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Covid-19 Pandemic In Brazil: Macroeconomic Effects And Policies

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Covid-19 Pandemic in Brazil: macroeconomic effects and policies

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Abstract:
The Covid-19 pandemic has had unequal effects around the world, not simply in terms of health prospects, but also in terms of economic and social consequences. In all these aspects, Brazil is among the most affected countries. This article aims to analyze the economic and social effects of the Covid-19 pandemic in Brazil, as well as the main macroeconomic policies that were implemented to face the crises. To understand it properly, we take into consideration three elements: i) the structural characteristics of the Brazilian economy; ii) the economic situation in Brazil when the pandemic broke out; iii) the inefficiencies and the negligence of Bolsonaro's government. The article argues that in the public health dimension, the denialist attitude of the president resulted in a lack of national policies for social distancing and a clear mismanagement of the vaccination process which contributed to the seriousness of the crisis. As for the economic and social dimensions, the national government – after some hesitation and under the pressure of the National Congress – implemented a set of policies which have irrefutably served as a cushion for the harms of the pandemic. Nonetheless, it is crucial to underline that these policies have been insufficient to cope with the concrete urgencies of more vulnerable populations in Brazil. The intermittence and the short-termism of the fiscal programs associated with the gradual (and untimely) reduction in the benefited population and in the amounts of the transfers limited the effectiveness of the policies.

Keywords: COVID-19 pandemic; Brazil; macroeconomic policies; social policies; socioeconomic vulnerability.

JEL: E65, F62, I18

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1. Introduction

The Covid-19 pandemic has had unequal effects around the world, not simply in terms of health prospects, but also in terms of economic and social consequences (ECLAC, 2020; Hoffmann *et al*, 2021; Stevano *et al*, 2021). In all these aspects, Brazil is among the most affected countries. To understand this scenario, we develop an analysis which takes into consideration three elements: i) the structural characteristics of the Brazilian economy; ii) the economic situation in Brazil when the pandemic broke out; iii) the inefficiencies and the negligence of Bolsonaro's government.

Considering structural aspects, it is important to highlight that Brazil is situated on the periphery of the global economy, with characteristics that exacerbate the effects of all crises. First, because it is extremely vulnerable to the oscillations of the world economy – both in the financial dimension, with the constant threat of "capital flight", and in the productive dimension, given the high dependency on imported goods and inputs (Furtado, 1964; Gonçalves, 2000; Kaltenbrunner and Painceira, 2015). Second, because its labor market is very heterogeneous and most of the workers have precarious jobs (Antunes, 2008, 2013, 2014; Oliveira and Pochmann, 2020). Third, because the national social policy system is weak (Draibe, 2007). Fourth, because it faces an important lack of autonomy for the implementation of economic policies (Carneiro, 1999; Prates, 2002; Fritz *et al.*, 2018).

Moreover, the pandemic hit Brazil while it was already experiencing a deep crisis (De Conti *et al.*, 2020). As we will discuss below, the Brazilian economy entered a period of recession in 2014, with important social consequences. The economic crisis was intertwined with a political crisis involving the *coup d'état* against President Dilma Rousseff, and later the unexpected election of Jair Bolsonaro.

Regarding the third element above, it is crucial to emphasize that the Brazilian government was recognized worldwide (e.g by the NGO *Médecins Sans Frontières*) as one of the worst cases of neglect during the pandemic[1]. While Coronavirus was rapidly spreading all over the globe, President Bolsonaro was using all means to obsessively claim that Covid-19 was just an "ordinary flu". Stating that social distancing would ruin the economy, he implored people to get back to normal life ("Are people dying? Yes. Do I regret? Yes, I regret. But a lot more will die if the economy continues to be wrecked by

[1] According to the president of *Médecins Sans Frontières*, Brazil's response to Covid-19 was the worst in the world. For details, see Phillips (2021).

this [public health] measures[2]"). The Minister of Health who was following the recommendations of the World Health Organization (WHO) and advocating for isolation was dismissed; his successor resigned less than one month later due to a disagreement regarding the directions given by Bolsonaro; a General with zero experience in health services then entered office as an acting Minister, but only stayed 11 months in this position, being then replaced for the fourth Minister of Health since the beginning of the pandemic[3]. Instead of elaborating a national plan for combating the spread of the virus, the Ministry of Health acted against the policies implemented by subnational spheres (details below) and persistently recommended the use of "preventive treatments" (e.g. chloroquine) which have minimal scientific support.

This article aims to analyze the economic and social effects of the Covid-19 pandemic in Brazil, as well as the main macroeconomic policies that were implemented to face the crises. Following this Introduction, the text is structured in four sections. Section 2 provides an overview of the public health and the economic consequences of the pandemic in Brazil. Section 3 presents the fiscal and monetary policies carried out in the country in 2020-2021 to counteract the effects of the crisis. Section 4 discusses the social consequences of this crisis. Some final remarks conclude the text.

2. Public health consequences and economic development after the outbreak of Covid-19 pandemic

The first confirmed case of Covid-19 in Brazil was registered on February 26, 2020, and the virus rapidly spread all over the country. Nevertheless, while most national governments worldwide started implementing measures for controlling the pandemic, Bolsonaro was devoted to convincing people that the whole scene was an exaggeration by mass media and an effort to destabilize his government. Later on, some important figures of his government (e.g. Ernesto Araújo, then Minister of Foreign Affairs, and Abraham Weintraub, then Minister of Education) followed the example of U.S. President Donald Trump and started declaring that the virus was created in China as a strategy to augment its power over the world.

[2] Declaration by President Bolsonaro on May 13th, 2020 (https://oglobo.globo.com/politica/esta-morrendo-gente-ta-lamento-mas-vai-morrer-muito-mais-se-economia-continuar-sendo-destrocada-diz-bolsonaro-1-24426281). Access on April 12th, 2022.

[3] The Ministers of Health during Bolsonaro Government were: Alexandra Mandetta (01/01/2019-16/4/2020), Nelson Teich (16/04/2020-15/05/2020), Eduardo Pazuello (15/05/2020-15/04/2021) and Marcelo Queiroga (15/04/2021 to date).

Amidst this wave of fake news, Bolsonaro claimed that no public health measure was needed and that most important was maintaining "normal life" to avoid any harm to the economy[4]. Resisting to the president's pressures, many mayors and state governors imposed the temporary interruption of non-essential activities in diverse periods in 2020-21, creating a very ambiguous situation in the country marked by a total disharmony in the policies of the national and the subnational administrative levels. In the end, there was no lockdown[5] and social distancing depended on the consciousness of the population and the economic conditions of each individual family[6]. Due to this lack of harmony, this "partial" social distancing was never very effective, and for economic reasons was gradually relaxed in very early stages of the epidemic in the country.

