

Conference on
Global Finance in Transition

Session III
Countries' Experiences

Istanbul, Turkey

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BANCO CENTRAL DO BRASIL

Brazilian experience

Local currency bond market – LCBM

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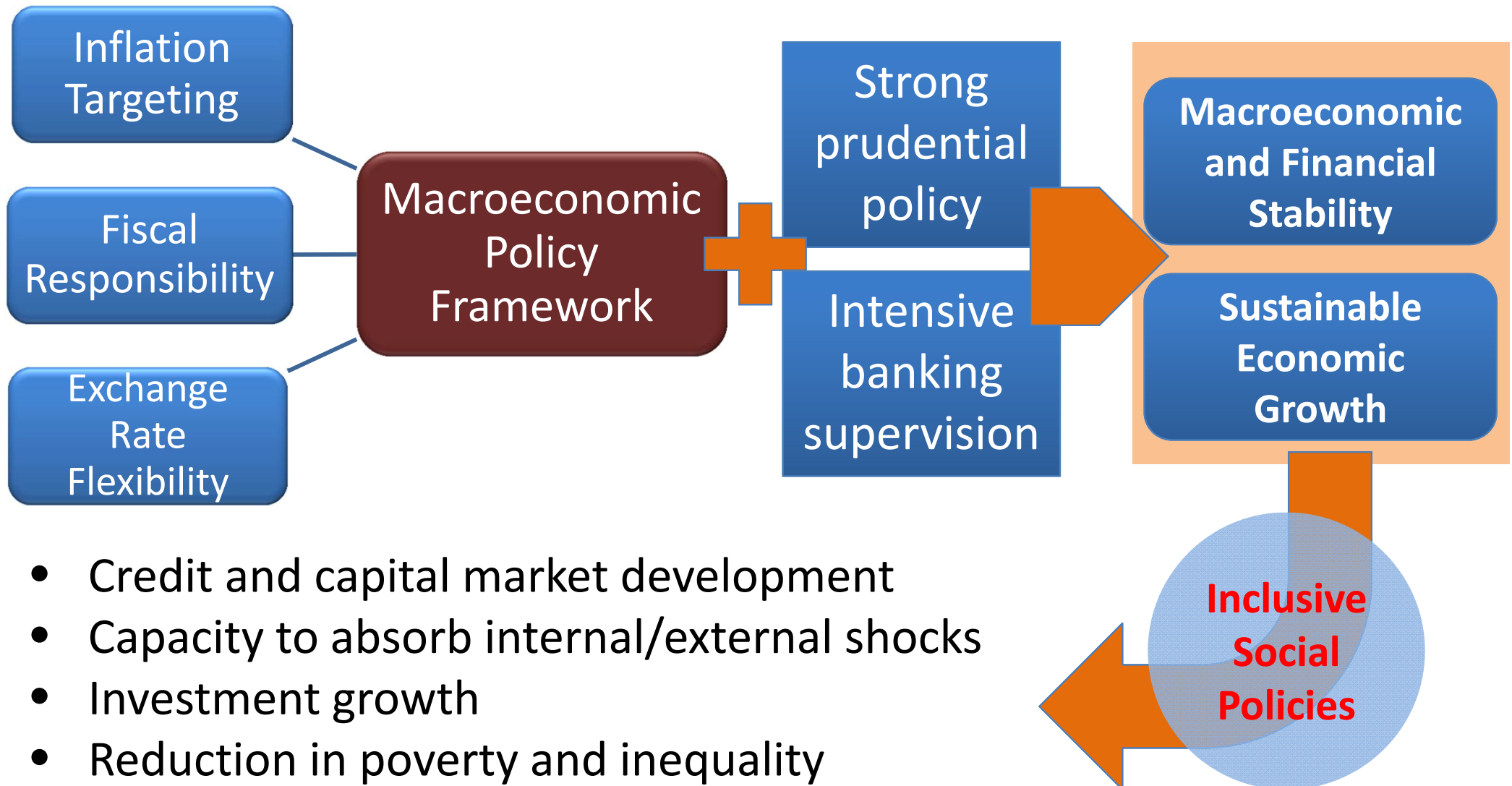
Agenda

- **Evolution of LCBM in Brazil**
 - *Main preconditions*
 - *Market developments*
- **Global crisis remarks**
- **Heading to the future**
- **Figures**

Evolution of LCBM in Brazil

- Main preconditions
- Market developments

Main preconditions



- Credit and capital market development
- Capacity to absorb internal/external shocks
- Investment growth
- Reduction in poverty and inequality
 - *40 million people joined the middle class*

Main preconditions

- **Brazilian financial system**
 - Growing and solid
 - Well capitalized/provisioned
 - Good results in stress tests
 - Low level risks
 - Very well assessed by IMF & World Bank
 - Brazilian Payment System (SPB)
 - Complied with best international standards
 - Settlement and register with central counterparties

Evolution of LCBM in Brazil

- Main preconditions
- Market developments

Market development

Infrastructure investment needs

SECTOR	VALUE (USD bn)
Oil and Gas	212
Logistics & transport	86
Electric energy	71
Telecommunications	49
Basic sanitation	41
TOTAL	459

Source: ABDIB (Brazilian Association of Infrastructure and Basic Industries).

