

FACING THE CRISIS IN EUROPE: REFLECTIONS FOR BRAZIL

I. CRISIS IN EUROPE AND ITS EFFECT ON BRAZIL

Slow growth and uncertainty in the international economy, due primarily to the prolonged crisis in the Euro Zone, have been key causes for slowing GDP growth in Brazil from the post-crisis peak of 7.5% in 2010, to 2.7% in 2011 and to an estimated 1% in 2012 (Table 1).

TABLE 1: Latin America and Brazil: Evolution of GDP and projections for 2012 and 2013
(annual GDP percentage variations)

Institutions	2009	2010	2011	2012	2013
Latin America and the Caribbean^a	-1.6a	6.2a	4.5a		
- International Monetary Fund (IMF)				3.7a 3.4b, 3.2c	4.1a 3.9c
- Economic Commission for Latin America and the Caribbean (ECLAC)				3.7d 2.8e	4.1e
Brazil					
- Central Bank of Brazil	-0.3h	7.5h	2.7h	1.0h	3.3h
- International Monetary Fund (IMF)	-0.6a	7.5b	2.7f	1.0f	3.5f
- Economic Commission for Latin America and the Caribbean (ECLAC)	-0.3d	7.5g	2.7g	1.2g	

Source: ECLAC and IMF

a) IMF (2012) *World Economic Outlook: Growth Resuming, Dangers Remain* (Washington, D.C., IMF)

b) IMF (2012) *World Economic Outlook Update* (Washington D.C., IMF)

c) IMF (2012) *Regional Economic Outlook Update* (Washington D.C., IMF), Autumn

d) ECLAC (2012) *Informe macroeconómico de América Latina y el Caribe* (Santiago, ECLAC)

e) ECLAC (2012) *Estudio económico de América Latina y el Caribe. Las políticas ante las adversidades de la economía internacional* (Santiago, ECLAC)

f) IMF (2013) *World Economic Outlook Update* (Washington, D.C., IMF)

g) ECLAC (2013) *Preliminary Economic Balance of Latin America and the Caribbean in 2012: Brazil* (Santiago, ECLAC)

h) Central Bank of Brazil

In contrast, labour market indicators remained strong with average unemployment at 5.5% in 2012 (December 2012 set a historic monthly minimum of 4.6%) and the wage bill rose 8.3% from November 2011 to November 2012. Rising consumption was driven largely by the C and D classes, referred to as the “new middle class”, whose repressed demand has been unleashed through various social and labour market policies including minimum wage readjustments, rising formal job creation, conditional income transfers and strengthened social protection. As such, GDP growth in 2012 was kept afloat largely due to vibrant domestic demand.

Brazil’s productive sector has been affected by the climate of depressed international demand and uncertainty, causing companies to hold back on investment, preferring instead to draw down inventories and operate at existing

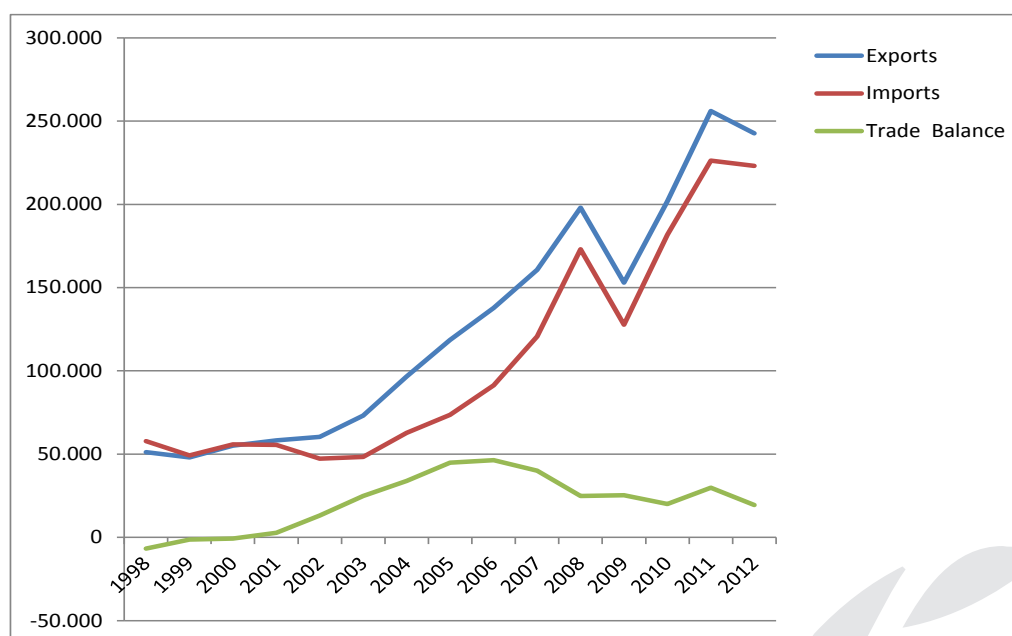
installed capacity. The ensuing gap between output and internal demand has been filled by imports.

