The BRIC-Think Tank Summit: The Role of the BRIC in the Post-Crisis Global Transformation

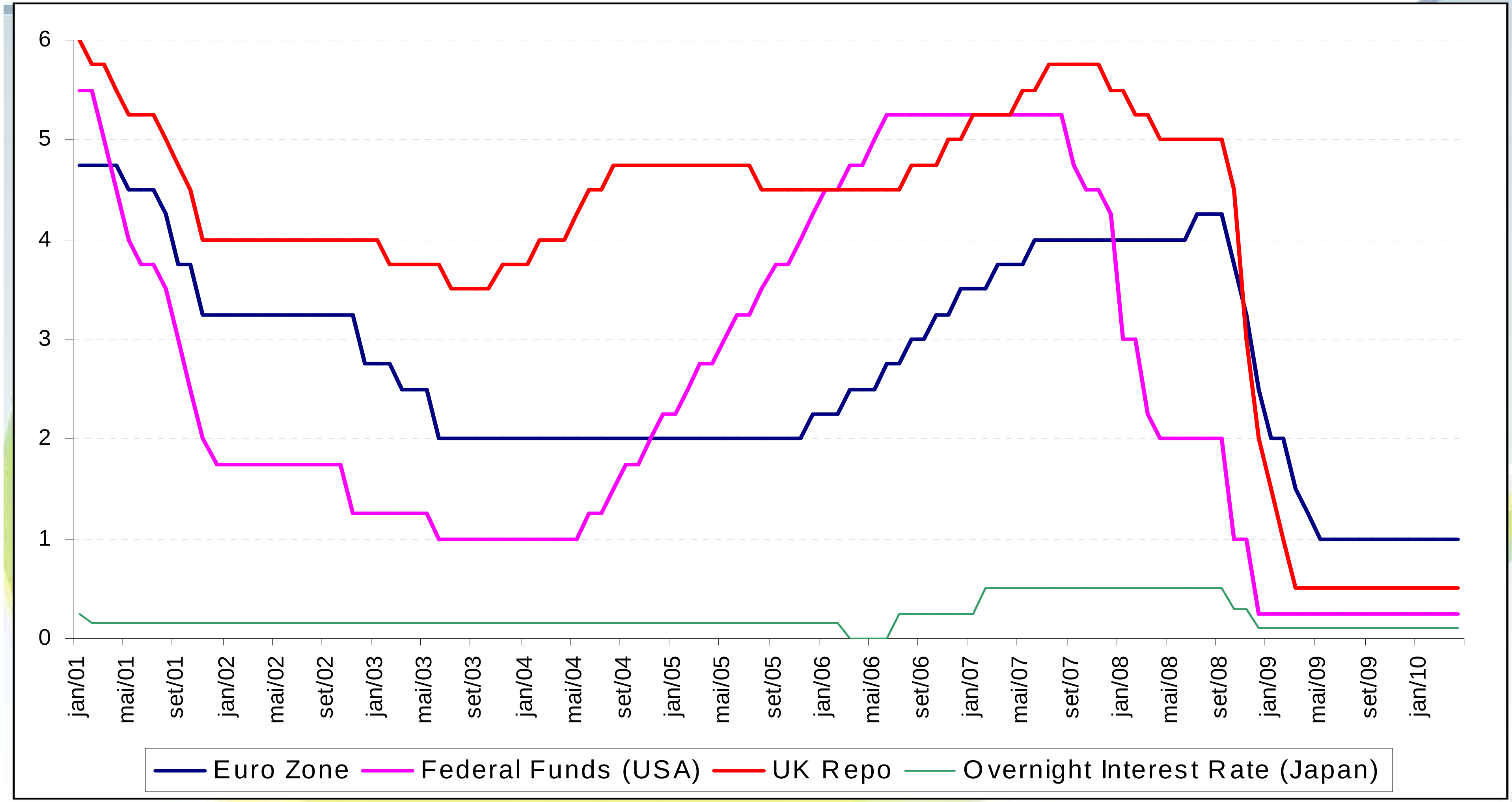
The BRIC and the international financial crisis

Marcos Antonio Macedo Cintra

Institute of Applied Economic Research (IPEA)

Brasilia, April 14th and 15th, 2010

Policy interest rates remain low in the major economies (In per cent)



Source: Federal Reserve; Bank of Japan; England Bank; and European Central Bank.

U.S. Government's Rescue Efforts - US$ 13,7 trillion

	Maximum Amount	Current Amount
	US$	US$
Federal Reserve	6.2 trillion	1.6 trillion
Federal Deposit Insurance Corp. (FDIC)	2.0 trillion	554.8 billion
Treasury Department	5.2 trillion	1.5 trillion
Federal Housing Administration (FHA)	300 billion	300 billion
Total	13.7 trillion	3.9 trillion

Source: http://www.bloomberg.com/apps/data?pid=avimage&iid=i0YrUuvkygWs

Rescue Plans for Euro Banking System - € 2 trillion

	Capital Injections	New Debt Issuance Guarantees	Others	€ billion	% of GDP	
Austria	15	85		100	37.0	
Belgium	17.4			17.4	5.2	Includes Dexia, Ethias, Fortis and KBC
Cyprus	2			2	12.8	
Finland	4	50		54	30.1	
France	24	320		344	18.0	Includes Dexia
Germany	80	400		480	20.0	
Greece	5	15	8	28	12.3	
Ireland	10	400		410	215.1	
Italy	12		40	52	3.4	
Luxembourg	2.9			2.9	8.0	
Netherlands	36.8	200		236.8	41.6	Includes Fortis
Portugal	4	20		24	14.7	
Slovenia		12	1	13	39.0	
Spain		200	50	250	23.8	
Eurozone	**213**	**1,702**	**99**	**2,014**	**22.5**	

Source: BNP Paribas, Market Economics/Credit Strategy/Interest Rate Strategy, 19 January 2009.

Rescue Plans for UK and others banking system - € 898.2 billion

	Capital Injections	New Debt Issuance Guarantees	Others	Local Currency (billion)	€ billion	% of GDP	
Australia			8	8	4	0.7	
Canada		218	75	293	187.9	19.1	
Denmark	100			100	13.4	5.9	Plus losses over DKK35bn on bank liabilities
Hungary	$ 1.5	$ 1.5		$ 3.1	2.3	2.2	
Norway			350	350	41	15.4	
Qatar	$ 6			$ 6	4.7	8.8	
Saudi Arabia	$ 3			$ 3	2.4	0.8	
South Korea		$ 100	$ 8,1	$ 108.1	85.8	11.1	
Sweden	15	1.500		1,515	153	49.3	
Switzerland	6			6	4	1.0	Capitalisation of UBS
UK	50	250	50	350	385	25.0	Excludes Special Liquidity Scheme (GBP200bn)
UAE	$ 19			$ 19	14.7	9.6	
Total					898.2		

Source: BNP Paribas, Market Economics/Credit Strategy/Interest Rate Strategy, 19 January 2009.

G-20 countries: fiscal balance (in percent of GDP)

Country	2007 (pre-crisis)	2009	2010	2014
Argentina	-2,2	-3,3	-1,5	-0,4
Australia	1,5	-4,3	-5,3	-1,3
Brazil	-2,5	-3,2	-1,3	-1,3
Canada	1,6	-4,2	-3,7	0,5
China	0,9	-4,3	-4,3	-1
France	-2,7	-7,4	-7,5	-5,2
Germany	-0,5	-4,6	-5,4	-0,5
India	-5,2	-9,8	-8,4	-4,6
Indonesia	-1,2	-2,6	-2,1	-1,7
Italy	-1,5	-5,9	-6,3	-4,8
Japan	-2,5	-10,3	-10,3	-7,6
Korea	3,5	-3,2	-4,3	2,1
Mexico	-1,4	-3,9	-4	-2,9
Russia	6,8	-5,5	-5	2
Saudi Arabia	15,9	4,2	8,8	13,4
South Africa	1,2	-2,8	-3	-2,3
Turkey	-2,1	-5,8	-5,4	-5
United Kingdom	-2,6	-11,6	-13,3	-6,9
United States	-2,9	-13,5	-9,7	-4,7
G-20	-1,1	-8,1	-6,9	-3,1
Advanced G-20 Countries	-1,9	-10,2	-8,7	-4,3
Emerging Market G-20	0,2	-4,9	-4,2	-1,2

Source: Mark Horton, Manmohan Kumar, and Paolo Mauro. *The State of Public Finances*: A Cross-Country Fiscal Monitor, IMF Staff Position Note, July 30, 2009

G-20 countries: debt and primary balance (in percent of GDP)

Country	Debt		Primary Balance	
	2009	2014	2009	2014
Advanced countries				
Australia	13,7	25,9	-4,3	-0,4
Canada	75,6	65,4	-3,5	-0,4
France	77,4	95,5	-5,3	-2,1
Germany	79,8	91,4	-2,3	-2,1
Italy	117,3	132,2	-0,9	0,5
Japan	217,4	239,2	-9	-5,1
Korea	35,8	39,4	-1	3,8
United Kingdom	68,6	99,7	-10	-3,8
United States	88,8	112	-12,3	0,3
PPP-weighted average	106,6	119,7	-8,6	-0,6
Emerging Market Economy				
Argentina	50,4	48,4	0,5	2,2
Brazil	70,1	62,2	1,5	3,3
China	20,6	21,3	-3,6	1,3
India	83,7	73,4	-4,1	0,7
Indonesia	31,1	28,4	-0,6	0,2
Mexico	49,2	44,5	-1,1	-0,4
Russia	7,3	7,3	-4,9	2,4
Saudi Arabia	14,6	9,4	4,6	14
South Africa	29	29,5	-0,5	0
Turkey	46,9	58,1	-0,2	1,1
PPP-weighted average	38,8	36,4	-1,3	1

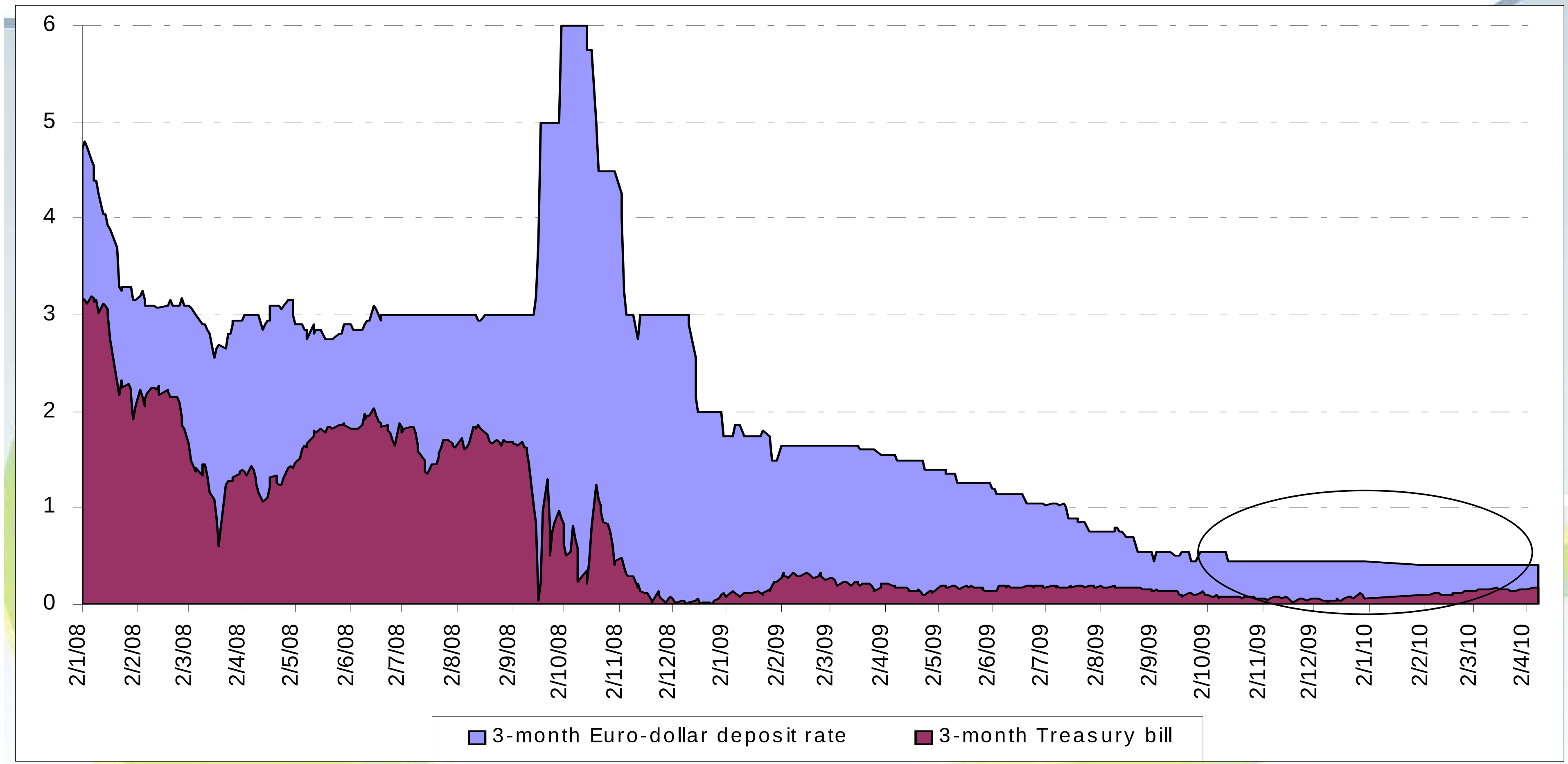
Source: Mark Horton, Manmohan Kumar, and Paolo Mauro. *The State of Public Finances*: A Cross-Country Fiscal Monitor, IMF Staff Position Note, July 30, 2009

