Brazil Focus –
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Weekly Report
April 30-May 6
2016

Looking Ahead ➔ What to watch for?

• 9th May -- FGV: April IGP-DI ➔ +___% versus +___% in March
• 9th May -- IBGE to announce unemployment in 1st Q/2016 ➔ ___%
• 11th May -- Full Senate to vote to install impeachment proceedings ➔ Pres. Dilma Rousseff would be suspended for 180 days
• 12th May -- IBGE: industrial employment in March ➔
• 13th May -- Brazilian Abolition Day (slaves freed 1888), Afro-Brazilians don’t honor
• 13th May -- WEF, HCI-Human Capital Index to be released, Brazil ranked ___
• 16th May -- IBGE, retail sales for 1st Q/2016 ➔ ___% QoQ
• 16th May -- Brazilian Am. C of C in NY, Breakfast Seminar – Harvard Club
• 16th May -- FGV-Ibre, Brazil’s GDP retracted -___% in 1st Q/2016
• 16th May -- IGP-10 ➔ +___%, versus +___% in April
• 23rd May -- Central Bank to announce March IBC-Br ➔ -___% MoM
• 23rd May -- IBGE: April PME unemployment ➔ ___
• 23rd May -- Caged data ➔ ______ jobs lost in April
• 23rd May -- IBGE: IPCA-15 ➔ +___% versus +___% in April
• 25th May -- SRF ➔ tax collections ___% in April
• 25th May -- IMD to release World Competitiveness Ranking
• 25th May -- FGV to release data from ICI-Industrial [Sector] Confidence Index
• 26th May -- Corpus Christie – national religious holiday
• 26-30 May -- 33rd LASA Congress in New York City – 50 years of LASA
• 30th May -- IGP-M for May ➔ +___%, versus +___% in April

1 - POLITICS

1.1 – STF Judge Teori Zavascki suspended Eduardo Cunha

On Wednesday evening, 4th May, Supreme Court Judge Teori Zavascki decided to issue an injunction that suspended Chamber President Dep. Eduardo Cunha (PMDB-RJ) from the Chamber Presidency and suspended his mandate as deputy and no thus is no longer in the succession line for the Presidency of the Republic. If V-Pres. Michel Temer (PMDB-SP) assumes the presidency on 12th May (after the Senate votes to continue the impeachment trial o Pres. Dilma Rousseff in the Senate) – Dilma will be suspended for 180 days. Therefore, Cunha would be the next in line to assume the Presidency if Temer travels abroad. The 1988 Constitution rules that anyone who has an accusation accepted by the STF can not occupy the Presidency.

Apparently, Zavascki decided to anticipate this injunction just before the full STF considered the “Cunha case” on Thursday afternoon, 5th May. In his injunction, Zavascki affirmed that the final cassação [expulsion from the Chamber] could only be determined by the Chamber (on an absolute majority in an open roll call vote) – and not by the STF.

WHY? Two requests to remove Cunha were before the STF ➔ 1) by the PGR; and 2) a more recent one filed by the Rede (Marina Silva’s new political party). The later was allocated to STF Judge Marco Aurélio Mello and the first had been with the reporter for the Lava Jato investigation, Judge Teori Zavascki. On 4th May, STF President Ricardo Lewandowski placed the Rede’s request on the court’s agenda for 5th May. This made Zavascki “furious” and thus he decided to issue the anti-Cunha injunction on Wednesday night in order to become the reporter on this case the next day.

