

**EXECUTIVE
BOARD
MEETING**

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To: Members of the Executive Board

From: The Secretary

Subject: **Brazil—Staff Report for the 2020 Article IV Consultation—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
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Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—European Investment Bank, Food and Agriculture Organization, Inter-American Development Bank, United Nations Development Programme, World Food Programme, World Trade Organization

***The Secretary's Department has been notified by the authorities that their explicit consent is required prior to the publication of Board documents. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities indicating that they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.**



BRAZIL

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

November 9, 2020

Prepared By

The Western Hemisphere Department
(In consultation with other departments)

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FUND RELATIONS

(As of September 21, 2020)

Membership Status: Joined January 14, 1946; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	11,042.00	100.00
Fund holdings of currency (Exchange Rate)	8334.48	75.48
Reserve Tranche Position	2718.18	24.62
Lending to the Fund		
New Arrangement to Borrow	211.98	

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	2,887.08	100.00
Holdings	2939.13	101.80

Outstanding Purchases and Loans: None

Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount	Amount
			Approved	Drawn
(SDR Million)				
Stand-by	09/06/2002	03/31/2005	27,375.12	17,199.64
<i>Of which:</i> SRF	09/06/2002	09/05/2003	7,609.69	7,609.69
Stand-by	09/14/2001	09/05/2002	12,144.40	11,385.37
<i>Of which:</i> SRF	09/14/2001	09/05/2002	9,950.87	9,950.87
Stand-by	12/02/1998	09/14/2001	13,024.80	9,470.75
<i>Of which:</i> SRF	12/02/1998	12/01/1999	9,117.36	6,512.40

Projected Payments to the Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2020	2021	2022	2023	2024
Principal		0.00	0.00	0.00	0.00
Charges/interest		0.05	0.04	0.04	0.04
Total		0.04	0.04	0.04	0.04

Safeguards Assessments: A safeguards assessment of the Banco Central do Brasil (BCB) was completed in June 2002 and updated in March 2005.

Exchange Rate Arrangement: Since January 18, 1999, Brazil's de facto and de jure foreign exchange regime has been classified as floating. Brazil accepted the obligations of Article VIII, Sections 2(a), 3, and 4, effective November 30, 1999.

The tax on financial transactions (*Imposto sobre Operações Financeiras*, IOF) of 6.38 percent on exchange transactions carried out by credit card, debit card, and traveler's checks (including cash withdrawals) companies in order to fulfill their payment obligations for purchases of goods and services abroad by their customers gives rise to a multiple currency practice (MCP) subject to Fund jurisdiction under Article VIII, Sections 2(a) and 3. In January 2008, the IOF for these exchange transactions was raised to 2.38 percent and then further increased to 6.38 percent in March 2011. The scope of operations was expanded to other foreign exchange transactions than with credit cards in December 2013.

Last Article IV Consultation

The last Article IV consultation with Brazil was concluded by the Executive Board on July 9, 2018. Brazil is on the 12-month cycle. The Financial Sector Assessment Program (FSAP) took place in 2002 and was updated in 2012 and 2018.

Technical Assistance

The Statistics Department (STA) remotely delivered a mission on Quarterly National Accounts in August 2020 to support the Brazilian Institute of Geography and Statistics (IBGE) in dealing with COVID-19 related challenges in compiling GDP. The Fiscal Affairs Department (FAD) is supporting the Ministry of Economy in its efforts to strengthen the tax administration system, enhance medium-term fiscal planning, and improve fiscal transparency. Key capacity development services have been delivered by FAD staff to the country authorities in the present consultation cycle. The mission "[Strengthening Fiscal Responsibility at the Subnational Level](#)" was carried out in February 2020 to provide technical advice on designing subnational fiscal rules. The mission built on the findings of the April 2019 mission on "[Strengthening the Framework for Subnational Borrowing](#)", which provided recommendations to strengthen the institutional framework for subnational public finances with a focus on programs to support states and municipalities under financial distress. A TADAT Performance Assessment mission took place in January 2020. Through an April 2020 mission (remote), FAD continued to support the State of São Paulo in implementing a cost accounting system for the public sector. In recent past, FAD carried out capacity development missions on Cost Accounting (March 2018), "[Public Investment Management Assessment](#)" (August 2017), "[Supporting Implementation of the Expenditure Rule Through Public Financial Management Reforms](#)" (March 2017), and "[Fiscal Transparency Evaluation](#)" (June 2016).

