Looking Ahead ➤ What to watch for?

- **26th June** – General Elections in Spain
- **27th June** -- June IGP-M ➔ +__% ➔ +__% for 12-month period
- **27th June** -- IBGE: April retail sales ➔ ___% MoM & ___% YoY
- **29th June** – 14th Plenary, US-Brazil Commercial Dialogue, Washington, DC
- **29th June** – North American Leaders Summit in Ottawa, Canada
- **29 June-3 July** -- 14th FLIP ➔ International Literary Festival in Paraty, RJ
- **30th June** -- Public Account data for May
- **1st July** -- Trade balance for June & 1st semester
- **4th July** -- New car sales June, _____ units (___% YoY), in 1st semester (___% YoY)
- **4th July** -- IBGE industrial production for May ➔ ___% MoM & ___% YoY
- **4th July** -- US Independence Day [national holiday]
- **6th July** -- FGV to announce IGP-DI for June ➔ ___%
- **7th July** -- IBGE to release IPCA inflation data for June ➔ ___%
- **9th July** -- State Holiday in SP – [“Commemorate” defeat in the 1932 Revolution]
- **11th July** -- IBGE – Industrial employment in May ➔ ___% MoM.
- **11th July** -- IBGE ➔ Industrial Production in May
- **13th July** -- Central Bank to release its IBC-Br for May ➔ ___% MoM & ___% YoY
- **16th July** -- IBGE – Retail sales in May ➔ +0.% MoM
- **18th July** -- **Caged** data ➔ _____ new jobs created in June
- **19-20 July** -- 200th Meeting of Copom ➔ Selic rate
- **22th July** -- June tax collections R$ _____ billion, ___% YoY
1 - POLITICS

1.1 – Lava Jato

Reportedly, in his plea bargaining testimony, Marcelo Odebrecht will admit that he personally controlled the legal and illegal contributions to the 2010 and 2014 campaigns of Dilma Rousseff. He related that he had a personal encounter with Pres. Dilma in Mexico City on 16th May 2015 when he alerted her that the Lava Jato investigators were about to discover the illicit payments by Odebrecht to her campaign marketing specialist, João Santana (US$ 4 million in Swiss bank accounts). He stated that she paid no attention to his warning. This May 2015 conversation with Dilma occurred just 24 days before he was arrested and imprisoned in Curitiba by Judge Sérgio Moro. Marcelo did not have the same role in Lula’s campaigns in 2002 and 2006, because he only assumed the presidency of the Odebrecht group in 2009.

Stay tuned!!!


Altrad ➔ The French construction group Altrad (Mohed Altrad, who lived in Syria as a Bedouin, is interested in investing US$ 100 million in Brazil to acquire a mid-sized construction firm. Altrad said that when an opportunity to invest in Brazil appeared, the economic crisis (recession) postponed this initiative. “Now we must accelerate while the others are slowing down,” affirmed Altrad.

Want more? In his plea bargaining testimony, Vinicius Veiga Borin, who had been responsible for opening overseas accounts for Odebrecht, affirmed that the company had acquired Antigua Overseas Bank (AOB) – Meinl Bank Antigua - in order to “hide” its secret overseas accounts. He also named 29 other off-shore accounts that had received US$ 134 million. He said that US$ 16 million had been channeled to the offshore accounts of João Santana.


Nelma Kodama, a money changer arrested in 2014 early in the Lava Jato investigations finally completed her plea bargaining testimony on 20th June and was released into “house arrest”. She became famous in March 2014 when the Federal Police arrested her at the SP International airport when she tried to embark with 200,000 euros hidden in her panties (underwear). She had been sentenced to 19 years in prison. She was associated with “master money changer” Alberto Yousseff.

Currently, the STF has 134 Lava Jato investigations for politicians with Foro Previlegiado.

1.1.1 - FGTS

The Lava Jato investigation discovered via plea bargaining testimony by former CEF Vice-President Fábio Cleto that a kick back/bribe scheme operated within the FI-FGTS regarding investment decisions by the management of this fund by party militants. In 2013, the return of FI-FGTS investments was a “peak” of +R$ 8.22 billion, but in 2015 the “return was a loss of -R$ 3.03 billion. The net assets of the FI-FGTS is R$ 34 billion with 24% (R$ 8.180 billion) in 15 firms, as well
as R$ 15.877 billion in debentures of 18 firms – including R$ 3.13 billion with BNDES and R$ 2.84 billion with Sete Brasil (bankrupt).

