

NEWSLETTER

July & August 2018

August 07, 2018

Concer to file suit demanding new concession terms

Concer, concessionaire of the BR-040 highway linking Juiz de Fora, in Minas Gerais, and Rio de Janeiro, is preparing to go to court demanding the rebalance of its concession contract through capital injections or extension of the concession term, which is expected to end in 2021. The suit is expected to be filed by the end of September. The company, controlled by Triunfo Participações e Investimentos (TPI), argues that there are several terms not met by the federal government. Most of them are related to the construction of the new, 20km lane climbing to Petrópolis, originally estimated at R\$1 billion, to which the government had to make three capital injections, the first being in December 2014. According to the company, so far no payment has been received.

Source: Valor Econômico S. A.

<http://www.valor.com.br/international>

August 07, 2018

Experts recommend curbing forex impact on infrastructure loans

Lowering the impact of foreign exchange fluctuations on infrastructure financing is the top recommendation of industry experts consulted by the Secretariat of Strategic Affairs of the Presidency. The proposal is part of a list with 32 others surveyed by officials for the secretariat's fifth report. Fifty experts were interviewed between last October and January. The project's next stage, which dialogues with government sectors that can help move forward some of the issues identified in the study, has already started.

Source: Valor Econômico S. A.

<http://www.valor.com.br/international>

August 06, 2018

Bradesco prepares to launch new investment platform

After putting under the same umbrella the operations for individual investors of Ágora and its brokerage unit, Bradesco prepares to launch its investment platform on August 21. The site intends to be an entryway for clients and non-clients to its offer of traditional banking products, investment and pension funds, and third-party investment options. The new operation is born

with R\$600 billion to R\$700 billion invested by individuals and businesses, of which Bradesco has custody of about 10%.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

August 06, 2018

North and Northeast sugarcane mills turn to ethanol

Mills in the Northeast and North regions started the 2018/18 crop this month betting like never before on ethanol production. Mirroring the better local and national prices for the biofuel, ethanol is poised to overcome sugar output in both regions, say industry consultants and producers. INTL FCStone, for instance, tells Valor that it is forecasting a 25% bump in hydrated ethanol output, to 1.05 billion liters, and an 11% increase in anhydrous ethanol, to 1.98 billion liters, in both regions this year.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

August 03, 2018

Donors recover assets after proving ingratitude of recipients

Donors have been able to recover their assets in court because of ingratitude of those to whom they have benefited. The revocation of donations is provided for in the Civil Code, which establishes the hypothesis when this is possible, and jurisprudence of the Superior Court of Justice admits the seizure when such ungrateful acts are considered "serious." One example involved two brothers. After the donation, with right of usufruct of the donor's only property, his brother's family moved in with her, which deteriorated their relation. At the age of 68, she began to be target of aggression, had to stay confined in the bedroom, and only ate her meals out.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

August 03, 2018

Taxation on single-investor funds may 'export' domestic savings

The government's new proposal to tax single-investor funds, used to consolidate investments of wealthier families, kept taxation levied on gains accumulated over a six-month period, as was established in provisional measure 806, which expired in April. This point is likely to reopen legal discussions and anchors the estimated collection of R\$10.7 billion. If the bill is passed in its original version, one of the expected effects is the transfer of domestic savings abroad. "By adjusting the closed-end fund, the government is dealing with investors who can easily change their jurisdiction, a group that has a lot of mobility," says tax lawyer Ana Cláudia Utumi.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

August 02, 2018

BNDES to launch R\$5bn credit line to farmers settle debts

The Ministry of Finance authorized Wednesday the creation of a R\$5 billion credit line with funds from the Brazilian Development Bank (BNDES) for farmers from all over the country to renegotiate their debts, a government source said. Now BNDES only needs to publish a circular implementing the conditions for the new financing, since the Finance Ministry has already defined that the line does not depend on approval by the National Monetary Council, as it was considered before. The agribusiness industry expects the rules to be announced this week.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

August 02, 2018

CVM sets new rules for CRA offerings starting in October

Public offerings of Agribusiness Receivables Certificates (CRA) will have a new regulatory framework as of October, with specific rules defined by the Securities and Exchange Commission of Brazil (CVM). Until then, existing rules for Real Estate Receivables Certificates (CRIs) were used as a parameter for these issues, but CRA products did not always fit into the norms. One of the key changes was the definition of what could be considered as collateral for CRA offerings and who can issue them. The CVM has defined that the commercialization of agricultural products includes the activity of buying, selling, exporting, intermediating, storing and transporting fresh products, including ethanol and corn meal. In the first half, CRA offerings totaled R\$1.97 billion.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

