

BRAZIL

1. General trends

Brazil faced major economic challenges in 2022, including, in particular, maintaining the post-pandemic growth recovery path and controlling inflation. These two key objectives were pursued amidst domestic and external scenarios of great uncertainty. Domestically, the political direction was constantly in doubt, as the country went through an electoral process to elect not only a new president, but also governors, federal and state deputies, and some of its senators. Internationally, uncertainty about a possible resurgence of COVID-19 and the war in Eastern Europe constrained the design and scope of the country's economic policies.

At the national level, Lula da Silva, who had already served two terms as the country's president between 2002 and 2010, was elected president again in October 2022, in a climate of stark political polarization, defeating the candidate for reelection, President Bolsonaro, with just 50.9% of the votes. Because of this slim margin of victory and the election of a conservative national congress, the elected government had to overcome challenges to implement its more progressive agenda as from January 2023.

In the international arena, the pandemic's lingering effects on the world economy, especially on the global value chains in which Brazil participates, were compounded by China's policy of zero tolerance towards COVID-19. The latter hampered Brazilian production capacity on many occasions, both because of difficulties in importing inputs and because of reduced demand for mineral and agricultural raw materials. As an aggravating factor, the conflict between the Russian Federation and Ukraine impacted the course of the Brazilian economy both in terms of its basic prices, exchange rate and interest rates, and also through higher costs (and uncertainty about access to external inputs) in key sectors of its production matrix. Examples of this were seen in agriculture, which faced higher prices for imports of fertilizers from the Russian Federation and wheat from Ukraine.

Despite all of these challenges, Brazilian GDP grew by 2.9% in 2022. Total output climbed to R\$ 9.9 billion, while per capita output expanded by 2.2% to reach R\$ 46,155. Thus, Brazil enjoyed positive growth for the second consecutive year, following a 4.9% expansion in 2021. It is important to recall that, at the height of the pandemic in 2020, the Brazilian economy had contracted by 3.3%.

GDP growth of 2.5% is projected for 2023, with per capita output increasing by 1.8%. With cumulative inflation of around 3.2% between June 2022 and June 2023 and signs of reduced economic activity, the federal government has advocated the start of a relaxation of monetary policy by the Central Bank of Brazil as from August, which would boost activity in the last four months of 2023. The Central Bank's Focus report forecasts that annual inflation will not exceed 5.58% and that the exchange rate will end the year at R\$ 5.2 per dollar.

2. Economic policy

In 2022, the Brazilian Government's economic policy pursued the objectives of maintaining growth, increasing personal income and reducing unemployment. However, in an election year, the policies adopted ultimately took on the characteristics of a quest to increase the approval ratings and popularity of the federal government.

The economic policy implemented by the federal government in 2022 included short-term measures designed to meet the specific demands of economic sectors or social groups affected by lack of income, unemployment or increased operating costs due to rising inflation.

These include the incorporation of more than 500,000 families in the Auxílio Brasil income transfer programme (currently known as Bolsa Família), and an increase in the monthly subsidy from R\$ 400 to R\$ 600. In addition, the banking system was authorized to grant payroll loans to programme beneficiaries. To compensate for the effects of the rise in the price of petroleum products, especially since the middle of the year, a popular programme called Vale Gás was established to guarantee the purchase of liquefied petroleum gas for residential use by the poorest population groups. In addition, monthly economic assistance was introduced for taxi and truck drivers, who threatened to strike in protest against rising costs.

The amounts allocated to the Auxílio Brasil programme are estimated at around R\$ 89.1 billion, while those corresponding to Vale Gás are equivalent to approximately R\$ 2 billion. The assistance programmes for truck and taxi drivers absorb around R\$ 5.4 billion and R\$ 2 billion, respectively.

