

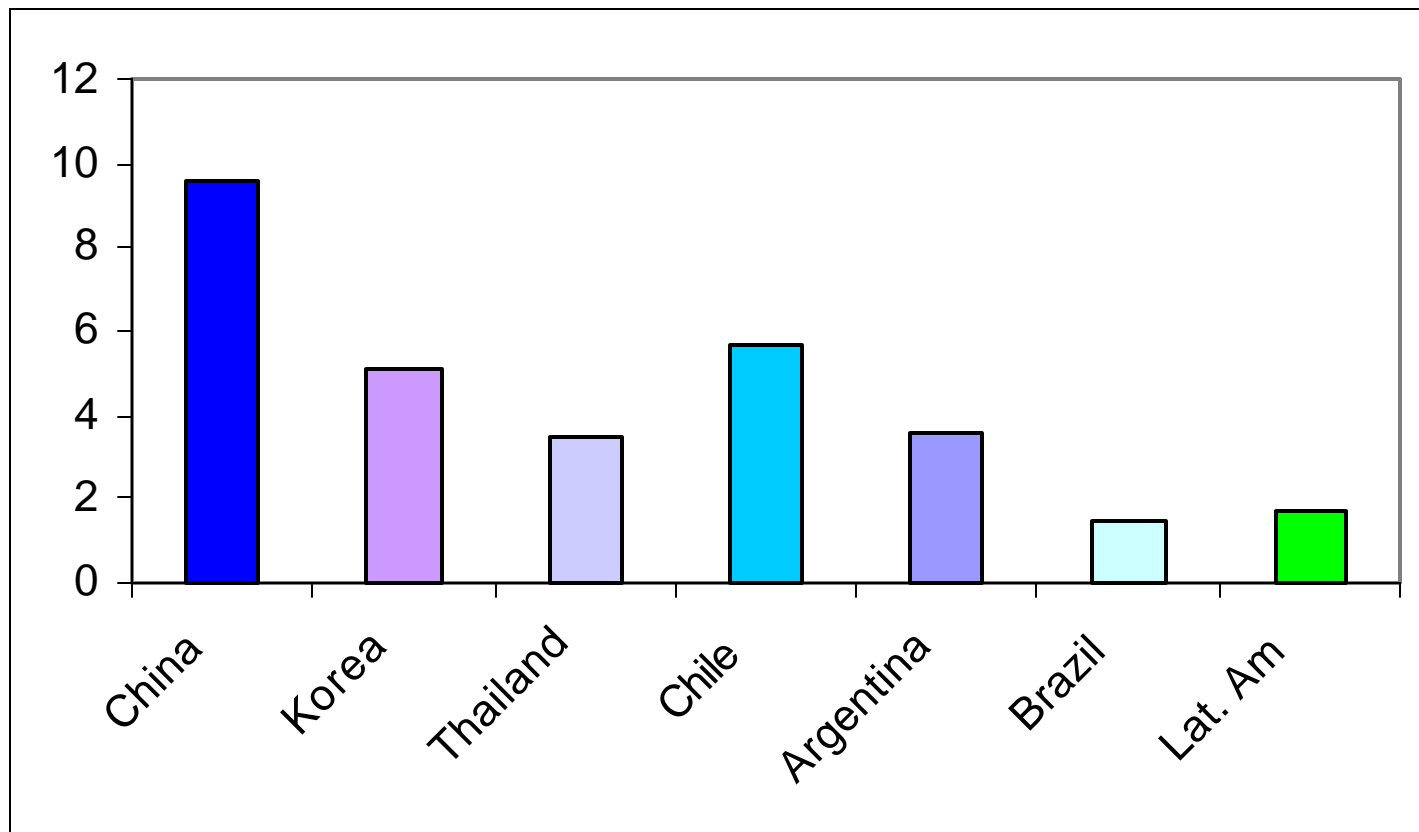
# **Is Brazil Ready For Growth?**

February 01

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Princeton University

# Growth rate 1990-99 (per-capita)



Source: World Bank

# Fiscal adjustment 97-99

- Primary surplus: from  $-.9\%$  of GDP to  $3.2\%$ .
- Government has instruments to maintain fiscal surplus.
- Debt/GDP under control.

