

# Technical Note

Nº 132

September 2007

PPA 2008/2011 and PLOA 2008

## The PPA targets and priorities for 2008/2011



# The PPA targets and priorities for 2008/2011

The Institute for Socioeconomic Studies (INESC) has defined the preparation of data to support debate as one of its strategies for intervening in the legislative stage of the analysis of the Multi-Year Plan (PPA 2008/2011) and the Annual Budget Proposal (PLOA). With this objective in mind, it is presenting a series of Technical Notes on the PPA containing analyses of the proposal presented by the Federal Government and presently being discussed by the National Congress. INESC hopes that this data will contribute to the informed participation of civil society organizations at the regional seminars that the Joint Budget Commission is holding, between September 20 and October 9, to discuss the PPA and the PLOA.

In the presidential message that President Lula sent to the National Congress with the proposed Multi-Year Plan (PPA) 2008/2011, he stated that the aims of the PPA were to overcome the challenges of accelerating economic growth, promoting social inclusion and reducing regional inequalities.

The development strategy for the period covered by the PPA is expressed in the determination to give priority to complying with the Social Agenda, the Education Development Plan (PDE) and the Program for Accelerated Growth (PAC) by means of putting 306 programs and 5,081 actions into practice. The emphasis in the Social Agenda lies on conditional income transfer programs, especially the *Bolsa Família* (Family Grant) Program and the Cash Benefit Program (BPC). The target public for these actions is made up of the most vulnerable part of the population, and their aim is to strengthen citizenship, and human rights, culture and public safety.

In the case of the PDE, the PPA focuses its importance on the ongoing national development program, with high-quality education playing the role of the strategic objective for it to be feasible. The intention is to mobilize society around the importance of this subject, by first improving elementary and secondary education and then moving on to higher education. The setting up of the Basic Education Development Fund (Fundeb) is also emphasized as a source of financing to service the population's pre-school to secondary education needs.

The PAC is one of the structural elements of the PPA. It was defined back in January 2007, and involves economic and social infrastructure projects in such areas as transport, energy, water resources, sanitation and habitation. These have the fixed purpose of unlocking the mechanisms that are holding back an increase in economic growth.

Furthermore, measures for stimulating credit, financing, tax relief in specific sectors and long-term tax incentives are also included. It is an attempt to plan public investment whilst expecting it to expand.

The PPA has established 19 priority targets:

i) electricity; ii) oil, gas, biofuels and ethanol; iii) transport; iv) water resources; v) exports; vi) health; vii) sanitation; viii) welfare and income transfer; ix) small-scale productive activities; x) citizens' rights; xi) safety; xii) agrarian development; xiii) education and culture; xiv) young people; xv) digital inclusion; xvi) habitation; xvii) agriculture and cattle raising; xviii) airports; and xix) the environment.

To fulfill its proposals, the PPA will require an expenditure of around R\$ 3.5 trillion over the four-year period. This will be financed by using resources from the Federal Budget (65.5%), the Official Investment Agencies (20%) and Investments by State-run Companies (7.2%).

The macroeconomic scenario described in the PPA, which is what enables these investments, talks of the setting up in Brazil of a "virtuous circle that is capable of combining economic growth with a reduction in social inequalities and respect for the environment." Economic expansion will be brought about by expanding mass consumption, and sustained by expanding investments. The PPA forecasts a stable, secure macroeconomic environment.

The Gross Domestic Product (GDP) is estimated to grow by 5% in each of the four years. This growth rate is based on the belief that the obstacles standing in the way of the country's growth, such as runaway inflation and the failure to balance public and foreign accounts "have been dealt with and removed".

As an additional part of this scenario, the fiscal policy has planned for the continuation of annual primary surplus targets set at 3.80% of GDP for the consolidated public sector (federal, states and municipalities). It has also planned for rules for modifying personnel expenses and a policy for increasing the minimum wage, and also projects a drop in interest rates, which will enable a reduction in the Debt:GDP ratio to the 40% level by the end of the period. It is expected that a zero nominal deficit will be achieved by 2011. The forecast increase in public investments will be exactly compensated for by a reduction in current expenses.

These are the main points which are clear, on a first reading. In spite of the fact that the PPA contains a text on economic development which combines economic growth with combating social inequalities and respect for the environment, there are many questions that jump out.

