

Policy Responses to COVID-19 in Brazil

Xth Central Banking Operations (Digital) Meeting
CEMLA and Banco de México

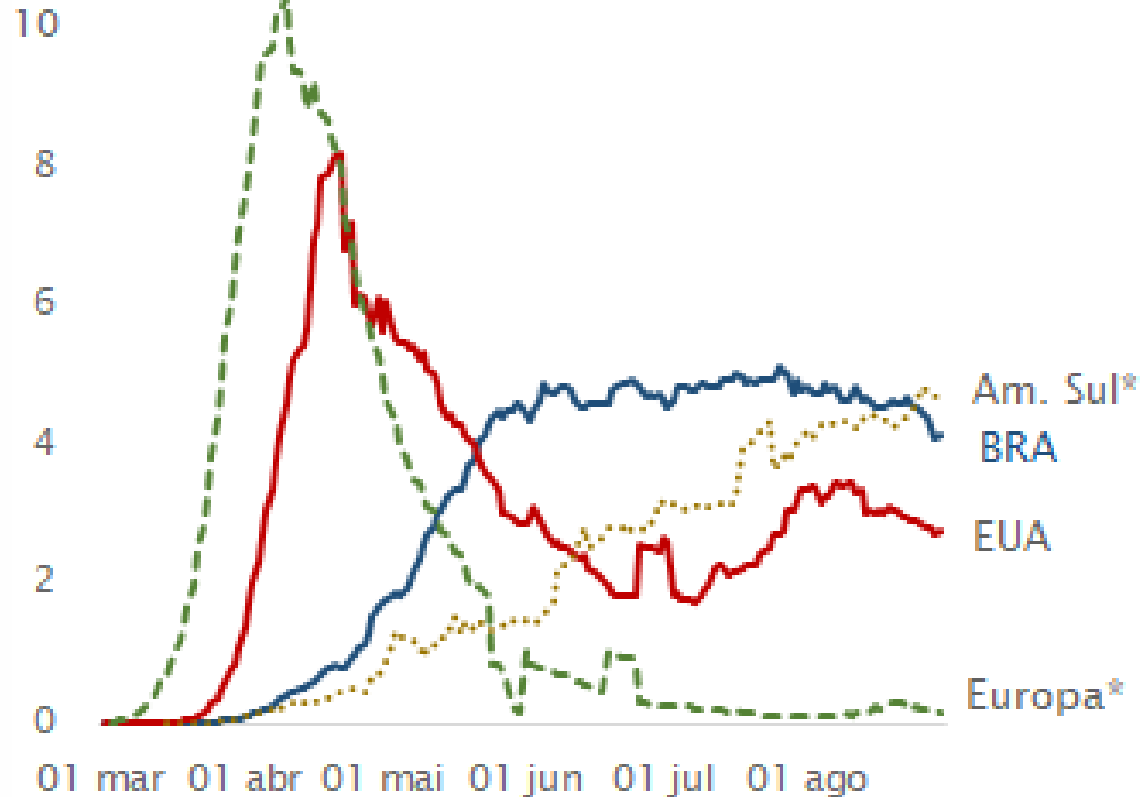
Bruno Serra Fernandes

Deputy Governor for Monetary Policy

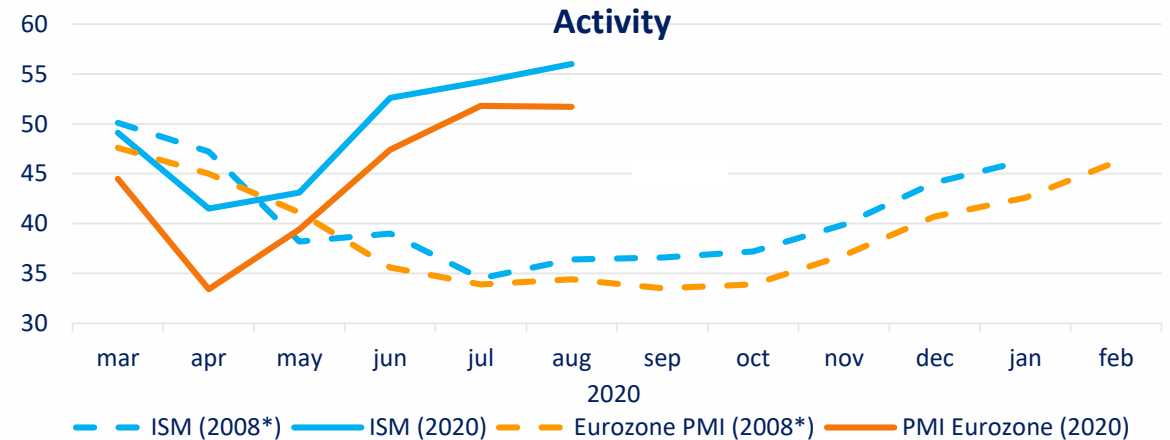
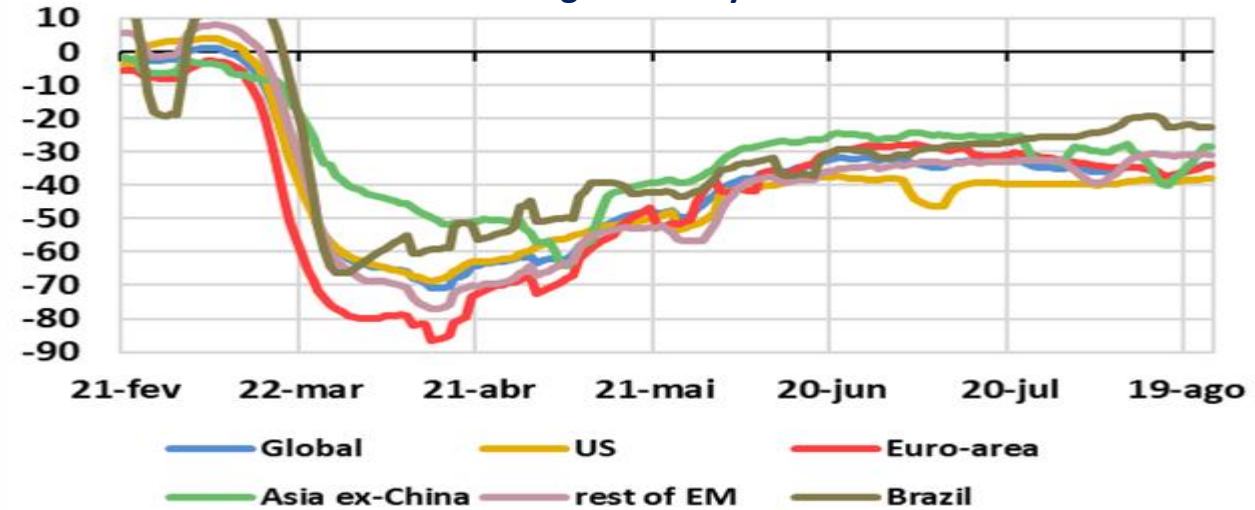
September 3rd, 2020

Global economy Covid-19 impacts mobility, then economy

Daily deaths – 7 days m.a.



