

Brazil Focus –
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Weekly Report –
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Looking Ahead ➔ What to watch for?

- 19th Sept. -- State Holiday in Rio Grande do Sul [Farroupilha Day]
- 19th Sept. -- Pope Francis arrives in Cuba
- 22nd Sept. – Pope Francis arrives in the US
- 23-24 Sept. -- Pres. Dilma to attend the 70th UN General Assembly session
- 23rd Sept. -- SRF to announce tax collections in August ➔ R$ billion, +% YoY
- 25th Sept. -- IBGE to announce August unemployment ➔ %
- 29th Sept. -- Public Accounts data for August
- 29th Sept. -- FGV to post September IGP-M ➔ % versus % in August
- 30th Sept. -- August Industrial Growth ➔ % MoM & % YoY
- 1st Oct. -- Trade Balance for September ➔ US$ billion (% YoY)
- 2nd Oct. – Deadline for party switching prior to the 2016 elections
- 5th Oct. -- Auto production in September, units sold
- 5th Oct. -- Pres. Dilma to visit Colombia
1 - POLITICS

1.1 – Government announced “cuts & new taxes”

After a series of “hectic” meetings of Pres. Dilma with her economic and political teams, on Friday, Saturday, Sunday and Monday morning, on Monday afternoon 14th September, Ministers Joaquim Levy (Finance) and Nelson Barbosa (Planning) called a press conference to announce the government’s strategy to “balance” the 2016 budget proposal – and “hopefully” produce a [small] primary surplus. In order to eliminate the R$ 30.5 billion deficit in the first version of this budget presented to Congress on 31st August and achieve a +0.7% GDP primary surplus in 2016, a combination of expenditure cuts and additional tax revenues should total some R$ 65 billion. However, the harsh decline in federal tax collections in 2015 that probably will continue in 2016 apparently was not taken into consideration.

Reportedly, Levy was again defeated in his demand for “deeper” (larger) expenditure cuts rather than large tax increases. After several “back-and-forth” statements in the past two weeks, Levy formally announced that the government would send an urgent PEC proposal to Congress to “resuscitate” the CPMF (tax on checks) that would levy 0.02% on all financial transactions – “temporarily” over the next four years (2016-2019). The estimated yield would be R$ 32 billion in 2016. The government backed off from a higher levy (0.38%) present in the “old” CPMF that was defeated by the Senate in 2006. With this higher levy, the proposal contained the proposal for “revenue sharing” with stat and local governments for “health costs”.

Photo: Lula Marques

Joaquim Levy and Nelson Barbosa
The “new” CPMF would generate revenues exclusively for the federal government to use to reduce the [private sector] social security deficit. **However**, that same Monday afternoon, Pres. Dilma convoked 19 governors from “allied” parties to enlist their support and pressure on Congress to approve this PEC – **AND** perhaps lobby Congress to increase the levy to permit some revenue sharing. ➔ Mission impossible!!

The reaction by Senate President Renan Calheiros was “cautious”, but Chamber President Eduardo Cunha affirmed that a large majority of deputies opposed the CPMF. The private sector reaction was very negative.

➔ The “burning” question was “Why didn’t the Dilma government work out this proposal in July **BEFORE** submitting the 2016 budget proposal with a R$ 32.5 billion deficit”??? Most probably, this would have avoided (or at least postponed) the S&P downgrade.

**BEFORE:** Revenues, R$ 1.4 trillion; Expenditures, R$ 1.43 trillion ➔ -R$ 30.5 billion deficit

**AFTER:** Revenues, R$ 1.44 trillion; Expenditures, R$ 1.42 trillion ➔ +R$ 34.4 billion surplus

**Spending Cuts – Total R$ 24.7 billion:**

- Postpone 2016 federal salary increases, January ➔ August R$ 7.0 billion
- Minha Casa, Minha Vida, increase funds from FGTS R$ 4.8 billion
- PAC, redirect parliamentary budget amendments ➔ public works R$ 3.9 billion
- Health, redirect parliamentary budget amendments ➔ health R$ 3.8 billion
- Administrative reform, reduction of ministries & costs R$ 2.0 billion
- Federal public exams, none in 2016 R$ 1.5 billion
- No retirement extension bonus in 2016 R$ 1.2 billion
- Agriculture, reduction of price supports R$ 1.1 billion
- Public services, apply salary ceilings R$ 0.8 billion

