

Corona crisis and economic
policies of the Bolsonaro
government

FMM Conference, Berlin, 30/10/2020

Luiz Fernando de Paula

Institute of Economics, Federal University of Rio de
Janeiro (UFRJ)

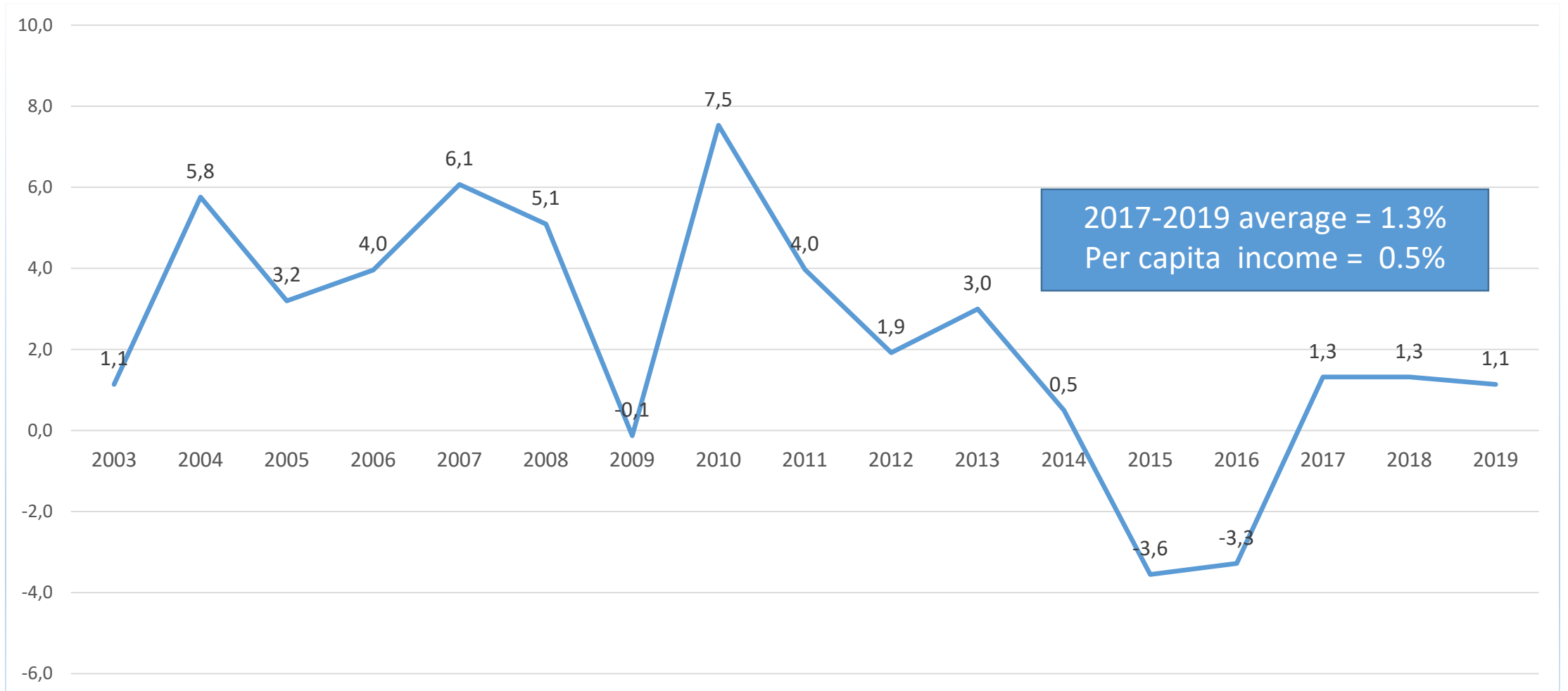
Structure of the presentation

- Brazilian economy before the coronavirus crisis.
- The effects of the coronavirus crisis on the Brazilian economy.
- Emergency and countercyclical policies.
- Some results of such policies.
- Conclusion and perspectives.

