Brazil Focus –

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Weekly Report
Feb. 19-Mar. 4 2016

Looking Ahead ➔ What to watch for?

- 7th Mar.  -- IPU ranked Brazil ___ on “Women in Parliament”
- 7th Mar.  -- IBGE -- IPCA data for February ➔ +___% vs. +___% in January
- 7th Mar.  -- FGV to post IGP-DI for February ➔ +___%, versus +___% in January
- 8th Mar.  -- International Women’s Day – 105th Anniversary
- 10th Mar. -- IBGE – Industrial Production ___% MoM in January and ___% YoY
- 11th Mar. -- January INSS deficit ➔ -R$ ___ billion
- 13th Mar.  -- Mass anti-Dilma street demonstrations planned
- 13th Mar.  -- US to go on daylight-savings time
  ➔ return to 1-hour time difference NYC/Brasilia
- 14th Mar.  -- UNDP to release 2015 HDI-Human Development Index
- 14th Mar.  -- IBGE – January retail sales ➔ ___% MoM
- 14th Mar.  -- IGP-10 ➔ +___% vs. +___% in February
- 17th Mar.  -- Central Bank to announce IBC-Br for January ➔ ___% MoM & ___% YoY
• 18th Mar. -- *Caged* data for February, _____ jobs lost (net)
• 20-21 Mar. – Pres. Obama to make historic visit to Cuba
• 21st Mar. -- World Bank to release LPI-Logistics Performance Index
• 21st Mar. -- IBGE to release January industrial employment data
• 21st Mar. -- IBGE to release the IPCA-15 \( \Rightarrow +___\% \), *versus* \( +___\% \) in February
• 24th Mar. -- SRF \( \Rightarrow \) February tax revenues R$ ___ billion, ___% YoY
• 25th Mar. -- Good Friday – National Holiday in Brazil
• 27th Mar. -- Easter Sunday

**OBSERVATION:** After Carnaval, I suffered a violent virus attack that left me immobilized and only now am I recovering. For this reason, I missed sending out some *Brazil Focus* issues in February.

1 - POLITICS

1.1 – New *Datafolha* poll

On Saturday, 27th February, *Datafolha* released the results of its latest poll conducted on 24-25 February among 2,768 voters in 171 municipios (published in the Sunday, 28th February edition of the *Folha de São Paulo*). The previous poll was conducted on 16-17 December 2015.

| Performance of President Dilma | 2013 |  | 2014 |  |  | 2015 |  |  |  |  |  | 2016 |
|-------------------------------|------|---|------|---|---|------|---|---|---|---|---|---|------|
| Good/Excellent                | 65%  | 35% | 41%  | 38% | 42% | 23%  | 13% | 13% | 10% | 8% | 12% | 11% |
| Regular                       | 27%  | 42% | 37%  | 38% | 33% | 33%  | 24% | 27% | 24% | 20% | 22% | 25% |
| Bad/Terrible                  | 7%   | 22% | 21%  | 23% | 24% | 44%  | 62% | 60% | 65% | 71% | 65% | 64% |
| DK/NR                         | 1%   | 1%  | 1%   | 1%  | 1%  | 1%   | 1%  | 1%  | 1%  | 1%  | 1%  | 1%  |
| Average Score                  | 7.4  | 6.1 | 6.2  | 5.6 | 6.2 | 4.8  | 3.7 |

In December, Pres. Dilma’s approval rating returned to double-digits (12%) but in February declined to 11%.

When asked whether Brazil’s *economic situation* had improved, 80% said it had “gotten worse”, 5% said “improved” and 14% said “unchanged”. However, more optimism was expressed regarding the interviewee’s personal situation – 49% said “got worse” while 12% said “improved” and 38% said “unchanged”.

With regards *impeachment*, 60% said “Yes, Dilma should be impeached” (the same as in December), and 58% said she should resign (62% in December).

*Datafolha* also asked about the recent investigations of Lula’s “involvement” with two properties in SP – the triplex apartment in Guarujá and the *dacha* (rural *sítio*) in Atibaia, SP – 77%
agreed that *Lava Jato* firms had injected $$ to “improve” the former and 69% agreed regarding the former property.

**Presidential Poll ➔ 2018**

This *Datafolha* poll repeated three scenarios from its December 2015 poll, each with a different *tucano* pre-candidate and a fourth scenario with all three *tucanos*.

