

BRAZILIAN-AMERICAN CHAMBER OF COMMERCE OF FLORIDA (BACCF)

ECONOMIC CHALLENGES IN TIMES OF CRISIS

ROBERTO CAMPOS NETO

Presidente do Banco Central do Brasil

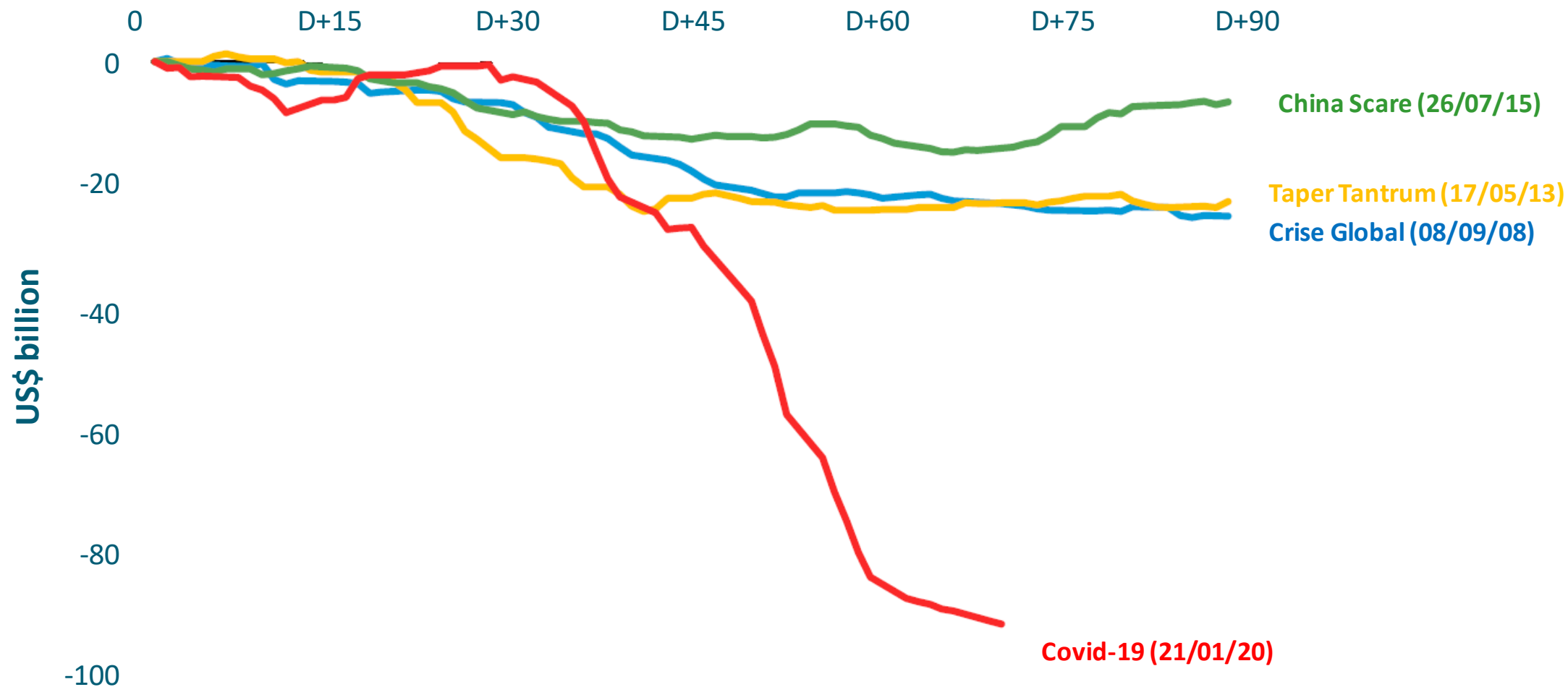
June 26, 2020

Capital Outflows – Non Residents

Accumulated balances since the informed date

Global Shock

Emerging Economies



Source: IIF

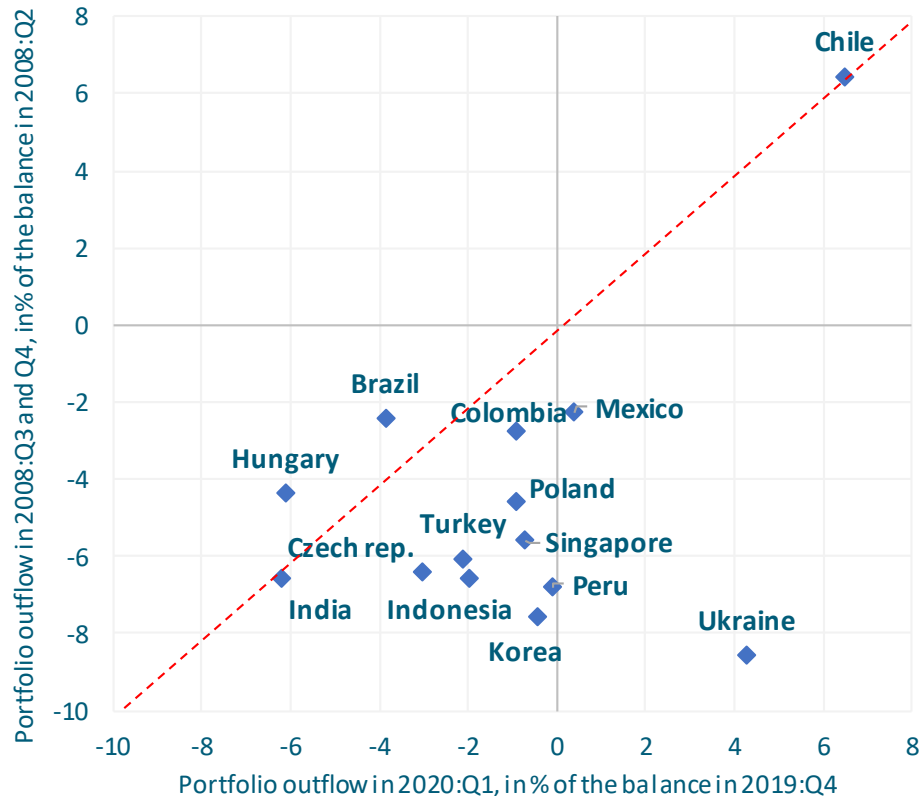
Capital Outflows – Non Residents

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

Global Shock

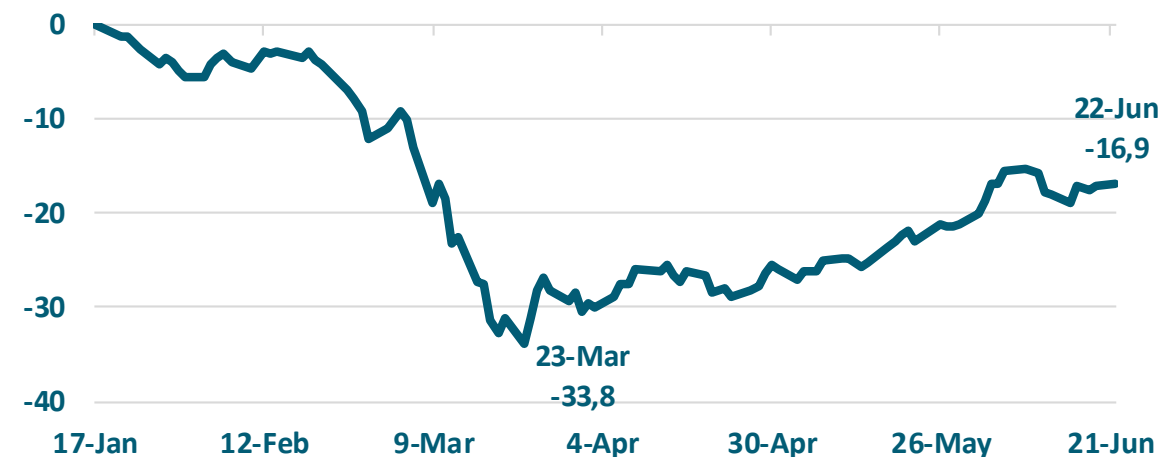
Emerging Economies

Portfolio outflows – non residents*

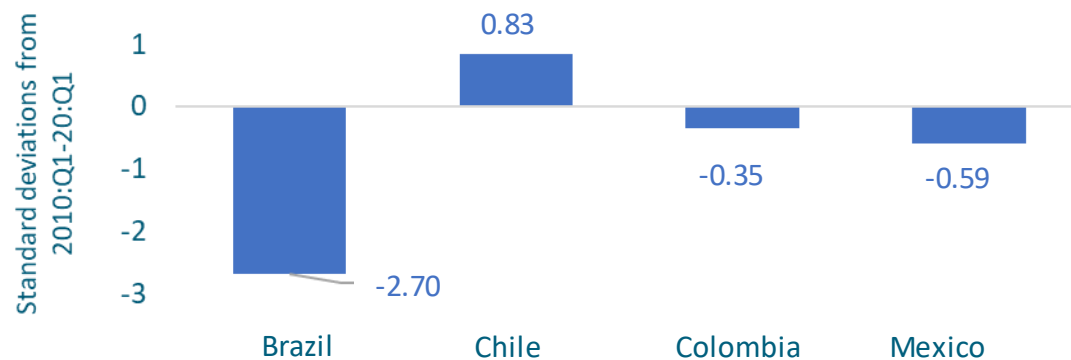


*Resized by the share of each country prior to the exit episode

Bloomberg Capital Flow Index - EMEs (%)



Portfolio investment 2020:Q1 (official data)



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

Normalization of investments

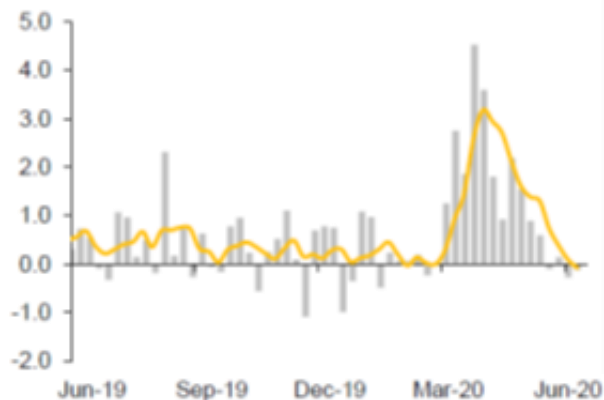
Flows to investment funds* tend to usual levels

Global Shock

Recovery Signs

share under management (pp. change)

Money market



Government bonds



Emerging market equities



Credit



High yield bonds



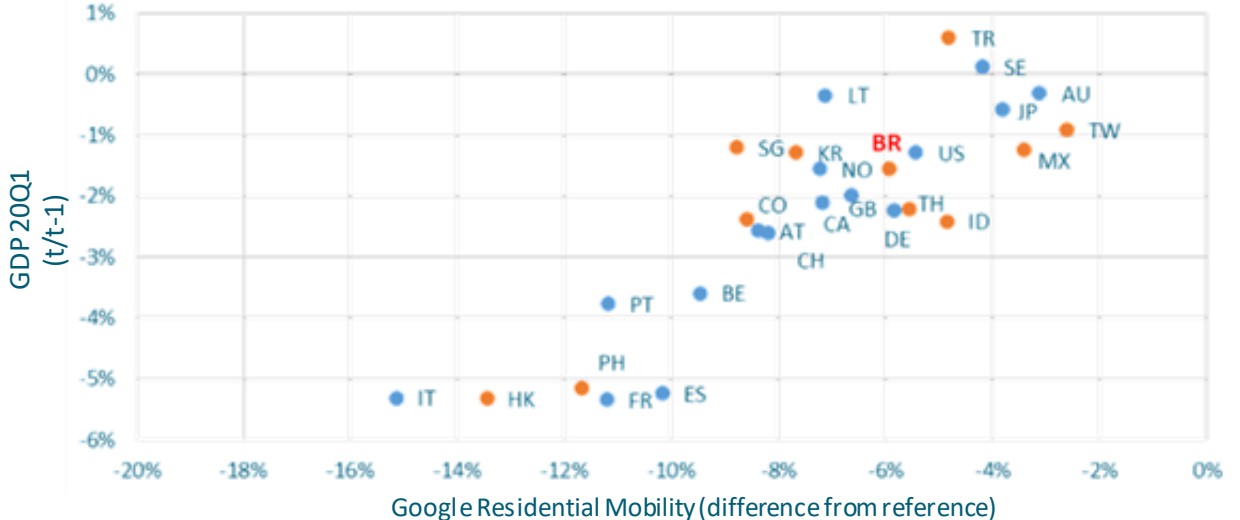
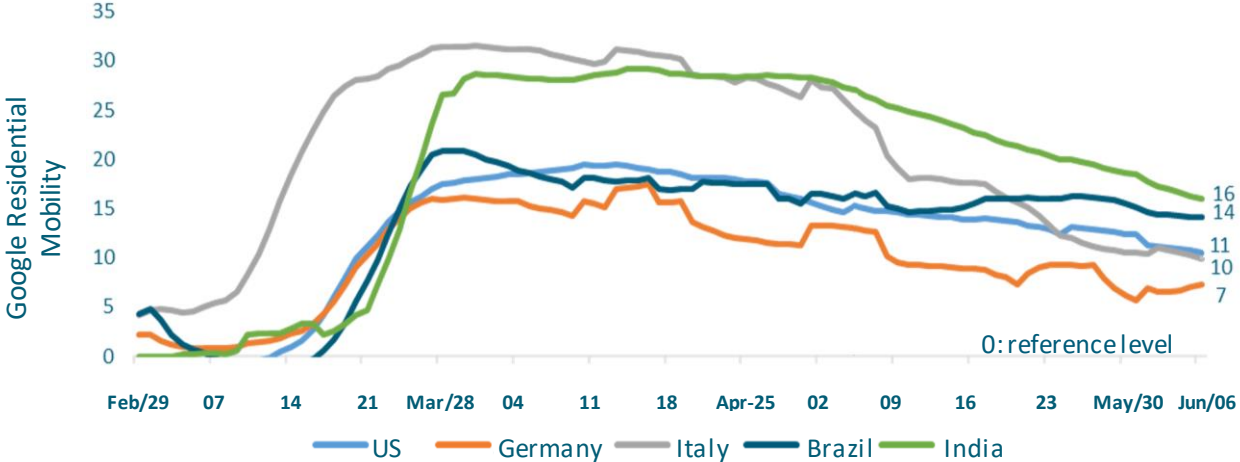
Emerging market bonds



