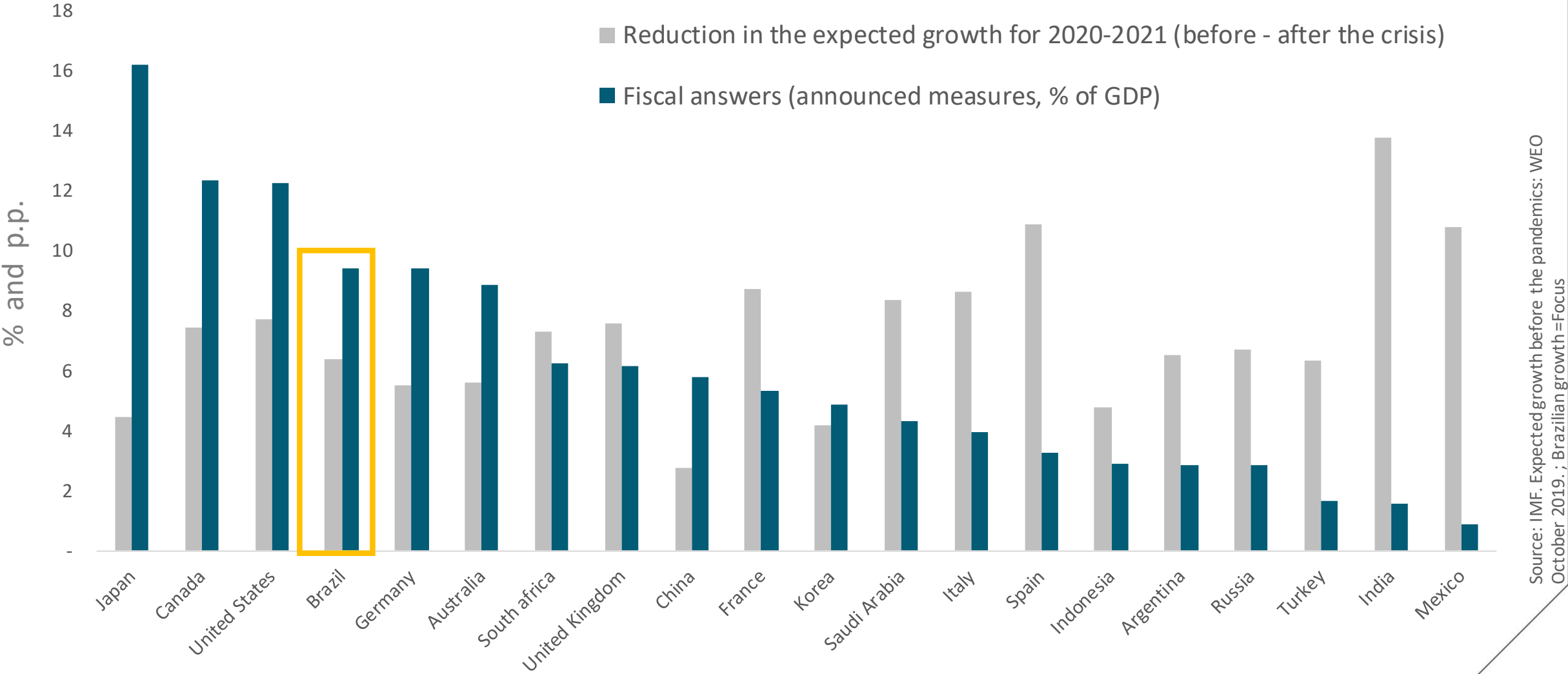
## GLOBAL ECONOMY

Fiscal policy responses

Announced measures – comparative view



Source: IMF



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

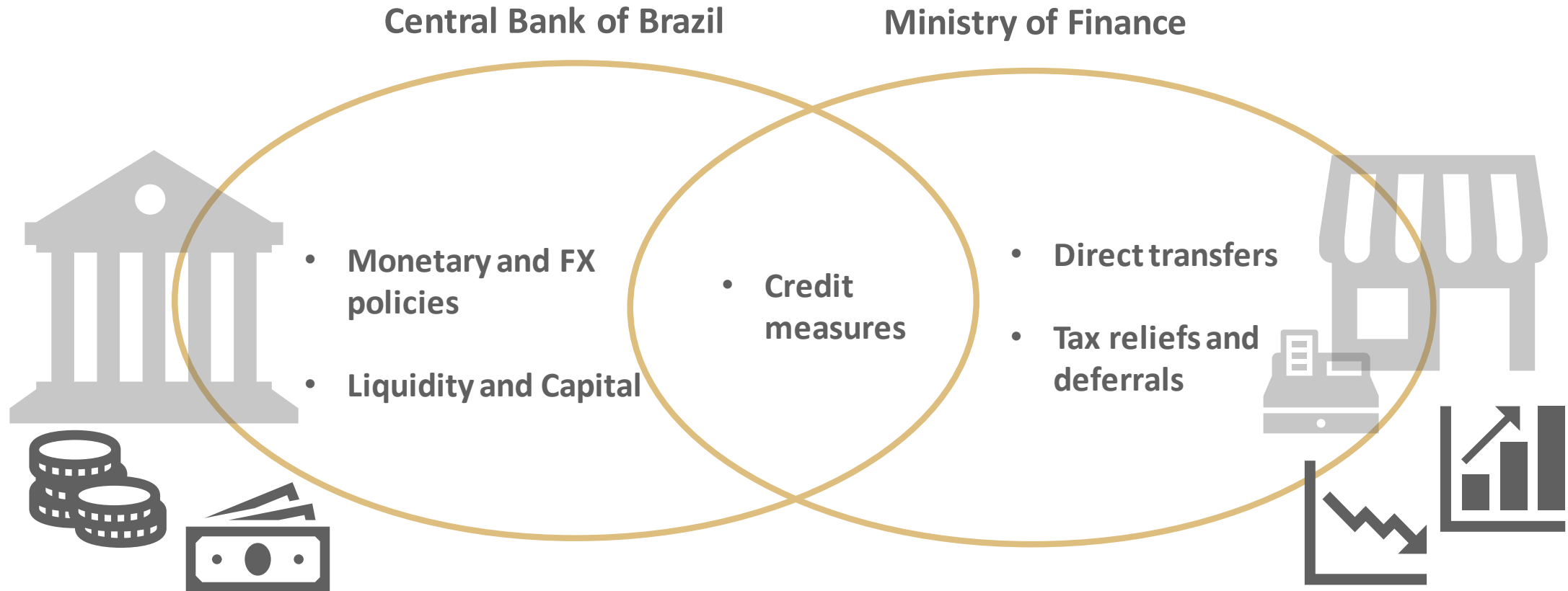
Solvency



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





# Summary of measures: BCB

## Measures' impacts

Updated to 10/05

<sup>1</sup>Potencial impact on credit provision.

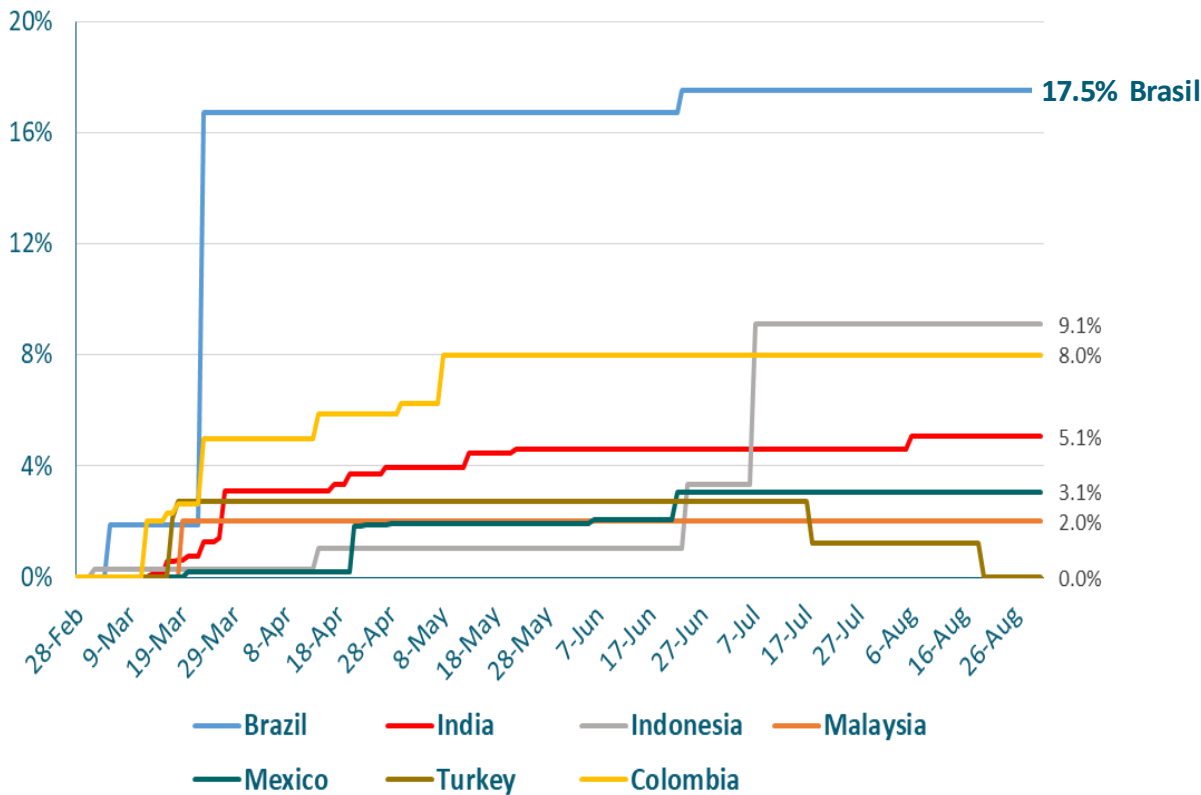
\* Credit operations volume potentially benefited by the measure.

