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Macroeconomic policy and policy spaces during the COVID-19 pandemic – case studies from Germany, Brazil and India*

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Theoretical analysis, empirical development and case studies show that room to manoeuvre stabilising macroeconomic policies during the COVID-19 crisis in the years 2020 and 2021 were fundamentally different in the Global South and Global North. The latter used extensive discretionary fiscal and monetary policy, whereas the former used monetary policy only in a very limited way and fiscal policy to a much smaller extent than in the Global North. While the main reason for this difference is, inter alia, the position of countries in the global hierarchy of currencies, the political orientation of governments in general and towards COVID-19 also played a significant role. The income effects of the pandemic for the poor in Germany were moderate, but disastrous in the Global South, as evidenced by case studies on Brazil and especially India. As a result, the global pandemic added to the trend of increasing inequalities in income and wealth distribution, both within and between countries. Some shortcomings of policies during the pandemic include not raising taxes on higher income or wealth groups, implementing steps towards a global tax system or supporting international capital controls to increase the space for national policies.

Keywords: COVID-19 pandemic, fiscal policy, monetary policy, currency hierarchy, poverty

JEL codes: E6, F62, 118

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1 INTRODUCTION

In December 2019, the first COVID-19 cases were detected in China; and in January 2020, the World Health Organization (WHO) declared COVID-19 to be a Public Health Emergency of International Concern, and in March 2020, a pandemic. Until the end of 2022, almost 652 million COVID-19 cases were confirmed worldwide, with around 6.7 million deaths. The highest number of deaths per 100,000 persons was reported from Peru (661), followed by Bulgaria (548) and Hungary (501). In the 16th place was the United States (US) (330), with Brazil in the 18th (326), Germany in the 51st (192) ... and South Africa at 59th (173). In India, only 39 deaths per 100,000 persons were reported.¹ The different death figures have been attributed to the differences in the number of people tested, demographic configuration, characteristics of the healthcare system and many unknown factors (John Hopkins University 2022).

The COVID-19 pandemic led to the worst recession since the Second World War. However, macroeconomic policies implemented by governments during the pandemic influenced the extent to which unemployment and poverty increased. Lockdowns, for example, reduced the income of many workers and small- and medium-sized enterprises (SMEs) – particularly serious was the income reduction of many self-employed workers to zero.

In this paper, we concentrate on the recession caused by the pandemic, the response of fiscal and monetary policies and how incomes and poverty were affected. We do not discuss the energy crisis following the COVID-19 crisis, the effects of the Ukraine war and the increase in the inflation rates in 2022. To understand different policy orientations by governments, and also differing room to manoeuvre in economic policy in different countries, three case studies are presented. Germany and the European Monetary Union (EMU) serve as a case for heavy macroeconomic interventions, India for minimal interventions, with Brazil in the middle.

In Section 2 we provide an overview of global fiscal and monetary policy interventions and poverty development during the COVID-19 pandemic. In Section 3, the case studies are presented. Conclusions are drawn in Section 4.

2 MACROECONOMIC POLICIES DURING THE COVID-19 PANDEMIC

The COVID-19 recession is a supply-side *and* demand-side driven crisis. In March 2020 around half of the world population covering 90 countries was under a lockdown (Euro News 2020). Lockdowns included shutdowns of businesses – for example, restaurants and cultural events, but also in the manufacturing sector. The Oxford University COVID-19 Stringency Index in early 2021 shows that polices to combat the pandemic in a typical country in the Global North were stricter than in a typical country in the Global South and least stringent in Africa (Table 1).

The COVID-19 recession was intensified by shrinking demand. Global consumption demand dropped by 4.9 per cent in 2020. Here lower incomes and lockdowns played a role. Global real gross capital formation dropped by 3.7 per cent in 2020 (World Bank 2023).

A severe problem that manifested was the interruption of global value chains (GVCs). Michael Spence (2021) identifies two problems regarding GVCs. First, companies maximized efficiency. This led to underinvestment in resilience of GVCs, because private

^{1.} Several studies show the significant under-reporting of infections and deaths in India (Jha/ Lahoti 2022). The WHO reports that deaths due to the virus in India were over 4.7 million in 2020 and 2021 – nearly 10 times higher than official records (Das/Mampatta 2022).

