BRAZIL

Table 1	2023
Population, million	204.1
GDP, current US$ billion	2173.5
GDP per capita, current US$	10646.8
International poverty rate ($2.15)[a]	3.5
Lower middle-income poverty rate ($3.65)[a]	8.4
Upper middle-income poverty rate ($6.85)[a]	23.5
Gini index[a]	52.0
School enrollment, primary (% gross)[b]	103.5
Life expectancy at birth, years[b]	73.4
Total GHG emissions (mtCO2e)	2170.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

Growth is projected to reach 2.8 percent in 2024, gradually converging towards its medium-term potential. The government has made progress in advancing structural reforms, notably the recent indirect tax reform. However, the fiscal outlook remains challenging. Additional efforts will be required to ensure gradual consolidation and stabilize public debt. Labor market conditions are improving; nonetheless, the poor remain dependent on welfare transfers, with Bolsa Familia`s expenditures stabilization decelerating poverty alleviation.

Key conditions and challenges

Brazil's economy has continued to experience robust growth in recent years. Past and ongoing structural reforms are starting to yield results. A reform of indirect taxes is expected to streamline the tax system, reduce economic distortions, and boost business productivity while making the system more progressive. However, to achieve faster, inclusive and sustained long-term growth, Brazil will require complementary reforms that focus on enhancing the competitiveness and efficiency of the economy. This needs to include improving business climate, reductions in financial and market distortions, expanding infrastructure investment, further integrating into global value chains, and improving educational quality. Brazil faces demographic challenges as the share of elderly population is expanding rapidly, which places greater strain on pension and healthcare costs.

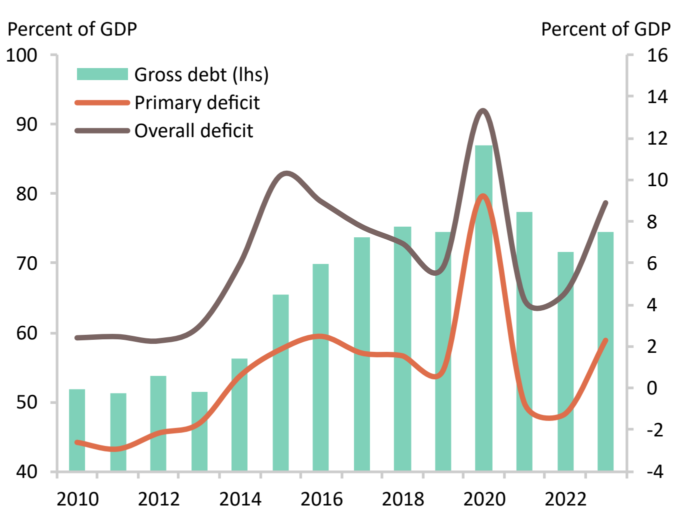
The impact of the pandemic on education continues to reverberate three years later, with test scores below 2019 levels across primary and secondary schools, and a drop in enrollment. Other dimensions of wellbeing, however, continued to improve slowly but steadily. Although consecutive crises exacerbated poverty over the past decade, the poverty rate (measured at $6.85/day per capita, 2017 PPP) fell to a historic low of 21.8 percent in 2023. Inequality has remained high with only a marginal reduction y-o-y. The indirect tax reform will improve the progressivity of the system by exempting a basic basket of goods and by implementing a targeted cashback for poor families.

Fiscal sustainability remains a critical issue as Brazil's public debt and deficit are high compared to peers. The government revised its primary balance targets within its fiscal framework, aiming for a zero primary balance in 2024 and 2025, and a 0.25 percent of GDP surplus in 2026. Maintaining the framework's credibility is essential for anchoring inflation expectations. Despite strong efforts to increase revenues, significant public spending pressures and budget rigidities make it challenging to achieve primary surpluses needed to stabilize the debt-to-GDP ratio.

Recent developments

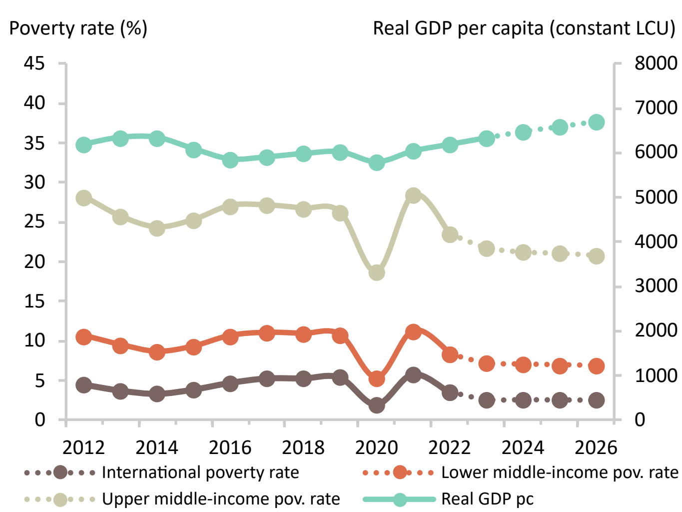
Brazil's GDP expanded by 2.9 percent y-o-y in the first half of 2024, driven by a robust labor market that boosted private consumption. In July 2024, the unemployment rate fell to 6.8 percent, the lowest since 2014, and real average household income rose 4.8 percent. Inflation stood at 4.2 percent in August (from 4.5 percent in July), close to the target range's upper limit (4.5 percent), driven by prices inertia in the services sector, and exchange rate depreciation (16.8 percent in the eight months up to August). Consequently, the Central Bank paused its rate-cutting cycle in June and increased the policy rate by 25 basis points in September, adopting a more cautious

FIGURE 1 Brazil / Fiscal balances and general government gross debt



Source: Central Bank of Brazil.