\*\* New measures.

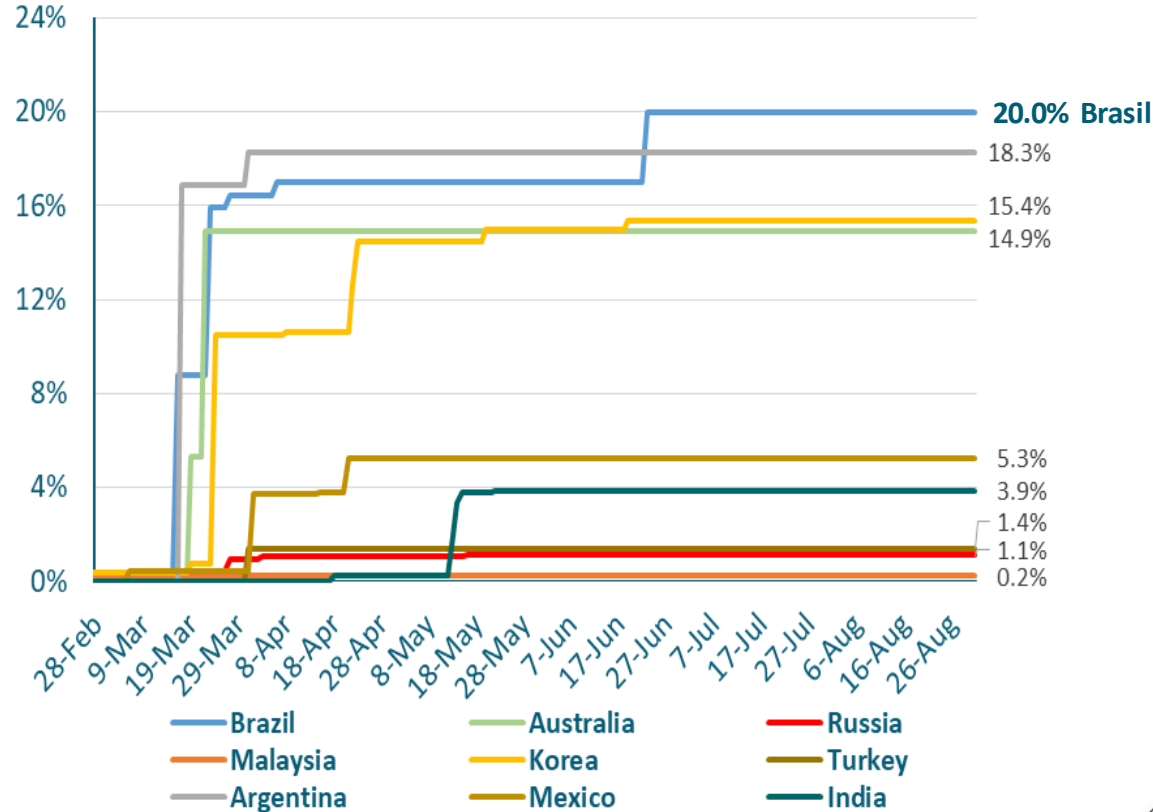
Measure	2020		
	Potential	Implemented	2008
<b>Liquidity support</b>			
Reserve requirements + change in LCR regulation	R\$ 135 bn	R\$ 135 bn	—
Additional reduction in reserve requirements	R\$ 70 bn	R\$ 70 bn	R\$ 82 bn
More flexibility on LCA regulation	R\$ 2.2 bn	R\$ 2.2 bn	—
Loan backed by LFs guaranteed 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\$ 18.6 bn	R\$ 10 bn
Loans backed by debentures	R\$ 91 bn	R\$ 3 bn	—
<b>Change in reserve requirements on savings deposits</b>	<b>R\$ 55.8 bn</b>	<b>R\$ 43.7 bn</b>	<b>—</b>
<b>Total</b>	<b>R\$ 1274 bn</b>	<b>R\$ 346.2 bn</b>	<b>R\$ 117 bn</b>
<b>Capital Relief <sup>1</sup></b>			
Overhedge	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\$ 6.9 bn	—
<b>Total</b>	<b>R\$ bn</b>	<b>—</b>	<b>—</b>
More flexibility for credit renegotiations	*R\$ 3200 bn	R\$ 881.4 bn	—
<b>Asset Purchases</b>			
Asset purchases in secondary markets	N.D.	**	—
<b>Other measures</b>			
Swap lines with the Federal Reserve	US\$ 60 bn		US\$ 30 bn
Creation of special credit lines for SMEs	R\$ 40 bn	R\$ 5.5 bn	—
Real estate backed loans	R\$ 60 bn	**	—

Source: BCB

Liquidity Support  
(% of GDP)



Credit Support  
(% of GDP)



