

New macroeconomic consensus and inflation targeting: Monetary Policy Committee directors' turnover in Brazil

Maria Helena Ambrosio Dias^{a,b,*}, Anderson Mutter Teixeira^{c,d,e}, Joilson Dias^{a,f}

^a State University of Maringá (UEM), Brazil

^b Graduate Program in Economics, Department of Economics, Fellow Researcher of the Araucária Foundation, Brazil

^c Federal University of Goiás (FACE/UFG), Brazil

^d Master of Science by the Graduate Program in Economics, State University of Maringá, Brazil

^e National University of Brasília (UnB), Brazil

^f Graduate Program in Economics, Department of Economics, Fellow Researcher of the National Counsel of Research (CNPq), Brazil

Abstract

The main objective of this paper is to estimate a Central Bank reaction function that accounts for the effects of directors' rotation of the Brazilian COPOM (Monetary Policy Committee). The reaction function proposed is assumed to be the mechanism for inflation targeting policy. It accounts for the COPOM rotation to examine COPOM's policy credibility. The empirical analysis use monthly data from 2001 to 2008 to estimate a structural vector auto-regression (SVAR) in order to learn about the long run effects. The SVAR results suggest that the turnover of the COPOM board of directors affects inflation expectation and interest rate of the Brazilian economy in the long run. This means that the turnover causes economic agents to increase their expectations about inflation, resulting in increases of the rate of change of the interest rate level. This break in credibility leads to an additional cost to society through higher future interest rates to be paid by government bonds.

© 2013 National Association of Postgraduate Centers in Economics, ANPEC. Production and hosting by Elsevier B.V. All rights reserved.

JEL classification: E52; E58

Keywords: Monetary policy; New consensus macroeconomics; Interest rates; Central Bank

Resumo

A política de metas de inflação tem sido implementada em vários países para atingir estabilidade de preços. No entanto, a literatura aponta que a rotatividade dos dirigentes do Banco Central interfere nas decisões sobre as metas e seus vieses. Assim, este trabalho estima o efeito da rotatividade dos diretores do Comitê de Política Monetária (COPOM) sobre a determinação da taxa de juros, utilizada como instrumento para atingir as metas de inflação no Brasil, com dados mensais de 2001 a 2008. Então, um modelo de vetores auto-regressivos estruturais (SVAR) é estimado para a economia brasileira. Além disso, a análise empírica inclui testes exogeneidade em bloco, funções impulso-resposta e decomposição da variância. Os resultados indicam significância para a variável rotatividade dos diretores no longo prazo que leva os agentes a aumentarem suas expectativas de aumento da taxa de inflação

* Corresponding author at: State University of Maringá (UEM), Brazil.

E-mail addresses: mhadias@uem.br (M.H.A. Dias), mutterteixeira@yahoo.com.br (A.M. Teixeira), jdias@uem.br (J. Dias).

Peer review under responsibility of National Association of Postgraduate Centers in Economics, ANPEC.



Production and hosting by Elsevier

demandando aumentos maiores da taxa de juros da economia. Esta quebra de credibilidade da política monetária devida ao aumento das mudanças na diretoria do COPOM leva a aumentos maiores no longo prazo da taxa de juros a serem pagas nos títulos do tesouro. Em resumo, causa um aumento no custo social da economia.

© 2013 National Association of Postgraduate Centers in Economics, ANPEC. Production and hosting by Elsevier B.V. All rights reserved.

Palavras chave: Política Monetária; Novo Consenso Macroeconômico; Taxas de Juros; Banco Central

1. Introduction

Since July 1999, Brazil has adopted inflation targeting as its monetary policy regime. This policy uses the nominal interest rate as a mechanism to affect real and nominal economic variables. The COPOM (Monetary Policy Committee) focuses on nominal interest rate to control future expectations about inflation and, thus, achieve price stability and control inflation. By announcing its inflation target range, they believe that the interest rate policy will not cause expectations to go wild and, thus, lose control of the inflation target. This mechanism of controlling expectations, in our view, depends upon COPOM members' permanence in their positions in order for the monetary policy to have credibility. The replacement of COPOM members may lead economic agents to see as a weakening of the inflation target policy¹ and, thus, inflation may not converge to the expected rate proposed by the previous COPOM members.

This paper examines this proposition by verifying the importance of COPOM directors' turnover for inflation target policy. This paper also investigates the role played by variables like output gap, inflation target level, rate of change in inflation, and output gap expectations for the inflation target policy in Brazil. The empirical analysis brings as innovation the use of SVAR-Structural Vector Auto Regression, which is a technique that is able to account for causality.

The COPOM inflation target policy follows a theoretical model known as *dynamic stochastic general equilibrium (DSGE)*. This model is based on Gali (2008) and Woodford (2008), as well as the contributions made by Goodfriend and King (1997), McCallum (1999, 2001, 2005), Clarida et al. (1999), Meyer (2001) and Goodfriend (2004, 2005). The model contains a reaction function that supposedly combines key macroeconomic variables that enables policy makers to set interest rate level. This paper focuses on this reaction function by adapting it to consider the turnover of COPOM members.

In addition to this introduction, the paper is divided into six sections: Section 2 is the theoretical framework; Section 3 exhibits some empirical evidence on the estimation of the reaction functions; Section 4 presents the empirical methodology; Section 5 discusses the econometric results; and, finally, Section 6 outlines final considerations.

2. Monetary policy rules in the new macroeconomic consensus

The new macroeconomic consensus, which provides tools for many Central Banks worldwide, is formally described in the pioneering work of Clarida et al. (1999) together with improvements made by McCallum (1999, 2001, 2005), Meyer (2001) and Arestis and Sawyer (2002a,b,c, 2006). This new consensus also includes reasoning from open economy models and monetary policy rules, as discussed in Arestis (2007) and Angeriz and Arestis (2007). According to Meyer (2001), this new consensus is represented by a dynamic model with three equations. This set of equations is flexible enough to accept new formulations like ours without losing its main characteristics and objective of a Central Bank's reaction function. In this way, equations may differ in the number of variables or the number of lags used, however the model remains essentially the same. The three equations of the consensus model are (i) an equation of aggregate demand; (ii) a Phillips curve, and (iii) a Monetary Policy Rule. The first equation follows the structure of the traditional IS curve with the difference that it comes from an intertemporal optimization framework. It relates product responses to changes in the real interest rate. The second equation is the relative price adjustment, which specifies the behavior of inflation in response to variations in production capacity and expectations; and, finally, the third equation is a monetary policy rule similar to the one in Meyer (2001).

We start with the model developed by Clarida et al. (1999) because it is the specification that provides the foundation for this new monetary arrangement. This model's main proposition is that monetary policy plays a key role

¹ Cukierman (1992).

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات