



Covid-19 and fiscal response by BRICS countries

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Abstract

To stop further convulsion and disruption of the economic activities and social asthma, every country of the world has been announcing a combination of fiscal and monetary measures. Among BRICS countries except South Africa, all other member countries are facing severe stress of Covid-19. The virus has created not only health crisis but also social, economical, political and psychological apathy for the world population. The role of fiscal policy is of utmost significance to save lives, protect the most-affected people especially migrant workers and industries and businesses especially small and medium scale firms from income losses, unemployment and bankruptcies, and reduce the likelihood of the pandemic that would result in a deep, long-lasting slump. Every country of the world has been responding to this horrific corona virus in their own way considering their social, economical, cultural and political situation. During last two to three months, BRICS countries have announced some fiscal responses to reboot and revive their respective economies. This paper discusses the fiscal measures taken by BRICS countries as the immediate reaction of Covid-19 and some policy suggestions for future.

Keywords: fiscal response, Covid-19, BRICS, fiscal monitor, fiscal vaccine

Introduction

The considerable uncertainty about unprecedented coronavirus pandemic popularly known as Covid-19 has been proceeded towards global macroeconomic fallout and financial stress across sectors of the global markets (*International Monetary Fund (IMF), 2020, World Economic Outlook: The Great Lockdown, Washington, April*). It is pronounced as the worst crisis than the Great Depression of 1930s and even more disastrous than Second World War. It has been a great lockdown of a history of mankind which is unbelievable and undreamt of. Unless and until the vaccine of corona virus is found, quarantines, lockdowns and social distancing with face masks are the only solutions to prevent this disease. There is huge lesson for developed countries as well as developing countries especially BRICS countries of the world to fight with this unknown enemy by limited resources and inadequate health infrastructure. The virus has created not only health crisis but also social, economical, political and psychological apathy for the world population. I believe that fiscal vaccine is indispensable for maintaining economic immunity. There have been guidelines by World Health Organization (WHO) for maintaining social distancing to mitigate spread of this deadly virus. Political leaders of many countries have been favoring for strict implementation of restrictions and lockdowns. Psychologists of the world are telling for positive thinking to get away from mental disorder and stress created by economic and social trauma of Covid-19.

The role of fiscal policy is of utmost significance to save lives, protect the most-affected people especially migrant workers and industries and businesses especially small and medium scale firms from income losses, unemployment and bankruptcies, and reduce the likelihood of the pandemic that would result in a deep, long-lasting slump (*International Monetary Fund (IMF), 2020, Fiscal Monitor: Policies to Support People During the COVID-19 Pandemic,*

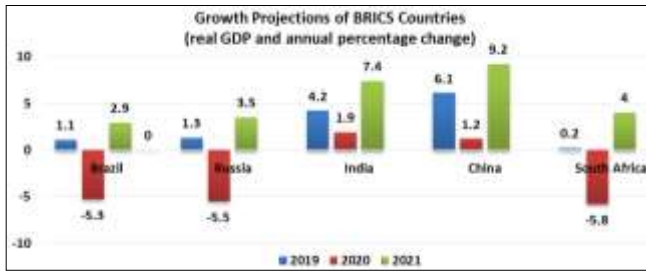
Washington, April). Every country of the world has been responding to this horrific corona virus in their own way considering their social, economical, cultural and political situation. The major impact of this virus is on global economy and trade businesses. There has been a dramatic decline of economic activities around the world in only three months i.e. from February to April, 2020.

In this paper, I have discussed the various fiscal measures taken by BRICS countries to tackle the menace of corona virus. The discussion starts with fiscal estimates for BRICS countries calculated by IMF. Then I have discussed about measures taken by China which is the epicenter of this virus, Russia, Brazil, India which are also suffering from high incidence of corona positive cases, and last South Africa where number of cases are far lesser than other BRICS nations. I ended it with some useful future policy suggestions with the idea of sustainable development considering the major risk from climate change, a real challenge in the coming decades.

Fiscal Estimates for BRICS countries

The ongoing Covid-19 outbreak affects Peoples Republic of China and other developing Asian economies through numerous channels, including sharp decline in domestic demand, lower tourism and business travel, trade and production linkages, supply disruptions, and health effects. (*The Economic Impact of The Covid-19 outbreak on Developing Asia, ADB, 2020*). As per the estimates of *International Monetary Fund (IMF), 2020, World Economic Outlook: The Great Lockdown, Washington, April*, World GDP is projected to contract sharply by -3 percent in 2020 which is worse than earlier economic recession of 2008-09. The report also provided the statistical calculations of various countries of the world dividing them into three types of countries – advanced countries, emerging market and middle-income developing economies and low-income

developing countries. From this I have shown below the growth projections of BRICS countries in figure-1 according to which only two emerging economies India and China would achieve positive forecast in 2020, others would be the sufferer with negative predictions.



