



OECD ECONOMIC SURVEY OF BRAZIL 2018

*Towards a more prosperous and
inclusive Brazil*

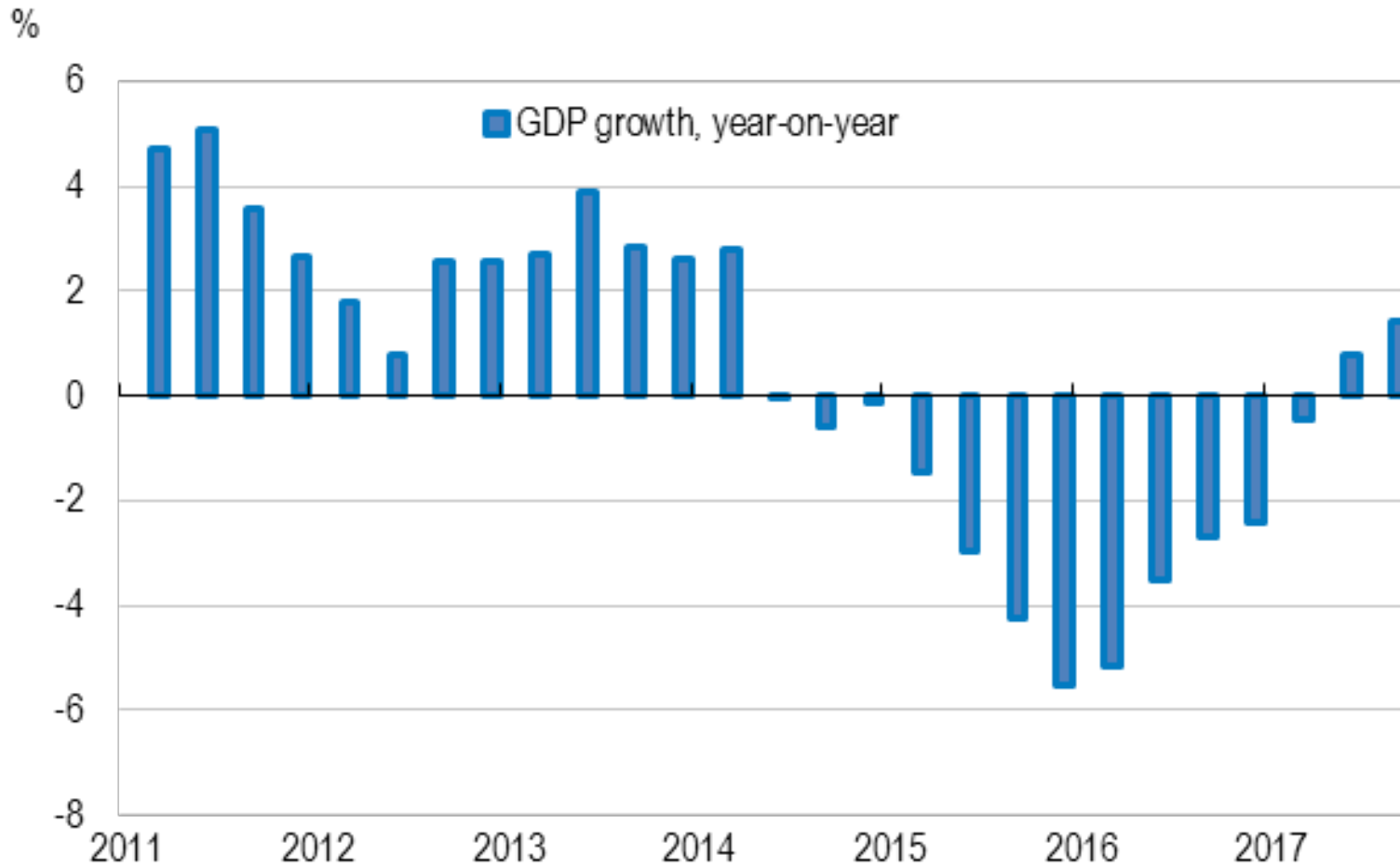
Brasília, 28 February 2018

<http://www.oecd.org/eco/surveys/economic-survey-brazil.htm>





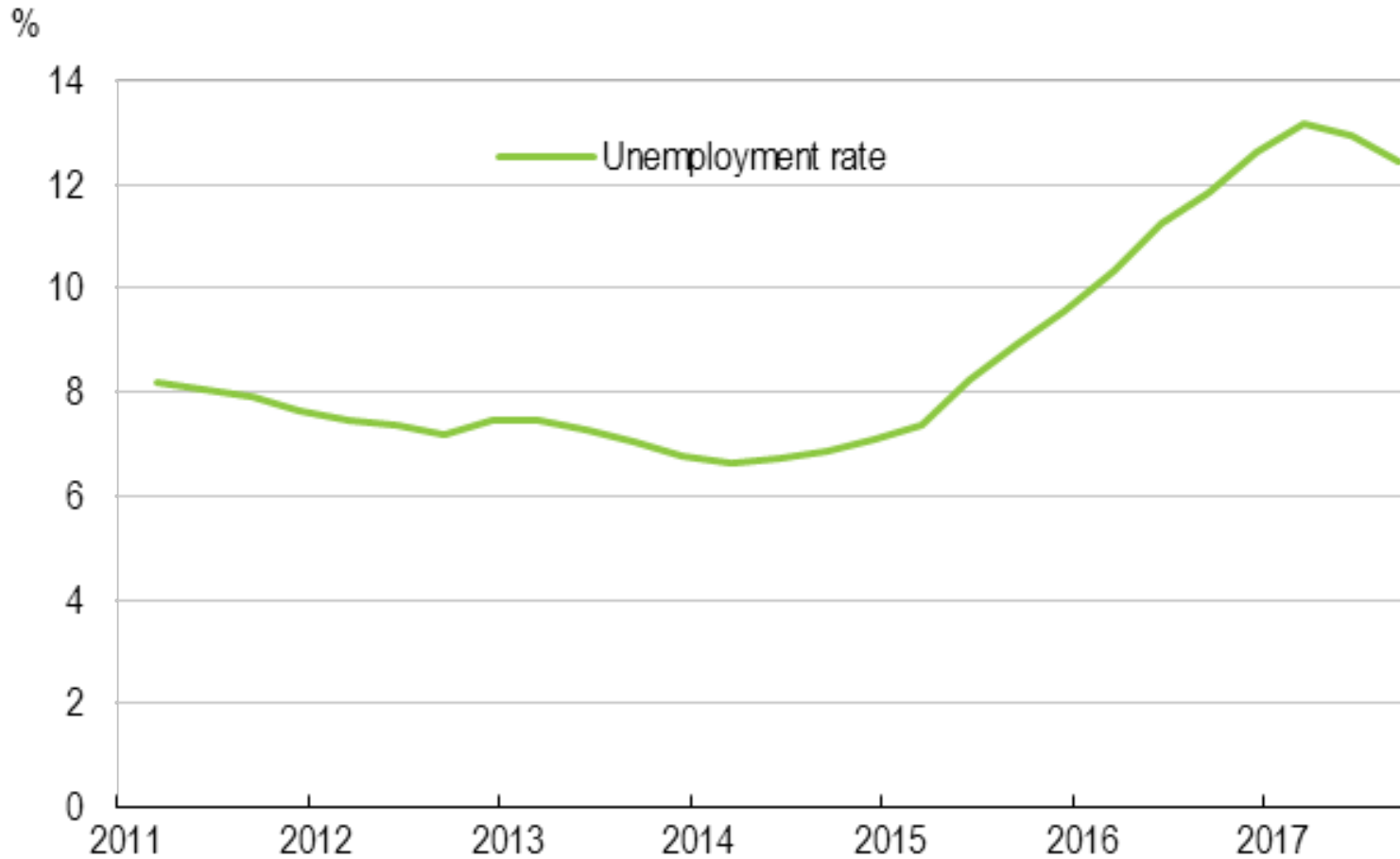
The economy is recovering



Source: OECD Economic Outlook database.



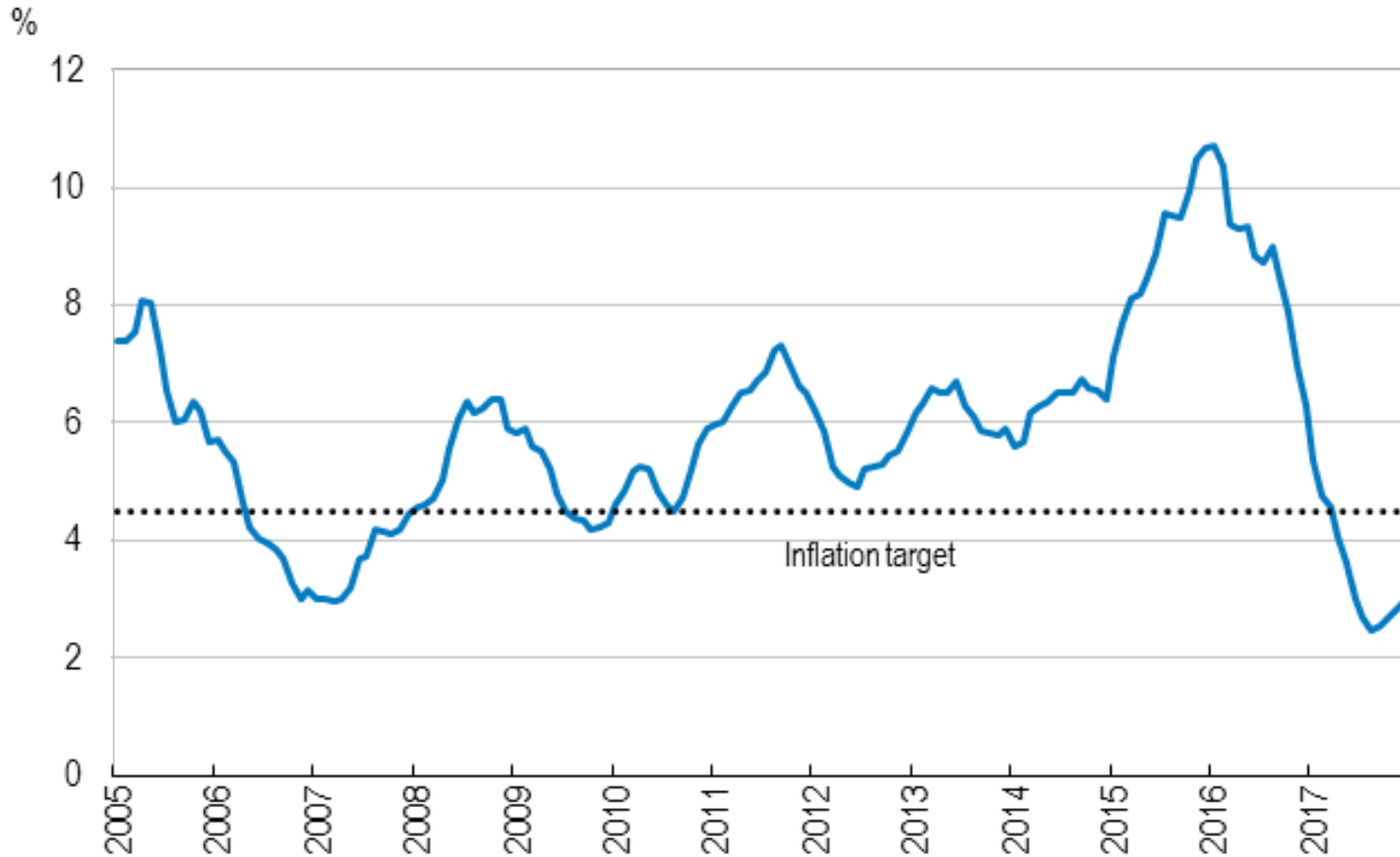
Unemployment is falling



Source: OECD Economic Outlook database.



Inflation has come down

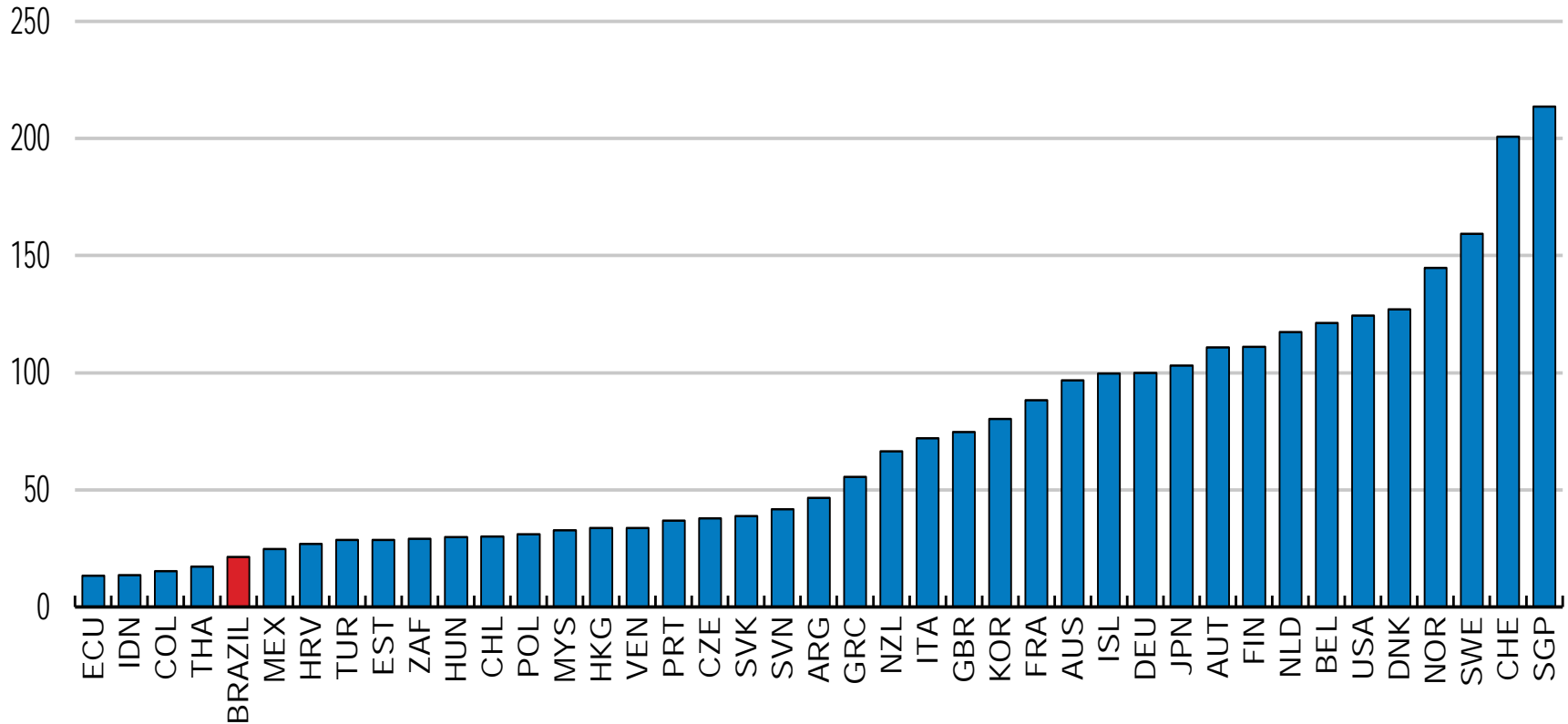


Source: CEIC; Central Bank.



