# Managing the Crisis |

# Brazil Country Report

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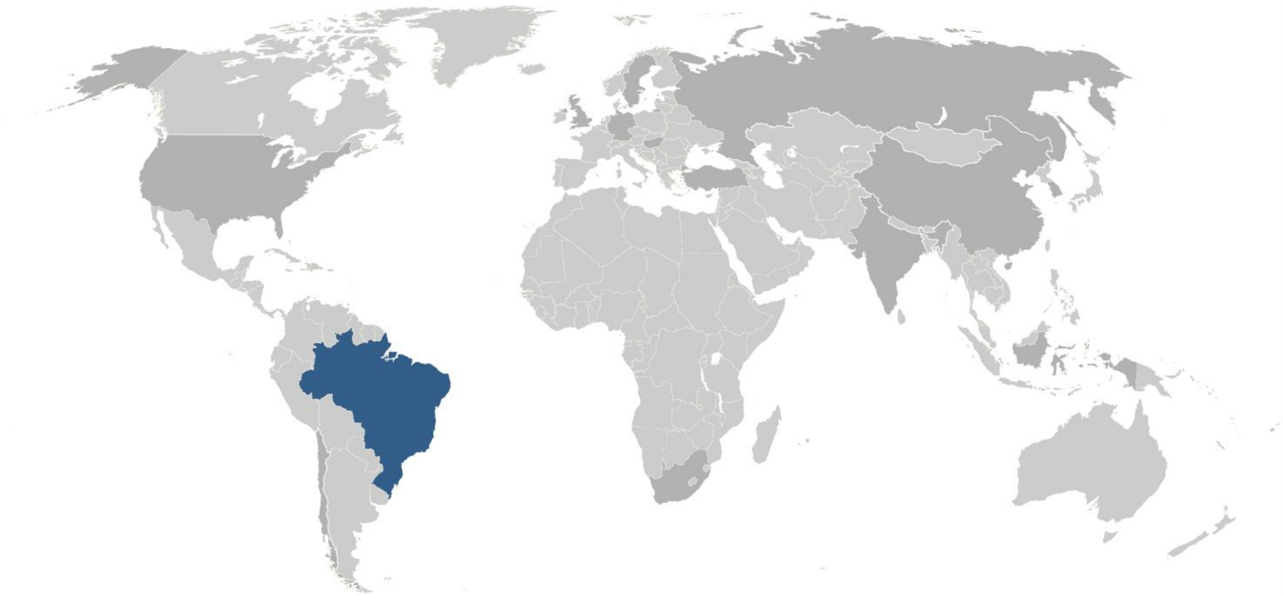

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# 1. Risk Exposure at the Outset of the Crisis

- What was the structure of demand (e.g., share of private/state consumption, gross capital formation, exports and imports in GDP/GNI)?
- To what extent was the economy exposed to macroeconomic imbalances (e.g., foreign debt, trade or fiscal imbalances)?
- Was/is the financial system primarily bank- or market-based?

Economic structure and macroeconomy

Brazil's economy has a sound agribusiness sector together with industrial sectors where mixed patterns of competitiveness are found. Although it is a world-class manufacturer of mid-sized aircraft and an important steel producer, the country still shows deficiencies in both traditional and modern sectors (e.g., electronics) and serious gaps in key manufacturing complexes, as the one related to chemicals in general. There are similar mixed patterns evident in the service sectors, where advanced financial services and booming ventures in software production exist next to logistics and transportation systems dominated by older and somewhat outdated technologies.

In rough terms, the contribution to output (value-added) of each of the three sectors varies as follows: agriculture (5.5%–7.5%), industry (17.0%–19.5%) and services (63%–67.5%). The financial sector, a subgroup of services, accounts for shares between 5 to 7 percent.

Overall, the country is still primarily an exporter of commodities and an importer of high technology, services and high-quality manufactured products.[1] Fueled by agribusiness exports, Brazil's economy enjoyed a consistently healthy trade performance throughout the past decade.

Before the crisis, Brazil was faring well in macroeconomic terms, thanks to an unexpected continuity between the Fernando Henrique Cardoso mandates (1995-1998, 1999-2002) and the Lula administrations (2003-2006, 2007 until 2010), with the Banco Central playing a major and strongly consistent role.[2] High interest rates, which were heavily criticized by the currently governing party, managed to keep inflation at bay, while an overvalued real proved to affect the trade balance less than had been expected. Public debt was kept reasonably under control, and the treasury's performance suggested that the government's cash flow was being cautiously managed.[3]

[1] However, in terms of percentages, manufacturing (in a broad sense) accounts for more than half of all exports.
[2] Banco Central = the Brazilian Central Bank, legally under the Ministry of Finance (Ministério da Fazenda) but, for practical purposes, since the Cardoso era, rather independent.
[3] See the figures for Q1–Q3 of 2008 in Table 8.

As a result of these conservative and steady policies, and following volatile growth rates in the Cardoso period, the economy began to expand in Lula da Silva's second year as president (see Table 1). It had also accumulated reserves of the order of $207.5 billion by September 2008 (see Table 7),[4] which meant that the country's exposure to macroeconomic imbalances was low. In addition, on February 20, 2008, for the first time in its history, Brazil became an international creditor.

- What was the government's economic record (e.g., growth, unemployment rate, inflation and fiscal position) prior to the crisis?
- What was on the economic agenda prior to September 2008 (e.g., anti-inflation, efficiency-oriented, redistributive, supply vs. demand-side policies)?

Policy priorities prior to crisis

Tables 2, 3, 4 and 5 show quarterly growth rates, industrial output, inflation and unemployment indexes, respectively, and complete the picture outlined in the previous subsection on Brazil's economic record prior to the crisis. Undoubtedly, the country was cruising on an expansionary route under favorable swift winds.

The previously mentioned opposition to the interest rate policy—and, in fact, to the whole macroeconomic measures that the Banco Central introduced—was part of a broader debate on policy priorities. On one side stands a majority of the government and the parties it is allied with, which support a more aggressive pro-development stance aided by a wide array of generous social programs, where "some inflation" and looser macroeconomic rules should at least be tolerated. On the other side stands another group (which ironically also includes some of the government's supporters) that believes stability should be the main goal. Although not opposed to substantial social expenditures (occasionally for not-so-well-disguised electoral purposes), its members still favor maintaining control over the macroeconomic setting with fairly conservative regulations. Thus, both sides advocate Keynesian expenditures but differ significantly in terms of their volume and scope.

Widespread awareness of the serious poverty/inequality issue is a fact, and has undoubtedly prompted, or helped to implement, the dearly needed assistance programs and related diversified initiatives. In some areas, novel, creative policies have been designed and implemented. Exchange of such experiences with other countries that are trying to attack the same or related problems, as well as with international organizations and NGOs is still

[4] To put the figures in Table 7 into perspective, total imports for 2008 were around $173 bn, whereas in 2002, which was President Cardoso's last year in office, they totaled $47.2 bn, while reserves were at $37.8 bn.

somewhat limited, though it has been increasing.[5] Nevertheless, a broader discussion on the next steps of the basic assistance programs, profiting from the opportunities, funding and knowledge sources provided by globalization, as well as definition of the proper mechanisms and thresholds for enabling the poor to become a productive and participative citizen is lacking. Also, other key social areas have not received due attention.[6]

One very interesting feature about the status quo is that it is the president who serves as an arbiter between these almost opposite views. Owing to his personal skills, he has succeeded in fostering a fairly high degree of peaceful coexistence between the two factions. Although he often makes overtures toward developmental issues (with evident popular, if not populist, appeal), the Banco Central has still been allowed to pursue its line as the almost de facto manager of the economy.

