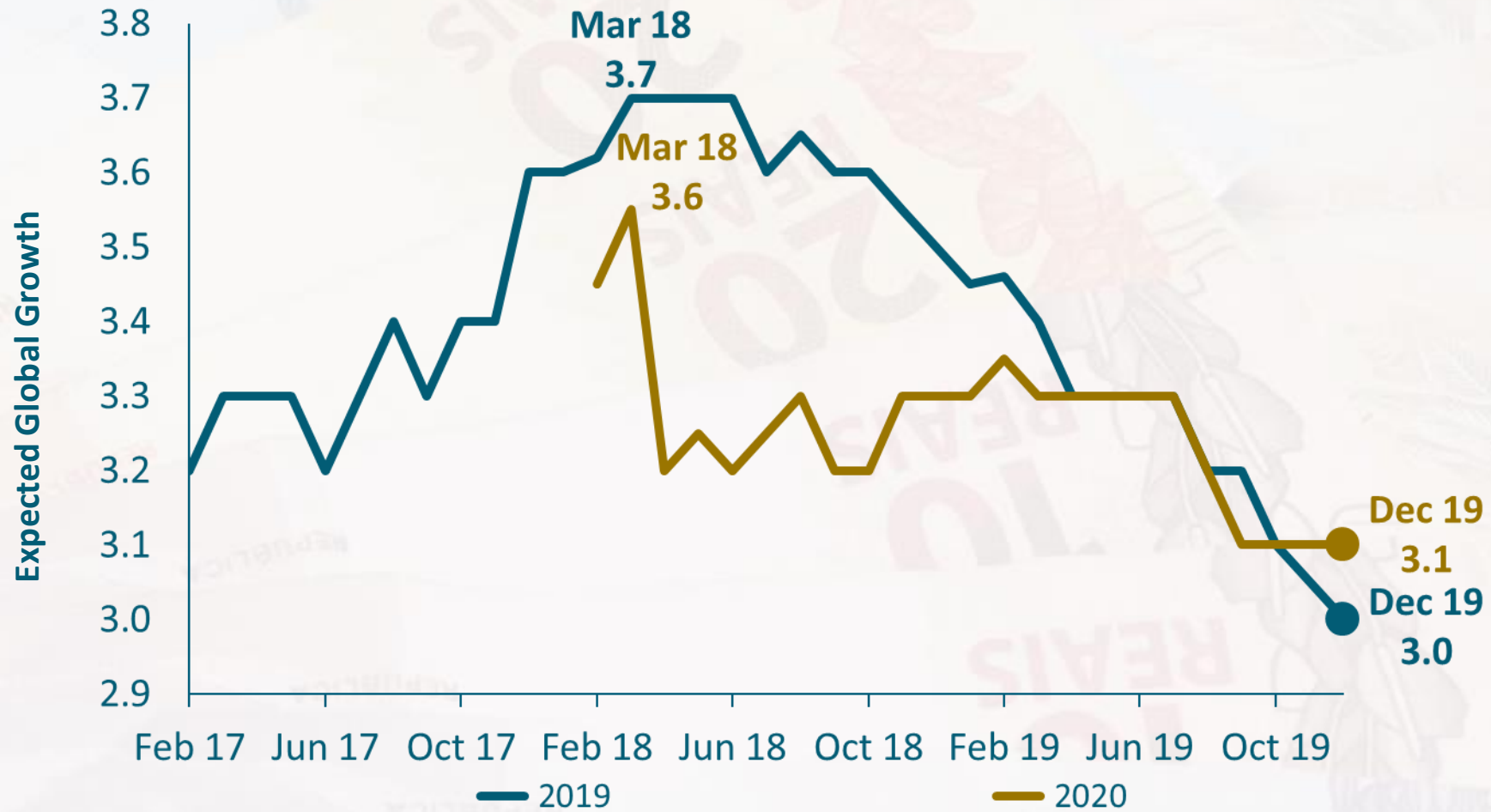


MACROECONOMIC OUTLOOK & BRAZILIAN REFORMS

ROBERTO CAMPOS NETO
Governor of the Banco Central do Brasil

17 January 2020

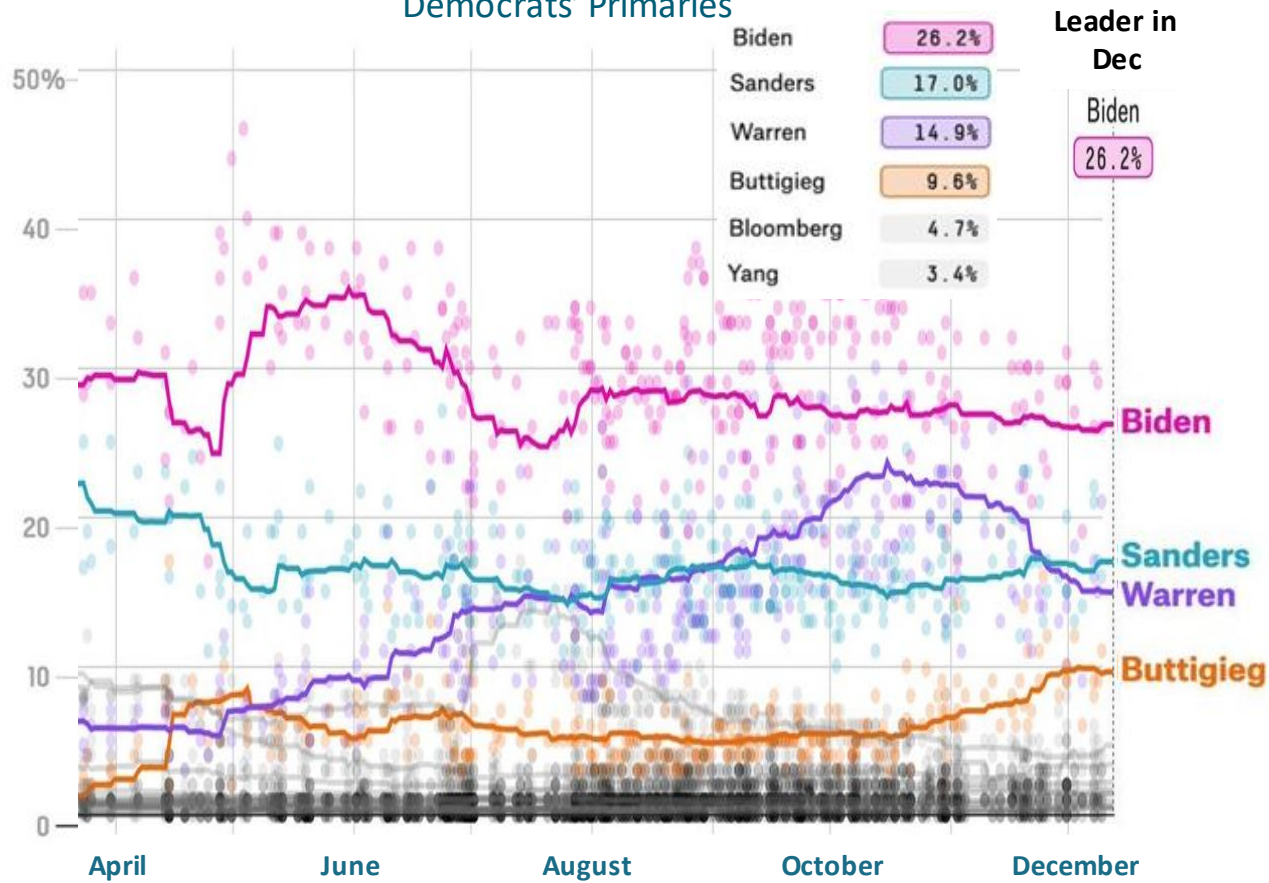
Expected slowdown



Source: Bloomberg

US Elections

Who's ahead? Democrats' Primaries

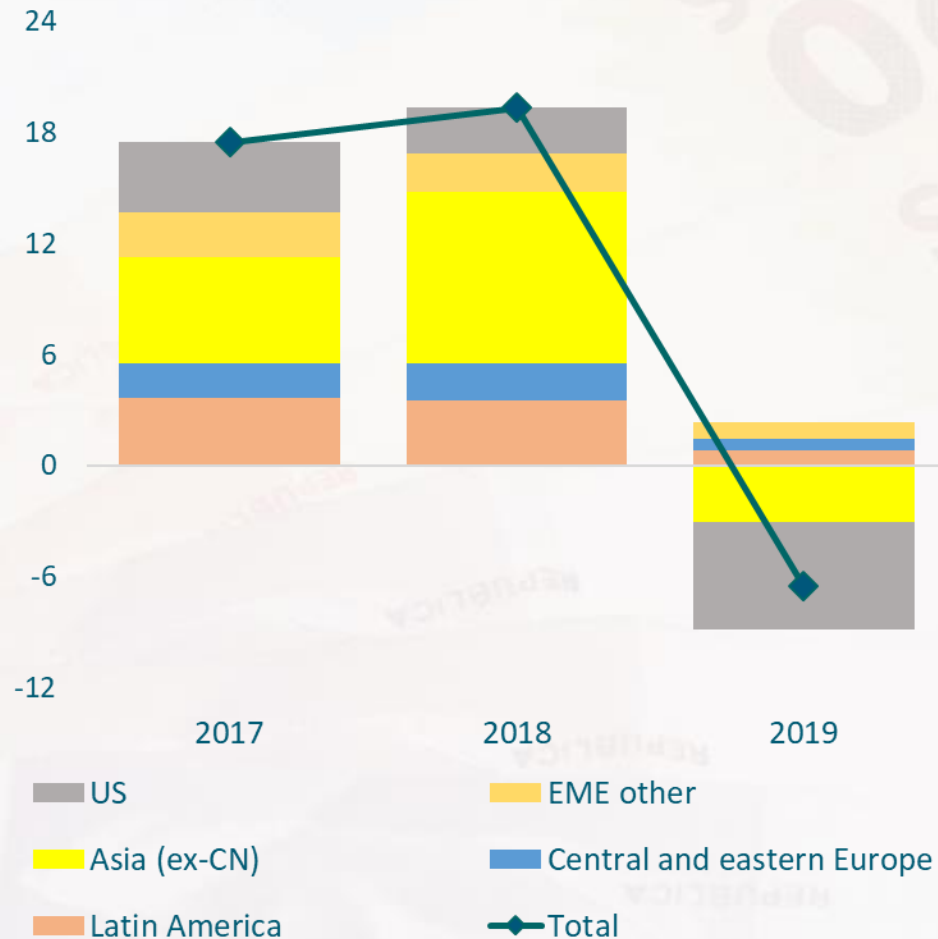


Weakening Correlation

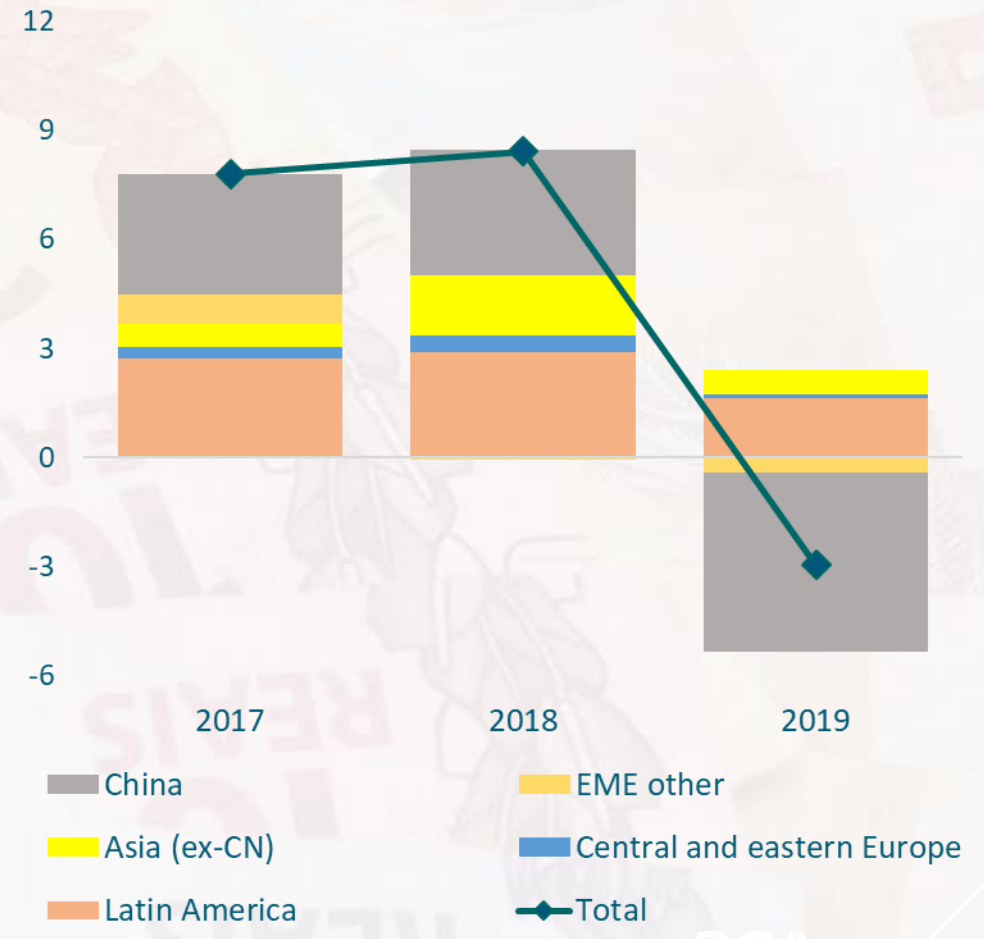


Imports from EMEs – China and US

Growth rate of China imports from EMEs (%)

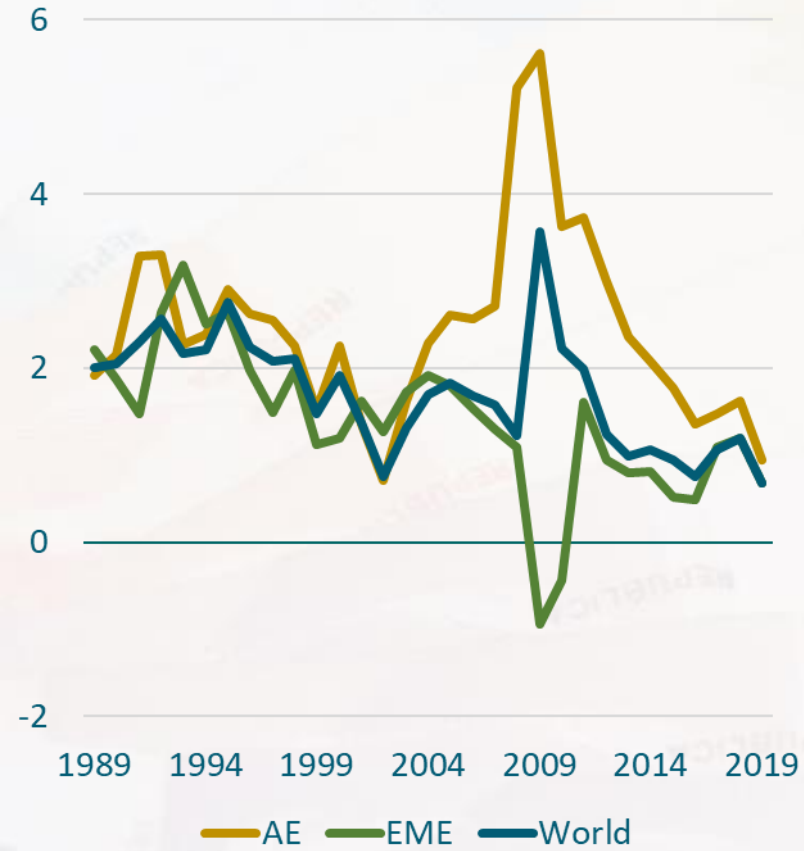


Growth rate of US imports from EMEs (%)

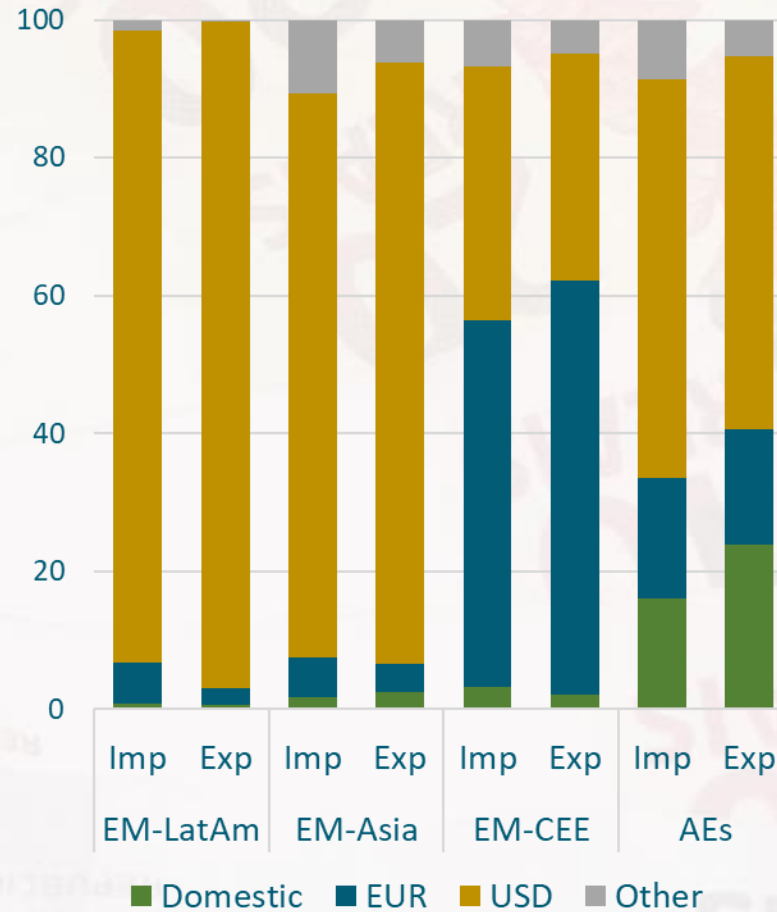


EMEs in the global trade

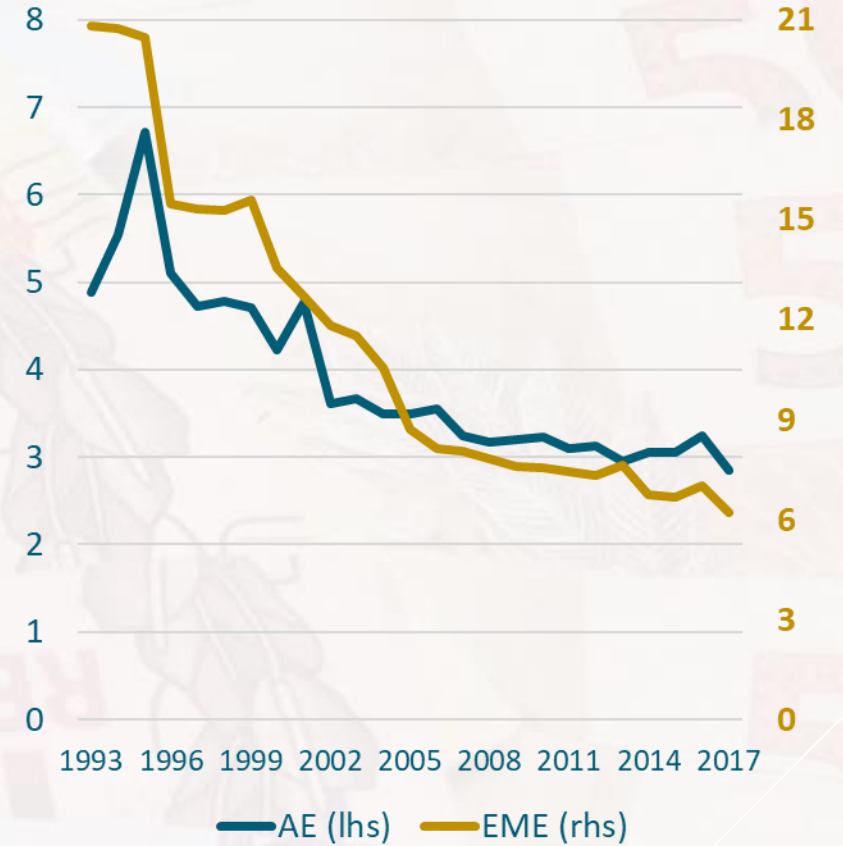
Trade elasticity



Trade invoicing currencies in inflation targeting countries (%)

