



## What we learned from the 2008 financial crisis in Brazil

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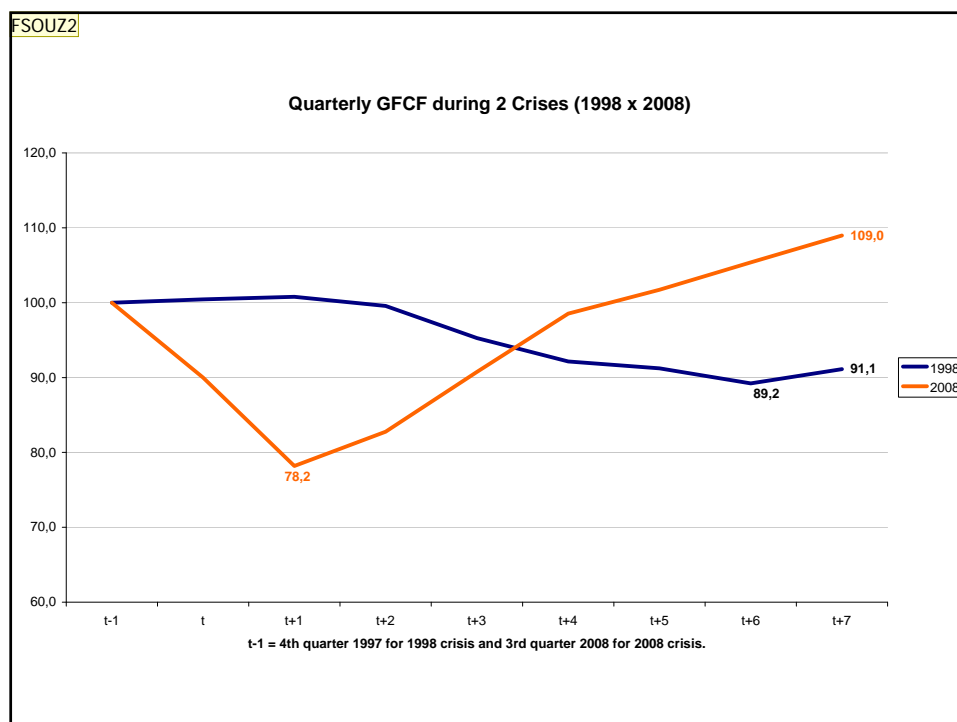
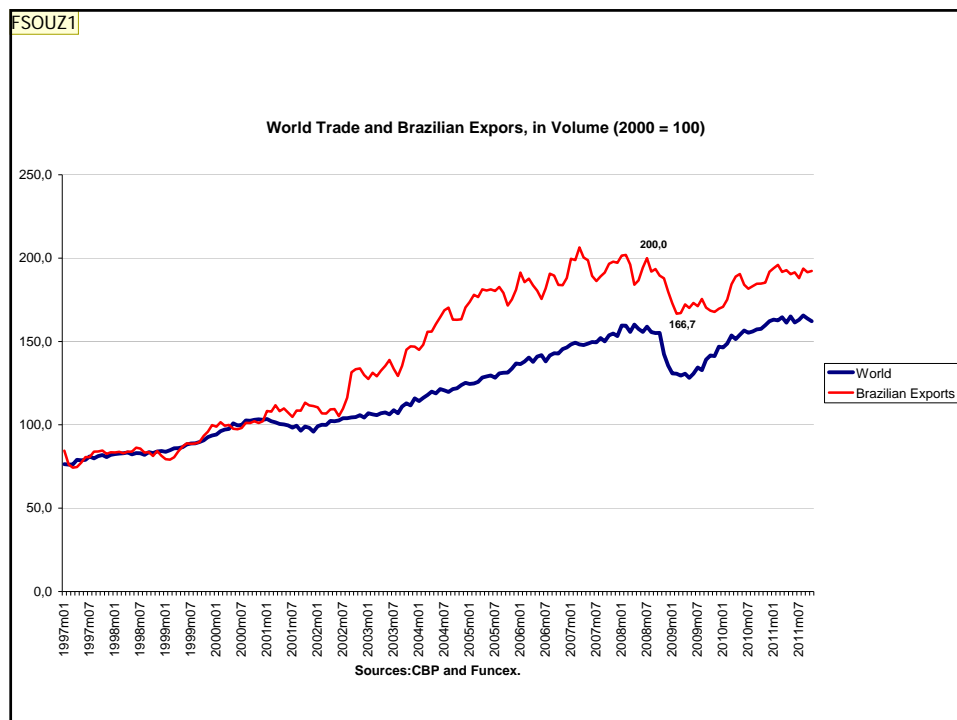
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## The Facts

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- The size of the external shock associated with the 2008 financial crisis was, in many senses, much greater than that of the Asian and Russian Crisis ten years before.



### Slide 3

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**FSOUZ1** The decrease in Brazilian exports was about 17% in the last quarter of 2008, more or less in line with the fall of 18% in world exports, in volume. In the case of manufactures, the fall reached 30% between september2008 and January 2009 (seasonally adjusted).

