

Brazil on the brink?

A tragedy to avoid

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Political conflicts over the leadership of the Coronavirus pandemic policy in Brazil are just a corollary of what has seen as the “new normal” of politics under the Bolsonaro administration. In democracy, the clash of ideas and the plural confrontation of positions and perspectives are admitted, but what we have seen crosses any line ever drawn. The political-institutional crisis has undermined the chances of sensible dialogue and threatens (or precludes) the solution to the country’s pressing problems. The moment is truly serious and we have lacked true leadership and consistency, as the analyzes and graphs of possible scenarios intend to demonstrate.

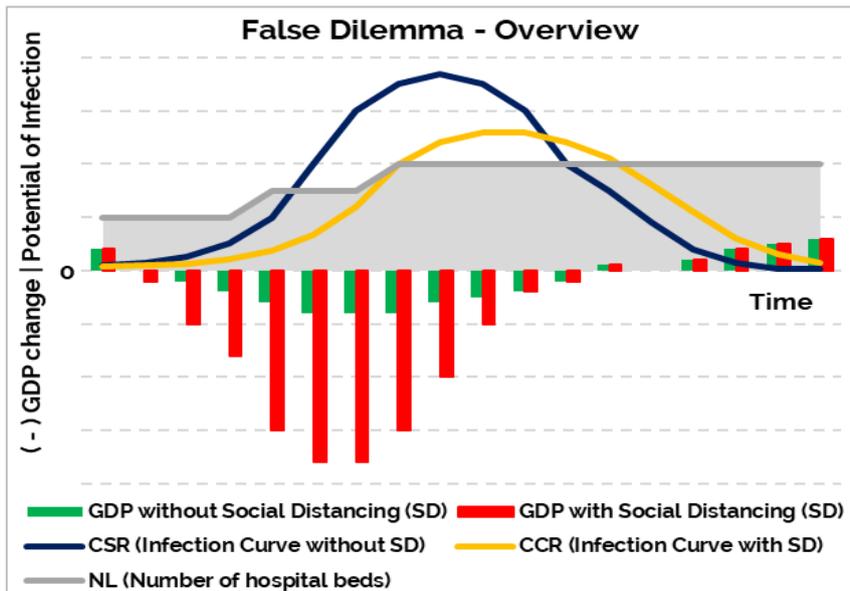
In a March 30 article - *Covid-19 and GDP: a Life and Death Trade-off*, we proposed a phase-

out alternative for the current lockdown, temporary in essence, under a moral and economic perspective. We did so aiming precisely to establish a formal and organized rite in which scenarios of different shades were optimized - although different in time and intensity for each unit of the Federation. As of this week, several contributions by economists are in line with this guideline and alert, above all, to care for the rationale of procedures and a reliable return to “normality”. However, both timing and impacts must be identified, because only then can policies be made effective.

An overview of the general framework brings some understanding and sometimes debunks myths and tones

down complexity of the situation, although decisions remain hard to make. The chart on the side is intended to demonstrate what has gone around so much and has provoked recent debates. The curves, presently “Gaussian” but prone to being of sinusoid shape, represent the infected potentials, with the steeper blue line depicting the scenario with no mobility restrictions, and the flatter orange one the state of infections with some degree of social distancing. The gray line reflects our

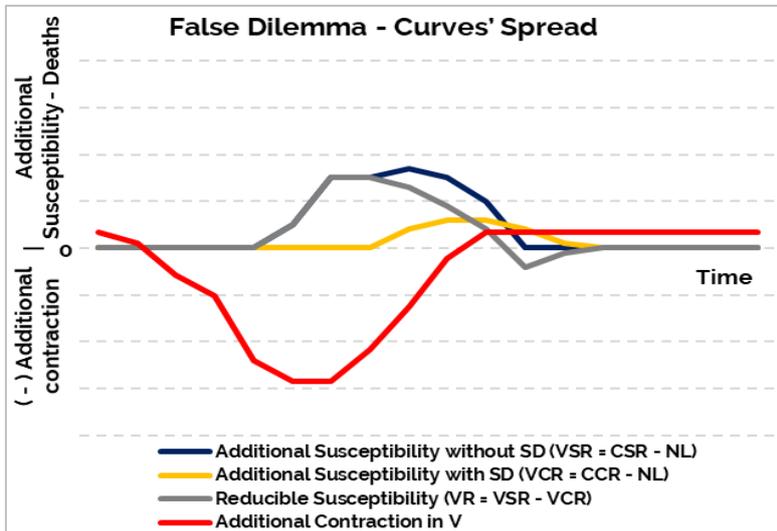
stock of hospital beds available for the treatment of all diseases. Thus, for all cases below this line (hatched area), patients demanding hospitalization will have a chance to be treated. This is the reason why we want to flatten the infection curve. On the other hand, the same graph at the



