

# **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

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

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

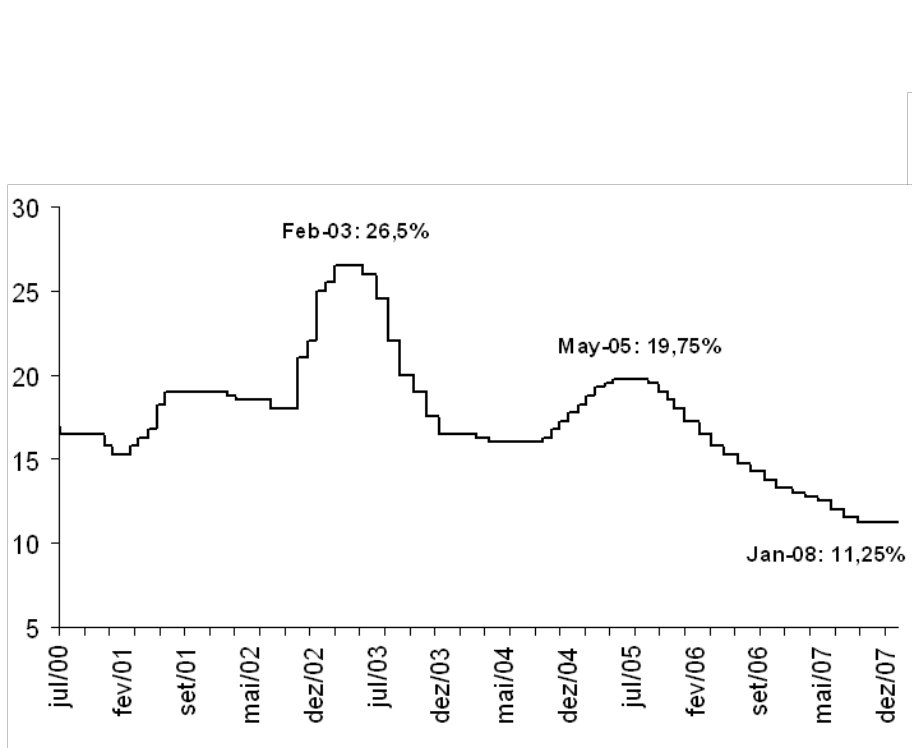
Legitimacy (L) of Economic Policies (including Fiscal) need assesse't by both qualitative surveys and quantitative results of consistent policies (e.g., using Ex-Post Incidence Analysis) bringing credibility to the overall macro-economic framework

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

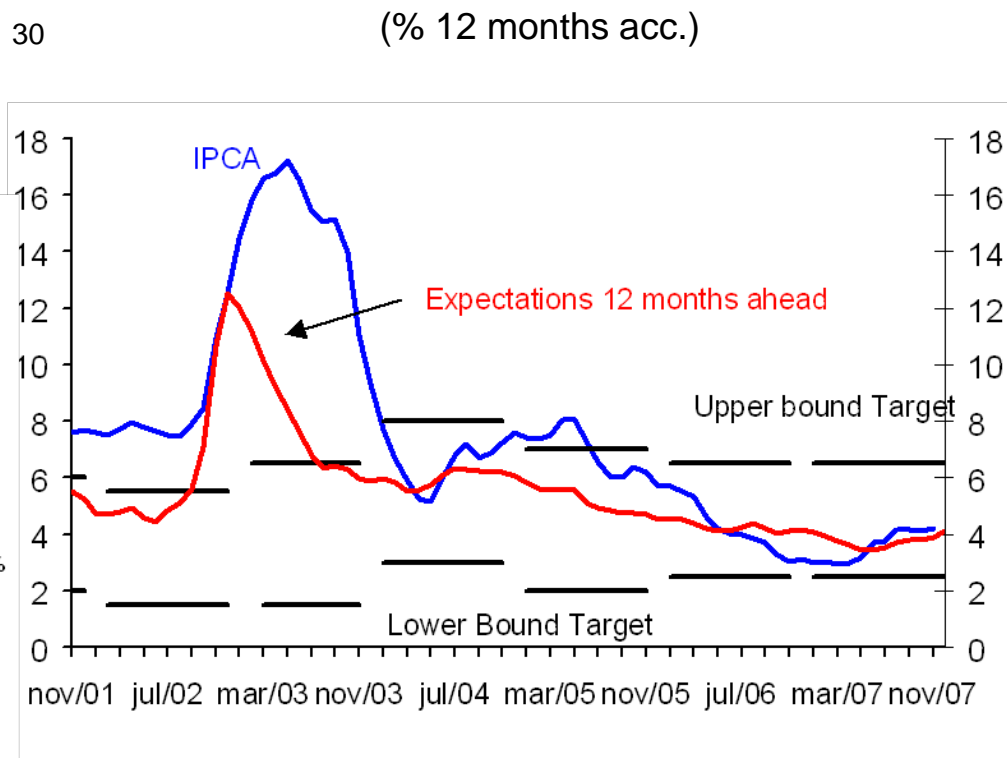
$$L = g \left[ P1(\text{Outcome} \approx E(\text{Outcome})), P2, P3, P4, \text{etc.} \right]$$

