



Financial Crisis and its Impact on Developing Countries' Growth Strategies and Prospects

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Managing the Crisis: Perspectives from Brazil

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Managing the Crisis: Perspectives from Brazil

From Decoupling to Derailing

Mechanisms of Transmission of the Crisis

Weak global demand and lower prices of exports

The Systemic Sudden Stop and foreign capital flows

Effects on exchange rates

Lines of Defense

Uses of international reserves

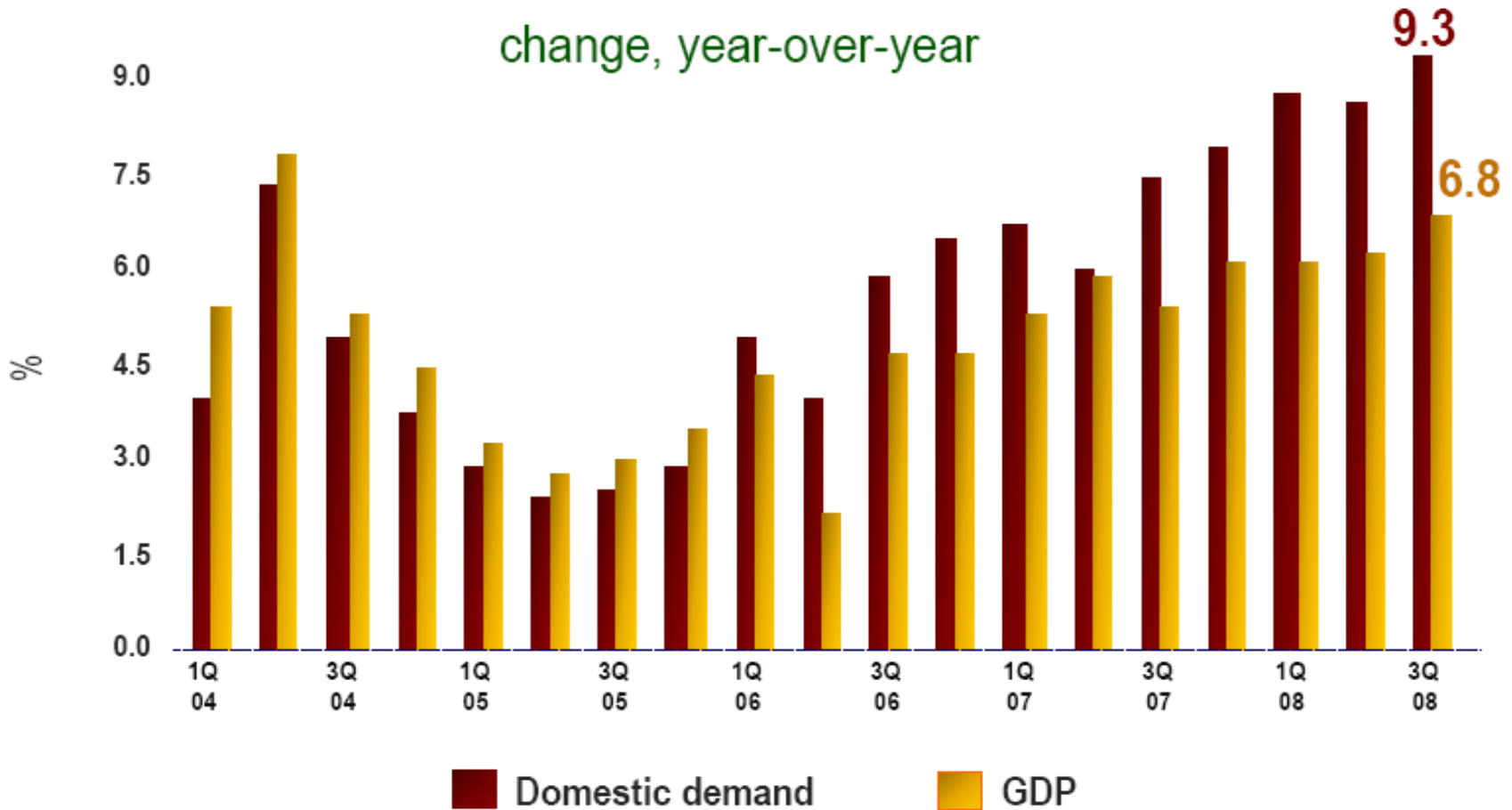
Easing of monetary policy

Uses and limitations of fiscal and para-fiscal policies

Outlook and Risks

The Brazilian economy seemed to be decoupling at high speed...

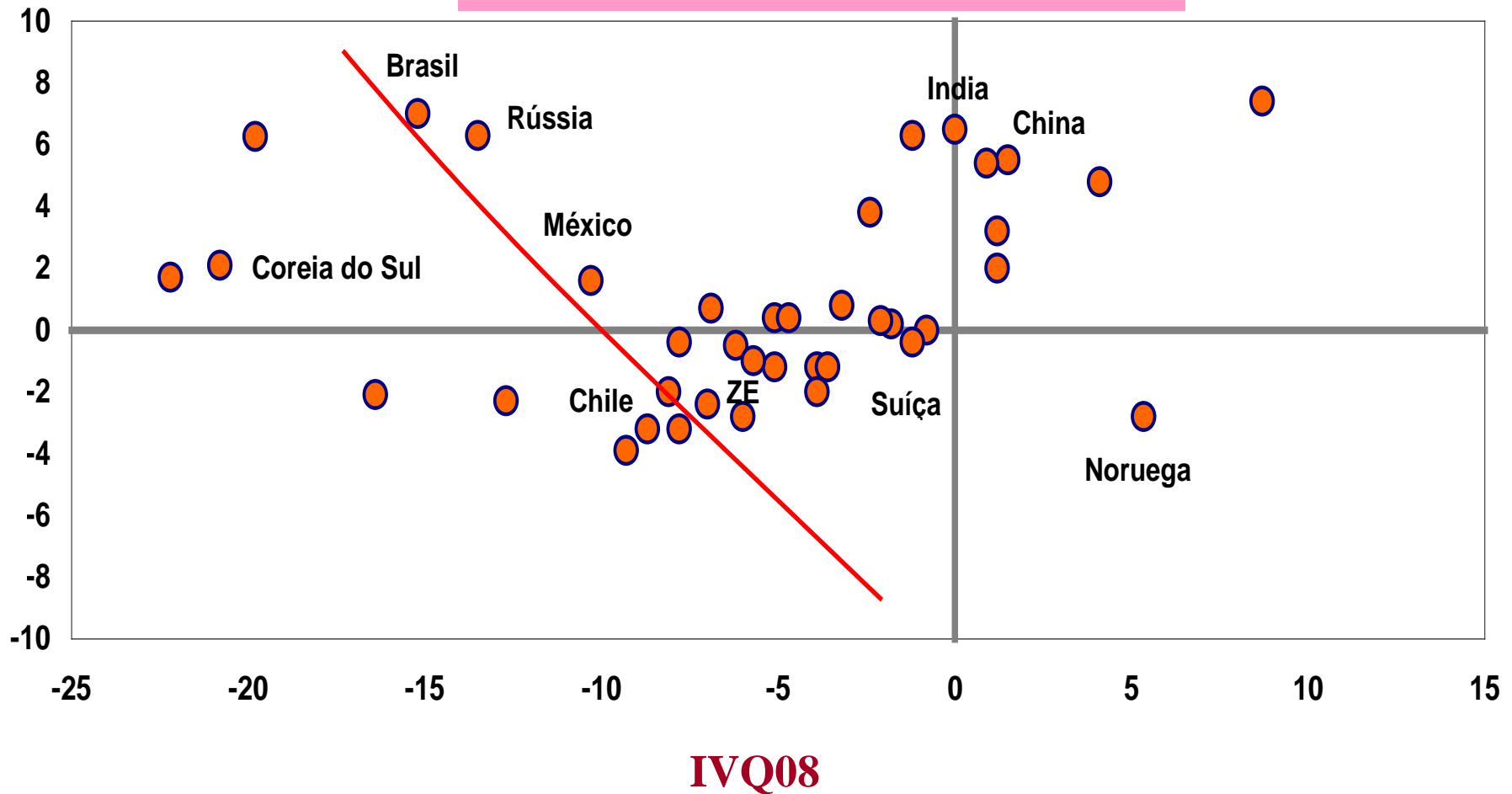
Domestic Demand and Supply



Source: Central Bank of Brazil

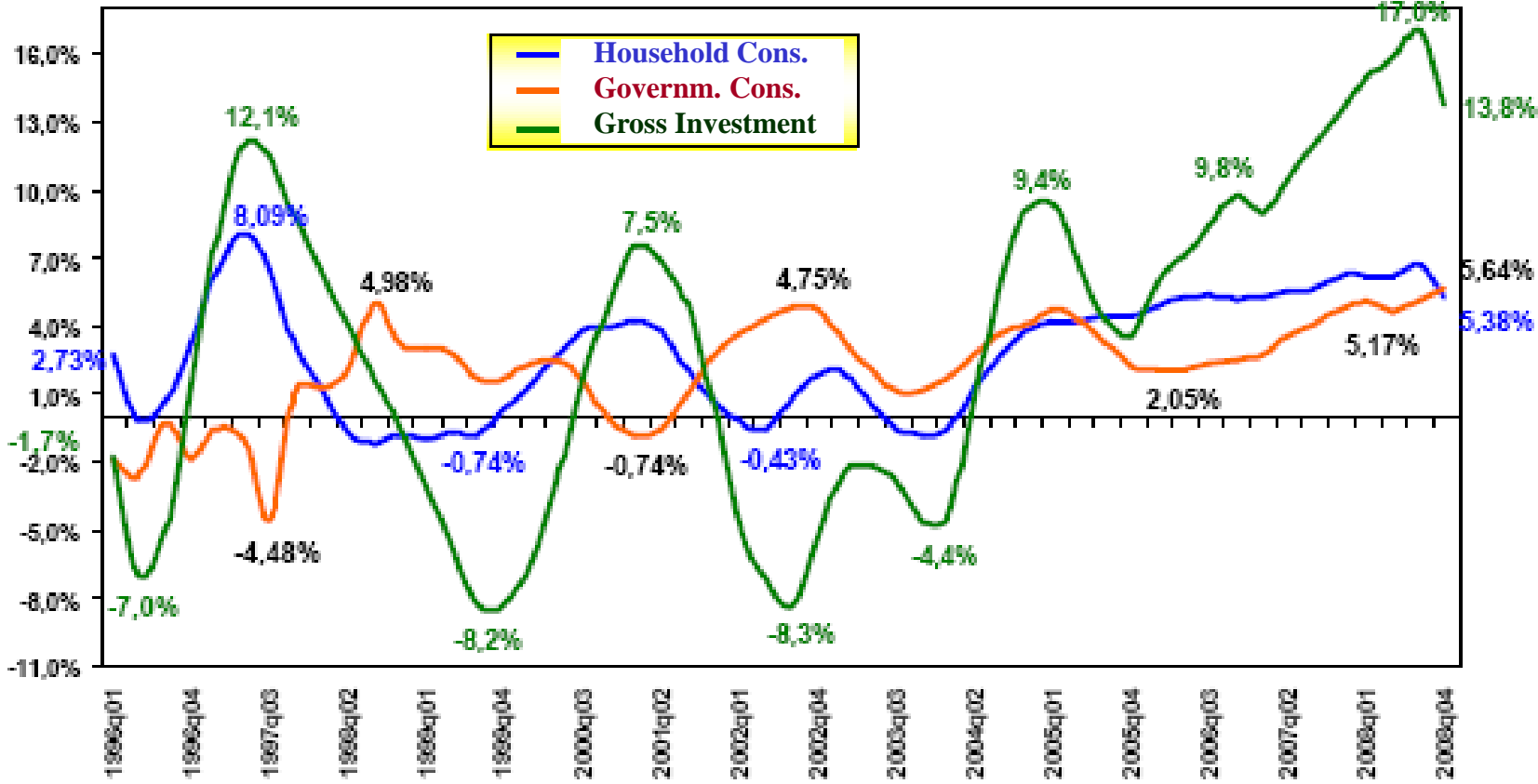
...until it underwent a sudden stop

GDP Growth – IIIQ08 vs. IVQ08



Source: Itau (presentation by Tomas Malaga)

