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Regional Perspectives on Reserve Holdings and Pegging Relationships

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The Euro at 10: The next global currency?

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Relevance of the Euro reflected in well known figures

Share of the Euro in:

	Latest data available	
Narrowly defined stock of international debt securities ^{1*}	32.2%	2007 Q4
All cross-border loans*	22.1%	2007 Q4
All cross-border deposits*	21.0%	2007 Q4
Daily foreign exchange trading (settled by CLS)	37.8%	2007 average
Settlement/invoicing of goods' exports from selected eurozone countries to non-eurozone countries	39% to 68%	2006
Settlement/invoicing of goods' imports of selected eurozone countries from non-eurozone countries	34% to 59%	2006
Global foreign exchange reserves ^{1*}	26.5%	2007 Q4

1 - Excludes home currency issuance.

*At constant 2007 Q4 exchange rate.

The well known relative role of the Euro as an anchor currency

- *"The dollar remained the most common reference currency for pegs.*
- *The role of the euro remains limited to countries with historical or geographic links with the EMU. Some members began to rely more heavily on the euro in their foreign exchange reserves management and their exchange rate policy (Kwait, Russia, and Tunisia).*
- *This has not yet amounted to an observable classification trend, but the reason some members aim to shift to such an arrangement is to cope with dollar depreciation pressures while continuing to tightly manage their exchange rate with respect to an external anchor."*

The well known relative role of the Euro as an anchor currency

"In its latest report on exchange rate arrangements, the IMF listed 29 countries that use the euro as the anchor for exchange rate policies".



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Role of the Euro: EMEs, Latam and Brazil

Merchandise trade with Eurozone

- Among selected Latin American countries, Brazil is the major commercial partner of the Eurozone. It's the greatest importer in relative terms and the second exporter after Chile;
- The USA are still the Latin America's major commercial partner, specially for Mexico;
- The average share of trade flow is about 13% of total Latam countries considered. Excluding Mexico, the share goes up to 18%;
- In general, Eurozone imports share is higher in the biggest economies. On the other side, exports share to Euro countries is higher in the small economies;
- There's a wide room for improvement on trade relationship.

Merchandise trade with Eurozone

Latin America - selected countries (2007, % share)

Countries	Exports	Imports	Trade flow
Brazil	19.8	20.1	19.9
Argentina	15.4	17.5	16.3
Uruguay	16.6	11.5	13.5
Mexico	4.9	10.3	7.6
Chile	21.0	11.3	17.2
Peru	15.2	9.4	12.8
Subtotal	12.8	13.5	13.1
Subtotal (exclusive Mexico)	18.8	16.9	18.0
Eurozone in world merchandise trade*	28.3	27.2	27.8

*2006 WTO data. Includes intra-area trade.

Official foreign exchange reserves in Euro

- In 2007, the developing countries had higher share of reserves in Euro than the global average;
- There are available figures for only three Latam countries. Chile shows the highest participation (almost a quarter of international reserves are in Euro).

Official foreign exchange reserves in Euro

Reserves data, whose currency composition has been identified.

% of total reserves

	2007
All countries	26.5
Developing countries	28.4
<hr/>	
Selected Latin American countries*	2006
Chile	24.7
Peru	17.8
Uruguay	1.3

*Data reported by countries' authorities.

Euro denominated external debt

- On average, the Latin American Euro denominated external debt is small, below 10%;
- Except for Chile, external assets and liabilities have similar Euro participation;
- The current Brazilian policy follows basically the same pattern;
- Chile figures suggest a more active investment strategy for international reserves.

Euro denominated external debt

Latin America - selected countries (% of total debt*)

Countries	Classification	Period	Share (%)
Brazil	Total	2007	6.1
Argentina	Public	2008 Q2	10.6
Uruguay	Total	2007	5.2
Peru	Public	2008 Q2	12.9
Chile	Total	2006	3.6

*According to classification

Sovereign Euro denominated external bonds

- **There is a significant share of Euro issues in total sovereign external bonds;**
- **Argentina and Mexico present the highest shares;**
- **The exceptions: Chile and Uruguay.**

