Brazil Focus –
David Fleischer
Phone/FAX: 55-61-3327-8085
Cell: 9218-2771 e-mail: Fleischer@uol.com.br

Weekly Report –
Sept. 26-Oct. 2 2015

Looking Ahead ➔ What to watch for?

- 4-5 Oct. – Pres. Dilma makes state visit to Colombia (postponed)
- 5th Oct. – Auto production in September, units sold
- 5th Oct. – Pres. Dilma to visit Colombia
- 9th Oct. – IBGE to post IPCA for September ➔
- 9th Oct. – FGV to post September IGP-DI ➔
- 9-11 Oct. – Fall meetings of IMF and World Bank – Washington, DC
- 12th Oct. – National Religious Holiday [Our Lady of Aparecida, national saint]
- 12th Oct. – Columbus Day [observed in US] – federal holiday
- 12th Oct. – Thanksgiving Day [Canada]
- 12th Oct. – Day of the Race [Holiday in Mexico]
- 14th Oct. – IBGE to announce unemployment in September
- 14th Oct. – Maria Moors Cabot prizes to be announced at Columbia University
- 15th Oct. – IBGE: August retail sales ➔
1 - POLITICS

1.1 – Party switching

**REDE** -- As seen last week, switching to the new *Rede Sustentabilidade* (recently approved by the TSE) began last week. The leader of this new party, former senator and two-time presidential candidate (2010 & 2014), Marina Silva said “We want party switching of quality and not quantity”. In an effort to head off a possible *Rede-PSB* coalition, Sen. Aécio Neves (PSDB-MG) visited Recife to chat with Renata Campos, widow of Eduardo Campos, to invite her to be his running mate (for Vice-President) in 2018.

**PMB-Partido da Mulher Brasileira** [Brazilian Women’s Party] was formally approved by the TSE on 29th September to become the 35th party. Brazil is approaching the mark of 40 political parties in the German Weimar Republic. The PMB has been attempting recognition by the TSE since 2008. On its website, the PMB presents itself as a “progressive women’s party”.

In 2013, the Gomes brothers (Ciro and Cid) organized a new party ➔ PROS. However, Ciro and Cid Gomes decided to switch to the PDT on 28th September and took most of their PROS-CE colleagues along with them – including 63 PROS Mayors nationwide. For a short period in 2015, Cid Gomes was Minister of Education. Ciro Gomes affirmed that if the 2018 presidential election is again polarized (PT-PSDB) that he might [again] become a presidential candidate (as in 1998 and 2002).

**Marta ➔ PMDB** – On Saturday, 26th September, Senator Marta Suplicy (ex-PT-SP) officially joined the PMDB in a large scale event in the Tuca theater at PUC-SP). Many PMDB leaders were present ➔ Vice-President Michel Temer, Chamber President Eduardo Cunha, Senate President Renan Calheiros, Sen. Romero Jucá, Deputy Baleia Rossi, former governor Luiz Antonio Fleury Filho, Sen. Edson Lobão, Dep. Geddel Vieira Lima, former minister Moreira Franco, and Sen. Valdir Raupp. Later, Sen. Marta Suplicy and her husband Márcio Toledo hosted a luncheon at her home. Reportedly, Marta Suplicy will be the PMDB candidate for SP Mayor in 2016.

**More PT** – Sen. Paulo Paim (PT-RS) announced on 30th September that would leave the PT if the party does not carry out a “positive transformation” by the end of 2015. He cited as an example of a popular desire to modify Brazil’s political environment the large protest street demonstrations in 2013, saying no party paid any attention to these demands. He cited as an example the new Spanish
political party Podemos [Yes, we can] as an inspiration that blossomed from “the bottom up”. It is possible that Paim might switch to the Rede.

1.2 – Another downgrade eminent?

