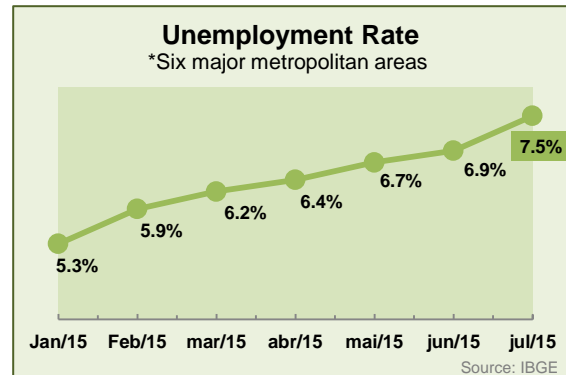


# The Week in Review

## On the Economic Front

### Unemployment Rate

On Thursday, the Brazilian Institute of Geography and Statistics (IBGE) said Brazil's unemployment rate in six major metropolitan areas hit 7.5% in July, 2.6 basis points higher than a year ago and 0.5 points higher than the market had forecast. It is the seventh month straight that the rate has been raising. In July 2014, unemployment was hovering at just 4.9%, its lowest level ever for the month at the time. The year-over-year rise in joblessness to last month's 7.5% was the fastest in the IBGE's 13-year statistical series.



### Federal Tax Revenue Decrease

The Brazilian Federal Revenue Office (RFB) released on Tuesday the total amount of federal revenues raised in the month of July, 2015. The number totaled BRL\$104.868 billion, a 3.13% decrease compared to the same month of 2014. For the January-July, 2015 period, the RFB raised BRL\$ 712.076 billion, which represented a 2.91% decline compared to the same period last year.

According to Claudemir Malaquias, head of the Center of Tax and Customs Studies, who presented the results, these figures reflect the economic downturn:

- » Fall in the corporate income tax (IRPJ) collection and Social Contribution on Net Income (CSLL) for the year, taxes considered barometers of economic activity, continue to influence revenues.
- » The drop in water consumption due to the water crisis, the migration of economic agents to other tax regimes, particularly the *Simples*, and tax cuts also contributed to the result.

On the other hand, positive agents also contributed to the total raised amount: BRL\$ 10 billion in extraordinary revenues accumulated in the year resultant of the transfer of assets between companies; remittances to foreign residents due to asset sales and retrieval of debts through fiscal actions.

### Fiscal Adjustment

The fiscal adjustment measures are not having the effect expected by the Brazilian Federal Revenue Service (RFB). However, Malaquias did not deny or confirm that the agency is planning new measures to "complement" the revenues.

The Tax on Financial Operations (IOF) and the *Cide-Combustíveis*, taxes that had their rates raised this year and that were part of the government's fiscal adjustment package, contributed positively to the year's accumulated raised revenues result. The revenues raised through the IOF tax totaled BRL\$ 20.3 billion and BRL\$ 990 million for *Cide-Combustíveis*.



## Increase in State Taxes to Increase Revenue

Brazilian states have been going through a tough economic period, and just like the Federal Government, they closed their numbers last year in a precarious fiscal situation, which was aggravated by the economic crisis and led to declines in revenues. At the beginning of the term (first half), the governors made specific interventions, such as increasing the interstate tax rates (ICMS) of products from the so called 'compulsory basket of consumption and storage,' which means mainly energy, telecommunications, cars, etc. With the persistence of the crisis and the commitment of personnel expenses surpassing the goals of the fiscal responsibility law (LRF), the governors have begun planning ICMS rate increases for industrial mass production of consumer goods, such as cosmetics.

## On the Political Front

### Cunha and Collor Indictments

Yesterday Attorney General Rodrigo Janot introduced to the Supreme Court (STF) indictments against the President of the House of Representatives Eduardo Cunha (PMDB-RJ) and Senator Fernando Collor de Mello (PTB-AL) for alleged involvement in the 'Car Wash Operation', the Petrobras corruption scheme currently being investigated by the Federal Police. Both have been charged with corruption and money laundering. According to the complaint, they received kickbacks from contracts signed between Petrobras and state-owned suppliers. This is the first indictment against parliamentarians being investigated in the operation.

