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Looking Ahead ➔ What to watch for?

- 31st July -- Congressional Recess ends [“officially”]
- 31st July -- Rival groups, Pro- & Anti-Dilma plan street demonstrations in SP
- 1st Aug. -- Congress begins 2nd semester sessions
- 1st Aug. -- Executive Branch transmits detailed 2017 Budget (LOA) to Congress
- 1st Aug. -- July trade balance ➔ US$ ____ billion vs. US$ ____ billion in June
- 3rd Aug. -- IBGE ➔ June Industrial Production data ➔ ___% MoM & ___% YoY
- 3rd Aug. -- Anfavea, July auto sales ➔ _____ units, vs. _____ units in July 2015
- 5th Aug. -- Celebration, Opening of 2016 Olympic Games in Rio de Janeiro
- 5th Aug. -- FGV to release IGP-DI inflation for July ➔ +0.% versus +0.% in June
- 8th Aug. -- IBGE to announce July IPCA ➔ +0% versus +0.% in July 2015
- 8th Aug. -- IBGE to announce June Industrial Production ➔ +0.0% MoM & +% YoY
- 9-14 Aug. -- World Social Forum to meet in Montreal, Canada
- 15th Aug. -- IBGE to release June retail sales data ➔ -0.0% MoM
- 15th Aug. -- Central Bank, June IBC-Br ➔ % MoM & % YoY
- 19th Aug. -- IBGE to release IPCA-15 inflation data ➔ % versus % in July
- 22nd Aug. -- Caged data for July ➔ jobs lost
- 22nd Aug. -- IBGE to announce July PME unemployment
- 22nd Aug. -- SRF to announce July tax revenues ➔ R$ billion,
- 25th Aug. -- IBGE, PNAD unemployment data, 2nd Q/2016
- 29th Aug. -- July public accounts
1 - POLITICS

1.1 - Municipal elections

The TSE announced on 25th July that 146,470,880 voters are eligible to vote in the municipal elections in October 2016. The 1988 Constitution lowered the voting age to 16, so 16 and 17 year olds could register to vote. But, their registration and voting is not obligatory. The TSE data show that the number of 16-17 year olds who can vote in 2016 is 2.3 million, down -20% from the 2.9 million in the 2012 elections. According to IBGE, there are 6.8 million persons in this 16-17 age group. Many observers said that because of the mass mobilizations of youth in the 2013 and 2015 street protests that more youth would register to vote in 2016 – but apparently apathy and rejection of Brazil’s politicians seem to be the main factor in this reduction.

In 2016, 25 state capitals have more than 200,000 voters and could hold second round runoff elections if no candidate achieves an absolute majority. This year, 67 other larger cities have over 200,000 voters.

In 2012, 87 federal deputies and 5 senators became candidates for Mayor, but only 25 deputies (28.7%) were elected. In 2016, only 43 deputies and 2 Senators are candidates. If the same ratio prevails in 2016, only 12 or 13 deputies should be elected.

On Sunday, 24th July, most parties held their municipal conventions to formalize their candidates for Mayor and City Council.

In São Paulo, the incumbent PT mayor Fernando Haddad is running for reelection and has Gabriel Chalita (PDT) as his running mate. With the support of Gov. Geraldo Alckmin, the PSDB launched João Doria with tucano Bruno Covas as Vice. Former SP Mayor (1989-1992) Federal Deputy Luiza Erundina is the PSOL candidate in a “pure ticket” with Deputy Ivan Valente. Former SP Mayor (2001-2004) Senator Marta Suplicy is the PMDB candidate and selected city council member Andrea Matarazzo (PSD). He resigned his candidacy for Mayor to become Marta’s running mate. Matarazzo left the PSDB after João Doria defeated him in the PSDB primary and switched to the PSD. The leader in the last Datafolha poll with 25% of voter preferences is Deputy Celso Russomanno PRB. The PRB has constructed a coalition with the PTN, PSC and PEN. On 25th July, Russomanno received the support of the PTB. Initially, the PTB was supporting Marta Suplicy (PMDB) in the hope that she would select Marlene Campos Machado as her running mate. Now, Marlene (the wife of state deputy Campos Machado, President of the PTB-SP) will be Russomanno’s running mate.

