



# Brazil 2018 Article IV Staff Report

Wilson Center - November 13<sup>th</sup>, 2018

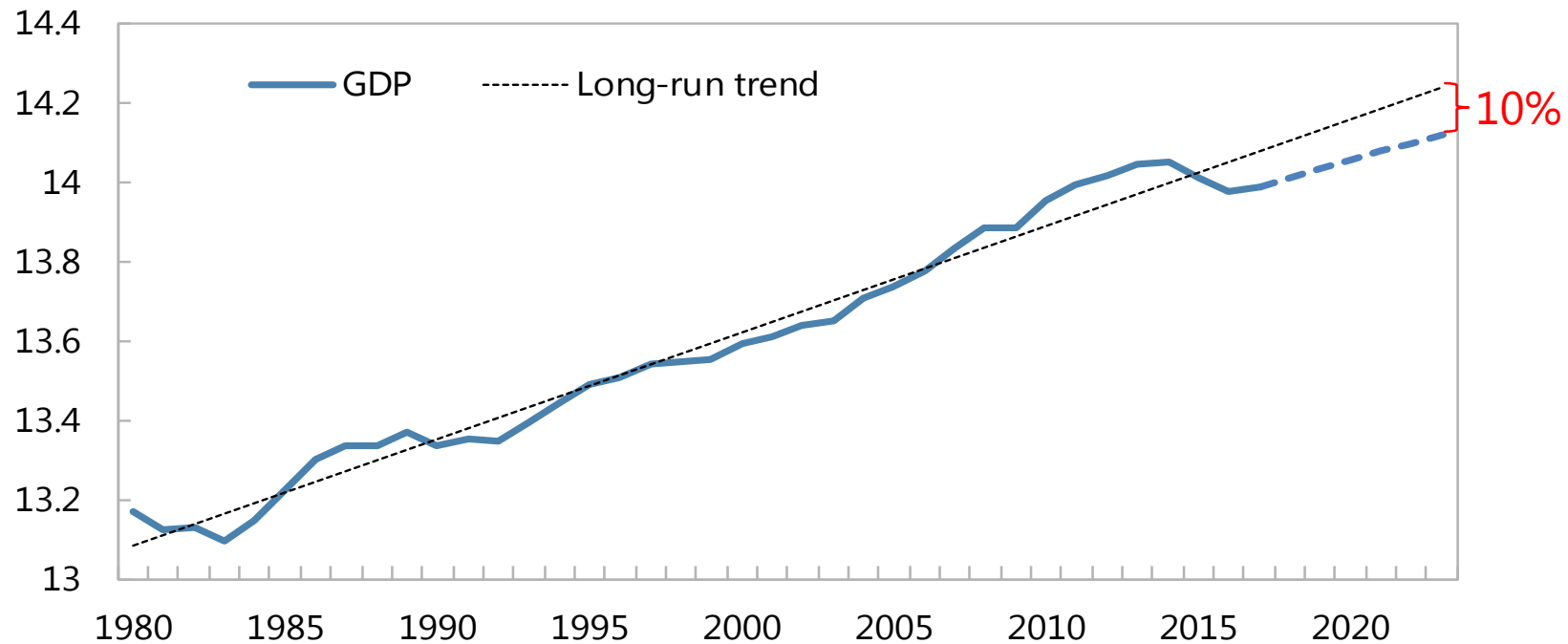
# Main challenges

- ▶ Historically **disappointing growth**
  - ▶ **Need for structural reforms**
- ▶ **Weak recovery** despite favorable environment
  - ▶ Legacy of the Past and Uncertainty on the Future
- ▶ **Adverse debt dynamics** with strong institutional constraints.  
Focus on:
  - ▶ Pension reform
  - ▶ Public sector wage bill

# Historically disappointing growth

## Real GDP

(Millions of 1995 reais, log scale)

