

The Week in Review

On the Economic Front

Moody's Credit Rating Downgrade

This week, the agency downgraded Brazil's credit rating from Baa2 to Baa3 but changed its outlook to stable from negative. The fear was that the agency would change the outlook to negative, which would indicate increased risk that could trigger another downgrade. With the new assessment, the country is still a step ahead of speculative investment level. Moody's rating category now matches Standard & Poor's (BBB-), with a negative bias. The market reacted positively to the change.

Working Group for Business Environment Improvement

The Ministry of Finance created a working group with the purpose of studying, consolidating, and proposing measures aimed at improving the standards for the business environment in Brazil. The group, which will be led by Finance Minister Joaquim Levy, will have 45 days to complete its work, counting from the date of its first meeting.

The group's creation is part of a number of government initiatives aimed at establishing a positive legislative agenda intended to improve the country's current economic crisis. The Senate announced its own "positive" agenda this week, the only one announced so far (more below).

Brazil Agenda

After a meeting on Monday, Senate President Renan Calheiros suggested an ambitious agenda, initially with 28 items, to fight the current crisis that is consuming Brazil. The proposal, dubbed "Brazil Agenda" (*Pauta do Brasil*), was discussed at a Monday dinner with Rousseff and focused on three main issues: improving the business environment, fiscal discipline, and social protection. Well-received by Rousseff and her Finance Minister Joaquim Levy, the Senate leader's stance might contribute to cooling the political scene and preventing an aggravation of the situation in the country.

House President Eduardo Cunha, who recently split with the administration and joined the opposition after being targeted on investigations linked to the Petrobras scandal, reacted negatively to the release of the agenda. Cunha felt that the move was done to isolate the House of Representatives in an attempt to counteract what has been labeled the "pauta bomba," or bomb agenda, which he recently put forward.

On Wednesday, the agenda was expanded to include a total of 43 proposals, including some controversial measures for the current administration, such as the end of the Mercosur customs union to enable the country to enter into bilateral agreements without the block's backing, while others, such as the differential charging of SUS procedures by income, were removed. The expanded list also included items dealing with a reduction in the number of ministries and commissioned positions. The expansion was a result of a meeting between Calheiros and 35 senators, Finance Minister Joaquim Levy, and Planning Minister Nelson Barbosa.



On the Political Front

Reappointment of Prosecutor General

On Tuesday, the Executive Branch reappointed Rodrigo Janot for another term as head of the federal prosecutor's office. Janot will have to go through a confirmation hearing in the Senate before he can start his new term. He received the most votes out of a list that included three names approved for the job released by the National Association of Prosecutors.

Task Forces

Defense & Security

Cybercrimes: On Tuesday, the House of Representatives installed a Parliamentary Investigation Commission (CPI) to examine cybercrimes and their effects on the Brazilian economy and society. Representative Mariana Carvalho (PSDB/RO) was elected president and Representative Esperidião Amin (PP/SC) was named rapporteur. On Thursday, August 13, the CPI met and approved its work schedule. Lawmakers highlighted the following issues to be addressed by the CPI:

- » Internet of things;
- » Crimes against property;
- » Financial crimes;
- » Cyberbullying;
- » Attacks on data privacy;
- » Crimes committed over the internet, such as: honor attacks, defamation, incitement to pedophilia, and homophobia.

Trade

LETEC - Camex Starts New Review Process for List of Exceptions: The Chamber of Commerce opened a public comment period to review the Exception List of the Common External Tariff (LETEC), i.e., inclusion, maintaining, and deleting products from the list. The comment period will last until September 4. The MERCOSUR Common Market Council (CMC) extended the authorization for member states to keep their respective products in the Common External Tariff Lists. According to Decision No 26/15, Brazil is entitled to a total of 100 products on the list by 2021. These products may include lower levels of rates or higher than the common external tariff (import tax), subject to a ceiling tariff established by the World Trade Organization (WTO). Requests should be made by filling out forms and attaching a cover letter, available here. The cover letter should be signed by the legal representative of the company or entity, accompanied by a power of attorney to represent the plaintiff.

