EXECUTIVE BOARD MEETING

SM/20/165
Supplement 3

November 19, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Brazil—Staff Report for the 2020 Article IV Consultation—Draft Press Release**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Wednesday, November 25, 2020**
Publication:	Not yet decided*
Questions:	Ms. Lim, WHD (ext. 37872)

***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 press release 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 press release; such communication may be received after the authorities have had an opportunity to read the paper.**

PRESS RELEASE

PR[YY/XX]

IMF Executive Board Concludes 2020 Article IV Consultation with Brazil

FOR IMMEDIATE RELEASE

Washington, DC – **[November 25, 2020]:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Brazil.

COVID-19 has upended lives and livelihoods in Brazil, as it has in most countries around the world. Over 5.5 million Brazilians have been infected and more than 160 thousand have died from the disease. Economic activity contracted by 7 percent in the first half of 2020, the unemployment rate rose to 14.4 percent in September, and 11 million workers left the labor force. Households in the lowest income deciles were the most affected by the loss of labor income while women suffered a bigger decline in hours worked than men. Non-financial corporate profitability fell, and leverage surged amid reduced cash flows and high uncertainty. With the sharp contraction in domestic demand, inflation turned negative in April and May but gradually rose to 2.4 percent y-o-y in August, still below the lower band of the headline inflation target.

The government's response to the crisis was swift and sizable. The authorities implemented emergency cash-transfer and employment-retention programs, increased health spending, provided financial support to subnational governments, and extended government-backed credit lines to small businesses. In all, fiscal and quasi-fiscal measures amounted to 18 percent of GDP, raising the primary deficit to about 12 percent of GDP in 2020 from 1 percent in 2019. The Central Bank cut the policy rate by 225 bps in quick succession to 2 percent and announced extensive liquidity and capital relief measures. The policy response averted a deeper economic downturn, stabilized financial markets, and cushioned income loss for the poorest. Retail and industrial activity returned to pre-COVID levels in the third quarter but the services' sector remains depressed, with a negative impact on employment.

The economy is projected to shrink by 5.8 percent in 2020, followed by a partial recovery to 2.8 percent in 2021. The lingering effects of the health crisis and the expected withdrawal of fiscal support will restrain consumption while investment will be hampered by idle capacity and high uncertainty. Inflation is expected to stay below target until 2023, given significant slack in the economy. The current account deficit is projected to narrow to -0.3 percent of GDP in 2020 from 2.8 percent of GDP in 2019 before gradually increasing over the medium-term as imports and profit distribution recover. With a sharp increase in the primary fiscal deficit, gross public debt is set to rise to 100 percent of GDP and remain high over the medium-term. The record low SELIC has helped reduce government borrowing costs but the local currency yield curve has steepened considerably, highlighting market concerns over fiscal risks. Overall, risks around the baseline are exceptionally large and multifaceted but high international reserves, a resilient banking system, and a low share of public FX debt are important mitigating factors.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

700 19th Street NW
Washington, DC 20431
USA

Executive Board Assessment[2]

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Brazil: Selected Economic Indicators

I. Social and Demographic Indicators

Area (thousands of sq. km)	8,510	Health	
Agricultural land (percent of land area)	30.2	Physician per 1000 people (2018)	2.2
Population		Hospital beds per 1000 people (2018)	2.2
Total (million) (est., 2019)	210.1	Access to safe water (2018)	83.6
Annual rate of growth (percent, 2018)	0.8	Education	
Density (per sq. km.) (2019)	25.3	Adult illiteracy rate (2019)	6.6
Unemployment rate (2019)	11.9	Net enrollment rates, percent in:	
Population characteristics (2018)		Primary education (2019)	98
Life expectancy at birth (years)	76	Secondary education (2019)	85
Infant mortality (per thousand live births)	12	Poverty rate (in percent, 2018) 1/	25.3
Income distribution (2017)		GDP, local currency (2019)	R$7,257 billion
Ratio between average income of top 10 percent of earners over bottom 40 percent	12.4	GDP, dollars (2019)	US$1,839 billion
		GDP per capita (2019)	US$8,751
Gini coefficient (2018)	53.9		

Main export products: airplanes, metallurgical products, soybeans, automobiles, electronic products, iron ore, coffee, and oil.

