

**THE LEGACY OF THE REAL PLAN:
A Monetary Stabilization Without Economic Growth?
A Keynesian Agenda to Brazilian Economy**

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“The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes”

John Maynard Keynes

1. Introduction

After many frustrated attempts at stabilization policies in Brazil during the 1980s and 1990s¹, the Real Plan is considered the most successful plan of economic stabilization that Brazilian economy had concerning its prime objective: the reduction and control of inflation rate. The figures about inflation rate show the success of the Real Plan: in June 1994, one month before the introduction of *real* as legal tender, the annual inflation rate was around 5,150.00%, while in December 2001 the inflation rate in the last twelve months was, approximately, 10.0%².

Although the price stabilization represents the incontestable success of the Real Plan, it fails when we look at the performance of Brazilian economic activity throughout the period of *real*: from 1994 to 2001, the average growth rate of GDP was only 2.8% per year, very similar to the average growth rate of GDP of Brazilian economy in the 1980s – by the way, this decade was considered the “lost decade” by Brazilian economists – that was 2.9% per year³.

The poor performance of GDP during the period of *real* can be explained by the fact that the Real Plan was conceived as a stabilization plan without proposing any strategy for medium and long run development. At this point, it is important to say that, according to us, the stability of the currency makes sense *only* if it aims at developing the production, circulation and distribution of the economic activity. In other words, the price stability cannot be considered the final step of the economic stabilization; on the contrary, the price stability is *just* a condition to develop the economic activity in the medium and long run.

The paper has two objectives. First, it aims at analysing the reasons of successful – that is to say, the reduction and control of inflation rate – and unsuccessful – it means the disequilibria of fiscal budget and balance of payments of Brazilian economy – of the Real Plan. In this context, the paper shows that the Brazilian stabilization policy, during the period of *real*, resulted in increasing the fiscal imbalances and the balance of payments deficits. These disequilibria, as a consequence, impose some constraints concerning the recovery of Brazilian economic growth in the medium and long run. Second, it presents a Keynesian Agenda able to achieve inflation under control and economic growth in Brazil for the next years. Going in this direction, the paper is divided in three sections. It begins in section 2 by bringing back the logic and

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¹ Cruzado Plan, in 1986, Bresser Plan, in 1987, Verão Plan, in 1989, and Collor Plan, in 1990, are some example of these frustrations.

² These inflation rates were calculated according to IGP-DI/FGV. See Table 1.

³ These average growth rates of GDP were calculated according to Table 2.

theoretical framework of the Real Plan. Section 3 shows the management, by monetary authorities, of economic policy during the period of *real* and its impact on real variables, before and after the Brazilian currency crisis, in January 1999. The last section presents some policy recommendations – let us call these policy recommendations as *Keynesian economic growth targeting* – able to restore the macroeconomic balances, indispensable to maintain the inflation under control and, at the same, achieve the economic growth and social development of Brazilian economy for the next years.

2. The logic and theoretical framework of the Real Plan

The Real Plan, developed and implemented by the former Minister of Finance of Itamar Franco government and the current President of Brazil, Fernando Henrique Cardoso, diagnosed that the Brazilian inflation rate was related to the public deficit and the general indexation of the nominal contracts of the economy⁴. Considering this diagnosis, the Real Plan aimed to create a new framework for economic management to change (i) the style of fiscal policy and (ii) the monetary regime. Thus, the economic stabilization was developed in three steps: first, the Government adjusted the short-term fiscal deficit; secondly, the monetary authorities introduced a price index to stabilize the relative prices of the economy; and finally, the monetary reform was implemented – *real* as legal tender.

