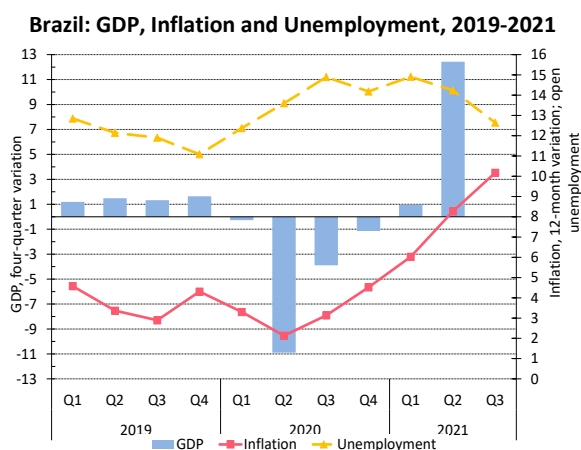


Brazil

In 2021, the Brazilian economy partially recovered from the impact of the coronavirus disease (COVID-19) pandemic. The tide of infections witnessed in the country in the first half of the year resulted in a high number of deaths, which in 2020 had amounted to more than 620,000 from a total of 22.3 million positive cases. Thanks to the widespread vaccination campaign starting in the second quarter of 2021, by the end of the year Brazil had managed to vaccinate 67.5% of its population, about 143.3 million people, with two doses. In that effort, Brazil used both locally produced and imported vaccines. By 2022, the process is expected to continue with new vaccination cycles and the production of national vaccines at all stages.

This relatively favourable evolution of the response to COVID-19 vaccination did not ensure a sustained trajectory of economic recovery. In the first quarter of 2021, the pace of the recovery lost momentum, registering growth of 1.3% compared to the last quarter of 2020, which saw growth of 3.1% compared to the previous quarter. All productive sectors experienced a slowdown except agriculture and livestock, which grew by 3.8% in that quarter thanks to good harvests. In the second quarter of 2021, the Brazilian economy resumed a pattern of decline or slowing growth. Industry contracted by 0.5% relative to the previous quarter, while household consumption fell by 0.2%; capital formation recorded negative growth of 3.0%. In the third quarter there was a 0.1% drop in quarterly GDP as a result of the negative performance of the agricultural sector, which contracted by 8.0% owing to a severe drought between the second and third quarters. Data for the last quarter indicate a muted level of economic activity. General industry recorded monthly declines of 0.6% and 0.2% in October and November 2021, respectively. GDP growth in 2021 was estimated at 4.7%.

In 2021, economic policymakers faced the challenge of mitigating the impact of the pandemic while charting a course to economic growth. Compensatory measures targeting the population most affected by the pandemic experienced volatility in terms of continuity of payment, coverage and amount of benefits. Emergency assistance was suspended at the beginning of 2021, but reinstated in the second quarter, although amounts were cut to almost one third of the monthly amount paid in 2020, and its coverage, to 80% of the previous target group. Thus, the amount of assistance decreased from R\$ 293 billion in 2020 to R\$ 60.5 billion between January and November 2021. In the productive sector, programmes to support employment and credit for companies experienced a marked reduction: from R\$ 91.6 billion to R\$ 12.7 billion. Subnational governments did not receive emergency funds in 2021, while in 2020 they received transfers amounting to R\$ 78.3 billion. Additional spending related to COVID-19 by the Ministry of Health and other ministries went from R\$ 45 billion in 2020 (including R\$ 2.2 billion on vaccines) to R\$ 36 billion in 2021 (including R\$ 16.2 billion on vaccines). Total federal government spending related to COVID-19 in 2020 was equivalent to 7.0% of GDP, and in 2021 it is projected to be no more than 1.4% of GDP.



