

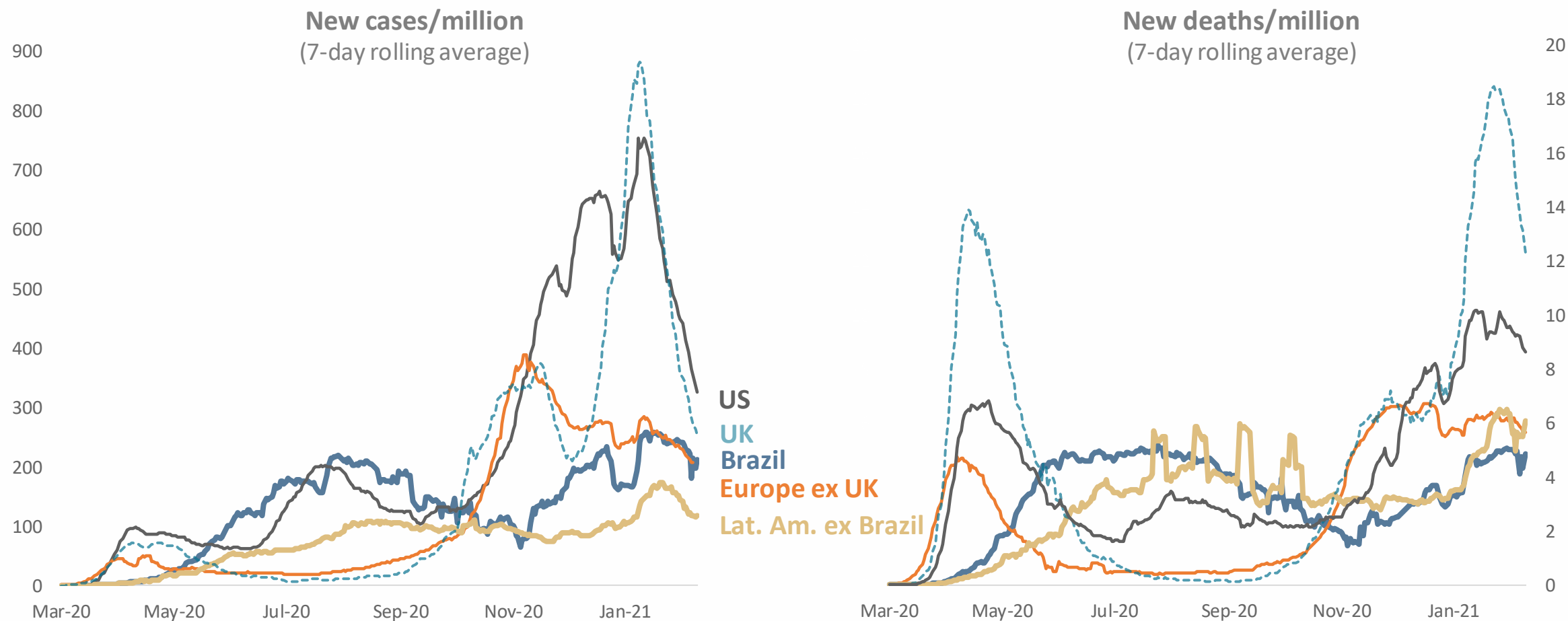
*J.P. Morgan Live Teleconference*

# ***Brazil's Economic Outlook and Agenda BC#***

**Roberto Campos Neto**  
Governor of Banco Central do Brasil



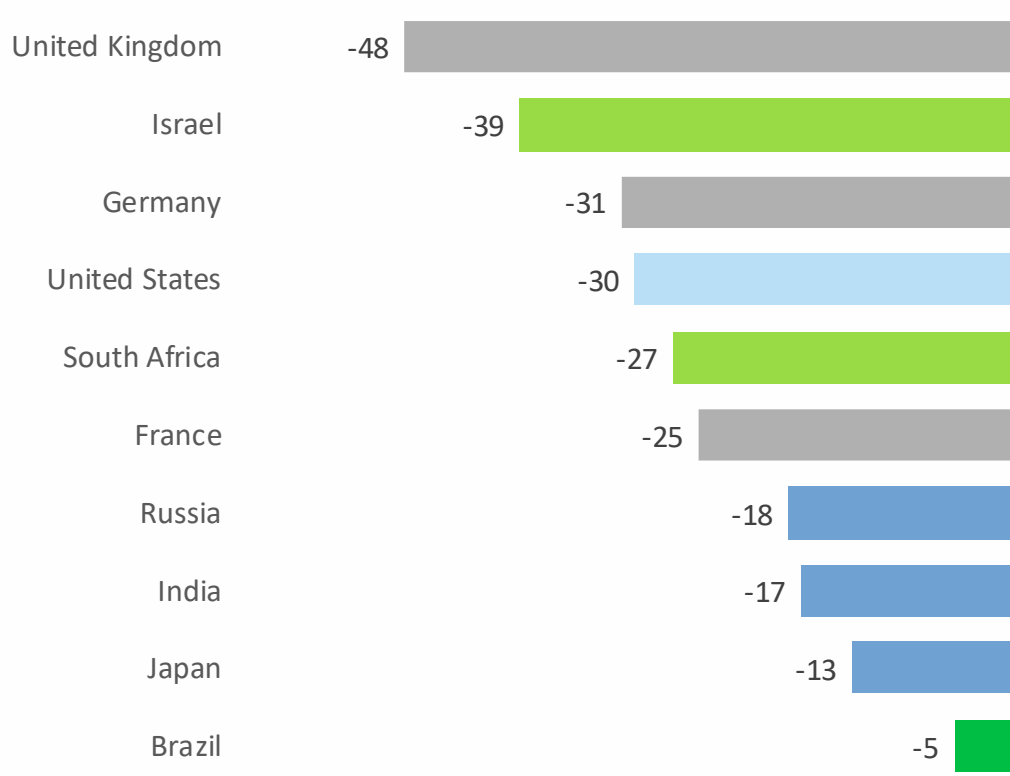
New deaths close to historical highs in UK and US.



Source: Our World in Data. Last data available: February 9, 2021.

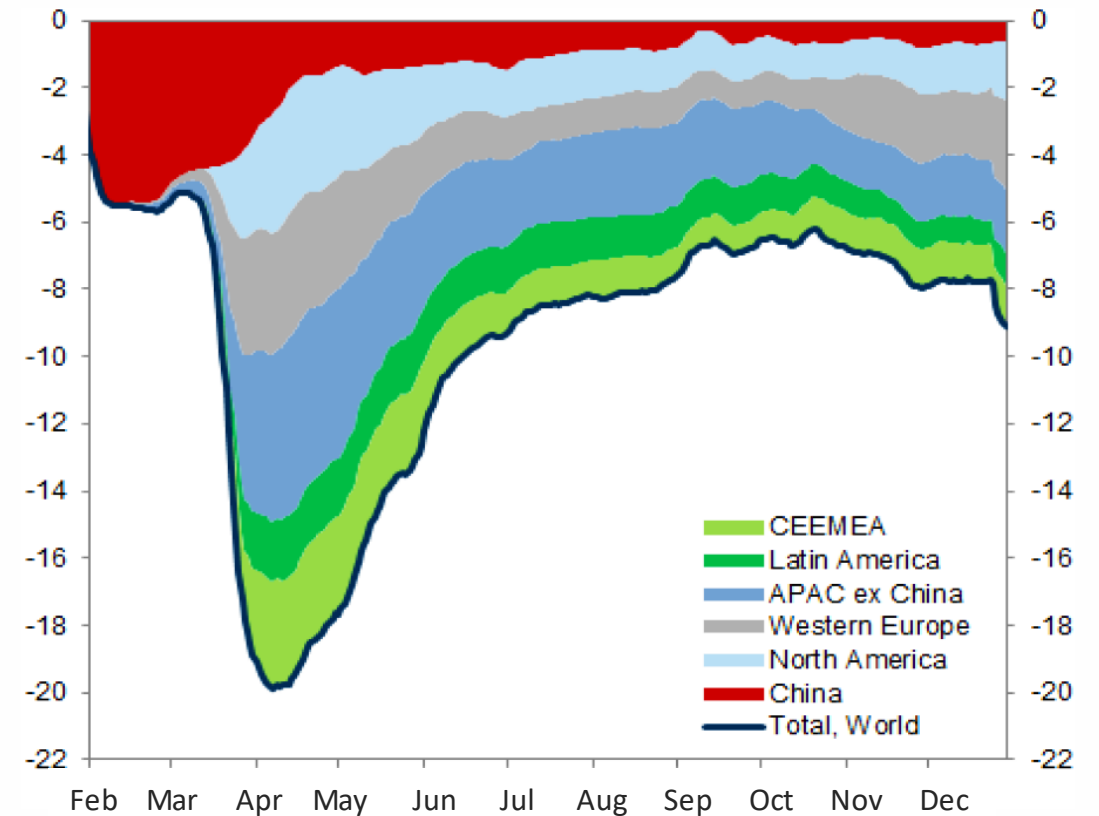
Increased restrictions to mobility had a negative impact on GDP

**Mobility to workplaces**  
(change comparing to pre-Covid period, in %)



Source: Google Mobility Report (Feb 5, 2021).

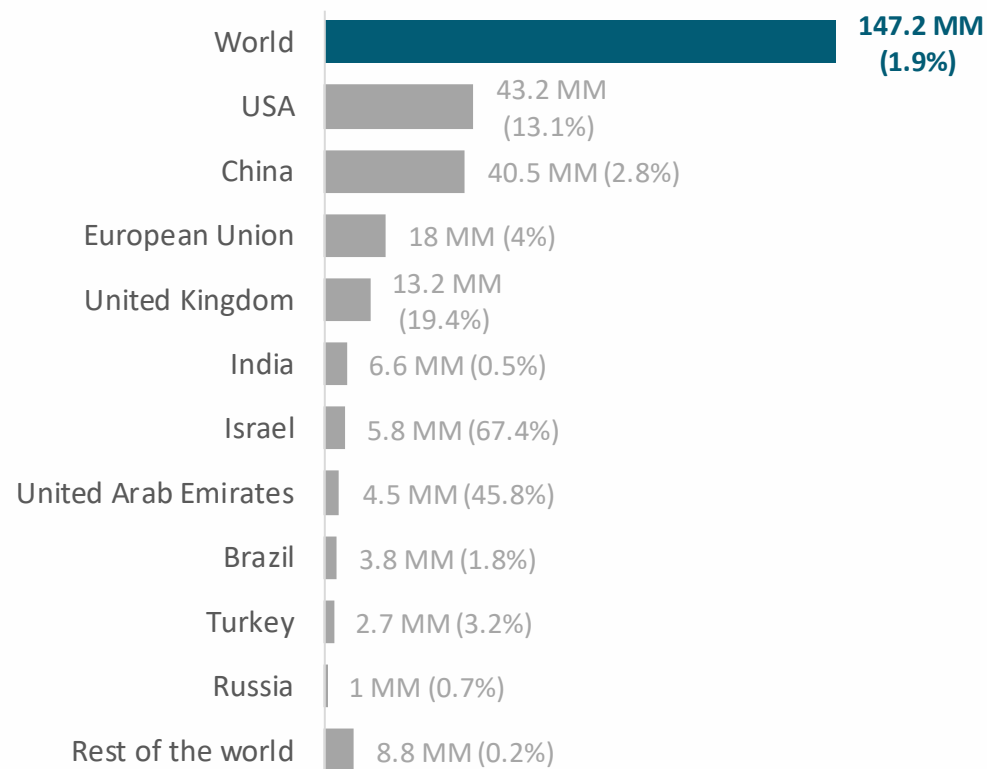
**Estimated impact on GDP**  
(in %, using GS effective lockdown index, 7-day moving average)



Source: Goldman Sachs Global Investment Research.

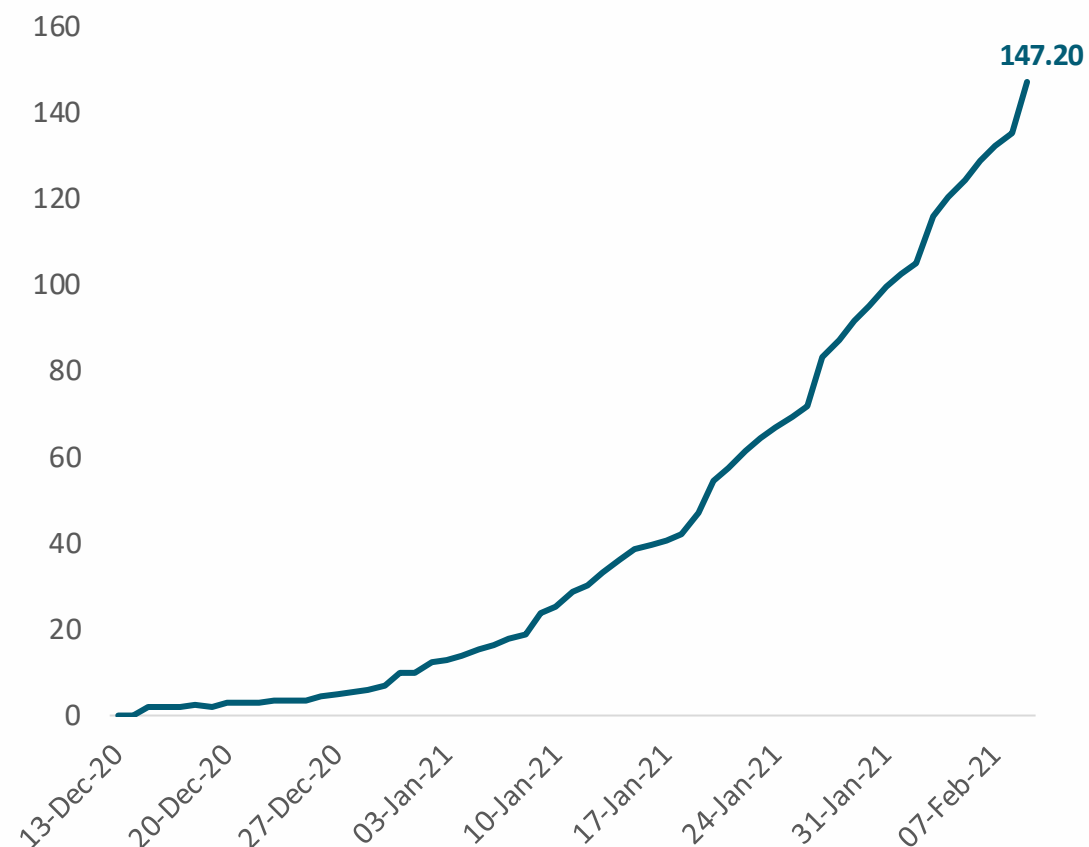
The biggest vaccination campaign in history

**Millions of doses administered**  
(millions and % of population)



Note: the number of doses administered is less than or equal to the number of people vaccinated. In some countries, some people have already taken the second dose. Therefore, the percentage in relation to the population should be understood as "maximum percentage of the vaccinated population".

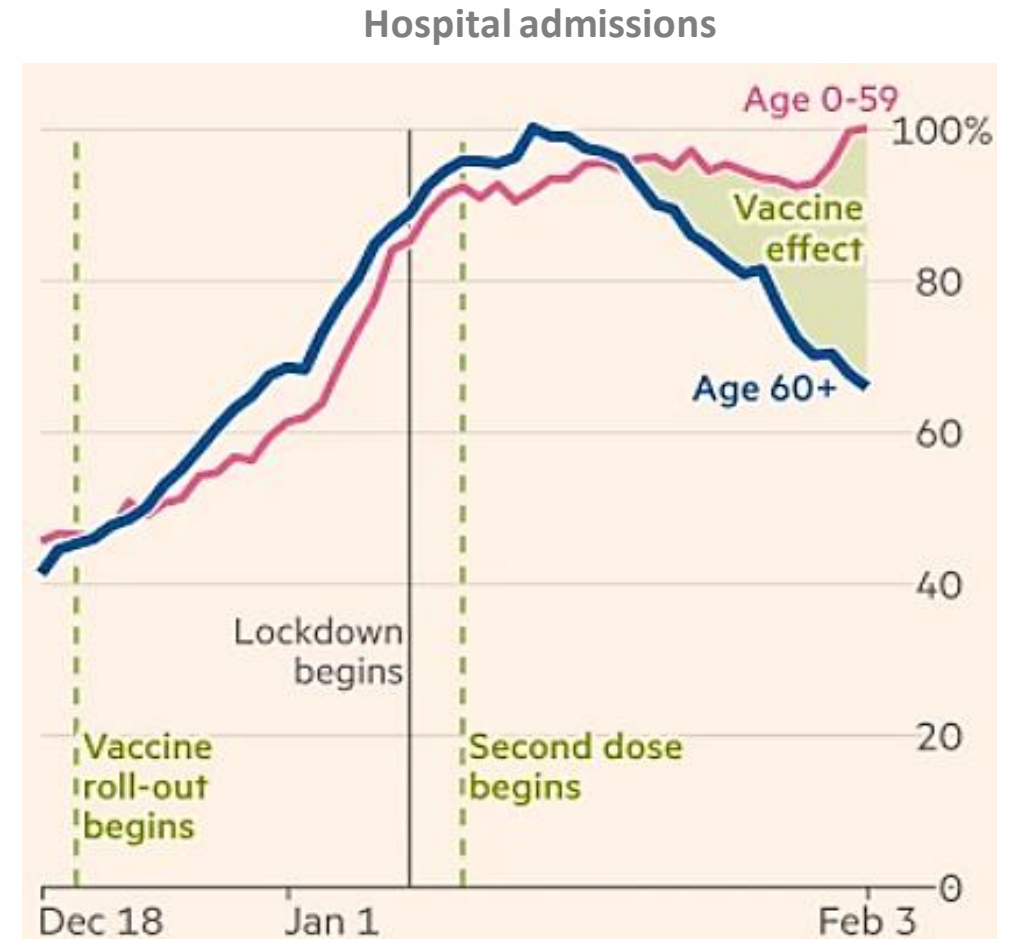
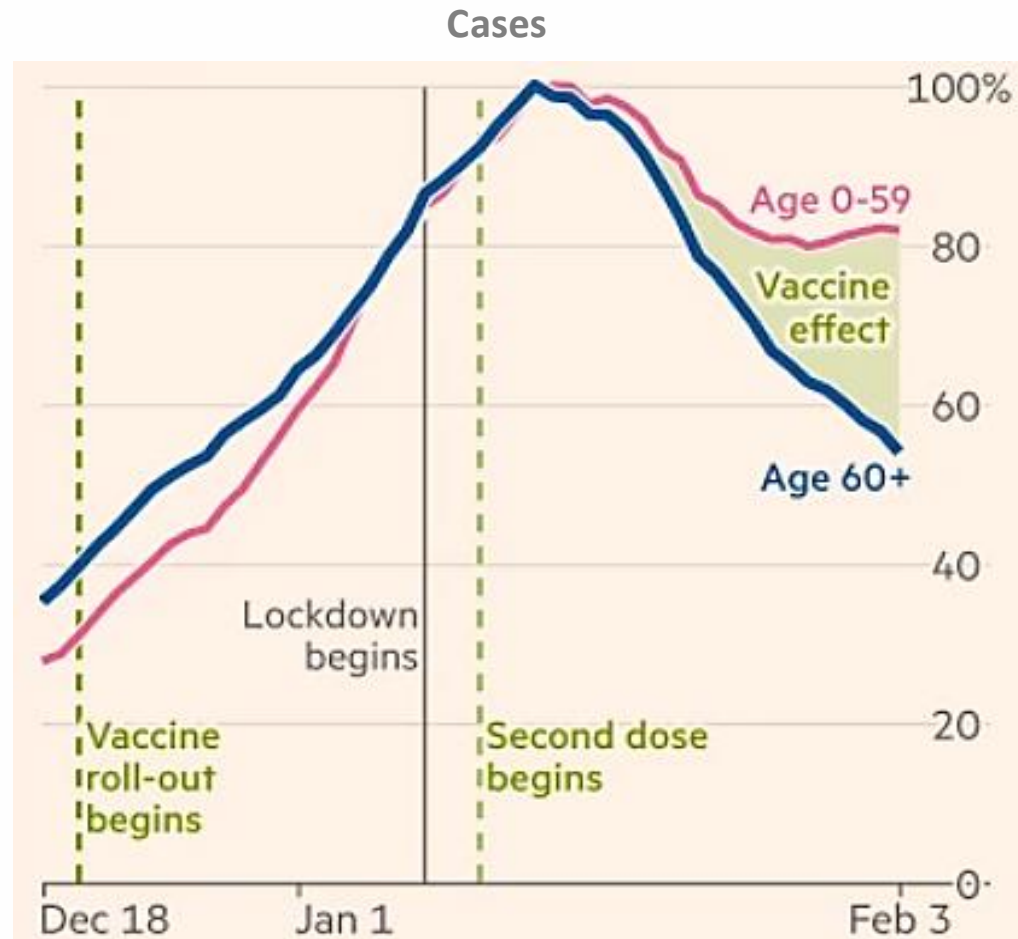
**Global evolution**  
(million of doses administered)



Source: Our World in Data, information until 2021, Feb 9th, 2021

Cases and hospitalizations are falling steeply among vaccinated age groups.

## Effects of vaccination



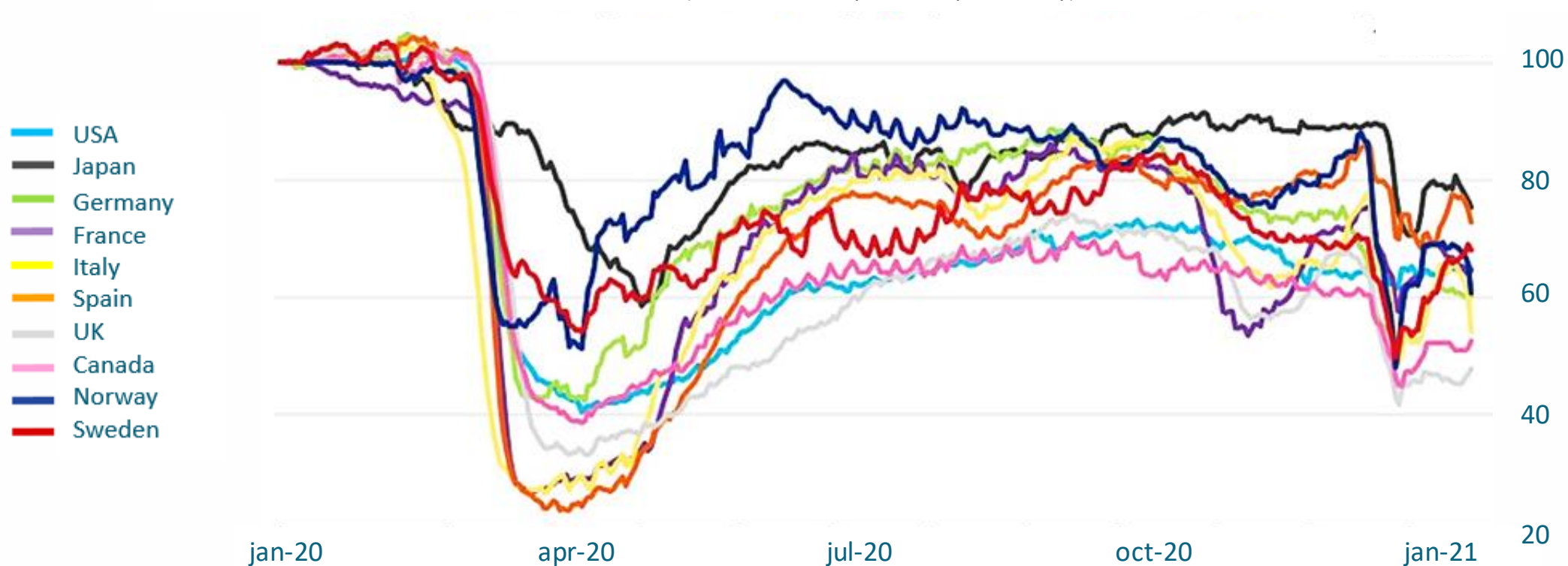
Source: Financial Times (Segal et. al., Weizmann Institute, Telaviv University).



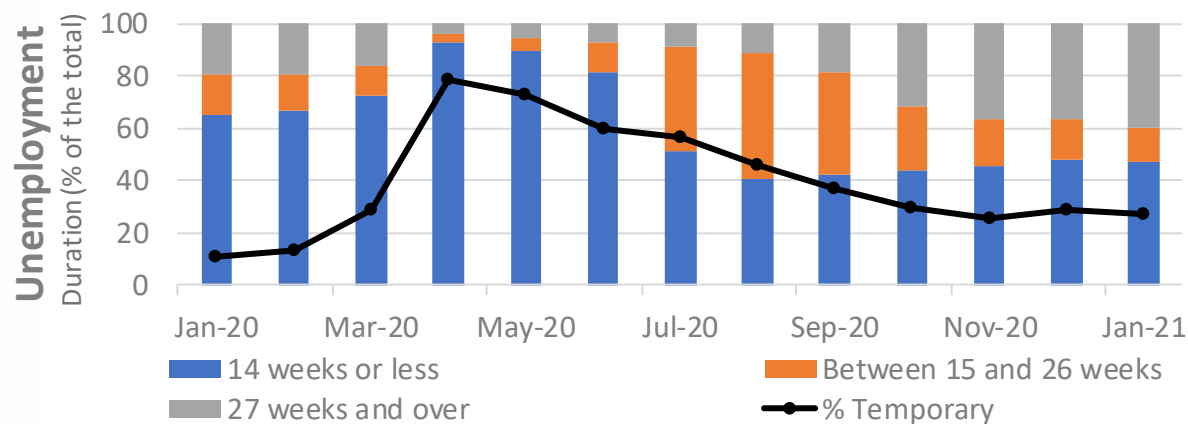
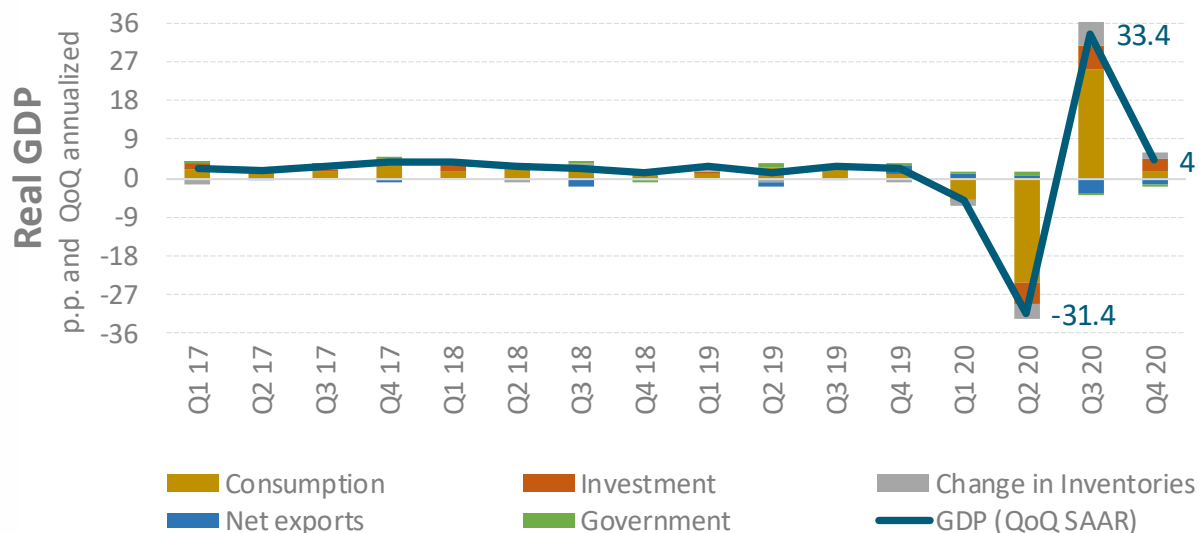
Economic activity is off to a slow start of the year

## Resumption of growth

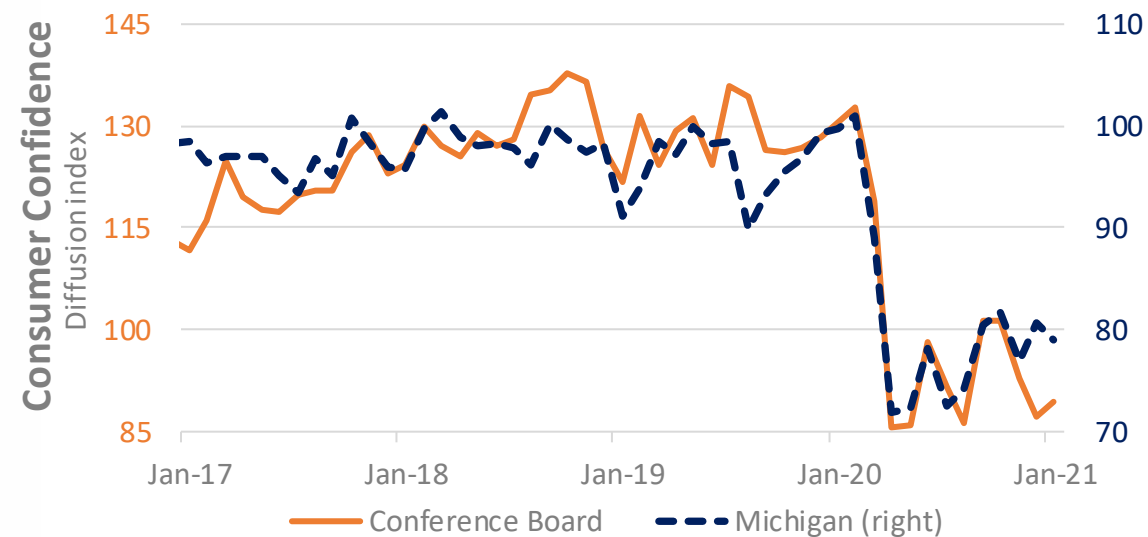
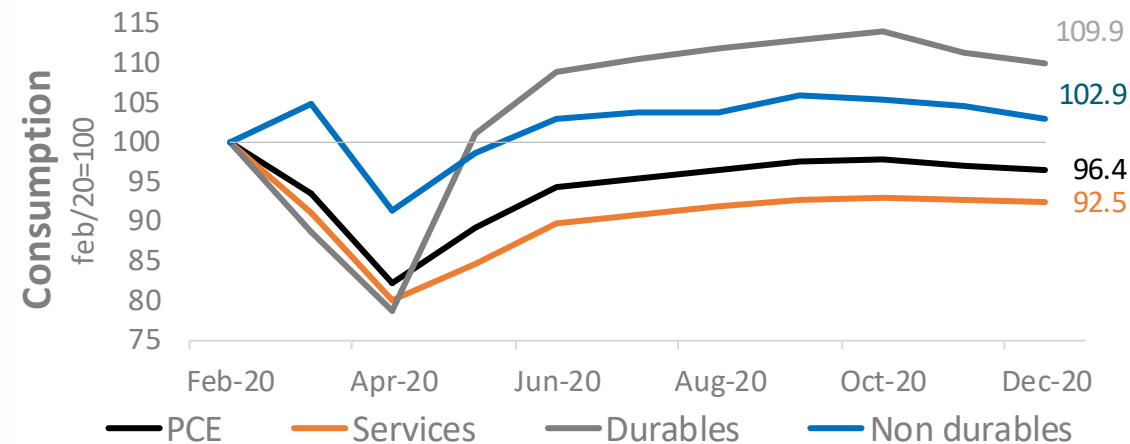
(economic activity index\* – per country)



New Covid-19 wave weakens recovery, but fiscal support might be positive.

