

BRAZIL

1. General trends

Brazil's economic growth in 2023 exceeded the projections made at the beginning of the year, with a GDP growth rate of 2.9%. The country's economic momentum in 2023 was largely explained by a stronger expansion of exports (9.1%) than initially anticipated, in a context of favourable weather conditions that contributed to a record agricultural harvest, particularly of soybeans. In fact, agricultural sector output grew by a remarkable 15.1%, compared to 2.4% for services and 1.6% for industry. As regards the demand-side drivers of growth in the Brazilian economy in 2023, household consumption is also estimated to have contributed to the 2.9% expansion in GDP, mainly thanks to rising household income, which in turn was linked to stronger social policies, including government transfer programmes, a higher minimum wage and the new policy of debt renegotiation for those on low incomes (Desenrola Brasil programme), and to lower inflation. Economic momentum resulted in the number of people in work increasing by 1.6 million in 2023.

The growth of the Brazilian economy in 2023 did not stimulate an increase in investment. On the contrary, gross fixed capital formation contracted by 3%, mainly because of a 9.4% reduction in machinery and equipment investment. The weakening of investment, the most import-intensive component of demand, was one reason why economic growth was accompanied not by an increase in imports, but by a slight contraction (1.2%).

The structural gaps in the Brazilian economy persisted in 2023. The investment rate remained low at 16.5% of GDP that year, compared to 17.8% in 2022. The strength of exports contributed to the largest annual trade surplus (US\$ 80.578 billion) since the historical series began in 2003, but Brazil's current transactions remained in deficit, by 1.42% of GDP (December 2023). The central government primary fiscal deficit was 2.1% of GDP and general government gross debt totalled 74.42% of GDP.

The Brazilian economy expanded by 2.5% in the first few months of 2024 (January to March) relative to the same quarter of 2023, led by exports (although these grew by less than the previous year) and by a larger increase in household consumption than the year before, accompanied by a modest recovery in gross fixed capital formation and a rise in imports. The end of the El Niño phenomenon, entailing less favourable weather conditions for the agricultural sector in 2024, coupled with the economic impacts caused by the climate disaster in the State of Rio Grande do Sul, the expectation of reduced public spending associated with the federal government's zero fiscal deficit target, and the pause in the cycle of base interest rate (SELIC) cuts, point to 2.3% growth in the Brazilian economy for 2024, a reduction from 2023.

2. Economic policy

In 2023, Brazil's economic policy was marked by the creation of a new fiscal regime establishing, among other things, that public spending is to be linked to the performance of revenue; the approval of a tax reform aimed at simplifying and modernizing the tax system, which will now move on to the regulatory stage prior to actual implementation; the progressive lowering of the SELIC rate as inflationary pressures have eased; and the strengthening of social policies (expansion of the Bolsa Família programme and an increase in the minimum wage) and ecological transformation policies.

(a) Fiscal policy

Brazilian fiscal policy exhibited expansionary features in 2023. Government consumption grew by 1.7%, which was below the year's GDP growth of 2.9%. However, the central government primary deficit was 2.1% of GDP in 2023, following a surplus of 0.5% of GDP in 2022, which can be attributed to growth in public spending (12.5%) associated with a contraction in public revenue (2.2%).

Total central government net revenues were 2.2% lower than the previous year, owing to a drop in receipts linked to payments of electricity concession bonds (82.0%), determined in 2022, and in dividends from public enterprises (44.7%), as well as atypical declines in corporate income tax (10.4%) and personal income tax (0.3%). The total tax burden in the Brazilian economy is estimated to have contracted to 21.99% of GDP in 2023 from 22.41% of GDP in 2022.

Total central government expenditure increased by 12.5% in 2023 over 2022, largely because of payments to litigants who had obtained orders against the public administration (*precatórios*), in accordance with a ruling by Brazil's Federal Supreme Court. If the impact of these payments were not included, the central government primary deficit would actually have been 1.3%, instead of 2.1% of GDP in 2023. Other important factors behind the expenditure increase were growth in spending on social programmes (42.4%), mainly that undertaken to expand the *Bolsa Família* programme and, to a lesser extent, health spending; public spending on education, transport and social assistance (15.3%); and pension-related spending (7.9%), reflecting increases in the real minimum wage (1.4%) and the number of beneficiaries.

Interest on the consolidated central government debt in Brazil increased from 4.99% of GDP in 2022 to 5.66% of GDP in 2023, continuing the rising trajectory that had begun in 2021. The nominal fiscal deficit of the central government, including the primary deficit and interest payments, increased from 4.5% of GDP in 2022 to 8.1% in 2023. Meanwhile, consolidated general government gross public debt (including federal and subnational governments and public enterprises) increased by 2.7 percentage points from 71.6% in 2022 to 74.3% in 2023. Net central government debt represented 51.7% of GDP in 2023, compared to 47.9% in 2022.

The country's fiscal policy stance remained expansionary in the first few months of 2024. From January to April, central government revenues recovered and showed an expansionary trend relative to the same period in 2023. This was combined with rising central government expenditure, the net result being a primary fiscal surplus in April 2024, but one smaller than for the same month of 2023.

