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## Brazil Daily

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# Threatening with inflation

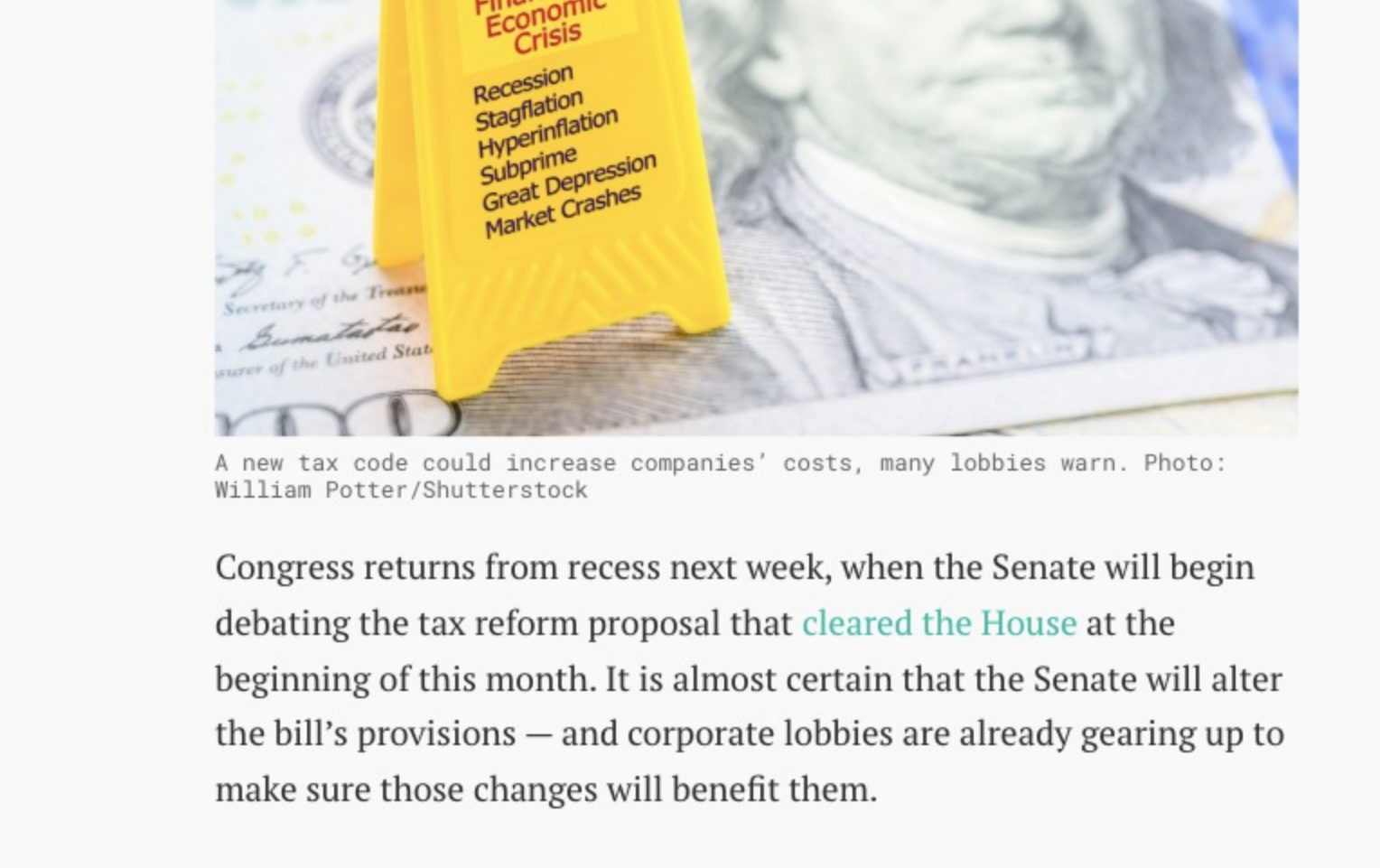
By **Gustavo Ribeiro, Fabiane Ziolla Menezes and Amanda Audi**

Jul 26, 2023 9:05 • 8 min read  
(Updated: Jul 26, 2023 9:10)

*Good morning! Today, we talk about the pressures against the tax reform. The unnecessary scolding of the Central Bank chairman. And the race for the prosecutor general job.*

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## Inflation is weapon of choice for corporate lobbies



A new tax code could increase companies' costs, many lobbies warn. Photo: William Potter/Shutterstock

Congress returns from recess next week, when the Senate will begin debating the tax reform proposal that [cleared the House](#) at the beginning of this month. It is almost certain that the Senate will alter the bill's provisions — and corporate lobbies are already gearing up to make sure those changes will benefit them.

