Brazil: comparing performances – a note

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Abstract

When politics takes central stage in Brazil, economic performance comparisons resurge with a vengeance: who delivered better economic performance: Cardoso's PSDB or Lula's PT? This is, however, the wrong question to be asked. Cardoso's first administration was very different from the second in terms of economic policies. Similarly, Lula's policy up until 2008 was a continuation of Cardoso's second and differed a lot from PT's economic policy – Lula 2 and Dilma – after the crisis. The correct economic policy dividing line is: conventional macro policy during the 2000/2008 period, and uncoventional macro policy in the 2009/2015 period. Using this criterion, comparing results leads to an unequivocal conclusion: conventional policies dominated unconventional.

1 Introduction

In the last 15 years Brazil moved from conventional to unconventional macro policy – at its own peril. What I call conventional here is the three-pillared framework comprised of fiscal responsibility; floating exchange rate and inflation targeting. Unconventional is sort of the opposite: fiscal and para-fiscal imprudence, excessive interference with the FX market and a continued relaxation of the inflation objectives. Under this definitions, unconventional = Lula2=Dilma and conventional = FHC2 = Lula1. Real change in macro management came after the 2009 crisis, and set foot definitely during Dilma's

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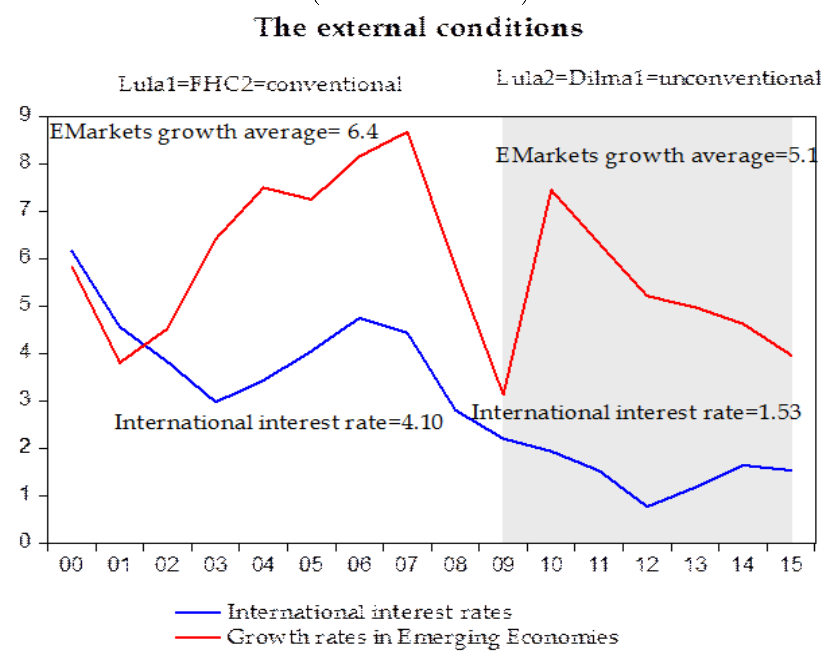
government. Under the idea that new times demanded new ideas, Brazil went thru a major policy shift. The basic ingredients of the so-called "New Macro Matrix" were: heavy-handed government intervention (mostly via subsidized credit); unprecedented fiscal expansion and ultra-loose monetary policy in 2012 and 2013.

To be sure, domestic economic policy is not the only factor behind a country's economic performance. The international scenario also matters. To grow 3% when other countries are growing 4% is not the same as to grow 3% when other countries are growing 7%. And the same rationale holds for inflation performance.Perhaps surprisingly, overall, the international background did not differ that much between 2000/2008 and 2009/2014. Growth in Emerging Economies was modestly higher in the first period, but international interest rates were much lower during the second. And Brazil's terms of trade level jumped upwards markedly after 2009. Hence, if anything, the years during which unconventional economic policy prevailed start out with an advantage over the 2000/2008 conventional period.

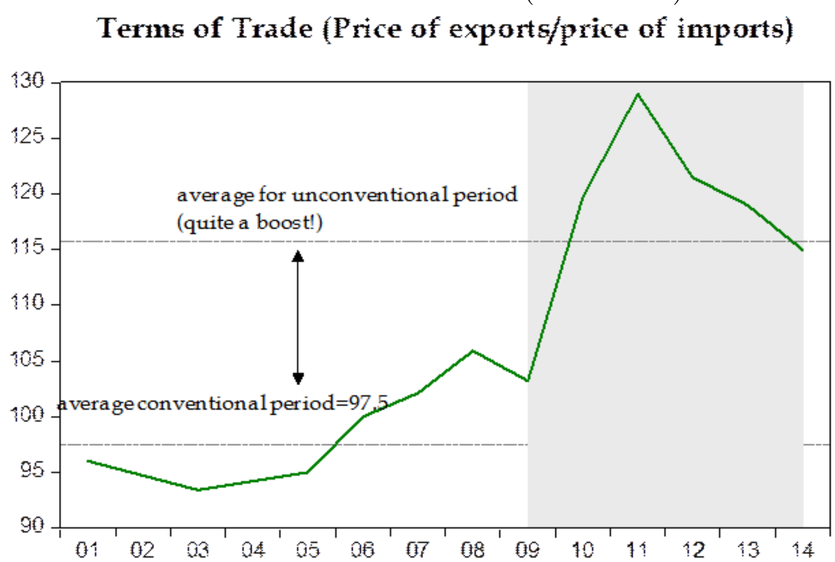
1.1 The exogenous/external variables

Assessing the international conditions using world growth is not appropriate. It makes more sense comparing comparable countries, so to speak. Rich economies grow at more moderate pace, precisely because they are already rich.. That's why I use the weighted average growth rate among Emerging Economies to assess Brazil's performance. The second variable is international interest rates (the lower, the better for Brazils – ceteris paribus of course). In this case, I use US 5 year bond returns, since international liquidity varies according to how attractive is to park your money in the US jurisdictional safe zone.

