Journal of Financial Crises

Volume 4 | Issue 2

2022

Brazil: Time Deposits with Special Guarantee

Sharon M. Nunn
Yale Program on Financial Stability

Brazil: Time Deposits with Special Guarantee[1]

Sharon M. Nunn[2]

Yale Program on Financial Stability Case Study
July 15, 2022

Abstract

Uncertainty from the Global Financial Crisis spread to the Brazilian financial system in 2008, triggering a flight to quality toward assets with explicit or implicit government guarantees. In the Brazilian context, this meant depositors pulled funds from small and medium-size banks and parked them in larger banks that investors believed the government was more likely to backstop. The National Monetary Council (CMN) created the Time Deposits with Special Guarantee program (DPGE) in March 2009 to bolster liquidity in small and medium-size banks. The CMN put the country's existing deposit insurer, the Credit Guarantee Fund (FGC), in charge of administering the DPGE. The program, which was voluntary, guaranteed time deposits with terms between six and 60 months. It targeted institutional investors, guaranteeing eligible accounts of up to 20 million Brazilian reals (USD 9 million) per depositor per bank conglomerate, and banks paid a monthly fee to participate. At its peak in 2012, the DPGE covered BRL 28 billion in deposits. Between 2011 and 2016, it paid out a total of BRL 4.1 billion to insured depositors at six failing banks. The DPGE was a relatively small burden for the FGC, representing less than 5% of its total insured deposits throughout the program's duration. In 2010, the CMN set the original DPGE to phase out by 2016 and replaced it with a modified, permanent version in 2012 that required banks to pledge collateral in return for lower fees. In response to the COVID-19 pandemic, the CMN in 2020 created a New DPGE (NDPGE) that resembled the initial guarantee but had a higher limit for individual depositors. The original DPGE succeeded in temporarily boosting liquidity in small and medium-size Brazilian banks. Some analysts criticized policymakers when they decided to transform the DPGE into a permanent program.

Keywords: Account guarantees, Banco Central do Brasil, Brazil, Credit Guarantee Fund, National Monetary Council, small and medium-size banks, time deposits

---

[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering account guarantee programs.Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

[2] Research Associate, YPFS, Yale School of Management.

Overview

The Brazilian economy performed better than many others during the Global Financial Crisis (GFC), absorbing most of the external shock's impact (Filho, Macahyba, and Zeidan 2014). Credit contracted briefly but continued to grow from 2008 to 2013.[3] Even so, the structure of Brazil's banking sector meant that the GFC-era flight-to-safety trends and liquidity constraints had a disproportionately negative impact on the country's smaller banks (Mesquita and Torós 2010).

Brazil's financial system is large but concentrated and highly interconnected domestically (IMF and World Bank 2012). The five largest banks made up two-thirds of the sector's total assets in the mid-2000s to early 2010s. During this period, the country's small banks funded themselves primarily through time deposits from a limited number of institutional investors, such as insurance companies and pension funds, whereas the country's larger banks relied on demand deposits (Mesquita and Torós 2010). Smaller Brazilian banks, like their larger counterparts, took advantage of global liquidity and rising sovereign credit ratings during the pre-GFC era to increase debt and equity issuance to both domestic and foreign investors and then accelerated loan growth. The US-dollar liquidity crunch and flight to quality that marked the GFC led investors, primarily institutional investors, to pull deposits from smaller institutions and park them in the country's large banks (Mesquita and Torós 2010; FGC 2009). Time deposits in small banks fell 18.8% in the second half of

Key Terms

Purpose: To bolster liquidity in small and medium-size financial institutions	
Launch Dates	Authorized: March 26, 2009 Operational: April 1, 2009
End Dates	Newly issued deposits phased out by January 2016; new, modified, and permanent version created in 2012
Eligible Institutions	Commercial banks, development banks, investments banks, credit, financing and investment societies, savings banks, and "multiple banks"
Eligible Account(s)	Time deposits with terms of six to 60 months up to BRL 20 million per depositor per bank conglomerate
Fees	0.0833% per month on time deposits
Size of Guarantee	BRL 20 million per depositor per bank conglomerate
Coverage	Use peaked at BRL 28 billion in 2012
Outcomes	Paid out BRL 4.1 billion to guaranteed depositors, compared to BRL 1.4 billion in fees collected
Notable Features	The FGC imposed institutional limits on insured time deposits in addition to individual depositor limits The FGC charged banks fees 10 times greater than base fees on insured time deposits that exceeded the insurer's limits The program appeared to target institutional investors' deposits

[3] International Monetary Fund (IMF) analysts argued in 2012 that Brazil's fiscal responsibility legislation, inflation targeting regime, competent management of foreign debt, significant foreign direct investment, and

2008, while rising by 37.2% in larger banks (BCB 2009a). Regular deposits showed a similar trend: between fall 2008 and the start of 2009, small and medium-size institutions experienced deposit outflows of 23% and 11%, respectively, while deposits in larger banks rose by 20% (Mesquita and Torós 2010).[4] Researchers noted, "Since the market is concentrated, market agents consider the large banks as much more solid than the rest of the system" (Filho, Macahyba, and Zeidan 2014). The Banco Central do Brasil (BCB) called the problem "liquidity pooling" (BCB 2009b).

The National Monetary Council (CMN), the primary financial and economic policymaking body in Brazil, created the Time Deposits with Special Guarantee program (DPGE) in March 2009 to bolster liquidity in small and medium-size banks (CMN 2009; FGC 2009). The CMN put the country's existing deposit insurer, the Credit Guarantee Fund (FGC), in charge of administering the DPGE. The program guaranteed time deposits with terms between six and 60 months (CMN 2009). It guaranteed eligible deposits up to BRL 20 million (USD 9 million) per depositor per bank conglomerate, and banks paid a monthly fee to participate.[5]

In 2010, after the Brazilian economy began recovering from the GFC, the CMN chose to phase out new issuance of "old" DPGE deposits by January 1, 2016, creating a permanent version called the DPGE II in 2012 (CMN 2010; CMN 2012). The main innovation of the DPGE II was that banks pledged assets to the FGC as collateral in return for lower fees (CMN 2012).