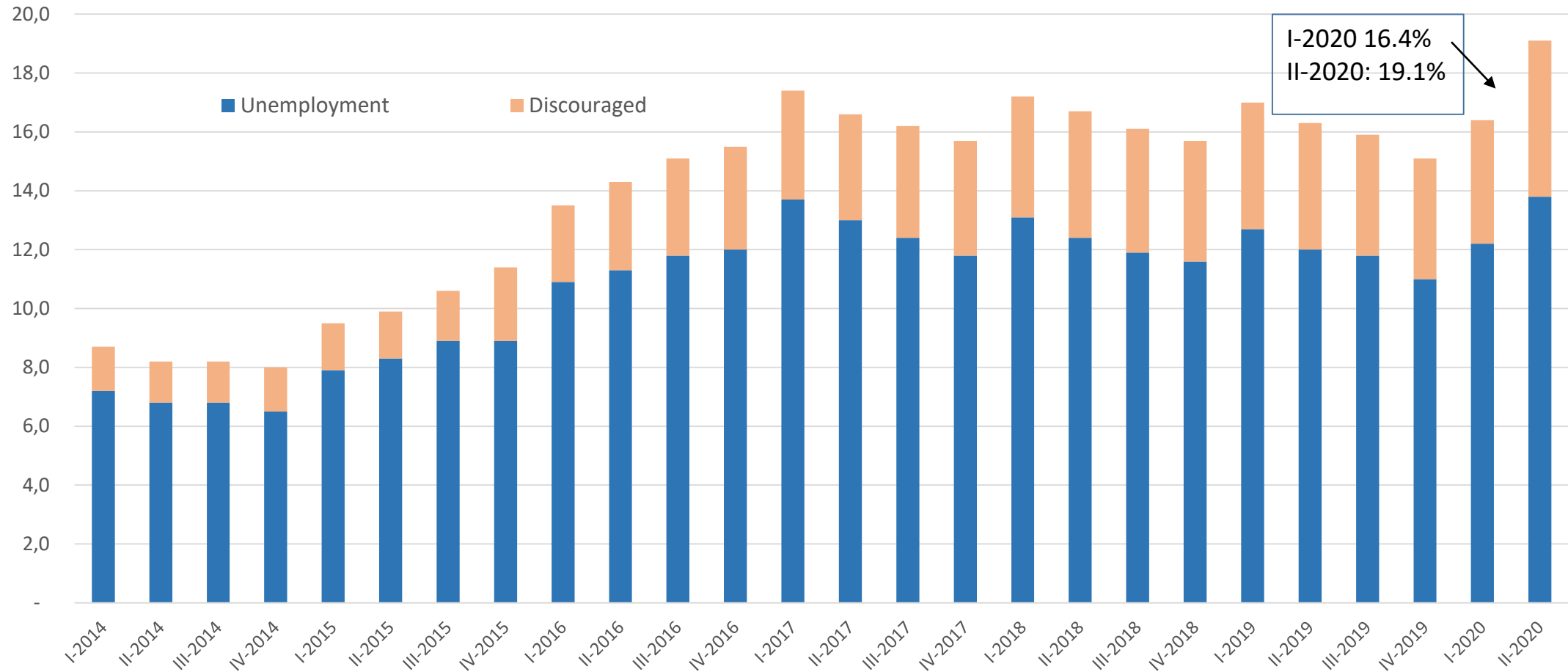
Brazilian economy before the coronavirus crisis: liberal reforms since 2016

- Constitutional expenditure ceiling (December 2016): real freeze on government primary spending for 20 years, as the public spending is readjusted by the previous year's inflation.
- Labor reform (November 2017): flexibilization of labor market, with implementation of temporary contract, intermittent work, workday of 12 hours, etc.
- Pension reform (November 2019): increased the minimum retirement age, minimum contribution time, etc.
- Government's promise of greater economic growth due to reforms: "confidence fairy".

Real GDP growth (% p.a.) – 2003-2019 (reforms have disappointed!)

