

Comments on OECD 2008 Latin America Outlook (LEO)

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March 2008

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Outline

- 1. Broad Agreement with LEO Diagnosis and Main MLT Reform Challenges for LAC and Brazil**
- 2. Nuances : Legitimacy of Policies (e.g., Fiscal) & Efficiency are a Multifaceted Issue (qualitative & quantitative)**
- 3. Indicators of Regulatory, Institutional & Social Policies - Progress in Brazil (and LAC)**

1) The Long and Winding Road–Brazil (and Latin America?) from Stabilization to Reforms

	<i>Phase 1</i>	<i>Phase 2</i>	<i>Phase 3</i>
Fiscal	Macro-populism Reliance on inflation tax Expansionary spending Distortive Subsidies	Stabilization Perception of Solvency of PS Primary Surplus target Institutions (STN, FRL) Monitoring (SIAFI, SIAPE) Tax rationalization Initial SS reforms	Structural Reforms Quality of G & I Overall fiscal stance Counter-cyclical approach Reducing budget rigidities Lower tax burden & reforms LT actuarial eq. SS
Monetary and Other Policies	Accomodation Monetization of PS Deficits High, Hyper-inflation Risky Debt Instruments Recurrent BOP crises ER anchor (fixed, hard-peg)	Establishment of Credibility Tax/debt financing PS Deficits Inflation low & controlled Debt Instruments re-struct. Opening-Up (C & K acc.) Floating ERR	Operational Independence, Success Management of Expectations / Inflation Anchored infl. expectations thru inflation targetting regime Sustainable external position Fixed Rate PS Debt Instr. Deepen. Capital Markets
Consequences	High Volatility, Low Policy Predictability, Low Growth	Credibility gains, Private Investment, FDI, Higher Growth	Virtuous & Sustainable Higher Growth w/ Redistribution

2) Nuances : Structural Changes are Improving the Performance of the Brazilian Economy → Increasing Social Consensus & Legitimacy of Economic Policies (including Fiscal)

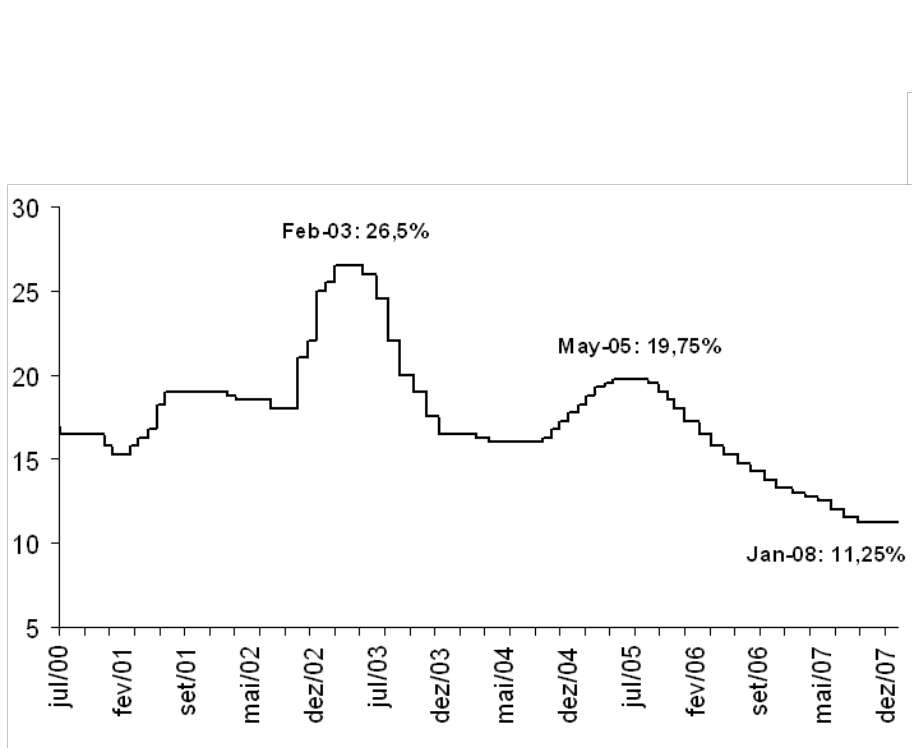
Legitimacy (L) of Economic Policies (including Fiscal) need assesse't by both qualitative surveys and quantitative results of consistent policies (e.g., using Ex-Post Incidence Analysis) bringing credibility to the overall macro-economic framework

$$L = f \left[\frac{\sum_i X_i (\text{yes})}{POP(X_i)} \right] \quad \text{and/or}$$

