



# Brazil:

# The Response

# to the Crisis

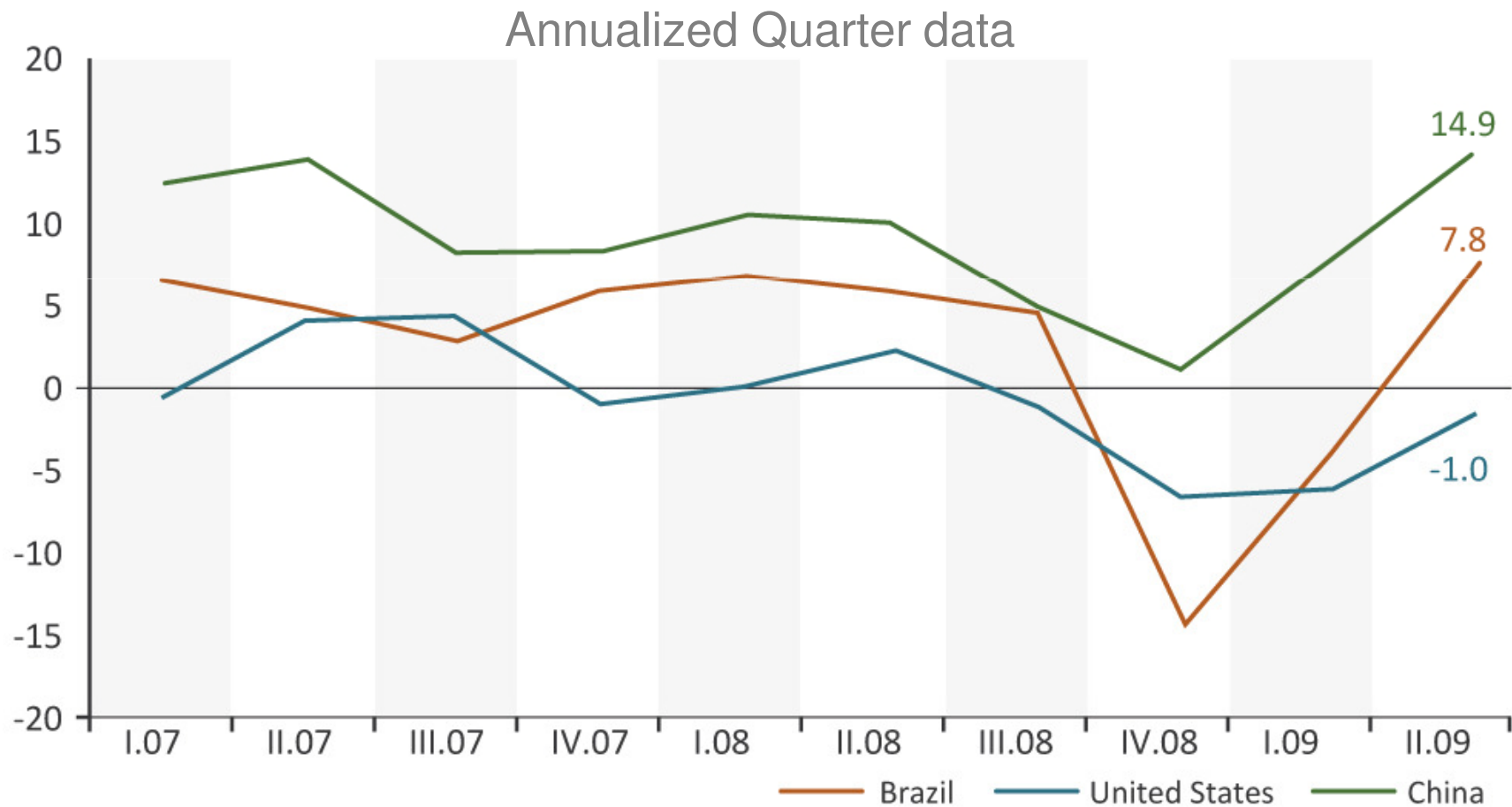
Min. Guido Mantega  
*September 2009*



## **The end of the beginning or the beginning of the end?**

- One year after Lehman Brothers's bankruptcy it becomes clear that Brazil was one of the most successful countries in fighting the crisis;
- While most of the countries recovered slowly Brazil is one of the first countries to leave the crisis behind.

# Positive GDP Growth for Brazil and China



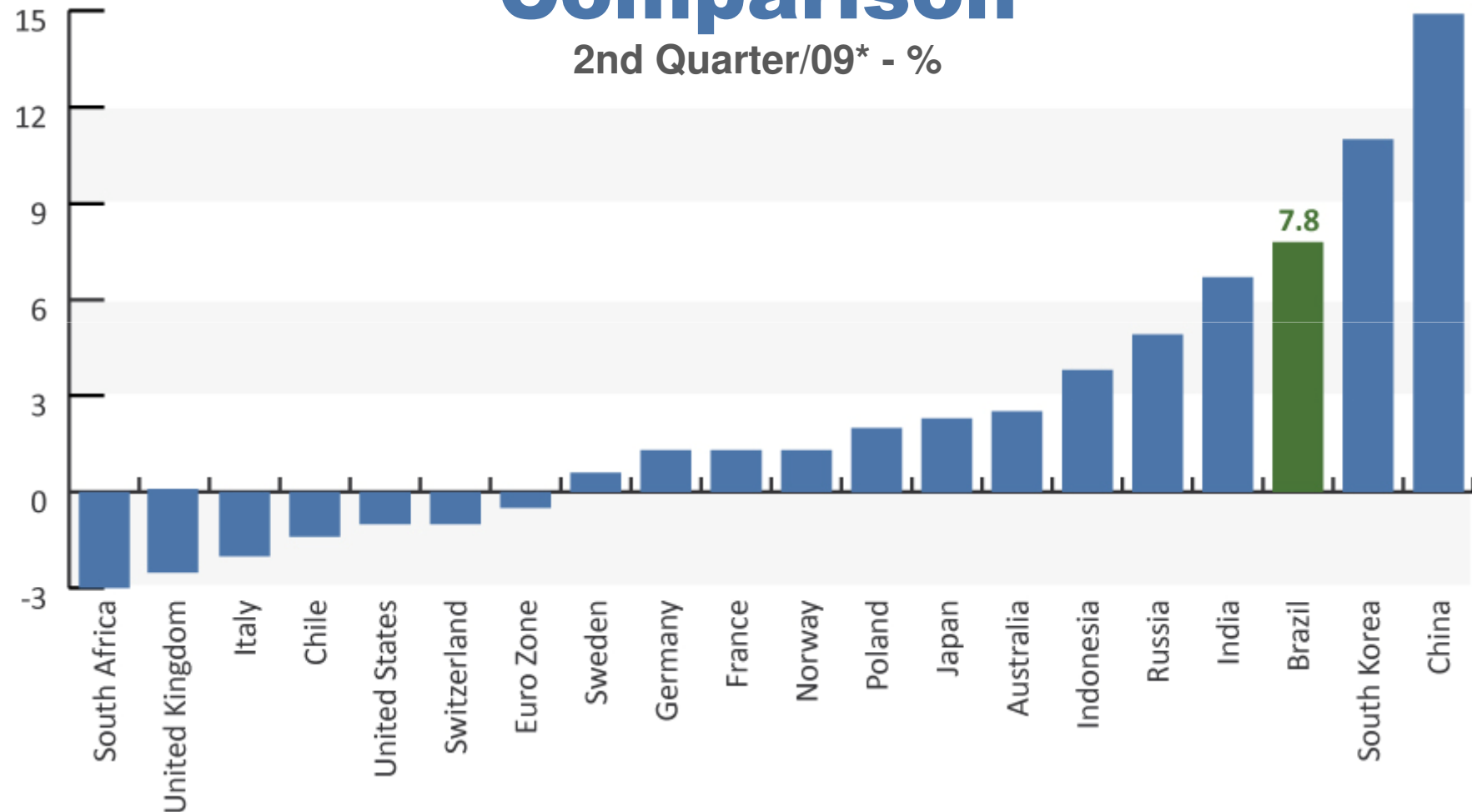
\* Forecasts: USA and China - JP Morgan and Brazil - Ministry of Finance

Sources: BEA (USA), JPMorgan (China) e IBGE (Brasil)