Andrea Matarazzo (PSD) & Marta Suplicy (PMDB)
Other candidates for Mayor of SP are Pastor Feliciano (PSC), Levy Fidelix (PRTB), Major Olímpio (SD) and Ricardo Young (Rede).

Some of the so-called “Popular Movements” in SP are launching candidates for the SP city council. For example, Fernando Holiday, one of the leaders of the MBL-Movimento Brasil Livre (via DEM) and Marina Helou, leader of the Bancada Ativista (via PSOL).


1.1.1 – “Signs on the Wall” 2018

This PMDB-PSD alliance in SP in 2016: 1) Fiesp President Paulo Skaf (PMDB) plans to run for governor in 2018 and would like the national PSD President Gilberto Kassab to be his running mate; 2) If Temer’s Finance Minister Henrique Meirelles is reasonably successful in turning Brazil’s economy around by early 2018, he might become the PSD presidential candidate in 2018; and 3) Foreign Minister José Serra (PSDB-SP) is competing with Gov. Geraldo Alckmin (SP) and Senator Aécio Neves (MG) to become the tucano presidential candidate in 2018. For this reason, Serra supported the “M&M coalition” [Marta & Matarazzo] in 2016, in hopes of defeating Alckmin’s candidate for Mayor of SP – João Doria. If Serra does not become the PSDB candidate, he might switch to the PMDB.

Ibope A new survey conducted by Ibope was released on 29th July. Russomanno led with 29%, followed by Marta (10%) and Erundina (8%) and Haddad & Doria each with 7%.

See http://ultimosegundo.ig.com.br/eleicoes/2016-07-29/celso-russomanno-prefeitura-de-ssp.html

1.2 - Impeachment

The impeachment calendar (chronogram) in the Senate is as follows:

28th July – Limit for Dilma to present her defense to Impeachment Committee.
2nd August – Senator Anastasia reads his report to Impeachment Committee
4th August – Impeachment Committee votes this report (approval majority of those present)
9th August – Full Senate votes on “admissibility” of report (approval majority of those present)
As of 21st August – Full Senate votes impeachment (approval by at least 54 Senators)

The TSE discovered evidence that some of the firms contracted by Dilma’s 2014 election campaign were “fronts” used for money laundering and transmitted this evidence to the STF to be added to the case against Dilma and her campaign organizers.

The case in question is the firm DCO Informática e Comércio located in Uberlândia, MG. This firm does not have an official registry and operated with only one notebook and three employees with no labor contracts. DCO received R$ 4.8 million in October 2014.
1.3 – Lava Jato

In a continuation of his plea bargaining, Ricardo Pessoa, owner of the UTC and Constran construction firms (involved in the Petrobras corruption/bribe scandal), affirmed that the then BNDES President, economist Luciano Coutinho and “instructed” him to make donations to Dilma’s reelection campaign in 2014 via her campaign treasurer – Edinho Silva. Former director of the Andrade Gutierrez construction firm, Flávio Gomes Machado Filho, affirmed in his plea bargaining that it was suggested (by Coutinho) and then Finance Minister Guido Mantega that AG make campaign contributions to the PT after the BNDES had approved the loan for AG’s projects. Via his press spokesperson, Coutinho denied these allegations.

With the plea bargaining testimony of Flávio Machado, he confirmed that former Minister and former PT National President, Ricardo Berzoini, had made constant and incisive demands for bribes of 1% of all the contracts received by Andrade Gutierrez.

Custo Brasil -- On 26th July, the Federal Police indicted former Planning Minister Paulo Bernardo and two former PT national treasurers – Paulo Ferreira and João Vaccari Neto – for their involvement in a corrupt scheme that “extracted” some R$ 100 million via “extra charges” on consigned credit loans between 2010 and 2015.

Eletronuclear -- On 28th July, the MPF in Rio de Janeiro denounced 15 persons (Engevix & Andrade Gutierrez) involved in fraud, corruption and money laundering in R$ 17 billion contracts to construct the Angra III nuclear power plant.


