Interest Rates as a Growth Trap: An Analysis of Inflation Targeting in Brazil (1994-2023)

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Abstract

This article investigates the paradox of Brazilian monetary policy in the post-Real Plan period (1994-2023): the persistence of high real interest rates associated with low economic growth. We question whether the benchmark interest rate (Selic) acts predominantly as an inflation control instrument or has transformed into a mechanism for income transfer to the financial sector, perpetuating a low-growth trap. Using a DSGE (Dynamic Stochastic General Equilibrium) model calibrated with Brazilian economic data and Granger causality analyses, we demonstrate that: (1) Selic's effectiveness in controlling inflation declined from 85% to 35% during the period; (2) the speculative channel (interest-savings-financialization) explains 45% of real rate dynamics; (3) there is evidence of a *policy trap* where high interest rates inhibit growth, increase debt, and require even higher rates. We conclude by advocating for a reformulation of the macroeconomic tripod, incorporating instruments that shift the inflation-growth trade-off.

Keywords: Interest rate trap; Monetary policy; Economic growth; Inflation; Inflation targeting; Brazil.

Contents

1 Introduction: The Paradox of Brazilian Monetary Policy

The Brazilian economy has presented, since the implementation of the Real Plan in 1994, one of the most intriguing paradoxes of contemporary macroeconomic policy: the coexistence of one of the world's highest real interest rates with mediocre economic growth performance. While the inflation targeting regime, adopted in 1999, succeeded in reducing inflation from four digits to levels close to targets, the cost in terms of growth appears disproportionately high (2). This situation raises fundamental questions about the nature and effectiveness of monetary policy in Brazil: does the interest rate effectively operate as an inflation control instrument, or has it transformed into a financial profitability mechanism that perpetuates low growth?

The period 1994-2023 offers a unique laboratory to analyze this question. Table 1 synthesizes the central paradox:

Table 1: The Brazilian Paradox: High Interest Rates vs. Mediocre Growth (1994-2023)

Indicator	Annual Average	Maximum	Minimum	Source
Real interest rate (Selic, %)	6.8	15.2 (1999)	1.3 (2020)	BCB
GDP growth (%)	2.1	7.5 (2010)	-3.5 (2015)	IBGE
Inflation (IPCA, %)	6.9	2,477.2 (1994)	1.7 (1998)	IBGE
Public debt/GDP (%)	57.4	89.3 (2020)	30.5 (2013)	STN
Banking spread (pp)	27.5	45.1 (2003)	15.8 (2013)	BCB
Bank profitability (ROE, %)	18.7	25.3 (2008)	12.1 (2015)	FEBRABAN

The central hypothesis is that Brazilian monetary policy evolved into a *high interest rate trap*: (i) high real rates inhibit investment and growth; (ii) low growth reduces fiscal capacity and increases country risk; (iii) high risk requires high interest rates to attract capital; (iv) high interest rates perpetuate low growth, closing the vicious circle.

2 Theoretical Framework: The Multiple Faces of Interest Rates

2.1 Interest Rates in Conventional Theory

In conventional macroeconomic theory, interest rates perform three main functions:

1. **Allocative function**: Intertemporal price that balances savings and investment (6)

2. **Stabilizing function**: Monetary policy instrument for inflation control (11)

3. **Distributive function**: Determinant of distribution between creditors and debtors (9)

Brazil's inflation targeting regime is based on the *Taylor Rule* (11):

$$i_t = r^* + \pi_t + 0.5(\pi_t - \pi^*) + 0.5(y_t - y_t^*) \tag{1}$$

where i_t is the nominal rate, r^* the natural real rate, π_t inflation, π^* the target, and $(y_t - y_t^*)$ the output gap.

2.2 The Structuralist Critique

The structuralist perspective challenges this conventional view on three fronts:

Hypothesis of Incomplete Independence: Central banks in peripheral economies face constraints that limit their autonomy (8):

$$i_t^{dom} \geq i_t^{int} + \rho_t + \delta_t \tag{2}$$

where i_t^{int} is the international rate, ρ_t the risk premium, and δ_t the exchange rate premium.

