Recovery at a Crossroads: How countries spent Covid-19 funds in the Global South

Country report: Brazil

Socio-economic context

The Brazilian economy had a period of growth between 2010 and 2013. The difficulties began long before the pandemic, with a recession between 2015 and 2016, stagnation between 2017 and 2019, and a new recession—this one associated with the pandemic—in 2020.

With the 2015 recession, the Spending Limit Law was approved to limit the growth of spending to inflation levels of the previous year; its initial duration was of 20 years. However, with the demands imposed by the pandemic, there was an emergency decree that allowed the government to increase its spending and face the effects of the pandemic during 2020. This was an achievement, as such Law did not contemplate automatic increase of some expenses at rates above inflation, it did not allow subnational transfers to be changed (even though they must be linked to income), nor did it flexibilise to comply with constitutional minimums for social spending.

Regarding employment levels, the number of workers in employment condition was 86.2 million at the end of 2020, 3.7 million more than at the most profound moment of the crisis but still below the 94.6 million recorded in 2019.

The concentration of income in Brazil is a structural problem that coexists with the population even in periods with active redistributive policies, reaching a value of 0.524 in 2020. Another contextual element was the 2015 fiscal adjustment. Only for retirement, meant an increase in retirement ages and contribution rates and reduced pensions.

Recovery Spending: 5,9% of GDP

- Formal private sector

Corporate stimulus vs MSMEs

The productive financing measures were led by the Central Bank of Brazil and implemented through public and private banks. Although a large volume of resources were made available, they were pooled in private financial institutions which, given the risks associated with the environment of retraction of activities and uncertainty, restricted access to these resources, especially for smaller companies.

- Informal private sector

By the end of 2020, the relative levels of informality were similar to those of 2019 (52% and 53%), but in nominal terms, they were still lower (45.2 and 50.0 million workers). This confirms that many of the workers went from informality to inactivity, at least temporarily, due to mobility restrictions and the provision of financial aid.

- Social protection

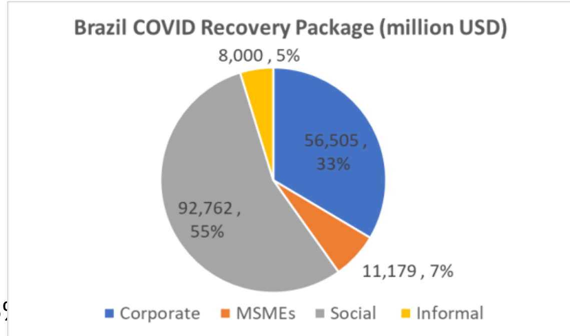
In the context of the pandemic, the most affected groups were women, rural workers and those in activities with greater physical demand, the self-employed, and employees about to retire. These concentrated more job losses and had fewer chances to reintegrate into work, which was key to their survival and that of their families once direct aid from the government ceased or was reduced.

Support measures for states and municipalities were key to enable local responses despite the lower state and municipal tax collection, and the exclusivity of the federal government in issuing public debt. This is a priority to combat the pandemic considering that, by Brazilian institutionality, health is a responsibility shared between the Union, the States and the Municipalities.

The most important income transfer program was approved in April 2020, called Emergency Assistance (AE), which contemplated the monthly delivery of approximately half a minimum wage (USD 114), for 5 months. Other public policies for social assistance, health, education, employment and income were condensed into a program called Auxilio Brasil. It included direct and indirect income transfers to families in situations of poverty and extreme poverty throughout the country, seeking to simplify their access to the public benefits provided.

- ### General comparison (Table and pie chart)

Brazil COVID Recovery Package (million USD)			
Corporate	**MSMEs**	**Informal**	**Soc. Prot.**
56,505	11,179	8,000	92,762



- ### Highest spending

The allocation for productive and social ends was 45% and 55 … with the highest spending within the revised period (55% of the total emergency budget), followed by corporates (33%). Finally, MSMEs and informal workers had the smallest amounts, representing 7% and 5%.

- ### Gender aspects

The growth of unemployment from 2015 was especially complicated among women: the gender gap went from 2.9 percentage points to 4.5 percentage points in 2020. During the same year, retirement pensions were reduced, introducing a concept of "effectiveness" that particularly harms women. It punishes intermittent work and this group is absent relatively more often, to attend maternity or home care, thus lowering their pension values.

- ### Tax-related measures (exemptions, cuts, amnesties, etc.)

Regarding the fiscal situation, the primary result (revenue minus expenses) was positive until 2013. The deficit started small in 2014 and has grown since then, except in 2019 where it decreased significantly.

- ### Debt (IFI's loans, SDR, etc.)

Public debt had a highly variable behaviour in the last decade due to fluctuations in the exchange rate. In local currency, its growth was sustained, mainly due to speculative movements resulting from the national political and economic situation. On interest payments, nominal values reached more than 10% as a percentage of GDP in 2015, given the explosion in interest rates. In 2020, it was decided to transfer to internal public debt, nominally reducing allocations to interest payment. However, in relative terms, debt service reached 14% of GDP.

It must be noted that financial expenses, including public debt payments, are not subject to the Spending Limit Law. This is why the measure passed with great support, even when there were several structural flaws within its content..

Conclusions and recommendations

Annexe: Country Summary Table

Ref	Measures taken	Spending Adjustment	Total (USD)	Sources
	Support to formal private sector, total		**67,684,230,496**	
i	Grants and Subsidies			
ii	Tax Exemptions	5,505,360,496	5,505,360,496	IPI Tax waiver, Further IPI Tax waiver

iii	Tax amnesties			
iv	Tax rate changes (cuts or increases)			
v	Tax deferrals			
vi	Loss carry over			
vii	Granting of loans to corporates	51,000,000,000	51,000,000,000	Loans
viii	Granting of loans to SMEs	11,178,870,000	11,178,870,000	Loans
ix	Business loan restructuring			
x	Other support to formal private sector			
	Support to informal private sector, total of		**8,000,000,000**	
xii	Granting of loans			
xii	Direct support	8,000,000,000	8,000,000,000	Direct support
xiii	Other measures to informal			
	Social Protection Measures and Safeguards, total of		**92,761,974,854**	
xiv	Allowance / grant	64,806,392,689	64,806,392,689	AE
xv	Income/ job protection/job guarantee	1,309,824,744	1,309,824,744	Other protections
xvi	Unemployment allowance			
xviii	Housing support (subsidy, allowance, no evictions)			
xviii	Basic Services support (subsidy, deferral, no service cuts)			
xix	Food / nutrition (subsidy, allowance, price regulation)			
xx	Care related measures (subsidy, allowance, policy measures)			
xxi	Sickness related (e.g. allowance for Covid19 illness, self-isolation)			
xxii	Loan restructuring support (e.g. student, credit card, mortgage)			
xxiii	Other social protection measures	26,645,757,420	26,645,757,420	
	Total fiscal measures		**168,446,205,350**	
	Total as % of GDP		**5.509194418**	