Brazil

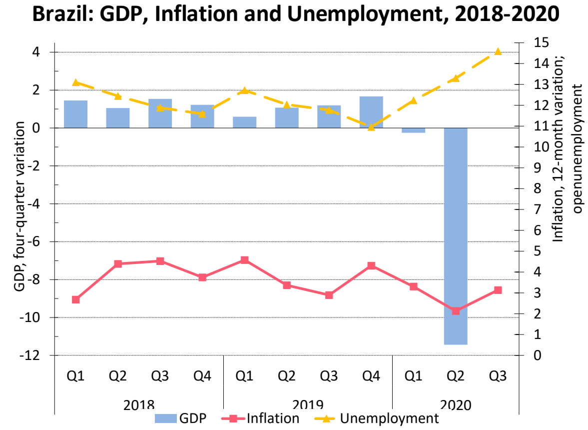
In 2020, the coronavirus disease (COVID-19) pandemic adversely affected the Brazilian economy and cost a large number of lives. From when the first case was confirmed in February 2020 up to early December, Brazil recorded 6.9 million cases and 181,000 deaths, one of the highest figures in absolute terms and in relation to the population among the countries hit by the pandemic. Brazil's GDP will contract by an estimated 5.3% in 2020; the unemployment rate in the third quarter will be 14.6% of the economically active population, taking it to 14 million people —back to the levels of 2015–2016. GDP growth for 2021 is projected at 3.2%.

In view of the physical distancing needed to protect the population and avoid the saturation of health systems, Brazil's state and municipal governments applied restrictions of different degrees and periods of time for business opening and the number of people allowed in a given space, depending on the evolution of COVID-19, throughout the entire territory, which stretches over 8.5 million km^2, has an urbanization rate of 87.5% and a population of 210 million. These measures were applied in particular in industrial and services sectors, by large employers and generators of income in the local (formal and informal) market.

In turn, the federal government put in place actions and programmes to protect personal and corporate income and ensure business continuity. In terms of income transfers, the COVID-19 emergency assistance programme has reached 66 million people, with payments totalling 280 billion reais, or close to 3.9% of GDP. In total, federal government spending to November (including tax relief and increased expenditures) came to around 615 billion reais, around 8.6% of GDP. The central bank has also supported credit expansion in the financial system, which underpinned a rise of over 37%, equivalent to 1.7% of GDP, in lending to micro-, small and medium-sized enterprises compared with 2019. In total, between fiscal and lending measures, resources of around 12% of GDP were assigned to the COVID-19 response.

As a result of these resources, over 40% of households, representing over 50% of the Brazilian population, received assistance to offset the fall in their income resulting from 10 million job losses in the first four months of the pandemic. For poorer parts of the population, monthly assistance of 600 reais (almost US$ 120) for five months (April–August 2020) and a further 300 reais until the end of 2020, increased resources by over 200%. For example, a female head of household who would have been receiving 190 reais (US$ 38) per month under the *Bolsa Familia* programme received assistance amounting in the first five months to 1,200 reais (almost US$ 240). Studies by the Getulio Vargas Foundation using poverty and extreme poverty lines (US$ 5.50 and US$ 1.90 per day, respectively) estimated a reduction of 5.3 percentage points in poverty (from 23.7% in May to 18.4% in August 2020) and a fall of 45% in the number of extremely poor (from 4.2% to 2.3%). In the poorer regions, such as the country's North and

Brazil: GDP, Inflation and Unemployment, 2018-2020



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

North-East, and on the outskirts of major cities, the income level protected by emergency aid enabled local businesses, especially those in the food industry and household construction materials segments, to regain their activity levels more quickly.

The substantial support of the federal government, the varying rate of spread of COVID-19 and the impact of the population's differing response to health measures meant that the economic outcomes were different to those seen in European countries, which imposed broad and stringent lockdown measures on their populations, with drastic impacts on economic activity.

