

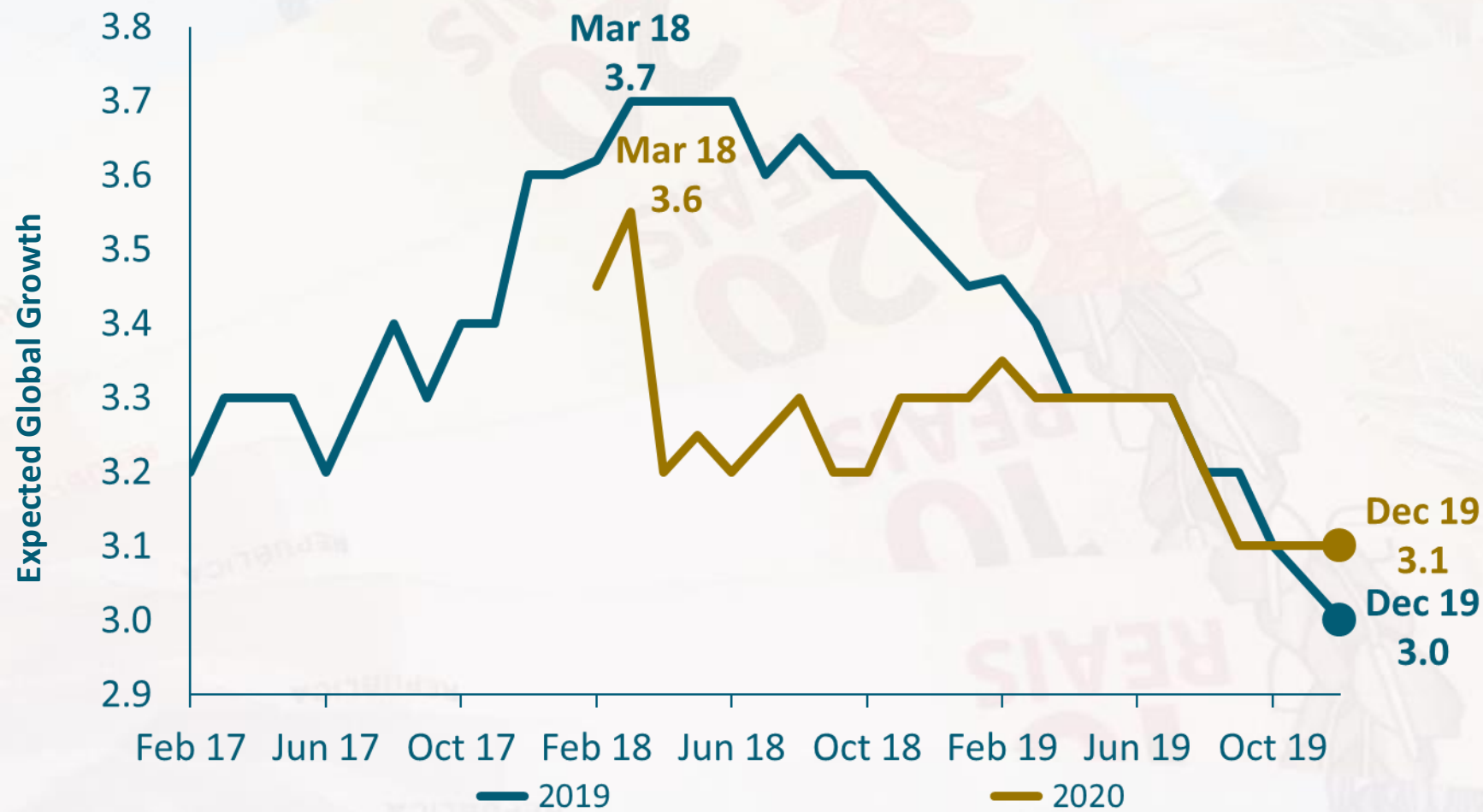
MACROECONOMIC OUTLOOK & BRAZILIAN REFORMS

ROBERTO CAMPOS NETO
Governor of the Banco Central do Brasil

17 January 2020

Expected slowdown

Macroeconomic Outlook Global Economy



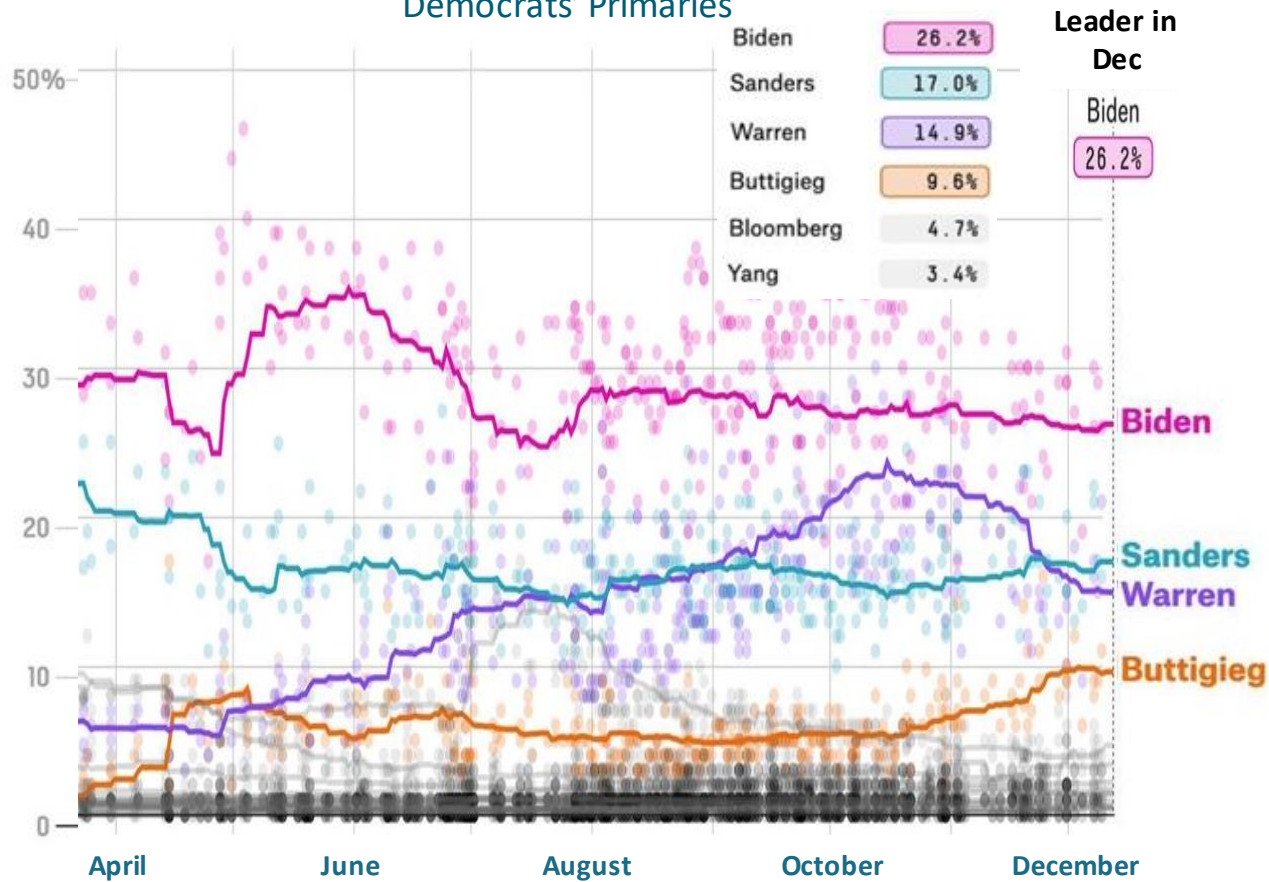
Source: Bloomberg

US Elections

Macroeconomic Outlook Global Economy

Who's ahead?

Democrats' Primaries

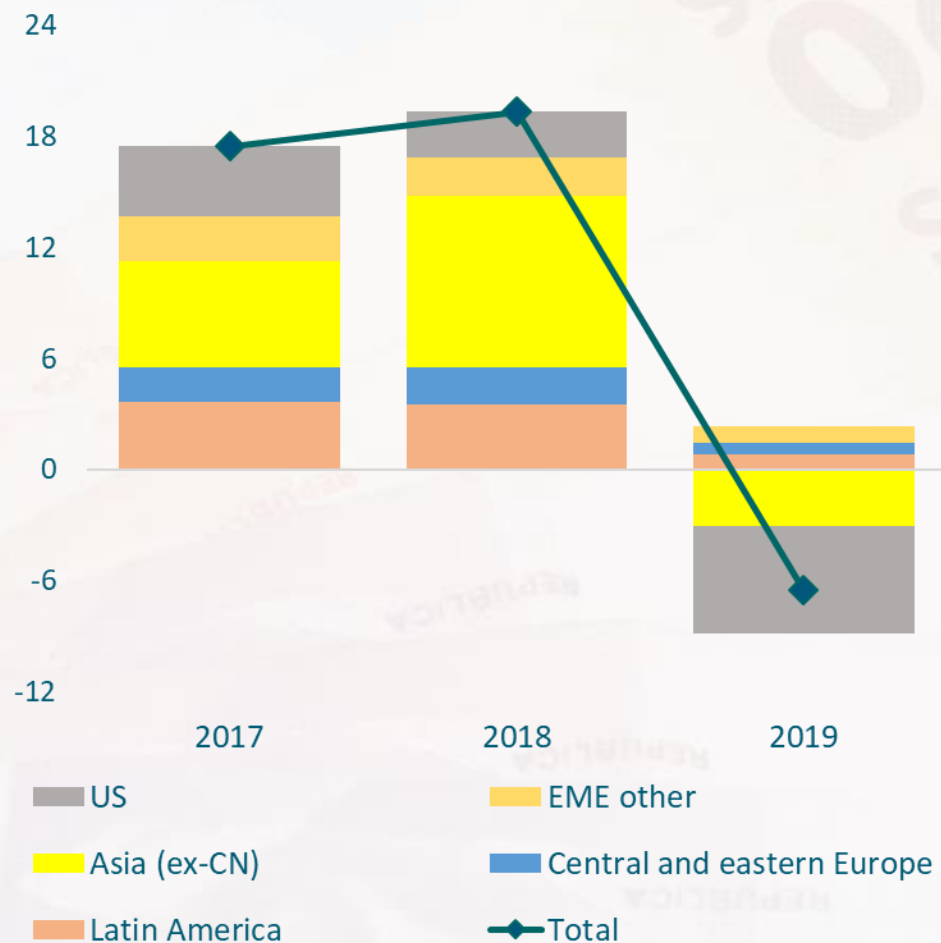


Weakening Correlation

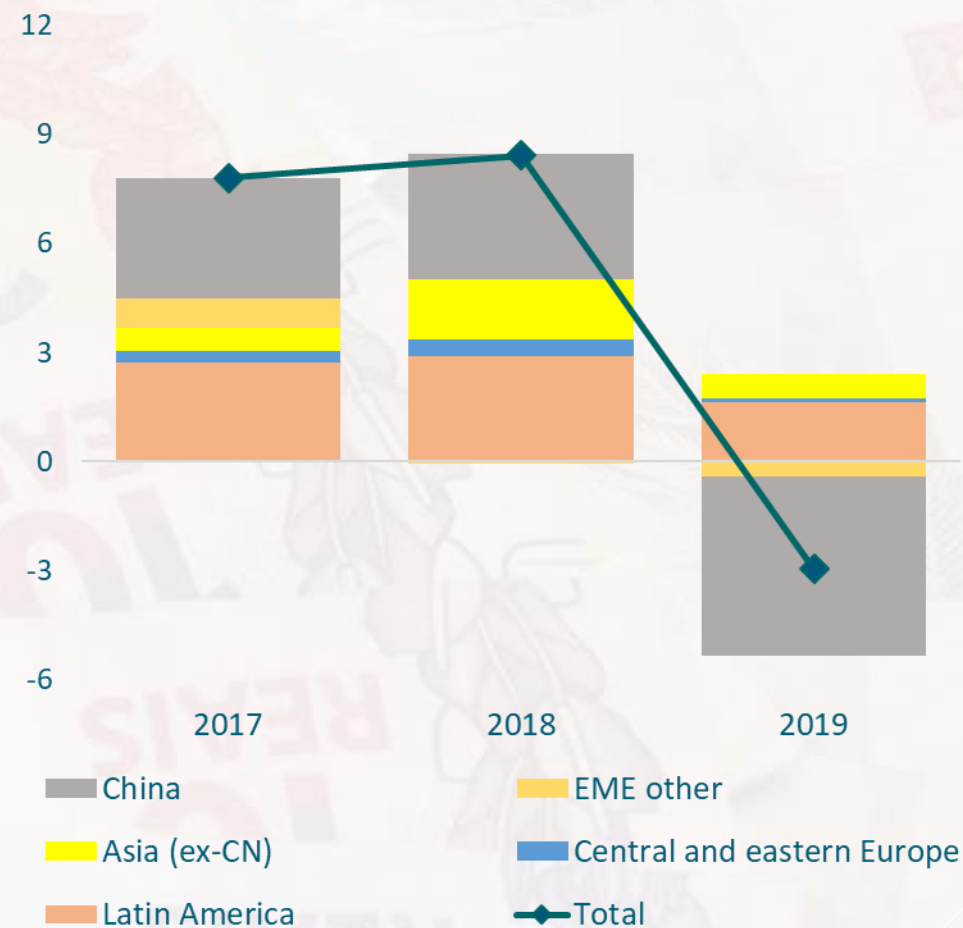


Imports from EMEs – China and US

Growth rate of China imports from EMEs (%)

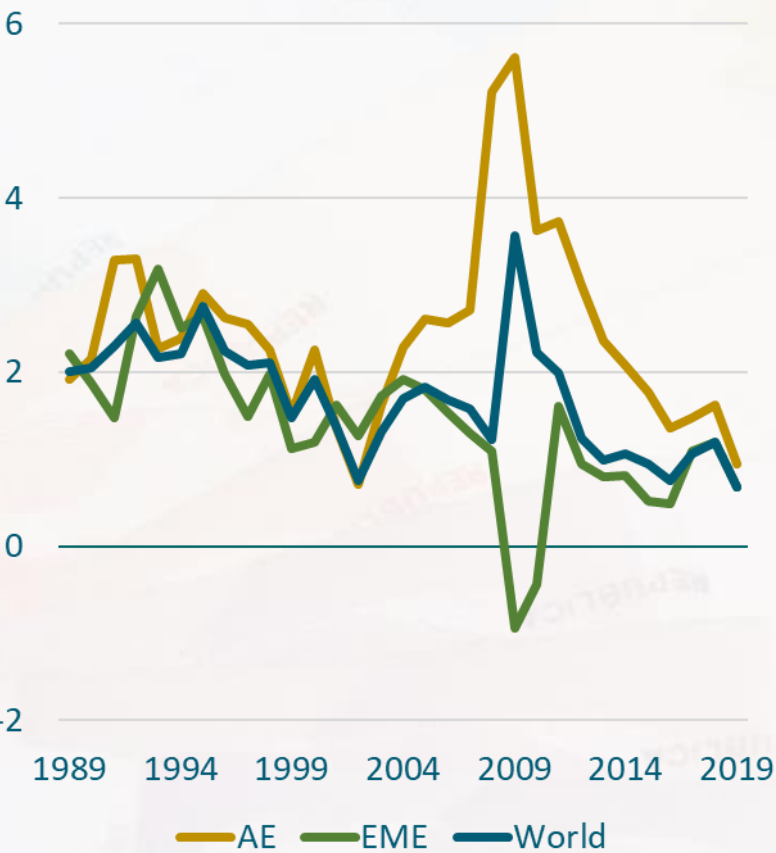


Growth rate of US imports from EMEs (%)

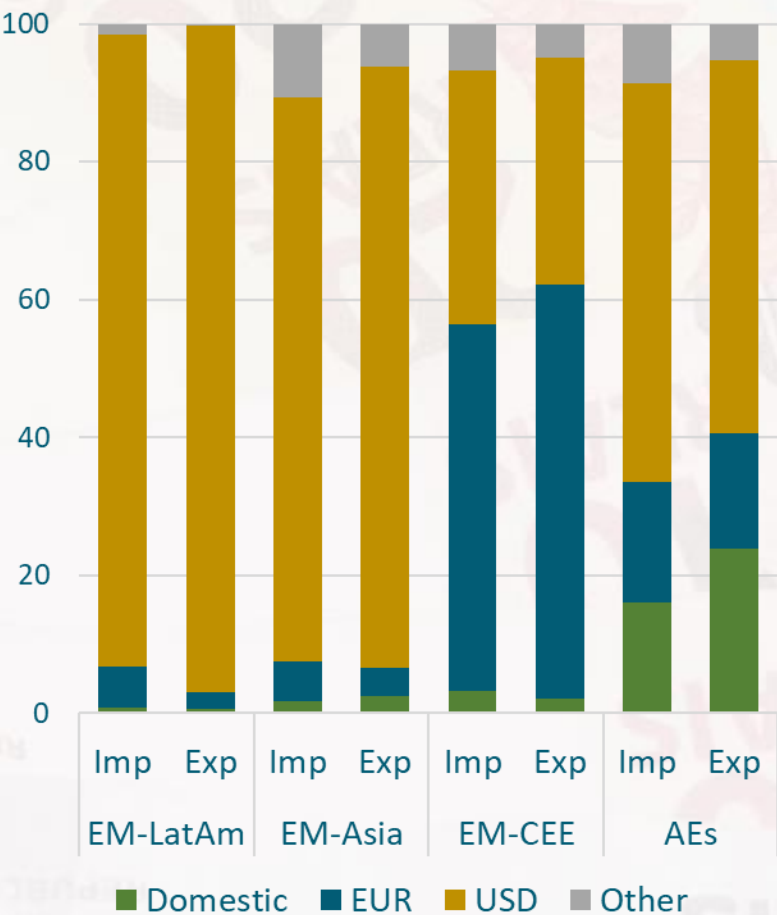


EMEs in the global trade

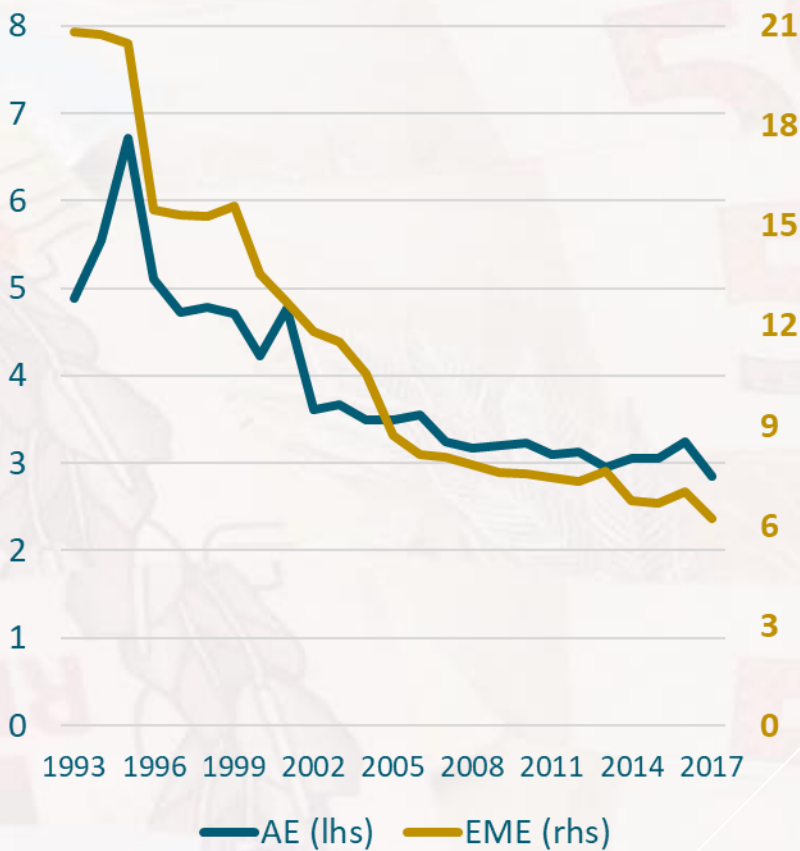
Trade elasticity



Trade invoicing currencies in inflation targeting countries (%)