We already have enough criticisms to doubt the results of implementing the PAC. Not only has its execution been seen to be far from the expectations that were created but, as far as its content is concerned: the social movement, and especially the

environmentalists, have questioned several of the projects that are involved because of the possible consequences they may have for both the preservation of natural resources and the populations that will be affected.

The Social Agenda, with its emphasis on conditional income transfer mechanisms, has long been the target of criticism, in view of the fact that it does not go far enough to change the situation of those that need it most. Recent research is unanimous in showing the fundamental role that these focused programs have had on improving income distribution in the country as a lever for prizing the poorest people out of the situation they are in. Recent debates held by, or involving, the Ministry of Social Development (MDS) have led to discussions on the limits to these types of policy and encouraged the search for alternative solutions to the problems that these focused policies are not able to solve. We, as defenders of universal public policies, look on this as yet another challenge to be faced.

Another fact that deserves attention is the part about having completely overcome the macroeconomic issues that prevented the country from growing. The PPA deals with the question of both the internal and external public debt in a superficial manner as this is considered to be a thing of the past, and ignores the serious problems that are facing public investments. There is no explanation of how the debt will be administered over the next 4 years, only an emphasis on the Debt:GDP ratio. It does not talk about stocks or how we will escape from the financial merry-go-round which has brought serious consequences for the majority of the population, whilst, at the same time filling the coffers of the 20,000 families of speculators and the banks. As no parameters are laid down in the PPA, this is an issue that will be managed by each Annual Budget Law. Furthermore, what is worse is that in the case of monetary policy, it will continue to be distant from the debate about the priorities for allocating the budget, and will subject the definition of “public investments” to the moods and supposedly technical evaluations of the “market”.

To consider just one example: the internal public debt grew by R\$ 208 billion during the first seven months of 2007, according to data published by the Citizens Debt Audit in its September 2007 bulletin. Society’s sacrifice to save resources in order to pay off interest and amortize debt was to no avail. The primary surplus policy is not enough to deal with the amount owed because the country continues to charge high rates of interest. This is a bottomless pit, which swallows up money intended for social policies and for supporting development and which ends up feeding financial speculation.

The Annual Budget Proposal for 2008, submitted to the Legislative Assembly, together with the PPA, reveals a worrying scenario. The resources programmed for paying off interest and amortizing the debt are around R\$ 248 billion. This is more than three times the amount programmed to be spent on health (R\$ 48 billion), education (R\$ 26 billion) and agrarian organization (R\$5.2 billion), which together add up to R\$ 79.2 billion for 2008.

Even though we have to consider the real gains made by the country over the last four years, we cannot avoid mentioning that the proposal is one that continues with the model followed during President Lula's first mandate. This PPA contains no substantial changes for the second mandate.

The bold approach necessary to relax the limits imposed by the supremacy of financial capital cannot be seen in the plan for the next four years. This boldness would enable an increase in public investment which would more effectively combat the serious problems that the cruel levels of inequality have imposed on the majority of Brazilian society.

*Eliana Magalhães Graça*  
*Fiscal and Budgetary Policy Advisor*

#### **TEAM**

INESC - Institute for Social-Economic Studies - Address: SCS - Qd, 08, Bl B-50 - Salas 431/441 Ed. Venâncio 2000 - Zip Code; 70.333-970 - Brasília/DF - Brazil - Phone: (61) 3212 0200 - Fax: (61) 3212 0216 - Email: [protocoloinesc@inesc.org.br](mailto:protocoloinesc@inesc.org.br) - Website: [www.inesc.org.br](http://www.inesc.org.br) - Board of Directors: Armando Martinho Raggio, Caetano Ernesto de Araújo, Fernando Oliveira Paulino, Guacira Cesar de Oliveira, Jean Pierre René Leroy, Jurema Pinto Werneck, Luiz Gonzaga de Araújo, Neide Viana Castanha, Pastor Ervino Schmidt - Management team: Atila Roque, Iara Pietricovsky, José Antônio Moroni - Advisor(s): Alessandra Cardoso, Alexandre Ciconello, Edécio Vigna, Eliana Magalhães, Francisco Sadeck, Jair Barbosa Júnior, Luciana Costa, Ricardo Verdum - Assistants: Ana Paula Felipe, Lucídio Barbosa - Journalist: Luciana Costa - Graphics Project: DataCerta Comunicação - Layout: Ivone Melo