
SUMMARY

1. Since Brazil's previous Review in 2017, efforts for improving economic fundamentals and strengthening macroeconomic resilience were undertaken. During the review period and prior to the COVID-19 outbreak, Brazil's annual GDP growth rate rose up to 1.8% (2018) before contracting to -3.9% (2020), due to the pandemic. It has since bounced back to an estimated 4.6% in 2021 as a result of timely adopted support measures, booming terms of trade, a pick-up in commodity prices, recovery in domestic and external demand, and robust private sector credit growth. Brazil's annual average GDP growth rate for the period 2017-21 was relatively low at 1%, although higher than the average of -0.4% in 2012-16. Developments in the country's position among the most competitive economies in the world reflect, *inter alia*, improvements in the business environment but also weaknesses in several areas where reforms have been under way. Between 2017 and 2020, inflation at rates ranging from 3.2% to 3.7% remained under the upper limit of the tolerance range established by the Central Bank of Brazil (BCB); however, since January 2021, it exceeded its upper limit attaining 8.3% that year, and rose progressively to 12.13% in April 2022, but easing subsequently to 11.7% in May 2022. Unemployment rose slightly to the historically high rate of 13.5% in 2020 and 2021, *inter alia*, due to the impact of the pandemic.

2. During the review period, trade and trade-related structural reforms focused on boosting productivity, potential growth, and living standards, among others, were undertaken in several areas including regulatory and institutional issues, privatization, and the labour market. These reforms seem to have attracted private investment into transportation, energy, and water and sewage and are expected to generate additional infrastructure investment. To protect the poor and the most vulnerable people who were disproportionately affected by the COVID-19 pandemic, Brazil put in place a large, targeted, and time-bound fiscal package focused on health spending, social assistance, and support to firms to contain layoffs. During the review period, monetary policy was gradually loosened and recently tightened. Between 2017 and 2022, the Selic policy rate was reduced progressively from a peak of 14.25% (August 2015) to a historical low of 2% (applying from 23 July 2020 to 10 March 2021) and then was raised gradually to 11.75% (29 March 2022) to address rising inflation. Brazil's floating exchange rate system continued to work as an important shock absorber. During the review period, the current account deficit peaked to 3.5% of GDP in 2019 and then shrunk to 1.7% in 2020 and 2021 due to, *inter alia*, improvements in the trade, services, and income balances. Brazil's overall gross external debt (including intercompany lending and debt securities traded in the domestic market) grew slightly by an overall rate of 0.5% during the period 2017-21; it peaked to USD 675.8 billion in 2019 and dropped to USD 670.3 billion, or the equivalent of 41.7% of GDP in 2021.

3. Brazil's openness to international trade and its integration into the world economy continued to be reflected by the ratio of the country's trade (exports plus imports) in goods and services to GDP, which rose significantly from 24.3% in 2017 to 39.2% in 2021 due to an increase of both exports and imports in 2020 and 2021. Merchandise exports have become increasingly concentrated on commodities (e.g. vegetable products, live animals, and petroleum and mineral products), whereas merchandise imports concentrated on manufactures. International trade trends reflect the rising importance of Asia, particularly China, and the relative decline of the Americas' weight; furthermore, merchandise trade with MERCOSUR partners declined considerably, notably on the exports side. In 2021, China, the European Union, and the United States were Brazil's main export markets and its main sources of imports, albeit in a different order (i.e. China, the United States, and the European Union).

4. Brazil remains open to and encourages inward foreign direct investment (FDI), which is prevalent across the economy despite certain foreign ownership prohibitions (e.g. postal services and nuclear energy) or limitations or prior authorization/approval requirements in some sectors (e.g. health services, rural land acquisition, broadcasting and publishing media, fishing, mining, and hydrocarbons exploration). During the review period, Brazil took several steps to improve the business climate via regulatory (e.g. the 2021 New Business Environment Law), institutional (e.g. the creation of the Direct Investments Ombudsman (DIO)), and procedural changes, and to facilitate foreign investment participation in air transport (lifting of foreign ownership restrictions) and financial services. Legally registered domestic and foreign companies compete on an equal footing when bidding on contracts or seeking tax and non-tax incentives; foreign companies' direct participation in government procurement bidding was eased. During the review period, FDI equity inflows bottomed, reflecting the negative impact of the pandemic, and in 2021 rose at an amount equivalent to 65.3% of their 2017 level; the European Union and the United

States were the main sources and destinations of FDI flows. Brazil continued the replacement of its bilateral investment, promotion, and protection agreements by investment cooperation and facilitation agreements, as well as the conclusion of double taxation avoidance treaties.

