From crisis management to long term growth drivers: Perspectives from Brazil

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Main Messages

- Aggressive counter-cyclical policies minimized the impact of the crisis on the Brazilian economy.
- The use of foreign reserves, monetary, fiscal and quasi-fiscal policies was made possible because of policy space previously acquired.
- Looking forward, a main challenge will be to increase the role of knowledge in competitiveness.
- Poverty reduction may help growth by strengthening domestic demand as a growth driver.
Brazil: From Decoupling to Derailing... to Decoupling again?

Mechanisms of Transmission of the Crisis
- Weak global demand and lower prices of exports
- The Systemic Sudden Stop and foreign capital flows
- Effects on exchange rates

Lines of Defense
- Uses of international reserves
- Easing of monetary policy
- Uses of fiscal and para-fiscal policies
The Brazilian Economy seemed to be decoupling at high speed... until it came to a sudden stop

Domestic Demand and Supply

GDP growth – IIIQ08

Source: IBGE

Source: Itau (presentation by Tomas Malaga)
Trade, Credit Sudden Stop and Inventory Adjustments were the main channels of transmission

Industrial Production, Retail Sales and Exports
(index: September 2008=100)

Source: IBGE, Secex e Funcex.
Back to the long-term growth path

Source: JPMorgan, GDW 03/12/10
Unemployment Rate Dropped—despite the initial shock—from 9.3% in Jan ’07 to 7.2% in Jan ’10... and Wages Increased

Source: IBGE
## Investments strongly rebounding

### Domestic-led Sectors Have Already Recovered

<table>
<thead>
<tr>
<th>Sectors</th>
<th>US$ billion</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005-2008</td>
<td>2010-2013</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>112</td>
<td>171</td>
</tr>
<tr>
<td>Mining</td>
<td>29</td>
<td>25</td>
</tr>
<tr>
<td>Steel</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Petrochemical</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Vehicles</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>Electronics</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Pulp &amp; Paper</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td><strong>191</strong></td>
<td><strong>271</strong></td>
</tr>
</tbody>
</table>

Source: BNDES
Crisis Response (1): Injection of Liquidity in Foreign Currency Market

- Sales of USD in spot market;
- Sales of USD in repurchase agreement auctions;
- Reduction of reserve requirements for banks acquiring USD with repurchase agreement;
- Sales of USD swap contracts;
- Export financing;
- Authorization for BCB to engage in currency swap transactions with other central banks (US$ 30 billion swap line with Federal Reserve);
- Loans to rollover external debt of Brazilian companies.
Crisis Response (2)
Injection of Liquidity in Domestic Credit Market

- Reduction in reserve requirements
- Incentives for banks (including public banks) and the deposit insurance fund (FGC) to acquire portfolios of small and medium size banks
- Increase of funding to BNDES (Development Bank) and rural credit;
- Guarantees for Certificates of Bank Deposits issues by small and medium size banks
Interventions by the Central Bank in the FX Market and International Reserves

Source: Central Bank, Credit Suisse
Credit/GDP Ratio Grew Even After the Shock

*Up to January*
State-owned Banks Sustained Credit after the Crisis

Credit Growth
(Index: Sept. 2008 = 100)

<table>
<thead>
<tr>
<th>Month</th>
<th>Public Banks</th>
<th>Private Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-08</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Nov-08</td>
<td>109.0</td>
<td>102.6</td>
</tr>
<tr>
<td>Jan-09</td>
<td>113.9</td>
<td>102.9</td>
</tr>
<tr>
<td>Mar-09</td>
<td>118.3</td>
<td>103.3</td>
</tr>
<tr>
<td>May-09</td>
<td>121.2</td>
<td>103.2</td>
</tr>
<tr>
<td>Jul-09</td>
<td>132.9</td>
<td>105.6</td>
</tr>
<tr>
<td>Sep-09</td>
<td>141.2</td>
<td>106.9</td>
</tr>
<tr>
<td>Nov-09</td>
<td>144.6</td>
<td>109.5</td>
</tr>
<tr>
<td>Jan-10</td>
<td>150.1</td>
<td></td>
</tr>
</tbody>
</table>

Contribution to Credit Growth
(Sept. ’08-Jan ’10)

- BNDES 37%
- Private Banks 27%
- Other State-owned Banks 36%

Source: Bacen

BNDES alone was responsible for 37% of the increase in credit from Sept ’08 to Jan ’10
Crisis Response (3): Fiscal Policy (with low impact on public debt)

Source: IMF and Brazilian Central Bank.
Brazil’s Growth Drivers

- Brazil as a natural resource-rich economy
- Role of knowledge in economic competitiveness and the structure of global trade
- Business environment, renewable energy, and modern agriculture as Brazil’s economic strengths
- Domestic demand as an important growth driver
Developing Countries in the Global Economy: Is There a *Trend* Decoupling?