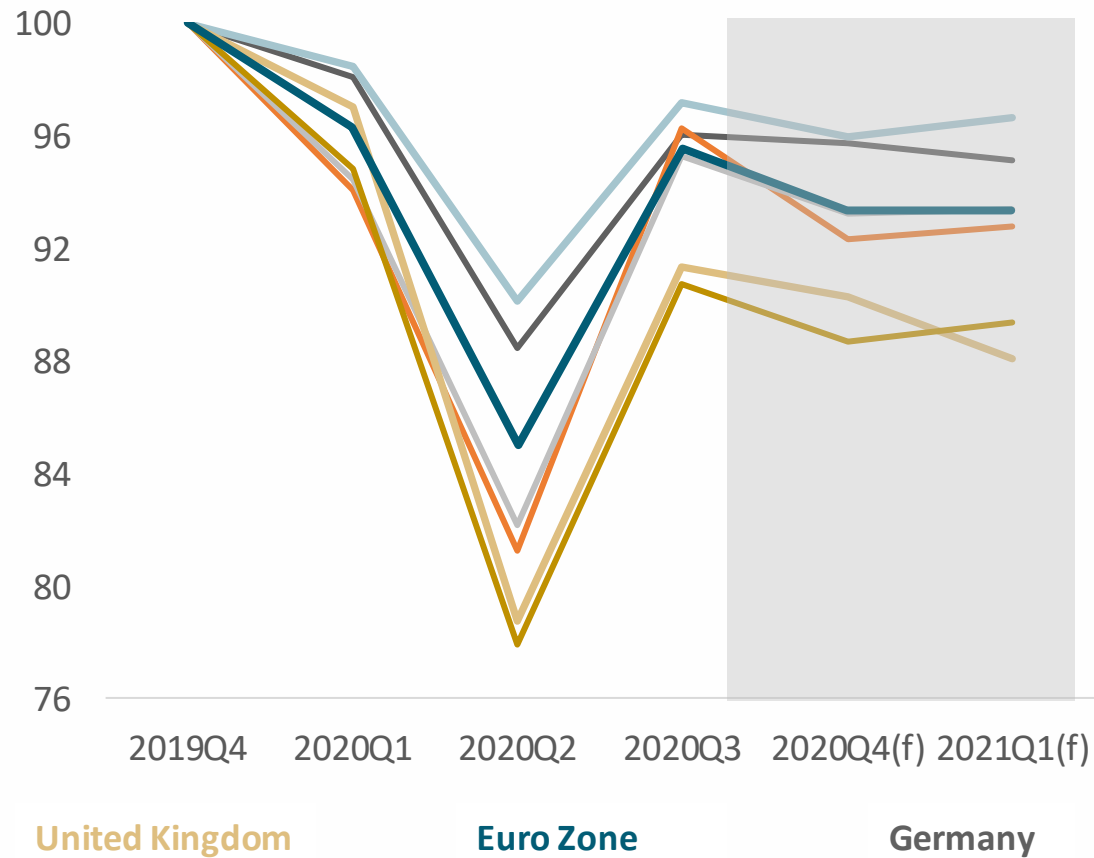


Source: Bloomberg.

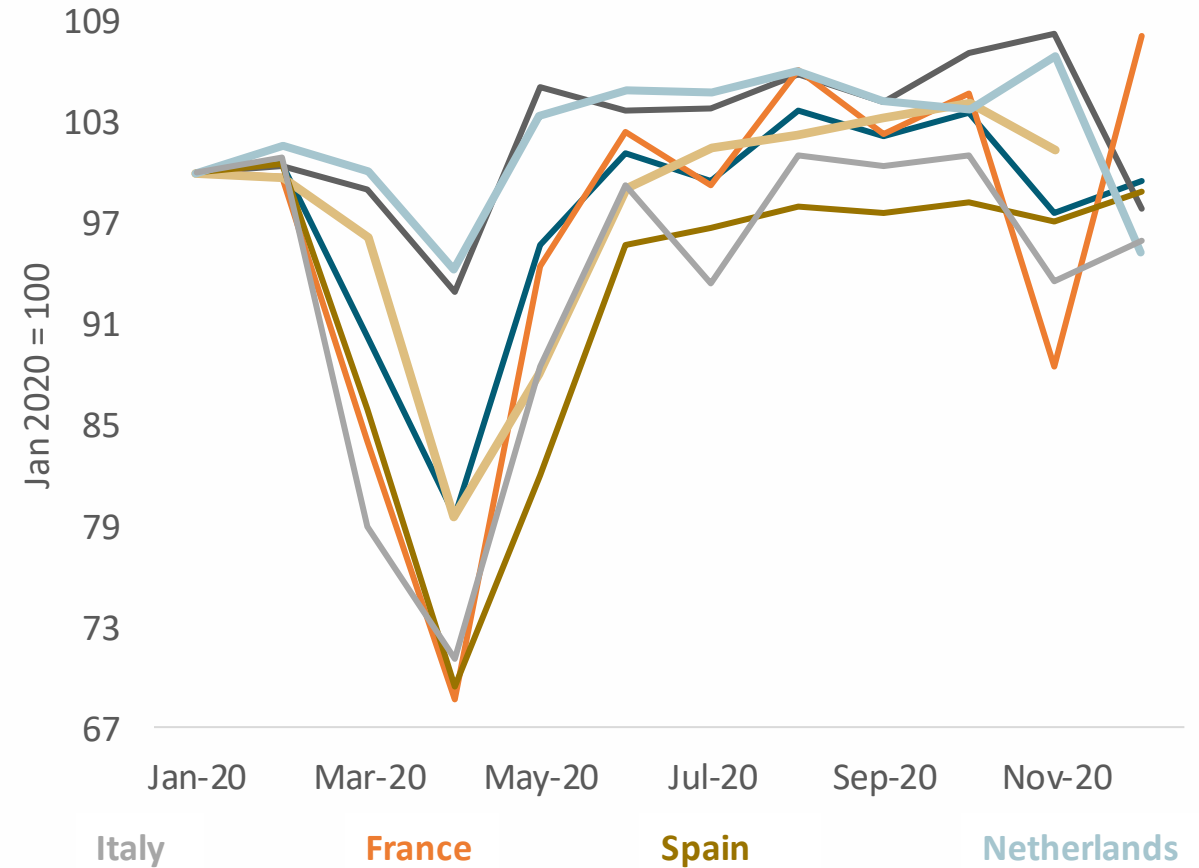


Uneven economic recovery.

**GDP**  
4Q2019=100



**Retail sales**  
Jan 2020=100

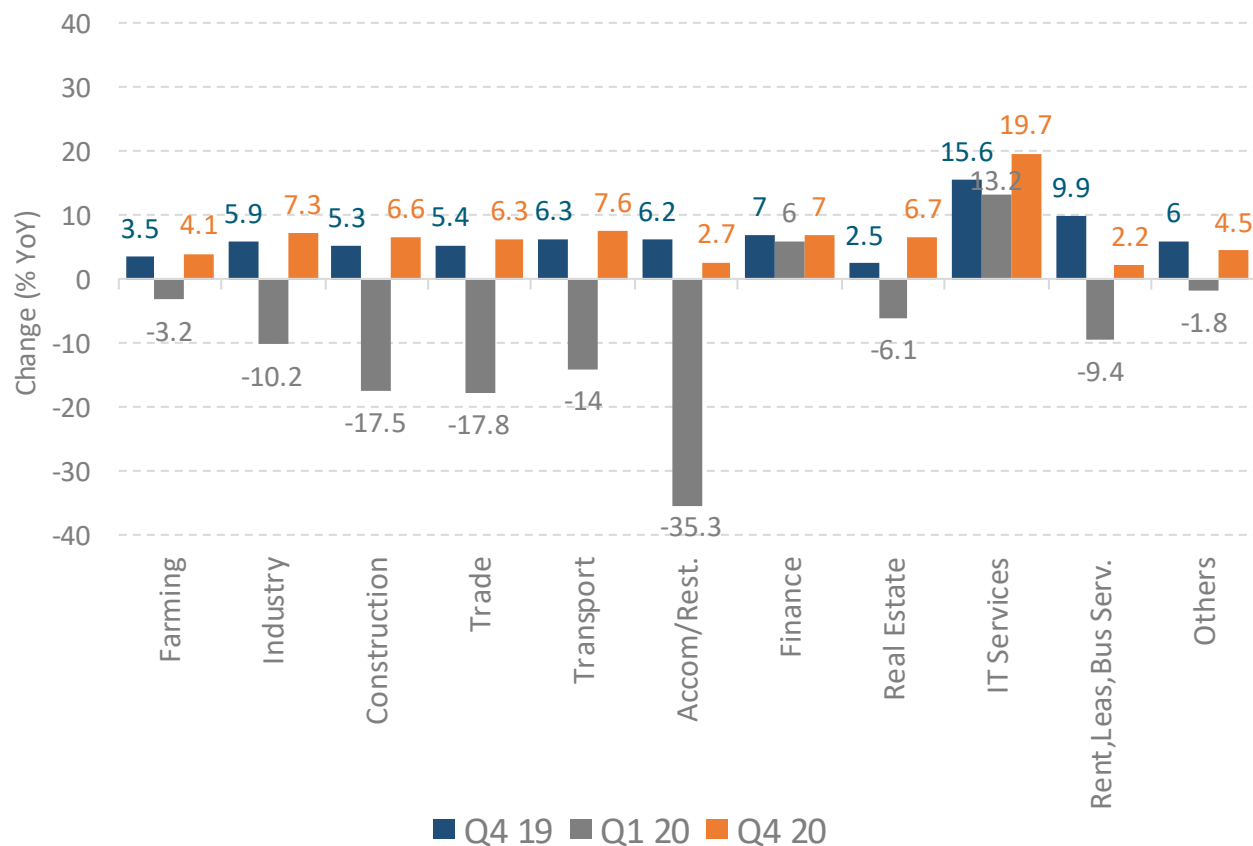


Source: Bloomberg. Seasonally adjusted data.

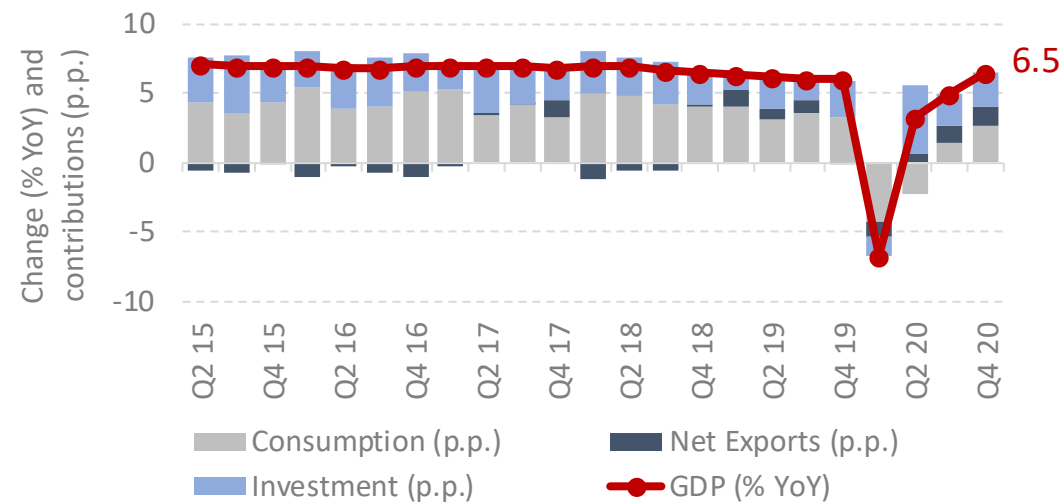


GDP increased 2.3% in 2020. Despite the recovery, private consumption and investment still below pre-pandemic levels.

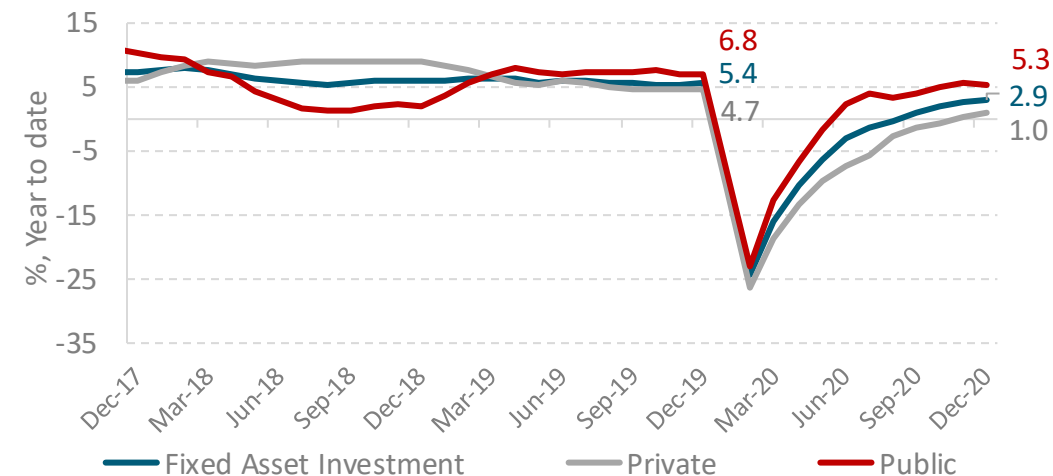
## GDP Components: Supply

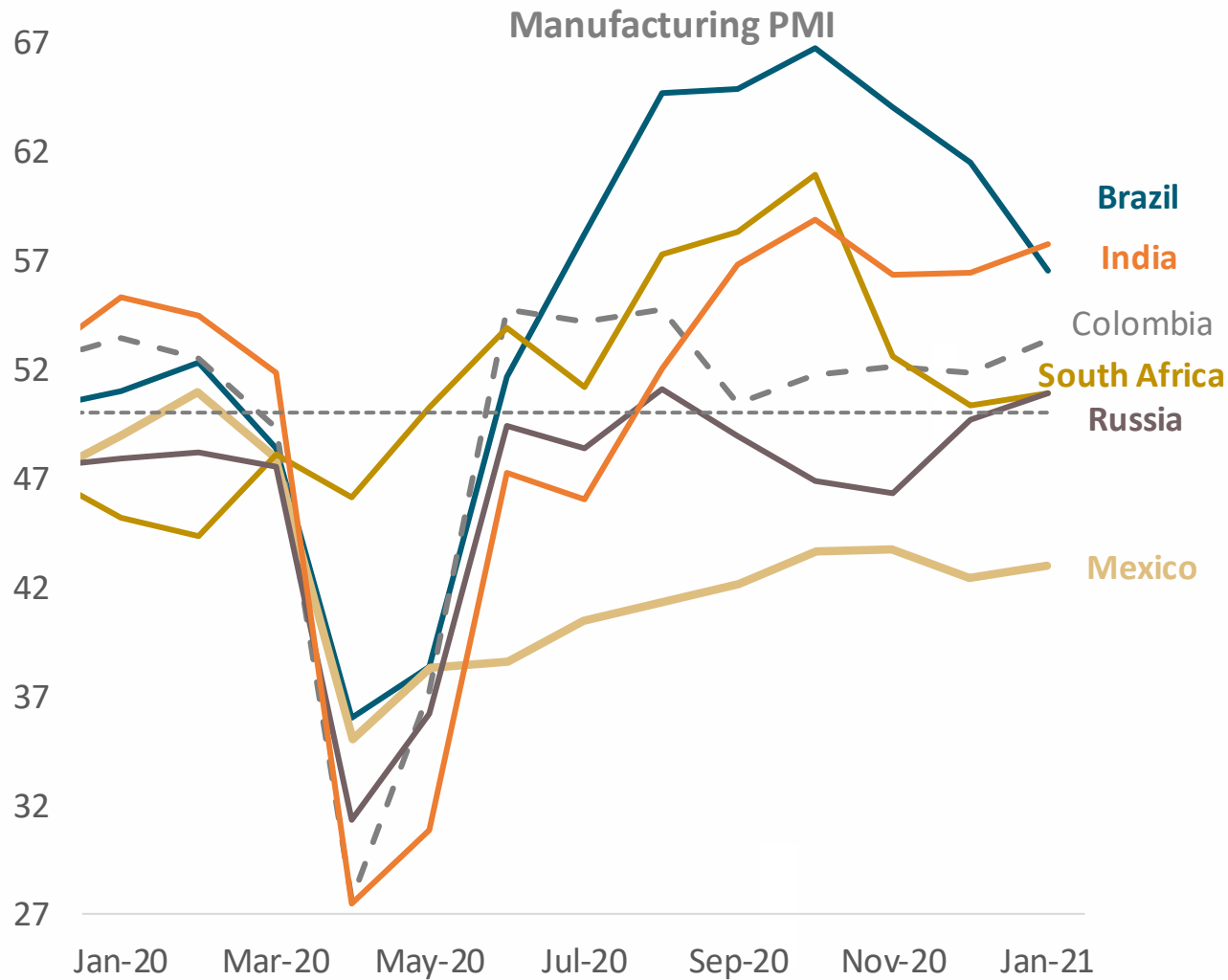


## GDP: Demand

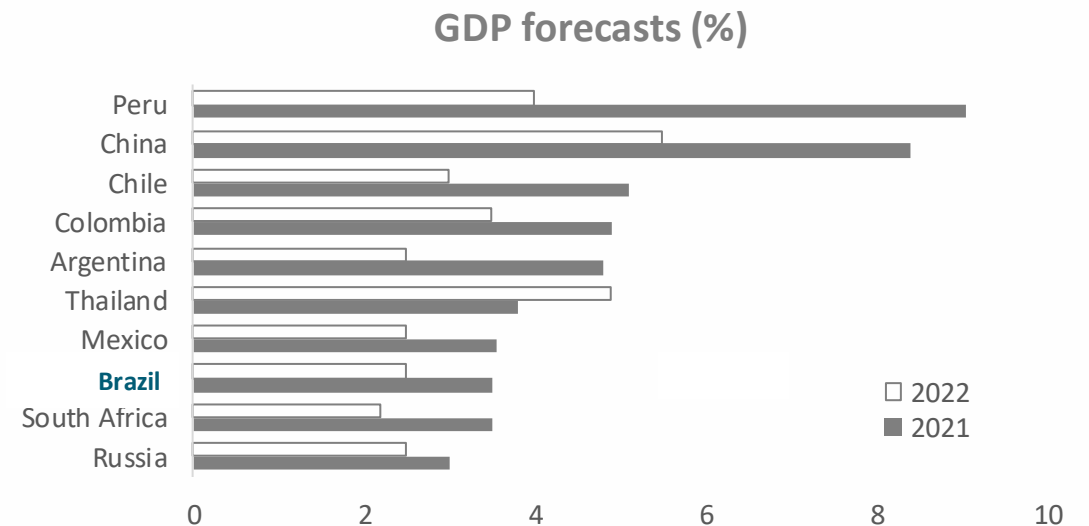
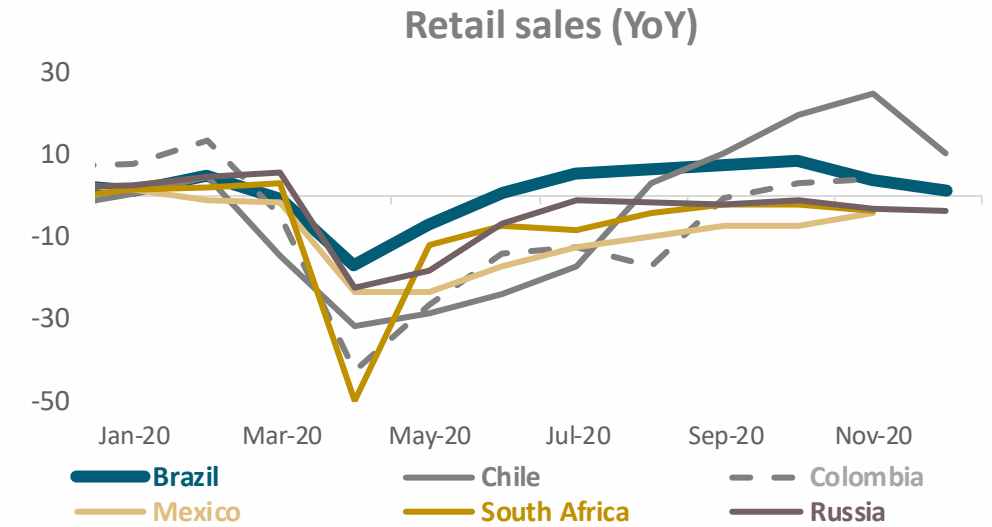


## Fixed Asset Investment



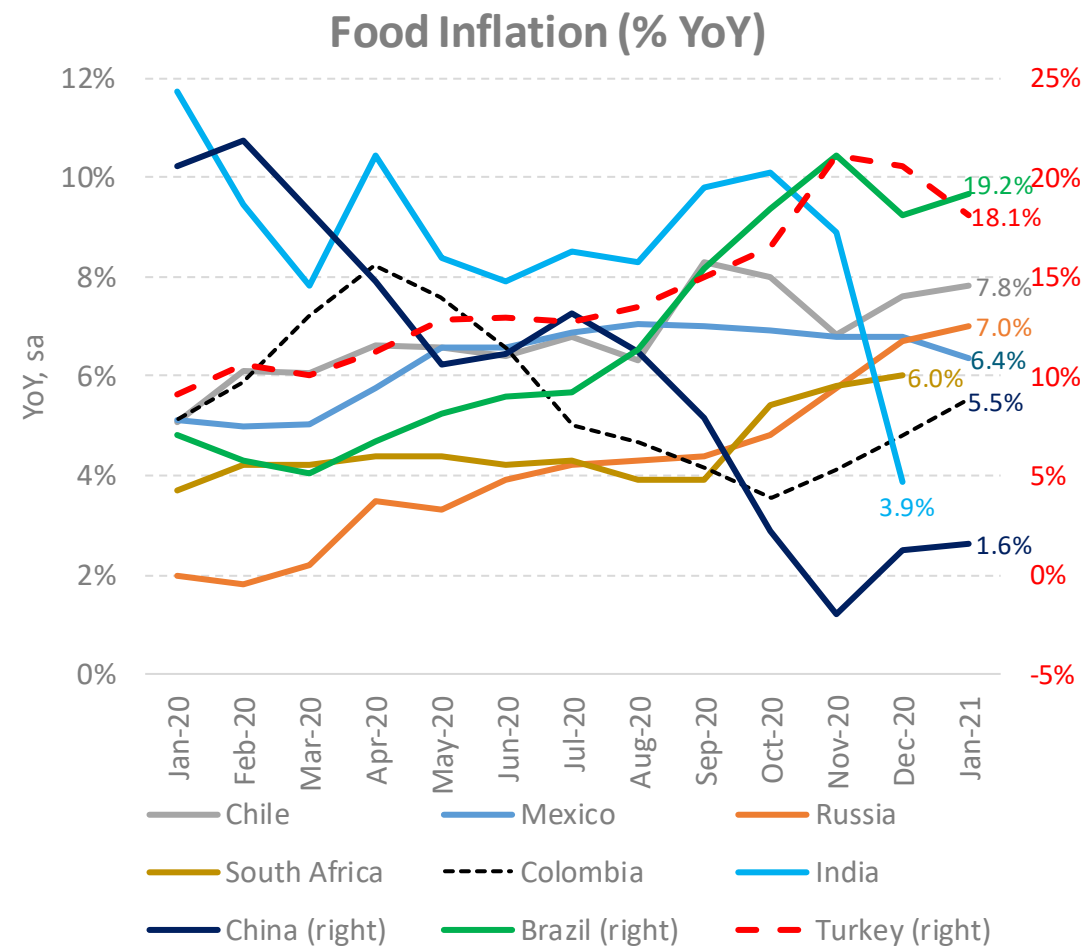
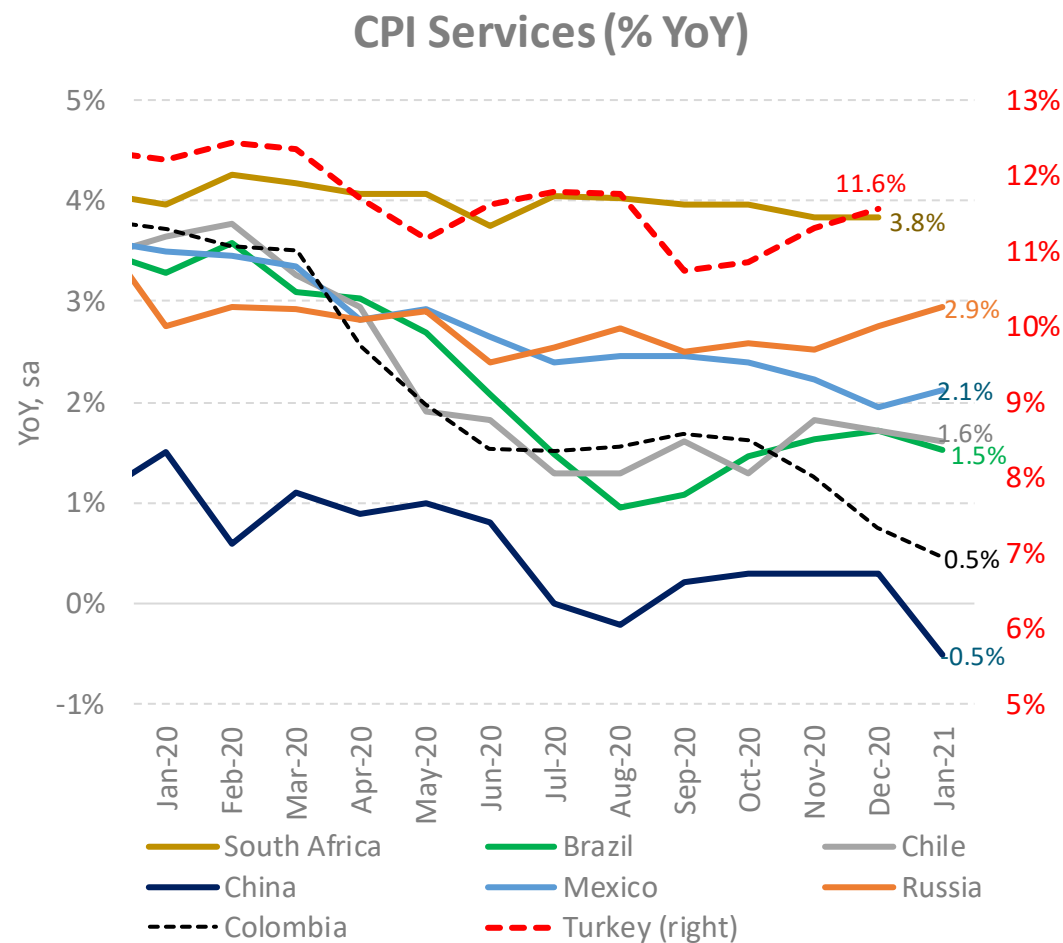


Sources: ABSA and Markit.