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

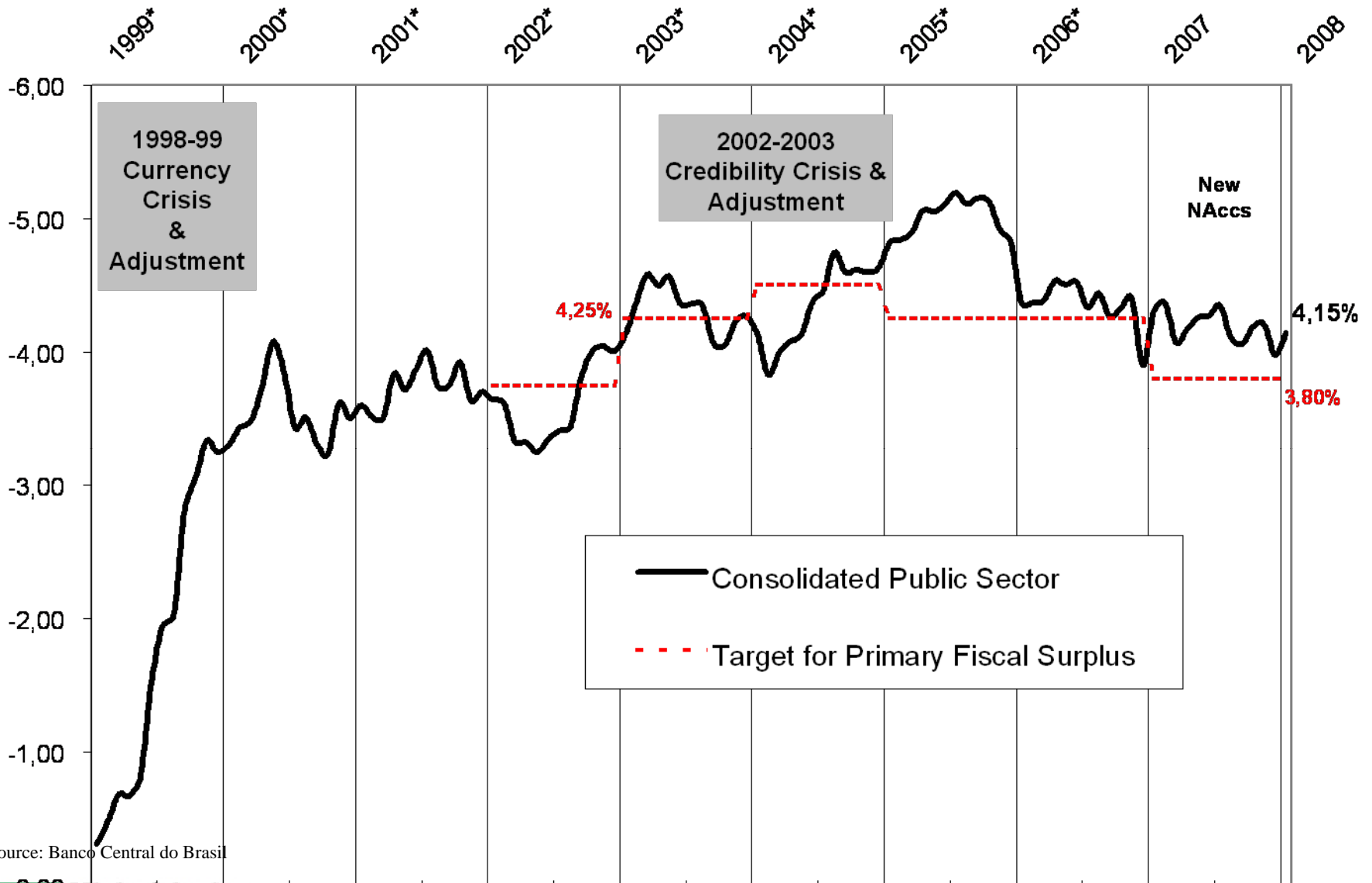
**Central Bank Policy Rate Selic (% year)**



