

VIII High-Level Policy Dialogue between the Eurosystem and Latin American Central Banks

Session II

Global Financial Governance and the Eminent Persons Group Report: *are we making the Global Financial System work for all?*

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EPG recommendations – Making the global financial system work for all

Promoting the effective operation of an open, collaborative and rule-based international financial and monetary system that supports strong, sustainable, balanced, and inclusive economic growth and financial stability

- International Financial Institutions (IFIs) working together as a system rather than as separate entities
 - Mobilize development partners and encourage development finance, resource mobilization and private investment
- Secure benefits of an interconnected financial market through global financial resilience
 - Promote inclusive financial markets, sustainable growth
 - International Monetary and Financial System (IMFS) to enable countries' full potential for growth and development
 - Enable consistent actions during a crisis to minimizing impacts from financial crises
- Promote a new governance structure that provides coherence across key institutions
 - Promote efforts to help develop resilient markets and create an integrated risk surveillance system
 - Improve the governance of global finance structure and the global financial safety net

Fostering inclusion, sustainable growth and resilient financial markets

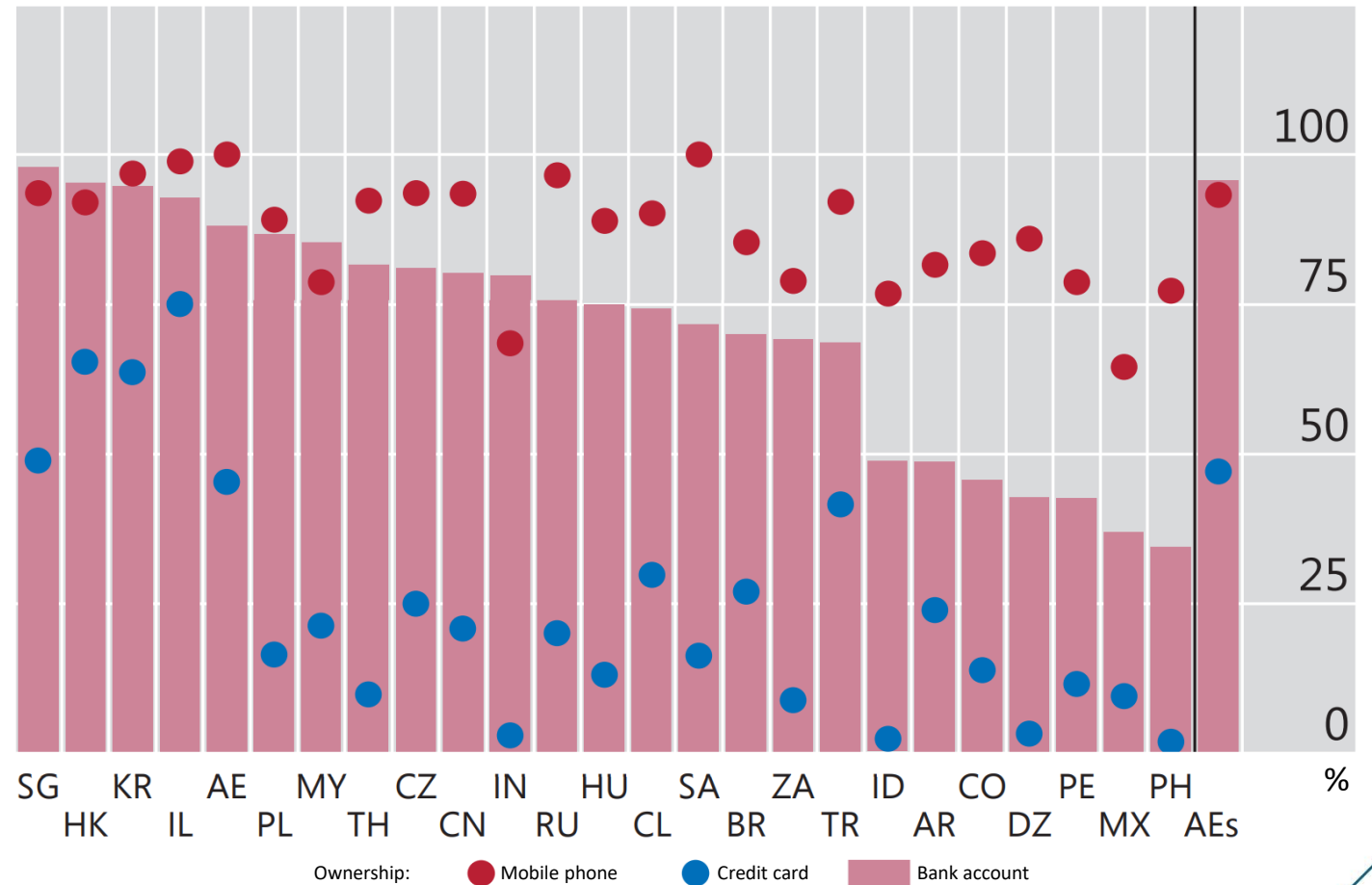
- Promoting inclusive financial markets and sustainable growth
- Developing resilient global financial system with IMF standing facility
- Dealing with the challenges of integrated markets and changes on capital flows
- Democratization of governance and the integration between the IFIs
- Integration of the surveillance process and information exchange

