Brazil's Policy Responses to COVID-19

Stimulus Package of R$ 1,169 trillion (US$ 233.8 billion)

Up to US$ 45.4 billion for workers and the most vulnerable population. Fiscal impact: US$ 20.6 billion

Up to US$ 26.7 billion in aid to states and municipalities. Fiscal impact: US$ 14.4 billion

US$ 54.8 billion in credit measures

Up to US$ 104.9 billion in cash flow measures and a program for employment in companies. Fiscal impact of US$ 10.3 billion.

US$ 4.9 billion to fight the COVID-19 (funds and measures to assure supplies, treatment and protection). Fiscal impact: US$ 3.6 billion

Central Bank Measures

Liquidity assistance of US$ 240 billion

Capital release of US$ 640 billion

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)**: 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. The PEC is back to the Lower House's appreciation because of changes included in the Senate.

Health

- **Transfer of additional budgetary funds** of R$ 10.5 billion (US$ 2.1 billion) to Ministries to combat the Covid-19.

- **BNDES created** a R$ 2 billion (**US$ 0.4 billion**) credit line to increase emergency capacity, medical material and hospital equipment, which can translate to an increment of intensive care beds of 3,000 (10% of the current public health system availability).

- **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.

- **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,** increasing in 7% the public health system intensive care availability.

- **Purchase of respirators** (R$ 1 billion or **US$ 200 million**) scheduled to be delivered by the end of April, and coordination with the domestic industry for manufacturing respirators and other medical equipment.

- **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.

• **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. Impact of R$ 0.6 billion (**US$ 0.1 billion**)

• **Temporary exemption of PIS/Cofins** on pharmaceuticals used in treatments related to the COVID-19. Impact of R$ 0.6 billion, or **US$ 0.1 billion**.

• **Reduction of red tape** on procurement procedures related to public health emergencies.

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$ 98.2 billion (**US$ 19.5 billion**) and it should reach up to 54 million people.

• **13th salary for retirees**: anticipation of the payment (impact of R$ 47.2 billion, or **US$ 9.2 billion**).

• **Suspension of annual medicine price readjustment** until June.

• **Salary bonus allowance**: anticipation for next June (release of R$ 6.5 billion, or **US$ 1.3 billion**).

• **Electric Energy supply** cuts due to non-payment were suspended for 90 days. In addition, 9 million low-income families with monthly consumption up to 220 kWh are exempt from paying the electricity bill between April 1st and June 30th (impact of R$ 0.9 billion, or US$ 0.2 billion).

• **PIS/PASEP**: allow withdraw of resources and transfer of R$ 20 billion (**US$ 4 billion**) from the balance of accounts not drawn to FGTS (impact of R$ 36.2 billion, or **US$ 7.2 billion**).

• **Conditional Cash Transfer *Bolsa Família* Program** was reinforced, with the inclusion of over 1.2 million more beneficiaries (impact of up to R$ 3 billion, or **US$ 0.6 billion**), and interruption, for 120 days, of blocking and cancellation of benefits and of investigations and registration reviews.

• **Illness aid**: anticipation of a minimum wage for up to three months for those entitled to illness aid.

• **Payroll credit loans**: term extension to 84 months and reduction of the maximum interest (1.8% for payroll loans and or 2.7% for the credit card), with an impact of R$ 25 (**US$ 5 billion**) in the economy.

• **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**).

• **Postponement of installments related to real estate financing** for three months. The measure is set to benefit 800 thousand families.

• **Income tax declaration** was postponed for 2 months, an impact of R$ 19.6 billion (**US$ 3.9 billion**).

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. Impact of R$ 51.6 billion, or **US$ 10.3 billion**.

Support for Companies

• **PROGER/FAT**: credit for Micro and Small Firms (R$ 5 billion, or **US$ 1 billion**).

• **Deferral of debt statements:** To provide liquidity to companies, the government postponed firms' debt statements with the federal government and contributions for three months (impact up to R$ 200 billion, or **US$ 40 billion**).