Sources: FSB/BCB – up to September 22<sup>nd</sup>

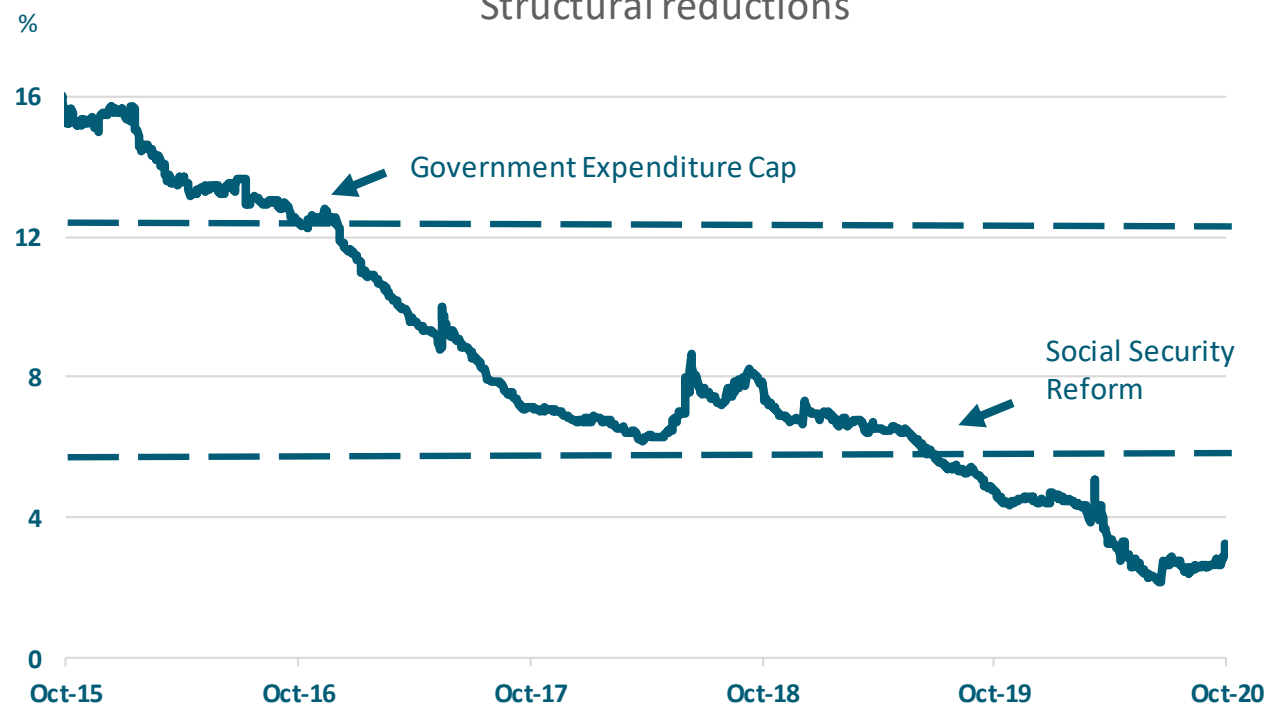
# Room for conventional policies

Brazil: cautious MP actions

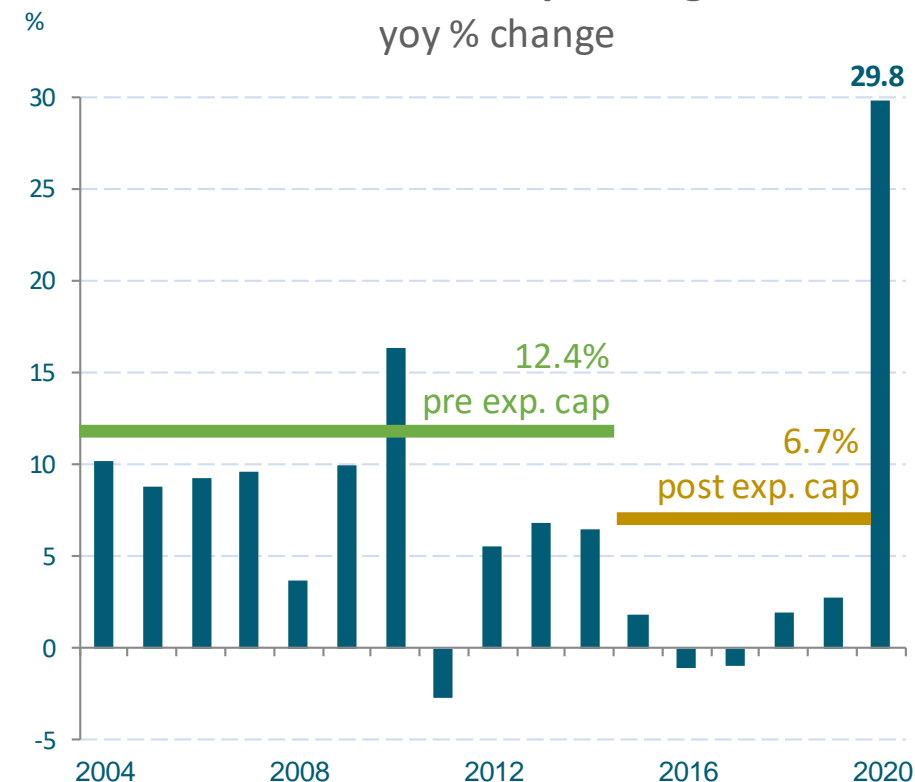
## DOMESTIC ECONOMY

Fiscal and monetary policies interaction

**1 Year Rate**  
Structural reductions

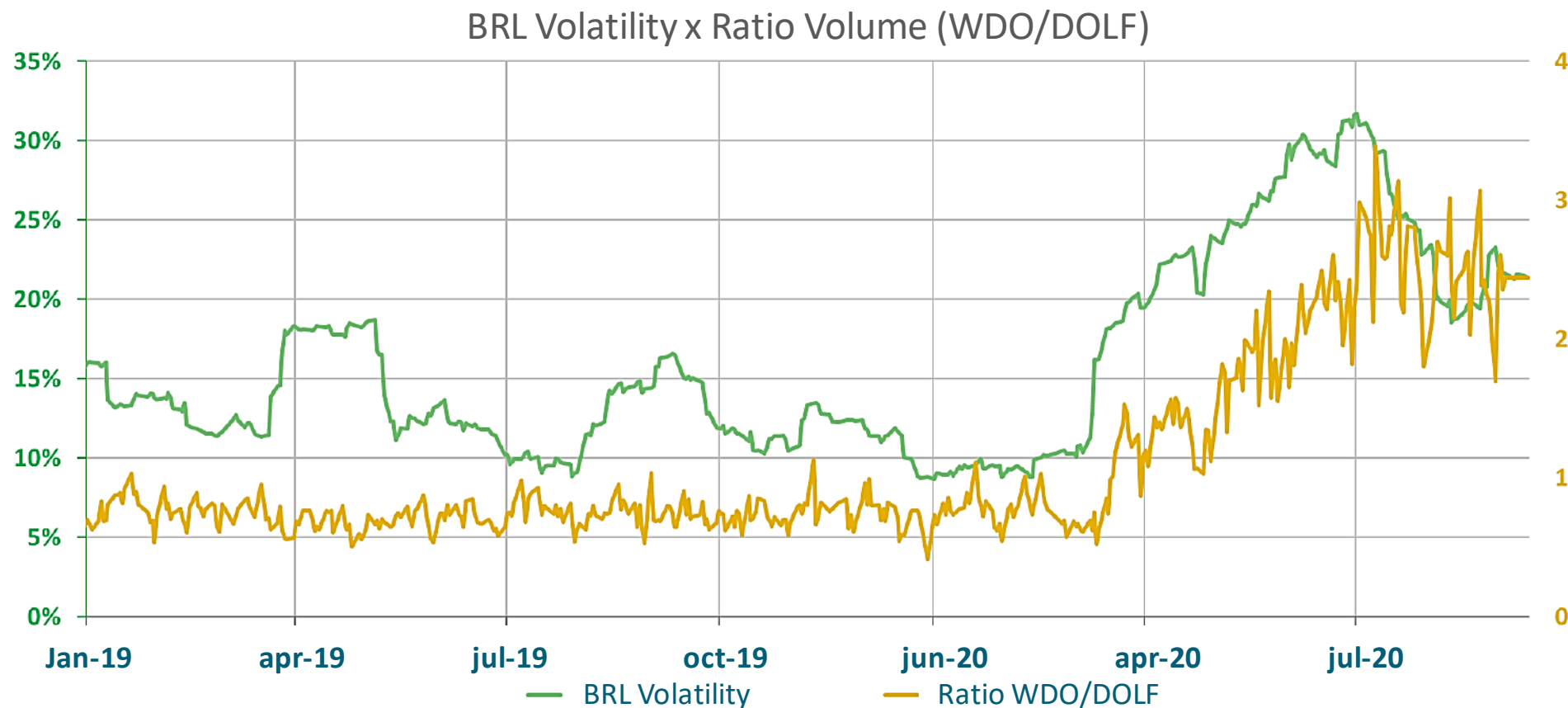


**Real Public Spending**  
yoy % change



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.**

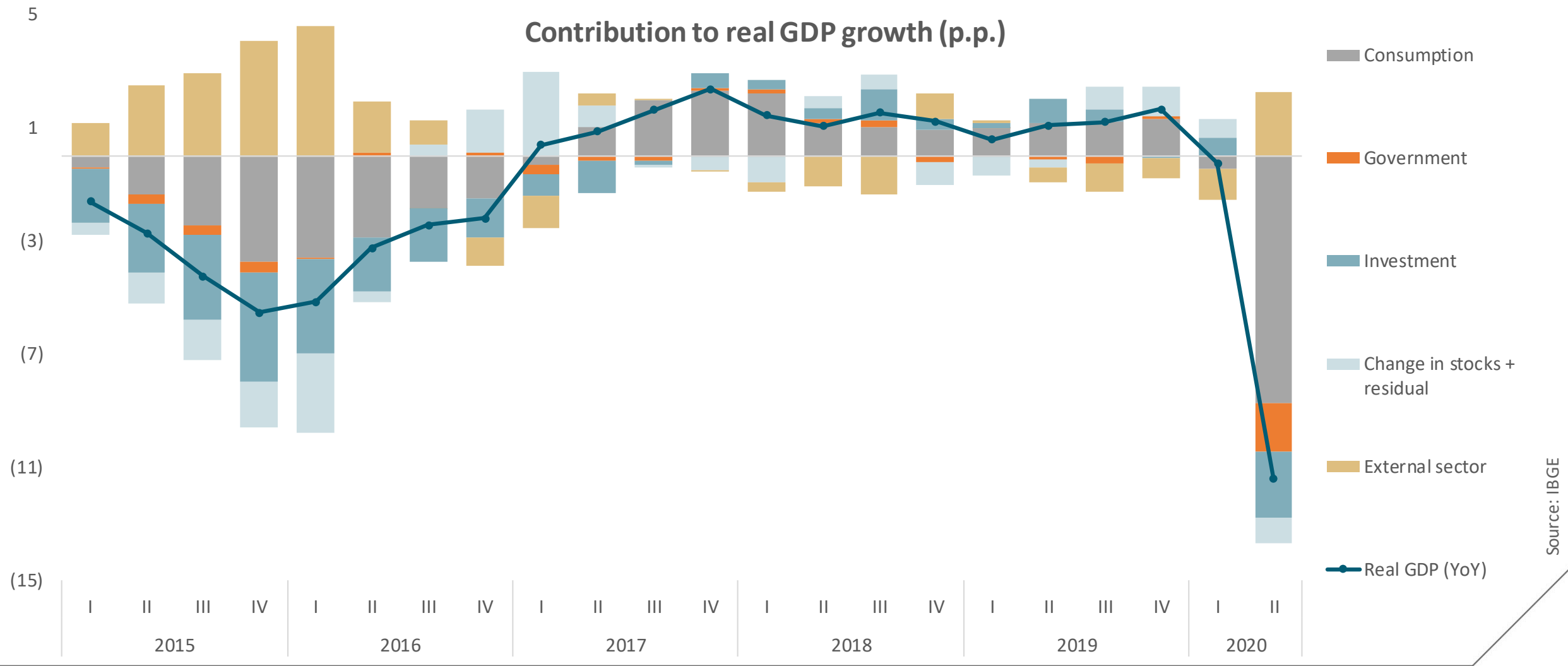




- In its last meeting, the Copom unanimously decided to maintain the Selic rate at 2.00% p.a.
- The Copom believes that the current economic conditions continue to recommend an unusually strong monetary stimulus, but it recognizes that, due to prudential and financial stability reasons, the remaining space for monetary policy stimulus, if it exists, should be small.