In 2020, in response to the COVID-19 pandemic, the CMN created the New DPGE (NDPGE), which resembled the initial guarantee but had a higher limit of BRL 40 million for individual depositors (FGC 2020).

The original DPGE time-deposit coverage peaked at BRL 28 billion in 2012 (FGC 2012). The FGC collected BRL 1.4 billion in fees between 2009 and 2016. The FGC had paid a total of BRL 4.1 billion to guaranteed DPGE depositors in failed banks by the end of 2016, according to FGC annual reports (FGC 2012; FGC 2013; FGC 2014; FGC 2016). The FGC was able to meet these expenses in 2012 and 2013 and still record a positive net income; monthly contributions from its ordinary guarantee program, plus financial income, substantially exceeded depositor payouts (FGC 2013). The DPGE was a relatively small program for the FGC, never amounting to more than 5% of the FGC's total insured deposits.

The amount of time deposits in small banks rose immediately after the introduction of the guarantee by about 24% between March and May of 2009 (Mesquita and Torós 2010) (see Figure 1).

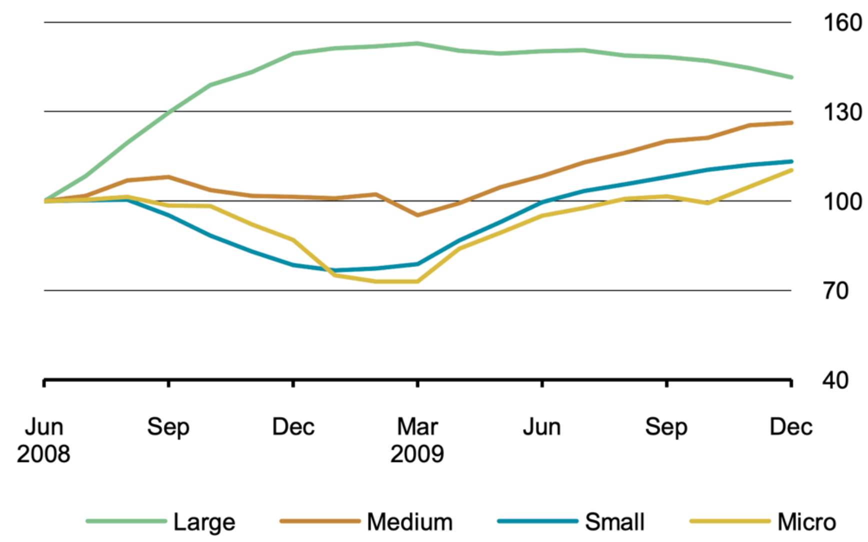
---

adequate banking supervision explained the country's resilience to external shocks (IMF and World Bank 2012).

[4] Investors moved deposits *within* the Brazilian financial system to larger banks and not out of the country (Mesquita and Torós 2010).

[5] Per Federal Reserve Foreign Exchange Rates data set, USD 1 = BRL 2.30 on March 31, 2009.

Figure 1: Changes in Time Deposits



Note: June 2008 = 100.

Source: BCB 2010.

Summary Evaluation

Some researchers conclude that the DPGE strengthened smaller institutions by reviving their issuance of time deposit (Mesquita and Torós 2010; Deos and Mendonça 2017; BCB 2010; FGC 2009). By October 2009, just six months after the DPGE's activation, BCB analysts had concluded that liquidity conditions in most small and medium-size banks had normalized because of the program (BCB 2009b). Liquidity in the banks most impacted by the GFC was higher than it had been pre-crisis by the fall of 2009.

Mesquita and Torós, former BCB deputy governors, argue that the program succeeded partly thanks to policymakers' decision to introduce the DPGE after other economic interventions. They note that "setting up of guarantee mechanisms in periods of high stress can be counterproductive because it can risk [stigmatizing] entire classes of institutions, with negative effects on liquidity distribution," but this did not meaningfully occur in Brazil (Mesquita and Torós 2010). Overall, DPGE usage was lower than expected at the outset, which FGC officials said resulted from an influx of regular deposits back into small and medium-size banks (FGC 2009).

Some analysts were critical of banks for high DPGE usage and of the government for extending the program. Researchers at Fitch Ratings argue that the market negatively viewed the higher use of DPGE, making those banks' access to other funding sources difficult (Vieira, Ribas, and Goncalves 2012). In the same report, the analysts urge policymakers to activate such programs only in times of increased market volatility and economic uncertainty, rather than make them a recurring funding source. Instead, they argue, the authorities should find sustainable funding for Brazil's smaller banks, which frequently struggled to obtain consistent funding even prior to the GFC.

The IMF later criticized several FGC institutional functions and limitations. It also criticized Brazil for delegating lender-of-last-resort responsibilities to the FGC, a private organization, rather than to the central bank (IMF 2018). This responsibility, it argued, combined with the FGC's lack of access to emergency funding from the Brazilian government, could undermine public confidence in the FGC's deposit-insurance system. Thus, the IMF concluded, the FGC's funding position was "precarious," even though "the overall fund is adequate by international standards" (IMF 2018). The IMF also noted that the FGC's depositor-payout system was slow, and that the FGC was unable to adequately analyze the financial condition of member banks.

