

GZERO Summit Latin America 2020

Economic outlook for Brazil and Agenda BC#

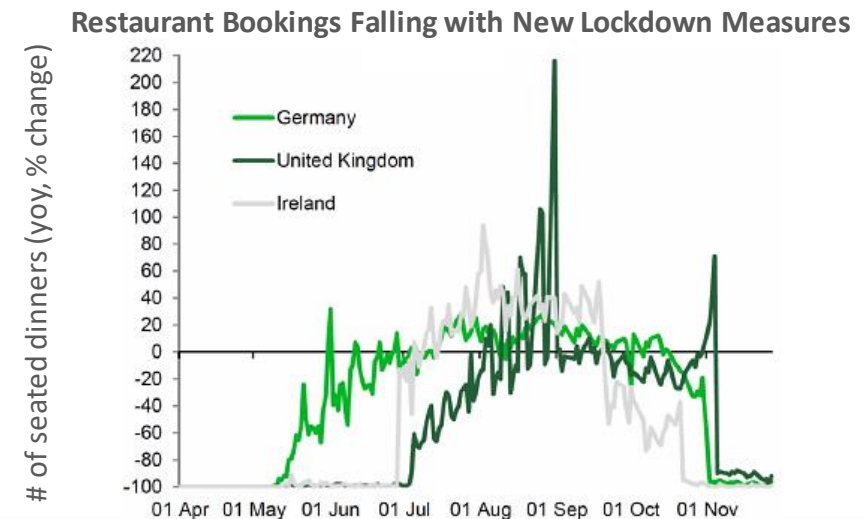
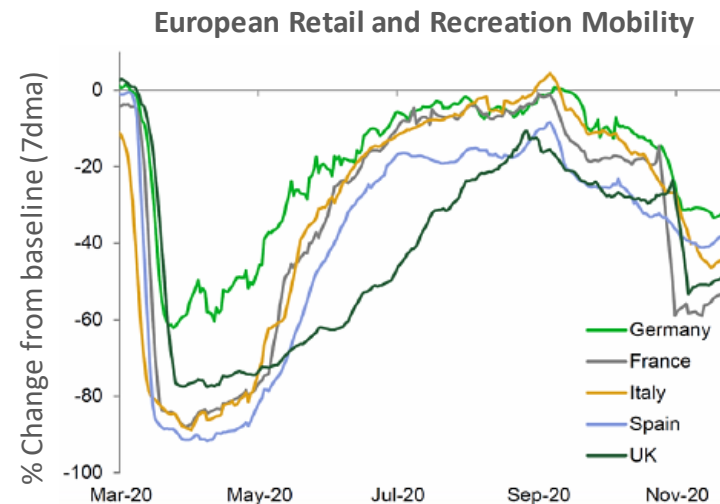
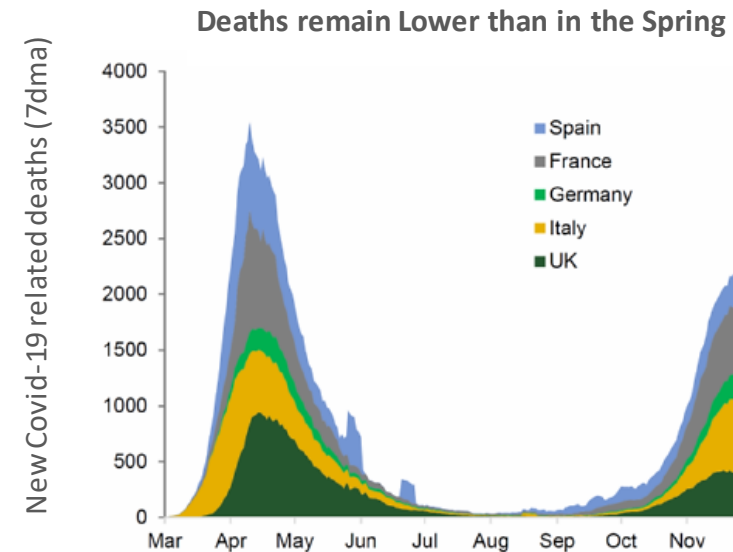
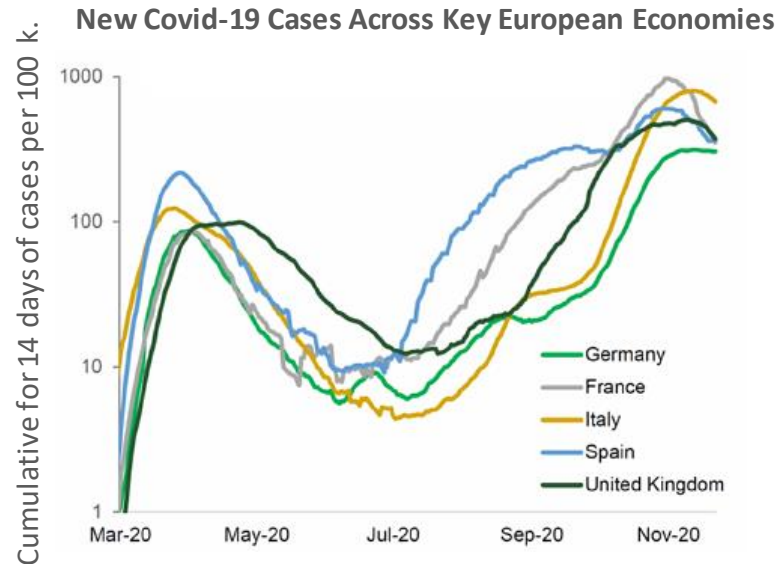
Roberto Campos Neto
Governor of Banco Central do Brasil

December 15, 2020

Covid-19: Mobility and new cases

Mobility measures control the second wave in Europe but affect activity

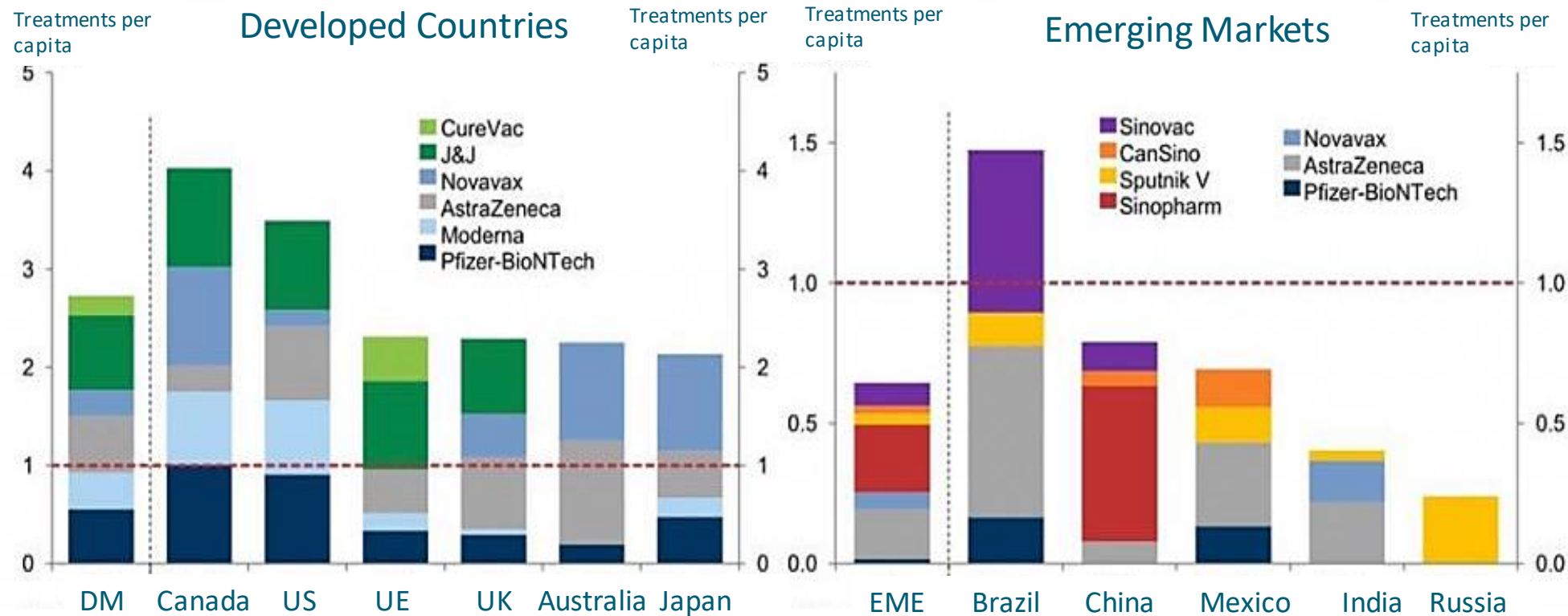
COVID-19
Europe



Source: Toronto Dominion

Expectation of wide availability of vaccines

Contracted Potential Treatments per capita



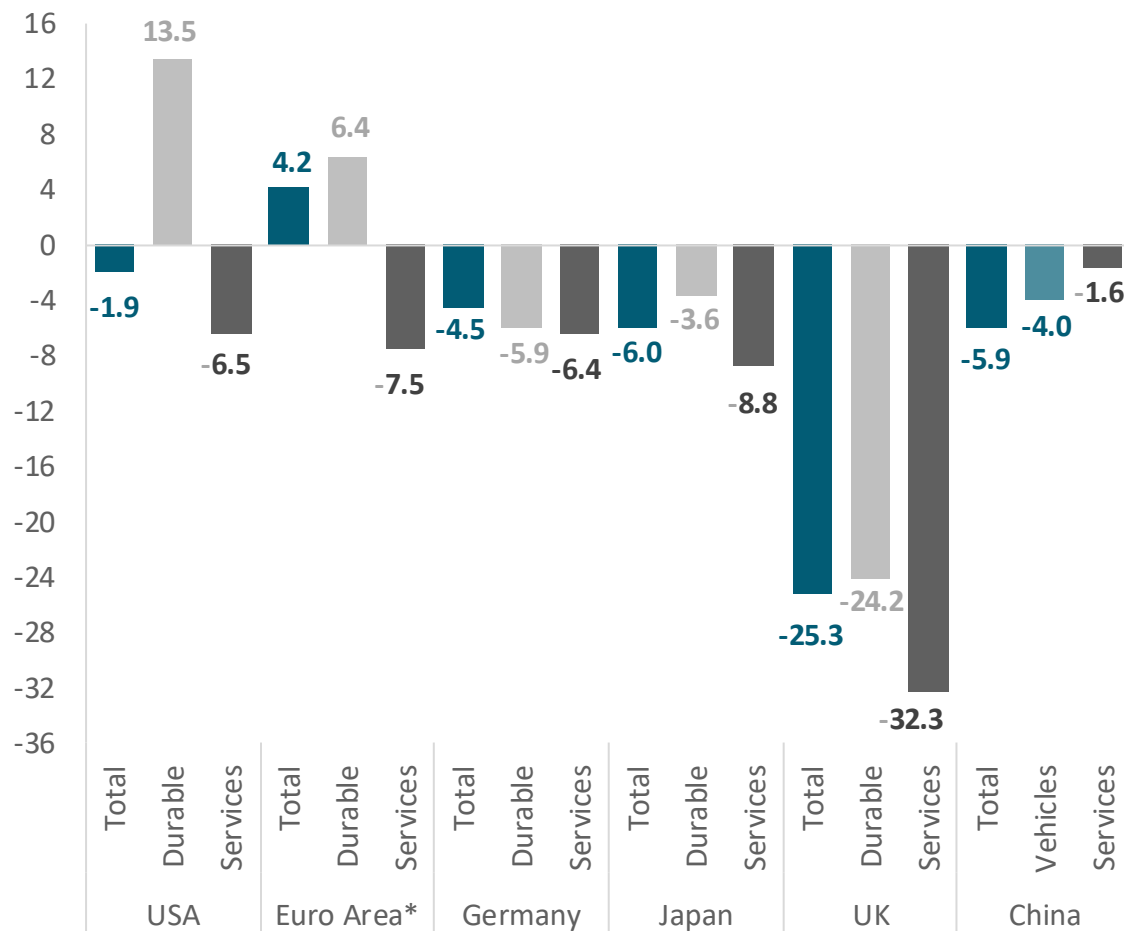
Source: Goldman Sachs

Activity

Recovery remains uneven across sectors and countries

Consumption

Evolution between Dec / 2019 and last data (%)

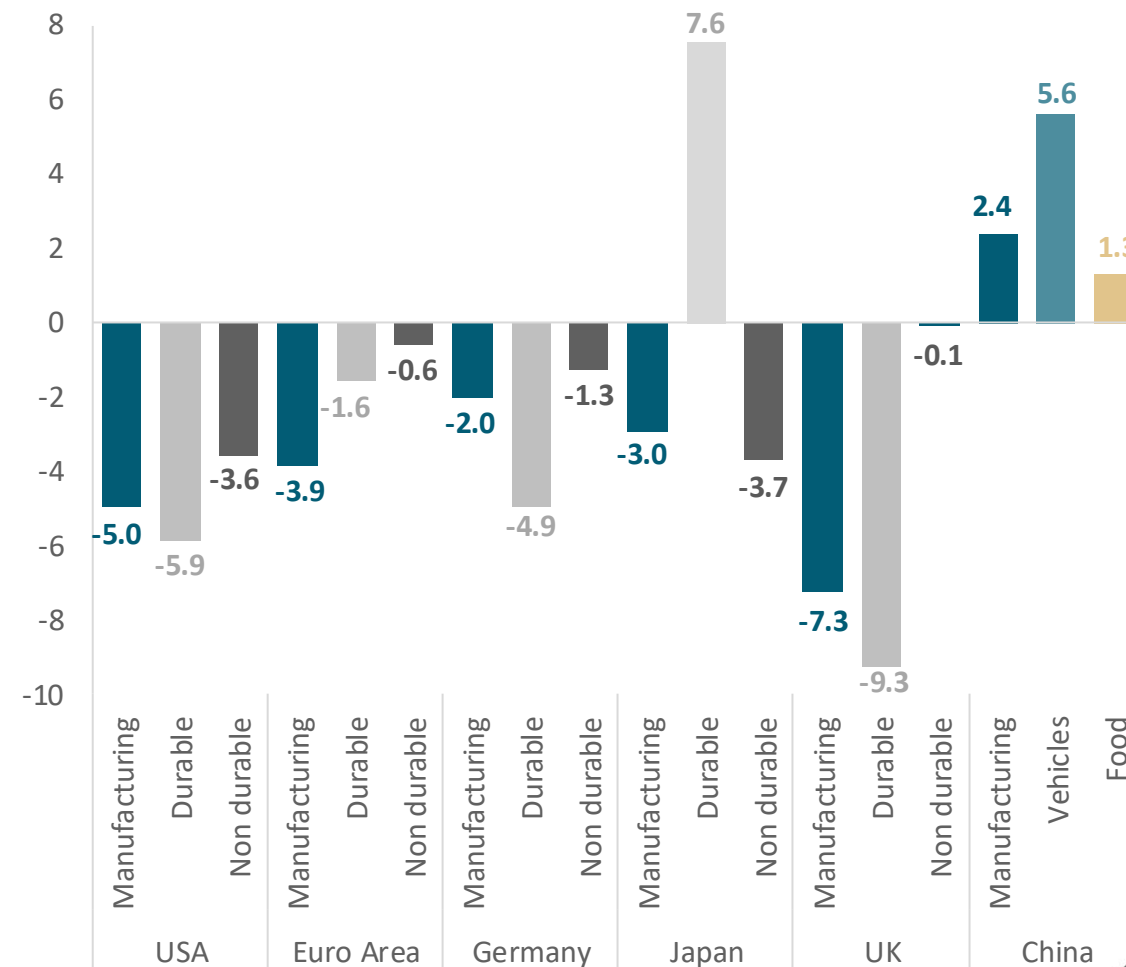


*Euro Area: monthly data except for Services (quarterly data).

