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Brazil Achieves Net Creditor Status With US$7 Billion Reserve Surplus

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Brazil passed a historic economic milestone in January when, according to the nation's central bank (Banco Central do Brasil, BC), it achieved net creditor status for the first time. Brazil ceased to be a debtor nation in world markets after commodity sales and foreign investment helped the country surpass its fiscal liabilities by almost US$7 billion, reported newspaper Folha de Sao Paulo on Feb. 25. President Luiz Inacio Lula da Silva hailed the development as a sign of economic growth and independence and called for the country to take on greater debt to develop infrastructure projects.

Creditor status two years after paying off IMF
The creditor status comes after Brazil and Argentina paid off their debts to the International Monetary Fund (IMF) to gain more control of their own economic policies. Lula and then President of Argentina Nestor Kirchner (2003-2007) had been distancing their governments from international lenders like the IMF, blaming them for economic crises and mismanagement in previous years (NotiSur, April 15, 2005, and Jan. 13, 2006).

Folha writer Ana Paula Ribiero reported that central bank estimates showed Brazil's holdings in foreign currencies, "basically international reserves," surpassed the country's international debts at the end of January. The bank said the total debt at the end of the first month of 2008 was US$196.2 billion while assets, consisting mostly of foreign currency, totaled US$203.2 billion. The precise numbers left Brazil with a total external debt of negative US$6.983 billion, putting Brazil in the position of an external creditor.

The Feb. 25 figure exceeded earlier BC expectations. The previous week the bank had estimated Brazil as a net creditor with about US$4 billion in credits at the end of January. A Feb. 21 report said the country's foreign cash reserves exceeded the entire foreign debt of Brazil's government and individual companies combined by about that amount.

"This, in net terms, means that the country has become a foreign creditor, something completely new in the country's economic history," said the BC press release. It represents an "unquestionable strengthening of the country's foreign situation based on trade balance figures (exports minus imports), current transactions (including the trade balance, services, and unilateral income and transfers), and the record entry of foreign funds into the country." "This is the most significant economic event that's happened to Brazil in a long time," said David Cortes, who manages about US $200 million of emerging market debt for BullTick in Miami.

A historic first: from biggest debtor to cash surplus
The change is notable for a country that defaulted on its debt in the 1980s and had long been the world's largest emerging-market debtor. Today it is riding a boom in demand for key exports such as beef, iron ore, and soy. Lula has also heavily promoted the production of ethanol and ethanol-
related crops as oil prices have shot up to record prices (NotiCen, April 12, 2007, Aug. 16, 2007, and NotiSur, April 27, 2007). The debt crisis had long been a drag on growth. The nation's traditionally mammoth debt was "built over a period of many years by the mistakes of other administrations mistakes that we fixed," Lula said. "It's the first time in the history of Brazil that we are not debtors," said Finance Minister Guido Mantega. Brazil's new status as a creditor could improve its debt rating to investment grade, which would lower Brazil's borrowing costs for future loans, Mantega said. At the end of 2007, Brazilian reserves were at US$180.3 billion, a growth of 110% for the year.

The expansion was principally caused by the BC purchase of dollars during the course of the year. Between 2003 and 2007, dollar purchases reached US141.3 billion, with 55.6% of that total purchased in the last year. Brazil's growth, particularly in commodity sales, has come as the US economy and dollar have declined.

On March 12, users of Bloomberg services in Brazil were the most optimistic about the currency, with high expectations for the Brazilian real. The real stood at about 1.68 per US$1.00 in mid-March, having gained 24% in the past 12 months for the biggest increase among the most active currencies.