Market development

Infrastructure investment needs

- Discussion points
 - *The role of Government and public banks (mainly BNDES) as source of funds*
 - *Long term private sector financing*
 - *Indexation to short term interest rates*
 - *Secondary market*

Market development

- **Provisional Measure 517/2010**
 - **Law 12,431/2011**

Capital market as long term investment funding – focused on infrastructure projects
- Amended the Brazilian Corporation Act
 - *Flexibility to security distributions*
 - *To foster the secondary debt market*
- Tax incentives to debentures related to infrastructure investment

Market development

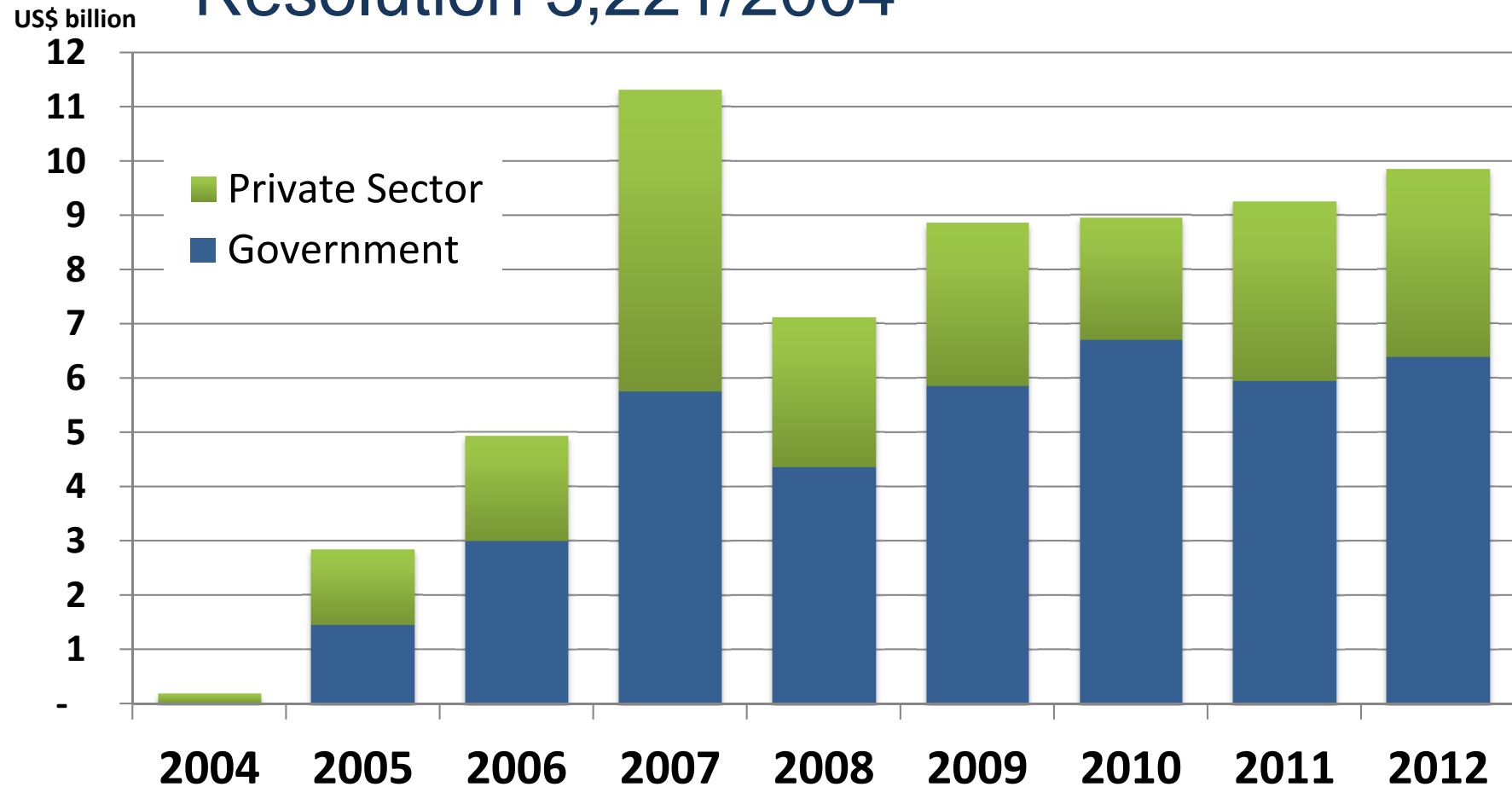
- **Decree 7,632/2011**
 - Tax on Financial Operation (IOF) = 0
 - *Inflows from foreign investors to bonds/securities issued under Law 12,431*
- **Resolution 4,176/2013**
 - Minimum term for fixed income investment funds linked to pension funds

Market development

- **Instruments – recent developments**
 - FIDC (Asset Backed Securities)
 - CRI (Mortgage Backed Securities)
 - LF (Financial Bills)

