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Contributors to this issue
Lilliana Lavoratti
Klaus Kleber
Barry Eichengreen
Rafael Pinho Senra de Morais
Aloísio Campelo
Salomão Quadros

Claudio Conceição

Managing Editor
claudioconceicao@fgv.br

Now that fears that the global financial crisis would have a heavy impact on Brazil have passed, credit in Brazil is undergoing a true revolution, reports Liliana Lavoratti in the cover story of this edition. Within 10 years the financial system's total loans to households and businesses could very well double from the current 45% of GDP. Certain signs — such as the unprecedented competition being driven by government-owned financial institutions — suggest that the current expansion reflects structural changes. But even though competitive pressure is already inducing a decline in the cost of money, Brazilians will pay dearly for bank loans for some time yet: of 130 countries surveyed recently by the World Economic Forum, Brazil has the highest bank interest rates.

The crisis has brought about also unprecedented banking competition in Brazil. Government-owned banks increased their lending significantly as part of a government strategy to mitigate the effects of the global crisis. As a result they have increased their share in a market that has been dominated by domestic and foreign private banks and the competition may finally be driving interest spreads down, despite increasing bank concentration from various mergers and acquisitions.

Beyond high interest rates, the return of external current account deficits is another reality Brazil must live with, and many have concerns about how these continuous and high negative balances affect the Brazilian economy. Analysts are divided. One side see no danger in using foreign savings to finance consumption and investment as long as Brazil's economic policies continue to be sound, as they have been for at least two decades, and the composition of external liabilities is favorable, with low foreign currency debt and high foreign direct investment. The other side is that in the long term the strategy of letting current account deficits build up represents a threat to continued growth and calls for intervention in the foreign exchange and capital controls to prevent excessive appreciation of the real against the dollar and reduce Brazil's external vulnerability. The underlying question, of course, is whether the world will continue financing Brazil's current account deficit.