

## **Assessing the Economic Policies of President Lula da Silva in Brazil: Has Fear Defeated Hope?**

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**Abstract:** This paper aims at assessing President Lula da Silva's economic policies and their impact on the Brazilian economy. We evaluate the President's 'neo-liberal' economic policies and the extent to which they have been successful in reaching sustained economic growth. The paper also offers an alternative economic policy that aims at macroeconomic stability, which would promote sustainable economic growth without the need to introduce policies that are designed to fight inflation through the creation of unemployment.

**Keywords:** Brazilian economy, economic policy and neo-liberalism

**Resumo:** O artigo analisa e mostra que a política econômica do governo Lula da Silva, de cunho liberal, não assegura um crescimento econômico sustentável. Ademais, é apresentada uma proposição de política econômica que mantém a inflação sob controle e viabiliza o pleno emprego.

**Palavras-chave:** Economia brasileira, política econômica e neo-liberalismo

**JEL Classification:** E24; E61; E65

### **Introduction**

In his inaugural speech on January 2002, given at the Brazilian Congress, President Lula da Silva emphasized that his government would bring changes that would tackle the social problems of the country and would refuel self-sustained economic growth. In this way, it was hoped, the solution of the problems of unemployment and of distribution of wealth that had plagued the Brazilian society for so long would be achieved. In his own words, during his administration 'the hope would defeat fear'. However, the end of President Lula da Silva's four-year term, witnessed high and rising unemployment (the monthly average rate is around 10.0%), unstable economic growth, ministers and members of the government were involved with corruption, the result of which was that confidence in the administration suffered a great deal.

This paper seeks to assess President Lula da Silva's economic policies and their impact on the Brazilian economy. These economic policies turned out to be surprisingly different from those that most members and electoral supporters of the Workers' Party – Partido dos Trabalhadores (PT), in Portuguese – might have expected. We attempt to demonstrate in this contribution that President Lula da Silva's economic policies cannot

deliver satisfactory economic outcomes. We suggest alternatives, which we argue are by far superior in their ability to deliver a robust economic environment without inflation. We, thus, offer an alternative economic policy to aim at macroeconomic stability that would keep inflation under control and promote sustainable economic growth.

We start with Lula da Silva's electoral campaign rhetoric in an attempt to locate the moment and the reasons that led him to adopt a very ambiguous stance in his running for the presidency and the drastic change after his election on those promises (section 2). We then proceed to define what we understand as the new consensus in macroeconomics, from which we suggest the 'neo-liberal' economic policies of President Lula da Silva emanate (section 3). Given the prominence of monetary policy in this theoretical framework, we briefly look in section 4 into the operational aspects of the policy as applied in Brazil over the period. In the fifth section, we analysis some main features of the macroeconomic policy regime that has been followed by Brazilian governments since 1999, based on floating exchange rate regime, inflation targeting regime, the creation of primary fiscal surplus (the budget surplus excluding interest payments) and liberalisation of the capital account. Section 6 focuses on the main macroeconomic policies implemented by the Lula da Silva's government and their results are identified. Section 7 outlines some elements for an alternative economic policy strategy. Finally, section 8 summarises the argument and concludes.

## **2. Presidential candidate Lula da Silva's campaign rhetoric**

Mr Lula da Silva had been the presidential candidate of the leftist PT three times before winning the presidential elections in October 2002. He had lost three previous presidential elections: once to Mr Fernando Collor de Mello in 1989, and twice to Mr Fernando Henrique Cardoso (referred to below as Cardoso) in 1994 and 1998. In the preparations for the 2002 election, a major issue in the strategy debates at the PT, according to the Brazilian press, was that its policies were related to political alliances. In a context under which the PT accepted to make alliances with more centrist parties that could bring Lula da Silva the necessary votes to win a majority vote, the latter, finally, accepted the nomination as presidential candidate for the PT. In fact, an alliance was organised by the PT with the Liberal Party (PL), a small centre-right populist party, which had the privilege of nominating the candidate for Vice-President, the entrepreneur Mr José Alencar.

The question of political alliances was important not only because of the immediate effect that a coalition would have in terms of the electoral majority in the presidential election. The main point of the alliance between the PT and the PL (probably too small to make a real electoral difference) was to gain the confidence of segments of the Brazilian society traditionally suspicious of the PT. All evidence points to the hypothesis that the main lesson extracted by the PT leadership, including Mr Lula da Silva, from past electoral defeats, was the need to attract, or at least to neutralize, social groups that had aligned in the past with the more conservative leaders. Examples of the latter included the former President Cardoso, and to ensure the confidence of the business sector. During the campaign, Mr Lula da Silva adopted a posture that he himself dubbed 'peace and love', while all other candidates attacked Mr José Serra, the candidate supported by the ex-President Cardoso, trying to position themselves as the runner-up in the first round who would face Mr Lula da Silva at the second ballot.

The situation changed in mid-2002, when financial markets finally realized that Lula da Silva's leading position in the presidential run was probably unshakeable. As it had been expected, capital flight pushed down the exchange rate and a large segment of financial investors refrained from purchasing public securities maturing after 1 January 2003, when the new presidential term would begin. In view of the possibility of a Lula da Silva victory, a number of events followed, which may not have been unrelated to that expectation: (i) capital outflows intensified and, as a result, foreign reserves fell from US\$ 42.0 billion in June 2002 to US\$ 35.6 billion in November 2002; (ii) the *real* weakened from R\$ 2.38 per US dollar in January 2002 to R\$ 3.81 in October 2002 (it ought to be acknowledged, though, that whether weakening of the currency is 'good' or 'bad' could depend on its initial value); (iii) the monthly inflation rate increased from 0.5% in January 2002 to 1.3% in October 2002, equivalent to around 17 percent on an annual basis, as a result mainly of the effects of the exchange devaluation on domestic prices; and (iv) the demand for Brazilian securities decreased rapidly and, as a consequence, the 'Brazil risk', measured by J.P. Morgan, increased by almost 600 basis points, at the beginning of the year, to about 2,400 basis points by October 2002.

In this framework, two important related developments took place. A new rescue package from the International Monetary Fund (IMF) was sought and Mr Lula da Silva was faced with a very heavy pressure to show his support for it. In fact, the pressure led Lula da

Silva's advisors to prepare a 'Letter to the Brazilian People', where, although in very vague terms, the candidate assured the financial markets of his willingness to abide by the rules set by these markets. Thus, Lula da Silva's speeches in the electoral campaign became rich on promises but short on definitions.