II. Economic Indicators

				Proj.					
National accounts and prices	2017	2018	2019	2020	2021	2022	2023	2024	2025
GDP at current prices	5.0	4.6	5.3	-2.6	6.3	6.5	6.3	6.2	6.2
GDP at constant prices	1.3	1.3	1.1	-5.8	2.8	2.3	2.2	2.2	2.2
Consumption	1.4	1.7	1.3	-5.6	2.7	1.5	1.5	1.6	1.4
Investment	2.4	3.1	3.6	-10.8	6.6	5.0	5.6	6.1	6.2
Consumer prices (IPCA, end of period)	2.9	3.7	4.3	2.0	2.9	3.2	3.3	3.3	3.3
Gross domestic investment									
Private sector	12.3	12.7	13.1	12.7	12.9	13.1	13.5	14.0	14.5
Public sector	2.3	2.1	2.0	2.0	2.0	2.1	2.1	2.0	2.0
Gross national savings									
Private sector	20.4	18.6	17.2	29.6	18.7	17.3	17.4	17.7	17.9
Public sector	-6.5	-6.0	-4.9	-15.2	-5.0	-3.9	-4.2	-4.6	-4.7
Public sector finances									
Central government primary balance 2/	-1.9	-1.7	-1.3	-11.3	-2.7	-1.7	-1.2	-0.7	-0.1
Consolidated public sector									
NFPS primary balance	-1.8	-1.7	-1.0	-11.6	-2.7	-1.7	-1.2	-0.7	-0.1
NFPS cyclically adjusted primary balance (in percent of potential GDP)	-0.6	-0.7	0.0	-9.8	-1.8	-1.2	-1.0	-0.6	-0.1
NFPS overall balance	-7.9	-7.2	-6.0	-16.3	-6.1	-5.1	-5.4	-5.8	-5.8
Net public sector debt	51.4	53.6	55.7	66.8	71.3	74.4	77.0	79.4	81.3
General Government gross debt, Authorities' definition	73.7	76.5	75.8	96.6	96.7	97.4	97.7	98.3	98.5
NFPS gross debt	83.7	87.1	89.5	101.1	99.3	100.3	100.9	101.8	102.3
Of which: Foreign currency linked	3.6	4.1	4.3	4.7	4.7	4.6	4.5	4.4	4.4
Money and credit				(Annual percentage change)					
Base money 3/	9.6	1.6	3.3	9.9	6.3	6.5	6.3	6.2	6.2
Broad money 4/	4.6	8.1	9.1	12.6	6.3	8.3	8.1	8.0	8.0
Financial sector credit to the private sector									
Bank loans to the private sector	0.0	7.7	5.5	10.0	12.0	9.0	9.0	8.0	8.0
Balance of payments				(Billions of U.S. dollars, unless otherwise specified)					
Trade balance	64.0	53.0	40.5	51.9	53.3	56.7	57.9	57.7	58.9
Exports	218.1	239.5	225.8	210.3	229.1	236.5	240.2	249.6	260.5
Imports	154.1	186.5	185.3	158.3	175.8	179.7	182.3	191.9	201.7
Imports of oil									
Current account	-15.0	-41.5	-50.9	-3.9	-18.1	-29.0	-40.2	-51.8	-61.1
Capital account and financial account	10.3	42.9	53.8	3.9	18.1	29.0	40.2	51.8	61.1
Foreign direct investment (net inflows)	47.5	76.1	50.7	66.2	44.2	51.6	57.8	63.3	69.0
Terms of trade (percentage change)	5.8	-2.2	0.6	4.5	0.9	-1.0	-0.9	-1.3	-1.2
Merchandise exports (in US$, annual percentage change)	18.3	9.8	-5.7	-6.9	9.0	3.2	1.6	3.9	4.4
Merchandise imports (in US$, annual percentage change)	10.3	21.0	-0.6	-14.6	11.0	2.2	1.4	5.2	5.1
Total external debt (in percent of GDP)	32.3	35.3	36.7	48.7	46.6	43.0	41.0	39.0	37.6
Memorandum items:									
Current account (in percent of GDP)	-0.7	-2.2	-2.8	-0.3	-1.3	-1.9	-2.4	-2.9	-3.2
Unemployment rate	12.8	12.3	11.9	13.4	14.1	13.3	12.5	11.6	10.8
Gross official reserves	374	375	357	357	357	357	357	357	357
REER (annual average in percent; appreciation +)	8.5	-13.3	-1.2	...	...	...	...	...	...

Sources: Central Bank of Brazil; Ministry of Finance; IBGE; IPEA; and Fund staff estimates.

1/ Computed by IBGE using the World Bank threshold for upper-middle income countries of U$5.5/day. This number is not comparable to the estimates provided by IPEA in previous years due to methodological differences.

2/ Includes the federal government, the central bank, and the social security system (INSS). Based on the 2017 draft budget, recent announcements by the authorities, and staff projections.

3/ Currency issued, required deposits held at the Central Bank plus other Central Bank liabilities to other depository corporations

4/ Currency outside depository corporations, transferable deposits, other deposits and securities other than shares