The lowering of federal taxes was another central measure adopted by the federal government to tackle the effects of higher production costs and inflation originating from the energy sector. The reduction in social contributions such as the Social Integration Programme (PIS)/Contribution for the Financing of Social Security (COFINS) and the Economic Intervention Contribution (CIDE) on fuels amounted to R\$ 31.5 billion. In addition, the 25% cut in the industrialized products tax totalled R\$ 9.9 billion. This type of measure also impacted subnational governments, especially the states, for which the rate of the goods and transportation services sale tax (ICMS), which is levied on fuels, was confined to a range of 17%–18% (some states charge up to 30%). This measure was adopted by the Brazilian Federal Government after much debate and lengthy negotiations, with a view to temporarily reducing the prices of gasoline, diesel and other fuels.

(a) Fiscal policy

Despite increased spending on social programmes and entitlements, the central government accounts closed out 2022 with a primary surplus of R\$ 57.1 billion (at December 2022 prices). This result represented about 0.5% of Brazil's GDP and is the first surplus achieved since 2013. It reflects a stabilization of expenditure as a share of GDP and increased federal tax collection, in a scenario of GDP growth, expansion of non-current income and higher inflation.

On the other hand, the policy of additional monetary tightening implemented by the Central Bank of Brazil (which is legally independent) pushed up net public sector expenditure on interest payments, which jumped from 5% to 6% of GDP between 2021 and 2022. As a result, the nominal deficit widened from 4.3% to 4.7% over the same period. The primary fiscal balance generated by GDP growth reduced the general government gross debt from 78% to 71% of GDP between 2021 and 2022. Nonetheless, the net public sector debt grew slightly from 55.8% to 57.5% of GDP over the same period.

Preliminary data from the National Treasury report a cumulative primary deficit of about R\$ 41.9 billion in the federal government accounts in the first half of 2023. Net income was down by 26.5% in real terms compared to the year-earlier period, while expenditure was up by 4.6%. In the same period last year, the country was running a cumulative primary surplus of R\$ 59 billion, largely reflecting the growth in income amplified by then rising inflation.

(b) Monetary policy

Since March 2021, the central bank has been systematically raising the basic interest rate (SELIC rate) of the Brazilian economy, in order to slow the rise in prices that is unfolding in the country and align the inflation rate with the centre of the target range set by the Monetary Policy Committee. In 2020, inflation exceeded the target for that year (4.0% per annum), coming in at 4.52%. In 2021, amid the global economic recovery and an increase in domestic production, the inflation rate far exceeded the established target (3.75% \pm 1.5 percentage points), to reach 10.06% for the year, the highest rate since 2015 (10.67%).

For 2022, the inflation target was set at 3.5% (\pm 1.5 percentage points). From February to August 2022, the basic Brazilian interest rate rose from 10.75% per year to 13.75% by year-end. Despite this major monetary tightening by the central bank, Brazilian inflation once again exceeded the target and ended at an annual rate of 5.79%, again outside the target band.

From August 2022 to July 2023, the SELIC rate remained unchanged at 13.75% per year, a level that has been justified by the central bank as necessary to contain inflationary outbreaks in the Brazilian economy. Despite the absence of a clear signal from the monetary authority, the interest rate in Brazil is expected to start trending down as from August. This is based on the latest data announced by the central bank for inflation and GDP, which see inflation converging towards the target and economic activity slackening.

(c) Exchange-rate policy

In 2022, the exchange rate fluctuated widely, reflecting the effects of monetary policy and the global crises. The exchange rate movement can be divided into two phases: in the first, from January to May 2022, the real appreciated against the dollar, and the exchange rate dropped from 5.7 to 4.8 reals. From June onwards, the real depreciated, as the exchange rate jumped back to 5.3 reals. The devaluation of the currency in the second half of the year, compounded by the rise in international fuel prices, pushed up inflation at the start of the election campaign. From January to June 2023, the Brazilian currency appreciated strongly against the dollar, and the exchange rate fell from R\$ 5.2 to R\$ 4.7.

