



**BANCO CENTRAL DO BRASIL**

## **GSF Summit – Central Bank Forum**

### ***Brazil - Impact of the crisis, lessons and the way forward***

January - 2011

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# Financial Regulation and Supervision

ÄBrazil's financial system is regulated by the Congress, the National Monetary Council (CMN), and the Central Bank of Brazil

ÄFinancial and non-financial institutions supervised by the Central Bank of Brazil

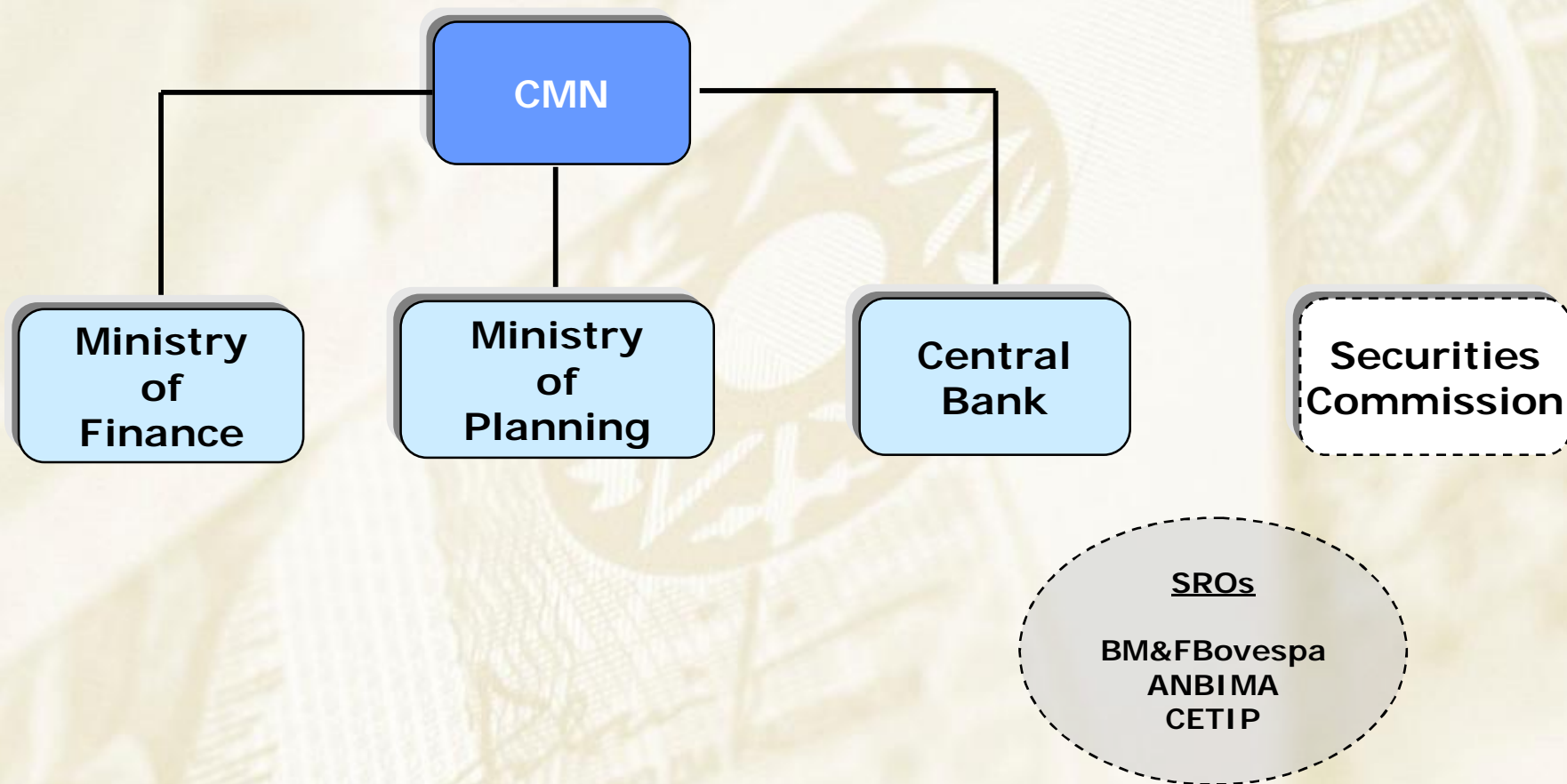
ÄParticipation of self-regulating organizations (SRO), such as:

