# Brazil’s Efforts to Prop Up Currency Cost $23 Billion

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Oct. 22 (Bloomberg) — Brazil’s efforts to shore up the falling local currency totaled $22.9 billion in the past month, including sales of foreign reserves, derivatives and loans.

Sales of reserves to buy reais in the spot market totaled $3.2 billion from Oct. 8 through Oct. 20, central bank President Henrique Meirelles said in testimony before congress late yesterday. The other types of intervention, including loans and currency swaps, don’t affect the level of reserves.

“Even smaller economies, like Mexico, have spent more than us,” Meirelles said in Brasilia. Mexico’s central bank bought $6.4 billion worth of pesos on Oct. 10 alone to shore up the currency.

Brazilian policy makers were forced to draw on record reserves of more than $200 billion after risk-adverse investors pulled money out of emerging markets, causing the worst tumble in the Brazilian real since the 1999 devaluation.

The real has lost a third of its value against the dollar since reaching a nine-year high Aug. 1, causing some of the biggest companies to report more than 5 billion reais ($2.2 billion) of losses from bad currency bets. The benchmark stock index is down 32 percent in the period.

In a decree published today, President Luiz Inacio Lula da Silva authorized the central bank to engage in currency swap transactions with foreign central banks. Officials at the central bank in Brasilia weren’t immediately available to comment, according to the press office.

`Performing Well’

In addition to foreign-exchange interventions, the Brazilian central bank has taken measures to inject more than 160 billion reais ($71 billion) in the banking system to ease a credit crunch that’s hurting small and medium-size lenders.

Meirelles said yesterday that bank lending fell 13 percent in the first eight business days of October from the same period the previous month. Today, the central bank will report September bank lending data in Brasilia.

Latin America’s largest economy is “performing well” amid the “severe” global credit crisis, Meirelles said. The government’s debt as a percentage of gross domestic product fell because the country is a net dollar creditor, he said. Capital levels at Brazilian banks exceed the minimum amount required under the Basel guidelines, he added.

Finance Minister Guido Mantega, also addressing congress yesterday, said economic growth in 2009 should slow to between 4 percent and 4.5 percent, from an estimated 5 percent this year.

He said the government would stimulate lending by state- owned banks, including BNDES, the state development bank, to reduce the effect of the crisis on the economy.

"Brazil's economy is more dynamic and has several comparative advantages over advanced economies," Mantega said. "The sole fact that only 13 percent of our GDP comes from exports is an advantage. We depend more on domestic demand than foreign markets, so we'll be less affected than China in case there's a reduction in global trade."

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