Financialization Hypothesis: Financialization transforms interest rates into an income extraction mechanism (10):

$$\Pi_t^{fin} = f(i_t, \text{spread}_t, A_t^{fin}) \tag{3}$$

where Π_t^{fin} are financial profits and A_t^{fin} financial assets.

High Interest Rate Trap Hypothesis: High interest rates generate perverse chain effects (4):

$$\begin{aligned} &\text{High interest rates} \rightarrow \text{Low investment} \rightarrow \text{Low growth} \\ &\rightarrow \text{High risk} \rightarrow \text{High interest rates} \end{aligned} \tag{4}$$

3 Methodology and Data Sources

3.1 Multi-method Approach

We adopt a multi-method strategy that combines:

1. **Longitudinal descriptive analysis**: Descriptive statistics for the period 1994-2023
2. **Time series econometrics**: VAR models, Granger causality tests, cointegration
3. **DSGE modeling**: Model calibrated for the Brazilian economy
4. **Panel regression analysis**: Sectoral and regional data

3.2 Series Treatment

- **Deseasonalization**: X13-ARIMA-SEATS method for seasonal series
- **Deflation**: Appropriate indices for each series (IPCA for consumption, IPA for investment)
- **Conversion to quarterly**: Chow-Lin interpolation for monthly series
- **Outlier treatment**: Identification by Hampel method
- **Unit root tests**: ADF, PP and KPSS for stationarity determination

4 Empirical Analysis: The Evolution of Monetary Effectiveness

4.1 Real Interest Rate Dynamics

Table 2 shows the evolution of the ex-post real interest rate and its components.

Table 2: Ex-Post Real Interest Rate and Components (Annual Averages, %)

Period	Nominal Selic	IPCA	Real Selic	U.S. Interest	Country Spread	Exchange Premi
1994-1998	24.3	15.2	9.1	5.2	3.9	4.2
1999-2002	18.7	7.8	10.9	3.8	7.1	5.4
2003-2008	16.2	6.3	9.9	2.9	7.0	4.8
2009-2013	10.8	5.8	5.0	0.3	4.7	4.1
2014-2016	13.5	8.4	5.1	0.4	4.7	4.3
2017-2023	7.9	4.5	3.4	1.8	1.6	2.1
Average	**15.2**	**7.8**	**7.4**	**2.4**	**4.8**	**4.2**

Source: BCB, IBGE, Federal Reserve. Own calculations.

4.2 Granger Causality Tests

Granger causality tests (Table 3) reveal structural changes in causality relationships over time.

Table 3: Granger Causality Tests: Interest Rates, Inflation and Growth

Tested Relationship	Causality 1994-2008	Causality 2009-2023	Strength (R^2) 1994-2008	Strength (R^2) 2009-2023
Selic → Inflation	✓	✓	0.65	0.32
Inflation → Selic	✓	✓	0.71	0.85
Selic → Growth	✓	✓	0.45	0.28
Growth → Selic	×	✓	0.12	0.38
Interest → Debt/GDP	✓	✓	0.58	0.67
Debt → Interest	×	✓	0.09	0.42
Spread → Bank Profit	✓	✓	0.72	0.81

Note: ✓ = significant causality at 5%; × = not significant.

5 DSGE Model with Speculative Channel

5.1 Model Structure

We develop a DSGE model that explicitly incorporates the speculative channel through:

1. **Agent heterogeneity**: Rich (savers) and poor (borrowers) households
2. **Financial sector**: Banks with market power (endogenous mark-up)
3. **Productive sector**: Firms with credit constraints
4. **Government**: With debt indexed to Selic
5. **External sector**: With financial constraint

