

The impact of financial globalization in the Brazilian financial system through institutional lenses

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Abstract

From the 1991's economic crisis to investment grade status in 2008, the Brazilian economic underwent an institutional revolution. The purpose of this article is to use the institutional framework to discuss the transformation process that made Brazil one of the most attractive countries in the world. This process also involved changes in people's views who now consider along with credit rating agencies that Brazil is a safe place to invest. With this purpose, the paper is divided in the following sections: the first one is a brief introduction about the institutional evolution of Brazilian financial markets in historical perspective, detailing that the key points that led Brazil to the investment grade status and so, at least theoretically, to attract more investments since then; the second part discusses briefly the theory underlying financial globalization and also give some evidence that the phenomenon took place in Brazil; the third part explains the trend of financial globalization using the institutional literature; the next section is used to explicit the research hypotheses that are tested empirically with Brazilian data; in the penultimate part the empirical results are presented while the last one is dedicated to conclusions relating empirical results and institutional theory with financial globalization in Brazil. The theoretical references are composed basically by traditional authors of institutional logics as Meyer and Rowan (1977) and DiMaggio and Powell (1983) mixed with sociological literature as Machado-da-Silva, Fonseca and Crubellate (2005) presented in their paper. Giddens (1986; 1991) offers the sociological terms as reciprocity, recursivity. In this sense, this literature is related to financial systems when investors pursuing intentionality, ability and power, represented by capital, decide to invest in institutions which use this capital as a mean to change or simple reproduce social and economic reality. The output given by these institutions is used in future investors' decision. Legitimacy is created in the interdependency between institutions and investors through investing and trusting more in the country. The empirical analysis uses data from the Brazilian Central Bank to investigate the factors which explain the inflows of Foreign Direct Investment (FDI) as long term capital and the real value of listed companies in the Brazilian Stock Exchange to measure the inflows of speculative

capital. Our estimates are obtained using ordinary-least squares, following Greene (2003), using robust estimation. The results point out that not only the investment grade announcement by credit rate agencies was important in the institutionalization process of Brazilian financial system, but also political and economic stabilization. Besides, investors do have the ability to follow and anticipate some events in financial markets foreseeing successful options to invest. The conclusion is that institutional logics must be used with its keys concepts to research further about financial systems and institutionalization and legitimacy can be achieved through many paths. The paradigms in financial systems are changing in a long process.

Key words: Brazil Investment grade, Foreign Direct Investment, IBOVESPA variation, Investors' decision.

INTRODUCTION

From the 1991's economic crisis to investment grade status in 2008, the Brazilian economic underwent an institutional revolution. The purpose of this article is to discuss using the institutional framework what happened to Brazil and the transformation process that the country passed since it was considered by investors an unsafe place to invest, becoming one of the most attractive countries in the world to do that. This progression occurred not just in the environment but especially in people's mind who judged along with credit rating agencies that Brazil was a profitable and safe place to invest.

With this purpose, the paper is divided in the following sections: the first one is a brief introduction about the institutional evolution of Brazilian financial markets in historical perspective, detailing that the key points that led Brazil to the investment grade status and so, at least theoretically, to attract more investments since then; the second part discusses briefly the theory underlying financial globalization and also give some evidence that the phenomenon took place in Brazil; the third part explains the trend of financial globalization using the institutional literature; the next section is used to explicit the research hypotheses that are testes empirically in the Brazilian data; in the penultimate part the empirical results are presented while the last one is dedicated to conclusions relating empirical results and institutional theory with financial globalization in Brazil.

BRAZILIAN INSTITUTIONAL EVOLUTION

Before discussing the effects of financial globalization in the Brazilian financial system is important to contextualize it historically, as well as explain how it works, or better, the introduction will be a try to explain the institutional design of Brazilian financial market that is really complex. According to Fortuna (2002), the Brazilian Central Bank (BCB) was created in the end of 1964, on the wave of the military government reforms that reshaped the financial system and also created the National Monetary Council (Conselho Monetário Nacional, in Portuguese which acronym is CMN). This kind of amendment somehow helped the investors to create confidence in the financial system.

