

IMPACT OF ECONOMIC CRISIS ON BRAZILIAN ECONOMY

IMPACTO DE LA CRISIS ECONÓMICA EN LA ECONOMÍA DE BRASIL

Paulo Paiva
President of the BDMG
ppaiva@bdmg.mg.gov.br

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ABSTRACT

Brazil took advantage of both the reforms conducted since the implementation of Plano Real and the expansion of world economy to initiate a new cycle of economic growth. Differently from the historical trend in Latin America, the prices of commodities rose and exports broke records contributing to the rise in revenue and output growth. This growth, which was around 5% per year, was the basis for the establishment of social policies which contributed to reduce poverty and promote social inclusion.

By affecting Brazil, the crisis broke the cycle of economic growth and put social developments at risk. Even though the country still maintains a better position, if compared to the majority of the Latin American economies, the economic down turn interrupts an important process of economic and social development.

Keywords: Brazil; Latin America; Economic Growth; Crisis; Ethics; Development.

RESUMEN

Brasil se aprovechó de las reformas llevadas a cabo desde la implementación del Plano Real y la expansión de la economía mundial para iniciar un nuevo ciclo de crecimiento económico. A diferencia de la tendencia histórica de Latinoamérica, los precios de las *commodities* crecieron y las exportaciones rompieron los records contribuyendo al crecimiento de ingresos y outputs. Este crecimiento, el cual fue de alrededor del 5% anual, fue la base para el establecimiento de políticas sociales que contribuyeron a la reducción de pobreza y promovieron la inclusión social.

En lo que se refiere a Brasil, la crisis rompió este ciclo de crecimiento económico y puso en riesgo el desarrollo social. Aunque el país aún conserva una mejor posición, si lo comparamos con la mayoría de las economías latinoamericanas, el descenso económico interrumpe un importante proceso de desarrollo económico y social.

Palabras clave: Brasil; Latinoamérica; Crecimiento Económico; Crisis; Ética; Desarrollo.

JEL Classification: F43, O1, I0.



1. INTRODUCTION

After a long period of expansion, the international economy entered a profound crisis, the extension of which is still unknown. Quick assessments around the summer of 2008 suggested that such crisis was restricted to the financial market and industrialized countries. Emerging economies would not be contaminated by the crisis and would follow their recent path of growth.

After a few months it was verified that the crisis was global, affecting equally both industrialized and emerging economies, interrupting a cycle of growth of the international economy. The credibility in financial market relations was ruptured, the flow of goods and services in the international market was reduced and economic growth rates dropped considerably. According to International Monetary Fund (IMF) more recent estimates¹, the world output that had been growing around 5% per year until 2007 will fall by 1.3% in 2009. In the Euro zone the fall could be over 4% and in the United States could be about 2.8%.

Brazil, after a long period of economic instability, took advantage of the reforms conducted since the implementation of Plano Real and the expansion of world economy to initiate a new cycle of economic growth. Differently from the historical trend in Latin America, commodity prices increased and exports broke records contributing to the rise in revenue and product growth. This growth, which was around 5% per year, was the basis for establishing social policies which contributed to reduce poverty and promote social inclusion.

By affecting Brazil, the crisis broke the cycle of economic growth and put social developments at risk. Estimates of Brazilian GDP growth for 2009 suggest drop of about 1.3% comparing to an increase of 5.1% in 2008 and 5.6% in 2007. Even though the country still maintains a better position, if compared to the majority of Latin American economies, its reduction interrupts an important process of social and economic development.

This article tries to evaluate the impact of the crisis on the performance of the Brazilian economy. First, it discusses some of the main antecedents

¹ For more recent estimations see IMF (2009), World Economic Outlook, <http://www.imf.org/external/pubs/ft/weo/2009/01/pdf/text.pdf>.

of the crisis, including its ethical root. Then, it tries to show the channels for crisis propagation, its impacts on the Brazilian economy and the answers from economic policies adopted in the country to alleviate its effects. The article ends with a few conclusions.

2. IT IS AN ETHICAL CRISIS

The episode of the bankruptcy of Lehman Brothers bank on September 15, 2008, can be considered the immediate start of the financial crisis that shook the world in the last months. In fact, that deepened the crisis that had already started with the impact of high risk assets known as "sub-prime" of real estate mortgages in the United States.

