POLICY NOTE

A Brief Overview of Policy Responses to the Economic Impact of COVID-19 in Select Countries

(Focusing on Brazil, Germany, South Africa and the USA)

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1. The Need for Government Intervention

Covid-19 started as a health crisis. However, the contagious nature of the virus soon transformed it into a social and economic crisis as well. The disruption caused is unprecedented in many ways. Firstly, the global nature and the speed with which the pandemic spread does not have any precedent in recent history. Secondly, the methods adopted to control the pandemic, most notably social (physical) distancing, and restriction on social /economic activities also have no parallel in human history on this global scale. The impact of this, caused in part by peoples' own unwillingness to engage in economic activities that are not absolutely essential, such as tourism and entertainment, and in part due to the restrictions imposed by governments, has been a severe economic crisis. This crisis has led to a large-scale gross domestic product (GDP) decline, mass unemployment, displacement of labour, and pressure on businesses, among other things. According to one report[1], England has not seen an economic crisis of this magnitude in the last three centuries. In India, certainly, this is the biggest economic crisis since independence. And, while the severity of the economic crisis varies across countries, no country has remained unaffected.

The severity of this health and economic crisis requires a proportionate response from governments. And governments across the world did react to this crisis through large fiscal responses. Broadly, government responses can be put into two categories: those to deal with the health crisis, such as augmenting health care facilities, quarantining, lockdowns, social/physical distancing, restrictions on travel, restrictions on social and economic activities, etc.; and, those to deal with the economic crisis, such as income support, unemployment benefits and social security, easier loans to individuals and businesses, etc.

This policy note analyses the policies adopted to deal with the economic challenges in four countries, namely Brazil, Germany, South Africa and the USA. The objective is to review the scale and the nature of policy interventions in select countries that might hold lessons for India. The policies have only been reviewed in terms of scale and nature, not in terms of their effectiveness or strength/weakness, which can only be done once the crisis has played out.

It is important to note that these policies are ongoing, and that governments are continuously announcing new policy interventions. The policies analysed in this paper refer to those that had been announced as of the end of September, 2020.

2. What Governments have Done

The economic crisis engendered by Covid-19 has seen different countries adopt a number of different policies to tackle different challenges. Policy responses to the economic challenges posed by Covid-19 can be divided into four broad categories:

(a) Fiscal Polices- these are policies made by governments and have a budgetary outgo

(b) Monetary Policies- these policies are made by central banks and are not likely to have any budgetary implications

(c) Trade Policies- these are changes in regulations governing international trade and have no budgetary implications

(d) Other Regulations- this refers to other economic policies made by governments that do not have budgetary implications, including changes in labour laws, or relief for businesses from adherence to certain compliance norms.

All these four types of policy interventions can have an impact on the economic situation, through different channels. The most important among them is the fiscal policy, because it is through fiscal policies that governments can directly, and in a relatively shorter timeframe, address issues such as augmenting health care facilities, generating employment, providing income support to household, fiscal support to business, and managing macroeconomic variables such as aggregate demand. Due to its predominance among the four policy types, this note focuses mainly on the fiscal policies adopted by Brazil, Germany, South Africa and the USA.

Some of the main fiscal policies adopted by governments across the world are as follows[2]:

- **Spending on health care**- since this crisis has its roots in a health crisis, almost every country has expanded expenditure on health care services, although the nature and scale differ.

- **Tax rate reduction**- the rate of many taxes, such as personal income tax, indirect taxes, and for advance tax payments, has been reduced. These measures are mostly temporary in nature.

- **Deferment of tax payable-** some countries have deferred the timeline of tax payment, meaning that taxpayers can delay paying taxes in accordance with a new timeline.

- **Tax incentives for business-** under this, businesses will receive tax incentives if they fulfil certain criteria, such as retaining employees, making new investments, etc.

- **Income support to individuals-** many countries have adopted this policy, wherein some form of monetary or in-kind support is provided to people, mostly those from lower-income groups, or those who have lost their jobs during this period.

- **Augmentation of unemployment benefits-** apart from new policies on income support, some countries have expanded existing unemployment benefit schemes. The expansion has come either in the form of expanded eligibility criteria, which means that many groups that were not eligible earlier can now avail unemployment benefits, or in terms of a higher level of benefit, which means the scale of benefits has been increased.