Previous to the foundation of the BCB, the monetary power was exercised by the Currency and Credit Superintendence (SUperintendência da MOeda e do Crédito in Portuguese, or just SUMOC), the Bank of Brazil (BB) and the National Treasury. The first one was created in 1945 so as to establish a basic framework for a central bank. It also supervised commercial bank operations

and the foreign exchange policy. At the same time, BB played the role of the government bank, executing the rules dictated by SUMOC. Finally, the National Treasury was the currency issuing authority.

Even after the 1964's reforms, many imperfections remained in the Brazilian Financial System. In fact, BCB "managed" the federal public debt, but BB was actually the cashier of the National Treasury. And also, there was a "movement provisional account" by which BCB provided money to BB to cover its loans weekly. This was partially solved during the years of 1985 and 1986 with the end of this account.

The democratization marked a turnaround in the Brazilian Financial System, and helped to build a positive image of the country all around the globe as a promising one because of the big size of its population and the vast reserve of natural resources. The normative functions were transferred to CMN (e.g. establishing the lines of the monetary, credit and exchange policies) and the executive ones (e.g. accomplish the dispositions that regulate and maintain the financial system working) were due to BCB. The administration of the federal public debt was addressed to the National Treasury. Besides, the promulgation of a new constitution in 1988 was a cornerstone in the construction of the country's reputation, assuring social and individual rights, freedom, security, welfare, development, equality and justice as supreme values of Brazilian society. This Bill of Rights was a sign of a new era which began in Brazil.

As Schmukler and Vesperoni (2004) summarizes:

In 1988, some loan interest rate controls were eliminated. The liberalization was completed in 1989, when controls on deposit interest rates were eliminated. In 1990, certain financial institutions were authorized to issue commercial paper abroad. Borrowing abroad by corporations had a minimum maturity of one year, which was subsequently modified several times. In May 1991, the foreign investment law was modified, increasing limits on foreign ownership to 49% of voting shares and 100% of non-voting shares. Foreign investors were allowed to set up omnibus accounts, which were essentially portfolios of one or more shares held in local custody (before foreign portfolio investment was limited to investment through country funds).

Until 1985, Brazil was governed by military power which had the model of import substitution as the Agenda to promote development. However, in the early 90's, the economy was opened in a painful process as the Brazilian private sector was not prepared for the sudden reduction of trade barriers during Fernando Collor's government. Policies, which included a never-seen-before confiscation of savings, lead to high rates of unemployment, inflation and bankruptcy. All the attempts of the governors seemed to be ineffective to combat economic difficulties, until the

implementation of the “Plano Real”, which was a well-aimed shoot in the inflation during Fernando Henrique Cardoso or just FHC’s government. This new Agenda resulted in more foreign investments, partially because of privatizations, a new level of competitiveness and the falling of production costs (Baer, 2002).

THEORY

Giving the Brazilian facts, Prasad et al (2003) defines financial globalization as a combined concept that refers to increasing global linkages through cross-border financial flows. In this perspective, so as to uncover the structure of foreign capital companies in Brazil, the BCB started in 1995 the Census of Foreign Capitals. The institution is responsible for the “registration” of foreign capitals, including loans, financings, technology and investments, both regarding portfolio and the foreign direct investment in Brazilian companies. “Registration” began in the 50’s with the main purpose of foreign exchange controls; however, after market liberalization it became a statistical event, although some controls remain in order to avoid speculation.

Table 1:

Brazilian Census of Foreign Capitals

	1995	2000	2005
Number of declarants	6,322	11,404	17,605
Employees (yearly average of number of individuals)	1,352,571	1,709,555	2,091,737
Total assets (US\$ thousand) ¹	280,356,808	467,449,281	653,439,775
Shareholders equity (US\$ thousand) ¹	108,046,625	129,922,449	187,131,245
Paid-in authorized capital (US\$ thousand) ¹	86,168,730	179,842,054	223,180,000
Authorized capital paid-in by non-resident (IED) (US\$ thousand)¹	41,695,624	103,014,509	162,862,937
Exports in the year (US\$ thousand)	21,744,976	33,249,792	64,965,982
Imports in the year (US\$ thousand)	19,371,332	31,553,194	45,451,134

Note. Source: www.bcb.gov.br

¹ Converted at the respective end-of-period exchange rate. 1995 = R\$/US\$ 0,9725; 2000 = R\$/US\$ 1,9554; 2005 = R\$/US\$ 2,3399.