Another downgrade for Brazil just around the corner? This became the key question this week after affirmations by the Director-General of Fitch Ratings in Brazil, Rafael Guedes on Monday, 28th September, during a meeting of IBRI-Brazilian Institute for Investor Relations – on a day of acute “market agitation” – with FX speculators again pushing the rate up above R$ 4,00.

Last week, a Fitch technical team made a “discrete visit” to Brasília. Guedes admitted that a possible “one notch” downgrade for Brazil was possible “soon” – citing 1) Resistance by Congress in approving the fiscal adjustment; 2) the “political crisis”; and 3) the government sent a 2016 budget proposal to Congress with a R$ 30 billion deficit. In April 2015, Fitch changed its outlook for Brazil from “stable” to “negative” but maintained Brazil at “BBB” two notches above “speculative [junk bond] grade” [“BB+”]. Guedes said that Fitch very rarely would apply a simultaneous two-notch downgrade – “only following a very dire event” – such as following the EU crisis after 2008.


These considerations were seconded by Ricardo Lacerda (also on 28th September), founder of the BR Partners Investment Bank in 2009 (and former Goldman Sachs & Citigroup). He predicts increases in bank interest rates and downgrades by both Fitch and Moody’s. He recalled that in 2011, the FX rate was at R$2,00 and Ibovespa was at 75,000 points, but now in 2015, the US$ is at R$ 4,00 and Ibovespa is down to 44,000 points.


1.3 – Congress votes Dilma’s vetoes

The remaining presidential vetoes by Dilma were placed on the agenda of a joint session of Congress for Wednesday, 30th September by Senate President Renan Calheiros (PMDB-AL) who is also the President of Congress. BUT – Chamber President Eduardo Cunha (PMDB-RJ) wants the Senate to first approve the PEC (already approved by the Chamber) that would make campaign contributions
by businesses to parties constitutional (legal). **before** Dilma’s veto of this part of the political reform is put to a vote. **Complication** – The STF has already ruled that such contributions are unconstitutional.

In order to block the joint session of Congress (that always meets in the Chamber) Cunha convoked three consecutive sessions of the Chamber on Wednesday. This strategy in effect postponed the vote of Dilma’s vetoes until next week. The joint session to vote on the Dilma’s vetoes was set for Tuesday, 6th October, as of 11:30 a.m.

1.3.1 – Eduardo Cunha ➔ Italy

In part to celebrate his 57th birthday (on 29th September), Chamber President Eduardo Cunha flew to Rome on 1st October with his wife and two other deputies – Rubens Bueno (PPS-SP) and Fernando Jordão (PMDB-RJ). They will attend the Italy-Latin American Parliamentary Forum in Rome on 5th October. Cunha was invited by the President of the Italian Chamber of Deputies, Dep. Laura Boldrini who visited Brasília in May. Rubens Bueno has a daughter who is a deputy in the Italian parliament. Cunha will fly first class (R$ 41,000,00 RT) but the other deputies will fly economy class (R$ 24,000,00 RT each). On 5th October, Cunha will deliver a 15 minute speech to the Forum and return to Brazil that same evening – perhaps not arriving in Brasília in time for the joint session of Congress scheduled to begin at 11:30 a.m. on 6th October.

**However** – when the press reported that Swiss prosecutors had sent evidence [documents] regarding bank accounts in the name of Cunha and his relatives to the PGR in Brasília (See Item 1.7), on Thursday, October 1st, Cunha announced that he had canceled his trip to Rome, because he planned to attend the wedding of Sen. Romero Jucá (PMDB-RR) on Saturday, 3rd October. Obviously, he would have been received at the Italian parliament with a certain “disdain”.


1.4 – Cabinet Reform ➔ Dilma 2.1

Pres. Dilma Rousseff flew off to NY on 24th September to attend the opening sessions of the UN General Assembly and left her cabinet reform “unfinished”. Senate President Renan Calheiros (PMDB-AL) scheduled the voting on the remaining presidential vetoes for Wednesday, 30th Sept. (See Item 1.3) Thus, she left the finalization of the cabinet reform for Thursday, 1st October.

