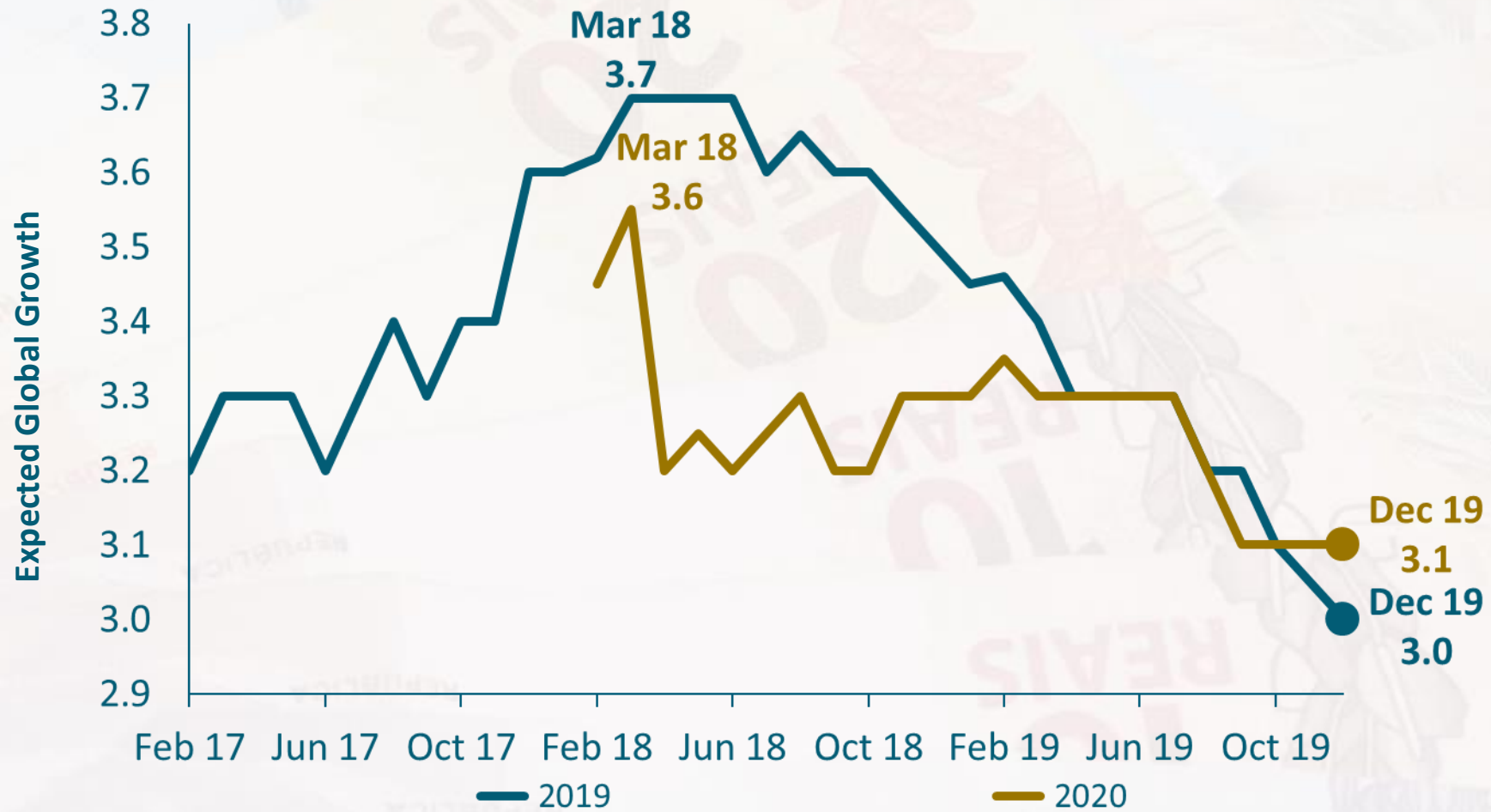


# 24<sup>th</sup> SANTANDER'S ANNUAL LATIN AMERICAN CONFERENCE

**ROBERTO CAMPOS NETO**  
Governor of the Banco Central do Brasil

15 January 2020

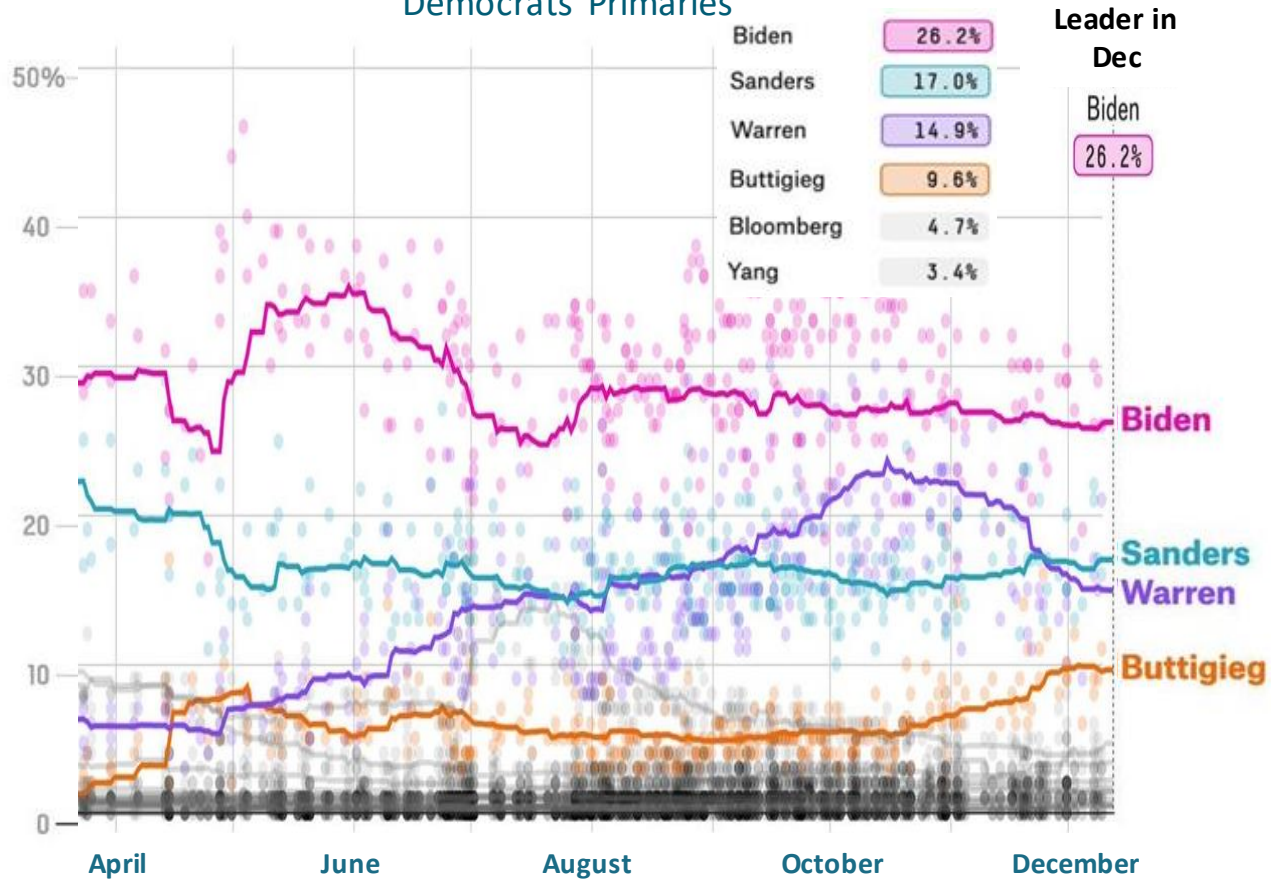
# Expected slowdown



Source: Bloomberg

# US Elections

## Who's ahead? Democrats' Primaries

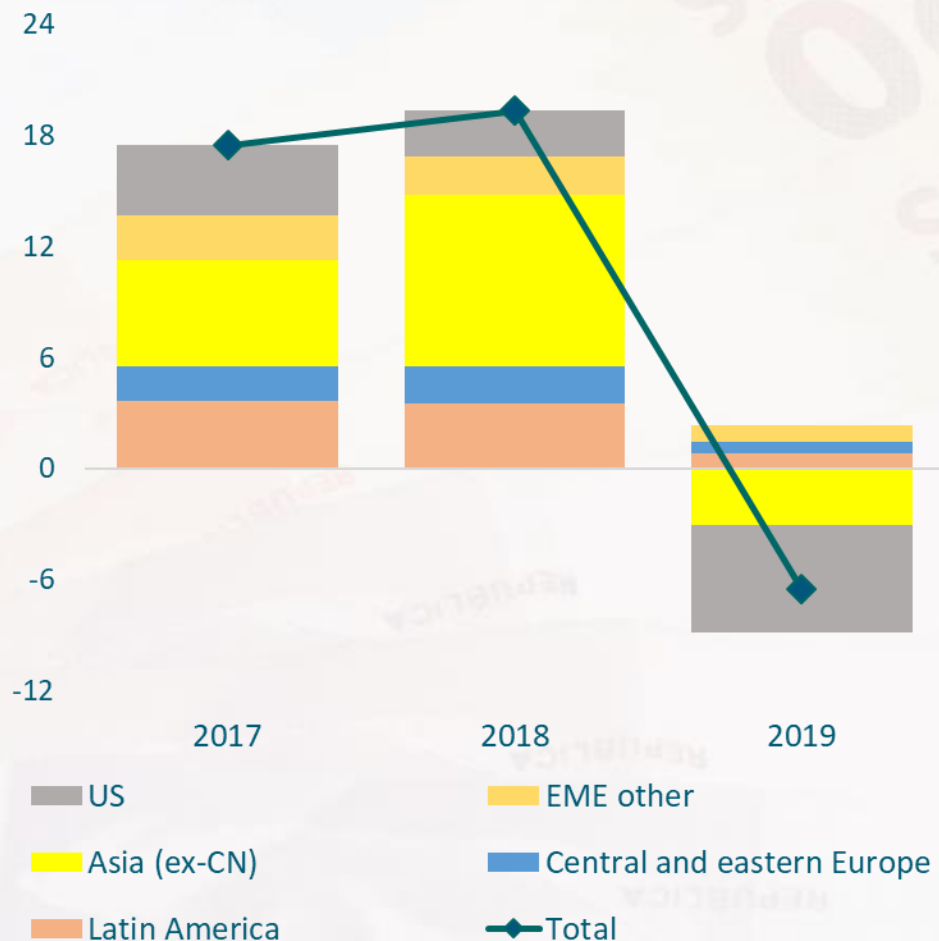


## Weakening Correlation

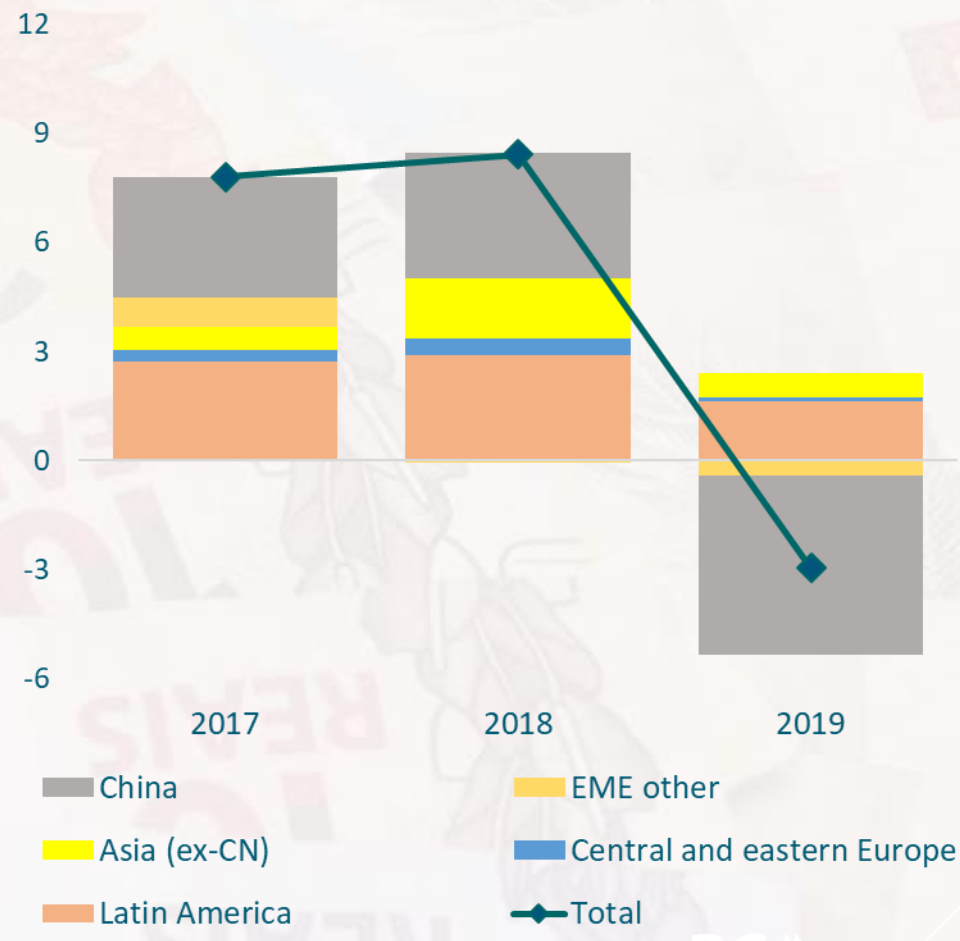


# Imports from EMEs – China and US

Growth rate of China imports from EMEs (%)

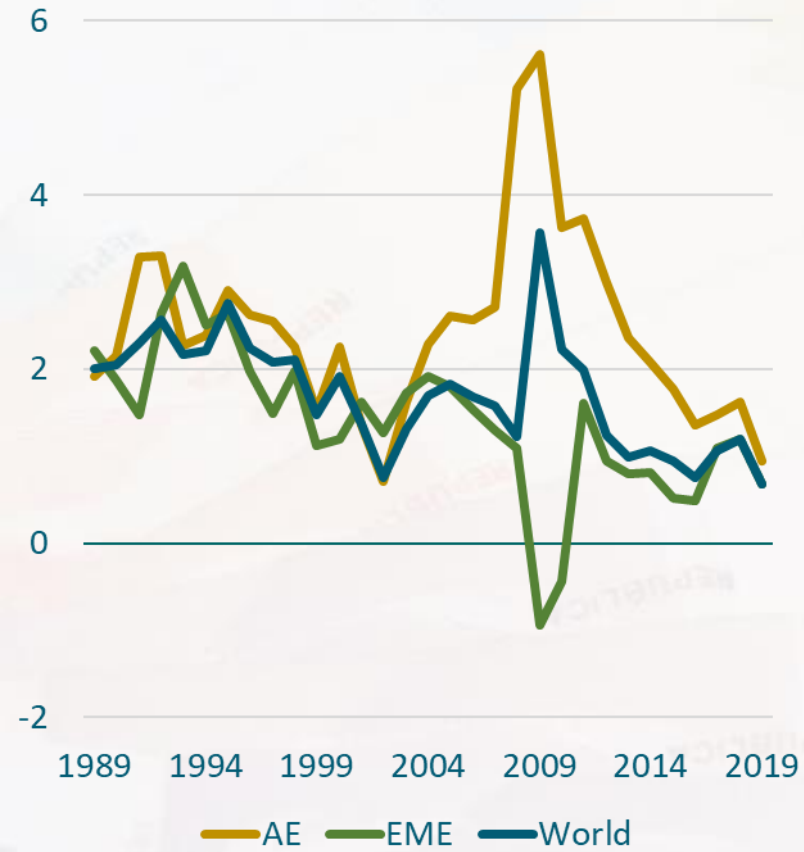


Growth rate of US imports from EMEs (%)

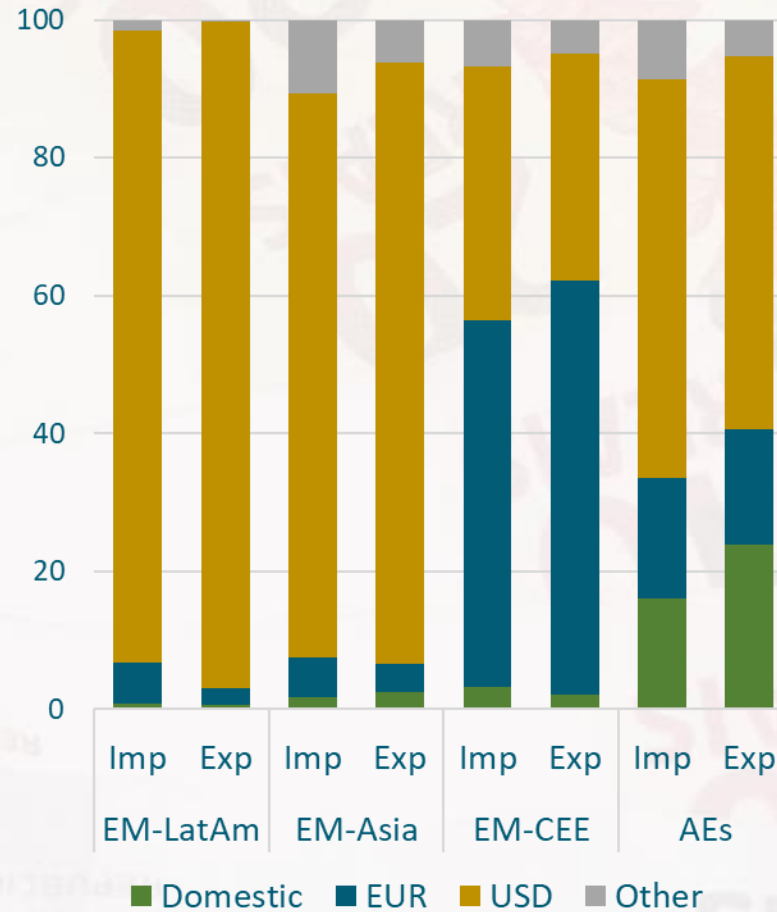


# EMEs in the global trade

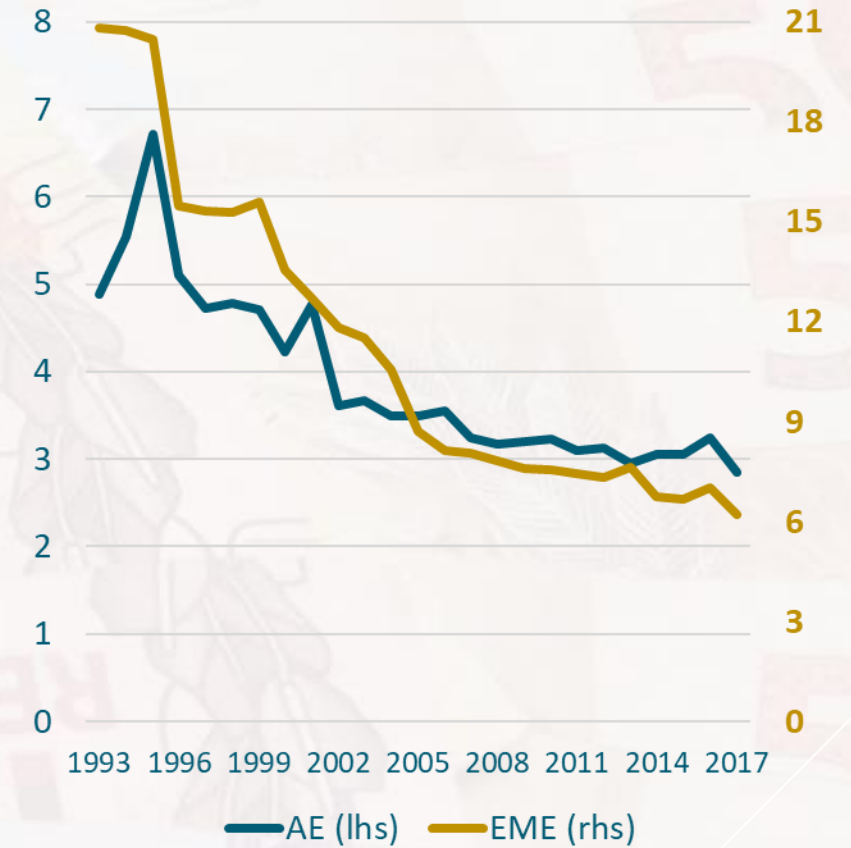
Trade elasticity



Trade invoicing currencies in inflation targeting countries (%)

