



Central Banking in a Transforming Economy

Roberto Campos Neto
Governor of the Central Bank of Brazil

- **Macroeconomic Overview**
 1. Inflation and expectations around the target
 2. Selic at a historical low
 3. Challenging external outlook
 4. Credit cost reduction
 5. Gradual economic recovery

- **Agenda BC₊: BCB's structural agenda**
 6. Agenda BC+ so far
 7. The future of the Brazilian Financial System
 8. New dimensions

- **Conclusions**

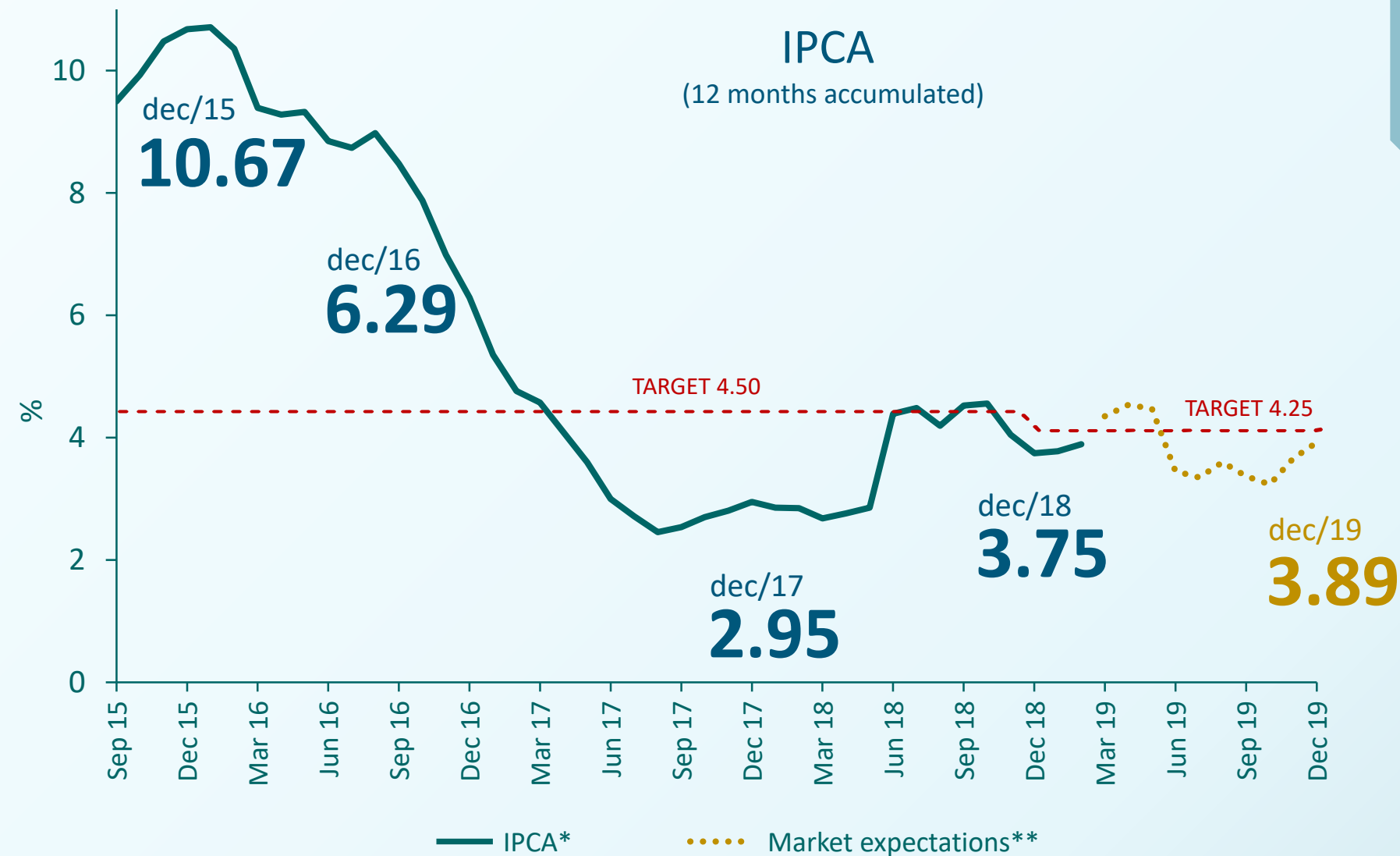


MACROECONOMIC Overview

Inflation around the target