What can central banks do?

Banking inclusion and financial technology

- A large percentage of the EME population remains outside the banking system
- Having a mobile phone has allowed digital delivery of essential financial services to previously unbanked households and small and medium-sized enterprises

Fraction of population with bank accounts, mobile phones and credit cards



Source: BIS Annual Economic Report 2019

BCB agenda – Inclusion, Competitiveness, Transparency and Financial Education

- Inclusion – foster access to capital markets by households and firms
 - Ex: credit unions, FX modernization
- Competitiveness – promote adequate pricing of services
 - Ex: fintechs, instant payments, open banking
- Transparency – improve communication with society
 - Ex: communication with domestic and international players
- Financial education – promote financial literacy
 - Ex: partnerships with schools, currency museum

Foreign exchange market modernization

The modernization brought by the draft bill of law will benefit business environment and contribute to the financial market deepening

FX Simplification



Single and encompassing Law

- Consolidation and revocation (more than 40 legal acts issued from 1920 onwards)

Rationalized and principle oriented regulation

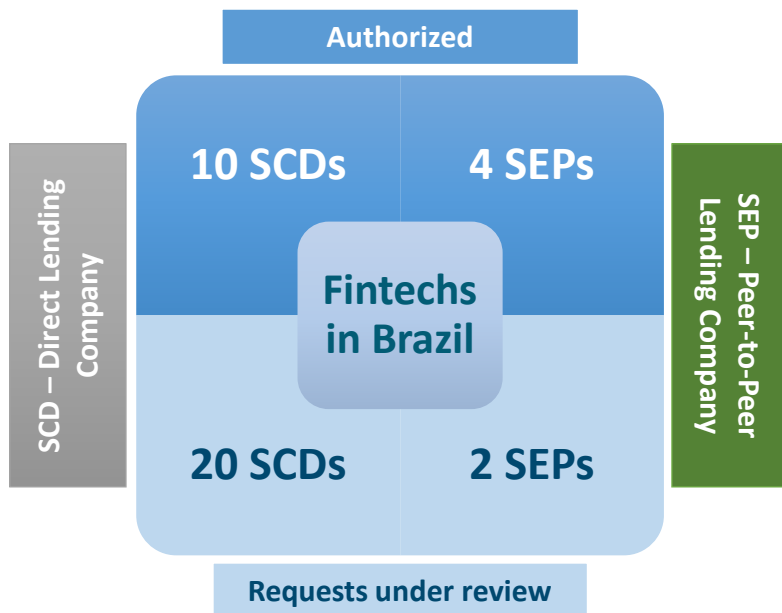
- End of outdated requirements, search for more efficiency