Resident Representative

The IMF maintains a resident representative office in Brasilia. The Resident Representative is Ms. Joana Pereira, who assumed the post in July 2018.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: <http://www.worldbank.org/en/country/brazil>
- Inter-American Development Bank: <https://www.iadb.org/en/countries/brazil>

STATISTICAL ISSUES

(As of September 21, 2020)

I. Assessment of Data Adequacy for Surveillance
<p>General: The quality of macroeconomic statistics has improved significantly, and data provision is adequate for surveillance.</p>
<p>National Accounts: Since 2015, the national accounts estimates are compiled in accordance to the <i>2008 System of National Accounts</i>, and the availability of annual supply and use tables contributes to the development of consistent national accounts estimates. Systematic implementation of a supply and use tables system would help further improve the robustness of quarterly GDP. The authorities are also working on improving the seasonal adjustment methodology, including to better adjust for working days. The national accounts series and methodological notes are available on the internet (http://www.ibge.gov.br), and GDP series are available in <i>International Financial Statistics</i> (IFS).</p>
<p>Price Statistics: Since July 1999, the price index reference for monetary policy has been the Broad Consumer Price Index (IPCA) compiled by IBGE. The IPCA covers changes in the prices of goods and services purchased by households earning between one and forty times the minimum wage in 11 metropolitan areas and two municipalities. The weight structure of the index was derived from the 2008-09 Consumer Expenditure Survey. Both the Getúlio Vargas Foundation and the IBGE compile producer price indices, IPA and IPP respectively, since 2010.</p>
<p>Government Finance Statistics: The Ministry of Finance and the Brazilian Central Bank (BCB) compile and disseminate government finance statistics using the <i>Government Finance Statistics Manual (GFSM) 2014</i> presentation. The reported statistics include the statement of government operations and balance sheet for the general government. In 2015, the National Treasury improved the general government statistics by introducing accrual basis of recording for government expenditures. The new methodology was applied for the series beginning in 2010. Since then, fiscal statistics follow cash basis of recording for revenues and accrual for expenditures. In 2017 non-financial assets were incorporated in the balance sheet for the period 2014 -2016. The gross debt indicator excludes government securities held by the central bank and not used in monetary policy operations.</p>
<p>Monetary and Financial Statistics: The BCB compiles and publishes monetary and financial statistics, with concepts, definitions, and classification that are broadly in line with the <i>Monetary and Financial Statistics Manual (MFSM) 2000</i>. In close cooperation with STA, the BCB introduced the standardized report forms based on accounting data in March 2013. However, the institutional coverage of the other financial corporations needs to be expanded to include insurance corporations, open pension funds, capitalization funds, and exchange houses.</p> <p>The BCB regularly reports quarterly FSIs to the IMF for publication. Currently, the BCB reports all core and 18 encouraged FSIs, with data beginning in Q1 2005. Plans are under way to compile the rest of the encouraged FSIs. The BCB also reports data on some key series and indicators of the</p>

Financial Access Survey (FAS), including gender data and the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

External Sector Statistics: Brazil disseminates monthly and quarterly balance of payments and quarterly international investment position data on a sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) basis. Data are sourced from a comprehensive data collection program. The BCB supplements the international transaction reporting system with other available sources such as surveys on transportation and other services, the survey on foreign assets held by Brazilian residents, and the census of foreign capital in Brazil. The BCB disseminates data on International Reserves and Foreign Currency Liquidity monthly. Brazil also participates in the Coordinated Direct Investment Survey (CDIS) and the Coordinated Portfolio Investment Survey (CPIS), and reports quarterly external debt data to the World Bank’s Quarterly External Debt Statistics (QEDS) database.

II. Data Standards and Quality

In November 2019, Brazil completed the requirements for adherence to the IMF’s SDDS Plus—the highest tier of the Data Standards Initiatives. This made Brazil the first country in Latin America to adhere to the SDDS Plus. As allowed under the SDDS Plus, the requirements on the outstanding three data categories—sectoral balance sheets, other financial corporations survey, and debt securities—will need to be completed within the transition period (i.e., within five years from the adherence date).

Implementing G-20 DGI recommendations: The authorities have already implemented a good number of the recommendations and work is underway to implement the remaining ones. Further progress would focus on monetary and financial statistics, real estate price indexes, and sectoral accounts.

Brazil: Table of Common Indicators Required for Surveillance

(As of October 23, 2020)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	9/23/2020	9/24/2020	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Sept. 2020	10/14/2020	M	M	M
Reserve/Base Money	Sept. 2020	10/14/2020	D	M	M
Broad Money	Aug. 2020	10/15/2020	M	M	M
Central Bank Balance Sheet	Sept. 2020	10/14/2020	M	M	M
Consolidated Balance Sheet of the Banking System	Sept. 2020	10/15/2020	M	M	M
Interest Rates ²	Sept. 2020	10/14/2020	M	M	M
Consumer Price Index	Aug. 2020	9/1/2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Jul. 2020	9/1/2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Jul. 2020	9/1/2020	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Jul. 2020	9/1/2020	M	M	M
External Current Account Balance	Q2 2020	9/24/2020	Q	Q	M
Exports and Imports of Goods and Services	Aug. 2020	9/24/2020	M	M	M
GDP/GNP	Q2 2020	9/1/2020	Q	Q	Q
Gross External Debt	Jun. 2020	9/24/2020	M	M	M
International Investment Position ⁶	Q2 2020	8/31/2020	Q	Q	Q

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).