



BANCO CENTRAL DO BRASIL

GSF Summit – Central Bank Forum

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

January - 2011

Silvia Marques
Deputy Head
Financial System Regulation Department

Financial Regulation and Supervision

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

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

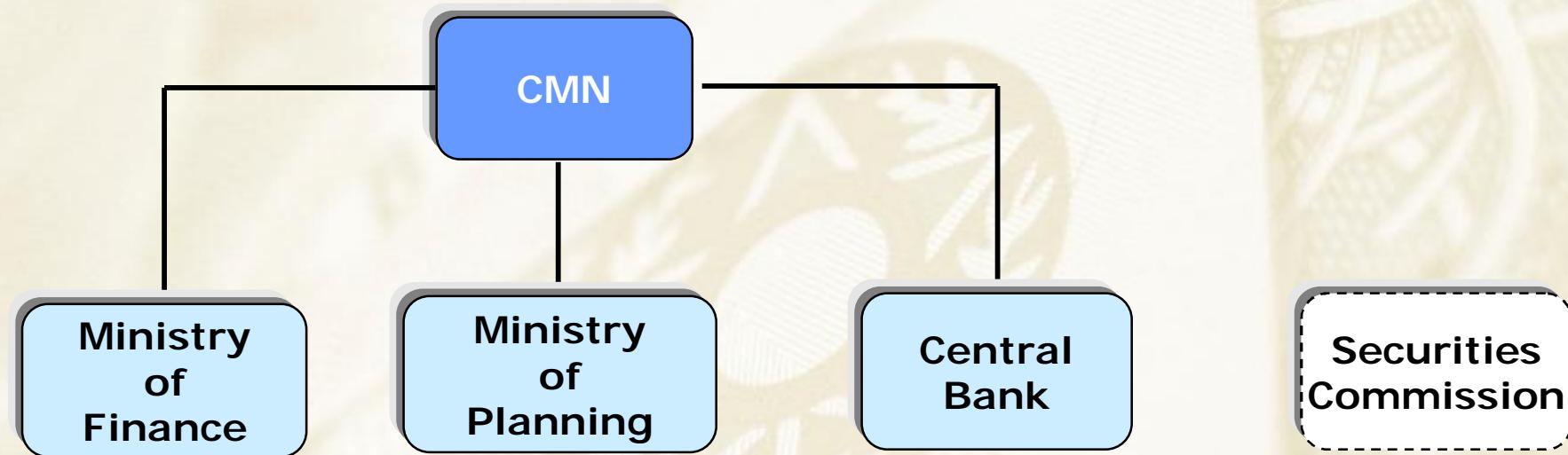
• Participation of self-regulating organizations (SRO), such as:

- § 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:

- Ä Minimum capital ratio of 11% (Basel ratio is 8%)
- Ä Modern 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)

• 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

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

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



The Brazilian Financial Sector before the crisis

Favorable economic scenario...

Ä Economic stability

Ä Dynamic and diversified economy

Ä Large, solid, and strong financial and capital markets

Ä Risk – Investment Grade (S&P, Moody's, and Fitch)



The Brazilian Financial Sector before the crisis

- ÃInternational reserves nearly USD 200 million
- ÃConservative regulation and effective supervision
- ÃLow leverage ratio (approximately 6)
- ÃHigh capital ratio (18% observed, 11% required)
- ÃCredit securitization market: less than 10% of total credit volume
- ÃAll credit exposures above USD 2,800 tracked by Credit Bureau System (SCR)
- ÃVery high reserve requirements: liquidity buffer



Effects of the crisis in Brazil

- Ã¢ 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
- Ã¢ Central Bank acted promptly to restore liquidity
- Ã¢ No bankruptcies of financial institutions
- Ã¢ No need for government bailout



