Brazil Focus –
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Weekly Report
Jan. 30-Feb. 5 2016

Looking Ahead ➔ What to watch for?

- 6-9 Feb. -- Carnaval (National holiday)
- 10th Feb. -- Ash Wednesday (holiday in the morning)
- 10th Feb. -- IBGE – industrial employment in December
- 10th Feb. -- PT to celebrate its 36th anniversary
- 11th Feb. -- IBGE, December retail sales ➔
- 12th Feb. -- Central Bank to announce IBC-Br for 2015, ___% YoY
- 12th Feb. -- FGV, ECI-Economic Climate Index, Brazil __
- 15th Feb. -- Presidents’ Day – Holiday observed in the US
- 17th Feb. – PMDB to elect new floor leader in Chamber
- 19th Feb. -- FGV to announce IGP-10 ➔ ___% versus ___% in January
- 19-21 Feb. -- IV ASA Summit to be held in Ecuador
- 21st Feb. -- End of daylight savings time in Brazil
two-hour difference between NYC and Brasília

- **22nd Feb.** – IBGE to report services sector data for 2015
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- **22nd Feb.** -- *Caged* data \( \rightarrow \) ___ jobs lost in January (MoM)
- **22nd Feb.** -- IBGE – January unemployment \( \rightarrow \) %, *versus* % in December
- **24th Feb.** -- IBGE: IPCA-15 \( \rightarrow \) +___% *versus* +___% in January
- **25th Feb.** -- IBPT \( \rightarrow \) 2015 tax burden \( \rightarrow \) ___% of GDP *versus* ___% in 2014
- **25th Feb.** -- SRF – federal tax collections in January 2016

**OBSERVATION:** Next week will be Carnaval week with less political & economic activities. Therefore, the next issue of *Brazil Focus* will be sent out on Friday, 19th February.

1 - POLITICS

1.1 – *Lava Jato*

1.1.1 – Dilma involved??

In his recent plea bargaining testimony before Judge Sérgio Moro in Curitiba, businessman Fernando Moura affirmed that he participated in a meeting in the Planalto Palace in January 2003 (early Lula) where the choice jobs [Directors] in Brazil’s state enterprises (Petrobras, Correios, CEF, Furnas, Banco do Brasil, etc.) were divided up *and* that then Minister of Mines & Energy Dilma Rousseff was present – as well as Pres. Lula, Luiz Gushiken, José Eduardo Dutra, Delúbio Soares and Silvio Pereira. His testimony also indicated that these appointees would be responsible for “gleaning $$$” from these state enterprises to help finance the PT’s future election campaigns. He also testified that one of the crucial appointments was Renato Duque – Petrobras Director for Exploration and Production of Oil and Gas. In 2015, Duque was arrested and convicted in the *Lava Jato* investigation.

*See* ➔ [http://www.msn.com/pt-br/noticias/brasil/delator-diz-que-dilma-participou-de-reuni%C3%A3o-sobre-divis%C3%A3o-pol%C3%ADtica-de-estatais/ar-BBp6Ybk?li=AAGgXC1&acid=UP97DHP](http://www.msn.com/pt-br/noticias/brasil/delator-diz-que-dilma-participou-de-reuni%C3%A3o-sobre-divis%C3%A3o-pol%C3%ADtica-de-estatais/ar-BBp6Ybk?li=AAGgXC1&acid=UP97DHP)

1.1.2 - UTC

Ricardo Pessoa, the CEO of UTC, delivered a “spread sheet” to the *Lava Jato* investigators showing that R$ 2.2 million was passed on to Tiago Cedraz, the son of TCU president Aroldo Cedraz. In a more “civilized country”, this would be a strong motive for Cedraz to be removed or resign.


Also, this spread sheet showed that Senate President Renan Calheiros (PMDB-AL) asked Pessoa for a R$ 1.5 million “donation” to his son’s campaign for governor of Alagoas in 2014.
Want more? These spread sheets also showed that UTC made payments of between R$20,000,00 and R$ 40,000,00 in cash to SD-Solidariedade every 45 days.

1.2 - Zelotes

On 4th February, Lula’s status was modified in the Zelotes case from “informant” to “investigated” [not yet accused]. The points under investigation ➔ 1) the triplex (three floors) apartment in Guarujá, acquired via Bancoop and remodeled by OAS; 2) hiding assets and money laundering; 3) BNDES, Lula as “propaganda boy” for Odebrecht; and 4) the “sale” of three MPs to favor certain auto makers.

See ➔ http://politica.estadao.com.br/noticias/geral,inquerito-apura-se-lula-se-envolveu-em-esquema-de-mps-diz-pf,10000014939

In addition to the triplex apartment in Guarujá, the Federal Police are also investigating the purchase and “improvements” on the dacha [rural retreat] used by Lula in Atibaia, SP. This property is registered in the names of the business partners of Lula’s son, and was registered at a cartório [deeds office] owned by a dear friend of Lula. OAS and other Lava Jato firms are involved including Lula’s dear friend (José Carlos Costa Marques Bumlai). OAS purchased the very modern and luxurious kitchens for both the triplex and the Atibaia dacha. Lula’s lawyers have counseled him to declare that these “improvements” were “gifts”.