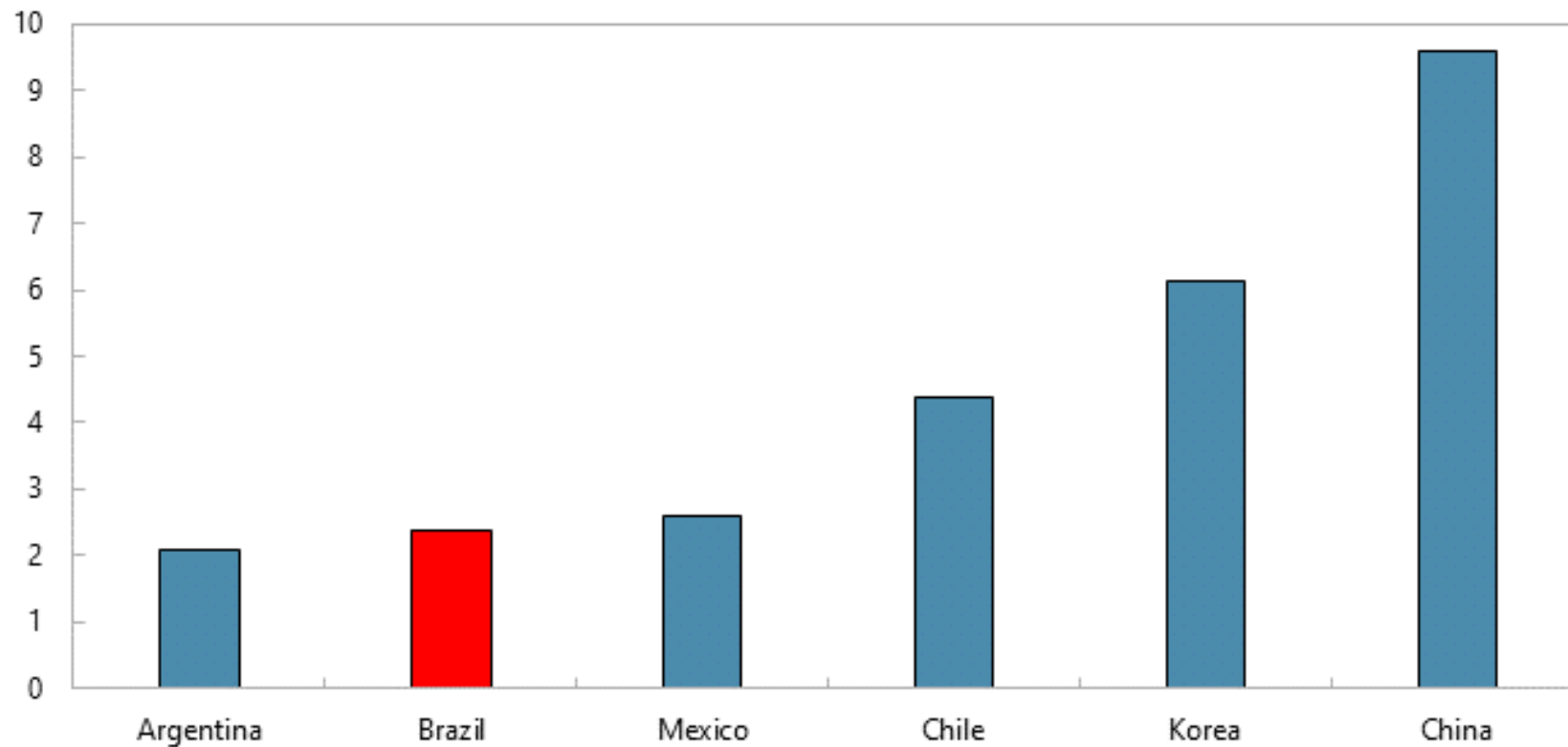


Sources: World Economic Outlook.

# Low growth compared to other EMs

**Average yearly growth rate, 1980-2017**

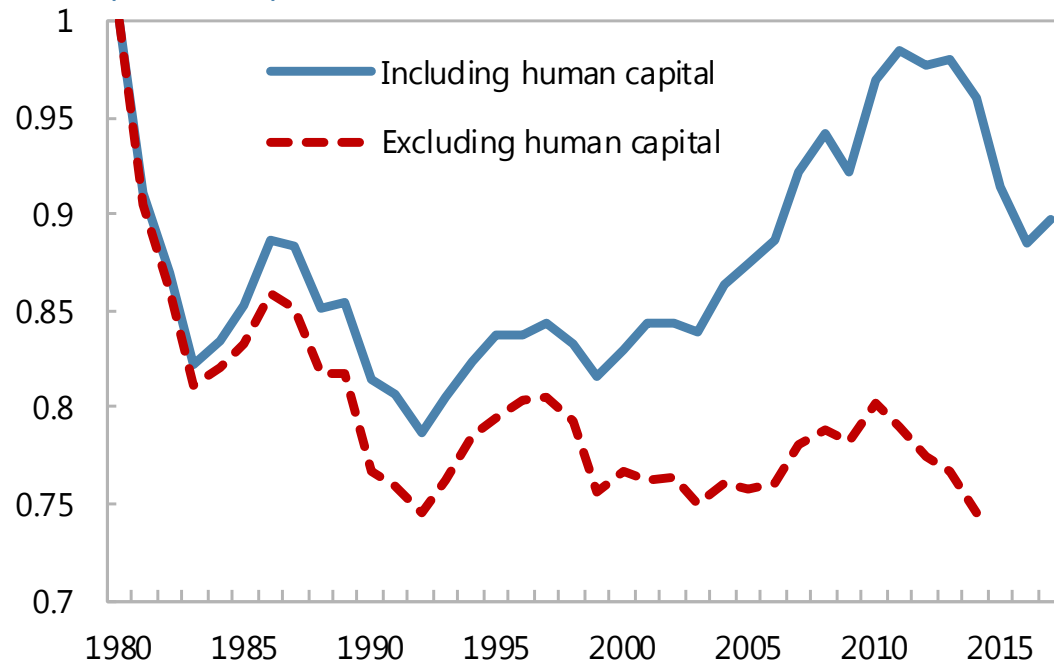
(In percent)



