

FOLLOW-UP ON THE ACTIONS TAKEN BY THE CENTRAL BANK OF BRAZIL TO MITIGATE ECONOMIC-FINANCIAL EFFECTS CAUSED BY COVID-19

The COVID-19 pandemic caused a serious impact on Brazil's and the world's economy. As a result, the federal government implemented fiscal, monetary, and social measures in order to keep the economy moving.

The measures taken by the Central Bank of Brazil (Bacen) aimed at maintaining the financial market operational, in order to: (i) keep the stability and liquidity in the banking system; (ii) guarantee a healthy financial

system, in order to keep the credit line in operation; (iii) offer special conditions so that banks could rollover debts of the sectors impacted; (iv) guarantee normal conditions of the foreign exchange market; among others.

These actions provided a potential increase of US\$230 billion in the National Financial System's (SFN) liquidity, that is 17.5% of the Gross Domestic Product (GDP). The main measures are shown on the following table.

• **Table 1 – Measures taken by Bacen**

Measure	2020		
	Potential	Implemented	2008
Liquidity injection			
Reserve requirements + Short-term liquidity (LCR)	US\$24.84 bi	US\$24.84 bi	–
Additional reduction of reserve requirements	US\$12.88 bi	US\$12.88 bi	US\$15.09 bi
Flexibility for Agribusiness Credit Bill (LCA)	US\$400 million	US\$400 million	–
Loans backed by guaranteed Financial Letters (LF)	US\$123.26 bi	US\$832 bi	–
Repos backed by sovereign bonds	US\$9.20 bi	US\$4.27 bi	US\$4.60 bi
New DPGE (Term Deposit with Special Guarantees)	US\$36.79 bi	US\$2.98 bi	US\$1.84 bi
Loan backed by debentures	US\$16.74 bi	US\$550 million	–
Deduction on reserve requirement on savings deposits	US\$10.27 bi	US\$5.13 bi	–
Total	US\$234 bi	US\$58.24 bi	US\$21.52 bi

Capital Relief¹			
Overhedge	US\$95.66 bi	US\$95.66 bi	-
Reduction of the ACCP (countercyclical capital buffer)	US\$123.81bi	US\$123.81 bi	-
Reduction of capital requirement for credit provision to small and medium-sized companies (PMEs)	US\$6.44 bi	US\$6.44 bi	-
Reduction of capital requirement for financial institutions allocated in the regulatory Segment 5 (S5)	US\$3.04 bi	US\$3.04 bi	-
Reduction of capital requirement on DPGE exposures	US\$2.34 bi	US\$330 million	-
Optimization of capital ('Working Capital for Business Continuity' Program - CGPE)	US\$23.36 bi	**	-
Total	US\$247.99 bi		
More flexible provisioning rules for debt renegotiations	*US\$588.70 bi	US\$149 bi	-

Measure	2020		
	Potential	Implemented	2008
Purchase of private securities			
Purchase of private securities in the secondary market	N/A.	**	-
Other measures			
Swap lines with the US Federal Reserve	US\$ 60 bi		US\$ 30 bi
Creation of a special credit line for small and medium-sized companies (PMEs)	US\$7.36 bi	US\$830 million	-
Property as guarantee for more than one loan	US\$11.04 bi	**	-

¹ Potential impact on credit

* Credit amount potentially benefited by the measure

** New measures

Updated on 8/27/2020

Source: Bacen..

• WHAT HAS BEEN DONE

Bacen took on more than 30 actions with the objective of maintaining the SFN stable in face of the COVID-19 pandemic crisis. This scenario encouraged the Federal Court of Accounts to monitor such actions, manage risks resulting from new interventions, and strengthen accountability of measures under Bacen's jurisdiction when addressing the pandemic's impact on the SFN.

• WHAT HAS BEEN FOUND

Regarding the credit evolution during the pandemic, based on the latest information available, SFN granted US\$215.24 trillion in credit. Additionally, Bacen implemented measures directed to small businesses (MPEs), both targeted on capital and liquidity, to encourage credit for this segment. Almost US\$25.57 billion were granted in credits for MPEs – companies with up to US\$5.52 million in revenue, according to Bacen's criteria. Such aspect was analyzed on the latest report by the Brazilian Micro and Small Business Support Service (Sebrae), which showed that the percentage of small businesses that obtained credit went from 11% to 21%.

As for the transfer of Bacen's results to the National Treasury Secretariat (STN), the conclusion was that, in terms of inflation, Bacen is able to reduce a possible increase in the monetary base without causing currency devaluation, by carrying out repurchase agreements. The Independent Fiscal Institution (IFI) shows that repos are operated in Brazil in much higher and growing levels than in any other central bank in the world, based on data from 2006 to 2017.

According to the Financial Stability Board (FSB), risks are still very high, and the measures taken are effectively stimulating the granting of loan, however with unprecedented downgrades. This scenario may pose risks for companies to be able to finance themselves, which demonstrates consistency between Bacen and the FSB. Bacen has dealt with this concern by

applying measures such as the LTEL-Debentures (Special Temporary Liquidity Facility) and the acquisition of credit portfolios, in order to stimulate the private debt market. Thus, within Bacen's duties, the measures adopted are compatible with what is claimed by the FSB.

As a matter of fact, the measures taken by Bacen and the National Monetary Council (CMN) to maintain liquidity and fluidity of credit have been successful and have benefited both individuals and businesses of all sizes, increasing concessions and reducing the average interest rate.

• WHAT HAS BEEN DECIDED

The findings and conclusions were submitted to National Congress commissions as an executive summary, with the intention to expand sources of information for works carried out by the Senate and the Chamber of Deputies. Overall, the analysis performed indicates that Bacen has been safeguarding its actions accordingly and that the measures taken have met their expectations with regards to increasing liquidity and stimulating credit.

Additional Information:

Decisions: 2.709/2020 and 1.842/2020, both from the TCU's Full Court

Rapporteur: Minister Bruno Dantas

Case: TC 016.028/2020-1

Technical department in charge: Department of External Control – National Financial System and Pension Funds (SecexFinanças)