Growth in similar countries and international liquidity
(WEO and FED)



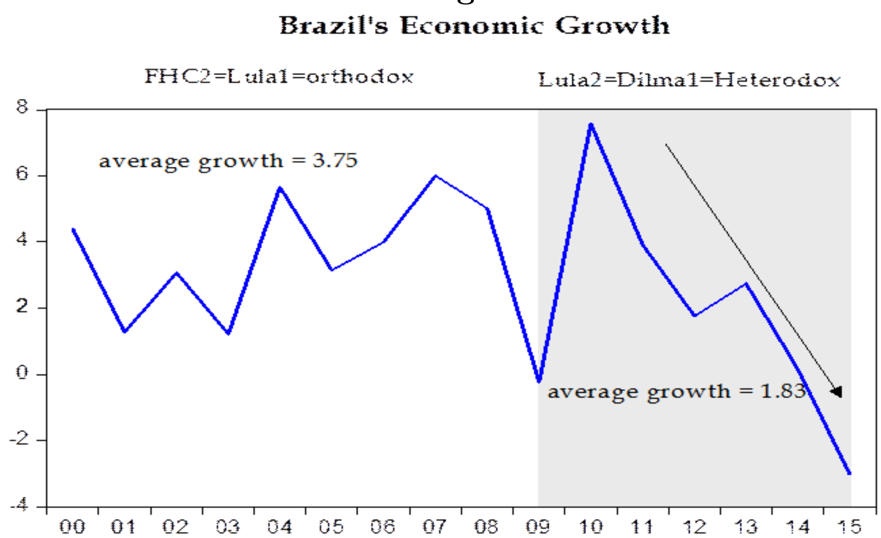
Brazil's terms-of-trade (IPEA data)



1.2 Conventional vs. Unconventional

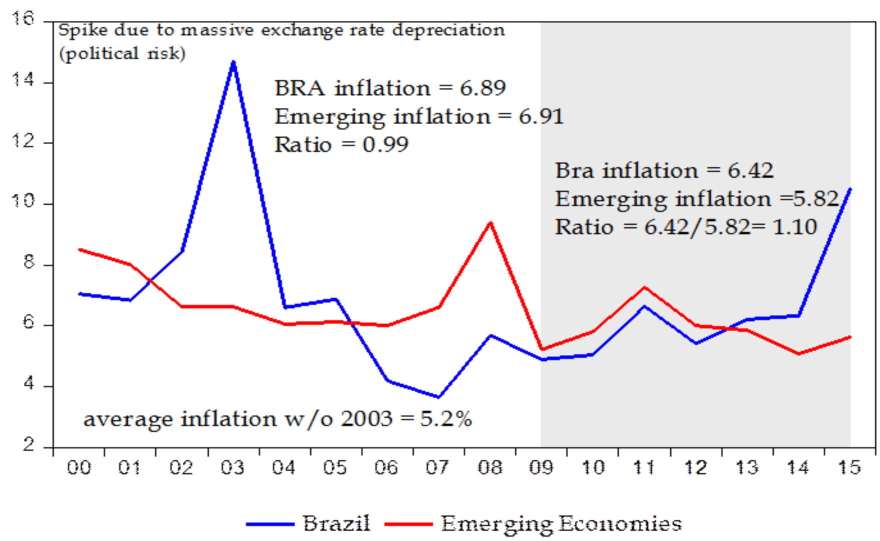
Growth rate differences under these two regimes are stark –.even not including the dire projections for 2016. Amazingly, the very weak growth performance in the second period is associated with persistently *high* inflation rates, something very rarely observed in the data.

Brazil's GDP growth rates

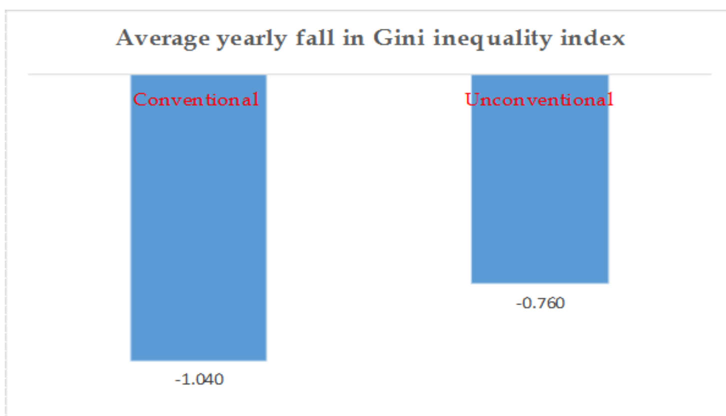


When it comes to inflation, the highest mark was14.7%, in 2002. This outlier is not related to bad economic policy, though. Back then, Lula was heading the polls and markets feared PT's unorthodox rethoric, which included the party's long-held view about defaulting on government securities. Because of that, a massive assets sell-off ensued, sending the nominal exchange rate thru the roof as foreign and domestic investors alike sought refuge elsewhere. There was nothing a outgoing central bank could or should do to stem the inflation rise.

And even so inflation performance in the unconventional period was a bit tiny worse, as the ratio "Brazil's inflation/Emerging Economies inflation" suggests.



Finally, has the unconventional policy set at least benefited the poor more? Judging by the slower decrease of the Gini index, the answer is also no.



2 Concluding remarks

Pitching the debate in terms of PSDB vs PT economic performance does not make sense. PT's economic policy during Lula1 was as orthodox as under PSDB (if not more). What stands out clearly from the data is that unconventional economic policy after 2009 did not serve Brazil well.