

# THE LEGACY OF THE REAL PLAN: A MONETARY STABILIZATION WITHOUT ECONOMIC GROWTH?\*

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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

## ABSTRACT

*The objectives of this article are three. In the first place, it presents the logic and theoretical framework of the Real Plan. In the second place, it shows that the stabilization policy during the Real Plan created some disequilibria – that is to say, fiscal deficit and balance of payments deficit – that impose constraints concerning the recovery of Brazilian economic growth. The third objective is to present an alternative economic strategy – let us call as economic growth target – to restore the macroeconomic balances and, as a result, to assure the economic growth of Brazilian economy.*

*Key words: stabilization policy, real plan, economic growth target.*

## 1 INTRODUCTION

After many frustrated attempts at stabilization policies in Brazil during the 1980s and 1990s,<sup>1</sup> 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

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

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 2000 the inflation rate in the last twelve months was, approximately, 10.0%.<sup>2</sup>

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 2000, the average growth rate of GDP was only 3.0% 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 year.<sup>3</sup>

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. For 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.

This paper 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. After analysing these disequilibria, the paper shows that the fiscal imbalance and the deficit of the balance of payments impose some constraints concerning the recovery of Brazilian economic growth in the medium and long run. Going in this direction, the paper is divided in three sections. It begins in section 2 by bringing back the logic and 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 of Brazilian economy, before and after the Brazilian currency crisis, in January 1999. The last section, considering that the inconsistency of macroeconomic fundamentals impose serious restrictions to assure the increasing of Brazilian economy in the medium and long run, presents some policy recommendations – let us call them as *economic growth target* – able to restore the macroeconomic balances, indispensable to maintain the inflation under control and, at the same, assure the economic growth and social development of Brazilian economy for the next years.

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

<sup>3</sup> These average growth rates of GDP were calculated according to Table 2.

## 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 economy.<sup>4</sup> 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 Congress,<sup>5</sup> the monetary authorities could not 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 Emergency Social Fund, 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.

The second step of the Real Plan was characterized by the introduction, in February 1994, of the Unit of Real Value (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 –

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<sup>4</sup> 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.

<sup>5</sup> By the way, the privatisation and deregulation programs and the institutional reforms, such as administrative and Social Security, would continue and be approved in the Fernando Henrique Cardoso government.

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 down<sup>6</sup> 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 August 2001 the inflation rate was 168.28%; it represents an average inflation rate, during this period, of 1.15% 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.

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<sup>6</sup> 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.

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 inflows.<sup>7</sup> 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 semester 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 terms.<sup>8</sup> The figures of the trade balance show that, between January and June of 1994, the surplus was, approximately, US\$ 6.9 billion, while in the second semester 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 an surplus around US\$ 64.0 billion, while during the period 1995/August 2001 there was a deficit in the trade balance around US\$ 23.5 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 stabilized.<sup>9</sup>

At that time, some critics of the exchange rate regime, such as the former Minister of Finance, Antonio Delfim Netto, the former President of Brazilian Central Bank, Affonso Celso Pastore, and Maria da Conceicao 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 were not 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”.<sup>10</sup> In Table 4, the figures of the current account, during the period

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

<sup>8</sup> It is important to emphasize that the deficit of current account would increase, during the Russia crisis in 1998, to almost 4.5% of GDP.

<sup>9</sup> 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%.

<sup>10</sup> In the beginning of the Plano Real the current account deficit was financed by “foreign saving”. However, the

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 Plano Real claimed that the devaluation of the exchange rate could be 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 rate<sup>11</sup>. Moreover, they moved tariffs upwards for some specific sectors<sup>12</sup> 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 year.<sup>13</sup>

The result of a tied 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 and the impetus of the economy was reduced: the average growth rate of GDP in 1995 and 1996 dropped to 3.4%, according to the figures in Table 2.

Moreover, on one hand, the increasing nominal interest rate produced a strong fiscal imbalance and the growth of public debt. Tables 8 and 9 show the relations among

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same did not occur for the period 1997/1998: 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.

<sup>11</sup> By the way, this system would be abandoned in January 1999.