GLOBAL ECONOMY

Industrial production

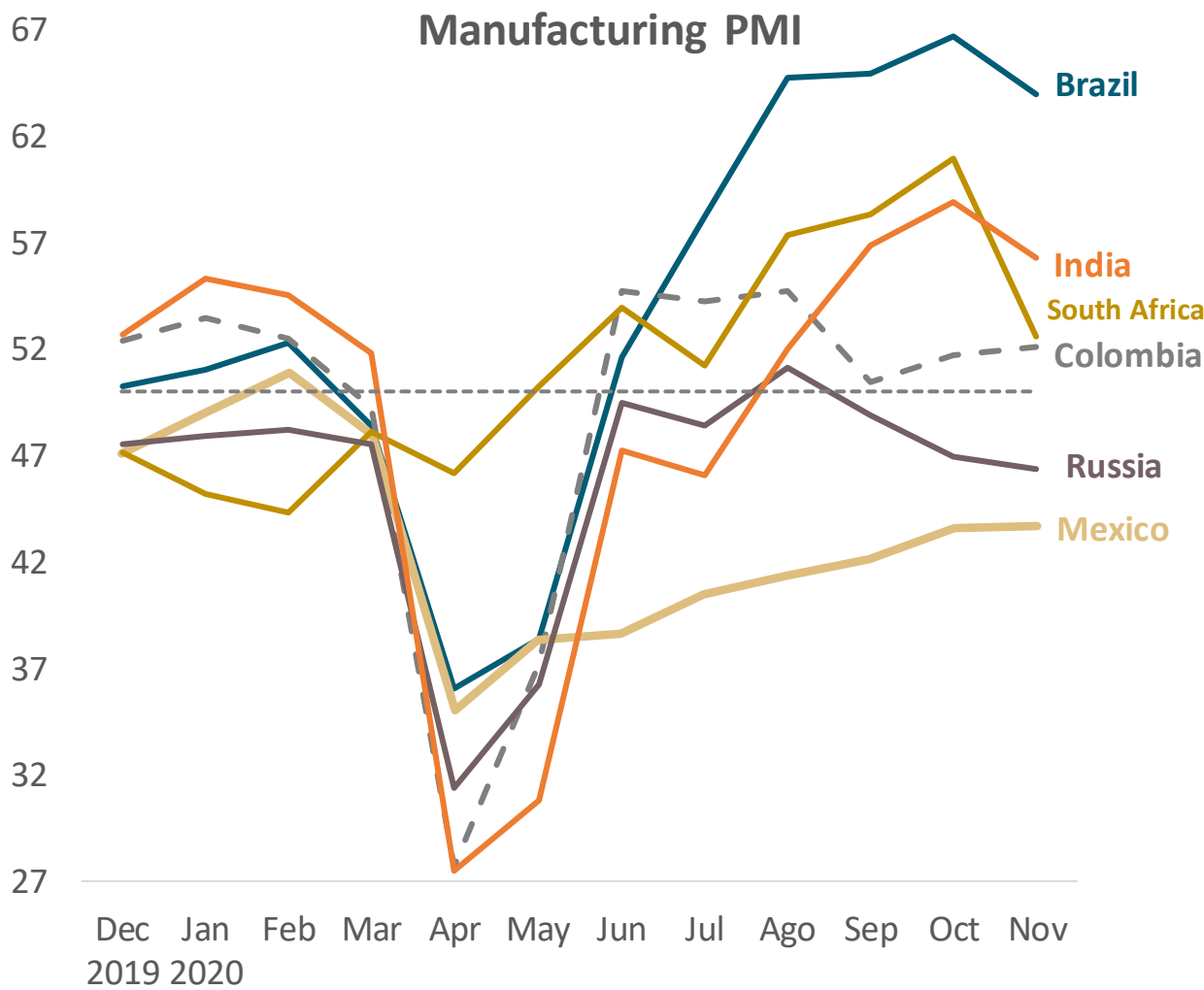
Evolution between Dec / 2019 and last data (%)



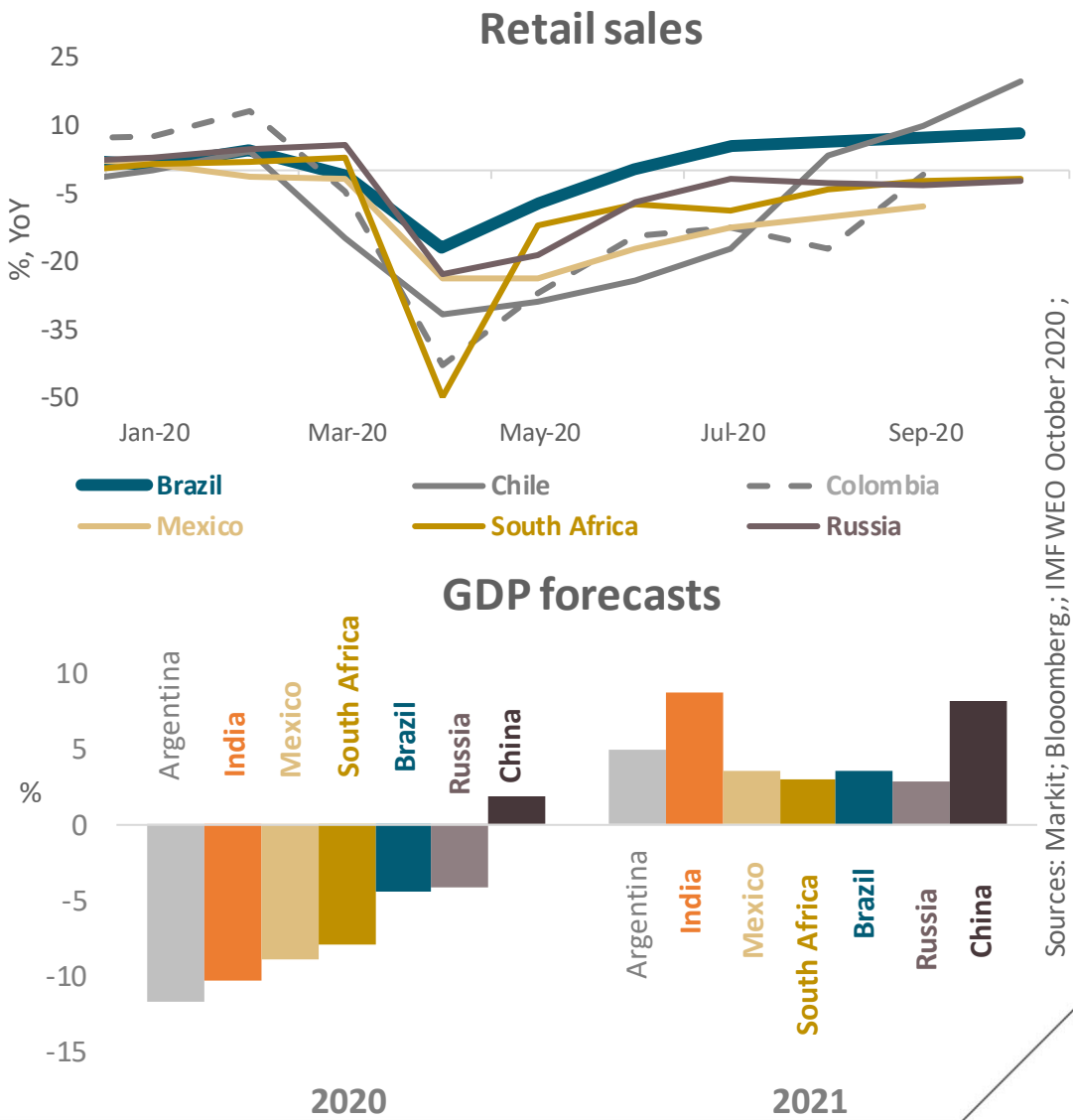
Sources: Refinitiv, Bloomberg, BCB.

Emerging markets

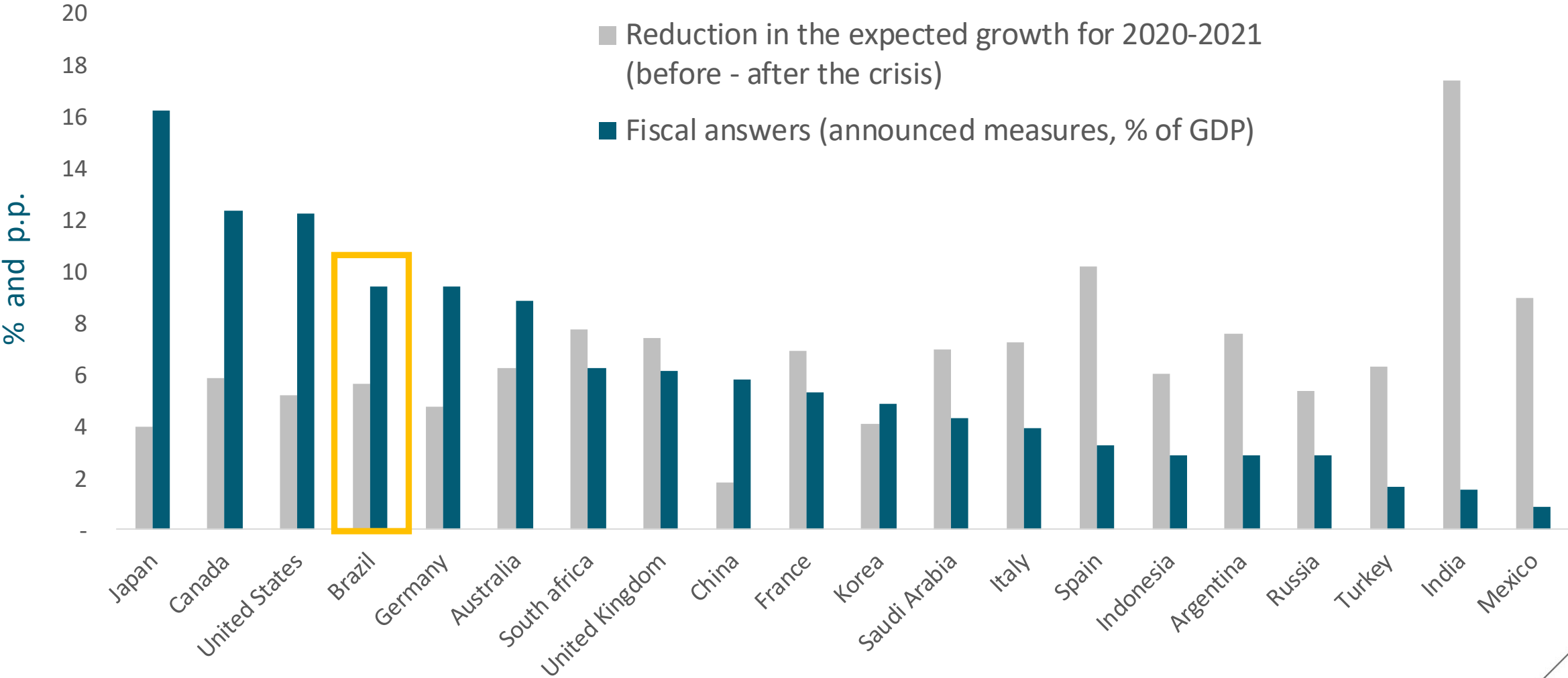
Ongoing recovery



GLOBAL ECONOMY

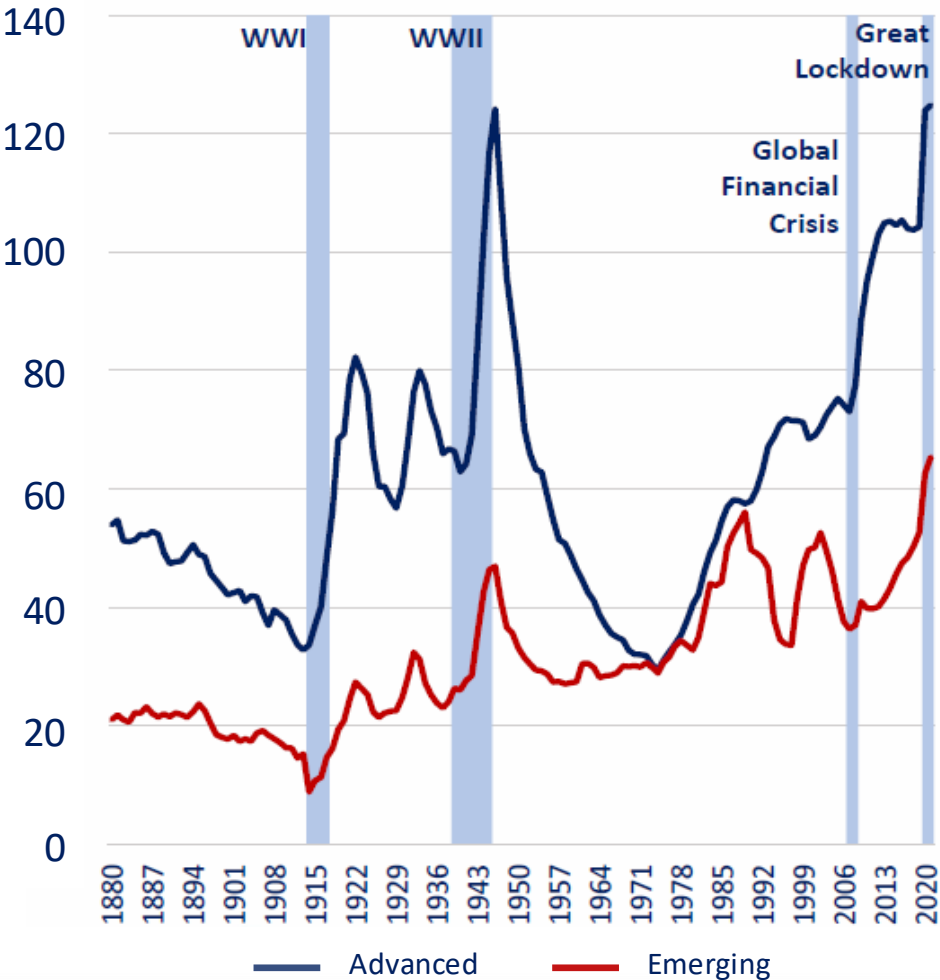


Sources: Markit; Bloomberg; IMF WEO October 2020 ; Focus Report for GDP forecasts for Brazil.

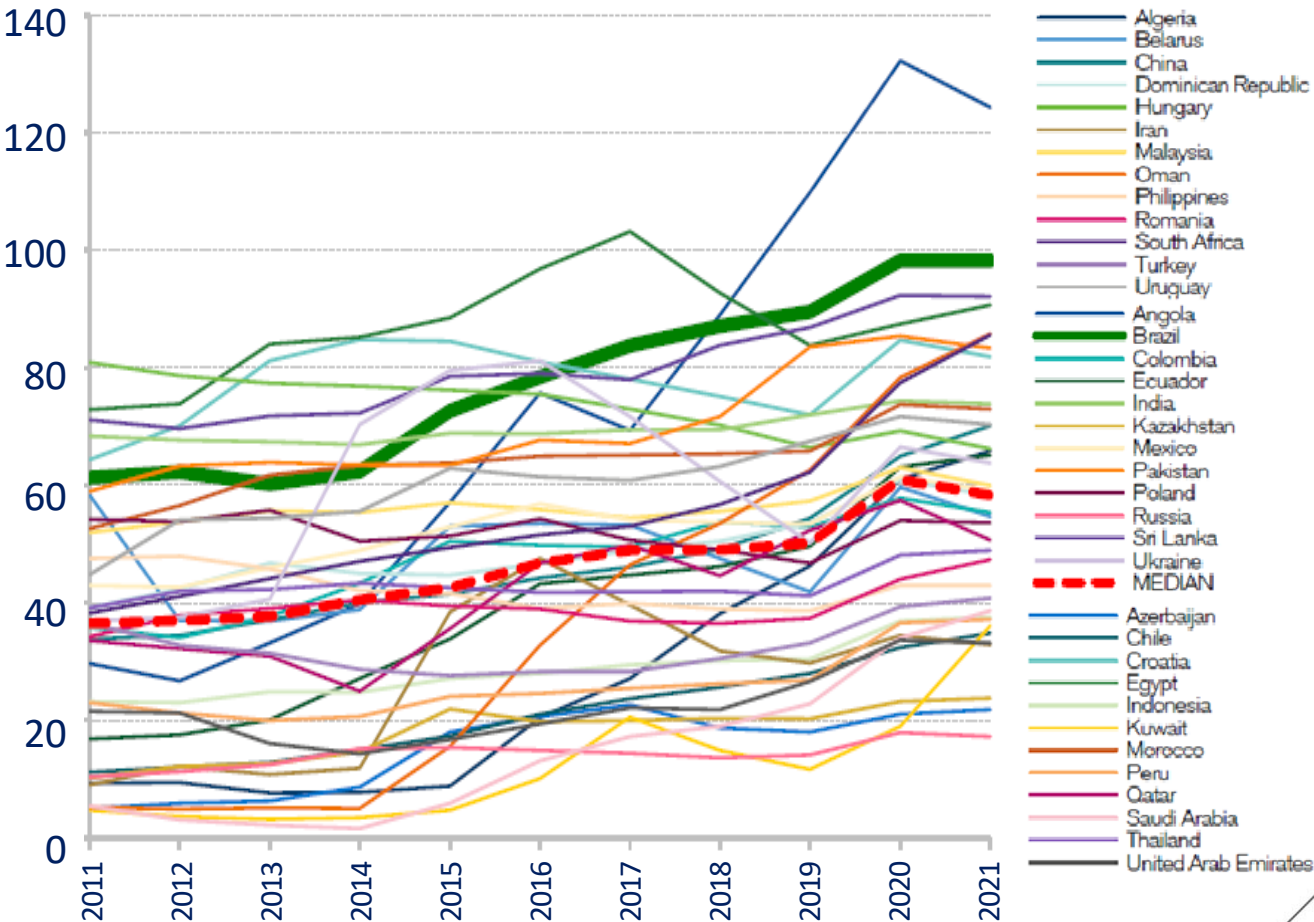


Sources: IMF. Expected growth before the pandemics: WEO October 2019. ; Brazilian growth = Focus

Historical pattern of general government debt
(% of GDP)



Gross Debt – emerging markets
(% of GDP)

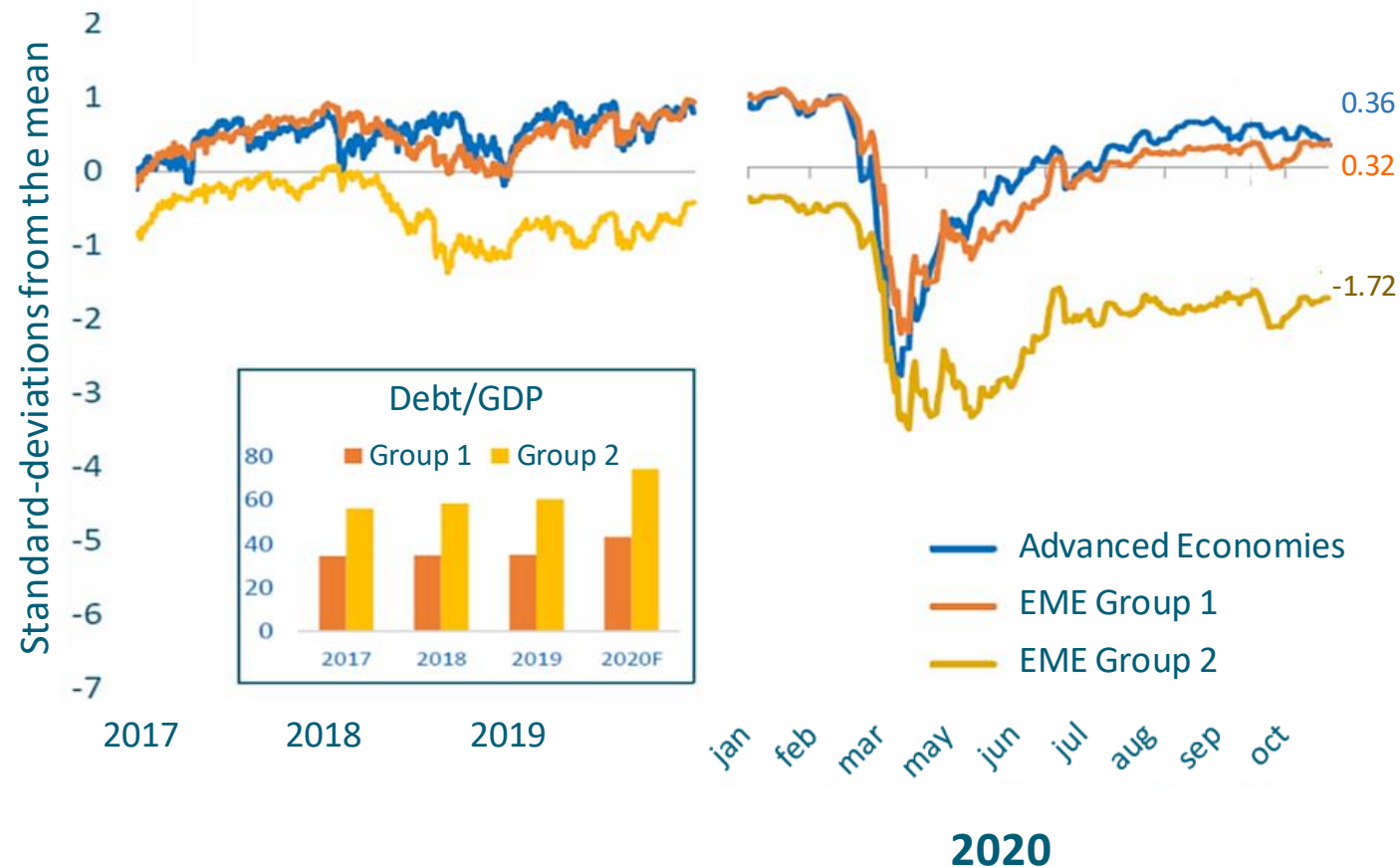


Sources: FMI Fiscal Monitor Oct/20 and Oct/19, Credit-Suisse

Risk appetite

Differentiation in risk appetite for emerging economies with unfavorable economic fundamentals remains.

