

# IMF ANNUAL MEETINGS 2019

**ROBERTO CAMPOS NETO**  
CENTRAL BANK OF BRAZIL

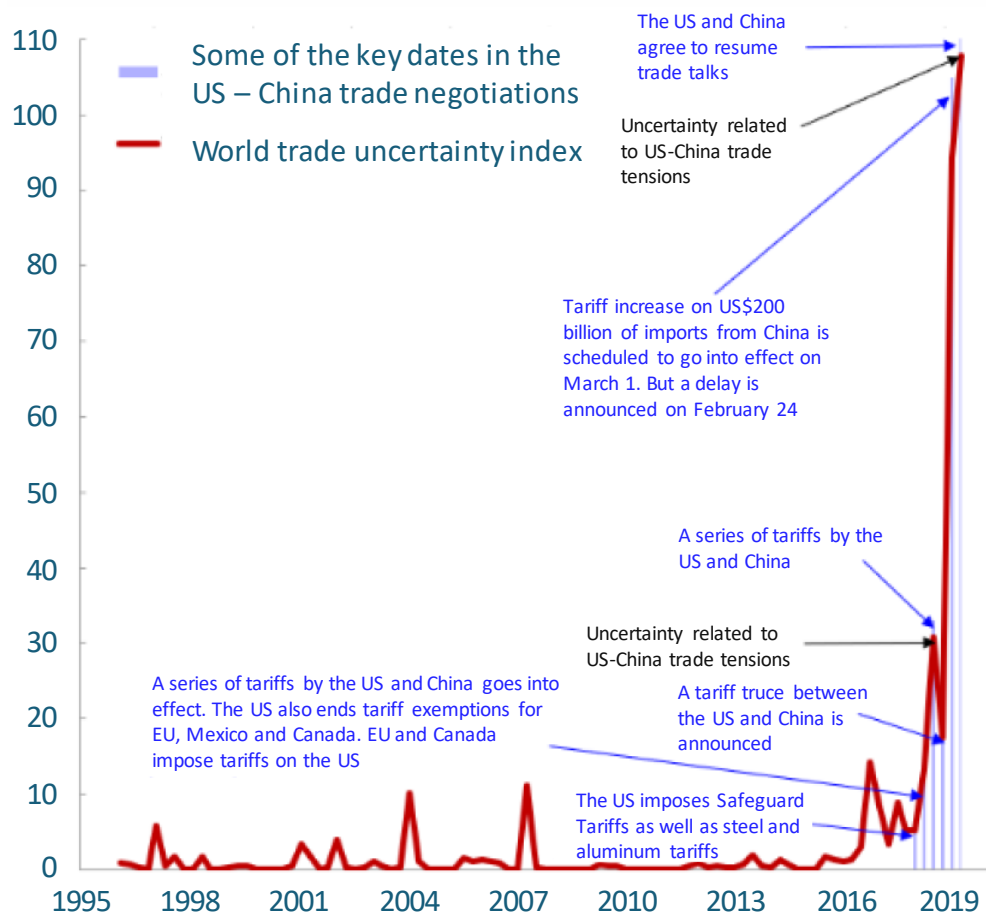
October, 2019



International  
**ECONOMY**

# Increase of uncertainty in world trade

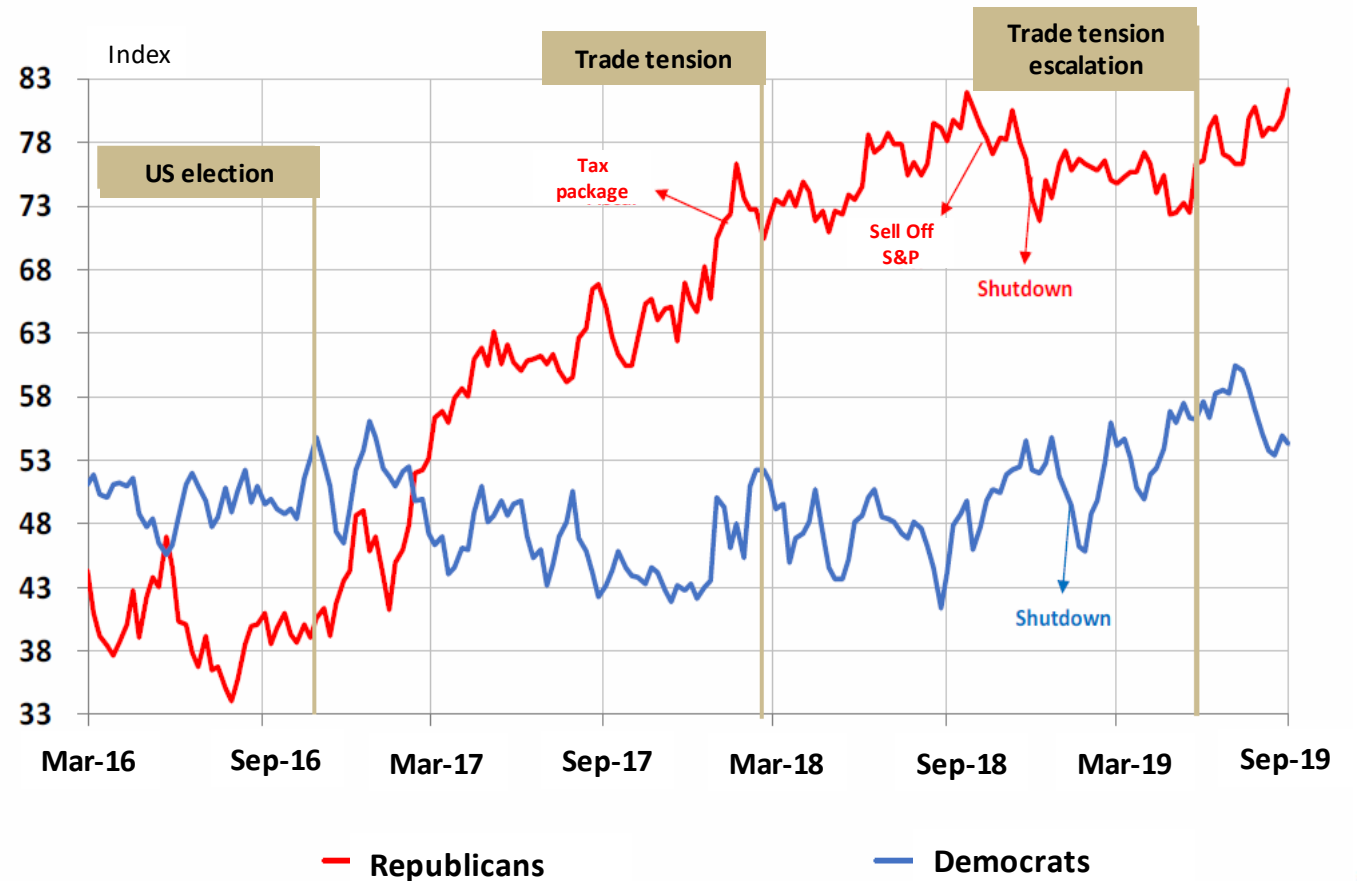
## US – China dispute



Source: World Uncertainty Index – Ahir, Bloom and Furceri (2018)

## Trade tensions polarize voters

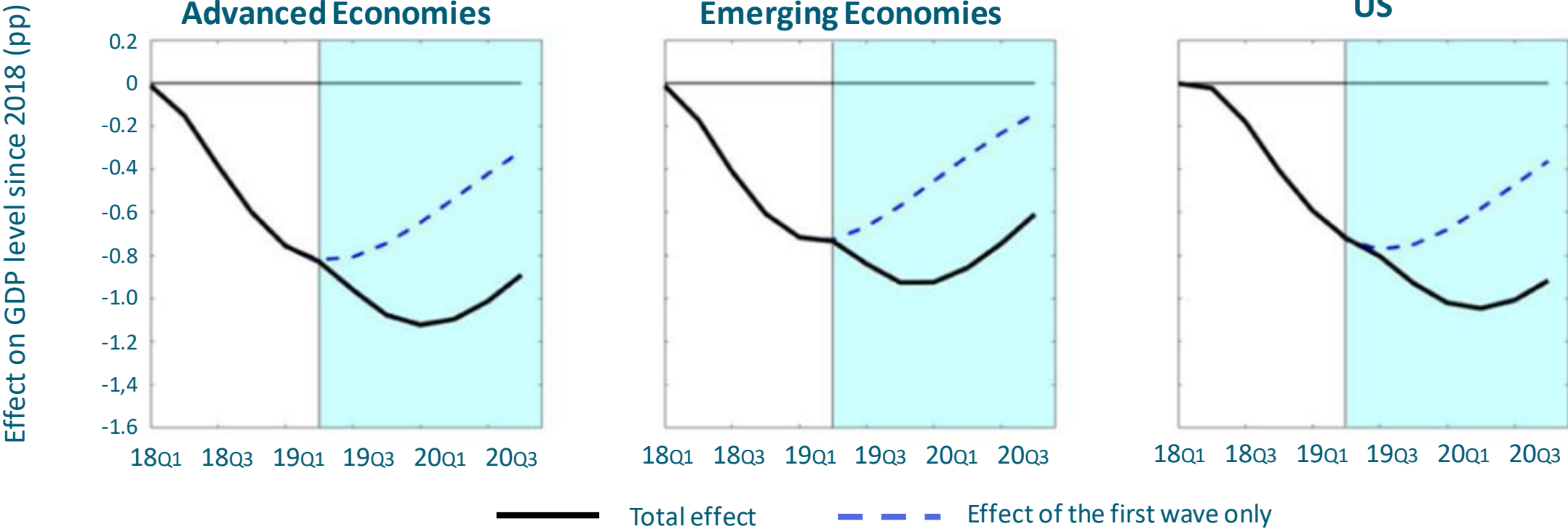
### Consumer Comfort



Source: Refinitiv / Datastream



# Trade uncertainty effect on global activity



- - 0.8 p.p. on global activity in 2019.
- - 1 p.p. accumulated from 2019 to 2020.

Source: Caldara, D., M. Iacoviello, P. Molligo, A. Prestipino, and A. Raffo (2019)\*

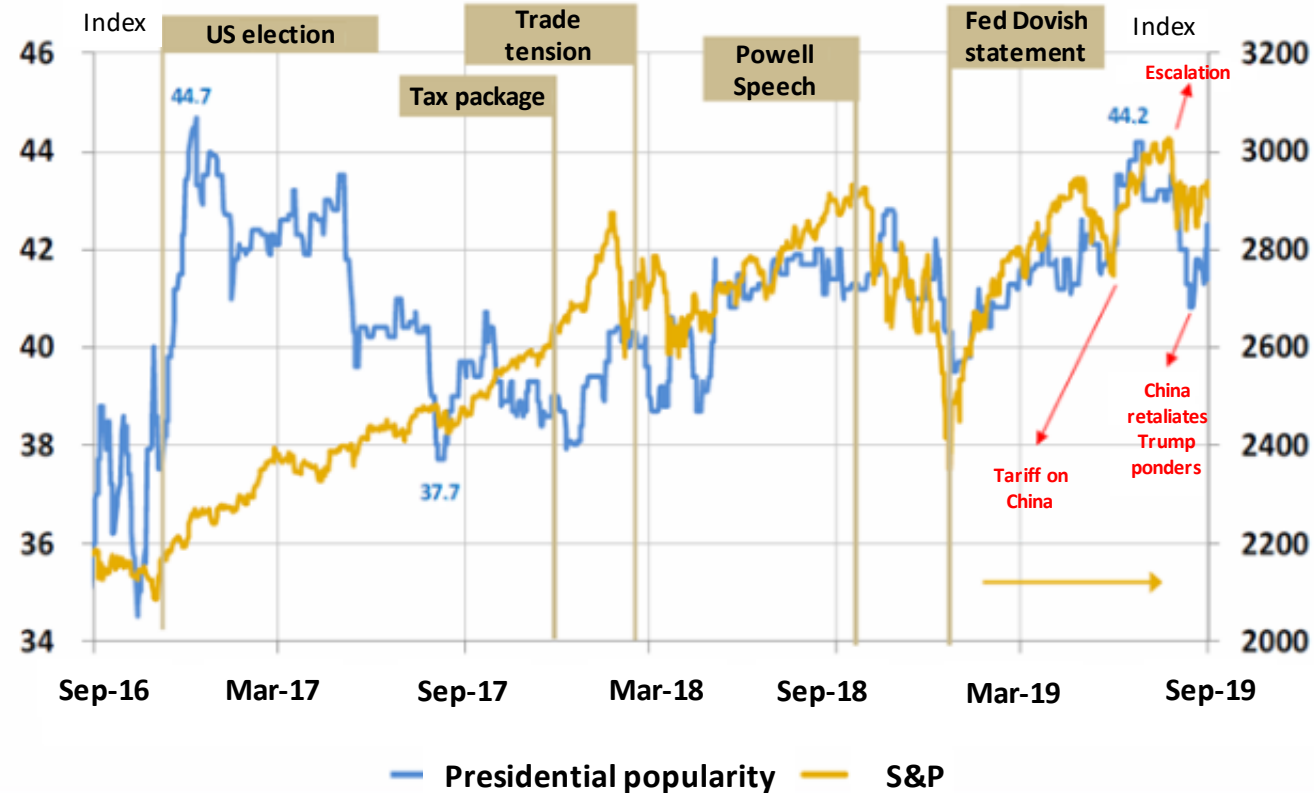
# US Economy

## Probability of recession - US



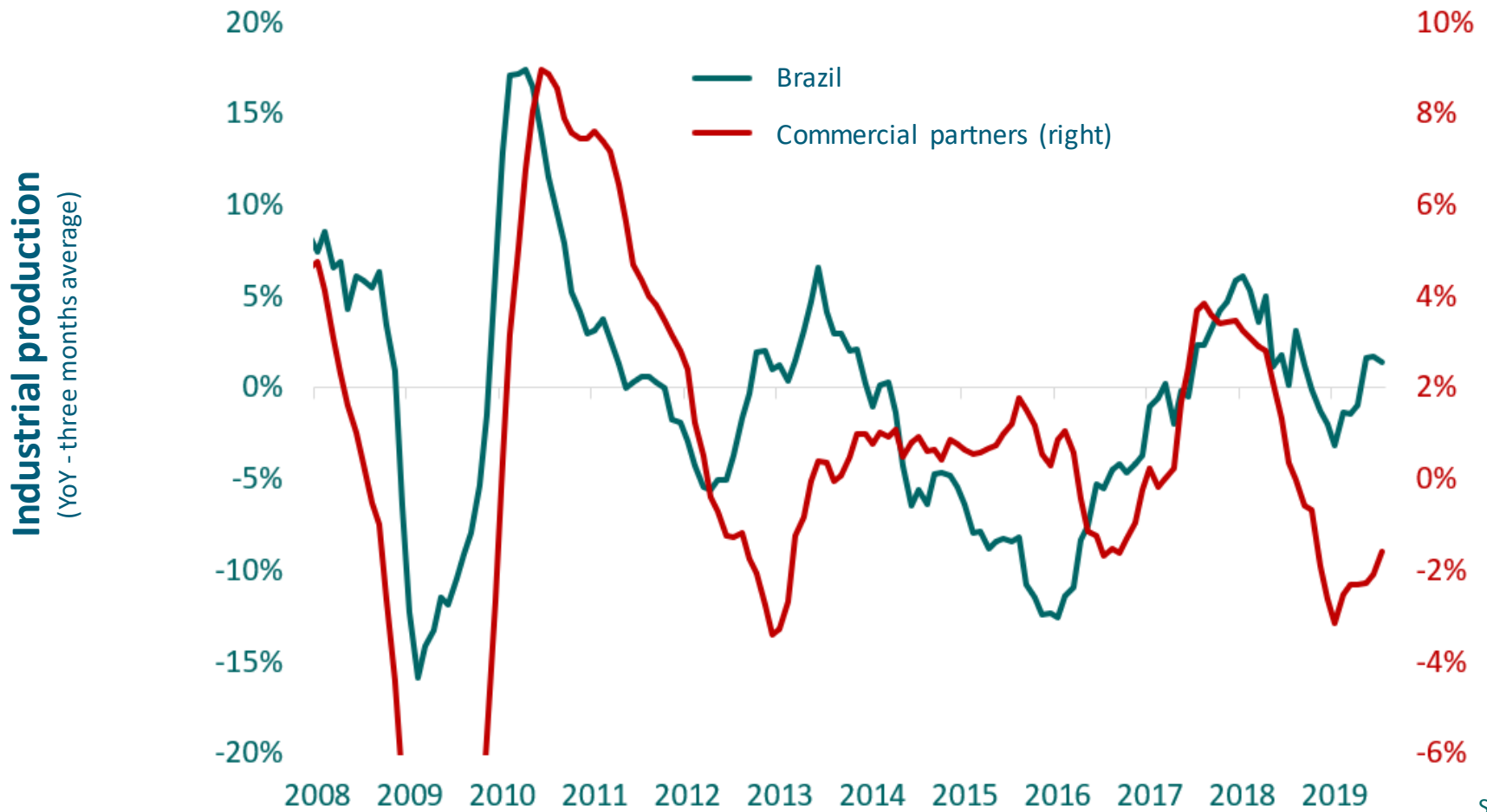
Source: NY Fed

## Government popularity follows the economic activity



Source: Refinitiv / Datastream

# Industrial Production: fall among commercial partners

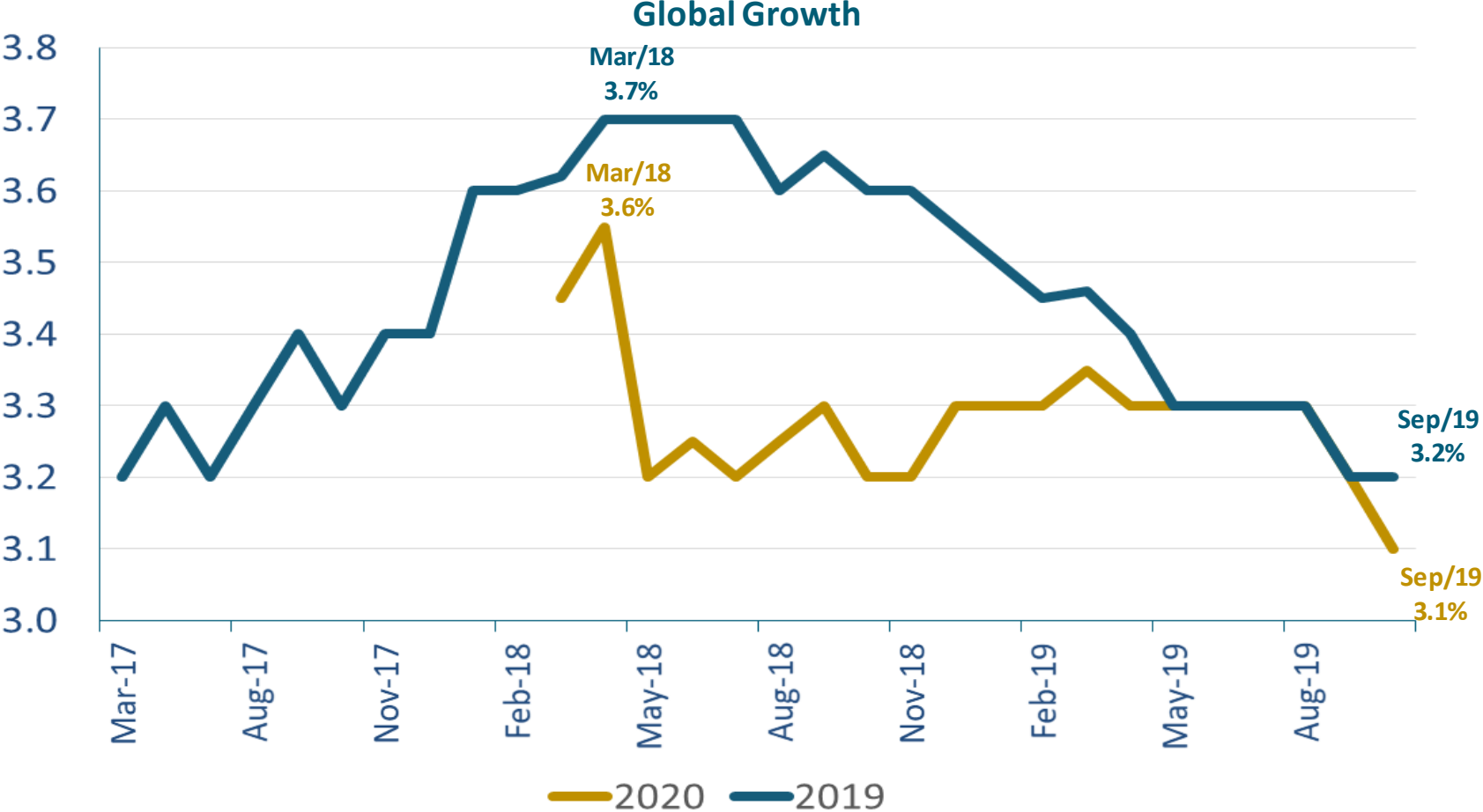


Source: Bloomberg, BCB computation

\* Commercial partners' industrial production (average weighted by exports of manufacture)