Regarding technology and innovation, existing islands of competence, like the core of São Paulo's metropolitan region, are not enough to push the country towards a higher level of technological skill. Additional incentives coming from trade competition and the urge to open new markets, which produced positive externalities in the agribusiness sector as a whole, aren't enough either.[7]

- How stable was the executive branch in the years/months prior to September 2008 (e.g., credibility/legitimacy of leaders/parties in government, cabinet stability/reshuffles, parliamentary/electoral support)?
- How much room did fiscal conditions provide for a major stimulus (e.g., budget surpluses/deficits, conditions for issuing additional treasury bonds)?
- How much room was there for monetary policy initiatives (e.g., pre-crisis level of interest rates, required reserve ratios, flexibility of foreign exchange rate regime)?

Executive, fiscal & monetary capacities to respond to downturn

When the crisis arrived, the country was in a uniquely comfortable situation: a good fiscal position with an efficient and well-equipped federal tax authority, the Secretaria da Receita, a monetary regime under tight control and basic annual interest rates at around 12 percent (see Table 4), public debt at manageable levels, a flexible exchange rate regime and a solid position in terms of

[5] Even so, a few initiatives are being "exported." Program 'CrediAmigo', inspired by the Grameen Bank philosophy, after a successful record in the Brazilian Northeast is going to be applied in the poor areas of New York.
[6] Education (at all levels) is something still poorly cared for. The Lula da Silva government, in spite of its social agenda, has underperformed in this area.
[7] The long-term consequences of such an unfortunate situation, coupled with the lack of progress in education, is to secure a peripheral position for the country, in a world dominated by fast technological changes, grounded in a solid knowledge basis. This will have not only economic consequences, but equally serious social ones.

international reserves.[8] In other words, there certainly was considerable room for coping with external disequilibria without experiencing much domestic turmoil.

From a political point of view, Brazil is definitely a democracy, one in progress, but surely a democracy. The party system is neither ideal nor consistent, being far from reasonably mature levels. Politicians, more than the parties themselves, must still undergo considerable changes in attitudes and outlook, towards more socially responsible behavior. Anyhow, a strong executive, led by a charismatic and very shrewd politician, is in place.

Exposure to specific market and trade risks

- To what extent has the country been exposed to global financial market risks, particularly contagious/toxic financial instruments (e.g., open capital account, floating or pegged/fixed currency)?
- How important was/is the financial sector for the national economy? What was/is the extent of interdependence between the financial sector and real economy?
- To what extent was the economy integrated into regional/global trade flows? How dependent was the economy on foreign demand for manufactures and commodities?
- Did property, equity or other markets display excessive growth and a bubble-like situation prior to September 2008?
- In what condition was the banking sector (e.g., size/structure of banking sector, non-performing loans, capital adequacy ratios of major banks, if available)?

The picture painted above is fairly rosy. Indeed, in the run up to the crisis, no property, equity or other markets displayed excessive or bubble-like growth. The question is then what, if any, specific market and trade risks were threatening the future situation.

During the Cardoso years, problems in the financial sector, which obviously plays an important role in the economy, were addressed by a comprehensive restructuring of the domestic banking system referred to as the PROER program. This program, which was heavily criticized by President da Silva's Workers' Party at the time, cleaned up the sector and established stricter controls and prudential rules that are somewhat comparable to those in place in Canada.[9]

Resort to derivatives, and especially derivatives on derivatives, though practiced by the larger financial agents, was (apparently) relatively modest. This must however be taken with care, given the difficulty in ascertaining the extent of the maze created by these assets. It is perhaps closer to the truth, saying that no idea of the amount of toxic assets held by financial institutions existed (for more on this, see "initial impact of economic downturn").

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[8] The Secretaria da Receita is the federal department under the Ministry of Finance responsible for collecting all federal taxes, including personal income taxes. The Secretaria works under highly sophisticated levels of automation and data processing. In fact, when it comes to the use of information technologies, it is one of the most advanced institutions of its kind in the world.
[9] Some also consider Brazil's control and regulation regime stricter and better thought-out.

In terms of trade, the country was adapting to a recent moderate drop in the price of commodities and the competitive demands imposed by an exchange rate that was clearly not undervalued (see Table 6).

Exports of agricultural and manufactured goods (i.e., visibles) usually account for about five percent or less of GDP. However, this figure is misleading if one keeps in mind the fact that agricultural and manufactured goods account for roughly one-third of total GDP. Moreover, as the linkages between export goods and all other, visible and invisible, sectors are significant, trade is crucial for most key segments of the economy.

Subtle changes are taking place in the Brazilian trade pattern. The South American region itself is becoming an important partner, absorbing diversified manufactured goods, as well as parts and components from technologically more sophisticated Brazilian firms. Closer trade relations within the continent are a strategic factor from both the internal and external viewpoints. From the former, it means consolidation of different sectors, with the needed (from an international insertion perspective) expansion of their domestic market. From the latter, it may mean a more efficient social division of labour in the continent, turning it, as a whole, into a more competitive bloc in international trade terms.

Indeed, globalization has heightened technological competition and concentrated innovation and creative development in a set of "focal centers" around the globe. While most of these centers were previously located in the Western Hemisphere (most notably in the United States and the European Union), nowadays, there is a very noticeable shift toward eastern Asia. This has brought in drastic changes in the social and technical divisions of labor around the world as well as concomitant changes in the direction and content of trade flows, both of which pose a new, major challenge to Brazil. The country's new circumstances (as outlined above) have led it to place greater emphasis on south-south trade and to have delicate but extremely important relations with China.

In the case of Brazil, the domestic market is fundamental. Recently, it has been fuelled by the comprehensive government-sponsored PAC public works program, a solid and streamlined banking system and social programs. In global terms, the last of these raised the income of a substantial contingent of people previously excluded from the economy and turned them into (basic) consumers.[10] The result has been growth rates of 4.0 percent, 5.7 percent and

[10] Programa de Aceleração do Crescimento (PAC) is a huge official program created nearly three years ago that pools all main public works funded by the government. Under direct supervision of the presidential staff, the program is meant to be a major tool for fostering (accelerated) growth in a Keynesian fashion.

5.1 percent in 2006, 2007 and 2008, respectively, and an internal market that is thriving and dynamic.

Thus, it is hard to identify specific market risks apart from macroeconomic disequilibria resulting from the unsolved conflict between the two views described under "policy priorities prior to crisis." Transmission channels are thus reduced to trade flows and the stock market, the latter being still quite dependent on the performance of Wall Street.

