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The impact on Brazil of the Asian financial crisis may have served as a wake-up call to Brazilian legislators, who had delayed approval of President Fernando Henrique Cardoso's economic reforms for nearly three years. On Nov. 19, the lower house approved the civil-service reform measure, effectively unblocking the legislative logjam. In addition, Brazil's Central Bank dropped interest rates, signaling renewed confidence in the nation's fiscal reform drive.

Recent volatility on Brazilian stock markets and in currency trading had forced the government to introduce an emergency austerity package on Nov. 10 (see NotiSur, 11/14/97). "It's the seriousness of the situation that is finally forcing through measures which have been delayed time and time again," said Francis Freisinger, an economist with Merrill Lynch in New York. The civil-service reform bill approved by the lower house is designed to slash the 1998 budget by the equivalent of about 1% of GDP. The bill, which still needs Senate approval, will allow cash-strapped states and municipalities, as well as the national government, to fire workers whose jobs are currently protected by the Constitution.

The reform will also set a US$11,700-a-month ceiling on income, affecting a small but powerful civil-service elite nicknamed "the maharajahs," a name they earned because of the wealth they acquired through lax pay and pension rules. They, along with lawmakers who stood to lose out from the ceiling, led the campaign against the civil-service reform and another bill to overhaul the social-security system.

The new momentum for reform in the legislature encouraged the Central Bank to cut monthly prime lending rates from 3.05% to 2.90%, effective Dec. 1. The rate drop was announced the same day the lower house voted on the civil-service bill. "We hope Congress can continue to vote on the reforms, and that the Central Bank can continue to cut interest rates accordingly," said Luis Eduardo Magalhaes, the government's chief whip in the lower house, shortly after the vote. Lawmakers said the recent stock-market plunge impressed on them the need to push through the bill.

Financial analysts said the government victory was also a signal to international investors that Brazil was finally serious about its long-awaited fiscal reforms. The civil-service reform bill was recently restored to the top of the political agenda amid concerns that Brazil, with its public sector deficit at 4.7% of GDP, could be heading for an Asia-style currency crisis. Cardoso once touted both bills as key to his efforts to consolidate economic gains and three years of low inflation (see NotiSur, 01/12/96 and 07/11/97).

But, after repeatedly failing to secure passage, the administration let the bills slip from public attention until the recent financial turmoil jolted them back to the front burner. "We as a country, as a government, as Congress need to be aware of how important reform is," Finance Minister Pedro Malan told lawmakers hours before the voting. "Speeding up the reform process has become

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absolutely indispensable." Congress president Sen. Antonio Carlos Magalhaes wants the remaining votes on the civil-service reform as soon as possible. The government must get a three-fifths approval in the second vote in the 513-member Chamber of Deputies. It then needs similar margins to kill opposition amendments and send the bill to the Senate.

Lawmakers also have to vote in joint sessions of Congress on the 17 decrees included in the president's package of emergency measures put forward Nov. 17, which includes controversial tax hikes. A congressional official said Congress would have to approve the decree by the end of January for the tax measures to take effect next year. "The government is going to have to fight hard on this one," said the official.

## *Reform drive encourages slight drop in interest rates*

The interest-rate cut, which sets annualized rates at about 40%, came just three weeks after the bank jacked up the annualized rates to 43.3% from 20.7% to defend Brazil's currency from speculative attack. The dramatic rate hike is expected to slow 1998 economic growth. While the recent cut was relatively small, Brazil had not been expected to begin a gradual reduction of rates until late December or January. Most economists believed the Central Bank would remain cautious amid current global market uncertainty. "The Central Bank feels more confident in Congress to speed through fiscal reform so it feels more comfortable about lowering rates faster than we had thought," said Mauro Schneider, chief economist at ING Bank in Brazil.

Experts expect the turmoil in the financial sector to continue, however. Brazil, hit by the Asian storm that triggered global financial instability, saw its stock markets drop more than 40% before staging a partial comeback. Despite the recent rises, analysts say a recovery in the Brazilian stock markets the largest in Latin America, with trade often valued at more than US$800 million per day will come slowly, barring further turmoil in overseas markets. "It will be perhaps May, about the time that the privatization of Telebras begins, before we get back to our Oct. 22 level," one stock market official said, referring to the sale of the huge state telecommunications company. "In the short term, we're going to continue seeing this high volatility."

Austerity, especially layoffs, hurt Cardoso's approval rating Despite Congress's newfound support for Cardoso's reforms, considerable opposition exists for the economic belt- tightening package. Cardoso, who conceded that the measures were "tough," warned that he would not hesitate to take further steps to defend the stability of the currency, the real, even at the expense of his popularity. "What matters is the country," he stressed. Brazil's trade unions, convinced that economic recession will occur and unemployment will rise, have threatened more protests and strikes. In addition to the dismissal of 33,000 people on the central government's payroll, Rio de Janeiro Gov. Marcello Alencar announced that he would lay off 10,000 state employees. And, the number of dismissals could grow, because the government's fiscal package stipulates cutbacks in expenditures by state administrations, most of which are heavily indebted.

The private sector also projects a major contraction and, consequently, a loss of jobs. The industrial sector in Sao Paulo, the country's most populous and industrialized state, calculates that 30,000 workers will be laid off by the end of the year. Close to 78,000 industrial workers already lost their jobs from January to October. Cardoso vowed that social programs aimed at combating joblessness through state-sponsored professional training, which he said would have benefitted three million

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Brazilians by the end of the year, would not be affected. Nevertheless, a poll published this week in Istoe current affairs magazine showed the number of people who would vote for Cardoso in next year's presidential elections fell to 26.1%, down from 39.7% five months ago. (Sources: Spanish news service EFE, 11/13/97; The New York Times, 11/14/97; Inter Press Service, 11/12/97, 11/16/96; Reuter, 11/17-20/97)

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