### **3. New consensus in macroeconomics and policy implications**

The theoretical premise of economic policies in Brazil is based on what has come to be known as 'The New Consensus Macroeconomics', NCM in short (see, for example, Meyer, 2001, McCallum, 2001). Here, we rely on an interpretation of the NCM when extended to an open economy as in Arestis (2007) – see, also, Agénor, 2002. We may summarize the main features of the NCM, and highlight its policy implications. They are the following:

- (i) The primary feature is that the focus of the policy objective is on price stability. This is monetary policy's primary long-term objective, along with the further assumption that inflation is a monetary phenomenon. Inflation targeting is a monetary policy framework whereby public announcement of official inflation target is undertaken. In doing so, the central bank pursues the principle of 'constrained discretion', which is the middle ground between 'rules' and 'discretion'. Monetary policy is, thus, taken as the main instrument of macroeconomic policy, but it should not be operated by politicians but by experts: 'independent' central banks.
- (ii) The level of economic activity fluctuates around a supply-side equilibrium, which corresponds to a zero output gap or to NAIRU (non-accelerating inflation rate of unemployment), a supply-side phenomenon closely related to the workings of the labour market. The source of domestic inflation (relative to the expected rate of inflation) is seen to arise from unemployment falling below the NAIRU, and inflation is postulated to accelerate if unemployment is held below the NAIRU. However, in the long run there is no trade-off between inflation and unemployment, and the economy has to operate (on average) at the NAIRU if accelerating inflation is to be avoided.
- (iii) Inflation targeting is a monetary policy framework whereby public announcement of official inflation targets, or target ranges, is undertaken along with explicit acknowledgement that price stability, meaning low and stable inflation, is monetary policy's primary long-term objective. The price stability goal may be accompanied by

output stabilization so long as price stability is not violated. The focus is on price stability, along with three objectives: credibility (the framework should command trust); flexibility (the framework should allow monetary policy to react optimally to unanticipated shocks); and legitimacy (the framework should attract public and parliamentary support).

(iv) A further role of inflation targeting is to ‘lock in’ the gains from ‘taming’ inflation. Bernanke *et al.* (1999) are explicit on this issue, when they argue that “one of the main benefits of inflation targets is that they may help to ‘lock in’ earlier disinflationary gains particularly in the face of one-time inflationary shocks” (p. 288).

(v) In this framework, monetary policy is taken as the main instrument of macroeconomic policy. Fiscal policy is no longer viewed as a powerful macroeconomic instrument (in any case it is hostage to the slow and uncertain legislative process); in this way, “monetary policy moves first and dominates, forcing fiscal policy to align with monetary policy” (Mishkin, 2000, p. 4). Indeed, monetary policy is viewed as the most direct determinant of inflation, so much so that in the long run the inflation rate is the only macroeconomic variable that monetary policy can affect. Monetary policy cannot affect economic activity, for example output and employment, in the long run.

(vi) Monetary policy should not be operated by politicians but by experts (whether banks, economists or others) in the form of an ‘independent’ central bank. Politicians would be tempted to use monetary policy for short-term gain (lower unemployment) at the expense of long-term loss (higher inflation), the time-inconsistency problem (Kydland and Prescott, 1977). An ‘independent’ central bank would also have greater credibility in the financial markets and be seen to have a stronger commitment to low inflation than politicians do. In terms of the goals of monetary policy, it is thought that an independent central bank should be goal dependent so that its long-run preferences coincide with society’s preferences, *i.e.* elected government’s (Bernanke *et al.*, 1999).

(vii) A mechanism for openness, transparency and accountability should be in place with respect to monetary policy formulation. Openness and transparency in the conduct of monetary policy improve credibility. In the context of inflation targeting, central banks publish inflation reports that might include not only an outlook for inflation, but also output and other macroeconomic variables, along with an assessment of economic conditions.

(viii) In the case of inflation targeting in an open economy, exchange rate considerations are of crucial importance, and we highlight this aspect in the case of emerging countries,

and Brazil in particular in what follows in this paper. They transmit both certain effects of changes in the policy instrument, interest rates, and various foreign shocks. Given this critical role of the exchange rate in the transmission process of monetary policy, excessive fluctuations in interest rates can produce excessive fluctuations in output by inducing significant changes in exchange rates. This may suggest exchange rate targeting. However, the experience of a number of developing countries, which pursued exchange rate targeting but experienced financial crises because their policies were not perceived as credible, is relevant to the argument. The adoption of inflation targeting, by contrast, may lead to a more stable currency since it signals a clear commitment to price stability in a freely floating exchange rate system.

#### **4. Operational aspects of monetary policy**

In terms of the operational framework of monetary policy in Brazil, *i.e.* the inflation targeting type of policy, a number of issues suggest themselves. To begin with, there is the establishment of inflation targets. This is the setting of a point target or a band and choosing the time period over which the target is expected to be achieved. It is important to note that the target horizon (over which the central bank is expected to achieve its inflation target) cannot be shorter than the control horizon (over which the policy is expected to affect the target variable). Clearly, choosing a range as opposed to a point for the inflation target contains a great deal of flexibility, not only for output stabilization but also for accommodating large movements in the nominal exchange rate; this is a particularly thorny issue in the case of emerging countries, and Brazil in particular as shown below. In those cases where a range is chosen, there is the question of symmetrical/asymmetrical response with respect to the central target. Symmetrical behaviour purports to show equal concern for both inflation and deflation. Such an approach reduces the likelihood of output declines and deflation, and indicates that the central bank cares about output fluctuations; this helps to maintain support for its independence. An asymmetric approach to inflation targeting may be advantageous when high inflation rates threaten credibility. This is often the case for developing and emerging countries adopting inflation targeting. A greater weight on overshoots than undershoots in the loss function is suggested under these circumstances.

Inflation targeting also requires the setting up of a model or methodology that can provide information on future inflation, an issue that relates to the necessity of forecasting

inflation. There is also the key issue of how to measure inflation. A relevant question in this context is whether the chosen price index should reflect the prices of goods and services for current consumption only, or for both current and future consumption. In the latter case constructing such a price index is, of course, not feasible. Then there is the problem of noisy or erratic short-run movements in prices, which suggests that an adjusted or core (long-term) price index should be used. Such an index might exclude from the general or headline price index items such as food and energy prices, shocks to the exchange rate, indirect tax or regulated prices on the assumption that such changes are the result of temporary and self-correcting short-term shocks that contain very little information on long-term price movements.

