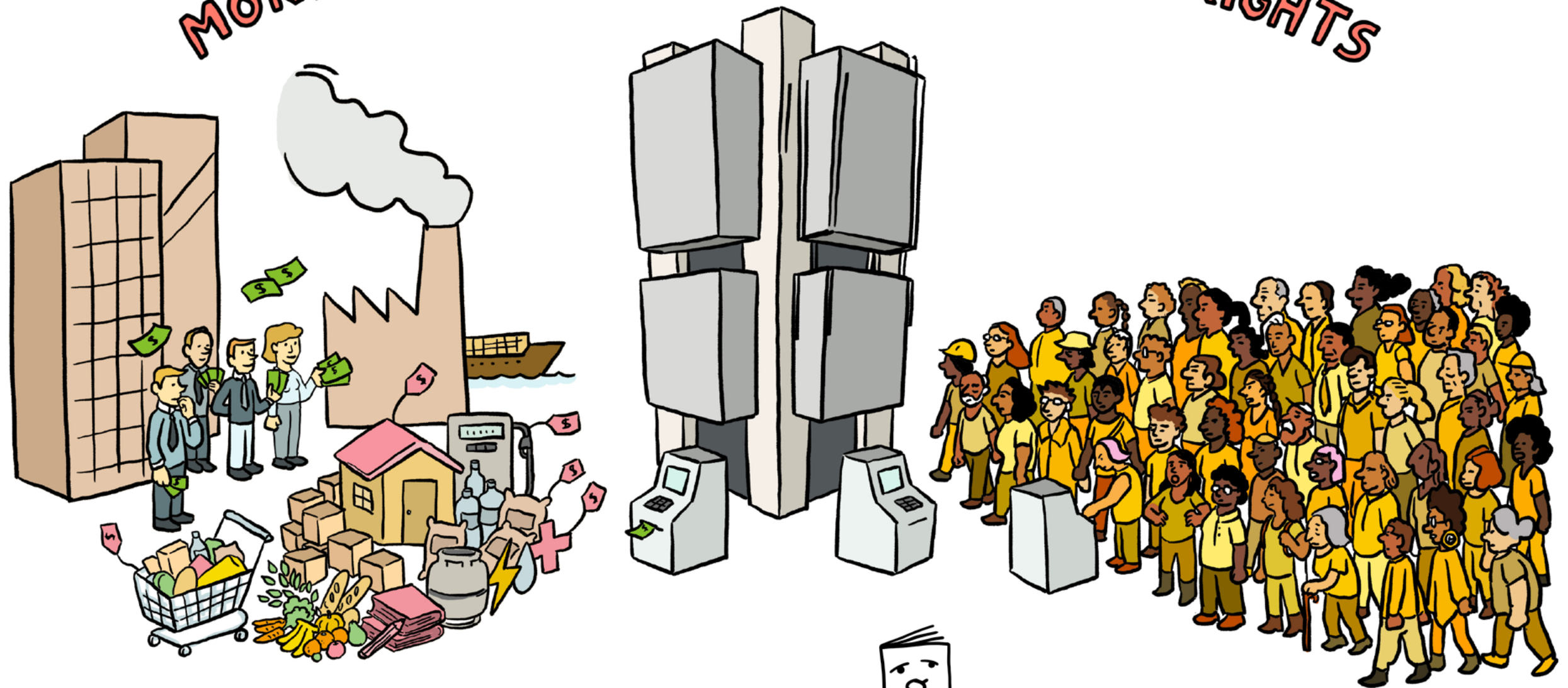


ILLUSTRATED GUIDE TO INFLATION, MONETARY POLICY AND HUMAN RIGHTS



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Introduction

Monetary policy is an economic policy of the federal government designed to manage currency and interest rates. This policy is mainly operated by the Central Bank

Intended for the management of the national currency, the interest rate and inflation, a country's **monetary policy** affects relevant variables such as growth, income, employment and inequalities. In short, the monetary policy affects people's lives and their rights.

However, it is a subject often ignored, shielded by technical terms and exclusive to experts. While **fiscal policy** decisions are defined through a budgetary process that permeates democratic instances, a monetary policy is defined in the rooms of an autonomous Central Bank and with little interaction with society.

In view of this, this document pursues two objectives. The first objective is to present the theme of monetary policy in an educational and accessible way. The second objective is to explore the relationship between monetary policy and **human rights**.

This latter task is challenging due to its pioneering spirit and also to the mediations involved in the relationship between human rights and monetary policy. Unlike fiscal policies, which have a direct relationship with the guarantee of rights, the impacts of monetary policies are indirect and hard to pinpoint.

It is therefore a matter of stimulating public interest in a debate dominated by experts. To this end, the document seeks to bring out the political dimension of the monetary policy, explore myths that took over common sense and point out the nature of the inflationary process and conservatism in its treatment, with impacts on inequalities and human rights.

To understand the relationship between monetary policy and human rights, this guide first assesses the relationship between inflation, credit, and human rights. The monetary policy theme is

Also called tax policy, it can be defined as the budgetary planning of the State. The budget consists of revenues (such as taxes and other fees) and government expenses in a period.

Human rights are values that, once assumed by institutions and society, impact people's lives and allow everyone to live in dignity. Some of them are the right to life, freedom, personal security, property, voting and being elected, work, leisure, health, food, housing, social security, education, culture, transport and to a healthy environment, among others.

then presented. Finally, the relationship between monetary policy and human rights is elaborated.

Thus, chapter 1 presents the fundamental concepts of monetary policy, inflation and credit, always connecting them with human rights. Chapter 2 describes what is a monetary policy and how it operates, as well as the channels through which it affects human rights. Chapter 3 deals with the transparency (or lack thereof) in the management of monetary policy by the Brazilian Central Bank.

Finally, the conclusion provides paths towards a human rights-oriented monetary policy. To avoid suspense, our main conclusion is that the **execution of a human rights-oriented monetary policy must comply with four broad guidelines:**

- (i) avoid recessive monetary adjustments and exorbitant interest rate increases;
- (ii) promote a more equitable and fair credit system with access for everyone;
- (iii) use multiple instruments to combat a multi-cause inflation, coordinate monetary policy with other policies and focus primarily on protecting prices that impact the most vulnerable and public policies that ensure that rights are met; and
- (iv) promote a more transparent and democratic monetary policy.

We will explain each of these points throughout this guide.

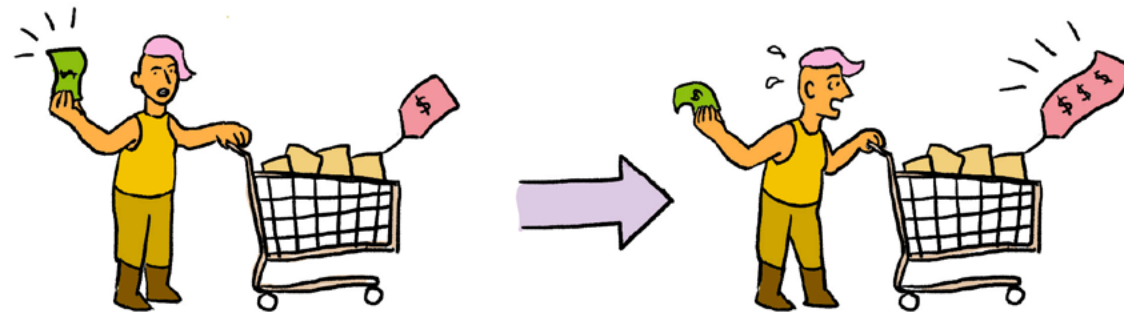
Happy reading!

1. Inflation and Credit: what do they have to do with human rights?

This section intends to present the concepts of inflation and credit, and connect them with the concept of human rights.

1. Inflation and Credit: What do they have to do with human rights?

Inflation does not require an introduction for most people, they know it very well. We are more than used to what defines the concept:



BUYING POWER IS THE RELATIONSHIP BETWEEN INCOME AND PRICES



OF THE CONSUMER BASKET FOR ANY PERSON

the increase in prices of goods and services, and a loss of purchasing power by the population. The inflation rate measures this increase in the price level, that is, it is the average of price growth of a set of goods and services in a given period of time.

There is no single way to measure inflation, as each good or service has its own price and each index chooses a set of goods and services to measure average inflation.

The **National Extended Consumer Price Index (IPCA)**, for Brazil, measures the percentage change in the average cost of living of households with monthly incomes between 1 and 40 times the monthly minimum wage. Calculated by **IBGE** (Brazilian Institute of Geography and Statistics), the IPCA is the most important inflation index for economic analyses and is a reference for the **inflation targeting regime**, which we will address later.

There are other price indexes that highlight the behaviour of other groups of goods and services. The **National Consumer Price Index (INPC)**, also calculated by the IBGE, determines the variation in the cost of living of families with a monthly income between 1 and 5 times the country's minimum wage. The **General Market Price Index (IGP-M)** is calculated by the **Getúlio Vargas Foundation (FGV)** and takes into account the variation in prices at different stages of production and not only for the final consumer, that is, it also considers the inflation of supplies used in the production of goods.

This variety of indexes reveals an important aspect of inflation: it does not affect all people or economic sectors in the same way.

The Brazilian Institute of Geography and Statistics is a public research institute of the Brazilian federal administration, created in 1934.

a monetary system in which the central bank commits to act to ensure that inflation is in line with a pre-established and publicly announced goal.

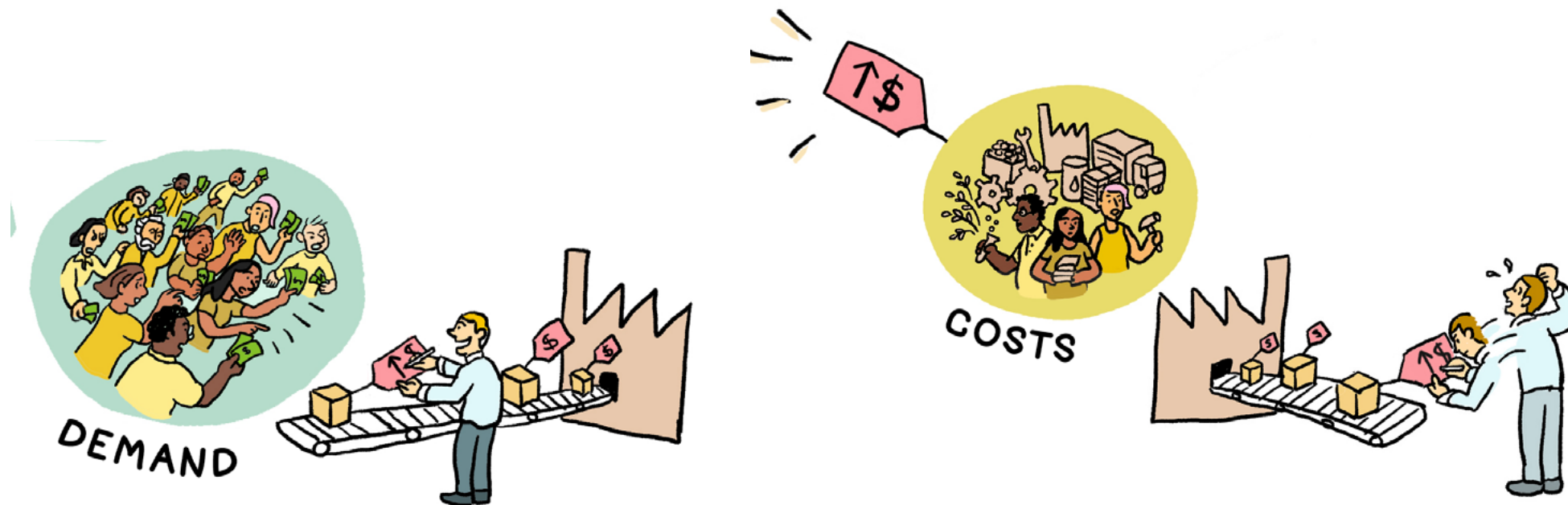
FGV is a private Brazilian institution of higher education, founded on December 20, 1944, with the initial objective of preparing qualified personnel for the public and private administration of the country. Its headquarters are in the city of Rio de Janeiro.

Where does inflation come from?

Inflation is a complex phenomenon that can have several origins. Economic debates are sparked by the many ways that inflation is understood and by its root causes. In general, there are two types of inflation: **demand** inflation and **cost** inflation.

Demand inflation occurs when the demand for goods and services increases beyond the supply capacity of the economy, that is, there is a lot of demand and little capacity to produce goods and services, which makes room for entrepreneurs to increase their prices without losing customers.

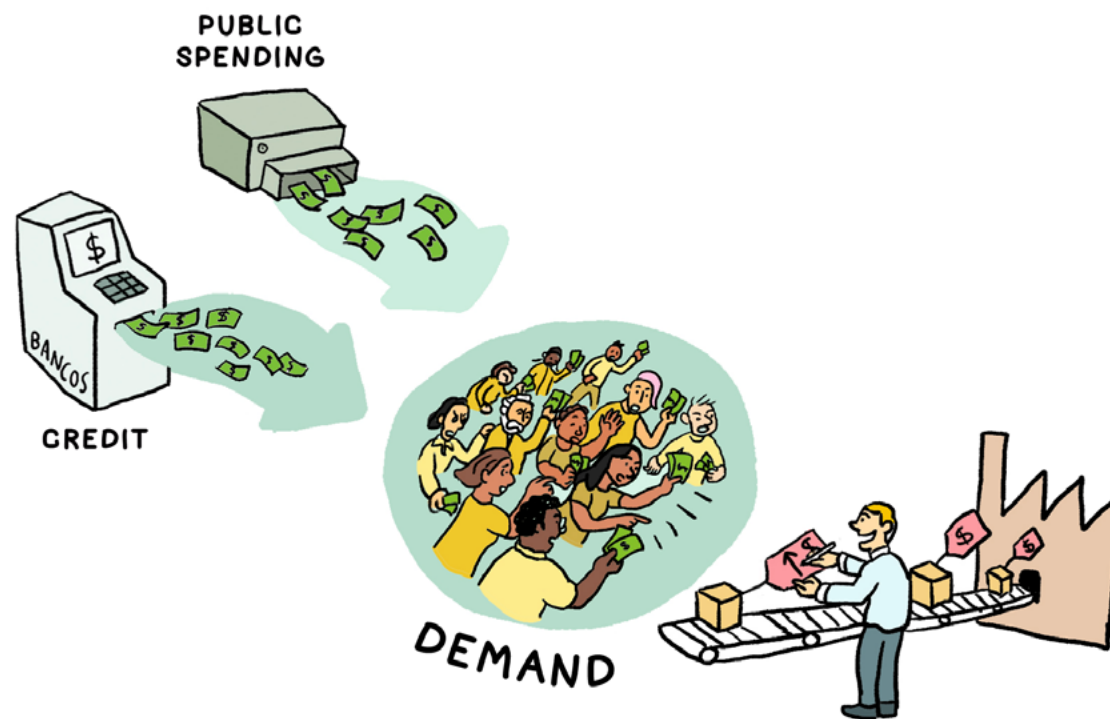
Cost inflation occurs when the costs of producing goods and services rise and those who make products and sell them transfer this cost increase to the consumer through the price. For example, a price increase for fuel results in a price increase for goods that depend on transport using said fuel, such as food that needs to be transported from one place to another.



Considering these two types of inflation, there are several possible causes for inflation of cost or demand.

CAUSES OF DEMAND INFLATION

Thinking about demand inflation, one of the commonly identifiable causes is the increase in the **amount of money in circulation, which in turn increases the demand for goods and leads inflation upward**. Inflation, in this case, could be caused by an increase in government spending (via currency issuance) or by policies that encourage credit and demand for consumption and investment. These two phenomena lead to more money circulating in the economy, which would put pressure on prices.



