Monetary and Fiscal History of Brazil

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The Project

• Interesting project: “macro lab” for small open economies
• Rich time series and cross-country experience
• Common feature: large shocks
  – Terms of trade
  – Global financial conditions
  – Politics
Synchronized long cycles

% dev from linear trend

Source: PWT

ARG CHI VEN
BRA MEX URY
COL PER
Common Shocks

INTEREST RATES AND GDP IN LATIN AMERICA

Source: PWT
Common shocks

Commodity Prices Deflated by Price of Industrial Goods

Source: IMF. Commodity price indices from World Tables and price of industrial goods from United States table.
6 Countries
It would be nice to know more about

• Monetary and fiscal Institutions to cope with risk
  – Exchange rate regimes
    • From fixed to floating
    • Capital controls
  – Insurance properties of government portfolios
    • Currency composition of debt and assets
    • More data on revenues and expenditures
      – Exchange rate and commodity exposure
    • Maturity of debt
  – Level of taxes and expenditures, not just déficit
    • How do they react to shocks?
Government Budget Accounting

<table>
<thead>
<tr>
<th>Uses</th>
<th>subperiod</th>
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<tbody>
<tr>
<td></td>
<td>60–64</td>
</tr>
<tr>
<td>(1) interest on domestic debt</td>
<td>0.1</td>
</tr>
<tr>
<td>(2) interest on external debt</td>
<td>0.0</td>
</tr>
<tr>
<td>(3) primary deficit</td>
<td>2.9</td>
</tr>
<tr>
<td>(4) transfers = (5)+(6)+(7)+(8)-(1)-(2)-(3)</td>
<td>0.7</td>
</tr>
</tbody>
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| Sources                                   |           |
|                                           | subperiod |
|                                           | 60–64     | 65–72     | 73–80     | 81–94     | 95–16     |
| (5) domestic debt                         | 0.0       | 0.8       | -0.2      | 0.5       | 1.1       |
| (6) external debt                         | 0.0       | 0.0       | 3.8       | -2.0      | -0.9      |
| (7) real monetary base                    | -0.4      | -0.2      | -0.2      | -0.1      | 0.1       |
| (8) seigniorage                           | 4.1       | 1.9       | 2.4       | 3.2       | 0.4       |

**Total Deficit** 3.7  2.5  5.8  1.6  0.6

Source: Brazilian Institute of Geography and Statistics (IBGE) and Central Bank of Brazil (CBB).
Inflation Puzzles

• Domestic debt debasement and seignorage to pay external debt.
  – Why?

• Inflation Tax Laffer Curve
Debt and Inflation

The chart illustrates the relationship between debt and inflation over time. It shows the percentage of GDP for domestic debt, external debt, total debt, and inflation from 1960 to 2014. The data suggests a correlation between increased debt and periods of high inflation, indicating potential economic vulnerabilities.

Key observations:
- Domestic debt has generally increased over time, peaking in 1981 and 1993.
- Total debt trends follow similar patterns, with peaks in 1981 and 1993.
- Inflation has fluctuated, with notable increases in the 1970s and 1990s, peaking in 1980 and 1991.

The chart underscores the importance of managing debt levels to prevent inflationary pressures.
Seignorage and Inflation

- Scatter plot
- Collapse in money demand before real?
Figure 19: Monetary aggregates
Inflation Stabilization

• Structuralist view of inflation (inertia)

• Compare with other cases
• Calvo Vegh (1997), Handbook of Macroeconomics
• Rebelo Vegh (1995), NBER Macro Annual
Risk Management

• 70s and 80s
  – Oil shocks
    • Fixed exchange rate
    • External debt
  – Sudden stop (Volcker)
    • Default and inflation

• Recently
  – Sudden stops

• Post 1994
  – Sudden stops in 1999 and 2002
  – Global financial crisis

• Policies
  – Floating exchange rate
  – Primary fiscal surpluses
  – Inflation Targeting
  – Large FX reserves and domestic debt
Real Exchange Rate
Composition of Domestic Debt

- More discussion of public debt management
Back to primary Deficit
Suggestions

• Appendicies with chronologies

• Monetary and Fiscal Policy
  – Policies and stabilization plans
  – IMF programs
  – Institutions
    • From conta movimento to Inflation Targeting
    • From no fiscal statistics to fiscal responsibility lar and “lava jato”
Thank you!