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ARTICLE INFO

Sheilla Nyasha and Nicholas Odhiambo (2013). Banks and banking sector reforms in Brazil: an exploratory study. *Banks and Bank Systems*, 8(3)

RELEASED ON

Wednesday, 16 October 2013

JOURNAL

"Banks and Bank Systems"

FOUNDER

LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

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Banks and banking sector reforms in Brazil: an exploratory study

Abstract

This paper gives an overview of the banking sector in Brazil; it highlights the reforms undertaken since the late 1980s, and through to 2011, it tracks the growth of the banking sector in response to the reforms implemented thus far; and finally, it highlights the challenges facing the Brazilian banking sector. In particular, the study attempts to assess whether the Brazilian banking system has experienced any phenomenal growth since the implementation of the banking sector reforms in the late 1980's. Since the late 1980's, the Brazilian government has implemented a number of banking sector reforms – in order to safeguard and improve the banking sector. As a result of these reforms, the country has enjoyed a substantial growth in its banking sector; and its institutional framework has grown stronger. There has also been an improvement in the Central Bank's oversight of the financial institutions. The Brazilian banking sector is today one of the most developed banking sectors in the emerging market world. Notwithstanding this remarkable banking sector development, the country's banking system, like many other emerging economies' systems, still faces some wide-ranging challenges, including high level of non-performing loans.

Keywords: Brazil, banking sector development, banking sector reforms, Central Bank of Brazil.

JEL Classification: G20, G21, G28.

Introduction

Banks play a central role in the development of every economy – by mobilizing resources for productive investments, and by being the conduit for the implementation of monetary policy. The role of banks in economic development is widely acknowledged in the literature. Schumpeter (1911), in particular, put the role of financial intermediation at the heart of economic development. He argued that financial intermediation, through the banking system, plays a pivotal role in economic development; and it does this by affecting the allocation of savings, thereby improving productivity, technical change and the rate of economic growth.

In support of the importance of banks in the economic growth of a country, Boyd and Prescott (1986) modelled the critical role that banks play in easing information frictions, and thereby improving resource allocation. In a separate study, King and Levine (1993) showed that bank development helps to explain economic growth in a sample of more than 80 countries.

The endogenous growth literature also supports the argument that financial development has a positive impact on growth (Bencivenga and Smith, 1991). According to Bencivenga and Smith (1991), well-functioning bank-based financial systems are able to mobilize household savings, to allocate resources efficiently, to enhance the flow of liquidity, to reduce information asymmetry and transaction costs, and to provide an alternative to raising funds through individual savings.

Given these functions, it may confidently be stated that banks have a positive impact on growth. In

Brazil, the banks have historically been viewed as playing a special role in the financial sector because of their critical role in facilitating payments and channelling credit to households and businesses. Commercial banks, as well as other intermediaries, provide services in screening and monitoring borrowers. By developing expertise, as well as diversifying across many borrowers, banks reduce the costs of supplying credit (International Monetary Fund, 2012).

In Brazil, the bank-based segment of the financial sector, as in any other banking sector, plays a crucial role in both financial sector development and economic development. The banking system ensures the efficient allocation of resources in the economy, through lending to businesses and individuals, and by using credit-scoring systems. Additionally, the banks facilitate business through the settlement of funds and the provision of credit to consumers. They provide 24-hour access to funds and facilities, thereby enabling institutions and individuals to save and invest with safety (Central Bank of Brazil, 2012a). Although banks play such an important role in the economic development of Brazil, the Brazilian banking sector has not really received adequate coverage in terms of research. Moreover, previous studies done in Brazil tend to generalize the financial sector – without paying specific attention to the bank-based segment of the financial sector.

The objective of this paper, therefore, is to put the Brazilian banking sector in the spotlight – by providing an overview of the country's banking sector, its reforms, its growth and the challenges it has experienced – since the onset of the banking sector reforms in the late 1980s, and through to 2011. This is achieved by reviewing the various

pieces of literature on the Brazilian banking system, in a chronological fashion. The data used in this analysis were obtained from various sources, including the Brazilian financial regulatory institutions, as well as various issues of the World Bank's publications. To the best of our knowledge, this may be one of the first few studies to analyze the dynamics of the Brazilian banking sector in a chronological order.

