

# **(No) Fear of Floating? Brazilian Exchange Rate Regime: 1999-2002**

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For countries committed to floating exchange rate regime one should expect:

- higher volatility of the exchange rate
- lower volatility of reserves and interest rates

when compared with fixed exchange rates or intermediate exchange rate arrangements.



### Volatility of Exchange Rate (average)

Country	Period	Probability that the monthly percent change in nominal exchange rate:		
		falls within +/- 1% band	falls within +/- 2,5% band	exceeds +/- 2,5%
<b>United States</b>	<b>Feb/73-April/99</b>	<b>27</b>	<b>59</b>	<b>41</b>
Japan	Feb/73-April/99	34	61	39
Other floaters		52	79	21
Bolivia	Sept/85-Dec/97	73	94	6
<b>Brazil</b>	<b>jan/99 - dec/02</b>	<b>21</b>	<b>46</b>	<b>54</b>
Chile	jan/99 - dec/02	25	63	38
Paraguay	jan/99 - dec/02	56	67	33
<b>United States/Euro</b>	<b>jan/99 - dec/02</b>	<b>23</b>	<b>68</b>	<b>32</b>
Japan	jan/99 - dec/02	27	69	31
Uruguay	jan/99 - dec/02	46	75	25
Korea South	jan/99 - dec/02	44	79	21
Mexico	jan/99 - dec/02	48	81	19
Venezuela	jan/99 - dec/02	46	81	19
Canada	jan/99 - dec/02	50	100	0

Sources: Calvo and Reinhart (2000), Fed, Mecon, Central Bank of Chile, Central Bank of Paraguay and Central Bank of Uruguay.



### Volatility of Exchange Rate (end of period)

Country	Period	Probability that the monthly percent change in nominal exchange rate:		
		falls within +/- 1% band	falls within +/- 2,5% band	exceeds +/- 2,5%
Argentina	jan/02 - dec/02	8	25	75
Argentina	feb/02 - dec/02	9	27	73
<b>Brazil</b>	<b>jan/99 - dec/02</b>	<b>8</b>	<b>48</b>	<b>52</b>
Brazil	feb/99 - dec/02	9	49	51
Chile	jan/99 - dec/02	23	56	44
Australia	jan/99 - dec/02	23	58	42
<b>United States/Euro</b>	<b>jan/99 - dec/02</b>	<b>35</b>	<b>58</b>	<b>42</b>
Japan	jan/99 - dec/02	31	58	42
Mexico	jan/99 - dec/02	31	65	35
South Korea	jan/99 - dec/02	33	77	23
Venezuela	jan/99 - dec/02	44	79	21
Canada	jan/99 - dec/02	44	90	10

Sources: Fed, Mecon and Central Bank of Chile.



### Volatility of Foreign Exchange Reserves

Country	Period	Probability that the monthly percent change in international reserves:		
		falls within +/- 1% band	falls within +/- 2,5% band	exceeds +/- 2,5%
Euro	feb/99 - sep/02	48	86	14
Chile	jan/99 - nov/02	45	85	15
Japan	jan/99 - nov/02	60	79	21
<b>United States</b>	<b>jan/99 - nov/02</b>	<b>40</b>	<b>79</b>	<b>21</b>
Canada	jan/99 - nov/02	32	77	23
Mexico	jan/99 - nov/02	40	74	26
Korea South	jan/99 - nov/02	34	64	36
Brazil (1)	jan/99 - dec/02	50	54	46
<b>Brazil</b>	<b>jan/99 - dec/02</b>	<b>23</b>	<b>46</b>	<b>54</b>
Australia	jan/99 - nov/02	28	43	57
Argentina	jan/99 - dez/01	14	39	61
Uruguai	jan/99 - nov/02	13	38	62
Venezuela	jan/99 - nov/02	11	28	72
Argentina	jan/02 - nov/02	0	27	73
Paraguay	jan/99 - nov/02	15	21	79

Sources: IFS and Central Bank of Brazil.

(1) considering only foreign exchange market interventions.