August 01, 2018

Cteep tries to boost margins with lower capex

Power-transmission company ISA Cteep plans to complete two transmission lines won in June's auction, spending half of the R\$880 million projected by the Brazilian Electricity Regulatory Agency (Aneel). "We always commit to having a two-digit return on investment, and w've managed a few conditions that allow that, with an early start of operation, lower capex [capital expenditure] and more efficient financing structure," CFO and investor relations director Rinaldo Pecchio told Valor.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

August 01, 2018

States and municipalities show low demand for loans

Even as the federal government released R\$24 billion in late 2017 so the national financial system could extend loans to the public sector in 2018, demand from states and municipalities remains weak. According to a National Monetary Council's resolution, of the R\$24 billion, R\$17 billion can be borrowed with federal government collateral, and R\$7 billion without collateral. Experts say the low demand reflect states' and municipalities' difficulty to take on new debts, due to the limits imposed by the Fiscal Responsibility Law. Even so, state banks — Brazilian Development Bank, Caixa Econômica Federal and Banco do Brasil — see potential to increase their financing to local governments through public-private partnerships.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 31, 2018

Impeachment requests against Supreme Court justices on the rise

The Federal Supreme Court's (STF) predominant role in recent years has increased the number of impeachment requests against its justices. Since 2016, 26 requests have been submitted to the Senate — this year alone has seen seven requests. Of this total, 12 are still being reviewed. The most recent request is against STF Justice Dias Toffoli. A group of lawyers will present an addition to include into a request, among the arguments for the impeachment of Mr. Toffoli, alleged irregularities in financial transactions in Banco Mercantil. Mr. Toffoli is already target of two impeachment requests in the Senate. When contacted by Valor, the justice declined to comment.

Source: *Valor Econômico S. A.*

<http://www.valor.com.br/international>

July 31, 2018

Supreme Court set to rule on taxable status of Selic gains

The Federal Supreme Court has decided to issue a far-reaching ruling on the tax status of gains obtained by companies with Selic adjustments of court-ordered deposits, and by individuals receiving back tax overpayments. The case involves the Business Income Tax (IRPJ) and the Social Contribution over Net Profit (CSLL). Several businesses, including CEG, Hering, Riachuelo, Renner, mining and energy companies, are challenging the tax.

Source: *Valor Econômico S. A.*

<http://www.valor.com.br/international>

July 30, 2018

Market bets on stable Selic in 2018

The market is convinced that the Selic rate will stay at 6.5% after the Monetary Policy Committee (Copom) meeting ending on Wednesday. Even with elections on the way and growing external risks, most analysts believe the policy interest rate will remain at the same level by the end of the year. Although many economists surveyed do not rule out some kind of stress on market prices, especially in the foreign exchange market, only 4 out of 37 respondents expect the Selic to rise again this year.

Source: *Valor Econômico S. A.*

<http://www.valor.com.br/international>

July 30, 2018

Federal prosecutors threaten to block early renewal of railroads

The Federal Prosecution Service (MPF) has warned the National Agency of Ground Transportation (ANTT) it could legally challenge the early renewal of railroad concessions unless officials take into account at least 11 aspects linked to procedures, technical issues, selection criteria and ongoing liabilities of the companies involved. Nine prosecutors signed a letter to the regulator's director-general, Mário Rodrigues Jr., recommending holding back the new contracts until the issues they raised have been solved. The recommendation acts as a

warning from the MPF of potential legal battles ahead for the process, in which the government plans to grant another 30 years to five key concessions in exchange for investments.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 27, 2018

Liability inhibits regulatory action on infrastructure

Adalberto Vasconcelos, Special Secretary of the Investment Partnerships Program, blamed personal liability fears for a “blackout of pens” at regulatory agencies that is affecting infrastructure investments in Brazil. Regulatory workers worry about becoming personally responsible for the failure of important projects, resulting in widespread delays. Mr. Vasconcelos, who was the sole government representative at the “E agora, Brasil?” seminar promoted by O Globo and Valor, called for a pact between the three branch of governments to unfreeze infrastructure investment.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 27, 2018

Estimates point to GDP growth close to zero in Q2 but above 1% in Q3

The recovery of some economic activity indicators in June will not be sufficient to prevent growth in the second quarter from being close to zero. However, the so-called statistical carry-over may ensure a seasonally adjusted GDP expansion above 1% in the third quarter compared to the previous three months. This is the assessment of the government economic team, which believes there is zero chance of GDP growing less than 1% this year. Last week, the government cut GDP growth estimates for this year to 1.6% from 2.5%.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 26, 2018

