

# The Week in Review

## On the Economic Front

### Employment Protection Program

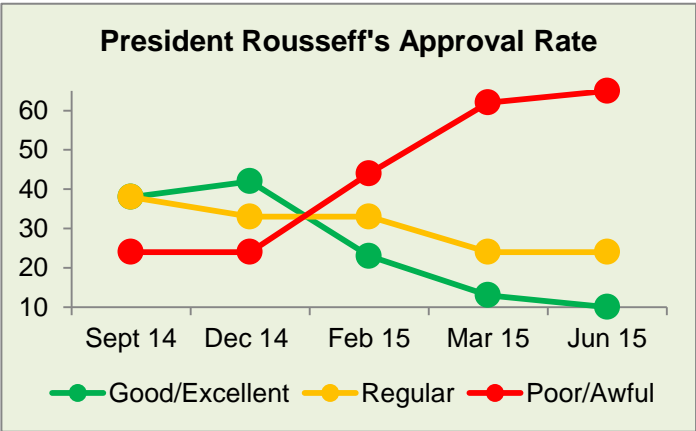
On June 7th, the executive branch introduced Provisional Measure 680 (*Medida Provisória – MP*) which creates the Employment Protection Program (PPE). The measure is expected to bring down the number of working hours by at least 30%, with a proportional reduction in wages in critical times for the maximum of one year. The government's proposal would complement half of what workers would miss of their incomes with funds from the Workers' Support Fund, totaling a loss of 15% of their salary. The government's idea is for companies, especially in critical sectors such as industry, to avoid layoffs, saving the government from paying more benefits and losing revenue from taxes and social contributions. The program will run until the end of 2016. Companies have until December of this year to join.

An inter-ministerial committee will be created to determine which sectors would be included. Businesses and workers must come to a collective agreement to join the PPE. The company must also prove its economic and financial challenges. According to Minister of Labor and Employment Manoel Dias, "This is an emergency and temporary measure. The EPP encourages the continuation of formal employment, allows businesses to have time to recover, and preserves the investment made in employee qualification."

## On the Political Front

### Datafolha Poll

On June 21, DataFolha released its latest presidential approval rating survey showing that 68% of respondents now consider President Rousseff's administration as 'poor or awful,' up from 62% on the last released poll, while only 9% classify her administration as 'good or excellent.' This is the worst approval rating for a Brazilian president since September 1992 when Fernando Collor de Mello had a 68% disapproval rating shortly before being impeached. The poll also shows Rousseff's popularity has fallen in all income groups, including her working class base.



### Minimum Wage Adjustment Policy

On Wednesday, the full Senate approved Provisional Measure (*Medida Provisória – MP*) 672 extending the minimum wage adjustment policy until 2019, which included an amendment that uses the same adjustment rate for Social Security retirees. Now the bill will be sent to the president, who will likely veto the amendment.



## Fiscal Adjustment

On June 19, President Rousseff signed into law a Provisional Measure (*Medida Provisória* – MP) as part of the ongoing fiscal adjustment:

- » **MP 668** ([Law 13.137, from June 19 2015](#)) increases taxes on imports, thereby increasing the PIS/Pasep rates and Cofins taxes on imports. Currently the PIS average rate on imports is 1.65%, and the average COFINS rate is 7.6%. The increase would bring rates to 2.1% and 9.65%, respectively. Some products have different rates, such as cosmetics, fragrances, and hygiene items. For these, product rates would increase from 2.2% (PIS) and 10.3% (Cofins) to 3.52% and 16.48%, respectively.

## BRICS Bank

On July 3rd, the Brazilian government celebrated the launch of the BRICS new Development Bank (NBD), which took effect through an agreement signed on July 15, 2014 during the VI BRICS Summit in Brazil. According to the Ministry's statement, the bank is a concrete contribution of the BRICS group to the challenges related to international development, especially with regards to greater integration between emerging and developing economies. The bank's first president will be Brazil's current Finance Minister, Joaquim Levy.

The BRICS meeting, the seventh in the series, was held July 8-9 in Ufa, Russia. The event marked the beginning of the bank's operations, which opens with an initial capital contribution of US\$ 100 billion, US\$ 41 billion from China, US\$18 billion from Brazil, India and Russia each, and US\$5 billion from South Africa. Brazil's official committee, along with President Rousseff, included:

- » Mauro Luiz Lecker Vieira, Minister of External Relations;
- » Kátia Abreu, Minister of Agriculture, Livestock and Food Supply;
- » Jaques Wagner, Minister of Defense;
- » Aldo Rebelo, Minister of Science and Technology;
- » Alexandre Tombini, president of Brazil's Central Bank;
- » Antonio Guerreiro, Brazil's Ambassador in Moscow.