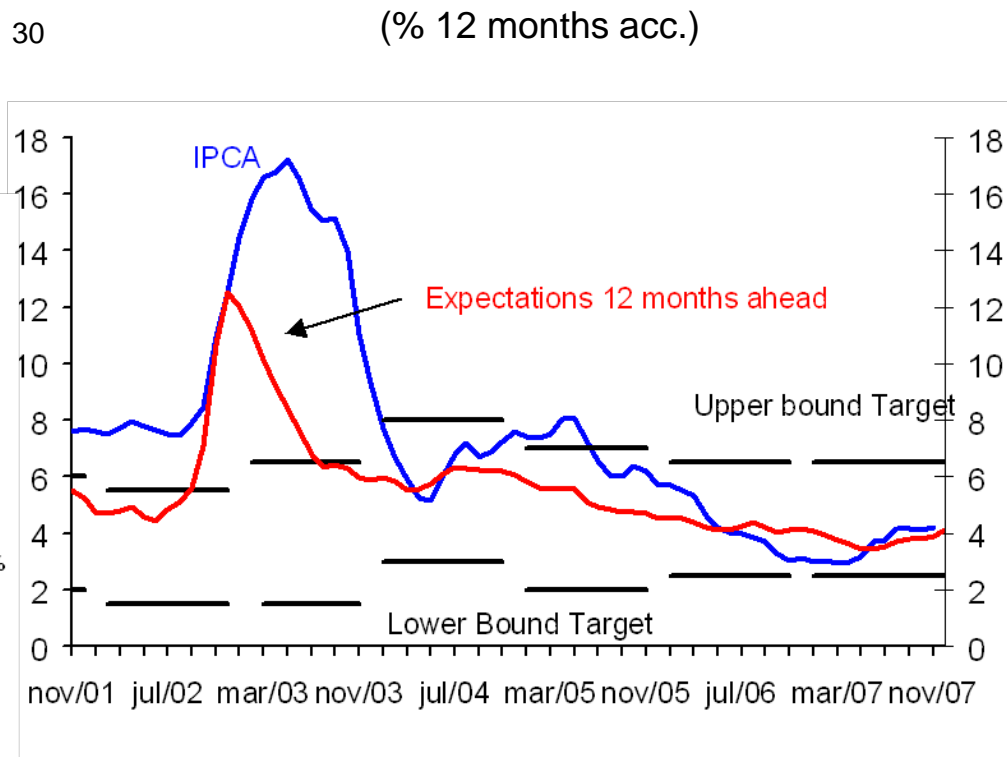
$$L = g [P1(\text{Outcome} \approx E(\text{Outcome})), P2, P3, P4, \text{etc.}]$$

Timely, determined MP action → Anchoring Inflation and Inflation Expectations → Credibility

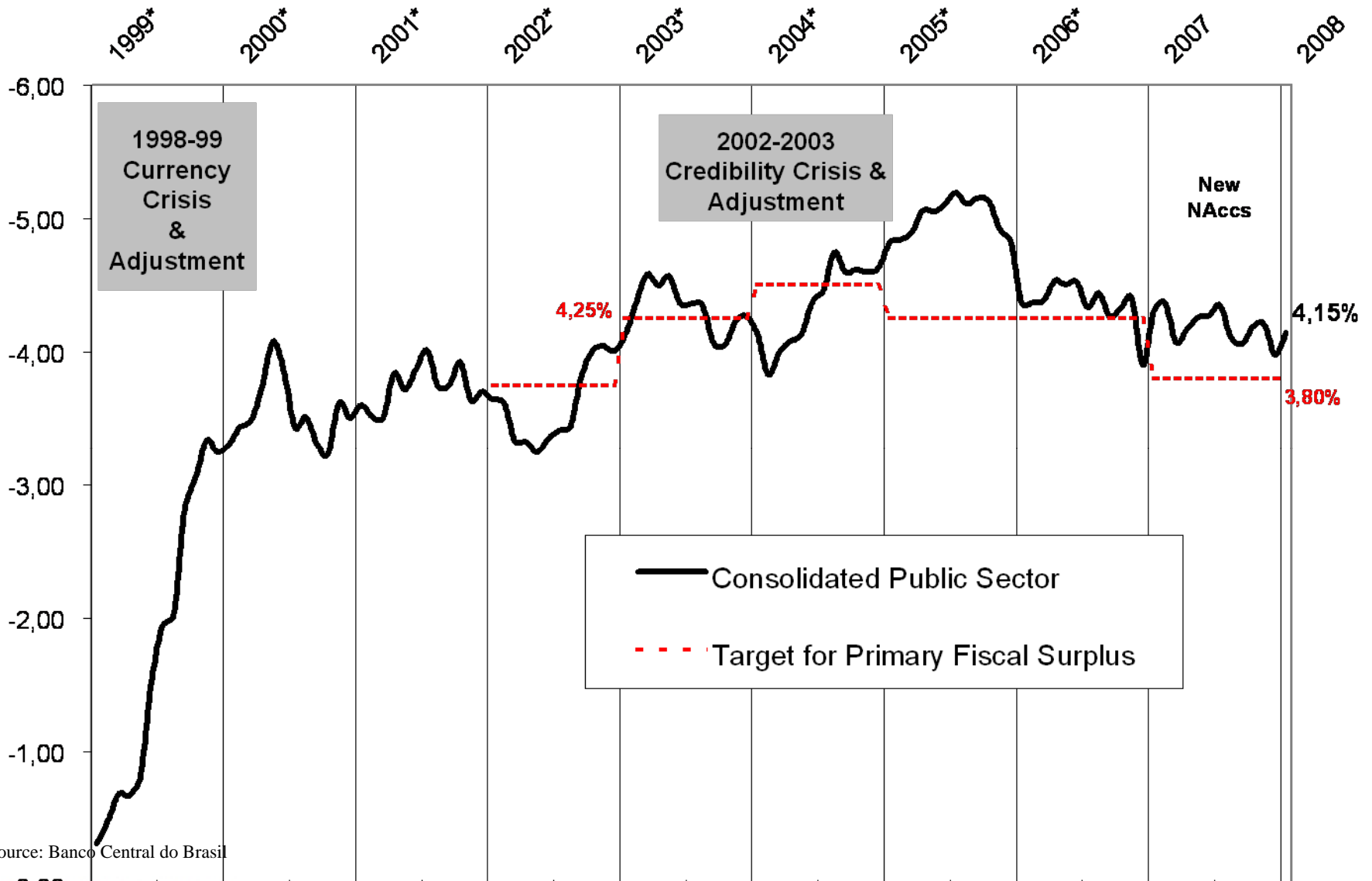
Central Bank Policy Rate Selic (% year)



