

G20

Country Briefs



International
Labour
Office

BRAZIL'S RESPONSE TO THE CRISIS

Pause in robust growth

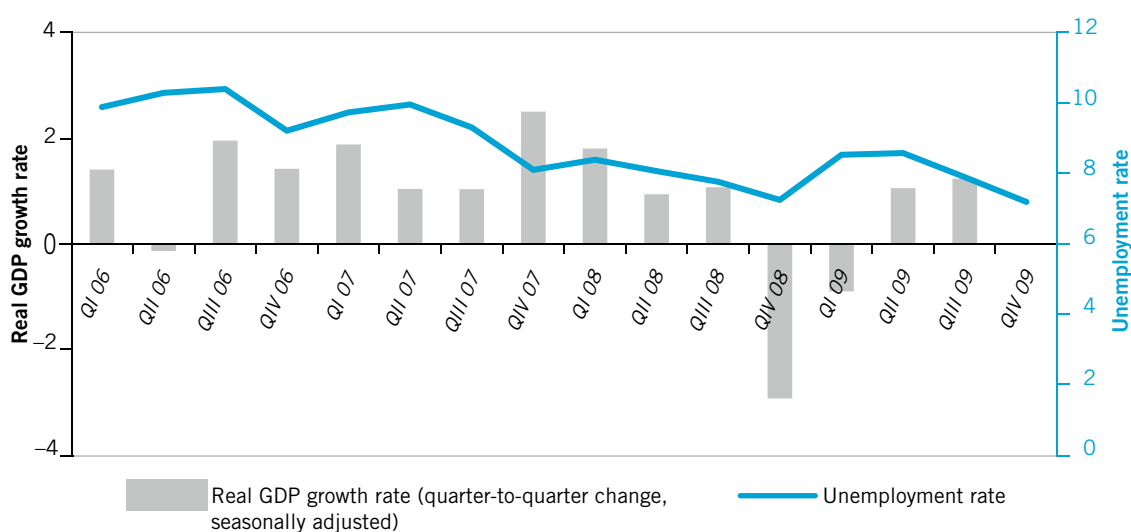
Before the onset of the economic crisis in September 2008, Brazil's economic growth had been robust, averaging 4.4 per cent annually in real terms in 2004–2007 and 6.5 per cent for the first three quarters of 2008. Moreover, growth had become more inclusive, reflected in a decline of the Gini index measure of income inequality from 0.54 in 2004 to 0.52 in 2008. There was also an important recovery of wage levels and an expansion in employment, particularly formal employment. Unemployment fell from 9 per cent in 2004 to 7.7 per cent in 2008 and the proportion of workers contributing to the social security system surpassed 50 per cent in 2007, reaching 52.1 per cent in 2008.

The global economic uncertainty and international credit crunch that followed the Lehman Brothers bank-

ruptcy halted economic growth in Brazil and had an immediate and sharp impact on employment. GDP contracted by 2.9 per cent in the fourth quarter of 2008, and there was a net loss of 634,000 formal jobs in the quarter, compared with a net gain of 10,400 formal jobs in the fourth quarter of 2007. The industrial sector was hardest hit by the crisis. Fourth quarter 2008 production fell by 8 per cent compared with the preceding quarter, leading to a net loss of 273,000 formal jobs in December 2008, or approximately 4 per cent of the formal industrial labour force.

GDP experienced a further decline of 0.9 per cent in the first quarter of 2009, but growth resumed in the second quarter, with GDP rising by a modest 1.1 per cent. As a result of the weak economic performance during this period, the unemployment rate in the six major metropolitan areas surveyed in the Monthly

Figure 1. Unemployment rate and real GDP growth rate by quarter, 2006–2009 (percentage)



Source: ILO, based on official country information from IBGE. Unemployment rates cover six major metropolitan regions.

Employment Survey (PME) increased from 8.3 per cent in the first half of 2008 to 8.6 per cent in the same period of 2009. GDP grew 1.3 per cent in the third quarter of 2009, and the unemployment rate in the six major metropolitan regions declined to 7.9 per cent and 7.2 per cent in the third and fourth quarters respectively, near pre-crisis levels.