# Monetary Policy

- Successful devaluation.
  - Change in relative prices.
  - Inflation target.
- Inflation (IPCA) less than 9% in 1999.
- IPCA 2000 ~ 6%.

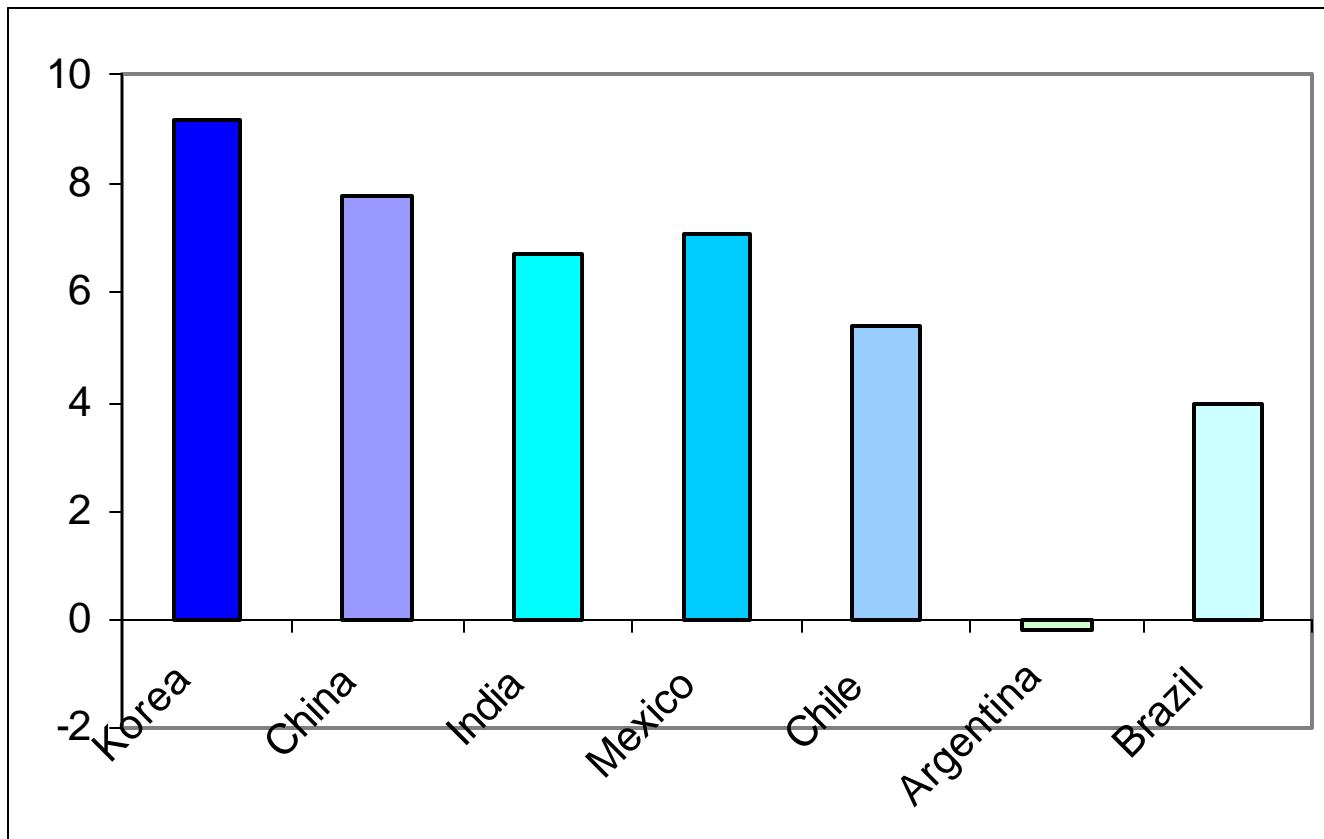
# Other Fundamental Reforms

- Privatization
- Deregulation
- Trade Liberalization

# Spreads (Global)

Date	Mexico	Argentina
Pré 10/97	~ 70 b.p.	~ 50 b.p.
Jan./Mar. 99	495 b.p.	390 b.p.
September 99	330 b.p.	170 b.p.
February 06	315 b.p.	72 b.p.