What was the short-term fiscal adjustment? In a context in which (i) the privatisation program was extinguished by Itamar Franco government and (ii) the constitutional reforms were not approved by representatives in the National Congress⁵, the monetary authorities did not have conditions to operate the structural fiscal reforms. Then, they decided to be very “original”: a short-term plan of fiscal austerity was implemented – that is to say, fiscal measures were adopted to aim at cutting expenditures – and, at the same time, the Government created a tax over financial transactions to increase the fiscal revenue. At the end of 1993, this short-term fiscal adjustment, called *Fundo de Estabilização Fiscal*, was approved in the National Congress. As a consequence, in June 1994, one month before the monetary reform, the primary fiscal surplus was equivalent of 2.6% of GDP, as well as the nominal public deficit – the overall result of operational and primary fiscal of Union, States and Municipalities and the public enterprises’ surplus – was balanced.

⁴ On one hand, it is important to say that the main cause of the public deficit was its financial component due to the necessity of paying high interest rates to economic agents as a condition of postponing the debt public. In other words, it means that the primary result of public sector – the difference between the current expenditures of Union, States and Municipalities and the tax revenues of them – was balanced. On the other hand, the idea of relating inflation with the general indexation of nominal contracts of the economy was elaborated and discussed in the 1980s, as well as it basically supported the Plano Cruzado and Plano Bresser. According to this idea, if there is not a price shock in the economy – such as, demand push or supply cost – the current inflation is determined *only* by the past inflation.

⁵ By the way, it is important to say that the privatisation and deregulation programs and the institutional reforms, such as administrative and Social Security, would be the strategy of the Fernando Henrique Cardoso government.

The second step of the Real Plan was characterized by the introduction, in February 1994, of the *Unidade Real de Valor* (URV) as standard of monetary value, while the *cruzeiro real* continued to be used as legal tender. The URV, an average index of some representative inflation indexes of Brazil – IPC/FIPE, IPCA/IBGE and IGP-M/FGV – aimed to push the economic system to find a sustainable price set, essential to remove the indexation process of all nominal contracts of the economy. It is important to emphasize that the success of this step of the Real Plan occurred because, contrarily other Brazilian plans of economic stabilization, the URV was introduced in a context in which the market mechanisms were totally respected.

The last step of the Real Plan made, in July 1994, the URV as legal tender. In other words, the monetary reform was introduced: the *real* replaced the *cruzeiro novo* as medium of exchange, unit of account, standard of deferred payment and store of value. Moreover, the Government established two nominal anchors: monetary and exchange rate. Focusing on the monetary anchor, the monetary authorities established some targets to expand the money supply, more specifically to control the high-powered money. The exchange rate anchor was characterized by the following systematic: the Central Bank of Brazil would control the maximum price of the exchange rate – one *real* could not be superior to one U.S. dollar –, while the exchange rate market would establish the buying price of the exchange rate. To sum up, the exchange rate anchor would be used to reduce and control the inflation rate, while the strategy of monetary anchor would be to contain the impetus of the economy. As the next section shows, the monetary anchor, after the Mexican crisis, would be also used to finance external imbalances.

3. The announcement of a devaluation process?

As is well-known, the Real Plan was successful in bringing quickly inflation down⁶ and, as a result, in the short run the demand was expanded – basically durable-goods. Tables 1 and 2 show the performance of inflation rate and growth rate of GDP, *ex ante* and *ex post* the Real Plan. According to Table 1, there is no doubt about the success of the Real Plan: from July 1994 to December 2001 the inflation rate was 175.34%; it represents an average inflation rate, during this period, of 1.13% per month. This figure is very representative when it is compared with the average inflation rate during the six months before the *real* that was 43.2% per month. Considering Table 2, in the beginning of the Real Plan, more specifically in 1994 and 1995, the average growth rate of GDP was 5.0% per year, while, between 1990 and 1993, the average growth rate of GDP was only 1.3% per year.

The conjunction of bringing inflation down and provoking demand expansion, at least in the short run, forced the Government to slow down the economy, by controlling domestic credit and increasing real interest rate. The consequence of a high real interest rate was the entrance of short-term capital inflows⁷. Thus, the nominal exchange rate became overvalued. Table 5 shows the evolution of nominal exchange rate during the period of *real*. For instance, according to this table, the appreciation of the nominal exchange rate, in the second half of 1994, was around 15.5%. By the way, the appreciation of *real* would persist until January 1999.