Context: Brazil 2008–2009	
GDP (SAAR, Nominal GDP in LCU converted to USD)	$1,722.61 billion in 2008 $1,700.89 billion in 2009
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	$8,831.00 in 2008 $ 8,598.00 in 2009
Sovereign credit rating (five-year senior debt)	Data for 2008: Moody's: Ba1 S&P: BBB+ Fitch: BBB- Data for 2009: Moody's: Baa3 S&P: BBB+ Fitch: BBB-
Size of banking system	$1,306.08 billion in 2008 $1,365.47 billion in 2009
Size of banking system as a percentage of GDP	75.82% in 2008 80.28% in 2009
Size of banking system as a percentage of financial system	90.88% in 2008 88.72% in 2009
Five-bank concentration of banking system	62.54% in 2008 77.20% in 2009
Foreign involvement in banking system	22.00% in 2008 18.00% in 2009
Government ownership of banking system	40% in 2008 Data not available for 2009
Existence of deposit insurance	Yes in 2008 Yes in 2009
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset; Cull, Peria, and Verrier 2018.	

Key Design Decisions

1. Purpose: Brazilian policymakers created the DPGE to bolster liquidity in small and medium-size banks by supporting institutional investors.

The US-dollar liquidity crunch and flight to quality that marked the Global Financial Crisis (GFC) led investors, primarily institutional investors, to pull deposits from Brazil's smaller institutions and park them in the country's large banks (Mesquita and Torós 2010; FGC 2009). These smaller banks, at the time, were funding themselves primarily through time deposits from a limited number of institutional investors, such as insurance companies and pension funds (Mesquita and Torós 2010).

In response to the deposit outflows, Brazilian policymakers in March 2009 created a new time-deposit guarantee scheme to provide smaller banks with an alternative funding source and tasked the country's existing deposit insurer, the Credit Guarantee Fund (FGC), with implementing it (CMN 2009; FGC 2009; Mesquita and Torós 2010; Vieira, Ribas, and Goncalves 2012). Officials called it the "time deposits with special guarantee" (*Depósitos a Prazo com Garantia Especial*, hereinafter DPGE).

FGC's high-guarantee coverage of DPGE time deposits of up to BRL 20 million per depositor was targeted at the skittish institutional investors upon which smaller banks tended to rely. The FGC's ordinary depositor guarantee was BRL 70,000 at the time (Vieira, Ribas, and Goncalves 2012).

2. Part of a Package: The Banco Central do Brazil and the National Monetary Council implemented several policies to deal with liquidity shortages in the Brazilian financial system, changing bank reserve requirements and discount-window logistics and expanding the FGC's powers.

In response to tightening borrowing conditions stemming from the GFC, the Banco Central do Brazil (BCB) and the National Monetary Council (CMN) created a suite of policies meant to augment liquidity in the Brazilian economy (Mesquita and Torós 2010; Deos and Mendonça 2017). The BCB made various bank-reserve-requirement changes, including postponing planned reserve-requirement hikes for leasing transactions, lowering reserve requirements for certain deposit accounts, and increasing the overall reserve limit, which, if surpassed, obligated banks to deposit extra funds into their accounts with the BCB (BCB 2008a; BCB 2008b; BCB 2009a). Policymakers also loosened discount-window rules, allowing access to a broader spectrum of counterparties, expanding the range of eligible collateral, and lengthening the terms of the loans the BCB provided (Deos and Mendonça 2017; BCB 2009a; Mesquita and Torós 2010).

Prior to creating the DPGE in March 2009, the CMN in December 2008 expanded the FGC's role to include emergency liquidity assistance and structural support for financial institutions (CMN 2008; CMN 2009).

3. Legal Authority: Brazilian Law No. 4,595 of December 31, 1964, gives the CMN the authority to implement a credit-guarantee program.

The CMN is the primary financial and economic policymaking body in Brazil (BCB 2021c).[6] It sets the country's monetary, exchange-rate, and credit policies through the BCB and the Securities and Exchange Commission (BCB 2021c). The CMN used its powers outlined in Law No. 4,595, dated December 31, 1964, to create the DPGE (Law 4,595 1964; CMN 2009). Ensuring the liquidity and solvency of Brazilian financial institutions is one of the CMN's mandates, according to Article 3, Section 6 (Law 4,595 1964). Article 4, Section 8 of the law gives the CMN the power to regulate the constitution, inspection, and operation of the entities subject to its supervision, including the FGC, which the CMN tasked with administering the DPGE (CMN 1995; CMN 2009).

The CMN established the FGC in the mid-1990s as a private nonprofit organization (FGC 2021; BCB 2021a). At the time of the GFC, it guaranteed a variety of bank accounts up to BRL 70,000 per depositor per financial conglomerate; since 2013, it has guaranteed up to BRL 250,000, with an overall ceiling of BRL 1 million per depositor.[7] The FGC is funded by the country's deposit-taking financial institutions, for which FGC membership is mandatory. The FGC also provides so-called open-bank assistance, such as providing operating liquidity, funding restructuring, or lending to shareholders or potential shareholders of troubled banks (IMF 2018).

The CMN also drew on sections of Resolution 3,251, dated December 16, 2004, to determine the mechanics of the DPGE, including the fee calculation, the payment process, and the qualifying events that would trigger a guarantee payout (CMN 2009; CMN 2004).

4. Administration: The FGC administered the guarantee, and the BCB could help manage risk, if necessary.

The FGC administered the DPGE (CMN 2009). If an institution exceeded the limit of DPGE deposits, the BCB could demand a variety of risk-mitigation measures, including prohibiting the bank from pursuing new lines of business and requiring additional fees. The resolution's language gives the BCB the authority to take these measures but does not require the central bank to do so. The CMN also gave the BCB the ability to use additional measures to ensure the "smooth operation" of the DPGE (CMN 2009). The exact nature of those additional measures is unclear from the publicly available documentation.