On a more systemic note, although there are still crucial regulatory issues to be resolved, they have to do with public services (e.g., electricity, oil and water) rather than financial ones.

Structural or policy advantages and disadvantages

- Did policymakers/executive agencies have any experience in handling financial crises? Did this experience play a role in the 2008-09 policy response?
- Were there independent regulatory institutions or prevention/response schemes in place to contain financial risks?
- Were there internal veto players (e.g., federalist powers, courts) or international obligations that thwarted swift action on the part of the government?
- Have executive powers been extended in times of crisis? Has this been based on formal or informal mechanisms?

Brazil, particularly in the Cardoso years, had suffered from the previous (recent) international financial crises and, undoubtedly, some learning took place. But this time the crisis couldn't have hit the country in a more favorable moment.

Domestic banking, and financial sector regulation in general, is—as already said—fairly solid, being stricter than the U.S. one and displaying a more diversified array of controls and safety nets. When inflation was eventually controlled—thanks to the "Real Plan"—the banking system, used to huge profit margins secured by the inflationary process, went into disarray. The Cardoso government was then nearly obliged—at the risk of being responsible for a financial collapse in the economy—to undertake an encompassing restructuring of the system, which was named the PROER program (see "exposure to specific market and trade risks"). PROER helped the sector, but (correctly) set stricter controls and tough prudential rules, some with no match in developed economies. Public funds were used to avert the most serious bankruptcies and a solid, though more concentrated sector emerged.

This restructuring also affected other areas of finance, including those related to derivatives. Beyond the Banco Central, a special chamber (or clearinghouse) to manage and control over-the-counter operations related to all kinds of financial assets, Câmara de Custódia e Liquidação (CETIP), had been created in 1986. CETIP, for instance, had its powers revamped and made more effective.

Thus, when the crisis struck, the necessary institutions were already in place. Enjoying this nearly optimal macroeconomic condition, Brazil could consequently only suffer from the crisis via globalization-related channels, particularly the trade and financial ones.

When it comes to executive powers, the president has exerted a clear, strong leadership. This also applies to his relationship with state governors, some of whom are members of parties in the opposition. Powerful, organized social groups, such as the syndicates, rally behind him. Consequently, despite the inevitable criticism and opposition, in overall terms, there really was almost no policy controversy surrounding the crisis response.

- How strongly has the national economy been hit during the period under review? Where has it been hit most severely thus far (e.g., growth rate, production, trade, employment)?

Initial impact of economic downturn

The crisis has unsurprisingly had a negative effect on the trade balance. Export contraction, particularly in the manufacturing sector, hurt industrial production, and quarterly output fell in an already declining agribusiness sector (see Tables 2, 3 and 6). The 22.2 percent year-on-year contraction in exports in the first half of 2009 was largely due to shrinkages of 30.6 percent and 26.9 percent in manufactured and semi-manufactured exports, respectively. At the end of the second quarter—and thanks greatly to the Chinese recovery—commodities and basic products had jumped from a share of 35.3 percent in the 2008 exports' value to 42 percent, which helped contain the drop in export flows.

To the surprise of many, it was revealed that a few large, important firms were holding positions in (rotten) derivatives; and either went bankrupt or suffered a significant contraction. These included Aracruz (cement), Votorantim (cement, building and construction) and Sadia (agribusiness). Many of their operations (particularly in the case of Sadia) were registered abroad and therefore beyond the reach of CETIP control. The assets in question were primarily exchange-rate derivatives that bet on further appreciation of the real—but the currency lost 30 percent of its value against the U.S. dollar in the two weeks after the crisis hit the country. Later, in early February 2009, BRADESCO, the second-largest Brazilian private bank, announced a 27 percent year-on-year drop in net profits in the fourth quarter of 2008, which resulted in larger part to its losing 4.7 billion reais in derivative assets.

Unemployment rose, though not dramatically (see Table 5). Likewise, the protectionist surge that took place across the world soon after the crisis hit, compounded with the declining trade surplus trend observed before it, fed the contraction back, and output decreased for two successive quarters.

## 2. Agenda-Setting and Policy Formulation

- When did state organs (e.g., government, central bank) begin setting a crisis response agenda? How long did it take to adopt the first crisis measures?
- Who were the driving forces (e.g., government, central bank, foreign actors, media, trade unions, employers` associations) in getting stabilization/stimulus policies started?
- Were these measures launched as executive orders or parliamentary laws? How closely did constitutional bodies (e.g., executive, legislative, central bank) cooperate?
- What kind of role did sectoral or regional lobbies play in policy formulation?

Agility and credibility

The government reacted to the crisis in a variety of ways. Initially, it was in deep denial about the crisis, stating that it wouldn't affect Brazil.[11] Then, when industrial output continued to fall in December 2008, it triggered a sequence of measures to counteract the impacts. Finally, given its reasonably wide scope of action, the Banco Central announced a systematic decrease of the interest rate.

Credibility of the different policies was reasonable, in spite of strong criticism, by the opposition and segments of the press, of the presidential optimism. The steady conduct of the Banco Central, firmly supported by around a decade of careful (and successful) inflation targeting, was a main factor.[12] At the lower levels of the federation (state and county (*municipio*) levels), the overall attitude was one of wait-and-see, governors and mayors leaving the responsibility for the crisis management to the federal Executive. In important and sizeable states like São Paulo, the local government accompanied the federal one in a few measures within their capacities, mostly by lowering local taxes.[13]

In any case, despite the fact that they may have been a bit delayed, one cannot say that reactions were ineffective. Indeed, policy response was efficient across the board. The legislative was generally co-operative and, already on October 28, congress approved Medida Provisória n° 442, a provisional legislative measure authorizing the Banco Central to provide specific help to private banks that could be affected by the external conditions.[14]

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[11] For more on this issue, please see Section 4 below.

[12] The inflation targeting methodology combines, in a clever way, qualitative information regularly gathered from the main financial agents with quantitative results from a set of models ran by the Central Bank itself. Decisions are periodically revised at the COPOM meetings (see also footnote 24).

[13] It must be kept in mind that, though Brazil is a *federal* republic, the autonomy of the federation units – the states – is far smaller than in model federations like Germany, or even the US. States are heavily dependent upon sizeable federal transfers and their competencies and concerns bear a strong regional character.

[14] As far as I know, no globally significant use of this measure has been made. However, it is related to the reduction in compulsory deposits at the Banco Central in that banks acquiring

- Did policymakers actively consult domestic and/or foreign experts outside of government?
- Did the government actively seek collaboration with other governments or international organizations?
- Did the government participate in multilaterally coordinated rescue efforts?
- Was the government curtailed in its response through IMF support programs?

Consultation with external experts and openness to international collaboration

In the aftermath of the huge shock unleashed by the Unites States financial crisis, nearly every leader and top manager around the globe talked about more regulation. Though it is not within the scope of this essay to discuss this line of solution, the "regulation narrative" does provide an interesting case study for the cleavages suggested in the period after the Lehman Brothers failure.

In terms of external responses, Brazil could only act only through its seat in the G-20,[15] its membership in international organizations like (e.g., the IMF) and the informal, though deeply personal, individual clout of its president, along with the help of its diplomats. In spite of its size and current relevance, Brazil is not a major player in this arena, and one wonders how much influence it actually had in the discussions that took place during the most critical months.