Risk Appetite



EME Group 1:

Malaysia, Indonesia, Poland, Chile and Russia.

Gross Debt/GDP (average) = 35.7%

EME Group 2:

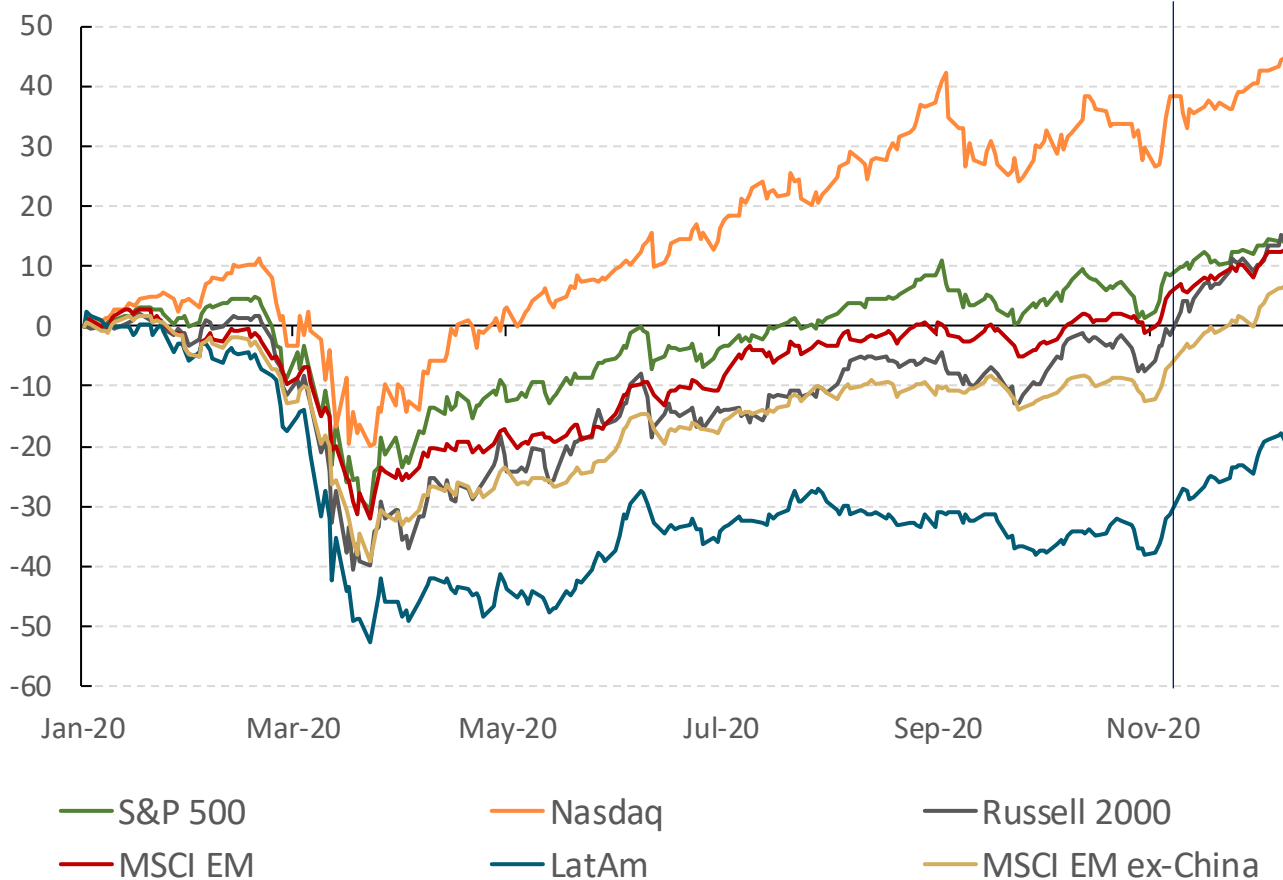
Brazil, South Africa, Turkey, Colombia, Mexico and India.

Gross Debt/GDP (average) = 61.1%

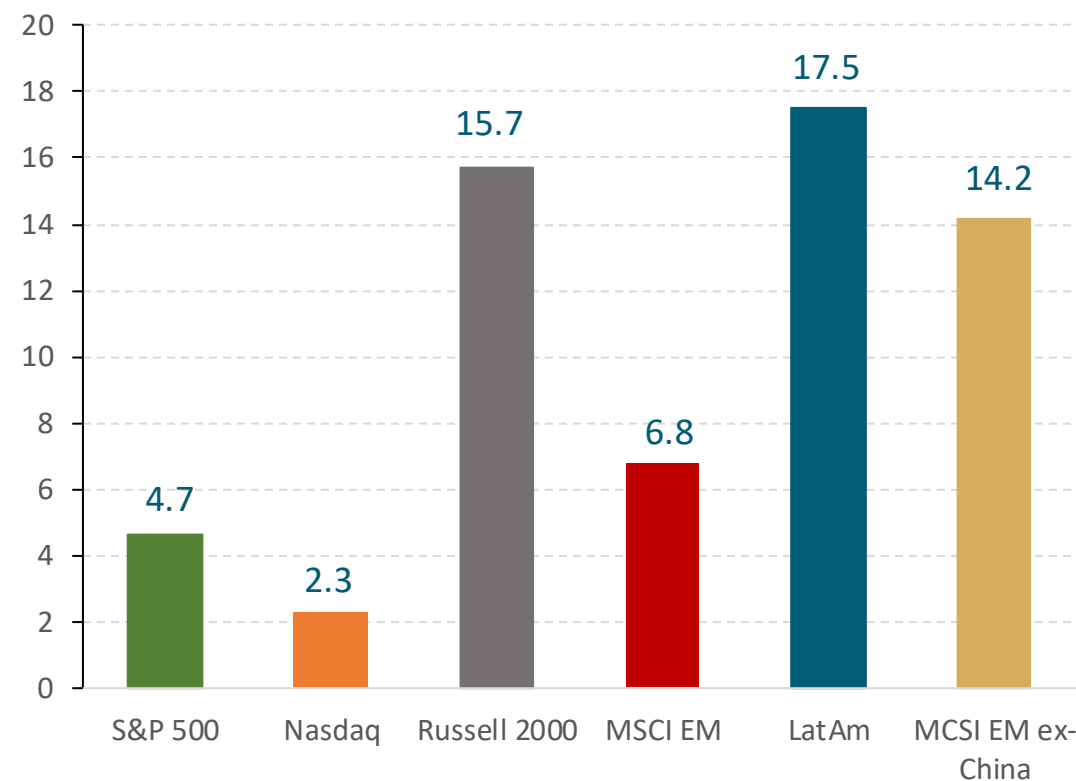
Fontes: BCB, Bloomberg. Dívida Bruta: FMI.

Optimism after Pfizer announcement of trial results

Accumulated return (% , YTD)

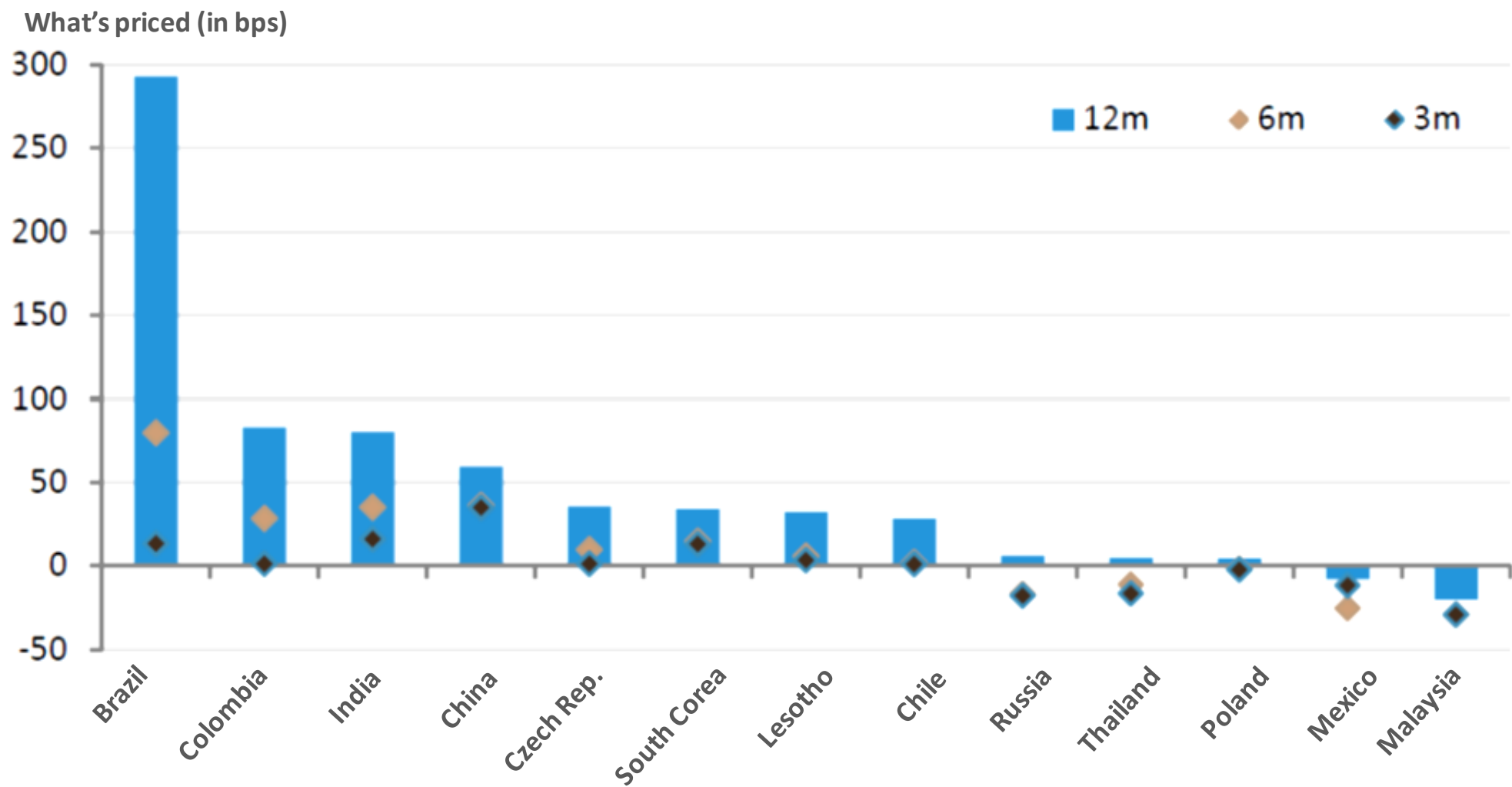


Accumulated return since Pfizer announcement (%)



