

Capital Markets in Brazil: Recent developments

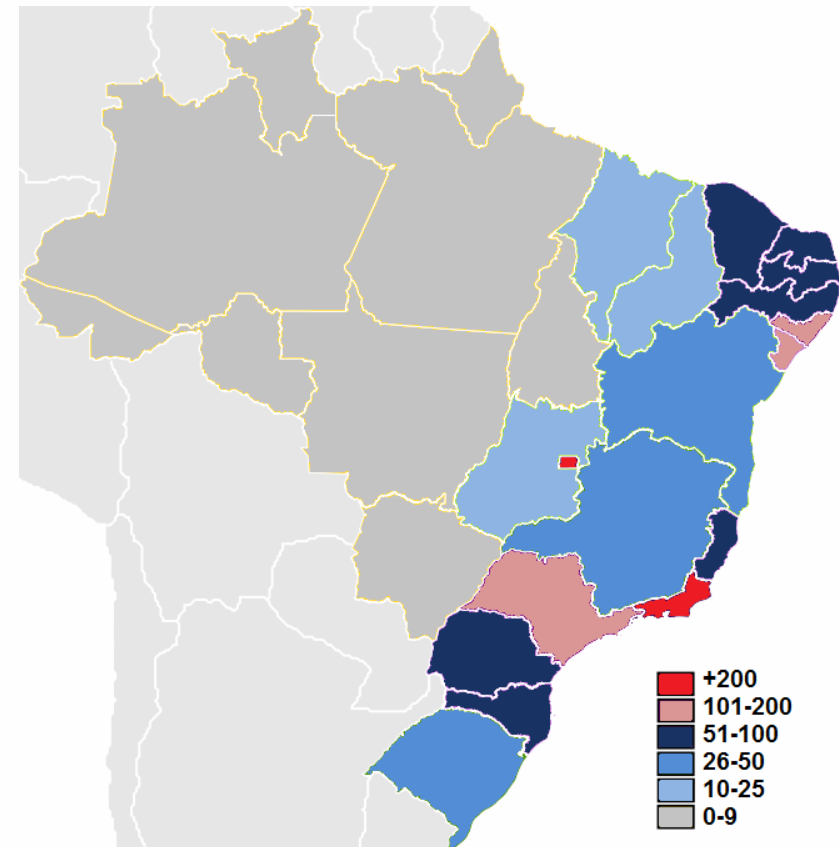
João Manoel Pinho de Mello, Deputy Governor for licensing and resolution

Context: diagnosis, reforms and initiatives

General Information about Brazil

- One of the largest countries in terms of territory, population and GDP
 - GDP: US\$ 1,868 billion (2018)
 - 5th largest area: 8.5 million km²
 - 6th largest population: 208.5 million inhabitants (2018)
- Vast natural resources, including recently discovered large offshore oil fields
- Diversified industrial base, dynamic and sophisticated private sector, and well-structured public sector
- Vigorous democracy, with free multiparty elections and stable political system

