



# CHALLENGES AND PROSPECTS FOR THE **BRAZILIAN ECONOMY**

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# Where we are

1

The Brazilian economy is under an intense process of adjustment and course correction.

2

The fall in oil prices and the developments at Petrobrás have severe effects on both the economy and institutions.

3

Adjustments started in the fiscal area. The expectation is that new steps will be taken towards a pro-competitiveness agenda.

# A sign of the need for adjustment: **Twin deficits**



# The steps of adjustment - **Phase I**

**Tariff  
realism**

**Adjustment of  
exchange rate**

**Adjustment of  
public accounts**

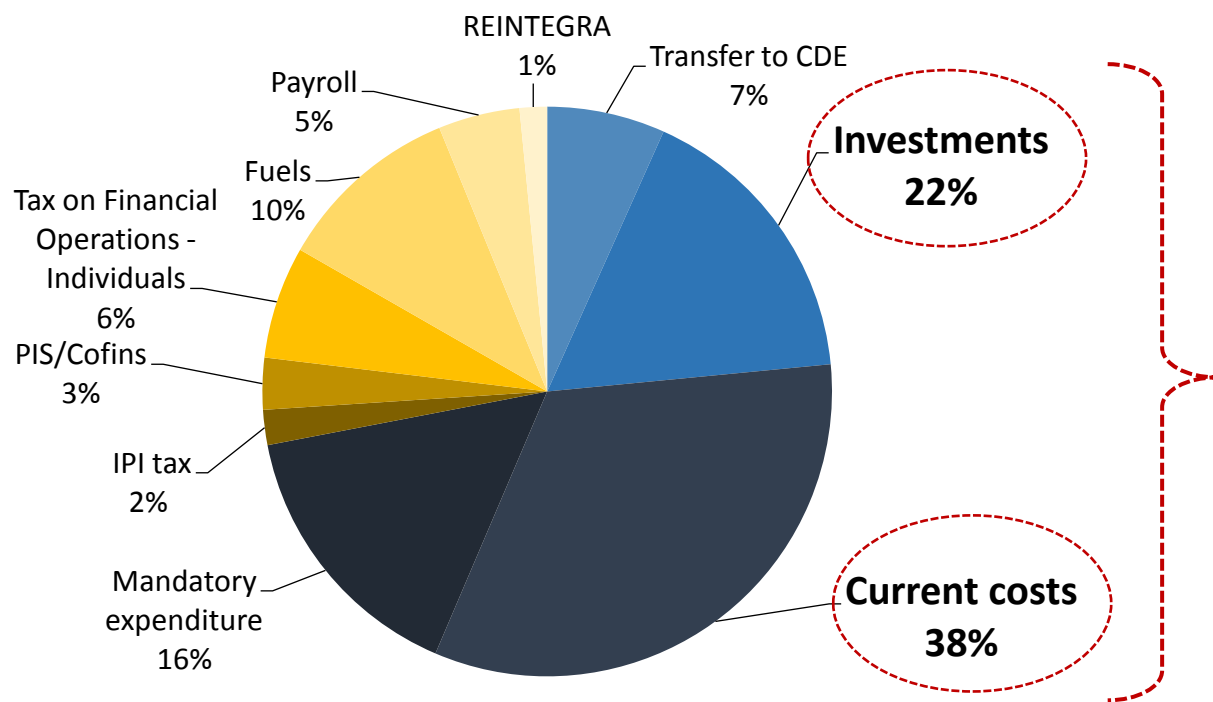
**Reform of social  
benefits**

**Streamlining of  
subsidies**

**Contractionary  
monetary policy**

# Composition of the adjustment - Phase I

## Composition of the fiscal adjustment proposed by the Federal Government for 2015 (%)



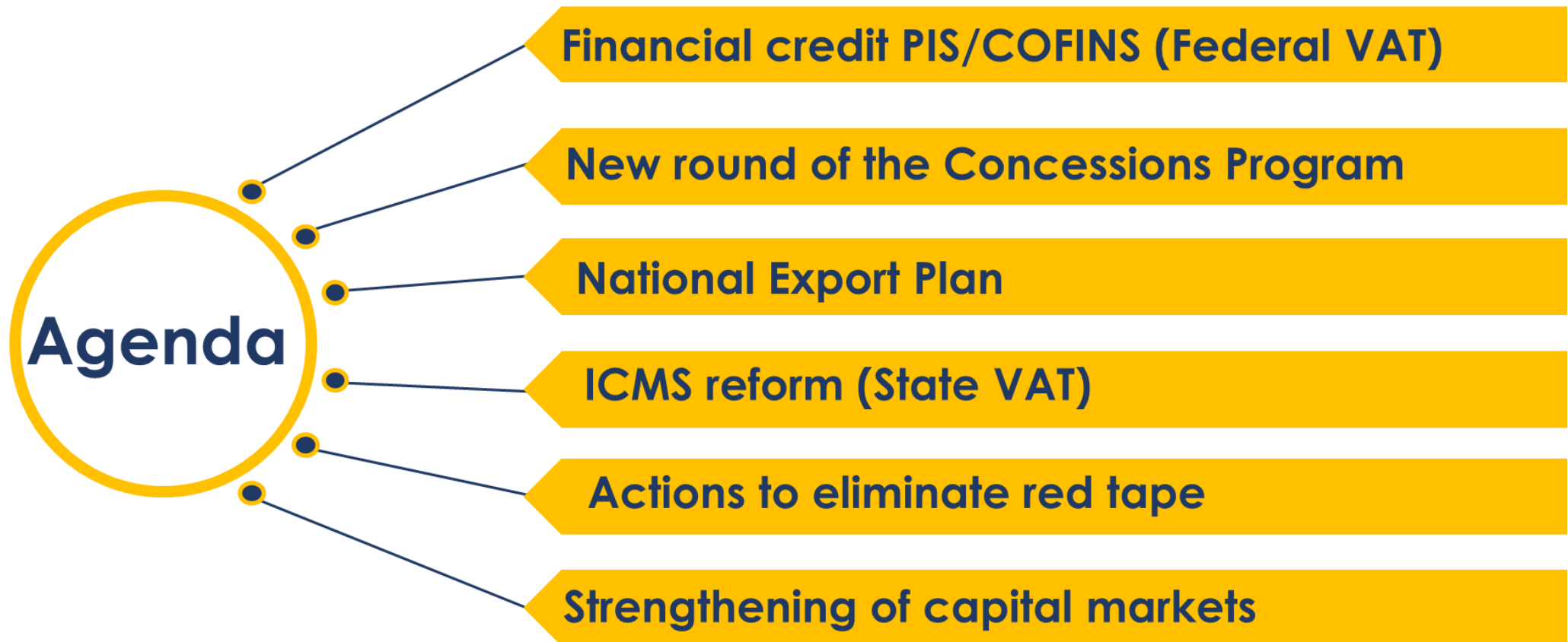
*Expenditure reduction through **contingency** accounts for 60% of the adjustment proposed for 2015: investment (22%) and current costs (38%)*

**Expenditure reduction accounts for more than 70% of the fiscal adjustment proposed by the Government for 2015**

Fonte: CNI

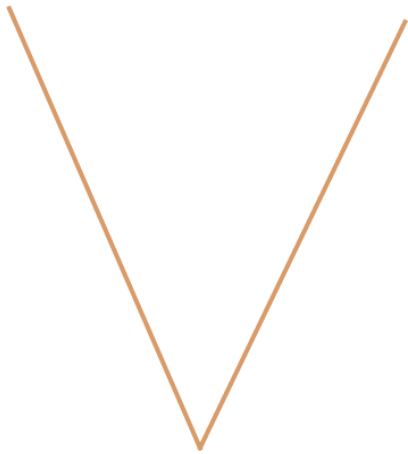
■ Expenditure reduction      ■ Revenue increase