There is still the question of the trade-off between reducing deviations of inflation from target, and preventing a high degree of output variability. This is particularly pertinent in the case of supply shocks that cause inflation to exceed the target and are associated at the same time with lower output. Monetary authorities have a serious dilemma in these circumstances: the quicker the disinflation, the shorter the period of actual inflation being above its target. But then the quicker disinflation is, the greater the potential output variability. Policy preferences are an important determinant of this trade-off in addition to the magnitude of the supply shock. Flexibility is required in this context, which, however, may conflict with credibility if agents interpret it as reluctance by the central bank to deflate. There is, thus, another trade-off in this case between credibility and flexibility (Garfinkel and Oh, 1993).

This discussion highlights another important operational aspect. This relates to the question of monetary rules. Central banks on the whole are assumed to follow one form or another of Taylor rules (Taylor, 1993); in its original formulation this monetary rule took the *ad hoc* formulation as shown in equation (1):

(1)  $R_t = RR^* + p^T + d_1 Y_t^g + d_2 (p_{t-1} - p^T)$ , where the symbols are as above, with the exception of  $p^T$  which in the original Taylor (*op. cit.*) formulation is desired inflation (clearly, in current parlance it is the inflation target set by the central bank as explained in section 3).

Equations of the type depicted in (1) are what is called Taylor rules, since Taylor (1993) who showed that a simple equation of this form, with  $d_1 = 0.5$  and  $d_2 = 1.5$ , can be employed to capture the behaviour of the US federal-funds rate and the Federal Reserve

System (Fed) monetary policy. The nominal rate is increased more than one-to-one with respect to any increase in inflation. This policy reaction ensures that the real rate of interest will act to lower inflation. Given inflation, the real rate of interest is also increased as a result of output-gap positive changes. Taylor rules, therefore, require monetary policy to act automatically to inflation and output. These Taylor-type rules have been criticized (for example, Svensson, 2004) in terms of the possibility of real indeterminacy: if the rise in the nominal rate of interest in response to a rise in expected inflation is not high enough, then the real rate of interest falls raising demand which fails to check inflation. *Mutatis mutandis*, an excessive rise in the nominal rate of interest in response to a rise in expected inflation would also cause indeterminacy. However, indeterminacy can be avoided if monetary authorities respond rather aggressively, that is with a coefficient above unity to expected inflation, but not overly higher than unity. This result has been demonstrated in the closed-economy case (Clarida, Galí and Gertler, 2000) as well as in the small open-economy case (De Fiore and Liu, 2002).

The Brazilian inflation targeting monetary policy regime is modelled on the basis of the British inflation targeting model. The National Monetary Council (CMN) sets the inflation target, which is proposed by the Minister of Finance. The Brazilian Central Bank (BCB) Monetary Policy Committee (COPOM) has to achieve the inflation target through the manipulation of the short-term interest rate. In fact the BCB makes use of the Taylor rule as its reaction function. It is actually a slightly modified form of equation (1), as this is apparent from (2), which is adapted from Minella *et al.* (2003, p. 11). The relevant relationship is:

(2)  $R_t = \alpha_1 p_{t-1} + (1-\alpha_1) [\alpha_0 + \alpha_2 (E_t P_{t+j} - P^*_{t+j})] + \alpha_3 Y^g_{t-1} + \alpha_4 \Delta e_{t-1}$ , where  $R_t$  is the ‘Sistema Especial de Liquidação e Custódia’ (Selic), *i.e.* the rate of interest set by the COPOM<sup>1</sup>,  $E_t P_{t+j}$  is inflation expectations and  $P^*_{t+j}$  is the inflation target, both referring to some period in the future,<sup>2</sup>  $Y^g$  is the output gap (obtained by the difference between the actual and the Hodrick-Prescott – HP – filtered series), and  $\Delta e_{t-1}$  is the nominal exchange rate variation.

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<sup>1</sup> Selic is the interest rate for overnight inter-bank loans, collateralised by those government bonds that are registered with and traded on the Selic. It is the interest rate equivalent to the *Federal Funds* rate in the United States.

<sup>2</sup> In order to have a single measurement of the deviation of inflation from the target, BCB has used a weighted average of current year and following year expected deviation of inflation from the target, where the weights are inversely proportional to the number of months remaining in the year.



Therefore, the Brazilian Taylor rule relates the interest rate to deviations of expected inflation from the target, allowing also for some interest rate smoothing ( $R_{t-1}$ ) and reaction to the output gap as well as movements in the exchange rate. The Brazilian inflation targeting regime sets year-end inflation targets for the current and the following two years. Inflation targets are based on the headline inflation index, *i.e.* extensive national consumer price index (IPCA). A certain degree of flexibility is introduced through defining inflation targeting within a range, which has varied between 2.0 or 2.5 percentage points above and below the central point target. The other main reason for the introduction of this flexibility is that it helps the BCB to achieve its inflation target in view of the serious supply shocks to which the Brazilian economy is exposed.

Brazil is the only country in the world where the central bank determines directly the interest rate that remunerates public debt and uses the same rate as the operational target for the reserves of the banking sector. This anomalous situation is a heritage of the high inflation era that still remains intact nowadays. Indeed, as more than 40% of federal securities are indexed to the overnight rate (Selic) and they are used by the banks to back up fixed income funds (short-term funds that are very popular in Brazil), any increase in the interest rate results in an immediate increase in the total stock of public debt.<sup>3</sup> It follows that under such circumstances, a rise in the interest rate (Selic) by BCB, is followed, *ceteris paribus*, by an increase in the liquidity conditions of the economy as measured by broad monetary aggregates. It can also cause a higher level of consumption expenditures by firms and households, as the increase in the remuneration of the fixed income funds results in a positive wealth effect in consumption. This increase in expenditure outweighs the negative impact on consumption as a result of the higher rate of interest.

Still it should be emphasised that the inflation-targeting regime in Brazil can only account for demand-type shocks, not supply-side shocks. It is also pertinent to note that if inflation is a function of indexation policies, as the case is to some extent in Brazil (see below), then attempting to control and fight inflation with policies such as interest rate manipulation and tight fiscal policy could potentially create a great deal of slack and unemployment in the system.

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<sup>3</sup> According to data from IPEADATA, the ratio of net public debt-over-GDP increased from 34.4% in 1997 to 52.6% in 2001, and since then it has been more than 50.0%. Lula da Silva's government has succeeded in reducing the part of domestic public debt that is indexed to the exchange rate, but this policy has been followed by a reduction of the average maturity of public securities.

