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Commentary: How Brazil's Middle Class Lives With A 900% Annual Inflation Rate

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[The following article was distributed by Pacific News Service, 12/05-11/88. The LADB has authorization from PNS for reproduction.] By Rasa Gustaitis Every morning, before driving her children to school and beginning her own work, Cecilia M. picks up the newspaper and turns to the "Your Money" page. She checks the dollar value of the Brazilian cruzado, the stock market index, and two other money value indices. These determine how much she will earn, what she will have to pay for household help and what she should do. Then she calls her bank. "You must be aware of the rules of the game every day," she says. "So in the morning you sit down with your coffee and you look at your money." Cecilia is no high-powered investor playing the stock market. She is a university professor, married to an engineer, and living in a modest house on the outskirts of Sao Paulo, with a son and two daughters. But because inflation is an astonishing one percent a day in Brazil, she deals in the money market every day to try to keep the real value of her bank balance from shrinking. Just about everyone she knows does the same, she says. "People spend part of every day deciding what to do with their money." She has four one-month money market accounts that pay 0.5% and mature on the 5th, 15th, 20th and 30th, when varied bills are due. On those days she calls her bank and arranges for payments. "Everything is done through the bank, electronically," she says. "The banks are very modern, more modern even than in the United States. In Brazil it is not possible to pay bills with checks through the mail. You pay through the bank or you go yourself." Her regular account contains only a minimal sum. If the balance rises above that, the bank invests the excess in an overnight account, adding 50% of the profit to Cecilia's balance. To keep cash for any longer than it takes to spend it is to lose some of it. Therefore, Cecilia is ever alert to take advantage of the overnight money market. "If I get money today and owe a payment three days from now, I put it in overnight so the money is working. Or rather, the manager of the bank does that for me. The next day I call the bank: `I will need so much tomorrow, take it from the overnight.'" She also tries to do routine shopping for the household on Friday after the banks close and to pay with a check, which will not be withdrawn from her balance until Monday afternoon. Of course this means she must remember to call the bank Monday morning, so there will be money in her account to cover the check. Shopping for larger items, such as clothing, is another matter. Prices are set with a built-in (often overestimated) inflation factor. Therefore, to pay the whole price at once is to pay more than is asked. This mandates the use of an installment plan. "I shopped for the girls last month and wrote three checks," Cecilia said. "One was dated that day, one a month ahead, the third two months ahead." At the same time she made notations in her pocket calendar to call the bank on the day before and shift the money from the overnight market to the regular checking account. The rules of the game may suddenly change, however, indicating a different course for the alert consumer. The government sometimes freezes prices for three months, for instance. When that happens, it makes sense not to defer purchases but to stockpile some things before the later price jump. All this not only forces people to think constantly of their accounts, it makes it difficult to know exactly how much one has at any particular time. Inflation varies slightly day to day. In addition, says Cecilia, it is impossible to know how much one will be paid or have to pay out. Two of

the indices she scans in "Your Money" are the OTN (Obrigacoes do Tesouro Nacional) and the URP (Unidade de Referencia de Precos). The first corrects the value of money each month, the second corrects rents and salaries. They allow Cecilia to calculate how much she will be paid, what she must pay her maid, and how much she must pay on the mortgage. "We are paying on the house for a year and we still don't understand the system for setting the payments. We are paying three times as much as we thought we would." Intricate though all this money management may be, "the system works for the middle class to protect your money," says Cecilia. "It is not good, though, for those who have less." Opening a money market account requires a minimum deposit that is out of range for vast numbers of Brazilians. A young relative who teaches part-time, for instance, has not been able to do it. Savings accounts are an option, but the interest they pay is less and the money may shrink. So what do poor people, who must live in the cash economy, do? "They buy everything they need at once, as soon as they get money," says Cecilia. The enormous inflation means that nothing ever costs the same amount, not even a soft drink. The only certainty is: nothing ever goes down in price. "If only we could stabilize," she says. "An inflation rate of 20% a year, for instance, that would be great." As it is, "at a certain point you no longer realize the value of a thing. At a supermarket the other day, I bought a slice of ham. The clerk didn't put a period after the 6 when she rang it up on the cash register so it came out 600. And you know I didn't notice."

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