## Brazil

The worst impact of the global financial crisis on Brazil's labour market occurred in December 2008, with the net loss of 655,000 formal sector jobs, the Brazil’s Labour minister Carlos Lupi said.

Effects had been felt since October, putting an end to a period of strong growth in formal employment that began in 2004. During the first nine months of 2008, jobs grew by 2.09 million, a monthly average of 231,888.

An upsurge in lay-offs, mainly due to the fall in industrial production and exports, began in October. In November, the Labour Ministry's General Registry of Employed and Unemployed (CAGED) recorded the first negative result of the year, with a net loss of 41,000 jobs.

There was still a net employment loss in January, but it was much smaller at 102,000 jobs, and in February there were 9,000 more jobs created than lost, a small net gain indicating a turning point in the trend, which was accentuated in March.

As well as the figures showing the trend, the fall in applications for unemployment insurance and the hiring of workers in sectors like construction, education, health and other services demonstrate that "the crisis is over" in the labour market, the minister said.

The unemployment rate rose to 8.2 and 8.5 percent in January and February, respectively, after holding steady for several months at an average of around 7.5 percent in this country of 190 million people, according to the Brazilian Institute of Geography and Statistics (IBGE).

Brazil is reacting differently to the global recession because of its internal demand and its relatively low dependence on international trade. Increasing the minimum wage in real terms, a policy adopted by the government of President Luiz Inácio Lula da Silva since it took office in 2002, means that the food is relatively unaffected.

At the present moment, the employment situation in Brazil is overcoming the brief interruption in the strong growth it has shown over recent years, but the minister acknowledged there is a serious structural problem in the national labour market: the enormous job instability.

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## Impact of the crisis

The global financial crisis has not left Brazil unscathed. Domestic financial conditions tightened considerably as the global financial and economic outlook deteriorated from mid-September 2008. The supply of foreign credit to Brazilian enterprises, including exporters, had been abundant before the crisis but dried up rapidly. The cost of domestic borrowing rose sharply, and the *real* depreciated by over 40% from the highs of mid-2008 trough year-end.[1] Activity plummeted in the last quarter, dragged down by a collapse in industrial production, especially in credit-sensitive sectors, such as the motor industry, and a run-down in inventories, albeit from high levels.

During the crisis in Brazil, the infrastructure projects were the first to suffer, and the government will be unable to prevent some projects being cancelled. This will translate into slower economic growth for 2009, to around 3.0% from 4.5% in 2008. Brazilian banks have healthy reserves and are well placed to help infrastructure companies extend debt maturities, albeit at high premiums. However, Brazil's plans to bring its infrastructure up to a developed-country status will be delayed at least until 2010.

The restriction of capital may be temporary. However, the effects of the US economic slowdown, the weakening of the Brazilian *real* and a sharp fall in commodity prices are affecting Brazil just as it begins to implement billions of dollars of public and private sector investment in infrastructure. Slower economic growth in Brazil is also likely to mean lower tax revenue collection, signifying fewer funds for public works projects.

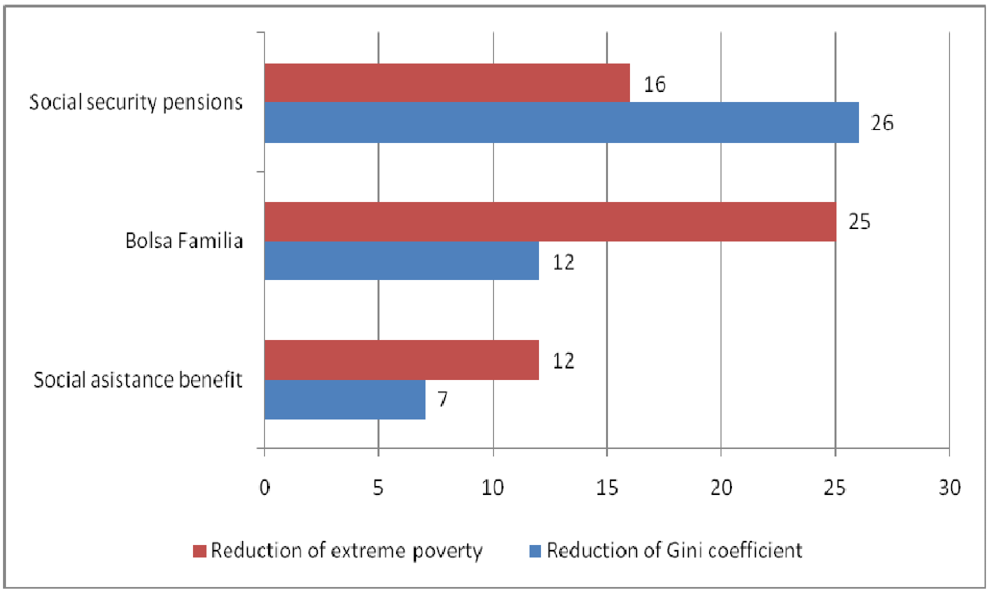
## Impact of the crisis and challenges to social security systems