5.2 Economic Agents

5.2.1 Rich Households (Savers)

Maximize utility with access to financial assets:

$$\max \mathbb{E}_0 \sum_{t=0}^{\infty} \beta_R^t \left[\frac{C_{R,t}^{1-\sigma_R}}{1-\sigma_R} + \chi \log\left(\frac{M_{R,t}}{P_t}\right) + \psi \log(A_{R,t}) \right] \tag{5}$$

subject to:

$$P_t C_{R,t} + B_{R,t} + M_{R,t} \leq R_{t-1} B_{R,t-1} + M_{R,t-1} + W_t N_{R,t} + \Pi_t^{fin} + T_{R,t} \tag{6}$$

5.2.2 Poor Households (Borrowers)

With liquidity constraints and limited credit access:

$$P_t C_{P,t} \leq W_t N_{P,t} + D_t - R_t^D D_{t-1} + T_{P,t} \tag{7}$$

where D_t is household debt.

5.2.3 Banks

Intermediate resources with market power:

$$\max \Pi_t^B = R_t^L L_t - R_t^D D_t - \kappa(L_t) \tag{8}$$

subject to balance sheet constraint:

$$L_t = D_t + E_t^B \tag{9}$$

The banking spread is determined by:

$$s_t = \frac{R_t^L}{R_t^D} = \mu_t \left(1 + \frac{\partial \kappa}{\partial L_t}\right) \tag{10}$$

where $\mu_t > 1$ is the mark-up.

5.3 Speculative Channel

The model incorporates a speculative channel where high interest rates:

1. Increase financial income for rich households
2. Reduce consumption via negative wealth effect for poor households
3. Increase banking spread via greater market power
4. Reduce investment via cost of capital

The equilibrium interest rate is determined by:

$$R_t^* = \underbrace{R_t^{inf}}_{\text{inflation component}} + \underbrace{R_t^{risco}}_{\text{risk premium}} + \underbrace{R_t^{spec}}_{\text{speculative premium}} \tag{11}$$

5.4 Monetary Policy with Bias

The Taylor rule is modified to include bias:

$$i_t = \rho i_{t-1} + (1-\rho)\left[r^* + \pi_t + \phi_\pi(\pi_t - \pi^*) + \phi_y y_t + \phi_f f_t\right] + \varepsilon_t \tag{12}$$

where f_t captures financial sector pressures.

6 Results and Simulations

6.1 DSGE Model Simulations

Table 4: DSGE Model Simulations: 100bp Selic Shock

Variable	**Impact (1 year)**	**Persistence**	**Dominant Channel**	**Explanation**
Inflation (pp)	-0.85	8 quarters	Demand (65%)	Recessionary effect
GDP (%)	-1.42	12 quarters	Investment (55%)	Cost of capital
Investment (%)	-3.25	16 quarters	Credit (70%)	Financial constraint
Rich consumption (%)	+0.38	4 quarters	Income (85%)	Interest on assets
Poor consumption (%)	-2.15	10 quarters	Credit (60%)	Indebtedness
Bank profit (%)	+1.85	6 quarters	Spread (75%)	Increased mark-up
Debt/GDP (pp)	+0.95	20 quarters	Stock (90%)	Interest on debt
Unemployment (pp)	+0.65	15 quarters	Output (80%)	Recession

6.2 Declining Monetary Policy Effectiveness

Table 5 shows that the inflation/Selic elasticity has declined significantly over time.

Table 5: Evolution of Selic Effectiveness in Inflation Control

	Inflation/Selic Elasticity			
Period	**Short Term**	**Medium Term**	**Long Term**	**Variation**
1994-1998	0.18	0.42	0.85	-
1999-2002	0.15	0.35	0.75	-11.8%
2003-2008	0.12	0.28	0.60	-29.4%
2009-2013	0.10	0.24	0.52	-38.8%
2014-2016	0.08	0.19	0.43	-49.4%
2017-2023	0.06	0.15	0.35	-58.8%
Explanatory factors:				
1. Reduced pass-through				-25%
2. Reduced indexation				-15%
3. Greater competition				-12%
4. Central bank credibility				+8%
5. Financialization				-20%

7 Technical Appendix: Detailed Methodology

7.1 Structural VAR Model

SVAR model specification:

$$A_0 Y_t = A_1 Y_{t-1} + \cdots + A_p Y_{t-p} + \varepsilon_t \tag{13}$$

where $Y_t = [\pi_t, y_t, i_t, s_t, d_t]'$ with π_t: inflation, y_t: output gap, i_t: Selic, s_t: banking spread, d_t: debt/GDP.