**World Output Growth (%)**

*1961 - 2011*

- Advanced
- Developing Countries

Real GDP Growth. Source: World Bank World Development Indicators and staff estimates and forecasts.
Unexpected Growth Resilience in Developing Countries ... not just China and India

![Frequency Distribution of GDP Growth in 2009 - Developed and Developing](image)

High Income countries (38). Median growth: -3%.

Developing countries (113). Median growth: 1.3%.

Source: World Bank DEC Prospects Group
Brazil and Russia’s Export Structure, 2008

Brazil’s Exports by aggregated factor

- Primary products: 37%
- Manufactured products: 47%
- Semimanufactured products: 14%
- Special operations: 2%

Russia’s principal exports (share of total)

- Mineral products: 70%
- Metals, precious stones: 13%
- Chemicals: 6%
- Machinery, equipment and transport means: 5%
- Other: 6%

Brazil’s exports -main products (26% of total exports)

- Soybeans: 6%
- Petroleum oils, crude: 7%
- Iron ore and concentrates: 8%
- Airplanes: 3%
- Meat: 3%

Source: MDIC/Secex

Source: Federal State Statistics Service, Russia
Global Trends in Commodity Prices

Crude Oil Price: 1900-2011
(constant 2008 $/bbl)

Increasing Role of Knowledge in Competitiveness and the Structure of Global Trade

- Knowledge-based economies grow faster

Product diversification, adding value to commodities, and improving competitiveness in manufacturing and service exports are pivotal for Brazil’s global competitiveness and long-term growth
Brazil: Current-account Balance

Graph showing the twelve-month current account balance and monthly data in US$ billion as a percentage of GDP. Data points range from February 2009 to February 2010, with months December 2009, January 2010, and February 2010 highlighted.
Competitiveness in Business Environment

- Brazil’s competitive advantage in business environment, incl. sophistication of firms’ production processes, capacity for innovation, and marketing and consumer orientation

Global Competitiveness Index of 134 countries: Innovation and sophistication factors 2008–2009: Brazil and selected comparators

Competitiveness in Renewable Energy

- Brazil’s potential to create opportunities for energy- and water-intensive industries
Competitiveness in Modern Agriculture

- Successful application of innovation by investing in agricultural R&D (increase in wheat and soy productivity that helped boost exports) and personnel education
- Genetic improvement and more efficient production systems contributed to a revolution in the production of meat in Brazil
- Strong performance in agro-energy

Annual growth rate of productivity

<table>
<thead>
<tr>
<th>Years</th>
<th>Rice</th>
<th>Corn</th>
<th>Beans</th>
<th>Soy</th>
<th>Wheat</th>
<th>All*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975 to 2007</td>
<td>3.45</td>
<td>2.99</td>
<td>2.11</td>
<td>1.88</td>
<td>3.11</td>
<td>2.95</td>
</tr>
<tr>
<td>1980 to 1989</td>
<td>3.99</td>
<td>1.24</td>
<td>-0.22</td>
<td>0.79</td>
<td>9.21</td>
<td>3.23</td>
</tr>
<tr>
<td>1990 to 1999</td>
<td>4.20</td>
<td>4.53</td>
<td>3.43</td>
<td>4.04</td>
<td>4.32</td>
<td>3.87</td>
</tr>
<tr>
<td>2000 to 2007</td>
<td>2.94</td>
<td>2.16</td>
<td>3.61</td>
<td>-0.53</td>
<td>1.68</td>
<td>-0.23</td>
</tr>
</tbody>
</table>

Source: Brazilian Institute of Geography and Statistics (IBGE).
* All temporary cultivation, up to 2005.
Brazil’s Long-term Challenges

• Resume and strengthen long-term planning (energy, logistics, environment, IT infrastructure, ...)

• Promote and stimulate domestic savings in order to provide long-term funds for investment (banks and capital market)

• Develop capacity for innovation and competitiveness in manufacturing, and promote global presence of Brazilian companies (vs. significant challenges due to exchange rate appreciation – Dutch Disease)

• Increase opportunities for social mobility (job expansion, development/improvement in education) and reduction of the inequality in income distribution

• Promote innovation and development of renewable energy sources.
Concluding Remarks

- this crisis has returned fiscal policy to center stage as a macroeconomic stabilization tool.
- most of the pre-crisis consensus on macroeconomic policy still holds, but the crisis has shown that policy makers should adopt a broader macro-prudential view of the financial sector.
- the social impact of a sharp slowdown in GDP during the crisis in emerging countries was transmitted mainly through lower employment and wages, hence the importance of targeted social safety nets and automatic stabilizers.
- the post-crisis world will likely require countries to do more to improve their investment climates.
- in Russia, as elsewhere the crisis has provided an opportunity for reform and impetus to rethink and accelerate public sector, financial sector, and diversification reforms; it is important to see to it that the opportunity is not wasted in the complacency and return to business-as-usual after the crisis.