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# Report from Rio by Lorenzo Carrasco Bazúa

## Weimar hyperinflation hits

*Brazil is floating on a sea of speculative paper, and the panic has already begun.*

Brazil didn't need to lose a war and submit to war reparations, as did Germany after World War I, to find itself submerged by three-digit levels of inflation. It has taken a mere six months of the ultramonetarist policies of Finance Minister Maílson da Nóbrega—specifically, his commitment to pay the international financial oligarchy its usurious interest rates punctually, through immense export surpluses—to produce this hyperinflationary result.

During June, Brazil's government announced that, for the first time in its history, export levels of $30 billion had been reached in 1988, which will permit a trade surplus of an unprecedented $18 billion. The announcement coincided with a takeoff of the inflation index into the stratosphere.

Official inflation for the month of June alone reached 19.53%, while the most optimistic calculations predict a rate of 24% or higher in July, which would represent a compounded inflation rate by year's end of 1,000%. For August, the rate is easily expected to top 30%.

Aggravating the situation was the decision of President José Sarney's government on July 26 to make a payment of nearly $1 billion in interest arrears to its foreign creditor banks, in an attempt to clean the slate for future handouts.

The connection among debt, exports, and the inflation rate is quite direct. The increase in exports which is enabling the government to meet interest payments, is based on reducing income and consumption levels of the Brazilian population, which in turn has been the principal cause of the internal economic recession. According to the Brazilian Institute of Geography and Statistics (IBGE), industrial activity inside the country fell to a *negative* 6.3% growth rate in the first four months of this year. In addition, after the central bank purchases export revenue dollars, these go directly to swell the speculative capital markets, to the detriment of productive investments.

The Sarney government's policies could not be more inept. After encouraging rampant speculation, it is now insisting that the situation is under control, and is calling upon the country to avoid panic. Behind the scenes, however, it is preparing its shock program, which is expected to include tax increases and the firing of some 300,000 public employees, as former finance minister Delfim Netto is demanding.

While using its dollars to pay debt interest costs, and suffering growing losses in tax revenue due to the collapse of per capita income and industrial recession, the government is absurdly attempting to finance itself by placing public debt bonds, offered at increasingly higher interest rates, on the short-term speculative markets.

This government paper, including the so-called National Treasury Obligations (OTNS), are the only support for more than $50 billion that daily passes through the overnight markets, and to whose interest rates virtually the entirety of the national economy is indexed.

The overnight interest rate, fixed daily by the Central Bank, rose to 28% a month in mid-July, and in the following two weeks shot up to an insane 40% a month. What this represents for the investor is a liquid profit, after taxes, of more than 24%, that is, slightly higher than the inflation rate anticipated for July. At the same time, the value of the dollar on the black market rose to nearly 50% above the official rate, which is devalued 1% a day.

What becomes clear, is that the inflation rate is a purely financial creation, spurred by the growing costs of the internal debt.

In early May, *EIR* was able to predict that the Central Bank offer to OTN investors of a 13% real annual rate (yielding a profit above the then anticipated 600% inflation rate), would soon double. The Central Bank's measure of raising interest rates, allegedly to retire "excess liquidity" from the financial market, had precisely the opposite effect: mass flight into the speculative markets, which destabilized the real productive sector.

In mid-July, financial speculators began to demand that the Central Bank raise interest rates even further, to the point that the Central Bank was forced to pull out of the auction. At that point, the financial panic which has characterized the last few weeks in Brazil became evident. The São Paulo stock market alone fell by 20%.

The speculative insanity has reached the point that monthly interest or inflation rates have lost all meaning. Maílson da Nóbrega's policy of matching interest rates to "the reality of the market," has left the economy in the hands of the speculators, who now fix the indices of their profits on a daily basis.

When interest rates on the overnight market are already at 1.2% a day, hyperinflation has arrived; it now needs but the slightest excuse to explode in all its ramifications.



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