Brazil Focus –
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Weekly Report
April 15-21 2017

Looking Ahead ➔ What to watch for?

- 21-23 April -- Spring Meetings of IMF & World Bank Group, Washington, DC
- 22nd April -- Earth Day
- 23rd April -- Municipal holiday in Rio de Janeiro ➔ São Jorge
- 23rd April -- France – First round elections
- 24th April -- Caged data, jobs March & 1st Q/2017
- 24th April -- Central Bank, February IBC-Br ➔ -0.% MoM & - % YoY
- 24th April -- 2017 Brazil Summit, Brazilian-American C of C, New York, NY
- 25th April -- STN to announce Brazil's federal debt R$ trillion in March
- 28th April -- IBGE PNAD ➔ 1st Q/2017 unemployment at %
- 28th April -- FGV to announce IGP-M ➔ +0.% versus +0.% in March
- 28th April -- Public Account data for March
- 29th April- 1st May -- 34th LASA Congress in Lima, Peru
- 1st May -- Labor Day [National Holiday]
- 2nd May -- IBGE ➔ March Industrial Production ➔ % MoM & % YoY
- 2nd May -- Trade Surplus for April ➔ US$ billion
- 3rd May – Lula to be interrogated by Judge Sérgio Moro in Curitiba
- 5th May -- Central Bank ➔ Savings Accounts depleted by -R$ billion
- 8th May -- Central Bank to announce FX flow of US$ billion in April
- 8th May -- IBGE to post IPCA for April ➔ +0.% versus +0.% in March
- 8th May -- Fenabrave ➔ auto units produced in April, - % MoM & - % YoY
- 8th May -- FGV: April IGP-DI ➔ +0.% versus +0.% in March

**OBSERVATION:** I will be in Lima, Peru next week attending the LASA Congress. Thus, the next issue of Brazil Focus will be sent out on 5th May.

1 - POLITICS

1.1 – *Lava Jato*

Sérgio Moro will interrogate Lula on 3rd May. Also, Moro has ordered Lula to be present during **ALL** testimony of the 87 witnesses requisitioned by the accusation and defense lawyers.

1.1.1 – Odebrecht “settles” in NY court

Federal district judge in NY, Raymond Dearie, determined that the price of a definitive accord with Odebrecht would be US$ 2.6 billion ➔ US$ 2.39 billion for Brasil, US$ 93 million for the US and US$ 116 million for Switzerland. The original “target” was to assess Odebrecht a total of US$ 4.5 billion. Previously, the highest settlement of this type in the US was US$ 1.6 billion with Siemens in 2008.


1.1.2 – STF to decide “restrictions” for *Foro Privilegiado*

STF President Carmén Lúcia has set the agenda for the Supreme Court to decide the application of “restrictions” for the *Foro Privilegiado ➔ 31st May*. The “opinion” (report) in favor of severe restrictions has been drafted by Judge Luís Roberto Barroso and apparently this momentous decision already has a considerable majority. This mechanism protects deputies, senators and cabinet ministers from being prosecuted by first-level federal or state courts and only allows their investigation, trial and conviction by the Supreme Court. In the case of the *Mensalão*, it took the STF some 7 years to complete the judgment of the accused – because the STF is not a penal court.

If the STF severely restricts this “guarantee” most of the cases of senators, deputies and ministers accused by the *Lava Jato* investigation would be transmitted to first-level federal judges and relieve the STF of this “task”.

**However, TWO** STF judges expressed opinions contrary to this deliberation by the Supreme Court – Gilmar Mendes and Marco Aurélio Mello.

> **Stay tuned!!!!**

### 1.1.3 – Two witnesses testify

On 20th April, two important witnesses gave testimony before Judge Sérgio Moro in Curitiba: 1) Former CEO at OAS Leo Pinheiro affirmed that Lula is/was the real owner of the triplex apartment in Guarujá and that Lula had ordered OAS to destroy all evidence of his ownership; and 2) Former Lula Finance Minister and Dilma Casa Civil Chief Antonio Palocci answered questions “obliquely” but said that he was open to further testimony (perhaps a plea bargain).

### 1.2 - *Operation Conclave*

On 19th April, the Federal Police carried out *Operation Conclave* to investigate “irregularities” when the CEF acquired the Banco Panamericano from the Silvio Santos Group in 2009 – with 41 search-and-seize warrants. The Caixa Econômico Federal acquired 35% of this “failed bank” for R$ 739 million together with BTG Pactual (André Esteves). The initial CEF “investment” ballooned into a R$ R$ 3.8 billion loss. Before this “rapid acquisition”, the Central Bank has raised doubts regarding the solvency of the Banco Panamericano. Some observers question this “deal” as some kind of an agreement between Silvio Santos (SBT TV Network) and the Lula government. The Banco Panamericano had a “hidden” internal deficit of R$ 4 billion that was not “discovered” by the CEF. In 2009, Brazil was struggling to shake off a recession caused by the late 2008 “Wall St. blowout” and there was concern that if some mid-sized banks failed the market reaction would be “very strong”. So, the Banco do Brasil was “convinced to buy the Banco Votorantim and the CEF to buy into the Banco Panamericano. So this crisis was “outsourced”.

> **Stay tuned!!**

### 1.3 – PMDBexit???

Reportedly, a number of PMDB deputies are considering switching from the PMDB to other parties to run for reelection in 2018. The press estimates that at present some 6 PMDB deputies are considering switching parties. The former Dilma Minister of Science & Technology, Dep. Celso Pansera (PMDB-RJ) affirmed that he is talking to parties “more to the Left” (PDT). It is possible that up until the cut off date for party switching for the 2018 elections (March 2018) more deputies (and even senators) might switch. These discontent deputies affirm that the PMDB has no political project after the end of Pres. Temer’s mandate 31st December 2018 and has no viable candidate for President in 2018.