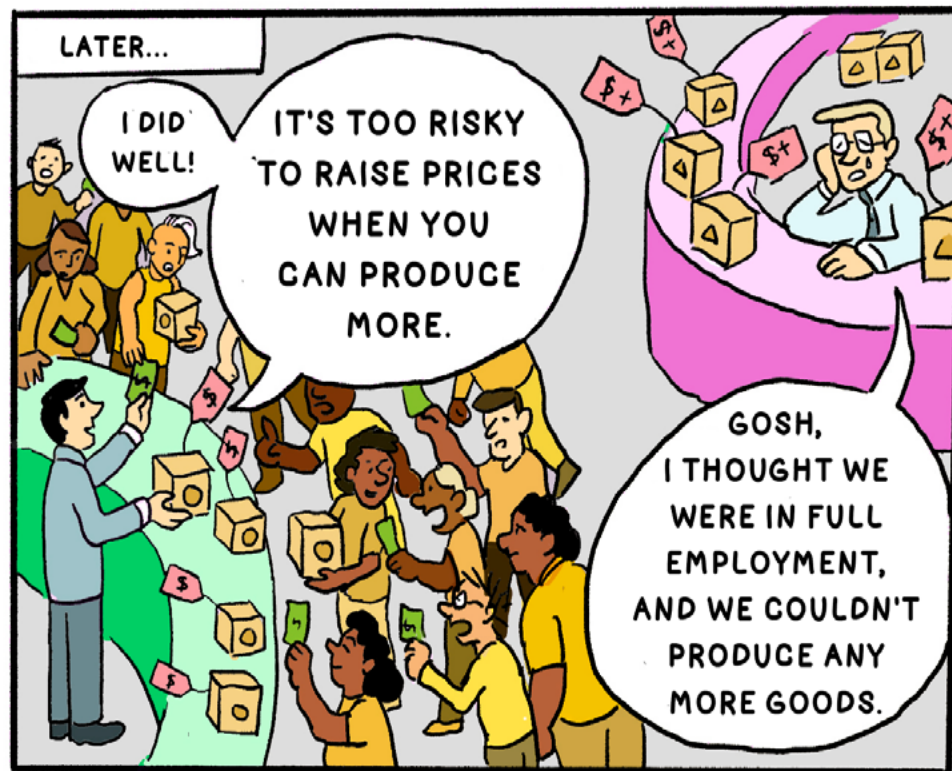
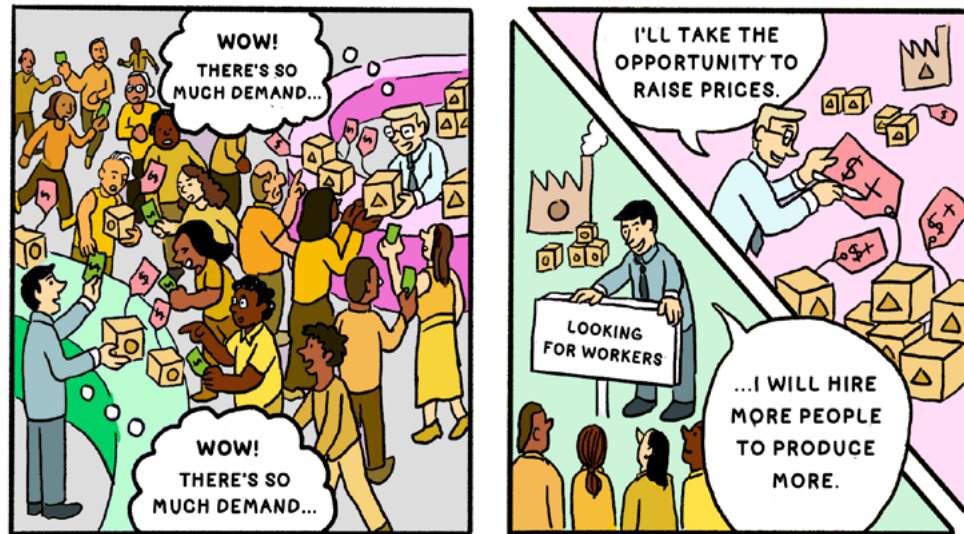
However, the idea of demand inflation comes from the assumption of **full employment**, in which **supply is given**, that is, pressure for more goods and services will only increase prices, since it is not possible to expand the production of goods. When the economy is in full employment, and companies use all their productive capacity, public spending tends to generate inflation, as demand increases at a time when supply capacity has nowhere else to grow. For example, when the government hires a company to build a road, that company, when operating at full capacity, may ask for higher prices to deliver the goods, which generates inflation.

However, full employment is not the Brazilian reality – in 2021, **33.2 million were in an underemployment situation – unemployed, or underemployed** (less than 40 hours per week), or a discouraged worker (someone who has stopped looking because no work is available). When there is unemployment and idle capacity in companies, government spending or policies that stimulate consumption and investment do not generate inflation, but rather contribute to raising the level of employment and increasing income. Hence the importance of using public spending in times of economic crisis and unemployment.

Full employment is when all those authorized to work who seek employment find it in a short time, and with little effort.

ACCORDING TO THE NATIONAL HOUSEHOLD SAMPLE SURVEY (PNAD), FIRST TRIMESTER 2023.

* ECONOMIC TERRORISM AND THE RELATIONSHIP BETWEEN PUBLIC SPENDING, PUBLIC DEBT AND INFLATION



The discourse in favor of public spending cuts often resorts to "the ghost of inflation" to justify itself. When a public figure says things like "if we break the spending cap we can go back to hyperinflation", their goal is to stop the debate. It is **economic terrorism**, made of threats that create fear to coerce the public opinion to accept a certain economic agenda.

There are two common arguments that associate government spending and inflation in public debate. The first argues that the increase in spending in Brazil will lead to an explosive increase in **public debt** that can only be paid through currency issuance. This increase in the amount of currency, in turn, will result in hyperinflation.

There are several problems with that argument. Starting with the fact that the increase in public debt in relation to the GDP is due to several factors - not only to spending decisions, such as the reduction of economic growth and the drop in tax revenue. The stabilization of public debt can be achieved, not by cutting spending, but by resuming growth and increasing revenues. In addition, there is no specific level of debt that would make the country unable to finance itself with **government securities**, which would lead to currency issuance...

The second argument is about **public deficit** exerting additional pressure on the demand for goods and services and leading to price increases. The argument may be true, but not necessarily. First, because the public deficit can be caused by a reduction in tax revenue, not an increase in government spending. In addition, the inflationary effect of an increase in public spending depends on the moment of the economic cycle: if public spending finds an economy with idle capacity, out of full employment, it will not lead to inflation.

Therefore, public spending and public deficit are not necessarily sources of inflation, especially in times of economic crisis.

Public debt covers loans contracted by a government with financial institutions, in the internal or external financial market, as well as with national and international bodies, persons or governments of other countries. When we say that the government is increasing public debt, it is usually issuing debt securities or government bonds, with a fixed term for payment and an interest rate. Public securities are an investment option for society, via the Tesouro Direto (similar to TreasuryDirect in the United States), for example.

When the revenues that the government receives are lower than its executed expenses in a given period, a public deficit is formed.

CAUSES OF COST INFLATION

Regarding cost inflation, there are several possible causes. Here we will see three of them: currency depreciation; price increases in key sectors; and inertial inflation.



CURRENCY EXCHANGE

1) **Currency depreciation** is when the dollar gets more expensive. Depreciation directly increases the price of imported goods when measured in Brazilian Reals, for example, imported products become more expensive in the supermarket. In addition, it affects the price of imported raw materials and supplies, which in turn increases the cost of producing goods domestically.



KEY SECTORS WITH PROBLEMS

2) Cost inflation can also result from the **increase in supply prices of key sectors of the economy**, which increase the final price of goods and services, such as the prices of electricity, health plans, public transport, etc.

In this context, public control of companies in strategic sectors such as energy and fuels can help lower inflation, but the management of these companies with a strict for-profit logic compromises this objective.

For example, the increase in fuel prices in 2022 in Brazil was strongly related to maintaining the profits and dividends of shareholders of Petrobras and other oil companies operating in the country.

CLICK HERE TO KNOW MORE



Agricultural and energy **commodities** are examples of goods whose prices are formed in the international market and influence Brazilian prices. In this sense, global climatic factors can increase the cost of food or energy generation in Brazil and worldwide. This so-called "imported inflation" can also affect industrial products, as demonstrated during the Covid-19 pandemic: with production interrupted or delayed in several countries, the crisis made imported supplies, and industrial equipment more expensive.

A term that corresponds to non-industrialized global basic products, that is, raw materials that do not differ regardless of who produced them or their origin, and their price is uniformly determined by international supply and demand. Examples are soybeans and oil.

3) Finally, there is cost inflation associated with **inflation inertia**. The term "inertia" reflects the idea that any person or company seeks to protect themselves from inflation by increasing prices looking back. Therefore, after an initial shock, inflation tends to be reproduced by people's habit of adjusting prices and contracts based on past inflation. The idea of inflationary inertia shows how past inflation is passed on to the future and was widely used as one explanation for the high inflation rates in Brazil in the 1980s and 1990s.



INERTIA

Cost and demand inflation at the same time: distributive conflict

The **distributive conflict** is another theory on the cause of inflation and refers to the dispute between workers and capitalists for the distribution of national income.



The demand for better work wages can be met by the capitalists, but it is passed on to consumers via the price of commodities and goods.

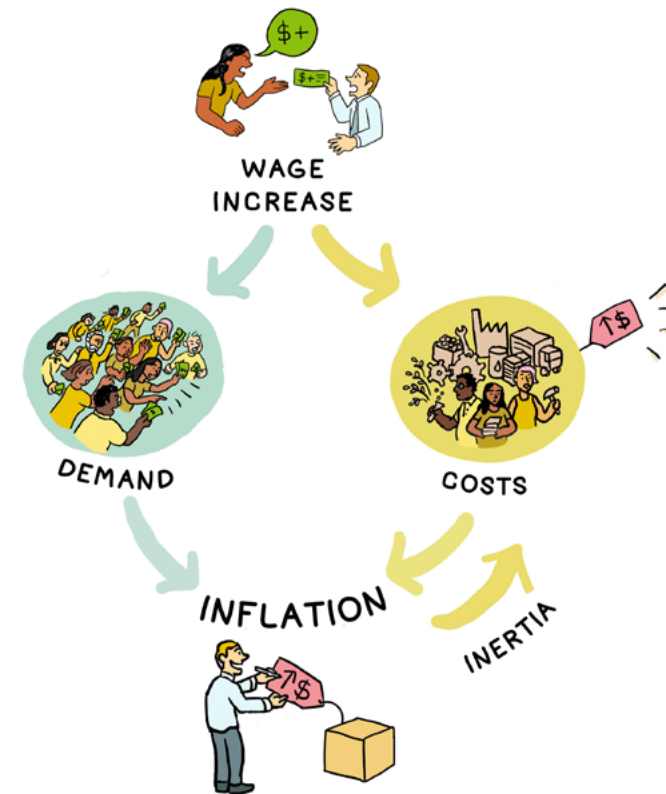


The workers, realizing that prices have risen, demand more wage increases, and so on.



The cause of inflation, therefore, may be the answer to a **conflict in which the capitalist seeks to increase profit margins and the worker seeks to increase wage.**

This inflation cause can be interpreted as a phenomenon of **demand**, since higher wages increase the demand of workers for goods and services, as well as costs, since wages are an important **cost** of production.



Distributive conflict inflation occurs mainly at times when unemployment is low and workers are organized. In times of crisis and unemployment, workers have low capacity to demand higher wages.

What about fighting inflation?

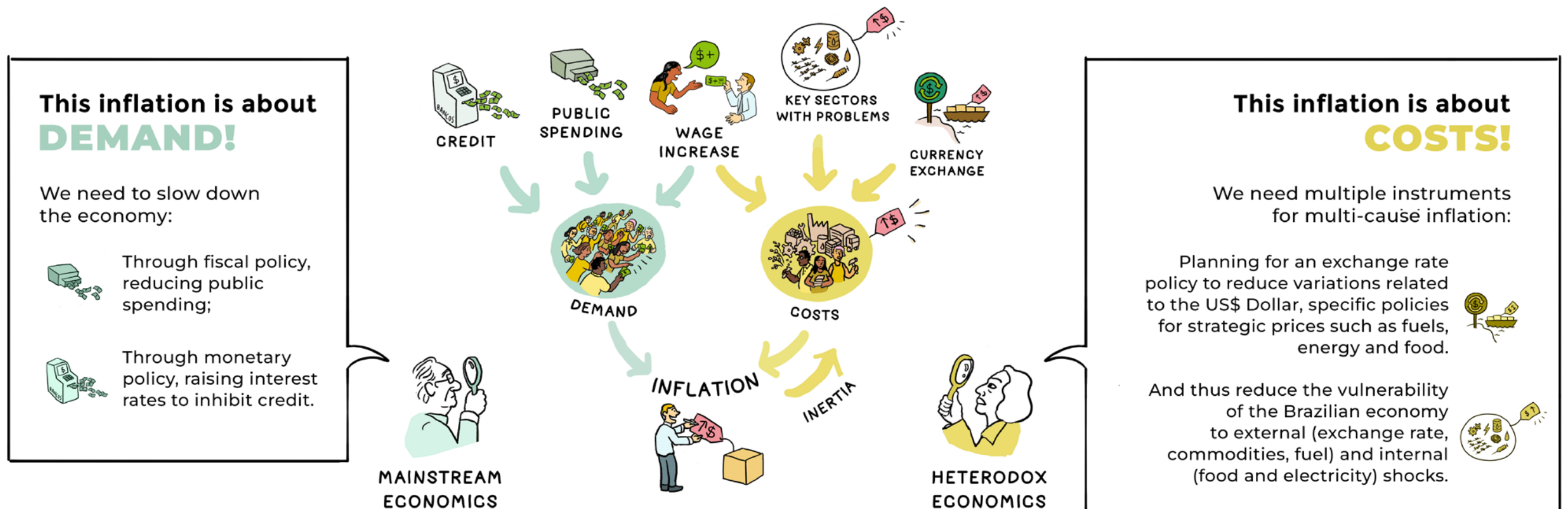
Considering these various possible causes, how do we determine what is causing inflation at any given time? The causes of inflation always cause debate among economists.

This lack of consensus among economists on the causes of inflation generates problems, as it is from the understanding of the causes that strategies to combat inflation are formed.

Orthodox economists, usually farther to the right in the political spectrum, tend to understand inflation as a monetary phenomenon linked to **demand**, even though there may be inflation temporarily caused by increased costs.

On the other hand, **heterodox economists**, usually to the left in the political spectrum, generally understand inflation mainly as a phenomenon of **costs** and distributive conflict.

In the Brazilian academic economy, the orthodox economist is usually understood as the one who shares the neoclassical research program, defined from some basic principles, such as economic rationality and the balance of markets. Orthodox economics can also be called Mainstream economics. It is traditionally studied in universities and defended by the Brazilian mainstream media. In contrast to mainstream economics, heterodox economics consists of theories that disagree with these principles and proposes alternatives - such as Keynesian and Marxist economics.



The diagnosis of **demand inflation** points to the increase in interest rates and the reduction in public spending, respectively, as it is necessary to reduce the demand for goods and services. We will see how interest rates affect inflation in the next chapters.

On the other hand, the control of **cost inflation** can make use of different tools, depending on the cause of inflation, such as:

- * Inflation caused by **currency depreciation** can be countered with policies to reduce currency speculation, accumulate international reserves, and decrease our **foreign dependency** and vulnerability.
- * Inflation caused by rising prices in key sectors of the economy, such as electricity, food and fuels, requires long-term policies to keep these prices low. For example, investing in renewable energy sources to ensure a constant supply and avoid increases in the electricity bill during dry seasons.

As we have seen, inflation can have several causes, and so there are several possible solutions. However, since 1999, when the inflation targeting regime was implemented, **the most commonly used instrument to control inflation by the Brazilian government is raising interest rates.** We will learn what the interest rate is and its impacts on the economy in the next chapter.

* WHAT WE HAVE SEEN SO FAR

Inflation is the rise in prices of goods and services. It can be calculated in different ways, but the most used index in Brazil is the IPCA, which analyzes a large basket of products and income strata. Both the supply and demand sides have the potential to generate an inflation scenario, and depending on the cause, different strategies are available to address it.

Demand inflation is usually advocated by the orthodox or mainstream economists and states that inflation responds to an increase in people's demand for goods and services in a given supply scenario. This increase in demand is usually caused by increased government spending or policies to stimulate consumption and credit. To combat demand inflation, the government must decrease its spending and increase the interest rate, to discourage the economy, which leads people to demand less products and services.