1.1.2 – Operation Custo Brasil

Early Thursday morning, 23rd June, the Federal Police carried out Operation “Custo Brasil” with 11 arrest warrants, 14 warrants for “coercive testimony”, and 40 “search-and-seize” warrants – in São Paulo, Brasília, Pernambuco, Paraná and Rio Grande do Sul. This operation was “dismembered” (spun off) from the 18th phase of the Lava Jato investigation.

Former Lula Planning Minister and Dilma’s Communications Minister Paulo Bernardo was arrested in Brasília at the official residence of his wife Sen. Gleisi Hoffmann (PT-PR). Her (their) residence in Curitiba was the object of “search-and-seize” by Federal Police. This “S&S” operation took six hours at the PT national HQ in SP.

The corruption discovered in Custo Brasil did not involve Petrobras but was inadvertently discovered via plea bargaining by some of the accused in the Petrobras corruption/bribe scandal.

The investigation and operation were commanded by the Federal Police in SP and concentrated on a corruption scheme operating between 2010 and 2015. In 2010, it was determined (by the Planning Ministry) that the monitoring and supervision by Serpro (Federal Data Processing Service) of consigned loans to federal employees and retirees was insufficient and that a private firm should be hired to perform this service. – and Consist Software Ltda. was contracted. Consist only received 30% of the amount specified in its contract and the remaining 70% was passed on to Paulo Bernardo and other participants in this “scheme” and part went directly to the national PT HQ in São Paulo. This scheme (until 2015, when Lava Jato began to “close in” on this corruption) yielded some R$ 100 million to the Ministry of Planning “organizers”. Reportedly, Bernardo received R$ 7 million (9.6%) in this kickback scheme. When he became Dilma’s Communications Minister, this percentage was reduced to 2%.

The SRF (Brazilian Tax Service) alleged that the R$ 100 million rip off had “extracted” higher administrative levies on the consigned loans to federal employees and retirees.

Part of the information for this operation came from the plea bargaining of former PT city council member, Alexandre Romano [Chambinho] and from then Senator Delcídio do Amaral (PT-MS). Romano also indicated that former Dilma minister Carlos Eduardo Gabas was also involved. However, Gabas was not arrested but summoned to give testimony (interrogated). Remember: Gabas is a very close friend of Dilma. While at the Social Security Minister, in 2013 Gabas invited Pres. Dilma for several “joy rides” on his powerful Harley-Davidson motorcycle around Brasília in the “wee hours”. Of course, these “escapades” were monitored (at a certain distance) by Dilma’s secret service detail. Chambinho testified that former PT treasurers João Vaccari Neto and Paulo Ferreira were recipients of these bribes. This operation issued arrest warrants for both, but Vaccari Neto has already been convicted and sentenced by Lava Jato and is still in prison in Curitiba and reportedly doing plea bargaining.

A complex scheme of “fronts” and non-existent firms [laranjas] was used to receive these funds and pass same on to the “organizers. One of the latter was the law firm of Guilherme Gonçalves
who a financial campaign manager for Gleisi Hoffmann’s campaigns in 2010 (Senator) and 2014 (Governor). An arrest warrant was issued for Gonçalves but he was not found.

Another PT militant arrested on 23rd June was Valter Correia, the municipal Secretary for Planning in the Fernando Haddad government in SP. Allegedly, he was also involved in this “scheme” as a senior staff advisor to Bernardo at the Ministry of Planning. Upon his arrest, Correia’s lawyer submitted his resignation letter to Mayor Haddad – who in turn canceled all his appointments on 23rd June. Correia’s arrest comes as very “bad news” for Haddad who faces a very difficult reelection campaign See Item 1.4.1.

Judge Paulo Bueno de Azevedo (in SP) accepted the arguments by federal prosecutors and police that Paulo Bernardo might soon begin witness tampering and obstruction of justice if not arrested when he launched Operation Custo Brasil.