As a “preview” that she “meant business” and really planned to allocate the Health Ministry to the PMDB (as promised last week), on Tuesday, 29th September, Health Minister Arthur Chioro received a phone call from the president advising him that “he was out”. However, since last week, Chioro had been preparing his exit from the Ministry. In conversations with his subordinates, Chioro complained that his cabinet post was being “raffled off” to the PMDB. **However** – sensing that he would be dismissed, Chioro gave a very harsh interview to the OEPP published on Monday, 28th September (the day Dilma addressed the UN General Assembly in NY) where he criticized the proposed budget reductions for the Health Ministry.

**Double Game** – This game consists of “positive” and a “negative” strategies *vis-à-vis* the PMDB elaborated by Pres. Dilma and her “operatives”. **First** – the “positive” strategy is to try to
bring the PMDB into a “stronger” cabinet presence, with six or seven ministerial appointments – to the
distaste of “her” PT. **Second,** the **negative** strategy is to attack the President’s main ally by trying to
erode the base of the PMDB – attract PMDB deputies to switch to another “new party” → a
resuscitated PL-Liberal Party. Allegedly, the articulator of this “negative” strategy is Aloísio
Mercadante, Dilma’s Casa Civil Chief.

In 2011, former SP mayor, Gilberto Kassab, organized a new party – the PSD – and was able to
attract a large number of deputies from the DEM (former PFL) into his new party. The PSD attracted
a large number of experienced politicians and many mayors who sought reelection in 2012. That year,
the PSD elected some 400 mayors – considered a major feat for a “new party”. This PSD was able
to reduce the DEM by some 50% of its deputies.

Kassab’s “new” PL tried a last minute approval at the TSE this week, but the prosecutor filed a
negative brief alleging that the PL had not collected enough (the minimum of 487,000) signatures for
validation. Reportedly, at the last minute, Pres. Dilma called Kassab and ordered him to “relent”
because his efforts had “enraged” the PMDB.

**Some BIG Changes** – Apparently, Pres. Dilma finally accepted some Lula’s “suggestions”:
1) Replaced Mercadante (PT-SP) at the Casa Civil with Defense Minister Jaques Wagner (PT-BA); 2)
Aldo Rebelo (PCdoB-SP) switched from Science & Technology to Defense; 3) Mercadante became
Education Minister replacing Renato Janine Ribeiro; and 3) Ricardo Berzoini (PT-SP) was moved from
Communications to the General-Secretariat of the Presidency and accumulated Congressional Relations
(with the assistance of Giles Azevedo, Dilma’s stalwart articulator, since they were PDT-RS)

![Aloísio Mercadante & Jaques Wagner](image)

**A Communist at Defense?** No big deal. Aldo Rebelo is known as a very pragmatic politician
with respect by the armed forces from when he was President of the Foreign Affairs & Defense
Committee in the Chamber of Deputies. He was badly received at Science & Technology by the
scientific community because he has only a high school degree and is a “non-believer” (global climate
change, for example). Probably S&T will become the 7th cabinet post to go to the PMDB.

**Lula** – Has finally assumed his role as Dilma’s alter ego. He convinced her to open more
cabinet space for the PMDB and remove Mercadante from the Casa Civil. He is trying to convince her
to replace Joaquim Levy with “his” Central Bank President Henrique Meirelles.
1.4.1 – The “New” Cabinet (finally)

On Friday, 2nd October, finally Pres. Dilma formally announced the composition of her “new” cabinet. Instead of reducing the cabinet from 39 to 29 positions, Dilma eliminated 8 cabinet posts ⇒ Fishing (incorporated into Agriculture), Strategic Affairs (incorporated into Planning Ministry), Labor & Social Security (merged into new Ministry), Racial Equality, Women and Human Rights (merged into new Citizenship Ministry), Institutional Security & Strategic Affairs (incorporated into Sec. of Government), and Small & Micro Businesses (incorporated into MDIC). Seven ministers switched ministries and three new ministers were appointed ⇒ André Figueiredo-PDT (Communications), Marcelo Castro-PMDB (Health), and Celso Pansera-PMDB (Science & Technology). The PMDB now has seven cabinet posts and the PT was reduced from 13 to nine. Seven ministries were allocated to “allied parties” ⇒ PSD, PTB, PDT, PRB, PP, PR, and PCdoB. Eight other positions are occupied by Ministers who have no party affiliation.

