

## Brazil's Policy Responses to COVID-19

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### Public calamity

- **Public calamity:** The Congress approved the legislative decree that recognizes the state of public calamity in Brazil until Dec. 31, 2020. Due to the state of public calamity, the government is not obliged to meet the fiscal primary balance target this year.
- **“War Budget” Constitutional Amendment (PEC):** approved by the Chamber of Deputies in a second round, and now under Senate consideration. The PEC allows detaching expenses incurred to combat COVID-19 from the budget of the Federal Government, creating an extraordinary regime to allow the expansion of public expenditures without the constitutional barriers that currently restrict federal spending. The PEC exempts the need to ask the Congress for authorization to issue federal bonds in an amount that violate the “golden rule” (i.e., that exceeds capital expenditures). The Federal Government will be allowed to issue bonds to pay federal debt interest and charges. Further, the Central Bank will be authorized to buy and sell National Treasury bonds in the secondary market.

### Health

- **Transfer of R\$ 7.7 billion (US\$ 1.5 billion) to the Ministry of Health budget** to combat the Covid-19 pandemic.
- **Health Guarantee Fund resources:** The Agency of Supplementary Health (ANS) was requested to approve measures to make easier the access to **20%** of the Fund resources (about **US\$ 2.0 billion**) providing the private health insurance companies with funding invest in assistance infrastructure.
- **BNDES created** a R\$ 2 billion credit line to increase emergency capacity, medical material and hospital equipment.
- **R&D Financing** - A fund of R\$ 50 million (**US\$ 10 million**) will be allocated to financing 11 research thematic lines, which includes the development of new methods of prevention and control, diagnosis, treatment and vaccines against coronavirus and other respiratory diseases.
- **Census 2020:** Postponement to 2021, transferring funds to the Ministry of Health.
- **DPVAT:** R\$ 4.5 billion (**US\$ 0.9 billion**) from the Insurance for Traffic Accidents fund balance will be destined to the public health system.
- **More Doctors:** 5,811 professionals called to join the program *Mais Médicos*. Most of the new doctors will be sent to areas of high population concentration. Reincorporation of exchange medical doctors from international cooperation (the former *Mais Médicos* program) with a deadline to start activities on 05/05/2020.
- **Acquisition of 2,000 ICUs beds.**
- **Purchase of respirators** (R\$ 1 billion or **US\$ 200 million**) scheduled to be delivered by the end of April.
- **Health insurance firms:** tests for Covid-19 will be part of mandatory coverage for health insurance firms.
- **Telemedicine services** have been allowed. Physicians can make consultations online and issue electronically signed medical reports or prescriptions.
- **Small hospitals** authorized to treat infected patients.
- **Government properties** will be used as field hospitals, aiming at installing structures in all capitals and large urban centers.
- **Simplified authorization of hygiene products** were adopted by the National Agency for Health Surveillance (Anvisa) to help increase their supply.
- **Rapid test kits:** the Federal government and states are preparing to distribute 10 million units.
- **Temporary exemption of IPI**, the Industrialized Products Tax, for listed imported and domestic goods necessary to combat Covid-19.
- **Reduction of red tape** on procurement procedures related to public health emergencies.
- **Laboratories of the Armed Forces** are manufacturing alcohol gel and chloroquine in industrial scale.
- **The Ministry of Defense** is registering companies that operate in the Defense sector and identifying those that can provide equipment to help fight the virus.

### Trade

- **Avoiding shortage of essential products to combat the COVID-19:** waiver of customs duties on products such as lung ventilators, sanitizers, masks, gloves, protective glasses, among others. Furthermore, Brazil has suspended antidumping duties applied to blood collection tubes and disposable syringes. Moreover, for a limited period of time, Brazil has made the exportation of essential goods subject to a specific export authorization. The measure is applied in the least trade restrictive manner necessary to ensure domestic supply of goods identified as indispensable for the proper functioning of the healthcare system.