Another person taken in for “coercive testimony” (interrogation) was journalist Leonardo Atuch responsible for the internet site Brasil 247 that is an “extra-official” PT blog. This “blog” was on the list of some 20 organizations (including the pro-PT weekly news magazine Carta Capital that received “subventions” [financial transfers] from Pres. Lula and Pres. Dilma. As soon as he became interim President, Michel Temer canceled these “transfers”.

Who in Paulo Bernardo? Born in SP in March 1952, Paulo Bernardo da Silva studied Geology at the University of Brasília (1973-1976) until he was expelled by the 477 Law due to his student politics activities. As an employee of the Banco do Brasil he was transferred to Londrina, Paraná where he became active in the Bank Workers Labor Union. He joined the PT in 1985 and was elected PT federal deputy in 1990 and reelected in 1994 – but was not reelected in 1998. Instead, he became state Finance secretary in Mato Grosso do Sul (1999-2000) under Gov. Zeca do PT and municipal Finance secretary in Londrina, PR (2001-2002) – Mayor Nelson Michelete (PT-PR). In 2002, he was elected PT federal deputy. At first, it was thought that because of his long relationship with the Banco do Brasil Lula would name him BB President. However, it was discovered that to occupy this position, you needed a college degree. After he was expelled from UnB, Bernardo never complete a college degree. In March, 2005, Lula named Bernardo to be his Minister of Planning. In January, 2011, Pres. Dilma named Bernardo to be Minister of Communications through December 2014. But in 2015, Bernardo was not included in Dilma’s second term cabinet. He married Gleisi Hoffmann in 1998 and they have two children, João Augusto (14) and Gabriela Sofia (10).
Who is Gleisi Hoffmann? Born in Curitiba, PR in September 1965, her mother was a fan of Grace Kelly – but the birth registration office “interpreted” the pronunciation to be “Gleisi”. Her elementary and secondary education was in traditional Roman Catholic schools in Curitiba and she thought of becoming a nun. She became active in high school student politics toward the end of the military regime (1980-1983). After finishing high school, she enrolled in a technical course (Cefet) in electronics where she was also active in student politics and a leader in UBES-Brazilian Union of Secondary Students. However, in 1984 she decided that electronics was not her bag and then studied Law at the Curitiba Law School and graduated in 1989. She joined the PT in 1989 and completed specialization courses in Public Finance Management at ABOP, ESAF and the IMF.

In her youth, Gleisi became a PCdoB militant in 1982. While in college, she worked as a staff assistant at the AL-PR (state legislature) and when Jorge Samek (PMDB) was elected to the city council, in 1988, he invited her to become his staff advisor. In 1989, Samek joined the PT and she followed his lead. In 1990, she married journalist Neilor Toscan and they were divorced in 1996 and she married Paulo Bernardo in 1998. In the PT-PR, Gleisi became the state secretary for Women and in 1993 moved to Brasilia to become join the legislative staff of the PT in the Chamber of Deputies in the area of Budget and Planning. This was when she met Deputy Paulo Bernardo. In 1999, they joined the state cabinet of Gov. Zeca do PT in Mato Grosso do Sul. In 2000, Nelson Michelete (PT-PR) was elected Mayor of Londrina and the couple joined his municipal government in 2001.

With the election of Lula in 2002, in 2003, Jorge Samek, then President of Itaipu Bi-Nacional invited Gleisi to become Finance Director. In 2006, she stepped down from her Itaipu position to run for the Senate and received 45% of the vote – Álvaro Dias was elected. In 2008, she ran for Mayor of Curitiba (18% of the vote) and in 2010 was elected Senator. In 2015, Gleisi became the Chief of the Casa Civil in Pres. Dilma’s second term. In 2016, she participated in the Special Impeachment Committee in the Senate and was part of the “front line” defense of Dilma Rousseff.

Under “emotional strain” because of her husband’s arrest, Sen. Gleisi Hoffmann (PT-PR) did not participate in the hearings of the Senate Special Impeachment Committee on 23rd June or 24th June.
1.1.3 – Operation Recomeça

On Friday, 24th June, the Federal Police completed yet another “mission” → Operation Recomeça [“begin again”] to investigate the “rip off” of R$ 90 million from two state enterprise pension funds – Petros (Petrobras) and Postalis (postal service). The administrators of these pension funds decided to invest a total of R$ 100 million in Galileo Educacional controlled by the Gama Filho University in Rio de Janeiro (debentures to finance the restructuring of this private university). However – the managers of Galileo “grabbed” these funds instead of investing in the University that went bankrupt in 2014. Petrobras and Postalis only were able to recover R$ 10 million.

