ACTIONS AND ECONOMIC OUTLOOK DURING AND POST COVID-19

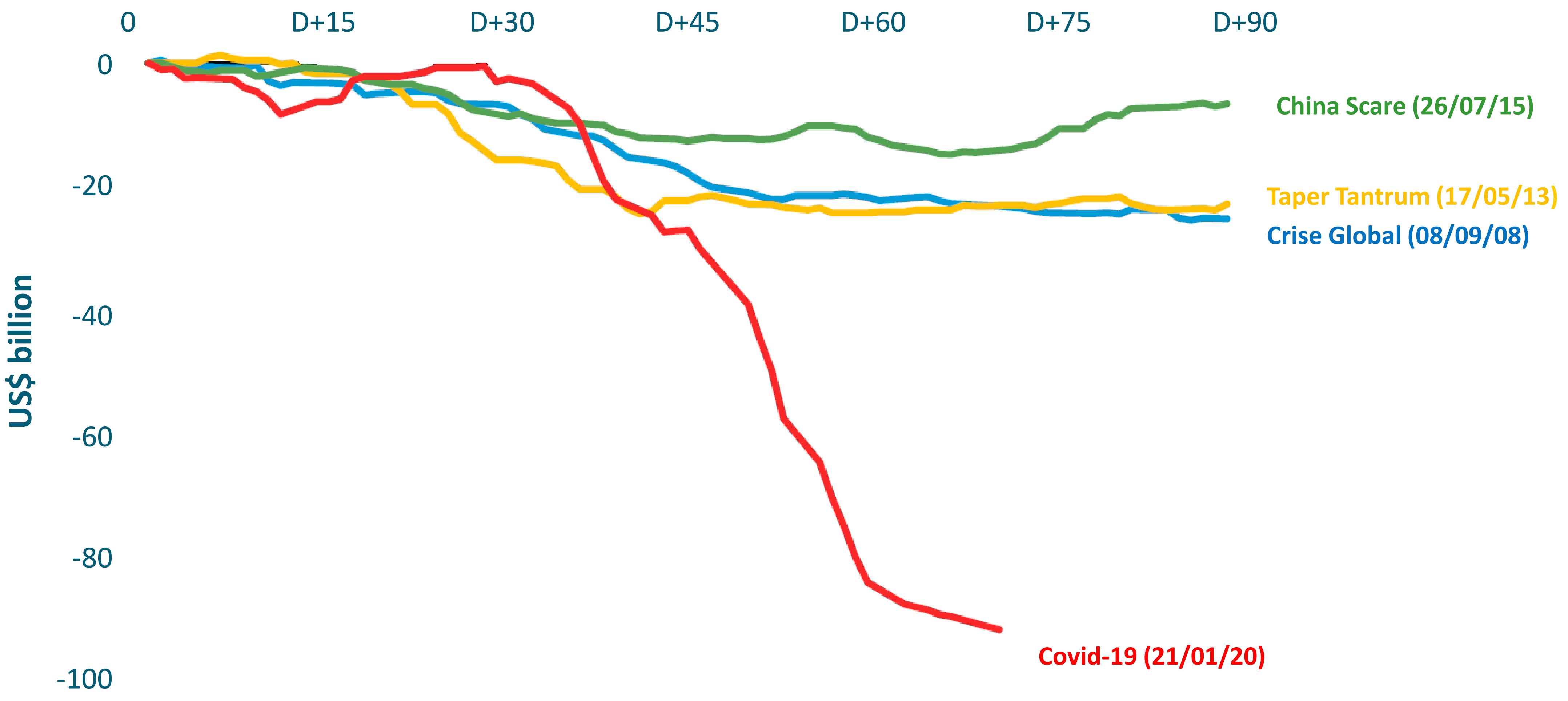
ROBERTO CAMPOS NETO
Governor of Banco Central do Brasil
June 8, 2020

Capital Outflows – Non Residents

Accumulated balances since the informed date

Global Shock

Emerging Economies

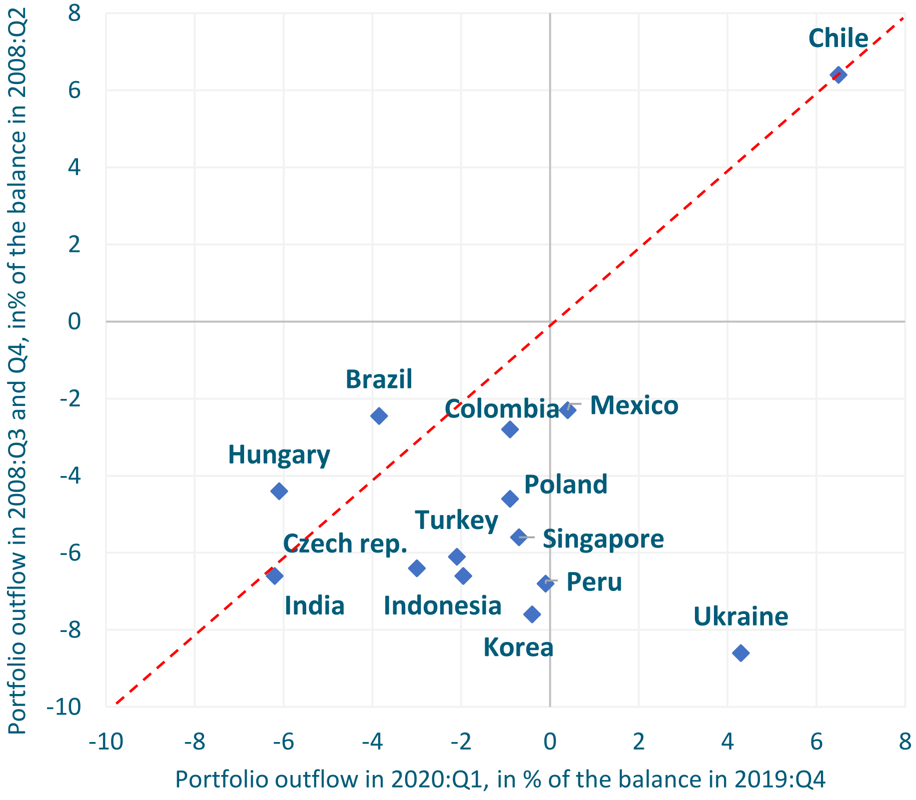


Source: IIF

Capital Outflows – Non Residents

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

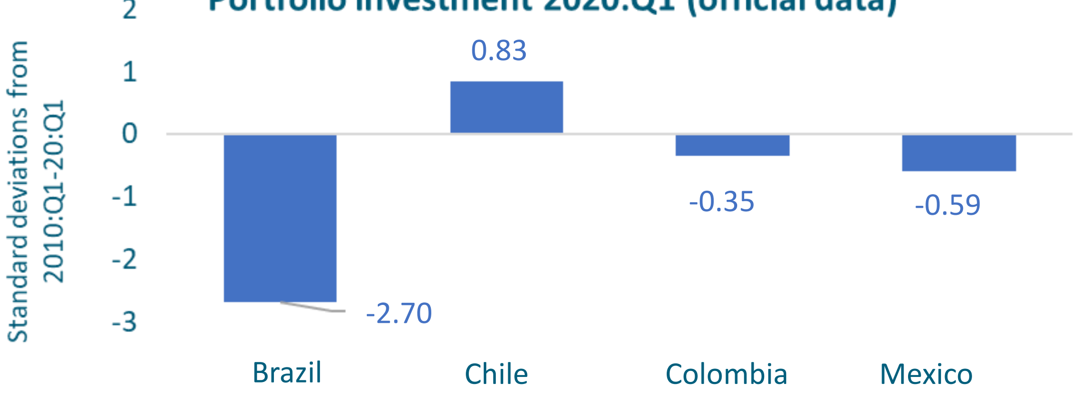
Portfolio outflows – non residents*



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

Bloomberg capital flow index – EMEs (%)

Portfolio investment 2020:Q1 (official data)



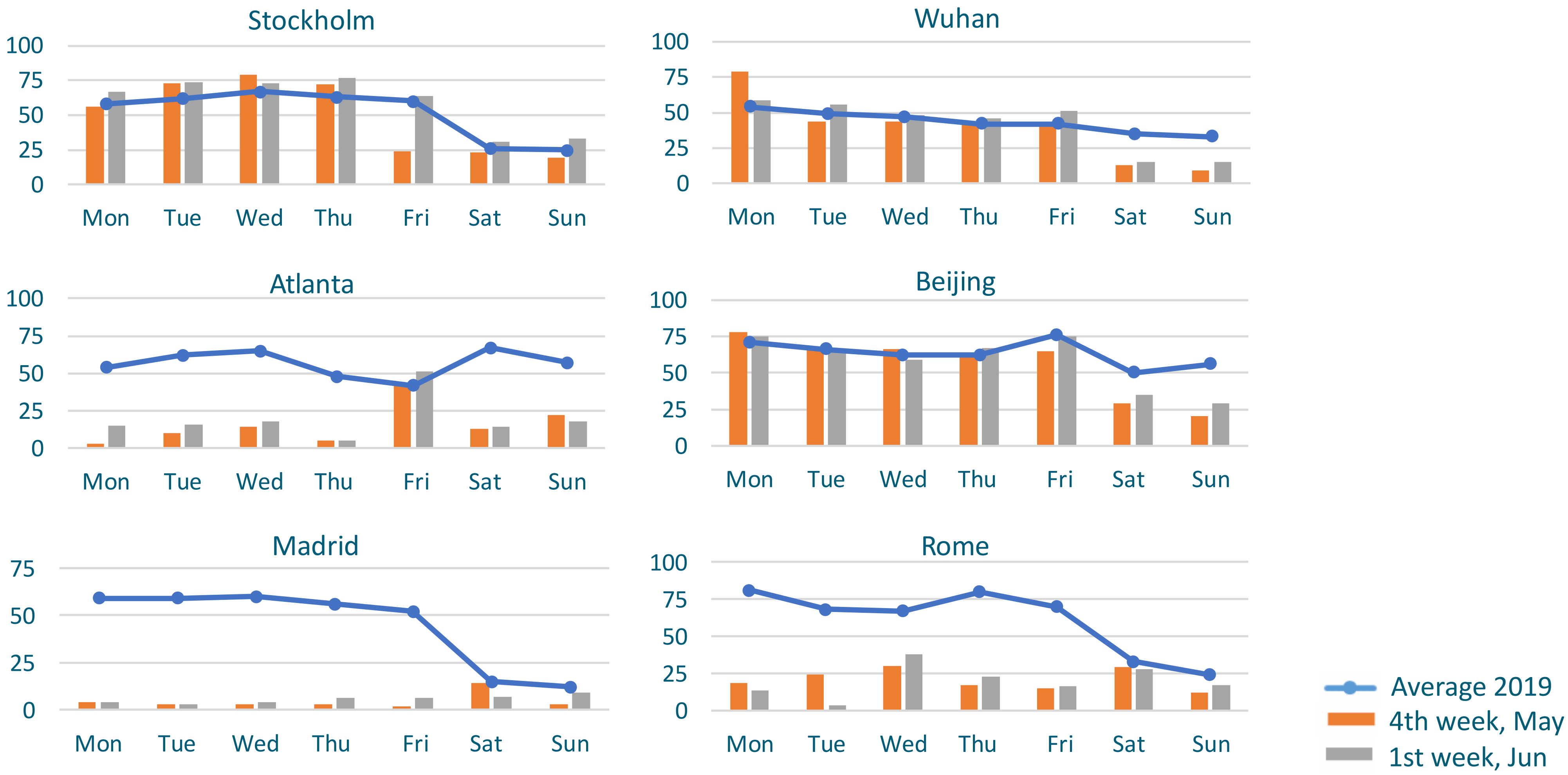
Source: Central banks of Chile, Colombia, Peru and Mexico, Bloomberg, IIF

Social Distancing

Fear of 2nd contamination wave: easing of *lockdown* measures shows limited effect

Traffic during rush hours

(%)