The remote antecedents of the crisis date back to the exuberant tendencies of the financial market since the nineties, borrowing an expression used in another context by former president of the Federal Reserve Bank (FED) of the United States, Alan Greenspan, now considered by many a villain in this story.

To better understand the crisis one should now remember the main elements of the period of fast expansion of the financial markets.

Firstly, there was a long period with very low interest rates in the United States, which stimulated the expansion of domestic credit and also the leveraging of commercial and investment banks.

Secondly, China's incorporation to the World Trade Organization (WTO) had an extraordinary impact on the international commerce with the rise in the demand for products from many countries, especially demand for commodities (oil, coal, metal ore, other minerals, soy, etc.). China's growth contributed very much to the acceleration of the growth of emerging economies.

Thirdly, due to the expansion of world economy and the aforementioned elements, there was an increase in the prices of commodities and shares at stock exchanges in almost every country, both industrialized and emerging.

Fourth, the development of derivatives in the financial market, purpose of which was to manage risks, to ensure greater stability into future markets, to offer greater protection to investors and, at the same time, opening possibilities of higher gains in relation to traditional products in the financial market.

Fifth, the low degree of regulation in the financial market, especially over investment banks, hedge funds and movements outside the balance sheets of commercial banks, has allowed a boom in credit offer everywhere.

The expansion cycle under these circumstances started reaching their limits when inflationary pressures began to require measures to contain the growth of demand. It bears emphasizing the fast increase in the price of oil and other mineral commodities and food between 2006 and the beginning of 2008.

It was soon verified that the development of derivatives under low regulation, instead of assuring greater stability in the financial market was the immediate cause of the start of the crisis.

Market trust and credibility were then broken.

That, however, was not new. In other circumstances the same scenario was set out. It is worth remembering episodes occurring around the turn of the century, with Enron and Worldcom companies, to name just two. Attitudes with no transparency from their executives impaired shareholders and drove the stock market to an enormous crisis at that occasion.

In essence, it seems to be very similar to what occurred more recently with a number of operations in the financial market.

At the root of both crises there was the lack of ethics in the conduct of market relations. There was the lack of the basic principles of governance, such as, transparency, responsibility, right to equal access to information and accountability.

This kind of behavior is attributed to individual self interest inherent to the operation of the market. It does not seem to be the Adam Smith understanding. Besides individual self interest and institutions building, Smith believed that trust in market relationships was essential. It is worthwhile to go back to Adam Smith's inspiration as I did in an article published in this Journal, "*no sólo la fuerza de la ley, sino la fuerza de la confianza, Las relaciones del mercado dependem, sobre todo, de la construcción de entendimientos, de reglas, compromisos y acciones aceptados y ejercidos por todos, indistintamente. Esto va más allá de los incentivos objetivos o subjetivos inherentes a las operaciones del mercado y más allá de los términos escritos de los contratos. Quiero resaltar este punto: las instituciones son importantes y la leyes tenen um papel importante en el ordenamiento de los mercados, pero no son necesariamente suficientes. Aparte de las instituciones, están los valores morales aceptados por todos y que garantizan el perfecto y permanente relacionamiento entre individuos e instituciones. Es la confianza mutua que solidifica las relaciones y garantiza su estabilidad*" (Paiva, 2004:211-212).

There does not seem to have any doubt about the ethical frailty at the root of the crisis, which reaches the markets nowadays. Commendable efforts to minimize its effects are being made. In the case of the episodes involving companies at the beginning of this decade, the United States' Congress reacted rapidly approving the Sarbanes-Oxley Bill imposing stricter control for companies listed in the stock market. Principles of good governance recommended by the IMF for monetary and fiscal management of countries and the Basel Agreements offering criteria to control the exposure of banks are examples of attempts to offer more secure governance in financial management.

However, there is still not an institution that can supervise financial relations between markets of different countries. Maybe there is a need for a new international financial architecture. A challenge that is not trivial, but opportune nowadays.

Institutional advances are effectively important, but I understand that above all the ethical issue should be at the agenda of discussions for the construction of a new era in international financial relations.