The only “real cuts” in the 2016 budget proposal involved postpone federal salary increases, administrative reform, no public exams, suspension of retirement bonus, reduction of agriculture price supports and public service salary ceilings. The “cuts” in Minha Casa, Minha Vida, PAC and health were “compensated by transfers from other programs.

**Revenue Increases – Total R$ 40.2 billion:**

- CPMF, 0.2% tax on all financial transactions ➔ social security deficit R$32.0 billion
- “S” System, 30% ➔ social security deficit R$ 6.0 billion
- Reintegra, reduction of export promotions R$ 2.0 billion
- IR-“S” System, reduced tax reductions R$ 2.0 billion
- IRPF, increased income tax rate on capital gains R$ 1.8 billion
- JPC, Tax increases on businesses R$ 1.1 billion
- PIS/Confins reduced subsidy for chemical industry sector R$ 0.8 billion

**HOWEVER** – This budget “correction” proposal was very badly received by the private sector (with the exception of the banks) that is against any tax increases and feels that the solution is sharper cuts in government spending. The reaction in Congress was also negative. **See Item 1.3**
In addition to the strong negative reaction by Fiesp, the CNI also voiced its opposition to tax increases. After a meeting with the Finance Minister on 16th September, the Minister of Development, Industry and Foreign Trade (MDIC), Senator Armando Monteiro (PTB-PE) – also former CNI President – voiced his opposition to the budget reductions for the “S System” (including Pronatec) and the Reintegra Program. The latter helps promote Brazil’s exports.

On 14th September, at the same time that the Finance and Planning ministers were holding a press conference to explain the fiscal package, Pres. Dilma met with 19 governors from the parties that supposedly support her coalition who were summoned to Brasília. She lobbied their support for the package and especially the CPMF, saying that they should pressure their deputies to increase the 0.20% levy in order to achieve “revenue sharing” to reduce the social security deficits of state and municipal governments. The reception by the governors was “lukewarm”.

The day after – 15th September – Pres. Dilma summoned the leaders of her “support parties” to her office for a session with the Finance and Planning Ministers to “explain” the proposal and lobby their support. When things got “hot”, Pres. Dilma made a “strategic” exit. These party leaders were still enraged by the fact that they had not been consulted before the package was announced. Most leaders were critical of the “resurrection” of the CPMF and affirmed that “this will not pass”. A very tense “exchange” occurred between Finance Minister Joaquim Levy and PSD floor leader De. Rogério Rosso (DF) after an exasperated Levy exclaimed that “Congress shared part of the blame for the S&P downgrade”.

On 16th September, a group of governors met with Chamber President Eduardo Cunha (PMDB-RJ) to seek his support for the CPMF and the possible increase in this levy to accommodate “revenue sharing”. Cunha promised not to obstruct deliberations on this PEC but reiterated the strong possibility that this measure would be defeated in the Chamber due to strong opposition to any tax increases. He explained that because of the long deliberation sequence (CCJ⇒Special Committee⇒Full Chamber) that if approved the CPMF would only go into effect in mid-2016. Cunha affirmed that “the CPMF is a pernicious increase in Brazil’s already heavy tax burden”.

That same afternoon, a smaller group of eight governors met with Senate President Renan Calheiros (PMDB-AL). Calheiros’ response was more “laconic” than that of Cunha.

PT Reaction – In a lame “populist” effort to garner support for the CPMF, some PT leaders in Congress proposed that persons in lower income brackets be exempt from paying the “tax on financial transactions”.