• **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**).

• **Simples 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 Social Security, PIS/PASEP and of COFINS (Contribution to the Financing of Social Security), for 2 months, impact of R$ 74.4 billion (**US$ 14.9 billion**).

• **IRS** suspends procedural deadlines until May 29.

• **Debt** collection suspension and easier conditions for debt renegotiation by the Attorney General's Office for 3 months (impact of R$ 120 billion, or **US$ 24 billion**).

• **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$ 149 billion (or **US$29.8 billion**) in credit lines to small-and medium-sized firms aimed at working capital, purchase of payroll loan portfolios from medium-sized banks and agribusiness. The bank also cut interest rates on some types of credit and offered clients a grace period of 90 days and destined R$ 5 billion (**US$ 1 billion**) to improve credit to philanthropic health organizations (*Santas Casas*).

• **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 (R$ 5 billion, or **US$ 1 billion**); ii) 6-month interruption of outstanding loan payments, with no late interest payment (**US$ 0.4 billion**); 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. The companies will have a 24-month grace period and five years of total term to pay for these new loans.

• **Credit to finance payroll** aimed at SME companies (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, an impact of R$ 24 billion (**US$ 4.8 billion**).

• **Credit for retirees** at lower costs (impact of R$ 25 billion, or **US$ 5 billion**).

• **Special credit line** with resources from the Constitutional Financing Funds to working and investment capital, impact of R$ 6 billion (**US$ 1.2 billion**).

• **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.

• **Temporary reduction in the IOF tax** rate on credit operations, impact of R$ 4.6 billion (**US$ 0.9 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).

• **Currency swap contract** between the Central Bank of Brazil and the Federal Reserve Bank of New York.

• **Selic interest rate** was cut by 50bps to **3.75%**, its record low.

• **Reserve requirement ratios:** Reduced on time deposits from **31% to 17%** (impact of R$ 118 billion or **US$ 23.6 billion**) 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 impact of R$ 86 billion (**US$ 17.2 billion**) in liquidity.

•**New Time Deposit with Special Guarantees**: banks will be able to increase their funding with the Credit Guarantee Fund (FGC). Potential impact on credit of R$ 200 billion (**US$ 40 billion**).

• **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. Impact of R$ 91 billion (**US$ 18.2 billion**) in liquidity.

• **Repurchase of Financial Bills**: increase in the limit of company bonds repurchases from 5% to 20% of its issuance. Impact of R$ 30 billion (**US$ 6 billion**).

• **Core Capital Buffer (CCB)**: falls from 2.5% to 1.25% for a 1-year period and gradual reversal until Mar/2022. Allow for a credit increase up to R$ 637 billion (**US$ 127.4 billion**)

• **Overhedge**: Non-deduction in capital of tax effects resulting from overhedge of investments in equity interests abroad, with a potential impact on credit up to R$ 520 billion (**US$ 104 billion**).

• **BC resources provider**, up to 1 year, via repos backed by government bonds, with an impact of R$ 50 billion (US$ 10 billion).

• **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 to States and Municipalities

• **Financial support** of 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, and to ensure regular services and social assistance programs for the most vulnerable population through the National Social Assistance Fund (R$ 2.6 billion or **US$ 0.5 billion**).

• **Transfer to the National Health Fund** of R$ 9 billion (**US$ 1.8 billion**).

• **Debt payments interruption** between the States and municipalities and the Federal Government (R$ 22.6 billion, or **US$ 4.5 billion**).

• **Debt renegotiation** between federated entities and banks (R$ 20 billion or **US$ 4.0 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**).

• **Deferral of employment and social security funds payments** to the federal government for 2 months (R$ 3.9 billion or **US$ 0.8 billion**).

• **Contract terms** signed with funds from federal government transfers to states, municipalities and private non-profit entities were relaxed.

• **Extraordinary credit** (R$ 0.9 billion or **US$ 0.2 billion**) 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 18th) 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.

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