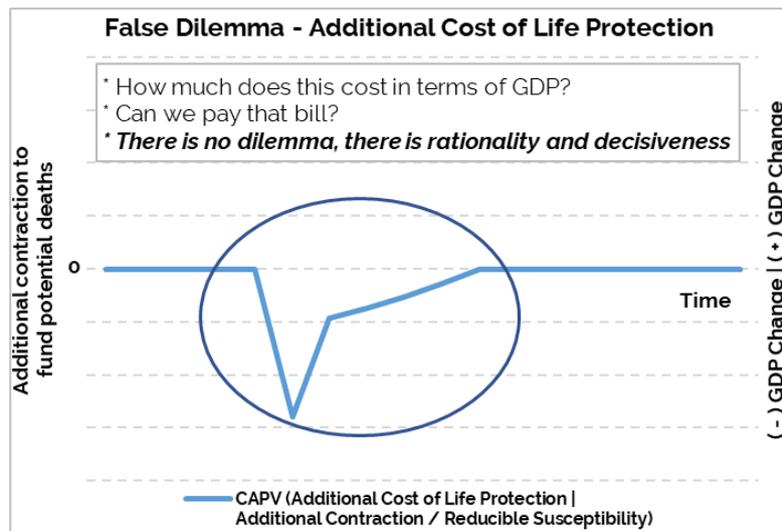
bottom, with green and red bars represent the likely behavior of the Brazilian GDP (base scenario), according to the hypothesis of the curve without restrictions and with mobility restrictions, respectively. What can be deduced for the first moment (there are disagreements about this premise for the long term) is that in order to flatten the infected curve (reduce vulnerability), we will have a significant reduction in economic activity and, consequently, its harmful effects. Thus, in order to reduce the number of susceptible people (without direct treatment - area above the gray curve), mobility restrictions must be imposed, thus bearing with some additional economic contraction.

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The point we want to stress, therefore, is how by much the infection curves must be shifted down to match the number of hospital beds (treatment surplus) or as a limit possibility, the spread between the blue and orange curves, that is, the reducible susceptibility. Next, the comparison between possible GDP outcomes (with and without mobility restrictions) highlights this trade-off. The Curves' Spread graph aims to demonstrate this, with a clear depiction of the overall "cost" of saving lives.



How much it costs to save this contingent number (excess of susceptible people) is not easy to calculate, nor does it seem relevant at the moment, but, yes, there is a budget constraint to be implemented without delay. This time, in fact, requires prompt responses, which therefore requires planning. The cost, then, is the increase in the recession, unemployment, the weakening of public accounts, etc. The representation of this cost is shown in the Additional Cost of Life Protection chart, whose premise lies in the State's ability to manage the crisis (especially its organized phase-out) and to promote, in an optimal way, a faster recovery.



Obviously, this faster recovery depends not only on our efforts, but on a global situation. A global recession is looming, and our forecasts, although more comforting than those of developed countries, can be strongly impacted. However,

it is in our hands not to worsen the situation, which is already a recession for this year, but with the possibility of a return in 12 to 18 months - which would characterize the so-called V recovery (or perhaps closer to a recovery in U,

possibly more gradually) - our current base scenario. However, depending on the external scenario, but notably on our attitudes at this time of management and phasing out of the Covid-19 crisis, a longer recovery (L shape) should not be ruled out. Certainly,

the alternative to such more adverse scenario, is reflected in the Curves' Spread V x L Form of Recovery, which will bring harsh consequences, both economic and social. In that case, we would move from a significant recession to an unprecedented depression. Underpinning this more adverse scenario is the premise that we will no longer have a specific event that is important (Covid-19), but

manageable, to turn into a structural problem, where the direction of adjustment of the country's major problems will be neglected. The question then is not exactly a dilemma, because with rationality and firm decision we have an

alternative. Obviously, we have a moral duty to try to save as many lives as possible, even if we have our public finances "in shambles", as long as expenses incurred are properly managed and duly identified. The whole world is

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spending more, this is the new reality, and investor will evaluate Brazil according to this perspective. What's more, history shows at similar events that those who took care of their population had their fastest economic recovery. Therefore, we are facing a false dilemma between choosing economics over healthcare.