5. Since its last Review in 2017, Brazil undertook several constitutional amendments related to, *inter alia*, transfer of federal financial resources and emergency aid to address the social and economic consequences of the COVID-19 pandemic. The institutional framework for trade policy formulation remained broadly unchanged, except for the transfer of the Ministry of Industry, Foreign Trade and Services including the Executive Secretariat of the Foreign Trade Board/Chamber (CAMEX) and the Secretariat of Foreign Trade (SECEX) to a new Ministry of Economy created in 2019. Brazil's stated overall trade and trade-related policy objectives have remained those of industrial development, production diversification, technological upgrading, raising competitiveness of domestic products, and integration into global value chains and international markets, as well as intensifying and diversifying exports. Its three-pillar trade policy agenda consisted of intensification of the trade agreements network of the Southern Common Market (MERCOSUR), modernization of the MERCOSUR common external tariff (CET) structure, and reduction of non-tariff barriers to trade. During the review period, Brazil adopted measures to simplify regulations, increase transparency, and encourage trade, as well as to promote the use of several tools related to good regulatory practices, including the obligation of conducting Regulatory Impact Analyses/Assessments; it also made advances in e-government and anti-corruption.

6. Brazil remains committed to, and is an active participant in, the multilateral trading system. During the review period, it participated in all WTO joint statement initiatives, i.e. e-commerce, investment facilitation for development, MSMEs (micro, small, and medium-sized enterprises), and services domestic regulation. The procedure for its accession to the WTO Agreement on Government Procurement (GPA) has been under way since May 2020. Brazil applied to join the Agreement on Trade in Civil Aircraft in June 2022. In March 2019 it announced that it would begin to forgo special and differential treatment in WTO negotiations. At the same time, Brazil has continued strengthening regional economic integration through MERCOSUR and Latin American Integration Association (LAIA/ALADI) RTAs with an emphasis on deepening existing agreements and negotiating agreements with trading partners outside the region; it concluded and implemented certain RTAs (Brazil – Chile, Brazil – Paraguay, MERCOSUR – Colombia, MERCOSUR – Egypt), while signature and ratification of two RTAs (i.e. with the European Union and the European Free Trade Association) and negotiation of other agreements are ongoing. Brazil has submitted many notifications to the WTO. During the review period, it was directly involved in five new WTO disputes, four as a complainant and one as a respondent; at the same time, similar to some other Members, it took action ("appeal in the void") to address the lack of a functioning WTO Appellate Body.

7. The tariff remains one of Brazil's main trade policy instruments, and a non-negligible source of tax revenue. Brazil applies the MERCOSUR CET, with some country-specific derogations. As at 1 April 2022, Brazil's applied MFN tariff was entirely *ad valorem* with rates ranging from zero to 55%; it comprised 35 different rates (up from 19 in 2017). During the review period, Brazil eliminated the import duties on certain aeronautical goods and implemented several temporary tariff reductions in response to the COVID-19 pandemic. The simple average applied MFN tariff declined slightly from 11.6% in 2017 to 10% in April 2022 and 9.4% in July 2022. Brazil's bound tariff schedule and preferential tariffs are yet to be updated to HS22. While nomenclature differences would generate noise in most comparisons between Brazil's bound and applied tariffs, the simple average bound tariff rate was some 20.7 percentage points higher than the average MFN rate applied as of 1 July 2022.

8. Since its last Review, Brazil has continued streamlining its foreign trade formalities and gradually implementing its Single Window Programme (Programa Portal Único de Comércio Exterior) launched in 2014. Notable developments include the fully digitized export formalities, the upgraded Authorized Economic Operator (AEO) programme, and the publication of a Time Release Study (the first one in Brazil based on the World Customs Organization's methodology). Brazil has also expanded its non-preferential rules of origin (adding an alternative criterion for products deemed to have undergone substantial transformation) and updated the relevant verification procedure. Regarding preferential trade, arrangements have been put in place for the bilateral exchange of digitally signed certificates of origin with Argentina, Colombia, Paraguay, and Uruguay.