**CPI (IPCA) and Expected CPI**

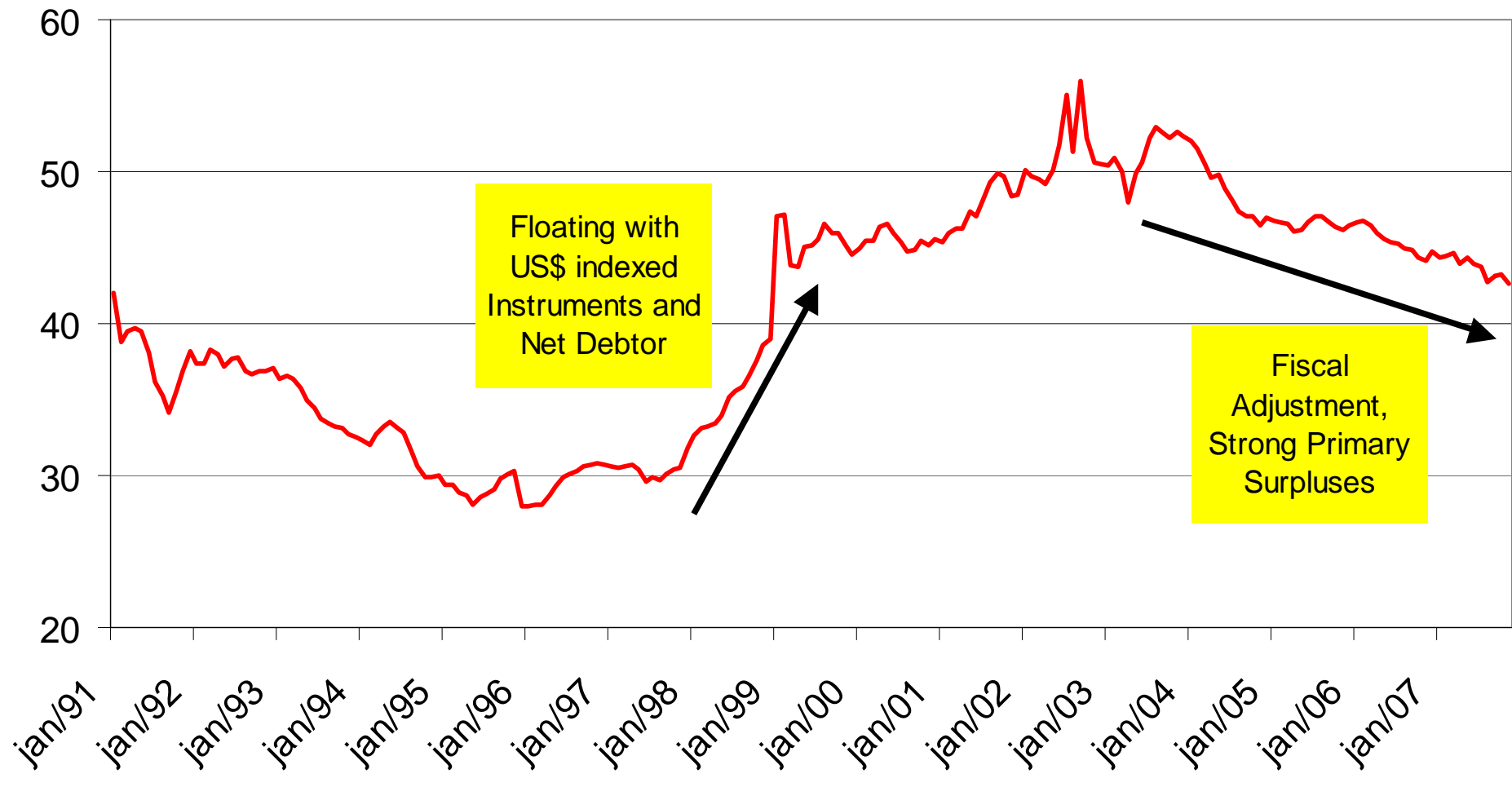


# Stronger PS Fiscal Primary Position - (% GDP)



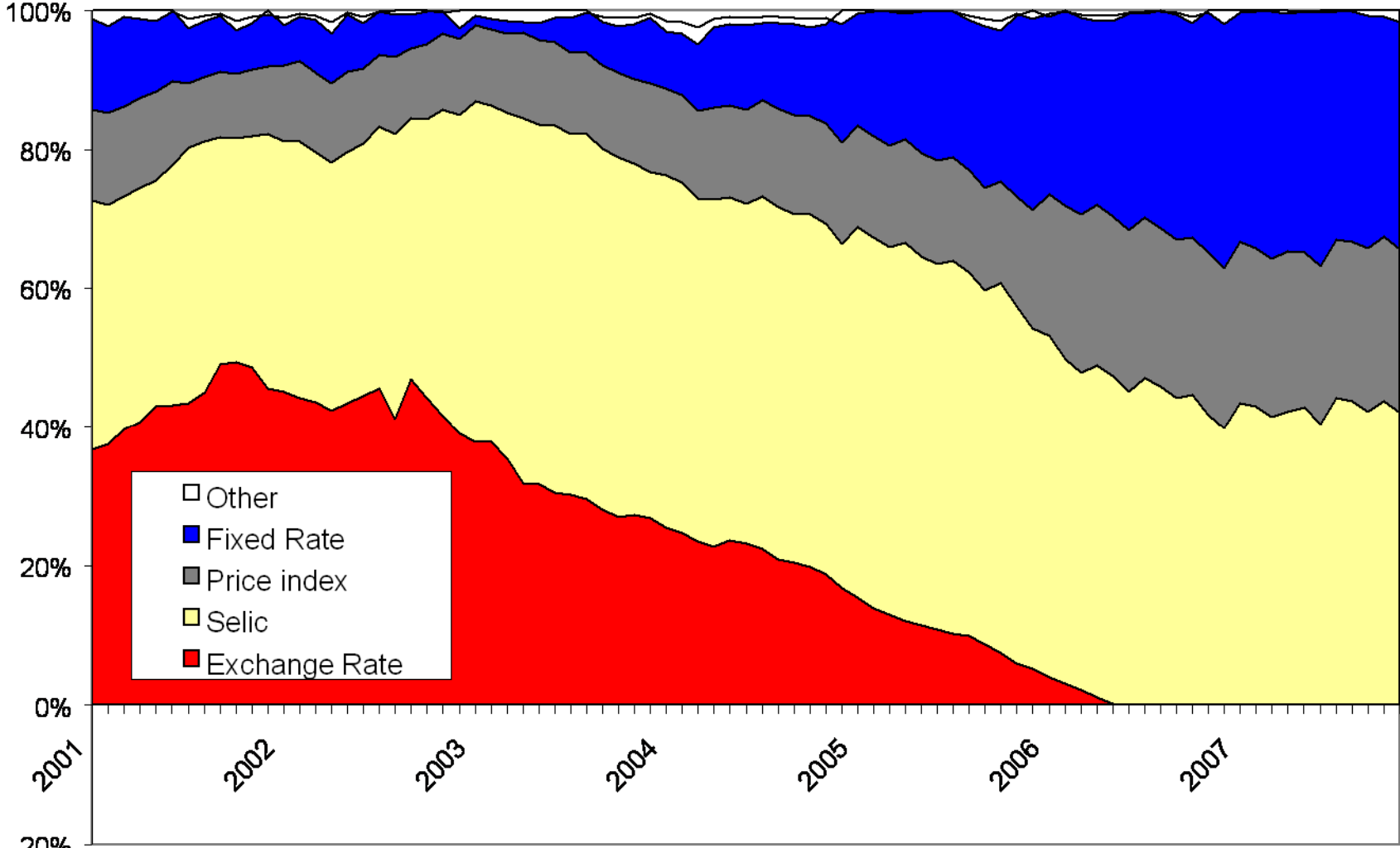
