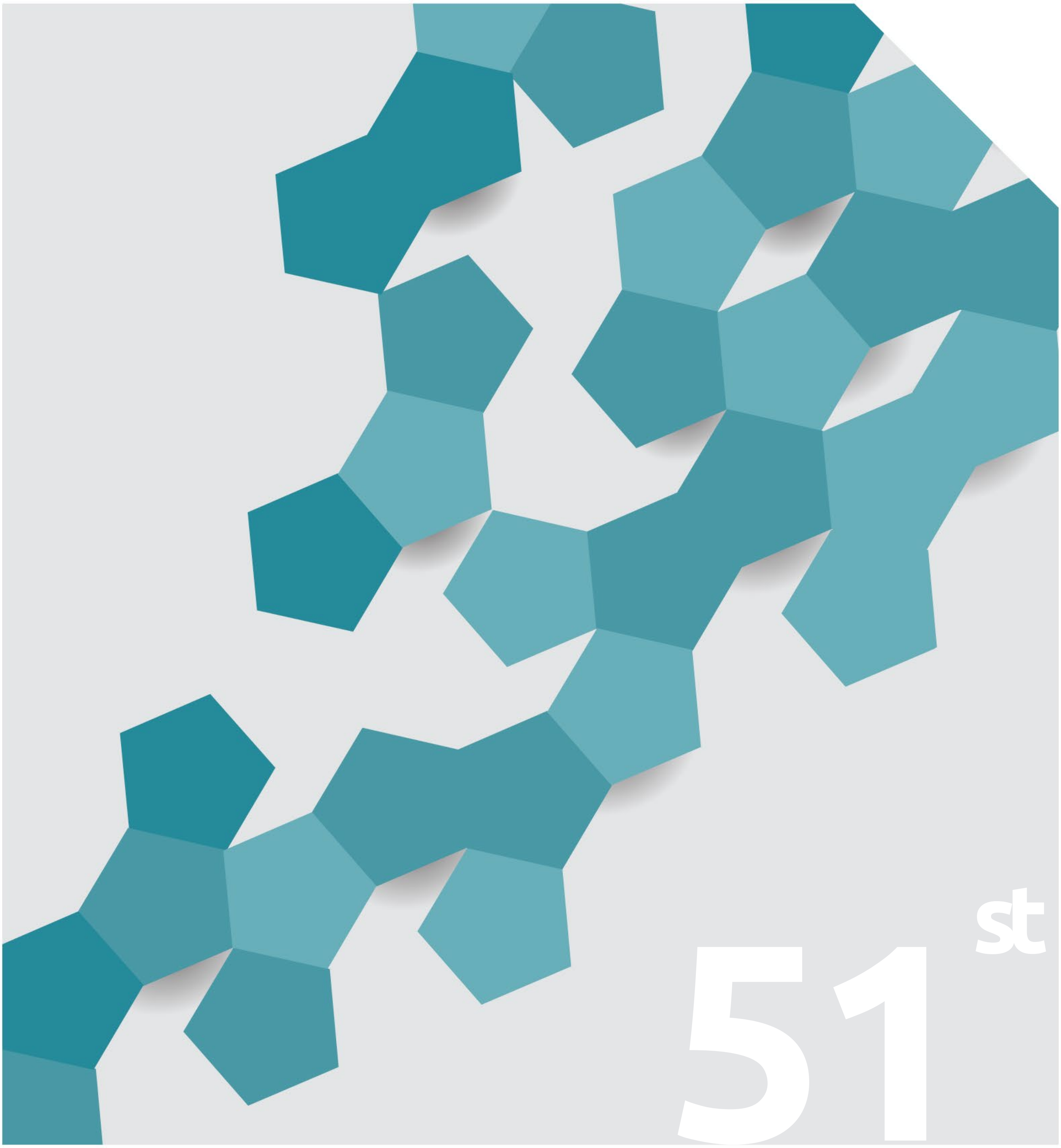

Minutes of the Meeting of the

Financial Stability Committee — Comef

November 17th 2022

BANCO CENTRAL DO BRASIL

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Date: November 17th, 2022

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

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

In attendance:

