Brazil Focus –
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Weekly Report
Dec. 17-23 2016

Looking Ahead ➔ What to watch for?

- 25th Dec. -- Christmas Day [national holiday]
- 26th Dec. -- Nationwide Petrobras labor union (FUP) general strike to begin
- 30th Dec. -- Public Account data for November
- 30th Dec. -- FGV to post December IGP-M ➔
- 31st Dec. -- Deadline for Congress to approve 2017 detailed budget [LOA]
- 1st Jan. -- New Years Day – National Holiday
- 1st Jan. -- New minimum wage of R$ 880,00 goes into effect R$ 945,80 ➔ New INSS benefit ceiling ➔ R$ 5,579,00
- 2nd Jan. -- December and 2016 trade balance data
- 3rd Jan. -- Auto sales in December & 2016
- 6th Jan. -- Central Bank to announce 2016 FX flows
- 6th Jan. -- FGV to announce IGP-DI for December ➔
- 9th Jan. -- IBGE to announce unemployment rate in November ➔
• 9th Jan. -- Savings Accounts data for 2016 ➔
• 9th Jan. -- IBGE to post December & 2016 IPCA ➔
• 10-11 Jan. -- Copom (first meeting in 2017) ➔ Selic rate
• 13th Jan. -- IBGE: Industrial Production for November ➔
• 16th Jan. -- IBGE: Services Sector in November ➔
• 16th Jan. -- IBGE: November retail sales ➔
• 17th Jan. -- IBGE-PNAD unemployment reached __% in August-October 2016
• 17-20 Jan. -- World Economic Forum to meet in Davos-Klosters, Switzerland
  - PGR Rodrigo Janot will attend

Wishing you all a great Holiday Season and a good New Year 2017!
Brazil Focus will be on recess until 6th January 2017.

1 – POLITICS

1.1 – Chamber mutilated emergency financing for states

Last week, the Senate approved the emergency package that would alleviate the fiscal crisis of state governments -- namely Rio de Janeiro, Rio Grande do Sul and Minas Gerais ➔ suspend debt payments [moratorium] to the federal government for up to 36 months. BUT in return, the bankrupt states would be obliged to “tighten their fiscal belts” to improve their fiscal situations. This “counterpoint” would oblige the states to: 1) Less expenditures with state employees (no salary increases or other “perks”); 2) Increase pension contributions from 11% to 14%; 3) Dismiss all direct hire employees (never did a competitive exam); 4) Reduce benefits for state-owned enterprises; 5) Eliminate redundant state administrative units; and 6) Privatize most state-owned enterprises.

However, on 20th December, the Chamber voted 296 to 12 to “mutilate” this package ➔ approved the “moratorium”, but eliminated ALL the counterpoints that would oblige each state to “put its fiscal house in order”. Chamber President Dep. Rodrigo Maia (DEM-RJ) affirmed “We are not obliged to say ‘amen’ to the dictates of the Finance Ministry. We voted out a text that we understand to be better for Brazil. If the President [Michel Temer] understands that this is not the best thing for Brazil, he can veto the proposal”. Supposedly, Maia is an “important” ally of Pres. Temer. The PMDB had 47 deputies who voted to eliminate the compliance counterpoints.

Now, Pres. Temer apparently has two alternatives ➔ 1) Veto this measure as approved by the Chamber, and in turn issue an MP-Medida Provisória to restore the Senate version; or 2) Forget the Chamber version and proceed to negotiate terms of an austerity agreement with the bankrupt states, one by one – specifying the counterpoint items and the penalties for non-compliance. In two states RS and RJ), their respective governors have already sent stiff austerity proposals to their state legislatures and await approval of these “belt tightening” proposals. However, the RJ & RS state employees have reacted with quite violent street demonstrations against these measures. The governor of MG has yet to send any proposals to the AL-MG.
On 21st, the AL-RS approved the extinction of eight state government foundations and three secretariats – including the TVE (state educational TV), FM Cultura (radio station) and the Inst. Gaúcho de Tradição e Folclore. This measure should save some R$ 120 million per year.

Apparently, the Finance Minister and Pres. Temer have opted for the second alternative. These federal deputies rejected these limited austerity measures for state employees, but just imagine what they will do with the social security “reform” package that will affect all Brazilians.


⇒ Stay tuned!!!

1.2 – Lava Jato

On 21st December, it was announced that Odebrecht and Braskem had reached a settlement with the US Dept. of Justice, Swiss courts and Brazilian prosecutors of up to US$ 4.5 billion under the FCPA, Brazilian and Swiss laws.