Produced by: Ministry of Finance

# GDP Growth – International Comparison

2nd Quarter/09\* - %

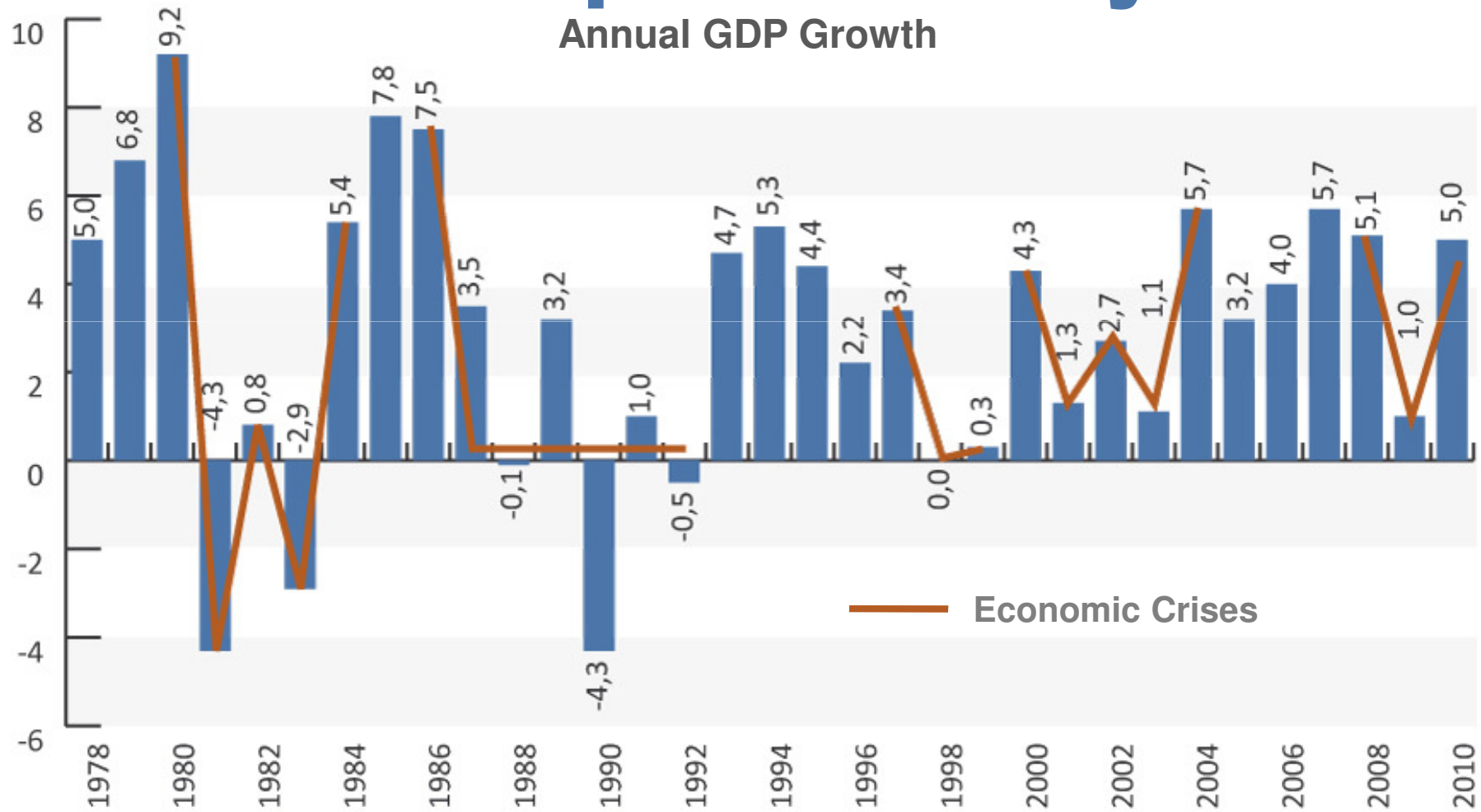


\* Growth relative to the previous quarter (1st Q 2009), annualized and seasonally adjusted.

