The role of fiscal and monetary policies in the Brazilian economy: understanding recent institutional reforms and economic changes


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Summary

1. Brief analysis of recent Brazilian economic institutions history;

2. Main findings of the paper

3. Outlook of fiscal and monetary institutions for next years and their impacts in Brazilian economy;
1. Recent historical perspective

- Monetary and fiscal institutions have played a decisive role in the stabilisation of the Brazilian economy since the mid-1990s; before 90’s, however, some guidelines were already established.

- 1964 – publication of a “revolutionary” budget act:
  - Expenditure began to be recorded on an accrual basis (a principle only adopted by governments of rich countries decades later);
  - Sought to integrate plan and budget, and to budget with financial and equity management, through the publication of differentiated and circumstantiated balances;

- The military government adopt a series of economic reforms that, in essence, laid the foundations for the institutions that have shaped the Brazilian macroeconomy (tax, banking and administrative system) up to the present day;

- The oil shocks of the 1970s (1973 and 1979) inaugurated a fresh outbreak of inflation in Brazil, with growing indexing mechanisms allowing the Brazilian population to live with increasingly high rates of inflation.
1. Recent historical perspective

• 1988 – Federal Constitution:
  • Brought great advances towards fiscal stabilization and reforming the budget with 3 new legal requirements: a multiannual plan (PPA); budgetary guidelines (LDO) and an annual budget (LOA).
  • Prohibit the central bank from financing governments

• 1994 - Real plan (which may be considered a watershed moment):
  • Previously Brazil’s was an economy marked by hyperinflation, and which had already undergone a moratorium on foreign debt and seizure of internal savings, and which suffered from a distinct lack of fiscal discipline.

• 1999 - Brazilian macroeconomic “tripod”:
  • The monetary system of exchange rate targets was replaced by an inflation target system;
  • The system of semi-fixed exchange rates gave way to a managed floating exchange rate;
  • The fiscal system began to pursue primary surplus targets.

• 2001 - Fiscal Responsibility Law:
1. Recent historical perspective

Fig. 1. Inflation in Brazil – monthly change of IPCA – 1979–1995.

Fig. 3. Tax revenue appropriation after intergovernmental transfers.
Source: Secretariat of the Federal Revenue of Brazil.
2. Main findings

• The Brazilian experience offers many lessons to be learned (in the sense of what could be done or avoided)

• Historically, the monetary and fiscal instruments mentioned did not result from prior appropriate strategic planning:
  • The institutional reforms (economic and administrative) were ever carried out in response to a succession of internal and/or external crises;
  • The need to face crises allowed governments to approve important legislative changes;
  • The institutional reforms came from two mutually reinforcing movements: an “economic environment” that was impelling you to do so, and a “political environment” that allowed you to do so;
2. Main findings

• Possibly the greatest challenge for the Brazilian economy today is to restart precisely that process of institutional reform, last carried out at the end of the previous century, and which now serves as a benchmark for other emerging economies.

• Brazil’s past experience, which serve as a lesson for other emerging countries, must now become a reference for the country itself.
3. Economic outlook

• Economic depreciation

Desemprego e crise provocam inevitável e forte pressão sobre gastos públicos, sobretudo acesso a rede pública de educação e saúde
3. Economic outlook

- Diminishing Tax-burden

CTB não é mais capaz de “salvar” os necessários ajustes fiscais...
3. Economic outlook

Novo governo tem realizado uma executa política fiscal expansionista
3. Economic outlook

Fonte: MF/STN; BCB. Elaboração FGV/IBRE. *2016: valores acumulados em 12 meses até agosto
3. Economic outlook

Déficit Primário muito elevado em 4 anos consecutivos!
(Repatriação de Recursos: R$ 46 bi)

Superávit Primário Consolidado (em % do PIB)

Fontes: IBRE, e Banco Central. Elaboração IBRE/FGV
3. Economic outlook

Mesmo com o PEC 241, o primário só será positivo após 2020.

Fontes: IBRE, e Banco Central. Elaboração IBRE/FGV
3. Economic outlook

Cenários para a DBGG

Fontes: IBRE, e Banco Central. Elaboração IBRE/FGV
4. Final remarks

- A crise atual é mais severa. O esforço fiscal necessário para corrigir os desequilíbrios é hercúleo

- Caso o governo consiga evitar a crise aguda decorrente do descontrole fiscal dos últimos anos, restará a extensa e difícil agenda de retomada do crescimento econômico

- Ou seja, o ajuste macroeconômico é apenas parte da agenda necessária para a retomada do crescimento.
Obrigado!

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