Stimulus package

The government responded quickly to the crisis by injecting liquidity into the economy, through the establishment of credit lines for sectors experiencing difficulty and by increasing the resources of the National Economic and Social Development Bank (BNDES). It also guaranteed maintenance of existing social programmes as well as the 6 per cent real minimum wage increase that had previously been negotiated. Beginning in 2009, the Central Bank initiated a series of interest rate reductions. To directly mitigate the crisis, the government developed a number of fiscal policy measures.

Size: The 2009 stimulus package amounted to a US\$20 billion¹ injection into the economy, equivalent to 1.2 per cent of Brazil's GDP, among the lowest amounts spent by G20 countries. Because of its small size, there was a limited fiscal impact, with the deficit estimated at 3.2 per cent of GDP in 2009. Nonetheless, the government estimates that the stimulus package increased 2009 GDP by between 2.5 and 3 percentage points. Without the package, the government estimates that GDP would have contracted by 2 per cent, compared with the 1 per cent growth rate forecast for 2009.

Composition: The main elements of the stimulus package were infrastructure investment (41.5 per cent) and tax cuts (35 per cent), followed by interest-rate subsidies to BNDES and the agricultural sector (15.5 per cent), extraordinary budget transfers to municipalities (5.5 per cent), extension of the *Bolsa Família* (Family Fund) conditional-cash-transfer programme (1.5 per cent) and extension of unemployment insurance benefits (1 per cent). Infrastructure investments

included an expansion of the Growth Acceleration Programme (PAC), which began in 2007 and includes investments in transport, sanitation, electricity and housing, as well as the launch of the *Minha Casa, Minha Vida* (My House, My Life) housing programme, targeted at low- and middle-income households.

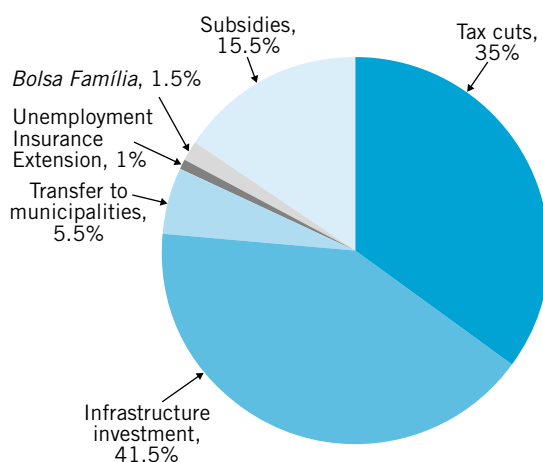
The tax cuts included an income tax reduction aimed primarily at middle-income households; a temporary reduction of the IPI² tax on industrial products, which helped to boost car sales, sales of home appliances and the purchase of construction materials; a tax reduction on the purchase of motorcycles; elimination of the tax on wheat, flour and bread; scaling back of the special tax regime on real estate; and a cut in the IOF³ tax on financial transactions for credit. The IPI tax cut for cars was extended until March 2010, although they must be energy-saving to qualify for the reduction, in an effort to promote environmentally friendly consumption. In addition to expanding the *Bolsa Família* programme, support for social programmes included extension of unemployment insurance benefits by two months for workers whose sector of economic activity was badly affected by the recession.

Supporting families

The *Bolsa Família* programme is a conditional-cash-transfer programme, created in 2003, that seeks to reduce poverty and hunger and improve social development, through the promotion of school attendance, health and nutrition. It also aims to break the cycle of intergenerational poverty by improving the well-being and skills of children so they can overcome the social and economic barriers faced by their parents. Since its creation, the programme has expanded rapidly from 3.6 million families in 2003 to 11.1 million in 2008, or a total of 46 million people, approximately a quarter of the population.