As a result, the figures of the public health situation in Brazil were very serious from April 2020 to mid-2021, and again in early 2022 with the new wave provoked by the omicron variant (Figures 1 and 2). By mid-February 2022, Brazil ranked 3rd in the world in terms of total infections by Covid-19 despite having the 6th largest population in the world, with approximately 27.5 million cases (12.9% of the total population); and 2nd in terms of deaths, with more than 638,000 confirmed fatalities. As a proportion of the population, Brazil ranked 73rd in terms of cases, with 128.5 cases/million people; and 15th in terms of deaths, with 2.98 confirmed obits/million inhabitants[7]. Figures 1 and 2 also show that all over the period – with some short moments of exception – both infection and death rates have been much higher than the world's average.

[4] Bastos *et al.* (2021) show that there is no clear trade-off between social distancing measures and economic performance. Regardless of the public health measures taken, the pandemic is unavoidably harmful for the economy (given the disruption of the global value chains, the recurrent unavailability of workers due to the infections, the uncertainties which naturally reduce the impetus for consumption and investment, etc.). According to these authors, the opposite may in fact be true, since rigid public health measures allow the economy to recover sooner than in places with loose or no measures.

[5] Depending on the policies defined by the states and cities governments, so-called "non-essential activities" were interrupted for a period. Nonetheless, there were no lockdowns in the sense of restrictions for the mobility of people.

[6] Many workers in Brazil must work every day to earn their livelihood. Moreover, the housing conditions of many families – notably in the so-called "favelas" – does not permit all family members to stay at home for a prolonged period (one specific consequence has been a marked increase in cases of domestic violence against women).

[7] Data for February 13th 2022, provided by Johns Hopkins University CSSE COVID-19 Data.

Figure 1: Brazil – New confirmed cases of Covid-19 per million people (weekly)

Source: John Hopkins University CSSE COVID-19 Data.

Figure 2: Brazil – New confirmed deaths by Covid-19 per million people (weekly)

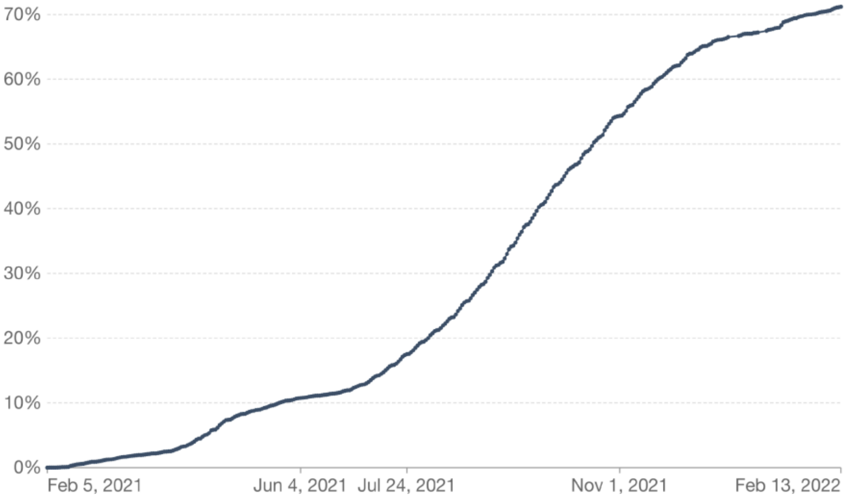
Source: John Hopkins University CSSE COVID-19 Data.

Due to mismanagement by the national government, the vaccination process in Brazil faced some delays, but once started it had a high adhesion by most of the population – in spite of Bolsonaro's criticism to the vaccine[8]. In mid-February 2022, 81.4% of the population had already received at least one dose of a Covid-19 vaccine, and 71.2% had already completed the vaccination protocol (Figure 3). As soon as the vaccination pace was accelerated, in mid-2021, it had a very quick impact on the number of new cases and deaths, and by the end of the year Brazil had a daily average of around 50 new cases and 1.2 new deaths per million people. As displayed in Figures 1 and 2, the omicron variant

[8] Bolsonaro says he didn't receive the vaccine. There is also a systematic diffusion of fake news among his supporters claiming that the vaccine is dangerous.

provoked a new surge of infections and deaths, but the rate of deaths/infected people was much lower – and specialists indicate that most of the fatalities concern non-vaccinated people. The vaccination of 5 to 11 years old children started also late in Brazil, due again to malpractice by the national government. It started only in mid-January 2022 – three months after its start in many other countries – and is still in its early stages (as of mid-February 2022, only 15% of children in this age range had received their first dose).

Figure 3: Brazil – Share of people fully vaccinated – COVID-19 vaccine (%)



Source: John Hopkins University CSSE COVID-19 Data.

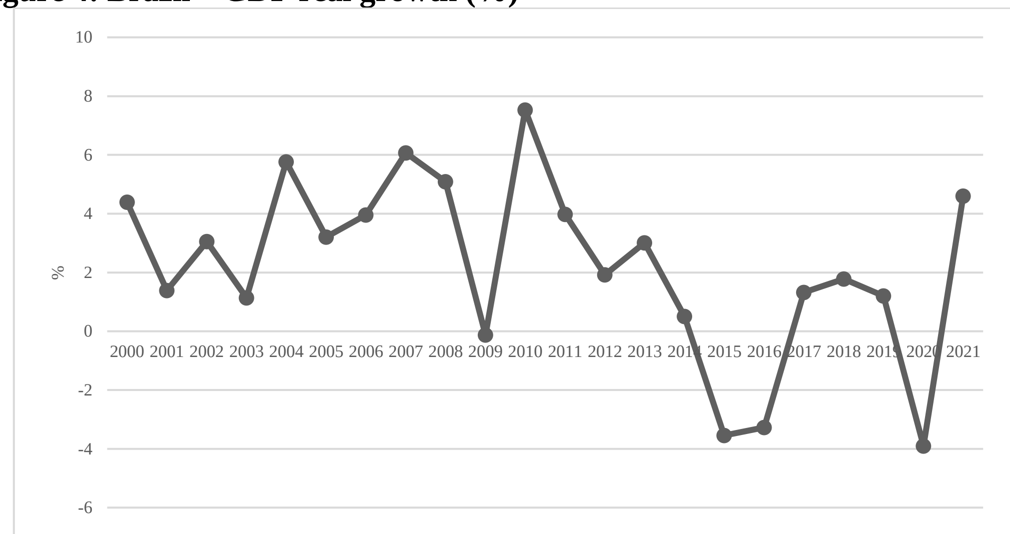
In this context, the economic and social impacts of the pandemic in Brazil were extremely heavy and will certainly be long-lasting. As mentioned in the Introduction, the so-called "coronacrisis" did not come as thunder in a blue sky. Structural fragilities inherent to a peripheral country, combined with an economic recession initiated in 2014 and the bad economic results of Bolsonaro's government, put Brazil in a precarious position heading into the pandemic.