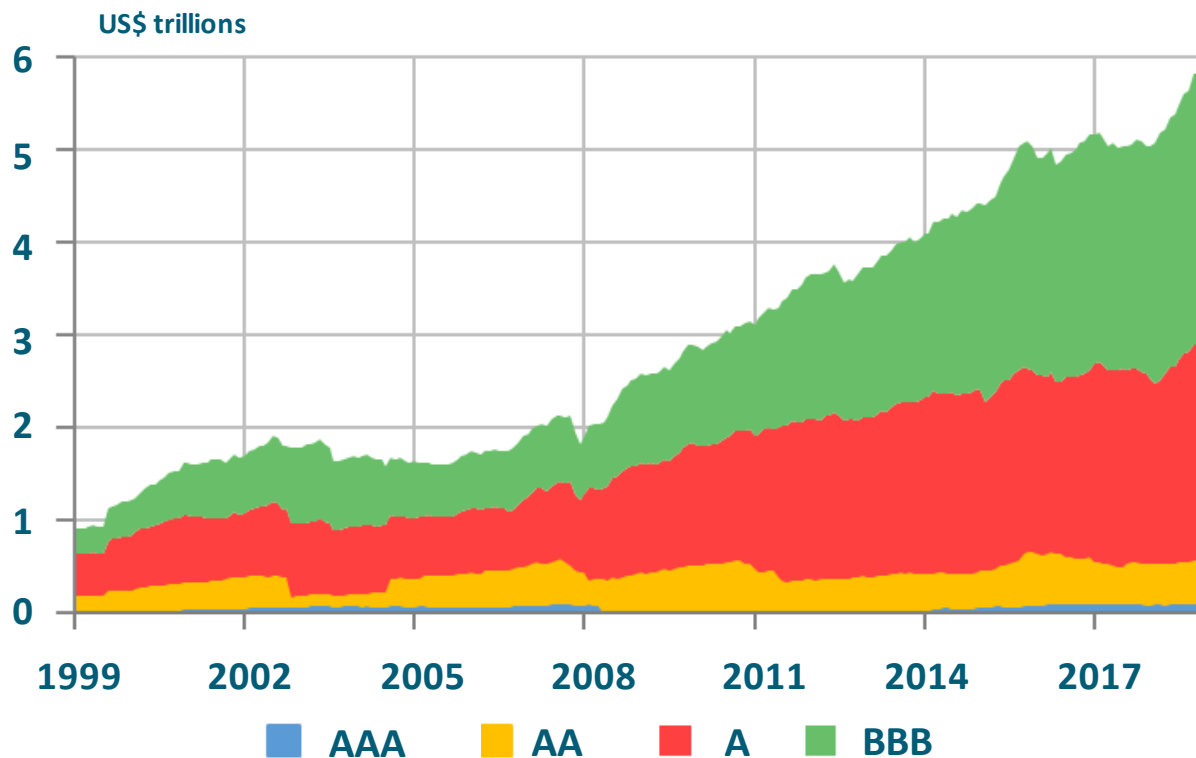


Tariffs in AEs and EMEs



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

Macroeconomic Outlook Global Economy

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

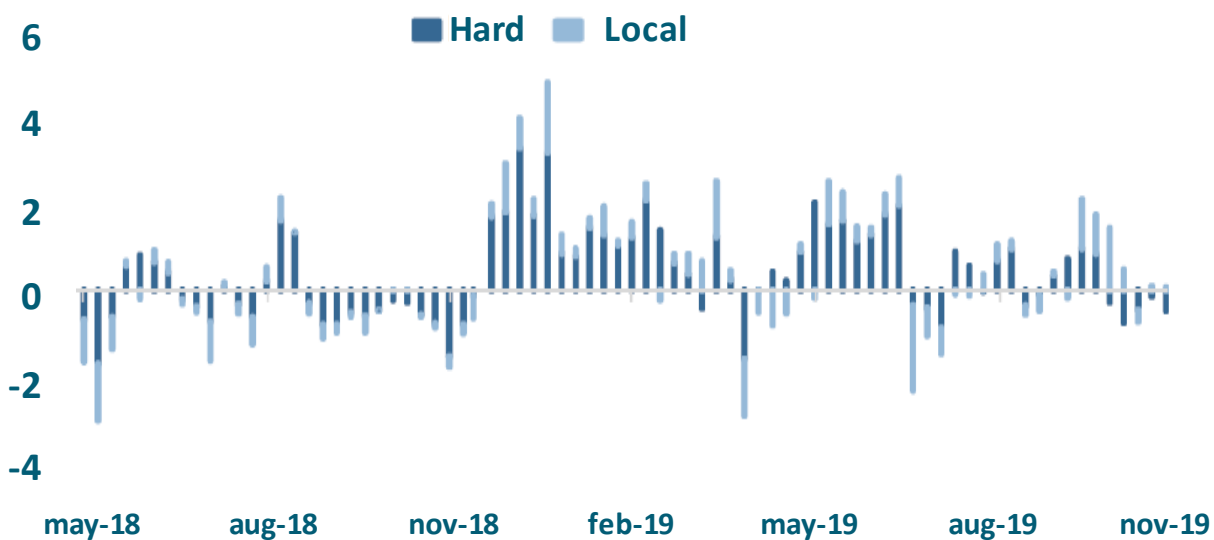
Negative yielding debt – global bond market

Macroeconomic Outlook
Global Economy

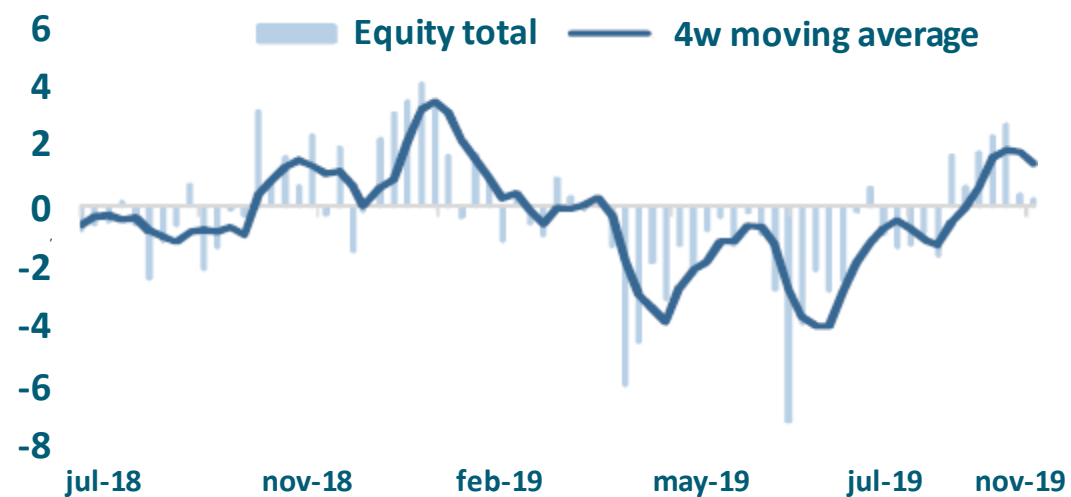


EMEs: outflows recovery

EME Fixed Income (USD bi)



Equities EME (USD bi)



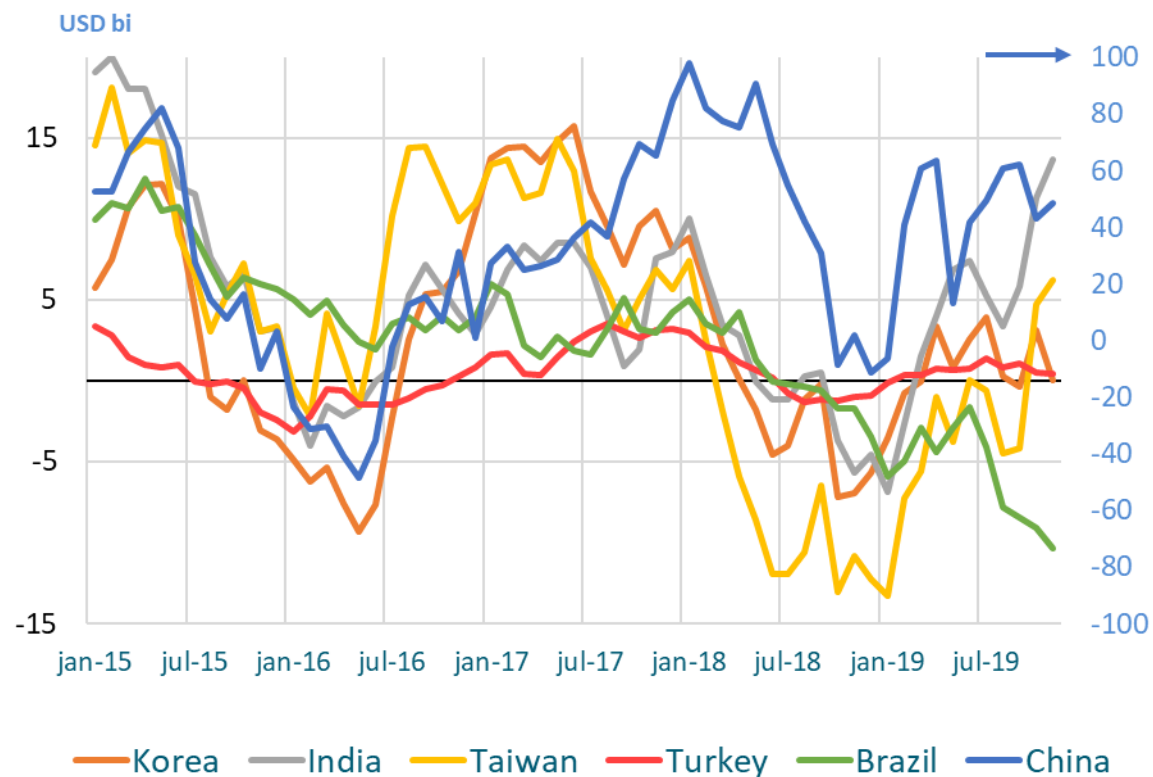
Fonte: Bloomberg, JPMorgan, EPFR

EMEs flows: equity and fixed income

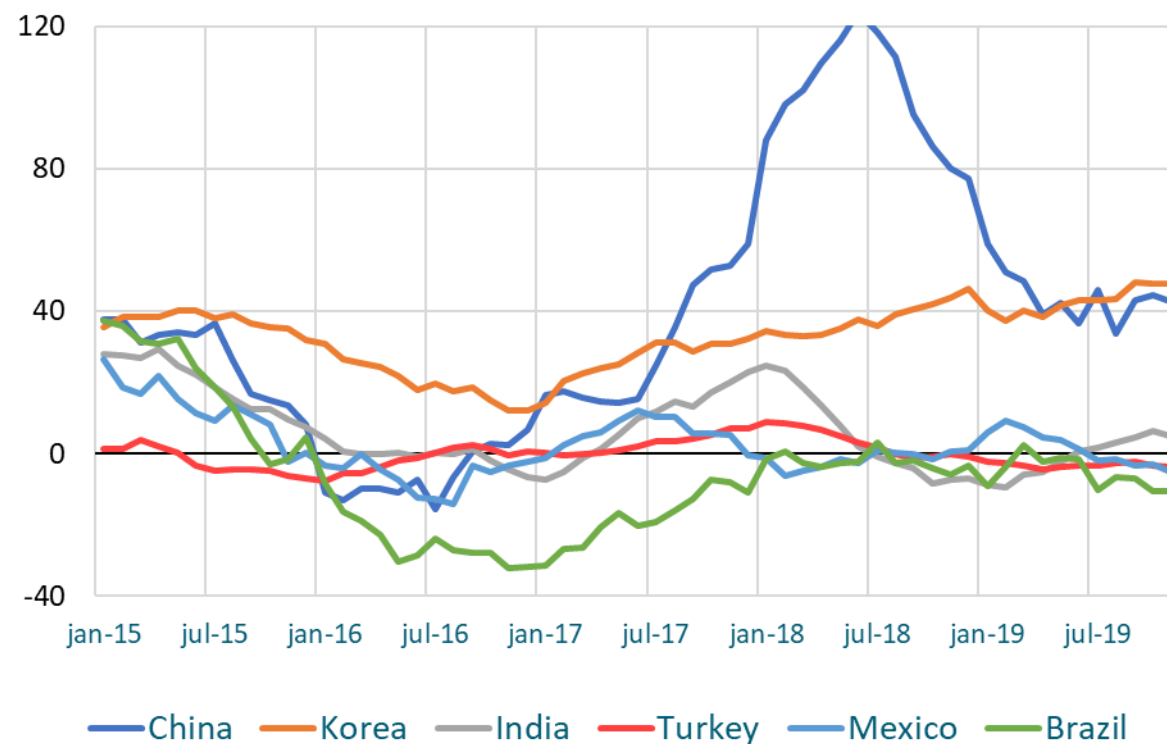
12 months accumulated

Macroeconomic Outlook
Global Economy

Equity



Fixed Income



Source: Bloomberg

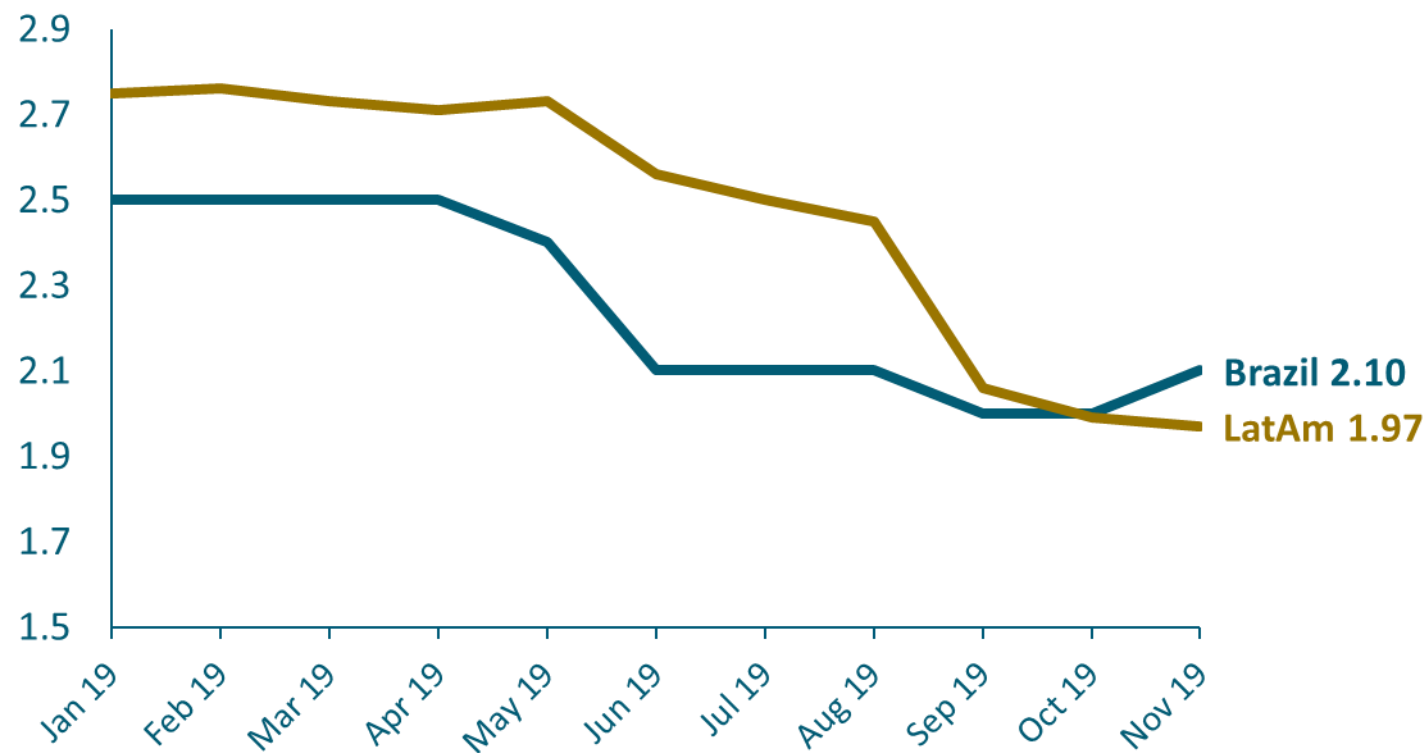
GDP forecast 2020: Brazil x Latin America

Recent surveys show Brazil outperforming LatAm in 2020

Macroeconomic Outlook

Brazilian Economy

GDP Growth Forecast for 2020 (%)



Source: Bloomberg

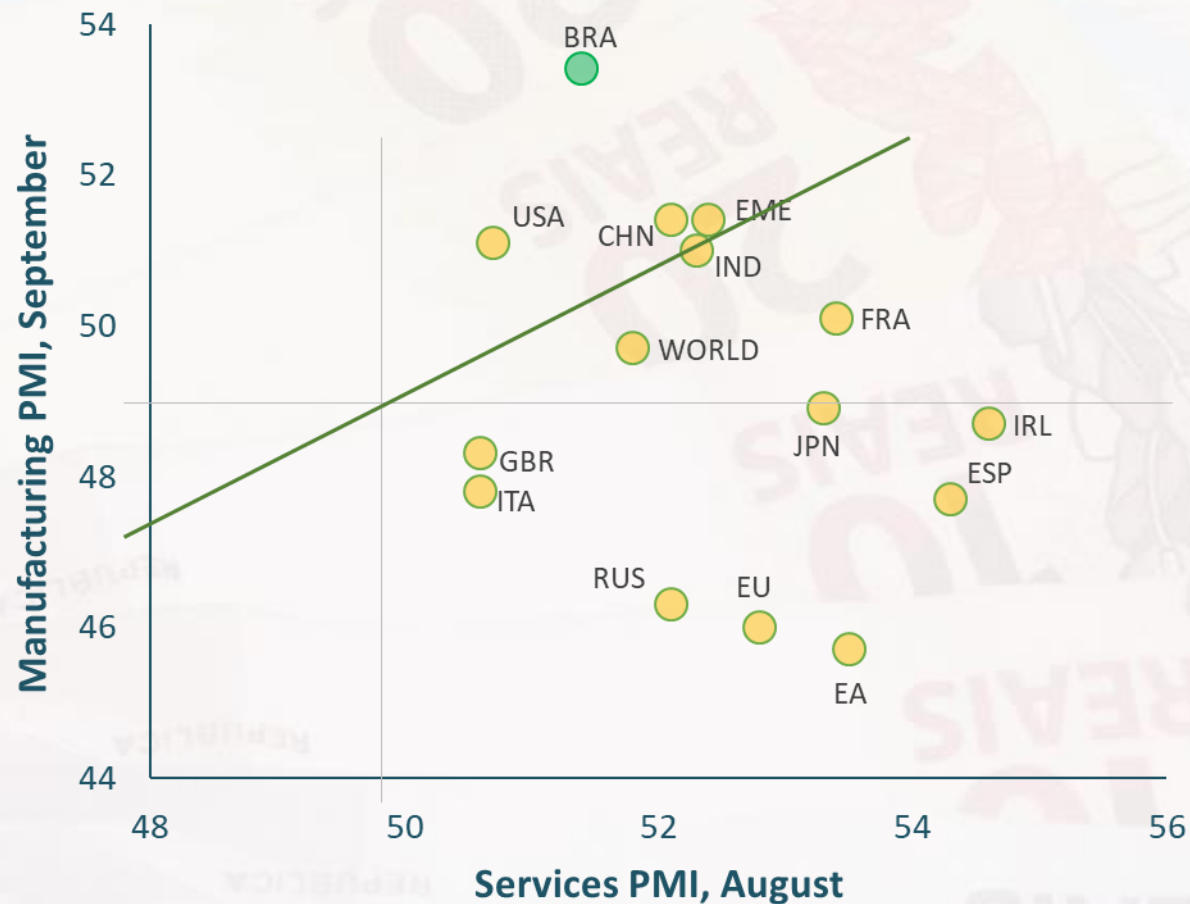
Brazil: manufacturing and services expansion

