
The Coronavirus crisis and its impact on the fragile economic situation of Brazilian companies – short to medium term repercussions

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Year 2020 commenced for Brazil with a positive perspective of continuity to structural reform approval and significant economic growth, despite the discussions with respect to the EUA vs. China trade war and the reasons behind the increased strength of the US dollar relative to the Brazilian real.

The vigor of the Country to continue with the reforms were already being brought into question by the disagreement between its Executive, Legislative and Judiciary branches at the time when the planet was being attacked by a virus that was first minimized by its place of origin and comparisons to SARS (H1N1) and MERS, afterwards maximized to the point that today there are countries in total isolation and with their populations under mandatory quarantine for an indeterminate time period. Until the end of February, companies of various sectors in Brazil sought to find equilibrium in an economy that insisted in not arriving at an ideal point. All of Brazil stopped for Carnival and on the first day the Market reopened, February 26th, a drop was initiated that has not ceased until today.

Each week from then until the present there has been a new shock, with the most impacting being the Russia-Saudi Arabia petroleum production and price-related war in consequence of the pandemic.

From the week of March 9th onwards, daily questioning commenced as to how and when Brazil would react. To the surprise of

some, and not others, the Federal Government was not emphatic or expeditious in its initial response and continued minimizing the crisis and the pandemic, culminating in the Brazilian president appearing in public with entourage, a large party of his team in his visit to the USA testing positive for coronavirus.

Due to their having more confirmed cases and the onset of confirmation of deaths, with the approval of the Federal Public Calamity Decree on Friday, March 20th, making it possible that the states declare the actions they would be taking to combat the situation, the protagonist governors of São Paulo and Rio de Janeiro stiffened the social distancing of their states, determining quarantine with the ceasing of operations of companies, industrial to those considered non-essential service renderers.

Within this scenario, a great majority of Brazilian companies, which are micro and small or medium-sized at their largest, where beginning to financially recuperate following the economic crisis in Brazil of the past few years.

The Alvarez and Marsal Consulting firm opined in Valor Econômico^[1] that a new wave of Judicial and Extrajudicial Recuperations would sweep the Brazilian market, principally with respect to clothing and footwear retail and even durable goods and their production chain.

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With the interruption of the economy initiating in China in January and then spreading throughout the World, Brazilian commodities such as iron, steel and agricultural commodities also suffered a significant drop, and with the halting of the Brazilian economy between March and April there are many companies simply ceasing to exist or going bankrupt.

Moody's^[2] published an opinion in Reuters on March 23rd to the effect that the plans for economic order announced by the Federal Government up to the previous day, March 22nd, would not have any impact in reverting the drastic economic situation in which the Country finds itself.

The president of XP Investimentos, Guilherme Benchimol, participated in a video conference^[3] on March 22nd in which he expressed the point of view that the World, especially Brazil, shall need an economic reconstruction plan in the mold of the Marshall Plan initiative that was implemented following the Second World War in order to rebuild following the pandemic.

On March 23rd, KPMG sponsored an over-an-hour-long Webcast "The Impacts of the Coronavirus on Business," with more than 500 online participants, discussing the resilience of companies to survive the pandemic.

The unanimous opinion of economists and analysts, even the president of the Organization for Economic Co-operation and Development (OECD)^[4] in a letter addressed to the Brazilian Minister of the Economy, is that the economic crisis resulting from the coronavirus pandemic does not have precedent, shall be greater than that of 2008, and that notion of the global economic impact will come only in the following months, with the unravelling of global economic decisions.

Further, in a March 23rd TV Cultura Roda Viva program interview Brazilian Central Bank ex-president Arminio Fraga Neto affirmed that the Country needs to take extraordinary measures in an extraordinary crisis^[5].

With all of these elements and evolution nearly every hour, analysis should be made of which should be proposed in the juridical ambit to protect the companies the engine of the economy in any country.

In Brazil, merely anticipating a new wave of judicial and extrajudicial recuperation and bankruptcy requests will not respond to the challenges that companies will face when they return to operations "the day after" quarantine and the pandemic.

The deterioration of the state of the World economy, and that of the Brazilian economy, is a fact and the planning does not have a response for situations without precedent. Indeed, for this reason the challenge is proposing new solutions for events that have not taken place beforehand.

One measure to be contemplated is that the Brazilian State provides the example of interrupting the levy of taxes for 90 to 180 days on the condition that the beneficiary taxpayer maintains its workforce without unjustified dismissals.

Another reasonable measure is that employment agreements be interrupted for a time period of up to 4 months, the Brazilian State being responsible for the payment of a just amount to the suspended employees.

Another possible proposal within the juridical ambit is making rules pliable allowing for the immediate decree of bankruptcy or irregular ceasing of company operations, perhaps for a determinate time period, so that an attempt at recuperation can be made, despite the

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challenging economic conditions or plan of business.

Yet another possible proposal within the juridical ambit is the revision of the conditions to the deferment of judicial recuperations so that companies will have a dilated time period in which to negotiate with creditors and others.

This being said, these and other suggestions and proposals will need to be analyzed and approved within a legislative framework, by Congress, which at the moment is exclusively occupied with immediate economic measures.

The challenge is Herculean, but must be faced, and we all as Brazilians should think toward and propose measures that can possibly aggregate the recuperation of the nation in its entirety.

The firm Almeida Advogados counts among its specialized teams those handling Corporate Law, company reorganization, business operations, stressed negotiations and Judicial Recuperation, and is available to answer any questions with regard to the content of this article.

[1]:<https://valor.globo.com/financas/noticia/2020/03/18/alvarez-and-marsal-preve-nova-onda-de-recuperacao-judicial.ghtml>, accessed on March 23, 2020.

[2]:<https://exame.abril.com.br/brasil/medidas-do-brasil-terao-custo-fiscal-e-impacto-limitado-diz-moodys/>, accessed on March 23, 2020.

[3]:<https://www.infomoney.com.br/negocios/xp-ve-desemprego-atingir-40-milhoes-no-brasil-sem-plano-marshall-de-verdade/>, accessed on March 23, 2020.

[4]:<https://economia.uol.com.br/noticias/redacao/2020/03/24/ocde-coronavirus-ameaca-sem-precedentes-economia.htm>, accessed on March 23, 2020.

[5]:<https://www.youtube.com/watch?v=tJwvKW6McS4>, accessed on March 23, 2020.

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