Trade performance has been negatively impacted by weak international demand and by falling prices of key primary products (such as iron ore, raw sugar and ethanol). As seen in Figure 1, Brazilian exports hit a record peak in 2011 of US\$ 256 billion, but suffered a set-back of 5.3% in 2012 to US\$ 243 billion. Meanwhile, imports also reached an historic peak in 2011 at US\$ 226 billion, with a modest decline of 1.4% in 2012 to US\$ 223 billion. As a result, Brazil's trade balance in 2012 fell to US\$ 19.4 billion, a decline of -57% from its peak of US\$ 46 billion in 2006. In a reconfiguration of trade relations, Asia now stands as Brazil's key regional trade partner (31%) over Latin America and Caribbean (20.8%) and the European Union (20%). China has emerged as Brazil's primary trade partner (17% of total exports in 2012), overtaking the USA (at 11% of total exports).

Brazil continued its trajectory of declining income inequality per capita, as measured by the Gini coefficient, falling by approximately 5% from 0.572 in 2004 to 0.543 in 2009 (PNAD/IBGE). Such rates are high by international standards, yet reflect significant progress and indicate that elevated levels of economic growth have been harnessed to effectively reduce poverty. Increased labour income is estimated to account for 58% of the decline in the Gini coefficient between 2001-2008, 19% due to raised and extended social security benefits and 13% via the Bolsa Familia programme (IPEA, 2012).¹ Rates of extreme poverty have fallen significantly. Between 2001 and 2011, the percentage of the population earning a per capita household income below US\$ 1.25 per day fell from 14% to 4.2% (well below the Millenium Development Goal of 12.8%).

Labour market indicators have remained vibrant throughout 2012. Average unemployment rates reached 5.5% in 2012 (hitting an

FIGURE 1. Brazilian Exports, Imports and Trade Balance, 1998-2012
(in US\$ millions)



Source: Brazilian Ministry of Trade and Industry

II. DIFFERENCES BETWEEN THE CURRENT SITUATION AND 2008 IN BRAZIL

The 2008 crisis interrupted a period of sustained economic growth initiated in 2003. However, a swift and decisive response by the Brazilian government with countercyclical policies and quantitative easing quickly brought growth back on track to 7.5% in 2010, although in subsequent years GDP growth has been moderate.

Notwithstanding the impact of the 2008 crisis, government policies persevered toward the overarching goal of addressing deep-rooted socioeconomic inequalities, thereby attaining a major structural transformation in the country. Macroeconomic stability coupled with a decade of socially inclusive policies, have yielded an accumulated effect, leading to a new social and labour market context.

historical low of 4.6% in December 2012) (PME/IBGE). Over the 2000s, there has been a continuous rise in the creation of formal employment, thereby ensuring a greater number of workers have access to legislated labour rights including the minimum wage, health insurance, pension, unemployment insurance, maternity leave and coverage against workplace accidents. The quantity of formal waged employment (in workplaces with 5 employees or more) rose from 27.2 million in 2001 to 46.3 million in 2011, totalling more than 19.1 million formal jobs created over the period (RAIS/MTE), although job turnover rates have been high. Meanwhile, minimum wages rose 108% in real terms from January 2000 to January 2012 (http://www.brasil.gov.br/sobre/economia/indicadores/gac12_salminre12/indicadorview). Low unemployment is creating shortages particularly for skilled labour in many sectors.

¹ IPEA, "A Década Inclusiva (2001-2011): Desigualdade, Pobreza e Políticas de Renda", 25 September 2012, Brasília

In contrast to the crisis in Europe, policies for inclusive growth and social redistribution in Brazil have unleashed repressed demand and spurred strong domestic consumption that, in turn, has sustained economic growth. While Brazil was able to withstand the first impacts of the 2008 crisis, the aftermath of slowed global growth is eroding the performance of other dynamic emerging markets and may threaten to weaken the economic foundations that are crucial to sustain inclusive growth in Brazil.