Source: GDW JP Morgan 09/11/2009 and IBGE for Brazil

# Crisis Presenting a V-Shaped Recovery

Annual GDP Growth



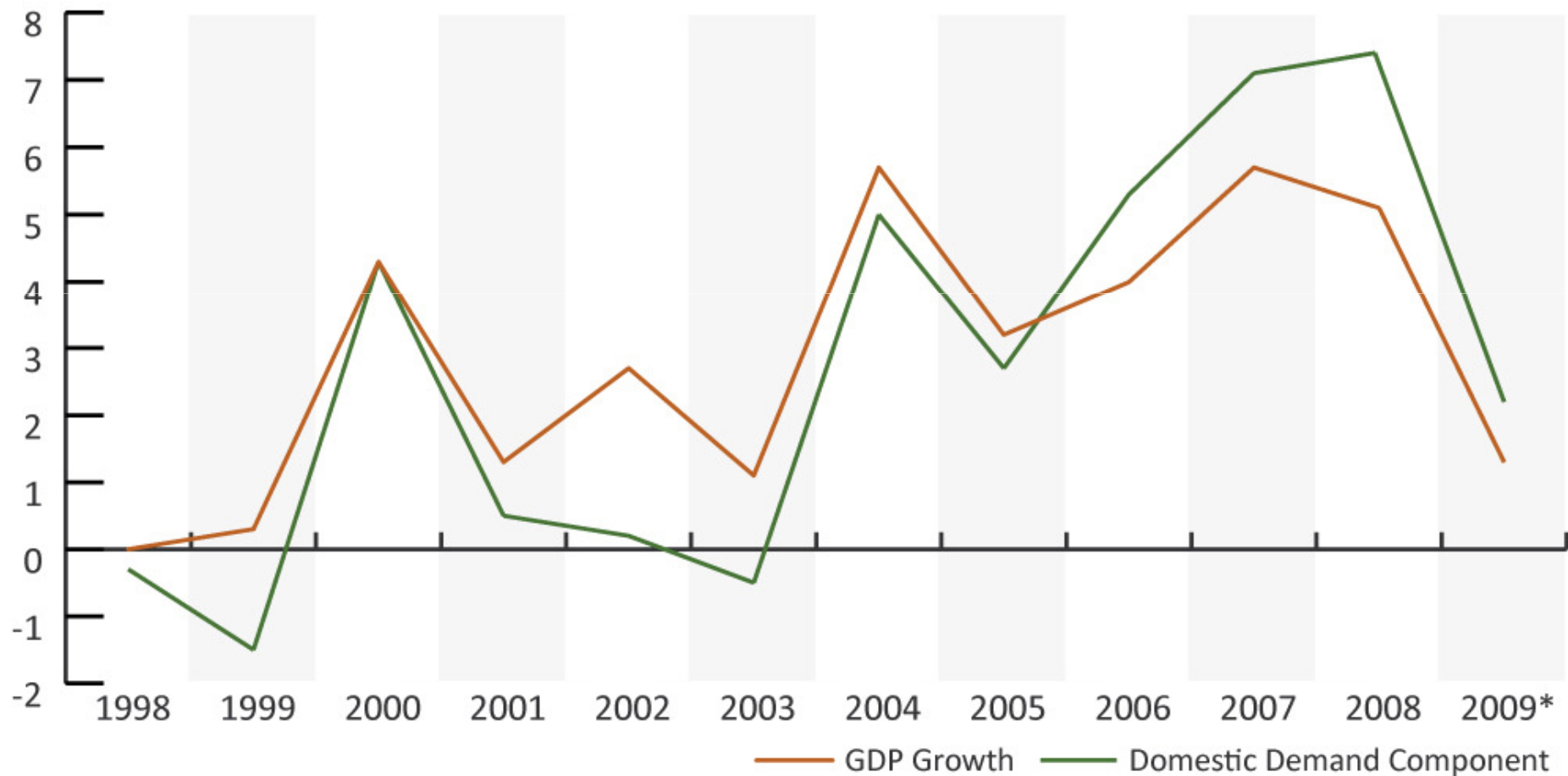
Source: IPEADATA

Produced by: Ministry of Finance

\*Forecast

# GDP and Consumption

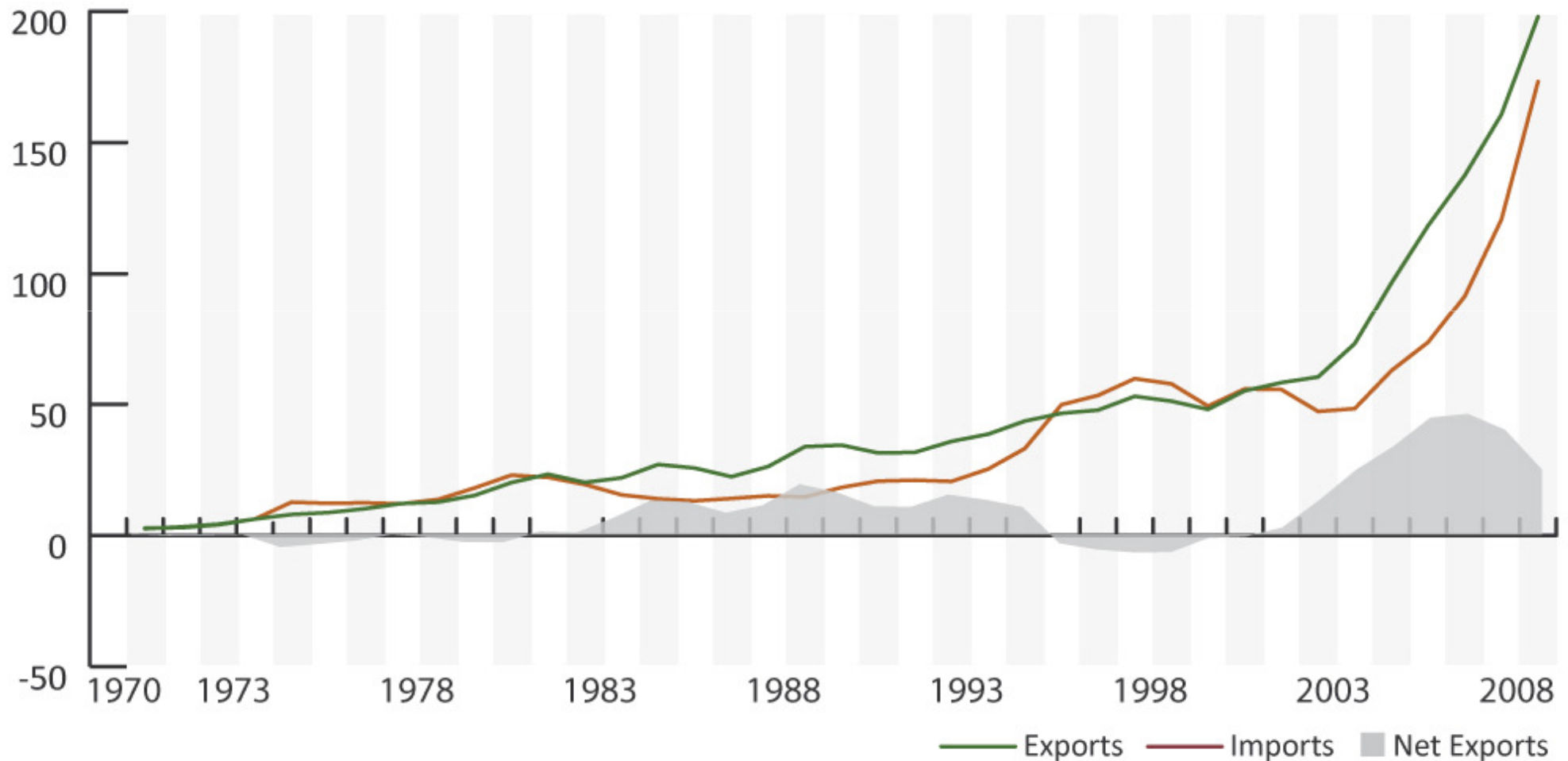
Change in the last 12 months - %



Source: IBGE

Produced by: Ministry of Finance

# Reduction of External Vulnerability

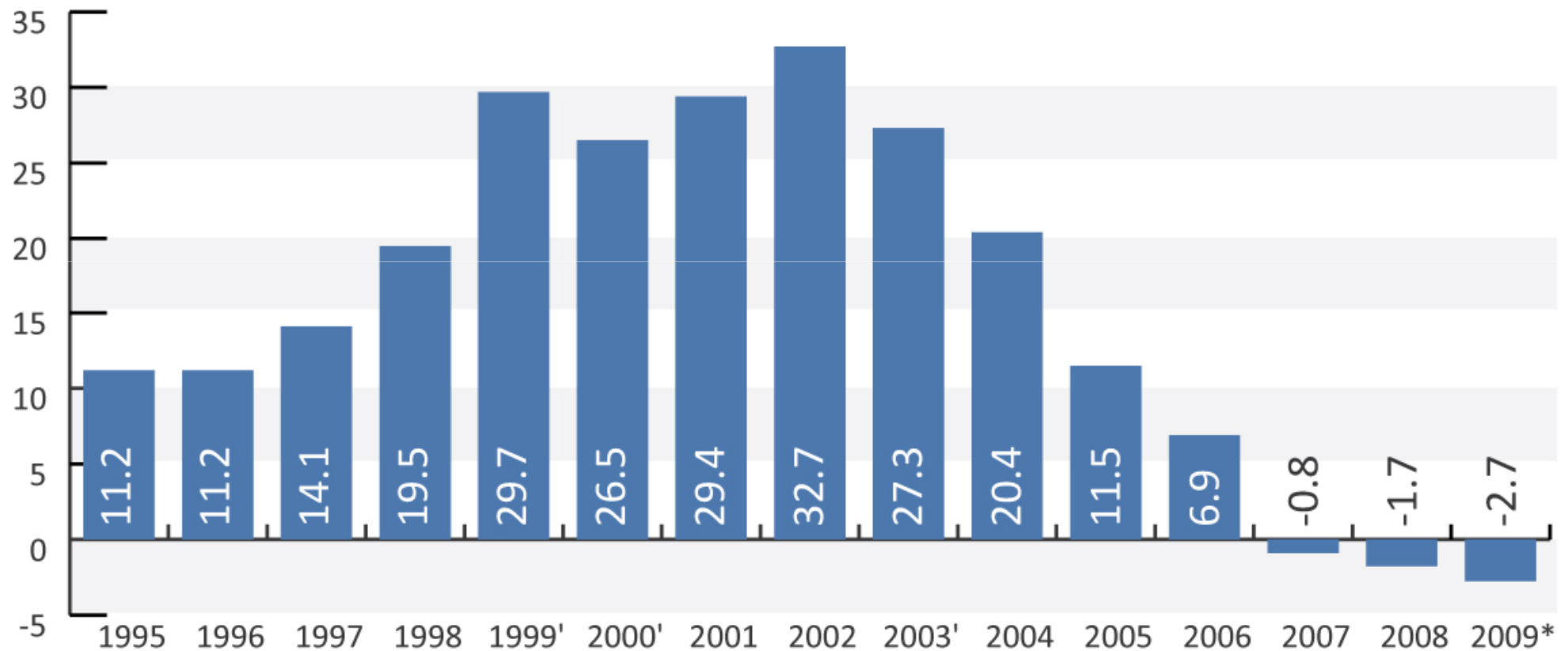


Source: Ministry of Development Industry and Commerce.

Produced by: Ministry of Finance

# Total External Net Debt

% of GDP

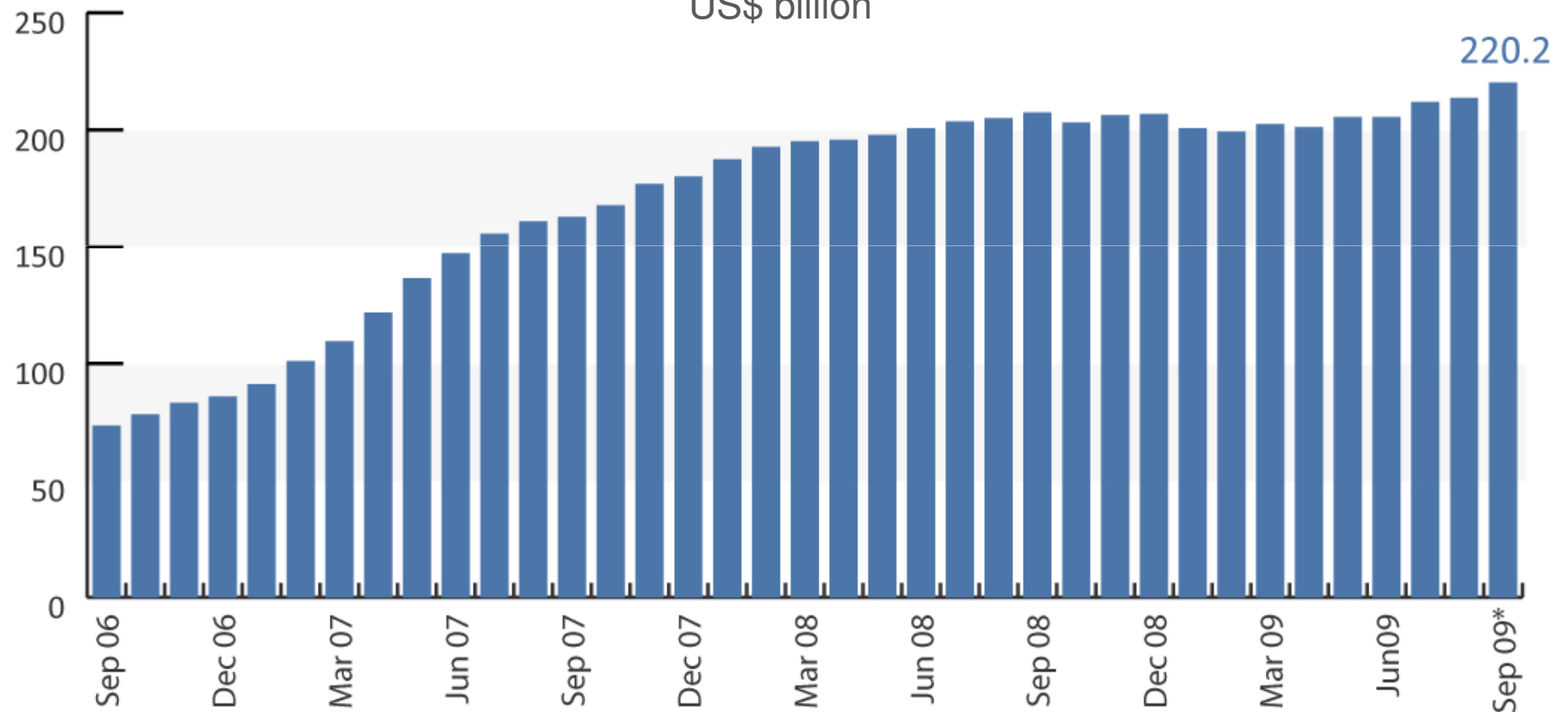


\* Forecast – July 2009

Source: Central Bank of Brazil Produced by: Ministry of Finance

# Foreign Exchange Reserves (International Liquidity)

US\$ billion



\*Position at September 08th, 2009.