Emergency measures in Brazil

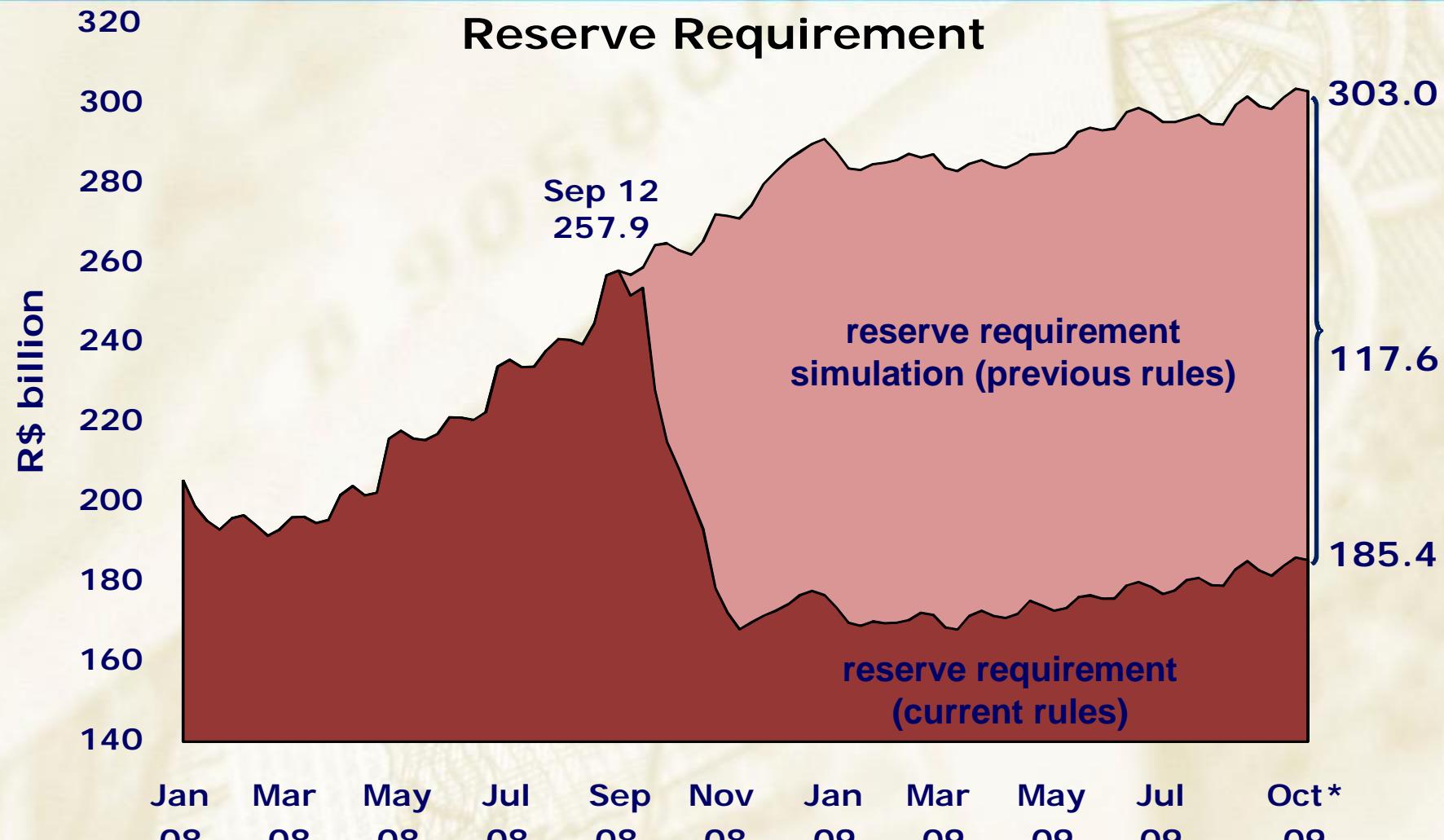
Ä Liquidity injection in foreign currency

- 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



BANCO CENTRAL DO BRASIL

Emergency measures in Brazil

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



Some of the results from emergency measures

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



Ã 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
 - „ Full repayment of the international reserves loans
 - „ Closed swap position in futures' markets
 - „ Resumed international reserves acquisition

