

# “Always focus on Results”



## Henrique Meirelles

Chairman of the Board of Directors of J & F, and former central bank governor

### Claudio Accioli, São Paulo

HENRIQUE MEIRELLES appreciates challenges. After building a solid career in finance, culminating in the presidency of Bank of Boston in the U.S., he returned to Brazil in 2002 to take up politics. He was elected representative for the state of Goiás but chose instead to accept appointment by new President Lula as head of the central bank, although he was affiliated with the PSDB, which had just lost the election, and there was much concern about the economic policy of the new government. He served throughout Lula's two terms, becoming the longest-serving central bank governor and enhancing the bank's credibility. He then assumed the presidency on the board of directors of J & F, one of the world's largest food processors. Although he warns about the dangers of financial collapse in Eurozone countries and is concerned about indebtedness in some sectors of the Brazilian economy, he remains optimistic: "We will not return to the time of crisis."

### *The Brazilian Economy* — What led you to move from the financial to the manufacturing sector?

*Henrique Meirelles* — What was missing in my career was working directly in the productive sector, in a company in the most competitive area of our economy, producing commodities from animal protein and cellulose, in the domestic consumer market with hygiene and beauty and dairy products, and in financial markets. Furthermore, it is a global conglomerate—most of its sales and production take place abroad. I am finding it a rich and interesting experience.

### **To what do you attribute your success as central bank governor?**

I always try to focus on results. That means having a very clear definition of what the result will be and having an intense, exclusive dedication to delivering the expected result. For the Brazilian economy, the goal was stabilization. We were in monetary crisis, with inflation at times exceeding 2% per month; an exchange rate crisis, with very low and falling international reserves; and a quite severe problem of financing the

domestic debt. . . . I think this is the reason for my longevity in office: maintaining a focused, rational, objective stance so that the president had the comfort of knowing that monetary and exchange rate policies were in the right direction and delivering the results that the country expected.

**Did you feel at ease politically?**

I made only one campaign, which let me see Brazil from another view. The campaign exposes you to another side of the country not visible from large cities or markets. It was a very important experience for me to have a better understanding of reality and politics in Brazil. Once in government I tried to maintain an open dialogue with peace of mind to listen and consider everyone's opinions, but with absolute firmness as to the objectives, so that, over time, the results began to speak for themselves. Even the staunchest opponents have begun to recognize that the policy was working, that Brazil was growing, creating jobs. In short, I tried to prevail by results and professional conduct, not by political alliances.

**Under your management, the central bank's benchmark interest rate was among the highest in the world. Now, the interest rate is declining to international levels. What are your views on these two different periods?**

First of all, I have chosen not to comment on the management of my successors, which is a good practice among central bankers. But without making comparisons, I can say that the real interest rate

in Brazil has been falling consistently since 2003. At that time, the benchmark rate was 25% a year; it went up to 26.5% but then we brought it down to 8.75%, which was a record low. Then we again increased it to 11%, and the current central bank management increased a little before starting to cut it as economic activity weakened. But . . . despite tightening and loosening cycles of monetary policy, the trend has been downward since 2003. Risk premiums have declined and credit and maturities increased, because in recent years Brazil's monetary policy has been more effective.

**Despite falling interest rates and measures to stimulate consumption, Brazil still has the lowest growth among the BRICs and Latin American countries. How can this be changed?**

There are several issues. Regarding credit, . . . clearly some sectors in the Brazilian economy have reached their borrowing limits. . . . The economy is recovering, but there is no doubt that structural factors are limiting growth. Domestic and external factors have contributed to growth in recent years. The external factor was the large increase in prices and volumes of commodities exports. Among the domestic factors are — what I call the stability bonus — the fall in real interest rates and expansion of credit from 22% of GDP to almost 50% today. Also, because the

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economy is more predictable, markets expanded. Finally, the fall in unemployment from 13% per year to less than 6% now makes a difference.

But the credit expansion is reaching its limits, as we have seen, and so is the fall in unemployment. To maintain higher growth, we must increase productivity. We must address infrastructure, regulatory, bureaucracy, and fiscal issues, and most importantly education. The country has advanced in recent years with regard to increasing the number of students in various grades. The next step is to improve the quality of education.

**On external growth factors, what is your view about how the euro crisis might affect the Brazilian economy?**

The euro monetary union made great sense as a fiscal union followed by a political union, as was the original plan. But the Maastricht Treaty set out only [fiscal] commitments, without the corresponding sanctions [for countries that did not comply]. It was an error that had very serious consequences. It created a group of countries with a common currency but with diverse practices, cultures and labor, and fiscal and commercial policies . . . Because they have completely different inflation rates, these economies have evolved with different degrees of competitiveness, generating a crisis whose most visible component was the fiscal side, and then the financial. According to a central banker at

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the Federal Reserve Bank of New York, Europe has only two alternatives: either most countries leave the euro . . . or they go for full fiscal and political union. As a theoretical solution the latter may be very good, but the problem is the political and cultural realities.

The effects on Brazil will depend largely on the

ability of our policymakers and the European Central Bank to prevent a collapse of the European financial system, because this is the great watershed. . . . If the European financial system continues to function normally, the impact on the Brazilian economy will occur mainly through reduced trade flows and investments from Europe, repatriation of capital, and cuts in lines of credit from European banks, which are already happening. . . . Brazil has a strong domestic consumer market, high international reserves, a relatively low net public debt-to-GDP ratio, and a healthy financial system, with high reserve requirements. Brazil has been able to cope successfully, as we did in 2008.

**Will the U.S. economy resume the role of global growth engine? What about China?**

The United States is experiencing a process of moderate recovery, with high unemployment and household indebtedness, corporations less leveraged and more productive and profitable, and a housing market that is beginning to show signs of recovery. The recovery was based entirely

on the Federal Reserve monetary stimulus. What is generating pessimism is the great uncertainty surrounding the likely fiscal situation at the end of the year. A general increase in taxes would bring about a contraction of the American economy in 2013. That is a risk, but there is not likely to be any resolution before the election . . . But I believe that the U.S. will solve this equation and resume moderate growth. In China's case, its export model has reached its limits because of low demand from the United States and Europe, the biggest buyers of Chinese products. China is now facing the enormous challenge of changing from export-led growth to a domestic consumption-led model, as a large part of the population has low income . . . China is likely to grow less in the coming years.

#### **How do you assess the prospects for Latin America?**

The changes taking place in the U.S. and China will have different effects across Latin American countries. As Mexico is a major exporter of manufactured goods to the United States and its major competitor

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is China, recent developments greatly improve its prospects. With the gradual recovery, the U.S. economy will demand more Mexican products, while the transformation of the Chinese economy will make its manufactures less competitive . . . In other Latin American countries, mineral commodities exporters will suffer more, mainly because of the decline of the construction industry in China. More diversified commodity producers, like Brazil, will be less affected because the demand for food is expected to remain strong in China and other Asian countries. Overall, I see balanced moderate growth for the region, with question marks about the resolution of the European financial crisis and the U.S. fiscal situation.

#### **Are you optimistic about Brazil?**

Yes, I think Brazil has significant challenges in terms of productivity, but the country will not return to the crises and high volatility of growth that we lived through for several decades. The economic fundamentals are very solid, the domestic market is large, and income distribution less unequal. We have much more capacity to stabilize growth. ▣

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