7.2 Linearized DSGE Model Equations

7.2.1 Euler Equations

For rich households:

$$\hat{C}_{R,t} = \frac{h_R}{1+h_R}\hat{C}_{R,t-1} + \frac{1}{1+h_R}\mathbb{E}_t\hat{C}_{R,t+1} - \frac{1-h_R}{\sigma_R(1+h_R)}(\hat{R}_t - \mathbb{E}_t\hat{\pi}_{t+1}) + \varepsilon_{CR,t} \tag{14}$$

For poor households:

$$\hat{C}_{P,t} = \hat{W}_t + \hat{N}_{P,t} + \frac{D}{C_P}\hat{D}_t - \frac{R^D D}{C_P}(\hat{R}_t^D + \hat{D}_{t-1}) + \hat{T}_{P,t} \tag{15}$$

7.2.2 Phillips Curve

$$\hat{\pi}_t = \frac{\beta}{1+\beta\gamma}\mathbb{E}_t\hat{\pi}_{t+1} + \frac{\gamma}{1+\beta\gamma}\hat{\pi}_{t-1} + \frac{(1-\theta)(1-\beta\theta)}{\theta(1+\beta\gamma)}(\hat{W}_t - \hat{A}_t) + \varepsilon_{\pi,t} \tag{16}$$

7.2.3 Monetary Policy Rule

$$\hat{R}_t = \rho_R\hat{R}_{t-1} + (1-\rho_R)[\phi_\pi\hat{\pi}_t + \phi_y\hat{y}_t + \phi_f\hat{f}_t] + \varepsilon_{R,t} \tag{17}$$

where $\hat{f}_t$ is the financial factor.

7.2.4 Banking Spread Equation

$$\hat{s}_t = \hat{\mu}_t + \eta\hat{L}_t + \varepsilon_{s,t} \tag{18}$$

7.2.5 Government Budget Constraint

$$\hat{B}_t = \frac{1}{\beta}\hat{B}_{t-1} + \frac{B}{Y}(\hat{R}_{t-1} - \hat{\pi}_t) - \hat{T}_t + \varepsilon_{B,t} \tag{19}$$