Source: IMF, World Economic Outlook, 2020

Figure 1: Growth Projections by World Economic Outlook Report, IMF, 2020

The pandemic and its economic consequences will cause a major increase in fiscal deficits and public debt ratios across countries as seen from the below table1 and 1.1 It is assumed to have a large negative effect on economic activity especially fall in government revenues, including customs and trade activities. Besides, health expenditure and supporting expenditure for people, firms and sectors are being ramped up to mitigate the health and economic effects of Covid-19 (International Monetary Fund (IMF), 2020,

Fiscal Monitor: Policies to Support People During the COVID-19 Pandemic, Washington, April). Therefore, fiscal position in 2020, are set to become significantly more expansionary across all three country groups- advanced economies, emerging market and middle income economies (including BRICS) and low income developing countries compared with earlier year. By looking at the fiscal numbers, it is clearly seen that BRICS countries are really vulnerable.

Table 1: General Government Fiscal Overall Balance 2012-20 of BRICS Countries (Percent of GDP)

									Projection
Countries	2012	2013	2014	2015	2016	2017	2018	2019	2020
Brazil	-2.5	-3	-6	-10.3	-9	-7.9	-7.2	-6	-9.3
Russia	0.4	-1.2	-1.1	-3.4	-3.7	-1.5	2.9	1.9	-4.8
India	-7.5	-7	-7.1	-7.2	-7.1	-6.4	-6.3	-7.4	-7.4
China	-0.3	-0.8	-0.9	-2.8	-3.7	-3.8	-4.7	-6.4	-11.2
South Africa	-4.4	-4.3	-4.3	-4.8	-4.1	-4.4	-4.1	-6.3	-13.3

Source: IMF staff estimates and projections

Note: All country averages are weighted by nominal GDP converted to US dollars (adjusted by purchasing power parity only for world output) at average market exchange rates in the years indicated and based on data availability. Projections are based on IMF staff assessments of current policies.

Table 2: General Government Debt 2012-20 of BRICS Countries (Percent of GDP)

									Projection
Countries	2012	2013	2014	2015	2016	2017	2018	2019	2020
Brazil	62.2	60.2	62.3	72.6	78.3	83.7	87.1	89.5	98.2
Russia	34.4	37	40	41.4	44.2	46.1	49.1	54.4	64.9
India	67.7	67.4	66.8	68.8	68.7	69.4	69.4	71.9	74.3
China	11.2	12.3	15.1	15.3	14.8	14.3	13.6	14	17.9
South Africa	41	44.1	47	49.3	51.5	53	56.7	62.2	77.4

Source: IMF staff estimates and projections

Note: All country averages are weighted by nominal GDP converted to US dollars (adjusted by purchasing power parity only for world output) at average market exchange rates in the years indicated and based on data availability. Projections are based on IMF staff assessments of current policies.

It is estimated by World Economic Outlook 2020 that there will be an increase in average deficit of emerging market economies from 4.8 percent 2019 to 9.1 percent of gross domestic product which is due to recession and lowering up of commodity prices, tighter financing conditions, and discretionary fiscal policy reactions to the Covid-19.

Important Fiscal measures suggested by IMF:

Following are some of the important fiscal measures and steps suggested by IMF (Fiscal Monitor: Policies to Support People during the COVID-19 Pandemic, Washington, April, 2020) to global policymakers, governments, leaders and authorities as emergency lifelines.

1. Clear objectives with an emphasis on solidarity and equity.
2. Targeted, temporary and progressive fiscal measures.

3. Cost-effective tax and expenditure measures which should be embedded in medium-term budget frameworks.
4. Increasing institutional capacity to enable timely support to vulnerable households and firms.
5. To frame policy action taking into consideration of financing constraints.
6. To ensure transparency, good governance and accountability while assessing and disclosing fiscal costs and risks to mitigate Covid-19.