Emerging economic issues and pressures

The current context in Brazil involves record low unemployment rates and strong domestic consumption that are offset by weak GDP growth, declining industrial output and low productive investment by the private sector. Low interest rates fuel demand which now outstrips supply and, combined with a wave of recent price increases, is placing upward pressure on inflation. In this conjuncture, policies must address emerging economic pressures to forestall potential negative impacts upon employment. The main economic pressures at play are highlighted below.

a) Investment

While public investments have played a central role in countercyclical policies, the rate of private investments (domestic and foreign) in Brazil has declined due largely to uncertainty over the prospects for recovery of the global economy. The government has given priority to the stimulation of private investment through a series of measures to reduce risk and build confidence among investors, including tax reduction on the wage bill in some sectors, lowering the price of electricity, and providing sectoral incentives especially in infrastructure. Investment is required to modernize and expand the existing public productive capacity and infrastructure as well as private infrastructure, particularly in ports, railroads, highways and airports that will undergo some privatizations in 2013. The government's "Greater Brazil Plan", created in 2011, aims at raising investment, R&D spending, skills, value-added and diversification of exports to sustain inclusive economic growth and strengthen Brazil's competitive foundation.

b) Labour productivity

Tied to the need to raise private investment is a need to raise the productivity of labour. This challenge will involve investments in areas such as education, vocational training and skills development, in addition to the modernization of production and improved management techniques.

c) Interest rates

The government reduced basic interest rates (Selic rate) to a historical low of 7.25%, with important implications for facilitating access to credit for the productive sector, small businesses and households. Despite this feat, private investment remains sluggish and inflationary pressures might require an upward revision of interest rates.

d) Policy tripod for stability and growth

Successful socioeconomic outcomes in recent years have rested on a set of inter-linked policy targets for: (i) inflation; (ii) a floating exchange rate to the US dollar; and (iii) fiscal discipline. This tripod of policy targets has yielded economic stability, growth

and public reserves which have financed important social policies that have been a key component in efforts to reduce the high level of economic and social inequalities. In this regard:

- Inflation has risen to the top band of the 4.5% target (plus or minus 2 percentage points), registering a twelve-month accumulated inflation rate of 6.15% in early 2013. While higher inflation may help revive economic growth, there are fears it may become entrenched at a higher level.
- The Central Bank has intervened at various moments over the past year to control the exchange rate with the US dollar, maintaining a rate slightly below 2:1 of the Brazilian Real to the US Dollar.
- The Brazilian government adopted an expansionist fiscal policy in 2012 to stimulate economic growth. As a result, the primary surplus has fallen below its current target of 3.1% of GDP, which the government reported as 2.1% in 2012.

e) Household debt

A key challenge will be to sustain levels of household consumption while ensuring that household debt (estimated at 43% of household income) and delinquency rates on credit do not rise to levels that would undermine the strength of domestic consumption.

f) Trade balance

Imports have risen to fill the gap between domestic production and the strong internal demand, thereby weakening the trade balance and depleting reserves. A policy challenge is to raise national production by strengthening investor confidence and creating a greater enabling environment for renewed private investment —in order to harness rising demand for greater consumption of domestic goods and services— elements that could be embodied within an industrial policy to raise the value-added of domestic production and counterbalancing the dependency upon commodity exports.

Looking ahead, the policy agenda involves measures to consolidate the positive social and labour market performance, and to shield these gains from negative effects arising from the uncertain international context and emerging internal economic pressures. The following section signals some policy considerations in this regard.

III. CONSIDERATIONS ON LABOUR MARKET POLICIES FOR THE CURRENT CONTEXT

There is a role for labour market policies to offset potential negative effects that could arise from the emerging economic pressures described above. A few policy issues are considered below, in light of the need to raise labour productivity and competitiveness, to improve the quality of employment opportunities particularly for youth and vulnerable categories of workers and to provide conditions for micro and small enterprises to thrive and provide more formal work opportunities with social protection coverage to their employees.

