

BRAZIL

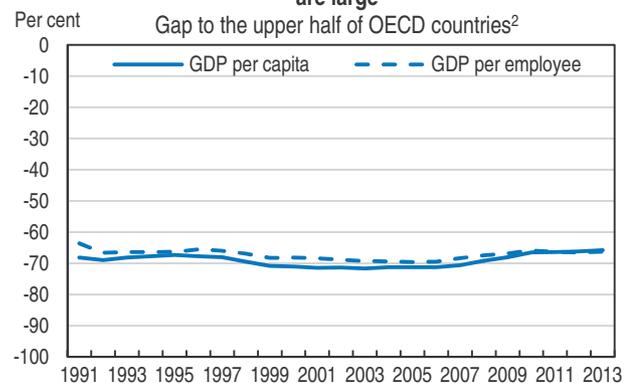
- The narrowing of significant GDP per capita gap with OECD countries has stagnated mainly due to comparatively weak labour productivity performance.
- Measures to reduce informality in the labour market, including reductions in social security contributions, have made this issue less pressing than others, and this priority has been dropped. Progress has also been made in infrastructure investment and in improving access to vocational education. However, the areas of tax reform and financial markets have seen less progress.
- A more educated workforce, better infrastructure, less tax distortions and more efficient financial intermediation would support productivity improvements. Lowering trade barriers has become a priority for Brazil to increase exposure to international competition and strengthen incentives for productivity improvements.
- Educational attainment displays a highly uneven distribution, although recent improvements in access to education have contributed to decreasing income inequality. Additional action in this area would not only increase economic growth, but could at the same time lead to further reductions in income inequality.

Growth performance indicators

A. Average annual growth rates
Per cent

	2003-08	2008-13
GDP per capita	3.7	1.8
Labour utilisation ¹	1.4	0.9
Labour productivity	2.3	0.9

B. Gaps in GDP per capita and productivity are large

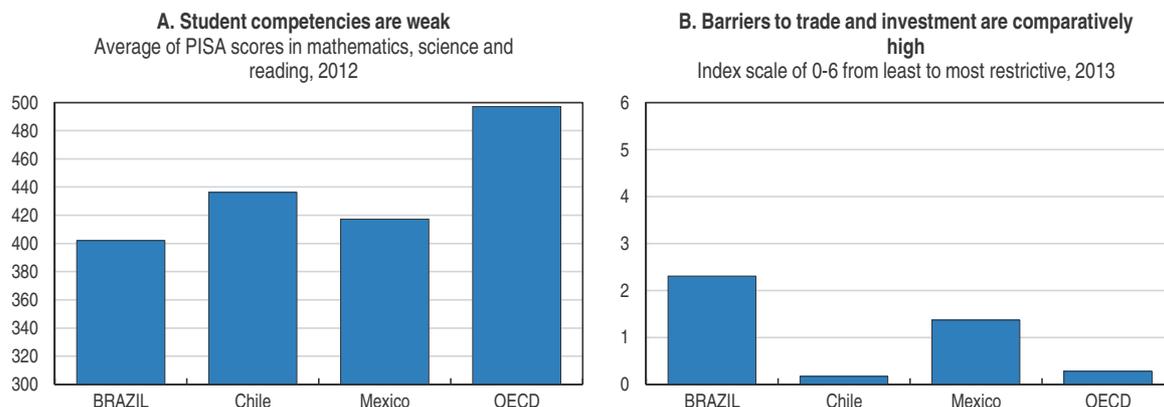


1. Labour utilisation is defined as the ratio of total employment over population.

2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).

Source: World Bank, *World Development Indicators (WDI) Database*; and ILO, *Key Indicators of the Labour Market (KILM) Databases*.

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Source: Panel A: OECD (2014), PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science, PISA, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264208780-en>. Panel B: OECD, Product Market Regulation Database, www.oecd.org/economy/pmr.

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Going for Growth 2015 priorities**Priorities supported by indicators**

Increase public and private investment in infrastructure. Addressing infrastructure gaps would lead to higher productivity growth and improve export competitiveness.

Actions taken: The Authorities have simplified the procedures for public works with a view to shortening the tender process (2013). Concession contracts have been expanded (2013). A new ports law is expected to enhance investment. 76% of planned investments for 2011-14 under the Growth Acceleration Pact (PAC2) had been spent by end-2013, but there have been delays in project delivery.