# Global slowdown

Expected slowdown of the global economy

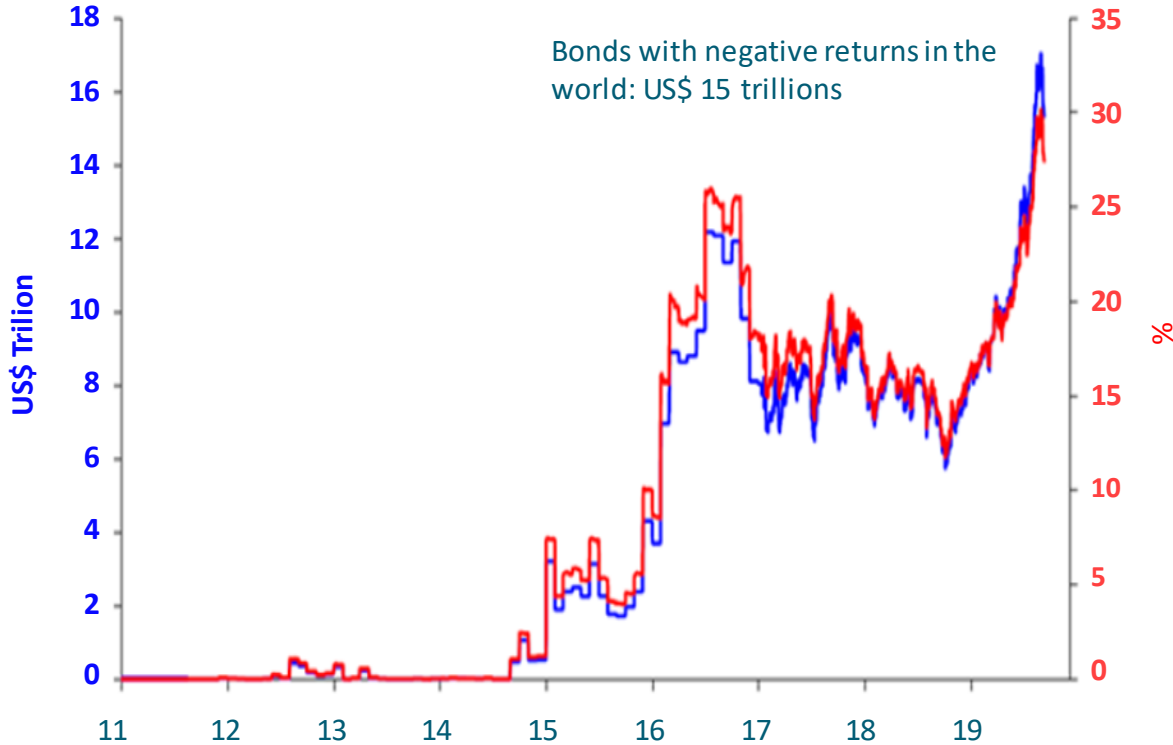


Source: Bloomberg

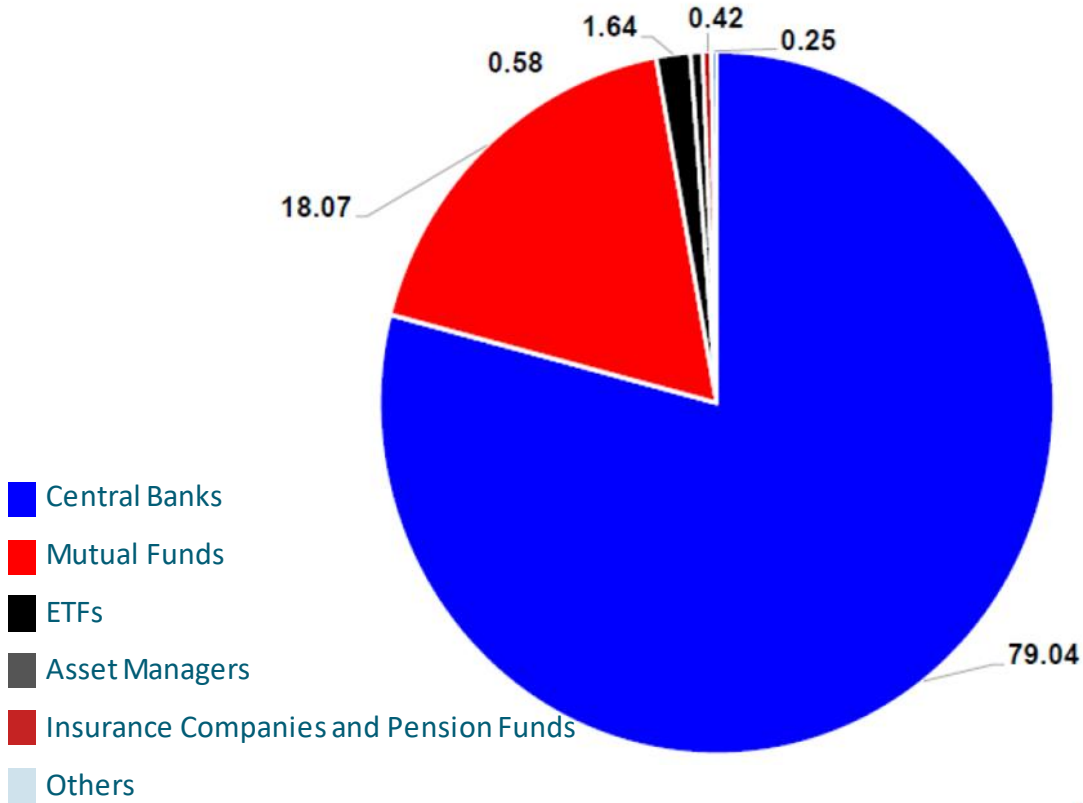


# High monetary stimulus in advanced economies

27% of world bond market has negative return



Holders of negative return assets (%)

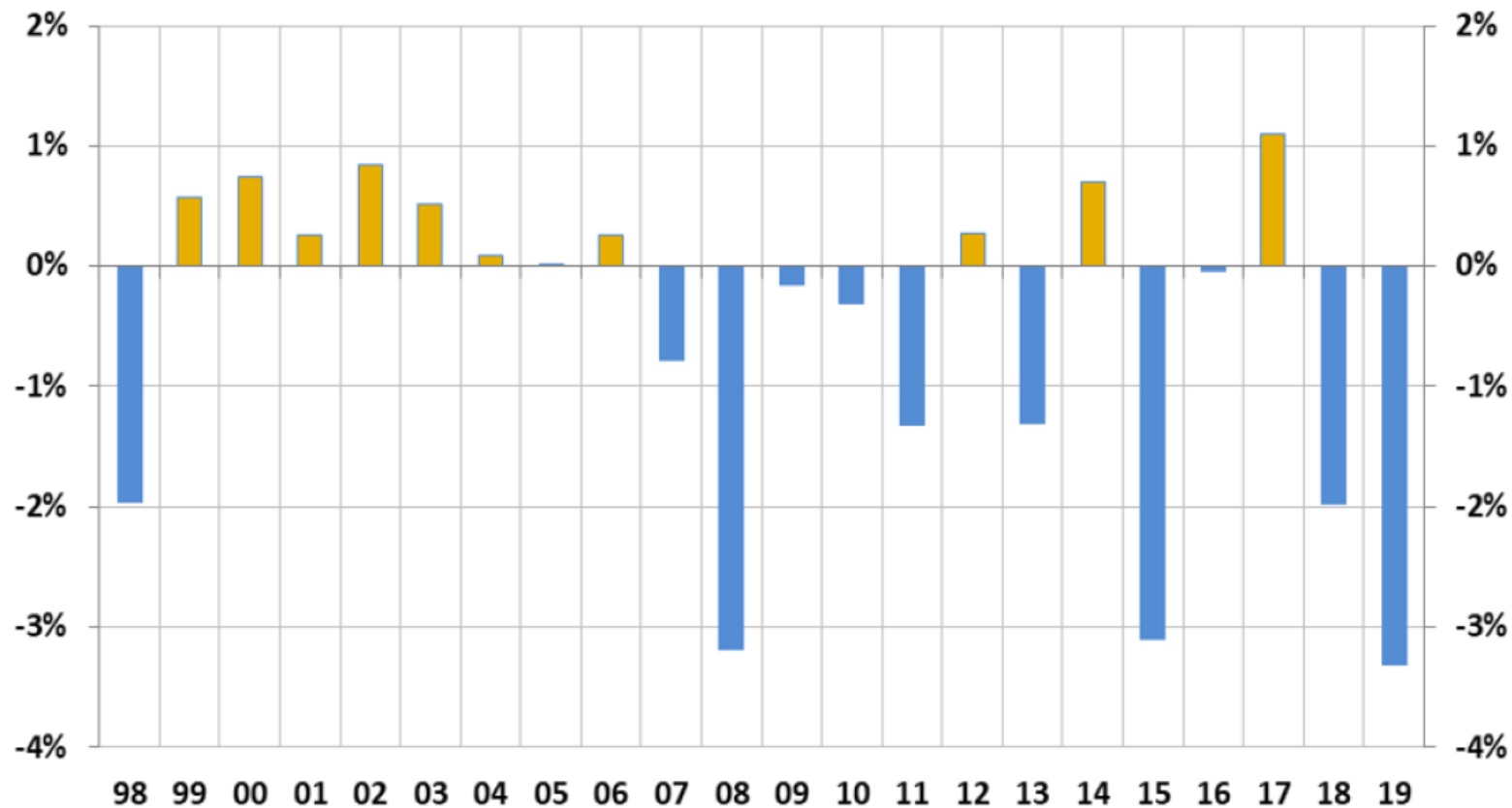


Source: DB Global research, Bloomberg



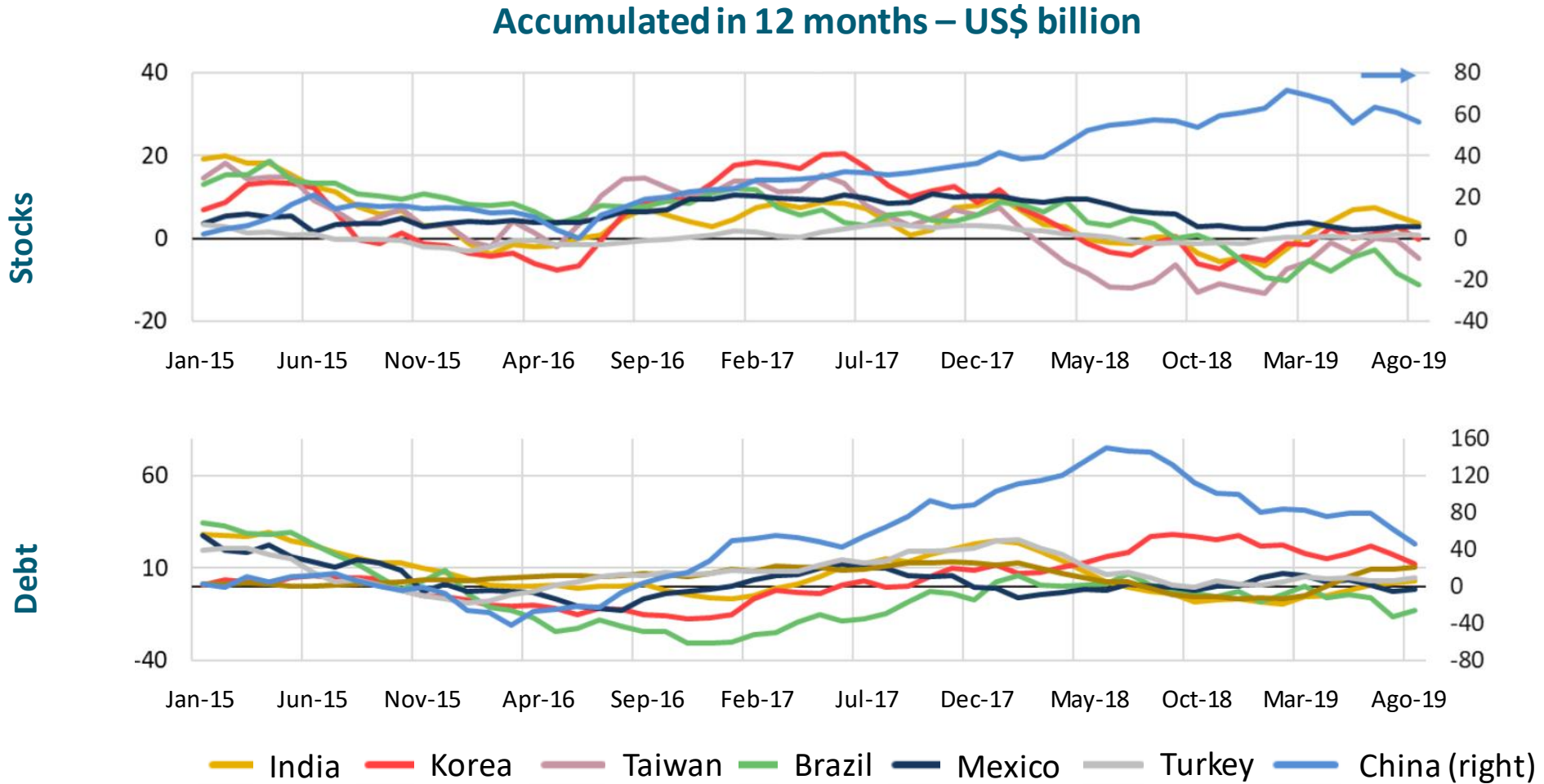
# Outflows from emerging economies – August/19

Emerging currency index – MSCI  
(% change in August)



Source: Bloomberg

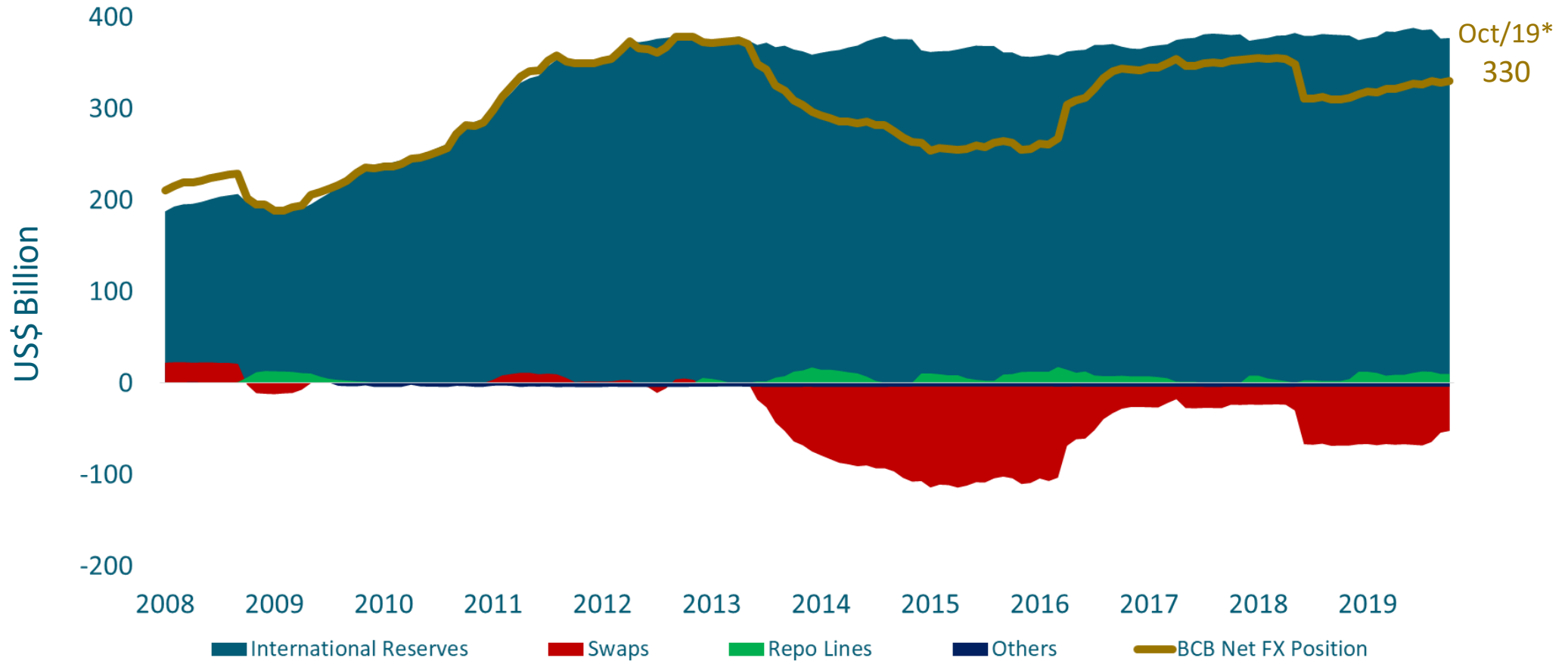
# Outflows from emerging economies



Source: IIF



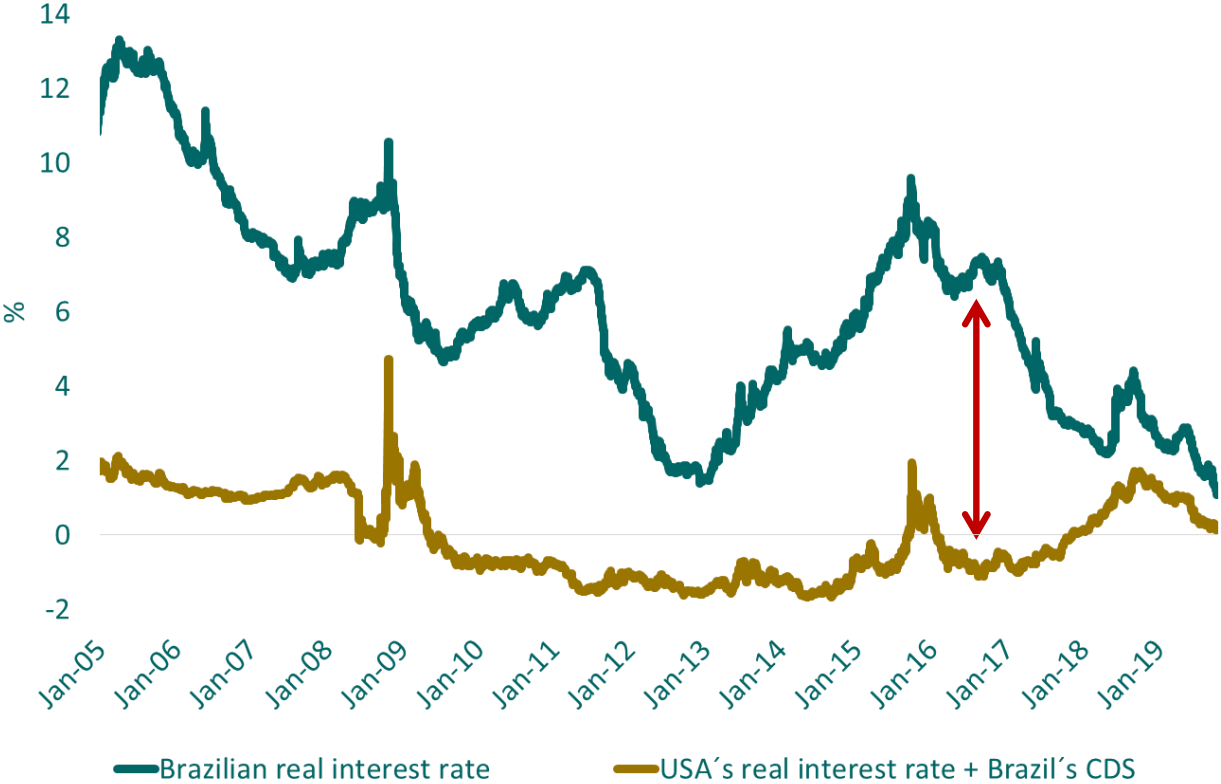
# Brazilian Net FX Position



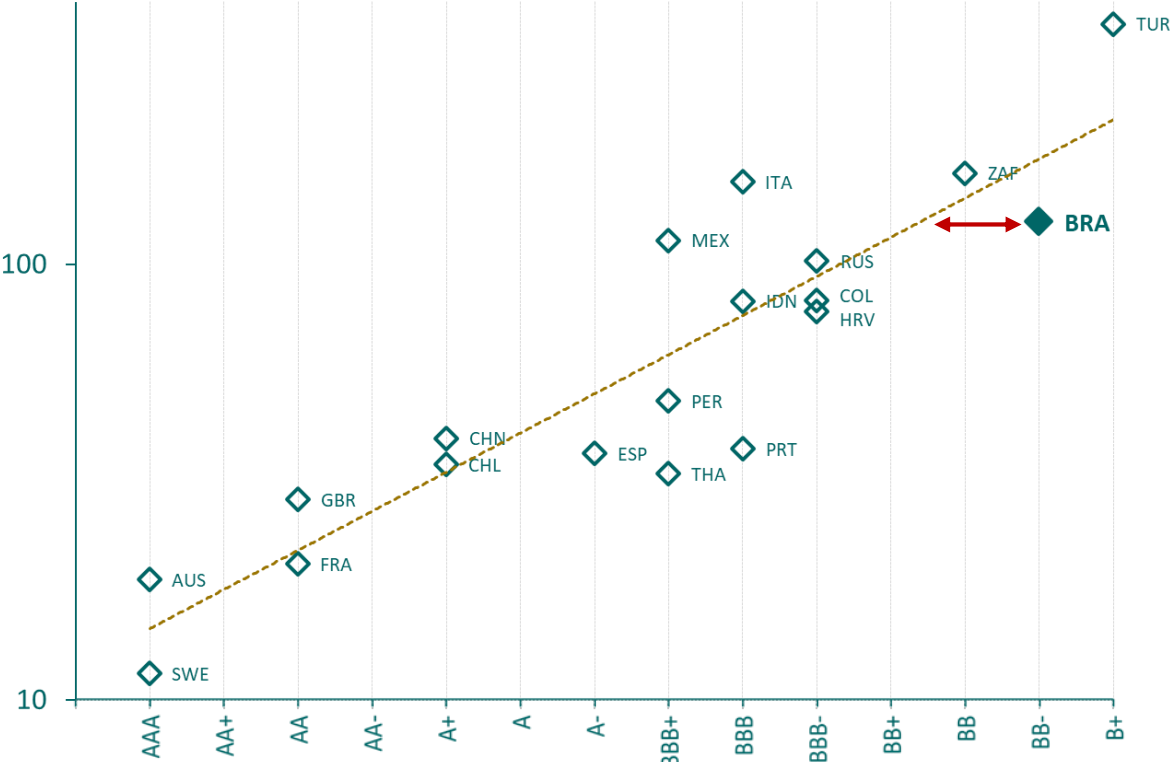
Source: BCB.

