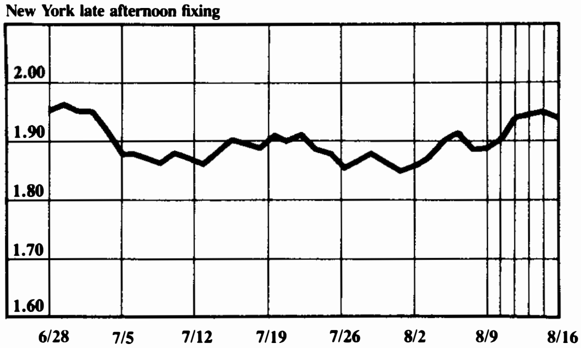
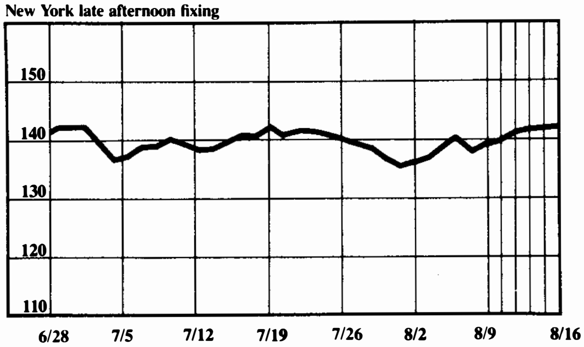
Currency Rates

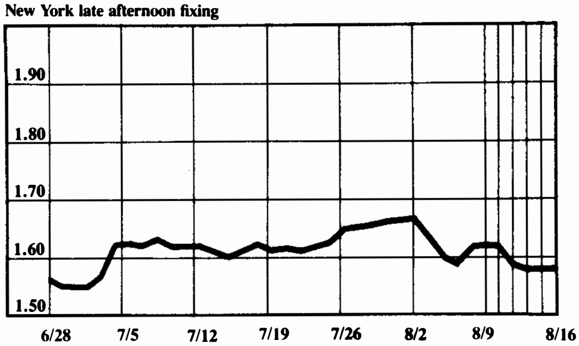
The dollar in deutschemarks
New York late afternoon fixing



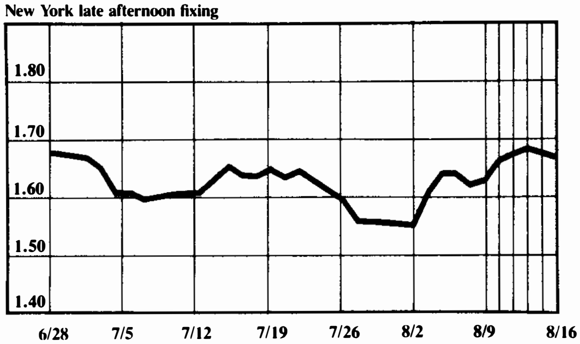
The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



Brazil's 'day after' will be a lollapalooza

by Lorenzo Carrasco

Brazilian President José Sarney's administration decided on June 30 to suspend interest payments on the foreign debt to commercial bank creditors. The idea was to ensure that his successor would take office on March 15, 1990, with about $8 billion in foreign reserves, enough to let him renegotiate the debt from a position of strength. The government's strategy also envisions increasing imports, especially those of capital goods, even though this would reduce the hefty trade surplus.

Although the measures are correct, they alone will not solve the country's economic and financial problems. Finance Minister Maílson da Nóbrega is deluding himself if he thinks he can hold inflation to around 30% monthly for the administration's remaining seven months. Current monetary policies, based on high interest rates, will turn into a hyperinflationary explosion like July's in Argentina. In Brazil, however, the extreme social inequalities and the discredited state of all the country's institutions will make the consequences much worse.

Inflation

In recent years, Brazil's chronic inflation has been fed by two sources. First, the National Treasury has issued growing volumes of government debt in cruzados so that the central bank could buy over $10 billion a year in dollars earned by the trade surplus. It sends those dollars abroad to service the foreign debt and make other transfers.

Second, refinancing this critical mass of internal debt has formed a speculative bubble which is inflating of its own accord. This monetary bubble is not in any way backed by the production of real goods and services. This cancer is the source of the Brazilian banks' absurd profit levels and the real driving force of Brazilian inflation.

By these means, the Treasury has totally lost control over the generation of credit and currency. The money it obtains by selling the notes and bills it issues is not channeled into the real productive process. Its only use is as collateral for the overnight money market. The same happens with the issuance of currency, which rises and falls only in order to