Court rulings uphold reduction of tax credits to exporters

Two court rulings upheld the reduction of tax credits granted to exporters through program Reintegra, established by a federal government decree this year. In the first, the Federal Justice suspended an injunction that provided, up to August, a 2% credit on export revenues to members of the Federation of Industries of the Espírito Santo State (Findes) and the Espírito Santo Industry Center (Cindes). According to the Attorney’s Office of the National Treasury (PGFN), the extension until late August would have an estimated impact of R\$1.7 billion on revenue collection. The other ruling denied a request from the Federation of Industries of the State of São Paulo (Fiesp) and the São Paulo Industries Center (Ciesp) to postpone to 2019 the reduction of credits to 0.1%.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 26, 2018

Brazil will ask China for 5m-tonne export quota of soy meal and oil

Brazil will ask China to allow an export quota of 5 million tonnes of soybean meal and oil, says Agriculture Minister Blairo Maggi. He believes the ongoing trade war between China and the US

may favor grain sales, but it can also make soybean meal more expensive in the medium term and hurt competitiveness of poultry and pork. On top of that, the country may lose market share in the processed soy segment. Mr. Maggi says he will also discuss lifting the Asian country's antidumping measures on Brazilian poultry during a meeting with Chinese President Xi Jinping on the sidelines of the BRICS summit in Johannesburg.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 26, 2018

Weak job market and subdued inflation sign sluggish recovery

While still under the effects of the truckers' strike in May, recent employment and inflation data show the economy is recovering at a slow pace. Itaú Unibanco points out that a new inflation core measure recently introduced by the Central Bank, called IPCA-EX2, which measures more sensitive components to the economic cycle in services, industrial goods and food at home, slowed to 0.23% in July after climbing 0.3% in June. On the other hand, the General Register of the Employed and Unemployed (Caged) showed a net loss of 611 jobs economists expected an average net creation of 46,000 jobs.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 25, 2018

Wage bargaining deals drop 40% after labor reform

The number of wage agreements has fallen 39.6% in the first half from the same period of last year as the labor reform took its toll, according to the Salariômetro bulletin of Fipe. The agreements that did succeed, however, feature real wage increases. Collective bargaining deals encompassing an entire category of workers experienced a steeper drop (45.2%) than those signed by individual businesses and their workers. Hélio Zylberstajn, who coordinates the Salariômetro wage-monitoring project, says companies are removing clauses they disliked when unable to reach a deal with workers.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 25, 2018

Agribusiness invests in truck fleet to smooth freight rates

With the imposition of minimum prices for truck freight, which are awaiting the signature of President Michel Temer, agribusiness companies are resorting to the creation or increase of their own truck fleets for shipments. Cargill, the largest exporter of Brazilian soybeans, is considering investing in its own fleet of trucks and hire drivers for the 2018/19 harvest. Coamo, the largest agricultural cooperative in Latin America, has just completed the acquisition of 152 new trucks, which had already been approved to renew its fleet of 280 vehicles. But the company awaits the definition of the freight table to decide on the next steps. For bulk cargoes such as soybeans and corn, long-distance freight rates proposed so far are, on average, 30% to 50% higher than those charged before the truckers' strike, according to estimates.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 25, 2018

Ibovespa recovers as confidence in economy improves

The lack of confidence in the economy and in the stock market seems to have bottomed out, driving the recovery of Ibovespa. In July, the Brazilian market bellwether has risen almost 9%, although without surpassing the 80,000-point mark. Still, analysts believe the recovery is consistent, bolstered by promised stimulus to the Chinese economy, Moody's decision to give the investment grade back to mining giant Vale, and steel price hikes. Meanwhile, the Consumer Confidence Index measured by Fundação Getulio Vargas (FGV) rose in July for the first time in two months, to 84.2 points.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 24, 2018

Crisis made self-employment even more precarious

Workers who turned to self-employment amid the recession are earning up to 33% less than those that had been already working that way, according to data from the Brazilian Institute of Geography and Statistics (IBGE) until 2017. About five million workers became self-employed in 2015 and 2016 to survive amid mass unemployment and dwindling opportunities but found worse occupations. About 25% of Brazilian workers today are independent.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 24, 2018