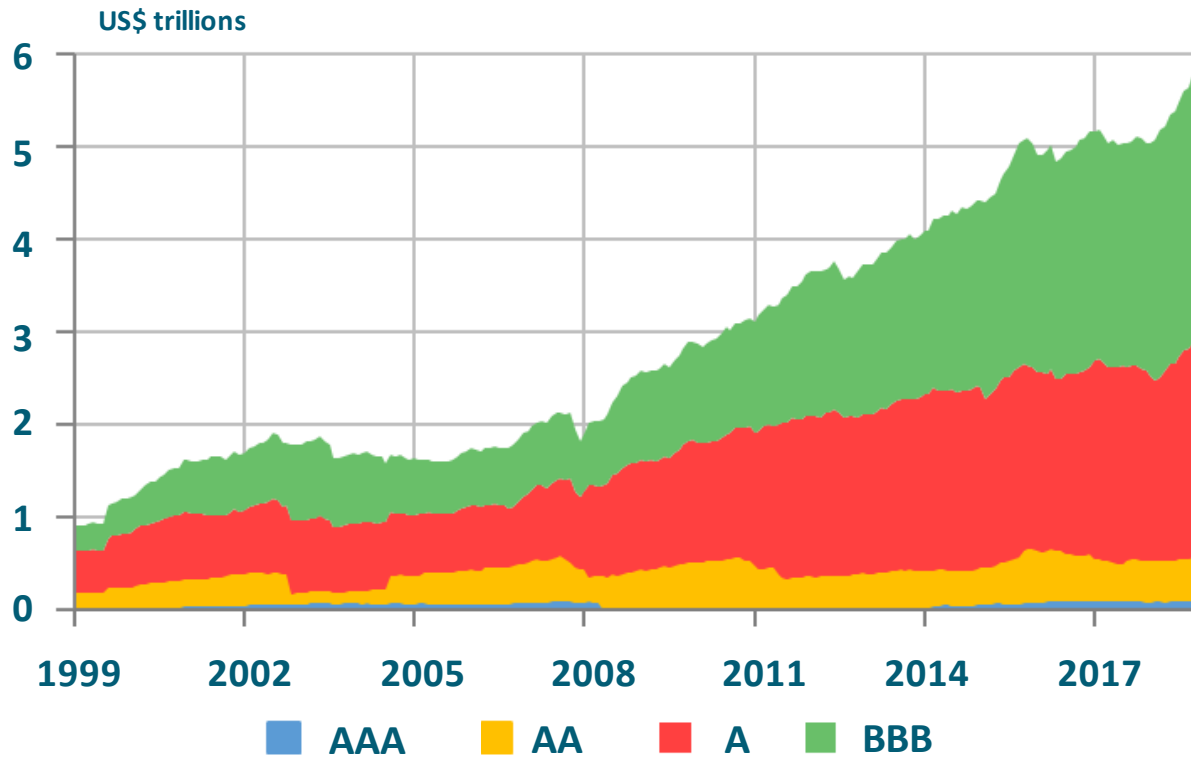


Tariffs in AEs and EMEs



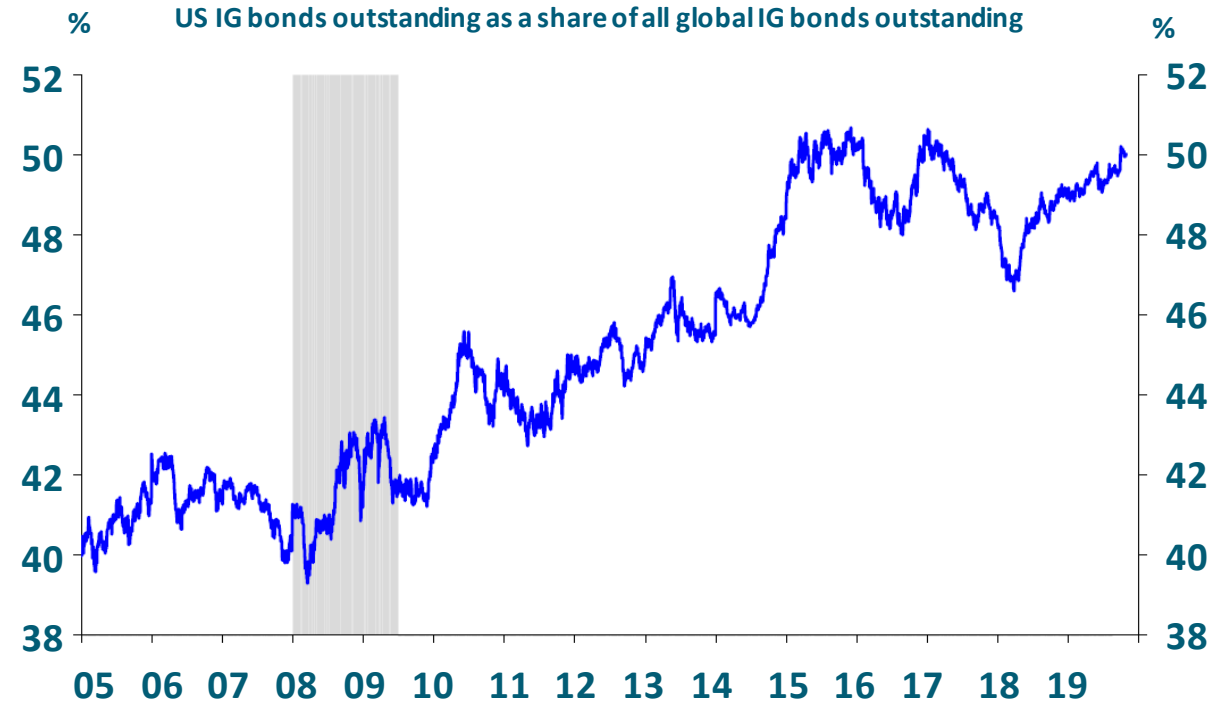
Increasing share of lower rating issuers

US IG Corporate Market Cap



Source: Bloomberg, Fed – Financial Stability Report Nov/19

US IG Corporate Market Cap



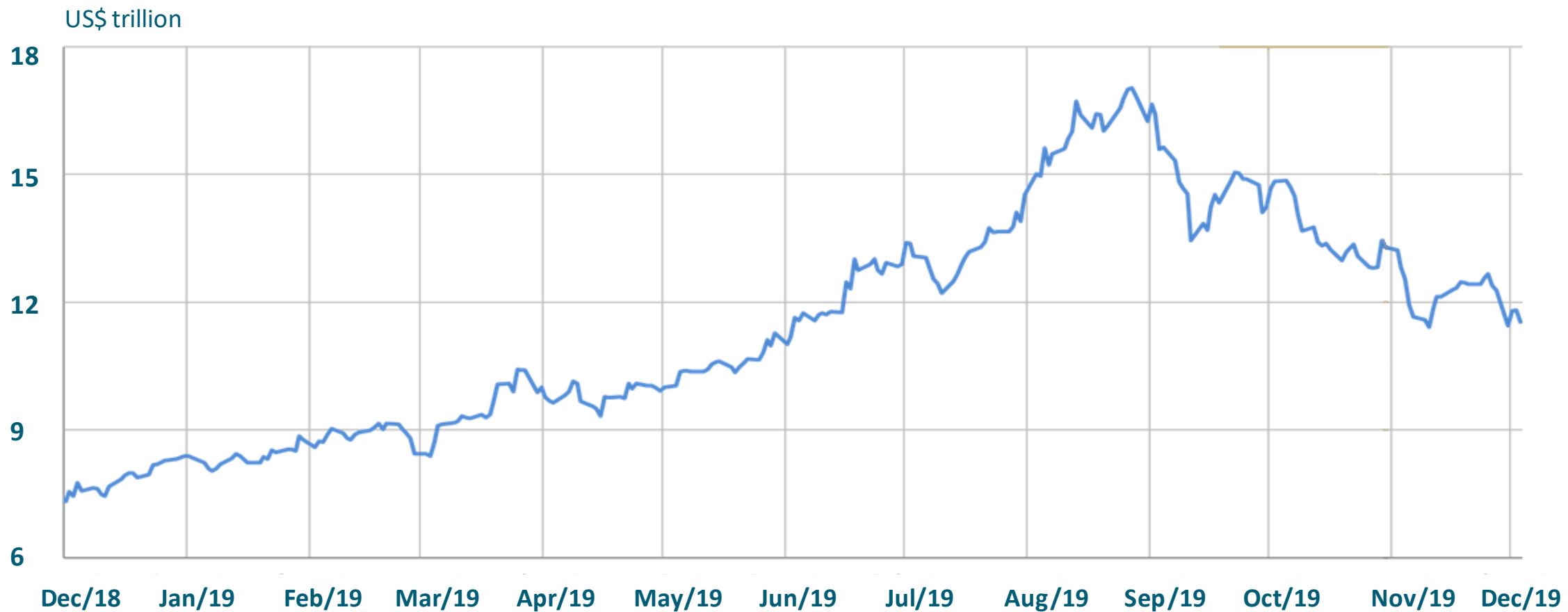
Source: Bloomberg, ICE BofAM and DB.

Negative yields worldwide

Country	Target rate	6m	1y	2y	3y	5y	7y	10y	15y	30y	% with CBs
Switzerland	-0.75	-0.62	-0.80	-0.77	-0.75	-0.66	-0.60	-0.50	-0.32	-0.17	2%
Denmark	-0.65	-0.75	-0.74	-0.60	-0.59	-0.41	-0.39	-0.17	0.00	0.10	0%
Germany	-0.50	-0.65	-0.67	-0.62	-0.59	-0.48	-0.39	-0.19	-0.04	0.34	29%
Netherlands	-0.50	-0.64	-0.67	-0.62	-0.60	-0.43	-0.29	-0.06	0.07	0.34	28%
Sweden	0.00	-0.24	-0.38	-0.32	-0.32	-0.25	-0.08	0.15	0.32	0.55	50%
Finland	-0.50	-0.67	-0.61	-0.61	-0.56	-0.42	-0.22	0.04	0.29	0.54	30%
Japan	-0.10	-0.14	-0.13	-0.13	-0.13	-0.13	-0.11	-0.02	0.12	0.41	49%
Austria	-0.50	-0.69	-0.63	-0.59	-0.56	-0.35	-0.19	0.02	0.29	0.62	24%
France	-0.50	-0.63	-0.60	-0.60	-0.54	-0.31	-0.16	0.11	0.38	0.91	21%
Belgium	-0.50	-0.64	-0.60	-0.61	-0.57	-0.33	-0.18	0.08	0.37	0.92	17%
Ireland	-0.50	-0.58	-0.61	-0.48	-0.42	-0.32	-0.12	0.10	0.39	0.93	30%
Portugal	-0.50	-0.52	-0.54	-0.57	-0.35	-0.13	0.16	0.42	0.79	1.33	27%
Spain	-0.50	-0.46	-0.46	-0.40	-0.38	-0.09	0.15	0.45	0.85	1.31	26%
Italy	-0.50	-0.26	-0.20	-0.06	0.21	0.67	0.93	1.40	1.87	2.45	23%
UK	0.75	0.76	0.64	0.58	0.56	0.64	0.65	0.85	1.09	1.34	39%
Australia	0.75	0.93	0.91	0.90	0.87	0.95	1.10	1.31	1.55	1.92	0%
New Zealand	1.00	0.97	1.00	1.11	1.18	1.35	1.50	1.64	2.07	2.18	0%
Canada	1.75	1.72	1.74	1.69	1.68	1.67	1.67	1.66	1.58	1.72	0%
USA	1.75	1.58	1.50	1.60	1.62	1.71	1.84	1.93	2.11	2.37	12%

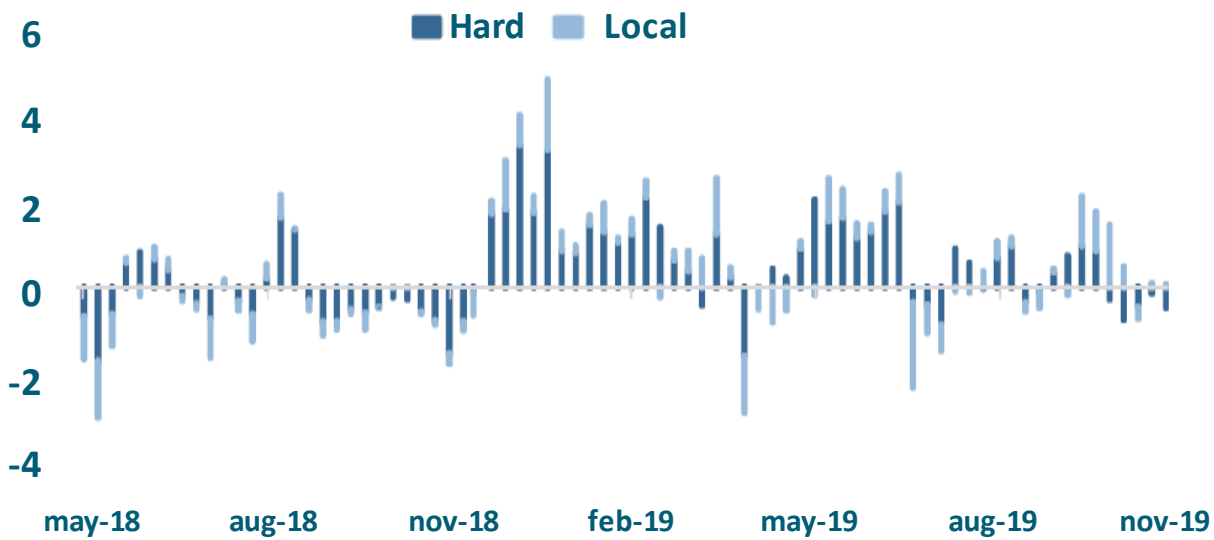
Source: Bloomberg

Negative yielding debt – global bond market

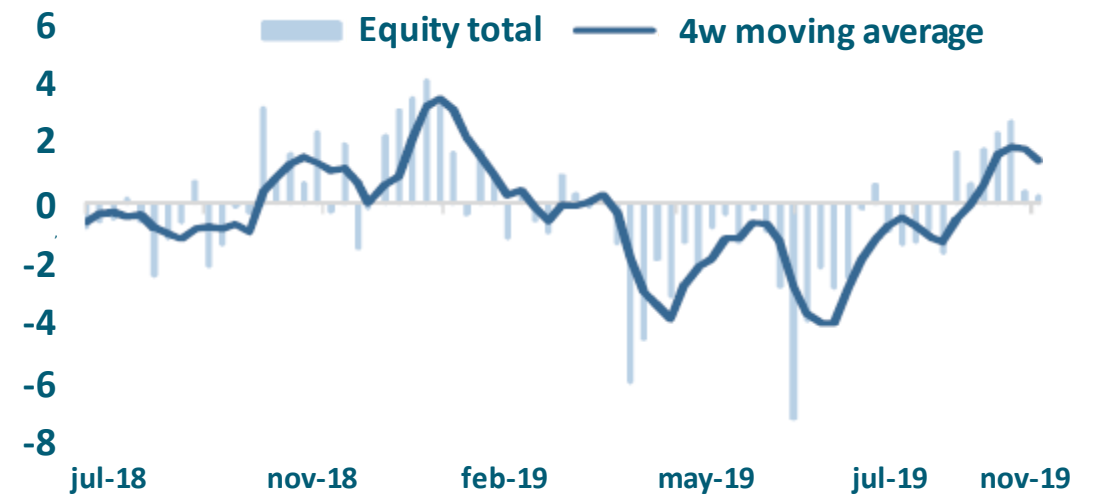


EMEs: outflows recovery

EME Fixed Income (USD bi)



Equities EME (USD bi)

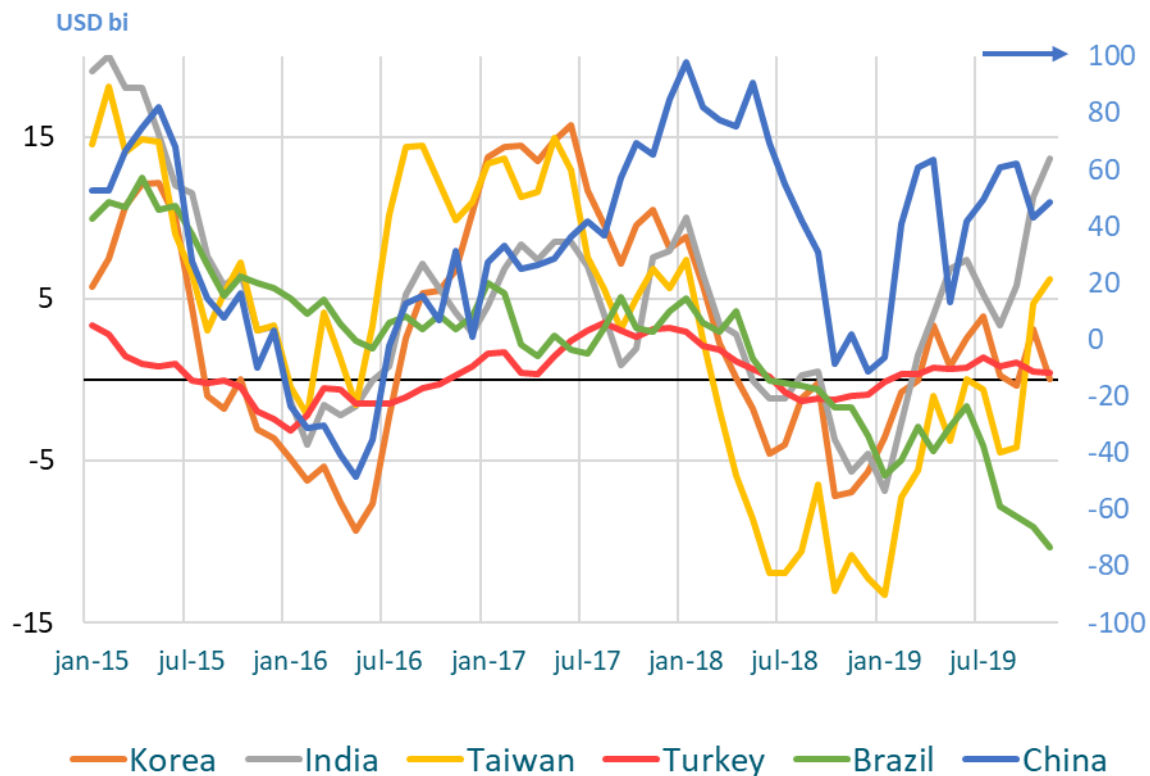


Fonte: Bloomberg, JPMorgan, EPFR

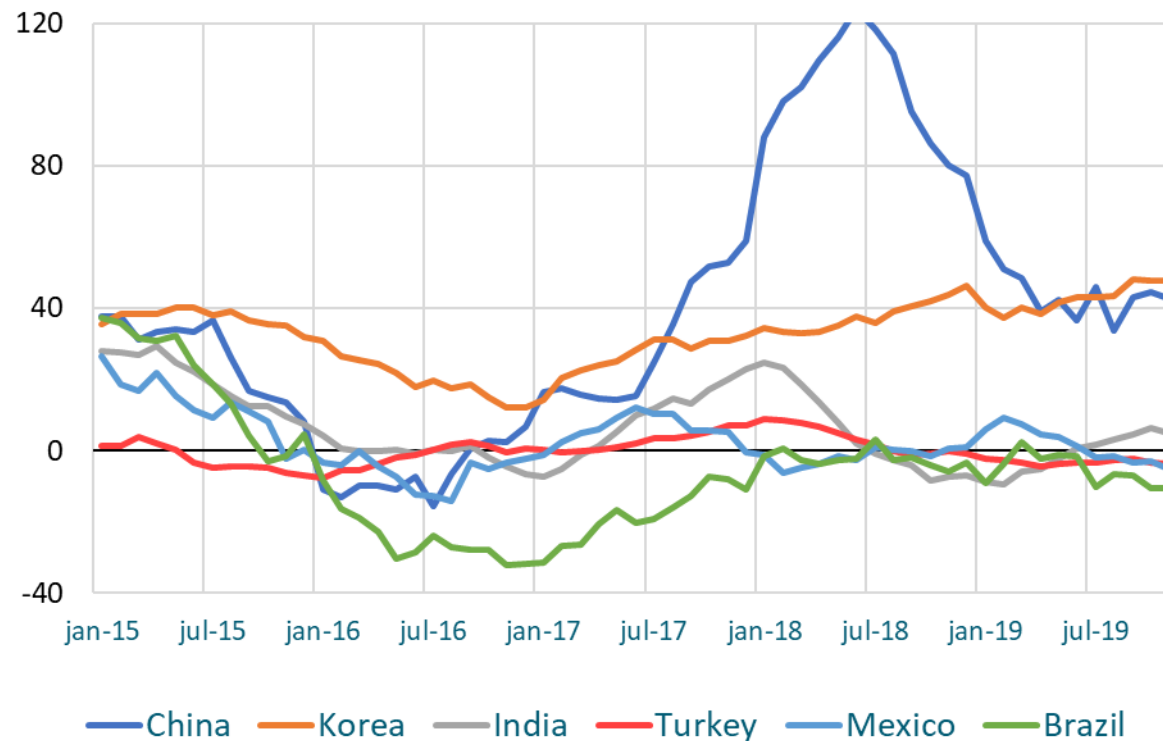
EMEs flows: equity and fixed income

12 months accumulated

Equity



Fixed Income

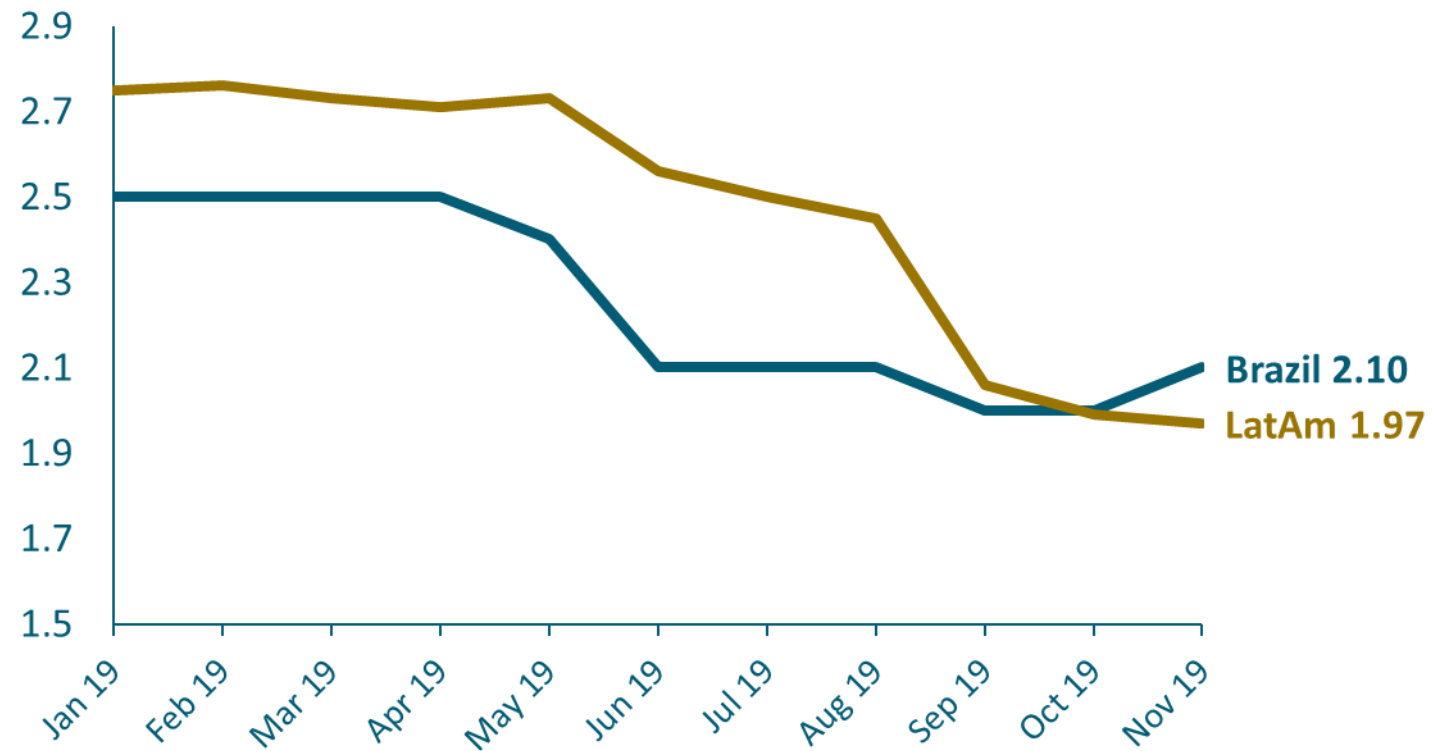


Source: Bloomberg

GDP forecast 2020: Brazil x Latin America

Recent surveys show Brazil outperforming LatAm in 2020

GDP Growth Forecast for 2020 (%)

