



Economic Overview and Social Security Reform

V DIPLOMATIC BRIEFING / CNI
June 2016

Flávio Castelo Branco
Economic Policy - CNI



Economic Overview



The Brazilian current situation (first half 2016)

DEEP RECESSION

**HOUSHOLD CONSUMPTION
CONTRACTION**

**RISING UNEMPLOYMENT AND
INCOME LOSS**

**PRODUCTION DROP IN ALMOST ALL
MANUFACTURING SETORS**

The Brazilian current situation (first half 2016)

LOW CONFIDENCE LEVELS (FOR BOTH
BUSINESSES AND CONSUMERS)

SLOW DROP IN INFLATION

HIGH FISCAL DEFICITS

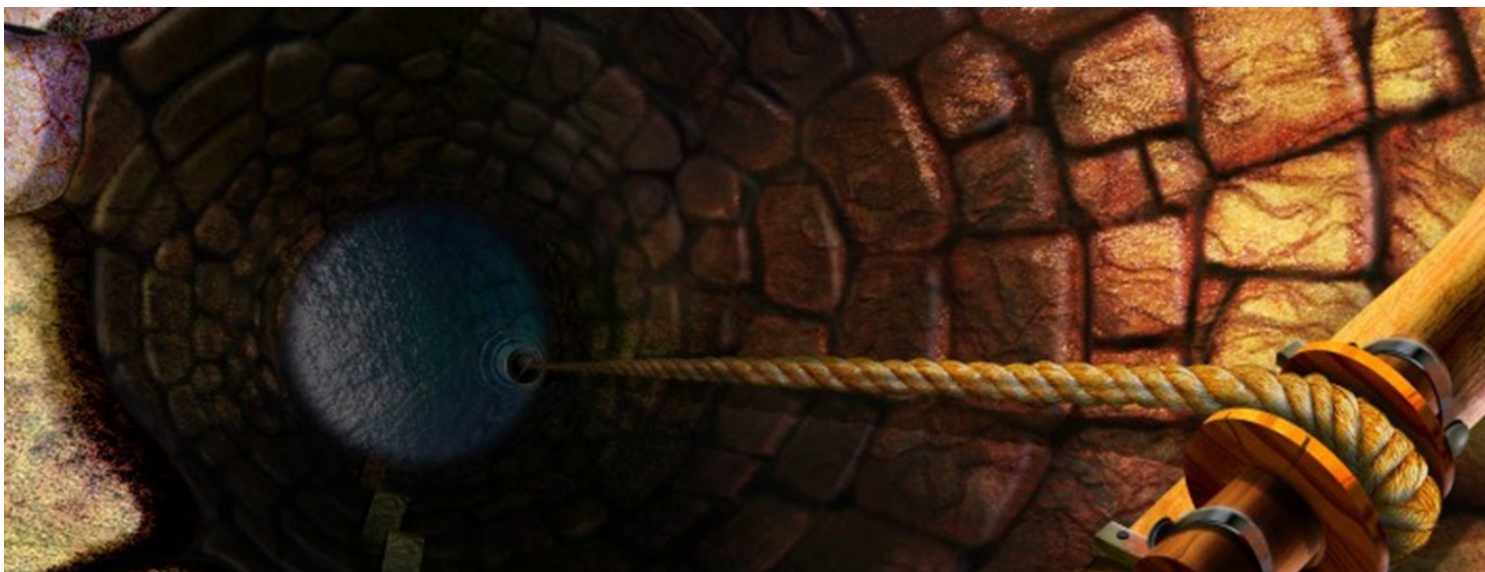
EXCHANGE RATE VOLATILITY

INCREASING EXPORTS

SIGNIFICANT ADJUSTMENT IN
CURRENT ACCOUNT

The Brazilian current situation

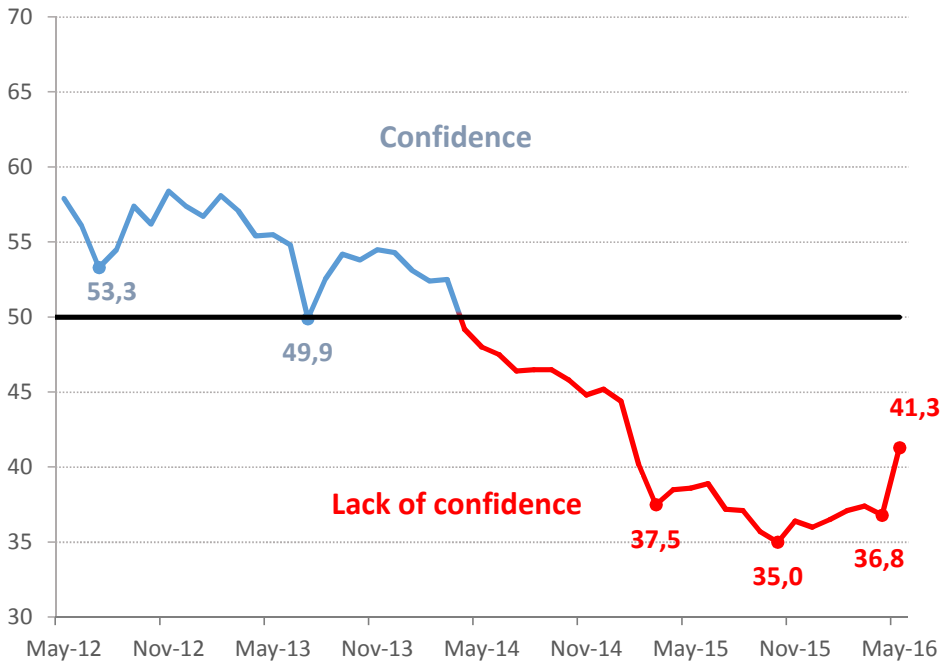
Have we reached rock bottom?



Have we reached rock bottom?



Manufacturing business confidence index rose in May



Source: CNI
 * The ICEI vary in the 0-100 interval. Figures above 50 points indicate that entrepreneurs are confident.

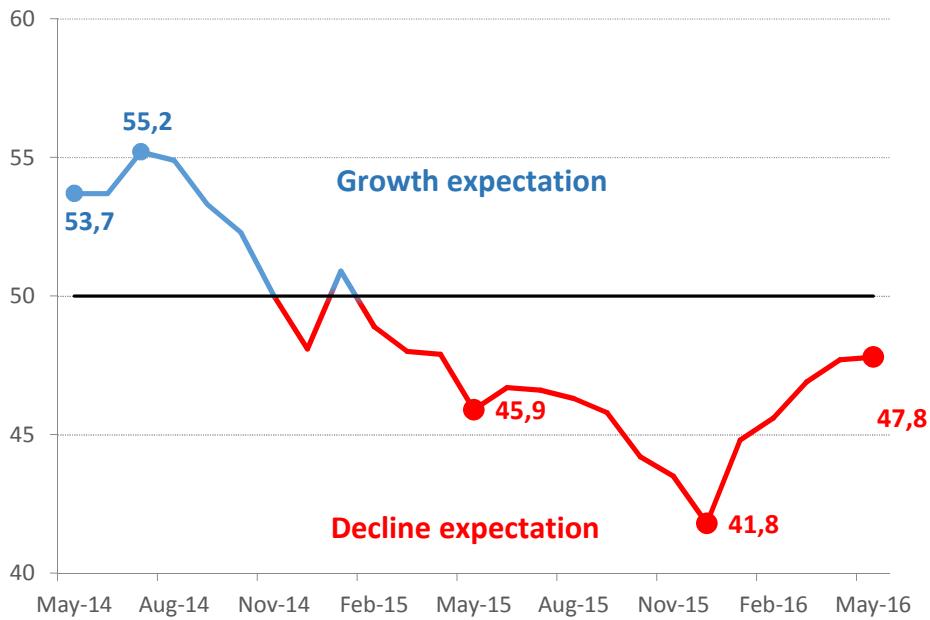
Industry production with two rises in a row