	,)	Traditional	fiscal measures		Other	government	measures	Total measures	Oxford-
	I Fiscal measures in the health sector	II Fiscal measures in areas other than health	III Accelerated spending and deferred revenue	IV = I + II + III Total discretionary fiscal measures*	V Loans and equity**	VI Guarantees	VII Quasi- fiscal measures***	IIV + IV + V = IIIV	Stringency- Index in January 2021****
USA Germany France Australia UK Japan	3.3 1.8 1.5 1.0 2.1	22.2 13.6 8.2 17.4 14.4 14.6	0.1 0.0 0.0 0.6 0.5	25.6 15.4 12.7 18.4 19.8 17.2	0.3	2.2 24.8 14.5 1.0 2.9 2.9	0.0 0.0 0.0 0.0 25.4	28.1 43.2 27.9 36.5 45.5	69 74 71 71 52
Brazil India Bolivia South Afric Mexico Pakistan Bangladesh Nigeria Egypt Ghana Pakistan	a 0.7 4.1 0.2 0.1 0.1 0.1 1.1 0.1 1.1 0.1 1.1 0.1 1.1 1	7.8 9.9 9.9 9.1 9.9 9.1 9.0 9.1 9.0 9.0 9.0 9.0 9.0 9.0 9.0 9.0 9.0 9.0	3.1 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0	21 4 4 7 7 0 0 1 4 7 9 1	1.1 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0	$\begin{array}{c} 0.0\\ 5.3\\ 0.0\\ 0.0\\ 0.0\\ 0.0\\ 0.0\\ 0.0\\ 0.0\\ 0$	5.1 0.6 0.0 0.0 0.0 0.0 0.0	18. 11.0 10.7 10.7 10.7 10.7 10.7 10.7 10.	60 66 67 60 68 60 68 60 68 60 68 60 68 60 68 60 60 60 60 60 60 60 60 60 60 60 60 60
Global <i>Notes:</i> *Overs funds; ***Qu school closur	1.4 Il additional expe asi-fiscal operatio :s: workplace clos	8.6 nditures and discre- ns of public corpo ures; cancellation	0.9 ritionary forgone rever rations on behalf of of public events, rest	10.9 nues; ** Equity inj government; **** ritcions on public	0.4 ections, asset Zero is the gatherings, c	4.1 : purchases, loa lowest and 10 closures of pub	1.6 ns, debt assum 0 the highest v lic transport; st	17.0 prions, including ext alue. Index uses nii ay-ar-home requirer	- tra-budgetary ne indicators: nents; public

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Sources: IMF (2023); for Oxford Stringency Index: Oxford University (2023).

returns on such investments are much smaller than social returns. Second, GVCs create an incredibly complex and interconnected system. A small distortion can have widespread effects that are difficult to predict.

Taking the first quarter of 2018 as an index of 100, the global import volume for goods remained largely the same until early 2020 and then dropped to almost 87, however during 2020–2021 it recovered quickly. The import volume of services increased until early 2020 to around 107, then dropped to 85 and remained at this level until the end of 2021 (IMF 2022a: 88f.).

In 2020, world real GDP growth dropped to -3.3 per cent, much more than during the Great Recession in 2009 with -1.3 per cent. In high-income countries the change was -4.5 per cent, in middle-income countries -1.3 per cent, whereas countries with low income had a real GDP growth of 0.1 per cent (World Bank 2023). The relatively good performance of low-income countries can be explained by partly less severe lockdowns, a smaller role of the industrial sector and a bigger role of the subsistence economy.

In Table 1, traditional fiscal measures to stabilise the negative economic effects of the pandemic are reported, whereby all discretionary measures decided in 2020 and until October 2021 (in percentage of GDP in 2020) are shown. On a global level, stimulating measures of 10.9 per cent of GDP in 2020 were implemented. The biggest fiscal stimulations took place in high-income countries – for example, in the US with 25.6 per cent of GDP 2020, in Germany 15.4 per cent and in Australia 19.8 per cent. In the remaining country groups, discretionary fiscal programmes were considerably smaller. In Brazil, active fiscal measures were decided with a volume of 12.4 per cent of 2020 GDP. This was relatively high compared to many other countries. Many countries in the Global South had very limited fiscal reactions against COVID-19 (see Table 1).

Many companies, if not for government help, would not have survived the lockdown period. Guarantees by governments for credits, usually by state-owned banks, played a prominent role in some countries, including Germany. In Germany, the state-owned development bank implemented this instrument. Quasi-fiscal operations in the form of non-commercial activities of public corporations on behalf of government played a massive role in Japan (25.4 per cent) (see Table 1; IMF 2023).

Besides cutting interest rates, the extent of monetary policy support in the COVID-19 crisis is reflected in the development of the balance sheets of national central banks. Figure 1 shows that, in the US and EMU, balance sheets of central banks increased substantially in per cent of GDP whereas in Brazil and India increases were minimal.² In the US and the EMU, central banks massively bought government bonds, and at the same time refinanced the financial system, for example via financial support given to companies.