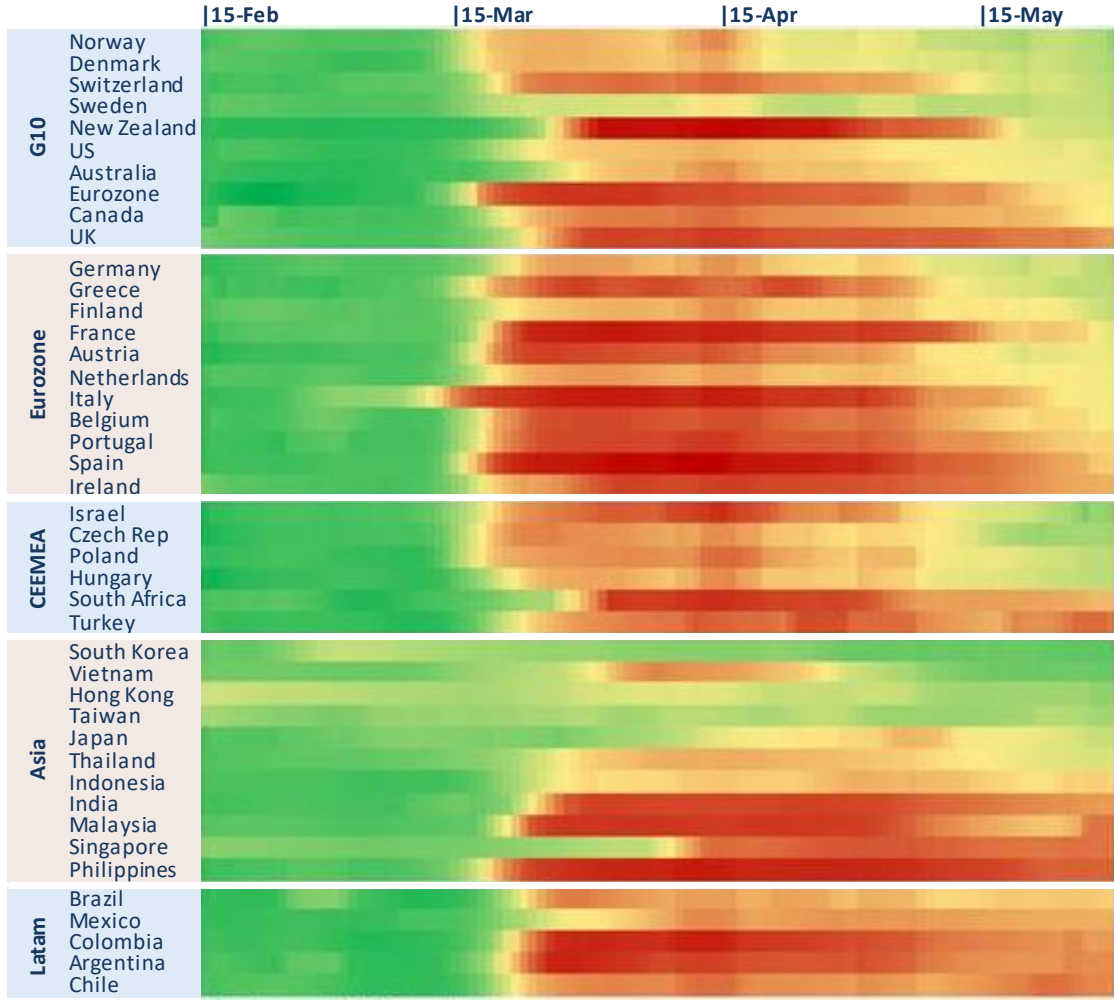
Source: Commerzbank, EPFR

Mobility

Gradual reduction in social distancing at uneven paces across countries



Global Shock Recovery Signs



Source: Deutsche, Gavekal

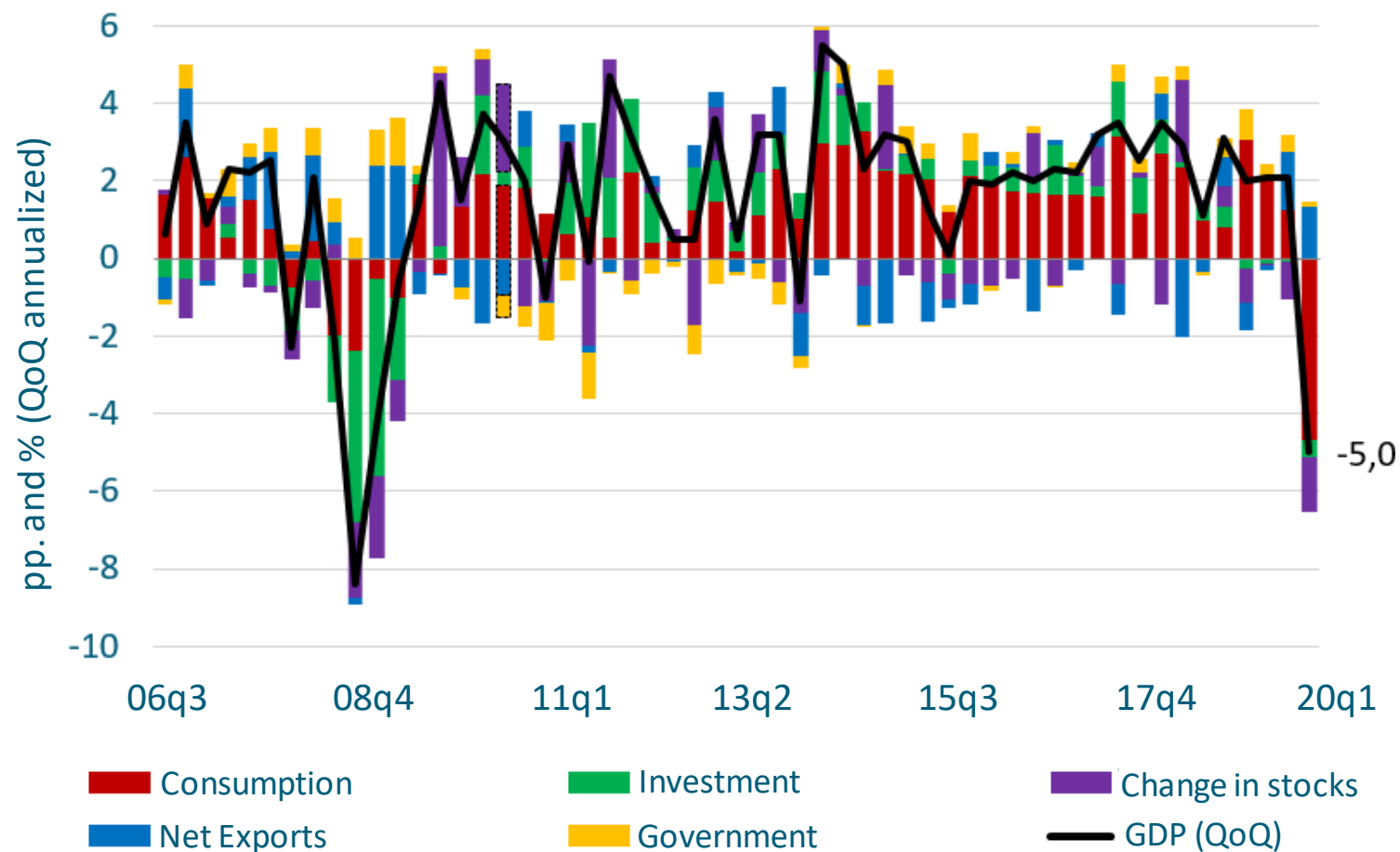
USA: Economic Activity

Strong decline led by sharp fall in consumption

Global Shock

Global Economy

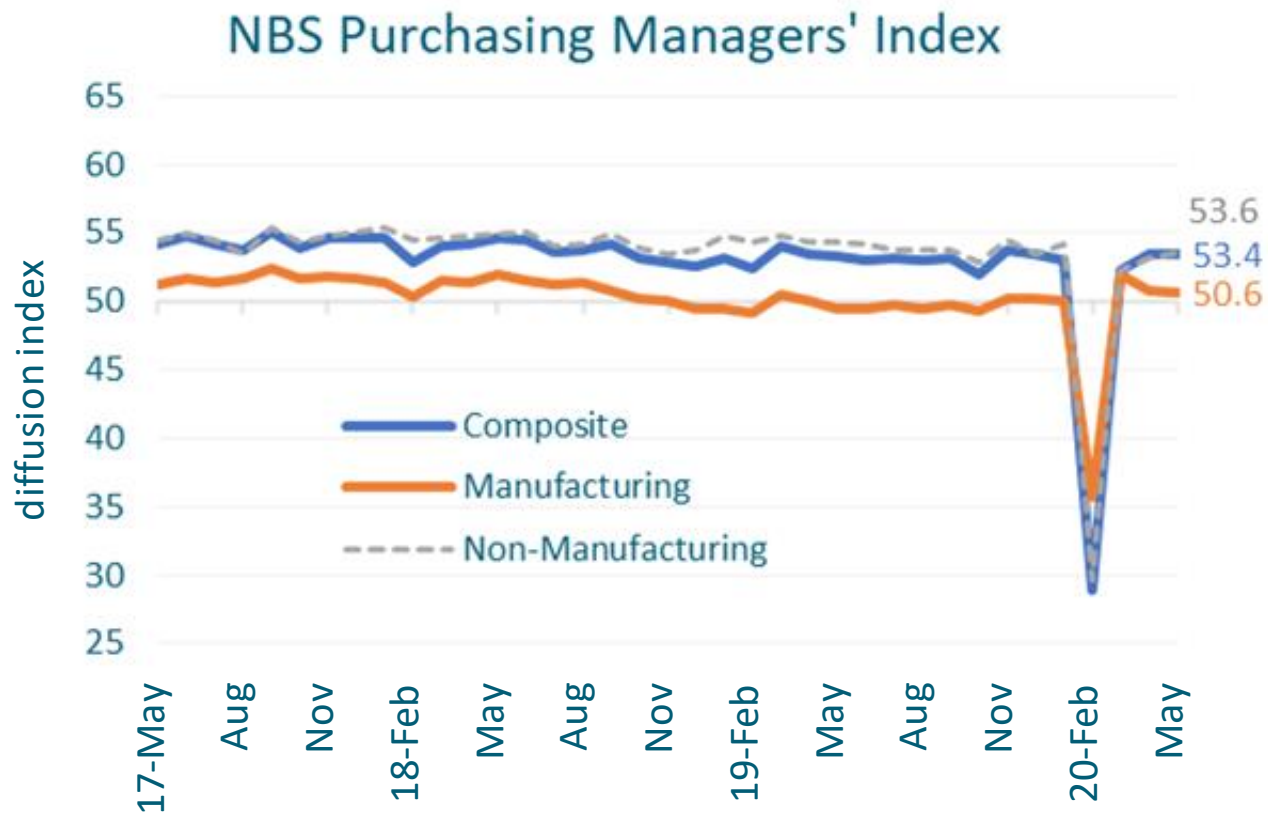
Real GDP



Source: Bloomberg

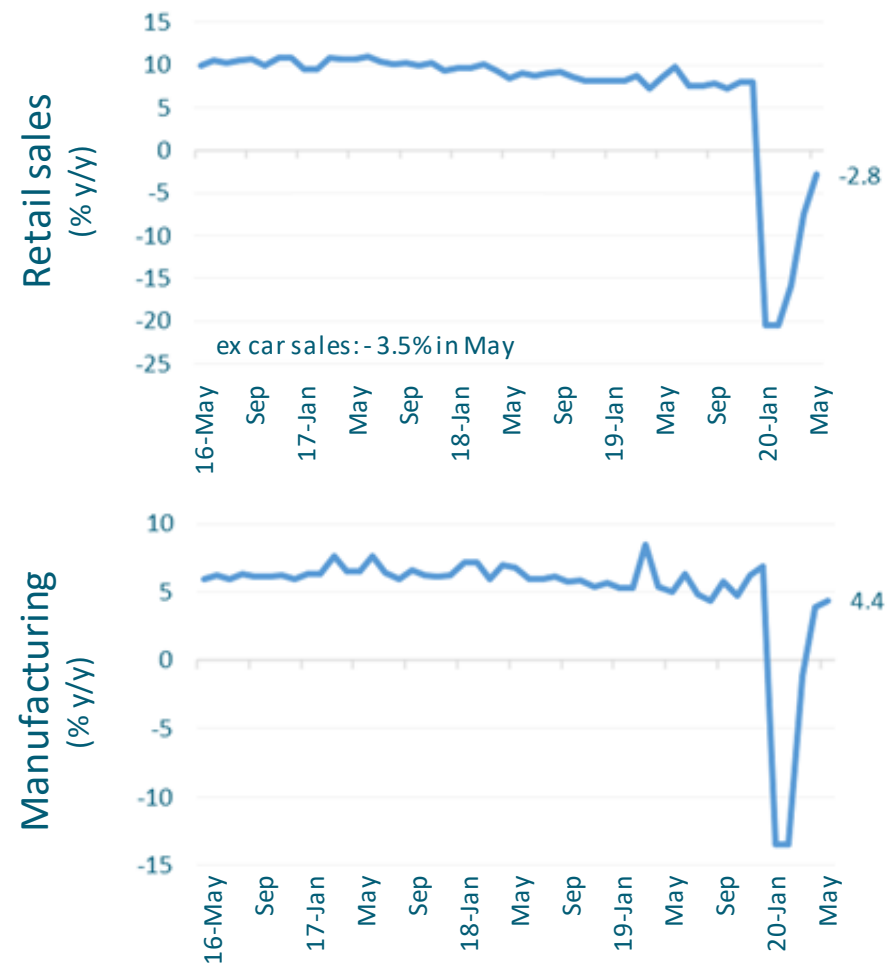
China: Economic Activity

Faster economic recovery on supply side



Global Shock

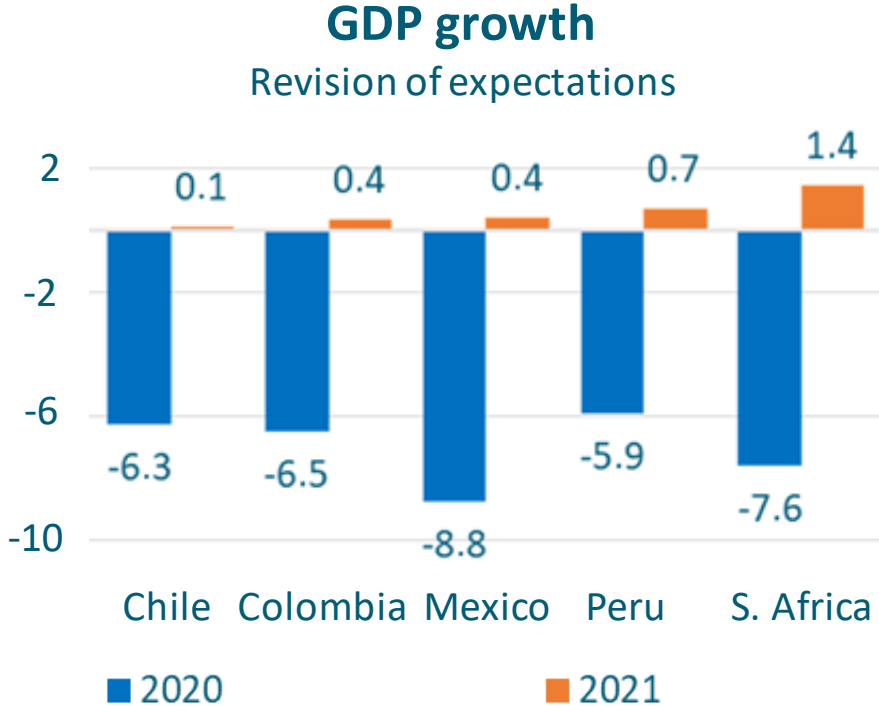
Global Economy



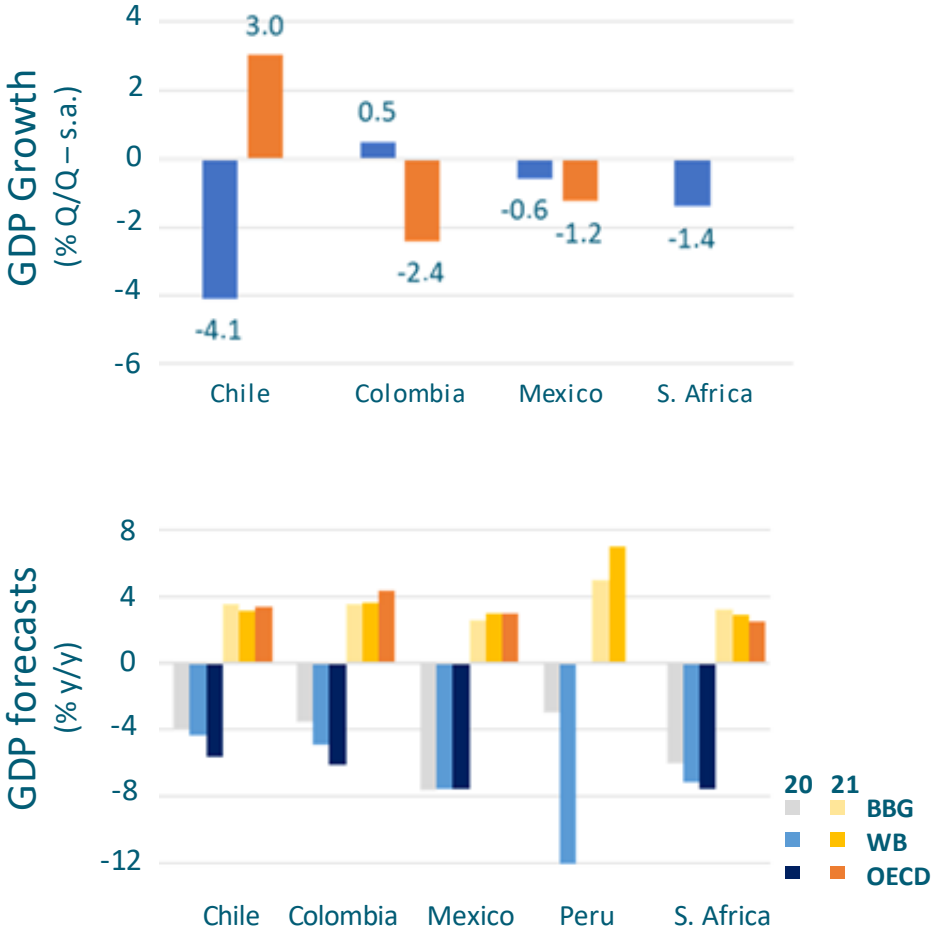
Source: NBS and Bloomberg

EMEs: Economic Activity

Strong revisions of growth expectation



Global Shock Emerging Economies

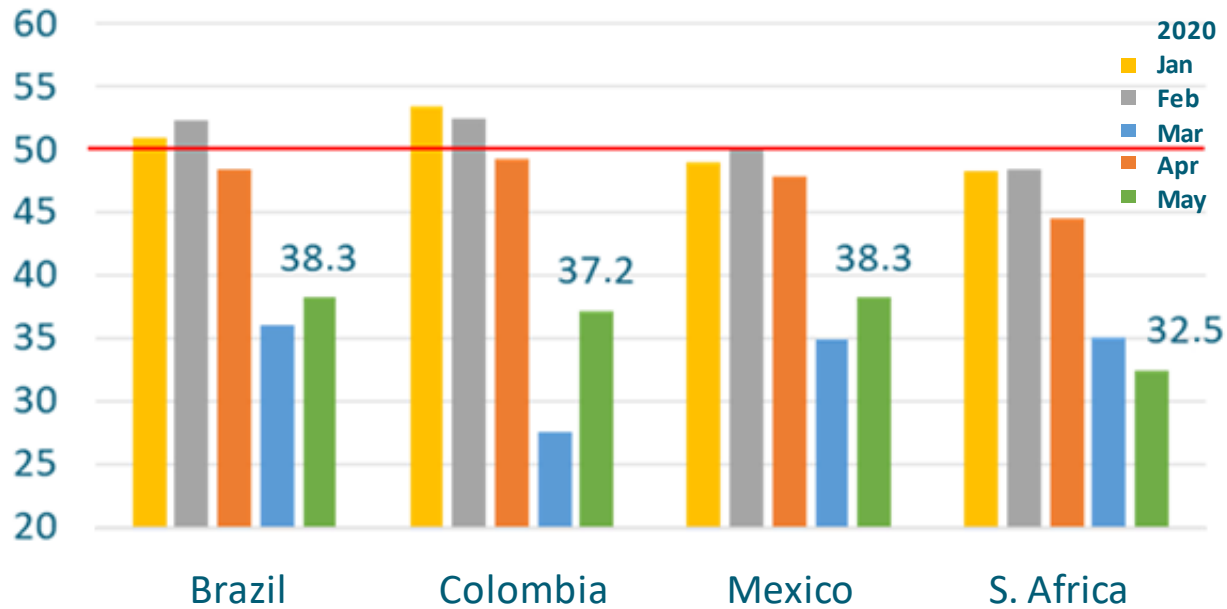


Source: Bloomberg and central banks.

EMEs: Economic Activity

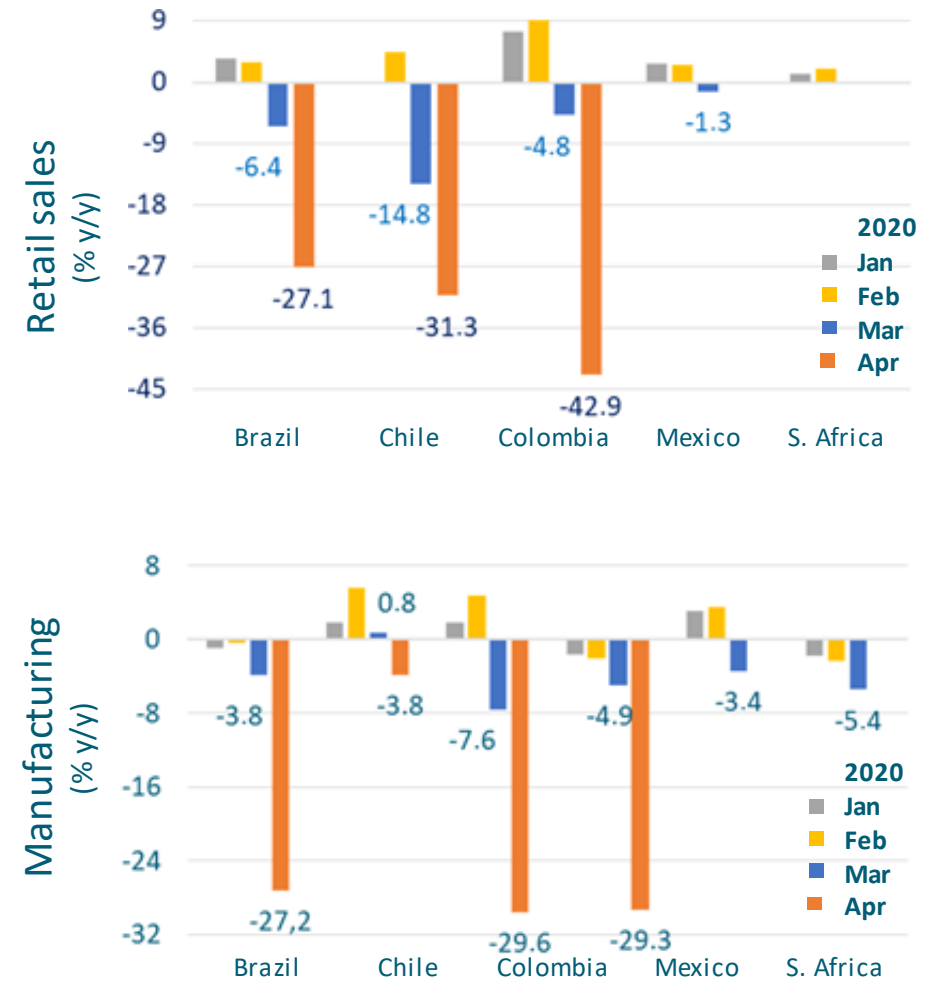
Indicators show additional deterioration on 20q2.

PMI Manufacturing



Global Shock

Emerging Economies



Source: Bloomberg and central banks.

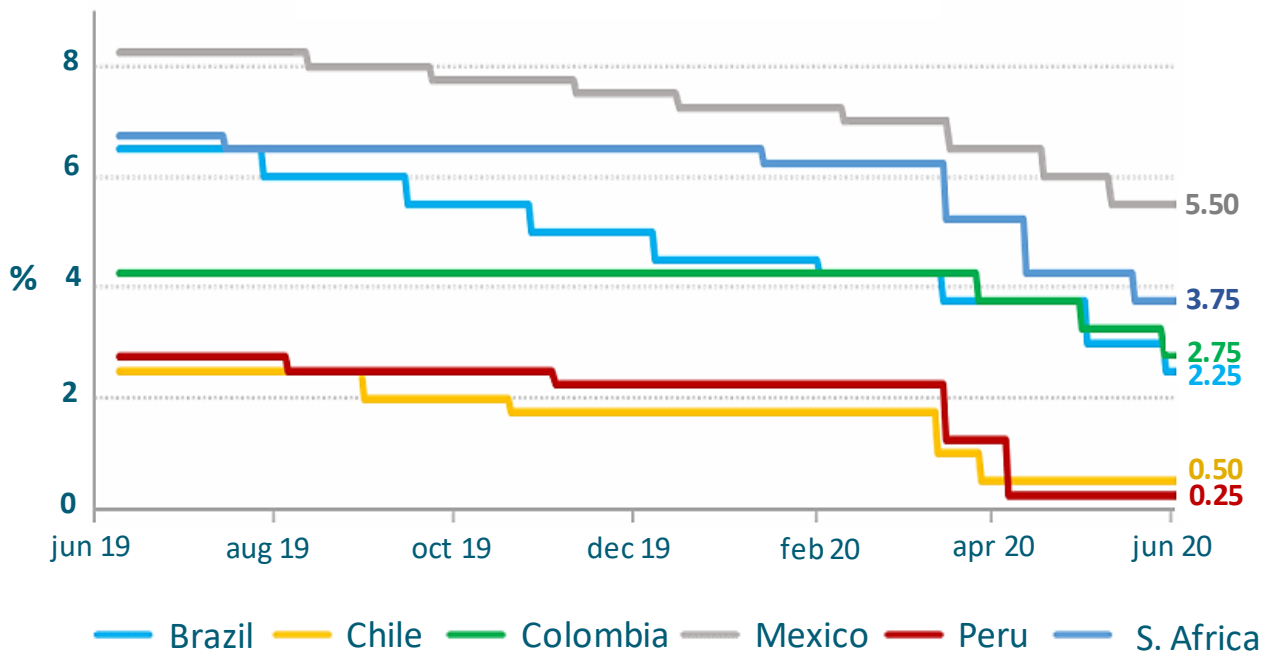
Emerging Markets: monetary conditions

Monetary policy easing, and programs of asset purchases.

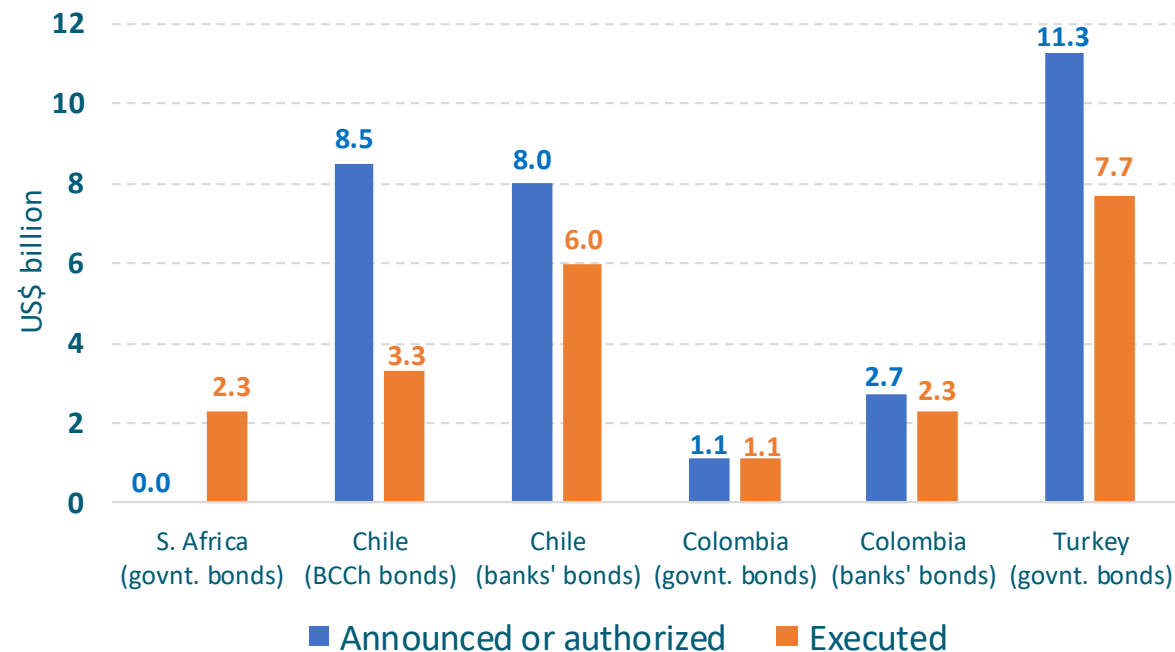
Global Shock

Emerging Economies

Policy rate



Asset purchases



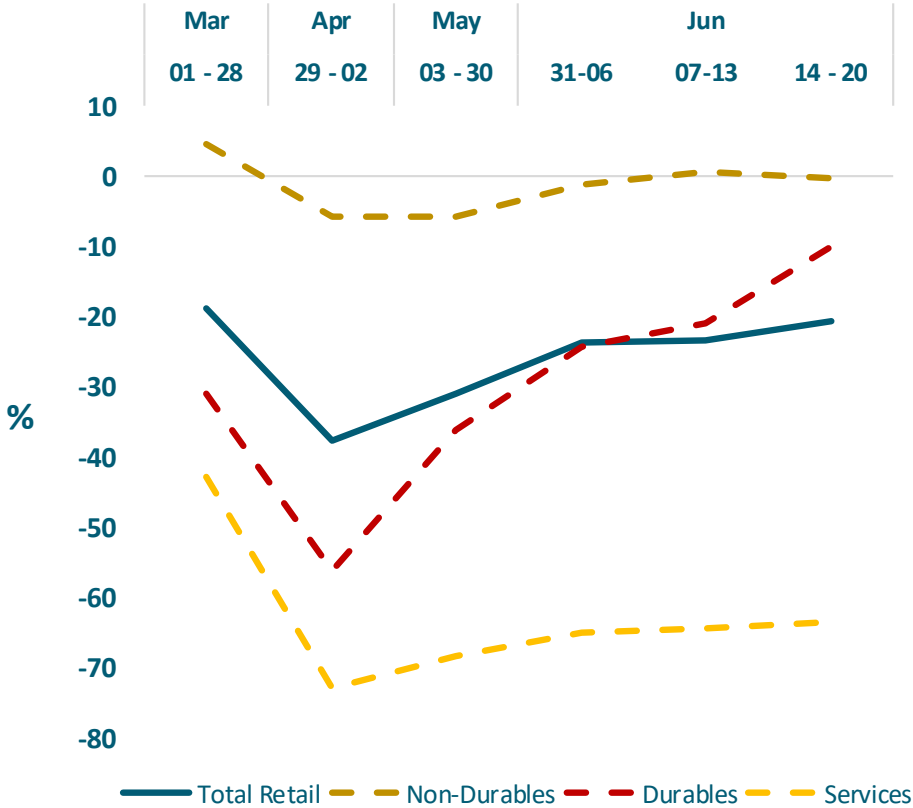
Source: BIS, Bloomberg, SARB, PBoC, Banxico, BCR, Banrep, BCCh, BRP. CBRT.