The expansion of demand and the overvalued exchange rate brought, immediately, some difficulties to Brazilian external sector: the trade balance declined and the current account deficit of the balance of payments increased in nominal

⁶ It is important to emphasize that three motives explain the success of reducing and controlling inflation rate: the desindexation process, the exchange rate anchor and the trade policy of tariffs reductions.

⁷ By the way, this would be the strategy of the Government to finance trade balance and current account deficits.

terms⁸. The figures of the trade balance show that, between January and June of 1994, the surplus was, approximately, US\$ 6.9 billion, while between July and December of 1994 the trade balance surplus declined to US\$ 3.5 billion – a drop of almost 51.0%. Table 3 presents the evolution of the trade balance, before and after the period of *real*. According to this table, the trade balance deterioration, during the period post *real*, is incontestable: between 1990 and 1994 the trade balance accumulated a surplus around US\$ 64.0 billion, while during the period 1995/2001 there was a deficit in the trade balance around US\$ 21.6 billion.

Despite the fact that the trade balance was drastically reversed, the monetary authorities argued that the net short-term capital inflows was financing the trade deficit and, as a result, the foreign reserves were stabilized⁹.

At that time, some critics of the exchange rate regime, such as the former Minister of Finance, Antonio Delfim Netto, the former President of the Central Bank of Brazil, Affonso Celso Pastore, and Maria da Conceição Tavares, among others, used to argue that the appreciation of the exchange rate would create an unsolved problem to the Real Plan, because the current account deficits would not be sustainable in the medium and long run. However, the monetary authorities used to reply their critics arguing that the appreciation of the exchange rate was a “natural” result of dropping inflation rate. In addition, they supported the idea that the current account deficits could be financed by “foreign saving”¹⁰. In Table 4, the figures of the current account, during the period of *real*, show that the critics of the exchange rate regime were absolutely right concerning this debate. According to this table, from 1994 to 1995 the current account deficit increased 958.8%. Moreover, Table 4 shows that the current account deficit continued to increase until 1998.

The Mexican crisis, 1994/1995, indicated that the consequence of the appreciation of the exchange rate would provoke, sooner or later, a currency crisis in Brazil. Due to the “Tequila” effect, the foreign investments declined and, as a result, the foreign reserves dropped. At that time, the critics of the Real Plan claimed that the devaluation of the exchange rate was the solution to restore the equilibrium of the balance of payments. However, the monetary authorities, worried that the devaluation of the exchange rate could cause an inflationary shock and, as a consequence, bring back the indexation process, did not devalue the exchange rate. But, they decided to introduce a crawling peg system to operate the “flexibility” of the exchange rate¹¹. Moreover, they

⁸ It is important to emphasize that the critical situation of the current account deficit was during the Russia crisis, in 1998: at that time, it was almost 4.5% of GDP.

⁹ In the view of the Government, the imbalance of the balance of payments would be problematic only *if* the relation between current account and GDP was superior to 3.0%.

¹⁰ In the beginning of the Real Plan the current account deficit was financed by “foreign saving”. However, the same did not occur in the years 1997 and 1998: according to Table 4, during these years, the overall current account deficit was around US\$ 64.5 billion, while the capital inflows, for the same period, was around US\$ 46.6 billion; that is to say, the capital inflows financed *only* 72.2% of the current account deficit during 1997 and 1998.

¹¹ By the way, this system would be abandoned in January 1999.

moved tariffs upwards for some specific sectors¹² and increased the nominal interest rate to aim at bringing back the international capital, especially portfolio capital. Table 6 shows the evolution of nominal interest rate post *real*. According to Table 6, between December 1994 and March 1995 the nominal interest rate increased from 56.4% per year to 65.0% per year¹³.

The result of an orthodox monetary policy was the recovery of foreign reserves in the end of 1995, as Table 7 shows: in December 1995 the foreign reserves were around US\$ 50.0 billion, while in June 1995 they were around US\$ 31.0 billion – an increasing of 61.2%.