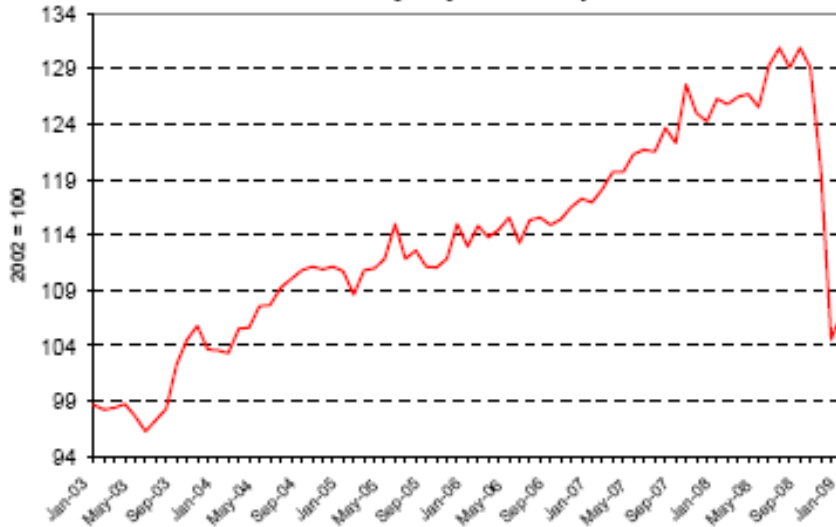
Consumption and Investment - % cumulative growth in 4 quarters



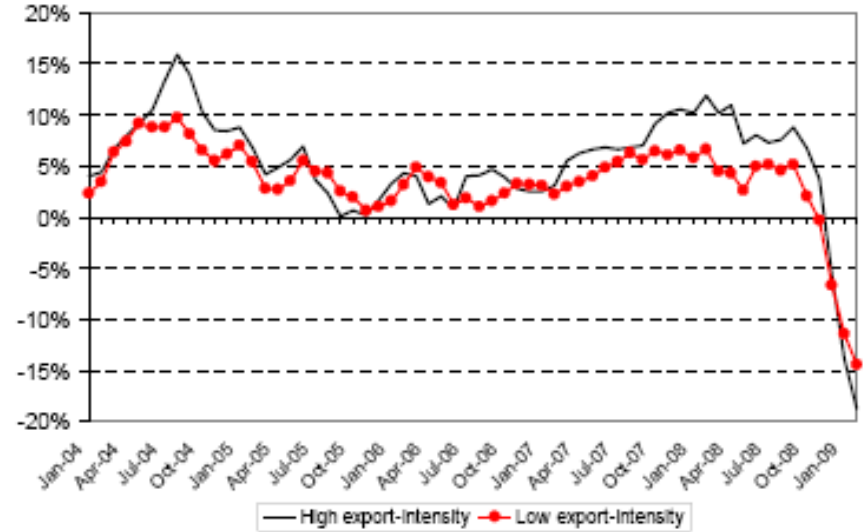
Source: IBGE, Bradesco

Still lack of traction during IQ09

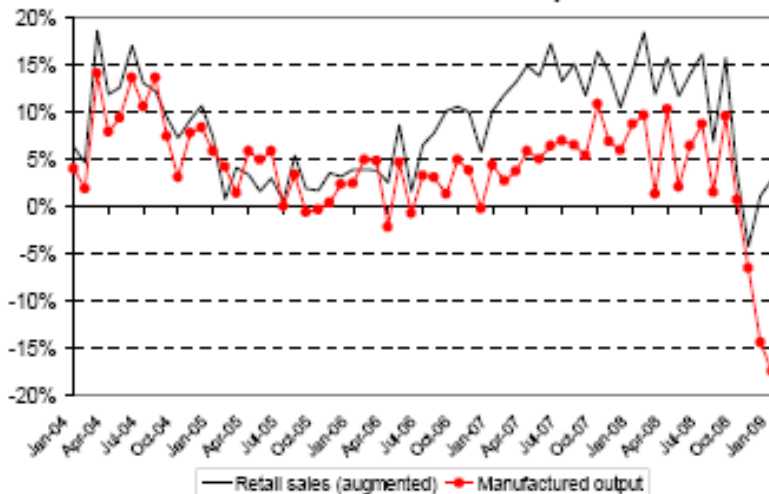
Seasonally adjusted output



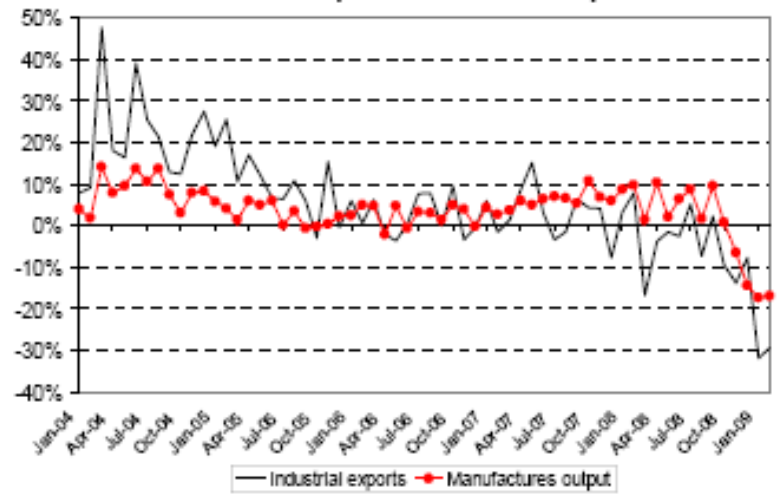
Quarterly growth rate



Retail sales & industrial output



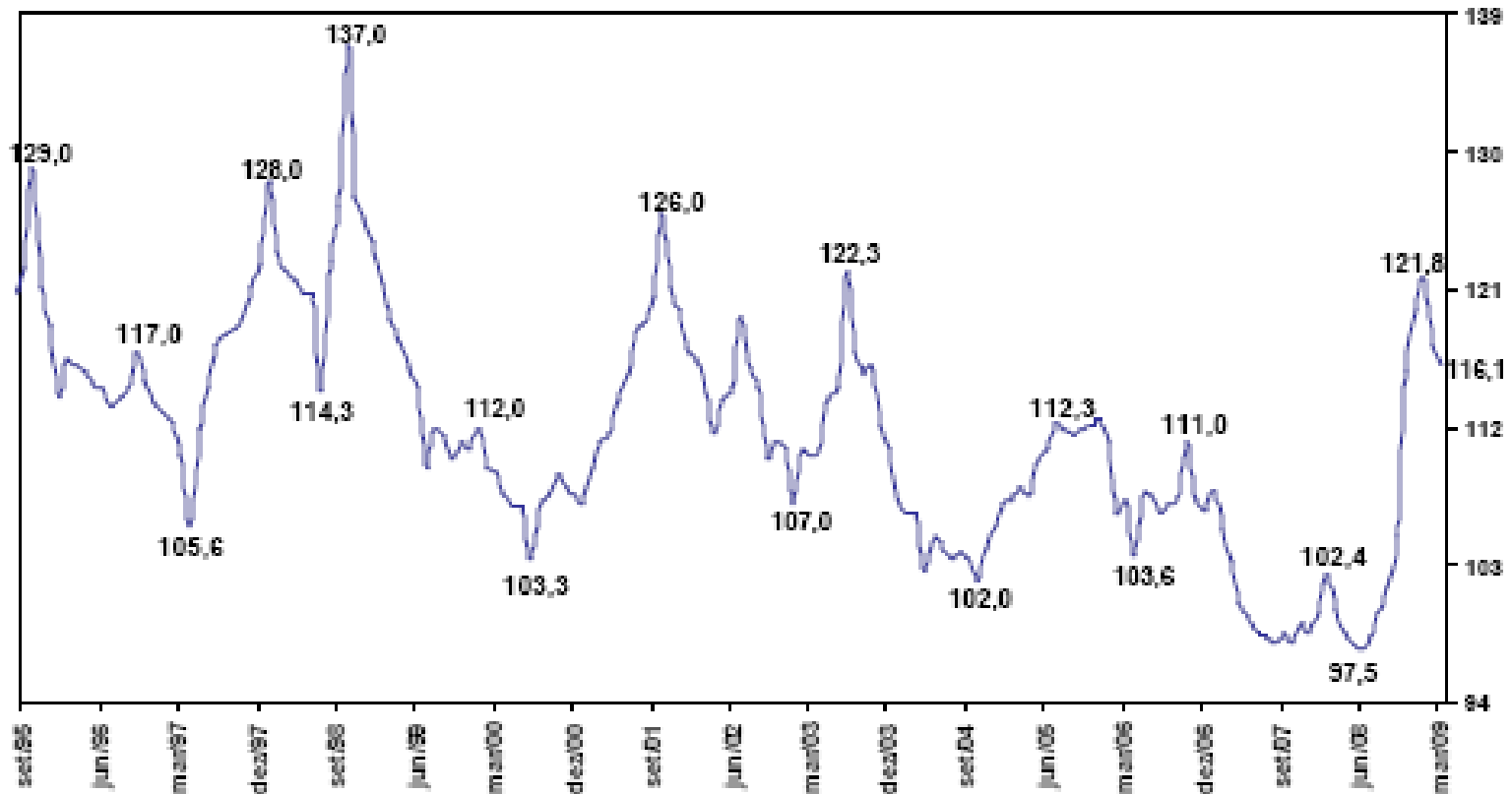
Industrial exports & industrial output



Source: "The Wall", Santander Brazil, 04/03/2009

An inventory adjustment was set in motion

Level of inventories - FGV – Seasonally-adjusted series 1995 - 2009



Numbers higher than 100 indicate excessive stock; below this level insufficient stocks.