Figure 4 makes evident that Brazil was already under a severe economic crisis since 2014 due to a combination of factors. On the external front, the announcement of the "tapering" of asset purchases by U.S. Federal Reserve Chairman Ben Bernanke in May 2013[9] created volatility in the global financial markets. More importantly, commodity prices, which had started a declining trend in 2011, suffered a huge downturn from 2014 to 2016 – from February 2014 to January 2016 the IMF Commodity Price Index dropped by 56%. Besides direct effects to the Brazilian economy – given its

[9] In May 2013, the then head of the Federal Reserve Ben Bernanke announced the "taper tantrum", that is, the intention to gradually reduce the economic stimulus provided by the "quantitative easing".

historical dependency on agricultural and mineral goods – declining commodity prices had strong indirect effects given the outbreak of analogous crises in other Latin American countries that are important buyers of Brazilian exports (e.g. Venezuela and Argentina). The domestic reasons for Brazil's unstable situation ahead of the pandemic are also various, but it is important to highlight the political crisis initiated with the massive demonstrations against the then-president Dilma Rousseff in June 2013, which reached its apex with the *coup d'état* against her in 2016. Under pressure to reestablish a dialogue with the opposition bloc in the National Congress, Rousseff's government made a complete pivot in economic policies in early 2015, adopting a strong austerity policy which was very harmful for an economy which was already in stagnation[10].

Figure 4: Brazil – GDP real growth (%)



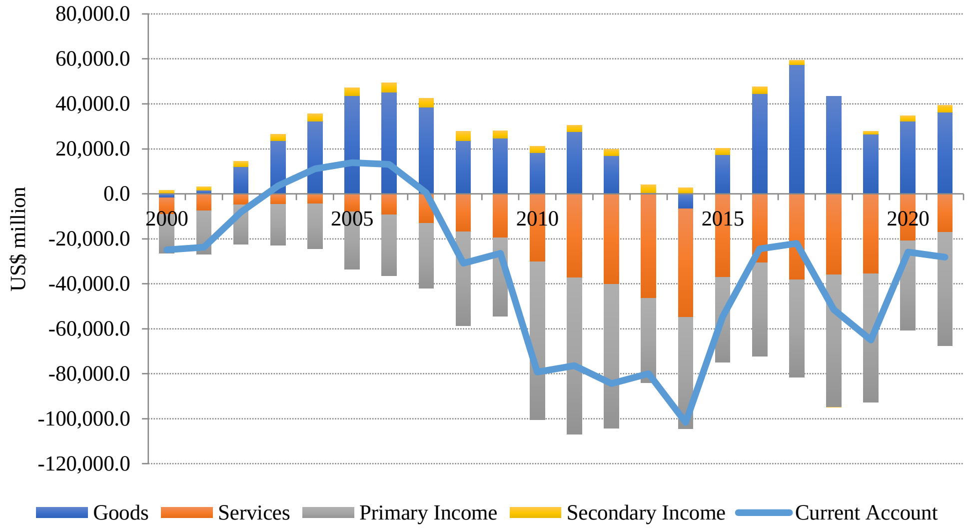
Source: SCN/IBGE. Author's elaboration.

The timid recovery from 2017 to 2019 was not enough to balance the recession of the previous years, and from 2014 to 2019 Brazilian GDP fell by 2.6%. With the pandemic, GDP fell by an additional 3.9% in 2020, a moderate drop when compared to other countries (notably in Latin America) but which still had important social consequences, as we will discuss below. In 2021 there was a recovery (+4.6% growth) and the GDP returned to a level slightly higher than that in 2019, but with non-negligible differences in its composition since the crisis affected various economic sectors differently[11].

[10] A deeper discussion about the reasons for this crisis go beyond the scope of this document. For details, see for instance Arestis *et al.* (2017).
[11] See for instance De Conti (2022).

Compared to former global crises, the situation in the Brazilian external sector on the other hand was less dire. Paradoxically, the current account was better in 2020-21than in the previous years. In fact, the crisis resulted in a decline in deficits in services and primary income, and an increase in the commercial surplus – imports were highly affected by supply shortages and lower aggregate demand in Brazil, but exports were not very affected, particularly agricultural goods. The result was hence a current account deficit of US$ 25.9 billion in 2020 and 28.1 billion in 2021 (respectively, 1.70% and 1.75% of GDP), much lower than those recorded in 2018-19 (Figure 5).

Figure 5: Brazil – Current account (US$ million)



Source: BCB. Author's elaboration.

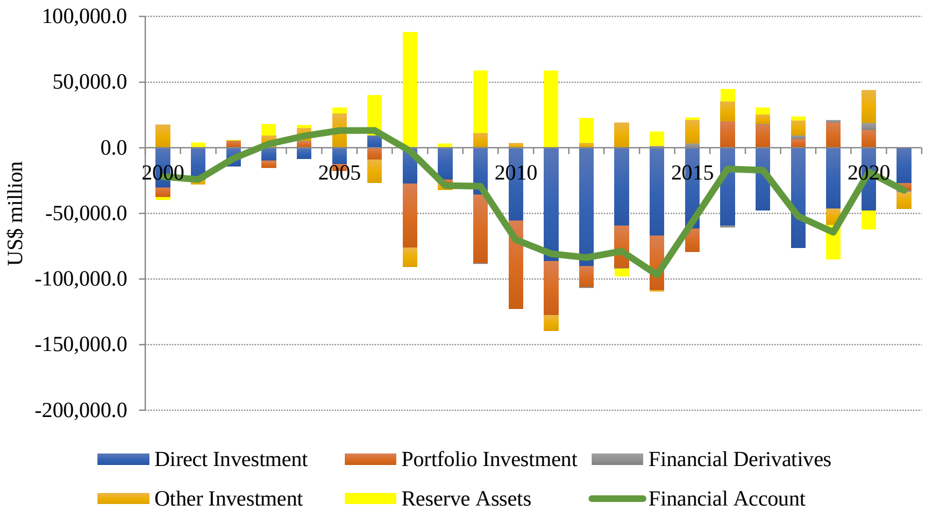
In the financial account however, the outcomes of the first semester of 2020 were very harmful, notably due to portfolio investments outflows, which in July 2020 reached around US$ 48 billion[12]. Nevertheless, in the second semester there was a change in the international liquidity cycle, with foreign capital searching again for high yields in the peripheral countries, and there was a massive inflow in Brazil – which did not balance the portfolio investment account in 2020 but at least reduced the deficit[13]. Figure 6 shows

[12] Data for 12 months, i.e. from August 2019 to July 2020.

[13] This return of foreign capital to Brazil in the second semester of 2020 was mainly caused by a reversal in the international liquidity cycle, meaning that after some months of a typical move of "search for quality" generated by the uncertainties arising from the outbreak of the pandemic, international investors reverted to a "search for yield" in the peripheral countries, given that interest rates in the core countries were still at extremely low levels. Besides these "push factors", it is also important to highlight that the Brazilian Central Bank has a relatively high volume of international reserves – details below – and a swap agreement with the Federal Reserve (details on: https://www.federalreserve.gov/newsevents/pressreleases/swap-lines-faqs.htm#:~:text=On%20March%2019%2C%202020%2C%20it%20added%20temporary%20swap,were

that at the end of the year, the FDI's inflows had been enough to compensate for the deficits in the portfolio and other investment outflows and the result was a surplus of US$ 18.7 million (1.2% of the GDP), much lower than the one obtained in the previous year – and not enough to compensate for the current account deficit – but still far from triggering an external sector crisis as was the case several times in Brazilian economic history. In 2021, net portfolio flows were close to zero and the financial account had a higher surplus: US$ 32.6 billion (around 2.0% of the GDP), enough to compensate for the current account deficit. In early 2022, Brazilian international reserves are unexpectedly at the same level they were in early 2020 (around US$ 360 billion).