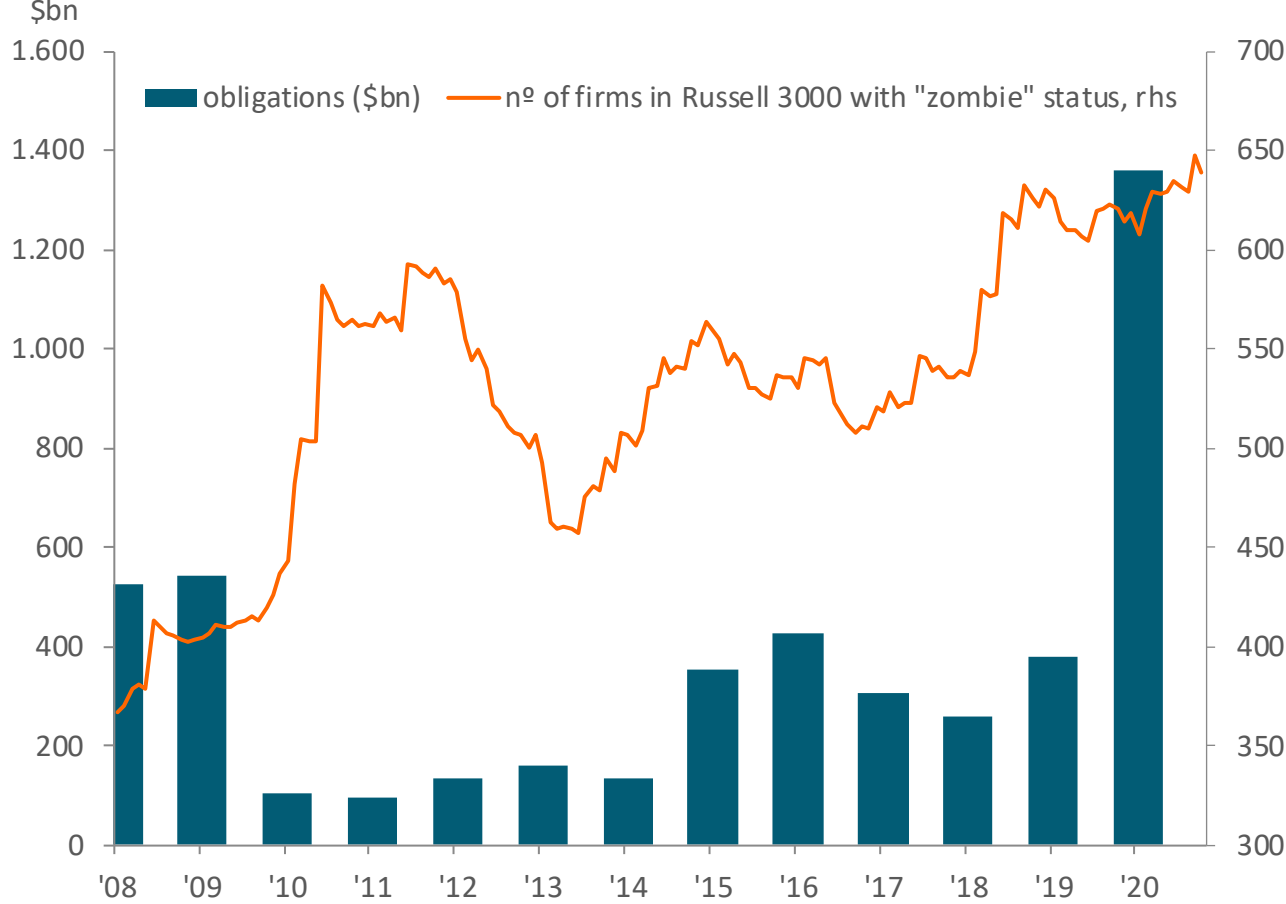
Source: Bloomberg

Interest rates priced in for emerging markets

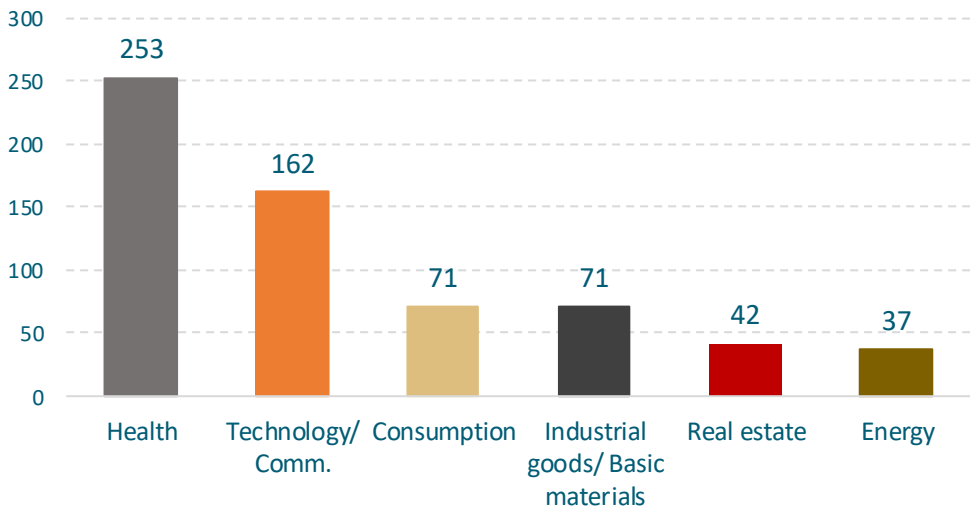


Sources: Bloomberg, UBS

“Zombie” Firms



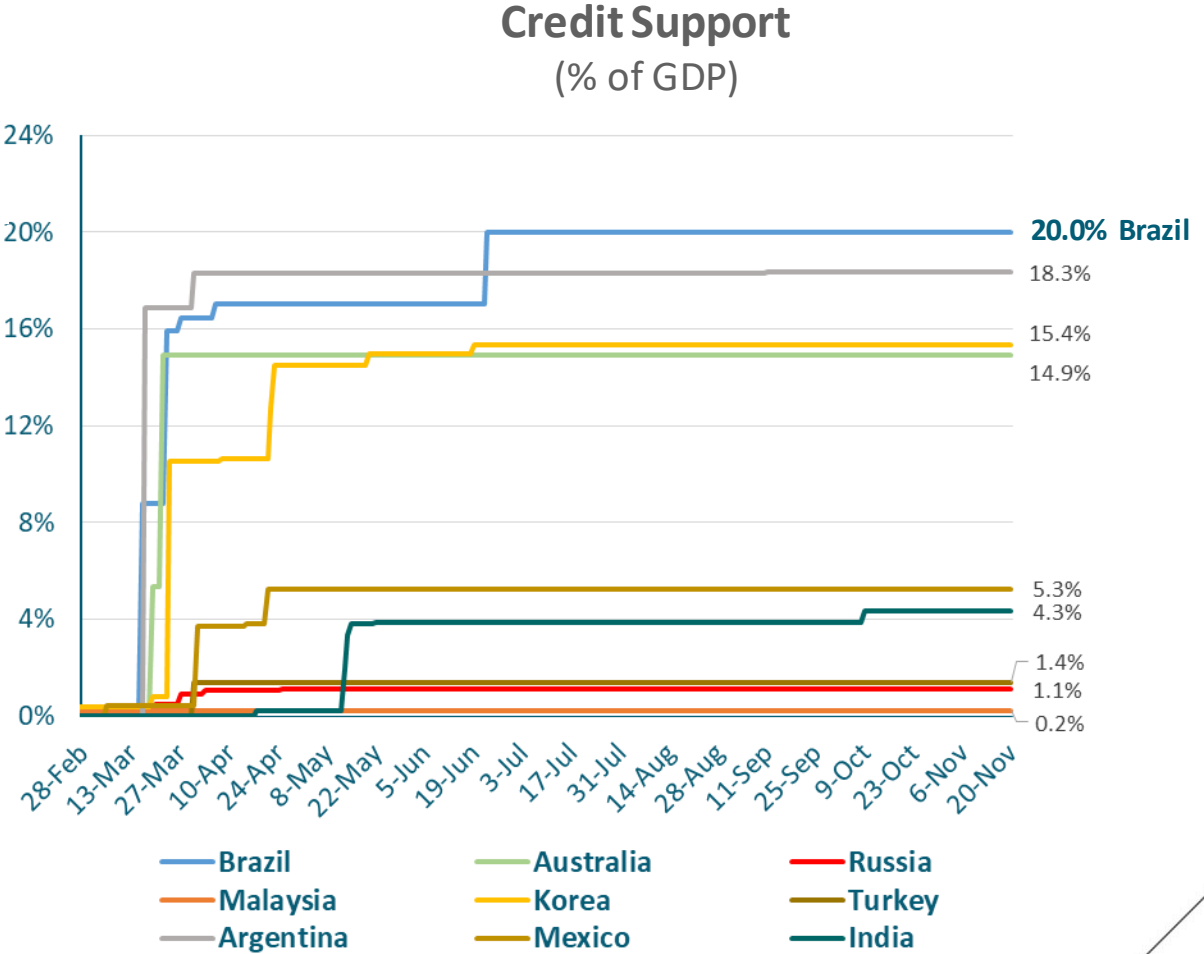
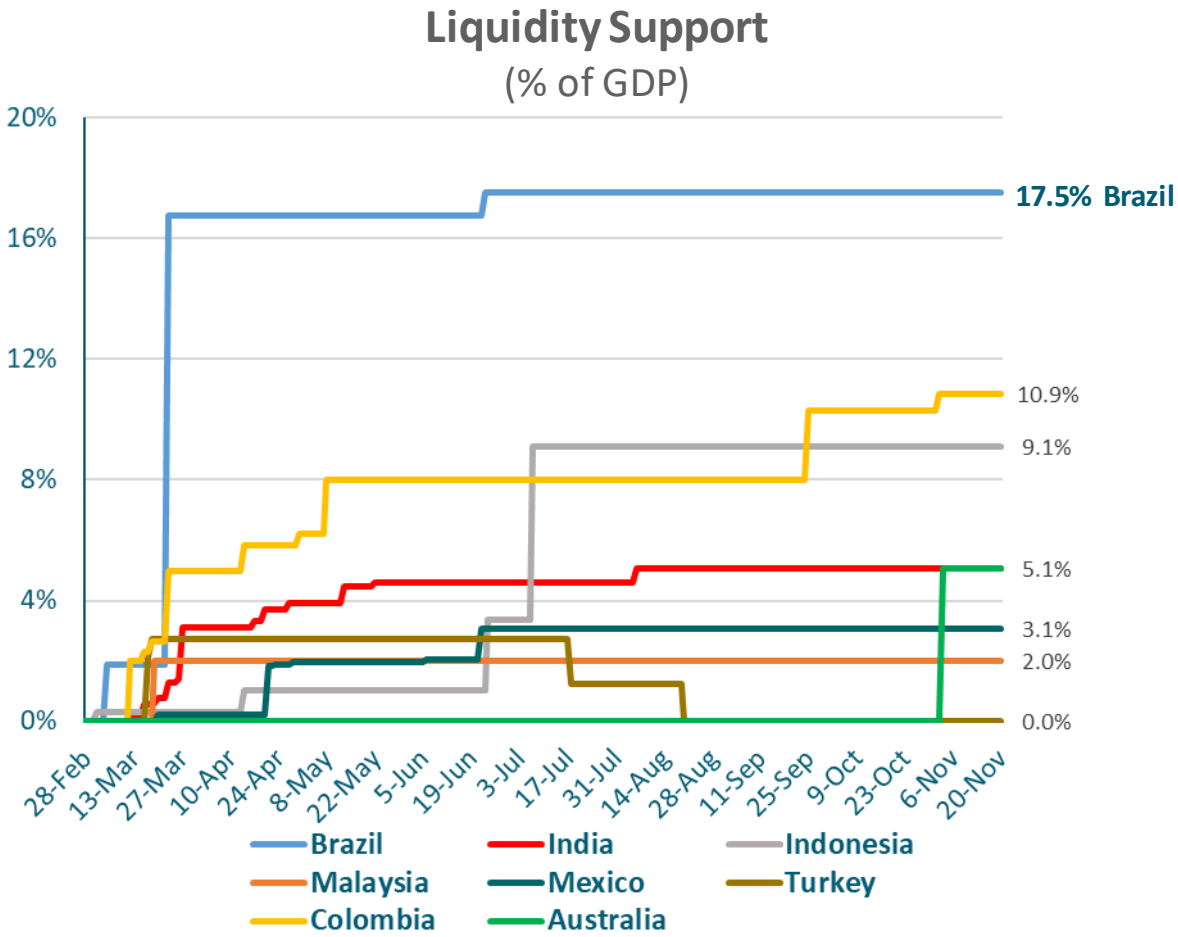
Zombie (Russell 3000): 636 firms



Share of firms making a financial loss (%)



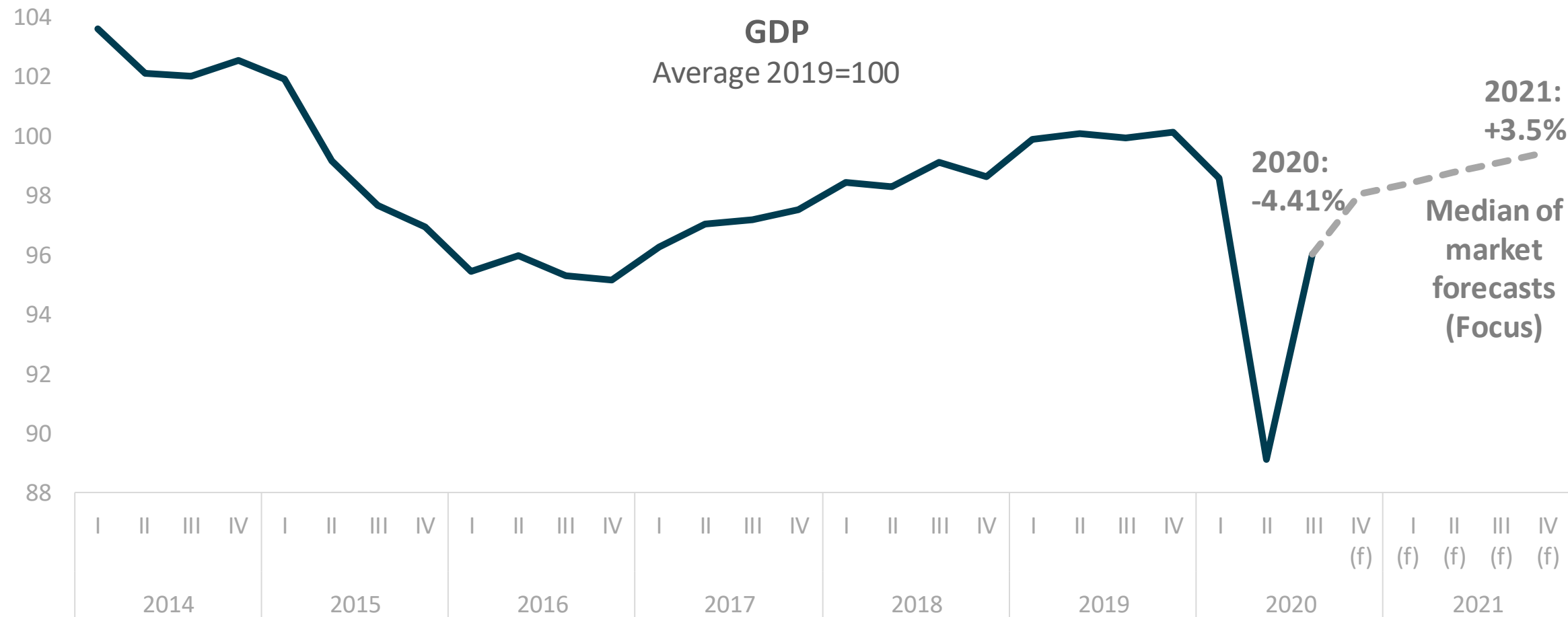
Sources: Bloomberg, The Economist, State Street



Sources: FSB/BCB – up to December 4th

Economic activity: GDP

Market expectations points to a slow economic recovery

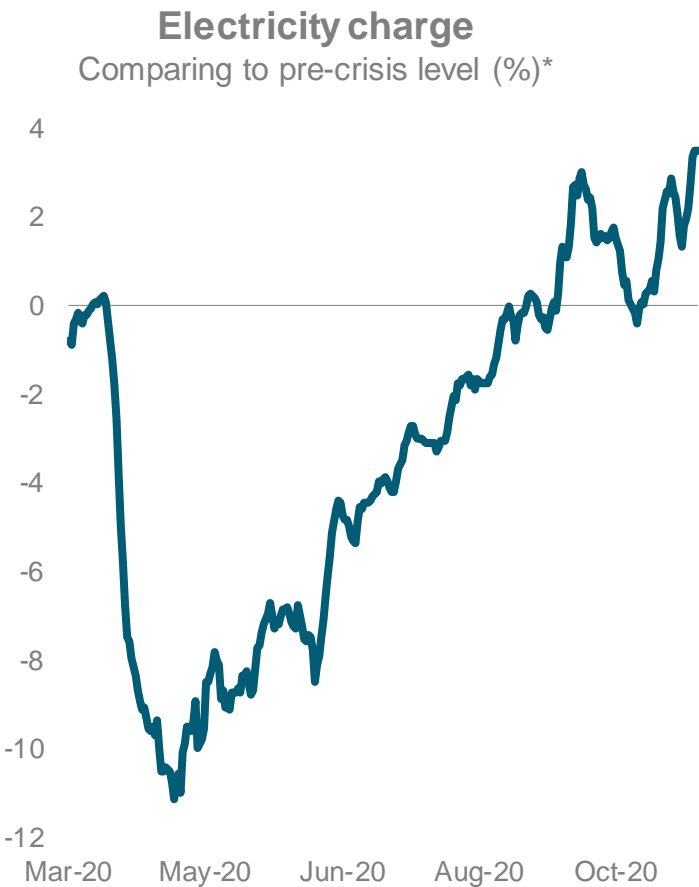


Data projected by the market were seasonally adjusted by the BCB, considering that the seasonal pattern will remain the same.

Sources: IBGE and Focus Report.

High frequency indicators

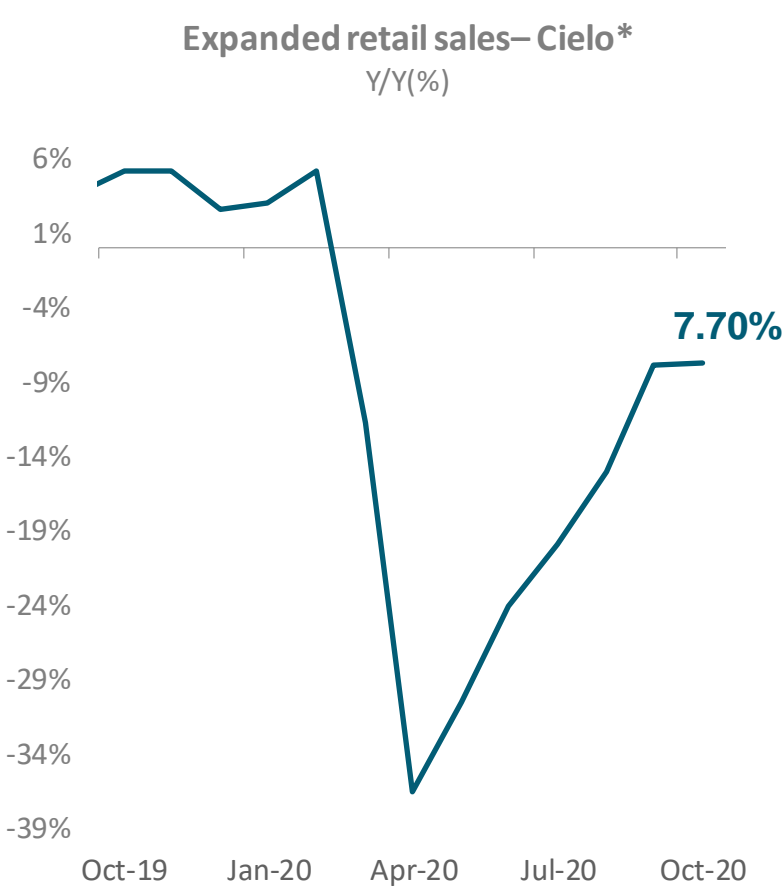
Partial recovery of economic activity.



* 7-day moving average – Comparing to the average of the period between Jan-5th and Feb-22th (%)
Source: ONS, with BCB seasonality and temperature adjustment.

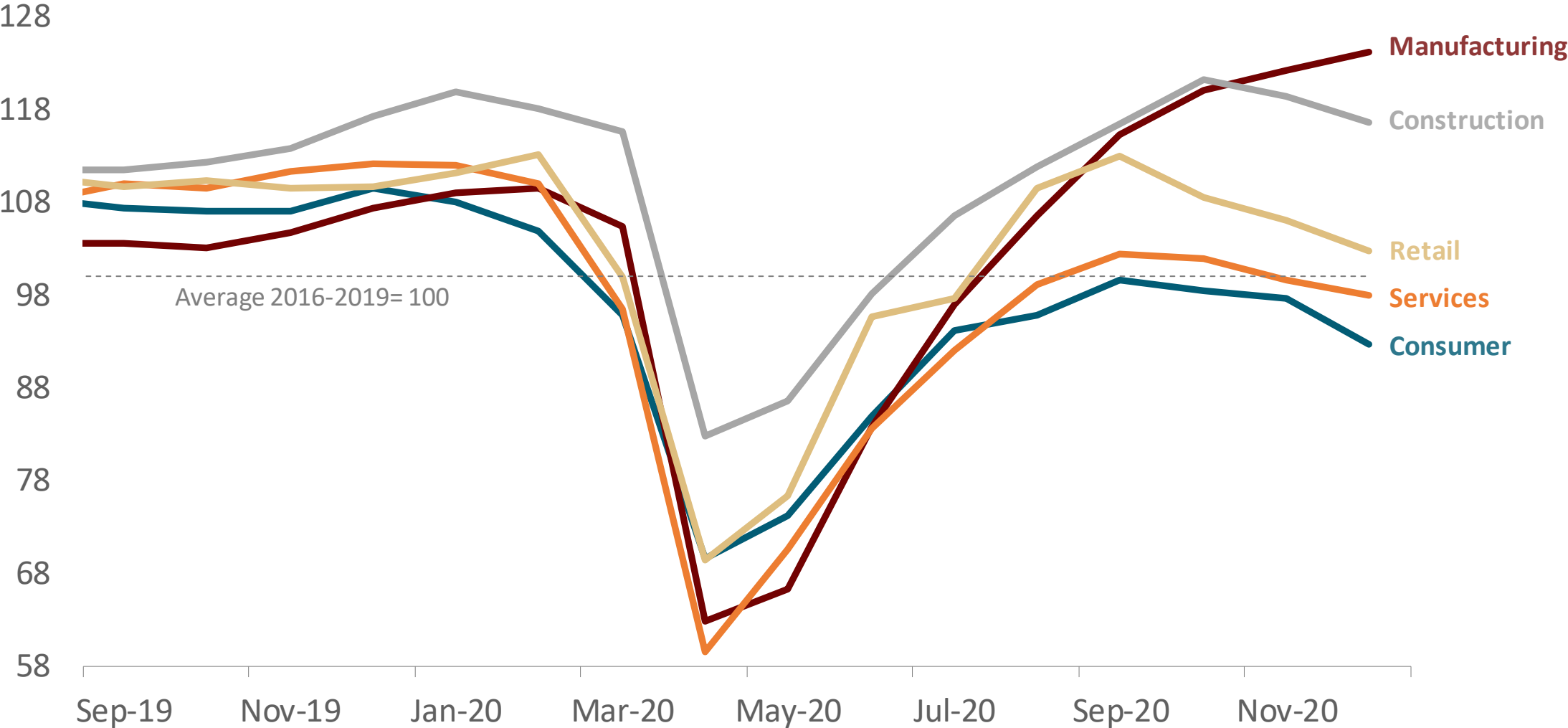


Sales — Cars and light commercial vehicles — Trucks
Production — Cars and light commercial vehicles — Trucks



* Variation of revenues compared to the same month of the previous year, adjusted for inflation.