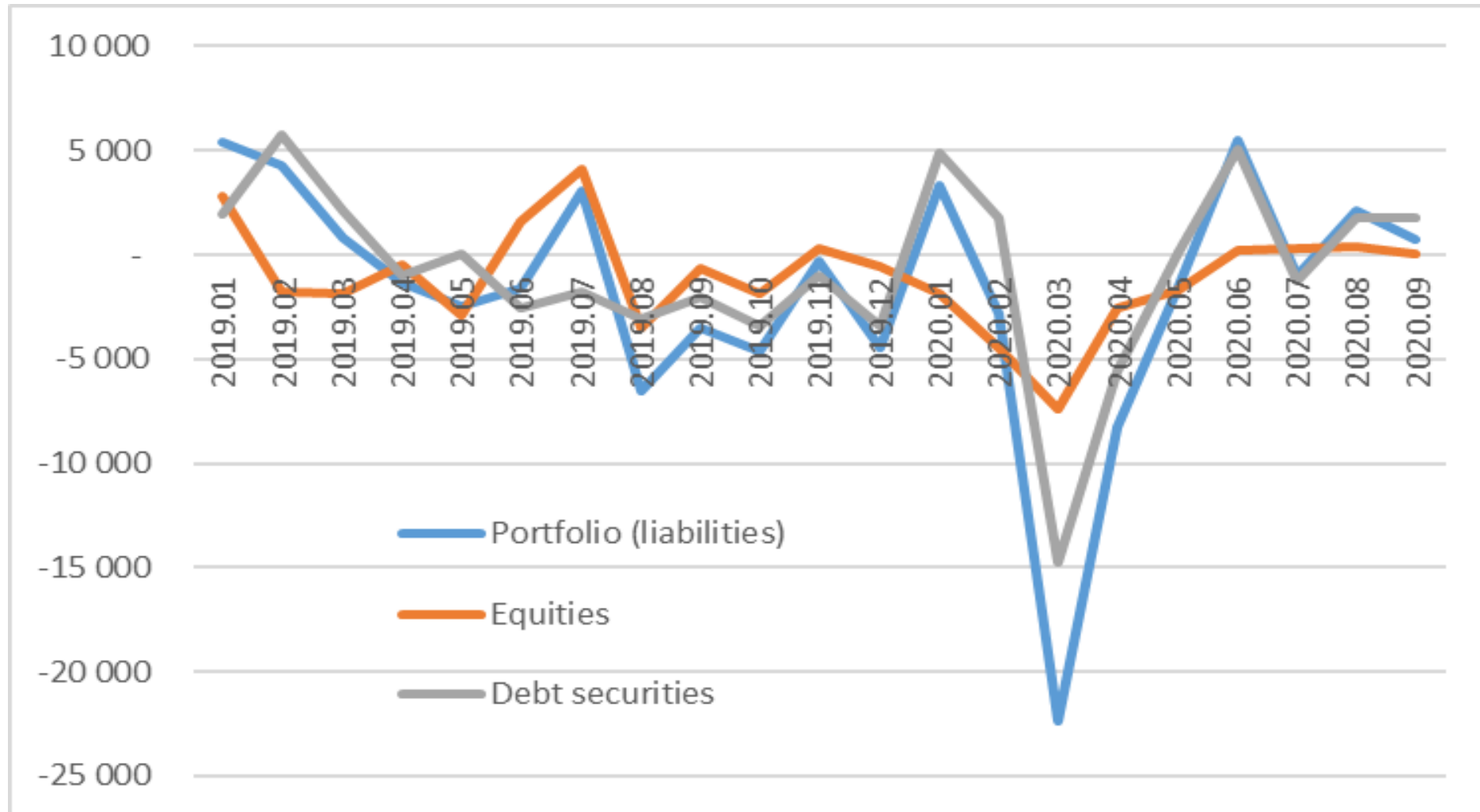


Unemployment rate + Discouraged people: situation of potential vulnerability

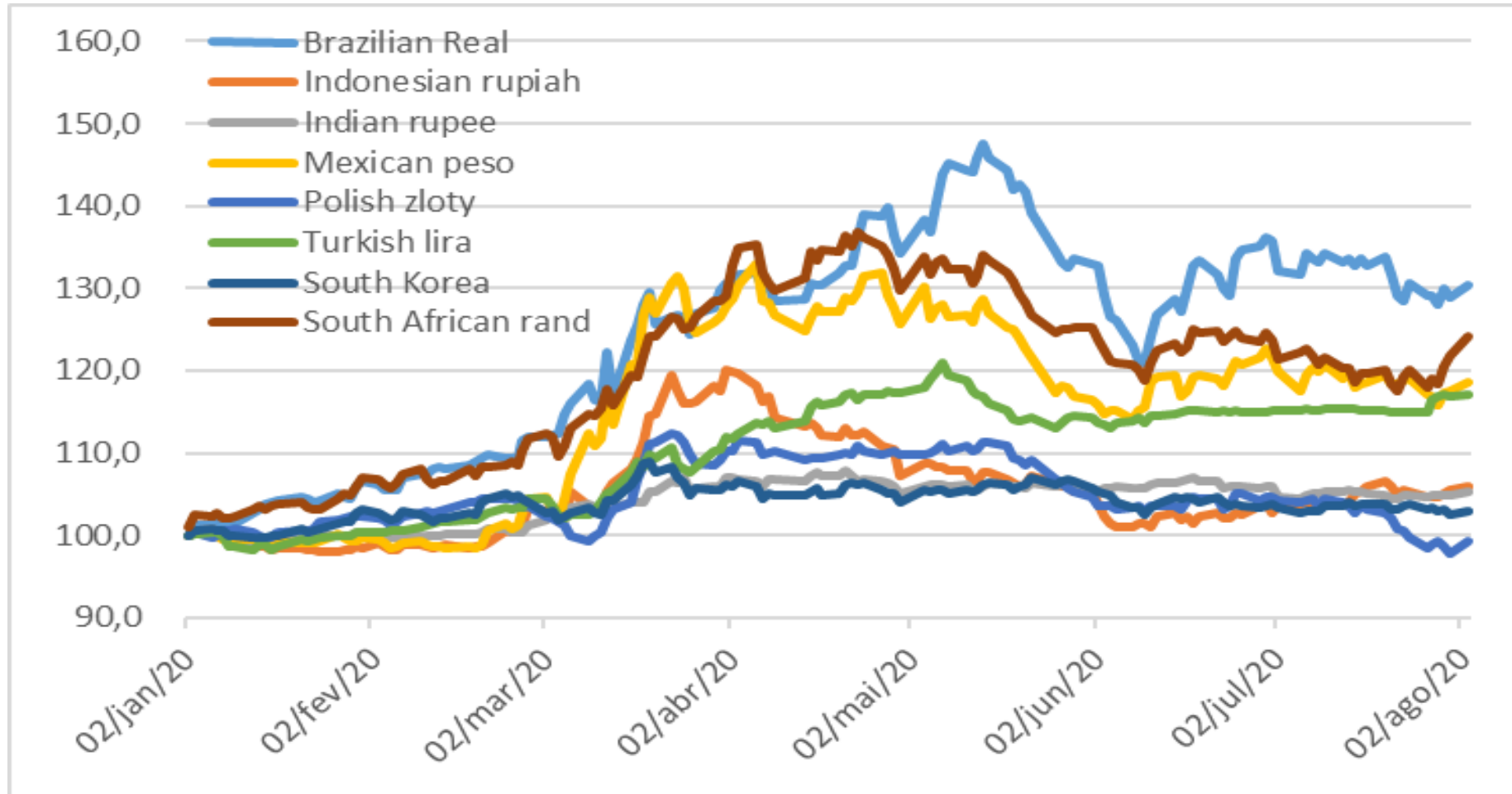


Discouraged people: potential working force that are not looking for work.