Brazil: Impact of Covid-19

Preliminary retail data indicate some recovery, except for services. Focus survey point to a strong decline in activity for 2020.

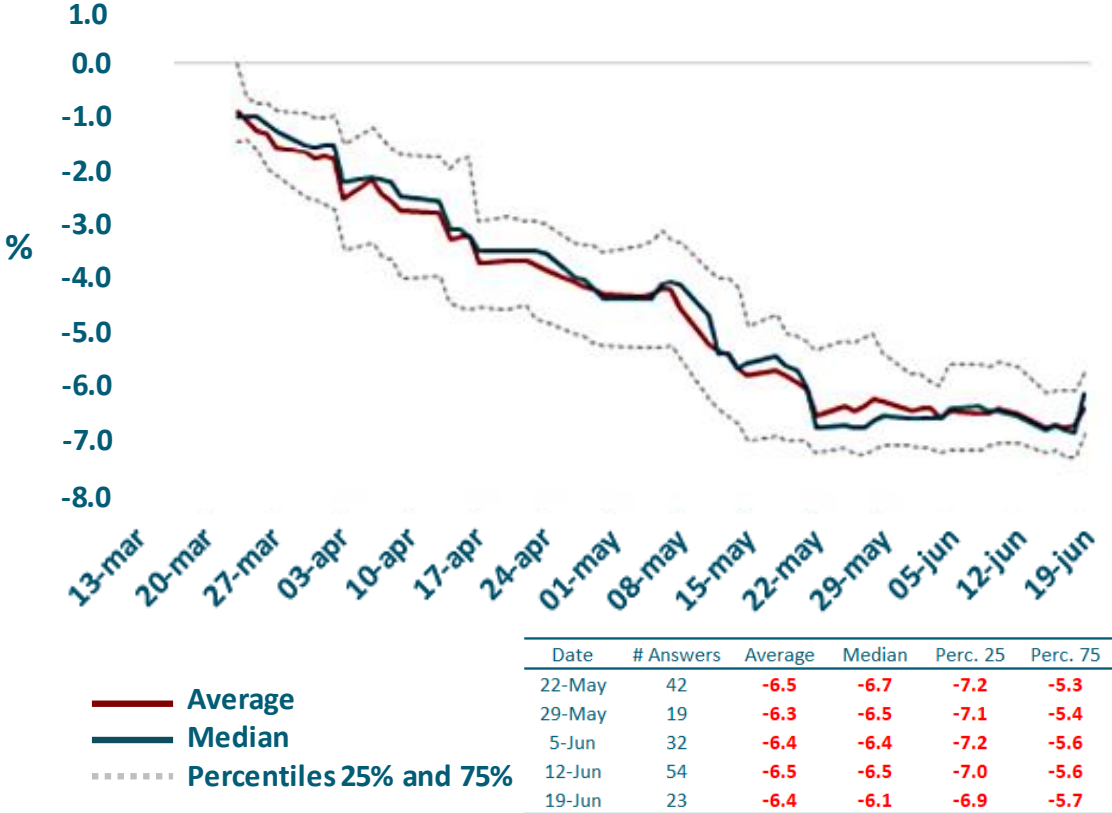
Shock on activity
Domestic Economy

Retail sales – Cielo*



Source: Cielo

Focus expectations – Growth for 2020



Source: BCB, Focus (06/19/2020)

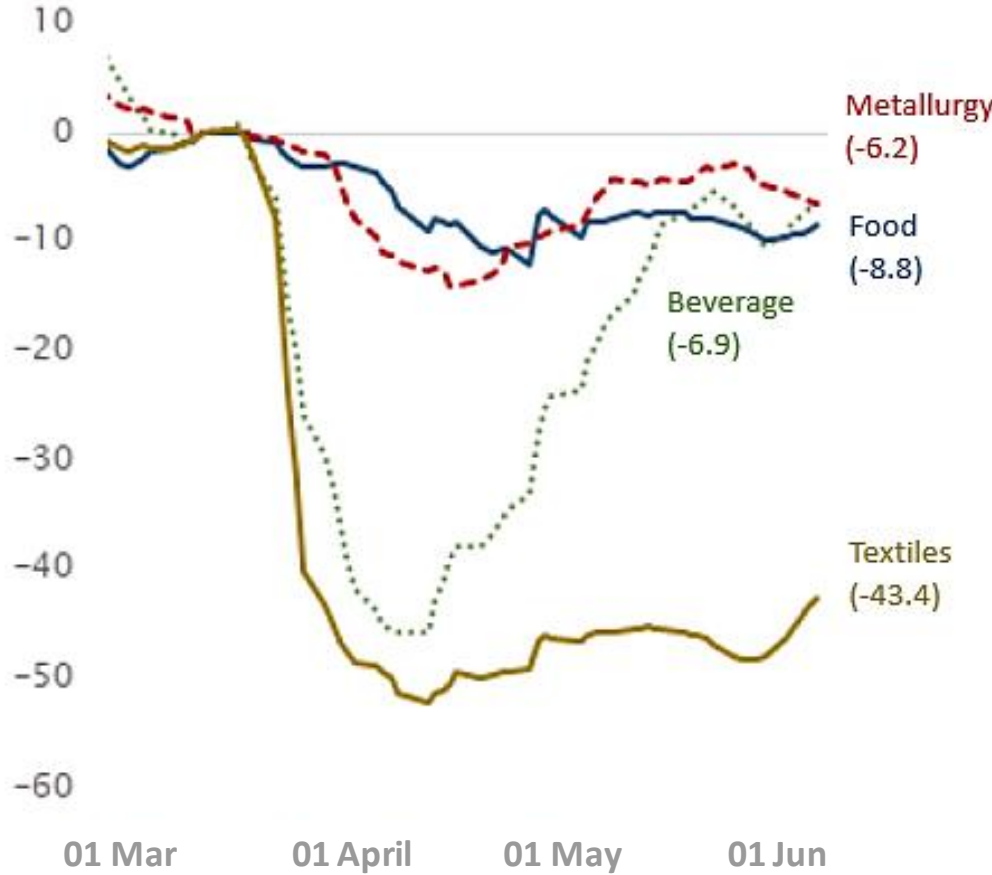
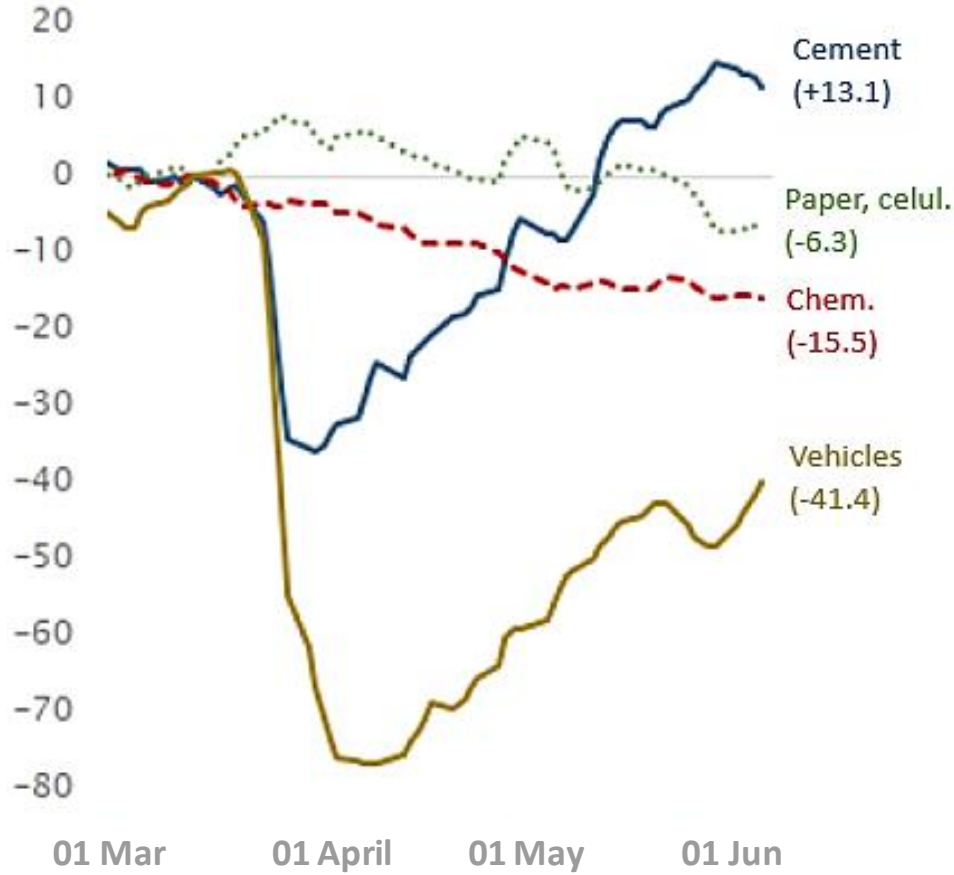
Brazil: Impact of Covid-19

Uneven paths of fall and recovery among sectors of manufacturing industry

Shock on activity
Domestic Economy

Electricity consumption by manufacturing industry (free market)

Percentage change regarding 09-13 March



Source: CCEE

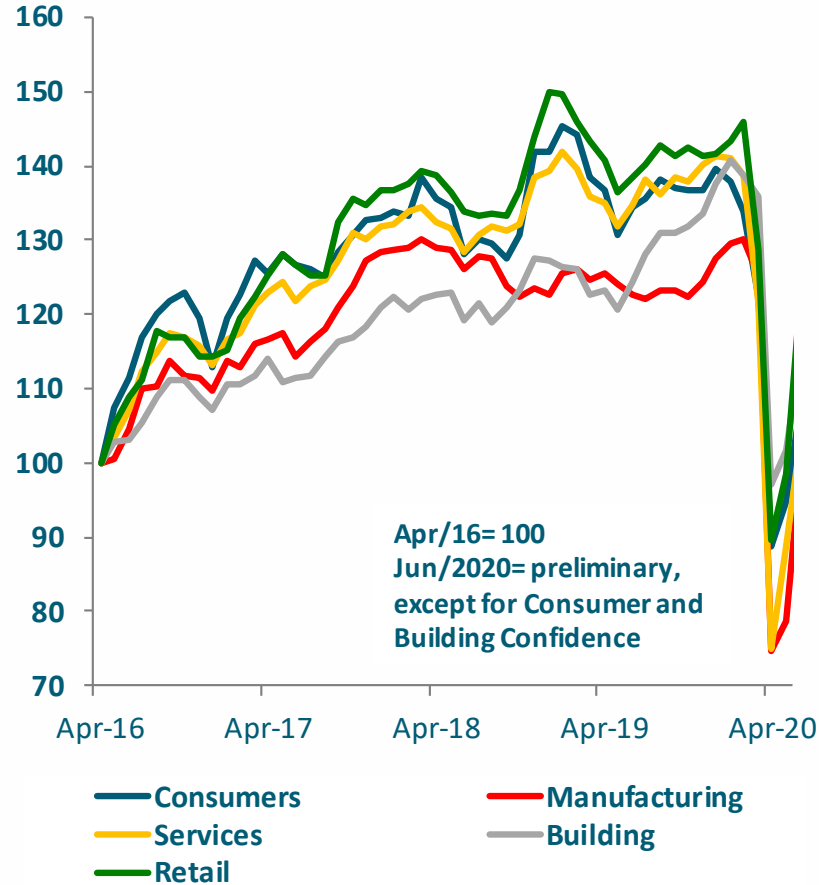
Brazil: Impact of Covid-19

Widespread effect on the economy

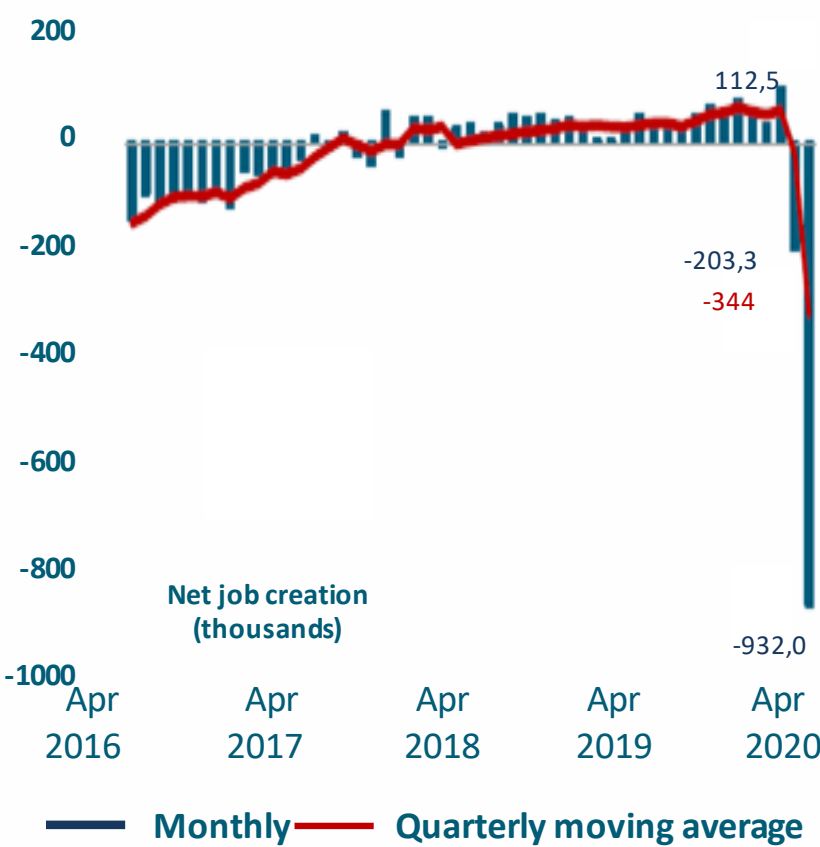
Shock on activity

Domestic Economy

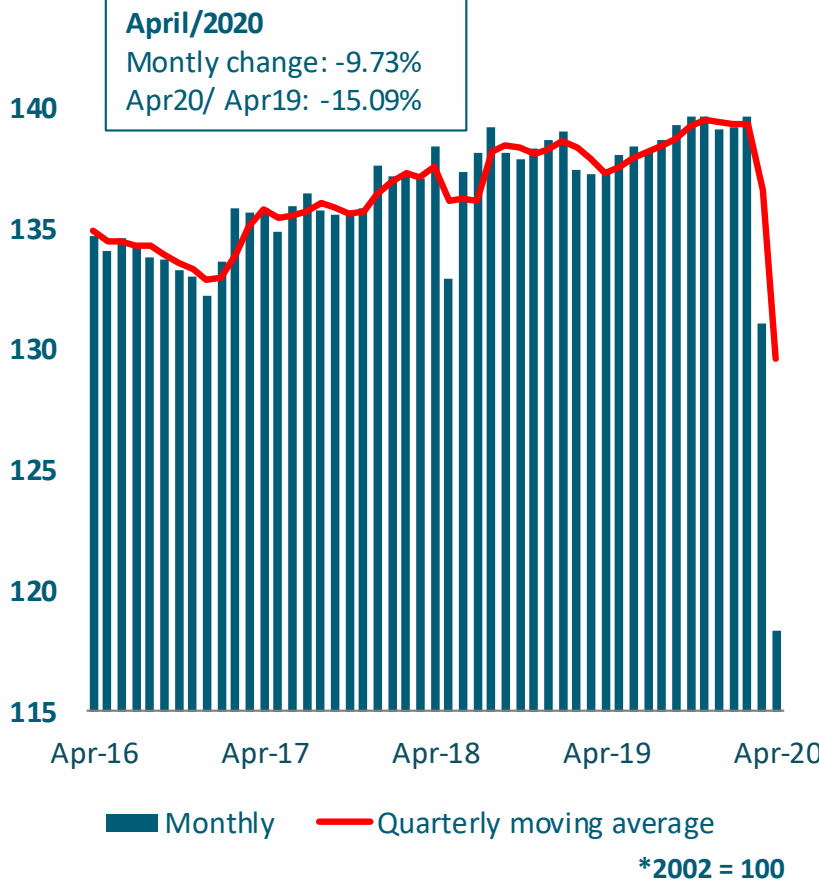
Confidence indicators



Employment - Caged



IBC-BR*

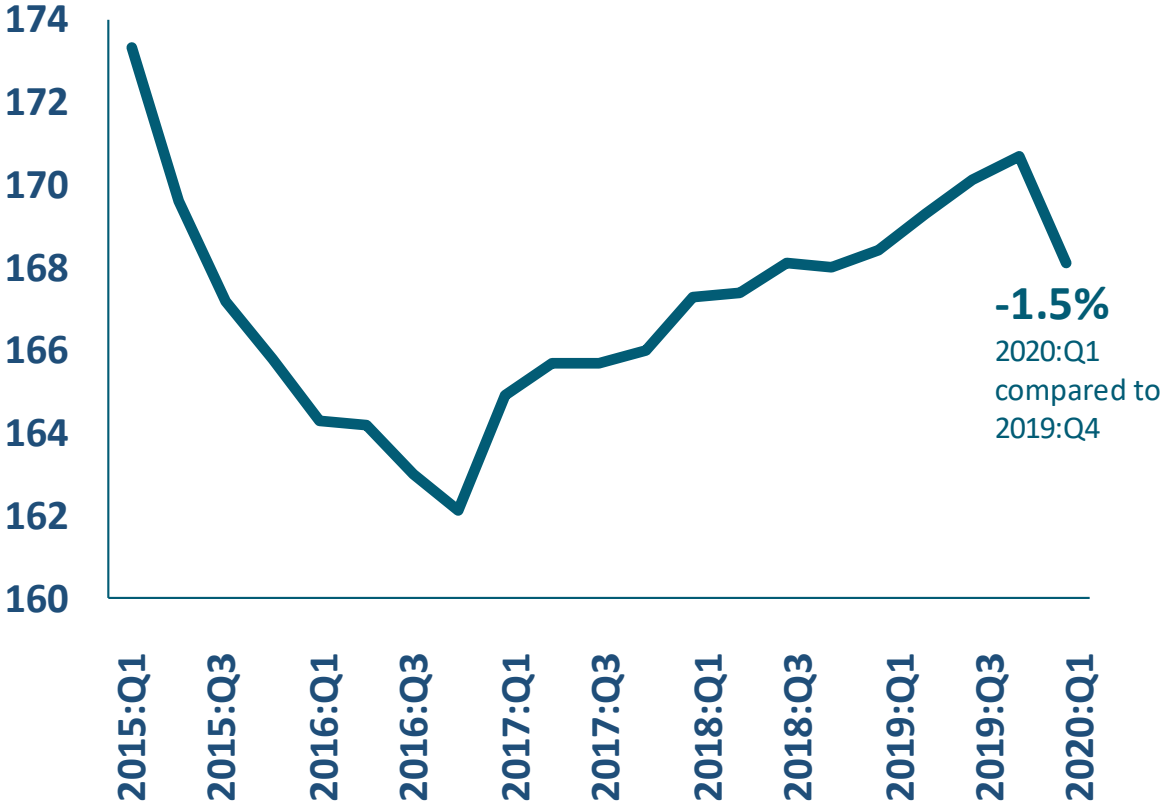


All data are seasonally adjusted. Sources: Ministry of the Economy and BCB

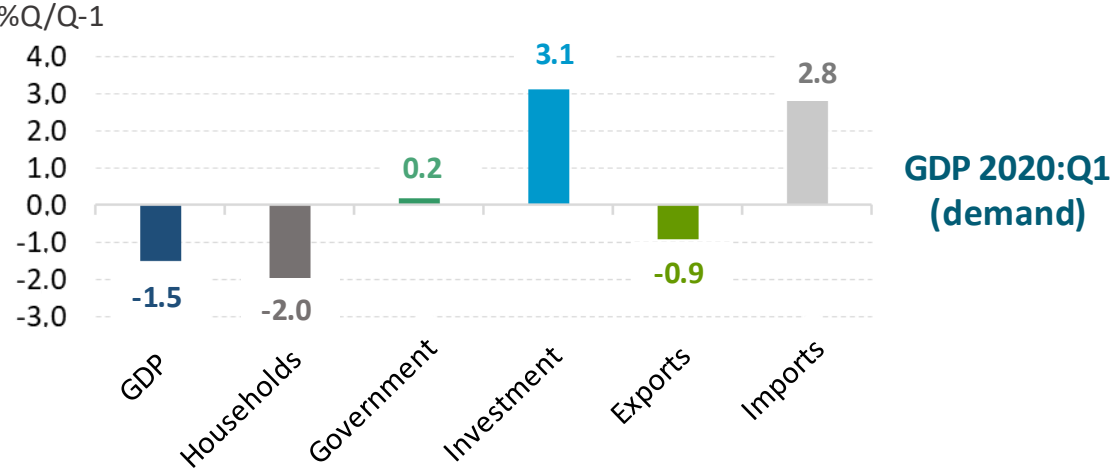
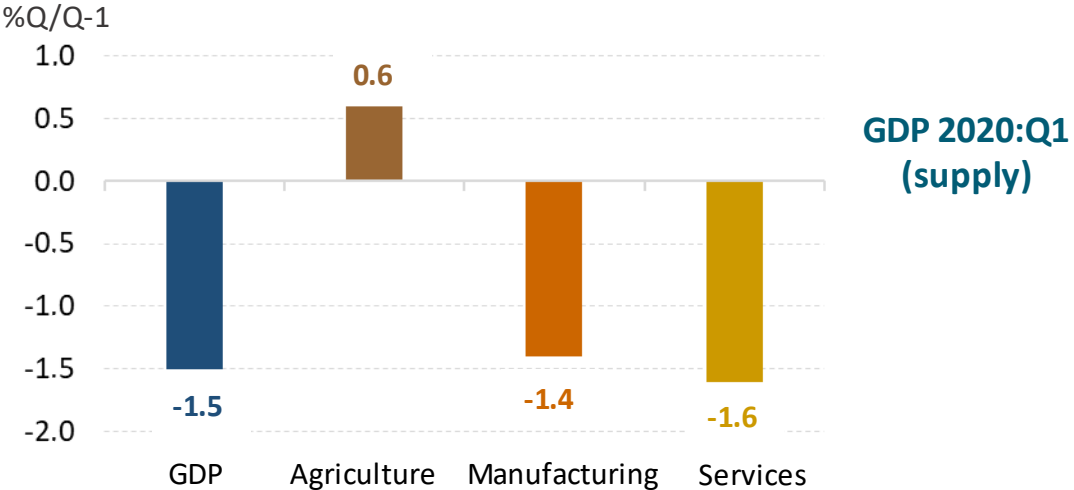
Brazil: Impact of Covid-19