Flexibility to incorporate technological innovations

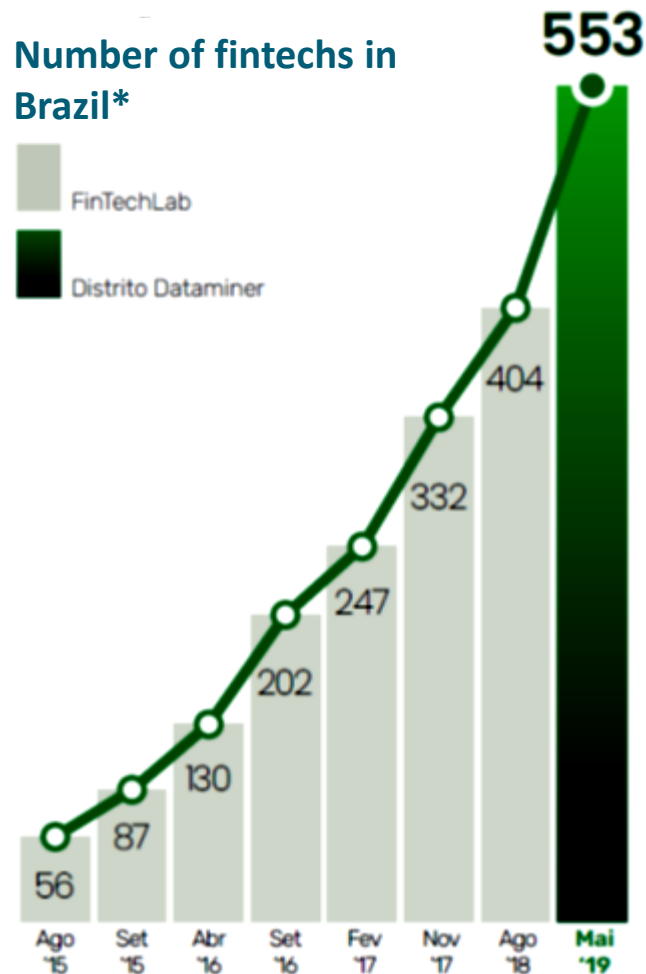
- Possibility of incorporating new business models and agents

Increasing participation of fintechs

Credit fintechs in Brazil (Nov 2018)



Number of fintechs in Brazil*



Number of investors in the biggest SEP fintech in Brazil



*Including credit, FX, payments, investments, crowdfunding, eWallets and digital banks, risk and compliance, cryptoassets, open-banking, debt etc.

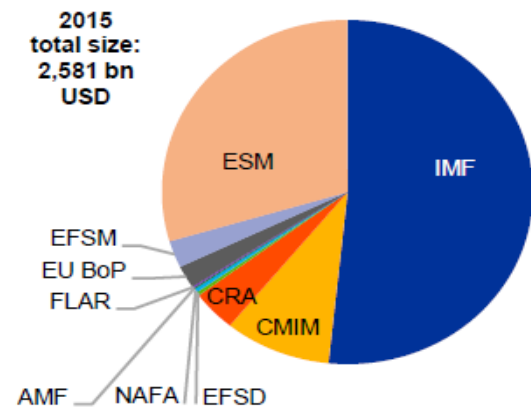
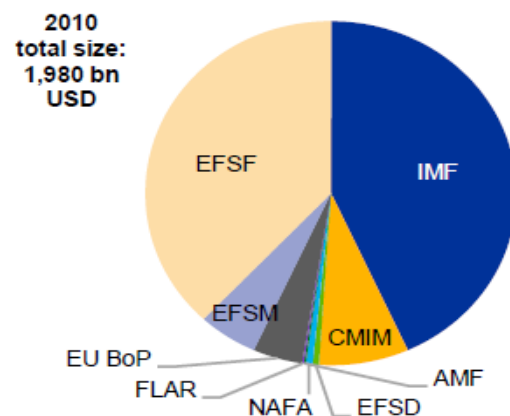
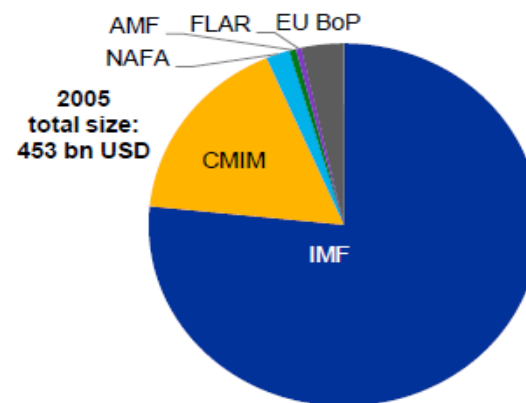
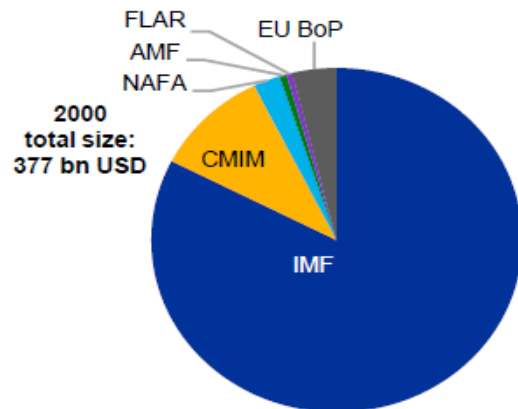
Sources: BCB/DEORF; BCB/DESIG; CVM