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>(1) Dec/Feb</th>
<th>(2) Dec/Feb</th>
<th>(3) Feb.</th>
<th>(4) Feb.</th>
<th>Rejection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aécio (PSDB)</td>
<td>27%➔24%</td>
<td>- -</td>
<td>- -</td>
<td>20%</td>
<td>23%</td>
</tr>
<tr>
<td>Alckmin (PSDB)</td>
<td>- -</td>
<td>14%➔12%</td>
<td>- -</td>
<td>5%</td>
<td>17%</td>
</tr>
<tr>
<td>Serra (PSDB)</td>
<td>- -</td>
<td>- -</td>
<td>15%</td>
<td>7%</td>
<td>19%</td>
</tr>
<tr>
<td>Marina (Rede)</td>
<td>19%➔19%</td>
<td>24%➔23%</td>
<td>23%</td>
<td>17%</td>
<td>15%</td>
</tr>
<tr>
<td>Lula (PT)</td>
<td>20%➔20%</td>
<td>22%➔20%</td>
<td>21%</td>
<td>19%</td>
<td>49%</td>
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<tr>
<td>Bolsonaro (PP)</td>
<td>4%➔6%</td>
<td>5%➔7%</td>
<td>6%</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>Gomes (PDT)</td>
<td>4%➔5%</td>
<td>7%➔6%</td>
<td>5%</td>
<td>4%</td>
<td>13%</td>
</tr>
<tr>
<td>E. Jorge (PV)</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td>11%</td>
</tr>
<tr>
<td>L. Genro (PSoL)</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>Temer (PMDB)</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td>21%</td>
</tr>
<tr>
<td>Blank/Null</td>
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<td>19%</td>
<td>18%</td>
<td>13%</td>
<td>- -</td>
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<tr>
<td>DK/NR</td>
<td>5%</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
<td>- -</td>
</tr>
</tbody>
</table>

Although Sen. Aécio Neves (PSDB-MG) declined three points from December, he still leads all scenarios and is the best rated *tucano* pre-candidate. Marina Silva (Rede) rivals Lula (PT) for second rank, although both Sen. José Serra (PSDB-SP) and Gov. Geraldo Alckmin (PSDB-SP) have “2018 ambitions”. Of all pre-candidates, Lula has the highest rejection rate – 49% said they “would never vote for Lula”. Thus, besides Lula’s “problems” in the *Lava Jato* investigations, it seems that his candidacy would not be “viable” in 2018 and might place third, behind Aécio Neves and Marina Silva.

### 1.2 – Fiscal Policy

Because Dilma is unwilling and/or unable to on expenditures on her “pet”, populist programs, such as *Bolsa Família* and *Minha Casa, Minha Vida*, in order to balance her government’s fiscal accounts and post a small fiscal surplus, the government has resorted to what is called in Brazil – *enrolation* –pretend that you are “really” doing something.

Before Carnaval, it had been announced that the government would expenditure cuts on 10th February and other measures to balance these accounts. However, Pres. Dilma and Finance Minister Nelson Barbosa announced that this decision would be put off until 24th March when the data for federal revenue collections for February is to be announced. With this data for January (to be announced on 25th February) and February in hand the fiscal policy decisions will be announced. The expectation is that these tax collections will improve to a more positive position YoY.
All analysts feel that this is a “pipe dream”. Because Brazil’s economy has not improved 2015 ➔ 2016 and probably will be worse this year than in 2015. Federal revenues in 2015 were down by 5.62 YoY. December 2015 revenues were down by -4.32% YoY and in November tax collections were down by -17.29% YoY.

Even with a new National Treasury Secretary (Otávio Ladeira, announced on 12th February), but with no new taxes approved, it seems almost impossible that federal revenue collections would increase in January and February.

One of the reasons that Joaquim Levy decided to exit the Dilma government last year was because he had proposed a +1.7% primary surplus as a fiscal target for 2016 – but, without consulting him, Pres. Dilma announced that the surplus target would be +0.5% of GDP.

Now, on 12th February, Dilma and the new Finance Minister Nelson Barbosa “pulled yet another rabbit out ot their hat” and announced that they would ask Congress to approve a “flexible” fiscal surplus target – with “bands”. Retaining the central target at +0.5%, the “target band” would vary by 1.0% up and down ➔ between +1.5% and 0.5%. This “band concept” is similar to that used by the Central Bank for its annual inflation target”. Whether Congress will approve this idea, remains to be seen. Also, it remains to be seen hope Moody’s will react to “novel” fiscal target modification. See ➔ http://m.folha.uol.com.br/mercado/2016/02/1739186-junta-quer-flexibilizar-meta-fiscal-para-liberar-deficit-de-ate-05-do-pib.shtml

Another question is how the TCU will react to yet another violation of the Fiscal Responsibility Law.