The rest of this paper is organized as follows. Section 1 gives an overview of the Brazilian bank-based financial system. Section 2 outlines the reforms implemented to revitalize the banking sector. Section 3 tracks the growth of the banking sector in Brazil, in response to the reforms. Section 4 highlights the challenges facing the development of the bank-based financial sector in Brazil. The final section concludes the paper.

1. An overview of Brazil's bank-based financial system

The Central Bank of Brazil (CBB) (Portuguese: *Banco Central do Brasil*) is Brazil's central bank. It was established on December 31, 1964, by the Bank Reform Law Number 4,595 of December 31, 1964 as an autonomous federal institution. The Central Bank is linked with the Ministry of Finance. The CBB is the second principal monetary authority of the country, after the National Monetary Council (CMN). It received this authority when it was founded by three different institutions: the Bureau of Currency and Credit (SUMOC), the Bank of Brazil, and the National Treasury (Central Bank of Brazil, 2012a).

In 1985, a decision was made in favour of a financial reorganization of the government, with a breaking down of the accounts and functions of the Central Bank, the Bank of Brazil and the National Treasury. In a process that continued through to 1988, the functions of the monetary authorities were progressively transferred from the Bank of Brazil to the Central Bank, while the atypical activities carried out by the latter, such as those related to economic incentives and the administration of the federal public debt, were transferred to the National Treasury. The 1988 Constitution set down the duties of the central bank. The Constitution also established the drawing up of a Complementary Law of the National Financial System, to substitute Law No. 4,595, which deals with the varied and important aspects of the structure and activities of the CBB (Central Bank of Brazil, 2012a).

Unlike the financial structures of many economies, it is interesting to note that in Brazil, the CMN is at the apex. It is the senior entity in the National Financial System. Its primary responsibility is the for-

mulation of monetary and credit policies, seeking a stable currency, and the economic and social development of the country, in addition to overseeing other financial institutions (Brazil Government, 2012).

The CBB is, however, responsible for implementing the policies established by the National Monetary Council. It is the duty of the CBB to monitor the behavior of brokers and banks that operate in Brazil, to supervise the existing financial institutions, and to authorise the admission of new financial companies, and to monitor their financial transactions, both in the public and the private sector (Brazil Government, 2012).

The CBB is active in promoting a financial inclusion policy, and is a leading member of the Alliance for Financial Inclusion. It is also one of the original 17 regulatory institutions to make specific national commitments to financial inclusion under the Maya Declaration, during the 2011 Global Policy Forum in Mexico (Central Bank of Brazil, 2012a).

Public banks were established in Brazil during the early 20th century, with the purpose of impelling economic growth. Because there was high rate of inflation and currency volatility at the time, private banks were prevented from engaging in long-term capital financing. Since private banks could not take uncertain long-term positions, and there were not enough state banks to handle the country's demand for long-term financing, the Brazilian government responded by increasing the number of state banks. The government's arbitrary increase in the number of state banks led to significant problems. As a remedy, private banks were encouraged to enter the market, and to actively participate (Central Bank of Brazil, 2012a).

Despite the challenges in the banking sector, the new macro-economic scenario of the 1990s made Brazil's financial sector more attractive to foreign investors. Their presence was boosted by an explicit message from the Cardoso administration that greater foreign participation in the banking sector was in the country's best interest, because it would increase the efficiency of local banks, and reduce their dependence on the Central Bank as the lender of last resort (Trusted Sources Research and Networks, 2009).

As a result of this policy orientation, Brazil opened its doors to foreign-bank investment: in both private and public domestic banks. Today, international banks play an important role in Brazil's banking system. By the year 2008, the private banks had the largest market share (45.99%), followed by public banks (31.06%), and then foreign banks (22.95%) (Trusted Sources Research and Networks, 2009). The total number of banks in Brazil was 180 in 2002.