These measures were efficient to avoid a speculative attack to *real* and, as a consequence, the Brazilian currency crisis did not occur. However, the consequence of them was the slow down of the growth rate: the average growth rate of GDP in the years 1995 and 1996 dropped to 3.4%, according to the figures in Table 2.

Moreover, on one hand, the increasing in the nominal interest rate produced a strong fiscal imbalance and the growth of public debt. Table 8, for instance, shows the relation between net public debt and GDP. According to this table, the relation between net public debt and GDP increased 85.9%, during the period 1994/2001.

On the other hand, the policy of high nominal interest rate brought some difficulties to firms in terms of financial fragilities and, as a result, the financial system presented a serious crisis. At that time, to avoid the crisis of financial system, characterized by its fragility, the monetary authorities decided to help this sector by launching the PROER¹⁴.

Up to the end of 1996, the two basic pillars of the Real Plan, overvalued exchange rate and high interest rate, were aggravating the macroeconomic instability – the trade balance and the current account deficits became worse, the public debt went up and the economic activity went down. Thus, the uncertainty about the future of the Real Plan became part of the economic agents' expectations. However, the elasticity of foreign reserves assured the monetary authorities to point out that “the world is in a bad situation, but the Brazilian economy is in a good shape”.

The East Asian crisis, in the second half of 1997, nevertheless, did not avoid a speculative attack to *real*, showing, at that time, the external vulnerability of Brazilian economy. As a consequence of the speculative attack, the capital inflows moved way out and the foreign reserves dropped. According to Table 7, the foreign reserves between June and December of 1997 declined almost 10.0%.

The reaction of the Government was quick and, once again, conservative: the nominal interest rate went up – as shown in Table 6, Tban, the basic interest rate of economy, increased from 24.5% per year, in October of 1997, to 46.5% per year, in November of the same year; and the current expenditures of the Government were cut. These orthodox measures to avoid the Brazilian currency crisis, brought some “confidence” to economic agents. It is important to say that, at that time, the state of confidence on the Real Plan was “recovered”, because the volume of foreign reserves was very comfortable to fight the speculative attack.

In the third quarter of 1998, however, the speculative attack on the *real*, a mix of a contagious crisis arising from Russia crisis and the perception by market operators that Brazil had serious macroeconomic imbalances, would show that foreign reserve was not considered a shelter against any attempted speculative attack concerning Brazilian currency. Given

¹² As is well-known, in the beginning of the Real Plan tariffs reductions were used as a weapon against the domestic price-makers.

¹³ The East Asian crisis and Russia crisis would affect strongly the nominal interest rate, as Table 6 shows: between September and December of 1997 the nominal interest rate increased from 23.6% per year to 43.0% per year, and from September to December 1998 the annual nominal interest rate increased from 28.0% to 42.2%.

¹⁴ The PROER aimed at stimulating and restructuring the National Financial System. It was launched to avoid the contagious crisis caused by the microeconomic vulnerability of three important banks: Bamerindus, Economico and Nacional.

that 1998 was politically important to the Government, due to the presidential election, the monetary authorities, despite the pressures to devalue the *real*, insisted in adopting another short-term orthodox economic policy: once again, the expenditures were cut, taxes increased and the Central Bank of Brazil pushed the nominal interest rate to the sky¹⁵. At that time, however, different from what had happened after the Mexican crisis and the East Asian crisis, the orthodox policy did not get to persuade the economic agents to have confidence on the Real Plan. Then, under macroeconomic imbalances and uncertainties about the future of the Real Plan, the capital inflows went out and the foreign reserves quickly dropped: between September and December 1998, the foreign reserves declined around 38.0%, as shown in Table 7. The solution found at that time was an agreement with International Monetary Fund (IMF) in which the Brazilian economy would receive a financial support from IMF – it was around US\$ 40.0 billion. To assure the IMF resources, Brazil compromised in (i) adopting fiscal and monetary austerity policies and (ii) accepting the financial and trade liberalizations.