# GDP Growth 2000 (est.)

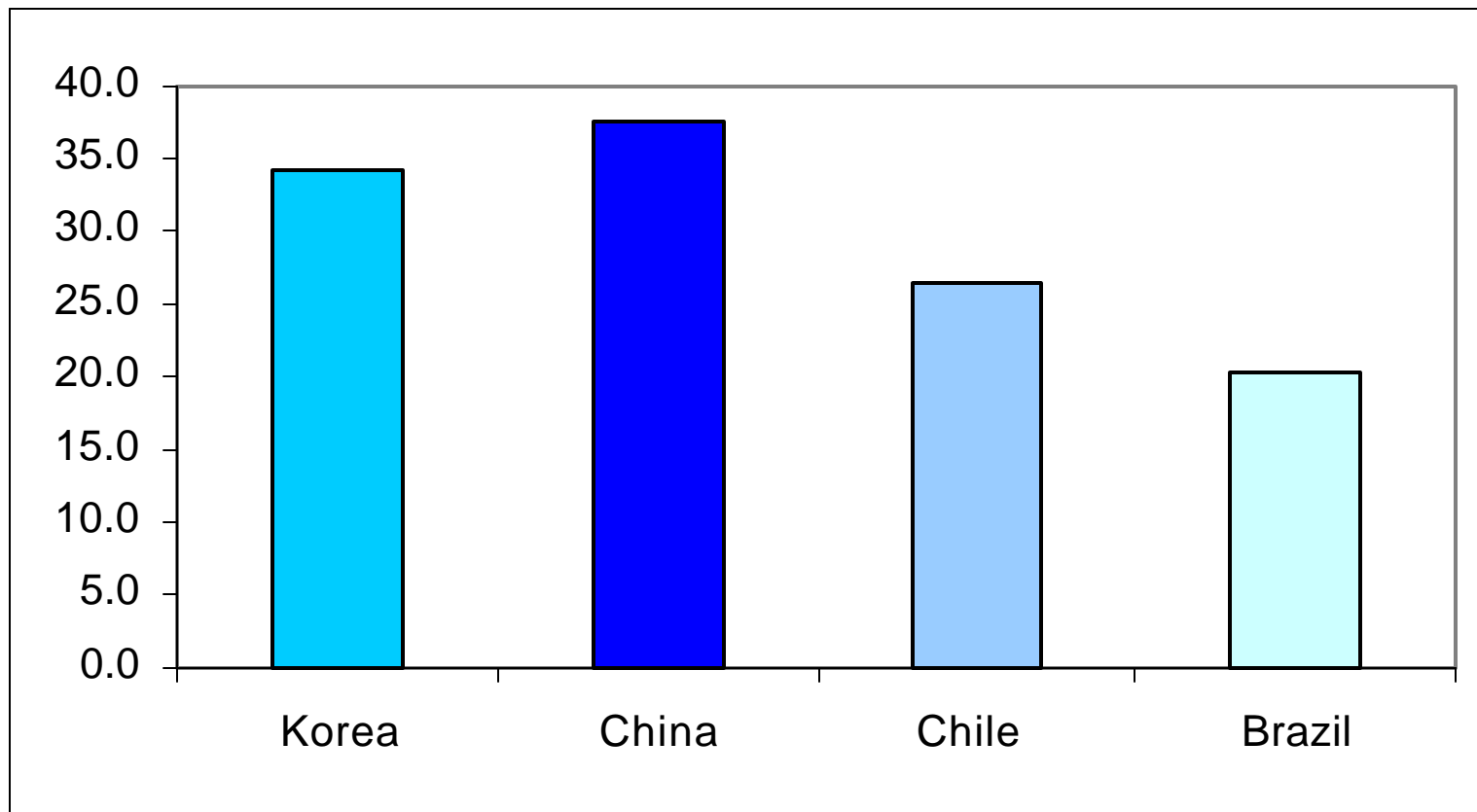


Source: The Economist, Goldman Sachs

# Growth Accounting

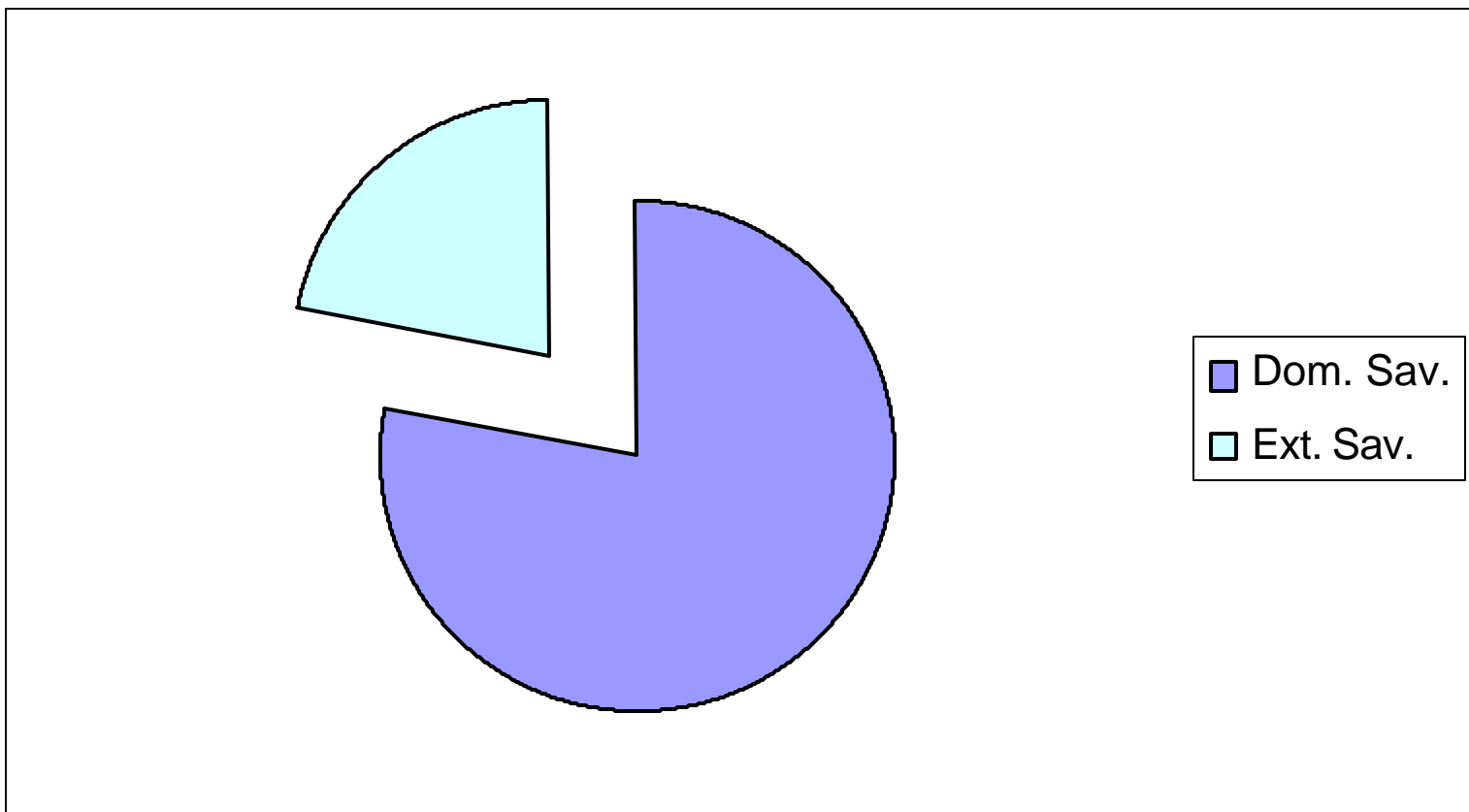
- Increase in capital (investment)
- Increase in labor
  - Increase in work force
  - Increase in quality of work force
- Increase in productivity (residual)

# Average Investment rate 90-99 (% GDP)



Source: World Bank

# Gross Investment (1999)



Source: Brazilian Central Bank

# Labor

- In the next few years economically active pop will grow at 2.5% a.a. but total pop will grow 1% a.a.
- Improve labor quality

# Education

- Brazil invested little in the past and has labor force with low level of education.
- Current investment 5.5% of GDP.
  - 3.5% of GDP in primary and secondary education.

# Productivity

- Large productivity gains during the 90's.
- With same quantity and quality of capital and labor, Brazilian firm produces, on average, less than 75% of an American firm's output.