Eletrobras board to approve extension of distributors operation

The board of directors of Eletrobras is expected to support extending the operating authorization of six power distributors from July 31 to December 31. The final decision on the matter will be taken at a shareholders' meeting next week in Brasilia. The extension is fundamental to allow the privatization of these companies to occur during this second half. As first reported by Valor, the board's green light came after the publication last week of an ordinance of the Ministry of Mines and Energy ensuring the "economic neutrality" of the distributors' operation on Eletrobras, giving legal certainty for its shareholders to approve the extension of their operations' timeframe. Without the ordinance, the Eletrobras's board would likely support the distributors' liquidation as early as this month.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 23, 2018

Former central banker sees "extremely favorable" outlook for economy

Former central banker and economist Francisco Lopes disagrees with most of his peers. On the one hand, the now-consultant sees exaggerated pessimism about the economy's performance this year, which he called a "mongrel complex." On the other hand, Mr. Lopes thinks there is exaggerated optimism about inflation, which he forecasts will break the target's ceiling and reach 7% next year. Mr. Lopes believes that the next president will find the Brazilian economy in an

"extremely favorable" position, with a ceiling for public spending, a monetary anchor in operation, high foreign-exchange reserves, a surplus in current transactions and growing close to 3%. For him, the political scenario points to the election of a "non-disruptive" president. In his opinion, the truckers' strike affected expectations for this year's GDP, mainly through the services sector. He is betting on GDP growth of 1.7% this year and 2.8% in 2019.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 23, 2018

IPCA poised to post first deflation since 1998 in August

Still not fully eliminated in July, the impact from the truckers' strike is likely to again bring down inflation in August. With projected declines for food and fuel prices, economists surveyed by Valor even forecast deflation for the Extended Consumer Price Index (IPCA) next month. FGV's Brazilian Institute of Economics (Ibre) estimates a 0.1% decline for the IPCA in August, when food at home prices are poised to drop 1%. The last time the IPCA showed deflation was in 1998, when the index fell by 0.51% in the period.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 20, 2018

TCU objects to rules of North-South Railroad auction

Experts from the Federal Court of Accounts (TCU) would like the government to hold back on auctioning the North-South Railroad until it can be completely clear how to solve the right-of-way controversy to the ports of Itaqui and Santos, respectively in Maranhão and São Paulo. The spending watchdog warns that without a deal in that area the concession risks becoming "economically nonviable" for newcomers and limit competition to companies that already control access to the ports: Rumo and Vale. The TCU report, to which Valor had access, could pull the break on the government's plans to auction the railroad still this year. The minimum bid for the 1,537km of tracks linking Porto Nacional (Tocantins) with Estrela D'Oeste (São Paulo) has been set at R\$1.1 billion for a 30-year concession.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 20, 2018

All states to post GDP growth in 2018 and 2019

Despite the slow economic rebound, all 27 federation units are poised to show positive rates this year and in 2019, result not achieved since 2011, when Brazil's GDP grew 4%. Tendências Consultoria forecasts national GDP growth of 1.7% in 2018 and 2.9% in 2019. The GDP of 8 of out of the 27 Brazilian states is expected to go back to pre-crisis levels by the end of next year. In addition to Mato Grosso and Mato Grosso do Sul, driven by positive agribusiness performance, the list includes five states of the North in addition to South's Santa Catarina. There is no state from the Southeast or Northeast regions. The estimates, made by Tendências Consultoria economists Adriano Pitoli and Camila Saito, cover regional performances of the 2016-2019 period.

Source: Valor Econômico S. A.

<http://www.valor.com.br/international>

July 19, 2018

BNDES shifts financing strategy to clients instead of projects

The Brazilian Development Bank (BNDES) is changing its financing strategy to focus on clients, and no longer on projects. In an interview with Valor, strategic and digital transformation director Ricardo Ramos said that the development bank wants to offer individualized credit limits for companies that will choose the lines that best fit their needs. "The relation will depend on the client and not on the presentation of the project," Mr. Ramos said, noting that this is likely to accelerate the release of funds. BNDES wants to have a broad digital operation in the coming years, and has already approved a pilot program of online direct financing (without other banks as intermediaries) of machines and equipment for midsized and large companies. The program starts with 20 companies that are already clients and will be open for other firms from the end of August.

Source: Valor Econômico S. A.

<http://www.valor.com.br/international>

July 19, 2018

Automakers banks give boost to financial bill market

The market for financial bills, bonds issued by banks with a minimum term of two years, is again on the rise. In the first half, financial bill offerings totaled R\$4.06 billion — four times the volume raised in same period last year and the highest amount since 2012, as automakers' banks that access this market are taking advantage of the increased demand. Banco Toyota made its second public offering of financial bills totaling R\$500 million for two and three year-bonds (102.80% of the interbank deposit rate, or CDI), compared with R\$300 million raised in a similar transaction last year (103% of CDI).