3. The main variables**(a) The external sector**

Central bank data through May 2023 show a balance of payments current account surplus of US\$ 649 million and a trade surplus of US\$ 9.7 billion. Exports, totalling US\$ 33.3 billion, were up by 11.2% over the same period of the previous year. In contrast, imports fell by 11.3% relative to the year-earlier period, to US\$ 23.6 billion.

The services account recorded a deficit of US\$3.1 billion in May 2023, slightly less than a year earlier (US\$ 3.4 billion). Transport played a major role in this result, considering the US\$ 1.2 billion reduction in its net expenses. In international travel, the reduction was 11.7% (a total of US\$ 634 million), with increases of 51.8% in income and 10.0% in expenses, while equipment rental amounted to US\$ 618 million, broadly stable relative to the May 2022 level.

The primary income deficit totalled US\$ 6.0 billion in May 2023, an increase of 21.3% on the year-earlier deficit of US\$ 4.9 billion. Net earnings and dividend expenses, associated with direct and portfolio investments, totalled US\$ 4.6 billion, up from US\$ 4.2 billion in May 2022.

In terms of direct investment, net inflows totalled US\$5.4 billion (May 2023), including US\$4.9 billion in equity investments and US\$438 million in inter-firm transactions.

Portfolio investments in the domestic market accumulated net outflows of US\$ 4.0 billion in May 2023, consisting of US\$ 1.8 billion in equities and mutual funds and US\$ 2.2 billion in debt securities. In contrast, between May 2022 and May 2023, these investments generated net inflows of US\$ 9.8 billion.

Brazil's international reserves totalled US\$ 343.5 billion in May 2023, US\$ 2.2 billion down on the previous month's level.

In terms of the relationship between GDP and quarterly economic activity, as of 2023 exports of goods and services were up by a cumulative 7.0%, while imports of goods and services were 2.2% higher. The four-quarters cumulative variation, ending in the fourth quarter of 2022, was 5.5% in the case of exports and by 0.8% in the case of imports.

In the context of Brazil's foreign trade, between the 12 months to May 2023, there was a 9.5% drop in export prices (basic, semi-manufactured and manufactured goods) and a 10.3% reduction in import prices (intermediate goods, capital goods, consumer durables, consumer non-durables and fuels and lubricants). In terms of the cumulative variation for the year, export prices were down by 2.4% and import prices were 1.7% lower.

(b) Economic activity

GDP growth in 2022 was driven by the services and manufacturing sectors, which grew by 4.2% and 1.6%, respectively. These two sectors jointly accounted for 90% of the expansion of the Brazilian economy. Agriculture, in contrast, shrank by 1.7%. The growth of services was led by the transportation and other services sectors (personal, professional and tourism-related services), which had already been noted in 2021, owing to the resumption of typically urban activities following higher vaccination coverage and the progressive relaxation of social isolation measures and mobility restrictions.

In industry, growth was driven by segments related to electricity and gas, water, sewerage, and waste management activities (+10.1%), which recovered from the difficult scenario they had confronted in 2021. This was due to the drought that afflicted several parts of Brazil, forcing a reduction in productive activity in sectors where water is a key input. The civil construction branch grew by 6.9%, heavily influenced by the expansion in public works typical of election years such as 2022. For its part, the manufacturing industry declined by 0.3%, while the extractive industries contracted by 1.7%, owing mainly to the reduction in Chinese demand for iron ore amid closure measures implemented as part of its zero-COVID policy.

Brazilian agriculture declined by 1.7% in 2022, owing to an 11.4% drop in soybean production caused by weather problems, especially drought and changes in rainfall patterns in the main producing regions.

On the expenditure side, in 2022, household consumption grew by 4.3% relative to the previous year's level, while government consumption was up by 1.5%, and gross fixed capital formation increased by 0.9%. In the external sector, exports of goods and services grew by 5.5% and the corresponding imports increased by 0.8%.