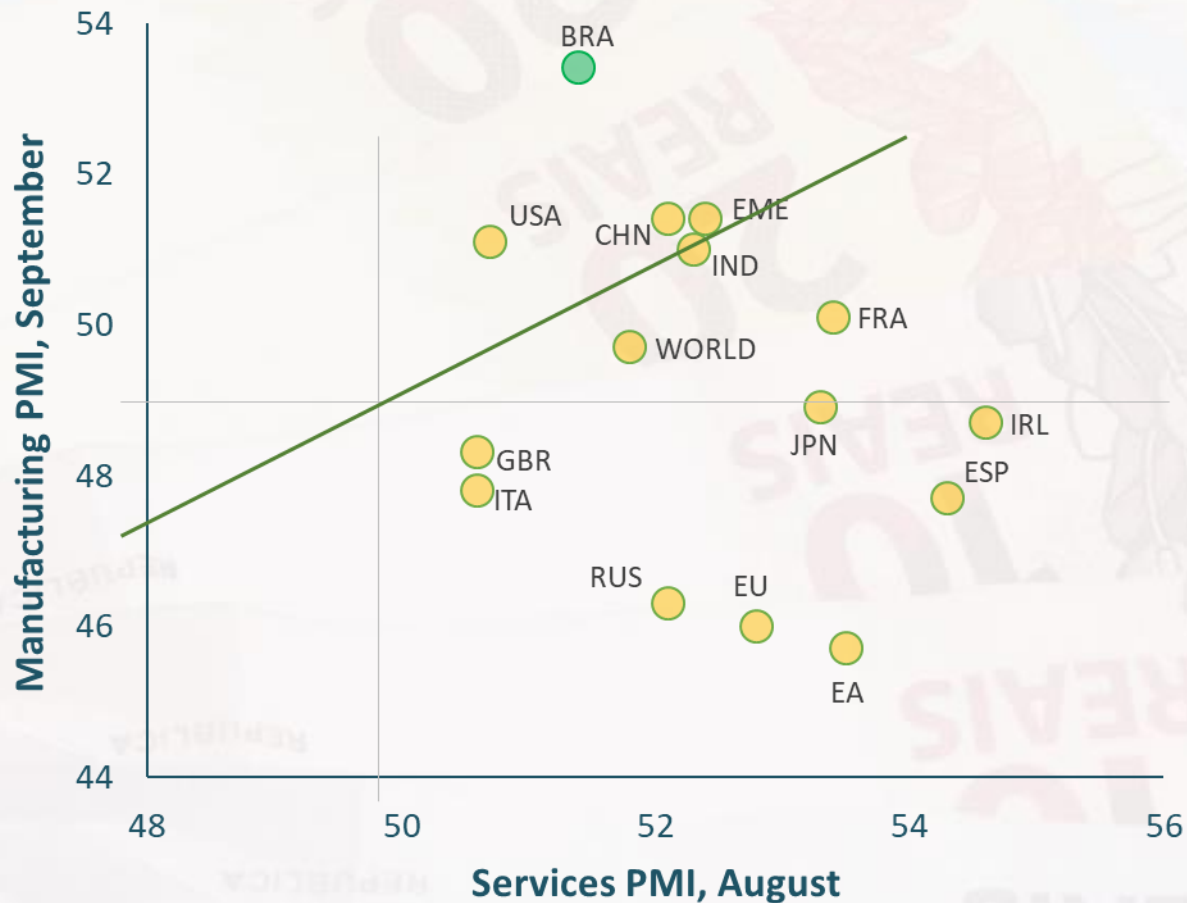


Source: Bloomberg

Brazil: manufacturing and services expansion

Recent numbers point to growth in activity

Brazil leads in manufacturing

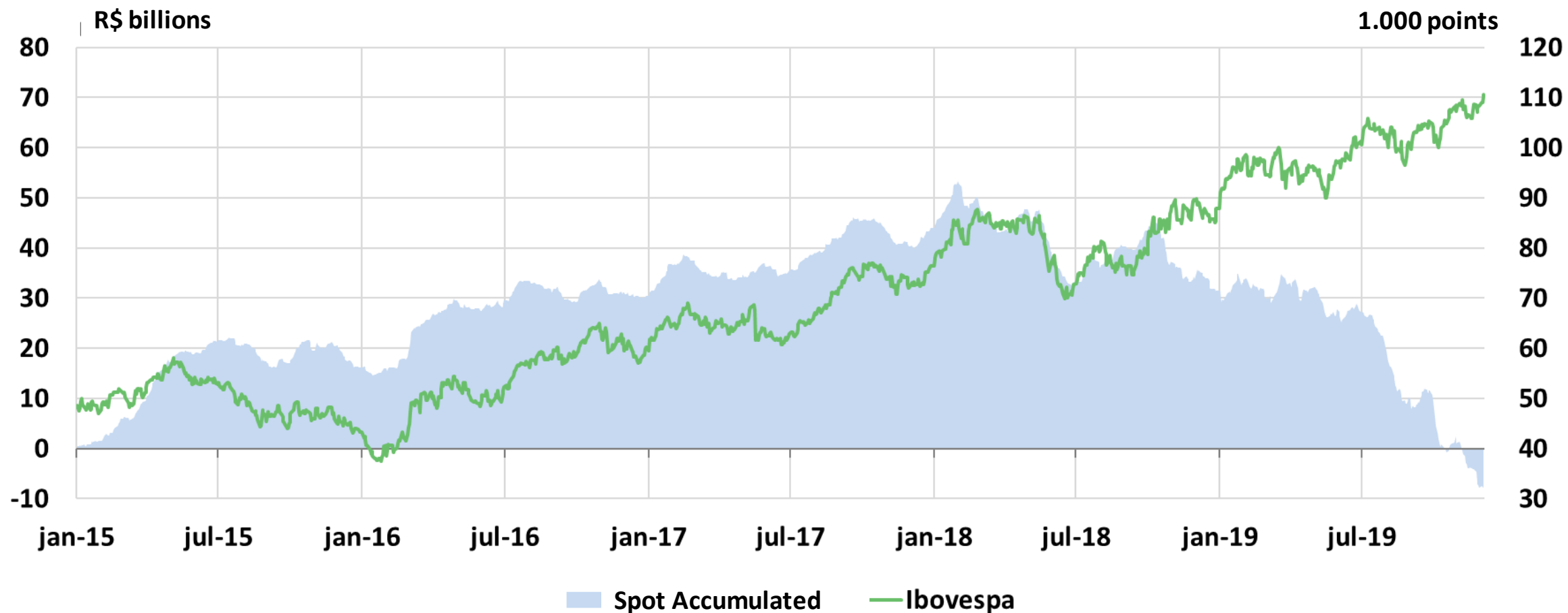


Accumulated flows vs Ibovespa

Foreign Investors

Macroeconomic Outlook

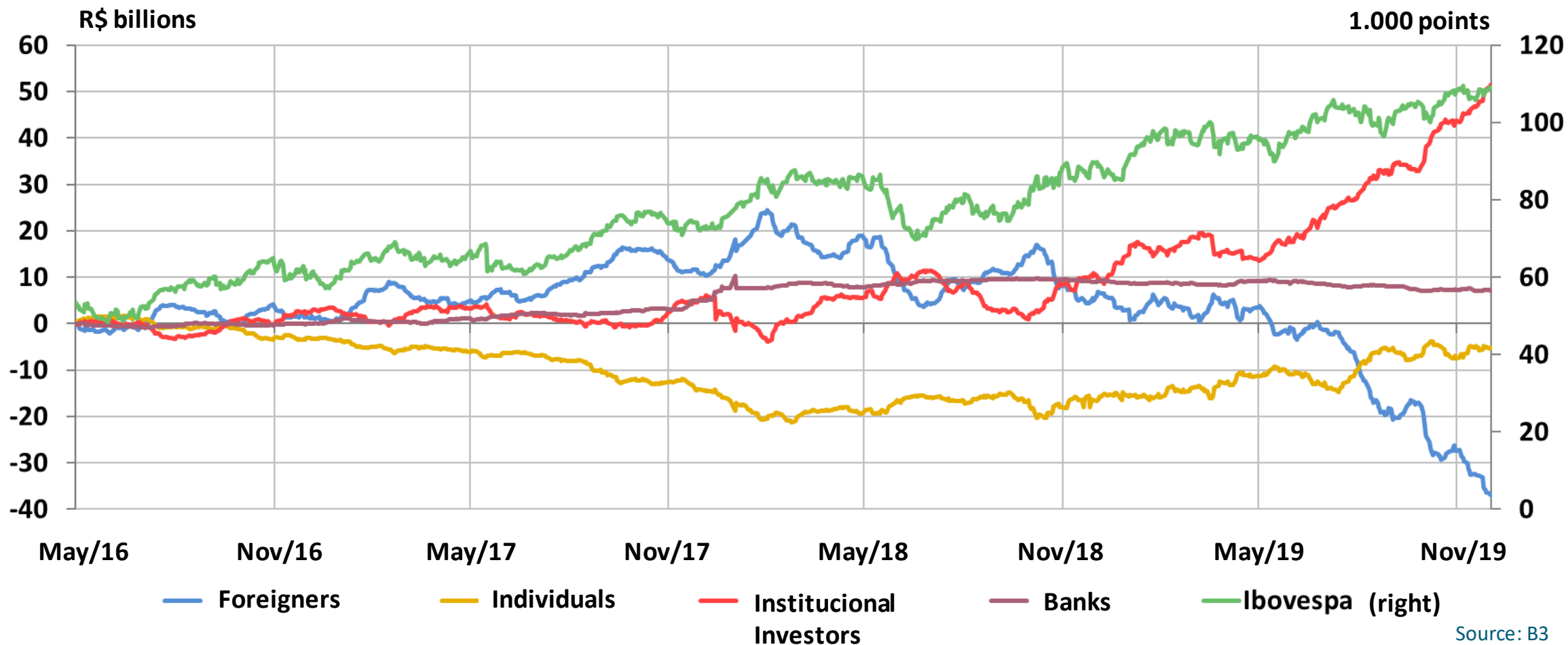
Brazilian Economy



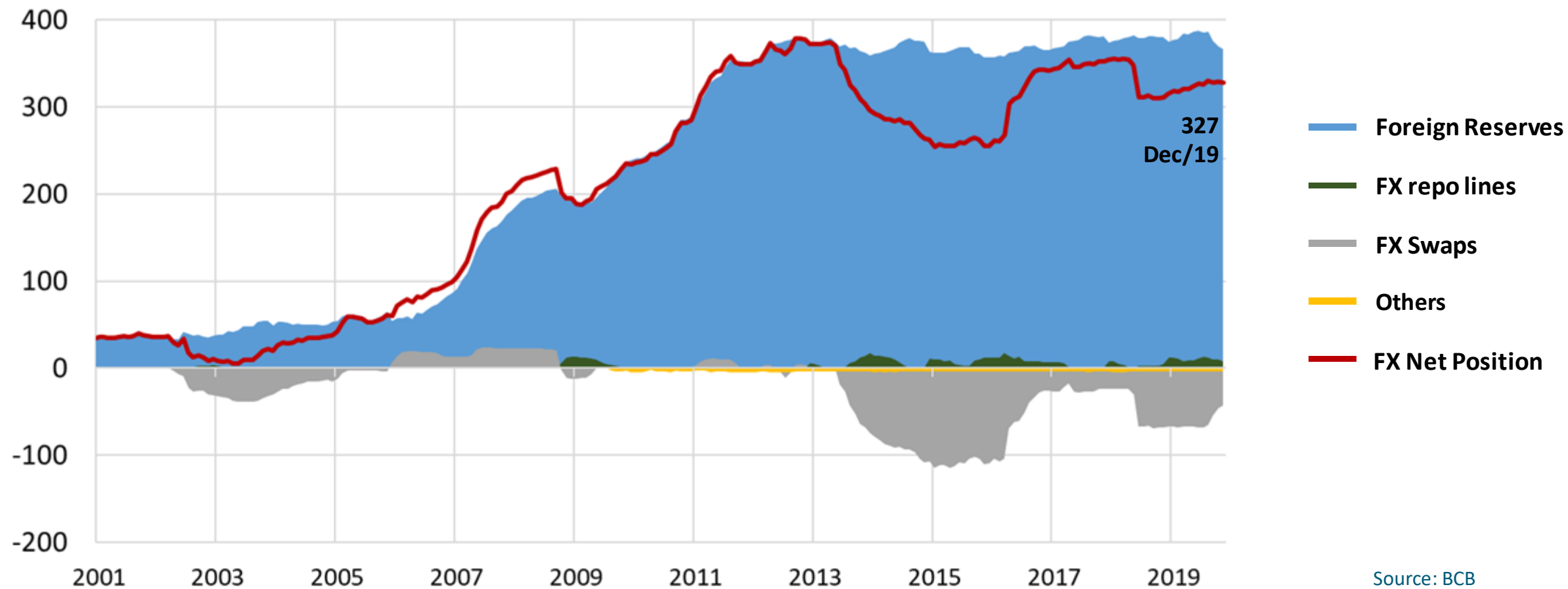
Source: B3

Local equity market vs Ibovespa

Accumulated flows by investors type



FX net position



Source: BCB

Monetary policy

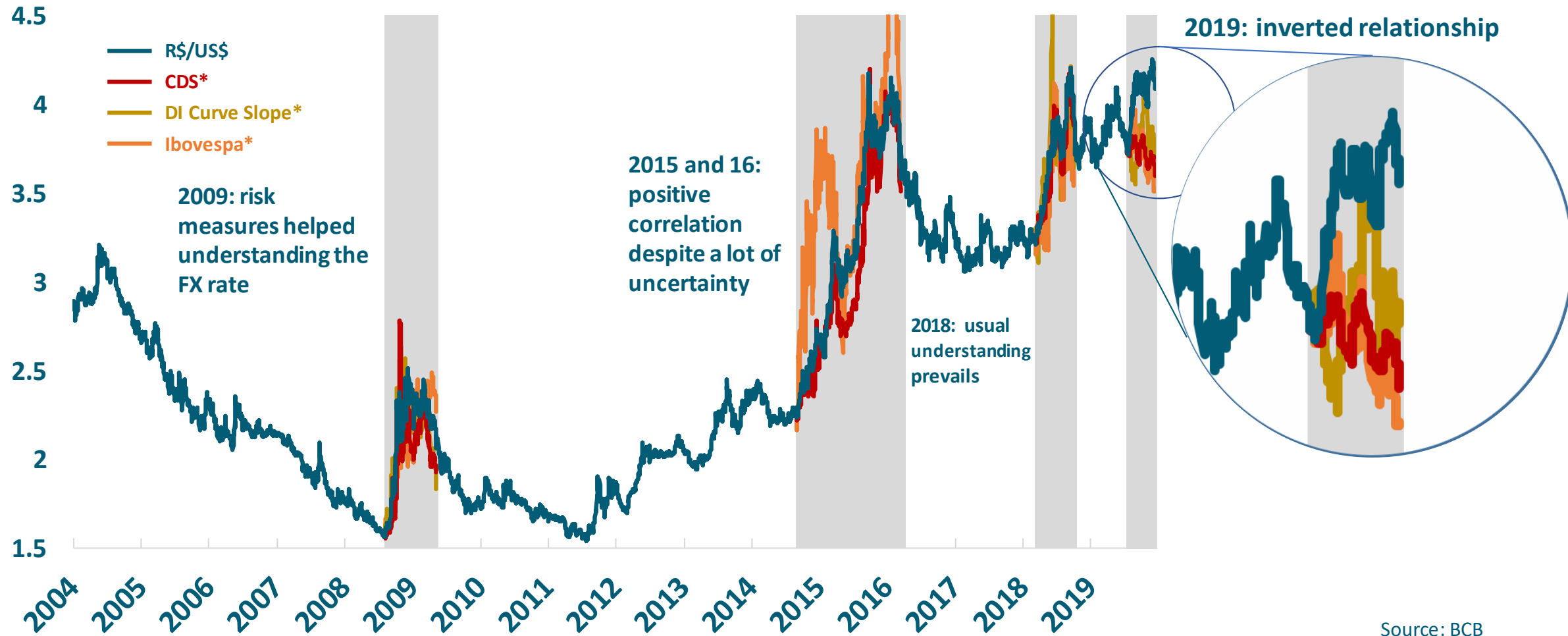
Improvement in the transmission channel increases the power of monetary policy



- Copom unanimously decided in its latest meeting to lower the Selic rate by 50 bps, to 4.50%.
- Economic conditions prescribe stimulative monetary policy, i.e., interest rates below the structural level.
- The current stage of the business cycle recommends caution in the conduct of monetary policy.
- The next steps will continue to depend on the evolution of economic activity, the balance of risks, and inflation projections and expectations.