- § stock and futures exchange

- § clearings

# Financial Regulation and Supervision

## Main Structure





# Financial Regulation and Supervision

## Main aspects:

Ä Robust governance rules, including board accountability on risk management

Ä Derivatives, including OTC, with mandatory registration in clearing and settlement systems authorized by both the Central Bank of Brazil and the CVM

Ä Credit derivatives market limited to the national financial system

# Financial Regulation and Supervision

## Main aspects:

ÄMinimum capital ratio of 11% (Basel ratio is 8%)

ÄModern payment system based on best international practices and recommendations

- certainty of transfers (no overdrafts);
- all systemically important securities settlement systems act as central counterparties.

# Brazilian Payment System (SPB)

Ä A Real-Time Gross Settlement (RTGS) system for transferring of funds with two funds transfer systems offering intraday finality

- STR – monetary mkt and interbank transfers
- SITRAF – client funds transfers

Ä Full automation, with Straight Through Processing (STP) used in all systems

Ä Delivery versus Payment (DVP) is observed in all securities settlement systems



# The Brazilian Financial Sector before the crisis

Favorable economic scenario...

- ÄEconomic stability

- ÄDynamic and diversified economy

- ÄLarge, solid, and strong financial and capital markets

- ÄRisk – Investment Grade (S&P, Moody's, and Fitch)

# The Brazilian Financial Sector before the crisis

- ÄInternational reserves nearly USD 200 million
- ÄConservative regulation and effective supervision
- ÄLow leverage ratio (approximately 6)
- ÄHigh capital ratio (18% observed, 11% required)
- ÄCredit securitization market: less than 10% of total credit volume
- ÄAll credit exposures above USD 2,800 tracked by Credit Bureau System (SCR)
- ÄVery high reserve requirements: liquidity buffer



# The Financial Crisis in Brazil

## Effects of the crisis in Brazil

Ä Moderate when compared to most countries

- Main effect: liquidity shortage
- Medium and small banks were the most affected (funding rely mainly on wholesales deposits)
- Losses on non-standardized derivatives