Through the results of these three censuses, repeated every five years only with companies with a foreign share in excess of 10% of voting capital or 20% of total authorized capital, the positive effects of globalization can be observed in Table 1, as it clearly depicts a strengthened importance of foreign capital inflows, leading to more employment and greater investments.

As stated by the President of the BCB in 1995:

The extraordinary increase of foreign direct investments in Brazil was promoted by the stabilization and internationalization of its economy. (...) I must say that the Board of Directors of the BCB is proud to offer the present result of the Census, as an evidence of the positive contribution that foreign capitals have made to Brazilian development.

It is worth to remember that, Foreign Direct Investments – FDI – in Brazil also relied on privatizations, totalizing US\$ 29.6 billion from 1996 until 2000, which is less than one third of the total net FDI over this period of time (US\$ 112.6 billion).

A study conducted by Santos and Leon (2010) about globalization and its effects in Brazilian inflation demonstrated that the phenomenon reduced it, while barriers to international trade work in the opposite way: increasing it. Mishkin (2007) also states that financial globalization is a strong force for good, reducing inflation in Brazil.

On a hand, it cannot be denied that the Brazilian economic structure has become stronger and more sophisticated since 1995, due to the good use of managerial, technological innovations and also the financial globalization. Table 2 demonstrates that the Brazilian economy became a global destination of foreign investments. Moreover, the investment grade attributed to Brazil in the 1st semester of 2008 by the three biggest credit rating agencies: Standard & Poor’s – S&P – and Fitch, followed in the 2nd semester of the next year by Moody may have contributed to the elevation of the investors’ confidence.

Table 2:

Financial Globalization in Brazil per country of investor

Capital paid in by non-residents (IED)			US\$ thousand			
Country of investor	1995		2000		2005	
United States	10,852,183	26.0%	24,500,107	23.8%	27,096,546	16.6%
Spain	251,010	0.6%	12,253,090	11.9%	17,588,919	10.8%
Netherlands	1,545,798	3.7%	11,055,332	10.7%	27,012,259	16.6%
France	2,031,459	4.9%	6,930,850	6.7%	12,238,007	7.5%
Cayman Islands	891,678	2.1%	6,224,806	6.0%	6,149,441	3.8%
Germany	5,828,042	14.1%	5,110,235	5.0%	7,250,882	4.5%
Portugal	106,610	0.3%	4,512,102	4.4%	2,236,946	1.4%
Other countries	20,188,843	48.4%	32,427,987	31.5%	63,234,274	38.8%
Total	41,695,624	100.0%	103,014,509	100.0%	162,807,274	100.0%

Note. Source: www.bcb.gov.br

On the other hand, in this complex process, financial crises are more likely with the openness of financial markets to foreign capital, due to contagion effects, for instance, leaving a backlash to the population. As it is stressed by Mishkin (2007), there is no clear-cut relationship between financial globalization and economic growth. The quality of government policy matters.

Therefore, financial globalization must be seen in developing countries as an important tool to promote development, helping to reduce poverty. Brazil is in the right path, as one can observe in the numbers mentioned; nevertheless, good policies are still essential to produce a better outcome.

LINKING FINANCIAL GLOBALIZATION AND INSTITUTIONAL LOGICS

Institutionalization involves social process, where obligations or updates assume the status of rule not only in the imagination of a society, but also in their actions. Following Meyer and Rowan's (1977) examples, one could affirm that the capital flight to Brazil, mainly after the investment grade was a great illustration of institutionalization in actions, the final step of the process. But what was the difference on the day that these rating agencies stated that Brazil was a country which deserved investments compared to the day before that this fact happened?

For Giddens (1991) human beings need the sense of security and it will ensure people not get into psychological disorder. After the money confiscation during Collor's government in Brazil, society saw the number of suicides increase (MELLO-SANTOS; BERTOLOTE; WANG , 2005; LOVISI et al, 2009), it can be seen as a psychological disorder caused by the fact that an imposed determination in the economic field can affect even mental health and conduct people to act like this. Of course, not only the economic environment in the country defines the suicide rates, but it would be an interesting future research trying to relate this increasing rate with situations that the population is embedded.

