Brazil Focus –
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Weekly Report –
Oct. 17-23 2015

Looking Ahead ➔ What to watch for?

- **25th Oct.** – General elections in Argentina
- **27th Oct.** – Former President Lula ➔ 70th birthday
- **27th Oct.** – *The Economist* - Brazil Summit, Hyatt SP, “Fighting for the Future”
- **28th Oct.** – IFC & World Bank to publish “*Doing Business*”, in 189 nations
- **30th Oct.** – FGV to post October IGP-M ➔ +0.% *versus* +% in September
- **30th Oct.** – Public Account data for September
- **1st Nov.** – Daylight Savings Time ends in the US ➔ 3-hour time difference NYC/Brasília
- **2nd Nov.** – National Religious Holiday [Day of the Dead]
- **3rd Nov.** – Trade balance for October ➔
- **3rd Nov.** – IBGE to report September Industrial Production ➔ +0.%
- **3rd Nov.** – Election Day in the US
- **4th Nov.** – New car sales October ➔ units, % MoM
• **6ª Nov.** -- IBGE to post IPCA data for October

• **11ª Nov.** -- Holiday – Remembrance Day (UK & Canada); Veterans’ Day (US)

• **12ª Nov.** -- IBGE to post Industrial Employment data for September

• **12ª Nov.** – Bill Clinton to address CNI’s National Industrial Encounter

• **13ª Nov.** -- IBGE to post Retail Sales data for September, +0.% MoM & +% YoY

• **13ª Nov.** -- Central Bank to post IBC-Br for 3rd Q/2013, % QoQ

• **15ª Nov.** -- National Holiday [Republic Day]

• **15-18 Nov.** -- APEC summit meeting in Manila

### 1 - POLITICS

#### 1.1 – “Levy fica”!!

On Saturday, 17ª October, while Pres. Dilma was en route to Sweden, the PT national president Ruy Falcão stated that Pres. Dilma plans to modify her economic policies in order to recover Brazil’s economic growth and should “liberate” credit to certain crucial sectors. Then he affirmed that if Finance Minister Joaquim Levy does not agree with these modifications he should resign.


The “Day After” in Stockholm, Brazilian journalists asked the President about Falcão’s interview and she replied -- “Falcão’s opinion is not the same at the government’s position – Levy fica” [Joaquim Levy will remain as Finance Minister].


Apparently, Levy is becoming more and more irritated by “friendly fire” from Lula and the PT regarding his role in (trying to) determine policies of economic austerity. Lula has even suggested [to Dilma] that she replace Levy with “his” Central Bank president – Henrique Meirelles.

Everyone knows that the day after Dilma sacks Levy Brazil will downgraded yet another notch by S&P and into “junk bond” (speculative) status by Moody’s and Fitch. To a certain extent, Levy “holds her mortgage, he holds her as a hostage”.

#### 1.2 – “PMDB fica”(??)

The “pro-Dilma” and “anti-Dilma” factions in the PMDB squared off and mustered their forces in Brasília this week. Their objective? The meeting of the PMDB Congress scheduled for Sunday, 15ª November [a national holiday] in Brasília. The “anti-Dilma” faction was aiming to use this conclave to decide that the PMDB break off its relationship with the Dilma government, while the “pro-Dilma” faction (pushed into action by the Dilma government) tried to postpone this event until 2016.
This “pro-Dilma” faction was able to transfer the date to Tuesday, 17th November – but were not able to “sideline” the focus of the event. One of the leaders of the anti-Dilma group, Geddel Vieira Lima, President of the PMDB-BA directorate said that ministers “Henrique Alves [Tourism] and Eduardo Braga (MM&E) are working against the PMDB Congress because they want to transform the PMDB into an employment agency for public jobs”. ➔ Stay tuned!!!


1.3 – Cunha versus Dilma – a bitter dialogue

This “back-and-forth” bitter dialogue raged this week between Stockholm-Helsinki and Brasília between Pres. Dilma (on her state visit to Scandinavia) and Chamber President Eduardo Cunha (PMDB-RJ).

A Cartoon by Chico/O Globo

Who cast the first stone??

At a news conference in Stockholm a reporter asked her about the investigations of the Chamber President and she replied (not mentioning Cunha’s name) “I lament that this is happening to a Brazilian”. Rapid fire ➔ In Brasília, Cunha told reporters – “I lament that her government is the most corrupt in the history of Brazil”. From Helsinki, Dilma countered “My government has zero corruption” but a follow up question by a reporter asked about Petrobras and she replied “Petrobras no, some corrupt employees and others practices corruption and are in jail”. Cunha counter telling reporters “I did not know that Petrobras is not part of the [her] government”.

➔ “Tit-for-tat”, the pot calling the kettle black! Oh well . . . .