# Sluggish Productivity Growth

## Total Factor Productivity

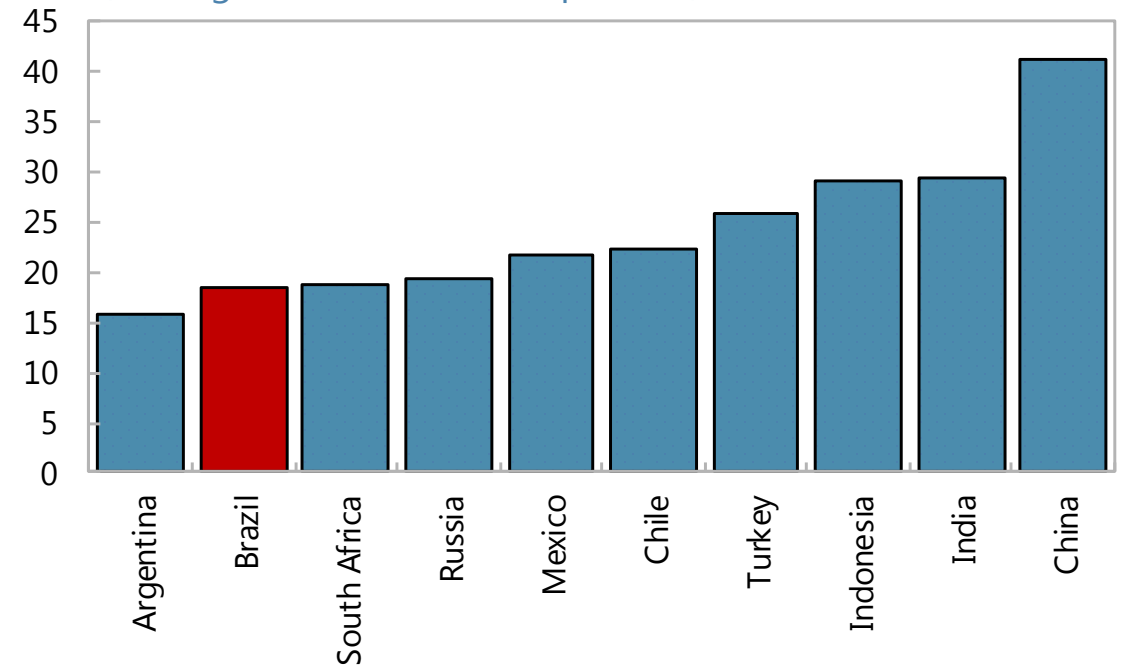
(1980 = 1)



Sources: Fund staff calculations using WEO and PWT data.

## Investment to GDP ratio

(Average over 2000-2017, percent)

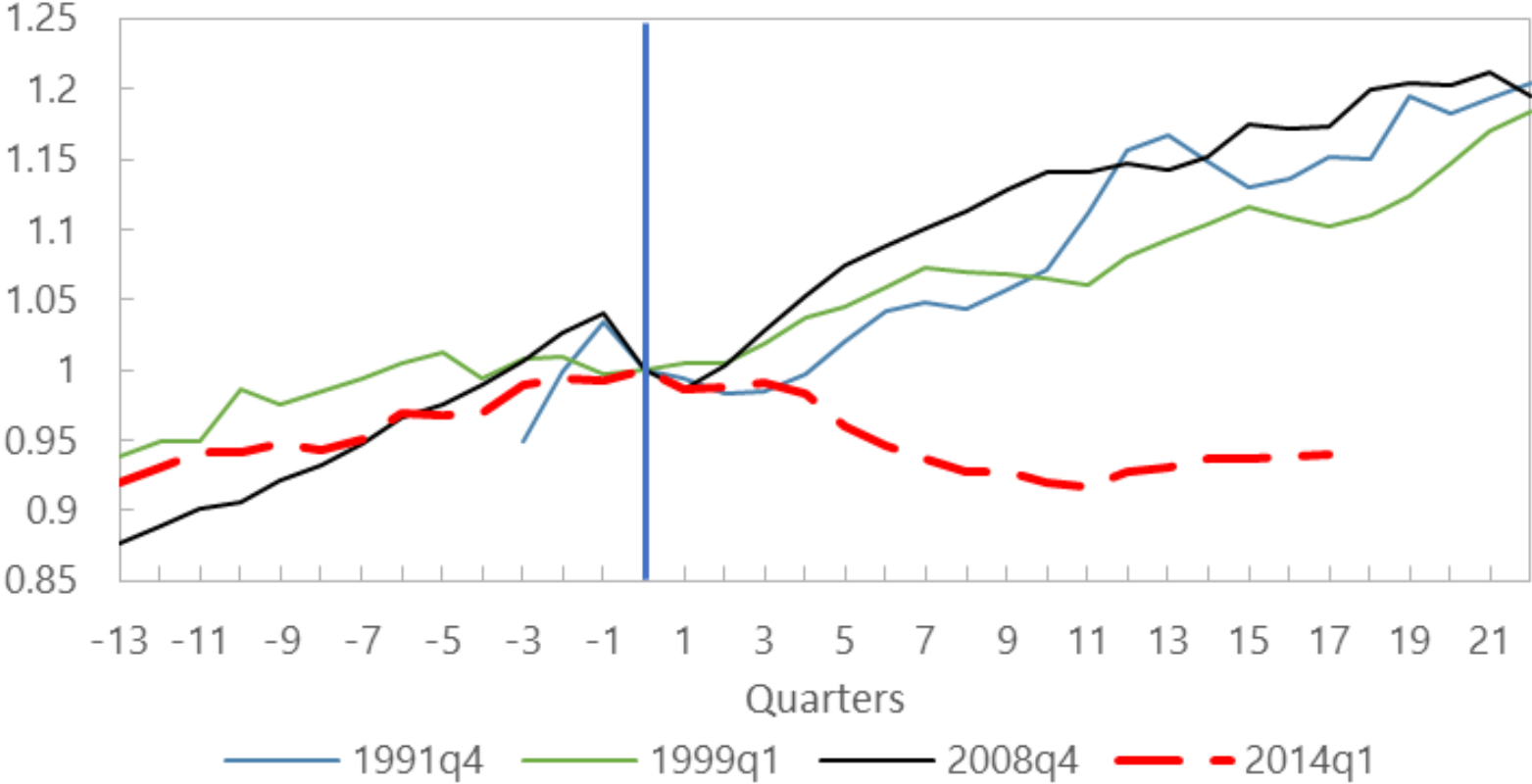


Sources: World Economic Outlook.