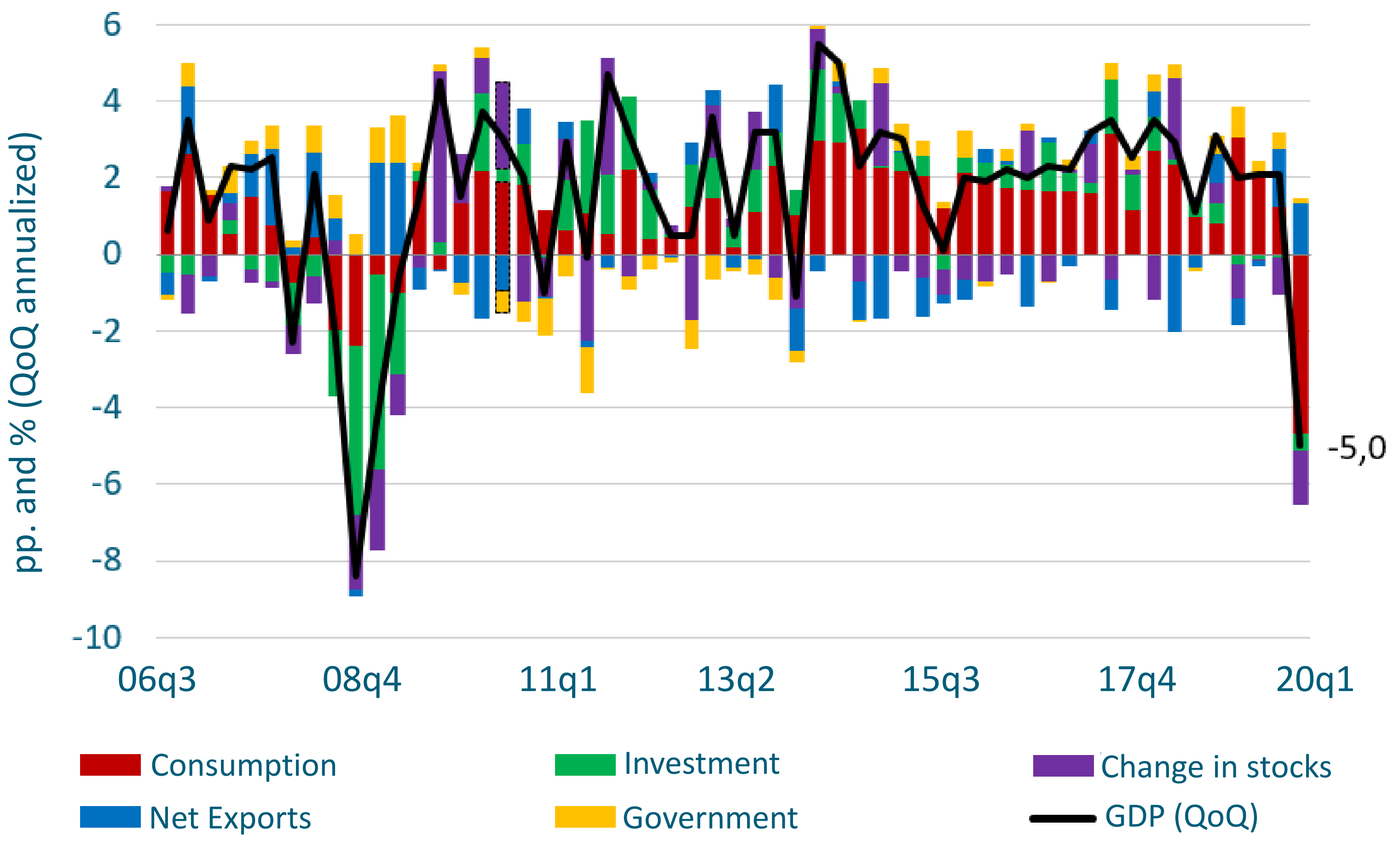


Source: TomTomtrafficindex, BusinesInsider, The Associated Press

USA: Economic Activity

Strong decline led by sharp fall in consumption

Real GDP

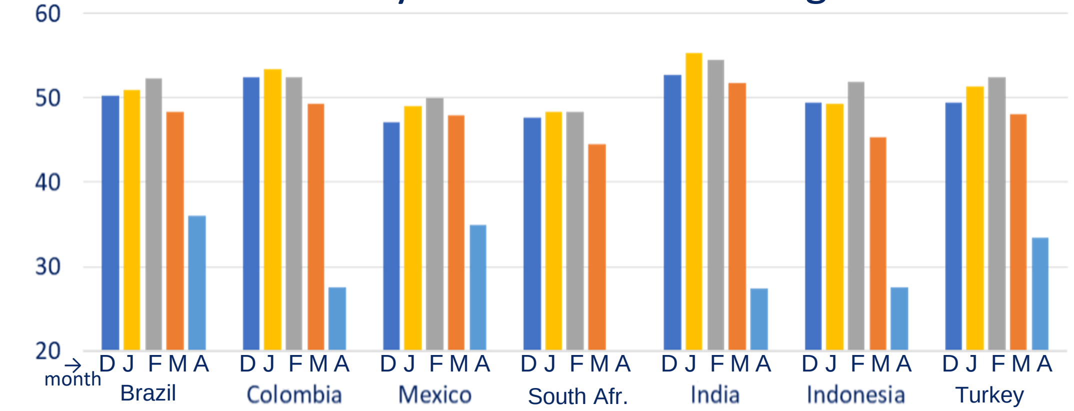


Source: Bloomberg

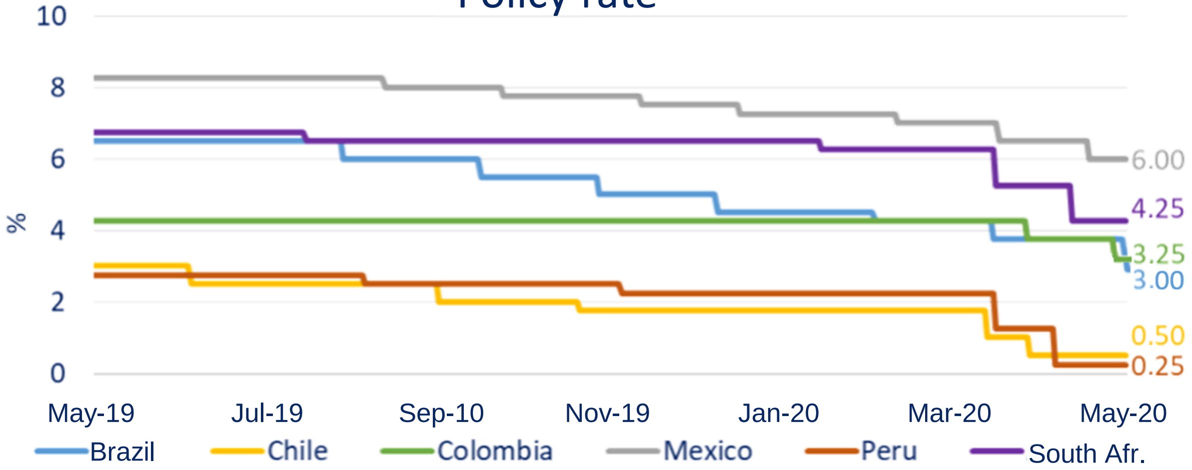
Strong Fall in Activity

First data releases indicate a strong recession

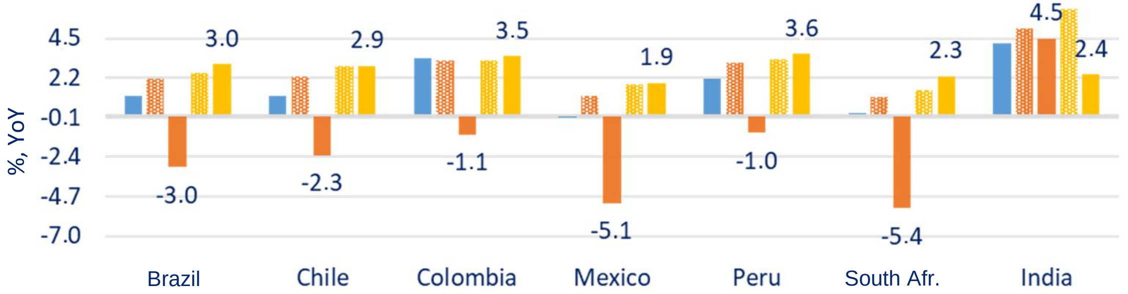
Monthly PMI - Manufacturing



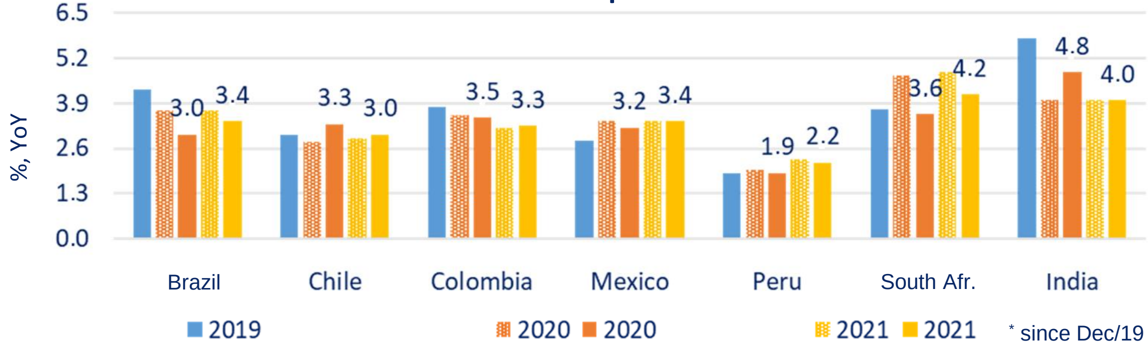
Policy rate



Revisions in expected Growth*



Revisions in expected Inflation*



* since Dec/19

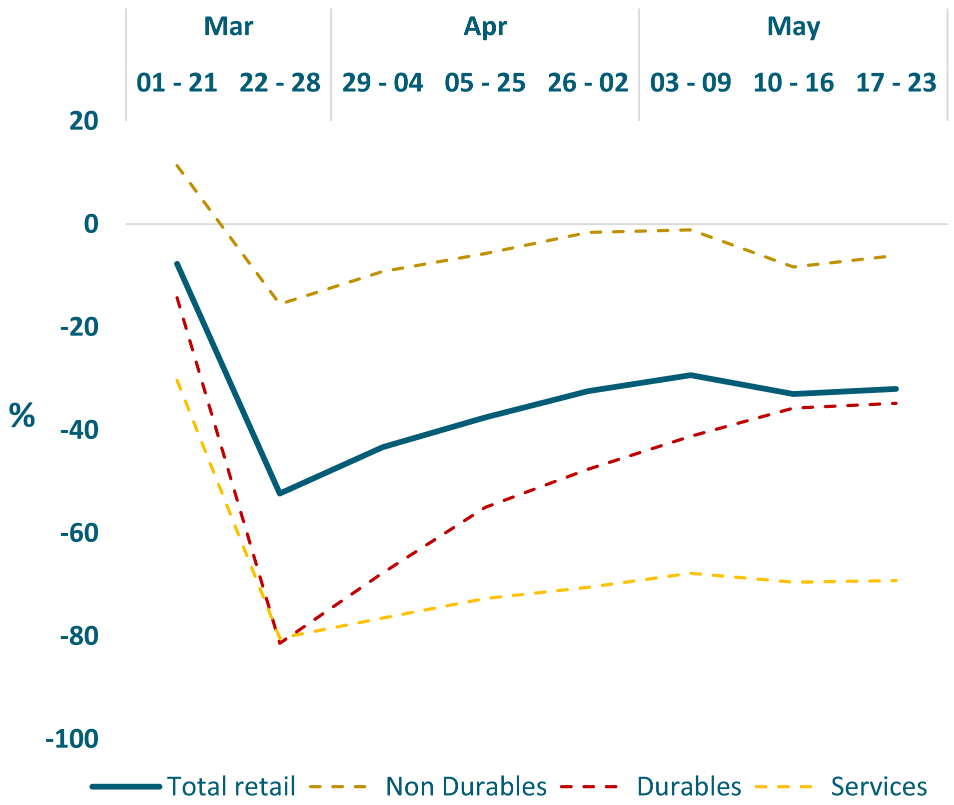
WEO apr/20	Brazil	Chile	Colombia	Mexico	Peru	South Afr.	India
GDP 2020	-5.3	-4.5	-2.4	-6.6	-4.5	-5.8	1.9
GDP 2021	2.9	5.3	3.7	3.0	5.2	4.0	7.4
CPI 2020	3.0	2.5	3.2	2.4	1.6	0.0	2.7
CPI 2021	3.3	3.0	3.0	3.0	2.0	4.3	3.8

Source: Bloomberg, central banks and IMF

Brazil: Impact of Covid-19

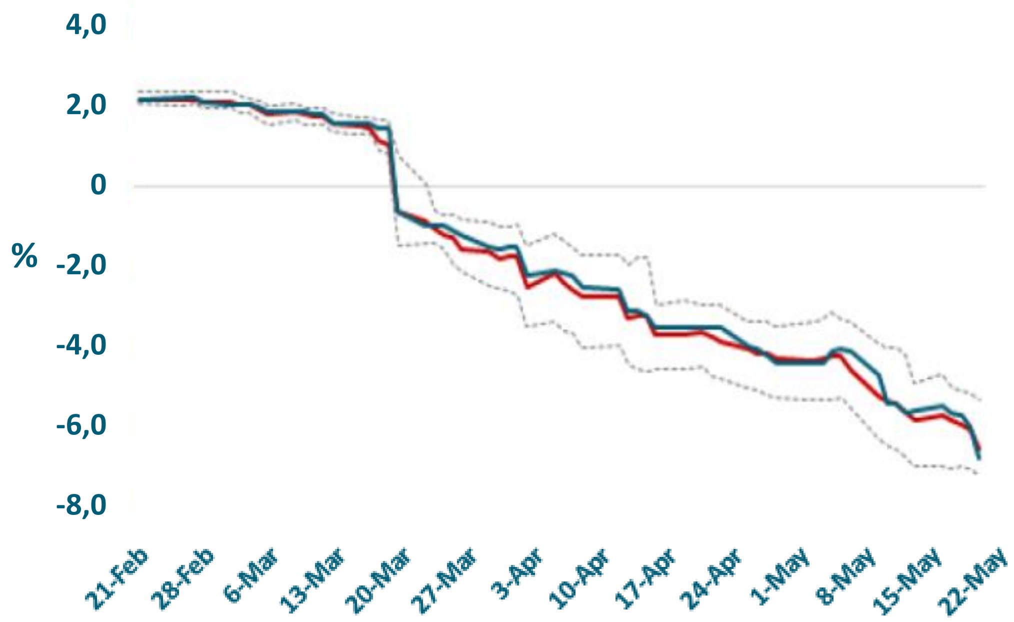
Preliminary retail data and Focus survey indicate strong decline in activity

Retail sales – Cielo*



Source: Cielo

Focus expectations – Growth for 2020



Average
Median
Percentiles 25 e 75%

Date	# Answers	Average	**Median**	Perc.25	Perc.75
24-Apr	43	-3.8	-3.5	-4.8	-3.0
30-Apr	35	-4.3	-4.4	-5.2	-3.5
8-May	32	-4.5	-4.1	-5.5	-3.3
15-May	35	-5.8	-5.6	-7.0	-4.9
22-May	42	-6.5	-6.7	-7.2	-5.3

Source: BCB, Focus Survey (22/05/2020)

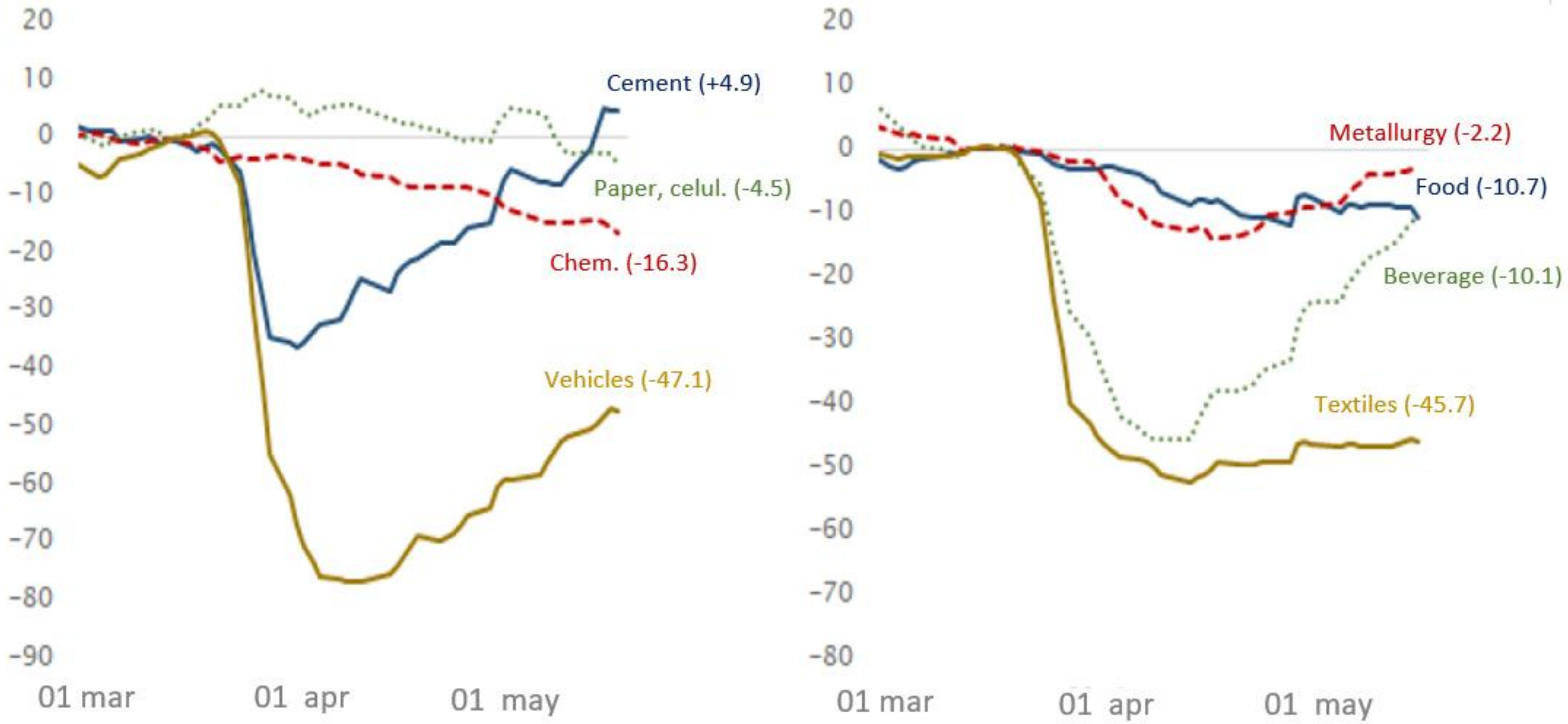
*Change in revenues in relation to the same days of Feb/20, with calendar adjustments.

Brazil: Impact of Covid-19

Preliminary data indicate strong decline in activity

Electricity consumption by manufacturing industry (free market)

Percentage change regarding 09-13 March



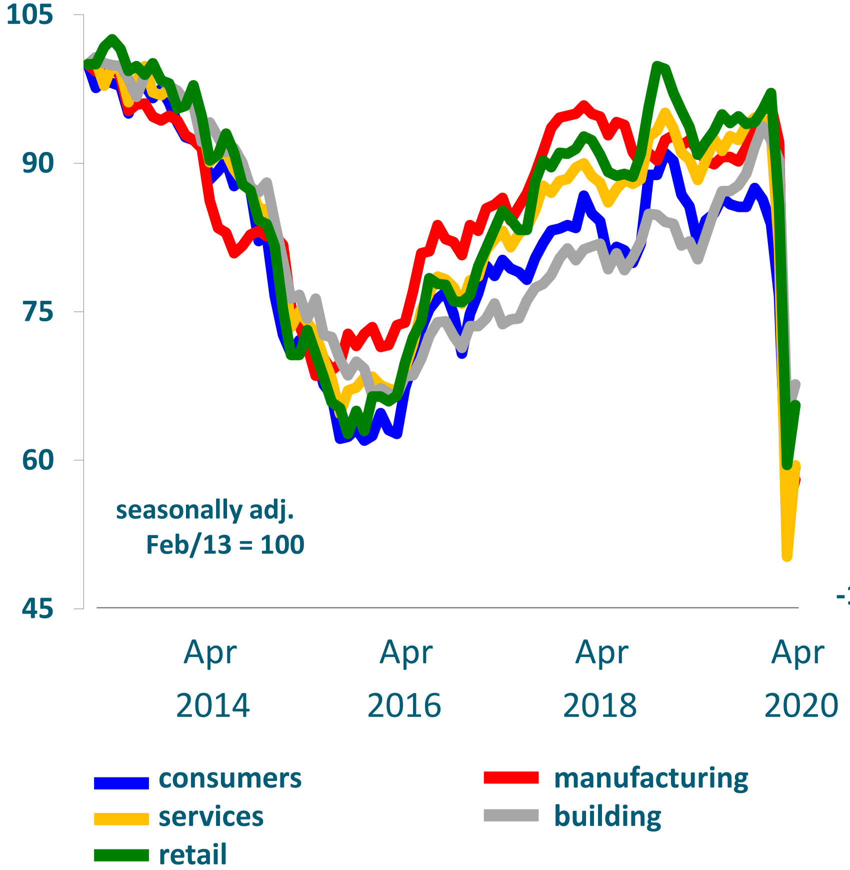
Source: CCEE

- Electricity comsumption – Moving average of 5 working days.
- Highlighted values refer to the change observed in the last day (05/15).