Ä Central Bank acted promptly to restore liquidity

Ä **No bankruptcies of financial institutions**

Ä **No need for government bailout**

# The Financial Crisis in Brazil

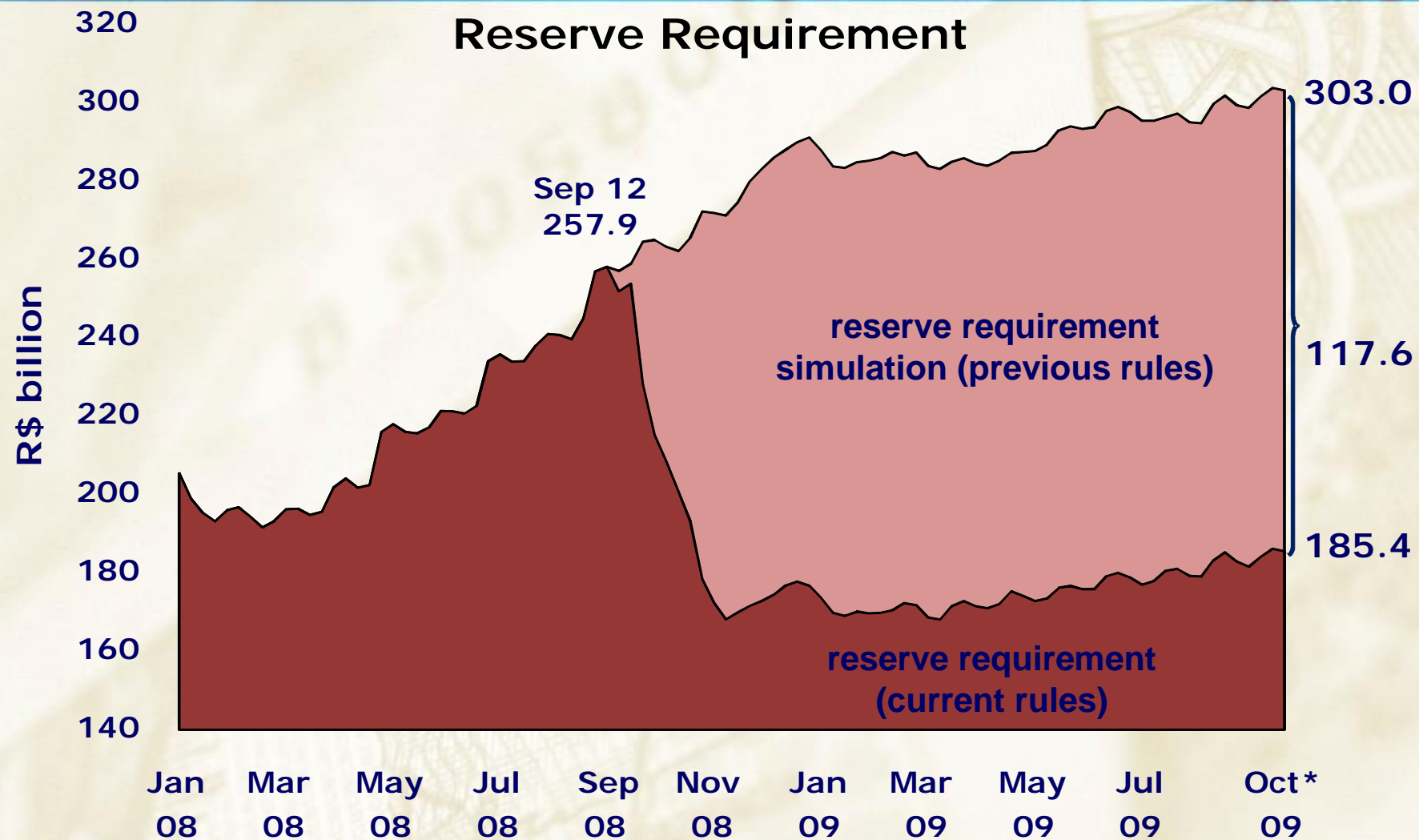
## Emergency measures in Brazil

### Ä Liquidity injection in foreign currency

- Auctions directed at exporters: **USD 24.4 billion**
- Spot market sale of dollars: **USD 14.5 billion**
- Exchange rate swaps auctions: **USD 33 billion**

### Ä Reduction of reserve requirements – **USD 55 billion**

# The Financial Crisis in Brazil



Source: Central Bank



# The Financial Crisis in Brazil

## Emergency measures in Brazil

- Ä Credit lines to cover trade lines temporarily
- Ä Discount line using credit portfolios as collateral
- Ä Currency swap line agreement with the Federal Reserve
- Ä Extension of the coverage limit of deposit insurance  
from USD 33,000 to USD 110 million (valid for special  
long term deposits)
- Ä Tax relief for some operations and products

# The Financial Crisis in Brazil

## Some of the results from emergency measures

- Ä Alleviation of liquidity constraints particularly of small and medium size banks
- Ä Gradual recovery of credit operations after sharp fall in October/08

# Exit Strategy

Ä Brazil has reversed many anti-crisis measures, which was facilitated by sound macroeconomic fundamentals

- Replenishment of reserve requirements
- Reversal of actions in the foreign exchange market
  - ü Full repayment of the international reserves loans
  - ü Closed swap position in futures' markets
  - ü Resumed international reserves acquisition