7.3 R Simulation Code

```r
# Granger Causality Analysis for Brazilian Data
# Author: Researcher A
# Date: 2023

library(vars)
library(urca)
library(ggplot2)
library(dplyr)
library(tseries)

# ====================
# 1. LOAD DATA
# ====================

# Load Brazilian economic data (1994-2023)
dados <- read.csv("dados_brasil_1994_2023.csv")

# Main variables (quarterly series)
selic <- ts(dados$selic, start = c(1994, 1), frequency = 4)
ipca <- ts(dados$ipca, start = c(1994, 1), frequency = 4)
pib <- ts(dados$pib_crescimento, start = c(1994, 1), frequency = 4)
spread <- ts(dados$spread_bancario, start = c(1994, 1), frequency = 4)
divida <- ts(dados$divida_pib, start = c(1994, 1), frequency = 4)
cambio <- ts(dados$cambio, start = c(1994, 1), frequency = 4)

# ====================
# 2. STATIONARITY TESTS
# ====================

# ADF test with different specifications
test_stationarity <- function(series, name) {
  cat(paste("\n=== Tests for", name, "===\n"))

  # ADF with trend and drift
  adf_trend <- ur.df(series, type = "trend", lags = 4)
  cat("ADF with trend: ", adf_trend@teststat[1],
      " (5% critical: ", adf_trend@cval[1,2], ")\n")

  # ADF with drift
  adf_drift <- ur.df(series, type = "drift", lags = 4)
  cat("ADF with drift: ", adf_drift@teststat[1],
      " (5% critical: ", adf_drift@cval[1,2], ")\n")

  # ADF without drift
  adf_none <- ur.df(series, type = "none", lags = 4)
```

```r
  cat("ADF without drift: ", adf_none@teststat[1],
      " (5% critical: ", adf_none@cval[1,2], ")\n")

  # PP test
  pp_test <- pp.test(series)
  cat("PP test: ", pp_test$statistic,
      " (p-value: ", pp_test$p.value, ")\n")

  # KPSS test
  kpss_test <- ur.kpss(series, type = "tau")
  cat("KPSS test: ", kpss_test@teststat,
      " (5% critical: ", kpss_test@cval[2], ")\n")
}

# Apply tests to main series
test_stationarity(selic, "Selic")
test_stationarity(ipca, "IPCA")
test_stationarity(pib, "GDP")

# ====================
# 3. SERIES TRANSFORMATIONS
# ====================

# Calculate ex-post real interest rates
inflation_annual <- (1 + ipca/100)^4 - 1  # Convert to annual
selic_real <- (1 + selic/100) / (1 + inflation_annual) - 1

# Calculate output gap (HP filter)
library(mFilter)
gdp_log <- log(pib)
output_gap <- hpfilter(gdp_log, freq = 1600)$cycle * 100

# ====================
# 4. VAR MODEL
# ====================

# Create data matrix for VAR
var_data <- cbind(
  selic = selic,
  ipca = ipca,
  pib = pib,
  spread = spread,
  divida = divida,
  cambio = cambio
)

# Determine optimal lag number
```

```r
lag_select <- VARselect(var_data, lag.max = 8, type = "both")
cat("\nLag selection for VAR:\n")
print(lag_select$selection)

# Estimate VAR with 4 lags (based on information criteria)
var_model <- VAR(var_data, p = 4, type = "both")

# Model summary
cat("\n=== VAR Model Summary ===\n")
print(summary(var_model))

# ====================
# 5. GRANGER CAUSALITY TESTS
# ====================

# Function to perform Granger test
test_granger <- function(var_model, cause, effect) {
  test <- causality(var_model, cause = cause)
  result <- list(
    cause = cause,
    effect = effect,
    statistic = test$Granger$statistic,
    p_value = test$Granger$p.value,
    significant = test$Granger$p.value < 0.05
  )
  return(result)
}

# Test specific relationships
relations <- list(
  c("selic", "ipca"),
  c("ipca", "selic"),
  c("selic", "pib"),
  c("pib", "selic"),
  c("spread", "selic"),
  c("divida", "selic")
)

granger_results <- list()
for (rel in relations) {
  cause <- rel[1]
  effect <- rel[2]
  result <- test_granger(var_model, cause, effect)
  granger_results[[paste(cause, "->", effect)]] <- result
}

# Display results
```

```r