"Brazil has everything going for it," said Michael Woolfolk, senior currency strategist at the Bank of New York Mellon Corp., the world's largest custodial bank with more than US$20 trillion in assets under administration. Brazil has taken advantage of record commodity exports to stockpile foreign reserves and pay down international debt. Analysts are expecting a potential drop in Brazilian commodity sales as US fortunes continue to decline, but there was still plenty of optimism in markets that dealt with Brazil. Lula said on Feb. 25 Brazil was well-prepared to weather a US recession as diversified exports, thriving domestic markets, and the elimination of foreign debt bolstered its economy. "We're going to transform this country into a great economy and a great nation," Lula said on his weekly radio program. GDP will expand at least 5% a year through 2010, as frenzied domestic consumption of big-ticket items like homes and cars continues, the president predicted. Brazil has a domestic market of nearly 190 million consumers.

"People are buying more, and exports are growing because we don't depend on the United States and Europe alone," Lula said. "We're exporting to many more countries around the world, and this leaves us calm in the face of an American crisis." Lula: a second cry of independence Lula compared the achievement to a second "cry of independence" for Brazil.

"The Brazilian is living in a moment of self-esteem that [he or she] has not experienced for a long time," said Lula in a March 24 interview with Folha de Sao Paulo. "People are acquiring purchasing power, people are consuming, this makes me happy. We are doing what should have been done in the decades of the 1950s, the 1960s. Brazil was always governed by a small group of people, but we want to prioritize the great mass of the population." Lula said that, when his party won the elections in 2002, "Brazil was going bankrupt. Today, Brazil's GDP is growing at 5.4%. Employment hits records every month. We paid off the IMF."

During a state visit to Argentina on Feb. 23, Lula said that it is time for Brazil to increase its debt to stimulate economic growth. "For 500 years of history, we were debtors," Lula told the Argentine Congress during his visit to Buenos Aires, according to a transcript sent to reporters by Brazil's
presidential palace. "Now we need to take advantage of a situation, if not privileged, at least better, that we have in all the countries and begin to indebt ourselves." The debt should not be contracted merely to increase general spending, Lula said. It should be used to increase spending on hydroelectric dams, communications systems, railroads, and other infrastructure projects to help Latin America grow.

Economic growth has tended to help keep the Brazilian president, now in his second four-year term, popular with voters. His relatively austere fiscal policies, however, have alienated portions of the leftist movements that first brought him to national prominence. These movements want to see greater social spending, land distribution, and increased support for the nation's poor population. Instead, Lula's economic team has maintained policies like requiring a surplus of 4.25% of GDP and has prevented more radical policies.

Anti-poverty and development plans
Lula is talking about further development projects like the Programa de Aceleracao do Crescimento (Growth Acceleration Program, PAC) and anti-poverty projects. The government unveiled a multibillion dollar anti-poverty plan to provide jobs and infrastructure in the poorest parts of the country on Feb. 26, shortly after the BC announcement. The move came months before important municipal polls are held across Brazil. The program, which would see some US$6 billion spent in 2008 alone, still has to be approved by Congress.

The initiative, known as Territorios da Cidadania (Citizenship Territories), is meant to help around 24 million people, including rural workers and indigenous communities. The money, part of the existing budget, will be used to supplement 135 policies, involving 15 government departments that are focused on 958 towns in states across the country.

Lula said the biggest cost to the country was a century in which poor people had been forgotten. The government is also promising to finally reach its target in the Luz para Todos (Light for Everyone) program to bring electricity to poor communities. The areas selected for funding are said to be in the 60 regions of Brazil with the lowest rankings on the UN Human Development Index. Speaking in the capital, Brasilia, Lula called the proposals the "second step to ending poverty."

Brazil already has a major anti-poverty program, the Bolsa Familia, which pays a monthly allowance to more than 11 million families. That program was attacked in the past by critics who said it was a way of buying votes, and the same accusation is likely to be made against the plans outlined in the Feb. 26 announcement, coming as it does months before important municipal elections. Minister for Agrarian Development Guilherme Cassel said the government could not stop the fight against poverty just because it was an election year. Opposition politicians are considering a legal challenge to the plan in the Supremo Tribunal Federal (STF), because of the electoral implications. They were waiting for details of the proposals to see if they favored areas run by parties that support the government.