



**BANCO CENTRAL
DO BRASIL**

Brazil: Strong Economic Fundamentals and Resilience to the Crisis

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Economic Changes in Recent Years

Brazilian Resilience

- **Brazilian resilience to the global crisis may be explained by:**
 - **Solid economic fundamentals**
 - **Strong banking system**
 - **Economic growth**
 - **Correct diagnosis and precise measures to tackle the crisis in Brazil**

Economic Changes in Recent Years

- In the 80's and 90's, the Brazilian economy had several unbalances:
 - Current Account Deficits
 - High public debt
 - Public debt linked to foreign currency
 - Inflation was high and volatile

Economic Changes in Recent Years

2003: Monetary and fiscal policies

Austere monetary policy

Severe fiscal adjustment



- **Rapid disinflationary movement**
 - **Jan 03: 30% (annualised rate)**
 - **Jul 03: 0%**
- **Drop in public debt**
- **Consequently, decreasing risk premium**

Economic Changes in Recent Years

2003:

- **Substantial costs**
 - **Domestic demand fell 6% in the first half of 2003**
 - **15% of the industrial production was redirected to external markets, increasing exports**

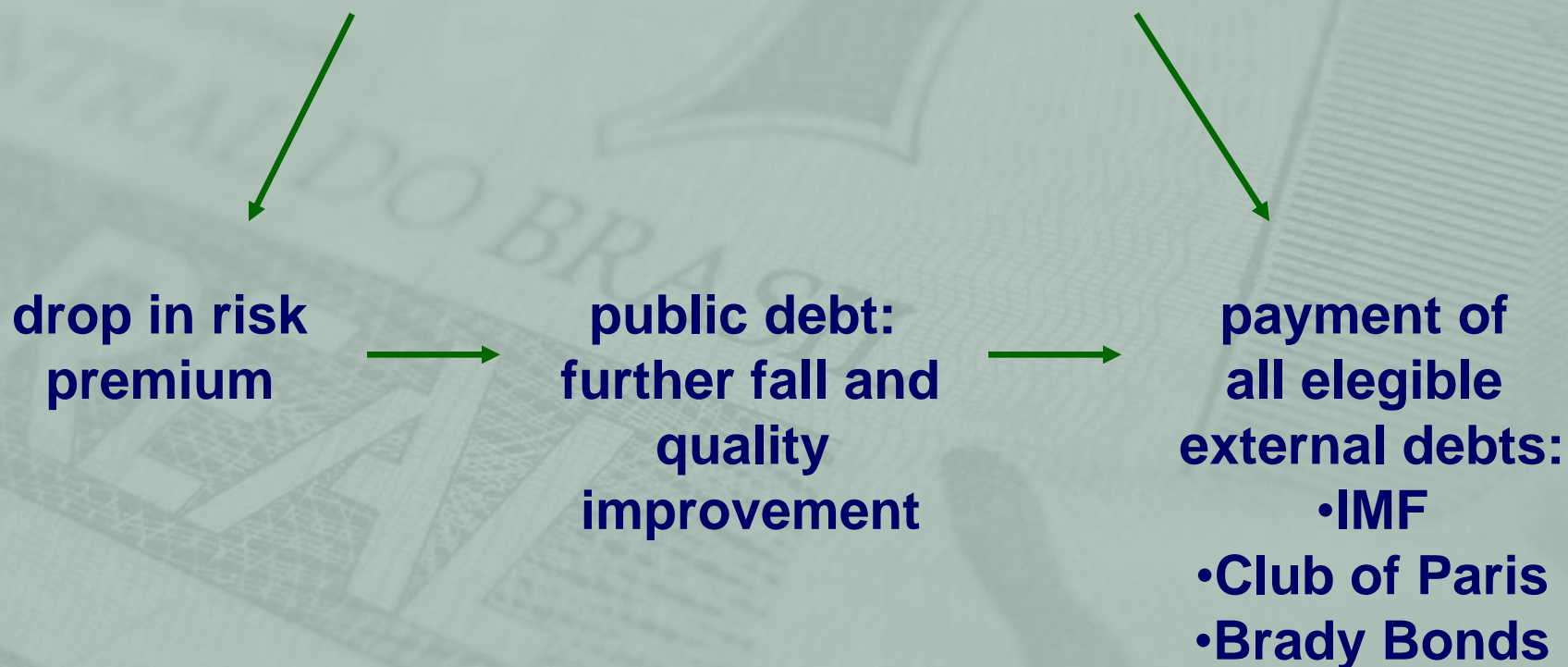


- **Trade balance surpluses**
- **Current account rebalanced from -6% to +2% of GDP**

Economic Changes in Recent Years

External adjustment

- **Current account surpluses allowed Brazil to accumulate International Reserves**