FX rate and risk

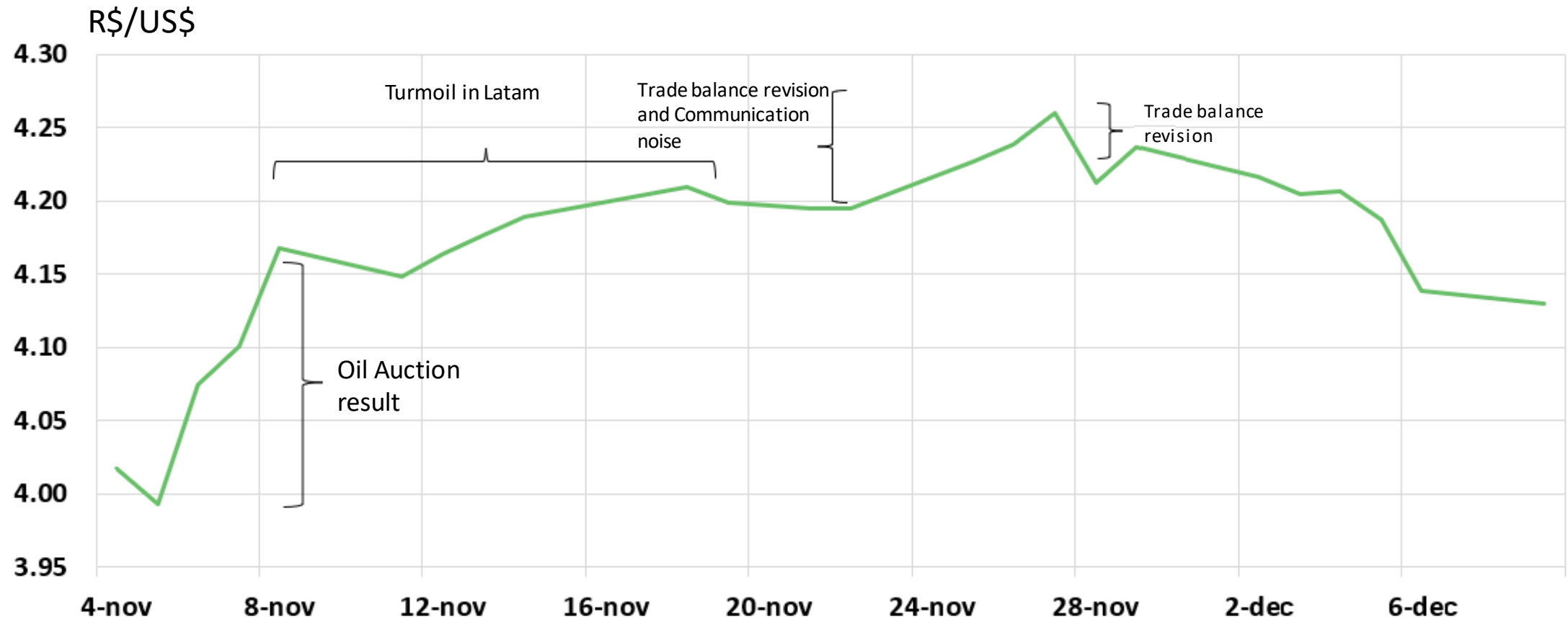
This time is different



Source: BCB

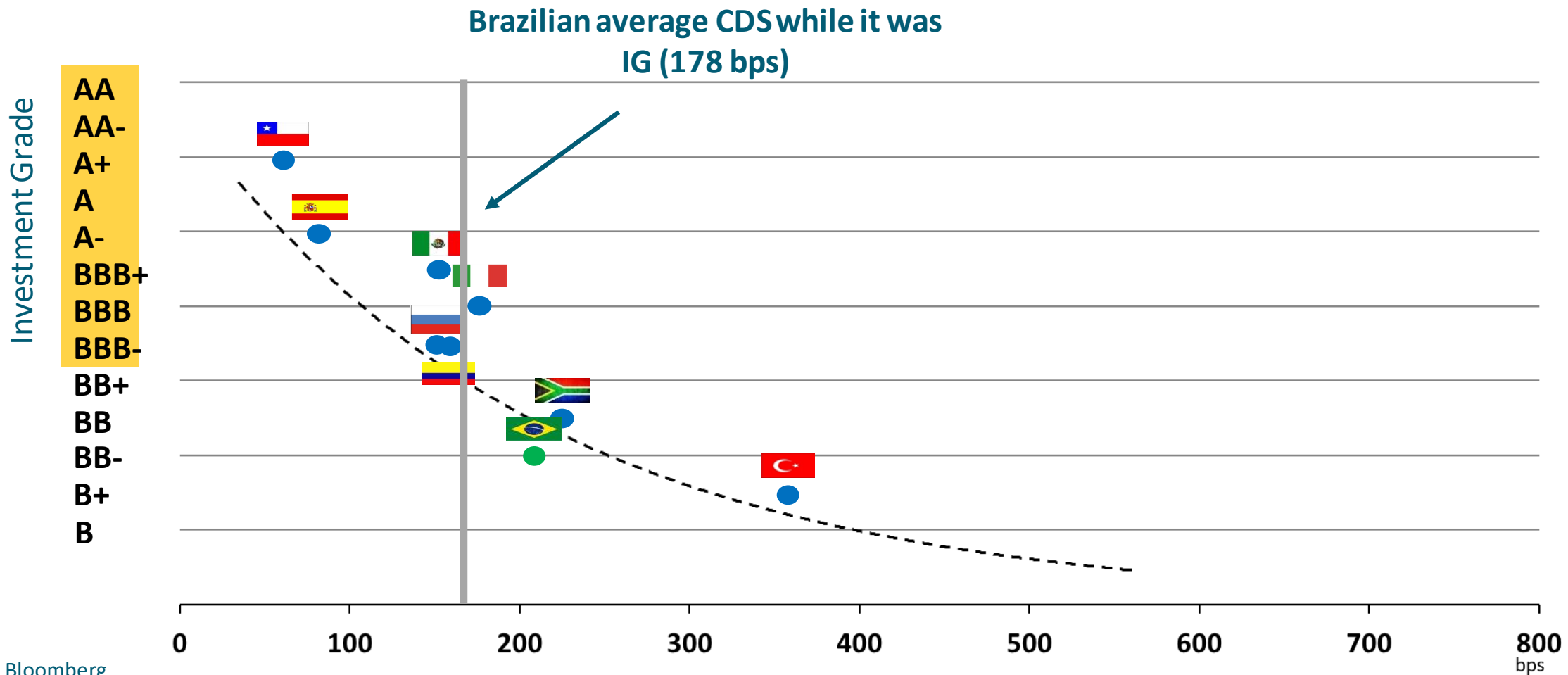
* normalized values to compare to the FX rate

Recent events that affected the Real



Source: BCB

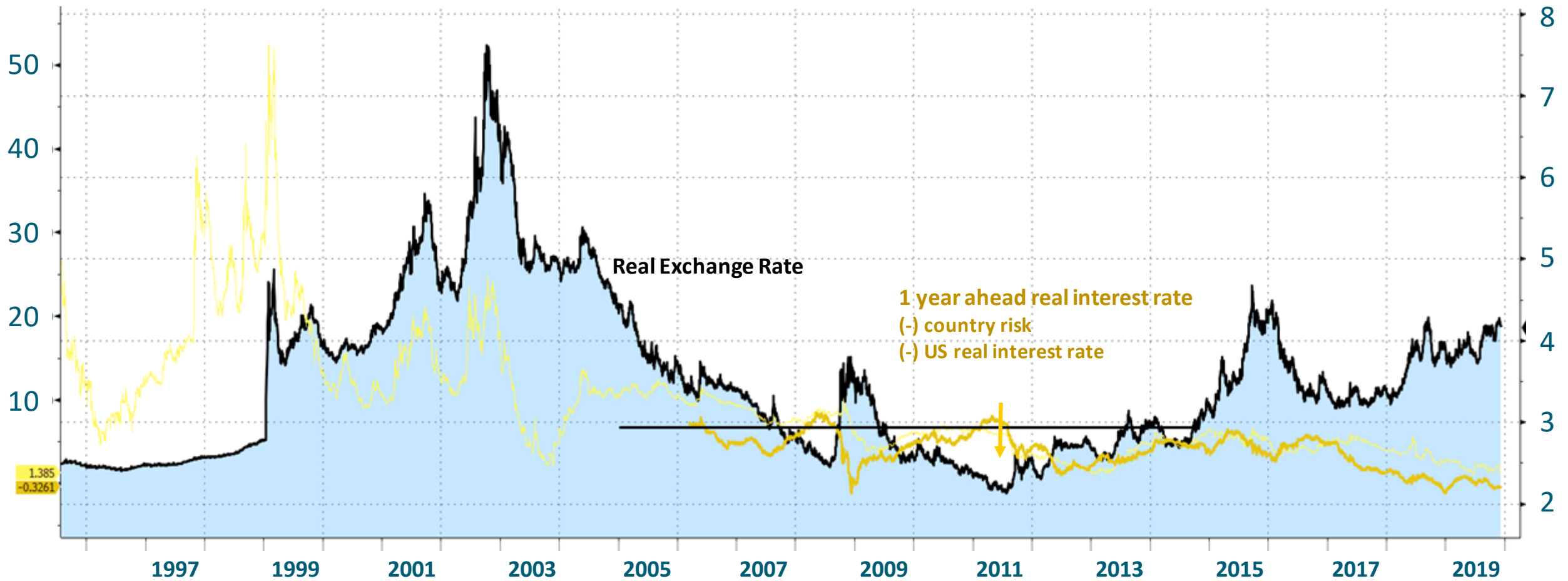
CDS vs S&P rating



Source: Bloomberg

Real exchange rate(BRL/USD)

42% devaluation compared to 2005 - 2014

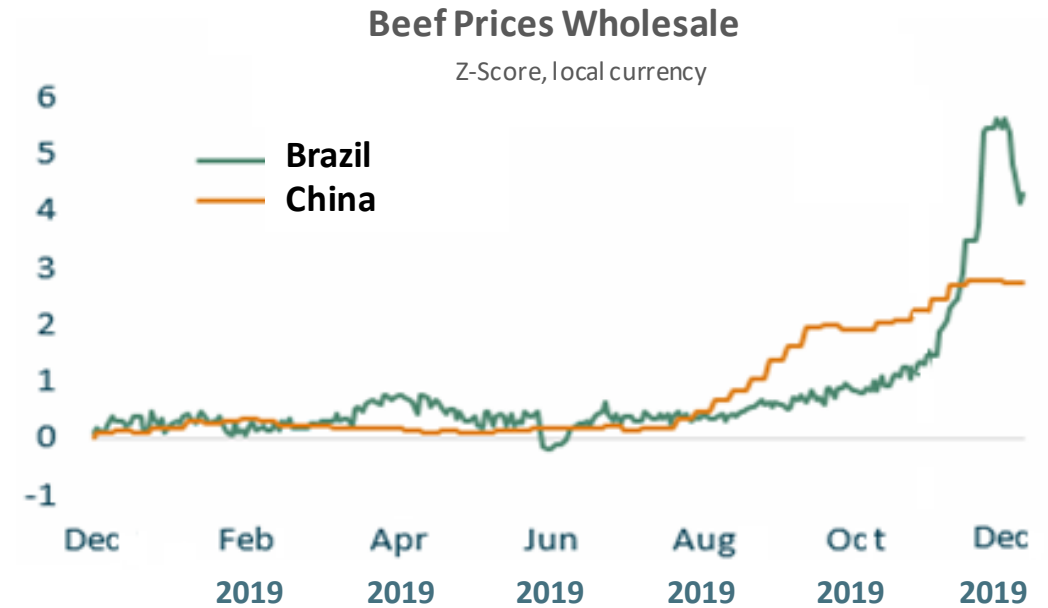
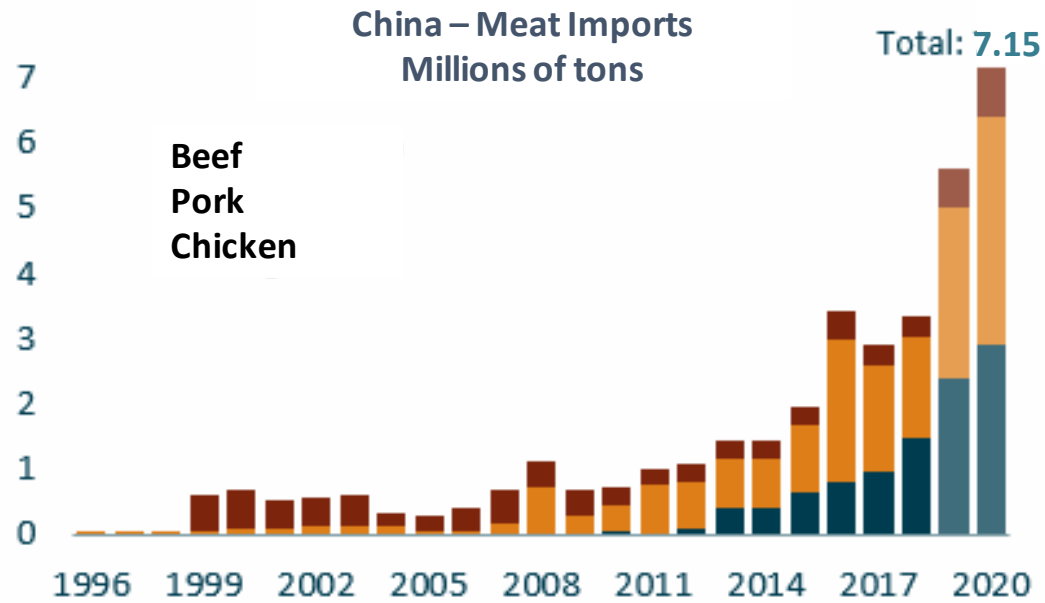


Source: Bloomberg

Impact of meat on prices

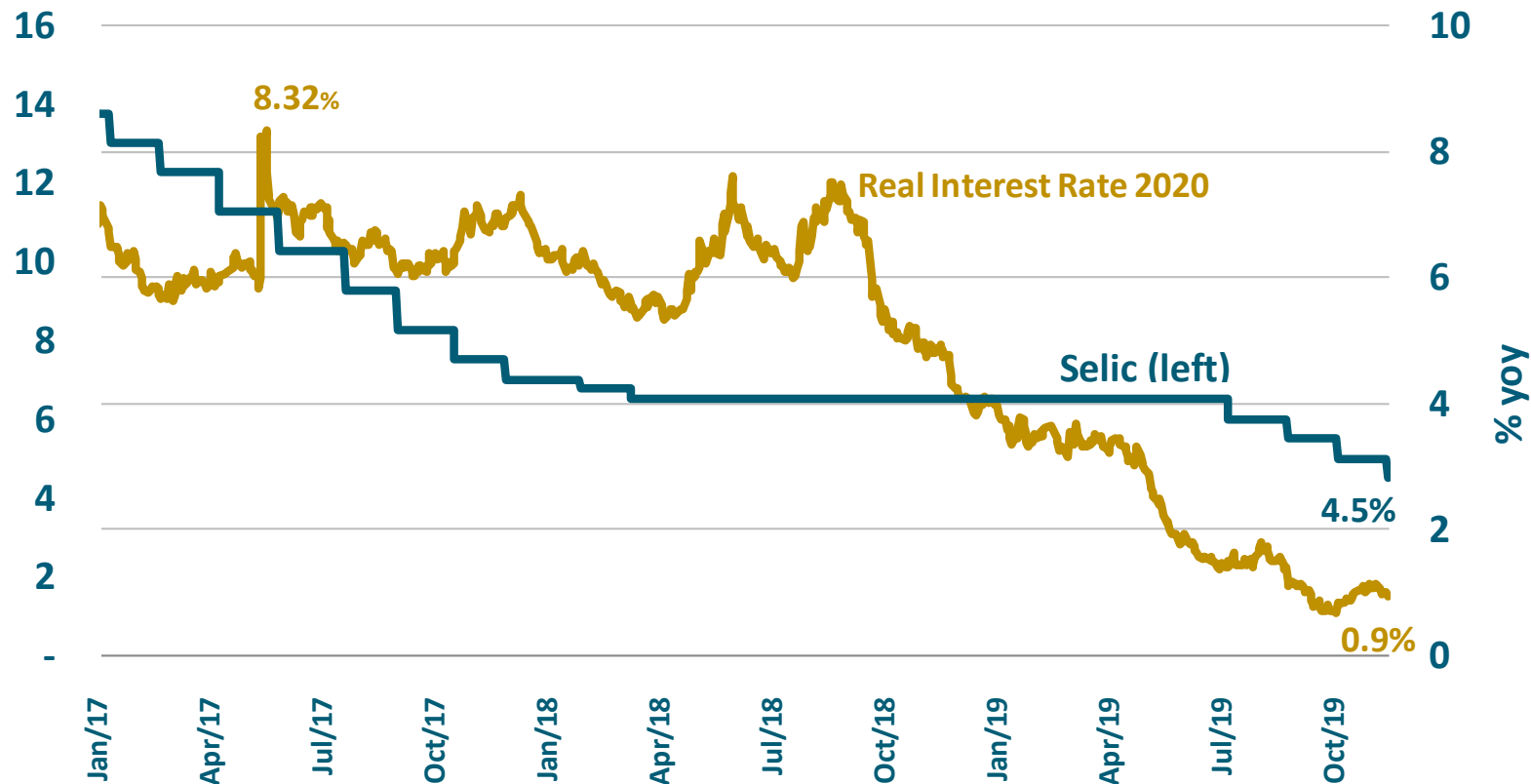
Impact on IPCA of 2019: 1.06 p.p.

Recent local price reversion



Source: USDA oct/19, Bloomberg

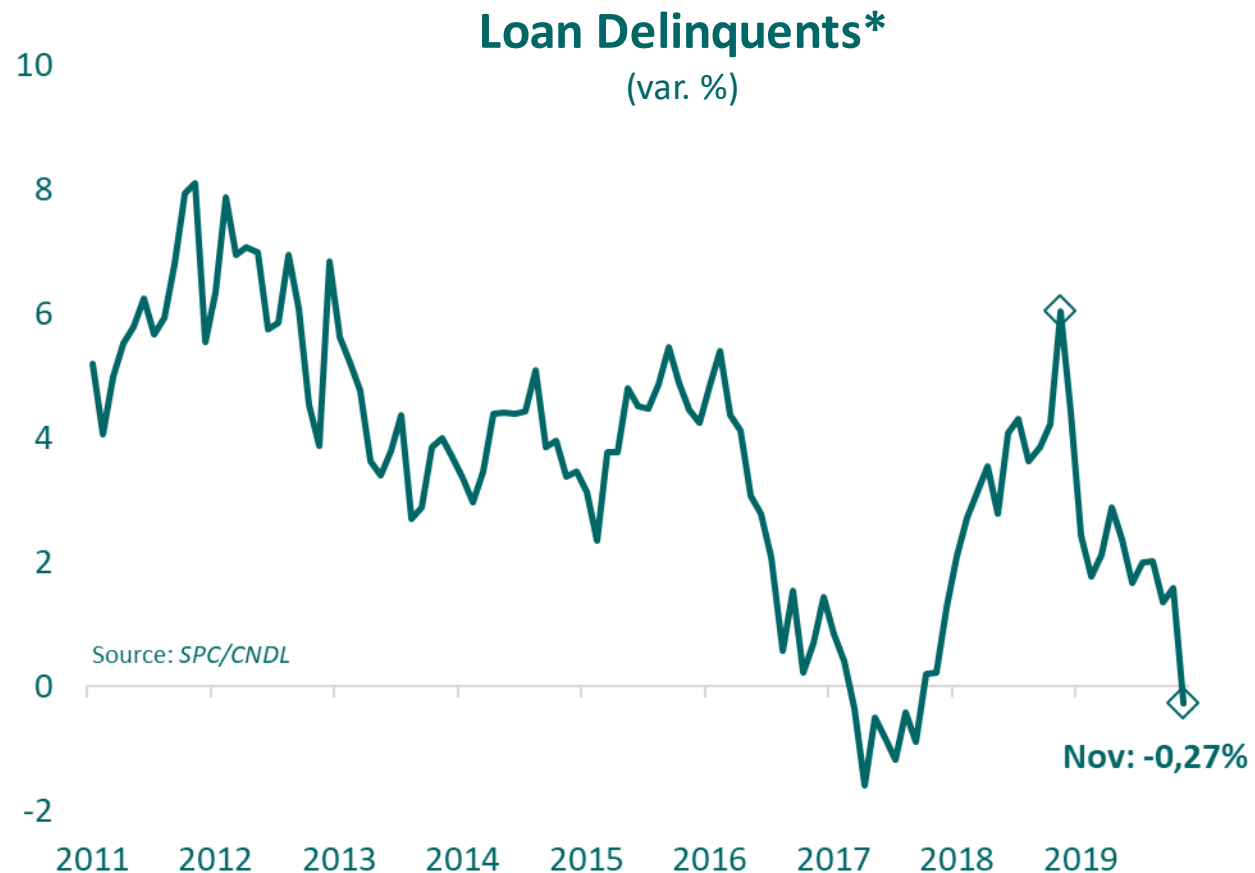
Real interest rate – ex-ante



Source: BC, IBGE, B3

Delinquency rate – SPC/CNDL

- Interannual drop in the number of delinquencies
- Reversion of the unfavorable trend observed in 2018
 - FGTS resources release program
 - Better economic environment
 - Special events for debt renegotiation

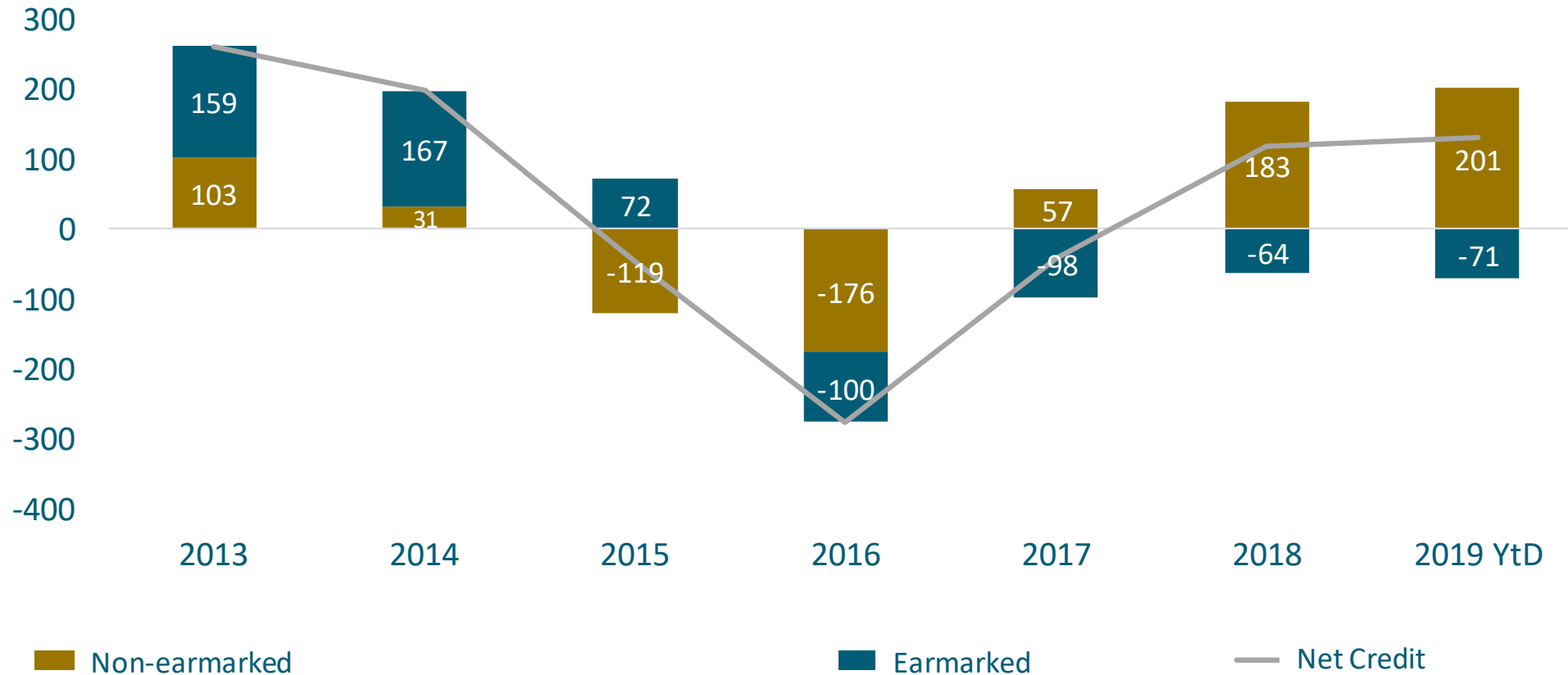


* Compared to the same month in the previous year (%)