Productivity is low

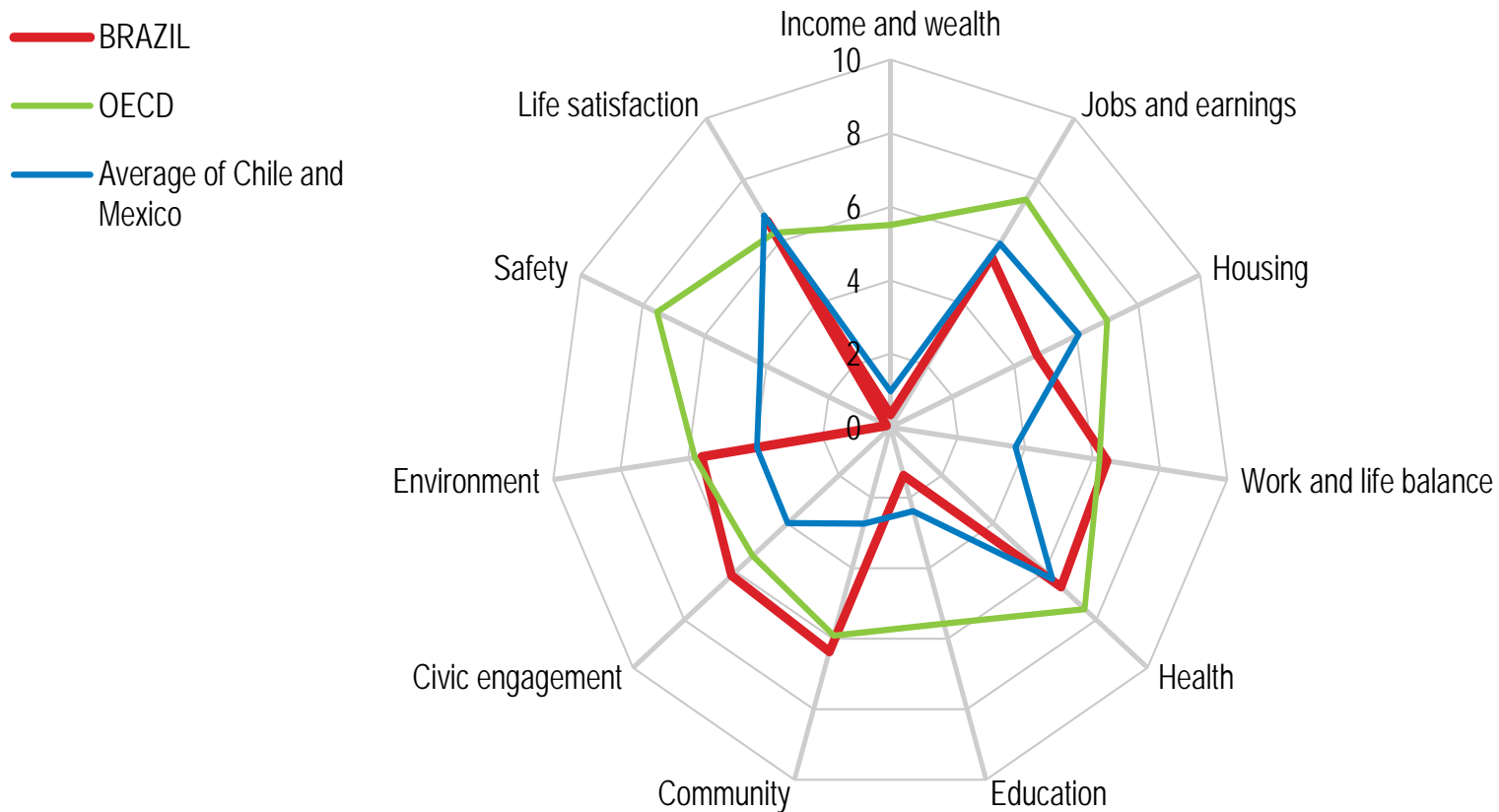
Labour productivity in thousands of 2010 USD per employee



Source: World Bank; ILO; IBGE.



Well-being can be improved

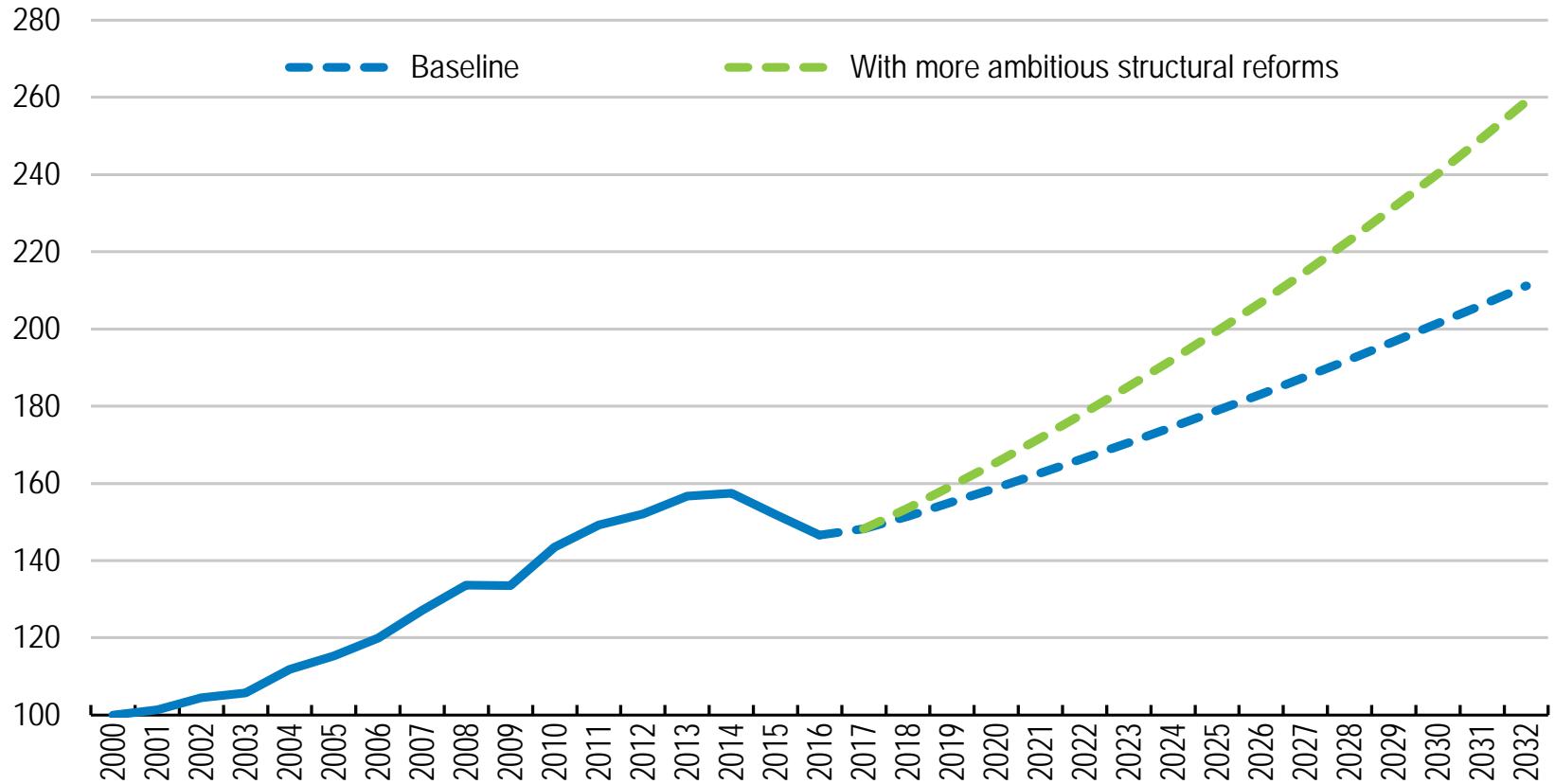


Source: OECD calculations based on Better Life Index – Edition 2017



More reforms would boost growth

Real GDP, Index 2000=100



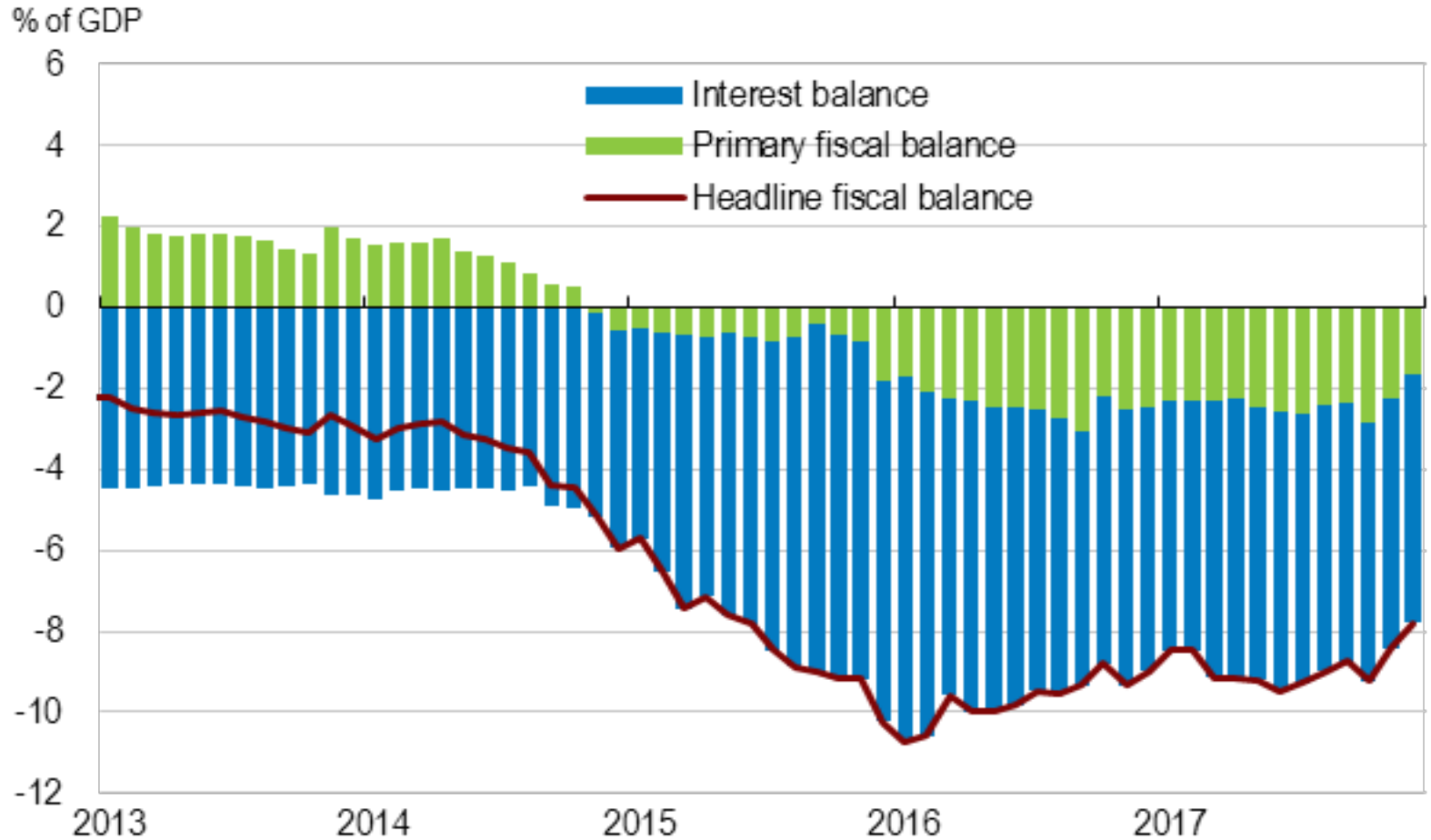
Source: OECD projections, OECD Economic Outlook database.



Improving fiscal sustainability



Fiscal outcomes have deteriorated

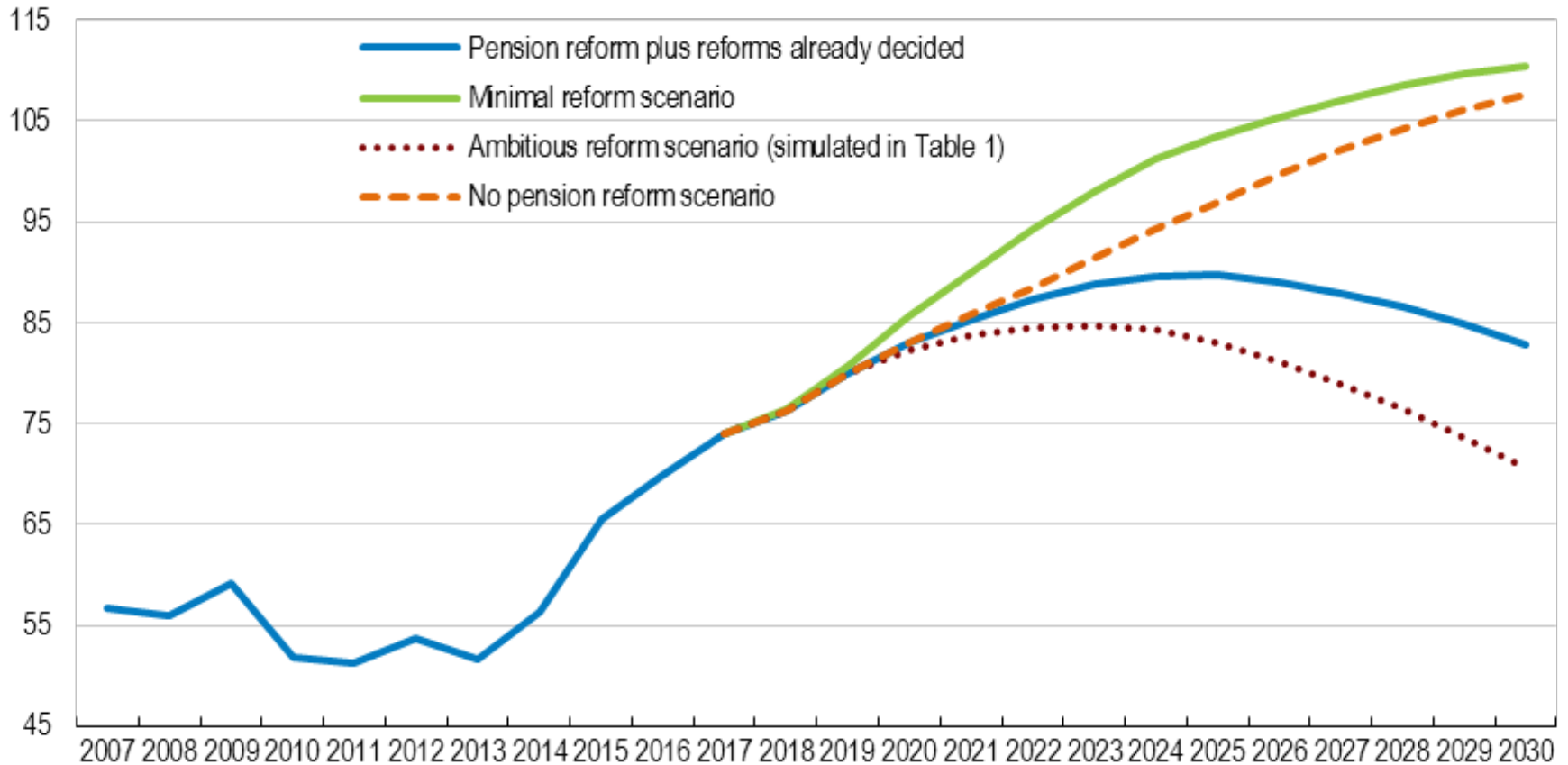


Source: Central Bank; Treasury.