CPI (IPCA) and Expected CPI

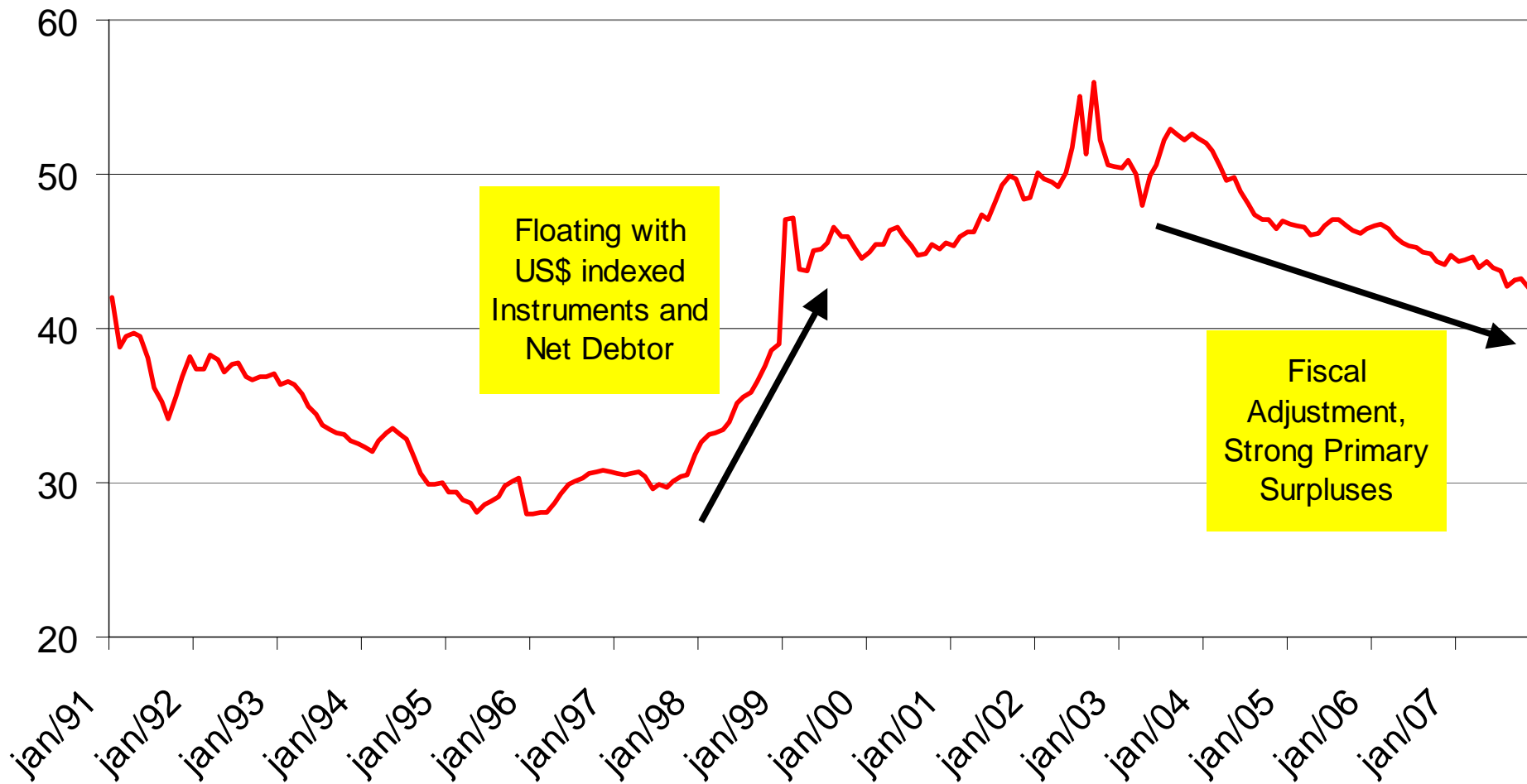


Stronger PS Fiscal Primary Position - (% GDP)