In the case of gross fixed capital formation and investment, the cumulative figures for Brazil through the four quarters of 2022 show GDP growth of 3.3%, with agriculture up by 6%, industry by 2.4%, and services by 3.9%. Gross fixed capital formation also increased by 2.7%, household consumption by 4.5% and government consumption by 0.9%.

In the first quarter of 2023, GDP grew by 1.9% relative to the previous quarter, with agriculture picking up significantly, by 21.6%; industry recorded a 0.1% drop and services grew by 0.6%. Gross fixed capital formation retreated by 3.4%, household consumption was down by 0.2% and government consumption was 0.3% lower.

Brazilian agricultural GDP is generated mainly by three crops, maize (in grain), soybeans (in grain) and sugar cane. The percentage shares of these main agricultural crops in the total May 2023 harvest were 23.4% for soybeans (in grains), 11.2% for maize (in grains), and 1.2% of the total harvest for sugarcane, as estimated by the Systematic Survey of Agricultural Production (LSPA) of the annual grain harvest of the Brazilian Institute of Geography and Statistics (IBGE).

(c) Prices, wages and employment

In 2022, unemployment decreased from 11.1% of the economically active population (first quarter) to 7.9% (fourth quarter). However, the rate rose to 8.8% in the first quarter of 2023, representing 9.4 million Brazilians. Nonetheless, this percentage is considerably lower than in the first quarter of the previous year. It should be noted that 3.9 million people are in the “discouraged worker” category; in other words, they would like to work but have given up on job search because they consider it impossible to find work in the current state of the labour market.

Lastly, the average income of the employed population in 2022 was R\$ 2,781 and the 12-month average through May 2023 stood at R\$ 2,864 (both figures measured at April 2023 values). The wage bill in 2022 averaged R\$ 266.968 billion, and the 12-month average through May 2023 was R\$ 277,885 million, both at April 2023 prices.