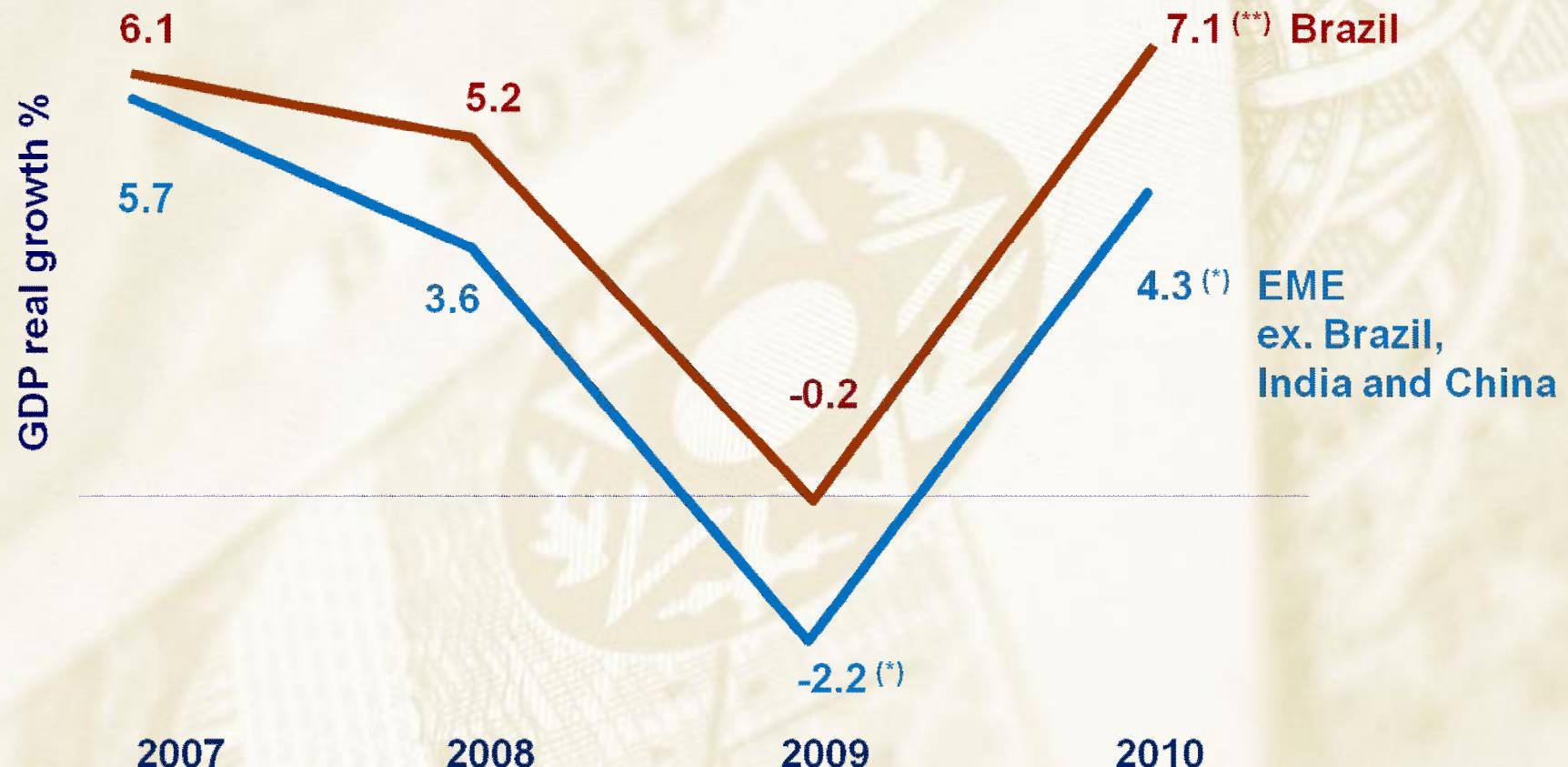
Ã Tax relief is already being removed without damage to the stability and economic growth

- 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)



BANCO CENTRAL DO BRASIL



BANCO CENTRAL DO BRASIL

GSF Summit – Central Bank Forum

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

January - 2011

Silvia Marques
Deputy Head
Financial System Regulation Department