Francisco Eduardo Pires de Souza; 21/03/2012

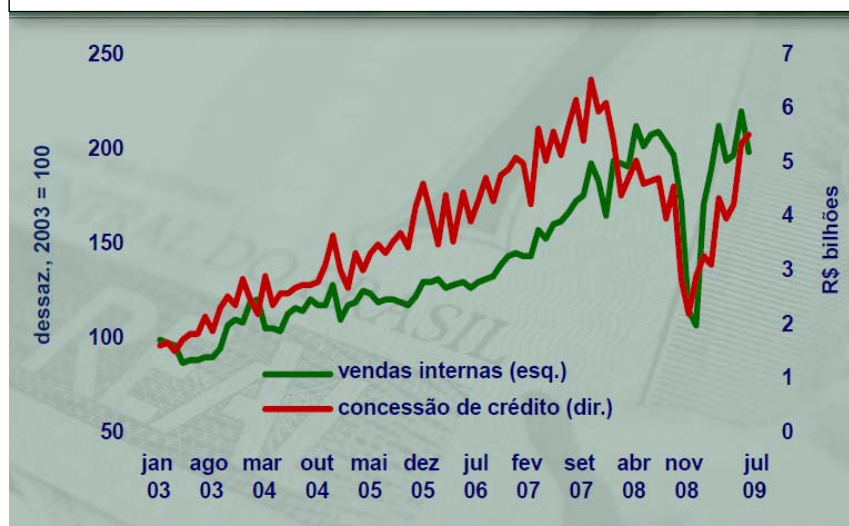
### Slide 4

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**FSOUZ2** In the case of the 1998 crisis, the fall was milder and more extend in time. From t+7 on investment grew (although not shown in graph)

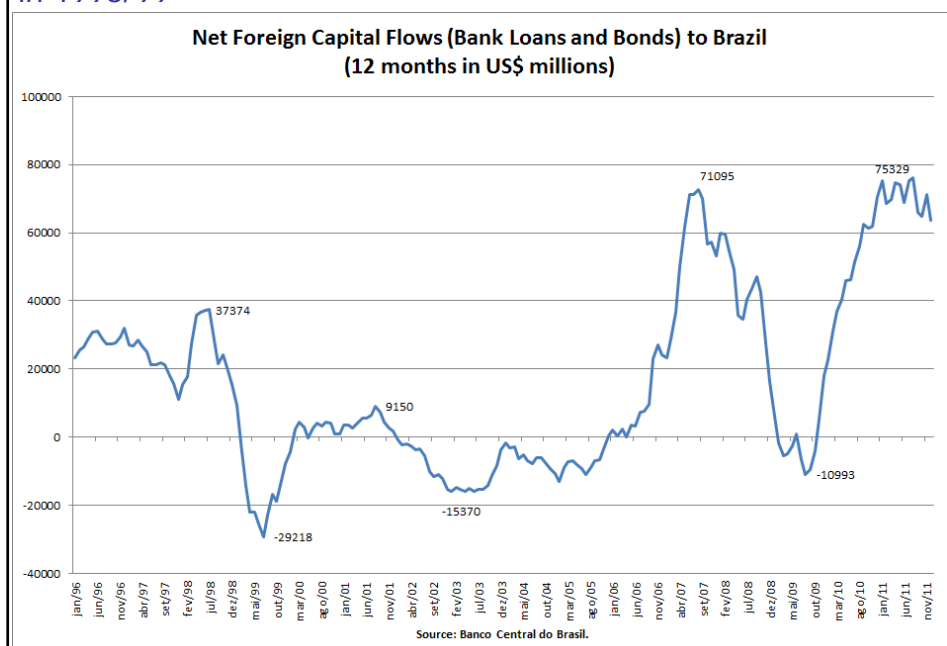
Francisco Eduardo Pires de Souza; 21/03/2012

