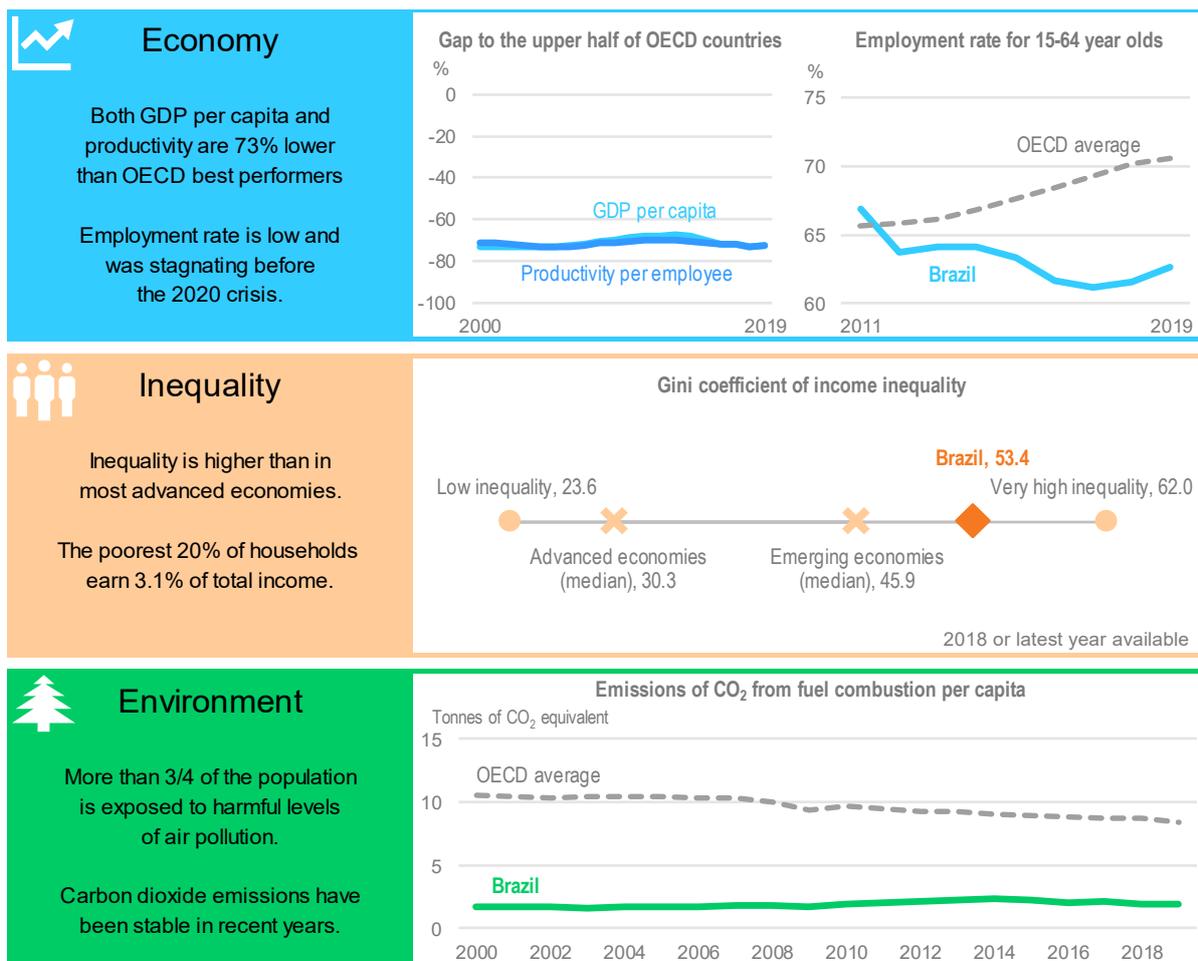


Brazil

The need to rekindle economic activity after the pandemic only intensifies the urgency of tackling long-standing structural policy challenges. To sustain strong growth productivity needs to increase, as well as protection of those in need and economic opportunities for all.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Brazil is 2019.

Environment: A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment and Energy Databases.

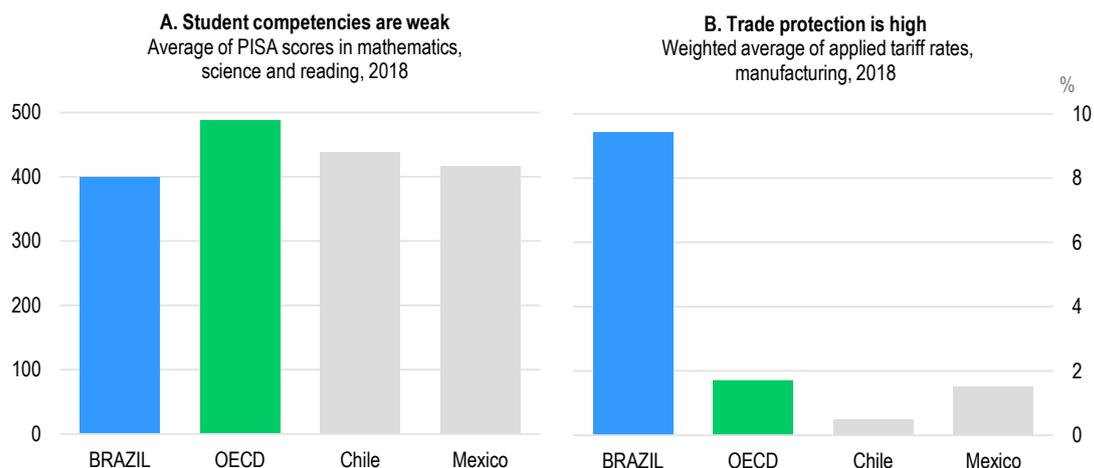
StatLink  <https://stat.link/p3ioju>

Growth needs to bring opportunities for all

The pandemic exposed weaknesses of social protection policies, notably their poor targeting. To **increase the effectiveness of social benefits**, current indexation arrangements and some of the benefits should be reviewed, while strengthening others. Well-targeted conditional cash transfers could be expanded and converted into a true social safety net by accelerating benefit provision in the case of dismissal and more gradual withdrawal to strengthen job search incentives. Such a reform should build on the experiences made with temporary pandemic-related emergency benefits for informal workers, which account for one third of employment and are not covered by unemployment insurance schemes.