After the “budget correction” was announced on 14th August, Pres. Dilma, her ministers and support coalition parties have been “waffling” back-and-forth with a wide variety of proposals regarding tax increases and spending cuts. On Thursday, 17th September a very “novel” proposal appeared ⇒ turn the clock back to before 1946, when then Pres. Getúlio Vargas allowed casinos in Brazil. In 2016 and thereafter, this could be a large source of federal revenues and create many new jobs. Organized crime groups support this idea. Remember ⇒ Chile, Argentina, Paraguay and Uruguay allow gambling casinos under “state control”.
BIG PROBLEM ➔ Some leaders in the Dilma government are aware of the “dangers” resulting from the failure to implement these 2016 budget “corrections” (to balance the 2016 budget with a surplus). Reportedly, Fitch and Moody’s are poised to downgrade Brazil into “junk bond” status when the inability (or incompetence) of Dilma to govern becomes starkly apparent. It is also that S&P might even downgrade Brazil for a second time.

AT LEAST ➔ on 17th September the Fed decided not to increase the US basic interest rate – until October, the next Fed meeting.

1.2 – “Anti-Lula” PEC

The Opposition in the Chamber is mobilizing support to approve PEC 125/2015 presented by Dep. Cristiane Brasil (PTB-RJ) – the daughter of former deputy Roberto Jefferson. This proposed constitutional amendment would limit the reelection of presidents, governors and mayors to two consecutive terms only – but not two discontinuous terms. Paragraph 5 in Article 14 of the 1988 constitution limits reelection to two consecutive terms but does not mention the possibility of a third term after the president, governor or mayor has been out of office one term (four years). Under the current rules in the 1988 Constitution, Pres. Cardoso could have run for president (again) in 2006 and Itamar Franco in 1998. Although impeached in 1992, Pres. Collor could have run for president again in 2006. If this PEC is approved, neither Lula, Cardoso, Collor nor Sarney could run for President in 2018.

Since 1988, a considerable number of governors and mayors have been elected to a third term (and even some to a fourth term) after a four-year interval out of office. Some mayors have even switched their voting residence to a neighboring town to be elected to a “third term” and four years later returned to be elected mayor in their “home” município.

Because former President Lula (2003-2010) has indicated that he would run for president in 2018, the Opposition wants to prevent this via PEC 125. Because this PEC would be approved after 2nd October 2015, it would only apply to the 2018 elections for president and governor and Mayor as of 2020. Thus, this PEC would not provoke the wrath of former Mayors who were elected to one or two terms prior to 2012 and wish to seek reelection in 2018 – but would be opposed by former governors elected before 2014 who want to return for governor again in 2018.

On the other hand, state-by-state, this PEC should be supported by deputies who want to run for Mayor in 2020 and want to eliminate competition from former mayors, and Senators (and some deputies) who do not want to compete against former governors in 2018. See ➔ http://colunaesplanada.blogosfera.uol.com.br/2015/09/15/oposicao-se-une-por-pec-anti-lula-2018/

1.3 – Impeachment?

The reception of the “budget correction” proposal in the Chamber was very negative, especially regarding the CPMF levy. Also, this measure was overshadowed by the pro-impeachment movement in the Chamber where several motions have been introduced. Congress is to a certain extent awaiting the decision by the TCU regarding a recommendation to reject (or not) the accounts of Pres. Dilma for 2014.
For the Chamber of Deputies to approve the impeachment of Pres. Dilma, 342 votes are needed and the pro-impeachment group already counts 286 votes in favor. However, this 286 vote-count would be enough in order to install impeachment proceedings where only 257 deputies are needed. Pres. Dilma is desperately trying to sway votes away from impeachment in the Chamber, but in her public pronouncements does not use the “i” word. Rather, she refers to “attempts at a golpe”, “reversing the voters’ decision in October 2014,” etc. According to press reports, the Dilma government is studying possible appeals to the STF against the rejection of the 2014 accounts by the TCU as well as the eventual installation of impeachment proceedings by the Chamber. In 1992, the Collor government did not appeal to the STF. However, the composition of the STF is much different in 2015 – with a large majority of judges appointed by Lula or Dilma and the Supreme Court President, Ricardo Lewandowski, being the most “ardent” supporter of Dilma.