GDP 2020:Q1 shows a sharp drop in activity

GDP – Seasonally adjusted



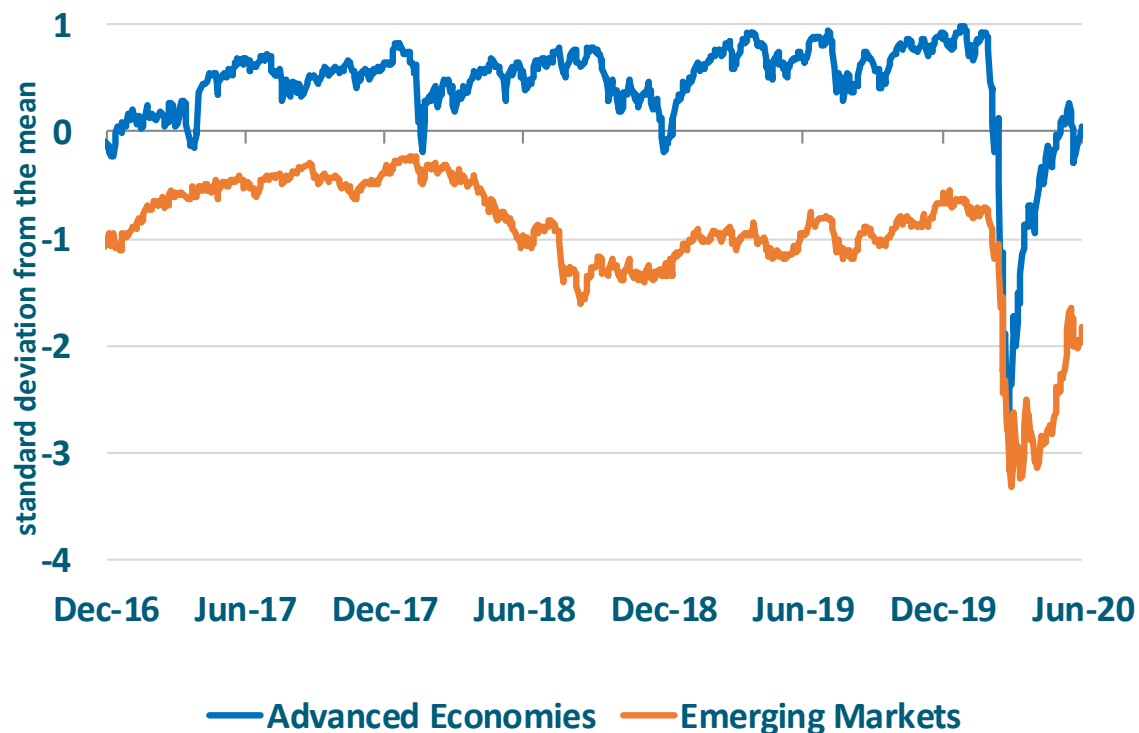
Shock on activity Domestic Economy



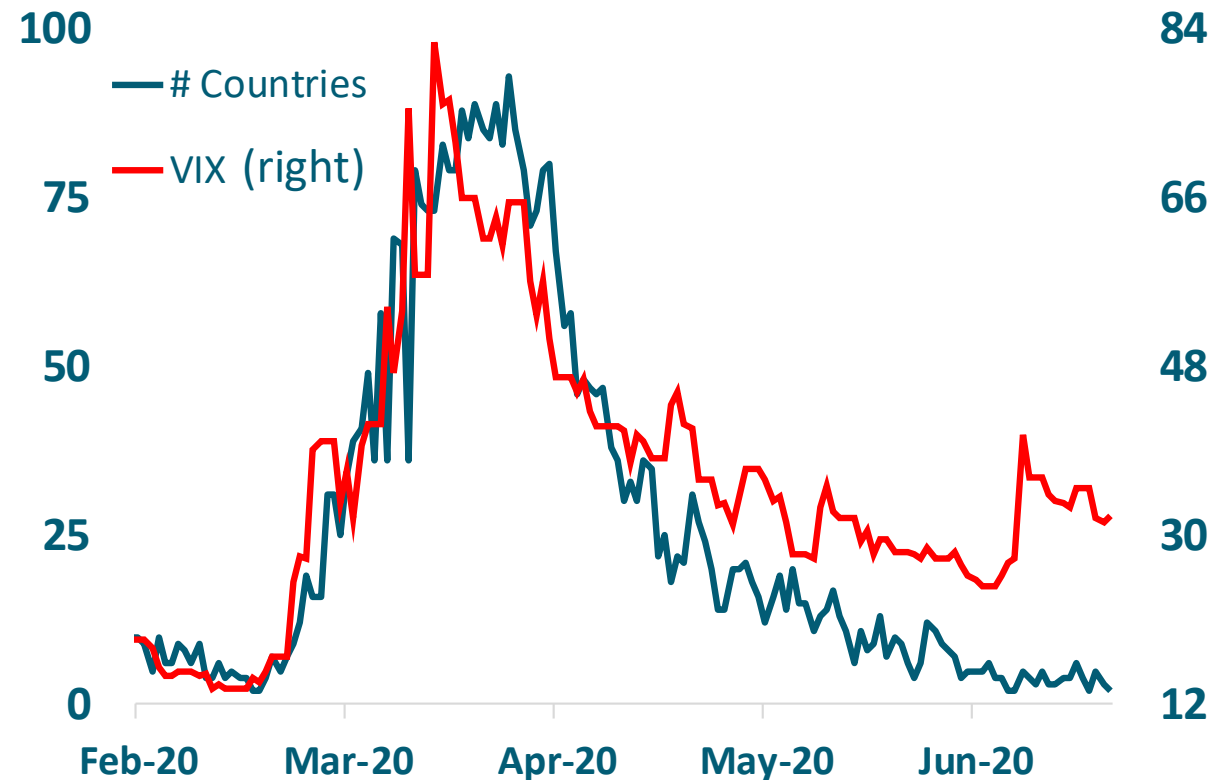
Source: IBGE

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

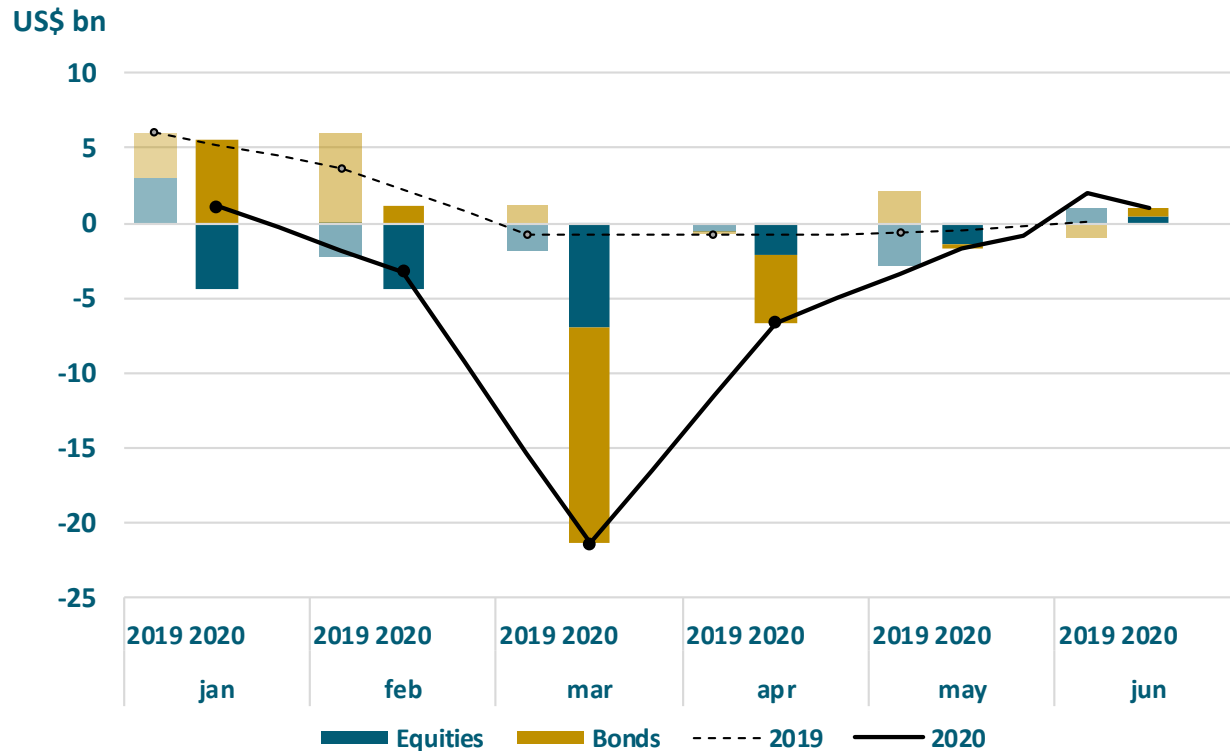
External Problems + Domestic Situation

Capital flows and local currency were severely affected in Brazil

Global Shock

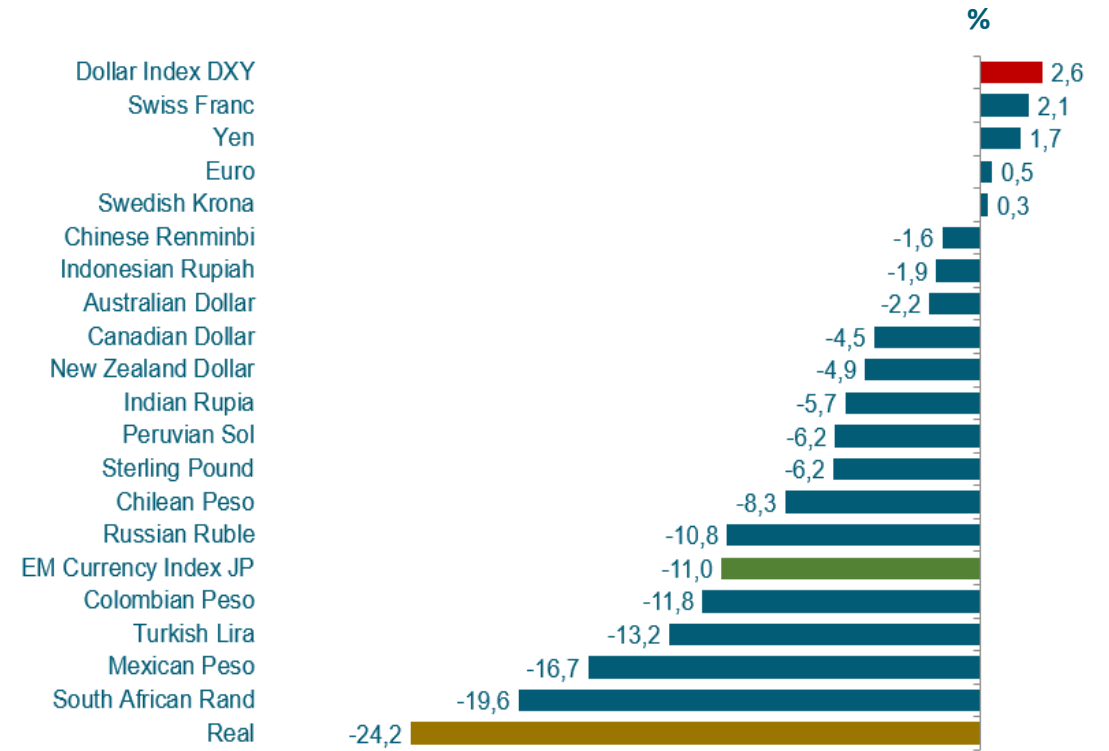
Domestic Markets

Capital Flows



Source: Nacional Accounts/BCB, 06/18/2020

FX Change YTD against USD



Source: Bloomberg, 06/24/2020

Local Assets Performance

GFC vs. Covid-19

Global Shock

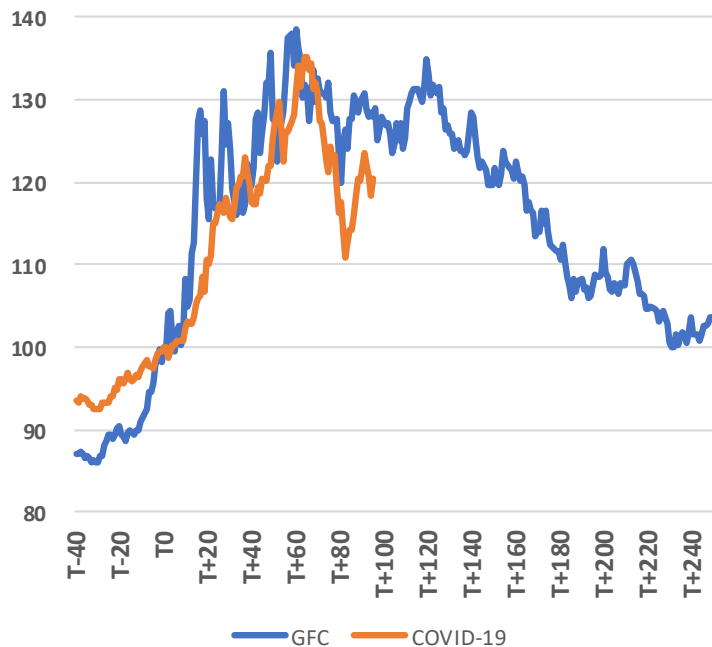
Domestic Markets

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

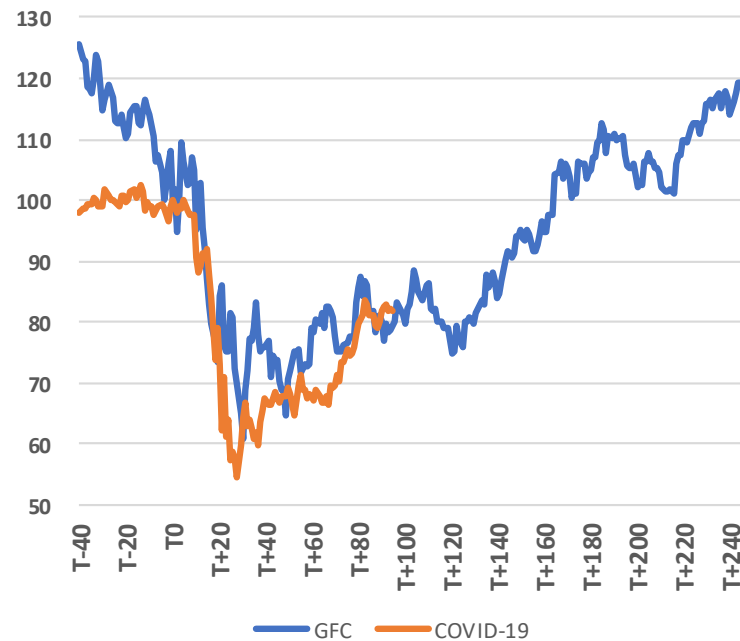
T0: Index = 100

USDBRL



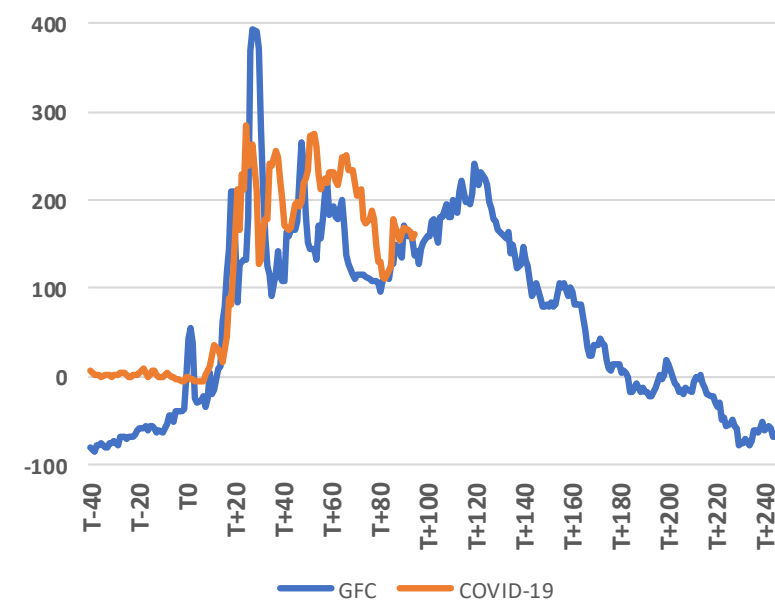
T0: Index = 100

Ibovespa



T0: Points = 0

CDS



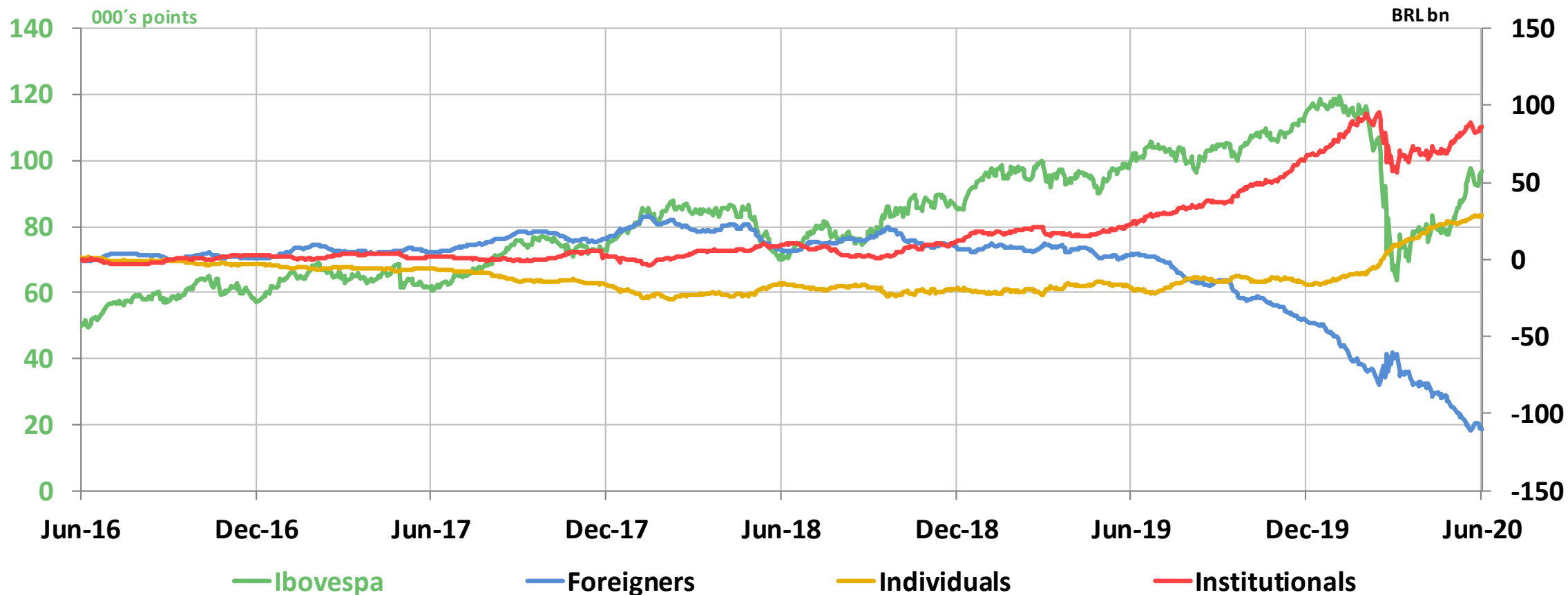
Source: Bloomberg, BCB

Ibovespa Flows

Investors' reaction

Global Shock

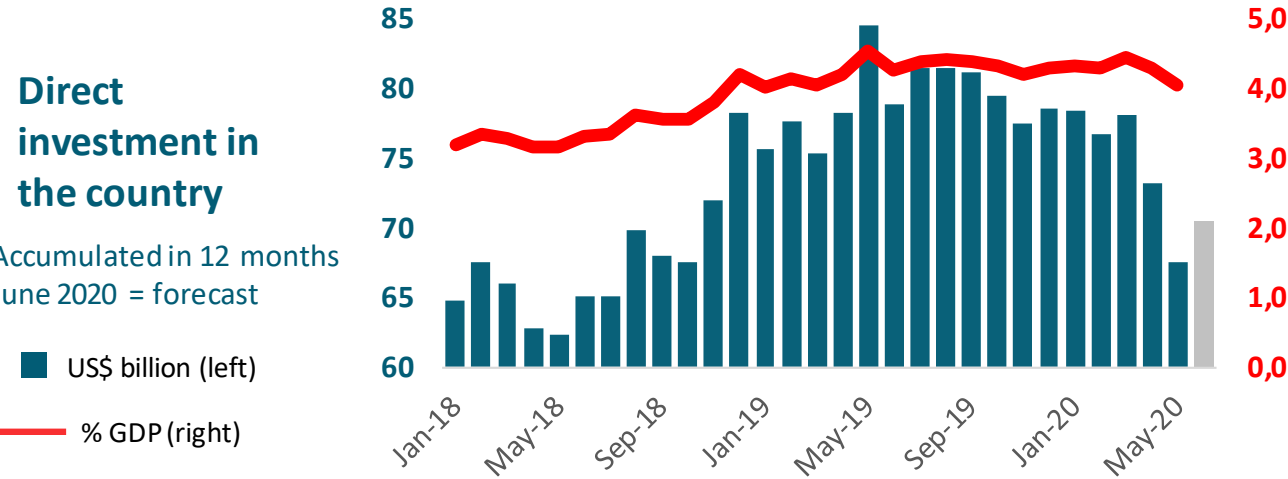
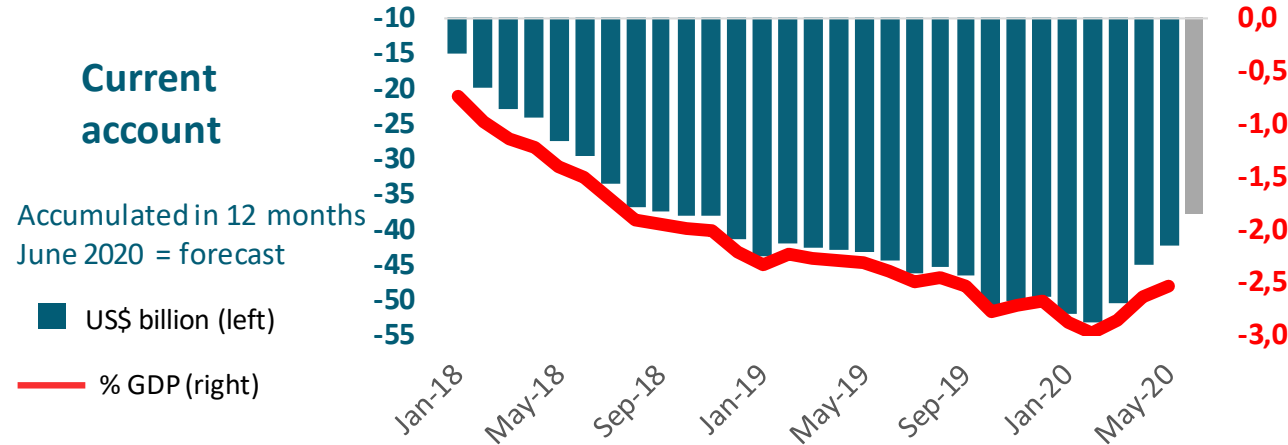
Domestic Markets