Looking at the total discretionary measures, a clear picture appears. High-income countries stabilized the economic effects of the COVID-19 recession through massive interventions, though strategies varied depending on the government's attitude towards COVID-19, and the institutions and capabilities of countries. The US mainly used traditional fiscal policy, while in Germany guarantees by public banks played a more prominent role, and in Japan interventions by state-owned companies were extensive. Middle-income countries used fiscal

^{2.} In Brazil the balance sheet of the central bank is very high and the main reasons are: (i) the legal obligation that all deposits of the Brazilian National Treasury (BNT) must be held by the Brazilian Central Bank (BCB); (ii) the high volume of international reserves held by the BCB and the extremely high devaluation of the Brazilian currency over the last few years; (iii) the legal definition (Law 11.803/08) that gains from devaluations should be transferred by the BCB to the BNT; and (iv) the permanent quest for primary surpluses – discussed below – which increases the deposits owned by the BNT. For details, see De Conti (2016).



Sources: For balance sheets Fed (2022), ECB (2022), Banco Central do Brasil (2022), RBI (2022b); GDP data for US and Brazil from World Bank (2023), for India Ministry of Statistics (2022), for ECB Eurostat (2022).

Figure 1 Central bank balance sheets in per cent of national GDP

stimulation during the pandemic, but much less than high-income countries. Other government measures played an important role only in high-income countries. Overall government and central bank financial interventions in middle- and low-income countries were, compared to the Global North, relatively insignificant.

How can this difference in policy reactions between the Global South and the Global North be explained? Attitudes towards COVID-19 and political orientation of governments certainly played a role (see the case studies below), but there are systematic reasons as well. In the currency hierarchy, countries in the Global North are on the top and those in the Global South at the bottom. Trust in the national currency is low in many Global South countries. This implies that a substantial part of national wealth is kept in foreign currency – either in form of dollarisation or abroad – and/or that domestic interest rates must be kept relatively high. As soon as macroeconomic policies are followed which increase domestic monetary wealth - for instance, when central banks buy government bonds or support banks to give out more credits - part of the newly created monetary wealth is, in almost all cases, exchanged into foreign currency. This leads to depreciation pressure, as well as inflationary developments triggered by higher import prices. In case of a real depreciation, the real debt burden of usually high foreign debt denominated in foreign currency increases, as real income decreases. These processes systematically reduce the macroeconomic policy space of countries in the Global South. Of course, strict capital controls increase the room for manoeuvre, but in the existing era of financial globalisation, many countries are not able or willing to implement such controls (Herr/Nettekoven 2021, 2022; Hofmann et al. 2021).

This low trust in many currencies in the Global South became immediately evident after the outbreak of the pandemic. In 2020, many countries experienced heavy capital outflows, loss of central bank reserves and depreciation. For example, between end-2019 and early May 2020, the Brazilian real depreciated by almost 50 per cent. In comparison, the depreciation of the Indian rupee in the same period was moderate, at 5 per cent (Trading Economics 2023). In early 2020, there was a serious danger of a global financial crisis, although such a crisis was averted due to the rapid and comprehensive interventions by the US Federal Reserve (Fed) and other central banks. In particular, the Fed took over the function of an international 'lender of last resort', to protect the domestic financial system. To this end, large swap agreements were implemented, or existing ones used. In March, the Fed created FIMA (Foreign and International Monetary Authorities) Repo Facility to help other central banks to defend their exchange rates and calm international financial markets (Aizenman et al. 2021; Fed 2020). Existing floods of liquidity in the Global North from the 2008 Financial Crisis, and further increasing liquidity, together with zero interest rates during the COVID-19 crisis, even led to short-term and partly speculative capital flows to emerging countries (see the Indian case study below).

The COVID-19 pandemic had devastating effects on global poverty. The World Bank (2022a: XXI) reports that extreme poverty, living on less than \$1.9 a day, rose from 8.4 per cent of world population in 2019 to 9.3 per cent in 2020, increasing the number of extremely poor by 700 million. This change occurred even before the Ukraine war, which began in February 2022. However, in OECD countries, low-income groups also suffered more than average households, especially young workers, low-educated workers, migrants, ethnic minorities and workers employed in low-paid occupations. In many cases, low-paid jobs required physical proximity to other people and, therefore, these workers were double hit by the pandemic (OECD 2022). It was also found that mothers were especially affected by the pandemic due to lower income and additional unpaid extra household work (OECD 2021).

We may also note here that various well-known studies concluded there were significant increases in inequality across the world during this period of global catastrophe; the number of dollar millionaires and billionaires surged, whilst the overwhelming majority of people experienced compression in their income and wealth. The wealth of the 10 richest persons doubled between 2020 and 2021 as 99 per cent of humanity became poorer. If we take a long-term view, between 2000 and 2021, wealth inequality increased almost everywhere, but especially in the Global South (Ahmed et al. 2022; Oxfam 2022).