**State of play.** Trade industries in a variety of sectors are releasing studies galore on the nefarious effects that reform with the current rules could have on their operations. From [bars and restaurants](#) to [grain producers](#) to [IT companies](#), these lobbies are warning that if their tax perks end or are reduced, their costs will increase and, lo and behold, prices will rise.

**Why it matters.** Brazil experienced an inflationary shock last year, and fears of new price hikes could influence lawmakers. The risk is that more special tax regimes would be included in a way that reduces the [positive impact](#) of the reform.

- The attachment of various sectors to their tax benefits has been a major obstacle to reforming Brazil's [arcane tax code](#) for decades.

**Nitty-gritty.** The House already included several last-minute exceptions to the core text of the reform. Still, Eduardo Fleury, an economist and tax lawyer who co-authored one of the tax reform bills that were merged into the current one, told [The Brazilian Report](#) deputy editor Fabiane Ziolla Menezes that the current list would put Brazil on par with countries such as New Zealand and Australia.

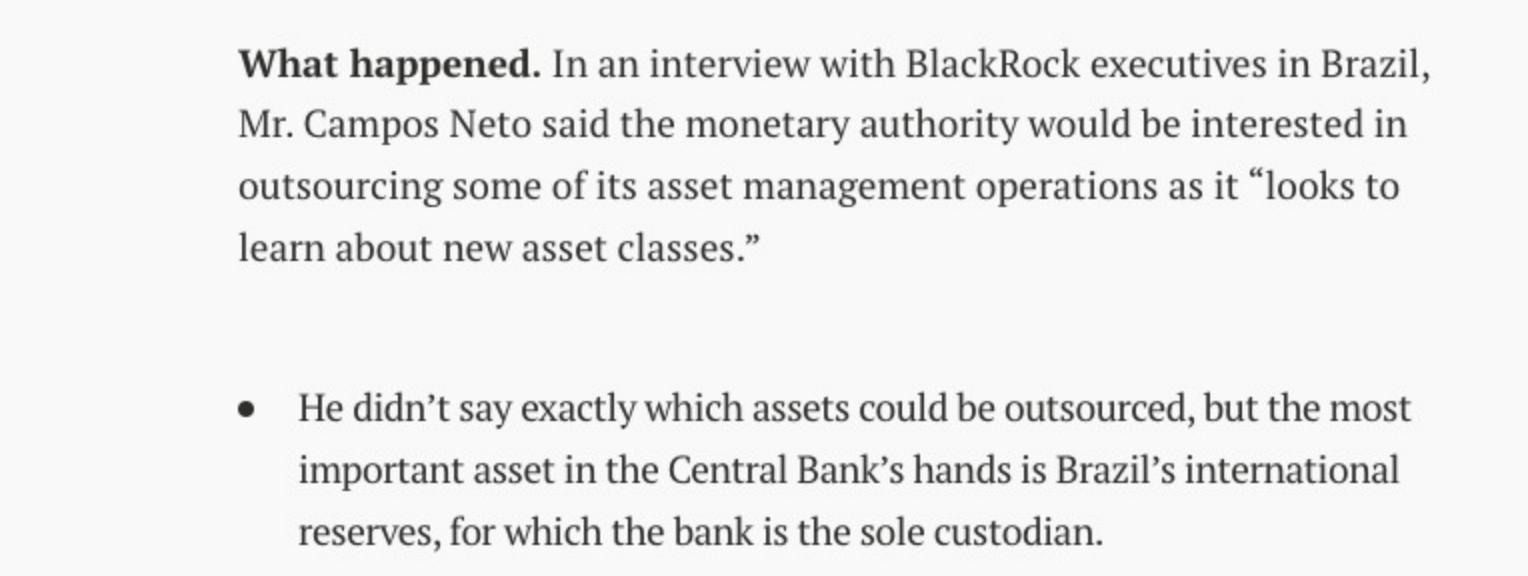
**What next.** Senate President Rodrigo Pacheco believes the upper house will take "two to three months" to vote on the tax reform. The bill's rapporteur, Senator Eduardo Braga, wants to establish a cap on the VAT tax that the law will create, merging several existing levies.

- But as [we explained last week](#), that is a tall order. The final rate will depend mainly on two factors: the number of preferential regimes (the more exceptions, the higher the general rate) and the compliance gap, which depends on the level of evasion, non-payment, and litigation in the system.

