

DELEGATION OF THE EUROPEAN UNION TO BRAZIL

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Date: 14.01.2019

Classification:
UNCLASSIFIED

To: EDITA HRDA, Managing Director Americas, EEAS

Subject: BRAZIL – Bi-weekly report: 1– 13 January 2019

Summary:

Art. 4(1)(a) 3rd indent

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Out of scope

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5. New presidents of Brazilian state banks took office announcing changes in home and farm loans.

6. Economy Minister Paulo Guedes indicated the government will present its social security reform to Congress in February, which will include a change to a pension system based on capitalization.

7. In the first days of the new administration, President Jair Bolsonaro (PSL) and Foreign Minister Ernesto Araújo held important meetings with several heads of state and government.

8. As announced by Foreign Minister Araujo back in December, President Bolsonaro informed on social media that Brazil pulled out of the Global Compact on Migration.

Out of scope

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Detail:

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Economic developments

5. The new presidents of state-owned banks Joaquim Levy (Brazilian Development Bank - BNDES), Rubem Novaes (Banco do Brasil – BB) and Pedro Guimarães (Caixa Econômica Federal – CEF) took office on January 7: Guimarães indicated a raise to market level interest rates on home loans to the middle class. The measure is necessary to ensure CEF can maintain subsidized rates for the "My House - My Life" program of low-cost housing for the poor. CEF middle class rates today range from 8.75% to 9.5% a year while the market's average rate is 9.5%. CEF accounts for 69.5% of home financing. Moreover, Novaes stated that BB, one of the country's largest lending institutions, will not reduce the loan volume but rather diminish subsidies for farm loans. BB is responsible for 59% of the nation's farm loans which last year totalled R\$190 billion (US\$51 billion). At the appointment ceremony, President Jair Bolsonaro (PSL) vowed to reveal alleged irregularities of past loans from the banks made by the previous administration.

6. On 8 January, the Minister of Economy, Paulo Guedes, announced the government will submit its social security reform proposal to Congress in February. The proposal should contain elements of former President Temer's project and also include a transition towards a capitalization pension system. Under this system, workers would open savings accounts in which a percentage of their earnings would be deposited in order to accumulate future retirement income. Guedes said that the government will take advantage of the proposal currently before Congress which is in the form of a constitutional amendment. However, some items of that proposal should be removed and presented as individual laws to facilitate approval. No details were provided. Guedes also added that the government will issue a decree removing privileges and combatting fraud in the social security system. These measures would save the government up to R\$20 billion (US\$5.4 billion) a year.

Foreign Policy

7. President Bolsonaro held important bilateral meetings with heads of state and government and government representatives present for the inauguration ceremony.

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8. Brazil pulled out of the Global Pact on Migration, joining the United States in rejecting the agreement: On January 9, President Bolsonaro confirmed the decision to withdraw from the Global Pact on Migration through social media posts: *“We will never refuse helping those in need, but immigration cannot be indiscriminate. There must be criteria, seeking the best solution according to the reality of each country. If we control who we let into our homes, why would we do differently with our Brazil?”*. He stressed the defence of national sovereignty: *“Brazil is sovereign to decide whether or not to accept migrants. Anyone who comes here must be subject to our laws, rules and traditions, as well as sing our anthem and respect our culture [...] No to the Migration Pact.”*

Out of scope

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Sign-off: Claudia GINTERSDORFER – Acting Head of Delegation

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