2. Bank-based financial reforms in Brazil

The late 1980s marked the commencement of the banking sector reform in Brazil. The reforms were wide-ranging in scope; and they included programmes for: creating specialized financial institutions; restructuring private sector and state-controlled banks; and the decision to allow foreign banks entry into the national financial system. These reforms established a system based on specialized institutions, where commercial banks were only permitted to conduct short-term credit operations, using cash deposits; while investment and development banks were responsible for long-term loans, using term deposits and funds from abroad. Credit, financing and investment corporations were made to operate in consumer credit and in personal loans, while institutions of the Federal Housing System would provide mortgage financing, based on the resources obtained through savings deposits and real-estate bills (Carneiro et al., 1993). However, the financial system that resulted from the adopted reforms was far less segmented than the legislation indicated (Carneiro et al., 1993). Thus, different financial institutions belonging to the same conglomerate could operate in the same physical space, but with separate accounting practices, in such a way as to comply with the legislation.

In June 1988, the Central Bank introduced the Accounting Plan for Institutions of the National Financial System, which made the unification of financial institutions under a single accounting plan possible. In September of the same year, the Resolution 1524 of the Brazilian Securities and Exchange Commission was approved, creating multiple banks, which could operate in, at least two, and at most, four of the old financial institutions' functions: commercial banks, investment banks, development banks, financing corporations, and savings and loans institutions (Carneiro et al., 1993).

Starting in 1989, the Brazilian financial system underwent a process of deep-rooted structural transformation. Brazilian financial institutions were successful in implementing innovations, and taking advantage of regulatory opportunities, which made it possible not only to survive in an apparently hostile environment, but even to flourish, absorbing new technologies and substantially expanding their operations (Central Bank of Brazil, 2012a).

The Real Plan started important changes in the Brazilian banking system. Following the loss of profits from the floating of funds after the end of the chronic and high inflation, the banking industry faced severe problems in 1995-1996, these problems were solved with the assistance of the government programmes that encouraged restructuring (Rocha, 2001). Measures in areas such as prudential regulation, supervision and

monitoring, were subsequently taken – in order to secure a solid and safe financial system. With the same purpose, and all aiming at encouraging competition, public banks were privatized; and the sector was opened to foreign capital, including the sale of large domestic bank retail institutions; which had never happened before in Brazilian bank history (Rocha, 2001).

The role of the Central Bank in helping institutions took on a more emergency-related character, using funds from monetary reserves, which were in part collected through the imposition of the Financial Operations Tax (Rocha, 2001).

In August 1994, in agreement with the Basle Accord, the Central Bank published Resolution 2,099, establishing minimum capital limits for the constitution of a bank, besides additional limits that varied, according to the degree of risk in a bank's assets.

In 1997, the minimum capital required for financial institutions was raised again, from 8% to 10% of all assets with risk, by means of Resolution 2,399. The new limit was higher than that established by the Basle Accord, representing a reduction in the ceiling for loans: for example, from 12.5 times to 10 times the net equity. That resolution also raised the provision for the total amount exposed to risk in swap operations to 16%. Circular 2,784 of November 1997 raised the minimum capital limit to 11%, but allowed financial institutions until the end of 1998 to adjust to the new measure. Furthermore, the provision for swap operations rose to 20%, with banks given up to February 1998 to adapt to the new legislation (Rocha, 2001).

As the Brazilian financial sector was undergoing wide-ranging reforms, so did its national payment system (NPS). Prior to the mid-1990s, changes in the Brazilian payment system were motivated by the need to cope with high inflation rates. During that time, the system achieved significant technological progress, especially aimed at enhancing the speed of processing financial transactions (Central Bank of Brazil, 2012a).

In the reform carried out by the Central Bank of Brazil in 2001 and 2002, the focus shifted to risk management. In this vein, the launch of the Sistema de Transferência de Reservas – STR (Reserves Transfer System) on April 22, 2002, marked the beginning of a new phase of the Brazilian payment system. With this system, Brazil entered into the group of countries where interbank funds transfers could be settled irrevocably and unconditionally, i.e. with finality, on a real-time basis. This fact by itself provides settlement-risk reduction for interbank transactions, and consequently, systemic-risk reduction (Central Bank of Brazil, 2012a).

