
Looking Ahead ➔ What to watch for?

- 26th Aug. -- Senate to vote confirmation of PGR, Rodrigo Janot
- 27th Aug. -- July public accounts
- 28th Aug. -- FGV to announce August IGP-M inflation data ➔
- 28th Aug. -- IBGE to announce Brazil’s GDP for 2nd Q/2015 ➔ % QonQ
- 28th Aug. -- Planning Ministry to announce the minimum wage as of 1st January 2016
- 28th Aug. -- FGV to announce August IGP-M inflation data ➔ % versus % in July
- 31st Aug. -- IBGE to announce July industrial production ➔ % MoM & +% YoY
- 1st Sept. -- Trade surplus for August ➔ +US$ billion; US$ in 2015
- 1st Sept. -- August new car sales units ➔ % MoM & % YoY
- 1-2 Sept. -- 193rd Meeting of Copom ➔ Selic rate
- 1-2 Sept. -- 21st “Foro de São Paulo”
- 2nd Sept. -- August new car sales units ➔ % MoM & % YoY
- 4th Sept. -- Brazil ranked ___ on WEF “Global Competitiveness Index”
1 - POLITICS

1.1 – Mobilization of street demonstrations

On Sunday, 16th August, several NGOs mobilized massive street demonstrations against Pres. Dilma, Lula and the PT. The PSDB promoted attendance of these manifestations in its ZTV/radio insertions and several tucanos participated [discretely] – Senators Aécio Neves (MG), José Serra (SP) and Aloísio Nunes Ferreira (SP). SD leader Dep. Paulo Pereira da Silva (SP) also participated, but none of the other “Opposition” party leaders were present (DEM, PSOL, etc.).

Protesters carried a large variety of posters and banners, including some praising the role of Federal Judge Sérgio Moro in prosecuting the Lava Jato investigation. In addition to those protesting against Dilma and Lula, Senators Renan Calheiros and Fernando Collor were criticized. However, others involved in recent corruption episodes were not criticized ➔ Dep. Eduardo Cunha, corrupt CBF soccer officials, etc.

A SP “socialite”, Juliana Isen (who had participated in the March and April 2015 demonstrations) produced a “novel” form of protest ➔ “It is better to take off your clothes than to take money away from the people” – and paraded topless on the Avenida Paulista and was not molested by the police observing the very peaceful demonstrations.


These protest demonstrations had some 795,000 persons participating in 169 cities in all 26 states and Brasília according to police estimates. However, the police in Rio de Janeiro and Recife did not make any estimates – thus the number might have been close to one million. On 15th March 2015 the estimate was 2 million and on 12th April the participation was estimated at 550,000.

The Dilma government tried to disqualify the 16th August protest by saying that in spite of (or because of) the mobilization by the PSDB less people participated. Still, the government was concerned enough that the President convoked a special meeting at her residence on Sunday evening to analyze the protests and another meeting on Monday morning at the Planalto Palace (12 cabinet ministers and some party leaders). She prohibited any cabinet minister from speaking about the
protests and designated the Minister of Social Communication, Edinho Silva, to speak in name of the President.

He explained that the peaceful protests are part of the “practice of democracy” and respected by the government, but decried the “golpista tendency” against a “legitimately elected government”. He also said that the “climate of intolerance” (on both sides) should be reduced.

The 16th August street protests were absolutely peaceful with no violence of destruction of property – as was the case in March and April 2015 – this time the Black Blocs and other violent groups did not use the demonstrations as a pretext for violent acts.

In addition to many placards and banners against Dilma, Lula and the PT (including those calling for her impeachment), there were some small “fringe” groups calling for the return of the military regime, the monarchy and the parliamentary system.

Several foreign newspapers described this event (in English):
http://www.ft.com/intl/cms/s/0/9429ac3c-44f4-11e5-af2f-4d60e5eda22.html#axzz3jB5zQHIx
http://www.ft.com/intl/cms/s/0/0e83a6be-4273-11e5-b98b-87c7270955cf.html#axzz3jB5zQHIx
http://www.nytimes.com/2015/08/18/opinion/brazils-rising-turbulence.html?_r=0
http://www.reuters.com/article/2015/08/18/us-brazil-rousseff-business-idUSKCN0QN0CW20150818
http://www.wsj.com/articles/brazilian-protest-keeps-pressure-on-president-1439843917
http://www.reuters.com/article/2015/08/18/us-brazil-petrobras-corruption-idUSKCN0QN0BB20150818
http://www.reuters.com/article/2015/08/17/us-brazil-rousseff-protests-idUSKCN0QM1R20150817

One sentiment seemed to unify the demonstrators – the revolt, aversion, opposition, dislike regarding the economic crisis in Brazil that has worsened since March-April.

