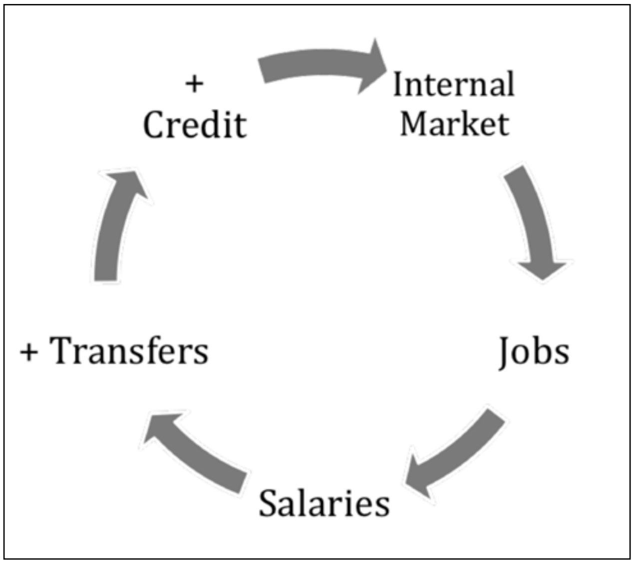
Economic transformation in Brazil

The economic transformation brought by former Brazilian president Lula da Silva's policies has caught the imagination of many. However, the achievements came out of hard work and were not smooth sailing, says **Giorgio Romano** who spoke at a roundtable on comparing Brazil and South Africa that was organised by the Chris Hani Institute in Johannesburg, writes **Elijah Chiwota**.

The Lula model is based on economic policies that stimulate a cycle as shown below.



According to Romano, professor at Universidade Federal do ABC, the Lula model was built between 2003 and 2006, when the Brazilian government moved away from orthodox macro-economic policies that focused mainly on the markets and profits, and replaced them with heterodox policies that dealt with transforming government institutions and how they operated.

Economic policies from 2007 to 2010 emphasised fiscal and monetary stimulation to accelerate economic growth and this led to an increase in social transfers and stronger real increases in minimum wages. Romano says between 2003 to 2006 minimum wages increased by 19% followed by 31% during the period 2007 to 2010.

This period was succeeded by 'the reinvention of a development state' from 2006 to 2011. Says Romano: 'From 2011 to 2012 the policies focused on fixing interest and exchange rates so as to promote development. However, the results of these policies will only be seen when the economic performance for 2012 is analysed.'

To avoid bad international ratings, the first Lula administration opted not to confront markets. Rather, it focused on fixing the macro-economy in such a way that it would be able to sustain the expansion of social policies (Bolsa Familia). This increased minimum wages and the expansion of credit.

'Therefore, it can be seen that economic policies from 2003 to 2006 were aimed at reducing the public debt and increasing the gross domestic product (GDP). The government also wanted to increase the value of its external account by increasing its trade balance and foreign direct investment. External reserves grew from US$55-billion in 2005 to US$378-billion in 2012', says Romano adding that the government also wanted to pay its debt of US$23,3-billion to the International Monetary Fund.

During this transformation the state played a central role by introducing strategic investments and industrial policies that supported its programmes. The following tables show some of the changes that took place in the Brazilian economy.

William Matlala

Giorgio Romano speaking at the Chris Hani Institute roundtable in Johannesburg.

New developmentalism

Annual variations	1995-1998	1999-2002	2003-2006	2007-2010
Increase GDP	2,5%	2,1%	3,5%	4,4%
Investment	4,3%	-2%	4,5%	8,6%
Public Investment	2,21%	1,6%	1,52%	2,56
Credit/GDP	30,3%	25,4%	25,4%	40% (2010: 49%)
Inflation (IPCA)	9,7%	8,8%	6,4%	4,8%
Job creation (formal contract)	-296.000	454.000	1.163.000	1.466.000
Real increase in minimum wage (total for period)	17%	15%	19%	31%

Unemployment/job creation and GDP

Year	Unemployment	Jobs created	GDP	GDP/capita
2003	12,3%	861.014	1,1%	-0,2%
2004	11,4%	1.862.649	5,7%	4,3%
2005	9,8%	1.831.041	3,2%	1,9%
2006	9,9%	1.916.632	4%	2,7%
2007	9,3%	2.452.181	6,1%	4,9%
2008	7,8%	1.834.136	5,2%	4,1%
2009	8,1%	1.765.980	-0,6%	-1,6%
2010	6,7%	2.860.809	7,5%	6,5%
2011	6%	1,566,000	2,7%	1,7%
2012	5,5%	1,300,000	1%	nd