

Breaking the habit

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A brief history of Brazilian meltdowns

FOR most of the past few decades Brazil has been one of the first places to go into a tailspin when things turn nasty elsewhere, as the following list demonstrates.

- **1973-79: Oil shocks.** The first oil shock doubled Brazil's import bill within a year. The second set off uncontrolled inflation, which reached 110% for 1980. The next 15 years were a continuous struggle to bring that number down. They also saw a sharp increase in short-term foreign debt denominated in dollars to pay for oil, heralding a decade and a half of instability.
- **1982: Default.** As Mexico defaulted, Brazil, which had also borrowed a lot from foreigners, found itself mistrusted too. The government tried to engineer a trade surplus to reassure creditors, forcing importers to obtain licences and buy dollars at an inflated official rate, but failed. In 1983 it defaulted on its debt and the cruzeiro plunged against the dollar, making inflation even worse.
- **1986: The Cruzado Plan.** Three zeros were chopped off the currency, and at first Brazil seemed to have got on top of inflation. But it was also in the process of becoming a democracy (the first civilian president in two decades was chosen by Congress in 1985), and conquering inflation required holding down wages, which Brazil's new democrats found hard to do. The Bresser Plan (1987) and the Verão Plan (1989) fared no better. By 1990 inflation was running at more than 70% a month.
- **1990: The Collor Plan.** The worst of the lot, this one involved an immediate freeze for 18 months on bank deposits making up 80% of the country's financial assets. The idea was to force prices down by reducing liquidity. Wages were frozen, financial transactions were subjected to punitive taxes and foreign exchange and trade were liberalised. The policy set off a mini-recession, causing panic that led to a reversal. High inflation returned.
- **1994: The tequila crisis.** Another Mexican devaluation and debt crisis that had a knock-on effect on Brazil. The central bank responded to an outflow of money by increasing interest rates to nearly 50%.
- **1997: The Asia crisis.** Brazil's commodity exporters were hit by a fall in demand from Asia. Once again confidence plummeted as money left the country. The central bank fought hard to defend the real which had been introduced in 1994, increasing overnight interest rates to an annual 40% and killing growth.
- **1998-99: The Russia and LTCM crisis.** While still trying to get back on its feet, Brazil was hit again after Russia defaulted on its debt and a team of Nobel economics laureates nearly fused the financial system. The government was forced to let the real float freely, which was economically correct but highly unpopular as the currency's value dropped.
- **2001-02: The dotcom crash and Argentina's default.** Once again the real dropped on fears about Brazil's neighbours and general unease about the world economy and the election of President Lula. Inflation rose to 12.5% and the headline interest rate went up to 25%.
- **2007-?: The global financial crisis.** What appeared to be the worst global recession since the 1930s left Brazil relatively unscathed. It was able to cut interest rates and the real held its value. Brazil turned out to be one of the last countries into the downturn and one of the first out, causing national celebration and not a little

surprise, given what had gone before.

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