Sovereign Euro denominated external bonds

September 2008 position

% of total sovereign external bonds*

Brazil	14.0
Argentina	28.4
Uruguay	6.1
Chile	-
Mexico	18.4
Peru	15.5

* Face value



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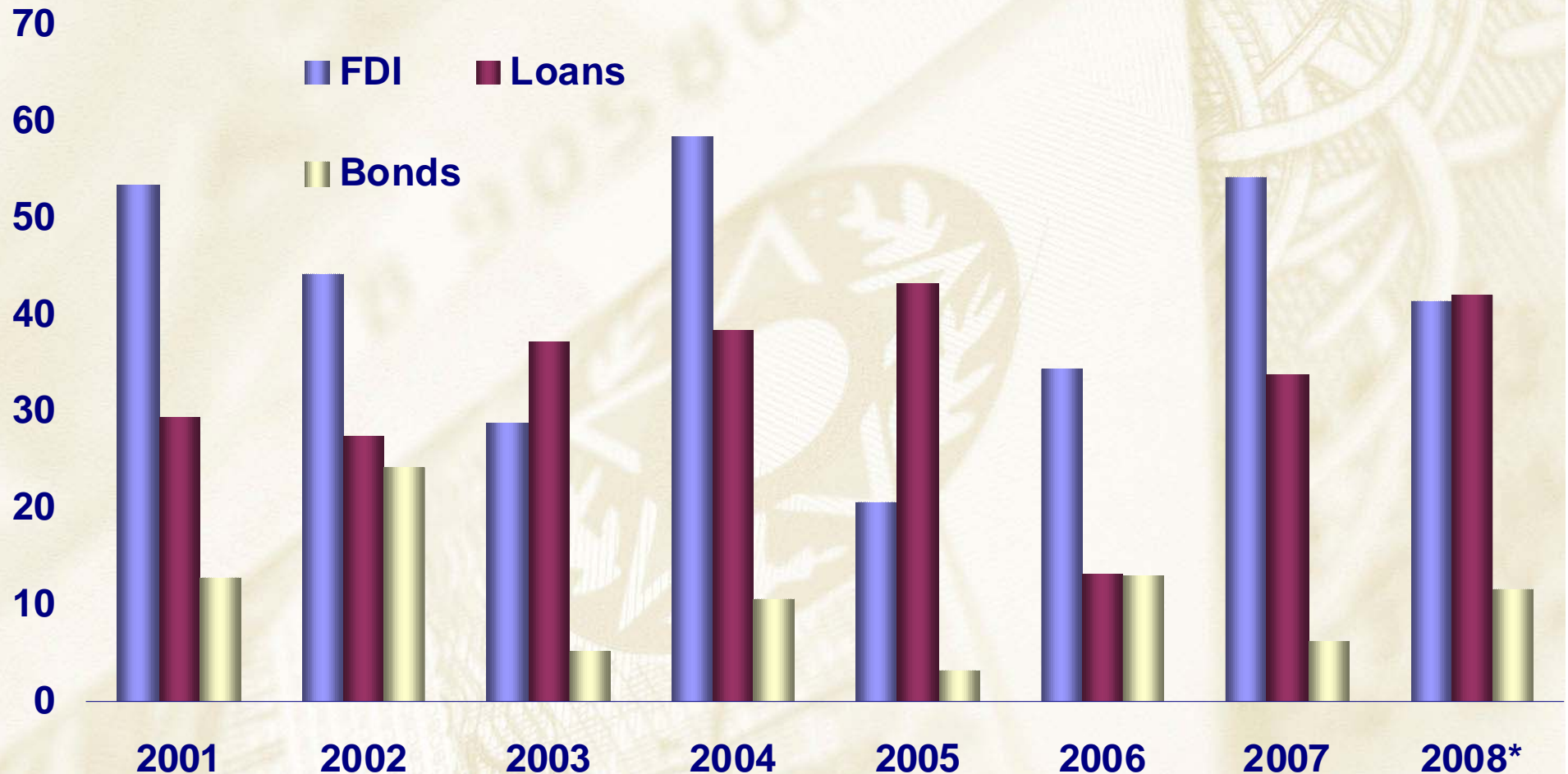
Eurozone – Brazil economic relationship

Eurozone countries' investments in Brazil

- In addition to commercial relationship, financial relations between Brazil and Eurozone are strong as well;
- Both commercial and financial relations seems to be more important than the relations with the Euro currency;
- In Brazil, from 2001 to 2008, Eurozone countries originated an average of 21.5% of total external borrowing and about 48.5% of FDI inflow.