So, to feel safer and to give confidence to attract foreign investors' capital, society creates institutions that influence cognition individually and in a broader manner can even disrupt the herd irrational behavior, or as DiMaggio and Powell (1983) stated: mimetic isomorphism. The establishment of a Central Bank in a country somehow wakes up the sense of security in an investor and encourages the inflow of capitals to this new "safe harbor". It is true that not only the creation of such institution is responsible for this behavior, but all the policies adopted by a government stimulate and sharpen the senses of who is looking for good investments. Can one affirm that the same happens nowadays when rating credit agencies assert that is wise and not dangerous to invest in a country?

To make the decision in the financial market one should do the following: calculate the tradeoff between risk and return, as written by Giddens (1991), but it is also known that individuals are not omniscient, being endowed with bounded rationality and deciding according to the information and knowledge available (MARCH; SIMONS, 1958). As a result, to save time and to avoid information leaks, investors should rely on analyses provided by credit rating agencies.

Someway, these agencies work to help in investors' decision of where to achieve great profitability with lower risks. This – investment grade achievement by a country – can be considered as the final recognition that after a long institutionalizing process, it is reliable to invest, and from this moment on it is legitimized to receive investments.

For Giddens (1986), institutionalization is a process where the structures, practices and relationships are seen as being material, although they are abstract. Financial markets express exactly this concept, all the traded money is just bytes. Can someone imagine all the clients of a single bank trying to withdraw the whole money they have deposited in their accounts? Surely, that would lead the institution to bankruptcy in some hours, unless it gets financial aid from the Central Bank. It is the confidence in the reputation of the financial institutions that allow the transactions to occur and also permit the customer to let the whole money in bank accounts with no worries. These institutions, mainly banks and the government, which compose the financial system, have the trust of who is injecting money in the financial maelstrom and besides, they earned the legitimacy of taking the investors' capital and lending to someone else.

The contribution of institutional theory to the discussion of financial globalization is given at the same time when the theory emphasizes the influence of the environment to assure legitimacy and isomorphism (BOXENBAUM; JONSSON, 2008) as vital factors for the survival of organizations. Legitimacy is key concept in this sense because it allows investor to trust in companies and also in the government of a country, saving his money in this specified financial system (DEEPHOUSE; SUCHMAN, 2008).

Even to maintain or modify institutions' practices, procedures, relations and so on because of external and internal pressures legitimacy is required to ensure that by these changes or the *status quo* continuance is the best way to follow.

Investors in the stage of financial globalization have the role of principal actor (GOFFMAN, 2004). These actors have the power to modify social reality in institutions and countries because they pursue capital to invest. In this sense, Giddens (2006) named the actors' intentionality, ability and power as agency. The act of agency is responsible for the modifications or reproductions in social reality and is initiated individually. Actually, the power of the money given to the institutions is the mean by which social reality is modified.

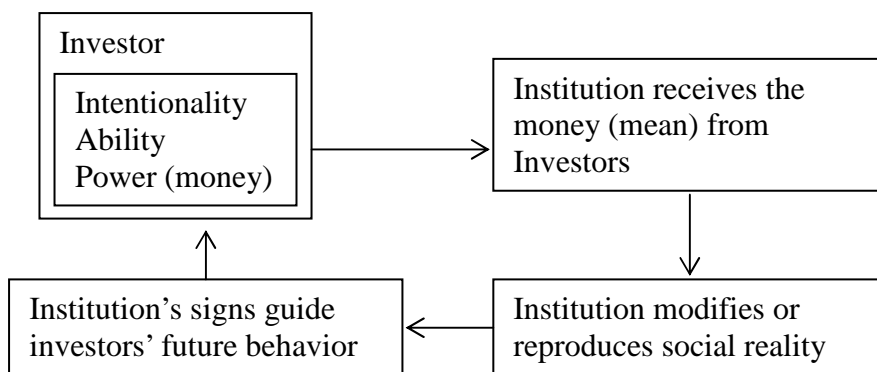


Figure1: The recursivity and reciprocity of institutionalization process

Institutions are conditions, occasions or opportunities for the development of social structures and the ability of agency, or, in other words, they are breeding and/or reconstruction of structures while individuals express themselves and become social actors according to the principles of structuration theory of Giddens (1986). Some issues should be highlighted here: agency and structure do not exist alone, they are interdependent. Rules, standards and rules of social structures act as constraints and enablers of action (agency). The institutionalization process must be understood recursively along with the interpretation of the action, as the aspect that allows its development. "The interpretation is [...] what triggers reciprocity between structure and agency, as action, following the Weberian tradition, requires processing of external stimuli, or significance." (MACHADO-DA-SILVA; FONSECA; CRUBELLATE, 2005).