Reforms would improve debt sustainability

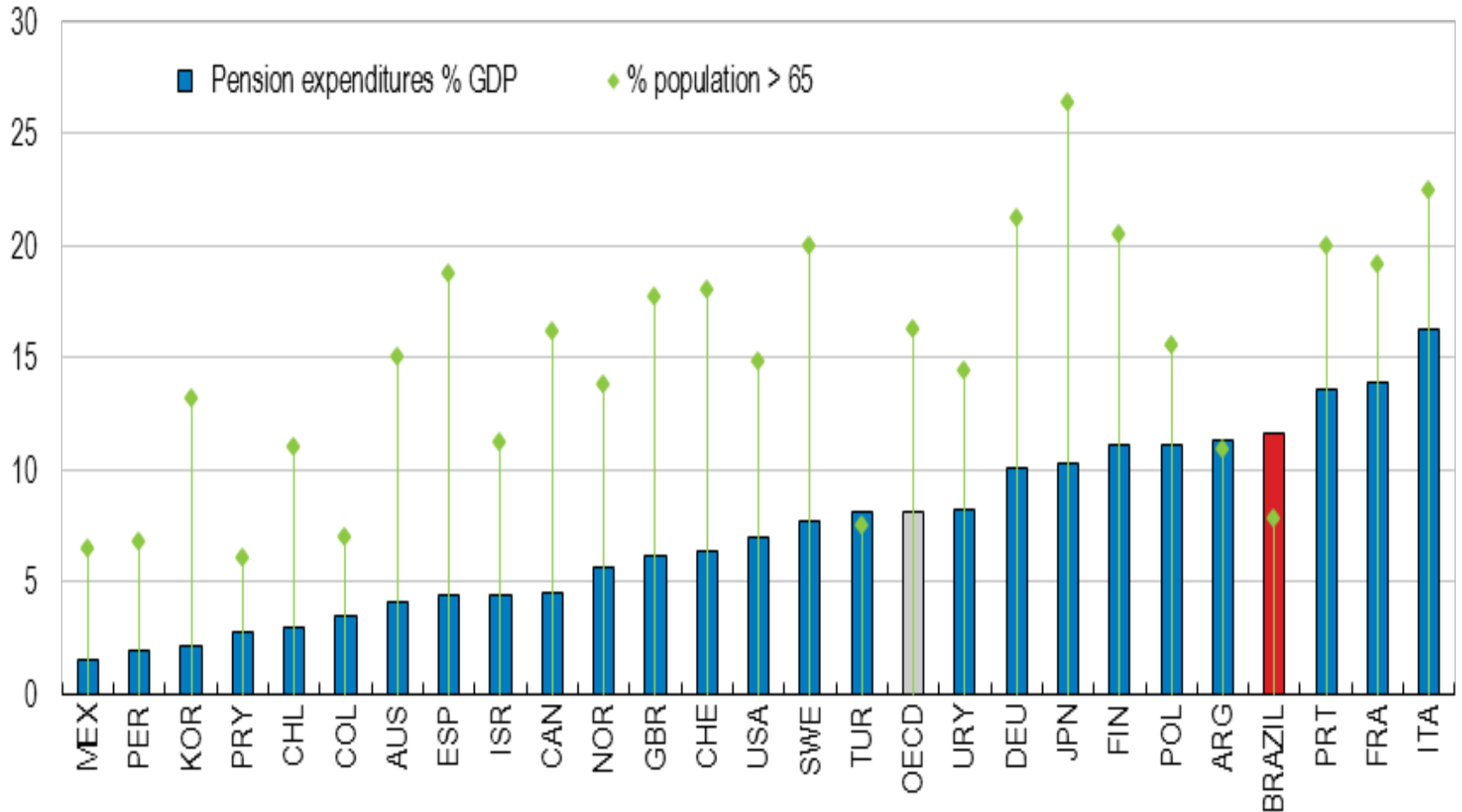
Estimated public debt trajectory



Source: OECD calculations



Pension reform is urgent

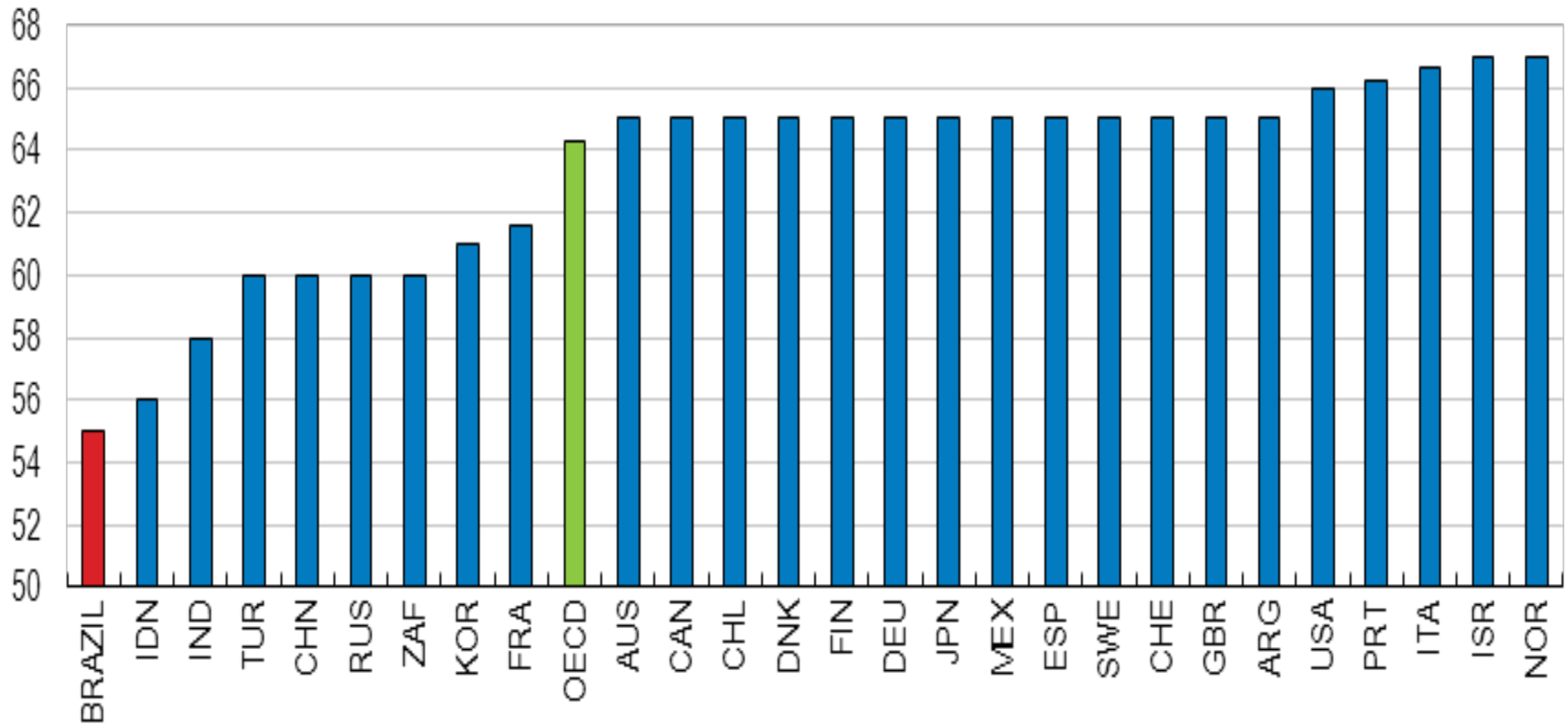


Source: OECD Pension at a Glance 2017



The retirement age is low

Current retirement ages for a person who entered the labour force at age 20, men

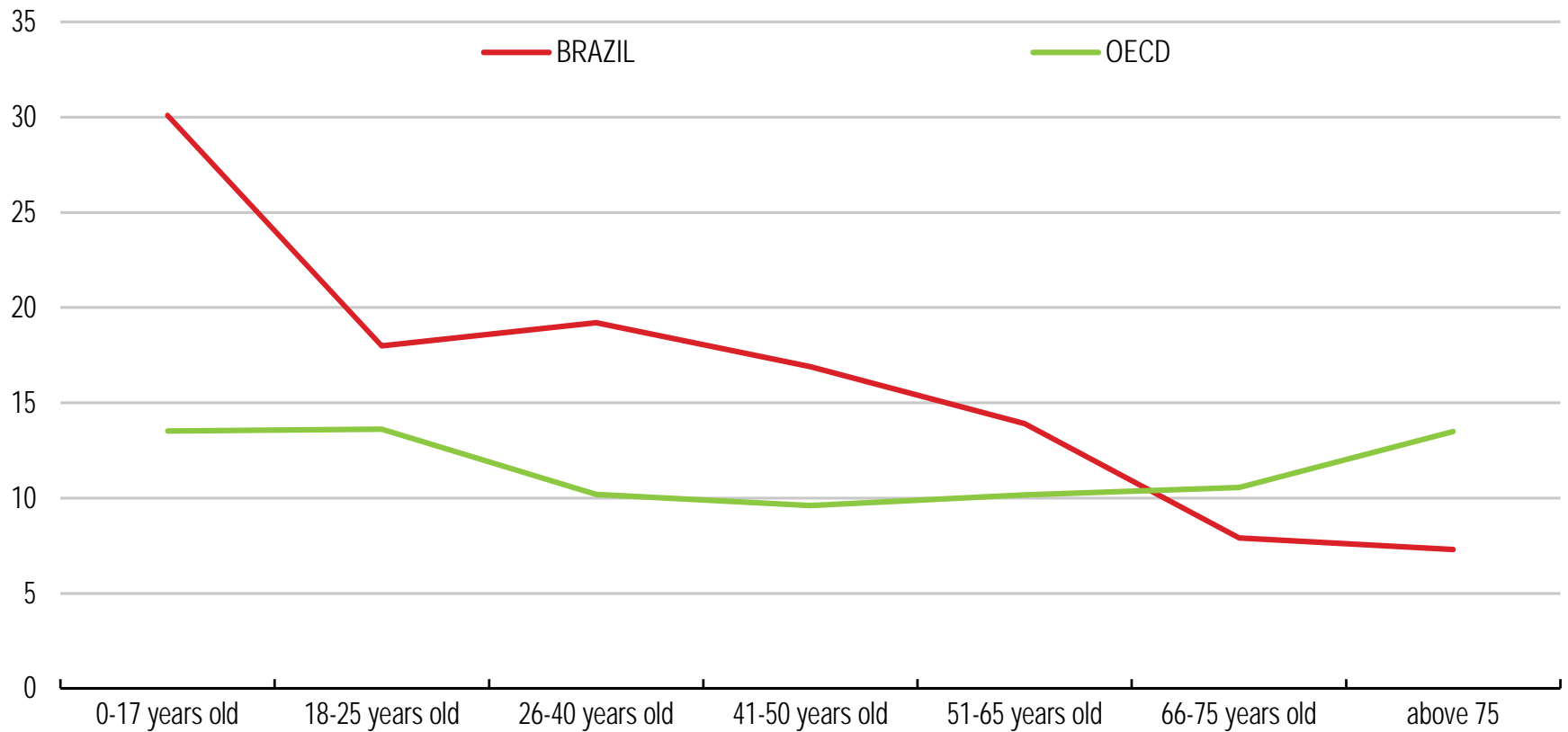


Source: OECD Pensions at a Glance 2017.



Poverty is high among children and youths

Poverty rates



Source: OECD Income Distribution database.



There is room to improve public spending

Expected possible savings from improving the efficiency of public expenditures

Measure	Potential annual savings
Social benefit reform (including pensions)	Up to 2.7% of GDP
Raising spending efficiency in the health sector	0.3% of GDP
Removing tax deductibility for private health plans	0.3% of GDP
Eliminating inefficiencies in education	1.5% of GDP
Aligning public sector pay levels with private sector	0.9% of GDP
Reforming targeted SME tax regime in the context of a broader tax reform	up to 1.2% of GDP
Scaling back tax expenditures and subsidies targeted at the industrial sector	up to 0.8% of GDP
Improving public procurement	0.2%
TOTAL	Up to 7.9% of GDP

Source: World Bank staff estimates from World Bank (2017), OECD estimates.



Key recommendations

Improving macroeconomic policies

- Implement the planned fiscal adjustment through permanent spending cuts.
- Reform the pension system.
- Delink social benefit floors from the minimum wage.
- Shift more resources towards transfers that reach the poor (Bolsa Família).
- Establish a fixed term for the Central Bank governor and monetary policy committee.
- Scale back sector- and location-specific industrial support policies, including tax benefits.
- Evaluate existing industrial support programmes.
- Improve whistle-blower and leniency procedures.
- Limit political appointments, especially in state-owned enterprises.