The regulation talk provoked limited impression internally, as everybody was aware that the domestic banking system was already more controlled than most foreign ones. International collaboration was then limited to general claims for open trade and sympathetic measures, most within the realm of the G-20.

In a truly international perspective, the crisis is surely a long-term effects issue, on which the country and its elites have limited control and scarcely needed external help. This may partially explain why Brazil continues to pursue a complex international agenda, aiming at ambitious goals like a permanent seat at the U.N. Security Council. Demands of such scope may be used in, or even force top-level bargaining, when they would be traded for more run-of-the-mill objectives, like more voice in the IMF or in the restructuring of the world financial order.

credit portfolios of small financial institutions could then subtract them from the (already lower) amount of cash that compounds the compulsory they must place at the Banco Central. According to some analysts, by using this measure, large and mid-size banks added liquidity to the market.

[15] Since Brazil held the rotating presidency of this group when the crisis was in full swing, a meeting was held in São Paulo on the weekend of November 8-9, 2008 to discuss possible solutions.

## 3. Policy Content

- How large is the stimulus package as expressed as a percentage of GDP (including compensations to those hit particularly hard by the crisis through social/labor policies)?
- The stimulus is spread over a period of how many years?

Scope of stabilization and stimulus policies

Since stabilization was not an issue, the government could concentrate on stimulus policies, most of which focused on the fiscal and monetary side. Between October and December 2008, the following measures were introduced:

– a reduction in some prudential requirements (i.e., compulsory deposits to be transferred to the Banco Central);[16]
– providing BRL 7 billion to BNDES as well as an additional 5 billion in order to finance pre-shipment and other export operations;[17]
– changes in a few rules to allow for the offer of extra BRL 10.5 billion for the agricultural sector;
– a special program for providing operating capital to firms in the building and construction sector.

A further increase in public expenditures was again authorized in 2009 together with an easing of credit conditions, especially for the less well-off and small and medium-sized enterprises. However, several analysts have questioned the extent to which the relaxed prudential requirements for the banking system actually helped ease credit conditions in these cases. In another step, the Banco Central began reducing the basic interest rate.

The set of policies was now roughly simultaneous, the Ministério da Fazenda having moved to full action in early 2009.[18] Most measures had either a reduced time frame—a few months, in the case of tax waivers for boosting consumption, for instance[19]—or were once and for all decisions, like the setting of extra credit lines at BNDES or the payroll increases.

It is hard to measure the exact size of such stimulus measures in monetary terms in the economy as a whole, but an informal guess is that it was relatively modest. Even doubling the BRL 22.5 billion described above, the

[16] As an interesting example of how tough prudential requirements were (and still) are Brazil's compulsory deposit rate was, at 45%, the highest in the world
[17] Banco Nacional de Desenvolvimento Econômico e Social (BNDES) is the powerful state-owned Brazilian development bank, whose annual budget exceeds that of the World Bank.
[18] Ministério da Fazenda = the Ministry of Finance, the top economic institution in the country.
[19] Though many were partially extended, with qualifications, afterwards.

amount of BRL 45 billion directly mobilized for the stimulus was still only around 1.5 percent of the 2008 GDP.[20] The main issue when it comes to the amount of money made accessible in the wake of the crisis is the looser attitude toward public spending that threatens to linger even after the crisis is over.

- How is stimulus spending distributed across sectors? How and to what extent is the financial sector supported (e.g., through loans, guarantees, capital injections)?
- Which industrial and structural policies (e.g. corporate tax cuts, subsidies, company bail-outs) can be observed?
- What kinds of measures target the expansion of public spending on infrastructure? Which ones are designed to sustain business and consumer spending?
- Are policies in support of businesses adequately targeted and delineated (e.g., at creating employment, supporting competitive firms)?

Targeting and coverage of policy tools

The measures targeted mainly low-to-middle class consumers, SMEs, banks and financial institutions, and specific sectors (particularly cars and transportation vehicles, white consumer electric goods, building and construction, and agriculture, but also 70 selected capital goods items). Medida Provisória n° 442 (discussed under "agility and credibility") targeted the banks and financial sector and had some use, though its impact is still somewhat debatable.

Bolder actions, like increases in the powerful *BNDES* credit lines, or broader ones, like lowering the interest rate, expanded the number of targets, having also— like interest rates—a global effect in the economy. It is perhaps not wrong to say that, while directly aiming at the less favored, the government also indirectly contemplated the main and wealthier agents. In any case, at the micro level, no deeper structural policies, like corporate tax cuts, company bail-outs or support to other specific businesses, were observed.

[20] This calculation is, of course, debatable. For example, I haven't included the 91 billion Reais estimated as a surplus credit available in the market thanks to the easing of the compulsory deposits rate or the 42.2 billion made available in October/November 2008 by the Banco Central to avoid liquidity traps in the exchange markets. But these two measures were within the Banco Central's scope of decision-making (thanks to its wise previous policies) and do not represent (in my view, at least) either extra expenditures or a targeted stimulus (or rescue) package. It must also be mentioned that the IPI waivers (see "tax policies in support of stimulus/stabilization") have, to date, amounted to BRL 4 billion.

- Are stimulus measures influenced/limited by pre-crisis development strategies (e.g., industrial policies) or have novel/additional (e.g., environmental) policy objectives been inserted?
- Is the response to the crisis grounded in a broader developmental perspective (i.e., crisis as development opportunity) or predominantly short-term political constituency logic?
- Do stimulus policies address prevailing structural deficits and future growth potential?

Development as an objective of stimulus policies

As the crisis developed, the government grew increasingly concerned about the negative impact the crisis could have on its key development and growth objectives—and just one year before the 2010 presidential elections. It is also within this context that the increased expenditures in the PAC program, the new BNDES credit lines and the slight relaxation of the monetary policy must be considered. When the crisis hit in September 2008, it was expected that it would turn 2008 into a year of modest growth. The government, however, was determined to not let 2009 become a recession year.

Under these circumstances, one might conclude that the stimulus policies were motivated by short-term, utilitarian political logic rather than by one that saw the crisis as an opportunity for development. But that would only be partially true. As stated in the previous paragraph, growth *had to* resume in 2009, [21] at the risk of putting in check the government plans to boost its candidate and speed up the completion of several projects of impact. Still, it would be unfair to credit the policies adopted only to this purpose. The economy was indeed under good management, and most policies qualify as a natural and intelligent answer to the adverse external events. In this sense, while trying to avert the crisis, they actually transformed it in an opportunity to positively change Brazil's relative position in the world economy.

Thus, efforts were simultaneously aimed at development, growth and increasing the country's assertiveness on the international stage. Although they have proved to be successful (at least until now), the government has not tried or wanted to address any of the prevailing structural deficits, such as the serious reshuffling needed in some of the bodies that regulate public services (Agências Reguladoras).

[21] Even if the year itself, 2009, could end up as one of negative growth (see more on this in "concluding remarks").