- Remember:** The reform is about [simplifying](#) the system, not reducing the burden on taxpayers.

**You should also read:** [Tax reform will make things simpler, but Brazil will still not be for beginners \(Jul. 2023\)](#)

## Central banker probe much ado about nothing



The Federal Accounts Court, a sort of audit tribunal that operates under the legislative branch, has [opened an investigation](#) against the chairman of the Central Bank, Roberto Campos Neto, for comments he made about the possibility of outsourcing the management of assets belonging to the bank.

**What happened.** In an interview with BlackRock executives in Brazil, Mr. Campos Neto said the monetary authority would be interested in outsourcing some of its asset management operations as it "looks to learn about new asset classes."

- He didn't say exactly which assets could be outsourced, but the most important asset in the Central Bank's hands is Brazil's international reserves, for which the bank is the sole custodian.

## Brazilian international reserves



**Why it matters.** The investigation fuels the feud between the government and the Central Bank chief, who is often blamed for the country's restrictive monetary policy. On Friday, the Workers' Party of President Luiz Inácio Lula da Silva [called](#) Mr. Campos Neto a "lackey of the financial markets."

- It also adds pressure ahead of the bank's policy meeting next week, where markets expect the bank to cut the current benchmark interest rate of 13.75 percent by as much as half a percentage point.

**Yes, but ...** The request for an investigation and the reactions from members of Congress may be nothing more than a storm in a teapot. Outsourcing asset management is common for central banks, especially when it comes to learning about new assets.

**Not the only one.** A [survey](#) by Central Banking, a specialized publication, found that many central banks share Mr. Campos Neto's vision of having third-party partners manage reserves.

- "External managers are key to adopting new asset classes. Out of the 82 central banks that provided an answer to this question, 56 (68.3%) explained they see their relations with external managers as an ideal channel to that goal, 43 (52.4%) as a way to introduce active management, and 38 (46.3%) to enter new markets," the report said.

- Nevertheless, most reserve managers (51) allocate less than 10 percent of their portfolios to external managers.

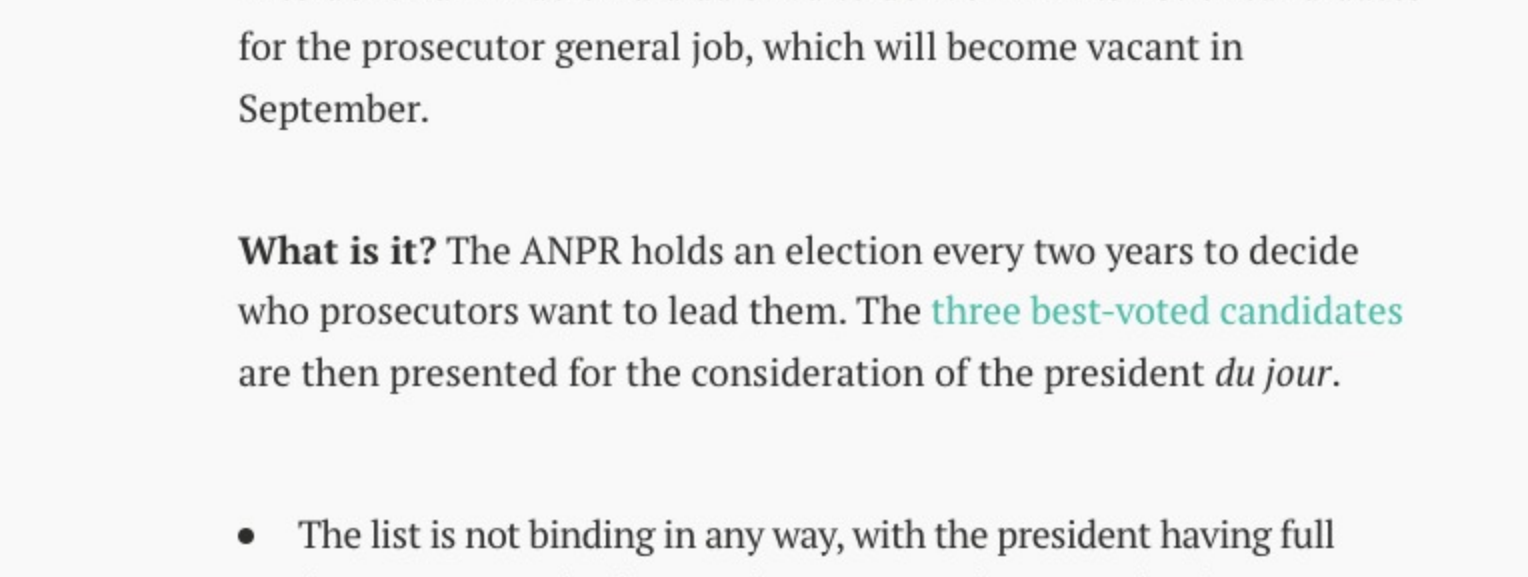
**Diversify.** Central banks' main goal when managing international reserves is to reduce the country's exposure to exchange rate risks. They do so by creating a diverse-but-conservative portfolio aiming at the long term, with a countercyclical profile.