Recent numbers point to growth in activity

Brazil leads in manufacturing

Macroeconomic Outlook

Brazilian Economy

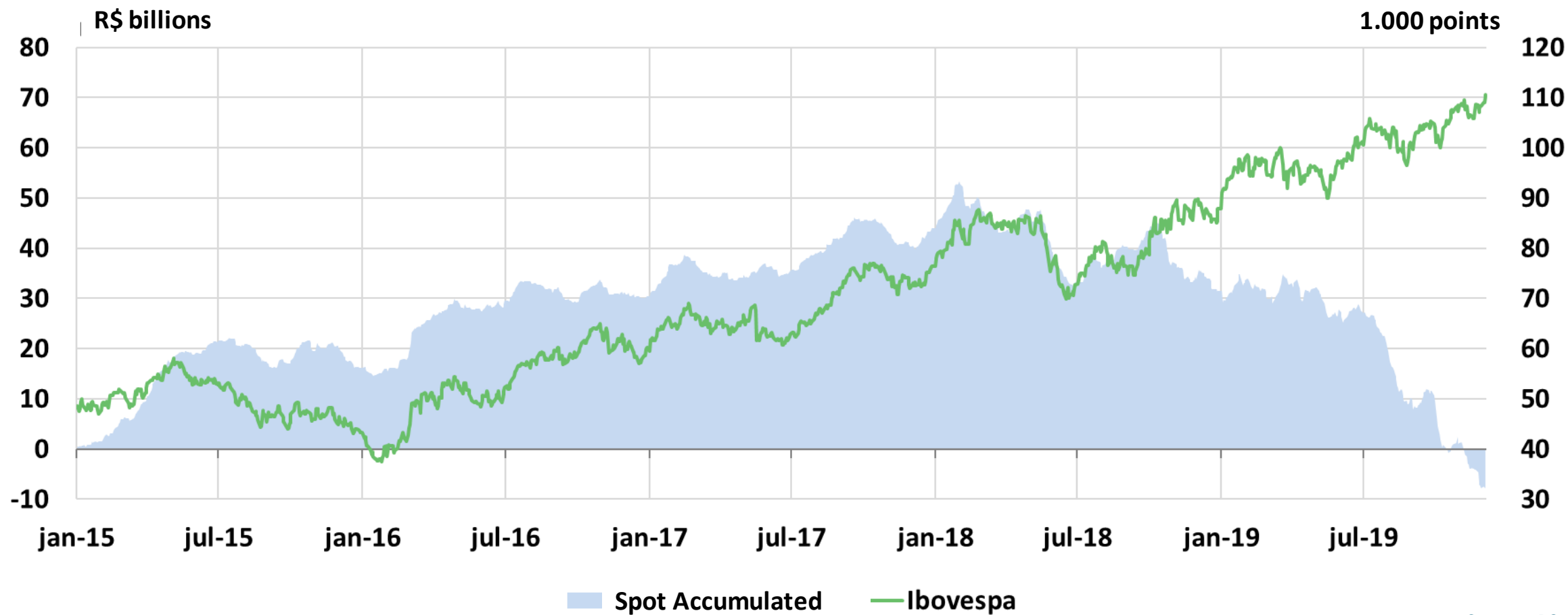


Accumulated flows vs Ibovespa

Foreign Investors

Macroeconomic Outlook

Brazilian Economy



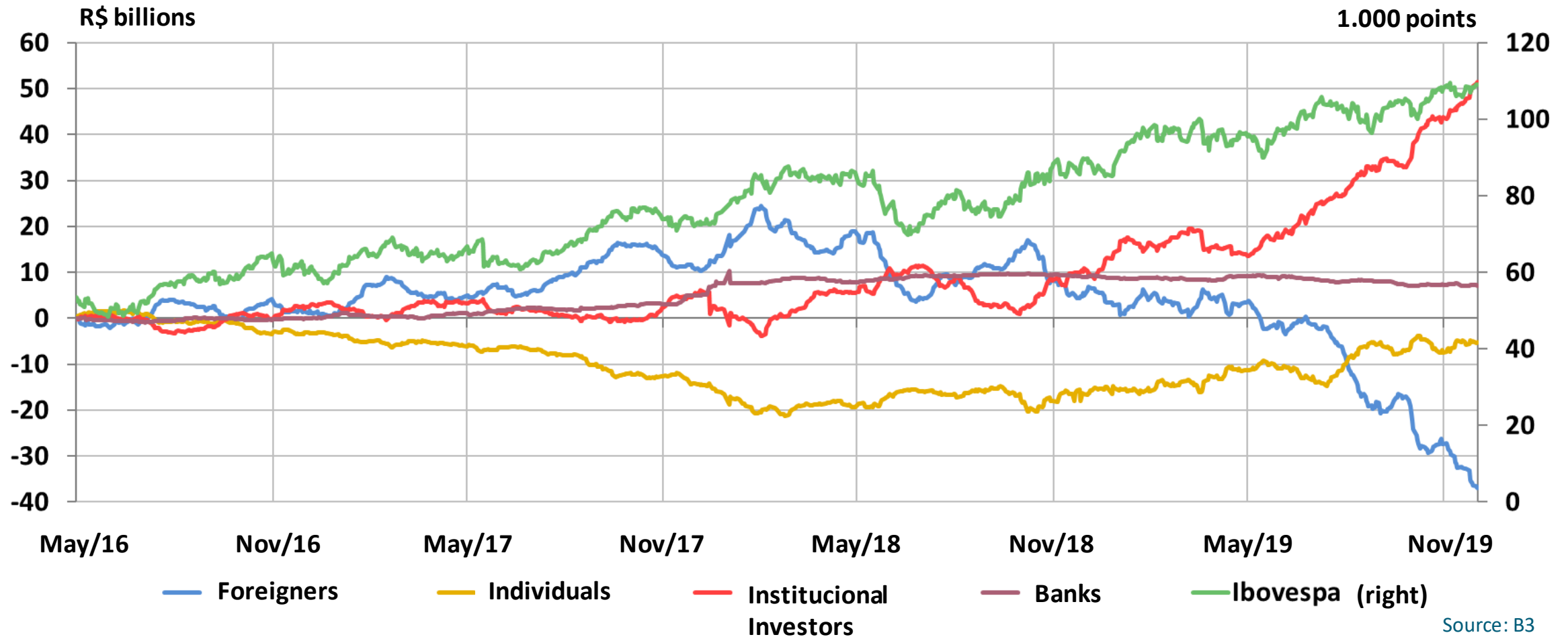
Source: B3

Local equity market vs Ibovespa

Accumulated flows by investors type

Macroeconomic Outlook

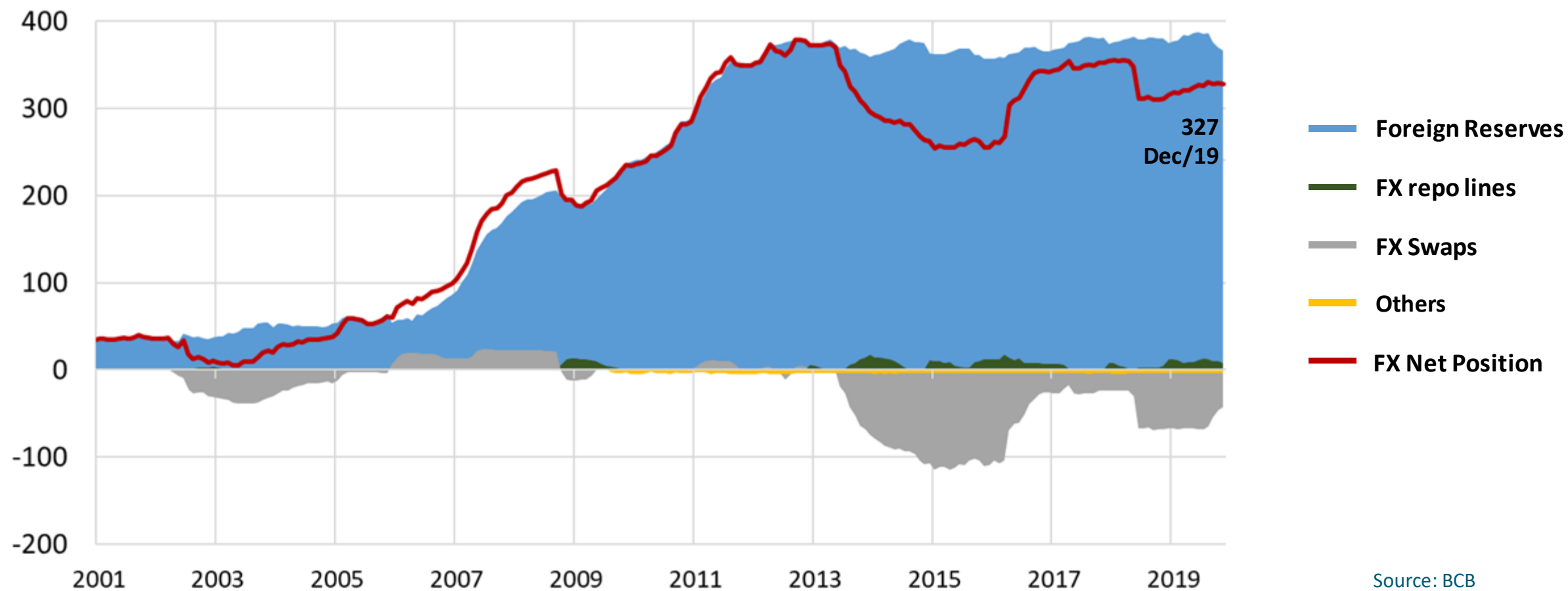
Brazilian Economy



Source: B3

FX net position

Macroeconomic Outlook Brazilian Economy



Source: BCB

Monetary policy

Improvement in the transmission channel increases the power of monetary policy

Macroeconomic Outlook

Brazilian Economy

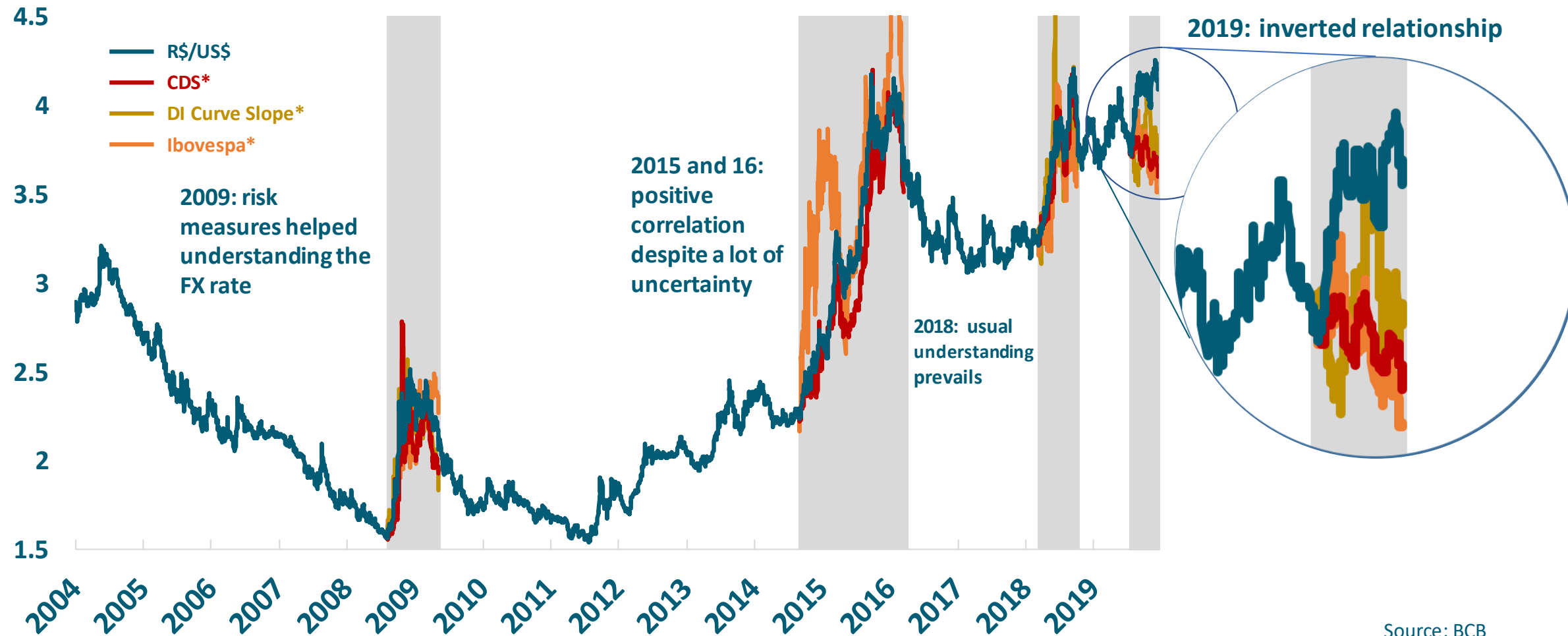


- Copom unanimously decided in its latest meeting to lower the Selic rate by 50 bps, to 4.50%.
- Economic conditions prescribe stimulative monetary policy, i.e., interest rates below the structural level.
- The current stage of the business cycle recommends caution in the conduct of monetary policy.
- 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

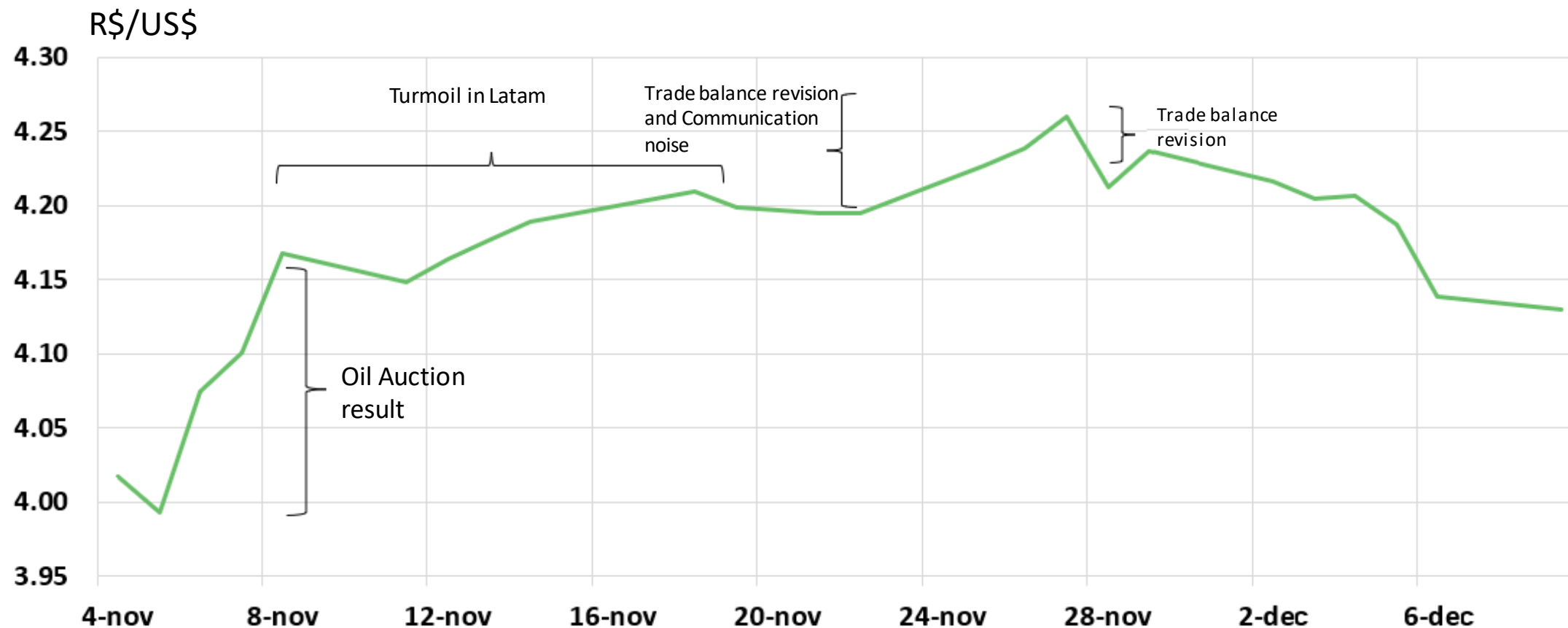
Macroeconomic Outlook Brazilian Economy



* normalized values to compare to the FX rate

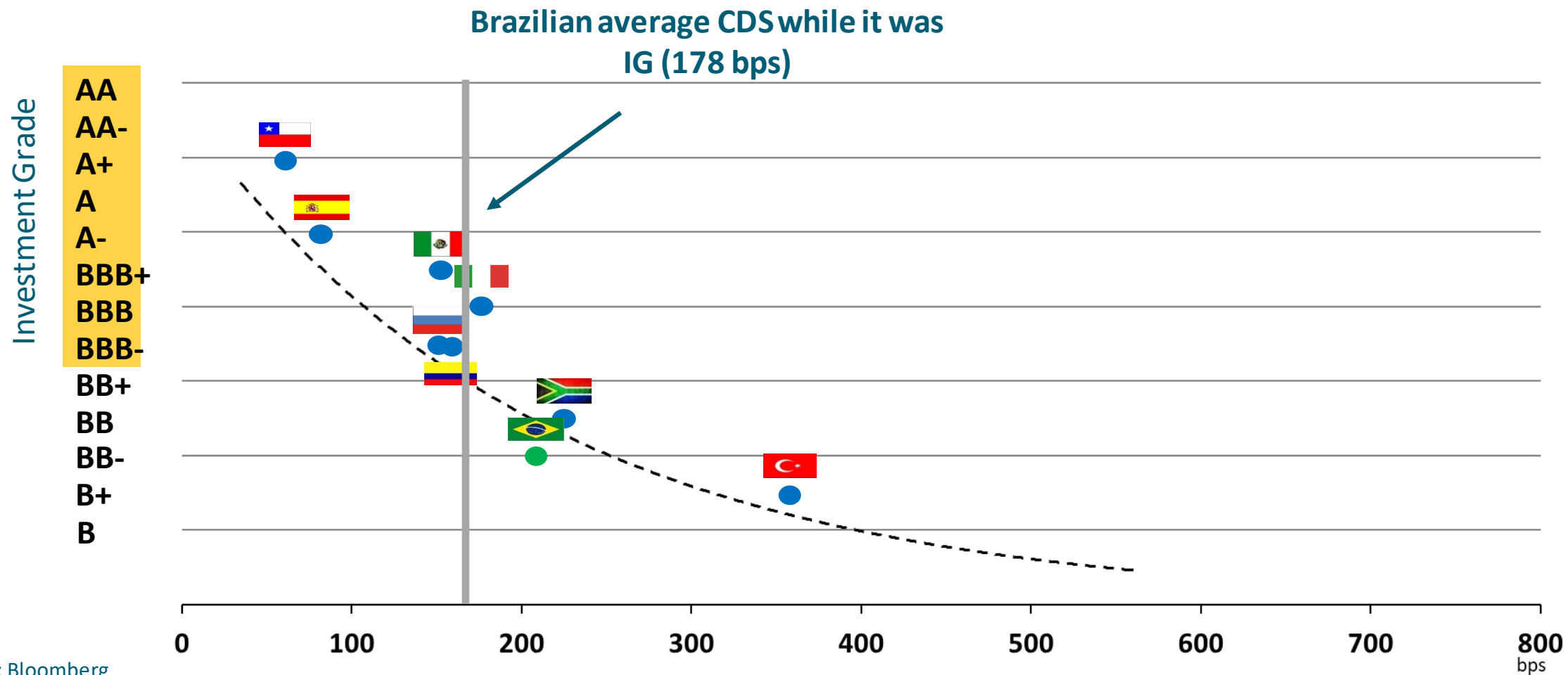
Recent events that affected the Real

Macroeconomic Outlook Brazilian Economy



Source: BCB

CDS vs S&P rating



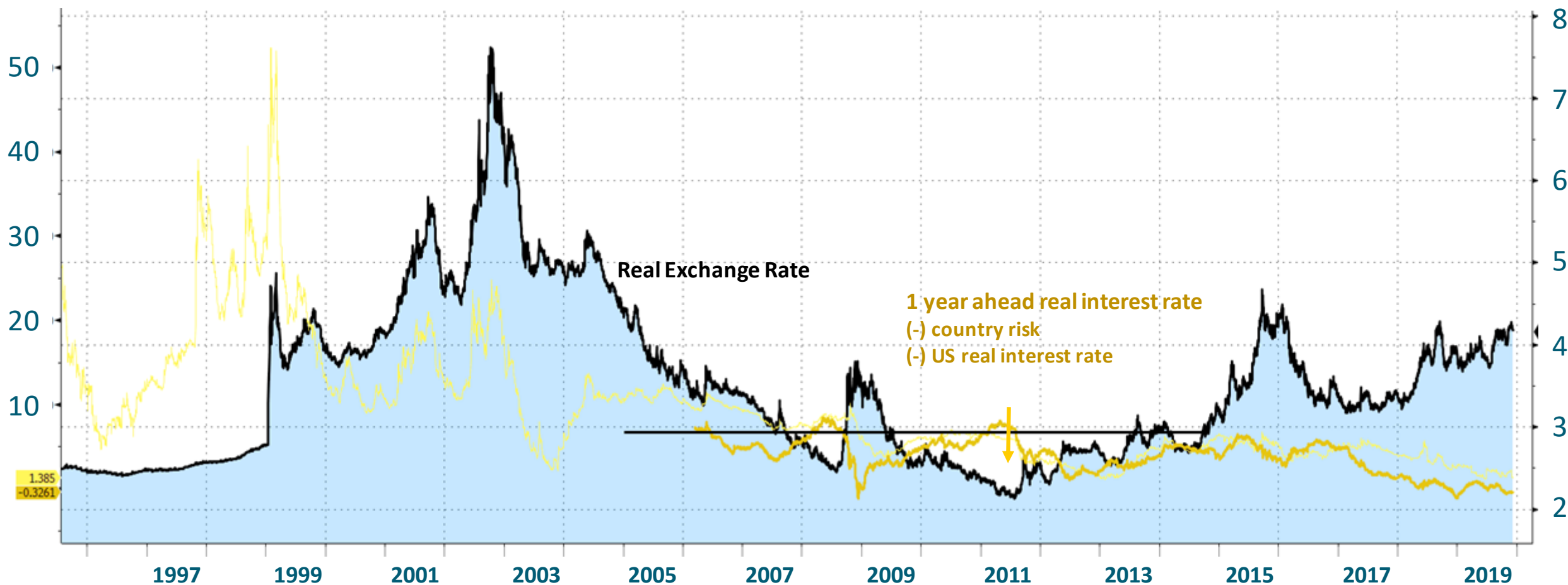
Source: Bloomberg

Real exchange rate(BRL/USD)