Cost inflation is often cited by heterodox economists as the nature of inflationary phenomena in Brazil. There are three possible main causes: currency depreciation, which puts pressure on the price of imported products; an increase in prices of key sectors of the economy, such as the increase in fuel prices, which leads to an increase in the price of transportation; and inertial inflation, which is the response of the population and companies to the beginning of an inflation process. There is also inflation due to distributive conflict, in which employees and employers fight for the distribution of income: workers fighting for more wages and companies for more profits.

QUESTIONS FOR DISCUSSION

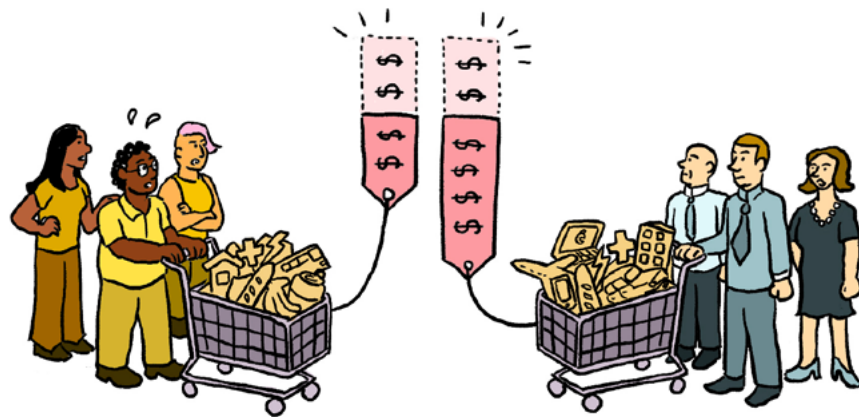
- 1) What is the difference between cost inflation and demand inflation?
- 2) Name two possible causes of inflation and the tools to fight them.



Unequal impacts of inflation

The effect of inflation on each of us depends on what we buy. Price inflation of luxury goods, such as helicopters and gold necklaces, hardly affects 99.9% of the population. On the other hand, food inflation in the market basket has a much more relevant effect on most of the population, especially for those who spend a large part of their wages on these products.

According to the **Institute of Applied Economic Research** (IPEA, 2021), the inflation accumulated in 2020 for families with a monthly household income of less than R\$1,650.00 was around 6%, while families with a monthly household income of more than R\$16,509.00 had only 2.7% inflation. Therefore, because their product basket was more affected by price changes, the poorest people felt the effects of inflation more than the richest ones.



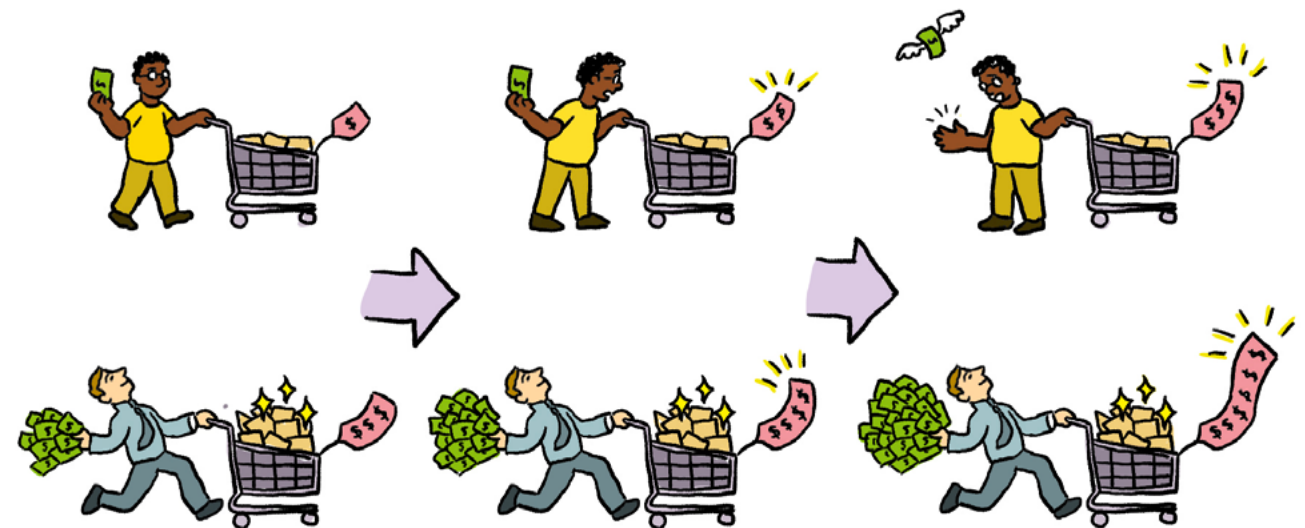
THE POOREST ARE THE ONES MOST VULNERABLE TO INFLATION

In addition to experiencing inflation more acutely, the poorest are the least able to protect themselves from inflationary processes. You know that annual rent increase many people get? It means that property owners are protecting their incomes from inflation, while tenants increase their spending. How about bus tickets getting more expensive? It's the bus companies protecting their profit

margins. Meanwhile, workers, especially informal workers, hardly have their remuneration linked to inflation rates.

The important exception is wages and benefits linked to the minimum wage. Between 2004 and 2019, Brazil had a Minimum Wage Valorization Policy, which took into account the result of the Gross Domestic Product (GDP) and inflation to calculate payment adjustments. That is, the workers were rewarded with the growth of the country's economy. The policy was cancelled by the government in 2019, and today the minimum wage is only adjusted for inflation, as determined by the Constitution.

If, on the one hand, a lack of adjustment might cause salaries to lose buying power, when wages increase faster than the prices of things, the worker's purchasing power grows despite inflation. For example, if a person gets a raise of 10% and inflation was 7% that year, it's a win for them, even if the raise they received caused some inflation, as mentioned in the section about inflation by distributive conflict. **Therefore, the impact of inflation on our lives also depends on how much our income increases.**



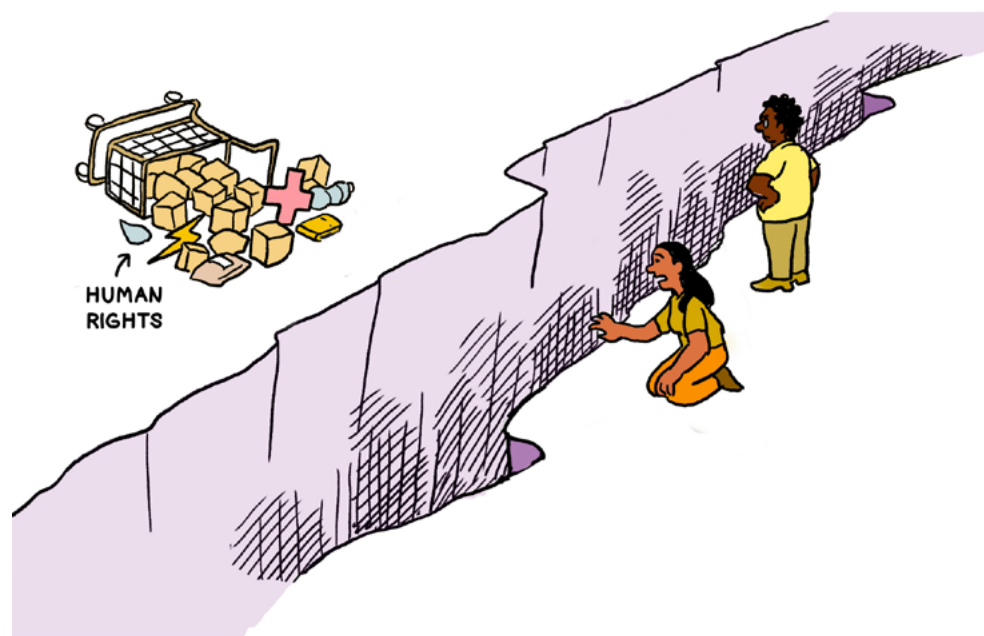
IPEA is a federal public foundation linked to the Ministry of Economy created in 1964.

CLICK HERE TO READ MORE ABOUT THIS RESEARCH



Inflation and human rights

Inflation can jeopardize living standards that are consistent with human dignity and the protection of inalienable rights. Food inflation, for example, may violate the right to appropriate and healthy food and nutrition. Inflation of services - such as electricity and water - and goods, such as fuel and natural gas, also inhibits access to rights. For example, increasing fuel prices will increase bus ticket prices, and that can prevent a family from going to the nearest health center. Inflation of property prices and rentals, on the other hand, can compromise the right to housing and access to land.



Inflation can also undermine government social policies aimed at securing rights if they are not protected from price increases. For example, the National School Feeding Program (PNAE) feeds about 41 million students annually and has not been adjusted to inflation in years, which meant that between 2014 and 2019 the program has effectively lost 20% of its resources.

In short, to ensure that inflation does not interfere with the preservation of human rights, it is necessary to combine inflation control of goods and services that most affect the majority of the population with the guarantee that minimum wages and social policies are at least annually corrected for inflation.

* WHAT WE HAVE SEEN SO FAR

Inflation has a variety of effects, but typically the poorest are the most vulnerable to its impacts since they lack the means to defend themselves. The guarantee of human rights is also affected by inflation, as an increase in prices in some sectors, such as food and housing, compromises minimum living standards for human dignity. In addition, inflation can affect human rights by harming budgets for social policies, if they do not have mechanisms to be shielded from inflation.

QUESTIONS FOR DISCUSSION

- 1) We have seen that inflation affects the rich and poor differently. Which of these groups can protect themselves from inflation? What tools can each of them use?
- 2) Which fundamental good or service in your life has had the biggest price increase in recent years? Has the price increase affected your access to human rights? How?



Credit and human rights

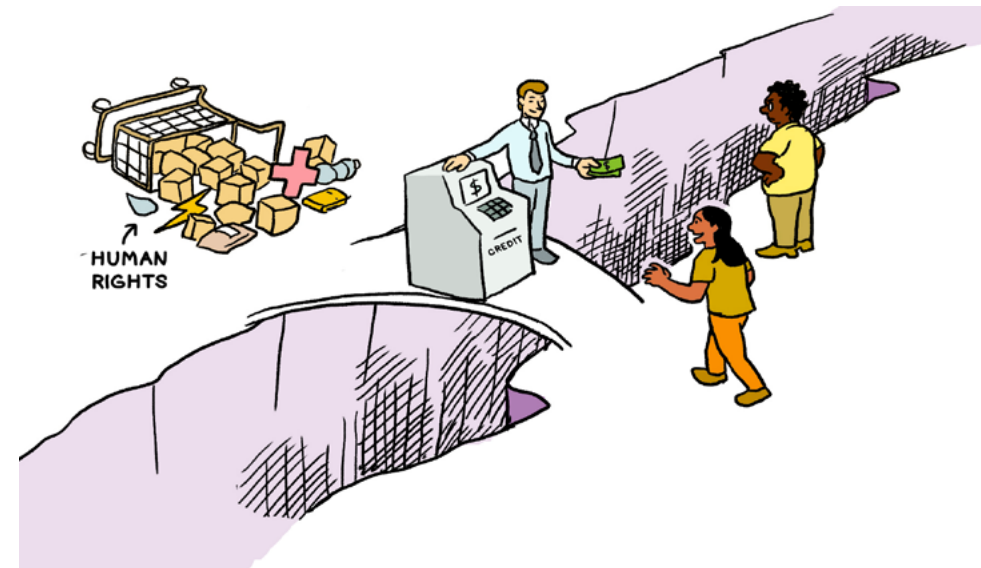


Credit (or loan) is a contract in which the lender provides money to a debtor party in exchange for future payments. The creditor charges a fee for the loan, **called an interest rate** and, in the event of breach of contract, imposes sanctions on the debtor. Lenders and payees might vary, although **banks are the most typical source of credit for both individuals and companies.**

Like all contracts, the decision to acquire debt is a free choice. However, this freedom is relative, as the realization of human rights increasingly depends on access to credit. That is, people get loans to pay for their basic needs, such as food, housing, education, and access to health, among others. These basic needs should be guaranteed through universal access to human rights, but today the reality is that they have been turned into commodities, and people often need to borrow money and pay interest to have access to basic rights.

A harsh reality for the population brings nothing but joy to banks: as they encourage more and more people to borrow money, banks and other financial institutions benefit from the interests paid by customers and, in times of crisis, restrict access to credit.

In other words, as **human rights become more and more like commodities, the financial market acts as an intermediary** in granting access to them.



Additionally, credit access is unfair and discriminatory. Discrimination happens in access to credit and in the conditions of the credit agreement.

In the United States, **there is evidence of discrimination against the black population in the granting of mortgages motivated exclusively by skin color.** If there are two clients with the same risk assessment, a white client is more likely to get the loan than a black client. In addition, unequal treatment is also in the higher cost of credit for the impoverished portion of the population, associated with a higher risk of default or breach of contract.

For the Brazilian case, there are fewer studies on the issue, but **a 2017 survey** shows that **black and brown-skinned microentrepreneurs look less for credit when they need it compared to white microentrepreneurs. They also ask for lower amounts, have a greater chance of having the request denied and pay higher interest rates.** A greater proportion of POC entrepreneurs say that they experience difficulty in accessing financial services and feel uncomfortable at banks.

The entire environment in which financial operations occur, such as operations of purchase and sale of shares, securities and foreign exchange. It involves the stock exchanges, banks and other agents that operate with financial assets, with the State.

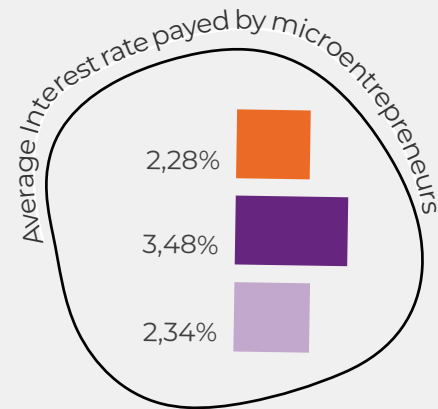
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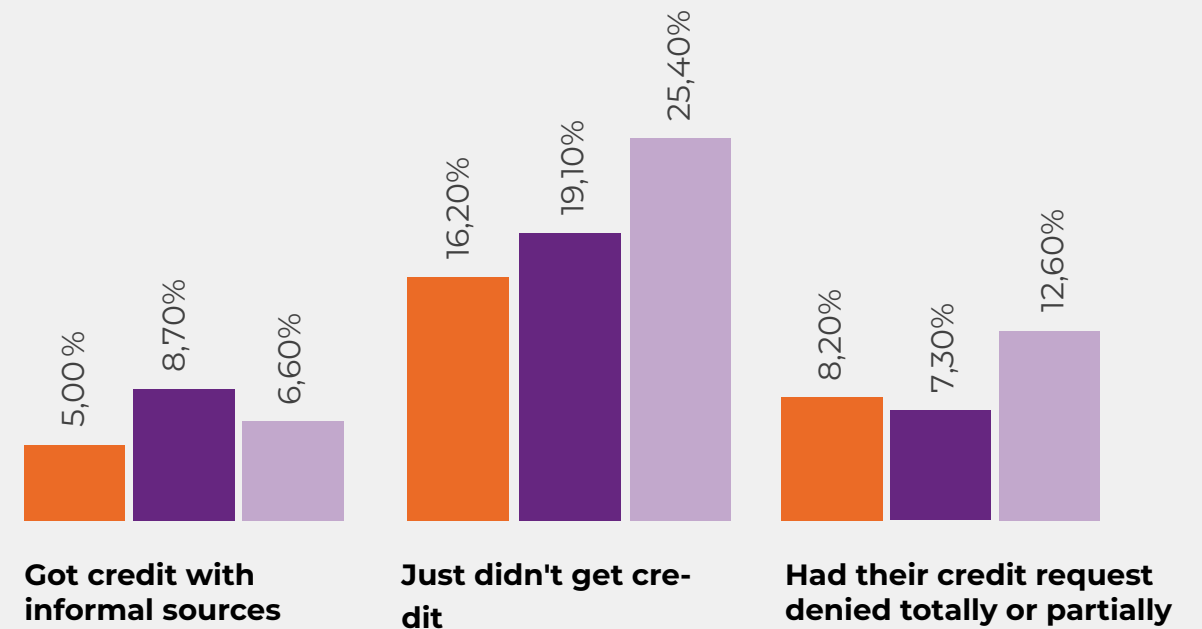
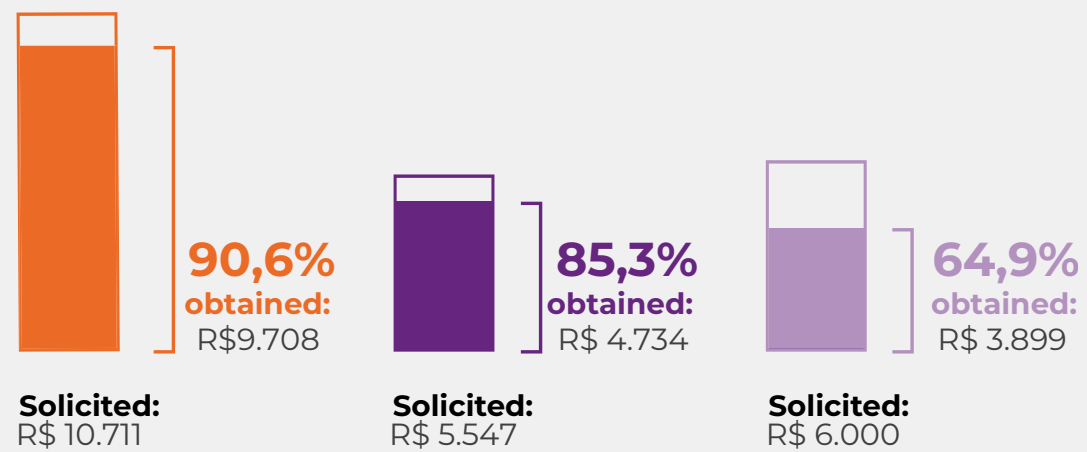


RACIAL INEQUALITY IN THE CREDIT MARKET IN BRAZIL



PROBLEMS WITH GETTING CREDIT...