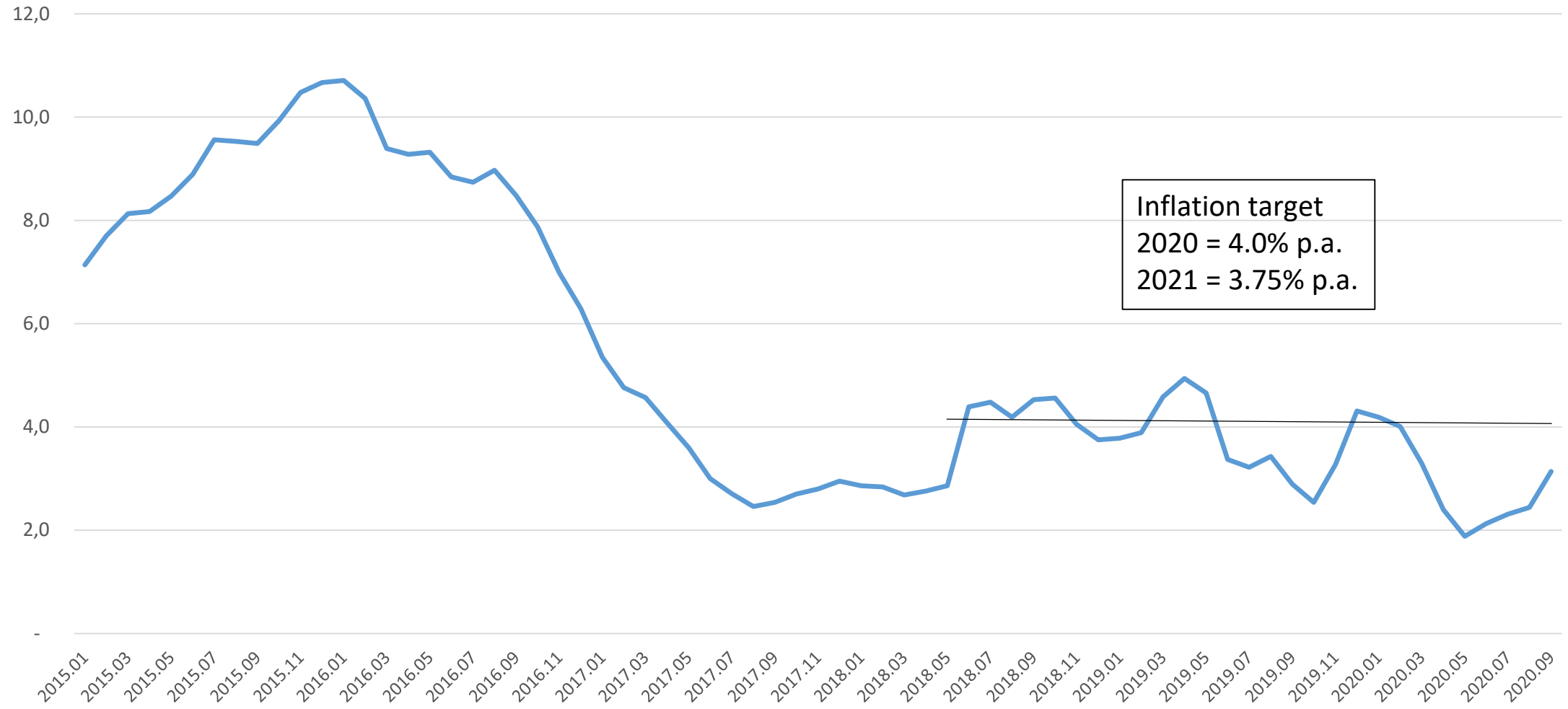
Portfolio liabilities (US\$ billion): “original sin redux”