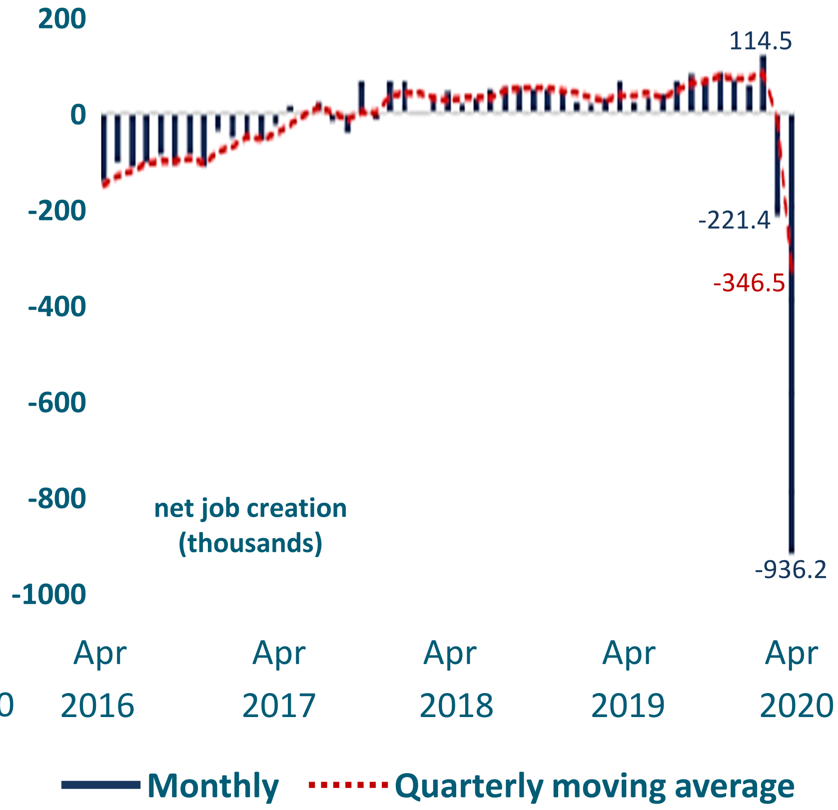
Brazil: Impact of Covid-19

Widespread effect on the economy

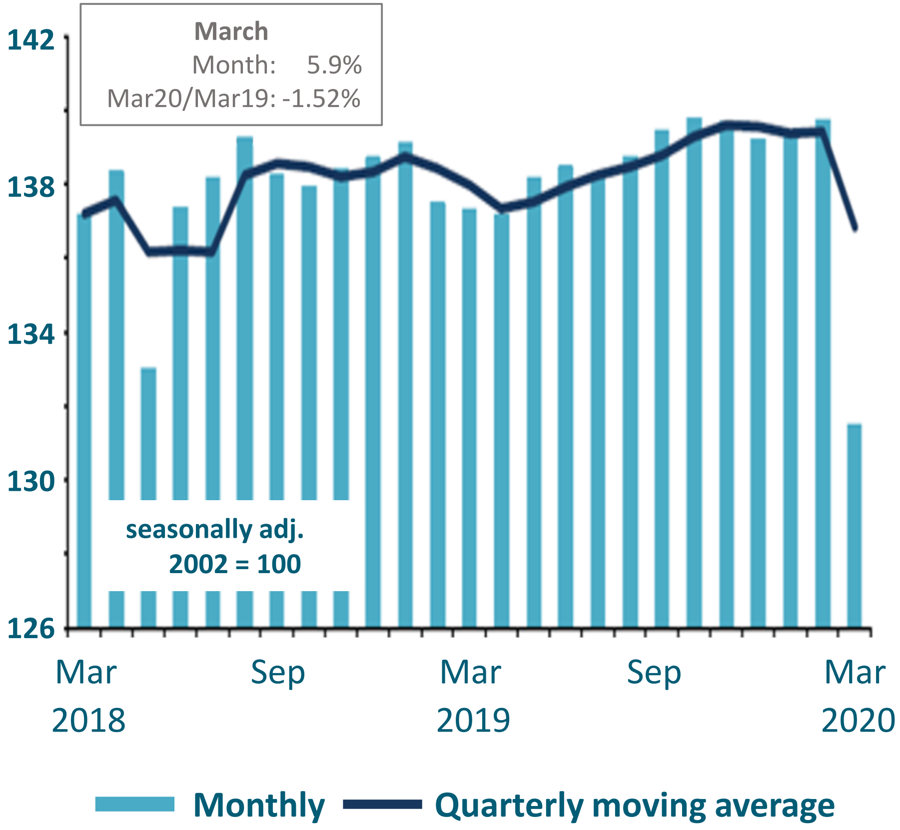
Confidence Indicators



Employment - Caged



IBC-BR



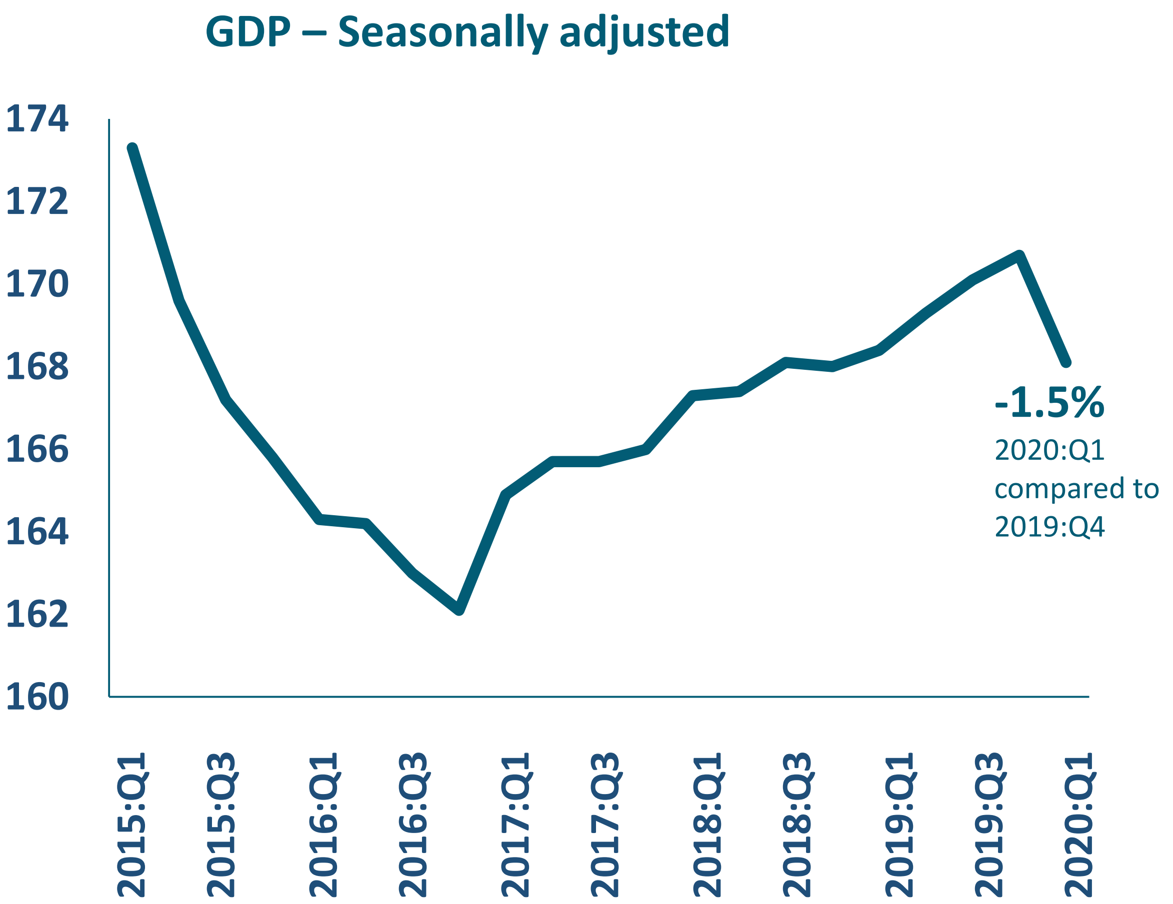
Source: Ibre, BCB

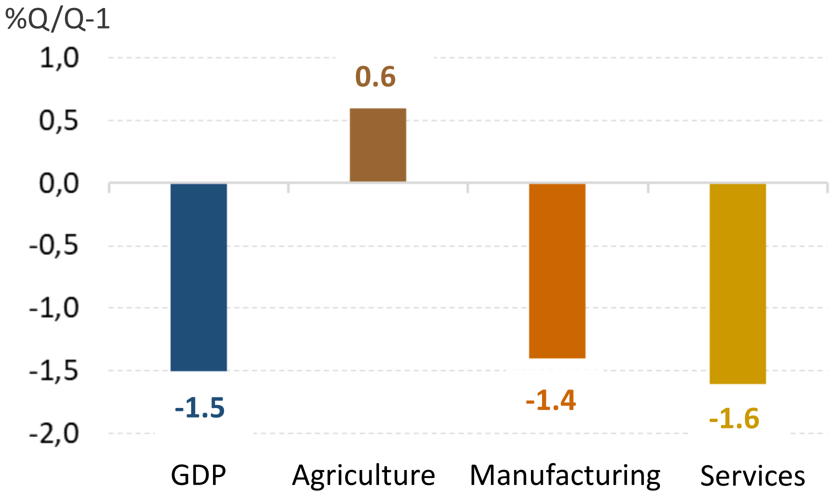
Brazil: Impact of Covid-19

GDP 2020:Q1 shows a sharp drop in activity

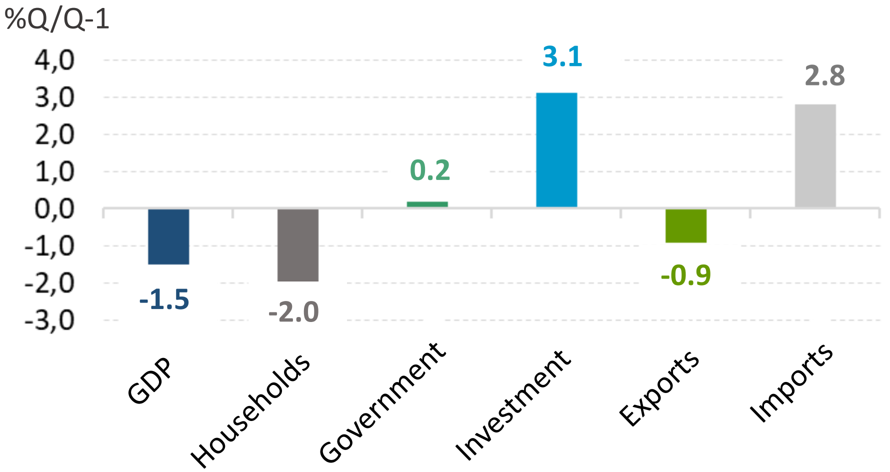
Shock on activity

Domestic Economy





GDP 2020:Q1 (supply)

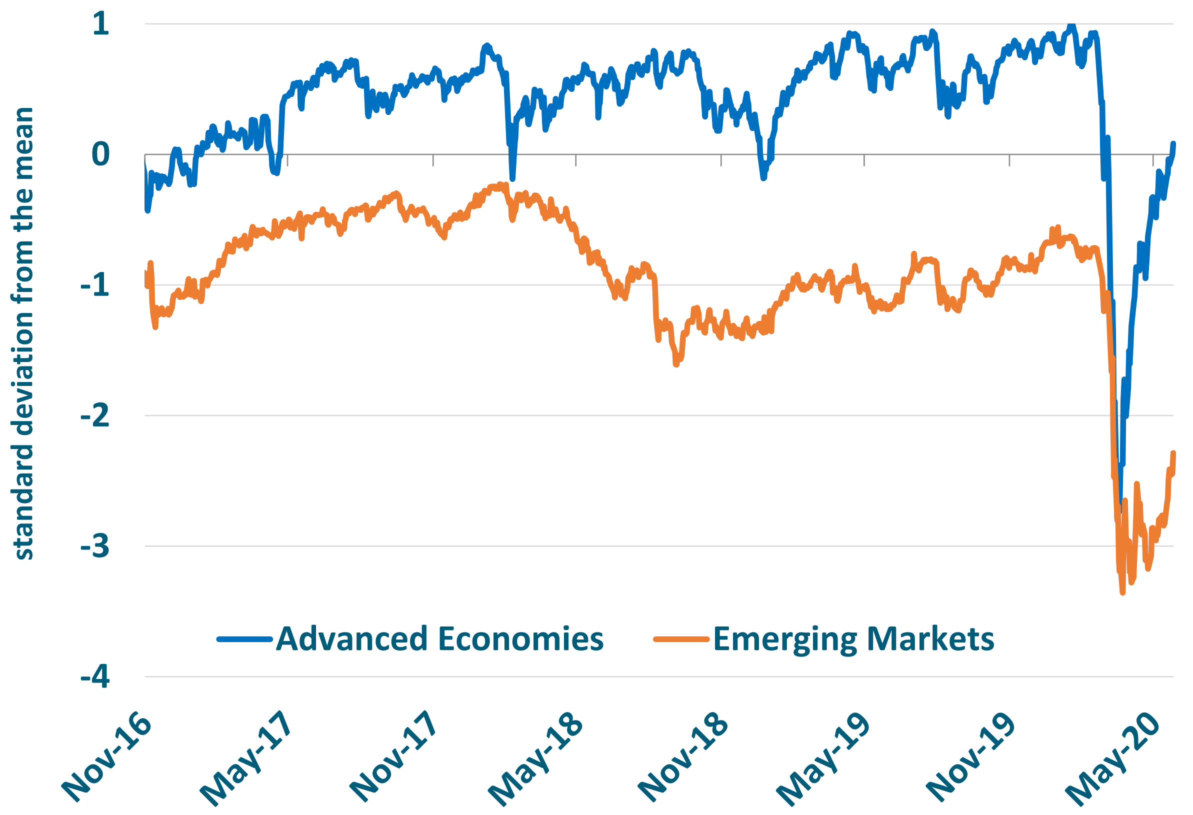


GDP 2020:Q1 (demand)

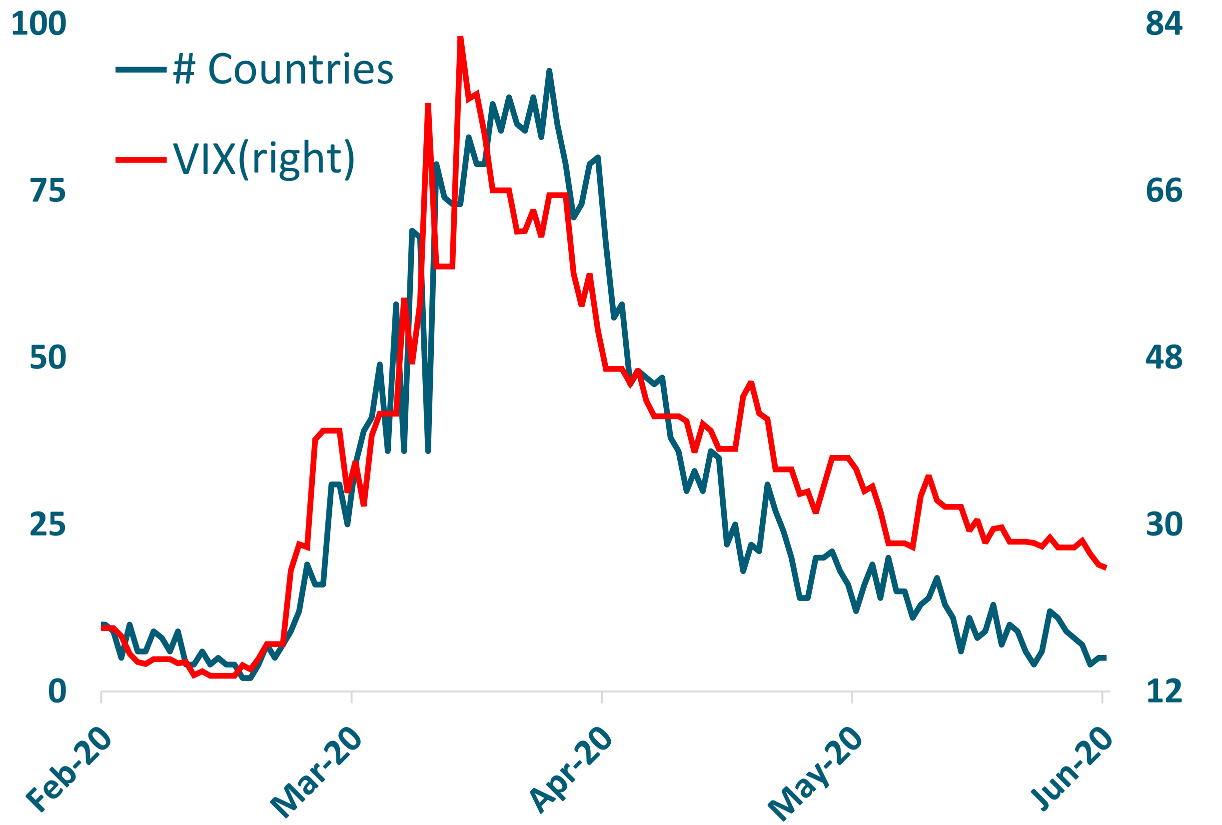
Source: IBGE

Pandemics: risk perception

Risk Appetite



New Covid-19 cases* vs. VIX

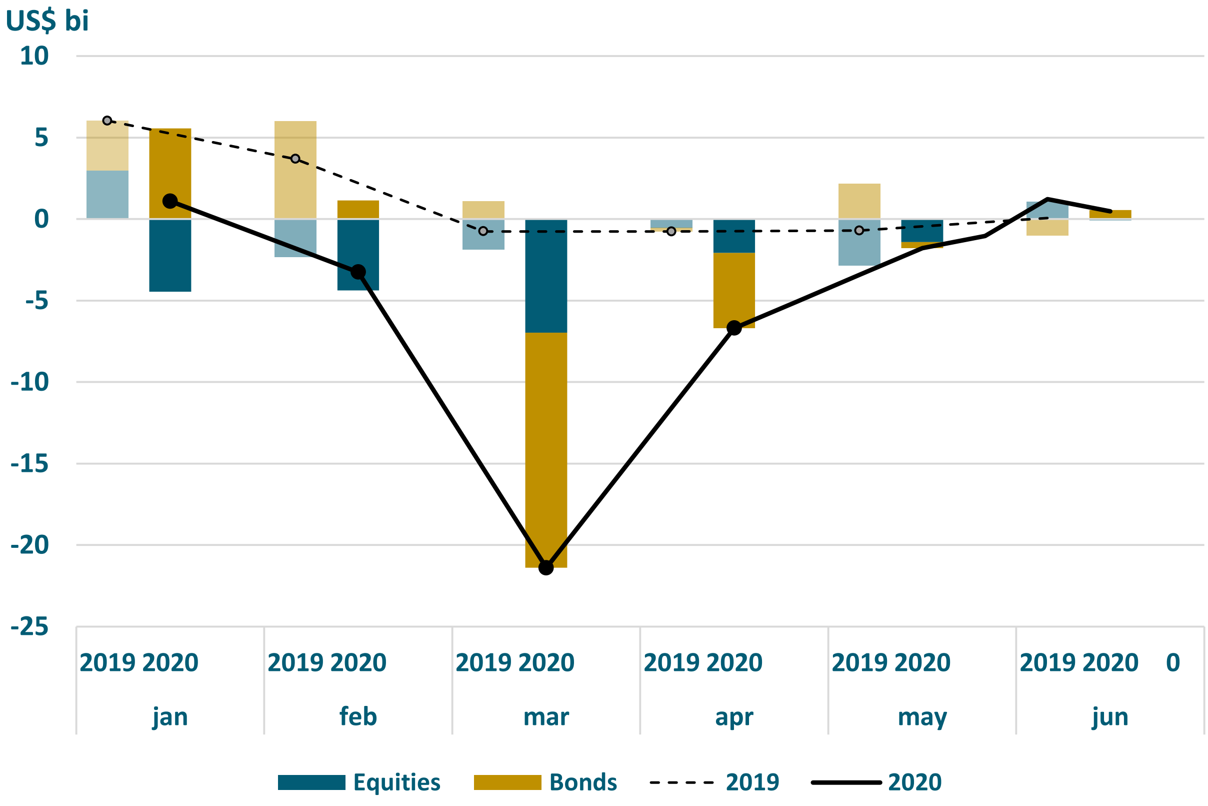


*Number of countries with daily growth of new cases higher than 5%; sample of 105 countries.