VALORES MEDIOS SOLICITADOS Y OBTENIDOS



Source: PAIXÃO, Marcelo. Acesso ao crédito produtivo pelos microempreendedores afrodescendentes, 2017. *Elaboração própria.*

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"O SISTEMA FINANCEIRO E O ENDEVIDAMENTO DAS MULHERES", GRACIELA RODRIGUEZ.



If, on the one hand, difficult access to fair credit is a problem, excessive indebtedness arising from credit is also a challenge. The process of indebtedness through credit **also specifically affects women**, as alert [study organized by Graciela Rodriguez](#). Women are highly reliant on social policies, particularly those pertaining to human rights, as they are frequently the heads of households and are in charge of the survival and procreation of families in addition to having a subjugated economic and political status. [When these policies are dismantled](#), these women are compelled to ask for credit to meet the basic needs of themselves and their dependents, such as food, electricity and water bills.

The inclusion of these women in indebtedness is stimulated by public and private "financial inclusion" initiatives, which are often oriented towards women. For example, the government launched "Brasil para Elas" (Brazil for Women) on women's day 2022, a credit and entrepreneurship program for women; and Banco Santander has had credit lines for women entrepreneurs since 2019.

This is not about condemning credit policies focused on women, but understanding them in a broader context, where the demise of social policies and women's weakened position in the economy compel them to be trapped in a never-ending cycle of debt.

CLICK HERE TO SEE NUMBERS OF THE DISMANTLING OF BRAZILIAN SOCIAL POLICIES. SOURCE INESC, "A CONTA DO DESMONTE"



* WHAT WE HAVE SEEN SO FAR

Credit is a legal bond where an individual or company takes out a loan with a bank or financial institution. As more people utilize credit to access fundamental human rights like food and health care, credit has become increasingly crucial for the population. The conditions of access to credit, however, vary greatly within society, and it is black people who suffer the most difficulties in taking and paying their loans.



QUESTIONS FOR DISCUSSION

- 1) Why is access to credit important for the economy?
- 2) Is it fair for black people to be the ones who pay the highest interest rates for their loans?
- 3) Should women have easier credit programs, with less interest and better payment terms?

2. Monetary policy and human rights

This section aims to present the operation of monetary policy in Brazil and the channels through which it can affect access to human rights.

2. Monetary policy and human rights

Monetary policy and the Central Bank's decisions affect, among other things, inflation and credit, which are related to human rights, as we've seen. It also influences other economic variables, such as investment, income, and employment. In addition, it has a more direct relationship with some human rights, especially social ones. Therefore, it can contribute to ensure or violate human rights. In this section, we will highlight the definition of monetary policy, its instruments of action and its relationship with human rights.

What is monetary policy

Monetary policy is an economic policy of the federal government aimed at the administration of money and interest rates.

In Brazil, its main objective is the stability and control of inflation, and a second objective is the guarantee of employment. This policy is operated by the Central Bank, which is also in charge of other functions, as we will learn in the next chapter.

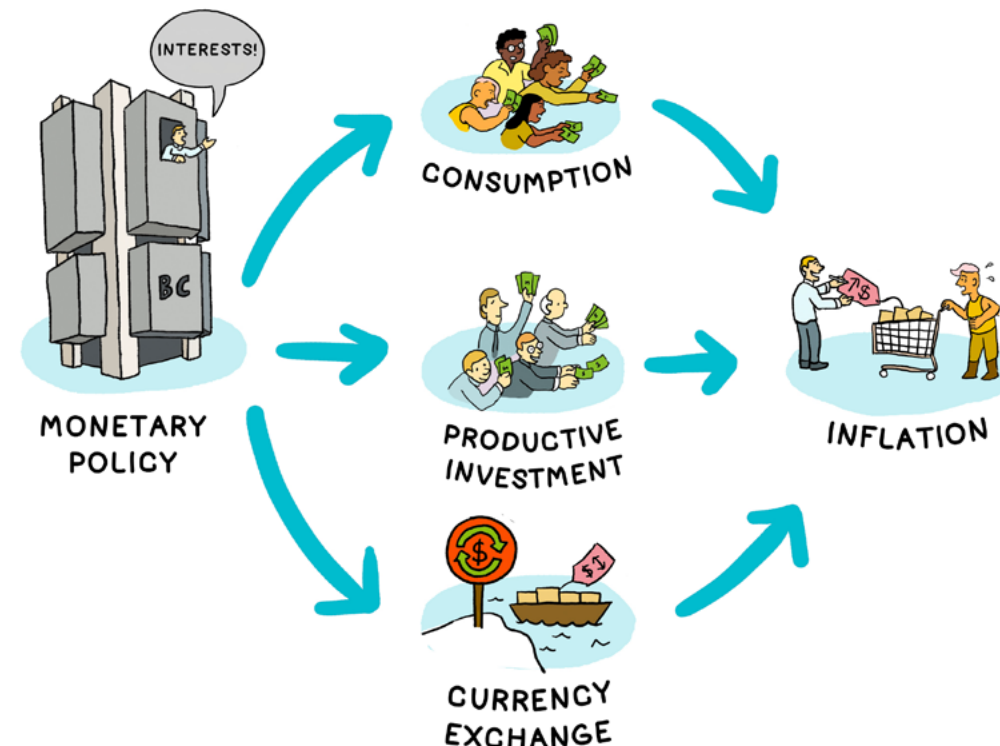
The main monetary policy instrument used by the Central Bank is the control of the Brazilian basic interest rate, the Selic (Special System for Settlement and Custody). This rate is the basis for the remuneration of government securities, and thus all other market interest rates, influencing interest rates on bank loans to individuals and businesses.

Here is the thing: Why would banks lend money to a person or company when they can buy government securities, which are much safer? The solution is to offer loans at interest rates higher than the Selic!

The set of government actions that are planned to achieve certain purposes related to the economic situation of a country, a region or a set of countries. The main economic policies are exchange rate, fiscal and monetary.

In this sense, when the Central Bank changes the monetary policy, increasing or decreasing the basic interest rate, it is affecting all interest rates in the country's economy. In addition, it is influencing inflation, income and credit, and indirectly affecting access to rights. Understanding the **connection between interest and inflation**, as we will explain below, is essential to comprehend these multiple interactions. This connection occurs through consumption, investment and exchange rates.

MAIN INTEREST RATE – INFLATION TRANSMISSION CHANNELS:



Impacts of **low** interest rates on consumption and investment

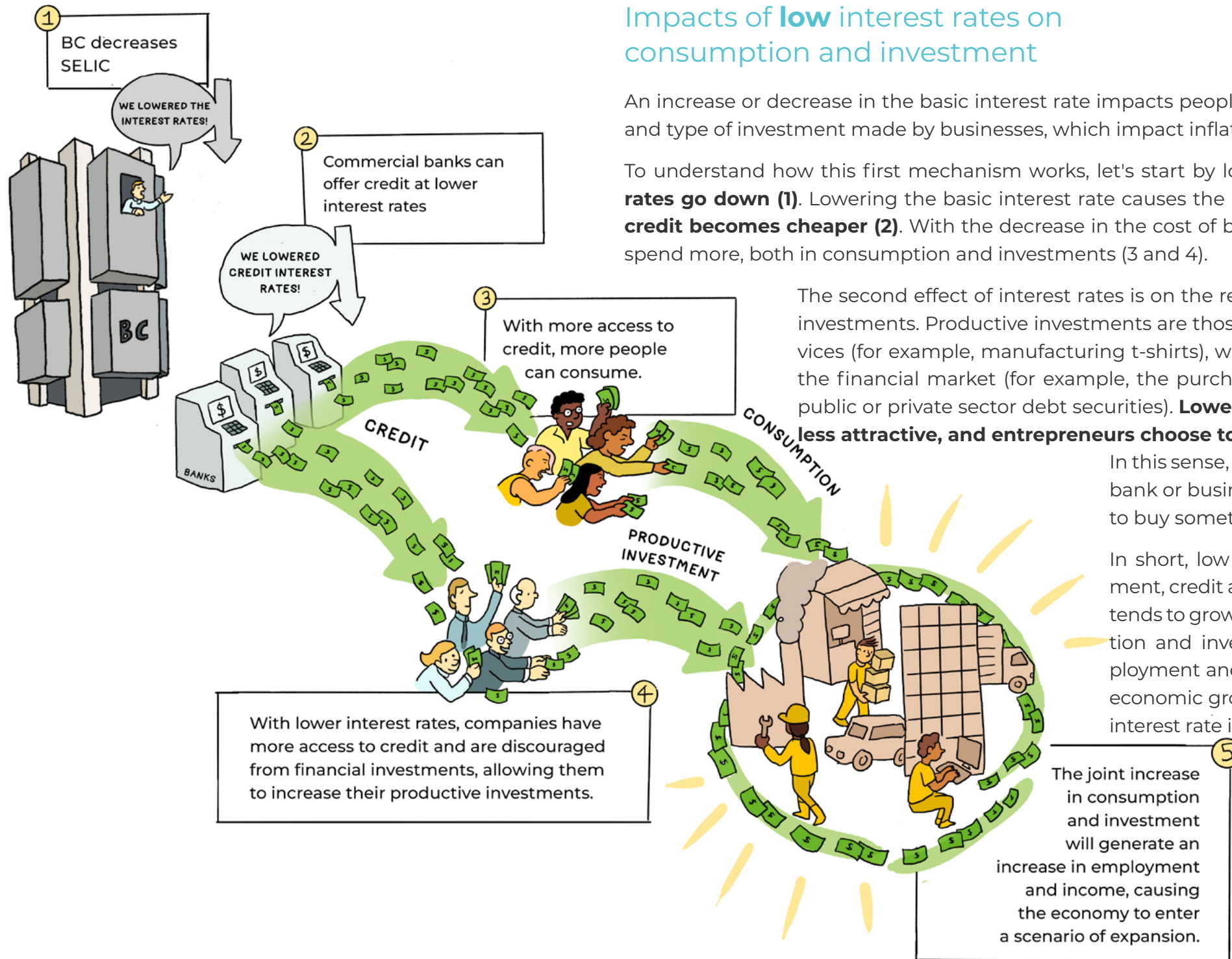
An increase or decrease in the basic interest rate impacts people's consumption capacity, as well as the level and type of investment made by businesses, which impact inflation.

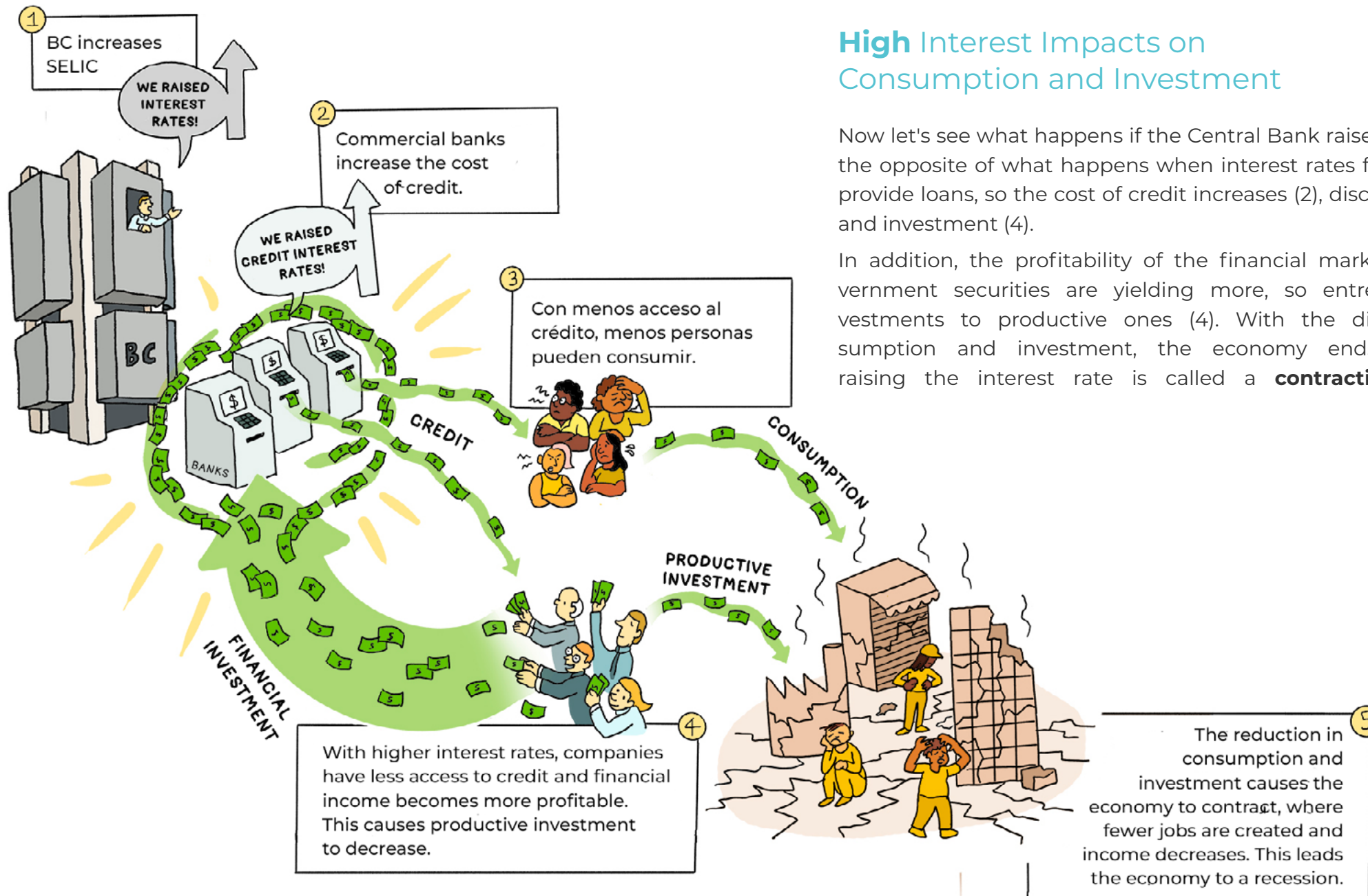
To understand how this first mechanism works, let's start by looking at **what happens when the interest rates go down (1)**. Lowering the basic interest rate causes the other interest rates to fall, which means **that credit becomes cheaper (2)**. With the decrease in the cost of borrowing money, families and entrepreneurs spend more, both in consumption and investments (3 and 4).

The second effect of interest rates is on the relationship between productive and financial investments. Productive investments are those related to the production of goods and services (for example, manufacturing t-shirts), while financial investments are investments in the financial market (for example, the purchase of company shares and the purchase of public or private sector debt securities). **Lower interest rates make financial investments less attractive, and entrepreneurs choose to make more productive investments (4)**.