Fortunately for Dilma, no reporter asked the obvious follow up question ➔ “What about your cabinet ministers (and ex-ministers) who have corruption cases being deliberated at Brazil’s Supreme Court?”

1.4 – Lava Jato

1.4.1 - Getting “close” to Lula
Every day, more and more, of the plea bargaining testimony by Fernando Baiano Soares is being reproduced in the press. Baiano confirmed that former Pres. Lula and his close friend and “operator/lobbyist” José Carlos Bumlai met several times with João Carlos Ferraz, then President of Sete Brasil in 2011 at the Inst. Lula in SP to discuss the advance “bribe” of R$ 3 million that Bumlai would pass on to Lula’s daughter-in-law to pay off her debt on an apartment she had acquired. José Carlos Ferraz also completed plea bargaining testimony in the Lava Jato investigation.

1.4.2 – Eduardo Cunha

After the PGR opened a second case against Cunha at the STF, the Chamber president requested that the Supreme Court impose “court secrecy” so that the documents sent by the Swiss prosecutors would not become public. However, on 21st October, STF Judge Teori Zavascki, the reporter on the Lava Jato case, denied this request.

1.4.3 – SBM issued an “ultimatum”

Reportedly, Brazil has given the Dutch firm SBM Offshore NV – the world’s top oil production ship leaser – an ultimatum to sign a leniency agreement and agree to a US$ 250 million bribery settlement if it wants to regain access to its biggest client in the world’s largest oil ship market.

1.4.4 – R$ 20 million ➔ Eduardo Campos 2010

The plea bargaining testimony by former Camargo Corrêa president Dalton dos Santos Avancini revealed that a “bribe-contribution” had been passed to the reelection campaign of Gov. Eduardo Campos (PSB-PE) in 2010.

1.4.5 – Eduardo Cunha ➔ profits from Petrobras stock venture

Lava Jato prosecutors discovered that in 2009 Eduardo Cunha had transferred part of his US$ 5 million Petrobras bribe funds to New York where he acquired US$ 500,000.00 in Petrobras shares on the NYSE. Later (before the Petrolão scandal broke, he sold these shares for US$ 700,000.00.

1.4.6 – After Lava Jato, less [paid] speeches for Lula

The Lava Jato investigation discovered that Lula 31 “well paid” speeches in 2011, 8 on 2012, 20 in 2013, 10 in 2014 and only ONE in 2015. These presentations were very well remunerated by Odebrecht, Andrade Gutierrez, OAS, Camargo Corrêa, Queiroz Galvão, UTC and Quip.

1.5 – Fiscal accounts “out of control”

As predicted by many analysts ever since the first semester in 2015, the Dilma government finally admitted this week that its fiscal accounts have gotten “out of control” – to the tune of R$ 50 billion, “so far in 2015. These same analysts estimate that by the end of 2015 the “hole/deficit” should reach R$ 70 billion.
In November 2014, Dilma announced that Joaquim Levy would be Finance Minister in Dilma 2.0 and that the 2015 primary surplus “target” would be reduced from R$ 114.7 billion (2.0% of GDP) to R$ 66.3 billion (1.2% of GDP). In July 2015, this target was further reduced to R$ 8.7 billion (0.15% GDP). Finally, in mid-October the government announced a primary deficit of -R$ 50 billion (0.85% of GDP). What happened? During 2015, Pres. Dilma stubbornly refused to cut expenditures although tax revenues were declining rapidly due to the deepening recession. Detail: Next week, the SRF should announce federal revenue collections for the month of September – that should decline by 3% MoM – the sixth straight decline in 2015.


To this end ➔ On 20th October, Dep. Ricardo Barros (PP-PR), the reporter for the 2016 budget proposal at the CMO-Joint Budget Committee proposed a R$ 10 billion reduction in the allocation for the Bolsa Família in 2016 – because no new tax increases “are on the horizon”. As might be expected, Barros’ statement created a very negative reaction by PT deputies and senators. Some analysts saw this move as a tactic to favor the resuscitation of the CPMF – tax on financial transactions.

1.6 – Government plans to create “super state enterprise”

Aren’t Petrobras, Eletrobras, Eletronuclear, DNIT, Valec, etc. enough? Apparently not. The In spite of the Dilma government fighting for its survival in a desperate attempt to recover some governability, it now proposes the creation of a new “Super state enterprise” to care for all public infrastructure projects ➔ the “Estruturadora Pública Nacional” – National Public Structuring enterprise. This new unit might be used by state and local governments.

This is not an entirely new idea. Back in 2012, the Dilma government crated EPL-Empresa de Planejamento e Logística with the objective of preparing studies for linking up ports, highways, rivers, airports and railways. Initially, EPL had some relevance, but “got lost” in the myriad of government bureaucracy. Oh well . . .