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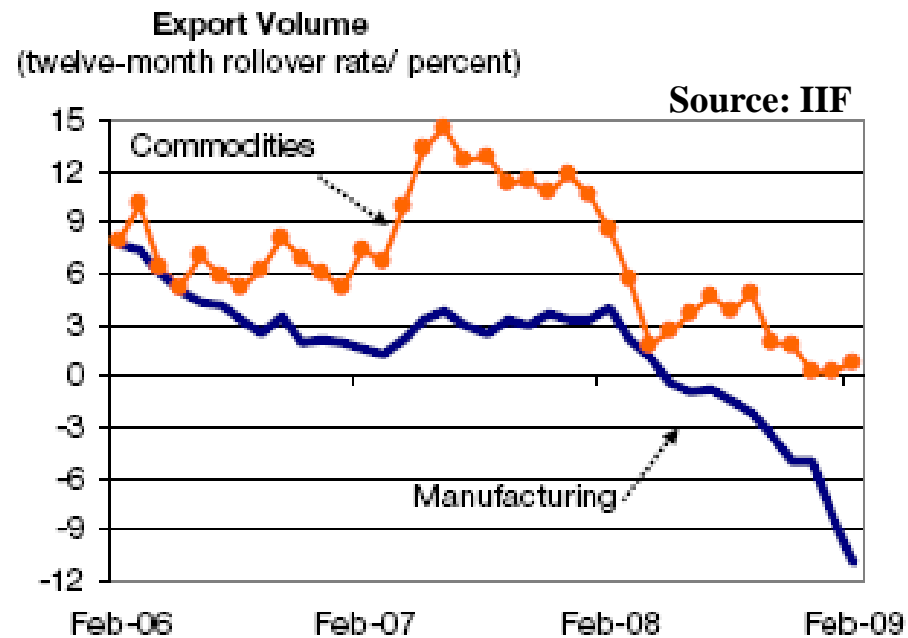
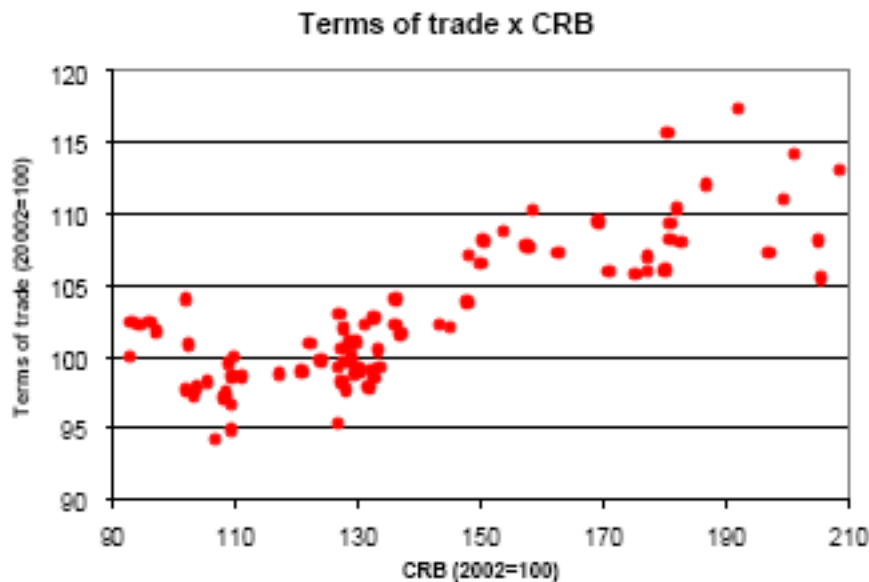
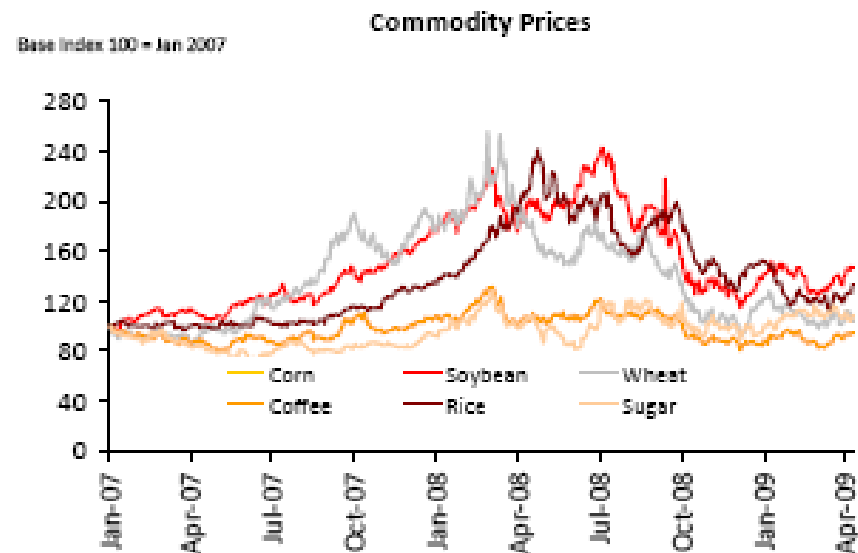
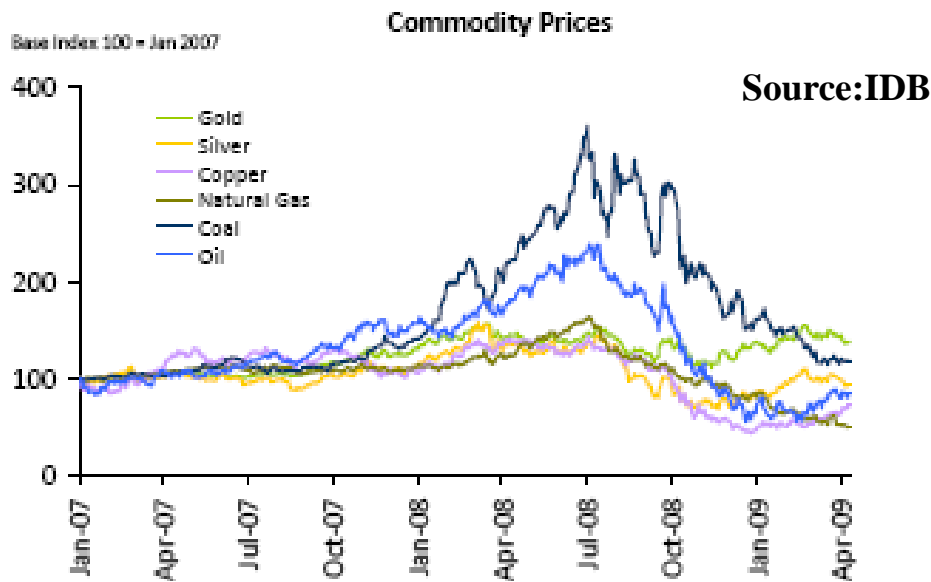
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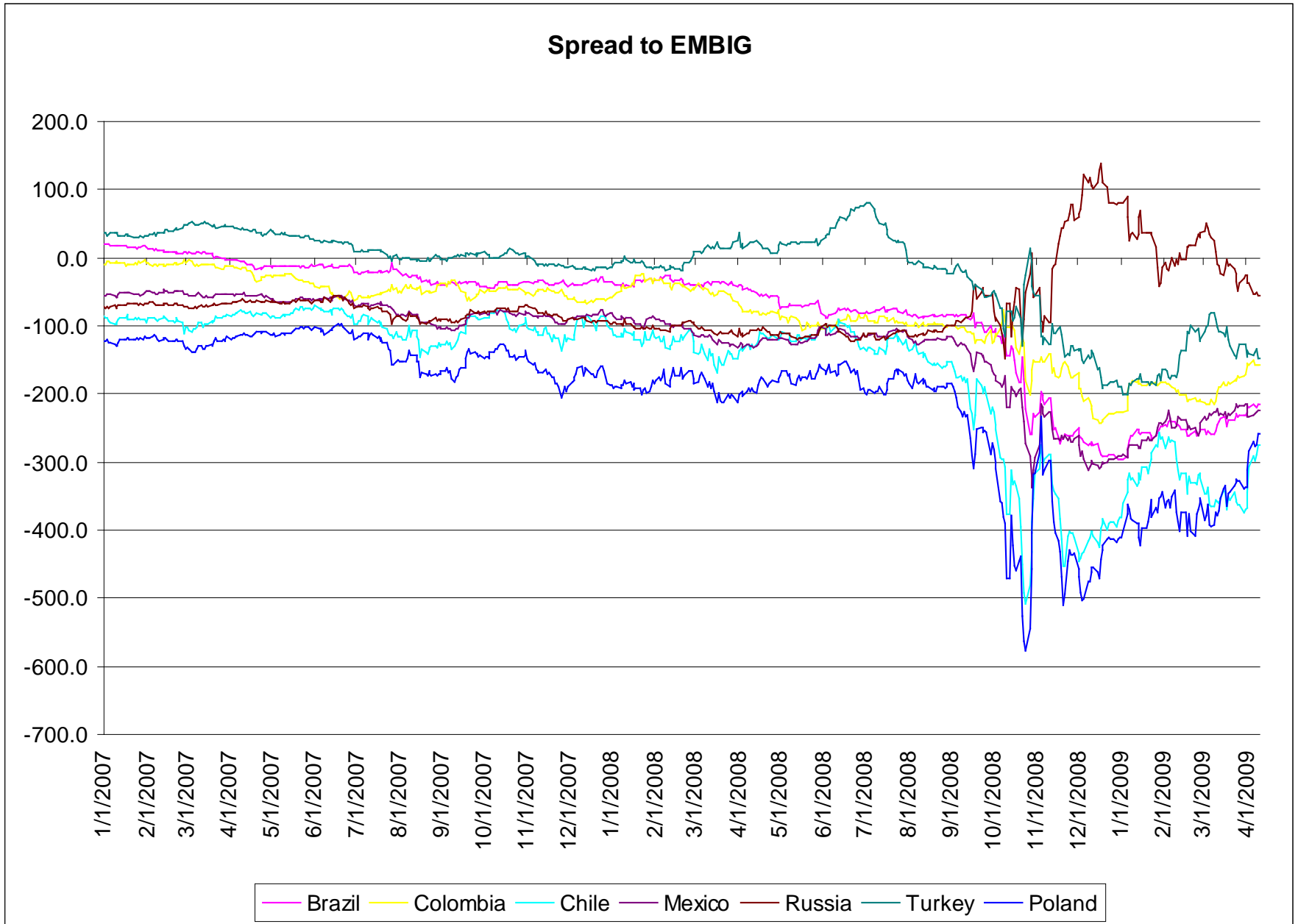
Outlook and Risks

Trade as a channel of transmission



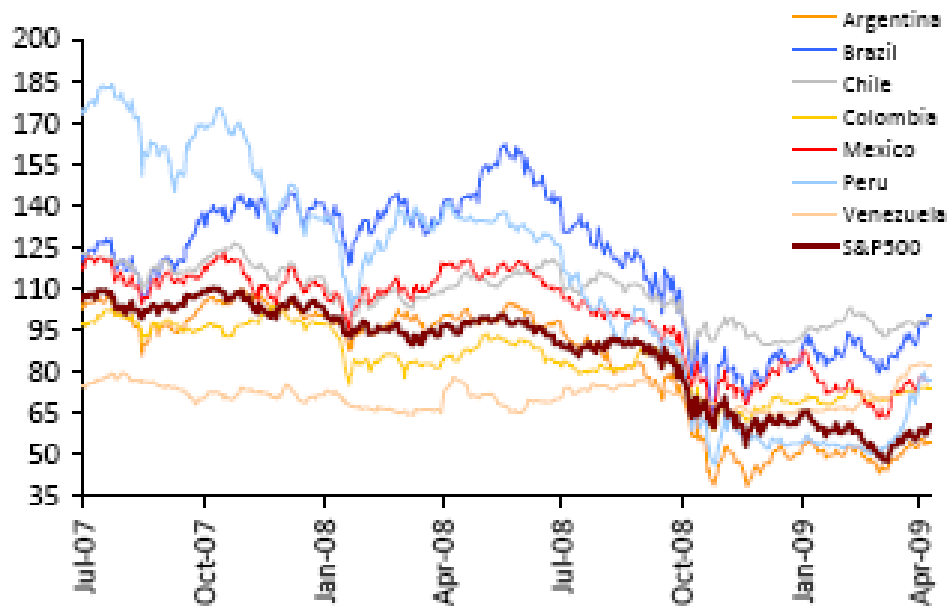
Source: Santander (from Funcex and CRB data).

