

NEWSLETTER

March 2020

March 2, 2020

Eneva proposes R\$6.6bn merger with AES Tietê

Eneva, the largest operator of thermal power plants in Brazil, controlled by BTG Pactual and Cambuhy Investimentos, has proposed a merger to the board of AES Tietê. If approved, the R\$6.6 billion deal – 60% in shares of Eneva and the rest in cash – would create the second-largest private-sector generation company in Brazil, with 6,100 megawatts in capacity and annual revenue of R\$5 billion. Under the proposed format of the deal, Cambuhy and BTG would each get 17.8% of shares, while US-based AES Corp. would get 5.5%, the Brazilian Development Bank (BNDES) would get 6.5% and Eletrobras 1.8%

Source: *Valor Econômico*

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

March 3, 2020

Real-estate launches and sales forecast to grow 10% to 20%

Brazil's new mortgage options and economic recovery prospects encourage the Brazilian Chamber of the Construction Industry (CBIC) to forecast 10% to 20% growth in new developments and sales in 2020. New-home starts rose 15.4% in 2019 from the previous year to about 130,000 units, while sales also stood at 130,000 units, increasing 9.7%. CBIC President José Carlos Martins estimates medium and luxury standard homes experienced nearly 30% growth in sales. At the same time, those of housing program My House, My Life, which are focused on low-income buyers, dropped 10% to 15% due to new restrictions on using Workers' Severance Funds (FGTS) to finance purchases. "We had problems again in this quarter," he said. A definitive solution for the impasse in the so-called 1.5 and 2 brackets of the program could boost the low-end market, he added. CBIC surveyed ten metropolitan regions of Brazil to obtain the data.

Source: *Valor Econômico*

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

March 4, 2020

Rural credit disbursements on the rise

Rural credit disbursements totaled R\$126.1 billion in the first eight months of the 2019/20 harvest (July through February), almost R\$10 billion more than in the same period of the 2018/19 cycle (R\$116.8 billion), according to Central Bank data compiled by Valor. Disbursements for payment of ordinary expenses grew 6% to R\$69 billion but the main increase was in borrowing for industrialization, which is up almost 70% to R\$8.2 billion. Demand for investments loans continued strong in February and the total amount used in the first eight months of the harvest increased by almost 20% to R\$35 billion.

Source: *News Now*

<https://www.newsnow.co.uk/h/>

March 6, 2020

STJ's ruling reduces tax basis for contributions to S System

A decision of the 1st Panel of the Superior Court of Justice (STJ) limits to 20 minimum wages the tax basis for calculating the education allowance and the contributions for entities such as the S System, a group of tax-funded professional training entities operated by employers' trade groups, and National Institute of Land Reform and Colonization (INCRA). The unanimous understanding allows chemical company Rhodia Brasil to reduce its payroll tax burden — on average, the total cost of these contributions is 5.8% per month. The ruling is also a precedent for other taxpayers. Today, 20 minimum wages amount to R\$20,780. Rafael Pinheiro Lucas Ristow, a partner at law firm BCOR Advogados, says that because it is a recent decision and there is no other one to the contrary, the federal government will not be able to appeal.

Source: *Valor Econômico*

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

March 9, 2020

Coronavirus raises questions about corporate debt recovery

Uncertainties about the coronavirus' impact on the economy threaten the recovery of credit in Brazil, particularly business loans. They are the old enemies of lending, particularly investment financing – and those are the credit lines that should contract the most if the epidemic causes a slowdown of activity, say bank executives and economists. So far, there has been no visible impact, but if weak GDP forecasts are confirmed, credit will suffer along with them. “The impact [of the outbreak] should be deeper and more prolonged than imagined,” says Alberto Ramos, Latin American research director of Goldman Sachs, which recently downgraded its Brazilian growth forecast to 1.5% from 2.2%.

Source: *Valor Econômico*

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

March 9, 2020

Brazil and US sign defense development agreement

The governments of Brazil and the US signed on Sunday an agreement for the development of defense projects, as part of President Jair Bolsonaro's visit to President Donald Trump in Florida. The deal could give Brazil access to a \$100 billion American fund as part of joint development deals with US companies, and expand sales of Brazilian products to the American defense market. On Saturday at his resort in Palm Beach, President Trump, sitting alongside Mr. Bolsonaro during a dinner, said he would not make any promises on imposing new tariffs on Brazilian products. The US president backed out in December from imposing tariffs on Brazilian producers of steel and aluminum. Roberto Abdenur, a former Brazilian ambassador to the US, admitted the defense agreement's importance and that both countries have been offering moderate concessions but adopted a more critical tone by describing it as another development in the submissive approach of Mr. Bolsonaro to Mr. Trump on such global topics as environment, Middle East tensions and economic embargoes. Brazilian officials also exaggerated the agreement's profile by describing it as a “strategic alliance,” a strong term that was absent from the joint statement or even from Mr. Trump's speech.