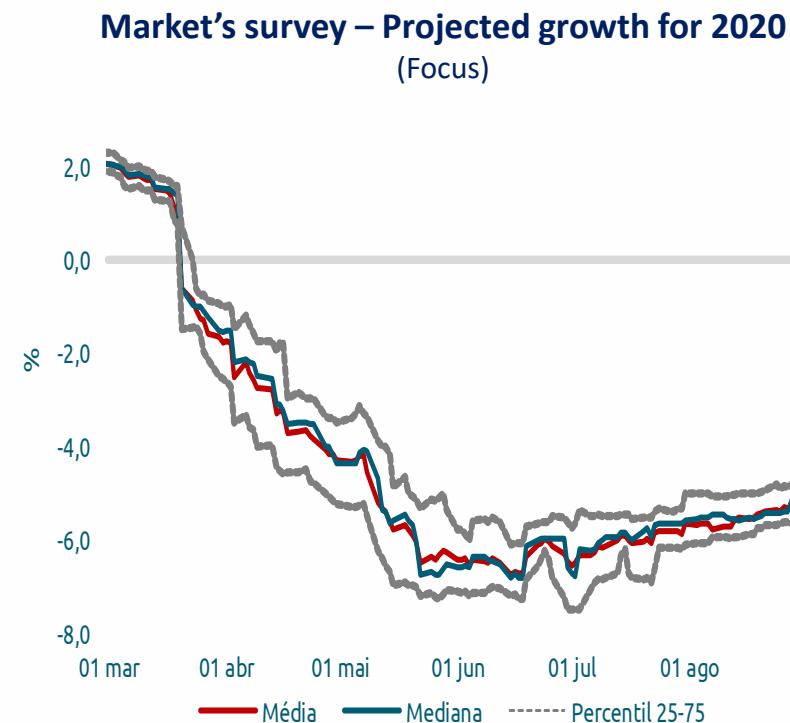
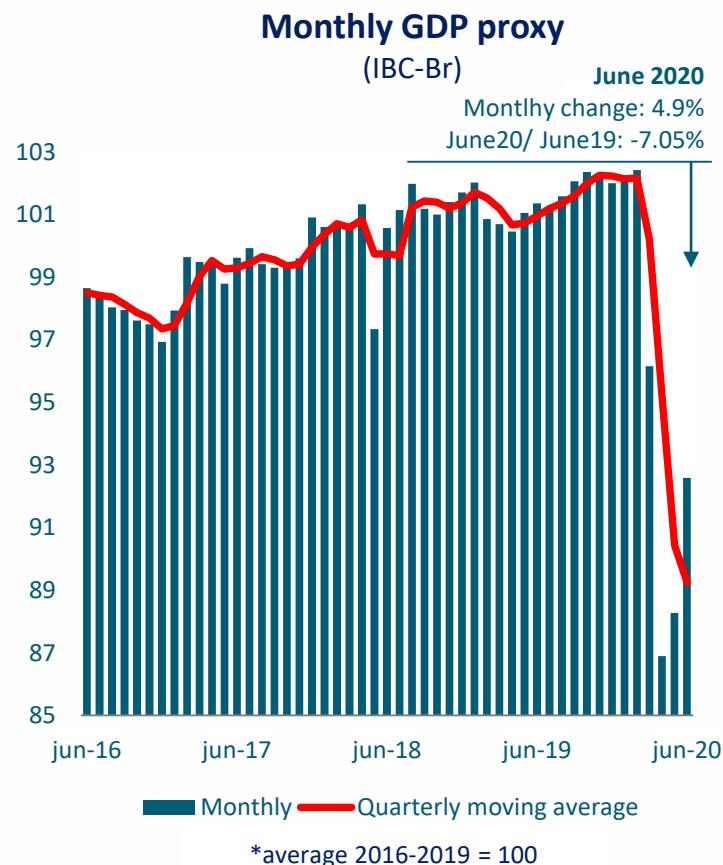
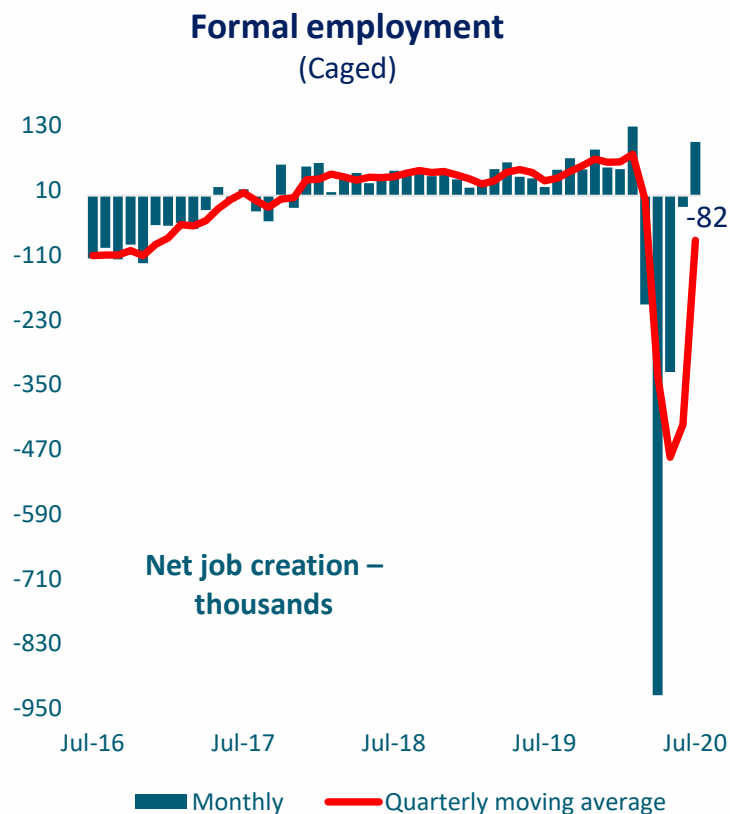
Google mobility data



Source: OurWorldInData.org, google, nomura, Bloomberg

*starting on August '08

Brazilian economy Effect on the activity



Data	N. resp.	Média	Mediana	Mínimo	Máximo	DP	Perc. 25	Perc. 75
31 jul	33	-5,7	-5,6	-7,4	-3,8	0,9	-6,1	-5,0
07 ago	25	-5,8	-5,5	-10,0	-4,4	1,2	-5,9	-5,1
14 ago	38	-5,5	-5,6	-7,3	-3,8	0,8	-6,0	-5,0
21 ago	35	-5,4	-5,4	-7,6	-3,8	0,8	-5,7	-4,9
28 ago	34	-5,3	-5,1	-7,3	-4,2	0,8	-5,7	-4,8

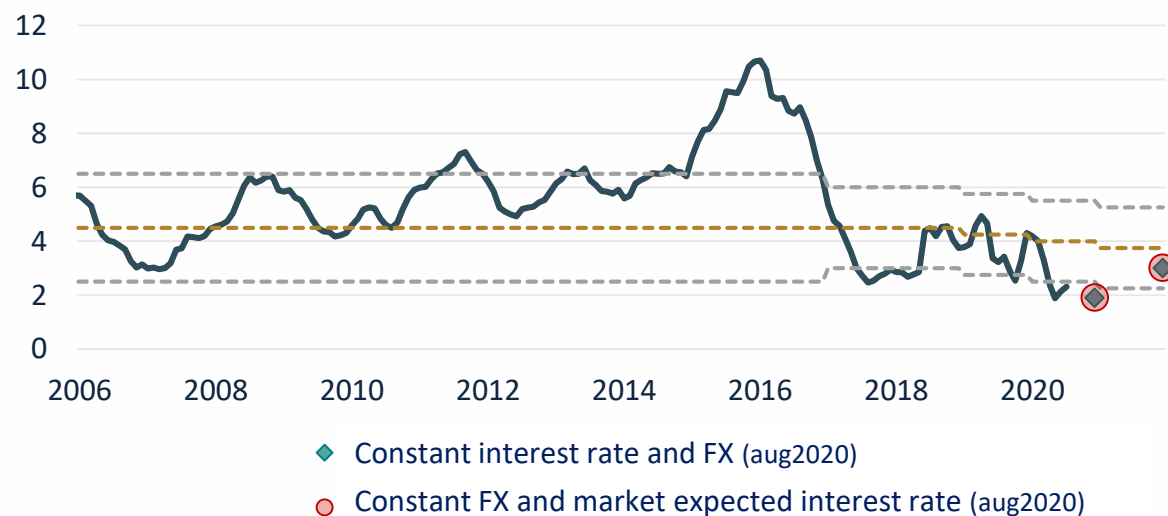
Source: Ministry of Economy, BCB and Focus Survey (08/28/2020)

CAGED and IBC-BR data are seasonally adjusted.

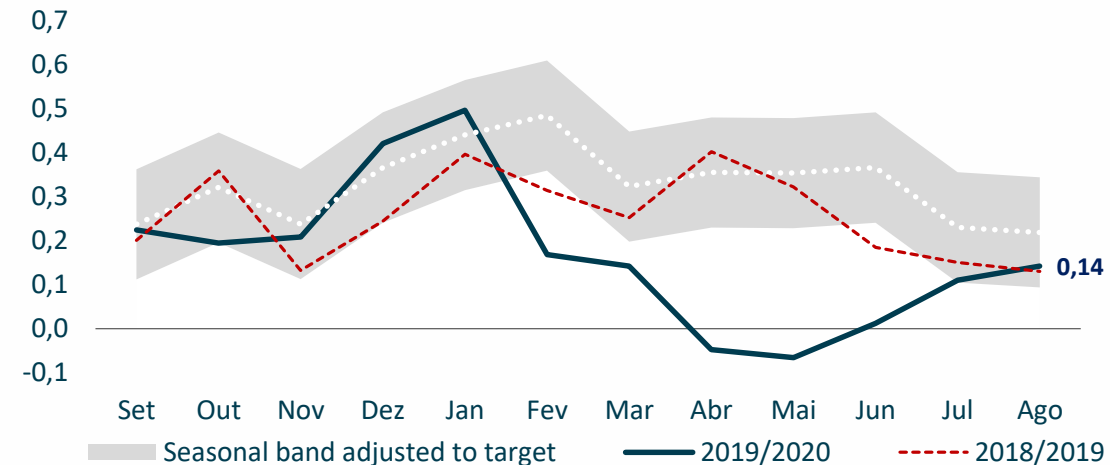
Brazilian economy Inflation well anchored

- IPCA increased +2,3% YoY in July (target'20 = 4,0%)
- Underlying inflation running below the targets
- Inflation expectations for '21 have moved away from the target