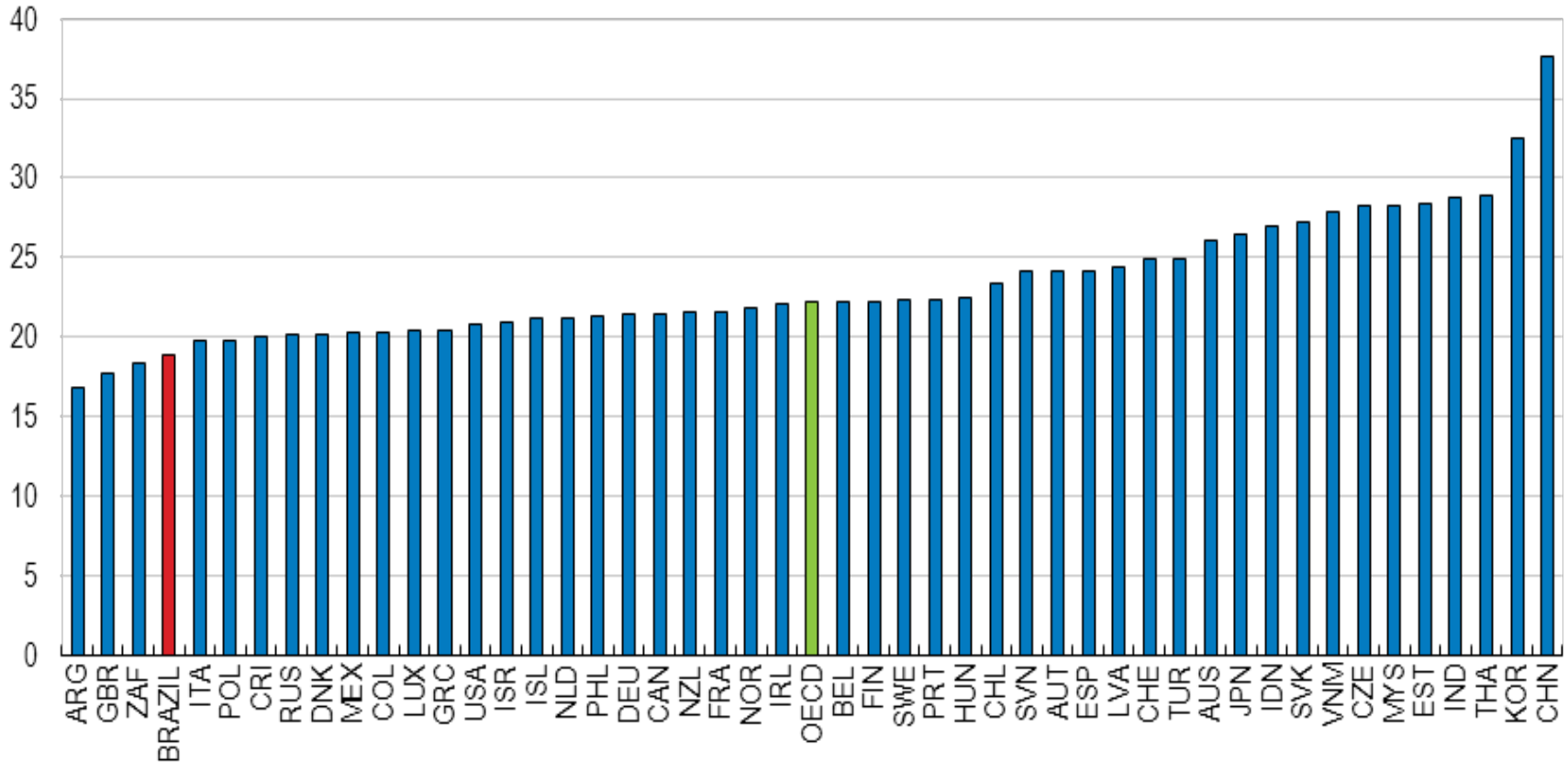


Raising investment



Investment is low

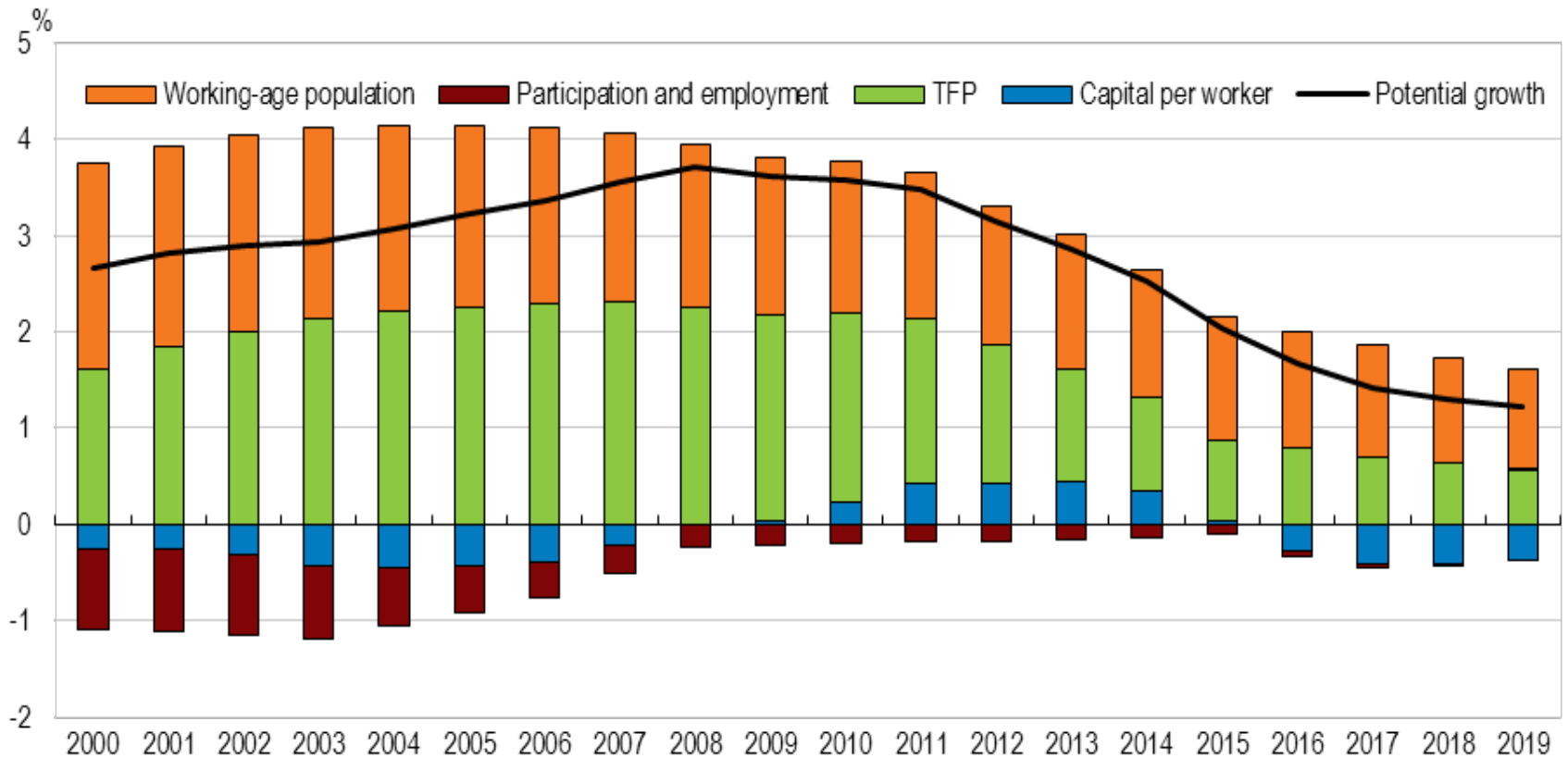
Investment as % of GDP, 1990-2016



Source: OECD Economic Outlook database



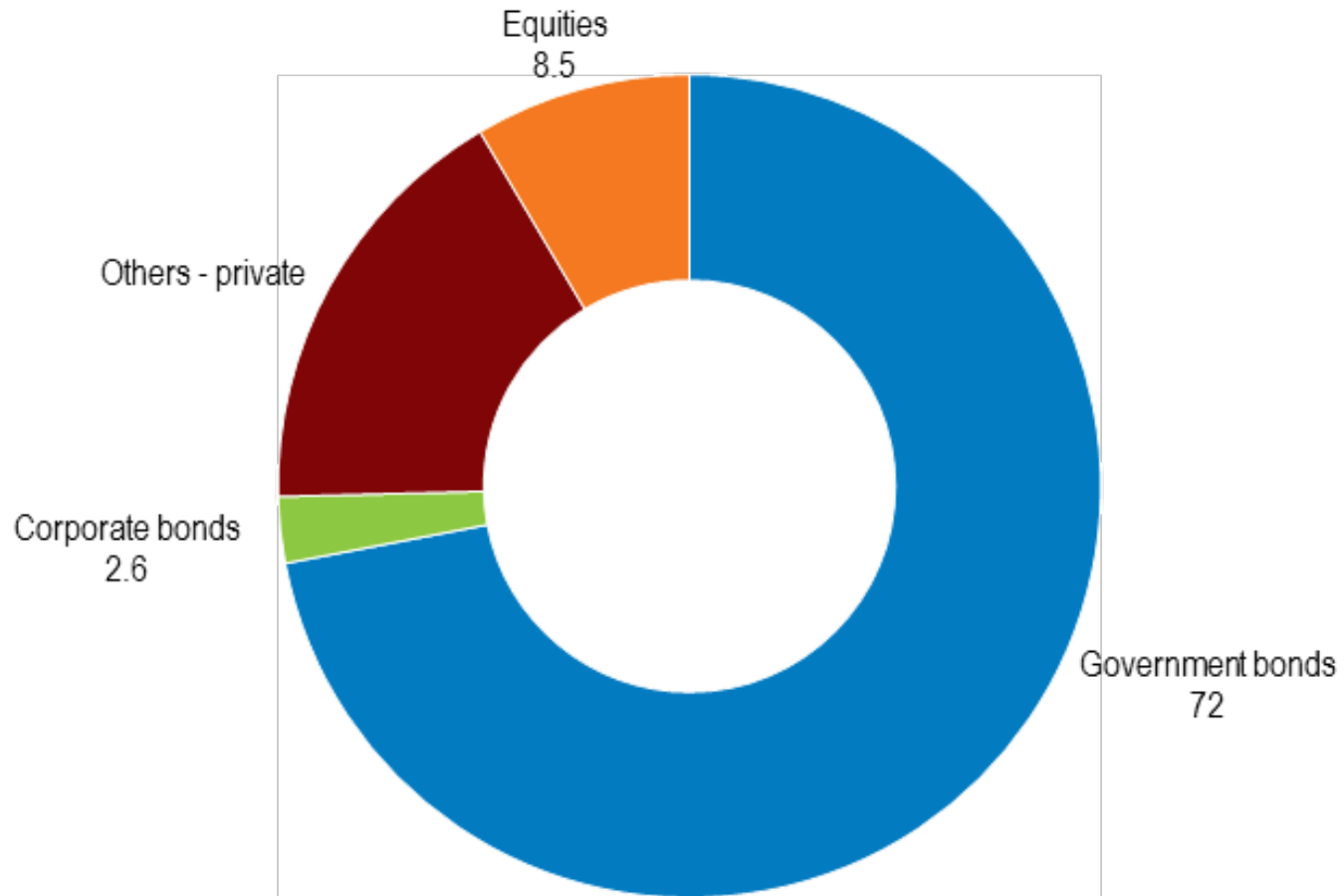
More investment is key to boost growth



Source: OECD Economic Outlook database.



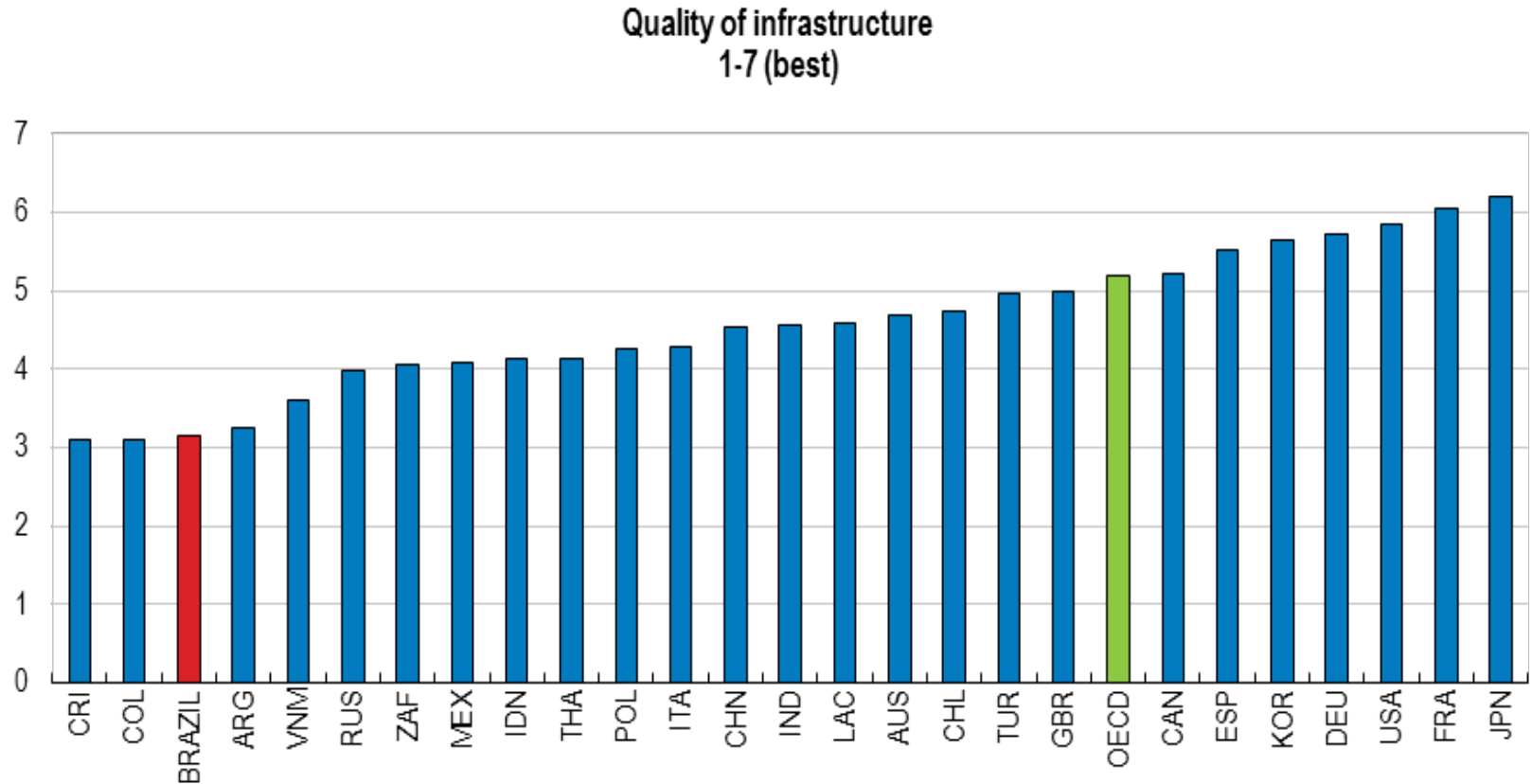
Most private savings go into government bonds



Source: Canuto and Cavallari, 2017 based on Anbima.



