Brazil-U.S. Business Council
Brazil Bulletin

Interview: Guilherme Afif Domingos, Minister for Small Business Affairs

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Minister for Small Business Affairs Guilherme Afif Domingos faces an uphill battle, and he knows it. The minister, a São Paulo business and political figure, is struggling to reduce bureaucracy and costs for small and mid-cap companies, especially when it comes to the important issue of opening export markets. At a recent meeting with business leaders and reporters, Domingos discussed some of his proposals for making life easier in the small business world. Excerpts follow:

- **On small businesses and exports**: "Unfortunately, globalization today is still a matter for large companies only. The import-export bureaucracy is structured for the needs of large corporations able to deal with the demands and barriers imposed by international trade. What we need is a mechanism to simplify logistics for small and mid-cap players so they too can participate in world trade."

- **On the latest government proposal**: "The government is studying an idea called 'Simples Internacional' (similar to the existing 'Simples' tax regime that reduces rates and streamlines tax paperwork for small companies). In Brazil today, you can't make a shipment equal to one container or less. We need to create a system of logistics that will allow small companies to ship and deliver their goods worldwide."

- **On hoped-for effects of the new regime:** "If customs procedures were simplified, I believe we'd see a flood of exports from small and mid-sized companies."

- **On proposals to raise the ceiling for billing under the 'Simples' tax regime:** "As for the existing 'Simples' tax regime, we have proposed legislation that will streamline matters even more for small and mid-size companies. In Congress, there is a consensus on this. Virtually all the political parties understand the need to support small and mid-cap enterprises. (Among other things, the proposal would lift the billing ceiling making companies eligible to use the mechanism.)"

- **On the need to raise the 'Simples' billing ceiling:** "There are a great many companies today obliged to give up the advantages conferred by 'Simples' because their billing has gradually risen over the years to the point where they are no longer eligible. We would also like to expand the scope of the program. We would like all sectors of the economy to be able to take advantage of 'Simples.' Currently, it's open to retailers, manufactuers and some service providers."

Top News of the Week

Latest Ibope poll shows Rousseff slipping but opposition fails to take up slack. Support for President Dilma Rousseff and her Workers' Party (PT) is slipping but, so far, opposition presidential candidates have failed to pick up the slack, according to a poll last week by the Public Opinion Research

Institute (Ibope). The poll showed 37% of voters supporting the president's re-election bid, down from 40% in a similar poll in March. Rousseff reached her peak of support in December, at 43%. Brazilians vote in October. Approval for the PT's overall administration of the country has also eroded, from 43% in December to 36% in March and only 34% in the latest poll. But opposition candidates seem to be stuck in the doldrums. Social Democrat Aécio Neves polled only 14% in last week's poll, up just one point from March. Socialist Eduardo Campos remained unchanged at a mere 6%. Political scientists said Brazilians are becoming disenchanted with Rousseff because of seemingly intractable economic problems, such as 6% inflation and rising interest rates. Brazil's base interest rate is a towering 11%. The public is also angry over poor government services, corruption and waste. Much of that dissatisfaction is being focused on the soccer World Cup, due to begin in 12 Brazilian cities in June. Many Brazilians feel spending on stadiums and other infrastructure for the World Cup will contribute nothing to the country's long-term welfare. On the other hand, opposition candidates have failed to bring forward a clear platform for change, meaning much will depend on the upcoming campaign and hoped-for television debates featuring the major candidates.