Source: Central Bank of Brazil.

Prepared by: Ministry of Finance

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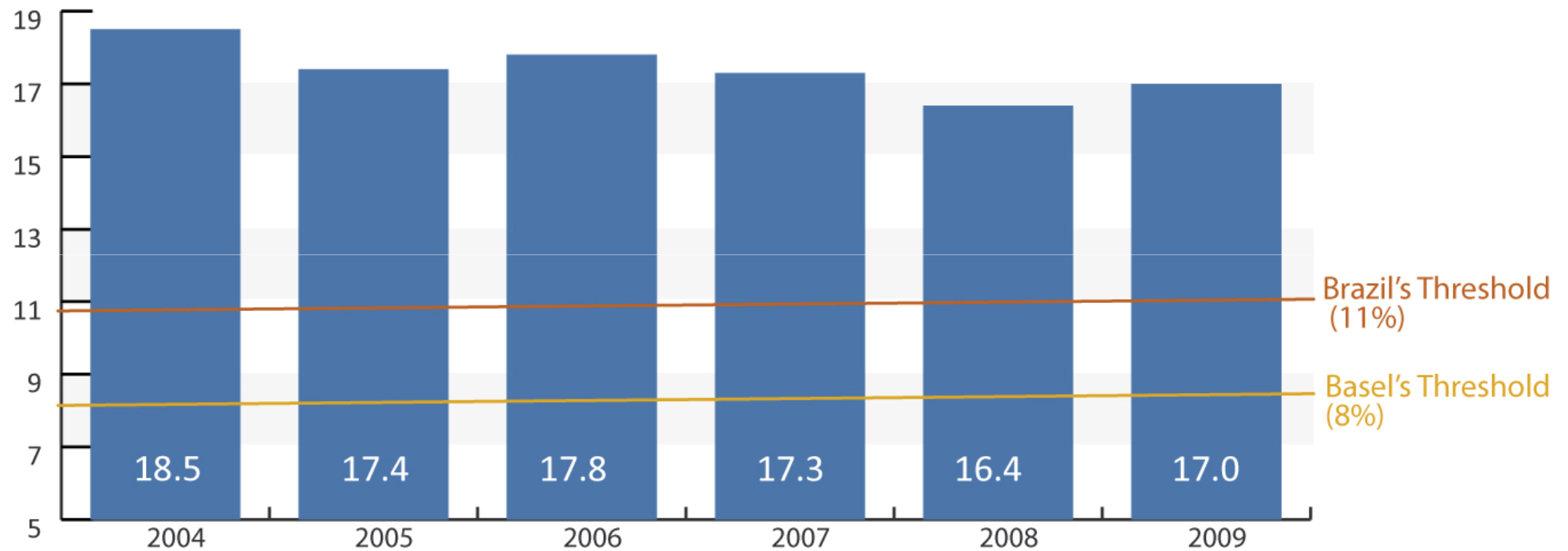
# **SOLID BANKING SYSTEM**

**More Regulation  
State-Owned Banks**

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# Regulatory Capital

Capital-to-Risk Weighted Assets Ratio - %

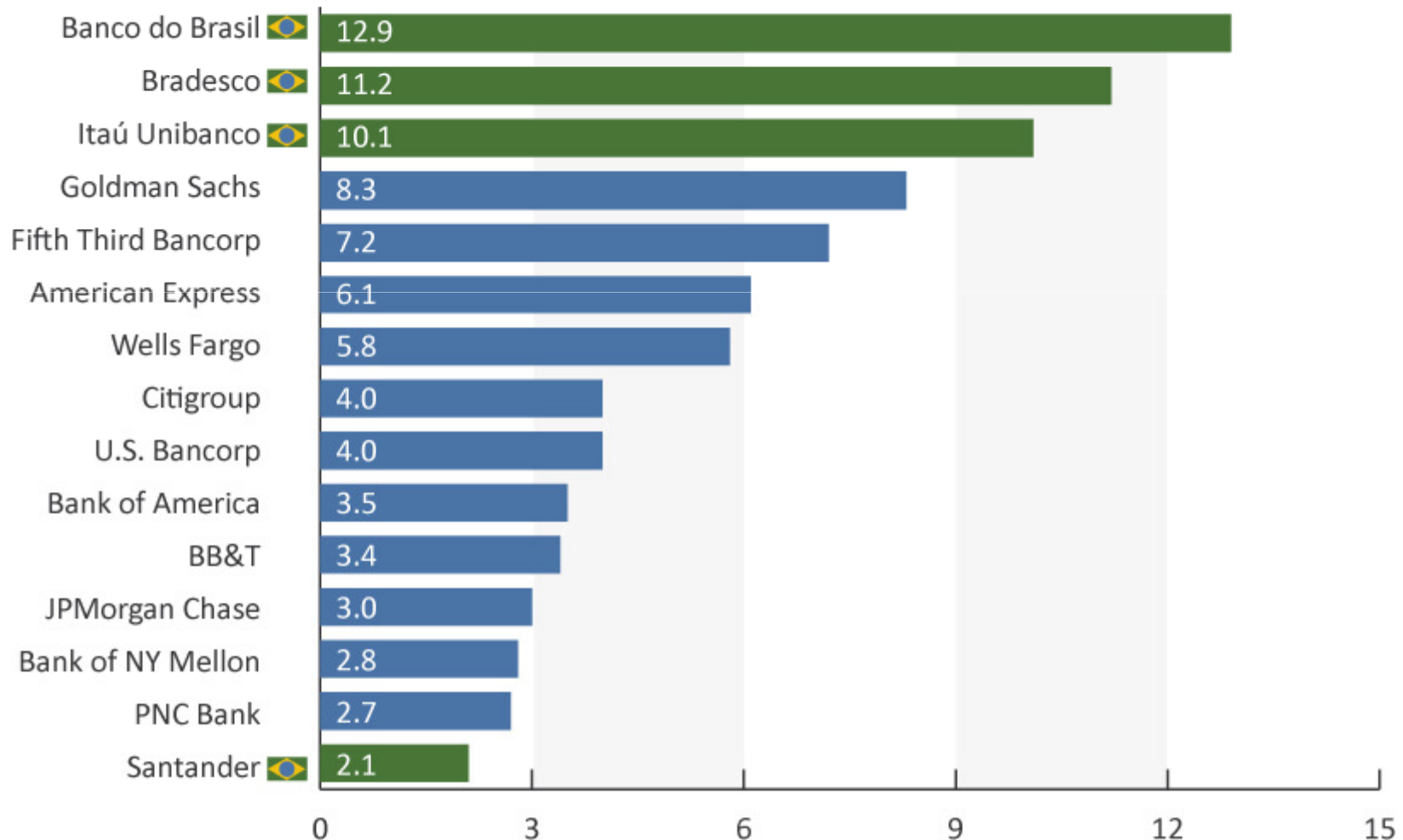


Source: Central Bank of Brazil

Produced by: Ministry of Finance..