Demographic Density - 2016

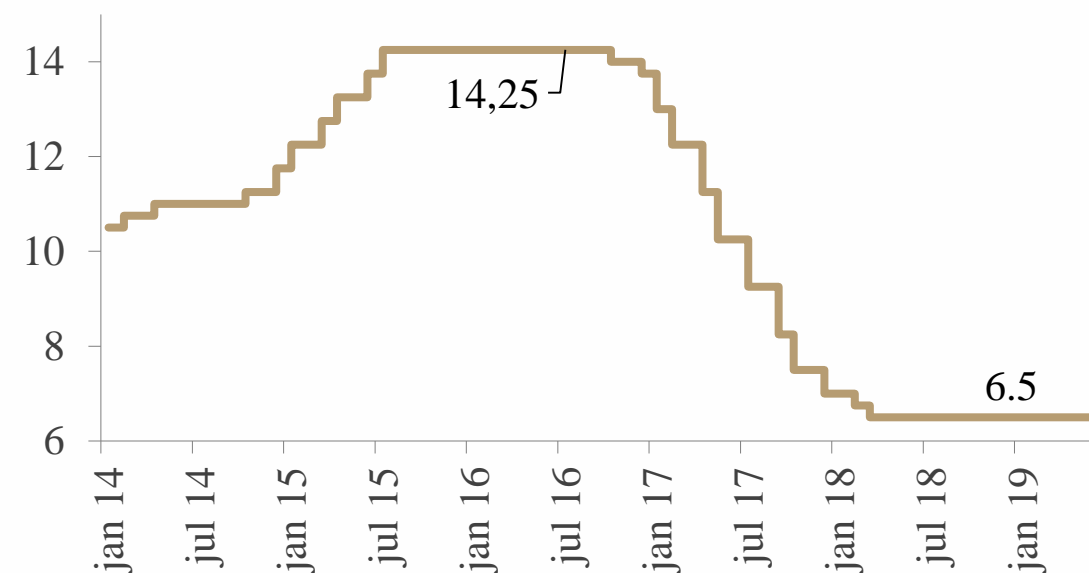


Macroeconomic overview



Inflation around the target and anchored expectations

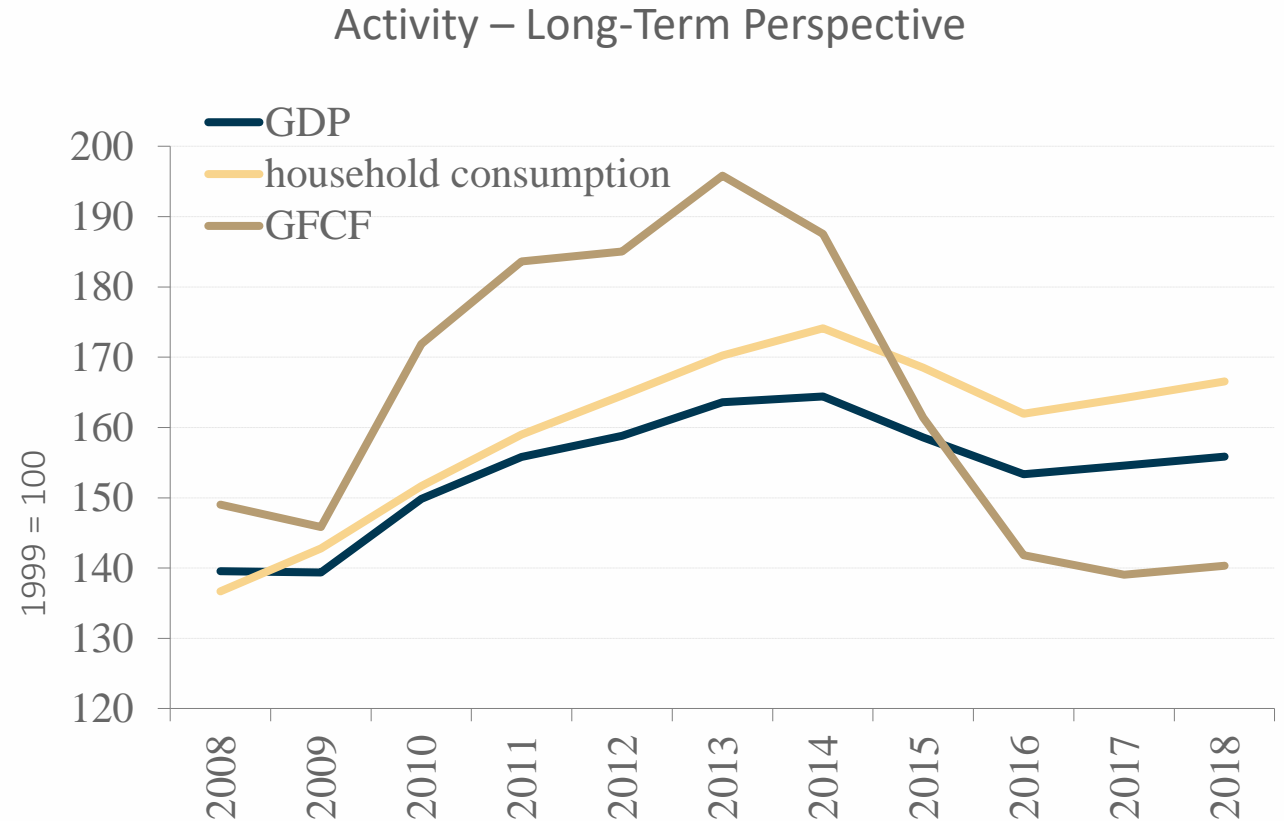
Policy rate (Selic) at a historical low



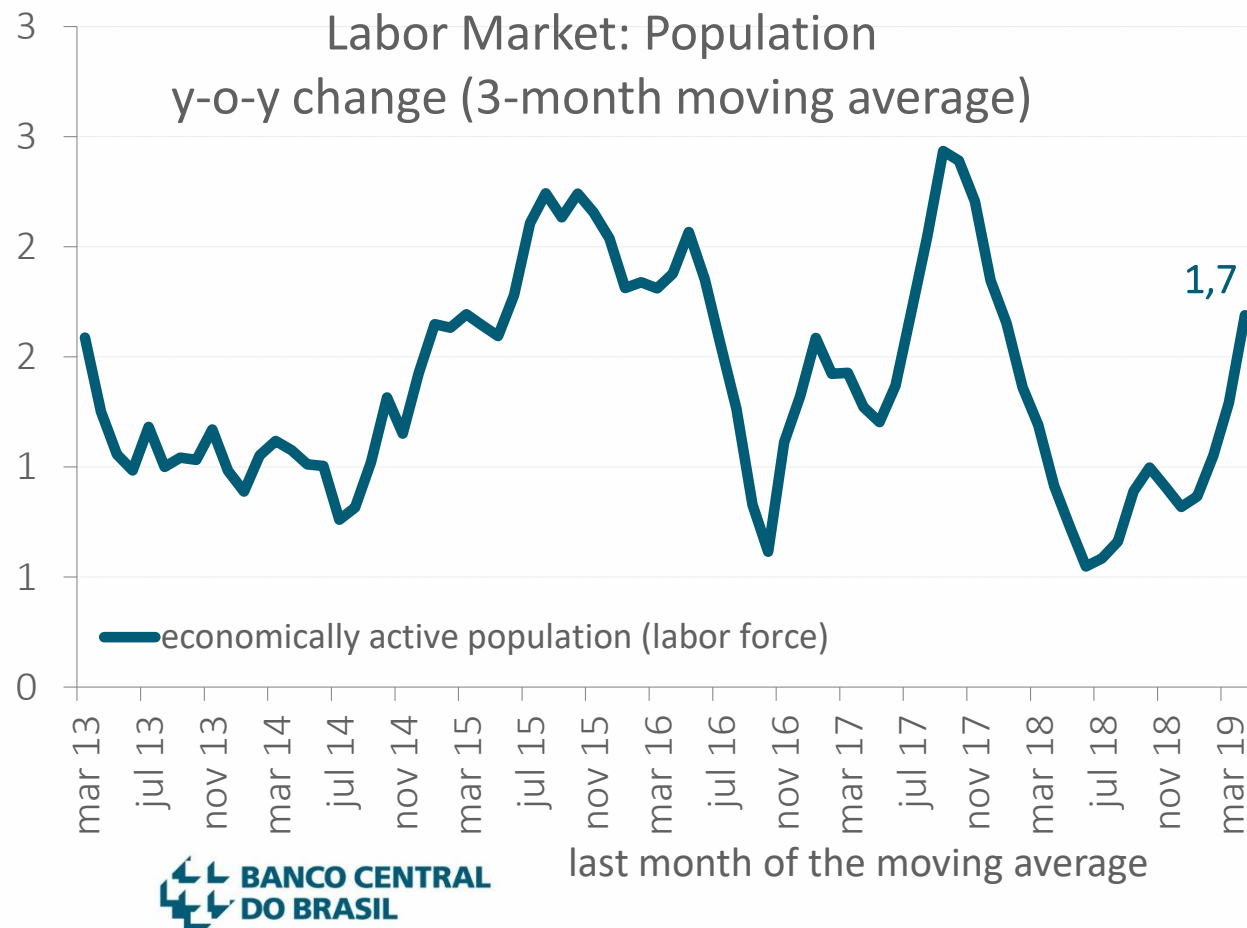
Brazil is gradually recovering its economic activity