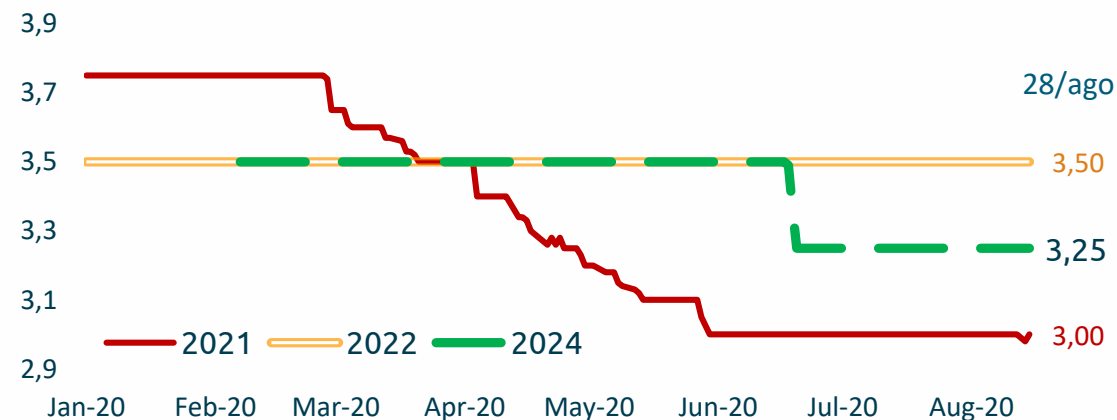
Current inflation and BCB projection



Core inflation

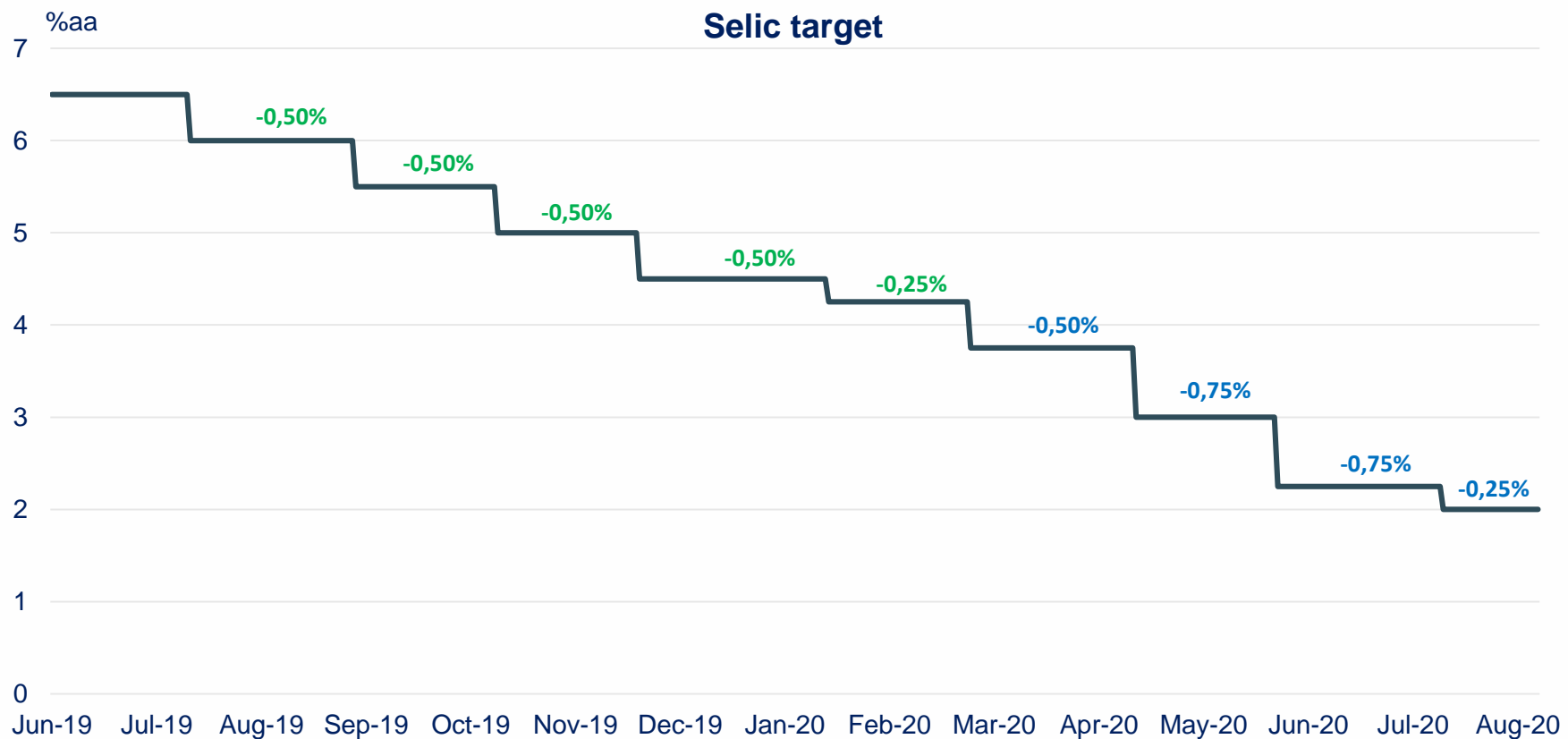


Evolution of median of market projections



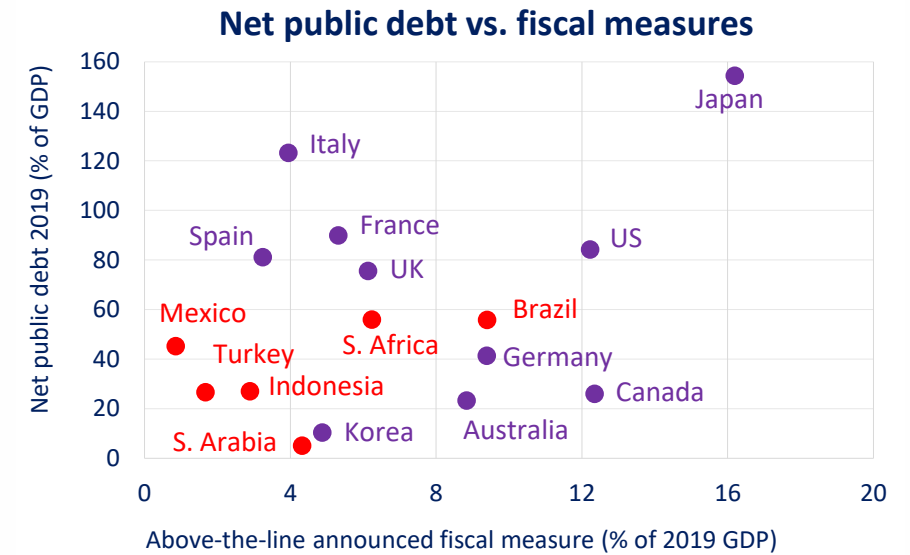
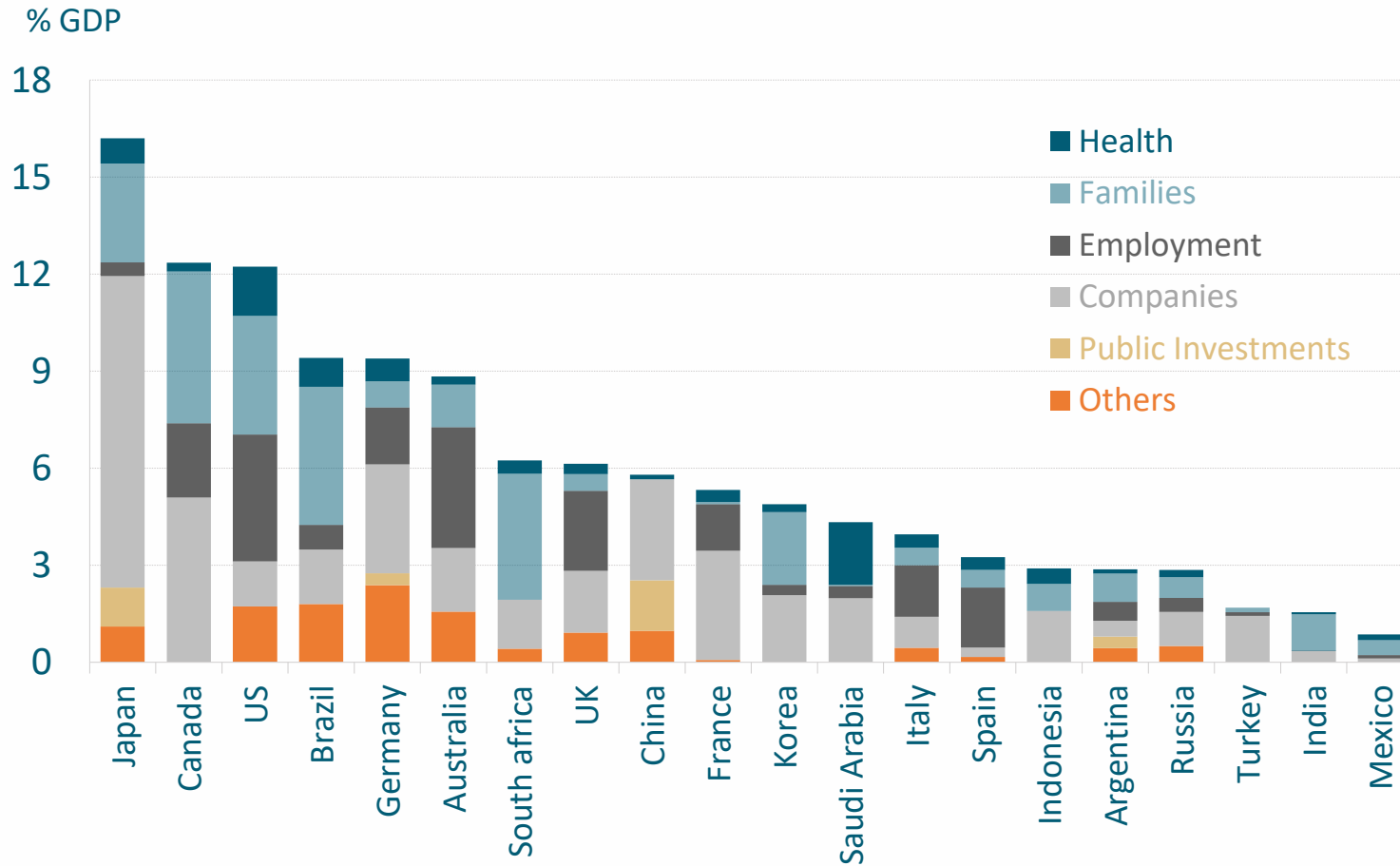
Source: BCB, IBGE

