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‘The shadow sovereign lender: Banco do Brasil and balance-of-payments Management, 1964-82’

This paper analyses the monetary structure and balance-of-payment management strategy of Brazil between banking reform of 1964 and the sovereign debt crisis of 1982. The large inflow of foreign capital and co-existence of the recently created Central Bank of Brazil and the large Federal commercial bank Banco do Brasil as monetary authorities were salient features of Brazilian financial system during this period. By drawing on minutes of the Board of Brazil’s National Monetary Council, financial statements of the central bank, and the balance sheets of the foreign banking offices of Banco do Brasil, I assess how Brazilian monetary authorities dealt with external account imbalances. Through its network of agencies and branches in main world financial centres, mainly London and New York, Banco do Brasil managed to raise dollars in the Eurocurrency interbank markets and to use them to boost international reserves. During the 1970s, when the country was severely affected by two large oil shocks, negative terms of trade, and borrowing constraints in the international capital markets, the Brazilian government underwent the balance of payment crises without major disruptions. Unlike most of Latin American borrowing countries confronting similar problems and financial difficulties, Brazil did not ask for support from the International Monetary Fund nor devalued its currency. The outbreak of the international debt crisis with Mexico’s moratorium declaration in August 1982, and the major shock it inflicted to the world interbank money markets, brought this scheme of "shadow sovereign borrowing" into an end. Archival evidence from the Federal Reserve Bank of New York and the Bank of England shows the liquidity strains experienced by Banco do Brasil and how this undermined the financial position of Brazilian monetary authorities and the country’s external debt repayment capacity. The paper also sheds new light into the political economy of Brazil unusual monetary structure: while the resistance of Banco do Brasil to lose its past central banking functions have been largely recognized as a crucial element for explaining the origin of the system, the findings of this paper suggests that a main reason why this arrangement was maintained for most than two decades is because it provided with a quiet mechanism that allowed to manage the country’s balance of payment imbalances without having to turn to the IMF or deteriorating market sentiment for Brazilian debt.