1.3 – PMDB elected new floor leader in Chamber

On Wednesday, 17th the February, the PMDB caucused and elected its new floor leader. This ended “The Battle for the PMDB” and pitted the current floor leader Leonardo Picciani (RJ) and Hugo (PB). Motta had the support of the Chamber President Eduardo Cunha (RJ) and Picciani was supported by Pres. Dilma. The scorecard was Picciani (37) and Motta (30).

1.4 – PEC opened “window” for party switching

On 18th February, the President of Congress, Senator Renan Calheiros (PMDB-AL) sanctioned a constitutional amendment that opened a 30-day “window of opportunity” for politicians to switch parties without any penalties. This “window” will remain open until 19th March.

On Sunday, 28th February, the FSP published an article about the first week of party “migration” in the Chamber with the 30-day “window” opened by the constitutional amendment sanctioned on 18th February (through 19th March) ➔ 40 deputies switched parties. The total breakdown by party was not tabulated. See ➔ http://www1.folha.uol.com.br/poder/2016/02/1744190-quarenta-deputados-trocam-de-partido-em-uma-semana.shtml
1.5 – Lava Jato – Operation Acarajé

On Monday, 22nd February, the Federal Police launched its 23rd operation in the Lava Jato investigations – Operation Acarajé –aimed at political marketing specialist João Santana (and his wife Monica Moura). Santana is from Bahia where Acarajé is a very popular dish. AfroBrazilian groups protested against the use of the name of this “soul food”. Santana’s “code name” in the scheme was Feira, because he was born near Feira de Santana in Bahia.

The Lava Jato investigators affirm that Santana, who was the marketing specialist in the last three PT presidential campaigns --- Lula (2006) and Dilma (2010 & 2014) was paid in his off shore accounts with illicit funds siphoned off from the Petrobras corruption/bribe scheme.

Santana and his wife have an off shore account (ShellBill) in Panama that received deposits of U$ 7.5 million ➔ U$ 4.5 million from Zwi Skornicki (Petrobras corruption/bribe funds) and US$ 3 million from Odebrecht. Skornicki used another off shore for this transfer ➔ Deep Sea Oil Corp.

On 3rd March, Lava Jato judge Sérgio Moro the temporary arrest of João Santana and Monica Moura in permanent arrest/detention. The Federal Police accuse Santana of destroying evidence two days before his arrest, indicating that he had been “forewarned”.

Andrade Gutierrez plea bargaining – If the arrest of João Santana and his fifth wife and the ongoing investigations were not enough, on 1st March, 11 executives of the Andrade Gutierrez construction firm decided to plea bargain with the Lava Jato investigators. In 2010, A-G made a R$ 6 million “side payment” (off the books, not reported to the TSE) for Dilma’s campaign, via a false contract with Pepper (a communication firm working on Dilma’s campaign). Also, that this “payment” had been intermediated by Antonio Palocci. Also, A-G will reveal corrupt practices in several other contracts ➔ Angra 3 nuclear power plant, Belo Monte hydro project, Petrobras and the construction of three 2014 world cup soccer stadiums. Reportedly, the beneficiaries were the PT and PMDB. A-G also agreed to pay R$ 1 billion fine.

Eduardo Cunha formally accused at STF – On 2-3 March, the STF approved (10-to-zero) the request from the PGR to install a formal penal accusation against Chamber President Dep. Eduardo Cunha (PMDB-RJ) within accusations by the Lava Jato investigations. Also on 2nd March, the Chamber Ethics Council voted 11-to-10 to continue the cassação process against Eduardo Cunha.

1.5.1 – Delcídio do Amaral – Plea Bargaining

If the arrest and investigation of Dilma’s campaign marketing “specialist” João Santana and his wife were not enough, on Thursday, 3rd March a much worse “bomb” exploded ➔ details of the plea bargaining of Sen. Delcídio do Amaral (PT-MS) were “leaked” (published) by weekly news magazine IstoÉ. Apparently, this plea bargaining (400 pages) was completed just before his “tight” release (home arrest at night) from the Federal Police lockup in Brasilia on 19th February.

Remember – Delcídio do Amaral was arrested (together with BTG banker André Esteves) – under a STF arrest warrant – on 25th November 2015 – because of their attempts to obstruct justice and witness tampering (that will cause your immediate arrest in many nations). They were bribing Nestor
Ceveró regarding his plea bargaining with the promise of a *habeas corpus* in Curitiba, PR. Then, Ceveró would be flown to Paraguay and then by a long range private jet to Spain (Ceveró has dual citizenship). These negotiations were secretly recorded by Ceveró’s son.

