BRIEFING DIPLOMÁTICO

ECONOMIC OVERVIEW AND REFORM AGENDA

Renato da Fonseca

Video conference :: June 26th, 2020
Economic Overview and Reform Agenda

- Economic Scenarios for 2020
- Government’s emergency measures
- Impacts of the Coronavirus pandemic on the Brazilian Economy
- Prospects after the social distancing measures
Economic Overview and Reform Agenda

Economic Scenarios for 2020

Government’s emergency measures

Impacts of the Coronavirus pandemic on the Brazilian Economy

Prospects after the social distancing measures
Economic Scenarios for 2020

**OPTIMISTIC**

- GDP declines by **0.9%**
  - Government measures have high effectiveness
  - They prevent a significant fall in employment and income and the disruption of the economic supply structure

- **Quick recovery** starting in June

**BASELINE**

- GDP declines by **4.2%**
  - Government measures have a good effectiveness
  - They prevent widespread bankruptcy of companies and a major disruption of the productive system; household income falls moderately

- **Moderate recovery** starting in June

**PESSIMISTIC**

- GDP declines by **7.3%**
  - Government measures have low effectiveness
  - They fail to avoid a major disruption of the productive system; unemployment rises and income falls; social restrictive measures are relaxed at a later time

- **Slow recovery** starting in July
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Creating a safety net for families and companies

**Providing more funds for the HEALTHCARE SYSTEM**

- Emergency aid of R$600 per month for the most vulnerable households

**Providing financial support to the most VULNERABLE GROUPS of the population**

- Postponement of the payment of taxes and loan repayments to public banks

**Alleviating the COSTS OF COMPANIES**

- Postponement of the payment of taxes and loan repayments to public banks

**Making LABOR LEGISLATION more flexible**

- Permission for a proportional reduction in working hours and wages or suspension of employment contracts with government support to reduce the impact on the income of workers

**Preventing CREDIT RESTRICTIONS**

- Central Bank adopted measures to increase liquidity in the credit market and the government created emergency lines of financing and restructured the guarantee funds
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Impacts on the Brazilian Economy

Production and Sales
Monthly Seasonally adjusted change in percentage points

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th>Retail</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>Jan</td>
<td>Jan</td>
</tr>
<tr>
<td>Feb</td>
<td>Feb</td>
<td>Feb</td>
</tr>
<tr>
<td>Mar</td>
<td>Mar</td>
<td>Mar</td>
</tr>
<tr>
<td>Apr</td>
<td>Apr</td>
<td>Apr</td>
</tr>
</tbody>
</table>

-9,9          | -13,7  | -7,0     |
-23,0         | -17,5  | -11,7    |

GDP felt by 1.5% in the first quarter, but the fall will be greater in the second quarter.

Source: IBGE.
Manufacturing park idleness has reached 50%

The worst of the economic crisis seems to have happened in April

Source: CNI.
The impact on formal employment was moderate

Unemployment Rate
Percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>7.3</td>
</tr>
<tr>
<td>2013</td>
<td>7.1</td>
</tr>
<tr>
<td>2014</td>
<td>6.8</td>
</tr>
<tr>
<td>2015</td>
<td>8.5</td>
</tr>
<tr>
<td>2016</td>
<td>11.5</td>
</tr>
<tr>
<td>2017</td>
<td>12.7</td>
</tr>
<tr>
<td>2018</td>
<td>12.2</td>
</tr>
<tr>
<td>2019</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Source: IBGE.

UP TO MAY

- But 25.7 million workers did not look for a job, but would like to find one
- 17.7 million did not look for a job because of the pandemic
- 8.1 million workers had working hours reduction or contract suspension
- 1.1 million lost their formal jobs

MAY

11.4% 10.9 million

- But 25.7 million workers did not look for a job, but would like to find one
- 17.7 million did not look for a job because of the pandemic
Inflation is not a problem

Inflation Rate and Inflation Target Range
12-month figure (%)

The use of expansionary monetary policy is an option

Source: IBGE and BACEN.
Public sector deficit is a problem

**Public Sector Gross Debt**

\% of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>56.3</td>
</tr>
<tr>
<td>2015</td>
<td>65.5</td>
</tr>
<tr>
<td>2016</td>
<td>69.8</td>
</tr>
<tr>
<td>2017</td>
<td>73.7</td>
</tr>
<tr>
<td>2018</td>
<td>76.5</td>
</tr>
<tr>
<td>2019</td>
<td>75.8</td>
</tr>
<tr>
<td>2020*</td>
<td>93.3</td>
</tr>
</tbody>
</table>

Source: Central Bank of Brazil. *CNI estimate.

The use of an expansionary fiscal policy is limited.
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### Challenges after social distancing measures

<table>
<thead>
<tr>
<th>The pandemic crisis hit Brazil while it was still recovering from the 2014-16 crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both the public and private sectors will reach the end of the crisis without strength</td>
</tr>
<tr>
<td>• On the public side, there are major fiscal restrictions</td>
</tr>
<tr>
<td>• On the private side:</td>
</tr>
<tr>
<td>• companies are financially debilitated and lacking the financial muscle to invest</td>
</tr>
<tr>
<td>• households do not have sufficient consumption capacity to lead the recovery</td>
</tr>
<tr>
<td>International trade has also been negatively affected by the pandemic, hampering export growth, and perspectives are not good</td>
</tr>
</tbody>
</table>
The way out of will be led by the competitiveness agenda

More than ever, Brazil needs to eliminate the so-called Brazil Cost

The Tax Reform should lead the agenda, followed by infrastructure and international relations

- The new legal frameworks for the natural gas, electricity sector and basic sanitation
- Concessions and privatizations
- Good regulatory practices and less legal uncertainty
- Greater international integration

The government must continue to strive to reduce public debt, but also have to help pull the economy out of the crisis

- Although it may seems paradoxical, it is necessary to reconcile the search for fiscal balance with an expansionary fiscal policy, because the private sector alone does not have the strength to remove the economy from this situation