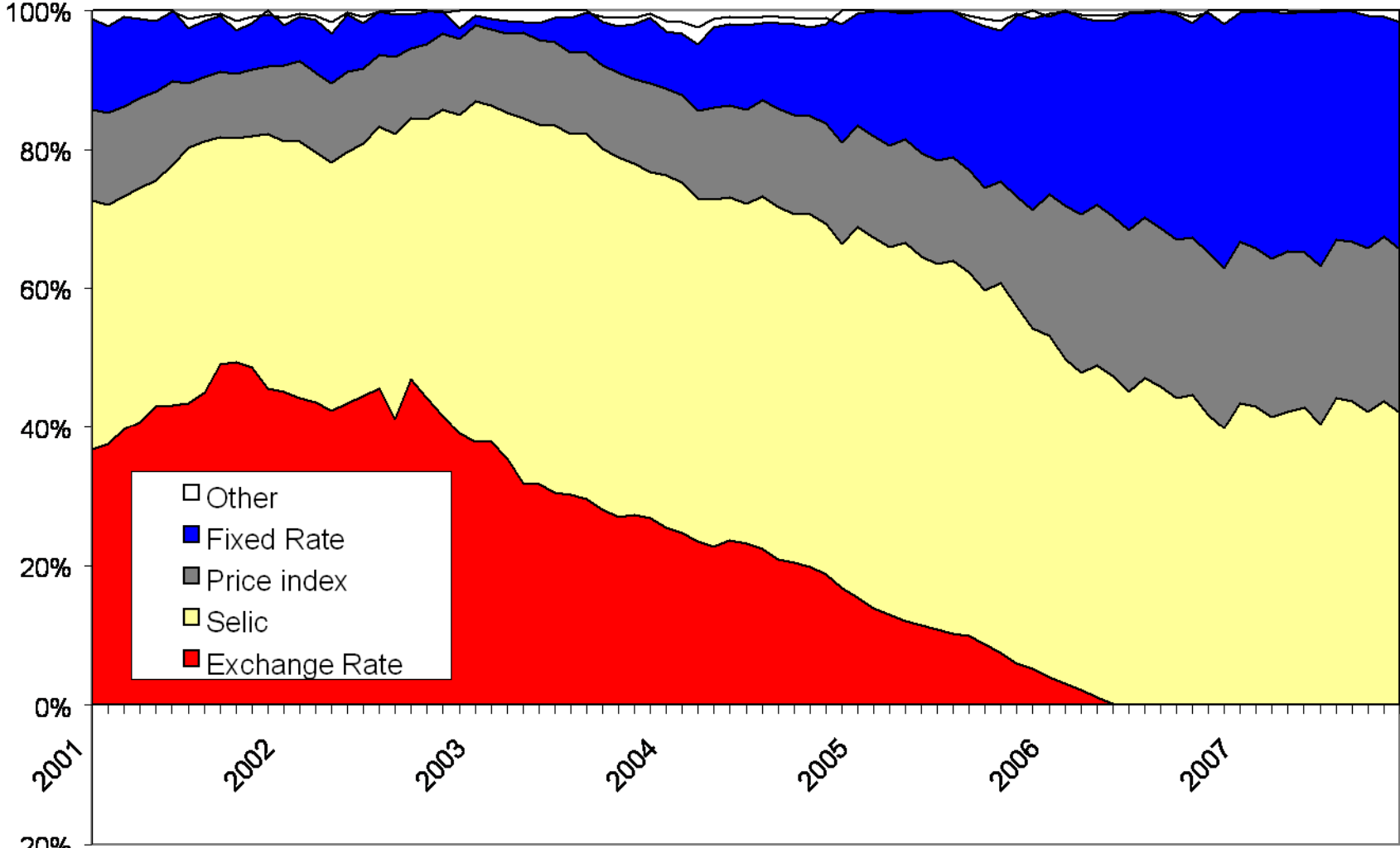
Source: Banco Central do Brasil

Brought Results & Consensus on Importance of Reducing Public Sector Net Total Debt - (% GDP)



Source: Banco Central do Brasil

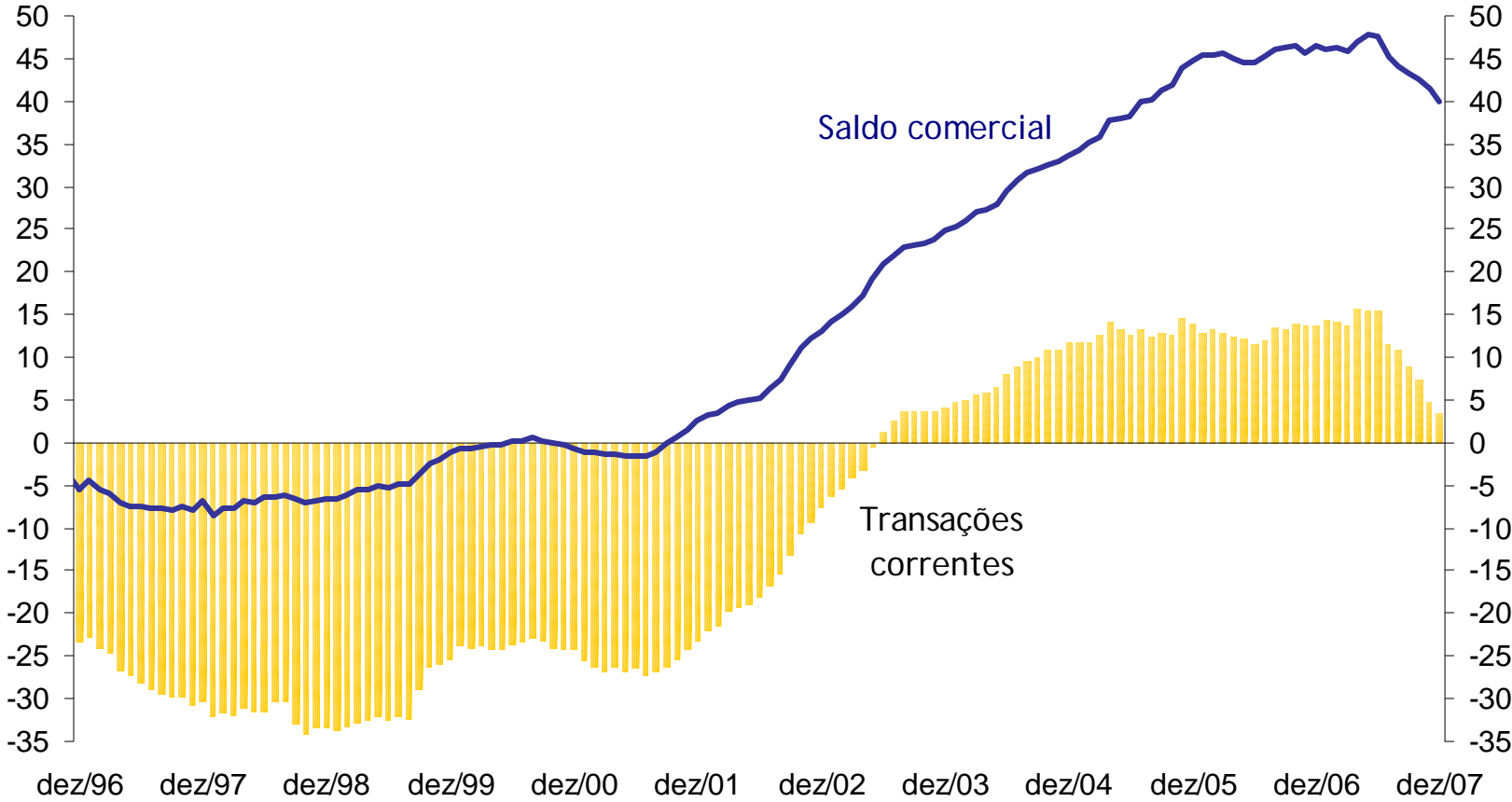
.... and Resulted in Significant Improvement / Composition of Public Sector Net Total Debt - (% of Total)