## 5. Main features of the macroeconomic policy regime in Brazil

We have argued earlier that the theoretical focus of President Lula da Silva's economic policies is based on the NCM. While this is true, it is also the case that prior to President Lula da Silva's election, indeed ever since the beginning of the 1990s, Brazil had followed a pattern of economic development, which in broader terms was inspired by another consensus, which has been proposed to encapsulate what appeared to be at the time relevant debates. Those debates, which were taking place in the late 1980s, evolved extensively on the reforms that were taking place in Latin America. The consensus in question was the result of proposals of what appeared "to be the central areas of policy reform that most people in Washington thought were needed in most Latin American countries at that time" (Arestis, 2004-05, p. 195; see, also, Williamson, 1990; Arestis, 2004-05, provides a comprehensive critique of this consensus in relation to another important discussion, which had been going on for a while, that of financial liberalisation). This is what has come to be as the 'Washington Consensus'.<sup>4</sup> This framework is not really different from NCM. It includes a set of liberalising and market friendly policies such as privatisation, trade liberalization, stimulus to foreign direct investment (FDI), financial liberalisation (including both foreign banks entry and capital account opening up), fiscal discipline, tax reform, labour and social security reforms, price stabilisation, secure property rights, independence of central bank and so on. The new pattern of development had two basic dimensions: economic integration commanded by the market and a new role for the State, which should include the promotion of price stability, and the improvement of the market performance. While it is true that the former Cardoso's government followed the 'Washington Consensus', indeed 'neoliberal', type of policies extensively,<sup>5</sup> the Lula da Silva government although did not depart from them then, it did, nonetheless, pursue the NCM principles more closely as we argue below.

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<sup>4</sup> 'Washington Consensus' (WC) is a set of liberalizing propositions that intended to create conditions for economic growth in Latin American countries, and was first suggested by Williamson (1990; see, also, 2004-05). The set of reforms could be summarized in ten propositions: fiscal discipline, redirection of public expenditure priorities towards fields offering both high economic returns and the potential to improve income distribution, tax reform, interest rate liberalisation, a competitive exchange rate, trade liberalisation, liberalisation of inflows of foreign direct investment, privatization, deregulation and secure property rights. It ought to be noted that, as Williamson (2000) stressed later, the ten propositions did not include capital account liberalization in the original version of WC, although IMF included it in its own WC.

<sup>5</sup> Saad-Filho and Morais (2002) show that Cardoso's economic policies were of the neo-liberal type of policies.

As is well known, at the beginning of 1994, Brazil implemented a stabilization programme, more specifically the Real Plan. The Brazilian Real Plan differed from Argentina's Convertibility Plan in that it adopted a more flexible exchange rate anchor. At the launch of the Brazilian programme in July 1994, the government's commitment was to maintain an exchange rate ceiling of one-to-one parity with the dollar. Moreover, the relationship between changes in the monetary base and foreign reserve movements was not explicitly stated, allowing some discretionary leeway. After the Mexican crisis, the exchange rate policy was reviewed and in the context of a crawling exchange rate range, the nominal rate began to undergo gradual devaluation.

The Real Plan was successful in bringing inflation down fast, due to the combination of exchange rate appreciation, high interest rates and a huge reduction in import taxes.<sup>6</sup> However, the expansion of demand, which had come from the fiscal side, and the overvalued exchange rate created immediate difficulties for Brazil's external sector. For while in 1994 the trade balance was around US\$ 10.4 billion in surplus and the current account was in balance, from 1995 to 1998 the trade balance accumulated a deficit of around US\$ 22.3 billion and the current account registered a deficit around US\$ 105.6 billion. Under the pressure of the speculative attack on the domestic currency, the main tool available for BCB to defend the *real* (Brazilian currency) was to increase the rate of interest. As a result of this external imbalance, the Brazilian economy suffered many speculative attacks on the *real*, a "mix of a 'contagious crisis' arising out of the effects on Brazil of the [Mexican crisis], East Asian and Russian crises and an outbreak of speculative activity triggered by market operators who perceived evident macroeconomic imbalances in Brazil" (Ferrari Filho and Paula, 2003, p.77).

Despite the fact that, during this period, the IMF 'offered', on several occasions, financial support to Brazil, the crisis in Russia affected Brazil's external capital account and, as a result, the capital started flowing out of the country and foreign reserves fell rapidly. Under the circumstances of macroeconomic imbalances and uncertainties about the Real Plan's future, Brazil was unable to defend its currency and, in January 1999, the Cardoso's government changed the exchange rate regime. The 'fixed' exchange rate regime was replaced by a floating exchange rate regime.

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<sup>6</sup> In August 1994, the Brazilian government reduced tariffs on imports of more than 4,000 products, to a maximum of 20 percent.

The 1999 switch from an exchange anchor to a floating exchange rate regime plus an inflation targeting regime brought no significant improvement in the macroeconomic variables (GDP growth, inflation rate, unemployment rate etc.), although in terms of the balance of payments the accounts in 2003-04 did improve, due mainly to the increase in the trade balance surplus. One might have expected that adopting a floating exchange regime might have allowed lower interest rates more quickly in Brazil. Although the rate of interest did decline, it picked up again during 2001, in view of the turbulence on international markets (the Argentina crisis and the effects of 11 September 2001, among others), and again in 2003 due to the market turbulence in the beginning of Lula da Silva's government. Those 1999 developments inaugurated a period, spanning to this day, over which the NCM is more appropriate as a theoretical framework able to explain the President Lula da Silva economic policies than the 'Washington Consensus'. Indeed, under the NCM framework, interest rates increase because the central bank raises them. Under such circumstances and under a floating exchange rate system direct market forces on interest rates are limited.

The *modus operandi* of inflation targeting regime plus the adoption of a floating exchange rate regime, under the conditions of full opening of the capital account, has resulted in sharp instability of the nominal exchange rate. Indeed, since the end of the 1980s and beginning of the 1990s, Brazil and other Latin American countries, began gradually, but continually, to liberalize their capital account. Capital outflows can induce a sharp exchange rate devaluation that affects domestic prices ('pass through effect'), which can jeopardize the BCB's inflation target. Under these conditions, BCB is compelled to increase the interest rate in order to seek to avoid both capital outflow and pass through effect. The BCB's reaction to exchange rate movements causes a decline in output and employment, increasing at the same time the volume of public debt, although it should be readily acknowledged that such a decline in output is likely to also emanate from other sources. It should also be acknowledged that in terms of domestic currency the deficit can be sustained at any level necessary for full employment in conjunction with very low interest rate policy. This is particularly relevant in the case of Brazil where a low interest rate policy would be a major contractionary force to the extent that the full budget deficit would vanish and maybe go into surplus in tandem with the low interest rate policy. This implies, of course, that a low interest rate policy would need to be matched by a tax cut or spending increase to be neutral fiscally. However, during 'tranquil times', in which the

country has abundant capital inflows, interest rate is used in order to attract capital flows that results in the exchange rate appreciation that serves for the purpose of the inflation targets. Since 1999, there has, therefore, been a connection between exchange rate oscillations and interest rate movements in Brazil, although it should be noted that the 'inflows' are not normally associated with interest rates under a floating exchange rate policy.