Economic Changes in Recent Years

Planning horizon

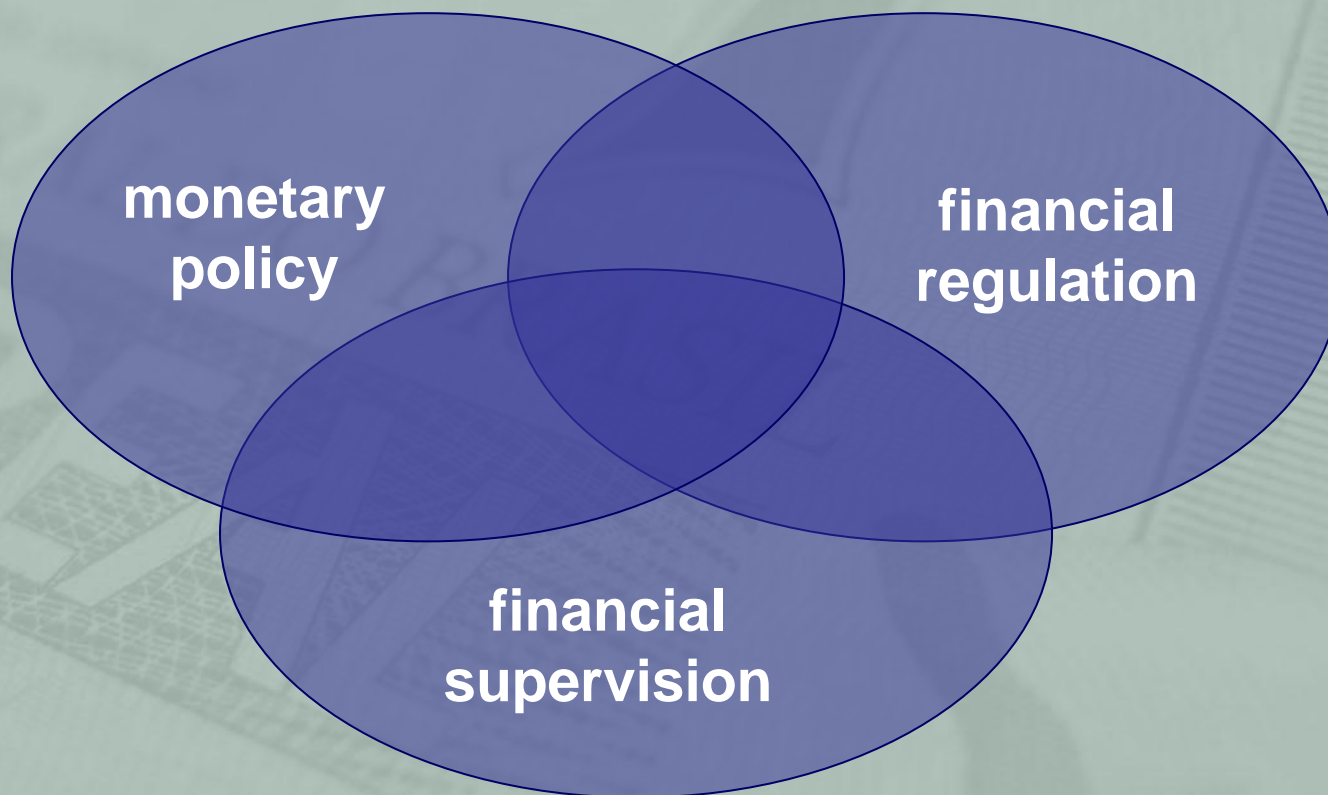
- Economic stabilization and drop in risk premium increased investments in the Brazilian economy



Economic Changes in Recent Years

Financial system

- **Coordinated action: all financial institutions are regulated and supervised by the Central Bank of Brazil**

