The Brazilian Economy 1980/97: 
From Hyper-Inflation to Stabilization

by

Claudio Monteiro Considera

Institute of Applied Economics Research
Ministry of Planning and Budget

March 1998

Department of Research Cooperation
Economic Research Institute
Economic Planning Agency
Tokyo, Japan
Any opinions expressed here are those of the authors and not those of the institution to which the authors belong.
THE BRAZILIAN ECONOMY—1980/97

From Hyper-Inflation to Stabilization

CONTENTS

1. Introduction

2. The Social and Economic Crisis—1980/92
   2.1. The Record of the Crisis
   2.2. The Origin of the Crisis: the Domestic and External Debts
   2.3. The Stabilization Programs: a Chronicle of Failures

3. The Transaction Period: 1993/94
   3.1. Political Transition: Development cum Inflation
   3.2. The First Semester of 1994: the Transition by the URV
   3.3. The New Currency: The Real
   3.4. The First Nine Months of the Real: the Overheating of the Demand

   4.1 The Impact of the Mexican Crisis
   4.2 Consolidation of Stability and Economic Recovering
   4.3 The Impact of the Asian Crisis

5. Real Plan, Macroeconomic Stability and Social Development: an Overview
THE BRAZILIAN ECONOMY—1980/97
From Hyper-Inflation to Stabilization

Claudio Monteiro Considera

1. Introduction

Brazilian experience along the 80's and the beginning of the 90's has been characterized by a general tendency to stagnation associated to the persistence of deep macroeconomic disequilibrium—in particular, by high and increasing inflation. Notwithstanding the localized spells of growth, usually related to expectation involving the future behavior of inflation, between 1980 and 1992 the economy has grown at an average of only 1.25% p.a., in this manner forcing the per capita income to drop to 7.6% during the period. Thus, along those years, a considerable deterioration of the living conditions of a significant share of the population has been verified, with regards to perspectives of overcoming the structural problems related to misery and social inequality.

More than simply reflecting the external disequilibrium (deriving from the crisis related to the external debt) and the internal one (associated to the persisting public deficits and the continuation of extremely high inflationary levels), this period is characterized, in fact, by the exhaustion of the post war development strategy. This has been based in the substitution of imports and in strong State intervention in productive activities—which have oriented the Brazilian industrialization process since the beginning of the 50's. The failure of the several attempts to stabilize the economy along the 80's can therefore be attributed, to a large extent, to the lack of acknowledgment of the need to promote structural changes that would lead to a new pattern of development. This new pattern should be less dependent upon state intervention and commercial protectionism. There also have been a total incapacity to provide the political support required for the accomplishment of the reforms.

The long sequence of frustrated stabilization plans during the 80's and the beginning of the 90's (five plans in six years) has produced a strong economic instability which led to a continuous tendency of inflationary acceleration. Inflation has failed to acquire an explosive character, such as occurred in other countries, solely due to the characteristics of our indexation system (to a large extent guaranteed by the government itself). The financial system developed domestic...
substitutes for the currency (ultimately, also guaranteed by the government), that allowed a less painful coexistence (and, sometimes, an even profitable one) with the inflationary process for those who had access to such innovations. Nevertheless, excluding those moments when speculative behavior led to the non-sustained growth of the demand (as, for example, along 1989), what is observed is a long run tendency to the increase of unemployment, specially during the second half of the decade. Moreover the investment rates has been reduced all along this period, which contributed to render future growing perspectives even more tenuous.

From 1993 on this picture begins to change. Stimulated by a more favorable external situation—with the recovering of capital flows for the emergent markets in a context of accentuated decreases in the international interest rates and the surmounting of the political crisis derived from the president impeachment process, the economy starts to show signs of recovery, although still in the midst of the strong instability generated by still high inflation rates. This growth already reflected the changes in the conduction of the economic policies, which characterized the turn of the 90's. In particular, the progressive removal of the mechanisms of protection against external competition and steps being taken towards the deregulation process and privatization began already to outline a new economic environment. It leads the enterprises to incorporate, with an increasing tendency, the rationalization of costs and productivity increase in their development strategies.

The proposal of this article—which consists, at the same time, of a retrospective of Brazilian economy during the period in question—is to analyze the first four years of the Real Plan. The perspective is that no stabilization process can succeed if it does not bear the structural changes which eliminate the basic causes for the inflationary process, generally deeply incorporated not only to the behavior of the economic agents, but also to the very essence of the previous development model. Under this perspective, structural reforms acquire a crucial dimension for the consolidation of a new phase of sustained development, even if, in the short run, stability may be sustained only through the adequate handling of the instruments of monetary and exchange policies, maintaining the economic growth below its potential.

2. The Social and Economic Crisis — 1980/92

2.1 The Record of the Crisis

The Brazilian economic crisis, which except for short intervals, has already been lasting for 13 years, has interrupted the dreams of having the country on its way to become a modern industrial economy. In fact, during this period Brazil has substituted annual growing rates of the GDP around its historical post-war average of 7%, and inflation rates that had never been above 8% p.m., by an unprecedented crisis that has combined recession, inflation and a brutal increase of social and economic inequality.

At the end of 1992, the GDP had accumulated a growth of 17.4% in relation to 1980, while the population had increased in about 25.8%, which resulted in a decrease of 7.9% of the per capita GDP. The industrial sector (metal mining, transformation, construction and industrial public utility services), in its turn, presented a lower level (−1.6%) than that of 1980, thus, 21.8%
inferior in per capita terms. The most serious consequence, nevertheless, has been the performance of the manufacturing industry, which had been extremely dynamic in the past: its production level, in 1992, has been around 7.3% lower than that of 1980 and, thus, 26.3% inferior in per capita terms.

Also alarming has been the reduction of investment capacity of Brazilian economy. The share of the GDP destined to the gross formation of fixed capital has decreased from 23.3% in the 70's to 18.3% in the 80's and to 15% at the beginning of the 90's. The quality of investment and the incorporation of advanced technology have also decreased, from what could be verified from the decrease in machines and equipment participation in total investment and from the imported equipment on the total of machines and equipment destined to the gross formation of capital in the country: while in the 70's these proportions were respectively of 36.9 and 23.3% in average, during the 80's they have decreased to 26.4 and 11.2%, down to as low as 26.2 and 9% in 1989.

Another perverse aspect of the crisis is the reduction in private per capita consumption, which returned in 1992 to the levels of 1978 both as a result of the decrease of the Gross Domestic Product and the transference of real resources abroad.

Brazilian inflation, an old disease, has even reached, in the post-80 period, an annual rate above 2,500% (1989), with the average situated around 580%, in contrast to the annual average below 40% of the 70's.

With the decrease of the Gross Domestic Product, and the inflationary acceleration, labor income has been reduced. The minimum wage corresponded in 1992 to less than 50%, in real terms, from that in force at the beginning of the 80's.

In its turn, the rate of open unemployment in 1992 reached higher levels than those of the beginning of the decade. In the case of industrial employment, data from the IBGE show that their level in 1992 has been the lowest ever-registered. With the 1990/92 recession, the level of employment in Brazilian industry becomes 27% inferior to that of 1980. In particular, the Sao Paulo industry has destroyed around 450 thousand jobs during the 1990/92 period.

The income concentration, measured by the Gini index, has also become more severe. That happened not only because of unemployment at the less qualified strata of the population, but also and mainly, due to the effects of inflation. It punishes particularly those employed for wages and mainly those pertaining to the basis of the wage pyramid, who detain less power to bargain.

The areas of education and public health are a clear picture of the exhaustion of the State financing capacity, deriving from the erosion of the public accounts. There is a decrease in the quality of basic education, due to scarce resources, exiguous salaries and consequent low performance of the teaching class, and a simultaneous increase of students' evasion from schools. The scrapping of hospitals and other health institutions, as well as the expansion of the areas of rural endemic diseases is the counterpart to the governmental budget restrictions.

2.2— The Origins of the Crisis: The Domestic and External Debts
As we know, the Brazilian strategy of keeping the economy growing at high rates and financing the deficit in current account through loans contracted at floating interest rates, adopted after the first petroleum crisis, left the country in an extremely vulnerable position to face new external shocks. The second petroleum crisis in 1979, as well as the relatively fast adjustment of external accounts of the industrialized countries —— provoking not only a considerable decrease in the level of activity, and consequently, in the volume of the international trade, but also an abrupt increase of international interest rates ——, resulted in a considerable deterioration of Brazilian external accounts, which has been aggravated by the expansionist policies adopted in 1979/80.

The origin of the present crisis, nevertheless, can be referred to the difficulties deriving from the process of adjustment to the reversion of the changes in the international financial picture as of 1979. The premature transference of real resources abroad resulted in a drastic reduction of investment rates, in spite of the considerable increase of the domestic savings rate, thus restricting the investment opportunities. To this transference abroad did not correspond, nevertheless, an equivalent internal transference that would allow the public sector to face the charges of the debt which had been accumulated, either through direct loans, or by having assumed responsibility for the payment in dollars of the debt originally contracted by the private sector. The result has been an exponential increase of the public internal debt.

Incapable to produce a primary superavit which would allow the payment of the interests on its internal and external debts, the government had to run, along the decade, not only to an increase of the internal debt, which then became indexed “currency”, but also to make use of an increase in the offer of currency, with extremely severe consequences on the inflationary process, moving the emphasis from policies of external adjustment to policies that aimed at the control of inflation, as of 1986.

During the first half of the 80’s, the impacts deriving from recession were added to those deriving from the impacts of the external sector on public accounts. Concerning expenditures, even with the reduction of investment as of the end of the 70’s, their high levels from the previous period and the extension of governmental role in national life would already have guaranteed the increase of current expenses, solely on account of the operation and maintenance of a public sector which was both over dimensioned and inefficient.

