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- The narrowing of the significant GDP per capita gap with advanced OECD countries has stalled in recent years, mainly due to comparatively weak labour productivity performance.
- Inequality has come down, although at a diminishing pace. Still, inequality and poverty remain high.
- Progress has been made in infrastructure investment and in improving access to vocational education, addressing some of the *Going for Growth 2015* recommendations. Although tariffs and local content rules have not been eased, progress in trade facilitation has reduced *de facto* trade barriers somewhat. Financial support to the national development bank has been scaled back and is likely to decrease further, which should facilitate the development of private long-term credit markets. In light of these steps into the right direction, this area no longer features among the reform priorities. The area of tax reform has seen less progress.
- A more educated workforce, better infrastructure and less tax distortions would support productivity improvements. Lowering trade barriers remains a priority for Brazil to increase exposure to international competition and strengthen incentives for productivity improvements. To reconcile the need for further reductions in income inequality with diminishing fiscal space, social expenditure should focus more on the most efficient policy instruments, particularly conditional cash transfers, at the expense of less efficient instruments. This would accelerate the decline of income inequality without spending more.

Going for Growth 2017 priorities

__Increase the effectiveness of social benefits.__[1] Shifting the focus of expenditures on social benefits could lead to faster reductions in income inequality.

Recommendations: Redirect spending on social benefits towards conditional cash transfers to the poor, which is the most efficient instrument for reducing income inequality. Sever the indexation of minimum pensions and social benefits to the minimum wage to avoid large real spending increases on benefits that reach households around the middle of the income distribution. Reassess the effectiveness of other benefits indexed to the minimum wage, including the Abono Salarial.

__Enhance outcomes and equity in education.__ Improving education outcomes and equality of educational opportunities would accelerate productivity.

Actions taken: Vocational training programmes for low-skilled workers and scholarships for tertiary education have been expanded continuously. A reform package for secondary education, promoting longer school days and more flexible curriculums, was launched in September 2016 and is currently undergoing congressional approval.

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.

__Reduce distortions in the tax system.__ Less onerous and distortive indirect taxes would contribute to faster productivity gains by reducing tax compliance costs and raise productivity.

Actions taken: No action taken.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an "*".

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## Growth performance and inequality indicators

A. Growth

Average annual growth rates (%)	2003-09	2009-15
GDP per capita	2.8	1.1
Labour utilisation	0.7	-0.4
of which: Labour force participation rate	0.4	-0.6
Employment rate[1]	0.3	0.2
Employment coefficient[2]	0.0	0.0
Labour productivity	1.6	1.0
of which: Capital deepening	-1.6	0.1
Total factor productivity	3.2	1.0
Dependency ratio	0.5	0.5

B. Inequality

	Level	Annual variation (percentage points)
	2014	2009-14
Gini coefficient[3]	51.5 (31.7)*	-0.5 (0)*
Share of national disposable income held by the poorest 20%	3.6 (7.7)*	0.1 (0)*

OECD average

C. The large gaps in GDP per capita and productivity have stopped narrowing
Gap to the upper half of OECD countries[4]
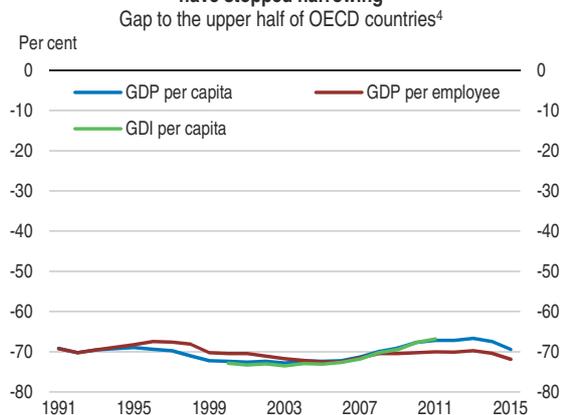
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index 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.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: World Bank, *World Development Indicators (WDI) Database*; Panel C: OECD, *National Accounts and Productivity Databases*; World Bank, *World Development Indicators (WDI) Database*; ILO, *Key Indicators of the Labour Market (KILM) Database*.

StatLink *http://dx.doi.org/10.1787/888933454945*
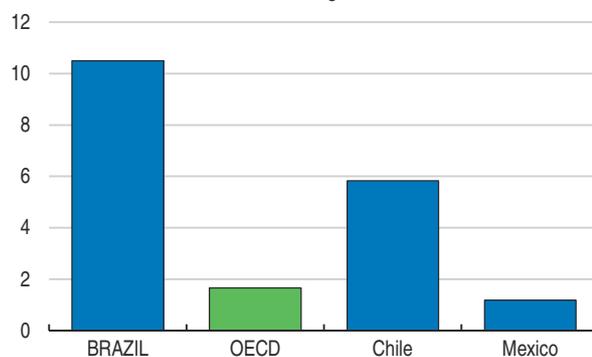
Policy indicators

A. Student competencies are weak
Average of PISA scores in mathematics, science and reading, 2015
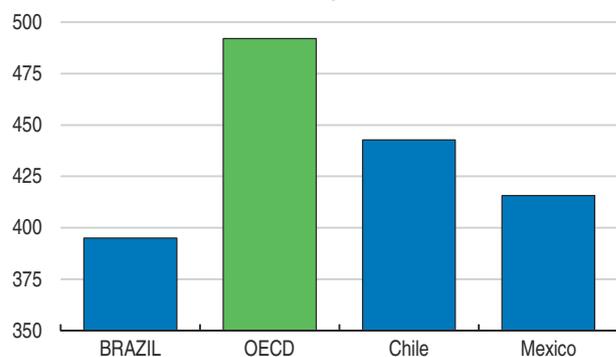
B. Trade protection is high
Weighted average of applied tariff rates, manufacturing, 2014[1]

1. Data refer to 2013 for Chile.
Source: Panel A: OECD, *PISA Database*; Panel B: World Bank, *World Integrated Trade Solution Database*.