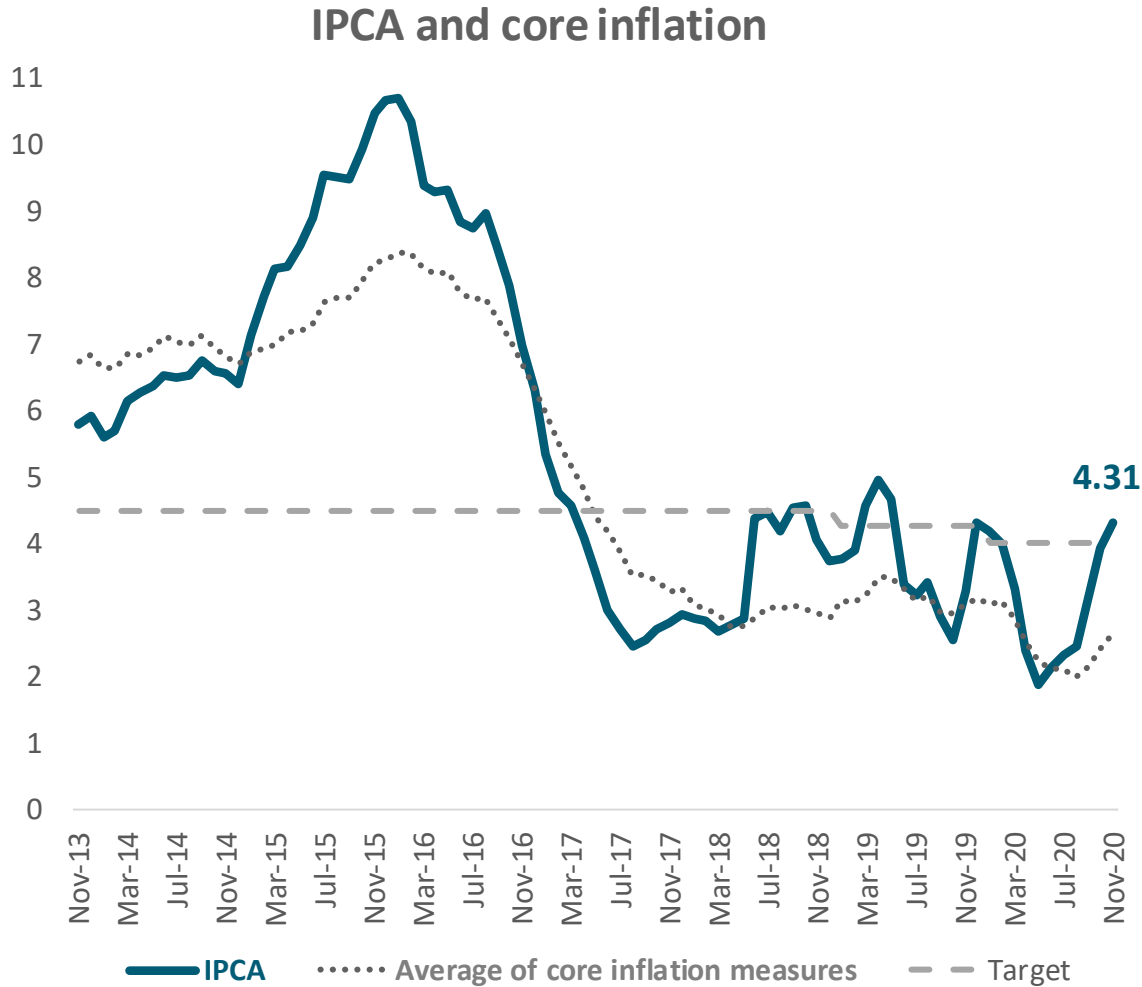
Sources: ONS, Fenabreve, Anfavea, Cielo.



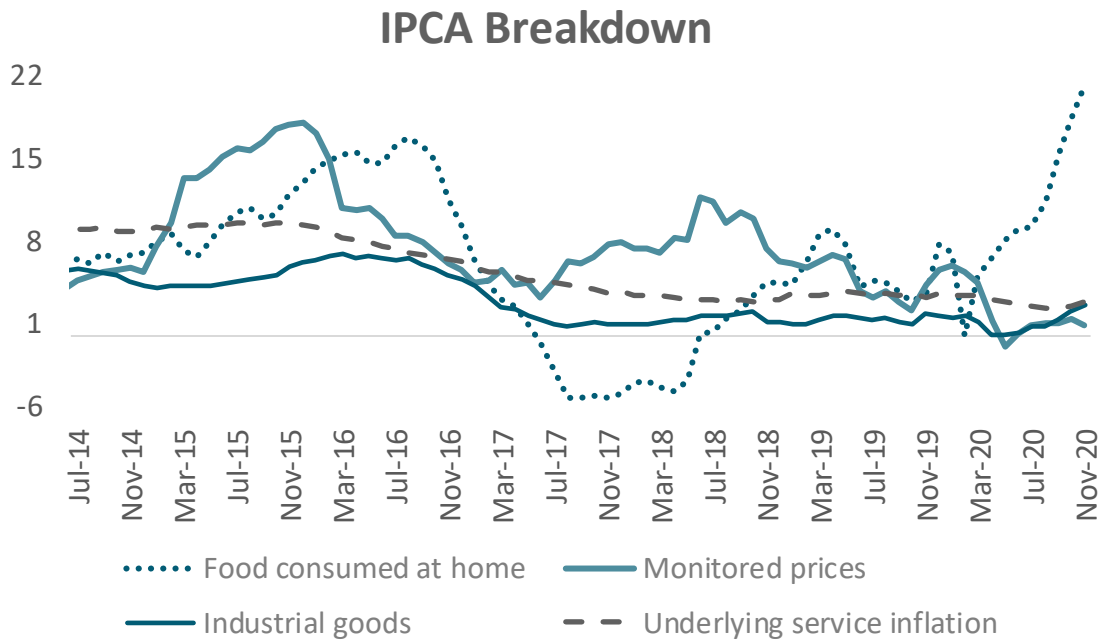
Sources: FG. Seasonally adjusted data. December data are a preview.

Consumer inflation

IPCA (12 month change, in %)



DOMESTIC ECONOMY



Market expectations (Focus)

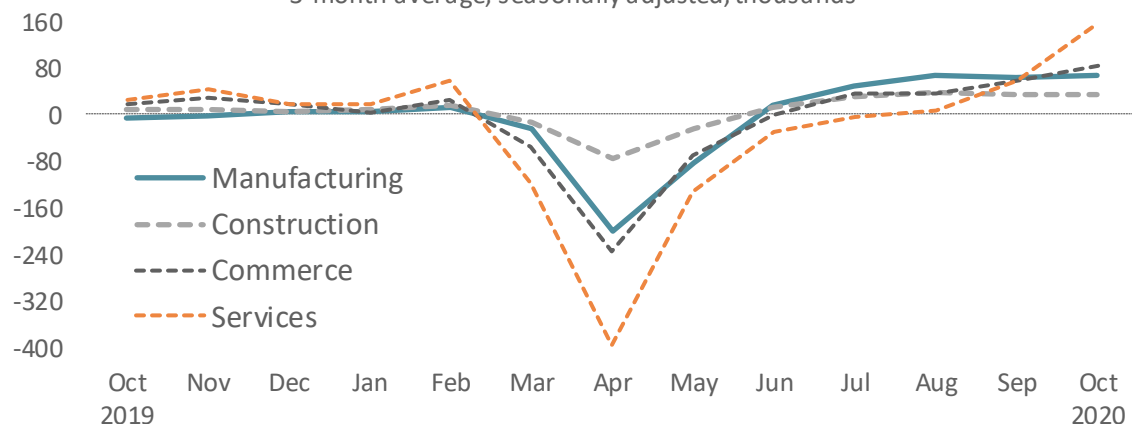
| | 2020 | 2021 | 2022 | 2023 |
|----------------------------|------|------|------|------|
| Inflation target (%) | 4.00 | 3.75 | 3.50 | 3.25 |
| Median of expectations (%) | 4.35 | 3.34 | 3.50 | 3.25 |

Unemployment and participation rates(%)

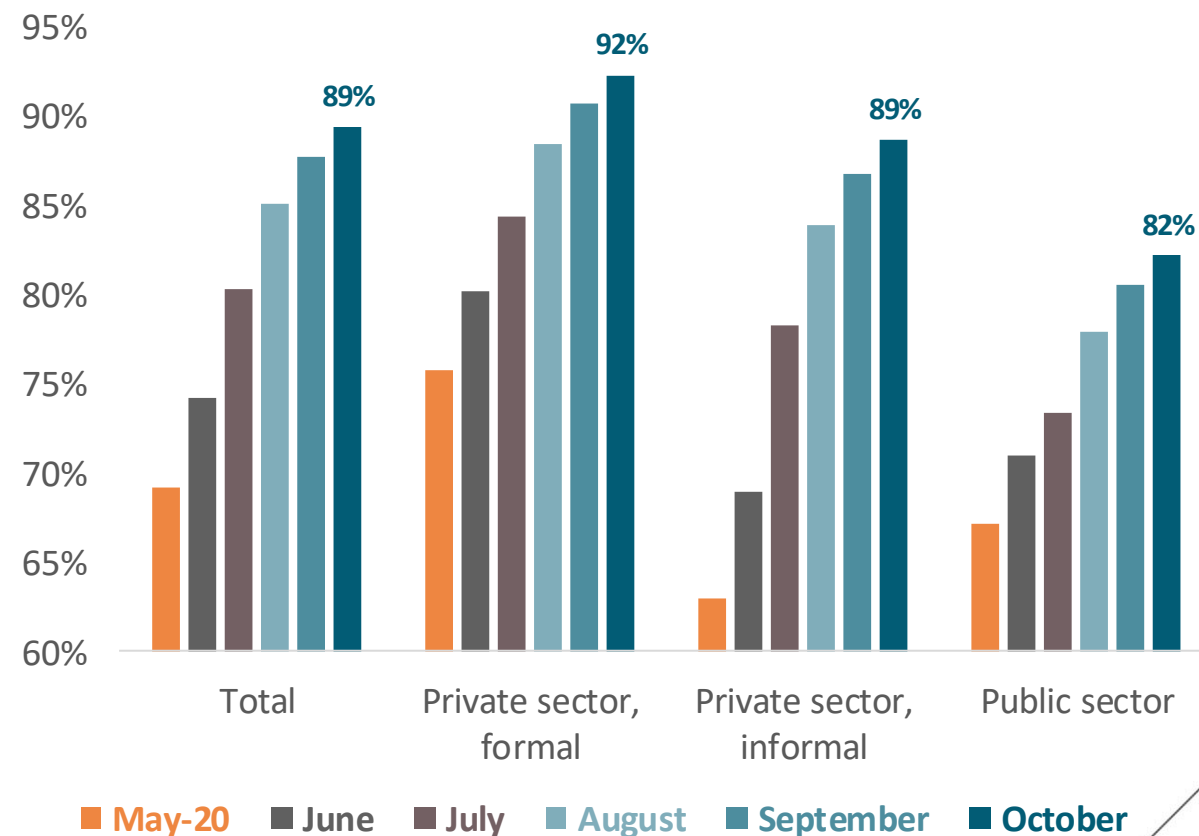


Caged: net formal jobs

3-month average, seasonally adjusted, thousands

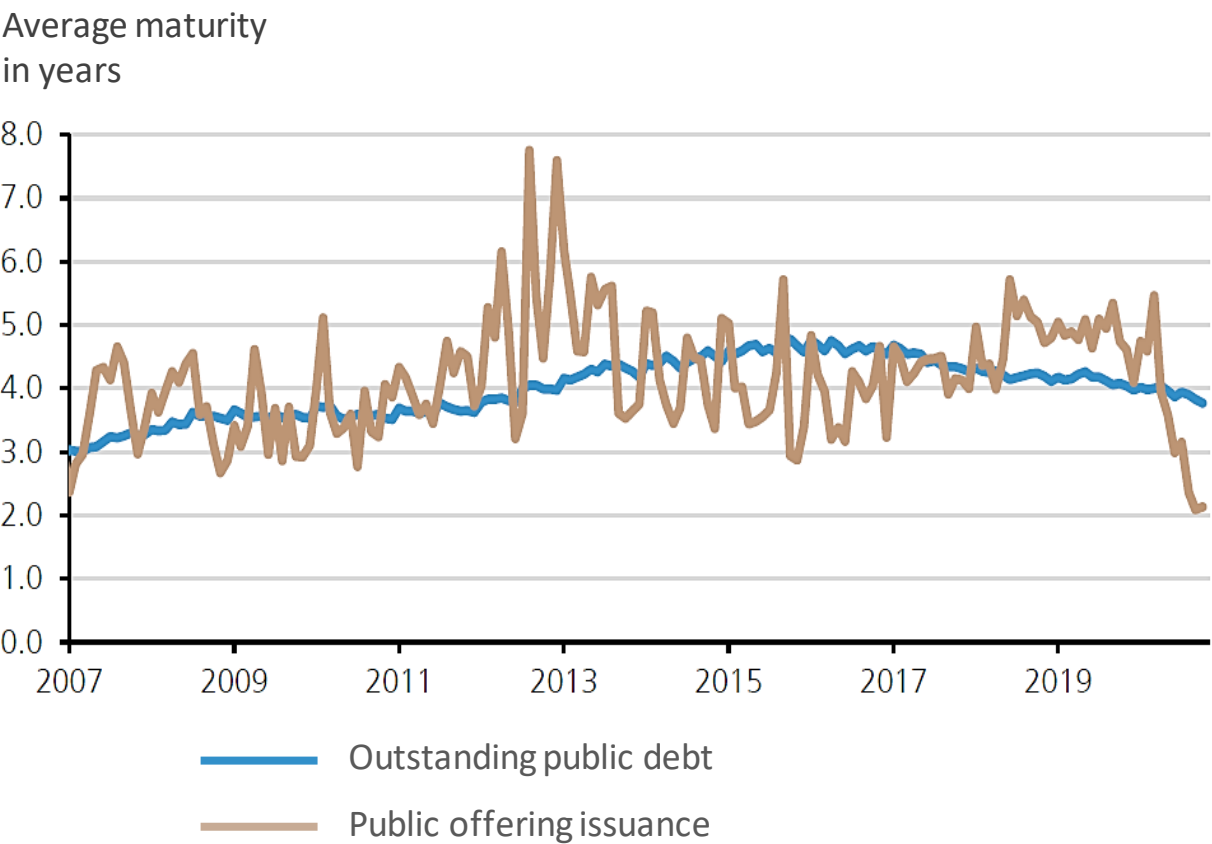


Effective hours worked as a proportion of usual working hours

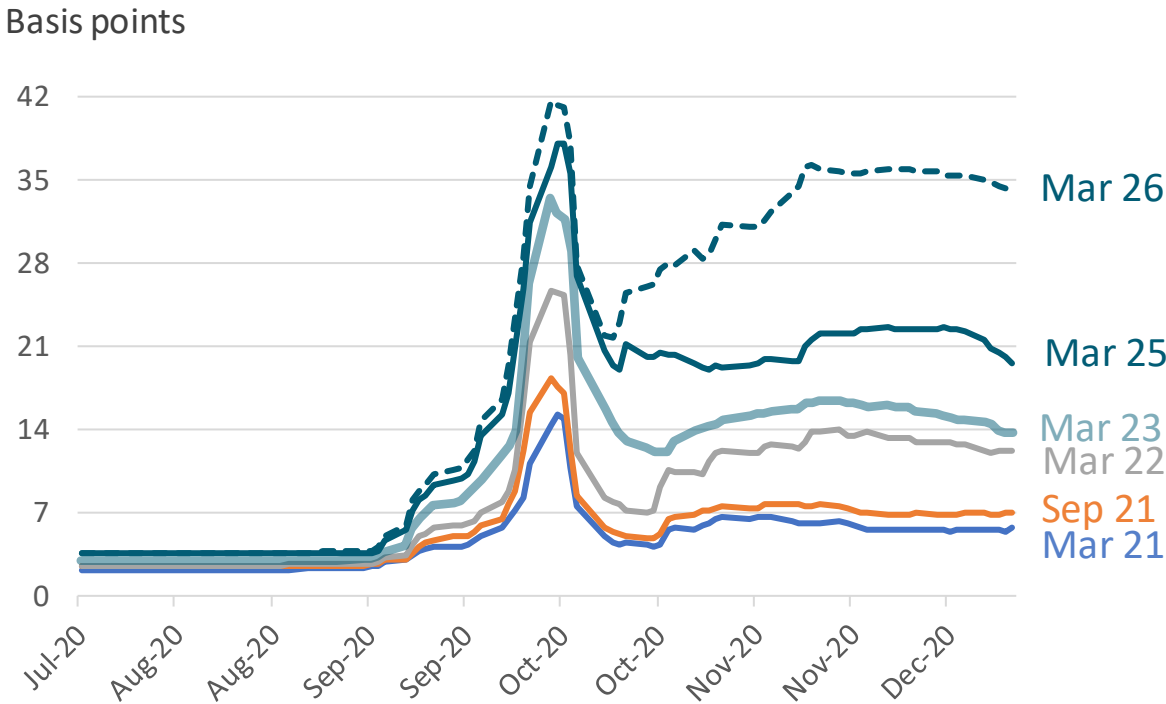


- In its last meeting, the Copom unanimously decided to maintain the Selic rate at 2.00% p.a.
- The Committee deems as adequate the current level of unusually strong monetary stimulus, which is being provided by the maintenance of the policy rate at 2.00% p.a. and the forward guidance introduced in the 232nd meeting. The forward guidance stated that the Copom does not intend to reduce the monetary stimulus as long as specified conditions are met. The Committee judges that those conditions continue to hold.
- The Copom judges that, since adoption of the forward guidance, inflation expectations reversed their declining trend relative to the target for the relevant horizon. Additionally, over the next months, the 2021 calendar-year should become less relevant than the 2022 calendar-year, for which projections and expected inflation are around the target. A scenario of inflation expectations converging to the target suggests that the conditions for maintaining the forward guidance may soon no longer apply, which does not mechanically imply interest rates increases, since economic conditions still prescribe an extraordinarily strong monetary stimulus. In case the forward guidance ceases to apply, monetary policy will follow the inflation target framework, based on the analysis of prospective inflation and its balance of risks.