- Introducing new assets to the traditional basket — usually made up of fiat currencies and sovereign bonds from countries with high credit risk ratings — has become a necessity after the pandemic and the rise of geopolitical risks. That's exactly what the Brazilian Central Bank has done in recent years.

**Kudos.** The bank changed and improved several processes in the management of Brazil's foreign reserves, by expanding the set of currencies available for investment, developing in-house solutions to invest in Chinese government bonds, introducing new asset classes such as U.S. government mortgage and corporate bonds, and increasing the use of new financial instruments such as ETFs, among other improvements.

- In April this year, it won the "Best Reserve Manager" category of the Central Banking Awards 2023.

## A prosecutor general pick rooted in loyalty?



It's been more than a month since the National Association of Federal Prosecutors (ANPR) has tried — and failed — to book a meeting with President Luiz Inácio Lula da Silva to deliver him its list of candidates for the prosecutor general job, which will become vacant in September.

**What is it?** The ANPR holds an election every two years to decide who prosecutors want to lead them. The [three best-voted candidates](#) are then presented for the consideration of the president *du jour*.

- The list is not binding in any way, with the president having full discretion to pick whoever they want. Back in 2003, his first year as president, Lula established a tradition of always selecting the person with the most votes on the ANPR's list.

**Yes, but ...** Lula wanted to show that, unlike his predecessors, he would select independent prosecutor generals and allow for oversight bodies to work properly. Politically, however, the move backfired — some of the people picked under the leadership of the Workers' Party ended up leading broad anti-corruption investigations that tarnished the party's reputation.

**U-turn.** During the 2016-2023 interregnum when the left was out of power, its members said picks from the ANPR were the reason why the Workers' Party faced corruption accusations.

- Such statements were usually followed by accusations that incumbent Prosecutor General Augusto Aras was [Jair Bolsonaro's lapdog](#), as he [shelved](#) more than 100 investigation requests against the former president.

**Why it matters.** Lula [seems](#) keener on picking someone with a similar profile to Mr. Aras, rather than someone who may be more independent. Appointing his [personal lawyer](#) to a seat on the Supreme Court was a beacon of that approach.

**What they are saying.** Luciana Loureiro, ANPR's vice president, tells political reporter Amanda Audi that the association "wants to believe one of the three names on its list will be the next prosecutor general."

**Thought bubble.** The ANPR list is not necessarily a guarantee of a combative prosecutor general, and leading candidates in the past have often been those who have backed their peers' wage demands and acted more like a shop steward. However, such a U-turn from the Workers' Party, which often adopts a holier-than-thou rhetoric, would be noteworthy.

## Quick catch-up

**Nubank gained 4.5 million customers in Q2**, according to the Central Bank. The digital bank is now the [fourth largest in terms of customers](#), behind public bank Caixa and private players Bradesco and Itaú.

Suffering from severe hip pain caused by osteoarthritis, President Lula [cleared his Wednesday schedule](#) to undergo a procedure to reduce joint pain (he already had one on Sunday). **Lula will undergo surgery in October.**

Former President Dilma Rousseff, head of the BRICS bank, is [scheduled to meet with Russian President Vladimir Putin](#) today. The [meeting](#), which comes ahead of the BRICS Summit in South Africa, will be held in Saint Petersburg.

Lawmakers from Amazonian states want the Environment Ministry to [provide information on how its anti-deforestation plan will allow for economic growth](#) in the rainforest region.

- According to MapBiom, a [deforestation monitoring platform](#), **2.15 hectares of Amazon land were burned** in the first six months of the year — the highest for the period since 2019.

Chicago-based [Ferrara Candy Company](#) has [acquired Dori](#), the leader in snack sales in Brazil. [Completion of the deal](#) hinges on antitrust approval.

In response to a [lawsuit](#) filed by left-wing parties, the Supreme Court gave the government **120 days to present a plan to address Brazil's rising homelessness rate.**