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**Joint Statement by Mr. Huh, Ms. Lim, Mr. O'Brolchain, Ms. Cunningham, Mr. Iona,
and Ms. Susiandri on Brazil
(Preliminary)
Executive Board Meeting
September 10, 2021**

We thank staff for the insightful report and Mr. Bevilaqua for the helpful Buff statement. After experiencing a severe health crisis earlier in the pandemic, Brazil has made important progress on COVID-19 vaccinations in recent months, and health indicators are improving. Brazil's economy has been less adversely affected than many other countries, in part due to Brazilian authorities' strong fiscal and monetary policy responses. We welcome the news that the economic recovery has been progressing faster than expected. We broadly agree with Staff's assessment and policy recommendations, and we note that important challenges remain, particularly with respect to fiscal sustainability.

Authorities have provided additional targeted support in 2021 and relaunched the job retention program. However, the rebound in employment lags that of output, with a disproportionately slow recovery in employment for youth, women, and Afro-Brazilians. We would welcome more details on how authorities plan to close the widening gap in labor market outcomes.

Following sharp increases in Brazil's government deficit and debt in 2020, authorities are now resuming fiscal consolidation. We note that the NFPS primary deficit is expected to narrow to 1.7 percent of GDP in 2021 from over 9 percent in 2020 – mostly through increased tax revenues, reductions to COVID-19 support and limited public sector wage growth. Staff expect Brazil's primary balances to trend towards surplus over the medium term. The projected fiscal consolidation seems somewhat optimistic relative to Brazil's pre-pandemic fiscal situation. *Could Staff elaborate on the reasons that Brazil's primary balance is expected to fall below its pre-pandemic level over the medium term?* To support fiscal credibility, it is also important to strengthen a medium-term fiscal framework with clear targets and specific measures, including sound fiscal rules, to achieve the consolidation path.

In response to above-target inflation, monetary policy has been appropriately tightened. While inflation expectations are elevated in the short term, they remain anchored over the long term. We strongly agree with Staff that inflation risks and inflation expectations bear close monitoring. Monetary policy should remain data dependent with clear communication and forward guidance.

Debt sustainability risks are assessed by Staff to be moderate, albeit gross financing needs are high compared to EM peers. Gross financing needs are expected to average close to 20 percent per year over the remainder of the forecast horizon. **In addition, uncertainty remains unusually high and debt level projections are very sensitive to changes in growth, interest rates and the speed of fiscal adjustment.** However, we note that several factors moderate the rollover risks including the wide domestic investor base, large liquid assets holdings of the federal government and substantial central bank holdings of Treasury debt.

We agree with the Staff's view that institutional and structural reforms are also critical to support potential growth, including reducing the rigidities in expenditures and simplification of tax and regulation structures. We welcome that authorities have embarked on an ambitious set of reforms. We applaud the passing of legislation to provide autonomy to the Brazilian central bank and the progress that Brazil has made on other changes recommended in the 2018 FSAP.