

BRAZIL

Table 1 **2021**

Population, million	213.8
GDP, current US\$ billion	1608.8
GDP per capita, current US\$	7523.9
International poverty rate (\$2.15) ^a	1.9
Lower middle-income poverty rate (\$3.65) ^a	5.3
Upper middle-income poverty rate (\$6.85) ^a	18.7
Gini index ^a	48.9
School enrollment, primary (% gross) ^b	112.0
Life expectancy at birth, years ^b	76.1
Total GHG emissions (mtCO ₂ e)	2397.8

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2020), 2017 PPPs.
 b/ WDI for School enrollment (2019); Life expectancy (2020).

Despite significant headwinds, economic activity in 2022 is expected to reach a solid 2.5 percent, supported by fiscal measures and high commodity prices. Growth is expected to slow down in 2023 due to the lagged effect of monetary policy and a challenging external scenario. Increasing productivity and pursuing fiscal sustainability remain essential to long-term growth. After rising substantially in 2021, poverty is expected to decrease in 2022 in response to a stronger labor market, and level out following economic growth.

Key conditions and challenges

The death toll of the COVID-19 pandemic in Brazil has been among the highest globally. A rapid vaccine rollout after mid-2021 has supported a gradual return to normality, with a rebound in growth in 2021 (4.6 percent), especially in the services sector. Public debt has steadily increased over the years. A fiscal consolidation has started in 2021 with higher-than-expected revenues and the roll-back of covid expenses. The Brazilian Central Bank (BCB) initiated a steep and ongoing monetary policy contraction cycle in early March 2021 to counter soaring inflation and anchor expectations. In this context, poverty is estimated to have risen to 28.4 percent in 2021 (based on the recently published poverty line for upper-middle-income economies at \$6.85 2017 PPP per person per day) related to the withdrawal of the emergency transfer program, higher inflation, and the slow labor market recovery last year. Over 15 percent of families suffered severe food insecurity, with higher levels in the rural areas.

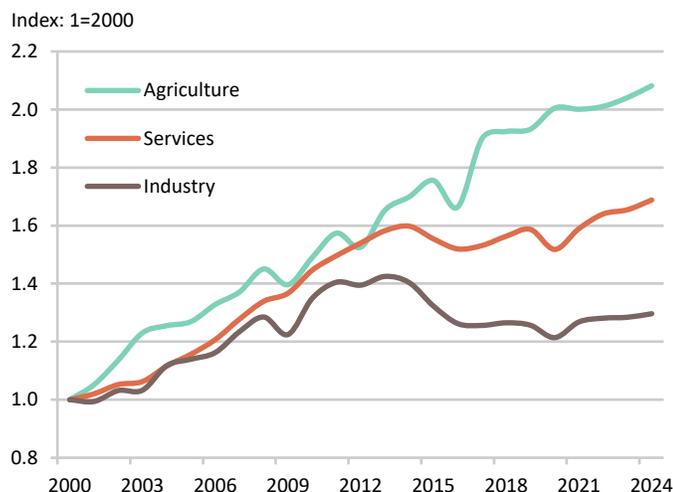
To support growth, Brazil needs to address structural constraints and keep on the fiscal sustainability path. Productivity growth is stalled, due to a complex tax system, a cumbersome business environment that discourages entrepreneurship, slow and unequal human capital accumulation, ineffective sectoral state intervention policies, and low savings. Brazil also has one of

the lowest infrastructure investment levels (1.71 percent of GDP) compared to its peers, partly because of the compression of public spending to accommodate higher current spending and increasing pension obligations. Deteriorated infrastructure can create acute production bottlenecks and, combined with legal uncertainty, contributes to lower private investment. Lastly, increasing deforestation in the Amazon is putting additional pressure on land-use emissions, the main source of GHG emissions in Brazil. Brazil should readdress its growth model to reduce deforestation in the Amazon and its other biomes, providing a global public good.

Recent developments

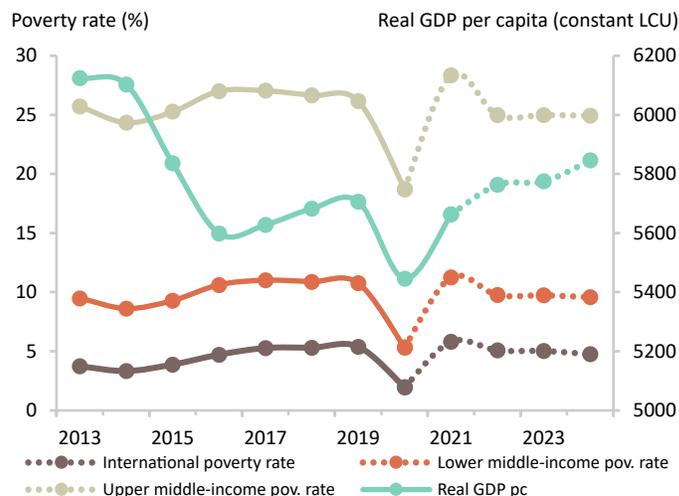
In the first half of 2022, GDP grew by 2.5 percent YoY, propelled by a continued recovery in consumer demand as COVID-19 restrictions eased, especially in the services sector, which saw a 4.1 percent YoY increase. Concurrently, the labor market continued to recover through 2022, including for women and youth. The unemployment rate fell to 9.1 percent by July 2022 (13.7 in July 2021). However, average wages declined in real terms given the high inflation, which stood at 8.7 percent in the 12 months to August. Despite the recent decline due to regulated prices, persistent inflation prompted a continuation in the monetary policy tightening cycle, as BCB rose the interest rate to 13.75 percent. The trade surplus declined 10.4 percent YoY in H1 2022 as import prices accelerated. The current account deficit increased

FIGURE 1 Brazil / Evolution of Brazil's GDP by sector



Source: World Bank staff calculations.