This suspension of Cunha should “free up” the Chamber Ethics Council so that it can rapidly finalize its report regarding the cassação of Cunha because without the powers of the Chamber Presidency at his command, Cunha will not be able to intervene to delay the deliberations of this Council. Thus, this Ethics Council should vote out its report in favor of Cunha’s cassação by the end of May.

http://www.nytimes.com/2016/05/06/world/americas/cunha-rousseff-brazil-impeachment.html?_r=0
In the next few days, the Chamber will have to select a Deputy to become Chamber President for the rest of Cunha’s term – through 1st February 2017. There is a historic precedent for this procedure from 2005. For the 2005-2007 term, the PT launched TWO candidates for the Presidency of the Chamber and this opened the door for the election of Dep. Severino Cavalcanti (PP-PE). However, it was revealed that Cavalcanti was “shaking down” the concession holder of the Chamber restaurant – “If you don’t pay me a bribe, I will not renew your concession”. As a result, Cavalcanti resigned the Chamber Presidency and faced will cassação also resigned his mandate. As a result, the Chamber elected another President to complete Cavalcanti’s term – Dep. Aldo Rebelo (PCdoB-SP) – the current Defense Minister.

The consensus is that the current Chamber Vice-President, Dep. Waldir Maranhão (PP-MA) should not take over the Chamber Presidency and that a new President should be elected. Maranhão is considered a “lower cleric” [baixo clero] and not well known or recognized as a deputy capable to exercising this role. Also, Maranhão is also under investigation at the STF, accused of involvement in the Lava Jato corruption case. In addition, the next in line for presidential succession, the President of the Senate, Renan Calheiros (PMDB-AL) also has some 8 prosecution requests filed at the STF. Among possible choices, the most frequently cited is Dep. Rogério Rosso (PSD-DF) who became the President of the Special Impeachment Committee in the Chamber that deliberated the impeachment of Pres. Dilma Rousseff. His performance was considered excellent by most deputies.

However, the Chamber can not elect a new President unless Cunha is permanently removed from the Chamber presidency ➔ resignation, cassação or death.

The PGR, Rodrigo Janot, applauded Zavascki’s decision because the removal of Cunha from the Presidency of the Chamber will favor the advance (remove impediments) of the Lava Jato investigation.

How will this decision affect Michel Temer? With Cunha removed from the Presidency of the Chamber, Maranhão might act contrary to (Pres.) Temer’s legislative proposals – OR even worse, attempt to install the impeachment request against Temer. Even more, Cunha has a very loyal clack of some 150 deputies who supposedly would follow his orders even after his removal as Chamber President. Without Cunha in command of the Chamber, it will be more difficult for the Temer government to quickly approve proposals that will be critical for his fiscal austerity program as well as certain reforms ➔ labor legislation and social security.

President Dilma counter attacks ➔ In his testimony in defense of Pres. Dilma before the Senate Special Impeachment Committee on Thursday, 5th May, the AGU 0 José Eduardo Cardozo affirmed that the Senate should annul the impeachment decision made by the Chamber because the lower house procedures were commanded by Dep. Eduardo Cunha (PMDB-RJ). This indicates that the Dilma government might file an ADIn to this effect at the STF, maybe on 10th May (the day before the Senate vote to suspend her) to ask the Supreme Court to annul the whole impeachment process.

Two PT-RS deputies, Maria do Rosário and Paulo Pimenta announced that they would file this request at the STF to annul the impeachment decision by the Chamber.
1.1.1 – STF confirmed Zavascki injunction

Late Thursday afternoon, the full Supreme Court approved on a unanimous vote the injunction issued by Judge Teori Zavascki. STF Vice-President Judge Carmen Lúcia (who will become STF President in September) said that “the removal of Cunha has defended the Chamber and attacked the sensation of impunity”.

1.2 – Impeachment Process in the Senate

The 21-member Special Impeachment Committee continued its activities this week:

- **Monday, 2nd May** – Testimony by the SP constitutional lawyers who drafted the impeachment request – plus other specialists
- **Tuesday, 3rd May** – Testimony by specialists against the impeachment of Pres. Dilma.
- **Wednesday, 4th May** – The Committee Reporter, Sen. Antonio Anastasia (PSDB-MG) read his Report to the Committee.
- **Thursday, 5th May** – The AGU will make his last defense of Pres. Dilma and try to rebut the Report presented by Sen. Anastasia.
- **Friday, 6th May** – The Senate Special Impeachment Committee will vote on the Report compiled by Sen. Anastasia that was approved by a 15-to-5 vote, and now goes to the full Senate.
- **Wednesday, 11th May** – Full Senate should vote to install impeachment proceedings, Pres. Dilma should be suspended for 180 days.