- Has the stimulus included “buy national” clauses? Have import-restricting mechanisms been newly established or re-established?
- Has the country’s executive/central bank manipulated the exchange rate or intervened in the foreign exchange market (if so, in which direction)?
- Have there been measures to prop up export industries (e.g., tax rebates, direct export subsidies)?

National bias and protectionism

Brazil has duly featured in the G-20 chorus line, singing songs for free trade and for a quick fixing of the Doha Round. As known, from the United States to the European Union, passing through China, as soon as the meetings were over, each member, back home, concocted one or two protectionist measures, more or less openly.

Having suffered most of the crisis impact *via* the trade channel, Brazil, received such half disguised protectionist surge as an additional negative shock to those in course. Moreover, an important trade partner, Argentina, already facing troubled times before the crisis, heightened protectionist devices—antidumping threats and non-automatic imports licensing—towards its (supposedly Mercosul-free-trade) main partner and neighbor. At least 10% of the country exports to Argentina were affected, with a sensible reduction in the usual bilateral trade surpluses.

Within this context, it is somewhat impressive that the country—with the exception of an unfortunate attempt on January 19, 2009 to enforce red tape control on 3,000 selected imports; quickly aborted nine days later—has not resorted to protectionist measures but has, instead, kept its trade barriers and policies at the pre-crisis levels. Nor were there any conspicuous signs of a “national bias.”

A number of independent sources confirm that this was the case. A recent publication by Global Trade Alert concludes that, among all G-20 members, Brazil stands out as one of those to have imposed fewer new protectionist barriers.[22] These were five in number, though only three have actually been implemented—something that wouldn’t lie much far from “business as usual.”

[22] S.J. Evenett, “Broken Promises: A G20 Summit Report by Global Trade Alert.” CEPR 2009 http://www.voxeu.org/index.php?q=node/3995).

- Which labor market policies have been enacted (e.g., unemployment benefits, rise in public-sector employment)?
- Which social policies have been included (e.g., expansion of support, additional investment in health and education system)?
- Which measures have been taken to support purchasing power (e.g., consumer checks, tax cuts, cash transfers)?

Social protection

The Lula da Silva period has expanded the portfolio of social programs already implemented during the Cardoso period. Together with promises for development and growth, the social agenda is a cornerstone of President da Silva's administration. The majority of the programs are rather assistance than enabling policies. Though they do also serve electoral purposes, they have undoubtedly contributed to a clear (and needed) trend in poverty alleviation in recent years. The comfortable situation in which the crisis found the country made it possible to maintain the whole set of programs without cancellations. Likewise, additional credit facilities to the poor helped in cushioning them from any possibly resulting hardship that might come, and civil servants also received salary increases.

## 4. Implementation

- Does the government actively communicate and justify the rationale/goals of its stimulus policies to the public?
- Over time, how has the public responded to the government's management of the crisis (e.g., consumption/investment trends, public opinion polls)?

Political communication

When the crisis struck in 2008, President da Silva started by denying it: he called it just a "small ripple" that would soon disappear. The opposition and part of the press criticized this overtly optimistic stance, but Mr. Lula's popularity is a real issue and, in spite of some suspicion, neither panic nor unconsidered attitudes took place.

However, after December 2008, when industrial output fell significantly, the government realized that it needed to take more concrete and targeted action. In fact, already in December, there were noticeable signals of panic among consumers and some sectors of the economy. Despite the Banco Central's quick measures a few months earlier to bring liquidity to the financial markets, reactions were still timid. In October, banks did not resort to drawing upon the available credit lines, and although they resumed their credit appetite in November, by that time, consumers were the ones restraining themselves because they feared losing their jobs and becoming non-performing debtors.

The package of measures already discussed in this text was then triggered, and the President shrewdly switched to a less enthusiastic rhetoric though still full of confidence in a nearby end to the fall in output and growth. But the Ministério da Fazenda voiced even more optimistic forecasts, while the Banco Central assumed its ever conservative position, perhaps slightly more pessimistic as to the duration of the crisis.

President da Silva's star performance at the G-20 summit held in London that December—as well as his highly visible and acclaimed role on the international stage thereafter in all crisis-related matters and gatherings—helped sustain a positive mood in Brazil, particularly in the hardest moments between December 2008 and March 2009.

And, again, facts were at his side. When, around the middle of the second quarter of 2009, it became evident that growth would resume, together with the success of the targeted policies adopted, the crisis started to be seen not only as indeed an already gone 'small ripple', but rather as something that had made the world realize how successfully in the right track Brazil was.

On September 16, 2009, French newspaper *Le Monde*, in an article on the BRIC, acknowledged that President Lula was right in predicting that, as for Brazil, the crisis would amount to a "small ripple" (*une vaguelette* ). At least for the president's communication skills, success was unquestionable.

- How large has the time lag been between adoption and implementation of selected major stimulus components?
- What are the reasons for delay in implementation (e.g., legal barriers, insufficient capacities, corruption)?
- Have sectoral or regional interest groups influenced the workings of policy implementation in any way?

Modes and time frame of implementation

Implementation of the fiscal measures was either through decrees or provisional measures, and they faced no serious opposition. Monetary policy is calibrated in monthly meetings headed by the Banco Central.[23] The increase in flexibility once again received wide approval, although attention was paid to inflationary signals in all reports of the meetings. Since October 2008, the Banco has been active in putting in place schemes, measures and money itself for helping the market in various ways. None of these actions required extra funds or complicated approvals since they were entirely within the realm of the bank's competencies and resources.

[23] The Banco Central heads the Comitê de Política Monetária (COPOM), the committee with monthly meetings at which political decisions are made on the level of the monetary instruments for the next month based on several statistical and quantitative findings.

Massive transfers to BNDES took place between 2008 and early 2009, some of which were used to provide extra financing to Brazil's leading multinational companies. However, these transfers provoked considerable, though not overwhelming, criticism. The bank was depicted as having provided the Brazilian equivalent of the huge special funds the U.S. government was mobilizing in its fight against the crisis.[24] Moreover, the government's announcement of its broad plans regarding the huge oil reserves in the so-called pre-salt oil layer was criticized by the opposition as being both a deviation strategy and a way to justify part of the transfers to BNDES, although it certainly contributed to keeping morale high.

By late March 2009, although mayors complained about the fall in their receipts from the Fundo de Participação dos Municípios (FPM), this did not have further consequences or any impact on the direction of the stimulus policies.[25]

- Beyond emergency stand-by programs with the IMF, has the government collaborated with other governments or international organizations in implementing its response to the crisis?

International or regional cooperation

Beyond the debate on the internationalization of (financial) security and prudential measures, Brazil is an attentive observer of the constraints created by the "fight against terrorism" and the new ways—sometimes rather unilateral—of solving armed conflicts. Closely linked to this, and of utmost importance to its domestic social order (and progress), are the measures to confront the international networks of drug trafficking and corruption, with their strong socially destabilizing role; a crucial short to medium term issue for a country with so many social fractures like Brazil. The result is that, not only in the strictly crisis-related issues, but in all the previous ones, the line between internal and external actions is somewhat blurred, so powerful and diversified are the ways through which external views and conditions introduce themselves in daily life.