A Systemic Sudden Stop after mid-September



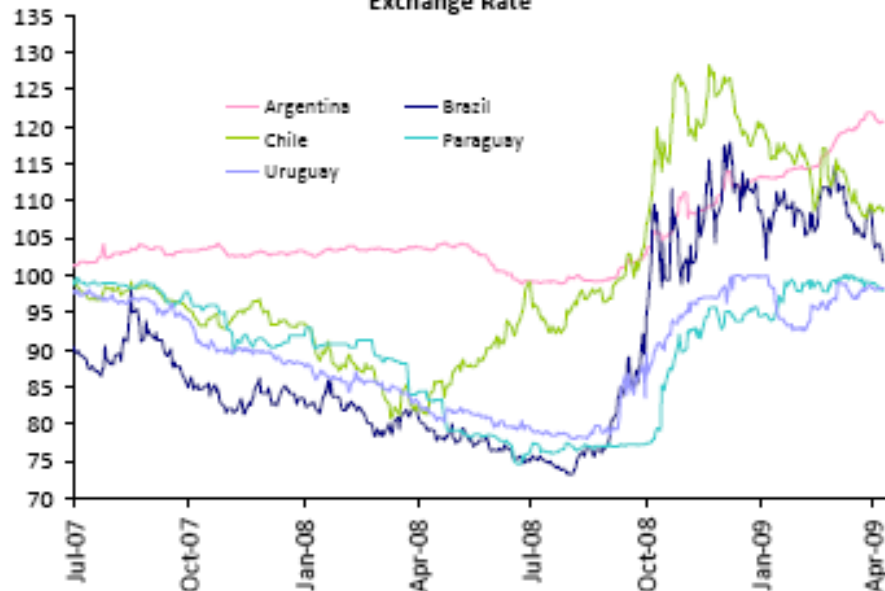
Base Index 100= Jan 2007

Stock Prices

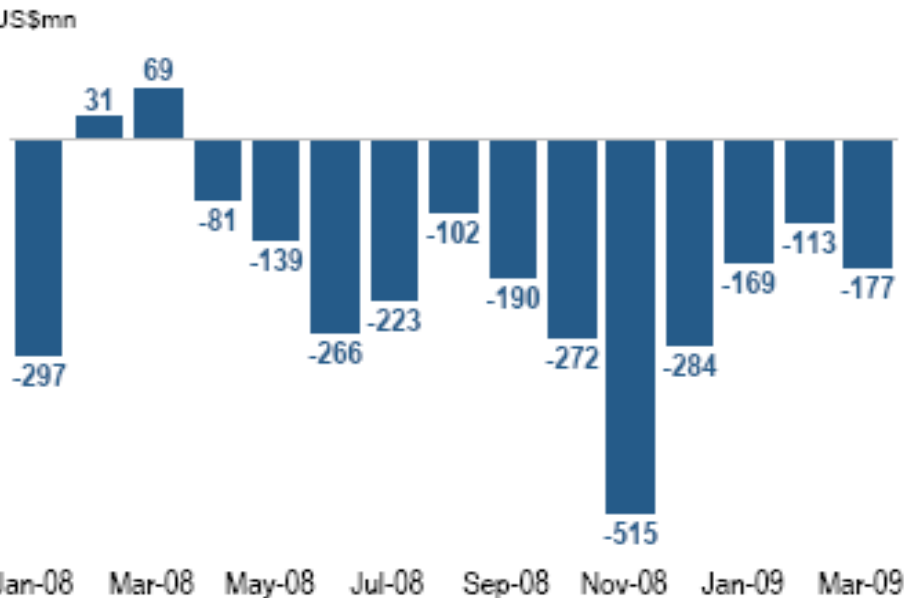


Base Index 100= Jan 2007

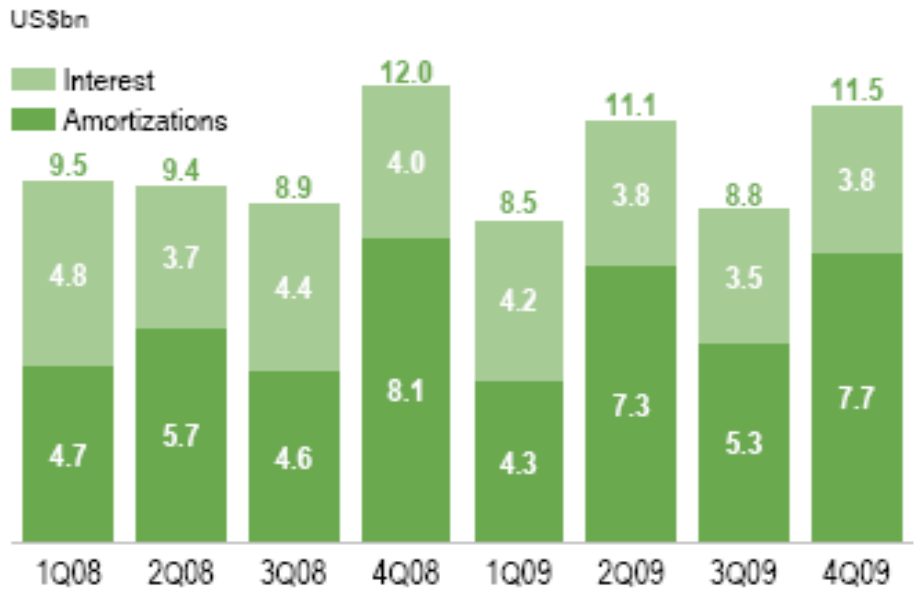
Exchange Rate



Daily average of balance of financial operations



Medium- and long-term private external debt servicing



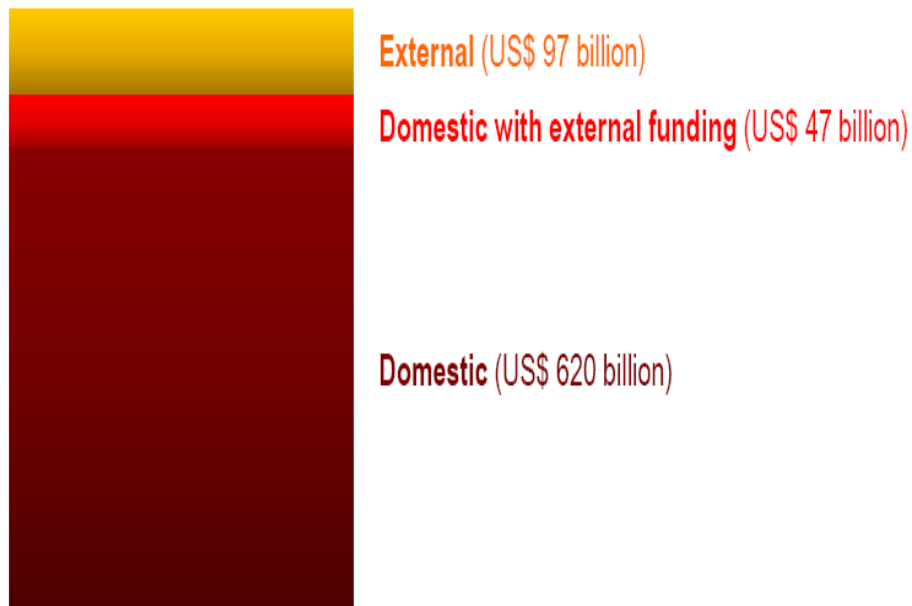
Source: Central bank, Credit Suisse

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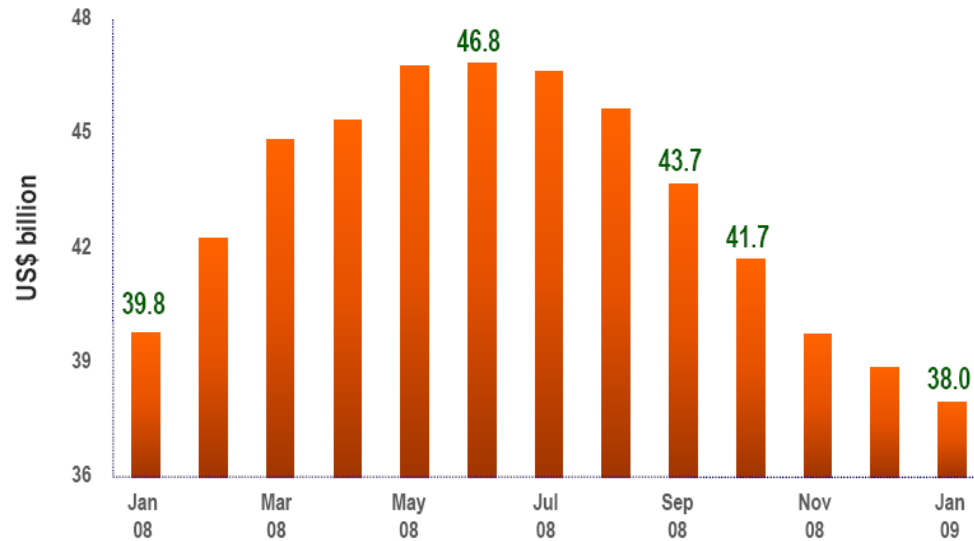
Drought of foreign funding affecting domestic credit, although with a significance below than elsewhere

Total Credit

(estimated, beginning of September/2008)