FIGURE 2 Brazil / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

approach due to concerns over deteriorating inflation expectations and a challenging global environment. The current account deficit stood at 1.8 percent of GDP in August, fully covered by net foreign direct investment (FDI) inflows (2.0 percent of GDP).

The rapid decline in the poverty rates from 2022 and 2023 has slowed down in 2024 as Bolsa Familia transfers have stabilized. Still, the poverty rate (US$ 6.85/day per capita, 2017 PPP) continued to decrease gradually to 21.3 percent in 2024, driven by a 3 percent increase in the real minimum wage and the strong labor market.

The primary fiscal balance deteriorated from a 1.2 percent of GDP surplus in 2022 to a 2.4 percent of GDP deficit in 2023, largely due to increased pensions spending, social assistance, and an unusually large payment of judicial debts (0.9 percent of GDP). Fiscal pressures persisted in the first half of 2024, as spending, particularly on social and pension transfers, outpaced revenue growth, placing the 12-month cumulative primary deficit at 2.3 percent of GDP by July 2024. This, together with a growth in interest payments to 7.7 percent of GDP, contributed to an increase in the public debt, which reached 78.5 percent, up from 74.4 percent by end-2023.

Outlook

GDP growth in 2024 is expected at 2.8 percent mainly driven by consumption and sustained by a robust labor market. Inflation is anticipated to gradually converge to 3.7 percent by 2026, within the Central Bank's target range. However, the recent deterioration of inflation expectations is likely to delay further cuts in the monetary policy rate. The current account deficit is expected to remain moderate and fully financed by net FDI. Medium-term growth is projected to stabilize around 2.3 percent, reflecting the impact of structural reforms on potential output. A gradual fiscal consolidation is expected to reduce the primary deficit to 0.3 percent of GDP in 2024, turning into a 0.2 percent surplus by 2026. The overall fiscal deficit is also expected to narrow in the medium term, facilitating a more accommodative monetary policy and lowering interest payments. Public debt is projected to reach 77.9 percent of GDP by 2026, stabilizing by 2028.

Without the fiscal leeway for significant policy interventions and modest growth predicted across employment sectors, poverty reduction in 2025 and 2026 is expected to remain moderate. Strengthening the targeting of the social protection system and lowering inflation could support faster poverty reduction.

Macroeconomic risks, tilted to the downside, include slower-than-planned fiscal consolidation, which could prompt a tighter-than-expected monetary policy, also raise risk premiums, and worsen debt dynamics. Additionally, global financial conditions could deteriorate due to a slower pace of monetary normalization in advanced economies or an economic slowdown in China. This could limit investment and export growth and exacerbate currency and inflation pressures. Nonetheless, Brazil's ample reserves, flexible exchange rate, low external debt, and resilient financial system provide solid macroeconomic buffers.

TABLE 2 **Brazil** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.8	3.0	2.9	2.8	2.2	2.3
Private consumption	3.0	4.1	3.1	3.5	2.0	2.3
Government consumption	4.2	2.1	1.7	1.6	1.6	1.6
Gross fixed capital investment	12.9	1.1	-3.0	3.9	2.7	2.1
Exports, goods and services	4.4	5.7	9.1	3.5	3.3	3.3
Imports, goods and services	13.8	1.0	-1.2	8.0	3.0	3.0
Real GDP growth, at constant factor prices	4.5	3.1	3.0	2.8	2.2	2.3
Agriculture	0.0	-1.1	15.1	-2.0	2.0	3.0
Industry	5.0	1.5	1.6	3.0	2.0	2.0
Services	4.9	4.1	2.1	3.3	2.3	2.3
Inflation (consumer price index)	8.3	9.3	4.6	4.2	3.8	3.7
Current account balance (% of GDP)	-2.4	-2.1	-1.0	-1.6	-1.8	-1.9
Net foreign direct investment inflow (% of GDP)	1.8	2.1	1.8	2.2	2.4	2.5
Fiscal balance (% of GDP)	-4.2	-4.6	-8.9	-7.3	-6.3	-6.0
Revenues (% of GDP)	34.2	36.6	34.9	35.4	35.3	35.2
Debt (% of GDP)	77.3	71.7	74.4	76.5	77.4	77.9
Primary balance (% of GDP)	0.7	1.2	-2.4	-0.3	0.0	0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.8	3.5	2.7	2.6	2.6	2.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	11.3	8.4	7.2	7.1	7.0	6.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	28.4	23.5	21.8	21.3	21.1	20.9
GHG emissions growth (mtCO2e)	15.1	-8.2	-8.0	1.2	-3.9	-3.6
Energy related GHG emissions (% of total)	16.9	17.5	19.6	21.0	21.8	22.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2023-PNADC. Actual data: 2022 and 2023 (Preliminary). Nowcast: 2024. Forecasts are from 2025 to 2026.
b/ Projection using microsimulation methodology.