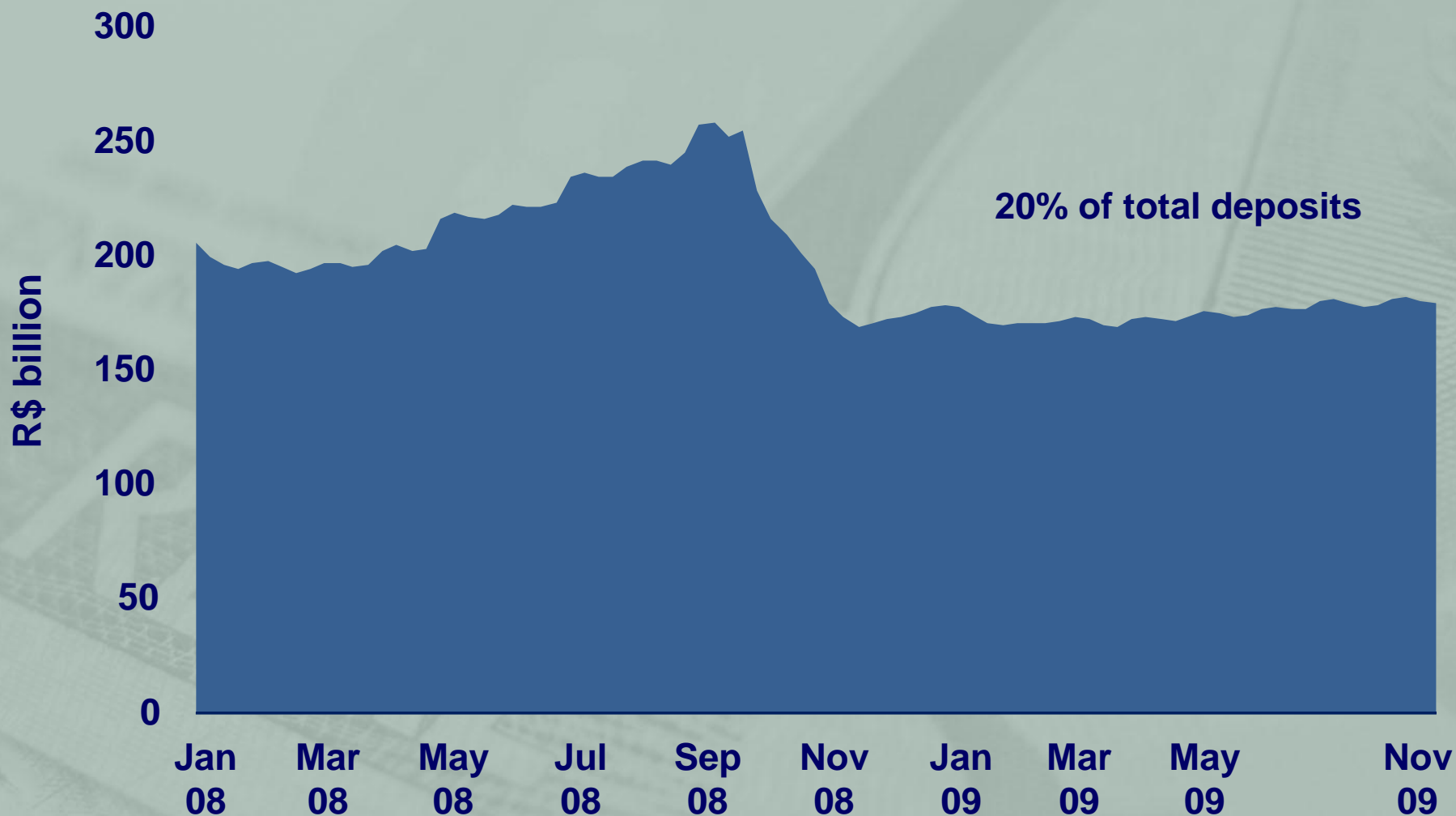


Economic Changes in Recent Years

Reform in the financial system

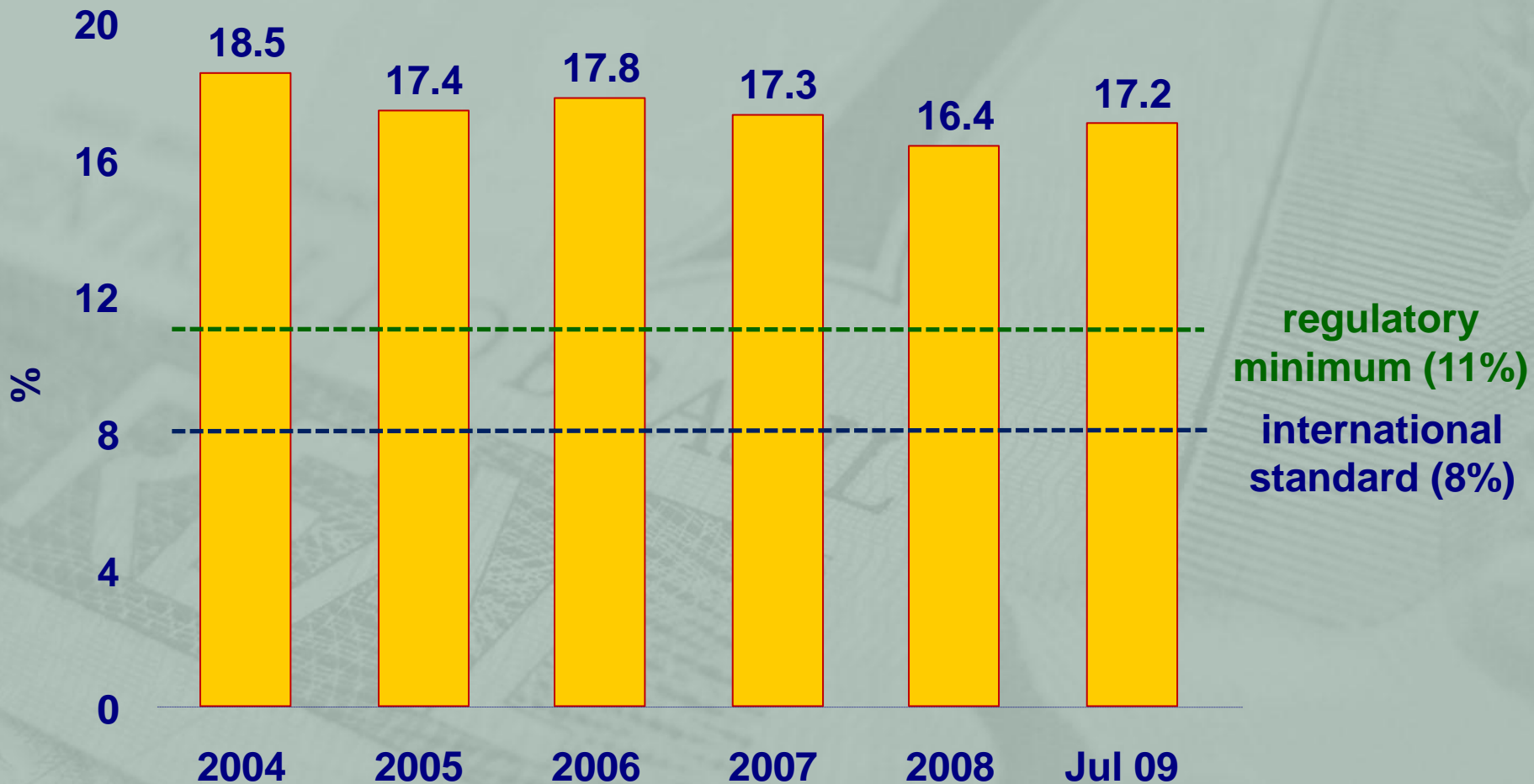
- **Strict risk control for investments in foreign assets**
- **Punitive capital requirements to institutions which mismatch assets and liabilities in foreign currency**
- **Capital buffer: above international and Brazilian requirements**
- **Liquidity buffer has proven to be important to maintain liquidity (countercyclicality)**