TED Spread (interbank): progressive reduction of risk aversion

Source: Federal Reserve System

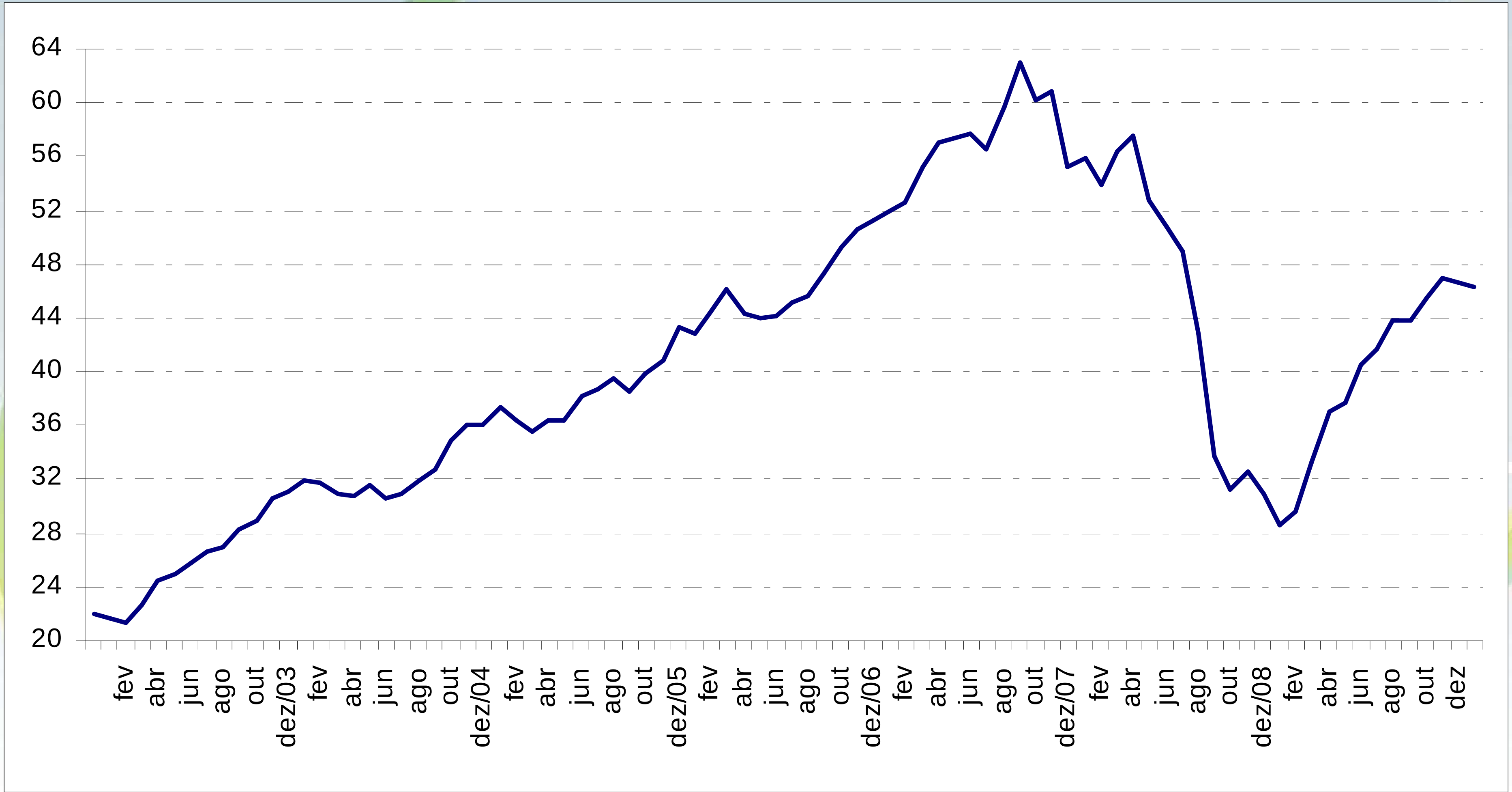
Difference between “3-month Treasury bill secondary market rate discount basis” (annualized using a 360-day year or bank interest) and “3-month Euro-dollar deposit rate" (annualized using a 360-day year or bank interest)

TED Spread (interbank): progressive reduction of risk aversion



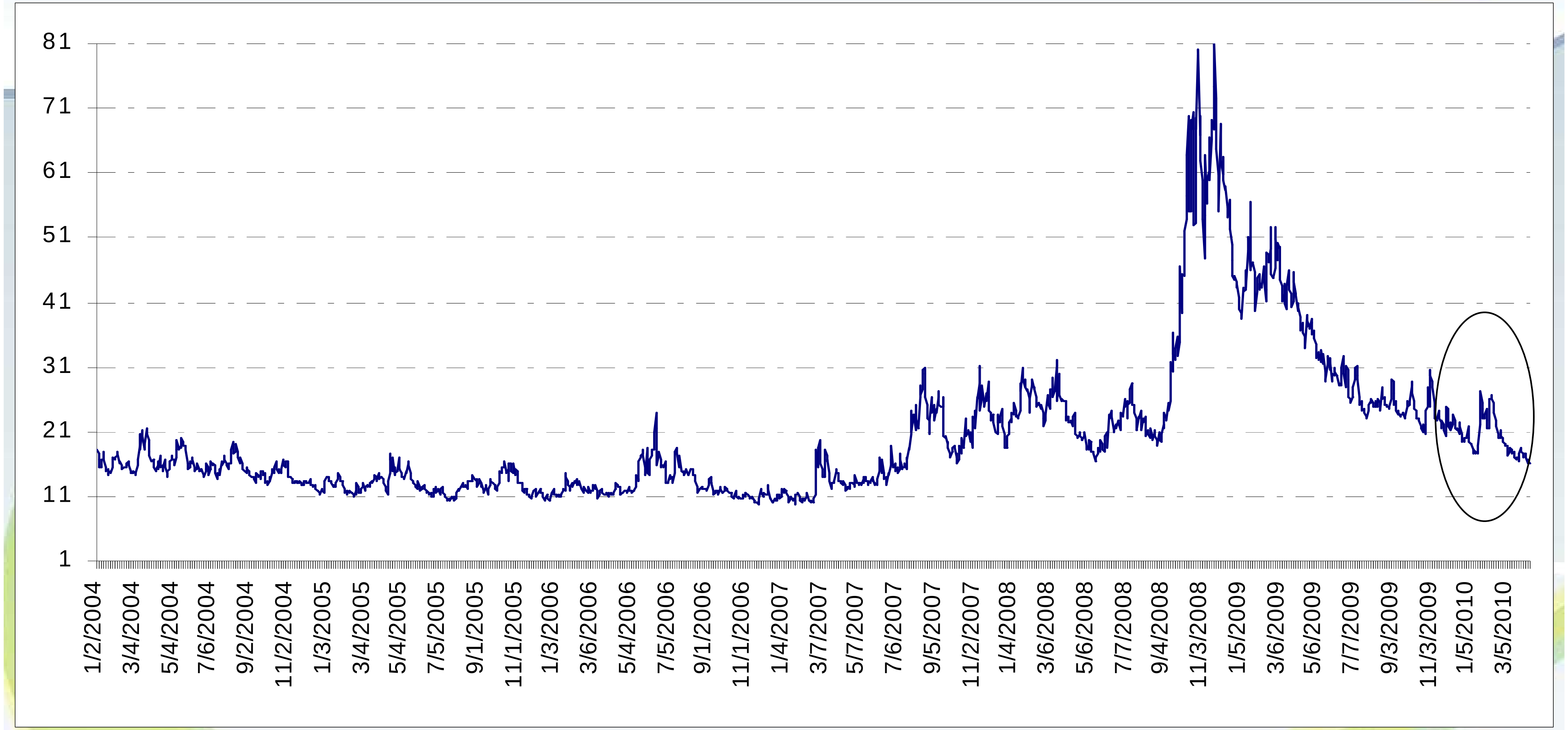
Source: Federal Reserve System
Difference between “3-month Treasury bill secondary market rate discount basis” (annualized using a 360-day year or bank interest) and “3-month Euro-dollar deposit rate" (annualized using a 360-day year or bank interest)

Domestic Market Capitalization
Devaluation – US$ 34.4 trillion – Oct./2007-Feb./2009
Appreciation – US$ 17.7 trillion – Feb./2009-Jan./2010



Source: *World Federation* of Exchanges (51)

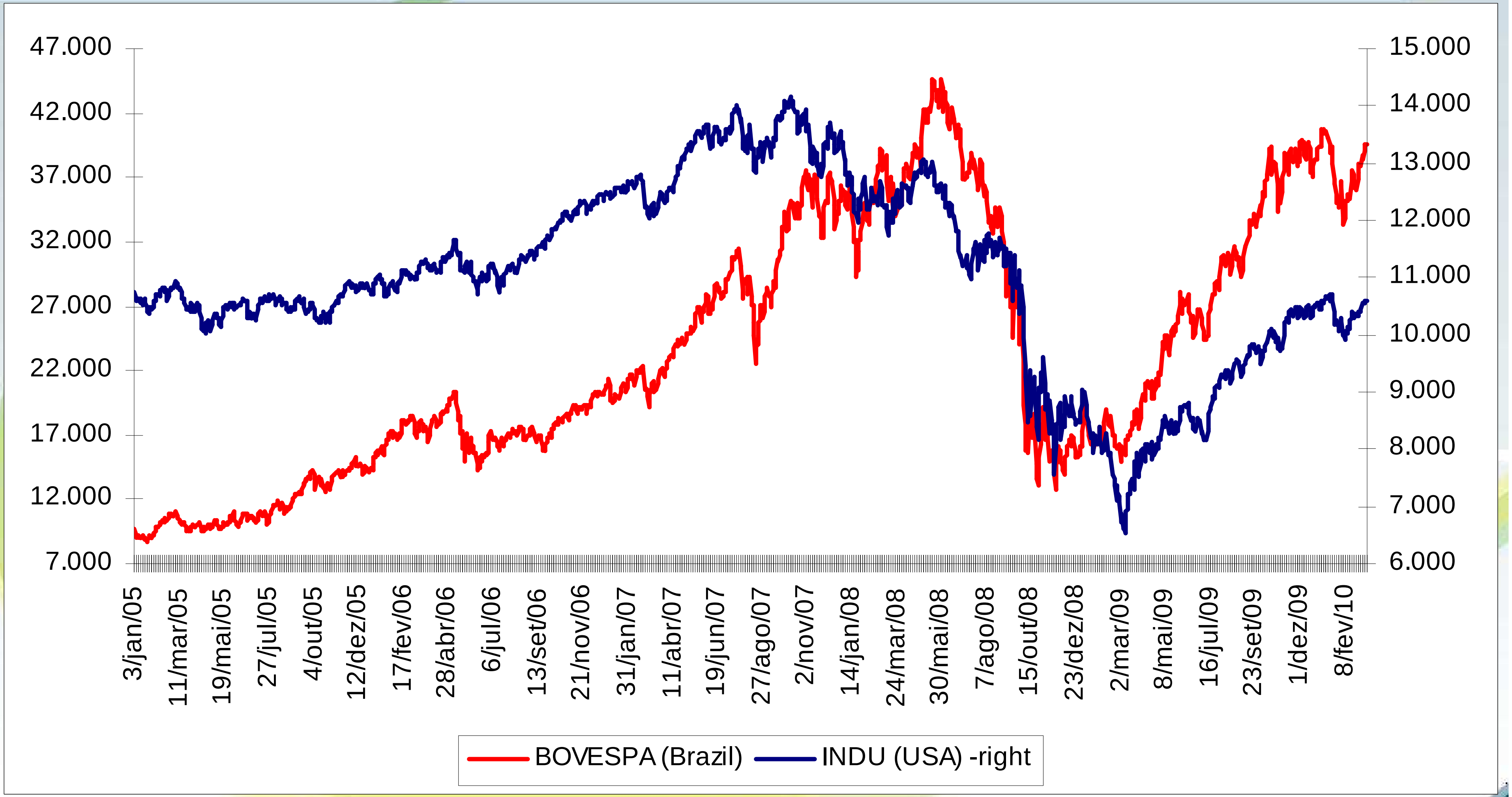
CBOE Volatility Index (VIX): progressive reduction of risk aversion



Source: http://www.cboe.com/micro/vix/introduction.aspx

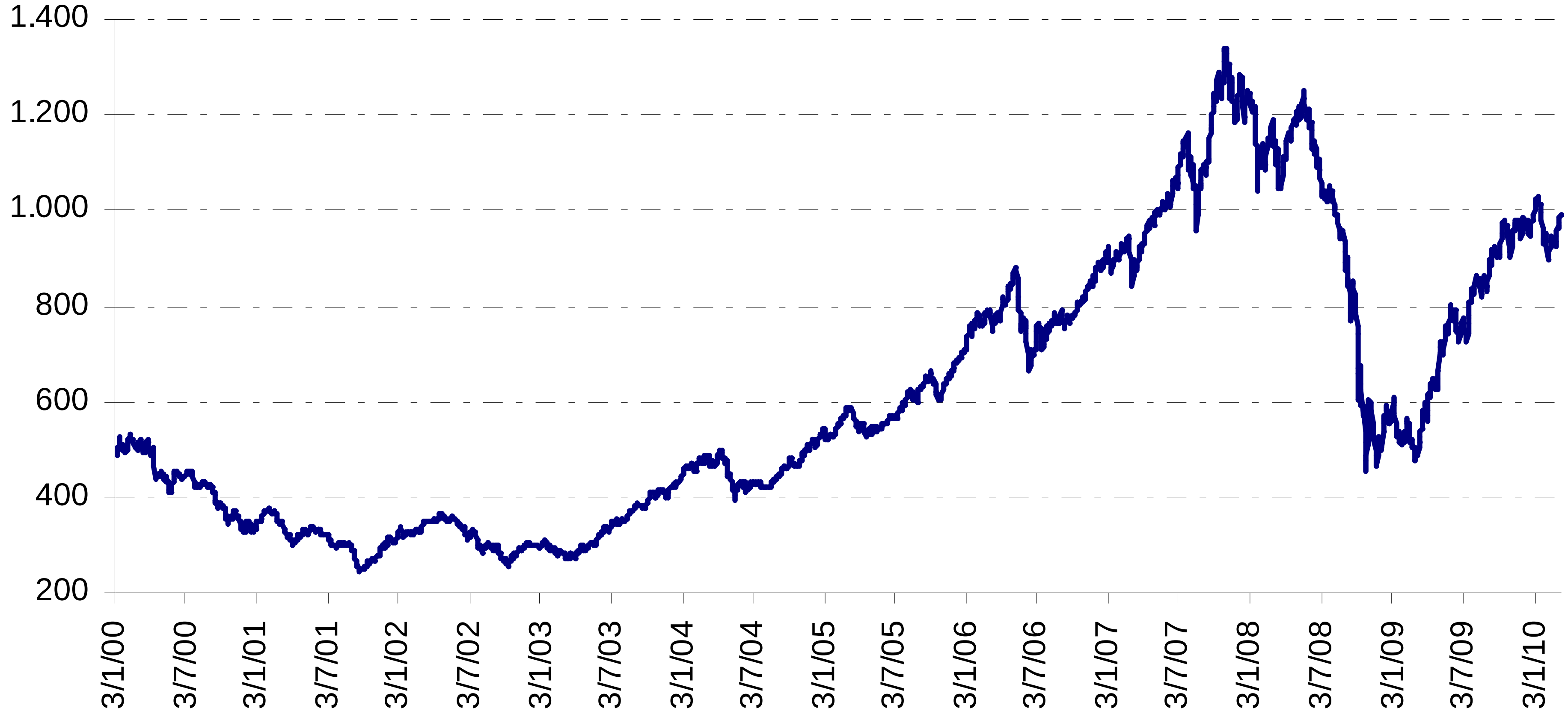
The Chicago Board Options Exchange - CBOE - Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

