



BANCO CENTRAL DO BRASIL

Brasilia - DF, February 24, 2021

Autonomy Law Enactment Ceremony

Speech by Roberto Campos Neto **Governor of Banco Central do Brasil**

Good evening everyone! I start by greeting all participants in this ceremony:

- The President of the Republic, Jair Bolsonaro
- The Minister of Economy, Paulo Guedes
- Other authorities present here.

Today, with the enactment by the President of the Republic, Jair Bolsonaro, of the law that grants autonomy to the Central Bank, Brazil takes an important step. This Law represents an institutional milestone for our country.

The idea of an autonomous Banco Central do Brasil (BCB) was already in place even before its creation. My grandfather — Roberto Campos, Minister of Planning during the president's Castello Branco administration and one of the main authorities behind the creation of the BCB — was a great advocate of the institution's autonomy.

Enacted in December 1964, Law No. 4,595 created the BCB with formal autonomy, by establishing that the BCB's Governor and Deputy Governors had a fixed-term mandate of six years, a term greater than that of the President of the Republic at the time, of five years. However, such autonomy was short-lived, disappearing as early as 1967, with the replacement of the first BCB's governor before the end of his term.



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It would take more than 50 years for a confluence of factors to restore the BCB's formal autonomy. In this context, I would like to thank the President of the Republic, Jair Bolsonaro; the Minister of Economy, Paulo Guedes; and the National Congress, as represented here by the presidents of the House of Representatives and the Senate.

This milestone is also the result of a long process of institutional development and also derive from the efforts of previous BCB's Boards, as well as on the BCB's staff, to whom I also express my appreciation. Throughout this process, the benefits of an autonomous, transparent, and accountable central bank have become clearer to our society.

Economic literature and international experience show that central bank autonomy is associated with lower and less volatile inflation, without compromising economic growth. A high inflation environment is especially costly for the low-income population, which has limited access to financial instruments to protect their earnings from inflation or has more limited financial education. The inflation targeting system along with a legally autonomous BCB's decision-making are imperative to ensure that these citizens are protected against the damages inflicted by high inflation. Moreover, the literature also shows that an autonomous central bank can better guarantee the stability of the financial system.

In Brazil, the approval of a legal framework granting the BCB's formal operational autonomy will provide greater confidence that the Institution will be able to fulfill its objectives. The increase in BCB credibility built upon the legal autonomy will allow for lower structural interest rates, lower risks and a more stable monetary policy. In other words, this institutional change will benefit the whole society.

The Law states that, price stability remains the BCB's primary objective. Without compromising the fulfillment of its main objective, the BCB should also aim to ensure the stability and efficiency of the financial system, smooth out fluctuations in economic activity, and promote full employment.

Central bank autonomy can encompass three dimensions: operational, administrative, and financial. The BCB's operational autonomy, granted by the legislation enacted today, entails the freedom to use the instruments to fulfill the objectives established by the National Monetary Council (CMN).



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The changes brought about by the Law establish a new institutional framework that reinforces an important balance of powers. The Law sets four-year terms for Board members that do not coincide with those of the President of the Republic. This isolates the monetary policy cycle from the shorter political cycle.

The Law also guarantees that the President of the Republic chooses all Board members at a staggered manner. Therefore, some Board members, nominated during the prior administration will retain their positions during governmental transitions, thus creating a cycle of continuity. Finally, the Brazilian Congress remains responsible for evaluating and approving the presidents' nominations for Governor and Deputy Governors.

Therefore, the autonomy inherent to this balance of powers does not mean complete freedom. In addition, the legal autonomy requires greater transparency, assured through a set of instruments:

- The BCB's Governor must carry out public Senate hearings, in the first and second semesters of each year, presenting the Inflation Report and the Financial Stability Report and explaining the decisions taken in the previous semester;
- Statements and minutes of the meetings of the Monetary Policy Committee (Copom) and the Financial Stability Committee (Comef) must be published periodically; and
- The BCB's Governor must participate in public hearings with purpose of accountability to authorities and society.

Ladies and gentlemen, the institutional enhancement brought about by the legal autonomy of the Banco Central do Brasil will contribute to consolidate the gains achieved in recent years in terms of price stability and financial stability. Legal autonomy also complements and supports the broad reform agenda undertaken by BCB to promote a more efficient, competitive and inclusive financial system in Brazil.

Thank you very much.