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## SOUNDNESS OF BRAZIL'S FINANCIAL SYSTEM

More than a decade ago, it would be impossible to imagine that the two most important financial institutions worldwide would report something positive about Brazil's finances. Being a rare exception among countries, the mission coordinated by the IMF (International Monetary Fund) and the World Bank in March highlighted Brazil's sound financial system. And the compliments were many.

The **Financial Sector Assessment Program**<sup>1</sup> led by the two institutions was implemented in 1999 and consists of an in-depth analysis of the financial sector of developing and industrialized countries. The two main objectives are: analyze the financial stability and development dynamics of financial systems. Together they can offer information about the financial relationships between economies. In one of the most important parts of the report, the IMF and World Bank mission declared:

*"The FSAP<sup>2</sup> mission concluded that Brazil's financial system is stable, with a low systemic risk level and considerable protection margins. High capital margins, coupled with high levels of international reserves and a flexible exchange rate, have helped the economy absorb recent external shocks. With regards to challenges created by the inflow of volatile capital and the rapid expansion of credit, Brazilian authorities have been able to effectively apply macroprudential measures to contain systemic risks".*

This is a major achievement for the country, particularly in view of the exposed fractures on the part of financial systems of countries like the United States and others in the Euro region. Even China's financial system is presenting unsustainable conditions in the long term, such as, for example, the excess credit directed at state-owned companies.

However, before throwing all the merits received in March 2012 on the table, it is important to inform that

this achievement took more than a decade, following implementation of the Real Plan and reformulation of the Financial System, both during the Fernando Henrique Cardoso administration.

Putting all positive points aside, the mission coordinated by the two entities highlighted two matters that could prevent the development of capital markets: (i) high interest rates; (ii) and the majority of financial instruments being short-term.

To limit these points for financial institutions it is necessary *"that inflation continue dropping and internal savings (public and private) continue increasing. Additionally, certain reforms in the financial sector could encourage this process, especially by strengthening the role of institutional investors. As interest rates continue to drop, stimulating the demand of investment funds for longer-term securities, well articulated measures will also be necessary to increase the offer of corporate securities, in order to take advantage of this increase in demand"*.

Everyone knows that a balanced financial system is an essential condition for economic growth and its long-term equilibrium, however, it is necessary that not only the Financial System present such conditions.

The productive system, that is, the industrial sector, needs to achieve the same level of sustainability and competitiveness. Just like the reformulations that were made to strengthen the Financial System, we did the same effort in the Productive Sector.

Maintaining current conditions, industry will not support its production bases for a very long time, as it is more advantageous to import than to produce. Production does not need protectionism, always associated to the right-now short-term vision. As a producer of wealth and a source of added-value, industry needs reformulations that ensure the same conditions of competition that its peers have today. Let's see what happens! ■

1. < <http://www.imf.org/external/lang/portuguese/np/sec/pr/2012/pr1297p.pdf> >

2. FSAP: Financial Sector Assessment Program