9. During the review period, Brazil maintained import prohibitions on health and moral grounds, and to comply with international conventions to which it is a party; its list of import prohibitions

remained broadly unchanged. Brazil remains a significant user of trade remedies, particularly anti-dumping measures. The regulatory framework on trade remedies was amended and its institutional setting underwent a transformation. The number of definitive anti-dumping measures dropped from 161 (2017) to 140 (2021) and no safeguard measures were taken.

10. Brazil has made limited use of export taxes, which continue to represent a negligible and declining share of federal tax revenues. Two such taxes were eliminated in 2018 and 2021, respectively (on raw hides and skins and arms and ammunition). Temporary export prohibitions have been applied on certain medical, hospital, and hygiene products deemed essential for combatting the spread of COVID-19 in Brazil. Since 2017, Brazil's drawback and export processing zone regimes have been updated, and guidelines for reforming the system of federal-level export support have been adopted. Programmes intended to increase exports and to boost the competitiveness of export-oriented companies remain in place.

11. Brazil's internal taxation regime remains complex, including in the treatment of imported goods and services. Domestic and cross-border transactions are subject to various federal and sub-federal levies, and cross-cumulation of these taxes for tax base purposes is not uncommon. In addition, their application typically varies depending on the product type, the competent sub-federal authority, and the importer's tax regime status. Whereas federal taxes are automatically deducted from the importer's bank account upon submission of the customs declaration, procedures and systems for the collection of sub-federal taxes (sometimes requiring presentation of hard copies for imports' release) still vary across Brazil's federative states.

12. Various incentive programmes remained in place during the review period. The range of support measures included administered interest rate or concessional financing, tax concessions, financial contributions, accelerated depreciation, guarantees, grants, advisory services, and credit insurance. Brazil maintains certain incentives conditional on compliance with Basic Productive Process (PPB) criteria, which are set with a view to maximizing the utilization of domestically installed productive capacity.

13. While the institutional framework for the implementation and administration of the TBT Agreement remained broadly unchanged during the review period, several initiatives aimed at cutting red tape were launched following the enactment of the 2019 Economic Freedom Rights legislation. There have been no major changes to the legal and institutional frameworks for sanitary and phytosanitary protection since Brazil's previous Review.

14. Brazil's competition regime did not undergo major changes during the review period, having been rationalized in 2012. The national competition authority, the Administrative Council for Economic Defense (CADE), implemented several initiatives aimed at enhancing transparency and service delivery through digital means. Through cease-and-desist agreements (settlements), CADE also secured divestiture commitments from the state-owned enterprise (SOE) Petrobras with a view to fostering competition in the natural gas and oil refinery markets. Prices of certain sensitive goods and services (e.g. residential electricity and fixed line telephone tariffs, pharmaceuticals) continued to be controlled or regulated.

15. During the review period, state involvement in some key sectors, such as mining, oil exploration, and electricity, was either reduced or terminated. The authorities also took steps to strengthen the governance and transparency of federal SOEs, and facilitate the entry of competitors. Nevertheless, the economic footprint of Brazil's SOEs remains large, with many federal SOEs owning shares of various private companies. In addition, there are various "public companies" owned or controlled by state and municipal governments; consolidated information on them is not available. Brazil indicated the existence of one state trading enterprise (STE), the National Company for Food Supply (CONAB), in its WTO notification for the years 2018-19.

16. A new public procurement law was enacted in 2021 and will fully supersede the previous legislation after a two-year transitional period of coexistence; it prohibits discriminatory treatment between national and foreign suppliers. SOEs remain subject to separate legislation providing for greater flexibility. In 2021, an electronic National Public Procurement Portal (PNCP) was launched. Preferences for Brazilian-based bidders and Brazilian-made supplies remain in place. An electronic system for the management of tendering processes has been implemented.

17. The legal and institutional frameworks for the protection of intellectual property (IP) rights were modified during the review period. The Intellectual Property Inter-Ministerial Group (GIPI), established in July 2019, became responsible for IP policy formulation. The main legislative amendments affecting IP protection related to patent protection. During the review period, the National Industrial Property Institute (INPI) continued taking steps to cut down processing delays and reduce its backlog of applications pending review.

18. Since its previous TPR, Brazil has maintained the broad scope of its sectoral trade policies, though it introduced relevant regulatory and institutional changes. A significant number of border measures, targeted domestic support, and administrative processes were either eliminated, simplified, or streamlined, while concessions in some important sectors were carried out enabling sectoral growth in a number of areas, despite the economic challenges posed by the global pandemic. The relatively complex tax system, lack of a fully-fledged competitive financing system, infrastructure bottlenecks, and a number of administrative measures continued to hinder the full sectoral efficiencies.