Credit market recovery

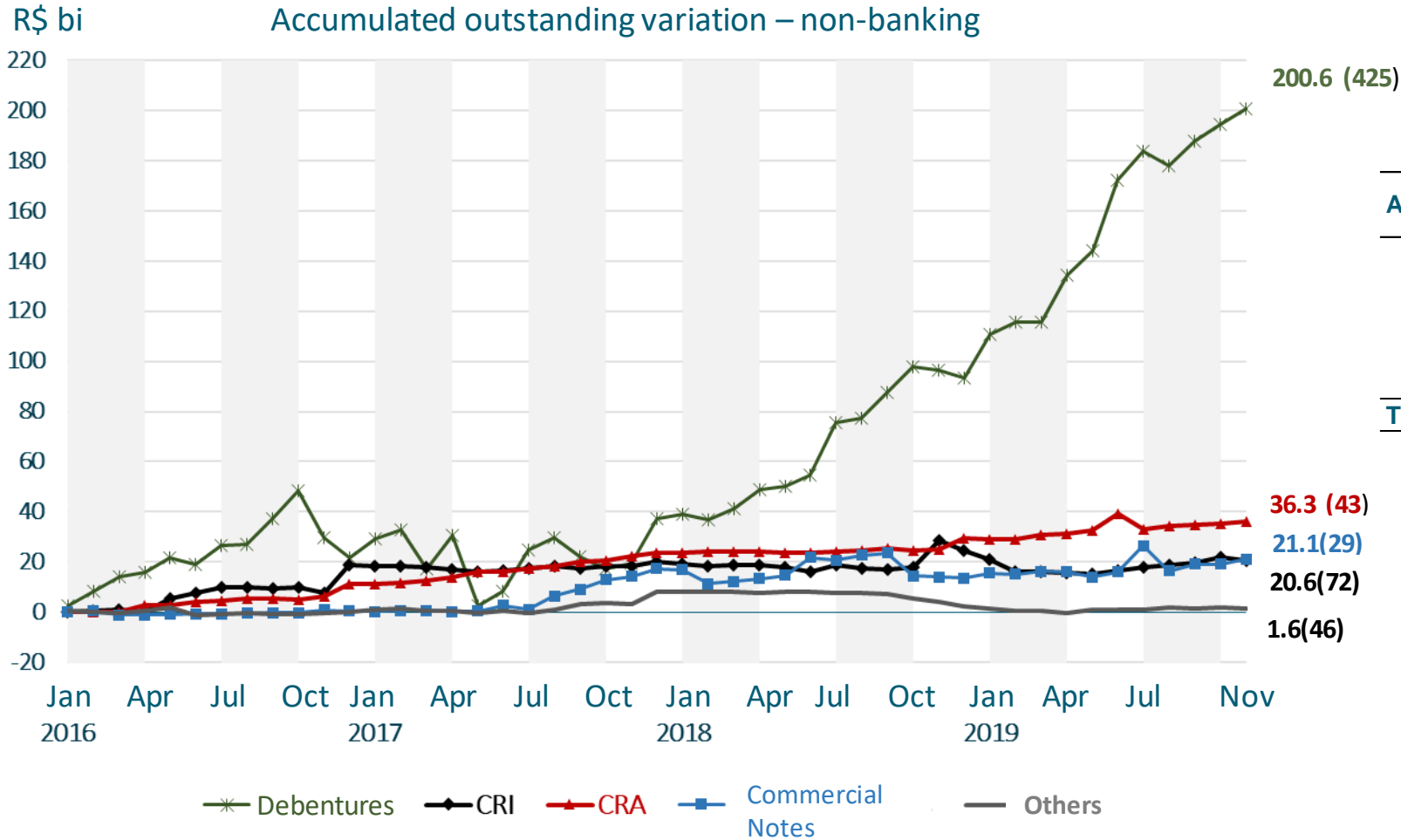
Earmarked and non-earmarked markets: different behaviors

Net new transactions – corporates and households



Non banking corporate bonds issuance

Growth of outstanding non banking corporate bonds stands out



Asset	Accum. outstanding variation (R\$ Billion)	
	Sep-Nov 2018	Sep-Nov 2019
Debentures	19.3	22.8
CRI*	11.3	1.8
CRA**	0.3	1.7
Commercial Notes	-8.7	4.6
Others	-3.5	-0.2
Total	18.7	30.7

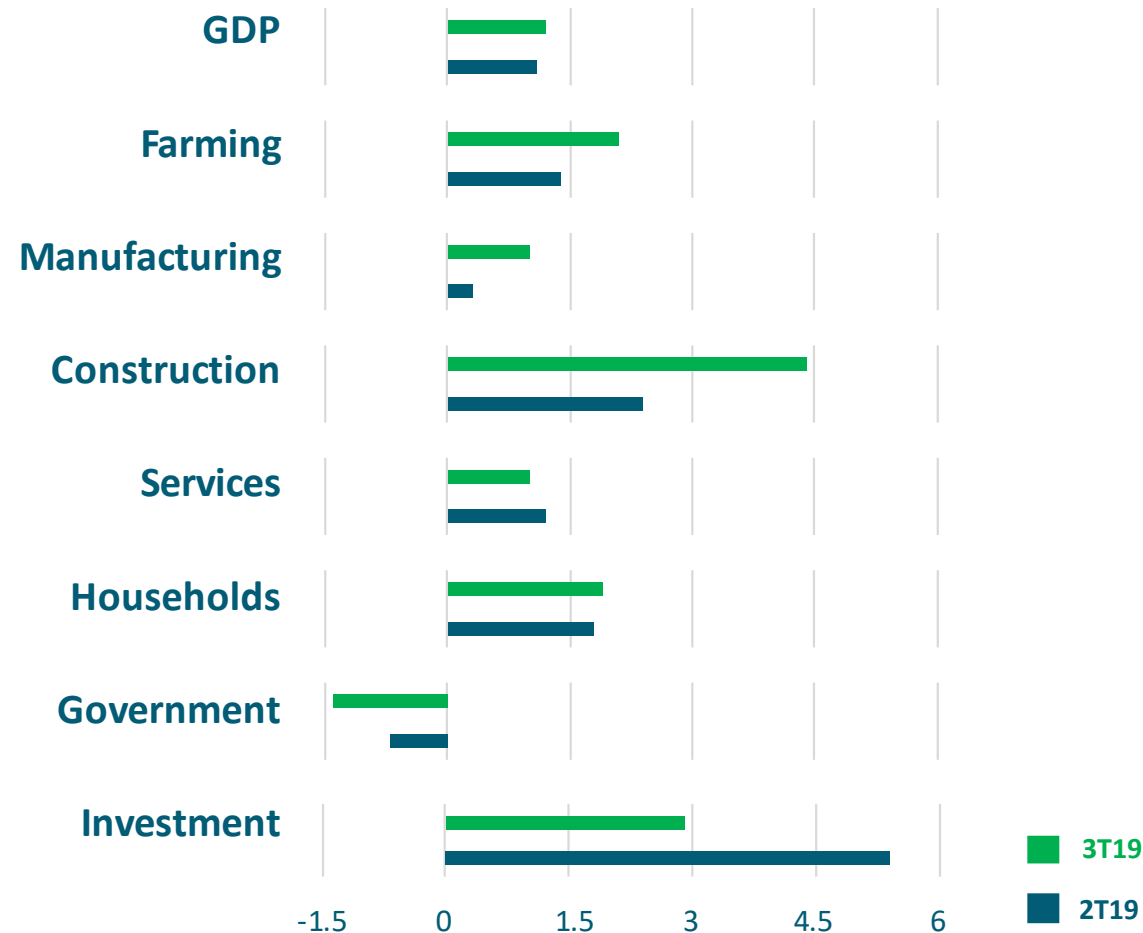
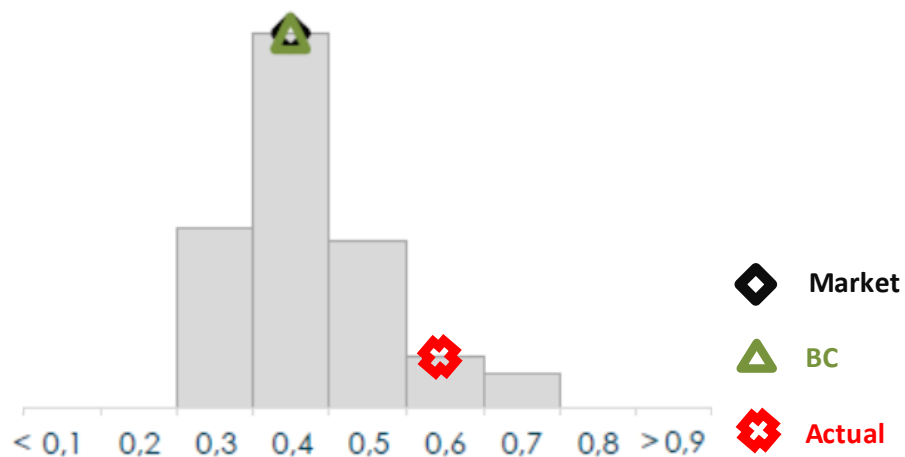
*Real Estate Receivables Certificates (CRI)
 **Agri business Receivables Certificates (CRA)

Brazil: Economic activity recovery

GDP growth at more than 1% yoy*

Highlights

- Government spending cutback has not prevented recovery
- GDP growth and investment recovery
- Construction sector leads manufacturing growth
- Positive surprise at **2018:Q3**



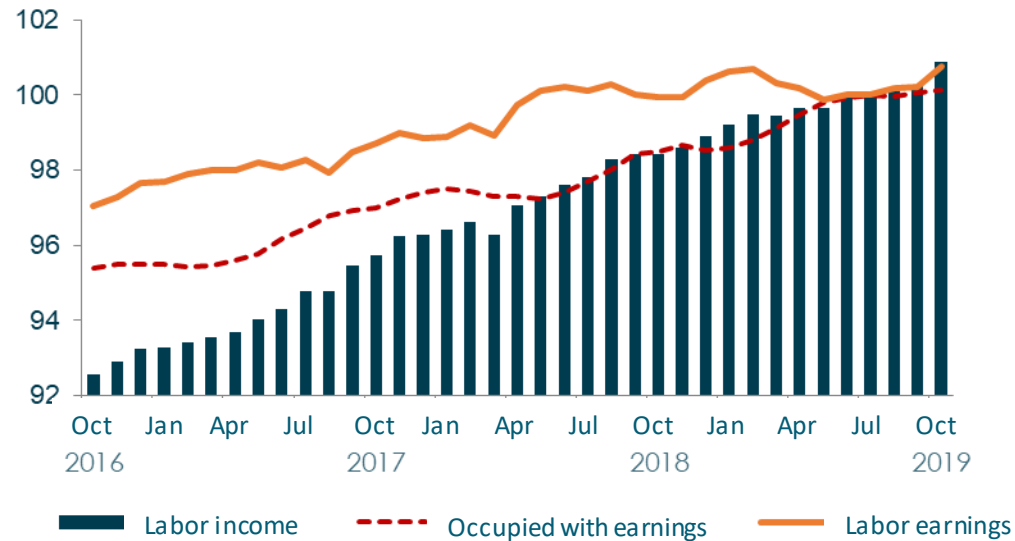
* Compared to the same quarter of the previous year.

Labor income and credit for households

Expansion of labor income and credit growth

Real labor income

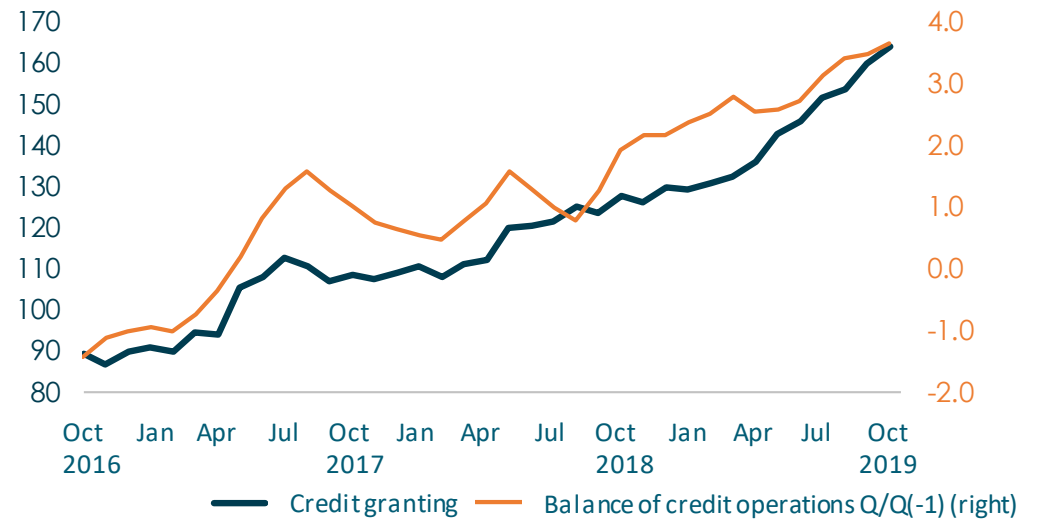
Seasonally adjusted, quarter Q-1 = 100



Credit granting and balance (households) – ex revolving credit

Credit granting – quarterly (R\$ bi)

Change in credit balance Q/Q(-1) (%)



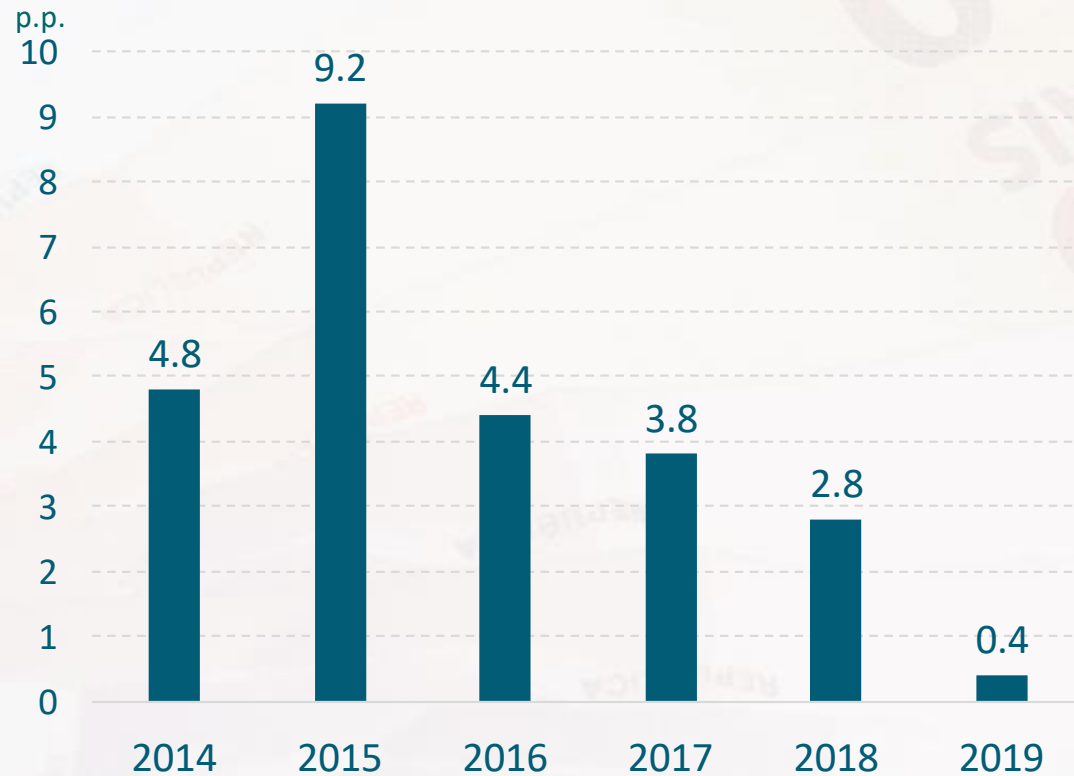
Improvement in the fiscal balance

General Government Gross Debt

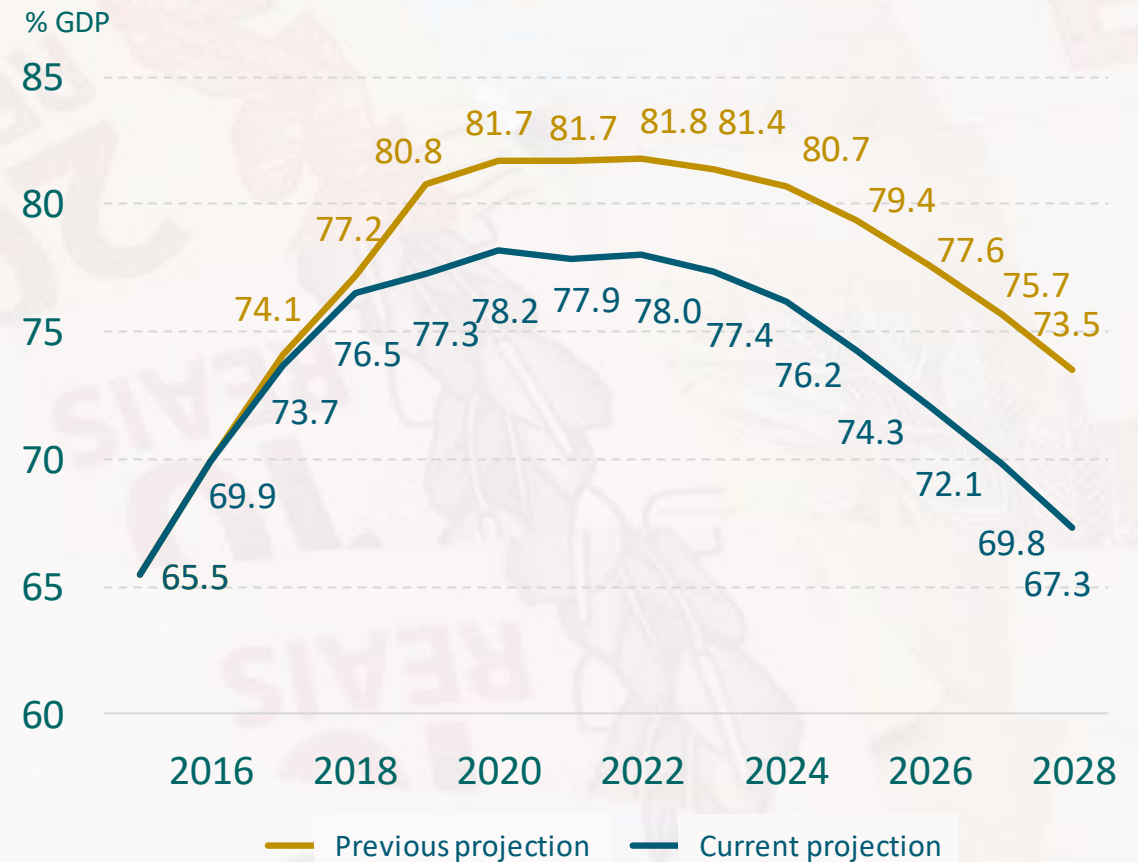
Macroeconomic Outlook

Brazilian Economy

Debt growth



Debt projections



Source: STN



INCLUSION



COMPETITIVINESS



BC



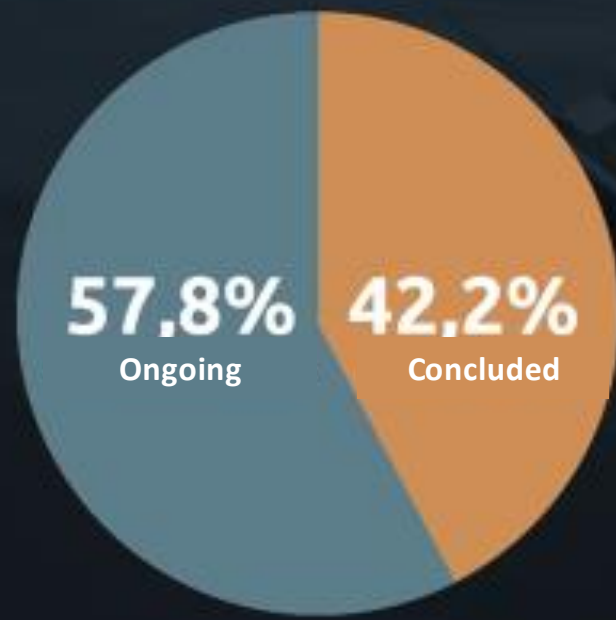
TRANSPARENCY



EDUCATION



2019



275
Actions

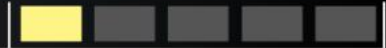
INCLUSION

COMPETITIVENESS

TRANSPARENCY

EDUCATION

COOPERATIVE CREDIT



MICROCREDIT



CURRENCY CONVERTIBILITY



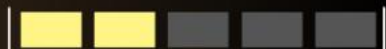
INITIATIVES FOR CAPITAL MARKET (IMK)



INNOVATION



MARKET EFFICIENCY



INTERNATIONAL RESERVES



RURAL CREDIT



HOUSING CREDIT



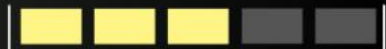
RELATIONSHIP WITH CONGRESS



TRANSPARANCY OF MONETARY POLICY



COMMUNICATION OF BCB ACTIONS



RELATIONSHIP WITH FOREIGN INVESTORS



FINANCIAL EDUCATION



A satellite with solar panels is shown in orbit above Earth. The satellite is a small, dark, rectangular box with several solar panels extending from its sides. The Earth's surface is visible below, showing clouds and landmasses. The background is a dark, deep blue space with a bright light source, possibly the sun, creating a lens flare effect.