3 CASE STUDIES: COVID-19 CRISIS AND POLICY REACTIONS

3.1 Germany

In Germany the pandemic led to a sharp contraction as GDP growth plummeted to -3.7 per cent in 2020, while in 2021 it rose to 2.6 per cent (World Bank 2023). Fiscal and monetary policy interventions accounted for 43 per cent of GDP in 2020. This was one of the strongest economic interventions in the world (see Table 1). At the national level, the German government reacted with large-scale and multidimensional fiscal programs and interventions in labour and financial markets. Most of these measures were initiated by the federal government, but also by the states and the public development bank KfW.³ We will discuss the most important measures (for details, see ESRB 2022).

To stimulate aggregate demand, the purchase of electric cars was further subsidised (from \notin 3000 per car to \notin 6000); in 2020, the value-added tax was cut from July until the end of the year, from 19 per cent to 16 per cent. A number of measures to reduce the tax burden of companies were also implemented, such as certain transfers to house-holds – for example a one-time payment of \notin 300 for each child. Research in the field of COVID-19 vaccines was supported. Additionally, the government supported the health sector in general, SMEs and self-employed persons like artists.

^{3.} The KfW (Kreditanstalt für Wiederaufbau) Banking Group is a state-owned development bank and is the third biggest bank in Germany. It plays a key role in German industrial policy (Dünhaupt/ Herr 2020).

The government further gave credits (and large-scale guarantees for credits) to the enterprise sector via the KfW, to which end an Economic Stabilisation Fund (ESF) was established. With a size of \notin 600B, the ESF could give credit guarantees (\notin 400B), loans to companies (\notin 100B) and buy equity (\notin 100B).

As Germany had a budget surplus of 1.5 per cent of GDP in 2019, – and the budget balances on average in the decade before the COVID-19 crisis were slightly positive – the fiscal stimulus only led to a budget deficit of 4.3 per cent of GDP in 2020, 3.7 per cent in 2021 and 3.3 per cent in 2022. Public gross debt increased from 58.9 per cent of GDP (net debt 40.4 per cent) in 2019, to 71.1 per cent (net 47.7 per cent) in 2022 (IMF 2022b).

In April 2020, the European Union (EU) finance ministers agreed on three programmes valued at €540B, amounting to around 4 per cent of the EU's GDP (Cameron 2020). First, the European Stability Mechanism (ESM), a fund created in 2012, should give additional credits to Member States of the EMU. Second, the European Investment Bank, owned by Member States of the EU, should expand credits to companies. And third, the Support to Mitigate Unemployment Risks in an Emergency (SURE) programme should help to stabilise labour markets.

In July 2020, the NextGenerationEU (NGEU) was decided upon on the EU level, with a volume of 6 per cent of EU-GDP which should be spent between 2021 and 2023. Credits for this program were jointly taken by EU-member states, something which did not happen before. The program had the main aim to support the recovery after the COVID-19 crisis while facilitating green transformation, digitalisation and improvement of healthcare systems (EU 2023).⁴

Monetary policy reactions were also expansionary (see Heine/Herr 2021). In addition to refinancing rates of zero in 2016,⁵ the ECB had already introduced an unconventional monetary policy in 2015. In its Asset Purchase Programs (APP), it introduced monthly net purchases of (mainly government) bonds and other assets like corporate bonds. It had already initiated a new round of APP just before the pandemic. This was extended by the Pandemic Emergency Purchase Program (PEPP) in 2020. Additionally, the ECB introduced different types of refinancing operations in 2020 to pump liquidity into the economy. As a result, the ECB balance sheet as per cent of the Euro area GDP increased massively, even more than in the US (Figure 1).

Unemployment rates in Germany, which have significantly dropped since the early 2000s mainly due to demographic factors and more part-time work, slightly increased from 3.1 per cent in 2019 to 3.8 per cent in 2020, then dropped to 3.5 per cent in 2021 (World Bank 2023). The only marginal increase of unemployment was achieved by extensive use of short-time work allowances. Before the pandemic, allowances for not-worked hours could be applied for 12 months and comprised 60 per cent of the last net hourly remuneration (67 per cent for persons with children). Under certain conditions, the allowance could be increased. During the COVID-19 crisis, the duration for short-time work allowances was extended to 28 months (Bundesagenturfür Arbeit 2023a). In many cases, work councils negotiated additional compensations for workers paid by companies. In December 2019, around 0.3 per cent of all employees came under such schemes. In May 2020, the number jumped to 17.1 per cent, dropped during the

^{4.} EU-fiscal programmes are usually included in fiscal stimulus data of member states.

^{5.} The main refinancing rate of the ECB was 0.05 per cent in September 2014, 0.00 per cent in March 2016 and 0.50 per cent in July 2022. Then the rate increased to 3.75 per cent until May 2023.

summer, and in February 2021 increased to 10.0 per cent before dropping again in July 2022 to 0.3 per cent (Bundesagentur für Arbeit 2023b).