Source: Banco Central do Brasil

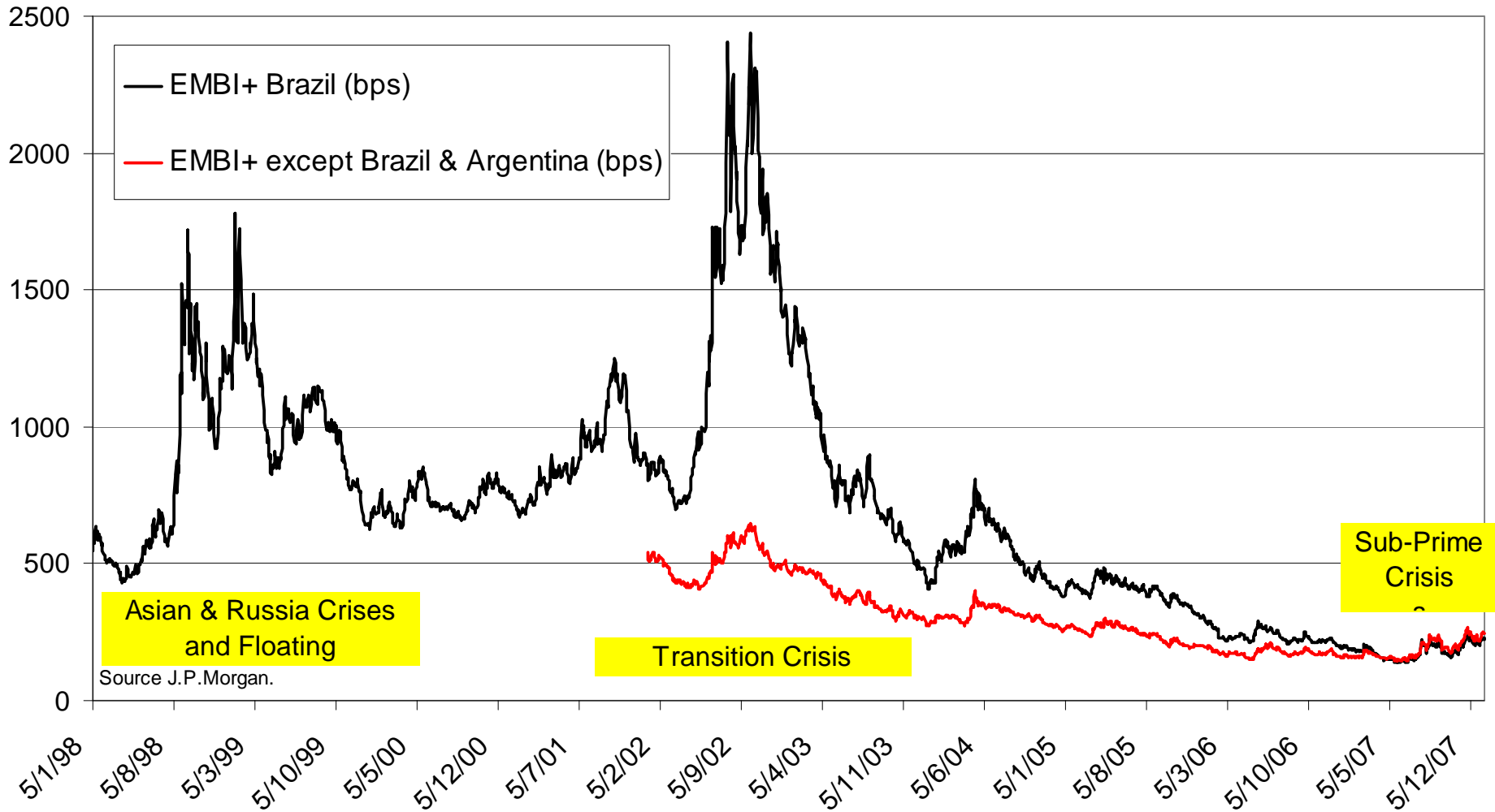
Effort to Reduce External Vulnerabilities → Stronger Trade Balance