In spite of being reasonably impotent in a global dimension, the country has the ability to exert a fair amount of control in the regional dimension. Be it as a go-between among its more vocal neighbours and the Northern powers, or as a main actor in the triple boundaries in the Southern Cone, or, still, as an ever more concerned defender of the Amazon forest, there is room for a manifold of actions, part of them having not been fully implemented yet.

[24] Or as "the sole and big cashier holding Brazil standing up".
[25] A mayor (*prefeito*) is the top (elected) executive of a county (*municipio*). Brazil's administration is divided into states, and states into *municipios.* The *FPM* is a federal transfer fund whose money comes partially from income taxes and the *IPI* revenues, both of which have decreased in 2009.

Enlightened diplomatic work is crucial in all instances of this challenge, and has been fairly well conducted.

Thus, in the middle of the crisis, Brazil assumed a cooperative stance in South America, and it might even be said that the crisis served to reassert Brazil's influence and role in the region. Moreover, trade with its neighbors in South America has shown only relatively moderate signs of decline during the toughest moments, helping Brazil preserve a minimum surplus in the trade balance.[26]

One last interesting development related to the theme of this subsection is the reinforced cooperation the crisis has spurred within the BRIC group. In 2009, the meetings held in Yekaterinburg, Russia, showed that not only Brazil, but also at least China and Russia were trying to gain a few more inches in stature on the international stage, by taking advantage of their recent increase in relative importance.[27]

## 5. Funding, Tax and Monetary Policies

Tax policies in support of stimulus/ stabilization

- Has the government initiated tax reductions/incentive schemes?
- Have these been aimed at the private and/or the corporate, domestic or the foreign sectors?

The main tax policy supporting the stimulus package was the waiver granted to the Imposto sobre Produtos Industrializados—IPI[28] on cars, electric/electronic household appliances and building and construction material, with direct impact on consumption. The former lasted from April to end of September 2009, and the one on appliances from the same date till October, 31. All were considered—and so they seem—more than effective, rather a real success; in such way that the first two were postponed till the end of the year, though at lower discounts, favoring mostly green, or more energy-efficient, lines.

But the downfall had a significant impact on federal tax revenues, something that has been— purposively or not—overlooked so far. Changes in the top posts at Secretaria da Receita were blamed for the decrease in government revenues, but it actually seems to have been a result of the workings of the crisis.

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[26] Nowadays, this accounts for roughly 20 percent of its exports!
[27] For more on this, see R.G. Flôres, Jr. "Brazil, the BRIC and the International Crisis – A Short Essay." BEPA Monthly Brief, Issue 29, September 2009; Bureau of European Policy Advisers, Brussels.
[28] *IPI* is a tax levied on manufactures.

Combination of the above fall with the increase in expenditures has been responsible for a steady deterioration in the Treasury accounts, which can become a time bomb (see Table 8).[29] The situation is even worse under the concept of primary surplus, which pools together the net result of not only the federal but also the states and counties' accounts, out of which interest paid by the government is subtracted.

- What kind of policies did the central bank contribute to the national crisis response? Which unconventional measures were used to fight the crisis?
- If an independent national monetary policy is not feasible, were there substituting measures in the country's exchange rate policy?

Monetary and currency policies in support of stimulus/ stabilization

As has already been mentioned, the main policy was to continue—though at a slightly faster pace—decreasing the basic interest rate. The controlling apparatus of the Banco Central, which is based on the inflation-targeting methodology, allowed this to be conducted with a fairly good mastering of the potentially inflationary processes.

As was likewise previously mentioned, since the clear outbreak of the crisis in Brazil in September/October 2008, the Banco Central has been both very attentive and active, tuning with considerable skill its policies to the short-term needs of the market without losing sight of the long-term goals of its monetary line. These actions have been fully supported by the president. Nevertheless, there was noticeable (and even publicly voiced) disagreement on the part of the Ministry of Finance, which traditionally favors faster and deeper interest rate cuts. This situation continues and adds a degree of uncertainty to the issue of future macroeconomic governance during President da Silva's final year in office (2010). Still, the conservative and technically sound position of the Banco Central, which had been adopted long before the crisis, continues even to this day.

[29] The important point to notice in the table is the growing deficit in the current Treasury account this year, in contrast to its 'normal' development in 2008.

- Relative to conditions at the outset of the crisis, does stimulus funding have a solid foundation in monetary policy or in bond/credit markets?
- Is the program part of the normal budget/integrated into the budgetary cycle, or is it financed primarily from sources outside of the formal budget?
- Is there cross-level burden-sharing between center and regions (e.g., debt issuance, fund transfers)?
- Is financial aid given to banks/companies/households in a discretionary way or based on well-defined formulas (e.g., conditionalities)?
- Did the government make credible commitments to terminate its expansionary fiscal and monetary policies under (what kind of) post-crisis conditions?

Credibility of funding mechanisms

All direct funding mechanisms, which—with the exception of BNDES transfers—range from null, in the case of the banking system and corporations, to broadly modest, presented no credibility problem. This is also the case for the various indirect ones, although some were perhaps used less than expected. Additionally, in May 2009, the government granted a generous adjustment to the minimum wage and increased salaries for civil servants, particularly those in the lower ranks. The popular response to IPI waivers for cars and electric/electronic household appliances was nearly enthusiastic, boosting up consumption of these goods. In general, stimulus came from increases in normal budgetary lines, though it is perhaps fair to state that the "burden buck" stopped at the county (*municipio*) level.

Taking into account the discussion under "implementation," one could say that, except for a fair amount of expected criticism, at no time were there serious doubts about Brazil's ability to weather the crisis. Nevertheless, no credible announcement regarding tighter control on federal spending, once the crisis is over, has been made.

## 6. Feedback and Lesson-Drawing

- Have there been revisions or additions to the original policy packages or a sequence of distinct stimulus policies in response to unexpected new developments?

Policy feedback and adaptation

Brazil did not experience a cascade of bankruptcies or factory closures, as happened in the countries more strongly affected by the crisis (e.g., the United States and Great Britain). The government was also quick to implement its main stimulus package once the December 2008 drop in output became known; no adaptive strategy for coping with the evolution of the crisis was needed. The same applies to feedback mechanisms; the end or modification of the policy measures, like the *IPI* waivers, coinciding with clear recovery signs. All this adds to the unique performance of Brazil during the more turbulent times.

- Has major institutional reorganization/capacity-building been undertaken in financial supervision?
- Do we find new institutions that were not in place prior to the crisis (e.g., bad banks)?

Institutional restructuring

A comprehensive restructuring of the domestic banking system had already taken place during the Cardoso years under the PROER program (see “exposure to specific market and trade risks”). The practice of using derivatives (and derivatives of derivatives) for risk management—though employed by larger financial actors—was probably not widespread. As mentioned in “initial impact of economic downturn,” with the exception of BRADESCO, rotten assets were not to be found in banks or investment houses but, rather, in the portfolios of a few big firms.

The merger of two big banks, ITAU and UNIBANCO, which some have attributed to troubles UNIBANCO faced in its insurance business, was the only noticeable event in the sector, during the crisis. However, the merger went reasonably smoothly, and nothing even resembling a little stir in the market was noticed.[30] Performance in this ever-more-concentrated sector reflected the slump that lasted between October 2008 and April 2009, but it in no way raised concern.