**Some of the “highlights” of Amaral’s plea bargaining:**

1) Pres. Dilma used her powers to maintain Petrobras directors accused of corruption in their posts;

2) Pres. Dilma appointed Marcelo Navarro Dantas to the STJ with the understanding that he would vote to release (*habeas corpus*) the business leaders accused in the *Lava Jato* investigations;

3) Lula had full knowledge of the Petrobras corruption/bribery case and ordered “side payments” to buy the “silence” of certain witnesses;

4) Pres. Dilma intervened to assure the appointment of Nestor Ceveró as Petrobras director;

5) The participation of Lula and Antonio Palocci to “buy” the silence of Marcos Valério in the *Mensalão* case for R$ 220 million;

6) Pres. Dilma and then Justice Minister José Eduardo Cardozo tried to intervene *three times* in the *Lava Jato* investigations;

7) When Dilma was President of the Petrobras administrative council, she had *full knowledge* of all the implications of the acquisition of the decrepit Pasadena, TX refinery for an exorbitant over invoicing”;

8) Lula organized the “bribe payments” to Ceveró’s family via José Carlos Bumlai;

9) *Doleiro* Adir Assad operated a *caixa dois* campaign contribution scheme during Dilma’s election in 2010;

10) The exclusion of Lula and his son Fábio Lula da Silva from the final report from the *CPI dos Correios* in 2006 (presided over by Amaral) avoided ten President Lula’s impeachment.

The legal scholars surveyed by the Brazilian press agreed that these “new facts” revealed by Amaral constitute “crimes of responsibility” by Pres. Dilma Rousseff and would be grounds for her impeachment.

http://www.istoe.com.br/reportagens/447783_A+DELACA+DE+DELCIDIO

Brazil’s national bar association (OAB) will examine the plea bargaining by Delcídio do Amaral to decide whether to formally request the impeachment of Pres. Dilma.

**Want more?** Reportedly, the next plea bargaining “bomb” will come from José Adelmário Pinheiro Filho (Leo Pinheiro), the owner of OAS (one of the firms involved in the Petrobras corruption/bribe scandal) has already been convicted and sentenced to a 16-year prison term is negotiating plea bargaining with the *Lava Jato* investigators in an effort to reduce his prison term.

**1.5.2 - Railroads**

*Lava Jato* has arrived at Brazil’s railroad sector. On 26th February, the Federal Police launched *Operation “O Recebedor”* based on information from plea bargaining testimony from Camargo Correa executives accused in the Petrobras corruption/bribe scandal – involving seven court-ordered
corrective arrests and 44 search-and-seize. Regarding the North-South railroad and its East-East linkage, just one contract involved $800,000.00 in bribes. One of the “targets” of this investigation is José Francisco [Juquinha] das Neves who was Valec director. Some R$ 600 million in bribes are involved.

1.6 – Lava Jato – 24th Phase

Early on Friday morning, 4th March, the Federal Police launched its 24th Phase of the Lava Jato investigations ➔ Operation Aletheia (with reference to a Greek phrase “in search of the truth”. In addition to 44 warrants (33 search-and-seize and 11 coercion (forcible) testimony -- at the homes of Lula (São Bernardo do Campo, SP) and his two sons, Fábio Luis and Luiz Claudio, the Lula Institute in SP, the Guarujá tri-plex apartment and the dacha (sítio) in Atibaia, SP. The coercion testimony was conducted at the Federal Police HQ in São Paulo, as well as at a special reserved area at the Congonhas Airport in SP. Also, this “search-and-seize” operation “visited” the home of Clara Ant, one of the Directors of the Lula Institute.

Apparently, this operation was secretly organized by the PGR in Brasília in cooperation with the Lava Jato task force in Curitiba and 30 SRF auditors (federal tax collectors) and several members of the latter came to SP to participate in the interrogation of Lula and his family and associates. This task force is concentrating its investigations of Lula’s “hidden” or secret assets accumulated since 2003. Lula [LILS Palestras] accumulated some R$ 35 million in payment for “speeches” since 2011 paid for by the same firms accused in the Lava Jato corruption/bribery scandal ➔ Odebrecht, OAS, Camargo Correa, Queiroz Galvão, Andrade Gutierrez and UTC.