Source: B3

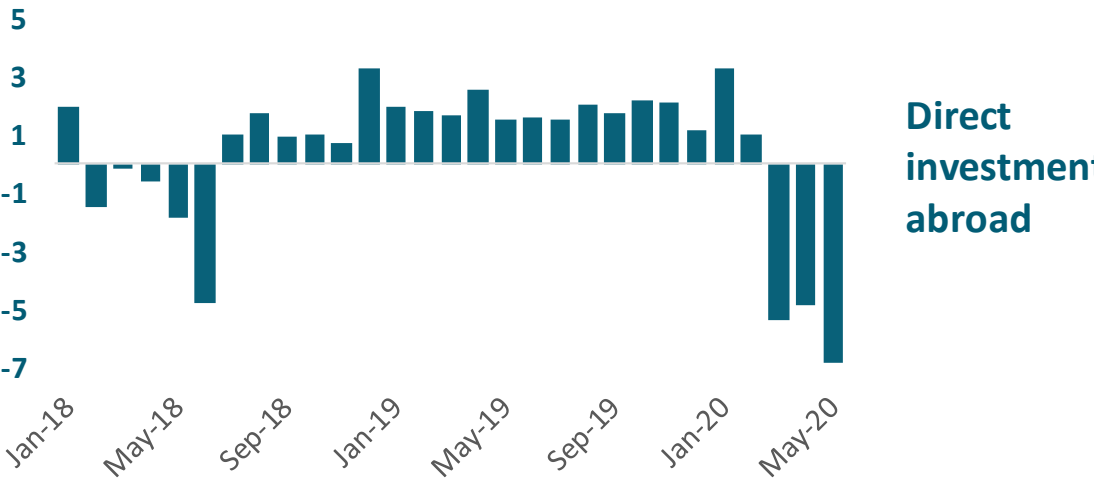
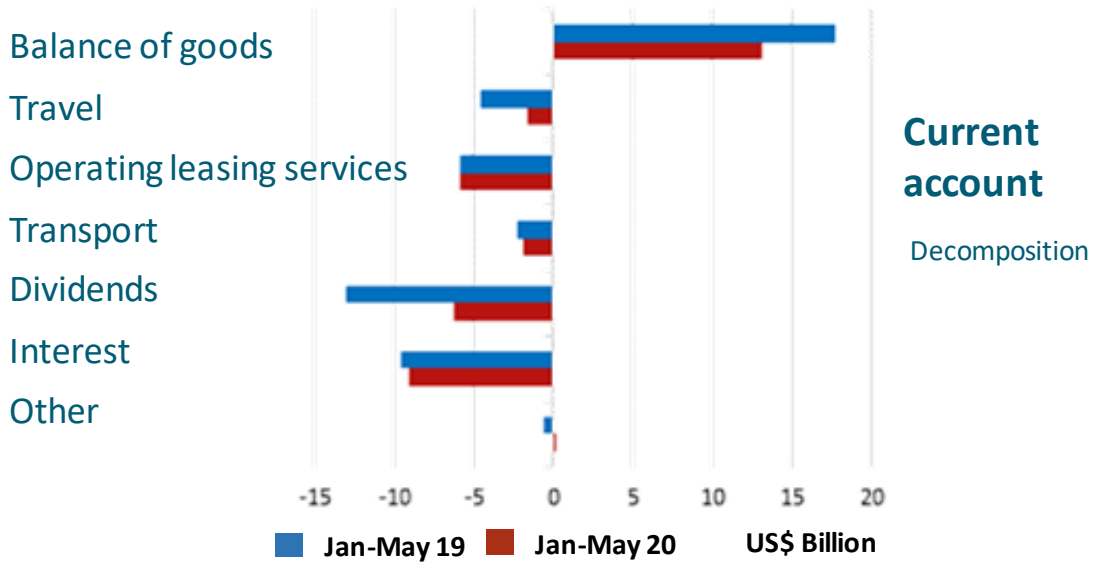
External accounts

Capital outflows will accommodate and external accounts will improve



Global Shock

Domestic Economy



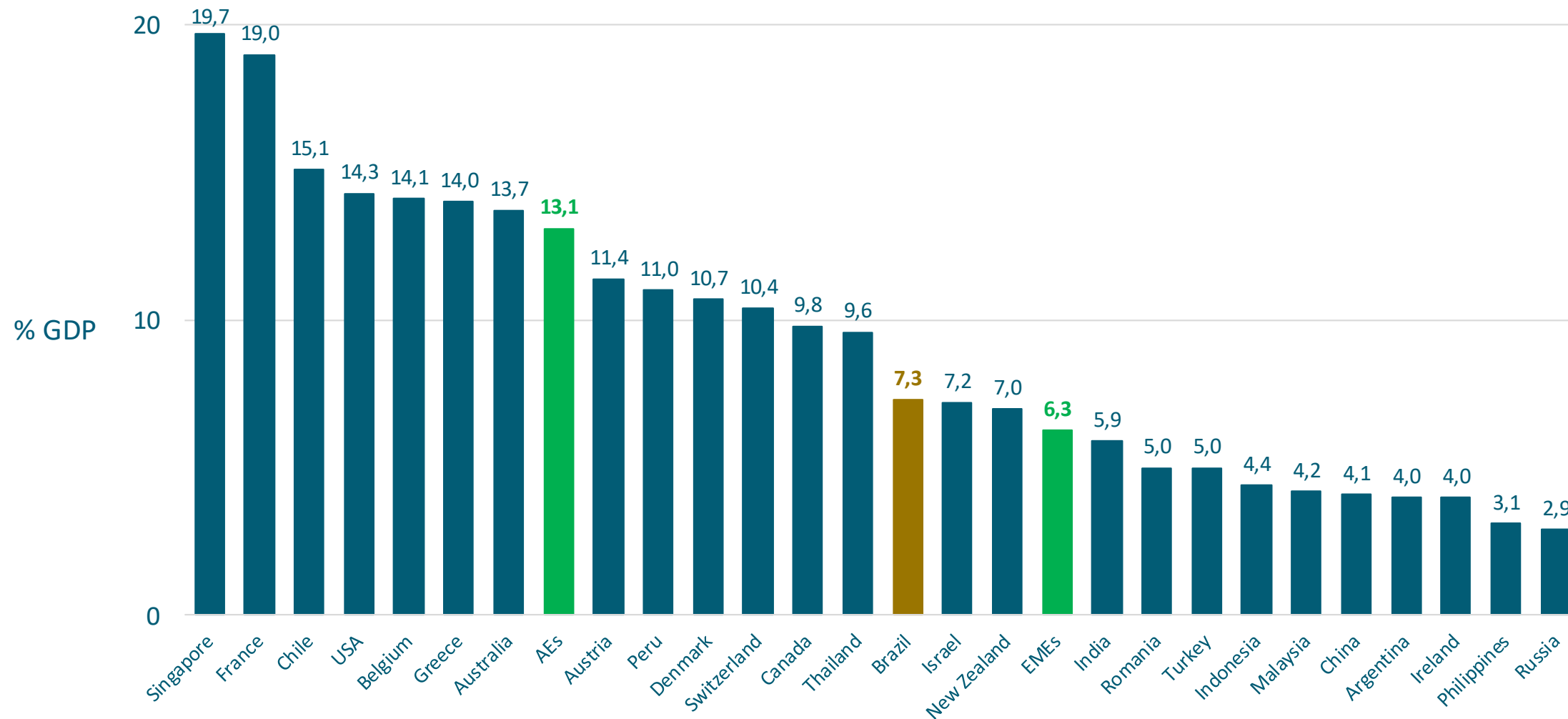
Source: BCB

Fiscal Response

Comparative vision

Global Shock

Facing the crisis

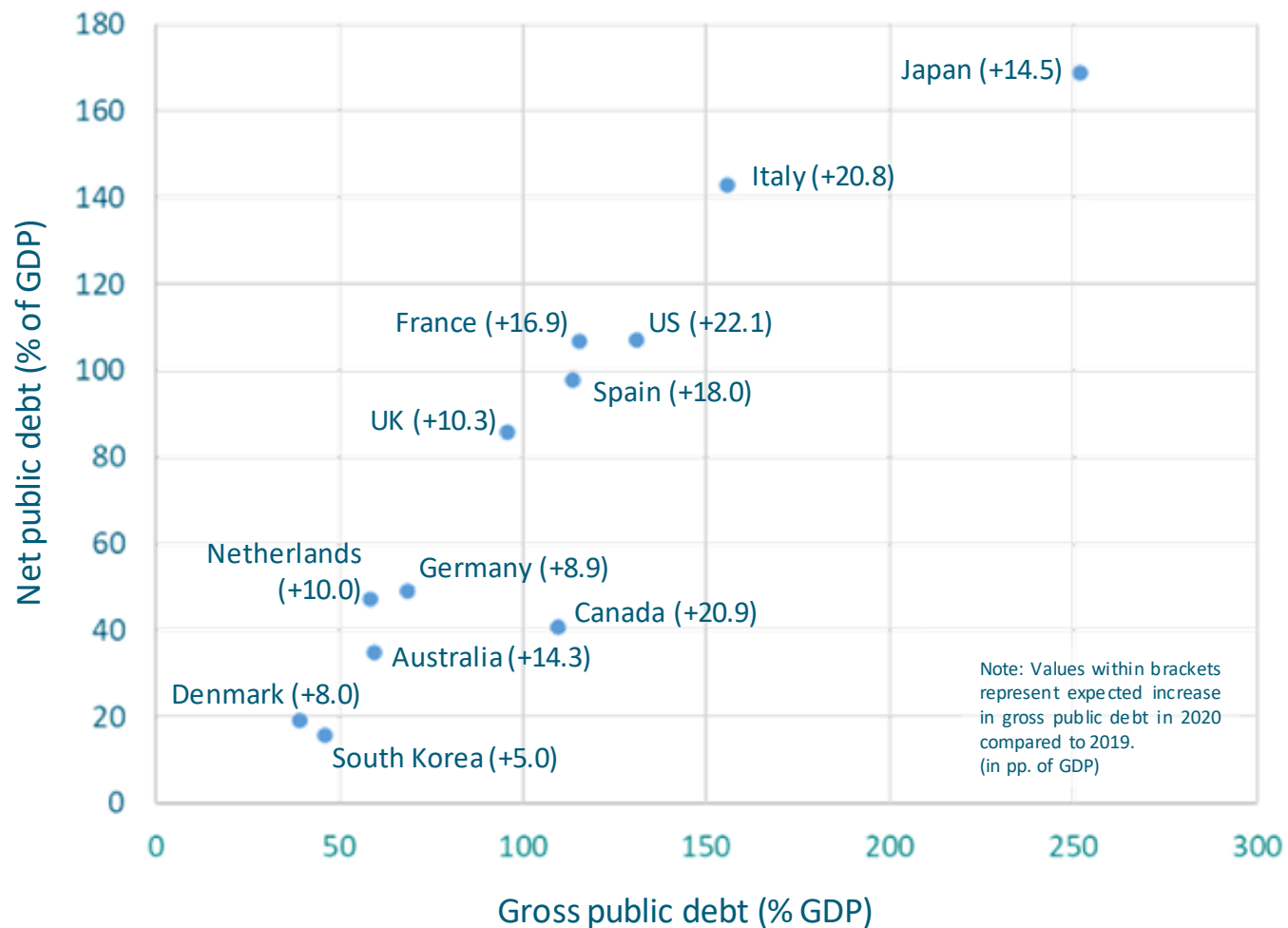


Fiscal Response

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

Global Shock

Facing the crisis

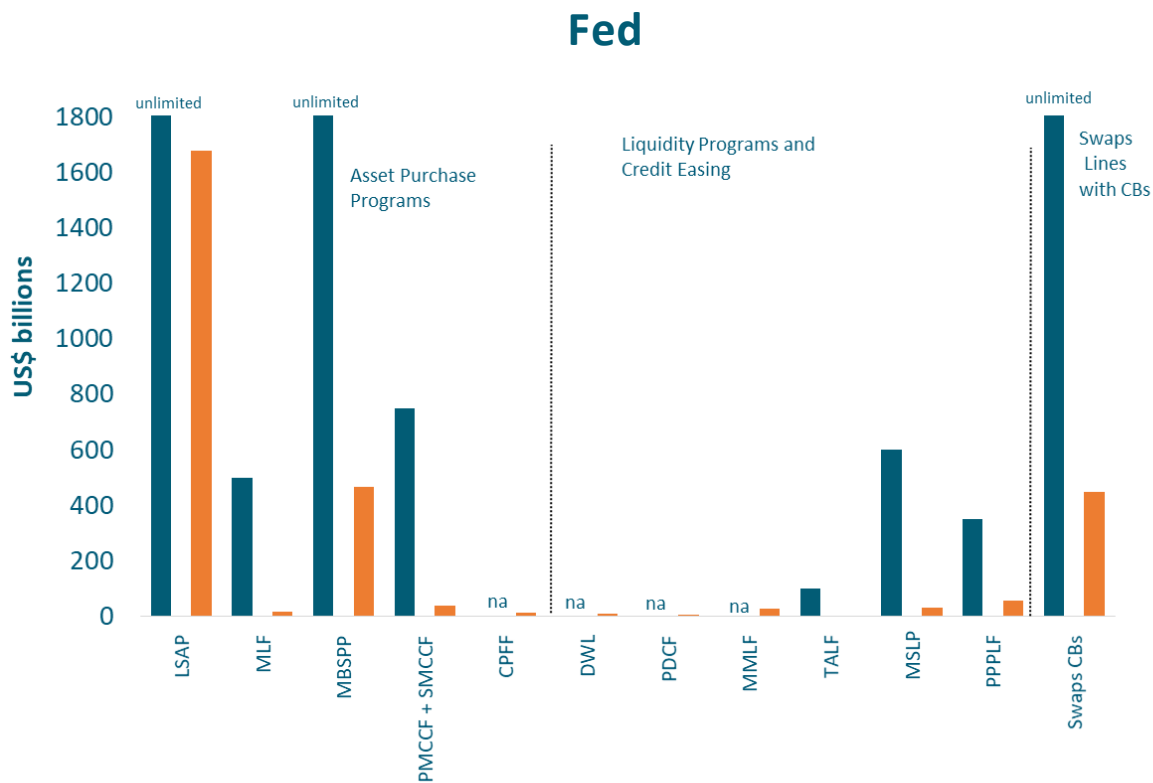


Source: FED, ECB, BoE and BCB

Central banks' response

Programs result in large injection of liquidity into financial systems

Global Shock Facing the crisis

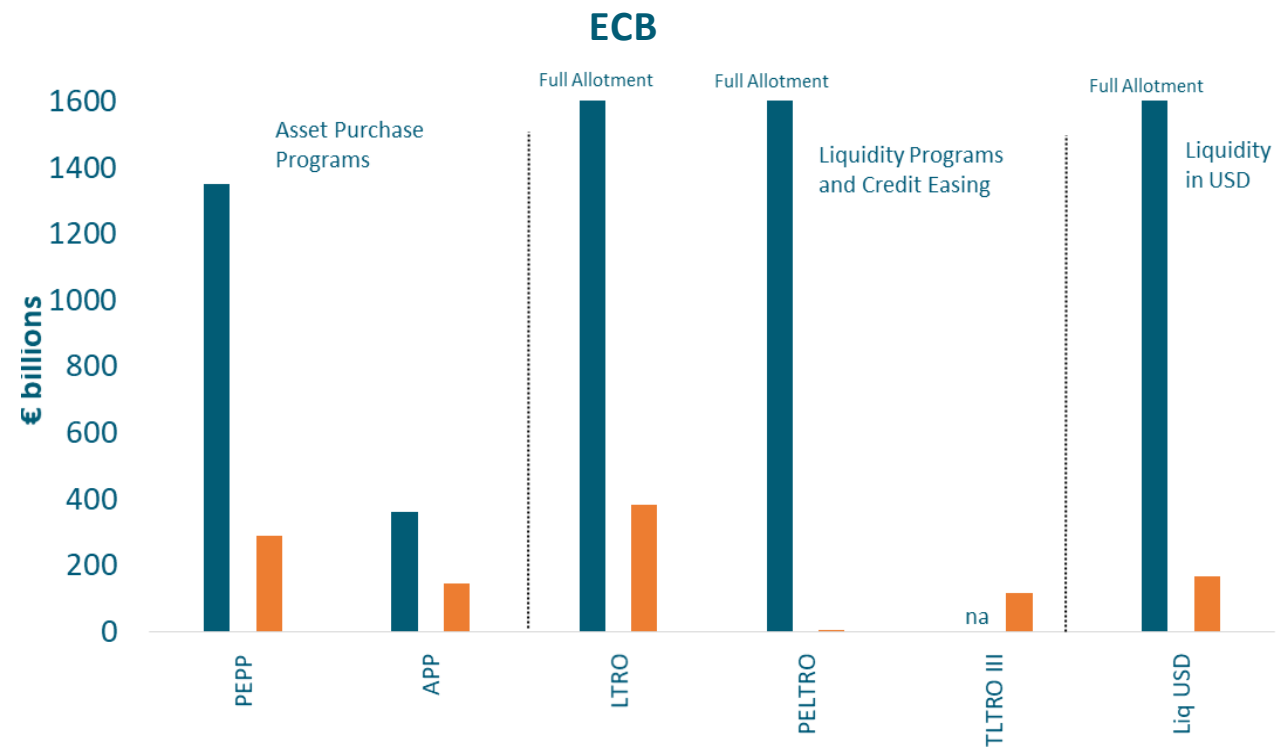


LSAP = Large-Scale Asset Purchase
MLF = Municipal Liquidity Facility
MBSPP = Mortgage-Backed Securities Purchase Program
PMCCF = Primary Market Corporate Credit Facility
SMCCF = Secondary Market Corporate Credit Facility
CPFF = Commercial Paper Funding Facility

DWL = Discount window lending
PDCF = Primary Dealer Credit Facility
MMLF = Money Market Mutual Fund Liquidity Facility
TALF = Term Asset-Backed Securities Loan Facility
MSLP = Main Street Lending Program
PPPLF = Paycheck Protection Liquidity Facility

■ Announced

■ Implemented*



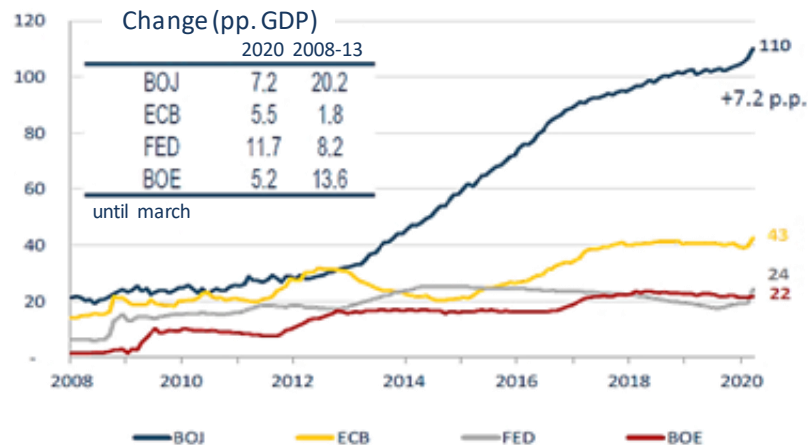
PEPP = Pandemic Emergency Repurchase Program
APP = Asset Purchase Programs
LTRO = Long Term Refinancing Operations
PELTRO = Pandemic Emergency Refinancing Operations
TLTRO III = Targeted Long Term Refinancing Operations
Liq. USD = Liquidity in US\$