In this sense, Selic is the key metric that shows how much a bank or businessperson will lose out on when they choose to buy something, take out a loan or make an investment.

In short, low interest rates mean more productive investment, credit and consumption – that is, the whole economy tends to grow more. This scenario of expansion of consumption and investment tends to feed back, increasing employment and income, placing the country in a scenario of economic growth. By this effect, the reduction of the basic interest rate is called **expansionary monetary policy (5)**.





High Interest Impacts on Consumption and Investment

Now let's see what happens if the Central Bank raises interest rates (1). Evidently, it's the opposite of what happens when interest rates fall. Banks will demand more to provide loans, so the cost of credit increases (2), discouraging both consumption (3) and investment (4).

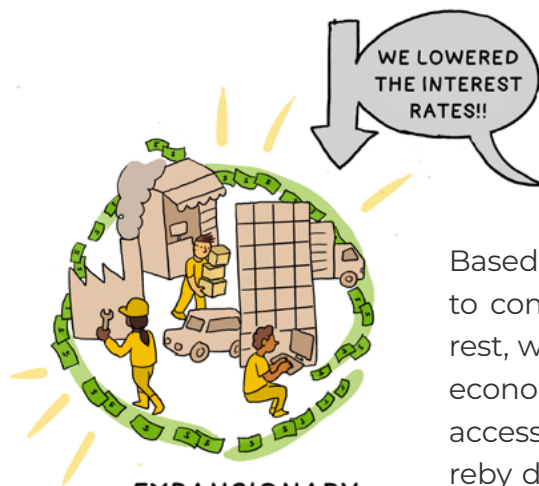
In addition, the profitability of the financial market tends to be higher, as government securities are yielding more, so entrepreneurs prefer financial investments to productive ones (4). With the discouragement for both consumption and investment, the economy ends up contracting. Therefore, raising the interest rate is called a **contractionary monetary policy (5)**.



CONTRACTIONARY MONETARY POLICY

Thus, we have seen that the monetary policy can be expansionary or contractionary. In the first one, when the interest rate falls, there is an increase in both consumption and productive investment, causing the economy to expand. In the second, the interest rate increase causes recessive effects on the economy, causing the economy to contract.

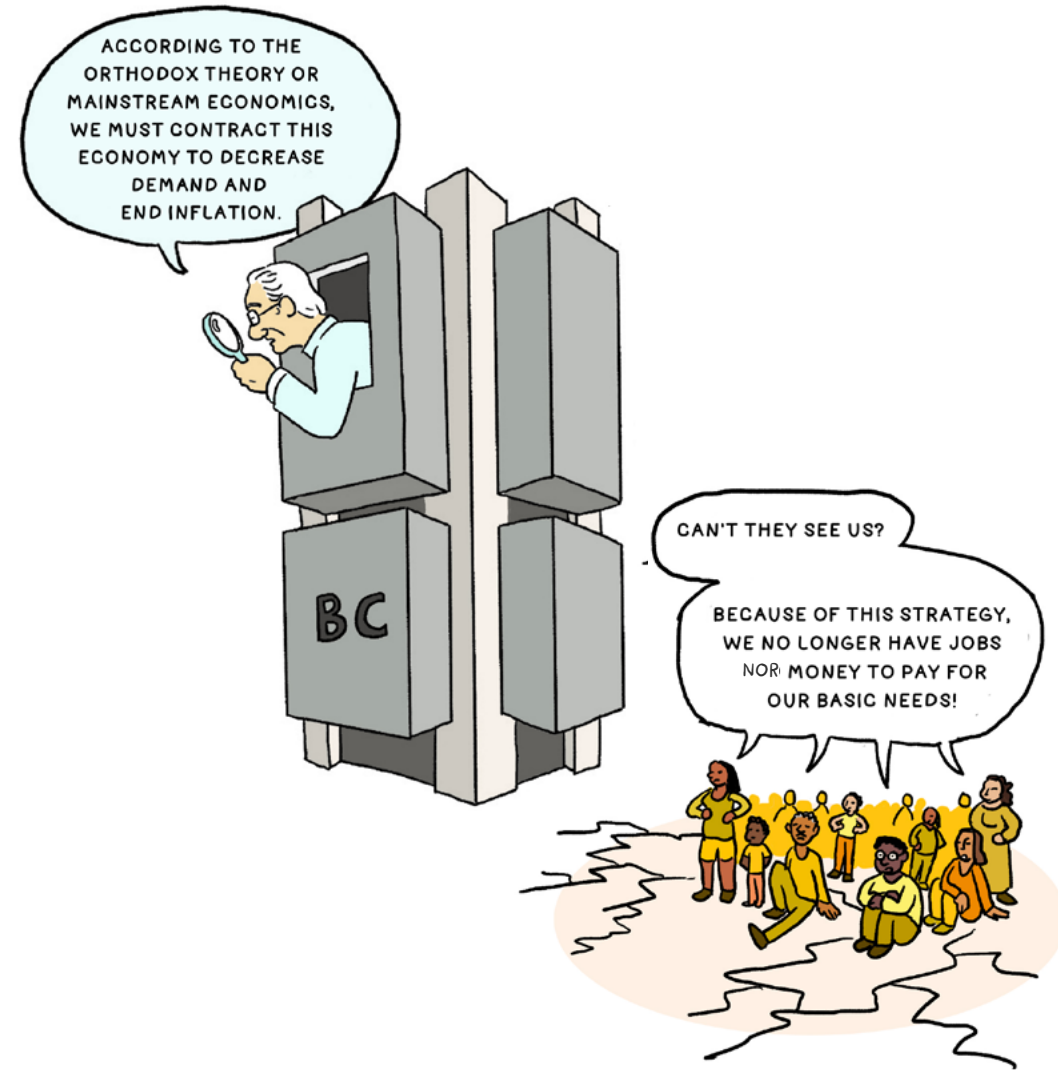
But if a contractionary monetary policy slows down the economy and can cause recession, why does the Central Bank use it? Remember we saw that when assessing inflation, economists can come to the conclusion that it comes from either cost or demand?



EXPANSIONARY MONETARY POLICY

The Central Bank believes that inflation comes from a problem of excess demand, caused by an excessive amount of money in circulation.

Based on this diagnosis, the BC chooses to combat inflation by increasing interest, which, as we have seen, brings the economy to a contraction, as it reduces access to credit and investments, thereby decreasing the demand for goods and services. That is, **the Central Bank uses interest rates to contract the economy in an effort to reduce inflation.**



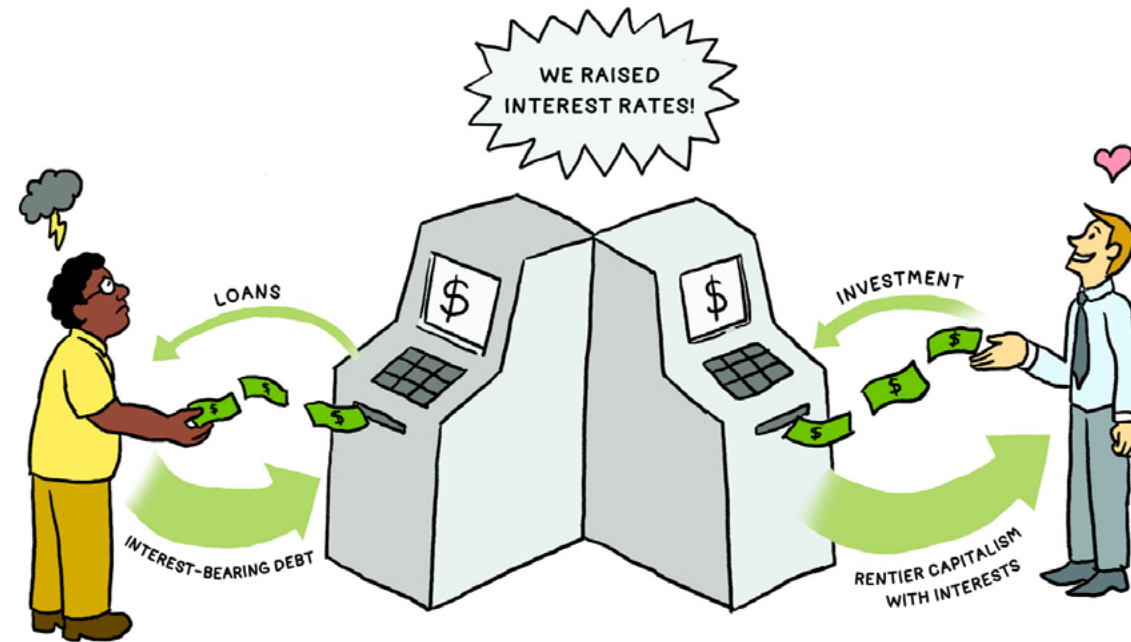
Here is the thing: the fight against inflation is very important, but if carried out through a policy that increases unemployment and decreases consumption, it is stopping people from accessing rights, and it does not contribute to reducing inequality. As inflation in Brazil is often costly, this combat strategy also does not mean controlling inflation.

* WHAT WE HAVE SEEN SO FAR

The primary channel of influence for the interest rate over inflation comes from its impact on investment and consumption, and as a result, on the economy's level of income and employment. This impact can be expansionary or contractionary and occurs both through the influence on the cost of credit, and the impact on the financial market. An expansionary monetary policy is the reduction of the basic interest rate and means more credit and investment, leading to more employment and income. In the contractionary monetary policy, the economy contracts and the higher Selic increases the profitability of financial investments. The Central Bank uses mainly the contractionary monetary policy to combat inflation, which means less consumption and productive investments, and more unemployment.

QUESTIONS FOR DISCUSSION

- 1) What is a contractionary monetary policy? What is an expansionary monetary policy?
- 2) In times of economic and social crisis, which policy makes the most sense to apply? Why?



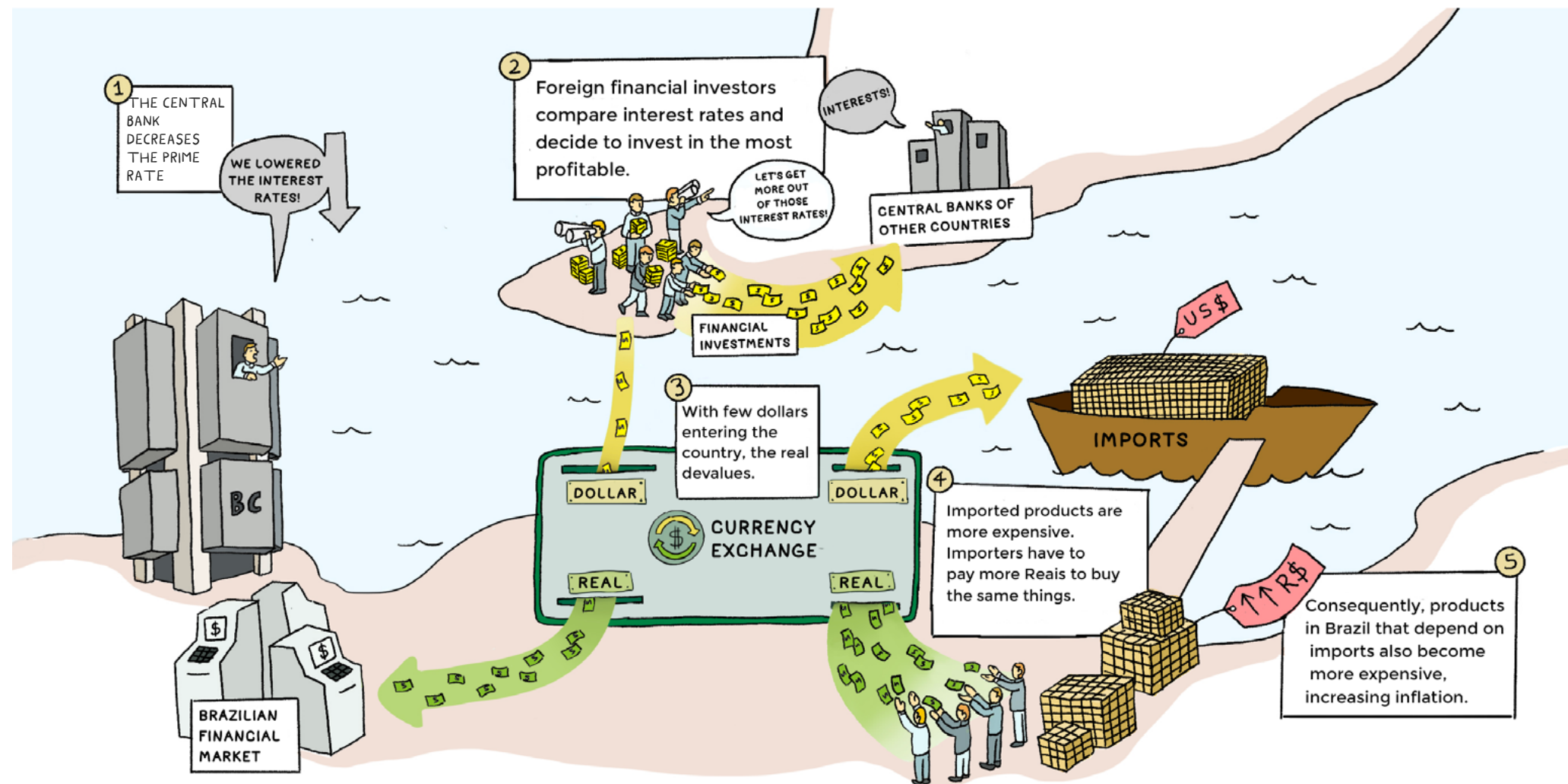
WHO ARE YOU WHEN INTEREST RATES GO UP?

Impacts of **low** interest rates on the exchange rate

The second channel through which interest impacts inflation is the exchange rate, that is, the relative price of the dollar or other foreign currency to the national currency. This effect is connected to the flow of **foreign capital** into or out of Brazil, which is determined by our interest rate. High interest rates attract international financial investors, who buy government securities and other assets, while low interest rates drive them away, as they will buy securities from other countries that are offering better interest rates.

Basically, the **reduction in the interest rate tends to lead to fewer**

dollars circulating because it drives away international capital. With less dollar in the market, the American currency is more expensive and the Brazilian currency is devalued: this is known as currency depreciation. Depreciation of the Brazilian Real generates inflation, as we saw in the section about causes of inflation - because it becomes more expensive to buy imported products and supplies. As Brazil depends a lot on imported products – the wheat for our bread is imported, most of our cellphones and electronics are imported too – the US\$ Dollar exchange rate has great influence over our buying power.