Source: IBGE

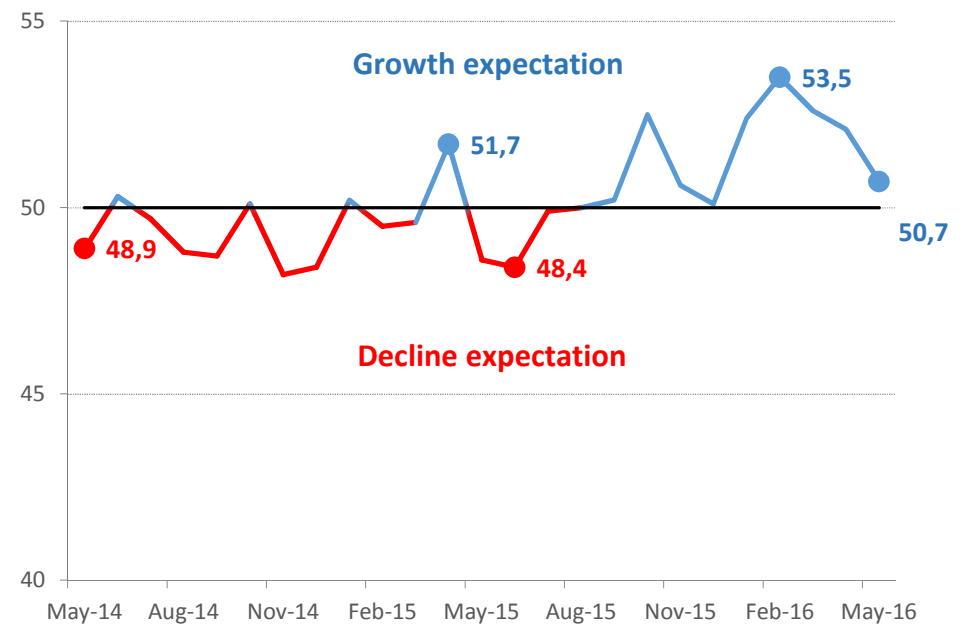
Have we reached rock bottom?

Less pessimism in relation to future demand



Source: CNI
 *Indicators range from 0 to 100. Figures above 50 points indicate an expected increase in demand in the next six months.

Exports expectation index on the positive side since the end of last year

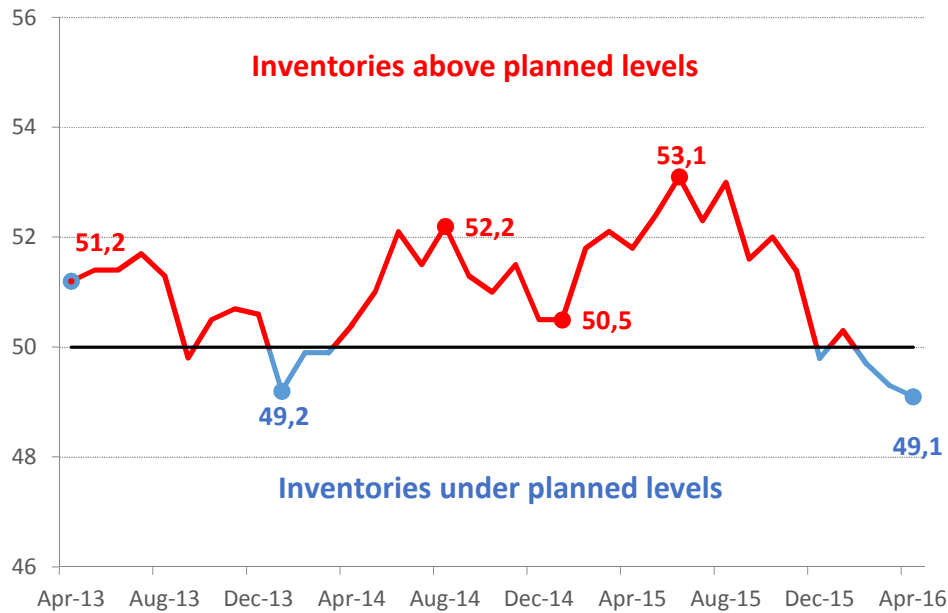


Source: CNI
 *Indicators range from 0 to 100. Figures above 50 points indicate an expected increase in exported volumes in the next six months.