The strong process of Brazilian social indicators has been driven by the extension of social protection through cash transfers programmes, including *Bolsa Família*, and broader social security policy. The Brazilian reform strategies centred in strengthening the public pay-as-you-go system and extending social security coverage[2].

Since the 1988 constitutional reform, consecutive governments have implemented measures to build up a basic social protection cash transfer package which combines three major components: (i) a non contributory social security scheme for rural workers, (ii) a means-tested social assistance for old age and disability pension scheme, and (iii) the conditional cash transfer programme *Bolsa Família.*

[1] OECD Economic Survey of Brazil, 2009
[2] See Pinheiro, 2005

**Contribution of governmental cash transfers in the fall of inequality and extreme poverty 2001-2005 (%)**




Source: Paes de Barros, 2006.

Nevertheless, concerns have been raised regarding the possibility of "crowding out" effects related to the increase in the *Bolsa Família* budget allocation. In Brazil, provisions by way of pensions, health and social assistance, including *Bolsa Família*, are financed by resources within the social security budget, which itself forms part of the general fiscal budget. The government has suggested that an increased allocation to the new programme should not be at the expense of cuts in other programmes. Investment in health infrastructure and education is a prerequisite for the successful functioning of the conditional cash transfer in this regard. In a context of severe budget constraints, the expansion of *Bolsa Família* should be made dependent on the availability of additional funds sourced in such a way as not to undermine the social investments in other social areas.

In the same context, the effects of the crisis on Fully Funded Regimes are mentioned bellow:

- Supplementary Pension Funds registered heavy losses in the capital market (*real* yield 2008 –8.2%)
- Public Servant Regimes (States & Municipals) strongly focused on Treasury Bonds, so almost no losses
- Drop of interest rates on T-Bonds will start the search for portfolio change (+ stock market, + real estate)
- Issuing of new rules for the portfolio composition of Supplementary Funds and Servant's Regimes
- Further changes in the supervision rules, still in the mid of the learning process.

The employment indicators have shown a strong drop of industrial employment. Sectors related to foreign trade also have been affected. Ministry of Labour stats registered losses of 600 Tsd jobs in Dec'08, but there are signs of stabilization for the 1Q09 and 2Q09[3].

[3] See Helmut Schwarzer, 2009. *Ministério da Previdência Social –SPS Secretaria de Políticas de Previdência Social*