Market development

- Real-denominated securities placed abroad
- Resolution 3,221/2004



Global crisis remarks

-
- Original sin (currency mismatch) – the end
 - Capital flows
 - Resilience
 - Lessons
 - *Deepening financial market infrastructure and regulation play important role*
 - *Development of financial sector as key element to expand absorptive capacity for sizable capital flows in medium term*
 - *LCBM helps to mitigate over reliance on banking sector*

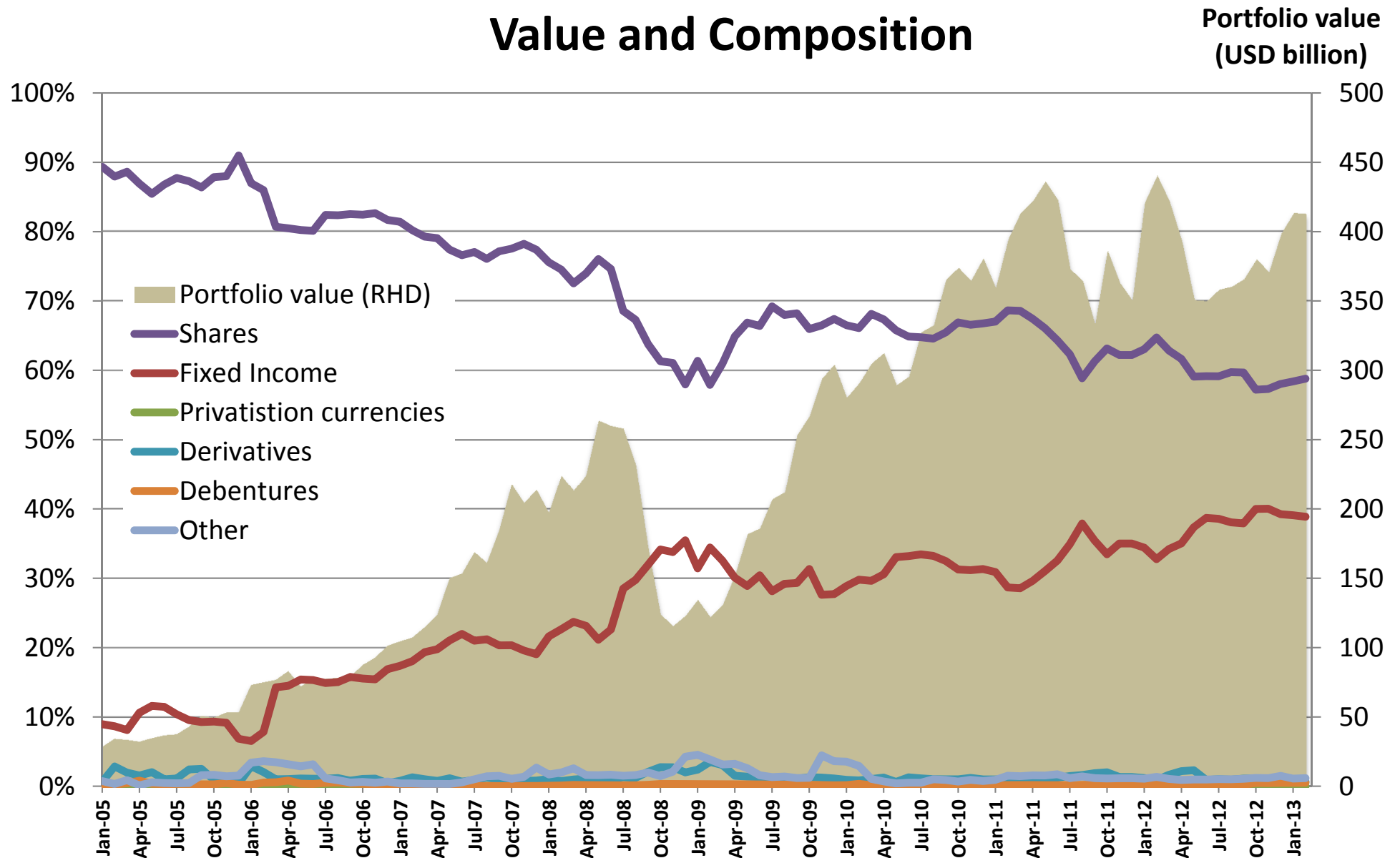
Heading to the future

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- **Secondary market development**
 - **Diversification of long term funding for corporate segment**
 - Bank credit channeled to company with low market access
 - Development of instruments
 - The role of public sector
 - **Efficient allocation of funding to LT projects**
 - **Diversification of investor base/liquidity**
 - **Short term interest rates deindexation**