Source: Banco Central do Brasil

# 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)

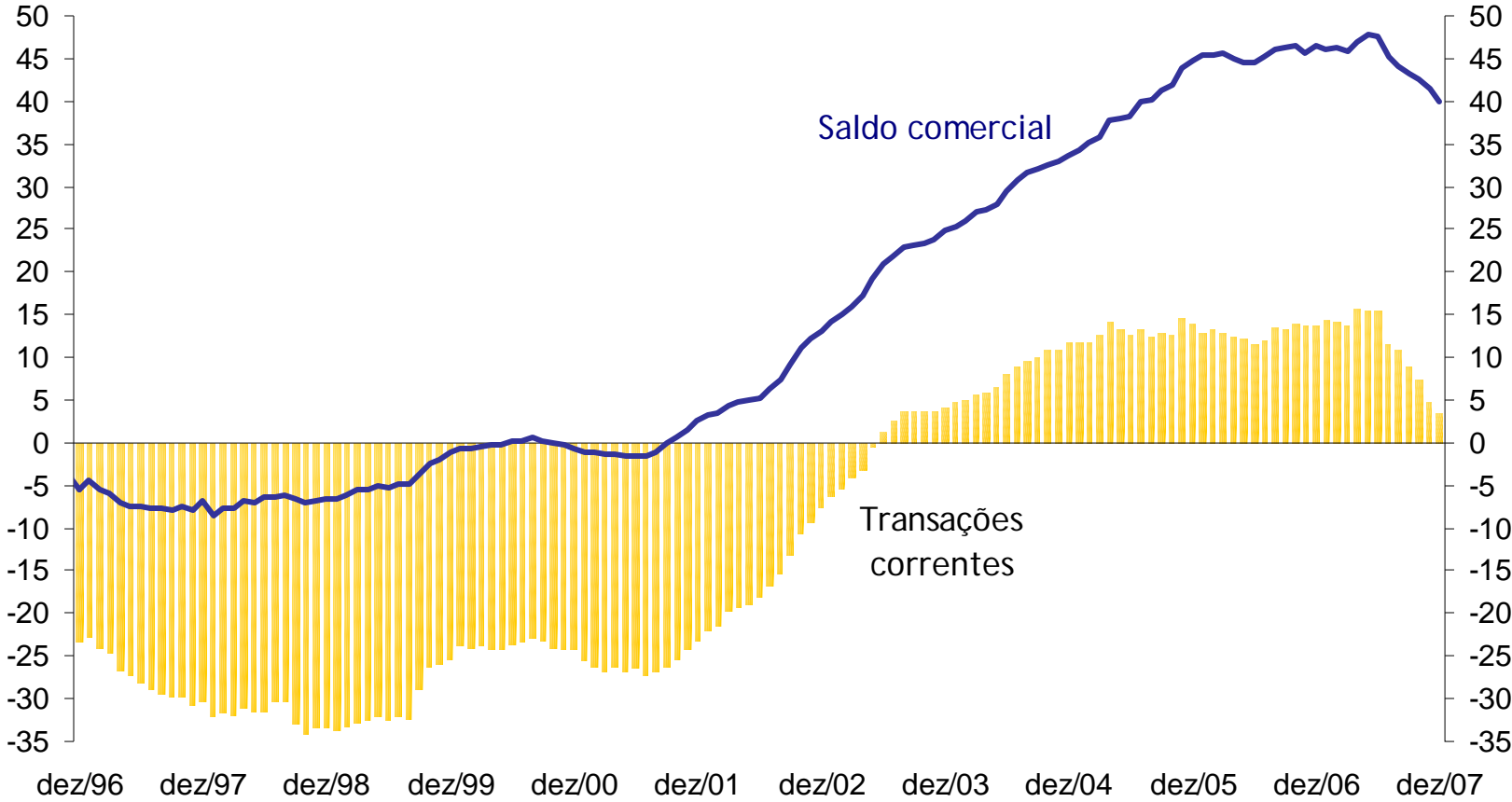