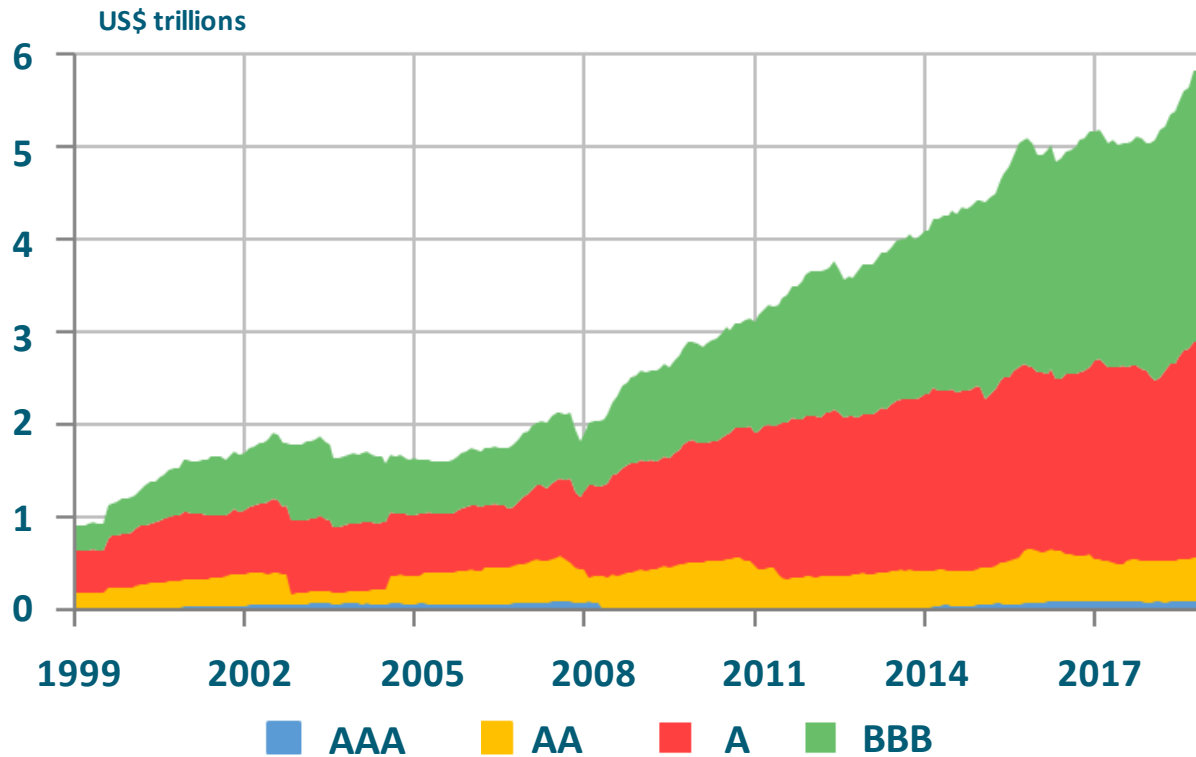


Tariffs in AEs and EMEs



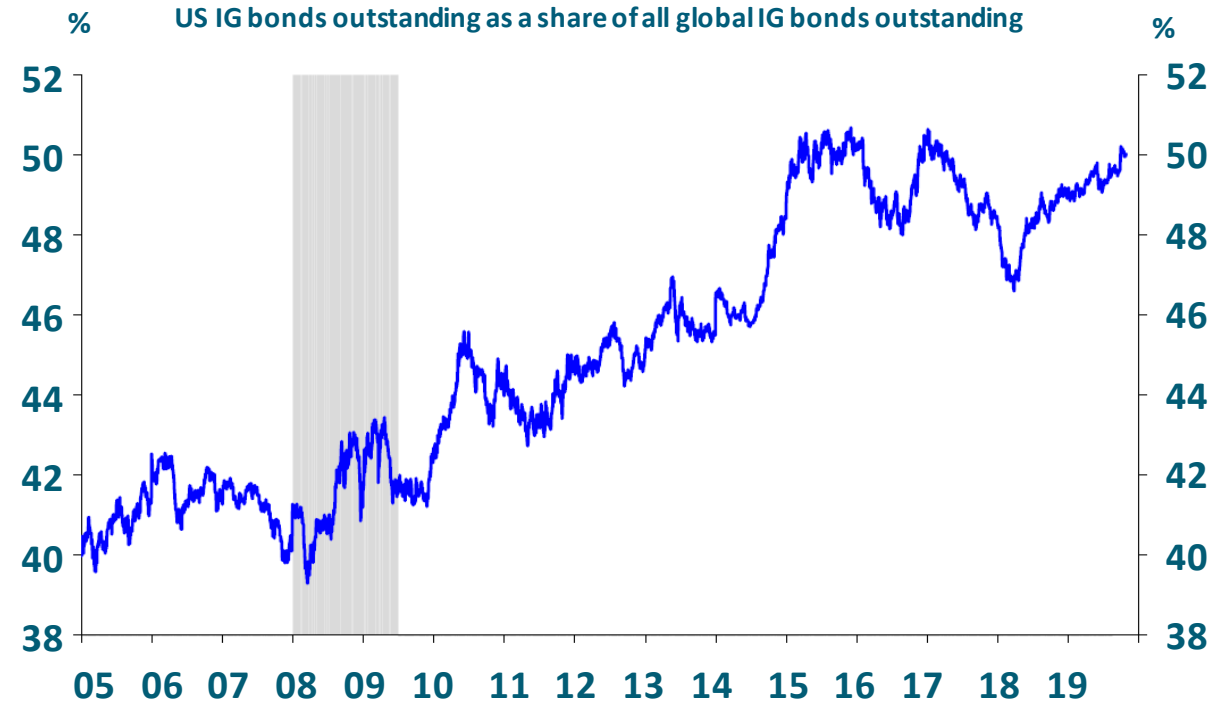
# Increasing share of lower rating issuers

### US IG Corporate Market Cap



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

### US IG Corporate Market Cap



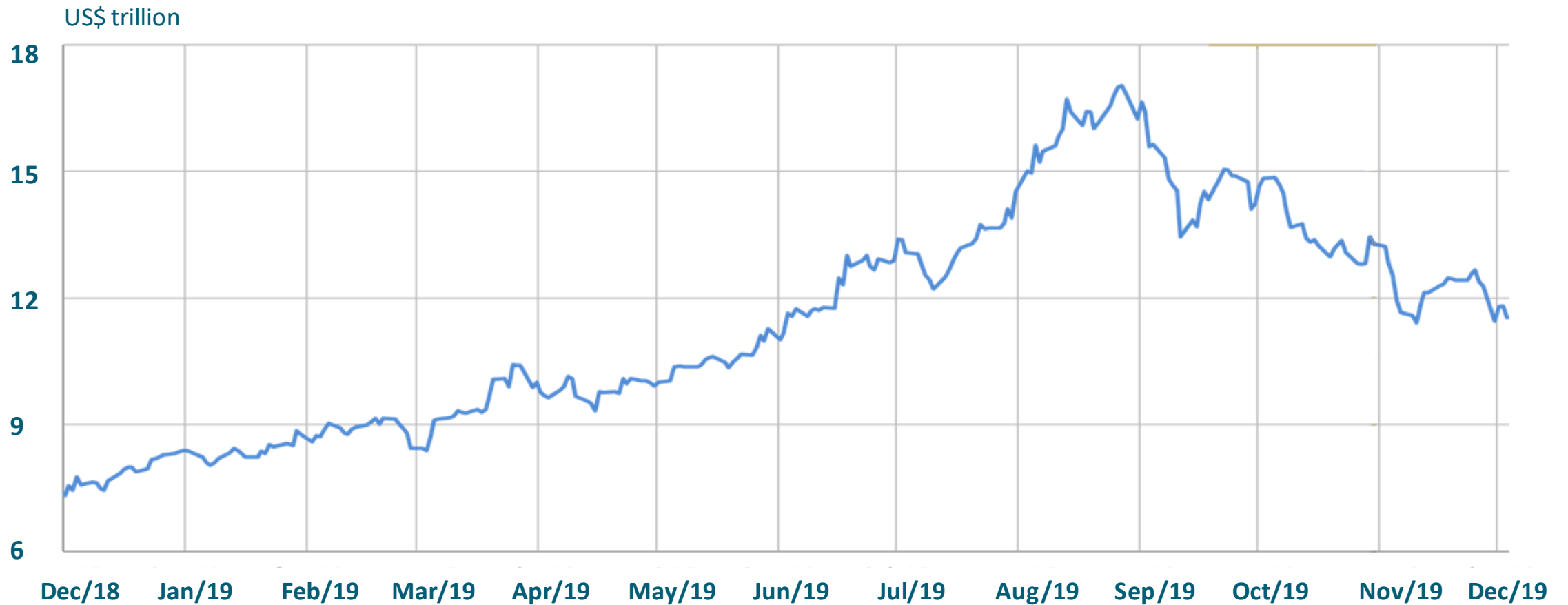
Source: Bloomberg, ICE BofAM and DB.

# 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

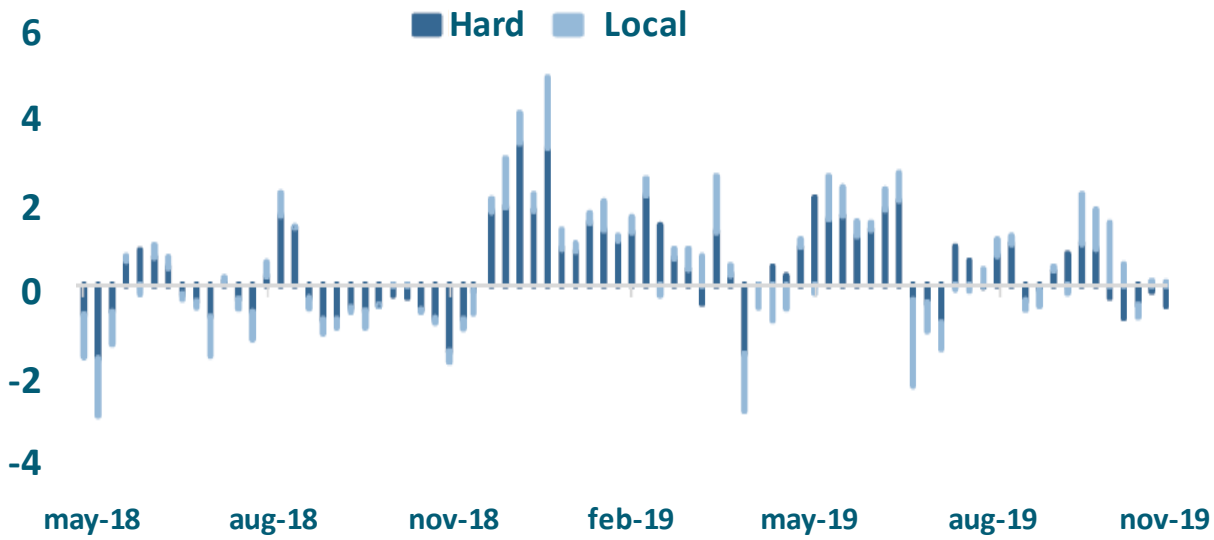
# Negative yielding debt – global bond market