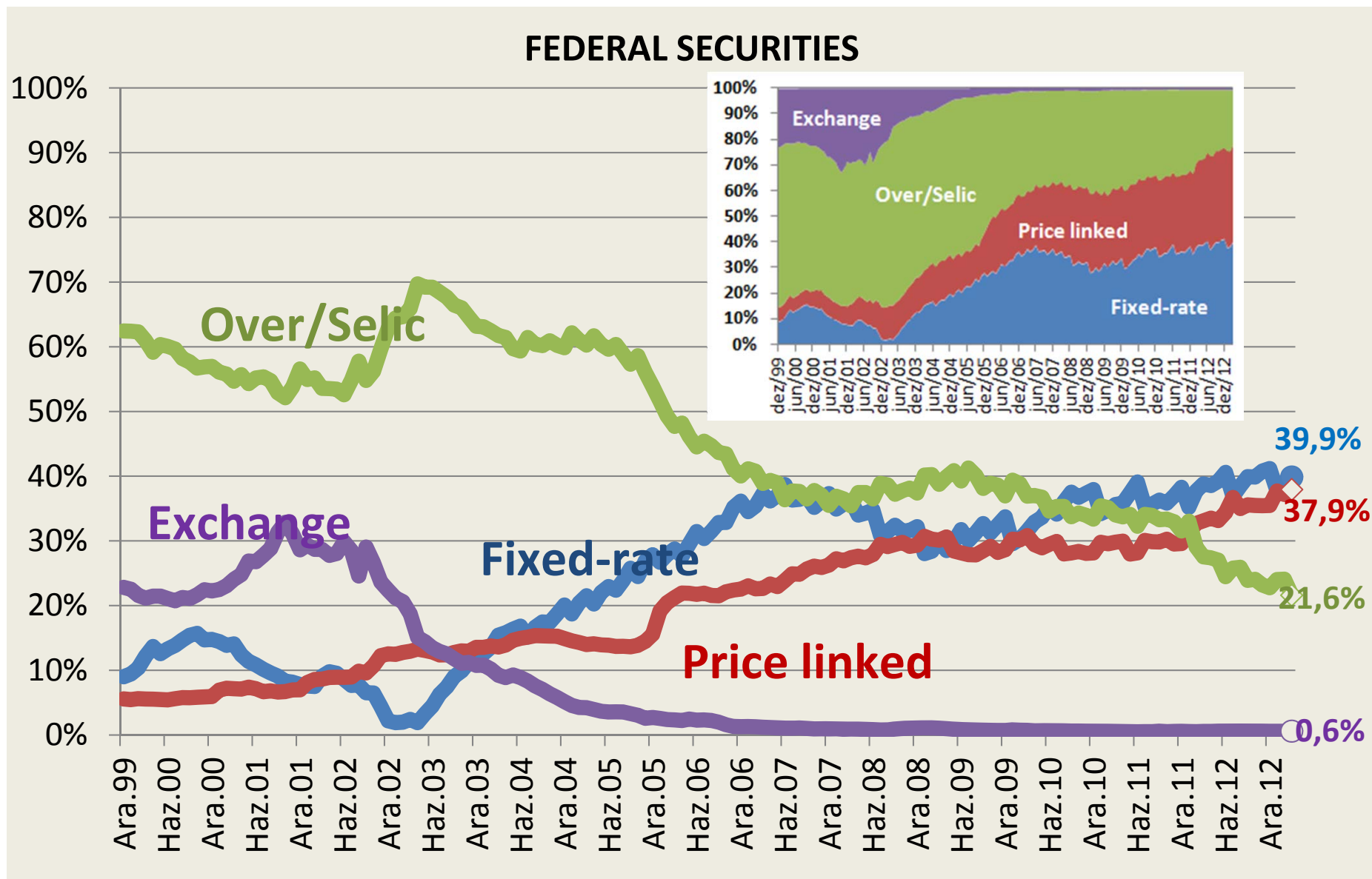
Figures

Portfolio – Foreign investor participation