Economic activity

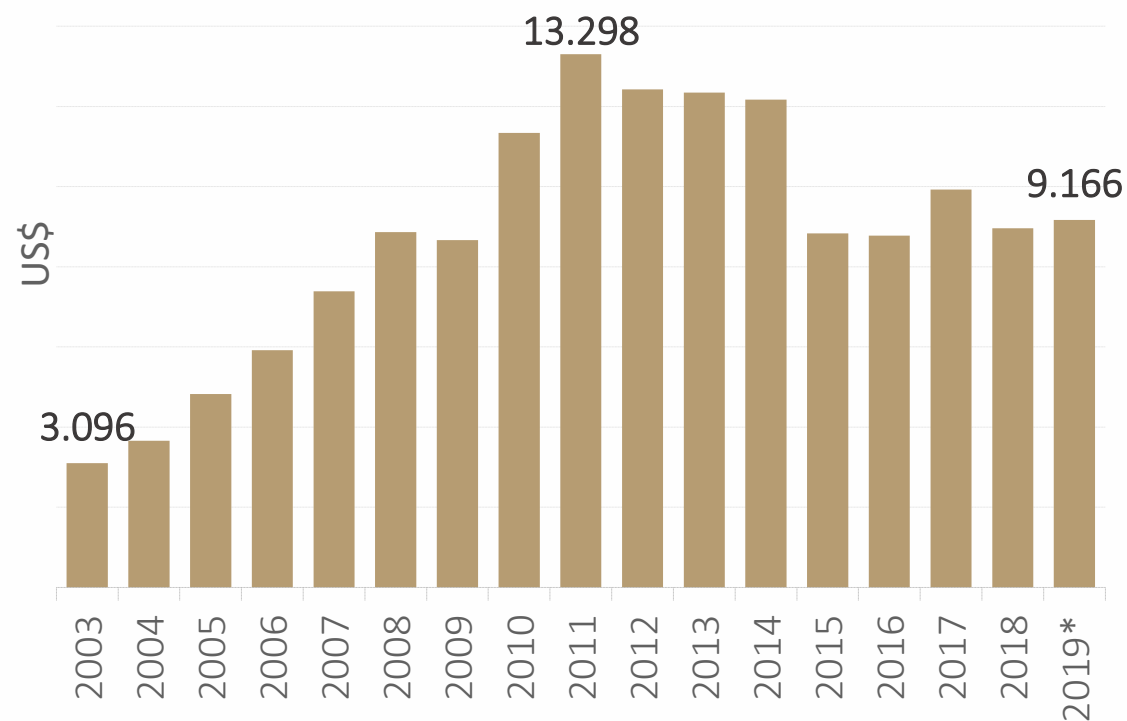


Brazil is gradually recovering its economic activity



Economic activity

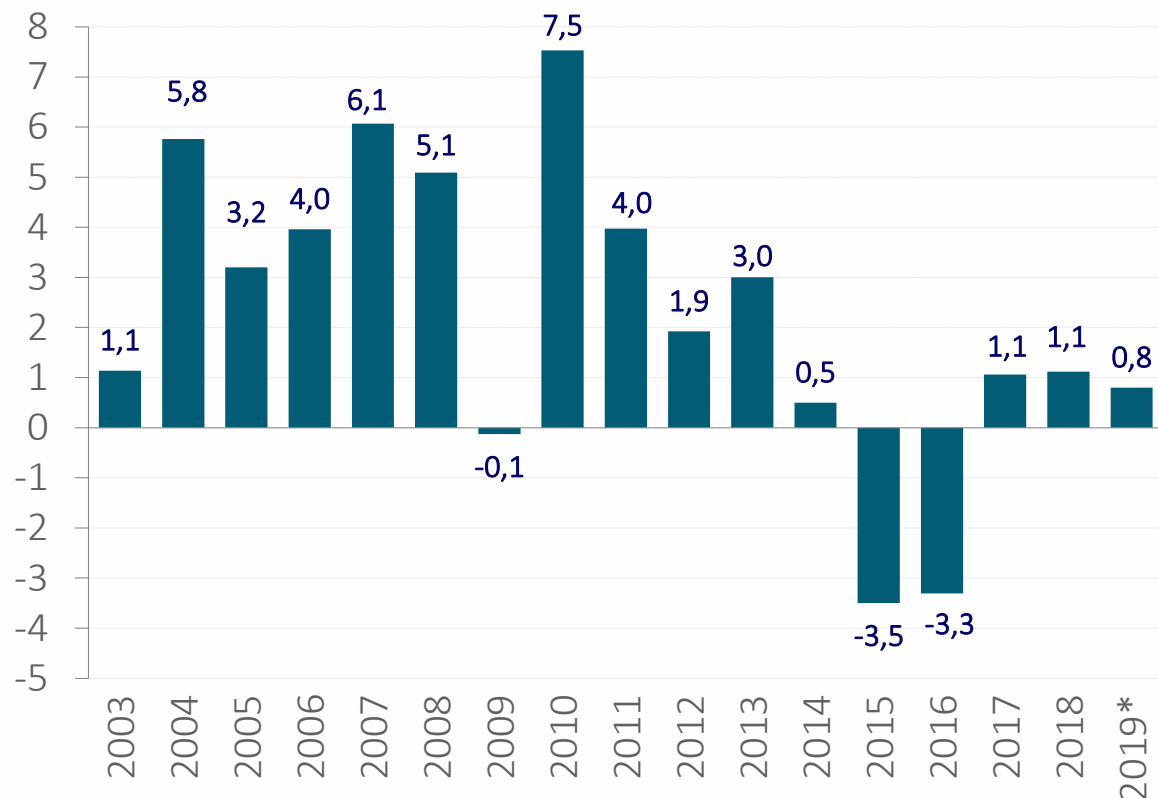
GDP per Capita in Dollar Terms



*BCB forecasts (Inflation Report – Jun 19)