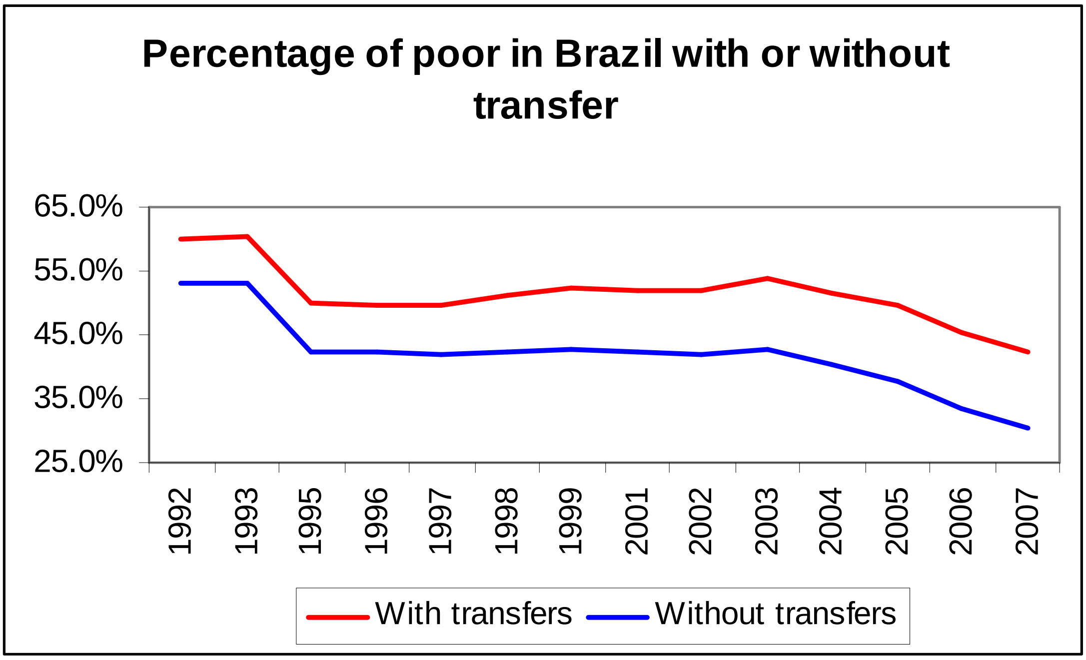
**Social Security Responses**

- **Protection of employed workers:** In this context, Brazil has reduced quickly to the crisis through several measures taken, such as the rise of the minimum wage above the 60% guaranteed (*Valorização do Salário Mínimo* – Ratification of Convention No 151 and 158)
- **Protection of unemployed workers (unemployed benefits, social assistance, other benefits).** The Ministry of Labour and Employment extended the unemployment benefit by two months for the sectors suffering from the crisis. In Brazil, people registered as unemployed collect monthly benefits for three to five months, depending on the duration of their last job. The actual amount of money is proportional to the wage of their last job, with a minimum of 465 *reais* ($204 USD) and a maximum of 870 *reais* ($383 USD)[4].

- **Special measures for small enterprises**: Postponement of tax collection (SMEs)
- **Cash transfer programmes: *Bolsa Família*.** By the end of 2008, it has reached around 11,3 million families, 46 million people depending to a quarter of Brazil's population. The government announced further extension of the programme as one of the core measures of the anti-crisis package: This counter cyclical initiative is expected to include more 1,3 million additional families and contribute to mitigate the impact of the crisis among those more vulnerable and to stimulate consumption.

  Concerning the *Bolsa Família* Programme, the graphic bellow shows how the programme has an impact on poverty reduction. It shows how many people (22 million of people) have remained poor without receiving any cash transfers and how these poor people are on the poverty line receiving the cash transfers.

[4] Ministry of Labour and Employment –MTE/Brazil. The unemployment benefits are paid by the Ministry of Labour and Employment with financial resources provided by the *Fundo de Amparo ao Trabalho*.




**Source: PNAD/IBGE – Several years.**

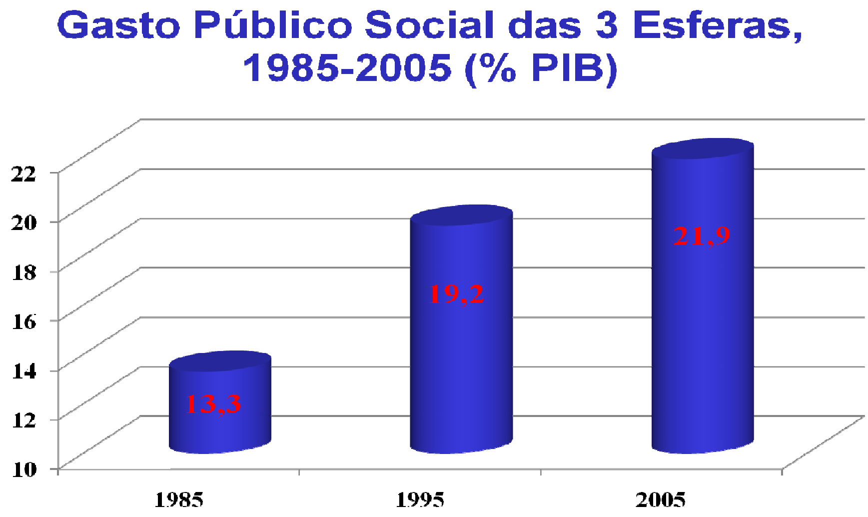
**Elaboration: SPSMPS.**

***Observation:*** We considered only those living in households where all residents have declared their full income.
* Poverty line = ½ minimum wage.