Have we reached rock bottom?

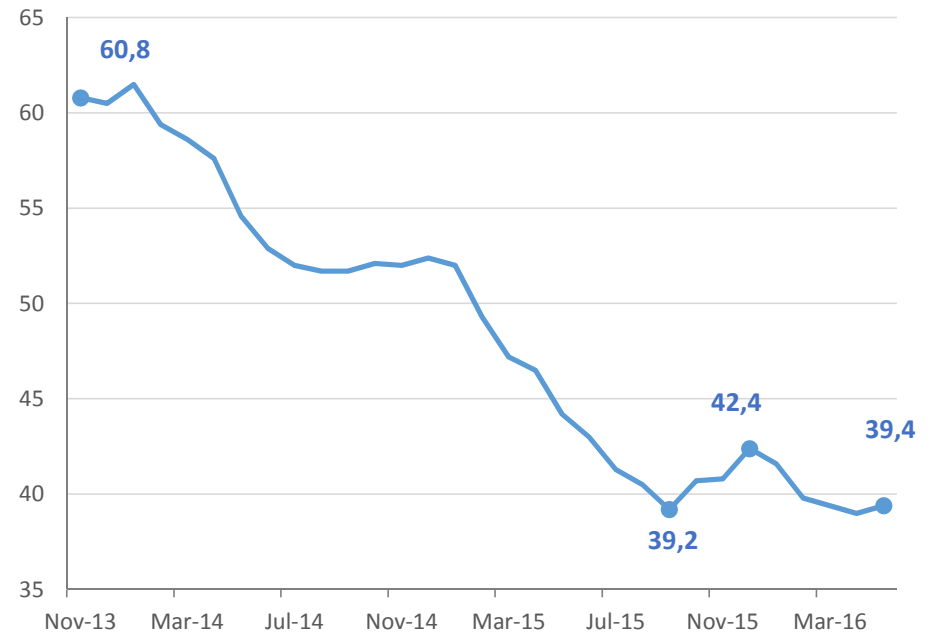


Final goods inventories adjustment



Source: CNI
 *Indicators range from 0 to 100. Figures above 50 points indicate that actual inventory is above planned levels.

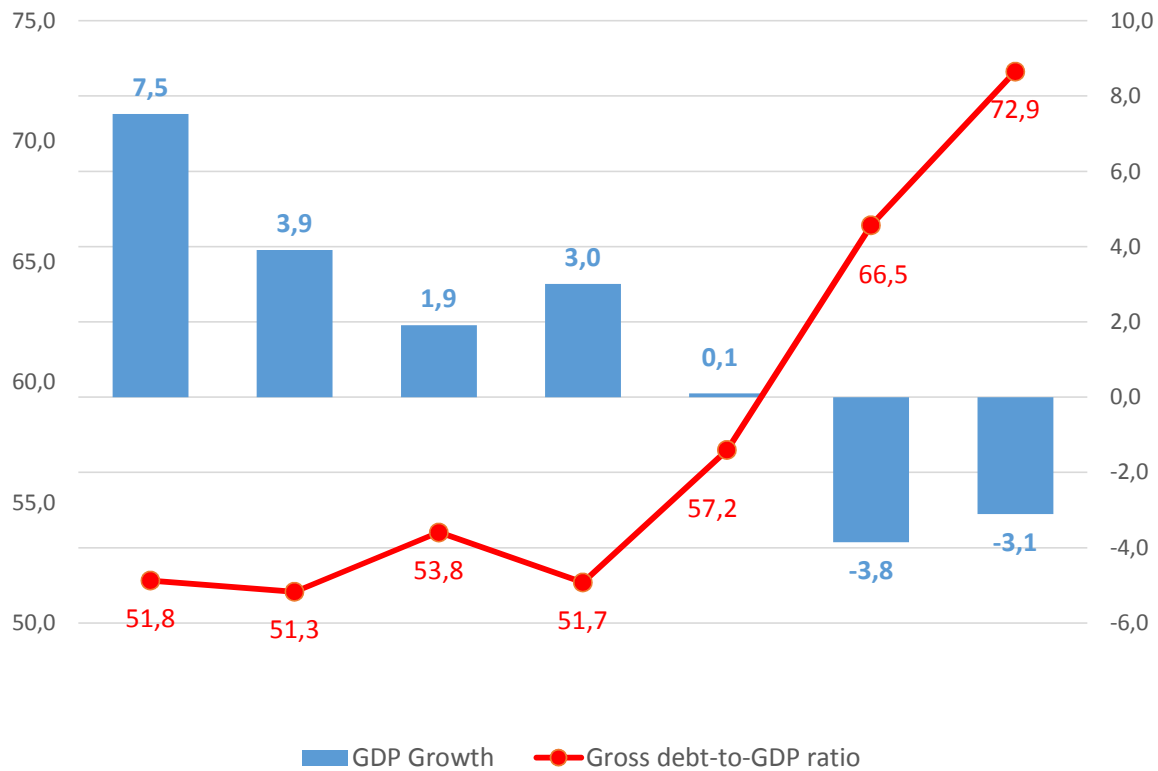
Stabilization of industry investment intention index