- Consequently, possible future adjustments to the current degree of monetary stimulus would occur with additional gradualism and would depend on the perception of the fiscal trajectory, as well as on new information that changes the Committee's current assessment about prospective inflation.
- Despite the asymmetry on its balance of risks, the Copom does not intend to reduce the monetary stimulus unless inflation expectations, as well as its baseline scenario inflation projections, are sufficiently close to the inflation target at the relevant horizon for monetary policy.

# Strong fall in 2Q2020 GDP

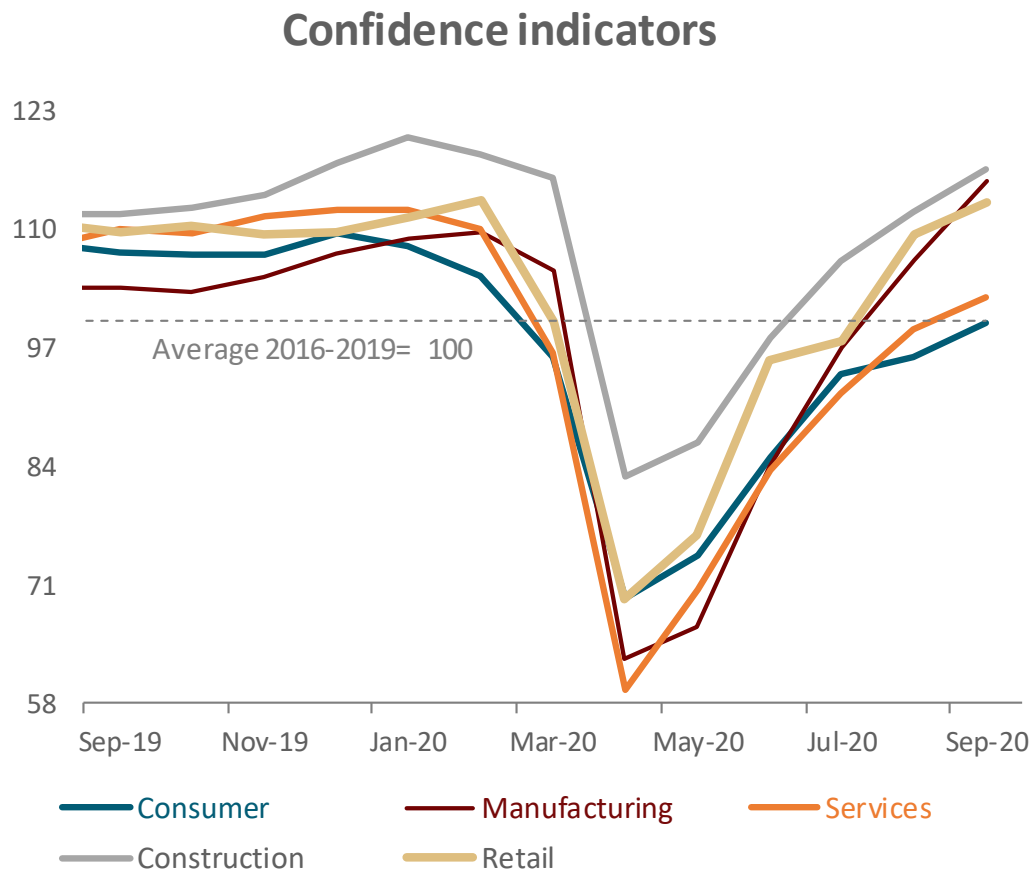
Consumption and investment fell



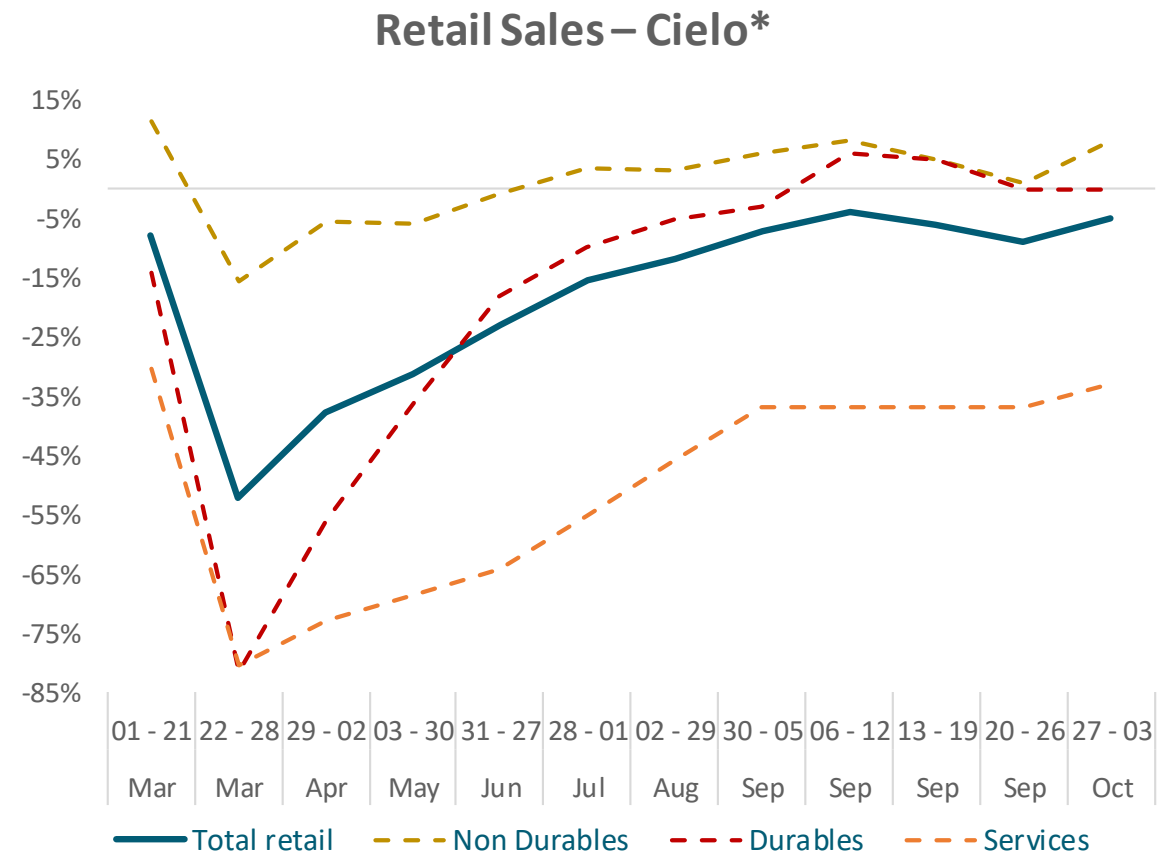
Source: IBGE

# Impact of Covid-19: economic activity

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



Seasonally adjusted data.



