EXECUTIVE BOARD MEETING

SM/20/165
Supplement 2
Correction 1

November 23, 2020

To:	Members of the Executive Board
From:	The Secretary
Subject:	**Brazil—Staff Report for the 2020 Article IV Consultation—Debt Sustainability Analysis**

Board Action:	The attached corrections to SM/20/165, Sup. 2 (11/11/20) have been provided by the staff:
Evident Ambiguity	**Page 2 (footnote 2, line 4)**
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Page 2 (para. 1 and footnote 2, line 5)**
Questions:	Ms. Lim, WHD (ext. 37872)

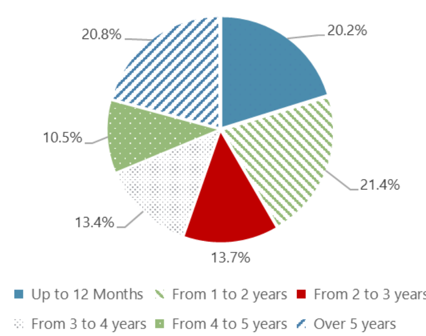
BACKGROUND

1. Definitions and coverage. The gross debt statistics of Brazil cover the NFPS, excluding the state-owned enterprises (SOEs) Petrobras and Eletrobras, and consolidate the Sovereign Wealth Fund (until 2019). Following the GFSM 2014 manual, the NFPS debt includes all Treasury securities on the Central Bank's (BCB) balance sheet.[2] As reported by the government, net debt corresponds to the public sector (PS), which includes consolidation with the BCB. Brazil's debt is reported at nominal value.[3]

2. Debt developments. At end–2019, Brazil's NFPS gross debt amounted to 89.5 percent of GDP, 2.8 percentage points higher than a year before. The consolidated public sector net debt amounted to 55.7 percent of GDP at end–2019, reflecting a large stock of assets, equal to 31.1 of GDP, which included international reserves amounting to 19.8 percent of GDP. A primary deficit of 1 percent of GDP and a positive interest–growth differential contributed to the increase in gross debt. Net interest payments of the NFPS and consolidated PS stood at 6.9 and 5.1 percent, respectively, the lowest since 2015 reflecting declining risk premia and a lower SELIC. In 2019, the national development bank (BNDES) repaid R$100 billion (1.4 percent of GDP) in outstanding government securities to the Treasury (in addition to R$130 billion repaid in 2018). These cash payments contributed to reducing financing needs and had a significant impact on gross debt.

3. Debt profile. Federal government (FG) domestic tradable securities account for 86 percent of total NFPS gross debt. Around 2/3 of tradable securities are held by the private sector and the rest is held by the BCB.[4] 40.5 percent of FG domestic tradable securities are linked to the SELIC rate (up nearly 4 percentage points in 2019), 32 percent are fixed income securities, and 27 percent are linked to inflation.[5] Average duration of FG securities fell slightly in 2019, from 4.1 to 4 years while average maturity fell from 5.7 to 5.4 years. About 19 percent of FG domestic tradable securities will mature in 2020 of which 25 percent matured in July alone. Foreign currency denominated NFPS debt accounted for only 4.5 percent of GDP at end 2019, broadly stable for over a decade.

Maturity Structure (end-2019)



[2] In contrast, the authorities' definition of gross debt includes the stock of Treasury securities used for monetary policy purposes by the BCB (those pledged as security in reverse repo operations) but excludes the rest of the government securities held by the BCB. Thus, per the national definition, gross debt of the general government amounted to 75.8 percent of GDP at end-2019, lower than at end-2018, and widening the gap with the IMF definition, due to the reduction in reverse repos associated in part with the BCB's sale of international reserves during 2019. The definition of net debt is the same between the authorities and the IMF.

[3] The nominal value is calculated as the PDV of future interest and principal payments at the security's contractual interest rate(s), and generally differs from face value.

[4] At end-2019 the BCB used about half of its holdings as security in liquidity-draining operations with the banking system.

[5] A residual 0.5 percent are exchange rate linked securities.