The “day-after”, 17th August, former President Fernando Henrique Cardoso, “hardened” his discourse by saying “If the President is not capable a gesture of grandeur (resignation or frankly admitting that she made mistakes and points to the path for national recovery), we will assist the increasing disarticulation of the government and of Congress, and both increasingly blasted by the Lava Jato [investigation]”. He also suggested that Sen. Aécio Neves and Gov. Geraldo Alckmin align their discourses about “the crisis” and stop attacking in different directions.

See ➜ http://www1.folha.uol.com.br/fsp/poder/229880-fhc-diz-que-renuncia-seria-ato-de-grandeza-de-dilma.shtml
1.1.1 – Pro-Dilma mobilization

On Thursday, 20th August, the PT CUT and other pro-government groups mobilized demonstrations in 32 cities with an estimated 207,000 participants (by the organizers) and 62,000 by police in those cities. As in the 16th August demonstrations, these demonstrations were totally peaceful. These pro-government, anti-impeachment and pro-democracy demonstrations were organized by political parties and NGOs sympathetic regarding Pres. Dilma – PCdoB, PCO, PT, MST, MTST, UNE, CUT, etc. The NGOs were mostly “clients” (financed) by the Dilma government. This effort clearly showed that the PT and its allies have lost their capacity and competency in promoting popular mobilizations. Some 37,000 militants marched along the Avenida Paulista in SP. In spite of the demonstrations being pro-Dilma, the militants complained about the “fiscal adjustment”. The Dilma government’s reading was that the “pro-impeachment” movement was weakened.

1.2 – Lava Jato investigation

On 17th August, three accused were sentenced by Judge Sérgio Moro: 1) Nestor Ceveró, ex-Petrobras director for International Affairs (2003-2008) – 12 years and 3 months; 2) Fernando Soares [Fernando Baiano], lobbyist linked to PMDB – 16 years and one month; and 3) Júlio Camargo, businessman – five years under house arrest. Camargo did extensive plea bargaining testimony & agreed to return R$ 40 million, and thus had his sentence reduced. Ceveró had previously been sentenced to 5 years in prison. Reportedly, the lawyers for Ceveró and Soares are negotiating their plea bargaining testimony in order to reduce their sentences. On 19th August, the STF denied the habeas corpus by Fernando Baiano’s lawyers. The “Dean” of the STF [longest serving judge] Celso Mello was very “harsh” when he stated that Brazil “was suffering from institutionalized and endemic corruption”. This same term “endemic corruption” was used in a reserved briefing prepared for the Bill Clinton visit to Brazil in October 1997. This “briefing” [prepared by the US Dept. of Commerce] “leaked” to the press and caused considerable “consternation” to Clinton and his host, Pres. Fernando H. Cardoso. See ➤ http://opiniao.estadao.com.br/noticias/geral,delinquencia-institucional,1747326

➤ Not very good news for Collor, Cunha and the others 45 or 50 politicians who will be denounced to the STF by the PGR, accused in the Lava Jato investigation.

On Tuesday, 18th August, the STF denied the request by Fernando Soares’ lawyers that he be liberated from the Federal Police lockup in Curitiba. The same day, the STJ denied the similar request by the lawyers for former Petrobras directors Renato Duque and Nestor Ceveró.

Also, on 18th August, Judge Moro decreed that Alexandre Romano [o Chambinho], a former PT city council member, remain in prison for an unlimited time. Romano operated the corruption scheme at the Planning Ministry and is accused of receiving R$ 37 million that was passed on the PT. The Federal Police accuse Romano of destroying a suitcase of documents the day before his arrest warrant was issued. Romano was implicated by the plea bargaining testimony of Milton Pascowitch.