Liquidity Reserves



Bank-Capital Adequacy: Basel Index

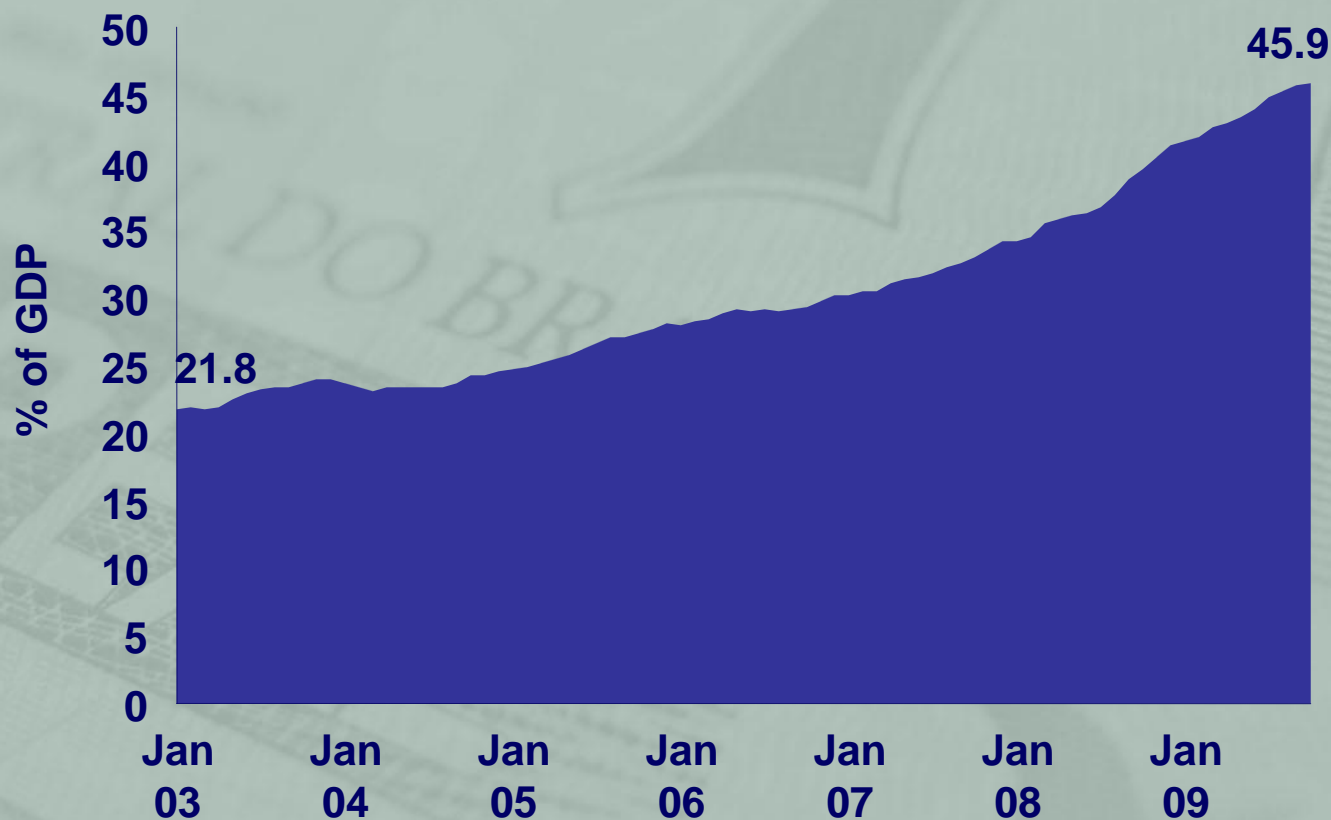
relation between capital and risk weighted assets