- **Trade Facilitation:** elimination or simplification of administrative and/or customs procedures to facilitate the flow of imported goods such as personal protective equipment, among other products.

## Support for Families

- **Informal and unemployed workers:** for three months, the government will transfer R\$ 600 (US\$ 120) to informal sector workers or unemployed members of a low-income family over 18 years old and non-eligible for other social benefits. The fiscal cost is estimated at R\$ 45 billion (US\$ 9 billion) and it should reach up to 20 million people.
- **13<sup>th</sup> salary for retirees:** anticipation of the payment (impact of R\$ 46 billion, or US\$ 9.2 billion).
- **Suspension of annual medicine price readjustment.**
- **Salary bonus allowance:** anticipation for next June (release of R\$ 12.8 billion, or US\$ 2.5 billion).
- **Energy supply:** the Electric Energy Agency (Aneel) suspended energy supply cuts due to non-payment for 90 days. In addition, the low-income population registered for lower tariffs (the Social Tariff program) will not be subjected to the periodic checks in the next three months, and therefore will not lose the benefit.
- **PIS/PASEP:** allow withdraw of resources (impact of R\$ 21.5 billion, or US\$ 4.3 billion), and transfer of R\$ 20 billion (US\$ 4 billion) from the balance of accounts not drawn to FGTS.
- **Conditional Cash Transfer *Bolsa Família* Program** was reinforced, with the inclusion of over 1 million more beneficiaries (impact of up to R\$ 2 billion, or US\$ 0.4 billion), and interruption, for 120 days, of blocking and cancellation of benefits and of investigations and registration reviews.
- **Payroll credit loans:** term extension to 84 months and reduction of the maximum interest (1.8% or 2.7% on the credit card).
- **Unemployment insurance:** anticipation of 25% of the unemployment insurance amount for those who earn up to two minimum wages and have wages reduced. Impact of R\$ 10 billion (US\$ 2 billion).
- **Continuous Cash Benefit (BPC):** anticipation of part of the benefit for people with disabilities and sickness benefits. Impact of R\$ 5 billion (US\$ 1 billion).
- **Debt** collection suspension and easier conditions for debt renegotiation by the Attorney General's Office.
- **School meals** may be distributed directly to families with children in public schools during the suspension period.
- **Postponement of installments related to real estate financing** for three months. The measure will benefit 800 thousand families.
- **Income tax declaration** was postponed for 2 months.
- **Exemption of energy bills** at a cost of R\$ 900 million (180 million) for a three-month period.

## Employment

- **Formal jobs:** protection measures of formal jobs were announced, including remote work; anticipation of individual paid vacations; mandatory vacation leave; intensification of the compensatory time off; proportional reduction of wages and working hours; and anticipation of non-religious holidays.
- **Emergency Employment Maintenance Program:** the government authorized the reduction of working hours and wages, in return for the maintenance of jobs. The government will pay aid to offset the cut while keeping the workload short.

## Support for Companies

- **PROGER/FAT:** credit for Micro and Small Firms (R\$ 5 billion, or US\$ 1 billion).
- **Payment of federal taxes:** To provide liquidity to companies, the government is considering postponing firms' payment of federal taxes for two or three months.
- **FGTS:** deferral payment term for 4 months (impact of R\$ 30 billion, or US\$ 6 billion).
- **Contributions from "Sistema S":** 50% reduction in contributions for 3 months (R\$ 2.2 billion, or US\$ 0.4 billion).
- **Workers with Covid-19:** the government will pay for the first 15 days of leave for those who tested positive.
- **Simple Nacional Program:** deferral for 3 months at the federal level (R\$ 22.2 billion, or US\$ 4.4 billion).
- **Tourism firms** were given facilitated access to credit and deferred payments.
- **Change in the form of contribution** to PIS/Pasep and of Contribution to the Financing of Social Security, for 2 months.
- **IRS** suspends procedural deadlines until May 29.

