CEMLA
X Meeting on Financial Stability
September 9, 2020

Panel Discussion 1: COVID-19 and Financial Stability

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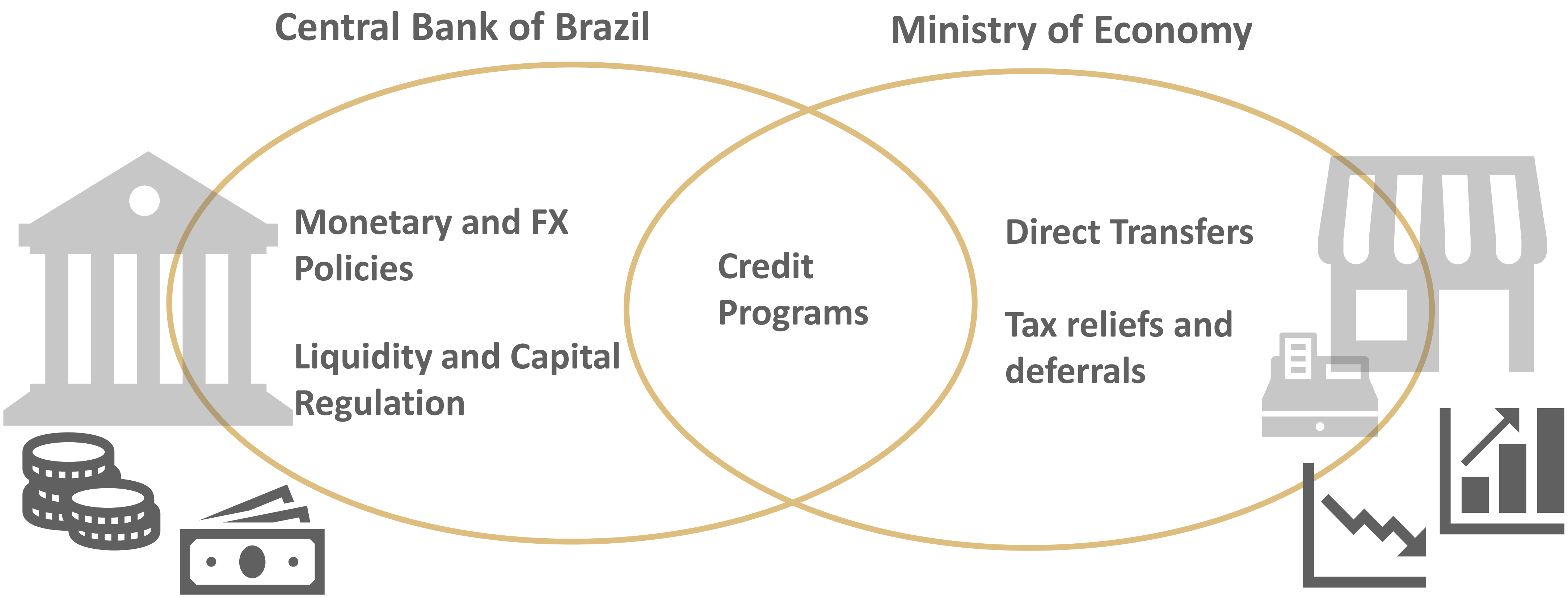
Agenda

Policies aimed at mitigating financial stability risks in Brazil

- Monetary and Fiscal Policies
- Ministry of Economy Measures
- Monetary Policy
- Basel Committee on Banking Supervision
- Measures by the Central Bank of Brazil

Monetary and Fiscal Policies

Measures taken by the Central Bank of Brazil and the Ministry of Economy



Ministry of Economy Measures

In order to alleviate the financial stability impact of Covid-19 the main measures taken by the Ministry of Economy were:

1. Emergency Employment Maintenance Program (furlough)

2. Support for informal and unemployed workers – 66 million people

3. Several credit lines – USD 55 billion in funding or guaranttees
   - Credit to finance payroll at SME
   - Pronampe – very small companies
   - FGI – small and medium corporates
   - CGPE – DTA quality improvement

Monetary Policy

Declining interest rate

Inflation below target & anchored expectations

Policy rate	
jan/2020	4.50%
feb/2020	4.25%
mar/2020	3.75%
May/2020	3.00%
June/2020	2.25%
Aug/2020	2.00%

The Monetary Policy Comitte 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.