# Recovery has been much slower than usual

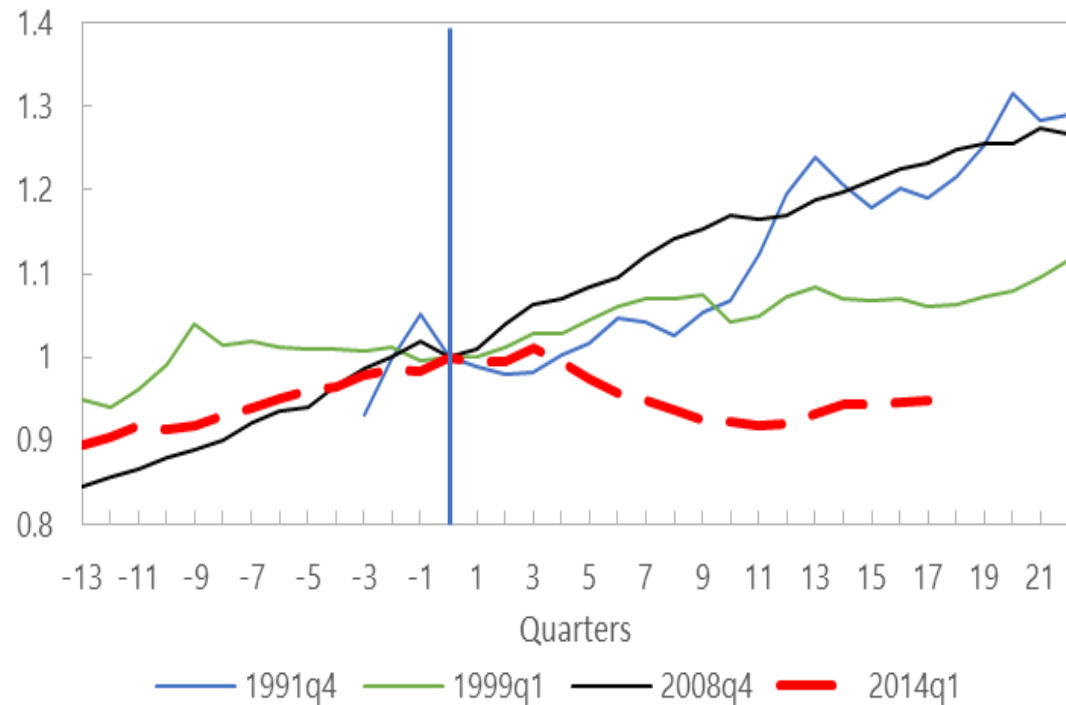
## Brazil: Pre and post-recession real GDP

(SA, Last quarter of yoy positive growth = 100)