# Banks' Average Return on Equity\*

From January to June 2009 (%)



\*Considering extraordinary effects

Source: Banco do Brasil

# 2003-08 Vigorous Economic Growth

## Macroeconomic Fundamentals

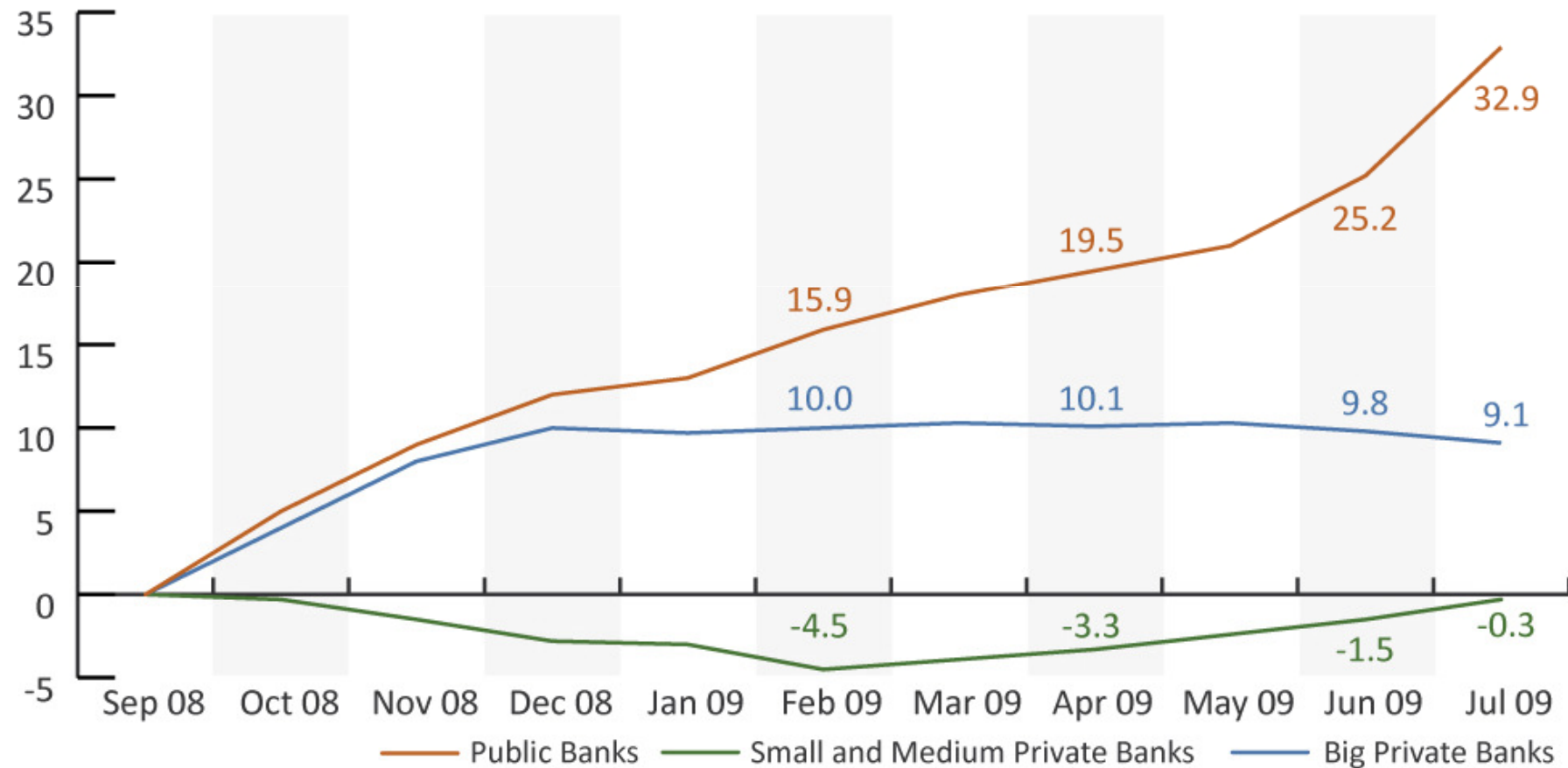
- Brazil acquired the ability to implement economic policies to fight crises;
- Expansionary Monetary Policy;
  - Compulsory reserves;
  - Interest Rate Reductions;
  - Foreign Commerce (Reserves);
- Fiscal Policy for Economic Stimulus.

## Effects of Monetary Policy

- Monetary Policy was efficient;
- It prevented bank's bankruptcy;
- Overcame problems with derivatives;
- Supported small and medium banks;
- It didn't avoid liquidity crunch;
- Without State-owned banks credit would remain scarce and interest rates would be higher.

# Domestic Credit

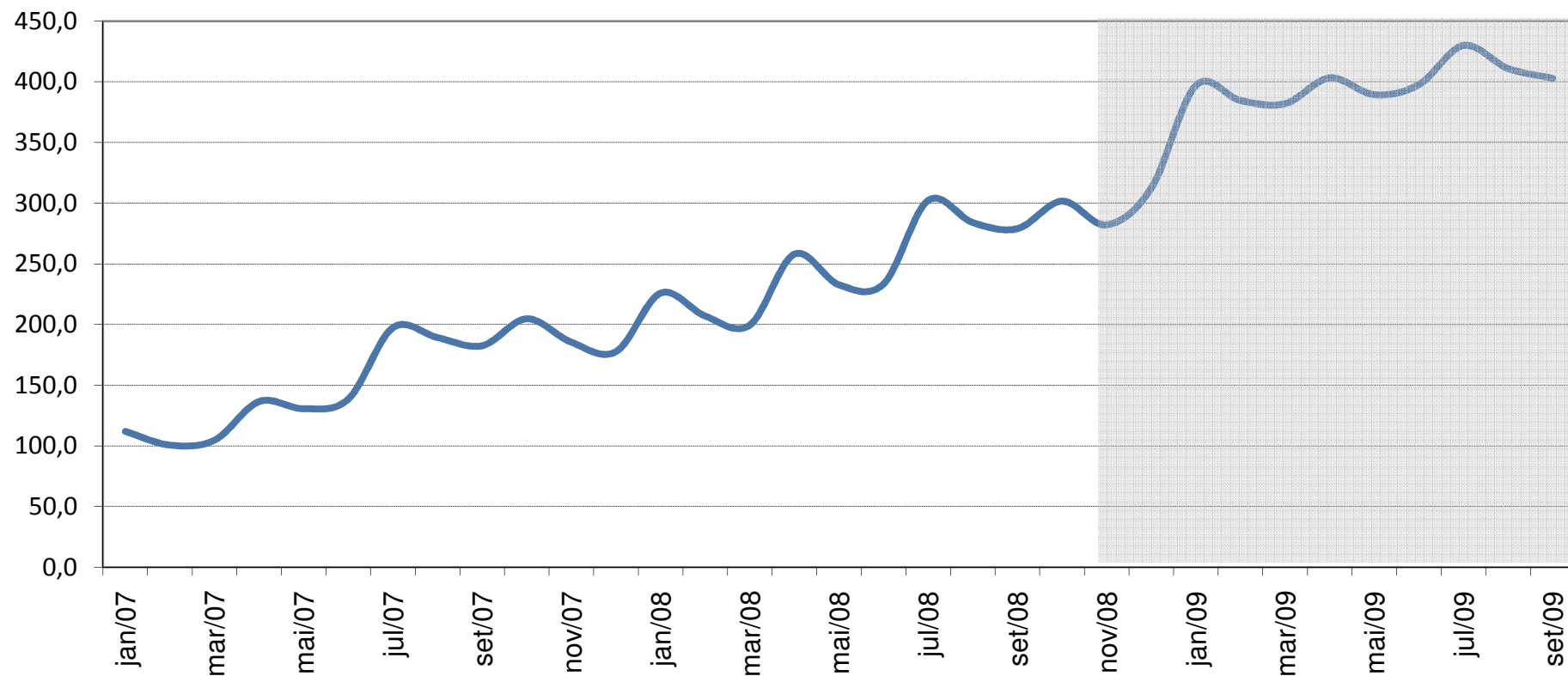
Accumulated change since september 2008 - %



Source: Central Bank of Brazil

# Repo Contracts

Total Value and Maturity of Contracts – Monthly Average - Jan/07 to Sept/09 (R\$ bilions)



Source: Central Bank of Brazil

## Active Fiscal Policy

- Expansion of Public Investments (PAC);
- R\$ 100 billion to the Brazilian Development Bank (BNDES)
- “Minha Casa Minha Vida” (Housing Program): US\$ 15.6 billion in subsidies and US\$ 33.3 billion in investments;

## Active Fiscal Policy

- “Plano Safra” (Agriculture): US\$ 59.4 billion (2009-2010);
- Investment Expansion Program (BNDES);
- Expansion of social programs;
- Fiscal Stimulus to States and Municipalities (2007-2009) US\$ 18.9 billion.

## Tax Reductions in 2009

- Reduction of the tax on Industrial Products (IPI): automobiles, trucks, building construction materials, kitchen appliances, capital goods.
- Reduction of the Financial Transactions Tax (IOF) to individuals (50% reduction) and to foreign exchange transactions.
- Change in the Individual Income Taxes' (IRPF) brackets.

## Tax Reductions in 2009

- Special Tax Regime (RET) – tax rate reduction from 7% to 1%, for Real Estate costing up to US\$ 55.6 thousand\*, and from 7% to 6% to all other cases – **“Minha Casa Minha Vida” Program**
- Reduction of the Social Security Tax (Cofins) from 3.65% to 0.65% on the production of small motorcycles (up to 150 cc)

\* value converted from Real to US Dollar at the exchange rate of US\$1=R\$1.8.