Basel Committee on Banking Supervision

In various public statements, the BCBS has reiterated...

1. The need for full, timely and consistent implementation of all Basel III standards based on the revised timeline;

2. The importance of the use of capital resources to support the real economy and to absorb losses;

3. That a measured drawdown of banks' Basel III capital and liquidity buffers is appropriated in the current period of stress;

4. That sufficient time should be given to banks to restore buffers taking account of economic and market conditions and individual circumstances.

Source: press release (17 June 2020) https://www.bis.org/press/p200617.htm

Measures taken by the Central Bank of Brazil

Objectives:

1. Maintain the banking sector liquid and stable;
2. Provide conditions for the normal functioning of the credit channel;
3. Ensure that the market for foreign exchange operates normally, without disfunctionalities;
4. Maintain stimulative monetary conditions so that credit contributes to growth, without compromising price stability;
5. Facilitate banks' ability to absorb losses in an orderly manner.

Measures taken by the Central Bank of Brazil

Liquidity support and market stabilization:

1. Reduction in required reserves
2. Improvements in the LCR
3. Resumption of repos collateralized by sovereign bonds issued abroad (in USD)
4. Creation of deposit certificates (NDPGE) insured by the FGC (the deposit insurance scheme)
5. Improvements in regulation of bank funding via LCA (rural credit certificates)
6. Creation of Central Bank lending facilities (corporate bonds and credit receivables)
7. Permission for asset purchases by CB in secondary markets

(continues...)

Measures taken by the Central Bank of Brazil

Liquidity support and market stabilization (continued):

8. Foreign currency operations
9. Open market operations (in coodination with the National Treasury)
10. Swap line with the FED
11. Allowance for banks to repurchase own bills
12. Repo with soverign bonds issued domestically (in BRL)
13. Reduction in penalty spreads for clearing daily balances at the CB

Measures taken by the Central Bank of Brazil

Capital release

1. Exemption from increasing provisions for modified loans
2. Reduction in Capital Conservation Buffer
3. Suspension in discretionary capital distributions (dividends, payouts)
4. Prudential treatment of deferred tax assets of FX hedge
5. Reduction in risk weight fator (RWF) on credits to SME

Measures taken by the Central Bank of Brazil

Other measures:

1. Home equity improvements
2. Permission for credit fintechs to borrow from the Development Bank (BNDES)
3. Operational relief; postponing deadlines for reporting

Measures by the Central Bank of Brazil - Volumes

Measures' impact

Measure	2020 Potential	2020 Implemented	2008
Liquidity support			
Reserve requirementes + change in LCR regulation	R$ 135 bn	R$ 135 bn	–
Adittional reduction in reserve requirements	R$ 70 bn	R$ 70 bn	R$ 82 bn
More flexibility on LCA regulation	R$ 2.2 bn	R$ 2.2 bn	–
Loan backed by LFs guaranteed by credit operations	R$ 670 bn	R$ 45.2 bn	–
One-year term repos backed by federal govnt. Bonds	R$ 50 bn	R$ 23.2 bn	R$ 25 bn
New Term Deposit with Special Guarantees (NDPGE)	R$ 200 bn	R$ 16.2 bn	R$ 10 bn
Loans backed by debentures	R$ 91 bn	R$ 3 bn	–
Change in reserve requirements on savings deposits	R$ 55.8 bn	R$ 27.9 bn	–
Total	**R$ 1274.0 bn**	**R$ 322.7 bn**	**R$ 117 bn**
Capital Relief [1]			
Overhedge	R$ 520 bn	R$ 520 bn	–
Reduction of the Additional Principal Capital (ACP) factor	R$ 637 bn	R$ 637 bn	–
Reduction in the capital for credit operations for SMEs	R$ 35 bn	R$ 35 bn	–
Reduction in capital for S5 segment	R$ 16.5 bn	R$ 16.5 bn	–
Reduction in capital for DPGE exposures	R$ 12.7 bn	**	–
Working capital for business preservation (CGPE)	R$ 127 bn	**	–
Total	**R$ 1348.2 bn**		**–**
More flexibility for credit renegotiations	*R$ 3200 bn	R$ 809.9 bn	–
Asset Purchases			
Asset purchases in secondary markets	N.D.	**	–
Other measures			
Swap lines with the Federal Reserve	US$ 60 bn		US$ 30 bn
Creation of special credit lines for SMEs	R$ 40 bn	R$ 4.5 bn	–
Real estate backed loans	R$ 60 bn	**	–