Monetary policy Response to the shock



Fonte: BCB

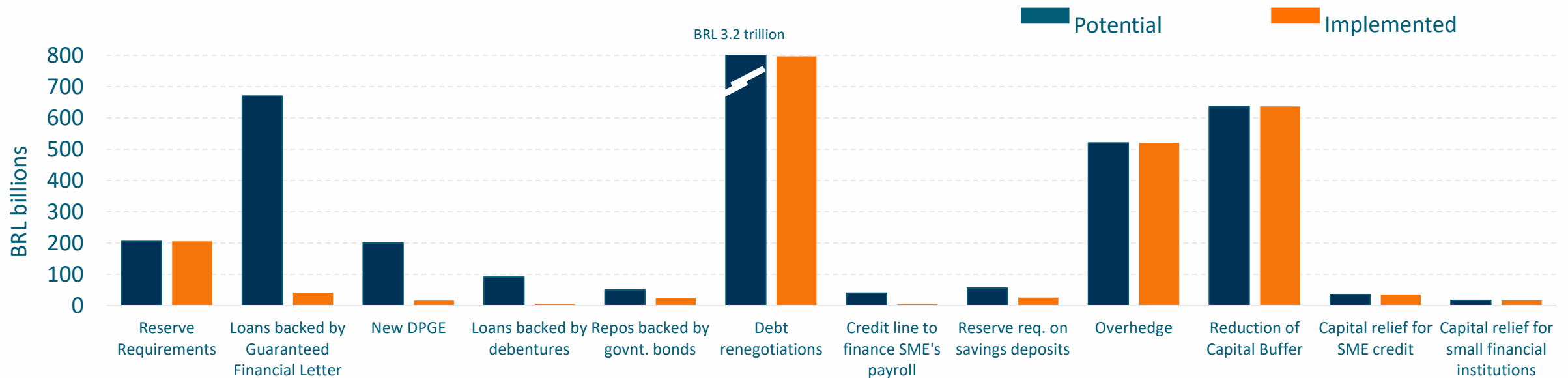
Fiscal policy Response to the shock



Source: IMF, UN, BCB

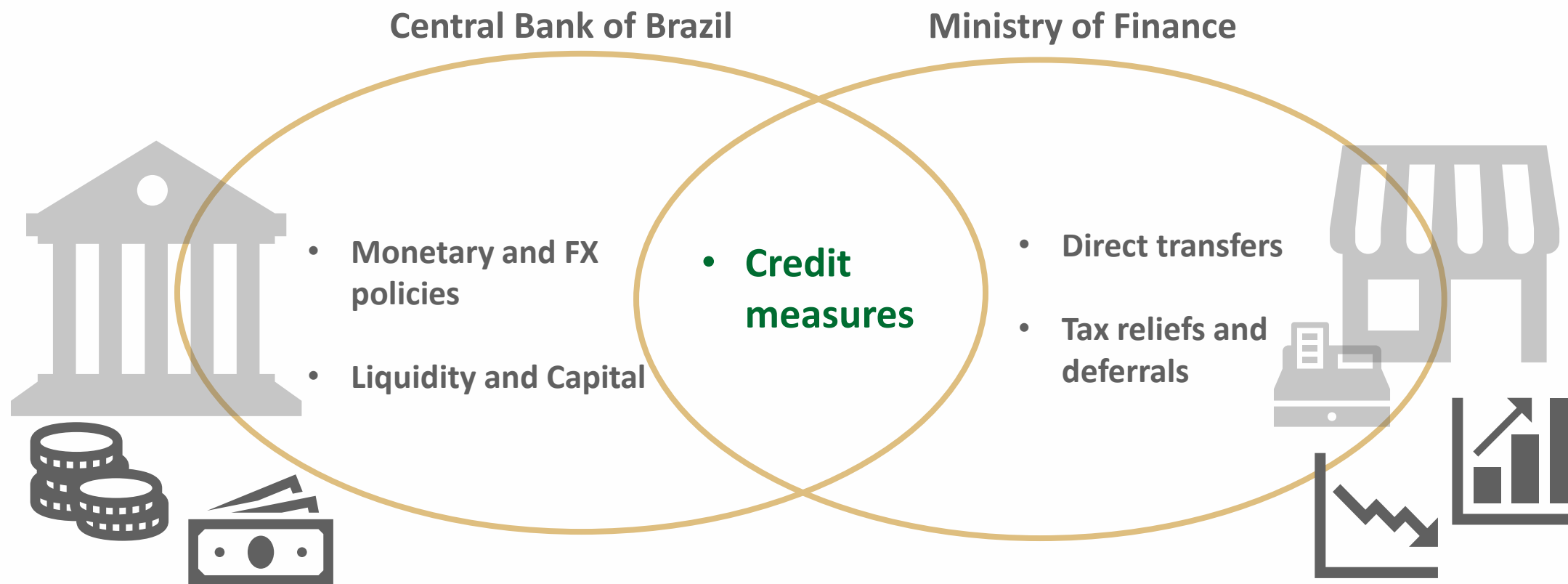
BCB measures On its financial stability role

- Since March, BCB has taken **several measures to increase system liquidity availability**, with potential impact of 18% of the GDP
 - ✓ Reserves requirement reductions, releasing BRL200 billion
 - ✓ New loan facility to the banking system, collateralized by private credit, releasing BRL50 billion
- **Reduction in the *capital conservation buffer***
- Regulation adjustment allowing more **flexibility on debt renegotiations during the pandemic**