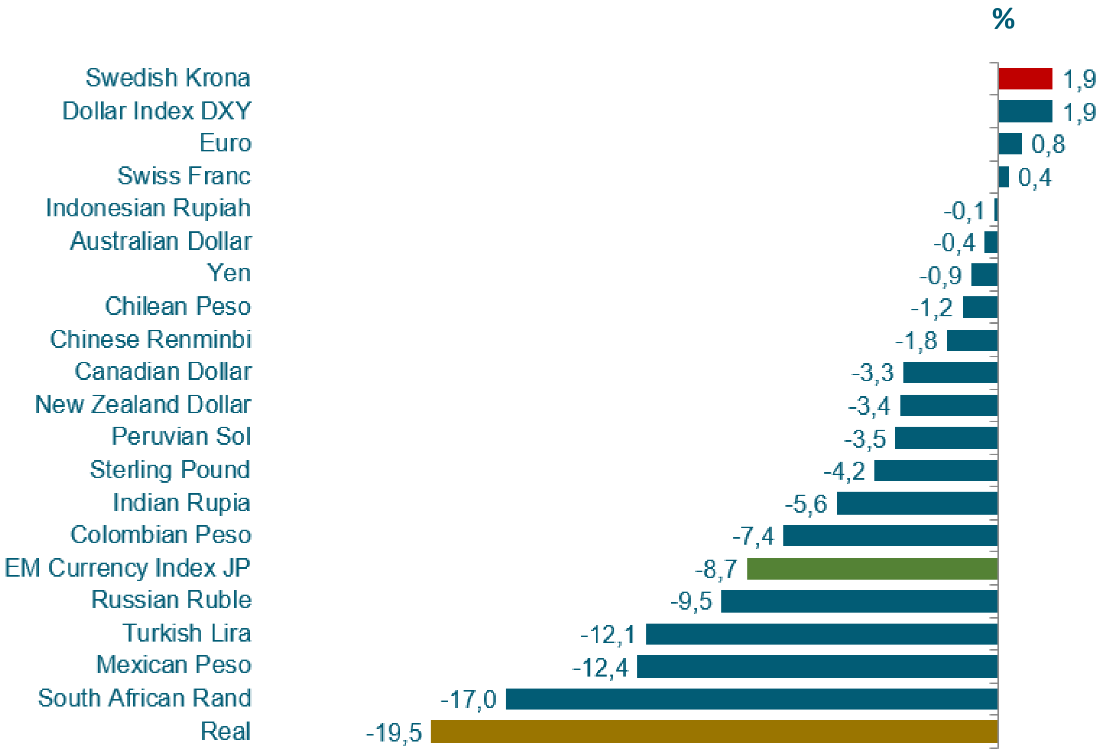
Source: FED, ECB, Bloomberg

External Problems + Domestic Situation

Capital flows and local currency were severely affected in Brazil



Source: Nacional Accounts/BCB, 06/03/2020



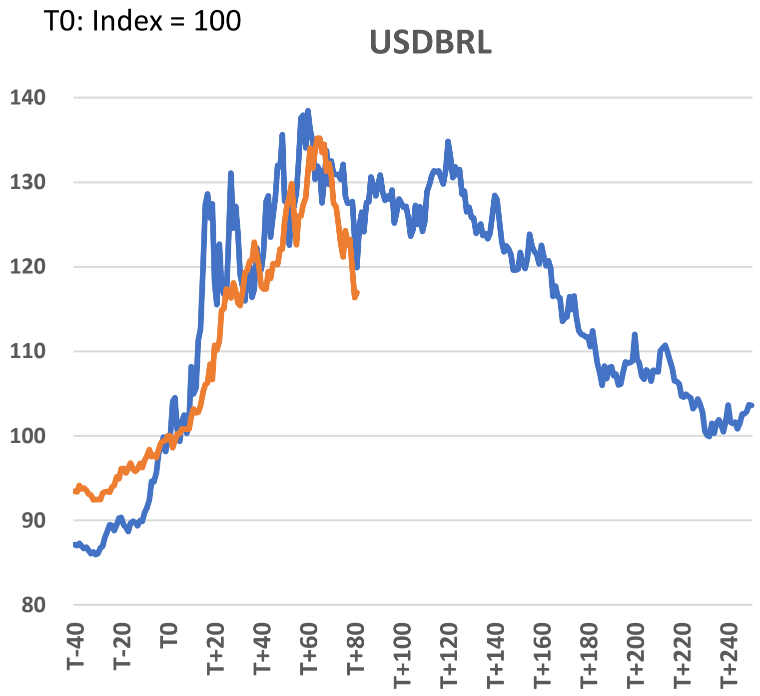
Source: Bloomberg, 06/05/2020

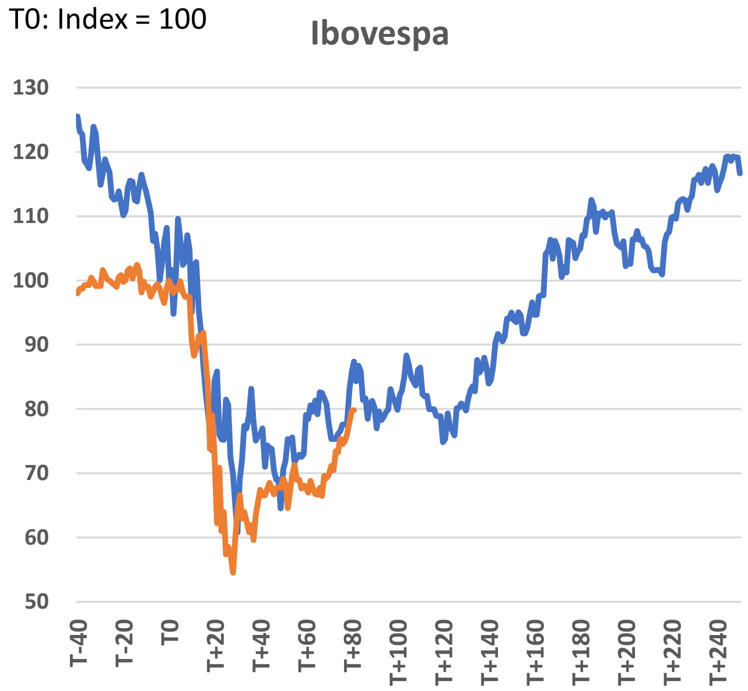
Local Assets Performance

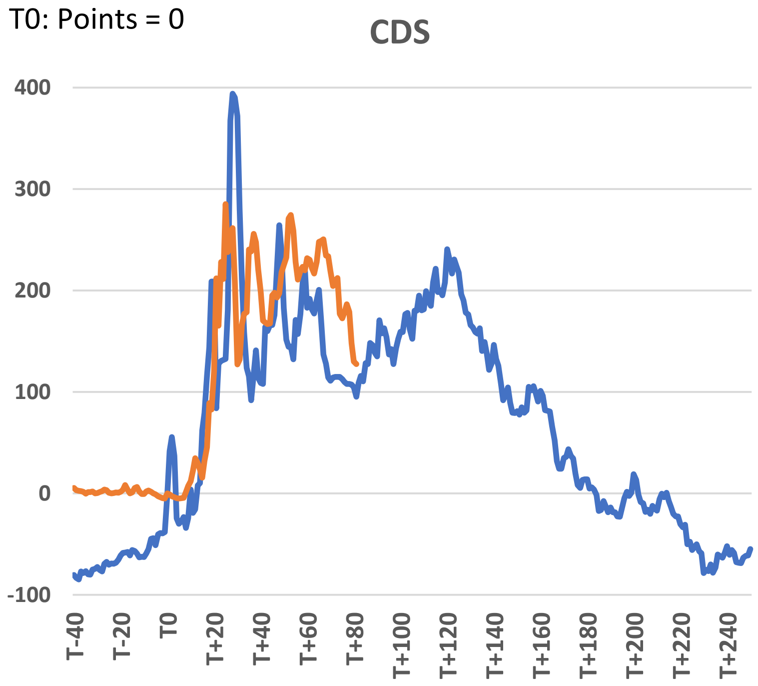
GFC vs. Covid-19

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





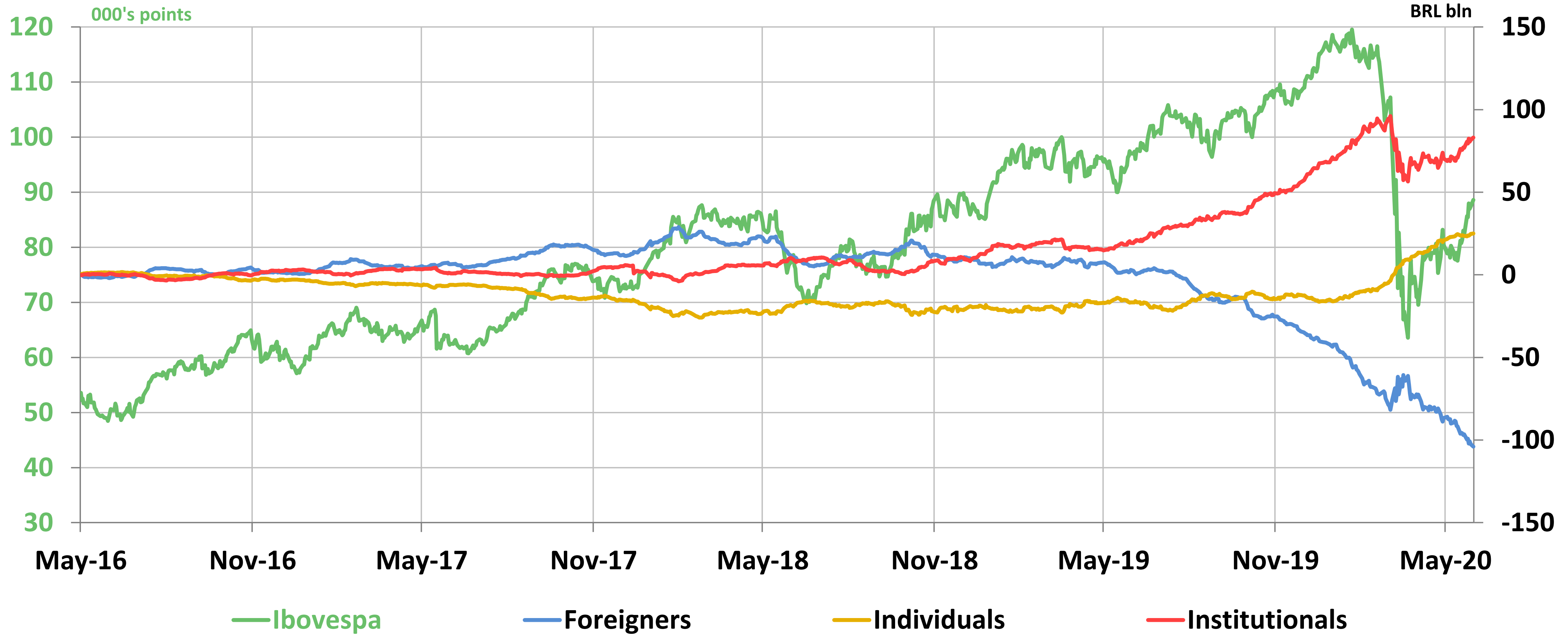


GFC   Covid-19

Source: Bloomberg, BCB

Ibovespa Flows

Investors' reaction



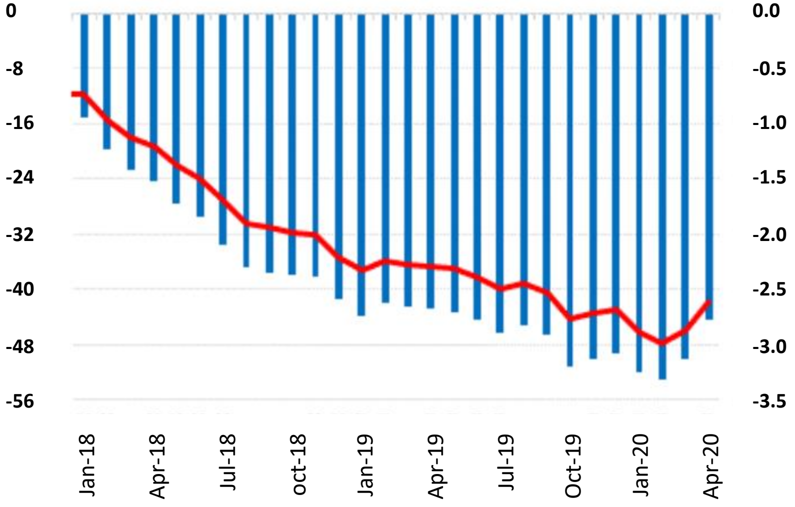
Source: B3

External accounts

Capital outflows will accommodate and external accounts will improve

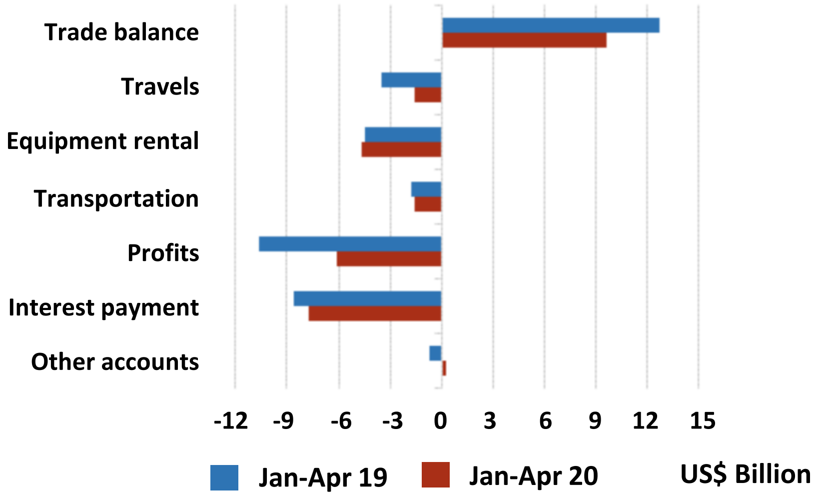
Current account

Accumulated in 12 months



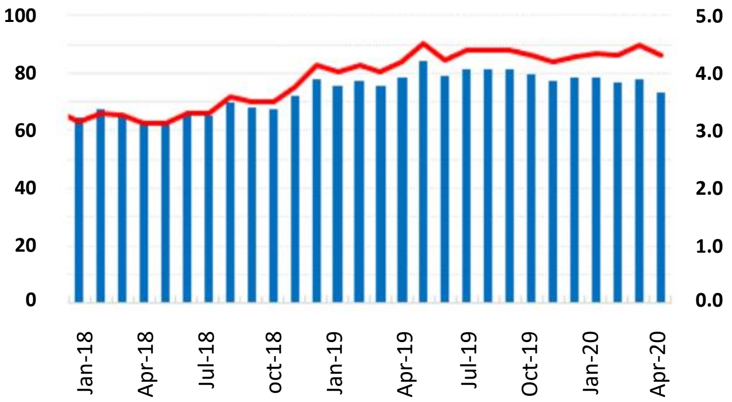
Current account

Decomposition

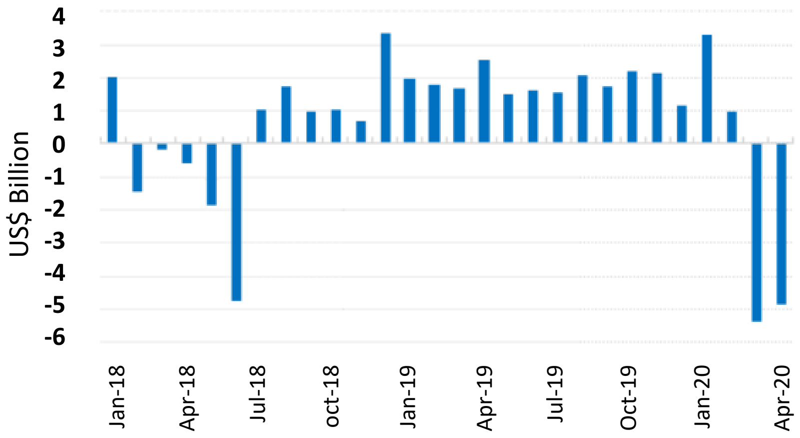


Direct investment in the country

Accumulated in 12 months



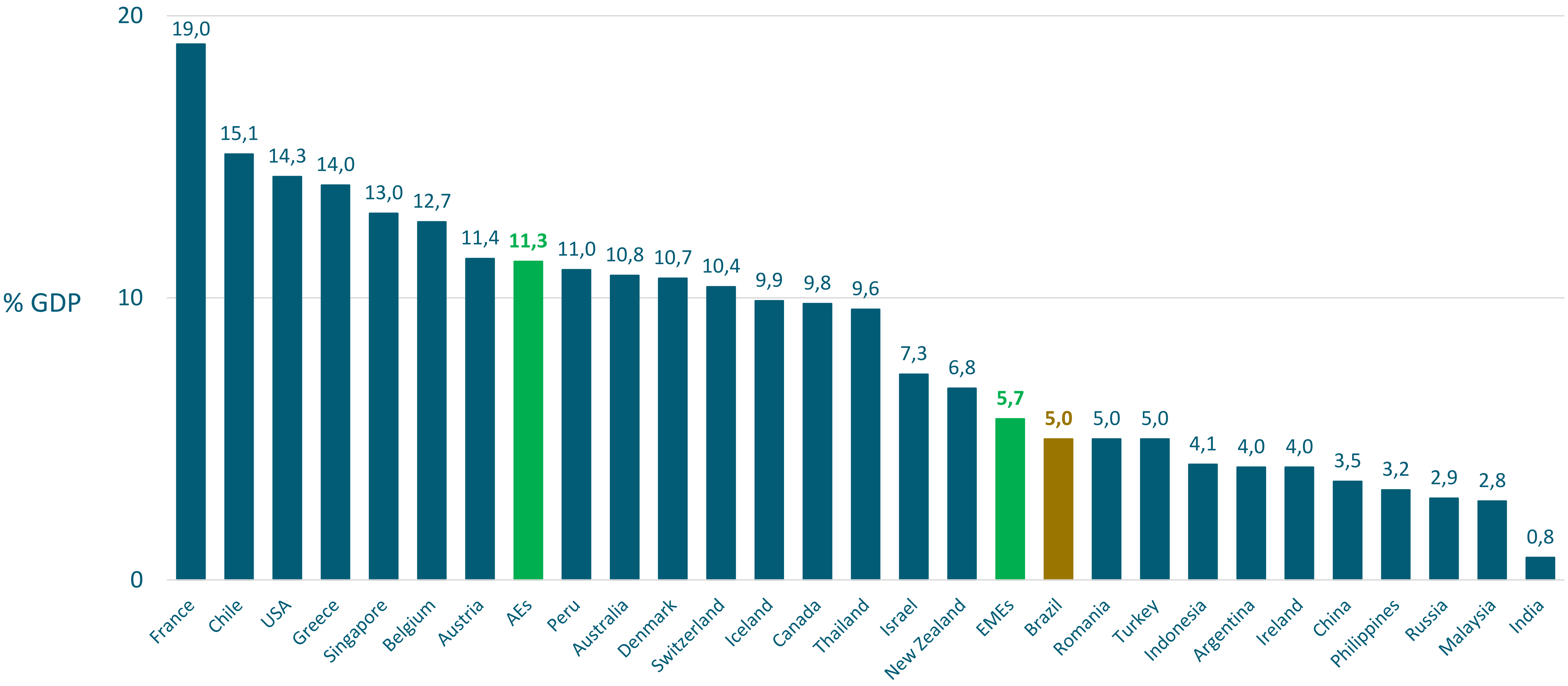
Direct investment abroad



Source: BCB

Fiscal Response

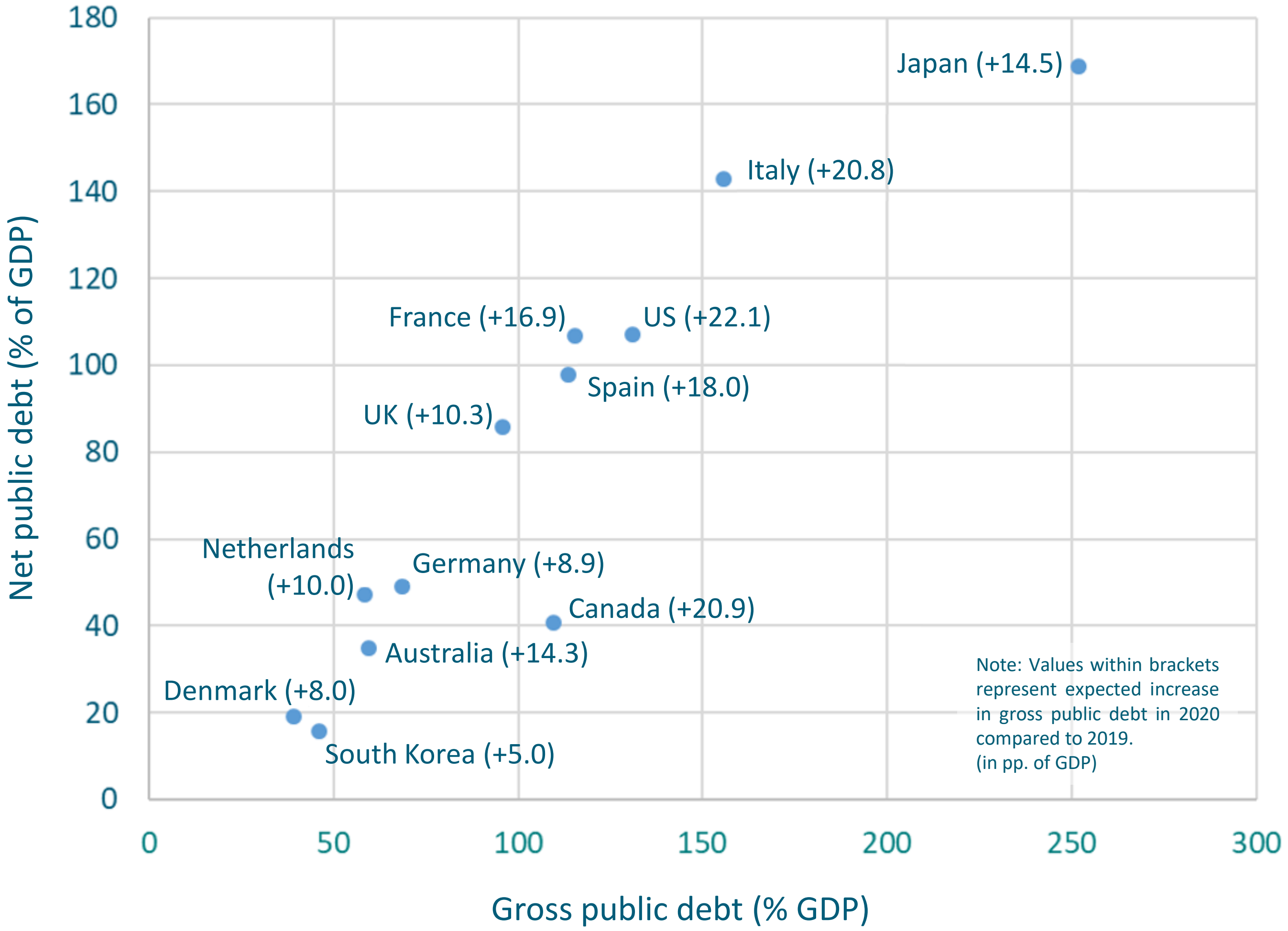
Comparative vision



Source: IMF and UN. Updated to 28/05. Data include credit guarantees.