AGENDA BC# HIGHLIGHTS FOR 2020

Agenda BC# – Instant payments

Availability

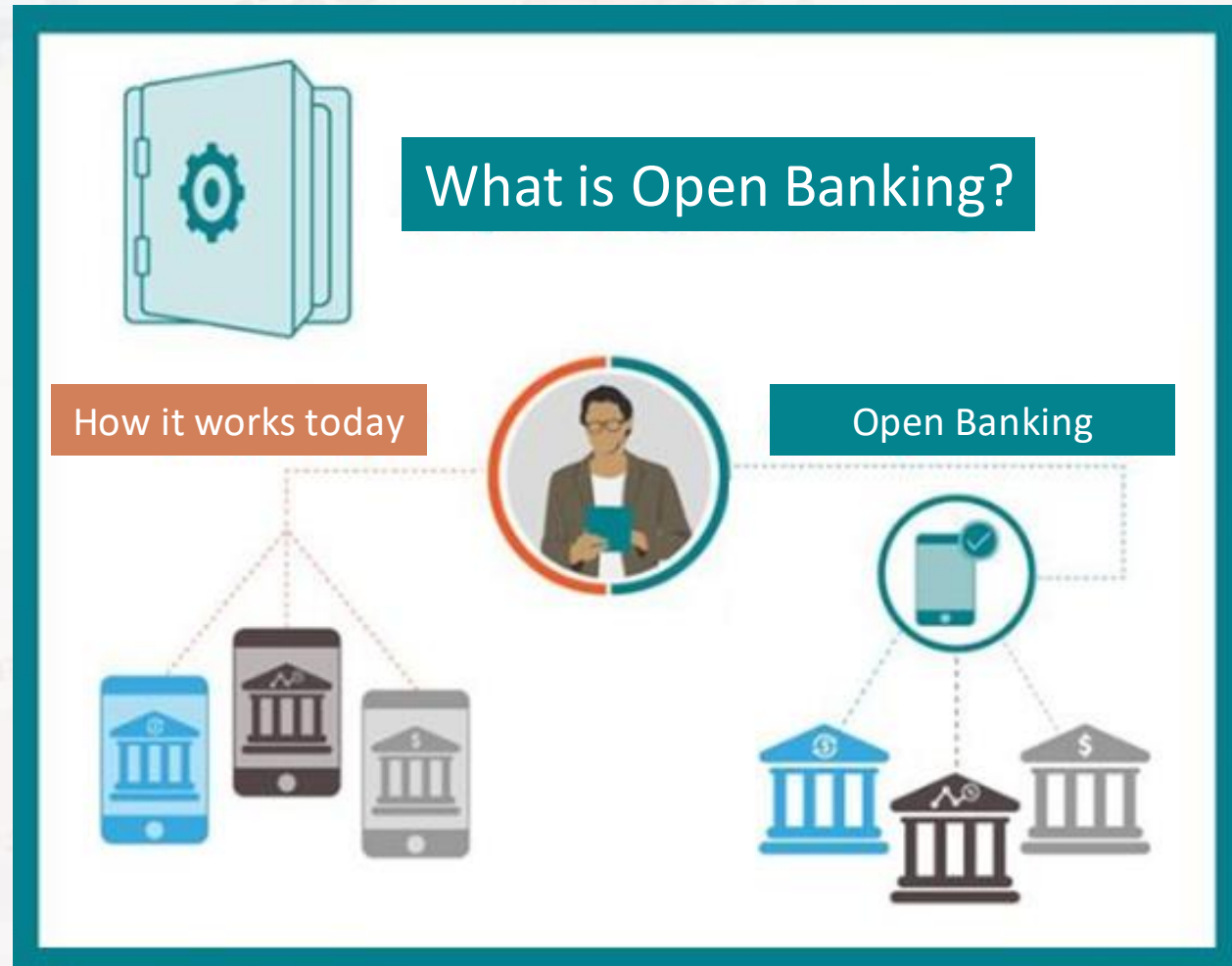
Speed

Convenience

Open environment

- P2P
- P2B
- B2B
- GOV





Agenda BC# – Liquidity Financial Line (LFL)

Definition of strategic guidelines

Old model

Assistance in case of need

Government bonds as collateral

New model

Standing assistance

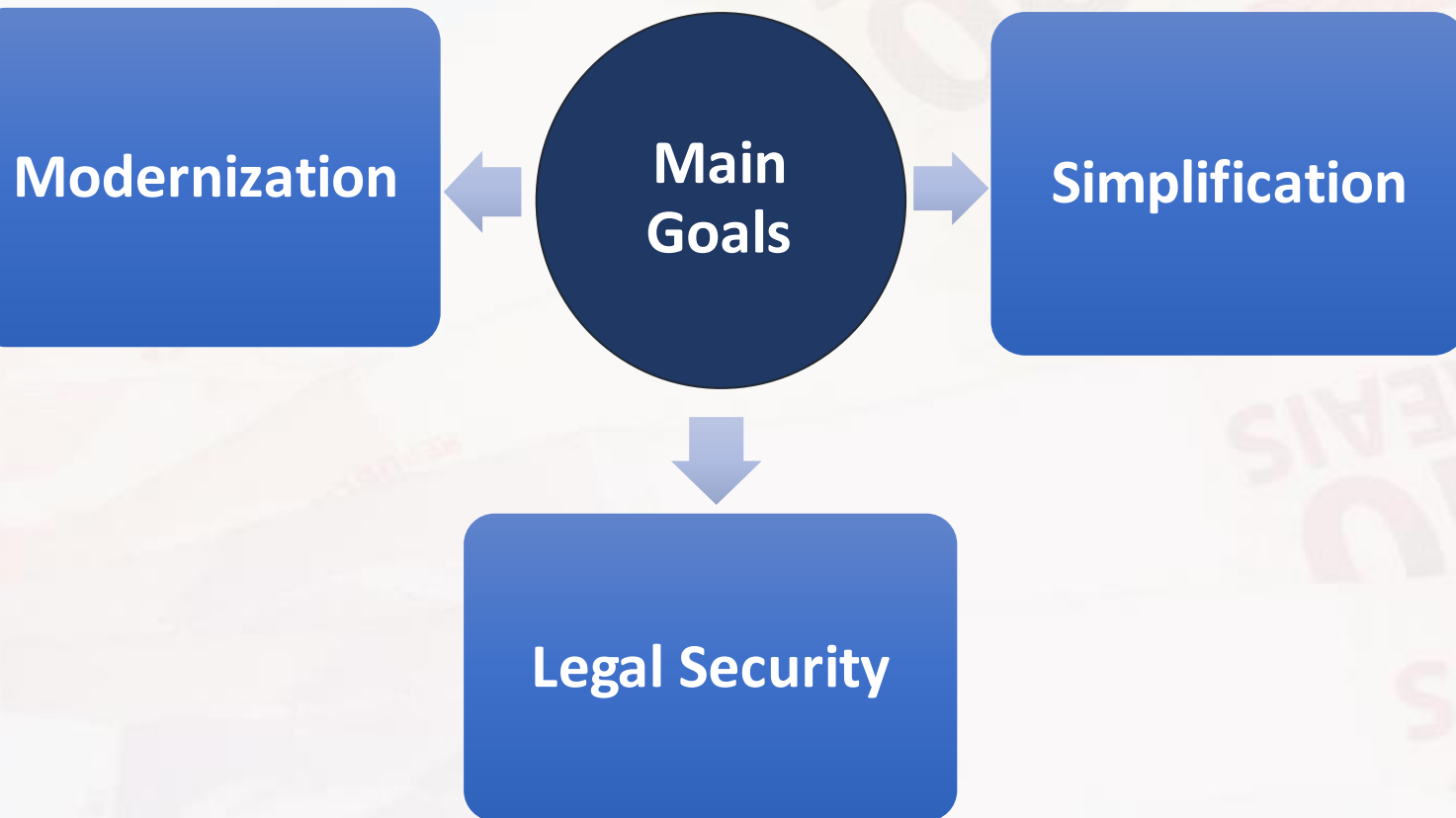
Public and private securities as collateral

Lower reserve requirement need

Space for the local capital market to grow

Agenda BC# – FX Simplification

Highlights for 2020



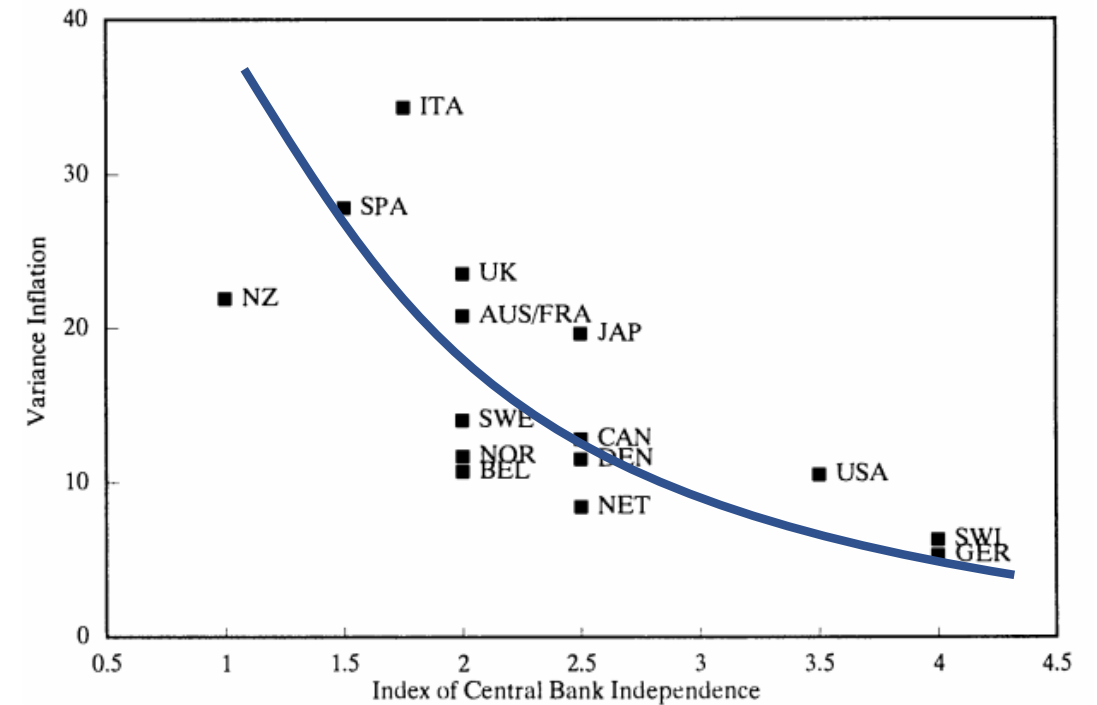
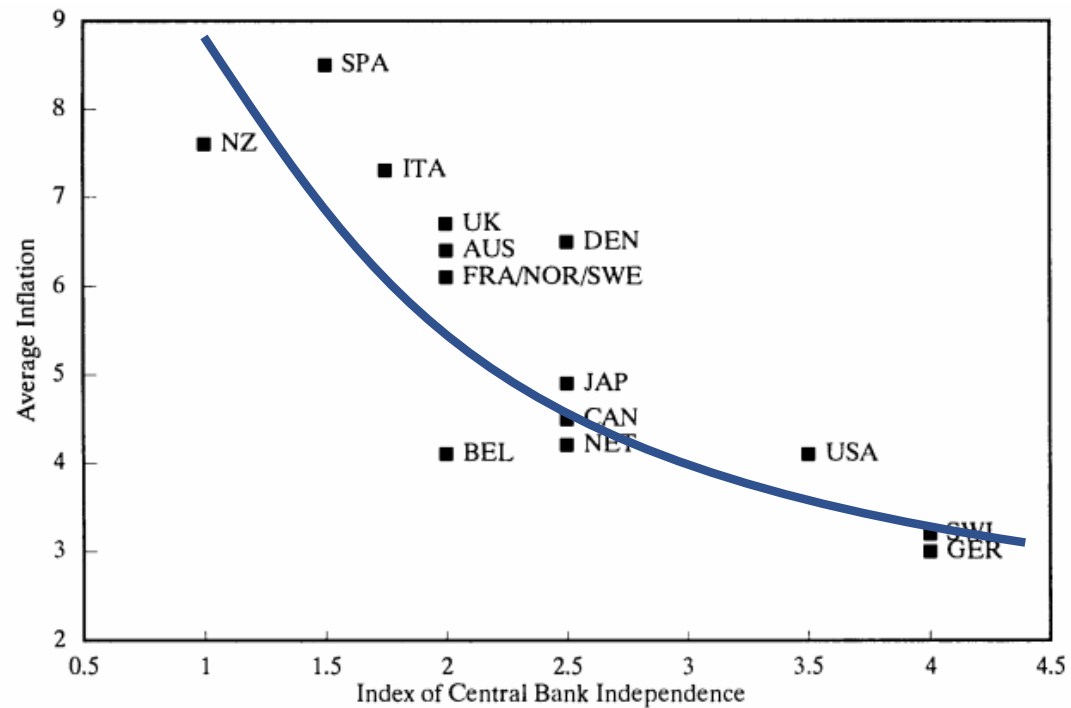
Single and embracing Law	<ul style="list-style-type: none">• Consolidation and revocation (more than 40 instruments created after 1920)
Rationalized and principle-oriented regulation	<ul style="list-style-type: none">• End of antiquated requirements, searching for more efficiency
Flexibility to incorporate technological innovations	<ul style="list-style-type: none">• Possibility of incorporating new business models and agents

Alignment to international best practices

Agenda BC# – BCB Autonomy

Highlights for 2020

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



Source: Alesina A. e L. Summers (JMBCB, 1993), Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence



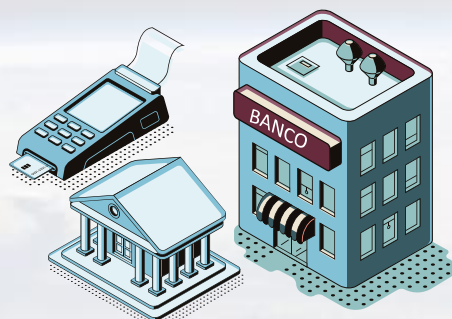
**# WHAT WE WANT TO
ACHIEVE**

Motivation

What we want to achieve



Lower entry cost and more **inclusion and participation**



Lower long interest rate allows **private** financing for large players



More public support for **small and medium** players



Modernization to increase the amount of **resources** to society

Technology to streamline and cheapen transactions

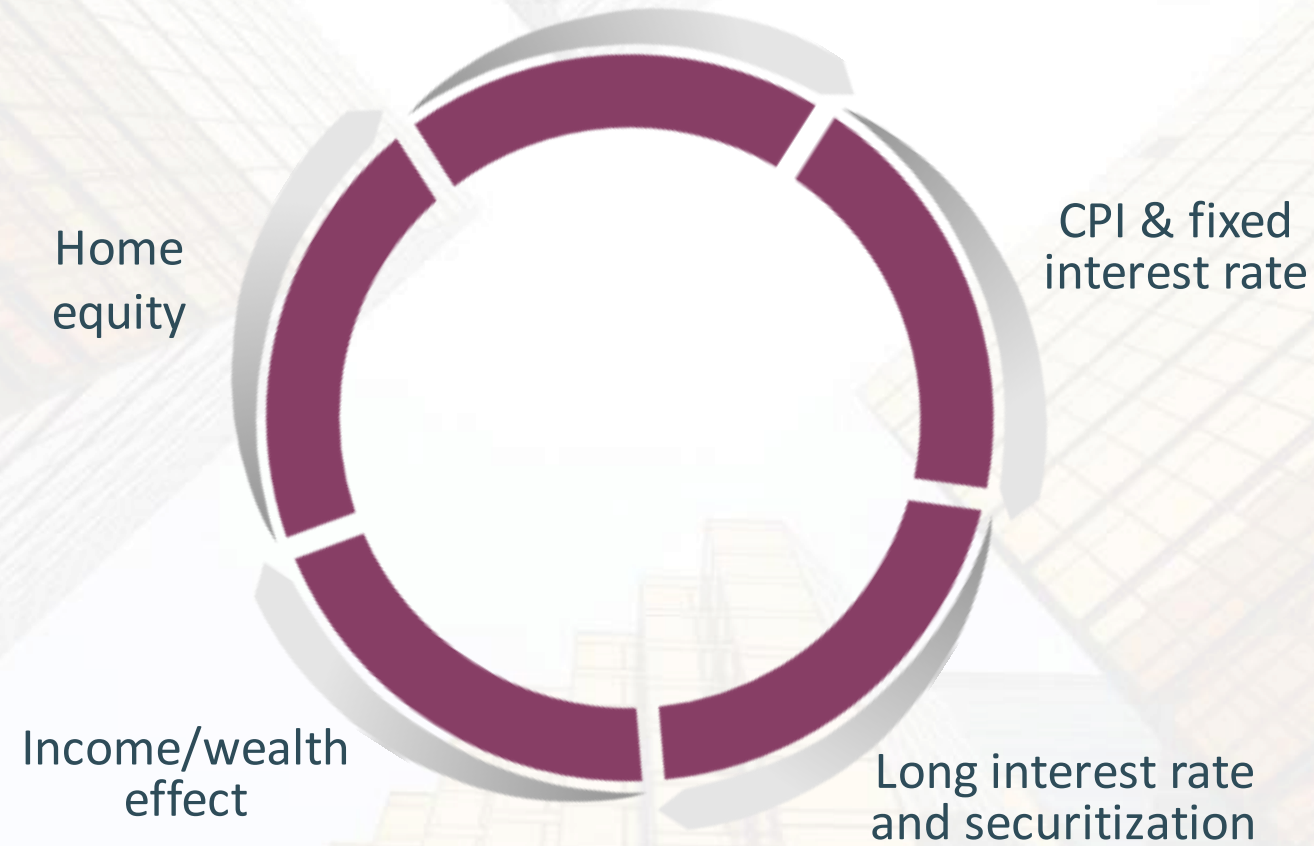


HOUSING MARKET

Main channels

Housing market

Housing market



Home equity

CPI & fixed interest rate

Income/wealth effect

Long interest rate and securitization



CPI & fixed
interest rate

Main channels

Housing market

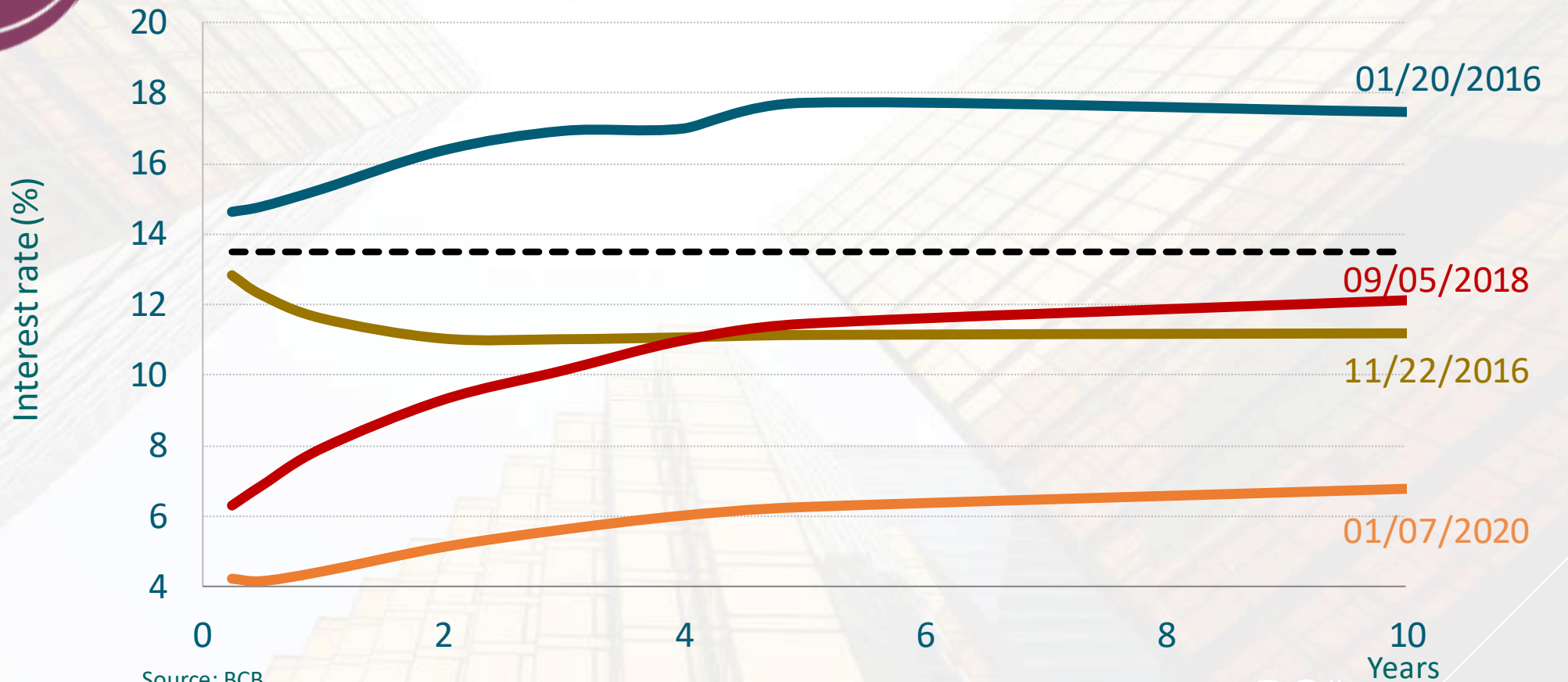
Use of CPI to index real estate financing contracts

- # The projected amount for one year
was reached in 45 days
- # + R\$6 bi granted
- # + R\$15 bi approved