Updated to 08/31

[1]Potencial impact on credit provision.
* Credit operations volume potentially benefited by the measure.
** New measures.

Source: BCB

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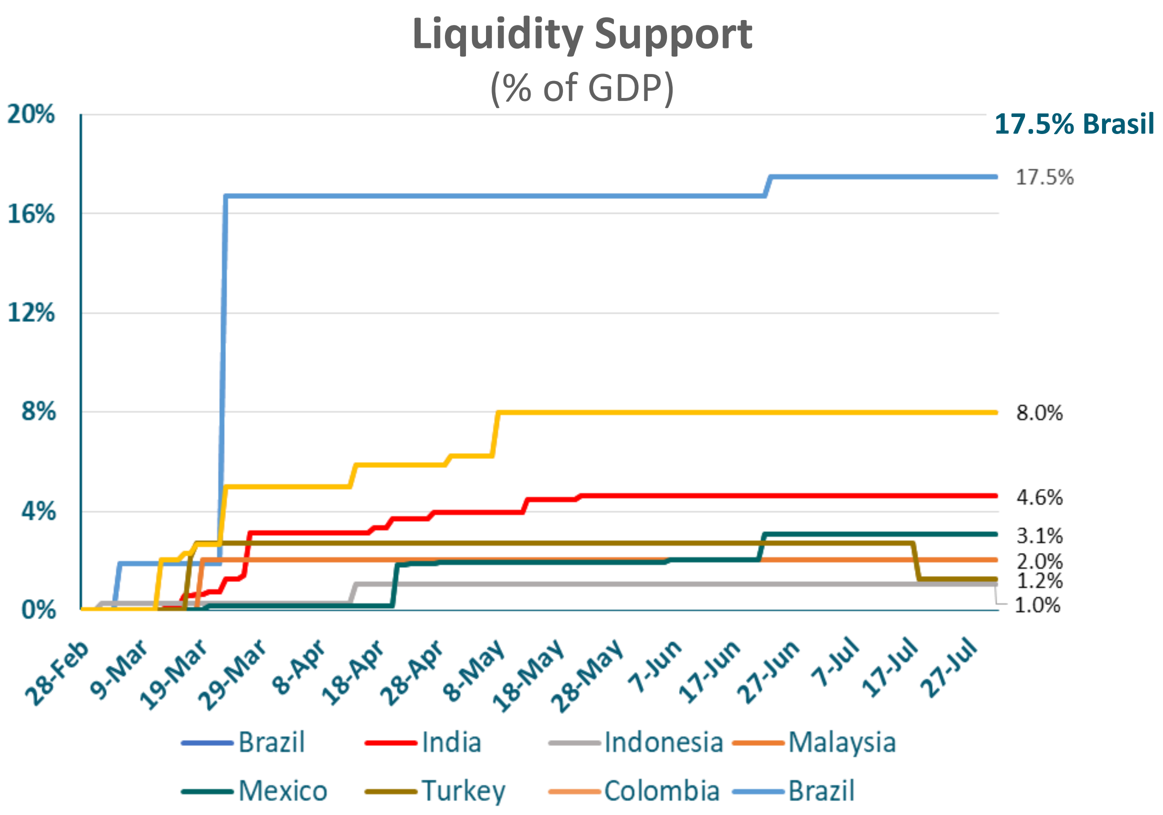
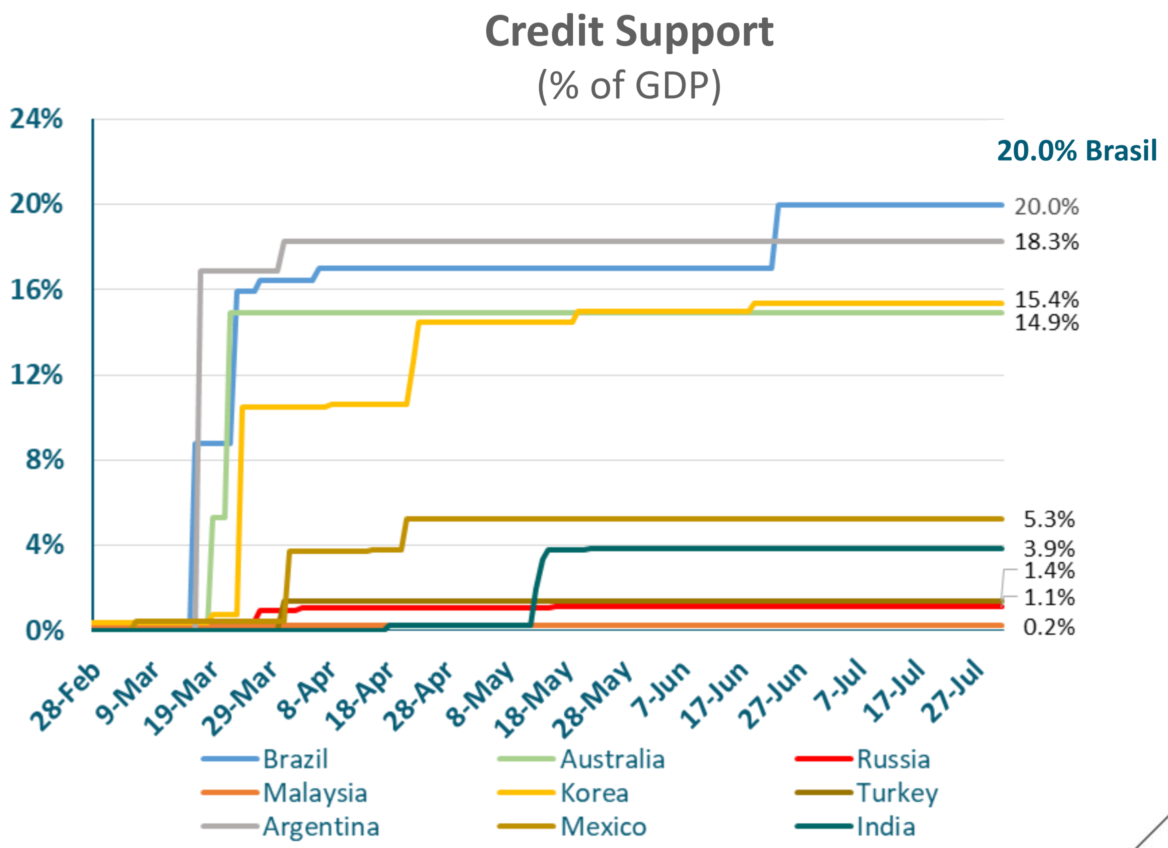
Measures taken by the Central Bank of Brazil

EMEs' Comparative Overview





Sources: FSB/BCB – up to August 14th

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Key Takeaways

Key takeaways

- The recente crisis required a coordinated overwhelming response - even for 2008 standards – involving direct transfers, credit programs, and regulatory and market interventions.

- Liquidity is always the first shock wave; in Brazil, it was good to have some level of compulsory reserves, but measures to guaranttee liquidity were needed.

- Thanks to Basel III, banks are in good shape to absorb losses.

- Capital and liquidity buffers must be used in stressfull times, but there is a need to balance between avoiding prociclicality and requiring banks to be conservative.

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