The process of recursivity occurs when social actors need references to act in problem solving situations. Individuals are endowed with past experiences on which will be based the interpretation of the present that may be used as guidance for the future. These references emerge via interpretation, not in a linear way, leading to, finally, a dynamic process of institutionalization, as stated by Machado-da-Silva, Fonseca and Crubellate (2005). The actions will only be legitimized by sharing and socialization. Legitimacy is not imposed externally to people, but it is guaranteed by internal attitude and expectation of consequences (WEBER, 2004). Thus, regularity is linked to legitimacy, since individuals accept its validity and go on with the same reality, legitimized by its ability of cognition and interpretation (MACHADO-DA-SILVA; FONSECA; CRUBELLATE, 2005).

RESEARCH HYPOTHESES

Financial globalization is an amazing phenomenon not only in Brazil, but all around the world, since it is due to a change in investors' confidence as well as in the legitimacy of developing economies. People's perception and cognition is altered in a positive way when countries like Brazil

start signaling through institutions' creation and modification that they are becoming a great and safe place to invest. The role of credit rating agencies – like Fitch, S&P and Moody's – in this stage is to legitimize the status of developing economies as an attractive place to invest. After receiving an investment grade, at least theoretically, the inflow of investments tends to increase once the likelihood of default is decreased. In this sense, it is a mark that was expected to make the Brazilian economy receive more capital from foreign countries. The first announcement was from Standard and Poor's on April 30th 2008, followed by Fitch Ratings on May 29th 2008 and, eventually, almost a year and a half later, Moody's noticed the investment grade for Brazil on September 22nd 2009.

However, exactly when did the flight of capitals to Brazil from foreign investors start thickening? Was it before or after the investment grade? This is a very interesting question to be investigated since financial markets' agents may anticipate these important facts. In other words, there was an intense process undergoing in Brazil prior to getting investment grade and the signs of this construction were visible to the market. Large investors could see these changes with their ability, intentionality and power and started investing even before the announcement of credit rating agencies. As it was already pointed out, legitimacy is given by credit rating agencies whose reputation assure the asset that they are evaluating is exactly described by their credit rate rankings.

Besides that, the complex process of globalization of the financial markets has also its drawbacks since it can lead to disastrous economics results. Open economies are obviously more vulnerable to foreign crises. This inconvenient truth came out in the last financial global crisis which was, at least partially, caused by an unquestioning faith in the ever-rising housing prices and the non-controlled imagination in the design of new banking services. As Akerlof and Shiller (2009) paraphrased Keynes: Animal Spirits were released and must be controlled by an active government making the right economic policies. Regarding the contagion of global crisis, what happened with investments in Brazil during the fateful year of 2008 - even after the investment grade? Was Brazil really affected or its new status led to a wave of investments?

Perhaps, one presumable way out followed by global investors from the great crisis of 2008 could be to divert capital to new safe economies which received investment grade. As the crisis began in North America with the bankruptcy of Lehman Brothers and many important financial institutions broke in sequence in the subprime crisis; investors' rational choice should be invest in places not infected. After the legitimacy by credit agency ratings this should be the reasonable action. Thus, in the end, Brazil may have benefited from the last economic turmoil.

METHODOLOGY

Our empirical analysis uses monthly data from the Brazilian Central Bank, from January 1996 through February 2011, so as to investigate the factors which explain the flows of investments to Brazil. Basically, they are composed of Foreign Direct Investment (FDI), which is characterized by the search of long term returns, and speculative investments which aim on short-return bonds. We use real value of listed companies in the Brazilian Stock Exchange to measure the inflows of speculative capital. Among independent variables, the institutional effect will be estimated by a dummy indicating the months when the announcement was made and another one, indicating the whole period after it. Some controls are included to capture the effect of the several crises in the last twenty years.