Source: CNI
 *Indicators range from 0 to 100. The higher the index, the more likely industry is to invest.

The Brazilian challenge

Reduce public debt increasing and resume GDP growth





Social Security Reform



Why the social security reform is important?

- **Social security is the main reason for high public deficit**
- **Brazilian system is not isonomic or equal among social groups**
- **Present Brazilian system was designed for last century**
- **Similarity with world standards (Most countries are promoting Social Security reforms)**

The Brazilian system

- We have three different types of social security regimes
 - Civil servants and military regime of federal government (“Regime proprio” / RPPS)
 - Private sector workers regime (“Regime Geral” / RGPS - INSS)
 - State and local government regimes
- Each regime has its own specific rules and legislation (some of them are constitution rules)

Some numbers about social security system

- **Social security deficit (considering the broad system) topped R\$ 212,5 billion in 2015**
- **2006 forecasts are worse: deficit may reach R\$ 227 billion**
- **Total outlays with benefits accounted for R\$ 664 billion in 2015 (11,2% of GDP)**
 - **Federal government: 9,1% GDP (both systems)**
 - **State and municipalities: 2,1% GDP**
- **The share of elderly of population (above 65 years) is only 8,2% in Brazil; and it may reach 13,4% in 2030**

The time of retirement issue

- **The average age of retirement in 2015 was 58 years in Brazil (It is 54,7 years in the case of “contributive period of work time”)**
- **It is far less than the mean age of retirement around the world (around 65 to 67 years / OECD average is 64 years)**
- **Period of retirement almost equals working period**
 - **Men: 2/3 of contributive time**
 - **Women: almost the same time**

Problems of Brazilian Social Security System

- **Demography dynamics: Brazilian population is getting old**
- **Social net protection system: it mixes social security with social programs**
- **Unfairness: the Brazilian system is not equal among different groups and has many special rules**
- **Pension rules: Brazil has very generous rules**

Society perception of social security (CNI/Ibope survey)

- Knowledge about social security problems are gradually taking place in society
- Ample majority agrees that rules should be the same for all
- 60% favors higher age for retirement
- 75% do not support higher taxes in order to finance the system

CNI proposals to “Regime Geral” reform

- **Adoption of minimum age criteria**
- **Isonomic rules for different social groups**
 - **Gradual equalization of time requirements for both men and women**
 - **Elimination of sector and other functional special rules (less time for benefit eligibility)**
- **No use of minimum wage indexation for social security benefits**
- **Different values for social security and social programs benefits**

Some basic points

- **Control of public deficit**
- **Long term equilibrium of the system**
- **Transition rules**
- **Communication strategy**



www.cni.org.br