1.2.1 – Lula’s turn
In its 19th August edition (distributed on Saturday, 15th August, Veja magazine published a story based on the investigations of COAF-Council of Control of Financial Activities (Ministry of Finance) that had produced a report on “atypical financial transactions” by LILS [the initials of Luiz Ignácio Lula da Silva] – the firm that manages Lula’s “activities”, especially his speeches financed by large firms. COAF had filed several reports on LILS to the Finance Ministry, the Federal Police, SRF-Federal Income Tax Service, and the MPF-Federal Prosecutors between April 2011 and May 2015. Deposits totaling R$ 27 million were made by many large construction firms – including those accused of corruption in the Petrobras scandal, Lava Jato investigation, reportedly for speeches by Lula to diverse audiences. Veja also disclosed the distribution of funds by LILS – to Lula’s personal account and those of his children.

The four largest deposits were made by: Construtora Norberto Odebrecht, R$ 2.8 million; Andrade Gutierrez Engenharia, R$ 1.9 million; Construtora OAS, R$ 1.9 million; and Camargo Corrêa, 1.4 million. Also included on this list that was “leaked” to Veja were Construtora Queiroz Galvão, Quip S/A, UTC Engenharia. These fees for these speeches were much more than those received by former US President Bill Clinton.

Want More? Also “leaked” to Veja was the transcription of a telephone conversation between Lula and Odebrecht executive Alexandrino Alencar on 15th July – just prior to the arrest warrant for Alencar and Marcelo Odebrecht issued by Judge Sérgio Moro. This phone conversation was recorded by a court-ordered wire tap in the Lava Jato investigations where Lula expressed “concern” regarding the impending CPI to investigate BNDES.

See ➔ http://veja.abril.com.br/noticia/brasil/o-negocio-milionario-de-lula/

The Ministry of Justice reacted to these “leaks” by installing an investigation to discover how Veja gained access to this information.

On Tuesday, 18th August, the Lula Institute in SP distributed a press release that listed the 70 speeches that Lula had made during that period – in an effort to discredit the COAF reports.

1.2.2 – Eduardo Cunha’s turn

On Wednesday afternoon, 19th August, there were strong speculations in the press that the PGR would denounce at the STF Chamber President Eduardo Cunha (PMDB-RJ) – either individually or in a “package” of members of Congress – for their corrupt involvement in the Petrobras corruption case – consistent with the information accumulated by the Lava Jato investigation. There was much speculation regarding whether the PRG, Rodrigo Janot, would take this denunciation to the Supreme Court before or after his re-confirmation for a second two-year mandate by the Senate on 26th August – and whether Senate President Renan Calheiros (PMDB-AL) would be included on this list.

With the PGR taking this case formally to the STF, Cunha would be transformed from a “suspect” to “formally accused”. If the STF accepts the PGR’s request, a formal penal investigation of Cunha would be installed. On 19th August, it was announced that STF Judge Teori Zavasecki had denied Cunha’s request to annul the investigation conducted by federal Judge Sérgio Moro (that implicated Cunha) because Moro had “usurped” the constitutional prerogative of the Supreme Court to...
investigate a member of Congress. In his response, the PGR affirmed that the investigation was/is conducted exclusively by federal prosecutors with the express authorization of the Supreme Court.

**Detail:** At 4 pm on Thursday, 20 August, the PGR denounced four persons: 1) Chamber President Dep. Eduardo Consentino Cunha (PMDB-RJ) – age 57 - for his involvement in the Petrobras corruption scandal and for being accused of receiving a US$ 5 million bribe via Julio Camargo in support of contracts for drilling platforms to be built by Samsung Heavy Industries. The content of this PGR brief is yet unknown, but most probably the federal prosecutors found (and included) sufficient information gathered by the Federal Police to mount this denunciation. 2) Former Deputy Solange Almeida (PMDB-RJ) was also accused of participating in the anti-Samsung “blackmail” articulated by Cunha in the Chamber. Also, the PGR denounced 3) Sen. Fernando Collor de Mello (PTB-AL) and his former minister and “ally” 4) Pedro Paulo Leoni Ramos of receiving R$ 26 million in bribes from Petrobras Distribuidora and DVBR Derivados do Brasil related to operating licenses for retail gas stations. Collor’s case is kept under “judicial secrecy”. The PGR requested that the Cunha and Almeida return a total of US$ 80 million. Because of the multiple counts of money laundering, Janot requested 184 years of prison time for Cunha.

Although – the PGR is reported to have some 40 to 50 “politicians” to denounce at the STF, the PGR denounced only Cunha, Almeida & Collor and not a package – including Senate President Renan Calheiros (PMDB-AL). In addition, Janot did not request the removal of Cunha as Chamber President. In a recent speech to the Senate floor, Collor cursed Janot’s mother, calling him a “Filha da Puta”.