Rousseff Administration presents 2015 budget guidelines to Congress. President Dilma Rousseff last week presented her administration's guidelines for the 2015 federal budget to Congress. The government will present a detailed budget proposal in August. In its guidelines, the government calls for a 2015 primary budget surplus equal to at least 2.0% of GDP, up slightly from the 2014 commitment to a 1.9% surplus. The surplus can expand to as high as 2.5% of GDP, depending on economic growth. The budget is based on a number of macro-economic assumptions, some of which were immediately criticized by economists as too optimistic. The guidelines assume 2015 economic growth of 3.0% and inflation of 5.0%. However, Finance Minister Guido Mantega defended the guidelines as realistic, saying a global economic recovery will favor Brazil next year. He also noted that tax revenues will likely rise in 2015 as recession-era tax breaks expire and federal subsidies to the Brazilian Development Bank (BNDES) are phased out. Among other points covered by the guidelines, the government estimates the average foreign exchange rate in 2015 at R$2.40 and a 7.7% increase in the minimum wage to R$780 per month. In 2015, the current formula for setting the annual minimum wage will expire. The formula is based on previous-year inflation plus GDP growth from two years past. Mantega said it was unlikely the formula will be renewed next year ahead of the 2016 minimum wage. Economists have argued that the formula tends to promote inflation while causing real increases in labor costs and government spending. Most government benefit payments are tied to the minimum wage.

Congress gives final approval to bill regulating taxes for Brazilian multinationals. Brazil's Congress last week gave its final approval to a government bill regulating taxation on overseas profits posted by Brazilian multinational companies. President Dilma Rousseff is expected to sign the bill but will use her line-item veto power to eliminate several amendments. The main lines of the legislation, however, are in accordance with the government's original intent. The bill brings taxation procedures more into line with international norms, according to the Finance Ministry. They also offer companies the opportunity to unify profits and losses from all overseas operations into a single tax filing. Companies will have a period of eight years to make initial tax payments under the new system. The government had sought a five-year period but agreed to amendments extending the term. The government also agreed to re-open a special program for payment of back taxes without penalties.

Business News

Investment News:

U.S. restaurant chain **Johnny Rockets** is looking for Brazilian partners, the company said last week. The restaurants feature a 1950s theme, including juke box music from the period. The company has opened two restaurants in Brazil so far and is hoping to hit nine by the end of the year, adding 12 more in 2015. The company employs a franchise system in which it retains a majority stake.

The government-run Brazilian Development Bank (BNDES) last week approved a R$6.2 billion loan to mining giant **Vale**. Some of the money will be used to open new mines at Vale's sprawling Carajas site in the eastern Amazon. The rest of the funds will go to expansion of Vale's railway system in the region. Carajas holds the world's largest iron ore deposits.

Company News:

The president of the Brazilian subsidiary of the **Carlyle Group**, Fernando Borges, was chosen last week as presiding officer of the Brazilian Private Equity and Venture Capital Association. He will serve a two-year term. In taking the gavel, Borges said, "Brazilian investment scenarios are increasingly promising." He predicted a return to growth, investment and consumer confidence. Carlyle is a major global private equity fund.

Brazilian Calendar

Monday, April 21, National holiday in honor of independence hero Tiradentes

Wednesday, April 23, International Conference on Internet Governance, São Paulo

Friday, April 25, Central Bank release of monthly current account data, Brasília

Indicators

Foreign exchange rate: **R$2.24 = $1.00**

Retail sales rose for the second month in a row in February, this time by a modest but sustainable 0.2% against January, the Brazilian Census Bureau (IBGE) said last week. Sales were up by a robust 8.5% against February of 2013. Both figures are seasonally adjusted. Sales in February were led by big ticket items such as building materials and office equipment. Supermarket sales lagged. Economists said retail sales are being sustained by Brazil's full-employment economy.

Brazil's **unemployment rate** sank to just 5.0% in March from 5.1% the previous month and 5.7% in March of 2013, the Brazilian Census Bureau (IBGE) said last week. Brazil has been able to maintain historically low unemployment rates, in great part, because of robust retail sales (see item above). But unemployment has also remained low as both skilled and unskilled workers leave the workforce. In highly skilled areas, in addition, employers have kept workers on the payroll ahead of an expected rebound for the economy. Average wages for registered workers, meanwhile, have remained stagnant. The average wage in March was R$1,967 per month, down marginally from R$2,033 in February and R$2,026 in March of 2013.