# Credibility increase of the Brazilian economy

Reduction of perceived excess risk\*



5 year CDS (bps) versus credit rating\*\*



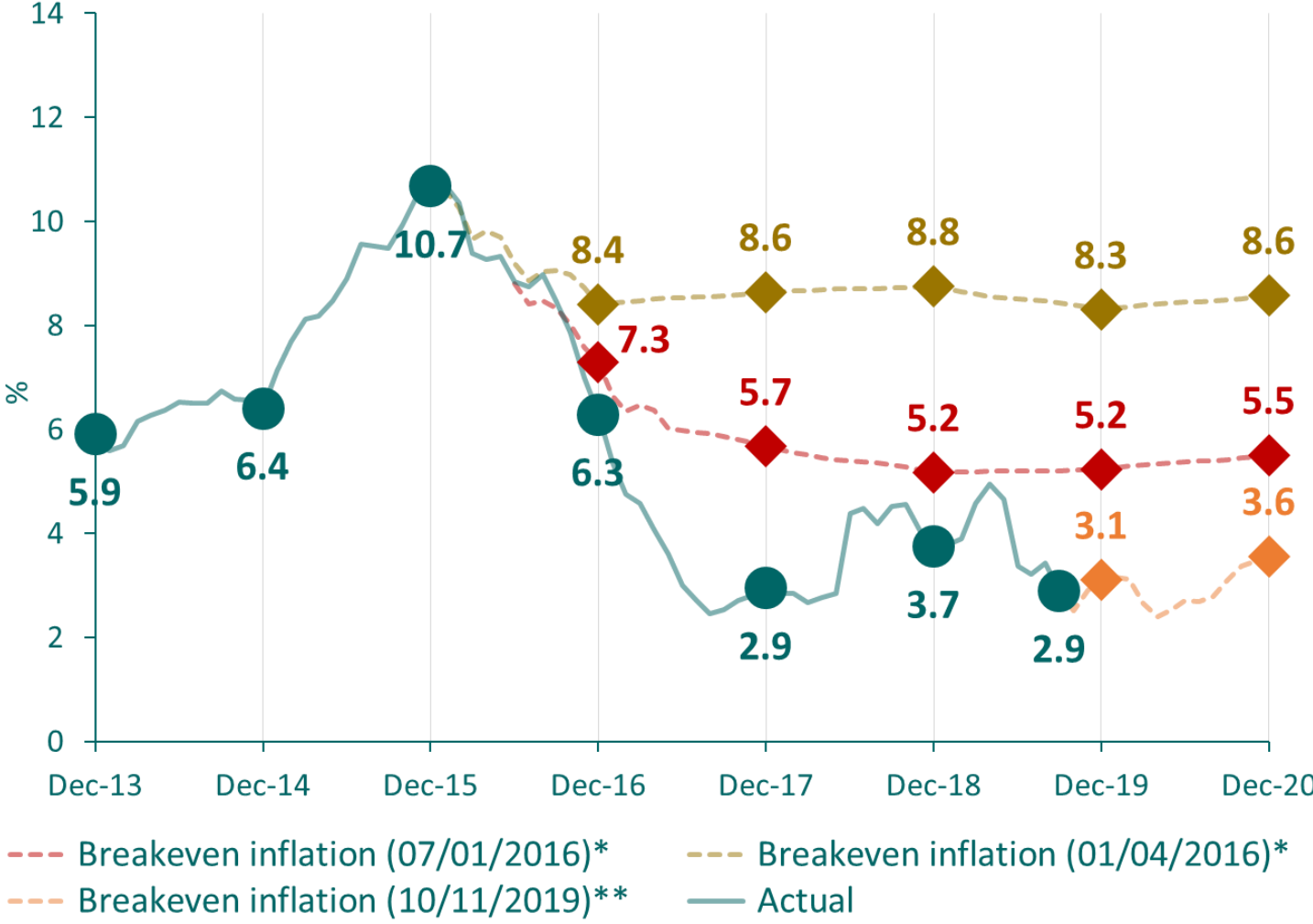
Source: Bloomberg.

\* 1 year ex-ante real rates, 1 year Brazilian securities CDS.  
 \*\* Standard & Poor's (S&P) rating for long term sovereign debt in foreign currency



Domestic  
**ECONOMY**

# Inflation Control and expectation anchorage



Source: BCB/IBGE

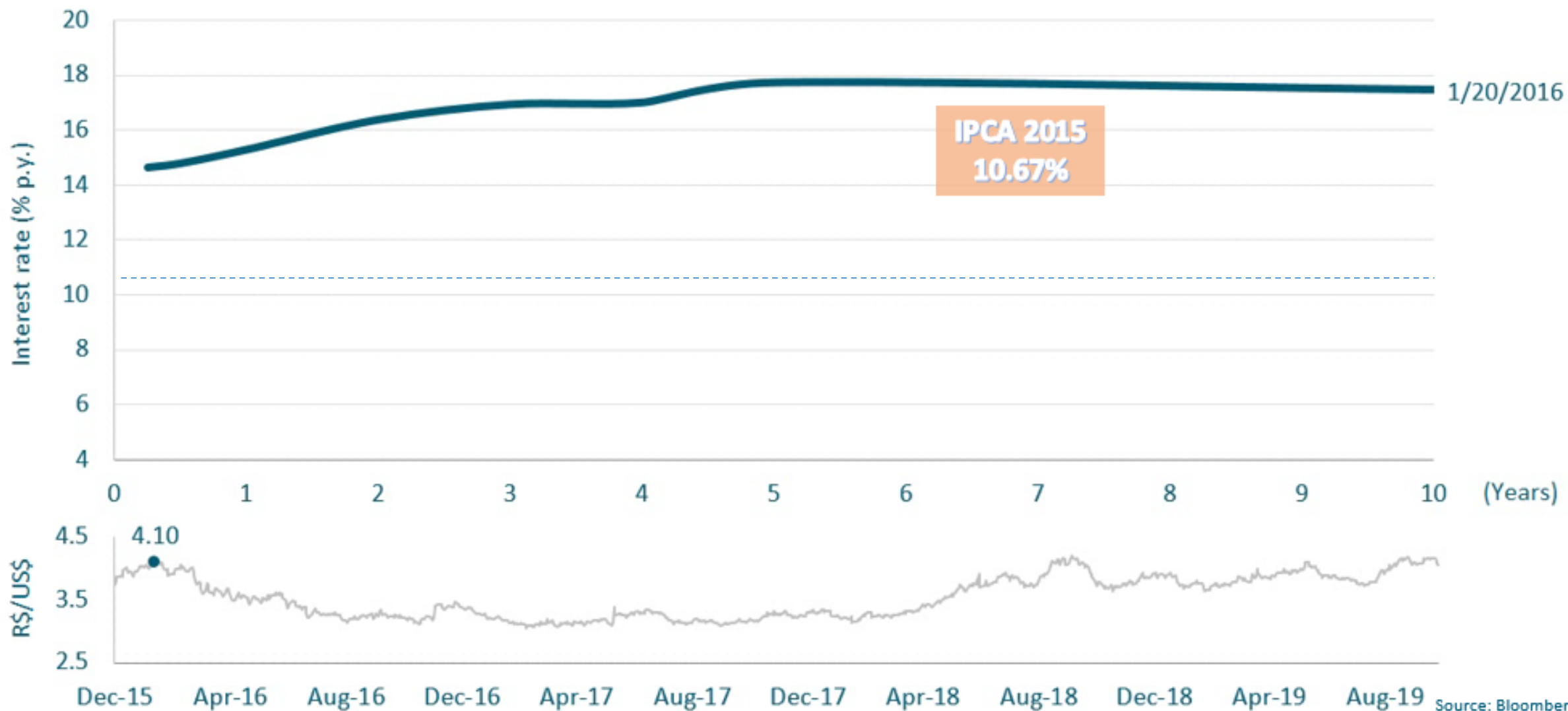
\*\* Breakeven inflation at NTN-B  
 \*\*\* Breakeven inflation at CPI derivatives (DAP)





# Yield curve – DI future

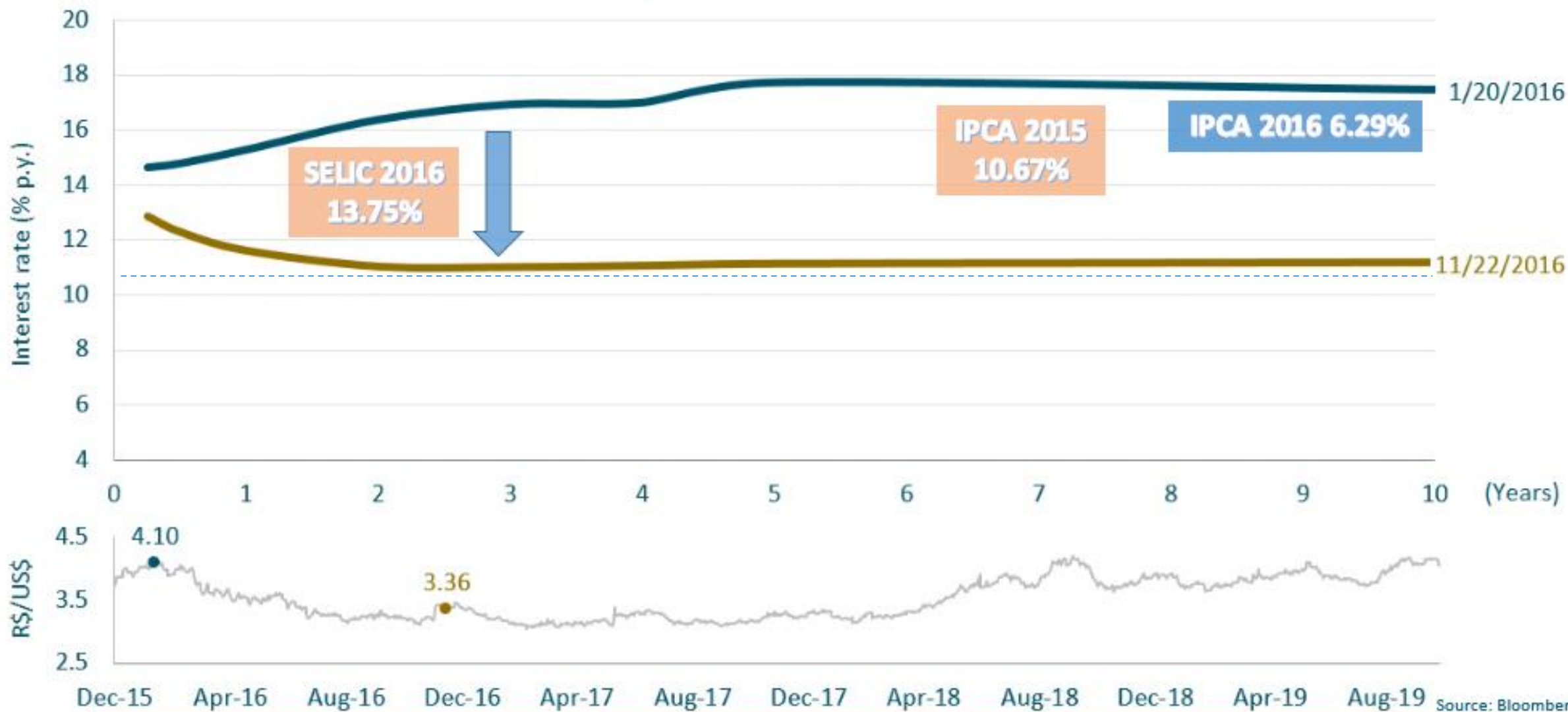
2016 Reduction of inflation and of long term interests



