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THE EVOLUTION OF THE MONETARY POLICY OF BRAZIL

Abstract: the article describes the trends of the development of monetary policy in Brazil. The implementation of different national currencies in an attempt to control inflation in the country is studied as also it impacts in the development of the Brazilian economy. The study revealed the importance of the Real Plan in stabilizing the Brazilian monetary system.

Key words: monetary policy, economic development, inflation, Brazil.

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ЭВОЛЮЦИЯ ДЕНЕЖНОЙ ПОЛИТИКИ БРАЗИЛИИ

Аннотация: в статье описаны тенденции развития денежно-кредитной политики в Бразилии. Изучено применение различных национальных валют в попытке контролировать инфляцию в стране, а также ее влияние на развитие экономики Бразилии. Исследование показало важность реального плана в стабилизации бразильской денежной системы.

Ключевые слова: денежно-кредитная политика, экономическое развитие, инфляция, Бразилия.

Along the years, the monetary and fiscal policy of Brazil were related with the control of the inflation rate in the country. In reasons of the instable economic system, the Brazilian government was obligated to continuously change its monetary policy in order to stabilize the inflation rate. Thus, the most well-known strategy practiced in the country was the constant change in the national currency until the implementation of the present currency named Real.

In Brazil, monetary policies are implemented by the Central Bank (BACEN) and are normalized by the National Monetary Council. Interest rates are controlled by the Central Bank's Monetary Policy Committee (COPOM). Through COPOM, the government and the Central Bank set inflation control goals and, thus, expansionist or contractionary policies are implemented, depending on the behavior of the Brazilian economy [1].

During the colonial period, the type of currency used in the country was mainly commodity money based on gold, silver and copper. However, with the appearance of Brazil's first banknotes, known as “Réis, the Brazilian monetary system began to develop.

In 1808, with the transfer of the Portuguese court to Brazil, the Central Bank was founded and printing of paper money began. As soon as the country became independent, its economy begins to suffer from the devaluation and successive economic crises, aggravated by the chronic emptying of public coffers [2].

Since then, the national currency has changed nine times because of the hyperinflation that quickly caused the currency to devalue.

During the dictatorial period in Brazil, in the late 20th century, with the change of government, policymakers emphasized stabilization and structural reforms in Brazil's financial markets. The previous strategies consisted of classic stabilization measures—curtailment of government expenditures in a number of sectors, increased tax revenues as a result of improvements in the tax-collection mechanism, tightening of credit, and a squeeze on the wage sector [3].

The stabilization program also included measures to eliminate the price distortions that had worsened during the anterior decade of inflation, one of the main

measures was the new substitution of the national currency “Cruzeiro” into “Cruzeiro Novo” in the first three years of the dictatorial government, which was based on the insertion of a stamp on the banknotes with the new value until the next currency implantation.

In the following years, between 1968 and 1974, real annual Gross Domestic Product (GDP) growth averaged 11.3% per year and new industries such as iron, steel, car manufacturing, oil, chemicals, aviation, and telecommunications emerged. On the other hand, this period of prosperity ended with the first oil shock [3].

Instead of engaging in an austere adjustment program to cope with the dramatic decline in the country’s terms of trade, the government opted for a growth policy that resulted in substantial structural changes in the economy, a resurgence of inflation, and a rapid expansion of the country’s international debt [3].

With the end of the dictatorial period, the Brazilian economy suffered again from destabilization and rising inflation. The newly elected president, Fernando Collor de Melo in 1990, implemented a controversial monetary policy.

The government decided to freeze checking, savings, and investment accounts to reduce the money supply. The idea was to control inflation by making money a scarce resource, driving interest rates up, and slowing down demand. In addition, Collor implemented the fourth currency reform in four years by replacing Brazil’s currency, the cruzado novo, with the cruzeiro.

The immediate impact of the Collor Plan was to reduce dramatically the country’s liquidity, so that the money supply as a percent of GDP fell from about 30% to 9%. Within a month, inflation declined to a single-digit monthly rate (5 or 9%, depending on the index used). The sharp decrease in liquidity led to a pronounced fall in economic activities, as revealed by the negative growth of the GDP of 7.8% in the second quarter of 1990 [3].

The collar’s plan caused a stir in the national economy as well as in the Brazilians’ lives, leading to his impeachment and the inauguration of the vice-president Itamar Franco in 1992, which initiated the implementation of the Plano Real - Real Plan.

In July 1994, a new currency was created to definitively curb hyper-inflation. During the transition, all prices started to be specified in URV (Real Value Unit), which was worth CR \$ 2750.00 (value in Cruzeiros Reais – the last currency before the Real). It was the first time that the change of currency was not with a round value [4].

The results were satisfactory, inflation was brought down from a monthly rate of 47% in June to 1.5% in September 1994. Growth seemed to pick up in the third quarter of 1994. Sales were rising, reflecting purchases from lower-income groups, whose real incomes were boosted by the fact that their monthly losses from quasi-hyperinflation had disappeared [3,4].

To sum up, the history of Brazilian monetary policy has always been related to high inflation rates and numerous changes in its national currency. However, after the implementation of the Real as a currency, the Brazilian government started to have efficient policies to control inflation, which previously was one of the largest in the world, leading then to the stabilization of the national economy.

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