Economic Changes in Recent Years

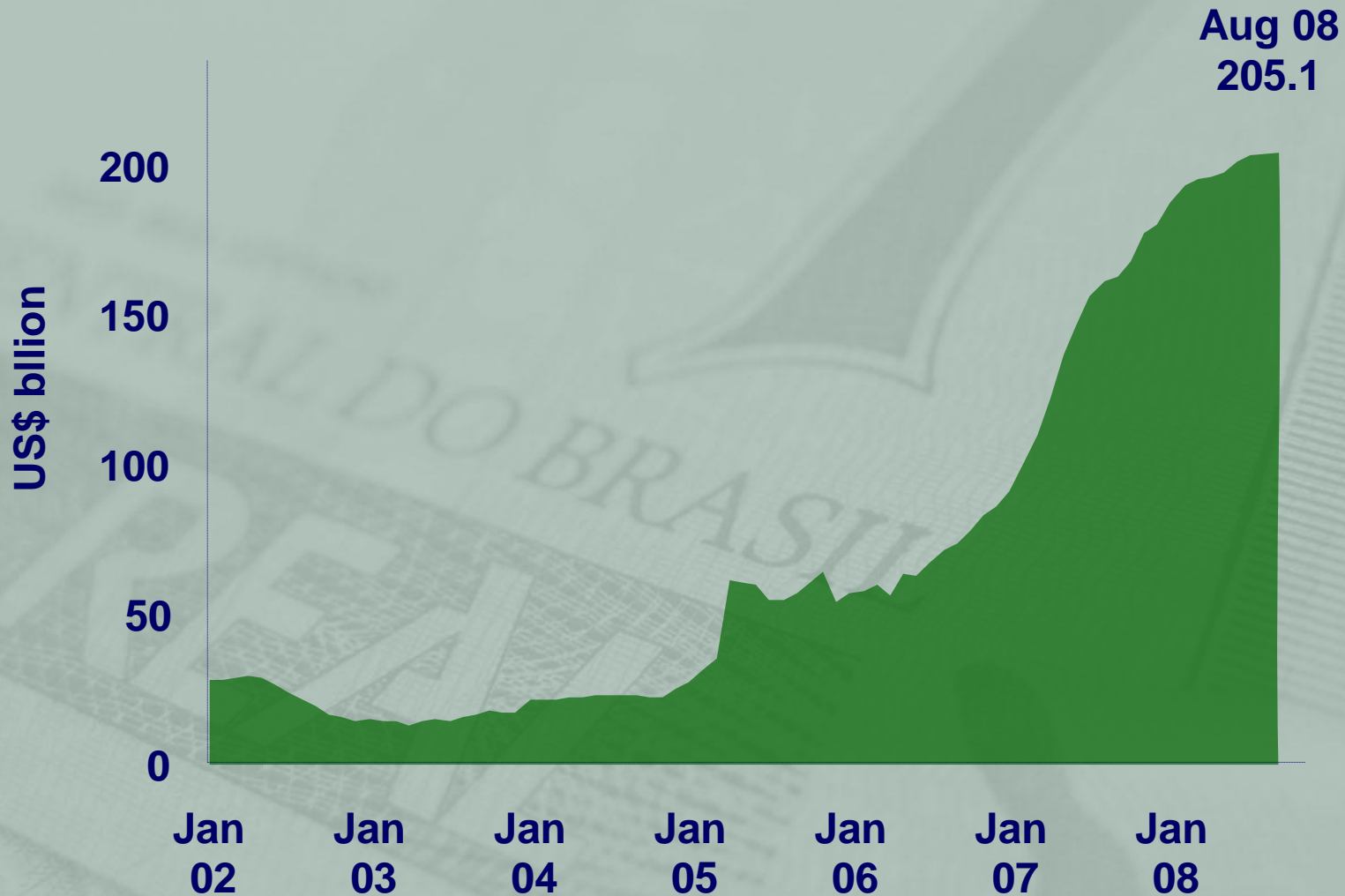
Expansion of credit

- **Balanced expansion of credit coming from a low basis**



Brazil on the Outset of the Crisis

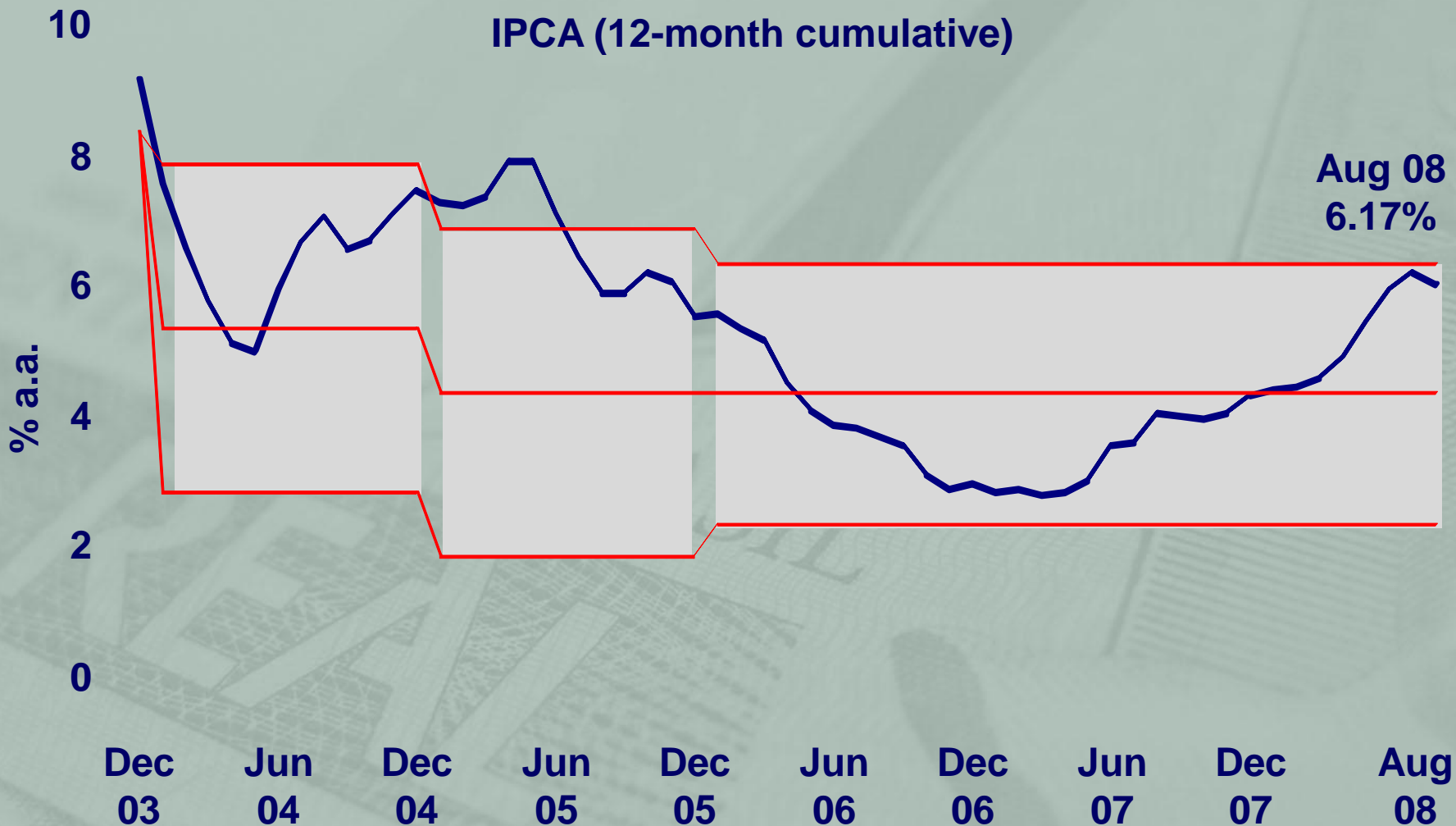
International Reserves on the Onset of the Crisis



