Mixed Assessments of Brazilian Economic Performance in 1986

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/notisur

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in NotiSur by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Mixed Assessments of Brazilian Economic Performance in 1986

by LADB Staff  
Category/Department: Brazil  
Published: 1987-01-08

In 1986 Brazilian politicians and economists experienced the full gamut of economic forecasts from desperation to euphoria and back again. Inflation in the first two months of the year was around 15% per month, organized labor was becoming increasingly vocal and radicalized, and the majority Brazilian Democratic Movement Party (PMDB) threatened to publicly distance itself from President Jose Sarney's government. On Feb. 28 Sarney implemented by fiat an economic adjustment program of monetary reform and wage and price freezes. All Brazilians were called on to assist Brasilia in "supervising" prices in the marketplace. Interest rates declined and wages stabilized. Average consumers could engage in long-term budget planning and spending (more than a month) for the first time in years. Many believed that the awful inflationary spiral had finally been arrested.

Demand for consumer goods and services accelerated in ensuing months, resulting in reduced unemployment. Industrial output in 1986 increased at a rate 12%. Retail sales as a whole increased 15 to 17%. For some items, such as automobiles, sales were up 25 and 30% compared to 1985. Meanwhile, in response to continued price freezes, producers of numerous consumer goods withdrew from the marketplace. Animal proteins of all kinds beef, pork, milk products eventually disappeared from store shelves. The government responded for a while by importing food products to meet supply shortfalls. About $2 billion in foreign currency was used for purchases of foodstuffs and other consumer goods domestic producers normally supply.

Rising domestic demand reduced export potential. Combined with increased imports, the Brazilian trade surplus declined. From an average $1 billion per month in the first half of 1986, the trade surplus fell to $800 million in September, $230 million in October, and $131 million in November. Foreign currency reserves had dwindled to about $4 billion by late November, about half the amount registered in early 1986. Policymakers were anxious, since the trade surplus is the only source of cash for interest payments on the country's estimated $110 billion foreign debt. Although certain labor groups and factions of the PMDB began mobilizing to demand a debt payment moratorium, or at least considerable reduction in debt payment obligations, the government's economic team opted instead for price increases.

On Nov. 21, Brasilia implemented its so-called "Cruzado II" plan, aimed at reducing consumer demand. Prices on a battery of goods and services, from automobiles, gasoline, and airline tickets, to postage and electricity and foodstuffs were increased between 50 and 100%. Middle-income Brazilians and the majority of wage-earners were very unhappy. Price inflation followed in due course. Official estimates of inflation for the month of December average at 10%. Banks anticipate higher inflation in January and February.

Beleaguered by the negative reaction to the price increases imposed in November and the return of inflation, some political observers expect Finance Minister Dilson Funaro, Planning Minister  

©2011 The University of New Mexico, Latin American & Iberian Institute
All rights reserved.
Joao Sayad and an influential member of President Jose Sarney's economic team, Jorge Murad, to resign within the next two months. The JORNAL DO BRASIL (1/6/87) reported that Funaro will resign because of generalized criticism of his economic policy decisions by businesspeople and professional economists. Possible substitutes for Funaro are economist and Deputy-Elect Jose Serra, who headed the commission that drafted former President Tancredo Neves' economic program; economist and current Culture Minister Celso Furtado; banker and former Foreign Minister Olavo Setubal, and former Finance Minister Mario Henrique Simonsen.

-- End --