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)

- Including human capital
- Excluding human capital

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.
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)

Recession
Adverse debt dynamics

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

Sources: World Economic Outlook.
## Fiscal effort

<table>
<thead>
<tr>
<th>Real Growth Rate</th>
<th>Real Effective Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4.0</td>
</tr>
<tr>
<td>2</td>
<td>1.6</td>
</tr>
<tr>
<td>2.2</td>
<td>0.7</td>
</tr>
<tr>
<td>3</td>
<td>-0.3</td>
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<tr>
<td>4</td>
<td>-1.3</td>
</tr>
<tr>
<td>4.5</td>
<td>-1.7</td>
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</tbody>
</table>

**Debt Stabilizing Primary Balance in 2023**  
(At 98.3 percent of GDP)

Sources: IMF staff calculations.
Difficult fiscal adjustment

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

- Baseline expenditure
- Other measures
- Limiting tax exemptions
- Containing wage bill
- Reforming pensions

Revenue

Percent of GDP

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.
## Brazil: Selected Economic Indicators

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>National accounts and prices</strong></td>
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<tr>
<td>Real GDP growth, percent</td>
<td>-3.5</td>
<td>1.0</td>
<td>1.4</td>
<td>2.4</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
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<tr>
<td>Inflation, percent</td>
<td>6.3</td>
<td>2.9</td>
<td>4.2</td>
<td>4.2</td>
<td>4.0</td>
<td>4.0</td>
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<tr>
<td><strong>Public sector finances</strong></td>
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<tr>
<td>Primary balance, % of GDP</td>
<td>-2.5</td>
<td>-1.7</td>
<td>-2.4</td>
<td>-1.8</td>
<td>-1.1</td>
<td>-0.6</td>
<td>0.0</td>
<td>0.5</td>
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<tr>
<td>NFPS gross debt, % of GDP</td>
<td>78.4</td>
<td>84.0</td>
<td>88.4</td>
<td>90.5</td>
<td>92.9</td>
<td>95.3</td>
<td>97.1</td>
<td>98.3</td>
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<td><strong>Balance of payments</strong></td>
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<tr>
<td>Balance on current account, % of GDP</td>
<td>-1.3</td>
<td>-0.5</td>
<td>-1.3</td>
<td>-1.6</td>
<td>-1.7</td>
<td>-1.8</td>
<td>-1.8</td>
<td>-1.9</td>
</tr>
</tbody>
</table>
Conclusion

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