During the second half of the 80’s, there has been an expressive increase of the payroll of the public sector, due to an also significant expansion of its contingent. This upwards process culminated in 1989 with expenses with personnel (including social charges, inactive and retired personnel) of the Union equivalent to 4.1% of the GDP, after having corresponded to 3% in the 70’s and to 2.5% in the 1980/85 period.

The recession of the beginning of the 80’s, the ample systems of fiscal incentives established in the previous decade and the growth of inflation had led to the decrease of the country’s tributary collection, concomitantly with the increase of expenditures. From 1984 on and until right before the president Collor government, the gross tributary charge had become stabilized at a level close to 22% of the GDP, about 3% below the average level observed in the 1970/83 period, which confirmed the public accounts’ characteristics of being chronically in deficit.

With the increase of inflation and of expenses, and with the reduced collecting capacity of the
government, the deficit financing was done by running into new debts. As the economic instability increased, such financing was being contracted at shorter terms in such a way that when the fiscal crisis of the end of the 80's reached its peak, the federal debt was being daily refinanced. This way, the payment of interests became the main isolated item of public expenses, representing in 1989 almost 6% of the GDP.

In 1990, Collor Plan I, in an attempt to break the deficit-debt-inflation circuit, applied a shock therapy based on the temporary confiscation of 80% of the financial assets of the country. At the same time, the extraordinary incidence of the IOF (Tax on Financial Operations) has been instituted on financial stocks and it became possible to utilize the confiscated resources for the payment of taxes. The combined impact of these measures has initially been favorable, be it by the increase of the tributary charge of more than 6% of the GDP in only one year, or by the reduction of expenses with public bonds of the debt deriving from the confiscation, even if only of a provisory nature. So to say, after 12 months of their adoption, those effects could no longer be felt.

The failure of prices stabilization has played an important part in the erosion of governmental credibility which, together with the decrease of the level of economic activity, served as an excuse for an increasing movement of evasion (legal or illegal) of tributary responsibilities. The return of pressures with expenditures, including those derived from debts, and high levels of evasion and taxes with holdment constitute the framework of renewed discussions on an ample fiscal reform.

2.3— The Stabilization Programs: a Chronicle of Failures

A retrospect of the evolution of inflation and the results of the stabilization policies since 1980 is, to say the least, melancholic. In fact, it is a report on failures of all kinds, which placed Brazil, in 1993, in the singular position as one of the rare countries in the world with a two-digit monthly inflation.

The six years which came in-between the two petroleum crisis (1974/79) had already been characterized by high annual inflation rates 44.4%, according to the IGP-DI (General Price Index - Internal Availability). The second petroleum crisis, in 1979, followed by the international financial crisis in 1980, established the new level of 100%, until 1982, when the crisis related to the debt came about. The stabilization policies at that time, nevertheless, aimed primarily at the equilibrium of the external accounts. As a consequence, a few pressures of costs have been intensified, mainly the exchange one (maxi-devaluation) and those deriving from real increases in public tariffs. To a certain extent, this could be explained, or at least be minimized, by the failure in reaching the target of prices stabilization. Between 1983 and 1984 inflation moved up to 200%, reaching 235% in 1985 (IGP-DI).

The year of 1986 registers the beginning of a new style of stabilization policies. Leaving orthodox practice aside, to a large extent, economic authorities began to successively interpret inflation as predominantly inertial; of expectations; eventually deriving from distributive conflicts; and, further along, deriving from the public external and/or internal debts.
In February 1986, after the monthly inflation rate for January had reached 16% (IGP-DI), the Cruzado Plan has been implanted. The idea was of a merely inertial inflation, without any relevant primary causes. It was not so! The failure to attack the primary causes gave way to the return of the rate, at the end of the year, to the same level previous to the plan.

In June 1987, there has been another attempt at a stabilization shock, with the Bresser Plan. This time there was a combination of the idea of inertia with a predominant primary cause: the onus of the internal and external public debts — although the government had already issued the moratorium on the latter in February 1987. The monthly rate was of 26%. A new failure! After a three months rest, the monthly rates began to increase again and, in September 1988, reached the same level as that of the month of introduction of the plan.

At the end of January 1989 the Verão Plan has been introduced: the monthly rate had at that time reached 36.6%. Few substantial changes have been incorporated as regards the previous plans, but there were great promises of adjustment in the consolidated accounts of the public sector. The need to attack the structural causes of inflation had then been acknowledged; they had been neglected in the previous plans. The president’s succession and expectations raised with doubts as to the plans of the new governmental team would not allow the government any other action besides completing its term. Monthly rates began to increase once more after the three months of rest, reaching superior levels to those of January after five months of successive increases. The ascending tendency continued, aggravated by expectations on new stabilization shocks after the change in government, reaching 81.3% in March 1990.

The new government initiated its administration in March 1990 with an ambitious plan comprising stabilization and structural reforms of the economy (Collor Plan I). In this new attitude, besides a mix of the causes already previously acknowledged, the need for ample reforms in the public, external and financial sectors has also been acknowledged. Inflation, nevertheless, after decreasing to 9% between May and June (annual rate of 181%), again began to increase as of July, reaching the level of 20% in January 1991.

A new attempt at a “shock plan” has been made in February 1991 (Collor Plan II), this time with greater emphasis on non-orthodox measures, as had been the case with the plans of the previous government. The monthly rate was of 21.1%. After four months of relative rest in prices, the ascending monthly averages strengthened again in the middle of the year, reaching 22.1% in December.

By then the economic agents were already fed up with shock plans, and the government went back to pure orthodoxy: but all it has been able to do was to avoid a new boom in prices. In January 1992 the monthly rate has been of 26.8% and, in September, of 27.34%. When the impeachment process was over, expectations created by the new government, added to failures in economic policies, led to an acceleration of inflation. The accumulated rate in 1992 has been of 1,158%, not too far from the annual average of the last three years. Thus, to the failure of the “shock plans” we may certainly add the failure of orthodoxy in the administration of Finance Minister Marcílio Marques Moreira.

The alternation between the programs to fight inflation, often of an even opposed nature, observed along the 80’s and more intensively in the recent period, has contributed to increase
uncertainties of the economic agents and to intensify the movements of defensive and speculative nature. After each failing plan, the instruments of the economic policies became more restricted in their struggle against the problem. In spite of the successive efforts on the part of the government to try to avoid indexation, it moved on speedily on the economy, making the changes in relative prices extremely painful, to the extent that even seasonal factors seemed to represent an important factor of acceleration of the inflation.

The course of inflation in 1993 has been characterized by this aspect. And an ascending tendency began on its way, as of February, although without any expressive characteristics. In the average of the indexes, about 1 to 1.5 percentile points of increase in the monthly rates. Thus, from a level of about 25%, in February, we arrived at 31% at the beginning of the second semester.

The determinant factors of inflationary acceleration in 1993 were the pressures of costs passed on to prices of goods and services, through a process of increasing indexation. Among these factors we may emphasize the food prices, basically determined by the fluctuations of offer, the prices of public tariffs and the wage increases, notably of the minimum wage. The exchange rates and the rates of nominal interests were also indexed to inflation rates, but did not contribute to its acceleration.

The acknowledgment of this reality, amply recognized by specialists of the various different lines of reasoning, strengthens today the conclusion that only through a policy of income adequately coordinated would it be possible to effectively attack the inflationary process. Policies of this kind, nevertheless, imply in the effective elimination of the fundamental causes of the macroeconomic disequilibrium between global offer and demand, basically derived from the deficit of the consolidated public sector.


3.1 — Political Transition: Development cum Inflation

The behavior of the economy along 1993 clearly reflects the dilemmas which the country was facing in that conjuncture of political transition. Stimulated by the optimism derived from the non-traumatic solution of the impeachment crisis, there has been a fast increase of production during the first months of the year, demonstrating the industrial reacting capacity allowed by the existence of ample margins of idle capacity. Between September 1992 and March 1993 industry has grown 20.2% and the total wage bill increased 7.9% in real terms.

Among the factors which determined the increase of demand we may emphasize the reversion, although partial, of the high interest rates policies which had characterized the final period of the Collor government. Nevertheless, since mid 1993 the limits of this spell of growth was already being outlined ever more clearly as the increase of production was also accompanied by an intensification of the inflationary process. The monthly inflation rate has grown almost 10% between the first and the fourth quarter of the year, moving from 26.9 to 36.2% p.m. Thus, although the year had ended with an expressive rate of industrial growth (8.1% for the transformation industry) and an increase of the GDP (4.2%), the lack of a sustainable economic development in a picture of instability appeared clearly in the behavior of the investment rate,
which moved from 14% in 1992 (its lowest rate in all the series, since 1975) to 14.4% in 1993.

From an ampler standpoint, it has thus been verified that a repetition of the “inflationary cycles” that had characterized the behavior of economy during the 80’s, when spells of growth of short duration, followed by inflationary acceleration, alternated with periods of decreasing production, and it was not possible to revert the long run tendency to stagnation. This reversion, according to an amply accepted diagnosis, would only occur when the bases for a lasting stabilization were consolidated, centered in the financial equilibrium of the public sector.