Net Public Debt

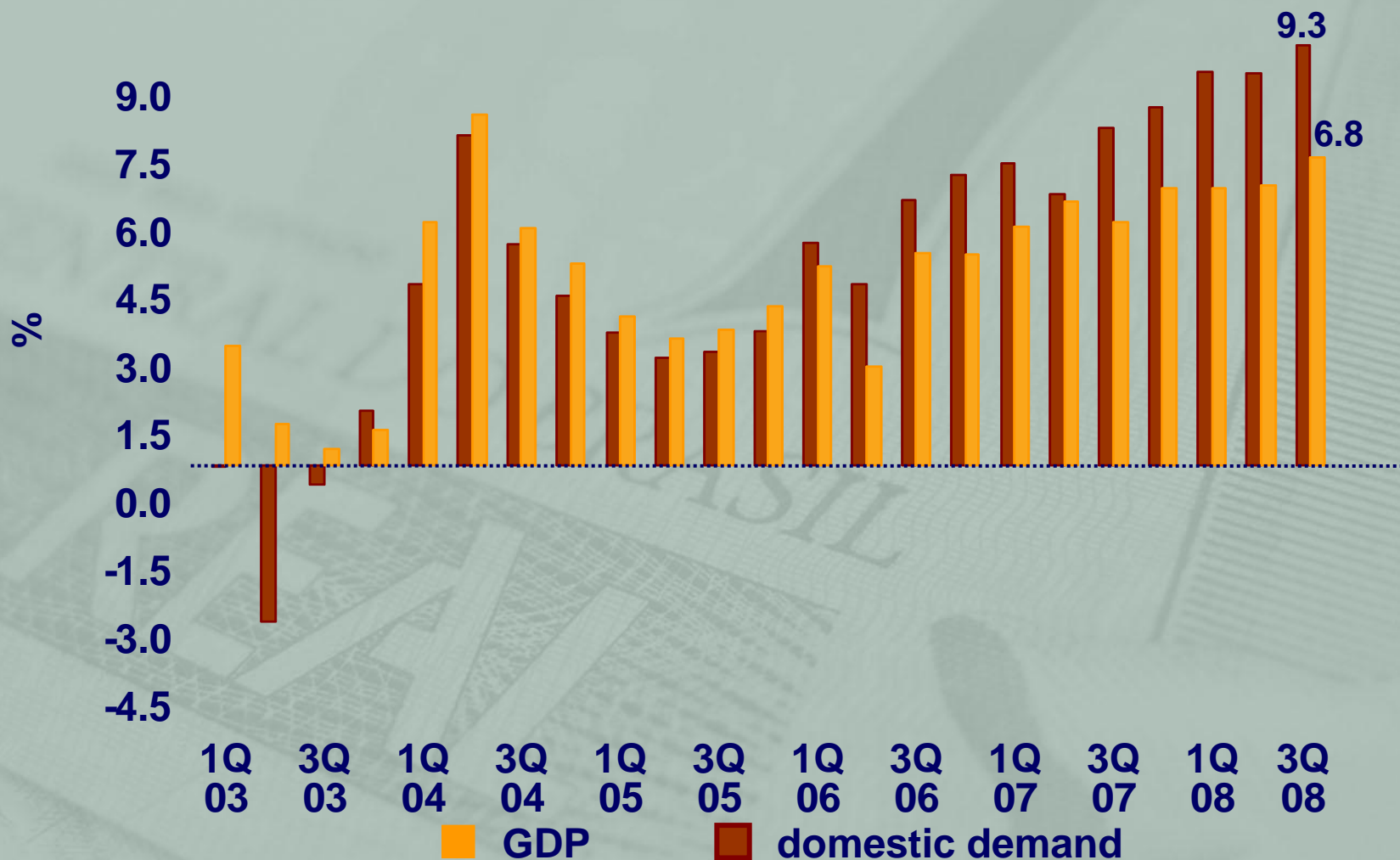


Credible Monetary Policy



GDP and Domestic Demand Growth

change year-over-year



How The Crisis Affected Brazil and Anti-Crisis Measures

Transmission Channel of the Crisis

- The crisis hit Brazil mainly through the credit channel
 - 19% of the total credit was externally funded
- Credit crunch in dollars
- Credit became scarce in local currency
- Derivative in FX market by exporters