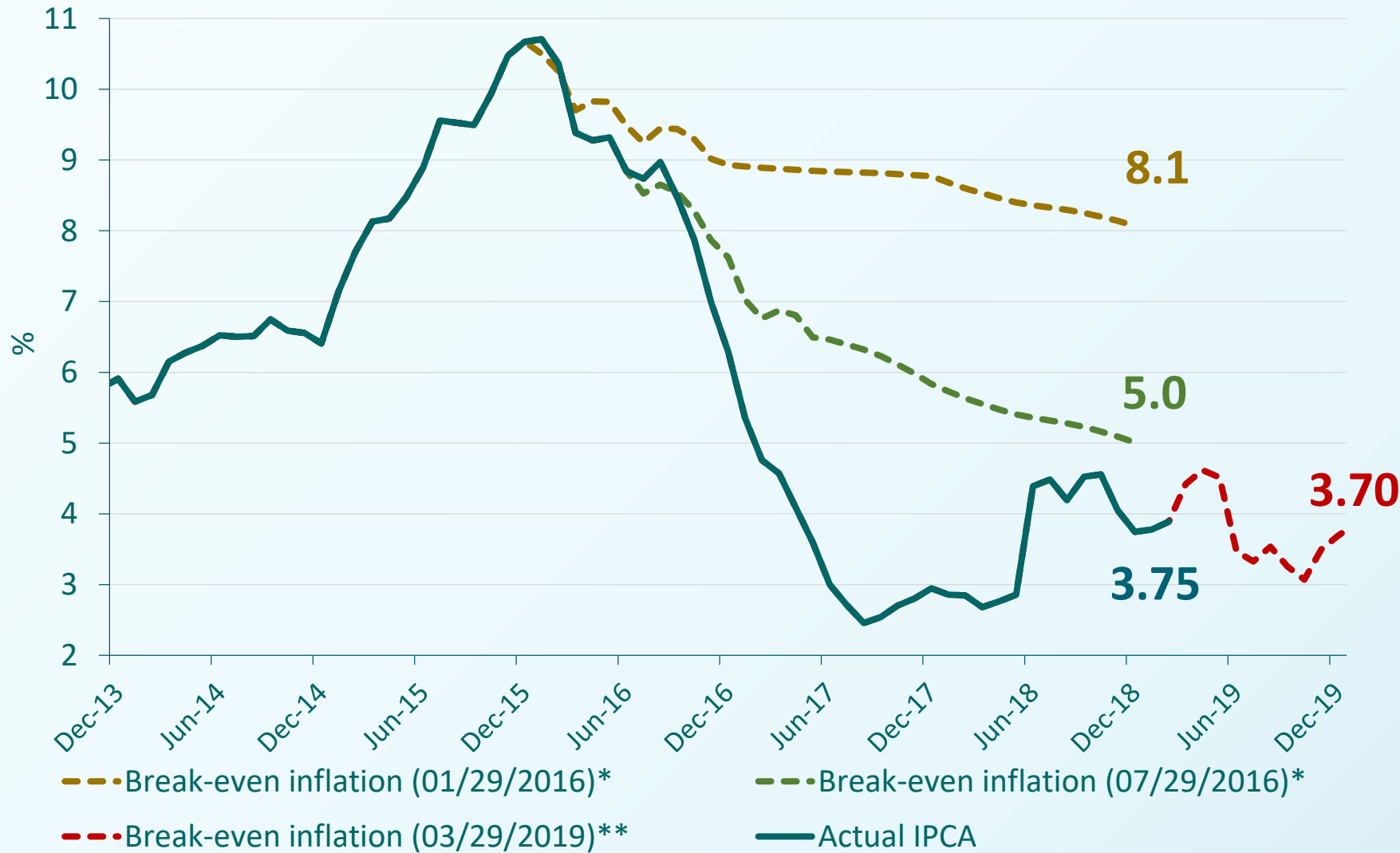
The conduct of monetary policy

- Caution, serenity and perseverance



Anchored expectations

Inflation expectations around the target

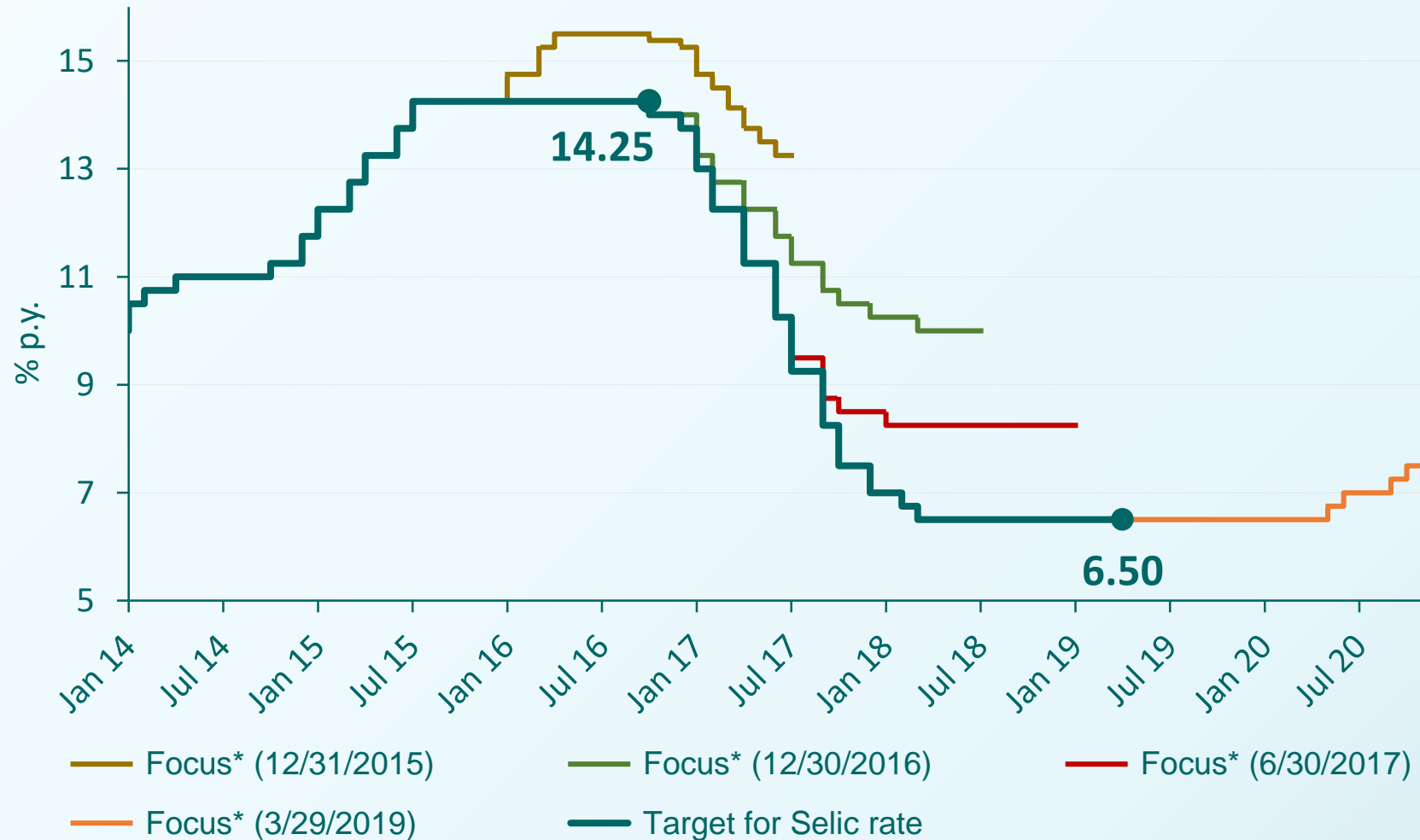


*Implied inflation expectations in inflation indexed bonds (NTN-B).

**Implied inflation expectations in CPI futures (DAP).

Source: BCB/IBGE

Policy rate (Selic) at a historical low



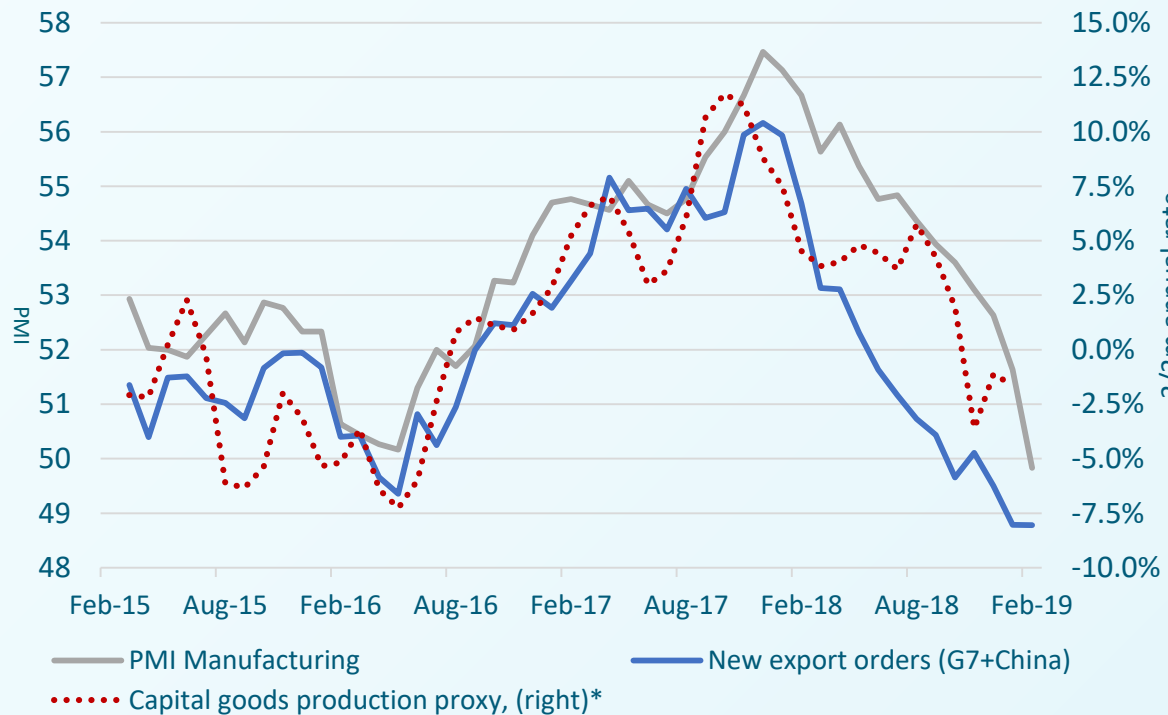
- Stimulative real interest rate

The global outlook remains challenging to EMEs.