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
	Annual growth rates b/								
Gross domestic product	0.5	-3.5	-3.3	1.3	1.8	1.2	-3.3	5.0	2.9
Per capita gross domestic product	-0.4	-4.4	-4.1	0.5	1.0	0.4	-3.9	4.4	2.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.8	3.3	-5.2	14.2	1.3	0.4	4.2	0.3	-1.7
Mining and quarrying	9.1	5.7	-1.2	4.9	0.4	-9.1	0.9	2.9	-1.7
Manufacturing	-4.7	-8.5	-4.8	2.3	1.4	-0.4	-4.7	4.5	-0.3
Electricity, gas and water	-1.9	-0.4	6.5	0.9	3.7	2.6	-1.0	1.0	10.1
Construction	-2.1	-9.0	-10.0	-9.2	-3.0	1.9	-2.1	10.0	6.9
Wholesale and retail commerce, restaurants and hotels	0.8	-7.2	-6.1	2.6	3.0	2.2	-5.6	5.0	0.8
Transport, storage and communications	3.1	-2.9	-4.0	1.2	2.0	2.0	-6.3	12.7	7.0
Financial institutions, insurance, real estate and business services	0.3	-2.2	-1.4	0.0	2.5	2.5	1.4	5.1	6.4
Community, social and personal services	1.0	-0.3	-0.1	0.3	1.1	0.1	-6.5	2.3	1.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.9	-2.8	-2.9	1.3	2.0	1.9	-4.4	3.6	3.7
Government consumption	0.8	-1.4	0.2	-0.7	0.8	-0.5	-3.7	3.5	1.5
Private consumption	2.2	-3.2	-3.8	2.0	2.4	2.6	-4.6	3.7	4.3
Gross capital formation	-5.4	-19.2	-13.9	2.6	3.5	1.4	-4.1	19.1	-3.8
Exports (goods and services)	-1.6	6.8	0.9	4.9	4.1	-2.6	-2.3	5.9	5.5
Imports (goods and services)	-2.3	-14.2	-10.3	6.7	7.7	1.3	-9.5	12.0	0.8
Investment and saving c/	Percentages of GDP								
Gross capital formation	20.5	17.4	15.0	14.6	15.1	15.5	16.1	19.4	18.1
National saving	16.1	13.9	13.3	13.4	12.2	11.9	14.2	16.6	15.2
External saving	4.5	3.5	1.7	1.2	2.8	3.6	1.9	2.8	3.0
Balance of payments	Millions of dollars								
Current account balance	-110 493	-63 409	-30 529	-25 337	-54 794	-68 022	-28 208	-46 358	-56 997
Goods balance	-6 739	17 445	44 544	57 325	43 373	26 547	32 370	36 363	44 153
Exports, f.o.b.	223 971	189 914	184 267	218 000	239 520	225 800	210 707	284 012	340 328
Imports, f.o.b.	230 710	172 469	139 723	160 675	196 147	199 253	178 337	247 648	296 175
Services trade balance	-57 053	-45 670	-36 656	-41 628	-39 328	-38 481	-24 657	-26 957	-40 018
Income balance	-49 427	-37 935	-41 543	-43 170	-58 824	-57 272	-38 264	-58 971	-64 930
Net current transfers	2 725	2 751	3 126	2 135	-15	1 184	2 344	3 207	3 798
Capital and financial balance d/	121 326	64 978	39 767	30 430	57 722	41 966	13 976	60 324	49 713
Net foreign direct investment	67 107	61 604	59 601	47 545	76 138	46 355	41 254	30 200	60 808
Other capital movements	54 219	3 373	-19 834	-17 115	-18 417	-4 389	-27 278	30 125	-11 095
Overall balance	10 833	1 569	9 237	5 093	2 928	-26 055	-14 232	13 967	-7 284
Variation in reserve assets e/	-10 833	-1 569	-9 237	-5 093	-2 928	26 055	14 232	-13 967	7 284
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2015=100) c/	77.2	100.0	95.0	86.2	94.6	99.2	125.2	127.0	120.7
Terms of trade for goods (index: 2018=100) f/	94.4	106.9	104.4	98.7	100.0	100.1	100.7	115.3	107.1
Net resource transfer (millions of dollars)	71 899	27 042	-1 776	-12 739	-1 102	-15 305	-24 288	1 354	-15 217
Total gross external debt (millions of dollars)	712 655	665 101	675 841	667 103	665 777	675 789	639 308	670 286	681 076
Employment	Average annual rates								
Labour force participation rate g/	62.4	62.7	62.8	63.1	63.2	63.6	59.3	61.3	62.4
Unemployment rate	6.9	8.6	11.6	12.8	12.4	12.0	13.8	13.2	9.3