ONLY THREE names (deputies) are actually “new faces” in the cabinet ⇒ André Figueiredo (PDT-CE), Marcelo Castro (PMDB-PI), and Celso Pansera (PMDB-RJ).

Initially, this cabinet reform targeted the elimination of all “tiny cabinet posts” – but because of “political pressures” several were retained ⇒ Ports and Civil Aviation were to be merged into a new Infrastructure Ministries BUT neither Dep. Eliseu Padilha (PMDB-RS) or Dep. Helder Barbalho (PMDB-PA) accepted to lose their “status”. The Sports Ministry was to have incorporated into the Ministry of Education BUT the PRB refused to lose its cabinet post. Culture was also to be incorporated into the Education Ministry, but the PT refused to lose another cabinet post. Tourism was to be incorporated into MDIC but the PMDB defended the continuation of former Chamber President Henrique Alves in the cabinet. AGU and CGU were to lose their cabinet status.

Pres. Dilma also ordered a 10% reduction in her salary and also for all cabinet ministers and the Vice-President.

The giant new ministry of Labor & Social Security has the largest budget ⇒ R$ 524.5 billion, followed by Health with R$ 121.1 billion, and Education with R$ 108.1 billion.

PMDB - 7 cabinet positions:
- Agriculture – Senator Kátia Abreu (TO) – retained
  ⇒ Fishing was incorporated into Agriculture
- Mines & Energy – Senator Eduardo Braga (AM) - retained
- Civil Aviation – Dep. Eliseu Padilha (RS) - retained
- Tourism – former deputy Henrique Alves (RN) - retained
- Science & Technology – Dep. Celso Pansera (RJ) – new (was PCdoB)
- Health – Dep. Marcelo Castro (PI) – new (was PT)
- Ports – Dep. Helder Barbalho (PA) – new (he was previously Fishing Minister)

PT – 9 cabinet positions
- Agrarian Development – Patrus Ananias (MG) - retained
- Social Development – Tereza Campelo (SP) - retained
- Justice – José Eduardo Cardozo (SP) – retained
- Social Communications – Edinho Silva (SP) – retained
Culture – Juca Ferreira (BA) - retained
Casa Civil – Jaques Wagner (BA) – new (he previously was Defense Minister)
Education – Aloísio Mercadante (SP) – new (he was previously Casa Civil)
Sec. Government – Ricardo Berzoini (SP) – new (he was previously Communications Min.)
Labor & Soc. Security – Miguel Rosseto (RS) – new (he was previously Sec. General Gov.)
➔ Merger of Ministries of Labor & Social Security

Other Allied Parties (7)
PSD - Cities – Gilberto Kassab (SP) – retained
PTB – MDIC – Sen. Armando Monteiro (PE) – retained
PRB – Sports – George Hilton (MG) – retained
PP – National Integration – Gilberto Occhi (MG) – retained
PR – Transportation – Antonio Carlos Rodrigues (SP) - retained
PDT – Communications – André Figueiredo (CE) - new
PCdoB – Defense – Aldo Rebelo (SP) – new (he was previously S&T Minister)

No party affiliation (8)
Finance – Joaquim Levy - retained
Planning – Nelson Barbosa – retained
➔ Incorporated Ministry of Strategic Affairs
Foreign Relations – Mauro Vieira - retained
Environment – Izabella Teixeira - retained
Central Bank – Alexandre Tombini – retained
AGU – Luís Inácio Adams - retained
CGU – Valdir Simão – retained
Citizenship – Nilma Lino Gomes (new)
➔ Merged 3 ministries – Women, Human Rights & Racial Equality

