Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Brazil

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Key messages

- As of 17 April, Brazil had reported 33,682 cases and 2,141 deaths from COVID-19.
- The federal government has announced fiscal measures, including the expansion of Bolsa Família (the Family Grant) by around 1 million families. Additional subsidies announced target informal workers and small business.
- A mandatory quarantine has been declared in 23 of Brazil's 26 states, under varying criteria. National and international travel is restricted for nationals, and entry into Brazil is prohibited for non-nationals, with some particular exceptions.
- The Brazilian real has devalued by 24% since January 2020. Additionally, lower oil prices and the impacts of COVID-19 have had effects on Brazil's current account deficit, which currently stands at 2.9% of GDP. This compares with 2.3% for 2019. Corn and aircraft component exports have declined significantly in nominal terms.

Introduction

Brazil had reported 33,682 cases of COVID-19 and 2,141 deaths by 17 April 2020. There is no mandatory isolation at the national level, as federal authorities determine this. However, 23 of Brazil's 26 states have adopted quarantine after seeing community transmission mainly in São Paulo and Rio de Janeiro. On average, the quarantine period has been about three weeks; this is being extended in some states. Although there is no official prohibition at the national level of air and land travel, the number of flights has decreased dramatically and some airport terminals and flights are not operating. Entry for non-nationals is restricted, save for some exceptions.

The national authorities started taking measures after 20 March, targeting support to the real economy, employment and social protection (programmes such as Bolsa Família). The government has announced the provision of new equipment for hospitals; infrastructure and transport equipment used in other sectors have also been made available to the health sector. Bonuses to health staff have been promised.

Like other Latin American countries, Brazil's currency, the real, has depreciated sharply since November 2019. By the end of November, the real had declined to a record low against the US dollar, closing at 4.3. This depreciating trend has been accelerating: at the time of writing, the cross rate is around 5.1. The devaluation represents a loss of fiscal revenues of close to 0.5 % of GDP.

Economic and social impacts

According to the latest World Bank report revising the GDP forecast for different economies, Brazilian GDP will contract by 5% in 2020. The most recent official data show an expansion in the current account deficit from -2.3% of GDP in February 2019 to -2.9% of GDP. This reflects mainly the decrease in exports, which had dropped 4.7% year-on-year by March. According to the Brazilian Ministry of Finance, the groups of products that have declined the most are corn (-51.1% y-o-y), cellulose (-32.1% y-o-y) and aircrafts and aircraft components (-22% y-o-y). Related to the latter, Brazil will see a further decline in the exports of manufactured goods owing to the slowdown in international trade and the production of aircrafts, automobiles and engines as spillover effects of the COVID-19 pandemic.

At 11.6%, Brazil's first-quarter unemployment rate is lower than at the start of 2019 (12.4%). The growth in the informal market (at roughly 40.6% of the Brazilian workforce), represented in this figure, explains this provisional decrease in unemployment. Observing formal market, services and manufacturing sectors may push the unemployment rate up again as production and sales have reached lower values than last year comparing the first months of the year.

The last monthly report on inflation (March 2020) indicated a 0.07% month-on-month rate – the lowest monthly variation in index prices since 1992. The year-on-year inflation rate for the same month is 3.3%, slightly below the Banco Central do Brasil (BCB) target of 4%. Even though inflation is low, prices for basic products have increased. The food and beverages index has increased by 1.13%. Eggs, tomatoes, onion and carrots, all key staples for Brazil's 9.3 million low-income families according to World Bank data, have seen the sharpest price rises. According to World Bank estimations, the rate of those under the international poverty line of $1.90 (in 2011 PPP) will jump from 4.4% in 2019 to 7.0% in 2020.

Financial volatility has been particularly pronounced in Brazil, owing in large part to investors' risk aversion stemming from the pandemic. The Bolsa de São Paulo (Brazil's most important equity index) fell 13.92% on 16 March and another 10%, on an intraday basis, on 18 March, prompting a suspension in trading. Major banks, oil and mining companies were the sectors that saw the sharpest declines. From the start of January until mid-April, the real depreciated by roughly 24% against the US dollar. As with a number of other emerging economies, Brazil's capital markets have been subject to significant investment outflows. Foreign investors withdrew BRL46.02 billion ($8.8 billion) from the Brazilian stock market between the start of January and early March.

Fiscal impacts

On 20 March, congress declared a 'public calamity', lifting the obligation to comply with the 2020 primary balance target, which, according to the World Bank's forecast, will reach -6.5% of GDP. Similarly, the government is accommodating exceptional expenditure for health and social assistance, invoking a constitutional clause. The BRL153 billion ($29 billion) announced hitherto by the national government to manage the COVID-19 pandemic is coming from a readjustment of expenditure (68%) and from extraordinary loans (32%). As a consequence of the latter, an increase in the debt as a share of GDP from 75.8% in 2019 to 85.9% is expected by the end of the year.

Adding on the effect of fiscal impact coronavirus, the fall in the oil price will be particularly important for Brazil's fiscal finances: each US$10 decline in the oil price represents a loss of 0.5 of Brazil's GDP growth rate.

Monetary and financial policy

The BCB reduced its interest rate (SELIC) by 50 basis points on 17 March, to 3.75%. To increase liquidity provision further, the reserve requirement ratio has also been reduced, from 25% to 17%; this followed a 6 basis points reduction in February, in anticipation of a potential release of BRL118 billion ($22 billion). In addition, the BCB has announced its commitment to ensuring the normal functioning of the foreign exchange market through liquidity support. These measures will include currency swaps, operations in the spot market and repo lines of credit.

Fiscal and social policy

The national government has announced various fiscal measures, which add up to roughly 6.5% of GDP, targeting employment, SMEs and local authorities.

The national government will allocate BRL450 million ($86 million) to schools to buy hand sanitiser, soap and cleaning products. Also, monthly subsidies to informal workers to the amount of BRL600 ($114) over three months are mentioned in the economic rescue package. Similarly, the cash transfer programme, Bolsa Família, will be expanded to an extra 1 million families, from the current 60 million families (which will also will receive an extra subsidy).

The National Treasure (85%) and private banks (15%) will support the payroll costs of SMEs. Specifically, the programme will cover two months of employees earning less than two minimum salaries conditioned on the non-dismissal of employees during the programme. For the beneficiaries of the Casa Propria ('My Own House') programme, the grace period for mortgage payers will be extended from 60 to 90 days.

In terms of other government support, financial transfers from the federal government to states and municipalities will be targeted at compensating for revenue shortfalls mainly caused by the fall in exports and oil yields. The national government has ordered local authorities to guarantee the provision of public services to the whole population, without exception. In addition, 9 million low-income families will be exempt from paying electricity bills.

Army laboratories will increase the production of drugs to respond to COVID-19. The national government is particularly interested in the massive production of hydrochlorothiazide.

Donor support

The pharmaceutical company Apsen has announced the production of millions of drugs for free to respond to COVID-19.

Fundação Itau (Itau Bank) has announced a donation of BRL1 billion ($188 million) to tackle the pandemic.

Information in this note is correct as of 17 April 2020. The author is an ODI Fellow in the Ministry of Education in Guinea Bissau This note is written in a personal capacity. Comments are welcome at c.franco-restrepo.fs@odi.org.uk