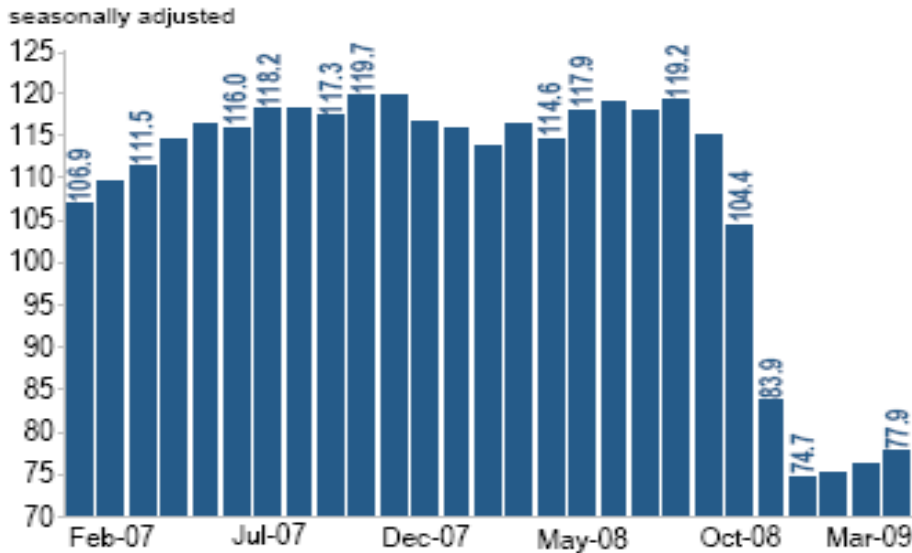
Domestic Banking Credit with Foreign Funding



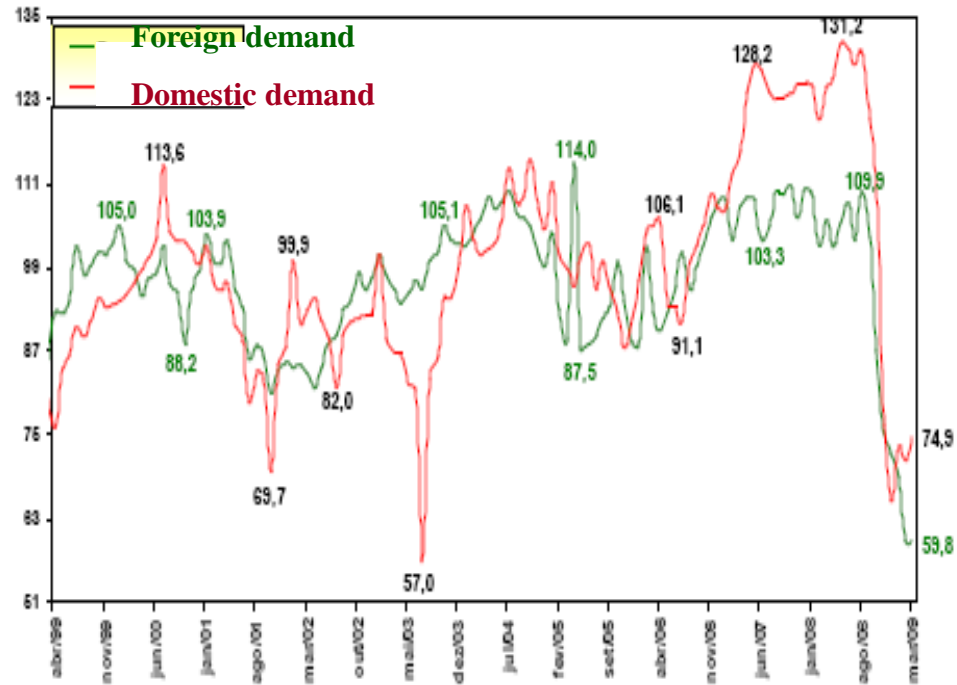
Source: BCB

Confidence shock on both external and domestic markets

Industrial businesses' confidence level

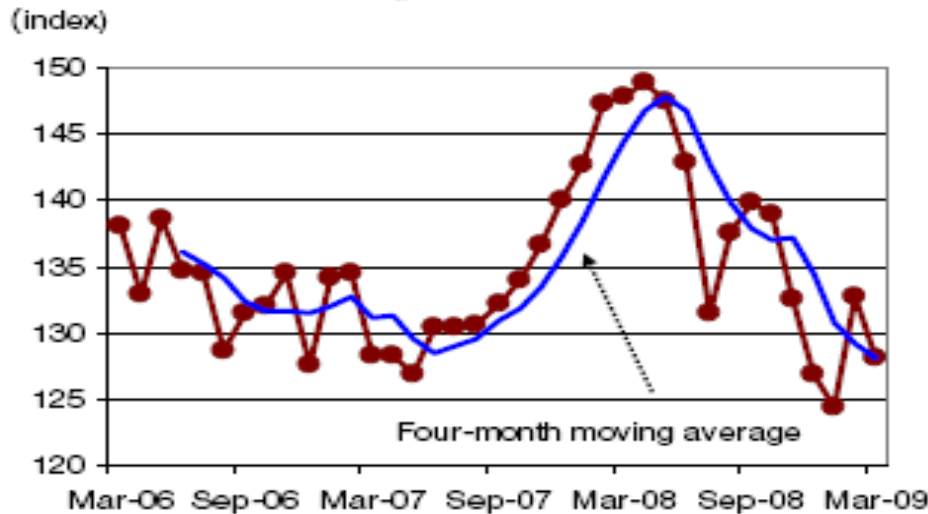


Source: FGV, Credit Suisse



Source: FGV, Bradesco

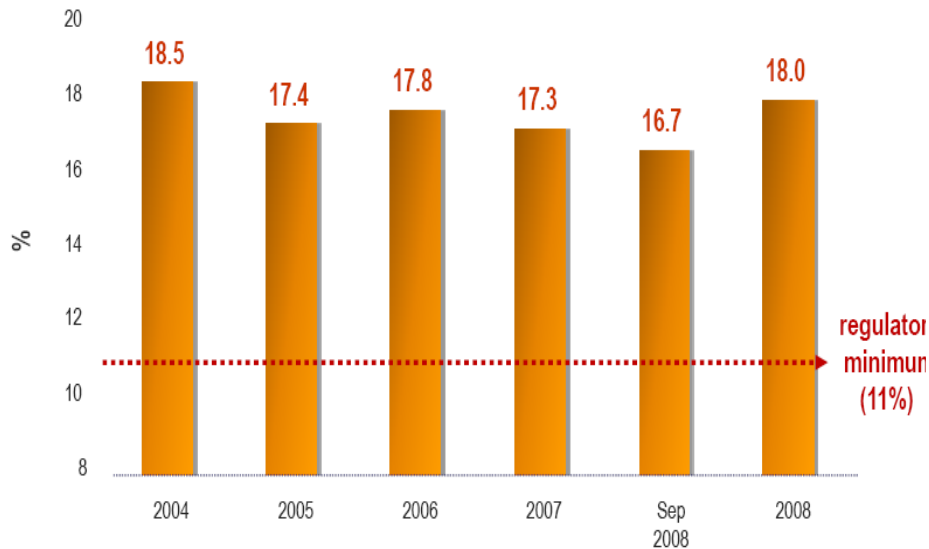
Consumer Confidence



Source: IIF, April 9, 2009

Sound domestic banking system – but sudden liquidity hoarding

Brazilian Banking System: Risk-Based Capital Adequacy



Brazilian Banking System: Past Due Loans and Provisions



Source: BCB

Bottom line

Definitive review of expectations AND/OR Wait-and-see attitude (+) Credit crunch?

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Lines of Defense

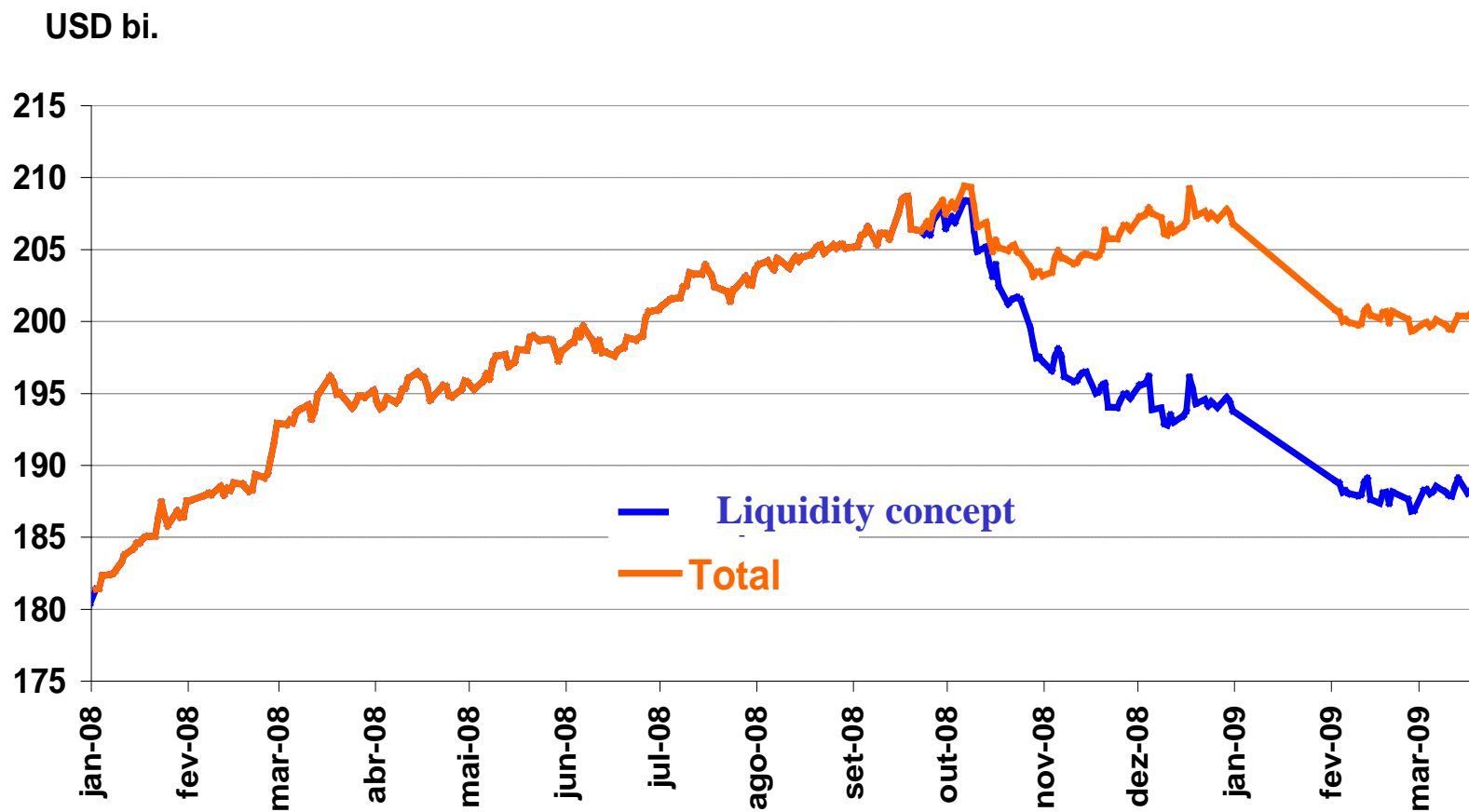
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Outlook and Risks

