

Brazil

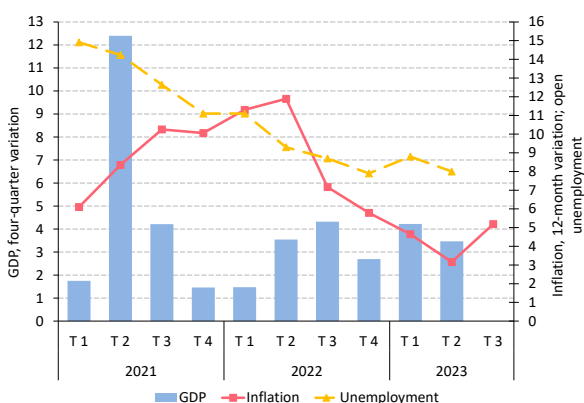
For Brazil, 2023 was a year of significant political and economic change. President Lula da Silva took office amid the continued effects of the coronavirus disease (COVID-19) pandemic and a slate of economic, social and environmental challenges dating back to 2013. The new administration’s main objectives were to create jobs, increase tax revenue and rein in inflation. The country’s political landscape was very different from the previous terms of Mr. da Silva (2003–2011), who now faced greater opposition numbers in the National Congress.

Despite considerable headwinds, the measures adopted by the government had an impact on macroeconomic trends. The Ministry of Finance expects the country’s GDP to reach 10.7 trillion Brazilian reais (R\$) in 2023, which would represent annual growth of 3.0%, compared to 2.9% in 2022. Per capita GDP is expected to reach R\$ 49,825, which would yield a 1.8% growth rate for 2023, compared to 1.2% in 2022. Meanwhile, the extended national consumer price index (IPCA) projects inflation of 4.6% for 2023, well below the 9.3% recorded in 2022.

In the early months of the year, the Ministry of Finance identified three priority items on its agenda for renewed economic growth in Brazil, all subject to approval by the National Congress: a new fiscal rule to replace the existing one, which imposed caps on the federal government’s total primary expenditure; broad tax reform; and an unprecedented green transition. The administration believed that these three measures would provide a foundation for public financial oversight, administrative efficiency gains and the decarbonization of the country’s productive apparatus.

In addition, the federal government announced its new plan to accelerate growth, an updated version of one of the main public policy instruments implemented decades earlier by the previous da Silva and Rousseff administrations. The new plan consists of an investment programme aimed primarily at strengthening and expanding national infrastructure through reforms and new projects. It also proposes building infrastructure resilient to climate change and its effects on agricultural and industrial production, as well as to natural disasters, whose impacts are felt all across the country. The Government of Brazil estimates that the new plan will create 2.5 million direct and 1.5 million indirect jobs.

Brazil: GDP, Inflation and Unemployment, 2021-2023



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

In 2023, the government’s economic policy was focused on laying the necessary foundation for the country to resume sustainable growth. Its priorities included GDP growth, job creation, increased investment and tax revenue, and controlling inflation. In 2023, the federal government announced three major projects that would be central to achieving the objectives identified by the authorities: new fiscal legislation, tax reform and the green transition.

The new fiscal legislation, a priority for the government, was intended to create a new institutional framework to communicate to investors and other public actors the Brazilian

economy's new rules regarding public accounts. The draft legislation presented to the National Congress on 18 April 2023 included the establishment of annual targets for the primary balance, the national budget and social security, with the aim of balancing the public accounts by capping fiscal expenditure growth and tying it to fiscal revenue. Specifically, expenditure growth would be limited to 70% of revenue growth over the 12 months prior.

The government also proposed a new tax reform intended to correct historical distortions in the Brazilian tax collection system, make it more progressive and efficient, and leverage it to increase economic competitiveness and reduce social inequalities. The bulk of the reform would consist of eliminating five taxes that together accounted for nearly 38% of national revenue in 2022. These five taxes, namely the tax on industrialized products (IPI), the social integration programme (IPIS), the social security funding contribution (COFINS), the tax on the movement of goods and transport services (ICMS) and the tax on services (ISS), would be replaced by a dual value added tax (VAT) regime comprising the tax on goods and services and an excise tax.