3. THE CRISIS IS GLOBAL

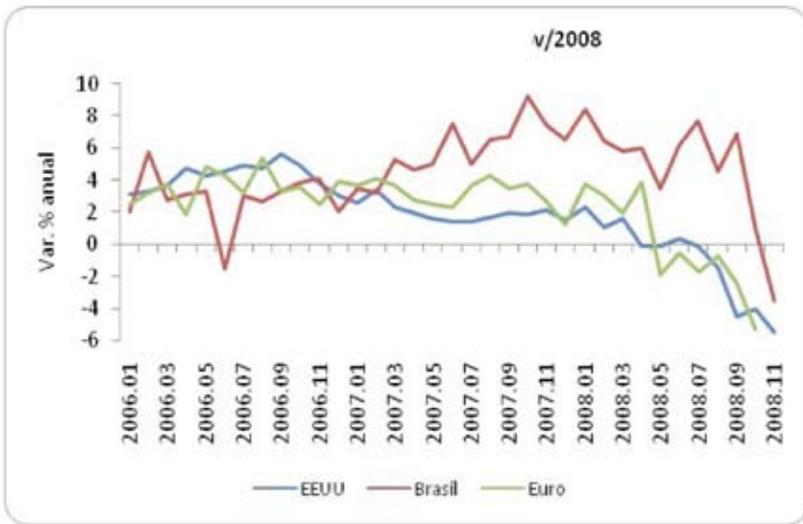
Initially it was thought that the crisis was only limited to the financial market and was caused by assets constituted by the American sub-prime mortgages. Its effects rapidly reached the financial markets of Europe and Asia. After that, it affected the real economy, with a drop in the growth of industrialized economies.

In the American case, the estimates of the National Bureau of Economic Research (NBER) already indicated that the expansion cycle had reached its peak in December 2007 (NBER, 2008:1-6). Since then a process of economic slowing down took over.

It was also thought that the crisis would not reach emerging economies, that is to say, there would be a decoupling in the economic cycles of emerging economies in relation to the industrialized economies.

It was not what happened. All of them were hit. The fall in industrial production of emerging economies was much more accentuated in the last quarter of 2008 in countries like Korea, Hong Kong, Mexico and Brazil.

CHART 1: INDUSTRIAL PRODUCTION, 2006-2008, EURO ZONE, USA AND BRAZIL



In the Brazilian case, we can see what happened in comparison to the United States and the Euro zone by analyzing Chart 1. While in these areas the industrial production have been dropping since 2007, though it have accelerated in the last quarter of 2008, in Brazil, on the other hand, the industrial production was expanding, keeping this trend until the end of the first semester of 2008. The drop was severe after September last year.



It seems to be a pattern of what happened in most emerging economies.

The economic cycles converged and the crisis, then, took its global dimension.

4. CRISIS PROPAGATION CHANNELS

The crisis reached emerging economies through a number of channels at both supply and demand sides.

On the supply side, firstly through the financial markets. The stoppage of the American and European money flows eliminated financing mechanisms for export in emerging countries, cut credit facilities for banks from those countries and practically closed operations for banking institutions in industrialized countries that operated in emerging countries.

Whatever credit remained came at a very high price for borrowers.

Secondly, through the stock market. Accompanying the drop in the prices of commodities, the price of stock fell rapid and deeply. The stock exchanges became unstable and in order to meet the needs in their countries of origin and fearing the risks, foreign investors abandoned their assets positions in the stock exchange of emerging countries amplifying the drop in those markets.

Thirdly, through export. The demand for commodities fell, thus affecting export and, as a consequence, the production in emerging economies dropped. In the case of Brazil, the reduction in demand for mineral products and industrialized products, such as iron and steel products, had a significant impact on mineral and manufacturing output.

Internally, credit restriction amplified the effect of the crisis. Banks restricted credit and elevated interest rates in a high risk environment. Inter-bank operations almost stopped totally affecting the solidity of small and medium banks. Finally, total lack of trust ruled.