Sao Paulo Stock Exchange (Bovespa/Brazil) and Index Dow Jones



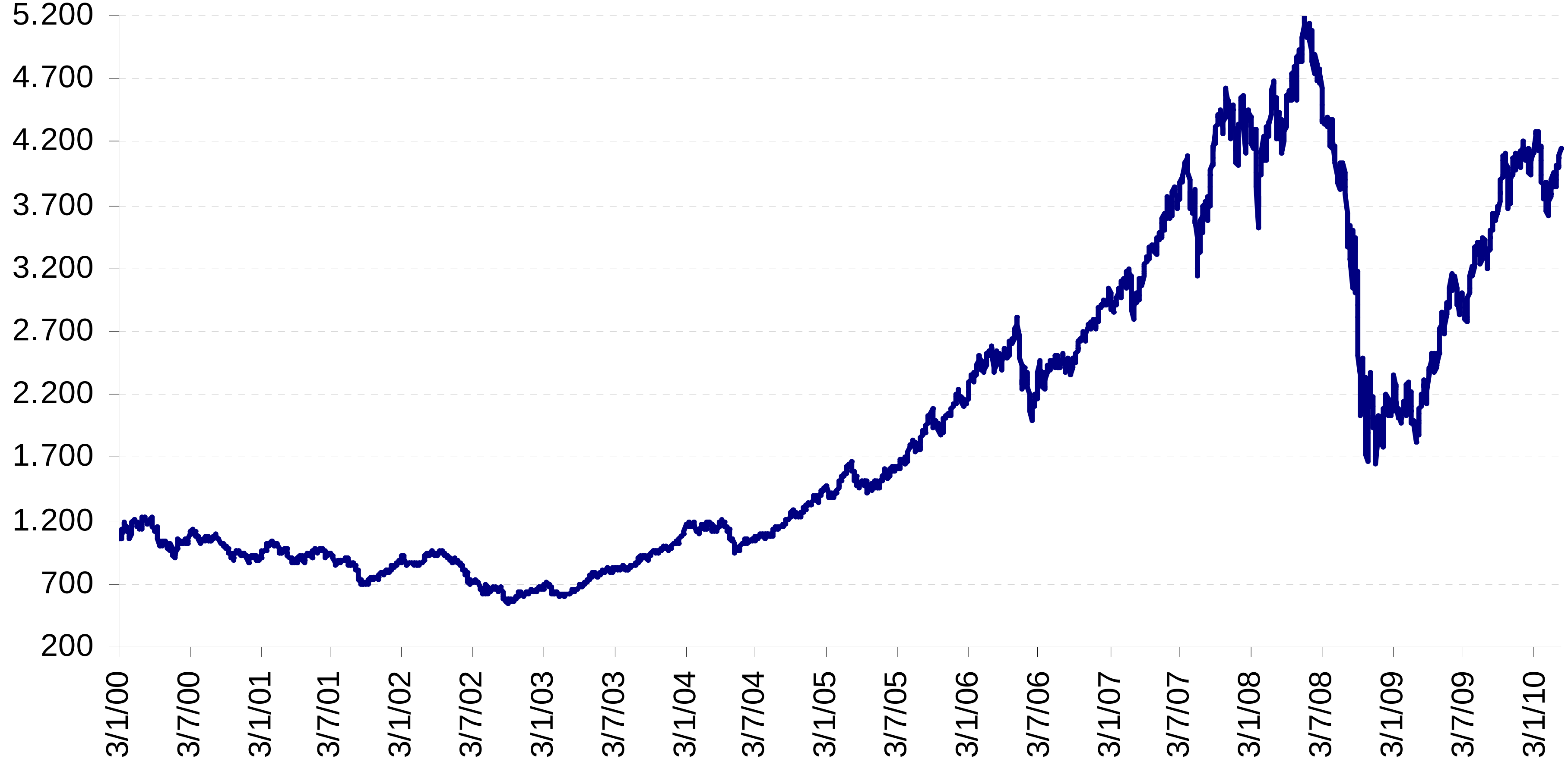
Source: Bovespa and Bloomberg

Morgan Stanley Capital Investment (MSCI) – Emerging Markets



Source: Bloomberg

Morgan Stanley Capital Investment (MSCI) – Latin America Markets



Source: Bloomberg

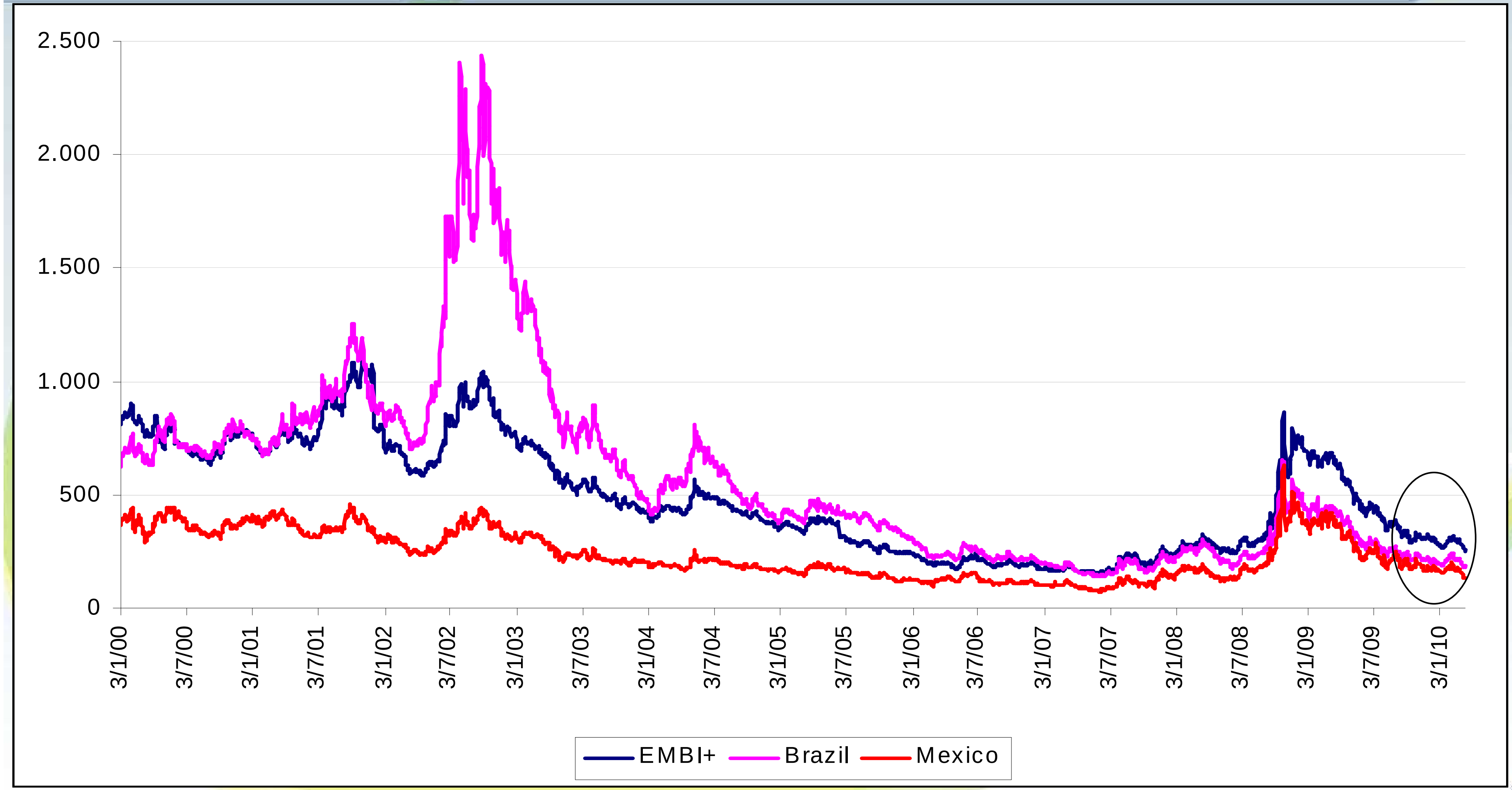
Morgan Stanley Capital Investment (MSCI) – Asian Markets

