Brazil

Brazil's economy continued its slow recovery in 2019. GDP growth for the full year is expected to come to 1.0%, which is slightly lower than the 1.3% recorded in 2017 and in 2018. Average unemployment came to 11.9% in the first three quarters of 2019, representing close to 12.5 million unemployed. Inflation in the 12 months to October 2019 stood at 2.5%. In the external sector, the goods trade surplus amounted to US$ 41.1 billion, 20.3% lower than in 2018, as exports declined by 6.4% and imports edged up by 2.1%. The current account deficit from January to October 2019 rose to 3.0% of GDP, compared with 2.2% at the end of 2018, and was largely funded by foreign direct investment (FDI) income amounting to US$ 60.8 billion. International reserves remained unchanged at US$ 376 billion.

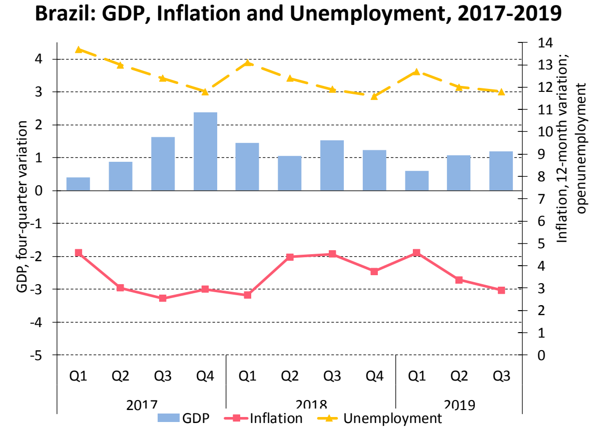
Following its inauguration in January 2019, the new government implemented a set of economic policies to expand fiscal reforms, reduce regulations and restrictions linked to production activities, privatize State-owned companies and cut public spending, with the aim of narrowing the public sector primary deficit. In light of low inflation and weak economic activity, the central bank also cut its benchmark interest rate (Selic) to an all-time low of 5%. The real depreciated and, in November 2019, the exchange rate stood at 4.23 reais to the United States dollar, the lowest level since the currency was created in 1994, in nominal terms.

The biggest reform adopted by the National Congress thus far is that of the social security system, which aims to unify the system, raise the minimum retirement age and increase the number of contributions, and is expected to generate savings of close to US$ 200 billion in the next few years. The new federal government continued efforts to reduce the primary deficit, estimated at 100 billion reais (1.5% of GDP) for 2019, lower than the 2018 figure of 139 billion reais. The nominal increase of 4.9% in tax revenue stemmed mainly from exceptional income from infrastructure concessions and deep-sea (pre-salt) oil exploration. Spending was tightened, especially discretionary spending, which in the 12 months to October 2019 amounted to 117 billion reais, the lowest level since 2009, in real terms.

Although the social security reform was adopted towards the end of October, the general pension system's deficit continued to rise, and stood at 181 billion reais in October, representing growth of 3.1% compared with the prior-year period. The nominal public deficit from January to October 2019 represented 6.44% of GDP, compared with 7.14% in December 2018, owing mainly to lower interest payments (5.1% of GDP) in the first 10 months of 2019, compared with 5.6% of GDP in the year-earlier period. In October 2019, gross public debt stood at 78.3% of GDP, compared with 77.2% in December 2018.

In 2019, monetary policy included the further reduction of the benchmark interest rate (Selic), which fell to the lowest level seen in 50 years, in nominal terms, i.e. 5.0% as of October.

Brazil: GDP, Inflation and Unemployment, 2017-2019



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

This policy was possible thanks to low inflation and the slow recovery in activity, resulting in large idle capacity.

Meanwhile, thanks to interest rates remaining low, credit began expanding once again, posting growth of 3.5% in nominal terms in the first 10 months of 2019, compared with the prior-year period. Personal loans climbed by 8.9% over the period, which contributed to the improvement in household consumption, but corporate loans declined by 3.1%. This negative trend in corporate loans is linked to the 10.8% decrease in operations reported by the National Bank for Economic and Social Development (BNDES) in October, compared with the end of 2018. The monetary base contracted by 3.3% in nominal terms in October 2019, compared with December 2018, while the money supply grew by just 0.2% in the same period.

Brazil: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	1,3	1,3	1,0
Per capita gross domestic product	0,5	0,5	0,3
Consumer prices	2,9	3,7	2,5 [b]
Real average wage [c]	2,4	0,4	-0,7 [d]
Money (M1)	4,4	8,3	4,6 [d]
Real effective exchange rate [e]	-8,6	11,5	0,5 [d]
Terms of trade [f]	5,8	-2,1	0,4
	Annual average percentage		
Open urban unemployment rate	12,7	12,3	12,0
Central government			
Overall balance / GDP	-7,7	-7,3	-6,4
Nominal deposit rate [g]	6,8	6,2	6,2 [d]
Nominal lending rate [h]	49,9	45,1	44,2 [d]
	Millions of dollars		
Exports of goods and services	252 547	274 977	256 791
Imports of goods and services	226 515	257 663	253 663
Current account balance	-15 015	-21 946	-41 925
Capital and financial balance [i]	20 107	24 874	28 925
Overall balance	5 093	2 928	-13 000

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ Private-sector workers covered by social and labour legislation.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Economic Development Division, calculations for Preliminary Overview 2019.
g/ Nominal saving deposits rates.
h/ Interest rate on total consumer credit.
i/ Includes errors and omissions.