- **Employment related schemes-** Under this, a part of employees' salaries is paid by the government. This lessens the burden on businesses, and makes them less likely to downsize the labour force. There also have been cases where new schemes for training of the labour force have been introduced.

- **Credit facilities for individuals-** under this scheme, individuals or self-owned businesses can access credit. The changes in policies can refer to lower interest rates, less stringent eligibility criteria, or risk shared by the government where, in the case of a default, the government shares with the bank part of the lost credit amount.

- **Credit facilities for businesses-** similar to credit for individuals, businesses can access credit under this scheme with lower interest rates, less stringent eligibility criteria or with the risk shared by the government.

- **Fiscal support for select sectors-** some governments are also providing some form of direct support to select sectors considered crucial from the perspective of the economy and / or employment.

- **Support to sub-national governments-** the economic crisis has also affected the revenue generation of governments. In most countries, subnational governments are more dependent on their own tax revenue, while the central / federal governments have more avenues to raise resources. Under these policies, central governments have transferred additional resources to sub-national governments.

This list is compilation of policies across countries; not all countries have adopted all the policies. All of these schemes have direct budgetary implications, meaning that the governments have to spend money to implement these policies.

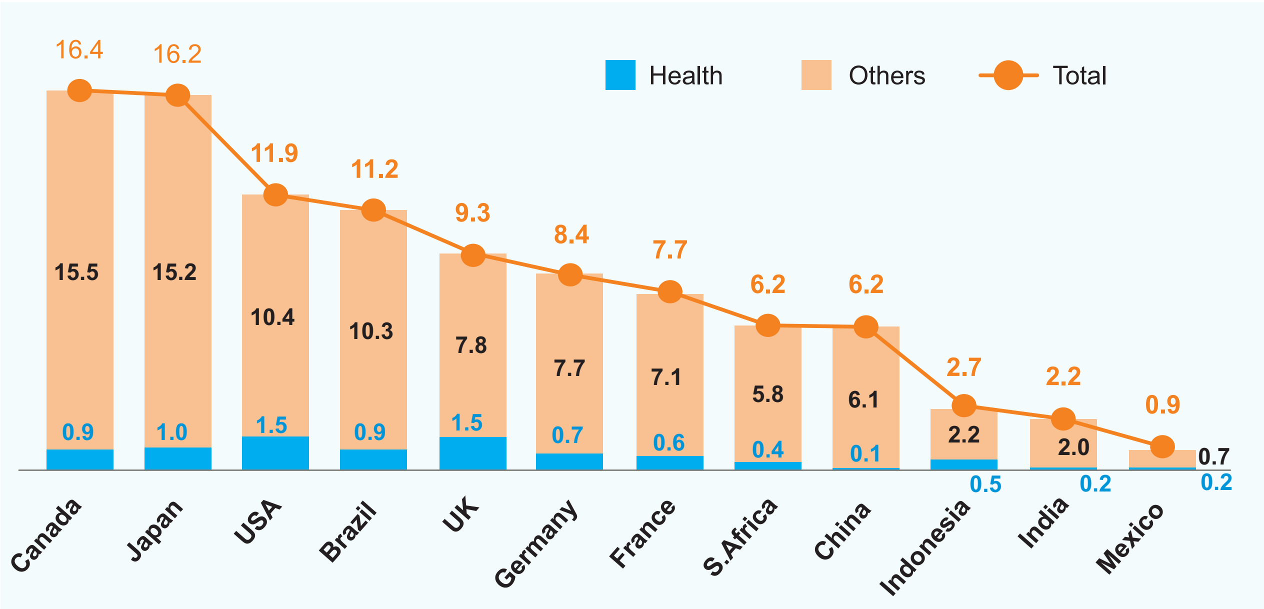
The total amount of expenditure that governments will incur as a result of these measures has received widespread attention from the media and general public as well. However, the headline amounts in popular media need to be taken with caution.

The fiscal response by the governments can be divided in two categories[3] –

- **'Above the Line' or Direct Spending-** the entire cost has to be borne by the government, and hence the government will require additional resources, which is most likely to be raised by borrowing. This includes spending by the government, but also measures which reduce tax collection.

- **'Below the Line' Measures-** those measures that are aimed at asset creation, through steps like liquidity injection, easier credit, asset purchase, etc. These don't require additional resource for the government in the immediate term to carry out these policy measures, though they may lead to increased debt in medium to long term.