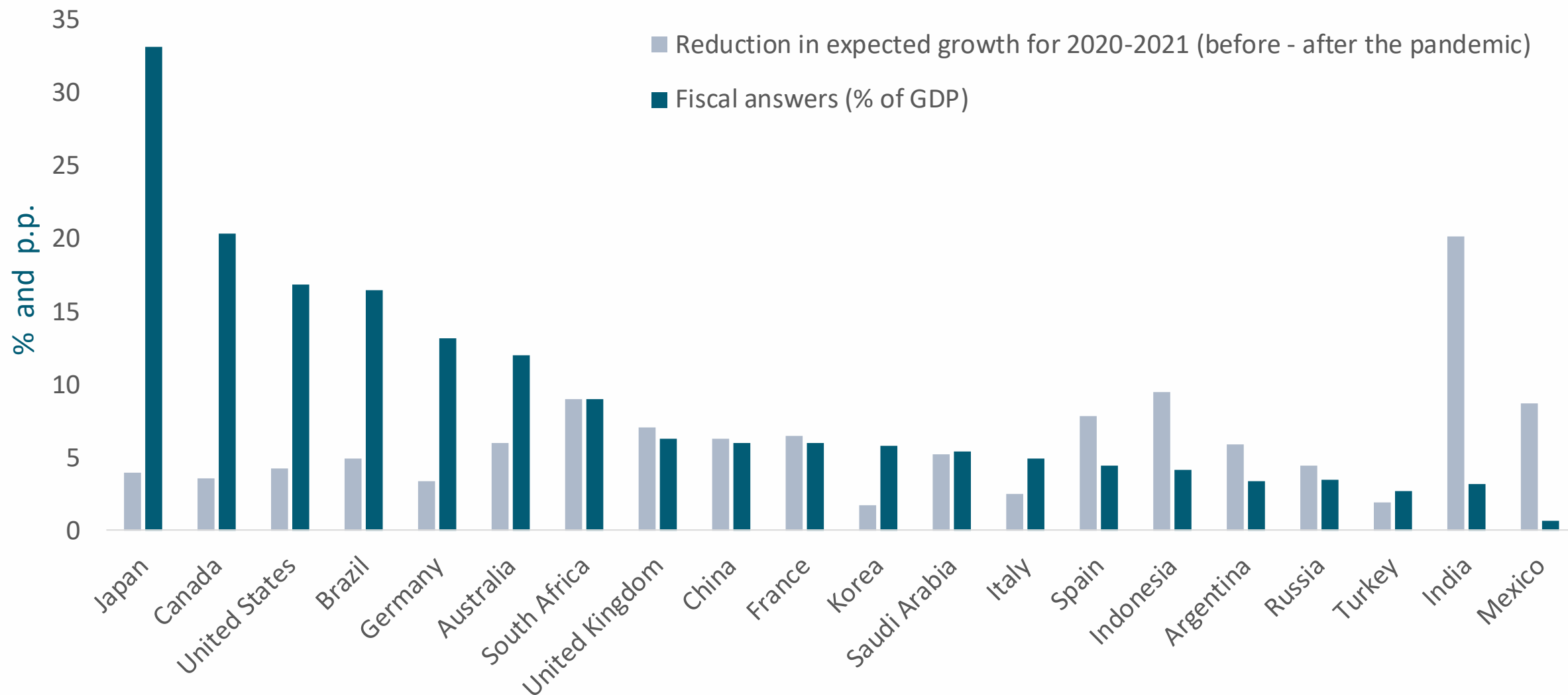
Sources: Bloomberg and Focus Report.

Pandemic lead to deceleration in services inflation in EMEs. Pressure on food inflation continues to be widespread.



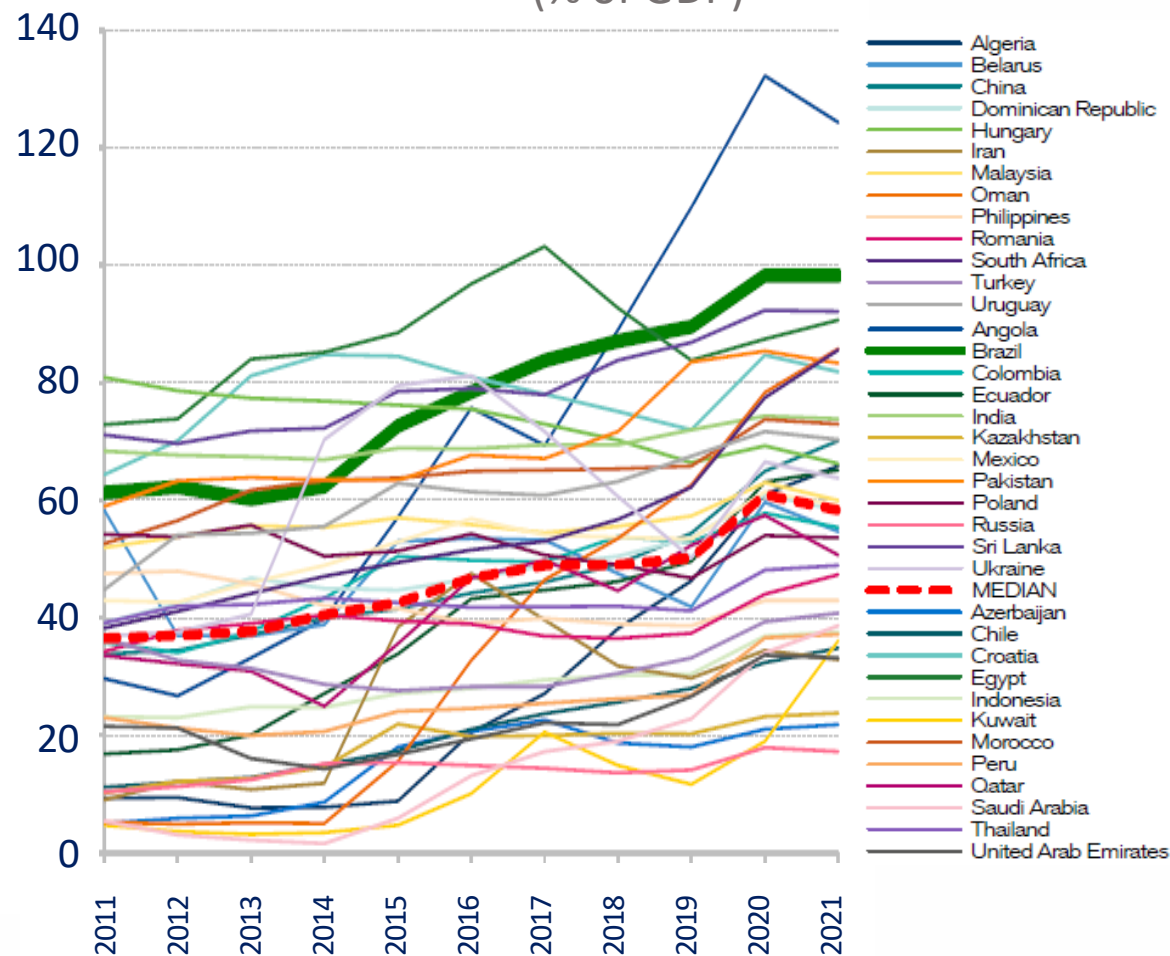


# Fiscal response versus GDP



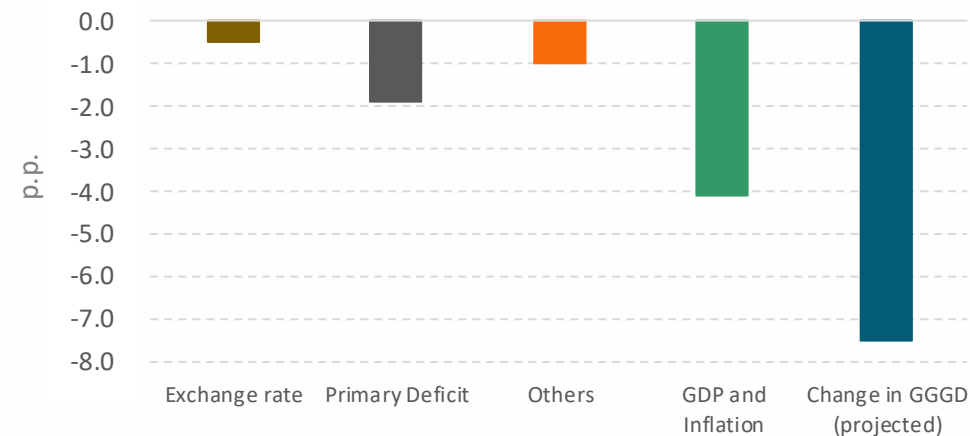
Sources: FMI, Bloomberg, Focus Report for Brazilian GDP. Last updated in Feb5th, 2021.

## Gross Debt – Emerging markets (% of GDP)

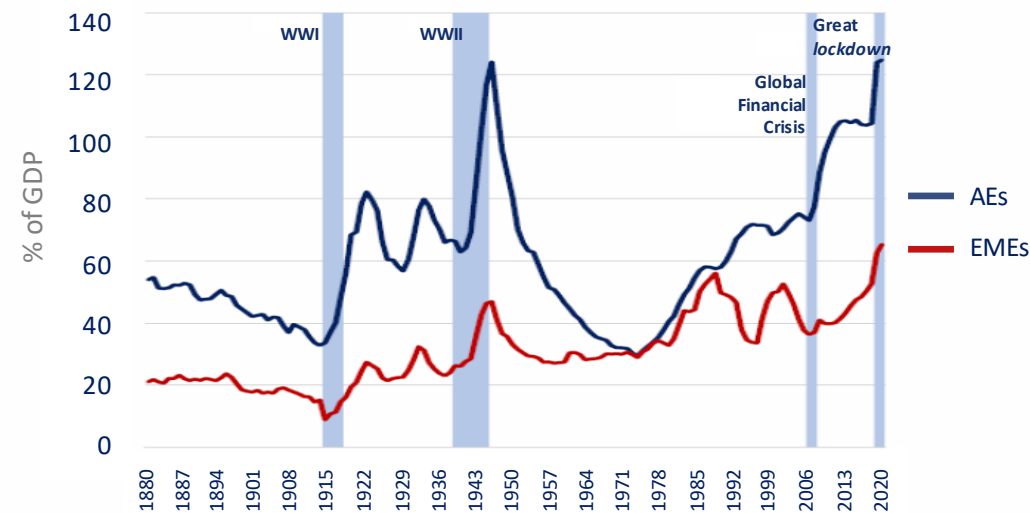


## Brazilian Gross Debt projection for 2020: decomposition of variation

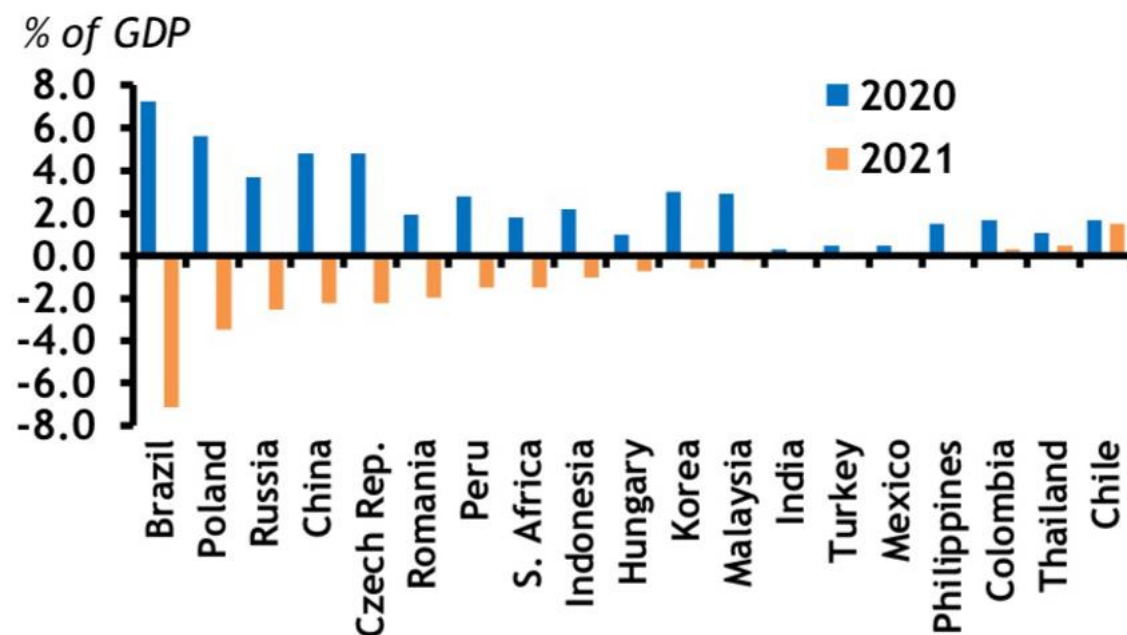
Projection in january/2021 compared to projection in october/2020



## Historical pattern of general government debt



## EMEs fiscal stance to tighten in 2021



## EMEs fiscal space and policy intention assessment

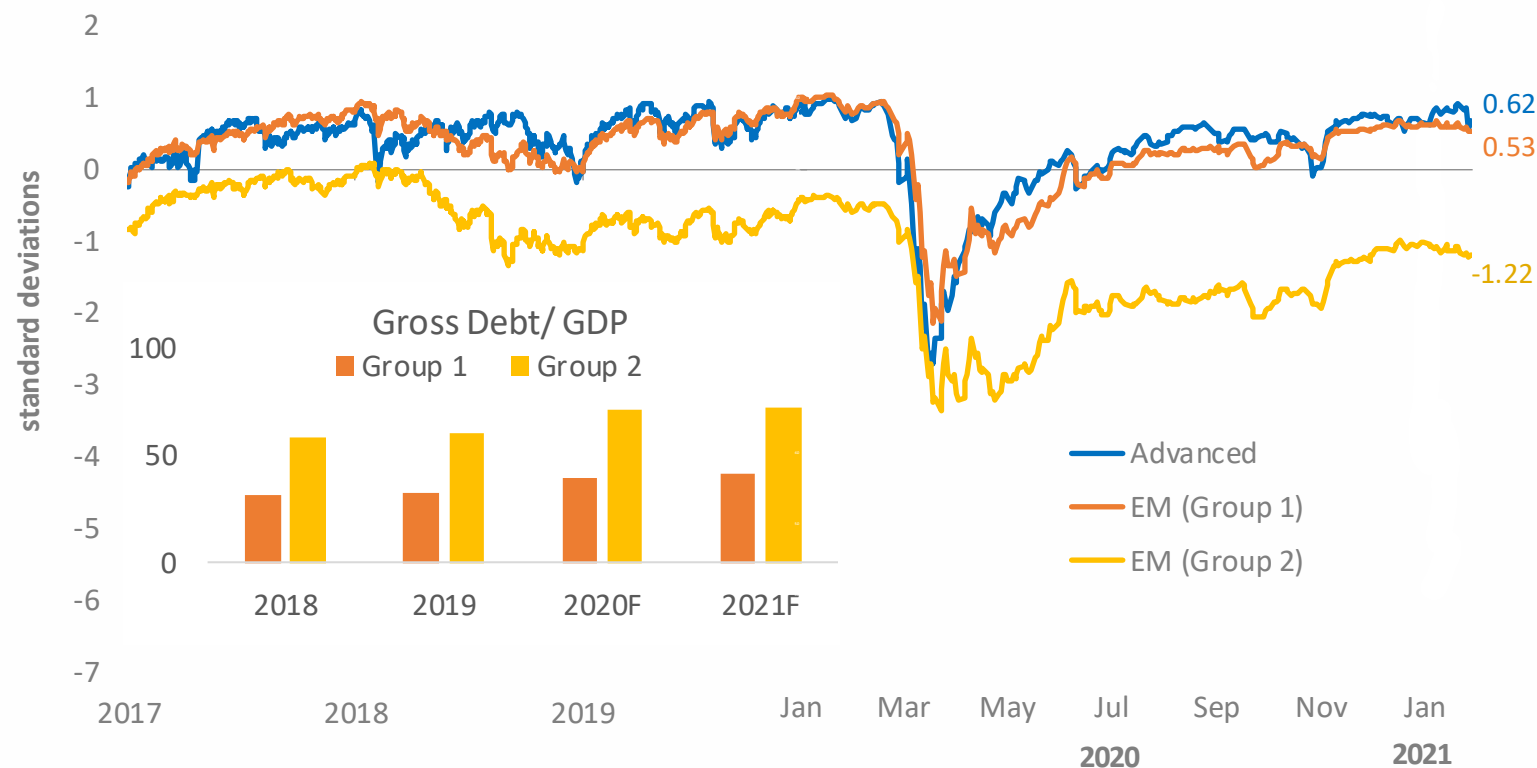
Has fiscal space in 2021		Fiscal space constrained		
and using it <sup>1</sup>	and could	debt	lack of	
Chile	Romania	Indonesia	Brazil	Turkey
Thailand	Poland	Mexico	India	
Peru	Hungary	Colombia	South Africa	
Russia	Czech Rep.			
Malaysia	Israel			
Russia	China			
	Korea			
	Philippines			

Source: J.P. Morgan. 1. Large fiscal deterioration / CAB worsening vs 2019. 2. Smaller fiscal deterioration / CAB improving vs 2019. 3. Public debt less than 60% of GDP. 4. Public debt more than 60% of GDP. 5. Private savings fall vs 2019.



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

## Risk Appetite



### EME Group 1:

Malaysia, Indonesia, Chile, and Russia.

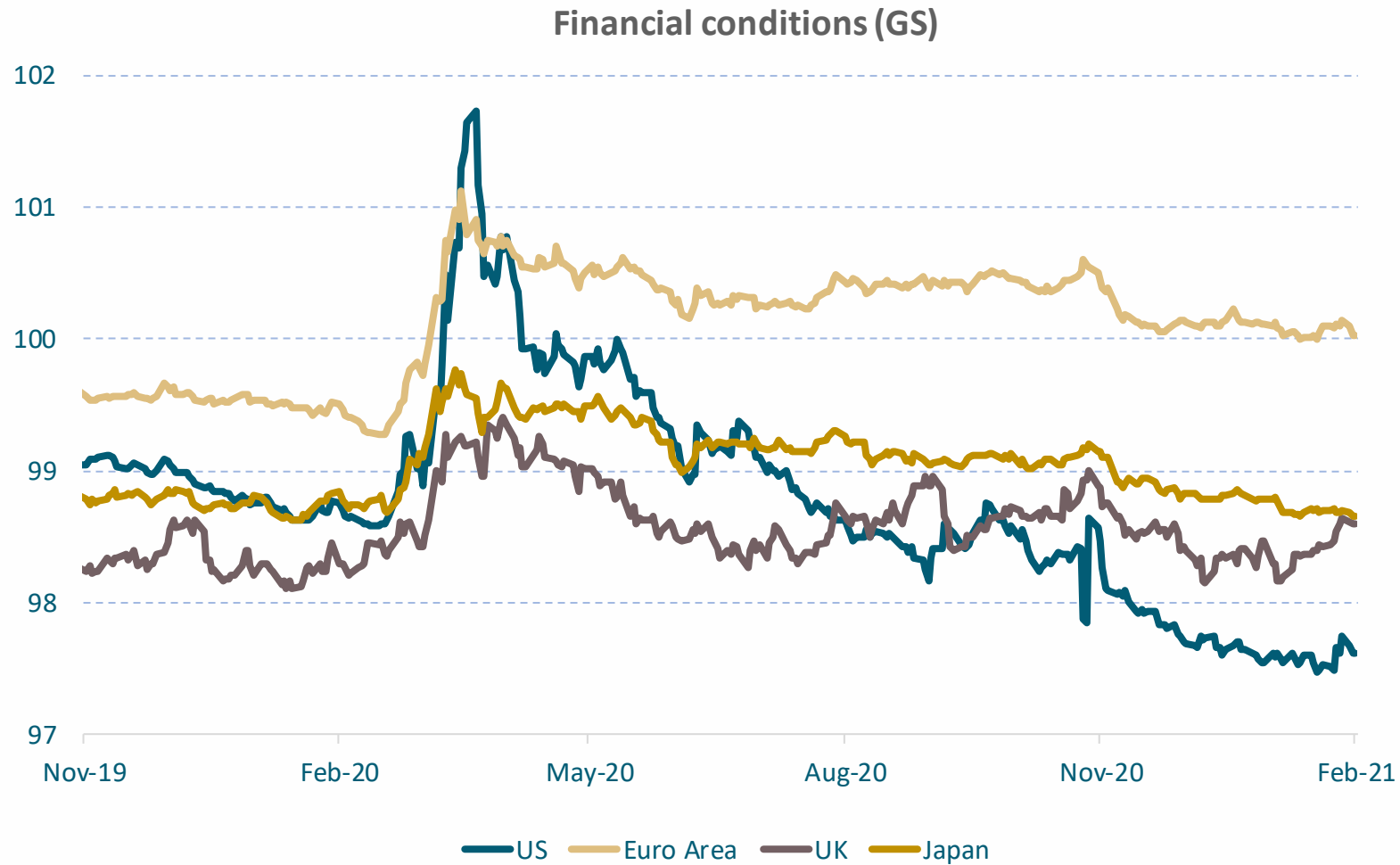
Gross Debt/GDP (average 2020) = 40%

### EME Group 2:

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

Gross Debt/GDP (average 2020) = 71.7%

Financial conditions more stimulative in the US.



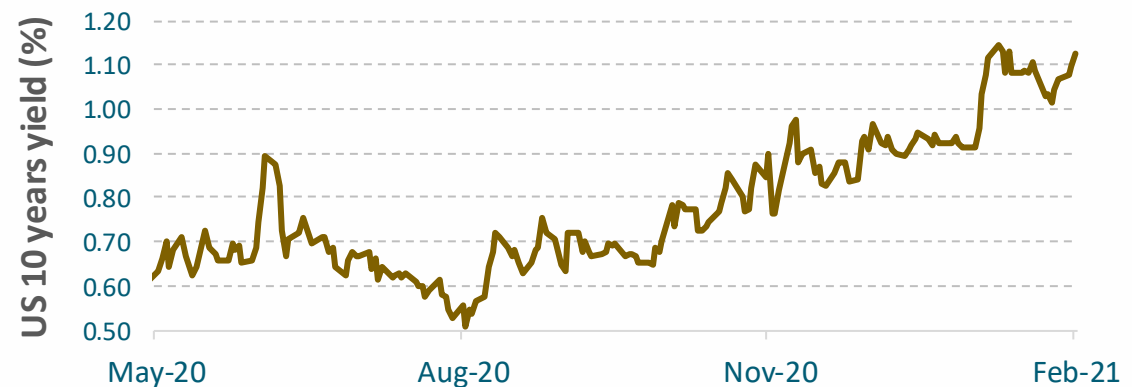
Source: Bloomberg

Reflation trade – Bigger move in the US compared to advanced economies in Europe

5 years implicit inflation



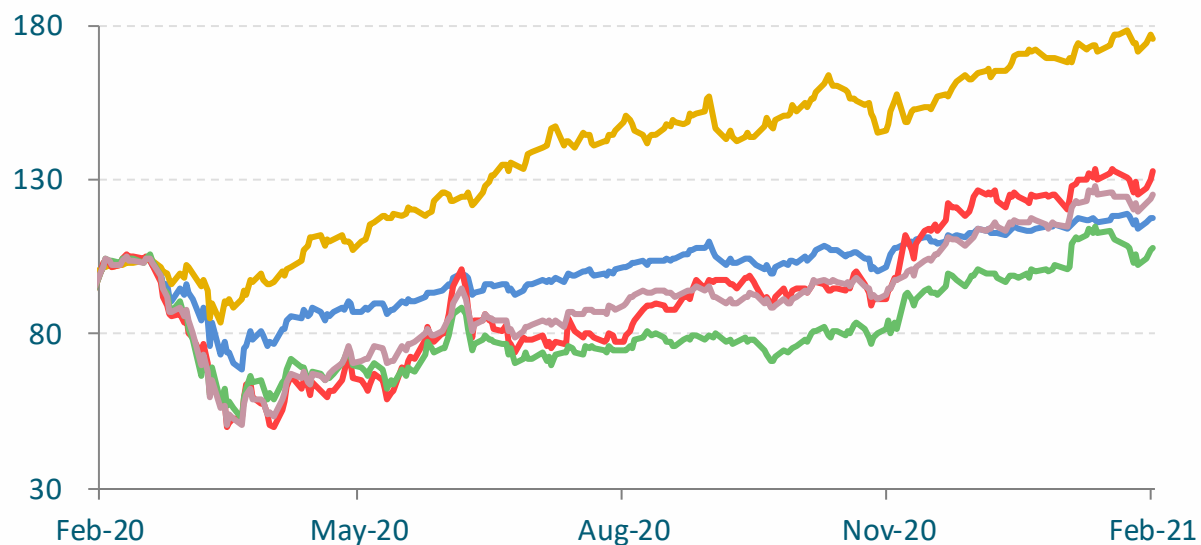
Source: Bloomberg





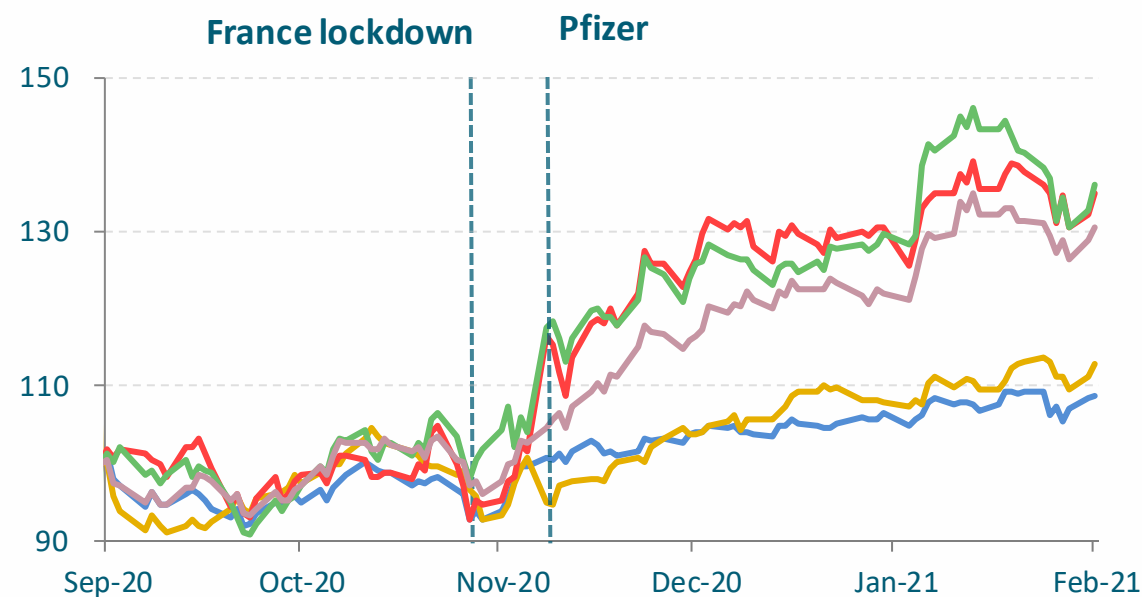
Optimism after Pfizer results announcement