This Operation completed 7 arrest warrants and 12 “search-and-seize” warrants. The “rip offs” of state enterprise pension funds by political militants appointed as these funds managers were responsible for these crimes with the pension funds of Petrobras, the Postal Service, Banco do Brasil, CEF, Eletrobras, etc. For this reason, one of the first reform measures of the interim Temer government – strict rules for appointees as managers of these funds – was adopted this week → See Item 3.2.

Petros – the Petrobras pension fund has a deficit of R$ 23.1 billion in 2015, according to a report presented by the administrative council of Petros on 23rd June. This report was organized by PriceWaterhouseCoopers with several “reservations”. Apparently, Petrobras will contribute R$ 8 billion to the restructuring of Petros. In 2017, Petrobras workers and retirees will also “contribute” to this effort. This was the third consecutive year of “losses” incurred by Petros due to very “questionable” investments made by Petros managers.

Petrobras & CEF – The interim Temer government has reviewed the fiscal situation of Petrobras and CEF and decided that for the time being there will be no “capitalization” of either. The CEF is in a worse situation than Petrobras. This analysis is based on the projection of improvement of Brazil’s economic crisis in 2017. If this does not occur, some capitalization would be necessary.

On 24th June, a federal judge in Rio blocked R$ 1.35 billion in assets of 46 persons and firms accused of participating in the rip off the Petros and Postalis pension funds.

1.2 – Temer government → moratorium on states’ debts

On Monday, 20th June, interim President Michel Temer and his economic team (headed by Finance Minister Henrique Meirelles) held a long negotiation session with Brazil’s 27 state governors regarding their critical fiscal situation vis-à-vis the repayment of their debts with the federal government. It was decided that through December 2016, the discount on these monthly debt repayments would be 100% (moratorium). As of January 2017, these monthly discounts would be “tapered off” by 5.5% each month until this schedule reaches 100% (back to normal). The “counterpart” for the states is a “cap” on expenditures.

This accommodation will cost the federal government some R$ 50 billion by the end of 2018. Before meeting with Temer and Meirelles the governors met at the official residence of Gov. Rodrigo Rollemberg (PSB-DF) in order to unify their demands.
In addition, interim President Michel Temer released R$ 2.9 billion to the state of Rio de Janeiro to assist with increased expenditures (police & public health) in lieu of the Olympic Games.

1.3 – Cunha has Italian Passport

On Sunday, 19th June, FSP columnist Jânio de Freitas revealed that Eduardo Cosentino da Cunha has Italian citizenship and carries an Italian passport. His mother's family came from Castellucio Inferiore. This “new fact” was discovered in court ordered “search-and-seize” operation at his homes in Rio and Brasília on 16th December 2015. Freitas’ analysis questioned why the Lava Jato investigation gave little or no importance to Cunha’s dual citizenship – regarding overseas bank accounts and transactions using his Italian passport. How this will affect his fate is not known.


On 21st June, Cunha convoked a “press conference” at a hotel in Brasília – but with no Q&A with the press. He sat at a table with 5 empty chairs and only 2 deputies were present. Cunha’s 90-minute discourse did not include his resignation from the Chamber presidency, no “confessions”, and no accusations against other deputies – but only repeated the elements of his defense. So much so, that after some 10 minutes the major TV networks returned to their regular programming and only the Chamber’s TV Câmara carried Cunha’s full discourse.

Many deputies observed that the TV Câmara exists to cover the activities of deputies and in that Cunha is suspended from his mandate (temporarily not a deputy) this coverage was “irregular”. As a result, interim Chamber president, Waldir Maranhão (PP-MA) sacked the Chamber Director for Social Communication, Claudio Lessa. Many deputies observed that the TV Câmara had disobeyed the determinations by the STF regarding Cunha.

1.4 – Municipal Elections - 2018

In October 2016, Brazil will hold municipal elections (1st round – 2nd October & 2nd round 23rd October). Considerable attention is given to the elections in Brazil’s 26 state capital cities – because these Mayors become potential candidates for governor in 2018 – especially those seeking reelection.