It was undoubtedly the perspective of moving towards this direction that allowed for the continuity of growth along 1993 and the beginning of 1994. After successive changes of Finance Ministers, Fernando Henrique Cardoso assumed, at the end of May, the command of the economic policies with a central proposal of promoting an adjustment of public accounts as a prerequisite for any effort of inflation reduction. In a concrete manner, the implementation of the Programa de Ação Imediata (PAI) (Program for Immediate Action), resulted in an ample cut-down in budget expenses and at the same time steps were taken for the conclusion of agreements concerning the external debt and the renegotiation of state debts (a process which had already been dragging itself for almost five years). The public accounts, which after reaching a deficit of almost 7% of the GDP in 1989 were being kept under a relative control along the 90’s at the cost of strong expenses constraint, presented at the end of 1993 a small superavit—measured by the Public Sector Borrowing Requirements (PSBR), in the operational concept—of 0.2% of the GDP. Simultaneously, from June on, the policy of higher interest rates, temporarily abandoned during the first months of the year, has been resumed.

Two new elements, revealed by the spell of growth observed along 1993, should be emphasized. The first one refers to the average industrial productivity increase. During the 1985/89 period, industrial productivity had remained practically stagnant, increasing at an average rate of 0.3% p.a. During the following four years (between 1990 and 1994), the rate of the productivity annual average growth moved to around 8% p.a. Even if this movement could result, to a certain extent, from the business sector’s cautiousness in the hiring of new workers due to an unstable conjuncture, and the high costs of hiring and dismissing, besides constituting a cyclic phenomenon associated to the recovering of production levels, it was also reflecting the investments carried out in the rationalization of the production and new methods of organization and management. This increase in average productivity allowed the accommodation of real wage increases in the industrial sector: the counterpart, nevertheless, has been a practically null increase of employment along the year.

The second aspect refers to the performance of the external sector, which was for the first time facing a liberalization of imports in a heated up economic conjuncture. Although the full impact of this new situation had not yet entirely been felt (as the most recent tariff reduction had only occurred in July 1993), the increase of over 20% of imports has been absorbed with no major

---

3There is a considerable controversy in the discussions regarding the behavior of industrial productivity in the 90’s. In this respect, see Regis Bonelli, Industrial Productivity in the 90’s controversy and almost-facts, in A Economia Brasileira em Perspectiva — 1996, IPEA, Rio de Janeiro, 1996.
traumas. The exports, even not counting on the exchange policy, were maintained in expansion, (7.6% per year), although at decreasing rates. To this growth has contributed the greater diversification of the destiny markets of our exports, with the increase of flows to the countries of the Mercosul. The surplus of the commercial balance has reached the end of the year at the comfortable figure of US$13.1 billion, which represented a decrease of 14.4% as compared to 1992.

In December 1993, the government disclosed to the public its stabilization project. Based on a sequence of pre-announced measures, where once again stood out the issue of budget equilibrium—to be achieved through the creation of the Fundo Social de Emergência (FSE) (Social Emergency Fund) and of a set of tributary measures—the government proposed a new approach against inflation, without price freezing or contract breaching. In spite of this new position, there has been during December, and along the first weeks of January, an intensification of expectations which resulted in an acceleration of the inflation rate and in large difficulties for the Central Bank to be able to carry out the control of the liquidity of financial markets. The faster rhythm of prices increase suffered, at a first moment, the effects of strong prices increase in agriculture and stock raising, sustained by a heated up year-end demand. Subsequent this first moment, this movement began to reflect natural uncertainties as to the imminent changes in the economic policies. The impasse between the market and the Central Bank has been softened with the offering of bonus indexed to the exchange rate, but at the area of prices formation the uncertainties as to the new index were still high.

These doubts were, in part, a consequence of the inflation dynamics itself, where the distributive conflict, added to the difference in timing in determining prices and salaries created a situation where it became extremely difficult to surmount the inertial component. The demands for the anticipation of the introduction of the URV (Unit of Real Value) reflected, in fact, a demand for coordination rules which the market mechanisms, by themselves, were not able to provide. The crucial issue was centered in the governmental capacity to lead the way to a new indexation factor and, subsequently, its conversion into a stable currency. It should be noted that from the point of view of expectations, there was always the influence of stabilization based in the prices indexation to the dollar, as occurred in Argentina a few years ago, successfully so far.

The control of the liquidity in the economy was further barred by the potential conflict of the exchange sustaining policies in real terms and the need to fix higher interest rates with the purpose of containing speculative movements which could lead to an even greater acceleration of inflation. The entry of external short term capitals and the consequent accumulation of reserves at the Central Bank could not proceed indefinitely, under the risk of jeopardizing the fiscal adjustment due to the growth of the public debt in bonds, which was being used to sterilize the external resources. This policy, on the other hand, reveals that, since the end of 1991, the target of reserves accumulation, although not explicit, followed an ampler stabilization strategy based on prices indexation to the dollar.

3.2 — The First Semester of 1994: the Transition by the URV

During the first months of 1994, the economy behavior was strongly influenced, on one part, by
the expectations relative to the stabilization plan, the second phase of which began on February 28 with the introduction of the URV and, by another, by the first movements of the elections process relative to October elections, since the Finance Minister, that had coordinated and guaranteed the execution of the plan up until its second phase, would have to leave his position to run for the presidency.

The introduction of the URV played an important role in the coordination of expectations and as a focus for the adjustment of relative prices, so as to minimize the residual inflationary pressures when applying the new currency. The scope of this new phase began to be amplified in a rather slow manner, in a sequential strategy that allowed the government to face the problems and resistance associated to conversion into the URV by concentrating on a reduced number of sectors at a time: first salaries, then prices negotiations, especially the sharing of the expected inflation included in credit sales, then school fees, financial system operations, rent, etc.

Determining the correct timing for introducing the new currency has certainly been one of the main challenges with which the economic group had to be faced, since this was one of the main variables for the determination of inflation in the first months of the real. The excessive duration of the intermediate phase of the URV would leave the cruzeiros inflation excessively volatile, mainly because the salaries, already converted, would reduce the inertial component thus making difficult the desired adjustment of relative prices, and carry to the new currency inflationary pressures which, ultimately, had determined the acceleration of inflation of the previous currency. On the other hand, the same effect could occur if the introduction of the new currency were anticipated, leading the desired relative prices adjustment to be carried out, to a large extent, in the real currency.

It seemed clear that the solution to the dilemma would be mainly in the definition of the rules that were to guarantee the stability of the new currency, and not in the bet that its introduction would occur the moment that inflationary pressures were minimized. In this respect, the search for mechanisms which would strengthen the credibility of the new monetary system, although at the cost of a temporary hardening in the economic policy, should be emphasized. The credibility achieved, in its turn, allowed for inflationary control during the transition period itself. The behavior of inflation between March and June—period of duration of the URV—has amply exceeded the most favorable expectations, there having been some retraction in the indexes in April and May, probably already on account of the inflation elimination expected for some of the prices. The determinant factor for the success of the URV, nevertheless, has been the acceptance of the salaries conversion by the average, applying criteria that took into consideration even the effective payment dates.

During the first quarter of 1994 the data relative to the activity level indicated that production and sales were kept at high rates. In March, according to IBGE, the industry still presented an accumulated increase for 12 months of 7.5%; commerce, according to FCESP (Sao Paulo's Foreign Trade Foundation, kept high levels of real sales that had characterized the last months of the previous year. There was, nevertheless, a strong concentration of industrial increase and commerce sales in the group of durable goods, which accumulated a production increase of almost 28%, whereas nondurable goods showed an increase of only 5.2% in their production. By industrial category, transportation material and electric and communications materials (which include electro-domestic goods) had their production increased 23 and 17%, respectively,
whereas food and tobacco decreased 0.5 and 0.6%.

In the same direction were also wage negotiations of important working categories in Sao Paulo, which produced significant increases (around 20%) over salaries already nominated in URV. If analyzed in the context of the new rules of indexation, nevertheless, such increases were not worrisome themselves, since, in thesis, they were only trying to anticipate part of the inflation expected along 12 months, during which the salaries would be fixed. But, given the conditions of a rather heated up demand, repassing the high wage increases to prices would give way to new inflationary pressures, which did not happen after all.

3.3 — The New Currency: The Real

The introduction of the new currency on July 1, 1994 occurred without great surprises, since all the main measures had already been announced with sufficient anticipation, and were then effectively implemented. Even so, the transition into the real has been preceded, during the last two weeks in June, of a strong acceleration of consumer prices. This growth has surprised not only for having occurred but mainly by the magnitude of prices increases after four months of coexistence with the URV. This expresses, anyway, both the uncertainties still present as to the effects that high inflation, even in a context of generalized indexation, exerts upon relative prices— in particular, the influence that gains deriving from the financial floating exerted upon the prices.

If during phase 2 of the plan several sectors, mainly retail, had effectively excluded from their costs the inflationary expectations, and the gains derived from the float, the acceleration would certainly not have happened in such magnitude. Still, the inflation indexes for July, even seizing the movements of the end of June, remained within the more moderate expectations. The first IPC-r (Consumer Price Index—Brazilian Real) has been a clear example of this. It had been foreseen that its result could reach 10% due to the first “end-to-end” results observed in June for Rio and Sao Paulo, when in fact the index has been of 6.08%.

Part of this effect can be attributed to the prices reduction verified along July. The elimination of excesses in the prices reflected already at that moment a more cautious behavior on the part of the consumer, which has been kept and intensified during the following months. Nevertheless, a fundamental role must be attributed to the exchange path.

In fact, from an economic policy standpoint, surprise finally came from the exchange administration which, when allowing exchange floating, maintained the quotation of the North-American currency below the expected parity with the real. At the same time, targets were determined for the expansion of the monetary basis which ended up to be extremely restrictive and had to be softened at a second instance. When the real was introduced, the accumulated inflation for 12 months was of 5,153.5%.