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In turn, the austere fiscal policy adopted by the federal government responded to the application of a constitutional provision that prohibits real growth in total primary expenditures, excluding interest payments. In 2020, the National Congress passed amendments that partially suspended the application of this rule to meet extraordinary expenses related to COVID-19. In addition to lower spending on extraordinary programmes, between January and November 2021, the federal government reduced its nominal current and investment spending by 46.4% compared to the same period in 2020. These investments totalled R\$ 41.7 billion (close to US\$ 800 million), some 3.1% of primary spending subject to the constitutional limit. Thus, the financing needs of the public sector between January and November 2021 recorded a primary surplus of 0.82% of GDP, added to which was a surplus of 1.4% of GDP in subnational governments.

Public revenues grew strongly, registering a cumulative nominal increase of 33.5% for January–November 2021 compared to the same period in 2020. All taxes showed positive rates, especially those related to economic activity, such as industrialized products (30.2%) and imported goods (37.2%). As for rents and profits, their increases were smaller. The increase in wage tax withholdings was 13.6%, while the tax withheld on returns to capital rose by 9.5%. Other revenues included dividend payments from banks and state-owned enterprises, which between January and November 2021 amounted to R\$ 31 billion, compared to R\$ 5.4 billion the previous year.

In terms of monetary policy, in April 2021 the central bank raised the base interest rate (SELIC) from 2.0% to 2.75% per annum. The rate increases continued throughout 2021, and at its December meeting, the central bank raised the rate to 9.25%, its highest level since October 2017. Those movements were in response to the inflationary process already detected in 2020. That year, a significant difference had been observed between the wholesale price index (31.7% increase) and the consumer price index (4.52%), owing to the fact that, although suppliers were seeing increases in their costs, such as the rise in the exchange rate and in the prices of inputs such as energy and transportation, they were also facing restricted demand as a result of the pandemic. With the return of economic activity in a scenario of relatively higher credit liquidity (up 14.5% in the 12 months to March 2021) and lower average interest rates (down from 22.7% to 19.9% per year in the same period), the pass-through of costs to final prices began, including administered prices for electricity and fuels such as gasoline and diesel. Through November 2021, the 12-month cumulative rise in consumer prices amounted to 10.7%, the highest since January 2016.

In the external sector, the results of the Brazilian balance of payments continued to respond to favourable movements in commodity prices throughout 2021, especially oil, minerals and agricultural products. Regarding trade in goods, the surplus from January to November 2021 was US\$ 33.281 billion, an increase 3% lower than in the same period in 2020. The main factor was the rise in imports (26.7%).

Brazil: main economic indicators, 2019-2021

	2019	2020	2021 ^a
	Annual growth rate		
Gross domestic product	1.2	1.4	4.7
Per capita gross domestic product	0.5	-4.6	4.0
Consumer prices	4.3	4.5	10.2 ^b
Real average wage ^c	0.3	4.7	-4.1 ^b
Money (M1)	5.7	36.2	24.6 ^d
Real effective exchange rate ^e	1.6	27.6	4.2 ^b
Terms of trade	0.6	1.5	19.4
	Annual average percentage		
Open urban unemployment rate	12.0	13.8	13.9 ^b
Central government			
Overall balance / GDP	-5.7	-13.8	...
Nominal deposit rate ^f	6.2	6.2	6.2 ^b
Nominal lending rate ^g	42.7	33.8	33.2 ^b
	Millions of dollars		
Exports of goods and services	260 075	239 283	315 239
Imports of goods and services	269 017	227 854	278 525
Current account balance	-65 030	-25 923	-4 950
Capital and financial balance ^h	38 974	-6 958	...
Overall balance	-26 055	-14 232	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Estimates.

b/ Figures as of Septiembre.

c/ Private-sector workers covered by social and labour legislation.

d/ Figures as of August.

e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

f/ Nominal saving deposits rates.

g/ Interest rate on total consumer credit.

h/ Includes errors and omissions.