Source: Banco Central do Brasil



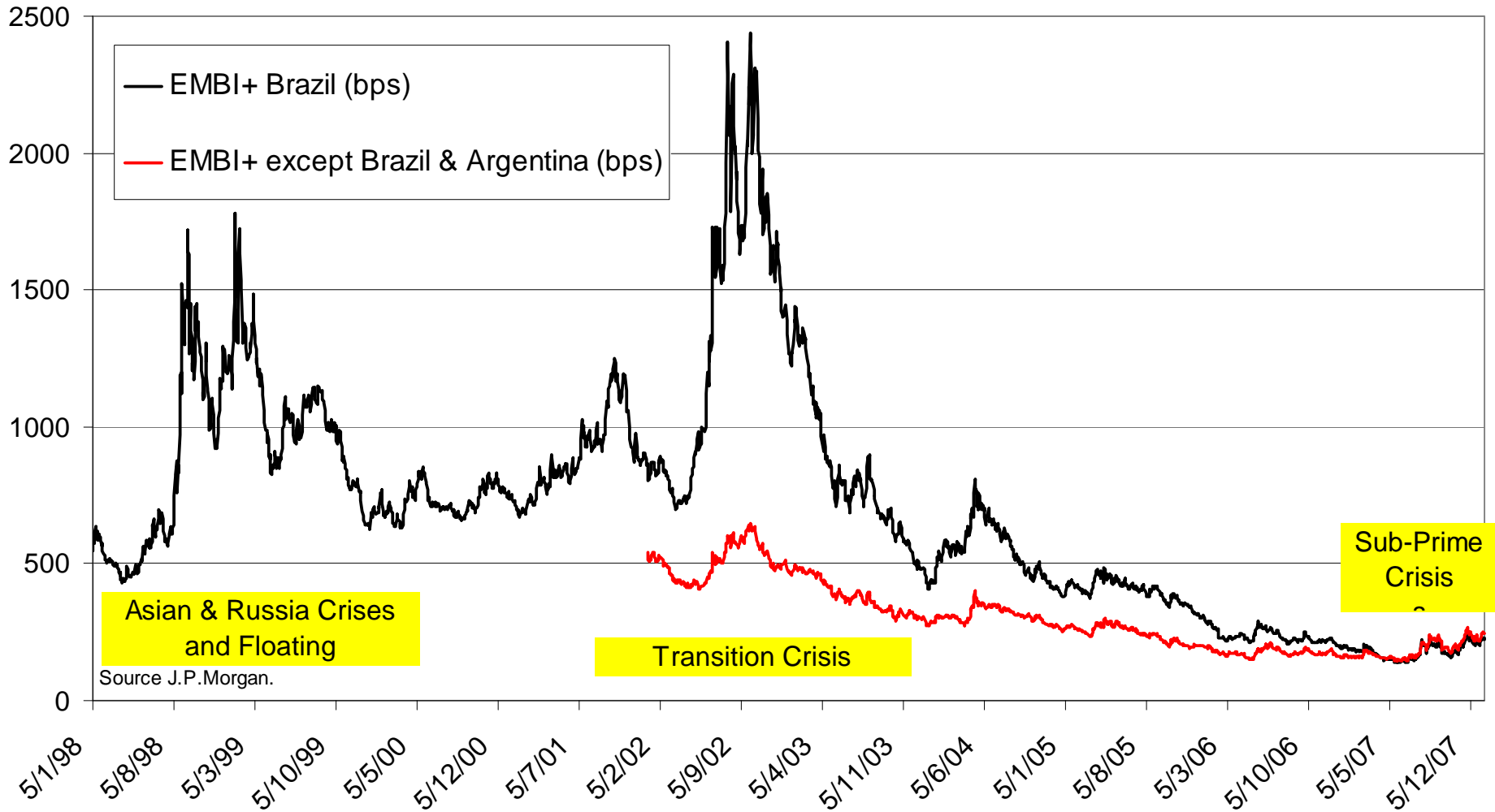
# Effort to Reduce External Vulnerabilities → Stronger Trade Balance