## S&P baskets and reopening



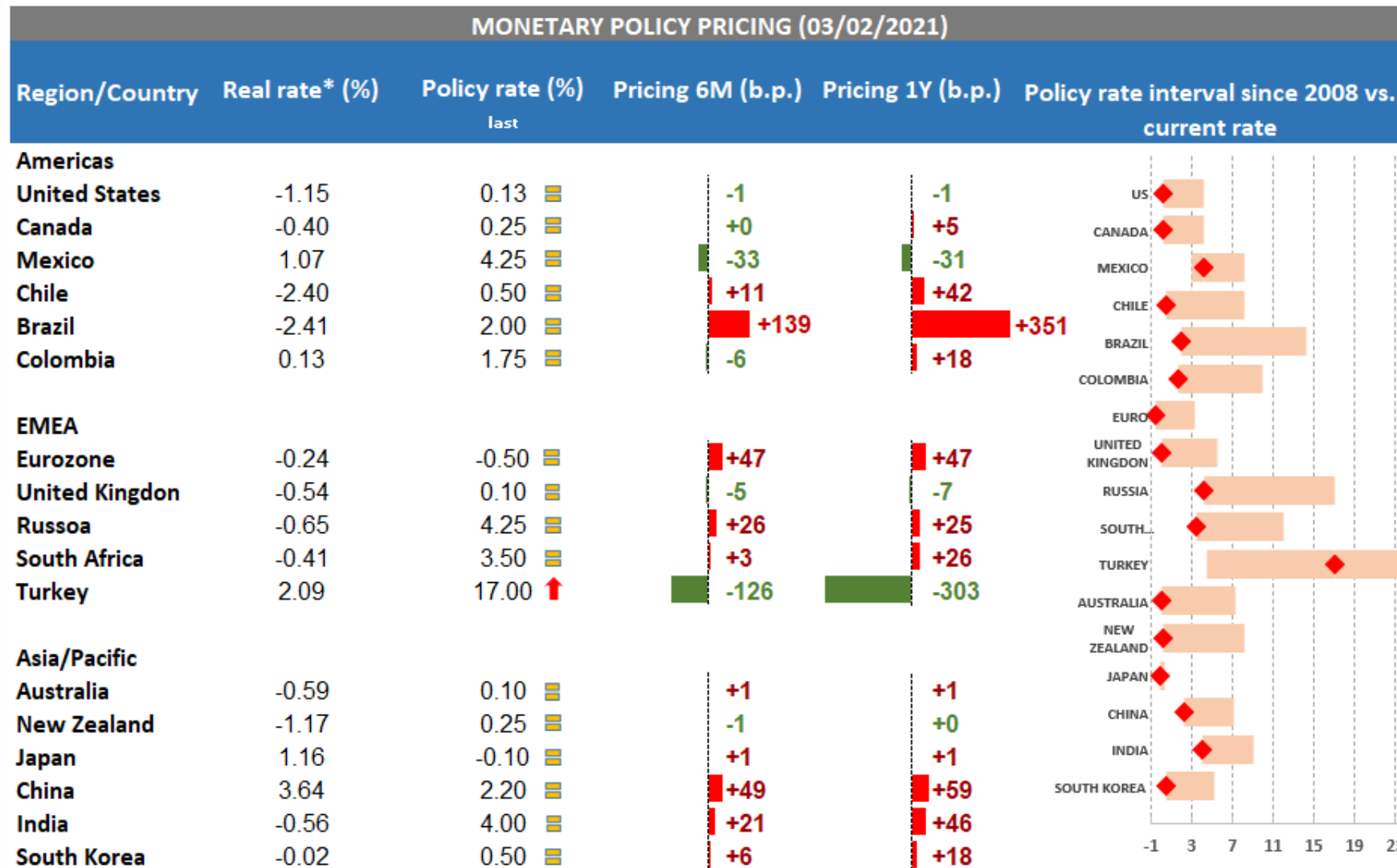
— S&P 500 INDEX — GS US Stay at Home — GS US Global Health Risk  
— GS Rate Sensitive Fins — High Default Probability

## S&P baskets and Covid-19 2<sup>nd</sup> wave



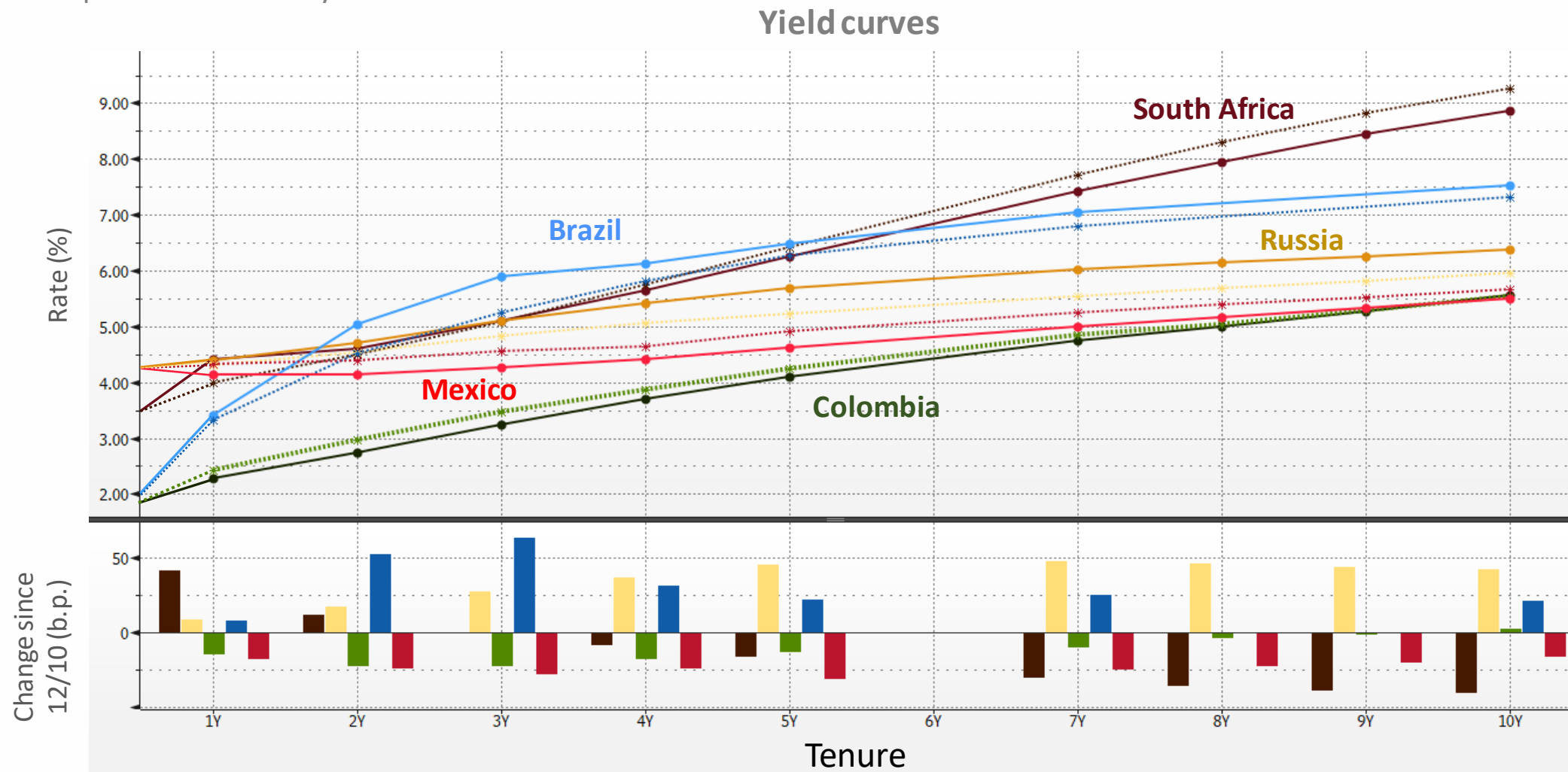
— S&P 500 INDEX — GS US Stay at Home — GS US Global Health Risk  
— GS Rate Sensitive Fins — High Default Probability

Source: Bloomberg



\* ex-post annual rates

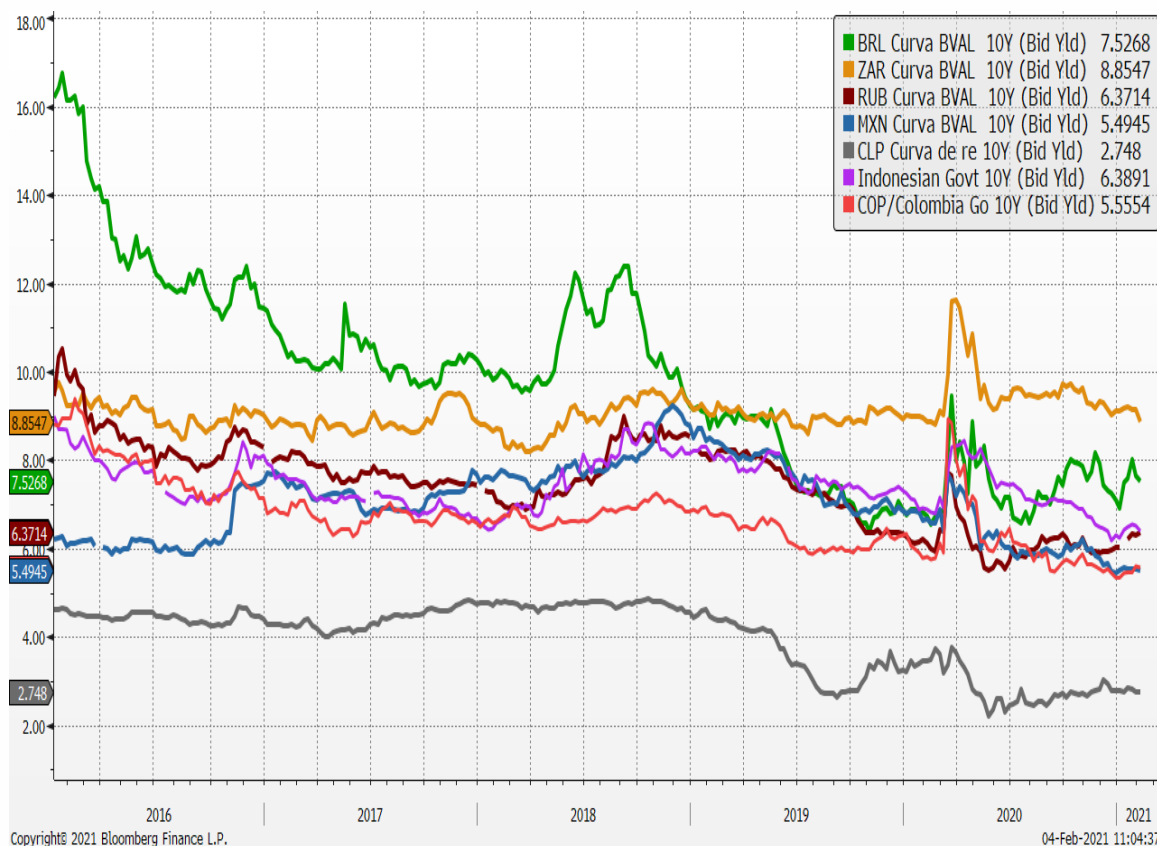
Brazil: upward shift in the yield curve



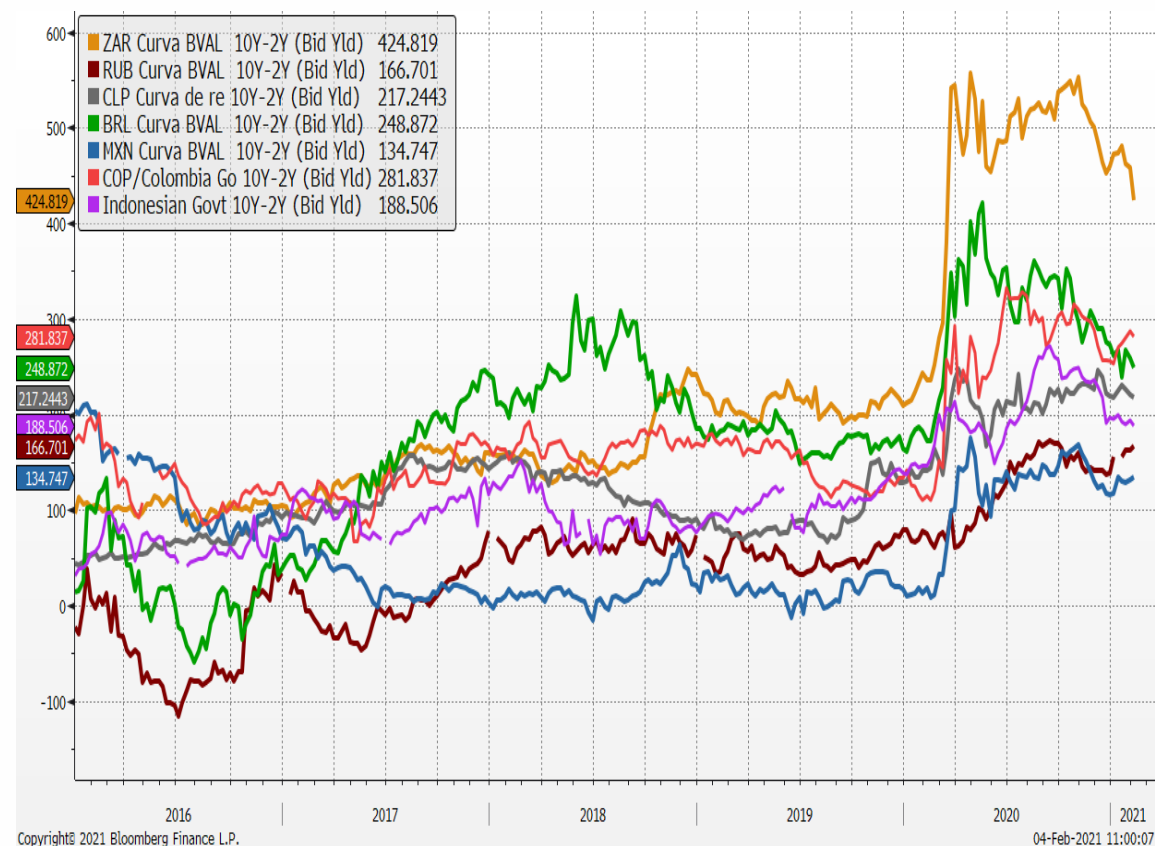


Selected countries

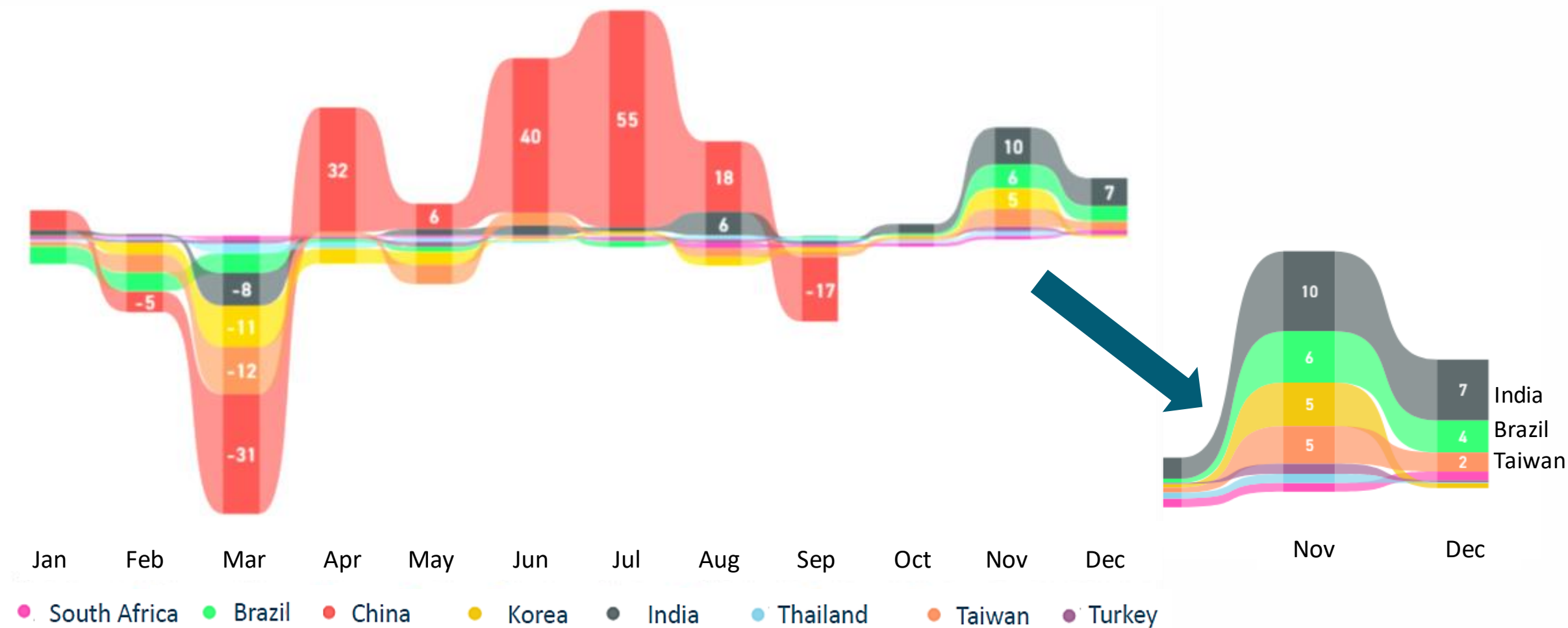
Nominal interest rates 10 years (%)



slope 2 x 10 years (b.p.)

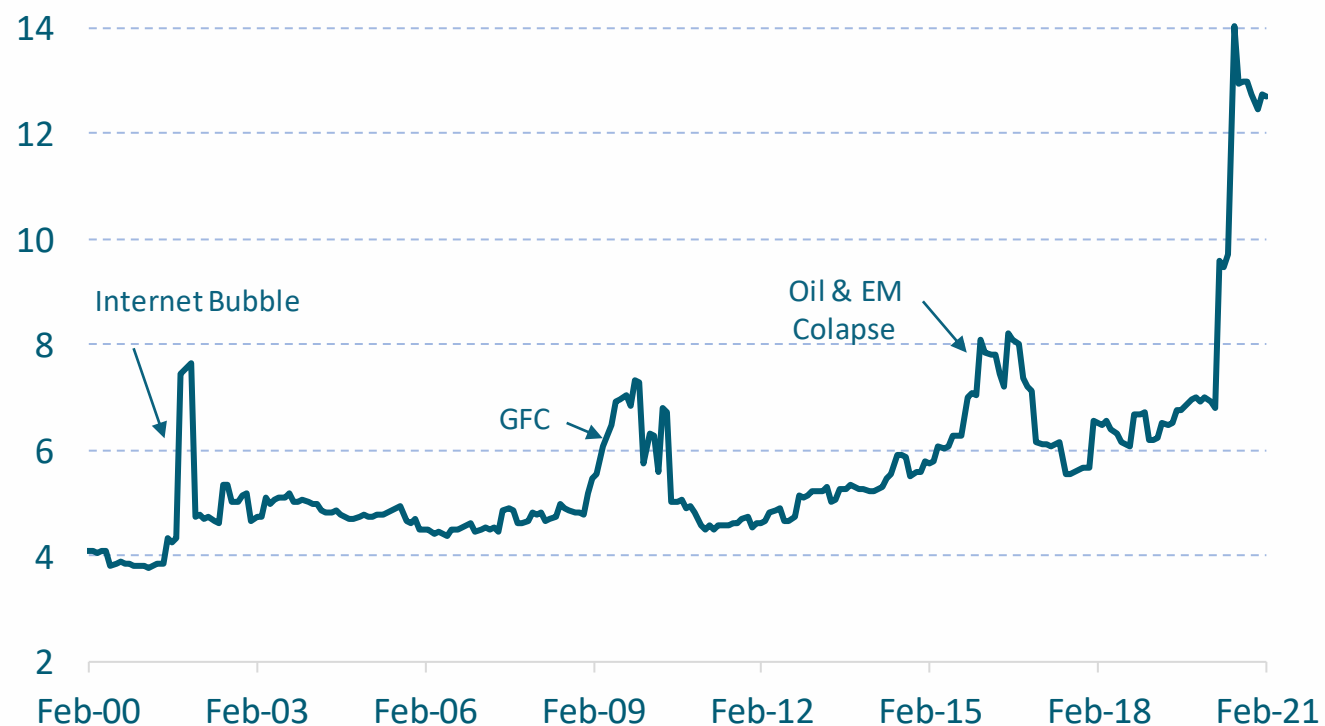


Stocks (YTD) - US\$ billions

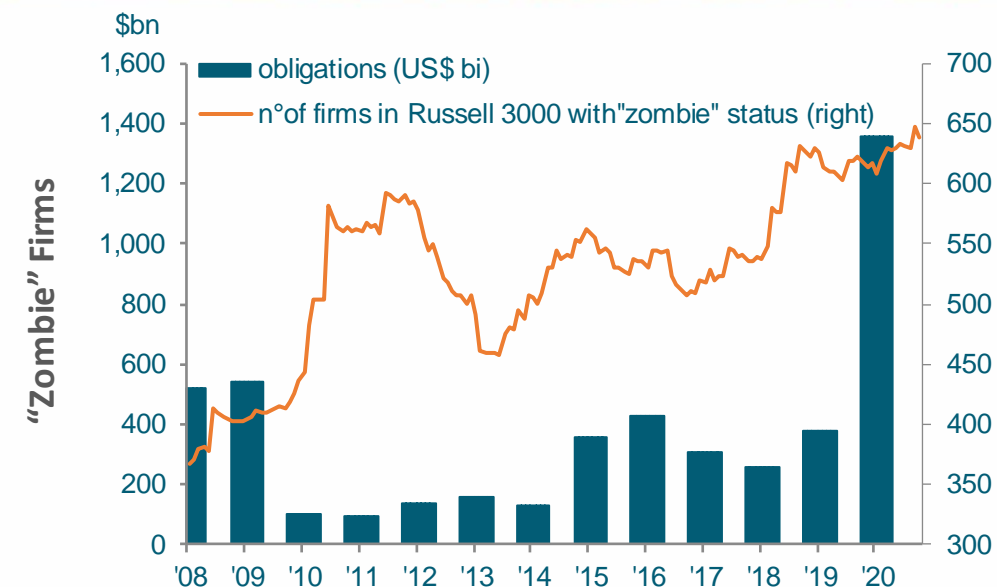


Source: Bloomberg.

Russel Index (small caps) – Total debt/EBITDA



Sources: Bloomberg, The Economist, State Street.



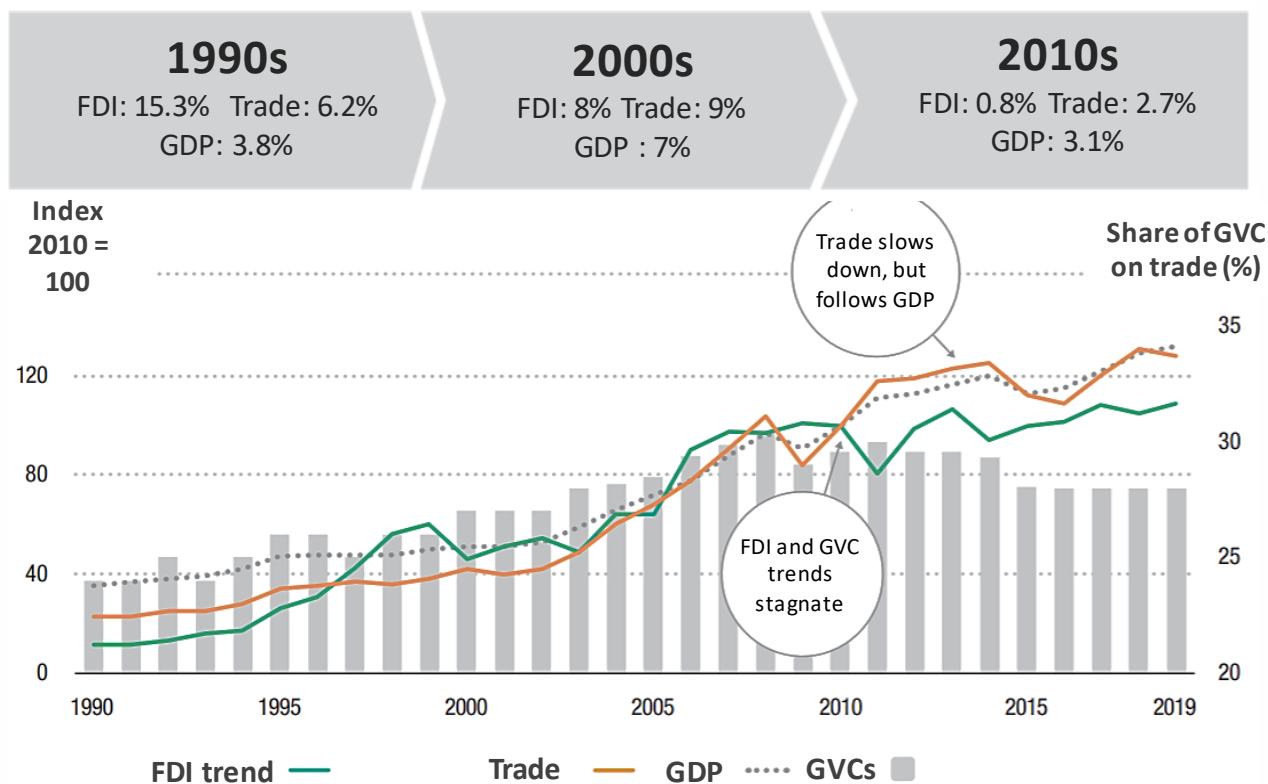
Share of firms making a financial loss (%)





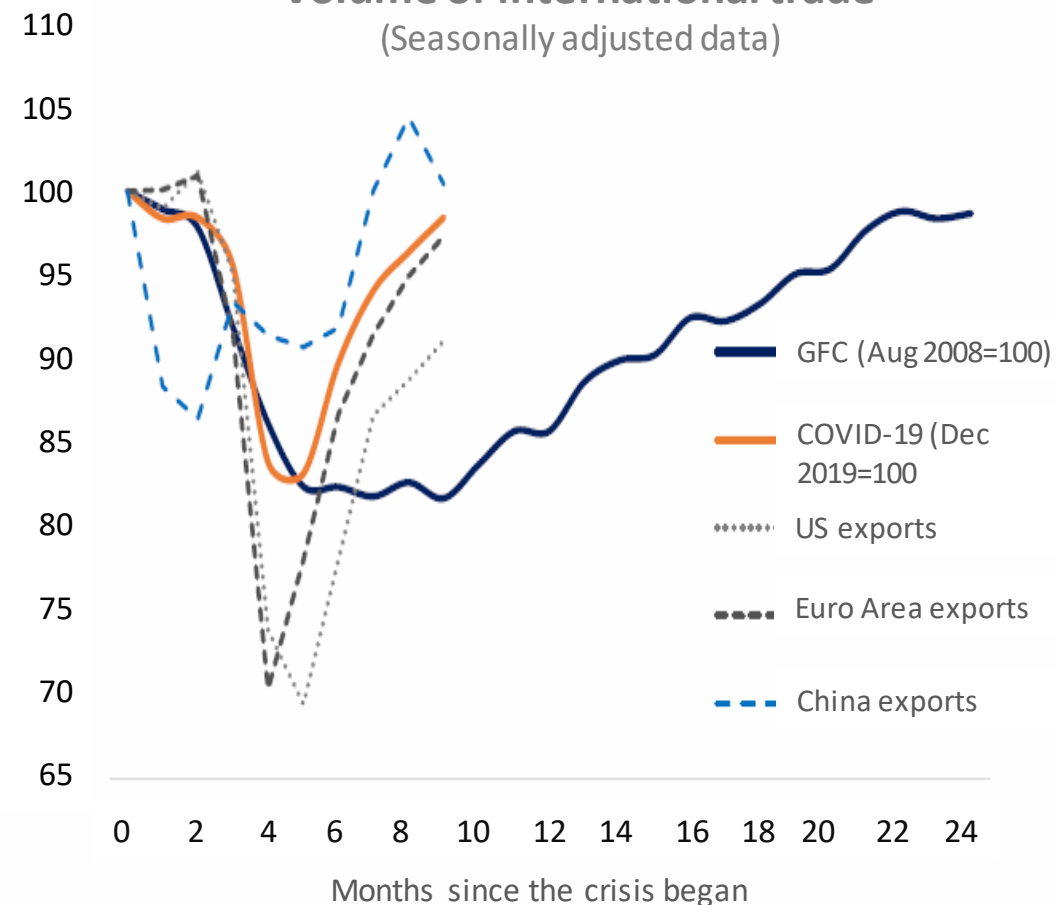
Trend: Restructuring of GVCs. After a retraction similar to that observed during the GFC, trade is recovering at an accelerated pace.