Source: Bloomberg

# Yield curve – DI future

2016 Reduction of inflation and of long term interests

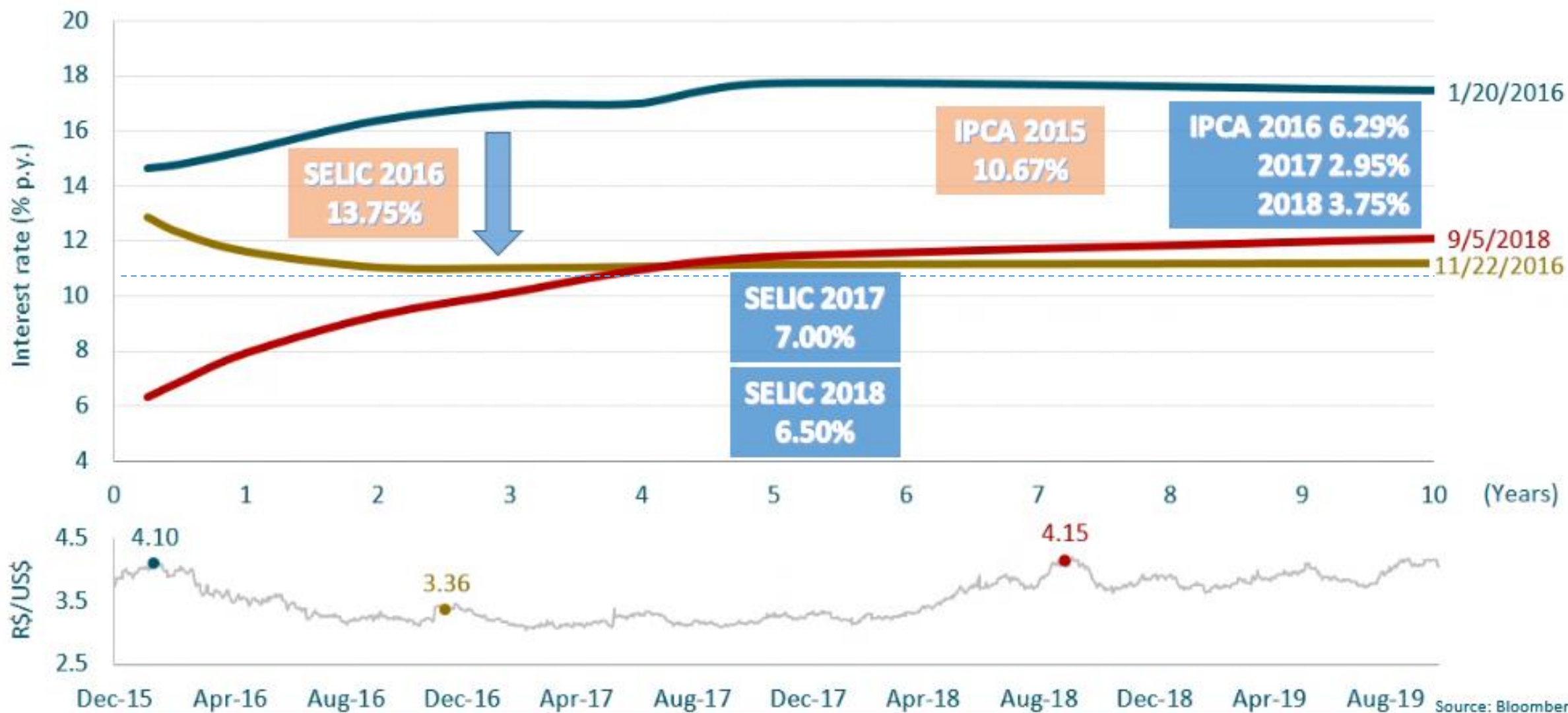


Source: Bloomberg



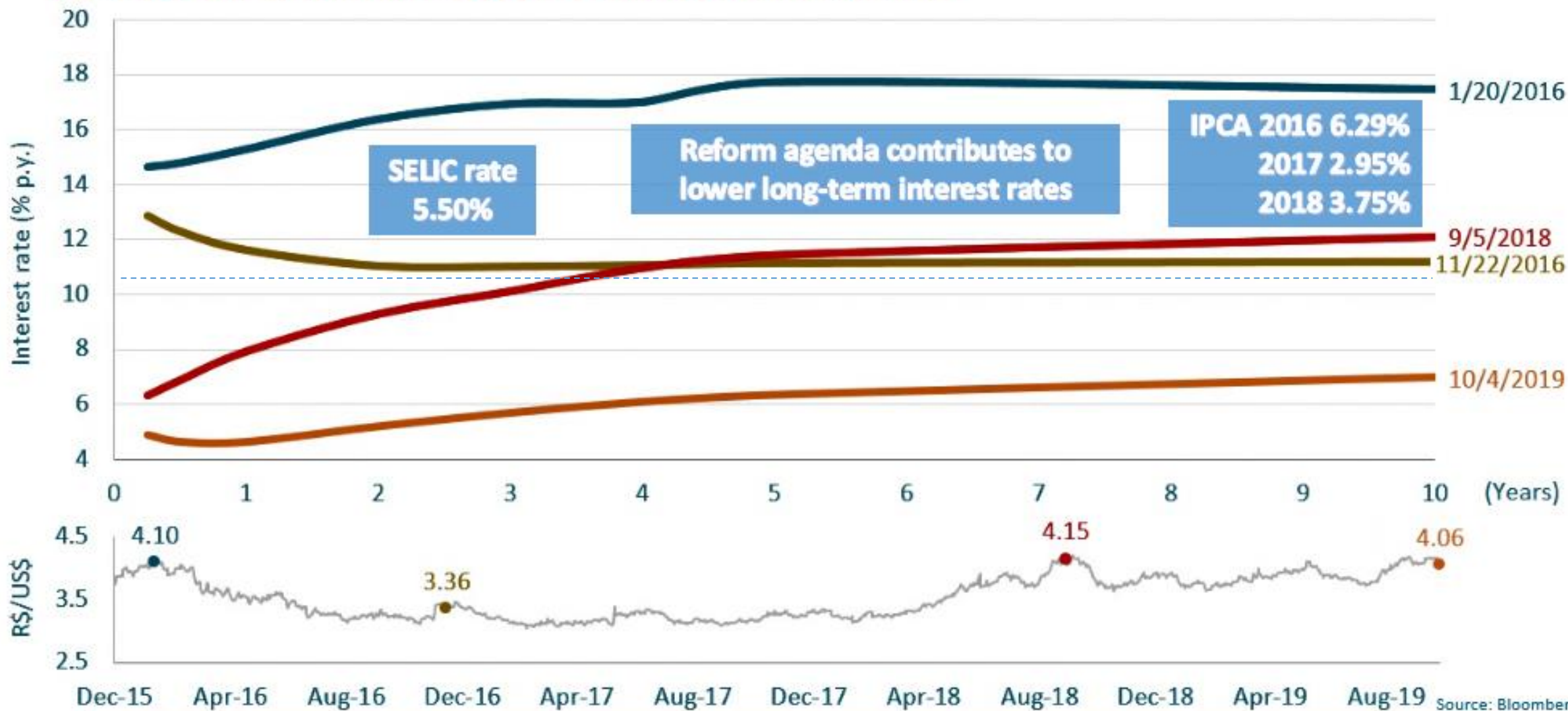
# Yield curve – DI future

2017/18 Inflation on the target and reduction of Selic rate



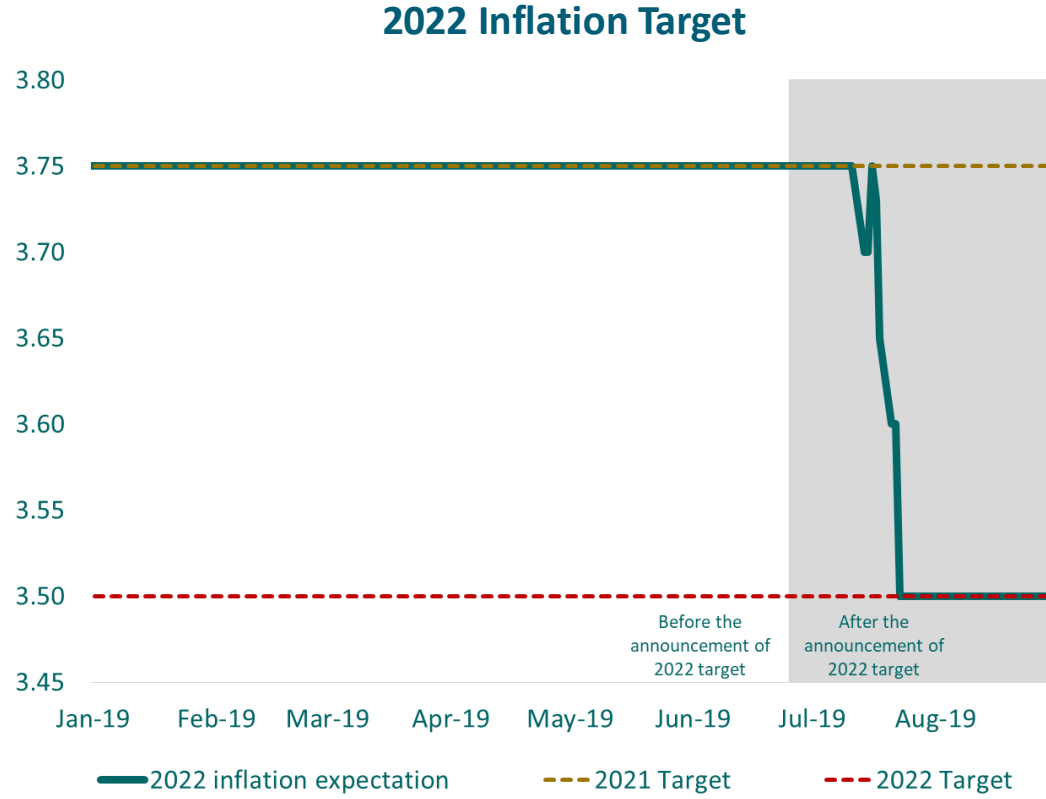
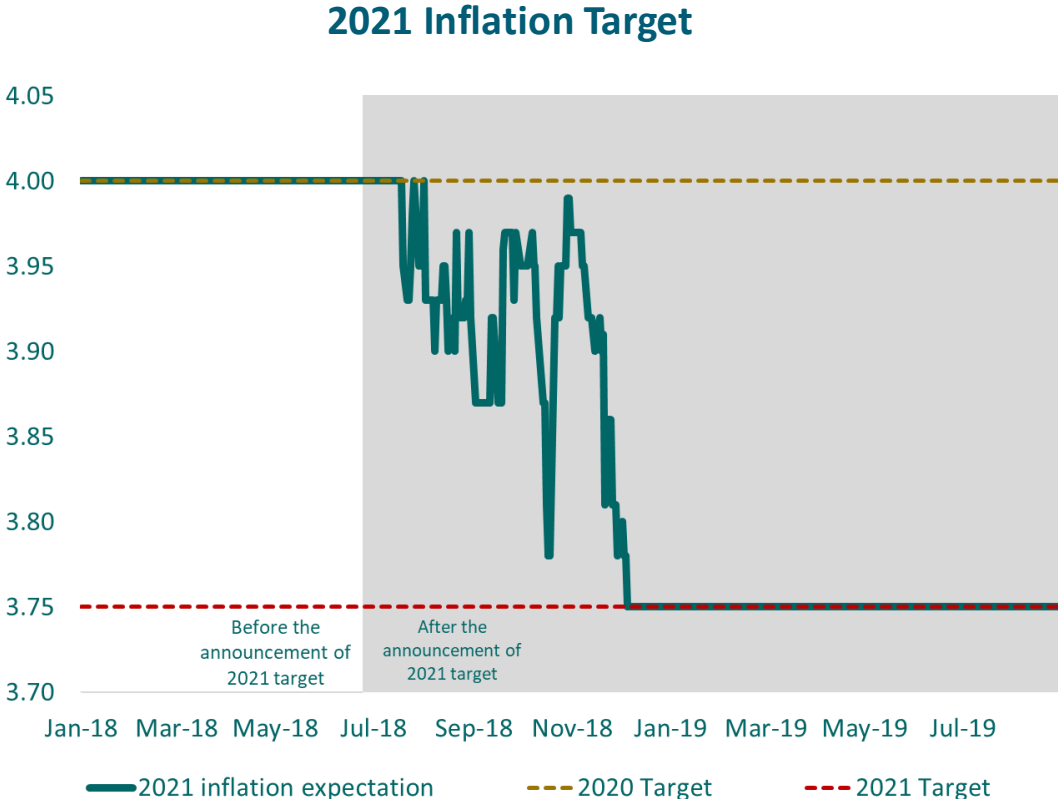
# Yield curve – DI future

2019 Agenda of reforms supports reduction of risk premia



# Credibility on long term targets

Fast convergence of expectations after definition of new targets



Source: BCB.



# Monetary Policy

- In its last meeting, Copom unanimously decided to lower the Selic rate to 5.5% p.y.
- The economic conditions prescribe stimulative monetary policy, i.e., interest rates below the structural level.

# Monetary Policy – Risks to the baseline inflation scenario

- **Risk of inflation reduction:**

- i. The high level of economic slack may continue to produce lower-than-expected prospective inflation trajectory.

- **Risks of inflation increase:**

- ii. A possible frustration of expectations regarding the continuation of reforms and the perseverance in the necessary adjustments in the Brazilian economy may affect risk premia and increase the path for inflation over the relevant horizon for the conduct of monetary policy.

- Risk (ii) intensifies in case of:

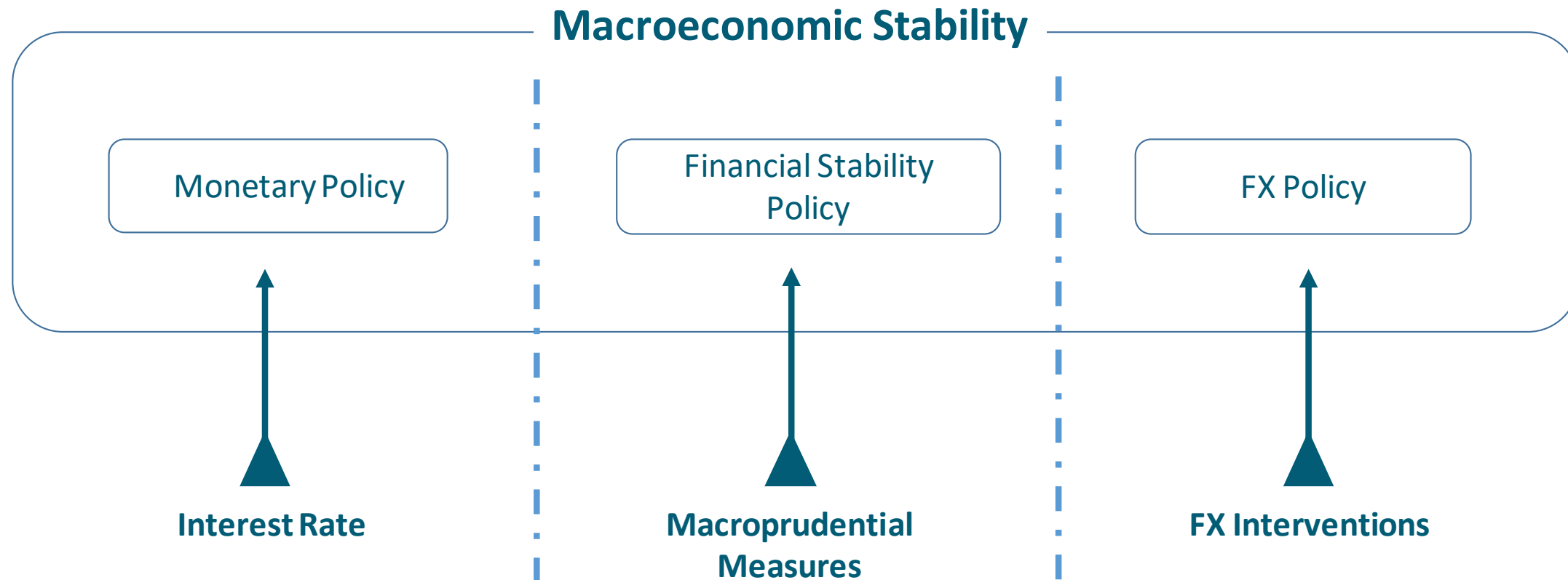
- iii. The outlook for emerging economies deteriorates.

# Monetary Policy – Next steps

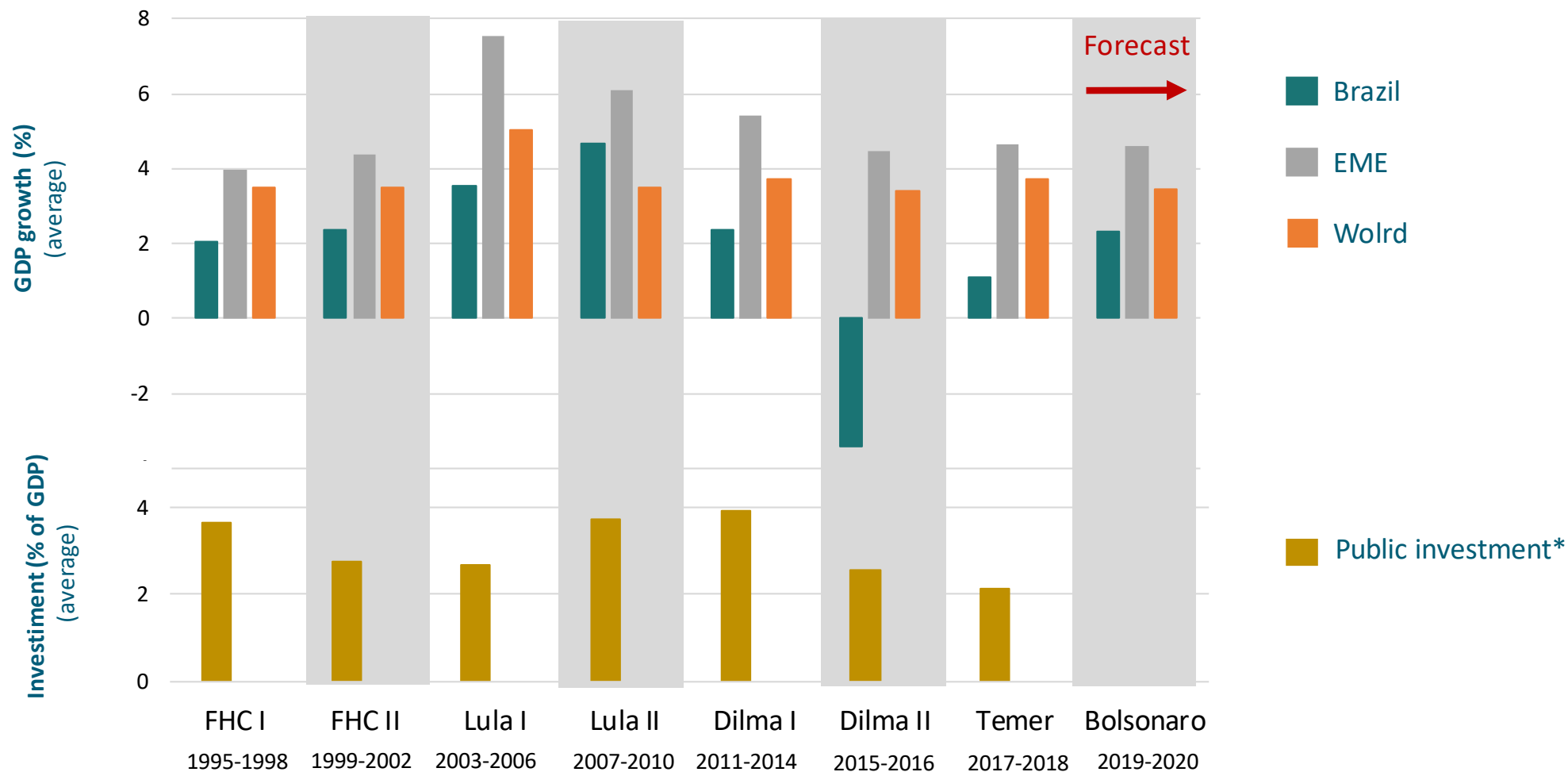
- The consolidation of the benign scenario for prospective inflation should permit additional adjustment of the degree of stimulus.
- The next steps in the conduct of monetary policy will continue to depend on the evolution of economic activity, on the balance of risks, and on inflation projections and expectations.



# Macro Stability: different policies, different instruments



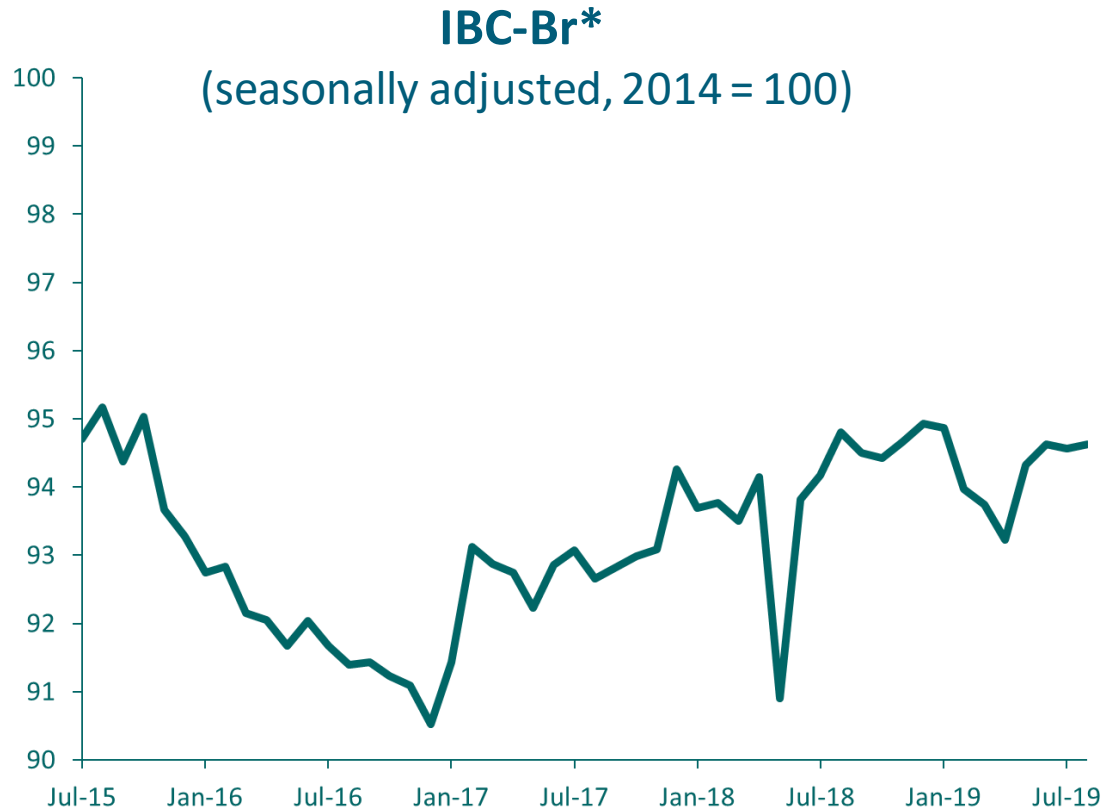
# GDP growth: Brazil and abroad



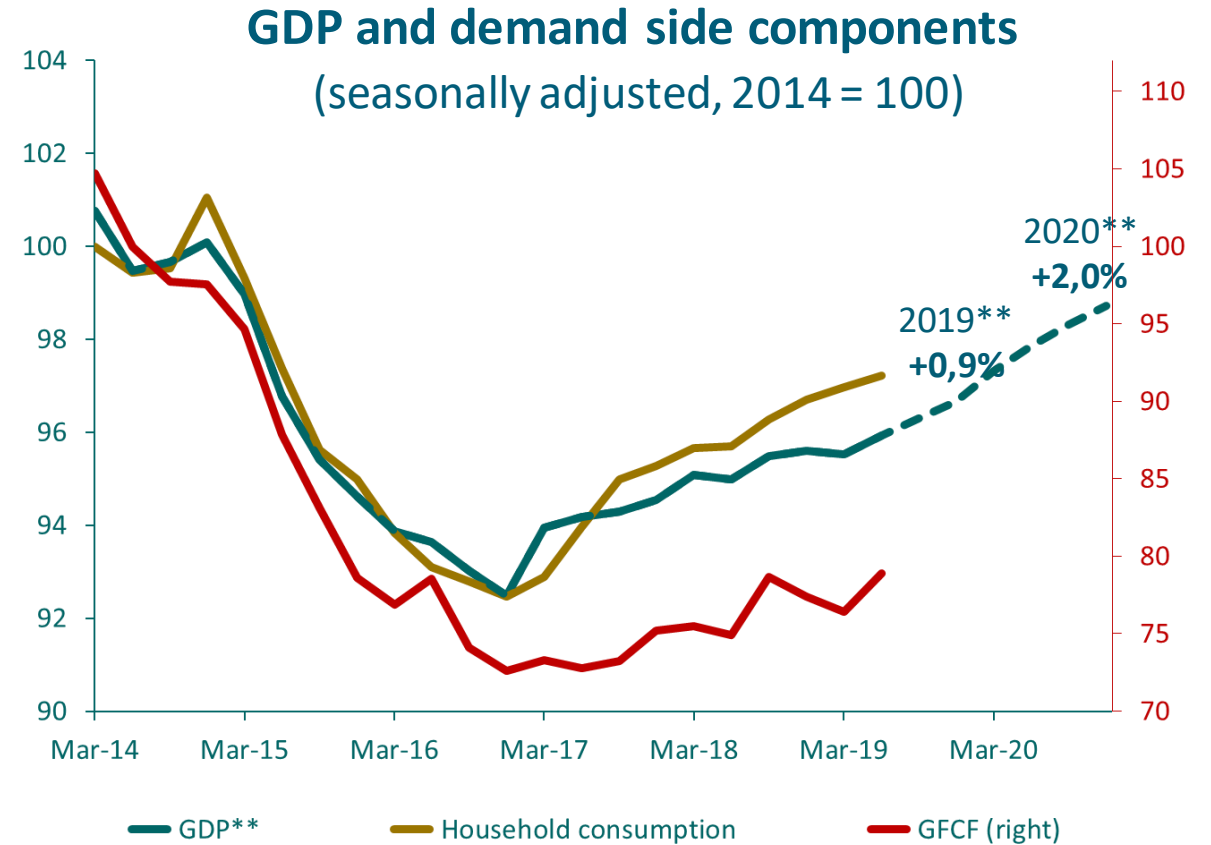
Fonte: FMI – World Outlook, FGV

# Expectation on economic recovery

IBC-Br shows recent improvement



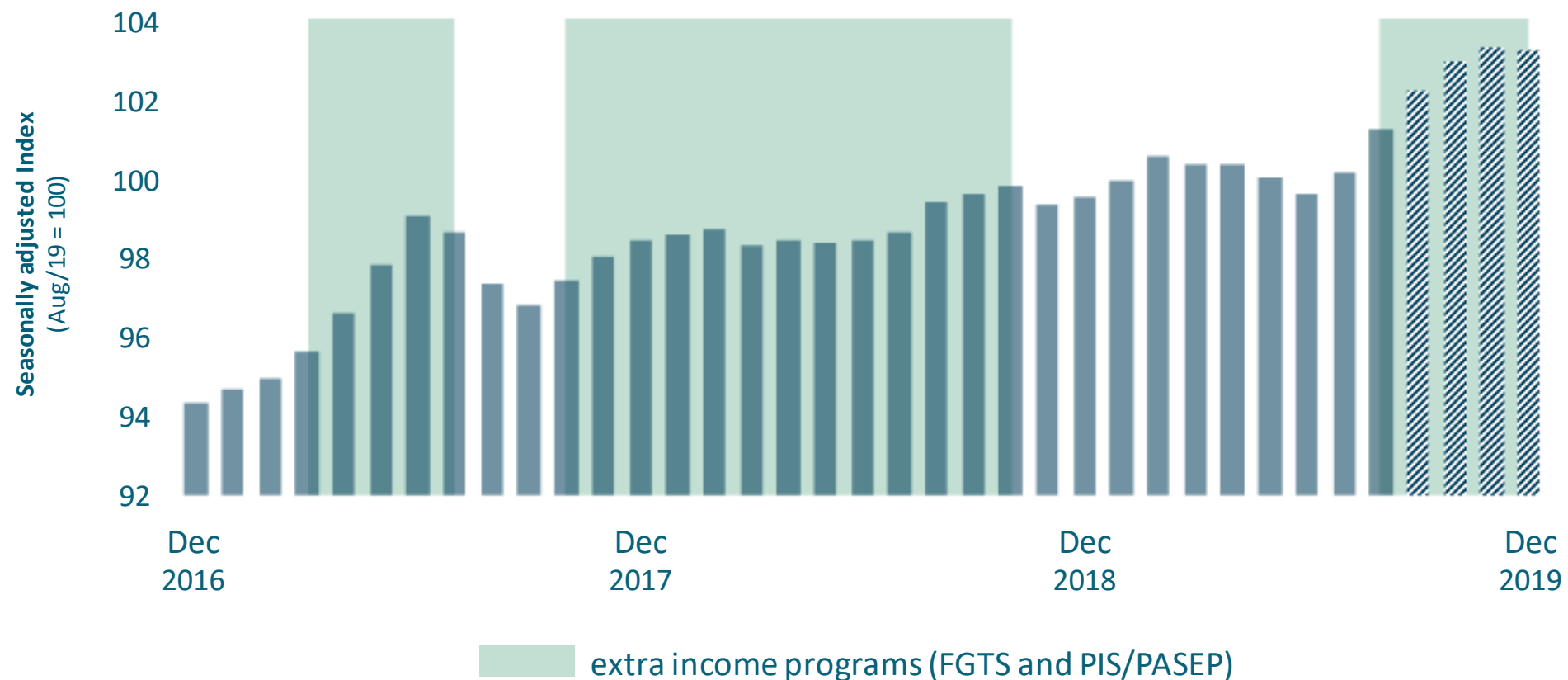
1.6 % of GDP Growth in the second quarter



Source: BCB.