Brazil is gradually recovering its economic activity

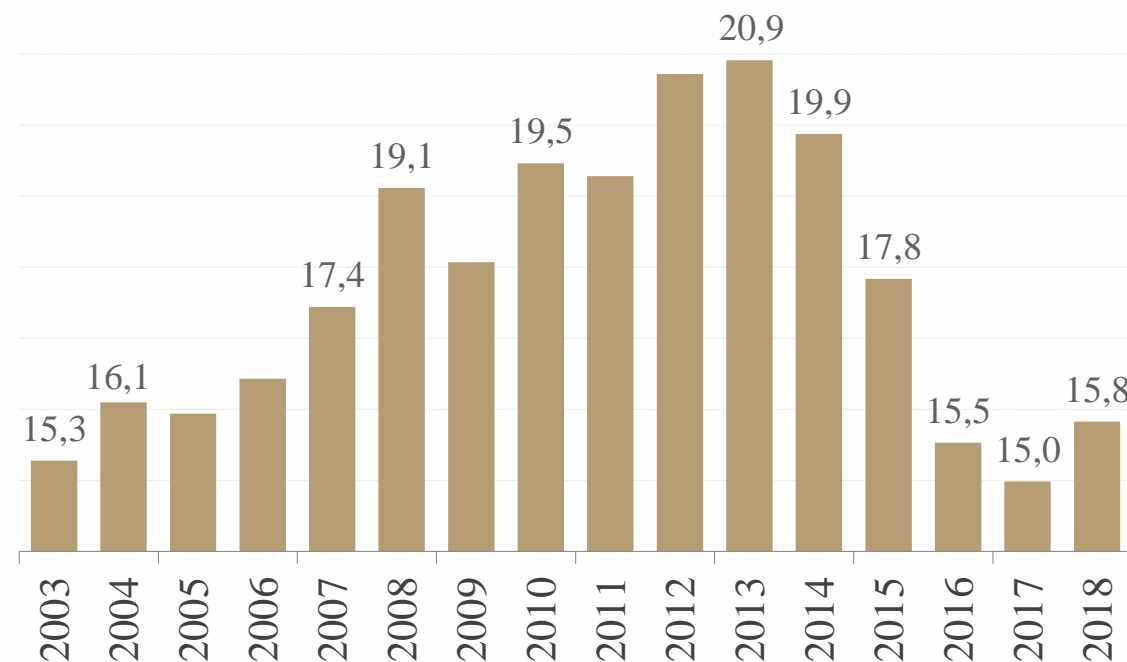
GDP Real Growth (%)



*BCB forecasts (Inflation Report – Jun 19)

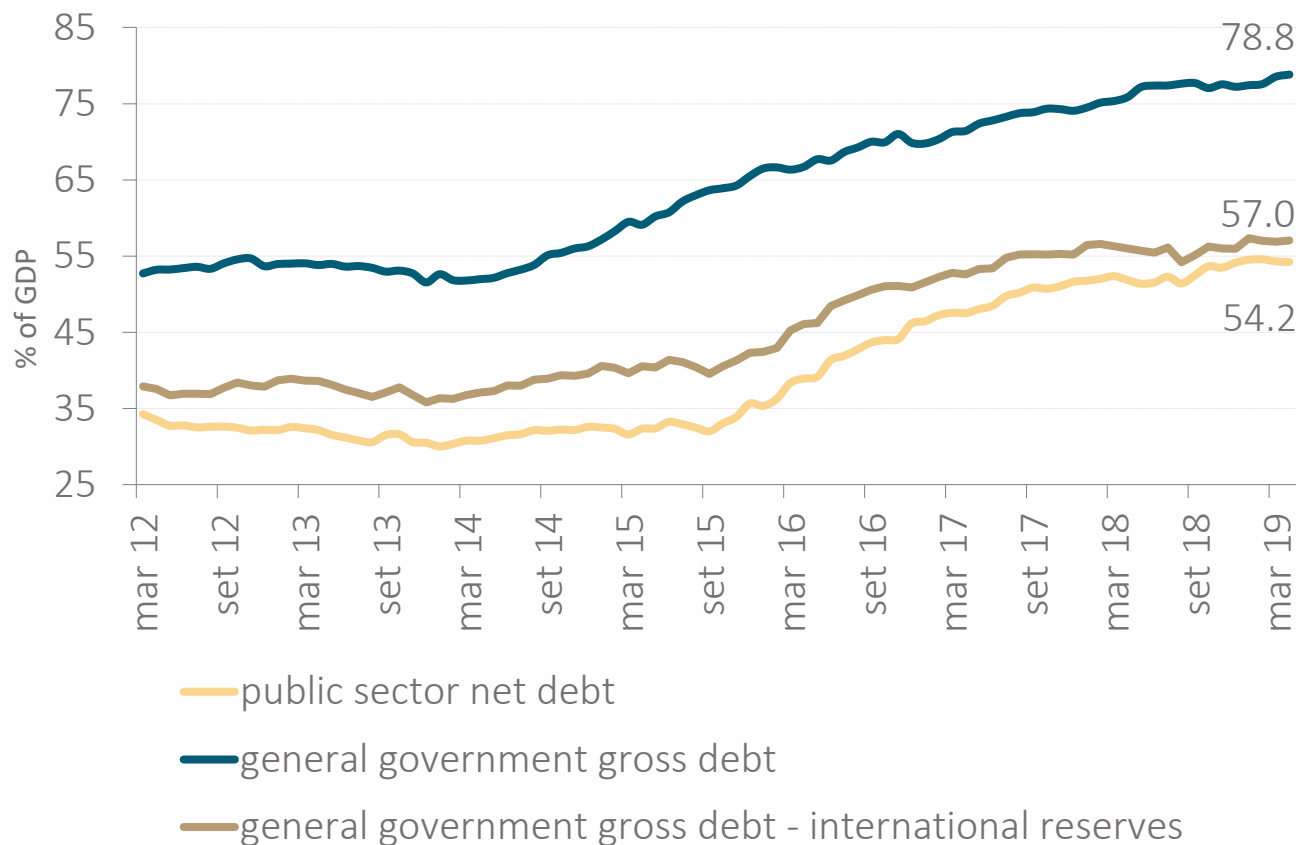
Economic activity

Investment Rate (% GDP)