- On the one hand, the risks associated with a slowdown in global growth, as a result of several uncertainties, are more elevated.
- On the other hand, the risks associated with normalization of interest rates in some advanced economies have receded.
- The Brazilian economy has capacity to withstand a setback in the external scenario, relying on its robust balance of payments, anchored inflation expectations and prospects of economic recovery.

Challenging external outlook

Global indexes

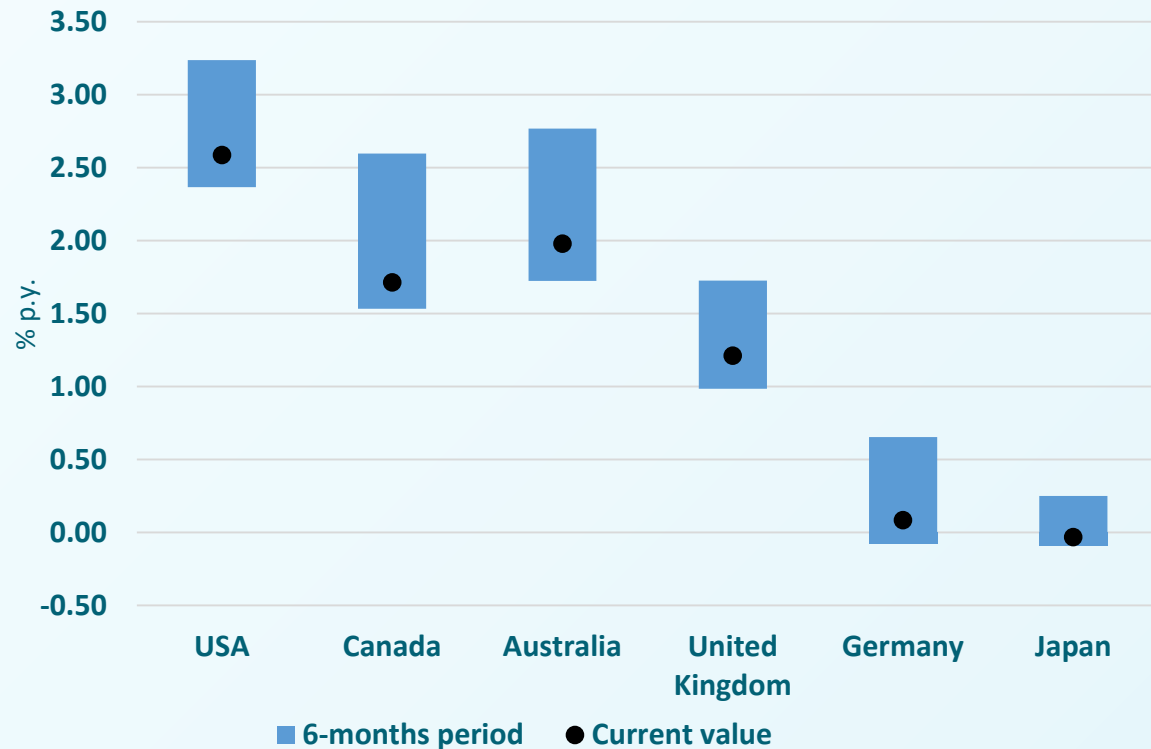


Number of 25 bps increases implicit in Fed Funds future markets

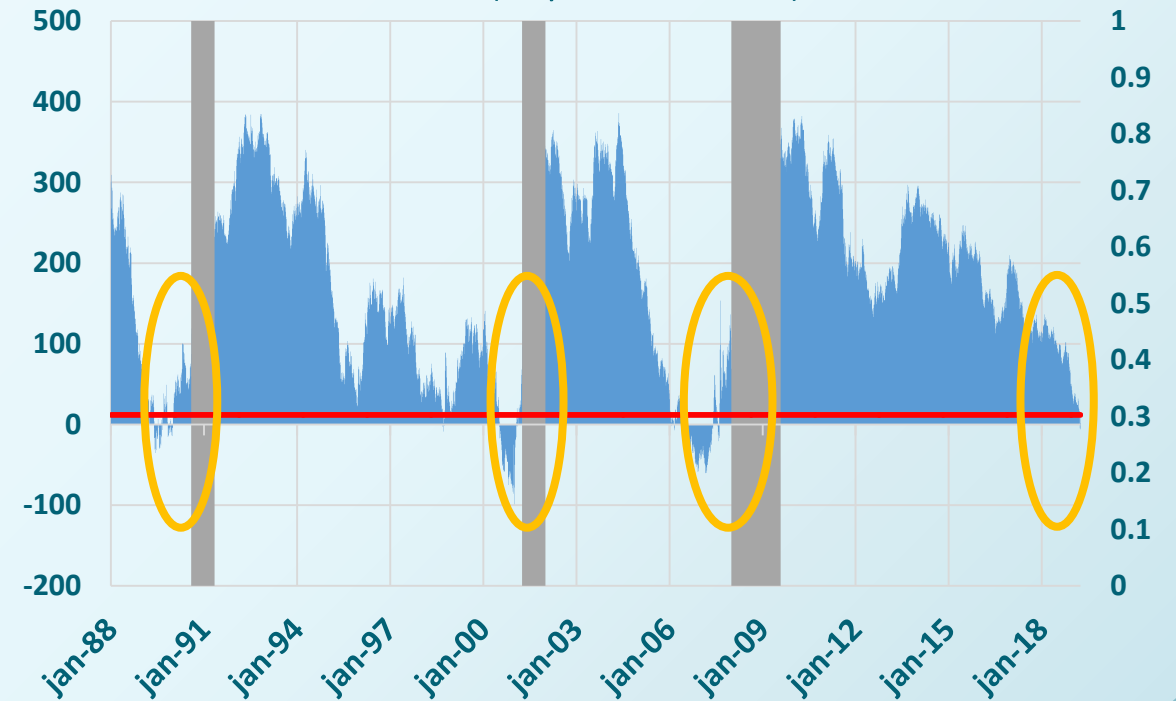


Challenging external outlook

Sovereign bonds (10 y)



Recession Indicators – Caution
Yield Curve (10 years - 3 months)