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

<sup>13</sup> 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%.

fiscal deficit, public debt and GDP. According to these tables, since the beginning of the Real Plan, (i) the imbalance of public sector has been associated to its financial component and (ii) the public debt has increased permanently. Focusing on the public debt, the relation between net public debt and GDP increased 84.2%, during the period 1994/July 2001.

On the other hand, the policy of high nominal interest rate created difficulties for 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 PRO-ER.<sup>14</sup>

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 was going up and the economic activity was going 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 semester 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 trimester 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 reserves

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<sup>14</sup> 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.

was not considered a shelter against any attempted speculative attack concerning Brazilian currency. Given 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, the tax was increased and the Central Bank pushed the nominal interest rate to the sky<sup>15</sup>. 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 IMF.<sup>16</sup>

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

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

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



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, in the second semester 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; and the foreign reserves stopped to oscillate and, more importantly, the capital inflows became basically of risk – that is to say, medium and long-term investments rose. As a consequence of the success of Brazilian economy's performance in the last two years, especially in 2000, Fernando Henrique Cardoso called their critics as “*neo-bobos*”.

In this context of improving the short-term macroeconomic figures, a question arises: Do we have to agree with the Government that the performance of Brazilian economy in the last two years assure conditions to keep inflation under control and, at the same time, to promote economic growth and social development in the medium and long run? In other words, is the current scenario able to maintain the Brazilian economy in its current steady state – *i.e.* low inflation and average growth rate of GDP around 4.5% per year?

#### 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, to the Government the second legacy of the Real Plan – that is to say, the short-term macroeconomic inconsistency – is not considered a problem, because it did not create obstacles to Brazilian economy, after the devaluation of the

exchange rate, to achieve a strong performance. According to the Central Bank of Brazil, the recovery of Brazilian economy is reflected by the fact that the trade balance and the current account deficits declined, the primary surplus of public sector increased, the net public debt has remained unchanged, the privatisation program continued, the GDP increased 5.0%, in the last two years, and the unemployment rate went down. Moreover, the Government understand that the monetary regime of inflation target, adopted in June 1999, brought back to the economic agents the confidence on the future of *real*. Why? 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. In other words, the inflation target regime believes that there is a separation between the real side and the monetary side of the economy.

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 will need, in 2001 and 2002, almost US\$ 100.0 billion of capital inflows to equilibrate the balance of payments;<sup>17</sup> (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 international prices of the main products that Brazil exports are going down, while the international prices of principal commodities that Brazil imports are going up;<sup>18</sup> (iii) the degree of trade openness, in the 1990s, made the Brazilian economy very dependent of import inputs and, as a consequence,

<sup>17</sup> At this point, it is difficult to expect that, in a world of reducing growth rate, due to problems of Japan, the USA and Argentina, capital inflows, both of risk and portfolio, will maintain its past trend.

<sup>18</sup> For instance, the current international oil price is around US\$ 28.0 per barrel, while in the beginning of 1999 it was around US\$ 12.0 per barrel.

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 reduction of economic growth in the USA, the fragility of the *euro*, the deflation and recession in Japan and the Argentina crisis – by the way, the last one bring some doubts about the future of Mercosur – are additional factors that impose 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 the tax – the current real interest rate compromise 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 *economic growth target*, has condition of inducing the economic growth of GDP and the social development without compromise the monetary stabilization.<sup>19</sup> 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 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) bring the international investments that can add aggregate value to export – that is to say, international investments that produce tradable goods;<sup>20</sup> 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.

<sup>19</sup> Ferrari F<sup>o</sup>, among others, explores this point in an article that was written in 1999.

<sup>20</sup> 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.

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 reform,<sup>21</sup> to implement the Social Security reform and to operate a privatisation program<sup>22</sup> are relevant but they are not enough. If we want to balance the public sector, it is necessary to postpone the due date of public debt. Of course, this is not easy! At this point, if the current taxes over financial transactions were more efficient, we think that they could be a strong weapon to postpone the due date of public debt. How? 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, without doubt, 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 target*.