The rate of interest (real as well as nominal) has been high in Brazil because it serves multiple functions. First and foremost, it is designed to influence and achieve the inflation targets, in view of the inflation targeting regime in the context of various macroeconomic constraints; also to limit exchange devaluation, to attract foreign capital, to roll over public debt, and to reduce trade deficits by curbing domestic demand (Bresser-Pereira and Nakano, 2002). High interest rates in Brazil have had two effects: (i) constrained economic growth, through the price of credit (loan rates) and entrepreneurs' negative expectations; and (ii) increased public deficit through interest payments, which is formed mainly by indexed bonds to overnight rate or short-term pre-fixed bonds. Despite the significant improvement in the current account of the balance of payments figures since 2003, due essentially to the increasing trade balance surplus, Brazil's recent experience shows that countries with a high level of external debt and a fully-liberalized capital account, external capital flows can cause periods of intense exchange rate instability. This situation has also caused low economic growth, because monetary authorities tend to increase interest rates during periods of external turbulence in order to meet inflation targets, and also stabilize exchange rates. A rising interest rate punishes firms, that need credit to operate, and workers, who lose their jobs when firms face difficulties, but rewards *rentiers* richly. Moreover, high interest rates also increase fiscal expenditures, deepening any fiscal imbalance that could already be present.

Another factor that weakens the efficacy of monetary policy in Brazil is the weight of administered prices in the extensive national IPCA. Monitored or administered prices are defined as those that are relatively insensitive to domestic demand and supply conditions or that are in some way regulated by a public agency. The group includes oil by-products, telephone fees, residential electricity, and public transportation. Its dynamics differ from those of market prices in three ways: "i) dependence on international prices in the case of oil by-products; ii) greater pass-through from the exchange rate; and iii) stronger backward-

looking behaviour” (Minella *et al.*, 2003, p. 7).<sup>7</sup> This is since electricity and telephones rates are generally adjusted annually by the general price index (IGP). Our estimation of the percentage of monitored prices to IPCA is around 28% on average from April 2003 to December 2005. Furthermore, administered prices have increased more than market prices. Indeed, while the accumulated inflation rate related to market prices was 57.0% from 1999 to 2005, the administered price rate was 137.0%, that is it increased by more than 50.0% in relation to the former.<sup>8</sup> Administered prices in Brazil are set by contracts based on past variation of the price index. It is for this reason that some degree of persistence is evident in the formation of this particular price index.

Under the current conditions of the operation of macroeconomic policy in Brazil, the government has to generate primary fiscal surplus in order to maintain some fiscal balance due to the effects of movements in the rate of interest and the exchange rate on the public debt. However, orthodox economists (for example, Pastore and Pinotti, 2005) argue that fiscal imbalance is the main problem of the Brazilian economy. However, they do not explain the origins of such unbalanced situation. Indeed, the reasons are both important and pertinent. The international financial integration of the Brazilian economy has resulted in the instability of both the exchange rate and the rate of interest. It has also restricted the government’s degrees of freedom over fiscal policy. Primary fiscal surplus has been more than 3 percent of GDP since 1999 and reached almost 5 percent in 2005 (Table 1). The amount of primary surplus necessary to stabilise the public debt ratio over GDP is determined partly by movements in the rate of interest and the exchange rate. As public expenditures are very sticky due to the existence of some mandatory public expenditures (education, health, Fund against Poverty etc.), the only option to generate fiscal primary surplus is to combine increasing public revenues, as they arise through taxation, with the decrease in public expenditures due mostly to lower public investment. Under such circumstances, there is no role for contra-cyclical fiscal policy. In the next section, we will see that Lula da Silva’s economic policies are a relevant example of this sort of constraint.

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<sup>7</sup> According to Minella *et al.* (2003), “[t]here are three basic links: i) the price of oil by-products for consumption depends on international oil prices denominated in domestic currency; ii) part of the resetting of electricity rates is linked to changes in the exchange rate; and iii) the contracts for price adjustments for electricity and telephone rates link these adjustments, at least partially, to the General Price Index (IGP), which is more affected by the exchange rate than the consumer price indexes” (p. 7).

<sup>8</sup> The synthetic IPCA, which includes both market and monitored prices, from 1999 to 2005, was 73.9%, according to own calculations.

## **6. The Lula da Silva's orthodox economic policies and their expected results**

The showdown of mid-2002 was decisive to show wealth-owners in Brazil the extension of their power over the new government. After some specialists in economic matters of the PT were vetoed by the financial markets, President Lula da Silva nominated Antonio Palocci, an unknown politician from the right-wing of the PT, for the Ministry of Finance. The President also appointed Henrique Meirelles, a former chair of BankBoston in Latin America, and elected congressman by Cardoso's political party (Brazilian Social Democratic Party - PSDB), as chairman of the BCB. Antonio Palocci's team and BCB's direction were constituted mostly by neo-liberal economists and/or economists that were working in some big banks in Brazil. As a result, the economic policies have been marked by the continuation, and in some aspects radicalization, of Cardoso's economic policies, during his second term, 1999-2002. In broader terms, there are some slight differences between Cardoso's economic policies and Lula da Silva's ones. First, the latter deepened the process of financial liberalisation with the adoption of a set of new regulations, that included both facilitation to outward transactions (elimination of the limits that residents can convert real in foreign currencies, with the end of the CC5 accounts) and inward transactions (fiscal incentives to foreign investors to buy domestic public securities). Second, primary fiscal surplus were increased from around 3.5% to more than 4.25% of GDP during Lula da Silva's government, in order to assure the conditions of fiscal solvency. So, fiscal policy has been definitely set as the main anchor of the regime of macroeconomic policies in Brazil, following the neo-liberal view, according to which the effects of fiscal policy are explained by the role of current policy in shaping expectations of future policy changes. This is seen as essential to improving the credibility of the economic authorities. It is also clear that this is consistent with NCM, whereby fiscal policy has been downgraded as a short-term stabilization instrument. Third, Lula da Silva's government has been helped by much better international conditions than Cardoso's; the latter had to face the contagious of a lot of external crises, such as Asian crises, Russian crisis, and Argentinean crisis.