The Next steps – The reporter on the Lava Jato case at the STF, Judge Teori Zavascki, will issue a report (brief) to his ten STF colleagues regarding whether the Supreme Court should install (or not) a formal penal case against Cunha. However, before Zavascki can issue his report, Cunha’s lawyers have 15 days to file his defense. Then, the PGR has five days to rebut the defense arguments.

Only then can Judge Zavascki prepare his brief (perhaps in 4 or 5 days) and submit same to the full STF. This sequence should run until “early October” unless Cunha has a “friendly” STF judge who could request “vistas” [request to study this case more]. The next step would be for STF President Ricardo Lewandowski to put this case of the Supreme Court agenda. Thus, a final decision on Dep. Eduardo Cunha might occur in late October. This sequence might be altered IF the ongoing plea bargaining testimony in Curitiba and the “leniency” deliberations at CADE (See Item 1.2.3) reveal more “hard proof” accusations against Cunha.

Next week, it is possible that Dep. Eduardo Cunha would continue in total opposition to Pres. Dilma – with increased vengeance - and promote the approval of even worse measures against the President and her fiscal austerity plan plus approve other pending measures to further reduce her executive (management) powers as President. **Stay tuned next week!!**

After the STF decision, the group of 40 deputies calling for Cunha’s ouster would be reinforced. But it is not known whether their efforts would be successful. If the STF decides to install a penal case against Cunha, he can no longer claim that he is “being persecuted” by the PGR and Pres. Dilma – and probably would not claim same against the Supreme Court. After the STF decision, Cunha would be considerably weakened and probably lose control of the majority of deputies he currently “commands”. In this case, the Ethics Council of the Chamber might be able to begin a
formal process to remove Cunha as Chamber President – but coming near the end of the 2015 legislative session in December, such a decision might be put off until February 2016. By then, Cunha would be into the second year of his two-year mandate and if removed, the Chamber First Vice-President would take over and serve out the remainder of his mandate. Who is the Chamber 1st V-President? Dep. Wladir Maranhão (PP-MA), an unknown member of the baixo claro [“lower clerics”] in the Chamber. IF Cunha were removed before completing half of his mandate, then a new election for Chamber President would be held [as was the case in 2005, see below].

In addition to being removed from the Chamber Presidency, Cunha would also run the risk of being expelled from the Chamber (cassado). Faced with that possibility, he might resign his mandate before the expulsion process is formally installed. If he were to be cassado, he would lose his political rights for 8 years plus the three remaining years of his current mandate. Eleven years would mean that he would be able to run for office again only in 2026 or 2028 – at the age of 68.

The Opposition, led by the PSDB and DEM are in a “tight skirt”. Eduardo Cunha as violent opposition to Dilma was “leading the way” towards impeachment. But now the PSDB and DEM are “all alone” and not interested in signing petitions in favor of Cunha’s ouster.

Cunha’s Lawyer – Davi Machado – Affirmed that “to destroy this accusation will be easy – if the only evidence presented is the plea bargaining testimony of Julio Camargo, a notorious liar”. Machado has not yet gained access to the full brief against Cunha filed at the STF on 20th August.

However – The PGR’s brief against Cunha does have strong evidence against Cunha including evidence of meetings with Fernando Baiano – the lobbyist representing the PMDB who is under arrest in the Lava Jato investigation. There is also hard evidence of a large number of money laundering transfers to overseas accounts administered by Fernando Baiano and used by Cunha. Reportedly, Fernando Baiano is negotiating his plea bargaining testimony in Curitiba.

Remember – 1) In 2005, then Chamber President Dep. Severino Cavalcanti (PP-PE) was ousted (induced to resign the Chamber Presidency and his mandate) because he was accused of taking a “small” bribe (R$ 11,580.00 per month) to renew the contract for a restaurant concession at the Chamber – a lot less that US$ 5 million; 2) In 2007, then Senate President Renan Calheiros (PMDB-AL) resigned Presidency (but not his mandate) when threatened with expulsion because of having a lobbyist pay monthly “support payments” (much less than US$ 5 million) to a TV Globo journalist who gave birth to Renan’s “illegitimate” daughter.