Despite the IMF financial assistance package, the financial markets did not restore their confidence on the Real Plan and, as a result, Brazil was not able to defend its currency. Thus, in January 1999, the Fernando Henrique Cardoso government, finally, changed the exchange rate regime: the “fix” exchange rate regime, main pillar of the Real Plan, became a floating buoy.

The change of the exchange rate regime brought some additional difficulties to Brazilian economy. First, as usually occur after fixing a nominal price during a long period, the devaluation of the exchange rate created an overshooting process: in the beginning of January the exchange rate was around R\$ 1.2 per dollar, and in March the exchange rate jumped to R\$ 2.1. The consequence of the exchange rate shock was the increasing of inflation in 1999: the inflation rate that was 1.7% in 1998 jumped to 19.9% in 1999, as shown in Table 1. Secondly, the devaluation of the exchange rate forced the Government to abandon the agreement with IMF¹⁶.

Considering that short-term scenario, the scepticism became part of Brazilian economy. Then, apocalyptic economists, entrepreneurs and politicians expected (i) an explosive inflation, very similar to the inflation rates reached before the Real Plan, and (ii) a dramatic recession and, as a result, an increasing in the unemployment rate. In other words, the scenario imposed a rupture of economic agents’ expectations showing that the state of confidence on the economic stabilization was abandoned.

However, few months after the economic turbulence caused by the devaluation of the exchange rate, the Brazilian economy, surprisingly, would show signals of price stabilization and recovery. Thus, from July to December of 1999 and during the year of 2000, the figures improved impressively: in 1999 and 2000 the GDP increased 0.8% and 4.2%, respectively – specifically in 2000, there was positive growth in all components of demand; the inflation rate in 2000 rose by a cumulative 6.0 %; the exchange rate was stabilized; the trade balance and the current account deficits declined; the foreign reserves stopped to oscillate; and the medium and long-term investments rose. As a consequence of the success of Brazilian economy’s performance in 1999 and, especially, in 2000, Fernando Henrique Cardoso called their critics as “*neo-bobos*”. Thus, the monetary authorities argued that the Brazilian economy, due to its macroeconomic fundamentals, was entering a new prosperity cycle characterized by low inflation and average growth rate of GDP around 5.0% per year.

In 2001, due to a number of international shocks, such as the slowdown and recession in the U.S. economy – particularly after the terrorism attack in New York, on September 11 –, the stagnation of Japanese economy and the

¹⁵ According to Table 6, the annual nominal interest rate increased from 29.7%, in June 1998, to 42.2%, in December 1998.

¹⁶ Of course, months later the agreement with IMF would be renegotiated in other terms.

Turkish and Argentine crises, the Brazilian economy deteriorated: the economic growth was 1.5%¹⁷, down from 4.2% in 2000, and the inflation rate was 10.4%. As a result of these figures, the economic outlook for the next years grew increasingly uncertain. Taking into consideration this idea, a question arises: Does Brazilian economy have consistent macroeconomic fundamentals, as the monetary authorities has argued, to assure inflation under control and promote economic growth and social development in the medium and long run?

4. How do expand effective demand in a context of macroeconomic inconsistency?

According to the previous section, the Real Plan has two legacies: first, it got to eliminate the inflation rate that prevailed decades before; secondly, the “exchange rate trap” brought a short run macroeconomic inconsistency, characterized by fiscal and external imbalances. In addressing the last one, the overvalued exchange rate and the trade liberalization, in the beginning of the 1990s, guided Brazilian economy to have, during the Real Plan, a strong current account deficit. These were financed by short-term international capital inflows, basically portfolio capital, due to the high Brazilian nominal interest rates. The result of this strategy was the increasing of both fiscal deficit and the net public debt.