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

Sources: FGV and Cielo

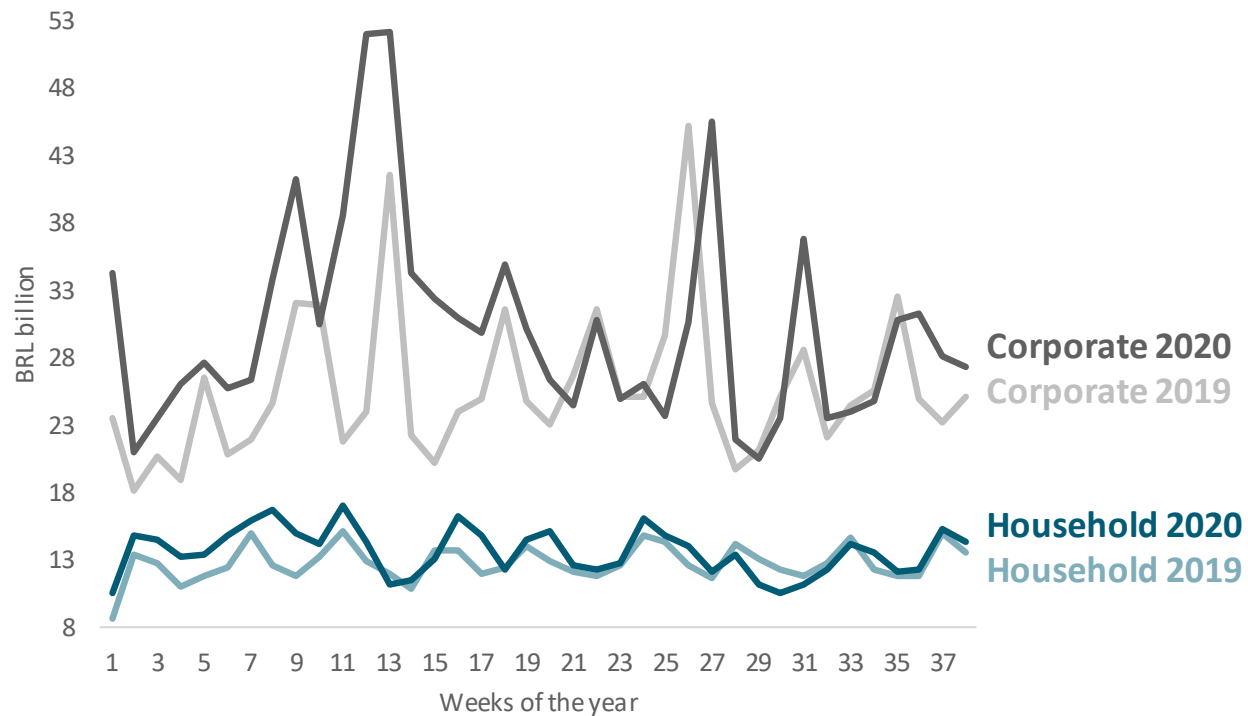
# Nonearmarked credit

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

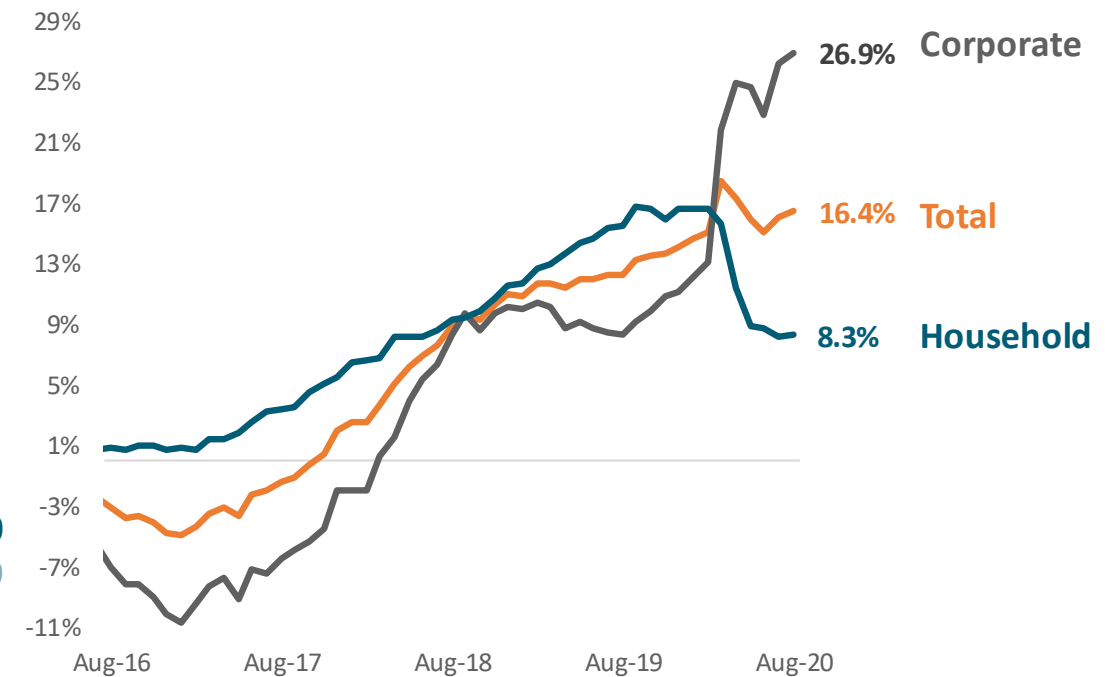
## DOMESTIC ECONOMY

Outcomes: credit distribution

### Weekly new credit transactions\*



### Outstanding credit (% m/m(-12))

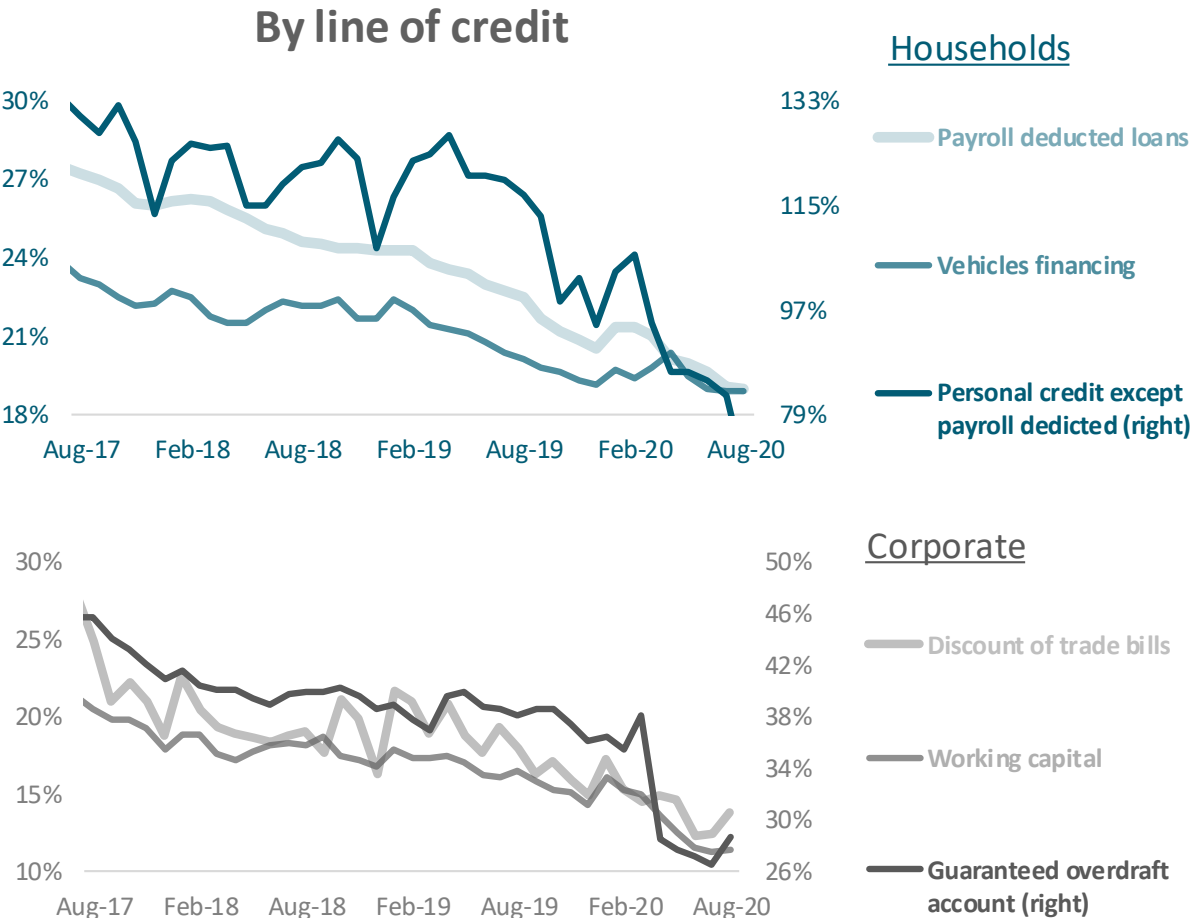
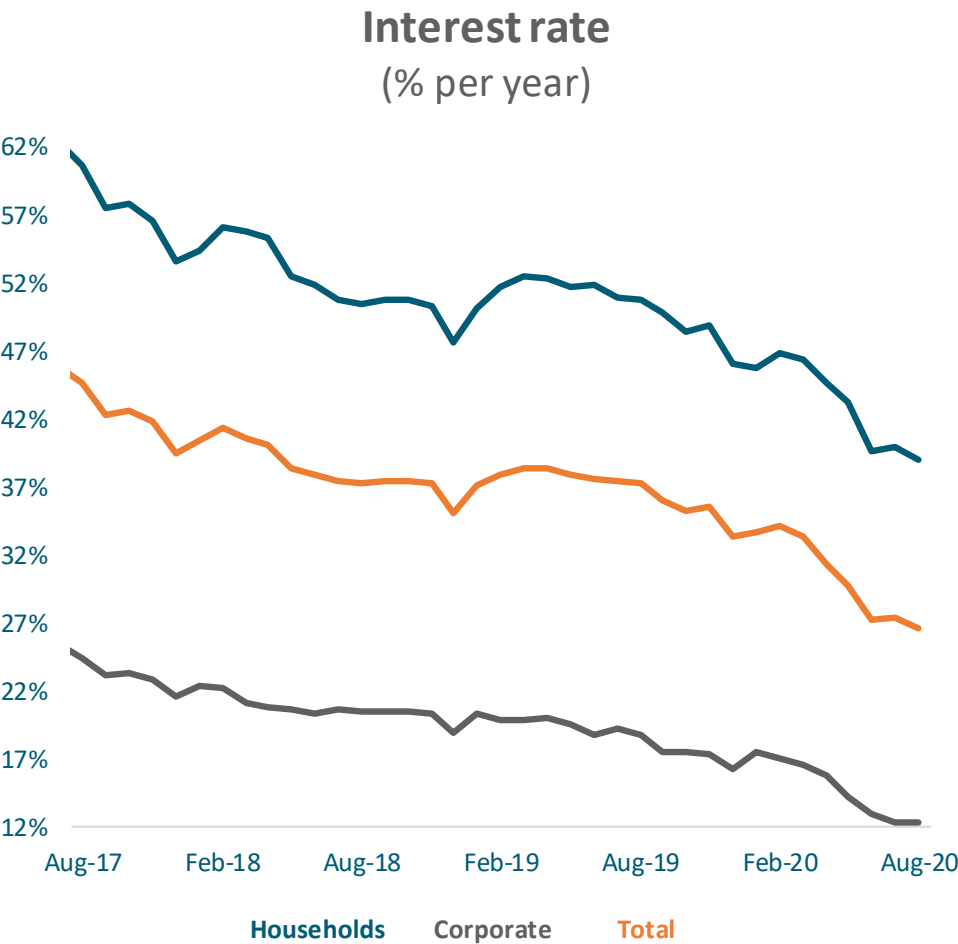


\* Not including overdraft and credit card. Weekly data, accumulated over the last five working days, up to September 18th.



# Interest rates: new credit transactions

Interest rates are falling



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

# New transactions and credit renewals

## DOMESTIC ECONOMY

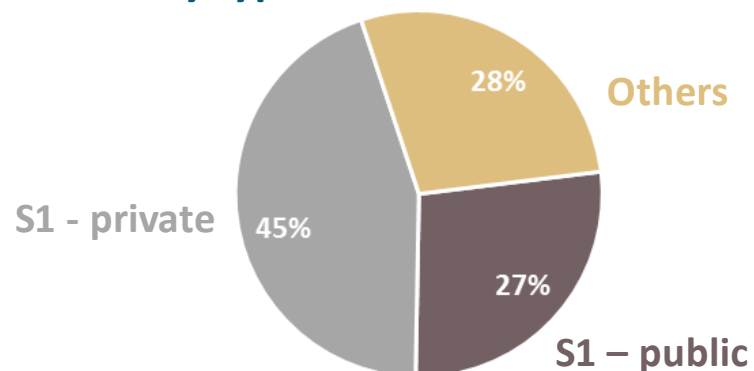
Outcomes: credit distribution

From March 16th to September 25th, in BRL billions