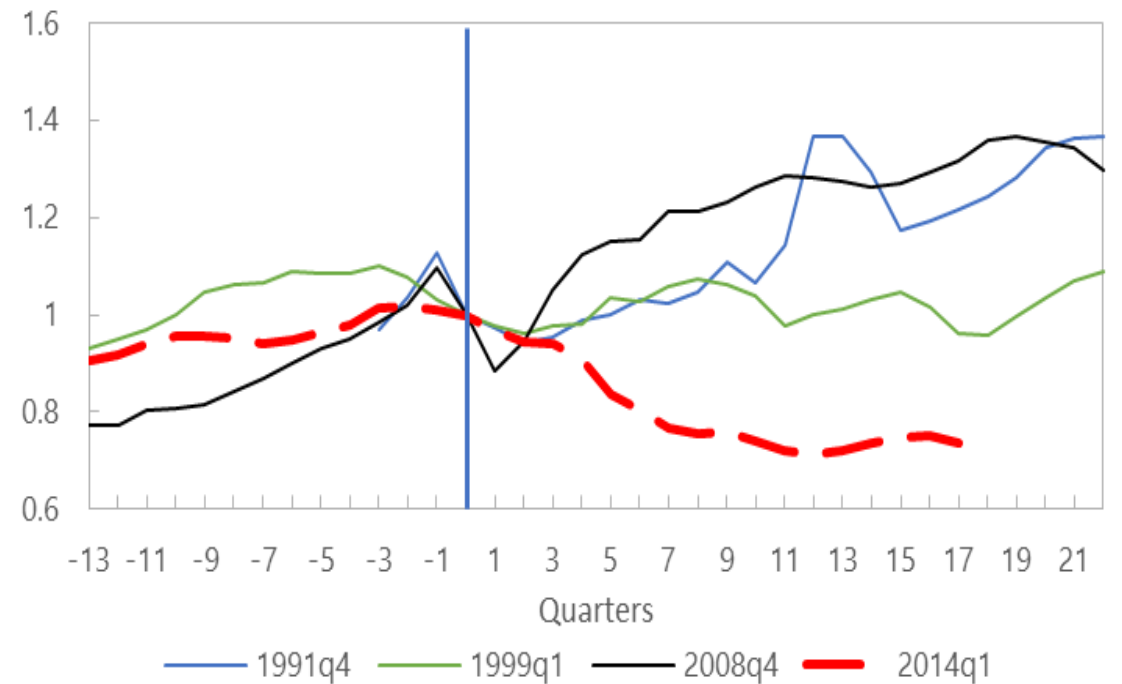


# Especially investment has been lagging

**Brazil: Pre and post-recession consumption**  
(SA, Last quarter of positive growth = 100)



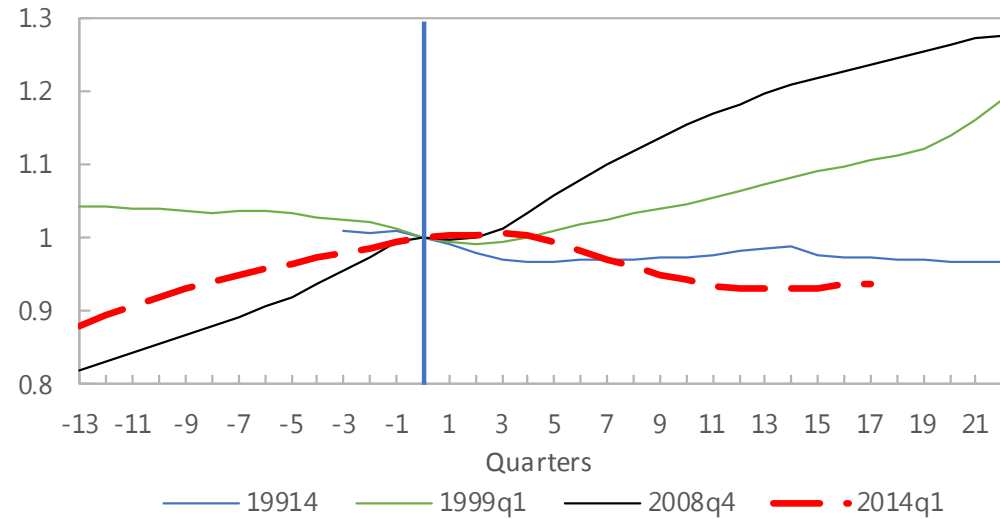
**Brazil: Pre and post-recession investment**  
(SA, Last quarter of yoy positive growth = 100)



# Employment has also suffered

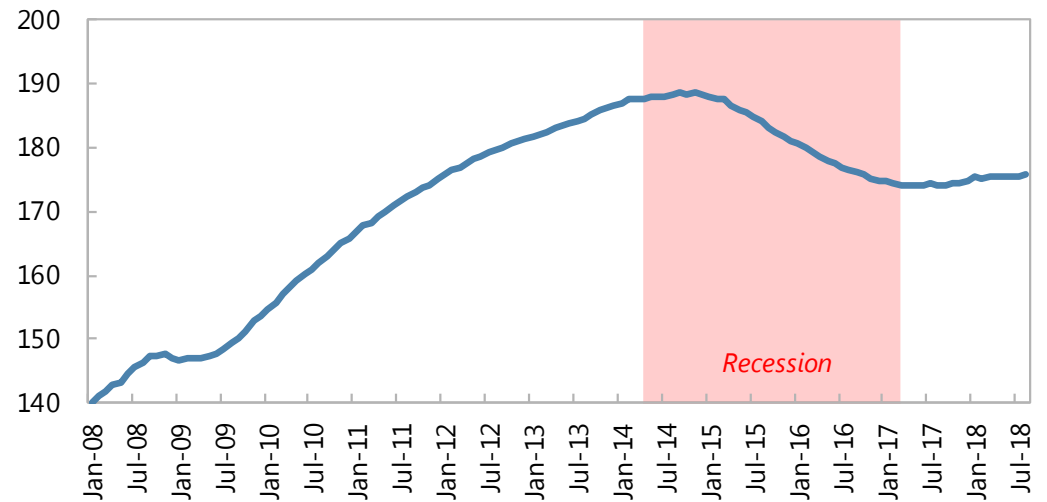
## Brazil: Pre and post-recession employment

(SA, Last quarter of positive growth = 100)