Indeed, favourable international conditions included both greater economic growth (and as a result an increase in international trade) and increasing liquidity in the international financial markets, which resulted in the retaking of the voluntary capital flows to emerging countries. The recovery of the global economy since 2001, due to American

economic growth and mainly to Chinese economic growth, has had as a consequence an increase in both demand and prices of commodities in the international trade. As the main item of the Brazilian exports are commodities, such as soy, steel and iron, the increase in the price of most of the commodities exported by Brazil explains why trade balance arose from US\$ 24.9 billion in 2003 to US\$ 44.8 billion in 2005, although the real exchange rate was continuously appreciating since 2003 (see Prates, 2006, for more details). Net exports were the main source of growth for the Brazilian economy from 2002 to 2005 and allowed the BCB to increase exchange reserves from US\$ 37.8 billion in 2002 to US\$ 53.8 billion in 2005 (Table 1). In fact, the commodity boom is the entire explanation for the Brazilian 'success' and how it avoided default on its external debt obligations. It is the case, actually, that a lot of questionable policy was overshadowed by the commodity boom. When that ends Brazil may very well suffer from a situation where success has been attributed to success of the wrong factors.

In spite of the better international conditions, GDP has taken a 'stop and go' pattern during Lula da Silva's government. GDP growth was 0.5% in 2003, 4.9% in 2004, 2.3% in 2005 and 2.9% in 2006. The growth rates are very low for Brazilian needs, and also very low when compared with those of other big emerging countries over the same period.<sup>9</sup> It is the purpose of the rest of this section to attempt to provide an explanation of this performance.

The increase in the primary surplus was from 3.75% in 2002 to 4.25% of GDP in 2003, and the institutional improvements to ensure financial discipline at all levels of government and a high average basic interest rate (Selic) (around 23.0%) allowed Brazil to reach policy credibility with domestic and international financial investors. Accordingly, there was a significant improvement in the risk premium charged on Brazilian bonds. In 2002 the average EMBI for Brazil was 1,380 basis points while in 2003 it was reduced to 830 basis points; an increase in the value of Brazilian bonds in the international secondary market also took place.<sup>10</sup> In addition to this, two important points that strengthened the market's 'confidence' concerning the Lula da Silva economic policy were the fact that the inflation rate, despite having reached 9.3% in 2003 (0.8% above the 'adjusted target'

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<sup>9</sup> Ferrari Filho and Paula (2006) report that GDP growth in China, India and Russia was in 2000-2004, on average, 6.8%, 5.7% and 8.5%, respectively.

<sup>10</sup> Once again, it is important to say that, during the presidential election, in October 2002, the risk premium had reached the 2,400-point mark.



adopted by BCB), was kept under control and the trade surplus increased from US\$ 13.1 billion, in 2002, to US\$ 24.8 billion in 2003. To sum up, according to international and domestic financial markets, the Lula da Silva administration has done a 'good job' in restoring confidence. But it looks that the 'good job' has been performed in the main by international commodity prices, denominated in dollars, not policy.

Nevertheless, the results were far from bright with regard to real economic activity, perhaps as a consequence of the very high interest rate (as it was shown above, the annual average basic interest in 2003 was 23%). The economic policy mix led to poor economic growth in 2003, the GDP increased only by a poor 0.5%, with the productive capacity declining in several strategic sectors because of the continuing lack of investment. The average rate of unemployment was 12.3% and the distribution of income deteriorated according to the Brazilian Institute of Geography and Statistics (IBGE). In general, the workers' average real income decreased by almost 15.0% in 2003.

In 2004, following a few years of poor growth, the GDP increased 4.9%, the fastest expansion in five years. Domestic demand picked up, consumers and business also increased and private investment actually recovered. The inflation rate was 7.6%, only 0.4% below the maximum limit of inflation target proposed by BCB. Moreover, the average unemployment rate decreased (from 12.3% in 2003 to 11.5% in 2004) and the workers' average real income dropped only by 0.75%. At least two reasons can explain the Brazilian economic performance in 2004. On the one hand, the average basic interest rate dropped from 23.0% in 2003 to 16.4%; on the other hand, the record trade and current account surpluses (the trade balance was around US\$ 33.5 billion, built basically by robust export growth rather than by a fall in imports; and the current account balance was US\$ 11.6 billion) contributed to the increase of output and national income, and also made the Brazilian economy less vulnerable to external shocks. Thus, the main indicator of vulnerability, that is to say, the ratio of external indebtedness to exports, improved notably. Fiscal conditions also improved in 2004, as this is clear from the reduction of public indebtedness from 58.7% of GDP in 2003 to 51.8% in 2004, due to a combination of output growth with low basic interest rate and exchange rate appreciation. The reduction in the interest-rate sensitive expenditures contributed to a better performance of the nominal public deficit, which declined to 2.67% of the GDP (Table 1). As a result, the average country risk dropped to 542 basis points. At that time, President Lula da Silva stated that, at

last, 'recovery was to last and the 'amazing growth' ('espetáculo do crescimento', in Portuguese) had started'.

However, 2005 showed that sustained recovery of the Brazilian economy was not really under way in view of the fact that productive activity slowed sharply in 2005. According to the IBGE, GDP increased only 2.3% in 2005.<sup>11</sup> It is possible to identify at least four reasons for this poor performance of GDP growth. First, to aim at keeping the inflation on target (5.1%), when the actual inflation rate was 5.69% in 2005, the BCB pursued too tight monetary policy, and, as a result, the basic interest rate was very high (the annual average overnight Selic interest rate in 2005 was 19.2%); second, fiscal adjustment, predominantly by raising taxes and cutting back public investments, was too tight (the ratio of primary fiscal surplus over GDP reached 4.8%); third, the exchange rate dramatically appreciated – in 2003 the annual average exchange rate was a R\$ 3.01 per US dollar, while in 2005 the annual average exchange rate had dropped to R\$ 2.43 per US dollar; and, finally, the performance of domestic demand, especially the agricultural sector, was very weak. It is important to emphasize that the economic growth rate did not decline even more only due to the fact that the international scenario was so favourable to the Brazilian economy. In this context, the trade balance and the surplus of current account reached US\$ 44.8 billion and US\$ 14.2 billion, respectively. As a result of this external performance, the average country risk was 313.8 basis points.