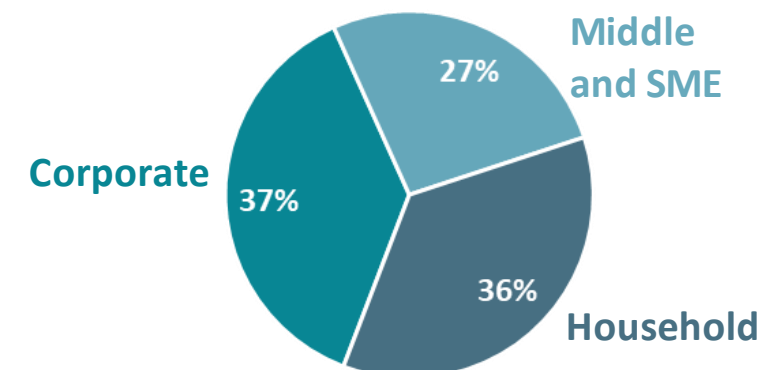
Type of financial institution	Segment	New transactions (1)					Credit renewals (2)				
		Corporate	Middle	SME	Household	Total	Corporate	Middle	SME	Household	Total
Banks	S1 - public	49.7	21.1	51.1	163.9	285.9	11.6	38.5	25.8	113.2	189.1
	S1 - private	315.4	73.9	73.9	144.8	608.0	89.3	20.2	16.1	42.5	168.1
	S2	71.2	17.6	2.7	34.3	125.8	5.2	0.6	0.1	0.3	6.2
	S3	65.9	28.9	6.5	46.5	147.8	16.4	3.3	1.5	9.9	31.0
	S4	20.3	20.7	4.5	12.9	58.5	2.3	3.7	0.2	6.3	12.6
Cooperatives	S3, S4 and S5	2.7	19.8	30.1	50.5	103.1	0.7	2.5	2.9	3.9	10.1
Total		525.3	181.9	168.9	452.9	1,329.0	125.4	68.8	46.6	176.2	417.1

By type of financial institution

New transactions + credit renewals



By type of client



(1) Includes debentures totaling BRL 47.5 billions. (2) Includes: full renewal of the credit operation, including new credit; as well as renegotiations with changes in interest rate and guarantees.

