SAVINGS ACCOUNTS

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The debate over interest rates in Brazil has gained a new dimension. The traditional advocates of high interest rates are attempting to forge an alliance with the small savers, for the purpose of barring any change in the remuneration of savings accounts. A fact with respect to interest that until recently was enveloped in a mist – that the interest rate paid on savings accounts is unsustainable – became clear at the moment when the decline in interest rates started applying the statutory threshold of 6% real interest to savings accounts investors. From then on, the issue was no longer confined to contending with the personal concern of major rent-seekers and the financial sector and its economists, who regarded stratospheric interest rates as a needful means to fight against inflation in Brazil, and started encompassing the middle class as well.

This is an ideal moment to reevaluate the whole institutional system involving interest rates and the Brazilian monetary policy, since the high interest rate policy lost its reason for being, due to the global crisis. Nevertheless, its authors find a new excuse to limit the reduction in interest rates. If the latter continues to decrease, the interest rate on savings account will be higher than the rate paid by investment funds; hence, the remuneration of savings accounts is an interest rate floor. If such floor is ignored, the rent-seekers will migrate their resources to savings accounts.

This issue dates back a long time ago. In the 1960s, in the wake of the military regime, when the national housing system and the savings accounts were created, the law established a real fixed savings interest rate of 6% per year. The rate was very high, but so was the inflation rate, such that there were no protests. An additional argument for a peaceful acceptance of the rate was that the usury law provided an interest rate ceiling of 12%. In fact, savings accounts investors had not always received their real 6%, because the monetary correction index was occasionally falsified, on the pretext of inflation. When high inflation finally ended, in 1994, it would have been necessary, I dare not say to eliminate, but to start to reduce the interest rate floor of savings investments, but the Central Bank of Brazil established such a high level of the basic interest rate – Selic (Special System for Settlement and Custody) – that the problem disappeared.

Now, with the Brazilian economy in recession, the reduction in interest rates is imperative. High interest rates are no longer just a means of capturing public equity by major rent-seekers; they are also a hindrance to the required response of Brazil to the global crisis. The Central Bank has started a delayed and timid reduction process, but we are now faced with the idea of this strange and perverse alliance between major rent-seekers and the middle class of small savers. An alliance that tempts the political opposition of the government, which regards this issue as an opportunity to pose as the defender of the poor. The "correct" solution, from an economic point of view, would be to eliminate the floor and let the market solve the problem, but this is not a reasonable solution in a country marked by deep inequities. The government plans to levy income tax on large savers, keeping the small players as they are. It is an acceptable solution, though it should be accompanied by some reduction of the 6% floor. What is clear is that the institutional framework has to change. The present one favors solely the interests of the wealthier citizens.