More recently, the CBB has been acting, in order to promote the development of the retail payment sys-

tems, mainly to take advantage of the gains in efficiency relating to, among other things, the increased use of electronic payment instruments, the enhanced use of ATM and point-of-sale networks, and the higher level of integration among the related clearing and settlement systems (Central Bank of Brazil, 2012a).

The reform of the Bankruptcy and Judicial Recovery Law (Law 11101) in 2005 was an important step in the evolution of the Brazilian credit market, since it established the priority of bank liabilities over the tax liability. The result was a more efficient debt-collection process, especially for home loans and vehicle financing (IMF, 2012a).

Other reforms that also contributed significantly over the last decade include the liberalization of restrictions to entry by foreign banks; further strengthening bank regulations and supervision by the Central Bank; ensuring compliance with high prudential requirements; strengthening the regulation of non-bank financial intermediaries; modernizing the financing of housing; and improving the legislation regulating the realization of collateral for non-performing loans and bankruptcy procedures (Ter-Minassian, 2012).

According to Ter-Minassian (2012), these reforms undoubtedly contributed to a significant deepening of financial intermediation (without bubbles) during most of the past decade. The financial system proved very resilient to the shock of the global crisis of 2008-09. Nevertheless, the system remains dominated by relatively few large private and public banks; directed credits continue to play a large role, especially in the longer-term segment of the market; and borrowing costs for both the public and the private sector, especially small and medium enterprises, remain quite high in real terms, pointing to the need for further reforms in these areas (Ter-Minassian, 2012).

3. Banking sector growth in Brazil

The banking sector reforms undertaken in Brazil since the late 1980s, saw the beginning of the evolution of the Brazilian bank-based financial system – leading to changes in how banks operate (Resolution 1524), and a subsequent increase in the number of banks. Resolution 1524, issued in 1988, embodied a fundamental shift in approach – away from a financial system composed of specialised institutions, restricted by regulations to narrowly defined operating modalities, to a different type of configuration closer to the model of the so-called “universal institutions”. This approach has had an impact on the number of banks in the Brazilian financial sector (Central Bank of Brazil, 2012b).

The transformation of small-scale institutions into banks was not a common occurrence, since multiple banks did not yet exist at that time. Consequently, most of the existent banks initiated their activities as banks from the very outset, with only four of them

starting out as non-banking institutions (Central Bank of Brazil, 2012b).

Following the introduction of new legislation in September 1988, the banking system expanded at such a pace that the number of institutions more than doubled, totaling 244 by December 1994. However, the Real Plan, which was implemented in the second half of 1994, introduced radical changes into the Brazilian banking scenario, and, consequently, reversed the growth trend (Central Bank of Brazil, 2012b).

Declining inflation and the opening of the economy to the international community not only demanded the development of an agile and flexible array of products and services; but it also revealed a series of inefficiencies in the banking operations. At the same time, banking institutions were clearly impacted by the inefficiencies of other sectors of the economy, and, more specifically, by their inability to honour loans contracted with banks (Central Bank of Brazil, 2012b).

Private banks were more flexible in adapting to the conditions of a stable economy and in adopting the needed changes in the technologies and processes applied to the production of the services offered to their clientele. Cost reductions and releases of new products contributed importantly to the process of adaptation. Government banks shifted towards the same objectives, albeit at a much slower pace, clearly reflecting the segment’s comparative disadvantages generated by highly complex legal and political considerations (Central Bank of Brazil, 2012b).

An important part of this process was the increased flow of foreign capital into the banking system, which, in some cases, spelled the difference between their survival or demise. The objective was to create the conditions required to cope with the challenges posed by the internationalization of financial services.

In December 2000, there were 191 banks and 1 savings bank in operation, including 16 public banks, 104 national private banks, and 71 banks under foreign capital control (13 were directly operated branches of foreign banks). Of the 191 banks in operation at the end of December, 64 had been operating since December 1988. These were the banks that had survived the changes introduced in the 1989-2000 period (Central Bank of Brazil, 2012b).

The percentage of foreign control of bank assets in December 1988 came to 9.62%, rising to 33.11% in December 2000. Based on these data, it may be concluded that the increase of approximately 24% occurred mainly as a result of the acquisition of national private and public institutions (Central Bank of Brazil, 2012b). Table 1 shows the number of banks in Brazil from 1996 to 2011.