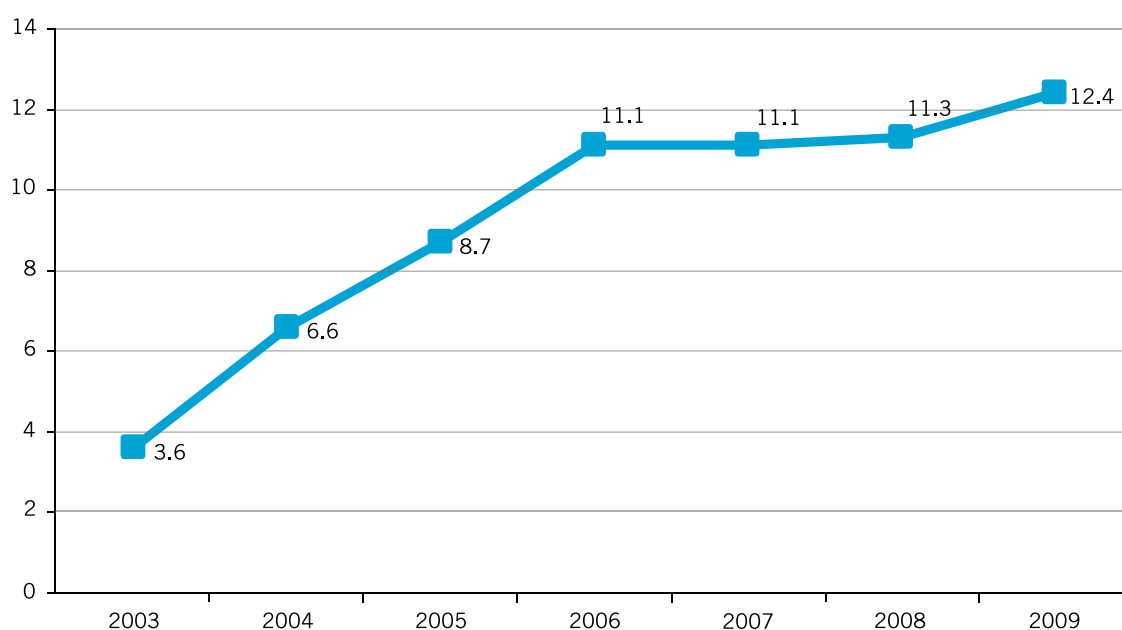
Upon entering the programme, beneficiaries agree to comply with requirements in the area of education and health. These include maintaining school-age children in school, having children vaccinated and, for women who are pregnant or breast-feeding, accepting prenatal and post-natal care. The value of the benefit varies according to the number of children in the family, including teenagers up to 17 years old and pregnant women, and can be between US\$12 to US\$111 per month. The monthly benefits paid are calculated at approximately US\$12 per child (up to 15 years old), while for pregnant women and teenagers (16-17 years old) the benefit is approximately US\$18 per month. Families can enrol a maximum of three children up to age 15 and two children aged 16 and 17 in the programme. An additional monthly benefit equivalent to approximately US\$37 per month is available to extremely poor households – those with per capita monthly income below US\$39 – regardless of family composition. In 2008, the average benefit was 86 Brazilian reais (BRL), US\$48 per month.

Figure 2. Elements of the stimulus package



Source: Ministry of Finance.

Figure 3. Number of families benefiting from the *Bolsa Família* programme, 2003–2009 (millions)



Source: Ministry of Social Development and Combating Hunger.

The programme's design promotes gender equality. Benefit payments are made preferably to mothers or pregnant women. In 2005, 93 per cent of the beneficiaries were females and 27 per cent were single mothers. The programme has thus been important for empowering women, by strengthening their positions in the household, increasing their influence within the family and raising self-esteem.

In an effort to mitigate the effects of the economic crisis, the government reiterated its commitment to the *Bolsa Família* programme and announced, in early 2009, its extension to 1.8 million additional families. Eligibility for benefits was increased from a monthly income of BRL120 to BRL140 (US\$78) and benefits were increased by close to 10 per cent, with the average benefit reaching BRL95 per month (US\$53). The cost of the measures is estimated at BRL410 million, or approximately 0.014 per cent of GDP, bringing the total cost of the programme to BRL11.8 billion or 0.4 per cent of GDP. By December 2009, the programme had been extended to 12.4 million families. The extension of *Bolsa Família* has provided an important source of social protection to workers whose income declined as a result of the economic crisis. It has also had important multiplier effects on the economy, as the poor typically consume all of their income, boosting demand for food and basic consumer goods, most of which are produced locally.