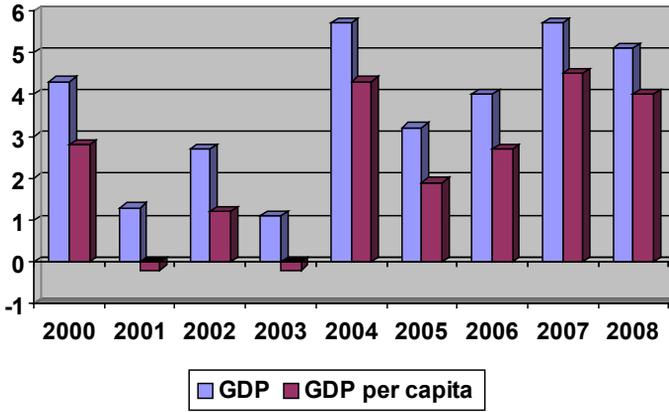
Credit reduction, many companies with loss of assets due to the fall in the prices of commodities and stock, and, still, increase of uncertainties with regard to the future constituted factors that determined the fall in the offer of goods and services.

When it comes to demand, there was also a restriction. High unemployment rates, lack of credit and uncertainties regarding the future were the ingredients for retraction in consumption, especially of durable goods which depend a lot on financing.

The result was a rapid deceleration of economic growth.

As one may observe in Chart 2, after a period of instability in the first half of this decade, the Brazilian growth domestic product (GDP) entered a cycle of expansion as of 2005. In 2008, the expectation was a rate close to 6% per year. However, the behavior in the fourth quarter compromised the expansion trend. The result was a growth lower than last year's, interrupting the cycle of expansion, though at a level above the average of the eighties, nineties and the first half of the nineties.

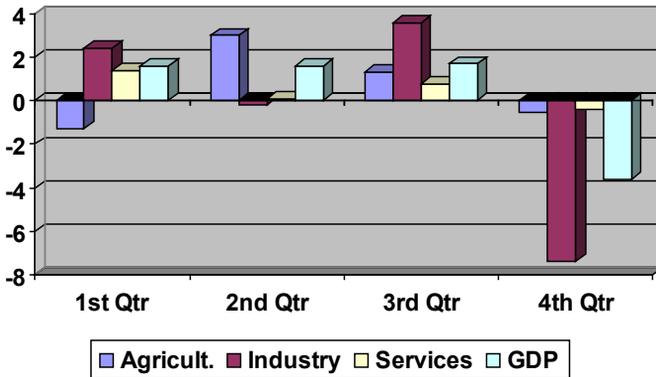
CHART 2: BRAZIL: GDP AND GDP PER CAPITA. ANNUAL GROWTH RATES (2000-2008) (YEAR TO YEAR)



Source: IBGE

Chart 3 shows that the GDP kept growing in the first three quarters of the year and that the deep fall of the industry, which went from a positive growth of 3.6% in the third quarter to minus 7.4% in the last quarter was the main responsible for the drop in GDP of 3.6% in the last quarter, which turned around the GDP's expansion trend.

CHART 3: BRAZIL, 2008: GDP SEASONALLY ADJUSTED GROWTH RATES (QUARTER TO QUARTER) BY ECONOMIC SECTORS



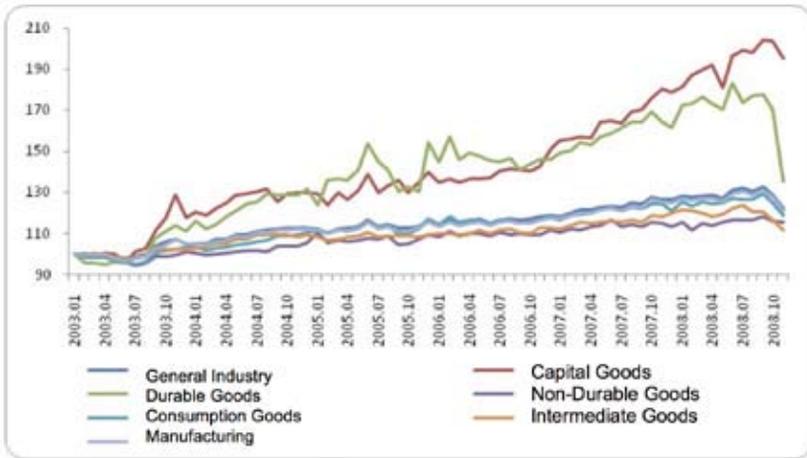
Source: IBGE

Chart 4 shows that the sectors of capital goods and durable goods, whose faster growth was set apart from the others as of the second semester of 2003,



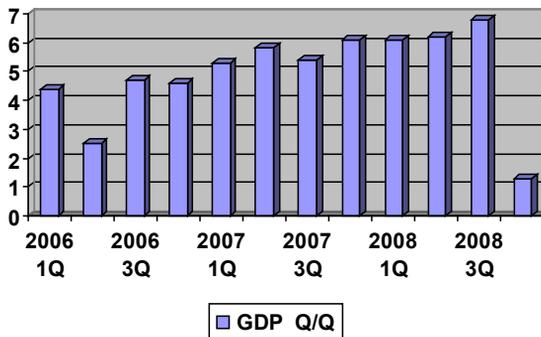
were also responsible for the accentuated drop in industrial production. The reduction in other sectors was more moderate.