Figure 1: 'Above the Line' Spending Against Covid-19 in Select Countries (% of GDP)



Source: Ministry of Finance (2021): The Economic Survey – Volume II. (Page 58). Government of India.
Accessed at: https://www.indiabudget.gov.in/economicsurvey/ (Data as of October, 2020)

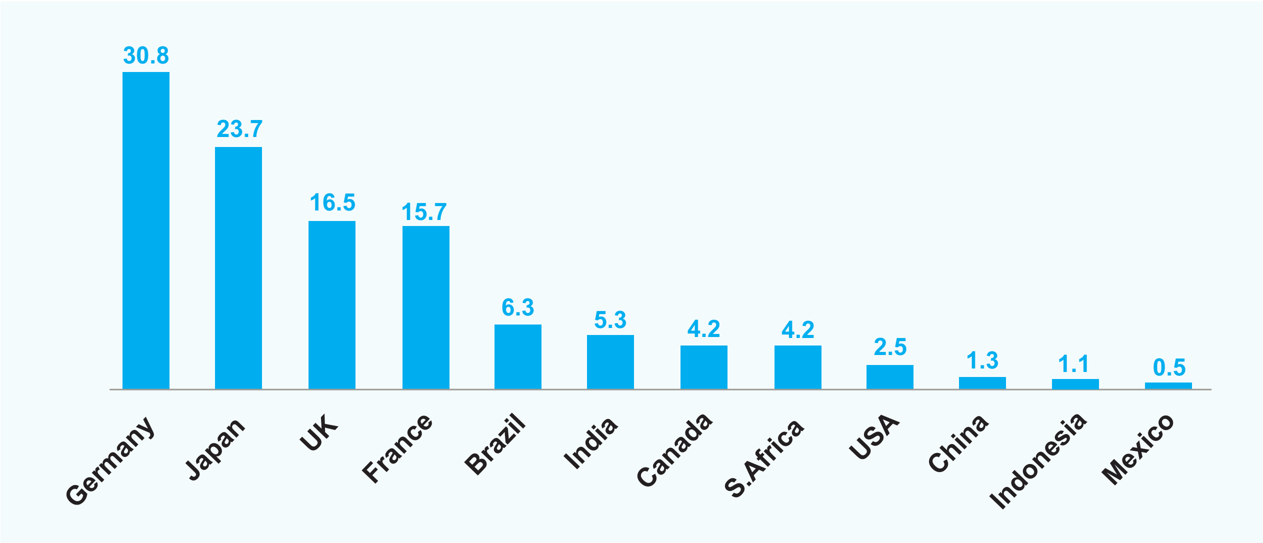
As seen from Figure 1, all countries in above figure have incurred spending on health by varying degree. USA and UK are the countries with highest spending, in terms of per cent of GDP, on health, while India with only 0.2 per cent of GDP as additional spending is among the lowest.

In terms of overall spending Canada and Japan are global leader. Here too, India's response to economic crisis is on the lower side. In fact, among the countries in figure, only Mexico has lower spending.

The above figure for India is largely from the fiscal package announced by the name of *"Aatma Nirbhar Bharat Package"*, in which the government had announced the scale of measures 10 per cent of GDP[4]. The package did have measure other than the 'above the line' measures mentioned in figure 1.

Figure 2 provides the scale of 'below the line' measures announced by India and a cross-country comparison with select countries.

Figure 2: Scale of 'Below the Line' Measures Against Covid-19 in Select Countries (% of GDP)



Source: Ministry of Finance (2021): The Economic Survey – Volume II. (Page 58). Government of India. Accessed at: https://www.indiabudget.gov.in/economicsurvey/ (Data as of October, 2020)

Germany and Japan have announced very extensive 'below the line' measures, while Mexico's response has been minimal, as in case of above the line measures. India's response in these measures compares favourably except for top four countries.

In case of below the line measures, how much spending the government will have to incur is not clear. It is because, in case of asset creation which is monetizable, government might actually receive receipt in future. While in case of credit, the spending by government depends on the scheme details such as level of interest subvention, and risk sharing with banks.

3. Policies in Brazil, Germany, South Africa and the USA

The previous section discussed major policy interventions by governments across the world, as well as the scale of the fiscal response in select countries. This section looks specifically at four countries — Brazil, Germany, South Africa, and the USA — in more detail. These countries were chosen for analysis in this policy note considering factors such as the level of development, geographical representation, and provision of health care via the public or private sector.