### 2 – FOREIGN RELATIONS & TRADE
Nothing this week.

3 – REFORMS

3.1 – Labor Legislation Reform

On Tuesday, 18th April, the Chamber voted on measure to allocate “Urgency Status” for the deliberation of the proposed Labor Legislation Reform. To be approved, 257 votes were needed, but the government leadership was “lapse” and the vote was 230-to-163. The Temer government was very upset and Chamber President Dep. Rodrigo Maia (DEM-RJ) called for another vote the next day (18th April). The Opposition screamed and yelled that this was against the Chamber’s internal rules, but Maia prevailed and the result was 287-to-144. Thus, the full Chamber might vote on this proposal in early May – because the “urgency” status produces a “short cut” in the process, from the Special Committee directly to a floor vote in the Chamber where 308 votes are needed to approve this PEC.

3.2 – Social Security Reform

The Chamber CCJ has already approved this reform (constitutional aspects) and is now being deliberated by the Special Committee. The reporter, Dep. Arthur Oliveira Maia (PPS-BA) should read his conclusions on Tuesday, 25th April.

The Temer Government hopes that the imminent approval of the Labor Legislation PEC will pave the way for approval of the Social Security Reform that is more “complicated”. The government has negotiated several “modifications” in its original proposal to facilitate approval of this important reform (1) a three-year gender differential in the maximum retirement age, 62 for women and 65 for men; (2) minimum years of contribution (25 years); (3) the maximum contribution time reduced from 49 to 40 years; (4) the ages for rural workers reduced to 60 for men and 57 for women with a minimum of 15 years contribution; and (5) “transition” rules minimum age with time of contribution – for women age 53 in 2017 => age 65 in 2036 --- and for men age 55 in 2017 => age 65 in 2038.

The “impasse” regarding the retirement/pension rules for public employees probably will cause a delay (postponement) of the vote on this proposal.

In 2016, the breakdown of federal expenditures was as follows:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>38%</td>
</tr>
<tr>
<td>Interest Payments</td>
<td>20%</td>
</tr>
<tr>
<td>Public Health</td>
<td>7%</td>
</tr>
<tr>
<td>Education</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>30%</td>
</tr>
</tbody>
</table>

3.3 – RRF-Regime de Recuperação Fiscal dos Estados

On Tuesday evening, 18th April, the Chamber approved the base measure for the Fiscal Recovery of the “bankrupt states” – currently Rio de Janeiro, Rio Grande do Sul and Minas Gerais –
but can be applied to other states in the near future. The federal government would suspend the monthly payments on the federal debt of these states for three years, and the states promise to adopt counterpart austerity measures. Rio de Janeiro is negotiating a R$ 3.5 billion loan from a syndicate of banks in the first semester and perhaps another R$ 6.5 billion by the end of 2017. The austerity counterparts include the sale of all state-owned enterprises, the increase of retirement pension contributions by state employees from 11% to 14%, the elimination of “superfluous” bureaucratic units, reduce fiscal incentives and tax exemptions, and hold the line on haring of new state employees.

4 – PRIVATIZATION & REGULATION

4.1 – Neoenergia & Elektro negotiate merger

Reportedly, these two energy firms are negotiating a merger that would permit and IPO to open the capital of the new firm. The Spanish Iberdrola has shares in Neoenergia (39%) and Elektro (99.97%).Neoenergia had a gross income of R$ 14.8 billion in 2016, and Elektro had R$ 4.755 billion.

5 - ECONOMICS

5.1 – Central Bank’s IBC-Br

This monthly Index of Economic Activity, released on 19th April) surprised many analysts. For February, the IBC-Br posted +1.31% MoM and 135.42 points for the January-February period. January had posted +0.62%.m In January-February 2016 the IBC-BR was negative (-0.73%). Now economists predict that the IBC-Br will be positive in 1st Q/2017 indicating that the GDP might be positive for this period.

The IBC-Br for March should be available on 19th May, and the 1st Q/2017 GDP data on 1st June.

5.2 – Caged negative result in March

After a negative series of 22 months of net jobs lost, in February 2017, the Caged data set posted a positive result ➔ 35,612 new jobs created. However, in March, Caged went negative again and reported 63,624 jobs lost. Thus, 1st Q/2017 had 64,378 jobs lost. This was less than the result for 1st Q/2016. In March, the largest net loss of jobs by sector ➔ Commerce (34,000), Services (17,000) and Civil Construction (9,000). The only “positive” sector was Public Administration (+4,500).

5.3 –Petrobras announced price increases

On 20th April, Petrobras announced increases in refinery prices of gasoline (+2.2%) and diesel (+4.3%). It is not clear yet, how this will affect the final prices at the pump.

5.3.1 – Petros has huge “gap”
On 20th April, Petrobras announced that in 2016, Petros (the pension fund for Petrobras employees) had a deficit of R$ 27.3 billion, R$ 3.4 billion more than posted in 2015. This was the fourth year that the Petros fiscal council rejected this report. These rejections are based on conclusions that the PPSP foundation that administers Petros made very “bad” investments based on the “political interests” of these managers.

5.4 – From Washington . . .

During the Spring Meetings of the World Bank and the IMF, the IMF Managing Director Christine Lagarde affirmed that “Brazil has turned a page with the important reforms”. Finance Minister Henrique Meirelles affirmed that the March Caged data (See Item 5.2) was a “negative blip” and that the results for 1st semester/2017 will post positive job creation data.