(US\$ billion, 12 months acc.), **BOP and Reserves**

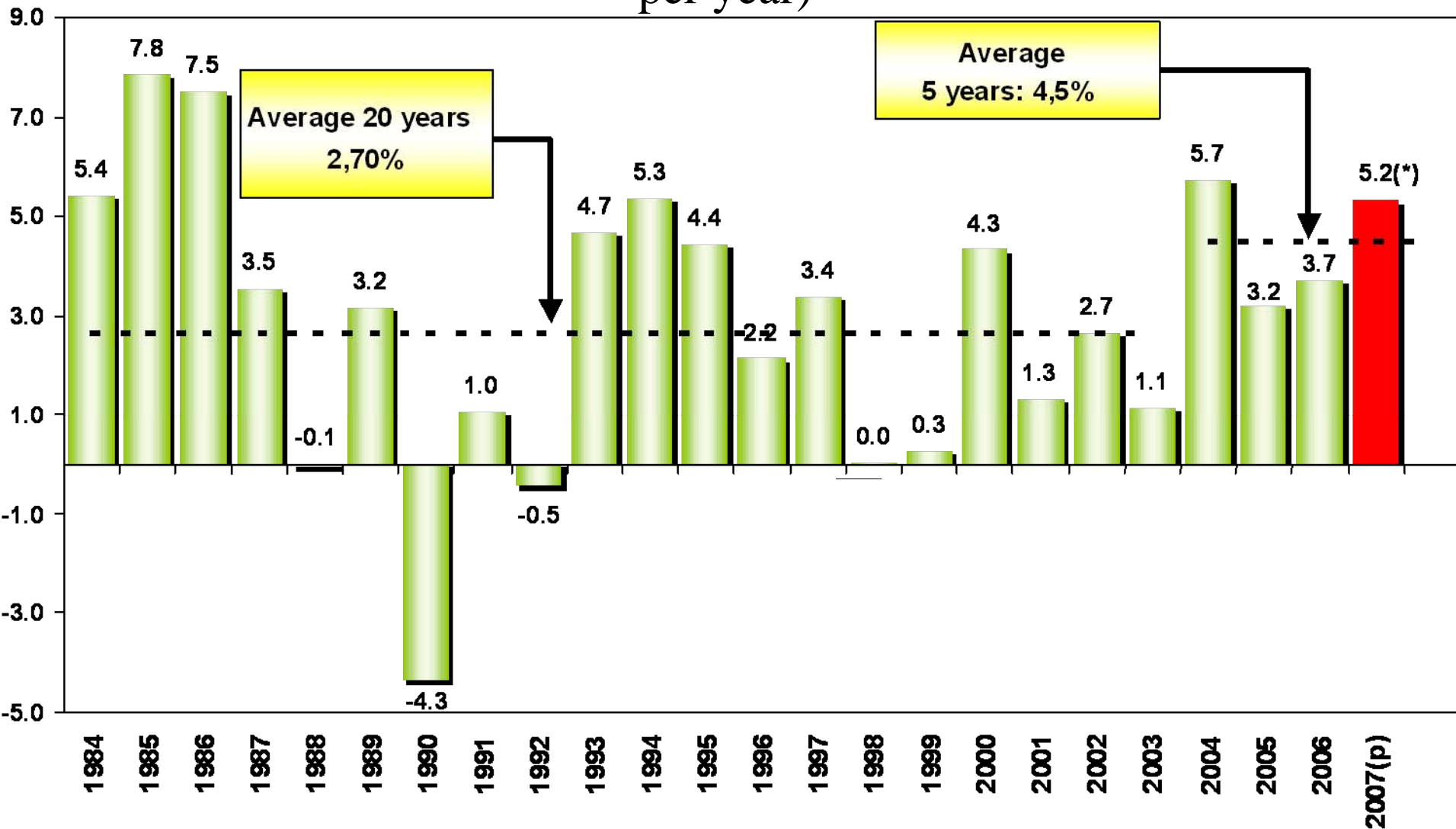


Result – Stronger Fundamentals → Possible Decoupling

Country Risk - Brazil

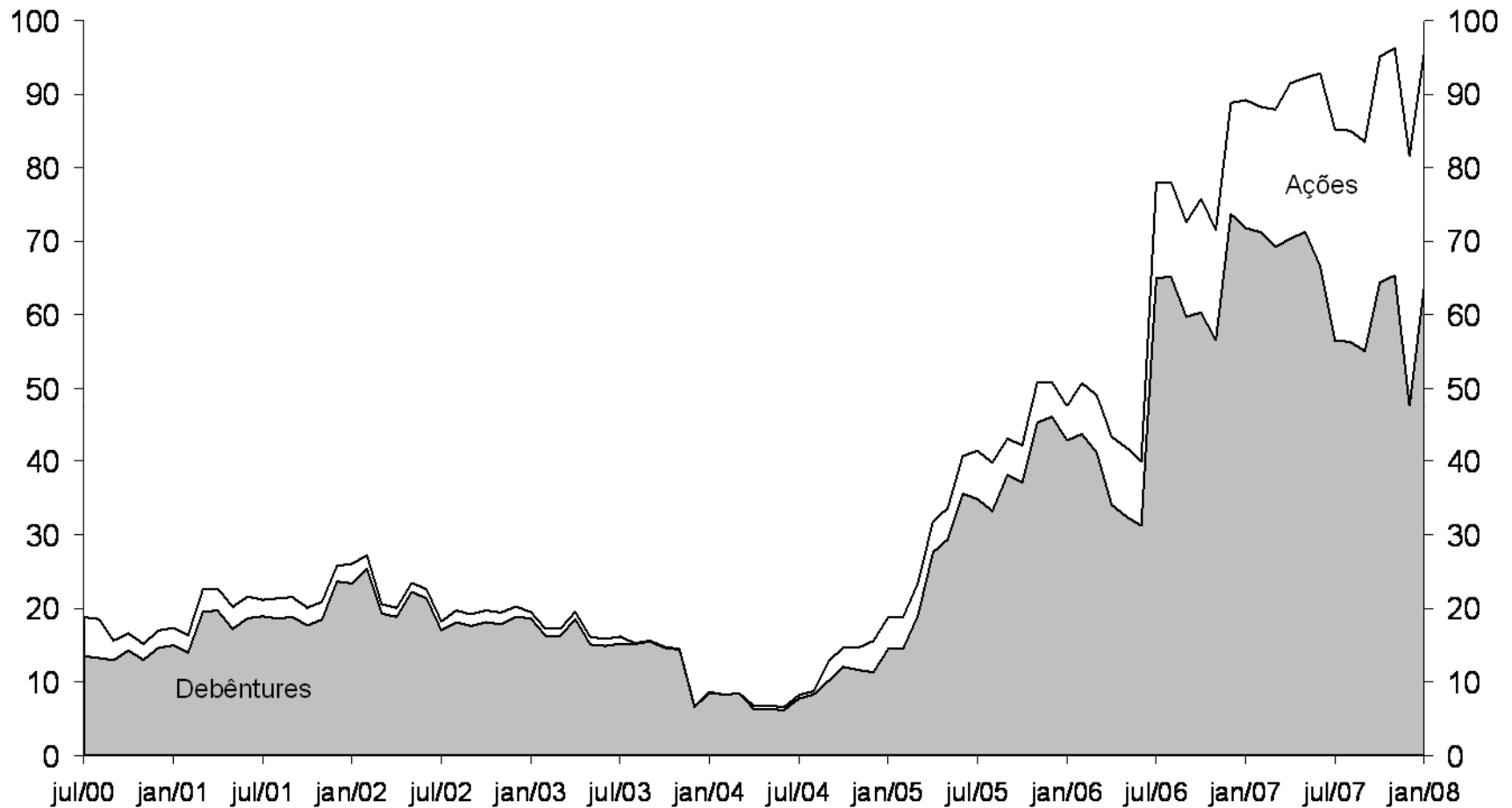


Result: Less Volatile, Higher Real GDP Growth (%) per year)



Result: Deeper K markets

(Commercial Paper and Stock Issuance) (12 months acc.,
Billion R\$, jan/2008 prices; defl.: IPCA)



3) Indicators of Regulatory, Institutional & Social Policies in Brazil, 90s and 00s

Fiscal Institutions & Policies:

National Treasury (STN) - created 1986

Fiscal Responsibility Law - Lei de Responsabilidade Fiscal (LRF) – Lei Complementar nº 101/2000 (Process: LDO, LOA, PPA)

Debt-restructuring program with the sub-national Governments - Programa de Apoio à Reestruturação Fiscal e Financeira, Lei nº 9.496 de 11 de setembro de 1997

Monitoring systems for expenditures (SIAFI, SIAPE, etc.)

Social Security reforms