CHART 4: BRAZIL: INDUSTRIAL PRODUCTION BY SECTORS, 2003-2008 (BASE: JAN 03 = 100)



At the margin, the Brazilian GDP had been growing above 6%. In the first quarter, the accumulated growth of the last 4 quarters was 5.9%, in the second quarter it was 6.0%, and in the third it reached 6.5%. In the last quarter, as previously seen, the accumulated growth fell to 5.1%, less than the previous years and the accumulated in the previous three quarters.

CHART 5: BRAZIL, 2006-2008, GDP ANNUAL GROWTH RATE (QUARTER TO THE SAME QUARTER OF PREVIOUS YEAR)



Source: IBGE

As shown in Chart 5, since the third quarter of 2007, GDP annual growth, measured by the variation over the same quarter of the previous year, was increasing. By the end of 2008, it fell from 6.8% in the third quarter to 1.3% in the fourth quarter.

5. HOW BRAZIL REACTED TO THE CRISIS

Apparently, the crisis seems to have affected Brazil more strongly on the real side of the economy, rather than in the monetary side of it.

On one hand, Brazil was much better financially prepared than in previous crises. It is worth mentioning the main elements which strengthened Brazilian economy to face crisis.

In addition to a few reforms that since the eighties started the modernization of public management, the implementation of a program for currency stabilization in 1994, the Plano Real, established a new standard for Brazilian economy.

In 1995, a Program was implemented to incentive the restructuring of the financial market², which provided for a clean and sound financial system in Brazil. Insolvent banks were sold or extinct, there were mergers and acquisitions and commercial banks owned by Brazilian states, with rare exceptions, were liquidated and their good assets were sold to private banks. The rotten assets were segregated and the states themselves attempted their recovery, outside the books of the new banks. After the implementation of that program Brazilian banking institutions became more capitalized and stronger.

The Securities and Exchange Commission (CVM), which had been created in 1976 under Law 6385/76, was modernized and consolidated in 2001, under Law 10303/01, and had a fundamental role in the supervision and control of the capital market. Probably, in regard to governance, regulation and supervision, Brazil has one of the better and more modern stock exchanges among emerging economies³.

The Central Bank of Brazil kept on performing its functions of supervision and regulation of the financial system with a competent team of professionals. As far as banking supervision is concern, Brazil adopted the Basel principles I and II. Administration of Brazilian Central Bank has a long history of de facto independence from government.

On the side of public administration, a fiscal responsibility regime was implemented with the signing of Complementary Law 101 in 2000, which limited indebtedness by the states and cities, and instituted principles and rules for fiscal management.

In addition a program of privatization was able to take away from government's responsibility steel companies, telecom companies, some companies on the energy sectors to mention some.

² The program related to private banks was called PROER and one related to public banks, PROES.

³ BOVESPA, Brazilian stock exchange, has very modern standards of Corporate Governance.

These reforms made the financial market more solid and fiscal management more balanced.

On the other hand, coherent macroeconomic policies, which are based on the foundations of monetary stability and fiscal equilibrium have been adopted and persist until today. A mechanism to control prices by means of inflation targeting, associated to a fiscal program which generates enough surplus to initially contain and, then, reduce the net public debt to Gross Domestic Product ratio are complemented by a policy of floating exchange rate.

These pillars of macroeconomic policies, which begun under Itamar Franco administration, were established by Fernando Henrique Cardoso government and have been fully maintained in Luiz Inácio Lula da Silva administration, thus consolidating the credibility of the Brazilian economic management.

Moreover, one of the most important elements perceived by the market in the Brazilian public management, when it comes to economic policy, is its continuity.