a) Education, skills development and vocational training

Universal access to quality education and development of vocational skills are key pillars to sustain a productive and competitive labour force. The Brazilian government has

implemented various policies to raise the quality of basic education and to include greater attention to technical education in public secondary schools. Bold steps have been taken under the National Programme of Access to Technical Education and Employment (PRONATEC) created in 2011 to rapidly expand the supply of public technical and vocational education throughout the country, with the goal of creating capacity to accept eight million additional students in four years. Financial assistance and quotas for Afro-Brazilian and indigenous students aim to make technical/vocational education more inclusive. In higher education, a rapid expansion of university education is underway, with the construction of new public universities (including in relatively under-served regions and rural areas) and increased range and depth of courses offered. To boost access among under-privileged students, the PROUNI programme was created in 2004. By early 2013, an estimated 1,100,000 students have received assistance from PROUNI programme. In addition, the “Brazil without Borders” programme supports advanced study at universities abroad. The ambitious but crucial policy goals of expanding supply, increasing/diversifying access and raising quality of education at all these different levels must be maintained and strengthened.

b) Strengthen opportunities for youth employment

Low unemployment rates do not imply full employment in a vast and diverse country such as Brazil. Vulnerable and discriminated groups face significant barriers to equitable and quality labour market participation. In particular, youth unemployment rates were 2.5 times higher on average than adults in 2011 (PME/IBGE). Of great concern, 18% of youth 15-24 years of age in 2011 (PME/IBGE) were not in education, employment or training (NEETs) especially among young women, Afro-Brazilians, indigenous people and other vulnerable and discriminated youth. Demand-side policies currently in place include the Law of Apprenticeships, established in 2000, requiring medium and large firms to hire youth 14-24 years old in the condition of apprentices; this law has boosted work placements yet requires stronger implementation. More monitoring and evaluation of policy impacts are required to assess and revise the gamut of policies directed toward youth employment. Addressing the multiple dimensions of youth employment requires strong integration between different layers of government and coordination between different ministries. With this aim, the Brazilian government appointed a National Secretary for Youth in 2005 precisely to coordinate policies across the branches of government, stimulate new initiatives and disseminate information and good practices. The tripartite-developed National Agenda of Decent Work for Youth emphasizes priority policy issues of: (i) More and better education; (ii) Balancing the demands of studies, work and family life; (iii) Active and dignified participation in the world of work, with equal opportunities and treatment; and (iv) Social dialogue on youth, work and education.

c) Rights of workers and social dialogue

Workers that are vulnerable or discriminated due to gender, race, disabilities or other characteristics require targeted measures to promote their labour rights. Legislation setting labour market quotas for workers with disabilities have existed since 1991; more effective enforcement of implementation of these standards is required. Domestic workers number 7.2 million in Brazil, yet only 29% were formally registered in 2012 (PNAD 2011). Two pending measures could make significant

legal gains for this category of workers in Brazil: (i) Ratification of ILO Convention 189 Concerning Decent Work for Domestic Workers and consequent measures to ensure effective monitoring, enforcement and legal procedures to handle violations; and (ii) Approval of the Proposal for a Constitutional Amendment (PEC 478/10) presented to Congress in 2010 that would strengthen labour rights in line with other categories of workers.

Over the last 10 years, Brazil has created over 25 national councils, commissions and forums in various spheres of social, economic, and labour policy, with the active involvement of employers and workers organizations, with guaranteed tripartite or quadripartite representation. These instances of social dialogue have produced proposals to guide future legislation, regulation, executive action, and fiscal and monetary policy. Their further development can play a critical role in offsetting the negative effects of the global economic pressures described earlier, by bringing workers, employers, and government together to develop creative and effective solutions. Similarly, an active process of social dialogue served as the cornerstone of the preparations of the First National Conference on Employment and Decent Work, held in August 2012 in Brasilia, which was preceded by preparatory conferences at the state municipal levels, involving approximately 25,000 participants.

d) Micro and small enterprises

It is estimated that half of all registered jobs in Brazil are created by micro and small enterprises (MSEs). MSEs demonstrated their resilience through weak economic growth in 2012, where industrial jobs declined in large and medium-sized firms, while job creation rose in small enterprises, particularly in services. To ensure their survival, growth and modernization, MSEs require policies to boost access to credit and maintain the rising trend toward formal registration. Significantly, in March 2012, 79% of new formal jobs were created by small businesses (CAGED 2012). Among the important initiatives to raise formal registration and social inclusion among small entrepreneurs is the Law of the Individual Micro-Entrepreneur, created in 2008, that has contributed significantly toward facilitating the formal registration of micro-enterprises and autonomous workers, opening of a company bank account and accessing credit, while also providing relief from various federal taxes and reducing the cost of social protection for eligible micro-entrepreneurs and autonomous workers with turn-over between approximately US\$ 2,500 and US\$ 30,000 per year. By April 2012 an estimated 2.5 million micro entrepreneurs had formally registered since the inception of this programme (SEBRAE).