Source: Fed, BOJ, Bloomberg, Thomson Reuters

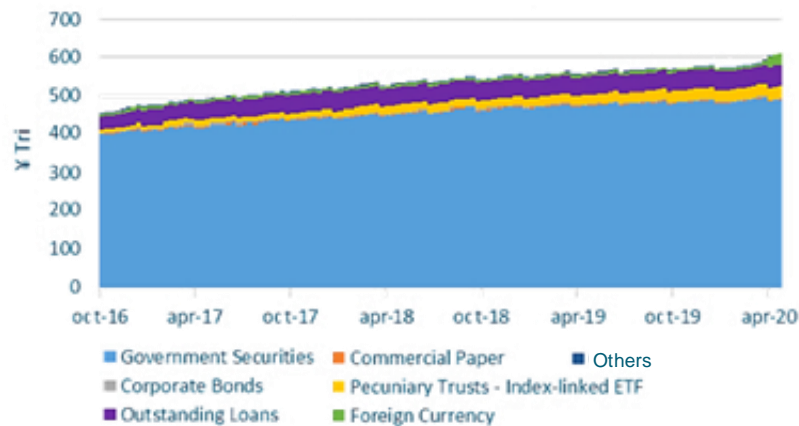
Central banks' response

Sharp balance sheets expansion

Central banks balance sheets



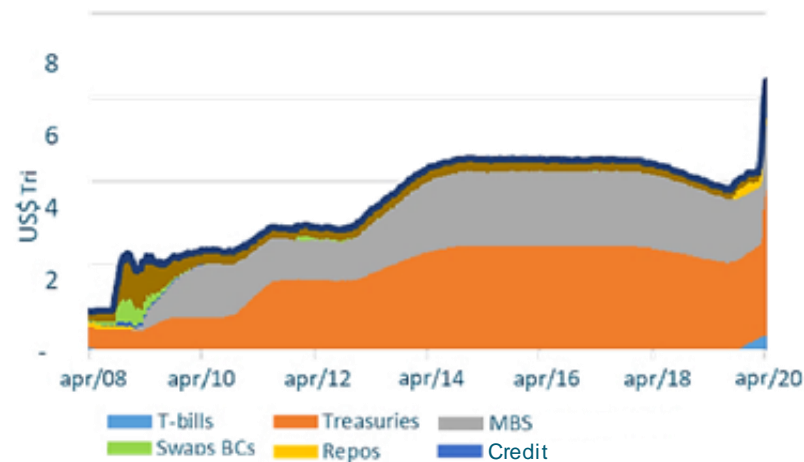
Bank of Japan



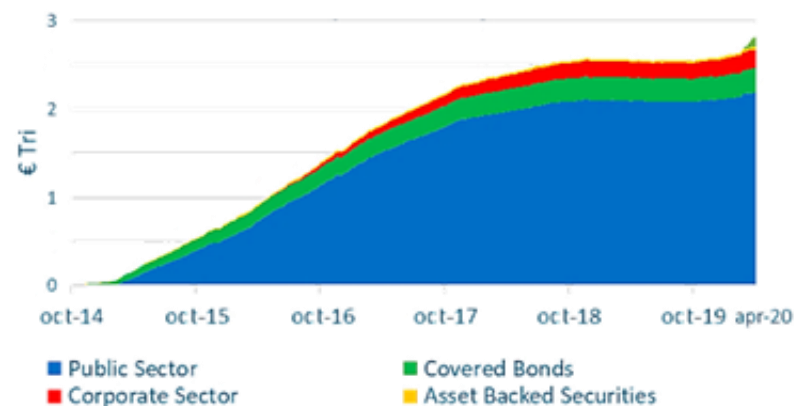
Global Shock

Facing the crisis

Federal Reserve USA



European Central Bank

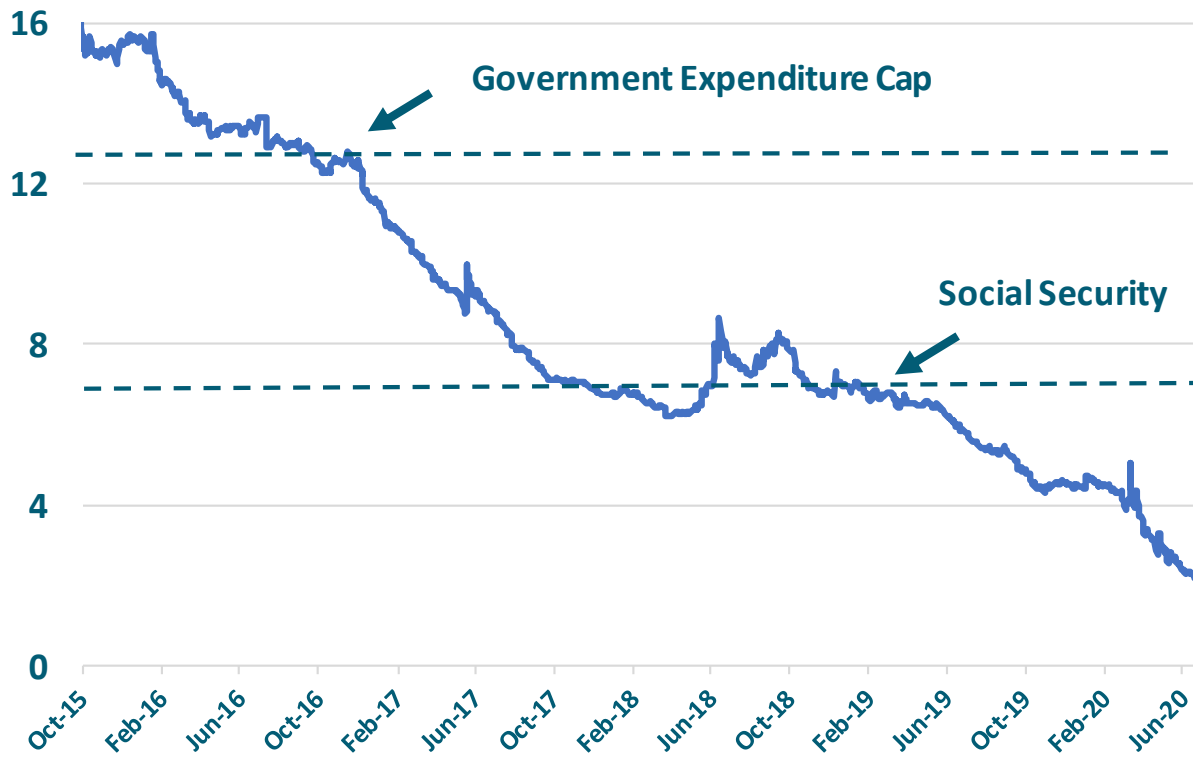


Source: FED, ECB, BOJ and Bloomberg

Room for conventional policies

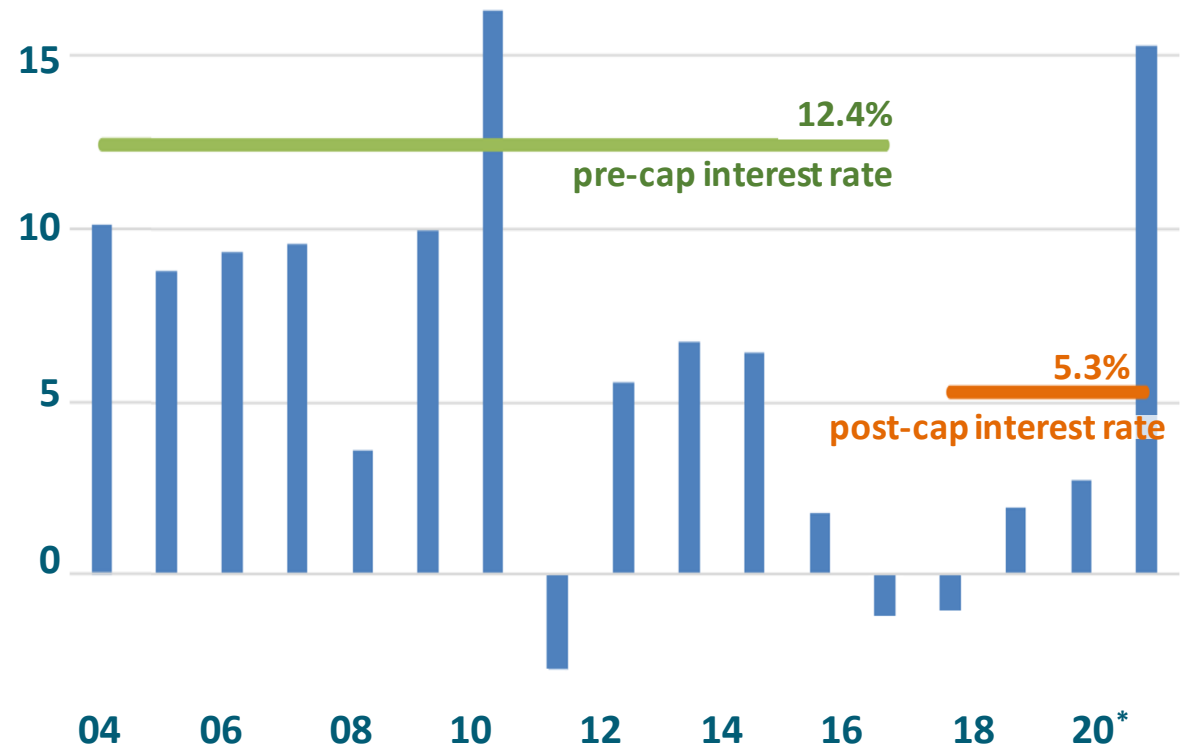
Brazil: cautious MP actions

Structural Interest Rate Reductions
1 year rate



Source: Bloomberg

Real Public Spending
yoy % change

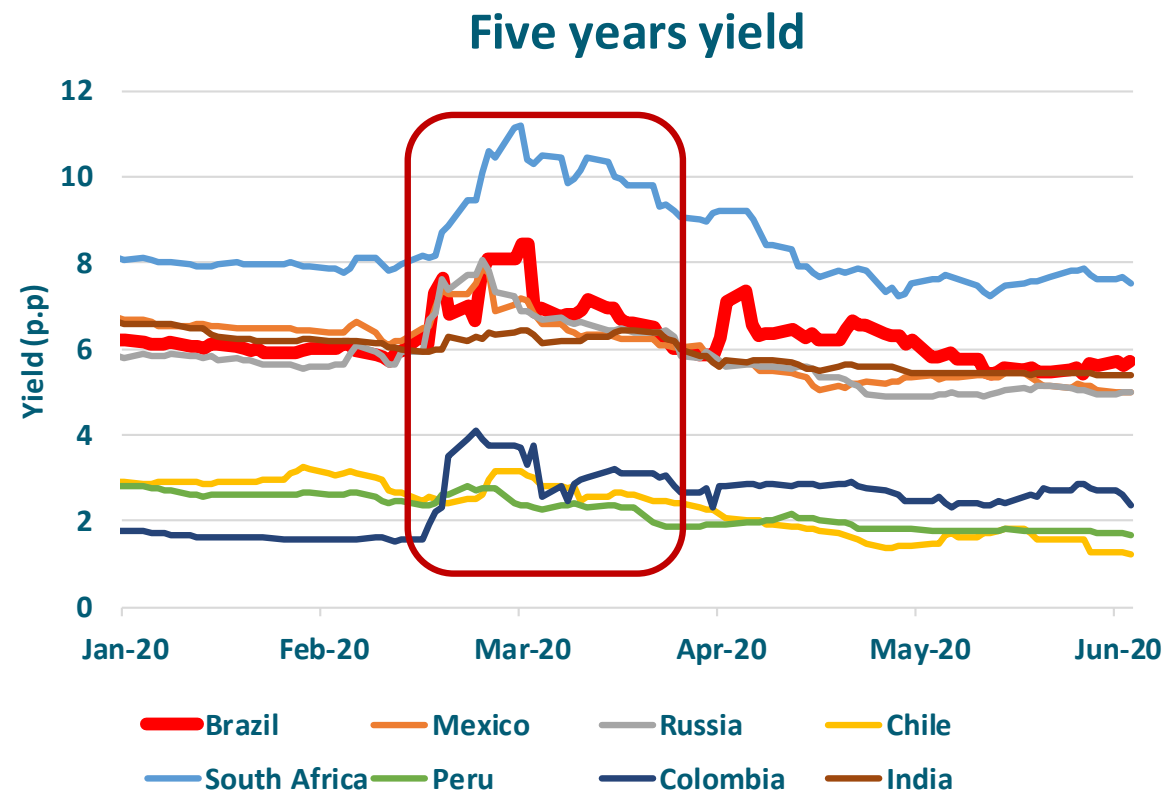
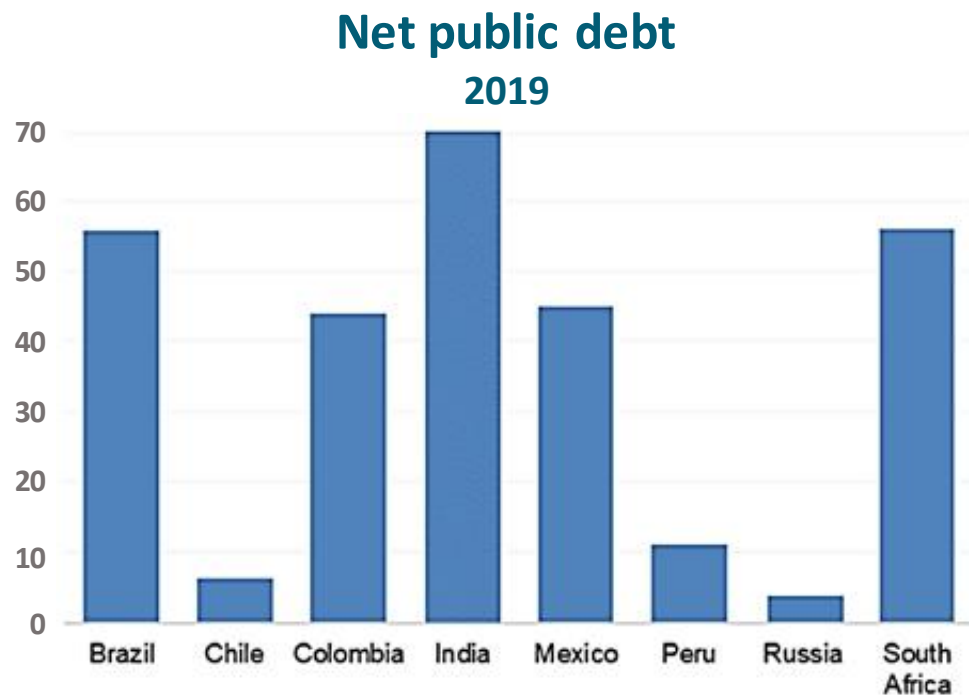


Source: BCB, 2020 forecast

Room for conventional MP

Part of EMEs faces policy constraints

High debt: relevant risk factor



Fonte: IMF, Standard & Poor's

Source: Bloomberg

- In its last meeting, the Copom unanimously decided to lower the Selic rate by 0.75 percentage point to 2.25% p.a.
- The Copom believes that the current state of affairs continues to recommend an unusually strong monetary stimulus, but it recognizes that the remaining space for monetary policy stimulus is uncertain and should be small.
- For the next meetings, the Committee sees as appropriate to evaluate the impact of the pandemic and of the set of credit and transfer programs in place and foresees that any possible adjustment to the monetary stimulus would be residual.
- The Committee recognizes that the variance of its balance of risks has increased and that further information on the evolution of the pandemic, as well as a decline in fiscal uncertainty, will be essential to determine its next steps.

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.

Summary

Measures' impacts

Measure	2020		2008
	Potencial	Implemented	
Liquidity support			
Reserve requirements + change in LCR regulation	R\$ 135 bi	R\$ 135 bi	–
Additional reduction in reserve requirements	R\$ 70 bi	R\$ 70 bi	R\$ 82 bi
More flexibility on LCA regulation	R\$ 2.2. bi	R\$ 2,2 bi	–
Loan backed by LFs guaranteed by credit operations	R\$ 670 bi	R\$ 26 bi	–
One-year term repos backed by federal govnt. Bonds	R\$ 50 bi	R\$ 22 bi	R\$ 25 bi
New Term Deposit with Special Guarantees (NDPGE)	R\$ 200 bi	R\$ 5.3 bi	R\$ 10 bi
Loans backed by debentures	R\$ 91 bi	R\$ 3 bi	–
Change in reserve requirements on savings deposits	R\$ 55.8 bi	**	–
Total	R\$ 1274.0 bi	R\$ 263.5 bi	R\$ 117 bi
Capital Relief ¹			
<i>Overhedge</i>	R\$ 520 bi	R\$ 520 bi	–
Reduction of the Additional Principal Capital (ACP) factor	R\$ 637 bi	R\$ 637 bi	–
Reduction in the capital for credit operations for SMEs	R\$ 35 bi	R\$ 35 bi	–
Reduction in capital for S5 segment	R\$ 16.5 bi	**	–
Reduction in capital for DPGE exposures	R\$ 12.7 bi	**	–
Working capital for business preservation (CGPE)	R\$ 127 bi	**	–
Total	R\$ 1348.2 bi		–
More flexibility for credit renegotiations	*R\$ 3200 bi	R\$ 648.8 bi	–
Asset Purchases			
Asset purchases in secondary markets	N.D.	**	–
Other measures			
Swap lines with the Federal Reserve	US\$ 60 bi		US\$ 30 bi
Creation of special credit lines for SMEs	R\$ 40 bi	R\$ 3.9 bi	–
Real estate backed loans	R\$ 60 bi	**	–

Source: BCB

¹Potencial impact on credit provision.

* Credit operations volume potentially benefited by the measure.

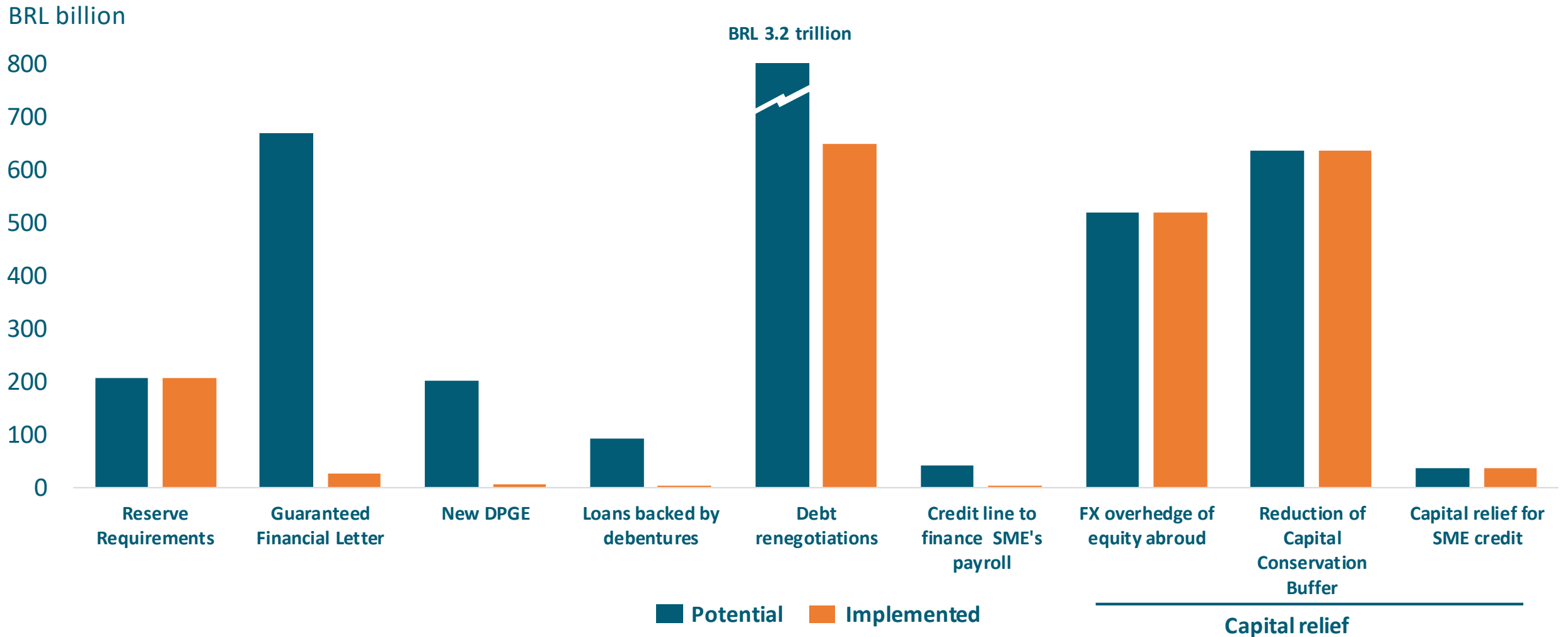
** New measures.