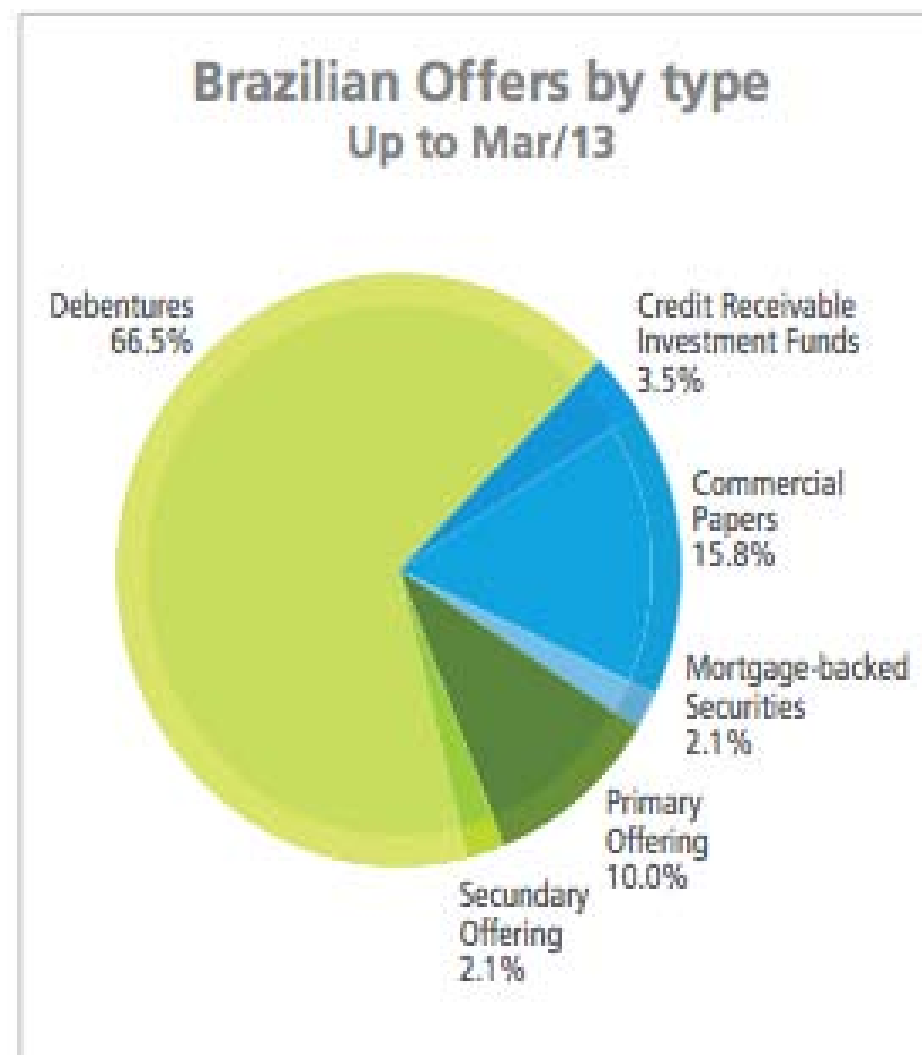
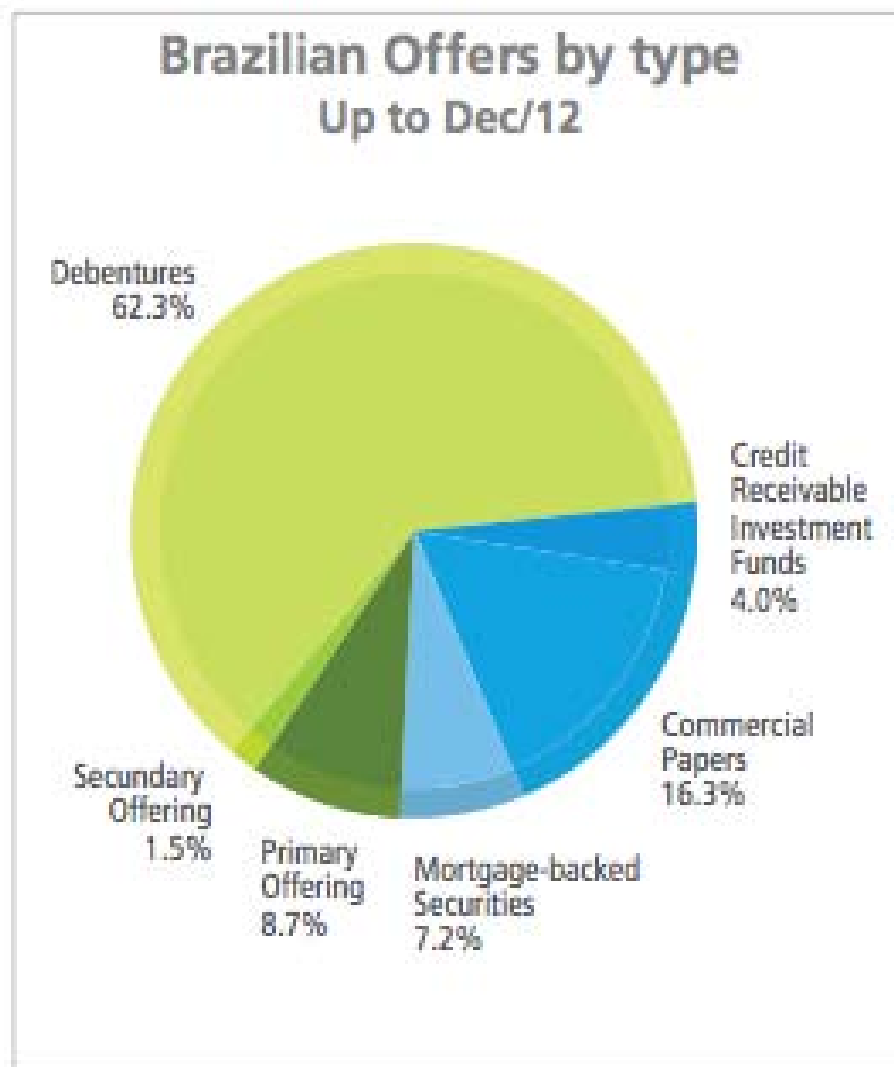
Value and Composition