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<sup>21</sup> By the way, the project of tax reform that is in National Congress could be an interesting proposal of tax reform.

<sup>22</sup> 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 becoming, after privatisation, private monopoly; secondly, the BNDES is financing the privatisation process. For us, privatisation is not an ideological issue; but, it is necessary to define what to privatise, how to privatise and what to do with the revenues of the privatisation.

## Annex

Table 1 - Annual Inflation Rate

Period	IG P-DI/FG V
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*	7.4

Source: Fundacao Getulio Vargas.

\* From January to August.

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 <sup>1</sup>

Source: Banco Central do Brasil.

(1) Preliminary result.

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*	39.6	38.9	0.7

Source: Banco Central do Brasil.

\* From January to August.

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)	20.7	20.5	(17.3)
1999	(1.2)	(24.4)	12.0	30.1	(10.7)
2000	(0.7)	(24.7)	30.4	29.6	8.1
2001*	0.0	(15.4)	13.5	14.8	2.9

Source: Banco Central do Brasil.

\* From January to July.

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	10.132
October-December/1996	10.303
January-March/1997	10.495
April-June/1997	10.669
July-September/1997	10.873
October-December/1997	11.066
January-March/1998	11.270
April-June/1998	11.482
July-September/1998	11.711
October-December/1998	11.956
January-March/1999	17.690
April-June/1999	17.137
July-September/1999	18.676
October-December/1999	19.113
January-March/2000	17.738
April-June/2000	18.030
July-September/2000	18.149
October-December/2000	19.290
January-March/2001	20.152
April-June/2001	22.885
July-August/2001	24.883

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

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	Cash <sup>1</sup>
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

Source: Banco Central do Brasil.

(1) Operational concept, including disposable assets.

Table 8 - Financial Necessity of Public Service/GDP

Period	Nominal	Operational	Primary	Expenditures with Real Interest Rate
1995	7.4	5.1	(0.4)	5.4
1996	5.9	3.8	0.1	3.7
1997	6.1	4.3	1.0	3.3
1998	8.1	7.5	0.0	7.5
1999	9.5	3.2	(3.1)	2.1
2000	4.6	1.2	(3.5)	4.7
2001*	n.d.	n.d.	(2.7)	n.d.

\* Result in July.

Source: Nape/CPGE/Ufrgs.

Tabel 9 - 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*	52.5

\* Result in July.

Source: Banco Central do Brasil.

## SINOPSE

### O LEGADO DO PLANO REAL: UMA ESTABILIZAÇÃO MONETÁRIA SEM CRESCIMENTO ECONÔMICO?

*O artigo tem três objetivos. Em primeiro lugar, apresenta as estruturas lógica e teórica do Plano Real. Em seguida, mostra que a política de estabilização ao longo do Plano Real criou alguns desequilíbrios – tais como fiscal e de balanço de pagamentos – que impõem restrições no que diz respeito à recuperação do crescimento econômico brasileiro. Por fim, o artigo propõe uma estratégia econômica alternativa – denominada metas de crescimento econômico – que seja capaz de restaurar os desequilíbrios macroeconômicos e, por conseguinte, assegurar o crescimento econômico da economia brasileira.*

*Palavras-chave: política de estabilização; Plano Real; metas de crescimento econômico.*

## SINOPSIS

### EL LEGADO DEL PLAN REAL: ¿ESTABILIDAD MONETARIA SIN CRECIMIENTO ECONÓMICO?

*El artículo tiene tres objetivos. En primer lugar, presenta las estructuras lógica y teórica del Plano Real. Después, muestra que la política de estabilización durante el Plano Real creó algunos desequilibrios – tales como déficit fiscal y de balanza de pagos – que imponen restricciones sobre la recuperación del crecimiento económico brasileño. Finalmente, el artículo propone una estrategia económica alternativa – denominada metas de crecimiento económico – que sea capaz de restaurar los equilibrios macroeconómicos y, por consiguiente, asegurar el crecimiento económico de la economía brasileña.*

*Palabras-clave: política de estabilización; plano real; metas de crecimiento.*