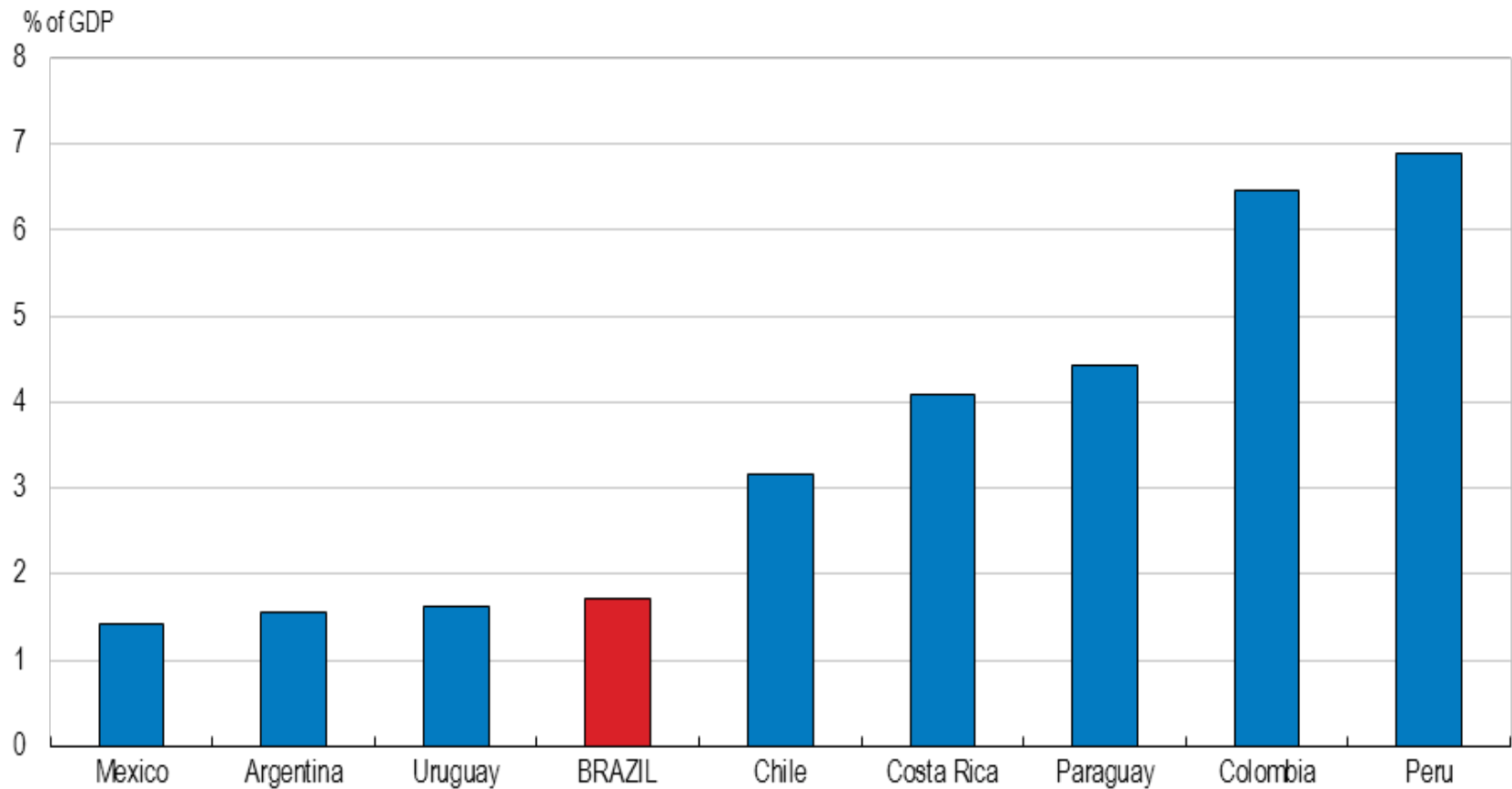
Infrastructure quality is low



Source: World Economic Forum, Global Competitiveness Indicator database



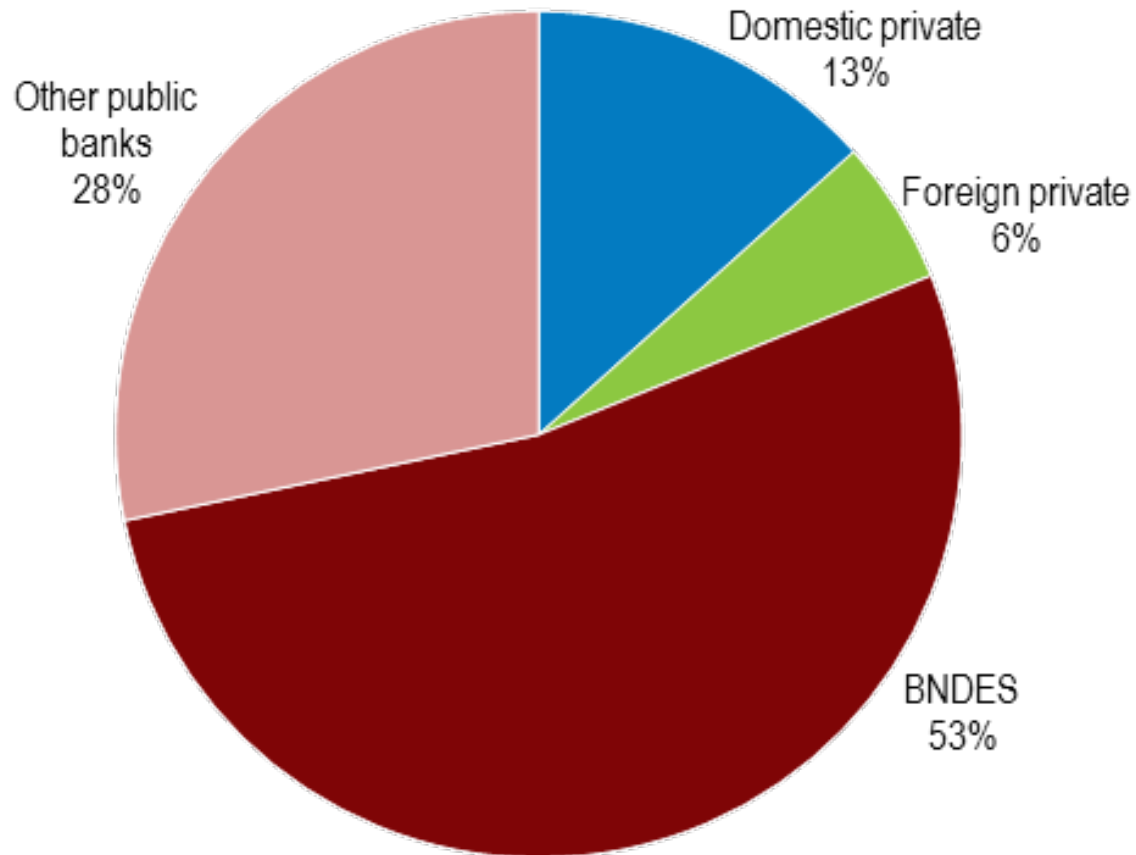
Infrastructure investment is low



Source: Infralatam, IDB and ECLAC



Infrastructure finance is dominated by public banks

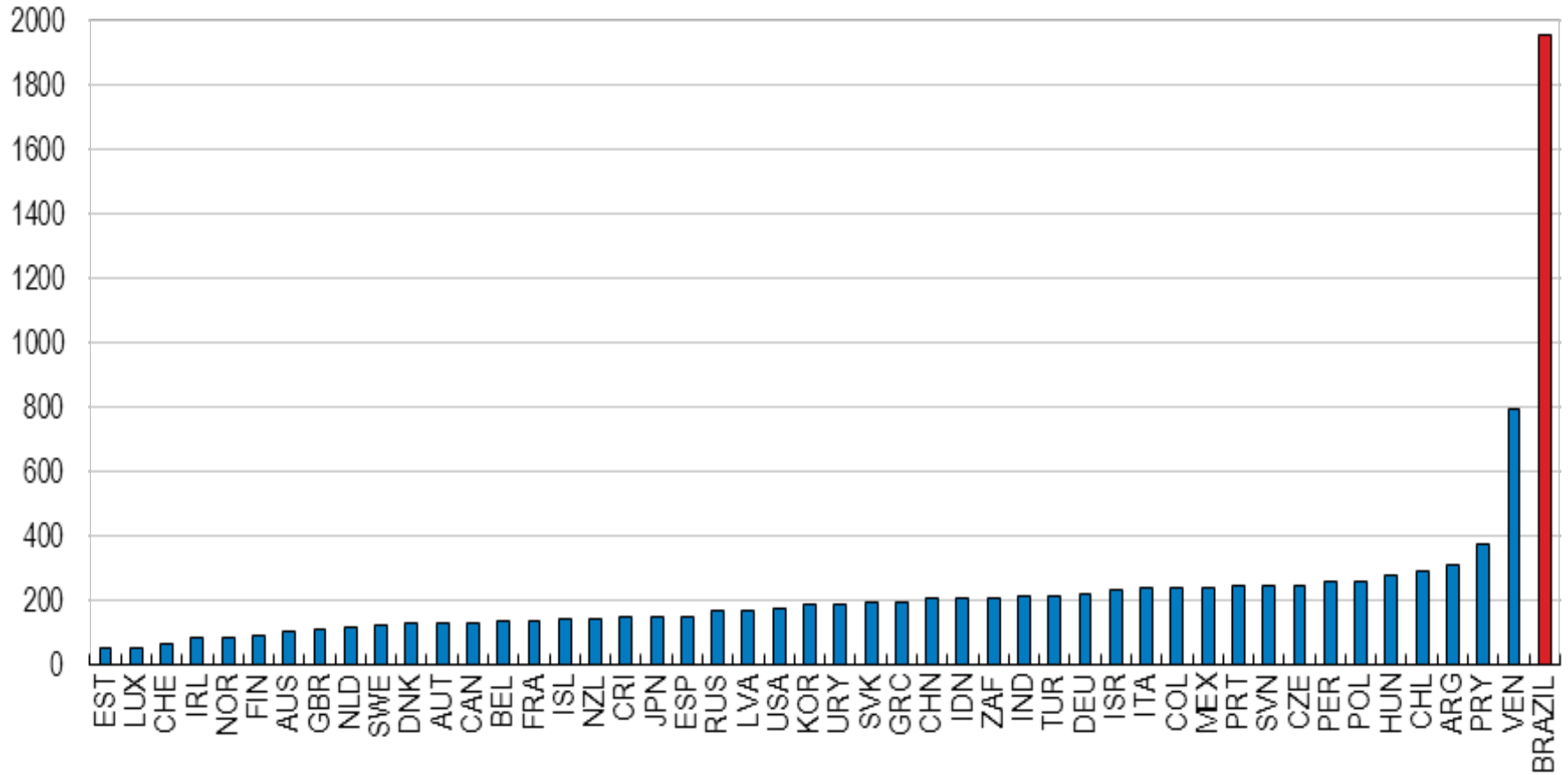


Source: Central Bank



Tax compliance costs are high

Hours required to prepare taxes

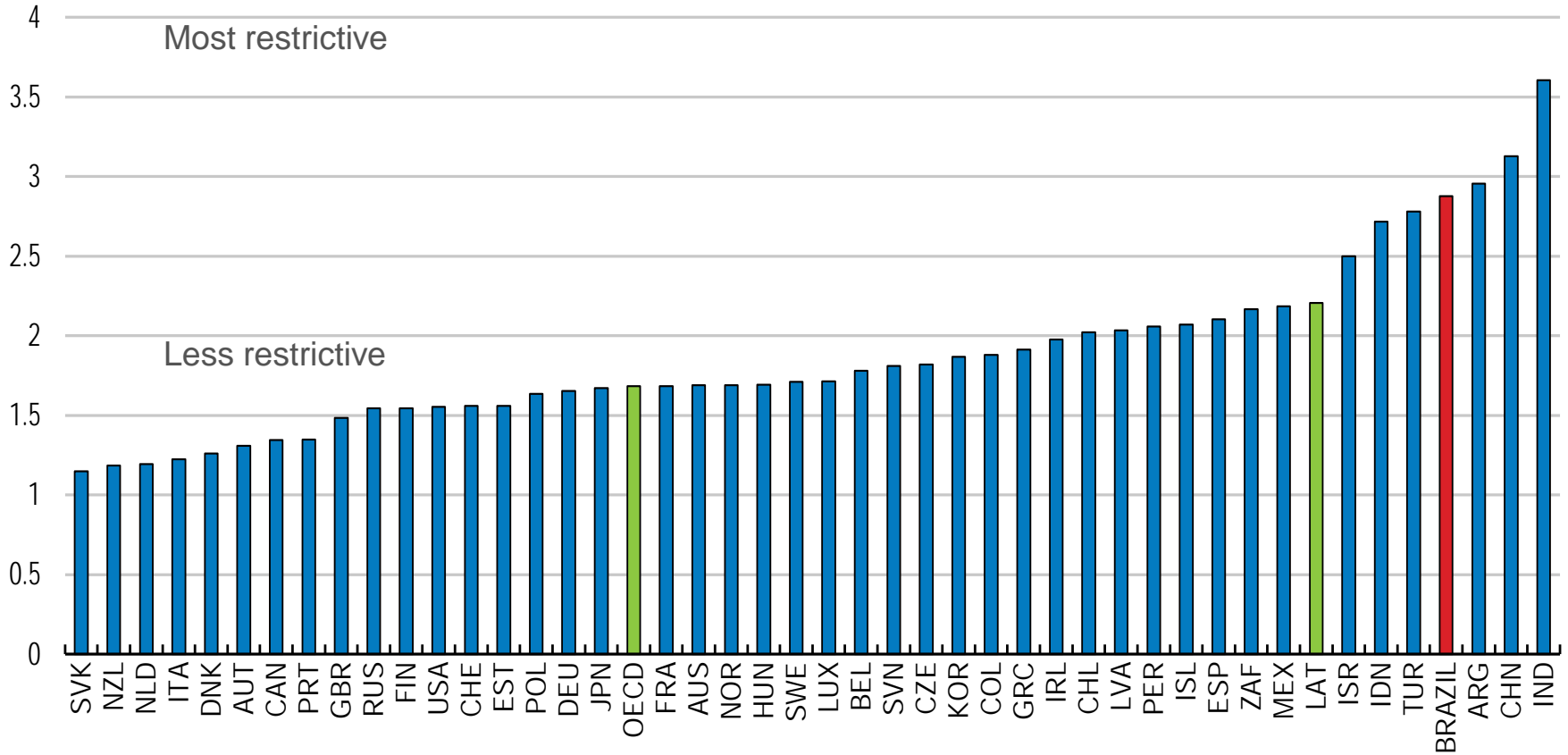


Source: World Bank.