A cartoon by Sponholz

Now everything is go Dilma announces her cabinet reform – “Six for half a dozen”

1.5 – “Friendly Fire”
In late September, Pres. Dilma came under “friendly fire” from various groups. **First**, a group of intellectuals linked to the PT met at the party’s foundation Perseu Abramo and elaborated a document harshly criticizing the government’s austerity plan and called for the ouster of Finance Minister Joaquim Levy. This group of “PT intellectuals” is stridently “pro-Lula” and “anti-Dilma” and includes the CUT, MST, UNE, etc. **Second**, the prime leader of the MST-Brazil’s Landless Movement, João Paulo Stedlie complained that the fiscal austerity program “blocked [public] investments for housing and the agrarian reform”.


1.6 – New CNI/Ibope poll

Ibope conducted an opinion poll for the CNI on 18-21 September among 2,002 voters in 140 municípios with a two-point margin of error. The previous Ibope poll was conducted on 18-21 June.

This poll showed a “slight” improvement in President Dilma’s approval ratings of the Dilma government, 9%→10% and disapproval of Dilma’s performance as President, 83%→82%.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>2013</th>
<th>2014</th>
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<td>Excellent/Good</td>
<td>63%</td>
<td>37%</td>
<td>43%</td>
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<tr>
<td>Regular</td>
<td>29%</td>
<td>39%</td>
<td>35%</td>
</tr>
<tr>
<td>Bad/Terrible</td>
<td>7%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
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<table>
<thead>
<tr>
<th>Performance</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
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<tbody>
<tr>
<td>Approve</td>
<td>79%</td>
<td>45%</td>
<td>56%</td>
</tr>
<tr>
<td>Disapprove</td>
<td>17%</td>
<td>49%</td>
<td>36%</td>
</tr>
<tr>
<td>DK/NR</td>
<td>4%</td>
<td>6%</td>
<td>8%</td>
</tr>
</tbody>
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1.7 – Lava Jato

**TWO** persons accused in this investigation completed plea bargaining testimony – Júlio Camargo, Fernando Soares – identified bribes paid to then Deputy Eduardo Cunha (PMDB-RJ). A third plea bargain testimony by João Augusto Henriques went further and identified the Swiss bank accounts where the Cunha deposit was made – allegedly US$ 5 million. This was reinforced by a fourth plea bargain testimony by Eduardo Musa.
At the request of the PGR, Swiss prosecutors (OAG) have blocked (frozen) these four accounts in the name of Cunha and his relatives, and sent data on these accounts [and the account holders] to the PGR. One account is in the name of Ms. Cunha, journalist Claudia Cordeiro Cruz. This data will be analyzed and added to the case against Cunha that already exists at the STF. The OAG affirmed that this suspected money laundering was flagged (revealed) by a Swiss bank. The OAG also accused Cunha of using “dummy” firms in Switzerland to “launder” his corruption proceeds. See ➔ http://www1.folha.uol.com.br/poder/2015/10/1688788-banco-levantou-suspeita-de-que-cunha-praticou-lavagem-diz-suica.shtml

This “news item” was enough to force Cunha to cancel his trip to Rome on 1st October (See Item 1.31)

On 30th September, STF judge Teori Zavascki maintained the imprisonment of former Petrobras director Nestor Ceveró. Also on 30th September, the TRF (Federal Regional Court) in Porto Alegre denied a habeas corpus in favor of two Odebrecht executives who are imprisoned in Curitiba in the Lava Jato investigations – Marcio Faria da Silva and Rogério Araújo.

On 1st October, the Central Bank calculated that Brazilian banks should be ready for a US$ 3.4 billion default from the construction/engineering firms involved in the Lava Jato investigation – or 0.04% of the assets of these institutions.