Liquidity assistance framework

- New strategic guidelines aimed at increasing market efficiency, access to liquidity, and shrink the structural level of reserve requirements
- Two new liquidity lines:
 - Short-time standing facility to accept securities issued by private entities as eligible collateral (in addition to the already accepted government securities)
 - Longer-term facility with more discretion in providing emergency funds for temporary liquidity needs.
- Commercial papers and corporate bonds to be accepted as collateral
 - Private securities as eligible assets should increase efficiency and deepen capital markets
- The new facilities, when operational, will increase the robustness of the financial system's safety net

Integration and resilience of financial system

IMF and RFAs' relative sizes (2000-2015)



➤ BRICS' Contingency Reserves Agreement (CRA)

- Brazil, Russia, India, China and South Africa
- CRA can be used to forestall short-term balance of payments pressures.
- Two instruments:
 - Precautionary
 - Liquidity
- Portion approved: IMF-delinked or IMF-linked
- The agreement has the initial amount of \$100 billion
- Current commitment to the CRA:
 - Brazil, Russia and India: \$18 billion
 - China: \$41 billion
 - South Africa: \$5 billion

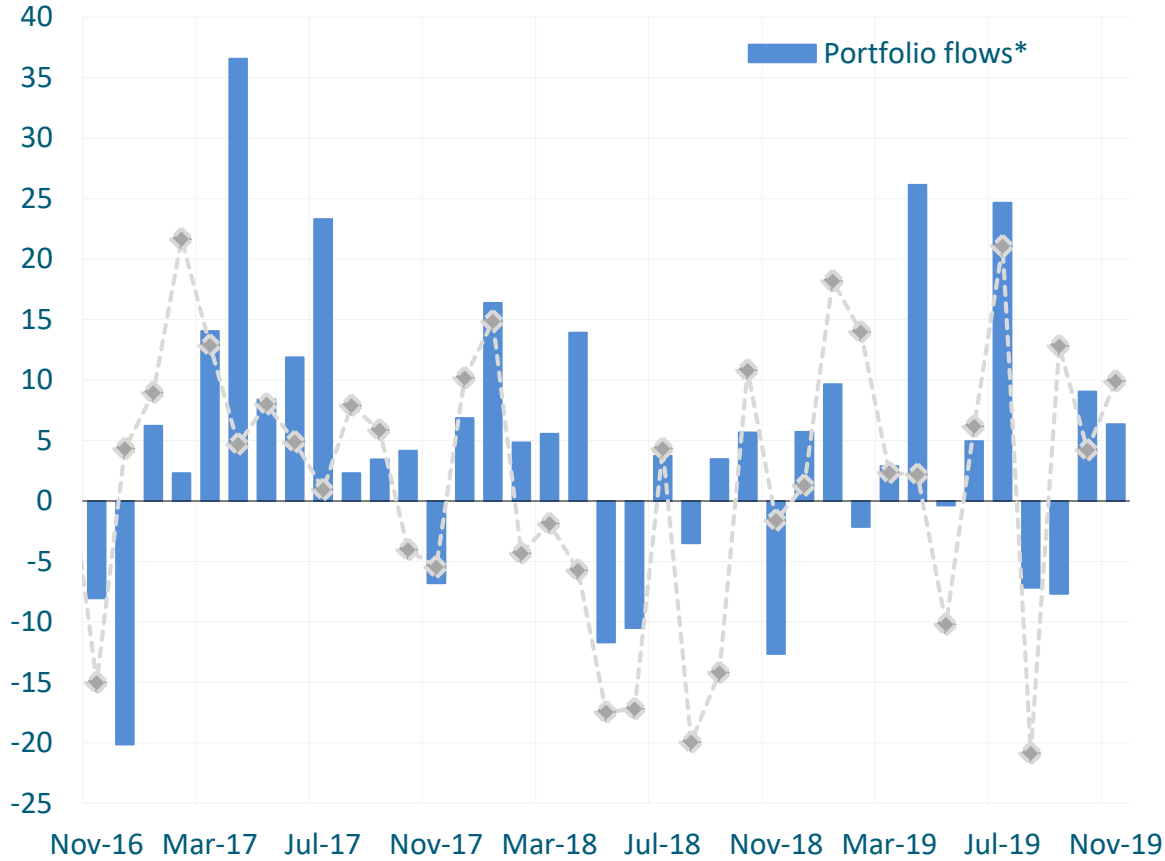
CRA can provide liquidity more quickly than the IMF and work as a “bridge arrangement” to a potential request of IMF assistance.