In these 26 cities, 21 current mayors should be candidates for reelection and four were reelected in 2012 and can’t run again in 2018. Apparently, the first term mayor of Florianópolis will not run for reelection. By party, the mayors running for reelection are as follows:

<table>
<thead>
<tr>
<th>PSDB (4)</th>
<th>PDT (4)</th>
<th>PSB (4)</th>
<th>PT (2)</th>
<th>DEM (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maceió</td>
<td>Curitiba</td>
<td>Recife</td>
<td>São Paulo</td>
<td>Salvador</td>
</tr>
<tr>
<td>Manaus</td>
<td>Fortaleza</td>
<td>Cuiabá</td>
<td>Rio Branco</td>
<td>Aracajú</td>
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<tr>
<td>Teresina</td>
<td>Natal</td>
<td>Palmas</td>
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<tr>
<td>Belém</td>
<td>São Luís</td>
<td>Porto Velho</td>
<td>PP (1)</td>
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<table>
<thead>
<tr>
<th>PMDB (1)</th>
<th>PSD (1)</th>
<th>Rede (1)</th>
<th>Campo Grande</th>
<th>Vitória</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boa Vista</td>
<td>João Pessoa</td>
<td>Macapá</td>
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</tbody>
</table>
The four state capitals where the mayors were reelected in 2012 are: Rio (PMDB), Belo Horizonte (PSB), Porto Alegre (PDT) and Goiânia (PT).

1.4.1 – *Ibope* poll for SP

On 21st June, *Ibope* released its latest poll for the election of the Mayor of SP. This poll was conducted for Setcesp among 602 voters between 16 and 19 June with a margin of error of 4 p.p.

<table>
<thead>
<tr>
<th>Candidate/Party</th>
<th>June</th>
<th>Rejection</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Russomanno (PRB)</td>
<td>26%</td>
<td>22%</td>
</tr>
<tr>
<td>M. Suplicy (PMDB)</td>
<td>13%</td>
<td>42%</td>
</tr>
<tr>
<td>L. Erundina (PSOL)</td>
<td>9%</td>
<td>29%</td>
</tr>
<tr>
<td>F. Haddad (PT)</td>
<td>8%</td>
<td>46%</td>
</tr>
<tr>
<td>João Dória (PSDB)</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td><em>Others</em></td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>DK/NR</td>
<td>22%</td>
<td></td>
</tr>
</tbody>
</table>

* - A. Matarazzo (PSD) & Marco Feliciano (PSC) with 4% each; Delegado Olin (PP) with 3% & Major Olimpio (SD) with 2%.

**Detail:** Russomanno might have his candidacy canceled because he has a case being deliberated at the STF.

1.5 – New impeachment schedule

On 22nd June, the Senate Special Impeachment Committee elaborated a new chronology for the impeachment of Pres. Dilma Rousseff. The calendar was extended by an extra week.

27th June – Senate staff Analysts deliver analysis of Dilma’s fiscal accounts
28th June – Questioning of analysis (72 hours)
06th July – Dilma speaks on her own defense
7-12 July – Final anti-Dilma arguments
13-27 July – Final pro-Dilma arguments
28 July-1 August – Sen. Antonio Anastasia elaborates his report
2nd August – Sen. Anastasia reads his report
3rd August – Committee discusses the report
4th August – Committee votes on report
5th August – The Report is read to the full Senate
9th August – Full Senate – Discussion and vote on the Report
10-11 August – 48 hours, anti-Dilma arguments
12-13 August – 48 hours, pro-Dilma arguments
13-21 August – Ten-day interval
22nd August – Final impeachment vote, 2/3 or 54 Senators for impeachment approval

Thus, the final impeachment decision by the Senate would be after the municipal party conventions (to choose candidates for the October elections) ⇒ 20th July to 5th August.
2 – FOREIGN RELATIONS & TRADE

2.1 – Brazil to export enriched uranium (to Argentina)

On 20th June, INB-Brazilian Nuclear Industries announced that it would for the first time export enriched uranium (uranium dioxide) to Argentina to supply its experimental nuclear plant (Carem) – in three batches with different levels of enrichment: 1,430 Kg (1.9%), 670 Kg (2.6%) and 2,000 Kg (3.1%). This initiative was enabled by an agreement signed with Conuar 15 days ago. This agreement must be approved by each country’s Ministry of Foreign Relations.