1.2.3 – Camargo Corrêa negotiated “leniency”

On 19th August, the Camargo Corrêa construction firm finalized leniency negotiations with CADE-Administrative Council for Economic Defense [Anti-Trust]. The firm admitted its “guilt” in the Petrobras corruption scandal and that it had participated in the “cartel” of firms that manipulated contract allocation, vast over-invoicing and bribe payments to Petrobras senior employees. In return for “leniency” [a “clean slate”], Camargo Corrêa agreed to pay [reimburse] a total of R$ 700 million – the largest sum even negotiated by CADE to here state enterprises – Petrobras, Eletrobras and Nuclebras. Three Camargo Corrêa executives had already done plea bargaining testimony in the Lava Jato investigation. It is now possible the other involved/accused firms might negotiate “leniency”.

1.3 – “Go along and get along”

Since early August when many analysts were predicting that probably Pres. Dilma might face impeachment proceedings being installed in the Chamber, in mid-August the situation has eased somewhat – when Senate President Renan Calheiros (PMDB-AL) “threw her a life line” in the form of the so-called “Agenda Brasil” that really does not contain any decisive measures for the “fiscal adjustment”.

As counterpoint, Pres. Dilma appointed a “Renan pick” to be a judge on the STJ – Marcelo Navarro – currently a judge on the 5th Region TRF (HQ in Recife, Northeast region) the same region as that of Renan and STJ President Francisco Falcão (who also supported this appointment). Navarro was the second name on the three-name list elaborated by the STJ. This appointment is important because the new judge will become part of the fifth working group at the STJ that will deal with habeas corpus requests from those imprisoned in the Lava Jato investigation.

Want more? Another appointment. On 17th August, Pres. Dilma made a “PT appointment” – of former minister Paulo Bernardo (PT-PR) to become the new Brazilian Director-General of the Itaipu bi-national hydro-electric enterprise. His wife, Sen. Gleisi Hoffmann (PT-PR) had served as a director of this Brazil-Paraguay joint venture. This is a special “political plum” appointment for politicians from the State of Paraná. Detail: Paulo Bernardo is one of the politicians allegedly on the list of those accused in the Lava Jato investigation and while he was Planning Minister the corruption scheme involving consigned credit loans for federal employees was installed in this ministry. This is yet another case of an appointment for “services rendered”.

The TCU and TSE also have given Pres. Dilma some more respite. The TCU is “dragging its feet” regarding its decision on Pres. Dilma’s 2014 accounts and might suggest that Congress reject same. The TCU was to render its decision in late August, but now it looks like maybe September or October. Chamber President Eduardo Cunha quickly put the approval of the accounts of Presidents Itamar Franco, Fernando H. Cardoso, Lula and Dilma (2011, 2012 and 2013) on the agenda for the lower house to approve (quickly, in less than two hours) so as to clear the way for “quick action” on Dilma’s 2014 accounts once the TCU files its recommendation. This action was challenged at the STF and Judge Luís Roberto Barroso issued an injunction approving the Chamber’s action, BUT affirmed that the deliberation on the 2014 accounts would have to be done by a joint session of Congress – presided over by Senate President Renan Calheiros – and not separate deliberations by the Chamber and the Senate. Cunha’s strategy was to lead the Chamber to reject Dilma’s 2104 accounts that would in turn “force” the Senate to do same – thus producing a “motive” [crime of responsibility] to install impeachment proceedings in the Chamber.

As a consequence of the “Agenda Brasil”, it was predicted that the private sector would “jump on this bandwagon” in favor of Pres. Dilma – but this strategy did not come to pass in toto – as seen below in Item 1.4.

1.4 – “Letter to the Nation”
On Wednesday, several private sector confederations (CNI, CNT and CNS) together with the OAB issued a “Letter to the Nation” that criticized the government of Pres. Dilma, but stopped short from calling for her impeachment. These groups demanded that the Executive Branch correct the current direction of the nation and affirmed that Brazil is going through three crises – “ethical, political and economic” that demand “immediate actions”. This document took no position regarding the proposals for impeachment but defended that the Constitution must be respected. The OAB President specified – “Any institutional-political solution should not disobey the Federal Constitution; we oppose any type of military intervention in Brazil”. He added – “The nation can not come to a halt nor should the population and the productive sector be penalized because of disputes or difficulties in the political process in the attempt to get the country back on the road to development”.