Our estimates are obtained using ordinary-least squares, following Greene (2003). As we are not interested in the exact value of the coefficients, but its statistical significance and signal, we use robust estimation¹.

EMPIRICAL RESULTS

Given the procedural methods, the results that we obtained are explained below.

Table 3:

Regressions results to FDI and IBOVESPA

	<i>Foreign Direct Investment</i>	<i>IBOVESPA variation</i>
	FDI	IBOvar
Lula's Government	-211.126 (266.838)	0.764 (0.072)***
Subprime crisis	1141.066 (671.164)*	0.162 (0.129)
Investment grade announcement	-1723.547 (759.368)**	0.107 (0.082)
Investment grade period	1698.060 (590.786)***	0.513 (0.072)***
Brazil's 1998-1999 currency crisis	721.300 (383.536)*	-0.265 (0.057)***
Asian financial crisis	-260.057 (274.464)	0.012 (0.052)
Russian financial crisis	171.521 (323.721)	-0.092 (0.057)
Argentine financial crisis	-109.349 (277.479)	0.122 (0.046)***
GDP variation	-1160.664 (2549.327)	-0.167 (0.547)
Constant	1843.868 (181.936)***	12.089 (0.041)***
Observations	181	181
R ²	0.178	0.095

Standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 4:
Dummy Periods

	Period	
	Beginning	End
Lula's Government	January 2003	March 2011
Subprime crisis	January 2008	December 2008
Investment grade period	April 2008	March 2011
Brazil's 1998-1999 currency crisis	July 1998	June 1999
Asian financial crisis	January 1997	December 1997
Russian financial crisis	February 1998	January 1999
Argentine financial crisis	August 2001	July 2002

Our findings show that the most significant variable that explains FDI was the dummy concerning the period after Brazil turned into investment grade. We considered the first announcement in 2008 as the beginning of this period. It is true that FDI achieved the largest value since the beginning of this century in last December and it is also correct to affirm that the lowest value could be observed during the year of 2002, when Brazil faced elections and Lula was one of the favorite candidates to occupy the President's post. The financial market faced turmoil because insecurity was felt in the country's future which would have the first President who came from a left wing party. The capitals flew away and came back to land safely curiously in the end of the Lula's government. However, the impact of his government itself was not statistically significant. Surprisingly, we discovered a negative coefficient when we relate FDI to the months when the announcement of investment grade was made – April 2008, May 2008 and September 2009. Perhaps, this may be explained due the fact that the investors were following closely Brazil's emerging financial market and they already priced this event even before it happened.

Considering only the period after 1996, it can be said that political instability in the end of 2002 was worse to long run inflows than the subprime crisis since Brazil's FDI has no longer registered so low values. Another important factor that must be considered when analyzing FDI's flow to Brazil is the currency crisis faced by FHC government. When Brazil opted to have floating exchange rates, local prices became extremely attractive and stimulated foreign investments which were looking for stable economies and if possible, high economic returns. With the devaluation of the national currency; Brazil gained more jobs and exported more.

In general, the first equation estimated shows that the 2008 crisis affected Brazil, but it was not so meaningful because of the investment grade status. Investors tried to find an option in long term investments while the most well rated countries were suffering in a systemic crisis with the bankruptcy of several key banks and financial institutions. The way out to investors was to invest in countries that were legitimated by credit rating agencies. In this way, the global crisis had a positive effect to Brazil's FDI because it was considered a reliable place to assets from investor's part.

On the other hand, considering IBOVESPA deflated values, almost the same dependent variables are significant comparing these results with FDI's. Nevertheless, stock exchange movements are more directly related to short run investments, which is more volatile. At a first glance, the decision about the investment depends more on the short term circumstances, so the confidence that the investors have in the government is more important. The statistical significance of the dummy for the Lula's government confirms this hypothesis. Again, the period of investment grade was an important variable, explaining the variation in deflated prices of the value of the largest Brazilian stock market. That outcome reaffirmed that the country was seen as a more reliable place to invest. So, companies had more options to its funding, such as issuing stocks, instead of borrowing money at high interest rates from financial institutions.