# Impact of Anti-cyclical Policies

Summary of Policy Actions	% of GDP
Tax reductions.	0.4
Increase in investments and public expenses.	0.6
Interest rate equalizations and others.	0.2
<b>Total (2009 only)</b>	<b>1.2</b>

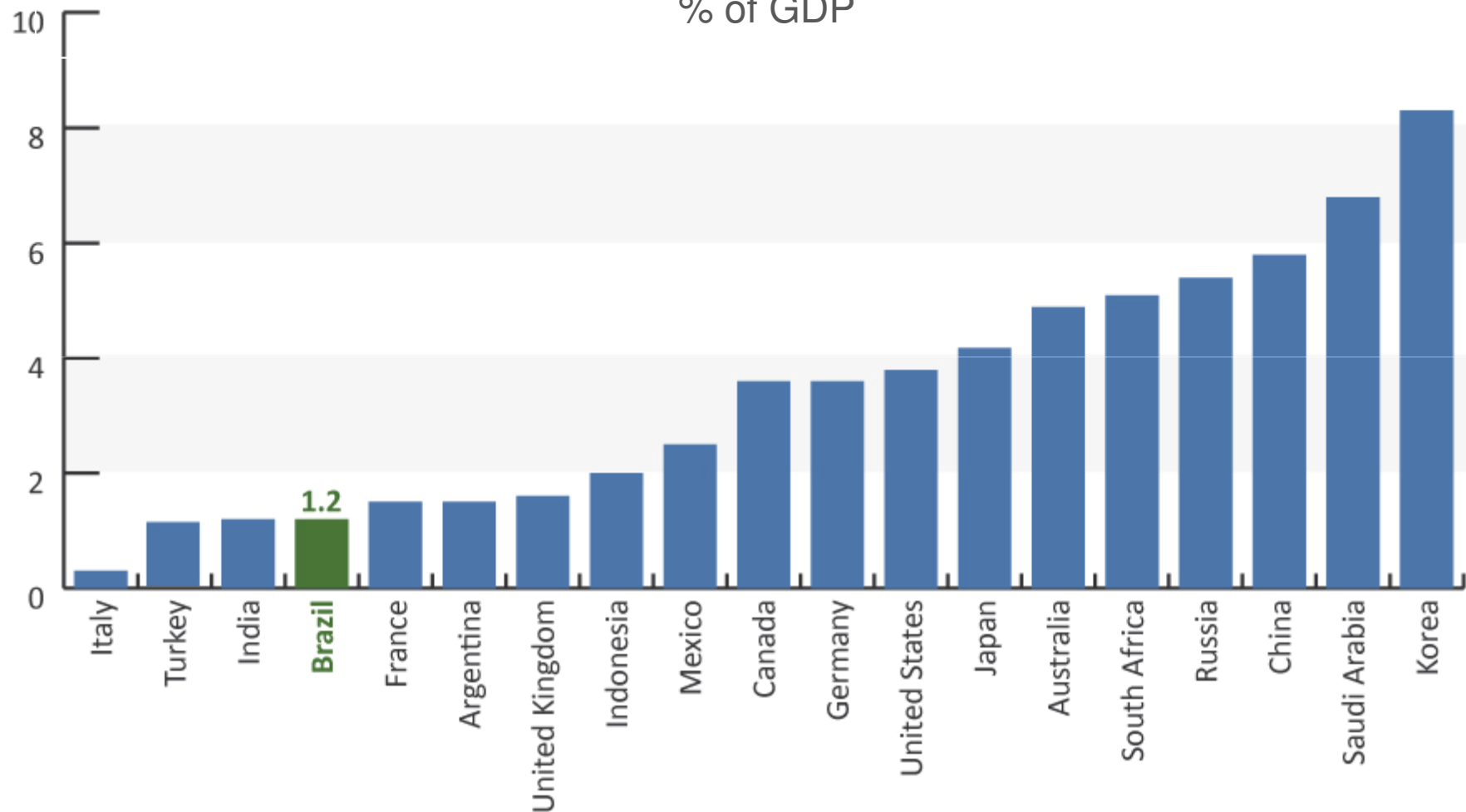


**2.5 to 3.0 pp INCREASE in 2009's GDP**

EXAMPLE (GDP 2009)	
Without stimulus would be	With stimulus will be
-2.0%	+1.0%

# Fiscal Stimulus\*

% of GDP



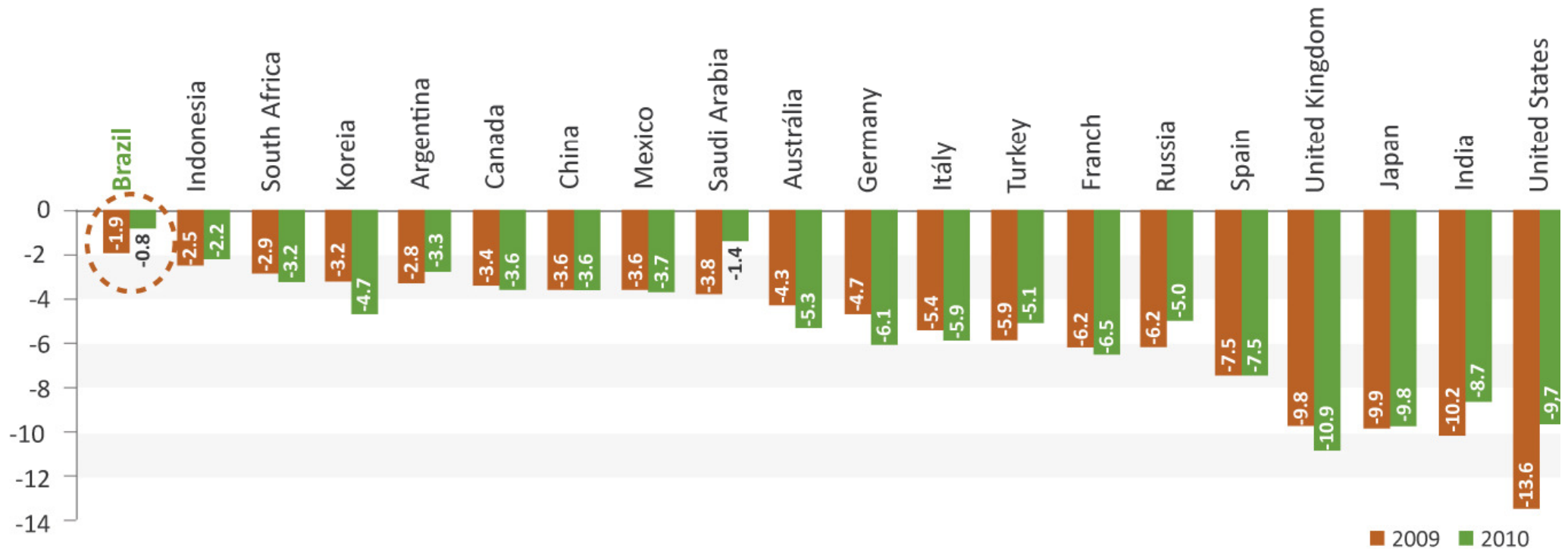
\*Discretionary actions related to the crisis with fiscal effects in 2009 and 2010