[6] The CMN is currently run by the minister of finance/economy, the special secretary of treasury and budget of the ministry of economy, and the BCB governor (BCB 2021d; BCB 2021b). In 2009, the CMN was composed of different members and included the minister of planning instead of the special secretary of treasury and budget of the ministry of economy. The technical commission for currency and credit advises the CMN, providing technical evaluation and advice (BCB 2021d).

[7] If the BCB triggers the liquidation or intervention of a financial institution that prompts FGC payouts, the FGC guarantees individuals an additional BRL 1 million for four years (BCB 2021a).

5. Governance: The BCB and the CMN regulated the FGC.

The BCB and the CMN regulated the FGC and its operations (BCB 2021a). For example, the BCB set fee-calculation methods for the FGC, and any fee changes the FGC wanted to make required BCB examination and CMN approval (CMN 2013).

Brazilian law required the FGC to publish balance sheet and income statements for the year (CMN 2013). Policymakers required independent auditors to review the FGC releases.

6. Communication: BCB and FGC officials said policymakers created the DPGE to support liquidity in small and medium-size banks.

During the GFC, uncertainty spread to the Brazilian financial system and triggering a flight to quality toward assets with explicit or implicit government guarantees (Mesquita and Torós 2010; Deos and Mendonça 2017). In the Brazilian context, this meant institutional investors pulled funds from small and medium-size banks, funneling them to larger banks; policymakers positioned the DPGE as a response to this trend (Mesquita and Torós 2010; Deos and Mendonça 2017; BCB 2009b). The FGC echoed these sentiments in the annual report published during the first year of the DPGE's operation, stating the guarantee "enabled institutional investors to resume investing in medium and small sized institutions" (FGC 2009).

In 2008, the FGC's role expanded to include two types of programs: liquidity assistance and structural support for financial institutions (FGC 2016). The FGC in its 2010 annual report described its growing role in the Brazilian financial system beyond insuring deposits. It said the FGC had begun to actively collaborate with the BCB to ensure financial stability and encourage liquidity.

7. Size of Guarantees (A): The DPGE guaranteed up to BRL 20 million per depositor per bank conglomerate.

The DPGE guaranteed up to BRL 20 million of an individual depositor's qualifying time deposits per bank or per bank conglomerate (CMN 2009). The value of time deposits was recalculated each month based on the Selic rate, the BCB's monetary-policy interest rate, equivalent to the US Federal Reserve's Federal Funds Rate (CMN 2009; BCB 2021e).

The program guaranteed, at its peak in 2012, approximately BRL 28 billion. This represented less than 5% of the FGC's total insured-deposit base throughout the duration of the program (see Figure 2). In 2013, the CMN raised the FGC's deposit-insurance cap from BRL 70,000 per depositor to BRL 250,000 (FGC 2013).

Figure 2: FGC Guarantees (Brazilian real, billions)

Year	DPGE	Ordinary Deposits	Total	DPGE/Total
2009	14.3	409.0	423.3	3.4%
2010	19.3	472.2	491.5	3.9%
2011	26.4	529.1	555.5	4.8%
2012	27.7	787.0	814.7	3.4%
2013	26.8*	910.4	937.3	2.9%
2014	21.0*	990.9	1,011.9	2.1%
2015	14.8*	1,012.1	1,026.9	1.4%
2016	9.3*	1,039.0	1,048.3	0.9%

*Figure refers to the cumulative liabilities of both DPGE I and DPGE II.

Sources: FGC 2009; FGC 2010; FGC 2011; FGC 2012; FGC 2013; FGC 2014; FGC 2016.

Size of Guarantees (B): Policymakers established institutional limits based on banks' capital and previous time-deposit issuance.

During the DPGE's first iteration, deposit guarantees for individual banks were limited to the higher value of either of the following (with an overall upper limit of BRL 5 billion) (CMN 2009; CMN 2010):

- twice the value of a bank's regulatory capital (PR), tier one, calculated on December 31, 2008, or
- the sum of time deposits recorded in the institution on June 30, 2008.

8. Sources and Size of Funding: Institutions paid fees for the FGC's DPGE guarantee, and the FGC could use other measures, such as ordering members to pay extra contributions, to cover any additional funding needs.

Brazilian law explicitly prohibits public and private actors from using public funds to rescue banks unless they were granted permission via legislation. As a private entity, the DPGE could support banks, but it could not seek public funds for the purpose, and so it raised all its financing from insured institutions (BCB 2021a; Law 101 2000). As described in Key Design Decision No. 11 ("Fees"), the FGC charged institutions monthly fees based on the amount of DPGE time deposits issued (CMN 2009). The FGC was also granted subrogation rights against institutions, for which the FGC paid depositors (FGC 2016). Though the FGC could order its members to pay extra contributions, they were limited to either 50% of monthly contributions or payment in advance of up to 60 monthly contributions (IMF 2018). The FGC could also borrow from other banks or issue negotiable credit instruments.

The fees institutions paid for the DPGE were ultimately insufficient to cover DPGE payouts, as noted in Key Design Decision No. 11. But monthly contributions from the FGC's ordinary guarantee program, plus financial income, substantially exceeded depositor payouts during the postcrisis period (FGC 2013).

The FGC's ex ante resources appeared relatively strong before the GFC. After the crisis, it set targets of cash and cash equivalents of 2% of total deposits at insured institutions. By that measure, its deposit cover was more than 2% in 2009 and 2010; fell below 1% in 2012 and 2013, after GFC-era depositor payouts (see Figure 4); and had climbed back to 1.8% by 2016.[8] However, since 2008, the FGC has used the same funds to handle emergency lending and open-bank assistance. Under the CMN's rules, the FGC may use up to 50% of its equity to provide open-bank assistance to a single bank but has no access to emergency backup funding from the government. As such, the IMF said in 2018 that the FGC's funding position was "precarious," even though "the overall fund is adequate by international standards" (IMF 2018).