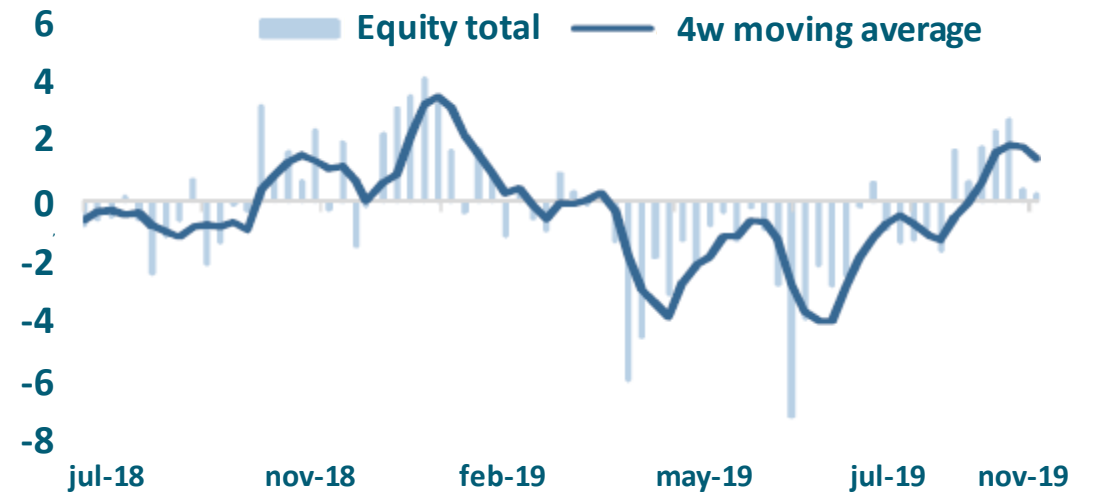


# EMEs: outflows recovery

### EME Fixed Income (USD bi)



### Equities EME (USD bi)

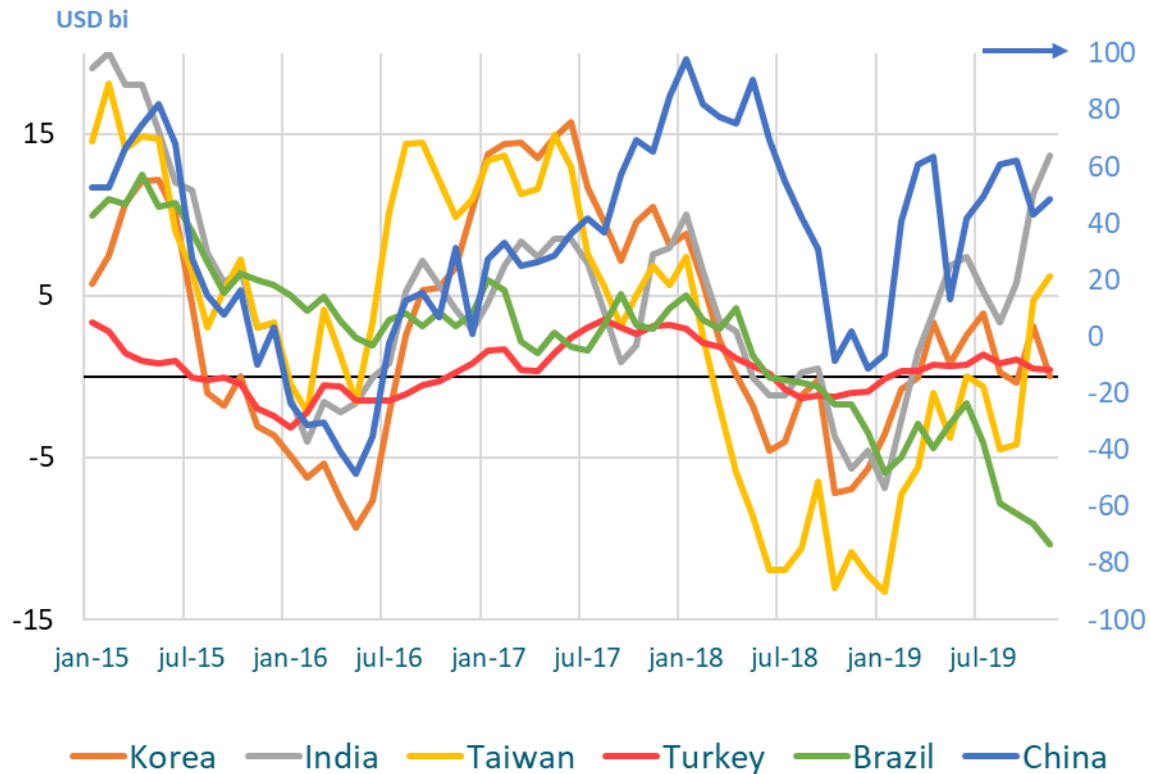


Fonte: Bloomberg, JPMorgan, EPFR

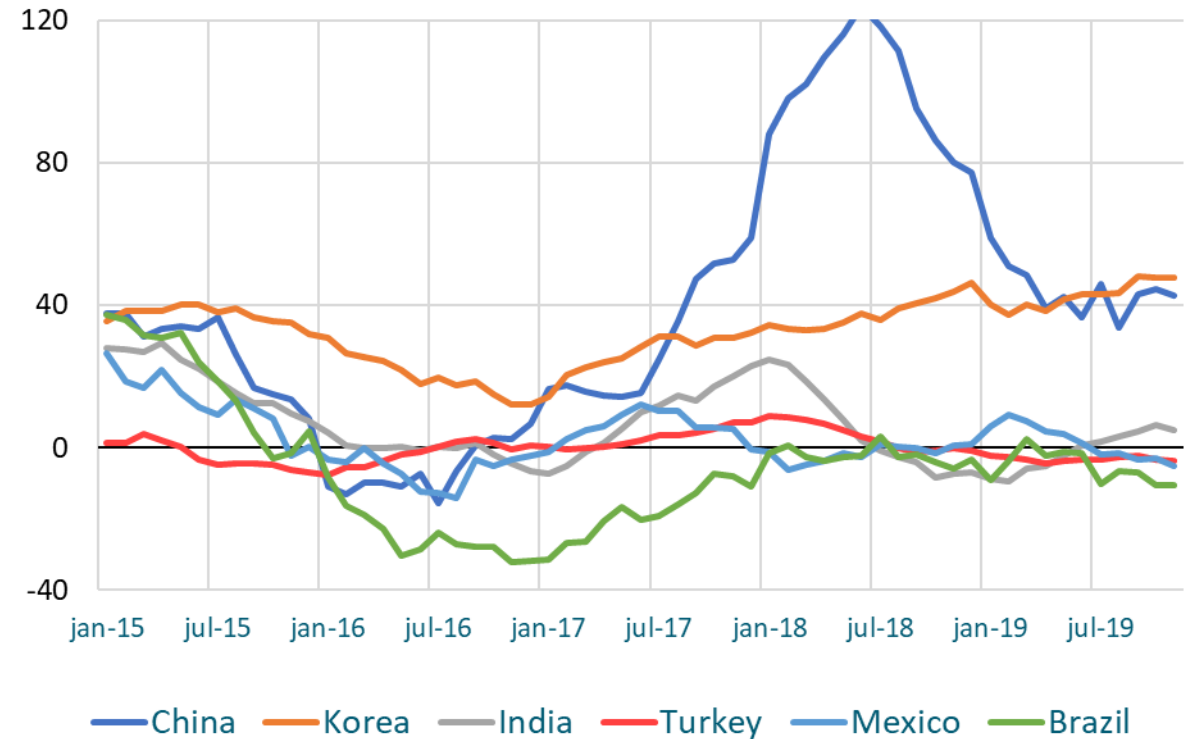
# EMEs flows: equity and fixed income

12 months accumulated

### Equity



### Fixed Income

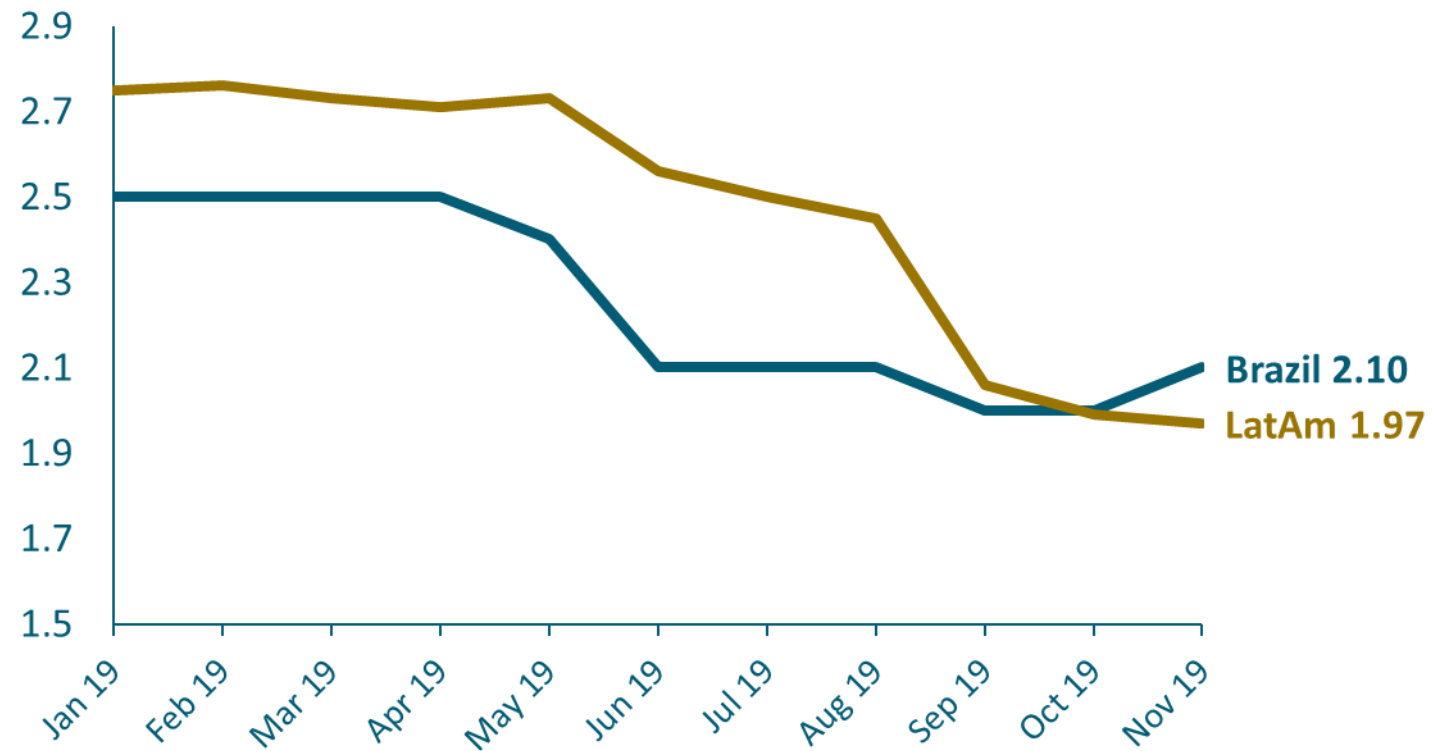


Source: Bloomberg

# GDP forecast 2020: Brazil x Latin America

Recent surveys show Brazil outperforming LatAm in 2020

### GDP Growth Forecast for 2020 (%)

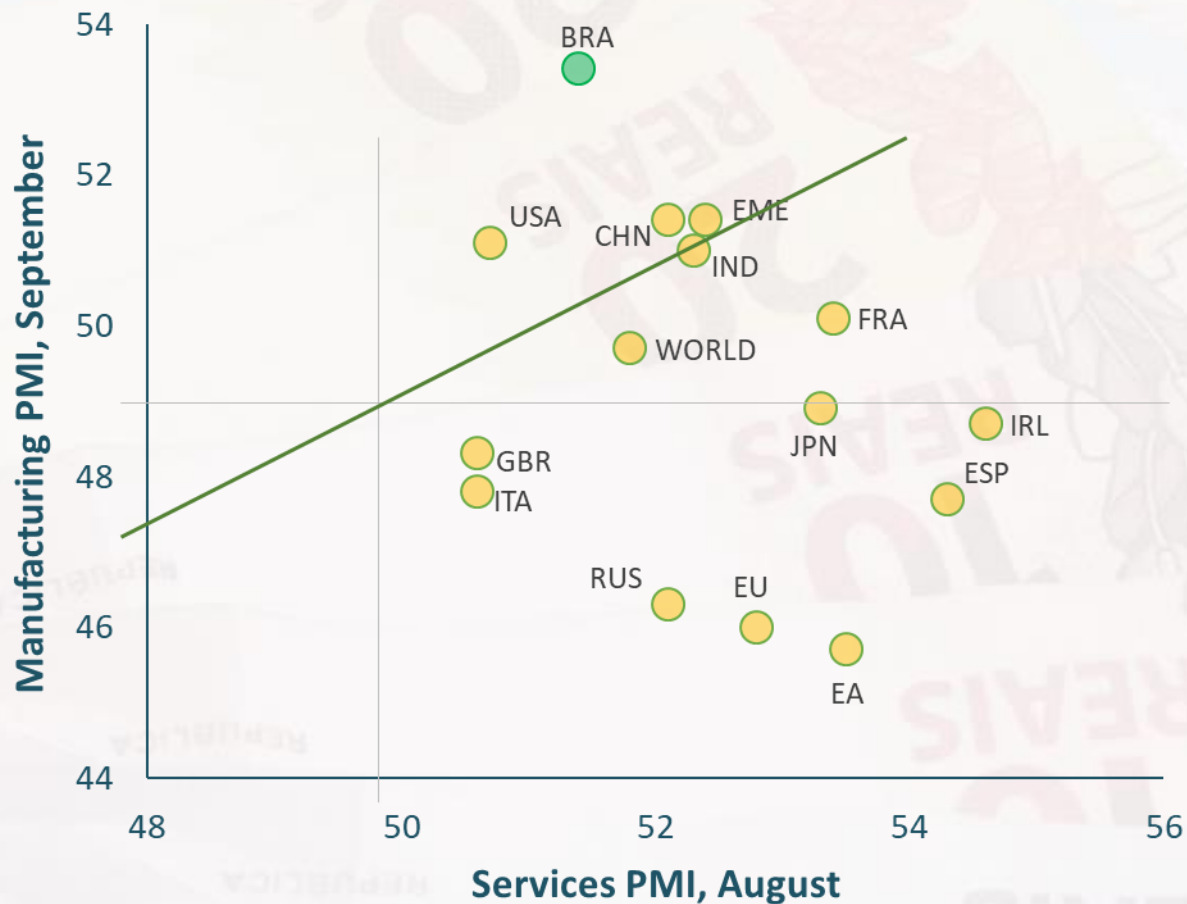


Source: Bloomberg

# Brazil: manufacturing and services expansion

Recent numbers point to growth in activity

Brazil leads in manufacturing

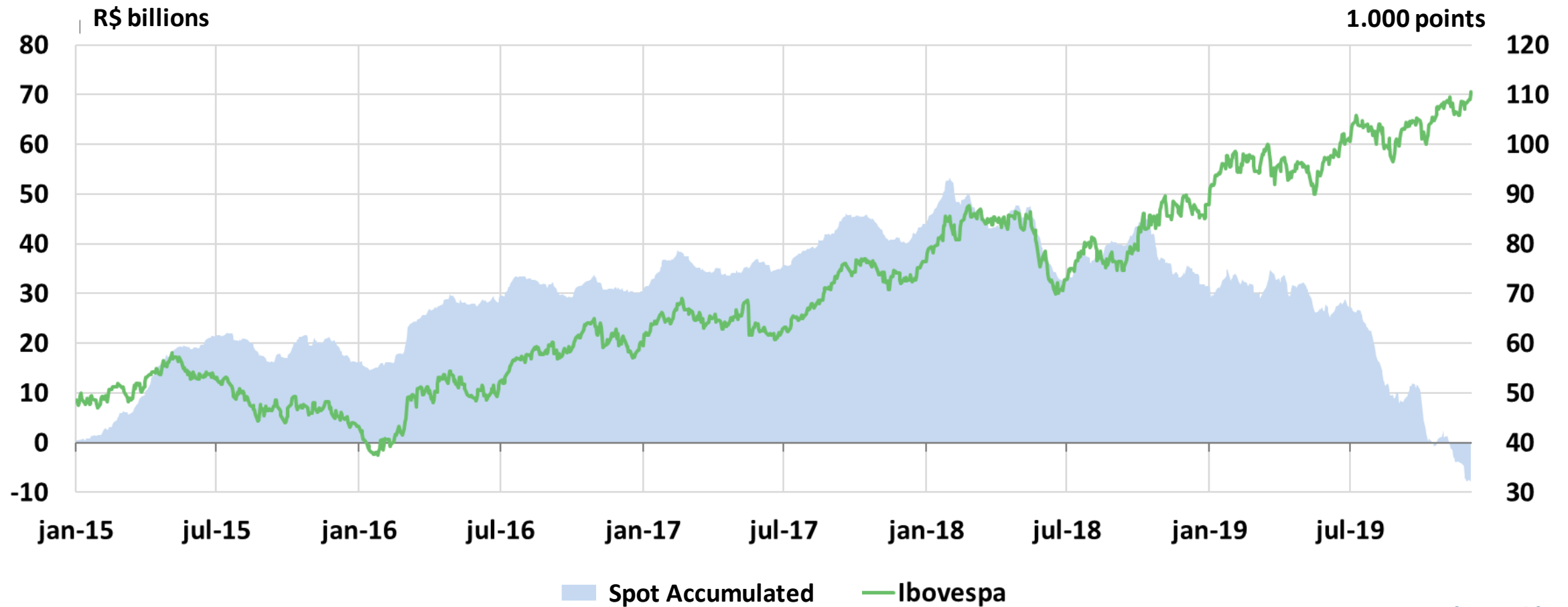


# Accumulated flows vs Ibovespa

Foreign Investors

Macroeconomic Outlook

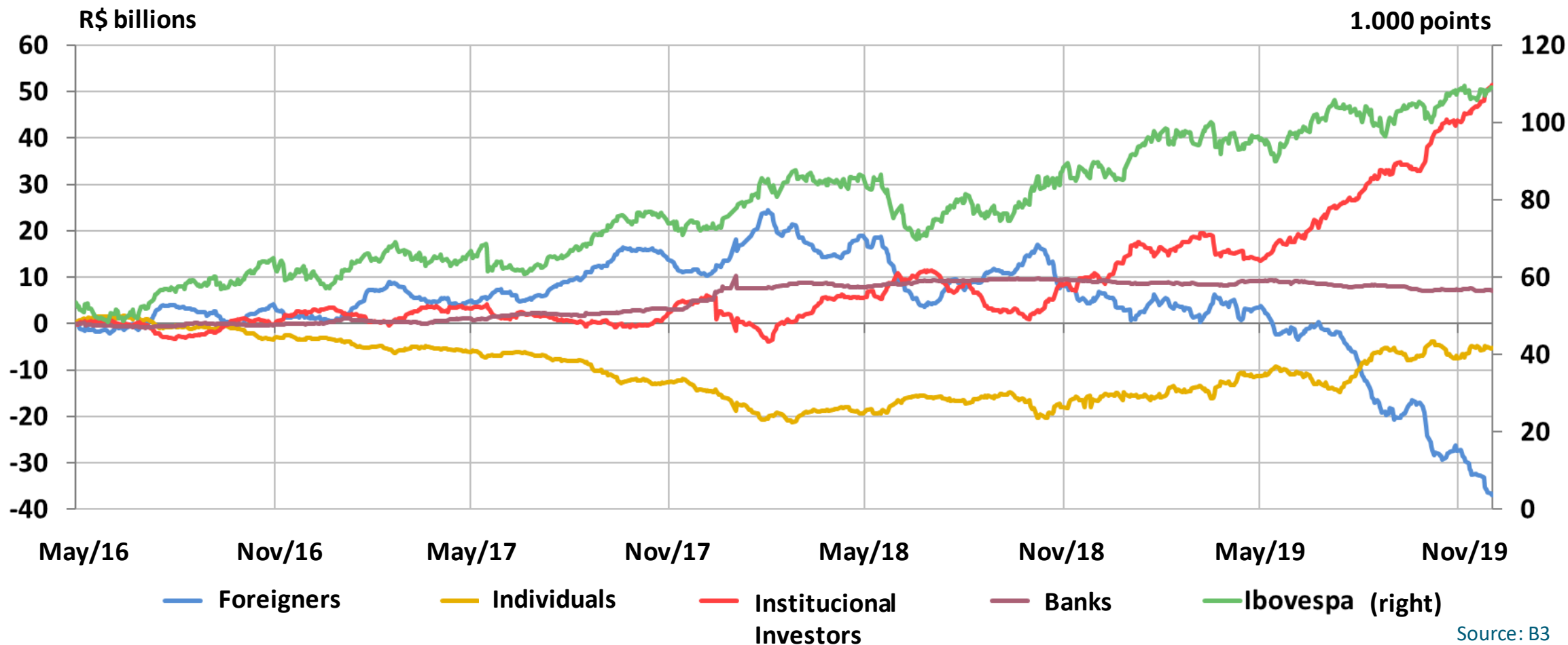
Brazilian Economy



Source: B3

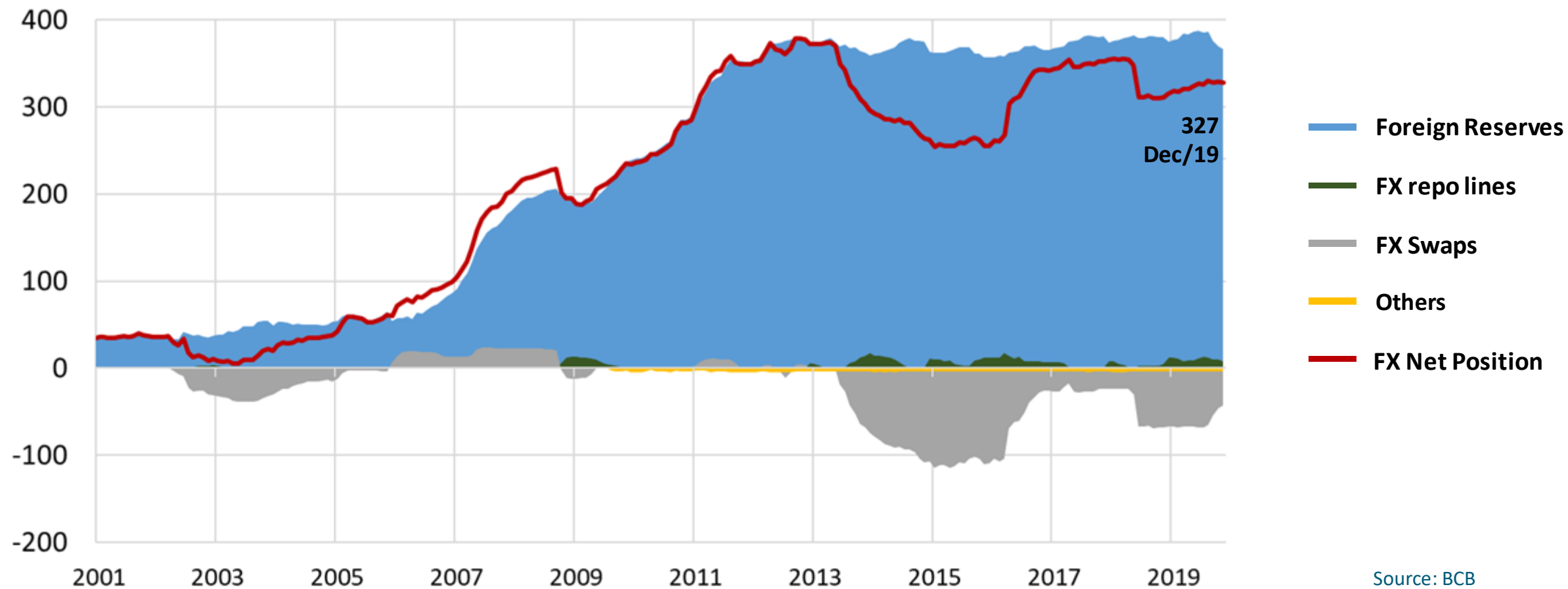
# Local equity market vs Ibovespa

Accumulated flows by investors type



Source: B3

# FX net position



Source: BCB

# Monetary policy

Improvement in the transmission channel increases the power of monetary policy

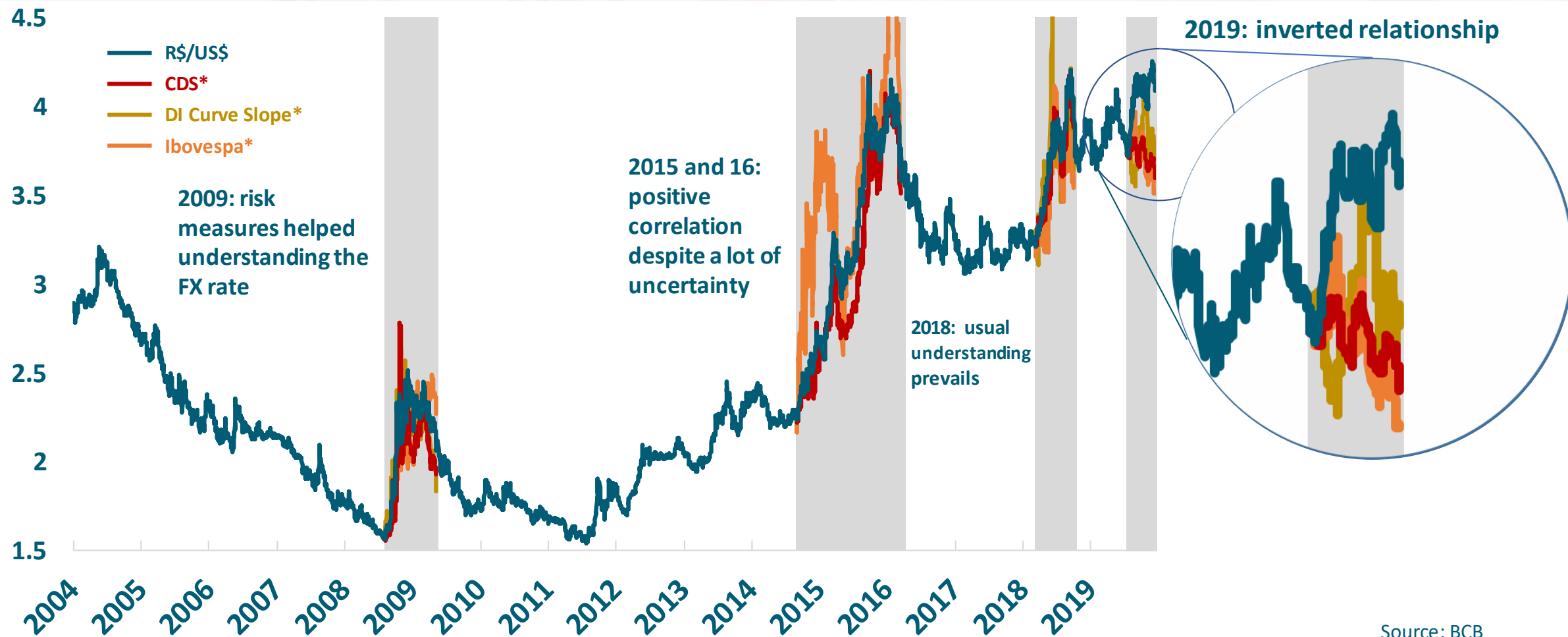




- Copom unanimously decided in its latest meeting to lower the Selic rate by 50 bps, to 4.50%.
- Economic conditions prescribe stimulative monetary policy, i.e., interest rates below the structural level.
- The current stage of the business cycle recommends caution in the conduct of monetary policy.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