Source: Bloomberg

Morgan Stanley Capital Investment (MSCI) – Europe

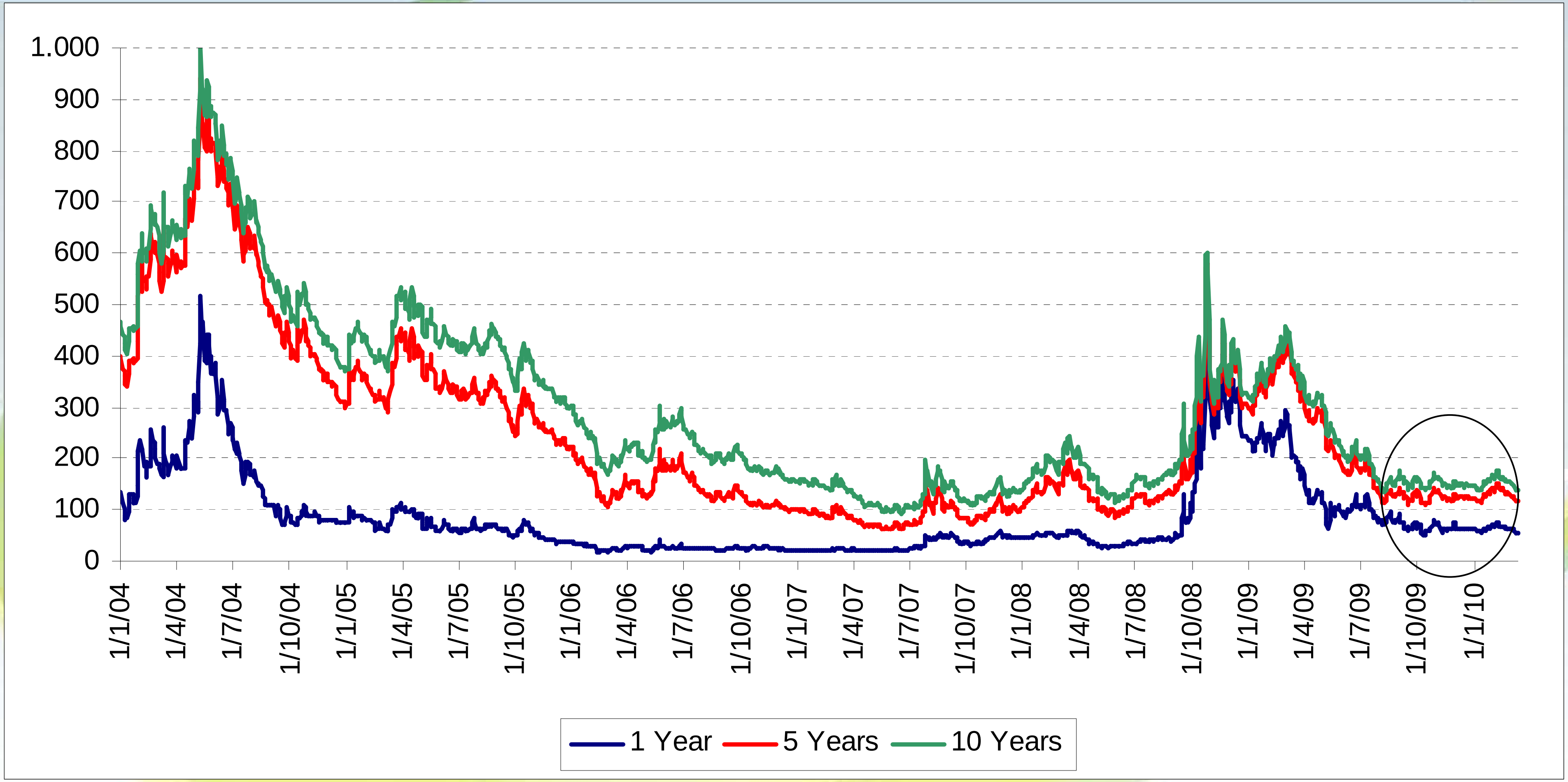
Source: Bloomberg

JP Morgan´s Emerging Markets Bond Index



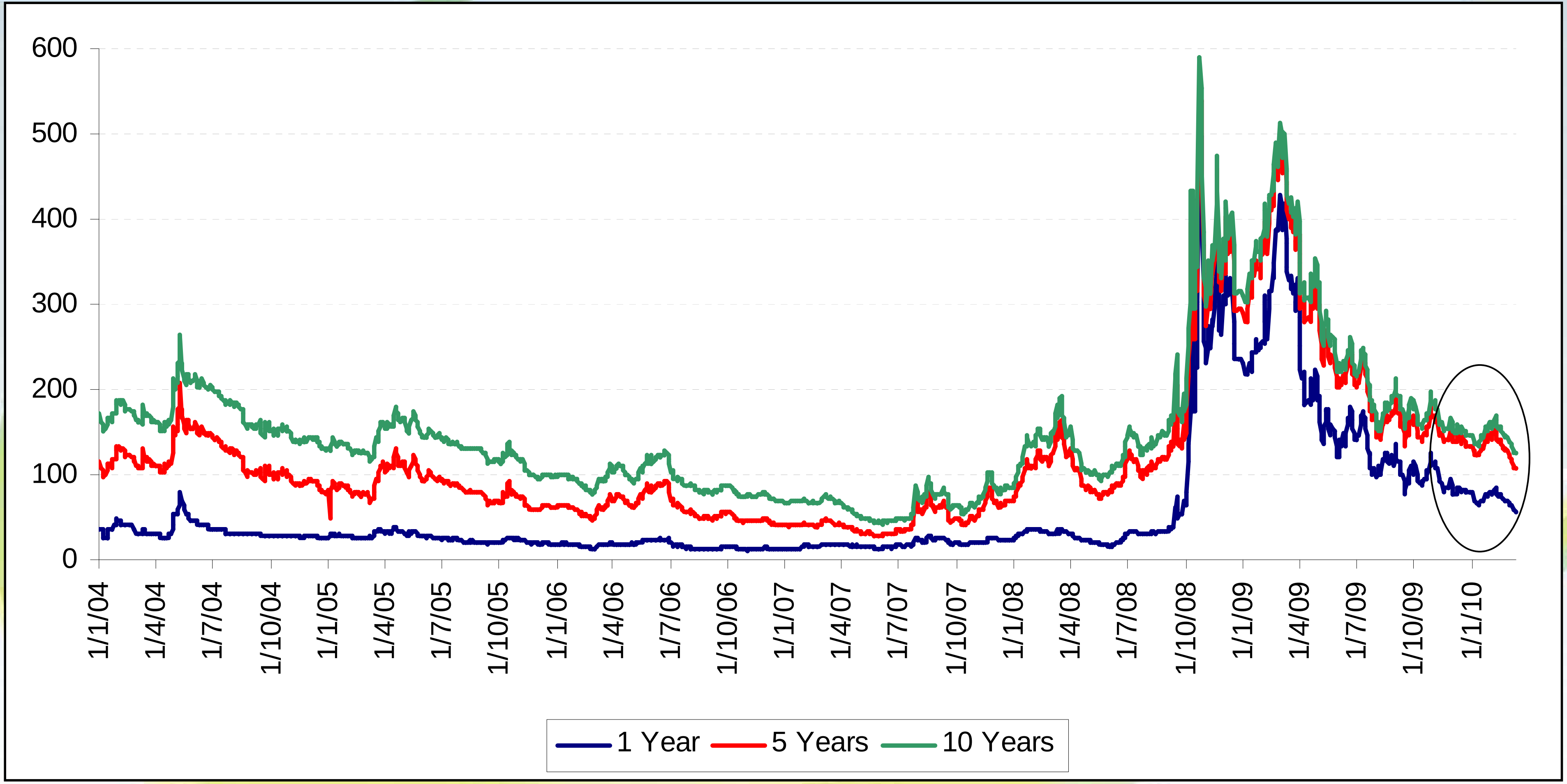
Source: Bloomberg

Credit Defaut Swap (CDS) – Brazil



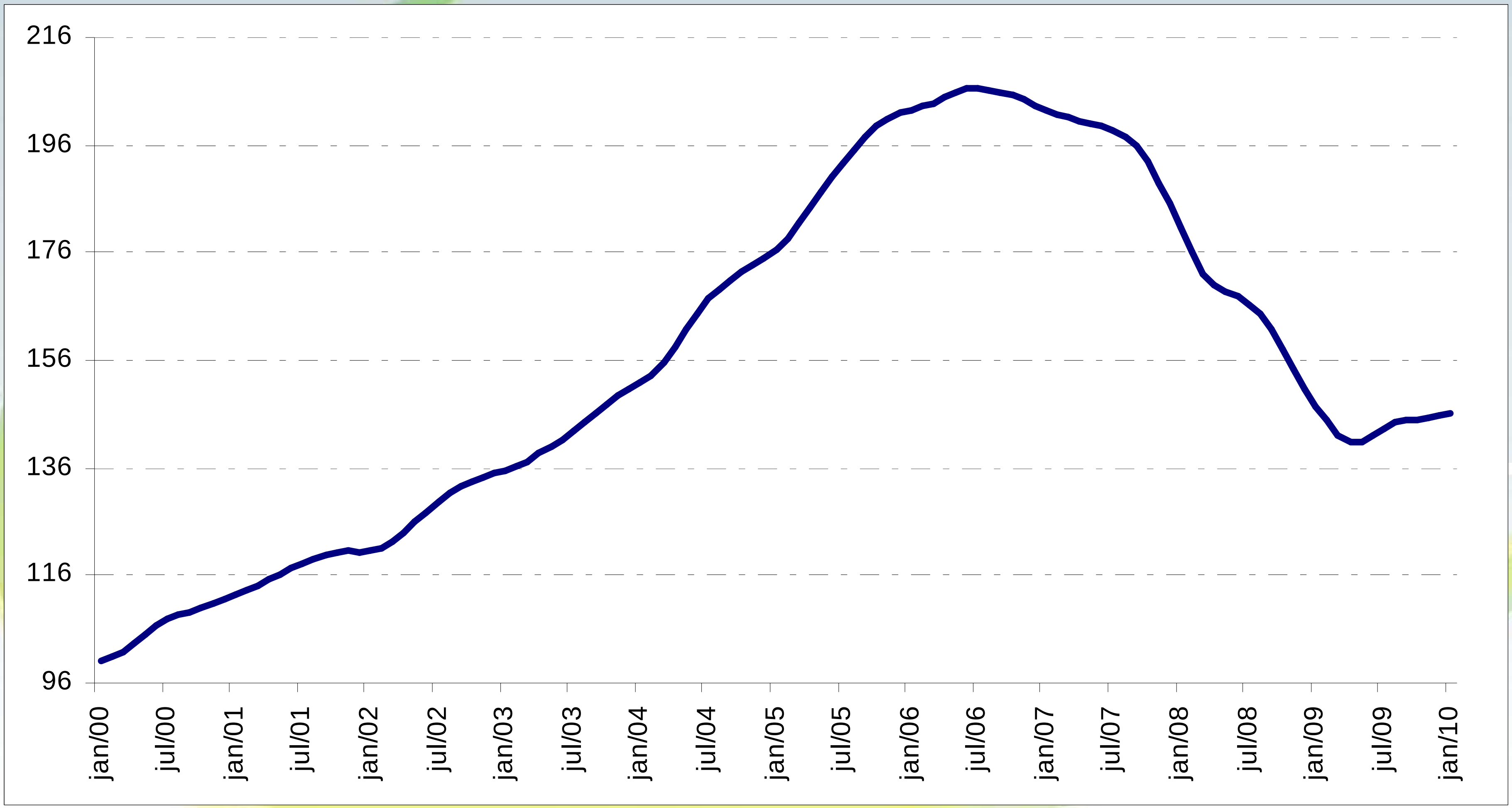
Source: Bloomberg

Credit Defaut Swap (CDS) – Mexico



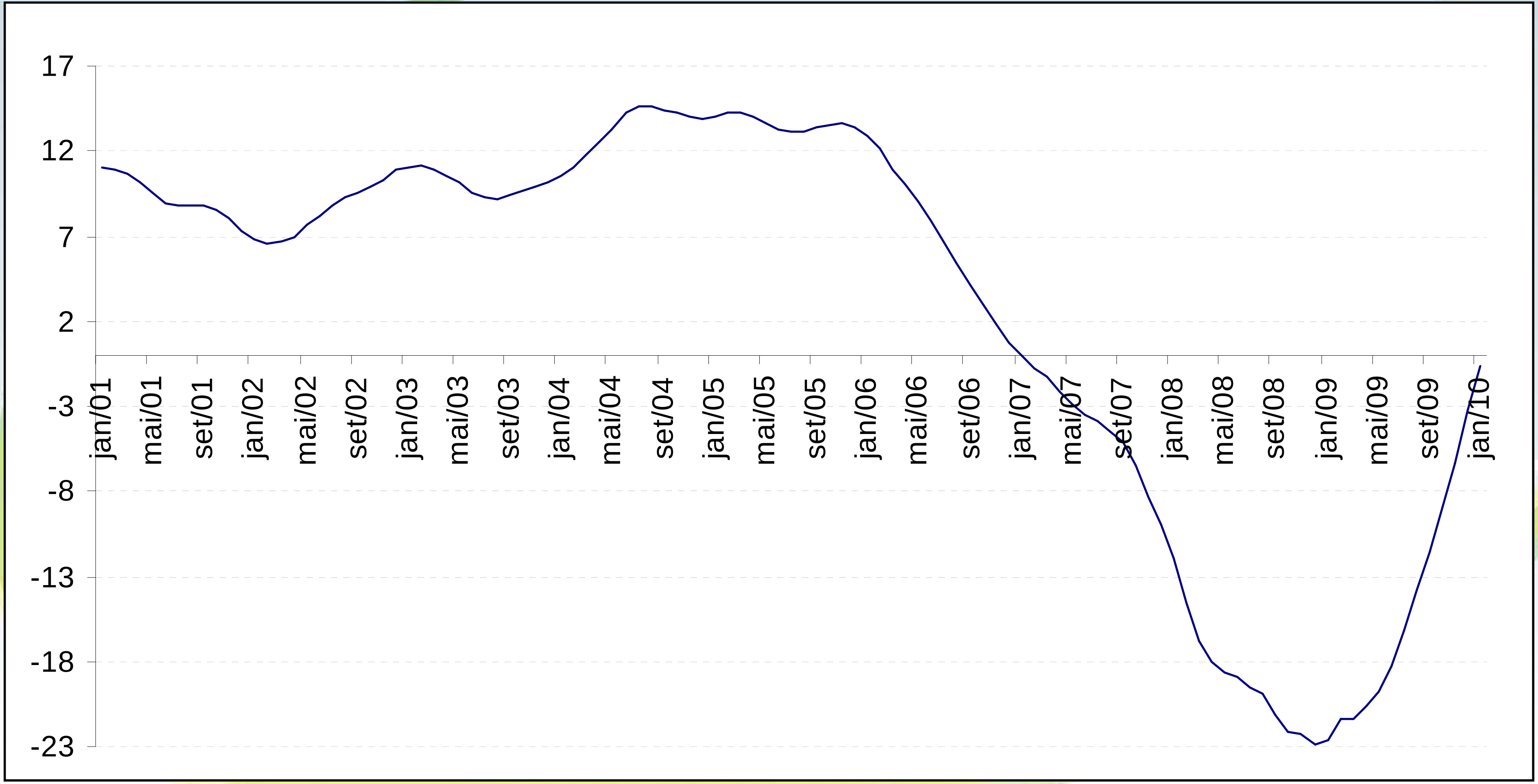
Source: Bloomberg

S&P/Case-Shiller Home Price Indices (residential real estate market in 20 metropolitan regions across the United States)



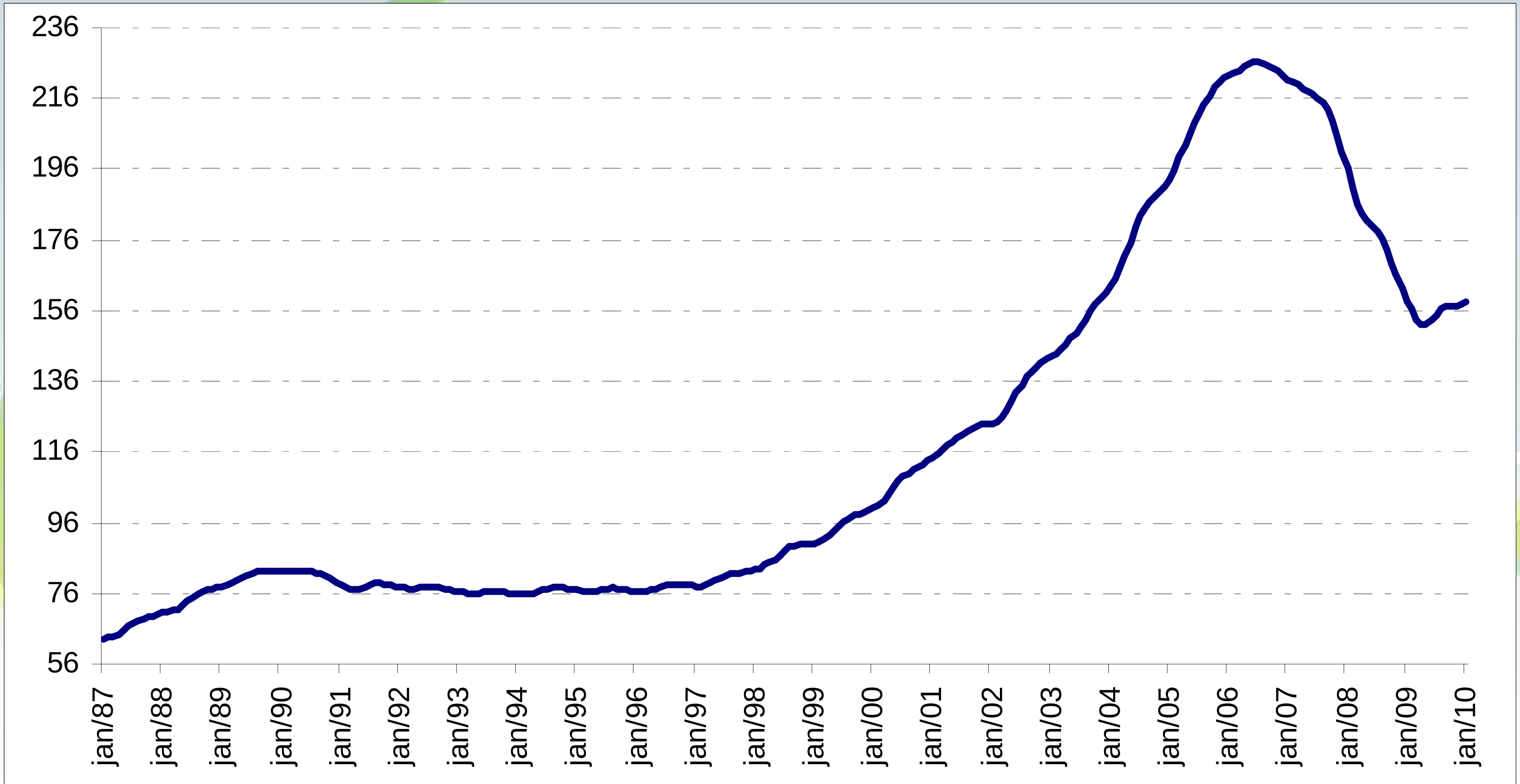
Source: Standard & Poor's - http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_csmahp/

S&P/Case-Shiller Home Price Indices (residential real estate market in 20 metropolitan regions across the United States) - percent change, year ago



Source: Standard & Poor's - http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_csmahp/

S&P/Case-Shiller Home Price Indices (residential real estate market in 10 metropolitan regions across the United States)



Source: Standard & Poor's - http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_csmahp/

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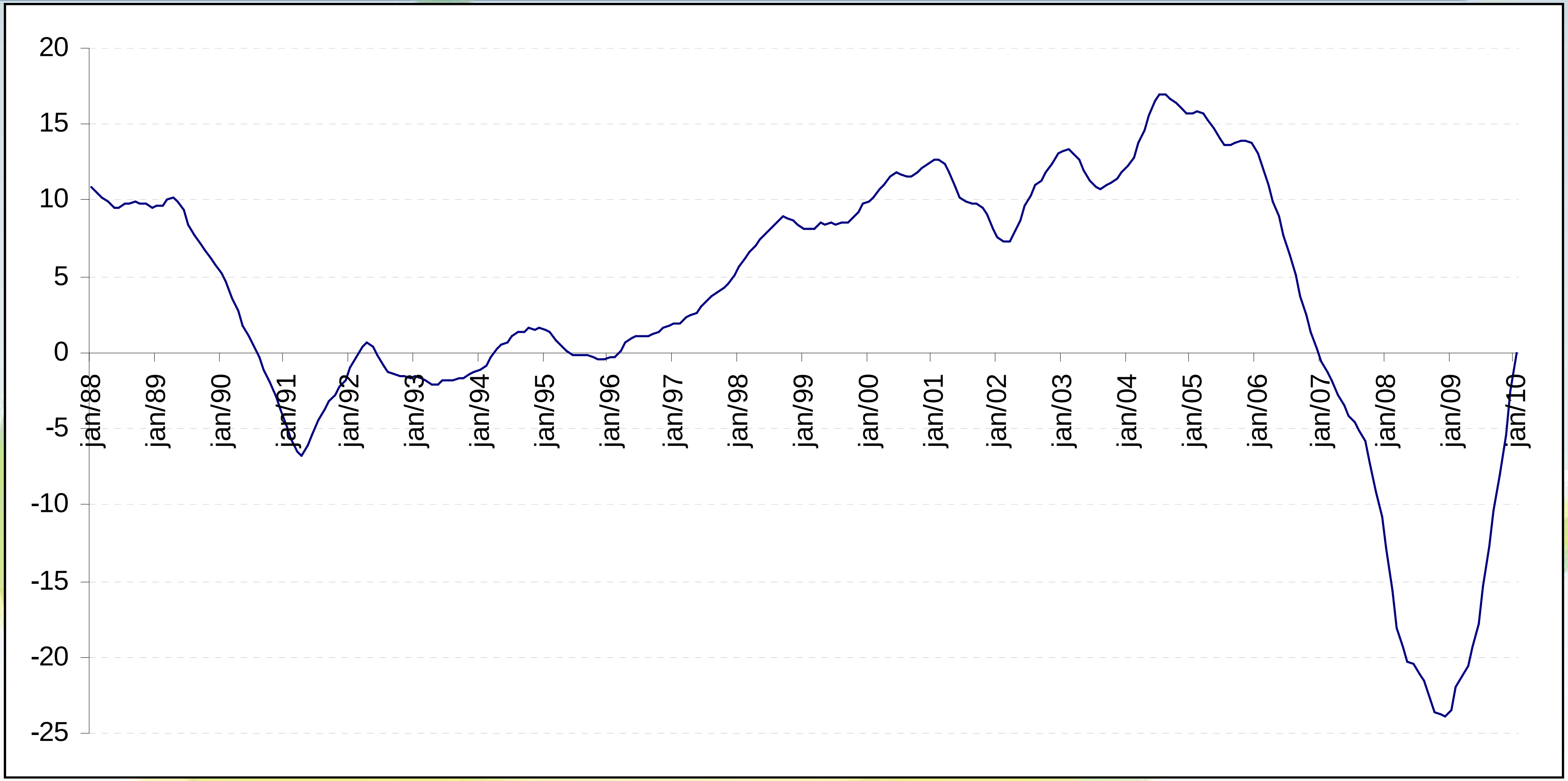
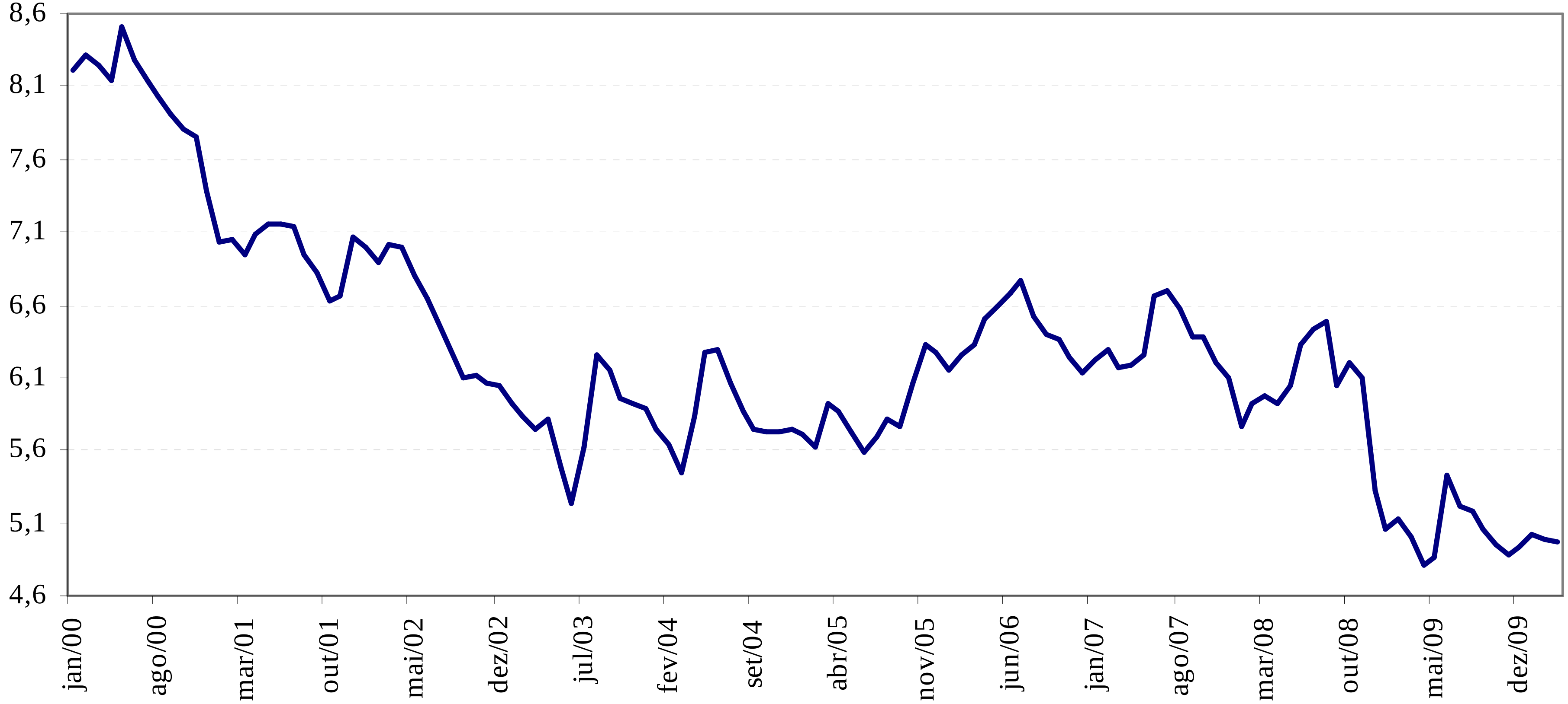