Average Maturity of new debt sales vs outstanding



LFTs risk premium



Sources: STN, UBS

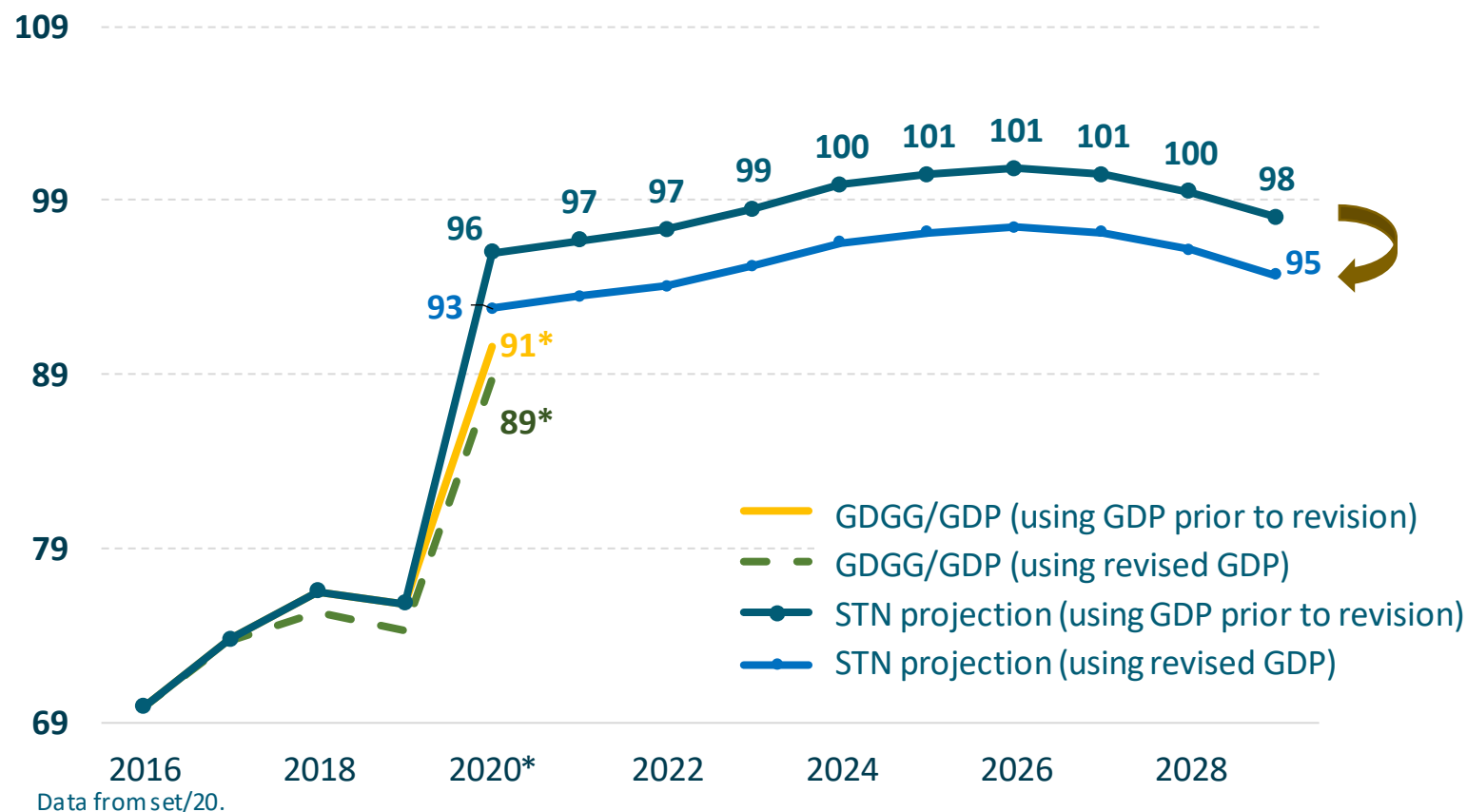
Public Debt (GDGG/GDP)

Revision of nominal GDP decreases Debt/GDP ratio*.

DOMESTIC ECONOMY

Fiscal policy

Comparison of scenarios, using STN projections (Gross Debt of the General Government)/GDP, %

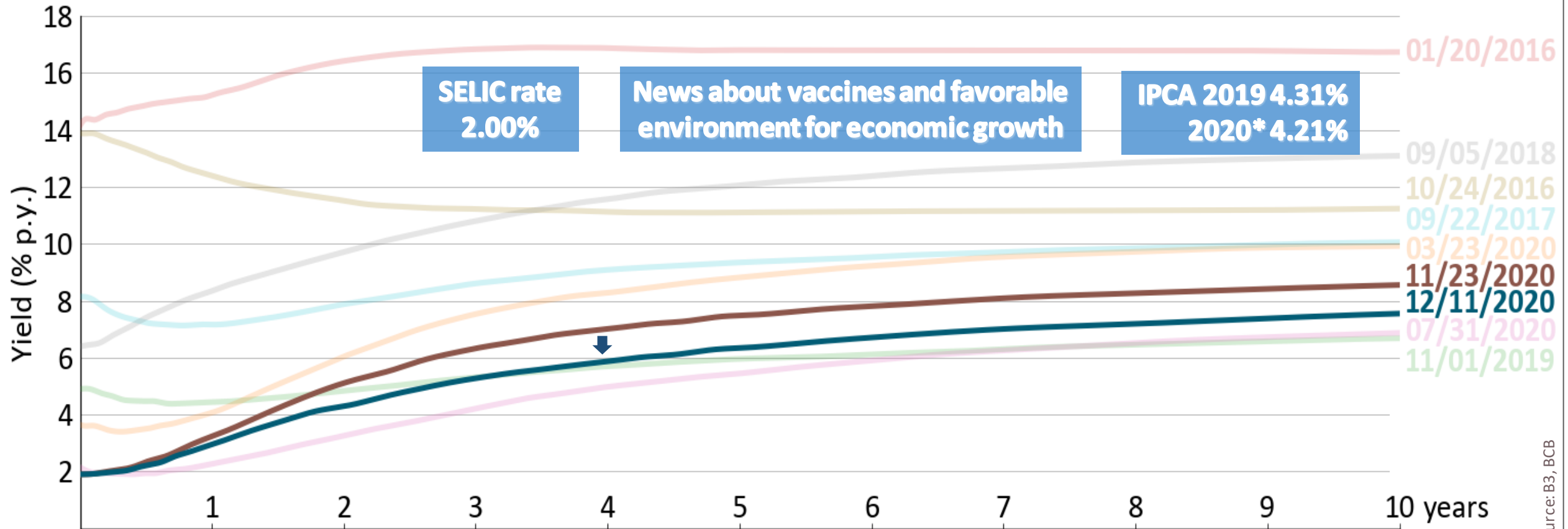


* Revision of nominal GDP by IBGE (+2.1% in the last 12 months ended in sep/20 compared to the estimate used in the last release of the BCB) decreases the GDGG/GDP and PSND/GDP in set/20 by -1.9 p.p. and -1,3 p.p., respectively.

Note: The Debt/GDP trajectory with new GDP of STN (National Treasury of Brazil) incorporates the readjustment of the nominal GDP of 2019 made by IBGE (2.07%), as well as the readjustments in the IPCA and GDP projections for 2020 presented in the Focus survey between 11/12 and 13/11, of 1.10% and 0.25%, respectively.