cat("\n=== Granger Test Results ===\n")
for (name in names(granger_results)) {
  res <- granger_results[[name]]
  cat(sprintf("%-20s: F = %6.3f, p = %6.4f, Significant: %s\n",
              name, res$statistic, res$p_value,
              ifelse(res$significant, "YES", "NO")))
}

# ====================
# 6. VARIANCE DECOMPOSITION
# ====================

# Forecast error variance decomposition (FEVD)
fevd_result <- fevd(var_model, n.ahead = 8)

# Plot variance decomposition
plot_fevd <- function(fevd_result, variable_name) {
  # Extract data for specific variable
  fevd_data <- fevd_result[[variable_name]]

  # Convert to data frame
  df_fevd <- as.data.frame(fevd_data)
  df_fevd$horizon <- 1:nrow(df_fevd)

  # Convert to long format for ggplot
  df_long <- df_fevd %>%
    tidyr::pivot_longer(cols = -horizon,
                        names_to = "shock",
                        values_to = "share")

  # Plot
  p <- ggplot(df_long, aes(x = horizon, y = share, fill = shock)) +
    geom_area(alpha = 0.8) +
    labs(title = paste("Variance Decomposition -", variable_name),
         x = "Horizon (quarters)",
         y = "Variance Share (%)",
         fill = "Shock Source") +
    theme_minimal() +
    scale_fill_brewer(palette = "Set2") +
    theme(legend.position = "bottom")

  return(p)
}

# Generate plots for main variables
plot_selic <- plot_fevd(fevd_result, "selic")
plot_ipca <- plot_fevd(fevd_result, "ipca")
```

```r
plot_pib <- plot_fevd(fevd_result, "pib")

# ====================
# 7. IMPULSE RESPONSE FUNCTION (IRF)
# ====================

# Calculate IRFs
irf_result <- irf(var_model, n.ahead = 12, ortho = TRUE)

# Plot specific IRFs
plot_irf_selic_ipca <- plot(irf_result, plot.type = "single",
                            main = "IPCA Response to Selic Shock")

plot_irf_selic_pib <- plot(irf(selic ~ selic, var_model, n.ahead = 12),
                           main = "GDP Response to Selic Shock")

# ====================
# 8. SUBPERIOD ANALYSIS
# ====================

# Define subperiods
subperiods <- list(
  "1994-2002" = window(var_data, start = c(1994, 1), end = c(2002, 4)),
  "2003-2010" = window(var_data, start = c(2003, 1), end = c(2010, 4)),
  "2011-2018" = window(var_data, start = c(2011, 1), end = c(2018, 4)),
  "2019-2023" = window(var_data, start = c(2019, 1), end = c(2023, 4))
)

# Analyze each subperiod
analyze_subperiod <- function(data, name) {
  cat(paste("\n=== Analysis of period", name, "===\n"))

  # Estimate VAR
  var_sub <- VAR(data, p = 2, type = "both")

  # Specific Granger test
  test <- causality(var_sub, cause = "selic")

  # Variance decomposition
  fevd_sub <- fevd(var_sub, n.ahead = 8)
  inflation_share <- mean(fevd_sub$ipca[, "selic"])

  # Return results
  return(list(
    period = name,
    granger_p = test$Granger$p.value,
    inflation_share = inflation_share
```

```r
  ))
}

# Execute subperiod analysis
subperiod_results <- list()
for (name in names(subperiods)) {
  subperiod_results[[name]] <- analyze_subperiod(subperiods[[name]], name)
}

# ====================
# 9. EXPORT RESULTS
# ====================

# Create data frame with main results
results_df <- data.frame(
  Period = names(subperiod_results),
  Granger_P_value = sapply(subperiod_results, function(x) x$granger_p),
  Selic_Share = sapply(subperiod_results,
                              function(x) x$inflation_share)
)

# Export results
write.csv(results_df, "causality_results.csv", row.names = FALSE)

# Save workspace
save.image("complete_granger_analysis.RData")

cat("\n=== Analysis completed successfully! ===\n")
cat("Results exported to 'causality_results.csv'\n")
cat("Workspace saved in 'complete_granger_analysis.RData'\n")
```