In Germany, all households with no sufficient income and limited property receive basic income support. This is measured by a basket of goods which covers basic necessities and the costs of accommodation. However, during the COVID-19 crisis, the number of persons in Germany receiving basic income support slightly decreased from 3.9 million in 2019 to 3.7 million in 2021 (Statista 2023). It would thus appear that short-time work allowances and governmental support for small firms (including self-employed persons) stabilized income for low-income households and prevented people from slipping down to the basic government support scheme during the crisis.

Nevertheless, the recession worsened income inequality and relative poverty. Germany had the largest increase in inequality in terms of the ratio of the income share of the top 20 per cent of the population to the income share of the bottom 20 per cent. Wealth inequality in terms of Gini coefficient also increased in 2021 compared to 2019 and 2020 in Germany (Allianz 2021). The percentage of population with a disposable income level below 60 per cent of the median disposable income declined in Germany in the second half of the 2010s, reaching 14.8 per cent in 2019. By the start of the pandemic, it climbed to 16.1 per cent in 2020 and slightly decreased to 15.8 per cent in 2021 (Destatis 2023).

3.2 Brazil

In Brazil, the severity of the COVID-19 crisis did not come out of the blue. Structural fragilities inherent to a peripheral country, combined with an economic recession that began in 2014 and the poor economic results of Bolsonaro's government, put Brazil in a precarious position at the onset of the pandemic. Due to a combination of external and internal factors, from 2014 to 2019 Brazilian real GDP fell by 2.6 per cent. During the pandemic, GDP fell by an additional 3.9 per cent in 2020, then increased by 4.6 per cent in 2021 (World Bank 2023).

It is ironic that while denying the need for social distancing⁶ to allegedly defend economic dynamism, the Brazilian President Jair Bolsonaro implemented insufficient and asymmetric measures to alleviate the economic crisis. The implementation of some counter-cyclical policies required recognition of 'public calamity', as Brazilian fiscal laws are very strict. Under this decree, a 'War Budget' was approved in May 2020, allowing the institution of a parallel and highly flexible budget in combatting the pandemic. In particular, a law imposing a 'ceiling' for public expenditures, which had been approved in 2016, lost its validity during the period of the decree. This decree was then renewed, remaining in force from mid-March 2020 to the end of June 2021.

The most important policy implemented by the national government to alleviate the social effects of the crisis was the Emergency Aid Program, aimed at transfers to informal workers (around 40 per cent of the Brazilian labour force), self-employed and unemployed persons, many of whom had incomes reduced to literally zero in this time. Initially planned for only three months and R\$ 600 (around US\$120 at that time) to be transferred monthly to each beneficiary, the program was renewed at a monthly amount of around US\$60 until the end of 2020. After a brief gap, it was then relaunched from April to October 2021 with an even lower amount of approximately US\$25 to US\$50. In 2020, almost one-third of the

^{6.} The Brazilian national government did not implement any measure related to social distancing. The subnational governments determined the closure of non-essential activities in many moments of the pandemic, but no restrictions were imposed on mobility.

Brazilian population benefited from the programme, engendering a temporary amelioration in the national income distribution. Nonetheless, these gains were completely reverted with the diminution of the individual cash transfers, along with the reduction of the benefiting population, which in October 2021 was around 22.6 million people (10.6 per cent of the population) (this and the following figures come from Brazilian National Treasury 2023).

Besides this, the government implemented various measures for companies, the most common being the Emergency Program for the Maintenance of Employment and Income. This allowed companies a temporary suspension of workers' contracts or a reduction of up to 70 per cent in their working hours and wages for a number of months. In this situation, the national government paid transfers to the affected workers, which in most cases did not offset the whole wage reduction, but at least alleviated the decline in incomes.⁷ The condition for the employers was that these jobs would be preserved for a period equivalent to the one in which they used the program. About 2.1 million employers enrolled in the program, and 12.4 million workers, corresponding to 35.3 per cent of the total population with formal contracts in the private sector in the first quarter of 2020.

Additional fiscal measures involved the expansion of spending in healthcare, temporary tax waivers for some goods and services which were essential to combat the pandemic, additional transfers from the national governments to the states and cities to offset falls in revenue and the expansion of credit lines by public banks for companies' working capital, payroll costs and investments.

The whole set of fiscal measures announced in relation to the pandemic corresponded to 12.4 per cent of the GDP in the year 2020 (see Table 1), but in the end, actual spending of the Federal Government to combat the pandemic amounted in 2020 to 7.0 per cent of GDP. Overall budget deficits increased from 5.8 per cent of GDP in 2019 to 13.3 per cent in 2020 and then were reduced to 4.4 per cent in 2021 and 5.8 per cent 2022 (World Bank 2022b). In spite of the lower level of spending in regard to the initial announcements, this fiscal deficit was high for a peripheral country. In 2020 the Emergency Aid Program received the largest share of pandemic-specific measures (55.9 per cent), while the Emergency Program for the Maintenance of Employment and Income received 6.4 per cent. Significant amounts were designated to complement the depressed budget of states and cities (14.9 per cent) and for credit lines (13.9 per cent). In 2021, there was a severe decline in these expenditures of the Federal Government to only 1.4 per cent of GDP (Brazilian National Treasury 2023). Even if the public health, economic and social situations were still very serious in 2021, the government's priority was reducing the public deficit.