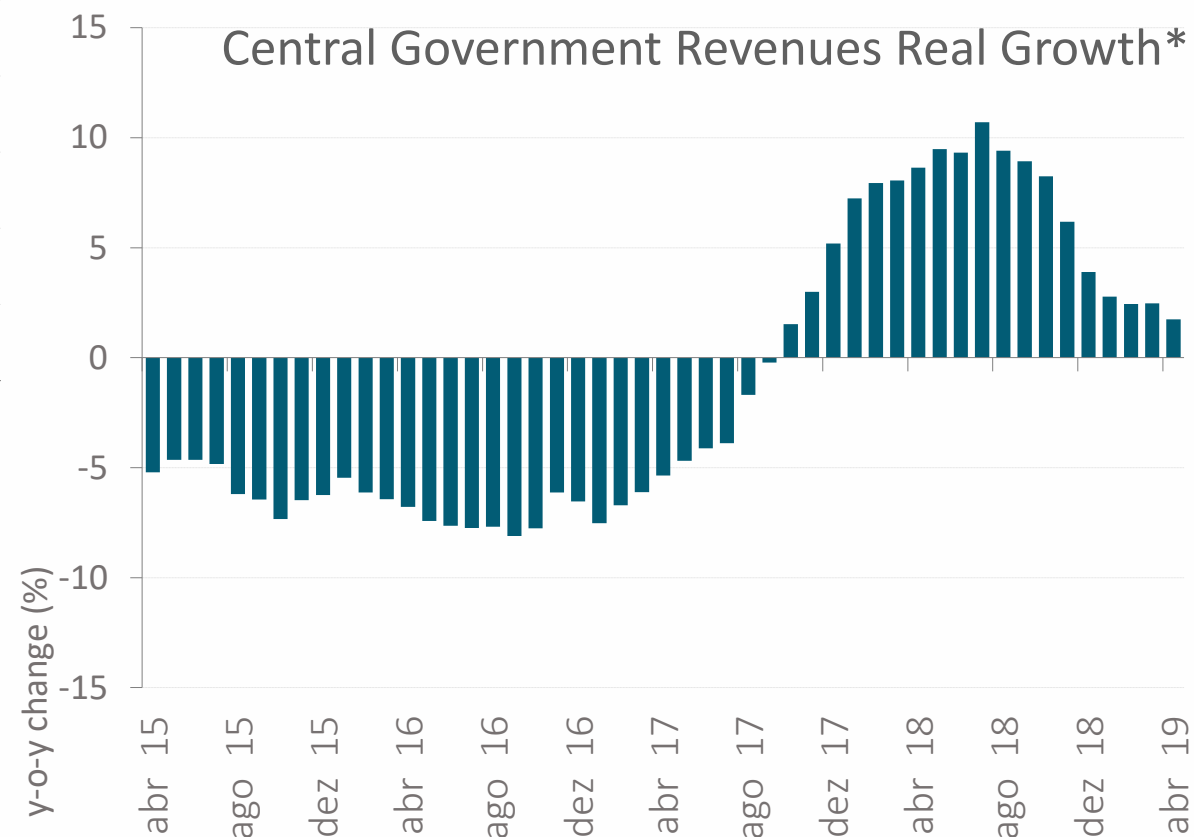


Fiscal Indicators

Public Debt



Central Government Revenues Real Growth*



*excludes revenues from repatriation of assets abroad

Capital Markets - Diagnostic

As of 2014 the drop in private investment generated surplus savings used to cover the need for public sector financing.

A growing public debt generated a crowding-out effect. Currently, about 92% of public debt securities are in the portfolio of institutional and foreign investors; while 60% of the equities are in the portfolio of other non-financial investors;

Brazil's market for long-term credit is underdeveloped. Historically, BNDES – Brazil's development bank - played a dominant role in providing long-term corporate loans.

- Debate: underdeveloped capital markets cause BNDES or BNDES causes underdevelopment?

Capital Markets - diagnostic

Regulatory reforms were enacted with the objective of eliminating distortions and promoting the development of a private capital market in Brazil.

The recent performance of Brazil's capital markets indicate that the reforms are being successful in achieving their goal.

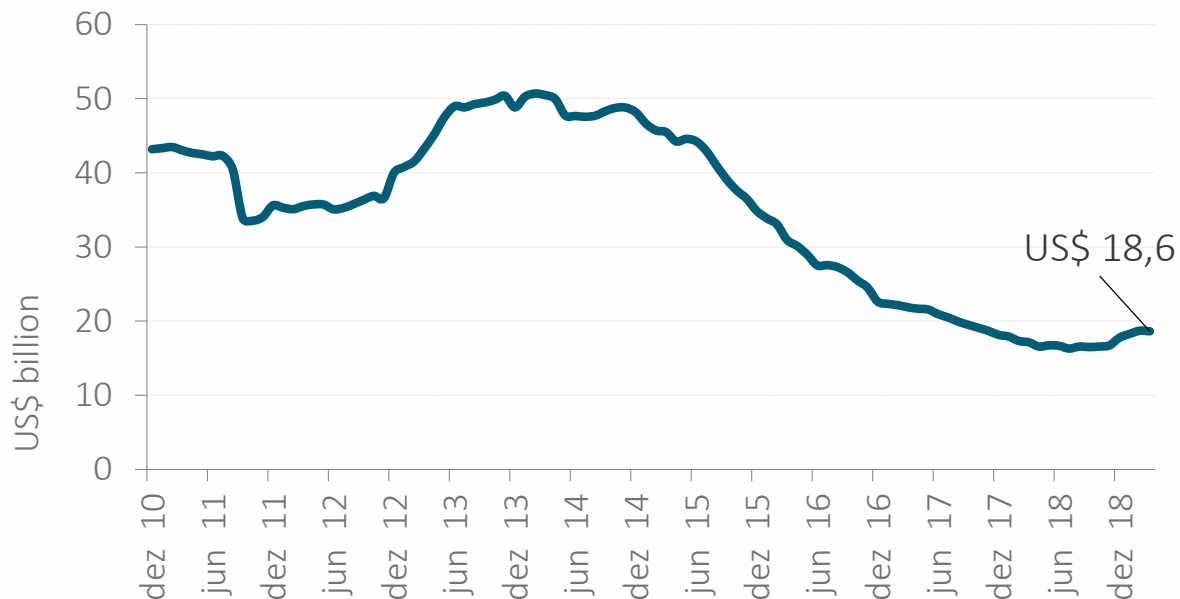
Current Scenario:

- Inflation around the target with low interest rates
- BNDES performance in synergy with the capital market: focus on longer term financing and for small and medium enterprises;
- Regulatory innovations fostering information symmetry and secured transactions: electronic issuance and registration of trade notes, centralized register of credit rights, fintechs, compulsory positive credit registry.