Portfolio – Share by indexing factor

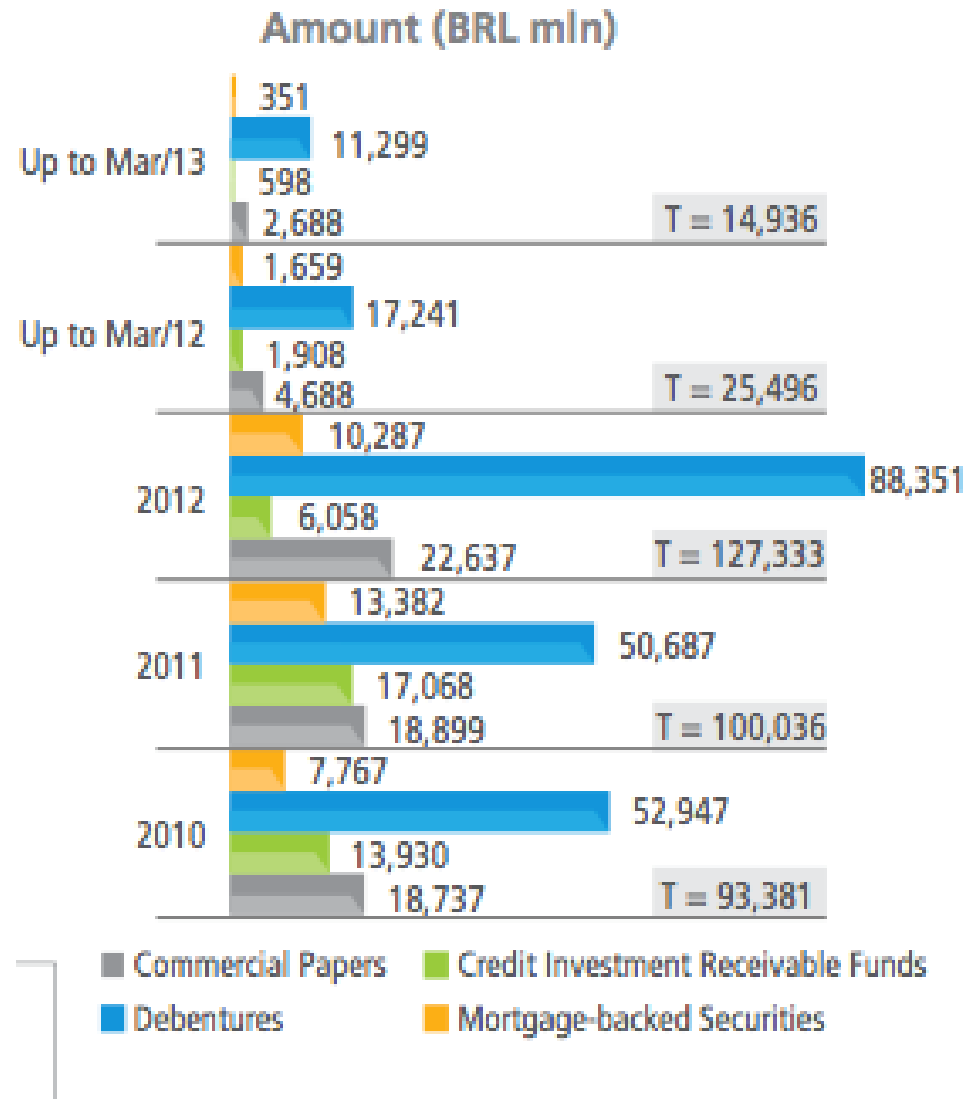


Portfolio – Private Sector



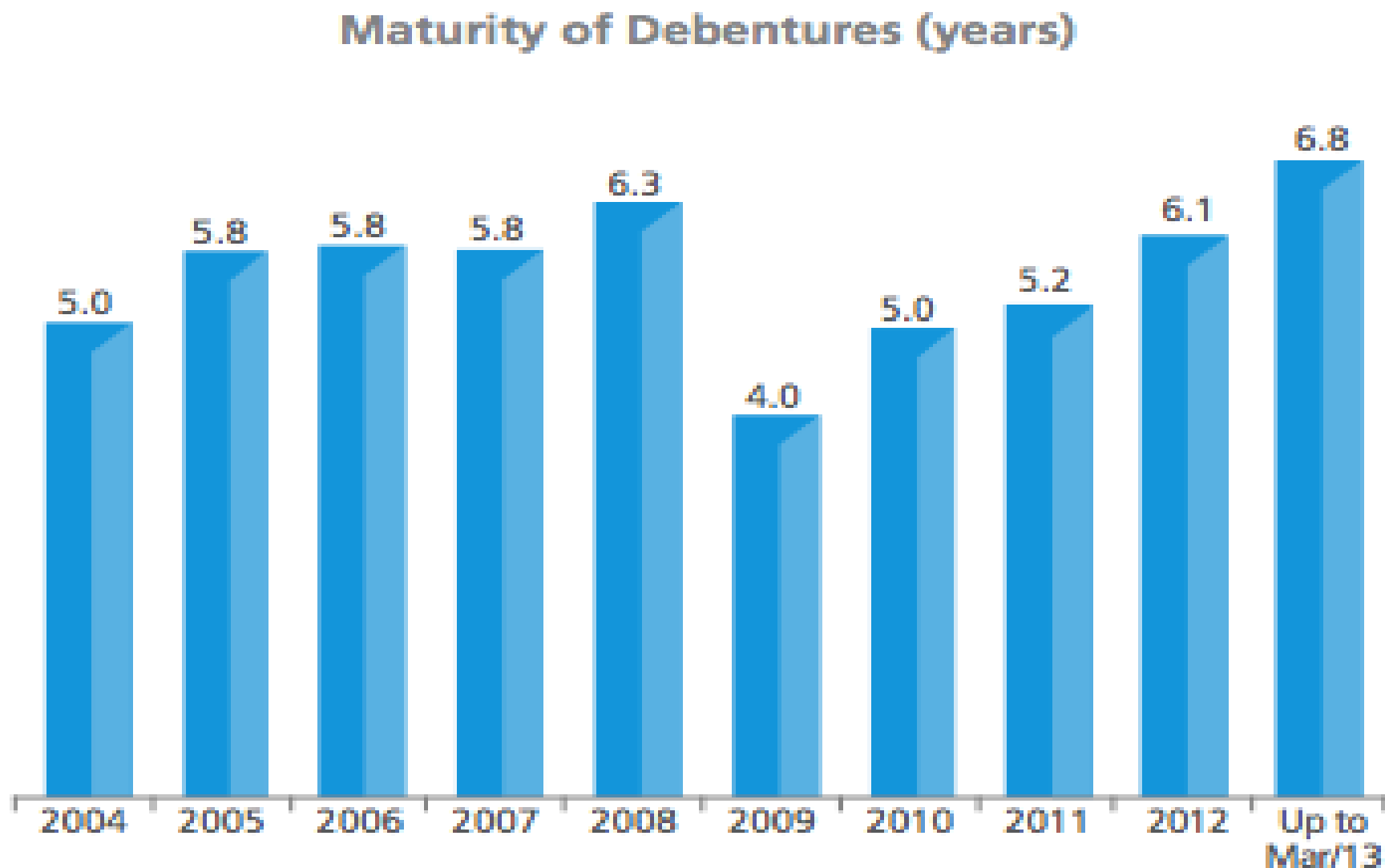
Source: Boletim Anbima (Brazilian Financial and Capital Markets Association) – Jan and Apr/2013.