First line of defense: international reserves



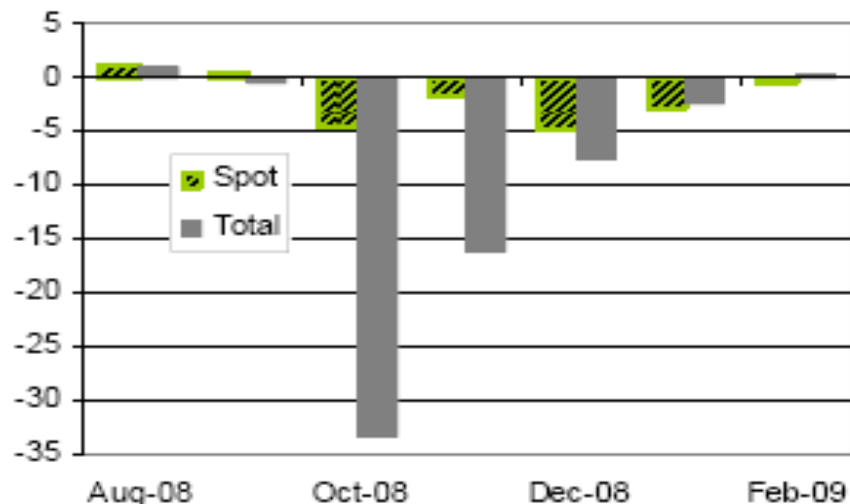
Source: BCB

Injection of Liquidity in Foreign Currency Market

- o Sales of USD in spot market;**
- o Sales of USD in repurchase agreement auctions;**
- o Reduction of reserve requirements for banks acquiring USD with repurchase agreement;**
- o Sales of USD swap contracts;**
- o Export financing;**
- o Authorization for BCB to engage in currency swap transactions with other central banks (US\$ 30 billion swap line with Federal Reserve);**
- o Loans to rollover external debt of Brazilian companies**

Mitigating lack of liquidity in the foreign exchange market

Intervention in the Foreign Exchange Market
(billions of dollars)

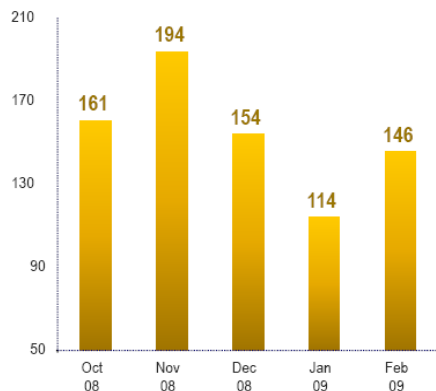


Central Bank Intervention in the Foreign Exchange Market
(billions of dollars)

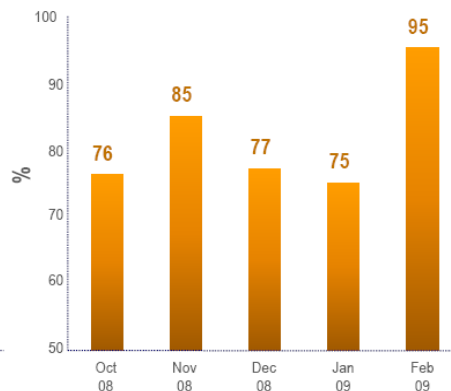
	Spot ¹	Repo lines	Loans	Futures	Total
Dec-07	2.3	0.0	0.0	0.0	2.3
Jan-08	2.5	0.0	0.0	0.0	2.5
Feb-08	3.0	0.0	0.0	-0.1	2.9
Mar-08	1.2	0.0	0.0	0.0	1.2
Apr-08	4.0	0.0	0.0	0.0	4.0
May-08	2.5	0.0	0.0	0.0	2.5
Jun-08	2.0	0.0	0.0	0.0	2.0
Jul-08	1.7	0.0	0.0	-0.8	0.9
Aug-08	1.2	0.0	0.0	-0.2	1.0
Sep-08	0.6	-1.0	0.0	-0.1	-0.6
Oct-08	-4.6	-3.5	-1.5	-23.9	-33.4
Nov-08	-1.7	-5.7	0.0	-8.7	-16.1
Dec-08	-4.8	1.9	-3.2	-1.5	-7.7
Jan-09	-2.9	1.6	-1.3	0.1	-2.5
Feb-09	-0.6	1.1	-0.9	0.7	0.3

Liquidity in Foreign Currency: Advances on Export Contracts (ACC)

daily averages



rollover rates



¹ (-) = net sales; (+) = net purchases.

Source: IIF based on central bank data.

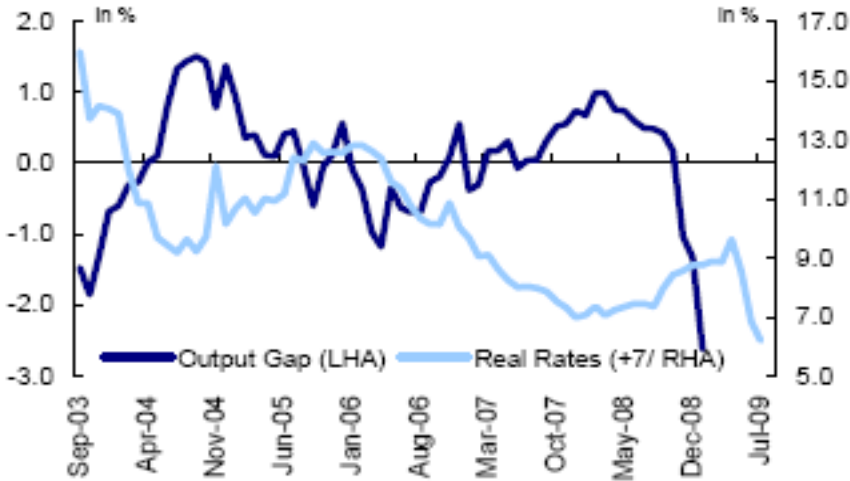
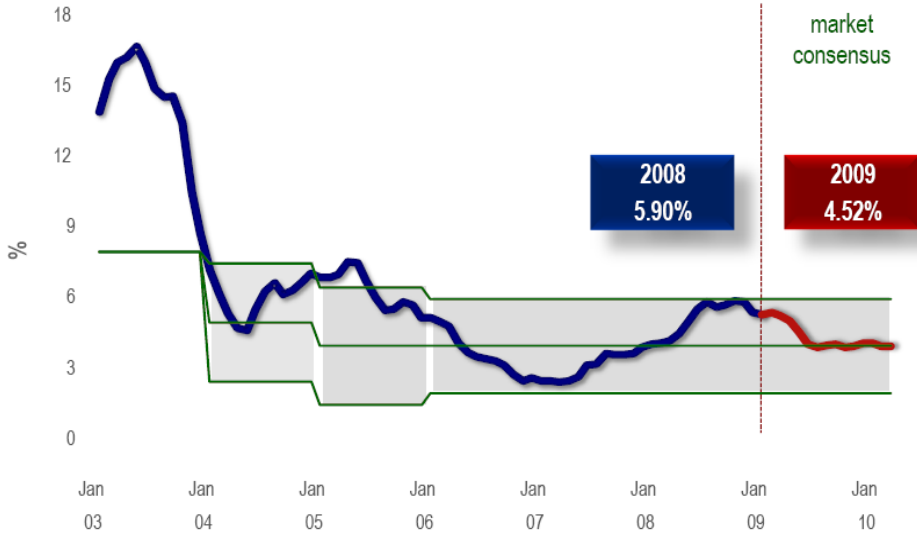
Injection of Liquidity in Domestic Credit Market

- o Reduction in reserve requirements: R\$ 99.8 billion;**
- o Incentives for banks (including public banks) and the deposit insurance fund (FGC) to acquire portfolios of small and medium size banks (approximately R\$ 35 billion);**
- o Increase of funding to BNDES (Development Bank) and rural credit**
- o Guarantees for Certificates of Bank Deposits issues by small and medium size banks (up to R\$500 mi**

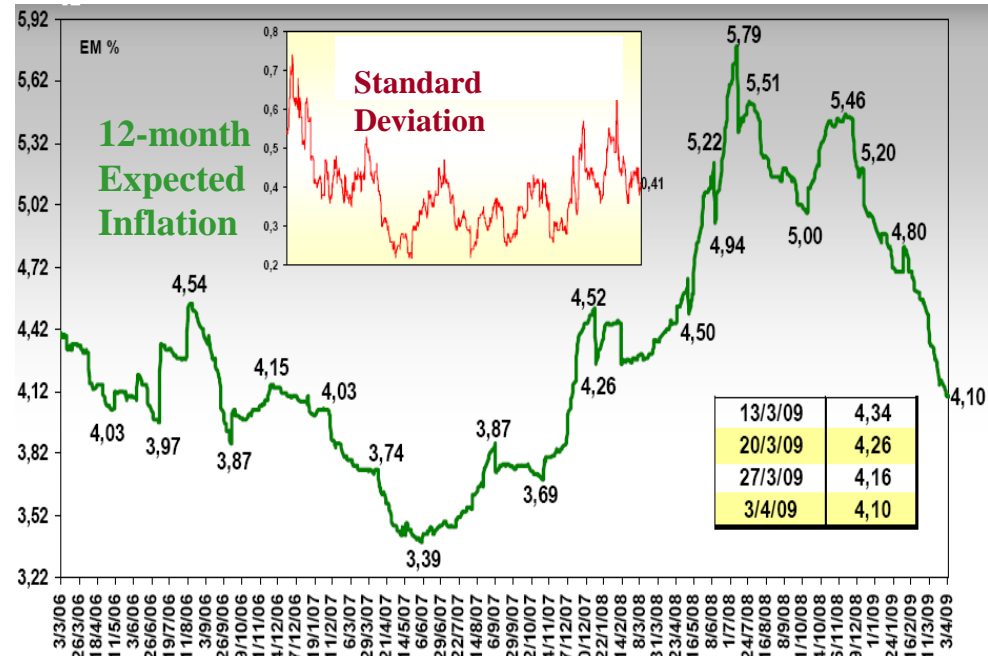
Monetary easing – low exchange-rate pass-through, output gap and expected inflation within target