Source: Valor Econômico S. A.

<http://www.valor.com.br/international>

July 18, 2018

Paper Excellence aims to finish Eldorado deal by early August

Paper Excellence, controlled by the same owners as Asia Pulp & Paper, expects to finish acquiring Eldorado Brasil by August 10. The company has until September 1 to finalize the transaction, and confirmed Tuesday it will pay about R\$4 billion for the remaining 50.6% of the pulp producer's shares it still doesn't control. Sources familiar with the matter say PE has already secured the required capital to finalize the deal, which valued the Brazilian company at R\$15 billion and happened in several stages.

Source: Valor Econômico S. A.

<http://www.valor.com.br/international>

July 18, 2018

Sanitation companies praise regulatory reform

The new regulatory framework of sanitation, enacted by President Michel Temer through a provisional measure that must be voted by Congress in 120 days to stay in effect, is earning praise from industry companies that had always complained about the sector's municipalized logic and tariff uncertainty. The reform standardizes contracts and empowers the National Water

Agency (ANA) to regulate tariffs set by 49 different local agencies. Águas do Brasil, which already has operations in Rio de Janeiro, São Paulo and Minas Gerais, says it has already mapped opportunities and sees 40 to 50 municipalities where it could operate.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 17, 2018

Eletrobras workers cancel strike but push for profit sharing talks

Eletrobras employees have backtracked from the decision to go on strike this Tuesday and will only protest in front of the state-owned utility's office in Rio de Janeiro. Workers oppose the privatization of Eletrobras distributors and also of the holding company, in addition to the sale of assets, and demand the resignation of CEO Wilson Ferreira Júnior. Unions linked to Eletrobras generation and transmission units have decided to give up the 24-hour strike after the company's board signaled the intend to hold talks on the 2017 profit sharing program. A meeting between the parties to discuss the matter is scheduled for next Thursday.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 17, 2018

Chief justice blocks health co-pays authorized by regulators

Chief Justice Cármen Lúcia has suspended a resolution of the National Regulatory Agency for Private Health Insurance and Plans (ANS), according to which patients would have a co-pay of up to 40% of the amount of medical appointments and lab tests. Her decision comes after a request filed by the Brazilian Bar Association (OAB) and was taken on a preliminary basis, since the regular rapporteur on the case is Federal Supreme Court Justice Celso de Mello. The chief justice is on duty during the judiciary's recess this month. In the text made public Monday, Ms. Lúcia states that the ANS resolution negatively impacts millions of policyholders, "many of them in a state of vulnerability and undeniable hypo-sufficiency." At the end of the recess, Justice Mello will review Ms. Lúcia's ruling and send it to the Supreme Court's plenary.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 16, 2018

Government collecting pension overpayments after court ruling

The National Institute of Social Security (INSS) is collecting overpayments from retirees who decided to return to work and keep contributing to the system and then asked for a benefit review. The Federal Supreme Court (STF) ruled the procedure illegal in 2016. The STF has yet to rule on the payments already made to retirees, currently targeted by an appeal from the Brazilian Confederation of Retirees. Beneficiaries are having to file suit to avoid discounts on their benefits. One example is a woman from Paraná who has recently received a collection letter for R\$224,200 and a warning that the INSS would retain up to 30% of her benefits.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 13, 2018

Changes to 2019 budget keep control on mandatory expenses

The changes made by lawmakers to the 2019 Budgetary Guidelines Law (LDO) during a vote in the early hours of Thursday did not completely remove controls on mandatory federal spending next year. Some provisions, such as Article 109-A, for example, stipulate that mandatory expenditure subject to the spending ceiling can only be created in 2019 if another mandatory expense of an equivalent amount is canceled. With this general guideline, salary increases or new posts can even be proposed, but whoever does it will have to indicate which mandatory expenditure will be cut.

Source: *Valor Econômico S. A.*

<http://www.valor.com.br/international>

July 13, 2018

Carf starts allowing tax avoidance in acquisitions

The Administrative Council for Tax Appeals (Carf) has issued at least five first-instance rulings allowing tax avoidance strategies in corporate acquisitions that involve capital reductions and later negotiations with the owner as an individual. The maneuver cuts the Income Tax rate on the deal to between 15% and 22.5% from 34%. The matter has yet to reach the body's Superior Chamber, but some attorneys believe a favorable precedent to taxpayers is being created.