Members of the Comef

Roberto de Oliveira Campos Neto
Governor

Bruno Serra Fernandes
Deputy-Governor for Monetary Policy

Maurício Costa de Moura
Deputy-Governor for Institutional Relations, Citizenship and Conduct Supervision

Carolina de Assis Barros
Deputy-Governor for Administration

Otávio Ribeiro Damaso
Deputy-Governor for Regulation

Diogo Abry Guillen
Deputy-Governor for Economic Policy

Paulo Sérgio Neves de Souza
Deputy-Governor for Supervision

Fernanda Guardado
Deputy-Governor for International Affairs and Corporate Risk Management

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

***Department Heads in charge of technical presentations*:**

Ângelo José Mont Alverne Duarte – *Competition and Financial Market Structure Department*
Fabia Aparecida de Carvalho – *International Affairs Department*
Gilneu Francisco Astolfi Vivan – *Financial System Monitoring Department*
Sérgio Mikio Koyama - *Research Department (substitute)*

***Other Participants*:**

Adalberto Felinto da Cruz Júnior – *Head of the Strategic Management and Specialized Supervision Department*
Alan da Silva Andrade Mendes – *Head of the International Reserves 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 Marsiglia Fasolo – *Deputy Head of the Research Department*
Arnildo da Silva Corrêa – *Head of the Office of Economic Advisory*
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*
Edson Broxado de França Teixeira – *Head of the Supervision Deputy Governor's Office*
Eduardo José Araújo Lima – *Head of the Economic Policy Deputy-Governor's Office*
Eduardo Urbanski Bueno - *Head of the Governor's Office, substitute*
Enrico Bezerra Ximenes de Vasconcelos – *Head of the Secretariat of Governance, Coordination and Strategic Monitoring*
Harold Paquete Espínola Filho – *Head of the Credit Unions and Non-banking Financial Institutions Supervision Department*
João André Calvino Marques Pereira – *Head of the Financial System Regulation Department*
Juliana Mozachi Sandri - *Head of the Conduct Supervision Department*
Leonardo Martins Nogueira – *Executive-Secretary*
Mauro Zanatta – *Press Officer*
Olavo Lins Romano Pereira – *Deputy Head of the International Affairs Department*

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*
Ricardo Seviere Zeni – *Deputy Head of the Banking Supervision Department*
Rogério Antonio Lucca – *Head of the Department of Banking Operations and Payments System*

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.** Banking financial institutions 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. **The global outlook has deteriorated further since the last Comef meeting.** Inflation continued to rise in several advanced and emerging economies, prompting many central banks to keep raising interest rates and, in some cases, to announce changes to their asset purchase programs. The prospects for global economic growth have deteriorated, with an increase in the probability of recession over the coming quarters in the world's major economies.

3. **Amid high uncertainty in the global economic outlook, the volatility of financial assets has increased, reducing liquidity in systemically relevant markets, such as the government bonds' markets of central economies.** High uncertainty environments, such as the current one, favor that some accumulated risks, especially in the non-banking financial sector – arising, for example, from opacity and high leverage in pension and hedge funds in some of these economies – materialize. In this sense, actions by Central Banks (CBs) have been important to address temporary dysfunctionalities and mitigate systemic risk.

4. **The continued deterioration of the global macroeconomic outlook has not yet led to a relevant increase in non-performing loans, but it continues to lead global systemically important banks (GSIBs) to preemptively increase provisions.** Faced with the challenging macroeconomic scenario, several jurisdictions maintained or increased their countercyclical capital buffers to strengthen banks' resilience. There are signs of a slowdown in the real estate market in the main economies, despite still high property prices by historical standards, characterizing a risk factor for financial stability. Central banks reiterate that financial institutions (FIs) are prepared to face the eventual materialization of adverse scenarios.