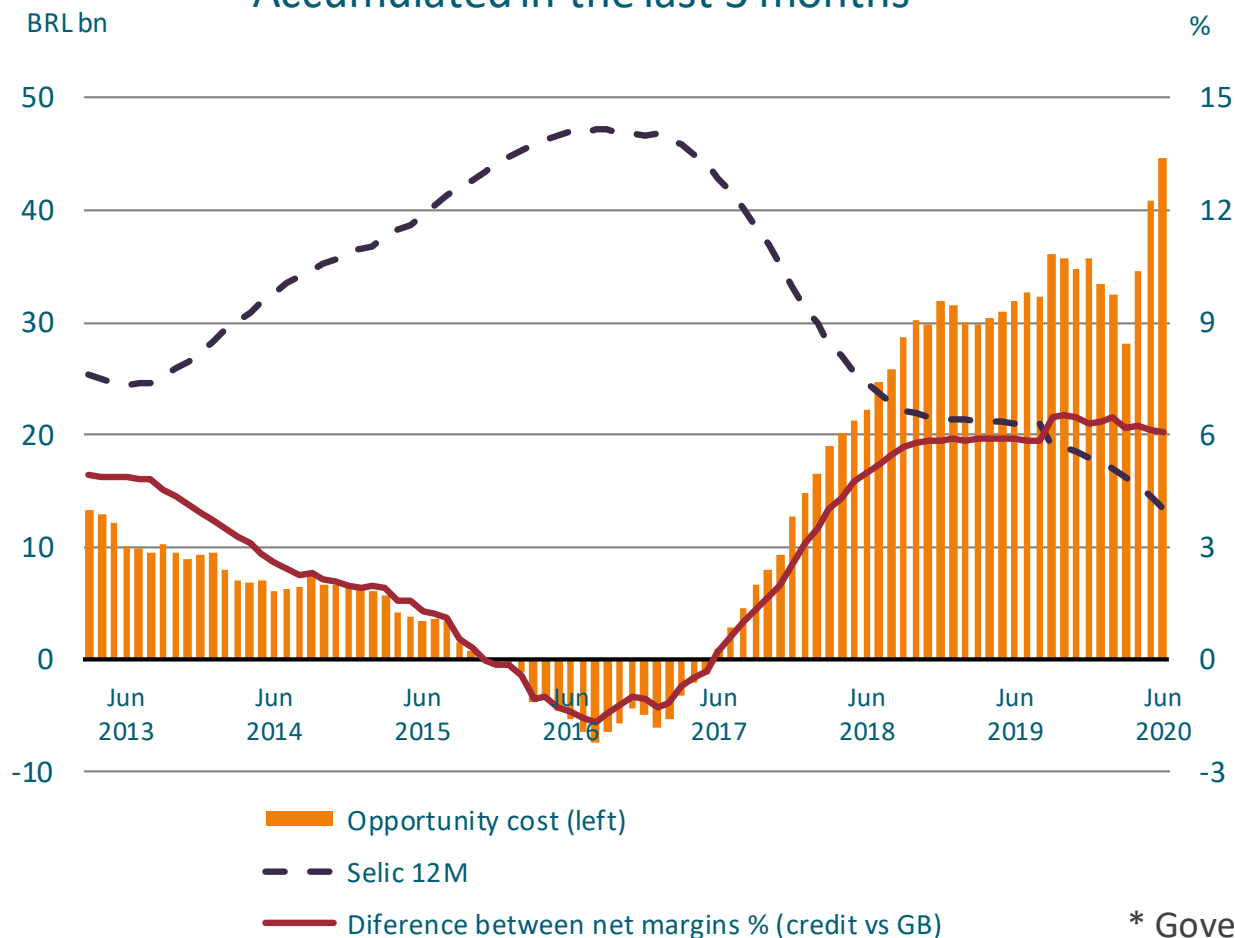
Source: BCB

# Banking System

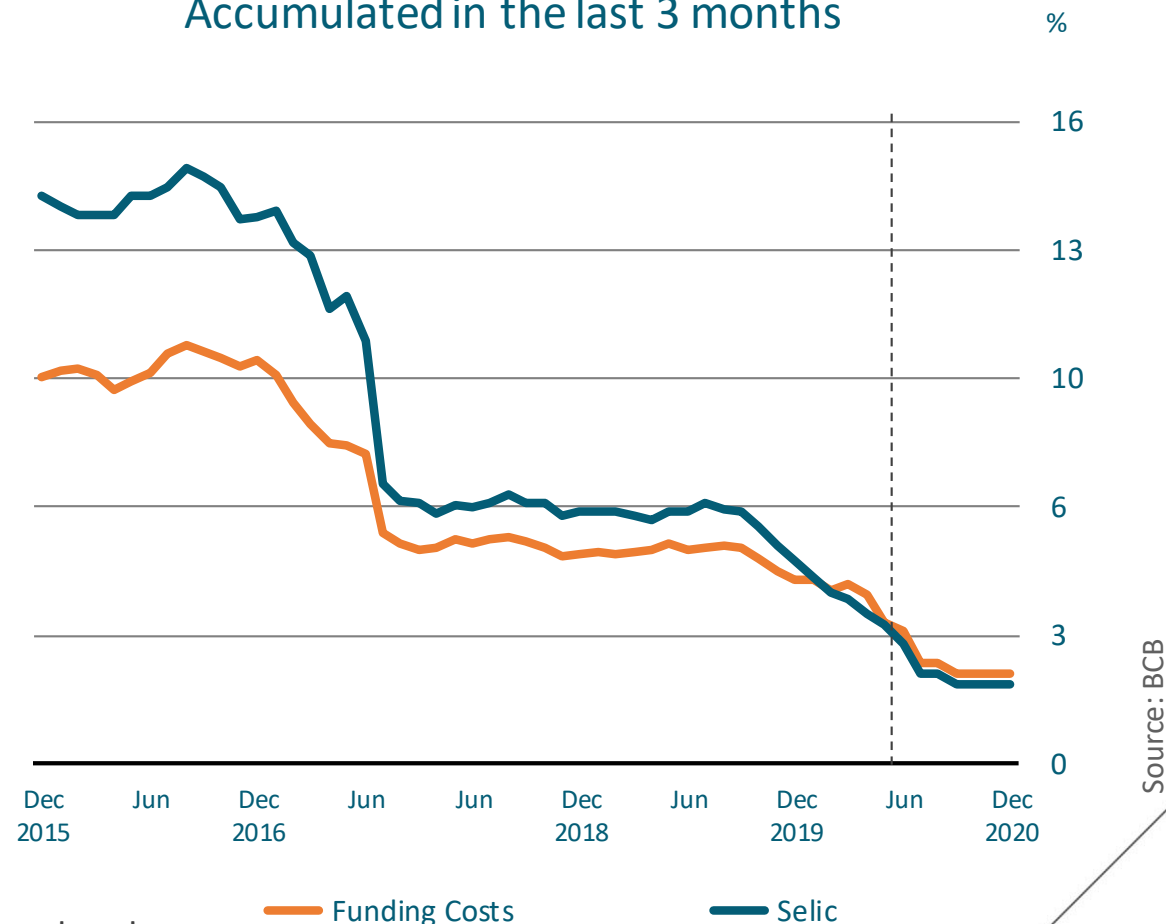
## Opportunity cost and funding

## DOMESTIC ECONOMY

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



**Funding costs – Banking System**  
Accumulated in the last 3 months

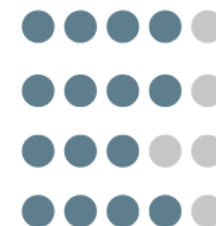


\* Government bonds



## 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 are in homologation cycle
- Regulation approved
- October 5th: customers started key registration
  - 5 million keys already registered
- To be launched in November 2020