42% devaluation compared to 2005 - 2014

Macroeconomic Outlook

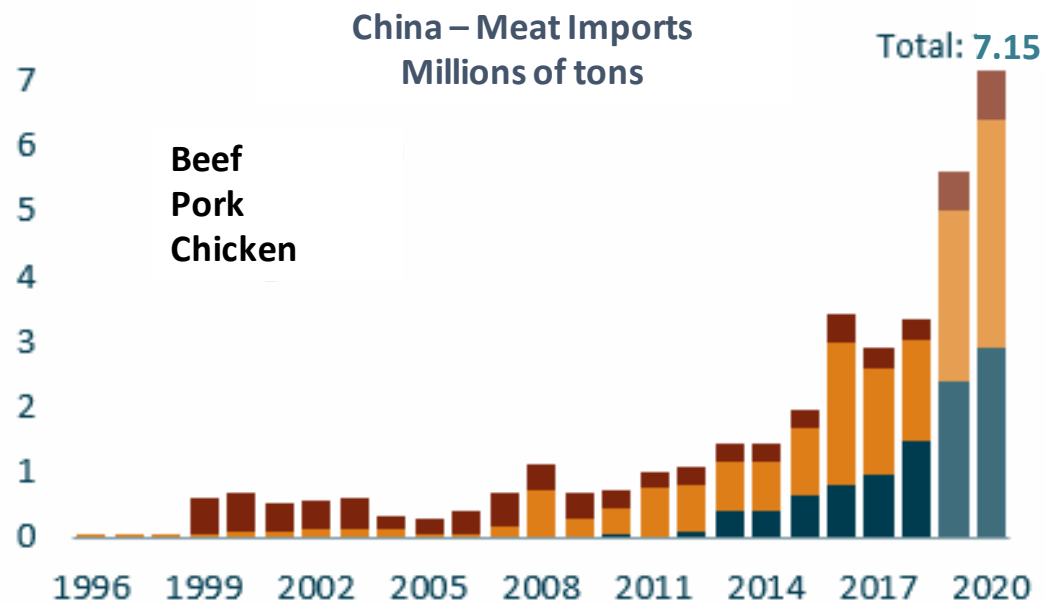
Brazilian Economy



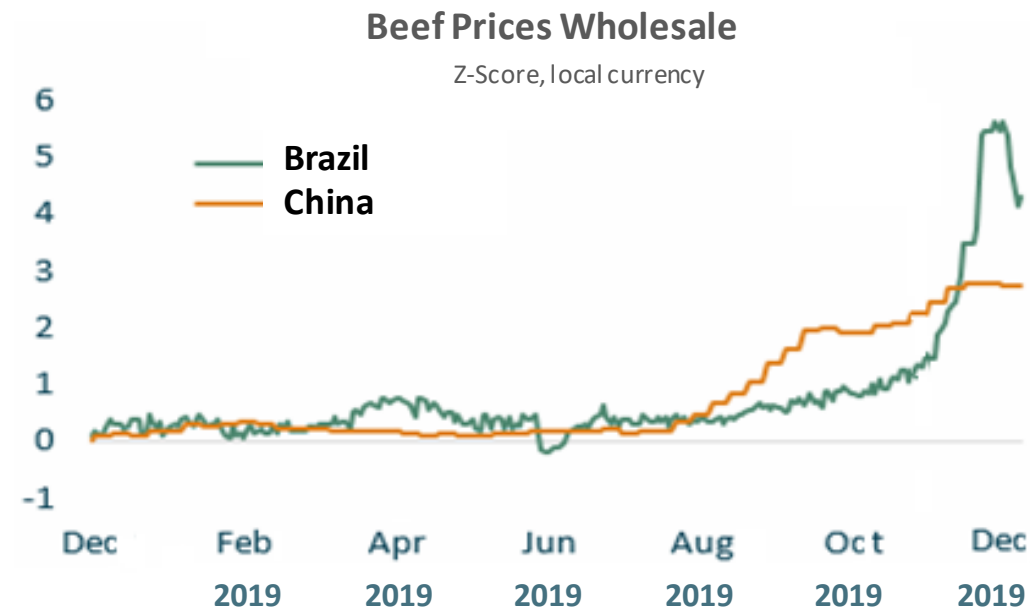
Source: Bloomberg

Impact of meat on prices

Impact on IPCA of 2019: 1.06 p.p.



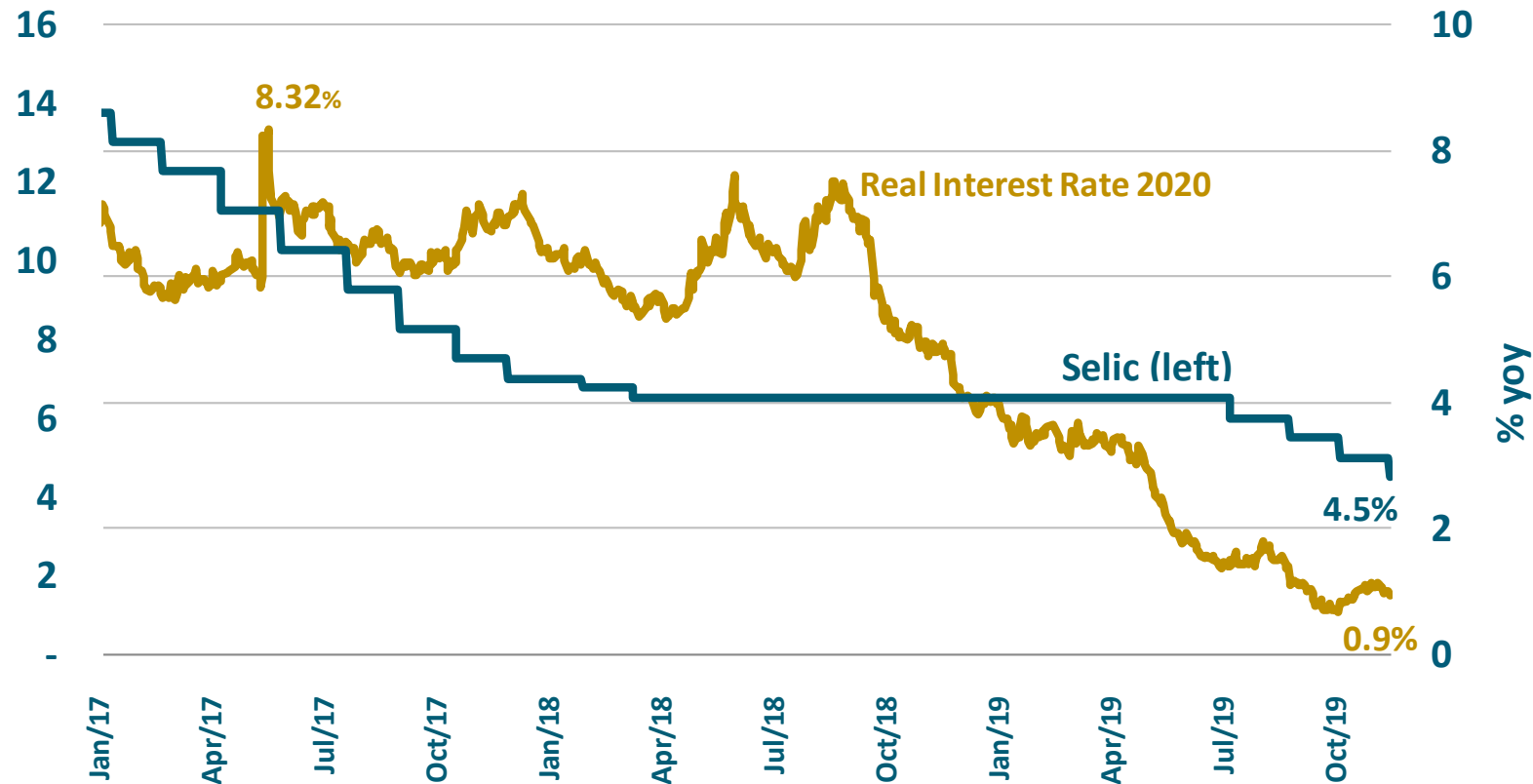
Recent local price reversion



Source: USDA oct/19, Bloomberg

Real interest rate – ex-ante

Macroeconomic Outlook Brazilian Economy

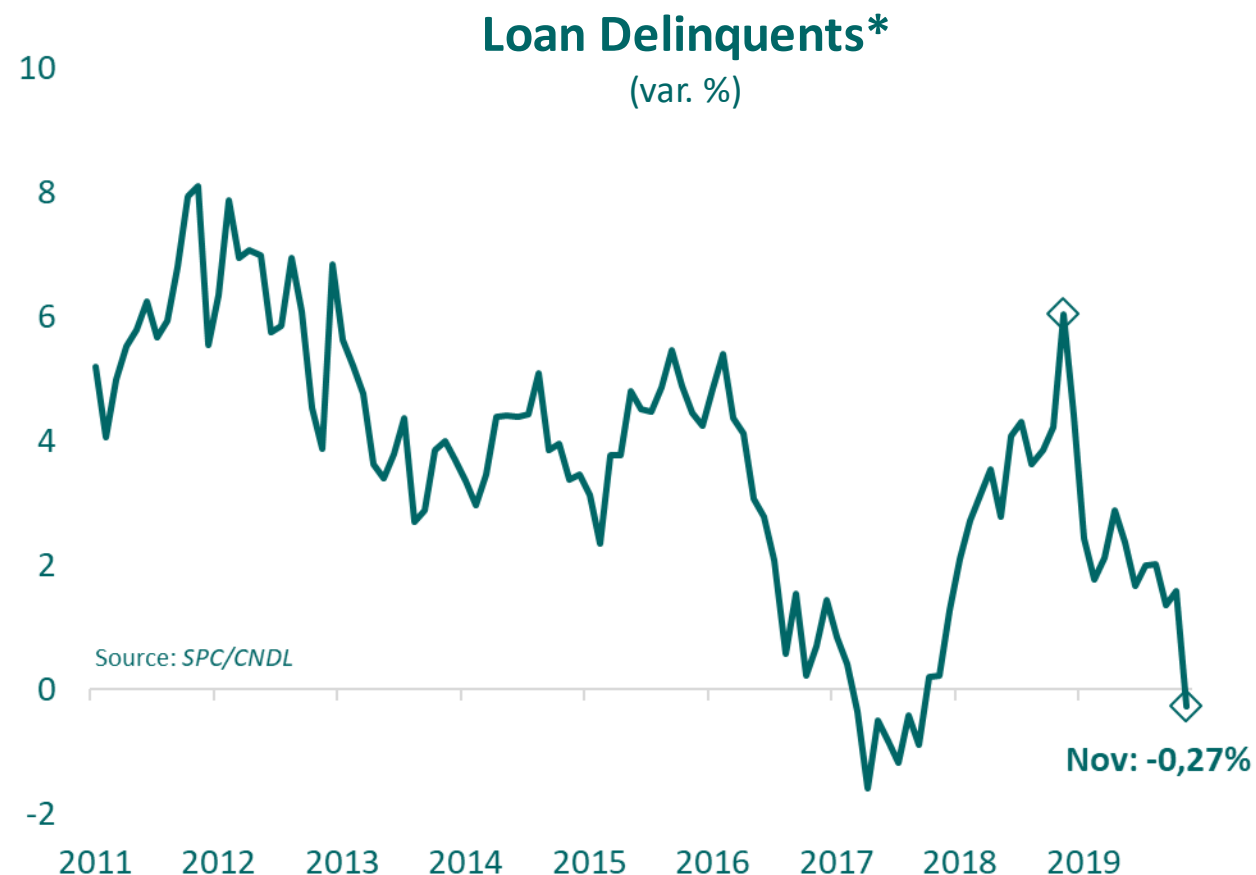


Source: BC, IBGE, B3

Delinquency rate – SPC/CNDL

Macroeconomic Outlook Brazilian Economy

- 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 (%)

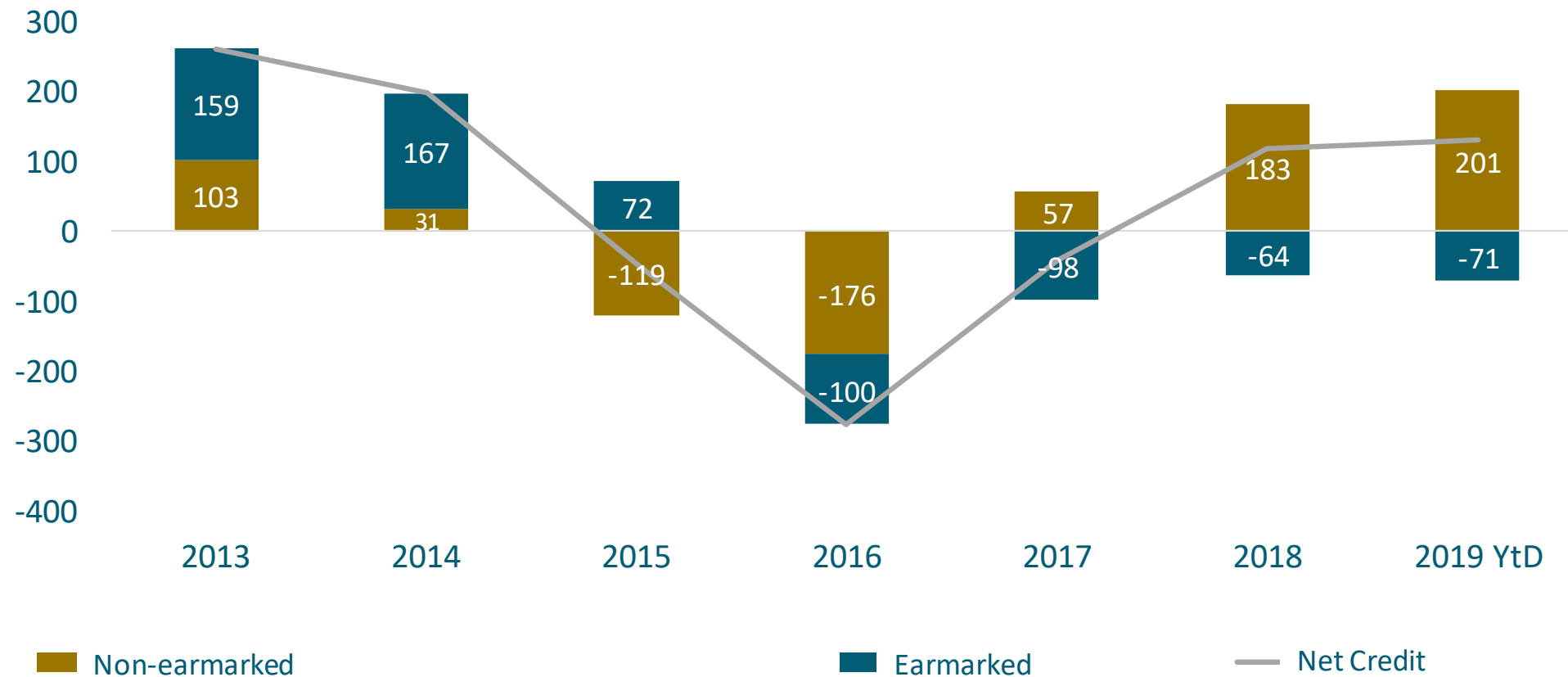
Credit market recovery

Earmarked and non-earmarked markets: different behaviors

Macroeconomic Outlook

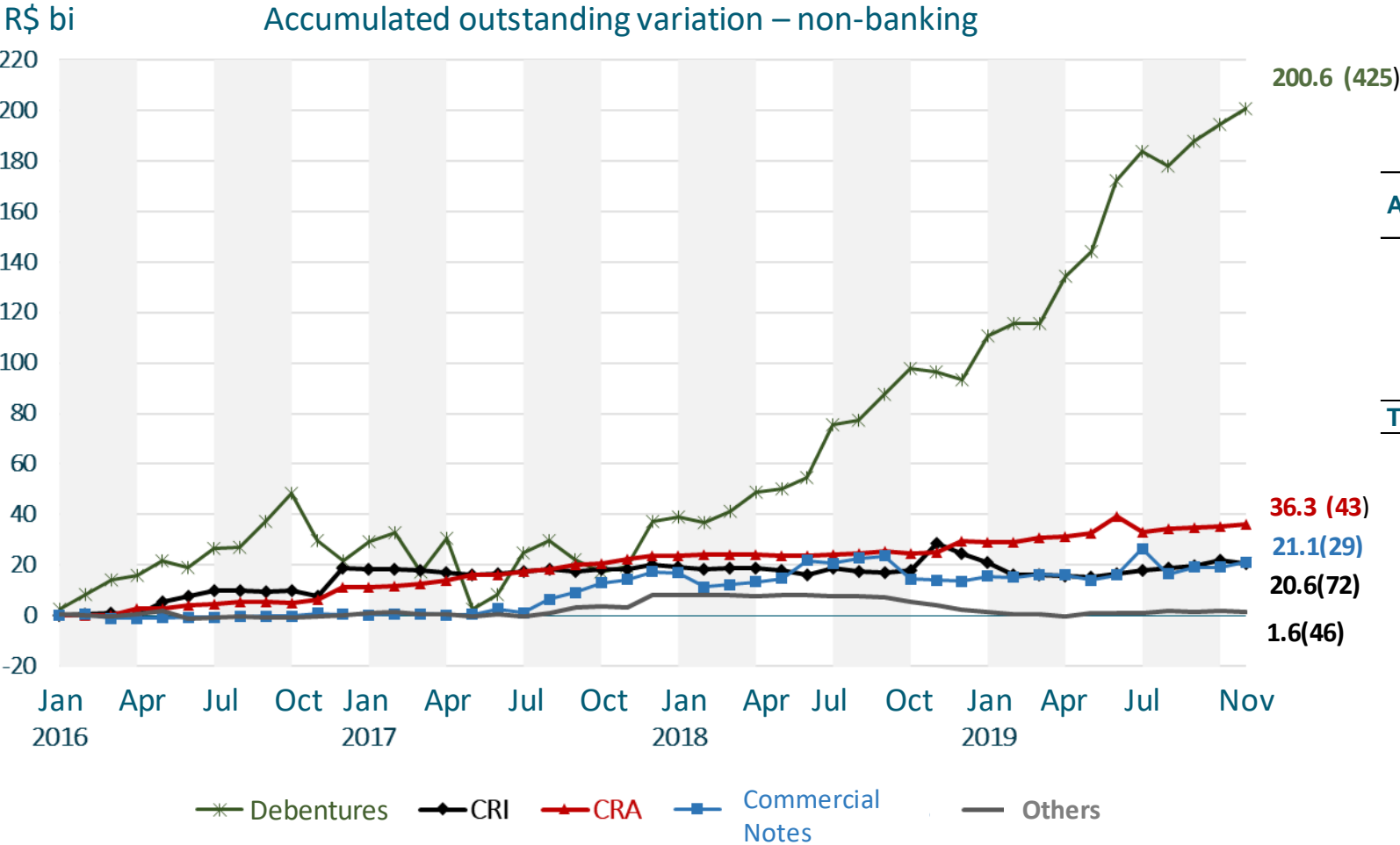
Brazilian Economy

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)
**Agribusiness Receivables Certificates (CRA)