## FDI, Trade, GDP and GVCs – Trend 2010-2019

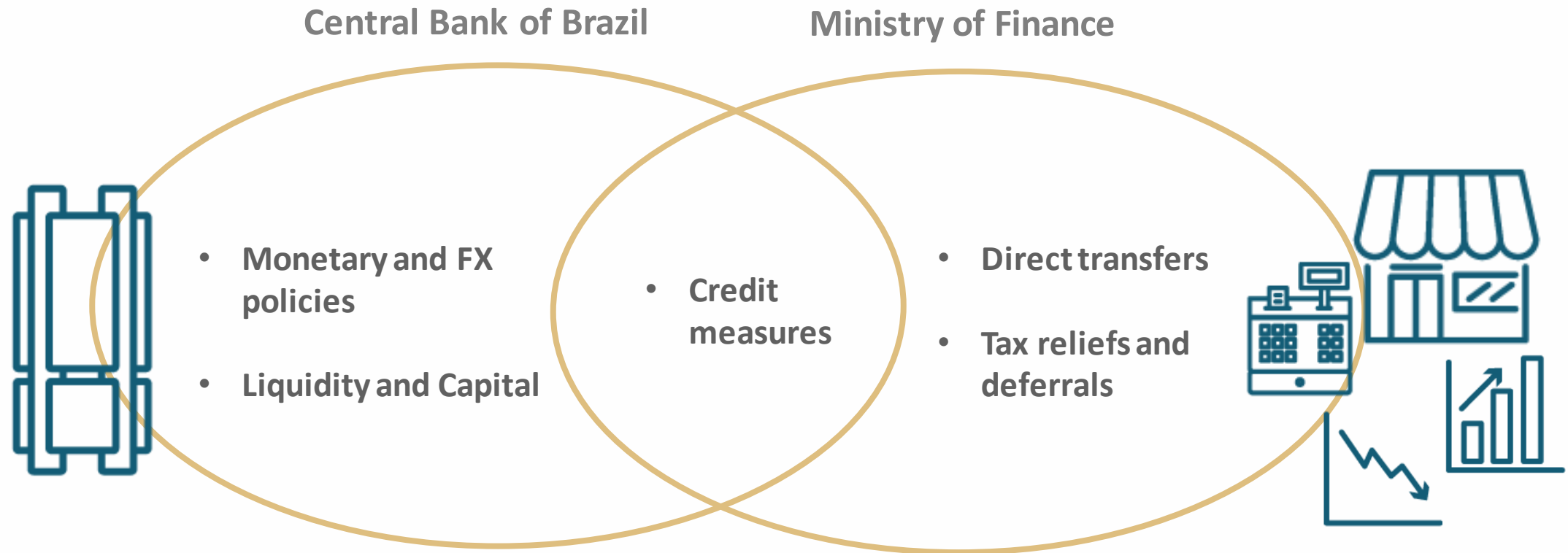


## Volume of international trade

(Seasonally adjusted data)

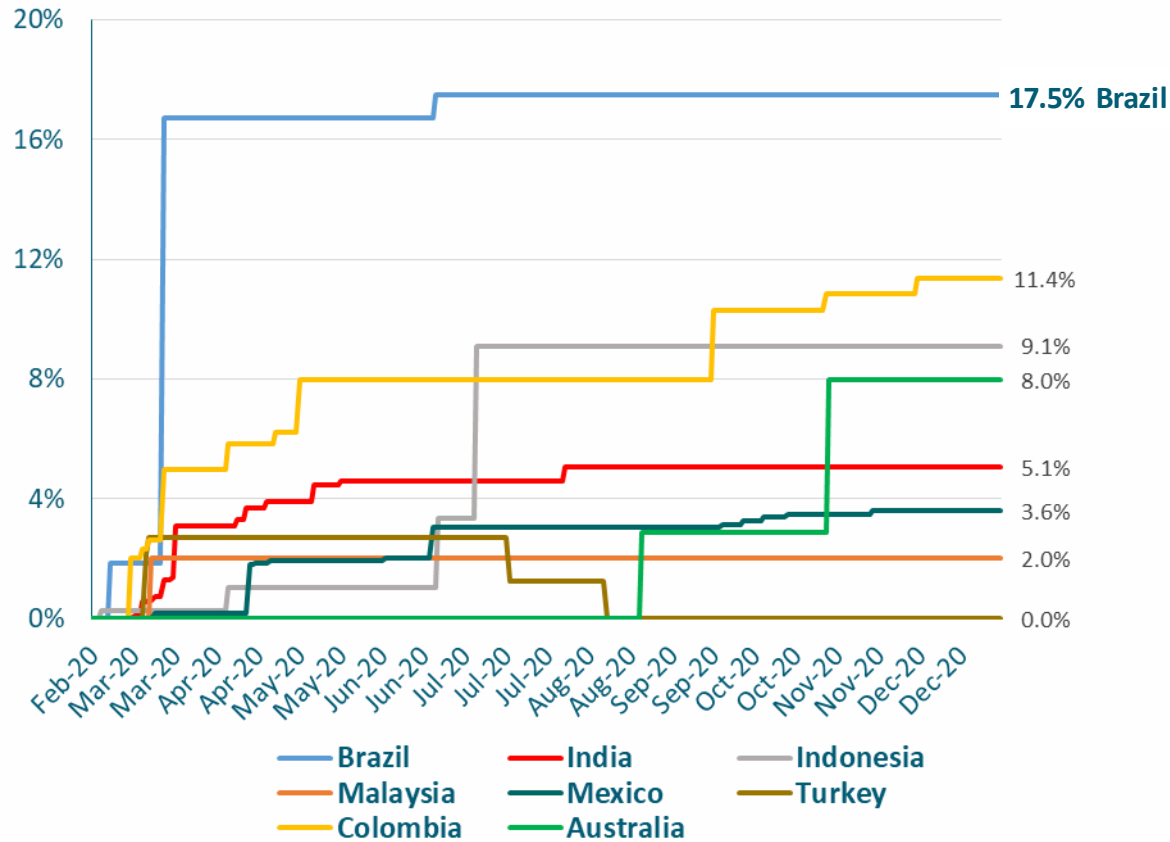


Central Bank of Brazil and Ministry of Finance measures

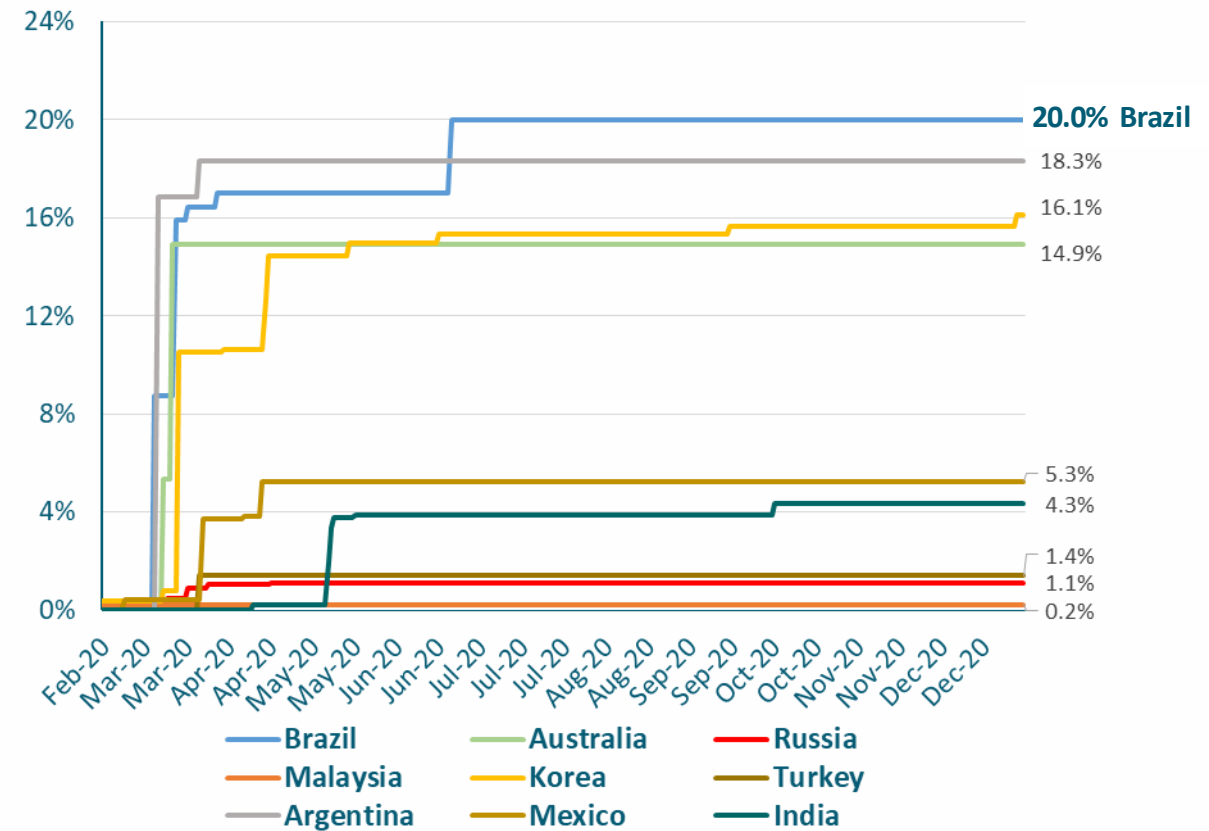


## EMEs – Comparative Overview

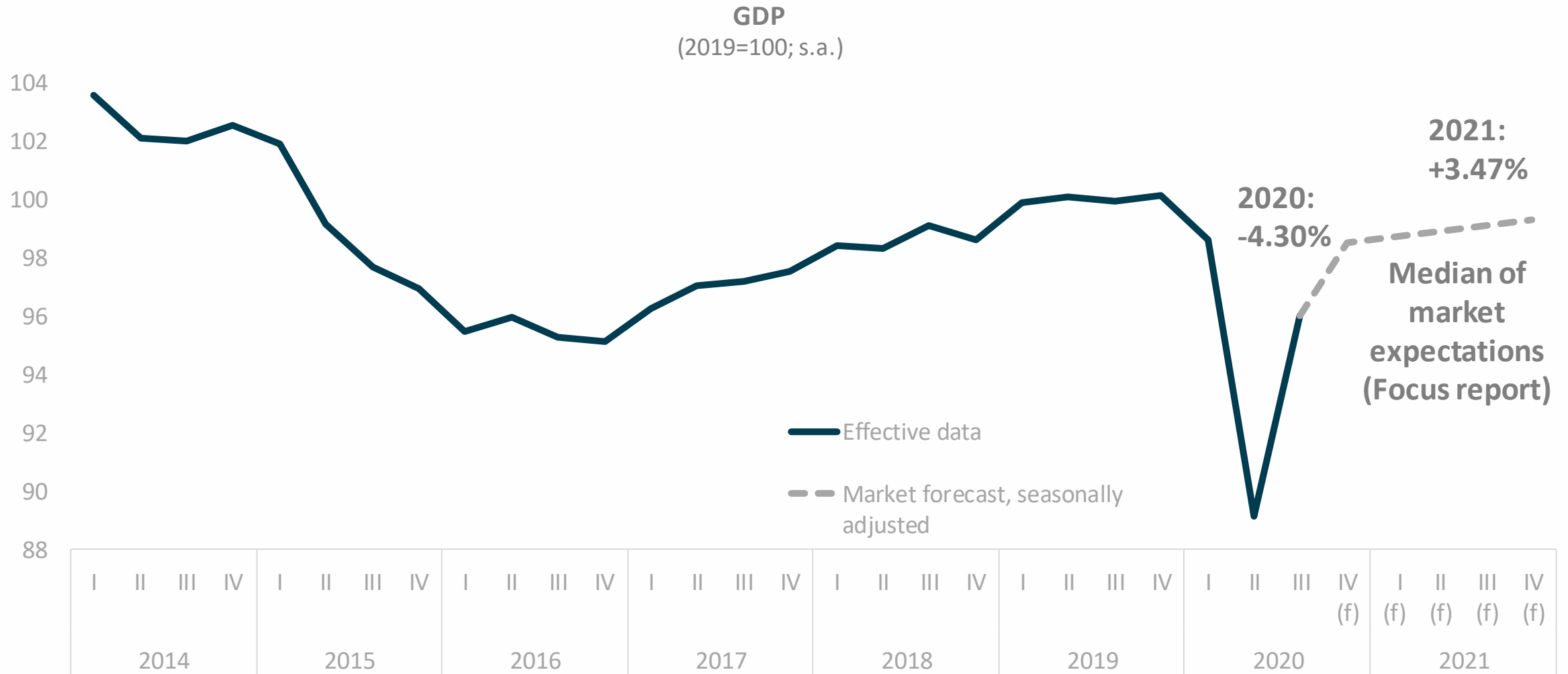
### Liquidity Support (% of GDP)



### Credit Support (% of GDP)



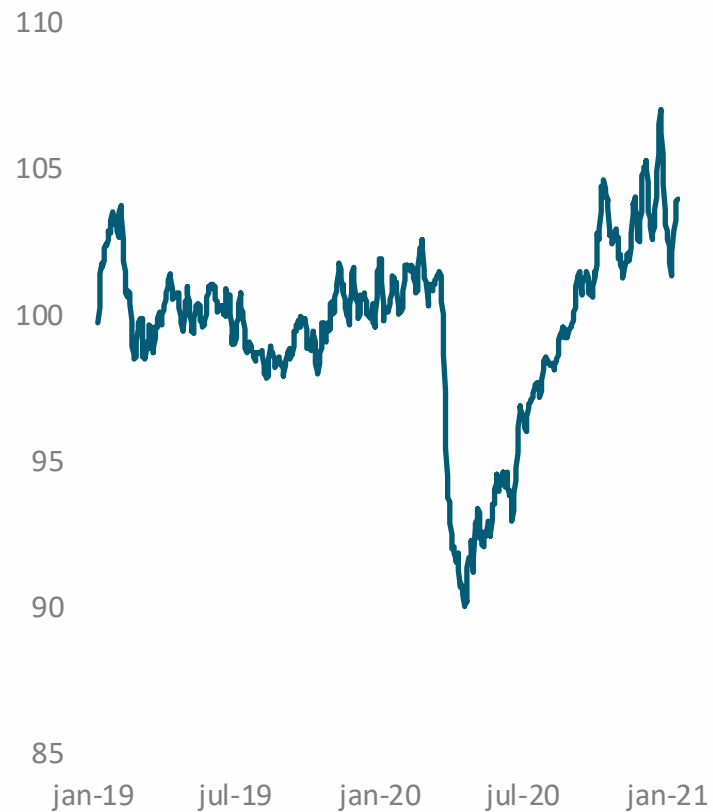




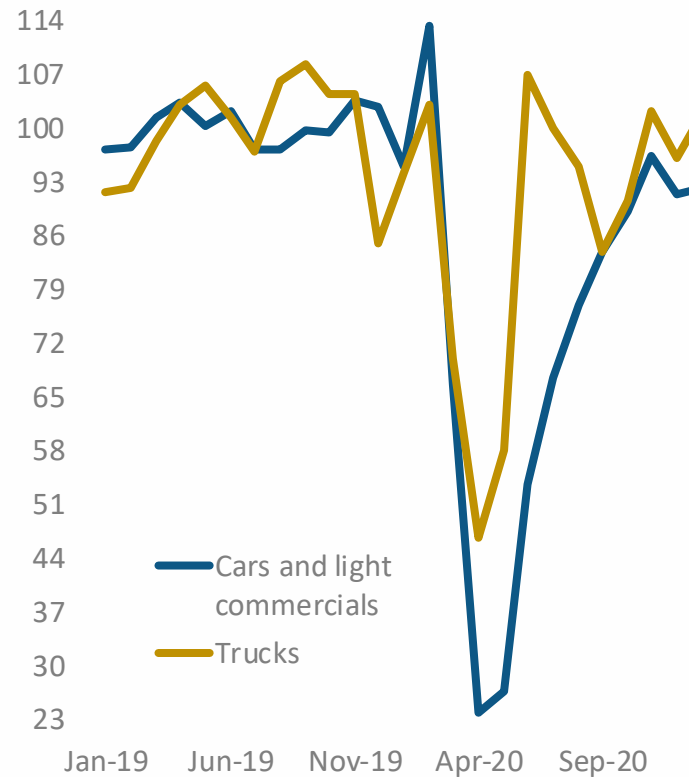
Sources: IBGE and Focus Report (Feb 5th, 2021)

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

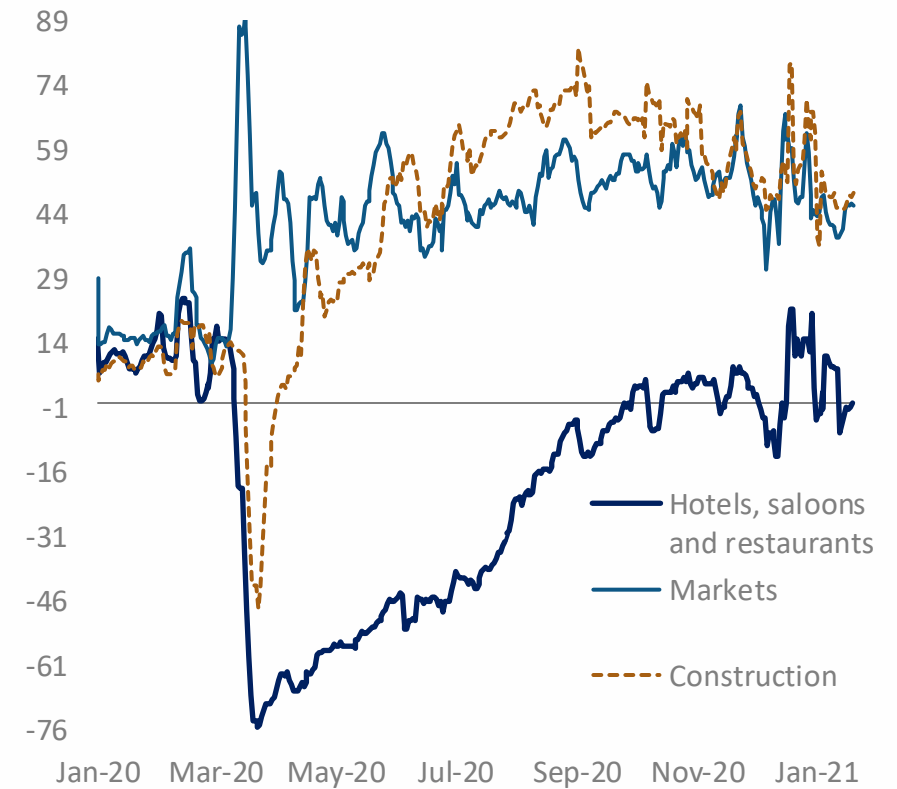
**Electricity charge**  
(mm7d; 2019=100)



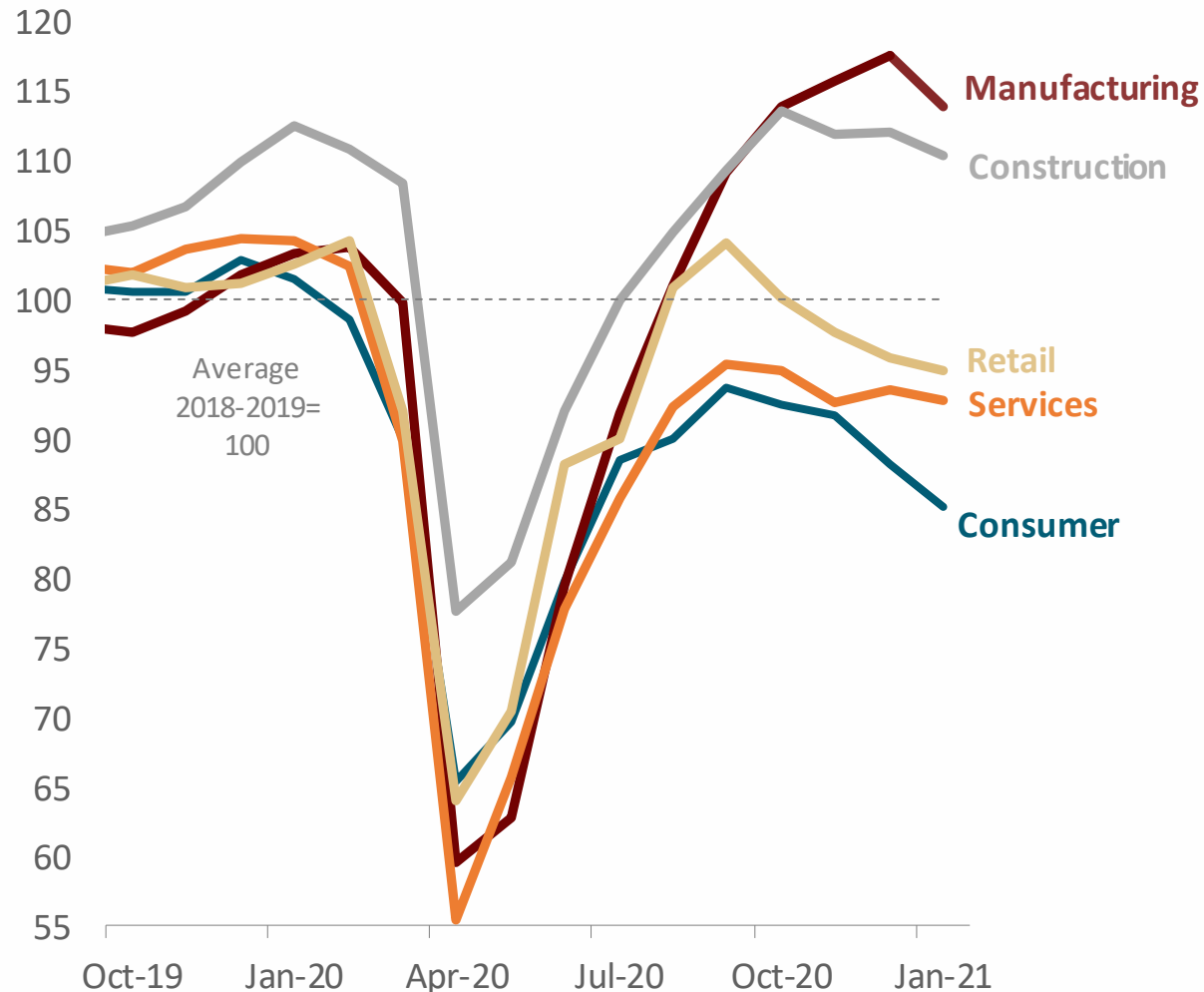
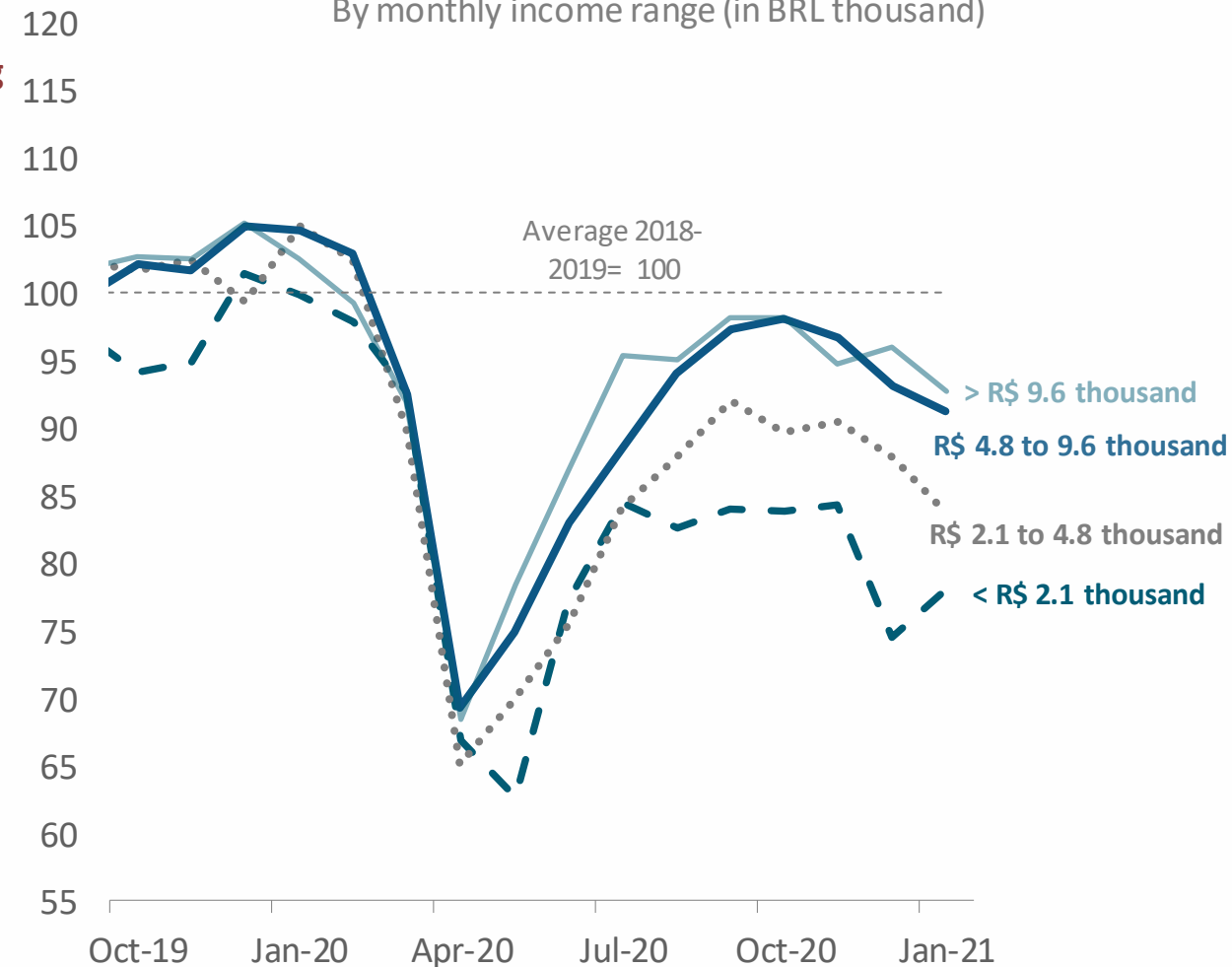
**Vehicle sales**  
(2019=100; s.a.)



