Comments on OECD 2008 Latin America Outlook (LEO)

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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

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<td><strong>Macro-populism</strong></td>
<td><strong>Stabilization</strong></td>
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<td>Reliance on inflation tax</td>
<td>Perception of Solvency of PS Primary Surplus target Institutions (STN, FRL)</td>
<td>Quality of G &amp; I Overall fiscal stance Counter-cyclical approach Reducing budget rigidities</td>
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<td>Expansionary spending Distortive Subsidies</td>
<td>Monitoring (SIAFI, SIAPE) Tax rationalization Initial SS reforms</td>
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<td><strong>Monetary and Other Policies</strong></td>
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<td><strong>Consequences</strong></td>
<td>High Volatility, Low Policy Predictability, Low Growth</td>
<td>Credibility gains, Private Investment, FDI, Higher Growth</td>
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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 assess’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

\[ L = f \left( \frac{\sum X_i \ (yes)}{POP(X_i)} \right) \]  and/or

\[ L = g[P1(Outcome \approx E(Outcome)), P2, P3, P4, etc.] \]
Timely, determined MP action → Anchoring Inflation and Inflation Expectations → Credibility

Central Bank Policy Rate Selic (% year)

CPI (IPCA) and Expected CPI (% 12 months acc.)

Ministério do Planejamento, Orçamento e Gestão

BRASIL UM PAÍS DE TODOS
Stronger PS Fiscal Primary Position - (% GDP)

Source: Banco Central do Brasil

Consolidated Public Sector

Target for Primary Fiscal Surplus

1998-99 Currency Crisis & Adjustment
2002-2003 Credibility Crisis & Adjustment
New NAccs

Ministério do Planejamento, Orçamento e Gestão
Brought Results & Consensus on Importance of Reducing Public Sector Net Total Debt - (% GDP)

Floating with US$ indexed Instruments and Net Debtor

Fiscal Adjustment, Strong Primary Surpluses

Source: Banco Central do Brasil
.... and Resulted in Significant Improvement / Composition of Public Sector Net Total Debt - (% of Total)
Effort to Reduce External Vulnerabilities → Stronger Trade Balance
(US$ billion, 12 months acc.), BOP and Reserves
Result – Stronger Fundamentals → Possible Decoupling
Country Risk - Brazil

Source: J.P. Morgan.

EMBI+ Brazil (bps)
EMBI+ except Brazil & Argentina (bps)
Result: Less Volatile, Higher Real GDP Growth (% per year)

Average 20 years: 2.70%

Average 5 years: 4.5%

Ministério do Planejamento, Orçamento e Gestão
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
- 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)

**Inequality** (Gini)

& **Extreme Poverty** (% of Population)

Source: MDS

* 2002 = Bolsa-escola. Programs were unified into Bolsa-Família in 2003.

** 2007 = LOA.

Fonte: STN.
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.