Exports, meanwhile, grew by 22.3%. The services deficit fell by 21.0% in the first 11 months of 2021 compared to the same period in 2020, thanks to a 16.8% increase in revenues from these services, while expenses remained constant (0.6%). The almost total paralysis of tourism continued, as did the decline in passenger transportation. The deficit in travel services fell from US\$ 2.275 billion between January and November 2020 to US\$ 1.889 billion in the same period in 2021. Net foreign interest payments declined 2.1%, but profit and dividend remittances increased by 75.2% in net foreign currency outflows: international companies in Brazil resumed remittances to their headquarters, which amounted to US\$ 47.2 billion in the first 11 months of 2021. Consequently, the result in the current account balance went from a deficit of US\$ 16.034 billion in the January–November period in 2020 to a deficit of US\$ 22.384 billion in the same period in 2021 (from -1.2% of GDP to 1.5% of GDP).

In the capital and financial account, foreign exchange inflows fell sharply while substantial outflows occurred, increasing the Brazilian deficit from US\$ 8 billion between January and November 2020 to US\$ 24.5 billion in the same period of 2021. In terms of investment flows, inflows were US\$ 50.4 billion in 2021 (up from US\$ 36.7 billion in 2020). Brazilian companies raised US\$ 24.2 billion abroad, while in 2020 they repatriated US\$ 7.4 billion.

Net lending rose by US\$ 9.6 billion in the first 11 months of 2020, whereas the same period in 2021 saw net inflows of US\$ 7.2 billion. In the capital and securities market, inflows from foreign investors amounted to US\$ 23.1 billion, while net outflows of Brazilian capital in these operations increased from US\$ 10.3 billion in 2020 to US\$ 18.1 billion in 2021. International reserves were up by US\$ 19.500 billion, reaching US\$ 367.772 billion at the end of November 2021.

A high exchange rate throughout 2021 directly affected domestic prices of staples such as food and fuels. Unlike in 2020, when the sharp fall in the services sector created a price-containment effect, the recovery in that sector, combined with the increase in loans to individuals (up 18.3% in the 12 months to November 2021) allowed room for cost pass-through and profit margin rebuilding. An indicator of the above is the increase in consumer prices, which also felt the pressure of the increase in administered prices of electricity and fuels.

Thus, the wholesale price index (IPA-DI) recorded a rise of 19.6% in the 12 months to November 2021, following the 33.7% increase in the same period in 2020. The rise in the prices of agricultural foodstuffs was 11.8% in 2021, compared to 60.5% in 2020. In turn, the rise in the consumer price index (CPI), which in the 12 months to November 2020 had been 4.3%, accelerated to 10.7% in the 12 months to November 2021. The central bank, whose independence was established in 2020, has indicated its goal of reducing pressures and, in particular, of diffusing the effect of the price increases on the economy. For 2022, the central bank targets a continued increase in the core interest rate, while the expectations for 2023 and beyond are a return to an inflation target of 3.25%, within a range of about 1.5 percentage points.

In 2021 the labour market sought to adjust to the impacts and dislocation caused by the pandemic. In view of the changes in access to emergency assistance programmes, the population had to seek income by trying to return to the labour market. The monthly participation rate, which in March 2020 was 63% and by August 2020 had fallen to 57%, gradually increased again to reach 60% in December 2020. Throughout 2021, this rate continued to rise, reaching 61% in June and 62% in August, where it stood as of October 2020. These movements represented the re-entry of close to 13 million people into the labour force. The unemployment rate responded to developments with a steady rise from 11.8% in February 2020 to 14.9% in March 2021. In July 2021, the rate began to decrease, reaching 14%, and in October of the same year it fell to 12.1%.

The number of formal workers in the General Register of Employed and Unemployed Persons (CAGED) was 41.5 million in November 2021: 2.5 million more than in February 2020 and representing almost 3 million more net new formal jobs registered than in December 2020. The real average insertion wage showed a downward trajectory from April 2021 onwards, at R\$ 1,980.04. In November 2021, the average salary was R\$ 1,778.84, a decline in real terms of 10.2%, consistent with the rise in inflation.