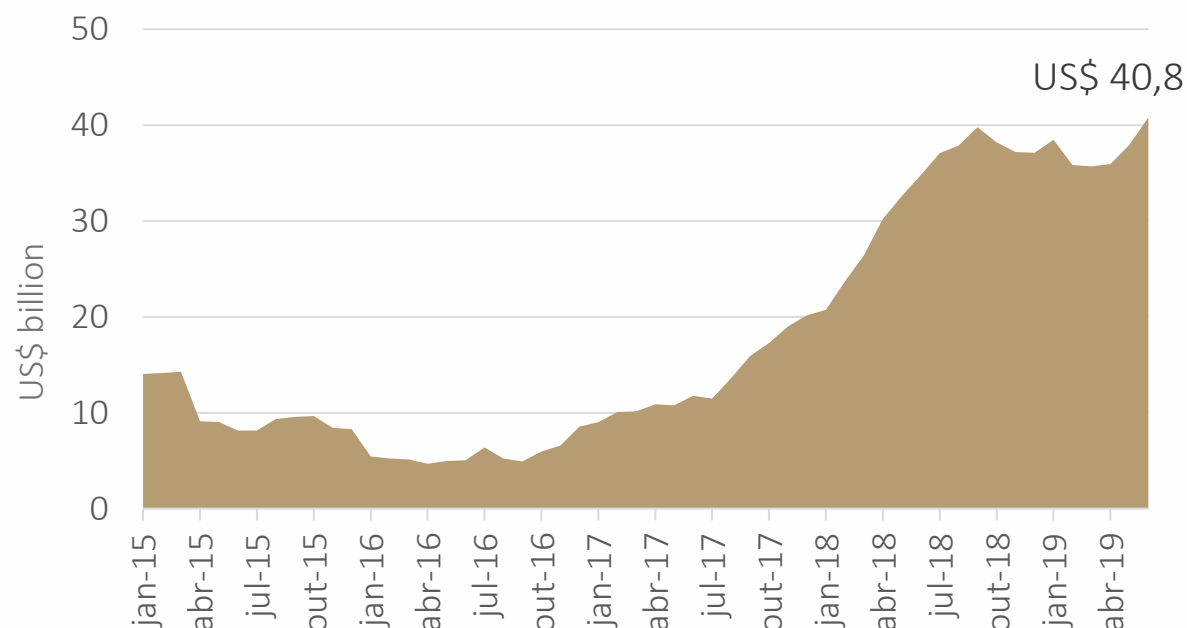
The TLP and the change in the BNDES's focus have shown that, **when the government reduces**, opening space in the market, **private initiative flourishes**.

Capital Markets in Brazil

BNDES Disbursements
12-month cumulative flows



Debentures
Accumulated emissions in twelve months



In % GDP, the decrease in the amount financed by the BNDES is offset by the increase in external resources and the capital market.

Financial liabilities of non-financial corporations - Composition	2014	2018
Int. Market - Intercompany Loans	18,8%	26,0%
Int. Market - registered debt	10,2%	12,3%
BNDES	20,3%	12,9%
Banking credit (earmarked)	27,9%	24,4%
Debentures	8,9%	10,4%
Securities (ex. debentures)	7,5%	8,9%
Banking credit (others)	6,5%	5,2%

Source – CEMEC/FIPE



Capital Markets in Brazil

In 2017 and 2018 corporate debt played a key role in corporate finance: in 2017 they increased by US\$ 15,9 billion (to a reduction of US\$ 26,6 billion in total bank credit); in 2018 it represented 76% of the net additional funds raised by domestic companies.

Since 2014, BNDES role has fallen and corporate debt has risen from 22.9% to 31.3% of the debt balance in the domestic market. In addition, debentures account for about half of the balance of corporate debt securities.

Source – CEMEC/FIPE

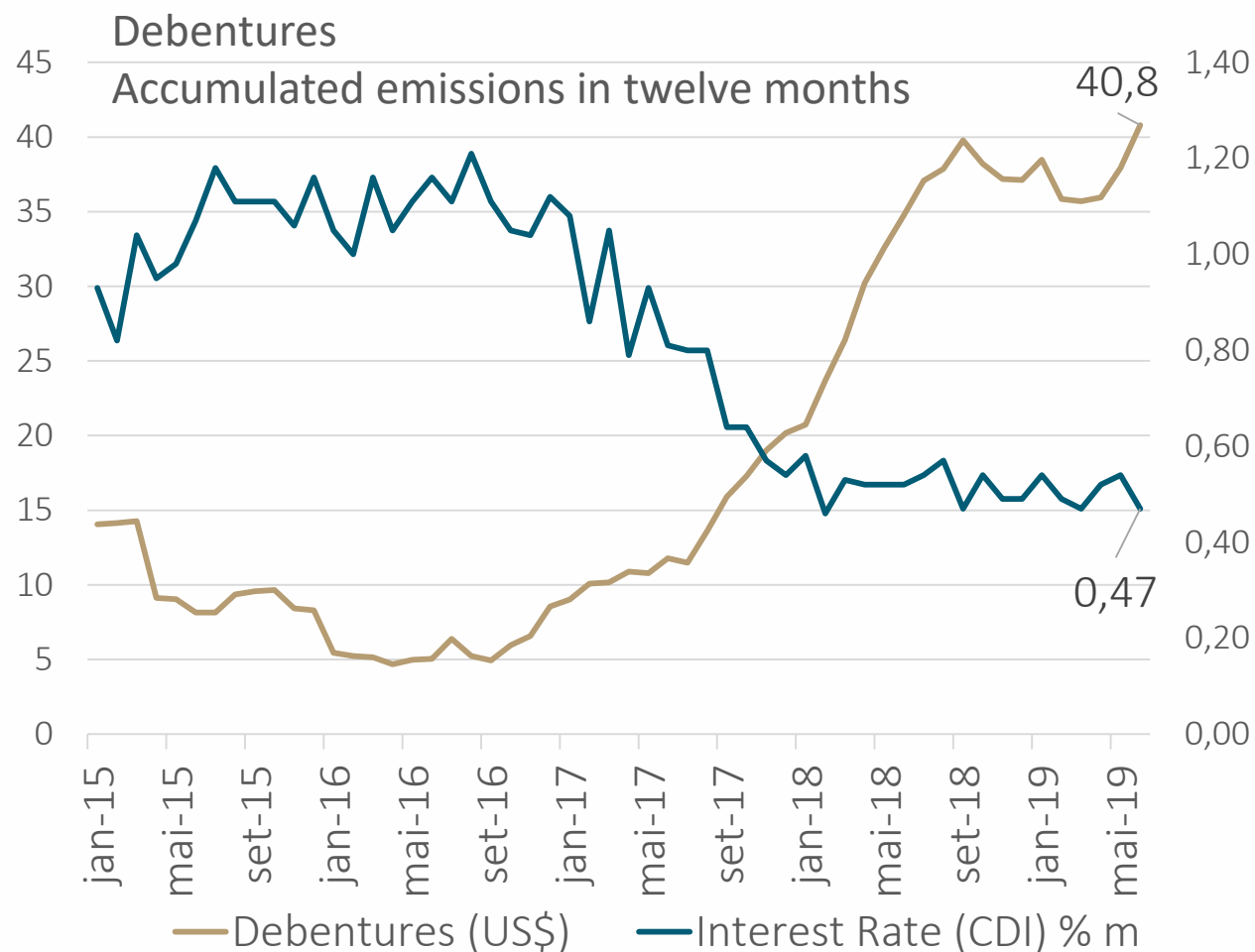
In addition to the new role of BNDES, the growing use of corporate debt by companies in 2017 and 2018 was induced by the fall in interest rates.