Many observers see this move as a tactical “diversion” to draw attention away from the current model of cartels and corrupt politicians and bureaucrats dominating most of Brazil's infrastructure projects.

2 – FOREIGN RELATIONS & TRADE

2.1 – Pres. Dilma ➔ Scandinavia

On Friday evening, 16th October, Pres. Dilma began a trip to visit to 2 Scandinavian countries – Sweden and Finland. She arrived in Stockholm on Saturday. Her entourage included the ministers of Foreign Relations (Mauro Vieira), MDIC (Armando Monteiro Neto), Defense (Aldo Rebelo), Science & Technology (Celso Pandera), Communications (André Figueiredo) and the Secretary-General at Education (Luiz Claudio Costa).
2.1.1 - Sweden

Pres. Dilma met with King Gustav & Queen Silvia

On Sunday, 18th Pres. Dilma met with King Gustav XVI and Queen Silvia who was born in Germany and whose mother was Brazilian. She also met with Swedish PM Stefan Löfven. On 19th October she visited the Royal Institute of Technology where some 30 Brazilians are studying, and traveled to Linkoping to visit installations of Saab – where the squadron of 36 Gripen fighter planes that Brazil recently acquired are being built.

According to Itamaraty the objectives of this visit include the “Bilateral Strategic Partnership”, renewal energy, education, trade and investments.

With the Swedish PM, Pres. Dilma discussed the finalizations of the block-to-block trade agreement being negotiated between the EU and Mercosur. She said that she expects “finalization by the end of November [2015]”.

At a press conference, Pres. was questioned by Swedish reporters whether the Brazilian economic crisis would impact on Brazil’s purchase of the squadron of Gripen jets and she answered “Not at all”. Regarding the possibility of her impeachment, she replied that “Brazil is a democracy and will not suffer any institutional rupture”.

2.1.2 - Finland

Pres. Dilma spent about 24 hours in Finland. She arrived late Monday afternoon, 19th October and embarked on the return trip to Brazil at 8 p.m. Tuesday (local time). She held two press encounters in Helsinki to respond to the series of “give-and-take” attacks by Chamber President Eduardo Cunha. First, on Monday evening, shortly after her arrival in Helsinki (at the side of her host, Finland President Sauli Niinistö, and the second the second on Tuesday morning ➔ See Item 1.3.

Photo: Jussi Nukari/AFP
After this second press encounter, Pres. Dilma met with Finnish business leaders and Brazilian students in the “Sciences without Borders” program in Finland. Finally, before embarking, she met with Finnish PM Juha Siplä.

2.1.3 – Norway “left out”

It was extremely “convenient” that Pres. Dilma “skipped over” Norway on her Scandinavian itinerary. On 16th October, Norwegian prosecutors revealed that Sevan Drilling and Sevan Brasil, divisions of Sevan Marine, had paid “millions of dollars” in bribes to secure contracts with Petrobras to build offshore, deep water drilling platforms – via Sevan’s representative in Brazil, Raul Schmidt Felippe Junior and former Petrobras director Jorge Zelada.

The Norwegian prosecutors’ communiqué stated that “Sevan Drilling was accused to violating sections 276a and 276b of the Norwegian Penal Code regarding contracts between 2013 and 2015, originally signed between Petrobras and Sevan Marine between 2005 and 2008”.

Norwegian prosecutor Marianne Djupesland confirmed that several Sevan executives were questioned including Sevan founder and ex-CEO Jan-Erik Tveteraas. In June 2015, he declared to the local press that he was “shocked” to learn of the involvement of former Sevan employee in Rio (Raul Schmidt) – “He abused our confidence”.

In Oslo, this case is considered one of the largest corruption scandals in Norwegian history – a nation that prides itself on its image of “transparency”. These investigations indicate that the bribe in question reached US$ 20 million and part was deposited in Zelada’s Swiss bank account (Julius Baer) and part in a bank account in Monaco.

The current Sevan CEO, Siri Hatlen, said that his firm decided to cooperate fully with this investigation – “We decided to give all the documentation to the prosecutors. . . We are a firm operating on the stock market and we depend on a good reputation. . . We have zero tolerance with corruption”.


2.2 – Pizzolato, the return
Finally, after many appeals, on Thursday evening, 22nd October, Italy turned Henrique Pizzolato over to the Brazilian Federal Police at the Milan international airport and the three police agents and a medical doctor boarded a TAM non-stop flight to São Paulo. They arrived at the Guarulhos International airport early Friday morning and boarded a Federal Police place that flew Pizzolato to Brasília. After a medical examination, he was transferred to the Papuda Prison – where most of Pizzolato’s *mensalão* colleagues were (some still are) imprisoned.

