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The GDP per capita gap with OECD countries is now diminishing but remains large and is largely due to comparatively weak labour productivity performance reflecting in part fairly low investment rates. Beyond the recent efforts to combat inequality through the extension of anti-poverty programmes, further actions are needed in the following areas to sustain overall economic performance.

Priorities supported by indicators

Increase the quality of education at all levels

Near-full enrolment has been achieved for primary and secondary education, but student performance is comparatively low. Attainment and performance also need to be improved in private higher-education institutions.

Actions taken: Funding for basic and professional education has been raised. Conditions for student loans have been eased. An entrance examination for teaching, a National Plan for Qualification and a wage floor for professionals in public education have been established at the national level.

Recommendations: Increase the quality of education at primary and secondary levels. Expand tertiary vocational and professional training to overcome skill shortages.

Improve the efficiency of financial markets

Although they have shielded the economy during the crisis, mandated credit provisions and excessive bank reserve requirements may slow financial-market deepening and impair economy-wide efficiency over the longer term.

Actions taken: Compulsory bank reserve requirements have been strengthened further in the context of rapid credit expansion. During the crisis, the lending capacity of the public development bank, BNDES, was expanded.

Recommendations: Gradually phase out mandated credit provisions to certain sectors, including agriculture and housing, to improve resource allocation. Ease bank reserve requirements to lower intermediation costs over the medium term, in accordance with the objective of ensuring both the stability and development of financial markets.

Improve infrastructure provision

Past infrastructure programmes suffered from implementation delays. Restrictions on trade and investment hold back private investment.

Actions taken: In March 2010, the government announced a five-year investment plan with the aim of increasing private and public investment in transport, sanitation, energy and housing.

Recommendations: Reduce financial costs, the capital tax on productive investment and current expenditures in the public sector to allow higher infrastructure investment. Encourage States and municipalities to swiftly and efficiently undertake infrastructure projects. Lower regulatory uncertainties in the oil and gas sector and remove legal barriers to competition to spur private investment.

Other key priorities

Reduce distortions in the tax system

Brazil's indirect tax system is cumbersome due to its fragmentation, complexity and changing provisions. Onerous social security contributions and additional levies on enterprise payroll imply a large burden on labour income with adverse effects on employment, especially on formal jobs.

Actions taken: A reform package was introduced into Congress in 2008 to unify state-level VAT rates and bases and alleviate the burden on labour income. The tax burden on investment has been lowered.

Recommendations: The new government should follow through with the proposed reform package and secure support from State governments.

Improve incentives for formal labour force participation

Informality is decreasing but remains widespread and can be partly attributed to high labour taxes, the design of some social schemes (including the unemployment and severance insurance mechanisms) and low employability of low-skilled workers.

Actions taken: A new law entered into force in 2009 to enlarge and reinforce institutional efforts to simplify the tax and regulation systems for self-employed and micro and small companies.

Recommendations: Encourage human capital accumulation on and off the job and lower social contributions for low-paid workers to help tackle informality. Remove disincentives to formal labour force participation embedded in social programmes.

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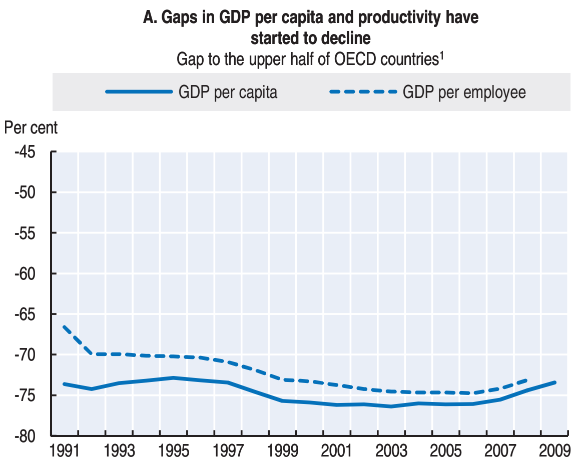
Structural indicators

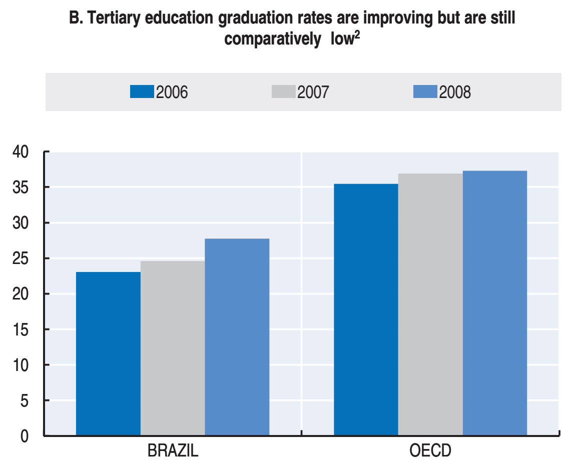
Average annual trend growth rates, per cent

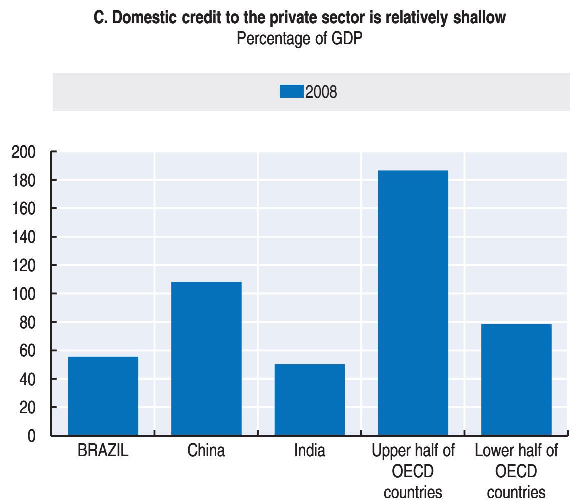
	1998-2008	1998-2003	2003-08
GDP per capita	2.1	0.5	3.6
Labour utilisation	. .	. .	. .
of which: Employment rate	1.3	1.2	1.4
Average hours	. .	. .	. .
Labour productivity[1]	0.7	–0.7	2.2
of which: Capital intensity	. .	. .	. .
Multifactor productivity	. .	. .	. .

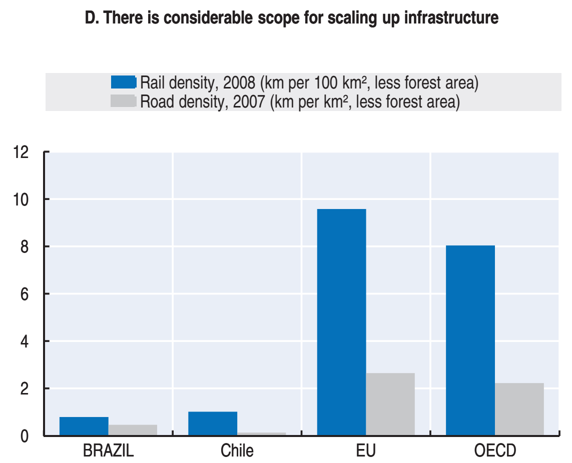
1. Labour productivity is measured as GDP per employee.

Source: Estimates based on World Bank (2010), *World Development Indicators(WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM) Databases*.









1. 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).
2. First degree graduation rates for single year of age at tertiary-type A level.

Source: Chart A: World Bank (2010), *World Development Indicators (WDI) and ILO (2010), Key Indicators of the Labour Market (KILM) Databases;* Chart B: OECD (2010), *Education at a Glance*; Charts C and D: World Bank (2010), *World Development Indicators (WDI)*.

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