Lastly, the green transition plan is intended to lay the institutional groundwork for increased investment in the low-carbon economy in Brazil, with a view to broadening the production frontier, stimulating innovation in new technologies and processes, and positioning Brazil as one of the world's leading green economies.

The green transition plan, which is to be fully mapped by 2025, includes regulating carbon credits and markets, creating a national taxonomy of sustainable finance and boosting investments in sovereign sustainability bonds. As part of the aforementioned plan to accelerate growth, the green transition plan includes R\$ 1.68 billion in planned investments in various sectors, encompasses more than 100 measures and envisages the establishment of a regulated carbon market; the issuance of sovereign sustainability bonds; the development of a national taxonomy of sustainable finance; and the reconfiguration of the country's climate fund to finance activities linked to technological innovation and sustainability.

The federal government projects GDP growth of 3.0% and a primary deficit equivalent to 1.3% of GDP in 2023. The government's drive to balance the budget, through both spending controls and revenue increases, including by reviewing some tax benefits (e.g. exemptions and subsidies) and creating new taxes. These measures call for broad political dialogue, as they would require the support of the National Congress.

Brazil: main economic indicators, 2021-2023

	2021	2022	2023 ^a
Annual growth rate			
Gross domestic product	5.0	3.0	3.0
Per capita gross domestic product	4.4	2.5	...
Consumer prices	10.0	5.8	5.2 ^b
Real average wage ^c	-7.2	-0.8	4.6 ^b
Money (M1)	17.8	-1.6	1.1 ^b
Real effective exchange rate ^e	1.4	-6.7	-11.6 ^b
Terms of trade	14.4	-7.2	-1.5
Annual average percentage			
Open urban unemployment rate	13.2	9.3	8.0 ^f
Central government			
Overall balance / GDP	-4.8	-4.4	...
Nominal deposit rate ^g	6.2	7.9	8.2 ^h
Nominal lending rate ⁱ	34.0	40.6	42.3 ^b
Millions of dollars			
Exports of goods and services	315 493.6	380 619.2	190 330.4
Imports of goods and services	306 087.2	376 083.6	169 433.8
Current account balance	-46 357.8	-53 619.5	-13 802.6
Capital and financial balance ^j	60 324.5	46 335.2	31 356.5
Overall balance	13 966.7	-7 284.3	17 553.9

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

a/ Estimates.

b/ Figures as of September.

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

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

f/ Figures as of June.

g/ Nominal saving deposits rates.

h/ Figures as of October.

i/ Interest rate on total consumer credit.

j/ Includes errors and omissions.

In the first 10 months of 2023, absent inflationary effects and the increased expenditure observed in election years, real revenue decreased by R\$ 82.8 billion year on year, or 4.1%. Cumulative expenditure from January to October 2023, meanwhile, increased by R\$ 89.3 billion in real terms (5.7%).

The main revenue declines were in non-tax revenue, in particular from concessions and permits (R\$ 38.8 billion), dividends (R\$ 40.7 billion) and natural resource exploration (R\$ 26.4 billion). With regard to revenue streams administered by the Federal Internal Revenue Secretariat, the greatest declines were in the social contribution on net earnings (R\$ 13.2 billion), import duties (R\$ 6.3 billion) and the IPI tax (R\$ 5.1 billion).

In terms of expenditure, the greatest increases were in social security entitlements (R\$ 32.2 billion); continuous entitlement payments under the Organic Law on Social Assistance (BPC/Loas) and monthly pension payments for older and disabled persons under the *Renta Mensai Vitalicia* programme (R\$ 7.4 billion); spending on vouchers and unemployment insurance (R\$ 4.2 billion); and spending on the Bolsa Familia programme (R\$ 80.3 billion total, up 42.5% from 2022).