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

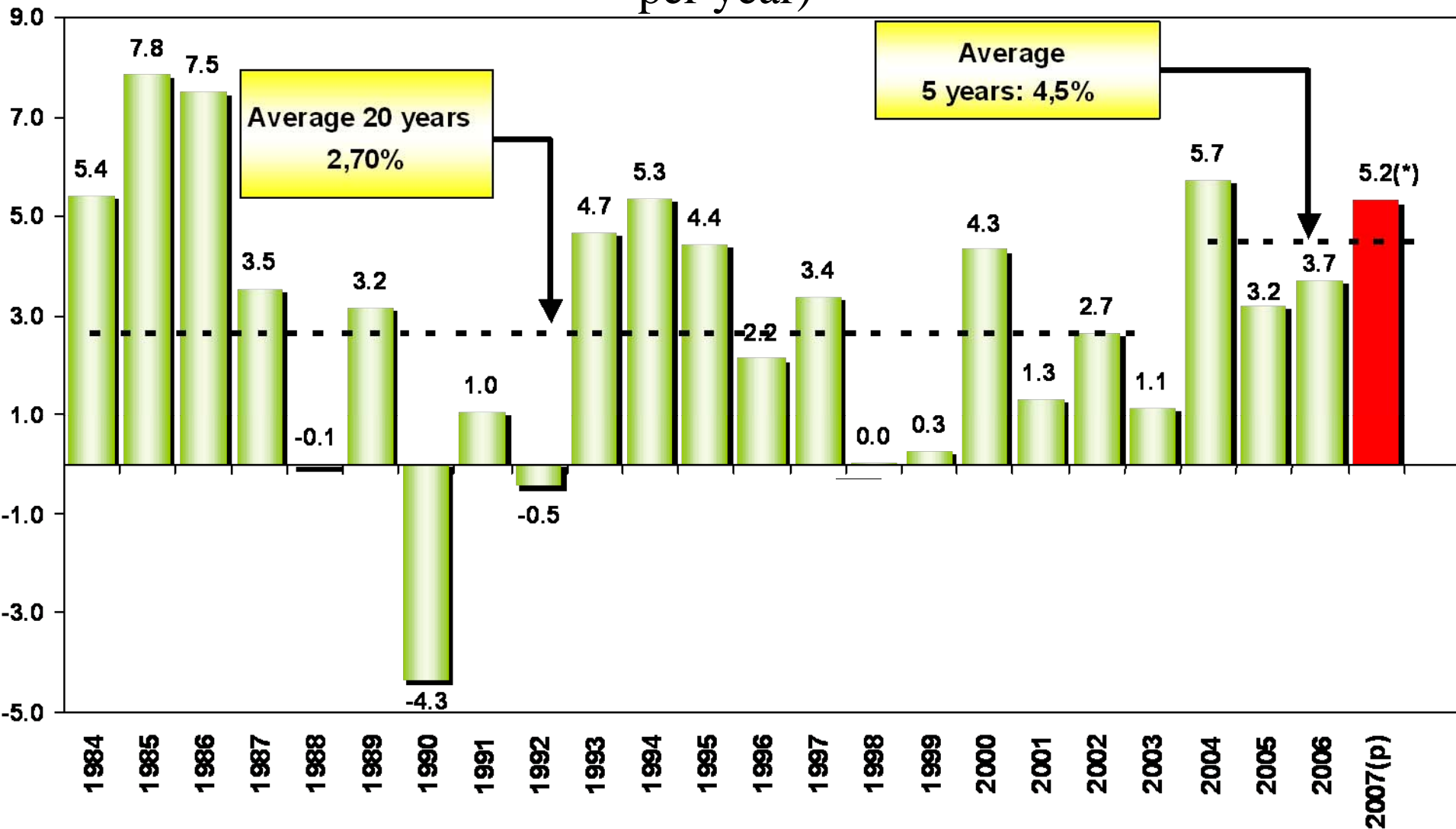


# Result – Stronger Fundamentals → Possible Decoupling

## Country Risk - Brazil

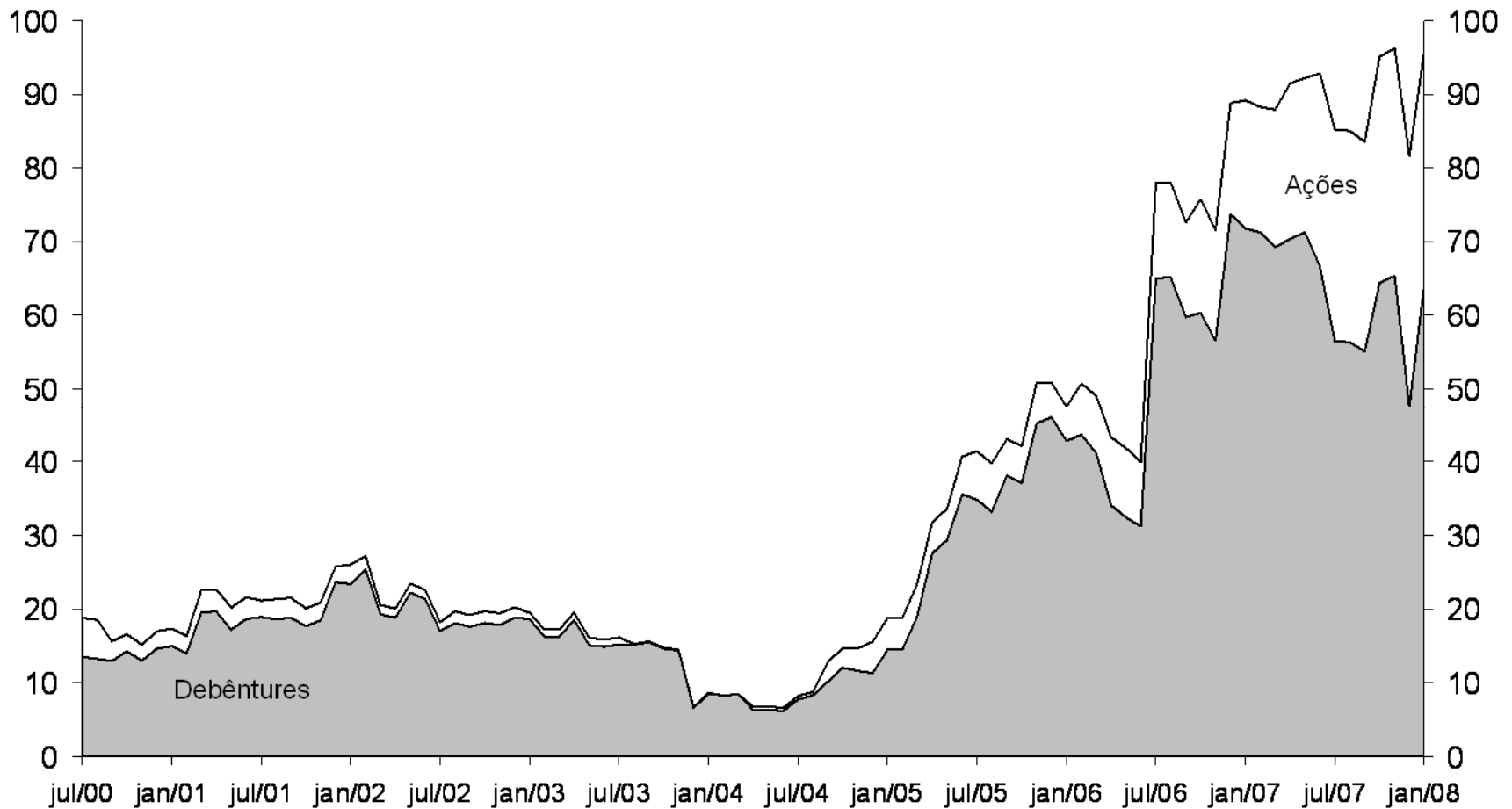


# Result: Less Volatile, Higher Real GDP Growth (%) per year)



# 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.

