OECD ECONOMIC SURVEY OF BRAZIL 2018

Towards a more prosperous and inclusive Brazil

Brasília, 28 February 2018

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

Poverty is high among children and youths

Source: OECD Income Distribution database.

Poverty rates

Source: OECD Income Distribution database.
There is room to improve public spending

Expected possible savings from improving the efficiency of public expenditures

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

Quality of infrastructure
1-7 (best)

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

There is room to reduce red tape and regulatory burden

Source: OECD Product Market Regulation Indicators.
More and better professional training could relieve skill shortages

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

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

Source: Brambilla et al. (2016).
Local content rules are used frequently

Export performance has been weak

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

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.**
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