There has been little need to restructure government institutions. In fact, institutions such as the Banco Central, which are staffed with competent technocrats, are professional in carrying out their duties. The crisis has not given rise to any need for adaptation or change in the institutional setting.

## 7. Tentative Economic Impact

- What do major economic performance indicators tell us about the short-term effectiveness of the crisis response (e.g., growth rate, unemployment rate, industrial output, private consumption, consumer/producer confidence, inflation, exports, bank balance sheets, credit squeezes)?
- How has the political logic of crisis management (i.e., crisis as an opportunity to broaden political support) worked out for the major decision-makers so far? How has the reputation of major government leaders at the center of the crisis response evolved (e.g., based on polls, election results, backing within their political party)?

Economic and political effectiveness of the crisis response

Brazil’s response to the crisis was timely, effective and successful. For the first time in its economic history, the country adopted countercyclical policies during a crisis and was one of the first major world economies to safely emerge from it.

[30] It simply created Brazil’s largest private bank.

In overall terms, the crisis exerted a strong shock on industrial output, which fell 20 percent in relation to its pre-crisis peak. At the moment, roughly half of this fall has been made up for, and quarterly GDP increased by 1.9 percent, in seasonally adjusted terms, between the first and the second quarters of 2009. Unemployment in the main metropolitan regions is again close to the value it had in August 2008, and net job creation is already at top levels. For 2010, growth forecasts put it in the range of five to seven percent. Tables 2-7 provide an overall picture of the pre- and post-crisis status of a few select indicators; they leave no doubt that the crisis (or its first wave) is over.

Ironically, the crisis contributed to an improvement in the current accounts balance. As a whole, 2008 ended with a $28.3 billion deficit. The first semester of 2009, however, posted a $7.1 billion deficit against $16.9 billion in the corresponding period for 2008. In most major items of the account,[31] the mini-recession provoked better (though still negative) results.

In political terms, the crisis brought about another victory for President da Silva. He can pose as the serene and optimistic leader who took the country through the uncertainties of a crisis that wrecked havoc in all other advanced economies. He even participated in a collective loan to the IMF—something which Brazil has never done before! Indeed, the country emerged from the crisis more confident about the model it adopted domestically and more assertive as a respected actor on the international stage.

There are several possible outcomes of this situation. The internationalization of Brazil's economy—most notably in the form of the new Brazilian multinationals—had already been strongly fostered by globalization. More open national attitudes to foreign direct investment (FDI) all over the globe, increased mergers-and-acquisitions activity, progress in communications and various technological and managerial advances have paved the way for the expansion of Brazilian firms. To name just a few, these include Petrobrás, Vale do Rio Doce and Embraer, beyond powerful private groups in the steel, machines and cosmetics sectors, always strongly backed by a substantial domestic demand.

With the new protagonism that emerged after the "small ripple" subsumed, it is expected that not only Brazilian multinationals will be even more active, but the country itself will become more attractive as a FDI destination—as it will be rated as a safe haven, in a world in the midst of great changes and regional turmoil.

[31] The country runs historically sizeable deficits in the international services account.

Structural distortions

- Is there early evidence that the structure of the economy will change (e.g., greater role of the state, changes in sectoral shares in GDP)?
- Could old structural imbalances be aggravated? Can we already identify new structural imbalances? Have previously existing imbalances been tackled?

Brazil was able to successfully implement countercyclical measures during a serious international crisis. Of course, these measures included increasing public expenditures, tax waivers, direct as well as indirect injections into the purchasing power of the poor and civil servants, and a massive transfer of funds to BNDES. There was also a certain more relaxed attitude toward inflation control.

Although nobody knows what the consequences of the whole package will be, a few lessons have already been learned. For example, having a less strict level of compulsory deposits has not seemed to cause the distorting effects the Banco Central had feared. Likewise, the impact of the (now clearly overvalued) exchange rate on trade performance continues to be much lower than expected.[32]

One unfortunate, noticeable effect has been the deteriorating performance of the Treasury, in that it has been running up monthly deficits this year, which is something that had long ceased to exist. Table 8 provides a telling picture of the situation. Recent data (up to August 2009) show that, in a "period over same period" comparison, revenues fell 7.4 percent and the deficit is still widening. While income tax from corporations and businesses fell by 13.5 percent, the IPI fell by 29.7 percent. With expenditures continuing to grow, 2010—which is an election year—does not promise very good prospects on this state of affairs.

Another unknown is the ever-present specter of inflation. Renewed disputes between the Ministry of Finance and the Banco Central—with the former desiring the maintenance of a looser stance and the continuation of low interest rates even in "post-crisis" times—indicate that the path to be followed is not clear yet. Whether this danger will be significant also depends on the actual growth in 2010.

If growth is close to seven percent, there will certainly be overcapacity-fueled inflationary pressures in most industrial sectors. However, if growth hovers closer to five percent (as has been forecasted), it is possible that smart monetary policy will achieve an accommodation between the stricter Banco Central view and the more flexible Fazenda outlook, which, in turn, will keep inflation at bay while delivering (not very spectacular) growth. This depends, of course, on whether expenditures are kept under control, which unfortunately cannot be taken for granted.

[32] Indeed, there has been evidence of this since mid-2007.

## 8. Concluding Remarks

Brazil undoubtedly coped very well with the international financial crisis. The successful recipe was a combination of sound macro-economic policies that had been in course since 1999, already existing tough regulations for the financial, especially banking, sector, a shrewd leadership by a charismatic president and timely resorting to counter-cyclical measures, as soon impacts became noticeable. In the first and last items, the country wasn't much apart from other South American economies, like Chile and even Peru, which also produced smart reactions to the crisis shocks. Indeed, this was probably the first time when the Latin American bloc faced an international crisis in a broadly positive macro-economic position, and duly applied counter-cyclical policies, in the right moment.

Recovery has been boosted by consumption,[33] as the fall in output was precipitated by it, leaving two unknowns in the air. First, no signs exist as to when the expansion in current government expenditures will cease, given that it goes on in full blow, in spite of continuous surveillance by the Central Bank. Second, investment was not an engine of recovery, and it persists in levels below those needed for sustained growth.

Notwithstanding, the economy is thriving again, and it is expected that even 2009— previously assumed as a recession year—will post growth slightly above zero. For 2010, as mentioned before, prospects couldn't be better. As capacity utilization is increasing very fast—in consumer durables and building and construction material, it is already at 88.9 and 89.3 percent, respectively (pre-crisis peaks being 91.7 and 91.3 percent, respectively)—inflation pressures are not out of question.

Summing up, in spite of a few clouds in a mostly sunny horizon, and the persistence of serious structural and social debts—in regulation, the fiscal system, education and, always and ever, poverty alleviation—Brazil has taken a bold step forward, in its pursuit to become a world power of medium importance. Ironically, the crisis gave it a hand in this course.

[33] An interesting statistic on this is that the supermarkets segment expects a 5 percent growth in 2009 !