## Brazil: formal employment 2008-2018

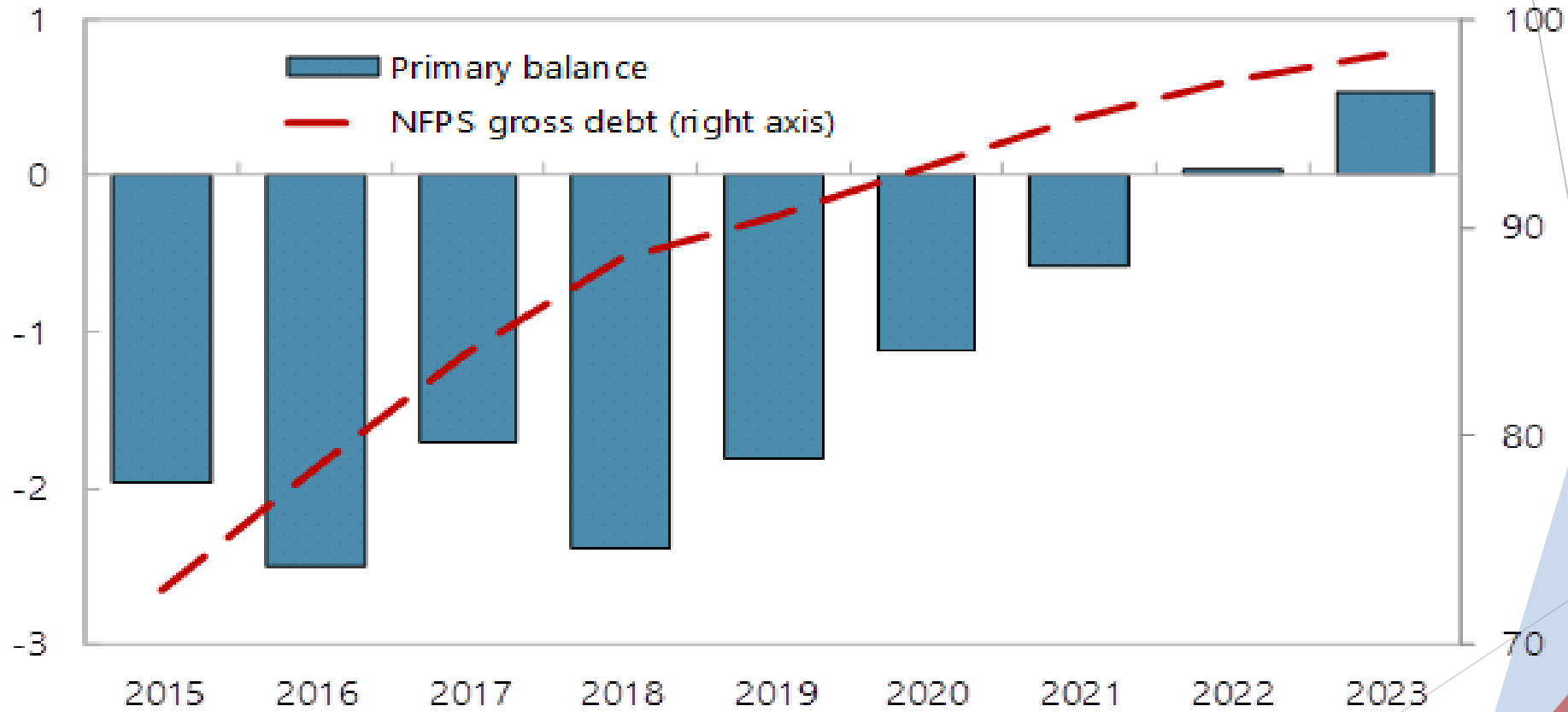
(SA, Dec 2001 = 100)





# Adverse debt dynamics

**Primary Fiscal Deficit and Gross Public Debt**  
(Percent of GDP)



Sources: World Economic Outlook.