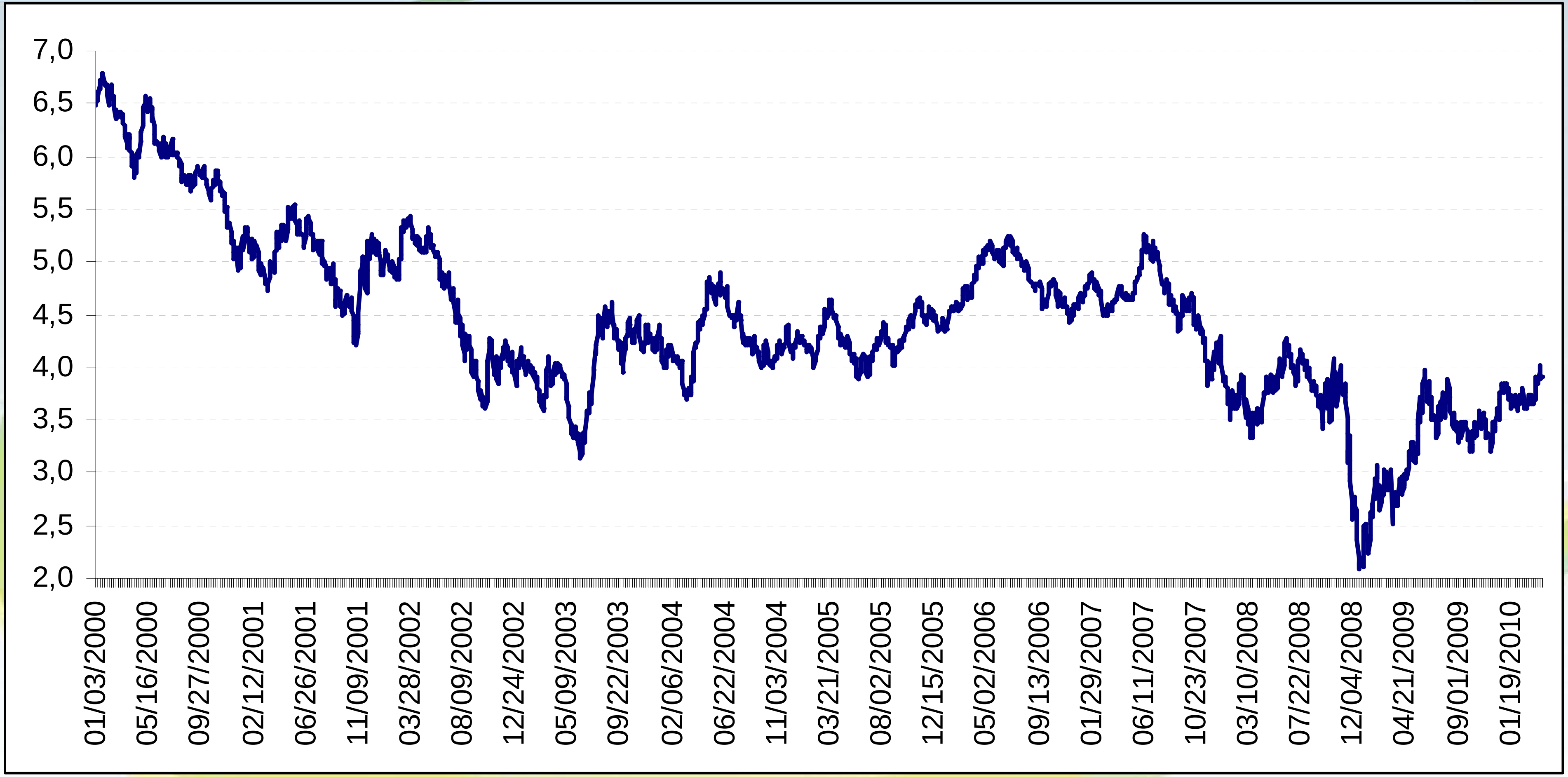
Source: Standard & Poor's - http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_csmahp/

Fixed-rate conventional home mortgage commitments Contract rate on 30-year,in per cent - USA



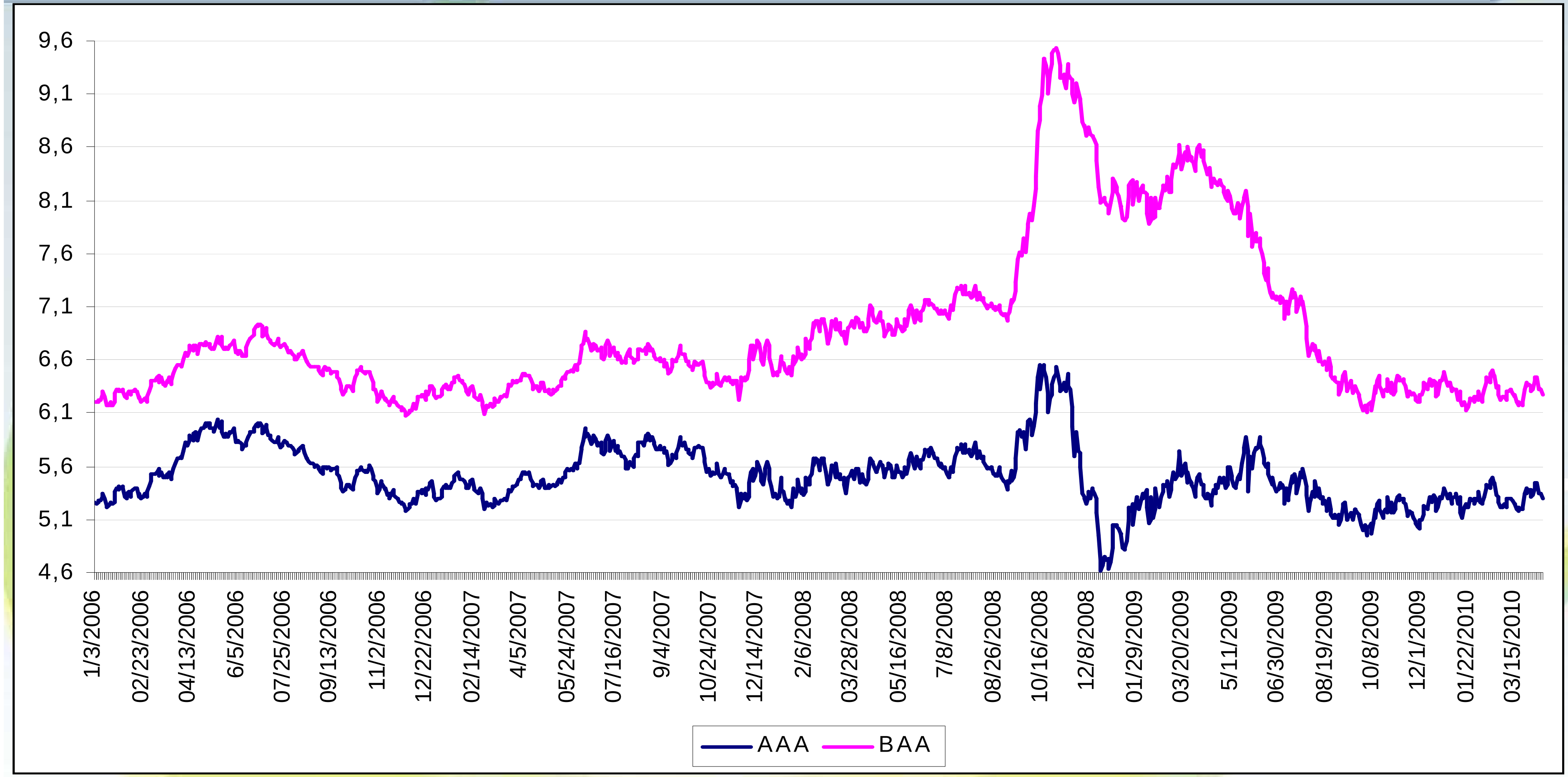
Source: Federal Home Loan Mortgage Corporation (http://www.federalreserve.gov/Releases/H15/data/Monthly/H15_MORTG_NA.txt)

Market yield on U.S. Treasury securities at 10-year constant maturity



Source: Federal Reserve System (http://www.federalreserve.gov)

MOODY'S YIELD ON SEASONED CORPORATE BONDS - ALL INDUSTRIES, AAA/BAA



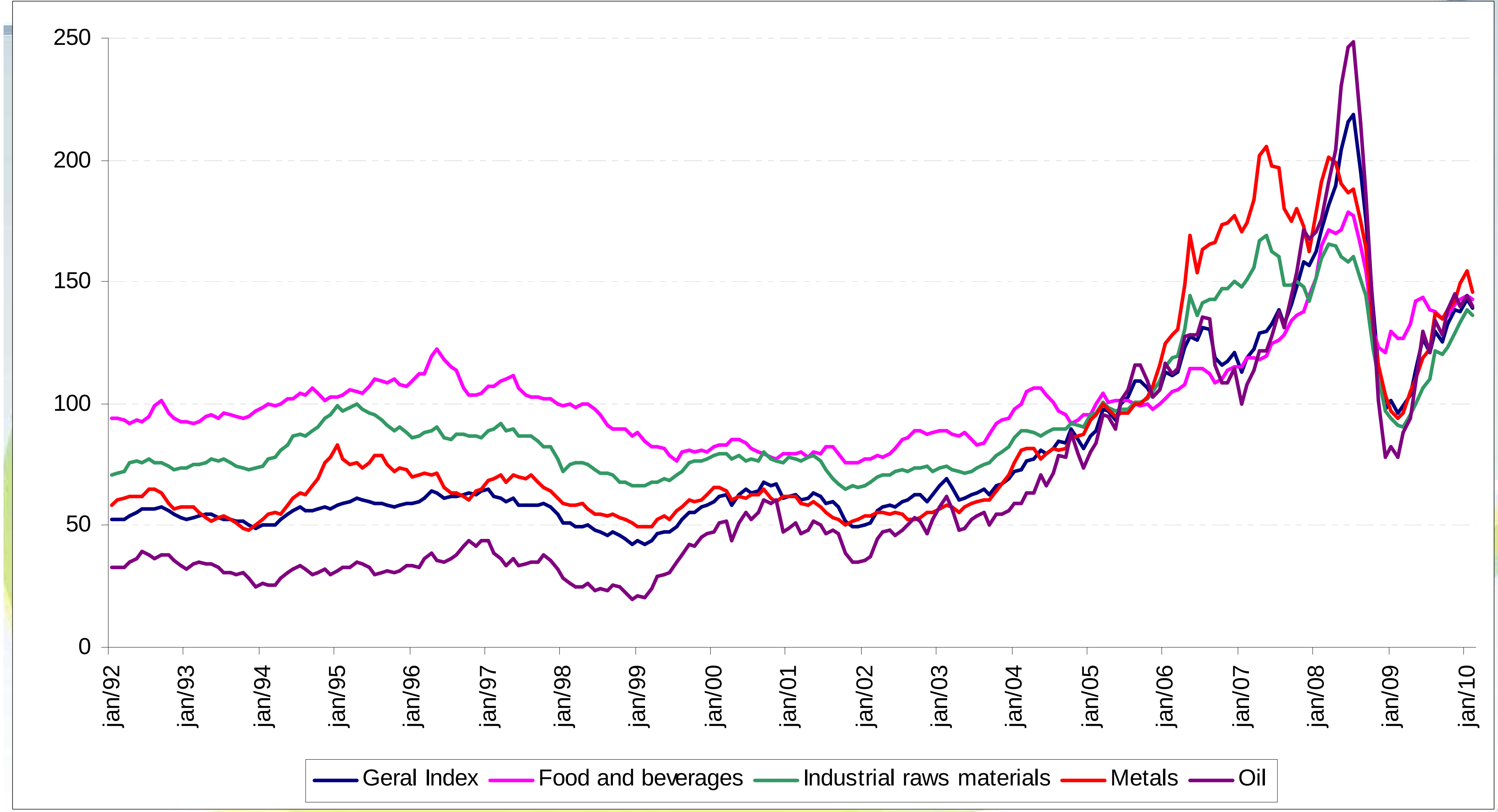
Source: Federal Reserve System (http://www.federalreserve.gov)