Central Bank of Brazil Response

Liquidity support and capital relief

Global shock

Facing the crisis



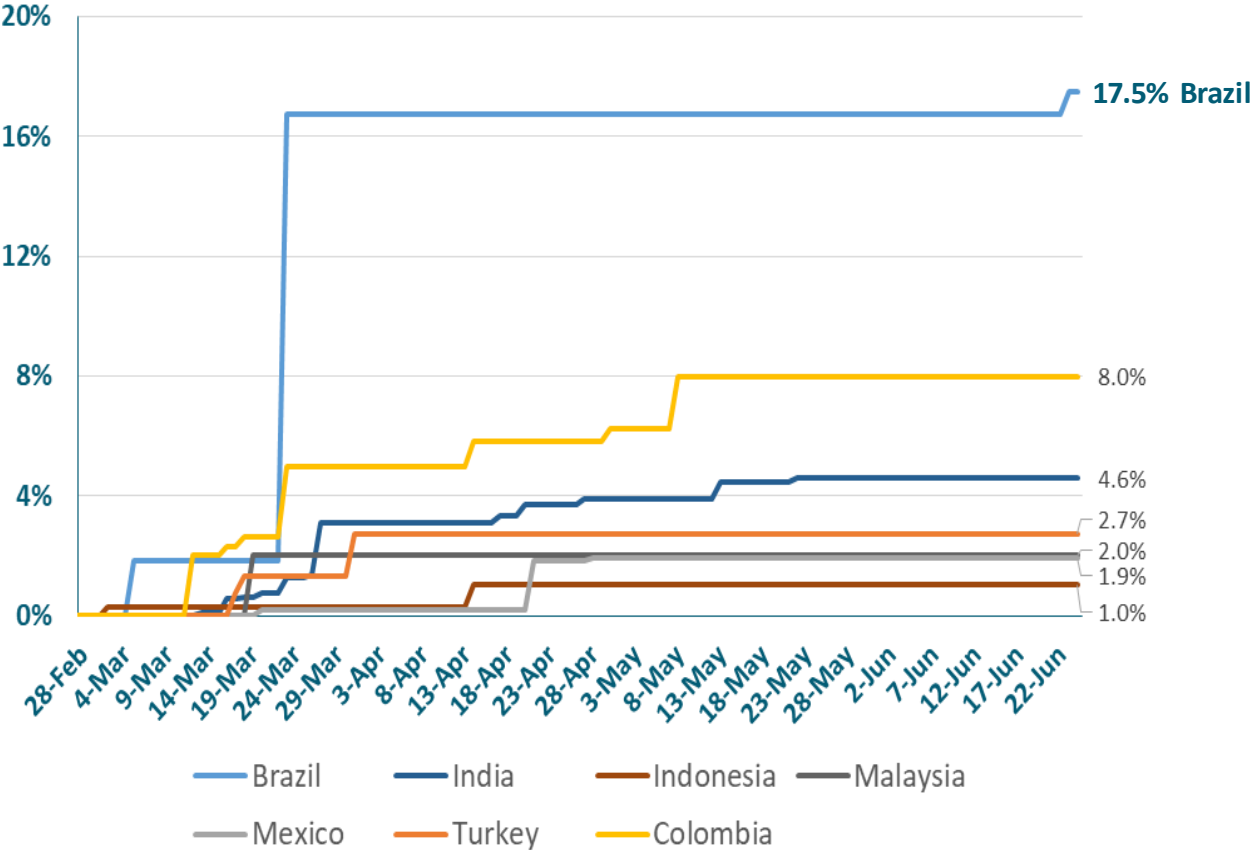
Source: BCB

Emerging Markets Economies

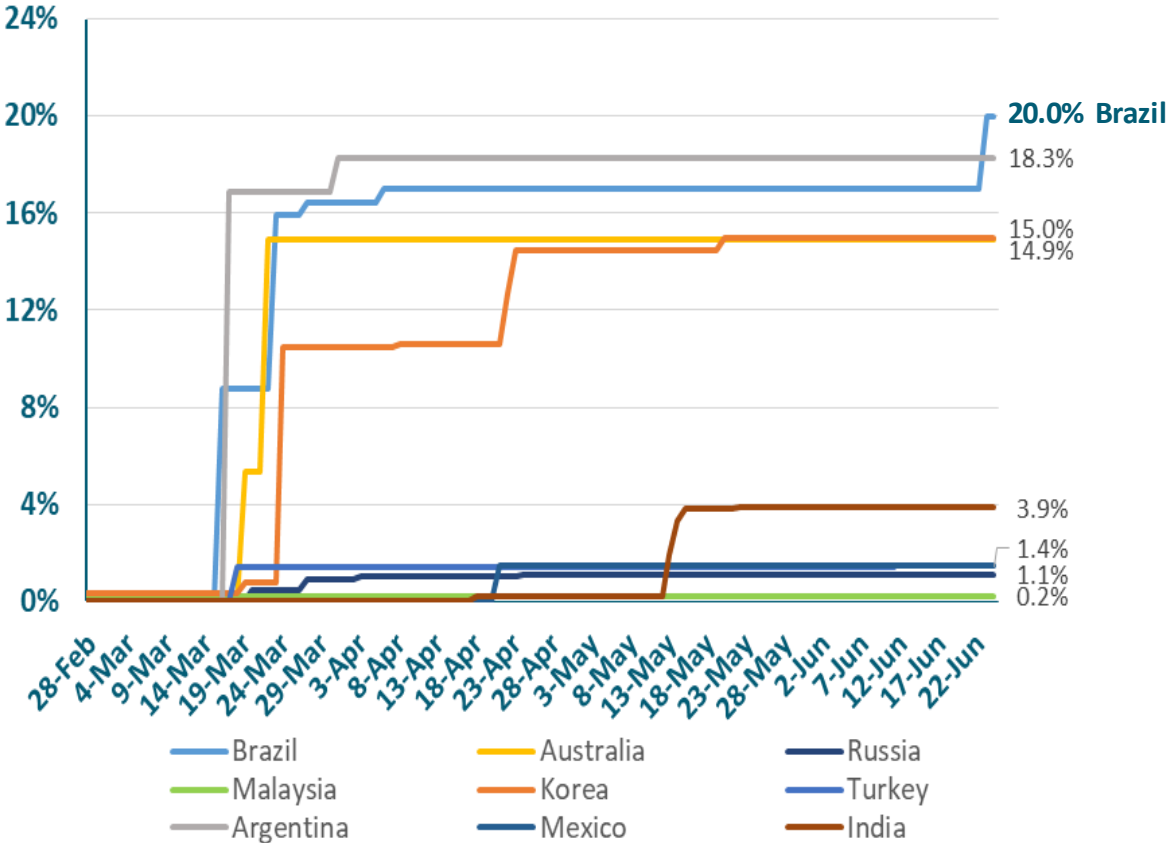
Covid-19 Measures -Comparative overview

Covid-19 Outbreak
Facing the crisis

Liquidity Support (% of GDP)



Credit Support (% of GDP)



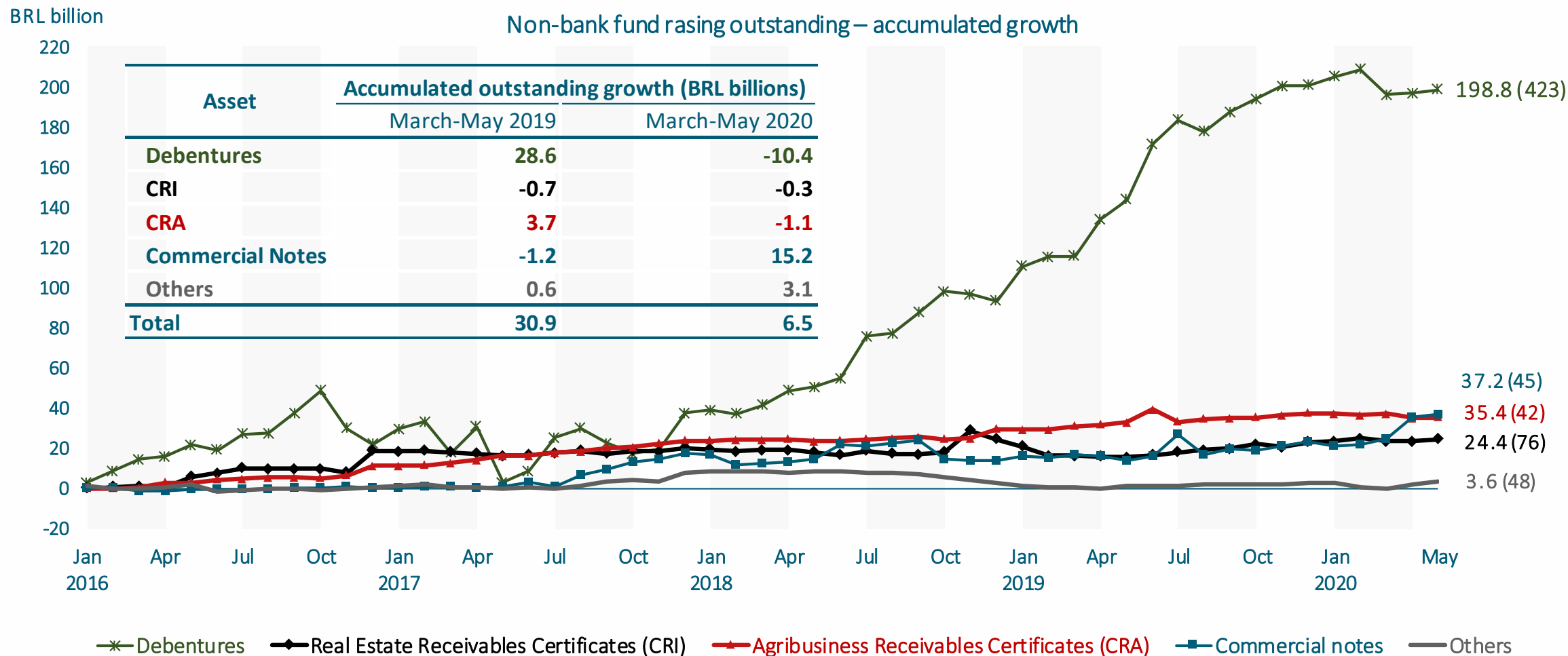
Source: FSB/BCB – until June 23th

Non-banking funding

Private bonds

Domestic Economy

Debentures outstanding fell more than other non-bank assets issued



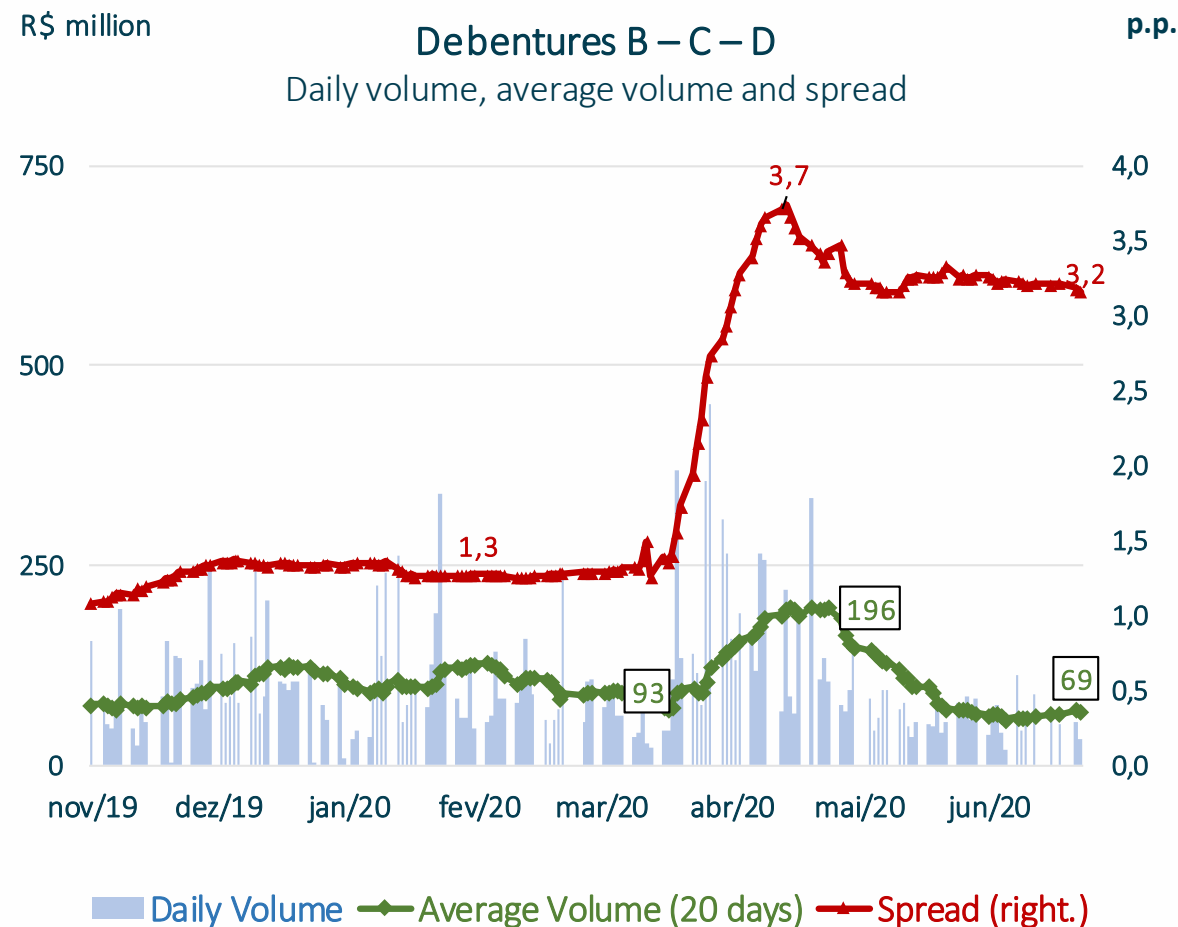
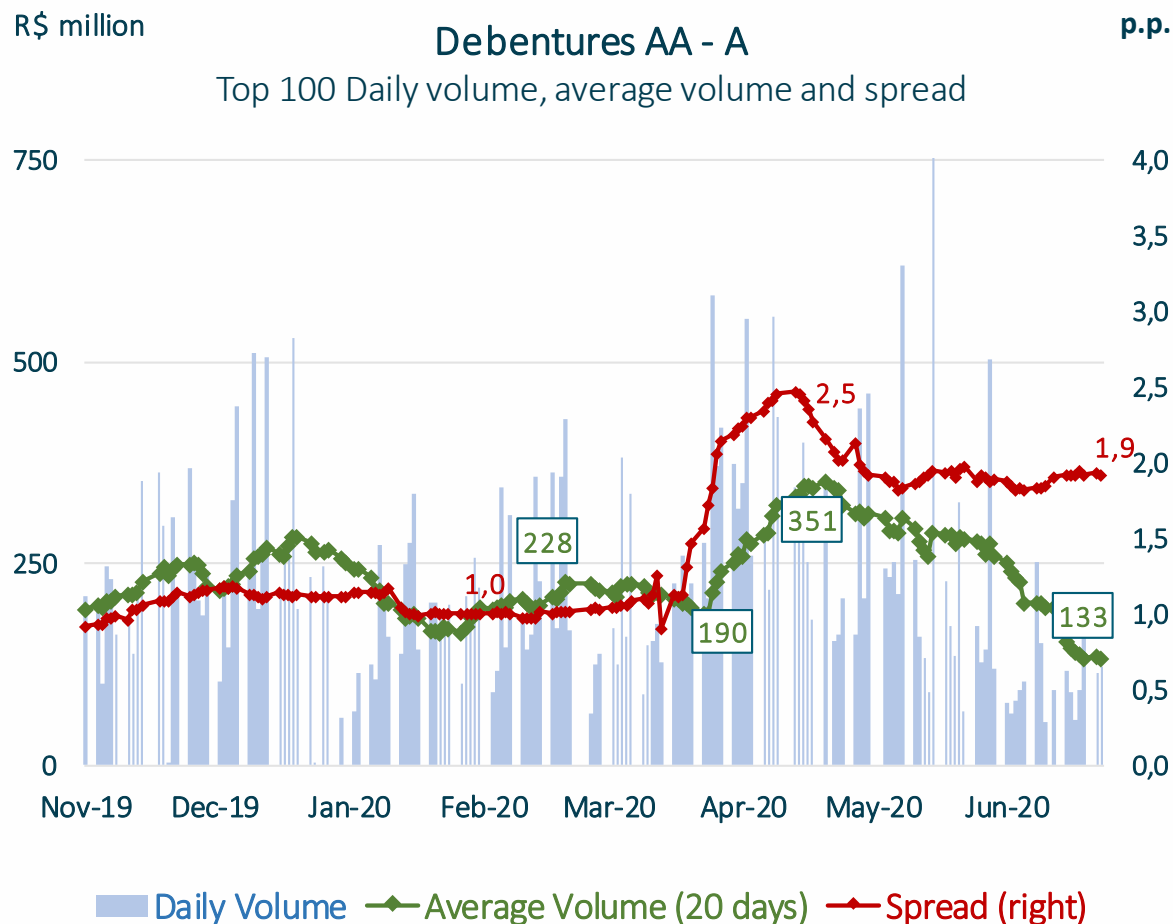
Source: Cetip

Debentures Trading on the Secondary Market

Trading volumes and spreads of the top 100 negotiated debentures are close to pre-Covid19 crisis level. Higher risk debentures still trade at higher spreads.

Private bonds

Domestic Economy

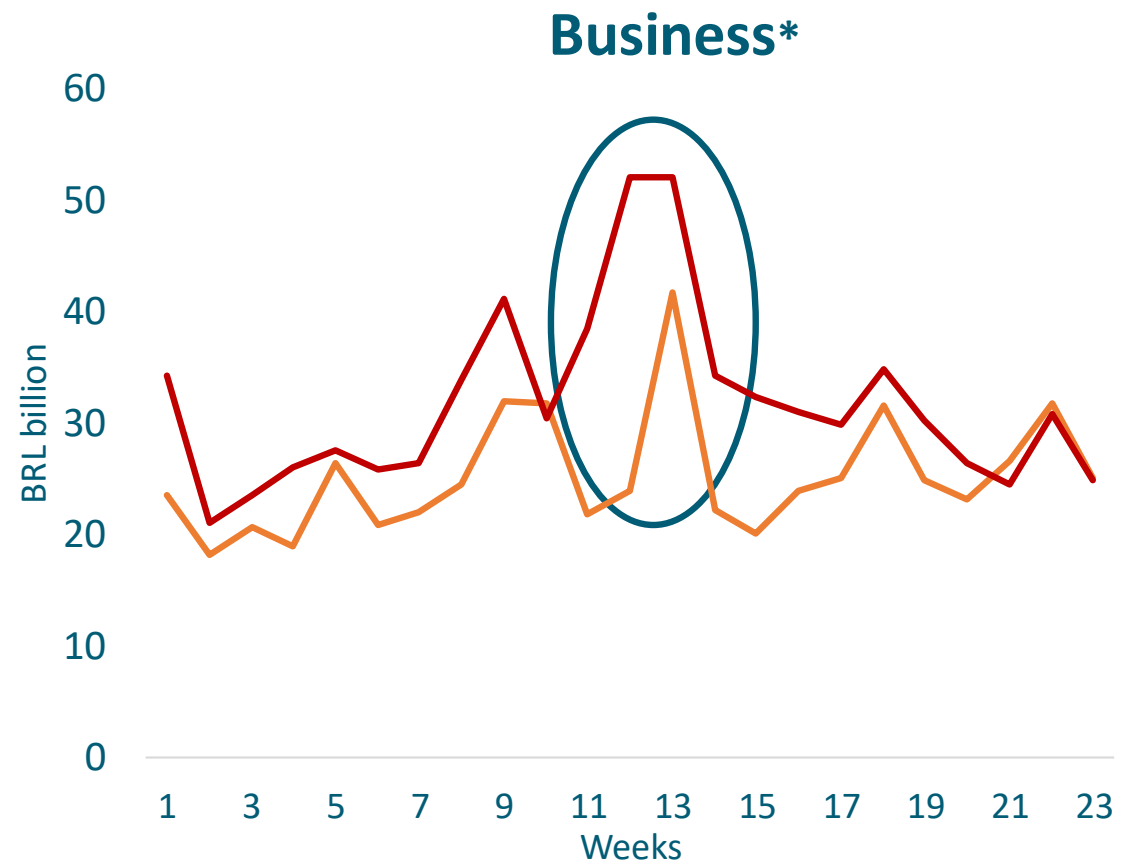


* Data until June 23rd 2020.