There is room to reduce red tape and regulatory burden

Regulatory barriers to entrepreneurship

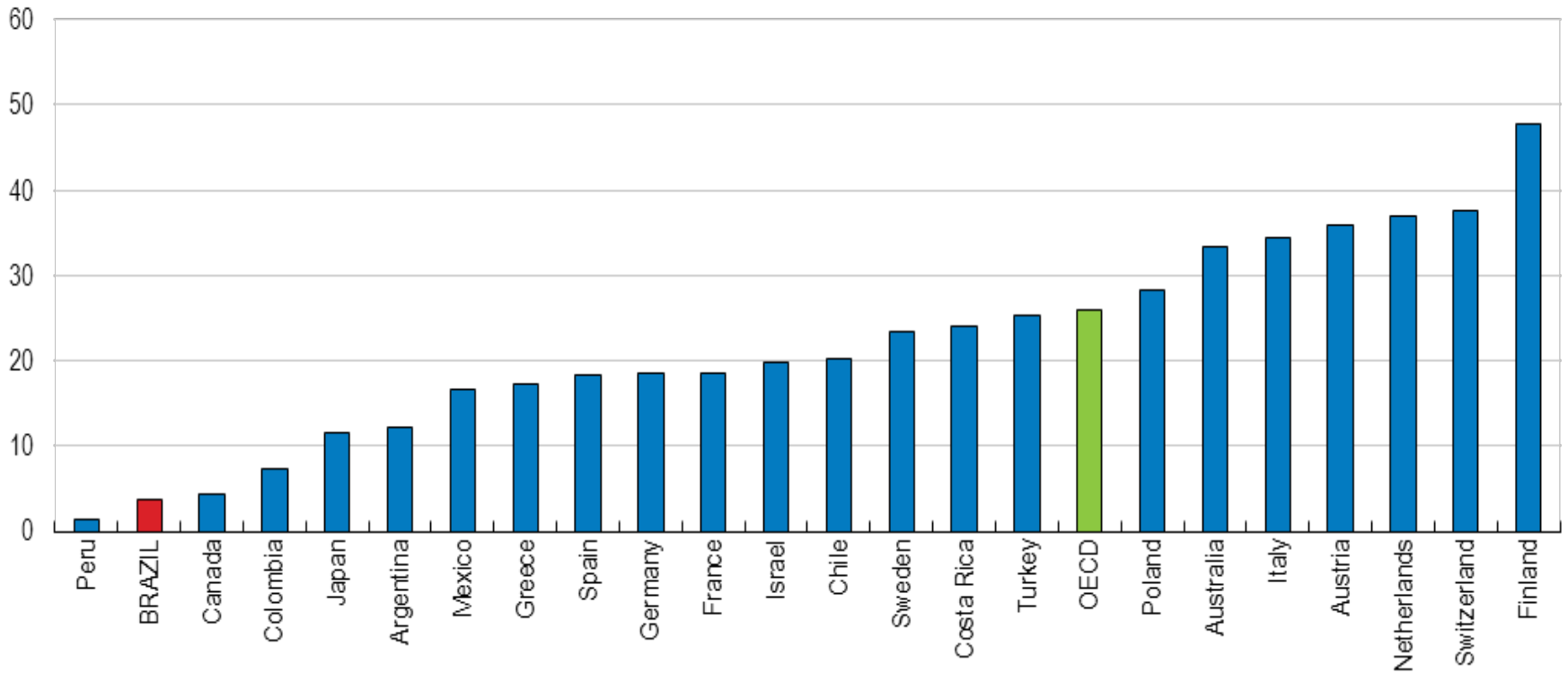


Source: OECD Product Market Regulation Indicators.



More and better professional training could relieve skill shortages

Percentage of secondary education enrolled in vocational programmes, 2015 or latest year available



Source: UNESCO Education database.



Key recommendations

Raising investment

- Reduce barriers to entry due to administrative procedures.
- Consolidate consumption taxes into one value added tax with a broad base, full refunds for input VAT paid and zero-rating for exports.
- Focus BNDES lending activities on niche areas where the private sector finds it difficult to operate.
- Use BNDES to arrange syndicated loans for infrastructure and lead the creation of structured financial instruments.
- Provide more training to officials involved in infrastructure structuring.
- Make wider use of BNDES' technical capacity to assist public entities in project structuring, especially local governments.

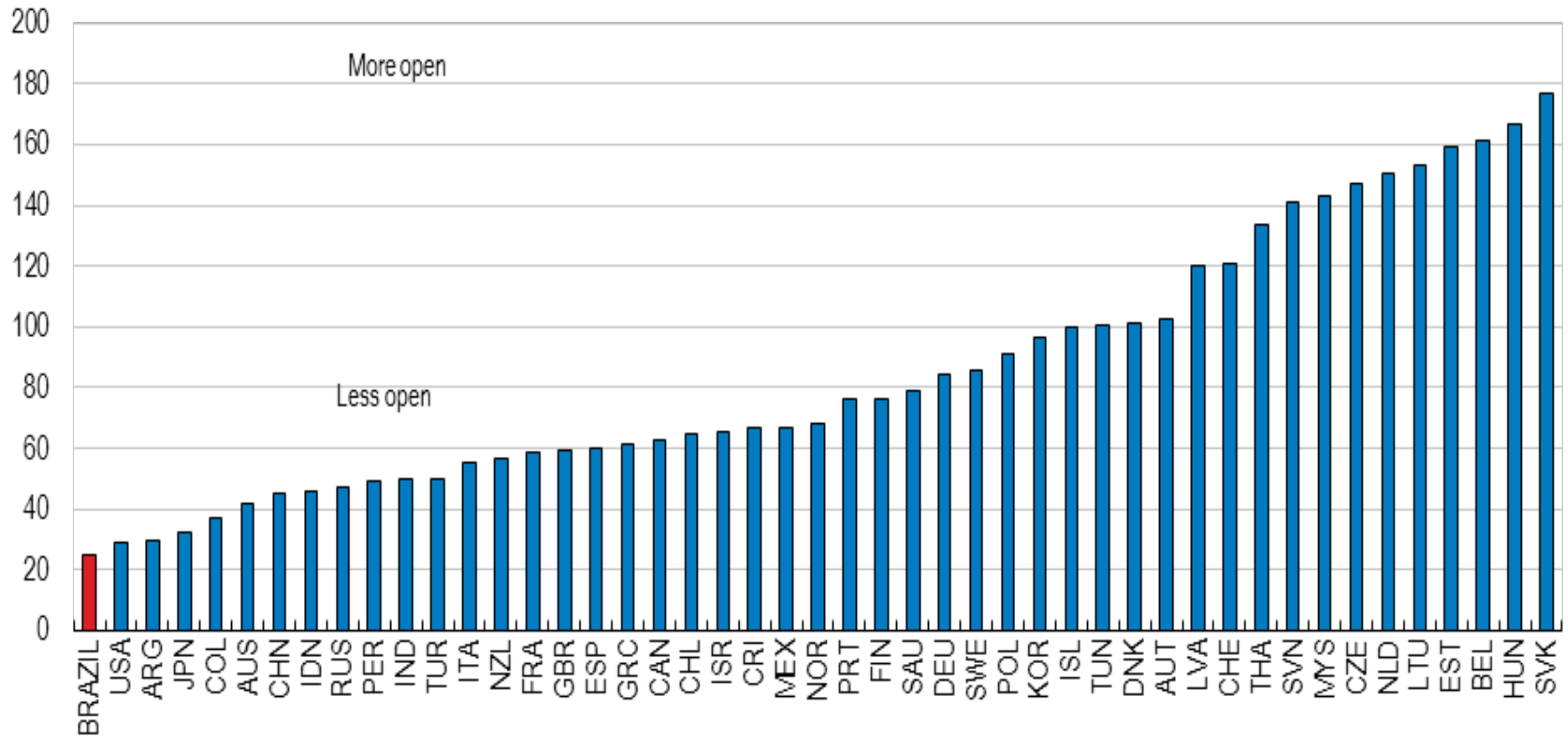


Fostering Brazil's integration into the world economy



Integration into international trade is low

Imports and exports as % of GDP, average 2010-16

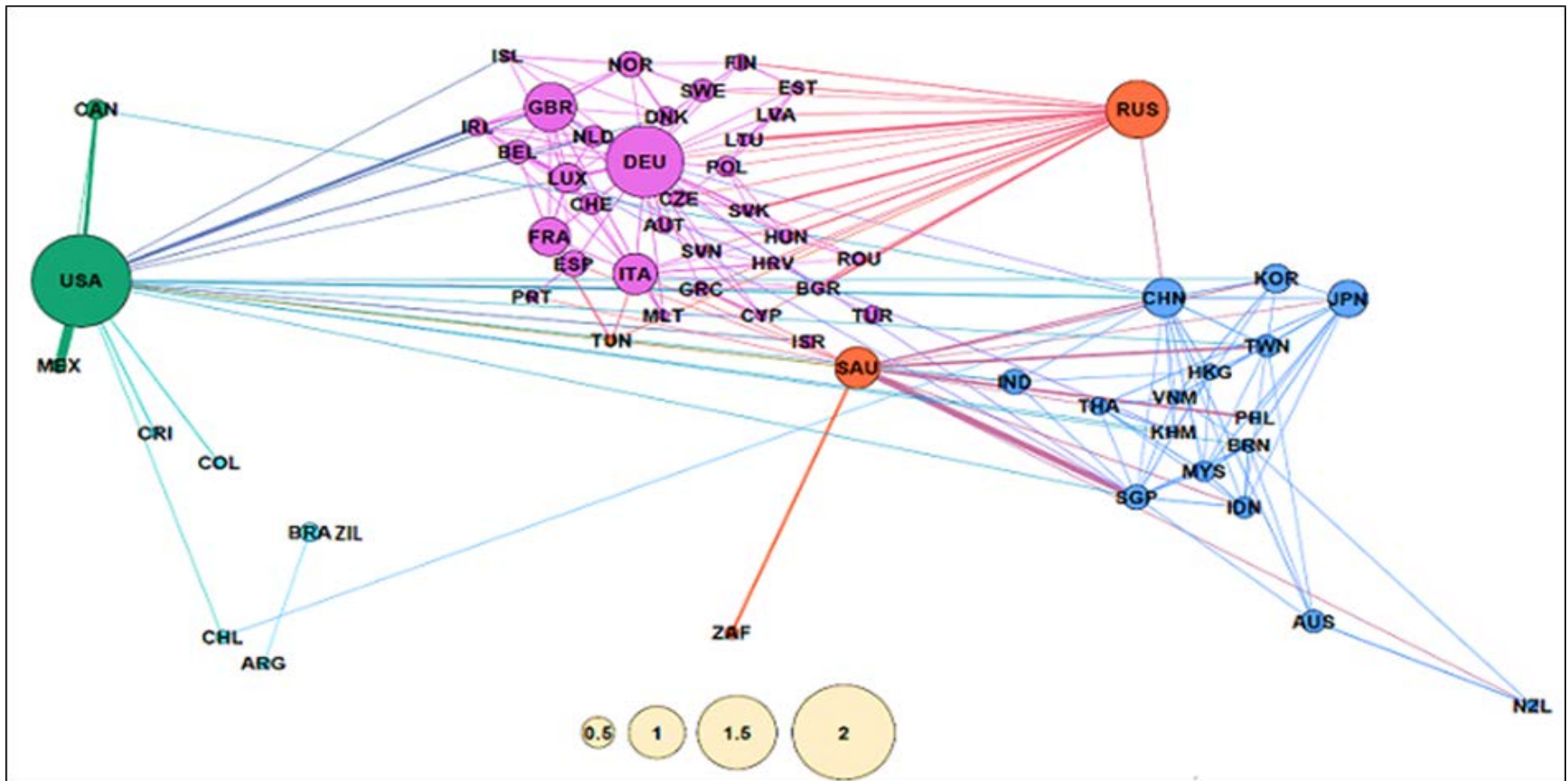


Source: OECD Economic Outlook database.



Brazil sits on the periphery of global value chains

Map of global value chains

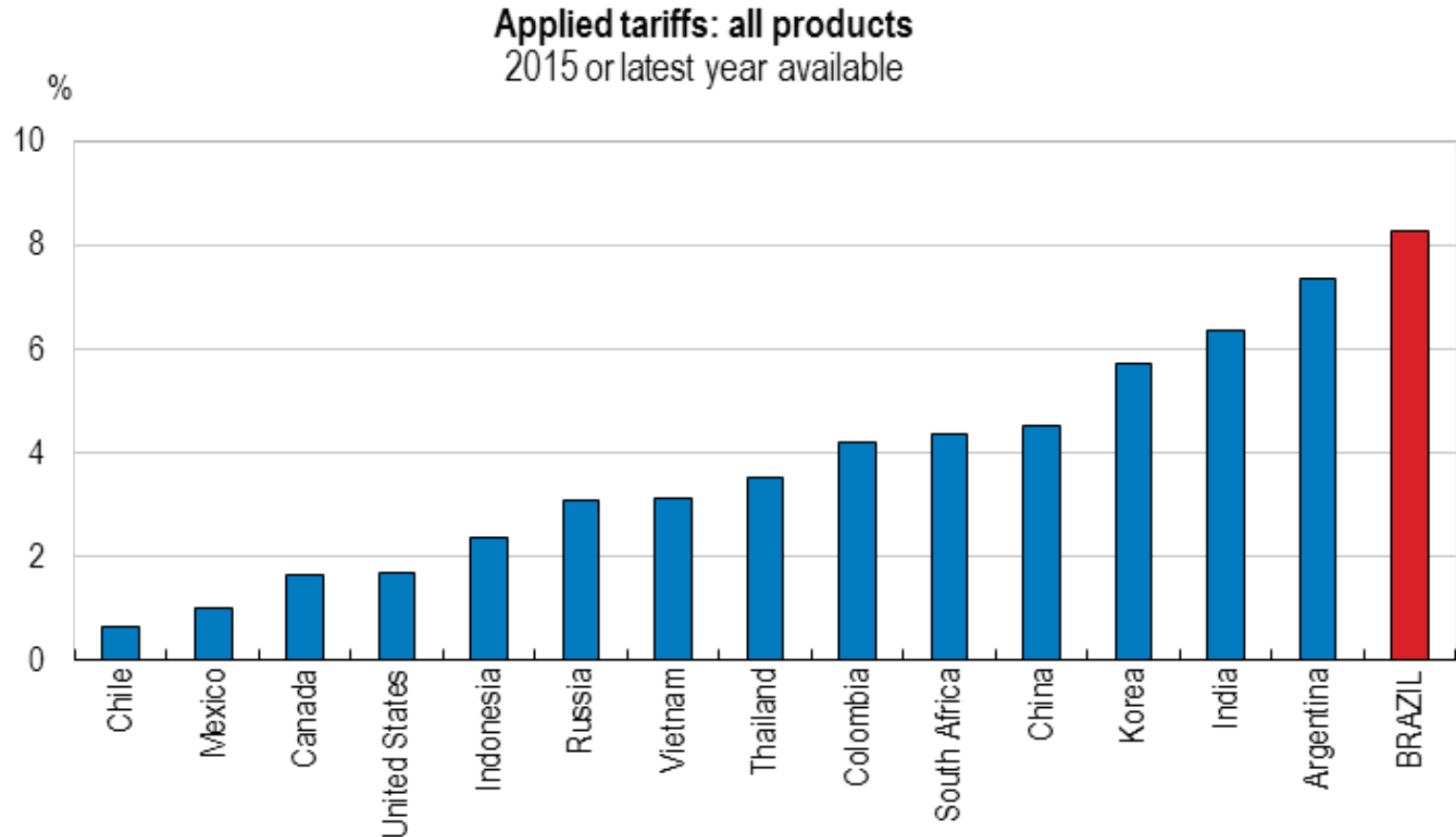


Note: A larger circle reflects an economy whose sectors are connected within global production networks.

Source: Criscuolo and Timmins (2017).