2.2 – Foreign control of Brazilian airlines

On 21st June, the Chamber approved a measure that would allow foreign participation in Brazilian airlines of up to 100%. The previous limit was 49%. Now this is being deliberated by the Senate. Detail: The Ireland-based low-cost airline –Ryanair – already operates in Mexico and Colombia and will begin operating in Argentina next year. Ryanair owner Declan Ryan declared that it is not interested in operating in Brazil due to “massive corruption” – even more that Mexico and Argentina???

2.3 – FDI to Brazil declined in 2015

On 21st June, UNCTAD-United Nations Conference on Trade & Development released its report on FDI-Foreign Direct Investment in 2015. According to this analysis, FDI increased by 38% in 2015 to US$ 1.76 trillion – but Brazil’s FDI declined by -11.5% to US$ 65 billion (8th rank in 2015) surpassed by the US, Hong Kong, China Ireland, The Netherlands, Switzerland and Singapore. Brazil was 4th rank in 2014 with US$ 73 billion in FDI. See Item 5.4.3


2.4 – US Senate Confirmation hearing – Amb. Peter Michael McKinley

On Tuesday, 21st June, the US Senate Foreign Relations Committee held a confirmation hearing for Ambassador Peter Michael McKinley, recently appointed to be the new US Ambassador to Brazil. Currently, he is the US Ambassador to Afghanistan.

McKinley (62) was born in Venezuela and as a boy lived in Brazil, Mexico, Spain and the US due to his businessman father’s career. He remains fluent in Portuguese with a slight Mozambican accent (he was posted there in his diplomatic career. He returned to Brazil in 2014 during the World Cup Soccer playoffs.

Senators questioned him regarding Brazil’s corruption, impeachment, economic challenges, the 2016 Olympic Games, Zika virus and bilateral relations.

http://www.foreign.senate.gov/imo/media/doc/062116_McKinley_Testimony.pdf
3 - REFORMS

3.1 – New Airport Concessions

Regarding the four airports that will have concession auctions in 2016 – Salvador, Porto Alegre, Fortaleza and Florianópolis – a new regime of payments is being proposed ➔ 25% of the victorious bid up front when the contract is signed and the remaining 75% would begin payments after a five-year “grace period”. This should be more attractive for investors than the current model.

3.2 – Senate approved new state enterprise rules

On 21st June, the Senate approved a measure that will regulate the appointment of administrators for Brazil’s state enterprises that prohibits the appointment of party militants and persons occupying confidence appointments in the federal government – with a three-year grace period. This supposedly will eliminate party militants trashing state enterprises like the recent episodes at Petrobras and the Postal Service. Interim president Michel Temer signed this measure into law on 22nd June.

4 – PRIVATIZATION & REGULATION

4.1 - Celg

On 24th June, BNDES announced the tendering for the privatization auction of Celg that will beheld at BM&FBovespa on 19th August. Celg is the electricity distribution system for the state of Goiás and is controlled by the state of Goiás and Eletrobrás. Economists predict that the price (winning bid) might reach R$ 2.8 billion – 10% of Celg capital will be offered to Celg employees and retirees.

5 - ECONOMICS

5.1 – IPCA-15 declined

On 21st June, IBGE released its “preview” for inflation in the month of June ➔ the IPCA-15 posted +0.40%, down from +0.86% in May. This was the lowest IPCA-15 since 2013 (+0.38%). Thus, the IPCA-15 accumulated +4.62% in the first semester of 2016 versus +6.28% in the first semester of 2015 – and accumulates +8.98% for the 12-month period. In 2015, the IPCA posted +10.67%, the highest inflation since 2002 (+12.53%).
Between May and June, the inflation of food prices declined +1.03% to +0.35%. Analysts consulted by Reuters predicted the June IPCA-15 at +0.52%.

5.2 – Income Inequality increased

After a decade of reductions in income inequality and “social equity”, a large reversion occurred in 4th Q/2015 with a combination of unemployment, inflation, income reductions and the fiscal crisis. The index of “well being” calculated by the FGV declined to - 3.75. This index had been “positive since 2003.