The Attorney General asked that the current house president pay US\$ 80 million for damage caused to Petrobras and that he go to jail for 184 years. The indictment made against Senator Collor has not been disclosed, since the information is the result of reports made during plea bargains that are still being held out. Now it is up to the Supreme Court to decide whether there is enough evidence to support the criminal charges opened against Cunha and Collor. There is still no date set for the trial.

## Task Forces

### Defense & Security

**Data Protection:** On September 15 and 16, the Brazilian Internet Steering Committee (CGI.br) and the Brazilian Network Information Center (NIC.br) will hold the 6th edition of the "Privacy and Personal Data Protection Seminar." The event will be organized with the support of the Public Prosecutor's Offices of São Paulo and Rio de Janeiro (MPF/SP and MPF/RJ), the Getúlio Vargas Foundation (FGV), the São Paulo Bar Association (OAB/SP), the São Paulo Lawyers Institute (IASP), and the Rio de Janeiro Technology & Society Institute (Rio ITS). This edition's discussion will focus on the Legal and Regulatory Environments. Registration can be done through the [seminarioprivacidade.cgi.br](http://seminarioprivacidade.cgi.br) website. Included in event program:

- » Discussion tables on anonymous data, the "Internet of things," the Internet Framework Law, and the bill on privacy and data protection.
- » A panel on the differences and similarities between the Internet Framework Law and the recently enacted Italian law on the subject.
- » The 5<sup>th</sup> meeting of the "CGI.br 20 years—Principles for the Governance and Use of the Internet" Conference Cycle.

**Cybercrimes:** On Tuesday, the Parliamentary Investigation Commission (CPI) on Cybercrimes held a deliberative meeting in which they approved, among others, [request 14/15](#) of Rep. João Arruda (PMDB/PR). The request solicits discussion on the measures adopted by telecommunications companies and Internet applications to contribute to the fight against cybercrime. Participants included:

- » Eduardo Levy, Executive-Director, SindiTelebrasil;
- » Fábio Coelho, President, Google Brasil;
- » Diego Dzodan, Vice-President, Latin America, Facebook; and
- » Guilherme Ribenboim, Vice-President, Latin America, Twitter.

An agenda for upcoming meetings was not disclosed. Representative Mariana Carvalho (PSDB/RO) is the CPI's president, and Rep. Esperidião Amin (PP/SC) is rapporteur. So far, 29 requests have been submitted.



**Terrorist Organizations:** The full House approved bill (PL) 2016/15, which would amend the Law of Criminal Organizations (Law 12,850/13) to define terrorist organizations and increase the penalties that violators are subject to. This is a significant bill for Brazil's adherence to the U.S. Global Entry Program. The approved bill defines terrorism as an act made by one or more individuals, for reasons of xenophobia, discrimination, or prejudice based on race, color, ethnicity or religion, in order to cause social or generalized terror, exposing to danger a person, property, public peace, or public safety. Also, the bill determines penalty of imprisonment from 20 to 30 years, in addition to sanctions for threat or violence.

The list of what is considered to be a terrorist act includes: 1) Threat or use of any means of promoting mass destruction; 2) Interfere, sabotage, or damage computer systems or databases; 3) Sabotage operation or seizure, with violence, serious threat to person or use of cyber mechanisms, any means of communication or transportation (ports, airports, railway, or bus stations, hospitals, schools, stadiums, public facilities, or essential public services sites, power plants, and military, exploration, refining, and processing of oil and gas installations). **The bill must now pass through the assigned Senate committees followed by a floor vote.**

## Tax & Investment

**Payroll Tax Exemption:** On Wednesday, the Senate passed on the last measure of the government's fiscal adjustment that still depended on Congress' approval. The full Senate approved a bill that decreases companies' payroll tax exemption. The legislation, as passed in the House, increases taxation on revenues by more than 100% for most of the 56 sectors that benefited from the program but allowed exceptions for some segments, reducing the gain of the government. The sectors that had been exempted from contributing 20% for Social Security (INSS) and started paying only 1%, in President Rousseff's first term, must now pay 2.5%. Those who had come to pay a rate of 2% will have to contribute with 4.5%.