As a result of both economic policy reforms and management, the country rode the winds of the expansion of international economy and retook its growth trajectory. As a consequence, international reserves grew, currently exceeding US\$ 200 billion. The public debt to GDP ratio fell considerably and public debt in foreign currency turned negative, which means that the country went from external debtor to external creditor.

It is not hard for one to understand that the country received the investment grade, with the Brazilian risk falling to levels way below the "country risk" standards among Latin American countries.

These conditions were essential to alleviate the impacts of the crisis in Brazil.

As soon as the crisis reached Brazil, the federal government took quick measures to minimize its impacts.

Firstly, the Central Bank opened credit lines to finance exports. An effort that was more comprehensive with support from the American Federal Reserve (FED), which opened a line of credit for Brazil, which by means of exchange swap operations has been contributing to reduce the fall in the offer of credit in dollars to its exporters.

Exchange auctions undertaken regularly by the Central Bank aimed at maintaining a reasonable level of financing to exports and also for allowing Brazilian companies to renew their credit line in the international market.

Secondly, Central Bank has used a large volume of the compulsory stock to supply banks with money, and subsequently has reduced of basic interest rates aimed at assuring liquidity in the banking market.

Due to the previous monetary instability and specific conditions of the Brazilian financial market, the Central Bank has maintained for several years a conservative financial policy, with relatively high levels of compulsory deposits and basic interest rates at relatively high levels. As a consequence, credit as proportion of the GDP in Brazil is relatively low, reaching an average of 40% in 2008. That policy strategy turns out to be functional at crisis time.

Faced with the crisis, the Central Bank has now counted on efficient instruments to manage the monetary policy. There is still room for the use of monetary policy, differently from a number of industrialized countries, where the basic interest rate is already around zero.

However, the reduction in the basic interest rate⁴ has a few limitations that need to be overcome.

On one side, the lack of credibility and increasing risk in banking transactions prevent that the reduction of basic interest rate reaches in its totality to the rates offered to the borrowers. So the decline of the market interest rate is smaller than that of SELIC. There are still restrictions to inter-bank operations with small and medium banks. These banks are currently exposed to pay much higher rates for getting new deposits, whether from bigger banks, whether from the public. Recently, Central Bank has offered a deposit guarantee fund for up to 20 millions of *reais* in order to allow medium and small banks be more competitive in getting deposits from the public.

On the other side, the institutional structure of the Brazilian financial market still carries traces of the indexation period. For instance, public bonds are still been carried in the sort-run due to the absence of a long-run market for public bonds; mismatch between liquidity and investment gains (there are some saving accounts with high liquidity earmarked to long-term investment, as in the case of housing); and, still, tax burden and administration fee on financial operations, especially on applications in funds whilst there are tax exemptions for deposits in savings accounts linked to the housing system both with the same liquidity time. Those distortions in the financial market may impose a roof for the basic interest rate. The reform of such structure is a challenge that is necessary and urgent, even though complex and of difficult political consensus⁵.

Thirdly, Central Bank eased the purchase of small and medium private banks by larger private banks. At the beginning of the crisis, this decision was an indication that, if one bank could get in liquidity or solvency, it could be sold instead of go to bankruptcy.

Finally, through specific legislation, public federal banks⁶ were authorized to purchase portfolios and banks. That measure had an important impact signaling to the market that no bank in Brazil would be liquidated. Besides, by authorizing federal banks, eventual purchases by them would not affect the fiscal equilibrium because they would not be made with tax resources or government indebtedness. Not directly due to these measures, there was the fusion of Itaú Bank and Unibanco Bank, two of the larger banks in Brazil, Banco

⁴ Basic interest rate in Brazil is called SELIC.

⁵ Political difficulty comes mainly in the case of special public savings (*caderneta de poupança*), which is addressed to middle and small savers.

⁶ Two federal owned commercial banks were authorized: Banco do Brasil and Caixa Econômica Federal

do Brasil bought Banco NossaCaixa⁷ and acquired almost 50% of Banco Votoratim's shares.

Thirdly, the government adopted credit and fiscal measures to stimulate economic activity. Whereas on the monetary side the government acted correctly and the results were apparent, on the fiscal policy side the results are not so clear.

Brazil has a tradition of keeping its tax burden relatively high for Latin American standards. Nowadays, the weight of taxes represents approximately 36% of the GDP. The country did not use the period of economic expansion to adopt an anti-cyclical fiscal policy. On the contrary, it allowed ongoing expenses to expand at a rate far above GDP growth. So, with no reduction of public expenses there is not much room for decreasing the tax burden, unfortunately.