It is worthwhile noting that interest payments play a significant role in the Brazilian budget. On an annual basis, the primary deficit – that is, the deficit which does not consider interest payments – was 0.85 per cent of GDP in March 2020 and skyrocketed during the following months, reaching 9.5 per cent of GDP at the end of the year.

As a result of the extraordinarily high public deficit, public debt in Brazil increased. Nevertheless, this additional indebtedness was far from dramatic. Gross public debt of general government in 2019 was 87.9 per cent of GDP (net 54.7 per cent) and increased to 88.2 per cent (net 58.4 per cent) in 2022 (IMF 2022b). Importantly, foreign public indebtedness in 2020 only increased by 1.4 per cent of GDP.

Monetary policy in 2020 was aimed at increasing liquidity in the financial system. Historically, in global crises, the increasing risk aversion typically has led to a hike in the Brazilian interest rates; however, the context of very low rates globally allowed for

^{7.} For estimations regarding the loss of income suffered by the workers who were included in this program, see Welle et al. (2020).

the reduction of the refinance rate of the Brazilian central bank from 4.5 per cent to 2 per cent in 2020 (a historically low level for Brazil); reserve requirements for banks were also reduced, as well as the interest rates of reserves kept with the central bank, in order to stimulate new lending. Nevertheless, the escalation of inflation rate from 3.2 per cent in 2020, to 8.3 per cent in 2021 and 9.4 per cent in 2022 (World Bank 2023) led to a complete reversal of this expansionist policy. In early 2022, the basic interest rate had already surpassed the level of 10 per cent per year and reached 13.75 per cent in early 2023. The rapid increase in the inflation rate was mainly caused by the dramatic depreciation of the Brazilian real in the first half of 2020 of around 50 per cent vis-à-vis the US dollar.⁸ Depreciation in combination with an open financial account made it impossible for the Banco Central do Brasil to continue with expansionary monetary policy. The 'War Budget' allowed the government to buy bonds from the private sector to support companies in distress in the secondary market, aiming at providing liquidity to capital markets. However, this version of 'quantitative easing' was, in practice, non-existent, and the central bank in Brazil did not increase liquidity in the market in any substantial way. This is reflected in the fact that the central bank's balance sheet has not increased as a share of GDP (Figure 1). It is clear that the crash of the Brazilian real also significantly impacted fiscal policies by reducing the fiscal policy space.

Overall, these measures helped to avoid a more dramatic scenario, particularly for the households that suddenly lost their incomes. Yet the social consequences of the crisis were nonetheless severe. From early to mid-2020, there was a loss of 12 million jobs in Brazil (of 12.9 per cent for men and 16.4 per cent for women). This means one in six women lost their jobs – or were forced to resign in order to take care of elderly relatives or children when schools were closed.⁹

As a result, the numbers of poor and extremely poor individuals substantially increased. In 2021, Brazil had 9.2 million additional people living with a daily income below the World Bank's poverty line (US\$ 5.50) compared to 2019; and 5.8 million additional people whose daily income was below the extreme poverty line (US\$ 1.90). This means that 28.7 per cent of the Brazilian population is considered as poor and 9.1 per cent as extremely poor (Nassif-Pires et al. 2021). According to estimations of PENSSAN Network (2022), 28.0 per cent of the population had a low level of food insecurity, 15.2 per cent had a moderate level and 15.5 per cent had a high level – an increase of more than 200 per cent compared to 2019 figures. This picture is even worse in rural areas.

3.3 India

By early 2022, India had suffered three major waves of COVID-19 infections. The government's response to the pandemic largely involved putting in place a series of lockdowns. The first lockdown in March 2020 was one of the most stringent in the world; yet, arguably, it failed to be effective either in controlling the spread of infection, or using the window during the lockdown to strengthen the public health services infrastructure to deal with the worsening pandemic (Mazumdar 2020; Ghosh 2020). In any case, we need to note right away that there is no simple unilinear relationship between

9. In Brazil, schools were closed for 178 days in 2020 (OECD 2023).

^{8.} Even if compared to other peripheral countries, the Brazilian exchange rate is extremely volatile. One of the main reasons is the volatility of capital flows, given the composition of the external liabilities – characterized by short-term and liquid assets, which tend to be abandoned by international investors in moments of increasing risk aversion.

the stringency of the lockdown and the number of infections/deaths across countries for a variety of reasons, including the degree of virulence of the virus itself.