3.4 — The First Nine Months of the Real: The Overheating of the Demand

— 11 —
Stabilization programs which aim at fastly overturning high inflation rates are usually characterized by an expressive increase in demand for goods and services during the months immediately following their implementation. It may even be said that such phenomenon is inherent to this type of programme, deriving mainly from the effects that the virtually instantaneous elimination of inflation exerts upon the real income of the consumers and on the general expectations of the economic agents. Regarding the latter, the lack of credibility as to the effectiveness of stability could lead to speculative movements, under the form of consumption anticipation, that would exaggerate the effects derived from the mechanisms of income distribution. The Brazilian experience and that of other countries which have implemented similar programmes clearly demonstrate this point.

This demand pressure will ultimately only be reflected in a return to the inflationary process if the instruments of the economy policy—especially a fiscal policy which eventually contemplates the generation of budget superavits, which compensate the expansion of the private expenditures—are not used with the required fastness and intensity. International experience shows that, in cases considered to be successful, such as Argentina, Israel and Mexico, rigid monetary policies were adopted right after the implantation of the respective stabilization programmes (with real interest rates around 30% p.a., in most cases). Besides, at the occasion, a deep restructure of the public sector was under way in each of those countries, including tributary reforms and reforms in the patterns of governmental expenditures, as well as ample privatization programmes. In Brazil, it can be argued that the failure of the main attempts at stabilization carried out since 1986 can be attributed, to a large extent, to the delay in implementing effective measures to contain consumption.

There is no reason why the Real Plan would follow a different path. In fact, as of July, the sales in commerce and the industrial production entered into an accelerated increasing rhythm. Industrial production in August presented an increase of 3.6% as compared to July, according to the seasonal adjusted index from IBGE, while the invoicing of the general commerce in August (excluding sales of vehicles by concessionaires, with results that were influenced by the strike of the sector) according to the FCESP, increased to 16.8% as compared to July. The accumulated industrial production growth from July to December, as compared to similar period of the previous year, has been of 10.4%, while the real invoicing of the commerce in Sao Paulo, for the same period, has increased 20.1%.

The behavior of employment and average wage reflected in an unequivocal manner the economic activity heating up. The unemployment rate, measured by the Pesquisa Mensal de Emprego—PME (Monthly Employment Research) from IBGE, which during the first semester of 1994 (seasonal adjusted average) had been of 5.2%, dropped during the following nine months to 4.6%. The increase of employment has been generalized in all sectors of the economy. The increase of labor income has been higher to the non-registered workers and the autonomous workers, reflecting the strong growth of services prices during the first months of stabilization. During eight consecutive months (September 1994 to April 1995) the level of employment has grown in the Sao Paulo industry. Measured by the PME, the real average income of employed people in March 1995 was 14% superior to that of July 1994 (30% in the case of autonomous workers), whereas the total wage bill had increased 16.6% during the same period.

In this context were adopted, in October 1994, the first measures of credit contention-reduction
of the maximum terms for credit to the consumer and the non-remuneration of the retention of 15% on loans of the financial system with the purpose of reducing this excess in demand. The measure of quantitative restrictions followed the need to achieve apparently conflicting objectives: on one side, the need to soften the pressures of demand, requiring a rigid monetary policy in order to avoid its accelerated increase; on the other, the facing of the external problem, particularly the financial flows, which tended to generate a continuous valuation of the exchange rate vis-à-vis an extremely high interest differential. Also, these measures obviously sought to minimize the impact of the interest increase upon the public debt. In return, nevertheless, a strong process of financial disintermediation began to rise and sustain the credit expansion for an additional relatively long period. In spite of the restrictions imposed by the Central Bank, the loans of the financial system to the private sector in December 1994 were 20% higher, in real terms, than those of June showing an increase, in the same comparison, of 120% in loans to individuals.

The decrease of inflation tends to exert a strong impact upon the financial system, due to the high dependence of the system on inflationary gains estimates point to inflationary transferences to the banking sector of the order of 2.5% of the GDP p.a., in average, during the period 1987/92. Thus, the impulse with which the banks began to seek for new income sources is partly explained by this need to recover their profits, thus creating, as will be seen hereafter, a rather undiscerning credit expansion, in certain banks, entire credit departments were created within only a few days and a large increase of the degree of exposure of the system to eventual cyclic floatings. Concerning the demand, the situation of the most part of consumers during the period of high inflation was that of total consumption limitation, that is, to all effects these individuals were facing infinite interest rates. Thus, it did not matter how high the interest rates were charged, as there would be the desire to incur in debts as long as the installments would “fit” their household budget. These problems, which signaled at high financial instability, were even more aggravated by the difficult situation of some of the state banks which, in face of the strong liquidity restrictions provoked by the measures of the compulsory retention on term deposits and on savings, systematically began to run for help from the Central Bank.

The increase of the GDP in 1994 has been of 5.9%, with the transformation industry and agriculture leading the process, with variation rates of 7.8 and 10.5%, respectively. In industry, the segments which have mostly increased were those of the capital goods and durable consumption goods (18.6 and 15.5%, respectively), although both in the sector of intermediate goods as of the non-durable goods, there has also been some recovering variation rates of 6.5 and 1.9%, respectively. These figures, nevertheless, when describing the average behavior along the year, do not express the intensity with which the economy had been operating in the last months. Comparisons of the level of industrial production month to month show, during the second quarter, average growing rates superior to 10% as compared to the corresponding months of 1993 (when recovering was already in course), and 15.5% above the level observed during the first semester of the year. The increase has been accompanied of investment returns which have reached 15.5% of the GDP in 1994 as compared to 14.4% in 1993.

---

The combination of commercial liberalization acceleration, through tariffs reduction and the elimination of bureaucratic obstacles to imports, with valued exchange rates has exposed the national industry to an unprecedented degree of competition. On the other hand, nevertheless, the reversing of the commercial balance results also occurred with surprising speed. In a certain manner, this substantive increase of imports (41% during the period July-December 1994, against the same period of the previous year) refuted the analysis of those who, based on a perception of the Brazilian economy as being an entirely closed one, became skeptical as to the possibility of accomplishing stabilization based on the use of the exchange rate as an anchor.

The impact of these imports (or of their potential) could be felt mainly upon the wholesale prices, with industrial products showing deflation, measured by the IGP-OG Índice Geral de Precos-Oferta Global (General Prices Index—Global Supply), in August and September 1994, and average variation of 0.74% p.m. during the last quarter of the year. In the case of consumer prices, during the first months the behavior of the prices of commercial goods had been considerably distinct from that shown for non-commercial goods, especially for services; while services have accumulated a real variation of 19% over the average of the Fipe index during the second semester of 1994, the variations of commercial goods, especially the industrial ones, were for several products strongly negative in real terms. This has been the case, for example, of hygiene and cleaning articles, clothing, other domestic articles, sound and image apparatus, beverages and tobacco.

Perhaps the most emblematic case has been that of the electro-electronics’ prices, surely the sector that has presented the highest sales increase in all the distinct phases the economy has gone through during the last two years. According to the Fipe index, the real variation of prices of electro-electronics has been of 1.7% during the first six months of the plan and −11% during the following 17 months, in spite of the continuing sales increase, showing that the commercial liberalization regulates prices even when the internal demand is kept heated up.

The magnitude of the real exchange valuation (between June and December the effective real exchange rate, which uses the IPA—Índice de Preços de Atacado (Wholesale Price Index) as the deflation index for domestic prices, had been valued at in 23%), nevertheless, again brought about the discussion on the need to maintain a sustainable stabilization on new bases, now under the form of the need to preserve the external equilibrium. After the crisis derived from the devaluation of the new Mexican currency (Peso), there have been great expectations as to the behavior of the Brazilian external sector. These expectations were increased by the announcement of commercial deficits superior to those expected in November and December 1994, giving way to analyses that pointed to an inevitable exchange adjustment. The net flows of external capitals, which in 1994 had accumulated a balance of US$ 10.8 billion, become negative during the first quarter of 1995, resulting in a net outflow of US$ 4.4 billion.

The exceptional situation of the commercial balance during this period, which extended until June 1995, has been partly due to a combination of factors which would not occur again. In the first place, because the record levels of imports, as well as the exports’ performance below their potential were, to a certain extent, the result of deliberate measures, adopted by the government along the second semester of 1994 with the purpose of restricting the offer and increasing demand for foreign currency, thus allowing the conduction of the monetary policy without an even greater exchange valuation. The reversion of these measures, as in the case of the ACCs –
Adiantamentos sobre Contratos de Cambio (Advance on Export Contracts) and the anticipated payment of exports, would once again lead the commercial balance results to more adequate levels with regards to the new situation of instability of the foreign investments in the so-called “emergent markets”.

In the second place, because the economy was considerably heated up, showing high rates of increase since the last quarter of 1992, which were maintained up until the first quarter of 1995. The consumption boom that has been verified since the implantation of the real (in March 1995, the retail commerce sales in Sao Paulo, excluding vehicles, according to seasonal adjusted data from the FCESP, were 34.3% higher than in June 1994, with an increase of the sales of durable goods increasing to 59%) has been a natural result of the inflation reduction and has continued in spite of the restrictive measures implemented by the government at the end of October. The levels of industrial production during the first quarter of 1995, although slightly lower in comparison to the peak reached in December (in seasonal adjusted terms), were still 6.1% higher than those of the last quarter of 1994. The investment rate during the first quarter of 1995 has reached 16.8% of the GDP.

The fiscal situation at the end of 1994 indicated, as compared to 1993, that the government still maintained a relative equilibrium of its accounts. The accumulated result for the year reveals a superavit of 1.3% of the GDP, with an exceptional performance of the central government (federal government and Central Bank), that register a primary superavit of 3.1% of the GDP. Nevertheless, this performance still benefited from the effects that a high inflation - present during the first half of the year - exerted upon the real value of public expenses, as well as from the exceptional increase in collection, which in the second semester of 1994 increased, in real terms, almost 20% as compared to the same period of the previous year.