Inflation and Targets

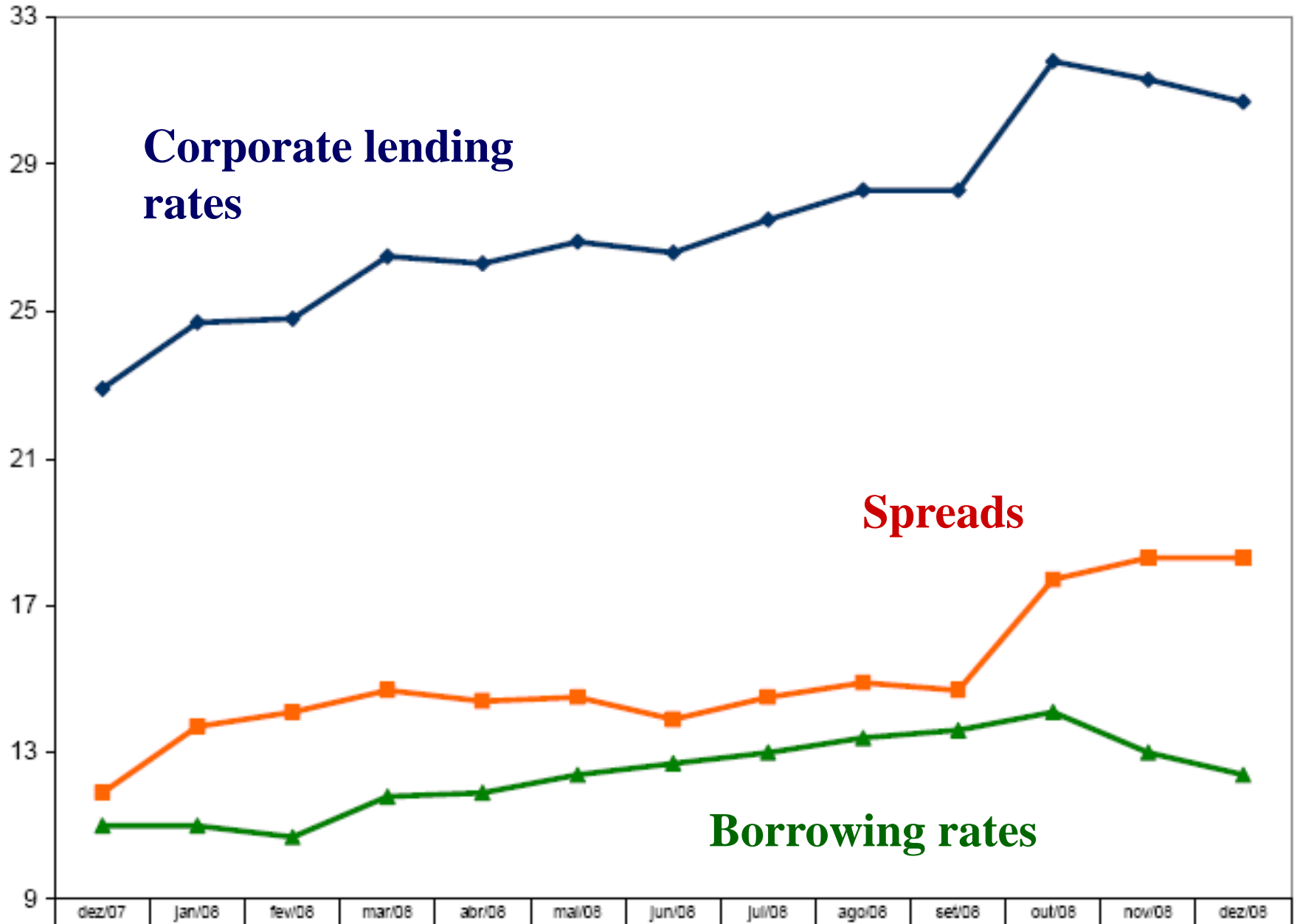
12-month trailing basis



Interest Rates and Inflation Expectations (Jan 08 – Mar 09)



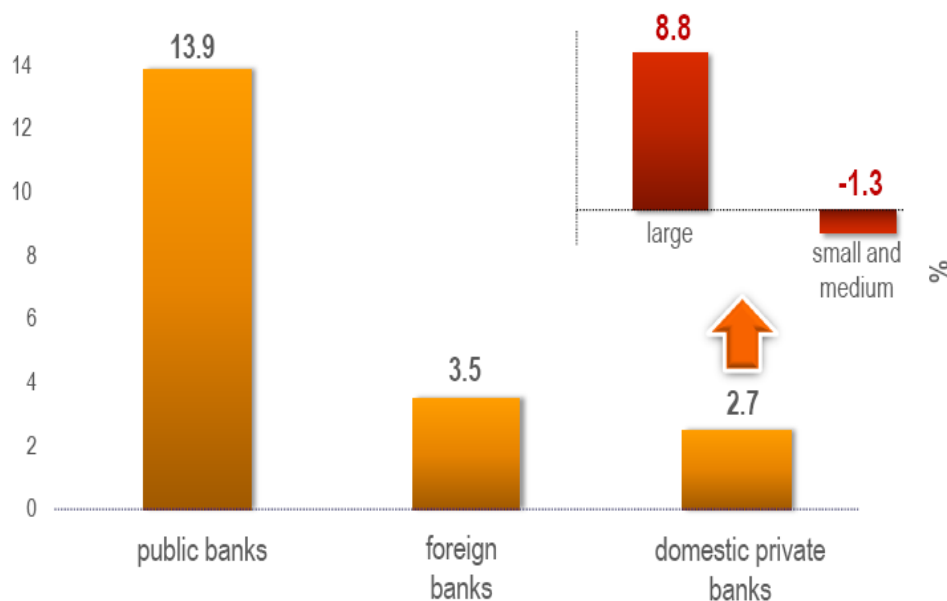
...but with higher spreads



Domestic credit starts to thaw – weight of public banks and large companies as clients

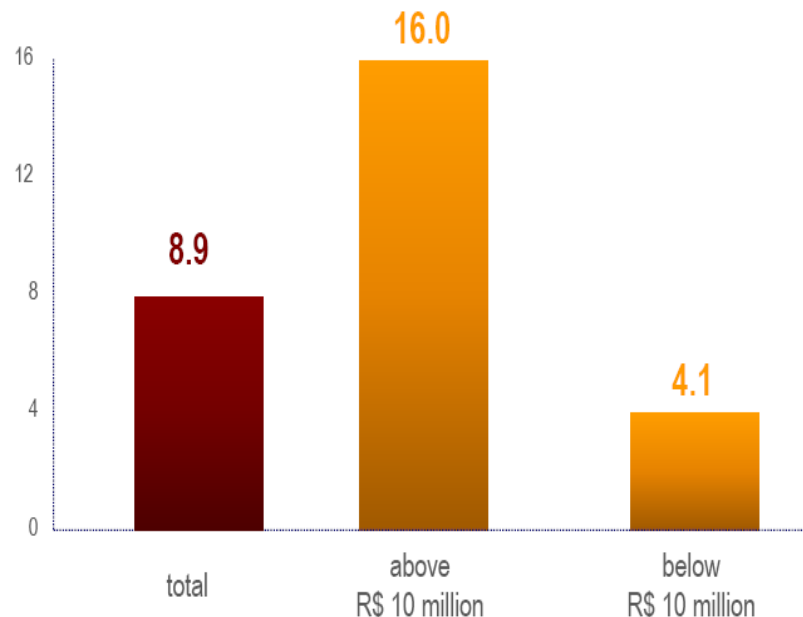
Domestic Credit

Growth Jan 09/Sep 08



Domestic Credit: Companies

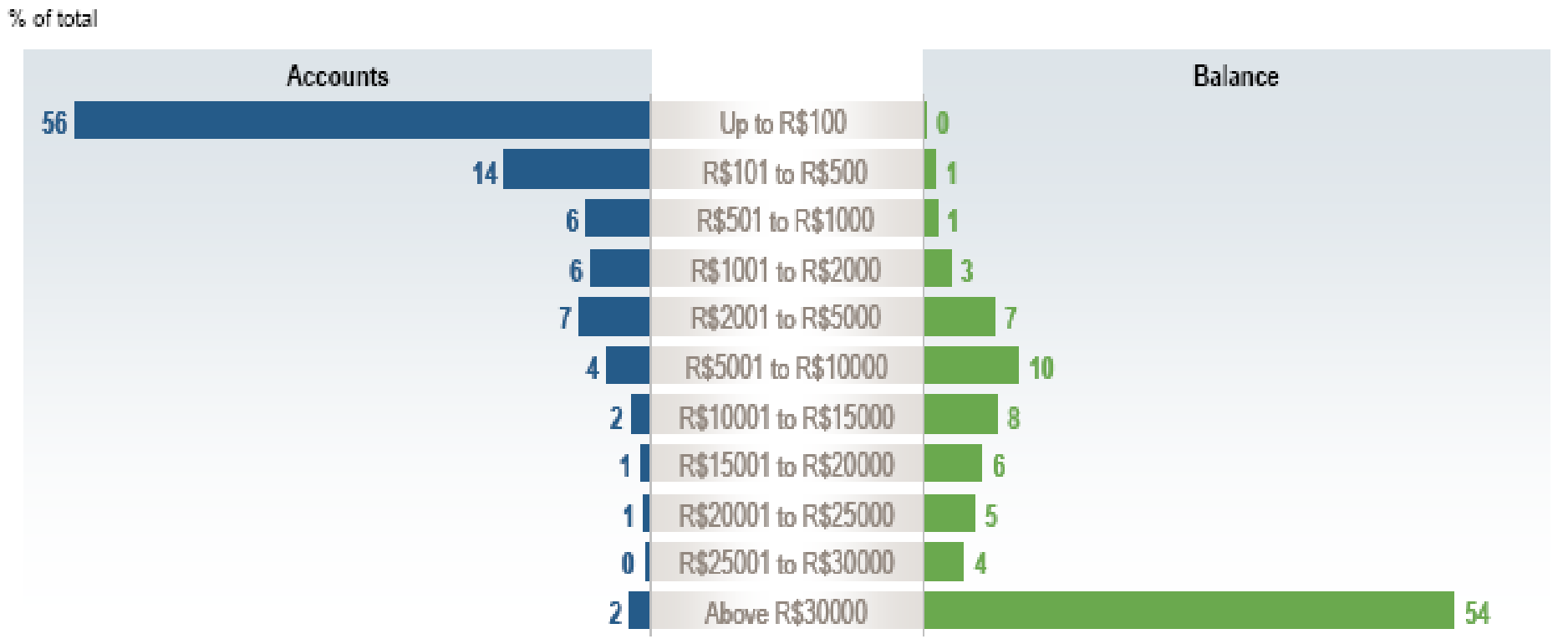
Growth Dec/Sep 08



Source: BCB

Savings accounts: a floor for basic interest rates

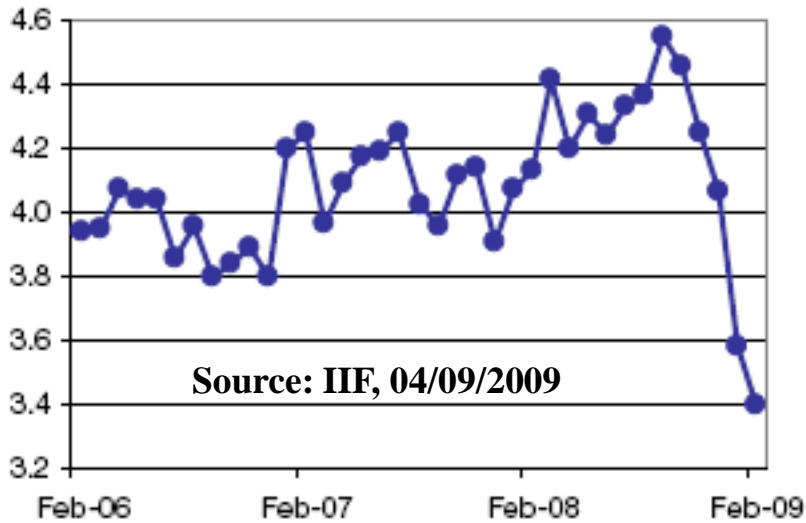
Exhibit 4: Breakdown of savings accounts by investment balance