9. Eligible Institutions: The CMN made a variety of financial institutions eligible for DPGE participation, including commercial, development, and savings banks, among others.

CMN policymakers made eligible commercial banks, development banks, investments banks, credit, financing-and-investment societies, savings banks, and "multiple banks," which are entities that are authorized to perform various financial functions, including commercial banking and investment banking (CMN 2009; Robitaille 2011).

Policymakers made DPGE participation optional (CMN 2009). Banks could issue DPGE time deposits and non-DPGE time deposits.

10. Eligible Accounts: The DPGE covered time deposits.

Time deposits are fixed-term investment tools through which an individual agrees to lend money to a bank and receives interest proportionate to the waiting period for repayment. DPGE-eligible instruments had terms between six and 60 months (CMN 2009). The DPGE primarily targeted institutional investors with the FGC's larger-guarantee coverage of up to BRL 20 million per depositor, compared to BRL 70,000 for regular deposits (Vieira, Ribas, and Goncalves 2012).

11. Fees: Institutions paid fees based on the amount of guaranteed time deposits their customers held and were charged more if their DPGE issuance reached certain levels.

The FGC charged institutions 0.0833% per month on time deposits within the institutional upper limit of BRL 5 billion (CMN 2009). The FGC charged institutions a higher fee, 0.8333%

[8] The FGC used a conservative method to measure deposit coverage. Typically, deposit insurers compare fund assets to the portion of deposits that are insured. By that measure, the FGC's deposit cover never fell below 3.5% between 2009 and 2016, according to the author's calculations based on FGC annual reports.

per month, if they exceeded this upper limit. In 2009, the FGC levied a 0.0125% monthly fee on regular (non-DPGE) guaranteed balances (FGC 2009). Thus, DPGE utilization entailed higher funding costs, and earnings pressure, for the banks that depended on the program (BCB 2010).

The FGC used an institution's monthly average of the daily balances of guaranteed accounts to calculate its DPGE fee, a figure it shared with the banks by the 25th of each month (CMN 2009; CMN 2004). The banks had to pay this fee to the FGC by the first business day of the month following the amount's verification. If an institution was late in making a payment, the FGC would tack on a fine of 2% of the amount originally due, as well as an adjustment based on the Selic rate.

The FGC collected BRL 1.4 billion in fees between 2009 and 2016 (see Figure 3).

Figure 3: DPGE Fees Collected

Year	Total Collected (Brazilian real, millions)
2009	61.7
2010	165.7
2011	226.3
2012	253.2
2013	233.6
2014	204.1
2015	139.3
2016	91.7
Total	**1,375.7**

Sources: FGC 2009; FGC 2010; FGC 2011; FGC 2012; FGC 2013; FGC 2014; FGC 2016.

By the end of 2016, but mostly in 2012 and 2013, the FGC had paid out BRL 4.1 billion to guaranteed depositors in liquidated banks through the DPGE program, according to FGC annual reports (FGC 2012; FGC 2013; FGC 2014; FGC 2016) (see Figure 4). For example, the BCB forced Banco Cruzeiro do Sul, which required most FGC support for its DPGE issuance, to liquidate because of significant accounting errors and fraud allegations. The BCB discovered that Cruzeiro had negative capital of approximately $1.5 billion (IMF 2018; Cleary Gottlieb 2012; Tombini 2012).

Figure 4: Total FGC Depositor Payouts, 2011–2016 (Brazilian real, millions)

	Payment start date	DPGE	Payment start date	Ordinary	Total
Banco Morada	5/3/11	130.5	5/3/11	19.7	150.3
Oboe CFI	9/21/11	108.4	9/21/11	51.6	160.1
Banco Cruzeiro do Sul	9/20/12	1,887.2	11/22/12	72.7	1,960.1
Banco Prosper	9/26/12	129.9	2/18/13	3.6	133.8
Banco BVA	10/25/12	1,025.4	3/4/13	277.6	1,308.5
Banco Rural	8/2/13	788.7	11/8/13	145.7	973.1
Other banks*		n/a		485.5	440.6
Balance, 12/31/2016**		**4,070.1**		**1,056.4**	**5,126.5**

*Sums assume that the BRL 0.1 billion paid to Banco BRJ depositors was entirely for ordinary deposits; sources are not clear on this.

**Net of recoveries.

Sources: FGC 2012; FGC 2013; FGC 2016; FGC 2014.

The FGC was able to meet these expenses in 2012 and 2013 and still record a positive net income. Monthly contributions from its ordinary guarantee program, plus financial income, exceeded depositor payouts (FGC 2013).

The FGC also charged banks late fees for delayed DPGE payments. The FGC tacked on a fine of 2% of the amount that was originally due, as well as an adjustment based on the Selic rate (CMN 2009; CMN 2004).

12. Process for Exercising Guarantee: Specific details of the guarantee process are unclear from the available documentation.

The FGC exercised the guarantee when banks were extrajudicially liquidated, went bankrupt, were subject to an intervention decree, were declared insolvent by the BCB, or met the requirements of other special situations previously agreed upon by the BCB and FGC (CMN 2009; CMN 2004). In practice, all of the banks whose depositors received DPGE payouts were eventually liquidated (FGC 2012; FGC 2013; IMF 2018).

When the FGC pays depositors guaranteed funds, the FGC is granted subrogation rights with the aim of recovering part of whole of the amount disbursed to depositors (CMN 2009; CMN 2004; Law 10,406 2002; FGC 2016).

The IMF criticized the FGC's generally slow depositor payouts (IMF 2018).

Other details about the process for exercising guarantees are unclear from the available documentation.