Table 1. Growth of banks in Brazil by capital structure (1996-2011)

Banks ¹	Public ²	Private					Total
		Private total	National	With foreign participation ³	Under foreign control ⁴	Foreign full branches	
1996	32	198	131	23	25	16	230
1997	27	190	118	23	33	16	217
1998	22	182	105	18	43	16	204
1999	19	175	95	15	50	15	194
2000	17	175	91	14	57	13	192
2001	15	167	81	14	61	11	182
2002	15	152	76	11	56	9	167
2003	15	150	78	10	53	9	165
2004	14	150	82	10	49	9	164
2005	14	147	82	8	49	8	161
2006	13	146	81	9	48	8	159
2007	13	143	77	10	49	7	156
2008	12	147	78	7	56	6	159
2009	10	148	82	6	54	6	158
2010	9	148	77	11	54	6	157
2011	9	151	73	16	56	6	160

Source: Central Bank of Brazil Annual Reports (various) (2012c).

Growth in the Brazilian banking sector was also evidenced by non-performing loans. The percentage of non-performing loans decreased continuously from 8.3% in 2000 to a low of 3.0% in 2007, as measured by bank non-performing loans to total gross loans (World Bank, 2012a).

However, the percentage increased to 4.2% in 2009; and it then fell again to 3.1% in 2010, before increasing to 3.2% in 2011. Although the trend reflected some instability between 2007 and 2011, overall, Brazil is performing well in this front compared with other countries. This development is commensurate with Brazil's knowledge of credit-related information, as evidenced by the credit depth-of-information index. On a scale of zero to six, where 0 represents low and six represents high, the index has been five (5) ever since 2000 (World Bank, 2012a).

Development of the banking sector in Brazil is also portrayed by the growth in private sector credit. The late 1970s saw a modest increase in the credit provided by financial institutions to the private sector. Brazil did well from 1975 to the early 1990s. It had

a steadily increasing private sector credit until 1985, when lending to the private sector jumped from 50.9% in 1985 to 165.5% in 1988, before reaching a peak of 212.9% in 1989.

Thereafter, credit extension to the private sector decreased to between 80 and 90% in the two subsequent years, before increasing to 180% in 1993, before decreasing steadily to 59.4 in 1997. After 1997, credit extension steadily increased over the years; and in 2004, it stood at 98.4% (World Bank, 2012a). While this number is no higher than it was in 1994, the quality of lending has significantly improved (World Bank, 2012a).

With the growth of the banking sector came the reinforcement of national private banks' dominance within the bank-based financial sector in Brazil, while the strength of public banks decreased. This is clearly reflected by the share of banking assets among the major participants: national private banks, banks under foreign control and public banks.

Table 2 presents some of the banking indicators, showing the development of Brazil's banking sector.

Table 2. Growth of banking sector in Brazil (2000-2011)

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Domestic credit provided to private sector by banking sector as a percentage of GDP	71.9	72.5	74.5	74.0	72.6	74.5	86.6	92.2	96.9	95.8	95.2	98.4
Bank non-performing loans to total gross loans (%)	8.3	5.6	4.5	4.1	2.9	3.5	3.5	3.0	3.1	4.2	3.1	3.2
Credit depth of information index (0 = low to 6 = high)	-	-	-	-	5	5	5	5	5	5	5	5
Strength of legal rights index (0 = weak to 10 = strong)	-	-	-	-	3	3	3	3	3	3	3	3

¹ It includes multiple banks, commercial banks and saving banks.

² It includes Federal Saving Bank.

³ It includes banks with foreign participation.

⁴ Multiple and commercial banks under foreign control (except foreign full branches).

