



Minutes of the Meeting of the
Financial Stability Committee — Comef

May 26, 2022

Date: May 26, 2022

Venue: BCB Headquarters' meeting room on the 8th floor – Brasilia – DF – Brazil

Starting and ending times: 9:30 AM
5:00 PM

In attendance:

Members of the Comef

Roberto de Oliveira Campos Neto
Governor

Bruno Serra Fernandes
Deputy-Governor for Monetary Policy

Carolina de Assis Barros
Deputy-Governor for Administration

Diogo Abry Guillen
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

Otávio Ribeiro Damaso
Deputy-Governor for Regulation

Paulo Sérgio Neves de Souza
Deputy-Governor for Supervision

Renato Dias de Brito Gomes
Deputy-Governor for Licensing and Resolution

Department Heads in charge of technical presentations:

André Minella – *Research Department*

Edson Broxado de França Teixeira – *Supervision Deputy-Governor's Office*

Fábia Aparecida de Carvalho – *International Affairs Department*

Gilneu Francisco Astolfi Vivan – *Financial System Monitoring Department*

Other Participants:

Adalberto Felinto da Cruz Júnior – *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*

Arnildo da Silva Corrêa – *Head of the Office of Economic Advisory*

Belline Santana – *Head of the Banking Supervision Department*

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

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

Cristiano de Oliveira Lopes Cozer – *General Counsel*

Daniel Palaro Canhete – *Head of the Competition and Financial Market Structure Department, substitute*

Enrico Bezerra Ximenes de Vasconcelos – *Head of the Secretariat of Governance, Coordination and Strategic Monitoring*

Eugênio Pacceli Ribeiro – *Executive-Secretary, substitute*

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

Juliana Mozachi Sandri - *Head of the Conduct Supervision Department*

Kathleen Krause – *Deputy Head of the Prudential and Foreign Exchange Regulation Department*

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 Franco Moura – *Head of the Prudential and Foreign Exchange Regulation Department*

Ricardo Sabbadini – *Head of the Department of Economics*

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

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

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. Systemically important FIs with greater exposure to Russia and Ukraine maintained, in the first quarter of 2022, capital and liquidity levels above the minimum required. The Comef continues to closely monitor the developments from the war between Russia and Ukraine and their impacts on financial and capital markets.

2. The global outlook has deteriorated since the last Comef meeting. In reaction to inflationary pressures worsened by the developments from the geopolitical conflict, central banks in developed and emerging countries have tightened monetary policy. Additionally, the prospective outlook for global growth has worsened because of the decline in economic activity in China, given new Covid-19 outbreaks, the persistence of pressures on supply chains and the conflict in Europe. These factors, combined with the increased uncertainty over the prospective macroeconomic outlook, led to a further tightening of financial conditions since the last Comef meeting. As a result, there was significant repricing of several assets and an increase in financing costs in global markets. So far, these movements have been orderly.

3. Macroprudential policy continues to be adjusted in several countries to contain vulnerabilities identified in their financial systems. Some jurisdictions continued the process of normalizing countercyclical capital buffers, which had been reduced over the course of the Covid-19 pandemic. Other jurisdictions have raised capital requirements by adopting levels of countercyclical capital buffers above pre-pandemic levels, given the vulnerabilities seen primarily in the real estate sector and in credit to the non-financial sector. Regulators have regarded the potential risks arising from the consequences of the conflict in Ukraine as relevant points of attention.

4. The materialization of extreme scenarios of financial assets repricing in the global markets could lead to a significant impact in emerging economies. The normalization of monetary and macroprudential policies in these jurisdictions and the transparency in the conduct of monetary policy by the main advanced economies continue to act as mitigation factors to this risk.

B) The National Financial System (SFN)

5. The growth of broad credit remains consistent with current economic fundamentals. Credit to households maintained its growth rate, with emphasis on the modalities with higher returns and, consequently, with higher risks. Credit to micro, small and medium-sized enterprises continues to grow above the pre-pandemic period with the replacement of government programs by traditional bank credit. Larger companies, in turn, have mainly accessed capital markets, which remain heated.

6. Provisions remain adequate, above expected losses estimates. Regarding credit for companies, the materialization of credit risk has stabilized after a long period of decline. In the case of households, the growth of the problem asset portfolio begins to marginally exceed that of the loan portfolio. This trend should continue with the growth of credit in riskier modalities.

7. Capitalization and liquidity of the SFN were preserved above prudential requirement levels. The system has maintained levels of liquid assets sufficient to absorb potential losses in stressed scenarios, despite the reduction in the volume of available liquidity due to adaptation to current market conditions and competition for funding. The level of capital has remained stable and higher than required. Although the rapid increase in the cost of funding has reduced credit margins, the level of profitability remains stable due to the increase in income from treasury assets.

8. 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.

C) Main points of attention

9. FIs risk appetite keeps rising, especially in credit to households in some modalities with higher risk and higher return. This should raise delinquency, although within historical standards. Credit card operations and consumer credit grow at a high pace. On the other hand, although real estate credit origination remains historically high, its growth has cooled down due to rising interest rates, which generates pressure on the funding and on the spread of this modality. The Comef considers that it is important that financial intermediaries continue to preserve the quality standards of loan originations.

10. Global financial conditions tightened. The eventual materialization of extreme financial assets' repricing scenarios in the global markets due to monetary tightening and geopolitical risks could lead to a significant impact on emerging economies. More recently, the escalation of geopolitical tensions increases uncertainties about the prospective outlook of the global economy. Given the reduced foreign exchange exposure and the low dependence on external funding, the Comef deems that the SFN's exposure to the immediate effects of current international tensions is low, although there may be side effects from an eventual global increase in risk aversion.

11. The Committee is attentive to the recent developments in the international scenario and remains prepared to act, by minimizing any exacerbated spillover on the prices of local assets.

D) Macroprudential policy decision

12. The Comef judges that the current macroprudential policy stance remains adequate, without the need for adjustments in the near term. The neutrality of the macroprudential policy remains appropriate, considering Comef's expectations on credit growth. Last April the process of reinstating of the Capital Conservation Buffer (CCoB) was completed, returning to the level of 2.5%. That buffer was reduced to 1.25% in March 2020 within the scope of the measures then adopted to face the economic effects of the pandemic, having been progressively reinstated since April 2021.

13. Asset prices and credit growth are not a concern in the medium term, although there are uncertainties to be monitored. The growth in modalities with higher returns and, consequently, with greater risks indicates a tendency for an increase in delinquency, although within historical standards. Household indebtedness and debt service ratio have increased. Thus, substantial frustration in the performance of economic activity can result in an increase in credit risk. The information available indicates that asset prices have behaved in line with economic fundamentals. The Comef continues to recommend that FIs maintain prudence in credit and capital management policies.

14. 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 come into effect only one year after a decision by the Comef. The decision considered the tighter financial conditions, the asset prices, and the expectations regarding the evolution of the credit market.