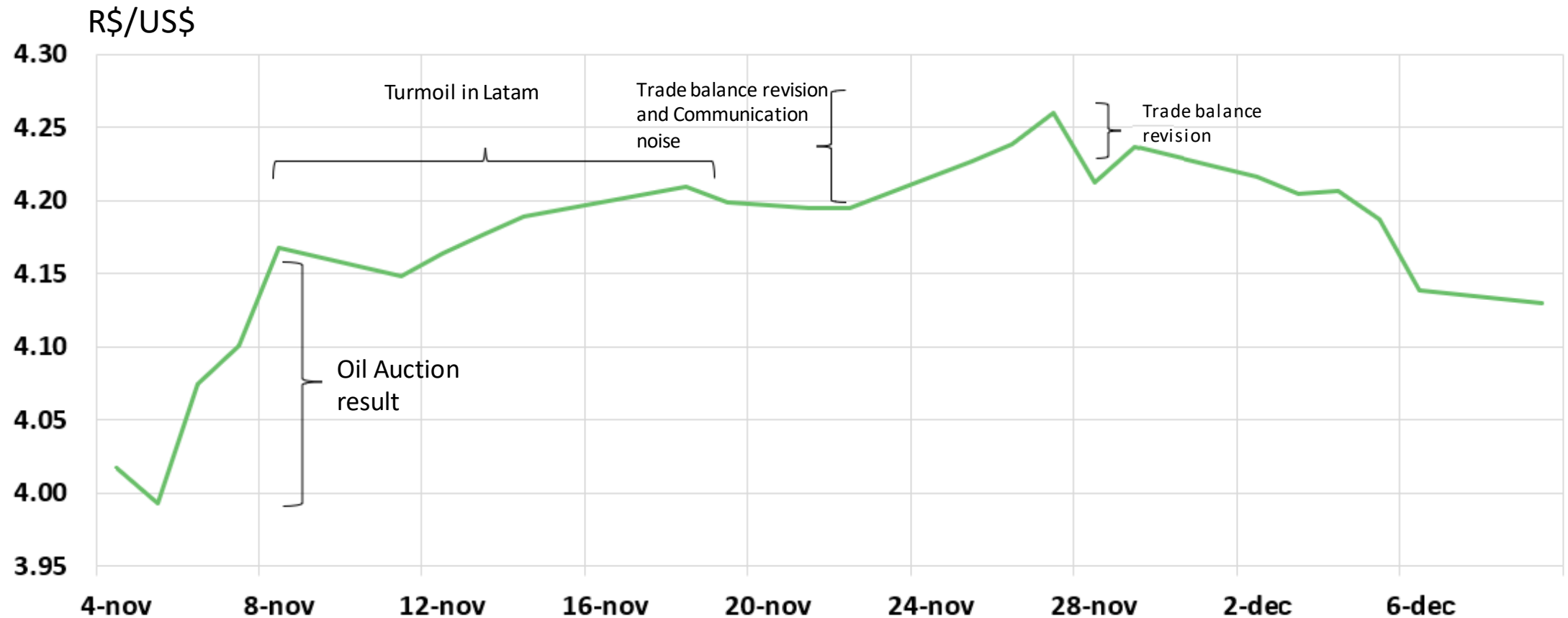
# FX rate and risk

This time is different



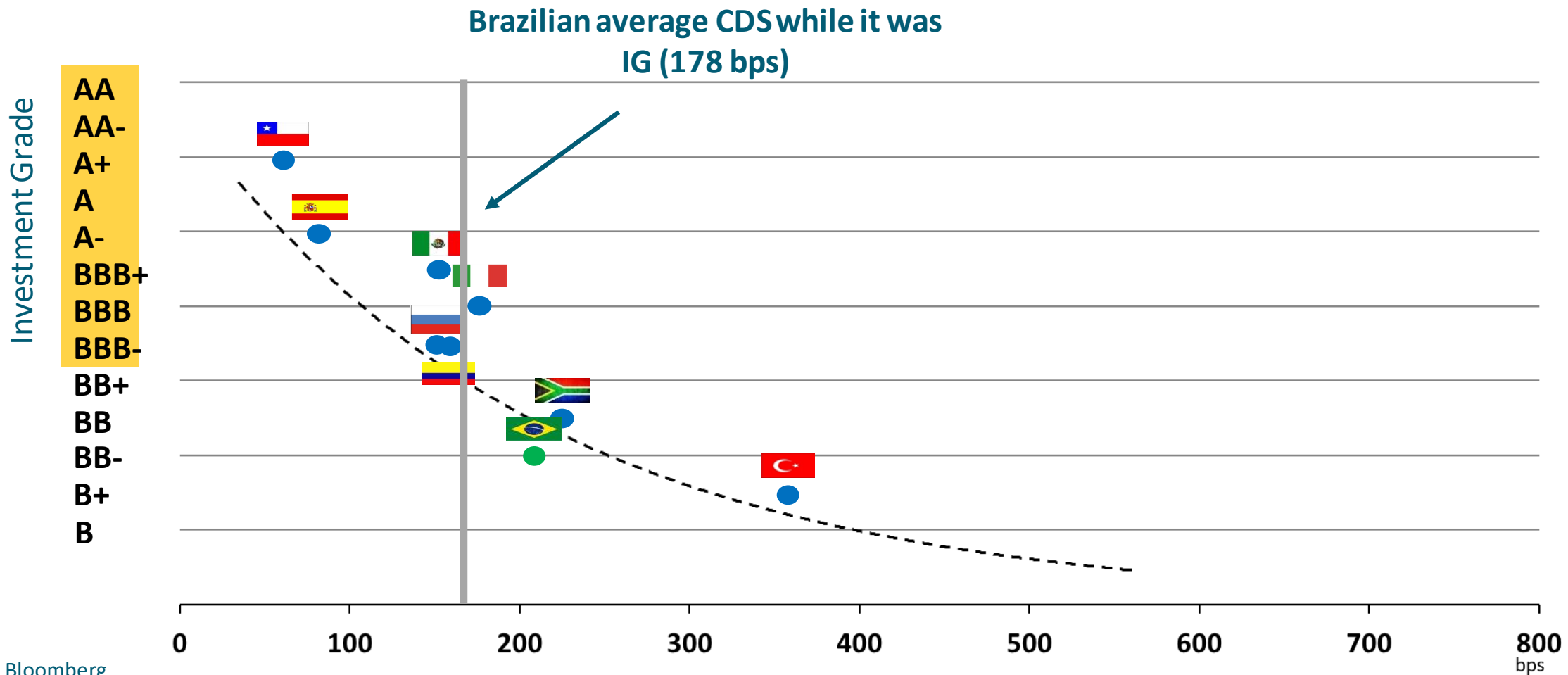
Source: BCB

# Recent events that affected the Real



Source: BCB

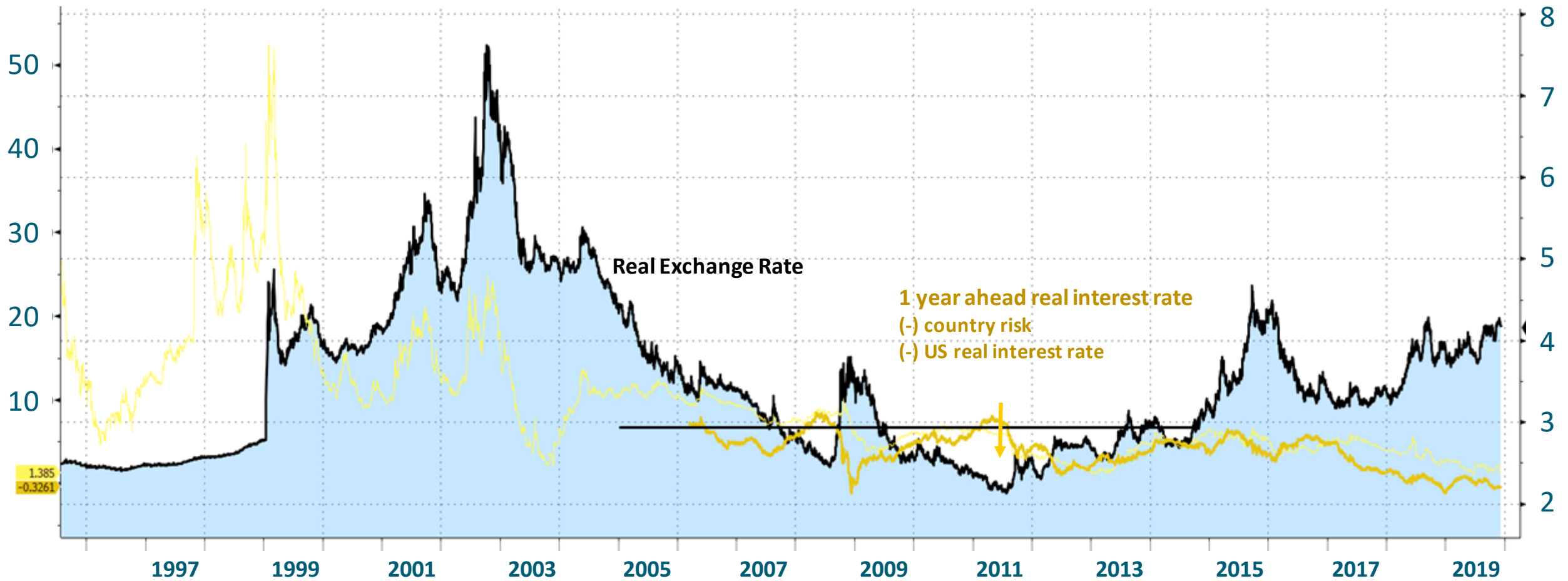
# CDS vs S&P rating



Source: Bloomberg

# Real exchange rate(BRL/USD)

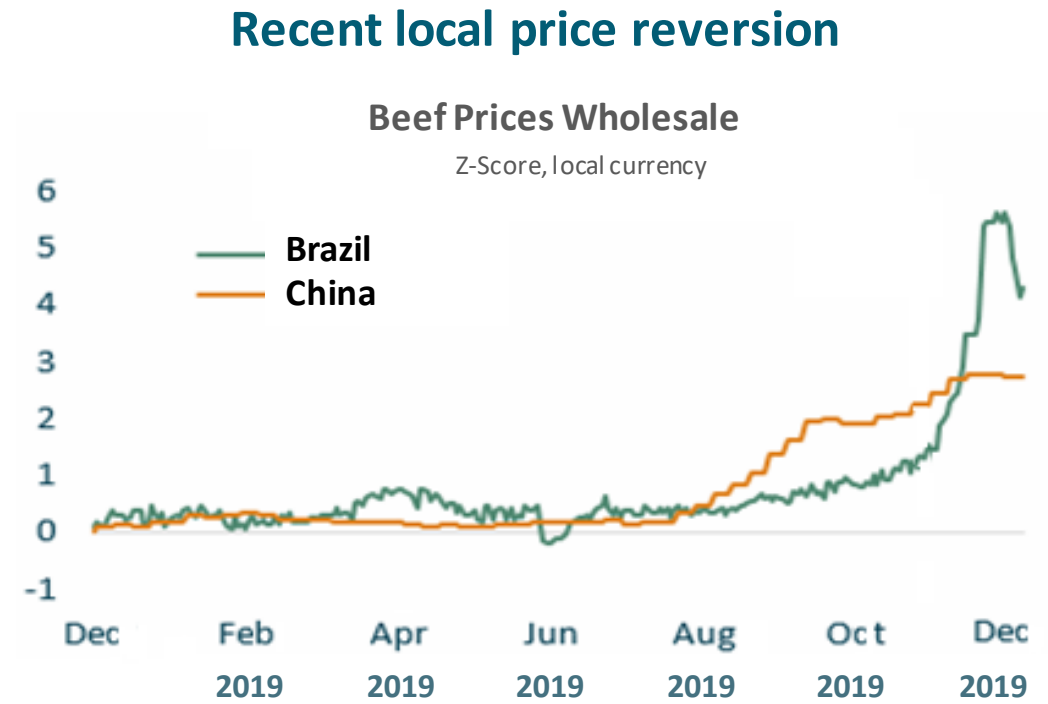
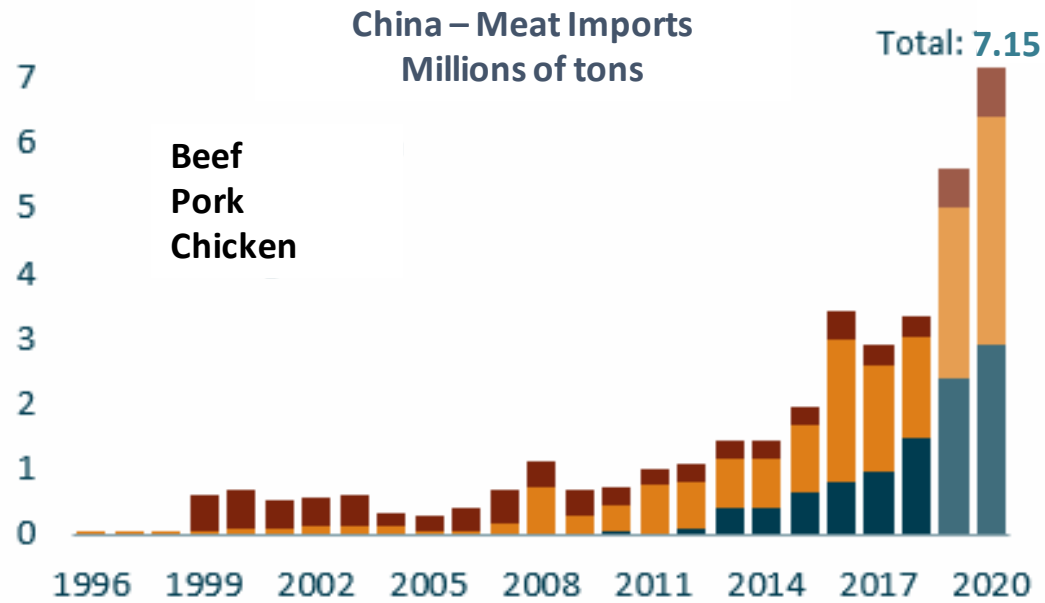
42% devaluation compared to 2005 - 2014



Source: Bloomberg

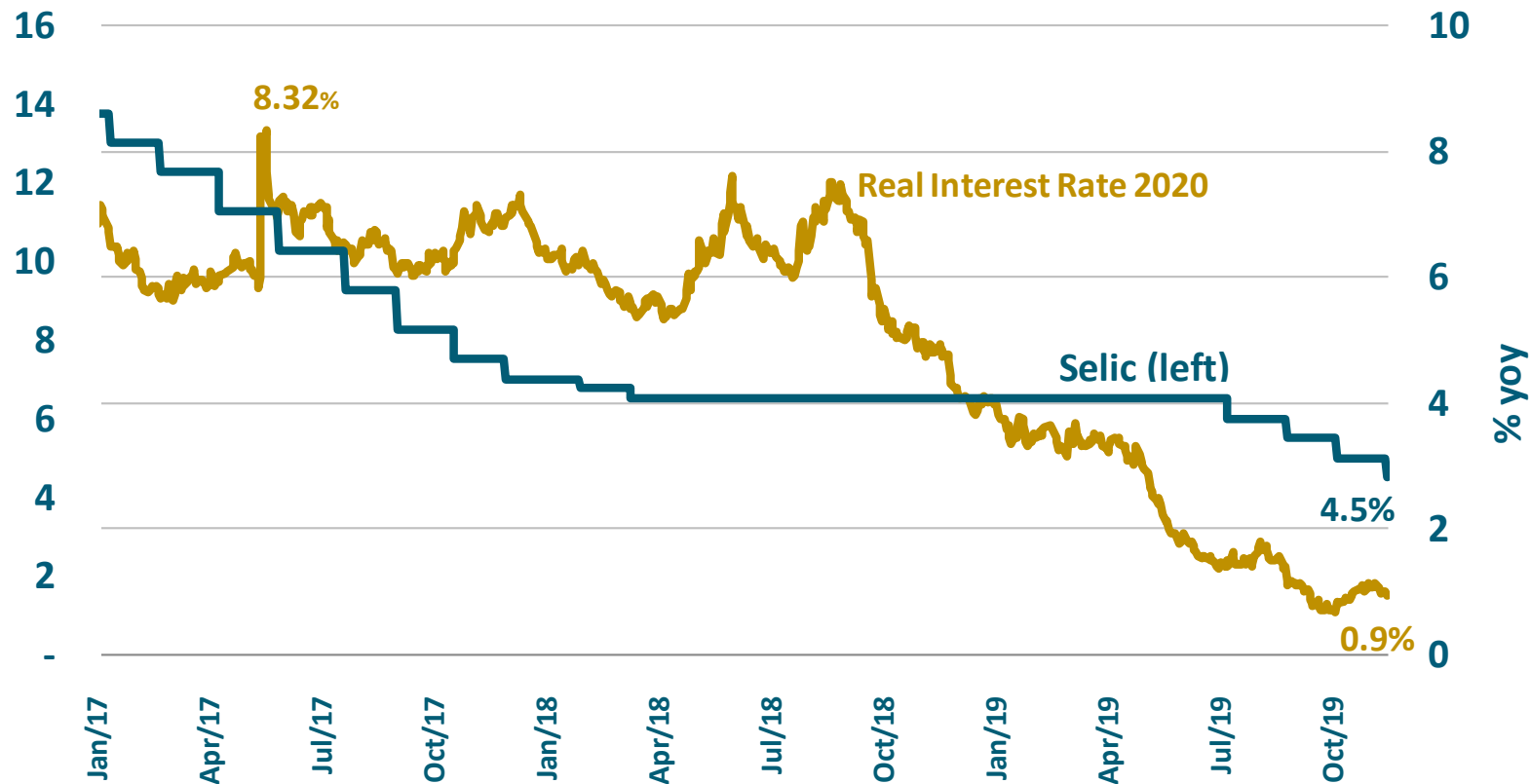
# Impact of meat on prices

Impact on IPCA of 2019: 1.06 p.p.



Source: USDA oct/19, Bloomberg

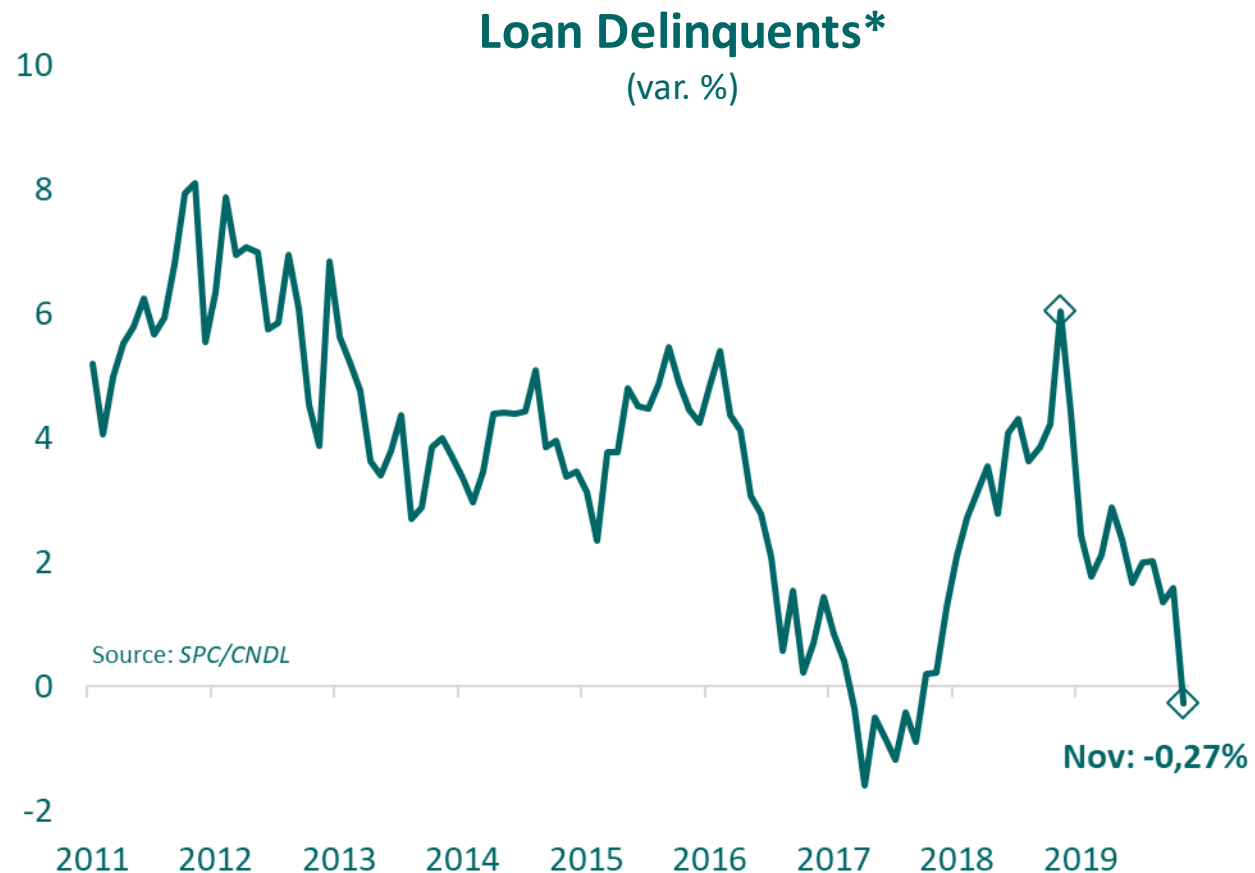
# Real interest rate – ex-ante



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



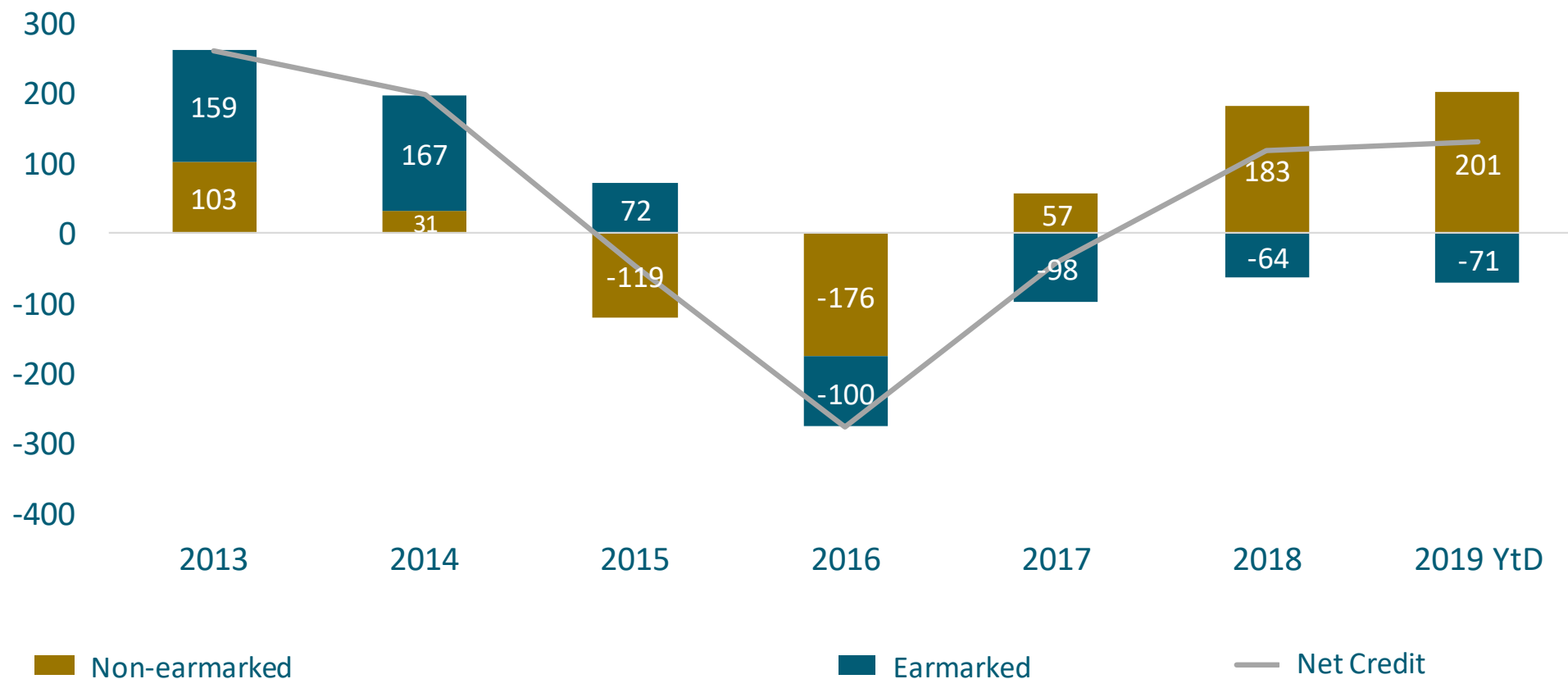
\* Compared to the same month in the previous year (%)