Brazil: Economic activity recovery

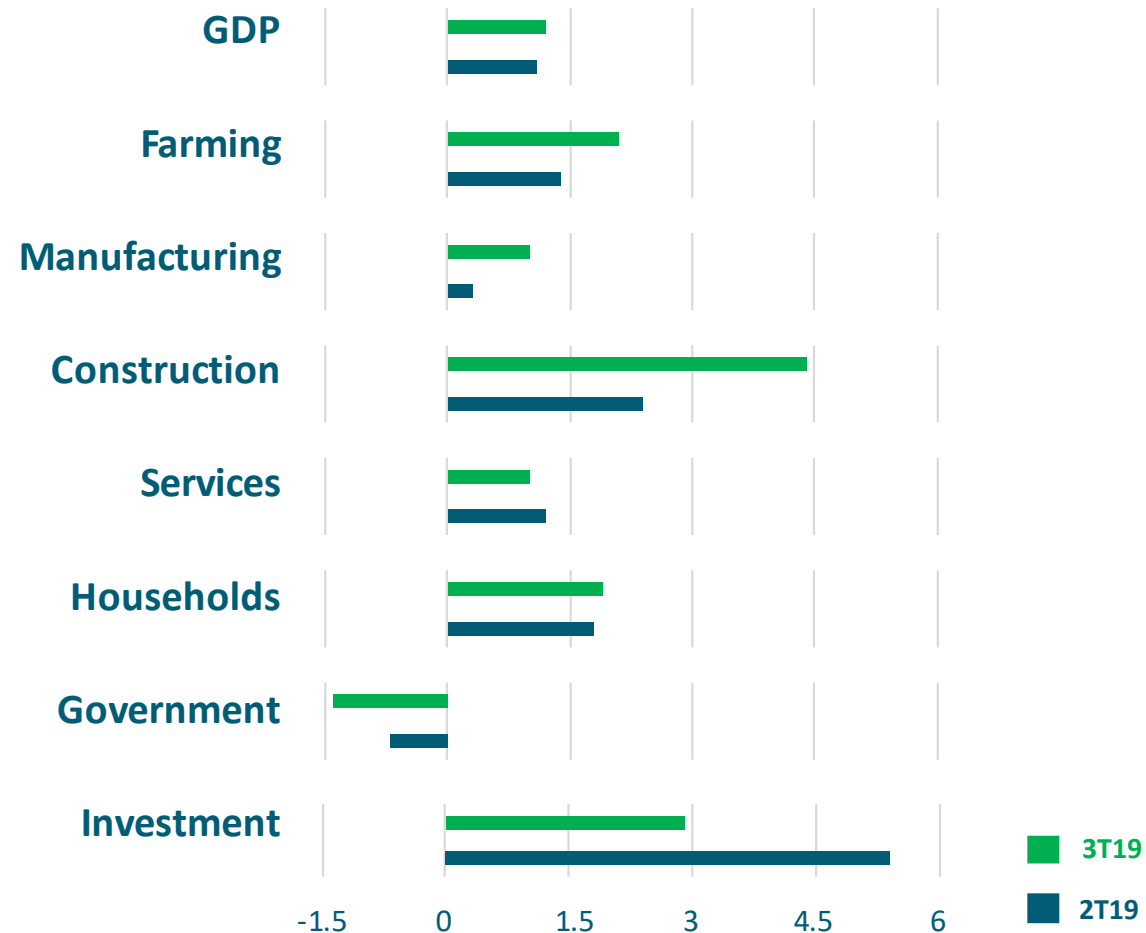
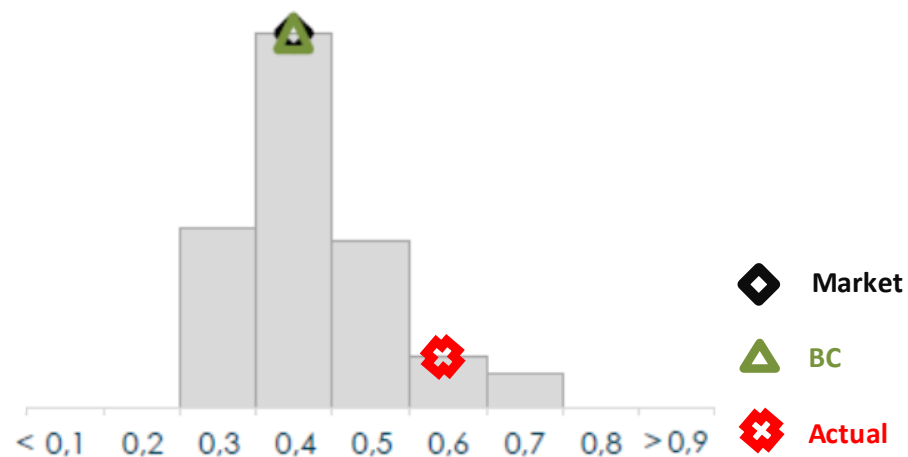
GDP growth at more than 1% yoy*

Macroeconomic Outlook

Brazilian Economy

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.

Source: IBGE

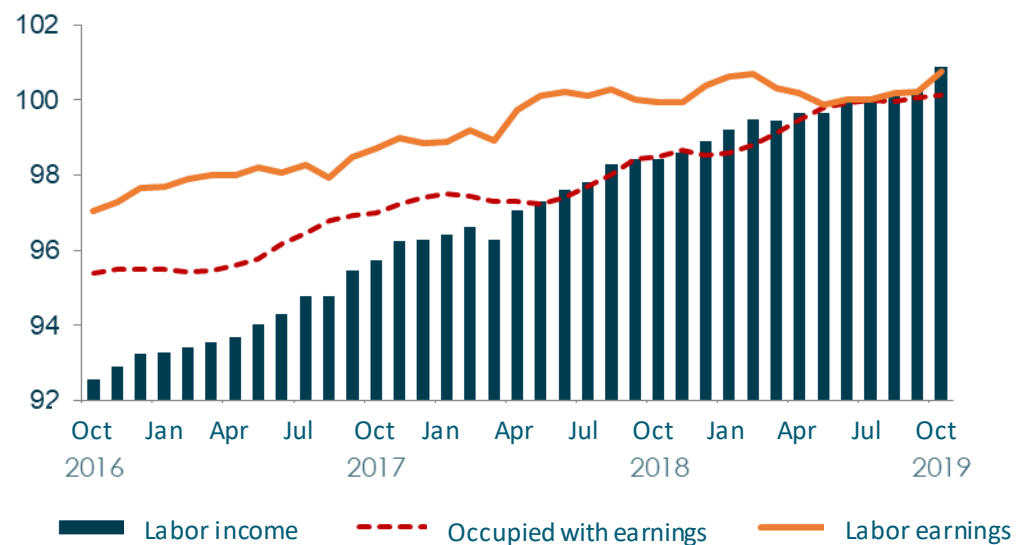
Labor income and credit for households

Expansion of labor income and credit growth

Macroeconomic Outlook
Brazilian Economy

Real labor income

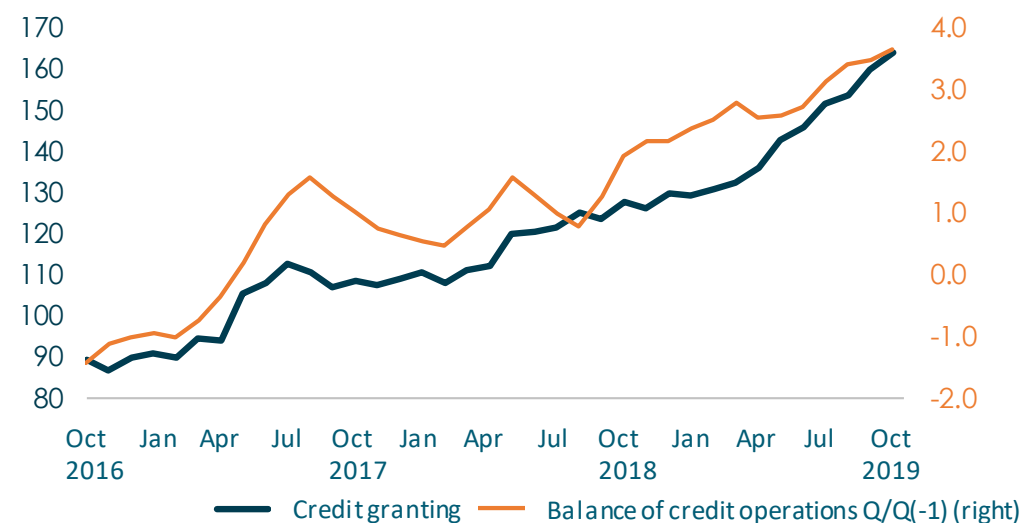
Seasonally adjusted, quarter Q-1 = 100



Credit granting and balance (households) – ex revolving credit

Credit granting – quarterly (R\$ bi)

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



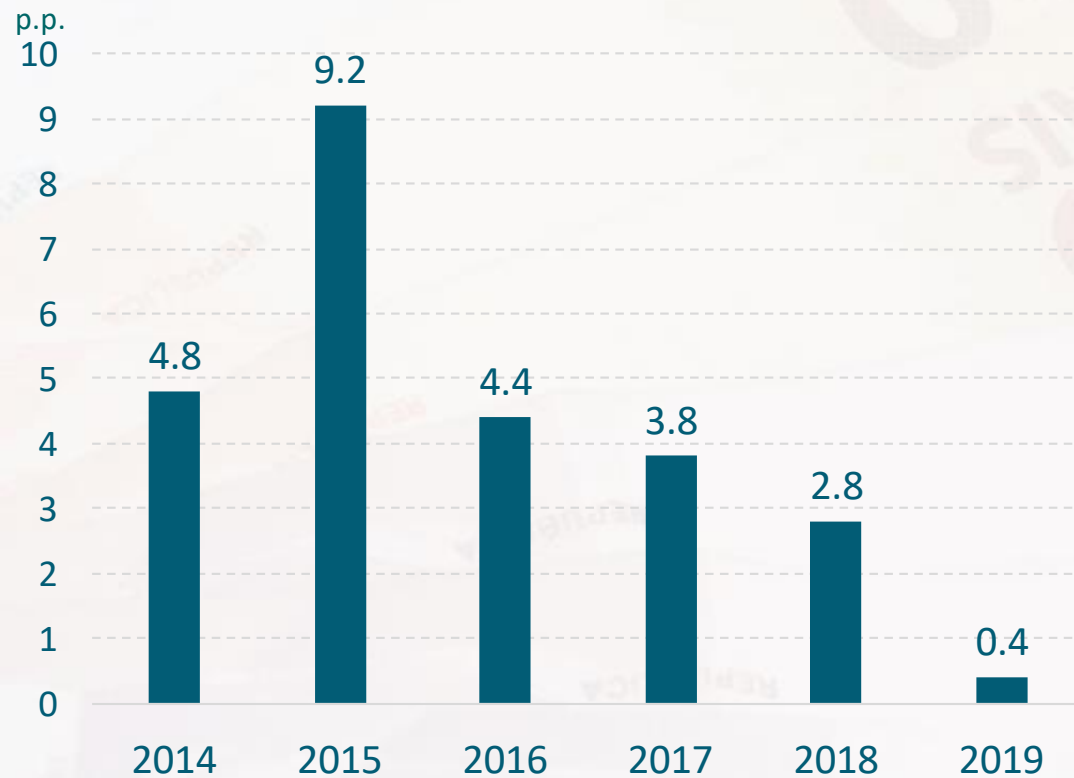
Improvement in the fiscal balance

General Government Gross Debt

Macroeconomic Outlook

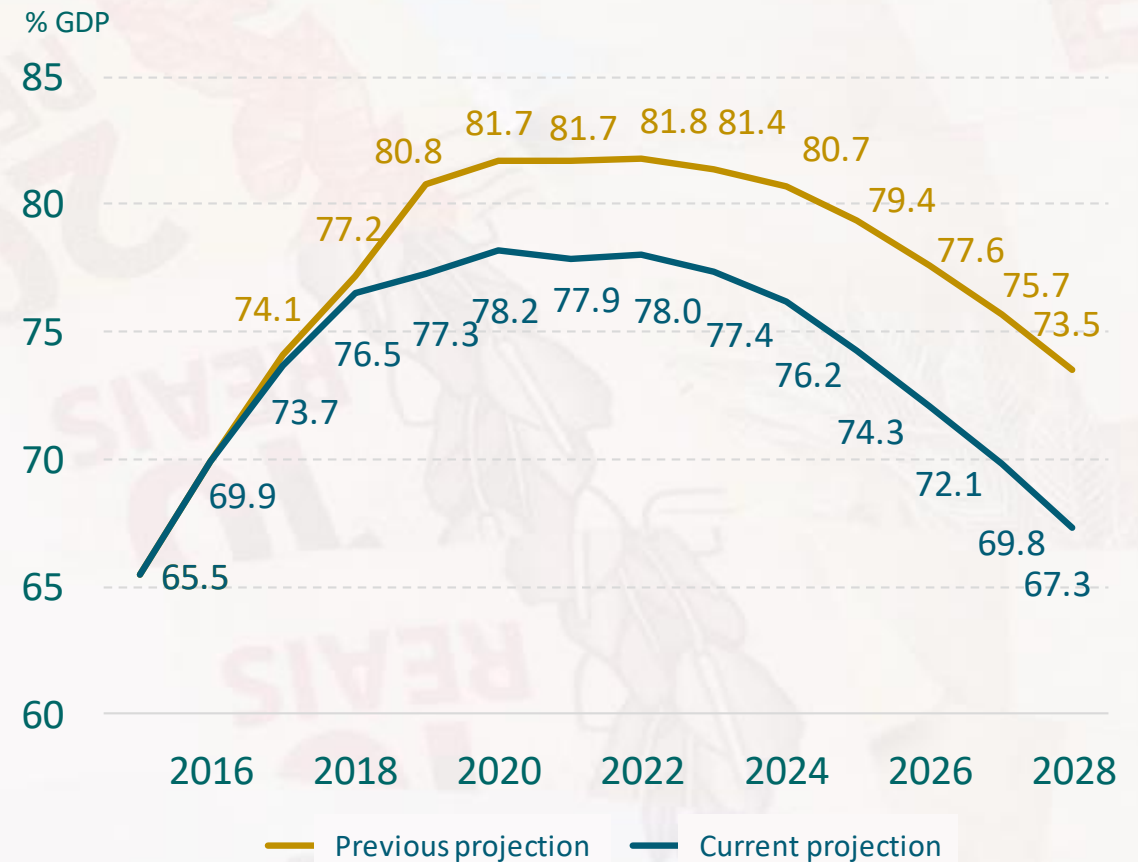
Brazilian Economy

Debt growth



Source: STN

Debt projections





INCLUSION



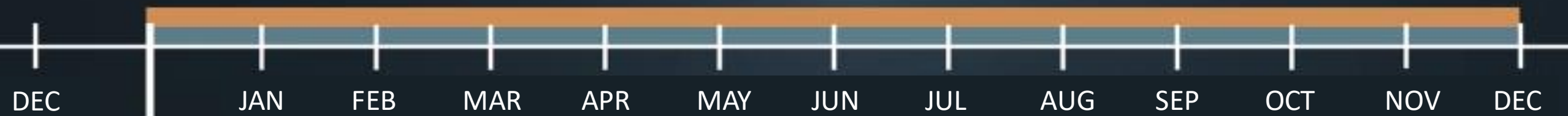
COMPETITIVINESS



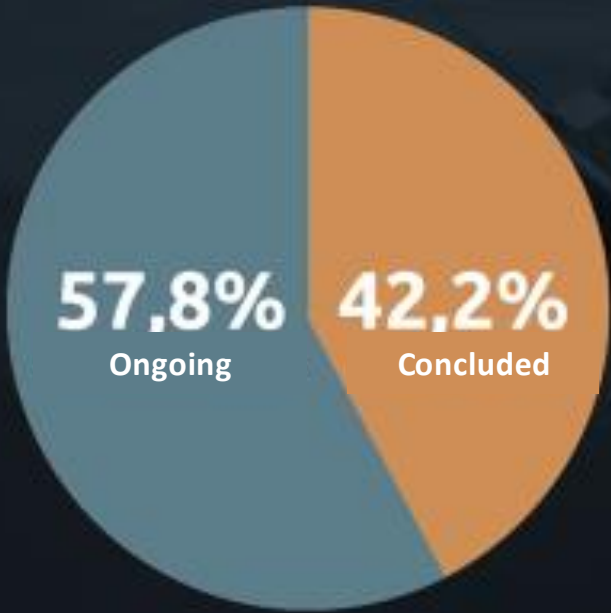
TRANSPARENCY



EDUCATION



2019



275
Actions

INCLUSION

COMPETITIVENESS

TRANSPARENCY

EDUCATION

COOPERATIVE CREDIT



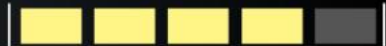
MICROCREDIT



CURRENCY CONVERTIBILITY



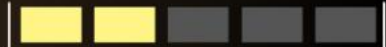
INITIATIVES FOR CAPITAL MARKET (IMK)



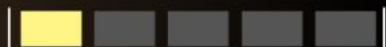
INNOVATION



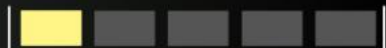
MARKET EFFICIENCY



INTERNATIONAL RESERVES



RURAL CREDIT



HOUSING CREDIT



RELATIONSHIP WITH CONGRESS



TRANSPARANCY OF MONETARY POLICY



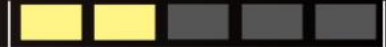
COMMUNICATION OF BCB ACTIONS



RELATIONSHIP WITH FOREIGN INVESTORS



FINANCIAL EDUCATION



A satellite with solar panels is shown in orbit above Earth. The satellite is a small cube with two long solar panel arms extended. The Earth's horizon is visible in the background under a bright light source, creating a lens flare effect.