13. Other Restrictions on Eligible Participants/Accounts: The FGC required participating institutions to make record-keeping changes and prohibited them from adjusting the originally contracted yields on time-deposit accounts. The BCB could demand a variety of mitigation measures from banks if their DPGE-guaranteed funds rose beyond the BRL 5 billion limit.

Policymakers required participating institutions to keep records of the guaranteed funds separate from the records of other accounts (CMN 2009). The FGC prohibited banks from renegotiating the yields of guaranteed time deposits.

The CMN gave the BCB the authority to place a variety of demands on a bank that exceeded the BRL 5 billion time deposit limit, including (CMN 2009):

- paying a much higher fee of 0.8333% per month;
- contributing funds to cover additional risks;
- adopting more restrictive operational limits;
- restricting operations or operational procedures, including additional collection of deposits from the public;
- increasing liquidity levels; and
- stopping the creation of new lines of business.

The frequency at which banks exceeded the limit and the extent to which the BCB utilized this heightened authority are unclear from the available documentation.

14. Duration: The CMN did not initially give the DPGE a scheduled end date. It later developed a plan to phase out new issuance of original DPGE instruments by the beginning of 2016 while keeping a modified version in place permanently.

When the CMN created the DPGE in 2009, it did not publicly announce a definitive end date (CMN 2009). In December 2010, after the Brazilian economy had largely recovered from the GFC, the CMN decided to phase out new issuance of "old" DPGE deposits by January 1, 2016 (CMN 2010).

The CMN in 2012 created a permanent version commonly called the DPGE II (CMN 2012; FGC 2016).[9] Under the DPGE II, banks pledge assets to the FGC as collateral for its guarantee—collateral the FGC can accept or reject—and the FGC charges a lower fee, 0.02497% per month on qualifying deposits, that reflects the lower risk it takes thanks to the collateral (CMN 2012). DPGE II–qualifying time deposits must have a term of 12 to 36 months, compared to the original six-to-60-month term.

[9] Because policymakers did not fully phase out DPGE I issuance until 2016, there were multiple years in which banks could issue either DPGE I or DPGE II deposits based on the given phase-out schedule.

Policymakers created the DPGE II to try to distribute liquidity equitably to smaller banks and to provide those institutions with a source of longer-term funding similar to that available through the original DPGE (BCB 2012). Analysts had raised concerns about such banks' need for long-term funding alternatives (Vieira, Ribas, and Goncalves 2012).

In response to the COVID-19 pandemic, the CMN and BCB created a New DPGE, the NDPGE, that resembles the initial guarantee. The NDPGE did not require pledged assets and had a higher limit for individual depositors: BRL 40 million (FGC 2020; CMN 2020a; CMN 2020b; CMN 2020c; CMN 2013).

References and Key Program Documents

Documents cited in the text are introduced with a parenthetical author-date citation. Documents that are relevant to this case but have not been cited in text do not include this parenthetical reference.

Implementation Documents

(CMN 2009) National Monetary Council (CMN). 2009. "Resolution 3,692, from the National Monetary Council—CMN, Dated March 26, 2009." Resolution 3,692.
CMN resolution establishing the DPGE.
https://ypfs.som.yale.edu/library/document/resolution-3692-national-monetary-council-cmn-dated-march-26-2009

(CMN 2010) National Monetary Council (CMN). 2010. "Resolution 3,931, from the National Monetary Council—CMN, Dated December 3, 2010." Resolution 3,931.
CMN resolution phasing out the first DPGE iteration.
https://ypfs.som.yale.edu/library/document/resolution-3931-national-monetary-council-cmn-dated-december-3-2010

(CMN 2012) National Monetary Council (CMN). 2012. "Resolution 4,115, from the National Monetary Council—CMN, Dated July 26, 2012." Resolution 4,115.
CMN resolution implementing a permanent DPGE iteration.
https://ypfs.som.yale.edu/library/document/resolution-4115-national-monetary-council-cmn-dated-july-26-2012

Legal/Regulatory Guidance

(BCB 2008a) Banco Central do Brasil (BCB). 2008a. "Circular 3,405, from the Banco Central do Brasil—BCB, Dated September 24, 2008." Circular.
BCB Circular regarding Global Financial Crisis-era financial stability program.
https://ypfs.som.yale.edu/library/document/circular-3405-banco-central-do-brasil-bcb-dated-september-24-2008

(BCB 2008b) Banco Central do Brasil (BCB). 2008b. "Circular 3,408, from the Banco Central do Brasil—BCB, Dated October 8, 2008." Circular.
BCB Circular regarding Global Financial Crisis-era financial stability program.
https://ypfs.som.yale.edu/library/document/circular-3408-banco-central-do-brasil-bcb-dated-october-8-2008

(BCB 2021a) Banco Central do Brasil (BCB). 2021a. "Deposit Insurance (FGC and FGCoop)." Web page.
BCB web page detailing FGC functions.
https://ypfs.som.yale.edu/library/document/deposit-insurance-fgc-and-fgcoop

(BCB 2021b) Banco Central do Brasil (BCB). 2021b. "Historical Composition of the National Monetary Council—CMN."
BCB document delineating the CMN's composition throughout its history.
https://ypfs.som.yale.edu/library/document/historical-composition-national-monetary-council-cmn

(BCB 2021c) Banco Central do Brasil (BCB). 2021c. "National Financial System (SFN)." Web page.
BCB web page detailing the structure of the country's financial system.
https://ypfs.som.yale.edu/library/document/national-financial-system-sfn

(BCB 2021d) Banco Central do Brasil (BCB). 2021d. "National Monetary Council." Web page.
BCB web page explaining CMN functions.
https://ypfs.som.yale.edu/library/document/national-monetary-council

(BCB 2021e) Banco Central do Brasil (BCB). 2021e. "Selic Interest Rate." Web page.
BCB web page explaining its Selic interest rate.
https://ypfs.som.yale.edu/library/document/selic-interest-rate