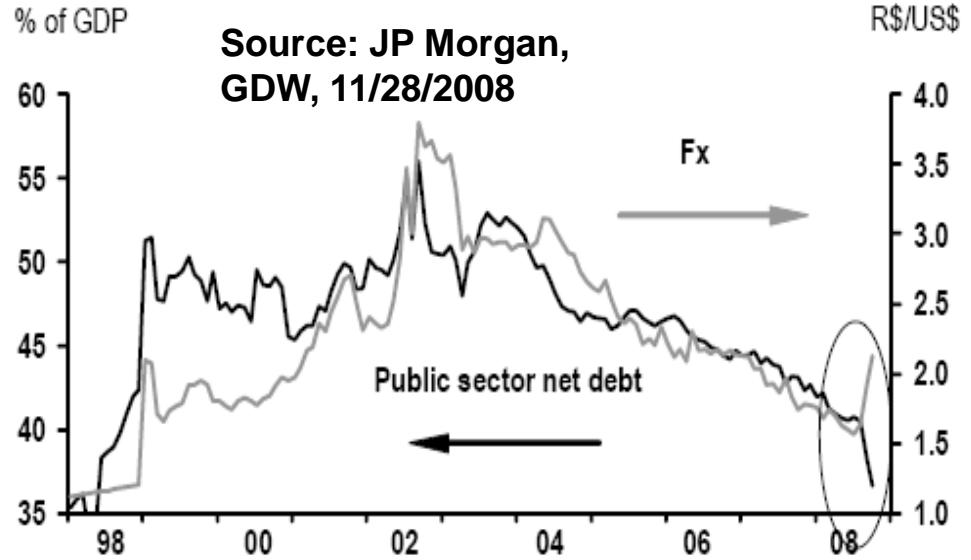
Source: Central bank, Credit Suisse

After improving in the recent past, public accounts face headwinds

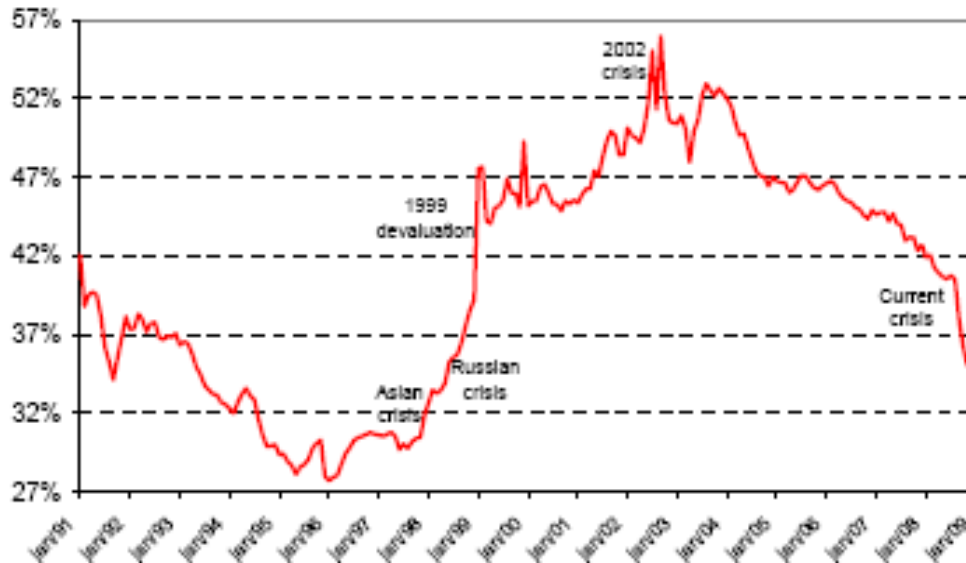
Chart 6: Public Sector Primary Surplus (percent of GDP)



Breaking the correlation between public debt and exchange rate

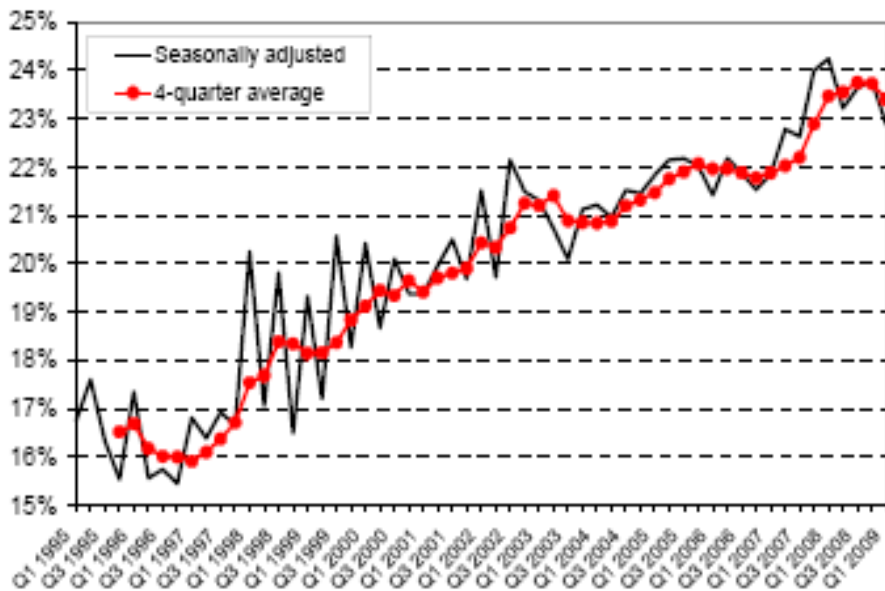


Debt to GDP ratio



Limited scope for countercyclical increase of spending

Federal collection - % GDP



State collection - % GDP

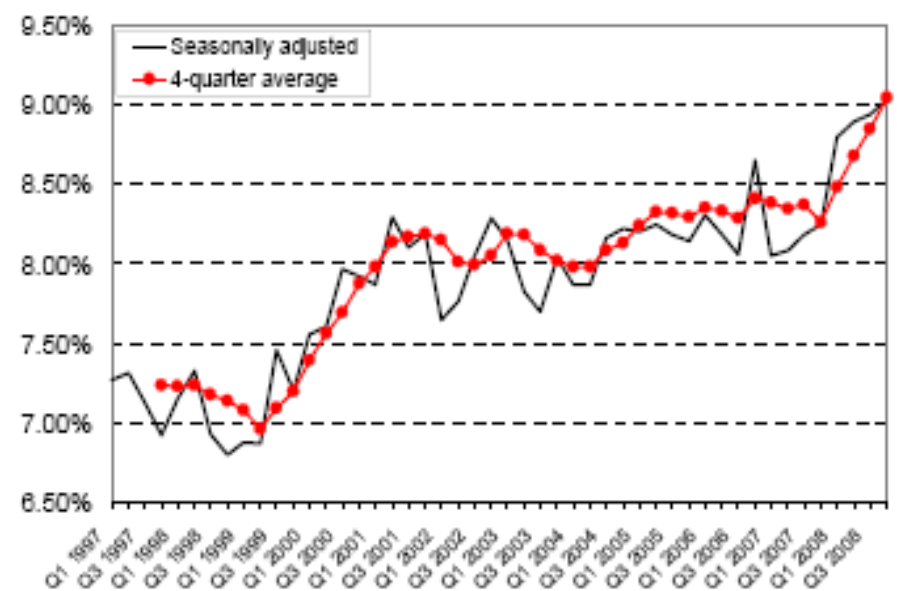
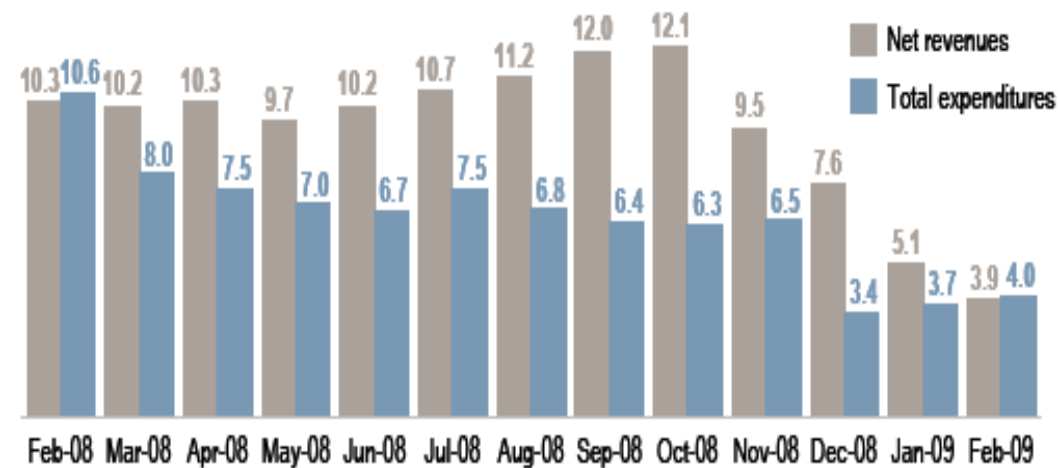


Exhibit 4: Real growth in central government revenues and expenditures

%, rolling 12-month



Source: Treasury, Credit Suisse

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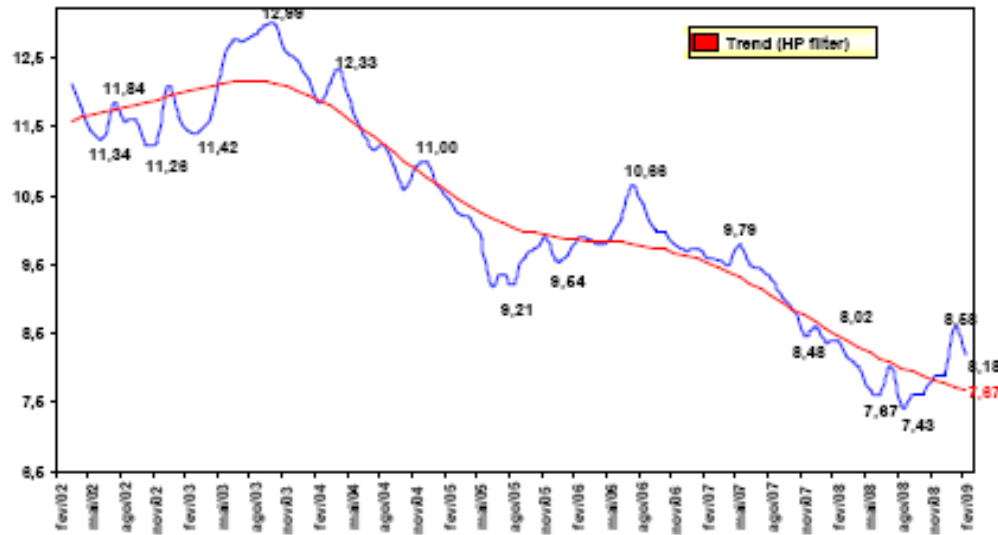
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Labor market and wages: die hard?

Seasonally adjusted unemployment rate 2002 – 2009



Rate of growth in average real earnings habitually received 2006 – 2009