Credit and Car Sales

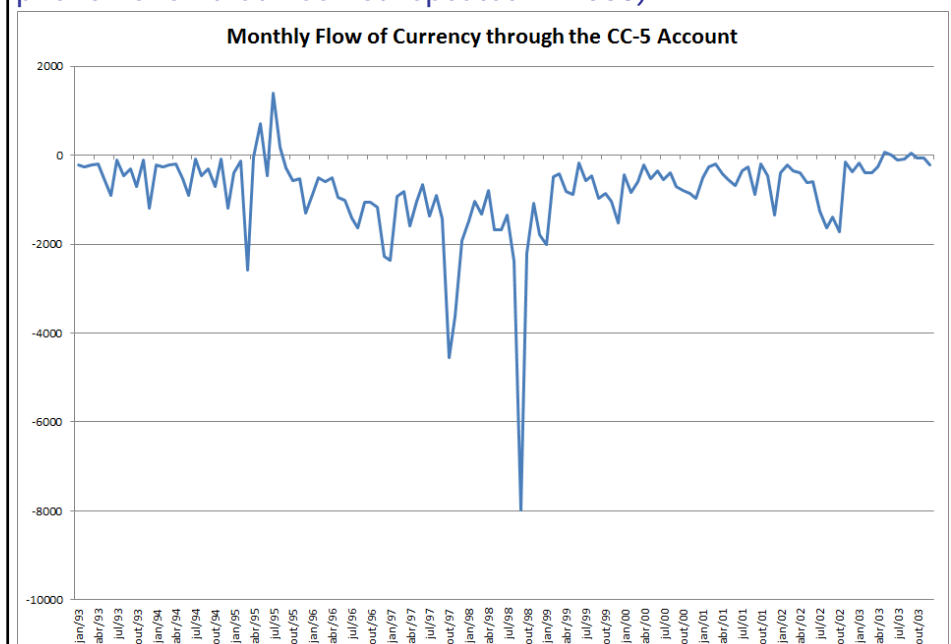


Fonte: Banco Central do Brasil, Apresentação Henrique Meirelles em set/09.

However, shocks originating in the capital account were harder in 1998/99

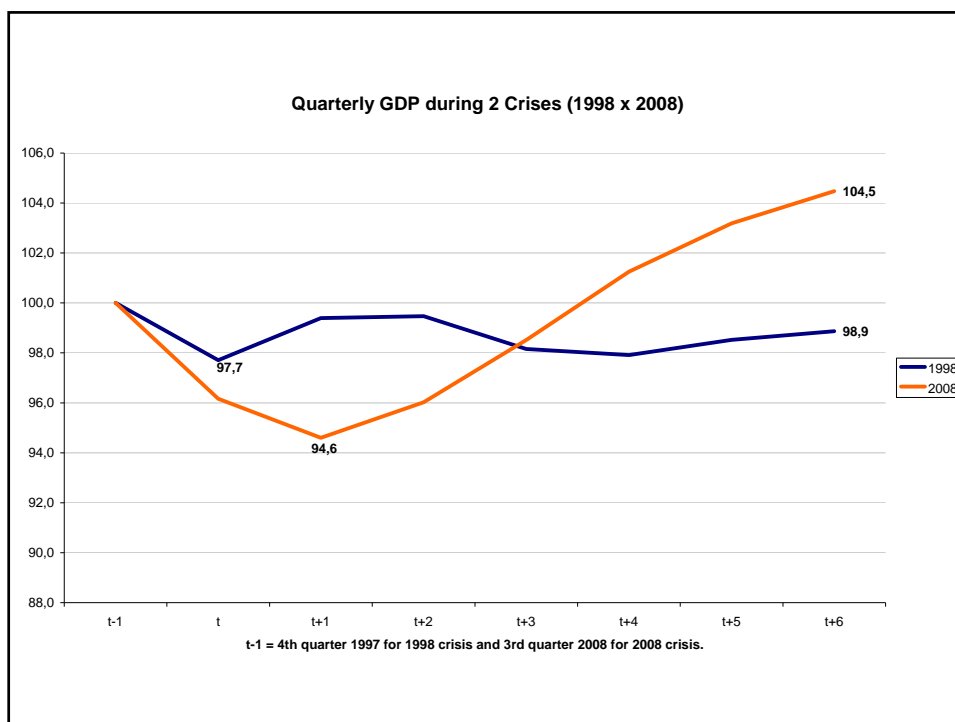


And was aggravated by the flight of Brazilian capital (a phenomenon that was not repeated in 2008)



## The Facts

- The size of the external shock associated to the 2008 financial crisis was, in many senses, much greater than from the Asian and Russian Crisis ten years before.
- Despite the size of the shock, the Brazilian economy recovered faster from the 2008 crisis than from the Asian and Russian Crisis ten years before.



## The Facts

- The size of the external shock associated to the 2008 financial crisis was, in many senses, much greater than from the Asian and Russian Crisis ten years before.
- Despite the size of the shock, the Brazilian economy recovered faster from the 2008 crisis than from the Asian and Russian Crisis ten years before.
- Compared to the behavior of most economies in the aftermath of the 2008 crisis, the performance of the Brazilian economy was fairly good.

## Average Rate of Growth 2009-2010 (%)

Country or Group of Countries	GDP	Export Volume
World	2.2	1.2
Advanced economies	-0.3	0.2
Emerging and developing economies	5.1	2.8
Latin America and the Caribbean	2.2	0.3
Central and eastern Europe	0.4	1.4
China	9.8	19.9
India	8.4	12.7
<b>Brazil</b>	<b>3.4</b>	<b>-0.7</b>

Source: FMI, WEO Databases.



## The role of improvements in economic policy, institutions and fundamentals

(innovation in economic policy, similar to other developing economies)

### ■ Level and Composition of Public Debt

The structure of public debt improved, with the foreign exchange indexed component turning negative.