In the longer term, **enhancing outcomes and equity in education and professional training** holds the key to lower inequality and poverty (Panel A). Access to education has improved in recent decades, but the quality of education is highly unequal across schools and regions and early drop-out rates are high. Expansion of early-childhood education would benefit particularly children from more challenging socio-economic backgrounds while at the same allowing more women to take up gainful employment. Better selection and training of teachers would help improve the quality of education, as would a wider adoption of vocational content in secondary education. Professional training – if well-aligned with local skill demand – can help adults to adapt to changing job requirements resulting from either the pandemic and/or stronger domestic and external competition. Opportunities for skill upgrading facilitate worker mobility into new and better-paying jobs and strengthen productivity at the same time.

Vulnerabilities and areas for reform



Source: Panel A: OECD, PISA Database; Panel B: World Bank, World Integrated Trade Solution Database.

StatLink  <https://stat.link/isd2mg>

Brazilian firms currently face limited incentives to become more productive, emphasising the need to **reduce barriers to trade, entrepreneurship and competition** (Panel B). At the same time, a complex tax system distorts incentives for productivity enhancements and results in high compliance costs. Consolidating all six consumption taxes into one simple value-added tax with a broad base, full refund for input VAT paid and zero-rating for exports would **reduce distortions in the tax system**.

Deforestation, a major source of greenhouse gas emissions, has recently rebounded. This emphasises the need to **strengthen effective protection of natural resources, including of the Amazon rain forest**. Current laws and protections, capable of reducing deforestation in the past, should be preserved and coupled with stronger enforcement efforts to combat illegal deforestation, which will require additional resources.

Brazil: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Social protection: Increase the effectiveness of social benefits	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A major pension reform was passed in 2019, which will make the pension system more sustainable and strengthens its redistributive character. <input checked="" type="checkbox"/> A temporary emergency benefit programme was put in place during the pandemic and has supported over 67 million households. Relatively rapid roll-out based on digital technologies could provide lessons for improving social protection beyond the crisis. 	<ul style="list-style-type: none"> <input type="checkbox"/> Shift the focus of social spending on benefits that reach those most in need could lead to faster reductions in income inequality and poverty. <input type="checkbox"/> Build a stronger and more universal social safety net by increasing benefits and accelerating their provision, including for informal workers who are currently not covered by any unemployment protection scheme.
Education and skills: Enhance equity and outcomes in education and professional training	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The federal government contribution to basic education FUNDEB, which has been instrumental for the increase in school enrolment over the years, was made permanent and more than doubled in volume in 2020, and it has incorporated monetary incentives for local governments to raise the quality of education. <input checked="" type="checkbox"/> Vocational training programmes are currently being expanded and improved, with a focus on aligning their content with labour-market needs. Private-sector training institutions with a known track-record of delivering high-quality courses are being involved in this process. 	<ul style="list-style-type: none"> <input type="checkbox"/> Improve education outcomes and equality of educational opportunities by expanding of early-childhood education, particularly for children from more challenging socio-economic backgrounds, and a better selection and training of teachers. <input type="checkbox"/> Expand vocational and professional training and align them with local labour market needs, to allow more workers to seize opportunities related to a reallocation of resources across the economy.
Competition and regulation: Reduce barriers to competition and trade	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Brazil has signed major trade agreements with the European Union and EFTA countries in 2019, but an implementation is still pending. Its implementation would boost competition in many sectors and strengthen reallocation and productivity. <input checked="" type="checkbox"/> A 2020 law reduces the bureaucracy and eases regulations for opening a business and obtaining licenses. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce tariff and non-tariff barriers, starting with capital goods and intermediate inputs. <input type="checkbox"/> Further simplify license requirements for starting a company and apply silence-is-consent rules and one-stop shops wherever possible.
Tax system: Reduce distortions in the tax system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> A proposal for a partial reform of consumption taxes, covering only the contributions imposed by the federal government, was submitted to Congress in 2020. <input checked="" type="checkbox"/> Congress is discussing several additional proposals for a broader reform of the fragmented system of consumption taxes. 	<ul style="list-style-type: none"> <input type="checkbox"/> Consolidate consumption taxes into one value added tax.

2019-2020 Reforms	Recommendations
Environmental policy: Preserve natural assets and halt deforestation	
*New priority *	<input type="checkbox"/> Build on past success in fighting illegal deforestation by strengthening enforcement efforts to combat illegal deforestation and ensuring adequate staffing and budget of environmental enforcement agencies. <input type="checkbox"/> Avoid a weakening of the current legal protection framework, including protected areas, the forest code, and focus on the sustainable use of the Amazon's economic potential.

Recent progress on structural reforms

The passing of the pension reform in 2019 was a major milestone that has been on the agenda for many years. It will be the basis for further reforms to enhance the targeting of social protection benefits towards those most in need. The 2020 reform of financing of basic education (“FUNDEB”) will also be a crucial pillar for further improvements in the area. In the wake of COVID-19, there is a growing consensus for the need to bolster social protection, especially for informal workers. However, given the limited fiscal space, this would require spending cuts in other areas. The government is very committed to additional structural reforms and has submitted several reform proposals to Congress, where they are currently being discussed.