

The contents of this document are preliminary and subject to change.

GRAY/21/2563

September 9, 2021

**Statement by Mr. Hosseini and Mr. Sassanpour on Brazil
(Preliminary)
Executive Board Meeting 21/89
September 10, 2021**

We thank staff for the well-written papers and Mr. Bevilaqua for the informative Buff statement.

Brazil was one of the early epicenters of the COVID-19 pandemic, but the authorities' vaccination campaign has drastically cut the number of new daily cases and fatalities since July. As per Mr. Bevilaqua's statement, about one third of the adult population has been fully inoculated as of end-August. *In staff's view, is the rollout on track to fully vaccinate the entire adult population by year-end, as is the plan?* As staff analysis suggests, economic returns to accelerated vaccination are quite high and, as such, a more rapid vaccine rollout would further boost growth.

We agree that, notwithstanding uncertainties related to the pandemic, the economic outlook looks favorable. *As regards risks to the outlook, we invite staff to comment on assigning "high" relative likelihood in the Risk Assessment Matrix only to social, political and security factors without much elaboration in the report.*

The authorities' forceful, swift and multi-faceted policy response to the crisis tempered its economic and social fallout palpably, especially by limiting job losses. The wide reach and coverage of the emergency cash transfer program in particular prevented a sharp rise in Brazil's already-high poverty and inequality levels. We were expecting a deeper analysis in the report on poverty once cash transfer programs are terminated, especially in view of the lagging and partial labor market recovery, and more broadly on the adequacy of social safety nets post-pandemic. *Staff may wish to comment.* Strengthening social protection, with the aim of raising and expanding the coverage of benefits for the most vulnerable, deserves a high priority.

Higher growth is not the panacea for job creation. The unemployment rate has remained stubbornly high despite the leveling off of labor participation at lower rates compared to pre-

pandemic, especially among women. The high rate of unemployment among youth, women, and Afro-Brazilian is particularly concerning. We would encourage the authorities to place policy emphasis on strengthening the human capital, especially among the vulnerable groups, including through vocational and adult training programs in line with the evolving market demand for skills. *While agreeing that there is always room for efficiency gains, we invite staff to comment on the assertion that current minimum requirements for spending on education and health at subnational level impose rigidities that need to be corrected (¶18).*

We agree with the authorities that, despite the high level of public debt, risks to medium-term debt sustainability are muted, and like Mr. Bevilaqua wonder *why the “final assessment” is not different from “mechanical signal” (Box 6) given the host of mitigating factors, including the significant planned medium term fiscal consolidation starting in 2021 and the Treasury’s nimble and opportunistic debt management strategy.* We support staff’s recommendation to strengthen the medium-term fiscal framework by supplementing the expenditure rule with an explicit debt anchor and with measures to reduce subnational fiscal risks. We welcome the authorities’ planned tax reforms, including their intention to reduce tax expenditures and improve tax progressivity. As suggested by staff, the substantial reduction of the statutory CIT rate is best to be combined with increasing the PIT exemption threshold, aligning the CIT rate with the top marginal PIT rate, and scaling back generous SME support.

The BCB acted swiftly and measurably to tighten monetary policy in response to higher inflation. The tightening cycle should continue—in a data-dependent manner—until inflation is down to the target range, while carefully monitoring inflation expectations—particularly at the 1½-2-year horizon—and communicating clearly with markets on inflation outlook and policy direction. We welcome the authorities’ stress on using the policy rate to control inflation while limiting FXI to correct disorderly market conditions. Exchange rate flexibility has served the economy well during the recent crisis by providing a critical first line of defense against multiple external shocks; and the policy should continue.

We commend the authorities for continuing with supply-side structural reforms during the crisis to help lift Brazil’s stagnant productivity and potential growth. There has been significant progress on a number of fronts, but still much remains to be done, particularly in improving domestic regulation and competition. We welcome the government’s efforts to promote environmentally sustainable activities and its growing emphasis on a greener economy and on reducing the economy’s vulnerability to climate change. Brazil is the custodian of a global green treasure: the Amazon. We strongly encourage the authorities to develop and begin implementing a comprehensive long-term plan to reverse the deforestation of the Amazon and leave a richer treasure for the coming generations.

That said, we wish the Brazilian authorities and people every success.