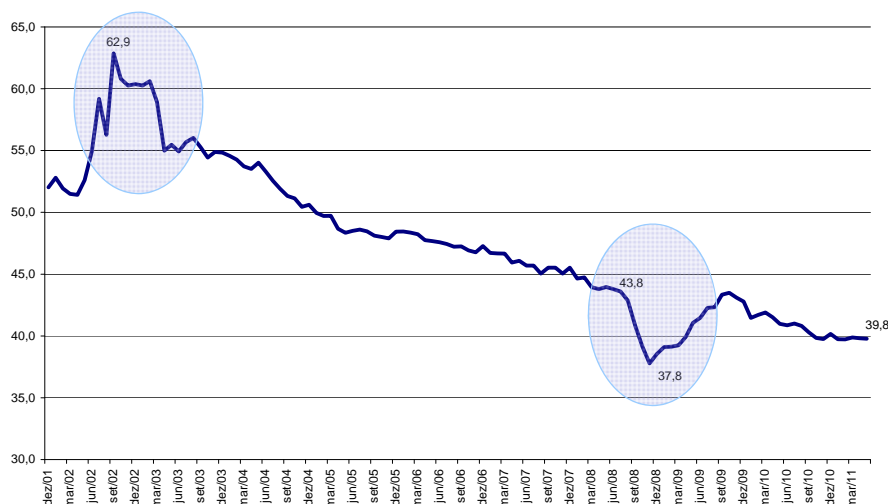
Public Sector Net Debt (Percentage share by indexing factor)

Year (end)	Indexing Factor						Total
	Foreign Exchange			Selic	Fixed rate	Price indices and other	
	Internal	External	Total				
2001	25,8	19,8	45,6	36,6	7,4	10,4	100,0
2003	6,7	20,4	27,1	50,4	10,0	12,4	100,0
2005	0,6	4,7	5,3	48,9	27,6	18,2	100,0
2007	-0,3	-17,2	-17,5	47,8	38,6	31,1	100,0
2009	-2,5	-22,2	-24,7	62,8	35,3	26,5	100,0
2011	-2,4	-36,4	-38,9	68,8	45,8	24,3	100,0

Source: Banco Central do Brasil. Nota para a Imprensa de Política Fiscal.

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Net Public Sector Debt (% of GDP)



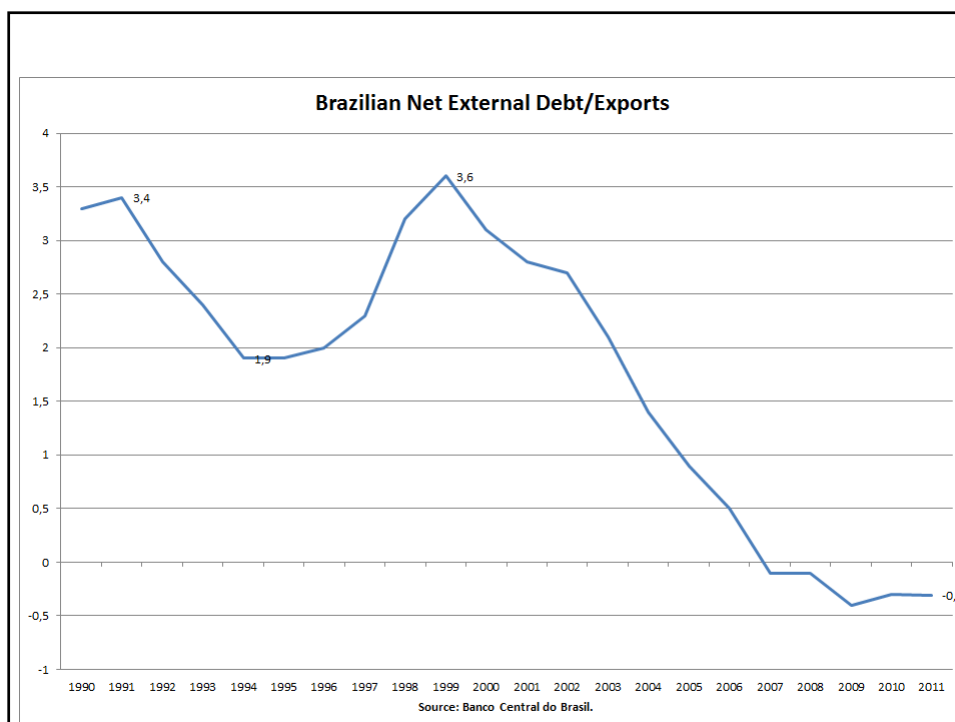
Fonte: Banco Central do Brasil.