Main channels Housing market

Long interest rate and securitization
– yield curve



Source: BCB



What we want to achieve



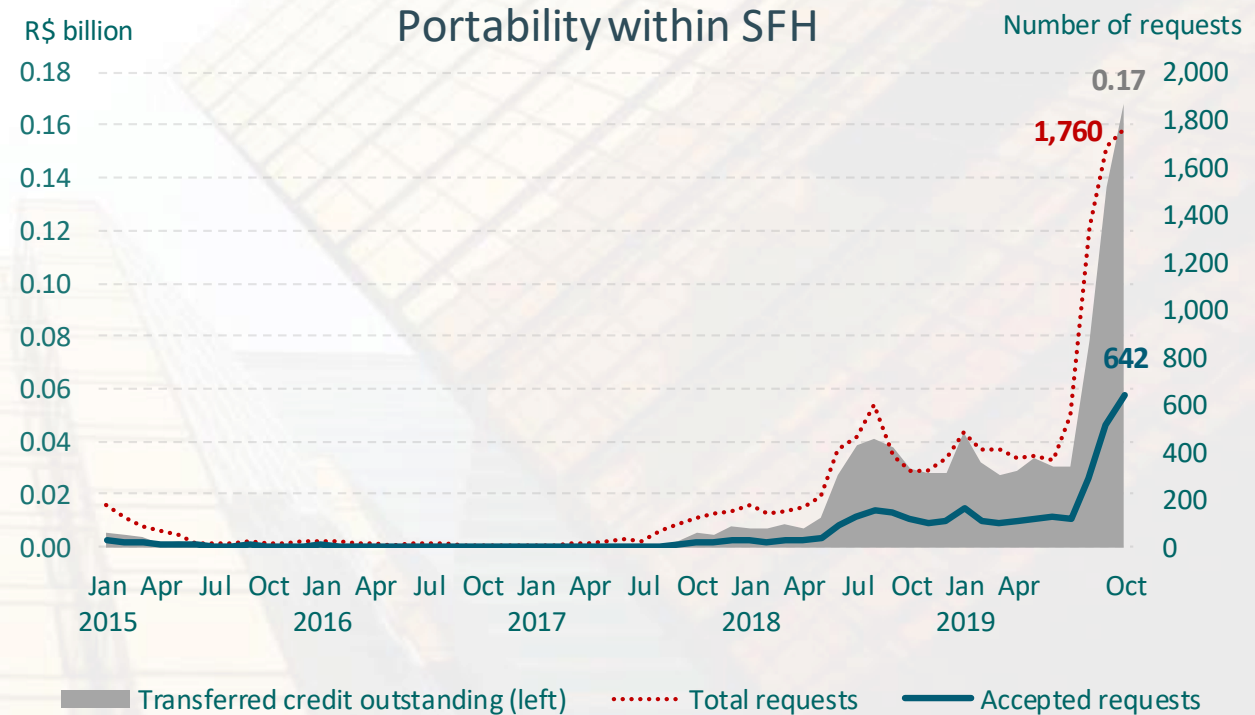
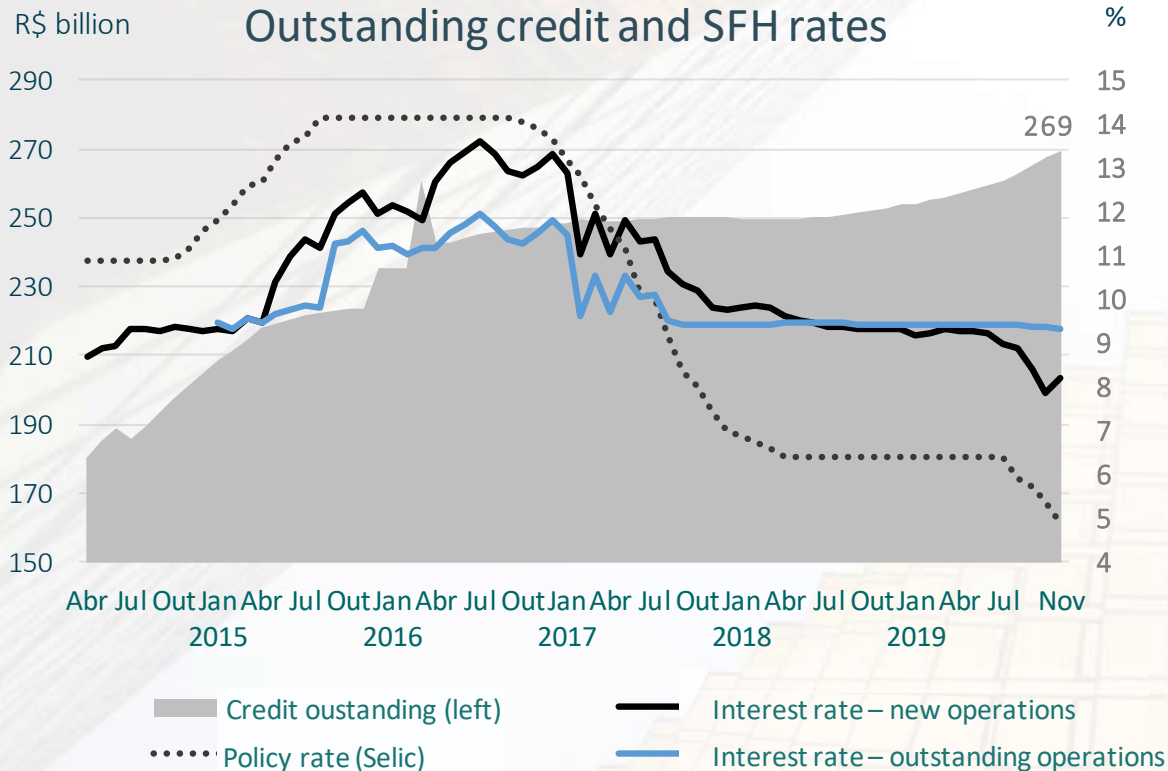
Income/wealth effect

Main channels Housing market

Income effect and portability – a virtuous cycle

Potential of income effect:

- # R\$1.9 bi/year (whole economy)
- # R\$1,210/year (household)
- # Portability is still low → Amount: R\$170 mi



Home equity



Home equity: high potential

Main channels

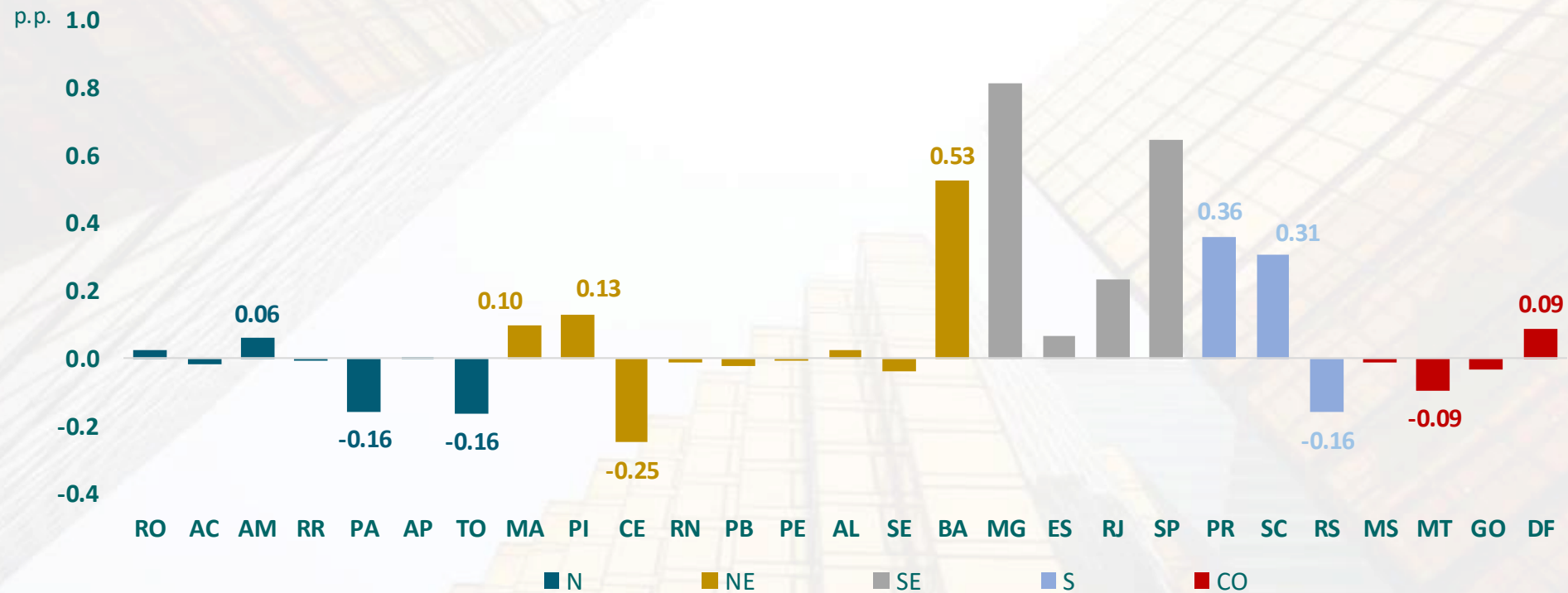
Housing market

- # Home equity grew 55% in 2019 until September, reaching a volume of over R\$300 million.
- # Around R\$ 500 bi can be injected in the market, almost the total current real estate credit stock.
- # The interest rate has reached around 14% p.y.
- # Big traditional financial institutions have been increasing the supply and reducing rates, while fintechs increase de volume of resources for this modality.



Construction sector in recovery

Contribution of each State to employment in construction





COOPERATIVE CREDIT

Main channels

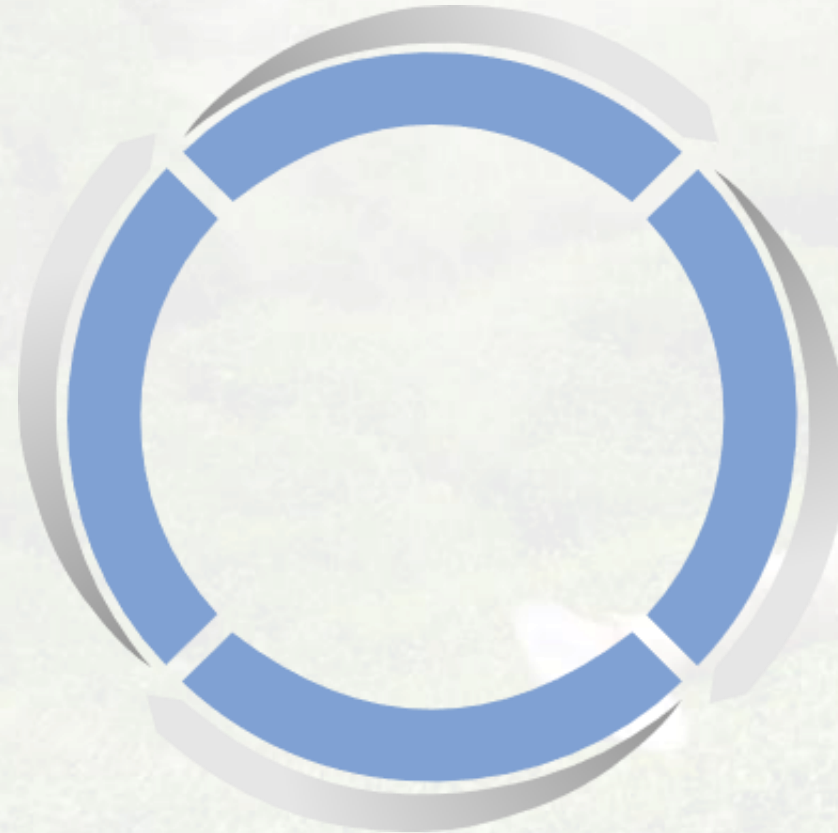
Cooperative credit

Credit unions

Better resources allocation

New funding

Governance





New funding

Main channels

Cooperative credit

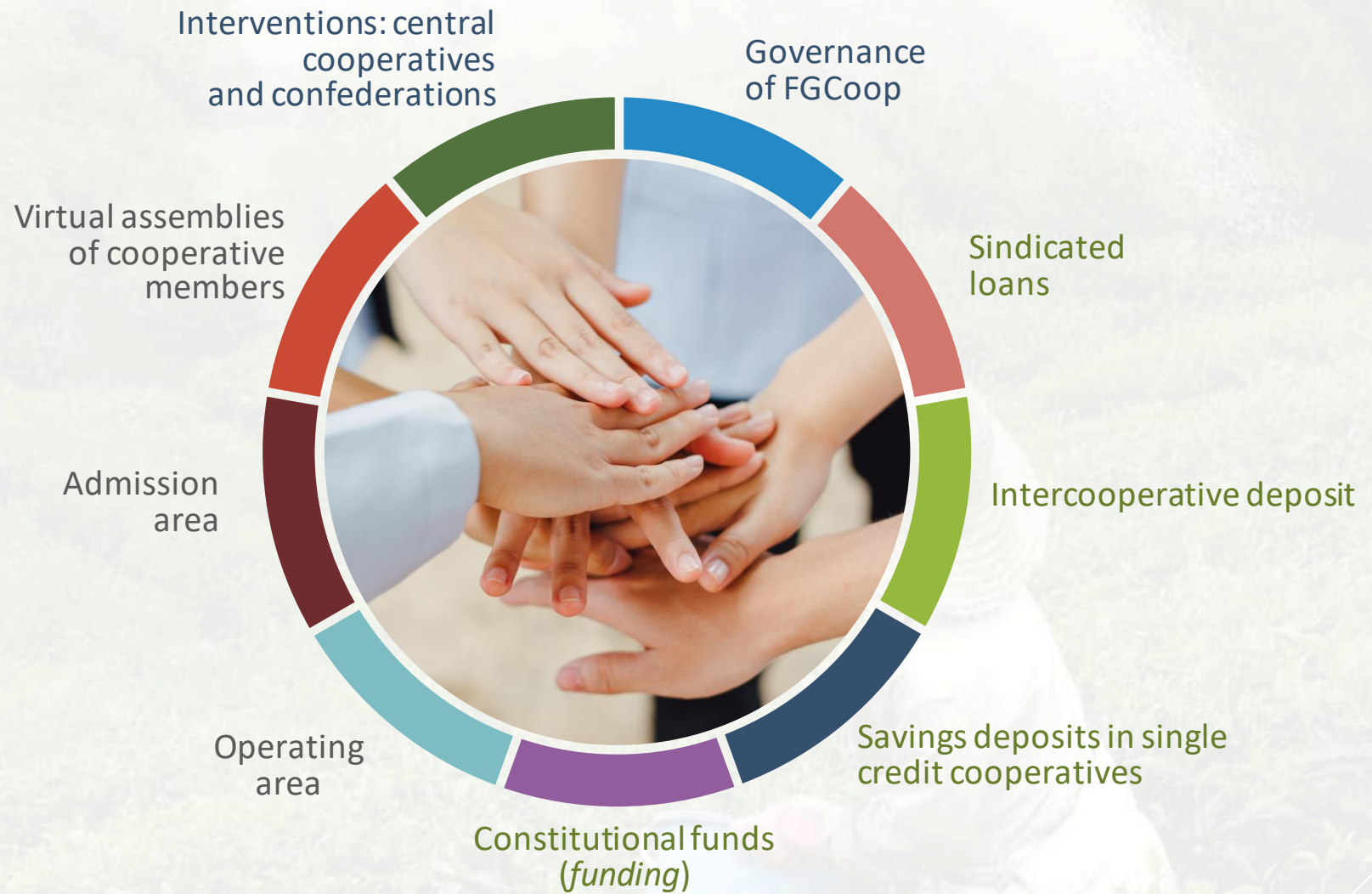
New instruments

- # Financial letter
- # Savings deposits
- # Brazilian covered bond – LIG



Governance

Main channels Cooperative credit



Better resources allocation

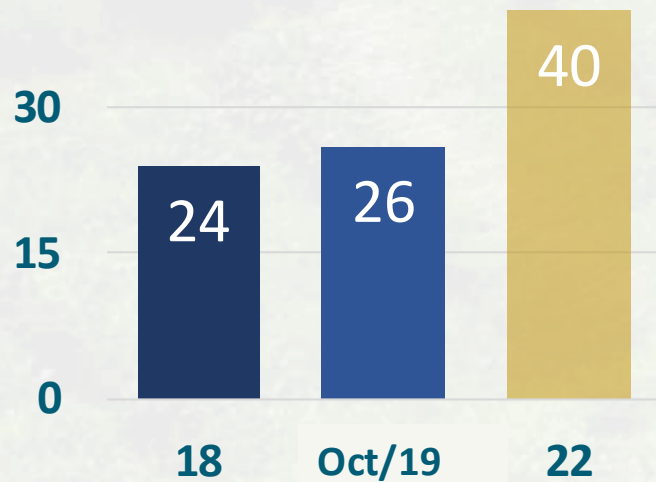


Main channels

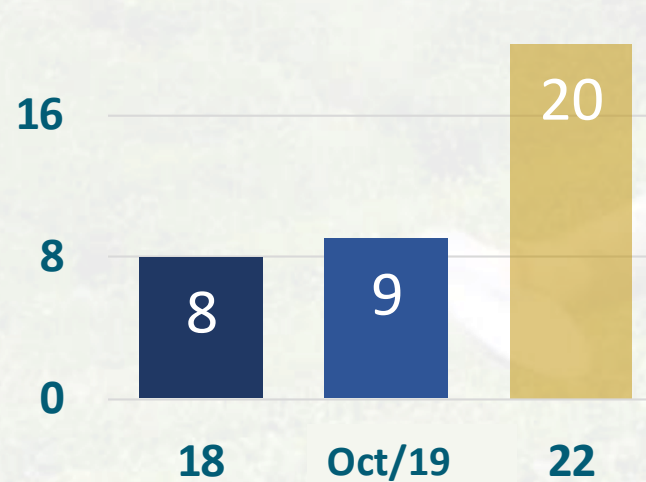
Cooperative credit

Higher share (%)

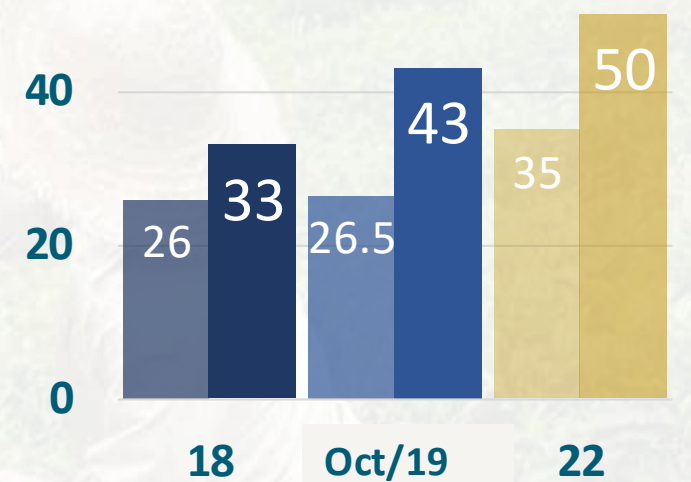
Cooperative members in the SNCC



Credit Cooperatives



Low income cooperative members



Left bar: in value
Right bar: in number



MONEYTIMES Menu Últimas Notícias Cotações Comprar ou Vender Fundos Imobiliários Ações para 2020

Economia

Cooperativas de crédito abrem novas agências para atrair associados

MENU terra

ECONOMIA

CMN permitiu que cooperativas também emitam a Letra Financeira comum



MICROCREDIT

Main channels
Microcredit

Microcredit

Fintechs

Traditional
banks



Microcredit for
productive
activities

Digital
platforms



Microcredit
for productive
activities

Main channels

Microcredit

Microcredit for productive activities – *MPO*

1. Annual revenue limits raised from R\$200k R\$360k
2. Face-to-face meeting to start credit process no longer required
3. Permission for specialized entities to offer credit assistance services

Earmarking destination of demand deposits funds

4. More agile policy instrument to avoid non-utilized funds

Microcredit operations

5. Higher share of earmarked funds (5%)
6. Facilitates support to micro-enterprises



Digital platforms

Main channels

Microcredit

Credmei: quais são instituições financeiras participantes

Home / Finanças / Crédito e Financiamentos / Credmei: quais são instituições financeiras participantes do Program

Q Buscar aqui ...

Credmei: quais são instituições financeiras participantes do Programa?