CNI President Robson Andrade said that the current crisis leaves society “with little hope”. He said that the fiscal adjustment proposed by the Finance Minister will not attain the objectives set by the federal government. “This fiscal adjustment in necessary for Brazil to present credibility to domestic and foreign investors. But the proposed fiscal adjustment only aims at increasing taxes and we have seen before that this does not work”. Andrade praised the so-called “Agenda Brasil” presented by the PMDB Senate delegation, saying that 80% of these proposals coincide with those made by the industrial sector.

1.5 – Fiscal Adjustment

On Tuesday, 18th August, the Dilma government suffered yet another defeat in the Chamber with the approval of adjustments in the remuneration of FGTS funds [Guarantee Fund for Severance of Workers]. All employers must contribute 8% of each worker’s salary each month to the FGTS that has accumulated a large amount. This Fund is administered by FAT and is used by the government to finance diverse projects. When a worker is severed (sacked) without just because he/she may draw out their respective amount from the Fund.

HOWEVER – the FGTS accumulates only 3% “correction” per year, much below inflation and even the 6% remuneration for savings accounts. This is seen as very unjust for the workers and so any improvement on this remuneration is seen as a very popular measure. In the name of “austerity”, the government wanted to correct this situation over a 10-year period to bring the remuneration up to 6%, but the Chamber voted out a 4-year indexation. The PT floor leader, Dep. José Guimarães (PT-CE) and Vice-President Michel Temer pleaded with and cajoled party leaders to adopt the 10-year solution – but to no avail.

On the other hand, the government had decided not to anticipate payment of one-half of the 13th month wage (legally due in December) in 2015. This anticipation (usually paid in July, August or September) was an “informal” change adopted by Lula in 2003. On 19th August, faced with massive complaints nation wide (against this unpopular decision), the government reversed its position and maintained this anticipation. On 21st August, the Finance Ministry suggested that the anticipation could be paid in two installments – perhaps in September and October.

The “Day After”, a “victory” of sorts for the government. The Senate passed the “elimination” of tax exemptions and stimuli that had been approved in 2011/2012 for the private sector to stimulate increased production and employment – mostly to no avail, because there was no “counterpart”
stipulated for the private sector firms. Those firms will return to paying 20% of their salary base to social security (INSS) – but several sectors received “favorable treatment” – those that were paying only 1% will now pay [only] 2.5% and those paying 2% will now pay 4.5%. These “exceptions” had been inserted by the Chamber.

Want a “real” fiscal adjustment? According to Sinprofaz (National Assoc. of Finance Ministry Prosecutors) tax debts have accumulated R$ 1.1 trillion AND tax evasion amounts to R$ 320 billion in 2014 alone. What’s needed? Approve stricter legislation to allow the collection of these funds. BUT most of those on the Sinprofaz list make very large campaign contributions to deputies and senators.

2 – FOREIGN RELATIONS & TRADE

2.1 – German PM visited Brazil

German Prime Minister Angela Merkel arrived in Brasília at 8 pm on Wednesday, 19th August and went straight to the Palácio Alvorada for a dinner hosted by Pres. Dilma Rousseff with the presence of 18 cabinet ministers. Setting the informal nature of this event, Pres. Dilma jokingly referred to Brazil’s humiliating 7-to-1 defeat by the German team in the World Soccer Cup last year.

![President Rousseff & PM Merkel](image)

PM Merkel was accompanied by 12 ministers and vice-ministers, but no German business leaders. This absence of the German private sector left the Brazilian “promotion” of new concessions in the logistics sector without an appropriate audience. Brazil and Germany discussed a joint proposal for Global Climate Change and the reduction of carbon emissions – within the G-7 proposal.

A Cartoon by Chico – O Globo
2.2 – Mercosur & EU

On 18-19 August, representatives of Brazil, Argentina, Uruguay and Paraguay met in Asunción to formulate a common position aimed at finalizing a bloc-to-bloc free trade agreement with the European Union. Paraguay is the rotational President of Mercosur in the second semester of 2015.

