

**EXECUTIVE
BOARD
MEETING**

SM/20/165
Supplement 1
Correction 1

November 23, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action: The attached corrections to SM/20/165, Sup. 1 (11/11/20) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Pages 3, 4, 5

Questions: Ms. Lim, WHD (ext. 37872)

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 ~~through~~by credit card, debit card, and traveler's checks (including cash withdrawals) ~~by~~ 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 in addition to~~ ~~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 9¹⁵, 2018⁹. 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 ~~data~~. 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>
- New Development Bank: <https://www.ndb.int/>

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 dData provision is adequate for surveillance.</p>
<p>National Accounts: Since 2015, the national accounts estimates have been <u>are</u> 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 <u>data</u>. 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 the 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 have been <u>compiling</u> 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>