# Credit market recovery

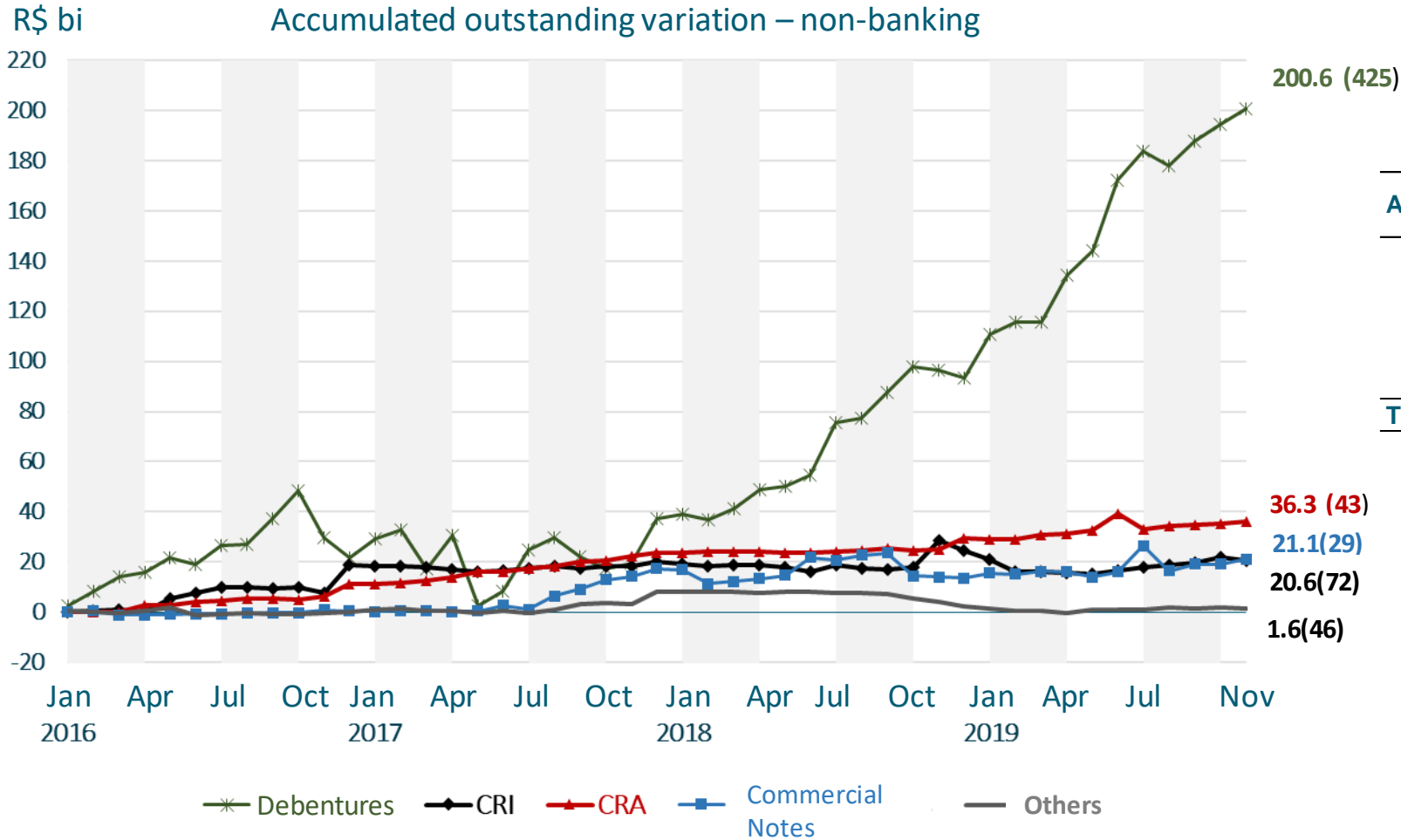
Earmarked and non-earmarked markets: different behaviors

### 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
<b>Total</b>	<b>18.7</b>	<b>30.7</b>

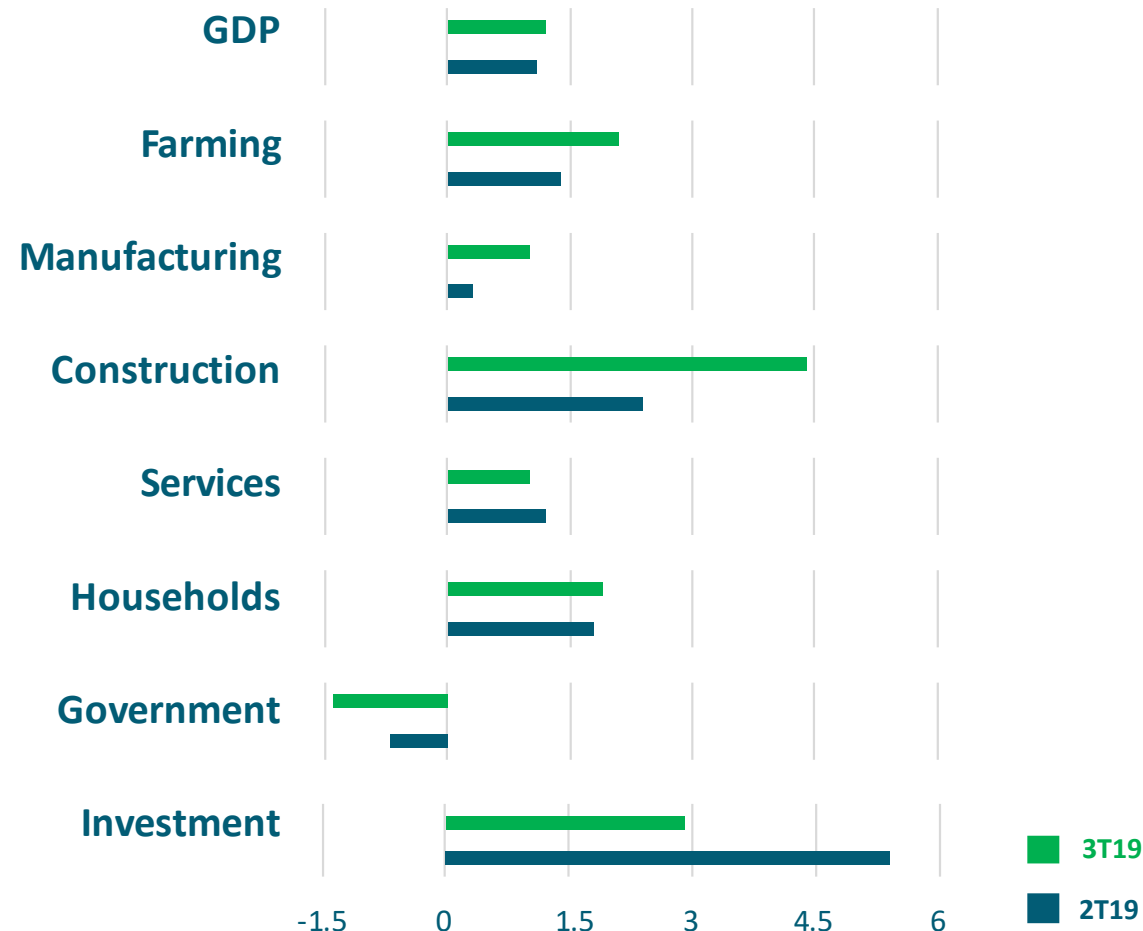
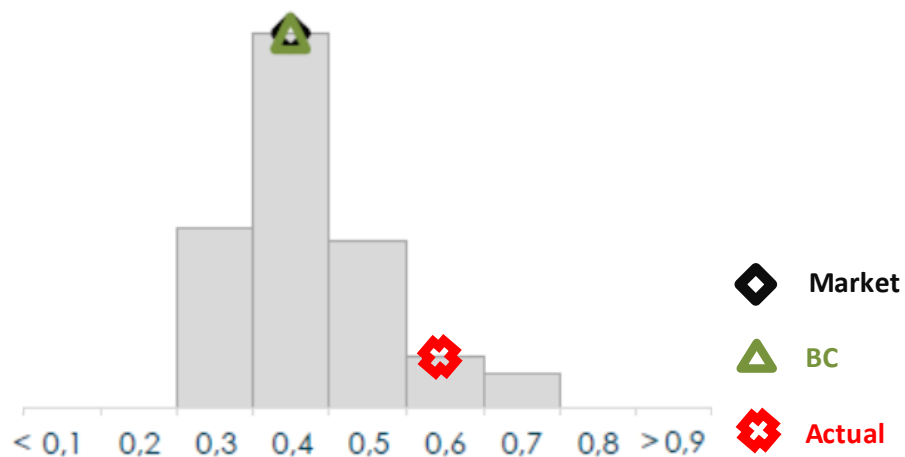
\*Real Estate Receivables Certificates (CRI)  
 \*\*Agri business Receivables Certificates (CRA)

# 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**



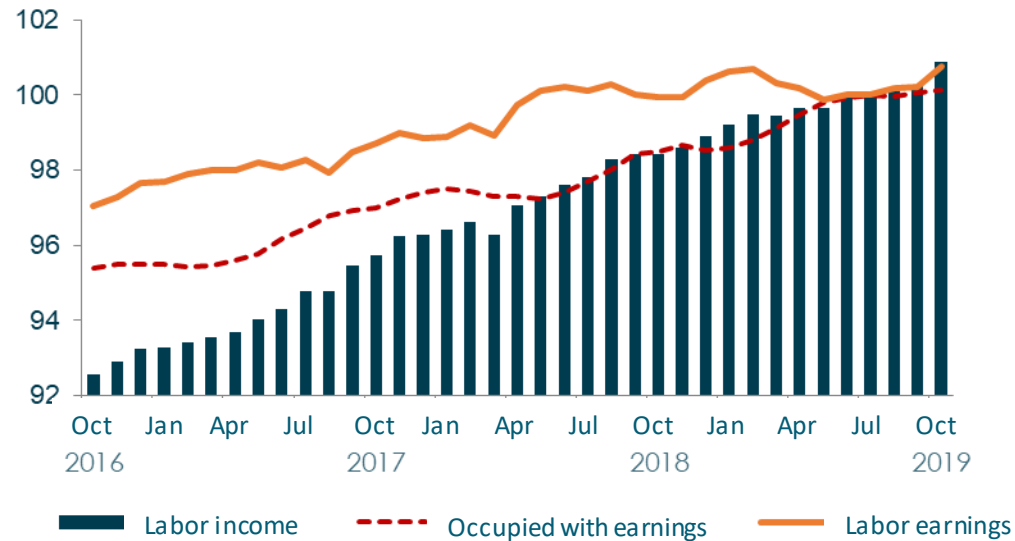
\* Compared to the same quarter of the previous year.

# Labor income and credit for households

Expansion of labor income and credit growth

## Real labor income

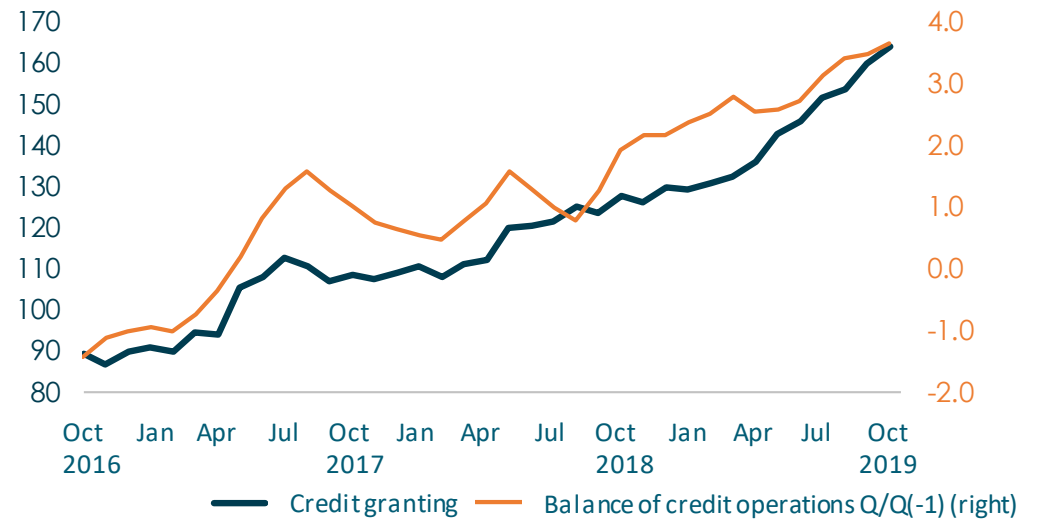
Seasonally adjusted, quarter Q-1 = 100



## Credit granting and balance (households) – ex revolving credit

Credit granting – quarterly (R\$ bi)

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



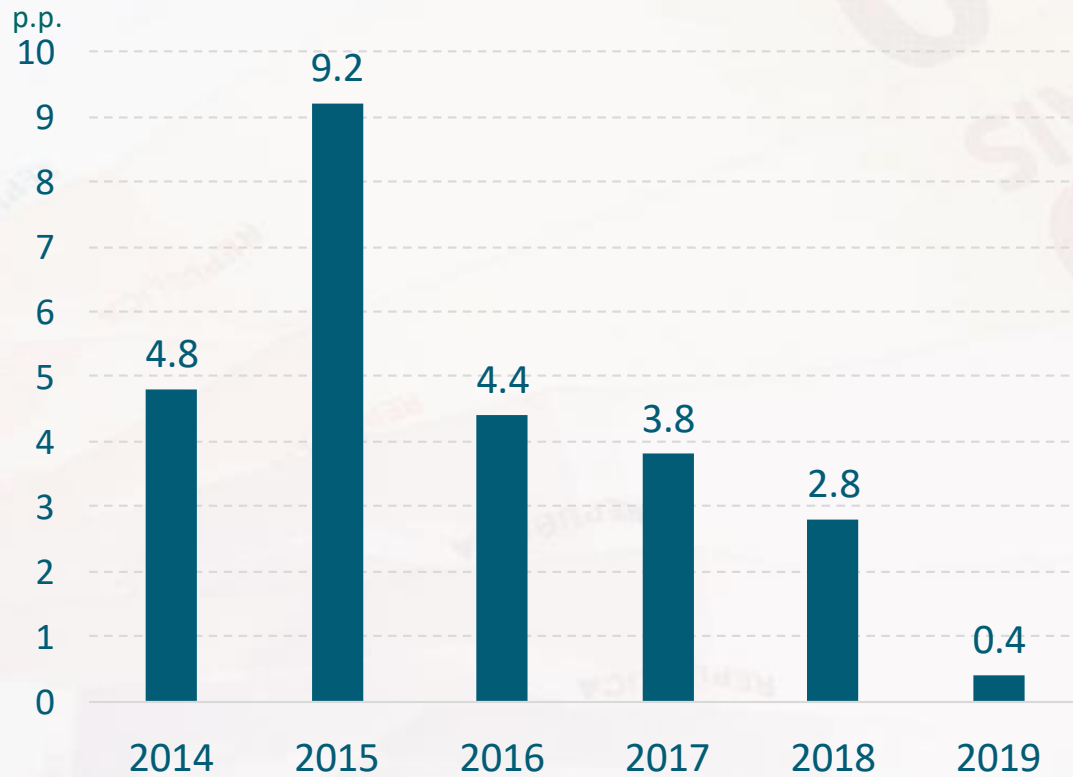
# Improvement in the fiscal balance

General Government Gross Debt

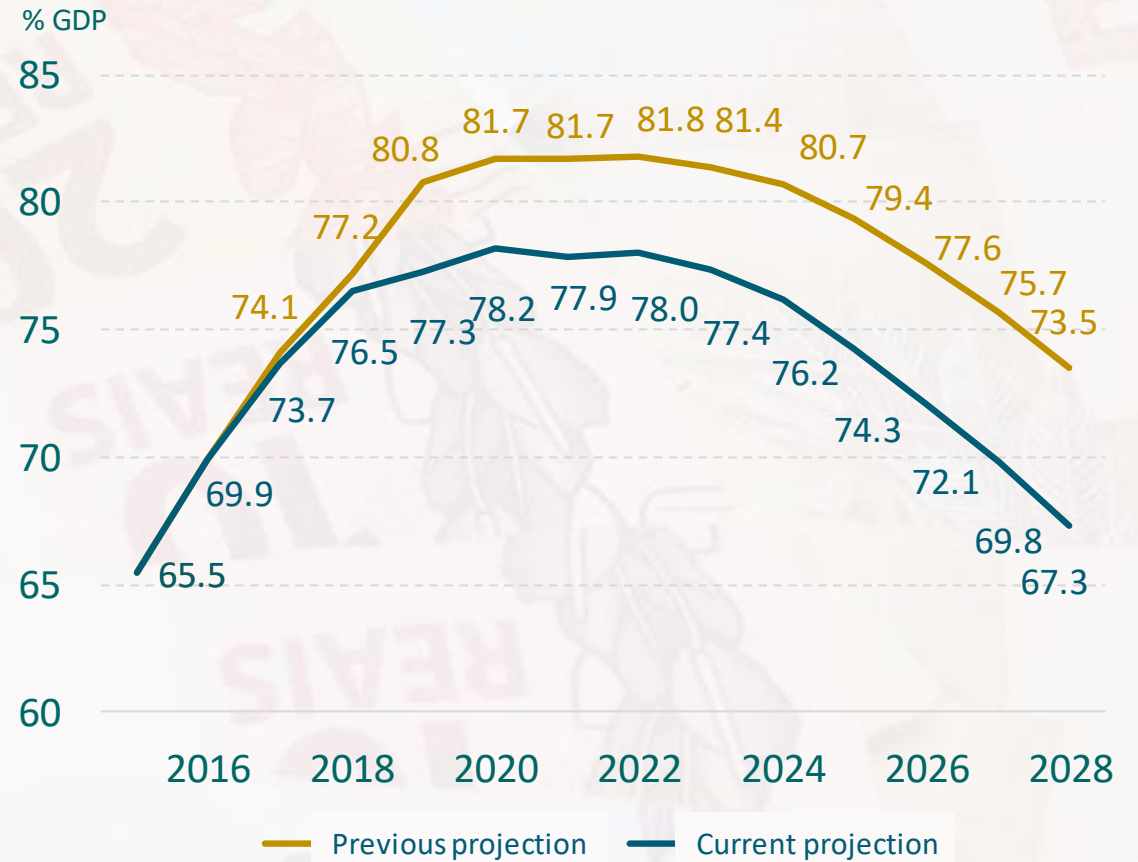
Macroeconomic Outlook

Brazilian Economy

### Debt growth



### Debt projections



Source: STN



**INCLUSION**



**COMPETITIVINESS**



**BC**



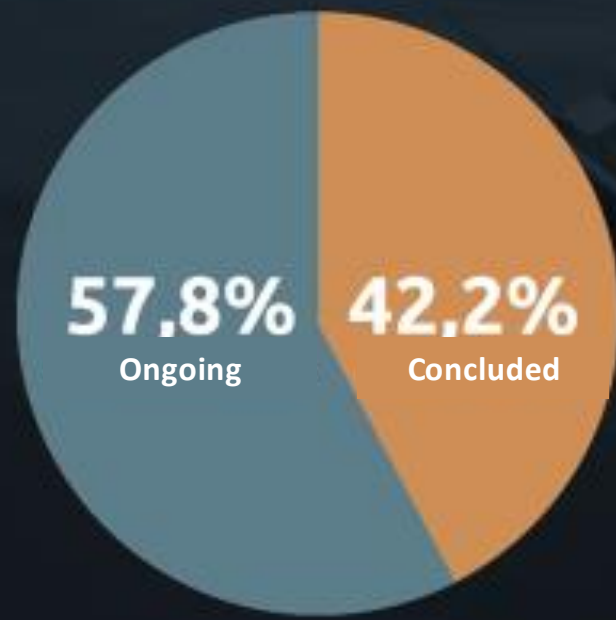
**TRANSPARENCY**



**EDUCATION**



**2019**



**275**  
**Actions**

# INCLUSION

# COMPETITIVENESS

# TRANSPARENCY

# EDUCATION

COOPERATIVE CREDIT



MICROCREDIT



CURRENCY CONVERTIBILITY



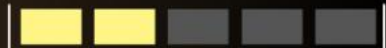
INITIATIVES FOR CAPITAL MARKET (IMK)



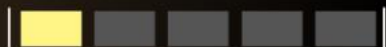
INNOVATION



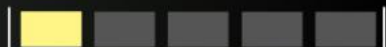
MARKET EFFICIENCY



INTERNATIONAL RESERVES



RURAL CREDIT



HOUSING CREDIT



RELATIONSHIP WITH CONGRESS



TRANSPARANCY OF MONETARY POLICY



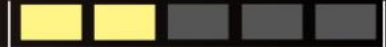
COMMUNICATION OF BCB ACTIONS



RELATIONSHIP WITH FOREIGN INVESTORS



FINANCIAL EDUCATION





A satellite is shown in space, orbiting Earth. The satellite is a small, rectangular cube with several solar panels and antennas. The Earth's surface is visible below, showing clouds and landmasses. The background is a dark, starry space.