Above steps are broadly categorized as expenditure measures, revenue measures and liquidity endorsement. As per the report, emerging market and developing economies especially BRICS countries are having low fiscal space available with them for infrastructure needs with the potential to crowd in private sector investment. So, it is advisable for policymakers in these countries to finance development in a fiscally responsible manner to improve efficiency of public investment and strengthen social safety nets. The report has suggested India for improving transparency in fiscal policy and curtailing the practice of shifting off-budget spending. For Brazil, it has directed for further easing of fiscal policy to arrest a steep deterioration in aggregate demand and for maintaining fiscal credibility to

restore investor confidence to attract much-needed investment. For South Africa undertaking fiscal consolidation over the medium term accompanied by improving the efficiency of spending and implementing structural reforms are suggested.

Fiscal Response of BRICS countries

The important fiscal measures of the governments of BRICS countries announced and implemented in response to the Covid-19 pandemic have been discussed below.

1. China

China is the first country to become a victim of this SARS Cov-2 which is now known by Covid-19 after it turned out to be the pandemic. China responded with US \$ 380 billion package which is around 2.5 % of its GDP (IMF, 2020). In response to Covid-19, on an expenditure side measures, China followed planned public spending to mitigate the health effects of the pandemic, accelerated unemployment insurance disbursement to support households, increased spending on infrastructure through issuance of special local government bonds. On the revenue side measures, China provided temporary tax relief and deferral of tax payments for businesses to tackle disruptions in the economy thereby easing the tax burden for firms in affected sectors and regions including transportation, tourism and hospitality services. It has also offered income and value-added tax extensions to firms with shortfalls in cash flows as well as allowed temporary reduction in social security contribution rates for targeted firms (IMF, 2020).

2. Russia

As a response to Covid-19, Russia declared a fiscal package of approximately US \$ 12 billion i.e. 0.9% of its GDP (IMF 2020). It increased salaries for medical staff, health and safety inspectors, created a bonus fund for medical staff, disbursed government’s reserve fund for public procurement of coronavirus related supplies, reserve fund allocated for Research and Development on diagnostics and prevention of Covid-19. Russian government also approved sick leave benefits to individuals who quarantined or self-isolated, interest rate subsidies for SMEs, sick leave pay and cap on unemployment benefits raised to the minimum wage until the end of 2020, tourism companies have been exempted from contributing to the tourist sector reserve fund, tax holiday until May 1 for SMEs and affected industries, 3 month grace period for SME payments of social contributions and tax holiday for 6 months for all taxes except VAT for all SMEs in affected sectors.

Under the quasi-fiscal measures, Russia allocated US \$7.3 billion i.e. 0.6 % of its GDP which included subsidized and guaranteed loans for SMEs, retailers, and distributors, assistance for debt restructuring via government loans, recapitalization of leasing firms in the transport sector and established new lending facility with a refinancing limit of 500 billion rubles to shore up SME lending (IMF, 2020).

3. Brazil

In response to the pandemic, Brazil has allocated around US \$42 billion which is 2.9 % of its GDP (IMF, 2020). Brazil provided additional funding for the public health system, given access to 20 percent of the Health Guarantee Fund

resources to provide health insurance companies with funding for investment to assist infrastructure, temporary income support to vulnerable households, introducing ‘Covid-19’ voucher payment of US \$40 to 30 million poor families for the next 3 months, partial unemployment insurance benefits for workers with reduced hours or wages and small businesses were given a temporary reduction in non-FGTS (Workers’ Severance Fund). Under the equity injections, asset purchase, loans, debt assumptions, use of extra-budgetary funds and, quasi-fiscal operations, Brazilian government has allocated around US \$ 53 billion which is around 3.7% of GDP including expanded credit for SMEs to hire new workers and maintain existing employment, temporary suspension of debt service payments from state governments to the federal government and public banks announced credit lines. Besides, under the guarantees on loans and other contingent liabilities, government has allocated US \$ 6.9 billion which is 0.5% of GDP by backing credit line operated by private bank for SMEs to cover payroll costs and it has capped interest rates at the policy rate (IMF, 2020).

4. India

Indian government announced its first part of fiscal package in March 2020 which was of US \$ 21 billion i.e. 0.7 % of her GDP (IMF, 2020). Under this package, additional spending on health infrastructure including Covid-19 testing facilities, personal protective equipment, isolation beds, ICU beds, and ventilators was announced. Indian government also provided insurance coverage for workers in the health sector, substantial in-kind and cash transfers, and wage support to poor households. Apart from these measures, government increased fuel excise taxes in early March to partly finance for these measures, extension of income tax filing deadline for 3 months and reduction of penalty for late payment of taxes. Date for filing GST tax for fiscal year 2018-19 has been extended for 3 months and other miscellaneous relaxation of tax regulatory and administrative requirements.