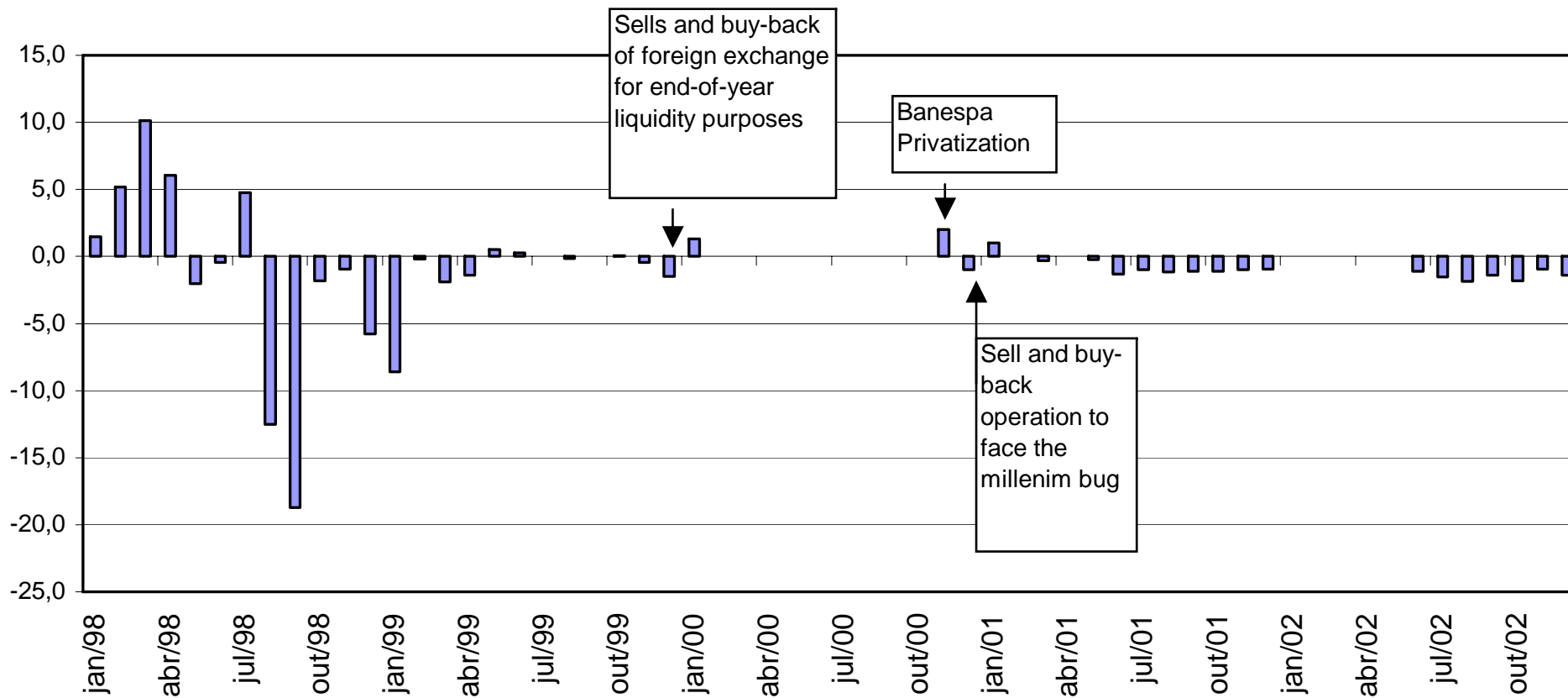
### Volatility of Interest Rate

Country	Period	Probability that the monthly percent change in interest rate:		
		falls within +/- 0,25 b. points	falls within +/- 0,5 b. points	exceeds +/- 0,5% basis points
Australia	jan/99 - sep/02	87	100	0
<b>Japan</b>	<b>jan/99 - sep/02</b>	<b>100</b>	<b>100</b>	<b>0</b>
Canada	jan/99 - dec/02	88	98	2
Euro	jan/99 - oct/02	89	98	2
Korea South	jan/99 - sep/02	89	93	7