CREDIT EXPOSURES
TOP 25 COMMERCIAL BANKS AND TRUST COMPANIES IN DERIVATIVES
DECEMBER 31, 2009, $ MILLIONS

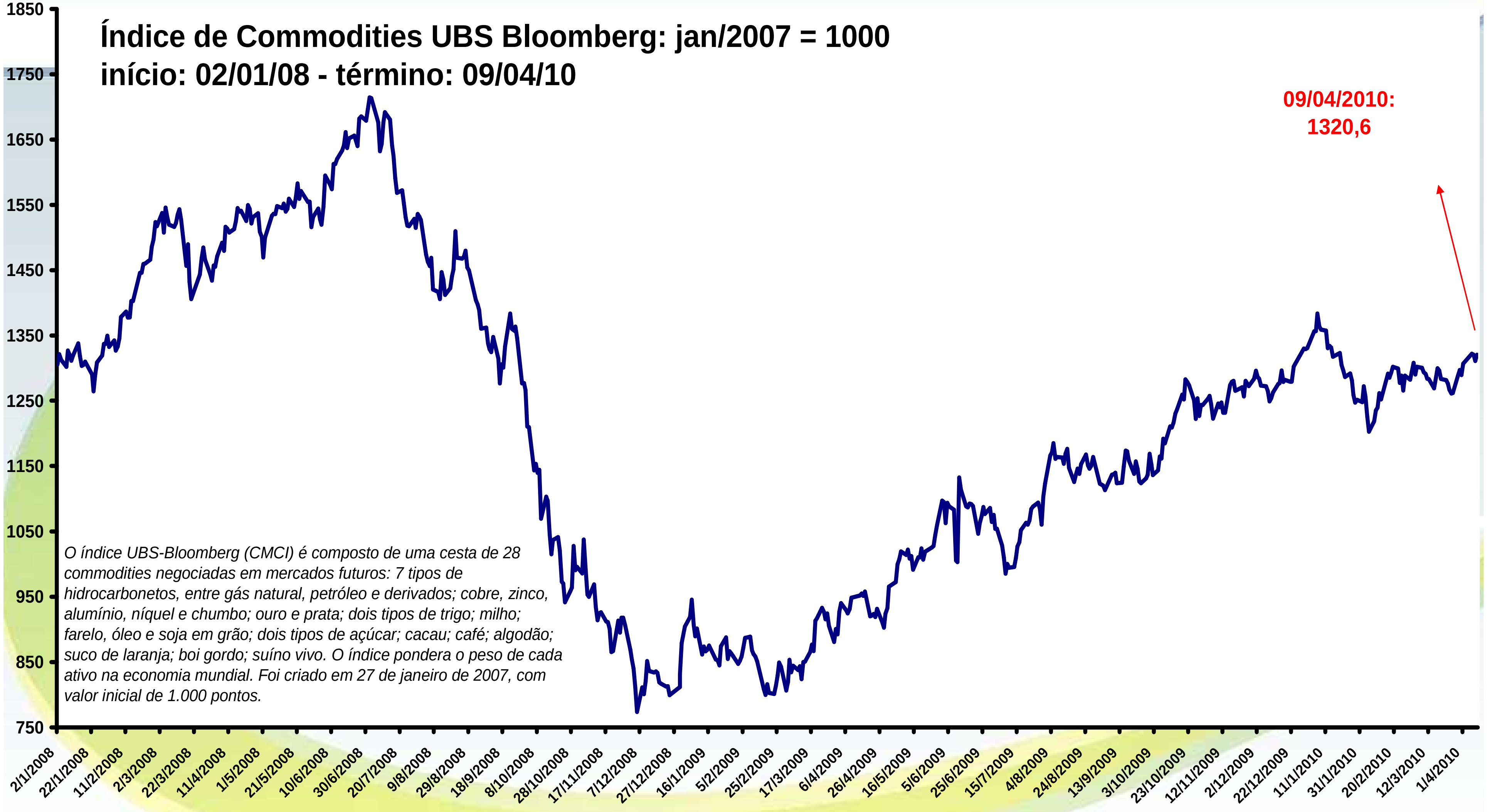
BANK NAME	ASSETS	DERIVATIVES	RISK-BASED CAPITAL	CREDIT EXPOSURE FROM ALL CONTRACTS	CREDIT EXPOSURE TO CAPITAL (%)
JPMORGAN CHASE BANK NA	1.627.684	78.545.384	136.646	361.893	265
BANK OF AMERICA NA	1.465.221	44.315.928	148.811	224.282	151
GOLDMAN SACHS BANK USA	91.016	41.595.932	22.154	169.799	766
CITIBANK NATIONAL ASSN	1.161.361	37.546.159	110.625	198.857	180
WELLS FARGO BANK NA	1.118.861	4.178.720	118.863	71.290	60
HSBC BANK USA NATIONAL ASSN	167.165	2.894.963	19.532	37.449	192
BANK OF NEW YORK MELLON	164.275	1.301.857	13.607	9.845	72
STATE STREET BANK&TRUST CO	153.741	625.139	12.482	9.460	76
PNC BANK NATIONAL ASSN	260.310	293.425	32.437	3.216	10
SUNTRUST BANK	164.341	237.540	16.377	6.587	40
TOP 25	7.917.784	212.466.466	790.769	1.112.985	141
OTHERS	2.446.650	341.162	290.111	8.662	3
TOTAL	10.364.434	212.807.628	1.080.880	1.121.647	104

Source: Call Reports, OCC's Quarterly Report on Bank Trading and Derivatives Activities, Fourth Quarter 2009.

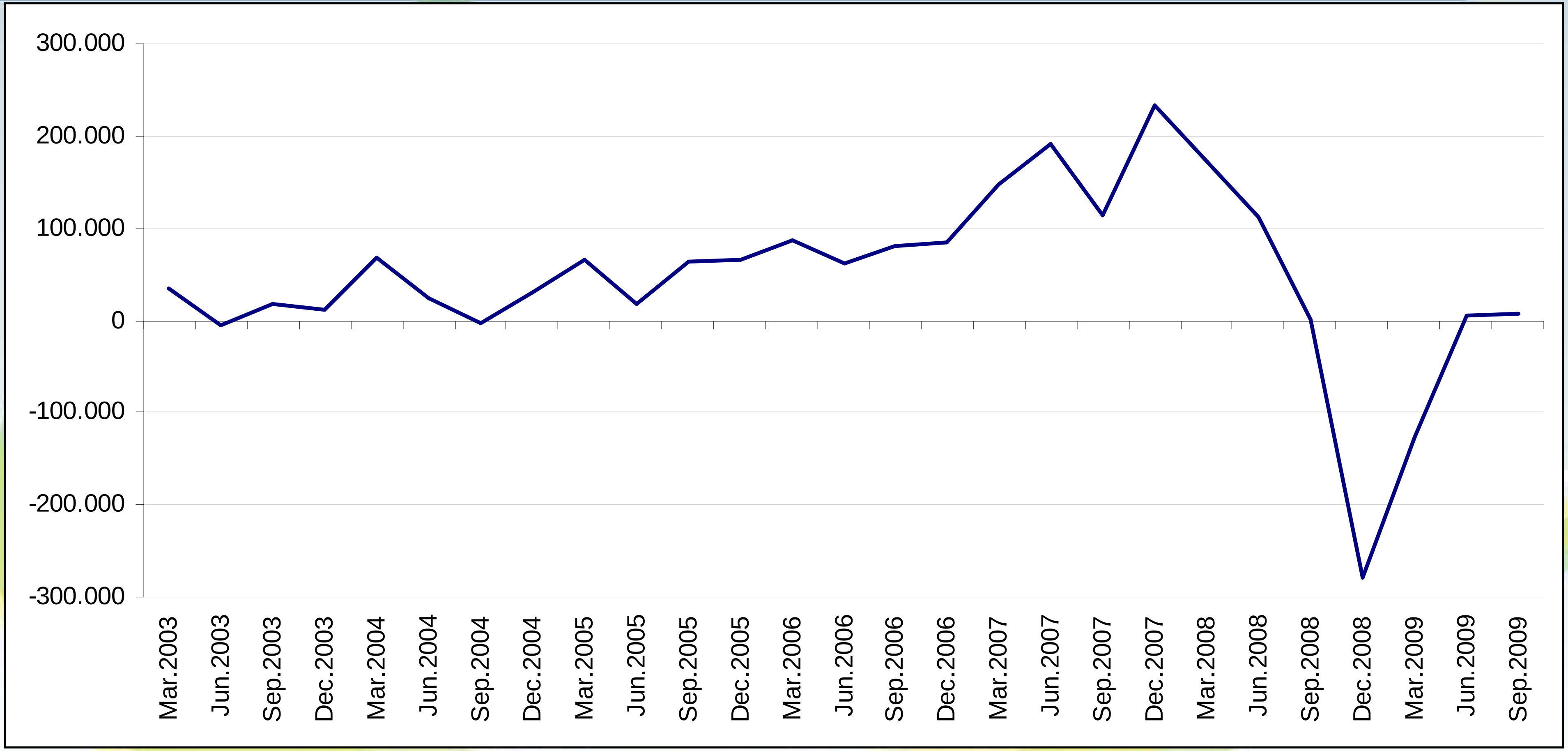
Commodity prices have recovered



Source: International Monetary Fund

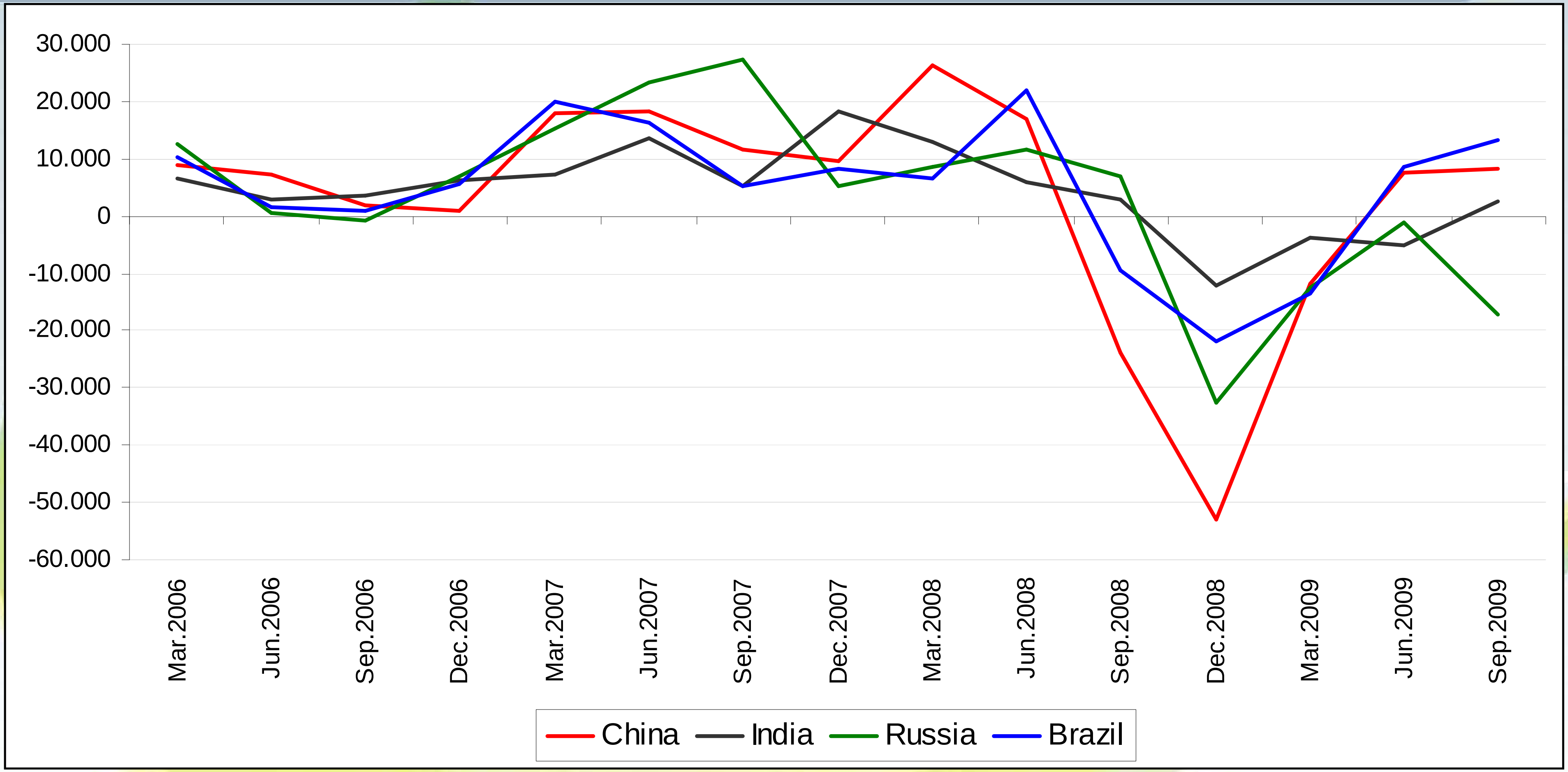

Índice de Commodities UBS Bloomberg: jan/2007 = 1000
início: 02/01/08 - término: 09/04/10
09/04/2010:
1320,6
O índice UBS-Bloomberg (CMCI) é composto de uma cesta de 28 commodities negociadas em mercados futuros: 7 tipos de hidrocarbonetos, entre gás natural, petróleo e derivados; cobre, zinco, alumínio, níquel e chumbo; ouro e prata; dois tipos de trigo; milho; farelo, óleo e soja em grão; dois tipos de açúcar; cacau; café; algodão; suco de laranja; boi gordo; suíno vivo. O índice pondera o peso de cada ativo na economia mundial. Foi criado em 27 de janeiro de 2007, com valor inicial de 1.000 pontos.
1850
1750
1650
1550
1450
1350
1250
1150
1050
950
850
750
2/1/2008
22/1/2008
11/2/2008
2/3/2008
22/3/2008
11/4/2008
1/5/2008
21/5/2008
10/6/2008
30/6/2008
20/7/2008
9/8/2008
29/8/2008
18/9/2008
8/10/2008
28/10/2008
17/11/2008
7/12/2008
27/12/2008
16/1/2009
5/2/2009
25/2/2009
17/3/2009
6/4/2009
26/4/2009
16/5/2009
5/6/2009
25/6/2009
15/7/2009
4/8/2009
24/8/2009
13/9/2009
3/10/2009
23/10/2009
12/11/2009
2/12/2009
22/12/2009
11/1/2010
31/1/2010
20/2/2010
12/3/2010
1/4/2010

Loans to developing countries
US$ millions



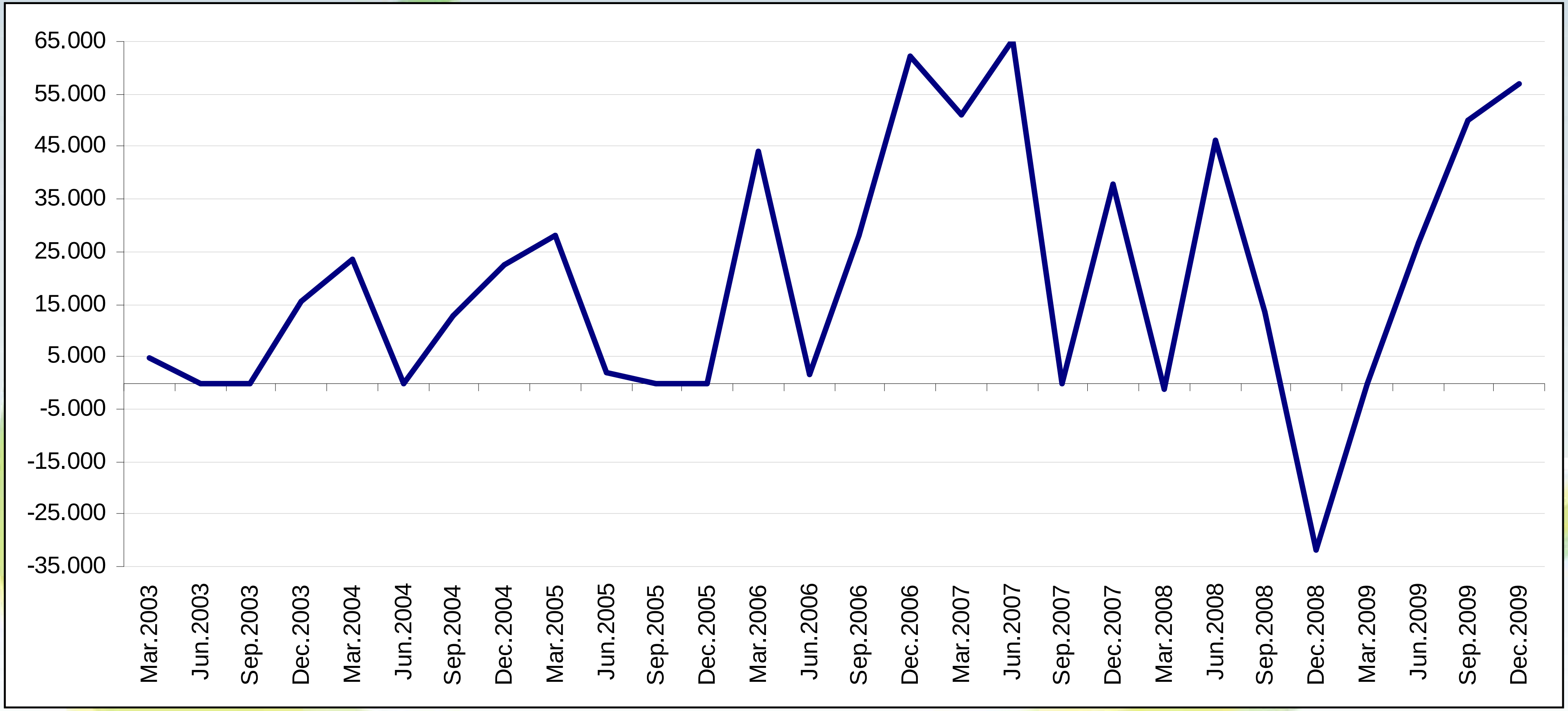
Source: Bank for International Settlements, March 2010. (http://www.bis.org)