Yield curve – DI futures

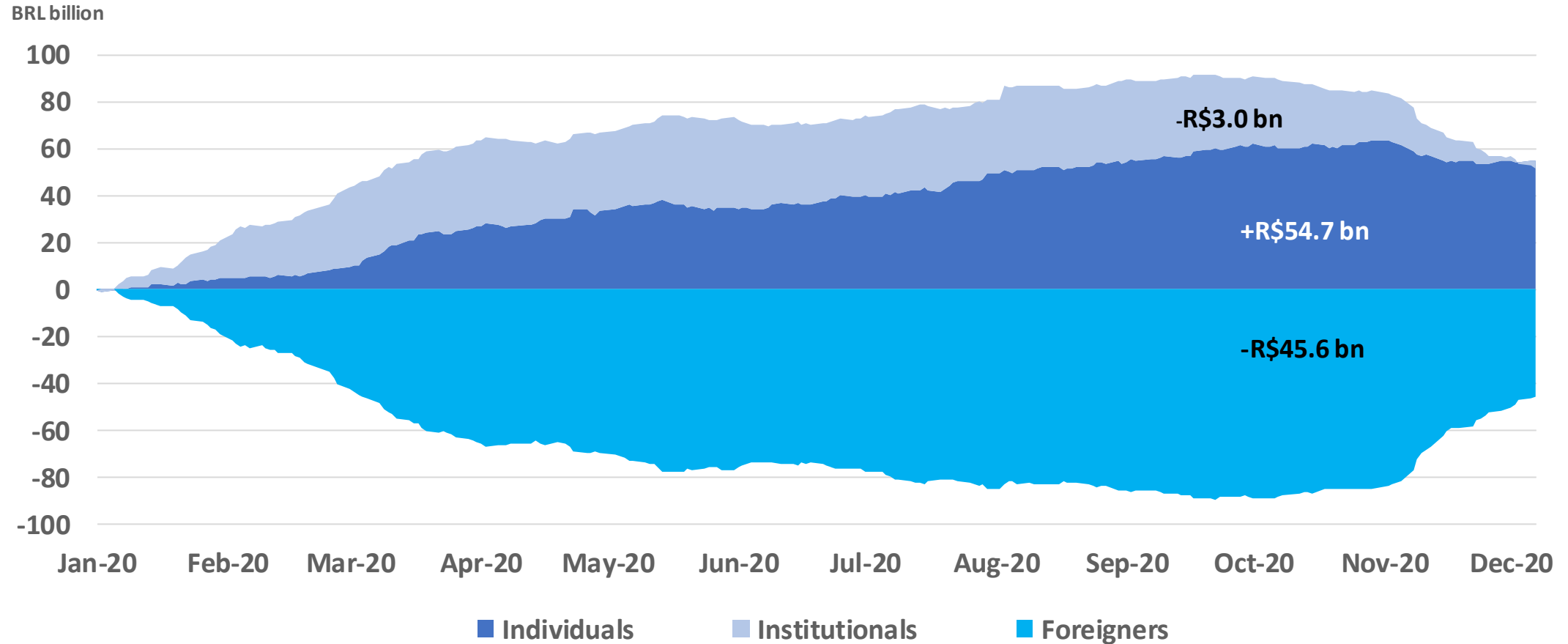
DOMESTIC ECONOMY Markets



Source: B3, BCB

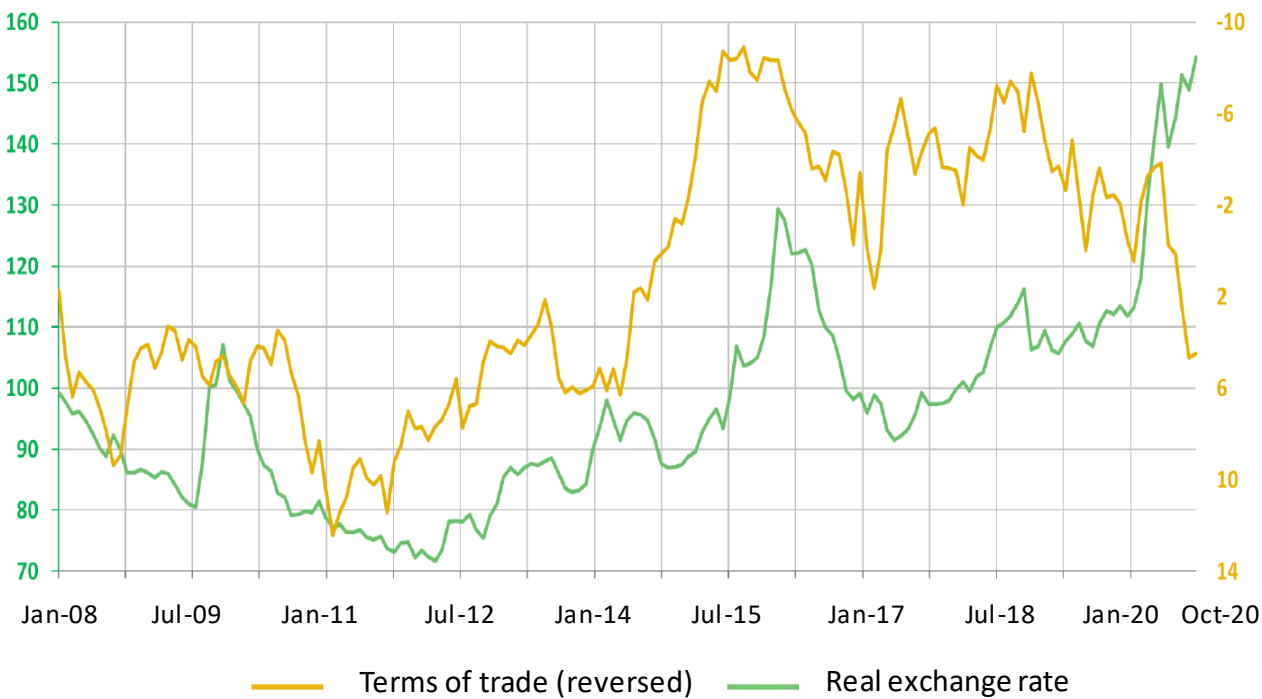
Accumulated flows on the stock exchange

DOMESTIC ECONOMY Markets

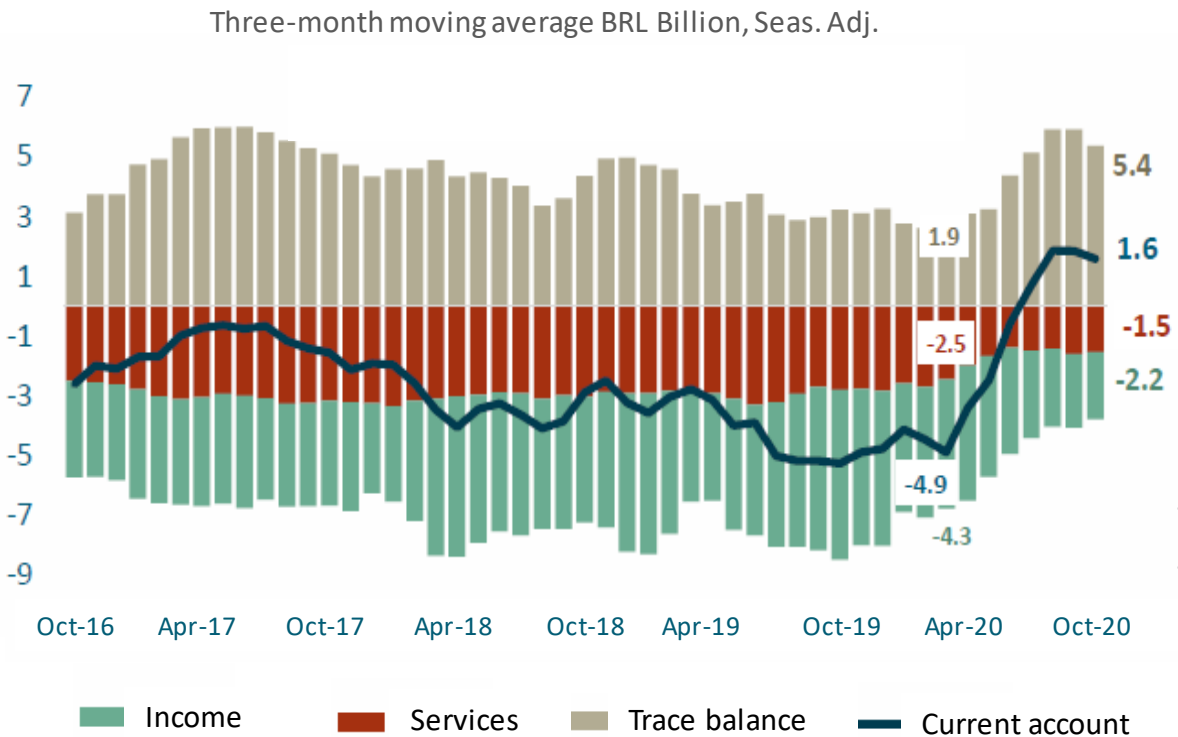


Source: B3

Brazilian exchange rate and terms of trade

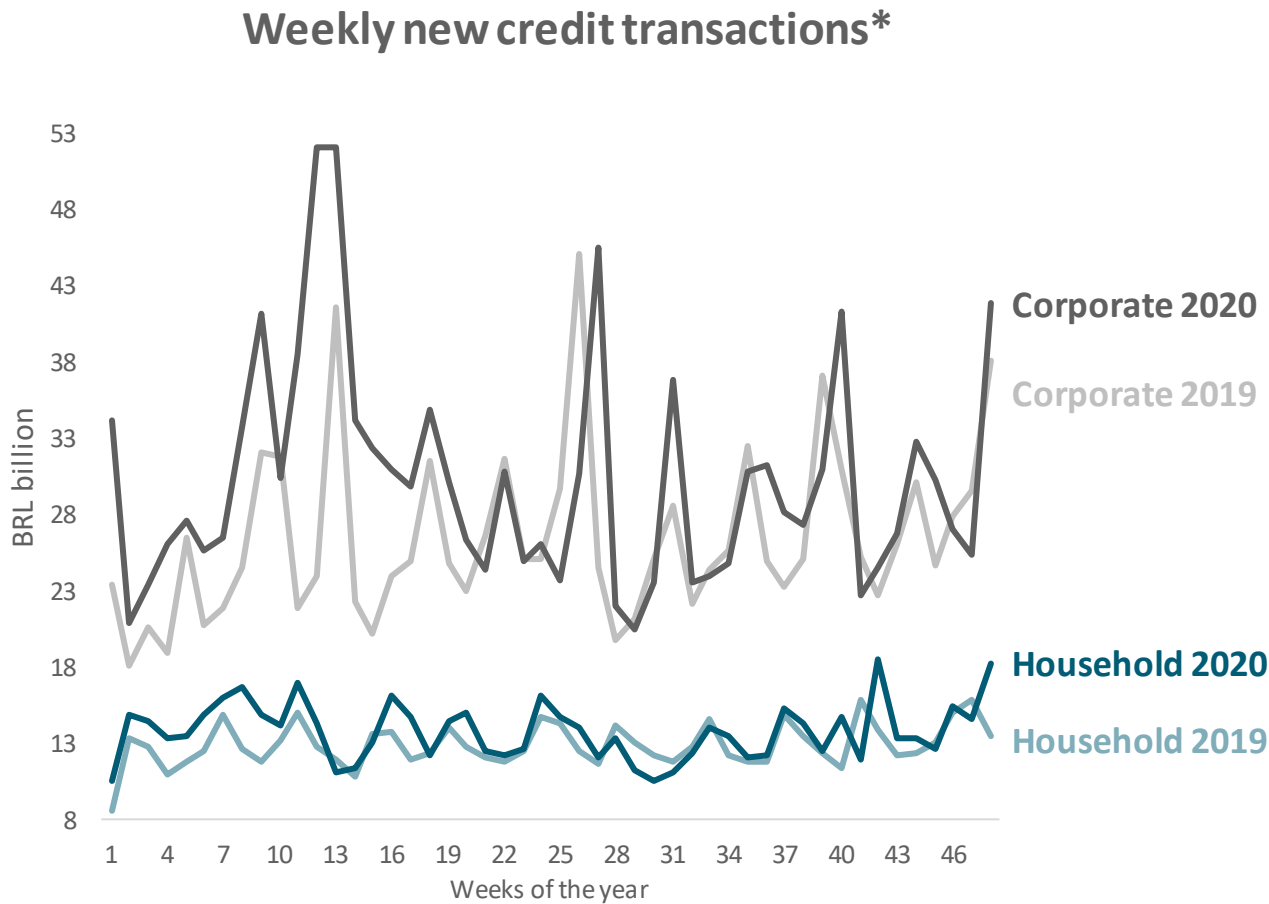


Current account – Total and disaggregated

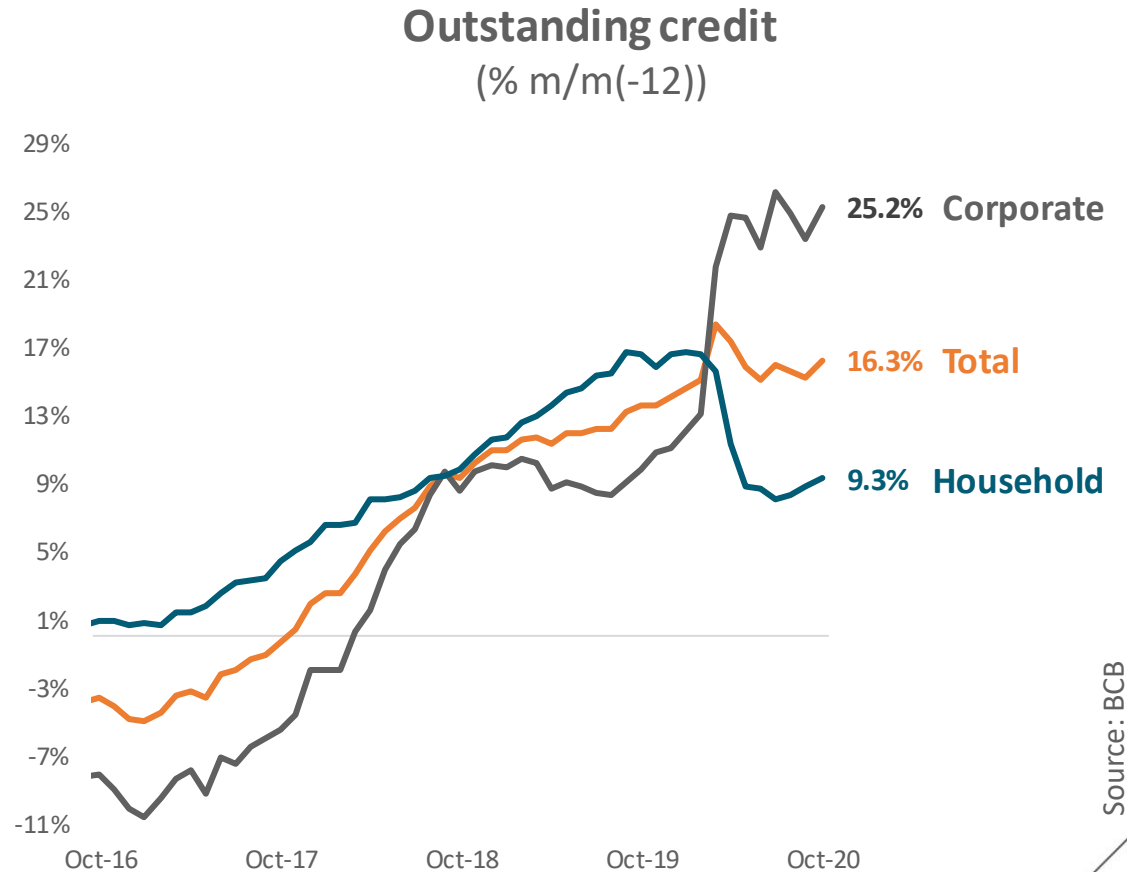


Nonearmarked credit

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



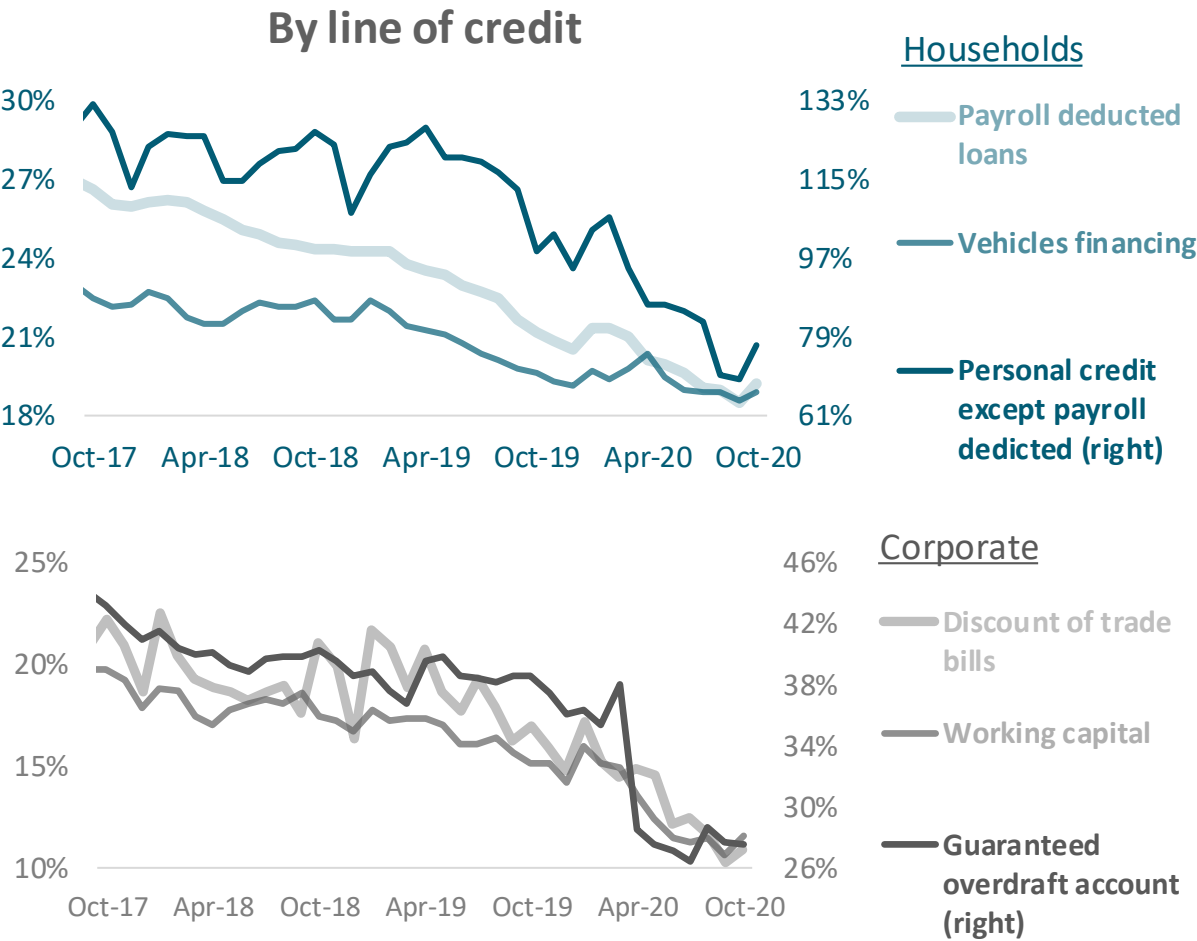
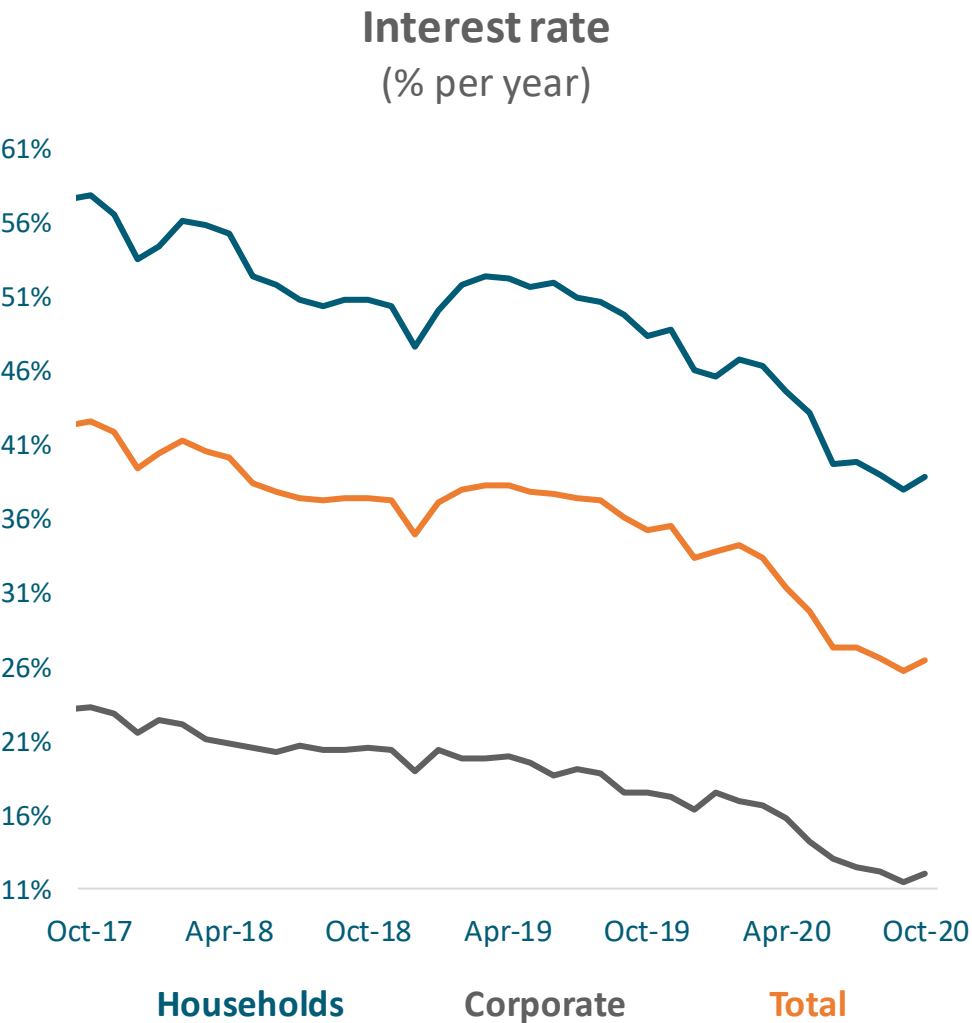
* Not including overdraft and credit card. Weekly data, accumulated over the last five working days, up to November 27th.



Source: BCB

Interest rates: new credit transactions

Interest rates are falling



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



Technological Agenda



INCLUSION

Cooperative credit
Microcredit
Currency convertibility
Initiatives for capital market



COMPETITIVENESS

Innovation
Market efficiency
International reserves



TRANSPARENCY

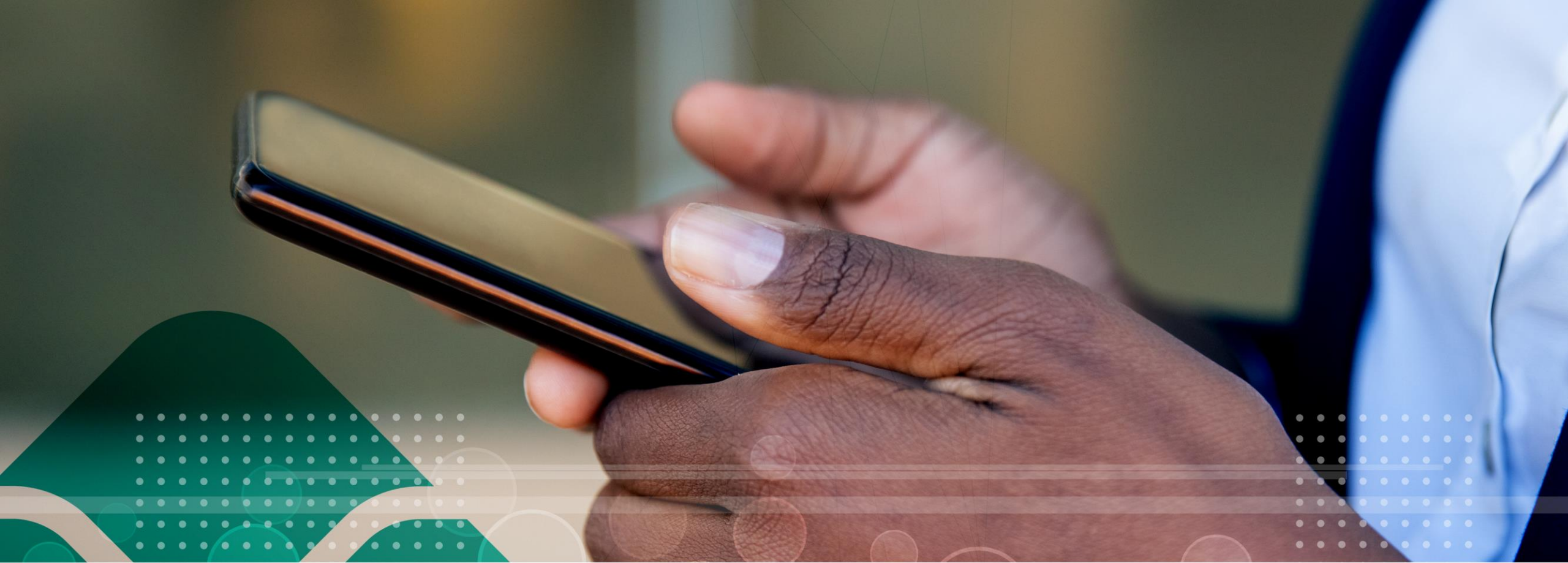
Rural credit
Housing credit
Relationship with Congress
Transparency of Monetary Policy
Communication plan for BCB actions
Relationship with foreign investors