In January 2021, the Brazilian economy's base interest rate (Selic) was set at 2.0% per annum. In March of that year, the central bank embarked on an intense series of rate hikes in an attempt to curb inflation, which was heating up amid the fragmentation of global trade and the resumption of economic activity, in particular in the industrial and services sectors, following the early phases of COVID-19 vaccination programmes. In August 2022, the Selic rate reached 13.75% per annum, where it remained for the first seven months of 2023.

In early 2023, forecasts indicated that annual inflation could hit 5.0% in Brazil, exceeding both the 3.25% target and the 1.5 percentage point tolerance margin set for the year. This was the central bank's main rationale for maintaining its contractionary policy stance during the first half of 2023. However, inflation began to cool mid-semester and, in June, the country recorded deflation of 0.8%. At that point, the central bank began to telegraph a possible monetary easing, and in August proceeded to lower the Selic rate by 0.5 percentage points, to 13.25% per annum. By November 2023, the rate was down by another percentage point, at 12.25% per annum.

In 2023, Brazil's monetary policy and the global outlook led to considerable exchange-rate fluctuation. The Brazilian real appreciated sharply against the United States dollar, helping to ease cost-driven inflationary pressures. The exchange rate peaked on 4 January, at R\$ 5.4 to US\$ 1. By 26 June, the rate had fallen to R\$ 4.77 to US\$ 1 owing to the long-term contractionary policy adopted by the central bank. The rate has hovered around R\$ 5 to US\$ 1 since then and is expected to increase slightly if the central bank continues its policy of monetary easing.

With regard to aggregate supply, at the end of the second quarter of 2023, Brazilian agricultural production was up year on year, for a cumulative increase of 17.9%, while the industry and services sectors were up 1.7% and 2.6%, respectively.

The agricultural outlook in Brazil changed significantly in 2023 relative to 2022, in particular thanks to excellent soybean, sugar cane and maize harvests: despite falling international prices, increased volume caused an increase in the total value of these crop exports. Through September 2023, cumulative growth in soybean production was 40.4%, compared to 20.2% for sugar cane and 12.4% for maize. However, it is worth noting that climate challenges related to heavy rains, droughts and floods in Brazil disrupted production in some important agricultural regions.

Industrial growth was mostly driven by sectors related to gas and electricity, water and sewerage. The civil construction sector grew 6.9%, owing in large part to the increase in public works in 2022, an election year. Manufacturing, meanwhile, was down 0.3%, and extractive industries were down 1.7%, owing in particular to falling demand for iron ore in China amid closures implemented under the zero-COVID policy. Droughts hampered production in industries that depend on water as a production input or for logistics (waterways). Intense heat waves in September and October 2023 brought construction sectors to a standstill for a few days in some areas of Brazil owing to the occupational hazard posed by high temperatures.

According to the most recent available data, in July 2023, the volume of services in Brazil grew 0.5% compared to the previous month. In the first half of 2023, the services sector grew 4.5% relative to the prior-year period. Activity in the sector was up 12.8% compared to the pre-pandemic levels recorded in February 2020, with transportation and family services growing the most. Growth in cargo transport was particularly high (10.8% compared to July 2022), owing to increased e-commerce sales and agricultural production.

With regard to aggregate demand, data for the first two quarters of 2023 show the highest growth in goods and services exports (9.7%) and household consumption (3.2%). Meanwhile, gross fixed capital formation fell 0.9% year on year.

From January to September 2023, the balance-of-payments current account posted a deficit of US\$ 20.895 billion, much smaller than in the prior-year period (US\$ 34.682 billion). This resulted in an increase in the current account balance as a percentage of GDP, from -2.4% to -1.3%. The trade balance was a major factor in this outcome, considering that net expenditure on interest, dividends and other distributions of profit curtailed primary revenue.

Brazil recorded a trade surplus of US\$ 80.2 billion for the period January–October 2023, which represents a 57.9% increase over the US\$ 50.79 billion surplus recorded in the prior-year period. The cumulative value of exports totalled US\$ 282.47 billion, up 0.5%, while imports were down 12.2%, at US\$ 202.26 billion.