Consequences of the Crisis

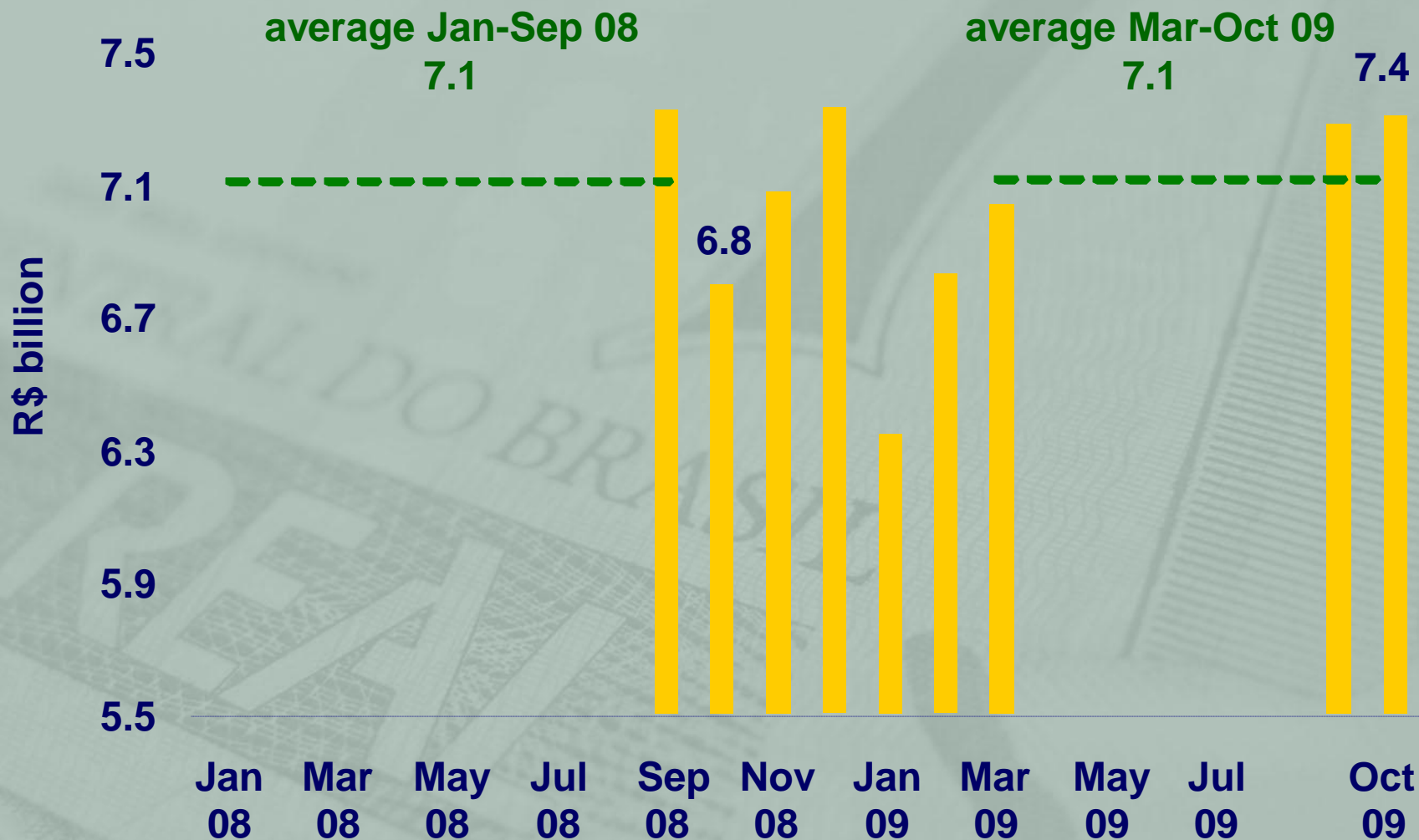
- **Industrial production decreased 20% from October to December 08**
- **GDP fell 12.8% in the last quarter of 08**
- **800 thousand jobs were lost from November 08 to January 09**

Central Bank Measures

- **The Central bank had resources and acted in the main transmission channel of the crises**
 - **Credit crunch in dollars: Central Bank made available credit lines in dollars**
 - **Scarce domestic credit: Central Bank directed liquidity reserves to interbank market**
 - **Liquidity squeeze in future markets: Central Bank sold dollars forward**

Economic Recovery

Credit Granting (Daily Average)