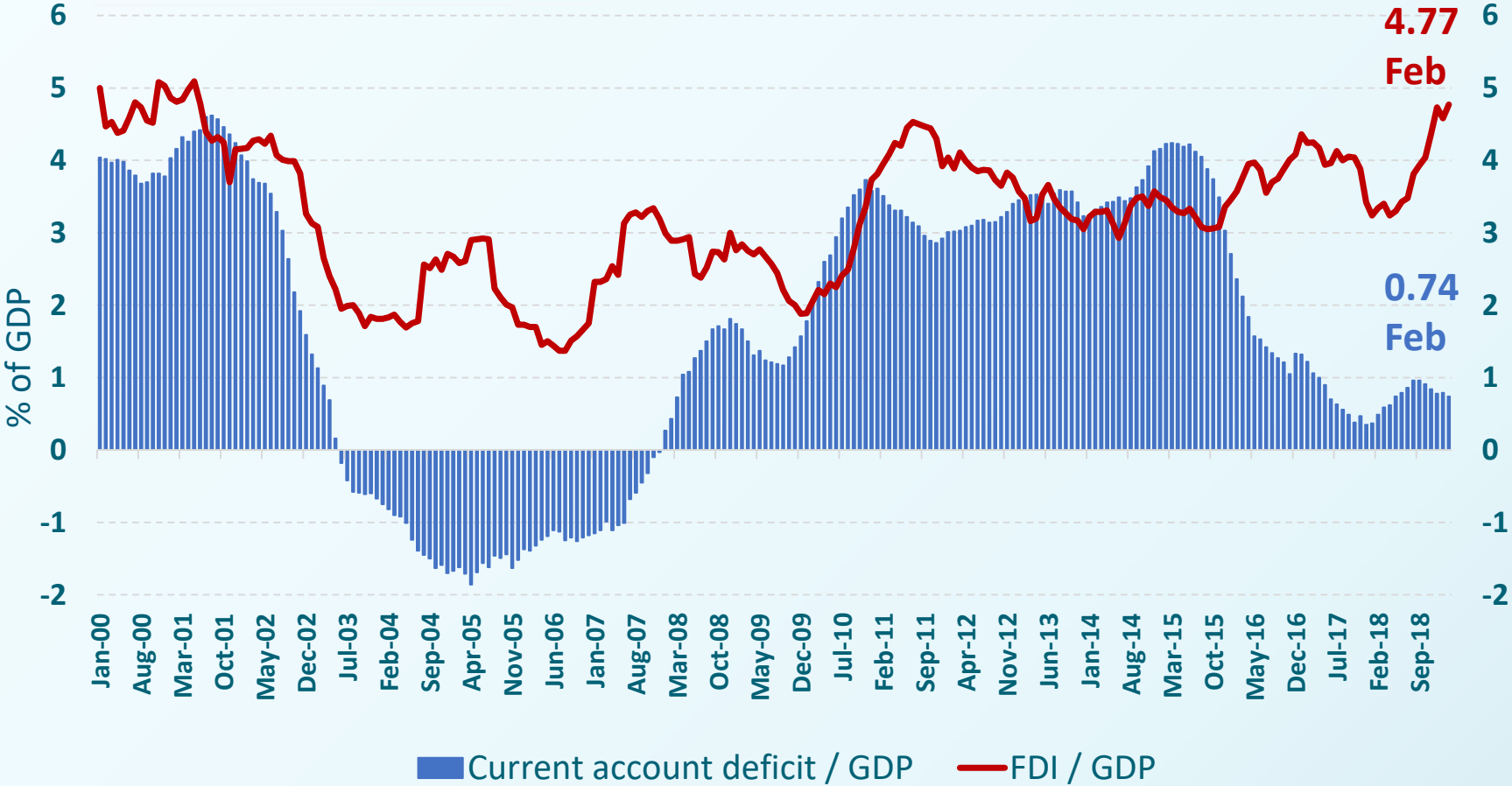
Emerging Markets: Portfolio Flows



Emerging Markets: South Africa, South Korea, United Arab Emirates, India, Indonesia, Pakistan, Thailand, Turkey and Vietnam

Robust buffers

Current account and net foreign investment flows



Credit cost reduction

% p.y.

Period	Interest rate		ICC	
	Total	Non-earmarked	Total	Non-earmarked
May/2016 (A)	32.6	51.9	22.4	37.7
Feb/2019 (B)	25.0	38.5	21.1	32.5
B - A (p.p.)	-7.6	-13.4	-1.3	-5.2

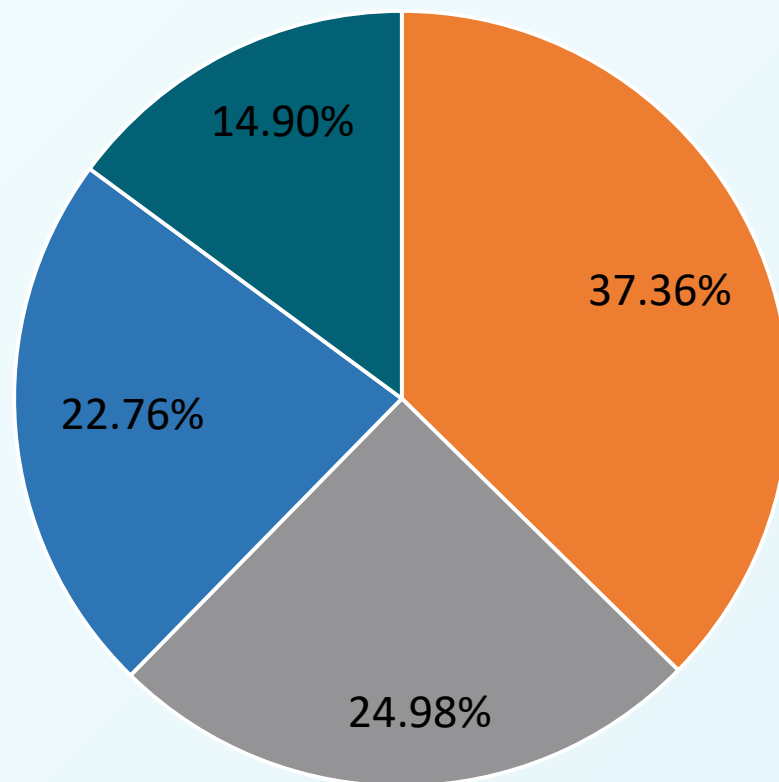
The importance of guarantees

% p.y.

	feb/19	mar/18-feb/19
ICC - Personal credit	119.3	120.8
ICC - Payroll-deducted personal loans	26.0	26.7