As noted earlier, according to the Government, the second legacy of the Real Plan – that is to say, the short-term macroeconomic inconsistency – cannot be considered a problem, because it did not create obstacles to Brazilian economy, after the devaluation of the exchange rate, to achieve a stable performance. According to the Central Bank of Brazil, despite the deteriorating of Brazilian economy in 2001, the recovery of Brazilian economy can be observed by the fact that the trade balance and the current account deficits declined, the primary surplus of public sector increased, the net public debt remained unchanged, the privatisation program continued, the GDP increased, in the last three years, 6.9% and the unemployment rate went down. Moreover, the Government understands that the monetary regime of inflation target, adopted in June 1999, brought back to the economic agents the confidence on the future of *real*¹⁸.

In this new context, in which monetary policy aims at controlling inflation rate and the exchange rate aims at equilibrating the balance of payments, the Government has been very enthusiastic and has criticized all who has a different opinion about the perspectives of Brazilian economy for the next years.

Bringing back the question formulated in the last paragraph of the previous section, is the Brazilian economy entering a new prosperity cycle and the current macroeconomic inconsistency does not matter? According to the Government, the answer is absolutely positive. In our point of view, however, it is early to agree with the Government position. Let us present our “*neo-bobo*” arguments.

Focusing on the external imbalance, despite the fact that, in the last two years, the balance of payments was improved, the Brazilian economy still has external vulnerability for the following reasons: (i) considering that in the last years of the 1990s the current account deficits plus amortizations represented around US\$ 50.0 billion per year, as well as assuming that the past is a guide for the future, the Brazilian economy needs, in the next years, a substantial volume of “foreign saving” to equilibrate the balance of payments¹⁹; (ii) the mega trade surplus expected by the monetary authorities after the devaluation of the exchange rate perhaps will not be reached, at least in the short run, due to the fact that the

¹⁷ Preliminary estimate.

¹⁸ Under the inflation target regime, the Central Bank of Brazil operates the monetary policy *only* to keep inflation low and under control, while the levels of output and unemployment are determined on the supply-side of the economy.

international prices of the main products that Brazil exports are going down, while the international prices of principal commodities that Brazil imports are going up²⁰; (iii) the degree of trade openness, in the 1990s, made the Brazilian economy very dependent of import inputs and, as a consequence, the expansion of industrial production push imports to go up; (iv) the international investment has entered in Brazil during the last years is basically related to non-tradable goods. Thus, in the future, the deficit service balance will increase due to the outflows of royalties, profits and dividends, among others; and (v) the consequences of the U.S. recession, the fragility of the *euro*, the deflation and recession in Japan and, recently, the devaluation of Argentine *peso* will bring additional difficulties to Brazilian exports.

Looking at the imbalance of fiscal sector, even the Government decides to implement another short-term fiscal policy – such as to squeeze the current expenditures and to increase taxes – the current real interest rate compromises the equilibrium of public sector. Moreover, as the monetary policy still has been used to bring short-term international capital, the difficulties to equilibrate the public sector will increase.

Considering this context, of course, there are strong restrictions to recover the growth rate path of Brazilian economy.

At this point, knowing that the complexity of Brazilian economy restricts the possibility of operating short-term economic policy, we believe that the adoption of an alternative economic policy, called for us as *Keynesian economic growth targeting*, has condition to stimulate the economic growth of GDP and the social development without compromising the monetary stabilization²¹. Thus, the focus on economic policy must be concentrated in reversing the short-term macroeconomic constrains, fiscal and external.

For us, the external imbalance can be reversed by adopting the following points: (i) the government has to implement a fiscal policy to subsidize the exports and a financial policy to incentive the exports – for example, the BNDES could open credit line to exports; (ii) the Central Bank of Brazil has to manage the exchange rate every time speculators want to manipulate the market – in other words, the exchange rate regime must be similar to a dirty floating system; (iii) the Government and the private sector have to operate an industrial policy to aim at (a) inserting the Brazilian economy in the international scenario in a context in which it can incorporate the technological and structural revolutions that are occurring in the world and (b) bringing the international investments that can add aggregate value to export – that is to say, international investments that produce tradable goods²²; and (iv) the government has to revise the trade policy, in the sense of reducing the tariffs related to import of capital goods and increasing the tariffs associated to import of durable goods.