## Task Forces

### Tax & Investment

**Brazil–U.S. Bilateral Agreement on Tax Information:** On June 25th, [Message 36/15](#) was approved by Congress. The message ratifies the bilateral agreement between Brazil and the United States to improve international tax compliance and to conform to the Foreign Account Tax Compliance Act (FATCA). The agreement states that information on U.S. taxpayers in Brazil will be forwarded by financial institutions to the Department of Federal Revenue of Brazil (RFB) and then passed on to the U.S. Internal Revenue Service (IRS), with reciprocal treatment by the United States. This exchange of information will be made respecting both countries' confidentiality of information. The agreement was signed in Brasília on September 2014 by former Finance Minister Guido Mantega and United States' Ambassador to Brazil Liliana Ayalde and must now be sent to the president to be promulgated.

**National Export Plan:** On June 24, President Dilma Rousseff, along with Minister of Development, Industry, and Trade Armando Monteiro launched the National Export Plan with the goal of diversifying the Brazilian export agenda and conquering new markets. The plan brought few concrete measures and is composed mainly of generic actions in the areas of promotion and trade facilitation, market access, financing, and improvement of tax regimes.

### Oil & Gas

**Senator's Debate Subsalt Oil Development Law Options:** Bill 131/2015, authored by Senator José Serra, which would create alternatives to the Single Operator System that requires state-run oil firm Petrobras to take a minimum 30% stake in new development contracts and function as operator in Brazil's subsalt oil areas, was removed from the Senate agenda on Wednesday night. Because there is no consensus to vote on the bill, the senators decided to postpone the voting and create a special committee to further analyze the bill. The



committee has 45 days to conclude a report. Despite the open support of Senate president, Renan Calheiros (PMDB-AL), the proposal was suffering resistance of several senators who wanted to further discuss the issue. President Dilma Rousseff opposes the change, according to allies.

**WTO | Local Content:** Japan turned to the World Trade Organization to contest Brazilian local content policies, which according to them is illegal in three aspects: existence of a heavier tax scheme for imported goods, tax incentives for those who produce in Brazil, and subsidies for companies that export. Japan attacked mainly the *Inovar Auto* program, in which the IPI rate is reduced for cars that meet a certain percentage of local content. The process started by the Japanese is similar to one presented by the European Union in December 2013, which is still in process.

# The Pulse

## International Turmoil Adds to Domestic Political Tensions

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The recent turmoil surrounding China's equity markets, including a rout by investors and unprecedented government interference, is only the latest event to spook emerging market investors, and particularly those focused on Brazil, where the investor mood remains highly cautious. The international arena is also compounding political problems mounting in Congress and the courts, which are evaluating charges of corruption and alleged misdemeanours against the administration of President Dilma Rousseff.

The real concern for most Brazilians, however, is the declining economy. The annual inflation rate has reached 8.89%, the highest in 12 years, while real wages are falling and the unemployment rate has risen much faster than anticipated, from 4.5% in late 2014 to 8.1% in June. Public debt indicators continue to deteriorate, and economic growth is now expected to fall by 1.5% in 2015. No one is predicting a turnaround until 2016 at the earliest.

China's problems present a particular problem because they threaten Brazil's exports, which, largely because of the currency depreciation, have been the one hope for boosting economic output and public revenue. China's trend could add to deteriorating investor attitudes even as Brazil makes a push, including President Rousseff's recent visit to the United States, to attract much-needed foreign investment.

President Rousseff's historically low public approval rating (9%) may decline further in the coming months if her economic policies do not begin to bear fruit. Her political support has eroded nationwide, including within her own political party, and talk of a still unlikely impeachment is growing. Her political clout, or lack thereof, may be a critical factor in determining whether the opposition can muster the needed support. The failure of the PSDB, her main opposition party, to offer any substantive policy alternative at its recent national convention is one factor playing in the president's favor.

Nonetheless, as the economy continues to deteriorate, increasingly frustrated Brazilians may resort to protests again. August has been a historically difficult political month in Brazil, including the suicide of President Vargas (1954) and resignation of President Quadros (1961), so it is no surprise that demonstrations are already being scheduled for next month. Their turnout and intensity may be a strong indicator of the public mood, particularly the willingness to push for quick political change.