ICC Spread Decomposition

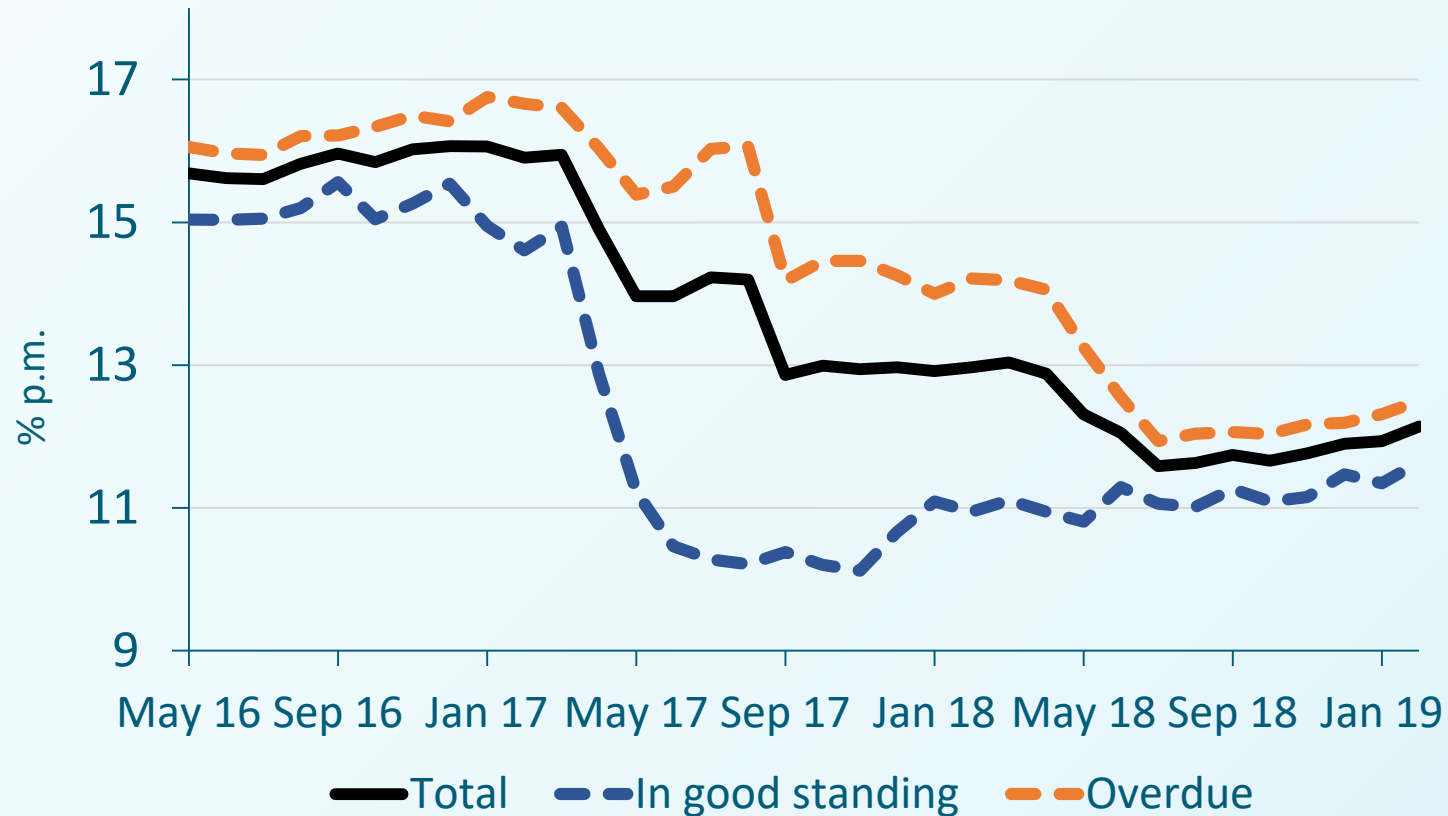
2015-2017 average



■ Delinquency ■ Administrative Expenses ■ Taxes and FGC ■ ICC Financial Margin

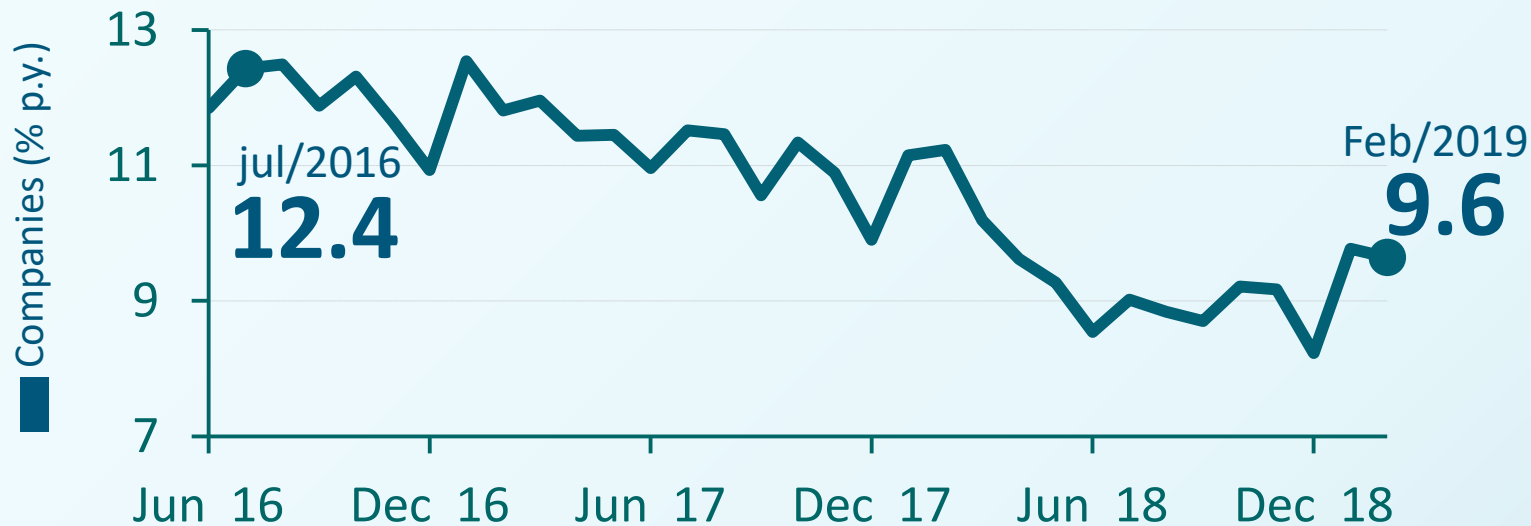
Credit cost reduction

Credit card revolving rates - households



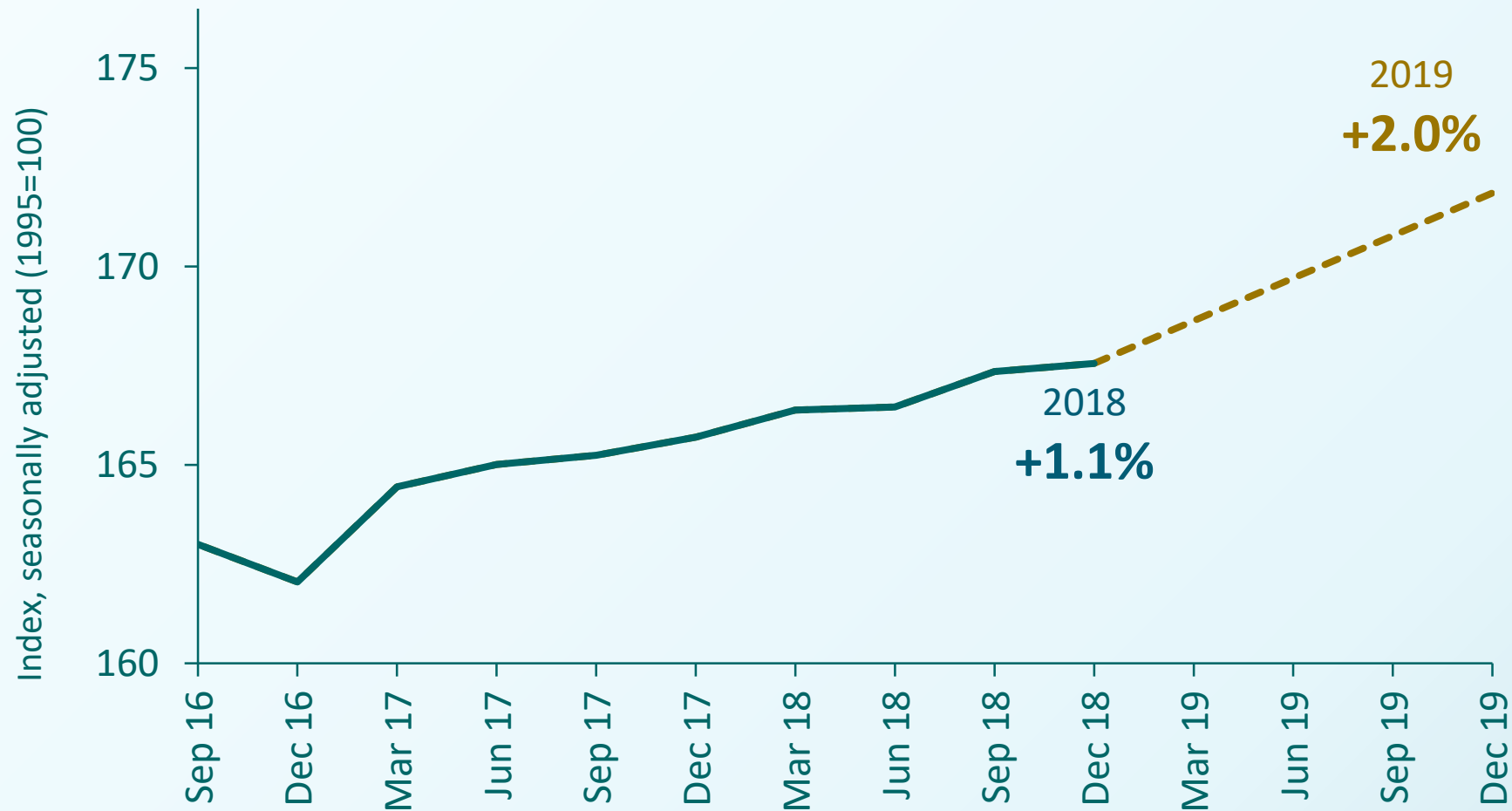
Rates in Feb/2019 (% p.m.)	
Total	12.1
In good standing	11.6
Overdue	12.5