Loans to developing: BRIC – US$ millions



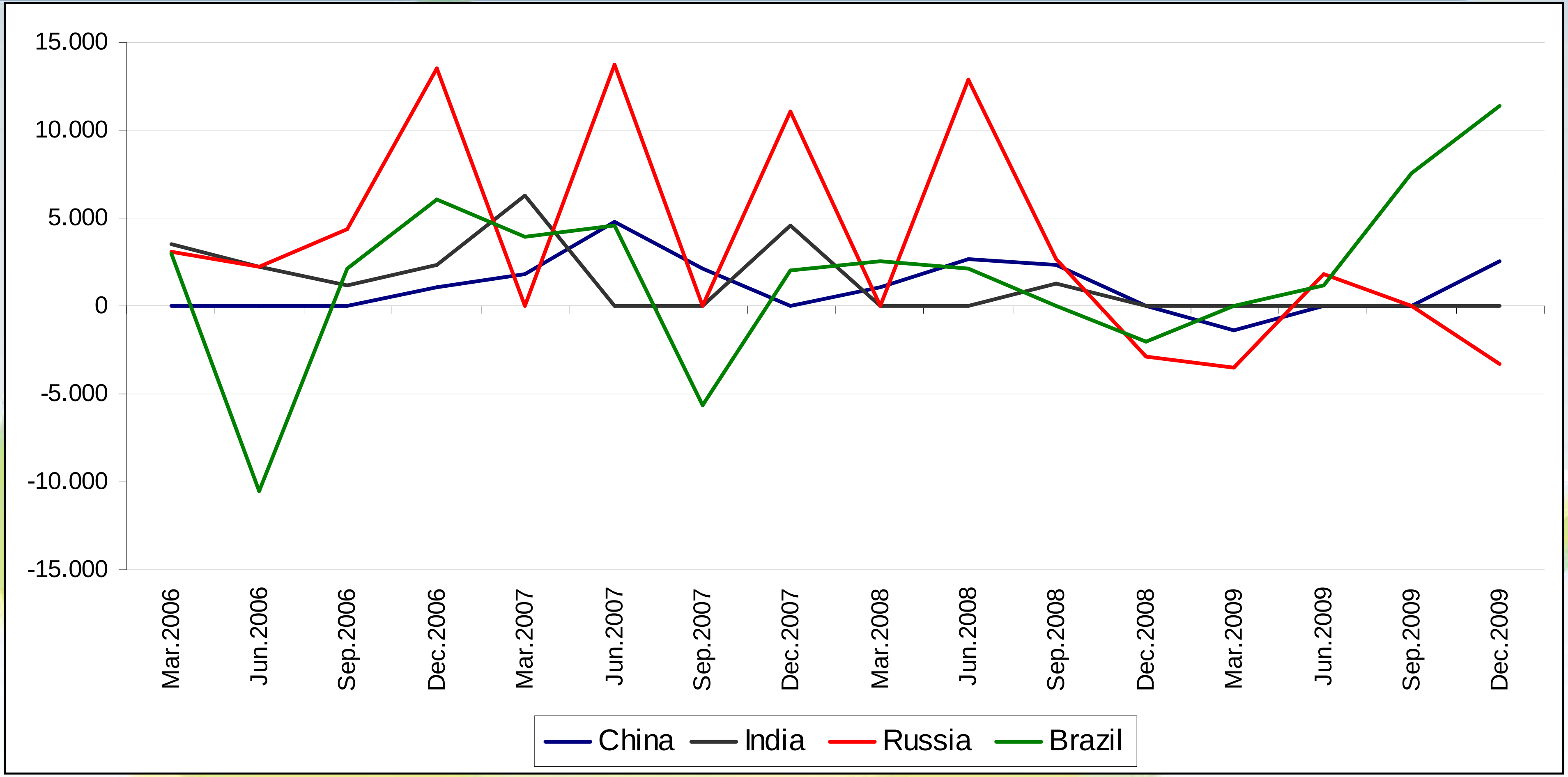
Source: Bank for International Settlements, March 2010. (http://www.bis.org)

Net issues of international debt securities – US$ billions



Source: Bank for International Settlements, March 2010. (http://www.bis.org)

Net issues of international debt securities: BRIC - US$ billions



Source: Bank for International Settlements, March 2010. (http://www.bis.org)

Financial conditions have improved on the back of narrowing money market spreads, and buoyant corporate bond and equity markets, notwithstanding the gyrations associated with the Dubai and Greek sovereign bond duress. Lending conditions have eased considerably. Despite their improved capital positions, banks nevertheless remain vulnerable to credit losses and exposed to interest-rate risk. Financial markets have been resilient in emerging markets, whose sovereign bond spreads have continued to narrow.

Pier Carlo Padoan. What is the economic outlook for OECD countries? An interim assessment, OECD, Paris, 7th April 2010

Emerging and Developing Economies: Reserves – US$ billion

	2001	2005	2008	2009	2010
Emerging and developing economies	857,1	2.311,2	4.962,5	5.322,7	5.891,9
Africa	64,2	159,9	332,0	318,1	340,6
Central and Eastern Europe	75,0	166,2	265,5	267,4	267,9
Commonwealth of Independent States	43,9	214,4	504,0	483,1	561,5
Russia	33,1	176,5	413,4	380,7	434,3
Developing Asia	380,2	1.157,8	2.537,7	2.867,0	3.211,3
China	216,3	822,5	1.950,3	2.240,0	2.528,6
India	46,4	132,5	248,0	263,1	284,8
Middle East	135,1	357,7	825,9	870,3	975,7
Western Hemisphere	158,6	255,3	497,5	516,8	534,9
Brazil	35,6	53,3	192,9	219,8	240,2
Mexico	44,8	74,1	95,1	93,5	93,5
Fuel	188,0	612,9	1.474,2	1.460,7	1.652,1

Source: FMI, *World Economic Outlook*, October 2009
Note: 2010 projections

Anti-cycle policies

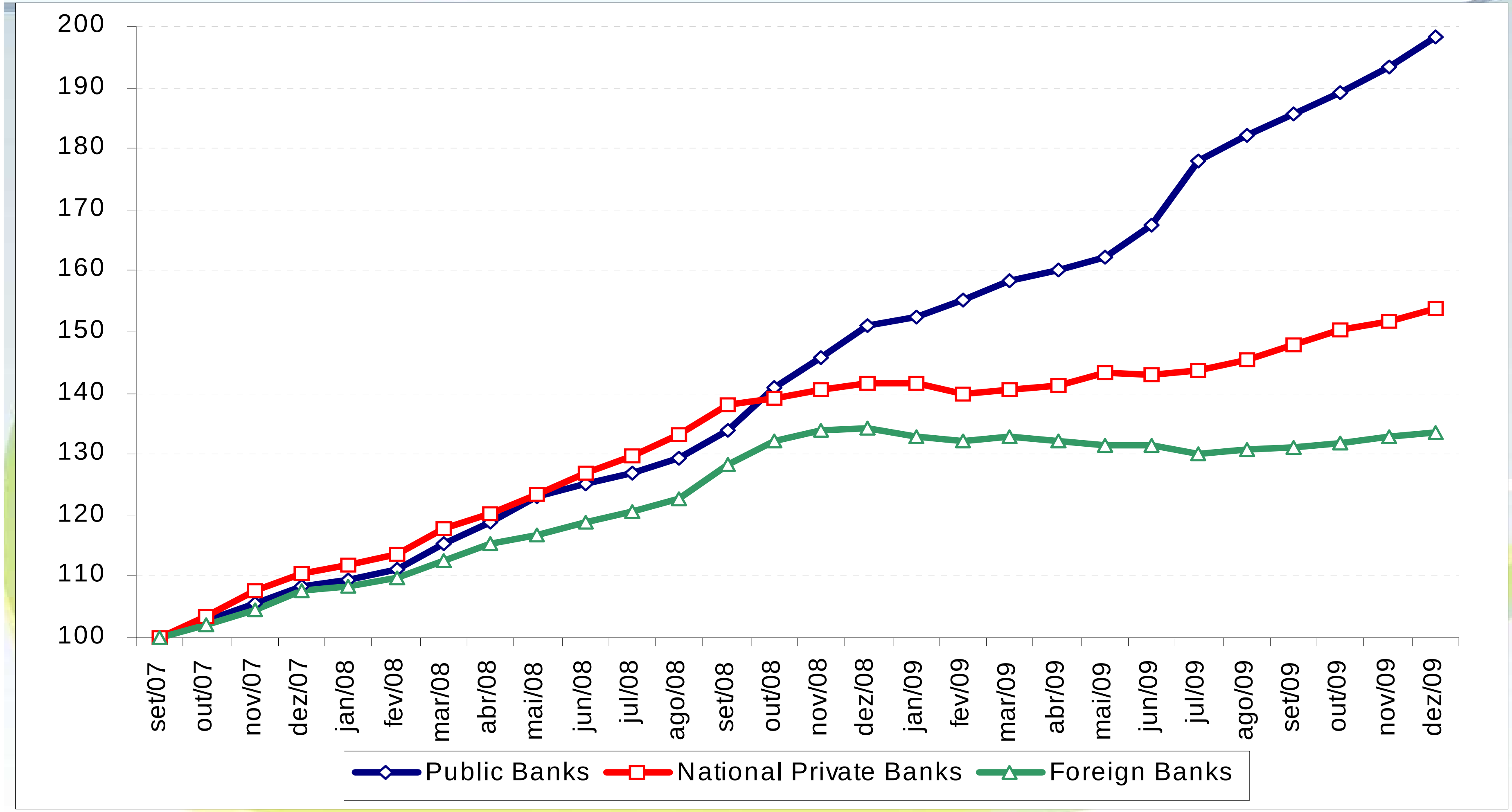
Fiscal policies

– Government created a fiscal unburdening policy in order to foster consumption of goods such as automobiles, `white goods` (refrigerators and washing machines), and building material (a cutting in the Tax on Industrialized Products – IPI)
– The maintenance and widening of social programs
– Expansion of the Growth Acceleration Program (PAC) – the housing program `Minha Casa, Minha Vida` (My house, my live) – to build 1 million houses

Monetary and Credit Anti-cycle Policies

- Central Bank of Brazil reduced the basic interest rate (Selic) in 500bps to a record low of 8.75%;
- Government authorized the release of US$ 55.6 billion from the compulsory deposits – part of time deposits banks are forbidden to transfer – in order to foster consumption and businesses;
- Government gave an additional US$ 55.6 billion to BNDES – the main agent for long-term investment funding – in order to buffer its capital and to expand programs (machinery and equipment purchase);
- Government increased funding to exports and credits to agriculture, and naval industry.

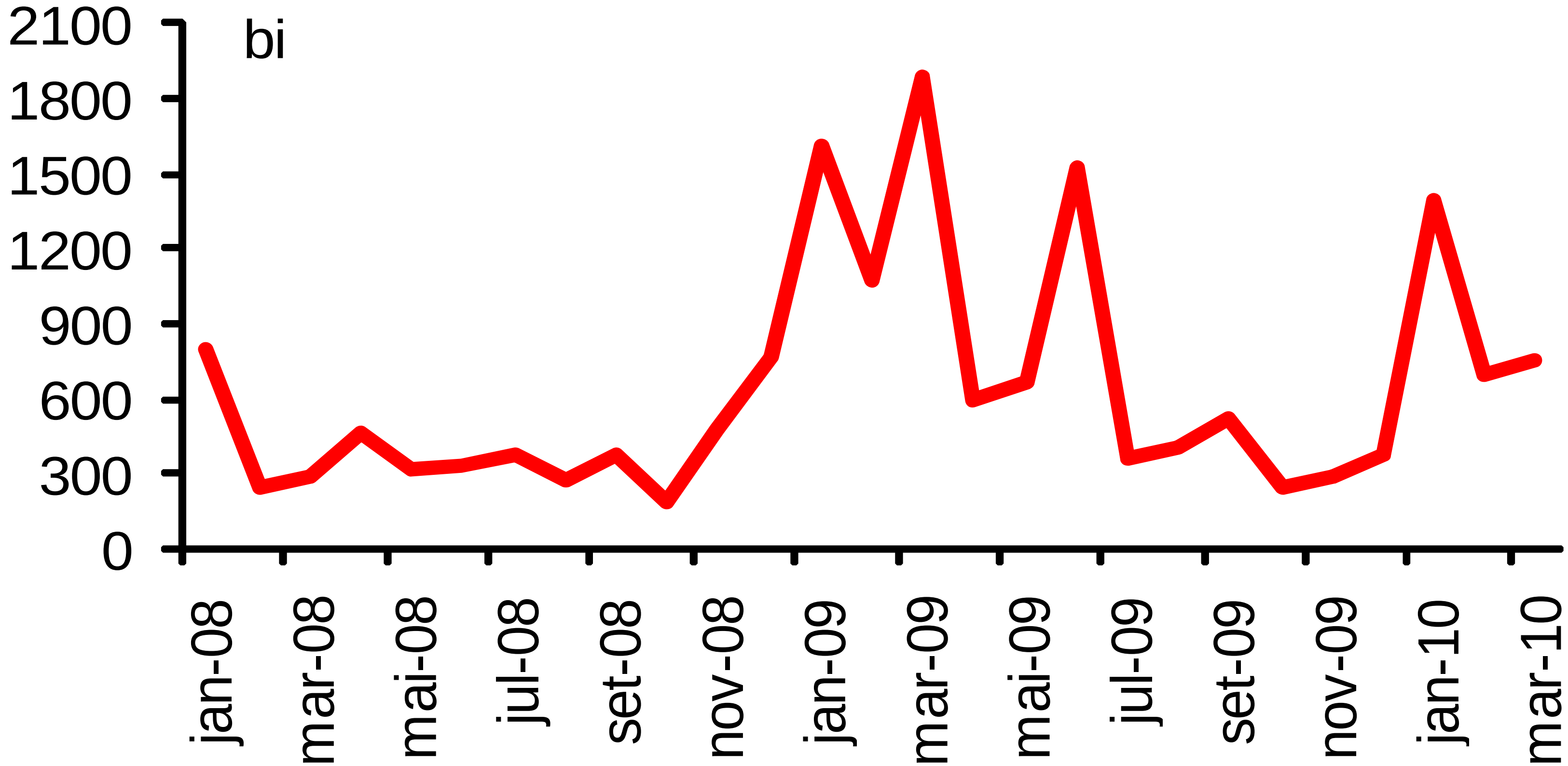
Public Banks (BNDES, CEF, BB): help to keep the credit after financial crisis – (September2007=100)



Source: Central Bank of Brazil

China - New Yuan Loans – March 2010

New Yuan Loans



Fonte: Bloomberg

Exchange rate and balance payment policies

- The maintenance the floating exchange rate regime, but the Central Bank used part of the international reserves (US$ 20 billions) to lend to the private sector (banks and corporations) to pay debts and other commitments;
- The floating exchange rate with international reserves help to absorb the external shock and sustain the confidence at levels necessary for a quick economic recovery (It is completely different for other external crisis).

Anti-cycle policies

In September 2009, Moody`s change the classification of the Brazil`s country-risk rating to that of `investment grade`, as Standard & Poor`s and Fitch have done.