In Brazil, the measures against COVID-19 had a significant impact in the second quarter, when output was down by 9.6% on the first quarter; in the first half-year the contraction was 5.6% in relation to the prior-year period. In the third quarter of 2020, the effects of policies to combat COVID-19 began to be felt, with GDP growth of 7.7% in relation to the second quarter and a cumulative output fall of 5.0% over the year. Although the recovery did not reach pre-pandemic levels, sectors such as manufacturing and commerce, whose activities had slumped by 19.1% and 13.7%, respectively, quarter-on-quarter, posted growth of 23.7% and 15.9%, respectively, in the third quarter. Services, the largest employer in the Brazilian economy, registered a third-quarter variation of 6.3%, after contracting by 9.4% in the second. Within the services sector, the pandemic's heaviest impact was on food services away from home, personal services, tourism and air transport.

Brazil: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	1.8	1.4	-5.3
Per capita gross domestic product	1.0	0.7	-6.0
Consumer prices	3.7	4.3	3.1 [b]
Real average wage [c]	-0.2	0.3	4.6 [b]
Money (M1)	8.3	5.7	30.3 [b]
Real effective exchange rate [d]	11.5	1.6	26.9 [b]
Terms of trade	-2.1	0.6	-0.4
	Annual average percentage		
Open urban unemployment rate	12.3	11.9	13.4 [b]
Central government			
Overall balance / GDP	-7.3	-5.8	...
Nominal deposit rate [e]	6.2	6.2	6.2 [f]
Nominal lending rate [g]	45.2	42.7	34.7 [b]
	Millions of dollars		
Exports of goods and services	274 977	260 130	178 603 [h]
Imports of goods and services	257 663	254 723	156 985 [h]
Current account balance	-41 540	-50 927	-6 476 [h]
Capital and financial balance [i]	44 467	24 872	-4 691 [h]
Overall balance	2 928	-26 055	-11 168 [h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a Estimates.
b Figures as of Septiembre.
c Private-sector workers covered by social and labour legislation.
d A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e Nominal saving deposits rates.
f Figures as of Octubre.
g Interest rate on total consumer credit.
h Cumulative figures to the third quarter of 2020.
i Includes errors and omissions.

On the demand side, family consumption expanded 7.6% in the third quarter after falling 11.3% in the second (quarter-on-quarter). Investment and public spending declined and exports of goods and services, after registering second-quarter expansion of 1.6% by the same measurement, thanks to sales of staples, fell 2.1% in the third.

To underpin public policies to tackle the COVID-19 crisis, in the early months of the year Congress passed a constitutional amendment suspending the application of fiscal rules in 2020 —for example the constraint of allowing no real increase in primary spending— and changing certain mechanisms so that the central bank could, if necessary, support the financial system, business and the Treasury through direct loans or security purchases. Accordingly, by the end of November, the Treasury spent 494.4 billion reais (6.4% del PIB), and this is projected to reach 574.6 billion reais (7.4% del PIB) by the end of the year. As well as emergency assistance, this expenditure included an additional transfer of 79.2 billion reais (1.0% of GDP) to states and municipalities to partially offset the decline in the tax take; 50 billion reais for extra expenditures by the Ministry of Health and other agencies for combatting COVID-19, such as procurement of medical devices, medicines and support for vaccine development. The Treasury also made 40 billion reais available to set up a loan guarantee fund for micro- and small enterprises.

With these additional real expenditures (a rise of 42.7%) and real losses in tax receipts (-11.5%) in relation to the same 10 months of 2019, the federal government's fiscal accounts posted their largest ever deficits and increase in indebtedness. The primary deficit of the federal government was 725.6 billion reais (9.8% of GDP) up to October and was projected to reach 11.7% of GDP for the year overall. For the public sector, which includes subnational governments and State enterprises, the primary deficit was 10.6% of GDP in January–October 2020. With the addition of interest payments (4.8% of GDP, somewhat lower than the 5.1% in the prior-year period), the nominal deficit came to 15.4% of GDP, which is 2.75 time higher than in the year-earlier period. In turn, gross public debt reached 90.7% of GDP, or approximately US$ 1.3 trillion, compared to 75.8% of GDP at the end of 2019.

On the monetary policy front, in August 2020 the central bank cut the base rate of interest (SELIC) from 4.5% to 2.0% per annum, the lowest nominal rate since the Real Plan was introduced in July 1994. The slump in production and consumption produced by the pandemic, with its deflationary effects, brought the inflation rate below target, and central bank decisions were guided by the objective of stimulating spending and by the evolution of asset purchases. However, as a result of some expansion in real estate business and new domestic investors entering the capital market, stock market indices showed some spikes and the interest rate on public securities came down, leading to pressure to change the structure of these securities by shortening their terms or increasing future interest rates.