1.7.1 – Lula “sold” MP 471 in 2009

On 1st October, the OESP published a story accusing then President Lula of “selling” Medida Provisória 471 in 2009. This MP extended some R$ 1.3 billion in benefits to Brazil’s auto makers. The “side payments” [bribes] from the auto makers of R$ 36 million were negotiated by lobbyists and allegedly involved Lula’s son (Luís Claudio Lula da Silva) as well as the then Secretary-General of the [Lula] presidency – Gilberto Carvalho. This case was investigated by the Federal Police and Federal prosecutors – gleaned from evidence collected by the Lava Jato investigation. See ➔ http://politica.estadao.com.br/noticias/geral,oposicao-defende-investigacao-de-mp-que-teria-sido-comprada-no-governo-lula,1772713


1.7.2 – Operation Acrônimo

The Federal Police carried out the Search & Seize and interrogation operation under court orders on 1st October – after numerous investigations that began during the 2014 election campaign – involving then candidate for MG governor, Fernando Pimentel (PT), his young wife Carolina Oliveira and “businessman” Benedito Rodrigus [Benê] and former MIDIC cabinet minister Mauro Borges appointed to head Cemig by Pimentel after he took office on 1st January 2015. Borges succeeded Pimentel at MIDIC in April 2014 after he stepped down to run for governor. The target is a scheme of illicit campaign finance for Pimentel’s campaign.
This investigation also focuses on Carlos Alberto de Oliveira Andrade (and his wife), the owner of CAOA auto sales and manufacture, CBF-Brazilian Soccer Federation, Casino Group (current owners of the Pão de Açúcar supermarkets, Mafrig, and Odebrecht Ambiental.

1.7.3 – Federal Police to interview Lula

On 2nd October, STF judge Teori Zavascki approved the PGR request and authorized the Federal Police to interview Lula (as a witness, and not as an accused) regarding the Petrobras corruption scandal. The Lula Institute in SP quickly responded that “Lula can not be interviewed; not even as a witness”. Also included in this authorization, José Dirceu, Ideli Salvatti, Gilberto Carvalho and tow former Petrobras presidents – José Sérgio Gabrielli and José Eduardo Dutra will also be heard by the Federal Police. ➔ Stay Tuned!!!!

2 – FOREIGN RELATIONS & TRADE

2.1 – September Trade Surplus

On Thursday, 1st October, MDIC released Brazil’s trade data for the month of September ➔ a surplus of +US$ 2.944 billion. In September 2014, Brazil posted a trade deficit of -US$ 939 million. The trend of declining imports continued in September, aggravated by the devalued Real ➔ US$ 13.204 billion (-32.7% MoM & down by -22.6%). Exports declined less to US$ 16.148 billion (13.8% MoM & down by -16.3% in 2015).

The trade surplus now stands at US$ 10.246 billion – the best result for this nine-month period since 2012 (US$ 15.7 billion. In the same period in 2014, Brazil posted a trade deficit of -US$742 million. If the 2015 trade surplus continues to evolve positively and other expenditures decline (like spending by Brazilian tourists overseas), the Central Bank now predicts that the 2015 deficit in current account should be 3.7% of GDP versus 4.2% of GDP in 2014. MDIC estimates Brazil’s 2015 trade surplus at US$ 15 billion but the Central Bank says US$ 12 billion.

In 2015, January and February posted trade deficits of -3.2 billion and -2.8 billion. As of March, monthly trade surpluses were posted.

<table>
<thead>
<tr>
<th>In 2015</th>
<th>Trade Results*</th>
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<tbody>
<tr>
<td>January</td>
<td>- 3.2</td>
</tr>
<tr>
<td>February</td>
<td>- 2.8</td>
</tr>
<tr>
<td>March</td>
<td>+0.4</td>
</tr>
<tr>
<td>April</td>
<td>+0.5</td>
</tr>
<tr>
<td>May</td>
<td>+2.8</td>
</tr>
<tr>
<td>June</td>
<td>+4.5</td>
</tr>
<tr>
<td>July</td>
<td>+2.4</td>
</tr>
<tr>
<td>August</td>
<td>+2.7</td>
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<tr>
<td>September</td>
<td>+2.9</td>
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</table>
Reportedly, the only person accused and convicted in the Mensalão scandal that became a fugitive from justice – and fled to Italy in November 2013 – former Banco do Brasil director, Henrique Pizzolato will finally be extradited back to Brazil on Wednesday, 7th October.