The government of India has recently announced the second part of fiscal packages during 12th May to 16th May 2020 which is inclusive of the initial fiscal package of US \$ 21 billion. These measures are mostly of quasi-fiscal nature, provision of loan guarantees, debt assumptions and deferral payment.

5. South Africa

The country has announced tax exemptions for essential sanitary products during pandemic, allocated funds to assist SMEs that have been under stress (tourism and hospitality sectors), tax subsidy for next 4 months for private sector employees under employment tax incentive scheme and accelerated reimbursement and tax credits. Under South Africa’s extra-budgetary unemployment insurance fund, support was provided to unemployed workers, and compensation for lay off workers. A solidarity fund has also been created. Government also announced industrial funding package to fast-track financing for companies fighting against Covid-19. Overall, South Africa proclaimed of US \$ 1.7 billion i.e. 0.6 % of its GDP (IMF, 2020).

Table 3: Likely Impacts of Measures on the Government Budget and Debt

	Today		Tomorrow	
	Budget Balance	Debt	Budget Balance or Net Worth	Debt
Additional spending or tax cuts	↓	↑	Unchanged	

Tax deferrals	↓	↑	↑	↓
Loans	Unchanged	↑	↓ (if firm defaults)	Unchanged
Equity injections	Unchanged	↑	↓ (if firm fails)	Unchanged
Guarantees	Unchanged	Unchanged	↓ (if called)	↑

Source: Fiscal Monitor, Chapter-1, IMF Publication

If you look at the above table, it shows the likely impact of fiscal responses on the present as well as future government

budget and debt. I have tried to fit the table for BRICS countries as per their fiscal responses in the following table.

Table 4: BRICS countries’ Fiscal Response in consonance with Budget and Debt Impact

	Brazil	Russia	India	China	South Africa
Additional spending or tax cuts	√	√	√	√	√
Tax deferrals	√	√	√	√	√
Loans	√	√	√		√
Equity injections	√	√	√		√
Guarantees	√		√		

Source: Fiscal Monitor, Chapter-1, IMF Publication

It can be deciphered from the above table that most of the BRICS countries except China are vulnerable for future budget balance and debt liabilities.

Concluding Remarks & Policy Suggestions

From the above discussions, we can say that emerging market and developing economies especially BRICS countries are facing severe pandemic, therefore, the fiscal responses of these nations are significant fiscal support to heavily impacted sectors and workers. Apart from this, the New Development Bank of the BRICS countries has allocated good amount of financial resources to the member countries to control and combat corona virus. It is also visible that all economies of the BRICS are reeling under the tremendous pressure of the global economic slowdown as there is a fear of declining FDI inflow in the coming months.

Here, I would like to suggest that there should be specific fiscal measures with necessary monetary accommodation to safeguard financial modalities. Also I think the world should not forget to take into consideration our biggest challenge of climate change while announcing fiscal stimulus packages for reviving the economic activities. The types of fiscal stimulus packages that various governments have been coming up with to get back to normal economic activities have the fear of increasing CO2 emissions in the long run (Mulchandani 2020) [5]. I believe that this pandemic has given the opportunity to the global leaders to refocus on environmental sustainability goals to reduce emission level by approaching green fiscal policy framework rather than just pumping money to create more pollution and degradation of natural resources. The crisis of climate change should not be overlooked by any means. In 2010, the share of carbon emission from developing countries stood at 50.3% of the total emissions, more than the industrial economies (Clark 2011) [8]. Hence, this should not be the wasted opportunities for the developing emerging economies especially BRICS countries to inchoate green fiscal policy solutions with these fiscal responses. This is the best chance to go for comprehensive structural reforms for sustainable macroeconomic resurgence by efficiently using resources. I think this is the perfect time for global green fiscal policy coordination to control not only this unprecedented, unknown and uncertain Covid-19 pandemic but also to combat known, certain and apparent issue of climate change.

Representing 43 percent of the world population, having combined GDP of US \$18.6 trillion (2018) and two of them having veto power, BRICS countries have a chance to regain and boost the global economy and by creating south-south cooperation and genuine partnership to fight against this intangible tiny enemy.

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