## Airlines

- **The Banco do Brasil has authorized airlines** to stay up to four months without paying interest. If necessary, the Central Bank can guarantee this measure with rediscount operations.
- **Airlines relief package:** i) a 6-month postponement of the collection of air navigation tariffs; ii) postponement to December 2020 of the collection of concession fees from airport concessionaires without fines; and iii) a 12-month

extension period for companies to reimburse costumers for cancelled flights. Most international and domestic flights have already been canceled. Commercial aviation accounts for **1.9% of GDP**.

## Credit

- **The state-owned Federal Savings Bank (Caixa)** will extend R\$ 108 billion (or **US\$21.6 billion**) in credit lines to small-and medium-sized firms aimed at working capital, purchase of payroll loan portfolios from medium-sized banks and agribusiness. The bank also cut interest rates on some types of credit and offered clients a grace period of 90 days.
- **The Banco do Brasil** announced a R\$ 100 billion (or **US\$ 20 billion**) increase in its credit lines, aimed at working capital, investments, prepayment of receivables, agribusiness and credit to individuals. The bank also increased the credit limit for 13 million customers.
- **The National Development Bank (BNDES)**: several measures announced, such as: i) opening of a working capital loan line for micro and small firms; ii) 6-month interruption of outstanding loan payments, with no late interest payment; iii) suspension of amortizations of R\$ 19 billion (**US\$ 3.8 billion**) for direct operations and R\$ 11 billion (**US\$ 2.2 billion**) for indirect operations. Sectors eligible include oil and gas, airports, ports, energy, transportation, urban mobility, health, industry and commerce and services; iv) scope expansion of the “BNDES Credit Small Business” line, covering from micro to R\$ 300 million annual turnover companies (**US\$ 60 million**). The credit limit per year will be increased from R\$ 10 million to R\$ 70 million (**US\$ 24 million**). The companies will have a 24-month grace period and five years of total term to pay for these new loans; v) the Bank is studying a new emergency credit line of R\$ 40 billion (**US\$ 8 billion**) to micro, small and medium companies.
- **Credit to finance payroll** aimed at companies in general (with the exception of credit companies), for up to two months. Impact of R\$ 34 billion (**US\$ 6.8 billion**).
- **Credit contracting requirements**: simplification and waiver of documentation (CND) for credit renegotiation.
- **Capital charge relief**: Lending and credit support through capital charge relief to loans secured by commercial real estate; and credit charge relief to retail exposures, to non-significant investment in the capital of financial institutions and insurance entities and to exposures secured by covered bonds issued by the own bank.
- **Restructured loans**: flexibilization of provisioning rules for a period of 6 months.
- **Febraban**: The Brazilian Federation of Banks announced an agreement by which the five largest banks in the country (BB, Caixa, Itaú Unibanco, Bradesco and Santander) are willing to respond to requests for a 60-day extension for the debt maturity of individual and SMEs.
- **Temporary reduction in the IOF tax** rate on credit operations, impact of R\$ 7 billion (**US\$ 1.4 billion**).

## Monetary and FX Policies

- **FX operations**: funding and liquidity support through FX swaps auctions, spot auctions, USD credit lines, auctions and 6-month Reverse Repo (floating rate) to reduce excessive volatility and provide hedge.
- **Resumption of repo operations** of Brazilian sovereign bonds denominated in dollars, a potential release of R\$ 50 billion (US\$ 10 billion).
- **Selic interest rate** was cut by 50bps to **3.75%**, its record low.
- **Reserve requirement ratios**: Reduced on time deposits from **31% to 17%** and increased the share of reserve requirements that may count towards the stock of High Quality Liquid Assets in the LCR (short-term liquidity index).
- **Improvements in the short-term liquidity index rules**, with impacts of R\$ 135 billion (**US\$ 27 billion**) on liquidity.
- **Provisions due to debt renegotiation**: exempts banks and cooperatives from increasing provisioning in the renegotiation for 6 months.
- **New Time Deposit with Special Guarantees**: banks will be able to increase their funding with FGC guarantee by 1x their net worth, limited to R\$ 2 billion (**US\$ 400 million**).
- **Flexibility of LCA rules**, increasing the potential for agribusiness credit in R\$ 6.3 billion (US\$ 1.3 billion) and additional liquidity to banks of R\$ 2.2 billion (**US\$ 440 billion**).
- **Debentures-backed loans**: purchases of debentures can be backed by mandatory deposits, encouraging the secondary market.
- **Repurchase of Financial Bills**: increase in the limit of company bonds repurchases from 5% to 20% of its issuance.
- **Reduction of the Core Capital Maintenance Additional**: falls from 2.5% to 1.25% for a 1-year period and gradual reversal until Mar/2022.
- **Conservation Capital Buffer (CCB)**: reduction from **2.5% to 1.25%** for 1 year and setting a transitional arrangement to restore the original 2.5% CCB in the subsequent year.
- **Overhedge**: Non-deduction in capital of tax effects resulting from overhedge of investments in equity interests abroad
- **BC resources provider**, up to 1 year, via repos backed by government bonds.