The PT National Directorate called an emergency meeting at 10:00 a.m. and called this Federal Police operation against Lula a Golpe de Estado [Coup d’état] – the same term used by Pres. Dilma and her government regarding the installation of impeachment proceedings at the Chamber of Deputies. The Paris newspaper, Le Monde affirmed in a headline that “Lula is no longer untouchable”.

Reportedly, many PT members (including deputies and senators) are contemplating a “re-foundation” of the PT with a new name to avoid the “stigma” of the PT label. The “window” for party
switching (See Item 1.4) remains open until 19th March and it is possible that a new wave of PT mayors switching parties to run for re-election in October 2016 will occur, as well as some more PT senators and deputies “migrating” to other party labels. For example, Sen. Walter Pinheiro (PT-BA) is cited as contemplating switching parties in order to become a candidate for Mayor of Salvador.

Pres. Dilma and the PT received one-two blows on 3rd and 4th March. The former with regards the special edition of IstoÊ describing the plea bargaining of Sen. Delcídio do Amaral (See Item 1.51) that provoked an emergency meeting of her “inner circle” the afternoon of 3rd March. The latest “bomb” of Lula’s coercive convocation to testify on 4th March also provoked another emergency meeting of this same group the morning of 4th March.

Details: Lula is not the first former Brazilian president elected democratically to suffer this type of coercion. In June 1964, former President Juscelino Kubitschek, then Senator from Goiás and an active pre-candidate to return to the Presidency in the October 1965 elections, was cassado by the military regime (Pres. Castelo Branco) and then suffered “harassment” by military investigations to the point that he flew to Paris in self-imposed exile. In 1954, then Pres. Getúlio Vargas was “harassed” to the point that he committed suicide. In 1992, another sitting president, Fernando Collor, was also “harassed” to the point that he was impeached.

Expectations – Everyone is playing close attention to the mobilization of massive anti-Dilma and anti-Lula street demonstrations planned for Sunday, 13th March. The organizers now have “more ammunition” to help mobilize these public protests. They hope that the latter will be much larger and vocal than those in 2015 and 2013. Many feel that these “voices from the streets” will contribute to the impeachment decision by the Chamber of Deputies.

Reactions – Both on 3rd and 4th March, the market reaction to the blows suffered by Pres. Dilma and Lula were “positive” – and the Bovespa stock exchange was up by some 5% both days, and the US$ FX rate declined to R$ 3.78.

Late Friday afternoon, 4th March, Pres. Dilma briefly addressed the press regarding the events on 3rd and 4th March. After only one phrase complaining about the treatment received by Lula on 4th March, she launched a “diatribe” denying the accusations against her formulated in the plea bargaining by Sen. Delcídio do Amaral – which she called “hypothetical”.


Lula and his family were interrogated at the Congonhas airport. Supposedly, he answered all the questions posed by the Lava Jato task force. He left this session around 11:00 a.m., BUT did not return to his home in São Bernardo do Campo, SP. Rather, he went directly to the national PT HQ in down town SP where he counselled with PT leaders and made a public statement around 3:30 p.m.

Lula said – “I felt like a prisoner”. “O [Judge Sérgio] Moro did not have to use Federal Police coercion to obtain my testimony and that of my family; if requested, I would have presented my self to give testimony . . . I am indignant about what they did to my family . . . They want to criminalize me and the PT”. Lula said that since his government in 2003, “Brazilian elites” have been very negative about what happened to classes D & E, some 30 million moved up into the lower middle class C.
**Detail:** Judge Sérgio Moro prohibited the Federal Police use of handcuffs on Lula and prohibited any video recording, in addition to ordering the Federal Police to use an unmarked car to take Lula and his family to the interrogation.

Lula denied that he is the owner of the triplex apartment in Guarujá, SP.

http://www.jb.com.br/pais/noticias/2016/03/04/lula-quiseram-matar-a-jararaca-mas-bateram-no-rabo-vamos-para-a-rua/?from_rss=None

The *Época* weekly news magazine reported that someone had “forewarned” Lula and his PT associates because the day before the Federal Police “search-and-seize” operation the Inst. Lula “cleaned out and destroyed” much evidence and documents.

1.7 - Zelotes

Yet another important business leader was accused of corrupt bargaining at CARF. On 25th February, the Federal Police accused Gerdau (one of the largest Brazilian steel companies) of participating in corrupt negotiations at CARF to reduce (or eliminate) a R$ 1.8 billion fine. André Gerdau was subpoenaed to testify at the Federal Police.