# First intentions – Phase II

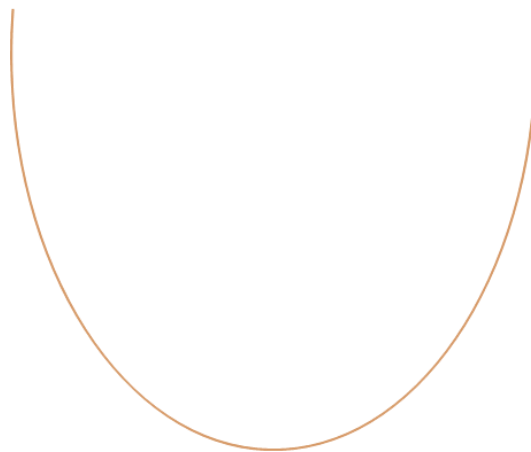


# How long will recovery take?

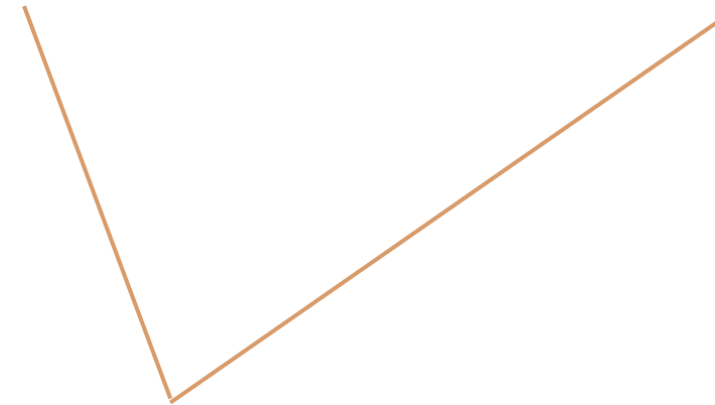
## QUICK RECOVERY



## MODERATE RECOVERY



## SLOW RECOVERY



### Requirements:

- ✓ Incentive to consumption
- ✓ Cheap and accessible credit
- ✓ Fiscal space

### Requirements:

- ✓ Recovery of exports
- ✓ Gradual recovery of domestic consumption and investment
- ✓ Structural changes

### Requirements:

- ✓ Slow recovery of exports
- ✓ Slow recovery of domestic consumption and investment
- ✓ Structural changes

# The ways out of the crisis: **what is feasible?**

**Domestic  
consumption**

**Exports**

**Investment in  
infrastructure**

**Regulatory  
actions**

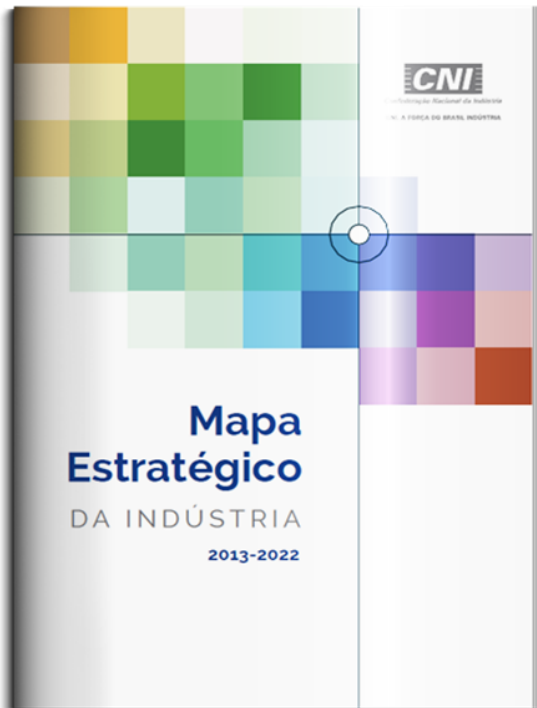
**Government  
expenditure**



# The industry agenda

2013

Long term guidelines



2014

Proposals for the 2014 elections



2015

Short term agenda  
Focus on regulation and on actions to eliminate red tape



# The industry agenda



## ACTIONS

- 1 Stop pressures for adjustment through **increasing tax burden**.
- 2 Promote investment in **infrastructure**.
- 3 Prioritize actions to **eliminate red tape**.
- 4 Act on **regulatory issues**.
- 5 Develop the **tax agenda** (e.g. PIS/Cofins).
- 6 Mobilize pro-**export** actions.
- 7 Maintain the focus on **efficiency and productivity**.

## Taxation

- ✓ Replace the concept of physical credit for that of financial credit under PIS-Cofins.
- ✓ Allow the use of PIS-Cofins and IPI credits to offset social security debts.
- ✓ Adjust tax payment terms.

## Labor Relations

- ✓ Regulate outsourcing.
- ✓ A stronger role for collective bargaining.
- ✓ Halt or change NR-12.

# Examples of pro-competitiveness actions

## Infrastructure

- ✓ Strengthen regulatory agencies.
- ✓ Consider all energy production and distribution costs in the classification criteria in new energy auctions.
- ✓ Transfer port administration to private concessionaires.
- ✓ Modernize the concession process for onshore natural gas exploration blocks.
- ✓ Empower the environmental licensing agency to lead the licensing process.



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