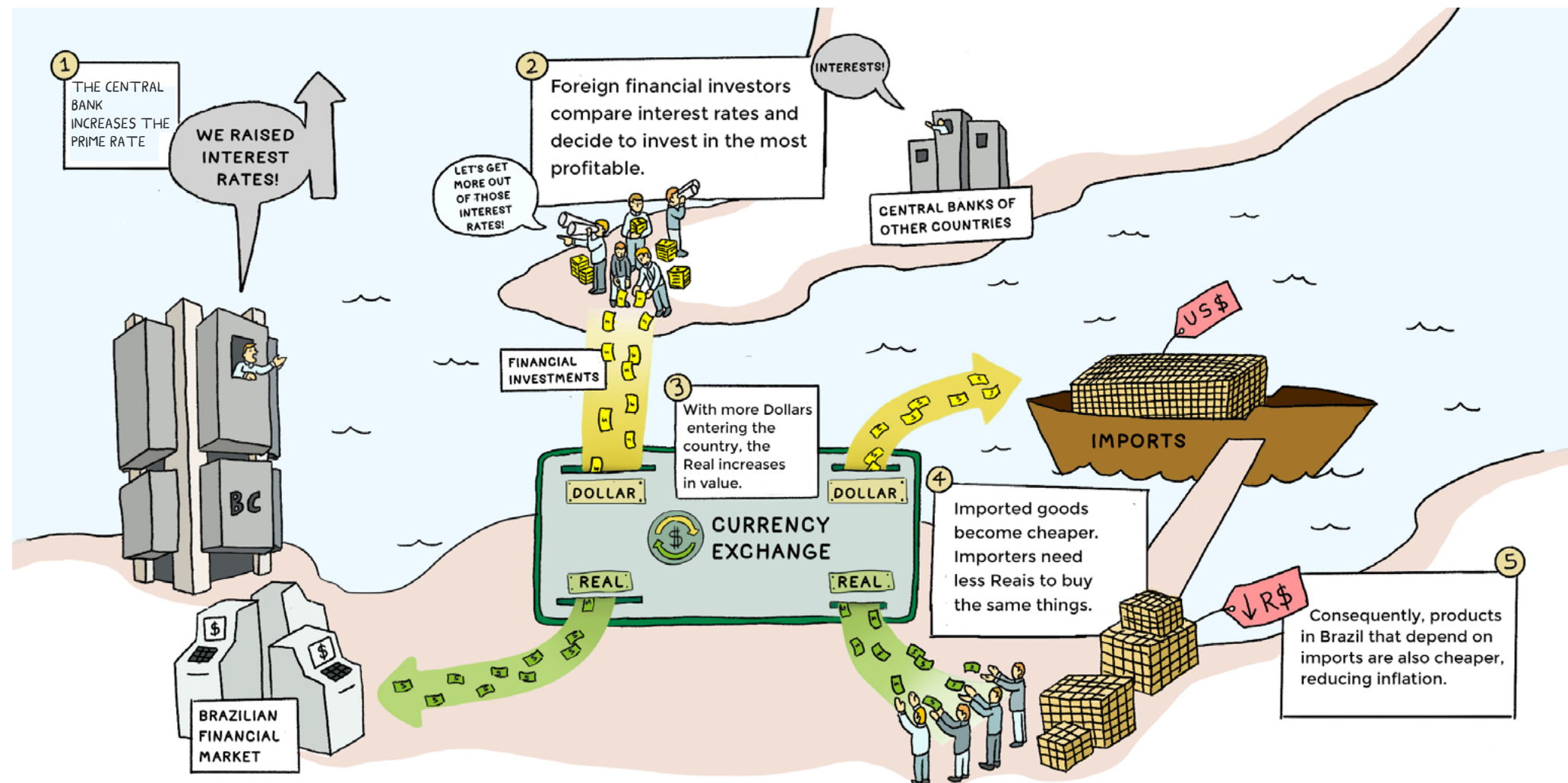
High Interest Impacts on the Exchange Rate

On the contrary, an **increase in the interest rate** is also an increase in the attractiveness of domestic securities in the international market, which tends to attract foreign capital and **make the Dollar cheaper**, valuing the Real. The change in the exchange rate makes **imported products cheaper**, which helps to reduce inflation.

In this sense, the contractionary policy employed by the Central Bank also seeks to fight inflation by increasing the value of

the Real. The exchange rate has historically been widely used to combat inflation in Brazil - for example, during the **Plano Real** (Real Plan). An excessive appreciation of the Real, however, has perverse effects on production in Brazil, causing deindustrialization and increased external dependence, as imported products end up becoming cheaper than domestic ones.

Former federal program with the objective of stabilizing the Brazilian currency. Started on February 27, 1994 and implemented in the Itamar Franco administration. It was effective, at the time, in combating the hyperinflation scenario in Brazil.



* WHAT WE HAVE SEEN SO FAR

The interest rate influences the exchange rate, in addition to consumption and investment. A high interest rate encourages foreign investment into Brazil, which raises the value of the Real as more Dollars are circulating. With the Real valued, it is cheaper to import goods, which helps lower the inflation, but does not contribute to the country's industrialization process, because the domestic industry cannot compete with cheaper foreign products. Lowering the interest rate has the opposite effect: fewer Dollars in Brazil, devalued Real and more inflation, and imported products get more expensive. In recent decades, Brazil has been using interest rates to keep the Real valued and thus control inflation.



QUESTIONS FOR DISCUSSION

- 1) What is the exchange rate? How is it influenced by interest? And how does it affect inflation?
- 2) What does it mean for the economy to keep the Brazilian Real valued?

* INFLATION IN THE PANDEMIC AND THE INTEREST SHOCK

Inflation in an economy that has unemployment like the Brazilian one is not normally generated by demand. Inflation in Brazil is mainly associated with cost, with fuel and food prices, but the Central Bank continues to use interest as a tool to combat it.

Brazil was one of the countries that most raised interest rates in 2021, despite the scenario of high unemployment and the evident need for economic recovery. Selic grew from 2% in January to 9.25% in December, a decision that contradicts the logic of the inflation targeting regime, since there was no demand pressure in the Brazilian economy.

Inflation closed 2021 at 10% measured by the IPCA, but the causes of this inflation do not justify the large increase in interest rates. On the contrary, they pointed to the need for alternative policies to contain it. One of the great "villains" of the 2021 inflation was the **price of fuels, which grew 47.5% along the year**, increasing the cost of transportation and the costs of various goods, including food. If Petrobras' fuel pricing strategy had been centered around what was important for the people rather than the company's shareholders, this increase might have been avoided.

Similarly, **food and beverage inflation (8% in 2021)** could have been lower if the **National Supply Company (CONAB)** food stocks had not been zeroed and privatized, or if any other public policy instruments had been created, such as subsidies, tax reductions and foreign trade policies.

Therefore, the logic against inflation during the Covid-19 pandemic was to use one single instrument (interest) for an inflation with multiple causes. In a time of economic and social crisis, the rise in interest rates helps the financial sector but slows down the much-needed economic recovery in a context of social crisis.

A public company, linked to the Brazilian Ministry of Agriculture, Livestock and Supply. Among its objectives, there's the goal to promote the right to food and nutritional security, so CONAB executes actions and programs related to food supply management at a national level.

Impacts of monetary policy on human rights

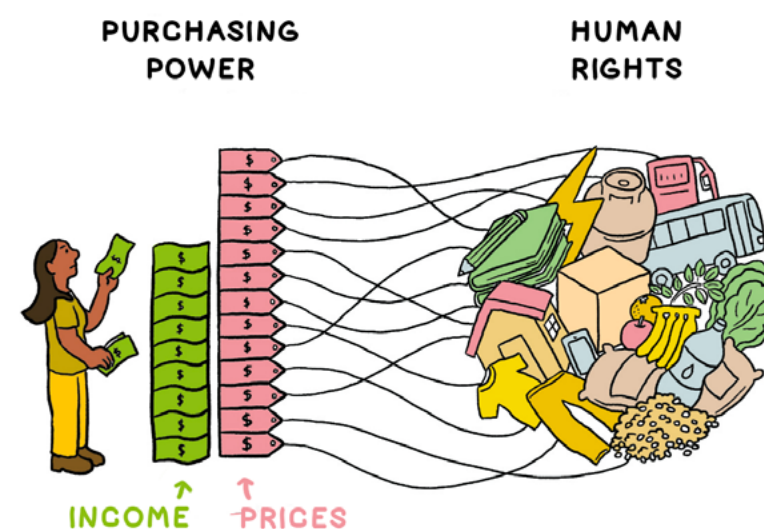
So far, we have learned how monetary policy impacts people's lives – that is, how interest rates affect inflation, employment, and economic growth. Now, let's try to connect these impacts with the generation of inequalities and access to human rights. Therefore, **this section will be a review of everything we talked about, but going a step further, by making the most important connection of this guide: monetary policy and human rights.**

Generally, the impacts of monetary policy on human rights occur indirectly, but they are decisive to ensure those rights are met. Monetary policy is different in this sense from fiscal policy, which tends to impact human rights directly, through income transfers and the provision of public services.

Before delving into the indirect relationship between monetary policy and human rights, it is important to emphasize that one right is directly related to monetary policy: **the right to work**. The right to work means full employment for those who are willing and able to work. A reduction in the interest rate tends to generate income and employment, because with easier access to credit, companies start to produce more; on the other hand, an increase in the interest rate tends to have the opposite effect. Thus, monetary policy impacts on the right to work when it generates unemployment or discourages the creation of new jobs.

The access to other rights is conditioned to a worker's income and employment situation. When considering all rights, social policies nowadays are losing space in the public bu-

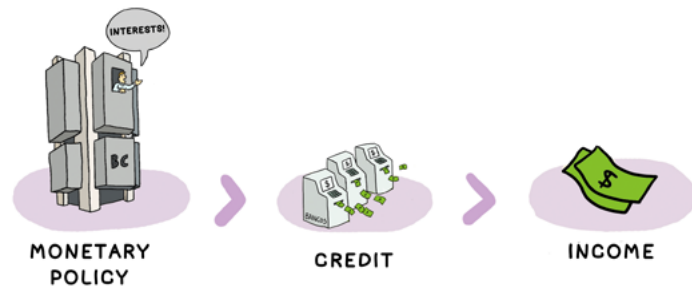
dget. Consequently, access to rights has been increasingly conditioned to access to money. As a result, since individuals require money to access basic needs, there is a stronger connection between monetary policy and human rights. But income shouldn't be considered on its own, because when prices are too high, the same income will provide access to fewer goods and services.



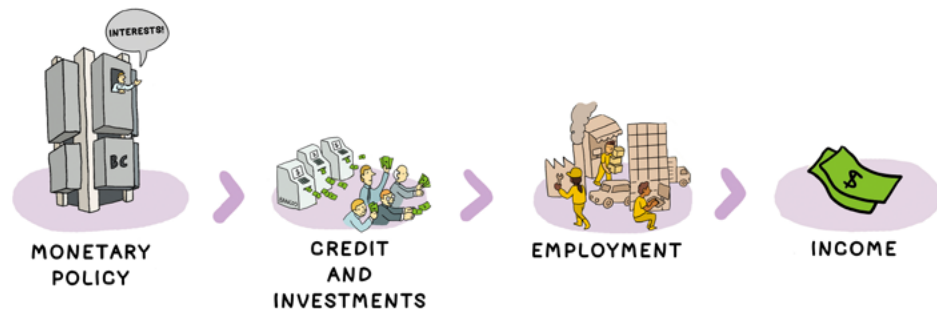
In this sense, the indirect relationship between monetary policy and human rights happens through **purchasing power**, which is the relationship between a person's income (which can come from wages, profits, rent, etc.); and the price of goods. **To explain these impacts, we will divide the transmission mechanisms of monetary policy for inequalities and human rights into two aspects: income and prices.**

INCOME

The first channel through which monetary policy affects human rights is income. This relationship is intermediated through three variables that we have already studied here: **credit, employment, and foreign exchange rates.**



The first impact occurs through the effect that monetary policy has on **credit**, directly influencing people's **income**. From the establishment of the basic interest rate, access to credit becomes easier or more difficult, and soon people have (or not) an additional source of income, thus allowing the **purchasing power** of the population to increase or decrease. Keep in mind: Conditions of access to credit are also connected with issues of inequalities: black people have access to less credit and with higher interest rates than white people.

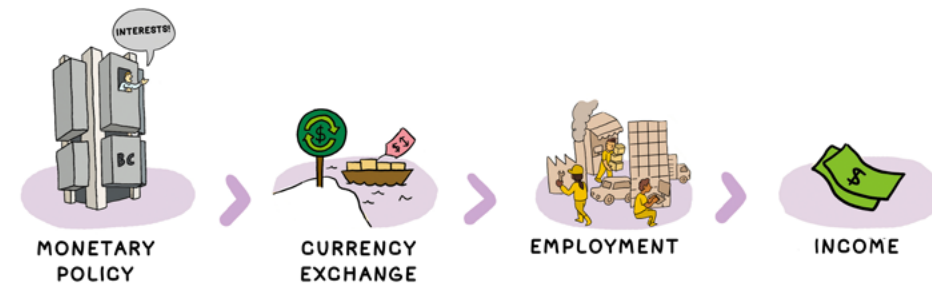


Moreover, by changing the country's interest rates, monetary policy

influences the **expansion** or **contraction** of the economy. The income of the population tends to be higher in times of expansion and to decrease in times of contraction.

When an expansionary monetary policy takes place, that is, a decrease in the interest rate, households are incentivized to consume more and entrepreneurs to increase their investments. This causes an expansion in production and employment, causing both the income of people and the amount of people receiving **income** to increase.

However, if monetary policy is restrictive, the effects are opposite and the economy tends to have less employment and, leaving people with less income. **The increase in unemployment affects the most impoverished, especially people of color and women, contributing directly to the increase of social inequalities.** It also contributes significantly to social vulnerability and is linked to rising levels of hunger, poverty, and discrimination.



When considering **foreign exchange rates**, if the Central Bank were to raise the interest rate, there would likely be a tendency for the exchange rate to rise, making the Real more valuable in comparison to the dollar. Valuation of the Real can cause a substitution of domestic production for imports, which can lead the country to a process of deindustrialization, which can be reflected in the loss of national jobs and, therefore, income. On the other hand, the de-

valuation of the Real can encourage national production, as imported products become more expensive and national products can gain more competitiveness.

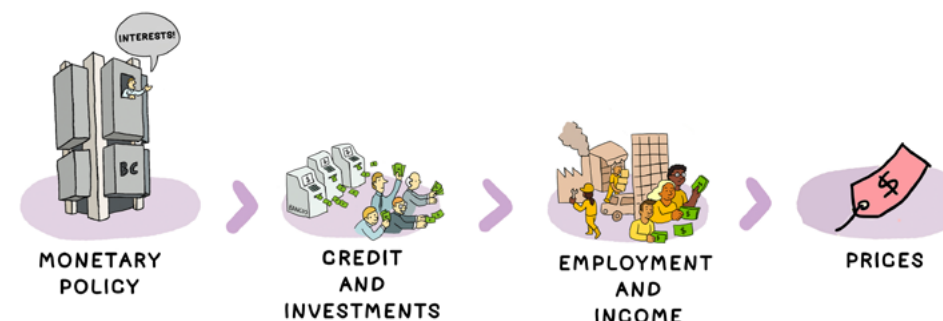
However, it is worth remembering that the industrialization and deindustrialization of a country depends on many other factors, not only the exchange rate, but also government incentives, access to technologies, etc. **Changes in the foreign exchange have an indirect effect that depends on a number of other variables, including how the country's production sector will respond to the rates.**

PRICES

The second channel through which monetary policy impacts human rights are prices, that is, inflation. As we have seen, inflation affects everyone, but it has different effects on social groups, and usually, the poorest are the most affected by it.

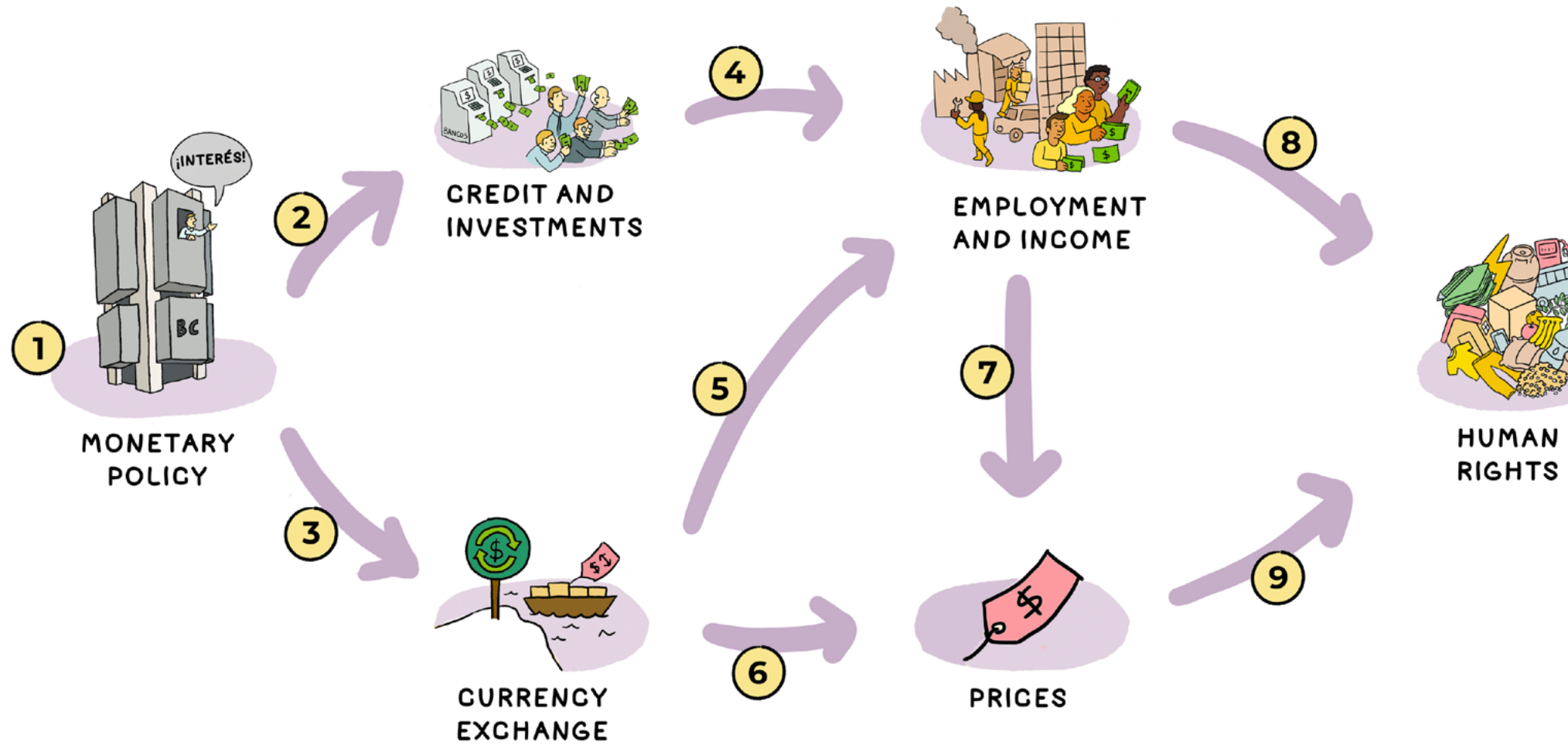


The increase in the interest rate may cause an increase in the flow of financial investments into the country, and a consequent valuation of the currency exchange rate, which may cause a reduction in inflation by making imported products cheaper. The other side of this coin is deindustrialization, as we saw in the section about income.