Gradual reduction of banking spread



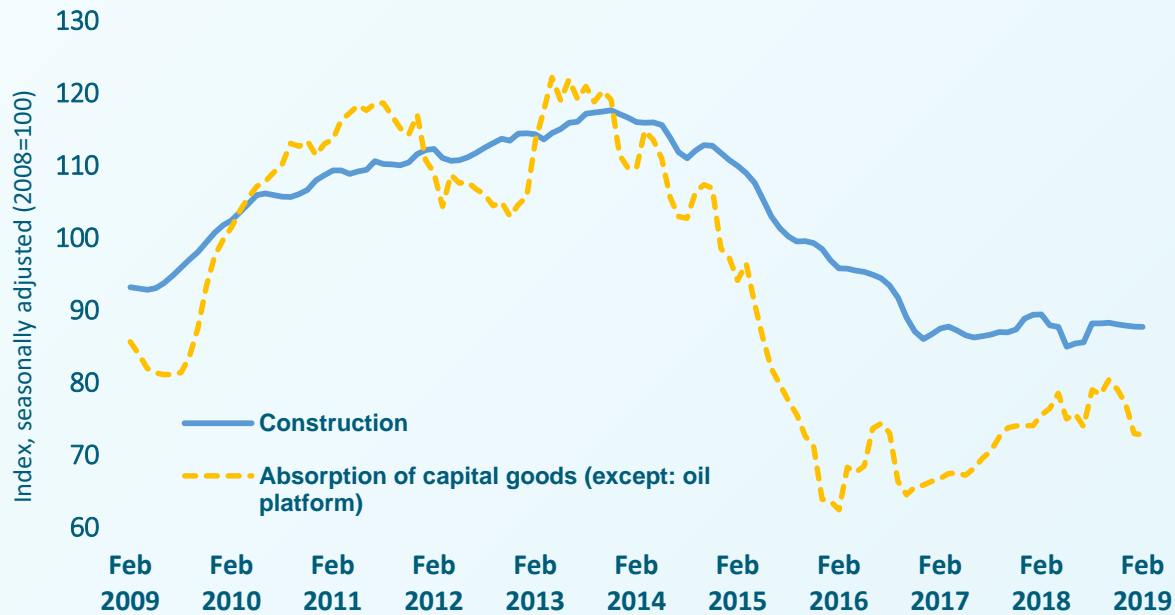
*Avarege spread of credit loans**

GDP gradual recovery

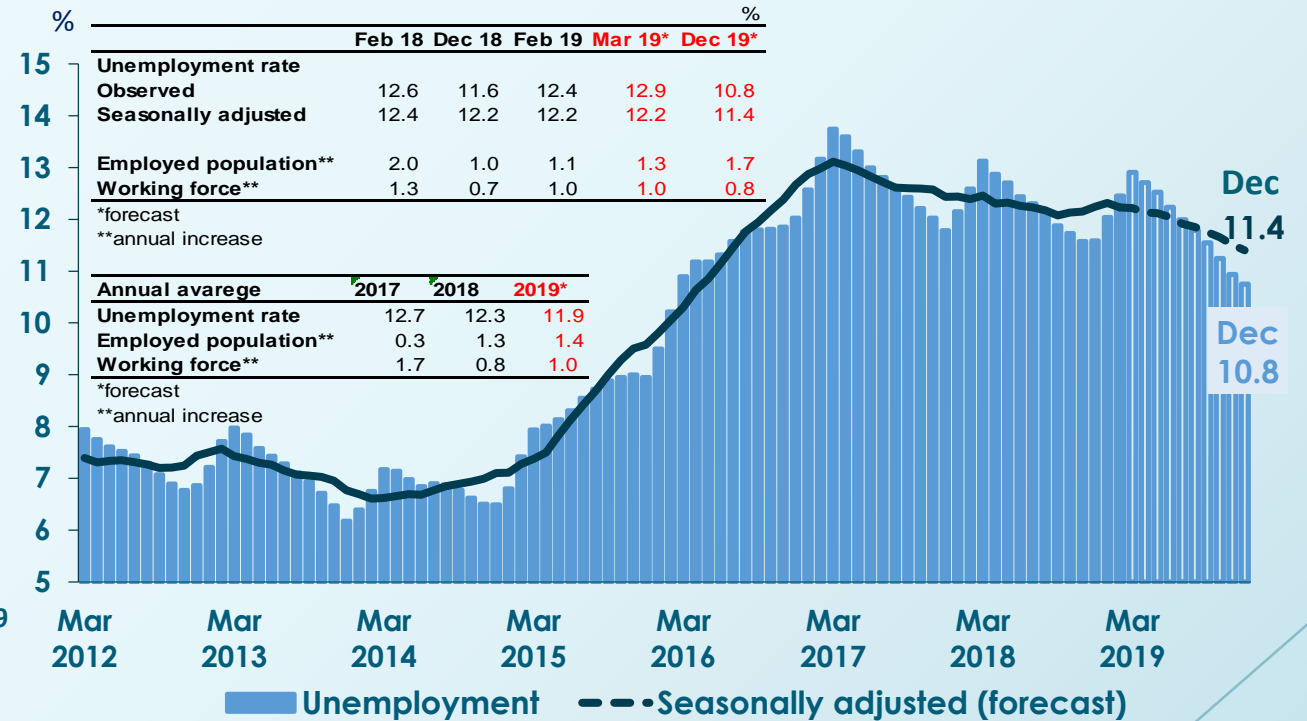


GDP gradual recovery

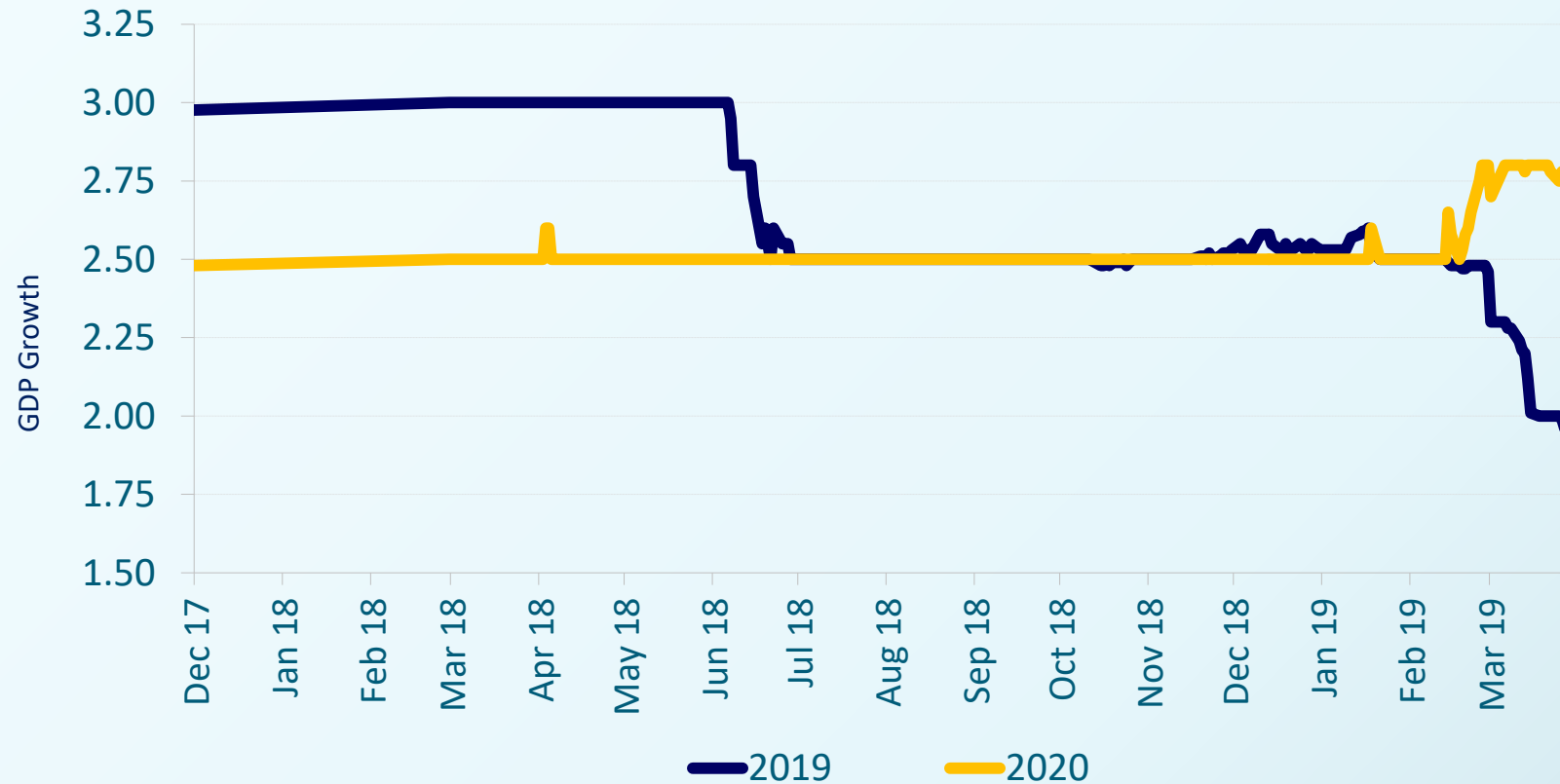
Gross Fixed Capital Formation



Labor Market Unemployment rate



GDP Focus expectations



Sustainable recovery

Economic growth depends on many factors:

- It is a work of government and society as a whole
- Reducing uncertainty and improving confidence are necessary conditions for sustainable recovery
- Fiscal reforms
 - Pension system reform
- Reforms to improve productivity
 - tax, trade opening and improvement of the business environment
