

## Stimulus measures expected to mitigate impact of coronavirus on the economy

### Overview

- **As the number of new cases of COVID-19 continues to rise worldwide, governments have been issuing lockdown orders that are sure to have an economic impact.** In Europe and the United States, the number of areas under quarantine is growing, with stores and factories being shuttered. As a result, confidence indicators for March, released this week, showed sharp declines, with an emphasis on Germany's Ifo Index. There is much uncertainty about the magnitude of the impact of coronavirus on activity in the second quarter and on the speed of recovery in the aftermath.
- **In this context, governments and central banks around the world announced fiscal and monetary stimulus measures this week,** in a joint effort to mitigate that impact. Governments in the Eurozone, the UK and the US have pledged a combined \$1.5 trillion in rescue packages. In the field of monetary policy, the Fed cut its target rate following another extraordinary meeting, sparking a new round of monetary easing around the world, including measures to inject liquidity into the economy. One of the highlights was the 750-billion-euro asset purchase program announced by the European Central Bank.
- **In Brazil, the Ministry of Economy announced fiscal stimulus packages, while the Central Bank (BCB) cut the benchmark Selic rate to 3.75%.** The measures include moving up the Christmas bonus payments for social security (INSS) recipients, reinforcing the Bolsa Família income transfer program and deferring FGTS payments for business. Meanwhile, the BCB cut interest rates from 4.25% to 3.75%, signaling that, for now, it does not intend to make any other cuts. We believe that, once we begin to see a slower spread of COVID-19, the BCB will be able to reassess its plan. So far, the pandemic has produced disinflationary effects, which could become more intense in case of a sharper slowdown in the Brazilian economy.
- **We recognize that, despite the new stimulus measures, there are bearish risks to the Brazilian economy's growth outlook.** In addition to the effects of lower global growth, the economy will be affected by the closing of businesses and the shutdown of other activities, especially in Q2. We believe that it is crucial to monitor the speed of the outbreak, and then to contain the virus before we can adjust the impacts to GDP.

### The week ahead

- **The Monetary Policy Committee meeting minutes and the Quarterly Inflation Report will provide details on the half-point cut to the Selic rate, with inflation and activity data to be announced this week.** We expect the mid-month inflation report (IPCA-15) for March to continue to show a benign inflation outlook. Retail and service sales are expected to have slowed down in the early part of the year, while confidence indexes are likely to show the initial effects of the COVID-19 outbreak on the Brazilian economy.
- **Abroad, the market will keep a close eye on the PMI previews for March.** We expect preliminary PMI data to reflect the impacts of the new coronavirus on global activity, and these readings will be key to assess the impact on global GDP.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 03/23</b>				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
<b>Tuesday 03/24</b>				
05:30	Germany	Markit: Composite PMI (Mar - P)	43.7	
06:00	Eurozone	Markit: Composite PMI (Mar - P)		
06:30	United Kingdom	Markit: Composite PMI (Mar - P)		
08:00	Brazil	BCB: Copom minutes		
08:00	Brazil	FGV: Consumer Confidence (Mar)		
09:00	Brazil	IBGE: Retail sales (PMC) (Jan)		-0.7% (m/m)
<b>Wednesday 03/25</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)	0.18%	
06:00	Germany	IFO Business Climate (Mar - F)		
08:00	Brazil	FGV: Retail Confidence (mar)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Mar)		0.03 (m/m)
09:00	Brazil	IBGE: Services Sector Volume (PMS) (jan)		1.8 (y/y)
09:30	Brazil	BCB: Current Account Balance (Feb)		
16:00	Argentina	GDP (4Q - P)		-0.8% (y/y)
14:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	Federal Debt Total (Feb)		
<b>Thursday 03/26</b>				
08:00	Brazil	BCB: Inflation report (1Q)		
08:00	Brazil	FGV: Construction Costs (Mar)		
08:00	Brazil	FGV: Construction Confidence (mar)		
09:00	United Kingdom	Central bank meeting		
09:30	USA	GDP (4Q - F)	2.1% (q/q)	2.1% (q/q)
09:30	USA	Initial Jobless Claims - Weekly		
16:00	Mexico	Central bank meeting	6.50%	6.50%
<b>Friday 03/27</b>				
08:00	Brazil			
09:00	Brazil	IBGE: PPI Manufacturing (Feb)		
09:00	Brazil	BCB: Economic Activity Index (Jan)		0.2 (m/m)
09:30	Brazil	BCB: Press Release - Monetary Policy		
-	Brazil	Aneel: Tariff range (apr)		
09:30	USA	Personal Spending (Feb)	0.3% (m/m)	
09:30	USA	Personal Income (Feb)	0.4% (m/m)	
11:00	USA	University of Michigan Sentiment (Mar - F)	94	
/2020	Colombia	Central bank meeting	4.25%	4.25%
<b>During the week</b>				
-	Brazil	Caged: Formal Job Creation Total (jan)	77.5 k	74 k

	2017	2018	2019	2020
<b>GDP growth (%)</b>	1.3	1.3	1.1	2.0
<b>Consumer inflation - IPCA (%)</b>	2.95	3.75	4.3	3.3
<b>Wholesale inflation - IGP-M (%)</b>	-0.5	7.5	7.3	4.5
<b>Selic Rate (% eop)</b>	7.00	6.50	4.50	3.75
<b>Exchange Rate (BRL/USD, eop)</b>	3.31	3.87	4.03	4.30
<b>Industrial Production (%)</b>	2.5	1.0	-1.1	0.5
<b>Retail Sales (%)</b>	4.0	5.0	3.9	3.7
<b>Job Creation (in thousands)</b>	1899	966	1816	1229
<b>Unemployment Rate (% of labor force, avg)</b>	12.7	12.3	12.1	11.3
<b>Outstanding Credit Growth (%)</b>	-0.5	5.0	6.5	9.4
<b>Trade Balance (USD bn)</b>	64.0	53.0	39.4	35.6
<b>Current Account (USD bn)</b>	-15.0	-41.5	-50.8	-56.0
<b>Primary Balance (BRL bn)</b>	-111	-108.3	-62	-106
<b>Gross Debt (% of GDP)</b>	74.1	76.5	75.8	74.3

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