## The role of improvements in economic policy, institutions and fundamentals

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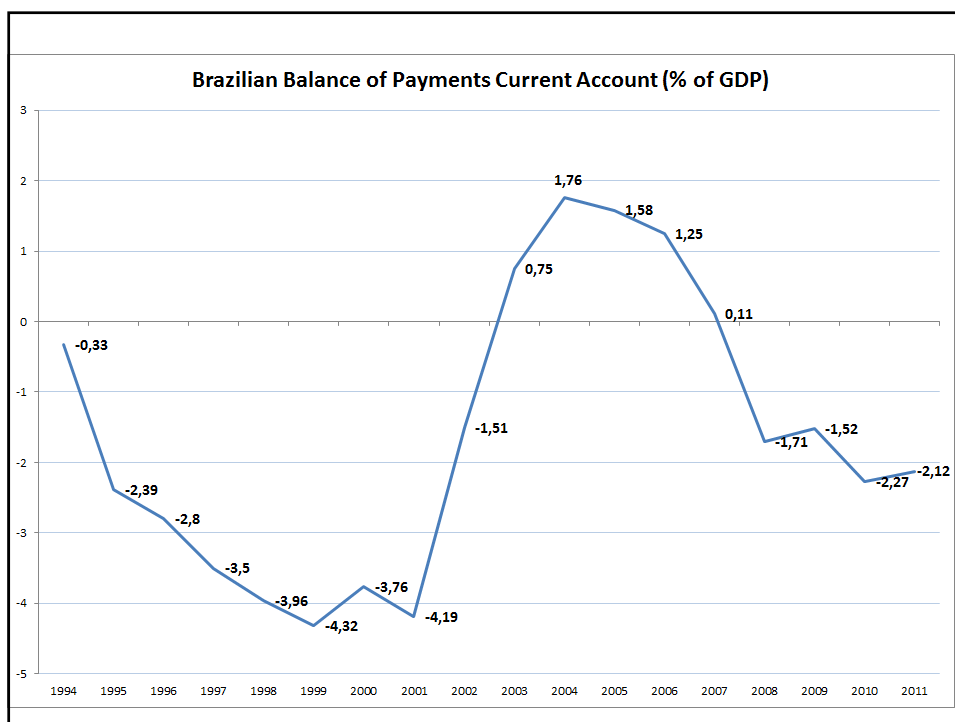
- Level and Composition of Public Debt
- External Debt



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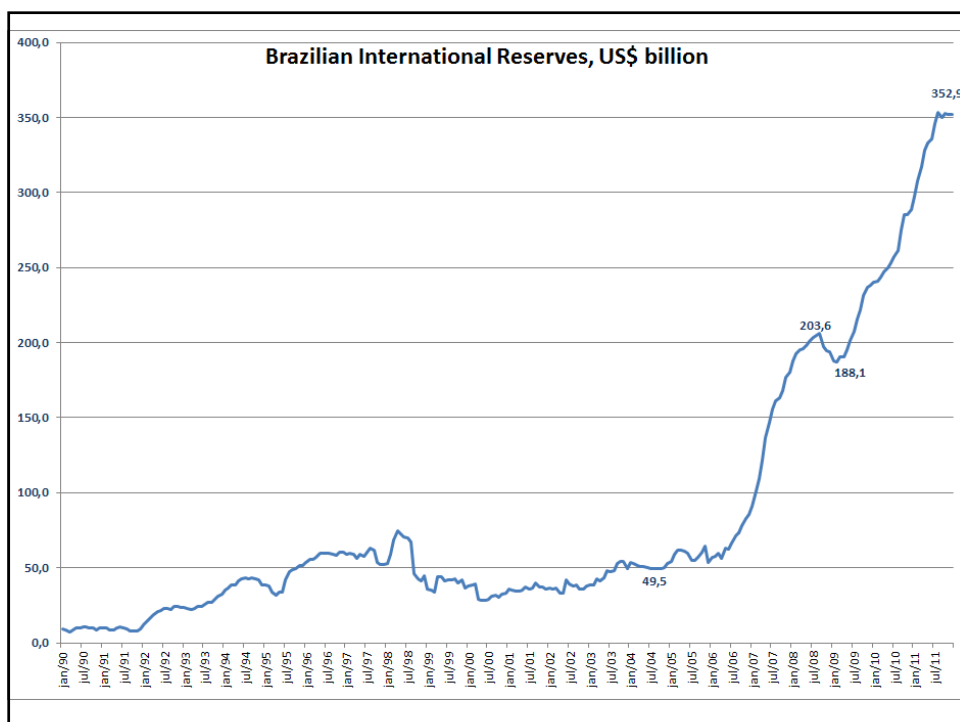
- Level and Composition of Public Debt
- External Debt
- Current Account