AGENDA BC# HIGHLIGHTS FOR 2020

Agenda BC# – Instant payments

Availability

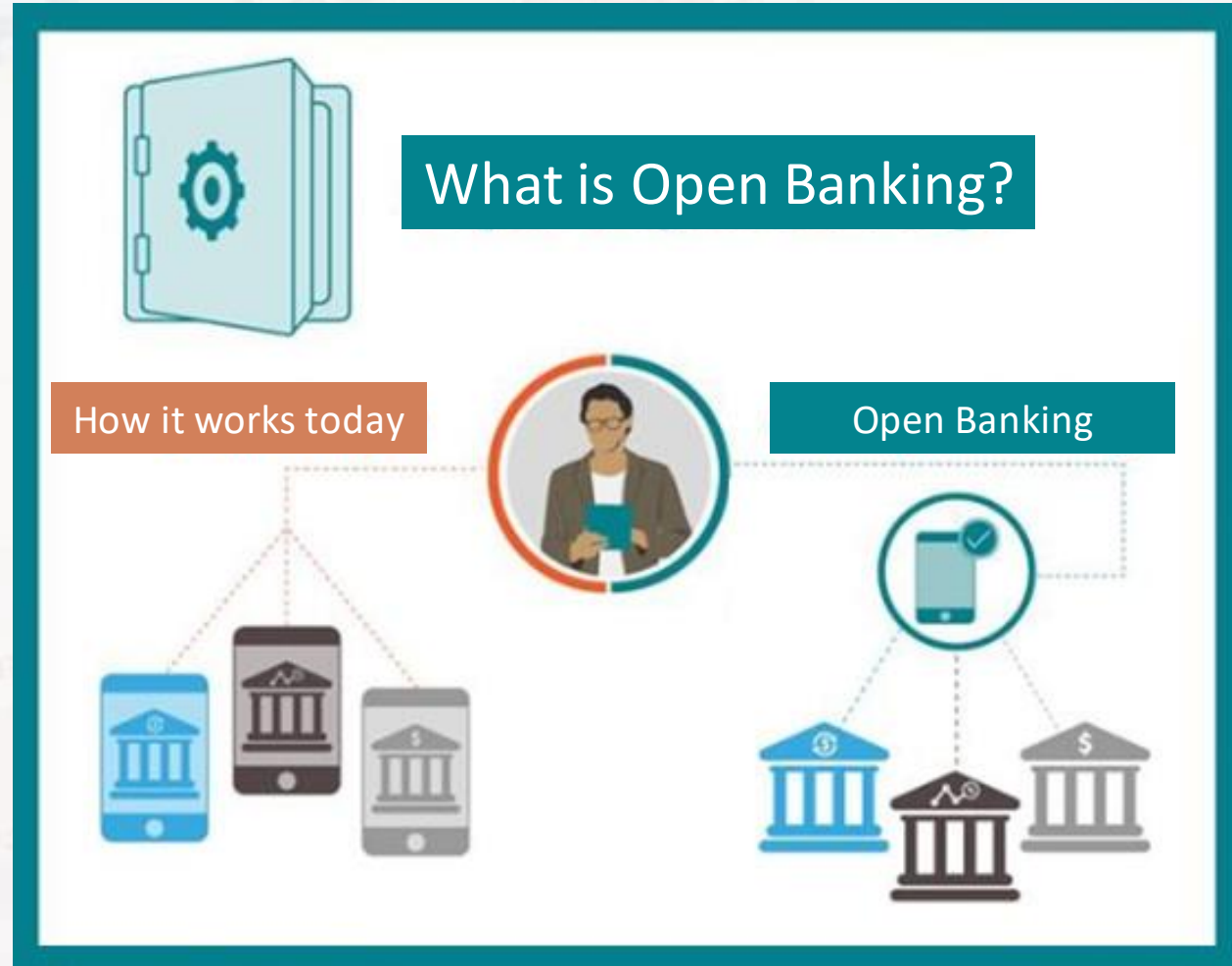
Speed

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

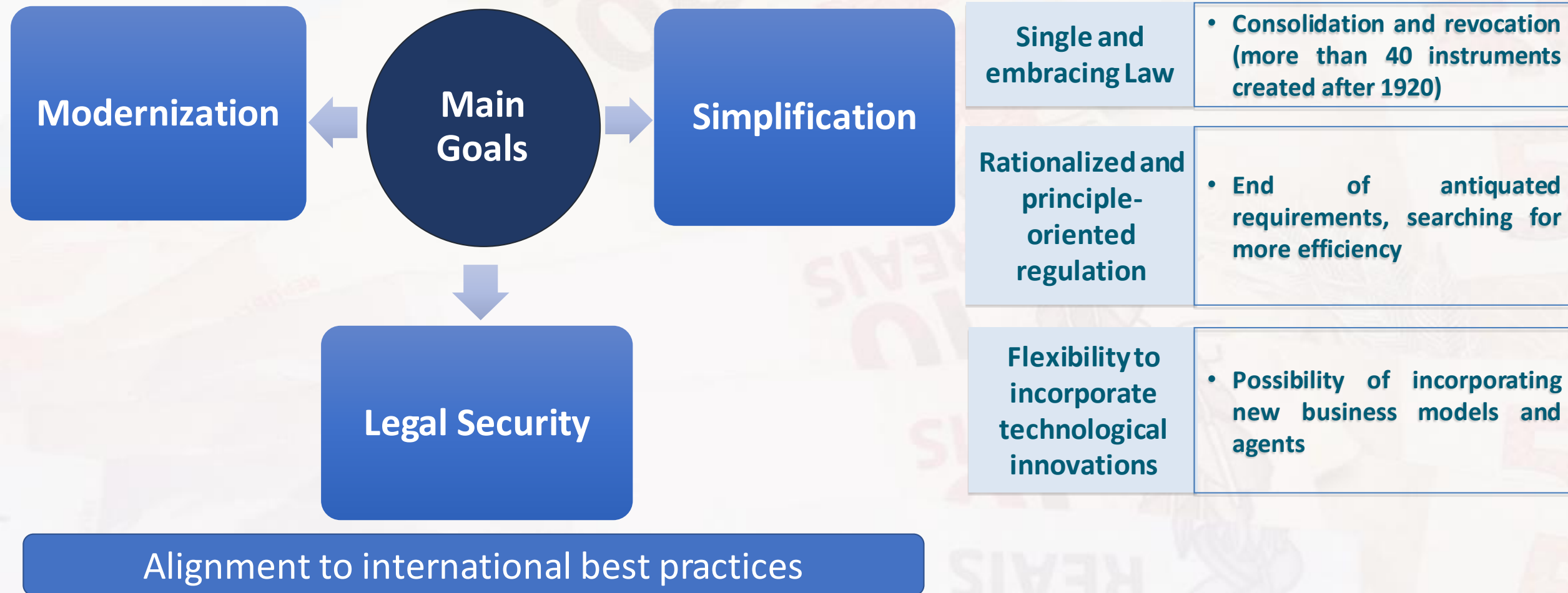
Public and private securities as collateral

Lower reserve requirement need

Space for the local capital market to grow

Agenda BC# – FX Simplification

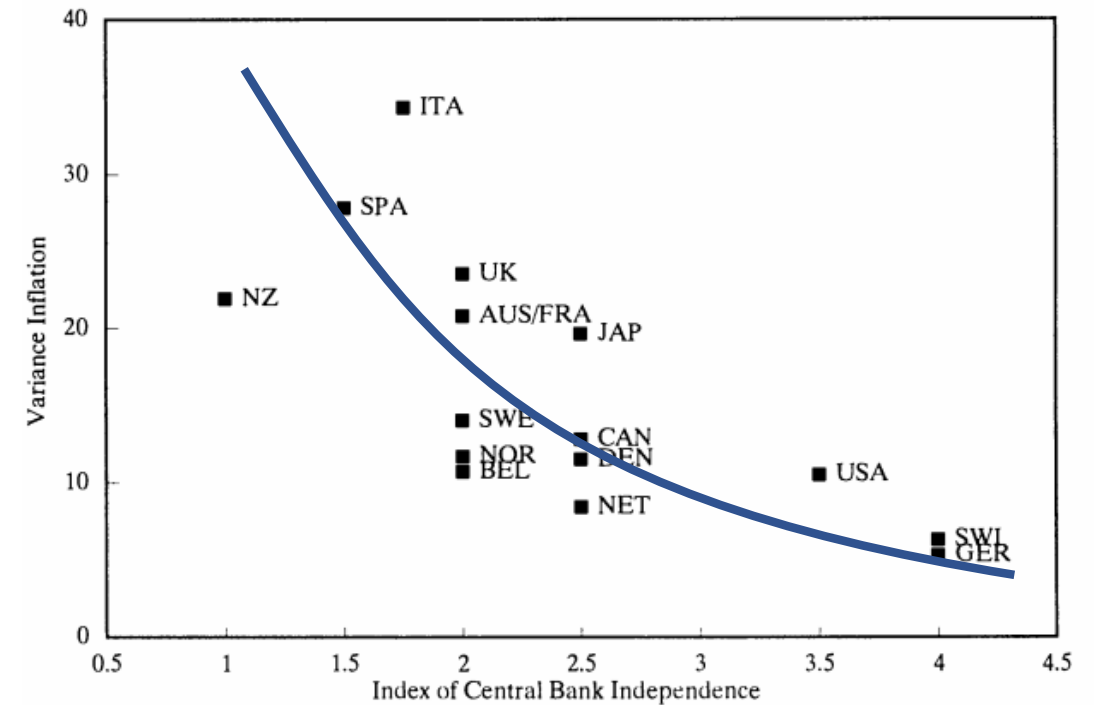
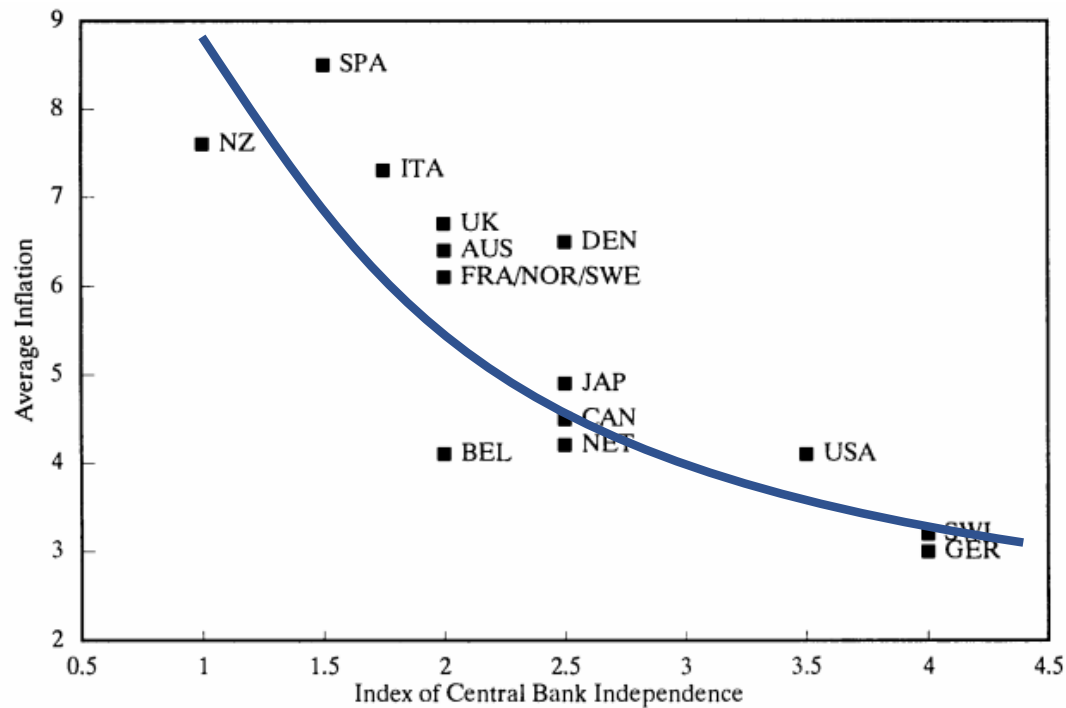
Highlights for 2020



Agenda BC# – BCB Autonomy

Highlights for 2020

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



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

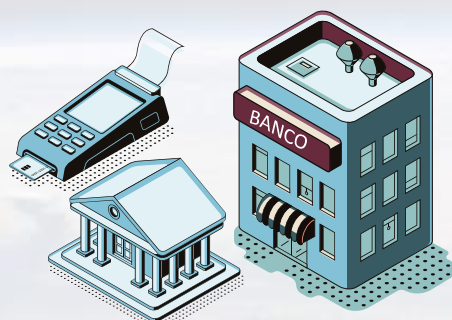
A satellite is shown in orbit above the Earth's surface, which is covered in white clouds. The satellite is a small, dark, rectangular object with several solar panels and antennas extending from it. The background is a deep blue space with a bright light source, possibly the sun, creating a lens flare effect. The overall tone is dark and futuristic.

**# WHAT WE WANT TO
ACHIEVE**

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

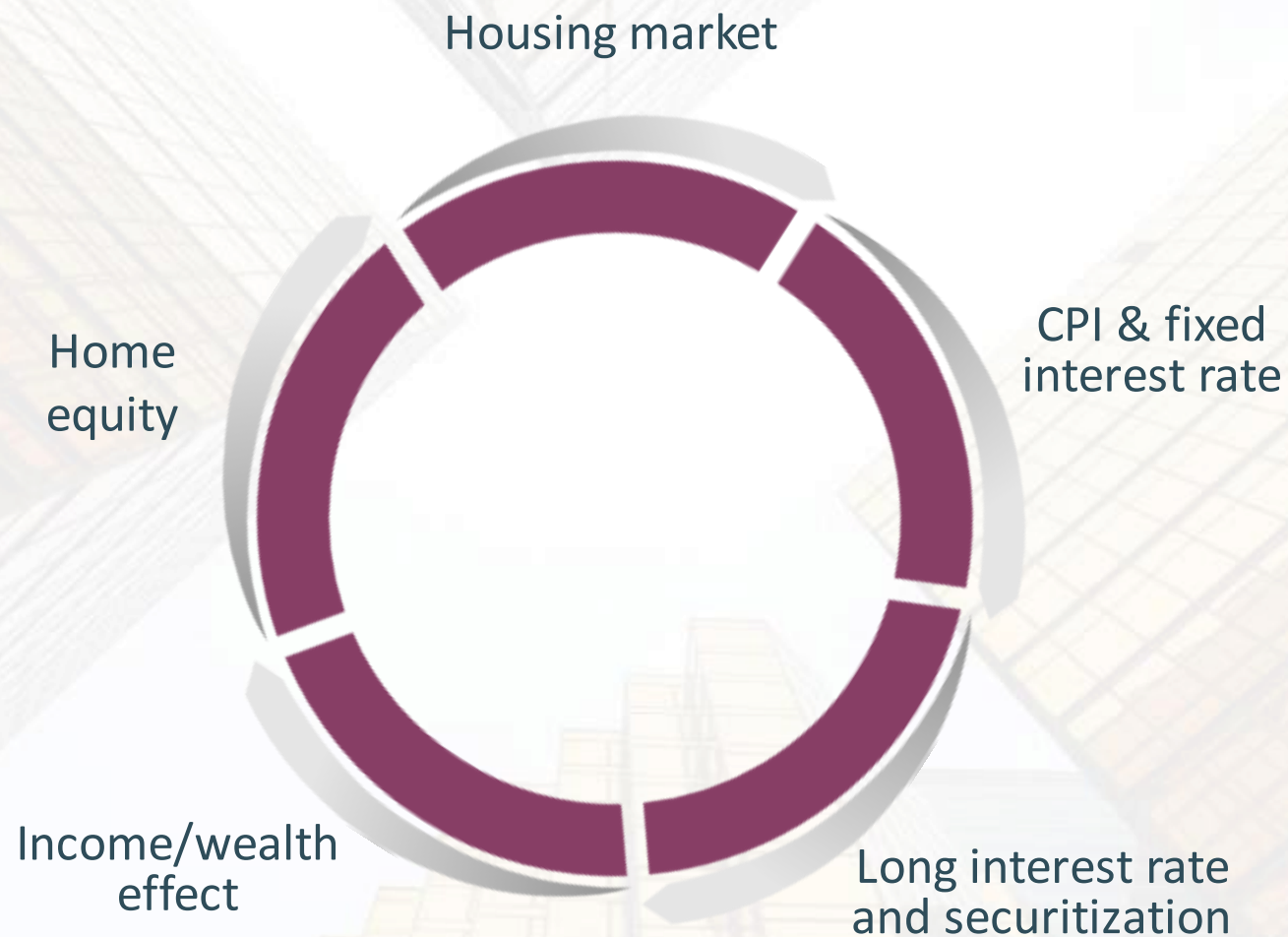




HOUSING MARKET

Main channels

Housing market





CPI & fixed
interest rate

Main channels

Housing market

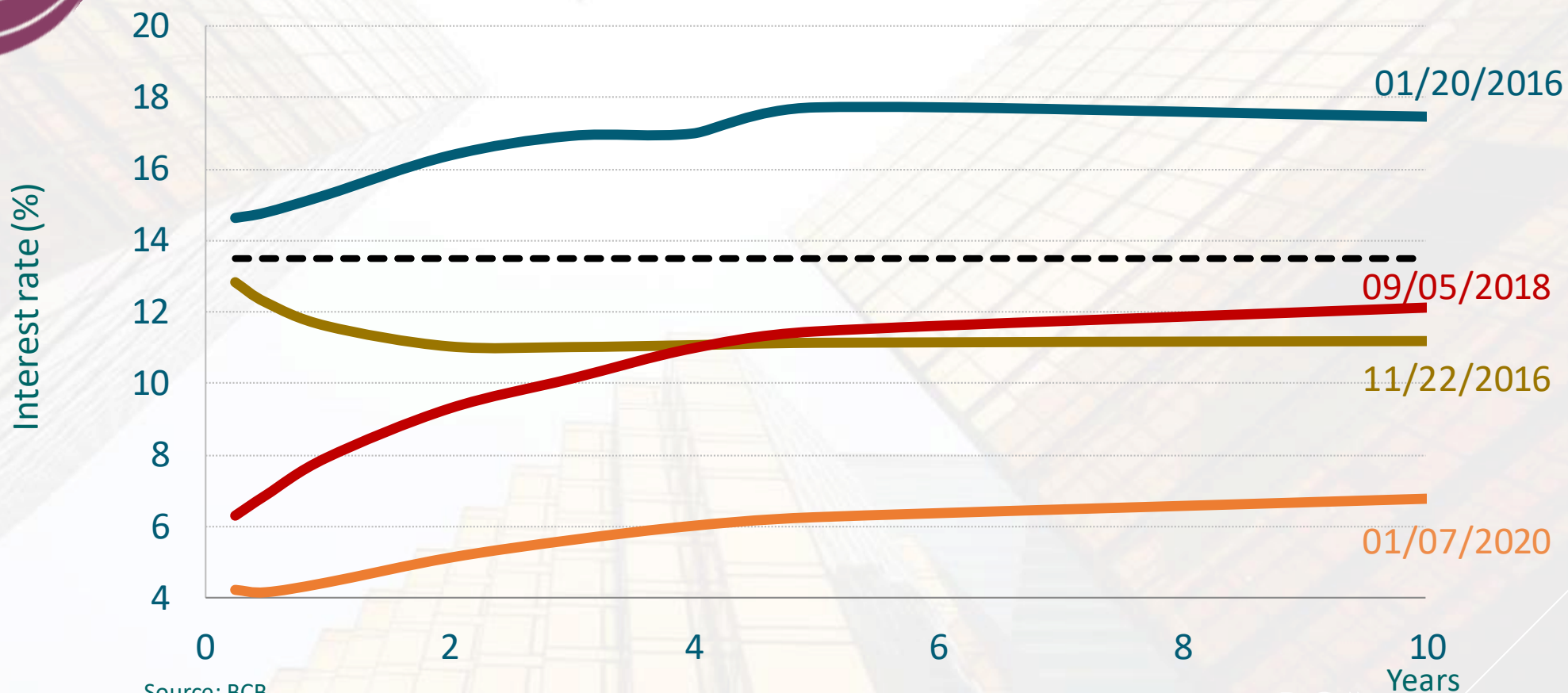
Use of CPI to index real estate financing contracts

