



Promoting and Developing  
Social Security Worldwide.

## Case Study: Brazil

Seminar on Social Security in Times of Crisis:  
Impact, Challenges and Responses

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*MPS – Ministry of Social Security*  
*SPS – Secretary of Social Security Policies*

# **SOCIAL SECURITY IN BRAZIL AND THE GLOBAL FINANCIAL CRISIS**

**JOINT ISSA/ILO SEMINAR**

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# **1. THE GLOBAL FINANCIAL CRISIS AND BRAZIL**



**Brazil benefited from positive international economic environment, hence it was hit by:**



**Credit crunch, Shock on production**



**Export breakdown, drop in commodity prices**



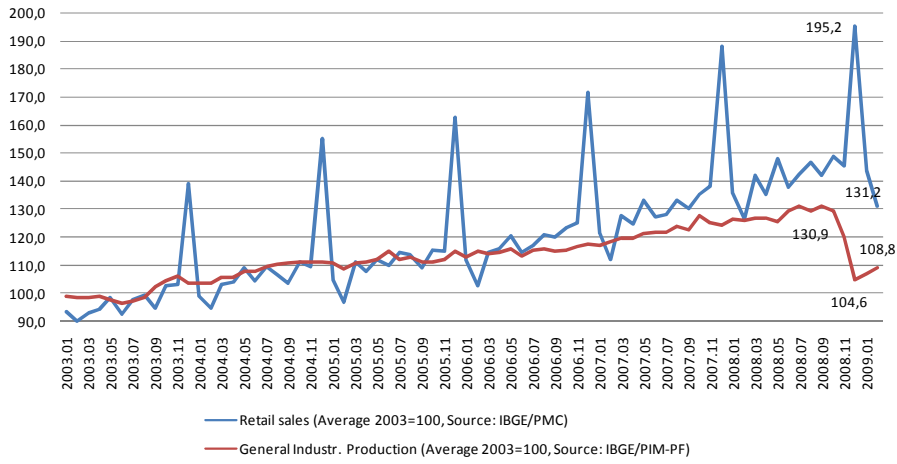
**Strong capital market devaluations**



**Immediate Deterioration of Entrepreneurial Confidence, Dismissals (Dec '08-Jan '09)**



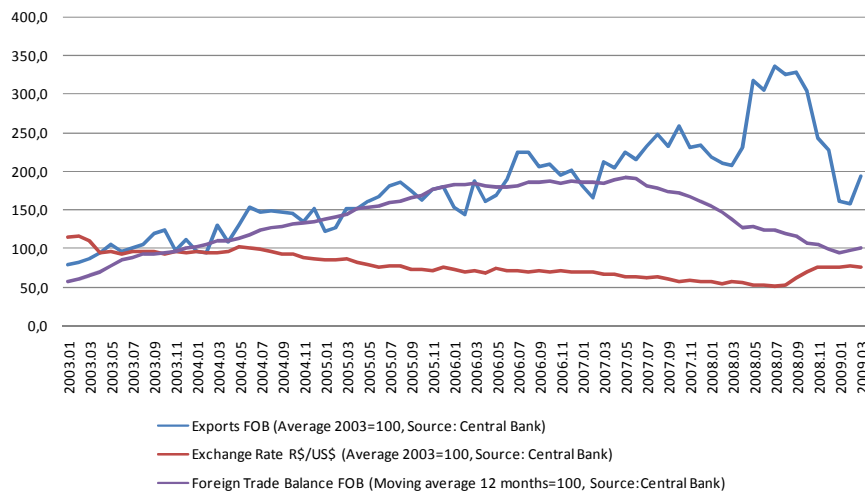
### Brazil: Industrial Production and Retail Sales, 2003-2009



- Industrial production fell sharply in the 4Q08, but shows slight recovery in the 1Q09;
- Retail Sales had an all-time record in Dec. 2008, fell somewhat in the 1Q09, but are still above 2008 levels.

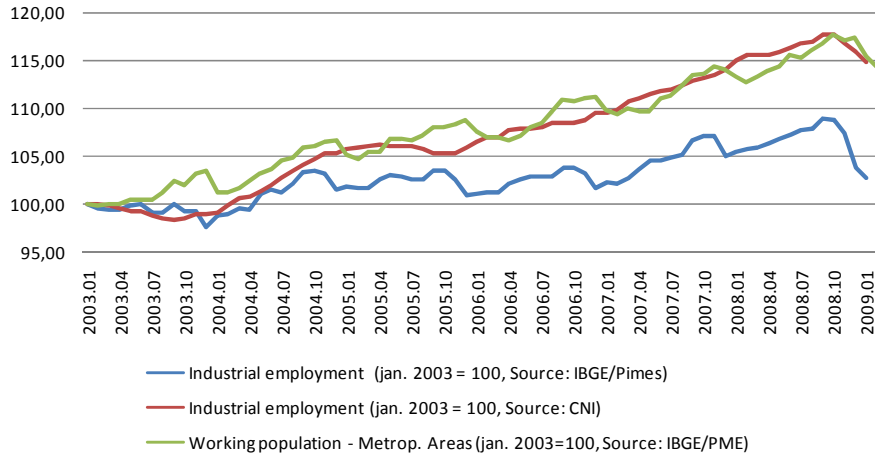


### Brazil: Foreign Sector, 2003-2009



- Export (and import) fell strongly in the 4Q08, External accounts deteriorated due to momentary drop in foreign investment; however, strong reserves maintained;
- Exchange rate devaluation reduced overvaluation of the Real and increased competitiveness. No effects of currency devaluation on inflation rates.

