



Minutes of the Meeting of the
Financial Stability Committee — Comef

November 18, 2021

Date: November 18, 2021

Venue: BCB Headquarters' meeting rooms on the 8th and 20th floors – Brasilia – DF – Brazil

Starting and ending times: 9:30 AM – 12:20 PM

2:30 PM – 5:00 PM

In attendance:

Members of the Comef

Roberto Oliveira Campos Neto

Governor

Bruno Serra Fernandes

Deputy-Governor for Monetary Policy

Carolina de Assis Barros

Deputy-Governor for Administration

Fabio Kanczuk

Deputy-Governor for Economic Policy

Fernanda Guardado

Deputy-Governor for International Affairs and Corporate Risk Management

Maurício Costa de Moura

Deputy-Governor for Institutional Relations, Citizenship and Conduct Supervision

João Manoel Pinho de Mello

Deputy-Governor for Licensing and Resolution

Otávio Ribeiro Damaso

Deputy-Governor for Regulation

Paulo Sérgio Neves de Souza

Deputy-Governor for Supervision

Department Heads in charge of technical presentations:

André Minella – *Research Department*

Enrico Bezerra Ximenes de Vasconcelos – *Financial Stability and Senior Advisor to the Board*

Fábia Aparecida de Carvalho – *International Affairs Department*

Gilneu Francisco Astolfi Vivan – *Financial System Monitoring Department*

Ricardo Franco Moura – *Prudential and Foreign Exchange Regulation Department*

Other Participants:

Adalberto Felinto da Cruz Junior – *Head of the Strategic Management and Specialized Supervision Department*

André de Oliveira Amante – *Head of the Open Market Operations Department*

André Luiz Caccavo Miguel – *Deputy Head of the Financial System Monitoring Department*

Ângelo Jose Mont Alverne Duarte – *Head of the Department of Competition and Financial Market Structure*

Carolina Pancotto Bohrer – *Head of the Financial System Organization Department*

Climério Leite Pereira – *Department of Resolution and Sanctioning Action*

Edson Broxado de França Teixeira – *Head of the Supervision Deputy Governor's Office*

Eduardo José de Araújo Lima – *Head of the Economic Policy Deputy Governor's Office*

Eugênio Pacceli Ribeiro – *Head of the Secretariat to the Board of Directors and National Monetary Council Affairs*

Flávio José Roman – *General Counsel*

Harold Paquete Espínola Filho – *Head of the Credit Unions and Non-banking Financial Institutions Supervision Department*

João André Calvino Marques Pereira – *Financial System Regulation Department*

Leonardo Martins Nogueira – *Executive-Secretary*

Mauro Zanatta – *Press Officer*

Olavo Lins Romano Pereira – *Deputy Head of the International Affairs Department*

Rafael Mendonça Travassos Andrezo – *Head of the Governor's Office*

Ricardo Eyer Harris – *Head of the Regulation Deputy Governor's Office*

Ricardo Sabbadini – *Department of Economics*

Rogério Antônio Lucca – *Head of the Department of Banking Operations and Payments System*

Sérgio Mikio Koyama – *Deputy Head of the Research Department*

Walmir Geraldo da Silva – *Analyst at the Executive Secretariat*

The members of the Comef analyzed the recent evolution and prospects for financial stability in Brazil and in the international economies bearing in mind the objective of ensuring a sound, efficient, and competitive financial system. This document represents Comef's best effort to provide an English version of its meeting minutes. In case of inconsistency, the version in Portuguese language prevails.

A) Global financial markets

1. The financial system of the main economies remains resilient. Financial institutions (FIs) in these countries hold robust levels of capital and liquidity. Simulations by the Central Bank of Brazil (BCB) and stress tests by jurisdictions indicate that the global financial system remains prepared to withstand additional shocks.

2. There are signs of excesses in the real estate market of several economies. Some jurisdictions have reactivated, raised, or signaled future increases in countercyclical capital buffers to mitigate risks to financial stability. To date, the impacts of recent events associated with the financing capacity of large real estate developers in China have been limited to the local real estate market, without spillovers to other economies.