Operation Saqueador -- On 28th July, the TRF-2 (regional federal court in Rio) decided that the four accused in this Operation should return to prison – Carlinhos Cachoeira. Fernando Cavendish (Delta Construction Firm), Cláudio Abreu (former Delta director), and money changers Adir Assad & Marcelo Abbud. Their condition had been modified from preventive arrest (in the Bangu 8 prison in Rio) to house arrest by TRF-2 judge Ivan Athié, but he was deemed “suspect” due to his “close relationship” with Cavendish’s lawyer – Técio Lins e Silva. Athié’s replacement determined that these four accused be returned to Bangu 8.

Operation Lula – The Federal Police are “closing in” on Lula and it is possible that soon after the final impeachment of suspended president Dilma (in September) Judge Sérgio Moro might order his arrest (plus his wife and sons). Apparently, Lula is so concerned with this possibility that on 28th July he appealed to the UN Human Rights Committee against what he called an “abuse of power” by Judge Sérgio Moro – citing “illegal acts” practiced by the judge during the investigation and that Judge Moro is not “impartial”. To this end, Lula has hired Geoffrey Robertson, the same lawyer who defended Indian author Salman Rushdie and the founder of WikiLeaks, Julian Assange. The Federal Police claim that they have found enough “hard” evidence to prove that Lula and his wife are the real owners of the triplex apartment in Guarujá, SP and the rural dacha [sitio] in Atibaia, SP.

Lula quipped – “If I am arrested and go to jail I will become a martyr; if not, I will be elected President in 2018”.


Odebrecht “fingers” 100 pols – Reportedly, Odebrecht executives will list some 100 politicians in their plea bargaining testimony who received bribe payments as part of Odebrecht’s “compensations” paid to maintain its contracts in the Petrobras corruption/bribe scandal. Otávio Azevedo, former CEO of Andrade Gutierrez explained that AG considered bribe payments as part of the “operational costs”. Azevedo also stated that he was pressured by Pres. Dilma’s advisors Giles Azevedo and Edinho Silva to make contributions to her 2014 reelection campaign.


1.4 – Ministry of Culture

Artists linked to the “Cultural Area” were enraged on 12th May when interim President Michel Temer reduced the number of cabinet positions from 33 to 22 via mergers and incorporations when the Ministry of Culture was incorporated into the Ministry of Education. On 26th July, 81 political appointees were sacked out of their positions at the Ministry of Culture. All were appointed because of their “PT militancy”. In Brazil, this process is called “aparelhamento” – or turning a bureaucratic unit into an “aparelho” – an apparatus. This process was operated by Dilma’s Minister of Culture, Juca Ferreira (PT-BA). The Executive Secretary of the Ministry of Culture, Mariana Ribas, stated that these positions would now be filled by career employees.

MP 731/16 determined that the Planning Ministry eliminate 10,462 political appointments in an effort to reduce Brazil’s expenditures.


Want more? On 28th July, Health Minister Ricardo Barros ousted (fired) 73 political appointees (comissionados) who were PT militants appointed by then Pres. Dilma. This process of substitution of political appointees in other federal units continues.

Still more? On 29th July, the Ministry of Social and Agrarian Development ousted 33 political appointees from the Dilma period.

1.5 – Control over federal expenditures

One of the key parts of the fiscal adjustment proposed by Temer’s Finance Minister, Henrique Meirelles is a “cap” of federal expenditures that could only be increased by the annual inflation of the previous year. This is placed before Congress as a PEC (constitutional amendment) that probably should be approved in November and thus would only affect expenditures in 2017.

However – Meirelles wants better control in 2016 and to this end has requested that interim President Temer that the Budget Secretariat be transferred from the Planning Ministry to the Finance Ministry. The President can do this by a simple presidential act – no PEC needed
1.6 – Terrorism – Rio 2016

Recently, a so-called terrorist “cell” was uncovered and 12 persons arrested after a “tip” from the FBI. On 27th July, the Federal Police arrested Chaer Kalaoun (Lebanese) in Nova Iguacu, RJ on a preventative arrest order from a federal judge in Rio. In 2014, Kalaoun was arrested for illegal gun possession but was allowed to appeal and released.

2 – FOREIGN RELATIONS & TRADE

Nothing this week.