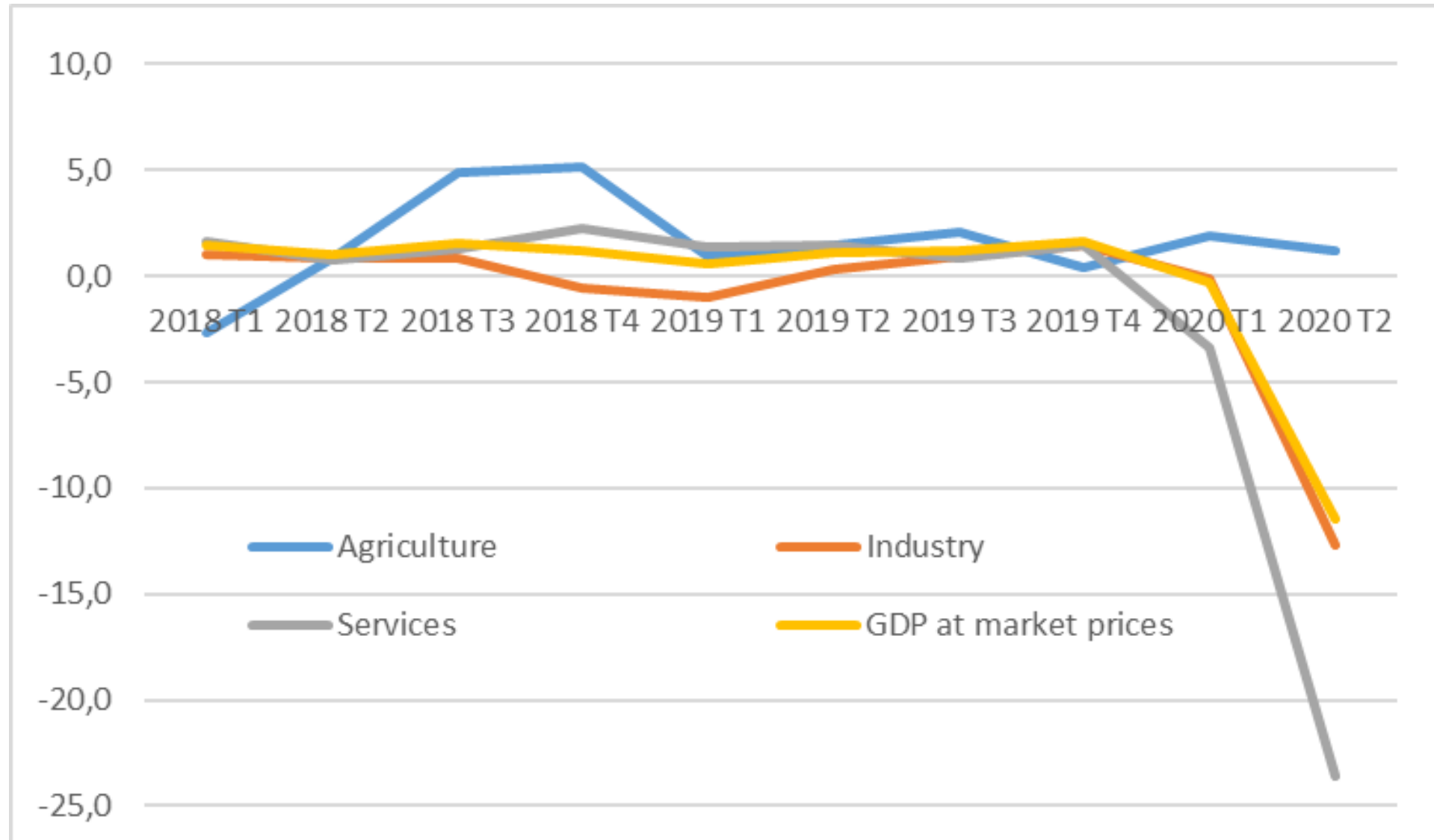
“Original sin redux” => currency devaluation greater than other EMEs



Consumer price index (IPCA) – 2019-2020 (% p.a.)



GDP growth by sector – quarterly real growth (%)



Political economy of the countercyclical policies shows an ambiguous behavior!

- The first reaction of the Minister of Economy was “reforms is the best answer to the coronavirus crisis”! There is only one “magic” medicine for whatever economic problem...
- Measures without fiscal impact, such as postponement of taxes and advance payment of 13th wage to retirees.
- President Bolsonaro first purposed suspension of employment contract without any payment of wage, and in the sequence he purposed some income compensation to reduction working hours and wages.
- President Bolsonaro first purposed emergency aid of only R\$ 200.00 (US\$ 36.00) for 3 months, while National Congress increased to R\$ 500.00 (US\$ 90.00).

Implementation of emergency and countercyclical policies: 4 necessary actions

- a) Social protection measures, including income replacement for low income people.
- b) Company relief measures.
- c) Federal government's financial support for states and municipalities.
- d) Greater resources for public health system.