Aiming at the equilibrium of public sector, it is necessary more than an adjective solution. Going in this direction, to have fiscal austerity of Union, States and Municipalities, to fight the fiscal evasion, to operate a tax reform²³, to implement the Social Security reform and to operate a privatisation program²⁴ are relevant but they are not enough. If we

¹⁹ At this point, it is difficult to expect that, in a world of reducing growth rate, due to economic problems in Japan, the U.S. economy and Argentina, capital inflows, both of risk and portfolio, will maintain its past trend.

²⁰ For instance, the current international oil price is around US\$ 21.0 per barrel, while in the beginning of 1999 it was around US\$ 12.0 per barrel.

²¹ Ferrari F^o, among others, explores this point in an article that was written in 1999.

²² Concerning the industrial policy, it would be important to create some mechanisms to legalize, through fiscal incentives to micro, small and medium enterprises, the informal sector. Thus, it could also be related to international trade.

²³ By the way, the project of tax reform that is in National Congress could be an interesting proposal of tax reform.

²⁴ It is necessary to emphasize that the privatisation program is an efficient mechanism to eliminate the economic and social idiosyncracies of the State. However, to reduce the stock of public debt by using the revenue of privatisation program does not solve the public deficit, basically because the annual revenues of privatisation is less than the nominal interest rate that the Government has to pay for postponing its debt. Besides, the Brazilian experience showed that the privatisation is so peculiar: first, the state monopoly is

want to balance the public sector, it is necessary to postpone the due date of public debt. Thus, we think that current taxes over financial transactions could be more efficient – that is to say, they can be a strong weapon to postpone the due date of public debt. The taxes for short-term financial applications could increase, while the taxes for long-term financial applications could decrease. The result of this tax policy over capital gains would be the reduction of the interest rate, basically because the liquidity preference of the economic agents would change.

These are, according to us, the economic recommendations that could be part of a National Agenda for the next presidential election. To sum up, an economic stabilization cannot neglect fiscal, monetary, exchange rate and trade policies as instruments of stabilizing prices and expanding effective demand. To finalize, instead of having an inflation target regime, what we need is a *Keynesian economic growth targeting*. This is one of the principal legacies of Keynes' ideas that the developed countries have adopted and Brazil cannot neglect.

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TABLE 1
Annual Inflation Rate

Period	IGP-DI/FGV
1990	1,476.7
1991	480.2
1992	1,157.8
1993	2,708.2
1994	1,093.9
1995	14.8
1996	9.3
1997	7.5
1998	1.7
1999	19.9
2000	9.8
2001	10.4

Source: Fundação Getúlio Vargas.

Note: From January to June, 1994, the inflation rate was 763.2%, while in the second semester of 1994 the inflation rate was 38.1%.

TABLE 2
GDP Growth Rate

Period	%
1990	(4.3)
1991	1.0
1992	(0.5)
1993	4.9
1994	5.8
1995	4.2
1996	2.7
1997	3.6
1998	(0.1)
1999	0.8
2000	4.2
2001	1.5 ¹

Source: Banco Central do Brasil.

(1) Preliminary estimate.

TABLE 3
Trade Balance, US\$ Billion

Period	Exports (X)	Imports (M)	X – M
1990	31.4	20.7	10.7
1991	31.6	21.0	10.6
1992	35.8	20.5	15.3
1993	38.6	25.2	13.4
1994	43.5	33.1	10.4
1995	46.5	49.8	(3.3)
1996	47.7	53.3	(5.6)
1997	53.0	59.8	(6.8)
1998	51.1	57.7	(6.6)
1999	48.0	49.2	(1.2)
2000	55.1	55.8	(0.7)
2001	58.2	55.6	2.6

Source: Banco Central do Brasil.