The large trade surplus for the period was attributable largely to growth in the volume of exports, which offset falling international prices of some top commodities for the better part of 2023. However, it was also attributable to the decreased volume of imports, which was due to inventory rightsizing and, above all, weak activity in the manufacturing industry, which imports inputs and intermediate goods.

Between January and October 2023, the main products in Brazil's export basket were soybean, crude oil, sugar and molasses, and maize. In terms of the value of exports, soybean reached US\$ 48.48 billion, up 10.1% year on year; crude oil was US\$ 33.97 billion, up 1%; iron ore was US\$ 24.39 billion, down 2.3%; sugar and molasses hit US\$ 11.71 billion, up 34.3%; and maize reached US\$ 10.58 billion, up 21.1%.

Total agricultural exports grew 7.1% to reach US\$ 70.25 billion; total extractive industry exports grew 1.7%, to US\$ 63.55 billion; and the processing industry total fell 3.3%, to US\$ 147.11 billion. Brazil's exports to its largest trading partner, China and the Hong Kong and Macao Special Administrative Regions, grew 12.6%, to US\$ 87.57 billion. Exports to the European Union and the United States, meanwhile, fell 10.7% and 3.6% (to US\$ 38.43 billion and US\$ 30.04 billion), respectively. Exports to Argentina were up 12.5%, totalling US\$ 14.9 billion.

With regard to imports, agriculture totalled US\$ 3.77 billion, down 21.9%. The extractive and processing industries were also down, at US\$ 14.3 billion and US\$ 182.89 billion (24.3% and 10.8%), respectively. Brazil's imports from its largest trading partner, China and the Special Administrative Regions of Hong Kong and Macao, fell 14%, to US\$ 44.72 billion. Imports from the European Union increased 4.8%, to US\$ 38.48 billion, while imports from the United States and Argentina were down 26.6% (to US\$ 32.36 billion) and 7.1% (to US\$ 10.15 billion), respectively.

The most recent available data show that the services account recorded a deficit of US\$ 26.729 billion in January–September 2023, representing a modest decrease from US\$ 29.858 billion in the prior-year period. This was due to relative price and expenditure stability in the transport services sector (international freight). Although spending on foreign travel rose, it was still well below pre-pandemic levels, owing to high rates of unemployment and the value of the dollar in the United States.

The primary income deficit for January–September 2023 was up considerably year on year, from US\$ 42.29 billion to US\$ 53.674 billion, reflecting rising expenditure on interest amid the central bank's efforts to curb inflation. In addition, profits and dividends increased, owing to the performance of agriculture and the extractive industries in the early months of the year.

The capital account posted a surplus of US\$ 290 billion, compared to the US\$ 204 billion recorded in the period January–September 2022. Meanwhile, the financial account deficit fell year on year, from US\$ 37.338 billion to US\$ 20.43 billion. A notable factor in that regard was the significant year-on-year decrease in direct investment in Brazil, from US\$ 68.834 billion to US\$ 41.631 billion, causing the country's direct investment-to-GDP ratio to fall from 4.8% to 2.8%.

In September 2023, 7.7% of the economically active population was unemployed (approximately 1.4 million people), according to the Continuous National Household Survey (PNAD Contínua), the Brazilian Institute of Geography and Statistics (IGBE) and the General Employment and Unemployment Registry (CAGED) of the Ministry of Labour and Employment.

In 2022, the unemployment rate fell from 11.1% in the first quarter to 7.9% in the fourth quarter. This trend continued through the third quarter of 2023, with unemployment reaching 7.7% in September.

Among the employed population, average income in 2022 was R\$ 2,799, and the 12-month average through September 2023 reached R\$ 2,929 (in September 2023 values). The average through September 2023 represented a 6.5% increase over the 2022 average. The average wage bill in 2022 was R\$ 268,674, and the 12-month average through September 2023 was R\$ 285,055.