1.3 – Gilmar Mendes suspended part of MP 722

On Friday, 29th April, Pres. Dilma issued MP 722/2016 that established a total of R$ 180 million credits ➔ R$ 100 million for the Presidency to cover costs of “Institutional Communications” and “Publicity for Public Acts” – and R$ 80 million for the Ministry of Sports to finalize the infrastructure for the 2016 Rio Olympic Games.

On Monday, 2nd May, STF Judge Gilmar Mendes issued an injunction prohibiting the R$ 100 million expenditure because the latter were not “unforeseen” or “urgent”, and would be justified only “in the case of a war, internal commotion or a public calamity” – in accord with Paragraph 3 of Article 167 of the 1988 Constitution.

1.4 – Possible Temer cabinet

Every day Vice-President Michel Temer (PMDB-SP) has received visits from representatives of political parties (that will become part of his support coalition in Congress as well as possible picks for cabinet positions. There are many speculations regarding how interim president Temer might reduce
the size of the cabinet with the “merger” of ministries. As of Friday, 6th May (six days before Temer would take over on 12th May), the list of possible pick is as follows:

<table>
<thead>
<tr>
<th>Finance</th>
<th>Henrique Meirelles (PSD-GO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>Sen. Romero Juçá (PMDB-RR)</td>
</tr>
<tr>
<td>Central Bank</td>
<td>Ilan Goldfajn</td>
</tr>
<tr>
<td>Casa Civil</td>
<td>Eliseu Padilha (PMDB-RS)</td>
</tr>
<tr>
<td>Foreign Relations</td>
<td>Sen José Serra (PSDB-SP)</td>
</tr>
<tr>
<td>Mines &amp; Energy</td>
<td>PMDB (?</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Roberto Rodrigues</td>
</tr>
<tr>
<td>Defense</td>
<td>Raul Jungmann (PPS-PF)</td>
</tr>
<tr>
<td>Cities</td>
<td>???</td>
</tr>
<tr>
<td>Science &amp; Tech.</td>
<td>PRB (?)</td>
</tr>
<tr>
<td>Social Development</td>
<td>Osmar Terra (PMDB-RS)</td>
</tr>
<tr>
<td>Communications</td>
<td>PSD (?)</td>
</tr>
<tr>
<td>Ports</td>
<td>PMDB</td>
</tr>
<tr>
<td>Culture</td>
<td>Dep. Roberto Freire (PPS-SP)</td>
</tr>
<tr>
<td>Tourism</td>
<td>Henrique Alves (PMDB-RN)</td>
</tr>
<tr>
<td>MDIC</td>
<td>PTB (?)</td>
</tr>
<tr>
<td>Human Rights</td>
<td>Dep. Mara Gabriilli (PSDB-SP)</td>
</tr>
<tr>
<td>Education</td>
<td>Dep. Mendonça Filho (DEM-PE)</td>
</tr>
<tr>
<td>Health</td>
<td>Raul Cutait (USP)</td>
</tr>
<tr>
<td>Sec. of Gov’t.</td>
<td>Geddel Vieira Lima (PMDB-BA)</td>
</tr>
<tr>
<td>Privatizations</td>
<td>Moreira Franco (PMDB-RJ)</td>
</tr>
<tr>
<td>Labor</td>
<td>SD (?)</td>
</tr>
<tr>
<td>Transport</td>
<td>Mauricio Q. Lessa (PR-AL)</td>
</tr>
<tr>
<td>Sports</td>
<td>Luciano Picciani (PMDB-RJ)</td>
</tr>
<tr>
<td>Nat. Integration</td>
<td>Henrique Bezerra Filho (PSB-PE)</td>
</tr>
</tbody>
</table>

This list varies from day to day and Temer was obliged not to reduce the number of cabinet ministries as initially planned to some 22 posts. In order to accommodate the demands from the different parties in his coalition, Temer will probably have nearly 30 cabinet posts.