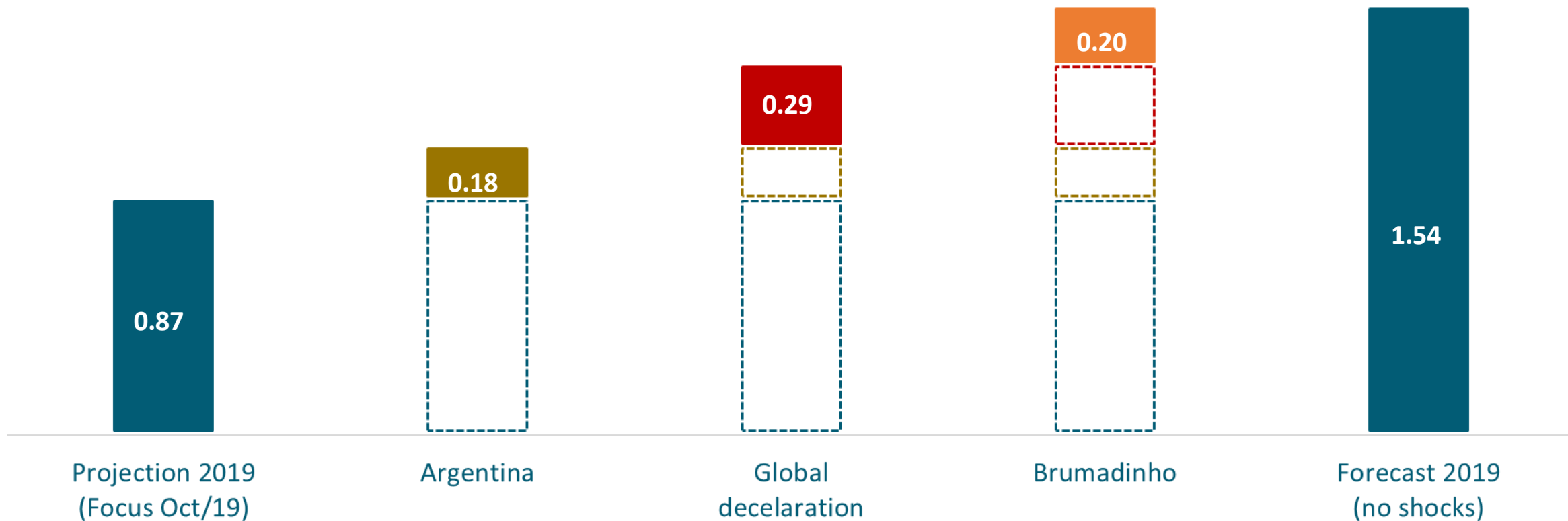


# Available labor income



Source: IBGE, BCB

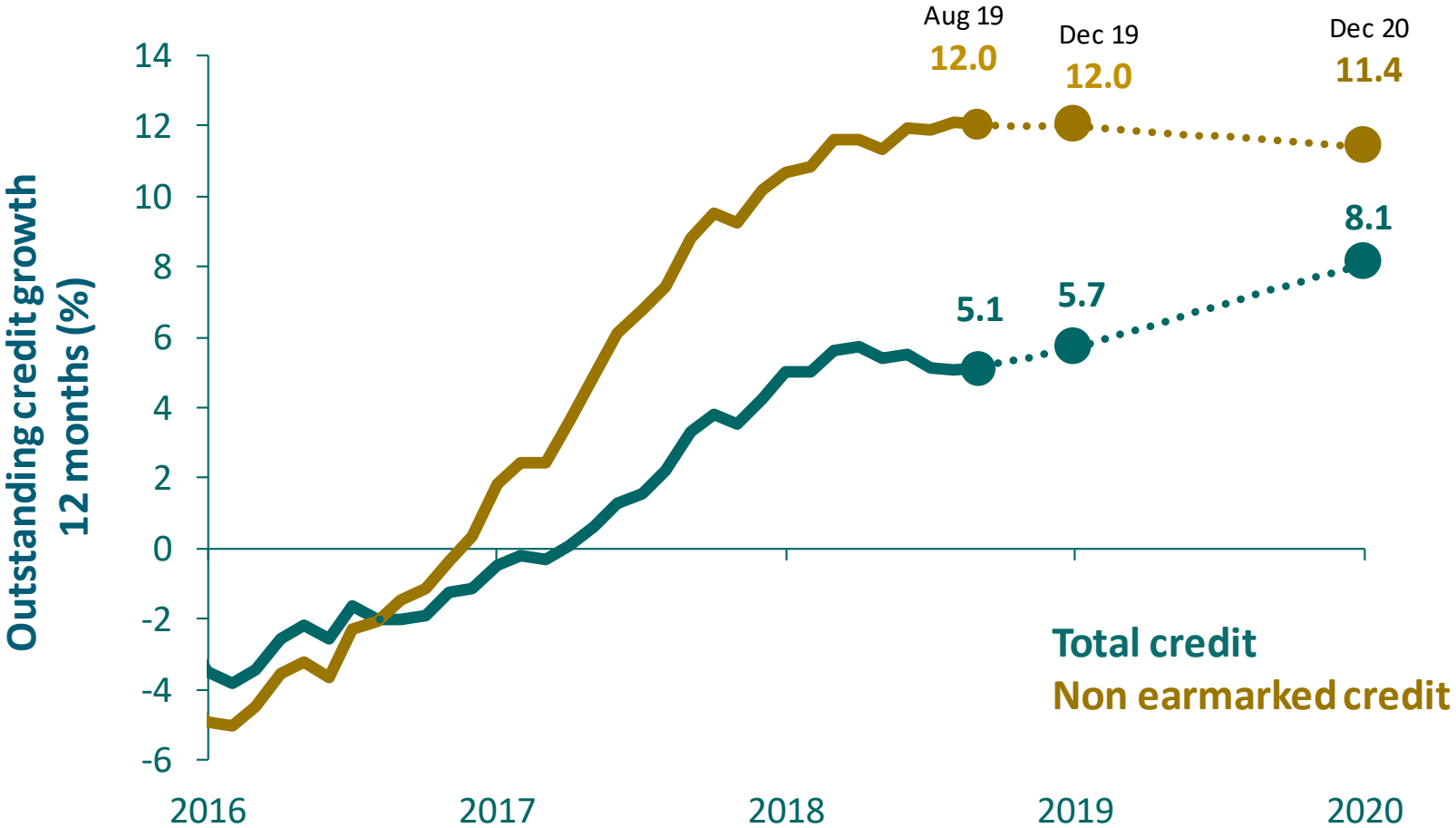
# Brazilian growth affected by important shocks in 2019



Source: BCB

# Capital and credit market expansion

Credit growth remains robust

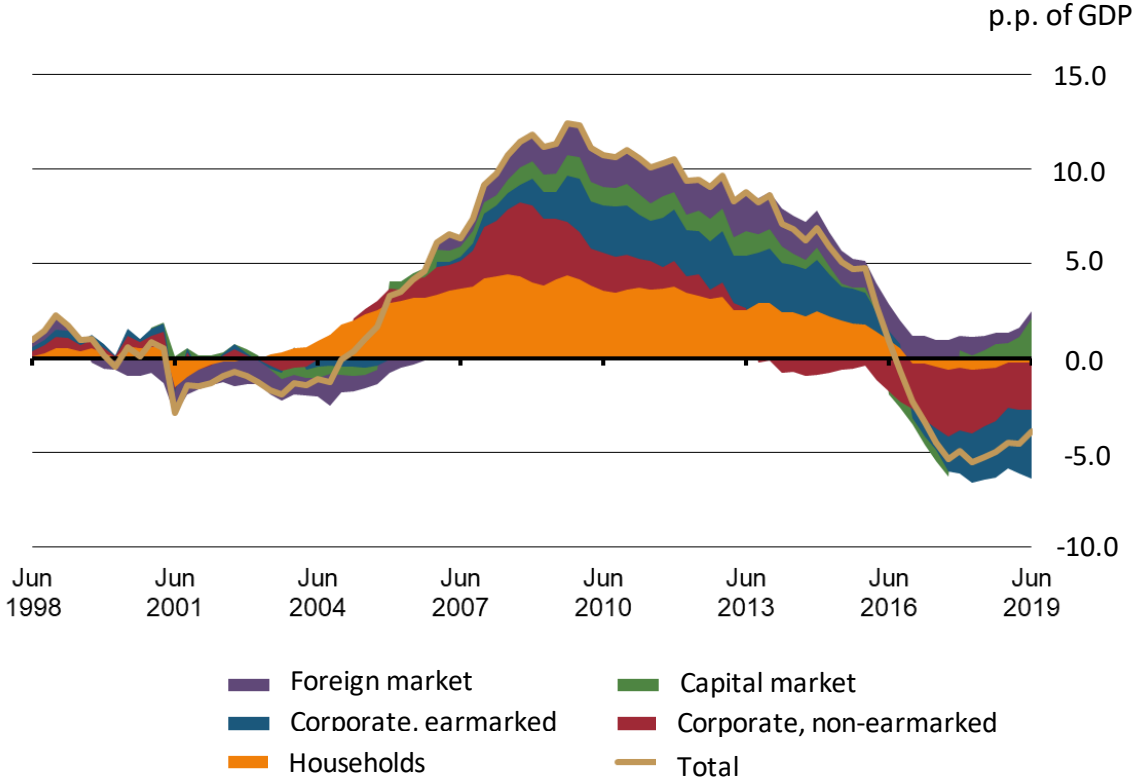


Source: BCB / IBGE / FGV.

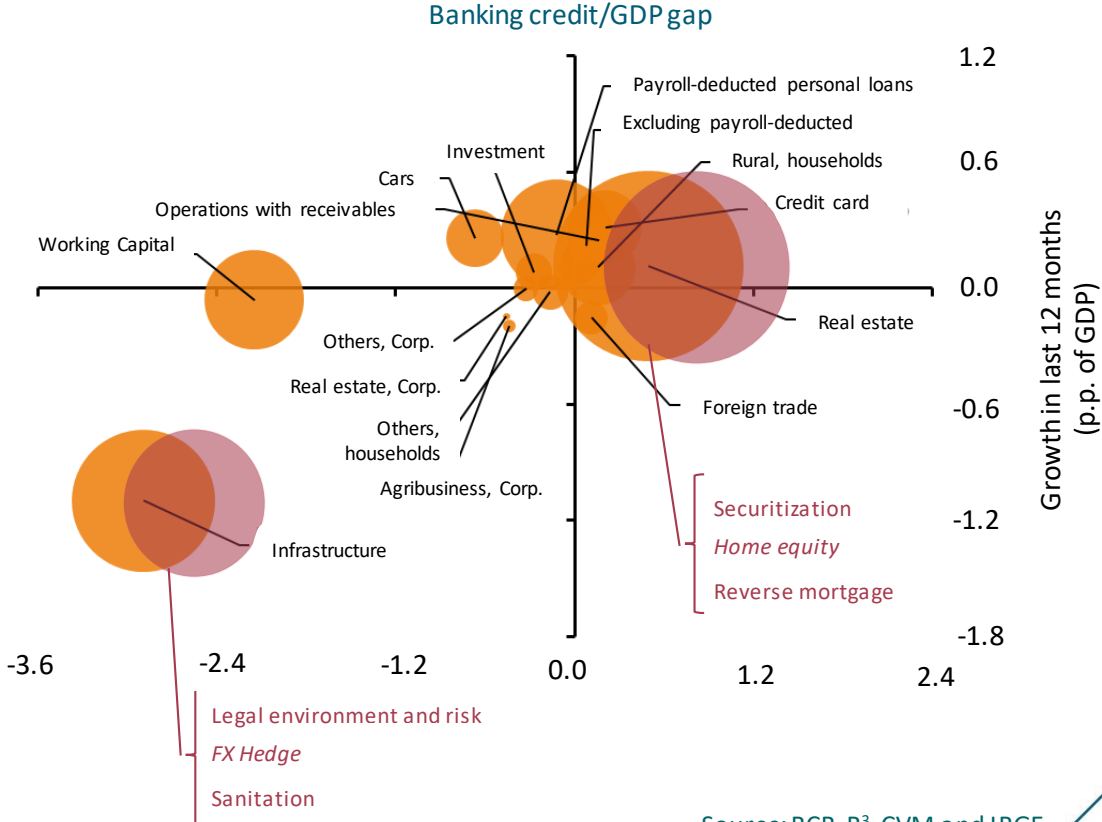


# Credit/GDP gap – there is room to keep growing

Credit/GDP gap, disregarding FX effects



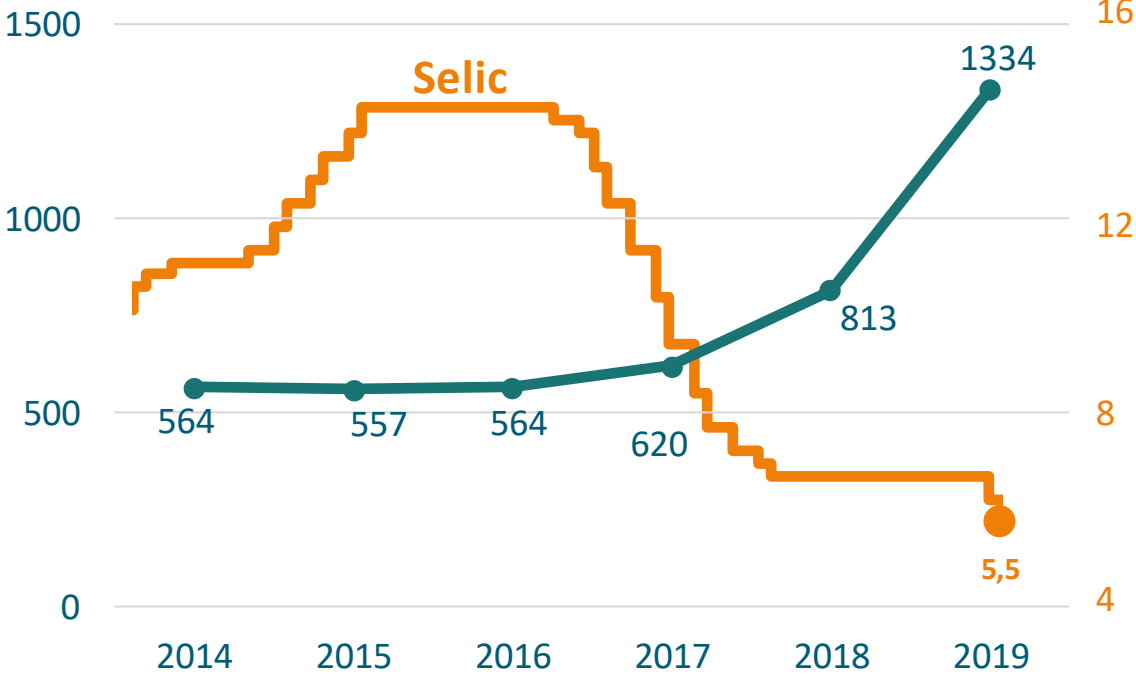
Annual growth and volume  
Jun/2019



Source: BCB, B<sup>3</sup>, CVM and IBGE.

# Capital markets democratization

People trading in the stock market\*

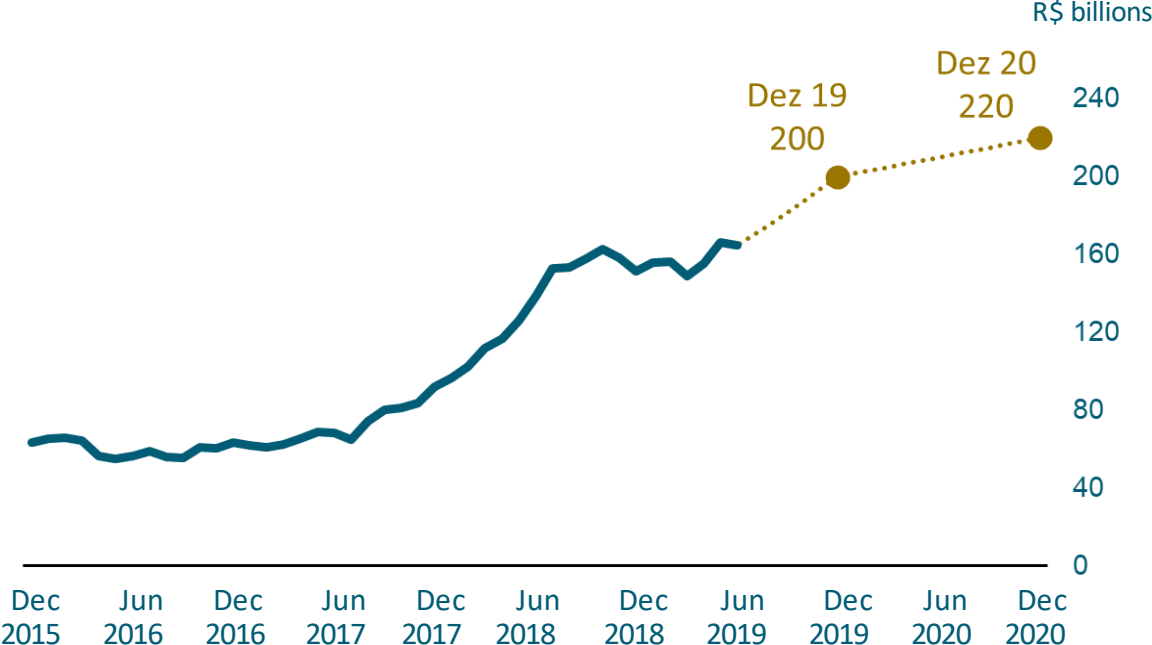


\* - in thousands

Source: B3 / BCB.

