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November 23, 2020

**Statement by Mr. Fanizza, Ms. Quaglierini, and Ms. Mateus on Brazil
(Preliminary)
Executive Board Meeting
November 25, 2020**

We thank staff for the interesting report and Mr. Bevilaqua for the helpful Buff statement. The authorities deployed a quite large economic support package to address the fallout from the pandemic that cushioned its adverse impacts on income, poverty, and the labor market. Moving forward, the authorities must find a way to avoid significant scarring, while targeting additional expenditures to the main priorities to avoid possible adverse effect on financing costs. We offer the following additional comments:

- **The authorities need to balance the tradeoff between their goal to reinstate the expenditures ceiling to limit the chances of higher financing costs and the need to spend to avoid significant scarring.** The fiscal support in 2020 was one of the largest on record and was effective in many respects, to limit job destruction and to support households' income, and, at least temporarily, to lower income inequality and poverty. There are, however, cliff-effect risks from completely unwinding all fiscal measures while the pandemic is still pounding and the recovery is not fully entrenched. The authorities should clearly communicate their medium-term fiscal consolidation strategy to reassure markets of their unwavering commitment to fiscal sustainability. In the event additional spending is needed, the authorities should try to clearly prioritize expenditure and better target policies to limit as much as possible departures from the expenditure ceiling. We agree with staff and the authorities that continuing structural fiscal reforms will be instrumental to sustain medium-term fiscal consolidation
- **Labor market conditions deserve particular attention.** Slack has increased since the previous crisis and, unlike in many other countries, older cohorts were more severely impacted during the pandemic, making its reabsorption more difficult. In addition,

workers in the informal sector and women were disproportionately impacted. These factors point to the risk of persistently higher unemployment, as staff suggest. In the short run, the efforts should focus on maintaining viable working relations alive. In the medium run, the authorities should consider policies to foster education, reskilling and facilitate job reallocation, to improve the labor market, and reduce informality and inequality.

- **We support the accommodative monetary and the countercyclical macroprudential policy stances.** Preserving the credibility of both fiscal and monetary policies will required considering the interaction of these policies. Monetary policy should continue to be supportive, anchoring inflation expectations and mindful of implications for exchange rates and capital flows. We look forward to the legal formalization of the Banco Central do Brasil's (BCB) independence and its implementation of the BC# Agenda, for instance in what concerns the Emergency Liquidity Assistance (ELA) framework. While we agree that financial stability issues dominate institution-specific considerations, we believe that the ELA framework should also protect the central bank's balance sheet and independence.