We welcome this discussion on Brazil.

We would like to go on record as supporting, with strong reservations in one aspect: Brazil export subsidies, the conclusions of the CAS document. We would wish to compliment the authorities on having been able, with international support, to limit the negative effects of the emerging markets crisis on the Brazilian economy, and on their efforts to restructure systems and processes, particularly in the public sector, to help the country to adjust to the still uncertain international economic environment.

The Brazilian economy has come a long way. Both the authorities and the staff deserve to be commended heartily for this result. Important progress has been registered to date in the adoption of a more robust overall policy framework than had existed one year ago, and in the context of this framework the authorities have shown fortitude in meeting the objectives of the programme.

We wish to note that some difficult decisions and actions have been taken and implemented by the authorities, and that the process of implementation has not been smooth. As well, much remains to be done; and it is still not entirely clear that full country access to international financial markets has been restored, or indeed, that access might not be disrupted again. We worry that the economic assumptions underlying the fiscal targets are overly optimistic, and we reiterate our concern about the size of Brazil’s export subsidies. In the circumstances we would enjoin the authorities to press on with the reform agenda, paying particular attention to the following areas:

**Poverty**
While the theme of poverty reduction is broad, we believe that the CAS proposals are consistent with the Brazilian authorities’ wider social development agenda. With poverty at 22% of the country’s population, the need to focus on poverty reduction has moved to the top of Brazil’s public debate agenda during the past year; and this should result in stronger domestic political support for anti-poverty policies. Further, the fact that this CAS was prepared with extensive civil-society consultation suggests that it incorporates an increasing understanding of the needs of the poor.

Poverty is closely associated with low levels of education. In Brazil, individuals with less than four years of formal education head 73% of poor households. With the single most important obstacle to reducing poverty and inequality in Brazil being low educational attainment, we are encouraged by the Bank’s response in placing education as the most important aspect in the poverty-reduction theme.

Growth and Poverty

The Finance Minister in October 1999 promised to reduce poverty in Brazil by 50% by 2015. We are not sure what average rate of economic growth over the next 15 years would be required to achieve that objective, although it is clear that sustained strong growth would be needed. We welcome the proposal to study the relationships between growth, sound macroeconomic policies, and fiscal stability in Brazil; and we are encouraged by the Bank’s insistence on more rigorous analysis of Brazil’s growth prospects. Given the extent of poverty in the country, we would wish to stress the importance of ensuring that the benefits of growth are distributed equitably.

Land Reform

Land reform was an important issue in the last CAS. The Bank launched a land reform pilot programme during the last CAS, and the results of this programme have largely informed the application of an expanded version of the programme directly to the poorest segment of landless farmers. The CAS notes that the success of the programme can be attributed to close relationships developed between the Bank, community associations, and local NGOs, and we are encouraged by this. I should note here, however, that at least one NGO has questioned the nature and extent of the consultation process engaged in by Bank staff; and has also questioned the appropriateness of the mix of market-based vis-à-vis other approaches to land reform. We would be interested in staff comments on this issue.

Fiscal Reform

Fiscal reform is absolutely crucial to the success of the recovery effort. The CAS document suggests that the tight fiscal situation has been contributing to crowding-out of the private sector, as well as to high levels of interest rates, raising the cost of capital for those firms able to access the domestic market. The fiscal situation is exacerbated by the unfinished state of the reforms in the social security and pensions systems, with
the latter having a pass-through effect on private sector employment as well. Until the public sector reforms are completed, it is likely that private sector performance will continue to be adversely affected, with less than fully favourable consequences for growth. We should note, however, in line with the CAS document, that there are issues as well with the structure and operations of the private sector itself that need to be addressed.

Given the importance of the poverty-reduction agenda, the need for restructuring within the private sector, the difficult resources situation faced by the central government, and the implications of that tight fiscal situation for growth performance as well as for spending on social services, we find it difficult to understand the continuation of state subsidies through the PROEX programme, particularly since, for example, the beneficiaries under the aircraft portion of the programme are largely foreigners. Furthermore, Chairman, these subsidies have been found to be in violation of Brazil’s WTO obligations.

**Export Subsidies**

In the most recent Fund staff report it is stated that export subsidies under Brazil’s PROEX export subsidy scheme are expected to decline significantly in U.S. dollar terms in 1999, and are budgeted to decline further in 2000 to the equivalent of less than US$0.5 billion. It should be emphasized that for aircraft exports alone, however, the value of future obligations under PROEX is about US$3 billion. The difference compared with the Fund staff estimates arises because actual payments are likely to exceed budgeted amounts, and because the subsidy payments are made over time on long-term financing; and large subsidy payments are in the pipeline for beyond 2000, as the subsidy is applied to – and comes due on – a large backlog of orders and options that are to be delivered in the future.

The PROEX scheme is a systemic, inefficient, and trade-distorting use of public resources, and its elimination could provide an important source of savings in Brazil’s fiscal austerity plan. Indeed, it is worth emphasizing that the cost of the export subsidies for some capital goods exceeds the Brazilian value added to the exported product. As a result, the subsidy jointly adversely affects Brazil’s external balance and the government’s budget balance, while distorting international markets for industrial goods.

Once again, therefore, we urge the authorities to eliminate its export subsidies, especially those that relate to the large contingent drain on the public finances in the future.

We are aware of the difficulties of adjustment, Chairman, having gone through extended fiscal adjustment ourselves in the recent past. We would like to commend the Brazilian authorities
for what they have accomplished to date, and would urge them to see the process through fully.