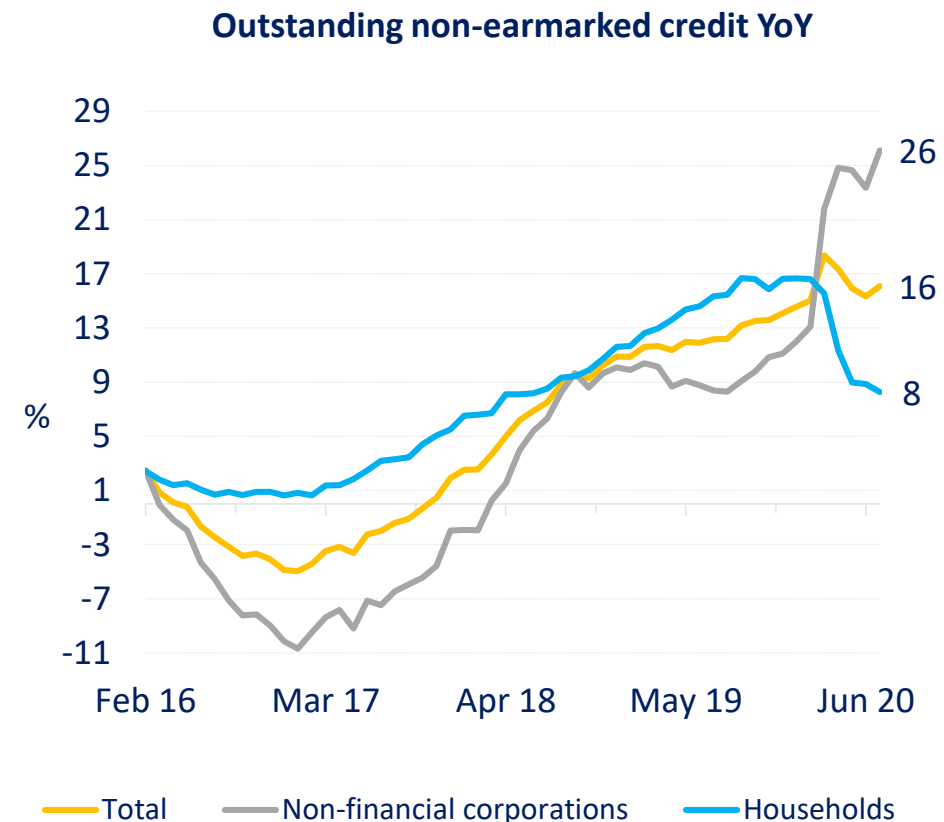
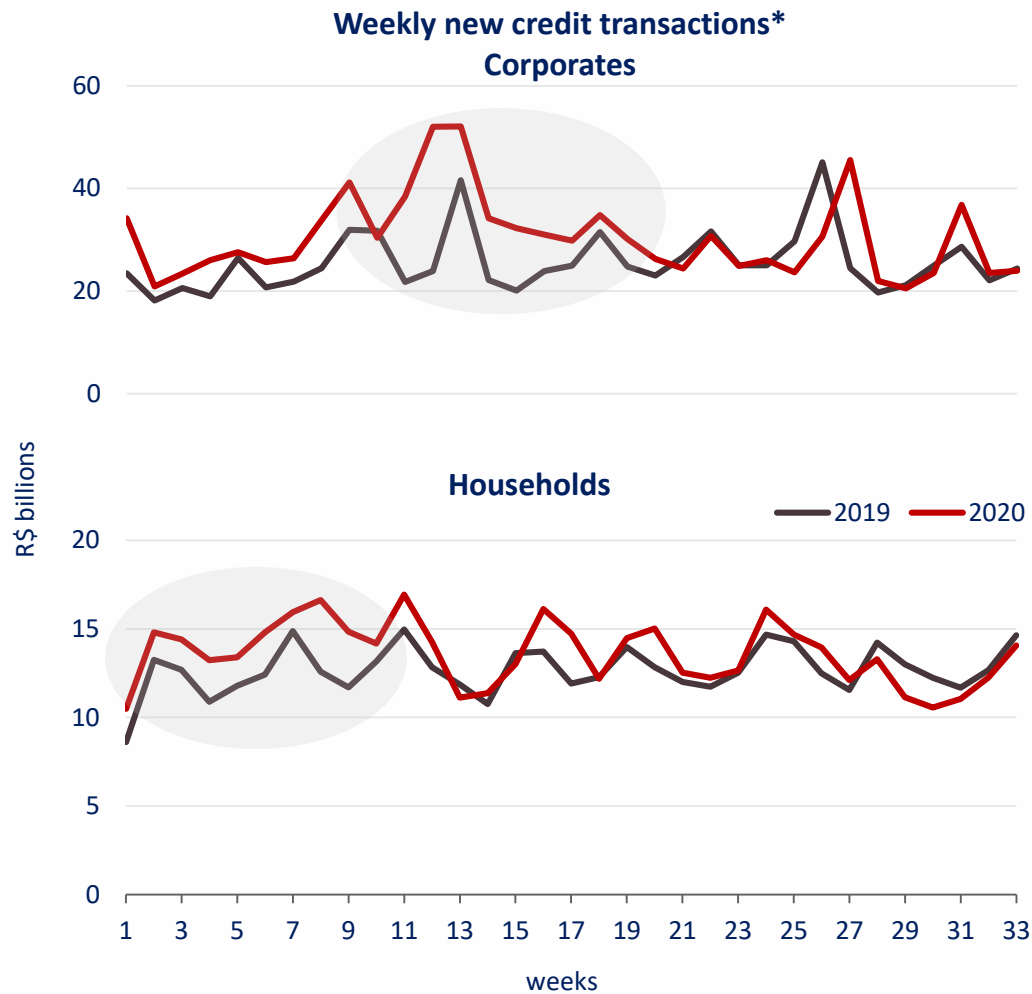


Intersection between monetary and fiscal policies

- More recently, measures focused on directing credit to small and medium-sized companies
- **Government programs that mitigate credit risk**, with resources from the National Treasury, are complementary to BC measures



Banking sector Responded in a counter-cyclical manner

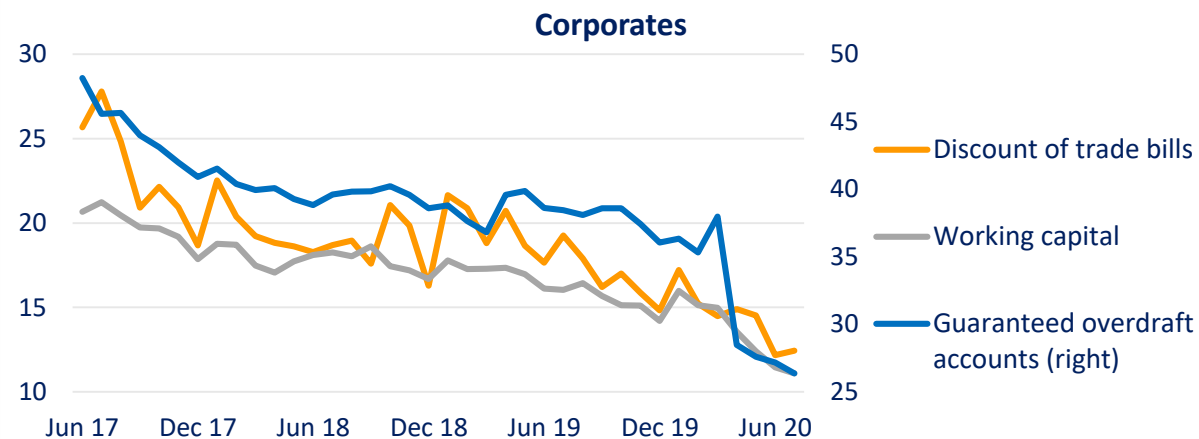
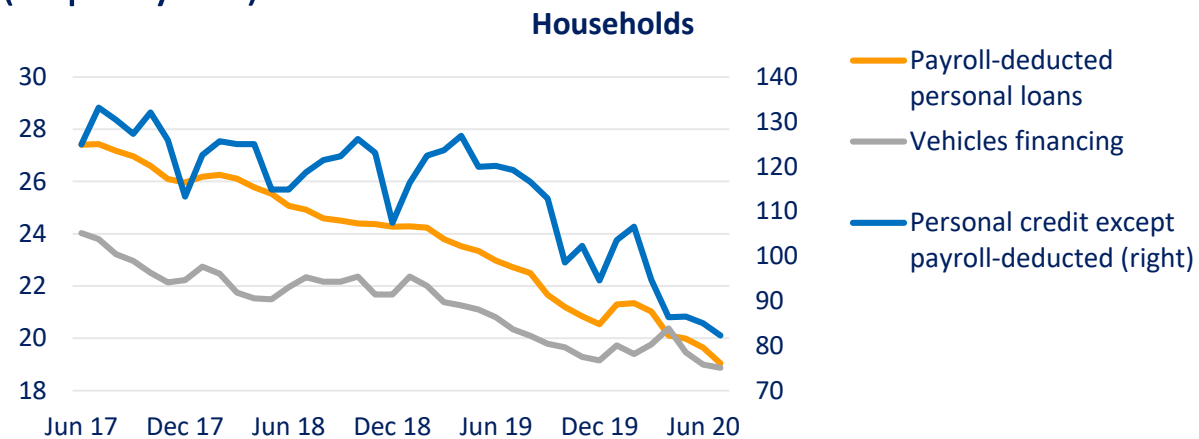
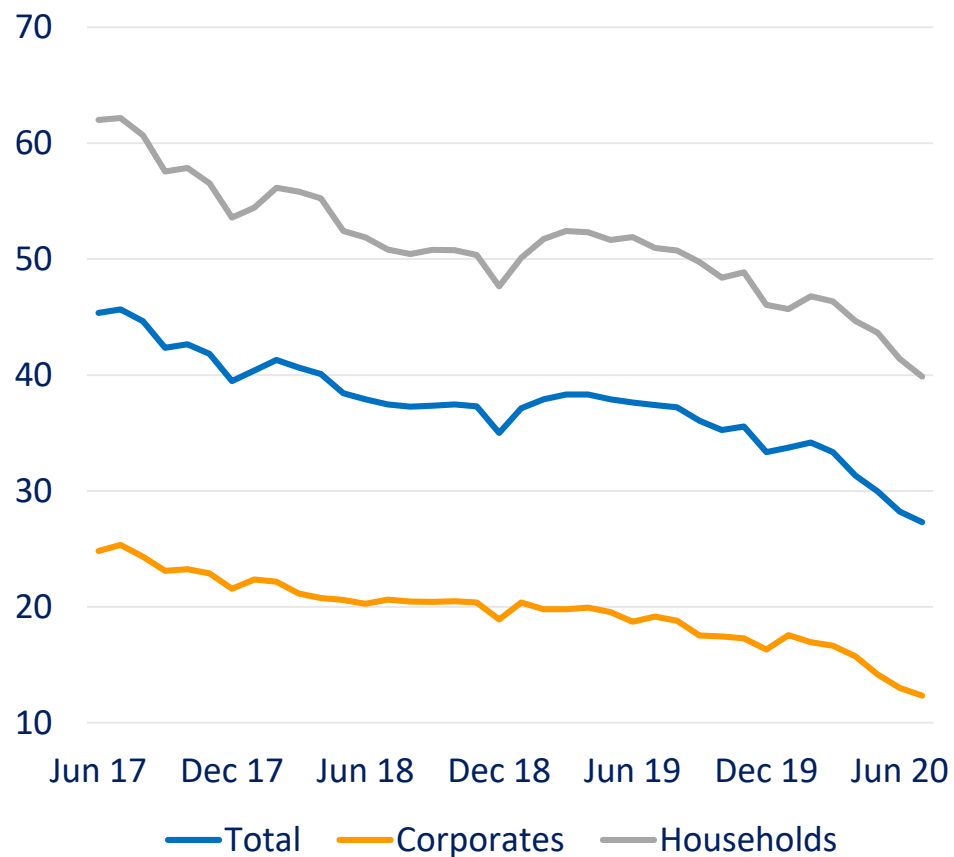