Source: *Valor Econômico S. A.*

<http://www.valor.com.br/international>

July 12, 2018

Lower house passes amendment to allow political appointments

The Chamber of Deputies passed on Wednesday a change in law 13,303 of 2016, known as the State-Owned Enterprise Responsibility Law, which opens the way to again allow political appointments to management and boards of directors at state-run companies. According to the modification made by the deputies, the appointment of party leaders and their relatives to the command of state-owned firms is again permitted. This type of meddling was banned in the early months of the Michel Temer administration and boasted to investors as a sign of improved governance at state-controlled enterprises. The amendment of Deputy José Carlos Araújo (Party of the Republic, PR, of Bahia) was passed in a symbolic vote and incorporated into the text of rapporteur Danilo Forte (Brazilian Social Democracy Party, PSDB, of Ceará) for the new general law of regulatory agencies.

Source: *Valor Econômico S. A.*

<http://www.valor.com.br/international>

July 12, 2018

Secretariat wants veto to creation of data protection regulator

The Secretariat of Digital Policies (Sepod), linked to the Ministry of Science, Technology, Innovation and Communication, will recommend President Michel Temer to veto the creation of a data protection regulator, provided for in the law passed Wednesday by the Senate. But for attorney Daniel Pitanga, of Siqueira Castro Advogados, "this [veto to the creation of the agency] would weaken [the law]". The argument is that the legislative branch does not have the prerogative to propose the creation of a new agency -- only the executive branch --, which would lead to the increase of expenses and administrative reorganization in the government.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 12, 2018

Mercosur-EU trade deal close to materializing, sources say

The political announcement of a free trade agreement between Mercosur and the European Union may be close, high-ranking sources say, based on the progress of negotiations this week in Brussels. Despite some skepticism, after talks that have been dragging on for 20 years, sources confirm that negotiators could still make progress until this Friday. They would leave open a few points to be decided by Mercosur ministers and EU's Trade and Agriculture commissioners, which have a meeting scheduled for the 18th in Brussels. Ministers and commissioners of both blocs should basically decide on a balance of the agreement's ambition. If concessions in agriculture on the European side are still modest, Mercosur would not open more its automotive sector, for example

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 11, 2018

Weak economy and electoral uncertainty dominate business concerns

Companies are curbing cash reserves and slowing the pace of investments, among other changes, due to the weak economy and political uncertainty ahead of the October elections, according to a new study by the Business Administration School of São Paulo at Fundação Getúlio Vargas. The deteriorating economic activity had the biggest impact on 75.8% of businesses, followed by the elections at 41.8%. The survey contacted 153 business owners between late March and April, before the weaker-than-expected first quarter GDP figures were disclosed and prior to the truckers' strike, which triggered a wave of downward revisions.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 11, 2018

Bimonthly report expected to downgrade GDP growth forecast

The government's next bimonthly report of revenues and expenses, slated to be released on July 22, probably will present a significant reduction in the economic growth forecast for this year. Valor has learned that the figure likely will be similar to what the Central Bank has already released, at 1.6% GDP growth, or the market's 1.5% expectation. The last report, released in May, brought a GDP growth forecast of 2.5%.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 10, 2018

UN environmental officials urge more sustainable investment

The world needs to accelerate the transforming process of its economies, and the productive and financial industries are pillars of this change, say the two top UN environmental officials, Achim Steiner, UNDP administrator, and Erik Solheim, executive director of UN Environment

Program. Mr. Steiner praises the progress made, but points to serious problems: emissions are not low enough and global levels of production, consumption and pollution are unsustainable. Criticism also hits the private sector, the financial market and capital investors, who do not invest at the required scale in the environment. Since 2010, for example, global investment in sustainable forests has reached \$20 billion, while \$777 billion were invested in the opposite direction: deforestation.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 10, 2018

Increasing delinquency challenges free energy market

The lack of a solution to generators' hydrological risk problem is fueling a new judicialization wave in the spot energy market. The power-trading firm of BTG Pactual, the largest single creditor in the segment, got a court ruling to get past other creditors. Valor has learned that the company has pending credits totaling R\$1.2 billion. The settlement of May transactions, which will be completed on Wednesday, is likely to again be marked by a high delinquency rate. The funds collected should be destined to a few creditors, all protected by injunctions. In the settlements concluded in the first half (from November 2017 to April 2018), creditors without injunctions received no more than 10% of what they were entitled to.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 10, 2018