In 2006, due to some signs, the government was, finally, expecting the 'espetáculo do crescimento'. The most important sign was the fact that, since the third quarter of 2005, a gradual reduction of interest rates has been observed; furthermore, primary fiscal surplus was expected to decline from 4.8% of GDP in 2005 to 4.25% in 2006. Moreover, at least two further reasons could suggest some better perspective for the Brazilian economy in 2006. First, due to corruption problems, the Finance Minister, Antonio Palocci, was replaced by Guido Mantega, the former president of the Brazilian Development Bank (BNDES). Contrary to Antonio Palocci, Guido Mantega is an economist who ever since 2003 has been criticizing the core of the Lula da Silva's economic policies. Second, due to the presidential election in October, Lula da Silva was running for his possible second

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<sup>11</sup> Despite this poor GDP performance, the average unemployment rate decreased a little (from 11.5% in 2004 to 9.8% in 2005) and the workers' average income increased by 5.8%.

term<sup>12</sup>. It means that monetary and, specially, fiscal policies would be more relaxed. However, despite some signs and reasons for a pickup in economic activity, GDP increased only 2.9% (Table 1 shows that the average interest rate and the average exchange rate were around 15.2% and 2.17 per US dollar, respectively, the inflation rate was 3.14%, less than the centre of the target inflation rate – 4.5% – and net exports were around US\$ 46.1 billion).

Analysing the Lula da Silva's economic performance, from 2003 to 2006, we have the following characteristics: (i) despite the fact that inflation rate would be kept under control, its average rate would be relatively high at 6.4% per year on average since the introduction of the inflation strategy. This is high especially so when it is noted that Brazil has adopted an inflation targeting regime which is supposed to not only tame inflation but also to 'lock-in' inflation rates to low levels; (ii) the annual nominal interest rate would be around 18.4%, while the average real interest rate would reach 11.2%; and (iii) the average annual growth rate of GDP would be only 2.6%. Finally, it is important to emphasize that the course and results of the Lula da Silva's economic policies, based on inflation targeting, primary fiscal surplus and flexible exchange rate regime, are not performing as well as they might be expected by conventional wisdom, although some indicators have improved recently.

We can actually summarise the results of Cardoso's (during his second term) and Lula da Silva's economic policies, based on inflation targeting regime, flexible exchange rate and fiscal surplus regime, as follows:

- It is notable that over the period 1999-2006 actual inflation rates in Brazil were only within the targeted range in 5 out of the 8 years of the operation of this monetary policy strategy (it is important to say that in 2003 and 2004 the inflation target was changed half way through the period). The targets were missed in 2001, 2002 and 2003 by a substantial margin, especially in 2002. On another occasion (2004), the inflation target was met (it was 0.4% below the inflation target proposed by BCB) only after the target itself had been raised. It may, thus, be concluded that inflation targeting in Brazil was not completely successful over the first eight years of its

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<sup>12</sup> In fact in the election of 29 October 2006, Lula da Silva was re-elected in the second round for a new term, 2007-2010.

implementation. It should also be noted that its average rate is relatively high at 6.4% per year on average since the introduction of the inflation targeting strategy.

- Despite the fact that the ratio of the primary fiscal surplus over GDP has increased since 1999, in 2006, due to the presidential election, the primary fiscal surplus/GDP probably was reduced to 4.3%, the net public debt over GDP, after a reduction in 2004, has been more or less stable and over 50%. As a result, primary fiscal surplus is not enough to reduce the ratio of net public debt over GDP, which has been one of the main constraints for the management of economic policies in Brazil.
- Due to the good performance of the trade position and also to the reduction of the external debt (both public and private) and the increase in the amount of foreign reserves, external vulnerability indicators in general improved over the period 2003-2006. However, there is a great deal of concern about the future of the trade balance performance. This is due essentially to two reasons: (i) continuous real exchange rate appreciation has reduced the growth rate of exports in 2006, and (ii) the possible reduction in the volume of the international trade, mainly commodities, if a decline in the economic growth of USA and China were to materialise.

## **7. Possible alternative economic policies**

Many critics of the neo-liberal economic policies implemented in Brazil have advanced proposals to change the course of economic policies. Sicsú, Oreiro and Paula (2003), Sicsú, Michel and Paula (2005) and Oreiro and Paula (2007) present a Keynesian strategy of economic policy that aims to achieve higher, stable and sustained economic growth in Brazil. The basic features of this strategy are: (i) adoption of a *crawling-peg exchange rate regime* in which devaluation rate of domestic currency was set by the BCB at a rate equal to the difference between a *target inflation rate* and *average inflation rate* of Brazil's most important trade partners; (ii) adoption of *market-based capital controls* in order to increase the autonomy of the BCB to set nominal interest rates according to domestic objectives (mainly to promote a robust growth); (iii) reduction of nominal interest rate to a level compatible with a real interest rate of 6.0% per year; and (iv) reduction of primary surplus from current 4.5% of GDP to 3.0% of GDP. According to the authors' calculations these elements are fundamental for the required increase in the investment rate

of Brazilian economy from the current 20% of GDP to the 27% of GDP, a rate that is needed for a sustained growth of 5% per year.

We share the views summarised above in this section. A minimal programme would be the one that focuses on the attainment of full employment and the creation of conditions for a recovery of private and public investment. In fact, the conditions favourable to the promotion of full employment and the recovery of investment largely overlap. On the macroeconomic side, it is necessary to wake up and stimulate the *animal spirits* of the entrepreneurs, by signalling that policies supporting aggregate demand, rather than the opposite, would be pursued. Not only does this mean that monetary policies should explicitly consider the goal of maintaining employment stability along with price stability, but also that fiscal policy should be reoriented to enable expansion in public investment, rather than debt service or even current expenditure. Monetary policies should be refocused and the BCB should be assigned employment *and* inflation targets. There is nothing particularly revolutionary about this suggestion. It is in fact very closely to the policy framework of the US Federal Reserve in the United States, which arguably has been practised in this country with considerable success for a number of years now. Fiscal policy, on the other hand, should not sacrifice all other objectives simply to guarantee the service of public debt at any price. Some reduction in the primary fiscal surplus and some control over current expenditure in the long run should be necessary in order to increase public investment in economic and social infrastructure in Brazil. We propose that the entire reduction in primary surplus is used to increase public investment. Note that the reduction of the ratio of public debt over GDP could be obtained, even with some reduction in the primary fiscal surplus if combined with a reduction in the real interest rate and an increase in the GDP growth.. Reduction of the ratio of public debt to GDP could contribute to reaching the long-run objective of fiscal balance, so that fiscal policies could operate again as an important contra-cyclical tool.