- **Brazil:** A large developing country among the worst affected by the pandemic.
- **Germany:** One of the countries whose policy interventions have received widespread attention partly because of the expansive nature of policies covering different groups, and partly because of the scale of fiscal support.
- **South Africa:** a large developing country adversely affected by the pandemic.
- **USA:** Being the world's economic superpower, the USA receives disproportionate attention in all matters. This is also true for the economic policies it adopted, not only in this crisis, but in general. The USA has also been the most affected country in terms of people infected by the virus.

All four countries, representing different continents, are among those worst affected by the pandemic. While two (Germany and the USA) are developed countries, the other two are developing ones. Also, Brazil and Germany are relatively more oriented towards public provisioning of health care as compare to the USA and South Africa, where the orientation is relatively more towards the private market. Another factor considered while selecting countries was the accessibility of data / information regarding the policies adopted by these countries is available in English.

It should be noted that these policies are only for the central / federal governments in the four countries. Sub-national governments have also made policy interventions, but those are outside the scope of this note.

Major policies adopted in each of the four countries are discussed in detail below. All policies and the associated amounts discussed have been based on either the IMF Covid-19 policy tracker[5] or the KPMG policy tracker[6].

Brazil

On March 20th, Brazil's Congress declared a state of public calamity, and as a result, the government was not bound by the restraints of a balanced budget and did not have to adhere to the 'Fiscal Responsibility Law'. This gave the government some much needed fiscal space to engage in fiscal interventions.

Table 1 provides the major policy intervention by the federal government in Brazil.

Table 1: Major fiscal policies in Brazil[7]

Category	Policy
Health care	Extra spending on health sector
Tax rate reduction	Temporary reduction of tax on industrial products
	Temporary reduction in the rate of the Import Tax
Income support	USD 113 per month to informal workers till September, half that amount till December
	USD 226 per month to mothers responsible for supporting the family till September, half that amount till December
	Financial support to workers who lost high-income jobs
	Financial support to teenage mothers
	Financial support to vulnerable groups
	Advance payments of salary bonuses to low-income workers
	Partial compensation to workers who were temporarily suspended
Credit facility for Individuals	USD 26,000 of credit to professionals with technical qualifications
Credit for MSEs	Easier credit for MSEs
	Credit for SMEs to finance salaries for 2 months
Agriculture	Credit facilities worth USD 41 billion for farmers at a lower interest rate
	Support for small agricultural producers and family-owned farms
Support for sub-national governments	Transfer of resources to sub-national governments

[7] All USD numbers are approximate, and have been converted using the exchange rate of 1 USD = 5.45 R$

As given in the figure 1, the total amount announced by the government is 12 percent of GDP. Out of this, around 8.2 percent is estimated to be direct spending.[8]

The most impactful policy intervention has been income support, which was extended to an estimated 66 million people, making up 30 percent of the population. This group has been getting 600 Reais (~USD 113) a month, while in the case of single mothers the amount is double. The original scheme lasted till September. Thereafter, the amount was halved and the scheme was to be continued till December. According to some researchers, this income support has not only helped during the pandemic, but the overall poverty rate has fallen to a 40-year low.[9]

Apart from these fiscal policies, Brazil has also adopted some other policies, such as:

- Cutting the central bank rate
- Increasing the credit limit for consumers
- A loan moratorium
- Relaxation for businesses from some compliance requirements

Germany

The federal government in Germany has announced two supplementary budgets with amounts of Euro 156 billion and Euro 130 billion, which add up to nearly 9 percent of GDP. Major policy interventions by the German federal government are listed in table 2.

Table 2: Major fiscal policy interventions by Germany

Category	Policy
Tax rates	Reduction in the VAT rate for select items
Tax refund	Small companies making a loss in 2020 can get a refund on their advance tax payment in 2020, as well as on taxes paid in 2019
	Select individual taxpayers can claim back the taxes paid in 2019
Deferment of tax payable	Businesses that can prove the adverse impact suffered from the coronavirus are allowed to defer the tax payable
Tax Incentives expansion	Expansion of the loss-carry forward provision