Projections for 2018 inflation rise as dollar keeps strengthening

After confirming the strong acceleration of inflation in June, reflecting the truck drivers' strike, analysts are turning their attention to the effects of the real's devaluation against the dollar on the Extended Consumer Price Index (IPCA). Itaú Unibanco and MacroSector, for example, raised their projections for 2018 inflation to 4.2% (from 4.1%) and 4.3% (from 4.2%), respectively, mirroring, in addition to the weaker real, higher electricity bills in São Paulo. So far, economists had believed the economy's excess capacity would limit the pass-through. But the external scenario points to a continuous dollar strengthening, triggered by rising US interest rates and increased trade tensions.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 09, 2018

Rota 2030 sets precedent to change 'Lei do Bem'

Rota 2030, the new automotive regime that grants tax incentives in exchange for investments in research and development, has extended the timeframe of the so-called Lei do Bem (Law of Goods). Created in 2005, the legislation only allows incentives to be used in the same year of the investment. As a result, companies that do not post a profit and do not have tax income to be paid are not entitled to the benefit. Rota 2030 extends the right to the benefit for 15 years for automakers, with renewal every five years. This may set the precedent for other industries and companies to claim the same treatment, experts say.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 09, 2018

Regional governments can cut payroll expenses without changing laws

Reducing personnel expenses in regional governments largely demands revision of laws or statutes on government workers. But a survey carried out by consultancy Oliver Wyman, based on data from six states, shows that changes in general laws and regulations related to personnel spending can cut by up to one-third payroll costs in a four-year period. Of this reduction, about 30% can be achieved without revision of laws or statutes that need approval in the Legislative Assembly or in the City Council.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 09, 2018

Durable goods notch above-average sales

Sales of durable goods, especially vehicles, are rising above the retail sector's average. Data compiled by LCA Consultores show segments whose sales are fueled by credit increasing 9.9% in the 12 months ending in April, while products more dependent on incomes like fuel and groceries rose only 2.6%. Experts say segments linked to credit should keep leading sales this year as the recovery of incomes and jobs drags on.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 09, 2018

Higher IPCA increases government spending margin in 2019

With higher inflation in May and June, especially after the effects of the truckers' strike and of the weaker real against the dollar, the government's margin to spend in 2019 will be bigger. The spending ceiling set for 2019 is expected to reach R\$1.407 trillion compared with this year's R\$1.348 trillion. The margin for expenses will rise, therefore, by R\$59 billion. The 12-month official inflation IPCA through June stood at 4.39%, compared with the 3% estimated previously by the government and economists before the recent shocks.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 06, 2018

Capital markets boost Brazilian wealth creation

Growing capital-market activity helped Brazilian generate wealth in the post-recession period, according to data from the Boston Consulting Group. After three years practically without any capital-market events, a wave of mergers and acquisitions, share offerings and more significant dividends provided an 11% boost to Brazilian wealth last year, and is expected to provide a 10% bump in 2018 to R\$1.8 trillion. Considerably lower interest rates also favored risk-taking, with some investors able to capture good returns.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 06, 2018

Delay on definition of state to house bankruptcy cases affects firms

A procedural issue has delayed the economic, administrative and financial reorganization of companies such as Gradiente. The electronics manufacturer discusses with creditors in court what would be the state to house its judicial recovery case. Started in Manaus, it was transferred to São Paulo, but a few days later the case returned to the Amazonas capital until courts rule on the matter. Attorney Júlio Mandel, of Mandel Advocacia, points out that the legislation has not been clear since 1945. "The most defended theses are: from where the business is commanded, where the statutory headquarters is based, and where assets are concentrated. When all three coincide, there is no problem. When not, the confusion begins," he says.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 05, 2018

Industrial production heading to 4% drop in second quarter

After a 10.9% drop in May's industrial production month-over-month, the manufacturing industry is expected to only partially recover its losses in June, which could lead to a 4% decline in the second quarter. In the first quarter, the indicator was flat in comparison with the last three months of 2017. May's 11% drop also led industrial production back to August 2003 levels. The indicator was affected by the truck drivers' strike, which lasted 11 days in May. Of the 805 products surveyed by the Brazilian Institute of Geography and Statistics (IBGE), 561 or 70% showed a drop in production. The decline reached all economic segments: durable goods (-27.4%), capital goods (-18.3%), semi-durable and non-durable (-12.2%), and intermediaries (-5.2%).