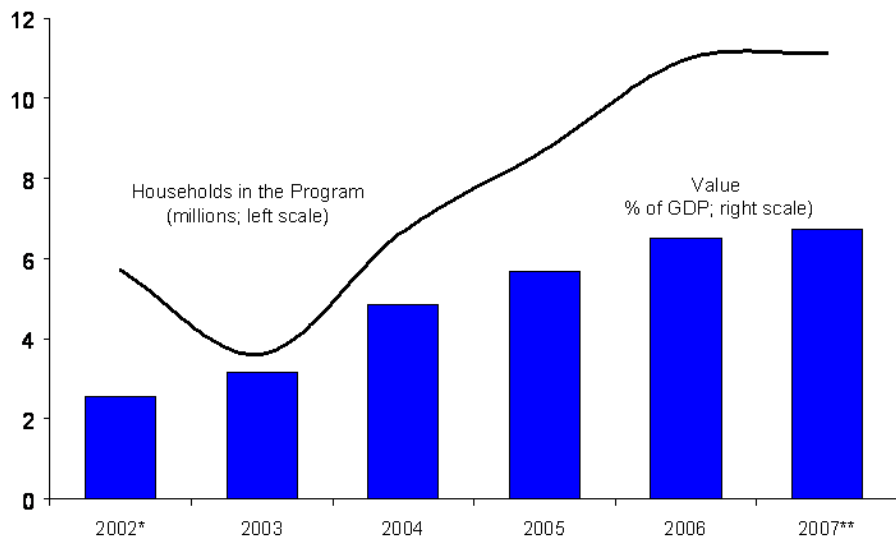
#### **Tax Reforms**

For SMEs

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

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

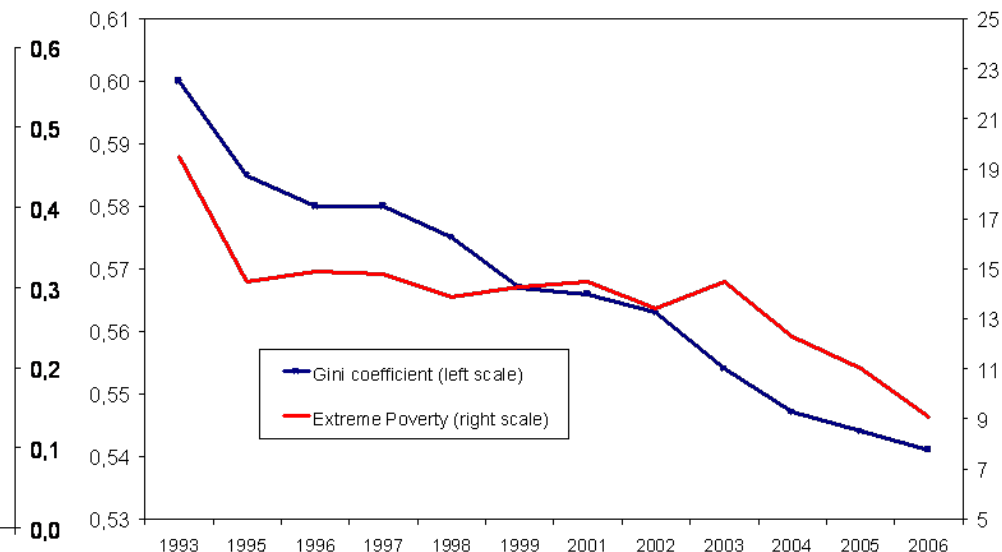
## Bolsa-Família (main Conditional Cash Transfer Program)