After a two-year investigation, the US Dept. of Justice stated that this was the largest bribery case on record with the largest restitution payment ever made. This case is considered a “landmark” in the Lava Jato [Car Wash] investigation. But this case goes beyond this Lava Jato case. This investigation and the ensuing plea bargaining testimony revealed that over the past 15 years, Odebrecht had paid out nearly US$ 800 million in bribes related to some 100 projects in 12 countries and received US$ 3.34 billion in “benefits” resulting from this corrupt bribery scheme.

Odebrecht’s petrochemical subsidiary Braskem SA agreed to pay US$ 957 million regarding bribery schemes to secure Petrobras contracts.

This settlement surpassed the until then the largest settlement on record ➜ Siemens AG agreed to pay US$ 1.6 billion as part of a deal with German and American prosecutors in 2008.

Over past decades, many “things Brazilian” were euphemistically described as “O Maior do Mundo”. Now this phrase has come home to roost in a negative fashion.


http://www.wsj.com/articles/odebrecht-to-pay-2-6-billion-to-settle-bribery-claims-1482325309


The US Dept. of Justice revealed that Odebrecht had paid out R$ 50 million in “off the books” (caixa dois) campaign contributions to the PT in 2010. Also the D of J revealed that Odebrecht paid a US$ 57 million bribe to them President of Panamá, Ricardo Martinelli (2009-2014).
External Monitor – At the insistence of the US Dept. of Justice, an independent international “monitor” will be chosen to do total oversight on Odebrecht and Braskem operations, decision making and activities of their employees – for three years. This monitor will be selected by the Dept. of Justice from a three-name list elaborated by Odebrecht and Braskem.

Brookfield Asset Management Inc. (Canada) is near to closing a deal to acquire Odebrecht’s 55% share in a US$ 5 billion gas pipeline project in Peru – according to Peruvian Minister of Economy – Alfredo Thorne. The other shares are held by the Spanish Enagas (25%) and a Peruvian firm Grana y Montero (20%).

1.3 – PDT lost another senator

Earlier this year, the PDT lost its two senators from Brasília ➔ Cristovam Buarque and Reguffe. Now after the three remaining PDT senators ALL voted in favor of PEC 55 (ceiling on federal expenditures), PDT national president Carlos Lupi threatened to expel them from the party. “Just in Time” – on 21st December, Sen. Lasier Martins (PDT-RS) announced that he was leaving the PDT but did not reveal which would be his new party affiliation. **Remember:** Martins also voted in favor of the impeachment of suspended Pres. Dilma Rousseff, contrary to the position of the PDT.

2 – FOREIGN RELATIONS & TRADE

2.1 – Petrobras sold part of the pre-salt area to Total

On 21st December, Petrobras announced that it had sold part of its participation in the pre-salt exploration area and participation in some thermal-electric generators (gas turbines) to the French petrol giant Total (BM-S-9 & BM-S-11). These negotiations had been ongoing since November when the two firms signed a cooperation agreement. The total value of this operation is US$ 2.2 billion – of which US$ 1.6 billion should enter Petrobras’ cash flow in 60 days. With this operation, Petrobras has achieved US$ 13 billion in sales of assets in 2016.

Petrobras CEO, Pedro Parente, affirmed that because this arrangement with Total is a “cooperation agreement” it is not subject to the determination by the TCU that Petrobras suspend its operations of sales of assets.

3 – REFORMS

3.1 – Labor Reforms

On 21st December, the Temer government began a discussion of some items on the agenda of reforms (changes) in Brazil’s labor legislation. Of all the labor centrals, only the Força Sindical had a
positive reaction. This was just the “first part” of the Labor Legislation reform being prepared by the Temer government. The larger package will be announced in January.

1) Programa Seguro-Emprego (PSE)
   - Possible 30% reductions in work week and salary;
   - Half of the salary discount financed by FAT;
   - Program to become permanent;
   - During PSE employee can’t be dismissed.

2) Collective Labor agreements (force of Law)
   - Annual vacation could be divided in up to three segments;
   - Agreements on work week, rather than 8 hours per day/44 hours per week
     - up to a maximum of 12 hours per day and 220 hours per month
   - Division of profit sharing in two or more parcels
   - Regulate overtime payments
   - Minimum of 30 minutes between work periods
   - Work rules could only be modified by collective bargaining
   - Regulate inclusion in PSE
   - Plans of jobs and salaries
   - Regulate “Bank of Hours”

3) Part Time Contracts
   - Increase 25→30 hours per week
   - Currently, 25 hours plus 2 hours
   - Reform – 30 hours Plus 6 hours

3) Bank of Hours (worked)
   - Could be compensated by (paid) time off
   - Conversion in $$ only via collective labor contract

See ➜ http://economia.estadao.com.br/noticias/geral,forca-aprova-medidas-trabalhistas-de-temer-cut-nao-comenta,10000095997

The new PSE will replace the PPE-Programa de Proteção do Emprego that will expire on 31st December 2016.