# Tables

## Tables 1- 3 Growth indicators

## Table 1.A Annual GDP growth (%)

| **Cardoso years** | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| 4.2 | 2.2 | 3.4 | 0.0 | 0.3 | 4.3 | 1.3 | 2.7 |
| **Lula da Silva years** | | | | | | | |
| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| 1.1 | 5.7 | 3.2 | 4.0 | 5.7 | 5.1 | ? | ? |

Source: Instituto Brasileiro de Geografia e Estatística (IBGE), the official Brazilian agency for statistics. Methodological improvements based on updated data sources were made in 2005. Retroactive calculations have been made for the years since 2000. As a result, figures for 1995-1999 may be slightly different, depending on the publication or data-base consulted.

## Table 2: Quarterly GDP, quarter-on-quarter percent change

| quarters | Total output | Agriculture | Industry | Services |
|---|---|---|---|---|
| Q2/08 | 4.49 | 22.05 | 7.65 | 1.71 |
| Q3/08 | 1.88 | -21.51 | 6.59 | 1.96 |
| Q4/08 | -4.43 | -21.73 | -8.82 | -0.99 |
| Q1/09 | -3.45 | 31.26 | -13.35 | -0.95 |
| Q2/09 | 5.14 | 18.81 | 9.31 | 2.41 |

Source: IBGE

Note: figures show quarter-on-quarter changes in percent, without seasonal adjustment. Seasonally adjusted figures are less volatile, presenting less wild variations (e.g., the fall in output for Q4/08, is -3.6% instead of -4.4%; growth for Q2/9 is at 1.9% instead of 5.1%).

## Table 3: Industrial output*

| | All industry | | Manufactured products | |
|---|---|---|---|---|
| | 2008 | 2009 | 2008 | 2009 |
| Jan | 6.35 | 1.02 | 6.37 | 0.99 |
| Feb | 6.85 | -0.96 | 6.88 | -0.99 |
| Mar | 6.63 | -1.89 | 6.66 | -1.90 |
| Apr | 6.96 | -3.88 | 7.02 | -3.93 |
| May | 6.73 | -5.03 | 6.75 | -5.04 |
| Jun | 6.72 | -6.47 | 6.75 | -6.48 |
| Jul | 6.88 | -8.04 | 6.91 | -8.05 |
| Aug | 6.44 | | 6.43 | |
| Sep | 6.81 | | 6.79 | |
| Oct | 5.94 | | 5.86 | |
| Nov | 4.77 | | 4.66 | |
| Dec | 3.10 | | 3.06 | |

Source: IBGE, based on a twelve month index.

## Table 4: Inflation and interest rates*

| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2008 | | | | | | | | | | | |
| 5.36 | 5.43 | 5.50 | 5.90 | 6.64 | 7.28 | 7.56 | 7.15 | 7.04 | 7.26 | 7.20 | 6.48 |
| **11.18** | **11.18** | **11.18** | **11.37** | **11.63** | **12.07** | **12.36** | **12.36** | **13.39** | **13.66** | **13.64** | **13.66** |
| 2009 | | | | | | | | | | | |
| 6.43 | 6.25 | 5.92 | 5.83 | 5.45 | 4.94 | 4.57 | 4.44 | | | | |
| **13.32** | **12.66** | **11.70** | **11.11** | **10.16** | **9.54** | **9.01** | **8.65** | | | | |

Source: IBGE and Banco Central

Note: inflation measured by the (twelve months' variation of) INPC, consumer price index computed by IBGE; interest rates (in **bold**), also on a yearly basis, are the so-called "SELIC rates" applied to government bonds and set by the Banco Central.

## Table 5: Unemployment rates

| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2008 | | | | | | | | | | | |
| 8.0 | 8.7 | 8.6 | 8.5 | 7.9 | 7.9 | 8.1 | 7.6 | 7.7 | 7.5 | 7.6 | 6.8 |
| 2009 | | | | | | | | | | | |
| 8.2 | 8.5 | 9.0 | 8.9 | 8.8 | 8.1 | 8.0 | 8.1 | | | | |

Source: IBGE. Figures reflect the average unemployment rate in Brazil's six largest metropolitan regions (Belo Horizonte, Porto Alegre, Recife, Rio de Janeiro, Salvador, São Paulo)

## Table 6: Trade performance - visibles (quarterly results), in billions of U.S. dollars

| | Exports | | Imports | | Trade balance | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 |
| Q1 | 38.7 | 31.2 | 35.9 | 28.2 | 2.8 | 3.0 |
| Q2 | 51.9 | 38.8 | 43.4 | 27.8 | 7.5 | 11.0 |
| Q3 | 60.3 | 41.9 | 51.9 | 34.5 | 8.4 | 7.3 |
| Q4 | 47.0 | | 41.8 | | 5.2 | |
| TOTAL | 197.9 | | 173.0 | | 24.9 | |
| Total# | 150.9 | 111.8 | 113.9 | 78.0 | 16.9 | 21.2 |

Sources: Banco Central and Secretaria de Comércio Exterior / Ministério do Desenvolvimento, Indústria e Comércio.
# cumulative totals until Q3 of the corresponding year.

## Table 7: Foreign reserves (at the Banco Central), in billions of U.S. dollars

| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2008 | | | | | | | | | | | |
| 187.5 | 192.9 | 195.2 | 195.7 | 197.9 | 200.8 | 203.6 | 205.1 | 207.5 | 203.2 | 206.4 | 206.8 |
| 2009 | | | | | | | | | | | |
| 200.8 | 199.4 | 202.5 | 201.3 | 205.6 | 208.4 | 211.9 | 219.1 | | | | |

Source: Banco Central (figures can still be revised)

## Table 8: Treasury performance (cumulative figures), in billions of reais

| | Revenues | | Expenditures | | Final result | |
|---|---|---|---|---|---|---|
| Quarters | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 |
| Q1 | 160.8 | 155.9 | 166.4 | 192.7 | (-) 5.6 | (-)36.8 |
| Q2 | 338.2 | 334.9 | 336.6 | 380.5 | 1.6 | (-)46.5 |
| Q3 | 523.2 | 502.2 | 504.6 | 586.1 | 18.6 | (-)83.9 |
| Q4 | 731.8 | | 681.5 | | 50.3 | |

Sources: Secretaria do Tesouro Nacional / Ministério da Fazenda.
Note: cumulation is along the year, the figures for the last quarter (Q4) being the year totals.

# Study Context

The Bertelsmann Stiftung has a long tradition of assessing the quality of governance and devising evidence-based policy strategies for decision makers.

The **Transformation Index (BTI)** monitors political management, democratic quality and economic development around the world. The BTI encompasses all 128 developing nations and countries in transition that have a population of more than two million inhabitants, and have not yet attained fully consolidated democracy and a developed market economy.

The **Sustainable Governance Indicators (SGI)** offer a complementary focus on the OECD member states. The SGI evaluate the sustainability of political action in 15 different policy fields (from economy, labor, and education to environment, research and development), the quality of democracy and questions of strategic management capability in each of the 31 OECD countries.

The study *Managing the Crisis* is a joint initiative of the two projects.

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