Another mechanism that will affect prices is credit, given its influence on people's consumption and investments, which impacts the level of employment. As the Central Bank assumes that inflation is a phenomenon of demand, when there is an inflationary phenomenon, the Central Bank increases interest rates, which generates less credit, investment and employment, which would decrease inflation. On the other hand, a fall in interest rates would increase credit, investment and employment, which, in a hypothetical scenario of full employment, would push prices up.

HOW MONETARY POLICY AFFECTS HUMAN RIGHTS



- ① The Central Bank determines the interest rate.
- ② The interest rate affects, on the one hand, access to credit and investments.
- ③ And on the other hand, it affects the exchange rate, that is, the price of the dollar.
- ④ Investment and credit affect the level of economic activity, employment and household income.
- ⑤ The exchange rate affects foreign trade, which impacts on the productive structure and on employment.
- ⑥ The exchange rate affects inflation.
- ⑦ The level of employment and income can affect prices.
- ⑧ Family income guarantees, or prevents, access to rights. The right to work is one of the human rights.
- ⑨ Inflation interferes in the access to human rights.

* WHAT WE HAVE SEEN SO FAR

We increasingly need money to have access to rights, because the State does not provide social policies to guarantee human rights. Therefore, people's **income** and the **prices** of goods and services are extremely interconnected and are affected by monetary policy. **Purchasing power translates into power of access to human rights**, so the adoption of any monetary policy should take into account all these possible effects.

When it generates unemployment, monetary policy impacts access to human rights, because unemployment and the consequent reduction in family income are conditions for access to other rights, especially economic, social and cultural rights. Therefore, contractionary monetary policies are not suitable for human rights because they deliberately seek to generate unemployment.

Combating inflation with unemployment is also not always the right way for Brazil because the increase in prices is directly related to cost. Therefore, the fight against inflation should make use of tools other than interest rate, which seek to identify the different causes of inflation and prioritize the fight against those that affect the guarantee of rights.



QUESTIONS FOR DISCUSSION

- 1) Why is access to money increasingly necessary to secure rights?
- 2) What is the relationship between monetary policy and human rights?

* FINANCIALIZATION AND RIGHT TO HOUSING AND FOOD

Like all other rights, housing and food rights are influenced by income, but their prices also have a particular way to be determined. Housing and food have been impacted in recent decades by **financialization**, which means that housing and food prices are increasingly conditioned to financial markets, and are therefore more volatile.

The financialization of the housing sector has led to situations of discrimination, evictions and restrictions on access to housing. In most countries, financial markets - not people's needs - are the main regulators of access to housing, determining parameters such as price, value of rent, location of housing and access to land.

The value of agricultural commodities is also influenced by financial speculation, which leads to large fluctuations in food prices. Financial agents only bet on expanding their incomes when they speculate; they are not interested in purchasing and selling food per se. Commodity inflation represents a restriction to the assurance of the right to adequate and healthy food and nutrition. Between 2007 and 2008, more than 30 countries faced large-scale hunger and 115 million people were driven into extreme poverty due to exorbitant prices caused by food inflation.

As a result, in addition to being helpless in terms of social programs, the rights to food and shelter are more vulnerable to the drive of the financial sector. In this sense, the Brazilian Central Bank, which regulates the functioning of banks in the country, should regulate these markets. Besides, the government should control the prices of these essential goods, so that they are not subject to financial speculation that makes access to said products unfeasible for the population. The right to housing or shelter must be respected for all Brazilians.

Increase in the importance of banks, stock exchanges and financial speculation in a country's economy. The greater the financialization, the more the real side of the economy (the production of goods and services) is subordinated to the financial system.

3. Monetary policy, transparency and democracy

This section aims to talk about transparency (or the lack of it) in the management of monetary policy in the Brazilian Central Bank.

3. Monetary policy, transparency and democracy

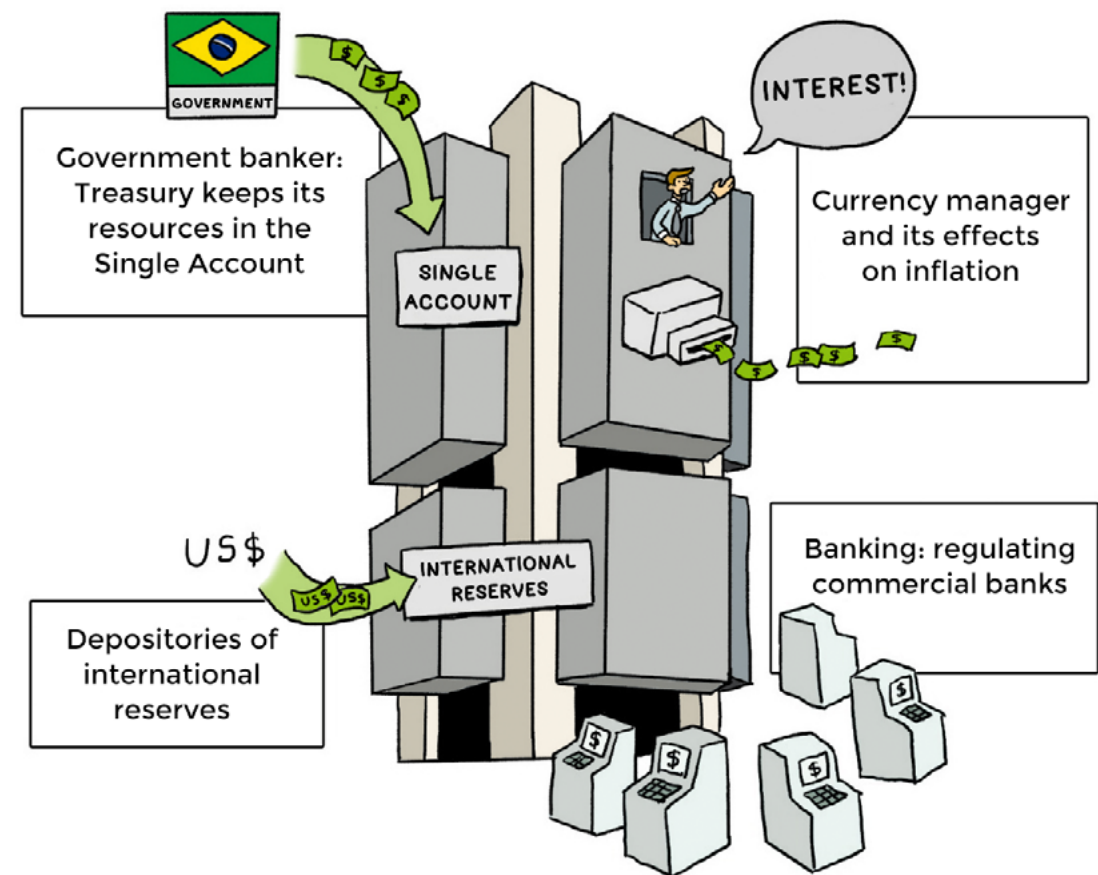
As we have seen, inflation, credit and interest rates influence the realization of human rights. Given their importance, it is essential that society participates in decisions about these economic parameters. This chapter presents the main actors involved in the implementation of monetary policy and the degree of democratization of decisions related to them. In summary, we will analyze how representative the Central Bank is and how open (or closed) it is to society.

Brazil spent hundreds of years without having a financial institution with as many attributions as the Central Bank, since it was created only in 1964. Currently, the BC is the key actor in the Brazilian monetary policy. It has several functions, as shown in the image on the right side of the page, but managing the currency is by far the most important one for this guide, given our focus on inflation, credit and interest. As we have already seen, the Central Bank primarily deals with currency and inflation through interest rate management.

CMN, Copom and revolving doors

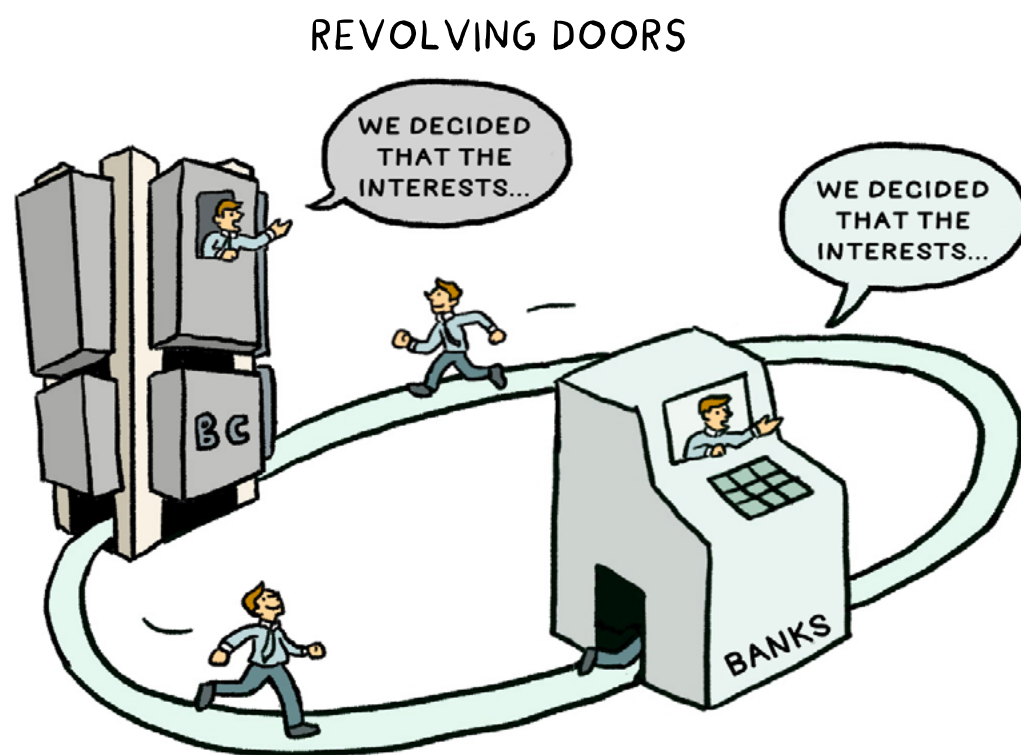
Who decides the inflation target and the basic interest rate? First, the **National Monetary Council (CMN)** sets and announces the target for annual inflation. The CMN is the leading body of the Brazilian National Financial System, is chaired by the Minister of Economy and is also composed of the President of the Central Bank and the Special Secretary of Finance of the Ministry of Economy.

THE TASKS OF THE BRAZILIAN CENTRAL BANK



With the inflation target established, the **Monetary Policy Committee** (Copom) takes action to ensure that inflation converges to the stipulated goal, through the definition of the basic interest rate, the Selic. Copom is formed by the president and directors of the Central Bank. After setting the Selic, the CB buys and sells government securities to ensure that this rate is achieved.

In short, the CMN and Copom are the two most important bodies for monetary policy decisions and aim to set the targets for inflation and interest, respectively.




Given the significance of these committees, it is crucial to know who makes up each one today. Copom consists of 9 members: the president and 8 directors of the Central Bank, responsible for several boards - for example, the economic policy board and the supervisory board. The Central Bank has never had a female president in

its history, and since 1965, **only five women have been appointed to the position of director** out of the hundreds of board appointments. Currently (data from October 2021), Copom members are all white people, and there are two women on the Bank's board of directors. The CMN, in turn, is formed entirely by white men.

Another important issue concerns the professional trajectories of these people. The so-called "revolving doors" phenomenon is a topic of discussion all around the world when it comes to monetary policy. Central bank directors are, quite often, financial industry experts who, after serving in public office, go back to work for large financial organizations. As the performance of the Central Bank interferes with the profitability of said financial organizations, by regulating the financial market and defining the Selic, the Bank would arbitrate in favor of market demands due to its directors, which are everything but unbiased. A study by the **Organization for Economic Cooperation and Development** (OECD) recently concluded that central bank presidents with previous experience in the financial sector deregulated significantly more than presidents without this background.

The Brazilian case validates the Rotating Doors hypothesis. Analyzing the presidency of the Central Bank, which makes up both the CMN and the Copom, six out of the seven last presidents were in the financial market previously or worked on it after leaving the Bank - half of them doing both. Some of these financial institutions are among the **largest holders of Brazilian public debt securities**, such as Santander and Itaú, exposing the conflict of interest even further.

On the other hand, the phenomenon is not as common when looking at the analysis of the boards that make up Copom. Of the 8 current directors of the Central Bank, only 3 had previous experience in financial institutions, since most are Central Bank public officials.


TEREZA CRISTINA GROSSI TOGNI, MARIA CELINA BERARDINELLI ARRAES, CAROLINA DE ASSIS BARROS, FERNANDA FEITOSA NECHIO, FERNANDA MAGALHÃES RUMENOS GUARDADO.

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But how are the members of CMN and Copom appointed? The rules were recently amended by Complementary Bill (LC) No. 179/2021, which determined that the President and Directors of the Central Bank are appointed by the President of the Republic, after approval of their names by the Senate. The term of a Central Bank President is four years, beginning on January 1 of the third year of the President's term, and the term of a director is four years, following a legal calendar of indications. Fixed mandates are intended to limit the Executive Branch's ability to influence on Central Bank's choices. For example, the Brazilian president is only able to appoint the Cen-

tral Bank's president for half of his or her term.

In order to prevent "revolving doors", the LC179/2021 bill also determines that the president and the directors of the Central Bank are prohibited from working in the financial sector for 6 months after the end of their mandate. This practice is adopted in other central banks around the world, but there are examples of much longer withdrawal periods - **the European Central Bank, for example, requires two years of quarantine for board members.**

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PRESIDENTS OF THE CENTRAL BANK IN RELATION TO THE FINANCIAL MARKET



ROBERTO CAMPOS NETO
Mandate: Feb/2019 to Dec/2024
Financial institution before public office: Santander



ILLAN GOLDFAJN
Mandate: Jul/2016 to Feb/2019
Financial institutions before the mandate: Itaú; Ciano Investimentos; Gávea Investimentos.
Financial institution after the mandate: Credit Suisse.



ALEXANDRE ANTONIO TOMBINI
Mandate: Jan/2011 to Jul/2016
Central Bank Official



HENRIQUE DE CAMPOS MEIRELLES
Mandate: Jan/03 to Jan/2011
Financial institution before the mandate: Bank Boston
Financial institutions after office: CKolberg, Kravis and Roberts, Lazard Americas, Lloyd's of London.



ARMINIO FRAGA NETO
Mandate: Mar/1999 to Jan/2003
Financial institutions before mandate: Banco de Investimentos Garantia; Salomon Brothers; Soros Fund Management LLC.
Financial institution after mandate: Gávea Investimentos.