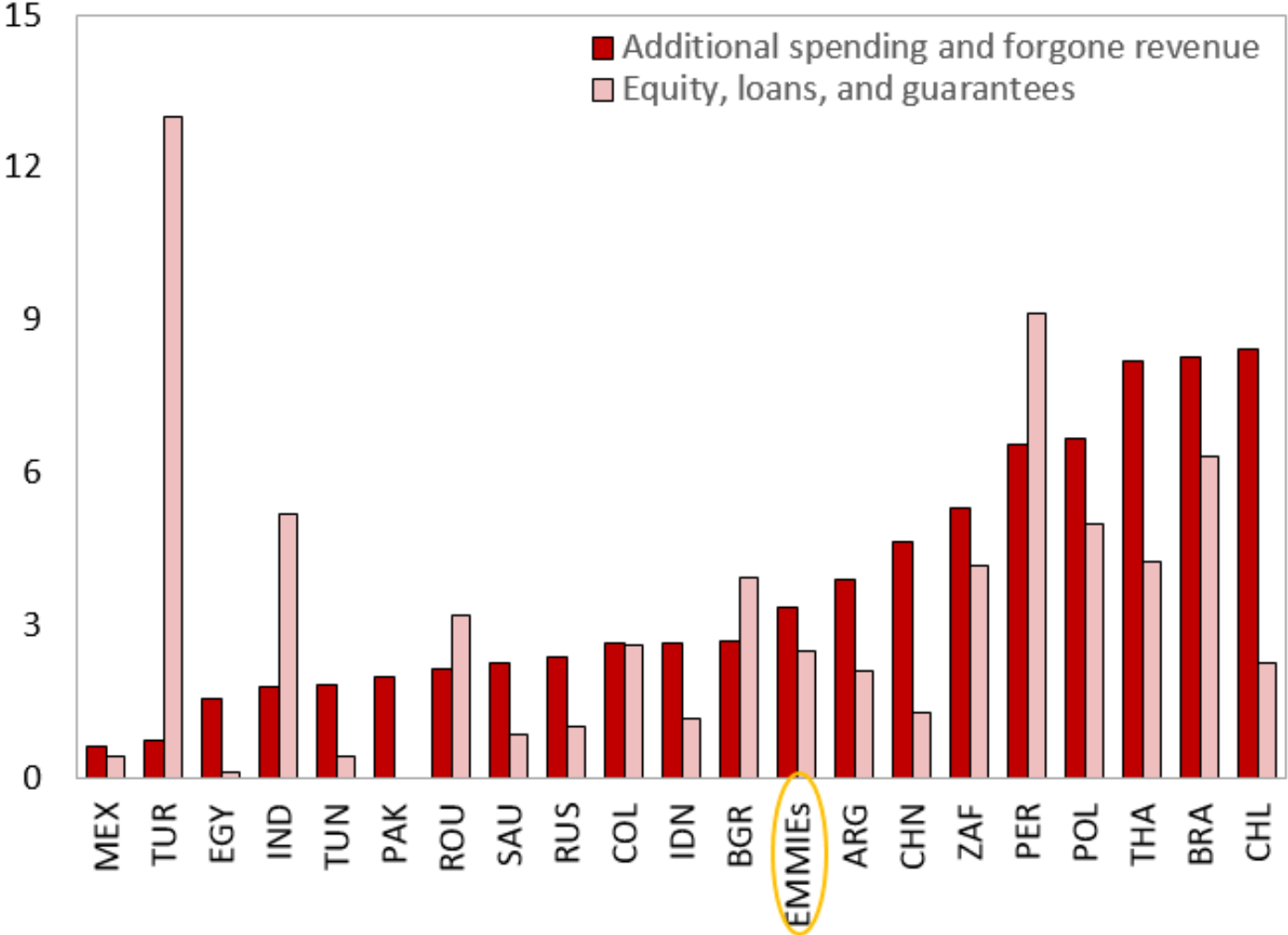
Fiscal measures

- Congress declared a state of “public calamity” on March 20, lifting the government’s obligation to comply with the primary balance target and the constitutional expenditure ceiling, allowing to implement the so called “War Budget’ for 2020.
- Temporary income support to vulnerable household: monthly cash transfers of R\$ 600.00 for 5 months (half of minimum monthly salary) to more than 50 million of beneficiaries that include unemployed, self-employed, etc., reduced to R\$ 300.00 for Oct-December.
- Government’s partial compensation of reduction of salaries to workers which contracts are temporarily suspended or cutting working hours until 70%.
- Transfer of R\$ 79 billion from the federal government to state and municipality’ governments to support higher health spending and to cushion the expected fall in revenues.

Main government expenditures with COVID-19 (R\$ billion) – data from 10/26/2020

Type of expenditure	Forecast	Paid	% paid
Emergency aid to people in critical vulnerability	322.00	241.58	75.0
Expansion of 'Bolsa Familia' (conditional cash transfers)	3.04	0.37	12.2
Emergencial benefits to maintenance of employment and household income	51.55	27.64	53.6
Emergencial aid to states and municipalities	79.19	77.99	98.5
Financing program to payroll payment	17.00	17.00	100.0
Quotas of credit guarantors funds	47.90	47.90	100.0
Total	520.68	412.48	79.2

Discretionary Fiscal Response to the COVID-19 Crisis in Selected EMEs (% GDP)