Employment schemes	In the case of Covid-19 infection, employees are to get fully paid leave till they recover
	For businesses affected by Covid-19, a provision of part compensation to employees
	Covid-19 infected self-employed individuals are eligible for financial support A federal programme for labour training
Unemployment benefits	Short-time working compensation if businesses continue employment
	Expansion of scope to include more workers
	Expansion of scope to include temporary workers
Income support	Refund of social security contribution
Credit for businesses	Credit at lower rates
	Federal government sharing the risk of credit with banks
Financial support for businesses	Financial support for start-ups and SMEs
	Support for export industry
	Direct subsidies to SMEs affected by Covid-19
	Direct recapitalisation to ensure solvency
	Fiscal support for businesses to meet the liquidity challenges
New spending on R&D	Euro 50 billion for research, modernisation, digitisation etc., for example: in areas such as artificial intelligence
Financial support for cultural institutions	Direct financial support for cultural institutions and projects

As evident from the table, Germany has one of the most expansive policy interventions across all countries. Separate policies have been made for different groups. Taking into consideration the credit facilities as well as the interventions by sub-national governments, the total scale of Covid-19-related polices comes close to 20 percent of GDP, which is second only to Japan. Out of this, the central government's contribution is around 15-16 percent.

Among the policies announced in Germany, two stand out — one related to shorter working hours, and another to tax refunds. Germany has adopted a policy known as *'Kurzarbeit'* under which the working hours of labours are reduced as opposed to the outright lay-off of labour; part of the salaries of workers, especially those below a certain level, is funded by the government. This policy can not only minimise the loss of employment, but also reduce damage to the business structure so that when business returns to the normal level, the restart can happen without much difficulty. Another standout policy has been in terms of tax refunds for income/fiscal support. Individuals as well as businesses that have seen income loss due to the pandemic can claim part of the tax paid previously.

Apart from the above polices, which have direct budgetary implications, Germany has also announced other policies such as a loan moratorium, relief from compliance norms, etc. Among these, one standout policy is the regulation to protect tenants. Under this policy, tenants who are unable to pay rent due to pandemic-related loss of income cannot be evicted if they can prove the loss of income. The rent, however, is not forgiven and the tenant is liable to pay the same in future.

Germany is part of the Euro currency union. The monetary policies in the union are not country specific.

South Africa

Like other governments, South Africa, too, announced a number of policies to deal with the economic crisis induced by Covid-19. The major policies announced by the central government in South Africa are outlined in table 3.

Table 3 – Major fiscal policy interventions by South Africa

Category	Policy
Tax deferral	Eligible taxpayers can defer part of their tax payable to the next paying period
Tax relief	Tax relief for taxpayers during the lockdown
	Relaxation from tax payment for businesses if they are affected by the coronavirus
Tax reduction	Rebate on custom duties and exemption from import VAT
Tax refund	Fast tracking of VAT refunds
Tax incentives	New tax incentive for skill development
	Expansion in scope for companies to be eligible to avail tax incentives and generate employment
	The minimum wage required for tax incentives has been removed
Debt relief for SMEs	Support for SMEs with existing debt if they can show that their business has been impacted by the coronavirus
Financial support for businesses	Working Capital financial support for SME's

Income support	Financial support for small farmers and those engaged in related activities
	Employees whose income has been affected by Covid-19 are eligible for income support
	Increase in the amount of social security granted to most-vulnerable families
	Tax subsidy to those below a certain income threshold
	Employees whose income has been affected by the lockdown are eligible for income support
	In case of illness or quarantine, employees are eligible for income support
In-kind support	Increase in the number of food parcels for distribution
Income support for dependents	If an employee passes away because of Covid-19 , his or her dependents can apply for income support

Though the aggregate scale of support is close to 10 percent of GDP according to the Covid-19 tracker, the further division of this amount could not be found. From the policies mentioned in table 3, the scale seems smaller than in Brazil and Germany. The income support is limited, and the only new addition seems to be the one for those directly infected by the virus. Those below a threshold income level received a tax subsidy, but by design this scheme cannot help those whose income is outside the tax net.

The potential reason for relatively limited policy intervention can the fiscal capacity of the government, along with its unwillingness to enlarge the debt, which Brazil and Germany are doing on a large scale.

Apart from these fiscal policies, some others were also implemented in South Africa, such as:

- Lowering of the central bank rate
- Relaxation for businesses from certain compliance requirements

USA

The federal government of the USA has announced two fiscal support programmes entitled 'Paycheck Protection Program and Health Care Enhancement Act', worth USD 483 billion or 2.3 percent of GDP, and the 'Coronavirus Aid, Relief and Economy Security (CARES) Act' worth USD 2.3 trillion or 11 percent of GDP. In absolute terms, this is largest amount of fiscal support announced by any country. And all of it, amounting to 13.3 percent of GDP, is direct spending by the government. Apart from these two large announcements, some smaller ones have also been announced, to the tune of USD 53 billion. Major policies announced by the USA's federal government are listed in table 4.