1.8 – More “judicialization”

Judicialization means when the legislature won’t or can’t approve any modifications of election or party system rules and thus the Judicial Branch intervenes to impose said reforms – as the STF did in December 2015 by declaring that all campaign contributions by firms/businesses were unconstitutional.

On 15th December 2015, the TSE issued Res. 23.455 that determined that parties that had not organized and officially registered their municipal directorates before 2nd October 2015 would not be able to launch candidates for Mayor in these *municípios*. This resolution was based on Law No. 9.096/1995, Law No. 9.504/1997 and TSE Res. 23.282/2010. The logic is that if a party does not have a municipal directorate organized, the latter can not convocate a municipal-level party convention to legally select and register its candidates for Mayor and City Council.


Two “notable” PRB pre-candidates (among thousands of other pre-candidates) would be affected: 1) Dep. Celso Russomanno, pre-candidate for Mayor of São Paulo; and 2) Sen. Marcello Crivella, pre-candidate for Mayor of Rio de Janeiro. Both were candidates for Mayor in 2012 – thus establishing sort of a “precedent”. Russomanno leads the field of pre-candidates in São Paulo, and Crivella is the nephew of “Bishop” Edir Macedo, of the IURD-Universal Church of the Kingdom of God.
After heated discussions in Congress several affected parties affirmed that they will appeal this TSE Resolution to the STF in the form of an ADIn. Some party leaders are contemplating a Constitutional Amendment to overturn this TSE Resolution, but as seen in the case of in 2004, it took five years to approve such a “corrective” amendment.

1.9 – Cabinet reshuffle

On Monday, 29th February, a persistent rumor was confirmed → José Eduardo Cardozo left his post at the Ministry of Justice, under heavy pressures from the PT and other parties in Dilma’s support coalition, as well as from former President Lula. The main complaint has been that Cardozo has refused to intervene in the Federal Police to change the course of the Lava Jato investigations.

Photo: Alan Marques/Folhapress

José Eduardo Cardozo (MJ), Luís Inácio Adams (AGU) & Nelson Barbosa (MF)

Cardozo will go to the AGU to replace Luis Inácio Adams who has already resigned. Via the influence of Casa Civil Chief Jaques Wagner (PT-BA), the new Justice Minister is Wellington César Lima e Silva, a public prosecutor in Bahia who had served as Chief State prosecutor.

Apparently, the “problem” that finally contributed to Cardozo’s exit was the arrest of campaign marketing specialist João Santana and his wife. Lula’s pick for Justice Minister, former Justice Minister Nelson Jobim, was not accepted by Pres. Dilma.

However, Pres. Dilma had other preferences → the Central Bank general prosecutor, Issac Menezes, and the Executive Secretary at the Social Security Ministry Marcelo Siqueira. Pres. Dilma also appointed a permanent chief at the CGU – Luiz Navarro de Brito.

Dep. Mendonça Filho (DEM-) has filed a brief at the STF against the appointment of Wellington Cesar Lima e Silva as Justice Minister because he is a public prosecutor and Art. 128 of the 1988 Constitution prohibits this. Wellington Cesar would have to resign his job as state prosecutor in Bahia in order to become Minister of Justice. The installation of Wellington Cesar was scheduled for Thursday, 3rd March.

However, on late Friday afternoon, 4th March, a federal judge in Brasília issued an injunction suspending the appointment of Wellington Cesar as Justice Minister.

1.10 – PSDB primary in SP

On Sunday, 28th February, the PSDB in the city of SP held a primary to choose its candidate for Mayor in the October 2016 elections. Three candidates were on the ballot – 1) Andrea Matarazzo, member of the SP city council and supported by FH Cardoso, José Serra and Alberto Goldman - he received 33% of the vote; 2) João Dória Junior, business leader supported by Gov. Geraldo Alckmin – he received 43% of the vote; and 3) Ricardo Tripoli, federal deputy supported by Bruno Covas and José Anibal – he received 22% of the vote. A second round runoff is planned for 20th March.

2 – FOREIGN RELATIONS & TRADE

2.1 – February Trade Result

On 1st March, MDIC released the February trade result – a +US$ 3.403 billion surplus – the best February result since this data series began in 1989. The last February surplus was posted in 2012 (+US$ 1.7 billion). In January 2016, the trade surplus was +US$ 923 million.

Exports were US$ 13.348 billion (+4.6% YoY and +24.9% MoM) and imports were US$ 10.305 billion (-34.5 YoY) and +5.1% MoM).