**Debit card sales**  
Selected sectors, Nominal values  
YoY change, 7-day moving average



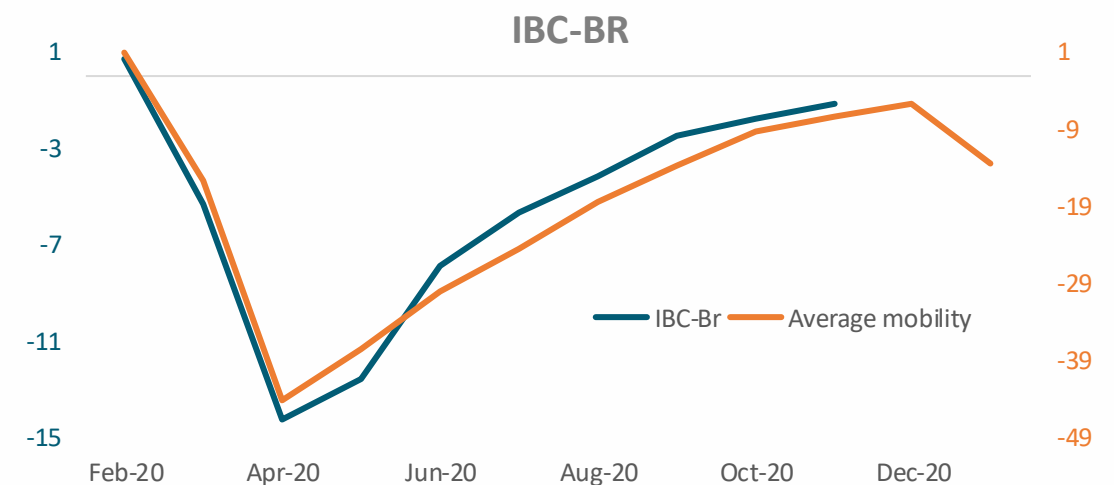
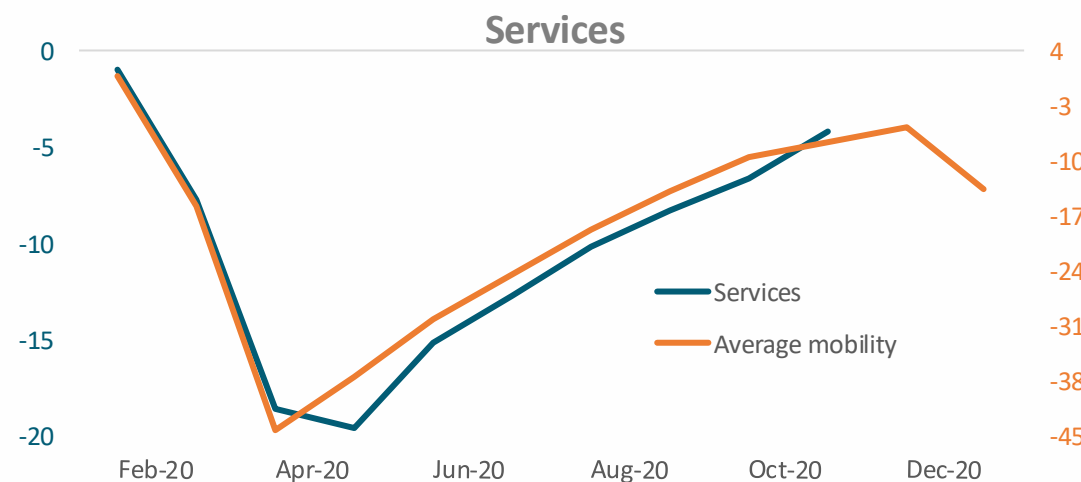
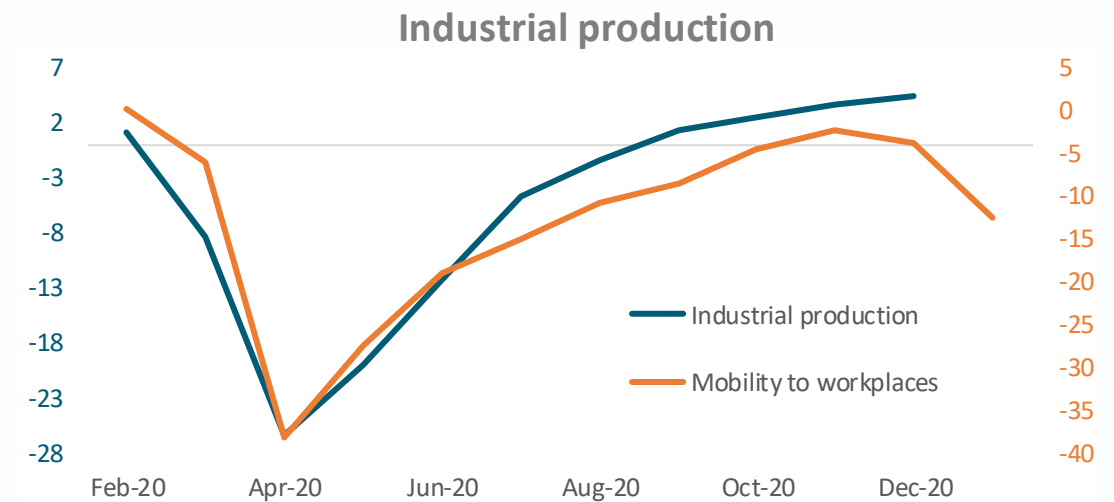
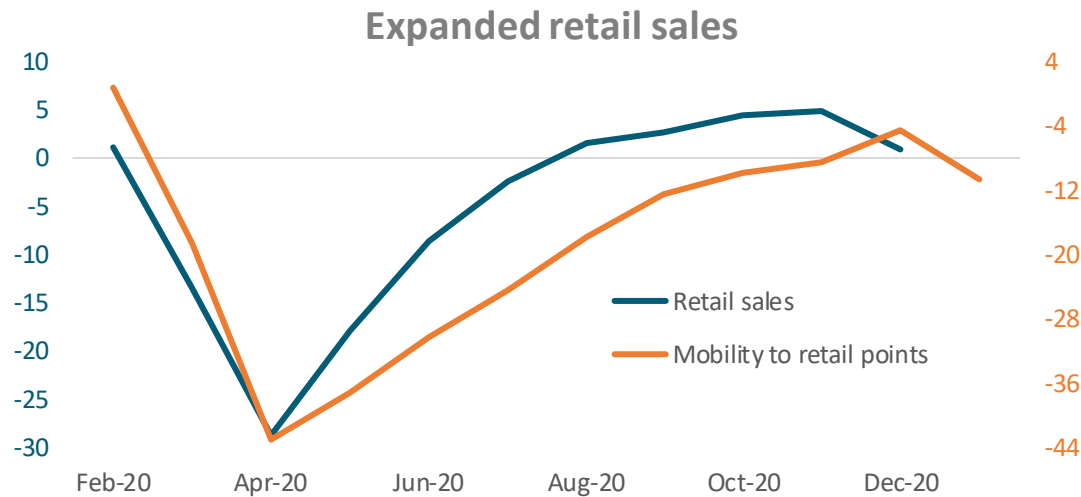
Business confidence X consumer confidence

Consumer confidence  
By monthly income range (in BRL thousand)

Sources: FGV. Seasonally adjusted data.

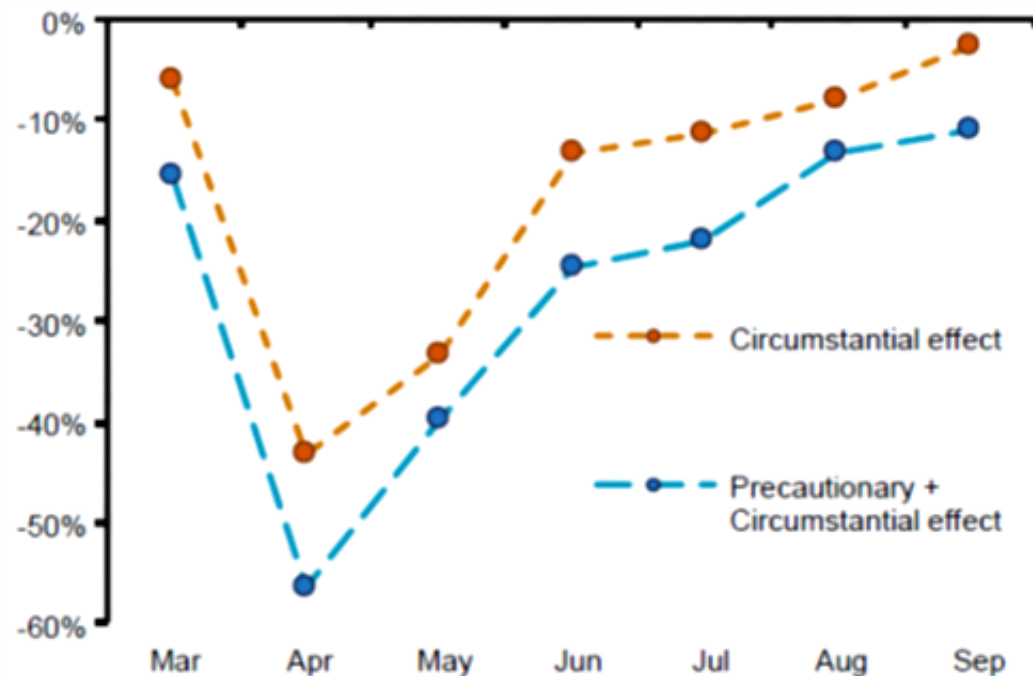


Change comparing to pre crisis levels (%)



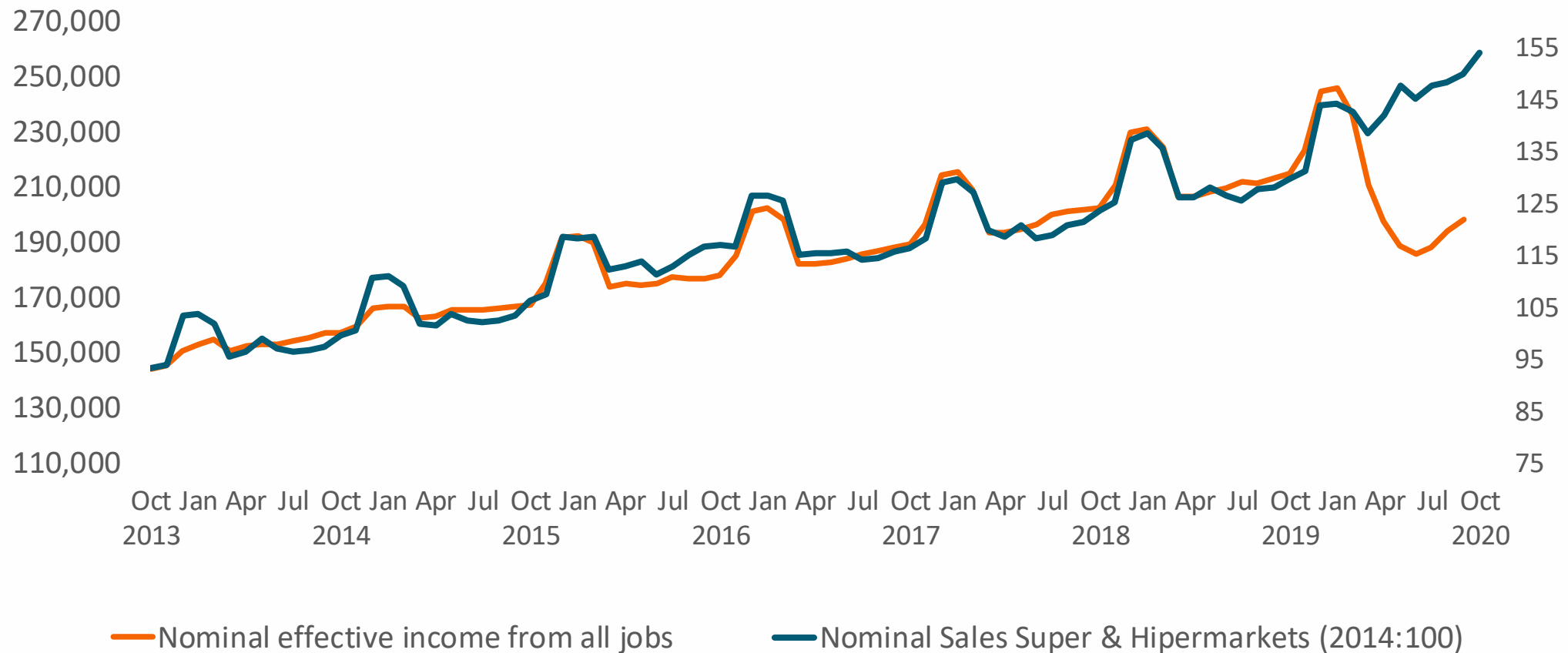
Sources: IBGE, BCB, Google Mobility Report. Last data: January 26th, 2021.

## Breakdown of circumstantial and precautionary effects

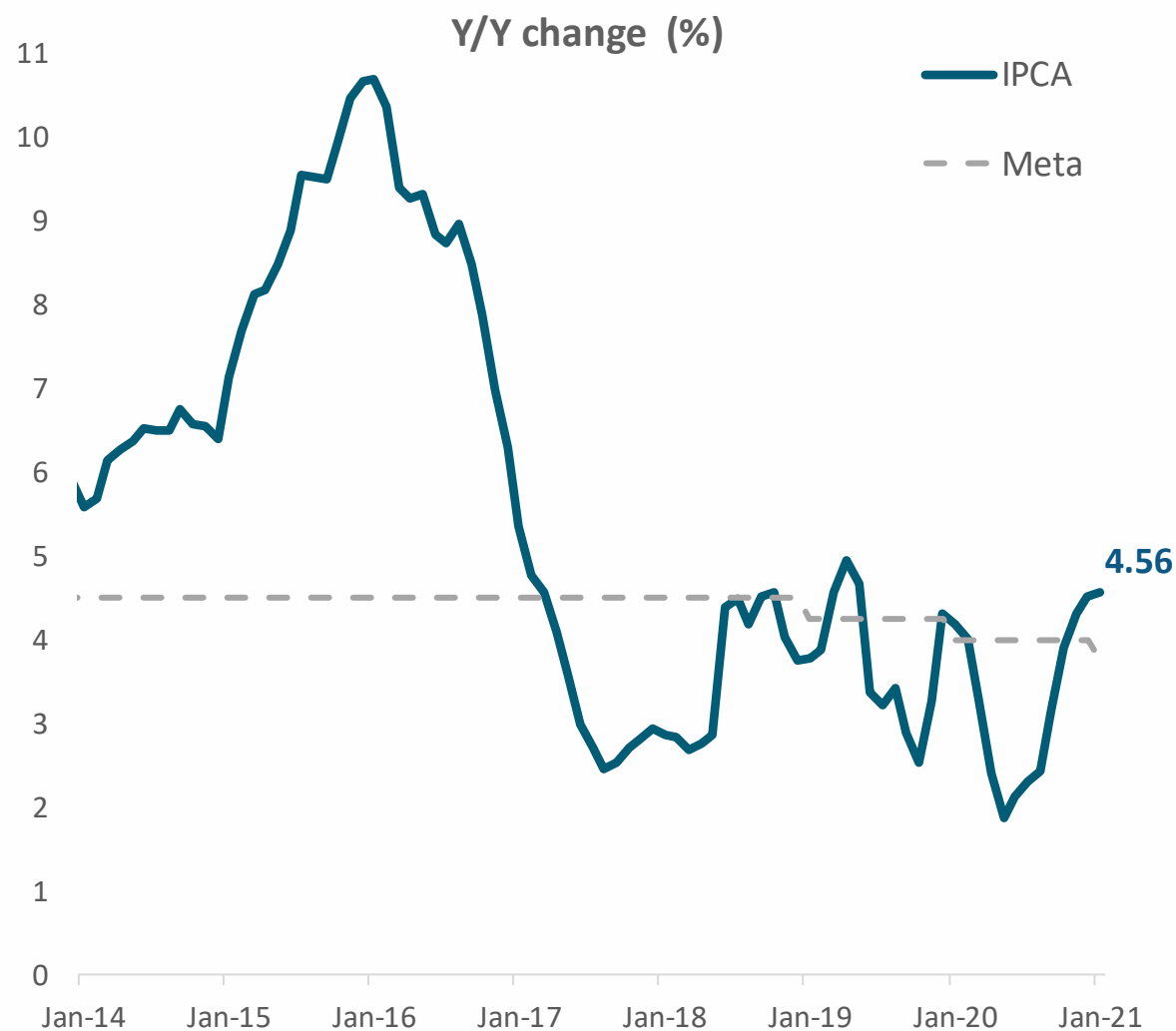


- **Circumstantial effect (CE):** direct result of restrictions imposed on economic activities and changes in behavior to mitigate exposure to the virus. Phase-out of this effect with vaccination;
- **Precautionary effect (PE):** resulting from the impacts of the pandemic on economic activity (employment and future income) and may remain due to the usually slower adjustment of the labor market;
- Credit card and formal labor market data identifying that:
  - Public servants, due to employment stability, have been less affected by PE;
  - Older workers most affected by CE.
- CE was dominant at the valley in April 2020;
- PE predominates marginally.
  - Potentially relevant, given the lag in the labor market.

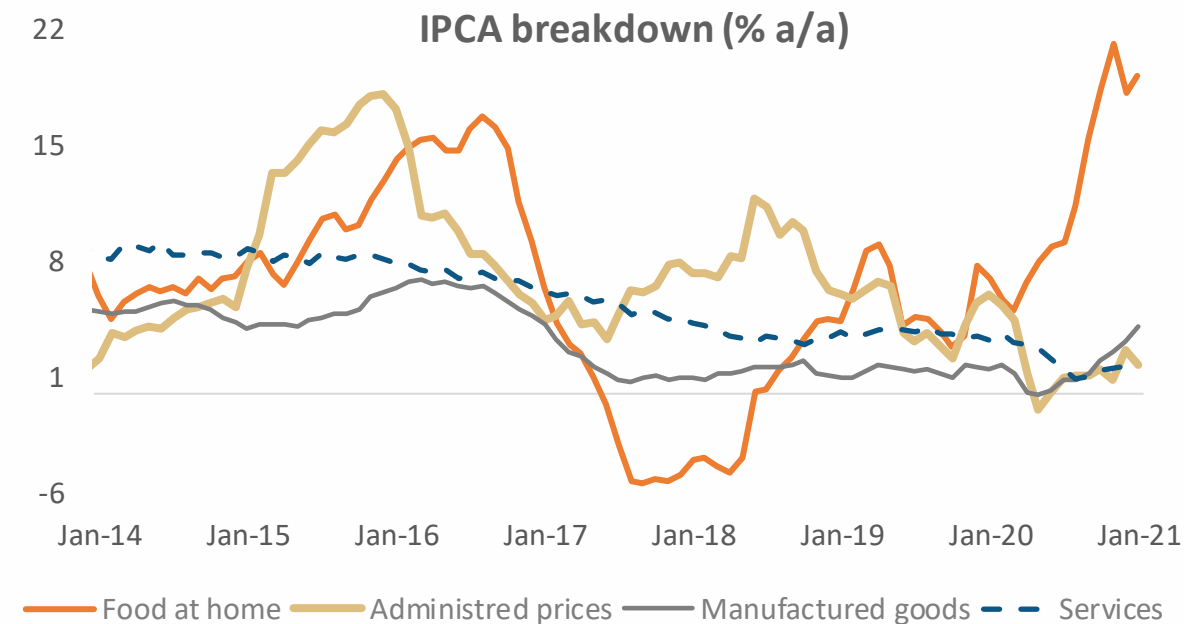
## Revenues Super &amp; Hipermarkets vs Labor effective income







Sources: IBGE, BCB, Focus Report.

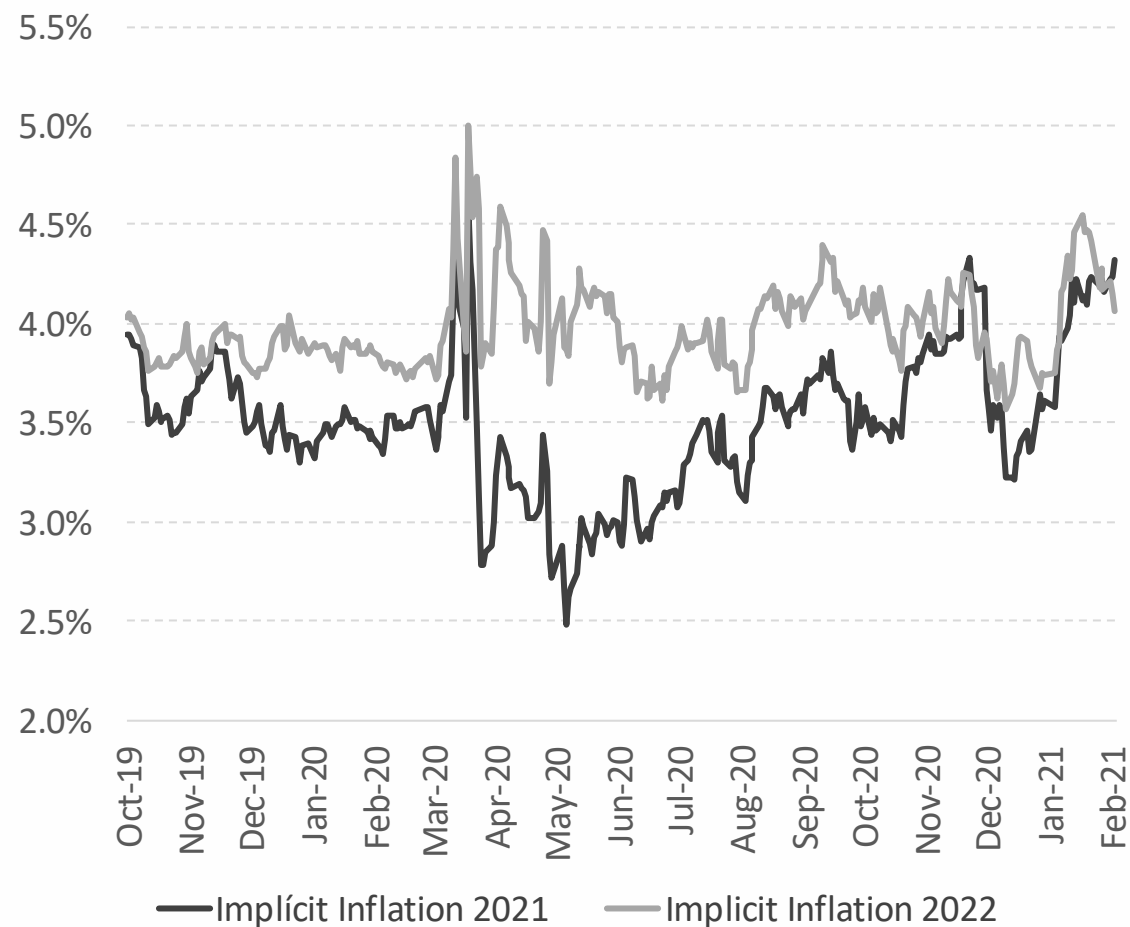


## Market expectations (Focus)

In February 5, 2021

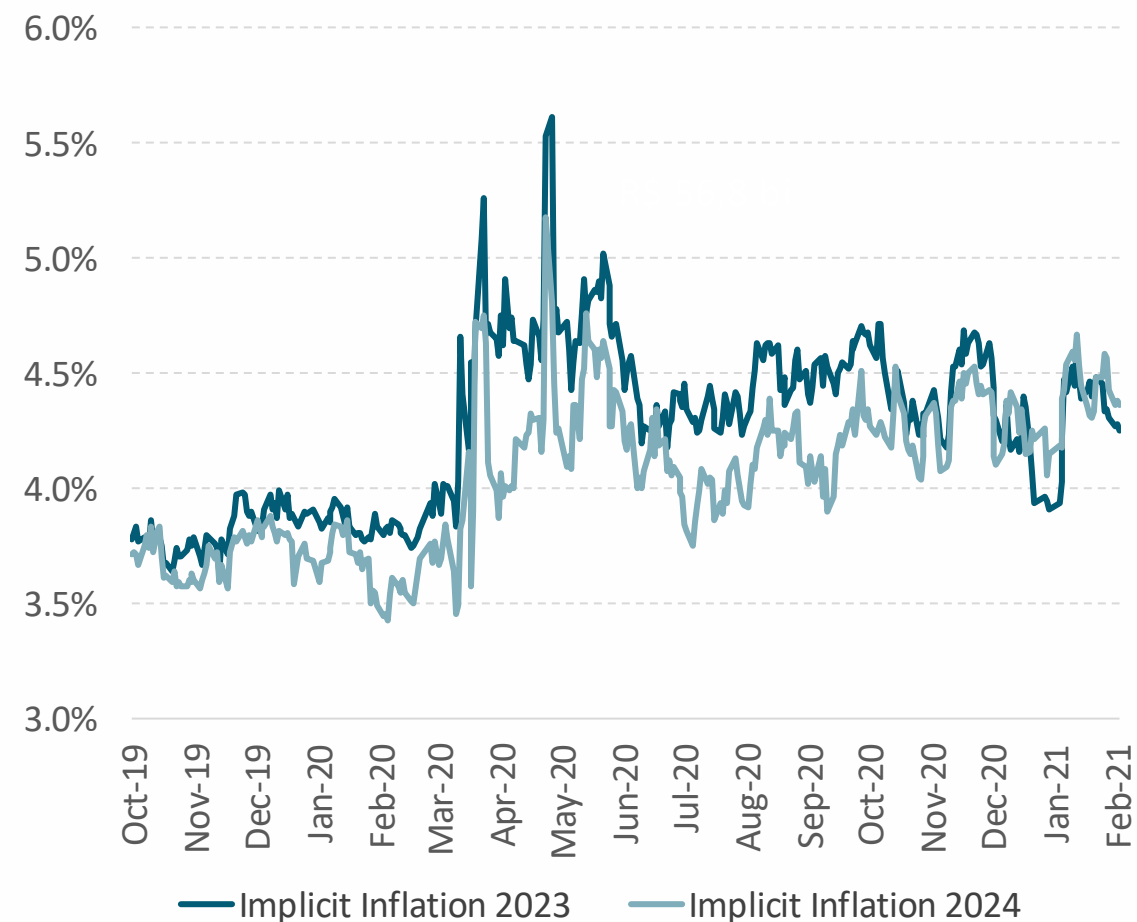
	2021	2022	2023
Inflation target (%)	3.75	3.50	3.25
Median of expectations (%)	3.60	3.49	3.25

## Implicit Inflation – 2021 and 2022

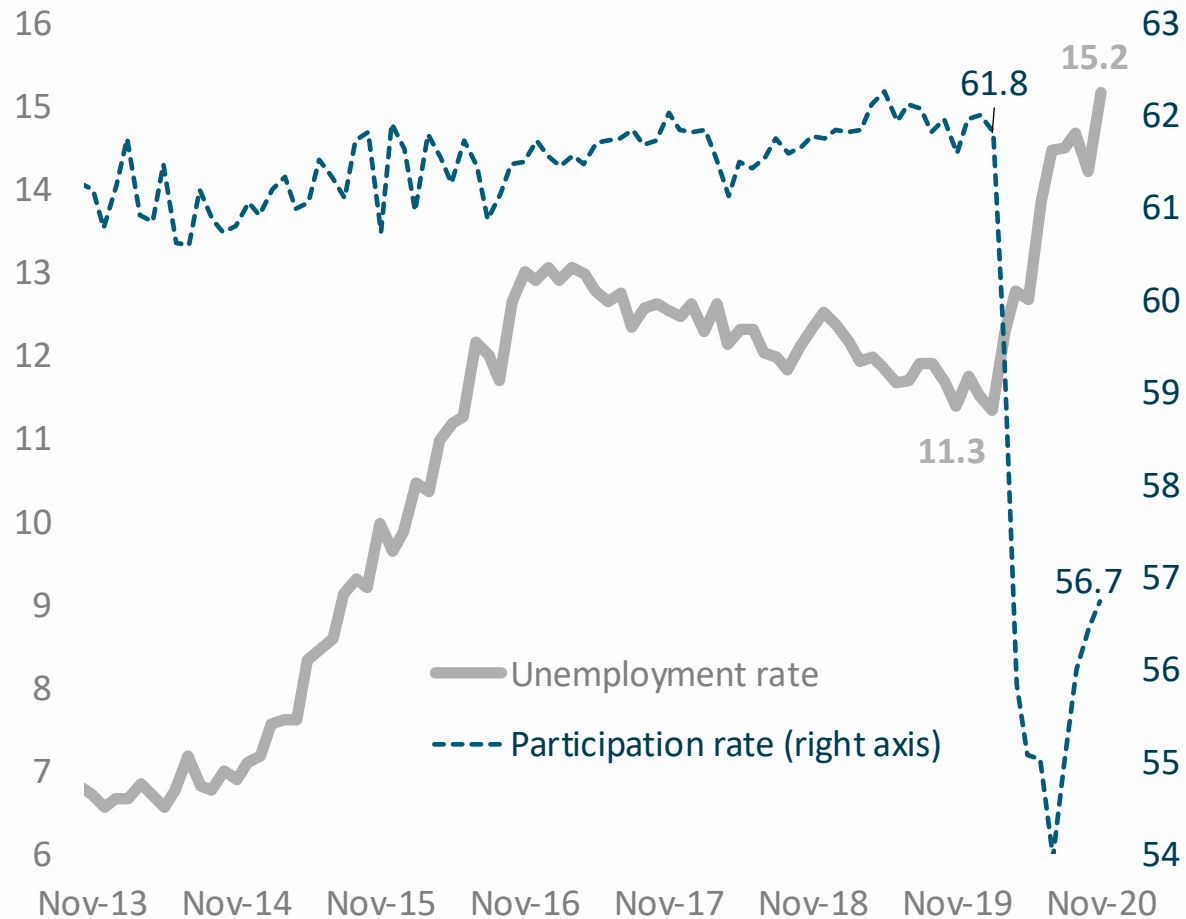


Source: BCB, updated to 02/03/2021.