**The Bicudo Brief** – One of the founders of the PT in 1980 and one of Brazil’s most notable legal scholars, Hélio Bicudo (age 93) has prepared an exhaustive legal brief justifying the impeachment of Pres. Dilma Rousseff. On 16th September, together with legal scholar Miguel Reale Jr. and USP Law Professor Janaina Paschoal, Bicudo to his document to a notary public (*cartório*) in São Paulo to have his signature “recognized”.

In addition to Reale Jr. and Prof. Paschoal, three leaders of popular street demonstration movements also co-signed this document ➔ Carla Zamdelli (*NasRuas*), Adelaide de Oliveira (*Vem Pra Rua*) and Kim Kataguiri (*MBL-Movimento Brasil Livre*).

Bicudo’s Brief was presented at the Chamber of Deputies on 17th September. He rejected Pres. Dilma’s accusations of *golpismo* – “We are acting in accordance with the 1988 Constitution”. Sen. Aécio Neves (PSDB-MG) countered – “Golpe is winning an election financed by illicit [criminal] campaign contributions”. Detail: In 1992, Miguel Reale Jr. co-drafted the legal brief in favor of the impeachment of Pres. Collor.

Chamber President Eduardo Cunha (PMDB-RJ) turned this “delivery” of the Bicudo Brief into a “public event” with intense media coverage. The “Photo Op” showed Miguel Reale Jr. together with Maria Lúcia Bicudo (Hélio’s daughter) personally delivering the document into the hands of Cunha. Juxtaposed, the press posted a similar photo from 1992 with Barbosa Lima Sobrinho (then ABI president) and Marcello Lavenère (then OAB president) delivering a similar document in support of the impeachment of Pres. Collor to the then Chamber President Dep. Ibsen Pinheiro (PMDB-RS).


*Photo: Alan Marques/Folhapress*

*Ana Lúcia Bicudo & Miguel Reale Jr.*
Deliver brief to Dep. Eduardo Cunha

This is part of the impeachment “screenplay” in the Chamber of Deputies. In a few days, Cunha will discard this Bicudo Brief and as soon as the TCU files its report on Dilma’s 2014 accounts recommending that Congress reject her accounts, an Opposition party floor leader in the Chamber will present a motion to overturn Cunha’s decision and use the Bicudo Brief as a basis to call for the installation of impeachment proceedings in the Chamber. The next scene is a floor vote that would approve the installation of proceedings – supposedly in the first half of October.

1.3.1 – Ideia Inteligência Poll

The Brazilian polling institution Ideia Inteligência conducted a telephone survey among 20,006 voters in 144 municípios between 10 and 14 September and published in the Beyond Brics column in The Financial Times on 15th September. The Dilma government was approved by only 7% and rejected by 71%. Also, 64% felt that she would not complete her second term in office with 32% saying that she would complete her term. Of those saying that she would not complete her term, 61% said that she would resign and 35% said she would be impeached.


1.4 – Party switching

The law says that a politician who wishes to run in the 2016 municipal elections must “confirm” his/her party membership before 2nd October 2015. Marta Suplicy, elected Senator by the PT-SP in 2010 has left the PT and probably will join the PMDB to launch her candidacy for Mayor of SP (city). The [long] line of PT mayors switching parties to run for reelection in 2016 was “kicked off” by the current Mayor of João Pessoa, PB – Luciano Cartaxo -- who on 17th September left the PT and switched to the PSD. He justified this “switch” saying that many PT leaders have been arrested, accused of corruption. The SP press affirms that some 14 PT mayors (20% of the 68 elected in 2012) in the state will switch parties.


The PT is very fearful that it will suffer a strong reversal in the municipal elections and elect fewer Mayors and city council members than in 2012 – even [especially] in the Northeast, the region where Pres. Dilma had her best reelection performance in 2014. In João Pessoa, she received 55.57% of the valid vote and in the state of Paraiba, 64.26%.


➤ Stay tuned!!!!