(CMN 1995) National Monetary Council (CMN). 1995. "Resolution 2,197, from the National Monetary Council—CMN, Dated August 31, 1995." Resolution, as amended 2,197.
CMN resolution creating the FGC.
https://ypfs.som.yale.edu/library/document/resolution-2197-national-monetary-council-cmn-dated-august-31-1995

(CMN 2004) National Monetary Council (CMN). 2004. "Resolution 3,251, from the National Monetary Council—CMN, Dated December 16, 2004." Resolution 3,251.
CMN resolution altering FGC operating rules.
https://ypfs.som.yale.edu/library/document/resolution-3251-national-monetary-council-cmn-dated-december-16-2004

(CMN 2008) National Monetary Council (CMN). 2008. "Resolution 3,656, from the National Monetary Council—CMN, Dated December 17, 2008." Resolution 3,656.
CMN resolution implementing a permanent DPGE iteration.
https://ypfs.som.yale.edu/library/document/resolution-3656-national-monetary-council-cmn-dated-december-17-2008

(CMN 2013) National Monetary Council (CMN). 2013. "Resolution 4,222, from the National Monetary Council—CMN, Dated May 23, 2013." Resolution 4,222.
CMN resolution changing and consolidating FGC rules.
https://ypfs.som.yale.edu/library/document/resolution-4222-national-monetary-council-cmn-dated-may-23-2013

(CMN 2020a) National Monetary Council (CMN). 2020a. “Resolution 4,785, from the National Monetary Council—CMN, Dated March 23, 2020.” Resolution 4,785.
CMN resolution adjusting DPGE policy.
https://ypfs.som.yale.edu/library/document/resolution-4785-national-monetary-council-cmn-dated-march-23-2020

(CMN 2020b) National Monetary Council (CMN). 2020b. “Resolution 4,799, from the National Monetary Council—CMN, Dated April 6, 2020.” Resolution 4,799.
CMN resolution adjusting DPGE policy.
https://ypfs.som.yale.edu/library/document/resolution-4799-national-monetary-council-cmn-dated-april-6-2020

(CMN 2020c) National Monetary Council (CMN). 2020c. “Resolution 4,805, from the National Monetary Council—CMN, Dated April 23, 2020.” Resolution 4,805.
CMN resolution adjusting DPGE policy.
https://ypfs.som.yale.edu/library/document/resolution-4805-national-monetary-council-cmn-dated-april-23-2020

(FGC 2021) Fundo Garantidor de Créditos (FGC). 2021. “FGC—Information.” Web page.
FGC web page detailing the institution’s history and priorities.
https://ypfs.som.yale.edu/library/document/fgc-information

(Law 4,595 1964) Brazilian Government (Law 4,595). 1964. “Law 4,595, Dated December 31, 1964.” Law, as amended.
Brazilian law establishing the National Monetary Council.
https://ypfs.som.yale.edu/library/document/law-4595-dated-december-31-1964

(Law 10,406 2002) Brazilian Government (Law 10,406). 2002. “Law No. 10,406 Of January 10, 2002.” Law.
Brazil’s revised civil code.
https://ypfs.som.yale.edu/library/document/law-no-10406-january-10-2002

(Law 101 2000) Brazilian Government (Law 101). 2000. “Supplementary Law No. 101 of May 4, 2000.” Law.
Brazilian law implementing budget constraints.
https://ypfs.som.yale.edu/library/document/supplementary-law-no-101-may-4-2000

(Tombini 2012) Tombini, Alexandre Antonio. 2012. “Ato do Presidente n° 1.230 de 14/9/2012.” Decree 1,230.
BCB President Tombini decree announcing the forced liquidation of Banco Cruzeiro do Sul.
https://ypfs.som.yale.edu/library/document/ato-do-presidente-ndeg-1230-de-1492012

Media Stories

(Cleary Gottlieb 2012) Cleary Gottlieb Steen & Hamilton LLP. 2012. “Banco Cruzeiro Do Sul in $1.6 Billion Debt Restructuring.” Blog Post.
Cleary Gottlieb Steen & Hamilton LLP blog post regarding its involvement with the cash tender offer and consent solicitation by the FGC relating to $16 billion in outstanding debt securities issued by Banco Cruzeiro do Sul.
https://ypfs.som.yale.edu/library/document/banco-cruzeiro-do-sul-16-billion-debt-restructuring

Key Academic Papers

(Cull, Peria, and Verrier 2018) Cull, Robert, Maria Soledad Martinez Peria, and Jeanne Verrier. 2018. “Bank Ownership: Trends and Implications.” Policy Research Working Paper 8297.
IMF Policy Research Working Paper presenting recent trends in government and foreign bank ownership across countries. The paper was written by the IMF’s Development Research Group, including the Finance and Private Sector Development Team.
https://ypfs.som.yale.edu/library/bank-ownership-trends-and-implications

(Robitaille 2011) Robitaille, Patrice. 2011. “Liquidity and Reserve Requirements in Brazil.” International Finance Discussion Paper 1,021.
US Federal Reserve Board discussion paper regarding the Brazilian experience prior to and during the Global Financial Crisis as a case study that can shed light on the challenges of using reserve requirements as a liquidity management tool.
https://ypfs.som.yale.edu/library/document/liquidity-and-reserve-requirements-brazil

Reports/Assessments

(BCB 2009a) Banco Central do Brasil (BCB). 2009a. Relatório de Estabilidade Financeira, Maio 2009. Financial Stability Report 8, no. 1.
BCB report detailing the country’s financial stability updates.
https://ypfs.som.yale.edu/library/document/relatorio-de-estabilidade-financeira-maio-2009