In 2019, continued exchange-rate depreciation reflected the context of uncertainty created by external issues, such as declining exports owing to the recession in Argentina, and internal issues, such as the lowering of domestic interest rates. The exchange rate was 3.76 reais to the United States dollar at the start of 2019 and 4.26 reais to the dollar towards the end of November. The Brazilian foreign-exchange market recorded outflows as foreign investors sold Brazilian corporate stocks and bonds, which amounted to US$ 35 billion until October, 65.9% higher than the year-earlier period.

Between January and November 2019, total imports came to US$ 164.8 billion, 2.1% less than the prior-year period, owing mainly to the decline in imports of capital goods (12.6%), fuel (4.2%) and durable goods (17.1%). Meanwhile, exports for the period to November totalled US$ 205.8 billion, down 6.4% because of declining sales of manufactured goods (9.8%), semi-manufactured goods (5.8%) and commodities (1.2%). Automobile exports plummeted 29.4% between January and November 2019 compared with the year-earlier period, owing to the recession in Argentina.

Lengthy negotiations between MERCOSUR, the European Union and the European Free Trade Association were concluded in 2019. Although the agreements are still pending adoption by the legislative bodies of the trade blocs' member countries, they are expected to give new impetus to trade between Brazil and these countries, granting preferential access to the former's commodities and manufactured products. These agreements also establish requirements for Brazil in terms of production, health and environmental protection standards.

Between January and November, Brazil's total exports to China, its largest market, declined by 2.0%, owing mainly to the decrease in soybean exports (down 23.8%), which was offset by sharp increases in exports of animal protein, including beef (59.8%) and chicken (46.1%). Brazil's trade surplus with China remained at close to US$ 25 billion. Meanwhile, the country recorded a deficit of US$ 1 billion with the United States because of a 6.9% increase in imports. Brazil's exports to Argentina plummeted 36.7%, while its imports from Argentina decreased by 4.3%, resulting in a trade deficit of US$ 642.8 billion.

With respect to the balance of payments, Brazil’s current account deficit widened to US$ 45.7 billion or 3.0% of GDP in the period to October 2019, which is considerably larger than the US$ 32.3 billion deficit posted in the prior-year period. This increase stemmed almost exclusively from a US$ 14.3 billion reduction in the goods trade surplus. As regards the financial account, FDI rose in the first 10 months of 2019 to US$ 62.1 billion, slightly higher than the US$ 60.8 billion recorded in the prior-year period. Brazil's external debt in October 2019 amounted to US$ 326.8 billion, just above the end-2018 figure of US$ 320.6 billion.

The level of activity in the first three months of 2019 underscores the slow economic recovery. Between January and September 2019, GDP rose by 1.0% compared with the year-earlier period. Although growth was halted by the Brumadinho dam disaster at the start of 2019, which reduced iron ore production, the expansion of oil production in the second half of the year boosted the sector’s performance.

The 0.6% increase in GDP in the third quarter of 2019 compared with the seasonally-adjusted second quarter derived mainly from production sectors such as mining (12%), agriculture and construction (both 1.3%), which laid the foundations for the recovery. However, the manufacturing industry continued to face difficulties and recorded a decrease of 1.0% over the third quarter. With respect to demand, investments grew by 2.0% in the third quarter compared to the second, driven primarily by construction. Household consumption edged up by 0.8% during that quarter, returning to pre-recession 2014 levels for the first time. The efforts made by the current government to curb spending have resulted in a 0.4% reduction in public administration consumption. Despite the recent expansion, gross capital formation came to 16.3% of GDP in the third quarter of 2019, similar to the level in 2018. Domestic savings amounted to 13.5% of GDP, reflecting the larger current account deficit.

The labour market showed relative improvement in 2019. With respect to formal employment, 841,500 jobs were created in the period to October, reflecting growth of 6.1% compared with the first 10 months of 2018. Production sectors have led the way in job growth, with increases of 6.3% in construction, 5.0% in agriculture, 3.4% in mining and 2.1% in manufacturing. In terms of the number of workers, the services sector created 364,400 jobs, followed by the commerce sector, which created 126,800 formal jobs. However, the overall improvement in employment figures derived from the increase in informal jobs, for example own-account work. According to the Brazilian Institute of Geography and Statistics (IBGE), in the quarter ended in September 2019, 41.4% of the employed population worked in the informal sector: 24.3 million were own-account workers, reflecting an increase of 4.7% compared with the prior-year period, and 11.8 million had no formal employment contracts, representing an increase of 5.9% on the year-earlier period. According to IBGE, average real wages in the first three quarters of the year were 2,223 reais, reflecting a 0.31% decrease compared with the year-earlier period, in real terms.