The sudden implementation of a strict lockdown led to immediate and near complete collapse of economic activities, resulting in massive layoffs and the widespread elimination of informal arrangements by which overwhelming majority of Indian workers find their livelihoods (Jha/Kumar 2021). In 2020, real GDP in India contracted by 6.6 per cent; in 2021, the increase was 8.7 per cent (World Bank 2023). The impact of the collapse of GDP in 2020 on most of the standard macroeconomic variables such as income, employment, wages, consumption expenditures, etc. was catastrophic (Ghosh 2022).

Coming back to the COVID-19 pandemic, urban unemployment increased dramatically during the first lockdown, as over 25 per cent of young men and 33 per cent of young women were rendered openly unemployed. ActionAid Association's first round of the national survey of 11,537 informal workers conducted in May 2020 reported that 78 per cent of the respondents had lost their livelihoods due to the lockdown; 90 per cent in urban and 72 per cent in rural areas (ActionAid 2020). According to the second round of the survey (August–September 2020), 48 per cent of respondents remained without a livelihood while 42 per cent were working far lesser hours per week as compared to pre-lockdown levels. Hunger and deprivation were obvious consequences (ActionAid 2021). The unemployment rate reached a 16-month high in December 2022, at 8.3 per cent. Urban unemployment was even higher, reaching 10 per cent (Mint 2023). As female-dominated sectors such as education, health and care services were significantly affected by the lockdown, job losses for women were especially high (Ghosh 2021). In 2020, the Global Hunger Index ranked India 94th according to the level of hunger, and in 2022, India had slid further to the 107th rank (Indian Express 2021).

Overall, the government relied more on monetary policy than on fiscal measures. Monetary policy aimed to increase liquidity in the economy primarily through two channels. First, the Reserve Bank of India (RBI) reduced the repo rate from 5.15 per cent at the end of 2019 to 4.4 per cent in March 2020 and 4.0 per cent in May 2020, and reduced the cash reserve ratio of banks as well. In May 2022 it was increased to 4.4 per cent in 2019 to 6.6 per cent in 2020 and dropped then to 5.1 per cent in 2021 (World Bank 2023). Obviously, the RBI saw no room for further cuts in the interest rate. Further, targeted long-term repo operations (TLTRO) were undertaken for corporate bonds, commercial papers and papers sold by non-bank finance companies (NBFCs), with half reserved for small NBFCs and micro-finance institutions, as well as the establishment of a special support for mutual funds to incentivise investment. Second, credit guarantees were introduced through a partial credit guarantee scheme and an emergency credit line guarantee scheme. In 2021, a further push for credit provision was made (Chakraborty/ Harikrishnan 2022).

These supply-side and corporate-friendly policies were expected to have multiplier effects for growth, employment, wages and consumption, and make fiscal measures unnecessary beyond a few measures of social provisioning. However, the assumption fell flat. The general lack of demand prevented an increase in productive investments, and hence, in the demand for loans (Chandrasekhar 2020).

With regards to the external sector, the RBI purchased large volumes of foreign currency assets from the start of the pandemic, on account of significant capital inflows, adding to the buoyancy of the stock market despite worsening conditions in the real economy. Between March-end and August 2020, foreign currency assets rose by 13 per cent (RBI 2020a). Part of this large capital inflow can be explained by the spurt of speculative investments worldwide by liquidity injections in the US and other advanced economies. But this does not tell the whole story. The persistent sluggish growth in institutional investments in the Global North and the stock markets in other developing economies during this period, such as Malaysia and Thailand, as well as the Indian government's promises of corporate concessions, also accounts for these inflows (Chandrasekhar/Ghosh 2021). Further, the inflows increased the room for manoeuvre with regard to monetary policy.

With overall announced fiscal measures against the COVID-19 crisis comprising only 4.8 per cent of GDP 2020 (see Table 1) fiscal policy, by and large, remained seriously inadequate (Patnaik 2020). However, it is worth stressing here that the quantum of official claim is a contested one. Although the pandemic fiscal stimulus in government announcements was pegged at 20 trillion rupees (or 10 per cent of the GDP of 2020), there is near consensus that this figure was a gross overstatement, and actually amounted to less than or around 1 per cent of the GDP 2020 (Jha/Kumar 2020).

It has been argued that the decrease in demand owing to the pandemic, and the associated containment measures, were not met with a commensurate increase in government expenditure. In fact, part of the immediate contraction in GDP in 2020 is explained by a 10 per cent fall in absolute government expenditure on public services, defence and administration compared to the previous year. The lockdown period was marked by stagnating expenditures on public health, agriculture and maternal and child nutrition; and diminishing expenditure on education indicated that no measures were taken to make up for school closures around the country (Ghosh 2020).