What can be negotiated by labor unions? Vacation periods, work week, interval, remote work, transportation time (to-and-from work) included in work time, bank of hours, profit sharing, productivity, the end of a collective bargaining agreement, decision to participate in the new PSE, plan of jobs and salaries and time clock.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS
5.1 – Public Accounts ➔ Worse in 2017

On 20th December, the Central Bank released its estimate (projection) for Brazil’s current account in 2017 ➔ US$ 28 billion, higher (worse) than the estimated US$ 22 billion in 2016. The Central Bank foresees more overseas expenditures by Brazilian tourists in 2017 – US$ 20.5 billion, more than the estimated US$ 18.5 billion in 2016. Also, remittances of profits and dividends should increase, US$ 19.5 billion ➔ US$ 19.5 ➔ US$ 23.5 billion.

5.2 – Court injunctions block Petrobras sale of (some) assets

Court injunctions have temporarily prohibited Petrobras’ continuing its sequence of sales of assets to set its fiscal accounts in order. A judge in Sergipe, for example, prohibited the sale of the Bruna and Tartaruga Verde oilfields to the Australian firm Kroon. Other court suits by FUP-Petrol Workers’ Federation have tied up the sale of BR Distribuidora, some shallow water oil fields in Ceará and Sergipe and other on land fields in the Northeast.

5.3 – December inflation

On 21st December, IBGE released the IPCA-15 that is a “preview” of the complete IPCA for December (that should be released on 9th January. The result was +0.19% versus +0.26% in November. This was the lowest IPCA-15 for December since December 1998 (+0.13%). In December 2015, the IPCA-15 posted +1.18%. Thus, in 2016, the IPCA-15 accumulated +6.58% vs. +10.71% in 2015 and +6.46% in 2014. This result for December 2016 was below the estimate by economists surveyed by Bloomberg News (+0.29%).

This means that the final IPCA for 2016 probably will be very close (if now below) the Central Bank’s ceiling target (+6.50%). Also, most analysts now expect that Copom might reduce the basic Selic interest rate by 50 bps (13.75% ➔ 13.25%) in its first meeting in 2017 ➔ 10-11 January (the day after the 2016 IPCA is announced. Many analysts affirm that the Central Bank was too conservative (timid) and should have reduced the Selic more rapidly at its last three meeting in 2016 – because the IPCA decline was already apparent.

According to Apas, in November, supermarket prices declined by -0.85% that impacted on the December IPCA-15. This reduction was more than the projections by Apas (-0.10%).

5.4 – Central Bank reduced 2017 GDP forecast

On 22nd December, the Central Bank released a report/analysis that reduced its GDP projection for 2017 +1.3% ➔ +0.8%. This is less that the projection/forecast included in the 2017 annual budget approved by Congress this week (+1.0%). This RTI-Quarterly Inflation Report also altered the Central Bank’s prediction for Brazil’s 2016 GDP (-3.3% ➔ -3.4%).

Mário Mesquita is more optimistic -- The Chief Economist at Banco Itau predicts that Brazil’s GDP will expand by +1.5% in 2017 and +4.0% in 2018. He foresees that a “normalization of stocks” will promote growth. He says that the traditional GDP components – consumers, investments, government spending & trade surplus – will contribute to a GDP of +0.6% in 2017. However, he predicts a strong increase in commodity prices and a large increase in agricultural production.

5.5 – Temer liberated FGTS

On 22nd December, Pres. Temer “liberated” inactive FGTS accounts to be withdrawn by some 10.2 million persons. The total available is estimated at R$ 30 billion that if injected into the lagging Brazilian economy – equivalent to 0.5% of GDP.

5.6 – Credit card interest rates

If you don’t pay the full amount on your credit card monthly bill and resort to “rotational credit” (partial payment, month-by-month) – the interest and carrying charges “are absurd” ➔ currently 482.1% per year!!!

Pres. Temer announced measures to force a reduction of these rates (by half) in 1st Q/2017.

5.7 – Federal Revenues should increase

This week, Finance Minister Henrique Meirelles announced that in 2017 the special subsidies and tax exemptions that Pres. Dilma granted to certain sectors of the economy would not be renewed. This should produce an increase in federal revenues and social security contributions.