Pergunta Reportar

Neste momento, estão credenciadas no Programa as seguintes instituições:

AGÊNCIA DE FOMENTO DO PARANÁ S/A

CAIXA ECONÔMICA FEDERAL - CEF

CENTRAL COOPERATIVA DE CRÉDITO NO ESTADO DO ESPÍRITO SANTO - CECOOP

HSCM - SOCIEDADE DE CRÉDITO AO MICROEMPREENDEDOR E À EMPRESA DE

PEQUENO PORTE



Traditional banks

Traditional banks have focused more on microcredit

Main channels

Microcredit



FOLHA DE S.PAULO



Presidente mundial do Santander visita Brasil para ver microcrédito de perto

Nos três dias de viagem ao país, Ana Botín foi a Fortaleza e acompanhou trabalho em campo

CORREIO BRAZILIENSE Economia

Presidente da Caixa aposta no microcrédito e em juros mais baixos

Pedro Guimarães diz que instituição vai dirigir o foco para empresas menores e anuncia lançamento de linha de financiamento imobiliário com juros fixos e prazo de até 30 anos. E promete reduzir taxas no cartão de crédito e no cheque especial

Fintechs



Main channels

Microcredit

+ Digital platforms
Credit fintechs

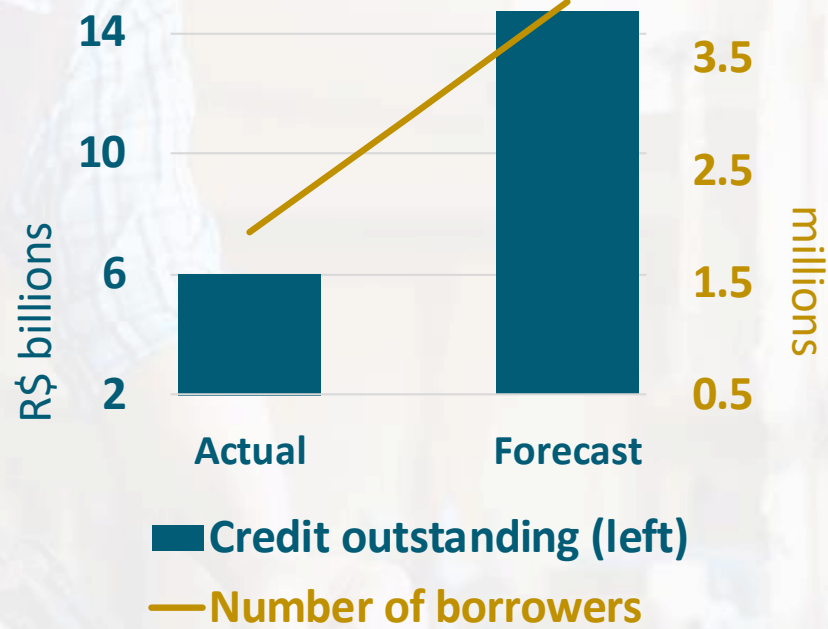
Segment dynamism

300% yearly growth



Microcredit for productive activities

Effect of initiatives for the segment





PRIVATE DEBT

Main channels

Private debt

Private debt

Reduction of
the need for
liquidity

Liquidity
financial line

Lower fundraising premiums
Lower issuance costs



Liquidity financial line

Main channels

Private debt

Private debt market

Better pricing

Greater liquidity

+ secondary market

+ repo market

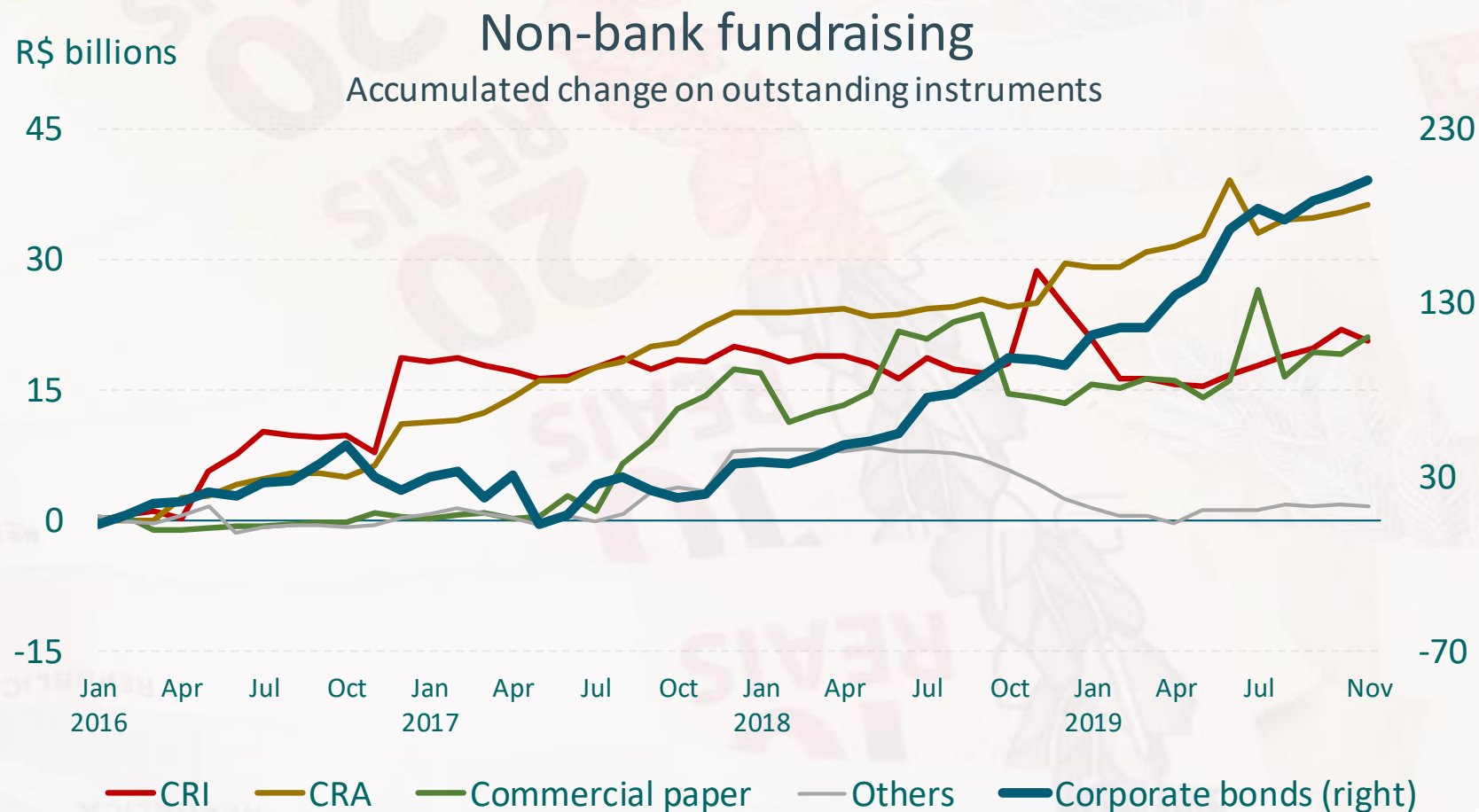
Unfreezes liquidity value



Lower fundraising premiums
Lower issuance costs

High potential
Recent changes have fueled
growth on this market

Main channels
Private debt



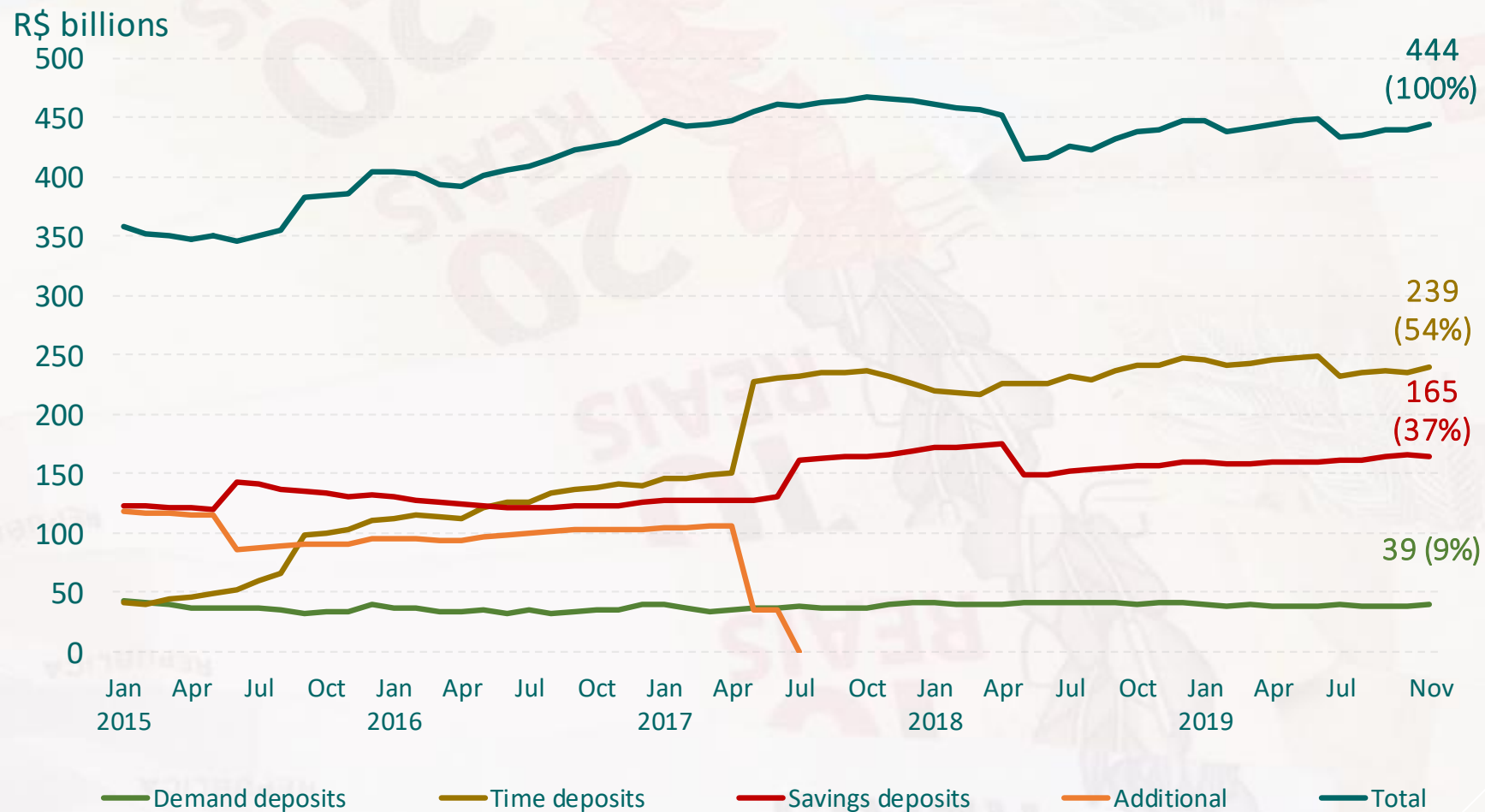
Reduction of the need for liquidity



Main channels

Private debt

Reserve requirements



Private debt

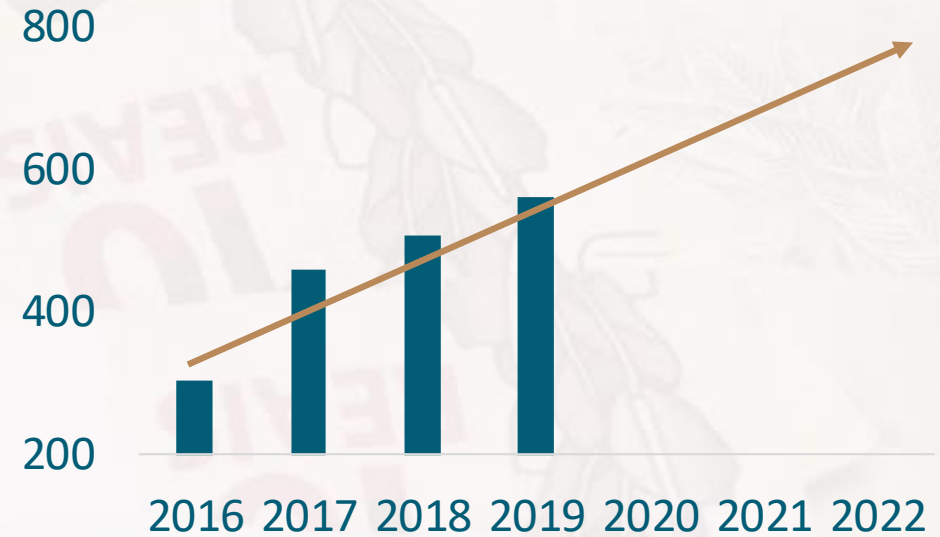


- More** funds in the market
- Better** pricing
- Better** resource allocation
- Lower** fundraising costs for businesses

Main channels

Private debt

Number of issued contracts
(corporate bonds)





FINANCIAL CITIZENSHIP

Main channels

Financial citizenship

Technology promoting citizenship

Financial citizenship

Conscious
spending



Budget control

Savings culture



Budget control

Main channels

Financial citizenship

Technology promoting citizenship



**Understanding personal
and household budgets**



Savings culture

Main channels

Financial citizenship

Technology promoting citizenship



**Save to make projects
and dreams come true**

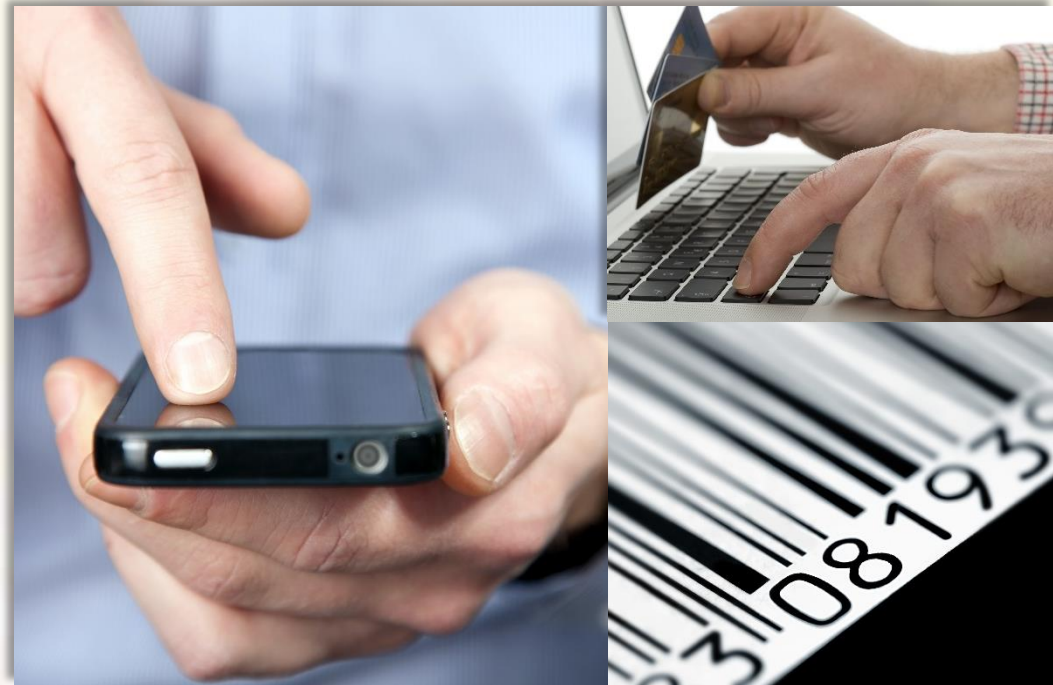
Conscious
spending



Main channels

Financial citizenship

Technology promoting citizenship



Always using the most
suitable financial product.

BC#



Main channels

Financial citizenship

Technology promoting citizenship



Individual **control** over
one's own financial life.

BC#

Financial citizenship

Technology promoting citizenship



How to make things happen?

- “Learn Value” project
Educating 22 million students across **Brazil**
- Renegotiation campaigns for household debt twice a year
Aims at **1 million** people per campaign
- Personalized platform for financial education
In association with Febraban
- Incentive program
Financial education activities generate “reward points” which are then used to improve one’s credit score
- Fighting over-indebtedness
Action plan for target audiences
- Solutions for low-income households
Personalized products and communication
- Innovation
Awards to foster the development of financial education solutions



#INITIATIVES FOR CAPITAL MARKET (IMK)

Capital Markets

Initiatives for capital market



Increased access to markets

Reinvention of markets with private money

Disintermediation and reduction of issuance costs

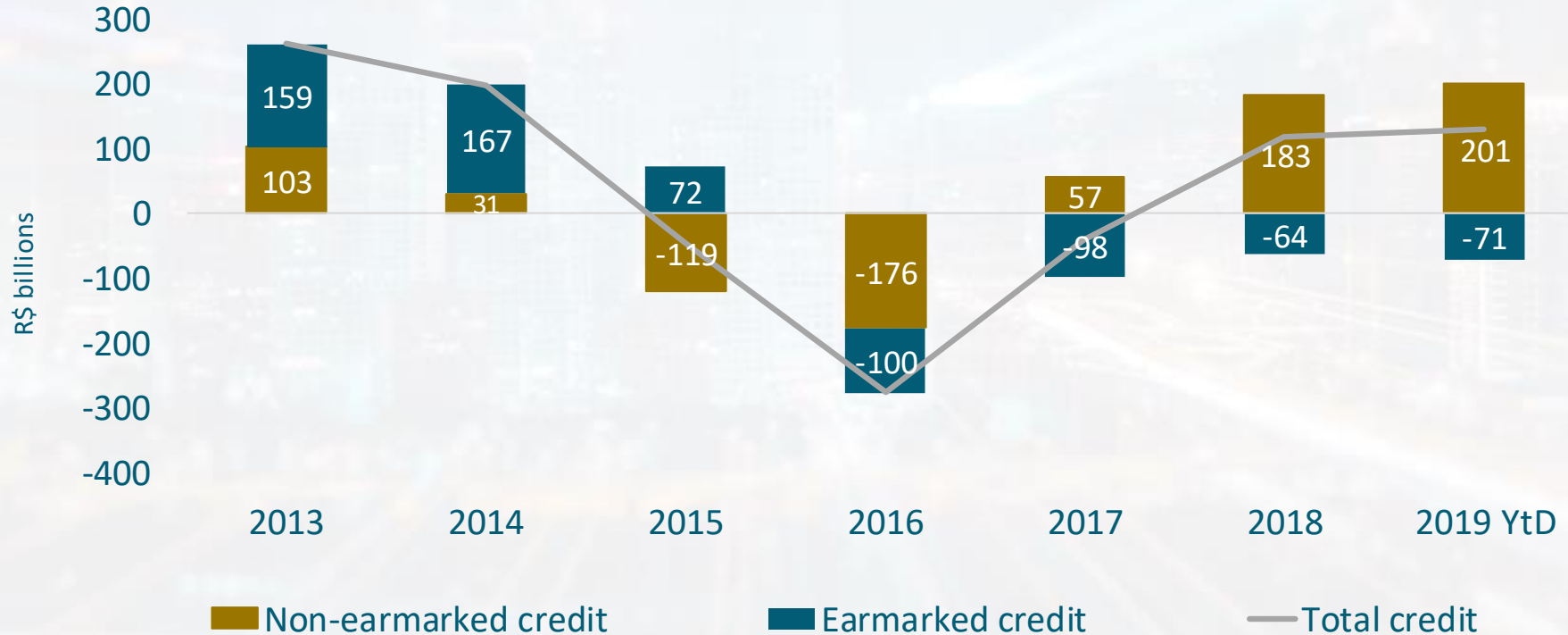


Reinvention of markets
with private money

Main channels

Capital Markets

Net new transactions – corporates and households



Source: BCB



Disintermediation and
reduction of issuance costs

Main channels

Capital Markets

- Reduction of hedging costs for the infrastructure sector
- Expansion of credit backed by real-estate collateral
- New debt instruments for small and medium businesses
- Clearer rules for the taxation of foreign investors
- Creation of mechanisms for overseas distribution of bonds issued by Brazilian companies (LIG & CRA)
- Incentives for innovation and new business models (regulatory sandbox)
- Promotion of real-estate funds
- Promotion of long-term funding

Increased access to markets

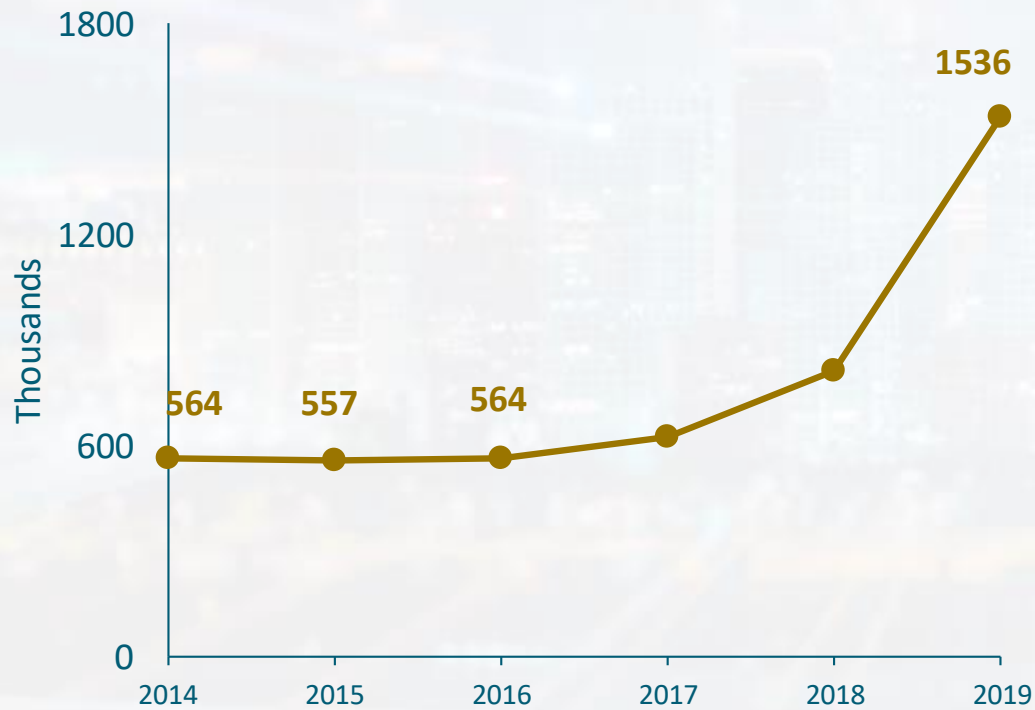


Main channels

Capital Markets

Broader participation

Individuals in the stock market



Number of individuals investing in the stock market

Corporate bonds

Issuances (12 months accumulated)



Source: BCB / B3



Main channels

Capital Markets

Market capitalization index (% GDP)



A satellite is shown in orbit above Earth. The satellite is a small, dark, rectangular cube with several solar panels and antennas. The Earth's surface is visible below, showing clouds and landmasses. The background is a dark, deep blue space with a bright light source, possibly the sun, creating a lens flare effect.

HOW THINGS CONNECT

How things connect + Credit - Cost

Resolution

Liquidity
Financial
Line

Initiatives
for capital
market

Stronger financial system

More private credit

Lower intermediation cost

How things connect
+ Credit - Cost

Lower long
interest rates

Cooperativism

Microcredit

New rural
credit policy

Lower long interest rates
allow private financing for
large players

Lower credit cost for small
and medium players

How things connect
+ Credit - Cost

Initiatives
for capital
market

FX market

Regulatory
improvement

New system
of guarantees

Lower cost of financial
intermediation

How things connect
+ Credit - Cost



THANK YOU

ROBERTO CAMPOS NETO
Governor of the Banco Central do Brasil

17 January 2020