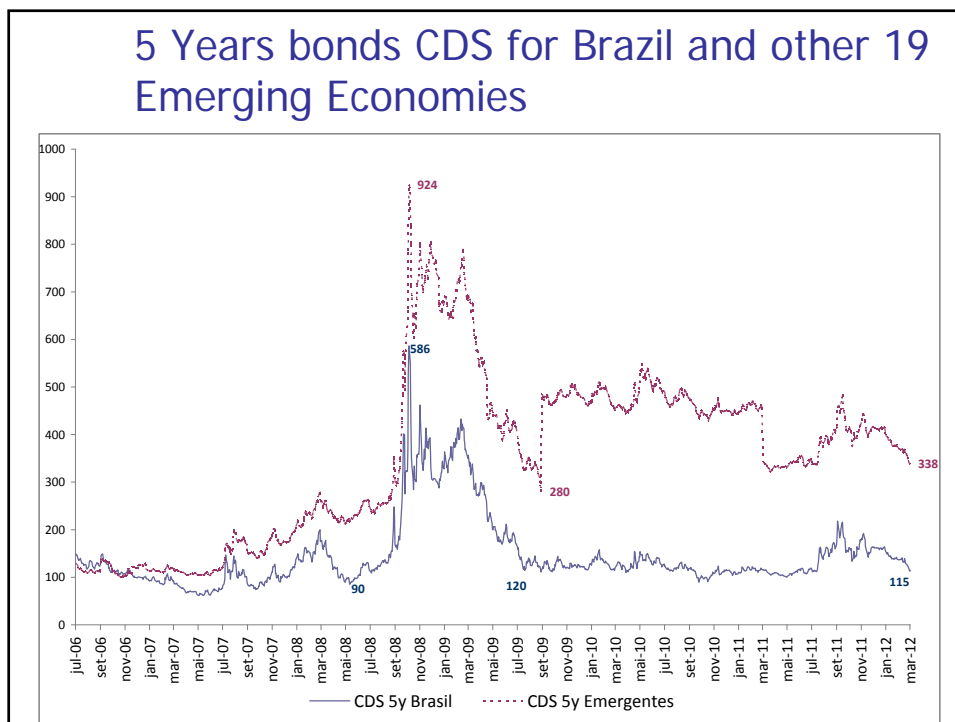
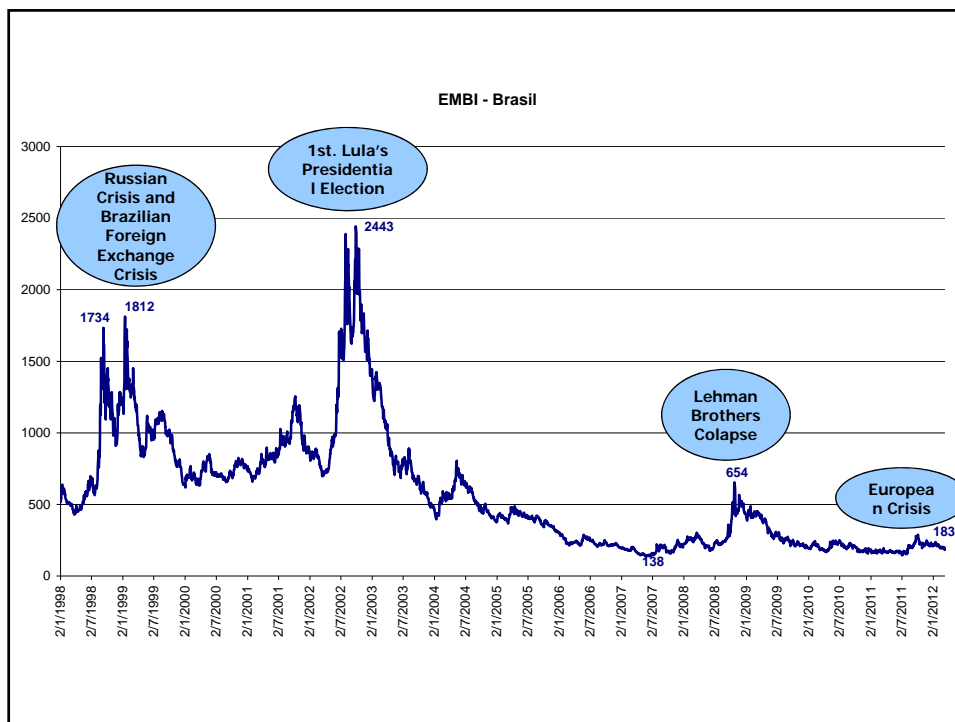


## The role of improvements in economic policy, institutions and fundamentals

(innovation in economic policy, similar to other developing economies)

- Level and Composition of Public Debt
- External Debt
- Current Account
- External Reserves



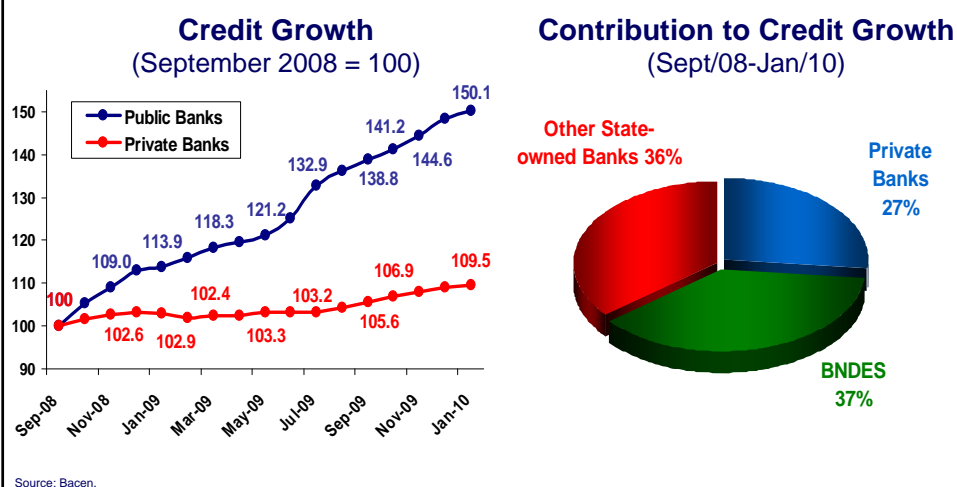


## The role of Countercyclical economic

**policy** (made possible by the removal of the balance of payments constraint)

- Credit Policy (Public Banks Credit x Private Credit)
- Monetary Policy
- Fiscal Policy