Fiscal Response

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

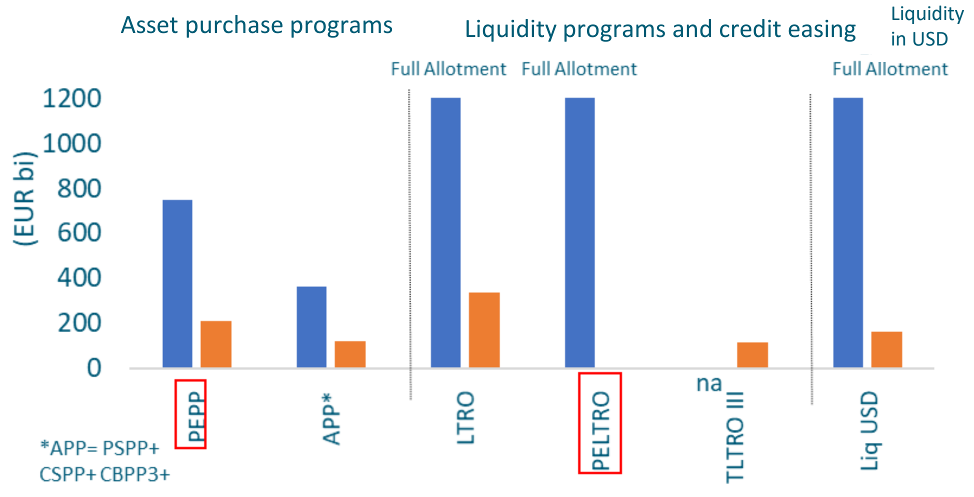


Source: FED, ECB, BoE and BCB

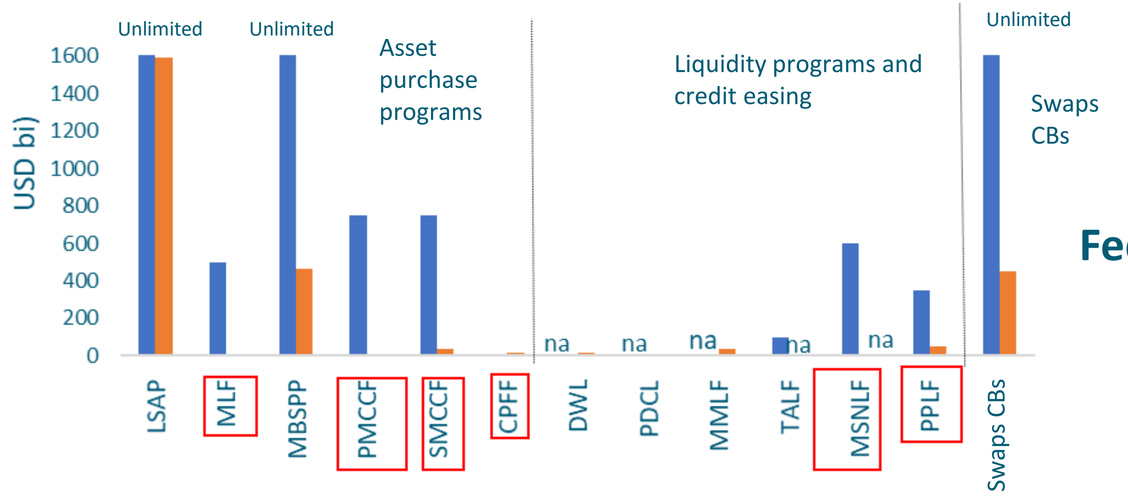
Central banks' response

Programs result in large injection of liquidity into financial systems

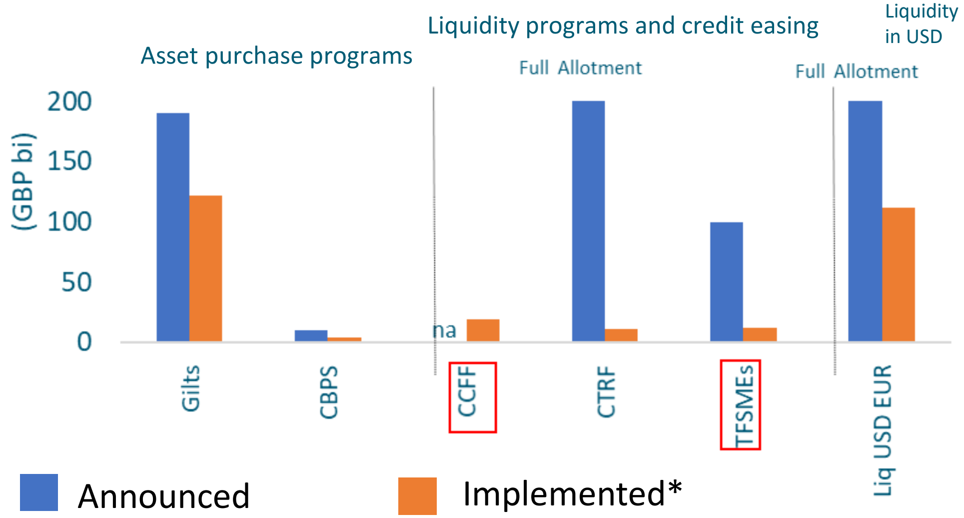
ECB



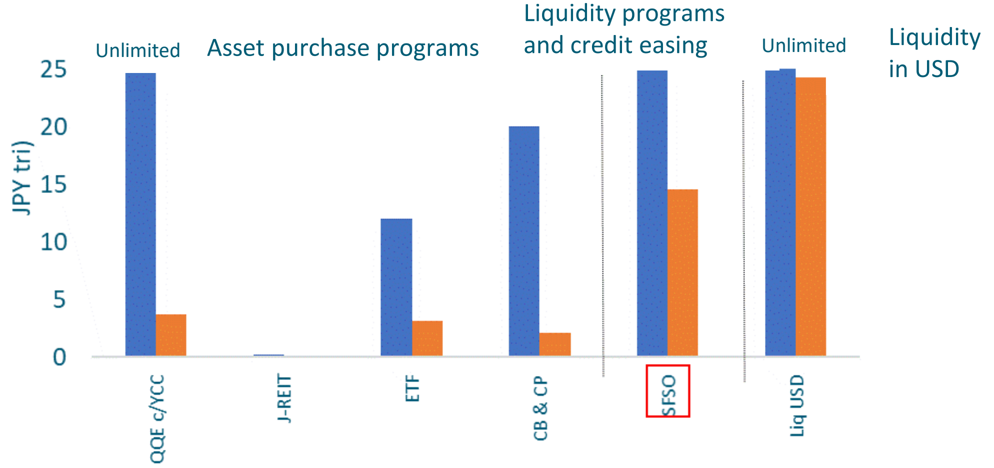
Fed



BoE



BoJ



Announced　Implemented*

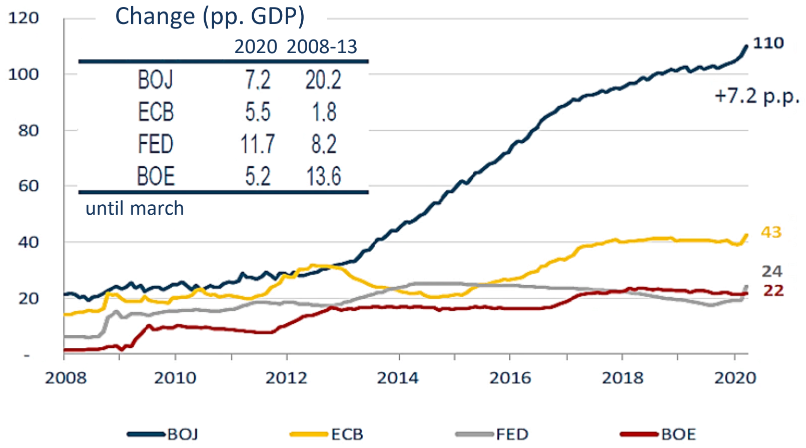
Source: Fed, BOJ, Bloomberg, Thomson Reuters