4 — Stability With Small Growth: 1995—97

4.1 — The Impact of the Mexican Crisis

The performance of Brazilian economy in 1995 has revealed both progress achieved and challenges that still had to be surmounted with the purpose of consolidating stabilization. In the first category are included the maintenance of inflation at reduced indexes (20% accumulated rate by the average of the main prices indexes), the recovering of the monetary policy as an effective means of achieving stabilization and the approval of the reforms related to the state monopoly and foreign capital. Concerning the second category, we may emphasize the fiscal issue, which presented a considerable deterioration along the year, and the difficulties in implementing the reforms which aimed at a permanent fiscal adjustment (tributary, administrative and Social Security reforms), besides the need to further develop the privatization programme.

From 1994 on (after the Mexican crisis), but with particular intensity as of March, the Real Plan began to face the first obstacles that led to the questioning of the bases on which it had been founded. Until then, it had been possible to operate in an environment of fast income increase simultaneous to the maintenance of inflation at reduced levels. More importantly, the partial
deindexation had been allowing that eventual shocks on inflation (such as those registered in October and November 1994, deriving from climatic accidents) were absorbed without the occurrence of a new consolidation of higher levels of price increases.

Surely the impact of stabilization on the aggregated demand had been considerably underestimated. The restrictive measures adopted in October 1994, although severe, had been insufficient to hold back the strong impulse derived from an environment of greater stability: the transference of real income to the lower income segment of the population,\(^5\) the reopening of the credit as a leverage to consumption and the existence of a stock of projects of modernization and capacity increase on the part of the enterprises, began to allow a strong acceleration of the activity level, leading several sectors to operate close to their limits of capacity, since the economy had already shown high increasing rates for almost two years. The explosive increase of imports, stimulated by the acceleration of the rhythm of the commercial liberalization and by the valuation of the exchange rate, has been the main factor to prevent this picture of overheated economy from degenerating into inflation acceleration, although other factors of a more microeconomic nature (associated to changes in the behavior of enterprises and consumers in an environment of greater stability) have also been responsible here.

The economy in 1995 has presented three distinct moments. The first quarter, as already described, has been characterized by a continuous process of overheating of the economic activity and, mainly, of consumption, which led to an expansion of 10.4% of the GDP as compared to the similar period in 1994. A similar rhythm of growth of the demand could only have been absorbed without any major impact on inflation (which was kept under control during the period, with a monthly average of 1.4%) through a strong increase of imports that grew, in seasonal adjusted terms, about 85% during the January-March\(^95\) quarter, in comparison with the quarter immediately previous to the introduction of the Real Plan. Besides the increase in demand, this increase is explained also by the real exchange rate valuation, of around 23% between June 1994 and February 1995 in terms of effective exchange rate, and by the intensification of the commercial liberalization. The result has been a fast and accentuated reversion of the results of the commercial balance which, comparing the first quarter of 1995 against the last quarter of 1994 (in seasonal adjusted terms), move from monthly average superavits of US$ 1.206 million to monthly deficits of US$ 1,076 million.

This was a clearly unsustainable path, and the Mexican crisis, with its negative impacts on the flows of foreign capitals constituted, no doubt, an important warning factor towards the need to reorient the economy policy. In March, the exchange moves from a floating system to an exchange band procedure, resulting in a discrete devaluation of about 5% in real terms. This new sliding exchange band procedure, with inter-band interventions by the Central Bank, allowed the effective real exchange to accumulate, between February and December 1995, a devaluation of 12.8%. Concerning the commercial policy, the import tariffs have been considerably increased for a group of consumption goods, adapting the rhythm of the economy liberalization to the new external scenery.

Simultaneously to the change in the exchange policy, the Central Bank tightened the monetary and credit controls upon the economy. The basic real interest rate (observed in the Selic—Special System for Settlement and Custody) was led to considerably high levels, increasing from an average of 2% p.m. during the January-March quarter to 2.4% p.m. at the April-June quarter and 3.2% p.m. between July and September (deflation index: IGP-DI centered). Restrictions to the credit, that since October 1994 were already heavy—on account of the high compulsory collection, which began to be changed inclusively on active operations—became even more severe. The real interest rate for loans of working capital increased from an average of 4.4% p.m. in the January-March quarter to 5.5% p.m. between April and June and 6.2% p.m. between July and September.

The impacts of this change in policy on the level of economic activity were noted under the form of an accentuated reduction in the industrial production, which presents an accumulated decrease of almost 9% in the third quarter of the year, as compared to the first one. The policy of high interest rate and the retraction of demand have also affected the investment rate which, according to estimates from the IPEA, had dropped in the second and third quarters of the year after an uninterrupted growth since the beginning of 1993. Still, the average rate of 15.9% of the GDP in 1995 has been superior to that of the previous year.

When analyzing the employment, average wage and total wage bill indicators, especially in industry, the path of these variables complements the picture previously described. It becomes necessary, nevertheless, to analyze the deterioration of the employment indicators: the level of employment has continued to grow in all the sectors (with the exception of industry), but since the economically active population—persons that look for jobs—increased more than the creation of new jobs, the rate of unemployment, seasonal adjusted, increased as of September 1995.

The real total wage bill in the Sao Paulo industry, according to the FIESP, dropped 6.4% in the 12 months between April 1995 and March 1996, whereas the level of employment decreased 10%. Nevertheless, in accordance with employment surveys from IBGE, which cover all the sectors of activity, the real total wage bill has grown uninterruptedly until December 1995. In spite of the reduction observed at the beginning of 1996, the real average income of the employed persons was still, during the first four months of 1996, 10% above that of the same period of the previous year.

The combination of a deceleration of the economic activity, the recovering of the exchange rate in real terms and the increase of import tariffs has resulted in the reversion of the commercial deficits, which began to show monthly seasonal adjusted average superavits of about US$ 140 million in the second quarter of the year. The monthly average of seasonal adjusted imports, which during the first semester had been of US$ 4.4 billion, declined to US$ 3.9 billion in the second semester, whereas the exports increased from a monthly average of US$ 3.7 billion to US$ 4 billion between the two periods.

The restriction in the credit conditions has also caused a strong impact on the financial situation of enterprises and families, significantly increasing the levels of unsettled debts, obviously reflecting on a financial system which had already begun to adapt itself to the new reality of low inflation rates, eventually leading to the closing of some more fragile institutions. In real terms, the credit to the private sector has expanded 5.4% between March and September, while the
credits in delay and/or under settlement moved from 8.6 to 13.5% of the total loans to the private sector.

The question of the structural changes in the financial system has thus become one of the main restrictions to the actions of the Central Bank, from the moment it begins to deregulate the monetary policy, reducing interests, compulsory collection and restrictions to credit. Another restriction derived from the entry of new foreign resources, attracted by the high interest rate policy and allowed by the fast reversion of the negative expectations derived from the devaluation of the Mexican peso in December 1994. Comparing the first semester with the third quarter, the impact of the operations with the external sector on the monetary basis variation moves from R$ 3.4 billion negative to R$ 13.6 billion positive, thus still high in the last quarter of the year (+ R$ 4.7 billion). The combination of the effects deriving from the operations of financial assistance to liquidity and those with the external sector demanded an aggressive policy of public bonds placement: the federal public debt in bonds in the market has grown 42% between July and September. During the last quarter of the year the increase has been smaller (10.3%), and the debt in bonds of the federal government in the market has reached R$ 108.6 billion in December, with an increase of almost 50% per year.

With the return of the flows of external capital and the positive signaling of the commercial balance, the Central Bank began to promote a gradual softening of the monetary and credit restrictions, as of August. This movement becomes more visible in terms of the nominal interest rates at the Selic, which declined from 4% p.m. in July to 2.8% p.m. in December. For this reason, the last four months of 1995 have shown a reversion of the deceleration: positive growing rates of the industrial production have accumulated a variation of 3.7% from September to December. The levels were still of about 6.2% below, in the September-December average, those observed in equal months of 1994, but seemed to demonstrate that a new increase movement had begun. The increase of industry for the year has been of 1.9%, and that of the GDP of 4.2%, stimulated by the agricultural and stock raising sectors (with a growth of 5.9%) and services (5.7%).

The dominant issue in 1995 has undoubtedly been the deterioration of the public accounts. For the consolidated public sector, there has been a movement from a superavit, in the operational concept, of 1.3% of the GDP in 1994 to a deficit of 5% of the GDP. Even if part of this deterioration can be explained by the strong increase in the real financial charges (which jump from 3.8 to 5.4% of the GDP) as a result both of the interests increase as of the stock of public debt, the main factor has been the reduction of the primary superavit from 5.2% to only 0.4% of the GDP. In spite the fact that the deficit of states and municipalities in 1995 has been responsible for half of the total (reaching 2.5% of the GDP), it has been the central government who responded for the major share of the shift in relation to 1994 — a variation of 3.3% of the GDP. This variation, in its turn, derived from a reduction of the primary superavit equivalent to 2.5% of the GDP, with the remaining derived from the increase of the real interests charges.

Data from the Secretaria do Tesouro Nacional—STN (National Treasury Secretariat), even though not strictly comparable to the performance in terms of Public Sector Borrowing Requirements (PSBR), reveal that in 1995 the fiscal income has increased, in real terms, 8.6% as compared to the previous year, whereas expenses had grown 14.6% by the same criterion. Among the expenses is emphasized the increase with personnel and charges, with a variation of
15.4% in the period, as a result of the significant increases approved at the end of the previous government, as well as of the salaries correction occurred at the beginning of the year, based on the accumulated inflation. This strong growth also applies to the expenses with Social Security, which have grown 23% in real terms as a result of the correction of the benefits themselves and of the value of the minimum wage (an increase of 43% afforded in May).