Source: *Valor Econômico*

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

March 10, 2020

Banco do Brasil, Caixa, studying emergency working capital lines

Banco do Brasil and Caixa Econômica Federal will expand working capital lines to provide companies with enough liquidity amid widespread instability triggered by the covid-19 outbreak. While claiming the turbulence will be temporary, the CEOs of both state-owned banks told Valor they could reinforce credit if required. BB CEO Rubem Novaes said the bank already has tools capable of facing the moment. At the same time, Caixa CEO Pedro Guimarães stated later he is studying whether to provide short-term liquidity to small and midsize companies. “We haven’t seen the need yet,” he said.

Source: *Valor Econômico*

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

March 11, 2020

Insurers will have to disclose broker fees

Brazilian insurers will have to disclose broker fees starting on July 1, as part of a regulatory overhaul not only for them but also for private-sector pension funds. The reform also consolidates a new legislative interpretation of the rule that allows the Superintendence of Private-Sector Insurance (Susep), following a resolution of the National Council of Private-Sector Insurance, to regulate the sector. “The goal is to offer more flexibility and options for consumers, aside from lowering costs,” Susep director Fafael Scherre says. Susep officials say the average insurance broker fee in Brazil is 20%, among the highest in the world. The fee is as high as 59% in the extended warranty segment.

Source: *Valor Econômico*

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

March 12, 2020

Economists prescribe fiscal stimulus to mitigate pandemic's effect

Amid a growing threat of more severe effects from the new coronavirus on activity, some economists say monetary policy is now insufficient to cope with the negative shock and argue that the government needs to inject money into the economy despite its fiscal constraints. Simão Silber, professor of the Economics and Business School of the University of São Paulo (FEA/USP), says that amid a supply

shock production is interrupted and monetary stimulus can't boost activity. "The Central Bank may lower interest rates, but it will only encourage demand when there is demand." But Bráulio Borges, an associate researcher at Fundação Getúlio Vargas's Brazilian Institute of Economics (Ibre-FGV), says that making this change "in the eye of the hurricane" would be imprudent despite being a long-time critic of the spending cap. Tampering with fiscal rules at a time of strong risk aversion could increase uncertainty and further reduce the confidence of economic agents, according to him.

Source: *Valor Econômico*

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

March 17, 2020

Courts get ready to operate online

In a decision followed by several other courts in Brazil, the Superior Court of Justice announced on Monday that it would halt all in-person trials until March 27. The Federal Regional Court of Rio and the Regional Labor Courts of São Paulo and the Federal District have followed the decision. State courts in Rio de Janeiro, Rio Grande do Sul and São Paulo, and the Administrative Council for Economic Defense, have followed suit. The suspension of in-person trials doesn't mean courts will shut down since all cases are digitized, and judges and workers have remote access to dockets, being able to conduct online trials and issue single-judge rulings.

Source: *Valor Econômico*

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

March 20, 2020

BNDES prepares anti-crisis measures

The Brazilian Development Bank is preparing measures to help mitigate the effects of the crisis, Valor has learned. Bank experts are finalizing the plans, which could be announced in the next few days and potentially include new credit lines and halting debt payments. Several borrowers have been contacting the development lender, which has about R\$140 billion in cash and reporting an increasingly risk-averse market. BNDES officials are considering potential priorities and whether to coordinate with other banks to leverage their funds.

Source: *Valor Econômico*

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

March 25, 2020

CVM, federal officials studying bill to postpone shareholder meetings

The Securities and Exchange Commission of Brazil is working with federal officials on a provisional measure that allows postponing shareholder meetings in Brazil for six to nine months, due to the ongoing pandemic. Brazilian law mandates such meetings until April 30, and trade group of listed companies Abrasca had already introduced a proposal to postpone them by up to 90 days. Meanwhile, Odebrecht will hold a creditor meeting online next week, ensuring a vote on its judicial restructuring plan despite the coronavirus crisis. The remote session was authorized by the judge handling the conglomerate's R\$98 billion bankruptcy – including R\$48.5 billion debts to external creditors.

Source: *Valor Econômico*

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

March 27, 2020

Fintechs will offer loans with BNDES funds

The National Monetary Council (CMN) authorized fintechs to extend loans with Brazilian Development Bank (BNDES) funds, and to issue credit cards. The changes are valid for direct-credit partnerships (SCDs) and peer-to-peer lenders (SEP). The move was motivated by the effects of the pandemic, since fintechs, through their ubiquitous point-of-sale machines, have the broadest clientele among those more affected by the population's isolation: micro, small and midsize companies, and informal workers or independent contractors. The widespread shutdown of the economy threatens to collapse many of those small businesses, and could lead to serious financial difficulties for fintechs. These companies will even be allowed to securitize portfolios through credit receivable funds (FDICS).

Source: *Valor Econômico*

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