## During crisis, State-owned banks sustained credit expansion

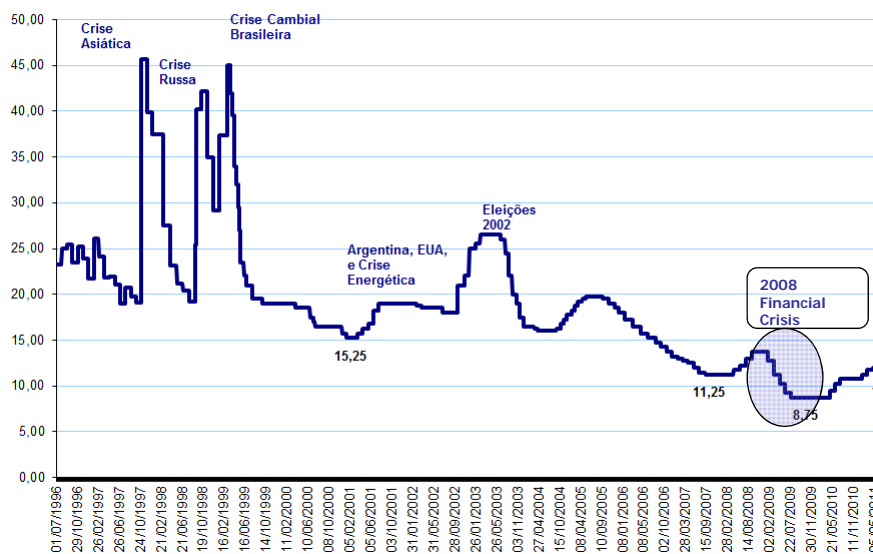


## BNDES has a countercyclical role in the Brazilian economy

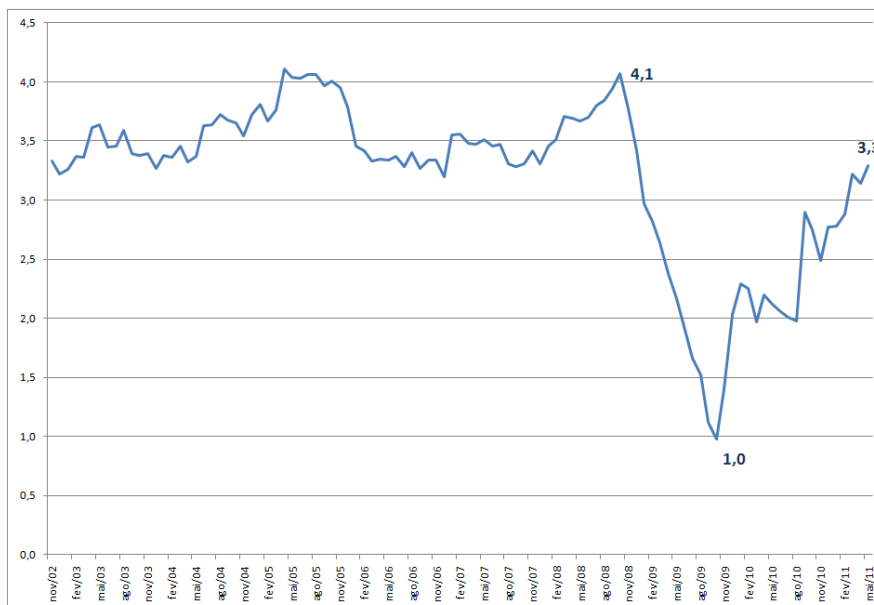
BNDES / Total Outstanding Credit



Taxa Selic (% a.a.)