Then, in the fiscal area, the government adopted some measures of support to some sectors by means of tax exemptions. The automobile sector was one of the first beneficiaries. Then, exemptions went to durables goods and housing sectors.

Although those measures have some impact on consumption in the short run, as the crisis is general, support to specific groups may result in privileges, changes into the structure of relative prices, with no guarantee that the incentive to resumption of the economic activity will be permanent.

The government has been reacting to pressure and demand from sectors with more political power without a comprehensive strategy⁸. One of the consequences of such behavior may be a reduction in government's capacity to use its fiscal policy in a more efficient manner.

On the side of public credit expansion, the measure seems to be correct, but the action of public banks is very limited.

As Brazil has a public development bank (BNDES)⁹, actions to expand credit have been taken. The government increased BNDES capitalization, which started to play a more relevant role in financing the Brazilian economy, also entering the area of credit concession for working capital unrelated to investment projects.

BNDES has limited resources and if it goes to the market searching for funding will get it at higher cost as compared to the cost of its basic fund: tax resources, under the responsibility of National Treasury¹⁰.

Banco do Brasil, the larger public commercial bank, is a joint-stock corporation, with shares distributed in the stock market, and compete for resources in the market with private banks. Any deviation from the principles of good governance may affect the value of its shares.

⁷ Nossa Caixa was owned by the state of São Paulo and one of the remaining state owned banks.

⁸ One can also argue that Government has reacting with a view on political dividends, as next year will be general elections in Brazil.

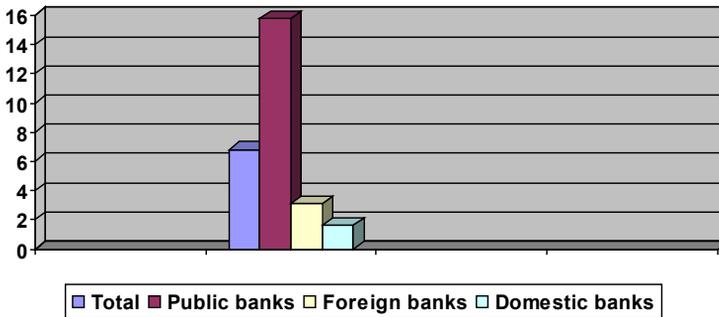
⁹ BNDES or Banco Nacional de Desenvolvimento Econômico e Social is the largest national development bank in Latin America

¹⁰ The cost of tax resource is a special interest rate, so called TJLP, which is lower than SELIC, National Treasury opportunity cost.

As result of those measures, the participation of public banks on the total credit grew from 34.2% from March of 2008 to March of 2009, while the participation of private domestic banks fell from 44.0% to 41.9% and of foreign banks fell from 21.8% to 20.5% at the same period.¹¹

For instance, Chart 6 shows the impact of the increase of public banks in offering credit in Brazil after the crisis. For an average growth in credit of 6.8%, from September 2008 to March 2009, the growth of public banks reaches 15.8 %, while that of foreign banks was 3.1 % and of domestic private banks was of 1.6%. Regarding only private domestic banks, credit from larger banks increased by 10.8% while from small and medium banks fell by 6.0% in the same period.

CHART 6: BRAZIL, PERCENT CHANGE IN CREDIT FROM SEPTEMBER 2008 TO MARCH 2009, BY ORIGIN OF THE BANK



Source: Central Bank of Brazil.

In short, Brazil may attenuate the impacts of the crisis on the financial sector thanks mainly to the reforms undertaken after Plano Real and the continuity in the macroeconomic policy management of the last governments, regardless of their political affiliations.

In fact, the continuity of macroeconomic policies is viewed by the market as the Brazilian highest asset.

Apparently the most serious impacts shall take place on the side of real economy. The prices of commodities have been significantly reduced, exports decreased and the industrial production fell sooner and with greater speed than expected. For this reason, GDP growth estimates for 2009 by the market are between zero and minus 1.5%, against the 5.1% gain of 2008. The reduction of economic activity has perverse social effects. Unemployment rate increases and public revenue decreases, which might affect negatively the social programs and particularly those of income transfer, such as *“Bolsa Familia”*¹².