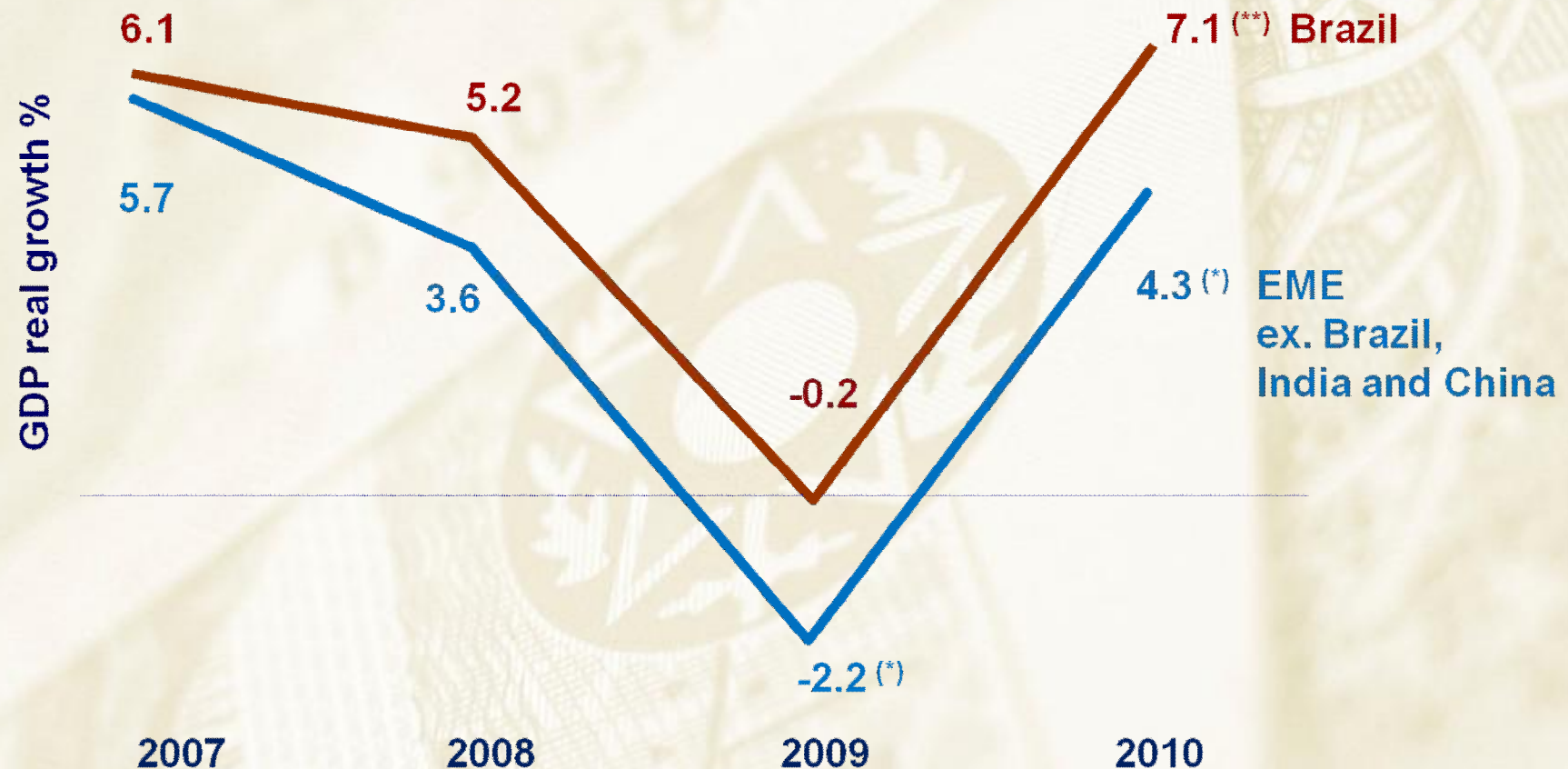
Ä Tax relief is already being removed without damage to the stability and economic growth

- From the outset, incentives on taxes had expiration dates



# Performance before and after the crisis

## Brazil compared to other emerging market economies



Sources: FMI (WEO April 2010) and Central Bank of Brazil (Focus)



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