<b>United States</b>	<b>jan/99 - dec/02</b>	<b>77</b>	<b>92</b>	<b>8</b>
Chile	jan/99 - dec/02	67	83	17
Mexico	jan/99 - oct/02	15	24	76
Argentina	jan/99 - dec/01	11	23	77
<b>Brazil</b>	<b>jan/99 - dec/02</b>	<b>10</b>	<b>15</b>	<b>85</b>
Uruguay	jan/99 - aug/02	7	14	86
Paraguay	jan/99 - sep/02	4	11	89
Venezuela	jan/99 - sep/02	4	9	91
Argentina	jan/02 - dec/02	0	0	100

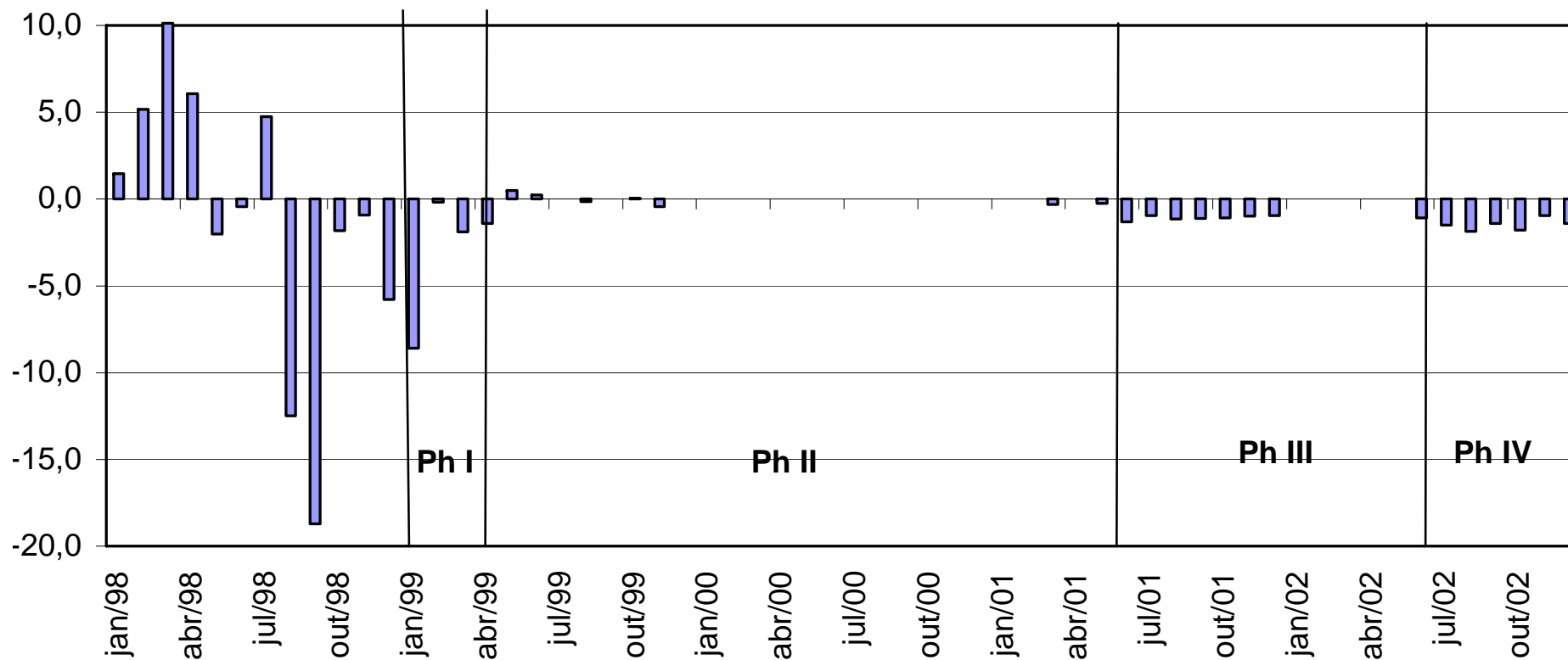
Sources: IFS, Fed, Mecon, Central Bank of Canada, Central Bank of Chile and Central Bank of Brazil.