![Photo: André Coelho/O Globo](image1)

Henrique Pizzolato arrived in São Paulo

Because Brazil’s legal system allows “release for good behavior” after having served only one-sixth of the prisoner’s sentence, Pizzolato might be released after eight months in the Papuda Prison – because his time spent in Italian prisons can be counted. However, because he might be accused of “other crimes” (flight from justice and using his dead brother’s passport) his prison term might be extended.

### 2.3 – Brazil pulls out of Election Observation in Venezuela

On Tuesday, 21st October, Brazil announced that it would no longer participate in the Unasur election observation mission for the Venezuelan elections to be held on 6th December. Recently, Venezuela prohibited observation missions by the Carter Center, the EU and the OAS.

![Photo: Miraflores Palace/Reuters](image2)

The reason? Brazil and Unasur had designated former President of the STF and TSE and former Defense Minister Nelson Jobim to head this mission. BUT apparently Venezuela rejected the participation of Jobim as part of this Unasur mission. Members of Congress affirmed that they await some “official statement” from Pres. Dilma repudiating this decision by Venezuela. Don’t hold your breath – Pres. Dilma and her special foreign affairs advisor – Prof. García – will never, ever criticize the Venezuelan government.


2.4 – Bill Clinton – “Back to Brazil”

On 22nd October, the Bill Clinton Foundation in NY announced that former President Clinton will deliver the closing speech to the National Industrial Encounter on 12th November. This event is being organized by the CNI. Reportedly, the “tone” of this speech will be “confidence and reconciliation” in order to reverse the crisis in Brazil ➔ Good luck!!.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – October Inflation

On 21st October, IBGE released data for the IPCA-15 that is seen as a preview for the full month IPCA due to be released on 6th November. This inflation index increased from +0.39% in September to +0.66% in October. This result was slightly below the median estimate by 40 analysts surveyed by Bloomberg News ➔ +0.68%. With this increase the 12-month IPCA-15 accumulation is now +9.77%, up from +9.57% in September. For sure Brazil’s official inflation rate (IPCA) will be double-digit in 2015. Swap rates for January 2017 were up to 15.34% on 21st October ➔ See Item 5.2.

This result did not impact on Copom’s decision to maintain the basic Selic rate at 14.25% at its meeting ending on 21st October ➔ See Item 5.2.
5.2 - Unemployment

On 22nd October, IBGE released its unemployment data for September ➔ 7.6% in the six metropolitan regions surveyed – the same result as posted in August – but much larger that the 4.9% posted in September 2014. This was the highest rate for September since 7.7% was posted in 2009. The 37 economists surveyed by Bloomberg news predicted an increase in this rate to 7.8%. In August 2015, the average wage was R$ 2.196,54, but declined by -4.3% to R$ 2.179,80 in September.

5.3 – 95,600 jobs lost in September

On 23rd October, the Ministry of Labor released the Caged data for September. This was the worst September result in 23 years!! In the first nine months in 2015, 657,761 jobs were lost, the worst result since 2002 (when this data series began). The 12-month accumulation is now 1.2 million jobs lost. Services lost the most jobs (33,535) and even Agriculture lost 3,246 jobs.

At this rate, 100 jobs are being lost every hour!

5.4 – Copom maintained Selic rate at 14.25%

After its 20-21 October meeting, Copom announced that it had maintained the basic Selic interest rate steady at 14.25% for a second time – despite increasing inflation expectations ➔ “to avoid deepening Brazil’s recession”.

“The Day After”- On Thursday, 22nd October, the interest rate of DI futures (due in January 2016) retracted 14.3%➔14.24%.

5.5 – Tax collections retract (again)

On 23rd October, the SRF announced that in September tax revenues totaled R$ 95.239 billion (-4.12% YoY). In the first nine months in 2015, collections were R$901.053 billion (-3.72% vs. 2014) – the lowest result since 2010.

5.6 – BNDES “lost” R$ 30.5 billion

On 23rd October, the National Monetary Council reduced from R$ 50 billion to R$ 19.5 billion the level of funds that the BNDES will have available in 2016 to loan at subsidized interest rates. This will reduce expenditures by the STN to “cover” the difference.

5.7 – September public accounts

Current Account – In September, Brazil posted a deficit in current account of -US$ 3 billion and -US$49.3 billion accumulated in 2015. Spending by Brazilian tourists overseas was down by 47% to US$ 1.2 billion because of the unfavorable FX rate.
**FDI** – In September Foreign Direct Investments totaled US$ 6 billion, more than enough to cover the deficit in current account. However, in the first nine months of 2015, FDI was US$ 48.2 billion – not quite enough to cover the current account deficit for that period.