## Implicit Inflation – 2023 and 2024

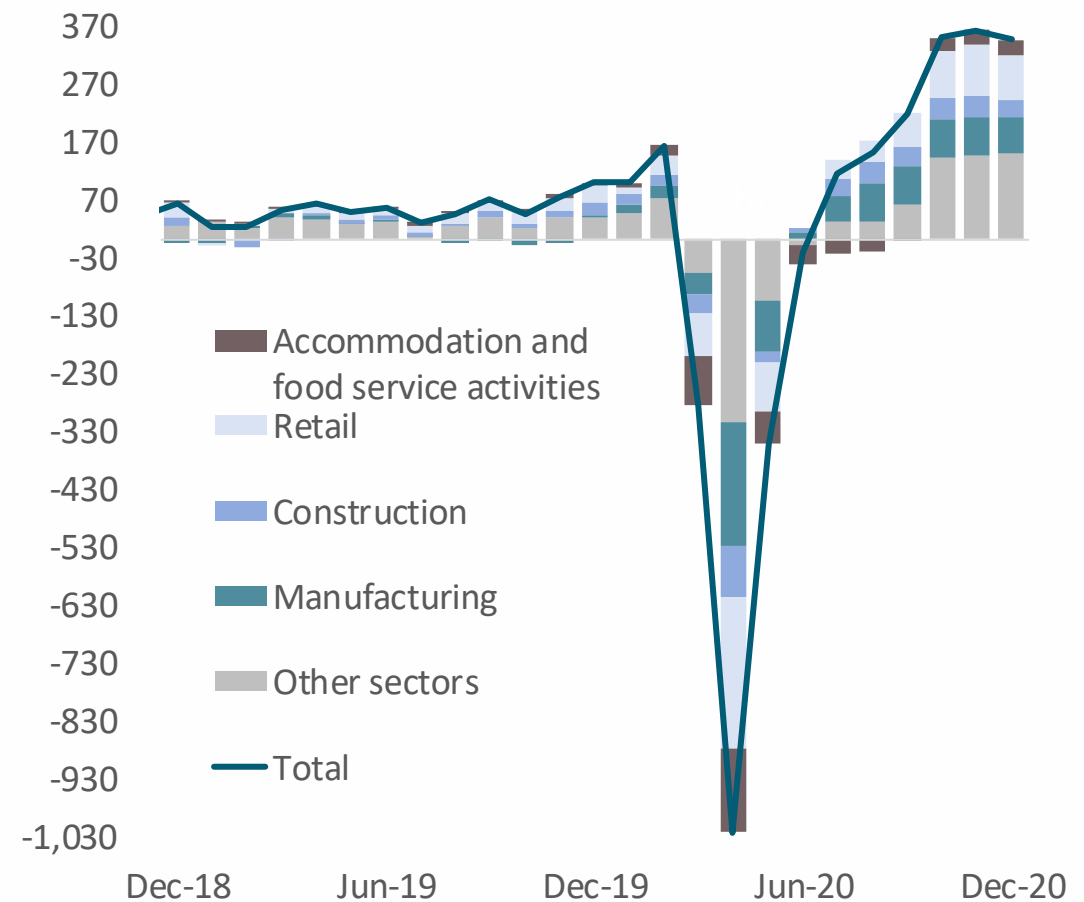


**Unemployment and participation rates**  
%, seasonally adjusted



Source: IBGE (monthly data extracted from PNAC-C).

**Net formal job creation**  
(thousand; s.a.)



Source: Ministry of Economy (CAGED data). Data is seasonally adjusted by BCB. "Other sectors" is an approximation, since seasonally adjusted data do not add up.

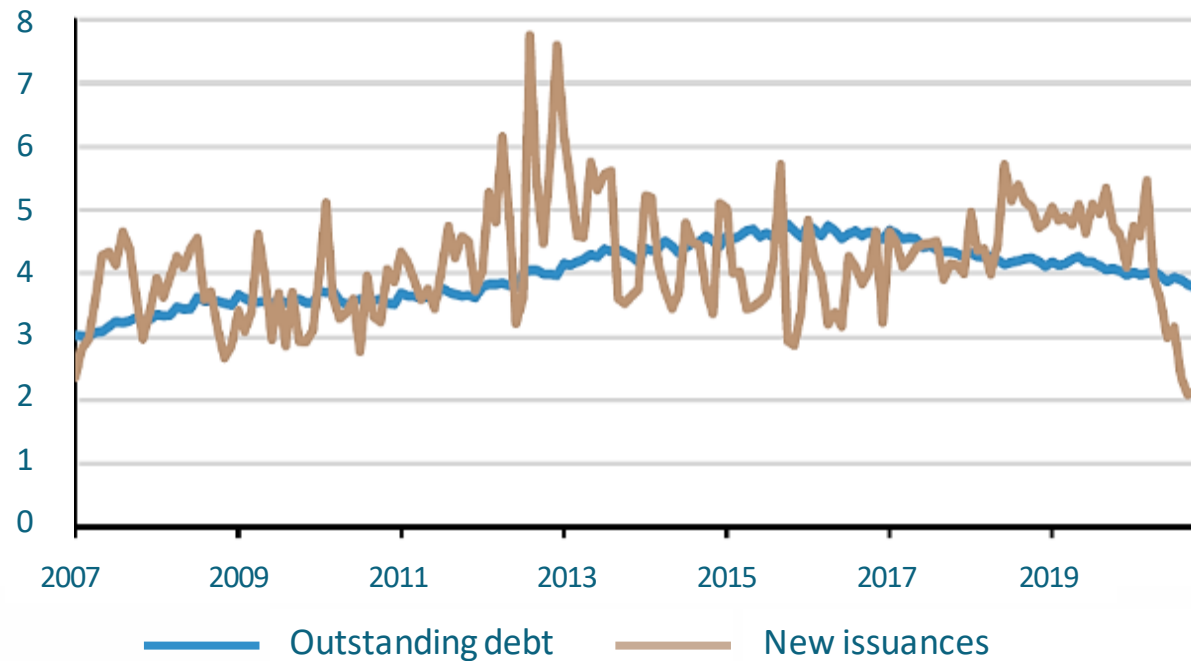


## 236th Copom meeting

- In its 236th meeting, the Copom unanimously decided to maintain the Selic rate at 2.00% p.a.
- The Committee judges that this decision reflects its baseline scenario for prospective inflation, a higher-than-usual variance in the balance of risks, and it is consistent with the convergence of inflation to its target over the relevant horizon for monetary policy, which includes 2021 and, mainly, 2022.
- According to the forward guidance introduced in the 232nd meeting the Copom would not reduce the monetary stimulus as long as specified conditions were met. Based on new information, the Committee judges that those conditions no longer hold, as inflation expectations, as well as inflation projections for its baseline scenario, are sufficiently close to the inflation target over the relevant horizon for monetary policy. Therefore, the forward guidance no longer holds and, henceforth, monetary policy will follow the usual analysis of the balance of risks for the prospective inflation.
- The Copom reiterates that the removal of the forward guidance does not mechanically imply interest rates increases, since, at this moment, uncertainties regarding the evolution of growth still prescribe an extraordinarily strong monetary stimulus.

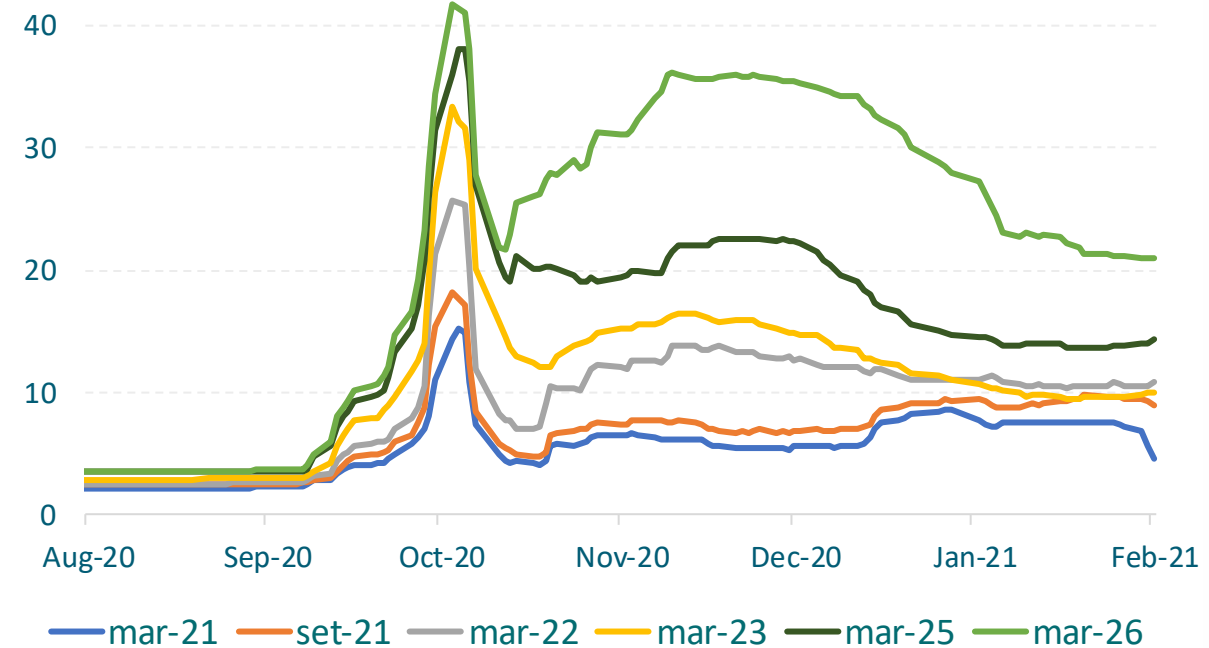
## New issuances vs total outstanding debt average maturity

Average maturity  
in years

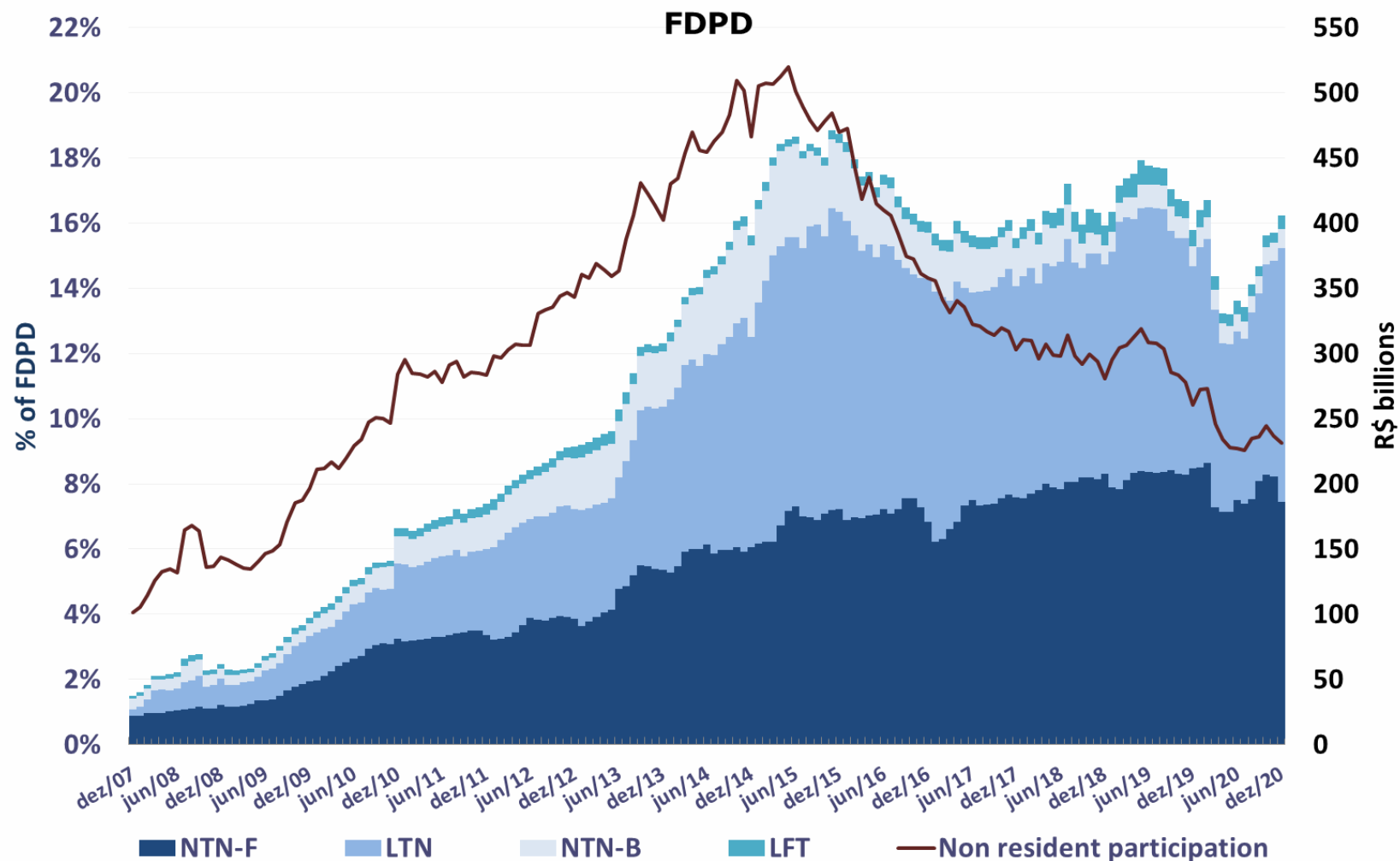


## LFT risk premium

b.p.

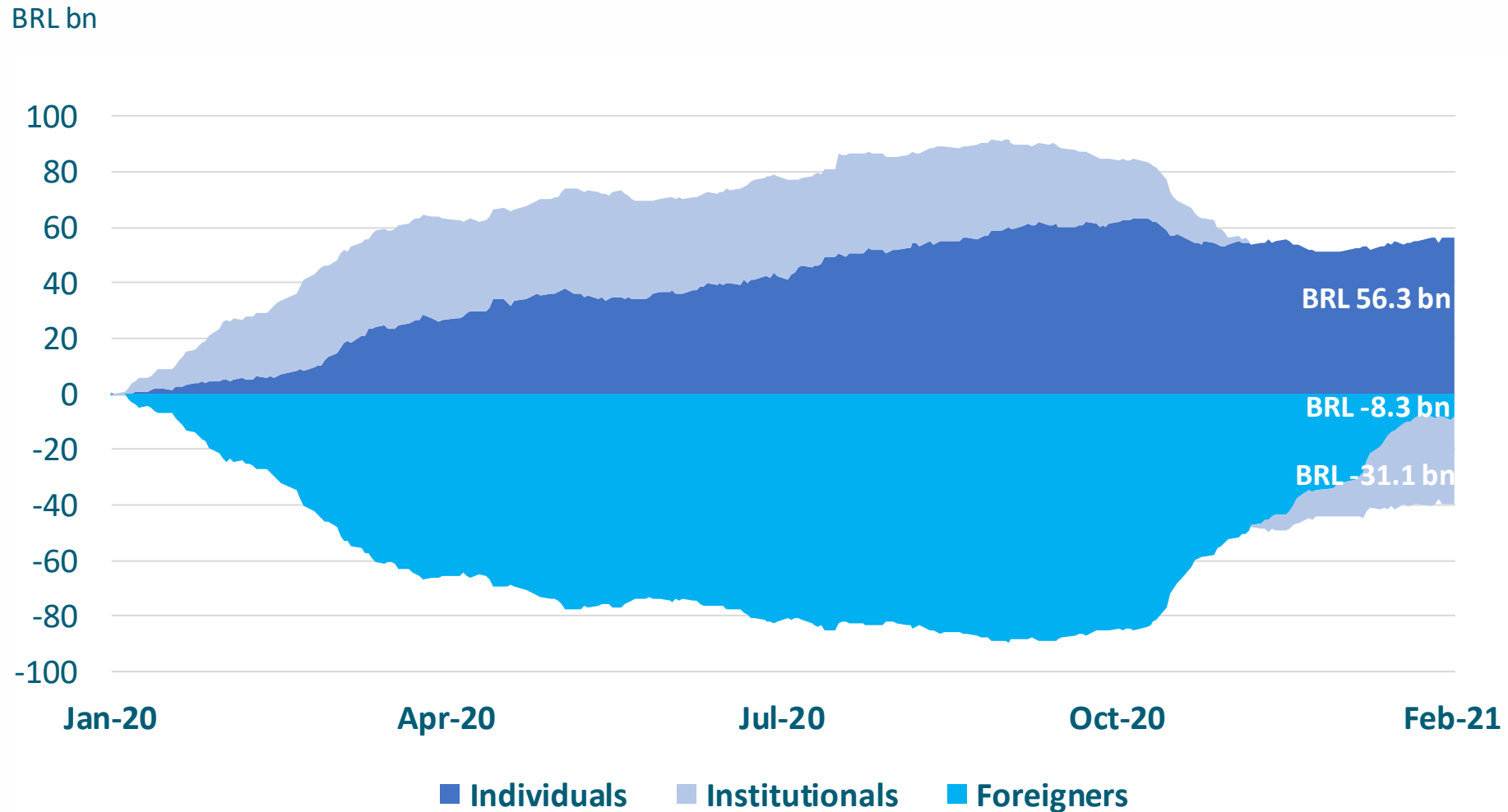


## Federal Domestic Public Debt

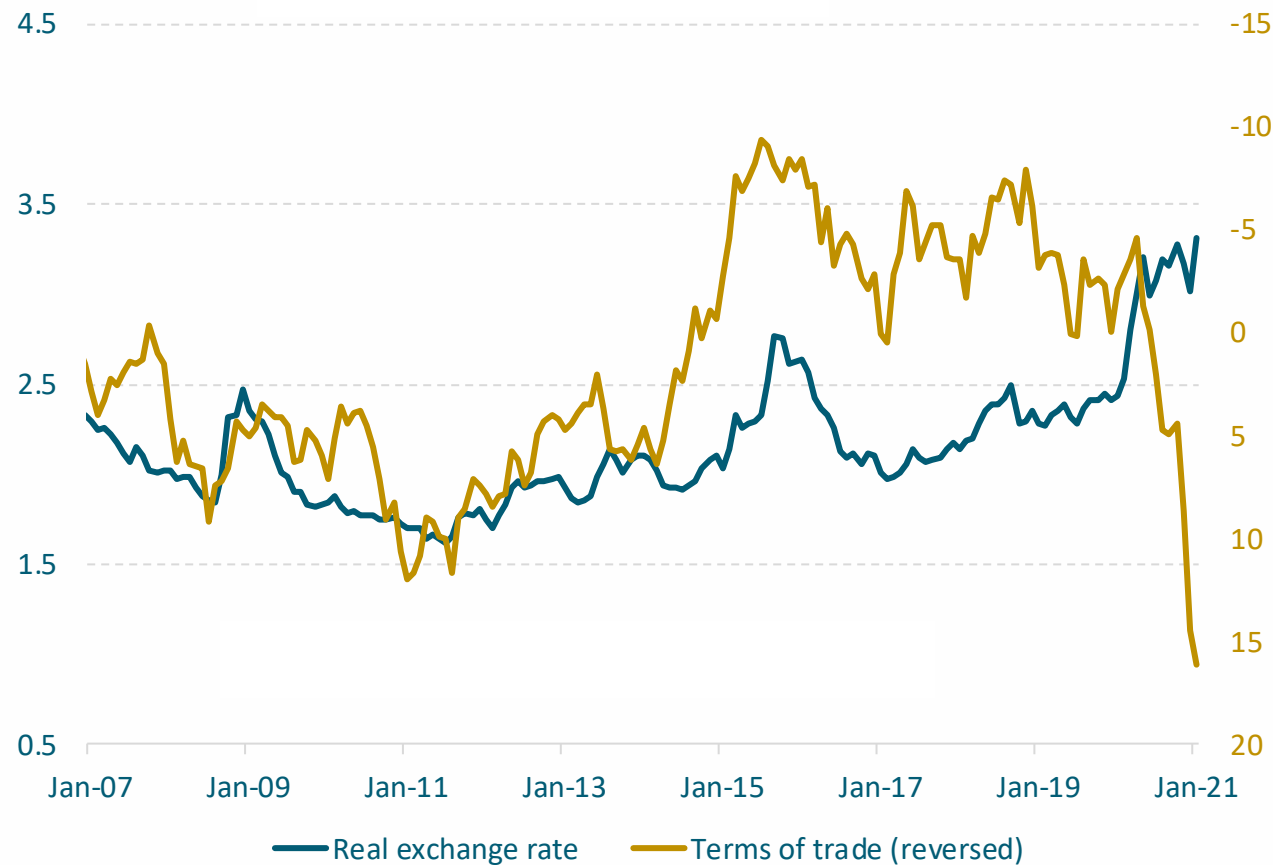


Source: B3, BCB.