Source: ECB Occasional Paper Series #207, 2018.

Integration challenges

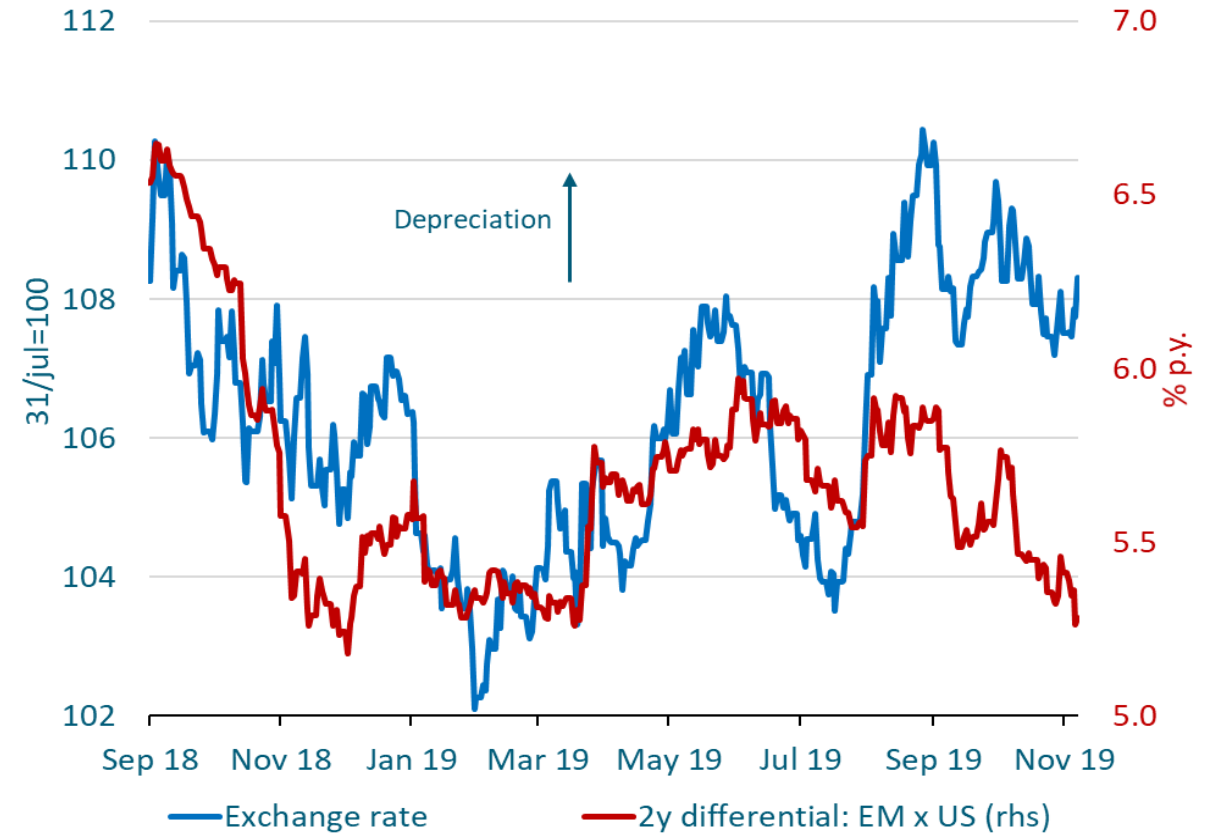
Integration and spillovers

Portfolio flows to emerging markets (USD billion)



* EME sample: South Africa, Bulgaria, South Korea, United Arab Emirates, India, Indonesia, Pakistan, Poland, Czech Republic, Thailand, Turkey and Vietnam
 Note: BCB forecasts for October and November flows in Bulgaria, Poland and Czech Republic

EMs*: Exchange and interest rates (2 years)



*EMs: Brazil, Chile, Colombia, India, Indonesia, Mexico, South Africa, Russia and Turkey

Source: Thomson Reuters

Thank you!

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