- # 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





Income/wealth
effect

Main channels

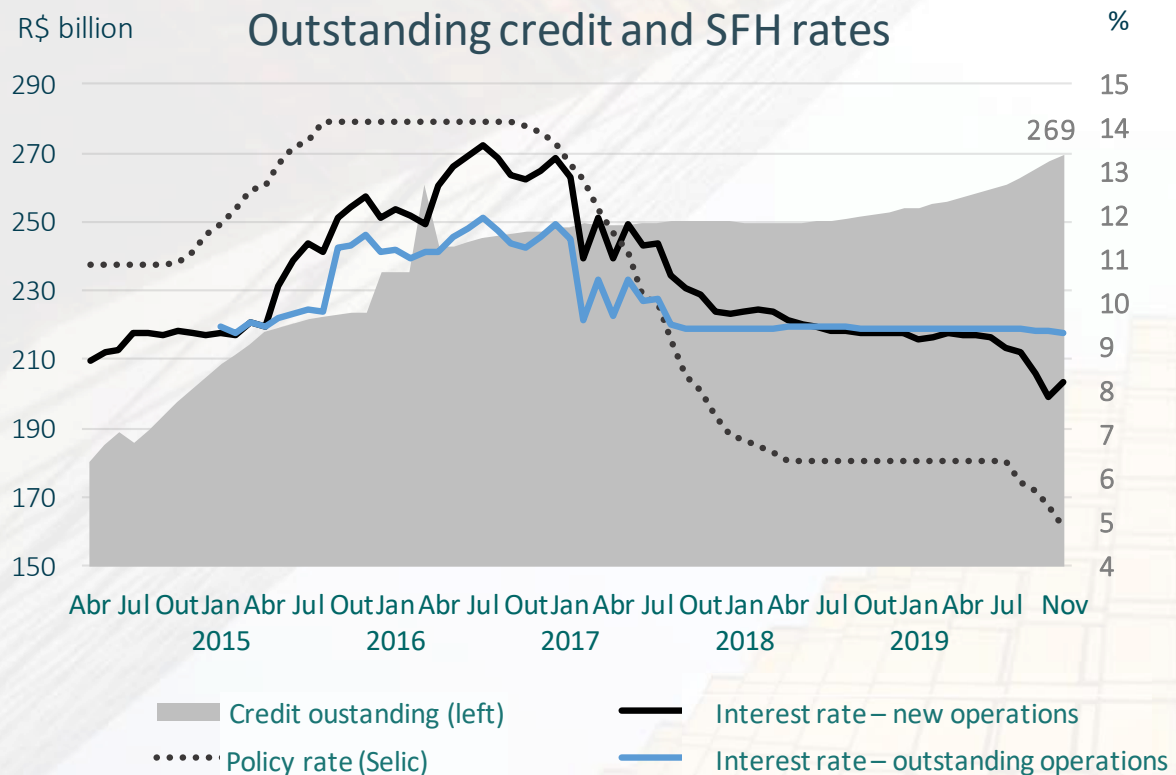
Housing market

Income effect and portability – a virtuous cycle

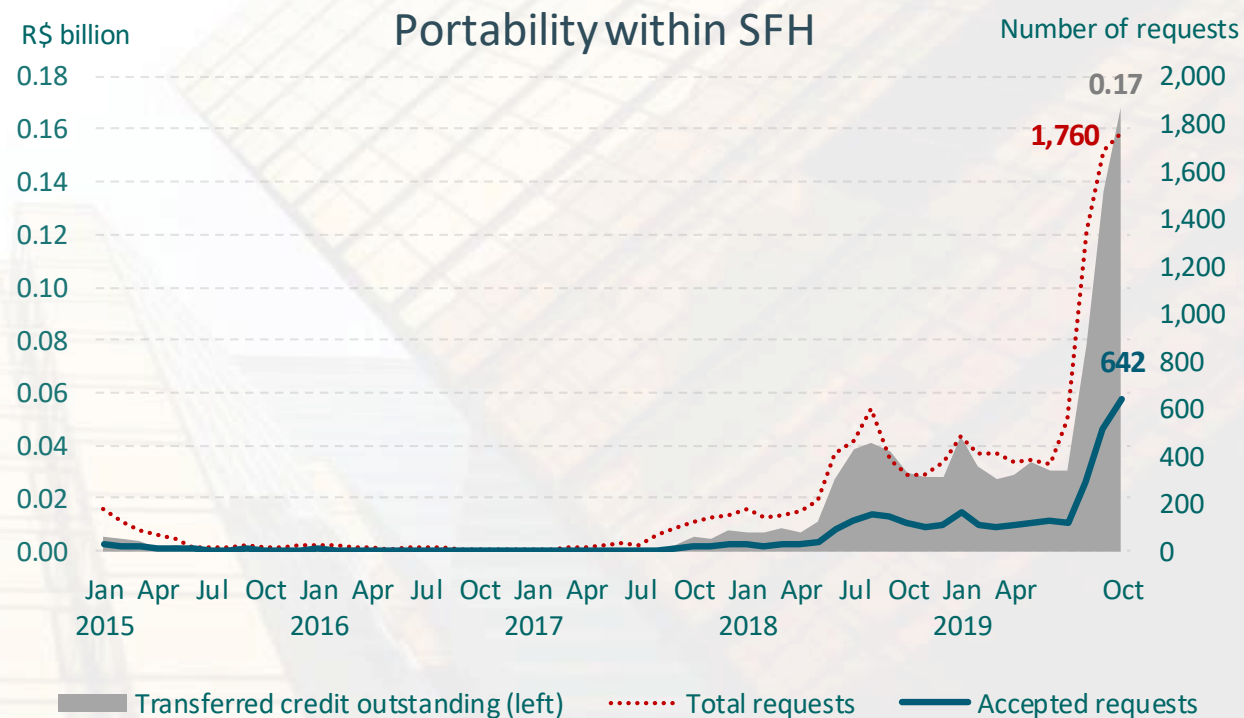
Potential of income effect:

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

Outstanding credit and SFH rates



Portability within SFH



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.

Housing market

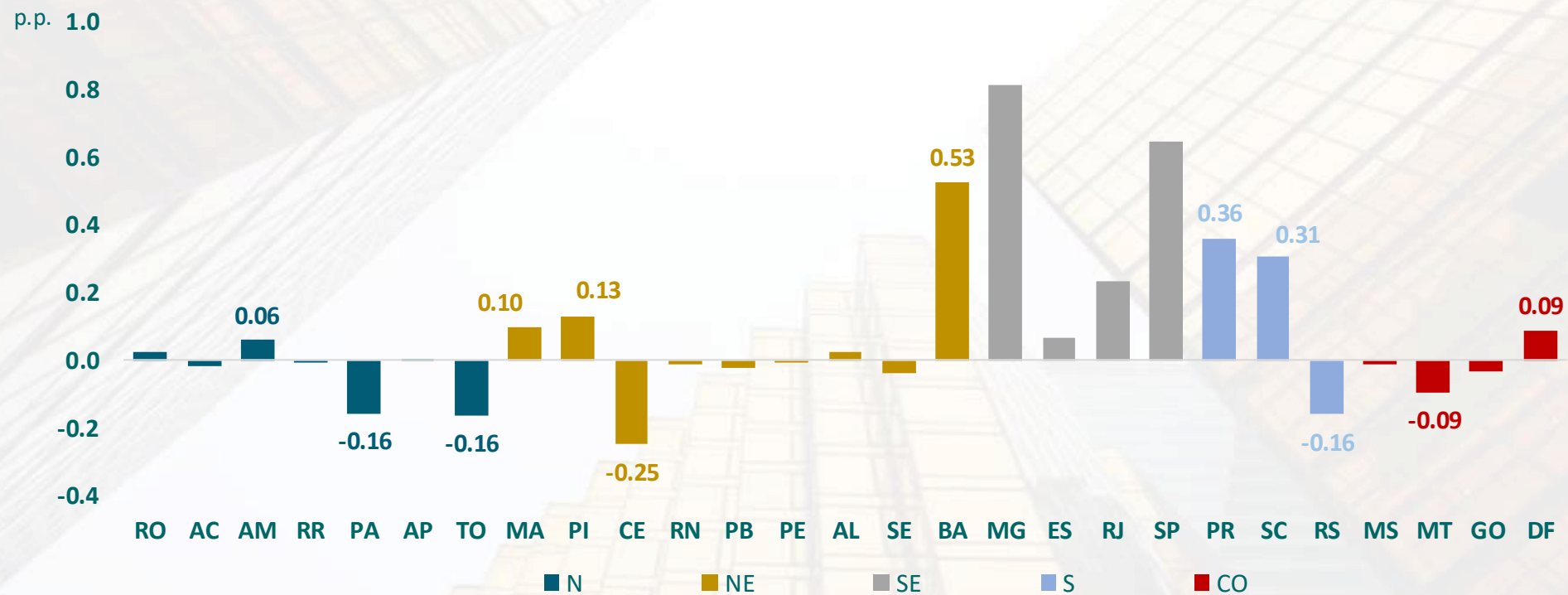


Main channels

Housing market

Construction sector in recovery

Contribution of each State to employment in construction

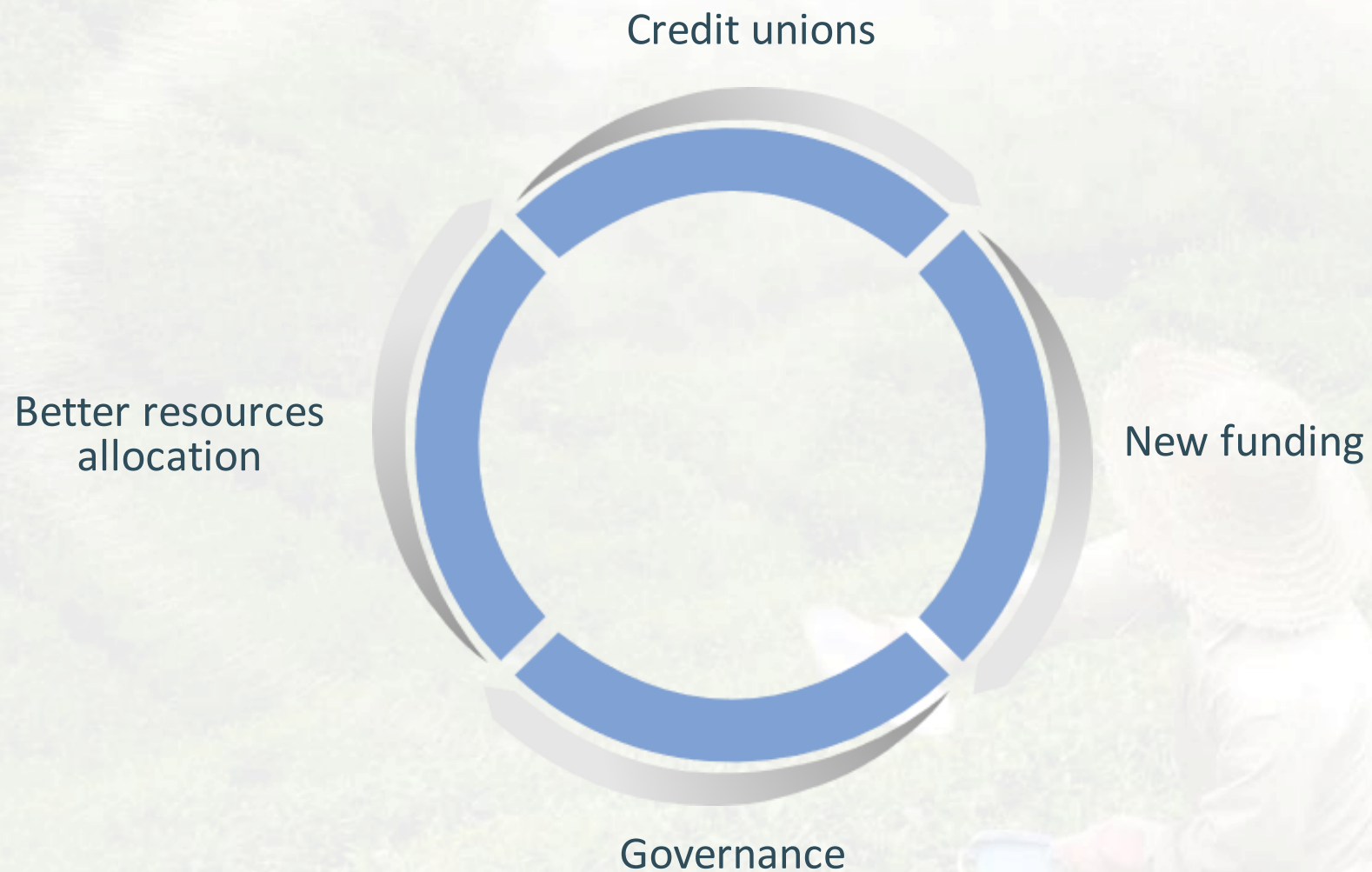




COOPERATIVE CREDIT

Main channels

Cooperative credit





New funding

Main channels

Cooperative credit

New instruments

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



Governance

Main channels

Cooperative credit



Better resources
allocation

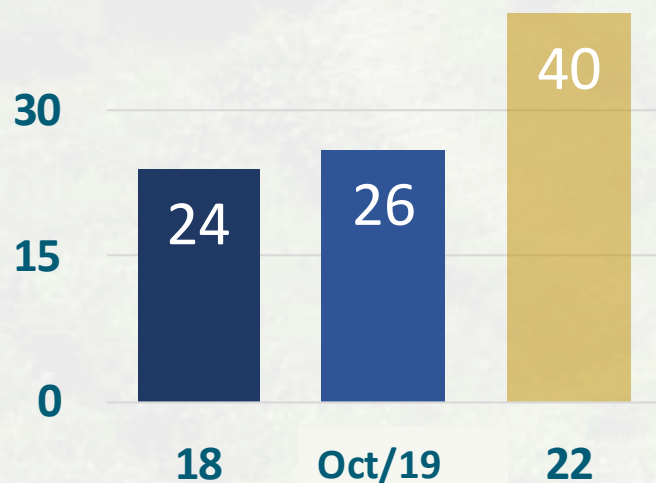


Main channels

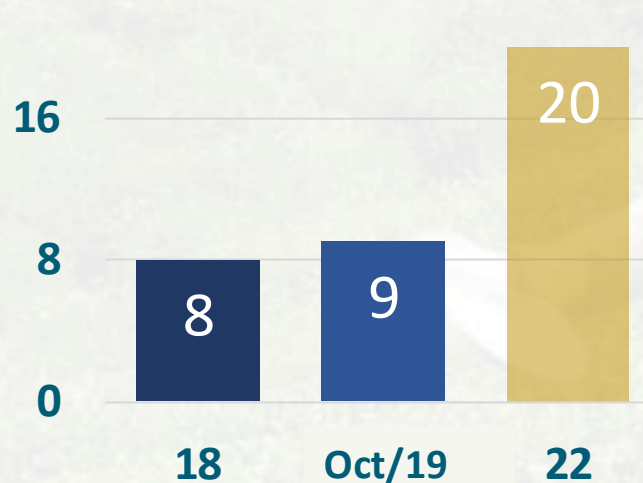
Cooperative credit

Higher share (%)

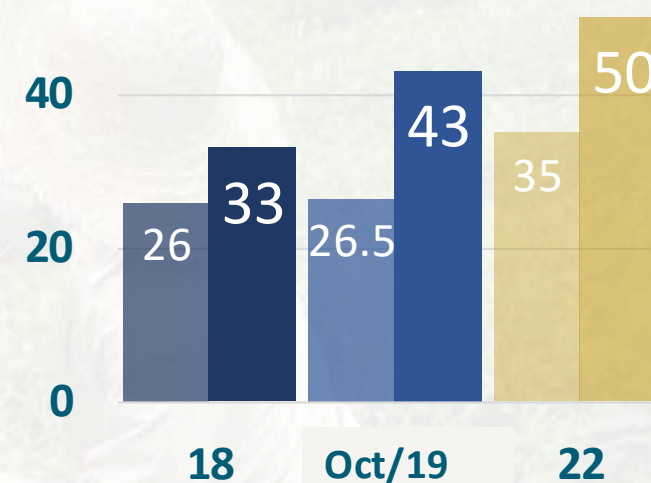
Cooperative members in the SNCC



Credit Cooperatives



Low income cooperative members



Left bar: in value
Right bar: in number



A man with a beard, wearing a blue and white plaid shirt and a dark brown apron, is working in a workshop. He is using a hand plane to smooth a piece of wood on a workbench. The workshop is filled with various tools and materials, including a hammer, a tape measure, and a pair of glasses hanging on the wall. The lighting is warm and natural, coming from a window on the right.