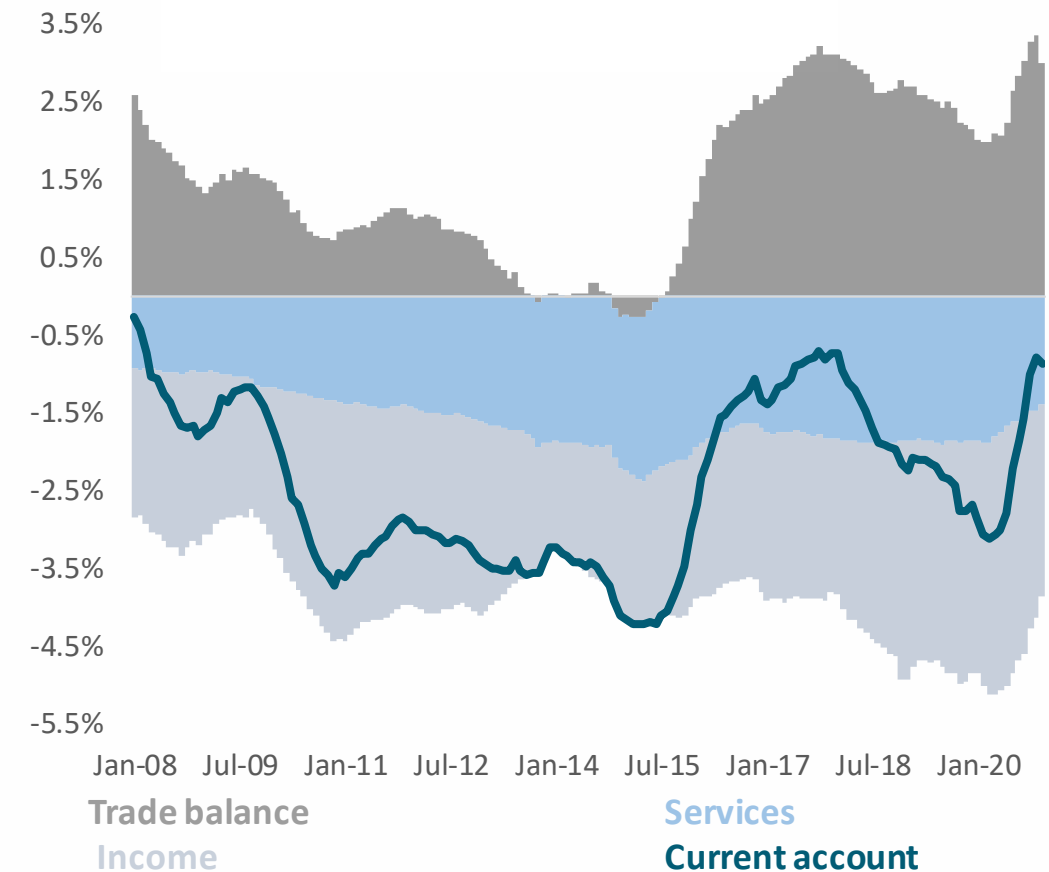
Brazil Exchange rate and terms of trade



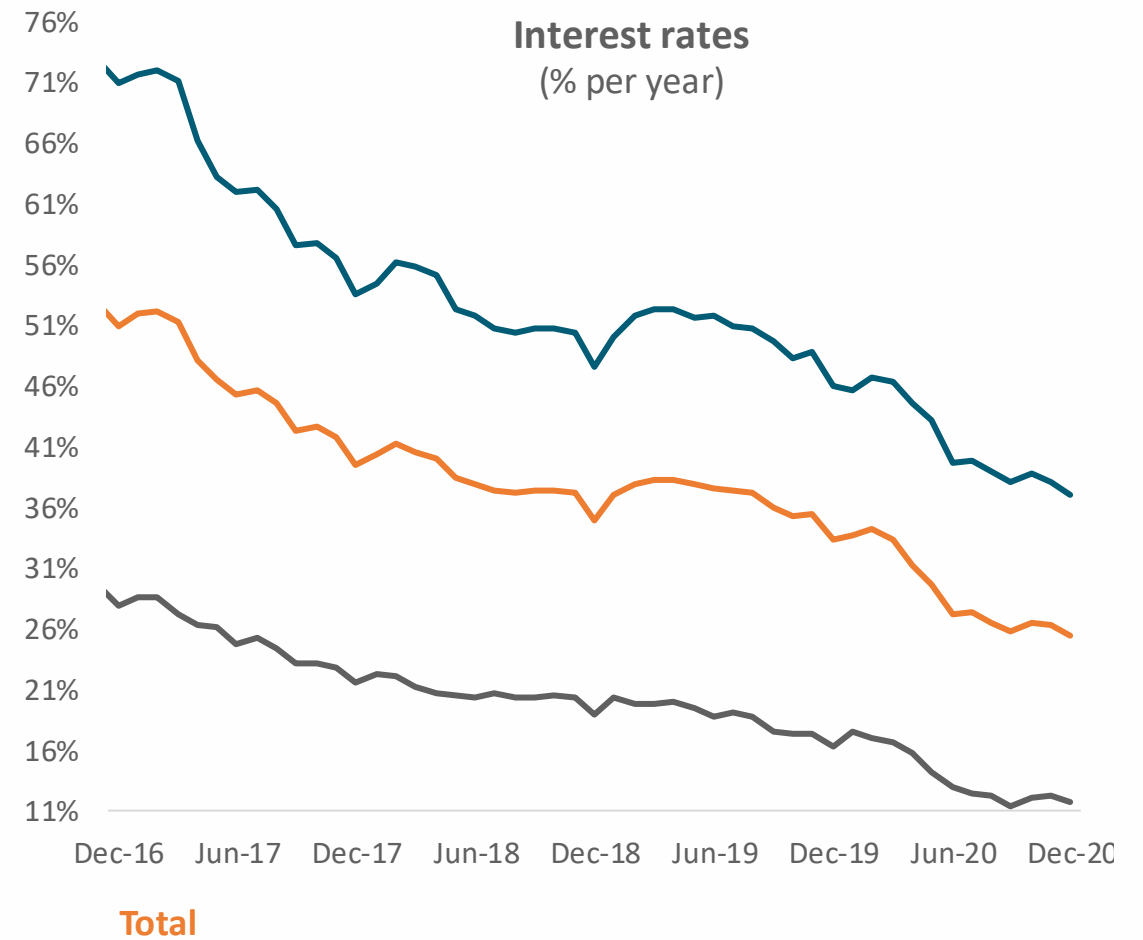
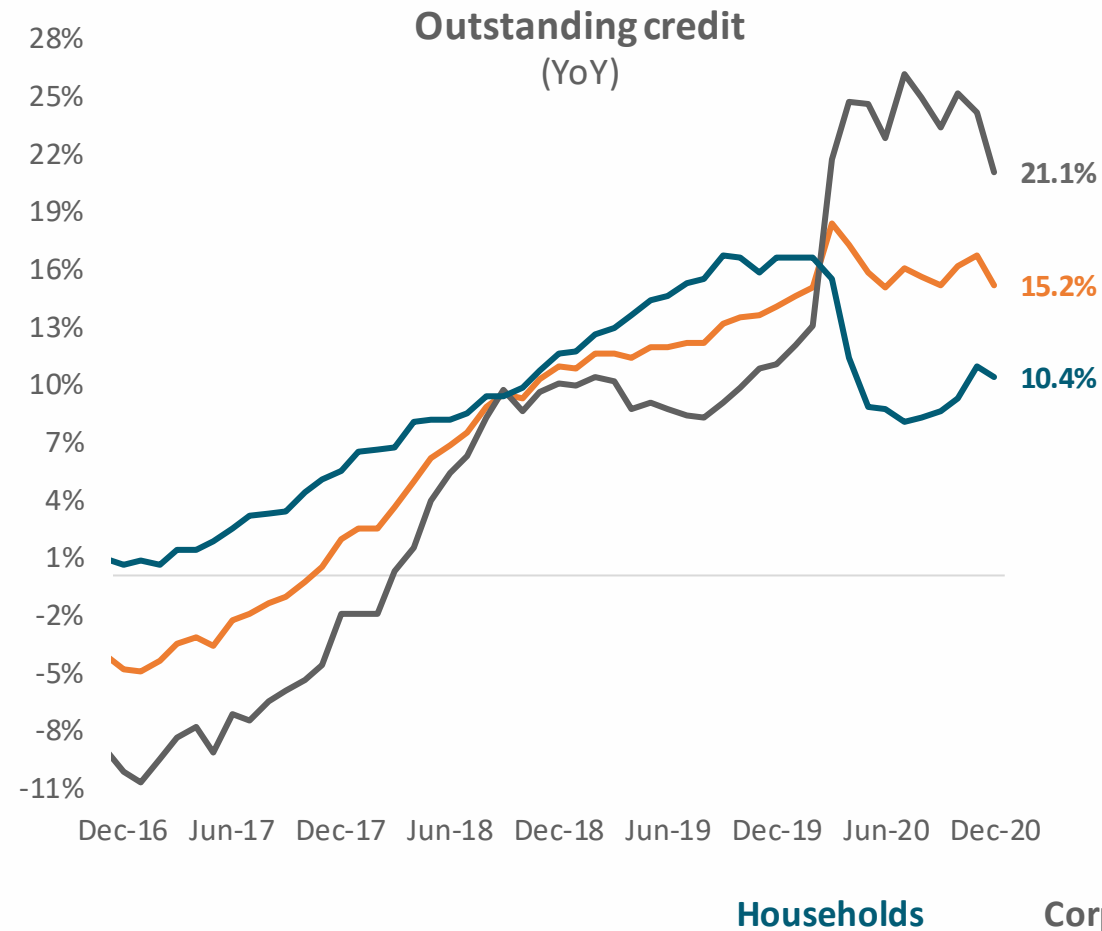
Source: BCB, Bloomberg.

Current account – Total and disaggregated

12 month moving average, % of GDP



Credit increase amid the crisis. Interest rates at low historical levels.







# *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



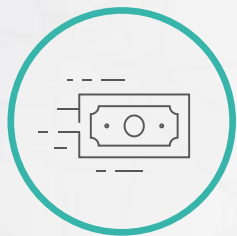


# Pix: The Brazilian Instant Payment





# 7 reasons that make Pix unique



Speed



Availability



Safety



Convenience



Use  
case multiplicity



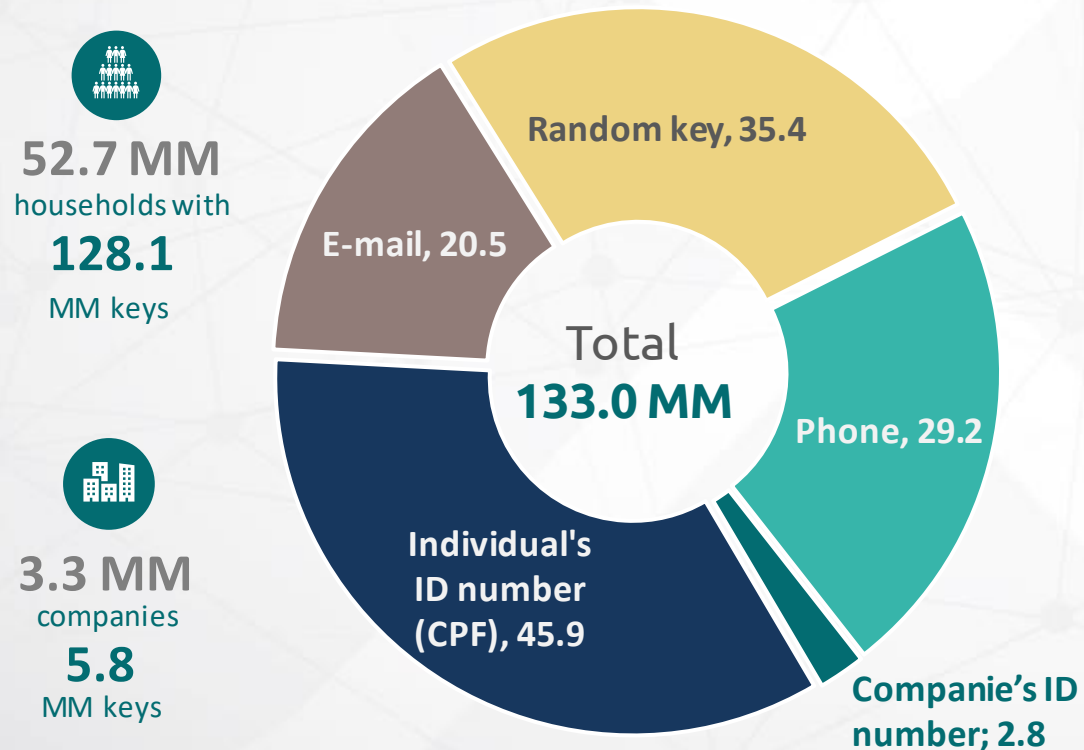
Enriched  
data



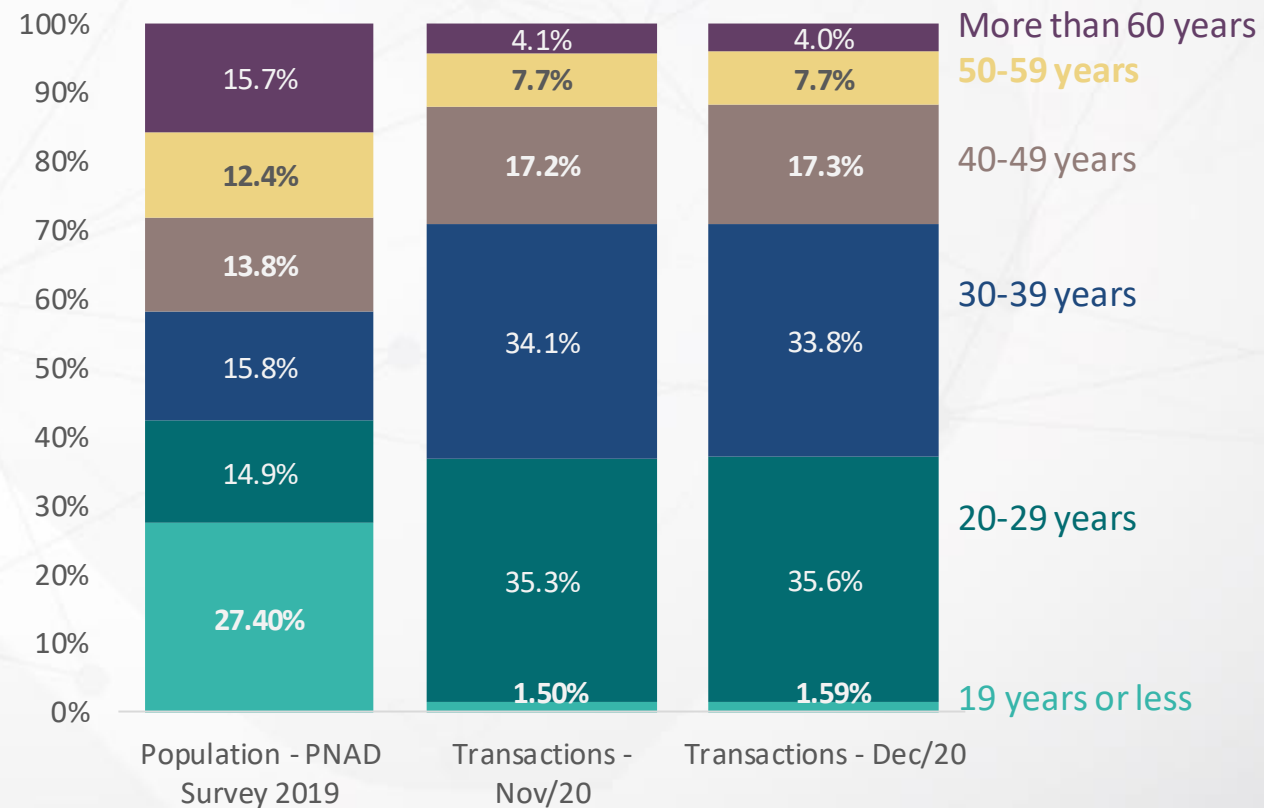
Open  
Environment

# PIX registration

## Types of keys (in millions)

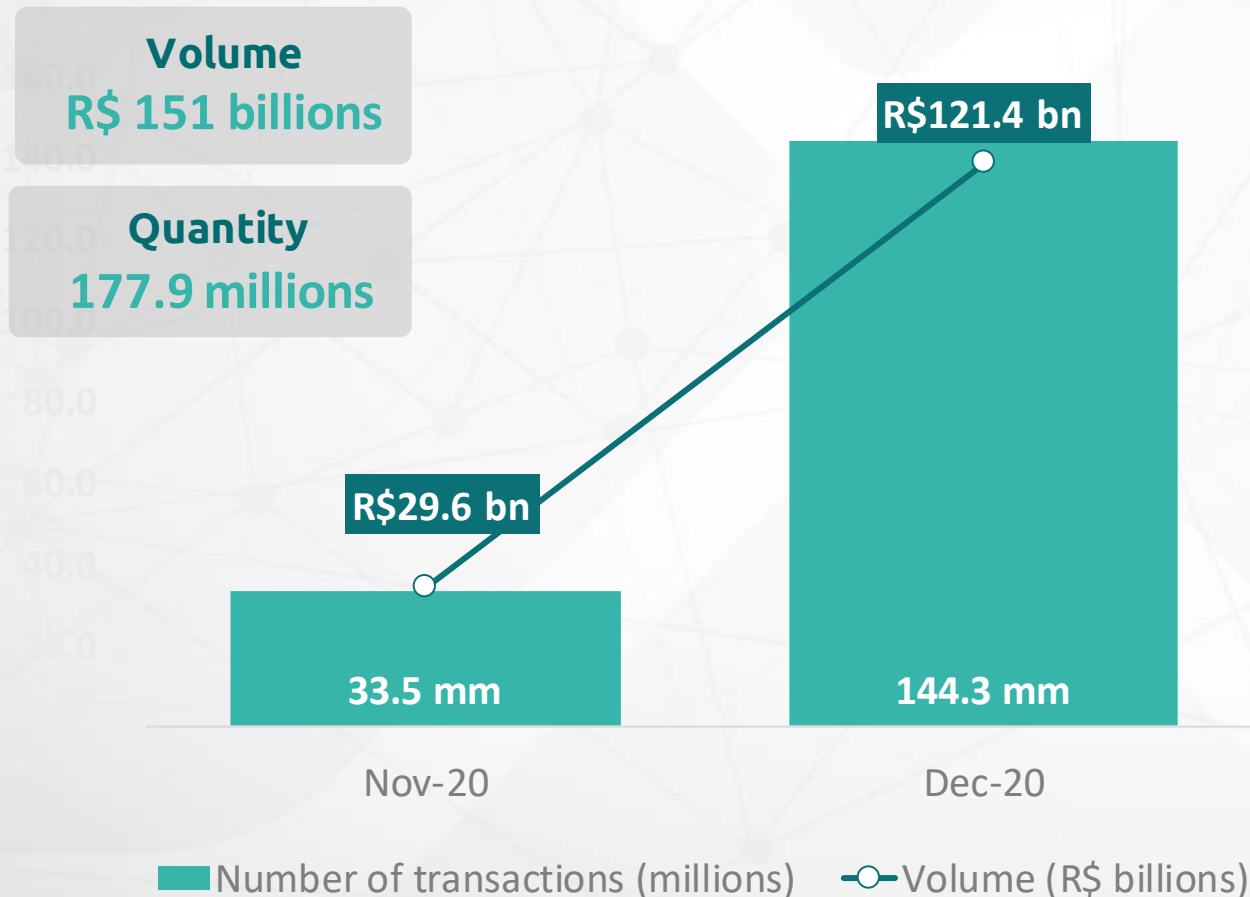


## Distribution by age (Transactions X population)

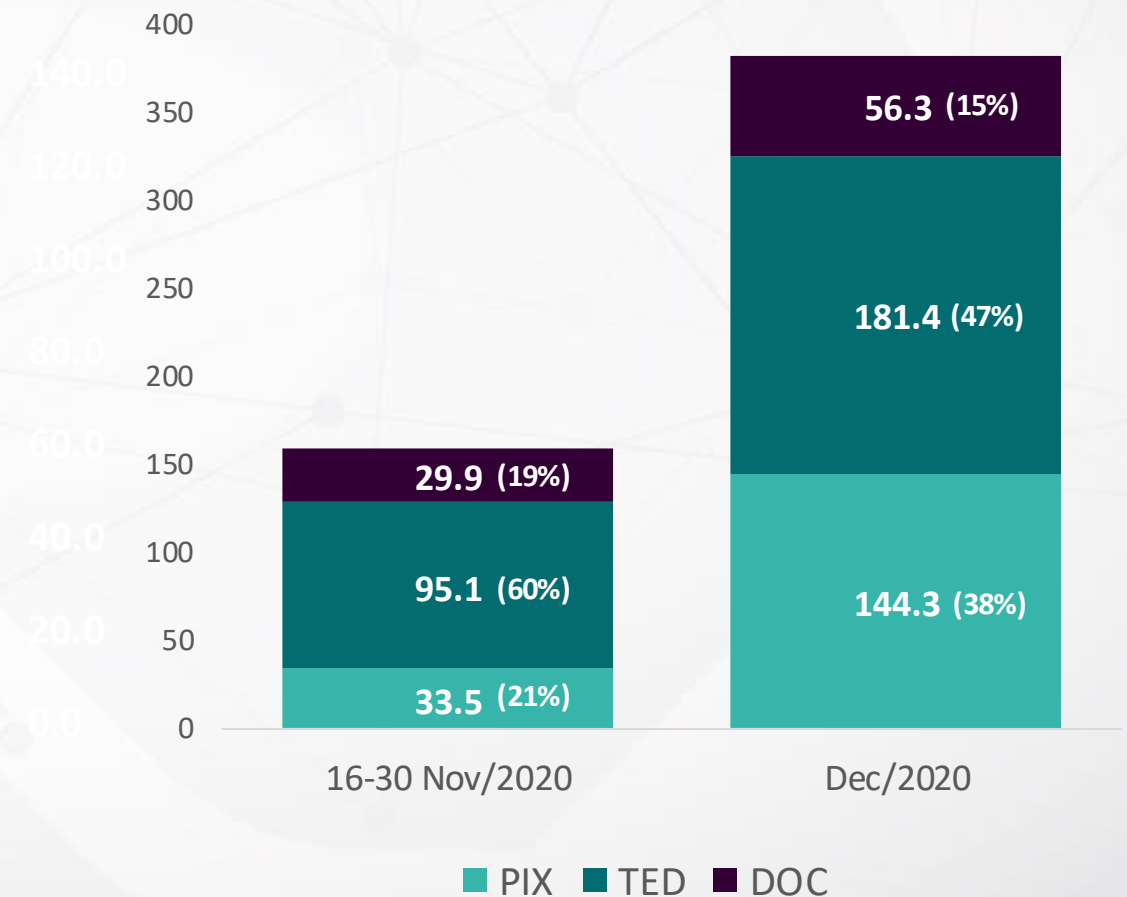


# Pix transactions

## Number of transactions and volume (million of transactions and BRL billions)



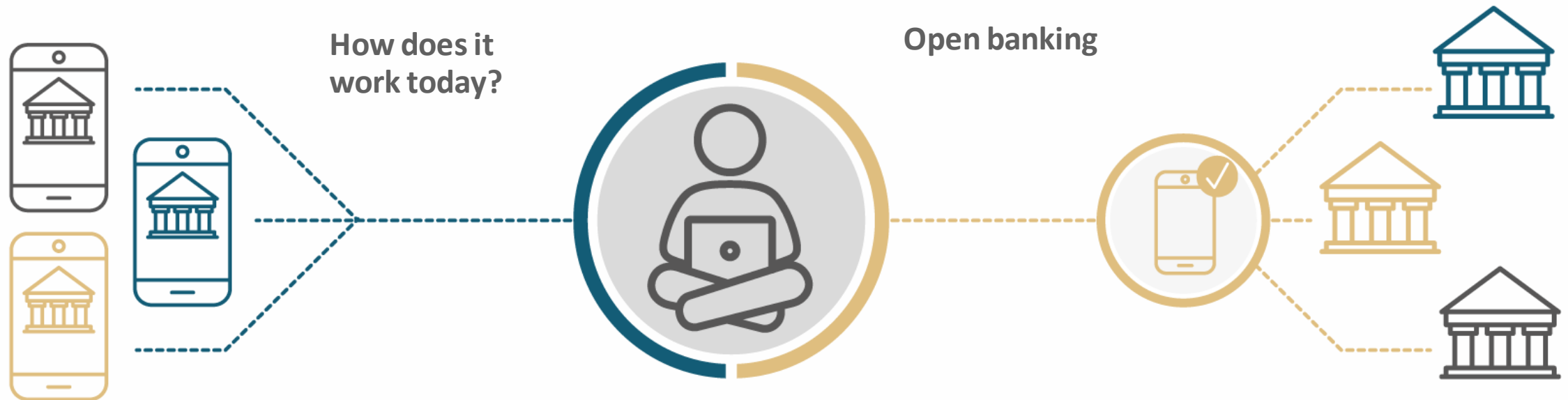
## Pix versus other instruments (in millions of transactions and % of total)

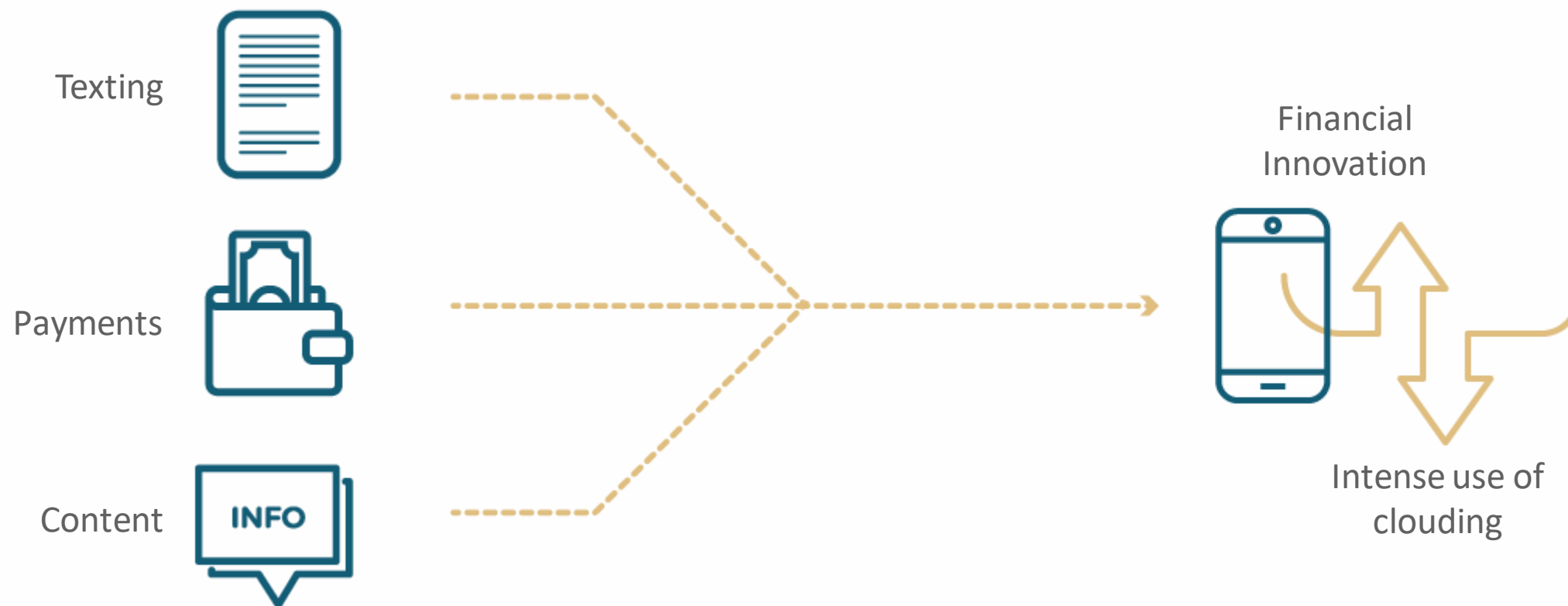


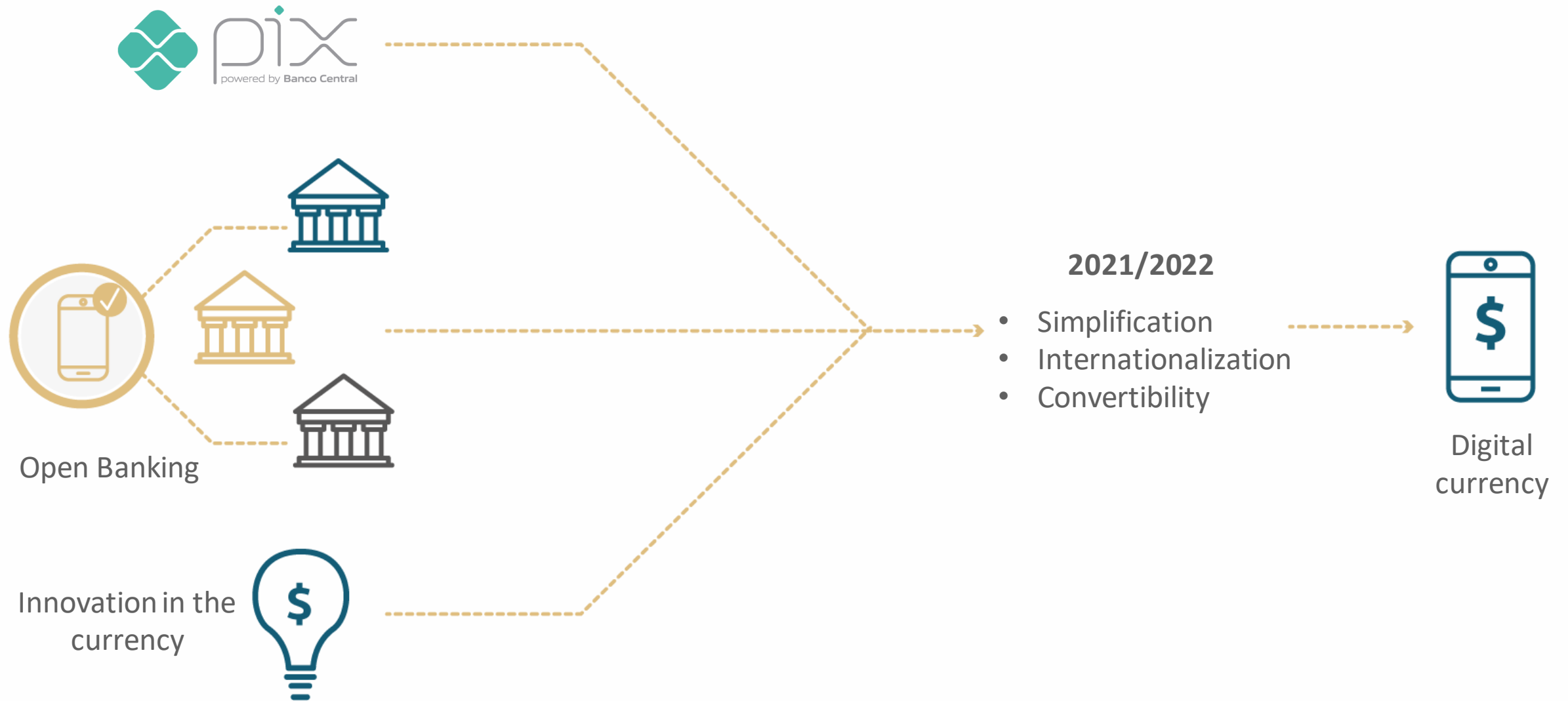


## Open Banking

- Operating rules approved
- Implementation schedule







The logo features the letters 'BC' in a bold, dark blue font. To the right of 'BC' is a stylized graphic consisting of a green circle with a blue and yellow cross-like shape inside, and a small green leaf sprouting from the top right of the circle.

# 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



# ***A changing world***

Change in  
standards of  
consumption and  
production

Secular change in  
the workforce

Government  
actions

Technology



# Thank you!

**Roberto Campos Neto**  
Governor of Banco Central do Brasil  
February 11, 2021



**BANCO CENTRAL  
DO BRASIL**