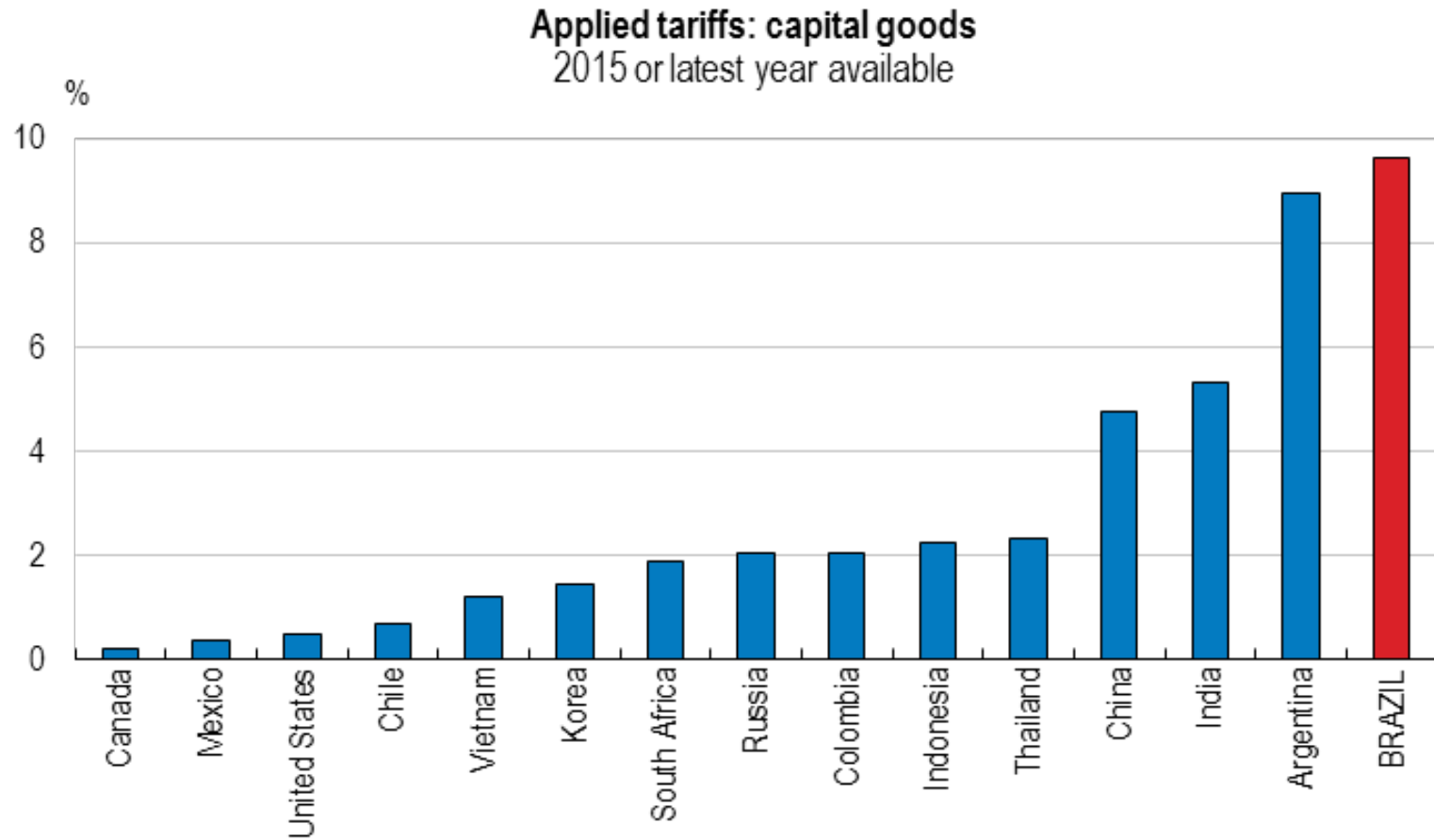
Trade barriers are high



Source: World Integrated Trade Solution database (WITS).



Imported capital goods are too expensive

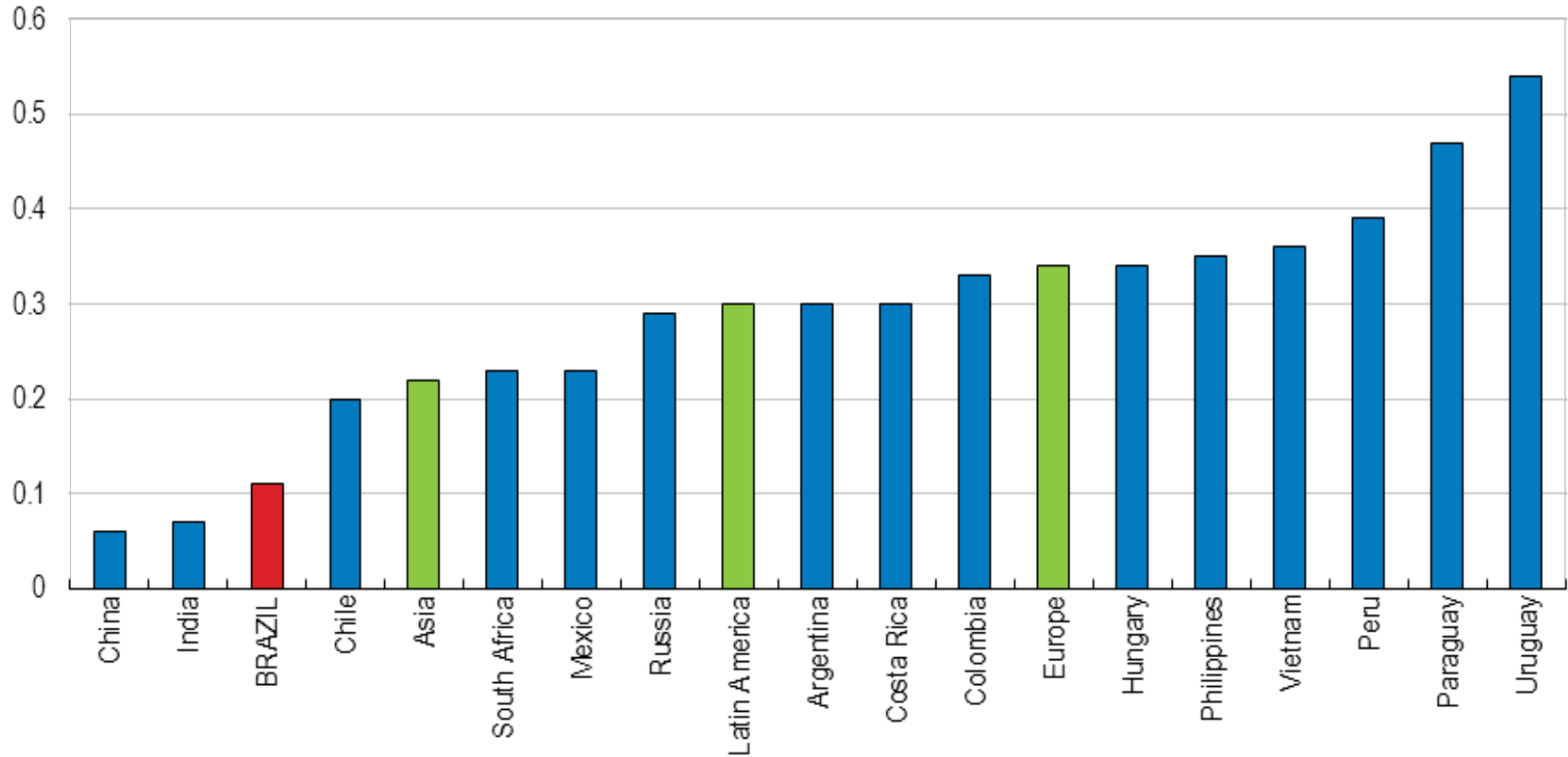


Source: World Integrated Trade Solution database (WITS).



Expensive imported inputs hurt competitiveness

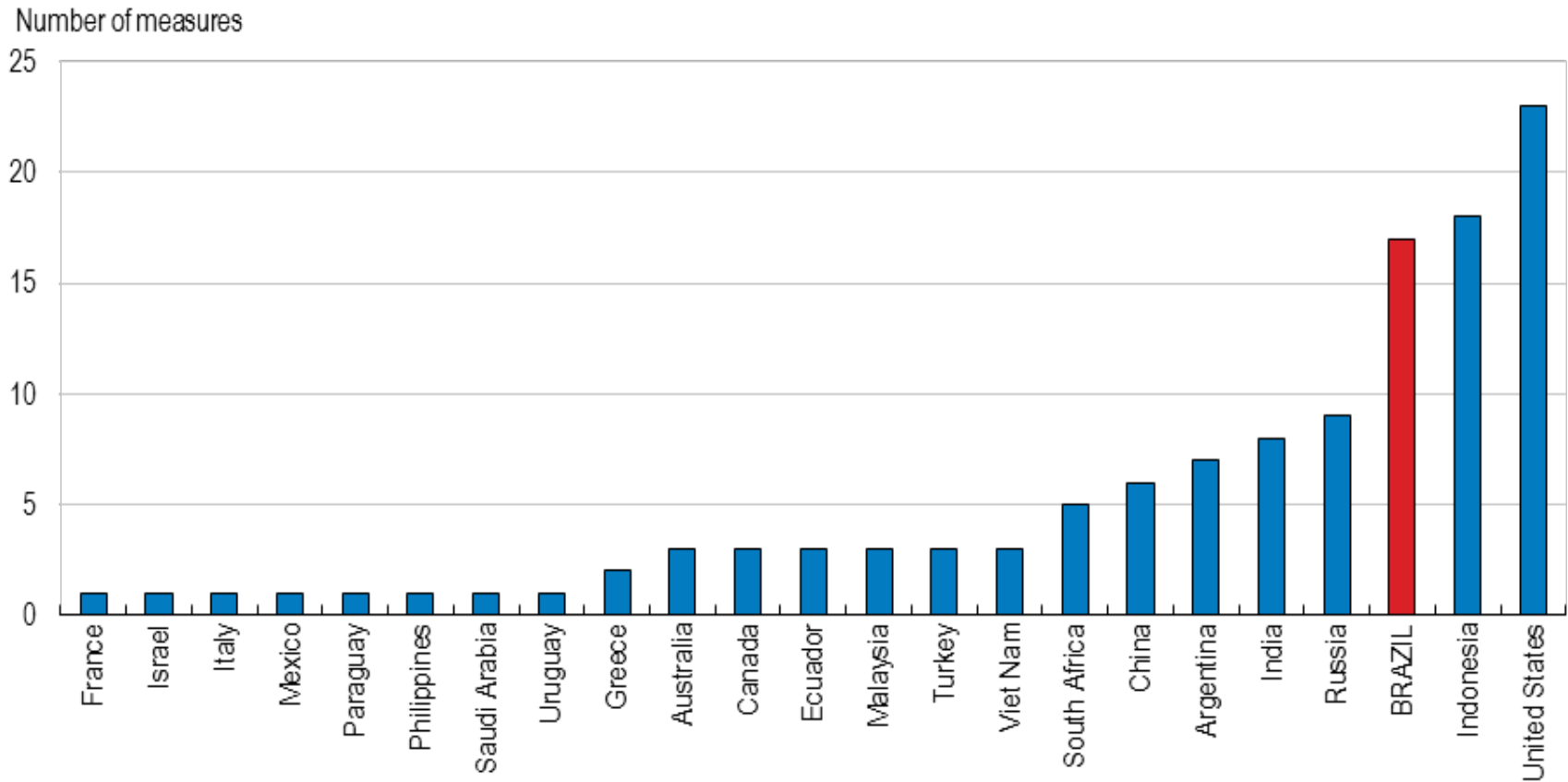
Share of imported inputs



Source: Brambilla et al. (2016).



Local content rules are used frequently

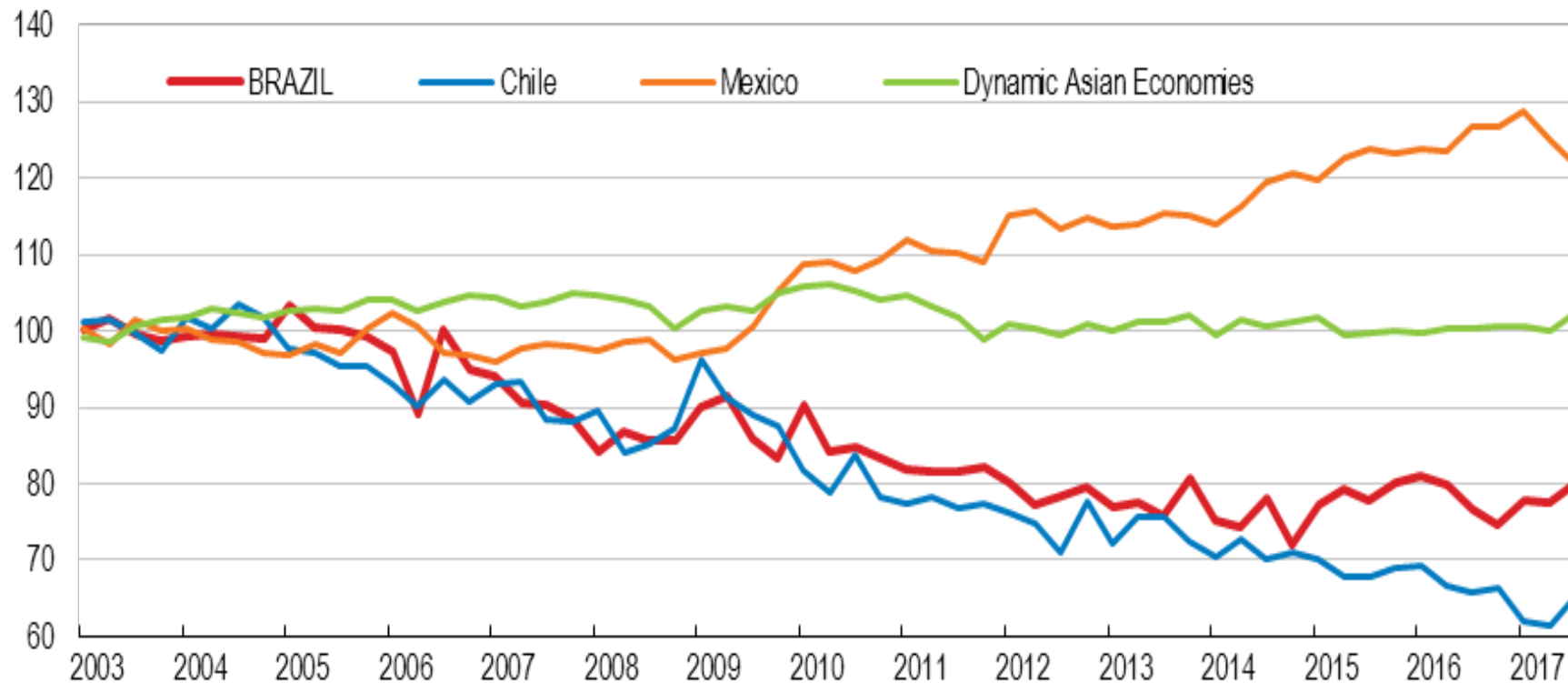


Source: Stone et al. (2015).