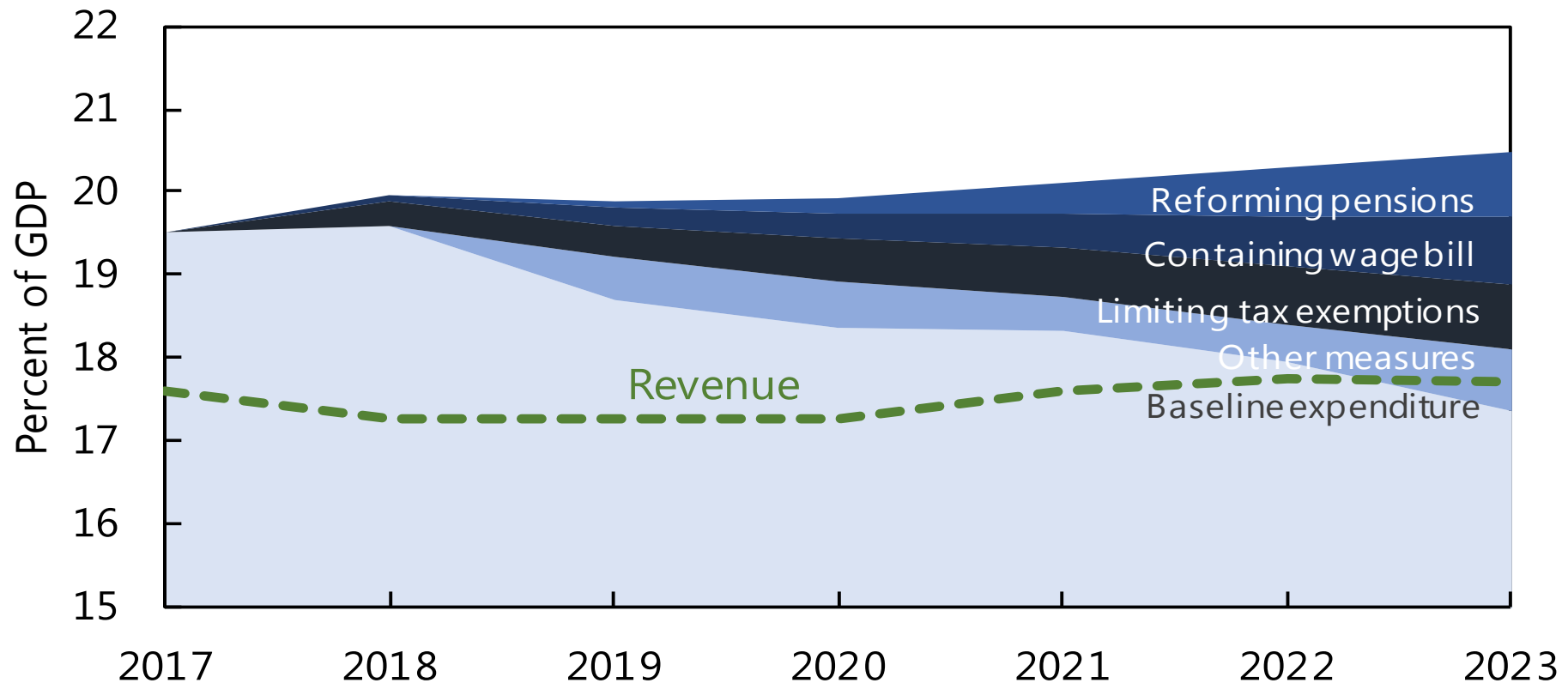
# Fiscal effort

Debt Stabilizing Primary Balance in 2023 (At 98.3 percent of GDP)						
		Real Effective Interest Rate				
		4.0	4.7	5.3	5.9	6.4
Real Growth Rate	1	1.6	2.3	2.9	3.5	4.0
	2	0.7	1.3	1.8	2.5	2.9
	2.2	0.5	1.1	1.6	2.3	2.7
	3	-0.3	0.3	0.9	1.5	2.0
	4	-1.3	-0.6	-0.1	0.5	1.0
	4.5	-1.7	-1.1	-0.6	0.0	0.5

Sources: IMF staff calculations.

# Difficult fiscal adjustment

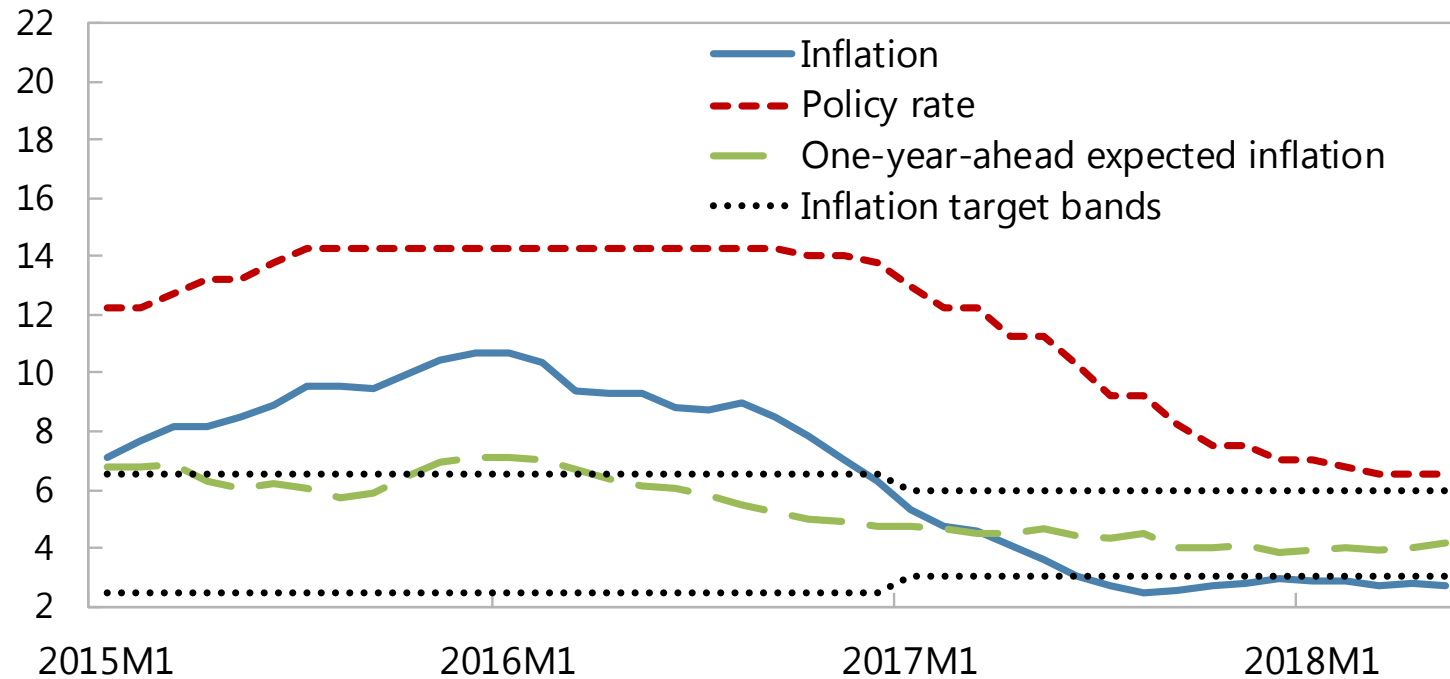
## Brazil: Federal Government Expenditure, Revenue, and Fiscal Measures 2017-2023