- **Measures for migrant workers, protection and support in receiving countries, measures to encourage return migration, or measures affecting the protection of migrant workers:** Brazil has just passed a law regularizing all migrants workers that are living in the country[5].
- **Rights at work:** measures taken in compliance with the international labour standards; to prevent abuses (trafficking, child labour): The Brazilian Government, through President Lula's Government, has signed a decree which regulates the 3rd and 4th article of the ILO Convention No 182.
- Countercyclical policies by the Government: i) increase of credit supply by banks, ii) release of compulsory bank reserves, iii) tax cuts on automobile industry (6 months), iii) personal income tax reform, iv) postponement of tax collection (SMEs), v)cut of interest rates by Central Bank, vi) emergency credit for export sector, vii) acceleration on investment in infrastructure, viii) new housing programme.

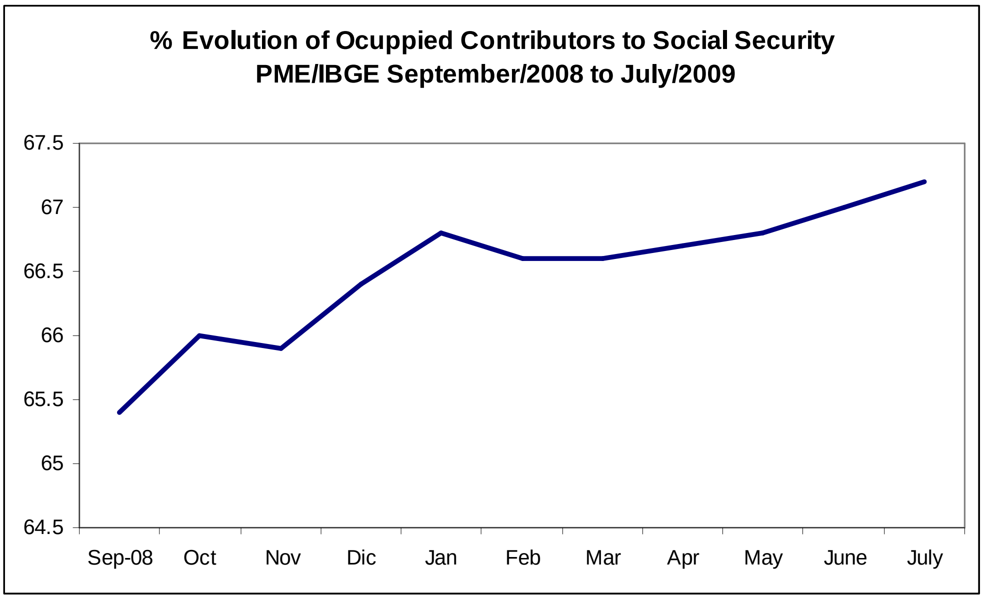
[5] The Chamber of Deputies passed the law in Brasilia on June 4th
http://br.noticias.yahoo.com/s/04062009/40/mundo-camara-aprova-anistia-imigrantes-lei.html

The Social Spending has increased progressively (See bellow)




Fonte: IPEA (2009). A Constituição Brasileira de 1988 Revisitada.

The evolution of occupied contributors to Social Security has been increasing progressively although Brazil has been hit by the crisis. (See bellow)




Source: PME/IBGE; Elaboration CGEP/DRGPS/SPS/MPS

# Conclusions

### Brazil

### Stimulus package

Brazil announced a fiscal stimulus package worth $3,6 billion – 0.2 percent of its GDP. Its stimulus efforts is focused on the auto sector because it has slowed from a record pace as the global credit crisis limits the consumer financing and pushes the interest rates to record highs. The auto sector comprises approximately 5 percent of Brazil's economy; hence it is not surprising that the government has put all its efforts in helping this sector.

Stimulus aimed at consumers includes:

▪ Tax cuts on personal income to boost car sales
▪ Increased subsidies to poor to buy new homes

Stimulus aimed at firms includes:

▪ Tax cuts to help auto manufacturers

▪ Tax cuts on construction materials

### Labour market initiatives

▪ Increase in minimum wage by 12% as of Feb-09, which will affect 45 million workers.

▪ Brazil is also planning to spend as much as 1,1 billion *reais* ($483,7 million) in 2009 on expanding the country's unemployment benefits.

▪ Before this plan, people registered as unemployed collected monthly benefits for three to five months, with the amount being proportional to their wages in the last job (minimum $204 USD and maximum $383 USD). Furthermore, the government recently announced that it plans to extend this to five to seven months, and if the job market continues to deteriorate, to ten months.