Figure 6: Brazil – Financial account (US$ million)



Source: BCB. Author's elaboration.
Obs: positive values mean a decrease in the external liabilities, ie. net outflows; negative values mean an increase in the external liabilities, ie. net inflows.

In spite of the relatively comfortable situation in the balance of payments, the context of uncertainties combined with declarations by the Minister of Economy Paulo Guedes that the government would not intervene in movements of the exchange rate – and the resulting speculative movements – caused an extremely large depreciation of the Brazilian currency in 2020: 22.6% in nominal terms in relation to the US dollar, the sixth highest depreciation in the world in 2020 (just behind the currencies of Venezuela, Seychelles, Zambia, Argentina and Angola). In 2021, the exchange rate was very volatile,

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%20allowed%20to%20expire%20after%20that%20crisis%20subsided), providing a certain degree of reliability to the international investors ("pull factors").

and at the end of the year the Brazilian *real* had depreciated by an additional 7.4% (Figure 7).

Figure 7: Exchange rate R$/US$ (monthly, end of period)

Source: Brazilian Central Bank. Author's elaboration.

The exchange rate in Brazil was already highly volatile in the past, with harmful effects for the national economy[14]. Among other problems, this has aggravated economic uncertainties, reducing the possibilities of long-term planning for companies operating with hard currencies. In turn, the strong depreciation during the pandemic created problems for companies indebted in dollars and, very importantly, for those depending on the import of inputs. This depreciation, combined with an overall lack of imported inputs due to the disruption of the global value chains during the pandemic, should theoretically stimulate a process of import substitution – at least in some subsectors. However, the volatility of the exchange rate has hindered any impetus for new investments[15].

The strong currency depreciation was one of the reasons for a large increase in the inflation rate in Brazil. Year-over-year inflation stood around 4% at the beginning of 2020, but from May onwards it started accelerating, reaching a peak of 10.7 in November 2021 (Figure 8). Besides the currency depreciation, major disruptions in supply chains – both in the world and in Brazil – provoked an escalation of prices in many sectors. In a

[14] For details, see for instance De Conti (2011) and Ramos (2016).
[15] Further discussions on De Conti (2022).

recessive context, the social consequences of this high inflation are particularly perverse, as we will discuss in section 4.

Figure 8: Inflation rate – Consumers Index (IPCA), accumulated in 12 months (%)

Source: Brazilian Central Bank. Author's elaboration.

In the face of the severe economic crisis which hit the whole world, all countries implemented a set of economic policies to mitigate its effects. In the next section, we will discuss the fiscal and monetary policy reactions carried out in Brazil.

3. Fiscal and monetary policy reactions

It is ironic that while denying the need for social distancing to allegedly defend economic dynamism, Bolsonaro implemented insufficient and asymmetric measures to alleviate the economic crisis. The Minister of Economy's first reaction to the potential crunch was strengthening the defense of deeper liberal reforms in Brazil, a position that went against global world trends and even the recommendations of many multilateral institutions[16]. After this hesitation however the government implemented some counter-cyclical policies, the implementation of which required recognition of "public calamity"[17] since Brazilian fiscal laws are very strict. Under this decree, the National Congress approved in May 2020 what came to be known as the "War Budget", which allowed the institution of a parallel budget related to the combat of the pandemic, with great flexibility in terms of amounts and agility for the necessary expenditures. In particular, a law

[16] See for instance UNCTAD (2020).
[17] This decree was in force from mid-March 2020 to the end of June 2021.

imposing a “ceiling” for public expenditures, which had been approved in 2016, lost its validity during the period of the decree.

The most important policy implemented by Bolsonaro’s government to alleviate the social effects of the crisis was the “Emergency Aid Program”, aimed at transferring cash to informal workers (around 40% of Brazilian labor force), autonomous workers, and unemployed people, many of whose incomes had been reduced to literally zero. The government was reluctant in implementing this policy, but it was eventually approved by the National Congress, which also elevated the monthly value defined for the transfers to R$ 600 (around US$ 120 at that time)[18]. Initially planned for only three months, the program was renewed with lower amounts for the transfers (around US$ 60) until the end of 2020, and after a gap it was relaunched from April to October 2021 with an even lower amount (approximately US$ 25 to US$ 50). In 2020, 68.2 million people benefited from this program, corresponding to almost one third of the Brazilian population. Besides the diminishing individual cash transfers, the benefited population has been gradually reduced in 2021, reaching in October around 22.6 million people (10.6% of the population).

A new program (“Brazil Aid”) was launched in January 2022 to replace this “Emergency Aid Program” and the “Bolsa Família” Program – which had been created in the Lula Administration's government. The purpose was still to transfer cash to the poorest households, but narrow the universe of beneficiaries: households with a monthly per capita income lower than R$ 105 (around US$ 20); and those with a monthly per capita income from R$ 105 to R$ 210 (around US$ 40), but with children, young people (less than 21 years old) and/or pregnant woman. The program reached 17.5 million households in its first month – which corresponds to around one quarter of the total households in Brazil –, and the monthly transfer corresponded to R$ 400 (around US$ 80). The program is planned to be in force until the end of 2022, the end of Bolsonaro’s mandate, and has generated tense discussions within the government, since the Minister of Economy was against it due to his efforts to public expenditures – details below. In spite of its limitations, the program is certainly welcome, but one cannot avoid realizing that it is part of Bolsonaro’s strategy to increase his popularity in an electoral year[19].

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[18] After agreeing to implement the policy, the government proposed to concede R$ 200 per worker (around US$ 40, one fifth of the minimum wage). All over the pandemic period, the three spheres of power (executive, legislative and judiciary) have been constantly involved in discussions and tension.

[19] After all, this new program “Brazil Aid” results in an important reduction in both the monthly cash transfers and the group of beneficiaries in regard to the initial “Emergency Aid Program”. It means a return

Besides these programs of cash transfer for households, the government implemented diverse measures for companies, the most used (and controversial) one being the “Emergency Program for the Maintenance of Employment and Income”. It conceded to companies the authorization for a temporary suspension of workers’ contracts or a reduction of even 75% in their working hours and wages for some months. The agreement could be made collectively or individually, and the limit for this suspension/reduction of working hours was 120 days, with the clause that once this period was finished the worker would have stability for the same period. Justified by the government as an important measure for avoiding unemployment, this policy had at least one serious problem: these workers had access to the unemployment benefits, but in principle it could mean lower incomes – according to Welle *et al.* (2020), someone earning around US$ 1,000 may have lost 65.3% of his/her monthly income[20]. The program was in force in 2020, and was relaunched from April to August 2021. During its existence, 2.1 million employers (companies and individual employers) used the program, and 12.4 million workers had a temporary suspension of their contracts and/or reduction in their working hours, corresponding to more than one third (35.3%) of the total population with formal contracts in the private sector in the first quarter of 2020.