In addition healthy industrial policies would also be necessary to coordinate private and public efforts at accumulating capital at the necessary rate. On the one hand, the implementation of a ‘managing floating exchange regime’, as discussed above, to promote the profitability of tradable activities and to provide incentives to firms to invest and expand production and employment through a stable and competitive real exchange rate

should be desirable.<sup>13</sup> On the other hand, resisting the demands of industrial countries to liberalize non-traditional sectors, such as government procurement, is essential to making any efficient industrial policy feasible. We recognize that the work of the Ministry of Foreign Affairs of Lula da Silva' government would be helped by giving priority to trade and financial partnerships with Mercosur block countries and other emerging countries. This is important in the attempt to increase the bargaining power of Brazil and other block countries in trade talks, such as the Free Trade Agreement of America.

To sum up, to address the objective of expanding effective demand and stabilizing the inflation process, the Government should (i) operate fiscal policy to implement social programmes and to promote investments, in particular to rebuild public utilities in energy production and road construction, among others; (ii) ensure that monetary policy has a positive impact on the level of economic activity; this, however, can only be done by very low interest rates; (iii) implement a 'managing floating exchange regime' that aims at maintaining a stable and competitive real exchange rate. To be sure, this is only a short-term measure for 'market making' purposes, but certainly not as a policy that accumulates foreign exchange. All that the latter achieves is either to export real savings or reduce and/or defer domestic standards of living with a very high risk of never getting real compensation; (iv) operate an industrial policy that should aim at integrating the Brazilian economy in the international scene. This would create the context in which Brazil can incorporate the technological innovations occurring in the world in her relevant sectors, and enable her to attract FDI that would add aggregate value to exports; (v) implement trade and financial agreements with other developing countries, such as Mercosur countries, Latin America countries and emerging countries in Asia; (vi) create efficient anti-speculation mechanisms to regulate movements of capital in order to prevent exchange rate crises and augment the autonomy of domestic economic policies; (vii) adopt incomes policies to regulate wages and prices in which case the private sector would necessarily follow and not lead; and (x) introduce fiscal initiatives, such as really progressive income tax schedules and capital levies, guaranteed minimum income and social expenditure, with the objective to improve the standard of living of poor people. Such policies are paramount and urgently required to promote personal income redistribution.

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<sup>13</sup> Hausmann, Pritchett and Rodrik (2004) analyzing experiences of growth accelerations (economic growth that is sustained for at least eight years) found that growth accelerations tend to be correlated with increases in investment and trade, and with real exchange rate depreciations.

## 8. Summary and conclusions

We have attempted in this contribution to examine the economic policies of President Lula da Silva. We have demonstrated the theoretical premise of the President's economic policies, and have discussed their performance over the life of President Lula da Silva's government. In conclusion we may ask the legitimate question of what macroeconomic stability is in the context of these policies. The monetary authorities appointed by President Lula da Silva, as those appointed by former President Cardoso, seem to believe inflation stabilization is the only goal of macroeconomic policy. From the fiscal side, all that matters is building credibility with financial agents. As John Maynard Keynes, once suggested, macroeconomic stability should mean a combination of full employment and stable prices. For developing countries, we should add, macroeconomic stability also means long-term economic growth and social development. In this context, economic stabilization cannot neglect fiscal, monetary, exchange rate, trade and income policies as instruments for stabilizing prices and expanding effective demand.

It is very unfortunate that President Lula da Silva has not advanced a more progressive vision and project for Brazil. His electoral slogan, 'hope has defeated fear', has been so deflated that not even the President himself mentions it anymore in his speeches. There is very little to show for hope, but a lot for fear. Unemployment is still high, and rising, the GDP performance is below par and it is led almost by the export sector only helped by the healthy international economic conditions. No long-term vision of Brazil's future has been offered. Inflation targeting was implemented in 1999, when the balance of payments crisis led to the change in the exchange regime as a new nominal anchor for price stabilisation purposes. Eight years later, the regime has become a straightjacket holding back real activity. Instead of an inflation-targeting regime, what Brazil really needs is an *economic growth regime*. President Lula da Silva was elected on the promise that he would move the country away from the many years of stagnation promoted by President Cardoso. Regrettably, the opposite is true. In other words, it seems that the fear has defeated hope!

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## ANNEX

**Table 1**  
**Some Macroeconomic Indicators of Brazilian Economy**

Macroeconomic Indicators/Year	1999	2000	2001	2002	2003	2004	2005	2006
IPCA (%)	8.94	5.97	7.67	12.53	9.30	7.6	5.69	3.14
GDP growth (%)	0.8	4.4	1.3	1.9	0.5	4.9	2.3	2.9
Unemployment rate (%) <sup>1</sup>	8.3	7.9	6.8	7.9	12.3	11.5	9.8	10.0
Interest rate (Selic), average (%)	25.5	17.4	17.3	19.2	23.0	16.4	19.2	15.2
Exchange rate, average R\$/US\$)	1.815	1.829	2.350	2.926	3.077	2.922	2.43	2.17
Exports (US\$ billion)	48	55.1	58.2	60.4	73.1	96.5	118.3	137.5
Imports (US\$ billion)	49.2	55.8	55.6	47.2	48.3	63.0	73.5	91.4
Trade balance (US\$ billion)	-1.2	-0.7	2.6	13.1	24.8	33.5	44.8	46.1
Current account (US\$ billion)	-25.3	-24.2	-23.2	- 7.6	4.2	11.6	113.9	13.5
Foreign debt (US\$ billion)	241.5	236.2	209.9	210.7	214.9	201.4	169.4	168.8
Foreign reserves (US\$ billion)	36.3	33.0	35.9	37.8	49.3	52.9	53.8	85.8
Country risk/EMBI, average	1,030	730	890	1,380	830	542	313.8	n.a.
Fiscal surplus/GDP (%)	3.2	3.5	3.6	3.9	4.3	4.6	4.8	4.3
Nominal public deficit (%)	5.8	3.6	3.6	4.6	5.1	2.7	3.3	3.4
Net Public debt/GDP (%)	46.9	49.9	53.3	56.5	58.7	51.8	51.5	50.0
Investment rate (% of GDP, 1980 prices)	14.8	14.8	14.8	13.9	13.1	13.8	13.8	n.a.

Note: (1) Unemployment rate according to the IBGE methodology.

Source: IBGE, IPEADATA and BCB.