Debentures

Accumulated issuing in 12 months



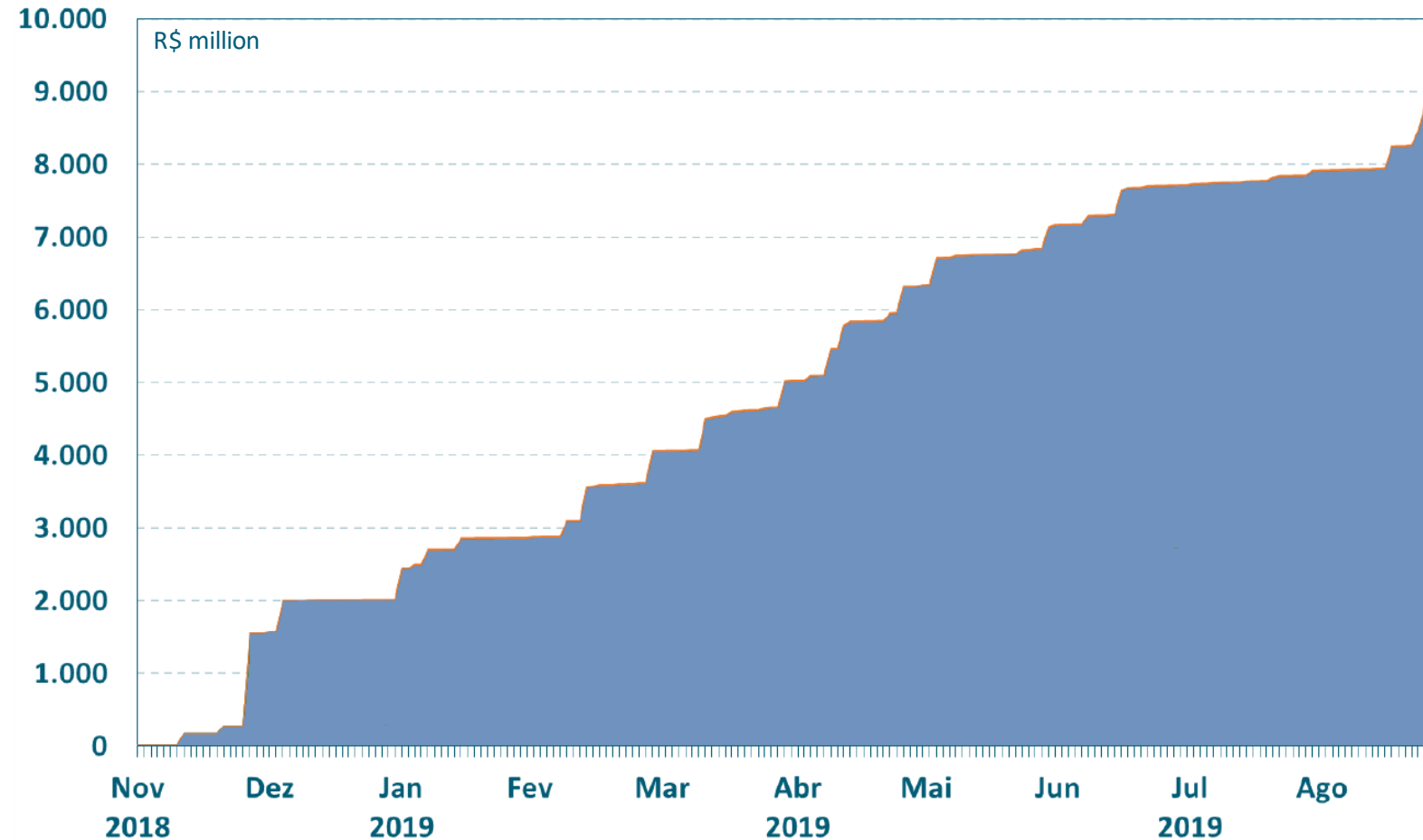
— Actual      ..... Forecast

Fonte: BCB / IBGE / FGV.

# Changes already underway

Covered bonds\* stock keeps growing:

- R\$ 1 billion stock increase in Aug/2017



Source: BCB.



# Fintech growth

- In 2018 the BCB regulated 2 kinds of credit fintechs:
  - Direct credit (SCD)
  - Peer-to-peer (SEP)
- The segment is blossoming:
  - **13 firms already in the market:**
    - **9 SCDs**
    - **4 SEPs**
  - **20 waiting for the BCB authorization**
- Outstanding credit is growing by 300% on a yearly basis.\*
- The segment is already responsible for near US\$ 250 millions in credit operations.
- A major aport in 2019 increased the capital of credit fintech by US\$ 231 millions.

\* - According to the Associação Brasileira de Crédito Digital (ABCD)

# Changes already underway

- Investment funds have to redefine their business

## Administration fee

Fixed income, retail

Initial investment (R\$)	Administration fee (% p.y.)
up to 1,000	2.3
from 1,000 to 25,000	1.0
from 25,000 to 100,000	0.9
more than 100,000	0.5
<b>Average</b>	<b>1.0</b>

## Fixed income funds vs. savings account

After income tax

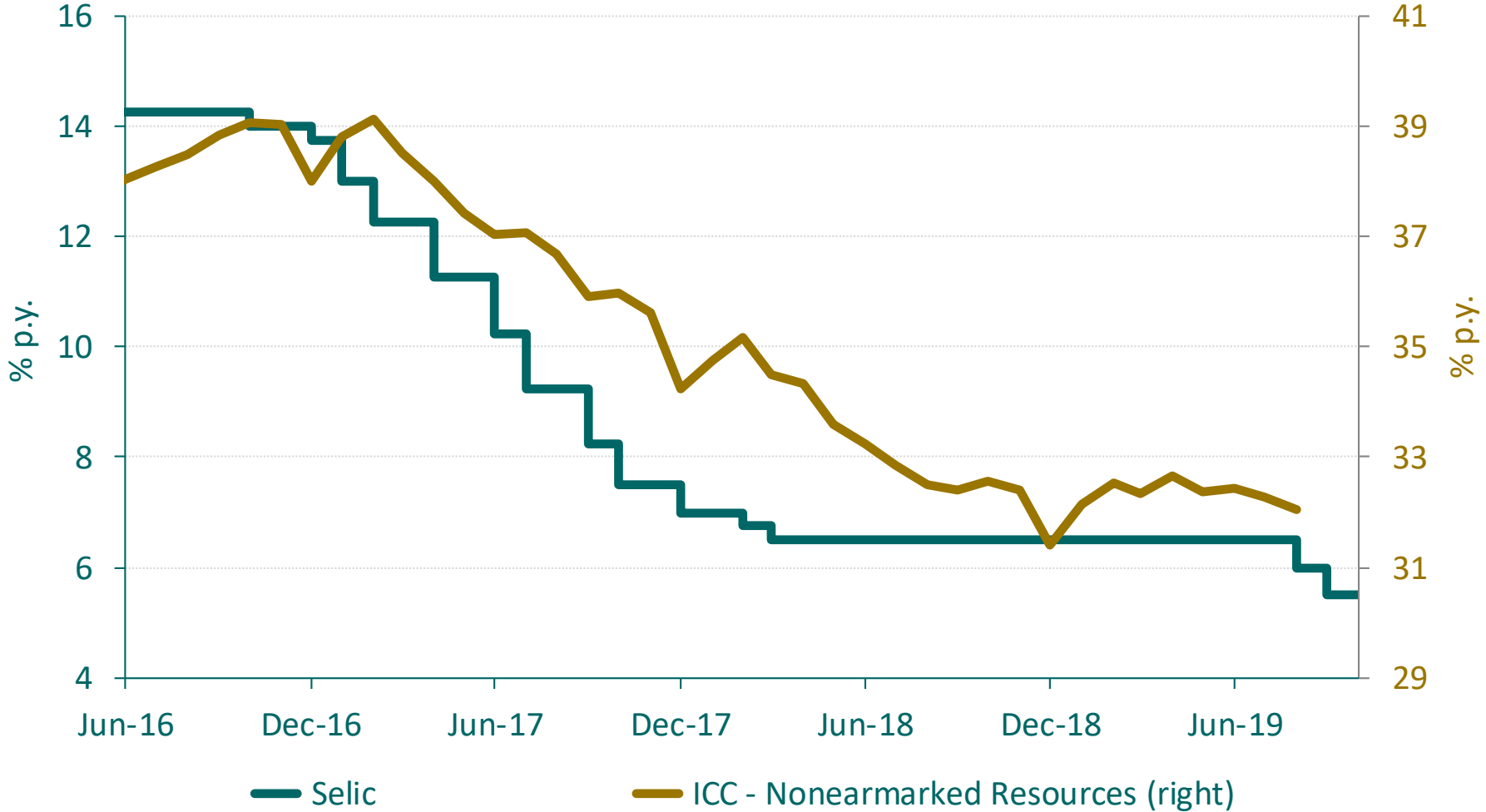
Income tax (%)	Breakeven Adm. Fee (% p.y.)
22.5	0.51
20.0	0.66
17.5	0.80
15.0	0.93

\* Hypothesis:

- 1) Selicrate: 5,50% p.y. and
- 2) Returns of 100% of CDI

Source: BCB.

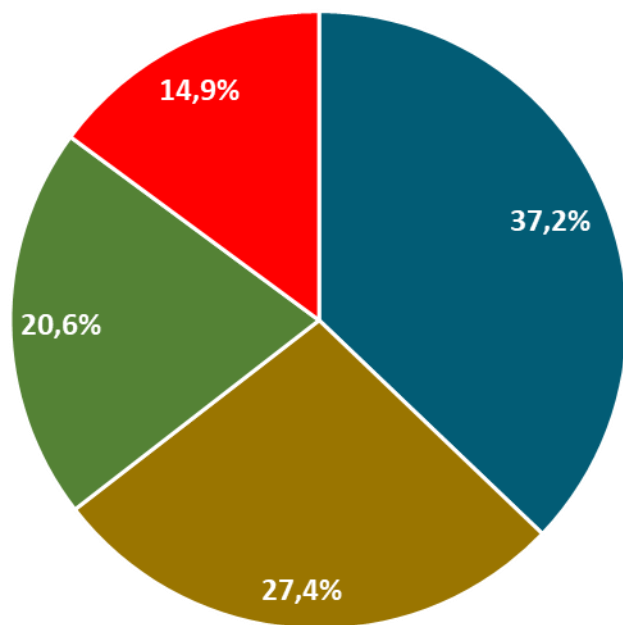
# Fall of the banking credit cost



Source: BCB.



# Spread decomposition



■ Default ■ Administrative Charges ■ Taxes and FGC ■ Financial Margin

	Emerging Countries *	Brazil
Funding cost **	4.0%	6.5%
Inflation**	3.1%	3.7%
Default***	3.4%	3.6%
Banking Spread **	3.8%	18.4%
Loan Recovery**	52.7%	14.6%
Recovery Time**	1.7 year	4.0 years

\*Average among Chile, China, Colombia, Indonésia, México, Rússia, South Africa and Thailand  
 \*\*2018.

\*\*\*2016.

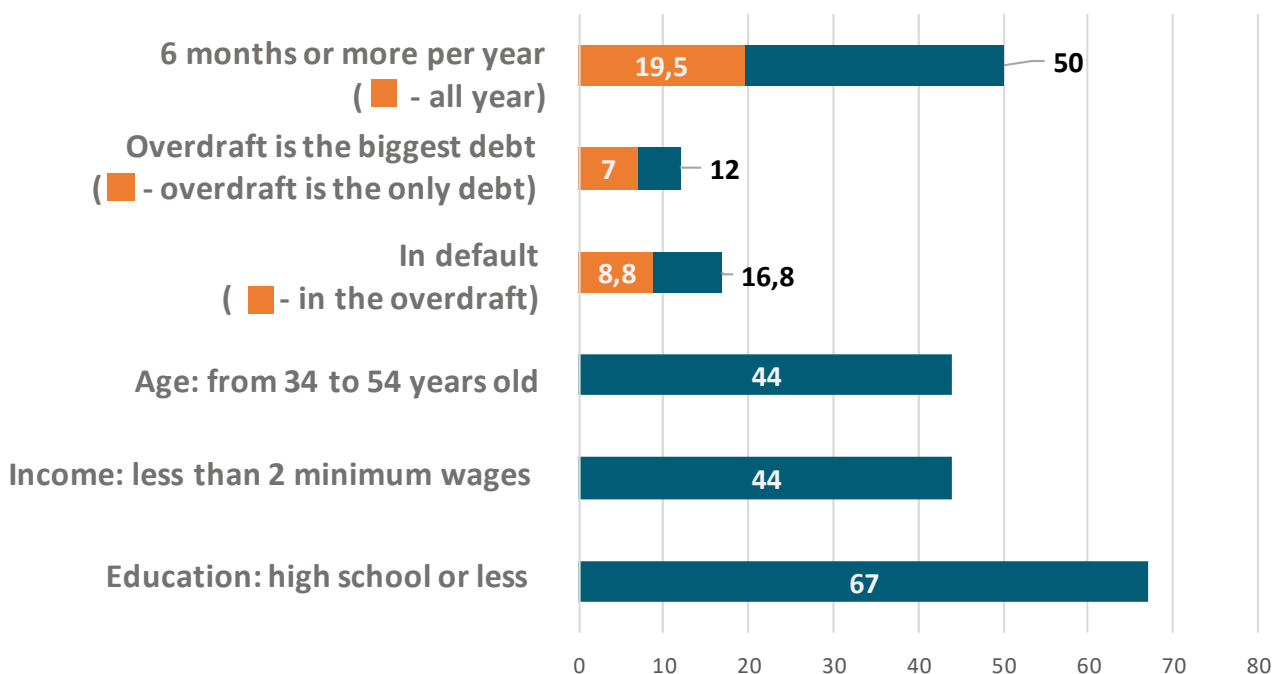
Source: IFS/IMF, WEO/IMF, Doing Business/World Bank, GFDD/World Bank, BCB and IBGE.

Source: BCB/REB.

# Emergency credit lines are regressive

## Overdraft

### User Profile



The larger the borrower's income, the less the compromised income

Borrower's income	Part of the income compromised with overdraft interests	
	Median	Top 10% indebted
Up to 2 m.w.*	2.75%	21.10%
From 2 to 5 m.w.*	1.62%	10.80%
From 5 to 10 m.w.*	1.21%	9.20%
Above 10 m.w.*	0.79%	7.50%

\*m.w. - minimum wage

# Overdraft, financial education is the answer

Room for improvement with users:

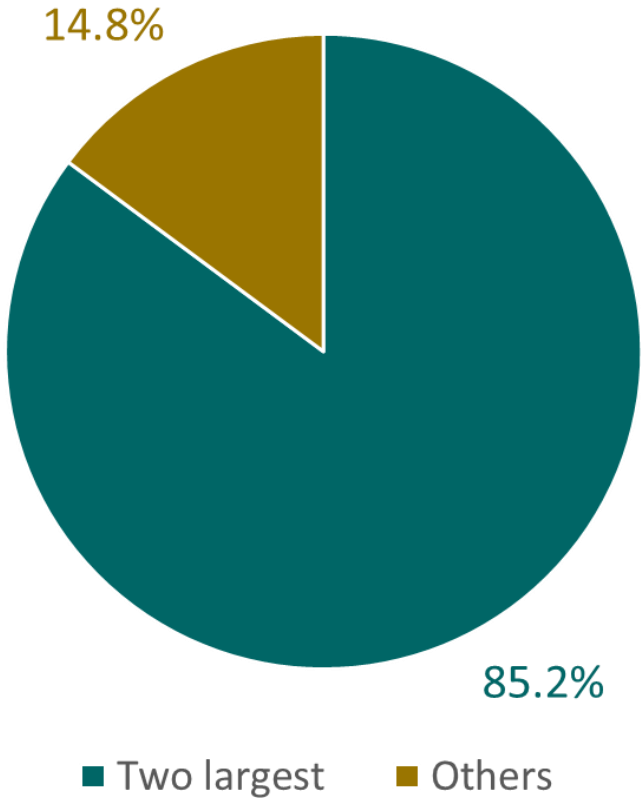
- Understanding how the instrument operates
- Developing skills to choose the more appropriate instrument to their needs

**Dimension:**  
Financial Education

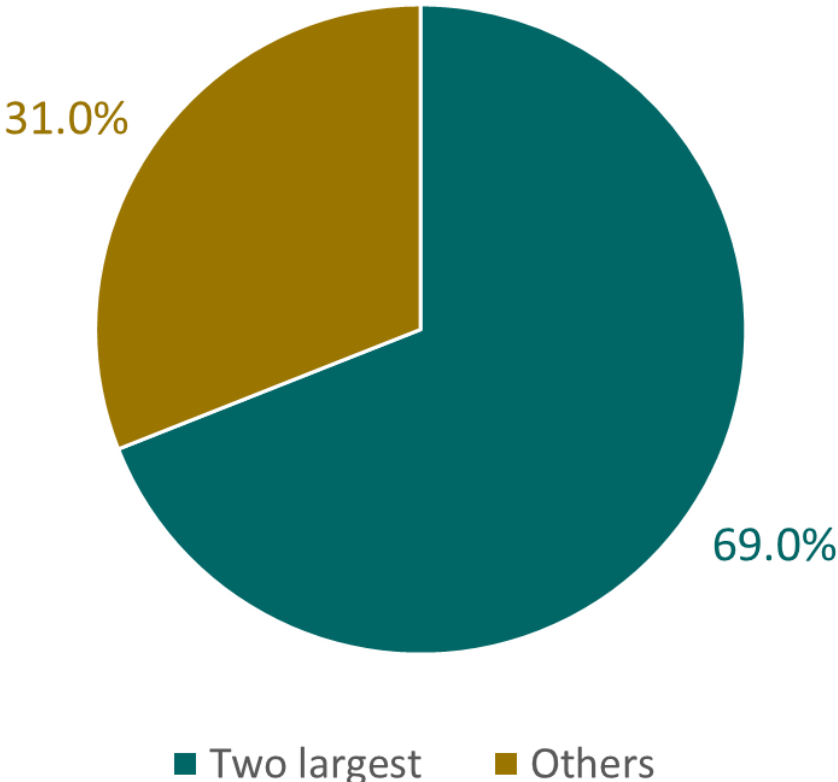


# Improvements in card market

Credit Card Machine Accrediter  
Market share (2015)

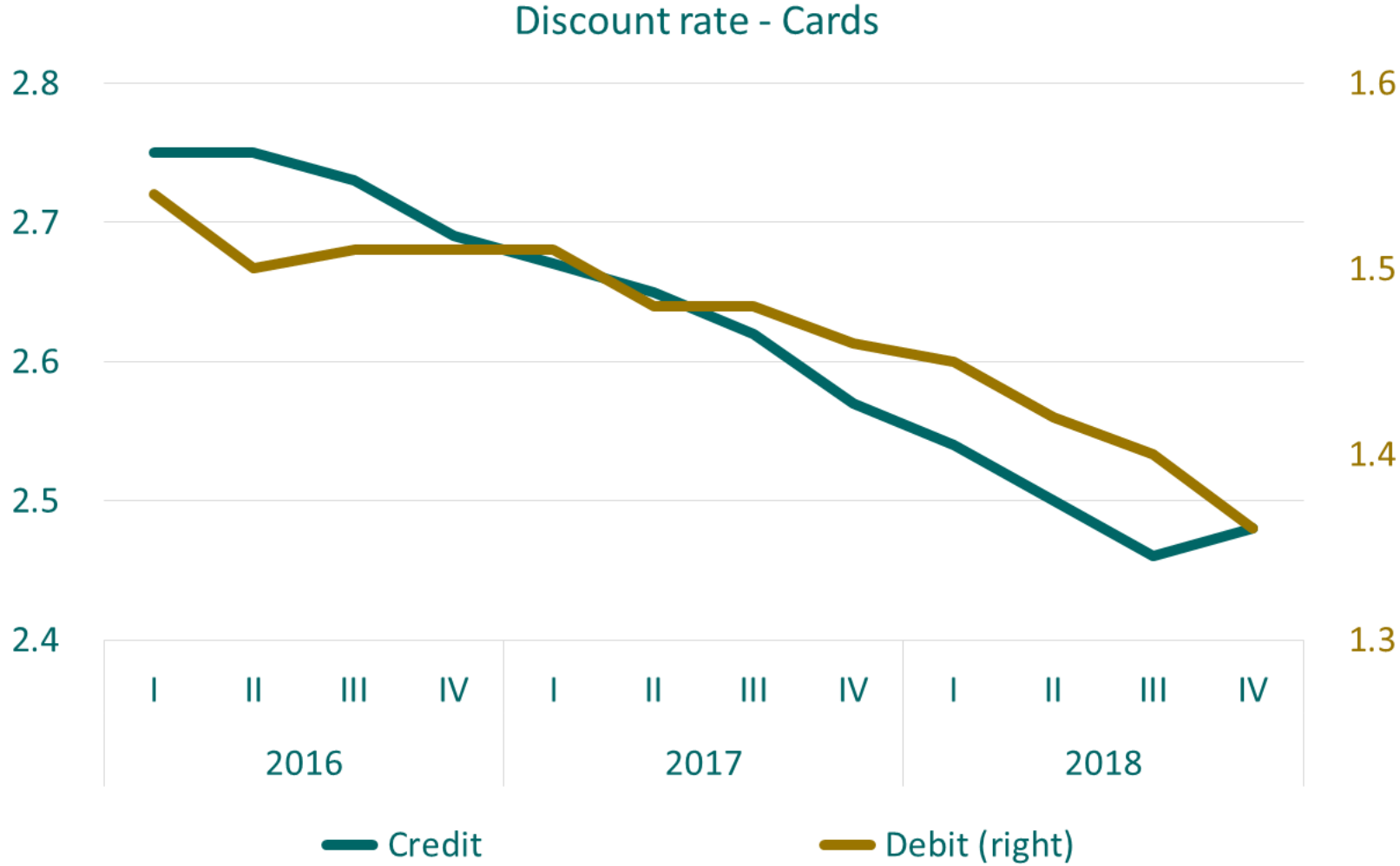


Credit Card Machine Accrediter  
Market share (2018)



Source: BCB.