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

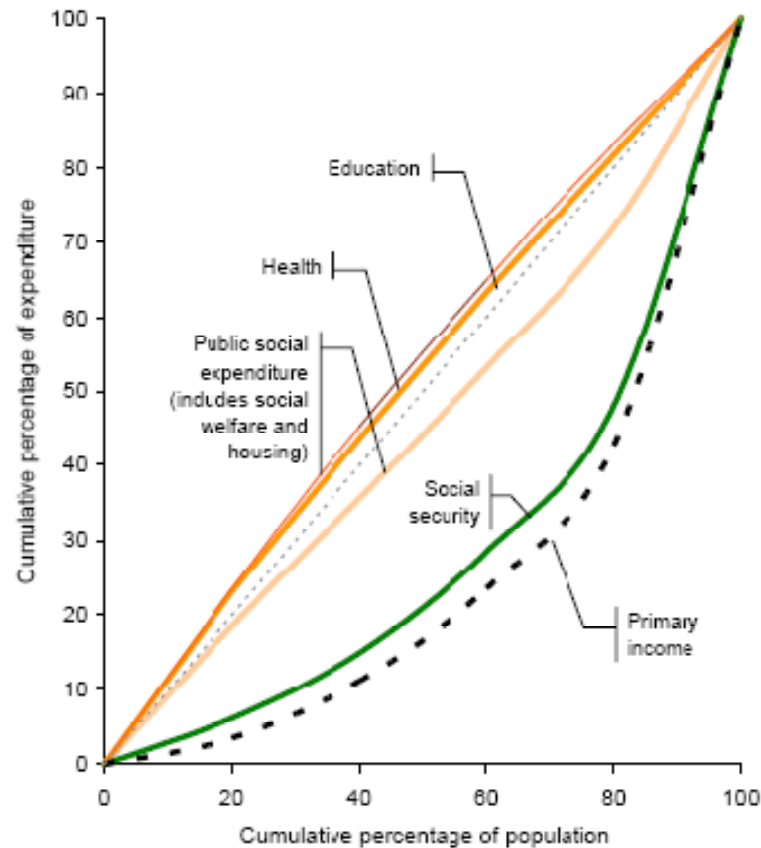
Fonte:STN.

## 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)



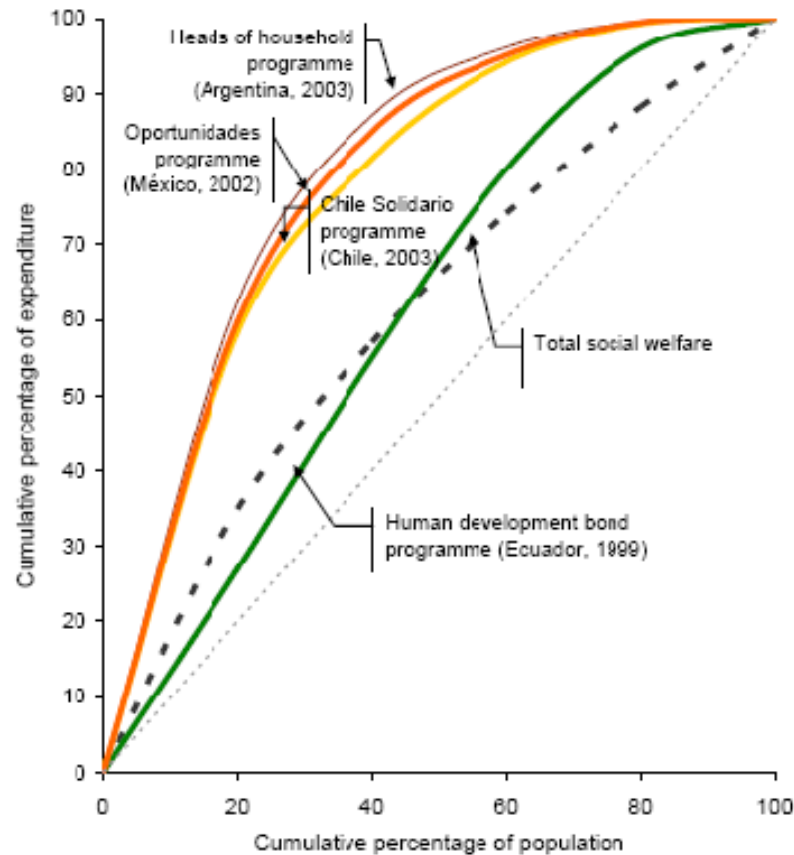
Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of national studies.





# 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.