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 05, 2018

Chamber vetoes changes to bill allowing Petrobras to sell oil rights

The Chamber of Deputies on Wednesday rejected all three proposals presented by opposition parties to change the bill allowing Petrobras to sell its rights to explore 70% of the onerous transfer of rights in the pre-salt field in the Santos Basin. As the text passed, it will now be sent to the Senate. However, the legislative branch goes on recess next week, and the bill will likely be debated only in August. The government expects to use the bill to capitalize Petrobras on the sale of that area, and resolve the impasse over the surplus oil barrels found in the region. The auction, which could fetch around R\$80 billion, would help balance public accounts next year and comply with the so-called golden rule preventing the government from taking on debt to pay for expenses.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 04, 2018

Justice minister warns against lofty electoral hopes

Brazil's Minister of Justice, Torquato Jardim, manifests a profoundly pessimistic view about the challenges ahead of October's elections. "The co-optation presidentialism will not change with the elections, whoever is chosen," he says, adding that he hardly expects them to produce a leader capable of rebuilding the country, particularly given the forecasts that only 40% of congressional seats will be renewed. Based on his eight years at the Superior Electoral Court (TSE), Mr. Jardim warns that the executive and legislative branches have to regain the political initiative currently dominated by special interests.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 04, 2018

Government expects BNDES to reimburse R\$70bn still in first half

Even without requiring the funds to comply with the so-called golden rule this year, the government will not change the timeline agreed with the Brazilian Development Bank (BNDES) so the institution can reimburse in advance, still in the first half, more than R\$70 billion in loans received from the National Treasury, a senior government source said. The reason is that the government needs the money to keep the public sector's gross debt in the projected trajectory, the source explained. The R\$70 billion to be returned by BNDES accounts for one percentage point of GDP.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 03, 2018

Insured bonds could raise R\$4bn in first year of launch

The first bonds protected by insurance will likely be sold by September in Brazil, say people taking part in the creation of the security, which may be CDBs (bank deposit certificates) or financial bills. Between R\$3 billion and R\$4 billion could be raised in the next year selling the bond, which for additional safety would be backed by a credit receivables portfolio held by insurers. Detaching receivables from the bonds is considered essential to attract institutional investors, who maybe could not analyze the risk of each portfolio, so their collateral is actually the insurance, a source says, noting that this investor profile may cheapen funding of midsize banks.

Source: *Valor Econômico S. A.*
<http://www.valor.com.br/international>

July 03, 2018

Shipping companies set precedent in payroll pension-tax law

Three maritime companies -- Navegação São Miguel, Brasbunker Participações and Navemestra Serviços de Navegação -- succeeded in getting courts to temporarily suspend a 20% payroll tax and allow them instead to continue paying 1.5% of gross revenue and saving nearly R\$3.6 million -- possibly leading other companies affected by the elimination of a tax program to file for court protection as well. A 2011 law allowed companies in some industries to pay social security taxes on revenue rather than on payroll. A decree last year did away with the new regime, but it was temporary and expired before Congress could convert it into law. President Michel Temer issued another decree revoking the measure earlier this year, but lawyers argued that revoking the measure means increasing taxes, and that tax increases should only go into effect at the start of the next fiscal year.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 02, 2018

Saint-Gobain chief executive more cautious on sales growth

Saint-Gobain will keep its projection for sales growth in the construction segment in Brazil at between 5% to 6% this year, despite the 8% expansion seen from January to May. Saint-Gobain president Thierry Fournier says that due to political uncertainties the group is expecting slower growth in the second half. "I'm more cautious than at the beginning of the year." Saint-Gobain plans to increase production capacity of flat glass, fiber-cement slates and mortars in Brazil in the next three years, but the investment will depend on the outcome of the election, Mr. Fournier says.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 02, 2018

Caixa CEO says state bank has capital to grow

Nelson Antonio de Souza, who took over as head of state bank Caixa Econômica Federal three months ago, says the lender has enough funds to grow 4% this year and leverage expansion further next year, although it doesn't want to crowd out private-sector lenders in the process. The bank is also seeking a better balance to its portfolio after focusing on low-income housing and reducing commercial lending, Mr. Souza said in an interview with Valor.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>

July 02, 2018

WTO reforms to reduce influence of Brazil, India

In the current environment of a global trade war, a new configuration of power will likely result at the World Trade Organization where Brazil and India lose power. Efforts to "modernize" the WTO in order for the US, the EU, and Japan to challenge China's subsidies for its industry will likely end up sidelining the agriculture sector – where Brazil plays a leading role – while more flexible negotiations means India won't be able to continue impeding talks out of fear of any trade liberalization measures.

Source: Valor Econômico S. A.
<http://www.valor.com.br/international>