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 Programa

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

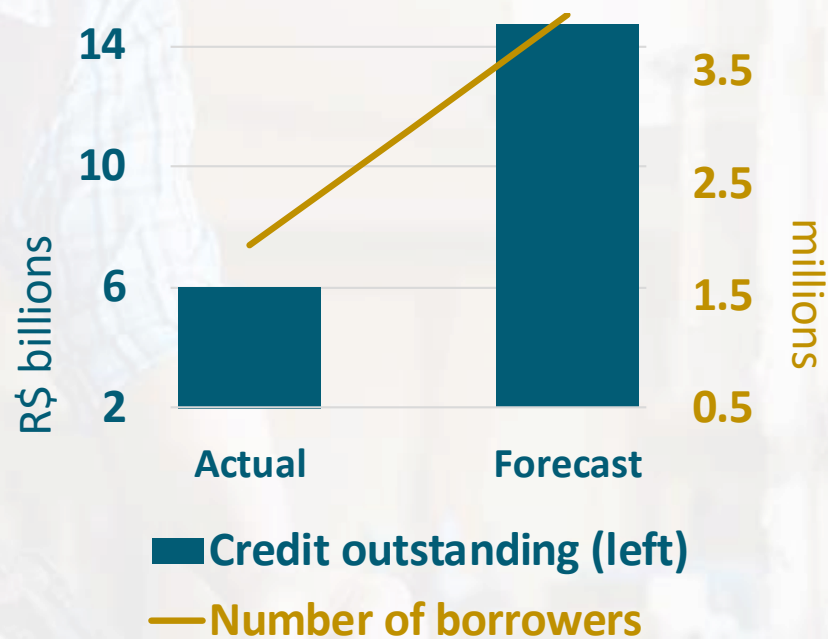
300% yearly growth

BC#



Microcredit for productive activities

Effect of initiatives for the segment

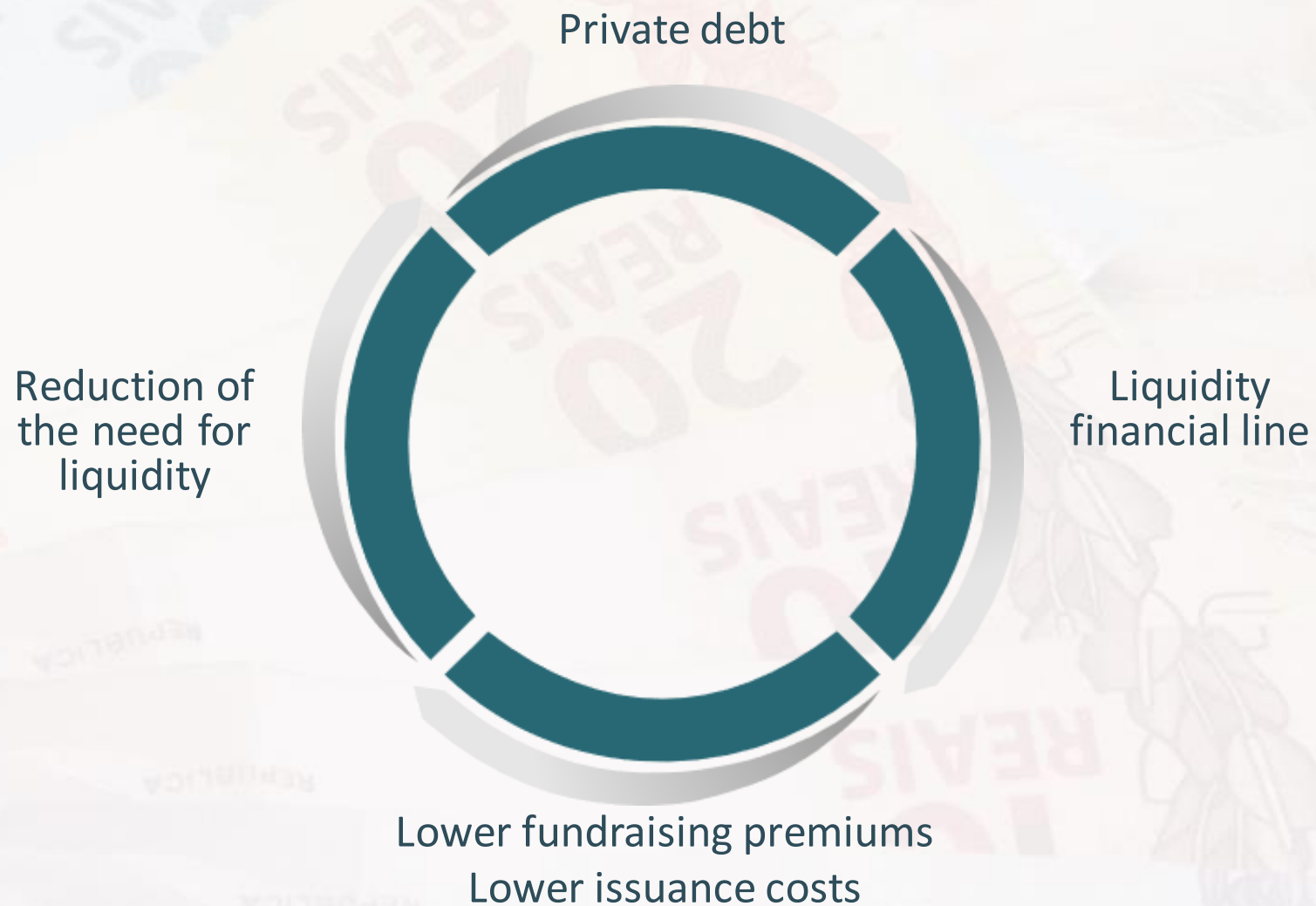




PRIVATE DEBT

Main channels

Private debt





Liquidity financial line

Main channels

Private debt

Private debt market

Better pricing

Greater liquidity

+ secondary market

+ repo market

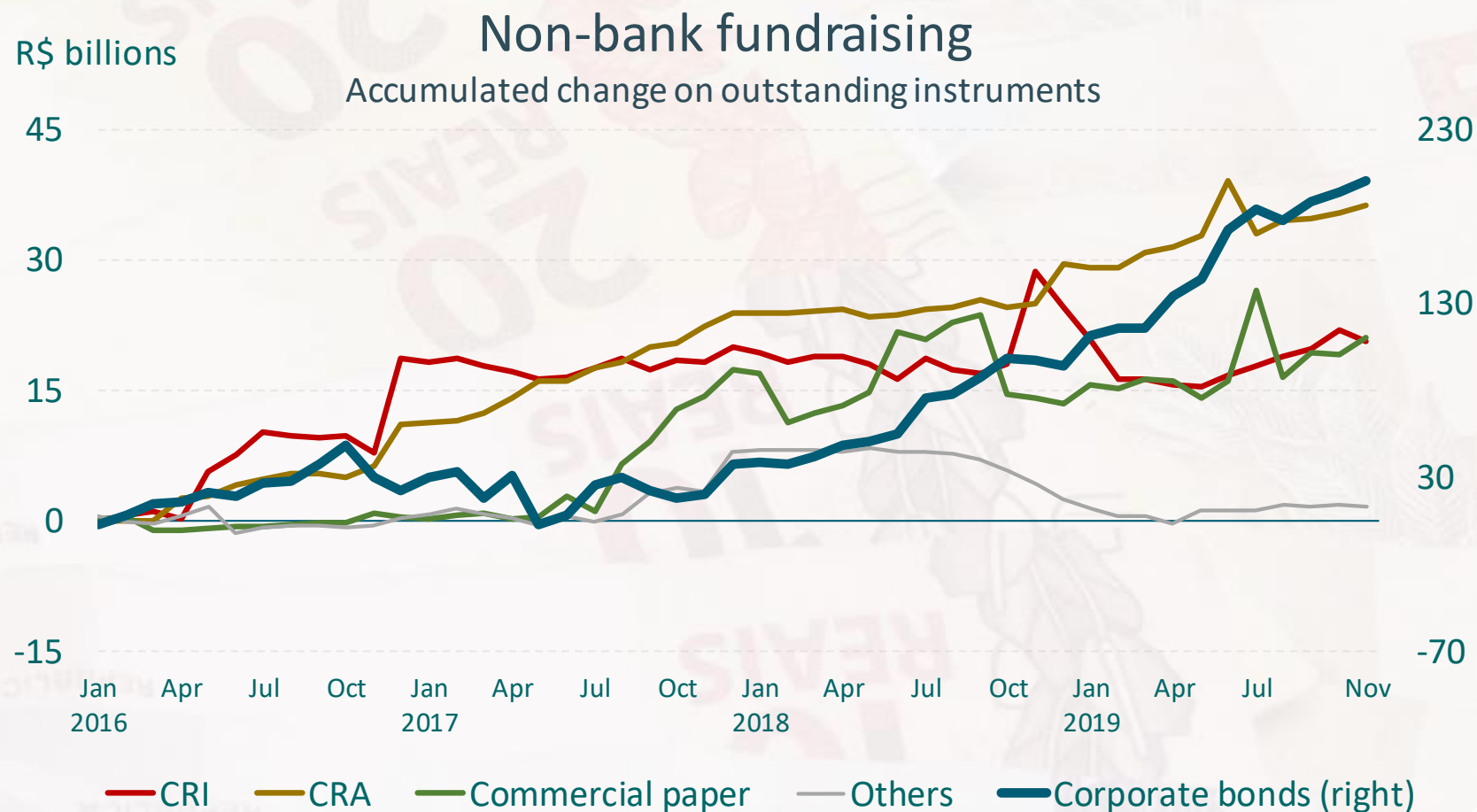
Unfreezes liquidity value



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

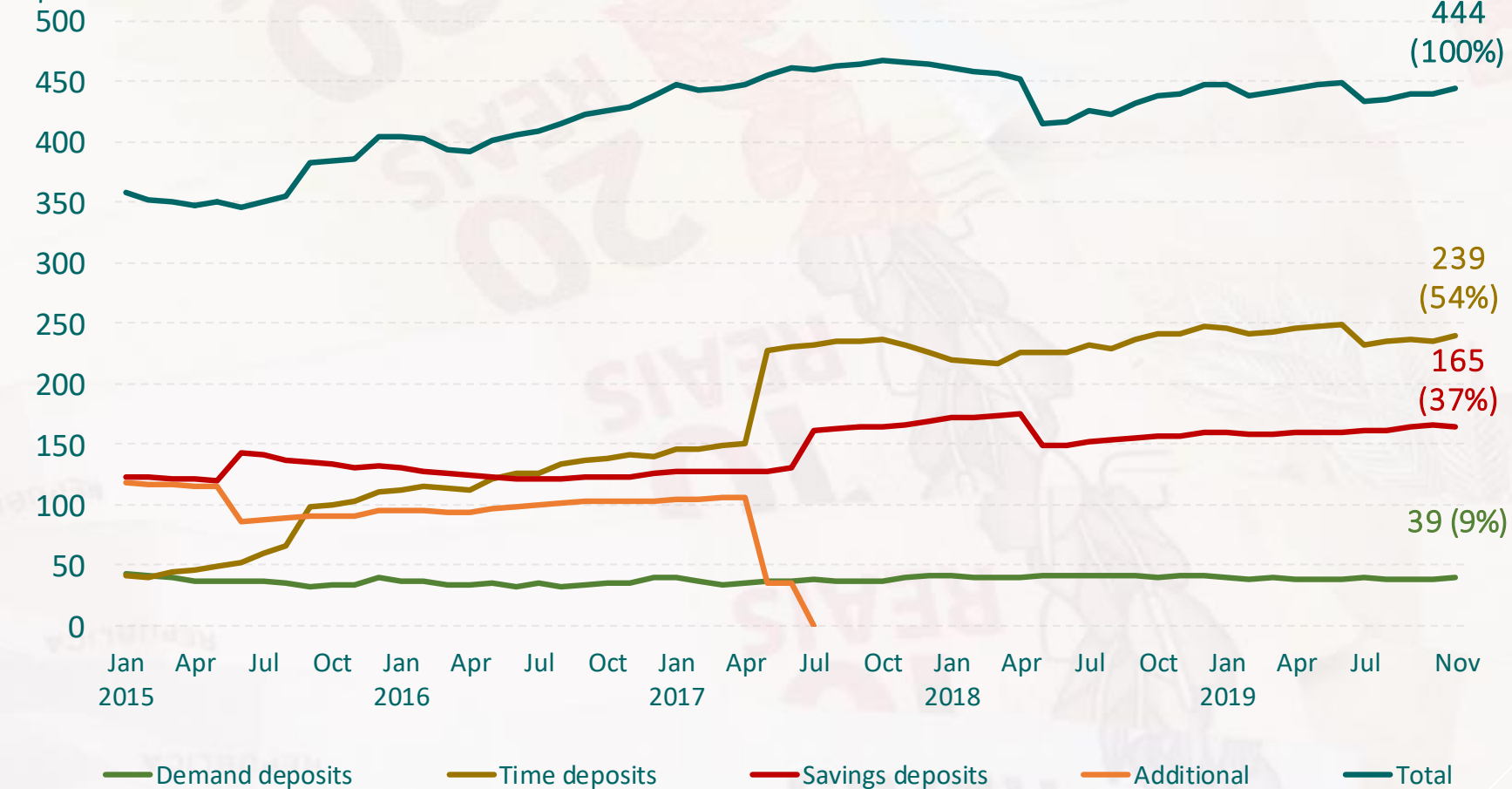


Main channels

Private debt

Reserve requirements

R\$ billions



Private debt

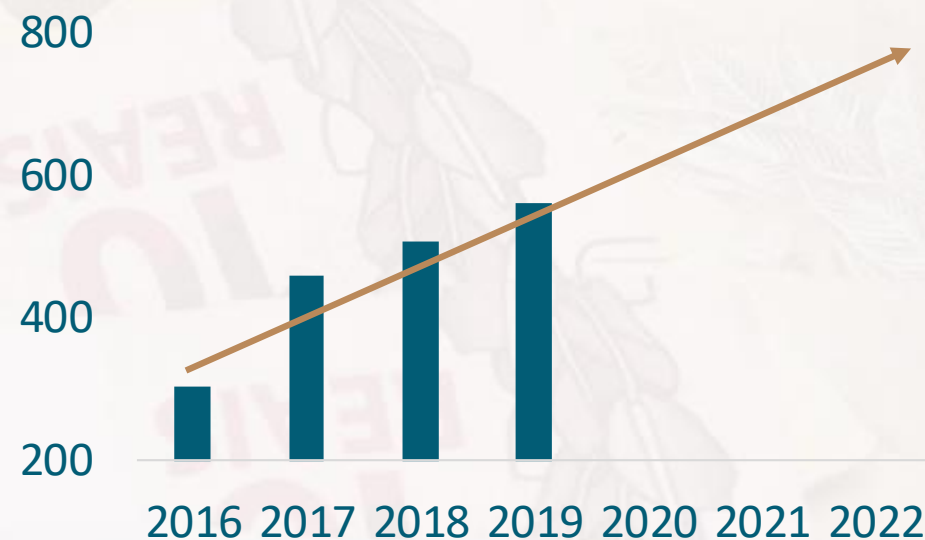


Main channels

Private debt

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

Number of issued contracts
(corporate bonds)



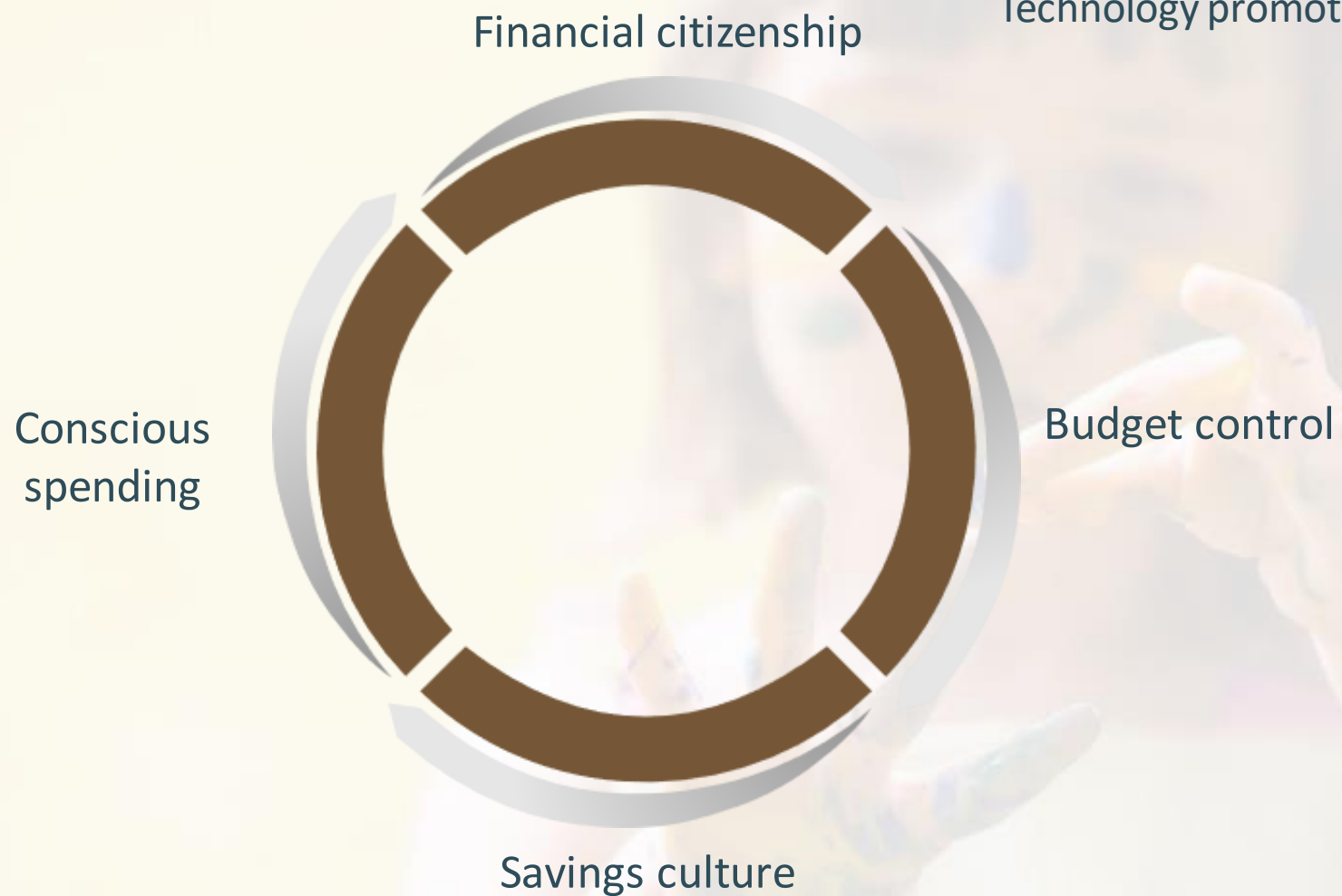
A young girl with brown hair and bangs is the central figure. Her face is decorated with colorful paint: a blue nose, yellow and green circles on her cheeks, and blue and yellow around her mouth. Her hands are also covered in paint, with yellow, blue, and green visible on her fingers and palms. She is looking down at her hands, which are held up in front of her. The background is a solid, bright yellow.

FINANCIAL CITIZENSHIP

Main channels

Financial citizenship

Technology promoting citizenship





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**



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



A vibrant nighttime cityscape with a dense grid of skyscrapers and a complex network of highways. Long-exposure light trails from vehicles create streaks of white, yellow, and blue across the lower half of the image. The sky is dark, and the city lights are a mix of warm yellows and oranges, and cooler blues and purples.

#INITIATIVES FOR CAPITAL MARKET (IMK)

Capital Markets



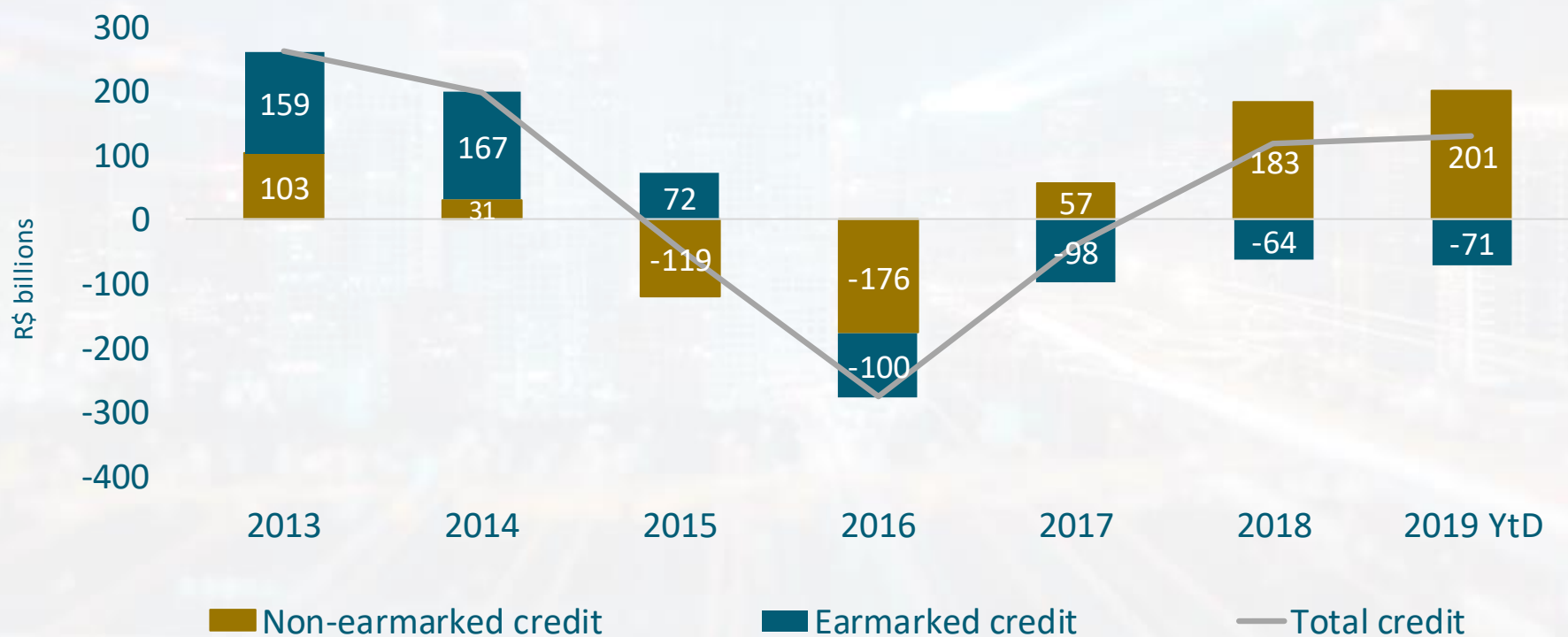


Reinvention of markets
with private money

Main channels

Capital Markets

Net new transactions – corporates and households



Source: BCB



Disintermediation and
reduction of issuance costs

Main channels

Capital Markets

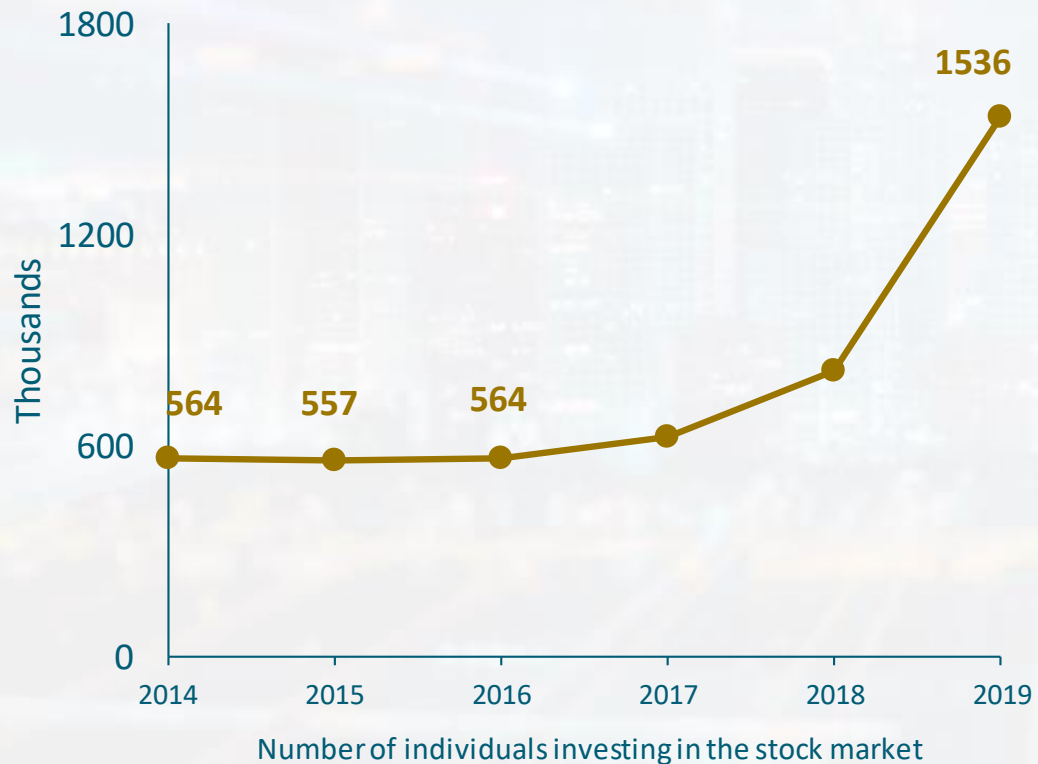
- Reduction of hedging costs for the infrastructure sector
- Expansion of credit backed by real-estate collateral
- New debt instruments for small and medium businesses
- Clearer rules for the taxation of foreign investors
- Creation of mechanisms for overseas distribution of bonds issued by Brazilian 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



Broader participation

Individuals in the stock market



Main channels

Capital Markets

Corporate bonds

Issuances (12 months accumulated)



Source: BCB / B3



Market capitalization index (% GDP)



A satellite is shown in orbit above Earth's cloud-covered surface. The satellite is a small, dark, rectangular object with several solar panels and antennas. The Earth's horizon is visible in the background, with a bright light source (the sun) creating a lens flare effect. The overall color palette is dark blue and black.

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