(b) Monetary policy

Brazil's monetary policy, like its fiscal policy, was expansionary in 2023. The Central Bank of Brazil initiated a cycle of cuts in the benchmark interest rate in a context of lower inflationary pressures, bringing the SELIC base rate down from 13.75% in July 2023 to 11.75% in December, a drop of 2 percentage points. The application rate (the average lending rate charged by financial institutions) followed the SELIC rate down, falling from 31.2% in January 2023 to 28.3% in December, as did the deposit rate (the average borrowing rate paid by financial institutions), which dropped from 10.8% to 8.7% in the same period. However, the spread between the two rates remained unchanged at around 20 percentage points.

The monetary base expanded by a modest 0.7% in 2023 over 2022, led by the growth of bank reserves (4.9%). The volume of credit in the domestic financial system increased by 7.9% in 2023, representing a slowdown in the pace of lending growth in Brazil.

In the early months of 2024, the central bank maintained the cycle of cuts in the SELIC rate until May, when it reached 10.50%. The monetary base was still on an expansionary trend that month, having increased by a cumulative 10.2% over the previous 12 months.

(c) Exchange-rate policy

Brazil's nominal exchange rate underwent a modest devaluation in 2023, from 5.38 reais to the dollar in January to 4.90 reais to the dollar in July, possibly driven by the reduction in the Brazilian interest rate. The second half of the year was fairly stable, so that the nominal exchange rate in December 2023 was 4.92 reais to the dollar. The country's international reserves grew over the year, rising from US\$ 331 billion to US\$ 355 billion in December.

The nominal exchange rate appreciated in the early months of 2024, reaching 5.41 reais to the dollar in June, while international reserves continued to grow, amounting to US\$ 358 billion in June.

(d) Other policies

In 2023, Brazil presented a new public policy framework whose objective is the environmentally sustainable and socially just transformation of the country's economic model, embodied in the Ecological Transformation Plan, the New Industry Brazil policy and the New Growth Acceleration Programme. Taken together, these instruments form a new generation of economic, social and environmental policies designed to accelerate the country's economic growth while combating the degradation of the planet and distributing income, producing knowledge and generating quality employment.

3. The main variables

(a) The external sector

Brazil's exports performed outstandingly in 2023, with growth of 9.1% over the previous year that was mainly attributable to favourable weather conditions resulting in a record soybean harvest. Exports of other commodities, including maize, oil, sugar and iron ore, were also strong. The expansion of exports was due to an increase in quantity (8.7%) that more than offset a decline in price (6.5%). China was the main destination for Brazilian exports in 2023, accounting for 30% of the total, followed by the United States (10.9%) and Argentina (4.9%). Soybeans accounted for 15% of Brazil's export basket in 2023, followed by crude petroleum or mineral oils (13%), iron (9%), sugar and its derivatives (4.6%) and maize (4%).

Imports, meanwhile, fell by 1.2% in 2023 as a result of a drop in prices (11.2%), that was larger than the decline in volume (2.6%), with fuels and agricultural inputs (fertilizers and insecticides) being the main products concerned. Brazil's imports in 2023 came mainly from China (22.1%), the United States (15.8%) and Germany (5.5%). The main products imported were petroleum or mineral fuel oils (7.2%) and chemical fertilizers (6.1%), with medicines and pharmaceuticals (3%) and engines and machinery (2.7%) also featuring strongly.

Brazil recorded its largest trade surplus in 20 years, but this was still not enough to contain the deficit in current transactions, which represented 1.42% of GDP.

In the early months of 2024, there was a rising trend in both exports (1.4% from January to June) and imports (3.9% in the same period), maintaining the upward trend in the trade balance.

(b) Economic activity

Brazil's GDP grew by 2.9% in 2023, led by the expansion of exports (9.1%) and household consumption (3.1%). If the contraction in gross fixed capital formation (3.0%) continues for a longer period, in the context of a low investment rate, the long-term growth of the Brazilian economy could be severely constrained, considering the central role of investment in competitiveness and productivity. On the supply side, economic expansion was concentrated in the agricultural sector (15.1%), followed by services (2.4%) and industry (1.6%).

Compared with the same quarter the previous year, exports expanded the most in the first quarter of 2024 (6.5%), followed by household consumption (4.4%), gross fixed capital formation (2.7%) and government consumption (2.6%). Imports also increased, by 10.2%, offsetting the previous year's decline. The growth was mainly due to the expansion of services (3%) and industry (2.8%). The agricultural sector posted a decline of 3%, attributable to the extraordinarily high level of output in 2023.

(c) Prices, wages and employment

Cumulative annual inflation was 4.62% in 2023 against 5.79% in 2022 when measured by the Extended National Consumer Price Index (IPCA) and 3.71% in 2023 against 5.93% in 2022 when measured by the National Consumer Price Index (INPC), in line with a global pattern of declining inflationary pressures. In June 2024, the cumulative 12-month rates were 4.23% for IPCA and 3.70% for INPC.

Over the course of 2023, the momentum of the Brazilian economy led to a progressive reduction in the unemployment rate from 8.8% in January to 7.4% in December. The number of people in employment increased from 97.825 million in January to 100.985 million in December. In turn, the unemployment rate fell by 0.5 percentage points to 7.4% in 2023.

Average monthly pay grew by 2.3% in real terms between January and December 2023. Total labour income grew by 5.89% over the same period.

The increases in both employment and pay were linked to the strengthening of social policies, particularly government transfer programmes (such as Bolsa Família), a higher minimum wage and the new policy of debt renegotiation for those on low incomes (the Desenrola Brasil programme), and lower inflation.

Total labour remuneration grew by 0.7% in the first quarter of 2024 compared with the last quarter of 2023, but the unemployment rate rose by 0.5 percentage points to 7.9%.