Export performance has been weak

Index, 2003 = 100

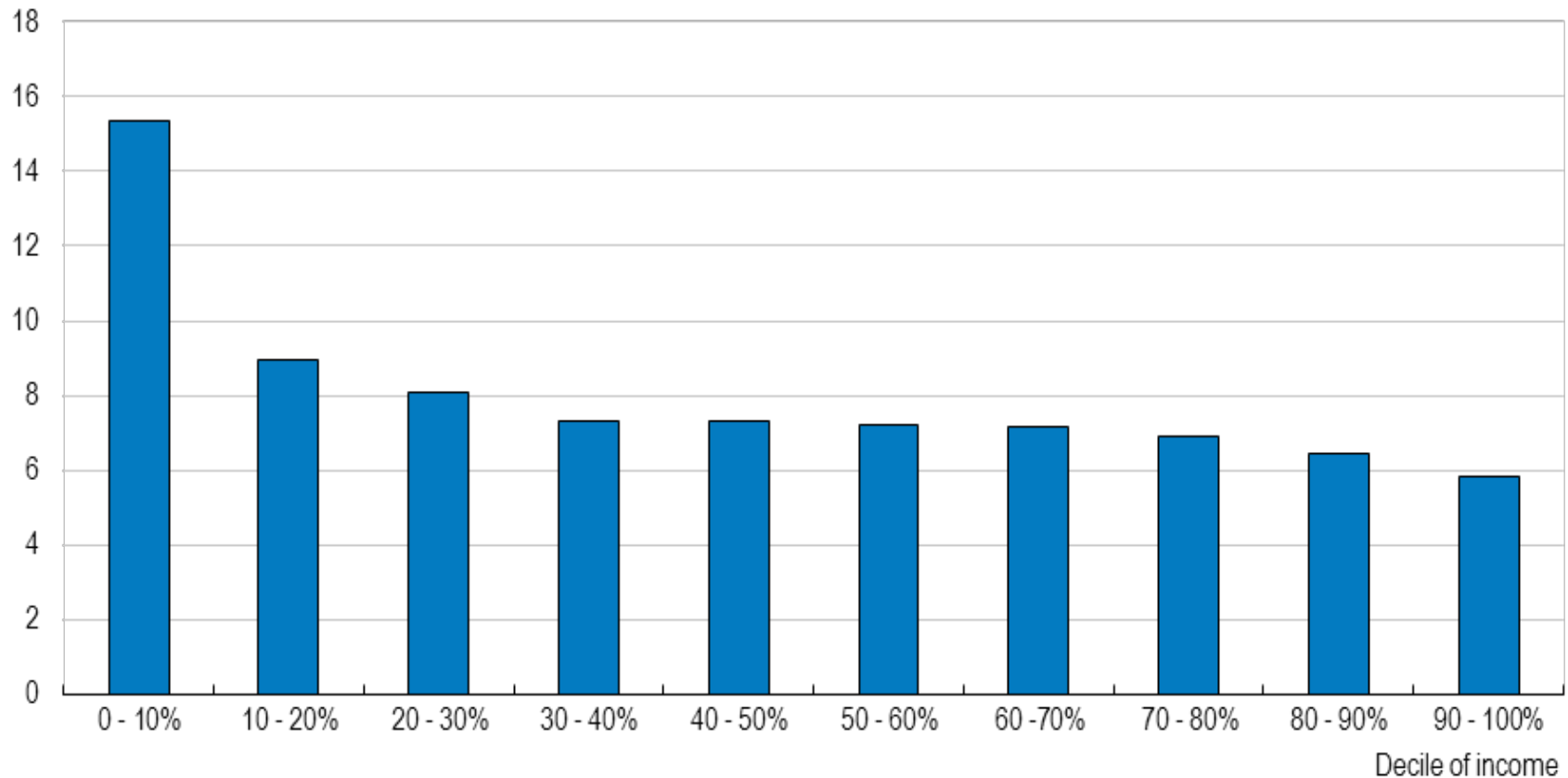


Source: OECD Economic Outlook database.



Lower-income consumers would benefit most from lower trade barriers

Potential gains in purchasing power, by deciles of the income distribution

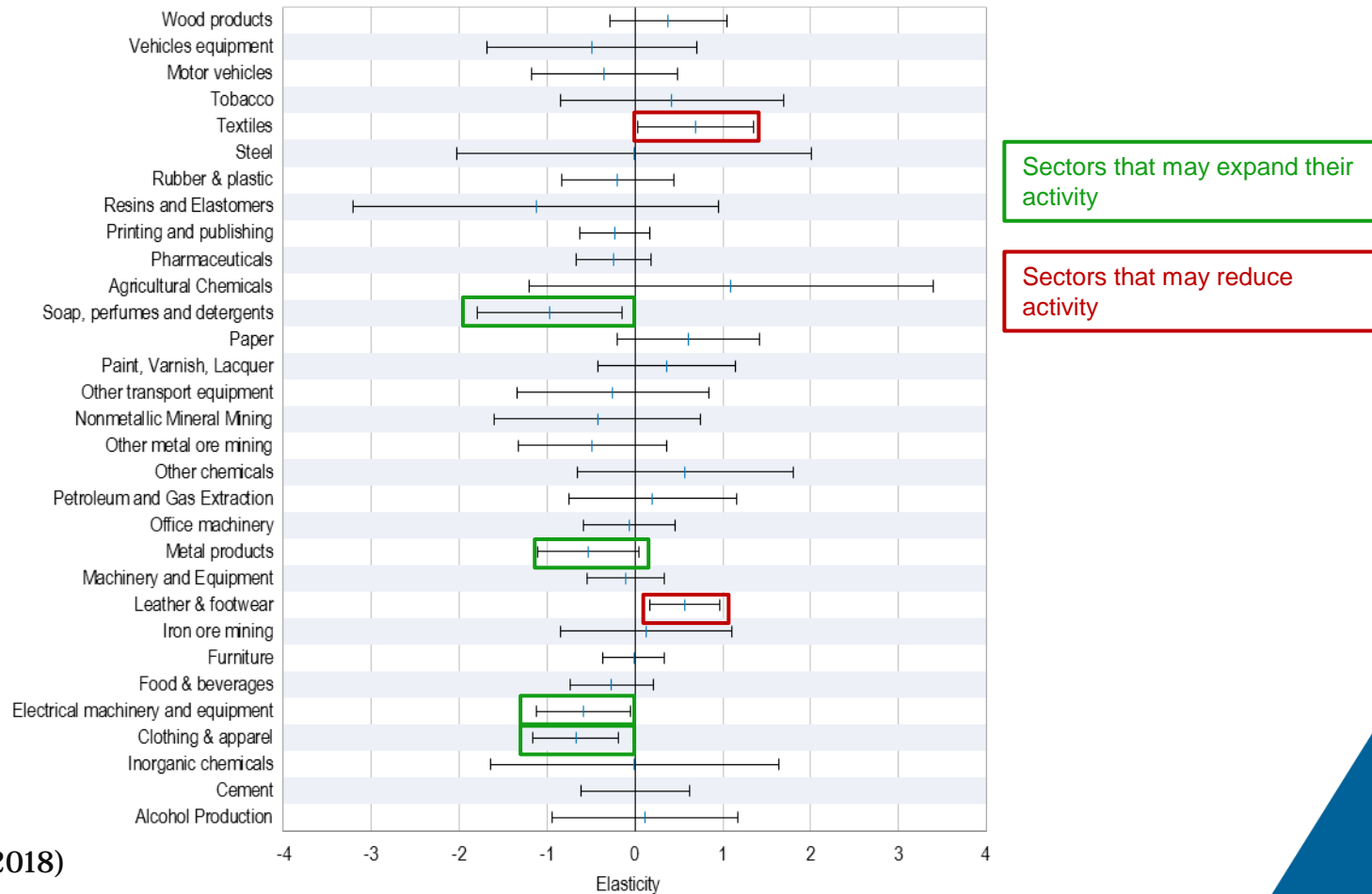


Source: Arnold et al. (2018)



Most sectors will benefit from more openness

Estimated responses of value added to changes in trade protection

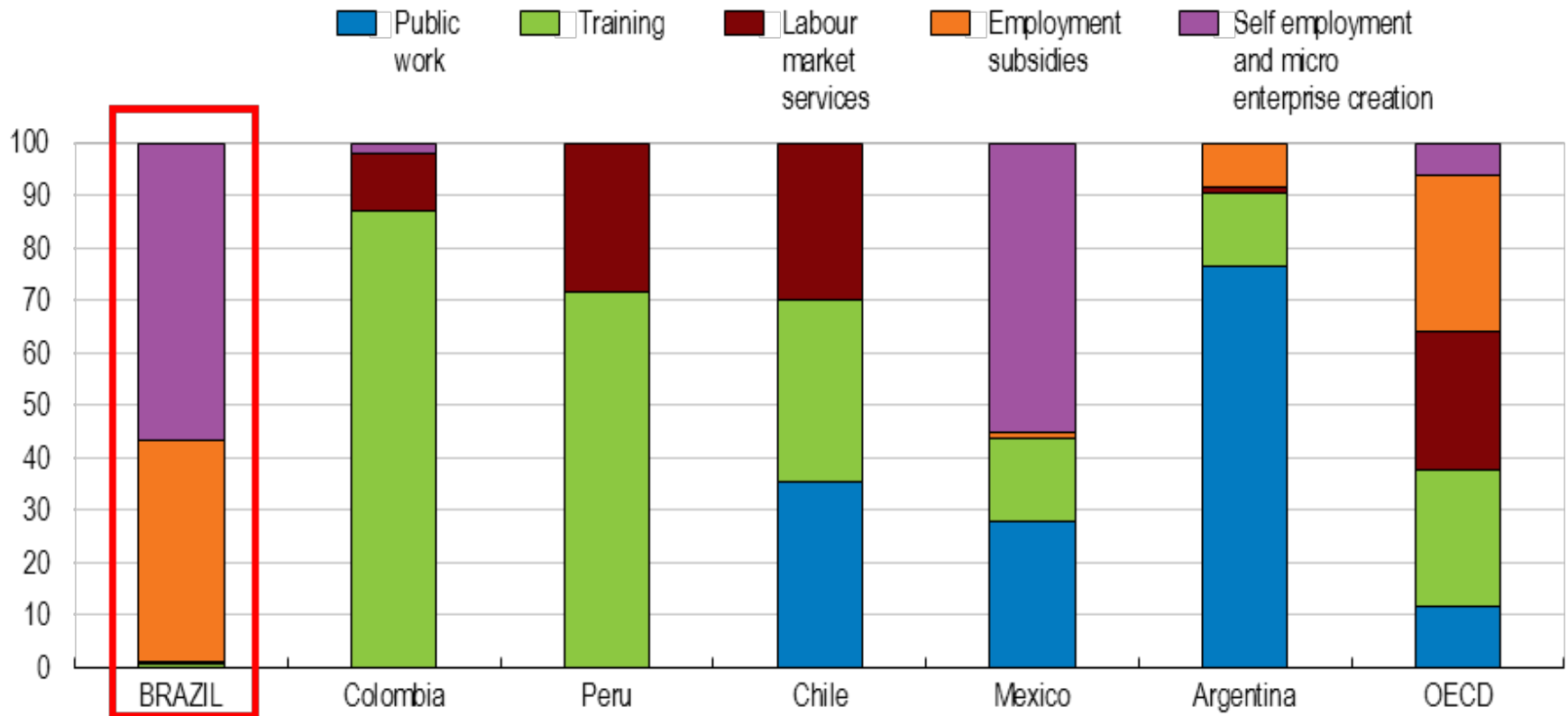


Source: Arnold et al. (2018)



Investing in training would improve access to better-paying jobs

Share of expenditure on ALMPs by type of programme, 2013 or latest year available



Source: OECD Public expenditure and participant stocks on LMP database; ILO; and ILO (2016) "What works. Active labour market policies in Latin America and the Caribbean."



Key recommendations

Fostering the integration into the world economy

- **Lower tariffs and scale back local content requirements.**
- **Bolster training and job search assistance programmes for affected workers.**

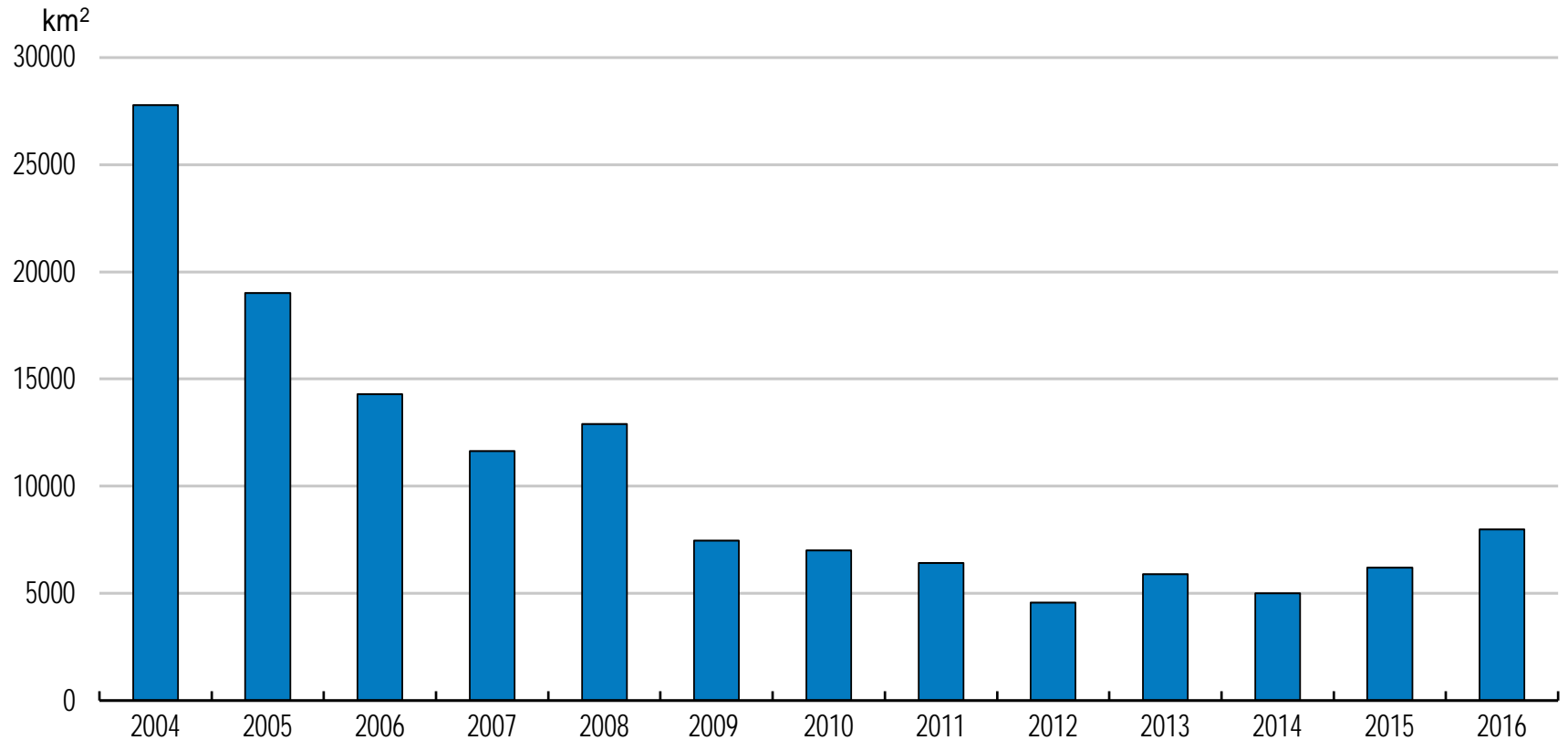


Green growth challenges



Deforestation has picked up again

Deforestation in the Amazon area (legal definition)



Source: Instituto Nacional de Pesquisas Espaciais



Key recommendations

Strengthening green growth

Ensure continuous reductions in deforestation, including through:

- Stronger enforcement
- Maintaining the status of areas currently under environmental protection.



For more information

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