2.2 – Dilma ➔ Chile

On 26th February, Pres. Dilma flew to Santiago, Chile on a state visit and was received by Chilean Pres. Michelle Bachelet. Pres. Dilma was accompanied by a delegation of 25 Brazilian business leaders. This visit served as an excuse for Pres. Dilma not to attend the PT festivities in Rio on 26-27 February to mark the 36 years of the party where she feared she might be attacked by radical PTZZ militants.

To this end, Pres. Bachelet organized a luncheon for Pres. Dilma on Saturday, 27th February and thus Pres. Dilma only left Santiago at 5:00 p.m.

Dilma and “her” PT are at a “breaking point” where the party opposes almost all her proposals in the area of fiscal austerity and reforms.

2.3 – Maluf convicted in France

A criminal court in Paris convicted Dep. Paulo Maluf (PP-SP) to three years in jail for money laundering (transfers of illicit corruption funds from public works projects in SP). His wife, Silvia Lutfalla Maluf and his son, Flávio Maluf, were also convicted. The court also confiscated 1,844,623.33 euros from the Maluf family bank accounts and assessed fines totaling 500,000 euros. The French courts also maintained the Interpol arrest warrant for the Maluf family. New York courts also have an Interpol arrest warrant for Paulo Maluf. Thus, Dep. Maluf can not travel outside of Brazil at the risk of being arrested by Interpol.
3 - REFORMS

3.1 – PEC to alter STF appointment process

Montesquieu must be intently observing “from afar” – Brazil might modify its three-power arrangement of checks and balances. Both Presidents Lula and especially Dilma have been accused of making “party-linked” appointments to the STF. Because of the 70-year age limit, STF turnover is large. Last year, Congress passed the “PEC da Bengala” that increased the mandatory retirement age from 70 to 75. This deprived Pres. Dilma of making anymore STF appointments.

On 24th February, the Senate went even further. The CCJ approved a PEC presented by Sen. Lasier Martins (PDT-RS) that would alter this appointment process. A seven-member appointment board (representing the OAB and other ONGs) would propose a name for Senate confirmation (rather than appointment by the President). Once appointed, STF judges would have ten-year mandates and would have a five-year “quarantine period” before being eligible again.

Once approved by the full Senate it is quite likely that the Chamber would also approve this PEC – as in the case of the Bengala PEC.

4 – PRIVATIZATION & REGULATION

4.1 – Petrobras “lost” the pre-salt area

On 24th February, the Senate approved (40 vs. 36) changes in the pre-salt petroleum legislation that gave Petrobras the exclusive right to explore this area with a 30% participation stake. Once approved by the Chamber, Petrobras would only have a certain “preference” but international firms would bid directly on these concessions. Because Petrobras has practically “destroyed” it no longer has the financial capacity to engage in pre-salt exploration. The author of this measure was Sen. José Serra (PSDB-SP) and was reported out by Sen. Ricardo Ferraço (no party-ES).

This is another point of disagreement PT vs. Dilma. This relationship is nearing the point of divorce.

4.2 – Increased foreign investment in domestic airlines

On 1st March, Pres. Dilma issued a Medida Provisória (MP) that would permit foreign investors to acquire up to 49% of Brazilian airlines. This MP will strengthen Brazilian airlines negatively impacted by the increased FX rate. Supposedly, this measure will strengthen some of the regional air routes in
Brazil. Also, if a bi-national reciprocal arrangement is in place, up to 100% of Brazilian airlines could be acquired by foreign capital.

GOL, for example, has a 9.48% stake held by Delta Airlines. Azul has capital participation by United and the Chinese HNA group. TAM operated a merger with Lan Chile to create a new group – Latam. The news of this MP boosted GOL shares on Bovespa by +21% on 2\textsuperscript{nd} March.

5 - ECONOMICS

5.1 – Brazil’s GDP retracted -3.8% in 2015

On Thursday morning, 3\textsuperscript{rd} March, IBGE released Brazil’s GDP data for 2015 ⇒ Brazil’s economy retracted -3.8%, the worst recession since 1990 (-4.35%) and 1981 (-4.25%). Industry retracted -6.2%, civil construction was even worse (-14.1%). In 4\textsuperscript{th} Q/2015, GDP retracted by -1.4% QonQ and -5.9% YoY.

The Central Bank’s Economic Activity Index (IBC-Br) predicted a DP retraction of -4.08% for 2015. See Item 5.4.