Table 1 (concluded)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	6.4	10.7	6.3	2.9	3.7	4.3	4.5	10.0	5.8
Variation in wholesale prices (December-December)	2.1	11.2	7.6	-2.5	9.4	9.1	31.6	20.6	5.3
Variation in nominal exchange rate (annual average)	10.7	41.5	4.6	-8.4	14.5	7.9	30.7	4.6	-4.3
Variation in average real wage	...	-0.7	-2.1	1.2	1.4	0.4	4.5	-6.1	2.1
Nominal deposit rate h/	7.1	8.1	8.3	6.8	6.2	6.2	6.2	6.2	7.9
Nominal lending rate i/	45.0	49.5	53.7	49.9	45.2	42.7	33.8	34.0	40.6
Central government	Percentages of GDP								
Total revenue	21.1	20.8	21.0	21.0	21.3	22.1	19.3	21.7	23.3
Tax revenue	19.2	19.2	19.4	19.0	19.1	19.0	17.6	19.1	19.9
Total expenditure	26.3	30.0	28.7	28.8	28.5	27.8	32.8	26.5	27.7
Current expenditure	24.7	28.1	27.3	27.8	27.5	26.9	31.2	25.8	27.1
Interest	4.7	7.1	5.2	5.9	5.5	4.4	3.7	4.4	4.9
Capital expenditure	1.6	1.8	1.4	1.0	1.0	0.9	1.7	0.7	0.6
Primary balance	-0.4	-2.0	-2.6	-1.9	-1.7	-1.3	-9.8	-0.4	0.5
Overall balance	-5.1	-9.1	-7.7	-7.8	-7.2	-5.7	-13.5	-4.8	-4.4
General government public debt	58.9	66.5	70.0	74.0	77.2	74.3	88.6	78.3	72.9
Domestic	55.5	62.1	66.3	70.5	67.4	64.8	77.6	67.4	63.7
External	3.4	4.4	3.7	3.5	9.8	9.4	11.0	10.9	9.1
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	103.4	107.1	111.2	110.8	110.8	117.3	132.9	124.6	126.1
To the public sector	28.8	31.5	40.6	46.2	47.1	50.6	59.2	49.3	48.5
To the private sector	66.0	66.8	62.2	59.5	60.2	62.8	68.7	69.7	71.8
Others	8.6	8.8	8.4	5.1	3.5	4.0	5.0	5.5	5.9
Monetary base	4.6	4.3	4.3	4.5	4.3	4.3	5.7	4.6	4.2
M2	28.0	27.0	27.6	29.5	31.7	32.6	44.9	40.7	40.0

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2010 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total.

h/ Savings rate. Nominal yield, first business day.

i/ Interest rate on total consumer credit.

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

	2021				2022				2023	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	1.7	12.4	4.4	2.1	2.4	3.7	3.6	1.9	4.0	...
Gross international reserves (millions of dollars)	352 966	352 310	364 984	365 967	356 436	344 490	337 882	327 251	333 459	344 607 c/
Real effective exchange rate (index: 2005=100) d/	130.5	125.5	122.2	129.6	120.5	112.4	121.4	119.7	117.0	...
Unemployment rate	14.9	14.2	12.6	11.1	11.1	9.3	8.7	7.9	8.8	...
Employment rate	50.9	52.1	54.1	55.6	55.2	56.8	57.2	57.2	56.1	...
Consumer prices (12-month percentage variation)	4.6	3.4	2.9	4.3	3.3	2.1	3.1	4.5	6.0	8.3
Wholesale prices (12-month percentage variation)	42.6	47.5	30.5	20.57	16.5	10.7	8.6	5.27	-1.7	-7.5 c/
Average nominal exchange rate (reals per dollar)	5.5	5.3	5.2	5.6	5.2	4.9	5.2	5.3	5.2	5.0
Average real wage (variation from same quarter of preceding year)	-4.0	-11.9	-13.2	-6.6	-9.3	-2.4	4.5	17.0	16.0	...
Nominal interest rates (average annualized percentages)										
Deposit rate e/	6.2	6.2	6.2	6.4	6.8	7.8	8.7	8.3	8.4	8.2
Lending rate f/	33.4	33.4	32.8	36.4	39.1	40.6	40.8	41.7	42.0	42.9 c/
Interbank rate	2.0	3.2	4.9	7.6	10.3	12.4	13.5	13.7	13.7	13.7 c/
Monetary policy rates	2.3	3.5	5.3	8.3	10.6	12.6	13.6	13.8	13.8	13.8
Sovereign bond spread, Embi + (basis points to end of period) g/	272	256	304	306	279.779	357.047	295.244	257.934	254	229
International bond issues (millions of dollars)	10 044	13 395	5 910	2 166	4 463	3 600	2 000	-	1 336	7 300
Domestic credit (variation from same quarter of preceding year)	15.5	12.5	11.0	11.0	10.1	11.6	12.5	12.7	11.6	10.7

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2010 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Savings rate. Nominal yield, first business day.

f/ Interest rate on total consumer credit.

g/ Measured by J.P.Morgan.