Therefore, the transition phase for the reopening and recovery of the economy gains important contours, where the timing and estimated duration must necessarily present pre-determined procedures for its best execution and results. The adoption of these epidemiological tracking policies aims to mitigate the possible effects of

the outbreak's second wave, jeopardizing all the effort expended and permanently messing up the economy. Easing isolation measures in May and gradually returning until June seems consistent with an economic downturn between -1% to -4%, with inflation below target and average unemployment rate

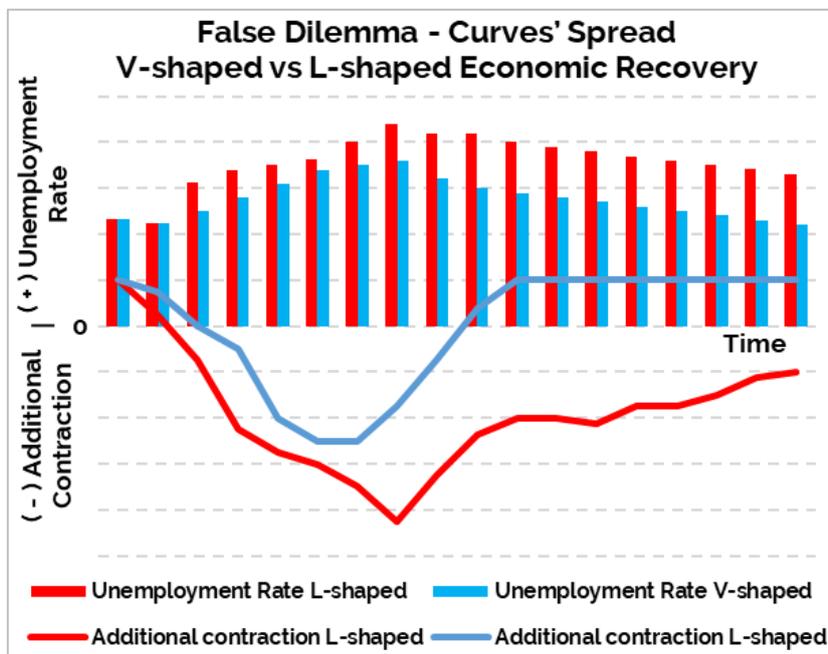
around 14.5%. These projections, unfortunately, are very fragile and tend to vary a lot, given the uncertainties involved. Although other impacts are unknown (including those from abroad, with price volatility, credit conditions and demand for commodities) on the behavior and reaction of economic activity, it is admitted in this base scenario, the fiscal anchor that remains for years to come: the Expenditure Cap. This is what keeps the fire burning so that we can believe in resuming the necessary tax reforms and adjustments brought to a halt. In the most adverse scenario, this perspective fades and seals the fate of a much slower recovery.

The future in the two scenarios analyzed is not

simply a variation in intensity, no. The base scenario makes us go back several years, but the horizon beckons with feasibility while in the adverse scenario the consequences are much broader and fall into situations of likely social unrest. Inequality measures will show this, especially to those whose factors produce economic inequality, reversing much of the social inclusion achieved thus far, but, above all, of the great progress that we may have in this area with the new directions outlined by the current economic policy. One way or another, we will be more united in poverty, and this situation is unsustainable in a democratic regime, making room for all sorts of social

unrest.

The conclusion we arrive at, then, and with no alarmism on our part, but with analytical clarity, is that we might be on the edge of a cliff. We do have a false dilemma. What is not false, however, are the political aspects surrounding the crisis. Daunting moments are



conducive to reinforcing support and commitment. Or not. Really important, within the legal framework, is to review positions and analyze attitudes and the environment. Today we are instigated by a radical wing, but above all very unprepared and ignorant. We are plagued by ghosts of a torn down and unresponsive opposition, but one that interferes with the direction of the country, making it weak, ambiguous and insecure. It is not a time to feel cornered, but to unite us and to act.

To hesitate (or, worse, leaving it alone to see how it goes) is not an option! It is paving the way for the most devastating economic situation, in production and unemployment, in our history.

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