Additional fiscal measures have involved the expansion of health spending, temporary tax waivers for some goods or companies, additional transfers from the national to the states and cities governments to offset the expected fall in revenues, the expansion of credit lines by public banks for companies’ working capital, payroll costs and investments (up to 5.5% of GDP, with 1% devoted specifically to SMEs)[21]. The whole set of fiscal measures announced in 2020 corresponded to 12% of the GDP.

In the end, actual spending of the Federal Government to combat the pandemic and the crises amounted to R$ 524 billion in 2020 (around US$ 100 billion and corresponding to 7.0% of GDP). In spite of the lower level in regard to the initial announcements, it was a relatively high amount for a peripheral country. The “Emergency Aid Program” received the largest share of this amount (55.9%), and the “Emergency

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to the criteria of the “Bolsa Família” Program, which has existed since 2003, but under a new label, to promote it as a “creation” of the Bolsonaro Government.

[20] Interviews we have conducted with workers from the automotive sector – where this program has been massively used – indicate that in the sectors with strong unions, the companies (entirely or partially) paid the difference between the government transfer and the ordinary income of the workers. Details in the other article.

[21] For details, see IMF „Policy Responses to COVID-19“, at https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#B

Program for the Maintenance of Employment and Income" received 6.4%. Important amounts were designated to complement the depressed budget of the states and cities (14.9%) and for credit lines (13.9%). In 2021, there was a severe decline in these expenditures of the Federal Government, with the total amount cut to R$ 121.4 billion (around US$ 22.5 billion, or 1.4% of GDP). The shares of the "Emergency Aid Program" and the "Emergency Program for the Maintenance of Employment and Income" were kept (respectively 50.0% and 6.4%), and the purchase of vaccines corresponded to 18.0% of the total[22].

Altogether, the difference between the expected public deficit before the pandemic and the actual deficit in 2020 was R$ 707 billion (around US$ 140 billion), meaning that the extraordinary fiscal measures combined with the declining tax revenues and the drop in GDP resulted in an increase of 8.1% of GDP to the public deficit[23].

Figure 9 shows that the primary deficit of the public sector[24] accumulated in 12 months was 0.85% of GDP in March 2020 and skyrocketed during the following months, reaching 9.5% of GDP at the end of the year. Just as impressive as the rapid hike in 2020, however, was the accelerated decline in the following 12 months, resulting in a surplus of 0.75% of GDP by the end of 2021. As mentioned above, Minister Guedes has been obsessed with the reduction of the public expenditures, and even if the public health, economic and social situation were still very serious in 2021, his priority was to reduce the public deficit[25].

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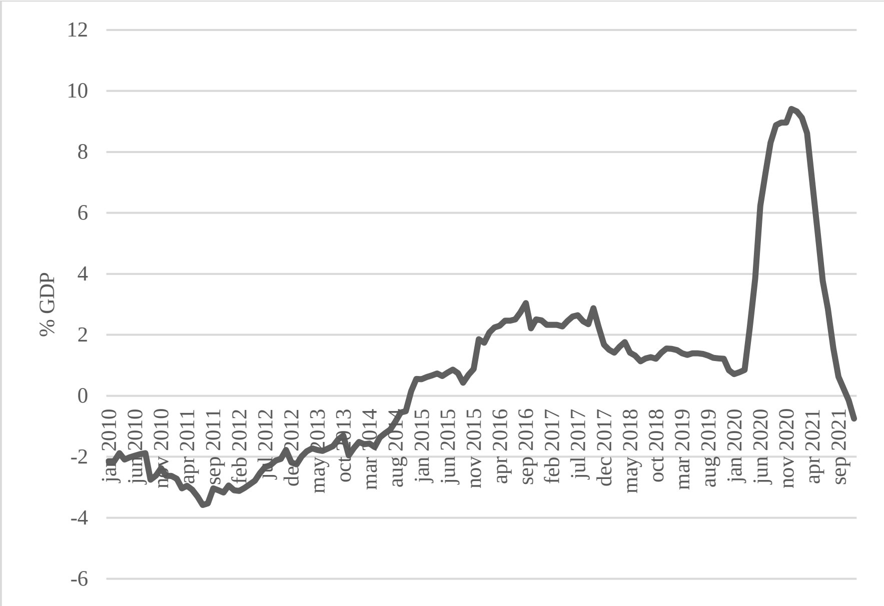
[22] Data provided by the Brazilian National Treasury (https://www.tesourotransparente.gov.br/visualizacao/painel-de-monitoramentos-dos-gastos-com-covid-19).

[23] Comparing, again, the expected deficit before the pandemic with the actual deficit in 2020.

[24] The primary public deficit does not consider the payment of interest rates related to the public debt. The total deficit of the public sector in 2020 was 13.7% of the GDP.

[25] Even in 2020, while allowing the extraordinary expenditures, he was constantly declaring that in 2021 he would "strengthen the austerity policy". For details, see De Conti, Borsari and Martínez (2021).

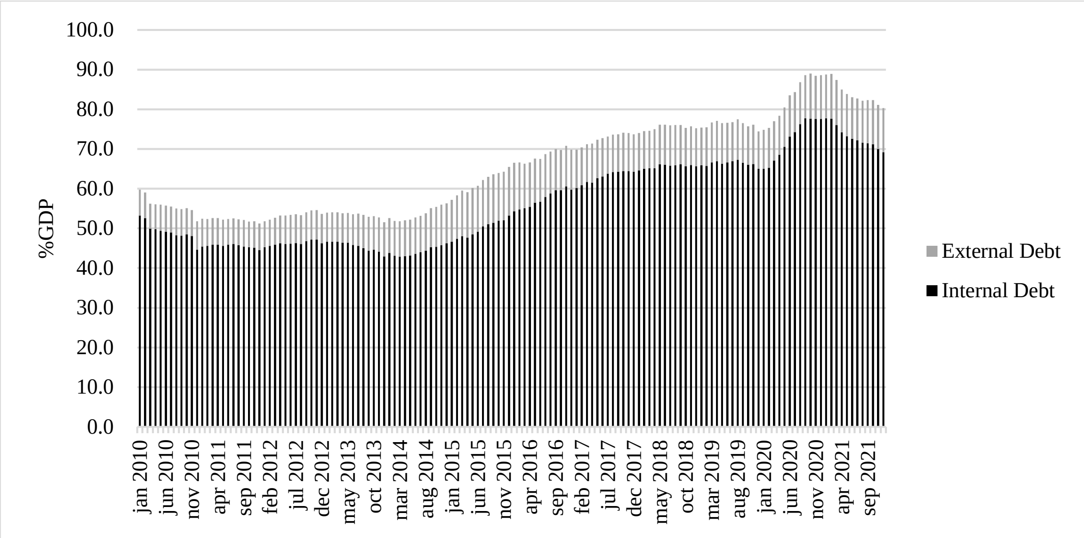
Figure 9: Primary deficit of the public sector, accumulated in 12 months (%GDP)



Source: Brazilian Central Bank. Author's elaboration.