1.5 – Administrative “Reform”??
Above (in Item 1.1) – the government listed at an “expenditure cut” an administrative “reform” with the reduction of the number of cabinet ministries (currently 38) and a reduction of political appointees → a R$ 2.0 billion “saving”.

Reportedly, this reform was to be announced on Wednesday, 16th September – BUT for a lack of consensus, no announcement was made. In addition to the reduction of cabinet ministries, there would also be some “changes” in the remaining cabinet posts (not eliminated).

On 14th September, this process was initiated by Prof. Roberto Mangabeira Unger who resigned his post as Secretary (minister) of Strategic Affairs) and returned to Harvard University. Obviously, Unger knew full well that his “micro-ministry” would be abolished (not incorporated) with this reform and decided to “jump ship” before Dilma defenestrated him. However – Mangabeira Unger left some “damage” behind. First, shortly after he joined Dilma 2.0 in January 2015, he quickly developed a gigantic plan for educational “reform” for Brazil that took the Ministry of Education by surprise. Unger also developed a “slogan” that was incorporated by Pres. Dilma into the logo of her government → Pátria Educadora – that has been widely ridiculed by politicians, educations, the press and society in general.

Addressing the question of administrative reform, Senate President Renan Calheiros (PMDB-AL) affirmed that the adequate number of cabinet posts should be “around 20”. This number is in a PEC that would impose this same cabinet size on the government. There are serious conflicts going on involving the parties in the Dilma support coalition and their deputies and senators – attempting to make sure that their “special” [pet] cabinet post will not be abolished or incorporated.

On Thursday, 17th September, former president Lula flew from SP to Brasília for a “conversation” with Pres. Dilma about this proposed administrative reform AND the content of the “correction” of the 2016 budget. There are strong rumors that Pres. Dilma will dismiss Aloísio Mercadante (PT-SP) from the Casa Civil position – a move demanded by the PMDB and certain “wings” of the PT. These rumors point to current Agriculture Minister Sen. Kátia Abreu (PMDB-TO) as Mercadante’s replacement. There are also rumors that Ricardo Berzoini (PT-SP) will replace Miguel Rossetto (PT-RS) at the General-Secretariat of the Presidency and that Institutional Relations (with Congress) would be incorporated into this Sec-General under Berzoini. Dilma’s special advisor and confidant, Giles Azevedo, would assist with congressional relations. Detail (1): Berzoini was appointed to Institutional Relations in Dilma 1.0. Detail (2): Pres. Dilma and Senator Kátia Abreu became close personal friends over the past two years. Detail (3): Rossetto “inherited” the Sec-General position from Gilberto Carvalho who held this position for 12 years under Lula and Dilma 1.0. A former Roman Catholic priest, Carvalho maintained a constant dialogue with the so-called “social movements” that strongly supported these PT governments. However, this support has waned considerably in Dilma 2.0 and these movements strongly oppose the proposed budget cuts.

1.6 – STF prohibits campaign contributions by firms

In a “historic” decision, on 17th September, the STF voted 8-to-3 to prohibit all election campaign contributions from firms [businesses] to individual candidates and political parties as unconstitutional – within the legal concept that “only individual citizens/voters should be allowed to
make such contributions, and that firms are not citizens/voters, and thus unduly influence the outcome of elections”. This decision will impact the 2016 municipal elections.

In 2014, 70% of Caixa Um [legal] campaign finance (duly reported to election courts) came from business firms. The OAB filed a suit directly at the STF challenging these contributions and the STF began deliberating this case in 2013. Judges Gilmar Mendes, Teori Zavascki and Celso de Mello voted in favor of maintaining these campaign contributions by firms.

Last week, the Chamber approved up to R$ 20 million campaign contributions to political parties by firms, overturning the Senate decision to prohibit these contributions. Pres. Dilma must sanction or veto this measure be 30th September. Most feel that she will use the STF decision to justify her veto.