# Improvements in card market



Source: BCB.



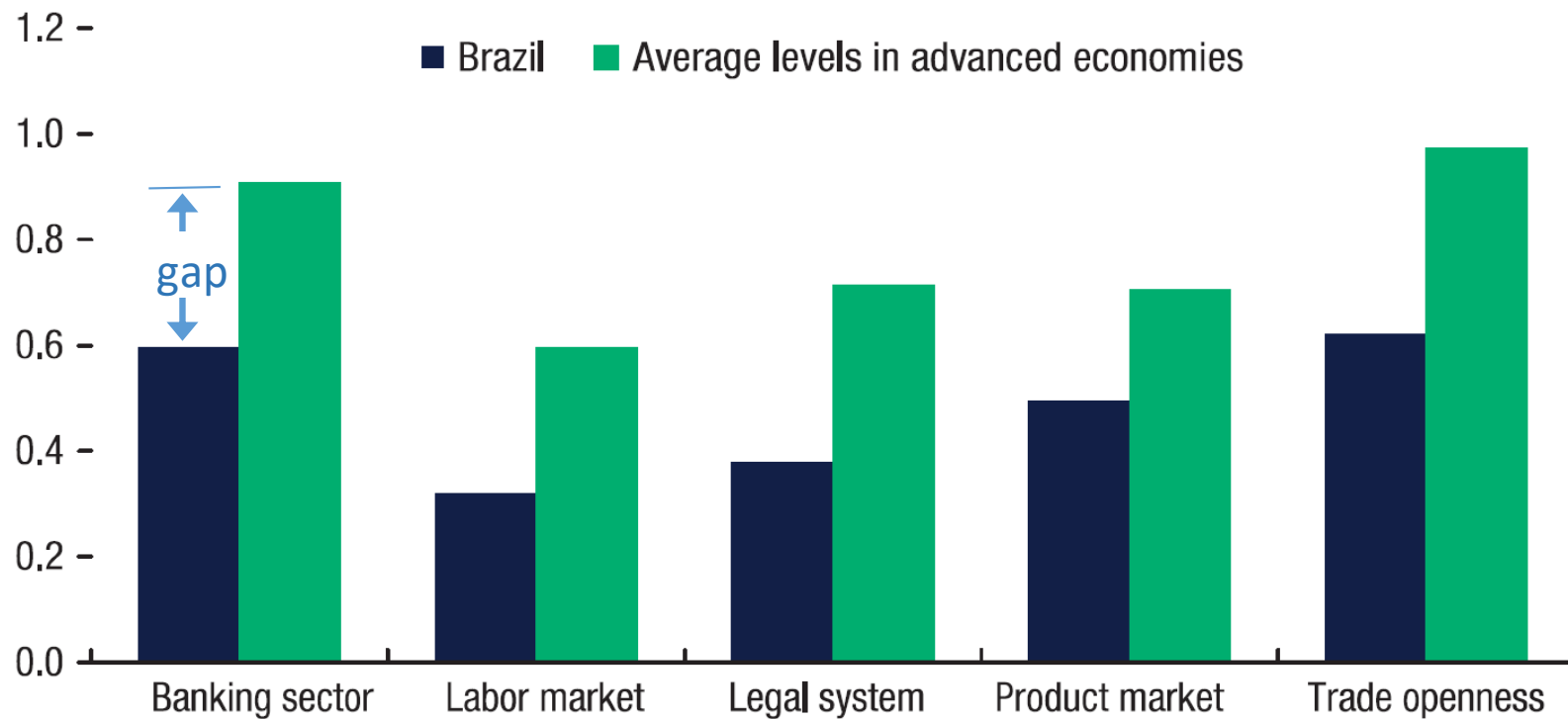
# REFORMS

## Agenda *BC* #



# Why a reform agenda?

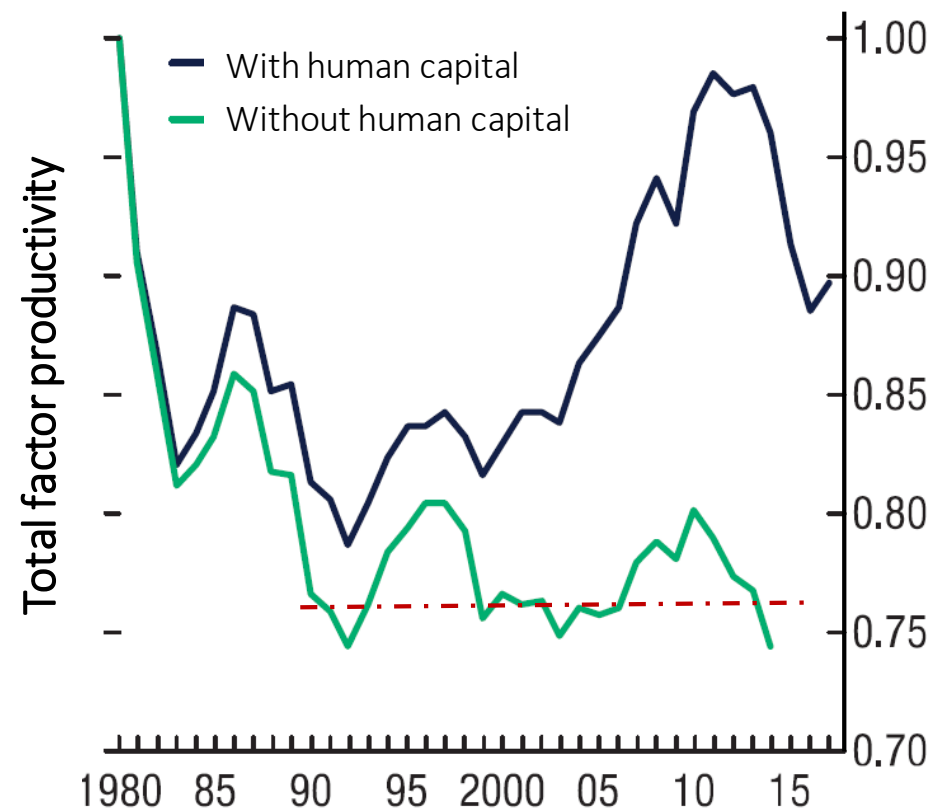
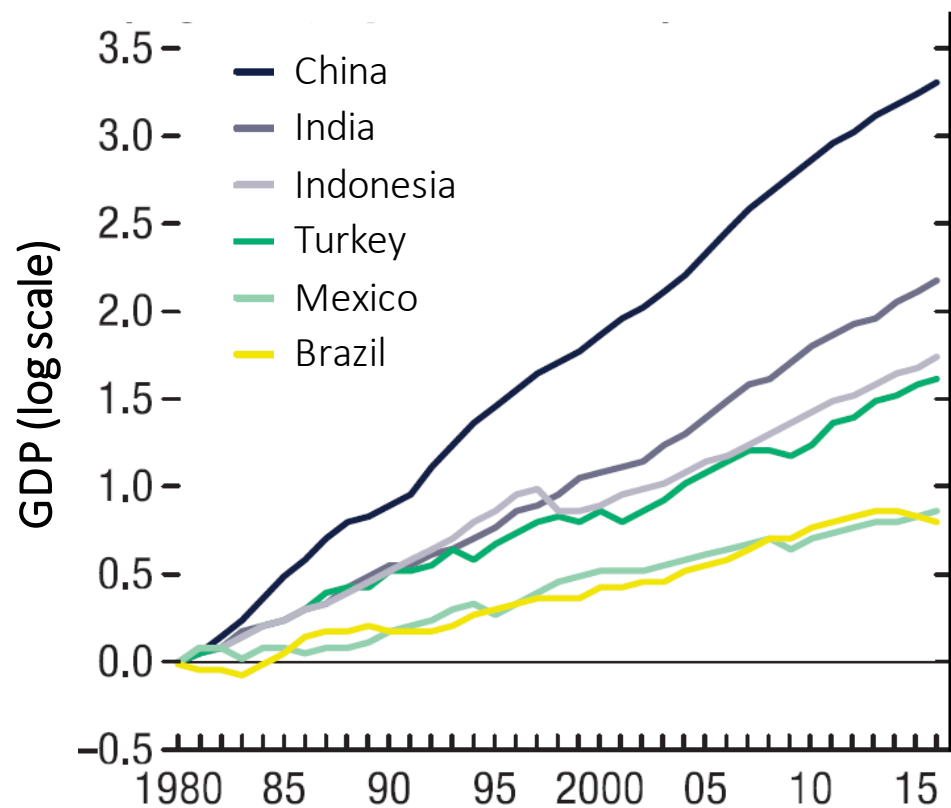
Structural reforms: current situation\*



Source: FMI – *Brazil: boom, bust, and the road to recovery.*

# Why a reform agenda?

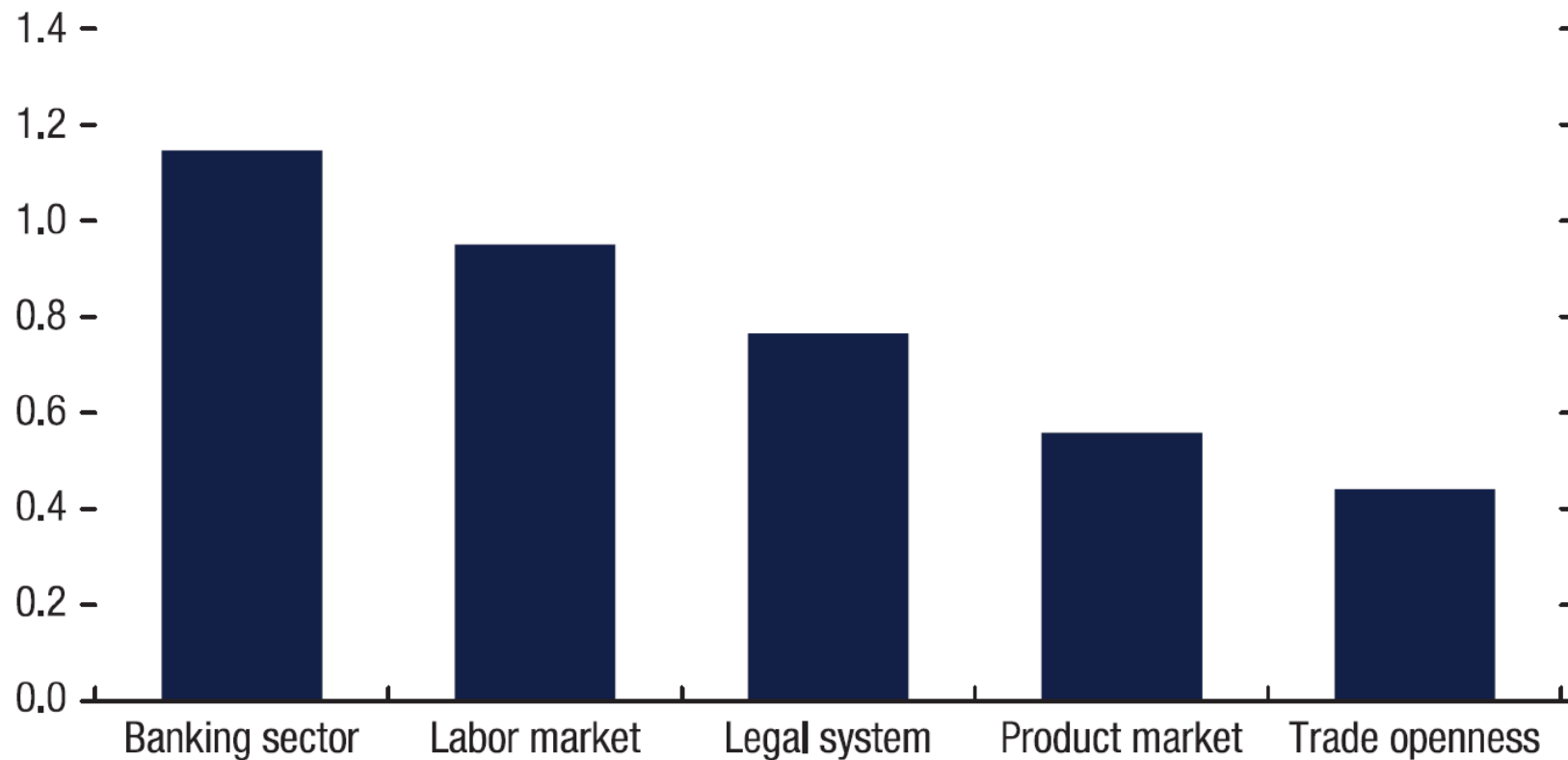
Low growth and halted productivity



Source: FMI – *Brazil: boom, bust, and the road to recovery*

# Why the Agenda *BC* #?

Filling the *gap*: productivity impact

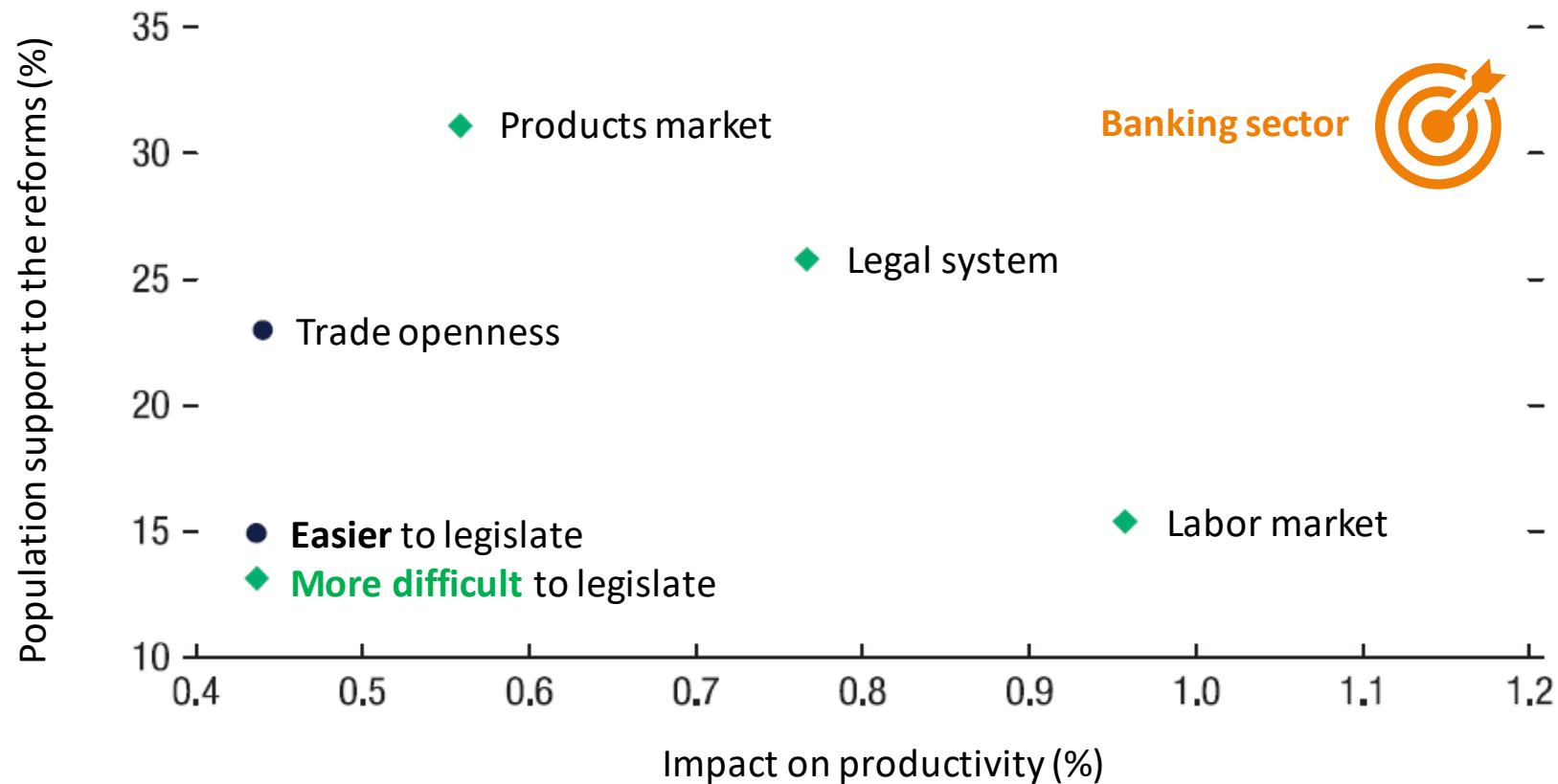


Source: FMI – *Brazil: boom, bust, and the road to recovery*



# Why the Agenda BC #?

Financial sector reforms have popular support and high productivity impact



Source: FMI – Brazil: boom, bust, and the road to recovery



**INCLUSION**



**COMPETITIVINESS**



**BC**



**TRANSPARENCY**



**EDUCATION**

## #BCinclusion

- **Credit Union**
- **Microcredit**
- **Currency Convertibility**
- **Initiatives for Capital Market (IMK)**

Progress level, from 0 to 4

## #BCcompetitiveness

- **Innovation**
- **Market Efficiency**
- **International Reserves**

## #BCtransparency

- **Rural Credit**
- **Housing Credit**
- **Relationship**
  - **Foreign Investors**
  - **Congress**
- **Communication of BCB actions**
- **Transparency of Monetary Policy**

## #BCeducation

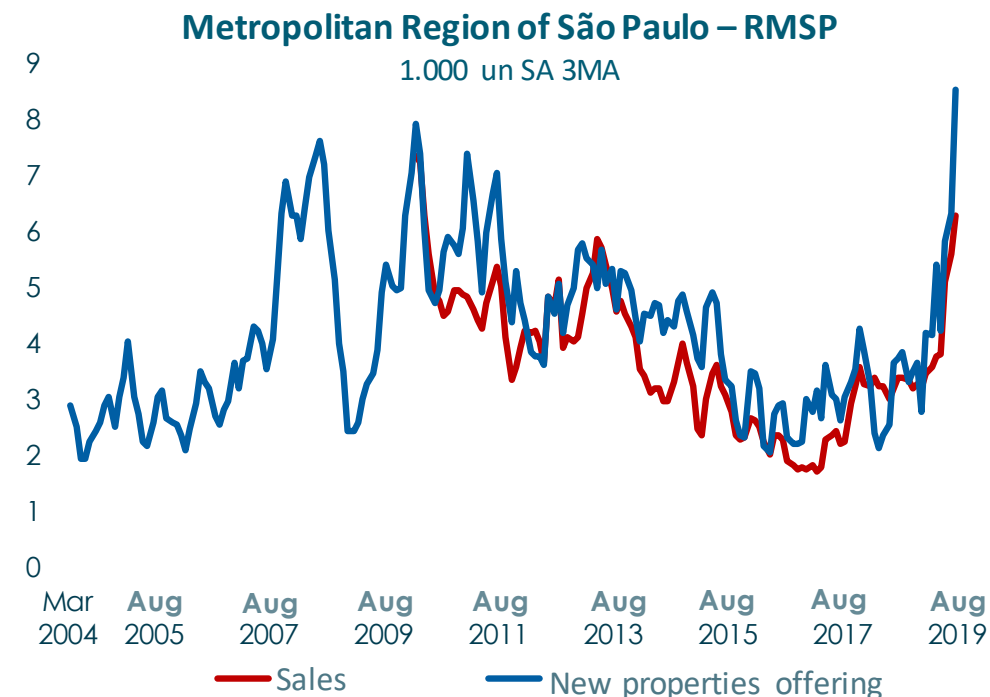
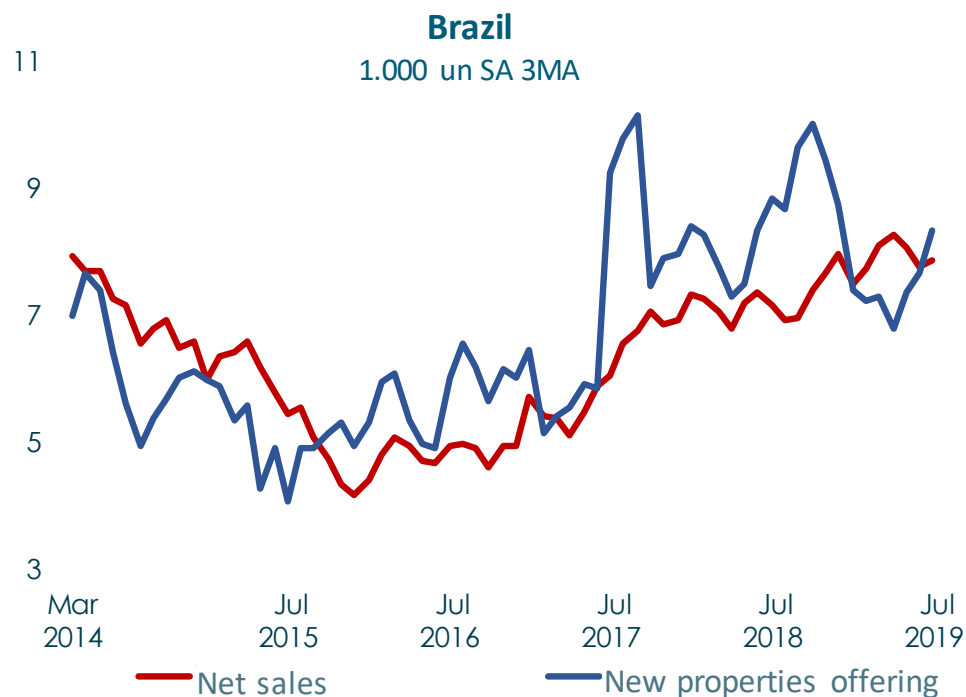
- **Financial Education at Schools**
- **Over-indebted**
- **Low Income Population**
- **Economy Museum**
- **Joint Actions with the Financial System**



# Agenda BC# – Recent actions

- **Electronic Invoice Law**
- **Positive Credit Bureau Law**
  - Both will improve competitiveness in the credit market and the banking spread.
- **New funding instruments for Credit Unions**
- **Capital Markets Initiatives:** actions to facilitate investor's access and to promote competitiveness of fund offering.
- **Use of CPI in real estate financing contracts**
  - Flexibility in housing market, fostering its integration to the capital market, via securitization.