In public companies (excluding Petrobras and Vale), external resources and capital markets account for about 2/3 of total debt, compared to 41% in the largest privately held companies. However, in these companies, external resources represent 2/3 of total debt and capital markets only 7.7%.

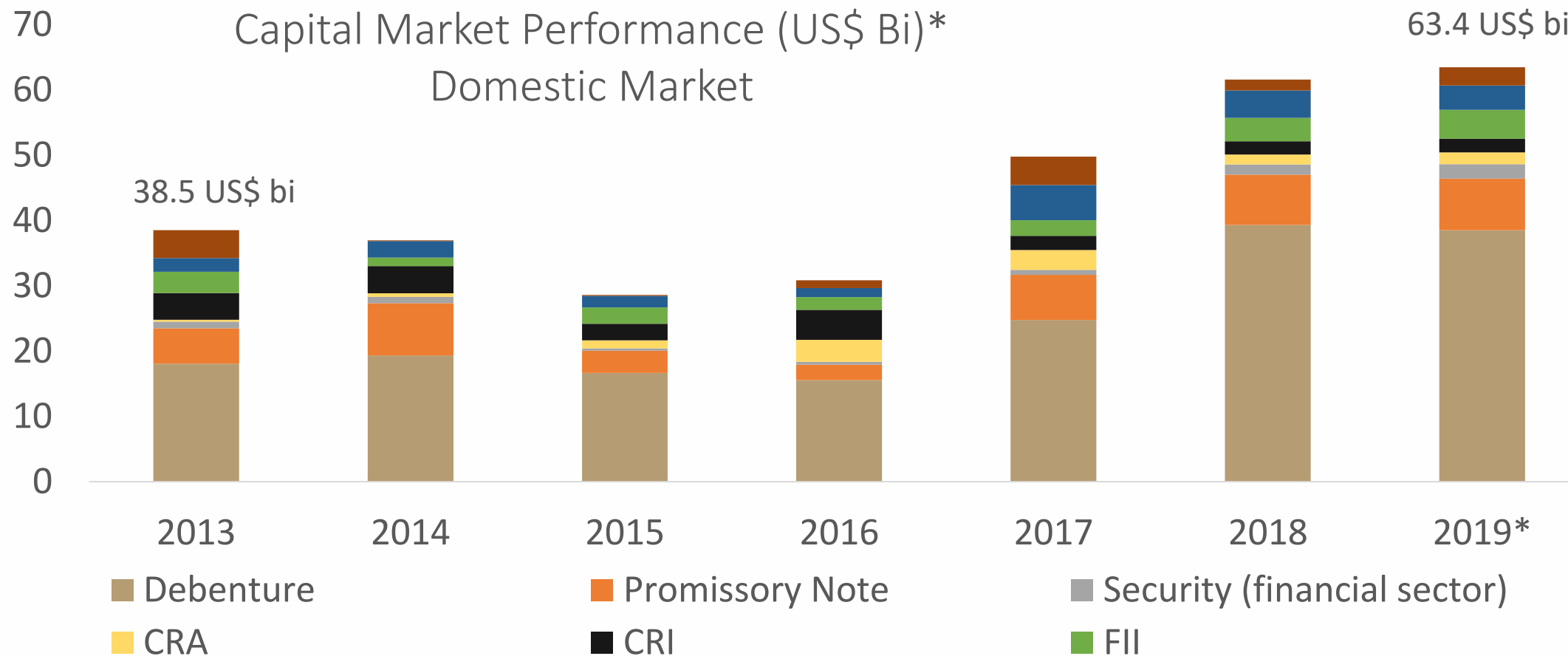
Source – CEMEC/FIPE



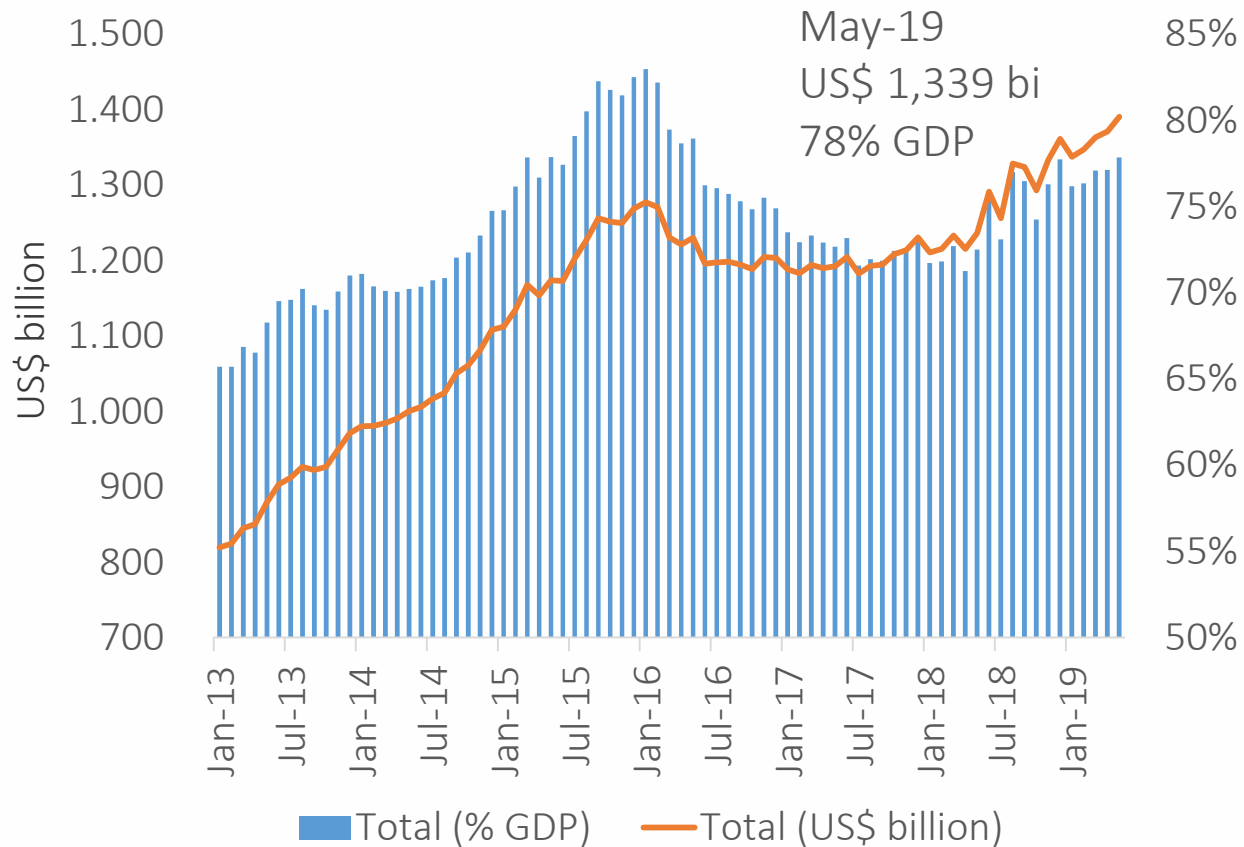
Capital Markets in Brazil



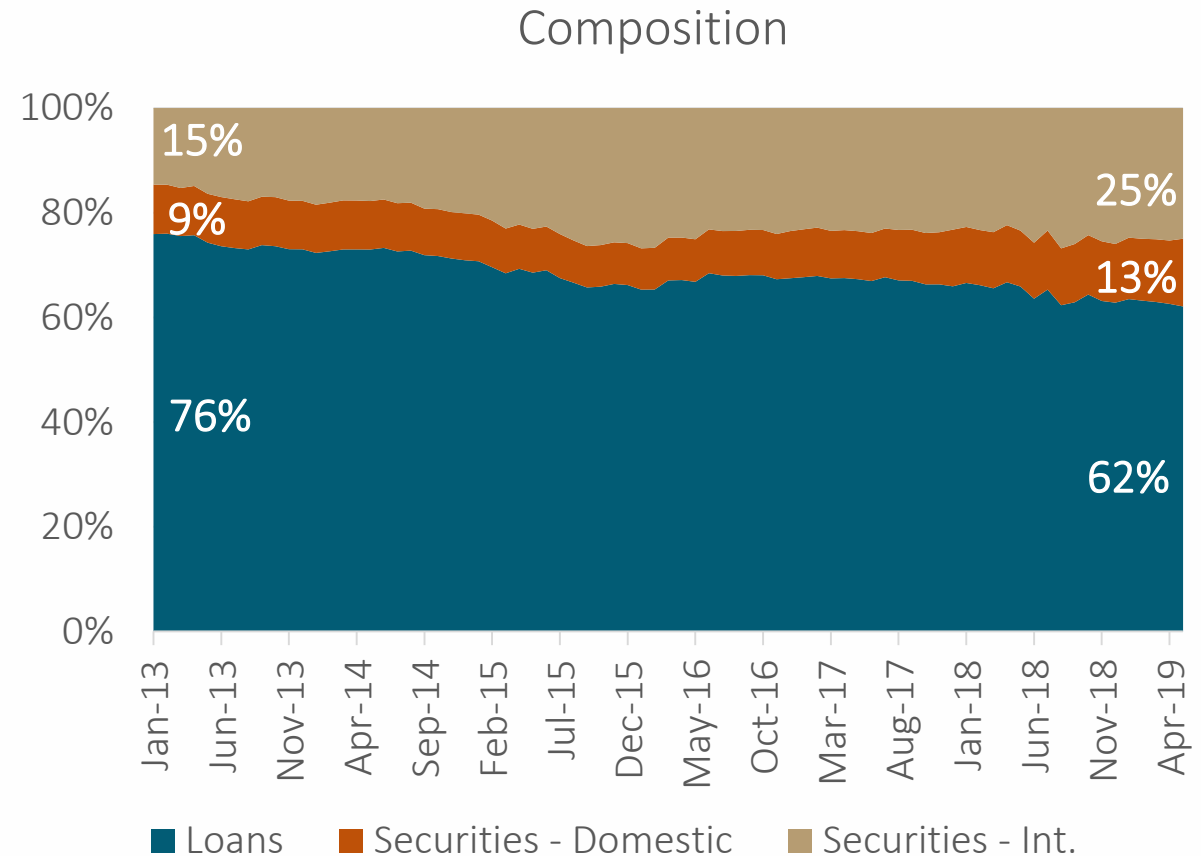
Capital Markets in Brazil



Total outstanding credit - non-financial sector (firms and families)



Capital Markets in Brazil



Capital Markets in Brazil

Highlights:

- SMEs have less access to lower-cost resource sources.
- Tax subsidized debentures (debêntures incentivadas) have financed, on average, around 22% of infrastructure investments.
- Debentures maturity may not cover the need of long term financing, especially in infrastructure (92% of issues with a maturity up to 14 years).
- Benefited by exemption from income tax, individual investors have a significant participation (61%) in the issuance of infrastructure debentures

Source – CEMEC/FIPE

Capital Market Agenda

*Infrastructure financing,
development of the insurance
and pension markets and
broadening of the debt market*



Strategies focusing a single goal: to **promote a favorable business environment**

Open the economy and **expose it to competition**

Improve the allocation of capital: **reduce gradually subsidized credit and the centralized allocation of capital**

Simplification and harmonization of rules (less bureaucracy)

Equality of conditions irrespective of the origin of capital

Stimulating **financial intermediation, private investment** and **reducing the cost of capital**

Capital Market Initiatives

*Infrastructure financing,
development of the insurance
and pension markets and
broadening of the debt market*



Cost reduction for the opening of **accounts for non-residents**

Development of **reverse mortgage** and improve **home equity**

Establishment of **indicators of market capitalization** and **expansion of the information database**

Disclosure of the **fundamental requirements** that will guide the implementation of **open banking, instant payments and sandbox**

Improvement of the regulatory framework for **pension products**

Incentives to **foreign investors**

Thank You

João Manoel Pinho de Mello, Deputy Governor for licensing and resolution