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November 23, 2020

Statement by Mr. Tanaka, Mr. Chikada, and Mr. Nagase on Brazil
(Preliminary)
Executive Board Meeting
November 25, 2020

We thank staff for the informative report and Mr. Bevilaqua for the insightful buff statement.

Mitigating the impact of the current COVID-19 crisis as well as ensuring post crisis debt sustainability and raising potential growth rate is the critical challenge for Brazil. Brazil has had the slowest recovery after the recession in 2015-16, and now the COVID-19 crisis has inflicted severe negative impact on its economy. While we welcome that the Brazilian authorities took swift and sizable policy response to tackle the crisis, the coronavirus continues to spread in the country and the economy is projected to shrink by 5.8 percent in 2020 and the 2021 recovery remains subject to significant downside risks. *In this context, we would be interested in hearing staff's views on the Brazilian health and containment measures and possible lessons to be learned.* **To minimize the scarring from the crisis and achieve resilient economic recovery, the authorities should carefully implement well-balanced fiscal policy and steadily conduct structural reforms**, following the staff's policy recommendation.

Fiscal Policy

The authorities should address the COVID-19 crisis and support the recovery in the near-term, however, medium-term fiscal consolidation is vital. We welcome the swift decision made by the authorities to introduce a package of fiscal and quasi-fiscal measures to address the crisis. However, we note that the gross public debt of

Brazil is projected to increase dramatically to around 100 percent of GDP in 2020 and remain high over the medium-term. To ensure debt sustainability as well as financial stability, and to realize sustainable growth, medium-term fiscal consolidation is vital for the Brazil. To this end, the authorities should maintain the expenditure ceiling and support market confidence in the near-term. Additional fiscal support may be needed if economic conditions were to deteriorate due to the crisis, but the support should be targeted. In the medium-term, it is inevitable for the authorities to steadily implement structural fiscal reforms in both expenditure and revenue sides to preserve fiscal sustainability, including the reduction of mandatory spending and budget rigidities and improvement of tax system and tax administration.

Structural reform

Implementing structural reforms is the key to raise potential growth and achieve inclusive growth. We take note that staff evaluated that the growth performance of Brazil has been disappointing. To realize the resilient economic recovery from the crisis, the authorities should improve the competitiveness of Brazilian economy, following the policy recommendations of staff, including simplifying the tax systems and reducing the cost of doing business. In this context, we are encouraged to hear that the technical details of several trade agreements have been finalized or are close to be finalized.

Monetary Policy

Monetary policy is appropriately supportive, but possible ramifications to capital outflows and financial stability risks should be carefully monitored. We support the staff's recommendations to continue to cut the policy rate and use forward guidance to support the economy as long as inflation and inflation expectations remain well anchored. In this context, securing the de jure Central Bank independence and strengthening the credibility of the monetary framework would be crucial in improving effectiveness of policy rate cuts and forward guidance. We thus underscore the importance of the timely approval of the draft bill in Congress.

Financial Sector Policy

Banking system remains resilient, but continued close monitoring is warranted. We positively note that Brazil's banking sector was assessed as resilient. We also welcome that the authorities have made progress to implement financial sector reforms recommended in the 2018 FSAP, and we encourage them to continue to make further efforts to strengthen the banking system. In addition, we would like to urge the authorities to continue to enhance the AML/CFT framework and prepare for the upcoming FATF/GAFILAT AML/CFT assessment.