Availability



Convenience



Various use cases



Speed



Open environment



Enriched data



Safety



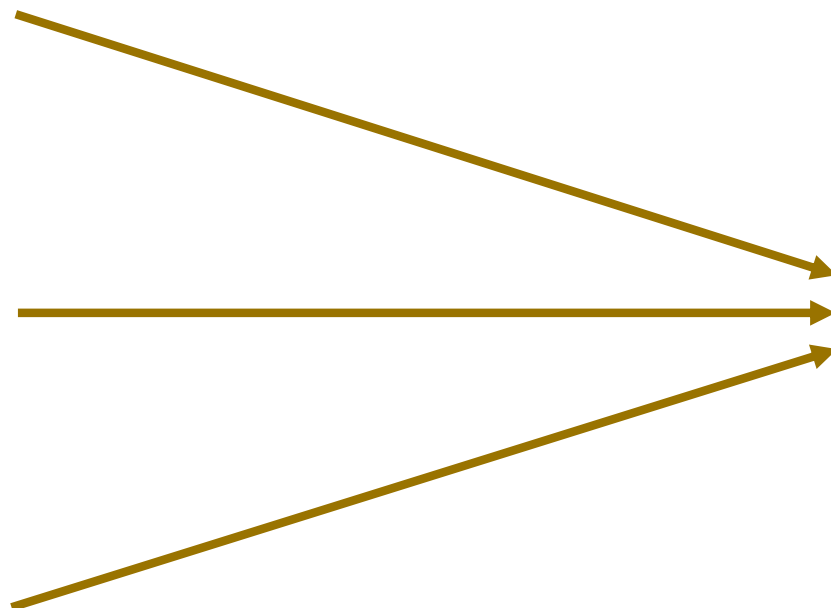
Texting



Payment

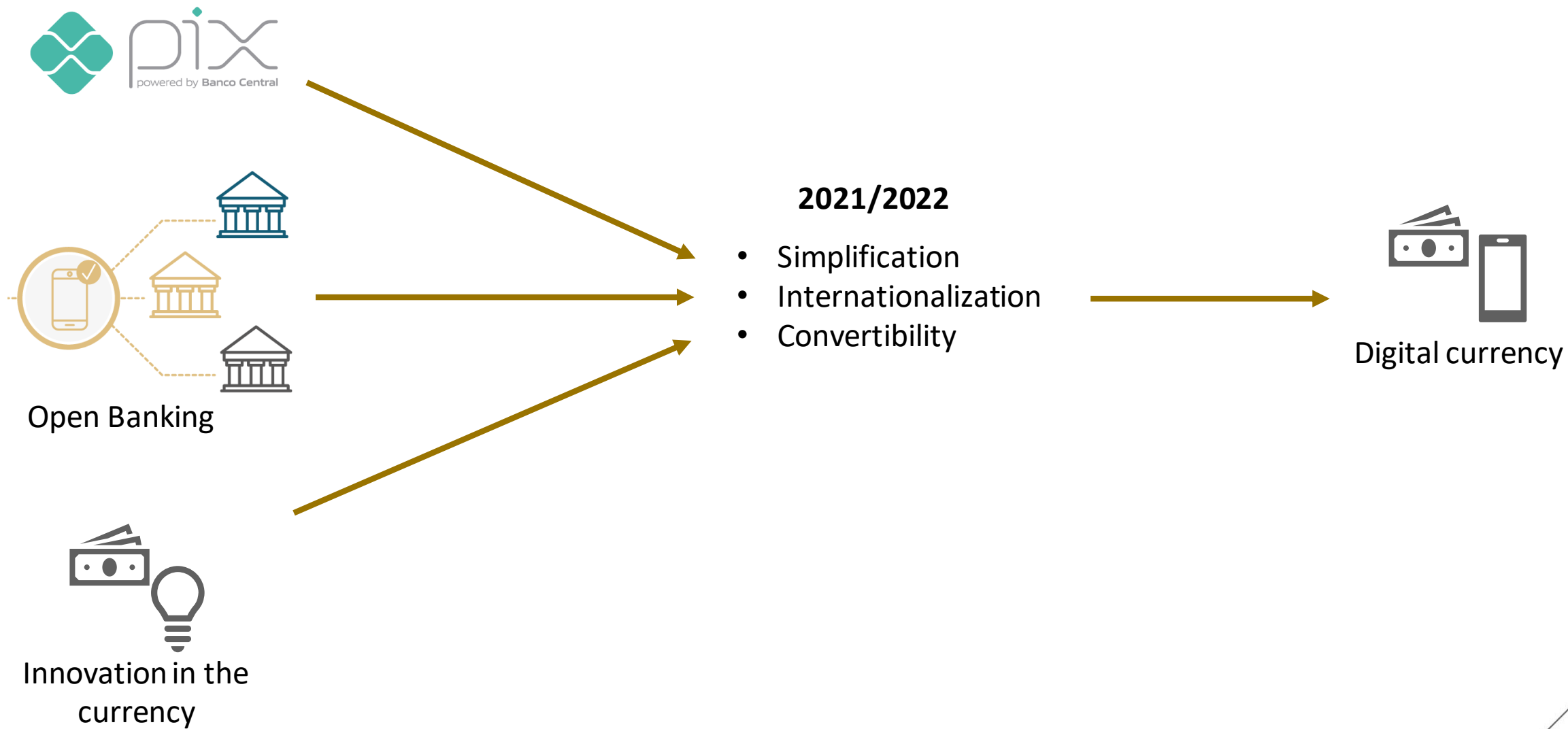


Content



Financial  
Innovation





### 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
  - Register 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

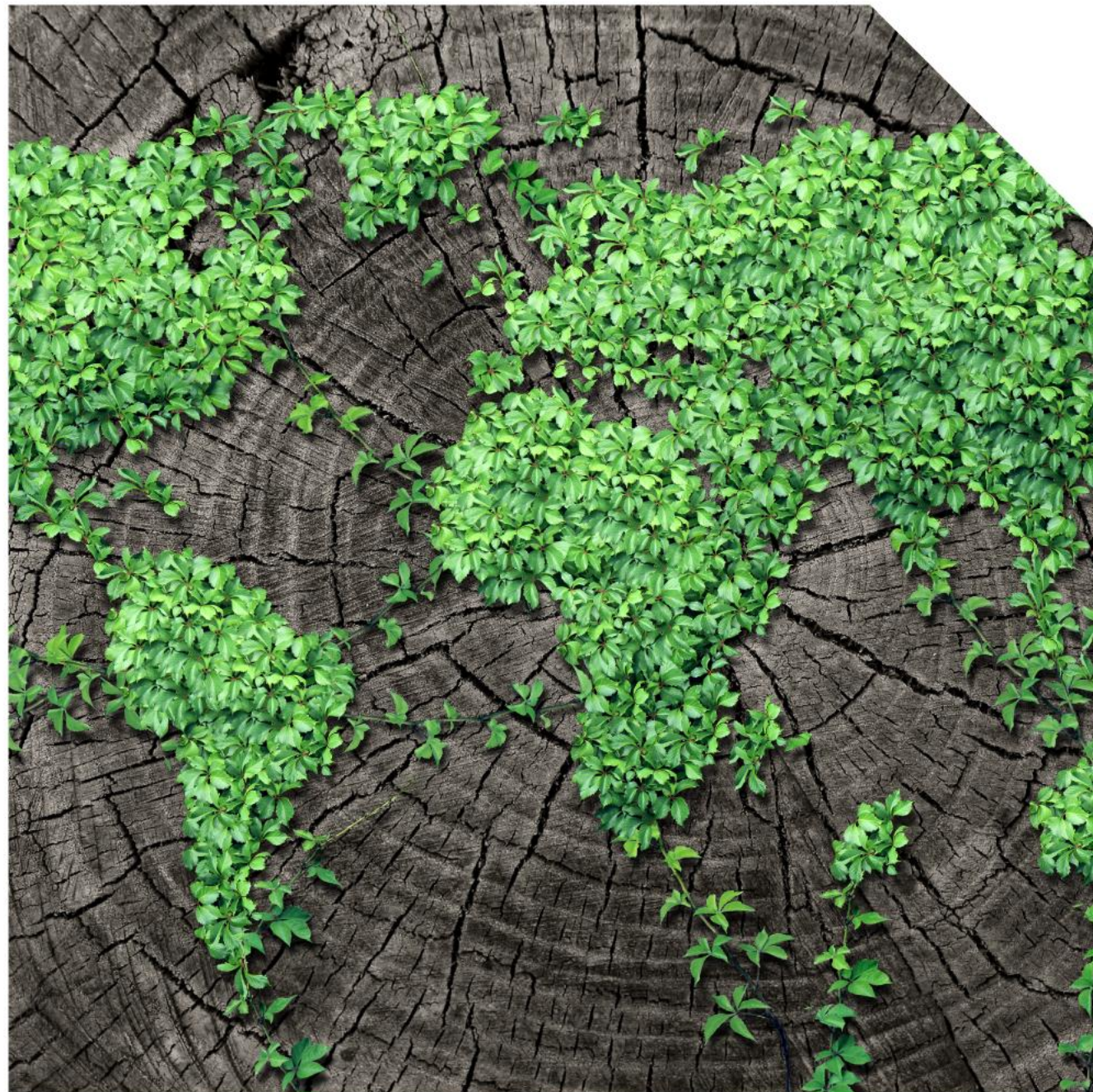




# BC Sustainability

## 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





## 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



An aerial night photograph of a city, likely Rio de Janeiro, featuring a prominent skyscraper with illuminated windows. The city lights and a winding road are visible in the background under a twilight sky.

# Thank you!

**Roberto Campos Neto**  
Governor of Banco Central do Brasil  
October 7, 2020