Is Brazil Ready For Growth?

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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)

<table>
<thead>
<tr>
<th>Date</th>
<th>Mexico</th>
<th>Argentina</th>
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<tbody>
<tr>
<td>Pré 10/97</td>
<td>~ 70 b.p.</td>
<td>~ 50 b.p.</td>
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<tr>
<td>February 06</td>
<td>315 b.p.</td>
<td>72 b.p.</td>
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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)