Source: BCB

*Do not include overdraft and credit card

Banking sector Credit costs continue to reduce

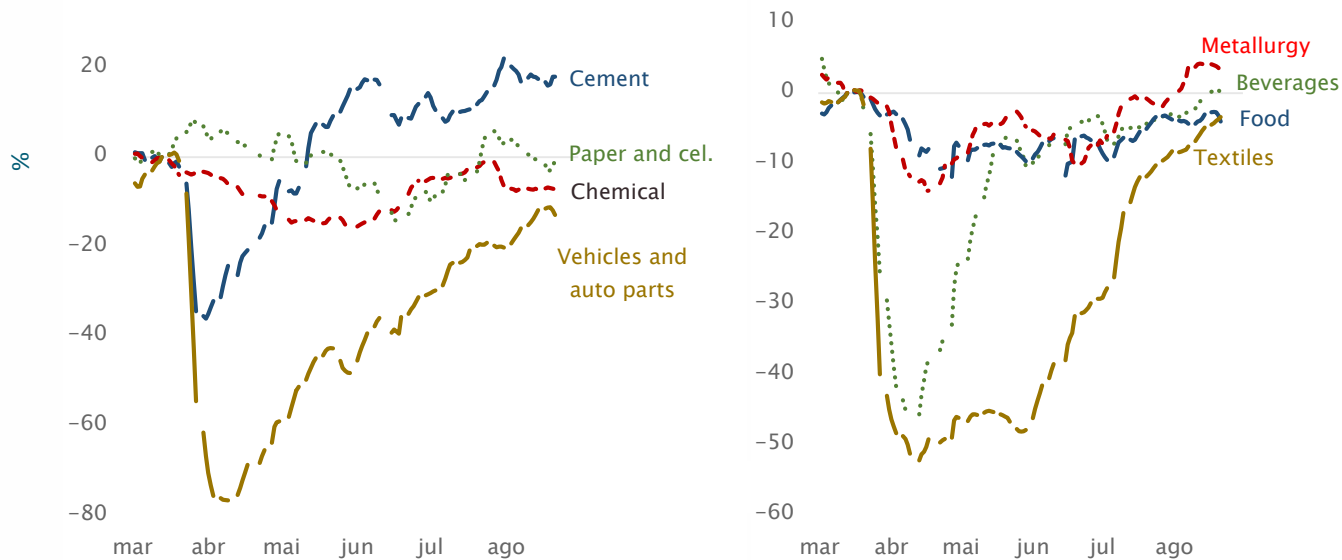
Interest rate (% per year)



Source: BCB

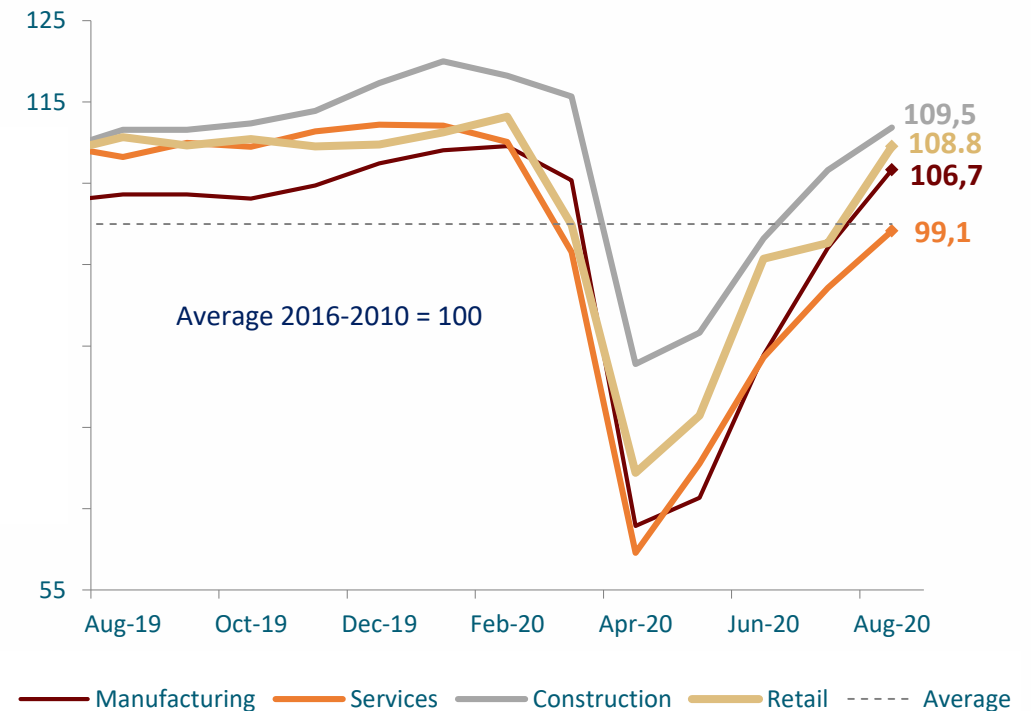
Economic activity Faster than expected recovery

Electricity consumption by manufacturing industry*
Percentage change regarding 09-13 March



* Electricity consumption in the free market. 5 business moving average.