As a result of the extraordinarily high public deficit, public debt in Brazil has evidently increased. Nevertheless, Figures 10 and 11 demonstrate that this additional indebtedness was far from dramatic. From March 2020 to February 2021 – when it reached its peak – the gross debt of the government increased from 77.0% to 89.0% of GDP. Very importantly, out of this 12 percentage point (p.p.) increase, only 1.4 p.p. corresponded to external debt. Given the strong austerity policy implemented in 2021, the level of the total debt had already been reduced to 80.3% of GDP by the end of the year – i.e., only 3.3 p.p. above the pre-pandemic level.

Figure 10: Gross debt of the government – internal and external (%GDP)

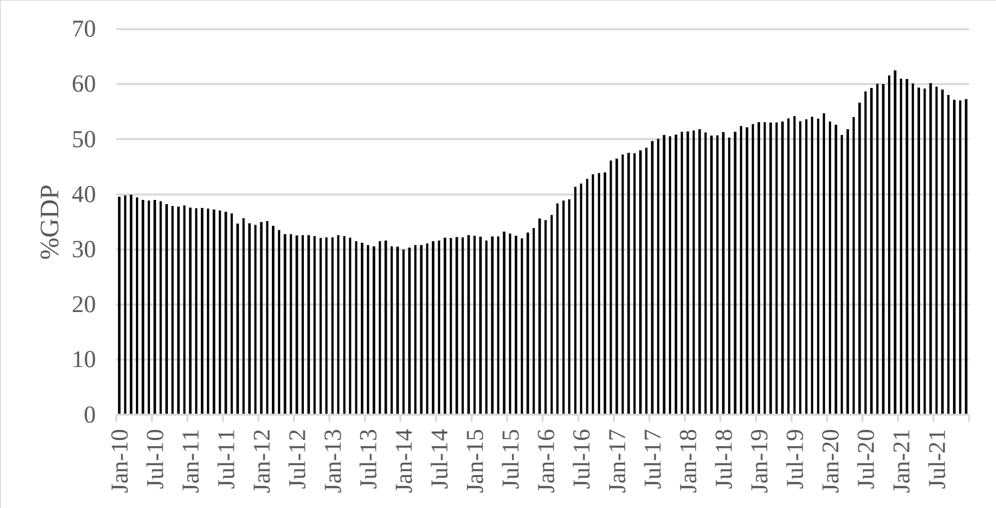


Source: Brazilian Central Bank. Author's elaboration.

The development of the net debt of the public sector was similar, with the level at 50.8% of GDP in March 2020 and the peak at 62.5% of the GDP in December of the same year (Figure 11). Analogously, it declined substantially in 2021, reaching by the end of the year a level which was only 6.4 p.p. above the pre-pandemic level. In our opinion, both the new level and the difference in comparison to the previous years do not justify the huge effort of the Minister of Economy to reduce the public spending in a moment when more than one thousand people were daily dying due to COVID-19[26], and poverty and food insecurity were increasing – as we will discuss in the next section.

[26] In 2021, Brazil had more than 150 days with more than 1,000 daily deaths provoked by COVID-19.

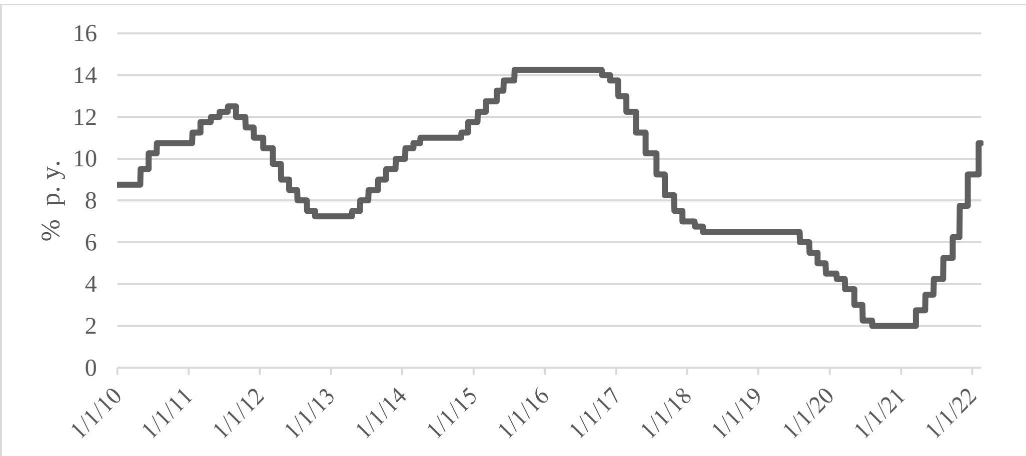
Figure 11: Net Debt of the public sector (%GDP)



Source: Brazilian Central Bank. Author's elaboration.

Monetary policy in 2020 was also aimed at stimulating economic dynamism and increasing liquidity in the financial system. Hence, in 2020 the basic interest rate was reduced from 4.5% to 2% per year (a historically low level for Brazilian standards), and reserves requirements were also reduced, as well as the remuneration of these requirements, in order to stimulate new lending. Nevertheless, the escalation of inflation – discussed above – led to a complete reversal of this expansionist policy. The Brazilian Central Bank took some months to respond to the inflation pressures, but in April 2021 it initiated an accelerated process of raising the basic interest rate (Figure 12).

Figure 12: Basic interest rate, SELIC[27] (% per year)



Source: Brazilian Central Bank. Author's elaboration.

[27] SELIC is the acronym in Portuguese for "Special Custody Settlement System".

In spite of declarations by the Minister of Economy at the beginning of the pandemic that the exchange rate could freely float, one of the aims of this tight monetary policy was curbing the currency depreciation discussed above, which was one of the important reasons for the high inflation. Additionally, the Central Bank has intervened several times on the exchange rate market, in a total amount which reached US$ 65 billion across 2020-21.

The “War Budget”, related to the period under the decree of “public calamity”, allowed the government to buy bonds from the private sector in the secondary market, aiming at providing liquidity to capital markets. However, this modality of “quantitative easing” was not used in Brazil on a massive scale. Table 1 demonstrates that unlike many other countries, the Brazilian Central Bank balance sheet did not experience important changes as an outcome of the anti-cyclical policies. Total assets and liabilities remained almost stable in relation to GDP (47.1% in December 2020 and 47.9% in September 2021). The main difference regards the assets in foreign currency held by the Central Bank (i.e., international reserves), but most of the difference is explained by the depreciation of the Brazilian currency. The amount of public bonds in possession of the Central Bank declined from 25.5% to 22.8%, evidencing that the new public debt was purchased primarily by private agents. On the liability side, there were no big changes in the volume of repos, the obligations of the Central Bank with the national government, or the amount of currency. This unresponsiveness of the Brazilian Central Bank balance sheet even in the midst of a calamity is another clear indication that the room for policy space in this country tends to be narrower than the one of core countries, where the Central Bank balance sheets have skyrocketed since the outbreak of the global financial crisis and - with an even greater intensity - during the pandemic[28].

[28] See for instance Herr and Nettekoven (2022).