(BCB 2009b) Banco Central do Brasil (BCB). 2009b. Relatório de Estabilidade Financeira, Outubro 2009. Financial Stability Report 8, no. 2.
BCB report detailing the country’s financial stability updates.
https://ypfs.som.yale.edu/library/document/relatorio-de-estabilidade-financeira-outubro-2009

(BCB 2010) Banco Central do Brasil (BCB). 2010. Financial Stability Report, April 2010. Financial Stability Report 9, no. 1.
BCB report detailing the country’s financial stability updates.
https://ypfs.som.yale.edu/library/document/financial-stability-report-april-2010

(BCB 2012) Banco Central do Brasil (BCB). 2012. Relatório de Estabilidade Financeira, Setembro 2012. Financial Stability Report 11, no. 2.
BCB report detailing the country's financial stability updates.
https://ypfs.som.yale.edu/library/document/relatorio-de-estabilidade-financeira-setembro-2012

(Deos and Mendonça 2017) Deos, Simone, and Ana Rosa Ribeiro de Mendonça. 2017. "Facing the 2008 Crisis: Brazilian Central Bank and Public Banking System as Minskyan 'Big Banks.'" In *Public Banks in the Age of Financialization: A Comparative Perspective*, 53–66. Cheltenham, UK; Northampton, MA: Edward Elgar Publishing, 2017.
Book chapter examining the policies adopted in 2008–09, just after the GFC spread to Brazilian financial markets This chapter describes the actions taken by the Brazilian Central Bank and public banks.
https://ypfs.som.yale.edu/library/document/public-banks-age-financialization-comparative-perspective

(FGC 2009) Fundo Garantidor de Créditos (FGC). 2009. Annual Report, Board of Directors' Report, December 2009. Annual Report.
FGC annual report for the year 2009.
https://ypfs.som.yale.edu/library/document/annual-report-board-directors-report-december-2009

(FGC 2010) Fundo Garantidor de Créditos (FGC). 2010. Annual Report, Report from the Administration, December 2010. Annual Report.
FGC annual report for the year 2010.
https://ypfs.som.yale.edu/library/document/annual-report-report-administration-december-2010

(FGC 2011) Fundo Garantidor de Créditos (FGC). 2011. Annual Report, Report from the Administration, December 2011. Annual Report.
FGC annual report for the year 2011.
https://ypfs.som.yale.edu/library/document/annual-report-report-administration-december-2011

(FGC 2012) Fundo Garantidor de Créditos (FGC). 2012. Annual Report, Administration Report, December 2012. Annual Report.
FGC annual report for the year 2012.
https://ypfs.som.yale.edu/library/document/annual-report-administration-report-december-2012

(FGC 2013) Fundo Garantidor de Créditos (FGC). 2013. Annual Report, Report from the Board of Directors, December 2013. Annual Report.
FGC annual report for the year 2013.
https://ypfs.som.yale.edu/library/document/annual-report-report-board-directors-december-2013

(FGC 2014) Fundo Garantidor de Créditos (FGC). 2014. Relatório Anual 2014. Annual Report.
FGC annual report for the year 2014.
https://ypfs.som.yale.edu/library/document/relatorio-anual-2014

(FGC 2016) Fundo Garantidor de Créditos (FGC). 2016. Annual Report—2016. Annual Report.
FGC annual report for the year 2016.
https://ypfs.som.yale.edu/library/document/annual-report-2016

(FGC 2020) Fundo Garantidor de Créditos (FGC). 2020. Annual Report—2020. Annual Report.
FGC annual report for the year 2020.
https://ypfs.som.yale.edu/library/document/annual-report-2020

(Filho, Macahyba, and Zeidan 2014) Filho, Ernani Teixeira Torres, Luiz Macahyba, and Rodrigo Zeidan. 2014. "Restructuring Brazil's National Financial System." Working Paper 06.
International Research Initiative on Brazil and Africa report regarding developments in the Brazilian financial system and its institutions.
https://ypfs.som.yale.edu/library/document/restructuring-brazils-national-financial-system

(IMF 2018) International Monetary Fund (IMF). 2018. "Brazil, Financial Sector Assessment Program, Technical Note on Bank Resolution, Financial Sector Safety Nets, Crisis Prevention and Management." IMF Country Report 18/341.
IMF financial sector assessment of Brazil as of November 2018 This report was written by both the IMF's Monetary and Capital Markets Department and also the Legal Department.
https://ypfs.som.yale.edu/library/document/brazil-financial-sector-assessment-program-technical-note-bank-resolution

(IMF and World Bank 2012) International Monetary Fund and World Bank (IMF and World Bank). 2012. "Brazil, Financial Sector Assessment Program, Basel Core Principles for Effective Banking Supervision, Detailed Assessment of Observance." IMF Country Report 80726.
IMF and World Bank group report studying Brazil's financial system.
https://ypfs.som.yale.edu/library/document/brazil-financial-sector-assessment-program-basel-core-principles-effective-banking

(Mesquita and Torós 2010) Mesquita, Mário, and Mário Torós. 2010. "Brazil and the 2008 Panic." *BIS Papers No. 54: The Global Crisis and Financial Intermediation in Emerging Market Economies*, December, 113–20.
BIS paper chapter regarding Brazil's economic experience during the Global Financial Crisis.
https://ypfs.som.yale.edu/library/document/global-crisis-and-financial-intermediation-emerging-market-economies

(Vieira, Ribas, and Goncalves 2012) Vieira, Luiz Claudio, Eduardo Ribas, and Rita Goncalves. 2012. "DPGE II Favorable for Banking System as Long as It Does Not Lead to Dependence." Non-Rating Action Commentary.
Fitch Ratings analysis regarding the new iteration of DPGE.
https://ypfs.som.yale.edu/library/document/dpge-ii-favorable-banking-system-long-it-does-not-lead-dependence