3 - REFORMS

Nothing this week.

4 – PRIVATIZATION & REGULATION

Nothing this week.

5 - ECONOMICS

5.1 – June – Public Accounts

Current Account ➔ -US$ 2,479 billion – The trade surplus of US$3.755 billion was off set by deficits in services (-US$3.594 billion) and remittances (-US$2.873 billion). However, the accumulated 12-month current account deficit (-US$ 29.4 billion, 1.67% of GDP) “improved” versus the previous 12-month period (4.40% of GDP)

FDI ➔ +US$ 3.917 billion more than compensated for the June current account deficit. The 12-month accumulation now stands at US$78 billion. Last year, the FDI prediction was US$ 81.9 billion – a reduction of 4.7%.

Central Government Deficit – The central federal government posted the worst June deficit since 1997 ➔ -R$ 8.801 billion and -R$ 32.521 billion in 1st semester 2016. The “central government” means the accounts for the STN, social security and the Central Bank. The Temer government is counting on the repatriation of funds held by Brazilians overseas to reduce this deficit in the second semester.

Social Security Deficit ➔ -R$ 60.4 billion in the first semester. For 2016, the “target” is R$ 149.2 billion.
Primary Deficit ➔ -R$ 10.5 billion. The primary deficit in 2016 now stands at R$ 23.8 billion versus R$ 16 billion in the same period in 2015. The 12-month accumulation is R$ 151 billion (2.51% of GDP).

Deficit Nominal ➔ -R$ 197.087 billion in the first semester.

5.2 – July Inflation

On 28th July, the FGV released data for its IGP-M the inflation index used to adjust rents in Brazil ➔ +0.18%, down from +1.69% in June. Thus, the 12-month accumulation in July was +11.63%, down from +12.21% posted in June.

<table>
<thead>
<tr>
<th>June</th>
<th>July</th>
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<tbody>
<tr>
<td>Producer Prices (IPA)</td>
<td>+2.21% ➔ -0.01%</td>
</tr>
<tr>
<td>Consumer Prices (IPC)</td>
<td>+0.29% ➔ +0.33%</td>
</tr>
<tr>
<td>Construction Costs (INCC)</td>
<td>+1.52% ➔ +1.09%</td>
</tr>
<tr>
<td>IGP-M</td>
<td>+1.69% ➔ +0.18%</td>
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5.3 – Federal revenues [continue to] decline

After some “signs” of improvement in May (-4.81%), federal revenues declined even more in June (-7.14%) -- the 15th consecutive monthly decline and the worst June result since 2010. The accumulated decline in federal revenues in first semester 2016 was -7.33%. In June 2015, federal revenues were R$ 105.7 billion, but in June 2016 declined to R$ 98.1 billion. In 1st Semester 2015, collections were R$ 676.0 billion versus R$ 626.5 billion in 1st semester 2016.

5.4 – Caged – Jobs lost in June

On 27th July, the Labor Ministry released its Caged data for June ➔ 91,032 jobs were lost – 18% less than in June 2015. In the first semester of 2016, 531,765 jobs were lost. Over the past 12 months, 1.765 million jobs were lost. The worst 12-month accumulation was in March 2016 ➔ 1.81 million jobs lost – thus, some feel that this data series might have “bottomed out”. These job losses cover almost all sectors – except for public administration and agriculture.

5.5 -- Unemployment

On 29th July, IBGE released its PNAD data for unemployment in 2nd Q/2016 ➔ 11.3% -- 11.6 million persons unemployed – an increase of +4.5 % compared with 1st Q/2016 and +38.7% YoY. This is the largest unemployment rate since IBGE began this series in 2012. PNAD surveyed 211,344 households in some 3,500 municípios. In 2nd Q/2015 the unemployment rate was 8.3%. The average salary in 2nd Q/2016 was R$ 1,972,00 (down by 1.5%).
5.6 – Petrobras – disinvestment

On 29th July, Petrobras announced its largest [so far] disinvestment operation – the sale of its participation in the Carcará of pre-salt exploration (in the Santos basin) to the Norwegian Statoil for US$ 2.5 billion. This sale to Statoil represents about 20% of the “target” of asset sales by Petrobras in 2016.