Table 1: Brazilian Central Bank balance sheet – selected items – Dec. 2019 and Sep. 2021 (%GDP)

Assets	Dec 2019	Sep 2021	Liabilities	Dec 2019	Sep 2021
Assets in foreign currency (A)	20,6%	24,6%	Liabilities in foreign currency (C)	1,5%	2,6%
Assets in local currency (B)	26,5%	23,3%	Liabilities in local currency (D)	39,5%	37,1%
Public bonds	*25,5%*	*22,8%*	*Financial institutions deposits*	*6,1%*	*5,1%*
			Repos	*12,9%*	*13,0%*
			National government assets	*19,8%*	*18,4%*
			Currency (E)	3,8%	3,9%
			Net worth + adjustment accounts (F)	2,3%	4,3%
Total Assets (A+B)	47,1%	47,9%	**Total liabilities and net worth (C+D+E+F)**	47,1%	47,9%

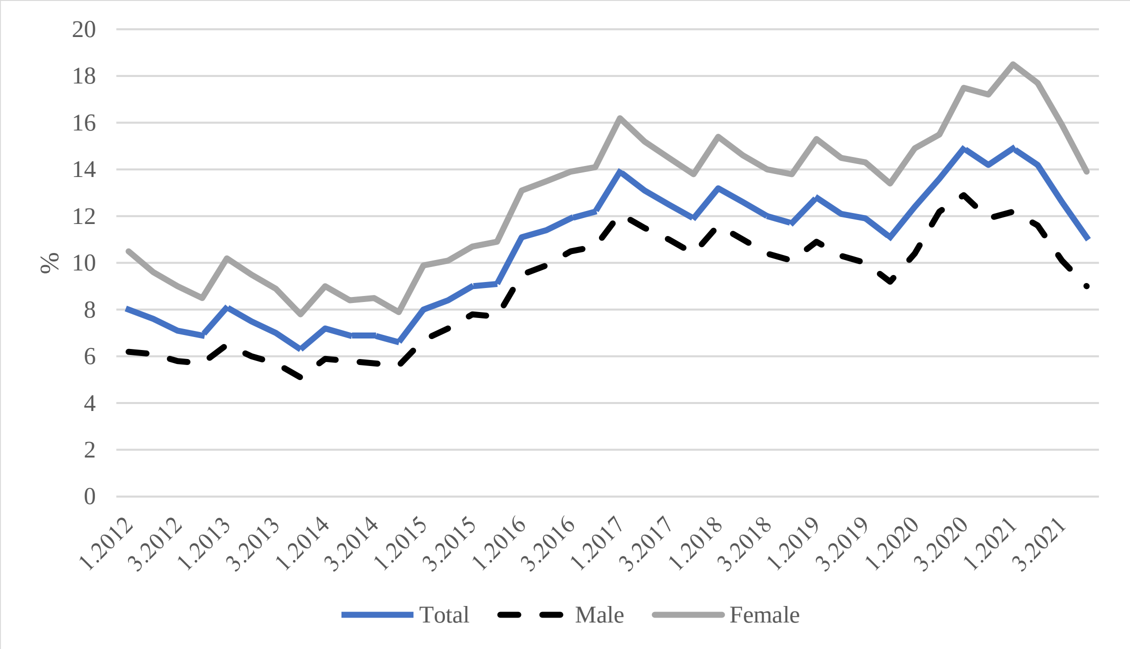
Source: Brazilian Central Bank. Author's elaboration.
Obs: Repos: Repurchase Agreement, i.e. operations in which the Central Bank sells a bond with the agreement to repurchase it at a specific date (normally, in the very short-term). National government assets: mainly deposits of the National Treasury in the Central Bank. Currency: banknotes in circulation.

In a nutshell, it is clear that fiscal policy was much more important than monetary policy in efforts to alleviate the effects of the pandemic in Brazil. Notably, the "Emergency Aid Program" and the "Emergency Program for the Maintenance of Employment and Income" were massively used as a buffer for the harms of the economic crises. Nevertheless, in our opinion this whole set of policies was insufficient to face the social problems, and was prematurely reduced and removed. The next section discusses the social effects of the pandemic in Brazil, justifying this perception.

4. Social development after the outbreak of Covid-19 pandemic

The policies discussed in the last section were very important to avoid a more dramatic scenario, particularly for the households which suddenly lost their incomes. Yet the social consequences of the crisis were very severe despite these measures. The unemployment rate had already increased from 2014 to 2017 – as a result of the economic crisis which was already in place, as discussed in section 2 – and after two years of a very timid amelioration it increased with the pandemic from 11.1% in the end of 2019 to 14.9% in the third quarter of 2020 (Figure 13). After some oscillation, this rate started declining in mid-2021, reaching at the end of the year the same level of the pre-pandemic period (11.1%). It is however important to notice that in spite of similar trajectories, the impacts on men and women unemployment had different intensities. From the pre-pandemic level to its peak, male unemployment went from 9.2% to 12.9% (+3.7 p.p.); and female unemployment increased from 13.4% to 18.5 (+5.1 p.p). At the end of 2021, male unemployment was slightly lower than the pre-pandemic level (-0.2% less), but the female rate was still 0.5% higher than it was at the end of 2019.

Figure 13: Unemployment rate – Total and by gender (%) - Quarters



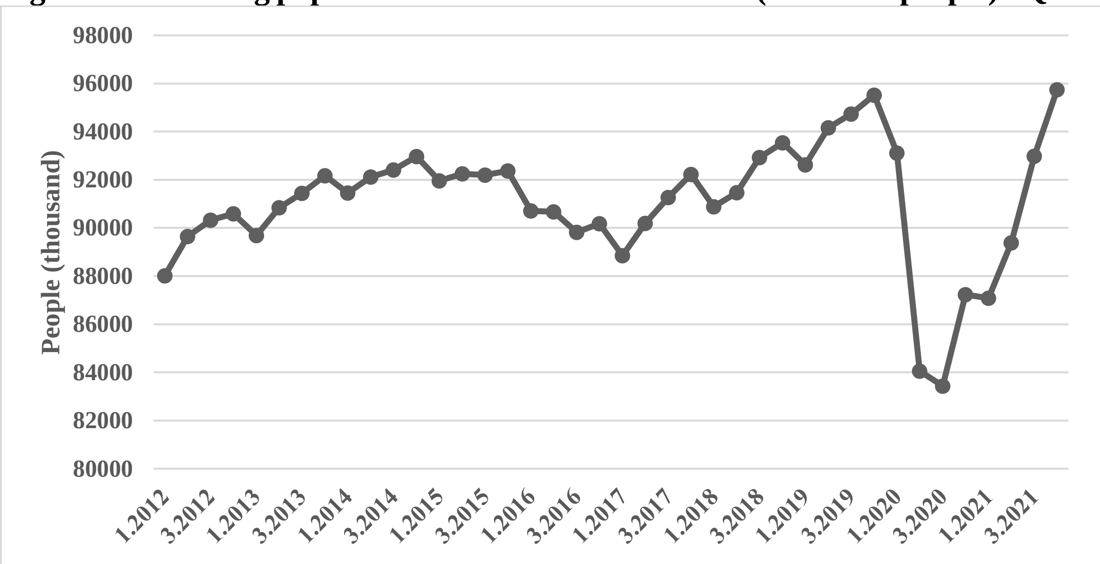
Source: PNADC-T/IBGE. Author's elaboration.