19. Brazil remains a major player in the global trade of certain agricultural commodities, in particular of soybeans, beef, poultry meat, sugar, orange juice, and coffee. In 2021, the agricultural sector's share in gross value-added and employment stood at 8.1% (5.7% in 2017) and 9.7%, respectively (including fisheries and forestry). Despite the dualistic nature of farming in Brazil (commercial and family farming), over the past decades, the agricultural sector registered faster labour productivity growth *vis-à-vis* other sectors. The sector remains crop- and export-oriented and depends on imports of agricultural inputs, in particular fertilizers. The average MFN applied tariff for agricultural products in 2022 stood at 9.1% (WTO definition). Its low levels of domestic support, minimal market price support, and low protection illustrate the country as a competitive global agriculture exporter. Agricultural or rural credit at administered and preferential interest rates remain the major policy instrument for the sector. Agricultural zoning requirements continue to link agricultural support to environmental sustainability. They condition producers' eligibility for concessional credit and subsidized insurance programmes. In addition, several specific programmes for both the commercial and family farming segments promote sustainable agricultural practices; they include credit for plantings on unproductive and degraded soils, credit for forest planting, and credit to modernize production systems and preserve natural resources.

20. Brazil also holds a significant position in the world mining industry. Brazil is among the leading producers of iron ore, manganese, niobium, bauxite, and tin. During the review period, institutional and policy developments included the creation of the National Mining Agency (ANM) in 2017 to, *inter alia*, promote the management of mineral resources and oversee the implementation of the Strategic Planning (2020-23). Tariff protection remained unchanged. Domestic support for developing mining companies and sustainable technologies through an Inova Mineral joint initiative on credits, subsidies, cooperation projects between institutions and companies is available to selected firms. In February 2021, the National Bank for Economic and Social Development (BNDES) sold its last block of shares in Vale S.A., the largest mining company in Brazil and the company with the highest market value on the Brazilian stock exchange. The Federal Government still retains specific rights (golden shares) assigned in Vale's bylaws.

21. Brazil remains a net exporter of crude oil and importer of refined oil products. Its energy matrix continued to be considered one of the greenest in the world. The state-controlled Petrobras maintained its dominant position both in upstream and downstream hydrocarbons activities. Petrobras sold all of its shares in BR Distribuidora, now named Vibra Energia, which is the main player in the oil products distribution and retail markets. In the natural gas sector, a 2021 Gas Law is to ensure an open and competitive market, enabling a robust regulatory agenda to build the new natural gas market, and opening new investment opportunities. Brazil's 2017 National Biofuels Policy (RenovaBio) to support reaching the country's climate goals has been in line with its COP21 commitments. In its third year of full operation, RenovaBio has been consolidating itself as one of the largest decarbonization programmes for the fuel matrix in the world. Brazil retained its position as the world's second-largest producer and exporter of ethanol with a mandatory ethanol blend ratio fixed at 27%; in addition, other support measures for the production and consumption of ethanol, such as credit facilities and tax differentiation and cross-subsidization, remain in place. Brazil is the world's third-largest producer of biodiesel; the mandatory blending ratio of biodiesel added to oil diesel has increased, and their production continues benefiting from incentives and a regulated domestic market. During the review period, installed capacity and power generation continued to

grow at a fast pace. In July 2021, legislation was passed allowing for the privatization of the state-owned Eletrobras through capitalization. Electricity tariffs continue to ensure cross-subsidization among different consumer categories.

22. Manufacturing remains relatively large (accounting for 11.3% of gross value-added in 2021), albeit declining, and diversified. The "Brazil Cost", incipient research, development and innovation initiatives, relatively weak integration into the world economy, and punctual shields from external competition continued to undermine Brazil's ability to fully exploit its industrial potential. Positive reforms and initiatives across the board, including shifting from sector- and industry-oriented policies and incentives towards actions aimed at major reforms, tackling infrastructure deficiencies, and streamlining the business environment are bound to bear long-lasting results and further attract FDI. The average MFN applied tariff for manufacturing products was reduced from 11.8% in 2017 to 10.3% in 2022. Clothing, textiles, and transport equipment continue to benefit from the sector's highest tariff protection. Incentives, such as remission of duties and taxes on exports remain in place; the incidence of those under the REINTEGRA scheme was seemingly diminished. General administered interest rate or concessional loans and government procurement preferences to local suppliers are still in place. Production step-related local content requirements tied to domestic support measures continue to shield domestic producers from foreign competition. Industry-specific incentives, such as for the automotive (INOVAR-Auto), were ended. Few sector-specific schemes, such as those for information technology and aeronautics, remain in place. Automotive trade agreements with Argentina, Mexico, Paraguay, and Uruguay are in place.