1.3 – Investigation of Gripen acquisition

On 4th February, federal prosecutors decided to re-open the investigation of the acquisition of Swedish Saab Gripen NG fighter planes decided in December 2013 and finalized in October 2014. Saab won out over the proposals from the US Boeing and the French Dassault.

Why was this case reopened? In the Zelotes investigation, prosecutors gained access to new documents, information and data that point to “over invoicing”. Prosecutors found out that the lobby firm Marendes & Mautoni (the same group involved in the investigation of the sale/purchase of MPs to favor certain auto makers) had been hired by Saab to “assist” in this acquisition.


1.4 – Congress reopened

Congress was officially reopened with a session on 2nd February. Pres. Dilma decided to personally deliver the annual presidential message where she asked for support to approve important measures to combat the current “crises” – including the CPMF. She was roundly jeered and booed on 8 occasions; she was applauded by allies on 13 occasions.

Chamber approved weakened MP (capital gains tax) – In spite of her pleas for Congress to approve her fiscal measures, the day after, 3rd February, the Chamber approved a weakened version of MP 692/15 that increased capital gains taxes (as of 2017). The Dilma Government had expected some
R$ 2 billion in additional revenues, but the Chamber version might produce some R$ 900 million – according to “optimistic” analysts. Other analysts project much less. One the line item votes to maintain the higher rates, the government could only muster 141 votes. Only the PDT and PT delegations were “more” pro-Dilma.

See ➔ https://oglobo.globo.com/economia/governo-sofre-primeira-derrota-do-ano-com-imposto-sobre-ganhos-de-capital-18604300

Cunha suspended standing committees ➔ Using his powers as Chamber President, Dep. Eduardo Cunha (PMDB-RJ) suspended all deliberations by standing committees until the STF answers the Chamber’s request to “clarify” its position regarding the impeachment sequence (ritual). This means that all of Pres. Dilma’s anti-crisis emergency measures will be “in limbo”.

This means that the impeachment process will be paralyzed until the STF clearly specifies crucial points: 1) a secret vote [or an open vote] by deputies to designate the 66 deputies for the special committee; 2) whether the selection of deputies for this committee is the “exclusive” prerogative of the respective party floor leaders [or not]; and 3) After the Chamber approves impeachment, should the case move directly to the Senate for final judgment, or whether the Senate can vote not to proceed with impeachment.

New PT leader in Chamber – On 3rd February, the PT delegation in the Chamber chose Dep. Afonso Florence (BA) to be the party’s new floor leader to replace Dep. Sibá Machado (AC) – considered “weak” and ineffective by his peers. Florence defeated two rivals – Paulo Pimenta (RS) and Reginaldo Lopes (MG). In 2014, Florence received campaign “donations” from OAS and UTC – both firms involved in the Petrobras corruption/bribe scandal.

Selection of PMDB floor leader – Because the PMDB is the key swing party in the impeachment process in the Chamber, there is a “raging” battle to select this party’s floor leader that will take place on 17th February (after Carnaval). The Dilma government wants to maintain Dep. Leonardo Picciani (RJ) as the PMDB floor leader because he is “pro-Dilma” and would lead the party against impeachment. The opposition bloc in the PMDB wants to elect a more “neutral” leader and is supporting Dep. Hugo Motta (PB).

Paternity Leave – On 3rd February, the Senate approved an increase in paternity leave for new fathers from 5 to 20 days. The maternity leave period would remain at 120 days. This was the first measure approved by the Senate in 2016. This measure was approved by the Chamber in 2015 and now awaits presidential sanction.

1.5 – Gilmar Mendes – TSE President

On 3rd February, the STJ re confirmed Judge Gilmar Mendes for a second two-year term on the TSE. Thus, Gilmar will replace Judge Dias Toffoli (on a two-year rotation) as TSE President. This means that he will oversee the 2016 municipal elections and the process that might annul the election of the Dilma-Temer slate in 2014 elections – used campaign finance from illicit funds obtained through the Petrobras corruption/bribe scandal.

1.6 – New IPSOS poll
On 1st February, the day before Pres. Dilma address Congress, Ipsos released a public opinion poll showing that 60% favored her impeachment, 22% against with 18% undecided. In October 2014, 92% thought that Brazil was “on the right path”, but 15 months later, 92% said on the “wrong path”.

Dilma’s approval rating in October 2014 was 48%, but only 5% in late January 2016. Ipsos executive Clifford Young said that Dilma’s approval rating is “one of the worse in the world”. In his last year in office (2008) Pres. Bush’s rating was 20%. Currently in Venezuela, the approval rating for Pres. Maduro is 15%. This poll was conducted among 1,200 voters in 72 municípios between 13 and 27 January.

