Brazil: Economic outlook

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Overview

- Brazil before Covid-19
  - Improving fundamentals, gradual recovery, inflation within target
- Pandemic impact
  - Virus spread
  - Economic impact
- Response to the crisis
  - Central Bank guaranteeing liquidity and financial stability
  - Government implementing measures to mitigate the economic impact
- What’s next?
Brazil before the pandemic
Gradual economic recovery…

... in all sectors

(Net employment – thousands)

Source: IBGE / ME
Improving fundamentals with reform agenda

- Labor market reform
- Spending cap law
- Comprehensive pension reform
- Divestments and privatization program
- Foreign exchange market modernization (in Congress)
- Other: credit registry law, trade agreements, improvements in business conditions, OECD liberalization benchmarks convergence
Accommodative monetary policy and inflation within target range

Headline inflation and expectations

Main policy rate

Selic rate 3.75%

Source: BCB
Comfortable international position

CA deficit more than financed by FDI (US$ billion)

-120
-100
-80
-60
-40
-20
0
20
40
60
80
100
120


FDI
Current Account Deficit (inverted)

Sizable buffers against shocks (US$ billion)

-200
-100
0
100
200
300
400


Foreign Reserves
Repo Lines
FX Swaps
Others
Net FX Position
ARA 100% - 150%
ARA

312.97 (Apr 8, 2020)
Liquid and well-capitalized banking system

**Capital Ratios**

- Total Capital Ratio
- Tier 1 Capital Ratio
- Common Equity Tier Ratio
- Leverage Ratio

**Liquidity ratios**

- Liquid assets
- Stressed outflows
- Liquidity ratio (right axis)

Source: BCB
The pandemic impact
Early in the contagion curve

Speed of Spread – Covid-19 Tracker
Reference date: April 2nd

*Numbers as of April 12, 2020
Uneven but widespread contagion

Confirmed cases: 38,654
Deaths: 2,462
Lethality: 6.4%

Numbers of April 19, 2020
Source: Brazilian Ministry of Health

Accumulated cases since the first case

*Numbers of April 19, 2020
Source: Brazilian Ministry of Health
Severe strains in emerging markets

Risk appetite indicator

Accumulated non-resident portfolio flows to EM* since indicated date

* Daily net total flows for Mexico, Korea, Taiwan, India, Indonesia, South Africa, Thailand, Phillipines, Sri Lanka, and Vietnam; daily equity flows for Brazil, UEA, Malaysia, Ukraine, and Pakistan.
Deep impact in prices of main financial assets

**EME equity indexes***

***Composite of equity indexes of China, Hong Kong, India, Indonesia, Malasia, Mongolia, Pakistan, Philippines, Sri Lanka, South Korea, Taiwan, Thailand, Vietnam, Bosnia, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Poland, Romania, Serbia, Slovak, Turkey, Ukraine, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, Panama, Abu Dhabi, Egypt, Ghana, Israel, Jordan, Kenya, Kuwait, Lebanon, Mauritius, Morocco, Nigeria, Oman, Qatar, Saudi Arabia, South Africa, and Tunisia.

**EME currencies***

**Composite of currencies of Brazil, Mexico, Argentina, Chile, Colombia, Peru, China, Hong Kong, Taiwan, India, Indonesia, South Korea, Malaysia, Singapore, Thailand, Philippines, Russia, Turkey, Czech Republic, Bulgaria, Romania, Hungary, Poland, and South Africa.

Source: BCB/Derin

Source: Thomson Reuters
Soft data signaling severe economic impact

Nominal sales by sector
(Cielo Index Feb 2=100)

Non-durable goods

- Durable goods

- Services

Source: Cielo, proprietary data.
Response to the crisis
Timely and robust BCB response


<table>
<thead>
<tr>
<th>Measures:</th>
<th>Amounts (R$ billion)</th>
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<tbody>
<tr>
<td><strong>Liquidity support</strong></td>
<td></td>
</tr>
<tr>
<td>Term-deposit reserve requirements from 31% to 25% and regulation enhancements on Liquidity Coverage Ratio (LCR)</td>
<td>135</td>
</tr>
<tr>
<td>Term-deposit reserve requirements from 25% to 17%</td>
<td>68</td>
</tr>
<tr>
<td>Term-deposit reserve requirements from 25% to 17%</td>
<td>82</td>
</tr>
<tr>
<td>Regulatory easing on Agrobusiness Credit Bills</td>
<td>2.2</td>
</tr>
<tr>
<td>Loans backed by financial notes guaranteed by sovereign bonds and debentures</td>
<td>670</td>
</tr>
<tr>
<td>Repos with sovereign global bonds</td>
<td>50</td>
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<tr>
<td>Term deposits guaranteed by deposit insurance (NDPGE)</td>
<td>200</td>
</tr>
<tr>
<td>Repo backed by debentures and reserve requirements</td>
<td>91</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1216.2</td>
</tr>
<tr>
<td>% GDP</td>
<td>16.7%</td>
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| **Capital relief**                                                       |                      |
| Overhedge                                                                | 520                  |
| Decline of Capital Conservation Buffer                                   | 637                  |
| **Total**                                                                | 1157                 |
| % GDP                                                                    | 15.8%                |

| Exemptions for new loan-loss provisions                                  | 3.2*                 |

| **Other measures**                                                       |                      |
| Swap line with the Fed                                                   | US$ 60 bi            |
| Credit line for SMEs                                                     | R$ 40 bi             |
Credit markets responding to demand

Non-earmarked credit for households and businesses

Households

R$ billion

Business

R$ billion

Weeks

Weeks

2019
2020
Government responses

- Decline in import tariffs for medical supplies and raw materials
- Hiring of doctors and nurses, and increased supply of hospital beds, respirators, covid-19 tests
- Transfers to retirees, low-income households, informal sector, SMEs
- Aid for tourism, airline and other most impacted sectors
- Aid for states and municipalities
- For details and other measures: www.gov.br (in Portuguese)
What’s next?
Uncertainty outlook

- Human and capital losses
- Length of lockdowns
- Unwinding of lockdown
- Pace of economic recovery
- Reversal of fiscal policy measures
Wide range of forecasts

Main Economies – growth (% yoy)

Emerging Economies – growth (% yoy)

*Numbers as of April 13, 2020

Source: Bloomberg
“The Central Bank of Brazil stresses that it will continue to deploy its arsenal of monetary, exchange rate and financial stability policies to fight the current crisis.”

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Thank you!

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