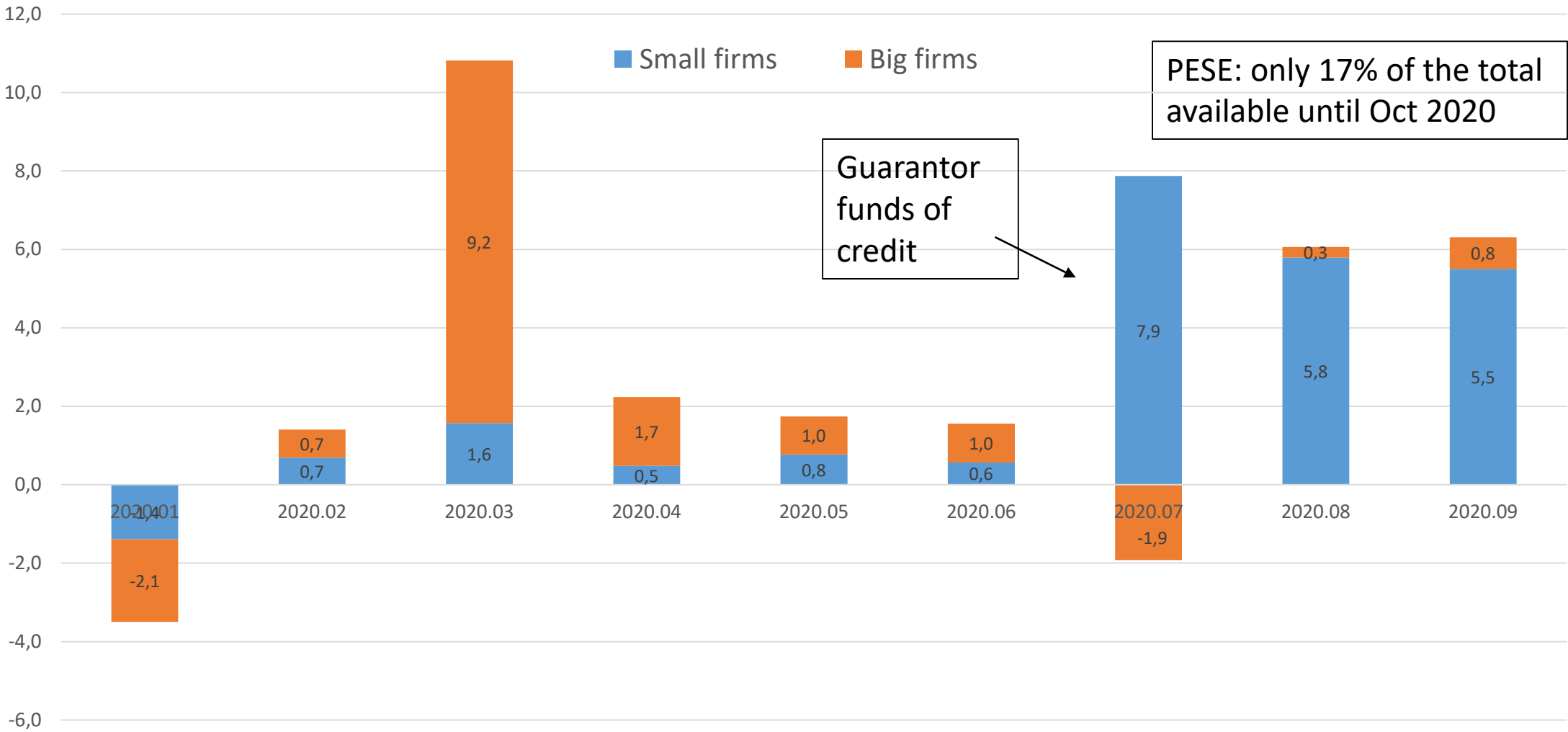
Monetary and macro-financial measures

- Reduction in the policy rate (SELIC) from 4.25% in February 2020 to historical low of 2% in August 2020.
- Measures to increase liquidity in the financial system: reduction of reserve requirements and capital conservation buffers, temporary relaxation of provisioning rules, etc.
- Central Bank was allowed to buy public and private bonds in the secondary market, in order to affect the yield curve, in particular long-term rates.
- Implementation of new lines of directed credit with injection of Treasury resources:
 - a) PESE to finance payroll until 2 minimum wage of small firms during 4 months with obligation to maintain the works' employment.
 - b) PRONAMPE and PEAC, programs for small and middle firms that are supported by Guarantor Funds that provides default hedging for banks.

New lines of directed credit

- Implementation of new lines of directed credit with injection of Treasury resources:
- PESE: financing of payroll (until 2 minimum wage) of small and medium-size firms for a period of 4 months with obligation of maintain the employment with subsided interest rates and 6-month grace period.
- PRONAMPE: a small firms support program with resources of the Operations Guarantee Fund (FGO) that provides 100% of guarantee to default (provision of Treasury resources of R\$ 18.3 billion).
- PEAC: emergency program for middle firms with resources of another Guarantee Fund (FGI) that provides 80% of guarantee to default (provision of Treasury resources of R\$ 20 billion).

Rate of growth of the corporate credit stock (%)