3 - REFORMS

3.1 – Chamber approved reduced penal age

On Wednesday, 19th August, the Chamber approved a PEC that would reduce Brazil’s penal age from 18 to 16. This second round vote was 320-to-152. In July, the first round vote was 323-to-155. The co-sponsors of this PEC were Dep. Rogério Rosso (PSD-DF) and Dep. André Moura (PSC-SE). This PEC now goes to the Upper House. Senate President Renan Calheiros (PMDB-AL) said that he was against the reduction of the penal age, but that he would put the PEC on the Senate agenda.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 - Recession

On Wednesday, 19th August, the Central Bank released the data for its IBC-Br (Index of Economic Activity) for June → -0.58% and -1.89% for the 2nd Q/2015. The IBC-Br for 1st Q/2015
was -0.88% indicating two successive quarters of recession – on the increase (deepening recession) in the second quarter. Economists predict an even worse result in the third quarter. In June 2014, the IBC-Br was positive ➔ +1.2%.

In the first semester 2015 the IBC-Br posted -2.49% and -1.64% for the 12-month period. The GDP data for the second quarter should be released by IBGE next week on 28th August. On 29th May, IBGE announced that Brazil’s GDP for 1st Q/2015 was -0.2%. Thus, the GDP for the second quarter probably will retract between -0.6% and -0.8%. The latest prediction for Brazil’s 2015 GDP – survey of economists in the 17th August edition of the Central Bank’s Focus newsletter – was -2.0%.

However, economists at the IBE-FGV project that Brazil’s GDP retraction in 2015 might be as large as -3.0%.
See ➔ http://economia.estadao.com.br/noticias/geral,para-fgv--economia-pode-recuar-3-este-ano--imp,-1747427

This downturn in Brazil’s economy is reflected in reduced tax collections ➔ See Item 5.3.

5.2 – Industrial Sector

5.2.1 – Industrial Employment

On 19th August, IBGE released its employment data for the industrial sector for June. In the first semester of 2015, industrial employment retracted by -5.2% – the worst semester result in 14 years and surpassed the -5.1% posted in first semester 2009. Earlier in August, IBGE found that industrial production was down by -6.3% in the first semester 2015.

5.2.2 – Auto Sector

On 19th August, the Banco do Brasil announced that it was making R$ 3.1 billion credits available to the auto sector for “strategic production” needs and the CEF said that it would make R$ 5 billion available. A shot in the arm for “production” – but how to stimulate consumer demand for new autos in the current economic recession?

5.3 – Tax revenues down in July

On 18th August, the SRF released its tax collections data for July ➔ R$ 104.8 billion, -3.13% YoY. This was the worst July result since 2010. For the January-July 2015 seven-month period, revenues were down -2.91% compared with the same period in 2014. This is yet another indication of the ongoing and worsening recession in 2015 ➔ See Item 5.1.

5.4 – Unemployment up in July
On 20th August, IBGE released its unemployment data for the month of July → 7.5% (+3.6 pp YoY from 4.9% in July 2014) versus 6.9% in June 2015. This was the highest unemployment rate for the month of July since 2009 (8.0%). The 28 economists surveyed by Bloomberg News predicted July’s unemployment rate would be 7.0%. This strong June→July increment (6.9%→7.5%) in the unemployment rate was the same as Jan→February (5.3%→5.9%)

This is VERY bad news for the Dilma government, showing that the recession in getting much worse and is on a constant upswing since December 2014. In One year, the number of unemployed increased by +56%.

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<td>6.9%</td>
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<tr>
<td>JUL-15</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

5.5 – Want more? → Caged data for July

In the sequence following Item 5.4 (Unemployment) – the Caged data for job “creation” in July showed that 157,905 jobs were lost – the worst July result since 1992 and the fourth consecutive month posting negative Caged data compiled by the Ministry of Labor and released on 21st August.

In addition to being the worst July since 1992, this 2015 result was worse than predicted by 11 economists surveyed by the Valor newspaper → 115,800 jobs lost. More than one-half of the jobs lost in July were in the industrial sector (85,000 jobs lost).

This data for unemployment and jobs lost point to a deepening recession and a very negative GDP result for 2nd Q/2015 to be released on 28th August by IBGE.

5.6 – August Inflation

On 21st August, IBGE announced the results of its IPCA-15. In August, this “preliminary” inflation index posted +0.43%, lower than the +0.59% posted in July. “Good News” → for the first time in 2015, the IPCA-15 dipped below +0.50%. The 12-month accumulation of the IPCA-15 is now at +9.57%. Economists predicted this reduction → those surveyed by Bloomberg News forecast the exact result, +0.43%. However, the current 12-month accumulation is the highest since December 2003 → +9.86%. The accumulation in 2015 is +7.36%.