Among a host of public schemes, government transfers of food (although public stocks were adequate) and the Mahatma Gandhi National Rural Employment Guarantee Act¹⁰ (MGNREGA) were grossly underprovided. Although temporary employment buffer, particularly in rural areas, could have been provided in public works through the MGNREGA, it also fell in the immediate aftermath of the lockdown in April by 83 per cent from their levels in 2019. Later expenditures in the MGNREGA increased again, however only to the level which existed before the pandemic (Ghosh 2020).

General government budget deficits increased in India from 7.5 per cent of GDP in 2019 to 12.8 per cent in 2020, before dropping to 10.0 per cent in 2021 and 9.9 per cent in 2022. Gross public debt increased from 75.1 per cent in 2019 to 89.2 per cent in 2020, and then dropped to 84.2 per cent and 83.4 per cent in the following two years (IMF 2022b). High budget deficits in India also resulted from neoliberal tax reforms before the pandemic. For example, tax concessions cut corporate taxes from 30 per cent to 22 per cent. In 2020, total government revenues fell by 30 per cent. Some of these losses were made up by increases in the levies on petrol and diesel from 2020 onward, and an increase in direct tax receipts from 2021 because of high income increases of top income earners. Government's resource mobilisation has relied also on the government's plan of selling public companies and assets to finance expenditures (Chandrasekhar 2021). But overall, fiscal space in India during the pandemic was restricted by neoliberal fiscal policy in the past.

The Indian experience of the pursuit of neoliberal policies during the pandemic has been quite aggressive, adversely affecting the poor. In fact, the response of the government was geared towards fostering and leveraging a reliance on large private (foreign or domestic) capital to stimulate economic growth. This is demonstrated starkly by the government's refusal to facilitate demand via government transfers and strengthened social security provisioning, whilst advertising many budgetary and extra-budgetary concessions

^{10.} A program that seeks to provide at least 100 days of wage employment in rural India by local communities paid at the level of the minimum wage.

to corporates (Patnaik 2020). Of course, given the open capital account, fiscal space in India is limited, but more fiscal stimulation, and especially directing fiscal policy towards stabilising the catastrophic situation of the poor, would have been possible.

4 CONCLUSION

Theoretical analysis, empirical development and case studies show that the room for manoeuvre of macroeconomic policies to stabilise the COVID-19 crisis in the years 2020 and 2021 were fundamentally different in the Global South and Global North. The latter used extensive discretionary fiscal and monetary policies, while the former used monetary policy only in a very limited way and fiscal policy to a much smaller extent than in the Global North. We can follow the World Bank (2022a: XXII): 'Yet fiscal policy was much less protective in poorer economies than in richer ones. Most high-income economies fully offset the pandemic's impacts on poverty through the use of fiscal policy, and uppermiddle-income economies offset one-half of the impact. However, low- and lower-middleincome economies offset only one quarter of the impact.' One of the main reasons for this is the lower position of currencies in the Global South in the currency hierarchy, in an environment of a global financial system with open capital accounts and integration of countries in the global economy. Of course, in addition to this, the specificities of each national economic and the political orientation of governments in general and towards COVID-19 played a role.

In Germany, fiscal interventions were extensive, in addition to the intervention by the ECB. The worst income effects of COVID-19 for poorer households could be compensated. In Brazil, after some hesitation, the government implemented some important counter-cyclical policies. Fiscal policy was much more important than monetary policy. A problem, however, was the very quick return to restrictive macroeconomic policy at the end of 2020, due to not only the collapse of the Brazilian real, but also the decision of the government – which had a radical neoliberal as the Minister of Economy – to not use tax policy to increase the fiscal space or even place controls over capital flows. In India, there were very few discretionary fiscal policies to fight the effects of the pandemic. Monetary policy became more expansionary but failed in the attempt to pump liquidity into the economy, while the purchase of government bonds was not comparable with the ECB. A very severe lockdown was combined with very limited support for the poor. Limited help was concentrated on the corporate sector. A key problem faced by India is the lack of government revenues even before the COVID-19 crisis, as the result of neoliberal policies in the area of taxation and other areas.

The global pandemic had diverse effects across the world. In particular, the socioeconomic effects for the poor in the Global South was disastrous, as shown by the case studies of Brazil and India. This should be considered against the backdrop of energy and food crises, starting in 2022, having further exacerbated global problems. As a result, the pandemic has added to the trend of increasing inequalities in income and wealth distribution, both within countries and between countries. This is related not only to the initial impacts of the crisis and the policy response to it, but also to the longer-term policies to overcome the crisis (ECLAC 2020).

One further shortcoming of the policies directed towards the pandemic, shown in all three case studies, was the complete lack of taxing higher-income or wealth groups more, for example, with a special property or solidarity tax. In addition, while many programs benefited all groups in society, they were not targeted towards the poor. Finally, there were no tendencies to reform the neoliberal global regime, for example, by allowing or 70 European Journal of Economics and Economic Policies: Intervention, Vol. 22 No. 1

supporting international capital controls or implementing global taxes for multinational companies.

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