Government Webcast:
Brazil

Event´s notes
Resilience & Resumption
Impacts and responses to the effects of covid-19
Government chapter

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Introduction (ME):

Brazil is among the countries most impacted by COVID19. The economic impact is clearly significant, as is the case in all countries worldwide. Social distancing will have a severe impact on GDP this year (a drop of more than 5%), mainly in the consumer retail, transport and tourism industries, among others. However, the Brazilian authorities are responding proactively.

Some tax measures adopted by the Brazilian Government:

According to **EA**, the key measures are exemptions from taxes on imports of essential products (medicines, basic necessities, etc.), deferment of gross revenue tax payments, zeroing of taxes on financial transactions for credit granting, as well as the extension of the payment terms of taxes for the companies, among others. These measures, however, are limited in scope and life span and do not seem to produce significant improvements to taxpayers' overall position. On the other hand, tax-related litigation has recently grown as a result of the economic downturn caused by Covid-19 and company's inability to pay taxes on a timely manner. Additionally, given the likely spike in the overall government debt – a direct and indirect result of the sweeping global economic downturn – there is some risk that the discussion on tax reform that has been occurring in Brazil is morphed somehow towards a tax package to increase government's overall tax revenue. This is, hence, a matter that should carefully monitored by taxpayers in general. In the same sense, **VS** presented some HR-related measures, among which emergency measures related to the anticipation of vacations, the simplification in the application of the home office or remote work regime, the reduction or suspension of working hours, the deferment of the payment of social contributions, the use of new credit facilities to cover the salary costs of companies and assistance to informal workers (who in Latin America represent an always important portion of the total number of workers). However, official statistics are showing that unemployment insurance grew by 10% in

Brazil during the crisis, while the unemployment rate is expected to reach 13% in FY20 (vs. 12% in FY19). Furthermore, **VS** assured that the measures related to the reduction or suspension of working time should be monitored to avoid subsequent audit problems. Finally, for the subsequent phase of COVID19, the measures are linked to the extension of the help related to payroll taxes, and the application of a special program for SMEs related to this same exception (payroll taxes), until April from 2021.

Some legal measures: LL commented on some of the legal measures that the government implemented. Among the main ones, the extension of the legal term to prepare and present the financial statements of the companies, the approval of digital meetings between companies and shareholders (mainly for public or listed companies), the approval of digital signatures and the filing of digital forms with the Brazilian Trade Commission. This generates an important attraction for investors, since these measures promote economic freedom and less time to start a company (that is, less bureaucracy, which improves its ease of doing business). Due to the approval of Economic Freedom Law in 2019, Brazil was already in the process and trend of accelerating digitization and reducing bureaucracy.

Some financial measures: MA commented that so far the financial system is sound and liquid. The Central Bank of Brazil took monetary measures in the form of stimulus packages, which included up to R$1.2 trillion liquidity measures, expanding the asset limit of banks, and other measures aimed to provide financial institutions with the measures to pass the crisis. At the same time, the Central Bank of Brazil lowered the benchmark interest rate (SELIC) to from 4.5% per annum in the beginning of year to 3% (thus encouraging investments) and expects to reduce it for additional up to 75 basis points in the next meeting (end of June) and the National Congress approved an extraordinary ("war') budget that allowed the implementation of several fiscal incentives, estimated at 4.6% of GDP. In parallel, other financial measures were implemented to alleviate the situation of the companies, mainly those related to tax deferrals, suspension of payments of certain types of financing, and new credit facilities to pay salaries or for other purposes. Likewise, it is important to highlight that the devaluation of the Brazilian real seeks to have positive effects on exports and on foreign direct investments (FDI), which will be fundamental for the post-COVID phase and for the new investment opportunities that will arise, mainly in the water and sanitation industry (whose reforms seek to encourage private investments), as well as the important range of measures the government is implementing for various productive sectors, both for the crisis phase and its later stage (and to speed up the recovery).

Some final considerations:

— Companies are considering definitively adopting some measures that were successfully tested during the crisis (such as remote work), which will begin to be part of the new reality.

— The use of virtual meetings with shareholders and other digitized processes imposed by the crisis imply a significant cost reduction for companies, which is why they are expected to last.

— Brazil has important financial challenges, mainly in terms of investments and profitability. On the other hand, M&A has reached a record volume of transactions. Moreover, some industries present many opportunities due to their resilience. However, investments must be wisely selected in Brazil, as there are certain specific risks (labor, tax, financial) that must be considered and that could affect the expected profitability.

— Tax procedures must be reviewed, and the crisis represents an opportunity in this regard.

— International companies will review their investment portfolio within the region, not only because of the new reality but also due to the economic impact that the crisis has had in most countries, most of which were already facing pre-existing crises.

— FDI (foreign direct investment) will surely fall in global terms in 2020 as a result of the crisis. Therefore, the reforms that the countries make and that seek to promote direct private investment will be those that keep a good portion of the FDI aimed at the region. The reforms being carried out in the water and sanitation industries in Brazil are a clear example in this regard since they seek to open investment to private capital.