Minha Casa, Minha Vida

In March 2009, the government announced a new housing programme, *Minha Casa, Minha Vida*, which

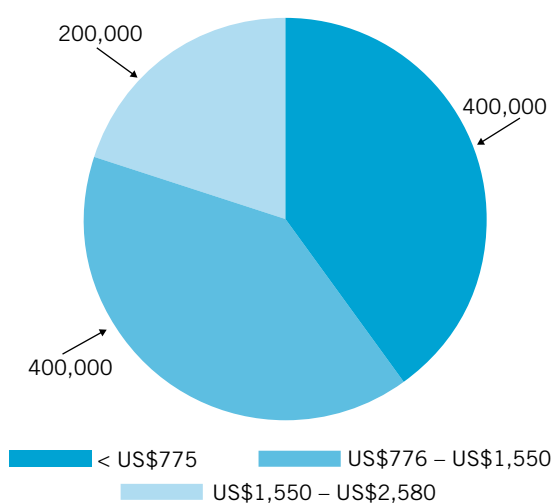
seeks to build 1 million new homes in 2009 and 2010 for low-and middle-income families, with a maximum income equivalent to ten times the minimum wage. The programme is expected to cost the federal government BRL34 billion (US\$19 billion), or approximately 1.2 per cent of GDP. A principal objective of the programme is to reduce the housing deficit in the country, estimated at 7.2 million houses, by 14 per cent.

It is expected that 400,000 houses will be built for families with monthly incomes up to three times the minimum wage (BRL1,395 or US\$775).⁴ Families in this income bracket will be expected to contribute 10 per cent of their income to the mortgage, for a period of ten years, with a minimum monthly payment of BRL50 (US\$28). The remaining costs, including insurance, will be subsidized by the government, with an expected cost of BRL16 billion (US\$8.9 billion). An additional 400,000 houses will be built for families who earn between three and six times the minimum wage (BRL1,395–BRL2,790 or US\$775–US\$1,550) per month. For these families, mortgage contributions will not exceed 20 per cent of monthly income, and the families will benefit from a guarantee fund in the case of unemployment. Financing for this programme will come from the federal government (BRL2.5 billion or US\$1.4 billion) and from the Guarantee Fund for Time of Service (FGTS) (BRL7.5 billion or US\$4.2 billion). This is a monthly fund accessible at dismissal, retirement, or for the purchase of the home, financed by payroll contributions from the worker and the employer. For the remaining families with incomes up to ten minimum wages (BRL4,650 or US\$2,580) per month, 200,000

homes will be built and the programme will provide a guarantee fund in case of unemployment that will be financed through the FGTS.

The houses will be built by private contractors, working in conjunction with municipalities. To stimulate participation of private industry, the programme includes a line of credit of BRL5 billion (US\$2.8 billion). Additional lines of credit aimed at producers of construction equipment will be offered through the BNDES.

Figure 4. Distribution of houses under the *Minha Casa, Minha Vida* programme by income class



Source: Ministry of the Cities.

Outlook and challenges

The Brazilian Ministry of Finance expects economic growth for 2009 to be about 0.1 per cent. For 2010, the government is optimistic that GDP growth will reach 5.2 per cent, which would be close to pre-crisis levels. The outlook for employment creation is also positive. The government expects a decline in the unemployment rate and projects net formal job creation of about 1.6 million in 2010.

The large size of the Brazilian market and the importance of domestic industries have insulated Brazil from the worst effects of the international crisis and ensured a speedier economic recovery. While the internal market has grown considerably over the past five years, the challenge remains to incorporate a large segment of the population – the one-quarter of the population that lives on less than US\$100 per month – into more productive and remunerative activities in the labour market.

¹ Calculated at the exchange rate of US\$1 = BRL1.8.

² Imposto sobre Produtos Industrializados.

³ Imposto sobre Operações de Crédito, Câmbio e Seguro, ou relativas a Títulos ou Valores Mobiliários.

⁴ Figures calculated using the minimum wage of BRL465 per month, which was in effect from February 2009 until December 2009. On 1 January, 2010, the minimum wage was increased to BRL510 per month.