Recommendations: Implement planned infrastructure projects. Improve the capacity of subnational governments to execute projects without unnecessary delays. Modernise the port sector, including through regular concession tenders without automatic renewal. In electricity, increase capacity and improve the distribution network. Scale down public current expenditures to promote infrastructure investment.

***Reduce barriers to trade.*¹** Barriers to trade and investment are stringent, which hampers catch-up in productivity.

Recommendations: Reduce tariff protection and phase out local content requirements in publicly financed projects, including infrastructure projects and projects with financing from the national development bank. Rely on horizontal measures to support industrial performance.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an “*”.

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Enhance outcomes and equity in education. Improving education outcomes and equality of educational opportunities would accelerate productivity growth.

Actions taken: Vocational training programmes of low-skilled workers and scholarships for tertiary education have been expanded continuously.

Recommendations: Focus on improving the quality of education through better teacher pay, in-service training and stronger performance incentives. Ensure full-day schooling nationwide and build more schools where needed. Further expand tertiary vocational and professional training programmes to address skill shortages and reduce drop-out rates.

Other key priorities

Reduce distortions in the tax system. A less onerous tax system, particularly for indirect taxes, would contribute to faster productivity gains by reducing tax compliance costs.

Actions taken: No action taken.

Recommendations: Reduce fragmentation and complexity of the tax system. Unify state-level indirect tax rates and tax bases.

Improve the efficiency of financial markets. Long-term financial markets are underdeveloped, hampering capital allocation and productivity.

Actions taken: Despite measures to encourage private engagement in long-term financial markets, such as promoting securities with long maturities including infrastructure bonds (2013), the public sector remains dominant in this segment.

Recommendations: Gradually reduce financial support to the national development bank and focus its lending on the financing of infrastructure, small and medium enterprises and innovation. Continue efforts to facilitate the development of private long-term capital markets.

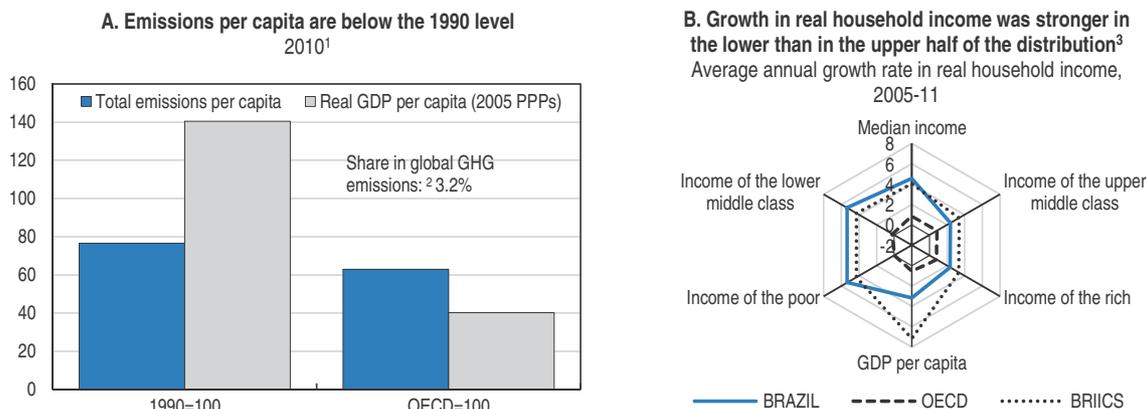
Reform areas no longer considered a priority in Going for Growth

Encourage formal labour force participation, especially among seniors. To encourage formal labour force participation, it was recommended to remove disincentives ensuing from a large labour tax wedge.

Actions taken: Lower social contributions and simplified social security procedures for small and medium enterprises and self-employed persons have reduced hiring costs in the formal sector and increased formal sector participation (2013).

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Beyond GDP per capita: Other policy objectives



1. Total GHG emissions in CO₂ equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. Due to data limitations, income levels across the distribution are derived by combining quintile income shares from nationally representative household surveys and gross national income of the household sector from the national accounts. This implies limited comparability with OECD countries' data. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *Energy (IEA) Database*; World Bank, *World Development Indicators (WDI) Database*; and United Nations Framework Convention on Climate Change (*UNFCCC) Database*. Panel B: World Bank, *World Development Indicators (WDI) Database*.

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