## Public Sector Primary Surplus (% of GDP)

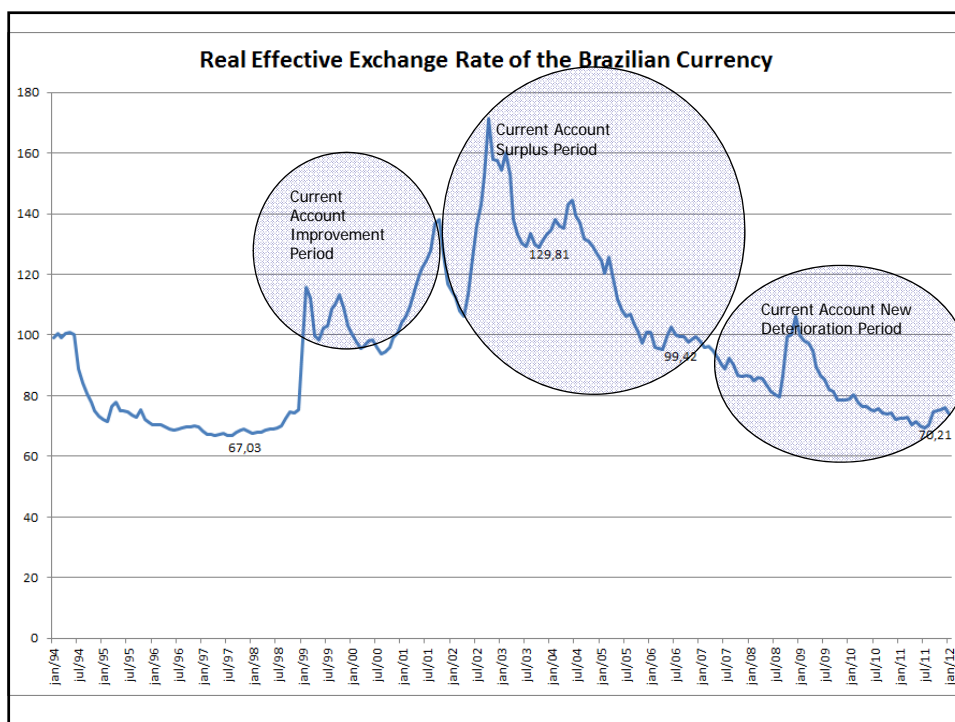


Perhaps we should look for lessons not only by analysing what happened during the crisis, but by observing what did not happen as well as what happened afterwards

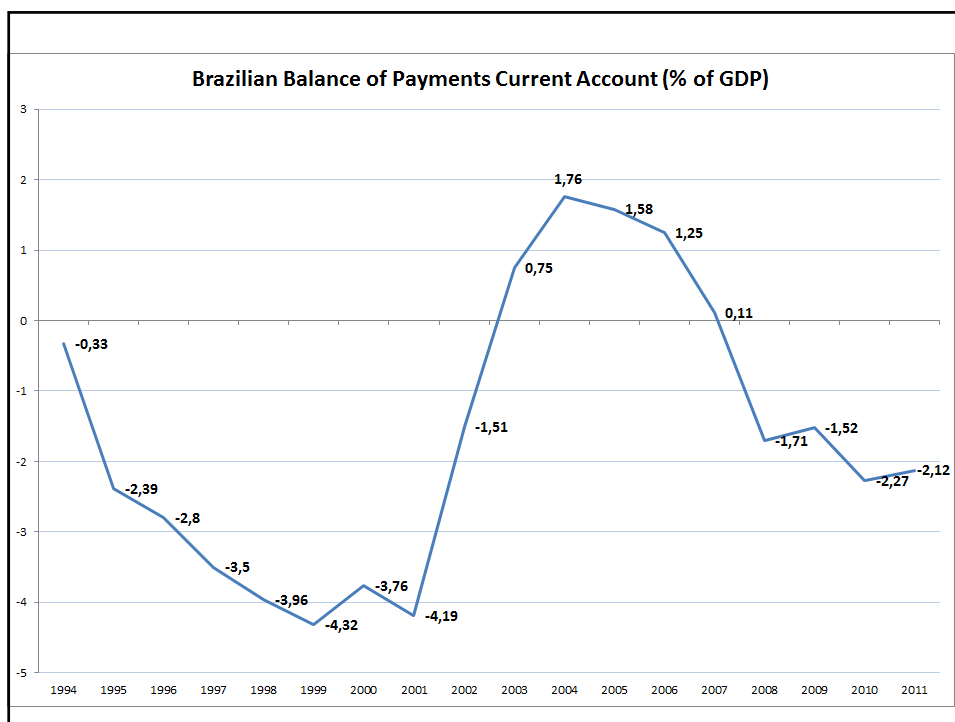


## What are the lessons?

- What made the difference, in a sense is not there any more...
- To be sure, reserves are still being accumulated. But now because of foreign capital inflows only, since current account deficits are back







## What are the lessons of the post crisis?

- What made the difference, in a sense is not there any more...
- To be sure, reserves are still being accumulated. But now because of foreign capital inflows only, since current account deficits are back
- The economy is still growing, but manufacturing industry is shrinking in the last three and a half years.
- There is something of non-sustainable in all that.



## What are the lessons of the post crisis?

- The main flaw in the macro policy arrangement is that exchange rate floating does not warrant a competitive exchange rate. What happened in the first half of the 2000's was a by-product of special circumstances.
- Removing the flaw and reforming the tripod of economic policy:
  - Changing the mix of the core macro policies
  - Adopting a (non explicit, range) target for the exchange rate
  - Having the other economic policies consistent with the core targets (among them the exchange rate target) – mineral and oil policies, foreign trade policy, etc