### Foreign Exchange Interventions by the Central Bank of Brazil (jan/98 a dez/02)

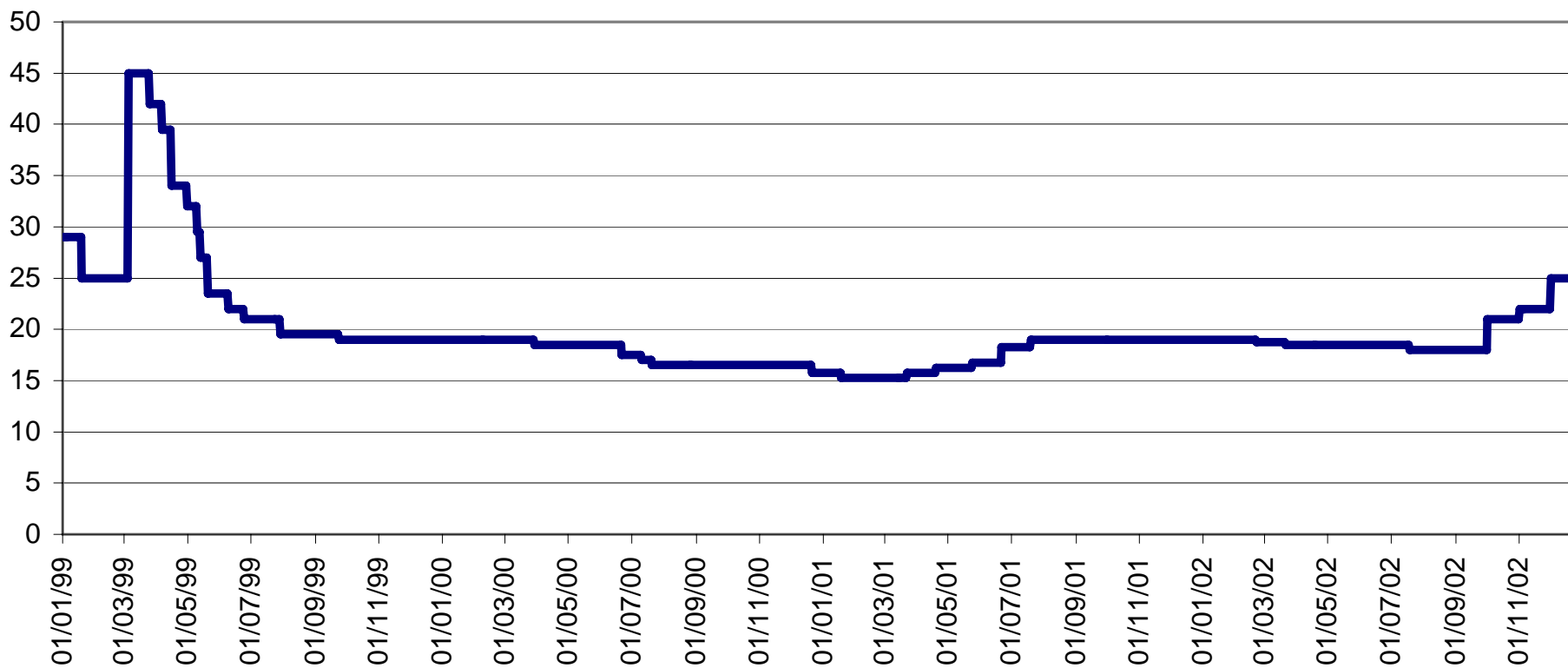


Foreign Exchange Interventions by the Central Bank of Brazil (jan/98 a dez/02)