1.5 – Senate Ethics Council

On Tuesday, 3rd May, the Senate Ethics Council unanimously approved the cassação [expulsion] of Senator Delcídio do Amaral (former PT-MS). This case now goes to the Senate CCJ and then to the full Senate for a final decision. Deleidio could become the third senator to be cassado by his peers, after Luiz Estevão (PMDB-DF) in 2000 and Demóstenes Torres (DEM-CO) in 2012.

1.6 – Lava Jato

On Tuesday, 3rd May, the PGR, Rodrigo Janot, denounced Lula at the STF and requested that a formal investigation be opened against the former President. He was included in the inquest regarding the attempts to obstruct justice and “buy off” former Petrobras director Nestor Ceveró to avoid his plea bargaining – according to the plea bargaining testimony of Sen. Deleidio do Amaral Gomes. Janot also included Lula’s “close friend” José Carlos Bumlai and his son Mauricio Bumlai who are accused of delivering funds to Ceveró’s family. STF Judge Teori Zavascki will decide whether to open a full investigation.

On 28th April, the PGR requested that the STF include Lula, Ricardo Berzoni, Jaques Wagner, Edinho Silva, and others in the general Lava Jato investigation. Janot affirmed that this criminal organization could not have existed without the “leadership” of Lula.

Want More?? The PGR also requested that the investigation of “obstruction of justice” also include Pres. Dilma Rousseff and the AGU José Eduardo Cardozo.

Consequences ➔ This action by the PGR destroyed Pres. Dilma’s discourse that “I did not commit any crime”. The accusation by the PGR placed before the STF is not of a “crime of responsibility”, but rather of a regular penal crime. This should enhance the mobilization by pro-impeachment senators to achieve more that 54 senators (two-thirds) to vote in favor of the admissibility of impeachment next week, on 11th May.

1.6.1 – Lula, SP ➔ PR?

On 14th March, Judge Priscilla Viega Oliveira, 4th Criminal Circuit is SP, decided to transmit the request by the SP prosecutors for the arrest and judgment of Lula to the 13th Criminal circuit judge in Curitiba, PR – Sérgio Moro. In order to protect Lula against possible arrest, Pres. Dilma decided to appoint him to her Casa Civil that would afford him with foro previlegiado [judicial “cover” to only be prosecuted by the STF] – BUT STF Judge Gilmar Mendes suspended this appointment as “suspect” [obstruction of justice]. Thus, temporarily, Lula’s case was transferred to the STF. The full Supreme Court has postponed any final decision regarding Mendes’ injunction.

If on 11th May the Senate votes to suspend Pres. Dilma for 180 days, Lula’s appointment would become “null” and the STF would have to decide whether to return his case to Curitiba – together with the PGR’s request (cited above). Reportedly, Lula is very “depressed”. ➔ Stay tuned!!!

1.7 – Fitch Ratings, a second downgrade for Brazil

On 5th May, Fitch Ratings announced a second downgrade for Brazil (long term rating) from BB+ to BB. On 16th December, Fitch had downgraded Brazil two notches from “investment grade” (BBB) to “speculative status” (junk bond) – BB+. According to Fitch, this new down grade reflects Brazil’s continued economic contraction in 2016 (worse than in 2015) together with inability of the government to stabilize perspectives for public finances. Fitch kept Brazil with a “negative perspective”.


2 – FOREIGN RELATIONS & TRADE

2.1 – April trade balance

On Monday, 2nd May, MDIC announced the April trade surplus ➔: +US$ 4.861 billion, the best April result since this series began in 1989. Exports totaled US$ 15.374 billion and imports were US$ 10,513 billion. The accumulated surplus in 2016 was US$ 13.249 billion

2.2 – FDI Confidence Index
This week A. T. Kearney released its 2015 Foreign Direct Investment Confidence Index. On a zero-to-three scale Brazil received a score of 1.67 in 6th rank. Brazil was third rank in 2013 and fifth rank in 2014. Respondents were asked “Is your outlook on this country more positive or negative than in 2014?” 17% said “more negative” while 28% said more positive.