It is crucial to highlight, however, that the mere analysis of the unemployment rate does not capture the concrete reality of the Brazilian labour market during the pandemic, because the data is influenced by a very large of people abandoning the search for a job (and therefore not considered as unemployed people, but rather as part of the non-active population)[29]. Figure 14 shows the absolute number of the working population in Brazil, indicating that from early to mid-2020 there was a loss of 12 million jobs (-12.9%). Again, the situation for women has been much worse: the decline corresponded to 9.8% of the male working population and 16.4% of female one, meaning that one in six women lost her job – or had to resign it to take care of elder people or children when schools were closed[30]. In the following period there was a recovery, and by the end of 2021 the working population reached the same level it had in the analogous period of 2019.

[29] Just to clarify, the unemployment rate considers both the formal and the informal labor market, but it does not take into consideration the people who are able and willing to work, but for any reason (normally discouragement or lack of economic conditions) has not actively searched for a job in the week taken into consideration in the survey.

[30] In the third quarter of 2020, the participation rate of the female population reached its lowest level, with only 47.3% of women (14+ years old) being considered as part of the labour market. All data from PNADC-T/IBGE (the Quarterly National Households Survey).

Figure 14: Working population in the week of reference (thousand people) - Quarter



Source: PNADC-T/IBGE. Author's elaboration.

In spite of the huge loss of jobs in 2020, it is undeniable that the above-mentioned policies have avoided a worse situation. It is not possible to do any estimation of the preserved jobs, but it is very probable that at least some of the 12.4 million workers who joined the "Emergency Program for the Maintenance of Employment and Income", discussed in section 3, would have lost their jobs in the absence of such policy.

The destruction of jobs combined with a decrease in the average work income resulted in a large loss in the volume of the total work incomes in the country. According to data from the Brazilian Statistics Institute (IBGE)[31], in the second quarter of 2020 this measure reached its lowest level, with a decline of 13.3% from the analogous quarter of 2019 (in real terms). Unlike what happened in 2021 with the number of occupations, the average work income did not increase, and the level at the end of the year was still 9.4% below it had been at the end of 2019. This means, therefore, that the jobs created in 2021 were in general characterized by low incomes. As a consequence, in spite of the recovery in the number of jobs, the total volume of work incomes in the last quarter of 2021 was still 9.1% below the one of the analogous period of 2019, meaning that the purchasing power of the population has not returned to the pre-pandemic level.

As a result, the populations of poor and extremely poor individuals have substantially increased with the pandemic. Table 2 shows that in 2021, Brazil had 9.2 million additional people living with a daily income below the World Bank's poverty line

[31] PNADC-T//IBGE.

(US$ 5.50) compared to 2019; and 5.8 million additional people whose daily income was below the extreme poverty line (US$ 1.90). It means therefore that according to this metric 28.7% of the Brazilian population is currently considered as poor and 9.1% as extremely poor.

Table 2: Population below the poverty and the extreme poverty lines (million people)

	2019	2021
Poor Population	51.9	61.1
Extremely Poor Population	13.9	19.3

Source: Made-USP. Author's elaboration.
Obs: World Bank's poverty line (daily income below US$ 5.50) and extreme poverty line (daily income below US$ 1.90)

Not surprisingly, access to food has also diminished for a large contingent of the population. According to estimations of PENSSAN Network based on a national survey[32] more than half (55%) of the Brazilian population – 116.8 million people – lived with a certain degree of food insecurity in 2020[33]. In fact, one third (35%) of the population had a low level of food insecurity, 11% had a moderate level and 9% had a high level. It means therefore that 19 million people suffered from starvation (a high level of food insecurity) in 2020 – an increase of more than 100% in relation to the previous year. This picture is worse in rural areas, where 12% of households had a high level of food insecurity – which is strongly correlated with hydric insecurity, which makes food production difficult. Moreover, regional, gender and racial inequalities were – unsurprisingly – evident, since the figures of high level of food insecurity were higher in the Northern (18.1%) and Northeastern (13.8%) regions, in households whose "head of household"[34] were women (11.1%) or afro-descendants (10.7%).

Again, it is necessary to highlight that the picture would have been much worse in the absence of the "Emergency Aid Program", but it is clear that the intermittence of the program, the low and declining values of the cash transfers, and the gradual reduction

[32] "The survey was based on a nationally representative sample of households in the five macro-regions of the country – the North, Northeast, Central-West, South and Southeast. Interviews were conducted face-to-face with 2,180 households from December 5 - 24, 2020: 1,662 urban households and 518 in rural areas." (PENSSAN, 2021, p. 7).

[33] Food insecurity was measured by PENSSAN according to the Brazilian Scale of Food Insecurity (EBIA), the same scale used by the Brazilian Statistics Institute (IBGE). This scale directly measures the perception and experience of food insecurity and starvation at the household level through a survey of questions related to the lack of food (availability and diversity) motivated by economic reasons. For details, see MDS (2014).

[34] The member who provides the higher contribution to the total household income.

on the benefited population made it very insufficient to deal with the real needs of the socially vulnerable population in Brazil.

5. Final Remarks

In spite of being global, the pandemic has had very diverse effects all over the world. Several studies (e.g. ECLAC, 2020; Hoffmann *et al*, 2021; Stevano *et al*, 2021) indicate that in the end, the so-called "coronacrisis" is deepening existing inequalities, both within countries and between countries. Given its structural characteristics as a peripheral economy, the socioeconomic context when the pandemic broke out following a sustained crisis in the country since 2014, and the mistakes of the current government, Brazil was among the most impacted countries in the public health, economic and social dimensions.

Regarding the public health dimension, the denialist attitude of the president resulted in a lack of national policies for social distancing and a clear mismanagement of the vaccination process, not to mention the constant spread of fake news emanating from the president and his peers regarding the origin of the virus, the seriousness of the disease, and the appropriate treatments.

As for the economic and social dimensions, the national government – after some hesitation and under the pressure of the National Congress – implemented a set of policies which have irrefutably served as a cushion for the harms of the pandemic. In particular, it is important to emphasize that the "Emergency Aid Program" temporarily benefited 68.2 million people (almost one third of the whole population) and the "Emergency Program for the Maintenance of Employment and Income" was activated by 12.4 million workers (35.3% of the total population with formal contracts in the private sector in the first quarter of 2020).

Nonetheless, it is crucial to underline that these policies have been insufficient to cope with the concrete urgencies of more vulnerable populations in Brazil. The intermittence and the short-termism of the fiscal programs associated with the gradual reduction in the benefited population and in the amounts of the transfers limited the effectiveness of the policies. The actions taken by the Minister of Economy to revert the emergency policies and return to a strong austerity policy may be pleasing to credit rating agencies but are leaving an important part of the Brazilian population acutely susceptible to the effects of the crisis, which is far from finished.

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