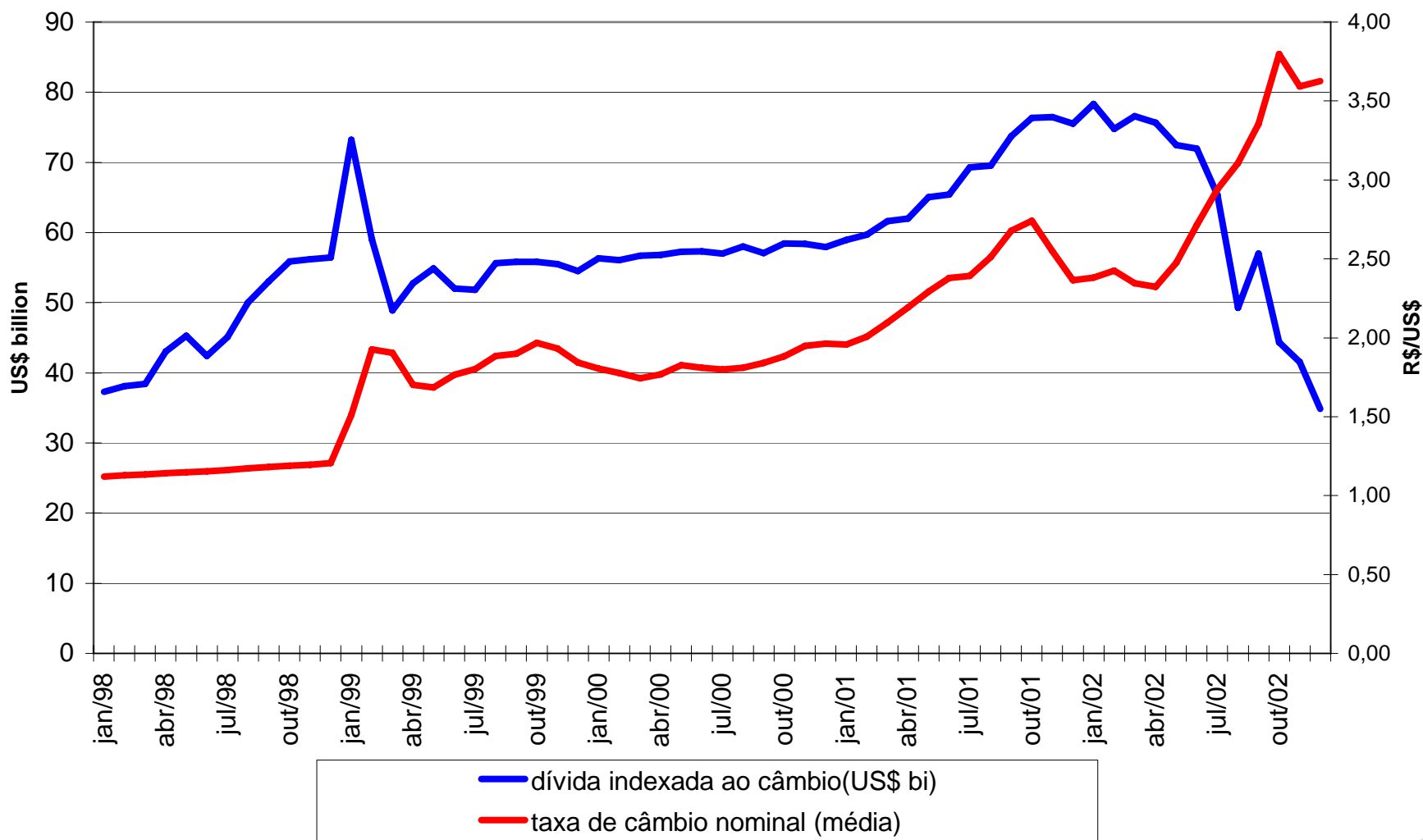




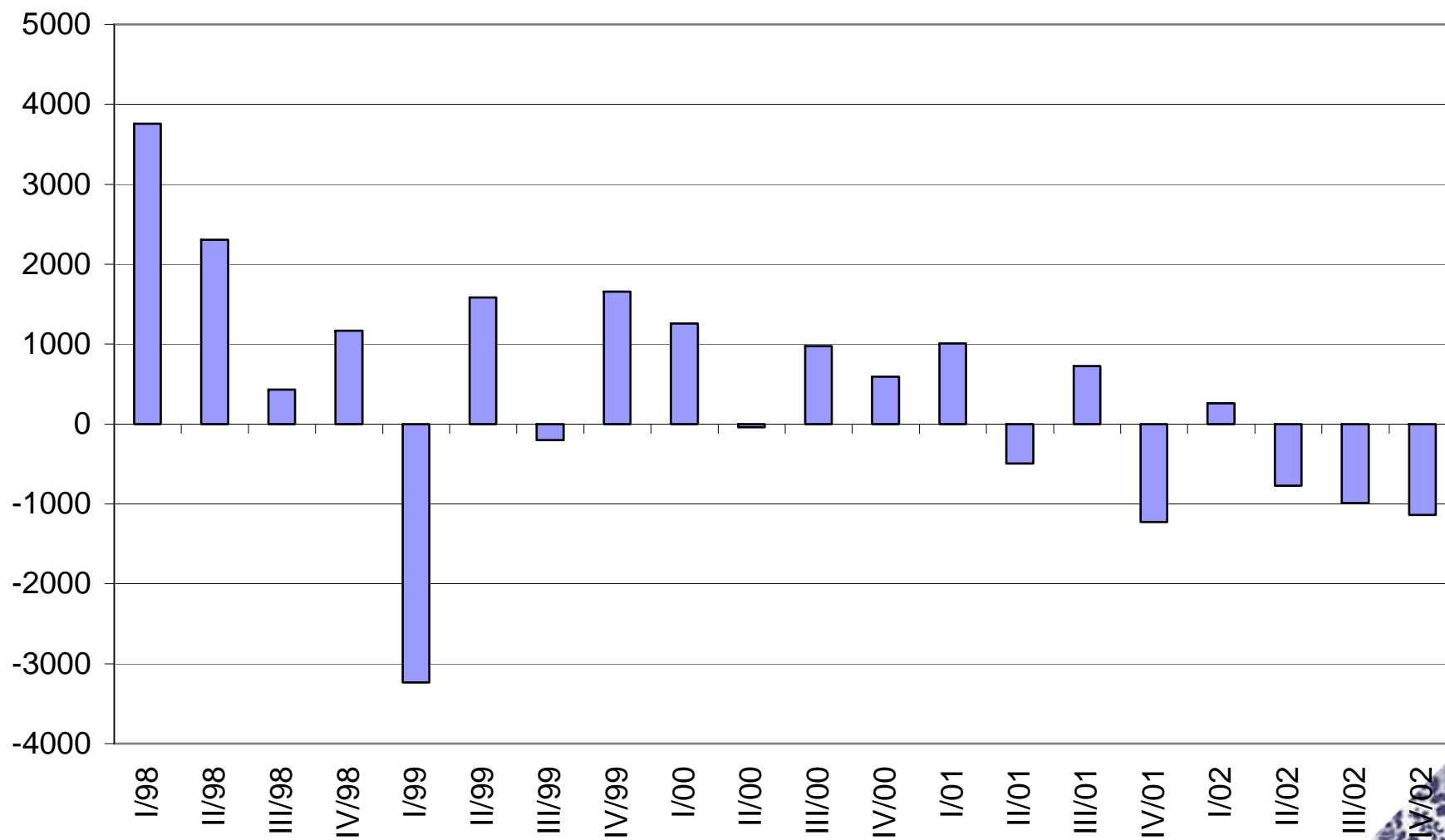
### Central Bank Target Interest Rate - Selic (% a.a.)