### Brazil: Employment indicators, 2003-2009



- Strong drop of industrial employment in 4Q08; Sectors related to foreign trade also affected.
- Min. Labour stats registered loss of 600 Tsd jobs in Dec'08, but signs of stabilization for the 1Q09 and 2Q09.

### Countercyclical policies by the Government

- ✓ Credit supply by public banks
- ✓ Release of compulsory bank reserves
- ✓ Tax cuts on automobile industry (6 months)
- ✓ Personal income tax reform (new brackets)
- ✓ Postponement of tax collection (SME)
- ✓ Cut of interest rates by Central Bank
- ✓ Emergencial credit for export sector
- ✓ Tax cuts on refrigerators & domestic appl. (3 months)
- ✓ Acceleration of investment in infrastructure
- ✓ New housing program

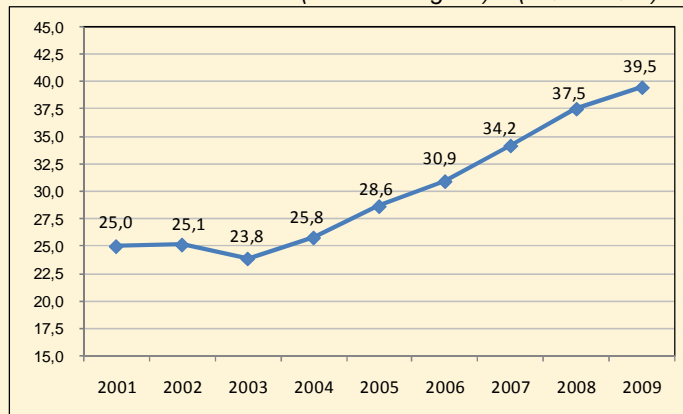


## 2. IMPACTS OF THE CRISIS ON SOCIAL SECURITY



### General Regime of Social Insurance (RGPS) - Values in R\$ billions of March/09 - INPC

Accumulated Revenues (General Regime) – (1Q01-1Q09)



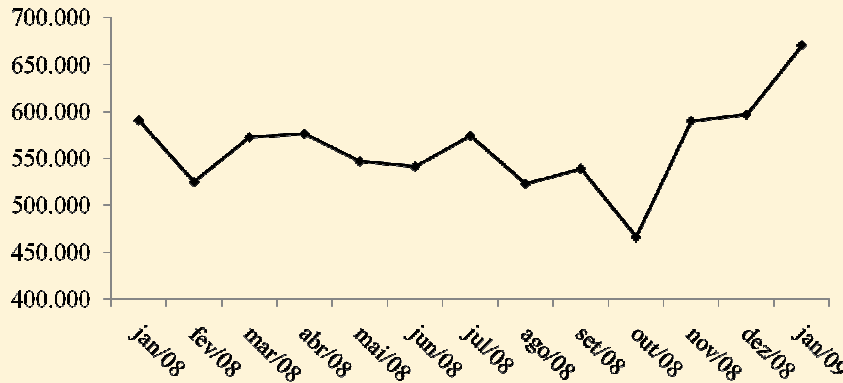
- Growth of Social Insurance Revenues in the 1Q09. Stability if compared to 4Q08.
- Main effect of crisis: reduce the revenue growth rate by half (+9,9% 1Q08/1Q07, +5,2% 1Q09/1Q08).
- Apparently no raise of demand for benefits, particularly concerning the Sickness Benefit.

Primary Source: INSS (cashflow).



## Unemployment Benefits, administered by Ministry of Labour\*

- The Ministry of Labour and Employment extended the unemployment benefit by two months for the sectors suffering most from the crisis;
- Change in lay-off rules: temporary interruption of employment relation possible (but only 5.000 demands per month).



Source: 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 Trabalhador (FAT). Therefore, these benefits are not covered by the RGPS.

\*\* 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 U.S. dollars) and a maximum of 870 reais (383 U.S. dollars).



## Countercyclical measures in Social Security

- |  |   |
|--|---|
| ✓ Maintained minimum wage adjustment               | ✓ Increased access of beneficiaries to credit |
| ✓ Anticipation of minimum wage adjustment          | ✓ Building 720 new offices in the country     |
| ✓ Maintained annual CPI adjustment                 | ✓ Extension by 2 months of unemploy. benefit  |
| ✓ Anticipation of annual CPI adjustment            | ✓ Change in lay-off rules                     |
| ✓ Increase of Bolsa-Família value (Social Assist.) | ✓ Combine training measures with lay-off      |



## Effects of Crisis on Fully-Funded Regimes

- ✓ **Supplementary Pension Funds registered heavy losses in the capital market (real yield 2008 -8.2%)**
- ✓ **Public Servant Regimes (States & Municip.) strongly focused on Treasury Bonds, so almost no losses**
- ✓ **Drop of interest rates on T-Bonds will start search for portfolio change (+ stock market, + real estate)**
- ✓ **We will issue 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.**