# Accommodative monetary policy

## Inflation and Policy Rates

(Percent)

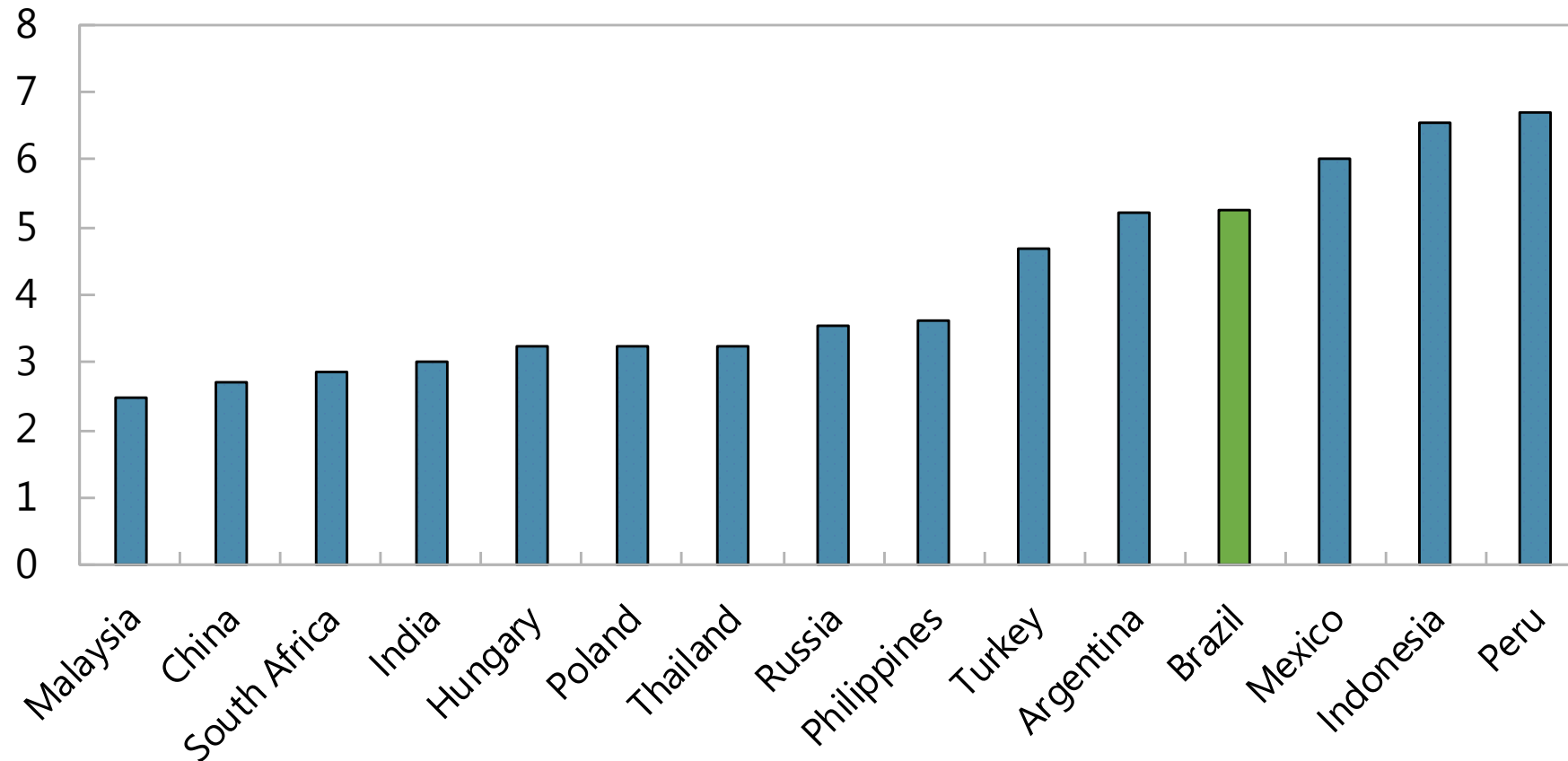


Sources: World Economic Outlook; and Central Bank of Brazil.

# Structural issues persist

## Net Interest Margins

(Percent; average 2008-16)



Sources: Fitch Connect and Fund staff calculations.

# Main indicators

## Brazil: Selected Economic Indicators

	2016	2017	2018	2019	2020	2021	2022	2023
<b>National accounts and prices</b>								
Real GDP growth, percent	-3.5	1.0	1.4	2.4	2.3	2.2	2.2	2.2
Inflation, percent	6.3	2.9	4.2	4.2	4.0	4.0	4.0	4.0
<b>Public sector finances</b>								
Primary balance, % of GDP	-2.5	-1.7	-2.4	-1.8	-1.1	-0.6	0.0	0.5
NFPS gross debt, % of GDP	78.4	84.0	88.4	90.5	92.9	95.3	97.1	98.3
<b>Balance of payments</b>								
Balance on current account, % of GDP	-1.3	-0.5	-1.3	-1.6	-1.7	-1.8	-1.8	-1.9

# Conclusion

- ▶ Historically, weak GDP growth
- ▶ Weak recovery
- ▶ High and increasing public debt