This means that only campaign contributions by individual citizens/voters will be allowed. Obviously, this means that contributions by firms/businesses will continue at Caixa Dois – illegal, under the table, off the books campaign finance by firms. Unfortunately, the election courts do not have the financial and/or human resources to monitor and inhibit Caixa Dois campaign finance.

The OAB accused judge Gilmar of “gross behavior” during this STF session. STF President Ricardo Lewandowski decided to allow the OAB president (present at this session) to reply (rebut) the accusations by Mendes against the bar association. Mendes disagreed with Lewandowski and stomped out of the session in a huff.

Detail: Gilmar Mendes pediu vistas [requested to further study this case in April 2014 and only returned it for deliberation on 10th September 2015 – one year and five months later. Mendes retained this case awaiting Congress approval of campaign financing by firms. Within one week, the STF president put this case on the agenda. In April 2014, when Mendes pediu vistas, six judges had already voted in favor of this prohibition.

1.7 – TSE - re-open investigation of Dilma’s 2014 accounts

On 17th September, on a 4-to-3 vote, the TSE decided to reopen the analysis of the 2014 campaign finance accounts of Dilma Rousseff – in light of the plea bargaining testimony of certain CEOs of engineering/construction firms involved in the Petrobras bribery/cartel scandal who affirmed that they had been “coerced” to make “legal” contributions to the PT using illicit funds acquired via the Petrolão scandal. This analysis will begin on 22nd September using reports from the Federal Police and federal prosecutors from Curitiba.

1.8 – TSE accepts registry of 33rd party

On 15th September, the TSE accepted the official registry of Brazil’s 33rd political party – the Partido Novo [the “New Party”] – a very interesting name. This party delivered petitions with 492,000 signatures of voters who support the party’s creation. The Partido Novo constituted party directorates in nine states. The founders are mainly private sector professionals with no prior political experience, identified with “liberal” ideals. This party supports – legislative term limits (two), the end of the
obligatory vote, write in candidates, simpler rules for the creation of new parties, and the end of the national Party Fund.

The new party being organized by former presidential candidate Marina Silva (PV in 2010 & PSB in 2014) – Rede Sustentabilidade – expects official recognition by the TSE later in September.

2 – FOREIGN RELATIONS & TRADE

2.1 – Brazil declined 12 ranks on EFW Index

This week, the Canadian Fraser Institute released its Economic Freedom of the World (EFW) annual report 2015 based on data from 2013. In the previous edition of this report, Brazil was in 106th rank with a score of 6.54 on the EFW Index. In this 2015 report, Brazil was down 12 ranks to 118th out of 157 nations with a score of 6.34 -- on a scale from zero-to-ten. The five highest ranked countries were Hong Kong, Singapore, New Zealand, Switzerland and the Arab Emirates. The five worst were Venezuela, Congo, Libya, Chad and Syria.

http://www.cato.org/economic-freedom-world
http://exame.abril.com.br/economia/noticias/brasil-cai-12-posicoes-em-ranking-de-liberdade-economica

3 - REFORMS

⇒ See Item 1.5.

4 – PRIVATIZATION & REGULATION

4.1 – UTC sells share in Viracopos

In an effort to recover its financial situation after it was “devastated” by the Lava Jato investigation, UTC is finalizing the process of selling off its 23% share in the Viracopos Airport. On 17th September, bid submissions ended with three offers. The consensus of specialists in this area thought that there would be no bids over R$ 400 million, but Fortress (a US investment fund) filed a R$ 564 million bid – much higher than the two other offers. Triunfo, another share holder in Viracopos, has the right to cover the largest bid in this operation that is coordinated by the BB, Bradesco, BBI, Itaú BBA and Banco Santander – the main creditors (R$ 1.3 billion) of UTC.

Fortress administers some US$ 70 billion in assets and is represented in Brazil by Luiz Cesar Fernandes who participated in the organization of the Banco Garantia and Banco Pactual.
5 - ECONOMICS

5.1 – Federal Revenues ➔ “bad news”

The SRF (Federal Tax Service) reported revenues at R$ 93.7 billion in August ➔ -9.32% YoY (below the expected R$ 96 billion) – in spite of R$ 7.1 billion in “extraordinary revenues” from Refis. In July, tax collections were down by -3.13% YoY – the worst result for that month since 2010.