4.2 — Consolidation of Stability and Economic Recovering

The movement of economic recovering, which had already begun to be outlined in the last quarter of 1995, has been partially reverted during the first months of 1996. According to data from the IBGE, the industrial production during the first quarter of the year, after the seasonal adjustment, would have become 16% below the average of the last quarter of 1995. The GDP in this period would have remained practically stable as compared to the previous quarter (in seasonal terms), decreasing 2% as compared to the first quarter of 1995.

Even if the Central Bank had proceeded with its policy of gradual interest reduction (the average rate of the Selic during the first quarter has been of 2.4% p.m., against 2.9% in the previous quarter), the response from the standpoint of the credit offer, at the beginning of the year, was still somewhat shy: the loans of the financial system to the private sector in March had been 7.7% higher, in real terms, than those observed during March of the previous year; but the proportion of credits in delay and/or under settlement had increased to almost 18%. Due to this high delinquency ratio, the bank rates for loans still remained considerably high during the first quarter: in the average, the rates for loans of working capital had been of 4.3% p.m. (or about 65% p.a.) against 5.4% p.m., in average, during the previous quarter.

As a counterpart to this picture of relative deceleration of the economic activity, and reflecting the exchange devaluations below the inflation (the exchange variation accumulated for 12 months until March has been of 11.1%, against an average inflation, according to the IGP-DI, of 13%), the average inflation of the first quarter (average of the IPC-Fipe, INPC and IGP-DI) has reached considerably reduced levels. The average monthly rate of inflation in this period (0.85% p.m.) has been almost 0.5% lower than that observed for a similar period in 1995. The average monthly variation of the prices of industrial products has been of only 0.03%, with a deflation of 0.15% in March.

The second quarter of the year has registered inflation rates slightly higher than those of the previous period. Driven by the price increases of the agricultural products, which were then at high levels in the international market (the average IPA-OG of the quarter for agricultural products has been of 2.06% p.m., against 1.72% in the previous quarter and −0.44% between October and December 1995), the average inflation of the quarter has reached 1.28% p.m. Great impact has also been exerted by the variations of public prices, either to correct distortions in the structures of prices of the state owned companies (as in the case of the implicit subsidy to alcohol, which determined the correction of gas prices at the end of March), or because the indexation still prevails in relation to past inflation (as is the case of public transportation, where prices are determined by the municipalities’ administration). In any way, the projections for the yearly inflation point to a continuation of the tendency to decrease, with forecasts oscillating
between 12 and 15% for the accumulated value until December.

The prices movement between tradable and non-tradable goods (which determine the path of the real exchange rate) have been showing a progressive convergence in the variation rates— even indicating the perspective of some correction of the “excesses” observed in the initial months of the Real Plan (when the prices of services and rent became strongly detached from those prices, due to the close influence of the exchange path). The behavior of the various groups of products within the price index of the Fipe clearly shows this tendency: since the beginning of the Real Plan, up to June, the services group (which includes rent) had accumulated a variation of 89% above the variation of the Fipe index (in average, 2.5% p.m.). During the first quarter of the year, this relative variation had already decreased to 5.9% in the accumulated rate for three months, or 1.8% in the monthly average, reducing even more during the April-June quarter, to 0.3%. This convergence in the prices variations constitutes a powerful indicator that the policies of demand control have been effectively conducting the economy to a new prices formation, with less emphasis on the mechanisms of automatic correction. Steps still have to be taken towards greater adaptation of the correction of prices and tariffs of the public sector (which will carry an important weight during the months of June and July) to the real costs variations.

Before the results which indicated, during the first quarter, a relative fragility of the economic recovering, the Central Bank has promoted, at the end of April, a new set of measures aiming at an even greater flexibilization of the credit restrictions. Among them, the increase of financing terms, more favorable conditions of refinancing to micro and small enterprises, the reduction of the IOF— Imposto sobre Operacoes Financeiras (Tax on Financial Operations) and the elimination of restrictions in the issuance of commercial papers by the enterprises. More recently, new rules have been defined for the compulsory collection which, in spite of their still high levels, should amplify the liquidity of the system. Thus, a situation of greater yearly growth has been outlined, stimulated mainly by the amplified credit to the consumer. The seasonal adjusted results for the industry in the bimester April-May already displayed a recovering of 2.2%, as compared to the first quarter.

As already emphasized, in spite of the deceleration of the economic activity, the mass of income for the employed persons continued to grow, in real terms, at high rates—around 11% when comparing the first four months of 1996 to a similar period in 1995. In sectorial terms, this growth reflects the changes which have been occurring in the productive structure: a strong increase in construction (13.7%), commerce (16.1%) and services (15.2%), while the mass of personal income of those employed in the industry, in real terms, has remained stable. Even with an increase in unemployment, from 4.4 to 5.8% in the same period, these results point to the sustaining of the global income and, thus, of demand.

The flows of foreign trade have revealed a higher dynamics of exports. During the first semester of the year they increased 6.85% as compared to a similar period of the previous year. This aggregate, nevertheless, conceals some important changes in the composition of foreign sales— contrary to what had been observed during last year, the growth of exports has been occurring within a picture of a rather unfavorable prices situation5 and a lower growth of the developing countries. Thus, a great part of the growth is explained by the expansion of the industrialized exports, with quantities, in the accumulated rate for the year up to June, showing an increase of 15.6% in semi-manufactured goods and 12.1% in manufactured goods. In terms of income, these
variations have been of 4.3 and 6.9%, respectively.

With regards to imports, there is a decrease of 9.6% in the accumulated rate for the year until June. Nevertheless, if from this total were excluded the imports of automobiles, the remaining imports would have presented, from January to June, a decrease of only 2.7% as compared to a similar period of last year. By groups of products, while imports of raw materials and intermediate products (including combustibles and lubricants) decreased 5.6%, imports of capital goods increased 10.9%. The consumption goods (excluding automobiles) have had a decrease of 9.1%, highly concentrated on durable goods —— 19.5%.

The level of international reserves has reached almost US$ 60 billion in June/96. The capital flows, which up to that month had resulted in net entries of resources of the order of US$ 12.3 billion, have been progressively moving towards a larger participation in direct investments (US$ 4.4 billion) and currency loans of average and long terms (gross captations of the order of US$ 6 billion), effected under price and term conditions each time more favorable. Investments in portfolio, that in the period August-December 1995 had presented a net flow of US$ 4.6 billion, dropped to US$ 2.7 billion between January and June 1996.

The counterpart to the entries of foreign resources has been the permanent pressure on the public debt, which continued to grow fastly: between December 1995 and June 1996, the federal public debt in bonds in the market increased almost 42.2%, reaching R$ 154.3 billion. The placement of public bonds had still been necessary to neutralize the expanding impact of the Treasure (R$ 6.8 billion in the accumulated value until June, which nevertheless reflects, to a large extent, the effects of the Bank of Brazil’s capitalization) and of operations of financial assistance to liquidity, already influenced by the Proer (Program for the Strengthening of the National Financial System) (R$ 5.9 billion). These sources of pressure on the public debt, nevertheless, when involving as a counterpart the acquisition of assets by the Central Bank— either under the form of international reserves or through guarantees in case of assistance to the financial system—resulted in a slight increase of the net debt of the public sector, which would have moved from 31.6 to 33.3% of the GDP between December 1995 and May 1996.

The central issue of the process of adjustment continues to be the need to reduce the public deficit on a permanent basis. The perspectives for 1996 are positive in this direction, either through the control of expenses, or by the positive effect that the decrease of the interest rates will exert on the financial charges of the public sector. Also, a great adjustment effort has been undertaken by the states and municipalities as part of a process of renegotiation of their debts with the federal government. Expectations are that, in 1996, the performance of the states and municipalities will show an improve equivalent to 0.5% of the GDP in the primary result and of 1.5% of the GDP in the operational result. For the consolidated public sector, the primary result would show an improvement of 0.7% of the GDP, and the operational deficit would be situated between 2.5 and 3% of the GDP.

The situation previously described reveals a moderate economic recovering and a relative calm in the foreign front, be it from the point of view of the performance of the commercial balance, or from the standpoint of the financing of the deficit in current account, which in 1996 should be situated slightly below the values observed in 1995 (when the deficit had been of 2.7% of the GDP). In spite of this favorable picture, consistent with important gains vis-a-vis the inflation,
there have been intense critics as to the sustainability of the programme, especially regarding the real exchange valuation and its implications in terms of the restrictions it imposes upon growth and the degree of vulnerability of the balance of payments.

These analyses involve distinct issues. The first one refers to the origin of the critics itself, the real exchange valuation. The second one is related to the effects of such valuation on the policies required to correct the problem. Regarding the first aspect, a distinction must be made, from a theoretical point of view, between the paths of equilibrium and disequilibrium. The real exchange valuation can be associated to a path of equilibrium (thus being sustainable) if the stabilization process involve alterations in the macroeconomic fundamentals derived from the changes in the economic policy—specially concerning the path of the public deficit—which may lead to changes in the pattern of foreign financing.

In the above context, eventual deficits in current account in the balance of payments do not constitute, by themselves, evidence of disequilibrium. The recourse to foreign savings is part of a sustainable development strategy if it has, as a counterpart, the increase of domestic investment and if this investment, responding to adequate signaling of relative prices, is directed to the tradable goods sector. This line of reasoning emphasizes the gains in productivity and the space for reduction of margins of profit derived from the commercial liberalization.