World Economic Outlook, IMF

	2003	2004	2005	2006	2007	2008	2009	2010(a)	2011(a)
World output	3,6	4,9	4,5	5,1	5,1	3,0	-0,8	3,9	4,3
Advanced economies	1,9	3,2	2,6	3,0	2,7	0,5	-3,2	2,1	2,4
USA	2,5	3,6	2,9	2,8	2,0	0,4	-2,5	2,7	2,4
Euro area	0,8	2,1	1,6	2,8	2,7	0,6	-3,9	1,0	1,6
Japan	1,4	2,7	1,9	2,4	2,3	-1,2	-5,3	1,7	2,2
Emerging and developing economies	6,3	7,5	7,1	7,9	8,3	6,1	2,1	6,0	6,3
Africa	5,4	6,5	5,8	6,1	6,2	5,2	1,9	4,3	5,3
Central and Eastern Europe	4,8	6,9	6,1	6,7	5,4	3,1	-4,3	2,0	3,7
Commonwealth of Independent States	7,8	8,2	6,8	8,2	8,6	5,5	-7,5	3,8	4,0
Russia	7,3	7,2	6,4	7,7	8,1	5,6	-9,0	3,6	3,4
Developing Asia	8,2	8,6	9,0	9,9	10,6	7,9	6,5	8,4	8,4
China	10,0	10,1	10,4	11,6	13,0	9,6	8,7	10,0	9,7
India	6,9	7,9	9,2	9,8	9,4	7,3	5,4	6,4	7,8
Middle East	7,1	5,8	5,7	5,7	6,3	5,3	2,2	4,5	4,8
Western Hemisphere	2,2	6,1	4,7	5,5	5,7	4,2	-2,3	3,7	3,8
Brazil	1,1	5,7	3,2	4,0	5,7	5,1	-0,2	4,7	3,7
World trade volume (goods and services)	5,4	10,4	7,5	9,3	7,2	2,8	-12,3	5,8	6,3

Source: International Monetary Fund, *World Economic Outlook Update*, Washington, D.C., January 2009.
Nota: (a) Projeções;

Macroeconomic forecast

	2009	2010f	09-Q3	09-Q4	10-Q1f	10-Q2f	10-Q3f	10-Q4f
USA								
GDP *(%y/y)*	-2.4	2.8	-2.6	0.2	2.5	3.1	3.2	2.3
GDP *(%q/q annualized)*	-	-	2.2	5.9	2.5	1.9	2.4	2.6
Unemployment rate *(%)*	9.3	9.9	9.6	10.0	10.1	10.1	9.9	9.6
Inflation *(CPI, %y/y)*	-0.3	2.0	-1.6	1.5	2.4	2.3	1.8	1.3
Euro Area								
GDP *(%y/y)*	-4.0	1.2	-4.1	-2.1	0.6	1.3	1.2	1.5
GDP *(%q/q annualized)*	-	-	1.5	0.4	0.9	2.3	1.4	1.6
Unemployment rate *(%)*	9.4	10.3	9.6	9.9	10.2	10.3	10.4	10.4
Inflation *(CPI, %y/y)*	0.3	1.3	-0.4	0.4	1.0	1.2	1.3	1.5
United Kingdom								
GDP *(%y/y)*	-5.0	1.2	-5.3	-3.3	-0.2	1.0	1.8	2.1
GDP *(%q/q annualized)*	-	-	-1.6	1.1	1.7	2.3	2.3	2.3
Unemployment rate *(%)*	7.8	8.6	7.9	7.9	8.3	8.6	8.7	8.7
Inflation *(CPI, %y/y)*	2.2	2.6	1.5	2.1	3.1	2.7	2.4	2.1

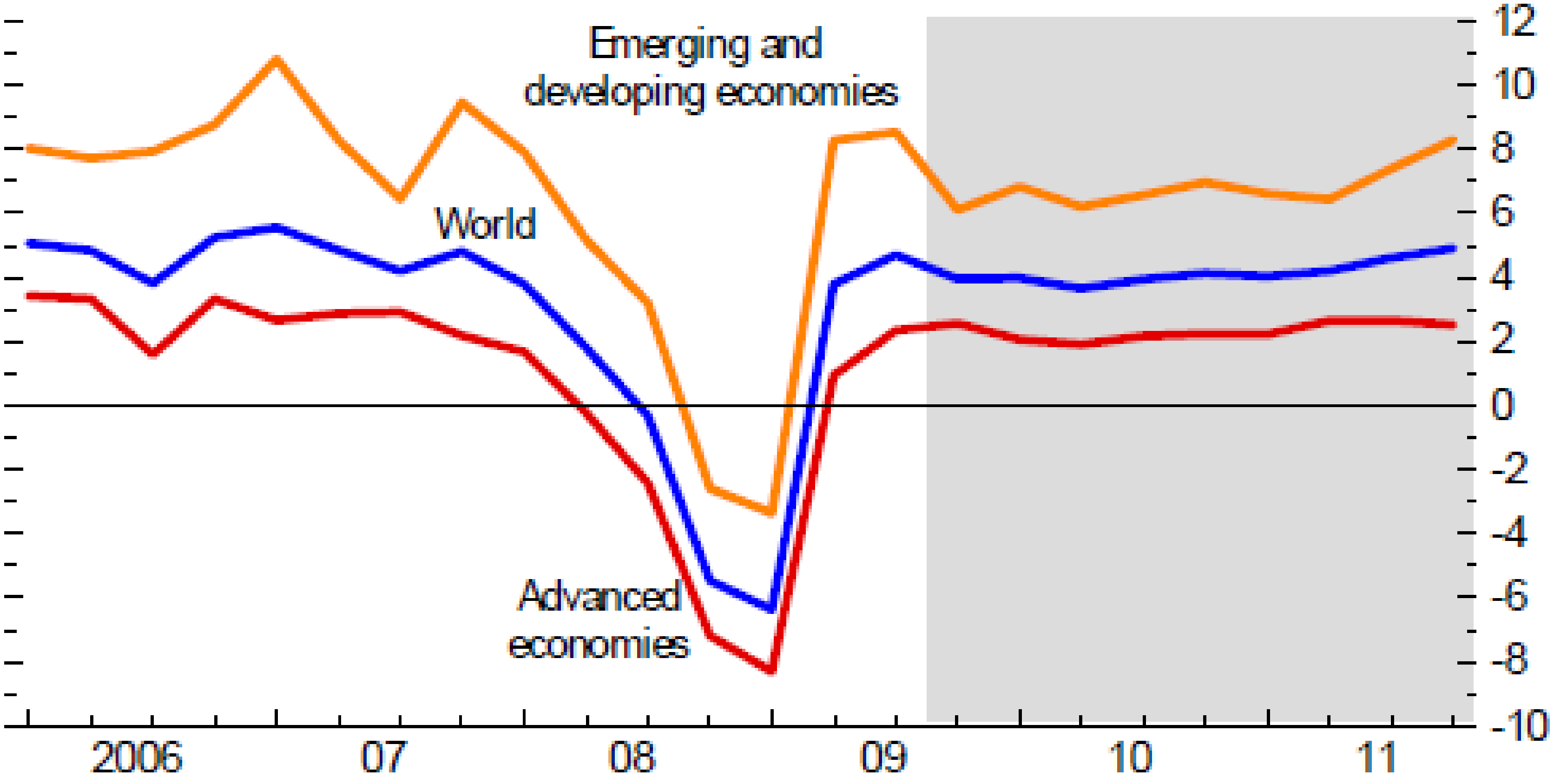
GDP growth in the G7 economies
In per cent

	09Q1	09Q2	09Q3	09Q4	10Q1	10Q2
United States	-6.4	-0,7	2,2	5,6	2,4	2,3
Japan	-13,6	6,1	-0,5	3,8	1,1	2,3
Euro (Germany, France, Italy)	-10,1	0,7	2,0	0,4	0,9	1,9
UK	-10,0	-2,7	-1,1	1,8	2,0	3,1
Canada	-7,0	-3,5	0,9	5,0	6,2	4,5
G7	-8,8	0,4	1,4	3,7	1,9	2,3

OECD countries have benefited through trade linkages from strong activity growth in major emerging-market economies, including China, India and Brazil.

Source: Pier Carlo Padoan. *What is the economic outlook for OECD countries?* An interim assessment, OECD, Paris, 7th April 2010

Global GDP Growth (percent, quarter-over-quarter, annualized)



Source: IMF, Economic Outlook, January 2010

Industrial Production and Merchandise Exports (annualized percent change of 3-month moving average over previous 3-month average)

Source: IMF, Economic Outlook, January 2010

Brazil: Market Expectations

	2010	2011
GDP growth (%)	5,60	4,50
Industrial Production (% growth)	9,31	5,00
Inflation - IPCA (%)	5,29	4,80
Interest rate - Over-Selic Target - end-of-period (% p.a.)	11,25	11,25
Exchange rate - end-of-period (R$/US$)	1,80	1,90
Trade Balance (US$ billion)	10,00	3,54
Current Account (US$ billion)	-50,00	-60,00
Foreign Direct Investment (US$ billion)	38,00	40,00

Source: Central Bank of Brazil (**Focus - Market Readout**), April 9, 2010.

The nature of the crisis and reform of the financial system

New actors, new instruments, new practices and new dynamics

- Hedge funds and Private equity groups;
- Special Investment Vehicles (SIV);
- Collateralised Debt Obligations (CDOs) and Credit Default Swaps (CDSs) – over-the-counter (OTC) products and without any secondary market to determine prices;
- To explore the Wall Street banks for funding, the hedge funds had to hand over collateral. But through a practice known as **rehypothecation**, a proportion of these collateral assets could then be used by the prime broker as *its own* collateral for raising its *own funds*. The result was the self-financing of massively expanding and hugely profitable prime brokerage activities by the Wall Street banks without any extra commitment of their own capital whatever: an ingenious way of greatly enlarging their leverage ratios.

Shadow banking system

These new agents comprised the so-called **global shadow banking system**, that is a set of institutions which operated as banks without being banks raising resources in the short term, operating with very high leverage and investing in long-term and illiquid assets. Unlike banks, however, **these institutions were loosely regulated and supervised, they did not have reserves of capital, they had no access to deposit insurance, to the rediscount operations or to the last resort credit lines of central banks**. As a result, they were highly vulnerable both to an investors' run (withdrawal of resources or mistrust of short-term markets) and to asset imbalance (devaluation of assets as compared to liabilities).

A combination of a regulated and an unregulated shadow system working together, dynamically

The commercial and investment banks within the regulated system acted as the **prime brokers** of the **shadow banking operators**, thereby gaining very large profits from their operations;

The Wall Street System was dominated by 5 investment banks holding over US$ 4 trillions of assets and able **to call upon or move literally trillions of dollars from such institutions moving behind them as the commercial banks, the money market funds, the pension funds** etc.

Crisis the shadow banking system

- Disappearance of the **investment bank model**, producing a drive to consolidate a **universal bank model** in which the trading activities of the investment banks would occur within and **protected by the depository universal bank**;
- **Institutions specialized in mortgage credit** were badly shaken as much in the US as in Europe (Northern Rock, Washington Mutual, Fannie Mae, Freddie Mac);
- *The Economist* (Nov. 2008): 'Over the next few quarters the fallout is likely to be brutal. Between 1990 and last year the industry's assets under management grew almost 50-fold, to nearly $ 2 trillion. Now industry executives predict that assets could fall by 30-40%, as clients stampede for the exit. The number of **hedge funds**, which climbed to over 7,000 (...) could fall by half.'

Crisis the shadow banking system

- Many **insurance companies** disclosed substantial financial losses and some mid-size companies went bankrupt. The most spectacular of cases was that of the largest insurance company in the world, the AIG.
- Simultaneously, **universal banks** – the counterparties of the global shadow banking system – accounted for growing losses.
- The Fed supplied loans, money-market funding and commercial paper market funding and new financial assistance program for the nation's largest banks.

Reform of the financial system: instruments, markets e institutions

Instruments: to reduce opacity, complexity of some structured products (issuers should hold part of riskier assets); for example, supervision of **credit default swaps**, the unregulated financial instruments that contributed to the economic crisis and the Greek crisis.

Markets: to get rid of over-the-counter markets without settlement and liquidation chambers by means of entities of central counterparty combined with organized central markets (stock and commodity exchange).

Institutions: to bring every institution under regulation and supervision.

Reform of the financial system: instruments, markets e institutions

Basel II Accord (substantial increase in the level of capital that universal banks must hold to cover their risks). Basel Committee on Banking Supervision proposes the introduction of three new coefficients into capital of institutions:

a) **requirement of systemic capital** (which is an attempt to estimate how much each institution contributes to systemic risk);

b) **requirement of anti-cyclic capital** (accumulation of defensive reserves during boom periods which would be used at unfavorable times)

c) **requirement of liquidity risk** (the G20 recommended that "...the BCBS and national authorities should develop and agree by 2010 a global framework for promoting stronger liquidity buffers at financial institutions, including cross-border institutions.")

New dollar carry trade

Very low interest rates in the US could produce a **new dollar carry trade** in which everybody borrows in dollars to take them across the exchanges into higher value assets. This would produce a strong trend towards a decoupling of other exchange rates with the dollar, but it would not necessarily undermine the central element in dollar dominance: **the readiness of other states (and companies) to accept payments for their goods and credits in dollars.**

Capital Inflows: The Role of Controls

The report of the IMF noted: “logic suggests that appropriately designed controls on capital inflows could usefully complement them in certain circumstances, especially in the face of temporary inflow surges.” (p.11)

Emerging markets have resorted to a variety of instruments to limit private-sector borrowing abroad: taxes, unremunerated reserve requirements, quantitative restrictions.

Jonathan D. Ostry, Atish R. Ghosh, Karl Habermeier,
Marcos Chamon, Mahvash S. Qureshi, and Dennis B.S. Reinhardt. **Capital Inflows: The Role of Controls**, IMF Staff Position Note, Washington, DC, February 19, 2010

Capital Controls: Brazil

- On October 20, Brazil introduce a 2% tax on capital inflows to both equity and bond markets to contain the Brazilian real's appreciation, and asset inflation (the emergence of asset bubbles).
- The government is trying to reduce the strong risk appetite for Brazilian assets, given domestic factors such as high potential growth and wider interest rates differentials and high liquidity in international financial markets.

Global financial transaction tax

- October 22, 2009, at Paris, it was created a **High-Level Taskforce on International Financial Transactions for Development**
- The Taskforce's objective is to define an updated menu of options with a view to exploring the feasibility of a tax or voluntary contribution on international financial transactions and thereafter its potential for financing for development.
- Countries of the Taskforce: France, Brazil, Belgium, Senegal, Áustria, Chile, Norway, United Kingdom, Japan, Spain, Italy and Germany.

(http://www.leadinggroup.org/article492.html)

Global financial transaction tax

The propose is to set a very low level – 0.005% – such a tax would raise US$ 33 billion for finance global public goods.

Support for a global financial-transaction tax is growing. A group of NGO have rechristened it the "Robin Hood tax," and have launched a global campaign to promote it (www.robinhoodtax.org).

Global foreign exchange market turnover
Daily averages in April, in billions of US dollars

Instrument	1992	1995	1998	2001	2004	2007
Spot transactions	394	494	568	386	621	1.005
Outright forwards	58	97	128	130	208	362
Foreign exchange swaps	324	546	734	656	944	1.714
Estimated gaps in reporting	43	53	61	28	107	129
Total "traditional" turnover	**820**	**1.190**	**1.490**	**1.200**	**1.880**	**3.210**
Turnove at April 2007 exchange rates[2]	*880*	*1.150*	*1.650*	*1.420*	*1.950*	*3.210*

Source: Bank for International Settlements (http://www.bis.org)