This is very bad news for the efforts to impose “fiscal austerity”. With the recession deepening, increasing taxes becomes more difficult, and indicates that the fiscal surplus must be obtained by severe cuts in expenditures.

5.2 – Brazil’s GDP declined

In 2013 & 2014, Brazil heralded the fact that it had the SEVENTH largest GDP in the world. Now, with a deep recession in 2015, Brazil has declined to FOURTEENTH rank – down seven notches in less than one year!! Some analysts compared this to the humiliating 7-to-1 defeat by Germany in the world cup soccer playoffs last year.

By the end of 2015, IF the optimistic predictions come true (a retraction of -2.5% GDP) Brazil should decline to 13th or 14th rank – BUT if the more pessimistic predictions are confirmed (retraction of -3.0%), Brazil’s decline should be larger.

When Brazil’s GDP was seventh rank (US$ 2.35 trillion GDP), Brazil was surpassed by the so-called G-6 ➔ US, China, Japan, Germany, UK and France. At the end of 2015, with the current recession AND the FX rate surpassing R$ 4.00/dollar – Brazil’s GDP will be close to US$ 1.3 trillion.

➔ Stay tuned!!!

5.3 – Jobs “lost” in 2015

A recent study by Firjan using Caged data produced two estimates of the number of “formal” jobs to be lost in 2015 ➔ A) 1,175,400 and B) 1,632,500. In scenario A) Firjan calculated the difference between jobs created and jobs lost in 2014 and January-July 2015 and the average was applied to the August-December 2015 period. In scenario B) Firjan used the average was calculated for the past three years and applied to the August-December 2015 period.

Between 1995 and 1999, Brazil had “negative” job creation – the worst year being 1998 when 518,700 jobs were “lost”. Through 2014, job creation was “positive, with 2,629,800 new jobs created in 2010. Even in 2009 (following the 2008 Wall Street “blowout”, 1,397,800 new jobs were created. However, after 2010 (in Dilma 1.0) the creation of new jobs declined steadily until 2014, when only 416,500 new jobs were created – the smallest result since 1999. If scenario B) is correct, in 2015 some 4% of Brazil’s “formal” jobs (with formal work contracts) will have been lost.

In the first seven months in 2015, 780,000 job were lost ➔ led by Industry (-227,000), followed by Commerce (-214,100), Civil Construction (-154,900), Services (-11,600), Mining (-8,100), and Public
Utilities (-1,400). The only sectors that had positive job creation were Public Administration (+12,700) and Agriculture (+110,000).

5.4 – Retail Sales decline in July

On 16th September, IBGE released the retail sales data for July ➔ -1.0% MoM and -3.5% YoY. This was the sixth consecutive monthly decline and was the worst result for July since 2000. The accumulated 12-month result is now -1.0%.

More dependent on the current “tight” credit situation, the sale of white line appliances was down by -1.7% MoM. Supermarket and food sales in general were down by -1.0% — because family incomes are down, prices have increased and unemployment has impacted family budgets.

5.5 – Deficit in Current Account declines

Because of the deepening recession and the increasing FX rate, as of April 2015, Brazil’s deficit in Current Account began to decline. The 12-month accumulation was US$ 103.5 billion in December 2014, US$ 99.4 billion in April 2015, US$ 92.6 billion in June 2015 and US$ 89.5 in July 2015. The Central Bank estimates that this 12-month deficit should decline to US$ 70 by December 2015. With the US$ approaching R$ 4.50 in 2016, analysts feel that by the end of next year the deficit in current account should reach US$ 30 billion.

5.6 – Industrial Sector

On 18th September, IBGE released industrial employment data for the month of July ➔ down by -6.4% YoY. The result for the first 7 months in 2015 was -5.4% and -4.9% for the 12-month period. This was the 46th consecutive month of industrial employment declines. This was the worst result for July since 2009 (-6.7%).