- Future of the Agenda BC+
 - Focus on investors: small or large; domestic or foreign.

A sustainable recovery of the Brazilian economy depends on the continuity of reforms and adjustments



Agenda BC

BCB's structural agenda

Pillars:

- More financial citizenship
- More modern legislation
- More efficient financial system
- Cheaper credit

19

in 2016/17

41

completed

actions

22

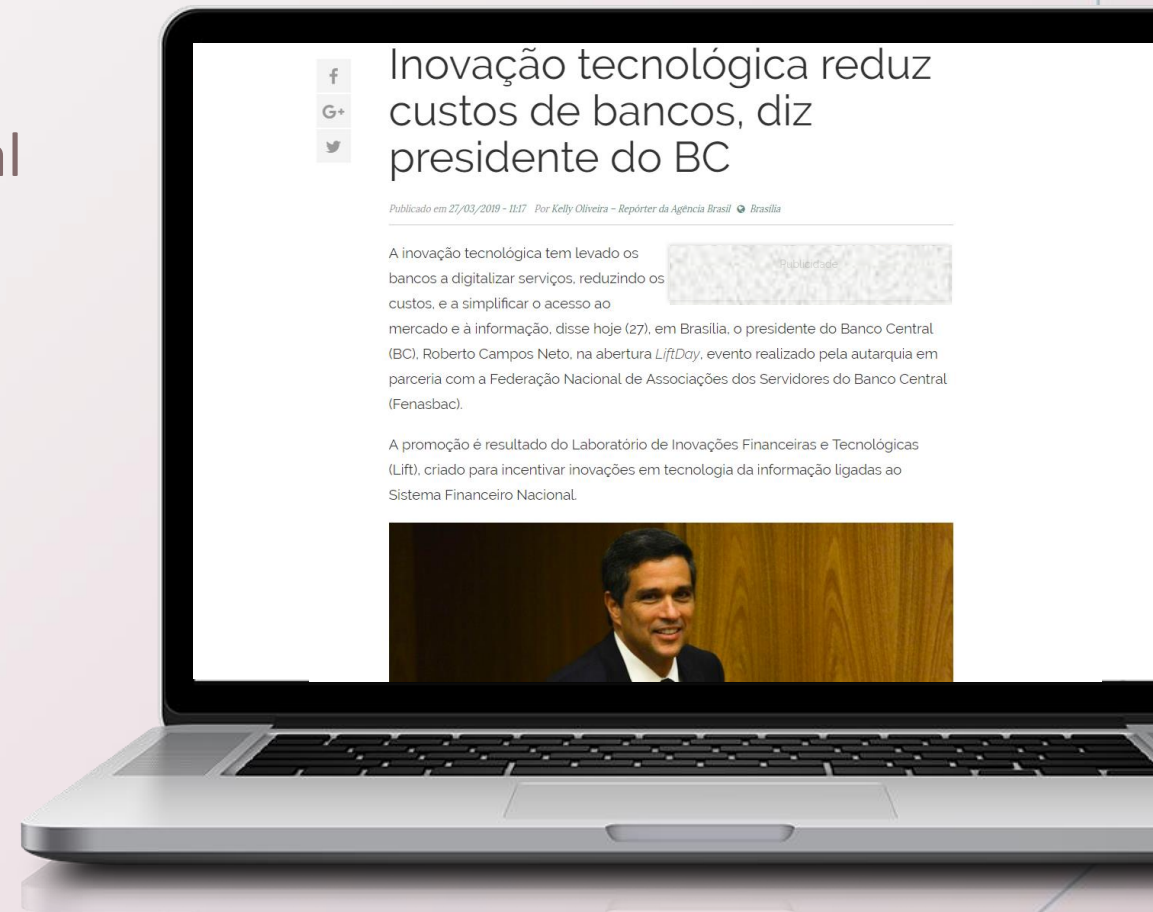
in 2018

Technological evolution

- The innovation route has intensified in recent years with the increase of:
 - Processing capacity;
 - Information storage;
 - Information organization; and
 - The interpretation of information and the use of data.