1.7 – More “creative accounting”

This week it was revealed (via a study by Senate staffers & FGV analysts) just how the Dilma government was able to “cover” the “fiscal gap” at the end of 2015 (over R$ 50 billion). In what is called “creative accounting” the government operated a “triangulation” between the Central Bank and the STN. The Central Bank “contributed” R$ 50 billion to help balance this “gap”. This is considered a “bad accounting” practice and adds more elements for the recommendation by the TCU that Congress reject Pres. Dilma’s 2014 and 2015 accounts because of violations of the Fiscal Responsibility Law (of 2000). [Arno Augustin continues alive and well in Brasilia.]
See ➜ http://economia.estadao.com.br/noticias/geral,esta-sendo-feita-uma-contabilidade- Criativa,10000015066

2 – FOREIGN RELATIONS & TRADE

2.1 – Amb. Luiz Felipe Lampreia dead at 74

See ➜ http://www1.folha.uol.com.br/opiniao/2016/02/1737019-a-bela-trajetoria-de-um-diplomata.shtml
2.2 – NY Court accepts suit against Petrobras

On 2\textsuperscript{nd} February, a NY court decided to proceed with a class action suit (of investors) against Petrobras regarding investors’ losses when the market value of the firm declined precipitously due to the corruption/bribe accusations. If these investors win it might cost some US$ 98 million for Petrobras.

2.3 – President Bulgaria ➔ Brasília

On 1\textsuperscript{st} February, Pres. Dilma received a visit of Rosen Plevneliev, the President of Bulgaria. Several agreements were signed, including a reciprocal social security/retirement accord. Also the question of Syrian refugees was discussed. This was the first official visit of a Bulgarian President during Dilma’s term in office.

During her 1\textsuperscript{st} term inauguration on 1\textsuperscript{st} January 2011, she was invited to visit Bulgaria (the birthplace of her father) by the then Bulgarian President which she did later that same year.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION
Nothing this week.

5 - ECONOMICS

5.1 – Moody’s ➔ Brazil

This week an evaluation team from Moody’s Investors Service visited Brazil to gather data to be used in its reevaluation of Brazil’s “risk status” – in lieu of a possible downgrade in March. This would be the third downgrade to “junk bond” status after S&P and Fitch.

Gamely, Finance Minister Nelson Barbosa tried to convince the Moody’s team that indeed the Dilma government has not abandoned the goal of improving the “fiscal result” and will do everything to achieve a fiscal surplus of 0.5% of GDP at the end of 2016. Barbosa did not explain how his government would “close the fiscal gap” left by a watered down version of MP 692 approved by the Chamber on 3rd February nor the very probable rejection of the CPMF by Congress. Also, the IPCA accelerated in January ➔ See Item 5.2


5.2 – January inflation accelerates

On 5th February, on the eve of Carnaval, IBGE released the IPCA data for January ➔ +1.27%, up from +0.96% in December. This was the highest result for January since 2005 (+2.25%). In January 2015 the IPCA posted +1.24%. The main causes of this January acceleration were ➔ food prices (+2.28%, the highest since December 2002) and transportation costs (+1.77%).

Some economists feel that the IPCA will be in part “alleviated” (by 0.15 p.p.) when the government modifies the “red flag” to a “yellow flag” on electric bills in March (and maybe again in May) – reduce the surcharge to cover the additional costs of thermal-electric generation. However, other economists say that the effect will be “close to zero” because electrical energy costs should increase between 55 and 10% in 2016.

5.3 – Industrial Production down -8.3%

On 2nd February, IBGE released its industrial production data for 2015 ➔ -8.3% ➔ the worst result since this data series began in 2003. Of the 26 sectors surveyed, only one (extractive industry) had a positive result (+3.9%). The worst retraction was the informatics, electronics and optics sector (-30.0%) followed by the auto sector (-25.9%). Economic analysts predict a -3.8% retraction in 2016. Anfavea blamed the high taxes on autos for the steep decline in this sector. The decline in IP in São Paulo was even worse ➔ -11% and retracted to the level of IP in 2003.

5.4 – Bank defaults increase
The level of default on bank loans in 2015 was up by +24.7% versus 2014. As a result, in 2015, Brazilian banks “provisioned” R$ 183.7 billion to “cover” such defaults vs. R$ 147.3 billion in 2014. Analysts predict that this situation will get worse in 2016 due to increased unemployment, high inflation, reduced incomes and bankruptcies of more firms.

5.5 – Savings accounts down in January

On 4th February, the Central Bank released data for savings accounts in January ➔ withdrawals out paced deposits by R$ 12 billion – the worst result since 1995. Analysts said that this was due to the extremely difficult financial situation of most Brazilians due to the current crisis/recession/depression.

5.6 – January retail sales down

On 4th February, Serasa/Experian released its retail sales index for January ➔ a -9.6% decline YoY and -1.1% MoM. This was the worst monthly result since a -11.2% YoY decline was posted in April 2002. Analysts affirm that this is yet another indicator that the economic crisis in 2016 should be worse than 2015.