Table 2 (cont.). Growth of banking sector in Brazil (2000-2011)

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Share of banking sector assets												
Public banks (+ State savings bank)(%)	-	4.30	5.87	5.79	5.52	5.09	4.50	4.25	3.12	2.13	2.02	1.98
Banco do Brasil(%)	-	16.76	17.12	18.40	17.41	15.36	14.46	13.77	14.38	17.44	16.35	16.84
Federal saving bank ("Caixa Econômica Federal")(%)	-	10.97	11.66	13.04	11.51	12.05	10.68	9.91	8.83	9.57	9.40	10.28
National private banks (%)	-	37.21	36.93	40.76	41.70	43.12	47.12	50.33	51.11	51.61	52.70	52.93
Banks under foreign control (%)	-	29.86	27.38	20.73	22.43	22.89	21.70	20.24	21.24	17.80	17.92	17.96
Credit unions	-	0.90	1.04	1.28	1.43	1.49	1.54	1.50				
Total (%)	-	100	100	100	100	100	100	100	100	100	100	100

Source: World bank development indicators (2012a); Central Bank of Brazil Annual Reports (various) (2012c).

The growth of Brazil's banking sector can also be shown by the increasing number of Automated Teller Machines (ATMs) and point-of-sale (POS) devices. The number of ATMs in Brazil has increased over the years from 139 457 in 2004 to 165 567 in 2009, registering a percentage increase of 19%. The POS terminals for credit cards increased from 1 078 763 in 2004 to 3 374 740 in 2009; while terminals

for debit cards increased from 1 106 011 to 2 780 043 during the same period. This has led to a more than doubling of the number of terminals per million inhabitants over the same period (Central Bank of Brazil, 2009a).

Figure 1 shows the trends in banking sector growth, as shown by credit extension to the private sector, in Brazil during the period 1975-2011.

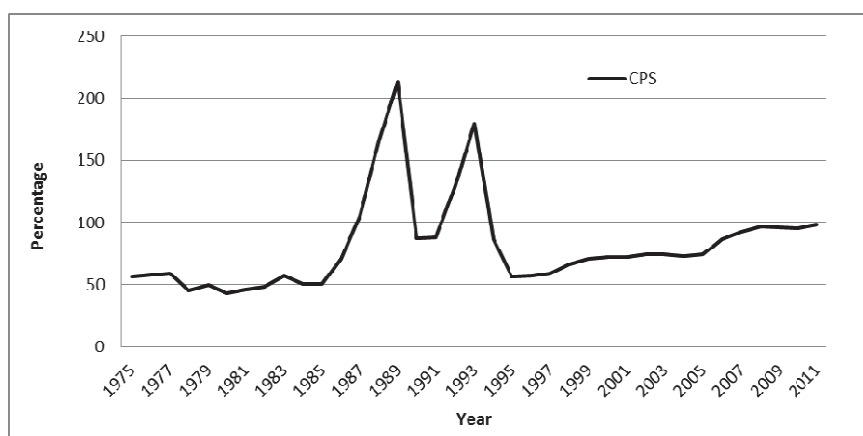


Fig. 1. Trends in banking sector growth in Brazil (1975-2011)

Source: World bank development indicators (2012).

4. Challenges facing bank-based financial development in Brazil

Although Brazil is one of the emerging economies, with a fairly developed economy, having achieved a strong policy framework (fiscal responsibility, inflation targeting and a flexible exchange rate), its bank-based financial sector still faces many challenges. The efficiency of the banking system lags behind that in other Latin American countries (Belaisch, 2003). The intermediation is relatively low and inefficient, due to the presence of a non-competitive market structure (Belaisch, 2003). Some of the challenges facing the bank-based financial sector in Brazil include coping with constraints on budget and human resources, ensuring adequate legal protection, a rise in non-performing loans, and cuts in lending rates.

Banks in Brazil have been on a remarkable trip over the last decade, as economic stability has driven

rapid growth in borrowing, while sky-high interest rates have led to record profits (World Bank, 2012a). However, the recent economic slowdown has led to slower loan growth, and increase in non-performing loans. In 2007, the banks' non-performing loans to total gross loans in percentage terms was at 3.0; but this rate increased to 3.1 in 2008; and it further increased to 4.2 in 2009, before declining to its 2008 level in 2010. However, 2011 saw an increase in the non-performing loans to 3.2 (World Bank, 2012a). According to the CBB's recent report, Brazilian loans overdue by more than 90 days hit 6.0% in May 2012; the highest records began in 2000 (Central Bank of Brazil, 2012a).

