

Actions by the government to reduce the effects from the crisis

When Brazil began to feel, strongly, the impact of the global economic crisis, in the last four months of 2008, the Brazilian government implemented several measures to lessen its effects on the country. These actions covered the fiscal, monetary, credit and exchange areas.

With the data presented in the rendering of accounts of the Government in 2009 and based on information from specific agencies, the Brazilian Court of Audit (TCU) examined what was the impact of the actions by the government for a gradual recovery of its economy, observed since the second quarter of 2009 when there was a reversal of the fall of the GDP. As a result, the GDP dropped only 0.2%, as demonstrated in the analysis on the performance of the economy.

In the fiscal, monetary and credit areas the government has adopted general measures and specific actions targeted to the sectors most affected by the crisis.

The chart 1 shows some government measures to increase the demand in the following sectors: civil construction, agriculture, automobiles, furniture and appliances.

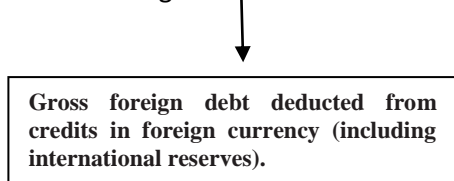
Chart 1. Actions taken by the Brazilian Government to face the crisis

CIVIL CONSTRUCTION	CRISIS	GOVERNMENT'S ACTION	RESULTS	
	FALL IN THE INDUSTRIAL PRODUCTION OF INPUTS IN CIVIL CONSTRUCTION FROM OCTOBER/2008 TO FEBRUARY/2009	INCREASE FROM R\$7000 TO R\$25000 IN THE LIMIT OF LOANS FOR PURCHASING CONSTRUCTION MATERIALS	INCREASE IN INDUSTRIAL PRODUCTION ALTHOUGH STILL SHOWING LEVELS LOWER THAN IN THE PREVIOUS PERIOD	
				AUTOMOBILES
	FALL IN THE SALES OF DOMESTIC CARS FROM THE END OF JULY UNTIL DECEMBER 2008 AND OF MOTORCYCLES, SCOOTERS AND MOTORBYCICLES FROM JUNE TO NOVEMBER 2008	INCREASE IN THE OFFER OF CREDIT TO THE AUTOMOTIVE SECTOR. FALL IN THE IPI (TAX ON MANUFACTURED GOODS) ON CARS WITH 1.0 ENGINES; OF THE INCOME TAX RATE AND THE IOF (TAX ON FINANCIAL OPERATIONS) IN THE FINANCING OF MOTORCYCLES, SCOOTERS AND MOTORBICYCLES	INCREASE IN THE SALES OF DOMESTIC CARS FROM JANUARY TO OCTOBER 2009; IN THE SALES OF MOTOCYCLES FROM DECEMBER 2008	
AGRICULTURE	FALL IN THE PRODUCTION OF FARM MACHINERY FROM OCTOBER 2008 UNTIL FEBURARY	CREDIT OF R\$5 BILLION FOR THE FINANCING OF AGRICULTURE CROP	THE PRODUCTION OF FARM MACHINERY IN 2009, WHICH INDICATES THE LEVEL OF ECONOMIC	

	2009		ACTIVITY IN THE AGRICULTURE, SHOWED INFERIOR NUMBERS TO ALMOST ALL MONTHS IN 2008. THE RESTRICTION TO CREDIT, THE REDUCTION OF THE WORLD DEMAND OF FARM PRODUCTS AND THE CONSEQUENT FALL IN THE PRICES OF AGRICULTURAL COMMODITIES EXPLAIN THE SHY RECOVERY OF THE SECTOR	
				FURNITURE AND APPLIANCES
	FALL IN THE ACTUAL SALES AT THE RETAIL MARKET OF THE FURNITURE AND APPLIANCES SECTORS IN OCTOBER 2008 AND FROM FEBRUARY TO JUNE 2009	CREDIT OF R\$2 BILLION TO THE SECTORS IN NOVEMBER 2008; DECREASE OF THE IPI (TAX ON MANUFACTURED GOODS) ON OVENS, REFRIGERATORS, WASHING MACHINES IN APRIL 2009	INCREASE THE SALES FROM NOVEMBER 2008 ON; IN THE THREE LAST MONTHS OF 2009, OCCURRED THE GREATEST SALES IN THE RETAIL MARKET	

In the foreign exchange area, in order to reduce the volatility of the dollar and mitigate the impacts of the crisis on the foreign exchange, the government, in the second half of 2008, operated through various instruments such as: auctions of dollars, the exemption of the rate of the IOF (Tax on Financial Operations) in foreign exchange transactions, and transactions with the Federal Reserve, which provided Brazil with a bank account in dollars to ensure a minimum level of liquidity in the foreign exchange market.

By October 2008 there was a trend of decreasing the foreign investment in Brazil, as foreign investors withdrew money from the country to reduce the loss in the foreign market. However, one can see that Brazil has recovered relatively quickly, since foreign capitals began to return at the end of November of 2008. This happened due to the increase of investors' confidence in the Brazilian economy, which at the time of the crisis had the inflation under control, **negative net foreign debt**, a stable public debt and Gross Domestic Product (**GDP**) relation and high rates of economic growth.



With the return of foreign investment to the country, the government established in October 2009 a rate of 2% for the IOF on the incoming of foreign investment to be invested in fixed and variable income assets in Brazil. The goal was to reduce the excessive appreciation of the real against the dollar.

The government also implemented measures to encourage foreign trade, since the crisis has affected Brazilian exports, which had dropped sharply since July 2008. Part of the international reserves was used to finance exports, and new rules were laid down to facilitate the lines of credit for exporters. Starting March 2009, there was a recovery in exports, but lower than the previous year.

To alleviate the crisis, several monetary and credit actions that have increased **liquidity** in the economy stood out, resulting in the decrease of the **real interest rate** in 2009, such as the reduction of compulsory deposits of the banking system and the increasing of the supply of credit .

Increased liquidity occurs with the increasing amount of money that circulates in the economy. This occurs through the expansion of monetary and credit policies.

Interest rate obtained with the removal of the inflation index from a specific period

Measures to avoid problems of liquidity in domestic financial institutions were also adopted as early as October 2008. The Central Bank of Brazil has made available to the large banks R\$ 24 billion for the purpose of purchasing portfolios of smaller banks with liquidity and solvency problems. In addition, the Bank of Brazil and Caixa Economica Federal (both State banks) were allowed to buy stocks and shares of domestic financial institutions. Caixa also got permission to buy shares of construction companies with liquidity problems.

Regarding the fiscal policy, the anti-crisis actions due to lower taxes and government spending increases have resulted in the decrease of the **primary surplus of the Union**, which the share of the GDP fell from 2.45% to 1.29% between 2008 and 2009. But, the **nominal deficit** of the Union in relation to the GDP increased from 0.69% in 2008 to 3.44% in 2009.

The primary surplus is the positive result of the public accounts, excluding interests.

Total government expenditures greater than the total revenues, including interests.

Access the full chapter on government actions to reduce the effects of the crisis in Brazil in the full Report and Preliminary Opinion on the Accounts of the Government of the Republic: www.tcu.gov.br / contasdegoverno