Confidence indicators



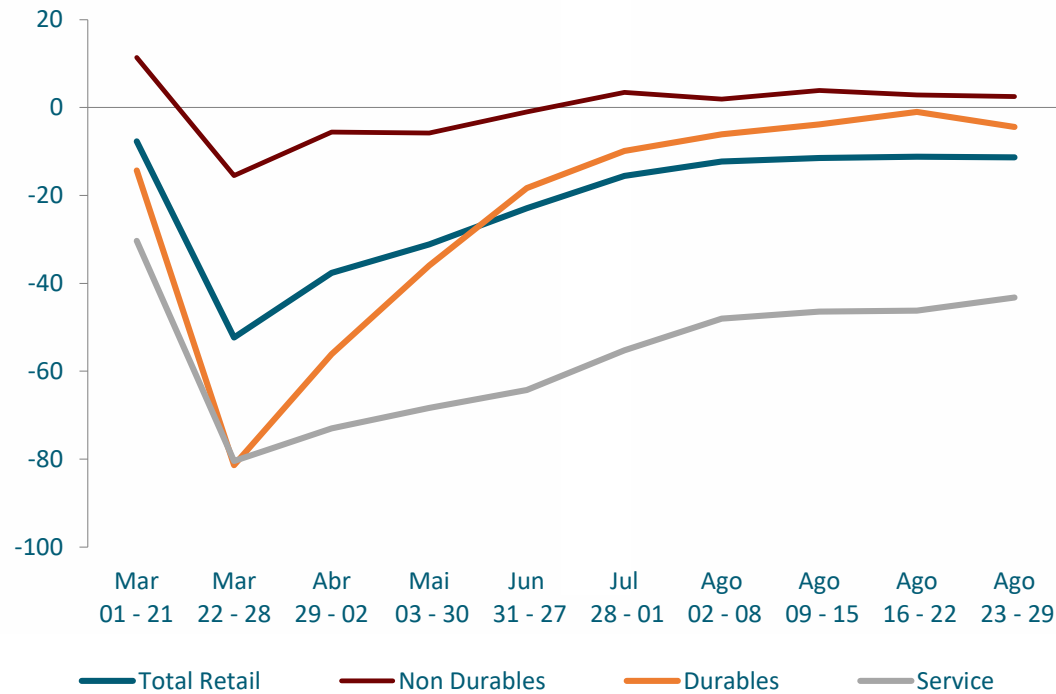
Seasonally adjusted data

Source: FGV, Cielo

Economic activity

Some sectors remain depressed

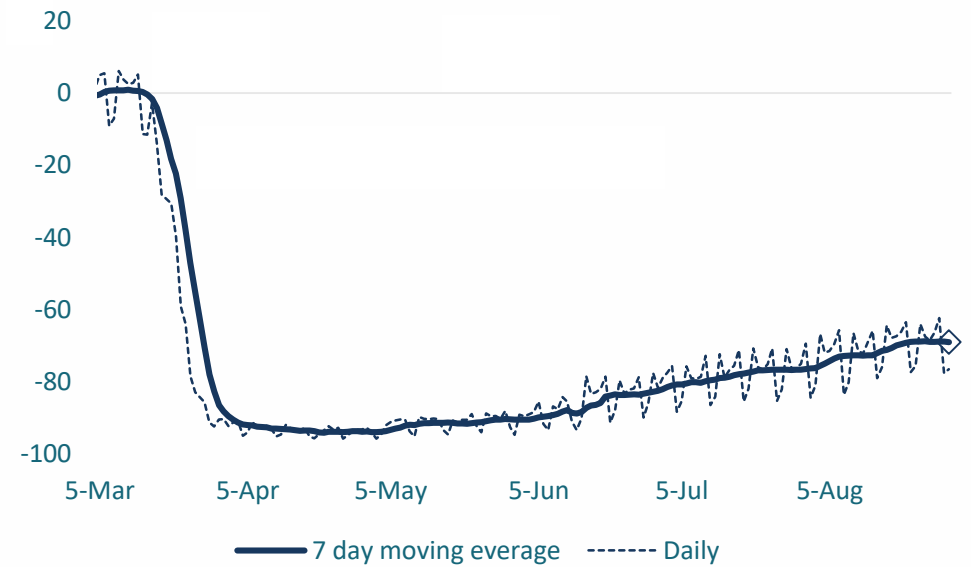
Credi and debit card – Cielo*



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

Regular flights

Percentage change vis-à-vis reference¹



Electricity charge with seasonality and temperature adjustment.
¹ Median of the flights in the same month between 2017 and 2019.

Source: BCB, ONS and FlightRadar24

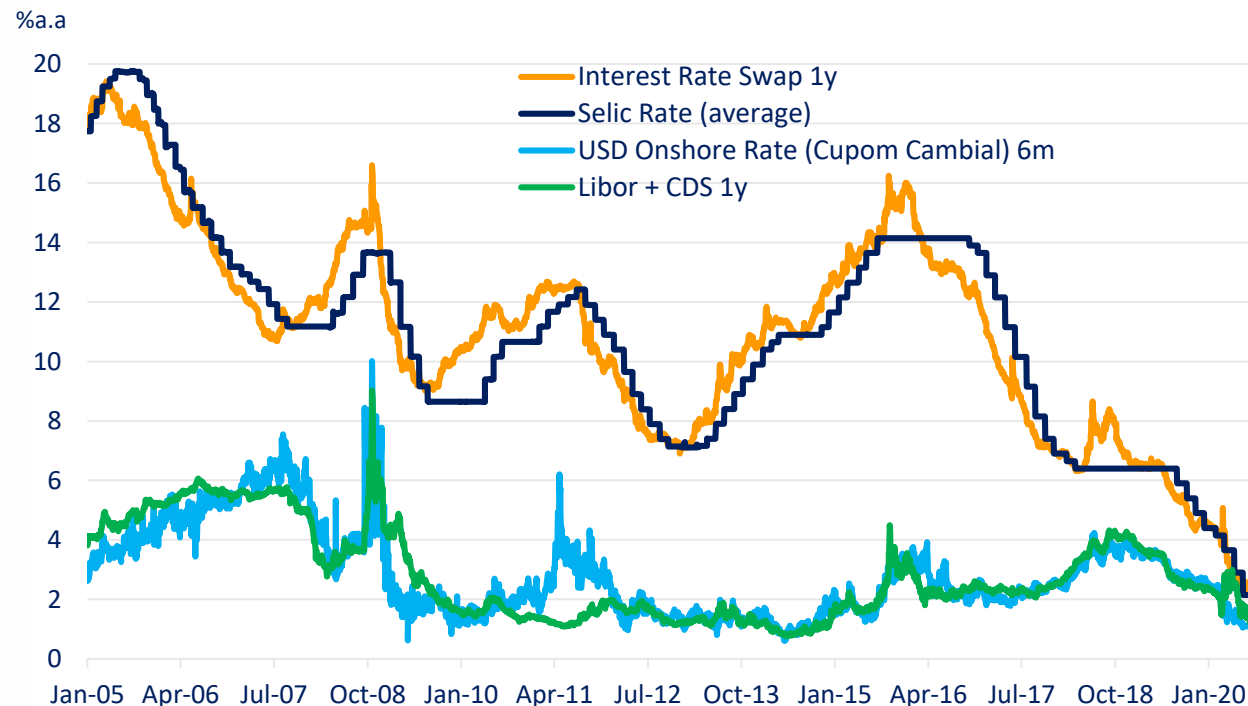
Monetary policy 232nd Copom meeting - August 2020

- In its last meeting, the Copom unanimously decided to lower the **Selic rate to 2.00% p.a.**
- The Copom believes that the current economic conditions continue to recommend an **unusually strong monetary stimulus**, but it recognizes that, **due to prudential and financial stability reasons, the remaining space for monetary policy stimulus, if it exists, should be small.**
- Consequently, possible future adjustments to the current degree of monetary stimulus would occur with additional gradualism and would depend on the perception of the **fiscal trajectory**, as well as on new information that changes the Committee's current assessment about prospective inflation.
- Despite the asymmetry on its balance of risks, **the Copom does not foresee reductions in the monetary stimulus** unless inflation expectations, as well as its baseline scenario inflation projections, are sufficiently close to the inflation target at the relevant horizon for monetary policy.

Lower IR differential Challenges for the FX

- **Much lower interest differential** has driven the currency performance since 2017
- More recently, **risk perception, due to fiscal fragility and need for fiscal measures to answer to the crises**, had some effect