# Investments – new properties



	Net sales Brazil	New properties offering Brazil	Sales RMSP	New properties offering RMSP
Accumulated in 2018	88,050	100,405	38,941	40,327
Accumulated in the last 12 months	93,245	103,678	48,982	57,667
Variation	6%	3%	26%	43%

Fonte: Abreinc (Brazilian Association of Real Estate Developers) and Secovi/SP

# Agenda BC# – Home Equity: high potential

In a conservative scenario, around R\$ 500 billions can be injected in the credit market, almost the total current real estate credit stock.

	(R\$ billions)	
<b>Gross residential housing stock<sup>1</sup></b>	12.065	
<b>Irregular legal status or unsettled debt<sup>2</sup></b>	48%	
<b>Not available for collateralization<sup>3</sup></b>	50%	
<b>Net residential housing stock</b>	9.160	
<b>Adhesion</b>	10%	30%
<b>Available guarantee</b>	916	2.748
<b>Average LTV</b>	33%	
<b>Increase of stock (first draft)</b>	300	900
	50%	150%
<b>Scenario (prob.)</b>	67%	33%
<b>Credit to be offered (expected)</b>	500	

1 - IBGE (number of residences) and BCB (average value of residences)

2 - IBGE (residences with unsettled debt) and UN-Habitat (residences under irregular legal status)

3 - Assumption: Part of the total value of residences with unsettled debt or under irregular legal status that is not available for collateralization

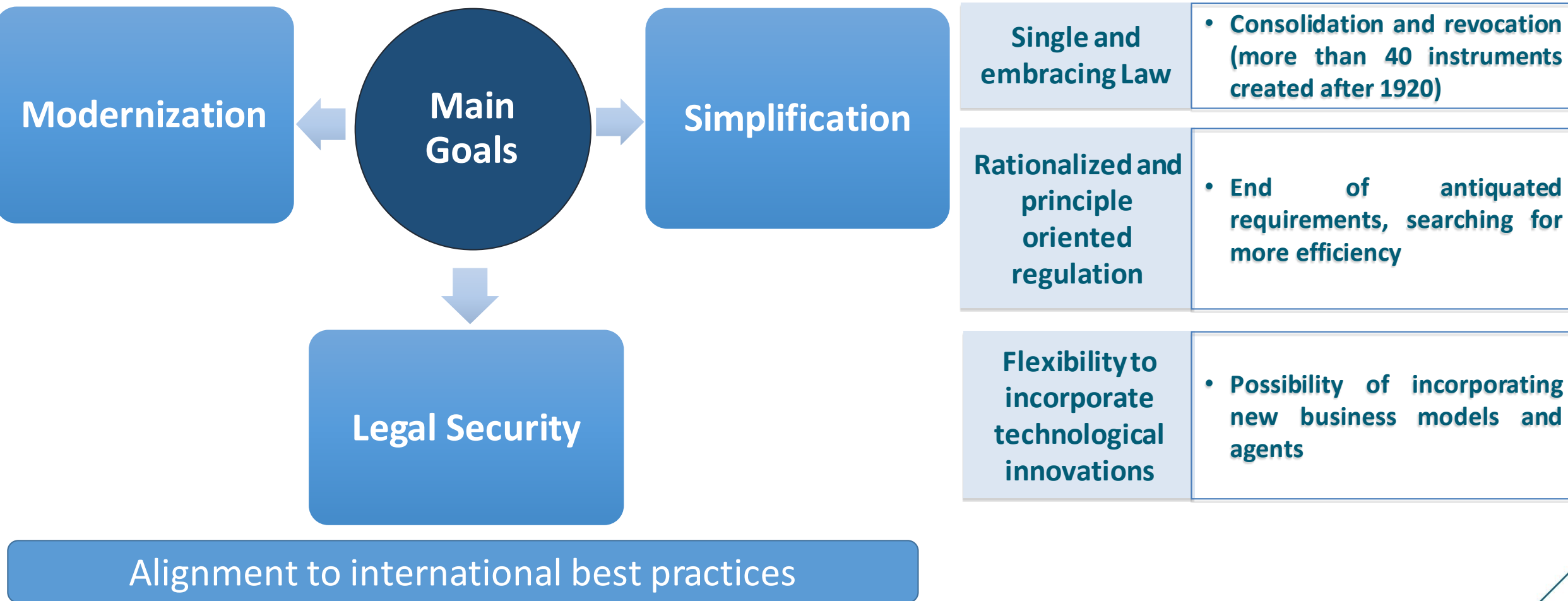
Parameters	Home Equity	CDC *
<b>Maximum Value (R\$)</b>	R\$300 thousands	R\$50 thousands
<b>Nº of instalments</b>	120 months	Up to 48 months
<b>Interest rate (% p.y.)</b>	TR + 15%	153.63% p.y.
<b>Actual Total Cost** (% p.y.)</b>	TR + 18%	160 % p.y.
<b>1<sup>st</sup> payment</b>	R\$6,490.60 (with insurance)	R\$4,123.49 (without insurance)

\* - Market average

\*\* - LTV of 60%

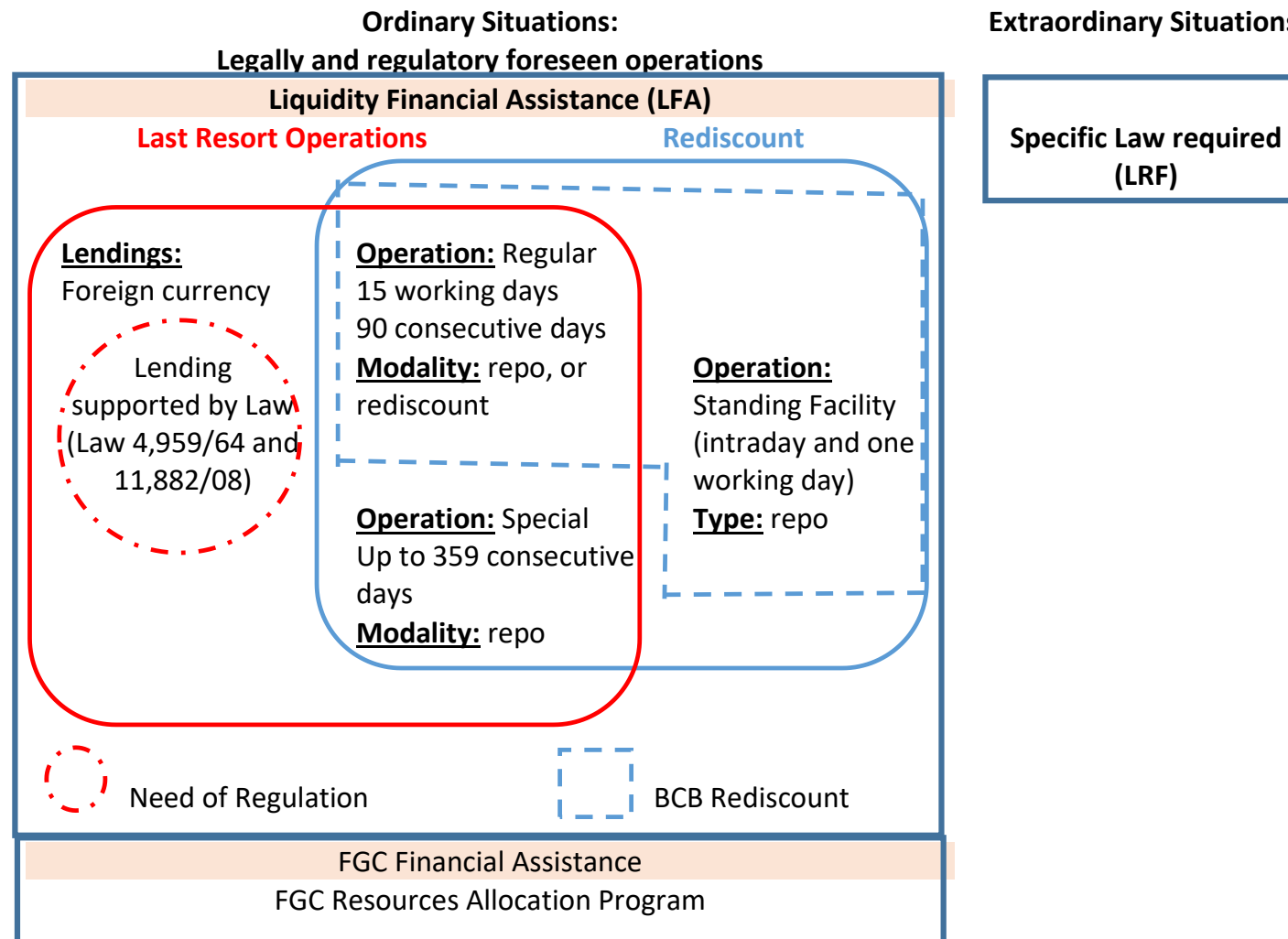


# Agenda BC# – FX Simplification



# Agenda BC# – LFA

- ER ✓
  - Diagnostic
  - Operational model proposals
- LFA ✓
  - Policy proposals (assets and counterparty eligibility)
  - Risk and price methodologies

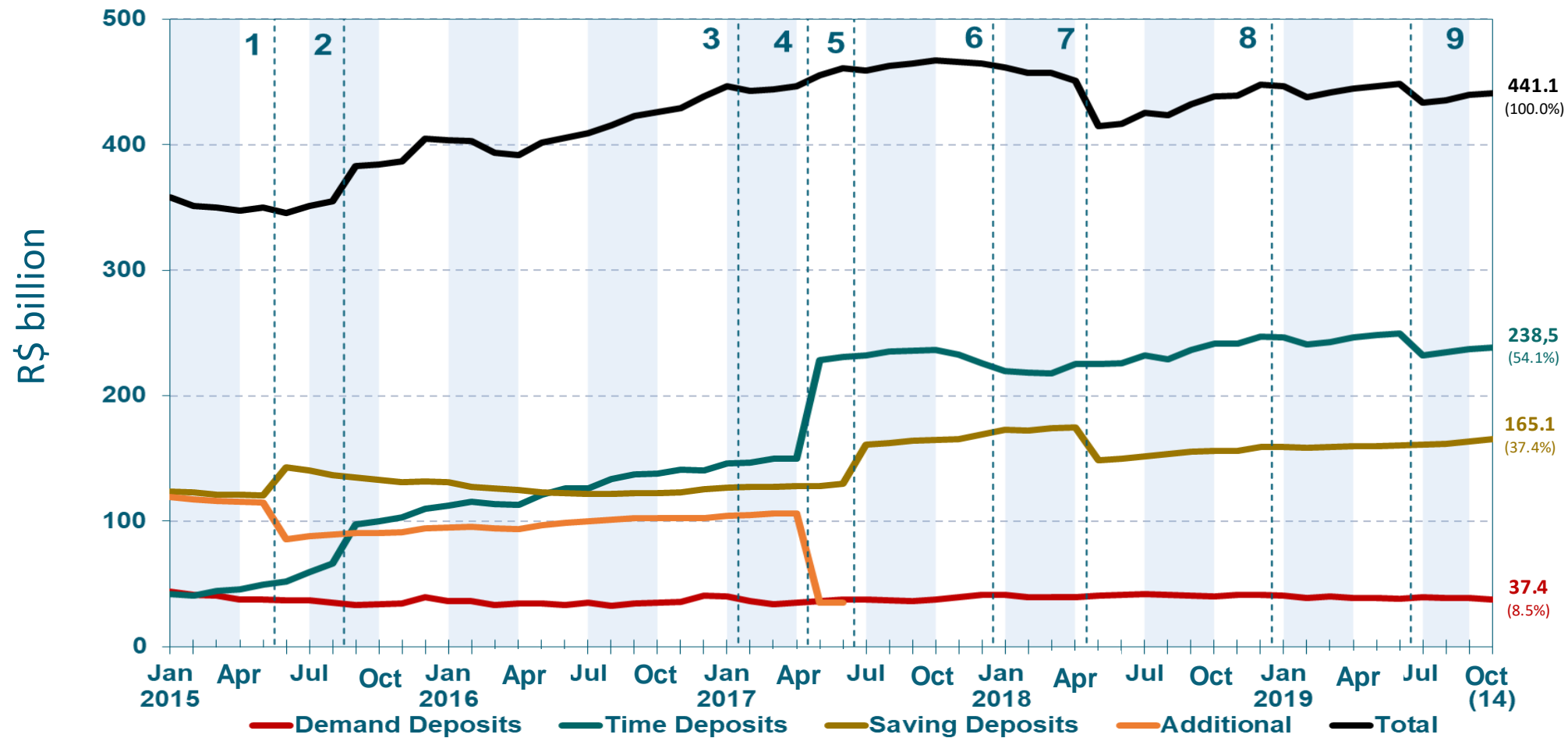


## Agenda *BC#* – *AFL*

- Compliance with FSAP recommendation (2012)
- Incentive to liquidity in markets
- Promotion of asset registering
- Facility to perform a classic central bank function
- Structural reduction compulsory deposits needs

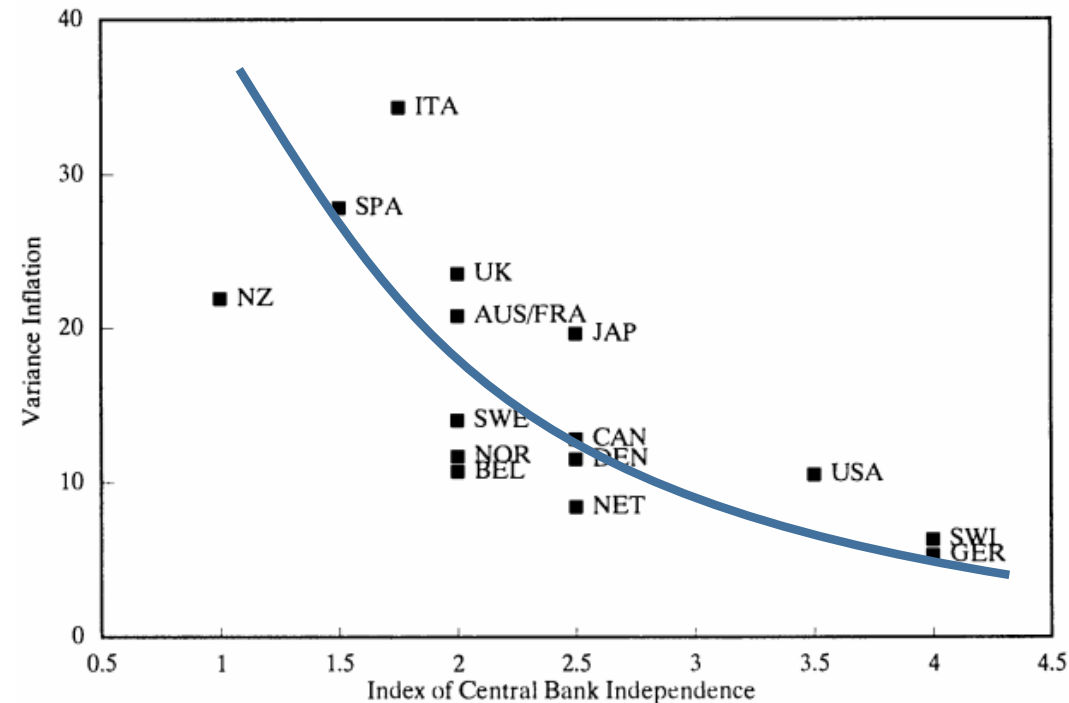
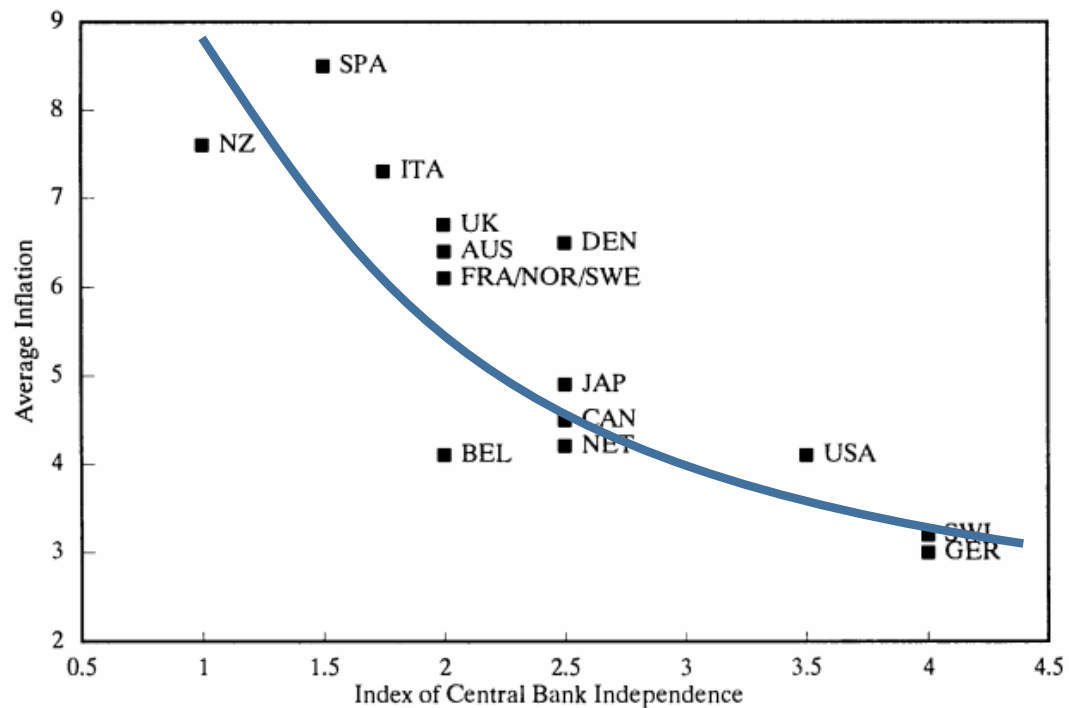


# Agenda BC # – AFL



# Agenda BC# – BCB Autonomy

- 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

# Conclusions

- Selic rate renewed its historical minimum at Copom last meeting.
  - External outlook is still uncertain and risks of a deeper slowdown of the global economy remain.
  - Reforms and adjustments of the Brazilian economy are progressing;
  - The continuity of this process is essential for the structural interest rate reduction and the sustainable recovery of the economy.
  - The next steps of the Monetary Policy will continue to depend on the evolution of economic activity, on the balance of risks, and on inflation projections and expectation, and the consolidation of the benign scenario for prospective inflation should permit additional adjustment of the degree of stimulus.



# Conclusions

- Another important issue has been the BCB renewed credibility, built on a cautious conduct of the Monetary Policy.
  - An additional step toward more credibility will come from the approval of BCB Autonomy Bill.
- Moreover, to contribute to productivity growth in our economy, the Agenda BC# acts to remove existing barriers that prevent the financial system to fulfill its role of promoting an efficient resource allocation among the economic activities.

# THANK YOU

**ROBERTO CAMPOS NETO**  
Governor of Central Bank of Brazil

October, 2019