- **Reduction of the leveling spread:** institutions can access the leveling window at low costs, from +65 bps to +10 bps
- **Financial Bill-backed loans** guaranteed by credit operations, still being prepared, with a potential to release R\$ 670 billion (US\$ 134 billion).

### Financial Markets

- **Financial system monitoring:** strengthening the monitoring of the financial system and supervised entities. More intense and closer supervision of supervised entities.
- **Impact on balance sheets:** Securities regulators have instructed listed companies to report the impact that the coronavirus outbreak is likely to have on their balance sheets.
- **Repurchase auctions and sale of securities:** The National Treasury responded to pressures in the future interest market by announcing a program of repurchase auctions and sale of securities - simultaneous auctions (buying and selling) of public securities – R\$ 11 billion (buying) and R\$ 197 million (selling).

### Aid Plan to States and Municipalities

- **Financial support:** R\$ 8 billion (US\$ 1.6 billion) in transfers to the health system, R\$ 16 billion (US\$ 3.2 billion) to keep the State Participation Fund (FPE) and the Municipality Participation Fund (FPM) at the same levels of 2019 for four months.
- **Debt payments interruption** between the States and the Federal Government (R\$ 12.6 billion, or US\$ 2.5 billion).
- **Debt renegotiation** between federated entities and banks (R\$ 9.6 billion or US\$ 1.9 billion).
- **Support for credit operations:** the government will facilitate the contracting of credit by States and municipalities up to R\$ 40 billion (US\$ 8 billion).
- **Contract terms** signed with funds from federal government transfers to states, municipalities and private non-profit entities were relaxed.
- **Extraordinary credit** to offset the energy companies for providing energy development in the states.

### Containment

- **Private companies and the Federal Civil Service** moved to remote work as possible.
- **Measures to restrict people transit and businesses operations** are in place in big cities (Rio de Janeiro, São Paulo and Brasília, among others), while some States consider restricting access from nationals from other federal units.
- **Restriction on the entry of foreigners** by air from China, Iceland, Norway, Switzerland, Great Britain, Northern Ireland, Australia, Japan, Malaysia, Korea and countries belonging to the European Union.
- **Brazil has closed its terrestrial borders** with Argentina, Bolivia, Colombia, French Guyana, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela. The measure does not affect road freight transport, Brazilians, immigrants with permanent residence in Brazil and professionals working in international organizations.
- **Mercosur countries** issued an official note (on March 18<sup>th</sup>) with the commitment to identify and promote the removal of obstacles that hinder or impede the circulation of goods and services, and to study: i) measures to speed up the transport of essential supplies and products; ii) the possibility of lowering the tariffs applied to the products and supplies destined to disease prevention and health care.
- **Benefits granted by the Social Security (INSS)** without the need of face-to-face evaluation by medical experts. Strengthening of social security online services.
- **Authorizations for entry into indigenous lands** are suspended, with the exception of those related to essential services.
- **Cancellation of services, reservations and events** in the tourism and culture sectors due to the Covid-19 pandemic.