The Brazilian currency crisis played a more relevant role to volatile inflows. In a first stage, Brazil suffered more because although in the long run the currency devaluation would bring economic advantages, in the short run, it was characterized by uncertainty what, as it was already stressed, is negative related to speculative capitals. The Argentinean financial crisis which lasted from August 2001 through July 2002 had also a significant impact. In fact, economic difficulties in Argentina were partially caused by Brazil's 1998-1999 currency crises so, it also marked the beginning of the Brazilian economic recuperation. That is the main reason why it has a positive impact in IBOVESPA value.

Anyway, both regressions showed a positive trend to investments in Brazil as it can be seen from the positive and statistically significant coefficients of the constant. Therefore, although the effect of investment grade status was important, most of the growth of investor's confidence may be attributed to the long process of development of financial institutions. Finally, a word of caution should be brought. In this article we did not consider other ways of investing, but surely, it would be very interesting to investigate the values and liquidity of

Brazilian Depositary Receipts compared in the same period with the stock performance in issuing country of the receipts. Maybe the conclusions could be different.

CONCLUSIONS

As stated by theory, the institutionalization and legitimacy of a country as a worth place to invest is a thorny and long path. It can be observed not only in the structural changes in the country and its institutions, including here the companies, but also, and mainly, in the investors' changed attitude. The announcement by S&P, Moody's and Fitch is just one more step that the country made in a long way to follow, convincing even more foreign and national investors to keep their assets in Brazil.

The security sense was felt when the economic stabilization began and the inflation became a past ghost. Changes in the way that people invest money and make it yield could be observed since it was not anymore profitable let money in bank accounts. Thus, different kind of investments which were not possible in a turbulent environment are now considered. One example is the growth of stock exchange and the values that its benchmark index achieved. This fact shows the development in investors' confidence and more options to companies' funding that initiated a new movement in financial market searching for financing through Initial Public Offerings – IPOs. This could be unthinkable some years ago in Brazil to companies and to investor, because of the lack of people who was interested in diversify investments and the low confidence that a venture like this could be successful.

Probably, the biggest foreign investors could see these changes and initiated to bring long term capital to Brazil even after credit rating agencies made the announcement. The same could have happened in the stock exchange counting on national and foreign speculative capitals. In a herd behavior, the small investors could start investing after realizing the signs sent by larger investors. This is not the scope of this article, but can be considered in future research, about the size of investors and when they began investing in Brazil.

Therefore, the instant of legitimacy of Brazil as an investment grade country happened when the investors' offer money to Brazilian companies in exchange of stocks and so foreign investors started betting their assets in the country. Recursivity and reciprocity are primary issues here because capital as a mean to modify or just reproduce institutions is being watched

by investors. So, investors will make investment decisions in the future depending on how institutions get along with investments and present good economic performance.

Crises affect Brazilian economy only when there is contagious in the country's macro environment. In this sense, political continuity as presented by Lula's and now Dilma's government was a wise resolution to increase capital inflow from foreign investors via FDI and stock investments. Thus, considering the period from December 2001 through December 2011 Brazil saw only seven decreasing FDI quarters, when compared with the immediately preceding period. This is strong empirical evidence that foreign investors trust in Brazil as a good investment option. FDI is hitting successive records and this not depends only on what credit rating agencies affirm as our results suggested. Surely, more research can take place here just in the opposite direction, trying to analyze the effect of downgrades in national credit rating. In the last years the world saw some cases as Greece, Portugal.

All in all, there are many different pathways of financial globalization, and the financial system should be measured in the promotion of industrial growth and competitiveness of a country (ENGELEN; KONINGS, 2010). Insofar, the financial system is expanding in Brazil and turning into a more intricate and interdependent one, a trend can be observed: the economy is becoming more market-based instead of relying just in banks funding development. But, to make the turnaround it will take a long time, this depends on the confidence and legitimacy of the country as a whole in the investors' perception.

Institutional research should be applicable in this sense to bring together key concepts with the assurance that institutions were created by people and must serve them. Even the value of capital is given because investors-actors' confidence and legitimacy that the issuer of this bill will honor its obligations. Institutional logics help thinking about this kind of situation and institutions were created to bring the feeling of security. Actually, these institutions do not exist, they exist only in abstract ways, but they have the power and the legitimacy to make the lives of billions of people in the world change in a blink of an eye. And once more Marx is right: "All that is solid melts into the air" even more when the subject is financial system.

NOTES

¹Huber and White sandwich estimation.

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