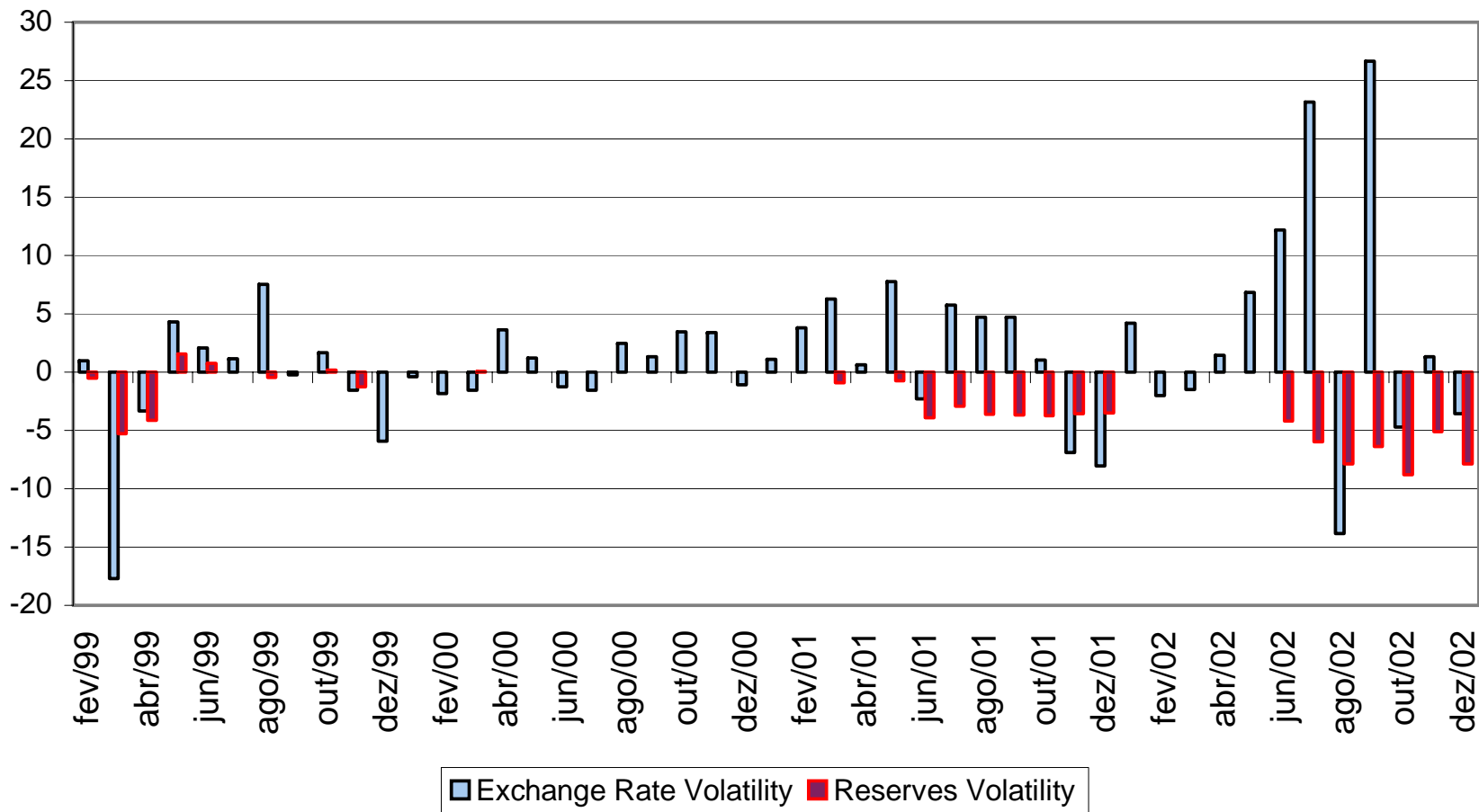
## Stock of Domestic Dollar-Indexed Public Debt (in US\$ dollars) and Nominal Exchange Rate



Net Flow of Medium and Long Term Direct Loans, Bonds and Notes (US\$ Million)



### Exchange Rate and Reserve Volatility



### Real Effective Exchange Rate (1970-2002=100) and Reserves Volatility