* Feb 24/May 2020

Central banks' response

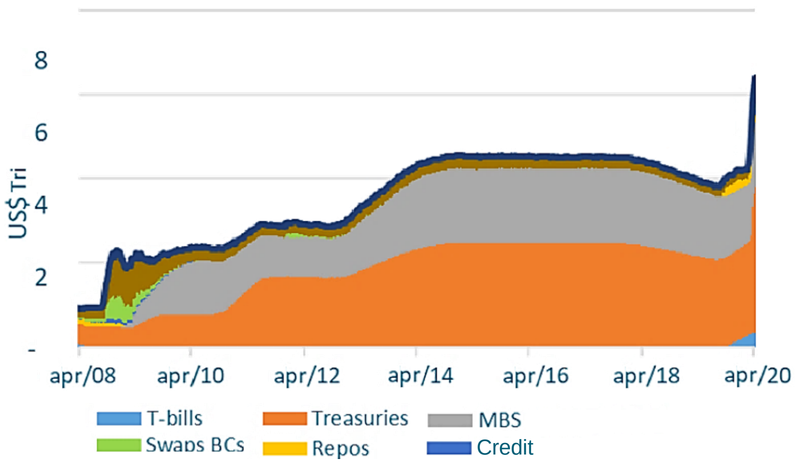
Sharp balance sheets expansion

Central banks balance sheets

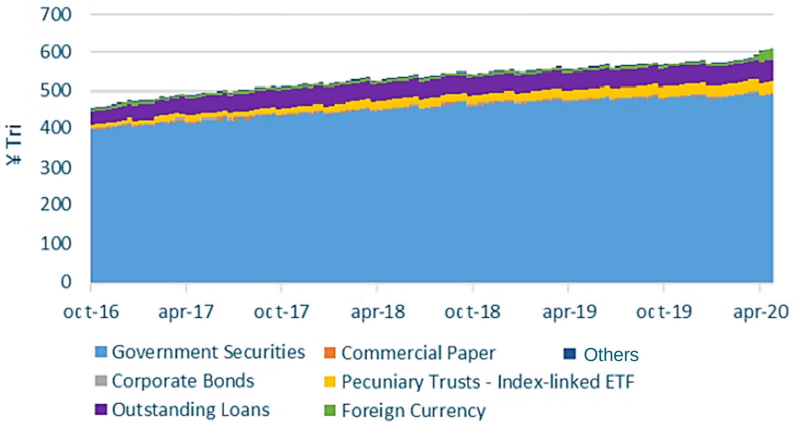


	2020	2008-13
BOJ	7.2	20.2
ECB	5.5	1.8
FED	11.7	8.2
BOE	5.2	13.6

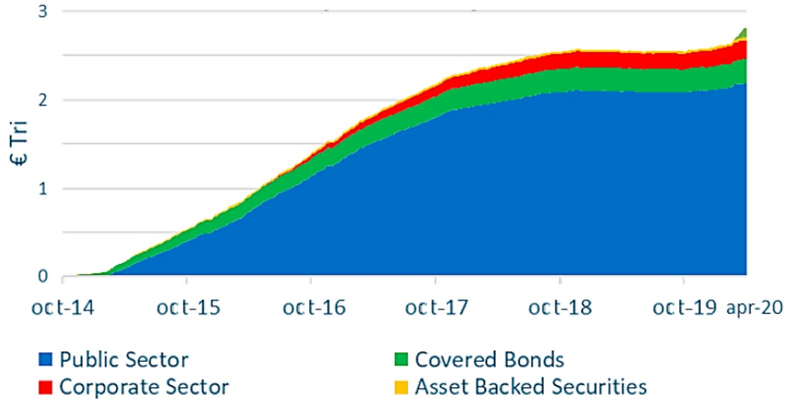
Federal Reserve USA



Bank of Japan



European Central Bank

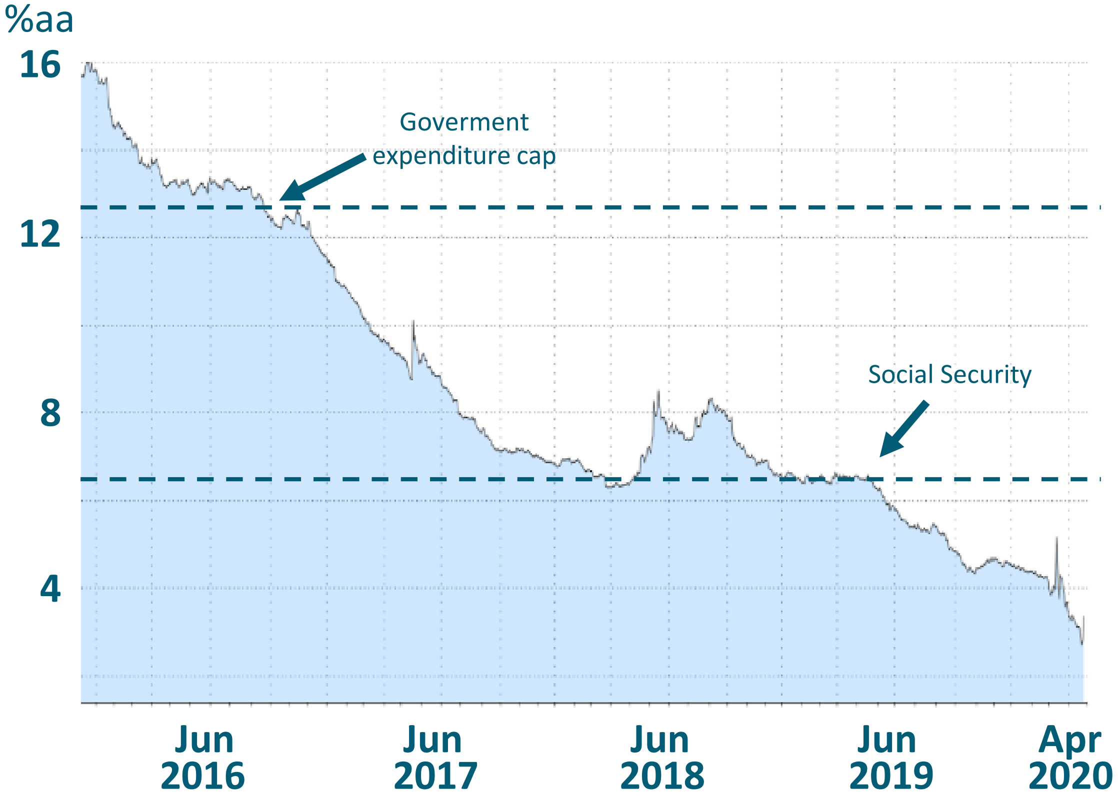


Source: FED, ECB, BOJ and Bloomberg

Room for conventional policies

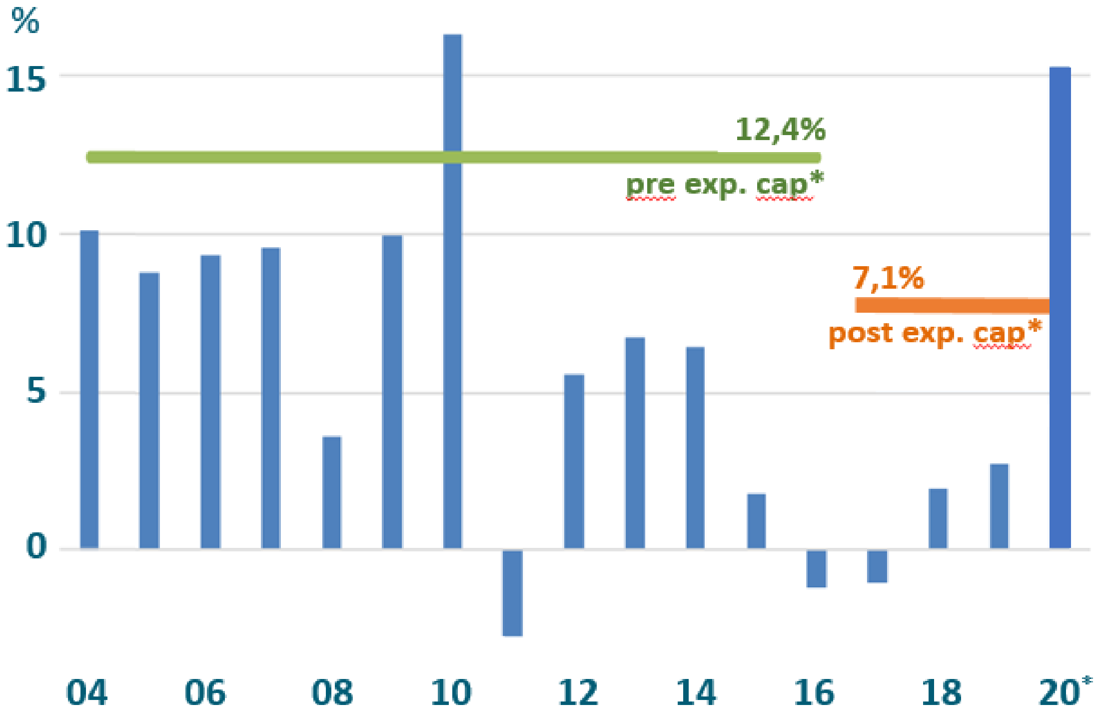
Brazil: cautious MP actions

Structural interest rate reductions
1 year rate



Source: Bloomberg, swap pré x DI 360 days

Real Public Expenditure
% change



*Average overnight annualized Selic

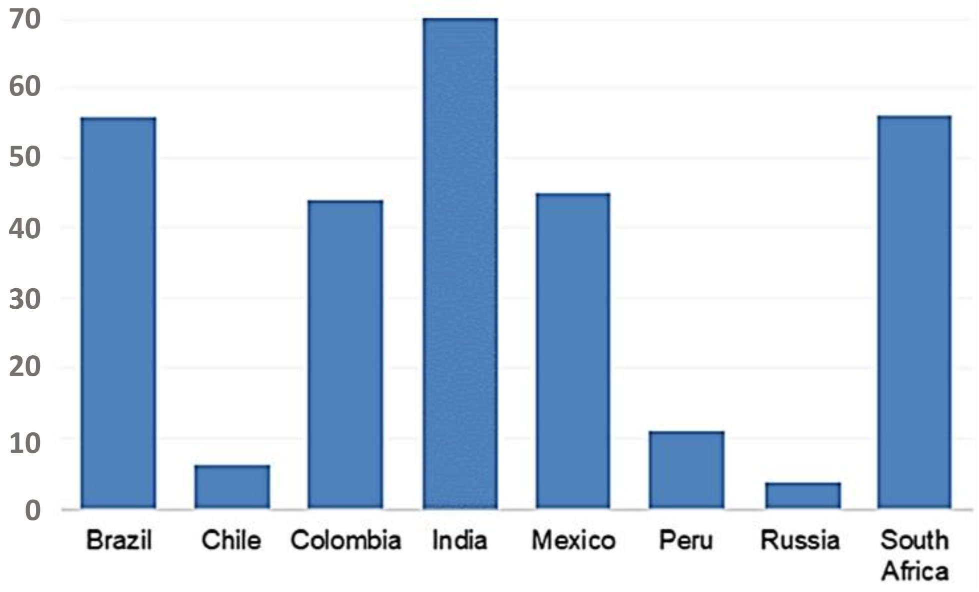
Source: BCB, 2020 projection

Room for conventional MP

Part of EMEs faces policy constraints

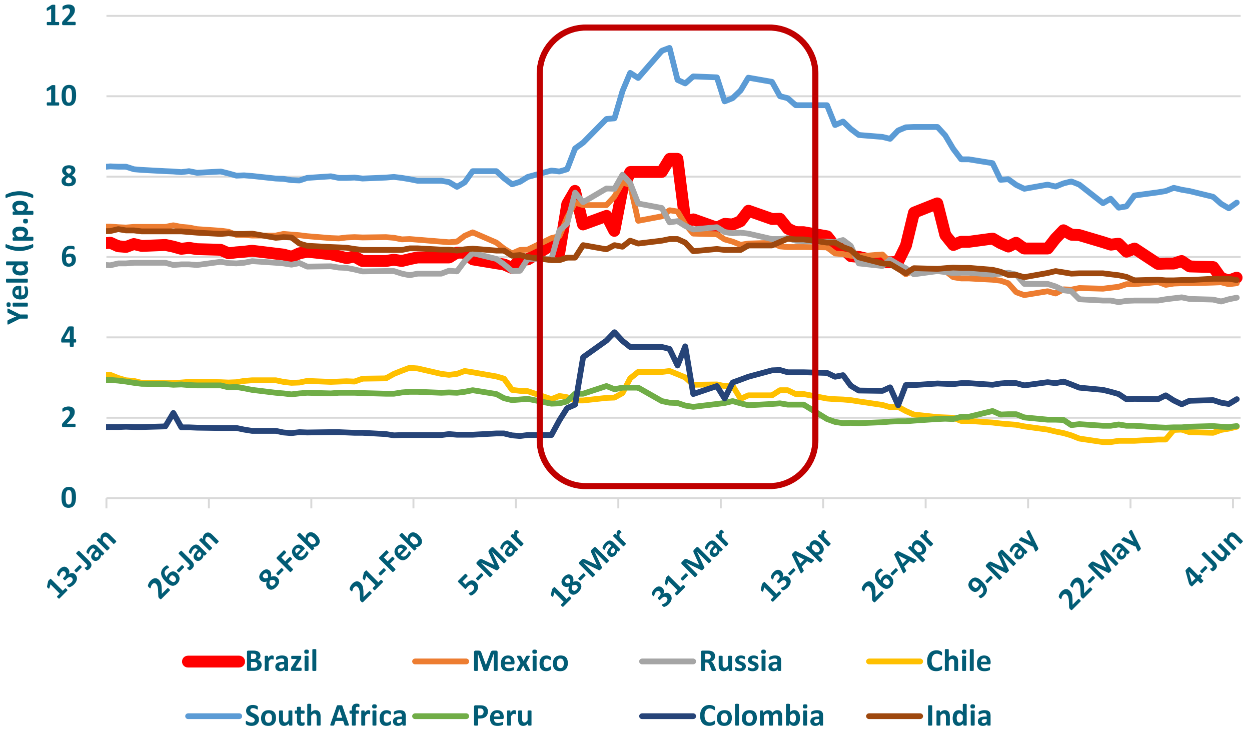
High debt: relevant risk factor

Net public debt
2019



Fonte: IMF, Standard & Poor's

Five years yield*



Source: Bloomberg

Monetary Policy

- In its last meeting, the Copom unanimously decided to lower the Selic rate by 0.75% percentage points to 3.00% p.a.

- The Copom believes that the current state of affairs recommends an unusually large monetary stimulus, but it reinforces that there are potential limits to the remaining space for adjustment.

- For the next meeting, conditional on the fiscal scenario and on the economic data, the Committee considers a final monetary adjustment, not larger than this one, to complete the change to the policy rate that it deems adequate to counteract the economic consequences from the COVID-19 pandemic.

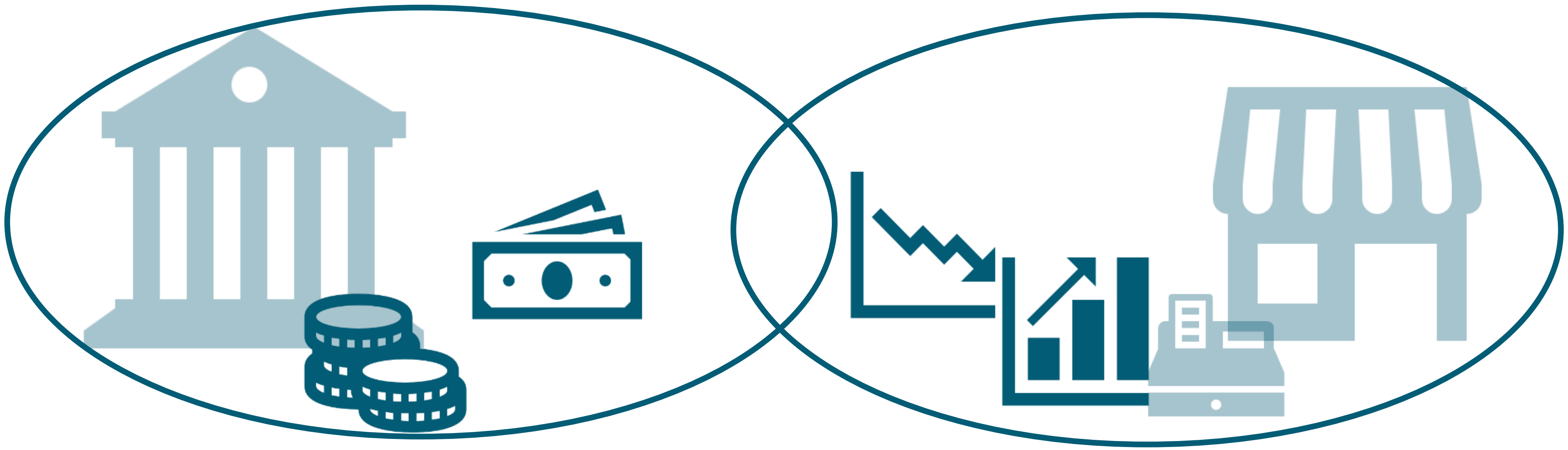
- The Committee recognizes that the variance of its balance of risks has increased and that further information on the effects of the pandemic in the economy, as well as a decline in fiscal uncertainty, will be essential to determine its next steps.

The roles of monetary andfiscal policies

Monetary andfiscal policies have well-defined roles

Monetary Policy
Liquidity

Fiscal Policy
Solvency



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

Summary
Measures' impacts

	2020 potential	2020 implemented	2008
Liquidity Support	R$	R$	R$
Reserve requirementes + change in LCR regulation	135 bn	135 bn	–
Adittional reduction in reserve requirements	70 bn	70 bn	82 bn
More flexibility on LCA regulation	2.2 bn	2,2 bn	–
Loan backed by LFs guaranteed by credit operations	670 bn	21 bn	–
One-year term repos backed by federal govnt. bonds	50 bn	25 bn	25 bn
New Term Deposit with Special Guarantees (NDPGE)	200 bn	3,9 bn	10 bn
Loans backed by debentures	91bn	3,0 bn	–
Total	**1218.2 bn**	**260.2 bn**	**117 bn**
% of GDP	**16.7%**	**3.6%**	**3.8%**
Capital Relief *			
Overhedge	520 bn	520 bn	–
Reduction of the Additional Principal Capital (ACP) factor	637 bn	637 bn	–
Reduction in the capital for credit operations for SMEs	35 bn	35 bn	
Total	**1192 bn**		**–**
% of GDP	**16.4%**		**0.0%**
More flexibility for credit renegotiations	**3200 bn	550 bn	–
Others measures			
Swap lines with the Federal Reserve	US$ 60 bn		US$ 30 bn
% of GDP	4.1%		2.4%
Creation of special credit lines for SMEs	BRL 40 bn	BRL 1.9 bn	–
% of GDP	0.5%		–

Source: BCB

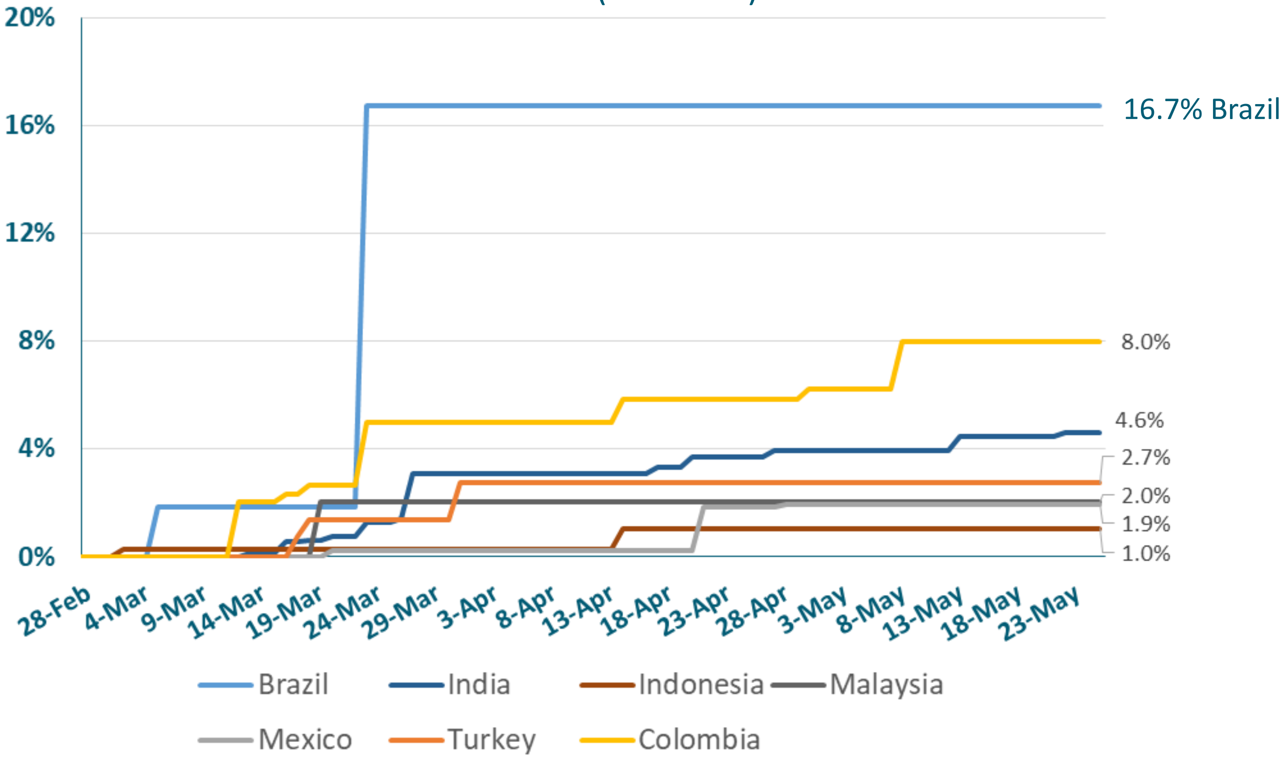
BANCO CENTRAL DO BRASIL

* Potencial impact on credit provision.
** Credit operations volume potentially benefited by the measure.

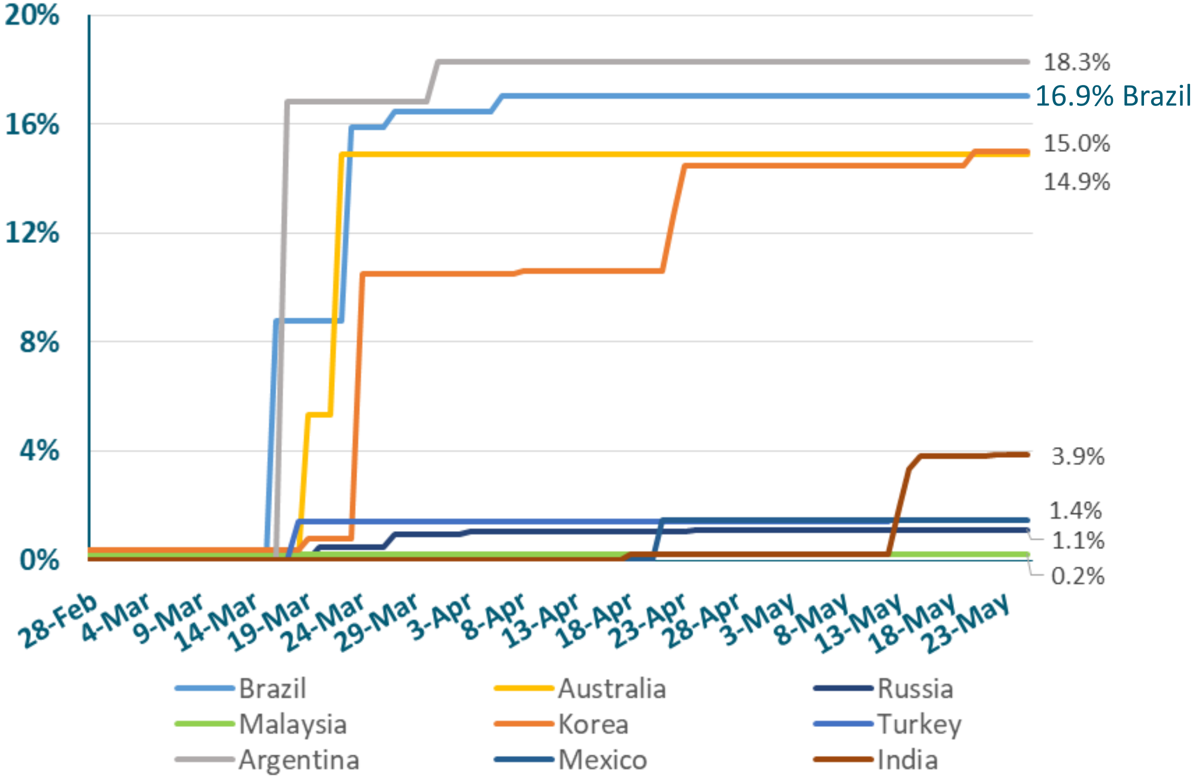
Emerging Markets Economies

Covid-19 Measures -Comparative overview

Liquidity Support
(% of GDP)



Credit Support
(% of GDP)