3. As monetary stimulus in the main economies starts to be withdrawn in response to the continuous rise in inflation, global financial conditions began to tighten. Despite authorities have sought to act with a high degree of predictability in conducting monetary policy, thus avoiding an abrupt deterioration in global financial conditions as well as big and sharp repricing of financial assets, the risk remains.

B) The National Financial System (SFN)

4. The growth of broad credit is consistent with current economic fundamentals and is taking place in several segments. For households, credit modalities that are sensitive to the historically low interest rates and that are associated with the economic recovery are among the fastest growing. Credit to micro and small businesses continues to be spurred by government programs, notably Pronampe, and by the easing of social distancing measures. Large corporates, in turn, are benefiting from heating up capital markets.

5. FIs are holding adequate provisions, above estimates of expected losses. Problem assets (PA) are trending downwards. The decline in PA in credit lines to companies follows from improvements in their repayment capacity. Despite the decline in households' PA, some modalities, such as real estate and auto loans, require attention as they exhibit risk materialization above pre-pandemic levels.

6. Capitalization and liquidity of the SFN were preserved above prudential requirement levels. Solvency continues to improve. Profitability continues to recover, mainly thanks to the decline in provisioning expenses, which offset the rise in funding costs. The mark to market after the rise in yield curves early in the fourth quarter did not cause meaningful effects over capital and liquidity in the national financial system.

7. Stress tests' results show that the system is resilient. The assessment under scenarios of macroeconomic stress indicates that the system would not face important problems in any scenario considered.

C) Main points of attention

8. FIs risk appetite has been rising, with particular reference to some modalities of credit to households. Consumer credit has been growing more to riskier borrowers. Real estate credit origination remains historically elevated although the rise in interest rates tends to limit this momentum given the pressures on funding and on spread of this modality. The Comef considers that it is important that financial intermediaries continue to preserve the quality standards of loan originations.

9. Cost pressures on holding liquidity eased. Funding maturities remain shorter than pre-pandemic levels with prevalence of sight instruments. The Comef assessed that the current monetary cycle turns away the challenge faced by FIs related to the costs of holding liquidity. At the current level of interest rates, the cost of liabilities purely indexed to the policy rate is closer to the cost of liabilities that incorporates a fixed-rate return combined

with a variable interest rate linked to the policy rate. As a result, the return of liquid assets gets closer to the costs of FIs' liabilities.

10. Given inflationary risks and the start of monetary policy normalization in advanced economies, there is greater risk of an abrupt and disorderly tightening of global financial conditions. The materialization of this risk could lead to disorderly asset repricing and rising risk aversion, with negative effects on the exchange rate, investment flows and financing conditions for emerging economies. High uncertainty about inflation risks in central economies may turn the conditions more challenging for emerging economies. The Comef deems that the SFN's exposure to exchange rate risk is low and that the system's reliance on external funding is small.

D) Macroprudential policy decision

11. The Comef judges that the current macroprudential policy stance remains adequate, without the need for adjustments in the near term. The neutrality of macroprudential policy remains appropriate considering Comef's expectations about credit growth. In this sense, the Capital Conservation Buffer is being replenished since April and the completion of its replenishment is expected for March of next year. Available information indicates that asset prices continue to evolve in line with economic fundamentals.

12. The pace of credit growth tends to ease, thereby reducing risks in the outlook, but uncertainties remain. The Comef understands that the uncertainty about the solvency of businesses and households reduced with the recent materialization of losses smaller than initially expected. However, a worse than expected economic recovery could result in a rise in credit risk. The Comef continues to recommend that FIs maintain prudence in credit and capital management policies. It is important that FIs' profit allocation be conservative and aligned with the uncertainties prevailing in the economic outlook.

13. The Comef decided that, given the current conditions and the economic outlook, the Countercyclical Capital Buffer for credit exposures in Brazil will remain at 0% over the next meetings. Rises in the buffer only come into effect one year after a decision by the Comef. The decision considered the current conditions, the asset prices, and the expectations regarding the evolution of the credit market.