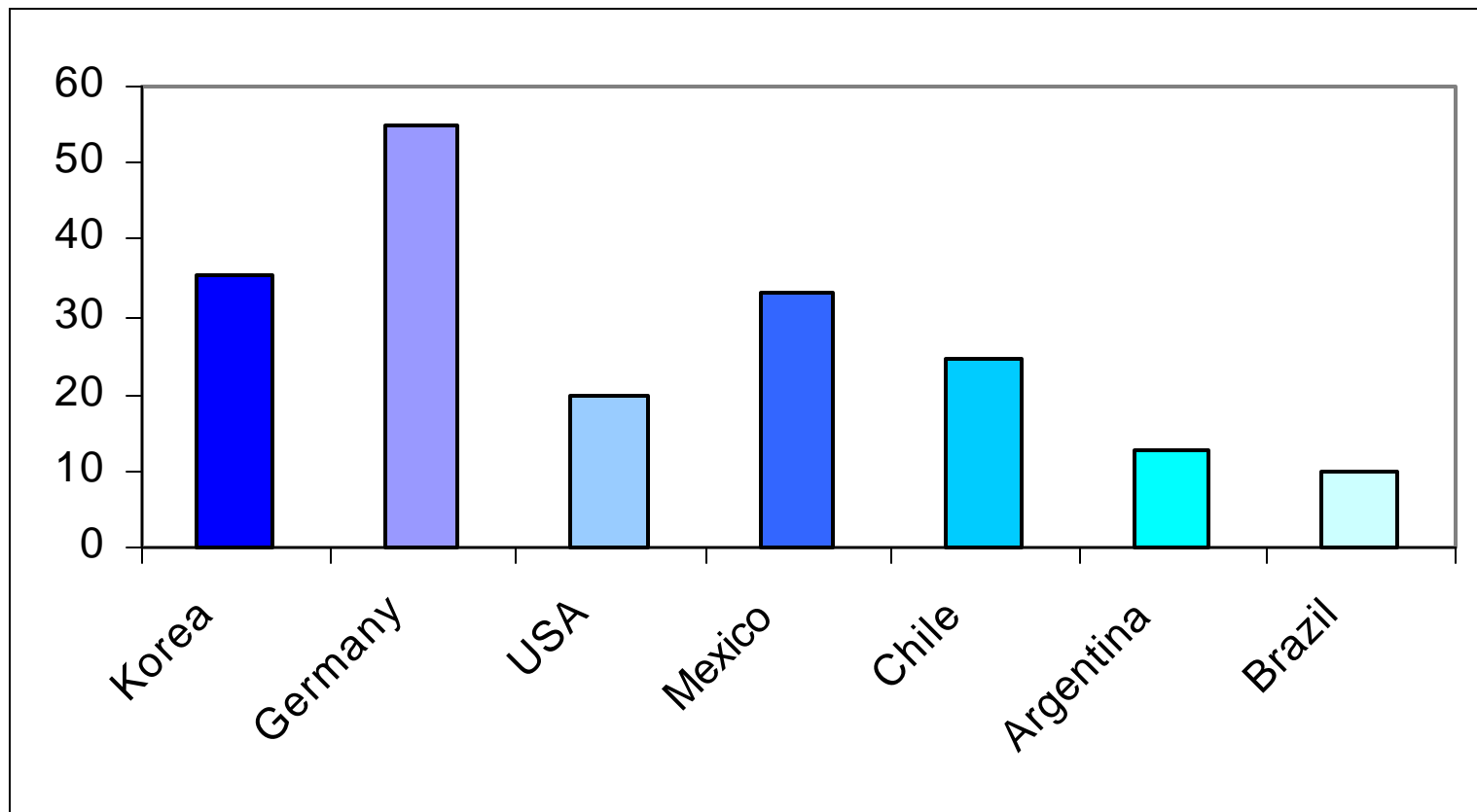
# Reasons for low productivity

- Excessive regulation.
- State firms.
- Fiscal system.
- Low level of integration with rest of the world.

# Tax system

- The tax system encourages informality.
- Informal firms are less productive:
  - In food distribution, worker of formal sector is 4x more productive.
  - In residential construction 2x.
- Informal sector survives because it pays less taxes.

# (Exp.+Imp.)/GDP-1998 (GDP in PPP)



Source: World Bank