Parametric (98-99), Civil Servants (2003), 2nd Pillar Complementary P

Regulatory framework

Energy Sector framework, Bankruptcy Law, Opening-up of Re-Insurance industry, PPP Law, IASB accounting standards, Strengthening Competition framework

3) Indicators of Regulatory, Institutional & Social Policies in Brazil (cont'd)

Credit Market Reforms:

Payroll guaranteed consumer credit
Civil Construction sector

Strengthening Financial Sector Regulations & Governance

Prudential Guidelines

Quality of Public Spending

Emphasis on Infrastructure (PAC program), CG Payroll growth limit, etc.

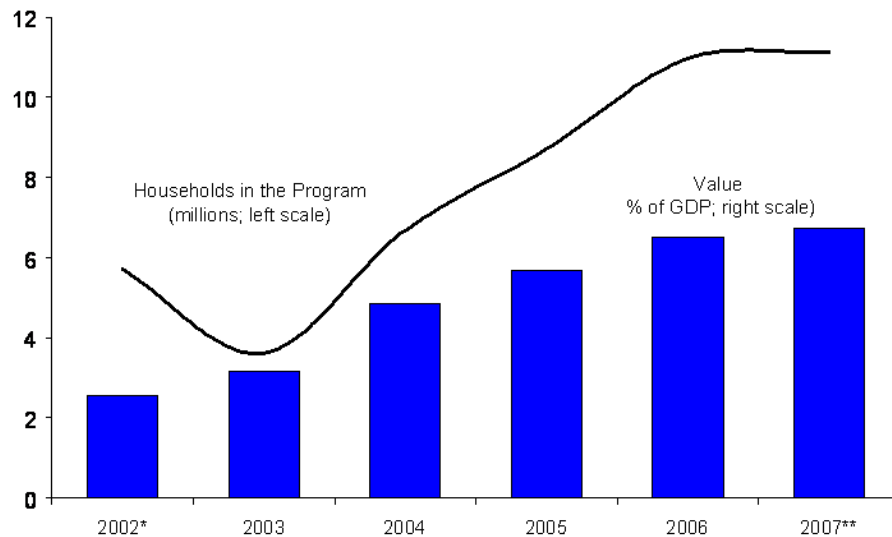
Tax Reforms

For SMEs

Comprehensive Tax System Reform: Unification and simplification of federal and regional tax systems

Brazil - Some Social Effects of Targeted Fiscal Policy (CCTs)

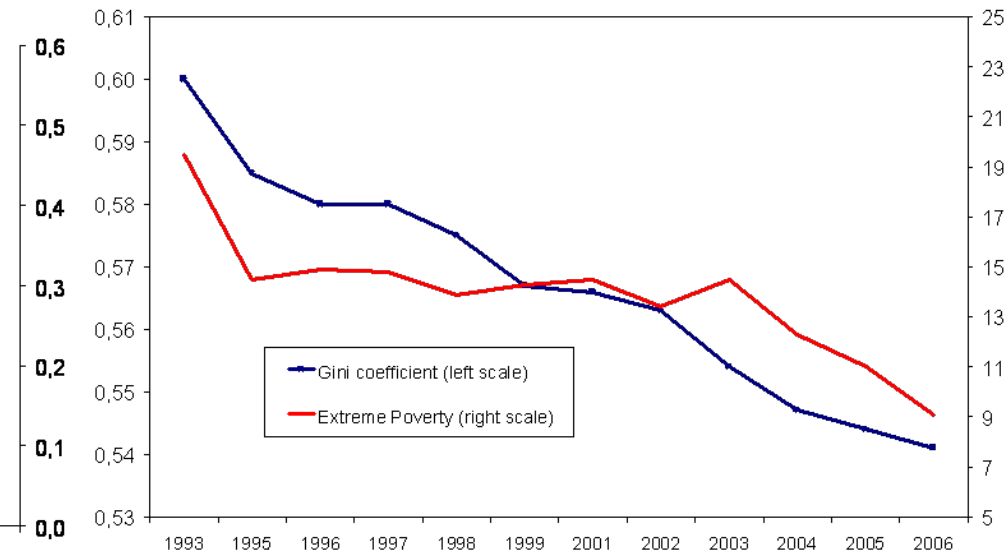
Bolsa-Família (main Conditional Cash Transfer Program)