On 2nd October, Pres. Dilma decided to postpone her state visit to Colombia planned for 4-5 October – because of Brazil’s “political crisis” – that supposedly had been resolved by the “cabinet reform”. Apparently, she wants to remain in Brasilia to “oversee” some crucial votes in Congress next week.

IBGE’s continuous PNAD (National Household Survey) data was released on 29th July. IBGE reports its PNAD for a “moving quarter” every month and this data release covers May-June-July unemployment at 8.6%, the highest since 2012. The previous “moving quarter” ending in June posted 8.0%. The PNAD ending in July 2014 posted 6.9% unemployed. Last week, Brazil Focus reported the PME for the month of August that surveyed six metropolitan regions and posted 7.6% unemployment. The continuous PNAD uses a much larger monthly sample of 211,344 households in 3,500 municípios. Both the PME and the PNAD surveys clearly show that unemployment is getting worse in Brazil.

On 29th September, the STN reported that federal government expenditures exceeded revenues by -R$ 5.08 billion in August – down from R$ 7.2 billion in July. The estimate by 22 economists surveyed by Bloomberg News was -R$ 10.7 billion. The January-August 8-month accumulation is now a -R$ 14 billion deficit. Markets received this news “positively” because the fiscal deficit was “smaller”
than expected. **However**, according to João Pedro Brügger, an analyst at Leme Investments, “This is just a temporary ‘relief’ especially in the FX and interest rate markets. . . There is no perspective for any change in the political crisis on the horizon”.

On 30th September, the Central Bank released the public sector result for August ➔ a **primary deficit** of -R$ 7.31 billion, less than the -R$ 14.46 billion deficit in July. A miracle?? Not really – the STN simply “postponed” certain expenditures of R$ 5.5 billion that should appear in September.

The 12-month accumulation posted a primary deficit of -R$43.84 billion (0.76% of GDP. The government reduced its 2015 “fiscal target” (primary surplus) from +R$ 66.3 billion (1.2% of GDP) to +R$ 8.7 billion (0.15% of GDP).

The **nominal deficit** accumulated a 12-month deficit of -R$5.28 billion (9.21% of GDP).

The **net public debt** (federal, state & municipal governments plus state enterprises) declined slightly from R$1.95 trillion (34.2% of GDP) in July to R$ 1.92 trillion (33.7% of GDP in August.

The **general public debt** (not including Brazil’s US$ 370 billion in foreign reserves) was R$ 3.68 trillion (64.6% of GDP) in July and R$ 3.74 trillion (65.3% of GDP) in August. This is the principal debt indicator used by the international risk agencies.

### 5.3 – September Inflation

On 29th September, FGV released its **IGP-M** with +0.95% over three times that posted for August (+0.28%). Among economists surveyed by Reuters, the median expectation was +0.79%. In 2015, the IGP-M accumulates +6.34% and a 12-month accumulation of +8.35%. This inflation index is used to readjust rents.