# AGENDA BC# HIGHLIGHTS FOR 2020

## Agenda BC# – Instant payments

*Availability*

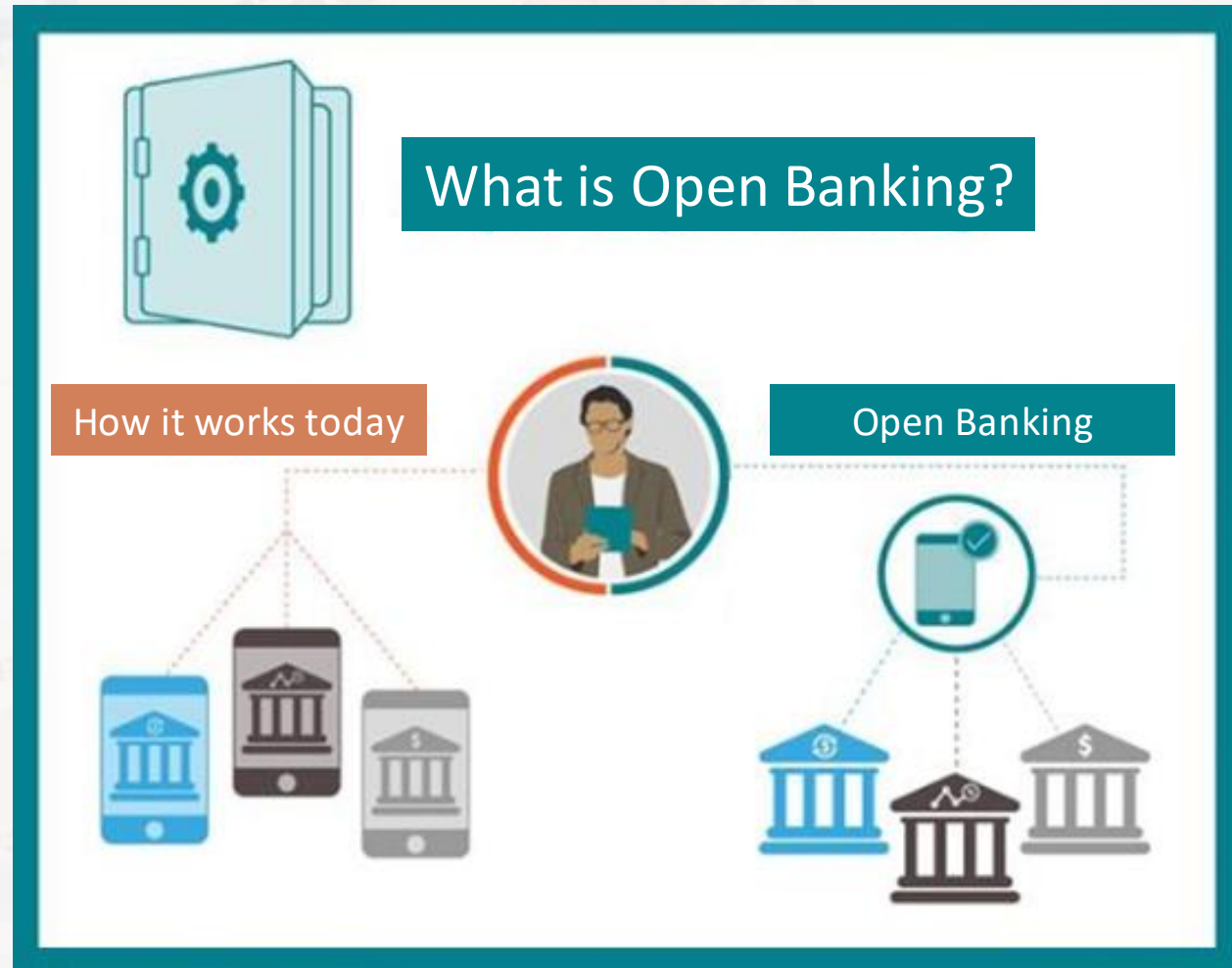
*Speed*

*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

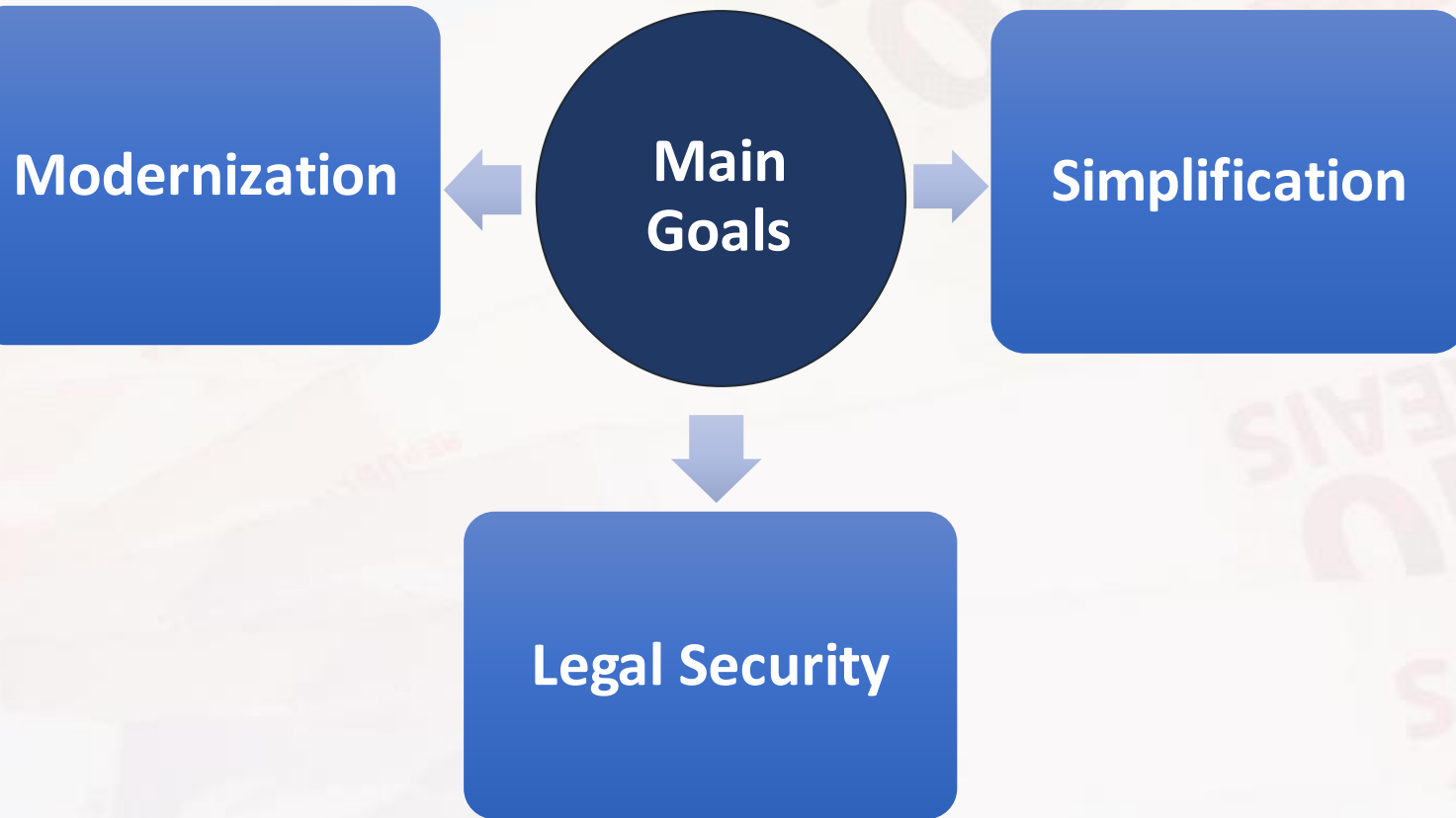
Public and private securities as collateral

Lower reserve requirement need

Space for the local capital market to grow

# Agenda BC# – FX Simplification

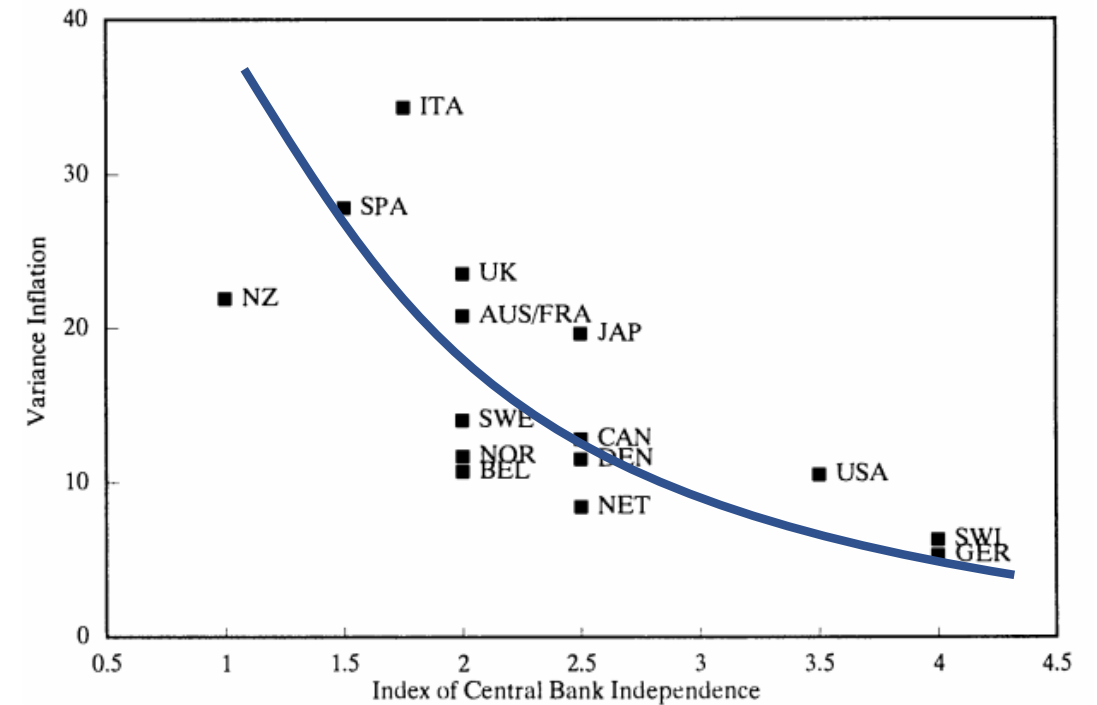
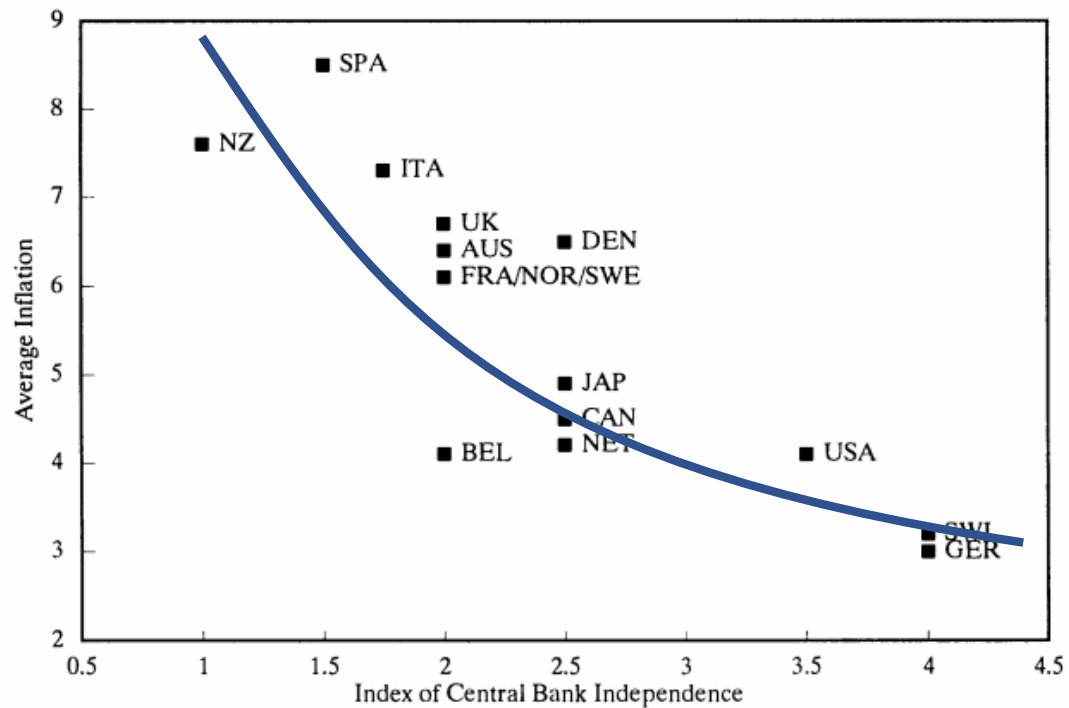
Highlights for 2020



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

Alignment to international best practices

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





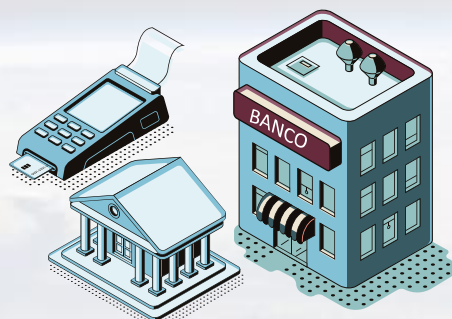
**# WHAT WE WANT TO  
ACHIEVE**

## 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





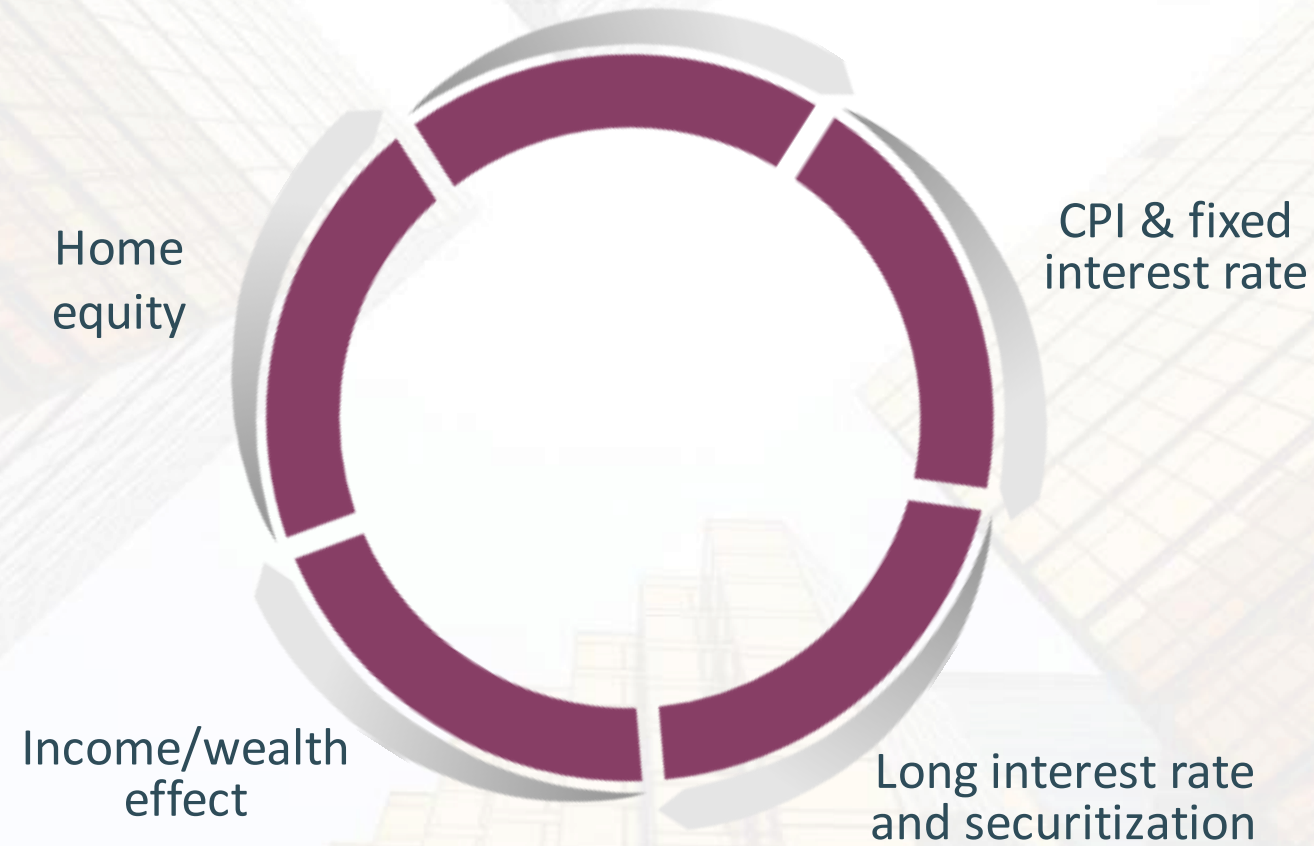


# # HOUSING MARKET

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

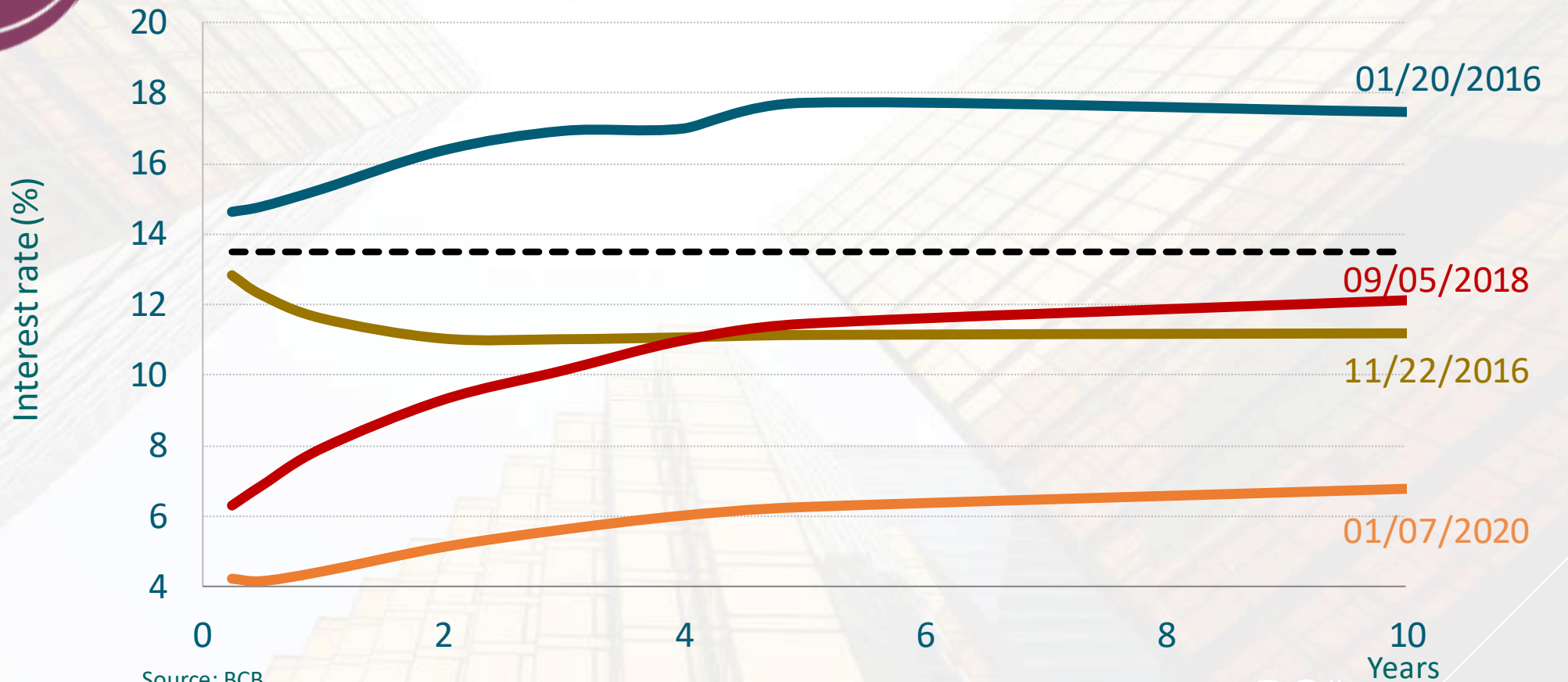
## Use of CPI to index real estate financing contracts