For those who consider the process of exchange valuation to be an expression of disequilibrium—basically due to the rigid prices adjustment of non-tradable goods, a characteristic which could be emphasized by an insufficient fiscal adjustment—, this would be a fundamental issue, as distorted relative prices would lead to an increase of the production of non-tradable goods and to the reduction of the production of tradable goods. Thus, there would be a structural disequilibrium of the commercial balance, financiable only for a short period of time. In the long run, given the less intensive-capital degree of the production of non-tradable goods, there would be a “shrinking” (or deindustrialization) of the economy.

The depth and scope of these changes that have been occurring in the economy do not yet allow a definite judgement as to tendencies observed in the process of changes occurring in the productive economy. Still, according to estimates from the IPEA/GAC as to the behavior of the quarterly investment, after the introduction of the real, there would have been a strong acceleration in the gross formation of fixed capital, that from a level of 14.2% of the GDP in the second quarter of 1994 would have increased up to 16.8% of the GDP during the first quarter of 1995. Along 1995, as a result of high interest rates, of the drop of demand and of the increase of uncertainty as to the path of stabilization, the investment rate would have continuously declined down to 14.8% of the GDP in the last quarter of the year (although the average investment rate had still been higher than in 1994). Estimates for the second quarter of 1996 point to the recovering of investment, which would have reached 16.2% of the GDP.

Furthermore, an important change in the composition of investment has been observed, with lower weight in construction and building, and higher participation of machines and equipment. The strong increase of imports of capital goods in 1994 (45.4%) and in 1995 (50%) reveals that at least in part, the increase of imports would be reflecting an increase of investment in modernization, thus resulting in the incorporation of technological progress and higher productivity. In terms of the composition of investment, a retraction of public investment can be
observed, with negative effects upon the areas of productive infrastructure, where the State owns
the monopoly of exploration through the state owned companies. In any way, the current
investment rates are still significantly below those required to sustain higher development rates.
In order for the economy to recover growth rates between 5 and 6% p.a. without stumbling
before given limits of capacity, it would be necessary to achieve investment rates (at constant
prices) of the order of 20% of the GDP.

In order to finance this investment effort, savings would need to be increased of about 3.6% of
the GDP in relation to the estimates for 1995, until reaching 23.3% of the GDP. Considering
foreign savings of the order of 2% of the GDP, this would imply in increasing the domestic
savings from the 17% of the GDP foreseen for 1995 to 21.3% of the GDP— that is, an increase of
about 4.3% of the GDP. Private savings have grown at an average of 16.6% of the GDP in the
four previous years to almost 18% of the GDP in 1995. Public sector’s savings, on the contrary,
decreased from an average of 3.5% of the GDP p.a. between 1991 and 1994 to —0.9% of the
GDP in 1995.6 The main share of domestic savings growth effort will, therefore, have to come
from the public sector.

The prescription of policies is dependent on the view of each of the tendencies already mentioned
with regards to the time required for the adjustment. If seen as a sign of disequilibrium, this time
span would be too long and a correction of exchange would inevitably be required at a given
moment. It would still be necessary to determine, nevertheless, to what extent this nominal
correction would express real variation, as well as its implications on the inflationary process
itself. It is based on a long history of inflation, that left as a consequence a strong tendency to the
reindexation of the economy, that we argue against a nominal exchange devaluation to correct
the existing disequilibrium.

Thus, the recovering of sustained growth would require an increase in the economy
competitiveness as a whole, and with special emphasis the competitiveness of the exporting
sector. Since the exchange policy will continue to be an important instrument for stabilization,
this increase in competitiveness must also be based on other factors which affect rentability of
exports, such as, for example, the need to expand, at low costs, the financing lines to exports (as
recently undertaken by BNDES (National Bank for Economic and Social Development) in
support of certain sectors) and to carry forth the process of tributary reduction already initiated
with the measures of relative compensations to the PIS (Employees’ Profit Participation
Program) and to the Cofins (Tax and Social Security Financing) included in the input costs.
Nevertheless, from a macroeconomic perspective, the possibility of achieving exports growth at
higher rates is closely associated to the reduction of the public deficit, to the approval of
constitutional reforms and to the implementation of privatization—as these factors determine the
possibility of the recovering of investment, thus leading domestic production to become more
competitive. Thus, there is still a long way to go until privatization, the concession of public
services and other measures of structural adjustment of the public sector, (administrative,
tributary and Social Security reforms) can be translated into real conditions for a sustained
growth.

In case the inflationary tax be considered as an effective income of the public sector, and is
discounted from private savings, the movements of decrease of public savings and increase of
private savings in 1995 become even more dramatic.
4.3 — The Impact of the Asian Crisis

The year of 1997 was marked by the consolidation of the economic stability (the rate of inflation has been reduced to only 5%) by the maintenance of basic line of the economic policy, by the growth of the economy in a reasonable rate (+3%), with the recovering of the industrial production (+4.3%), mainly in the tradable goods sector, and by a significant improvement in the external accounts, due the growth of exports (+11%) which made the commercial debt (− US$ 8.3 billions) inferior than the previewed at the beginning of the year. There also has been observed a substantial increase in the rate of investment to 18% comparing with the 16.5% of 1996, at 1980 prices.

The negative signal was the bad result in the public accounts which registered an operational deficit of 3.14% in the public sector financing requirements concept. This was due mainly to the increasing in the rate of interests over the public debt after the Asian crisis.

Nevertheless, the overall picture has changed in the last two months of the year due to the Asian crisis. The government had to implement a very tight monetary policy, doubling the rate of interest to almost 40% per year in order to make it attractive for foreign investor. This was a conjunctural reaction against a massive lost of reserves (US$ 10 billion out of 61 billion) in the first two weeks of the crisis. Afterwards the government made others more structural moving: first it launched a very restrictive fiscal package in order to restrain the public deficit. Besides of getting the approval of the Brazilian Congress for those measures the government also has succeeded on approving some of the structural reforms it has been submitted to the Congress for a long time without success. It might be said that running the risk of loosing the stability, the Brazilian society has preferred to make the sacrifice of less growth in order to maintain it.

The result of that was the return of foreign capital lost during the beginning of the crisis but also a slowdown in the economic growth. The perspectives are to reduce the rate of interest gradually as far as the benefits of the reforms shows to be effective. In the end of February 1998 the rate of interest has been reduced to 28% and is expected to be 20% by July. The expected result in terms of growth is a slowly recover during the second quarter of the year and a rate of 2% growth of GDP with a 2% rate of inflation.

5 — Real Plan, Macroeconomic Stability and Social Development - an overview

After reaching its fourth year of existence, the Real Plan becomes consolidated as the most successful effort at stabilization of the last thirty one years. The inflation rates have declined from levels which were close to 50% per month in June 1994, to less than 4.5% per year at the beginning of 1998, without the need for any type of direct control on prices or contract breaching between private agents. After the creation of the URV, linked to the exchange rate variations, an adjustment of relative prices was carried out in such a manner as to neutralize the inertial component of inflation and thus recover the confidence in the Brazilian currency. In order to guarantee the initial success of this strategy, the change in the economic environment has been fundamental, with an ample commercial liberalization that would allow competition with imported goods to restrict the internal price increases and, on the other hand, impel the national
producers towards obtaining gains in productivity.

Along the first two years of the plan, we had a significant inflation reduction, mainly through the contention of the prices of the so-called tradable goods, that is, those that were more subject to foreign competition. In that period, the price increases of non-tradable goods, such as public tariffs and services, were considerably above the general inflation rates. As of the second semester of 1996, nevertheless, a larger convergence between the price variations of these two categories of goods has been verified, a tendency which is intensely strengthened along 1997, reflecting the development of the general price deindexation (inclusive of public goods) and economic revenues.

On the other hand, the fast rhythm of this progress has been strongly directed by the orientation of the exchange policy. At the beginning of the program, there has been a nominal valuation of the domestic currency, as a result of the decision of the Central Bank not to intervene directly on the exchange market. After the exchange crisis occurred in Mexico in March 1995, the exchange floating system was introduced within sliding bands established by the Central Bank, who then began to act directly in the exchange market; this resulted, in practice, in a mechanism of exchange devaluation effected with no determination of fixed periods nor link to the inflation rate, but adapted to the evolution of the relation between the internal and external prices and to international capital flows. In fact, since then the exchange policy has been allowing profits to the exporters, as the devaluation rates have been higher than the increase of wholesale industrial prices.

Another important factor to the success obtained in the struggle against inflation has been the adequate conduction of the monetary policy. Right after the implantation of the Real Plan, there has been a considerable increase of the monetary aggregates, with the Central Bank approving the increase for the demand of currency resulting from the abrupt decrease of inflation and from the reestablishment of the credit channels. In October 1994, nevertheless, certain measures have been taken towards the contention of credit, with the objective of holding back the consumption increase, that could result in a new inflationary explosion, as it was quite above the growing capacity of the production. These contracting measures, after additional restrictions in April 1995, began little by little to be softened as of the middle of that year, being further followed by a declining path of the interest rates until the end of October 1997, when the intensification of the crisis in the Asian Southeast showed the need for a more conservative monetary policy. Nevertheless, the prompt reaction of the economic policy to the external crisis, through the increase of internal interest rates and the announcement of a set of measures aiming at a fiscal adjustment in 1998, have guaranteed the continuation of the international investor’s confidence in the success of the stabilization program, in this manner allowing a return to the declining path of the interest rates as a target of the monetary policy already as of December 1997.