Source: B3, Cetip

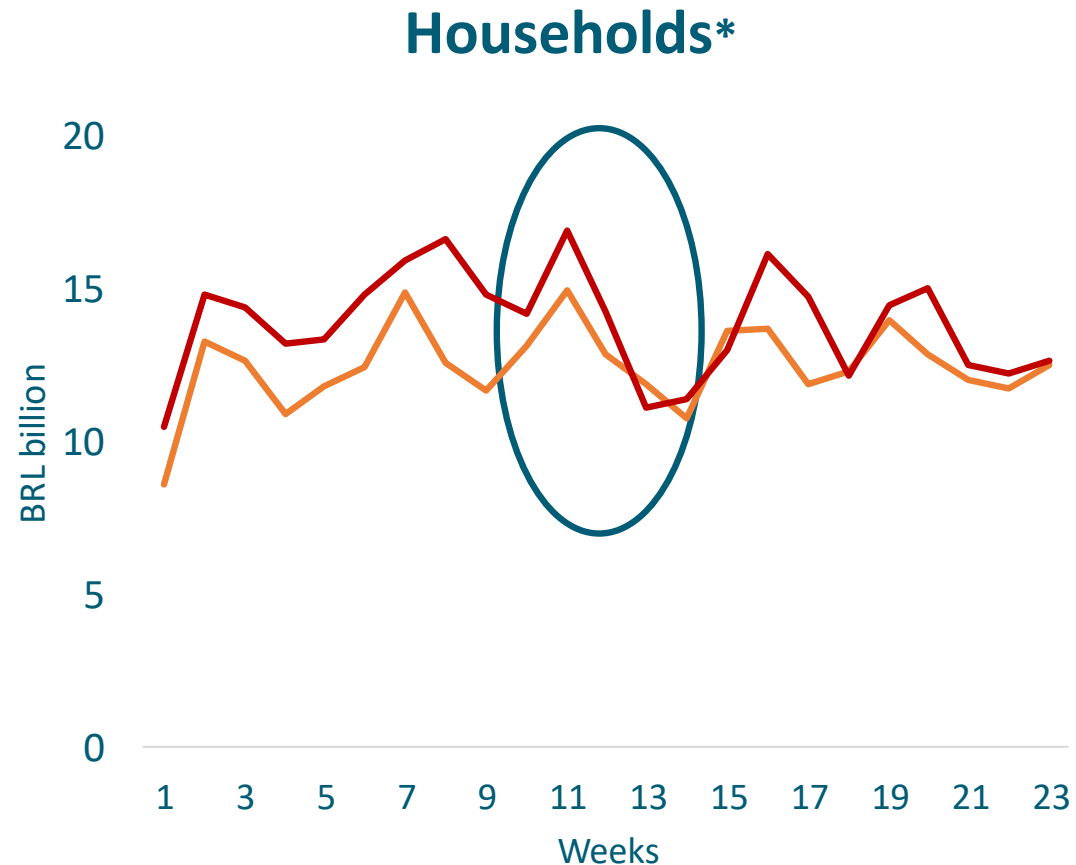
Non earmarked new credit transactions

Increase in credit to firms amid the crisis



2020 **2019**

Effects of measures Credit Distribution



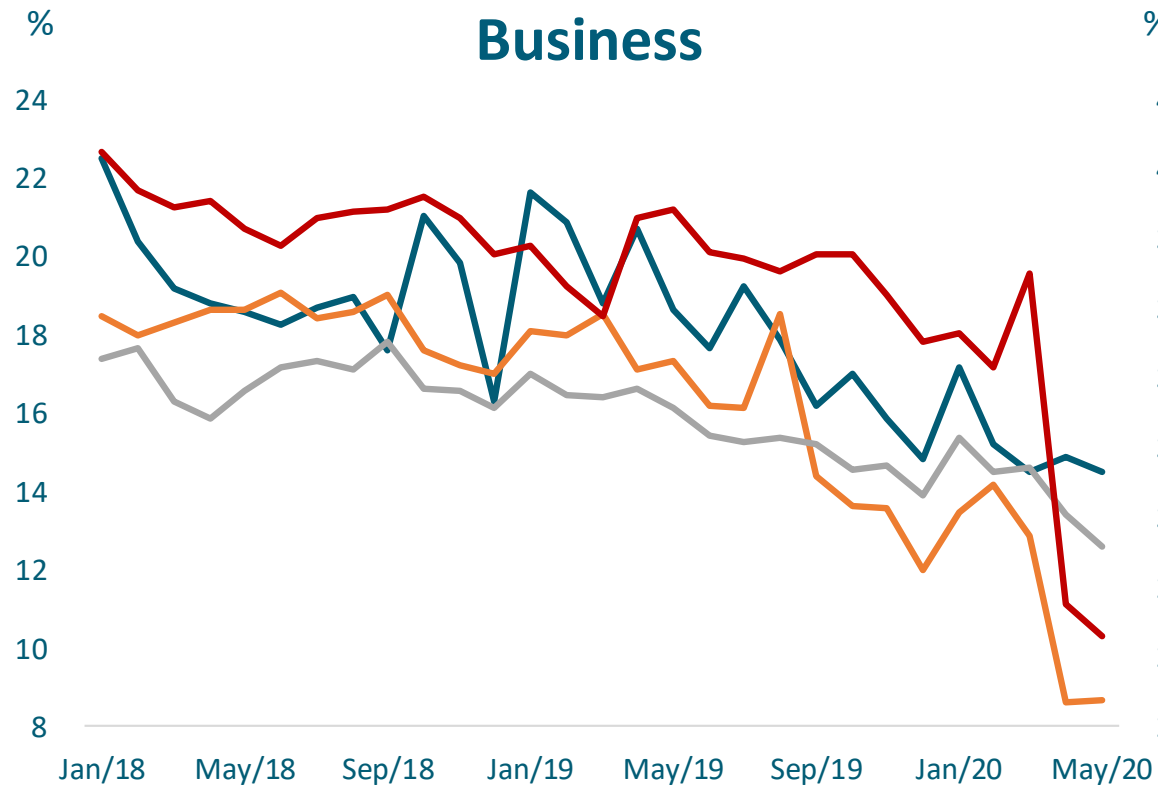
Source: BCB

Average interest rates: new credit transactions

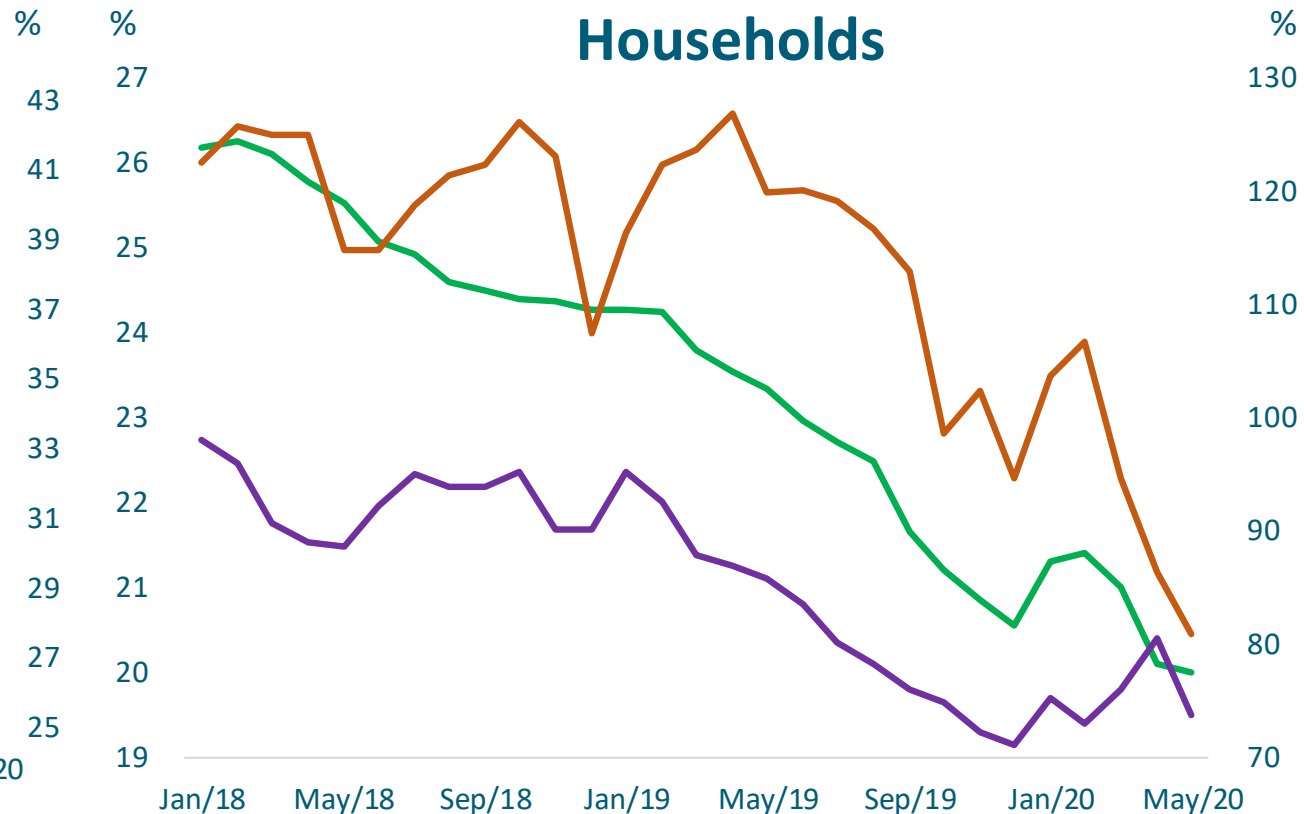
Effects of measures
Credit Cost

Non earmarked credit (% p.y.)

Business



Households



- █ discount of trade bills
- █ working capital up to 365 days
- █ working capital over 365 days
- █ guaranteed overdraft accounts (right)

- █ payroll-deducted personal loans -total
- █ vehicles financing
- █ personal credit (right)

Source: BCB

New transactions and credit renewals

From March 16th to June 12th

Effects of measures

Credit Distribution

BRL billions

Segments	New transactions (1)					Credit renewals (2)				
	Corporate	Middle	SME	Household	Total	Corporate	Middle	SME	Household	Total
S1 - public	31.6	11.2	14.8	61.0	118.7	7.7	16.2	20.7	50.2	94.8
S1 - private	169.8	28.8	27.9	55.6	282.1	77.6	15.3	8.2	26.8	128.0
S2	31.7	5.1	1.1	12.2	50.0	3.7	0.4	0.1	0.2	4.3
S3	32.2	10.2	2.4	16.7	61.6	10.7	2.0	1.0	5.3	19.1
S4	8.8	6.0	1.4	4.5	20.8	1.7	3.2	0.2	2.7	7.8
Total	274.2	61.3	47.7	150.1	533.2	101.4	37.1	30.1	85.3	253.9

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

(1) Includes debentures totaling BRL 30.3 billions. (2) Includes: full renewal of the credit operation, including new credit; as well as renegotiations with changes in interest rate and guarantees.

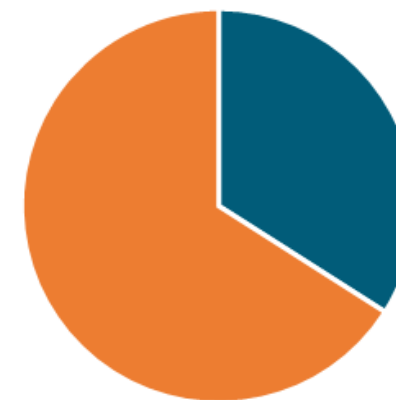
New transactions



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 June 12th

Effects of measures

Credit Distribution

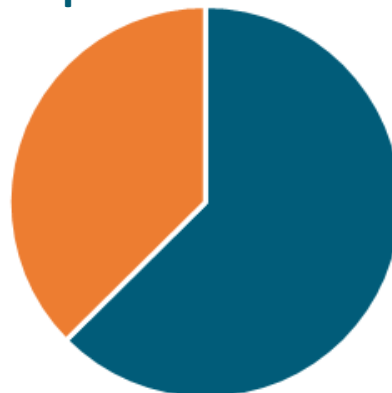
Extension of loan installments, with the same interest rate – values in BRL billions

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	858	9.3	1.4	10,517	15.5	3.4	476,552	31.4	6.9	3,392,363	248.5	17.4	3,880,290	304.8	29.0
S1 - private	4,514	24.6	9.9	99,987	23.7	7.7	600,942	35.3	4.6	4,957,111	103.3	8.3	5,662,554	186.9	30.5
S2	1,096	16.0	1.3	10,222	87.5	7.1	43,755	1.1	0.1	1,058,361	22.0	1.3	1,113,434	126.5	9.9
S3	982	2.2	0.7	39,546	7.5	1.2	11,209	1.2	0.1	144,432	8.7	3.7	196,169	19.6	5.7
S4	330	0.6	0.3	57,139	6.1	2.9	6,589	1.5	0.3	79,948	2.9	0.2	144,006	11.0	3.7
Total	7,780	52.6	13.5	217,411	140.3	22.3	1,139,047	70.5	12.0	9,632,215	385.3	30.9	10,996,453	648.8	78.8

Number of contracts



Value of operations extended



Value of installments extended



■ S1 – public ■ S1 – private


Source: BCB


PESE – Emergency Employment Support Program


Effects of measures

Credit Distribution

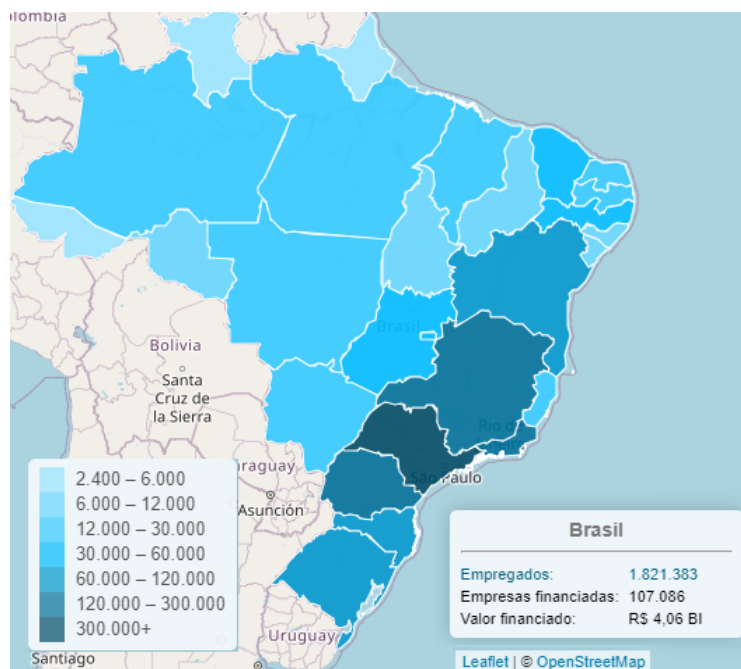
The program* strongly benefits low wage employees in the whole country

 **1.821.383**
employees

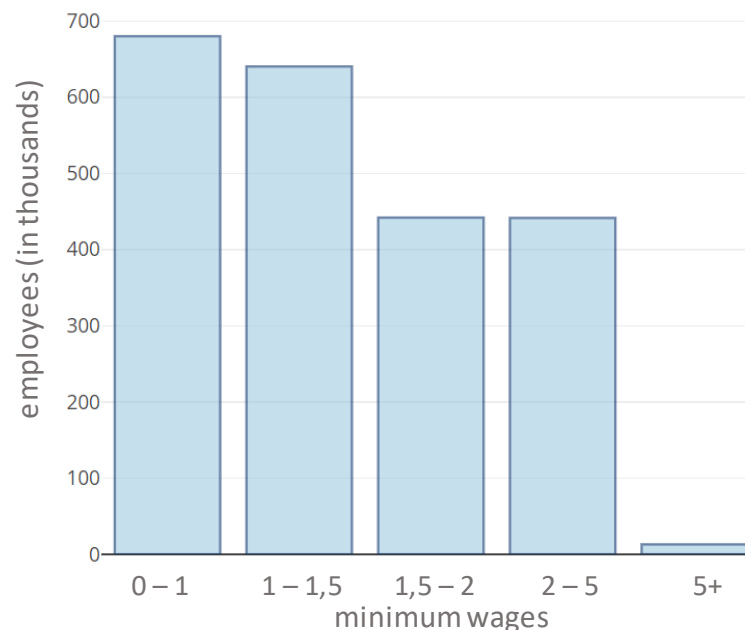
 **107.086**
funded firms

 **R\$ 4.057.483.792,66**
amount financed

Geographic 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 06/19/2020

** Preliminary values reflecting potential demand based upon pre-crisis data (subject to future revision)



INCLUSION



COMPETITIVINESS



BC



TRANSPARENCY



EDUCATION

INCLUSION

COMPETITIVENESS

TRANSPARENCY

EDUCATION

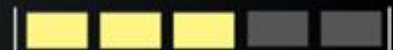
COOPERATIVE CREDIT



MICROCREDIT



CURRENCY CONVERTIBILITY



INITIATIVES FOR CAPITAL MARKET (IMK)



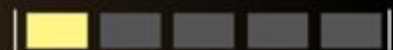
INNOVATION



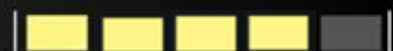
MARKET EFFICIENCY



INTERNATIONAL RESERVES



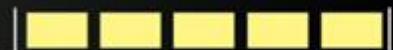
RURAL CREDIT



HOUSING CREDIT



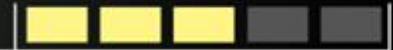
RELATIONSHIP WITH CONGRESS



TRANSPARENCY OF MONETARY POLICY



COMMUNICATION PLAN FOR BCB ACTIONS



RELATIONSHIP WITH FOREIGN INVESTORS



FINANCIAL EDUCATION



Agenda BC# – Instant payments

Instant payments - PIX

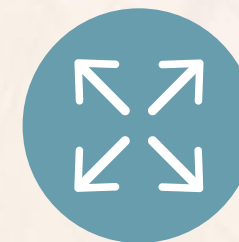
- > Public consultation completed
- > Financial institutions applied to membership and started homologation cycle starts with mandatory testing
- > To be launched in November 2020



Availability



Convenience



Various use cases



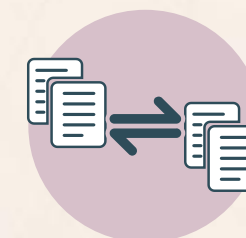
Speed



Open environment



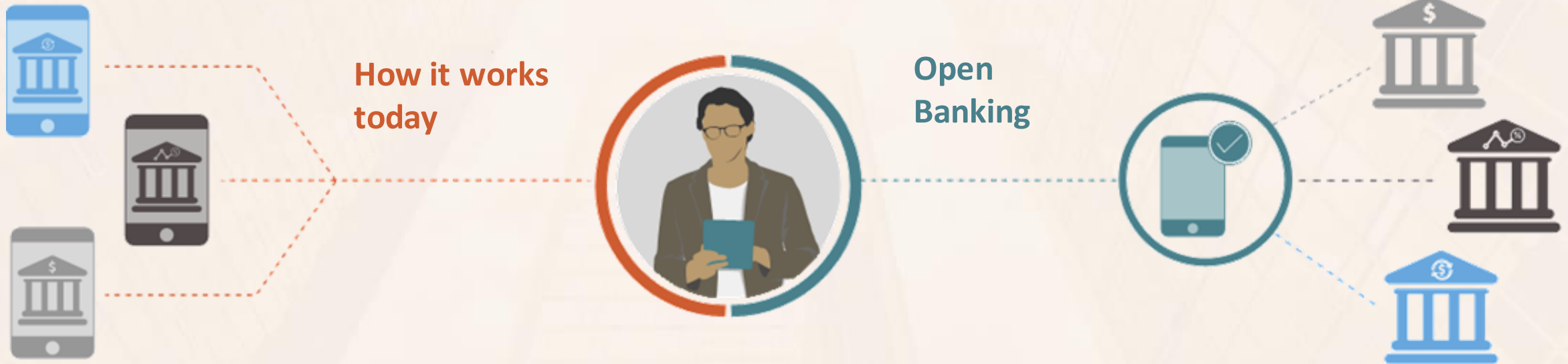
Safety



Enriched Data

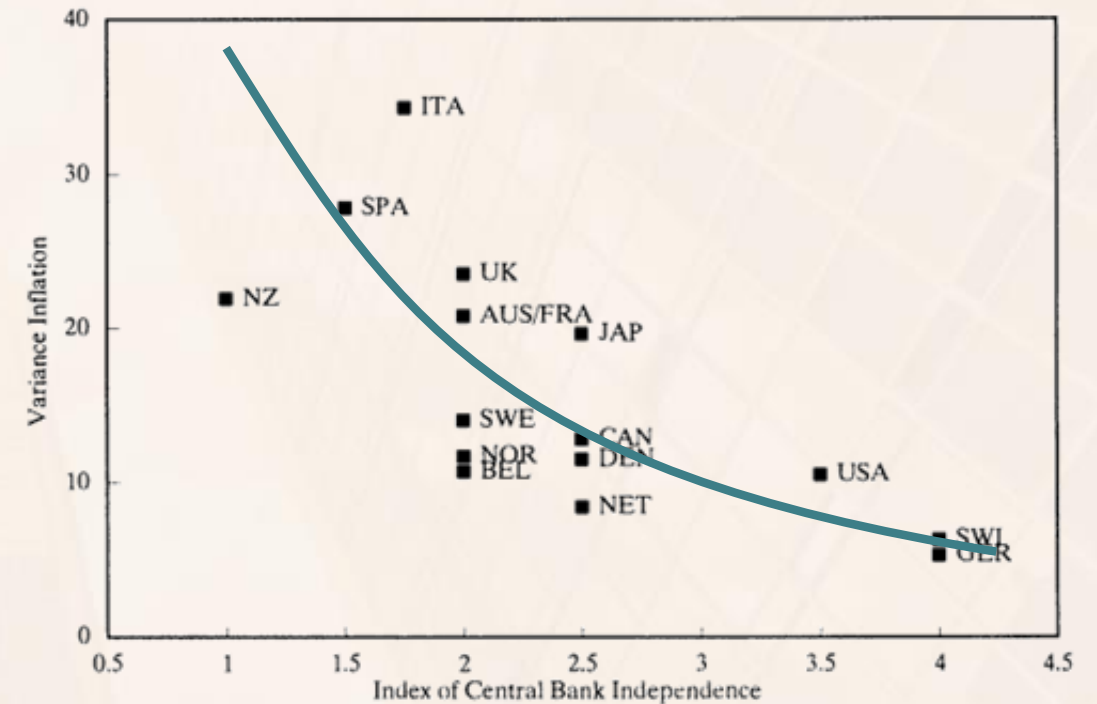
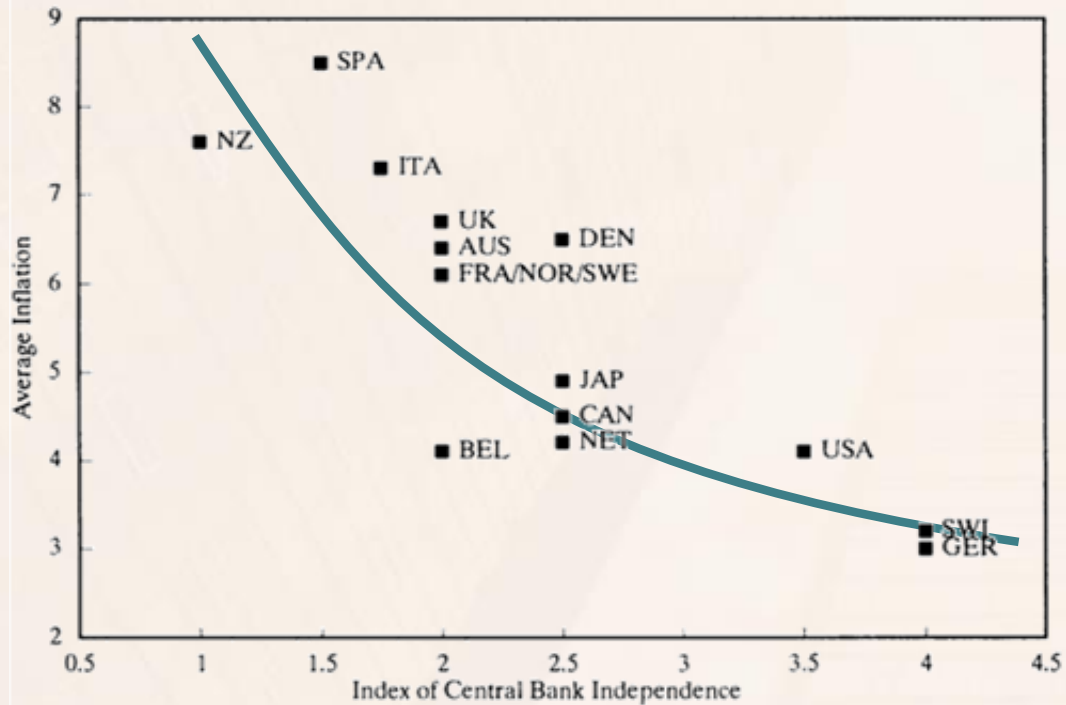
Agenda BC# – Open banking

- > Operating rules approved
- > Implementation schedule




Agenda *BC#* – BCB Autonomy

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



Agenda BC# – Main Achievements

- 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 
 - Homologation 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

THANK YOU

ROBERTO CAMPOS NETO
Presidente do Banco Central do Brasil

June 26, 2020