Table 4: Major fiscal policy interventions by the USA

Category	Policy
Spending on health care	USD 8.3 billion for vaccine R&D\
	USD 100 billion for hospitals and virus testing
Tax rate reduction	Exemption from customs duty on input chemicals for hand sanitisers
Tax incentives	Increased tax incentives for donation to charitable organisations
	Removal of the cap on use of tax incentives for a net operating loss
	Expansion of unused business credit carried over from the past
	Paid sick leave for employees infected by Covid-19 to be reimbursed as a tax credit
Tax relief	Individual taxpayers whose income has been affected by Covid-19, can file for relief
	No interest or penalty on late tax payment
Tax rebate	One-time tax rebate of USD 1,200 to individuals for self and USD 500 for dependents. Total allocation for programme: USD 293 billion
Unemployment benefits	USD 600 per week in addition to the existing unemployment benefit by States. This programme ran from March till the end of July. Budget allocation: USD 268 billion
Employment support	Paid sick leave to employees if infected by Covid-19
	Tax incentives for employers who retain employees even when their business has been hit by Covid-19
Credit facility for small businesses	Forgivable loans for small businesses, including non-profit organisations, at maximum interest rate of 4 percent. Total budget allocated: USD 349 billion
Credit facility for businesses	Easier credit and liquidity facilities for large businesses, States and municipalities. Total budget allocated: USD 500 billion
Liquidity support	Relaxation for employers from contribution to social security tax
Support for financial markets	Buying corporate debt from the secondary market

Credit facility for financial institutions	Institutions working in financial markets can avail easier credit
Transfer to sub-national governments	USD 150 billion transfer to State and local governments
International aid	USD 49.9 billion for international assistance (including SDR 28 billion for the IMF's New Arrangement to Borrow).

As can be seen from the table 4, the USA's federal government has made very extensive policy interventions, not just in terms of scale, but also in terms of different interest groups. The expanded unemployment benefit of USD 600 weekly ended in July. This, along with one-time tax rebate of USD 1,200, was the direct income support.

The USA has also announced extensive credit facilities for businesses, including for small businesses, which are forgivable — in the case of a default, the government bears all the risk. One unique policy in the USA has been the government buying corporate debt from the secondary market, whereas in almost all countries, policies have focused on providing a direct credit facility to businesses.

Apart from the above policies, the USA has also announced other fiscal policy measures aimed at foreign entities. For example, the USA announced USD 49.9 billion for international assistance, which also includes USD 28 billion for the IMF's new borrowing arrangement.

The USA is in a unique position due to the dollar being the reserve currency for international transactions. Keeping this in mind, the country also had credit schemes for other central banks, and international organisations.

Some of the measures without budgetary implications are:

- Lowering of the central bank rate
- Extension of tax return filing
- Relaxation of certain compliance norms for businesses
- Suspension of federal student loans for 60 days

4. Conclusion

The scale of the health and economic crisis required a proportionate response from governments, and many adopted policies that are unprecedented in history. Looking purely at the scale of emergency policy interventions, many governments have engaged in large-scale fiscal interventions, unprecedented in recent times. However, there is also a large cross-country variation.

The scale of cross-country variation was visible from figure 1; however, the difference is not only in terms of scale but in terms of policies, too, as evident from the case of the four select countries studied in detail. Germany and the USA adopted fairly large and expansive fiscal policies. They also seem tailored to the needs and specific requirements of the targeted beneficiary groups. Both countries have large programmes for businesses, mainly in the form of credit support.

Of the two developing countries analysed, Brazil has intervened on a larger scale, the key highlight being the income support being provided to an estimated 30 percent of the population. The scale of the intervention is relatively lower in South Africa, possibly on account of the government there having limited fiscal power, and also its unwillingness to engage in a debt-financed expansionary fiscal policy.

This begs the question: what determined the scale of the fiscal response in different countries. Though, it is outside the scope of this paper, it would be interesting to analyse the factors that determined the scale of the responses that countries chose. Also, once the pandemic has been conquered, the efficiency and efficacy of different policies and approaches in dealing with the economic crisis can be analysed.

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