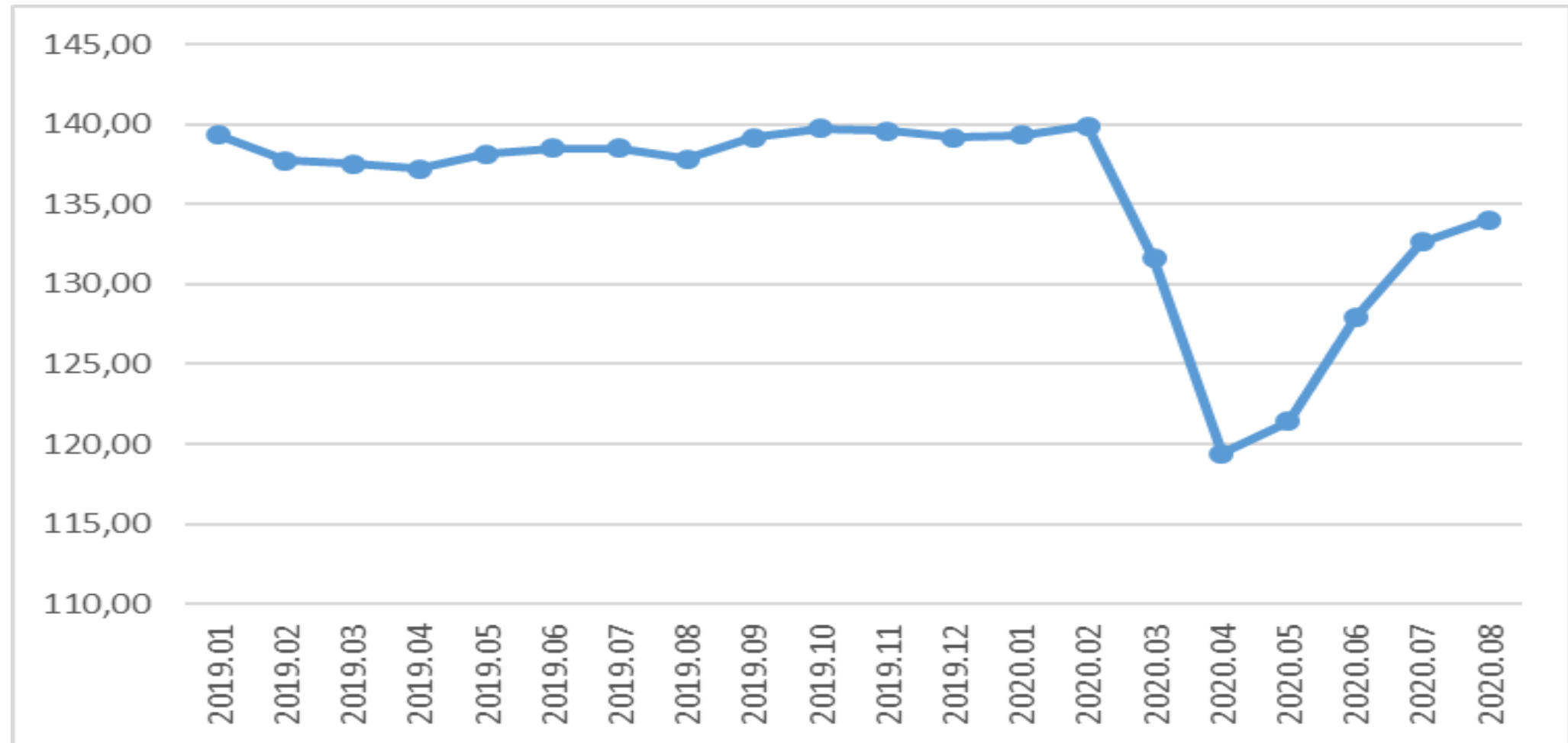
Income redistribution due to emergent aid: 52.1 million of the Brazilians (25% of the total in July 2020)

Share of people by segment of household income (percentage of the total)				
Aggregated class	2012	2019	July 2020	Aug. 2020
Less than 1/2 minimum wage	33.2	31.0	24.6	23.7
1/2 m.w. to less than 2 minimum wage	52.6	53.3	62.6	63.0
2 or more minimum wage	14.2	15.7	12.8	13.3
Total	100.0	100.0	100.0	100.0
Source: Neri (2020) based on PNADC and PNAD Covid/IBGE				

Reduction of poverty during the Coronavirus crisis

Percentage of the population below poverty and extreme poverty		
	Poverty*	Extreme poverty**
May 2020	23.72	4.18
June 2020	21.78	3.28
July 2020	19.58	2.54
August 2020	18.41	2.29
(*) US\$ 5.50 per day (**) US\$ 1.90 per day		
Source: Duque (2020) with data from PNAD COVID-19		

Central Bank Economic Activity Index – IBC-Br (2002=100)



IMF forecast of the Brazil's 2020 GDP growth => WEO June: -9.1%; WEO October forecast: -5.8;
Latin America: -8.1%

Conclusion

- *Economic recovery*: relaxation of social distance measures and reopening of domestic trade since June (that eventually may be proved precipitate) + emergency aid program + no credit rationing due to guarantor credit funds.
- Emergency aid contributed not only to avoid income losses but indeed increased the income of more vulnerable segment of the population, reducing poverty and social inequality in a very short period of time.
- This was not a previous expected result of ad hoc measures that were implemented according to the circumstances and political pressures, including by Congress.
- However, unemployment and informal work increased dramatically during corona crisis and they are a real concern for the next future.
- Uncertainty about the future of the Brazilian economy: there is no government strategy to implement an agenda for a sustainable growth; for instance, there is no government program oriented to invest in infrastructure.
- Federal government strategy is the “return of the old normal”: return of the constitutional expenditure ceiling for 2021, and a new round of reforms, including administrative reform, privatization, etc.
- This agenda has already proven to be a formula for failure!

Thank you!