- # 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



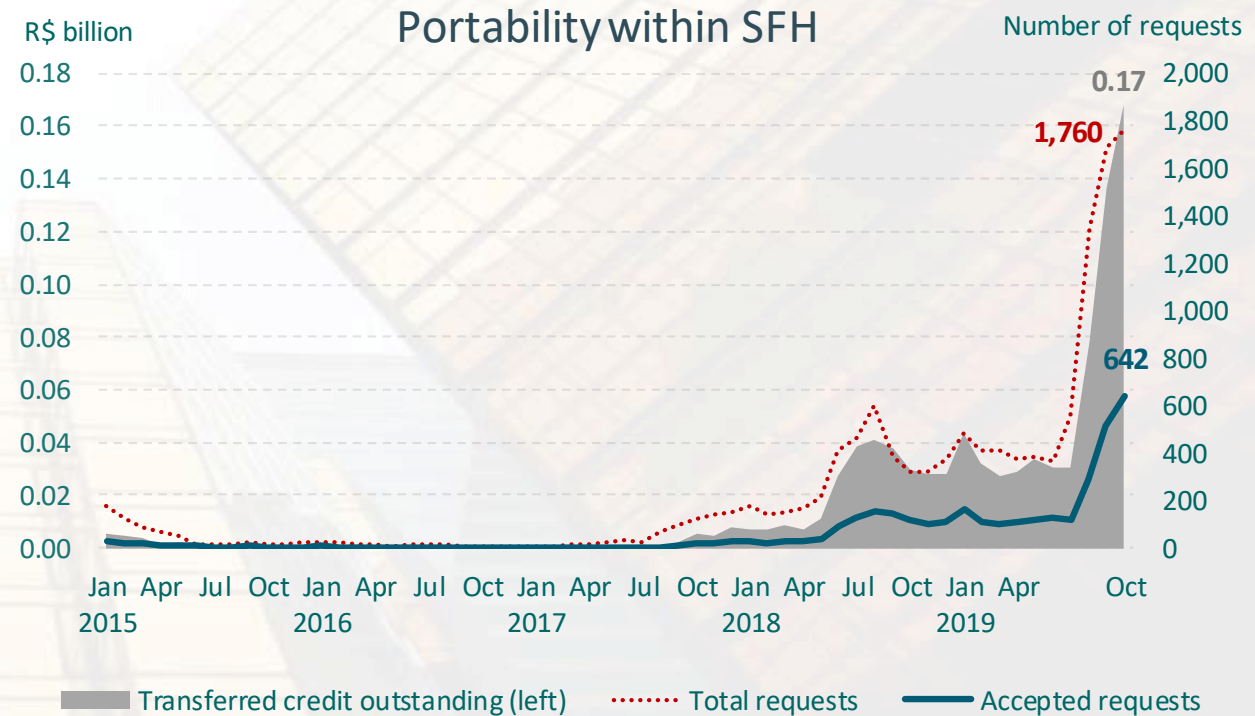
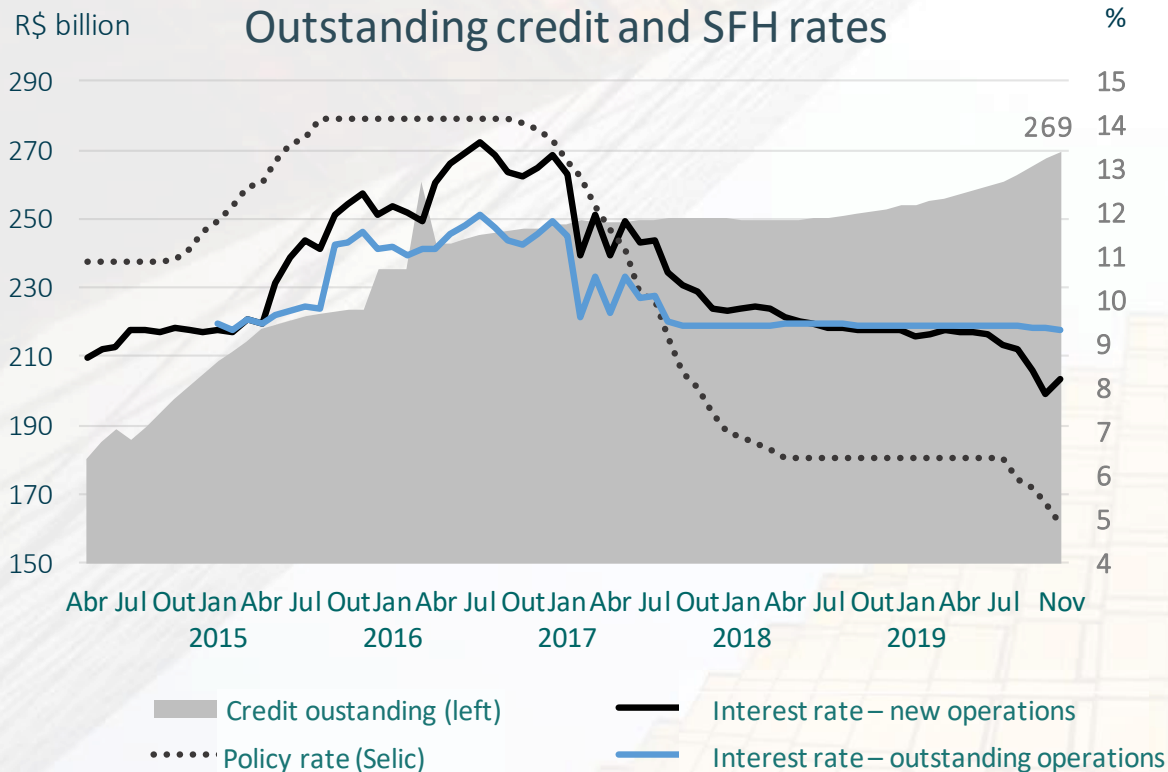
Income/wealth effect

## 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

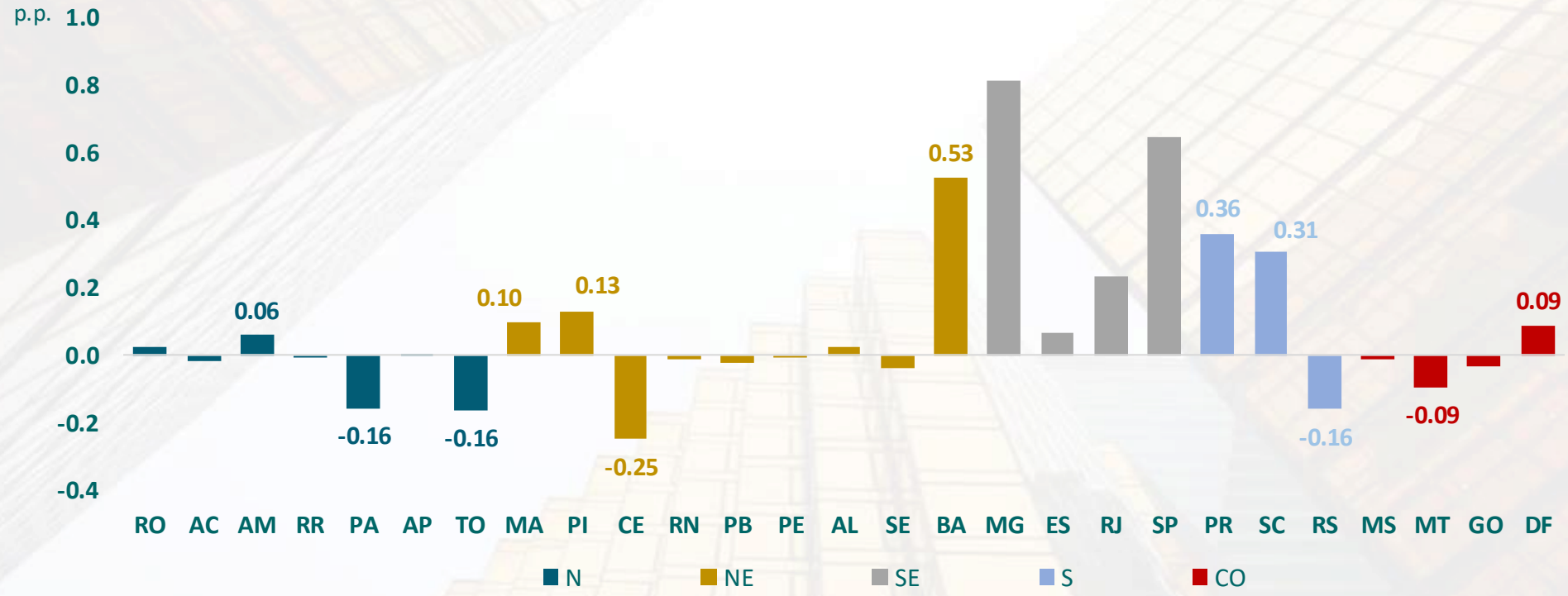
## Housing market

- # 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

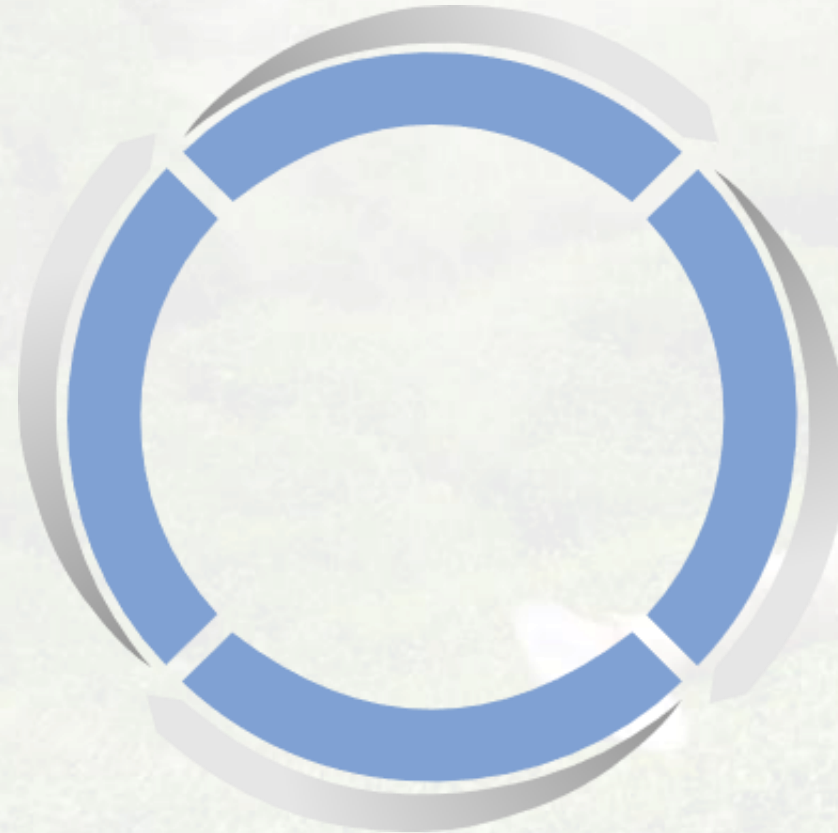
# Cooperative credit

Credit unions

Better resources allocation

New funding

Governance





New funding

Main channels

Cooperative credit

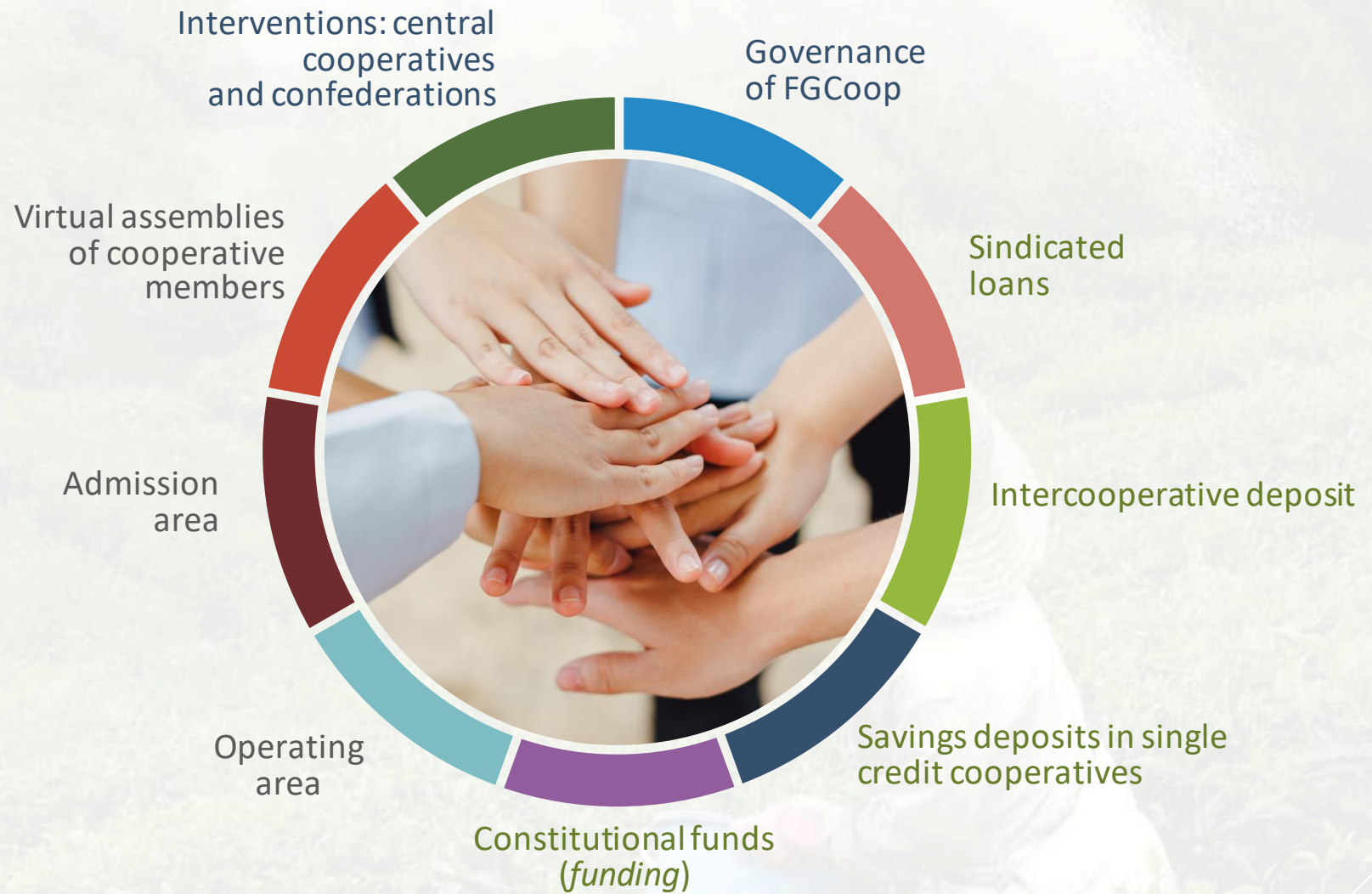
### **New instruments**

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



Governance

# Main channels Cooperative credit



Better resources allocation

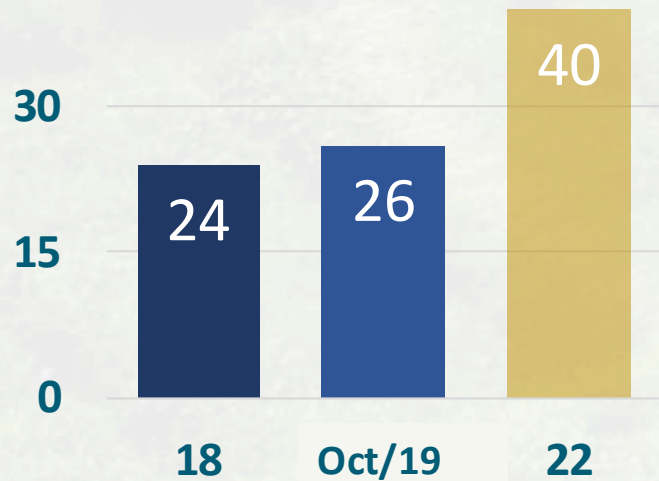


Main channels

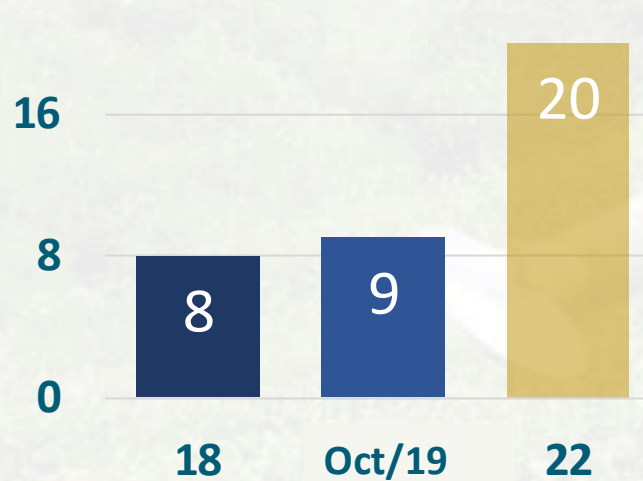
Cooperative credit

Higher share (%)

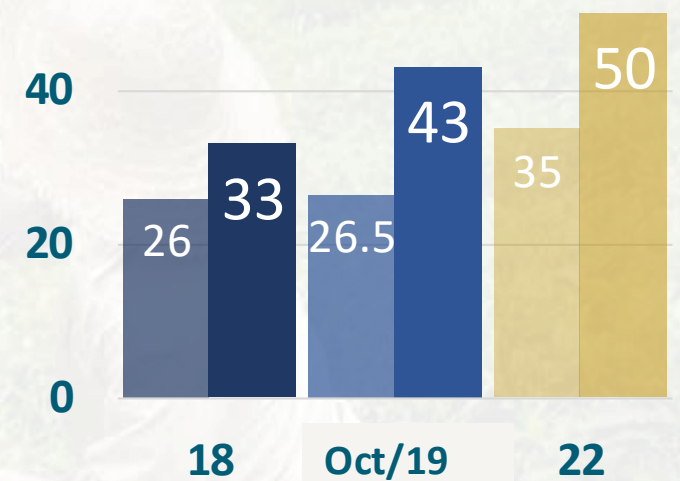
Cooperative members in the SNCC



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



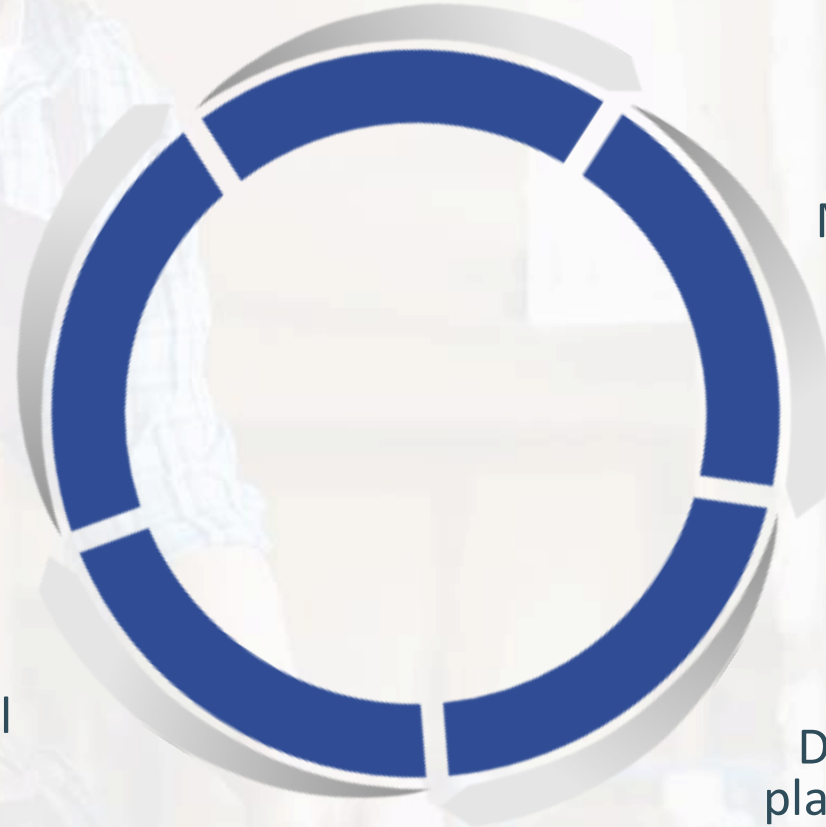
# # MICROCREDIT

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 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

