



SUMMITS OF THE AMERICAS SECRETARIAT
SUMMIT IMPLEMENTATION REVIEW GROUP
AT THE MINISTERIAL LEVEL



XLVII GRIC/SIRG MINISTERIAL
GRIC/Inf.7/07
May 22, 2007
Original: Portuguese

NATIONAL REPORT OF BRAZIL ON THE IMPLEMENTATION OF
COMMITMENTS FROM THE FOURTH SUMMIT OF THE AMERICAS

Brazil – Second National Report on Implementation
of the Mandates from the Fourth Summit of the Americas
Poverty Reduction and Social Inclusion

The extreme poverty rate in Brazil fell by 8 percent from 2003 to 2004, and the number of people living below the extreme poverty line in the country is the lowest since 1992. According to the PNAD (Brazil's national household survey), Brazilian family income stopped declining in 2004, reversing a trend that had been constant since 1997. Although inequality in income distribution continues to be very high, it has been falling since 2001, with the 2004 figures the lowest recorded since that measurement was first instituted, in 1976.

A recent study of the Institute for Applied Economic Research (IPEA), an important Brazilian think tank in the social policy area, shows a close link between the rapid decline in income inequality between 2001 and 2004 and the significant drop in poverty and extreme poverty in the country during the same period. The study also shows that this reduction in inequality can to a large extent be attributed to income-transfer programs, in particular the well known and highly publicized "*Bolsa Familia*" (family grants program), and on the decline in educational inequality and differences in wages paid to workers at different educational levels. Each of these two factors account for a reduction in income inequality of about one third and about 15 percent, respectively. Other factors contributed to a lesser extent to the decrease in income inequality, such as the policy to increase the minimum wage and the reduction in inequalities caused by the labor market, which were greatly influenced by the narrowing of wage differences based on racial factors and by the reduced spatial segmentation of the labor market.

As far as the Brazilian Government's social programs and policies are concerned, special mention should therefore be made of the "*Bolsa Familia*." This program consists of three specific lines of action. The first deals with immediate poverty alleviation by means of direct transfers of income to beneficiary families. The second has to do with breaking the poverty cycle through measures to strengthen the exercise of social rights in the areas of health and education (For example, to receive benefits, a family must, among other requirements, keep its children in school and ensure that their vaccinations are up to date). The third includes complementary programs, i.e. measures coordinated by governments and society for job and income creation and literacy training. The "*Bolsa Familia*" serves 11.1 million families. The World Bank deemed it to be a successful policy for combating poverty and inequality, and it has been recommended to other countries.

Sustained growth

As concerns sustained growth, Brazil has shown quite a significant improvement in its macroeconomic indicators in the past three years. Liquid public debt has fallen considerably as a percentage of GDP (from 57 percent in 2003 to 49 percent in 2006). The annualized inflation rate dropped from 9.3 percent to 3.14 percent between December 2003 and December 2006. Likewise there was a sharp rise in Brazilian trade flows, which, between 2003 and 2006, rose from US\$121.34 billion to US\$228.87 billion, an increase of 88.6 percent. The robustness of Brazilian trade performance lessened the economy's external sensitivity, as shown by the strong decline in the ratio between liquid external debt and exports (from 2.1 percent in 2003 to 0.6 percent in 2006). These developments resulted in large measure from fiscal austerity policies and inflation goals that are

proving to be increasingly effective. Added to this positive scenario is the strong expansion of credit and in the capital market, since 2003.

Growth Acceleration Program (PAC)

The Growth Acceleration Program (PAC) falls within this context. Launched in early 2007, it will result in the earmarking of approximately R\$504 billion (about US\$236 billion) to infrastructure over the next four years. The PAC is seeking to improve positive trends in the Brazilian economy. It consists of the adoption of measures to stimulate private investment, increase public investment in infrastructure, and remove obstacles to economic growth (bureaucratic, administrative, regulatory, legal, and legislative). PAC measures are organized into the following categories: credit and financing incentives, tax reduction and enhancement of the tax system, infrastructure investment, and improvement of the investment climate.

Noteworthy among the new credit and financing incentive measures are the increase in available capital and the expansion of credit for sanitation and housing projects, as well as the establishment of the Infrastructure Investment Fund. Other measures, like the strengthening of financial instruments appropriate for long-term investment, principally in the area of infrastructure (logistical, energy, and social and urban) will be essential to overcome the bottlenecks obstructing more vigorous sustained growth.

Regarding tax reduction, new measures should be underscored, such as tax and social contribution exemptions for construction, buildings, and infrastructure works and, in particular, on the Infrastructure Investment Funds. In this area of tax reduction, also noteworthy are measures under the General Micro and Small Business Law (Complementary Law No. 123/2006). Enhancement of the Brazilian tax system includes processing and implementation measures, ranging from the simplification of procedures to the resumption of talks between the Federative Government, the states, and the municipality, with the participation of representatives of entrepreneurs, workers, and consumers; on continuation of the Tax Reform, with a view to promoting tax reduction and streamlining, striving to balance the interests of the various players involved, in order to promote sustained growth.

Considering that investment in infrastructure is a requisite for accelerating sustainable growth, increasing output, and redressing regional imbalances and social inequalities, the Brazilian Government is endeavoring to remove the bottlenecks in Brazilian infrastructure through medium- and long-term strategic planning, strengthening the regulatory framework and competitiveness, partnerships between the public sector and private investors, and coordination of measures at various federative levels. The criteria for project selection in the three basic lines of action for investment (logistical, energy, and social and urban infrastructure) are the potential to generate economic and social return, synergy among projects, rehabilitation of existing infrastructure, and the conclusion of ongoing projects. From now until 2010, R\$58.3 (about US\$27 billion) will be allocated to logistical infrastructure. In energy, investments of R\$274.8 (about US\$129 billion) are envisaged for the same period. In social and urban infrastructure, the estimated amount is R\$170.8 (US\$80 billion).

With regard to the investment climate, mention should be made of the Government's major legislative initiatives regarding a clearer definition of the functions of the Federative Government and the state and municipal governments in the environmental area, and the role of regulatory agencies in

the various sectors in which they work, as well as the restructuring of the Brazilian System for the Protection of Competition. Also significant is the natural gas law, which establishes guidelines for building and operating gas pipelines.

Hopefully the PAC will result in a period of strong sustained growth. According to Ministry of Housing projections, the Program will produce an annual growth rate of approximately 5 percent from 2008 to 2010. The growth rate projected for 2007 is about 4.5 percent.