The bill is now going to President Rousseff to be signed into law. She has 15 working days to act on the legislation, but given the critical importance of the fiscal adjustment, she is expected to act quickly. The law takes effect 90 days (in the fourth month) after being signed by the president. If President Rousseff signs the bill in August, it would take effect December 2015, affecting companies' tax obligations this year and increasing the government's revenue.

# The Pulse

## Protests Add Little Political Stress to Rousseff Presidency, but Economic and Social Pressures Are Mounting

Sunday's public demonstrations throughout Brazil, while dramatic on one level, did not alter the dynamics of the current political, economic, and social crisis. The protests varied little in size or intensity from the past, and their constituents did not include large numbers of the working classes that characterized the spontaneous and more disturbing outbreaks in June 2013. In short, they have not increased pressure on the Rousseff government. The opposition, by contrast, has failed to capitalize on the demonstrations. The main opposition party (PSDB) has shown no ability to craft a unified strategy against President Rousseff and offered no policy alternatives that would draw support from various social sectors and interest groups.

President Rousseff has also benefitted from a group of highly influential business associations that on Wednesday penned an open letter to the country offering a "non-partisan" agenda and a plea for unification, structural changes in the economy, respect for the Constitution, and rejection of the impeachment alternative. These positions are closely aligned with editorials printed by the major news media in Brazil and abroad. In addition, she is poised to benefit from the indictment on corruption charges of Speaker of the House Eduardo Cunha, her most aggressive and powerful opponent.

These developments point to a respite for President Rousseff from the political pressure she has felt over the last three or four months. They do not mean, however, that her mandate is safe or that the crisis is over. The fiscal adjustment is dragging on, unfulfilled and without the ability to make serious cuts in government expenditures. Increased taxes and tariffs seem to be the only option at both federal and state levels, which will be painful for all.

BRASÍLIA  
SAF Sul Quadra 02, Lote 04.  
Edifício Via Esplanada  
Salas 103 a 106

CEP 70070-600  
Fone: (61) 3327-2606  
Fax: (61) 3327-1619

SÃO PAULO  
Rua Olimpiadas, 134, 5º andar, Cj 52.  
Condomínio Alpha Tower  
Vila Olímpia

CEP 04551-000  
Fone: (11) 3079-4533  
Fax: (11) 3079-2202

WASHINGTON, DC  
1101 17th St.  
NW Suite 1010

Phone: (202) 822-6420  
Fax: (202) 822-6423  
www.patri.com.br  
relgov@patri.com.br



As a result, company profitability will continue to come under pressure, likely forcing reduced spending and increased layoffs. The unemployment rate reached 7.5% in July and may peak at 10% by the beginning of next year. Consumption is falling dramatically and the forecast for the GDP in 2016 is negative, which would be the first two-year recession Brazil has experienced in 80 years. In sum, President Rousseff may not face the same pressure to relinquish her job in the immediate future, but social pressures are expected to grow, which, although perhaps manageable in the short run, could come to a head in 2016, particularly after the distraction of Carnival has passed.

**BRASÍLIA**

SAF Sul Quadra 02, Lote 04.  
Edifício Via Esplanada  
Salas 103 a 106

CEP 70070-600  
Fone: (61) 3327-2606  
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**SÃO PAULO**

Rua Olimpíadas, 134, 5º andar, Cj 52.  
Condomínio Alpha Tower  
Vila Olímpia

CEP 04551-000  
Fone: (11) 3079-4533  
Fax: (11) 3079-2202

**WASHINGTON, DC**

1101 17th St.  
NW Suite 1010

Phone: (202) 822-6420  
Fax: (202) 822-6423  
www.patri.com.br  
relgov@patri.com.br