Portfolio – Private Sector



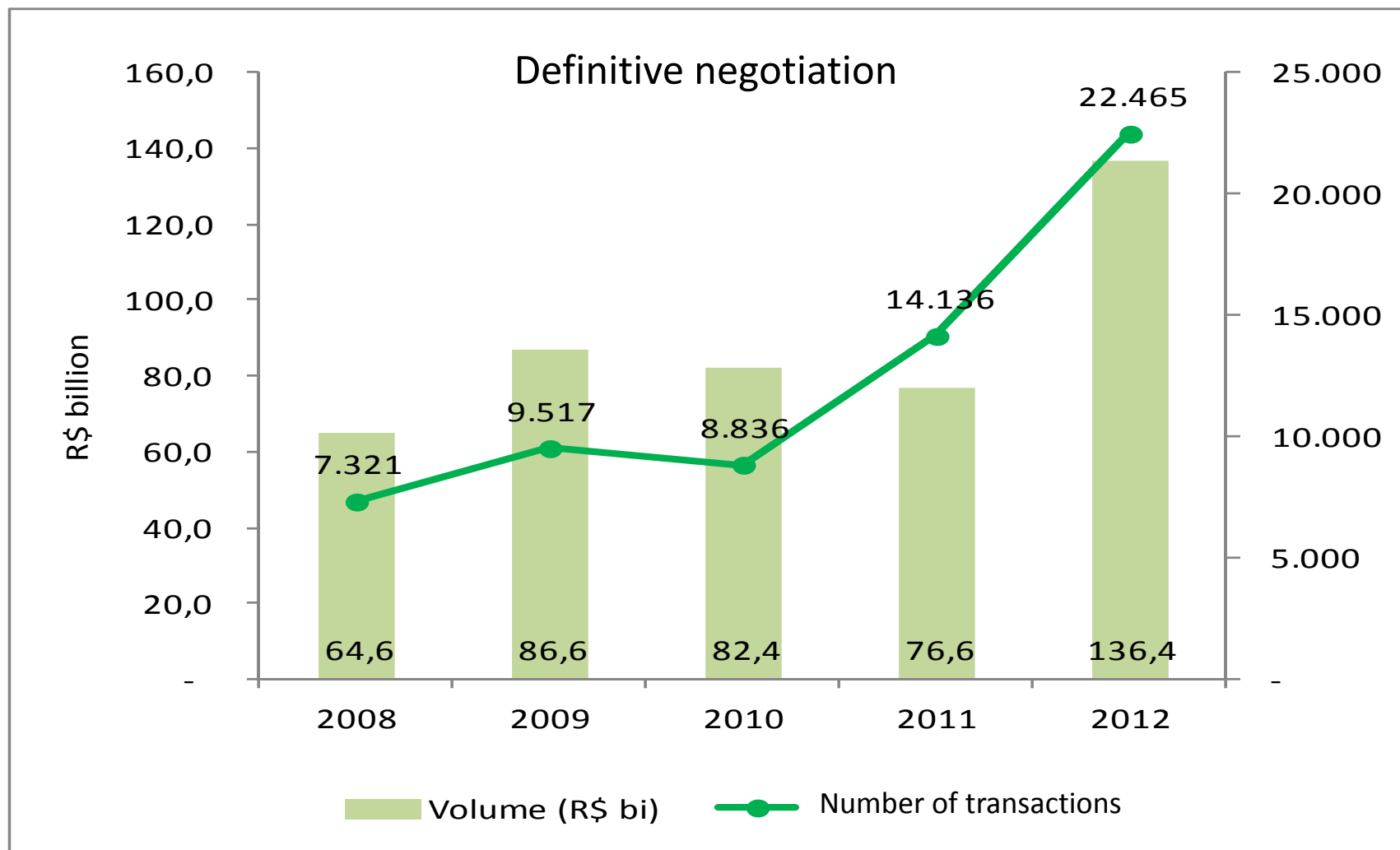
Source: Boletim Anbima (Brazilian Financial and Capital Markets Association) – April/2013