Reference rates



Real Exchange Rate

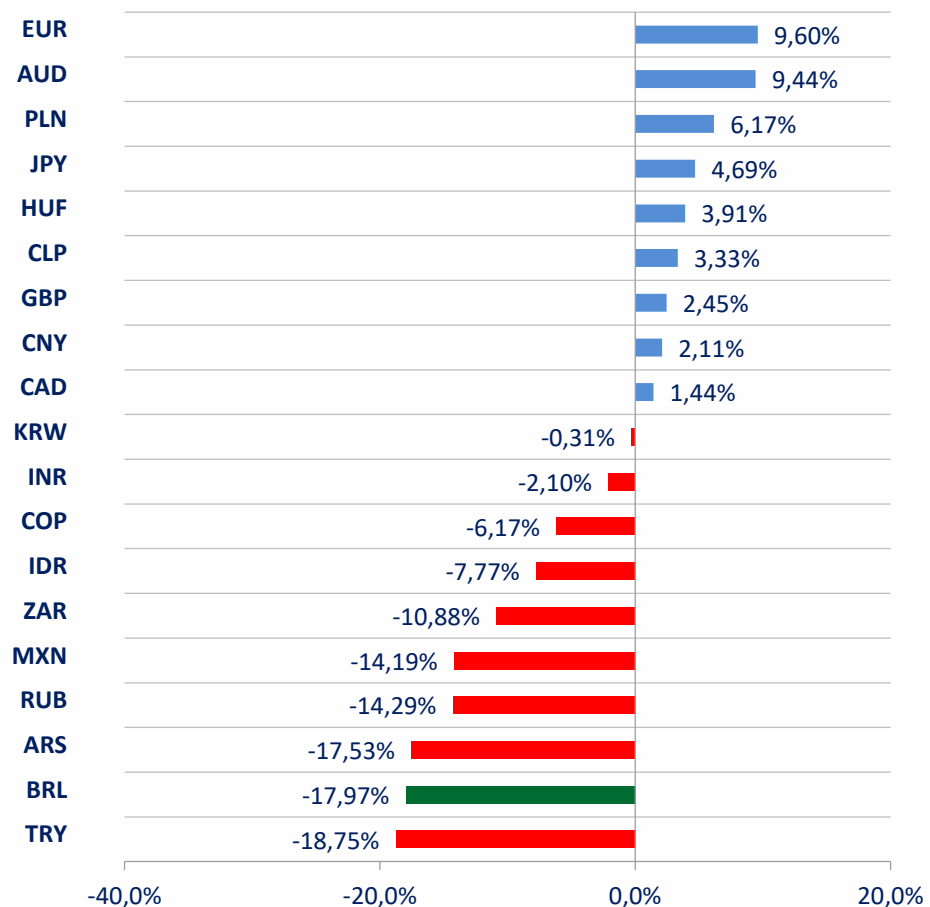


Fonte: Bloomberg e BCB

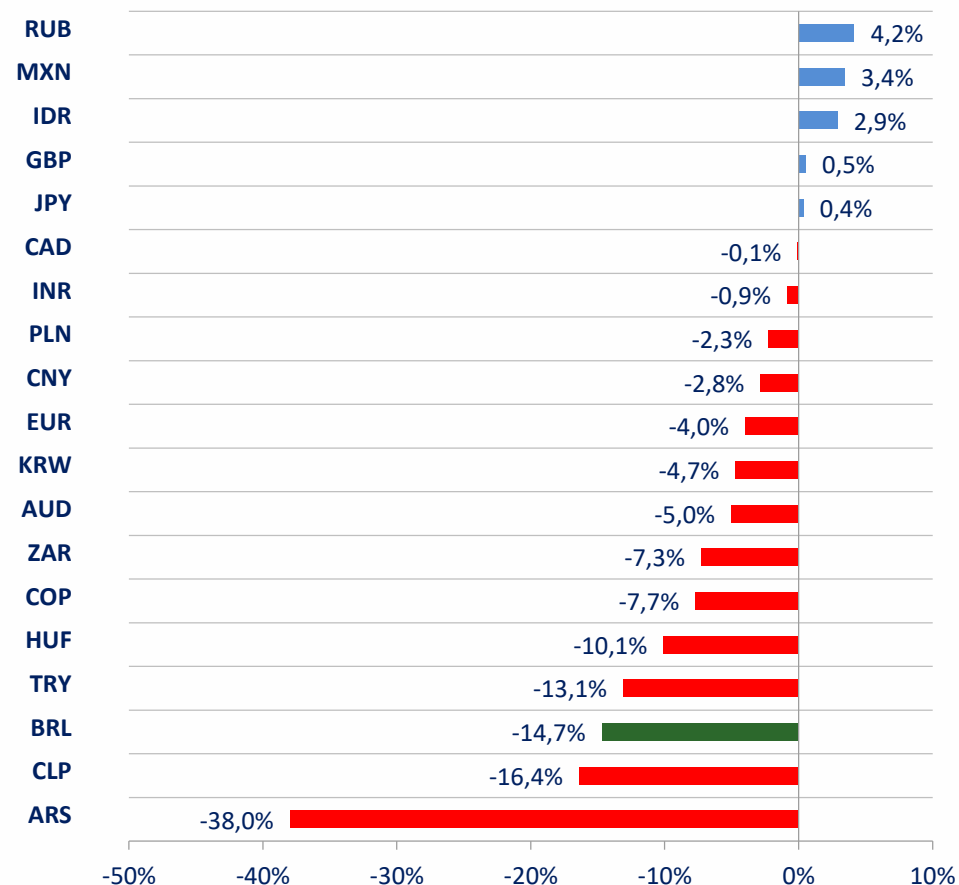
Currency

BRL performance against peers

From 12/2/20 up to Sept 1st



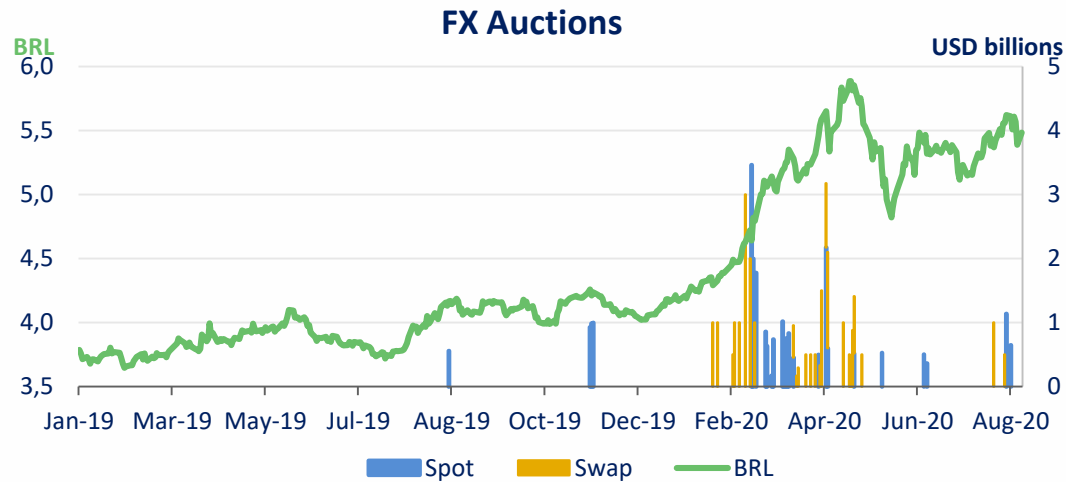
12 months before Covid-19 (12/2/20)



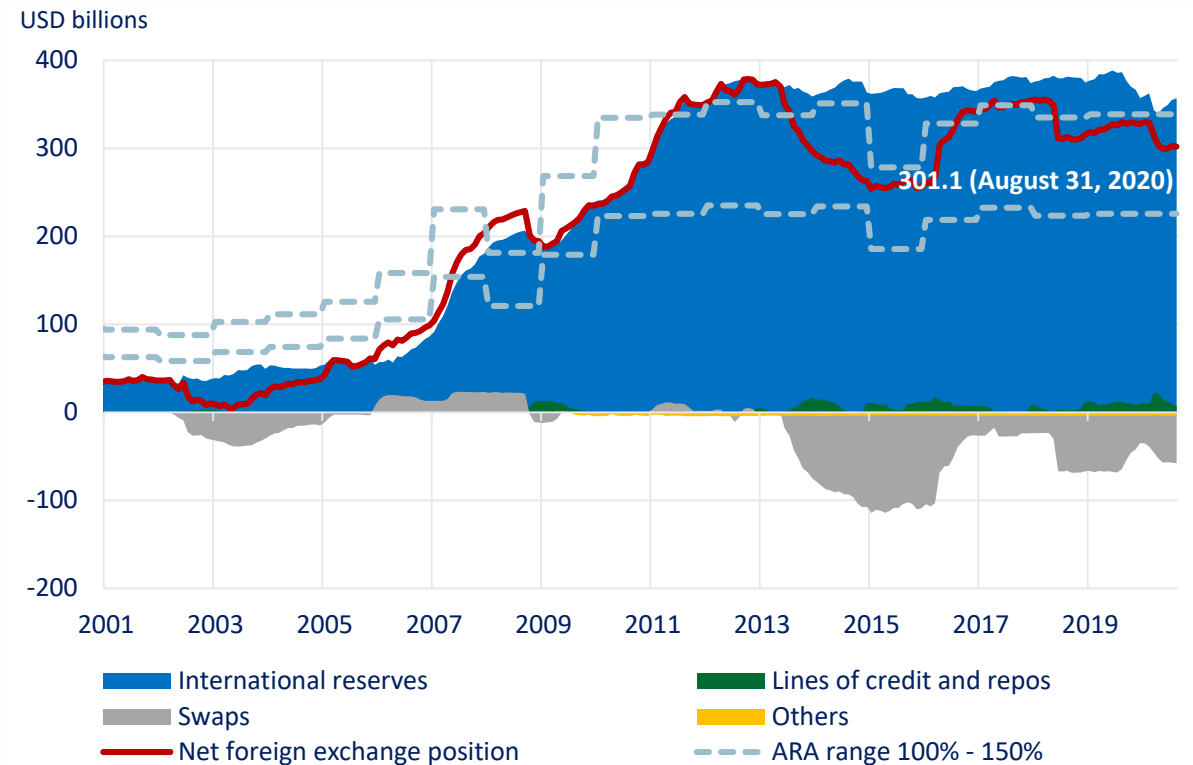
Source: Bloomberg

FX interventions Flexibility on instruments

- **Before the Crises:** answering to market's liquidity demand (mainly exchange derivatives to spot)
- **During pandemic:** usage of all available instruments to maintain smooth market functioning
- International reserves and Net FX position near historical highs, when compared to GDP
- Comfort to keep on acting as necessary



Instrument	Volume (USD bi)	Avg Px
Spot	20,972	5,1622
Swap	23,017	5,1042
Spot/Swap	43,989	5,1319



Source: Bloomberg e BCB

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