StatLink *http://dx.doi.org/10.1787/888933455401*

Recommendations: Consolidate indirect taxes at the state and federal levels and work towards one value added tax with a broad base, full refund for input VAT and zero-rating for exports.

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

Actions taken: Recent progress in trade facilitation, including improvements in administrative efficiency, has reduced *de facto* trade barriers in some areas.

Recommendations: Reduce trade protection steadily by lowering tariffs and scaling back local content requirements. This will improve access to imported intermediate inputs and strengthen competitive pressures on domestic producers.

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

Actions taken: New road concessions have been auctioned in 2015 and airport concessions have made progress.

Recommendations: Improve the technical capacity and planning for infrastructure concessions and elaborate more detailed tender packages prior to launching tender calls.
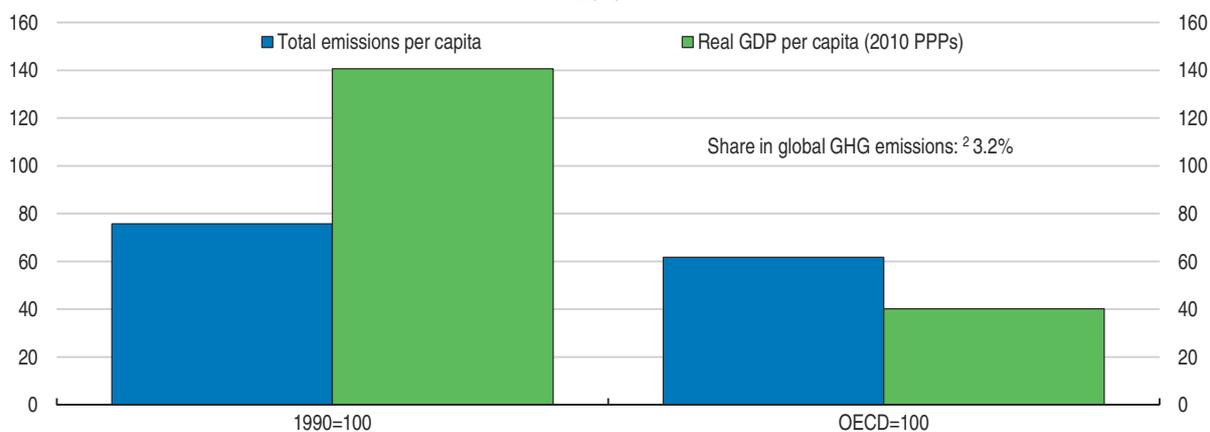
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Beyond GDP per capita: Other policy objectives

A. The share of national income accruing to the top of the distribution decreased
Annualised percentage points growth in quintile shares between 2009 and 2014
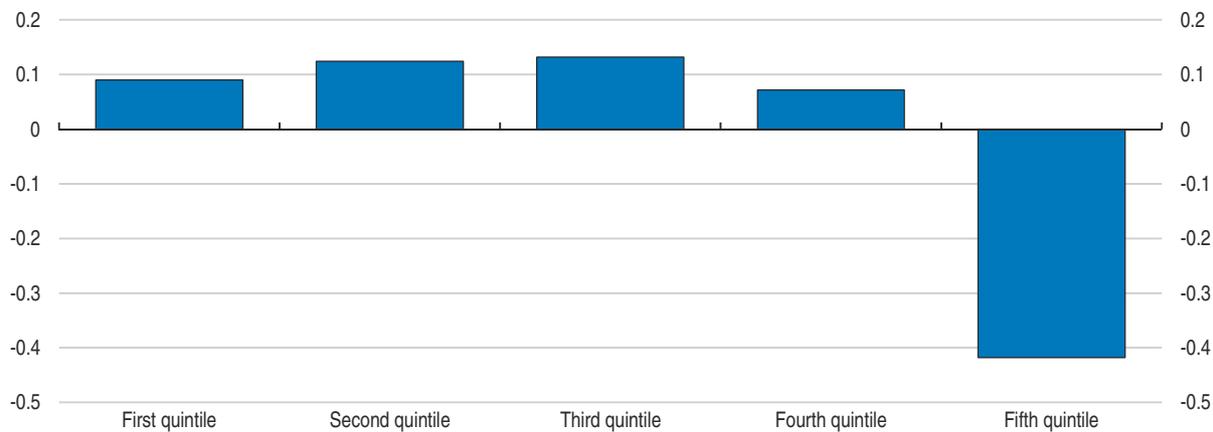
B. Emissions per capita are below the 1990 level
2010[1]

Share in global GHG emissions: [2] 3.2%

1. Total GHG emissions in CO_2 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) 2010 data.

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

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