FIGURE 2 Brazil / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

to 1.9 percent of GDP in the 12-month up to May 2022, fully financed by net FDI inflows (2.2 percent). The exchange rate appreciated 7.2 percent until August 2022, following the sovereign risk premium. In 2022, the government continued using fiscal policy to support the vulnerable population and mitigate fuel prices inflation, including tax cuts and the extension of social cash transfers, which could cost up to 1 percent of GDP. Despite tax waivers and the increase in discretionary spending, the 12-month primary surplus of the public sector increased to 2.5 percent of GDP in the first half of 2022, as tax revenues sharply improved, growing 12.8 percent YoY in real terms. Also, public debt decreased to 77.6 percent of GDP in July 2022, as inflation tax allowed to pay down public debt. However, slow policy reform momentum and the erosion of the confidence in the federal spending rule due to elections-related increases in current expenditures translate into higher domestic financing costs for the public and private sectors.

Outlook

GDP growth is expected at 2.5 percent in 2022, slowing to 0.8 percent in 2023, before increasing to 1.8 percent in 2024 on the back of easing inflation, more accommodative monetary policy, higher global growth, and reduced uncertainty post elections. Investments are expected to decline in 2023 aligned with lower production growth. Inflation is projected to reach 9.7 percent (year average) and slow to 4.1 by 2024 due to the dissipation of the commodity price shock and as monetary policy takes effect. Poverty is expected to decrease in 2022 to 25.0 percent responding to the improvement of job opportunities and expanded coverage and benefits of the Auxílio Brasil program, but remain stagnant thereafter as economic growth decelerates.

A gradual fiscal consolidation based on the fiscal rule is expected to help maintain a primary balance surplus until 2024. However, the public debt to GDP ratio is expected to

increase from 77.9 percent in 2022 to 80.9 percent by 2024 due to higher fiscal balances. The current account deficit is projected to reach 1.9 percent of GDP in the medium-term, as commodity prices and global demand normalize, fully financed by robust external capital inflows.

The scenario is subject to significant risks. Concerns remain about anemic potential growth and the pace of fiscal consolidation. The lagged effects of monetary tightening will dampen domestic demand, limiting access to credit and growth prospects in 2023. Lower nominal GDP growth and weak revenue can further constrain spending. On the external side, a global slowdown in economic activity and inflationary pressures can trigger exchange rate depreciations and exacerbate inflationary pressures, limiting investment and exports in Brazil, as monetary tightening in advanced economies results in increasing financing constraints for emerging markets. Nonetheless, low external debt and high international reserves provide solid buffers to weather external shocks.

TABLE 2 Brazil / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.2	-3.9	4.6	2.5	0.8	1.8
Private Consumption	2.6	-5.4	3.6	3.5	2.0	2.5
Government Consumption	-0.5	-4.5	2.0	0.4	0.0	0.0
Gross Fixed Capital Investment	4.0	-0.5	17.2	-1.6	-4.5	1.1
Exports, Goods and Services	-2.6	-1.8	5.8	1.5	0.5	1.5
Imports, Goods and Services	1.3	-9.8	12.4	-1.5	-2.0	2.5
Real GDP growth, at constant factor prices	1.0	-3.5	4.3	2.5	0.8	1.8
Agriculture	0.4	3.8	-0.2	0.5	1.5	2.0
Industry	-0.7	-3.4	4.5	1.0	0.2	1.0
Services	1.5	-4.3	4.7	3.2	0.9	2.0
Inflation (Consumer Price Index)	3.7	3.2	8.3	9.7	5.7	4.1
Current Account Balance (% of GDP)	-3.5	-1.7	-1.7	-2.0	-1.4	-1.9
Net Foreign Direct Investment Inflow (% of GDP)	2.5	2.8	1.7	2.6	2.6	2.6
Fiscal Balance (% of GDP)	-5.9	-13.6	-4.4	-5.8	-6.9	-5.7
Debt (% of GDP)	74.4	88.6	80.3	77.9	79.4	80.9
Primary Balance (% of GDP)	-1.0	-9.5	0.7	1.1	0.1	0.3
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	5.4	1.9	5.8	5.1	5.0	4.8
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	10.8	5.3	11.3	9.8	9.7	9.6
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	26.2	18.7	28.4	25.0	25.0	24.9
GHG emissions growth (mtCO₂e)	2.6	9.5	10.5	5.3	-7.0	-5.2
Energy related GHG emissions (% of total)	20.8	18.1	17.2	16.4	17.2	18.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on SEDLAC harmonization, using 2013-PNADC-E1, 2019-PNADC-E1, and 2020-PNADC-E5. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

b/ Projections 2021/22 use microsimulation methodology. Projections 2022/24 use point-to-point elasticity (2013-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.