Eurozone countries' investments in Brazil

% of total foreign investments in these categories

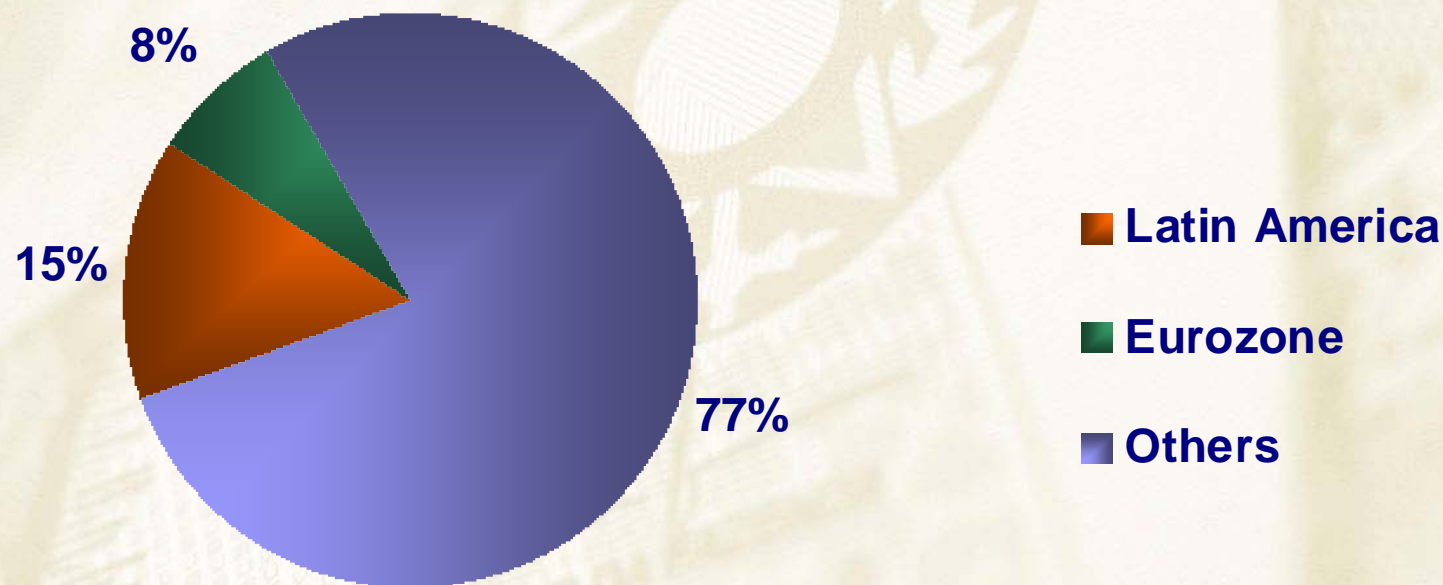


* Jan-Jul

Brazil direct investment in the Euro countries

- From 2007 to 2008, Brazil direct investment in Eurozone reached 7.7% of total direct investment abroad, below the Latin America average – 15%.

Accumulated from Jan/2007 to Jul/2008
Total: US\$ 19.2 billion



Exchange rate – Brazilian Real (R\$)



The Brazilian SWF

- Last July, the Brazilian government introduced a bill to the Congress proposing the creation of a SWF;
- The proposal's two main features are:
 - mainly funding by budget resources (not involving use of international reserves under BCB management);
 - possibility of investing on both external and domestic financial assets.
- The SWF when implemented will probably have different benchmarks from those of the international reserves;
- On currencies composition, a new scenario should arise for international sovereign assets as a whole (including IR), favoring others currencies, like the Euro.



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General considerations

General considerations

- **The Euro experience – an extremely successful one: a model, in general, for eventually next monetary integration arrangements;**
- **Can the international role of the Dollar become something different after the current international credit crisis? Is this an opportunity for the Euro?**
- **The Strategic Partnership between EU and Brazil launched in July 2007 is an outstanding milestone.**

General considerations

- **In order to increase trade and investments relationships, an agreement between EU and Mercosur should be reached;**
- **In South America, there is already one specific regional payment system in place (CCR). Another one, is the Payment System in Local Currency (SML), had been developed for the last 2.5 years and started on October, 3rd;**
- **The Euro successful existence is a very important fact for the Brazilian and other regional economies – it represents an alternative currency to further strength the overall trade and investment flows.**



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Thank you very much!