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Statement by Sun Vithespongse

Brazil: Country Assistance Strategy

We welcome the opportunity of discussing this CAS for Brazil and would like to compliment staff for preparing a well written document explicating development challenges, objectives, and strategies faced by the country. We find the analysis in the CAS to be candid and realistic which deserves our support.

The Government of Brazil is to be commended for its impressive economic performance under the leadership of President Cardoso. The Real Plan that it adopted has contributed to the country's economic and social progress. The GDP grew by 4 percent during 1993-96 from virtual stagnation through 1992, a drastic reduction in inflation, a strong balance of payments and a decline in poverty. The progress in macroeconomic front is followed by increased confidence of international financial markets in the economy as evidenced by large private capital inflows, including a sharp increase in FDI to \$9.2 billion in 1996 and decline in spreads on new public sector borrowings. We are also impressed by the government's commitment in implementing the privatization program in Brazil which has already made significant progress far ahead of many other countries.

Despite this progress, Brazil still faces challenging problems such as fiscal and current account deficits, increasing public sector domestic debt, high poverty and inequality and low levels of education.

We are pleased to note that the Government of Brazil has adopted a development agenda aimed at stable and sustainable growth with poverty reduction and improving equity. Its focus on i) deepening public sector, ii) facilitating competitiveness, private sector and infrastructure development, iii) assisting social development, and iv) improving environmental management is an appropriate approach to poverty alleviation based on sustainable growth. In this regard, we welcome the government's continued commitment to the Plano Real in conducting macroeconomic policies to maintain low inflation rates, reduce the growth of public sector indebtedness, and restore the current account to a sustainable level, necessary for favorable domestic economic environment. Efforts at improving productivity and competitiveness

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including the new program - *Brasil em Acao* - would stimulate further private sector development.

Regarding base case projections, we agree that achieving primary fiscal surplus is a desirable objective to strengthen the foundations of stable and sustainable growth. Therefore, the operational fiscal deficit projected at 2.9 percent in 1997 seems still high, given the continued high current account deficit. We hope the government could attain a lower deficit by containing the growth of public sector wage bills and intensifying revenue collection efforts.

We note that despite recent economic progress, Brazil is still vulnerable to external and domestic shocks stemming from twin deficits on both fiscal and current account which are unsustainable in the medium term. Therefore, we would like to emphasize the importance of deepening fiscal and structural reforms as well as containing the growth of public and private external debt to maintain confidence in the economy and reduce risks of reversal of capital inflows.

Brazil's exceptionally poor income distribution is also a matter of concern. It is disheartening to note that income per capita in Sao Paulo is seven times the income per capita in Piaui, the poorest state. We, therefore, urge the government to double its effort in improving income disparities across regions which tend to widen. In this regard, reducing the inequity of public sector expenditures for social development would help narrow the gap in regional development.

As regards the Bank Group's role in social development, we welcome the Bank support for the education as the major thrust of its country strategy in view of the close relation between poverty and education levels. Long-term partnership between the government and the Bank in achieving universal completion of primary education, especially for the poor in backward areas would help enhance their productivity.

We find the CAS triggers covering fiscal sustainability, portfolio performance, and enabling environment for PSD as appropriate and realistic to encourage further improvements in those areas. Due to the large size of Brazil, no multilateral financial institution would be able to deal effectively and completely with all of development challenges of the country. In this context, the efforts to strengthening Bank Group's cooperation with both IMF and IDB to develop more efficient ways of sharing work or costs involving each other are highly appreciated.