Tax & Investment

Investment Plan in Electric Power: On Tuesday, the Executive Branch held an event at the Presidential Palace to introduce the Investment Plan in Electric Power (PEEI). The plan foresees BRL \$186 billion in investments being made between August 2015 and December 2018 for generation projects and power transmission. Most of the projects announced were already mentioned in the existing Ten Year Plan for Energy Expansion 2014-23 (PDE 2023). The PDE is a document drawn up annually by the Ministry of Mines and Energy and brings investment forecasts in the industry for the next 10 years. This new project involved less participation by the Brazilian Development Bank (BNDES), which may bring energy prices up.

President Dilma Rousseff said that the forecast is that the red flag rate, charged when the hydrological scenario is unfavorable, will likely reduce by 15%, representing a decrease of less than 2% on energy bills. The possible reduction in the value of the flags will be discussed at a meeting of the Board of the National Electric Energy Agency (ANEEL).



Fast-track for Environmental Licensing: Part of the "Agenda Brazil" announced by Senate President Renan Calheiros (PMDB/AL), the measure aims to reduce delays in completion of construction projects. The expectation is that a fast-track will be implemented through a Proposed Amendment to the Constitution (PEC), which delegates responsibility for the environmental licensing of structural works to the federal government/IBAMA (Brazilian Institute of Environment and Renewable Natural Resources). These projects will be defined in a presidential decree and must include, in addition to PEEI, Growth Acceleration Program (PAC) and Logistics Investment Program (LIP) projects.

The Pulse

President Rousseff Less Politically Isolated, but Not in Full Control

President Rousseff has had her best political week in a year, a respite provided mostly by Senate President Renan Calheiros' decision to introduce a "Brazil Agenda" to support the economic recovery. The "Brazil Agenda" comprises dozens of bills, most of which had already been introduced in Congress some time ago. Although there is not sufficient support among the majority in Congress to get most of the bills passed, the alliance it forged between Rousseff and Calheiros has broken the president's logjam within Congress and instead effectively isolated her nemesis, Speaker of the House Eduardo Cunha. More importantly for Rousseff, one immediate result is the postponement of the TCU's decision on the management of her public accounts (funds), which was due this month and could trigger the impeachment process.

Some of Senator Calheiros' allies have requested clarifications on Executive Branch accounts, but this action would actually delay the whole process until at least October. Calheiros, in turn, hopes for a quid pro quo in the form of relief from ongoing investigations into his role in the Petrobras scandal. Unlike Cunha, Calheiros has not been formally named in the investigation process, and government support could buy him valuable time.

Other news that might be considered favorable for President Rousseff is the decision by Moody's to downgrade Brazil's sovereign debt but maintain it at the lowest investment grade level. The stable outlook might even suggest that unless something unexpected happens, Brazil is likely to keep its investment grade rating at least until December. A second event of note was the pro-Rousseff demonstration in Brasilia by female rural workers, although not a big surprise given their traditional support for Rousseff and the Workers' Party (PT).

Despite these signals of relief for Rousseff, her political power is still being undermined in some ways. This may be seen in the growing political strength of Finance Minister Joaquim Levy (who has also resurfaced politically this year thanks to the Brazil Agenda) and Vice President Michel Temer, both of whom are acting effectively as prime ministers. She has also had to share more power with Senator Calheiros, as well as former President Lula, who spent the week in Brasilia working almost as a co-president by holding important meetings without her presence.

Still, her immediate future depends, now more than ever, on the size, breadth, and intensity of the demonstrations against the government scheduled for this Sunday. If Sunday's demonstrations are not as large and widespread as those of March 13, this relatively good period for Rousseff may be extended. However, the solution to the crisis that engulfs her second term is far from over and will demand considerable work, political acumen, and luck to manage.