TABLE 4
Balance of Payments (BP) Post *Real*, US\$ Billion

Period	Trade Balance	Current Account	Capital Inflows	Net Investment	Overall BP
1994	10.4	(1.7)	14.3	7.3	12.9
1995	(3.3)	(18.0)	29.3	4.7	13.5
1996	(5.6)	(23.1)	33.9	15.5	9.0
1997	(6.8)	(30.9)	25.9	20.7	(7.8)
1998	(6.6)	(33.6)	16.3	20.5	(17.3)
1999	(1.2)	(24.4)	13.5	30.1	(10.7)
2000	(0.7)	(24.7)	22.3	29.6	(2.6)
2001	2.6	(23.1)	26.8	22.6	3.3

Source: Banco Central do Brasil.

TABLE 5
Average Nominal Exchange Rate Post *Real*

Period	Exchange Rate
July-September/1994	0.8975

October-December/1994	0.8461
January-March/1995	0.8609
April-June/1995	0.9098
July-September/1995	0.9416
October-December/1995	0.9637
January-March/1996	0.9808
April-June/1996	0.9955
July-September/ 1996	1.0132
October-December/1996	1.0303
January-March/1997	1.0495
April-June/1997	1.0669
July-September/1997	1.0873
October-December/1997	1.1066
January-March/1998	1.1270
April-June/1998	1.1482
July-September/1998	1.1711
October-December/1998	1.1956
January-March/1999	1.7690
April-June/1999	1.7137
July-September/1999	1.8676
October-December/1999	1.9113
January-March/2000	1.7738
April-June/2000	1.8030
July-September/2000	1.8149
October-December/2000	1.9290
January-March/2001	2.0152
April-June/2001	2.2885
July-September/2001	2.4883
October-December/2001	2.5530

Source: NAPE/CPGE/UFRGS.

TABLE 6
Annual Nominal Interest Rate

Period	%¹
September/1994	57.1
December/1994	56.4
March/1995	65.0
June/1995	60.8
September/1995	48.1
December/1995	38.9
March/1996	30.2
June/1996	26.5
September/1996	25.4
December/1996	25.4
March/1997	23.9
June/1997	23.6
September/1997	23.6
December/1997	43.0
March/1998	38.0
June/1998	29.7
September/1998	28.0
December/1998	42.2

March/1999	41.0
June/1999	23.5
September/1999	19.5
December/1999	17.5
March/2000	17.5
June/2000	17.5
September/2000	16.5
December/2000	15.75
March/2001	15.75
June/2001	18.25
September/2001	19.0
December/2001	19.0

Source: NAPE/CPGE/UFRGS.

(1) From July/1994 to September/1996 and from June/1999 to December/1999 the nominal interest rate was Over/Selic, while from December/1996 to March /1999 the nominal interest rate was Tban.

TABLE 7
Net Foreign Reserves, US\$ Billion

Period	Cash¹
March/1994	32.3
June/1994	40.1
September/1994	40.9
December/1994	36.5
March/1995	31.5
June/1995	31.5
September/1995	46.6
December/1995	50.5
March/1996	54.3
June/1996	58.6
September/1996	57.4
December/1996	59.0
March/1997	58.1
June/1997	56.8
September/1997	61.2
December/1997	51.4
March/1998	67.8
June/1998	70.1
September/1998	45.0
December/1998	43.6
March/1999	32.9
June/1999	40.4
September/1999	41.9
December/1999	35.6
March/2000	38.4
June/2000	27.6
September/2000	31.2
December/2000	32.9
March/2001	34.4
June/2001	37.3
September/2001	40.0
December/2001	35.8

Source: Banco Central do Brasil.

(1) Operational concept, including disposable assets.

TABLE 8
Net Public Debt/GDP

Period	Ratio
1990	36.7
1991	39.9
1992	38.2
1993	32.8
1994	28.5
1995	31.6
1996	33.3
1997	34.5
1998	42.4
1999	46.9
2000	49.5
2001	53.3

Source: Banco Central do Brasil.