Source: MDS
 *2002 = Bolsa-escola. Programs were unified into Bolsa-Família in 2003.
 **2007 = LOA

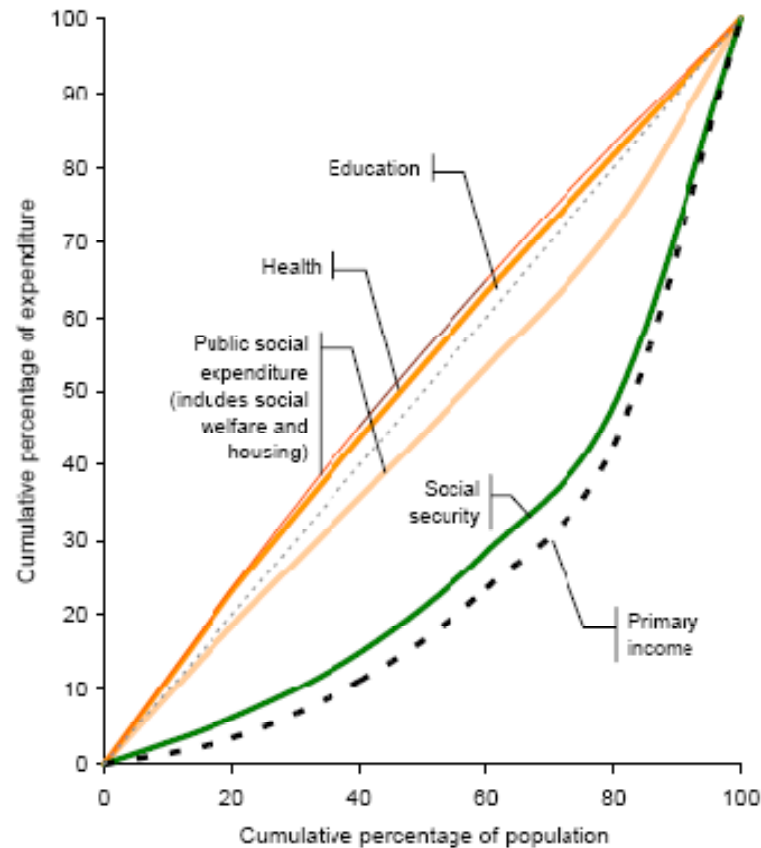
Fonte:STN.

Inequality (Gini) & Extreme Poverty (% of Population)



LAC – Incidence Analysis of Social Effects of Fiscal Policy

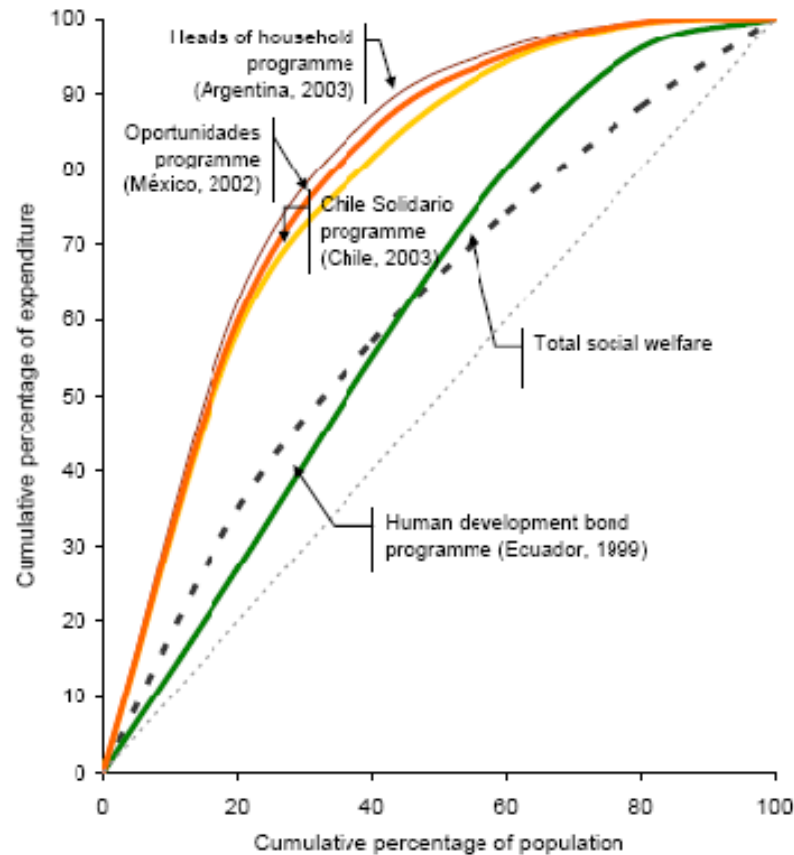
LATIN AMERICA (18 COUNTRIES): DISTRIBUTION OF PUBLIC SOCIAL SPENDING BY PRIMARY INCOME QUINTILE, 1997-2004 a/
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of national studies.

LAC – Incidence Analysis of Social Effects of Targeted Fiscal Programs

LATIN AMERICA (11 COUNTRIES): DISTRIBUTION OF PUBLIC SPENDING ON SOCIAL WELFARE PROGRAMMES BY PRIMARY INCOME QUINTILE, 1997-2004 a/
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national studies

a/ Weighted average for the significance of each item of expenditure in the primary income of each country.