<table>
<thead>
<tr>
<th>Components of IGP-M</th>
<th>August</th>
<th>September</th>
</tr>
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<tbody>
<tr>
<td>Producer Prices (IPA)</td>
<td>+0.20%</td>
<td>+1.30%</td>
</tr>
<tr>
<td>Consumer Prices (IPC)</td>
<td>+0.24%</td>
<td>+0.32%</td>
</tr>
<tr>
<td>Construction Costs (INCC)</td>
<td>+0.80%</td>
<td>+0.22%</td>
</tr>
<tr>
<td>IGP-M</td>
<td>+0.28%</td>
<td>+0.95%</td>
</tr>
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### 5.4 – Brazil declined on WEF competitiveness ranking

On 30th September, the WEF released its 2014-2015 Global Competitiveness Report that ranked 140 nations. From 57th rank in 2014, Brazil declined to 75th rank (18 positions) – the worst result since WEF began this ranking in the 1990s **AND** the worst decline of any of the other 139 nations included in this 2014-2015 report. Since 2006, Brazil’s best ranking was 48th in 2012. The five best ranked were -- Switzerland, Singapore, US, Germany and The Netherlands. The worst ranked were – Sierra Leon, Mauritania, Chad and Guinea. The best ranked in Latin America was Chile (35th).

What happened to Brazil on the twelve indicators? Brazil lost points in nine of these twelve variables. The worst declines were in economic & institutional environment, health and education. On
the variable for fiscal equilibrium Brazil dropped 32 ranks to 117th. For confidence in institutions Brazil dropped 27 ranks to 121st because of the corruption scandals. In 2015, Brazil's incapacity to innovate and the bad quality of education were also negative factors. Brazil's worst decline was regarding university education and training ➔ down 52 ranks to 93rd.


5.5 – Global Innovation Index

In the 2015 Global Innovation Index, prepared by Cornell University, Insead and WIPO-World Intellectual Property Organization, Brazil dropped 9 positions to 70th rank with a score of 34.95 among 141 nations. This GII report was launched in London on 17th September and in Rio de Janeiro on 29th September.

See ➔ http://protec.org.br/noticias/pagina/33377/Pais-recua-9-posicoes-e-fica-em-70-em-indice-global-de-inovacao

The five best ranked nations were Switzerland, UK, Sweden, the Netherlands and US. Brazil rankings on the seven indicators were as follows ➔ Institutions (85th), Human Capital & Research (63rd), Infrastructure (67th), Market Sophistication (87th), Business Sophistication (37th), Knowledge & Technology Outputs (72nd) and Creative Outputs (82nd).

5.6 – Petrobras increased fuel prices

As of midnight, 30th September, Petrobras increased its fuel prices (at its refineries) ➔ +6% for gasoline and +4% for diesel. The new retail pump prices are not regulated and vary by state and distance from refineries. Ethanol prices remained unchanged, thus the price/mileage differential now clearly favors this renewable fuel. If tax levies such as Cide, PIS/Confins and ICMS are also increased, the final pump price will increase substantially. This price adjustment was deemed necessary by Petrobras because of the increase in the US$/Real FX rate, Petrobras fuel prices had become 5.8% “out of phase” vis-à-vis international prices. Obviously, this change will impact inflation as of October, because other rates (freight, urban bus fares, airline tickets, etc.) will also increase.

The market reaction was immediate ➔ Petrobras stocks were up by almost 10% on Bovespa. Economic analysts predict that this should push the IPCA inflation index well over 10% in 2015. These same analysts also predict that Petrobras might affect another fuel price increase before the end of 2015.

5.7 – National bank strike called

On Thursday evening, 1st October, the national bank workers’ labor union announced that a national strike would begin on Tuesday, 6th October.

5.8 – Industrial Production declined
On 2nd October, IBGE announced the August IP data → -1.2% MoM & -9.0% YoY. This was the third consecutive monthly decline. July posted a -1.5% MoM decline. So far in 2015, the decline was -6.9% and the 12-month accumulation is now -5.7%. According to André Macedo, IBGE industrial research coordinator, “The 2015 industrial production patterns are similar to those in 2009 when the decline reached -7.1%.

5.8.1 – New auto sales in September

On 1st October, Fenabrave announced that 192,610 new autos were sold in September → -31.8% YoY and -3.62% MoM. In the first nine months of 2015, a total of 1.88 million new units were sold (-21.7% YoY). The Chevrolet model Onix was the best seller – 10,212 units.