Source: IMF

Produced by: Ministry of Finance

# Cost of anti-cyclical policies in Brazil was lower than in other countries

G20's fiscal results (% of GDP) – IMF forecasts

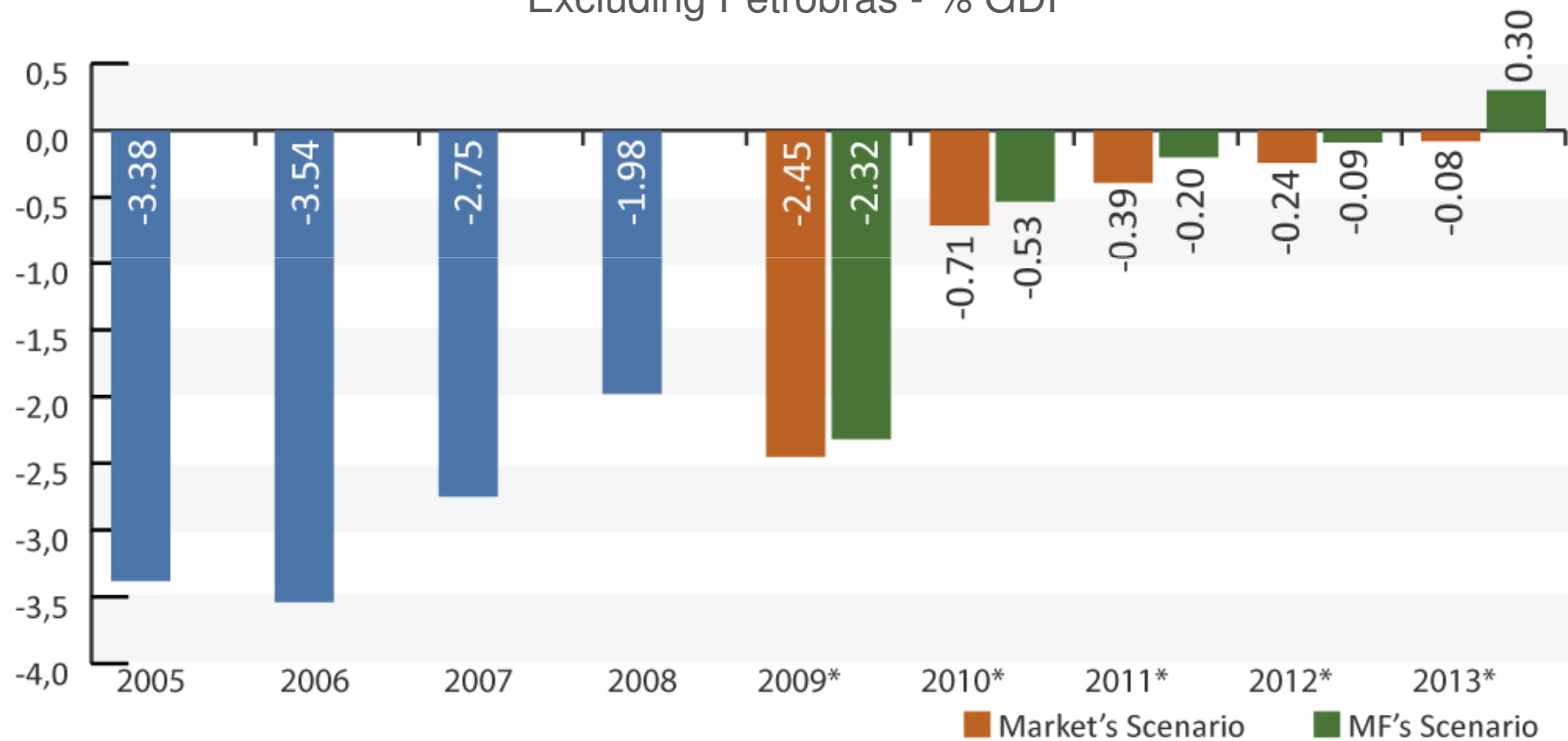


Source: IMF

Prepared by: Ministry of Finance

# Public Sector's Nominal Fiscal Balance

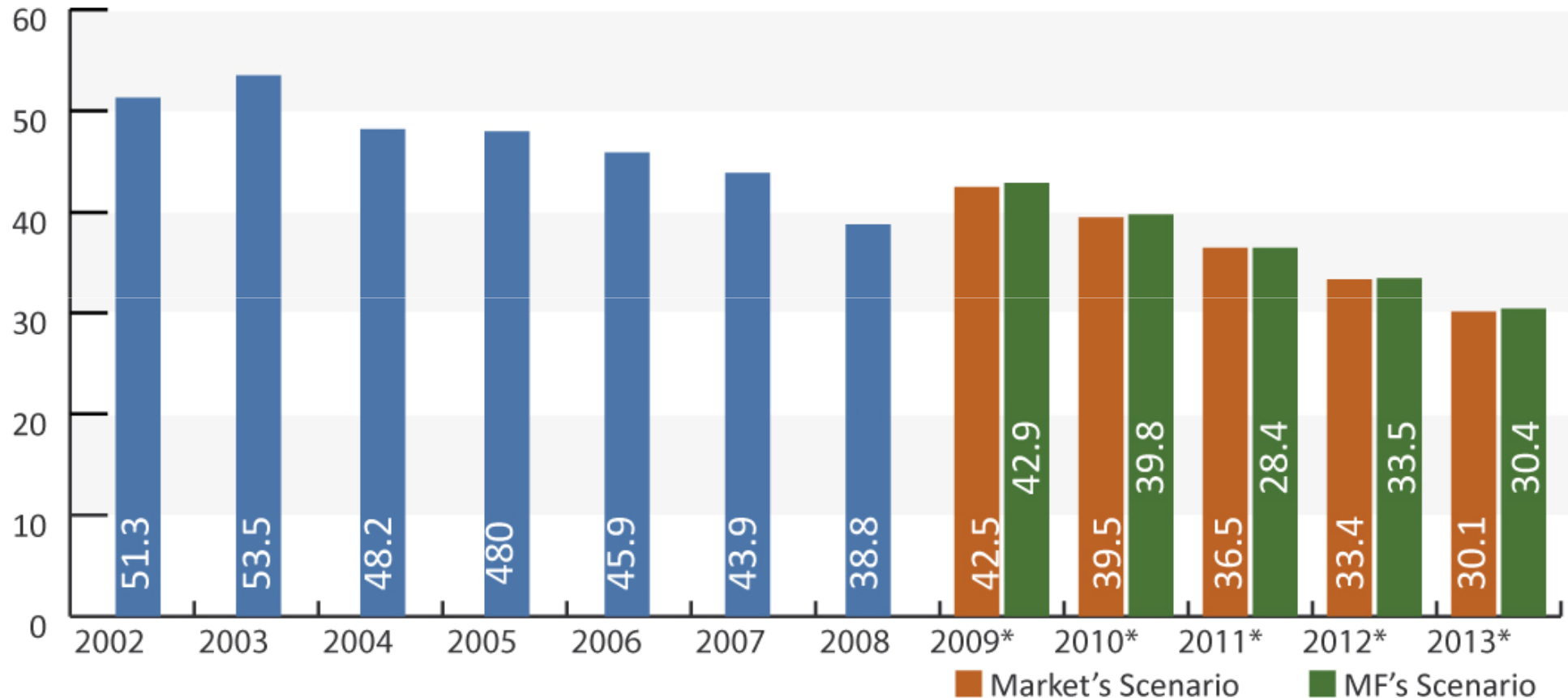
Excluding Petrobras - % GDP



Source: Ministry of Finance

# Public Sector's Net Debt

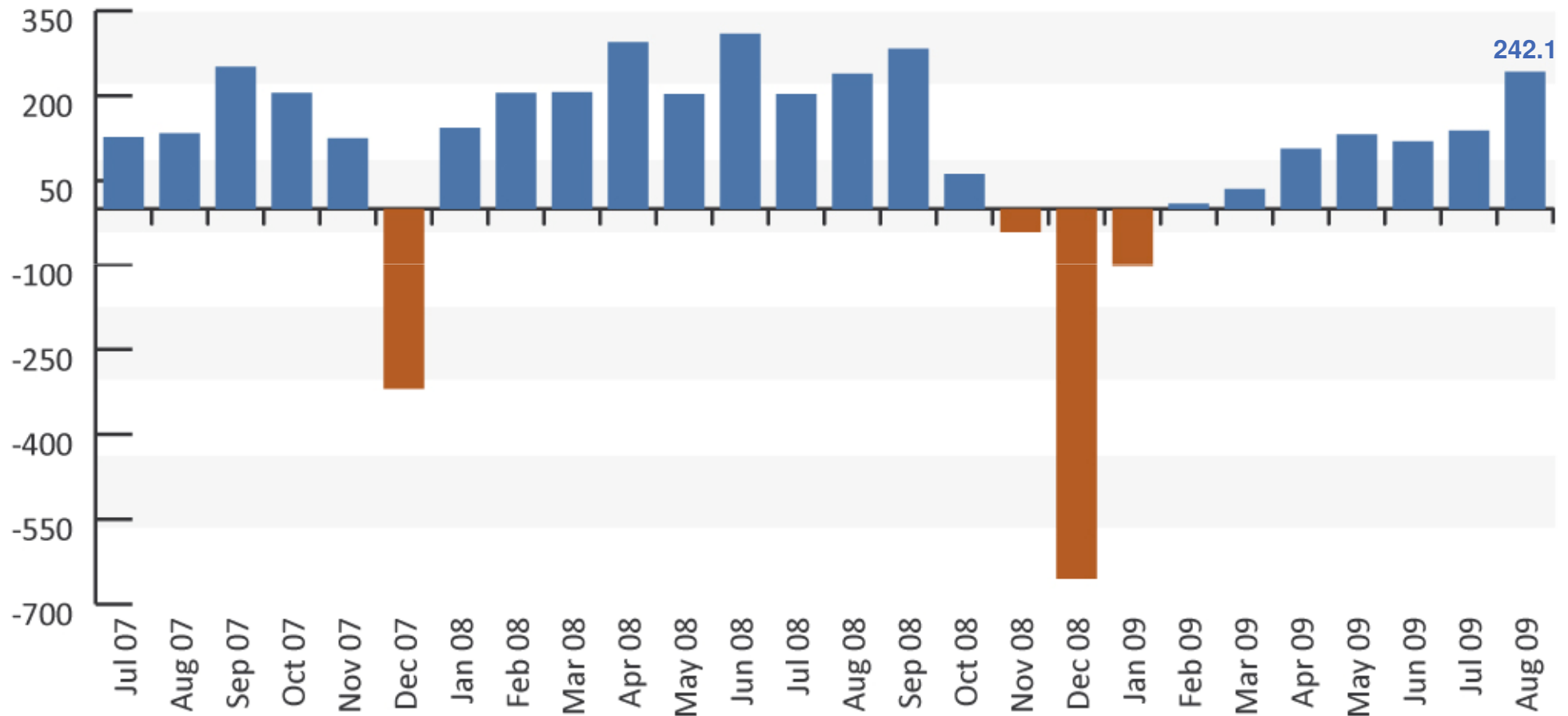
Excluding Petrobras - % GDP



Central Bank forecasts, considering a primary surplus of 2.5% of GDP in 2009 and of 3.3% of GDP from 2010 to 2012