Monetary Policy

**International
Reserves
Accumulation**



**Inflation
Targeting**



**Floating
Exchange
Rate**

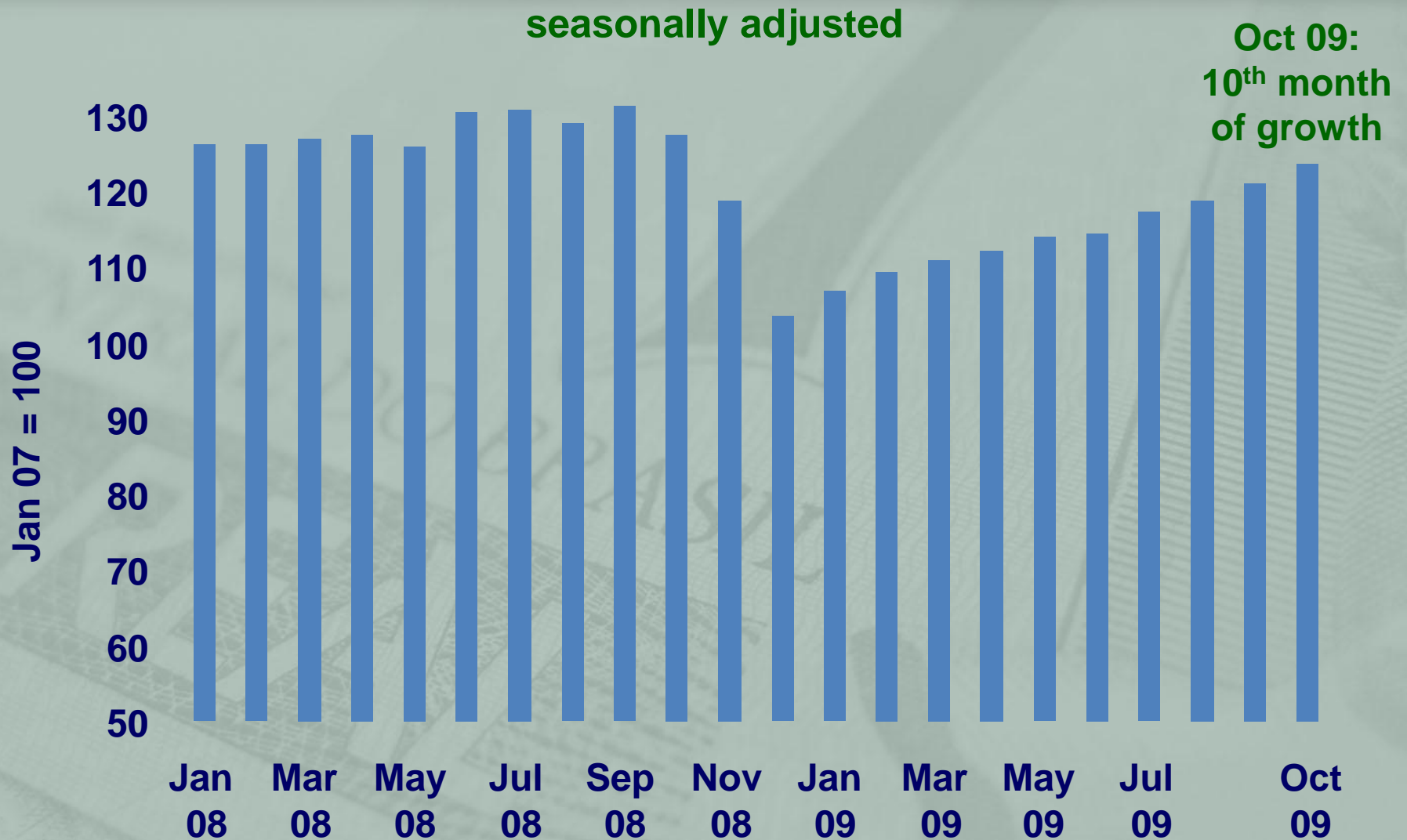


- For the first time, the Central Bank was able to make countercyclical monetary policy before international crisis
- Spread over the base rate decreased with the credibility of the monetary policy

Recovery

- **Apreciation of the *Real (BRL)* after strong depreciation**
- **Crisis was restrained to the industrial sector and the balance of the economy was not much affected**
- **After credit normalization, fiscal and monetary stimulus became effective**

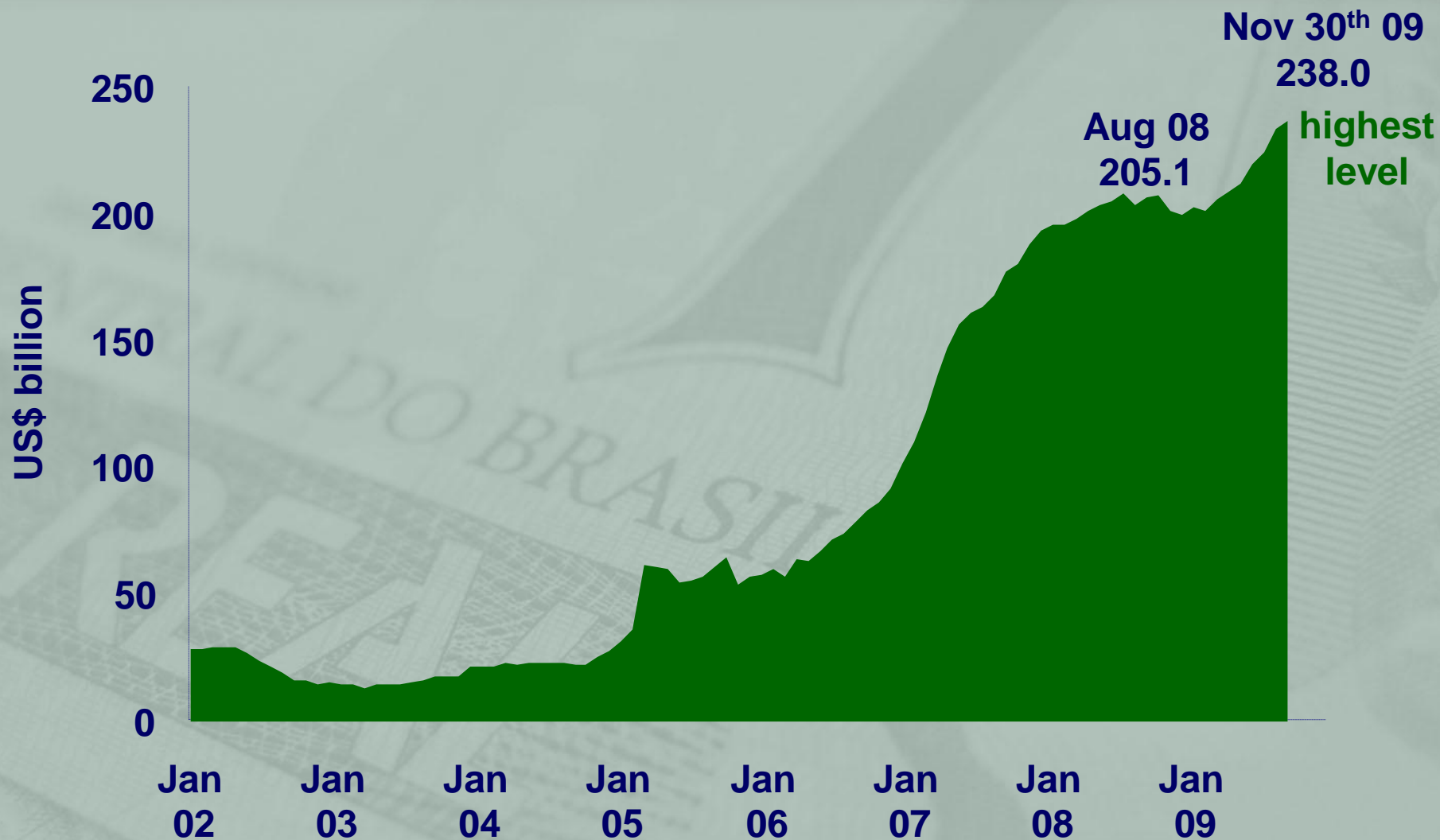
Industrial Production



Job Creation

- **800 thousand jobs lost during the crisis**
- **1.3 million jobs created since February**
- **8.9 million jobs created since January 2003**

International Reserves



GDP Growth

- **GDP in the second quarter of 2009 grew 7.8% at annualised rate**

GDP Growth





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