23. The services sector, a key component of overall export competitiveness, remains the main contributor to Brazil's gross value-added (69.8% in 2021) and job creation. However, despite improvements in certain areas, it continues to suffer from structural weaknesses hindering the growth potential of the entire economy. During the review period, Brazil's commitments under the GATS remained unchanged. Brazil undertook specific commitments on trade in services under three RTAs that contain GATS-plus services commitments. In 2020, Brazil notified an exceptional and temporary restriction on the entry of foreign natural persons (mostly non-resident) for a period of 30 days to contain the risks related to COVID-19. The government-owned banks' share of total bank assets dropped to 40% in 2020, and high interest spreads remain in place due to, *inter alia*, the lack of competitive pressure on major banks. The main legal framework for banking remained relatively unchanged and the banking system has remained resilient. Since February 2021, an "Open Banking" policy increased the sharing of customers' data between financial institutions and aimed to increase competition in the financial sector. The share of non-performing loans (NPLs) eased. Nevertheless, high interest spreads between lending rates and the remuneration of deposits remain in place. The legal framework for insurance remained largely unchanged. An "Open Insurance" policy to allow the sharing of consumers' information among different companies authorized or accredited by SUSEP by sharing data and services has been in place since 2021. Brazil continued to account for around 40% of Latin America's reinsurance market; IRB Brasil Resseguros, the former state monopoly reinsurer, continues to dominate the segment.

24. The fixed and mobile telephony markets remained fully open to competition, though they are dominated by a handful of large operators from abroad. In 2021, Brazil carried out the largest radio frequency tender of its history on the 5G mobile telephony technology. Investment barriers seemed to continue to make market entry a challenge in television broadcasting.

25. Several initiatives were undertaken in the transport sector. Due to the COVID-19 pandemic, in 2020 regular and non-scheduled flights dropped by 51% as compared to 2019. Emergency measures were introduced to mitigate the negative economic effects on the air services sector, as well as to adapt the rules applicable to the new scenario, while seeking to protect the interests of passengers. Civil aviation policy pursued greater insertion of Brazilian aviation into international markets through the conclusion of new Air Transport Agreements. In other transport modes, the main regulatory change was introduced by "BR do Mar" in January 2022 with the aim to improve cabotage and reduce costs, thus providing greater efficiency to maritime and waterways transport in Brazil. Eight port terminals in six Brazilian states were conceded to the private sector under the Investment Partnership Programme (PPI).

26. Cross-border e-commerce trade grew during the review period and Brazil holds the second position in Latin America in this segment. To offset the negative effects from the COVID-19 pandemic, the Ministry of Tourism adopted a number of initiatives and prepared a strategy for the recovery of the tourism sector. Regarding professional services, the Doctors throughout Brazil

Programme (Médicos pelo Brasil) was launched in 2019 with the objective of structuring the federal medical career in places with high social vulnerability.

27. The Brazilian economy is projected to enter a gradual recovery, but growth is expected to remain relatively weak for 2022 as uncertainty around the outlook was viewed as exceptionally high although risks to growth were being broadly balanced. Downside risks to Brazil's economic outlook include fiscal imbalance, a high unemployment rate, inflationary pressures, and rapid population ageing. Brazil's relatively low public external indebtedness and its significant cushions, such as its currency reserves and strong FDI component of capital inflows, against external financial risks remain in place; however, the authorities are cautious about the impact of the war in Ukraine on the world economy and Brazil's growth prospects. Future prosperity and sustainable growth continue to depend on the implementation of productivity-enhancing structural reforms in several areas including revamping the complex tax and incentives regime and reducing the regulatory burden on businesses, as well as closing infrastructure gaps. These reforms would increase the resilience of the Brazilian economy, thus enabling it to continue to meet its broad-based economic and welfare objectives, including inclusive growth and a narrower wealth divide.