Think “positive”. There is always a “brighter” side of the coin. The worst GDP retraction was actually in 2\textsuperscript{nd} Q/2015 ⇒ -2.1%, but then “improved” in the 3\textsuperscript{rd} & 4\textsuperscript{th} Q/2015.

\begin{tabular}{|c|c|}
\hline
GDP by Quarter in 2015 (QonQ) &  \\
\hline
First & -0.8%  \\
Second & -2.1%  \\
Third & -1.7%  \\
Fourth & -1.4%  \\
\hline
\end{tabular}


5.2– New downgrades

5.2.1 – S&P downgrades Brazil, again

On Wednesday 17\textsuperscript{th} February S&P downgraded Brazil deeper into junk bond status, from BB- to BB. In September, S&P downgraded Brazil into junk bond status. In December Fitch also downgraded Brazil to junk bond status. Moody’s visited Brazil recently and might do its down grade in early March.

5.2.2 – Moody’s downgraded Brazil
Moody’s did not wait until “early March” and on Wednesday, 24th February, downgraded Brazil by **two notches**, from “Baa3” to “Ba2” (with a negative outlook) deep into junk bond status. The Brazilian government and economic analysts had expected this downgrade, but not by two notches.

### 5.3 – January Unemployment

On 25th February, IBGE released its unemployment data for January ➞ 7.6%, up from 6.9% in December. This is the highest unemployment level since January 2009. Average salaries were down, R$ 2,273, 44 ➞ R$ 2,242,90.

*Caged* – 99,694 jobs lost in January. On 26th February, the Ministry of Labor released its *Caged* data for January. In January 2015, 81,774 jobs were lost. The 12-month accumulation is now 1.59 million jobs lost. This was after 596,200 jobs were lost in December.

### 5.3 – December Retail Sales

On 16th February, IBGE announced that retail sales were down by -2.7% MoM and by -4.3% YoY in 2015. This was the worst result since this data series began in 2001 and the first negative result since -3.7% was posted in 2003. In 2015, 100,000 retail stores were closed. In January, supermarket sales were down -19.64% YoY – according to ABAS.

### 5.4 – IBC-Br for December and 2015

On 18th February, the Central Bank released its economic activity index (IBC-BR) data for December ➞ -0.52% AND -4.08% for the year 2015. The IBC-Br is considered a “preview” of Brazil’s GDP. IBGE released the 2015 GDP data on 3rd March. *(See Item 5.1)*

### 5.5 – February Inflation

*IGP-M ➞ On 26th February, FGV released its IGP-M for February, +1.29%, up from +1.14% in January. The 12-month accumulation of the IGP-M is now +12.08%*

### 5.6 – January tax revenues

On 25th February, the SRF released its tax data for January ➞ R$129.4 billion, -6.71% YoY. This shows that the false expectation of increased tax revenues in 2016 is not sustainable.

### 5.7 – January Public Accounts

**Primary Surplus ➞ +R$ 27.9 billion**
- **12-month deficit** without interest payments, -1.75% GDP
- **12-month deficit** with interest payments, -10.82% GDP

**Nominal Result ➞ deficit of -R$28.3 billion**

**Current Account Deficit ➞ -R$ 4.817 billion**, down by 60.4% vs. January 2015

**FDI ➞ +US$ 5.455 billion**

**Brazilian tourist appending ➞ -62% YoY**
Public Debt ➔ 67% of GDP

The primary surplus was “inflated” by a “one-shot” injection of R$ 11 billion, proceeds from the concession auction of hydro electric generation units. This was the first primary surplus in 9 months.

5.8 – *Plano Cruzaço* ➔ 30 years

In late February 1986, Pres. Sarney and his economic team launched the *Plano Cruzaço* economic stabilization plan that froze prices and indexed all salaries up to the date the plan was launched. This first such stabilization plan introduced a new currency – the *Cruzo* and sustained the PMDB in the 1986 elections – all governors but one and an absolute majority in the National Constituent Assembly that met in 1987 and 1988.

5.9 – Copom maintains Selic at 14.25%

Copom met on 1-2 March and decided to maintain the basic interest rate at 14.25%. This decision was not unanimous – two participants voted to raise the rate by 50 bps to 14.75%. This was the fifth time that Copom maintained the Selic rate at 14.25%. Bloomberg News surveyed 45 economists and 43 predicted the maintenance of the Selic rate at 14.25%.

5.10 – Auto sales decline

In 2015, Brazilian auto sales declined by -27% (and by -15% in 2014) and Brazil retracted from the fourth to the seventh largest auto market world wide.

*However* – MDIC is negotiating a mega auto sale to Iran that wants to upgrade its vehicles ➔ 140,000 autos, 65,000 trucks and 17,000 buses. This mega sale could reach US$ 5 billion.