¹¹ Data present by Central Bank of Brazil.

¹² Some states have already adjusted their budget. Federal Government is maintaining its expenditure at expense of reducing primary surplus.



6. CONCLUSIONS: COORDINATED SEARCH FOR SOLUTIONS

Differently from the belief in the middle of 2008, the crisis is global and contaminated all countries, whether industrialized or emergent. Even though from the point of view of its immediate antecedents one may consider a crisis endogenous to the center of the capitalist world and, as a result, its solution should derive from actions relative to the American economy, the resumption of the economic activity at an international level depends, on one side, on coordinated measures at different levels and, on another side, on domestic actions.

Reorganization of the banking sector and resumption on the American economy growth are required conditions, but not enough for economy stability at an international level.

Since the thirties, this is the first major crisis in a global world characterized by a high interdependence amongst different economies. Thus, it makes perfect sense to seek solutions by means of cooperation among different countries. The G20 forum is an advance in this regard. Firstly, because it expands the decision group by including emerging countries, differently from what occurred in 1933, also in London, at the International Economy Conference which reunited only leaders from the North Atlantic. Secondly, because it occurs in a world predominantly democratic, with no imminent conflict of global proportions among major powers.

Thirdly, because there was an indication that countries will continue to support free trade instead of taking protectionist measures.

Important challenges are in the agenda for discussion and need to be faced, some of which were previously mentioned.

The first one refers to the international financial architecture.

The Bretton Woods agreement was capable of offering to the world institutions such as IMF and the World Bank to support countries during crisis regarding the balance of payments and financing to long-term development.

The WTO is the proper forum to discuss issues related to trade among nations. However, there are no institutions authorized to handle financial relations. The need exists for an institution to govern and supervise financial relations at international level, as the ones within the domestic scope, not necessarily equal in all aspects, which is capable of minimizing reckless practices in the financial market which might exposure at risk the stability of economies.

The second one refers to the review of the regulation and supervision of banking activities, revisiting the Basel agreements and setting forth criteria for their adoption by the countries. With regard to the same theme, it seems proper to make flexible procedures regarding banking secrecy in a number of tax havens.

The third one, already under implementation, concerns the strengthening of the IMF and the World Bank to assist countries which were heavily affected by the crisis. More difficult, but necessary, is to face the question of IMF

governance, opening up for higher weight of some emerging countries with their higher participation on the institution capital.

In the same line, regarding Latin America an increase on IBD capital is need.

Fourth, there is a need for the coordination of economic policies which, without compromising the autonomy of countries, may foment the resumption of international trade and, as a result, economic growth.

Fifth, the crisis suggests that, in addition to institutional reforms and correct policies, the world needs a shock of ethics in the financial and capital market. Responsibility, transparency and accountability are the basis for such shock of ethics.

Internally in Brazil, the challenges for the government are significant.

On the one hand, it must maintain the pillars of macroeconomic policy, a fundamental factor to ensure credibility and trust from the international market. On the other hand, utilization of the fiscal policy, by combining fiscal equilibrium with measures which might stimulate the resumption of economic growth. I believe that the fiscal effort should concentrate on infrastructure investments, either directly or through partnerships with the private sector, in activities whose elasticity in relation to the product is relatively higher. With regard to Brazil, the transportation segment is one of the most appropriate. Increasing the efficiency of transportation sector will increase the efficiency of the whole economy¹³. The government shall have to promote a reduction in current expenses program so as to prevent the impairment of social programs

To maintain programs of social safety net is essential in times of crisis. In order to keep social programs a reduction on current expenditures as proportion of GDP is need.

The priority to foment growth must be based on the generation of job positions.

Moreover, looking at a far away future, a new cycle of economic growth shall be committed to (i) environmental sustainability, exploring new renewable sources of energy (Brazil achieved major accomplishments in this field), to (ii) social sustainability (Brazil is on its way to promotion of social inclusion), investing in education and health, and to (iii) domestic security (there is still a lot to be undertaken in order to reduce urban violence and to contain the expansion of drug traffic).

Finally, it behooves society as a whole to claim the consolidation of principles to ensure greater responsibility, transparency and accountability in the management of public resources and market relation.

¹³ Another important sector in infrastructure is energy, whose investments come mainly from private sector or public companies that do not depend on tax revenue.



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