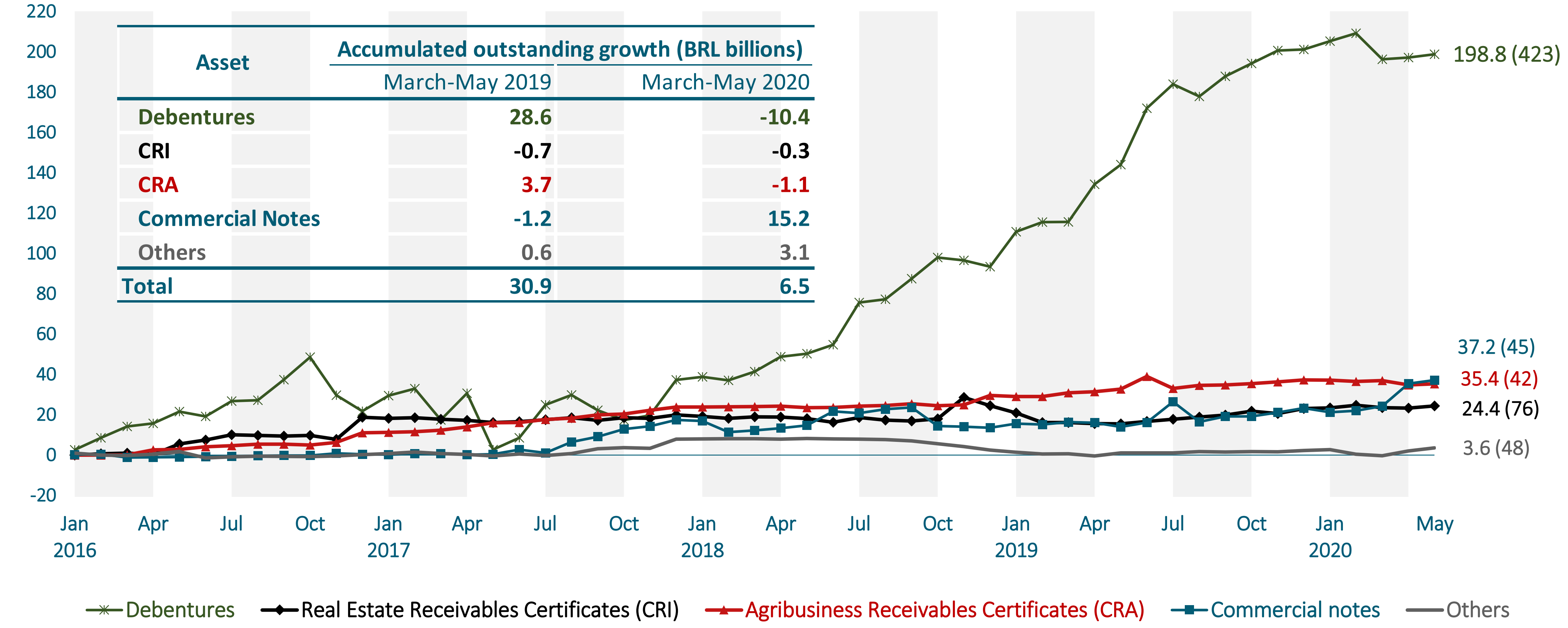


Source: FSB/BCB – until 06/04

Non-banking funding

Debentures outstanding fell more than other non-bank assets issued

Non-bank fundrasing outstanding – accumulated growth

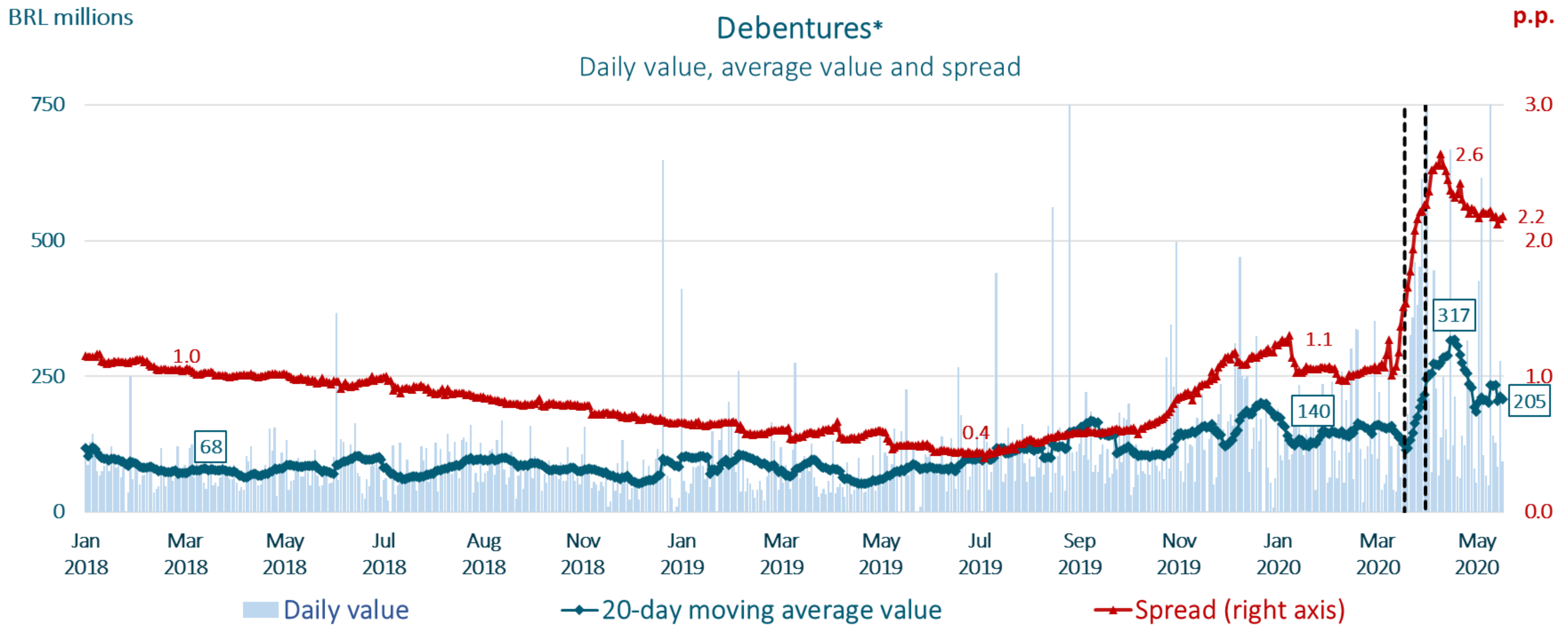


Asset	Accumulated outstanding growth (BRL billions)	
	March-May 2019	March-May 2020
Debentures	**28.6**	**-10.4**
CRI	**-0.7**	**-0.3**
CRA	**3.7**	**-1.1**
Commercial Notes	**-1.2**	**15.2**
Others	0.6	3.1
Total	**30.9**	**6.5**

Source: Cetip

Debentures in secondary market

Negotiated values and spread increased significantly at the start of quarantine, but began to decline from mid-April



Sources: B3, Cetip

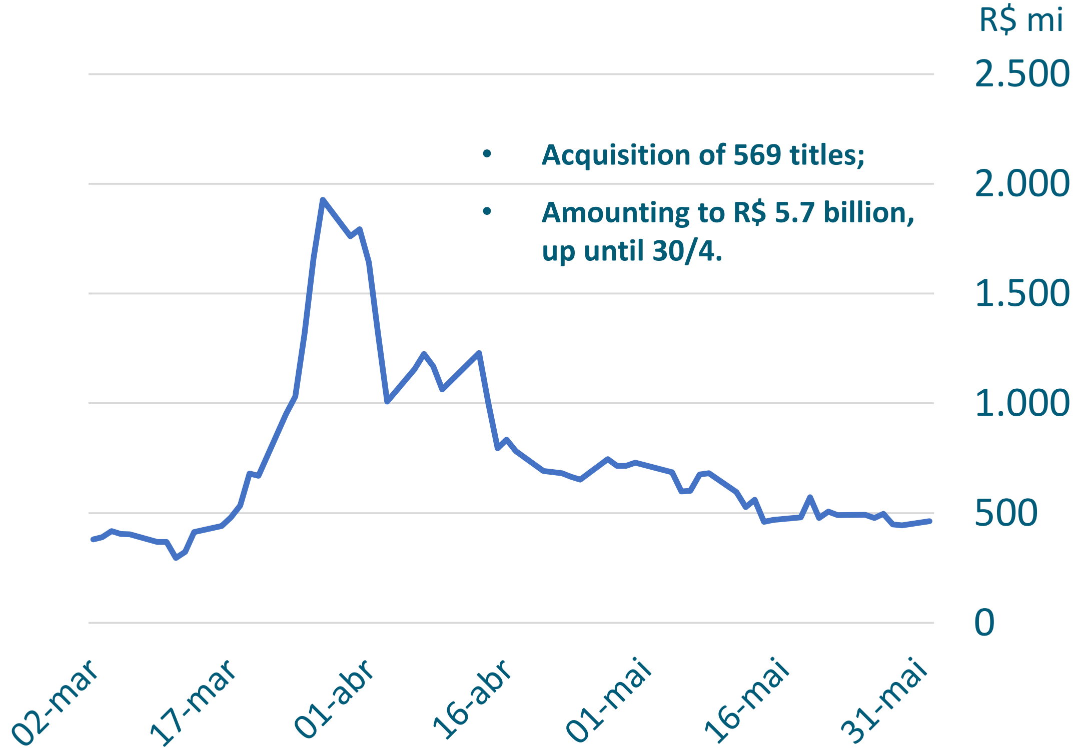
*Includes all ratings and portfolios. Until 29/04. Vintage Jan / 18.

Debentures on Secondary Markets

Banks helped to stabilize prices, with positive reflex on market functionality

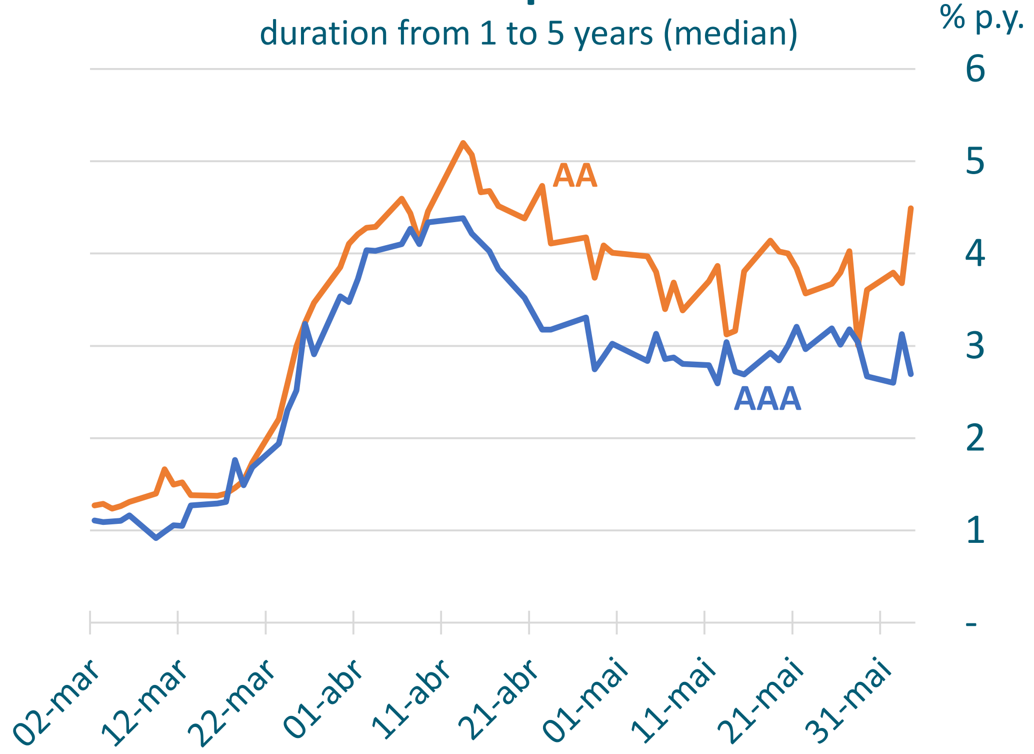
Debentures

Traded volume*



DI + spread

duration from 1 to 5 years (median)



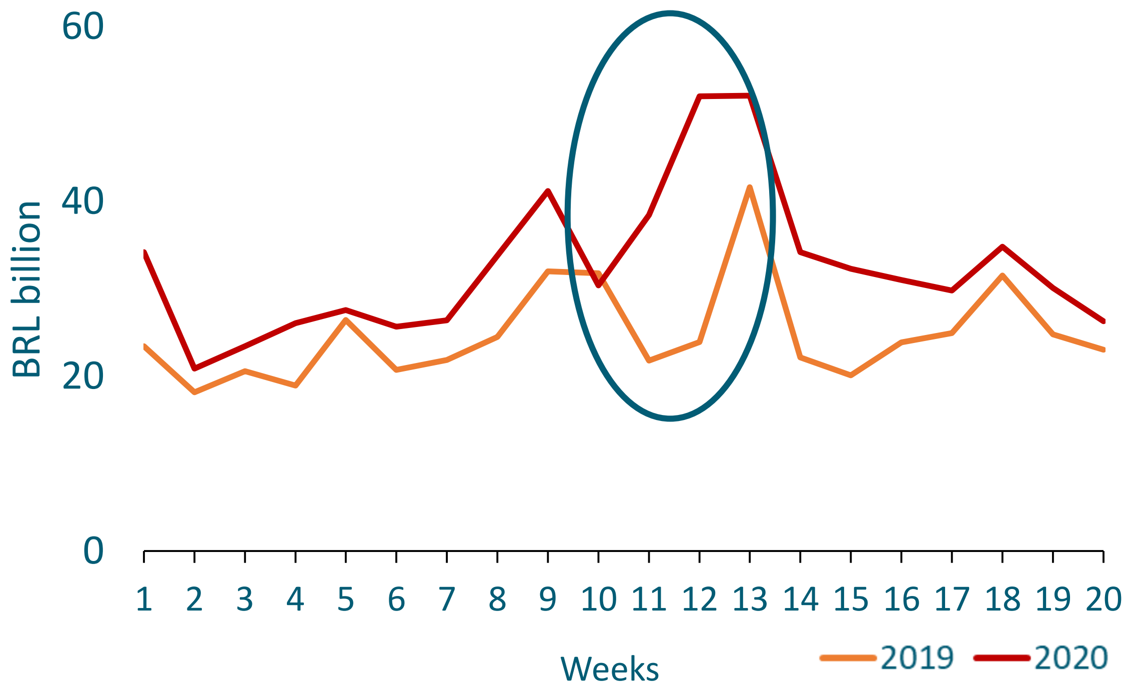
Source: BCB

* five days moving average

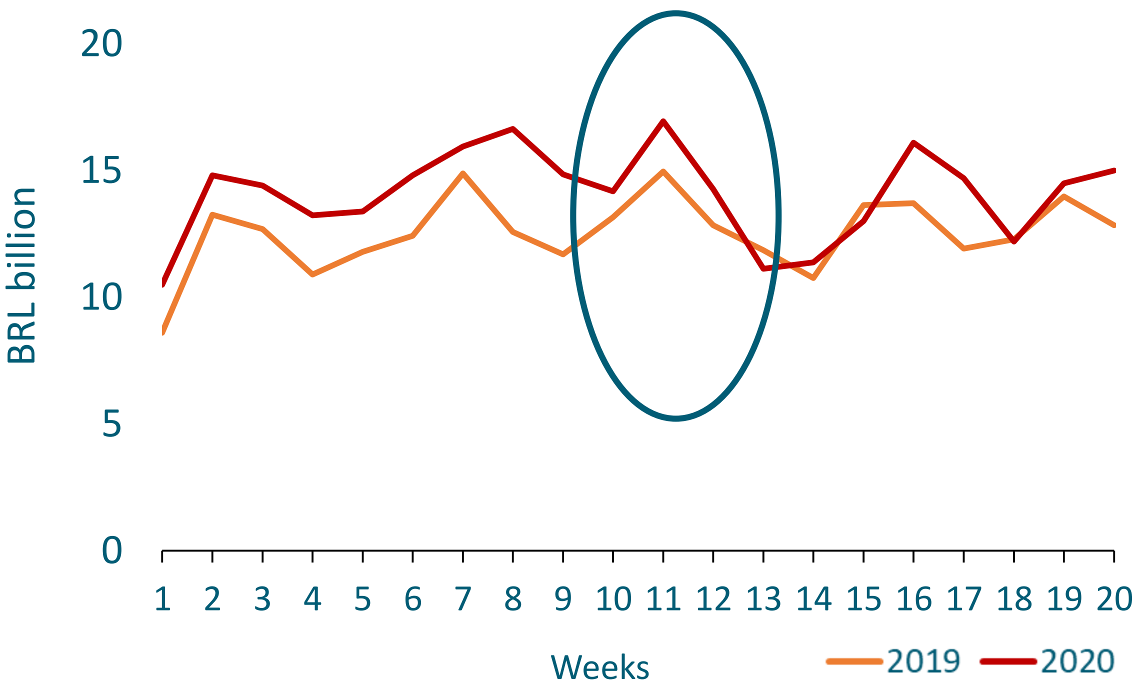
Nonearmarked new credit transactions

Increase in credit to firms amid the crisis

Corporations*



Households*



Source: BCB

* Not including overdraft and credit card. Weekly data, accumulated over the last five working days, up to 05/15.

Credit market

Local measures have stimulated credit growth

Change in the credit balance

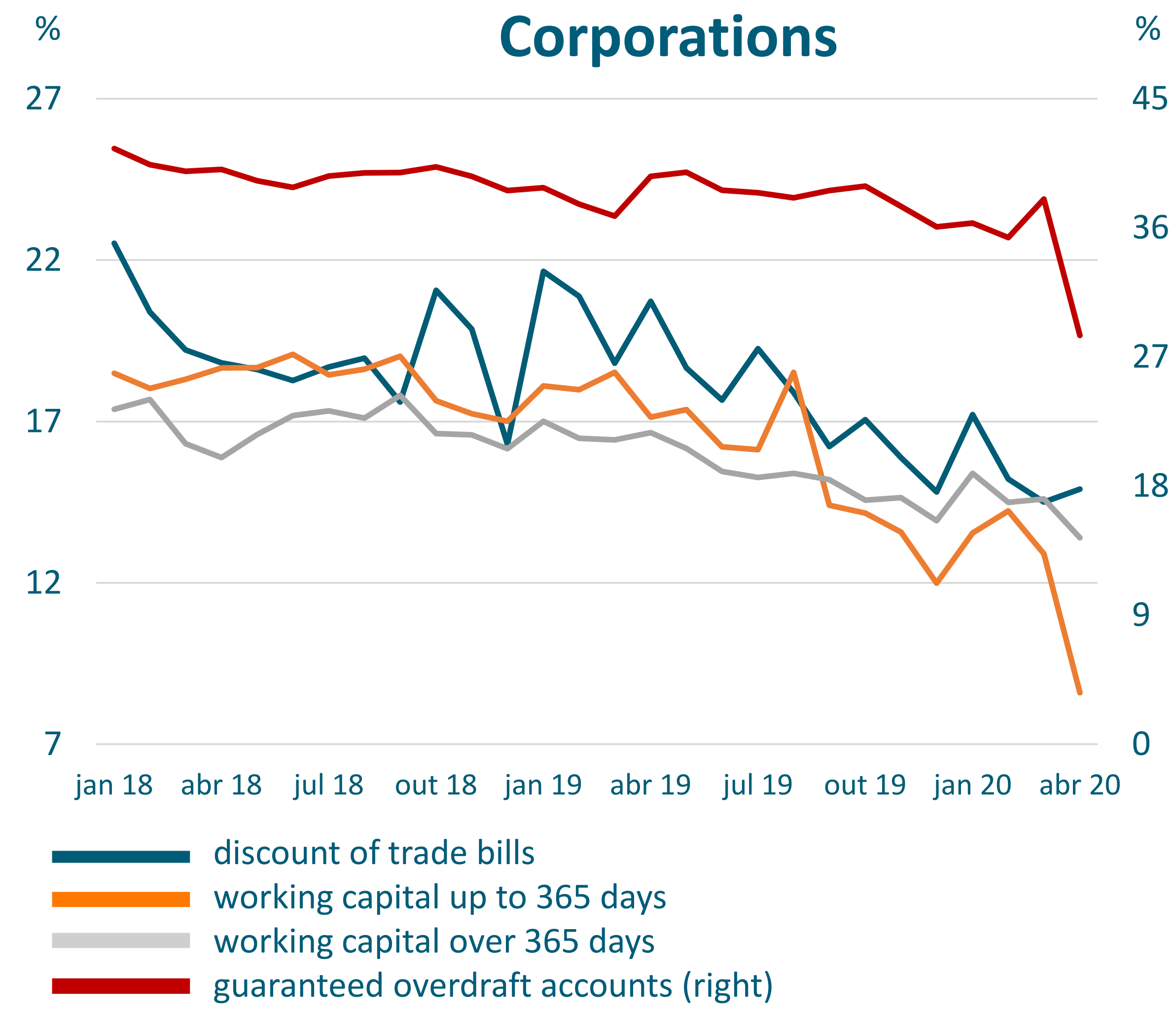
YtD* (%)	Germany	France	Italy	Spain	USA	Brazil Balance	Brazil New credit granting	Brazil New credit granting, since week 11
Non-financial firms	3.0%	6.1%	-0.7%	-1.0%	31.0%	10.3%	36.6%	40.1%
Households	1.4%	0.3%	2.6%	-1.5%	0.0%	-0.5%	15.0%	8.1%