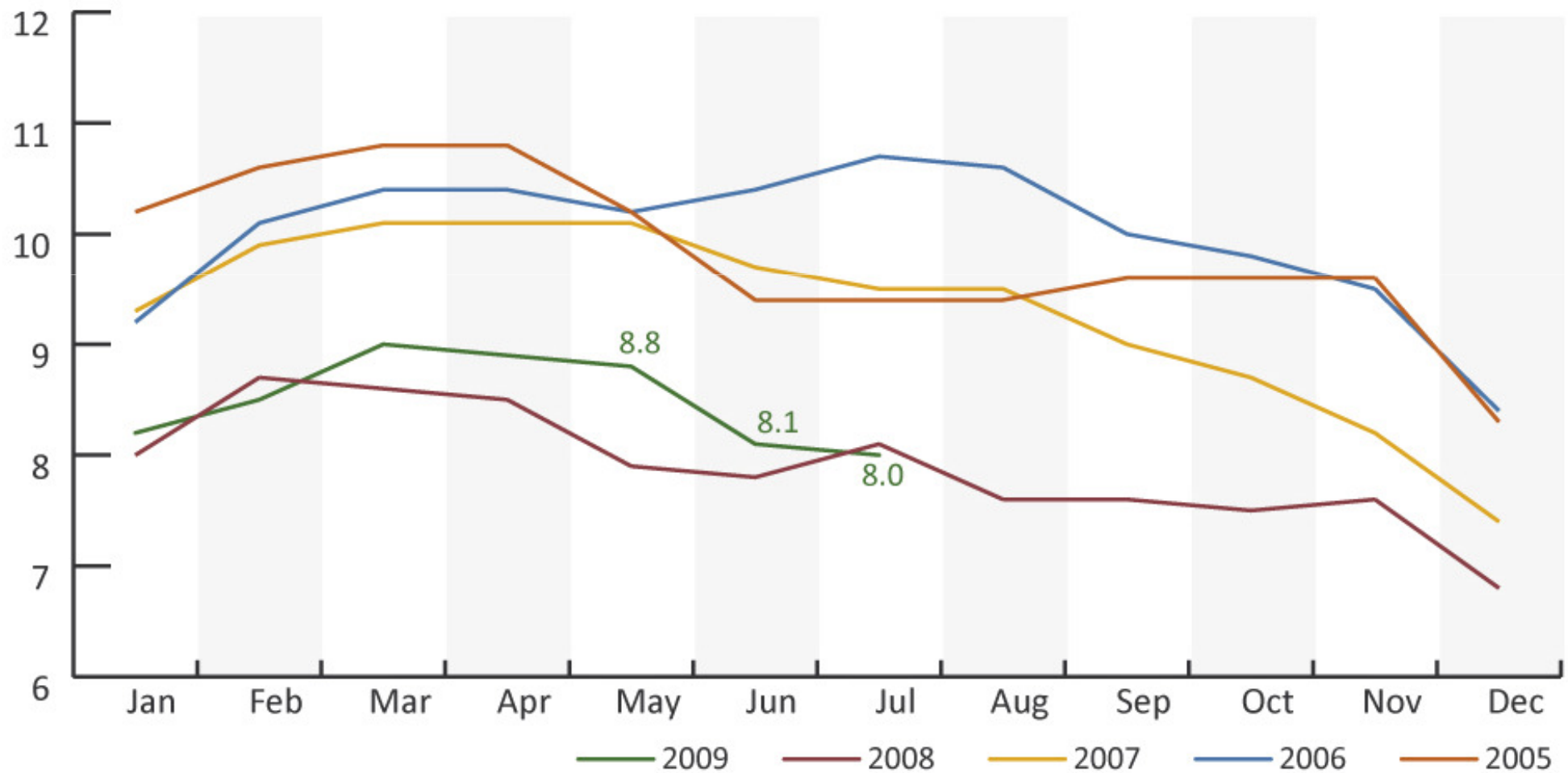
# Job Creation – Net of Dismissals

(Absolute Change – in Thousands)



# Unemployment Rate

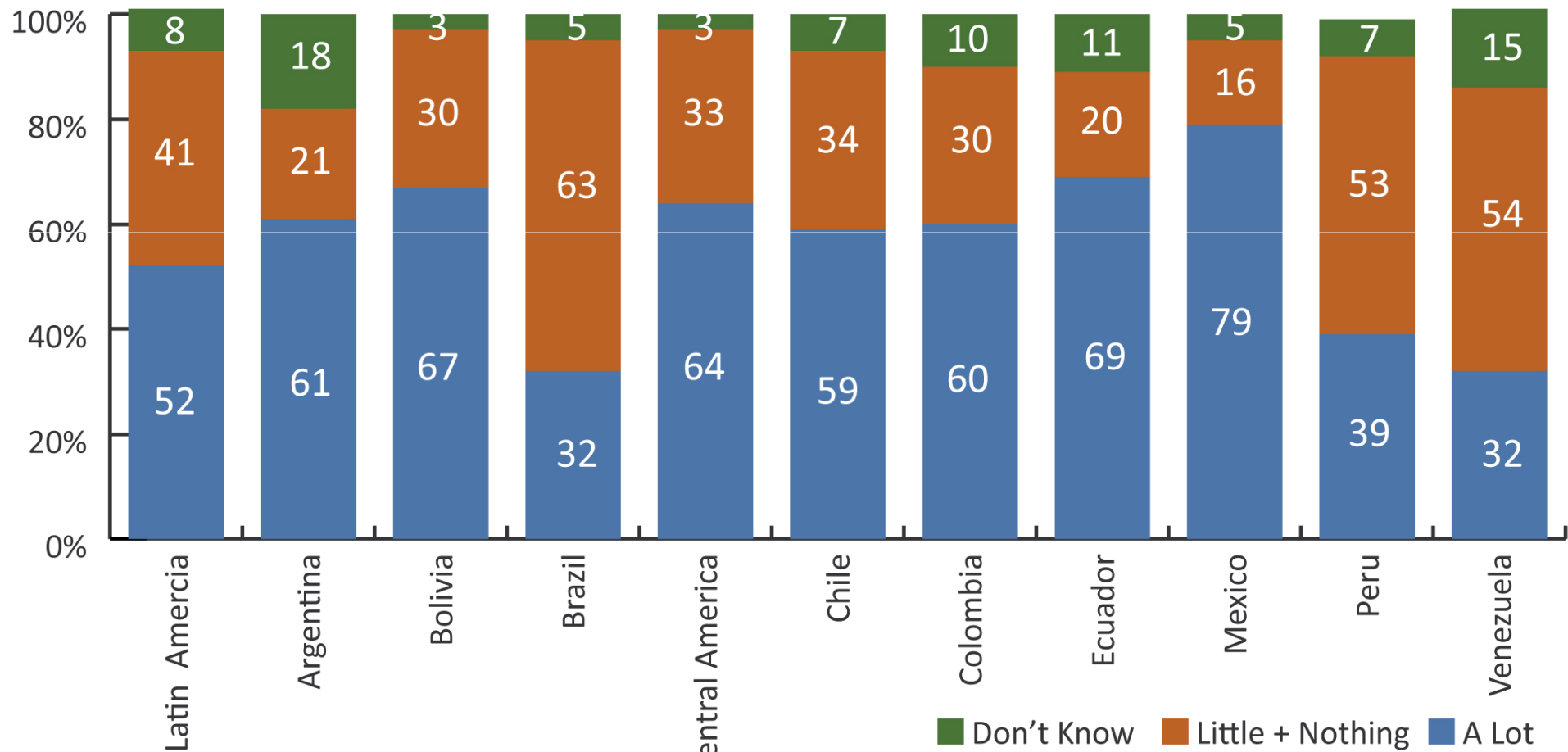
(% of EAP)



Source: IBGE/PME

Prepared by: Ministry of Finance

# Few Brazilians Felt the Negative impact of the World Crisis!!



Source: LatinPanel

## Lessons from the Crisis

- **Most affected countries:**
  - Countries with deregulated financial markets
  - “Minimum Government”, with few state-owned enterprises;
  - Countries with low economic dynamism, with weak domestic markets, or with markets more dependant on external demand.
  - Countries with unstable fiscal, monetary and external accounts.

## Lessons from the Crisis

- **Least affected countries:**
  - Countries with more financial regulation and with a more prominent role for the Government in the economy and in social programs;
  - Countries with state-owned banks and state-owned enterprises in strategic sectors;
  - Countries with more dynamic economies and with flourishing domestic markets;
  - Countries experiencing stable growth with fiscal and external accounts under control and with significant foreign exchange reserves.



Ministry  
of Finance