5.3 – Oi Telecom – Judicial recovery

On 20th June, to avoid a “formal” bankruptcy, Oi Telecom requested a court-administered financial recovery initiative (protection). Oi has accumulated a debt of R$ 65.4 billion. This is the largest such process in Brazilian history. With 70 million subscribers, Oi is tied with Vivo with a 34.4% market share of the fixed phone sector and has the 4th largest market share (18.5%) of the cell phone sector.

In 2008, in order to compete with the large international groups in the telecom sector, then President Lula altered the LGT-General Telecom Law to permit Oi to acquire Brasil Telecom. As a result, in 2009, Oi’s debts increased from R$ 12 billion to R$ 21 billion. In 2010, again with Lula’s interference, Oi merged with PT-Portugal Telecom and its debt increased to R$ 27 billion.

Detail: In 2005, Telemar that soon became Oi paid R$ 5.2 million for a 30% share in Gamecorp – a “small” startup owned by Fábio Luís Lula da Silva (Lula’s son) and two associates. These two “associates” are the “alleged” owners of the sítio (dacha) in Atibaia, SP where Lula and his family spend many weekends.

Portugal’s stock market regulator halted trading of shares of Oi SA on the Lisbon stock market ➔ largest shareholder ➔ Pharol SGPS SA on Tuesday, 21st June. Pharol had a 27.5% stake in Oi.

The Problem was that in 2008 the Lula government “favored” the merger to create a large national Telecom to compete with the international competitors – but the new large tele did not invest in new technology and innovation and lost out to those competitors who offered more new technologies/innovations at lower costs. One half (2,980) of Brazil’s 5,570 municípios are served by Oi.

This same “strategy” went bankrupt after Brazil created Sete Brasil to build off shore drilling platforms “cheaper & better” than the international competitors.

See ➔ http://oglobo.globo.com/brasil/a-oi-os-delirios-da-teleprivataria-19537702

Early Tuesday morning, 21st June, Central Bank Director for Monetary Policy, said that the Oi bankruptcy petition would not threaten Brazil’s financial system. The concern is that Oi has
considerable loans with certain banks that are computed within its debt structure and if this petition gains court approval, these bank loans would incorporated into the restructuring of this firm. Brazilian state-owned banks hold R$ 9.8 billion (17%) of Oi’s debt. A smaller proportion is held by private Brazilian banks. However, two US Banks – BNY Mellon (R$ 18.1 billion) and Citibank (R$ 15.7 billion) are large shareholders.

Several foreign investors are interested in acquiring Oi – from Russia and Egypt, for example.

5.4 – May Public Accounts

On 24th June, the Central Bank released some data on Brazil’s foreign accounts for the month of May. In May, Brazil’s international reserves declined by US$ 2.1 billion to US$ 374.6 billion and the nation’s total debt was US$ 331.4 billion.

5.4.1 – Current Account

In May 2016, Brazil posted a current account surplus of US$ 1.2 billion. This was the best monthly result since August 2007 (US$ 1.233 billion. In May 2015, Brazil posted a deficit of -US$ 3.4 billion. In 2016, the accumulated deficit is now -US$ 5.966 billion and the 12-month accumulation is -US$ 29.5 billion. On 24th June, the Central Bank modified its current account estimate for 2016, from -US$ 15 billion to -US$ 10 billion. The main reason for this improvement is the decline in Brazil’s imports.

5.4.2 – Overseas spending by Brazilians declined in 2016

Between January and May 2016, Brazilian tourists spent US$ 5.2 billion versus US$ 8.3 billion in the same period in 2015 - a reduction of 3.7.3%. There was a “blip” in March – US$1.291 billion. In January-May 2016, foreign tourists spend US$ 2.8 billion in Brazil.

5.4.3 – FDI

In May 2016, Foreign Direct Investment totaled US$ 6.1 billion. The 12-month accumulation is now US$ 79.4 billion (4.57% of GDP). The Central Bank now estimates that in 2016 Brazil should receive US$ 70 billion in FDI.

5.4.4 – Brexit

Túlio Maciel, Chief of the Central Bank’s Economics Dept., affirmed that the decision by the UK to leave the EU (the result of the 23rd June referendum) should not affect Brazil’s economy given the “solid” Brazilian economy and the small bi-lateral trade flow with the UK (only 1.5% of Brazil’s trade flow in 2015).