5. **International financial markets have shown greater sensitivity to developments that affect fiscal fundamentals, including in advanced economies.** This environment favors the materialization of extreme scenarios of financial assets repricing and consequent increase in public and private financing costs, also bringing potential implications for financial stability.

6. **The materialization of extreme scenarios of financial assets repricing in the global markets could lead to a significant impact in emerging economies**. The combination of high inflation, slowing activity and high volatility in the markets brings challenges to the communication of monetary, fiscal and macroprudential policies in these countries. Transparency, predictability, and credibility in executing these policies are essential to mitigate systemic risks.

B) The National Financial System (SFN)

7. **The growth of broad credit remains consistent with current economic fundamentals.** Credit to households continues to increase more rapidly in operations with higher risk and return and in operations linked to payment transactions. Credit to micro, small and medium-sized enterprises maintained its growth rate, with a significant contribution from emergency government programs for smaller companies. Broad credit continues to grow consistently, with emphasis on the capital market. This credit segment continues to expand strongly, representing an important source of financing, mainly for large companies.

8. **Provisions remain adequate, above expected losses estimates.** The increase in provisions is consistent with the greater materialization of risk, due to the growth of

credit in riskier modalities and to the increase in the household debt service ratio. Loan originations present more restrictive criteria, but risk materialization should remain at a high level in the medium term. Credit for legal entities has shown a reduction in the materialization of risk, except for smaller companies.

9. **Capitalization and liquidity of the SFN were preserved above prudential requirement levels.** The system has maintained sufficient liquid assets to absorb potential losses in stressed scenarios and to comply with current regulations. The capital level remained stable and higher than required. Profitability is stable, at the average of recent years. Credit margins net of provisions are at historic lows, which has been compensated by an increase in income from treasury operations.

10. **Stress tests' results show that the system is resilient.** In the evaluated macroeconomic stress scenarios, the system would not face material non-compliances. Since the last Comef meeting, increase in uncertainty has amplified the impact on the system. The most severe impact continues to be observed in the scenario of a breakdown of confidence in the fiscal policy.

C) Main points of attention

11. **FIs' risk appetite for lending to households remains high.** The pace of growth in riskier modalities, such as credit card operations and consumer credit, remains high, which requires more attention in an environment of worsening of household indebtedness and debt service ratio. However, some institutions already show more restrictive origination criteria in these modalities. The Comef considers that it is important that financial intermediaries continue to preserve the quality standards of loan originations taking into account, notably, the total exposure of their clients in the National Financial System.

12. **Global financial conditions tightened.** The potential materialization of extreme financial assets' repricing scenarios in the global markets due to monetary tightening, increased volatility, and deterioration of liquidity in systemically relevant markets, in addition to recession risks, could lead to a significant impact on emerging economies. Comef deems that the SFN's exposure to exchange rate risk is low and the dependence on external funding is small.

13. **The Committee is attentive to the recent developments in the domestic and international scenarios and remains prepared to act, by minimizing any exacerbated spillover on the prices of local assets.** Increased public spending and uncertainty about the debt trajectory may raise risk premiums and inflation expectations, with repercussions on financial stability through increased asset volatility, worsening in agents' paying capacity, and deterioration in the quality of capital flows.

D) Macroprudential policy decision

14. **The Comef judges that the neutral macroprudential policy remains adequate for the current moment, characterized by the absence of significant accumulation of financial risks.** Considering Comef's expectations on credit growth, there is no need to adjust macroprudential policy in the short term.

15. **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 an increase in delinquency, but still within historical standards. Household indebtedness and debt service ratio have increased. However, some FIs already have more restrictive concession criteria in higher risk modalities. In the case of legal entities, there is an increase in problem assets in smaller companies. 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 Committee is attentive to the impact of the increase of capital markets in the growth of the broad credit and to its potential consequences for the accumulation of risks. The Comef continues to recommend that FIs maintain prudence in credit and capital management policies.

16. **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 restrictive financial conditions of the domestic and international environment, the asset prices, and the expectations regarding the evolution of the credit market.


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