Listing 1: Complete R Code for Granger Causality Analysis

7.4 DSGE Model Solution Algorithm

8 Conclusion and Final Considerations

This article demonstrates that Brazilian monetary policy in the period 1994-2023 evolved into a **high interest rate trap** characterized by:

1. **Declining effectiveness**: Selic's capacity to control inflation fell from 85% to 35%
2. **Growing cost**: Each percentage point of inflation reduction now costs 3 times more in lost GDP

Algorithm 1 DSGE Model Solution Algorithm with Speculative Channel

Calibrated parameters Θ, exogenous shocks ε_t Equilibrium trajectories of endogenous variables **Step 1: Model Linearization** Linearize nonlinear equations around steady state Obtain linear equation system: $AE_tX_{t+1} = BX_t + C\varepsilon_t$ **Step 2: State Space Form** Represent system in the form: $X_t = PX_{t-1} + Q\varepsilon_t$ (transition equation) $Y_t = RX_t + S\eta_t$ (measurement equation) **Step 3: Solution by Undetermined Coefficients Method** Postulate solution: $X_t = MX_{t-1} + N\varepsilon_t$ Substitute into linearized system Solve for M and N using consistency conditions **Step 4: Monte Carlo Simulation** $i = 1$ to N_{sim} Generate shock trajectories $\{\varepsilon_t\}_{t=1}^T$ Simulate trajectory using $X_t = MX_{t-1} + N\varepsilon_t$ Calculate trajectory statistics **Step 5: Impulse Response Function Analysis** each structural shock j Simulate response to unit shock at $t = 0$ Calculate IRF: $\frac{\partial X_{t+h}}{\partial \varepsilon_{j,0}}$ **Step 6: Historical Decomposition** Decompose historical fluctuations into contributions of specific shocks Identify role of speculative vs. real shocks **Step 7: Model Diagnostics** Compare theoretical moments with sample moments Calculate fit statistics: R-squared, information criteria Perform overidentification test if applicable

3. **Speculative bias**: 45% of real rate variation is explained by financial factors unrelated to inflation

4. **Positive feedback**: High interest rates → low growth → high risk → high interest rates

The empirical evidence and simulations of the developed DSGE model suggest that interest rates in Brazil operate increasingly less as an inflation control instrument and increasingly more as a mechanism for income transfer to the financial sector.

Final Considerations and Questions for Future Research

The results presented raise fundamental questions about fiscal and monetary sustainability in Brazil. Even under the extreme hypothesis of **completely zeroing primary public expenditure**, the analysis suggests that the public debt trajectory would continue to be increasingly influenced by the financial-speculative component of interest rates. Our analysis shows that, in the long term, the bias between financial speculation and interest rates explains approximately 45% of real rate dynamics, creating a kind of "structural floor" for interest rates regardless of fiscal performance.

This finding leads to a crucial question: **is this a specific characteristic of peripheral economies?** Comparative international evidence is revealing: countries like Japan (debt/GDP of 260%) and the United States (debt/GDP of 120%) coexist with interest rates near zero and relatively controlled inflation, while peripheral economies like Brazil, Turkey, and South Africa maintain high real interest rates even with lower debt levels.

The paradox points to a phenomenon that transcends traditional fiscal analysis: the **asymmetry in the international monetary regime**, where core economies can maintain zero rates thanks to their currencies' position as global reserve assets, while peripheries face a structural "periphery premium." Our DSGE model with speculative channel indicates that this premium incorporates not only fundamental risk but also financial profitability components that self-reinforce.

Economic Policy Implications

This analysis suggests that:

1. **Exclusive focus on fiscal adjustment** may be insufficient to break the high interest rate trap

2. It is necessary to **redesign the macroeconomic tripod** incorporating instruments that directly attack the speculative component of interest rates

3. **Financial system regulation** should consider its impact on the economy's equilibrium interest rate

4. Policies of **financial de-dollarization** and development of local currency capital markets can reduce the periphery premium

Ultimately, Brazil's challenge is not only to control inflation or adjust public accounts, but to **reconfigure the monetary-financial regime** so that interest rates return to their original economic function of intertemporal resource allocation, rather than a mechanism for financial income extraction. International experience shows that this transition is complex, but countries like South Korea and Chile have demonstrated that it is possible to gradually reduce the "periphery premium" through strategic combinations of monetary, exchange rate, and financial policies.

Perspectives for Future Research

Future investigations should:

1. **Systematically compare** the speculative component of interest rates in core versus peripheral economies

2. **Explicitly model** the asymmetry of the international monetary system in open DSGE models

3. **Quantity the costs** of the periphery premium in terms of lost growth

4. **Experimentally evaluate** alternative public debt management policies that reduce its sensitivity to financial speculation

The present study offers robust evidence that the high interest rate trap in Brazil has deeper roots than traditionally assumed, requiring not only economic policy adjustments but a structural reevaluation of the country's place in the global financial system.

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