Specifically regarding Brazil, this report stated:

**Brazil** maintained its spot as the largest FDI recipient in Latin America in 2014 with inflows of $62 billion, and looking to the future, it comes in 6th in the Index. Despite sluggish economic growth, investors are still attracted by the country’s large domestic market, growing middle class, and natural resource base. Many foreign companies are looking for opportunities to reach Brazil’s growing middle class. In April 2014, Banco Santander of Spain agreed to acquire the remaining portion of its Brazil unit for $6.5 billion. In March 2015, British American Tobacco offered $3.5 billion for the remaining stake in the country’s largest cigarette maker, Souza Cruz.


3 - REFORMS

Nothing this week

4 – PRIVATIZATION & REGULATION

4.1 – New concessions

Reportedly, among the public policy alternatives being considered by Vice-President Michel Temer (PMDB-SP) if he assumes the Presidency on 12th May is a massive new “wave” of privatizations via concessions of airports, railroads and highways. To this end, he would create a new cabinet post (without portfolio) to organize these concessions – headed by Moreira Franco.

Apparently, Pres. Dilma wants to “steal the fire” from Temer and has ordered her staff to speed up the concession process of four airports (Salvador, Porto Alegre, Florianópolis and Fortaleza – so that she could announce these concessions before Temer takes over. Also, she wants to “inaugurate” the new airport terminal (still under construction) in Goiânia on 9th May.

5 - ECONOMICS

5.1 – April Inflation

On 6th May, IBGE released data for the April IPCA +0.61% -- an increase from the +0.43% posted in March. In spite of this increase, the 12-month accumulation of the IPCA continues just
below 10% (+9.28%). In April 2015, the IPCA was +0.71%. In 2015, the IPCA was +10.67%. Market predictions foresee a decline in the IPCA in 2016.

5.2 – Industrial production declined

For the 25th straight month, IP continued to decline in March, according to data released by IBGE on 3rd May ➔ -11.4% YoY. The decline in January was -13.7% YoY and -9.8% YoY in February. The decline 1st Q/2016 (-11.7%) was the worst since 2009 (-14.3%) – a consequence of the Wall Street “blow out”.


5.2.1 – Auto Sector

The results for the January-April period were the worst since 2006 ➔ the sale of autos declined by -28% versus the same period in 2015 and GM sacked 300 workers at its factory in Gravataí, RS. In April, 162,900 vehicles (autos, buses & trucks) were sold ➔ -9.0% MoM and -25.7% YoY. In the January-April period, imports were down by 45% YoY.

5.3 – Public Accounts for April

The primary deficit in April 2016 reached -R$ 10.644 billion – including deficits for state & municipal governments as well as state enterprises. In April, Brazil posted a small primary surplus of R$ 239 million.

Primary Result for the Month of April (in Reais)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Gov’t.</td>
<td>+1.483 billion</td>
<td>- 8,944 billion</td>
</tr>
<tr>
<td>State &amp; Munc.</td>
<td>- 1.146 billion</td>
<td>- 893 million</td>
</tr>
<tr>
<td>State Enterprises</td>
<td>- 97 million</td>
<td>- 906 million</td>
</tr>
<tr>
<td>TOTAL</td>
<td>+293 million</td>
<td>-10.644 billion</td>
</tr>
</tbody>
</table>

Brazilian tourist spending

On 4th May, the Central Bank released data regarding the overseas spending by Brazilian tourists in March ➔ US$ 1.291 billion, up from US$ 841 million in February and US$ 839 million in January – but very close to the US$ 1.244 billion posted in December 2015.

5.4 – Savings accounts depleted
On 5th May, the Central Bank announced that in April savings accounts had a net withdrawal of -R$ 8.246 billion, larger than the -R$ 5.850 billion in April 2015. This was the third worst result since 1995. The Central Bank reported that in April 2016, Brazil’s savings accounts received R$ 153.252 billion \textit{versus} withdrawals of R$ 161.489 billion.