Portfolio – Maturity of debentures



Source: Boletim Anbima (Brazilian Financial and Capital Markets Association) – April/2013

Portfolio – Secondary Market

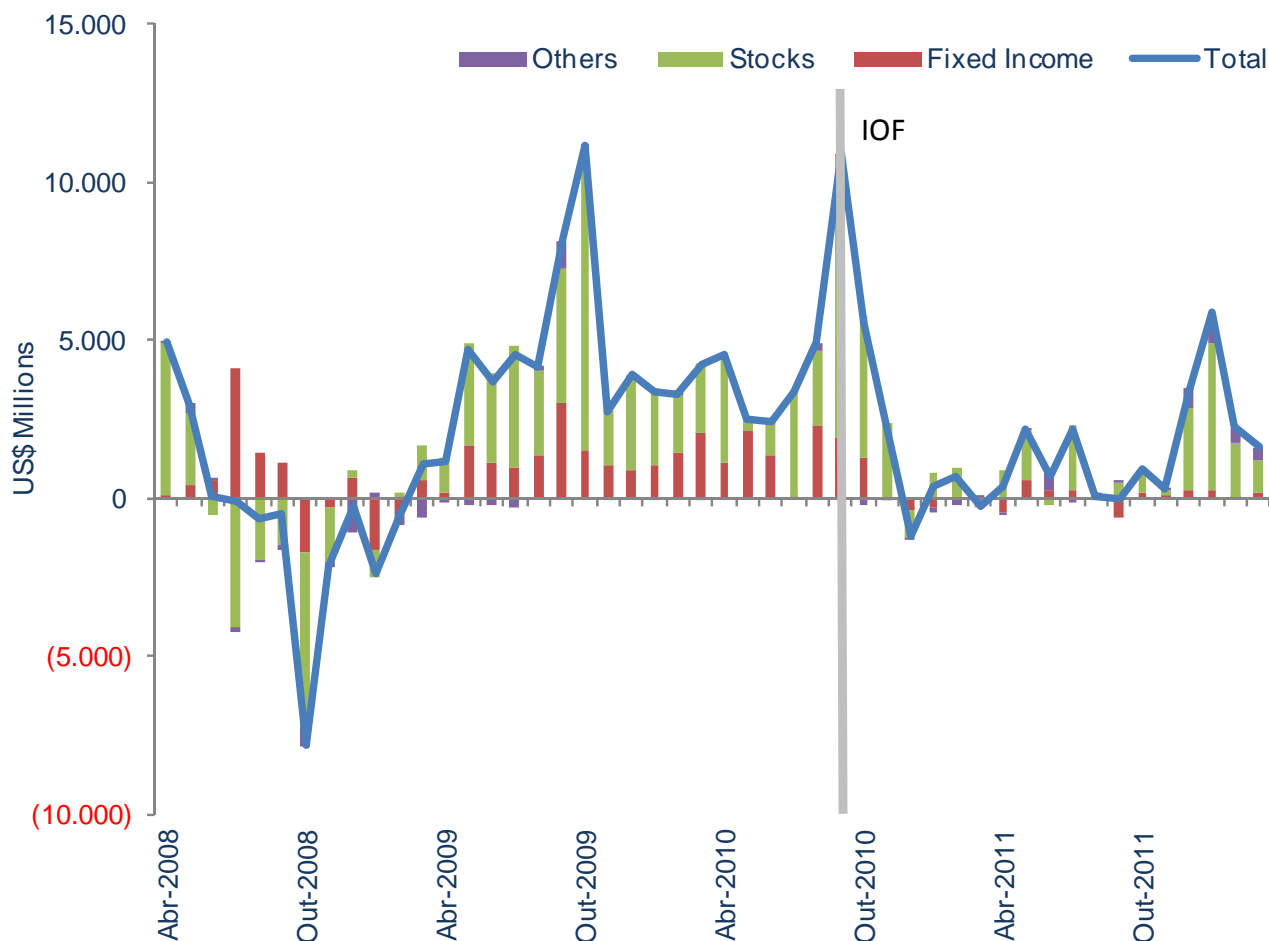


Source: Cetip.

Portfolio – Effects of the IOF tax

Expected to curb excessive short-term and speculative capital inflows and lengthen flow composition

Portfolio's Net Inflows by Asset Class – monthly data





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