The Brazil bank-based financial sector faces an interest-rate challenge. The cost of financial intermediation, in terms of both absolute interest rates and spreads, remains among the highest in the world; and credit is still scarce for a significant

proportion of the economy (World Bank, 2007). In addition, there exist large differences in rates between corporate and retail-lending products, driving a wedge in access to credit between different groups of firms and individuals. While spreads have recently declined, they have not yet achieved any reduction to sufficiently moderate levels by international standards (World Bank, 2007).

The Central Bank has slashed its benchmark interest rate by 400 basis points in less than 10 months to a record low of 8.5% following a political push by the government to get banks to reduce their lending rates in a move expected to spur growth. Despite the move, banks have been reluctant to speed up lending because of the steady rise in non-performing loans (World Bank, 2007).

Legal rights are also a challenge in Brazil's banking sector. There is a need for the strengthening of legal rights and judicial procedures for contract enforcement. Thus, legal rights and judicial procedures for contract enforcement could be tackled – in order to improve the overall efficiency of the system. Recent changes to the bankruptcy law (Law 11.101/2005) have been beneficial; but a higher focus on enforcement would help reduce credit risks and costs, thereby expanding access to credit for certain borrower segments that depend on collateral-based lending (e.g. small firms) (Urdapilleta and Stephanou, 2009).

Another challenge faced by the banking sector in Brazil is volatile credit expenses, especially in the corporate market (Urdapilleta and Stephanou, 2009). Although the information needed to assess the credit risk of firms in Brazil – particularly larger ones – is more widely available, the impact of individual credit exposures is larger and more correlated to the macro-economic environment, requiring customised risk-management models with professional financial analysis. In addition, there is room for improvement in the quality of Brazilian corporate financial statements, including issues of transparency and disclosure, which would enhance the reliability of the input data in those models.

However, the inability to include positive information (including by public banks) in the borrower reports produced by the credit-reporting industry hinders the predictive ability of such models (Urdapilleta and Stephanou, 2009). On the same note, much of the corporate lending is collateral-driven; and it is, therefore, more reliable on the credit infrastructure, making it vulnerable to related problems with weak creditor rights, such as judicial debt-collection difficulties (Urdapilleta and Stephanou, 2009). In spite of recent reforms that have improved the perfection of collateral, and reduced the cost of foreclosure proce-

dures, Brazil fares below many Latin American countries in terms of creditor rights. Further, the inter-linkage among different credit registries is not yet complete, while links between credit registries and payment systems remain imperfect (Urdapilleta and Stephanou, 2009).

Like most countries, Brazil faces financial inclusion challenges. Although the Central Bank of Brazil notes the country's progression towards financial inclusion, it is of the view that there can be further progress (Central Bank of Brazil, 2009b). The CBB has called for improvements in governance, transparency, regulation, credit, technology, distribution channels, and product diversification. Although access to and the use of financial services in Brazil has increased from 2006 to 2010, some areas could benefit from further improvement.

Conclusions

This paper has given an overview of the banking sector in Brazil; it has highlighted the reforms that have been undertaken since the late 1980s; it has tracked the growth of the banking sector in response to the reforms implemented over the past four decades; and it has highlighted the challenges facing the Brazilian banking sector. The late 1980s marked the commencement of the banking sector reform in Brazil, in order to safeguard and improve the country's banking sector. The reforms were wide-ranging in scope; and they included programmes for: creating specialised financial institutions; the restructuring of private sector and state-controlled banks, and the decision to allow foreign banks entry into the national financial system. These reforms have also focused on increased risk-management procedures, and they have enhanced corporate governance, in order to strengthen and reposition the banking industry, to enable it to contribute effectively to the development of the real sector through its intermediation process. Although the Brazilian banking sector has responded positively to most of these reforms, it still faces a number of challenges. These challenges include the efficiency of the Brazilian banking system, the relatively low level of intermediation – due to the presence of a non-competitive market structure; as well as the challenges related to adequacy of legal protection and non-performing loans. In order to overcome some of these challenges, the study recommends that the country should continue to pursue and promote innovative financial inclusion policies, in order to ensure that appropriate and affordable financial services are made available to all segments of the society, including the vulnerable groups.

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