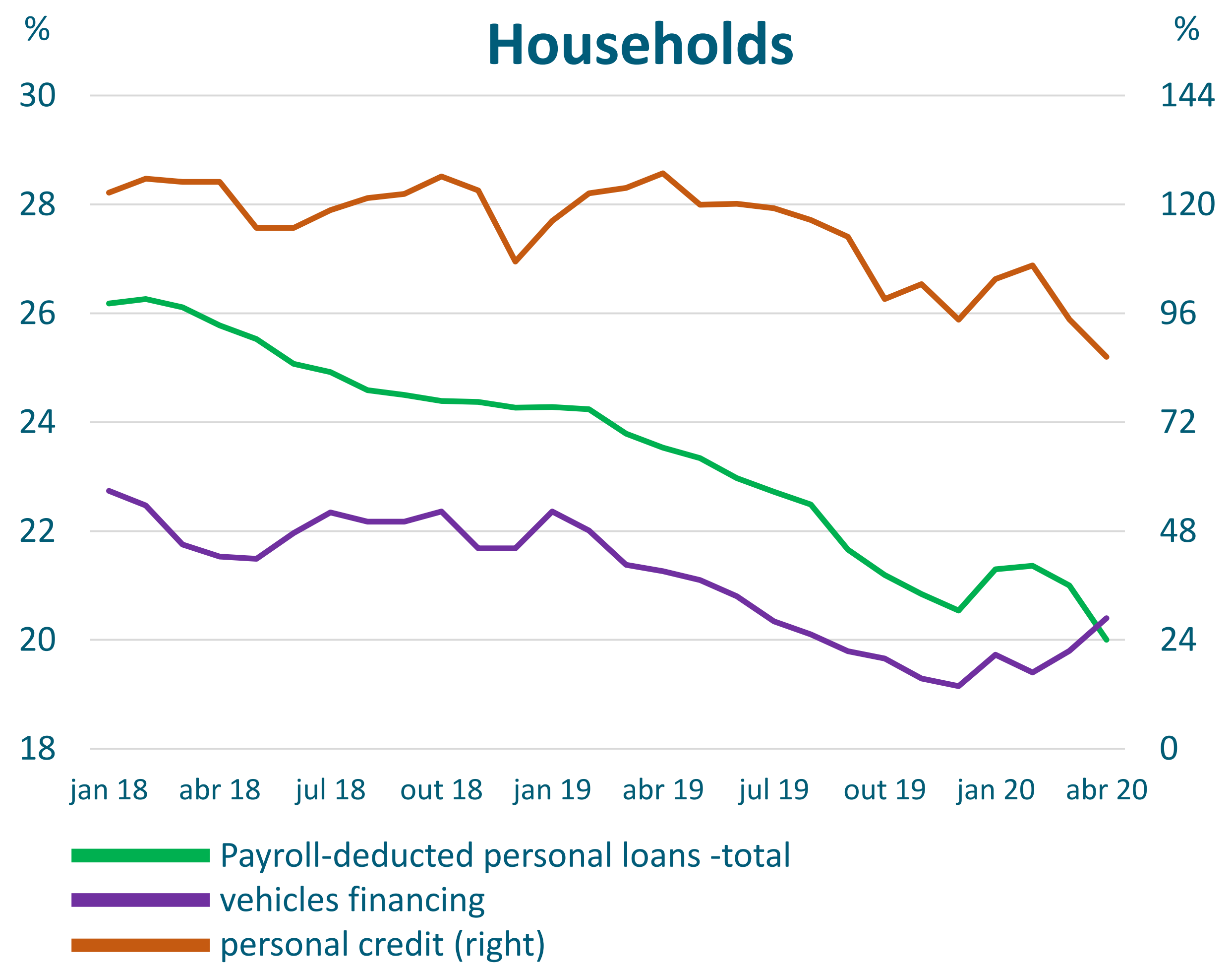
Source: Thomson-Reuters, BCB

* Germany, France, Italy and Spain – data reffering to 04/30
USA and Brazil – data reffering to 05/15

Average interest rates: new credit transactions

Nonearmarked credit (% p.y.)





Source: BCB

New transactions and credit renewals

From March 16th to May 29th

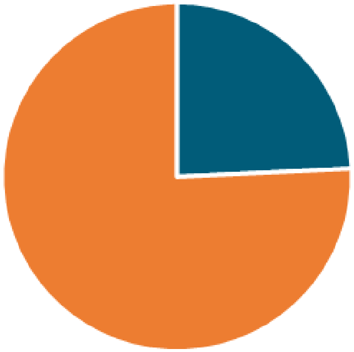
BRL billions

Segments	New transactions (1)					Credit renewals (2)				
	Corporate	Middle	SME	Household	Total	Corporate	Middle	SME	Household	Total
S1 - public	29.6	10.0	13.5	53.6	106.7	7.2	15.6	19.3	43.3	85.5
S1 - pivate	222.1	37.7	26.0	47.4	333.2	9.5	2.4	7.2	23.8	42.9
S2	27.8	4.3	1.0	9.6	42.7	3.5	0.3	0.1	0.1	4.0
S3	28.6	8.7	2.0	14.1	53.4	9.9	1.9	0.9	4.8	17.4
S4	8.3	5.0	1.1	3.9	18.3	1.6	3.2	0.2	2.1	7.1
Total	316.3	65.7	43.6	128.6	554.3	31.8	23.4	27.6	74.1	156.9

(1) Includes debentures totaling BRL 25 billions. (2) Includes: full renewal of the credit operation, including new credit; as well as renegotiations with changes in interest rate and guarantees.

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

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

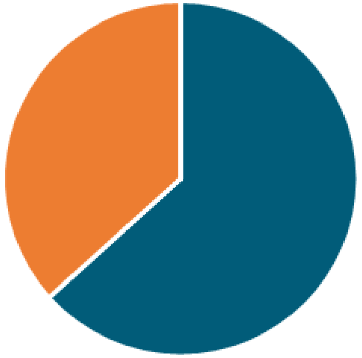
From March 16th to May 29th

Extension of loan installments, with the same interest rate – value 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	789	8.8	1.2	10,169	15.0	2.1	446,508	28.8	3.6	3,198,021	238.5	15.8	3,655,487	291.2	22.6
S1 - pivate	3,902	23.4	9.7	89,906	19.9	6.2	550,408	32.1	4.1	4,559,489	93.3	7.5	5,203,705	168.7	27.4
S2	1,022	15.4	1.2	9,423	67.3	6.2	41,610	1.0	0.1	1,050,056	21.5	1.3	1,102,111	105.3	8.8
S3	745	1.7	0.6	39,465	7.4	1.1	10,290	1.1	0.1	131,211	8.2	3.6	181,711	18.4	5.4
S4	323	0.6	0.2	56,307	6.1	2.9	5,902	1.3	0.3	74,490	2.8	0.2	137,022	10.7	3.6
Total	6,781	49.9	13.0	205,270	115.7	18.5	1,054,718	64.4	8.1	9,013,267	364.4	28.3	**10,280,036**	**594.3**	**67.9**

Number of contracts

Value of operations extended



Value of installments extended

■ S1 – public ■ S1 – private

Source: BCB

PESE – Emergency Employment Support Program

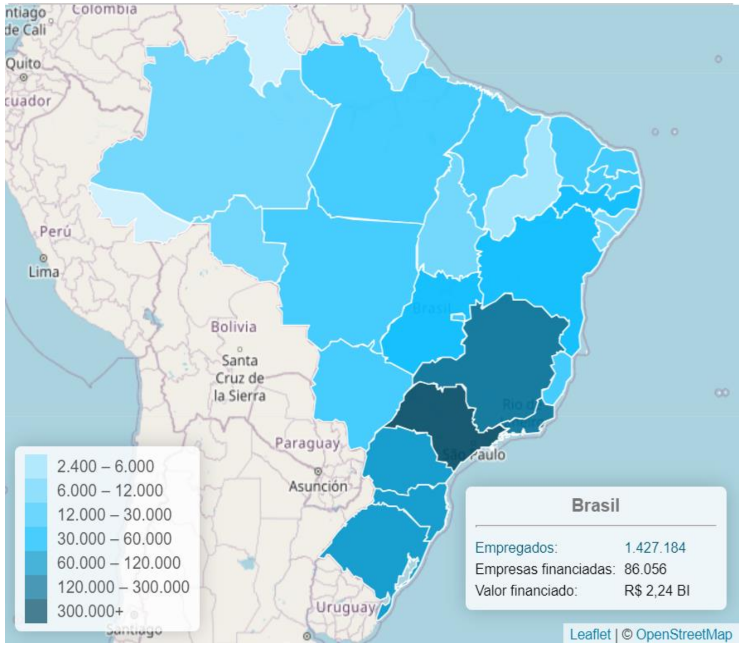
The program* strongly benefits low wage employees in the whole country

1,427,184 employees

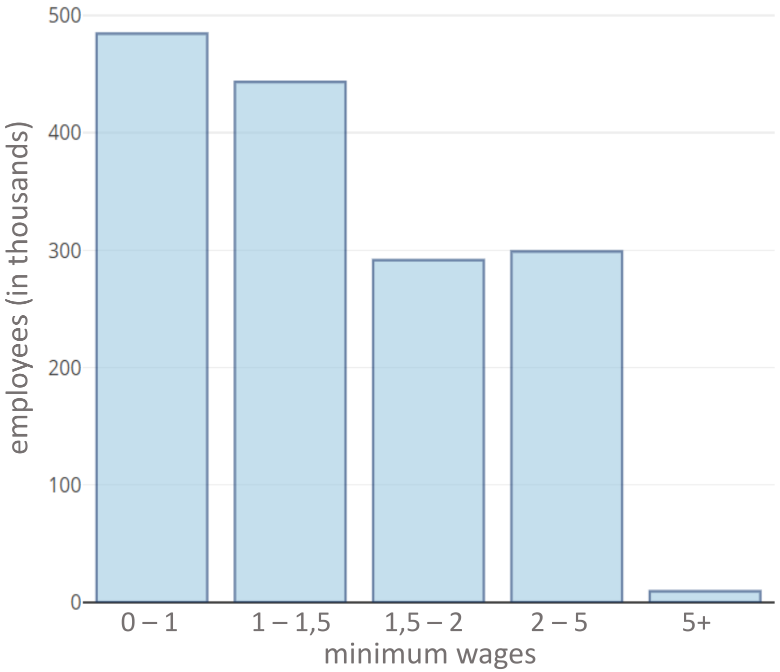
86,056 funded firms

R$ 2,239,074,958.16 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 26/05/2020
** Preliminary values reflecting potential demand based upon pre-crisis data (subject to future revision)


INCLUSION


COMPETITIVINESS


TRANSPARENCY


EDUCATION

INCLUSION | # COMPETITIVENESS | # TRANSPARENCY | # EDUCATION

COOPERATIVE CREDIT

MICROCREDIT

CURRENCY CONVERSIBILITY

INITIATIVES FOR CAPITAL MARKET (IMK)

INNOVATION

MARKET EFFICIENCY

INTERNATIONAL RESERVES

RURAL CREDIT

HOUSING CREDIT

RELATIONSHIP WITH CONCRESS

TRANSPARENCY OF MONETARY POLICY

COMMUNICATION PLAN FOR BCB ACTIONS

RELATIONSHIP WITH FOREIGN INVESTORS

FINANCIAL EDUCATION

Highlights for 2020

Agenda BC# – Instant payments

Instant payments - PIX

> Public consultation completed
> Registration phase of optional providers
> To be launched in November 2020

Availability

Convenience

Various use cases

Speed

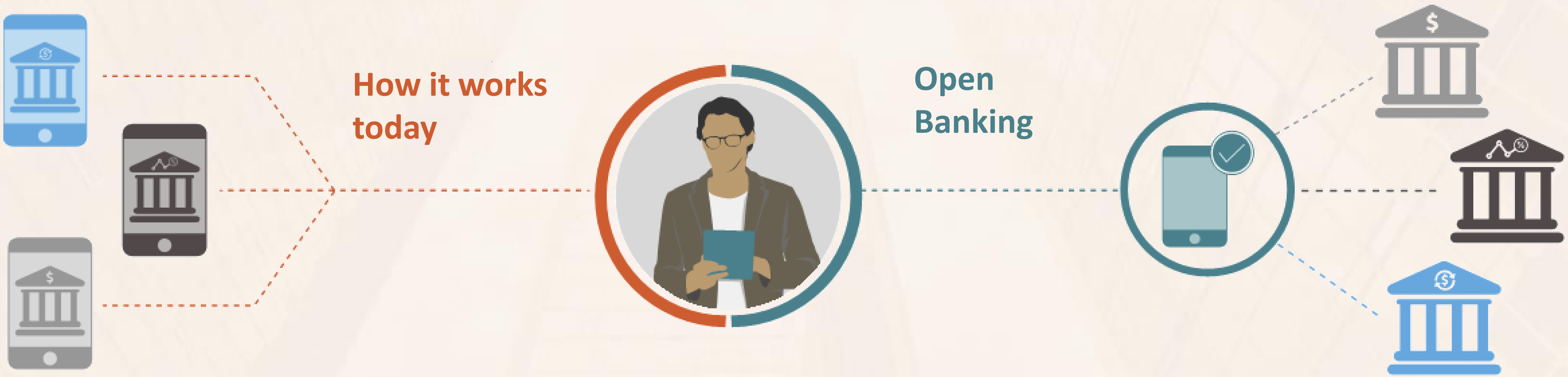
Open environment

Safety

Enriched Data

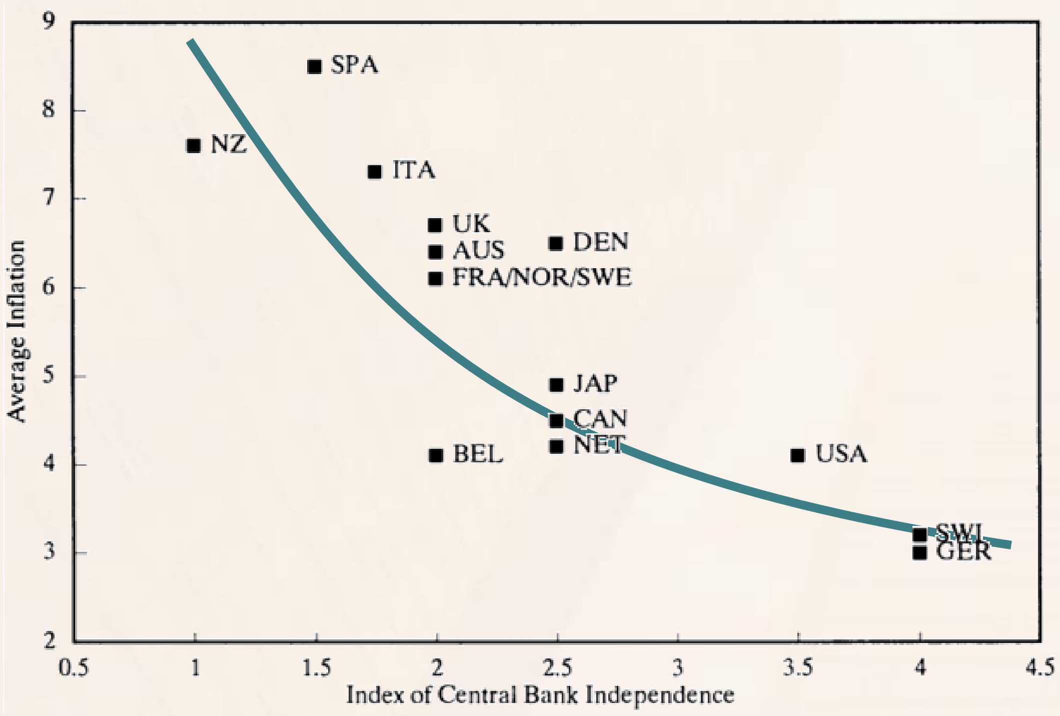
Agenda BC# – *Open banking*

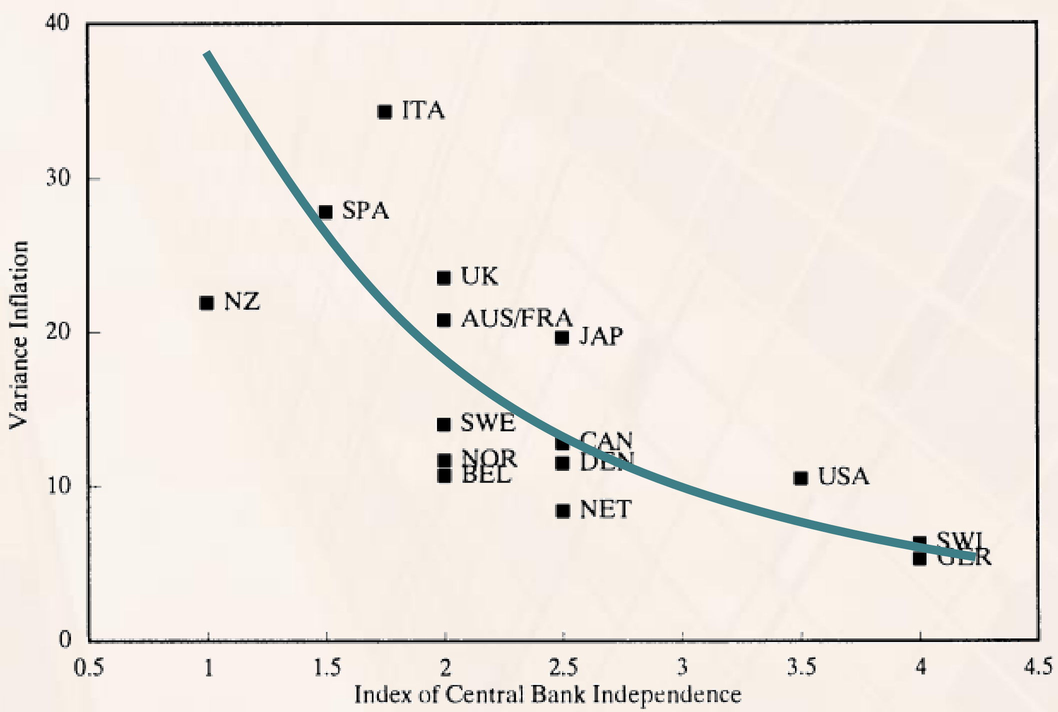
> Operating rules approved
> Implementation schedule



Agenda BC# – BCB Autonomy

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





Source: [Alesina A. e L. Summers (JMCB, 1993), Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence]

Agenda BC# – Main Achievements

2020

- 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
  - Initial tests, with public release expected for November
- 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

June 08, 2020