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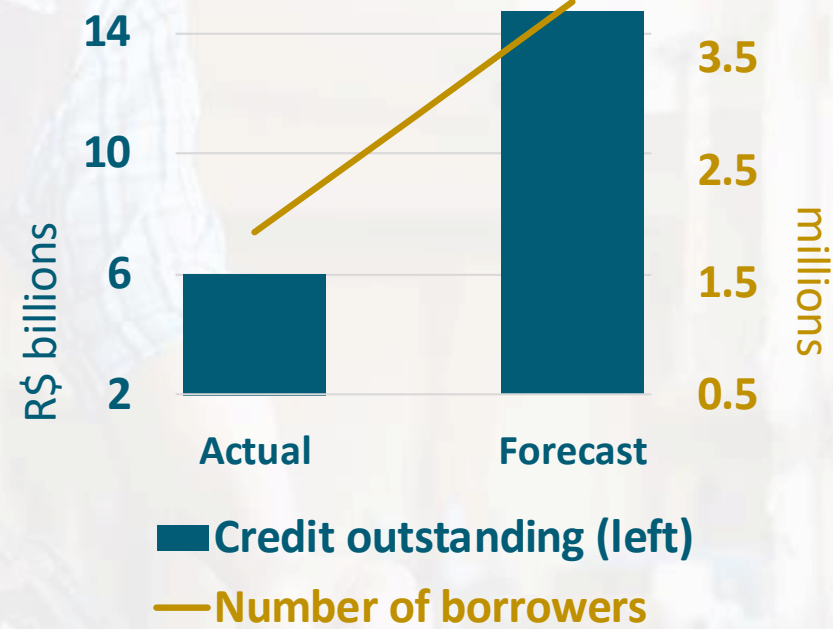
Segment dynamism

**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

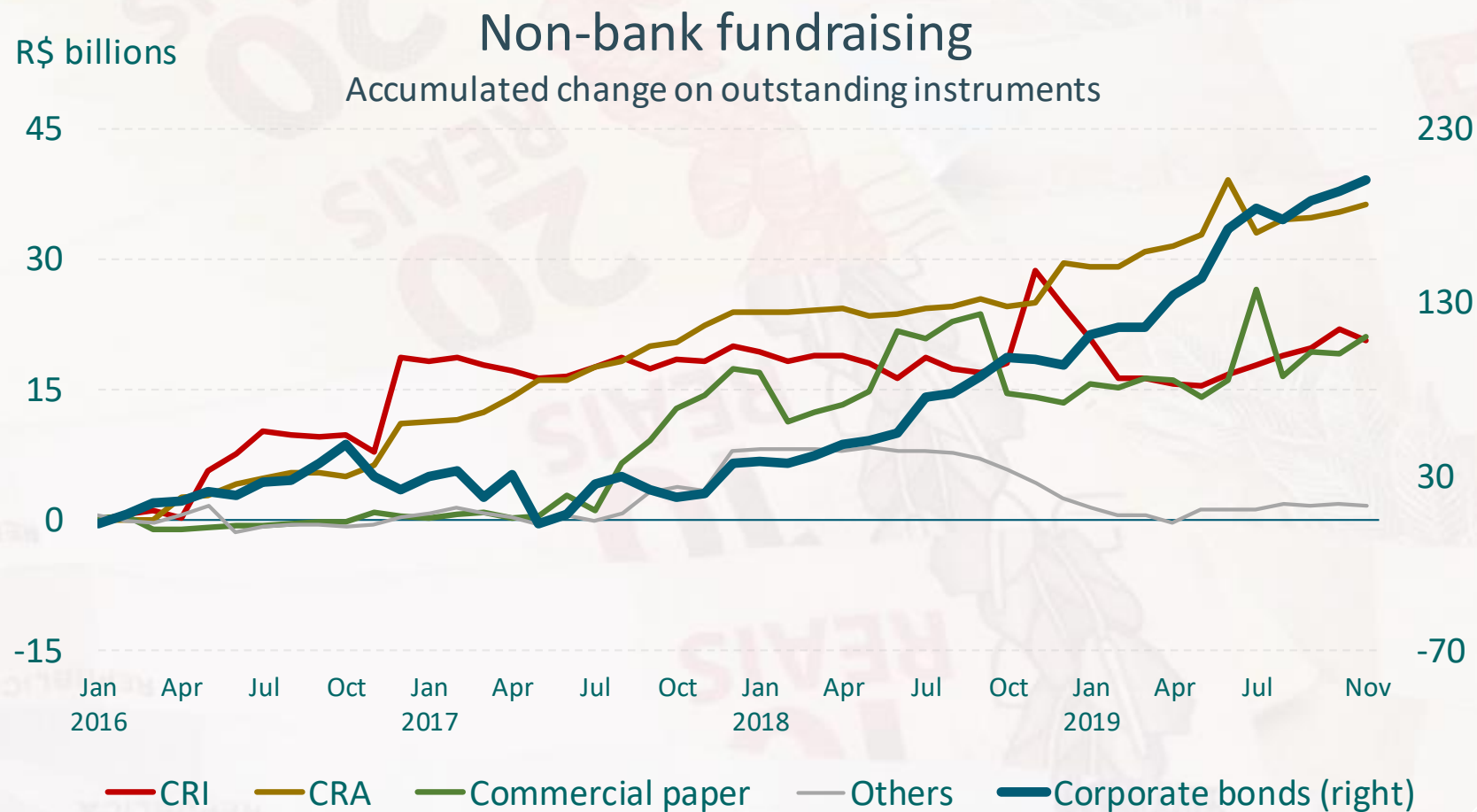




Lower fundraising premiums  
Lower issuance costs

**High potential**  
Recent changes have fueled  
growth on this market

Main channels  
**Private debt**



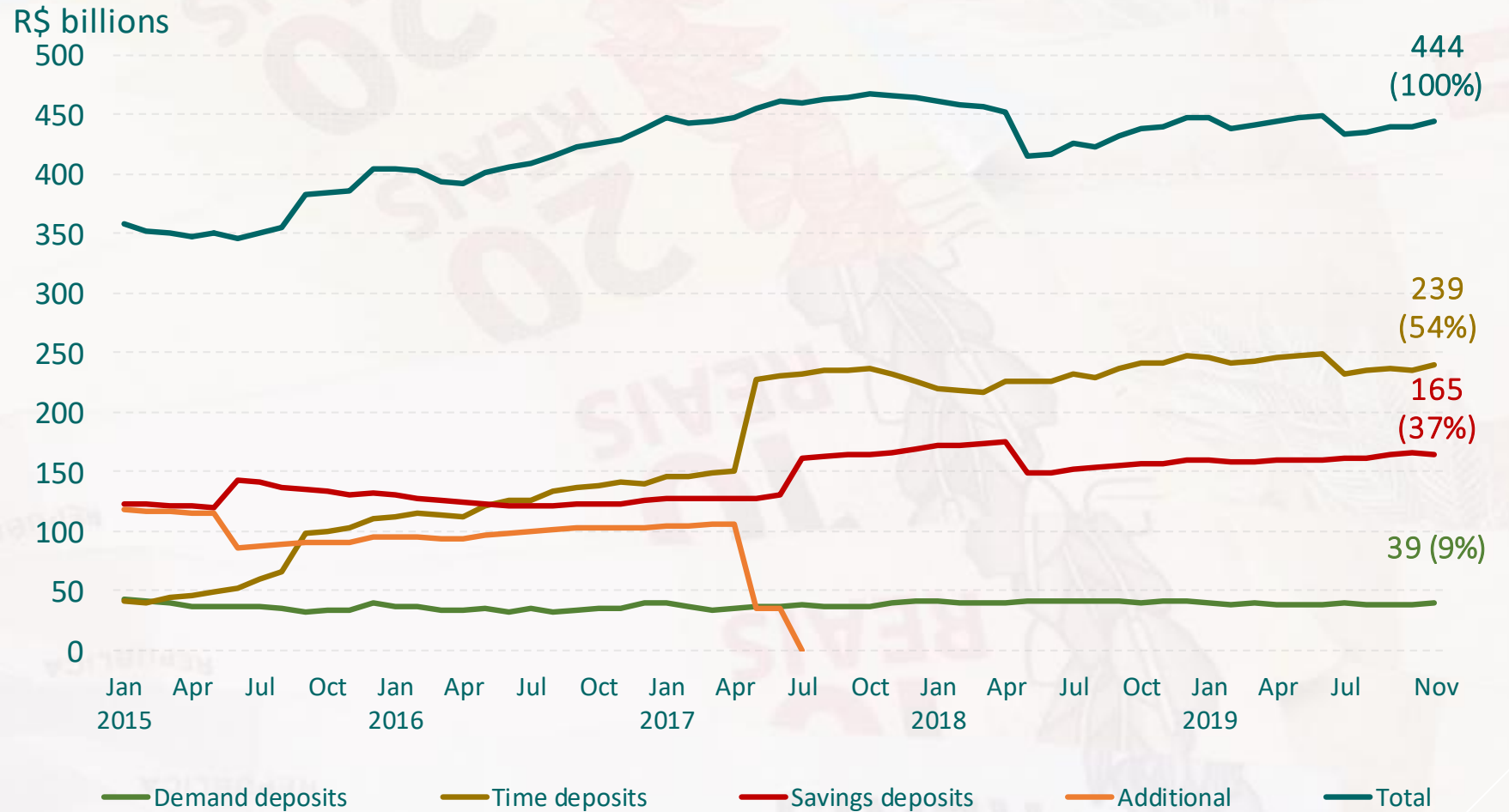
Reduction of the need for liquidity



Main channels

Private debt

## Reserve requirements



Private debt

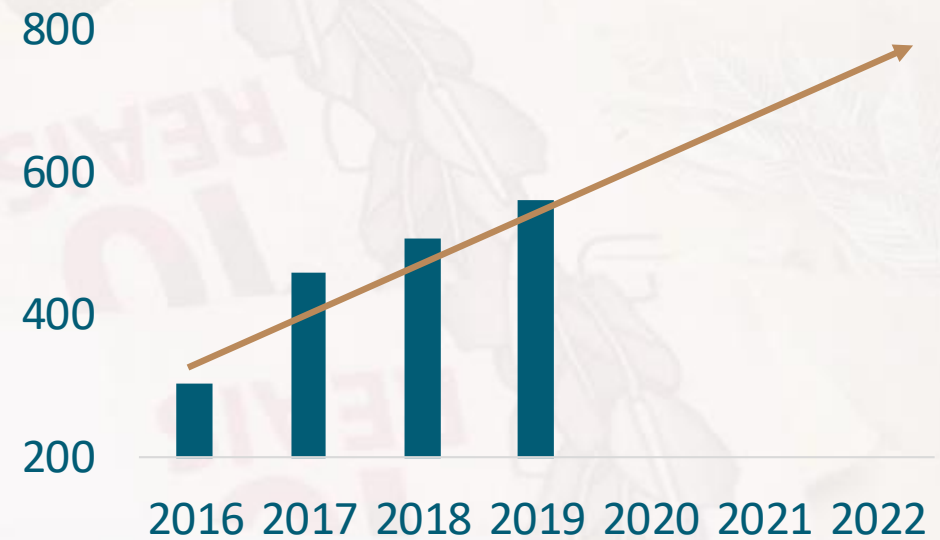


- More** funds in the market
- Better** pricing
- Better** resource allocation
- Lower** fundraising costs for businesses

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

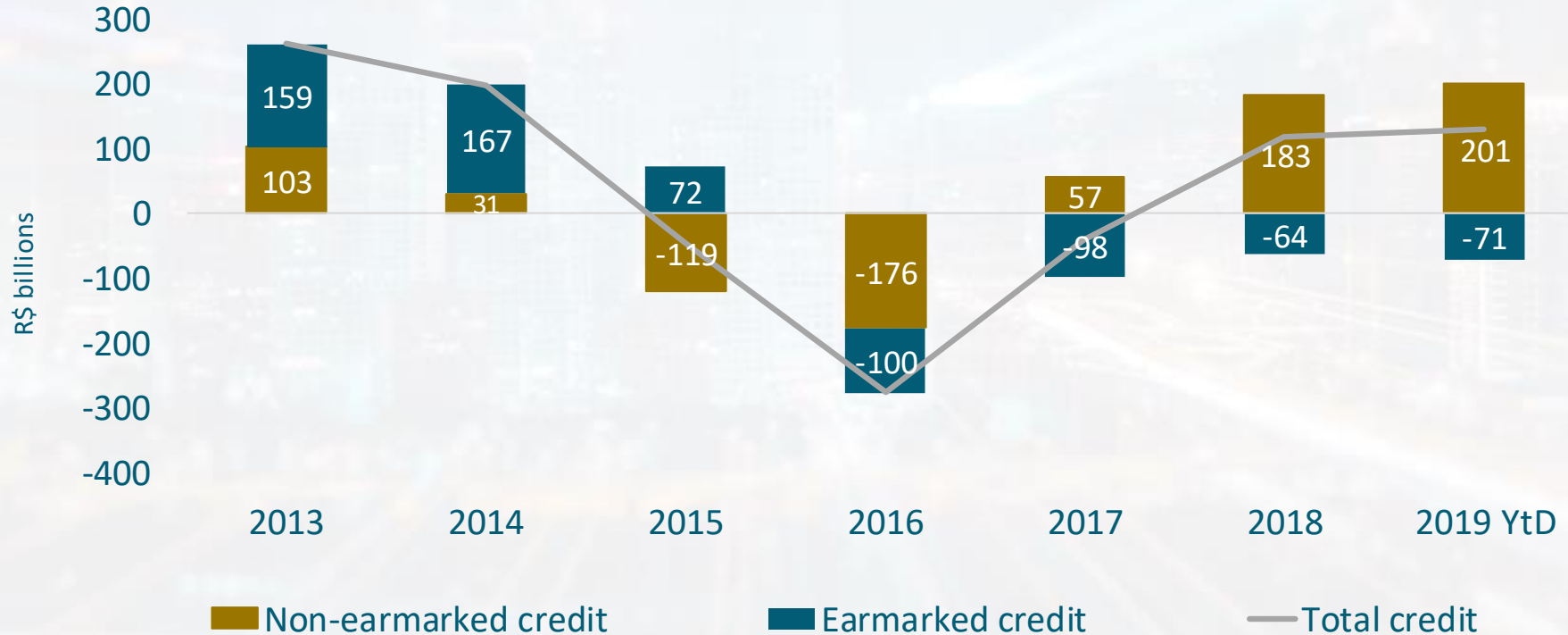


Reinvention of markets  
with private money

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

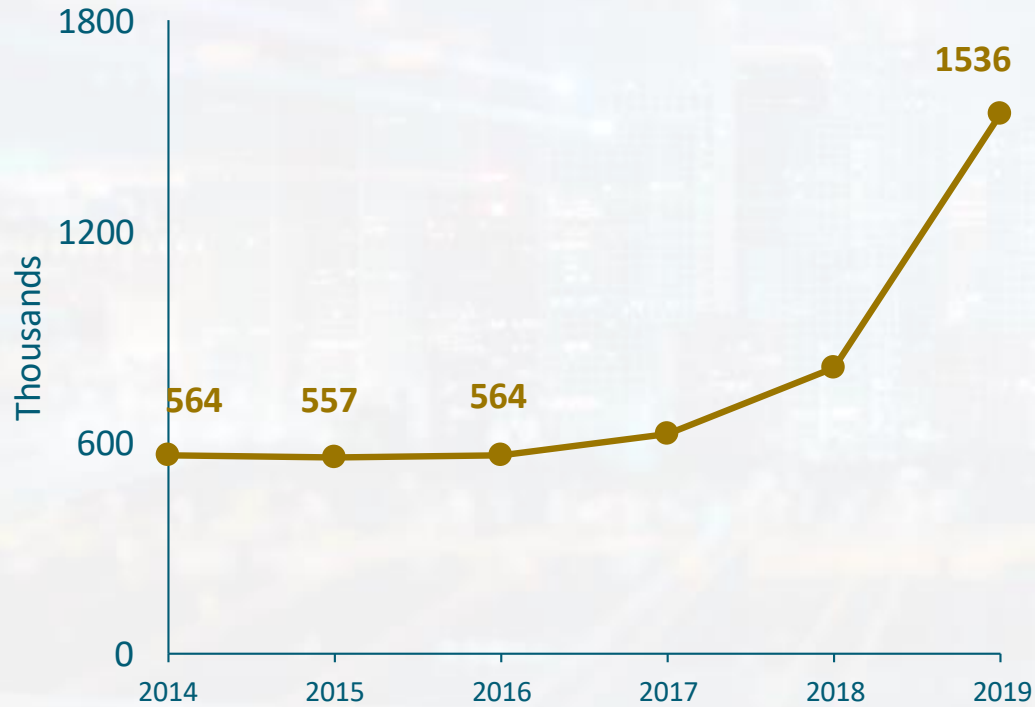


Main channels

Capital Markets

Broader participation

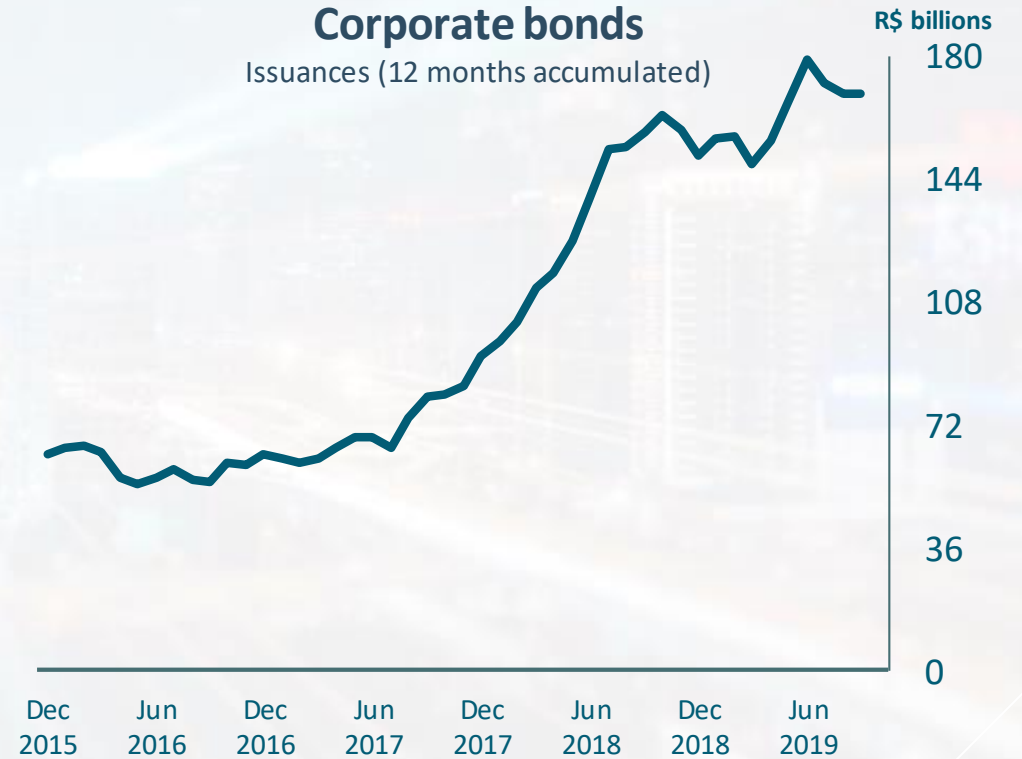
Individuals in the stock market



Number of individuals investing in the stock market

Corporate bonds

Issuances (12 months accumulated)



Source: BCB / B3



Main channels

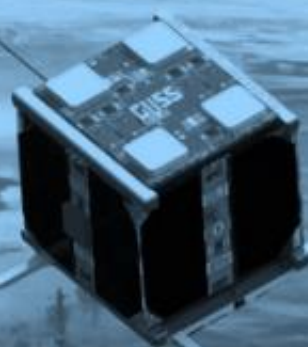
Capital Markets

## Market capitalization index (% GDP)





# # 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

15 January 2020