The future of the financial system

- We need to focus on the design of the financial system of the future:
 - Democratize
 - Digitalize
 - De-bureaucratize
 - Demonetize
- Tools to create this future:
 - Blockchain
 - Cloud
 - Artificial Intelligence
 - Digitalization



Agenda BC

- Inclusion
- Competitiveness
- Transparency
- Financial Education

14 new working groups to study more closely each topic

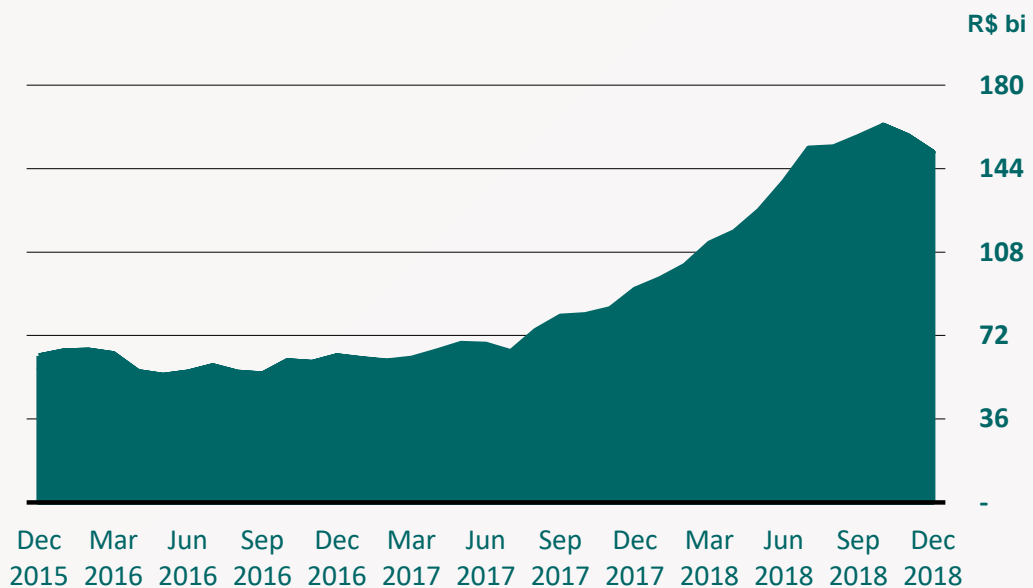
Inclusion

- **Microcredit:**
 - to increase the importance and the diffusion of microcredit in the market.
- **Cooperativism:**
 - to expand cooperativism in areas with low banking penetration, pursuing digital solutions.
- **Capital Market:**
 - to promote changes that allow the full development of our capital market.
- **Converability**
 - to simplify rules, reduce bureaucracy and facilitate operations in the FX market.
- The TLP and the change in the BNDES's focus have shown that, when the government reduces, opening space in the market, private initiative flourishes.
- We will choose priorities and turn them into practical measures.

Growth in the capital market

Debentures

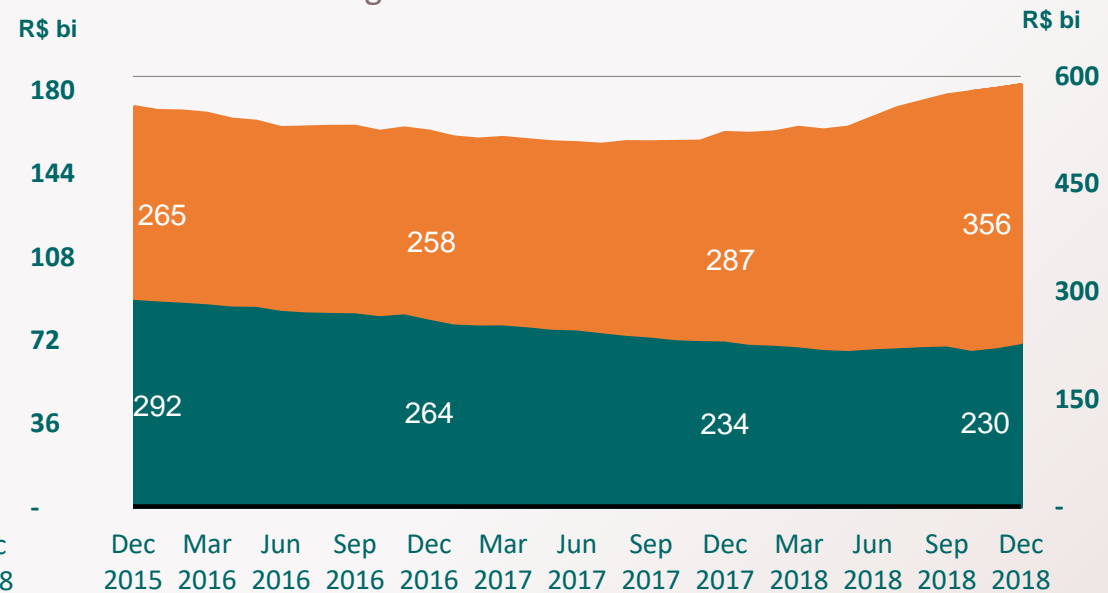
Accumulated emissions in twelve months



— Accumulated emissions in twelve months

Bank credit and debentures

Total outstanding



— Bank Credit

— Debentures

Competitiveness

- **Innovations:**
 - **Instant payments:**
 - important mechanism to democratize the means of payments.
 - **Open Banking:**
 - to reduce entry barriers and increase competition.
 - **Guarantees:**
 - development of guarantee centers operating as mechanisms to diversify risks and provide means to reduce market volatility.
 - **Cyber-security:**
 - this is a point of attention and risk in an increasingly digitized financial system.
 - **International reserves**
 - studies on the return and management of international reserves, and intervention instruments.

Transparency

- **Rural Credit:** studies on a new financing model for rural activity with focus on small and medium producers.
- **Real estate market:** modernize the mechanisms used to raise funds, allowing transparency on subsidies and widening the options available to households.
- **Relationship with Congress:** strengthen the relationship with Congress and to study ways to make objectives and progresses measurable.
- **Relationship with major investors:** develop mechanisms to improve the relationship of the Brazilian government with large portfolio investors.

Transparency

- **Market Efficiency:** enhance the efficiency in the market area of the BCB, generating synergies and expanding the flow of information.
- **Communication plan for the BCB actions:** improve communication of our actions and maintain frequent contact with the media and the public.
- **Transparency and communication:** develop objective and quantifiable methods to measure the efficacy of our communication.

Financial Education

- Create programs to stimulate financial education, through the deepening of actions with market and government institutions, and using cooperatives and microcredit entities as dissemination agents.
- Increase the participation of the population in the financial system and the generation of savings.



Conclusions

Conclusions

- The global outlook remains challenging, with changes in the risks.
- The macroeconomic environment:
 - Inflation around the target and anchored expectations;
 - Gradual process of economic recovery;
 - Interest rates at historical lows.
- Brazil needs to continue on the path of reforms, notably those of fiscal nature, and adjustments in the economy.

Conclusions

The Central Bank of Brazil must keep working to:

- Keep inflation low and stable, maintaining the excellent conduct of monetary policy, and continue to improve our communication;
- Keep the financial system solid and efficient, with a larger and more democratic capital market, with participation of more households and firms;
- Reduce the cost of financial intermediation, increasing the efficiency of this service and enhancing the competition.



Thank you