The behavior of production along this entire period has followed a path which is typical of a stabilization program dependent on the exchange rate: after a strong increase of the internal demand and of the GDP, it became necessary to impose restrictions to consumption, which led to an intense deceleration of the activity level during the last three quarters of 1995. Nevertheless, still at the end of that year, the levels of production and consumption began to show signs of recovery, which has been intensified during 1996, pointing to the consolidation of the growth process in 1997, when the Asian crisis occurs. The investment rate at constant prices of 1990
reached the mark of 19.1% of the GDP during last year. For the average of the first four years of the Real, it is estimated that the GDP has grown 4.2% per year.

Although still below the potential of Brazilian economy, this rhythm indicates the need for the creation of more solid conditions, from the point of view of the macroeconomic fundamentals, in order to allow development to return to its historical post-war average, with rates of the order of 7% per year. Significant steps have been taken in that direction, as for the example, through the constitutional changes which allowed breaking through the state monopoly on sectors such as oil, electrical energy and telecommunications, as well as the elimination of the distinction between national and foreign companies. The definite consolidation of stability in an environment of sustained development, nevertheless, depends on more significant steps towards the control of the public deficit, on a permanent basis, which points to the need of implementing additional reforms, such as the administrative reform and that which involves the official system of Social Security. At the same time, the privatization program requires a reduction in state intervention in the productive activities, which constitutes additional motivation to the resuming of investments in the infrastructure sectors, inclusive through external capital.

On the other hand, economic stability is fundamental to allow for a more intense participation of the State in the social area, as with the decrease of inflation and the elimination of the distortions in the prices system derived therefrom, it becomes easier to plan and evaluate costs and return of the projects, both for the private and the public sectors. In this manner, there will be greater possibilities of more adequately planning the public policies, among them the social policies, within a process of redefinition of the role of the State in national life.

In any way, the stabilization process has already produced, along the life period of the Real Plan, significant results on the situation of the less privileged among the population. The most important of them has been the increase in the consumer power of the poorest share, who did not possess means to protect against the corroding effects of inflation on their incomes, but who still today have the cost of a cesta básica (basket of basic goods required by a family) close to that observed after the implantation of the Real.

At the same time, after a temporary increase in the unemployment rates in 1995, increases have been registered both in the levels of employment as in those of average real salaries, in the main metropolitan Brazilian regions, along 1996. These levels have been maintained approximately constant during 1997, which reflects an important contribution of the Real Plan to the improvement of social welfare.
Working Paper

No.1 Industrial Transition and Policies in the Development Process of the Korean Economy
   Park Joon Kyung, July 1991

No.2 Retrospects and Prospects of Thailand’s Economic Development
   Somchai Jitsuchon, July 1991

No.3 A Perspective on Philippines Economic Performance and Development Strategies
   Josef T. Yap, July 1991

No.4 The Japanese Economy during the Era of High Economic Growth, Retrospect and Evaluation
   Akira Sadahiro, July 1991

No.5 Structure of the Economy and Financial Policy:
   The Role of Structural Policy in Realizing Market-Oriented Reforms
   Mikhail Ksenofontov, April 1992

No.6 Social Security and Social Network in Japan
   Shuzo Nishimura, April 1992

No.7 Savings in Asian Developing Countries —— What Measures Could be Taken to Stimulate Private Savings in Thailand?
   Jun Saito, September 1991

No.8 Possible Lessons for the Transition to a Market Economy and Durable Economic Growth
   with the Reference to the Postwar Japanese Economy
   Akira Sadahiro, April 1992

No.9 An Introduction of the Market Mechanism into the CIS Economy
   Katsuhiro Miyamoto, April 1992

No.10 Experience of East Asian Newly Industrializing Economies
   Fumihira Nishizaki, May 1992

No.11 Monetary Policies and Money Markets in Indonesia
   Masaaki Komatsu, July 1992

No.12 The Structure and Function of Distribution Industry in Korea
   Lee, Jae-Hyung, November 1992

No.13 Some Issues on Privatization and Policies for Promoting Export of Vietnam
   Dinh Thi Chinh, November 1992

No.14 Mongolian Reforming Process to a Market Economy
   Budasuren Tumen, November 1992

No.15 Economic Reform in Russia, Present and Future
   Eugene E. Gavrilenkov, November 1992
No.16 Deepen the Economic Reform and Opening Market
   Tie Jun Lee, February 1993
No.17 Economic Reform in Czechoslovakia
   Vratislav Izak, May 1993
No.18 Economic Reforms in Belarus, Present and Future
   Alexander N. Potantsev, May 1993
No.19 Ukraine: The Road to National Statehood Creation
   Igor Bourakovskii, May 1993
No.20 The Russian Economy: Present Problems and Prospects for Reconstruction
   Vitali G. Shvydko, May 1993
No.21 Reform of Macroeconomic Policy in Cambodia
   Chhieng Yanara, May 1993
No.22 Rapid Growth and Step by Step Reform in China
   Ning Jizhe, May 1993
No.23 Patterns and Effects of Financial Sector Reform in Indonesia
   Mubariq Ahmad, May 1993
No.24 The 1993—1998 Medium-term Development Plan:
   Its Financial Resources Requirements
   Edita A. Tan, May 1993
No.25 Philippines: Macroeconomic Agenda and Prospects for the Medium Term
   Charito D. Arriola, May 1993
No.26 Conditions for a Successful Economic Reform in Indochina and the Role of Thailand
   Somsak Tambunlertchai, June 1993
No.27 Recession, Restructuring and Recovery
   — What Japanese Experience Suggests to the Romanian Economy —
   Shoichi Kojima, June 1993
No.28 Development in Chile: Some Facts and Thoughts
   Felipe G. Morande, June 1993
No.29 A Note on the Chinese Economy: Current Conditions and Prospects
   Yasuko Takayanagi, July 1993
No.30 Korea’s Economic Development Strategy and Economic Policy Direction of the New Government
   Sung-Taik HAN, August 1993
No.31 Financial Deepening and Economic Growth in the Asia-Pacific Region
   — A Lesson from Financial Deregulation in Indonesia —
   Hiroyuki Taguchi, August 1993
No.32 Regional Cooperation between Thailand and Indochina Area
   Pruittiporn Nakornchai, November 1993
No.33 Economic Reform in Mongolia
   Lkhagvagiin Demberel, March 1994
No.34 Same Theoretico-empirical Aspects of a Transition Economy
   Sambuugin Demberel, March 1994
No.35 Economic Reform in Poland, 1989—1993 (Structural Transformation)
   Jarzy J. Kropiwnicki, March 1994
No.36 Chile's Structural Adjustment: Relevant Policy Lessons for Latin America
   Luis A. Riveros, May 1994
No.37 社会主義国家の経済改革の比較研究
   —アジア圈と東欧圏がどうして違った発展をするのか—
   李 鎗 徹, June 1994
No.38 AFTA, WTO AND PHILIPPINE SMES
   Manuel D. Cantos, October 1994
No.39 Currency Market, Exchange Rate and Macroeconomic Situation of Russia in 1994
   Lubov D. Dolzhenkova, April 1995
No.40 Government Plan of Financial Stabilization for Russia in 1995
   Andrei Illarionov, May 1995
No.41 Implications of G.A.T.T. on the Philippine Agriculture Sector
   Doreen Carla E. Erfe, June 1995
No.42 The Transition to Market Oriented Economy: Case of Romania
   —the Present Facts and Situations—
   Cernei Florin Ovidiu, June 1995
No.43 The Japanese Labour System—A Critical Analysis—
   David M. Berry, July 1995
No.44 Moral Hazards in Japan’s Main Bank System
   Luke Gower, October 1996
No.45 Economic Policies for Macroeconomic Stabilization and Sustainable Economic Growth
   in Russia (an experience of radical reforms in Russia)
   Volkov Vladimir Nikolaevich, November 1996
No.46 Review of Economic Relations between Russia and Japan, in Particular Future Relations
   between the Russia Far East and the Asia-Pacific Region
   Varlamov Victor Sergeevich, November 1996
No.47 Long-Term Economic Growth Strategy
   Abelin Alexander Pavlovich, November 1996
No.48 Structural Adjustment in Indonesian Economy
Arief Ramelan Karseno, February 1997

No.49 Thailand’s Development Strategies and Prospects for the Twenty-first Century
Athipat Bamroong, February 1997

No.50 Financial Stabilization in Russia on 1992—1995: Policy and Results
Alexey Ulyukaev, February 1997

No.51 Russian Enterprises: System Failure and External Problems
Yaroslav Kouzminov, February 1997

No.52 Privatization in Russia: Announced Success and Real Failure
Nikologorskiy Dmitriy Yurevich, February 19

No.53 A Characterization of The Chilean National System of Innovation
Jose Miguel Benavente H., March 1997

No.54 Korea’s Efforts in Official Development Assistance
Ho-Chul Lee, March 1997

No.55 韓国における国民福祉年金の導入延期措置の経済効果
Bae Jun-Ho, March 1997

No.56 Asian Regional Economic Development: How Important Have Economic Policies Been?
Moreno Bertoldi, September 1997

No.57 Economic Outlook of Polish Economy for 1998
Witold Skrok, Katarzyna Zajdel, November 1997

No.58 Comparison between Russia and Other economies in Transition
Vladimir N. Volkov, February 1998

No.59 Dynamics and Structure of Production As Result of Economic Reforms
Alexey V. Koltsov, February 1998

No.60 Long-term Economic Development with Consideration to the Changes of Policies and Factors in the Russian Economy
Galina E. Maslovskaya, February 1998

No.61 Chilean and Japanese Health Insurance Systems: An Overview
Viviano Esteban Carrasco Zambrano, March 1998