In the external sector, the pandemic has impacted Brazil's balance of payments. The goods trade surplus stood at US$ 51 billion in November 2020, a 21.2% rise in relation to the same period of 2019, and exceeded the 2019 total of US$ 48 billion. The main factor in this was a heavy fall in imports (-14.7%), especially fuels (-39.9%). Exports were down by 7.4%, given the poor performance of Brazilian manufacturing exports (-13.5%), while agricultural exports were up by 6.8% in value terms. The services deficit tumbled by 42% in the first 10 months of 2020 in the year-on-year comparison. This reduction mainly reflected the paralysis of tourism and decline in personal transport. The deficit in travel services narrowed from US$ 9.8 billion in 2019 to US$ 2.1 billion in 2020, and in transport services from US$ 5 billion to US$ 2.5 billion. Net foreign-exchange outflows in external interest payments and remittances of profits and dividends were down (-17% and -37%, respectively), with outflows on these items falling to US$ 13.3 billion in the first 10 months of 2020. Consequently, the deficit on the balance-of-payments current account narrowed from US$ 42.9 billion at the end of 2019 to US$ 7.6 billion between January and October 2020 (from -2.8% to -0.65% of GDP).

The capital and financial account was influenced by greater instability in foreign-exchange flows. Foreign direct investment in Brazil fell by 44.6% year-on-year in the period January–October 2020 and came to US$ 31.9 billion. Net lending rose by US$ 22.3 billion in the first 10 months of 2019, whereas the same period in 2020 saw net outflows of U$ 17.3 billion. The capital and securities market saw an outflow of foreign investment equivalent to US$ 15 billion in the January–October period. International reserves were down by US$ 12.3 billion, to US$ 354.5 billion, at the end of October.

As well as financing the balance of payments, international resources played an important role in the central bank's measures in the Brazilian foreign-exchange market. The real devalued by 44.2% against the dollar in the 12 months to October 2020. The complex and volatile global scenario, owing to the pandemic and the responses to it by the main economies, added to the country's own efforts, along with a larger fiscal deficit and lower interest rates, pushed up the price of the dollar in Brazil and in other emerging markets. However, in November, the presidential election result in the United States and the prospect of vaccinations against COVID-19 becoming available in the short or medium term, underpinned investment in the Brazilian foreign-exchange market, with a 7.6% rise in the real's value that month.

Currency devaluation impacted directly on domestic prices of staples such as food and fuels. In turn, the sharp fall in the services sector had the effect of containing prices in that sector. Thus, the wholesale price index (IPA-DI) showed a variation of 33.7% in the 12 months to November, with a 60.5% rise in the prices of agricultural foodstuffs. In turn, the consumer price index (IPCA) varied just 4.3% in the period. The central bank and the government consider the impact on agricultural prices to be temporary, like the exchange-rate devaluation. However, the general price index (IGP-M) —which is the main index for adjustment of contracts of over 1 year, such as property rent, and includes the whole sale price index— was up by 24.3% in the 12 months to November.

The labour market was restructured by the pandemic in 2020. In general terms, the lockdown measures and the provision of emergency aid contributed to lowering the participation rate in the July–September quarter of 2020 by 7 percentage points year-on-year to 55.1%, which meant 13.7 million people withdrew from the labour market. The total number of employed fell by 8.0 million to 54.8 million, and the number of domestic workers dropped by 26.5% in that same period, to 4.6 million, 71.5% of them in informal working conditions.

The number of formal workers included in the general registry of employed and unemployed (CAGED) was almost 39 million, with a net loss of 1.4 million jobs between March and June 2020. From July to October, the economy responded with net creation of 1.1 million jobs, so that 300,000 have still be to be recouped. The loss of formal jobs in relation to October 2019 was 613,500.

Average entry wages (the average amount of all those with contracts in the labour market) were 1,691.92 reais in October 2020, a real rise of 1.0% in relation to October 2019. Average real wages in the first three quarters of the year were 2,594 reais, according to IBGE, for a real increase of 8.3% compared with the prior-year period. This rise in average wages mostly reflected the heavy fall in the number of employed, given that the October 2020 payroll was 4.9% lower than in October 2019.