EDUCATION

Financial education

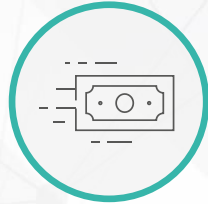




Pix: The Brazilian Instant Payment



Pix aims to



Ease the life of payers and payees



Make new **business models** feasible



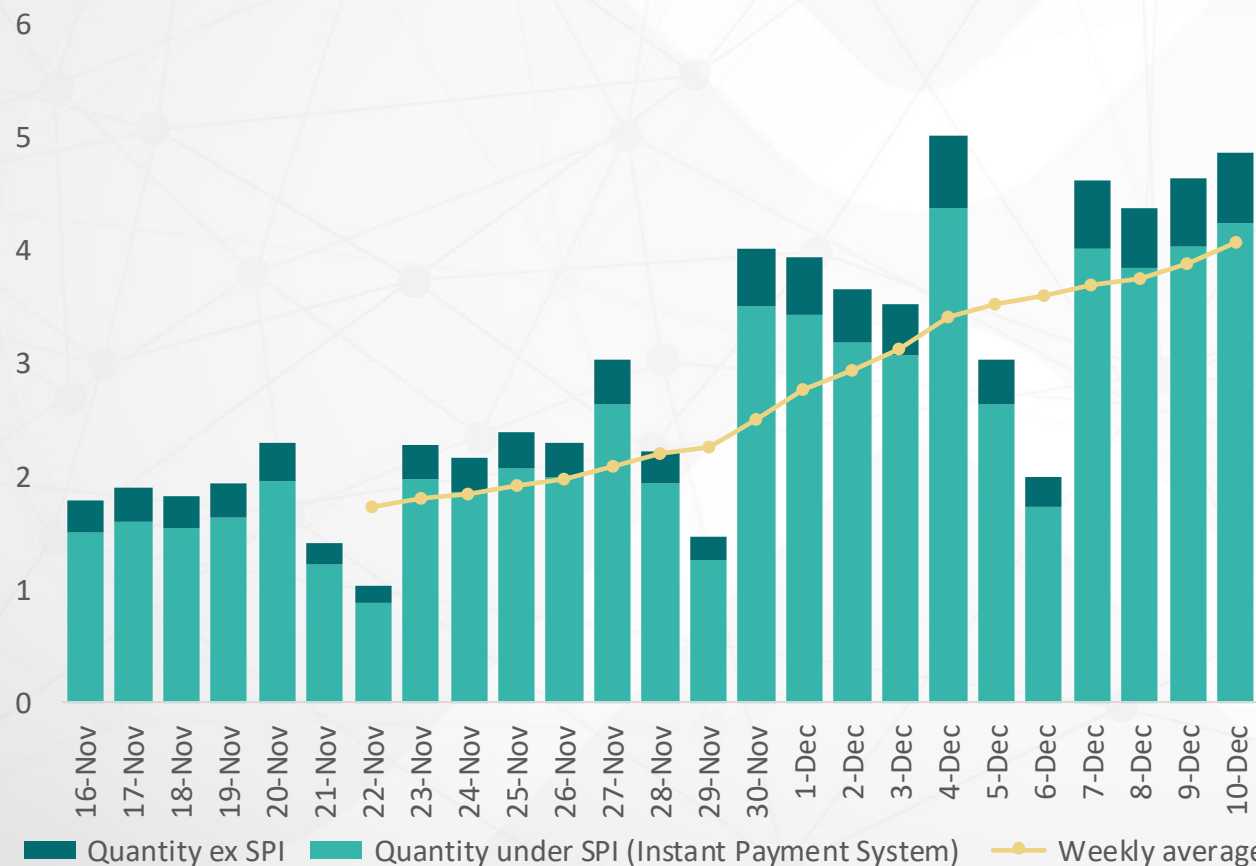
Reduce costs



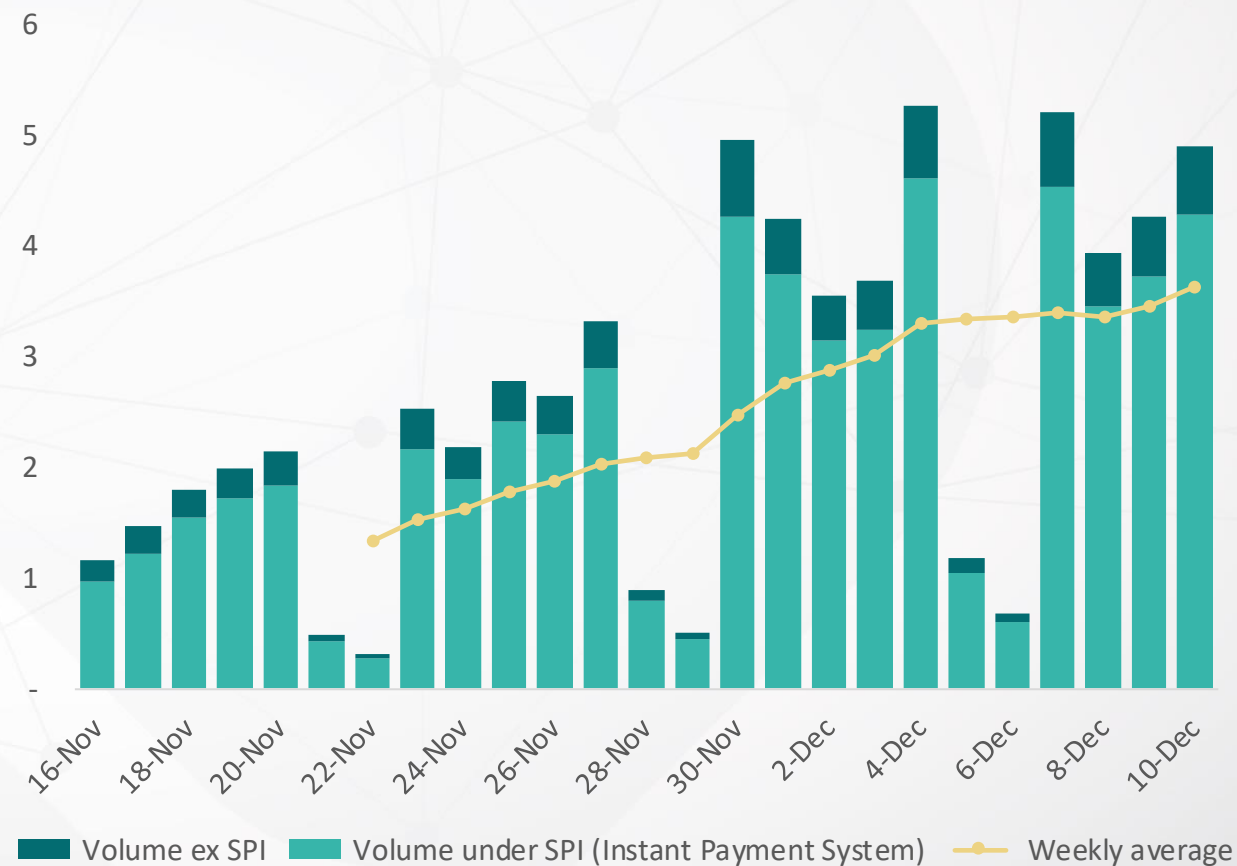
Contribute for the digitization of payments and financial inclusion

Pix transactions

Number of transactions
(millions per day)



Volume
(BRL billion per day)



PIX registration

Number of keys registered: 112.7 million

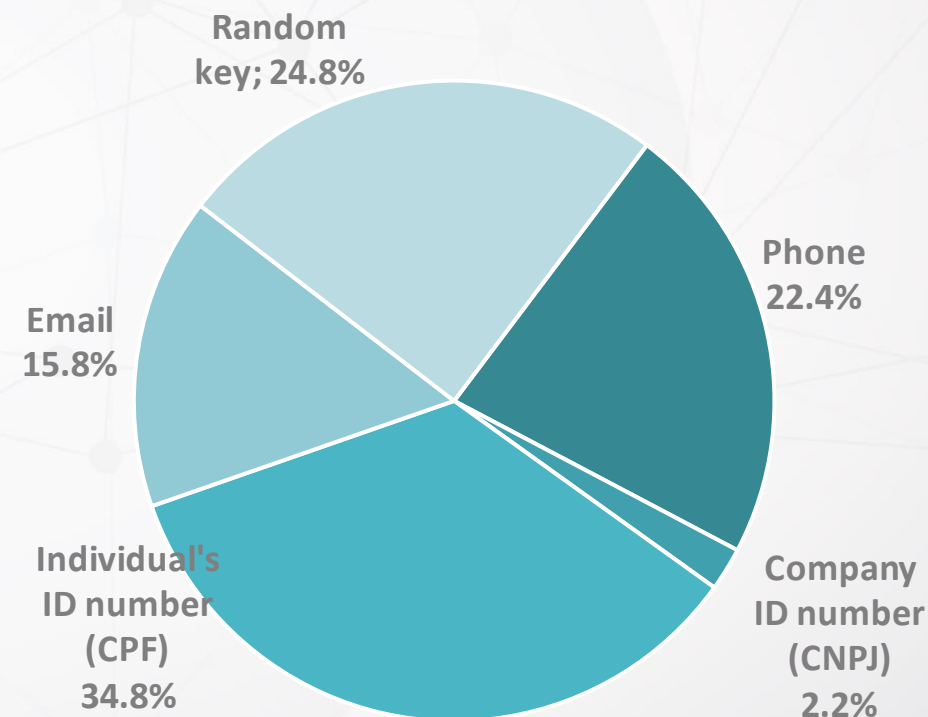
Individuals/Companies registered at PIX



Number of accounts



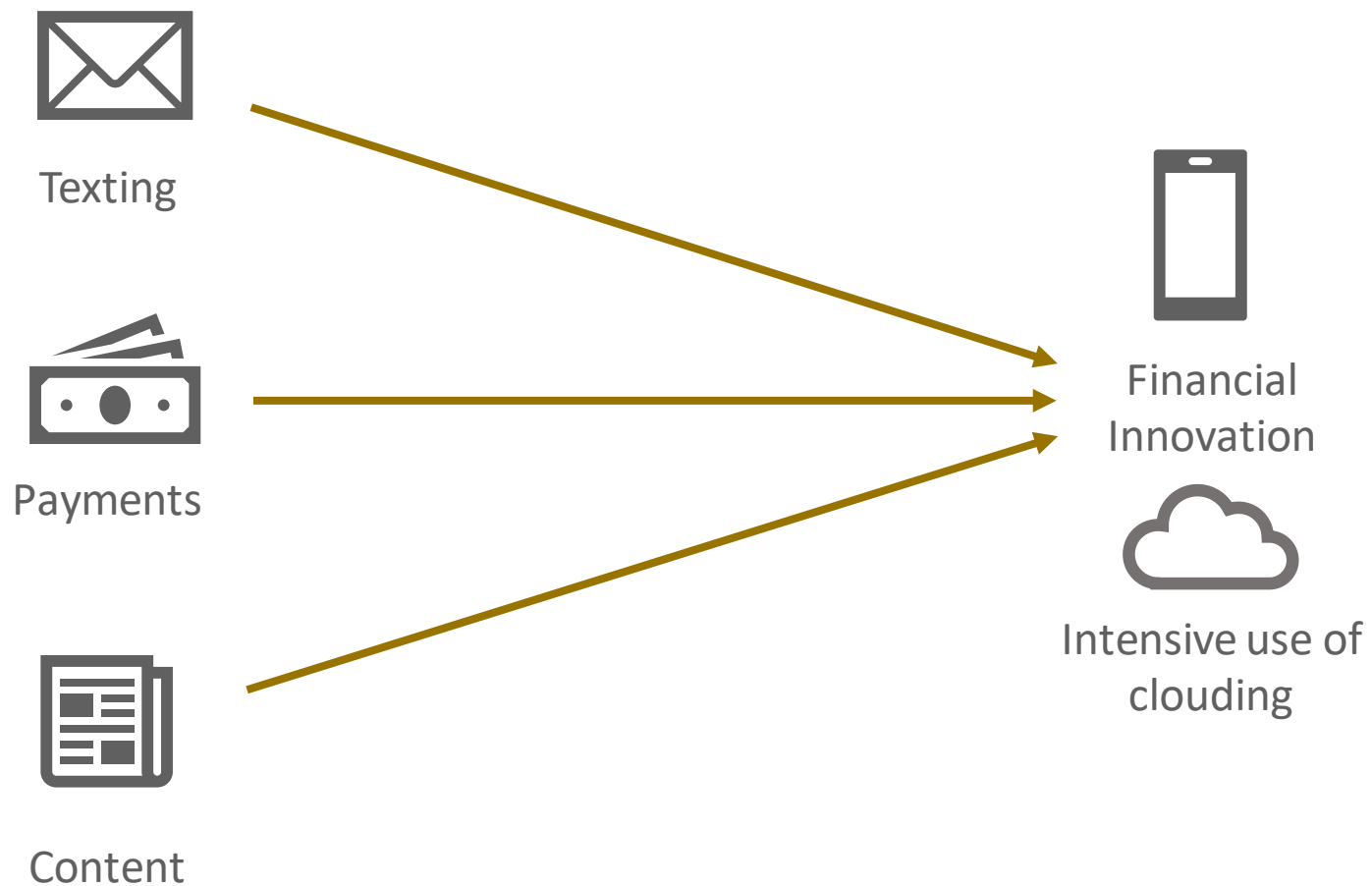
Types of Keys

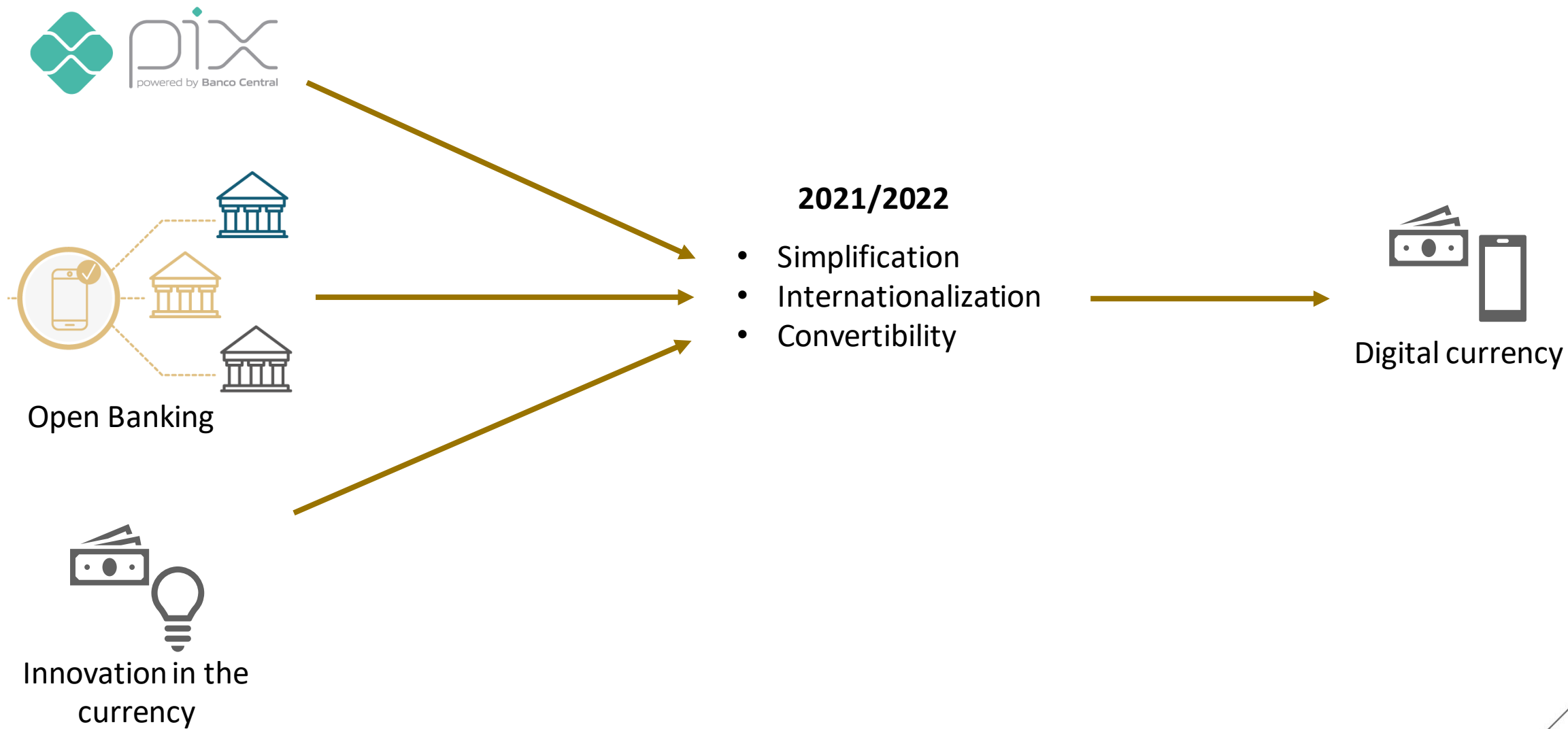


Open banking

- Operating rules approved
- Implementation schedule



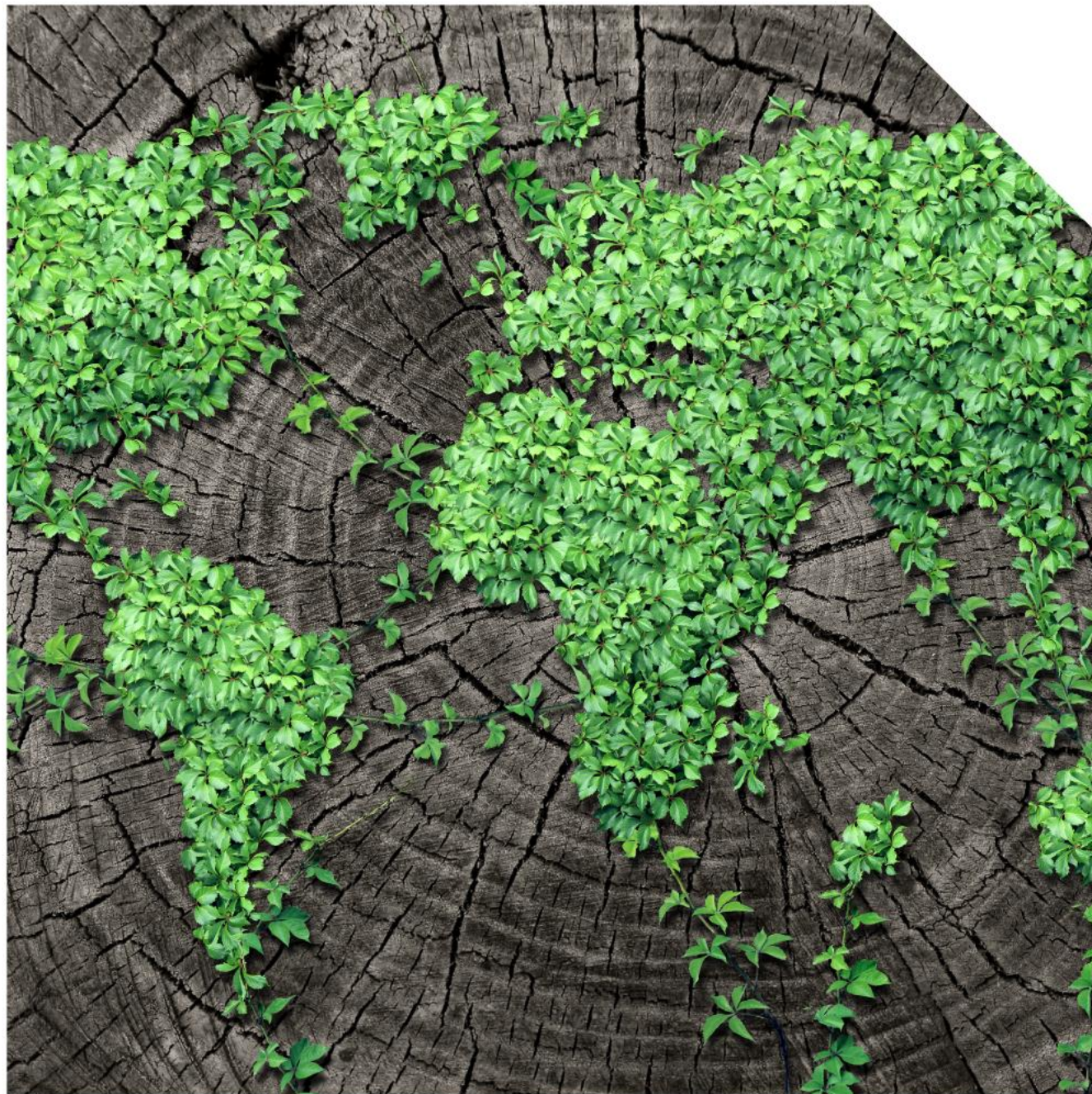




BC+ Sustainability

Measures:

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



Vision of the future

More technology

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

Common factors in the recovery

More sustainable and more inclusive growth

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

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
December 15th 2020