GUSTAVO HENRIQUE DE BARROSO FRANCO
Mandate: Aug/1997 to Mar/1999
Financial Institution after term: Rio Bravo Investimentos.



GUSTAVO JORGE LABOISSIERE LOYOLA
Mandate: Jun/1995 to Aug/1997
Financial institution before office: Banco de Investimentos Planibanc S.A.
Financial institution after mandate: Tendências Consultoria Integrada.

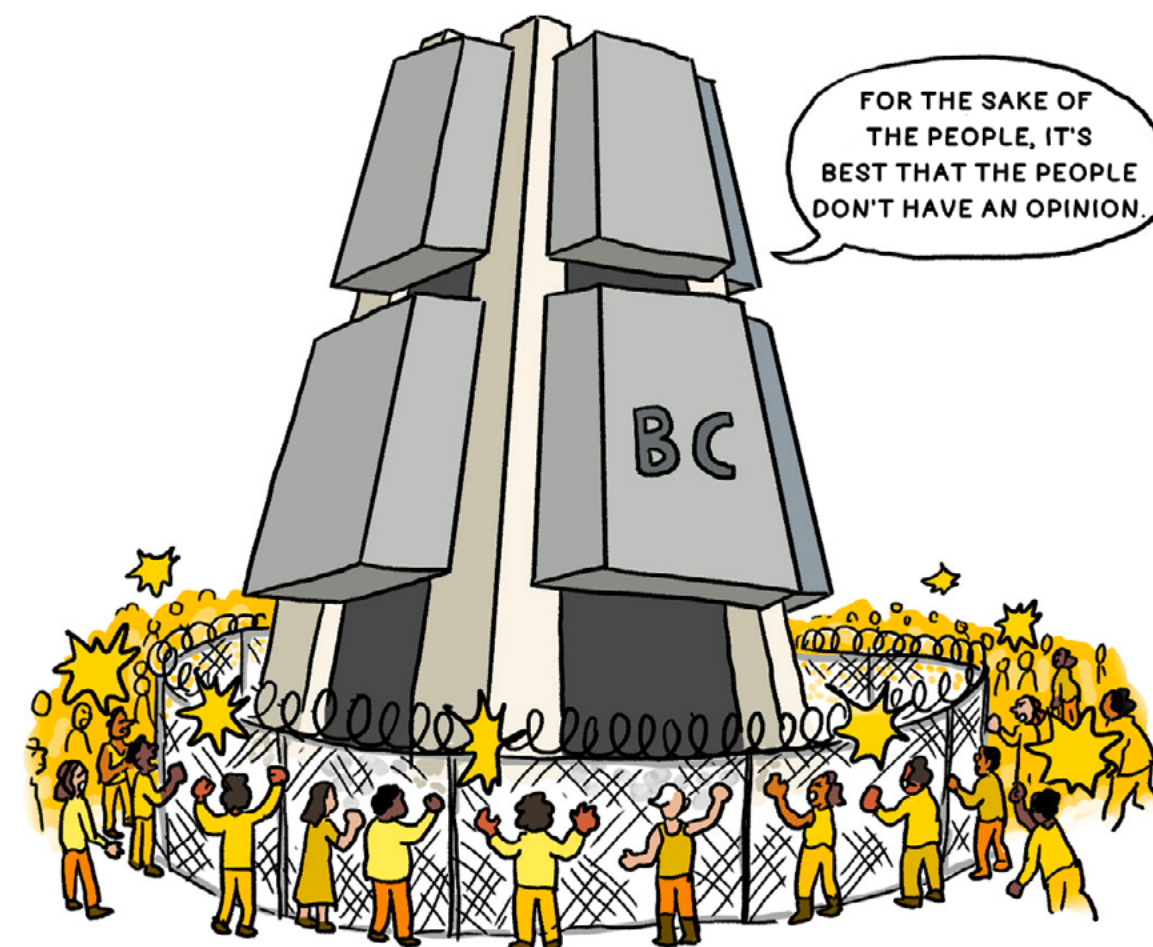
The historical process of limiting access to the decisions of the Central Bank is also important to point out. The National Monetary Council, which today has only three members of the Executive Branch, has had other members through the years, such as Presidents of public banks, like Caixa Econômica Federal, and the Brazilian Development Bank (BNDES); Ministers, such as Industry and Planning; as well as National Councils, such as the National Housing Council; and even entrepreneurs and representatives of the working class.

Today, society does not participate in Central Bank decisions. Even the National Congress is constrained by the approval of the Central Bank's directors and president, and it only requests clarification from the Central Bank during times of crisis.

Independence of the Central Bank

This separation of the Central Bank from other government branches and society as a whole is, in no way, considered a problem by the members of the Central Bank or politicians in general. The defense of a so-called “independent” or “autonomous” Central Bank has existed in Brazil, and around the world, for decades. In 2021, it was formalized by the National Congress through LC 179/2021, which established operational independence and fixed mandates, as we saw previously.

Autonomy advocates claim that it is required because the Central Bank's capabilities could be used for political purposes. The theoretical basis of this argument, derived from economic liberalism, assumes that expansionary monetary policies have no long-term effects, and therefore serve only for presidents to increase their popularity in the short term. Therefore, independent decisions from the Bank would guarantee credibility with international and national investors, which would lead to better control of inflation and lower interest rates.



If monetary policy decisions affect us, the people, they are necessarily political. As we have seen here, inflation, interest, and credit are not just technical variables, having implications on employment, access to basic rights, and consumption power of the population. Therefore, protecting the Central Bank from having to respond to demands of the population is a decision against democracy.

Contrary to what actually represents the Brazilian society, the governing bodies that make economic decisions for the Central Bank

are mostly made up of white men linked to the financial sector. The Central Bank works to keep decisions as far away from society as possible, which in practice means that financial interests rule supreme.

The population needs to have a say in decisions about monetary policy, and greater understanding and democratization of the Central Bank is the first step.

* WHAT WE HAVE SEEN SO FAR

The Central Bank is the main actor when it comes to monetary policy in Brazil, because, on top of the inflation targets defined by the CMN, it defines and implements the basic interest rate. Both Copom and CMN are mostly and historically formed by white men, thus not reflecting Brazilian society, and the presidents of the Central Bank have strong relations with the private financial sector. Those who wish to keep society out of the decision-making process of inflation and interest rates are in favor of an independent Central Bank. That idea formally became a reality in 2021, reducing the Executive Branch's power of influence over the CB. However, inflation and interest affect the rights of everyone, so they must be understood and decided by the entire population.



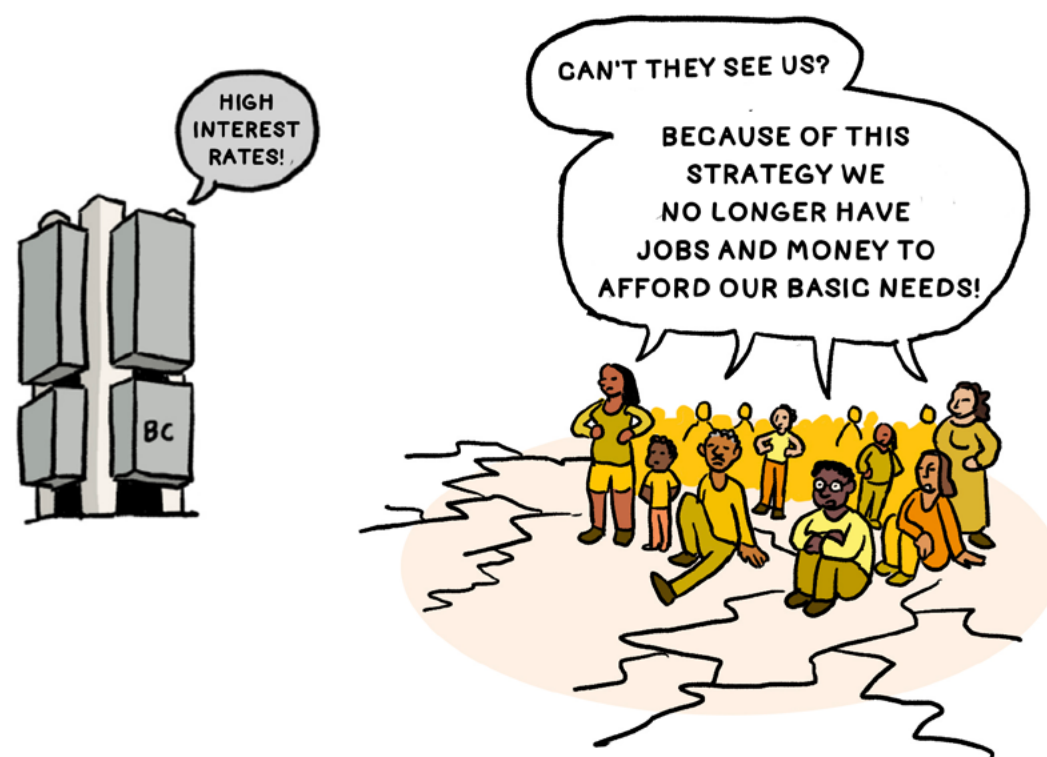
QUESTIONS FOR DISCUSSION

- 1) Who is in charge of the monetary policy in Brazil? And who should be in charge?
- 2) What are the positive and negative sides of an independent Central Bank?

Conclusion: how to make
sure monetary policy
respects human rights

Conclusion: how to make sure monetary policy respects human rights

We have seen throughout the document that monetary policy has important distributive impacts, besides increasing social inequalities and affecting a number of human rights. In this final section we propose a monetary policy aimed at guaranteeing human rights, and recommend some paths for this goal to be reached.



The starting point for pivoting the monetary policy is to revisit its purpose, which cannot be restricted to economic stability and inflation control. **Combating inflation is not an end in itself**, but a means to ensure social welfare and human rights. Therefore, **human rights should be included as an objective of monetary policy, especially in times of crisis.**

To this end, the conduct of a human rights-oriented monetary policy must comply with four broad guidelines:

1. AVOID RECESSIVE ADJUSTMENTS AND EXORBITANT INTEREST INCREASES

A monetary policy that slows down the economy may even reduce inflation, but it has a high social cost borne especially by the poorest. As we have seen, inflation is a distributive problem and combating inflation with unemployment debilitates workers. In times of unemployment and idle capacity, the use of interest as an instrument to slow down the economy does not even make sense, **since the diagnosis of demand inflation does not sustain itself.**

In this context, the definition of very ambitious inflation targets, as the Brazilian Central Bank has done, may require severe recessive adjustments and a high social cost.

II. PROMOTE A MORE EQUITABLE AND FAIR CREDIT SYSTEM WITH ACCESS FOR EVERYONE

The management of monetary policy and the regulatory instruments available to the Central Bank must take into account not only the stability of the credit system, but also the financial vulnerability of social groups, and the reduction of inequalities in access to credit.

A credit strategy that extends beyond the Central Bank is also necessary in order to promote lines of credit aimed at supporting social rights like housing, education, and social infrastructure.

Among the instruments for the promotion of an adequate credit policy are: credit targeting; subsidy policies; the establishment of an interest rate cap for financing; the reduction of profit margins and interest charged by commercial banks to consumers and businesses; amnesty and refinancing of debts for students and impoverished families; and the strengthening of community banks and alternative funding mechanisms. Public banks play a key role in this.

III. USE MULTIPLE INSTRUMENTS TO COMBAT MULTI CAUSE INFLATION, COORDINATE MONETARY POLICY WITH OTHER POLICIES AND FOCUS PRIMARILY ON PROTECTING PRICES THAT IMPACT THE MOST VULNERABLE AND PUBLIC POLICIES THAT ENSURE THAT RIGHTS ARE MET

We have seen that inflation can have different causes and that cost inflation requires instruments other than the interest rate. We've also seen that Brazil's inflation is primarily a result of cost, as we are never in full employment. In this sense, the role of the Central Bank should be to coordinate the monetary policy with other government policies to combat inflation.

Food inflation, in particular, has serious social impacts and should have its own targeted policies, such as regulatory food stocks that guarantee domestic supply and alleviate price fluctuations. In the Brazilian case, the stocks of Companhia Nacional de Abastecimento (Conab) were nearly depleted in recent years. Price volatility can be decreased by structuring the distribution system, developing financing options, and promoting local food production based on family farming.

Strategic prices such as fuels, LP gas and electricity should also be targeted by specific policies and management oriented to what the people need.

Reducing exchange rate volatility is another factor that eases inflationary shocks, for which financial regulation and control of speculative capital are necessary.

Finally, public rights policies must be protected from inflation. In the process of formulation and monitoring of public policies, the correction of the budget of social policies by inflation is fundamental to maintain the desired outcomes of any policy.

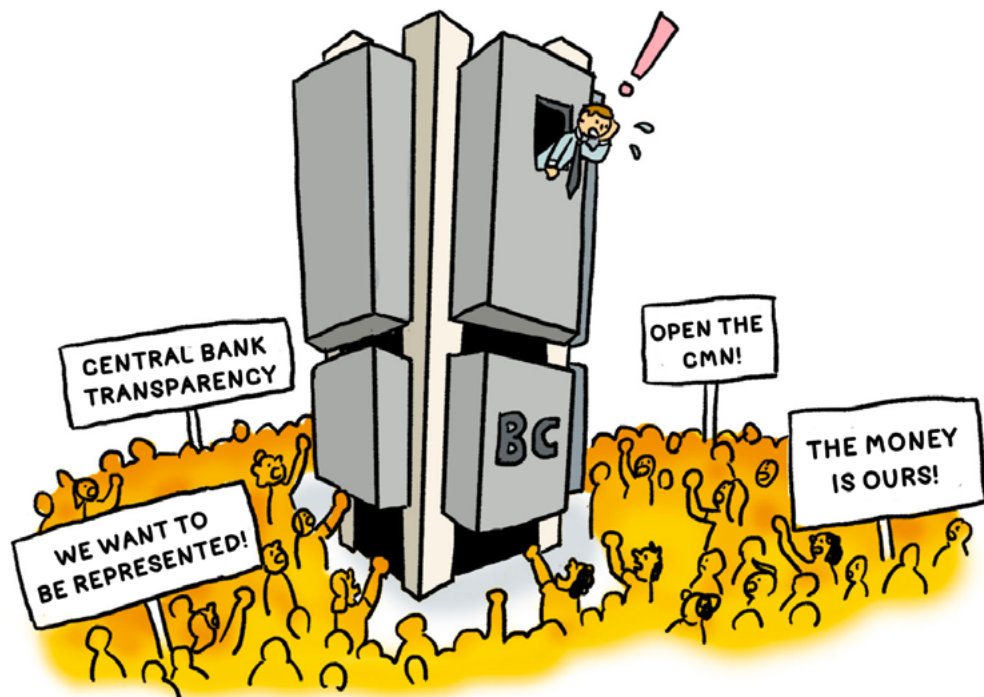
IV. PROMOTE A MORE TRANSPARENT AND DEMOCRATIC MONETARY POLICY

The Central Bank must be held accountable to society and make its decision-making process more democratic. At this point, it is essential to open the National Monetary Council to representatives of civil society. The Central Bank's board of directors should also include representation of women and people of color, as well as a wider range of professional backgrounds.

It is the duty of civil society to take ownership of the issue of monetary policy and to demand more transparency, democracy and a human rights-oriented monetary policy!

WHAT CAN YOU DO?

Monetary policy is a very difficult subject and you may have finished this guide with more questions than answers. It's alright. All those obstacles were created to get us away from political decision-making and place everything in the control of those who stand to gain from the system. So, let's look at some tips for next steps!



* TO INFLUENCE PUBLIC DEBATE

Distribute this material to social movements, NGOs or other civil society organizations. We need everyone to discuss monetary policy.

Question the autonomy of the Central Bank and ask for more participation of society in the process of setting the inflation and interest rate targets.

Demand that your federal government provide effective solutions to control inflation, which are not restricted to an increase in interest rates.

In budgetary processes, fight for social policies to be corrected annually by inflation, and for the minimum wage to grow not only with inflation, but also with the country's economic growth.

* TO LEARN MORE

Do you have any questions? Let us know! We are available on social networks (@inescoficial, @agazetinha, @pedrolrossi). Follows us and check out our content about monetary policy.

We made a list, including books, films and articles on the subject. You can access it [here](#).

Start conversations with friends, activists, young people, and whoever you want – thinking together always helps. **If you want, feel free to invite us to your meetings!**



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