



Interview: Renato da Fonseca, Research Director at the National Confederation of Industries (CNI)

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Brazilian President Dilma Rousseff is still reasonably popular, with a 52% approval rating as measured by the Public Opinion Research Institute (Ibope) in a recent poll conducted for the National Confederation of Industries. Her approval rating was a solid four points higher than in a similar poll in September. But that's not enough to protect the president from the rigors to come during her second term. Rousseff took office for a second four-year term on January 1. The president faces a stagnant economy, persistent inflation and some unpopular economic policy decisions. She is also struggling against the headwinds from a spreading corruption scandal at state-run energy company Petrobras. “We'll know better when the next poll comes out in March,” according to CNI Research Director Renato da Fonseca. “A lot can change by then.” Fonseca met with reporters recently to discuss the political landscape. Excerpts follow:

- **On politics and the second term:** “President Rousseff begins her second term with a much lower approval rating than she had at the start of her first term. In the first two years of her presidency, her approval rating hovered around the 70% mark, peaking at 79%. Public perceptions about rising corruption have only surfaced in the past few months. Worries about the economy are also growing. Corruption and inflation are emerging as the key issues for the public. This could effect the president's approval rating, going forward. We'll know better when the next poll comes out in March.”
- **On the dimensions of public concerns:** “The June, 2013 street protests are the dividing line in the first Rousseff administration. Her popularity plunged during the protests and she only managed to recoup some of that loss, just enough to win a narrow re-election victory. The government still garners significant levels of support on questions such as combating hunger and poverty but the public's evaluation turns sharply negative on questions such as inflation, public safety and government services. Even with unemployment at historically low levels, the public is increasingly worried about job security.”
- **On public perceptions of Rousseff and Lula:** “President Rousseff brought Lula's popularity with her into her first administration. During the first two years of her tenure, the public routinely compared her favorably with Lula. Over the past two years, the public has tended to evaluate Lula much more positively than it evaluates the president.
- **On Rousseff and corruption:** “In the first two years of her administration, the public seemed to believe the government was acting to combat corruption but that perception is eroding. It may erode further if the Petrobras scandal continues to spread.”

Top News of the Week

President Rousseff completes second-term Cabinet ahead of inauguration. President Dilma Rousseff last week completed her 39-member Cabinet, filling nine more slots. The names included a career diplomat as foreign minister with the mission of boosting Brazilian trade, especially with the United States (see separate item on U.S.-Brazil relations below). The president named **Mauro Vieira**, 63, as Foreign Minister. Vieira had been serving as Brazilian ambassador to the United States. He will change places with the outgoing foreign minister, Luiz Alberto Figueiredo, also a career diplomat. Vieira was chosen because of his experience as a trade negotiator. He helped draft the original plan for the Mercosur South American trade block in the 1980s and later served for six years as ambassador to Argentina, an important but often contentious trade partner for Brazil. The president named **Juca Ferreira**, 65, as culture minister, a post Ferreira previously filled under President Lula. She tapped São Paulo Senator **Antônio Carlos Rodrigues**, 64, of the Republican Party to become transportation minister. She shifted **Gilberto Occhi**, 56, from minister of cities to minister of the interior. She picked career civil servant **Carlos Gabas**, 49, to be social security minister. He had previously served as the ministry's executive secretary. She brought back Minas Gerais politician **Patrus Ananias**, 62, as agrarian reform minister. Under President Lula, Ananias created the highly touted Family Assistance Program. She picked **Pepe Vargas**, 56, for institutional relations, responsible for negotiating with Congress, political parties and social and economic pressure groups. Vargas held the agrarian reform portfolio under President Lula. She shifted long-time Workers' Party strategist **Ricardo Berzoini**, 54, from institutional relations to the communications ministry. Finally, she shifted **Miguel Rossetto**, 54, from agrarian reform to a staff-coordination and advisory role in the Planalto Palace.

Both U.S. and Brazil send strong signals for a new start in bilateral relations. The inauguration of President Dilma Rousseff to a second term turned out to be the occasion for renewed signals of a strengthening U.S.-Brazilian relationship. Vice President Joe Biden represented the U.S. at the inaugural ceremony. He later met with the Brazilian President for more than an hour, renewing a U.S. invitation for Rousseff to visit Washington for broad talks with counterpart Barack Obama. Previous invitations had been met with ambiguity by the Brazilians, but this time was different. Later in the week, top Planalto Palace adviser Aloizio Mercadante said the invitation had been accepted. He hinted that Rousseff might travel to Washington in September to coincide with the annual opening of the United Nations General Assembly session. Rousseff also took the unusual step of including a reference to bilateral relations in her inaugural address. She said Brazil was anxious to "enhance" relations with the U.S., citing benefits to Brazil including science, technology and increased trade volume.

President Rousseff addresses austerity, corruption issues in inaugural speech. In a carefully written speech marking her second inaugural last week, President Dilma Rousseff attempted to reconcile the need for fiscal austerity with preservation of social welfare programs and a fierce commitment to combating corruption with a pledge to maintain a tight government grip over state-run companies such as Petrobras. "No one doubts the need for Brazil to return to economic growth," she said. "But the first steps toward that objective have to include an adjustment in public accounts." She added that her administration would maintain "a profound commitment to maintaining all of the existing labor and retirement rights enjoyed by Brazilians." In addressing the spreading scandals at Petrobras, the president used the word "corruption" ten times, saying her administration was dedicated to rooting it out. She added that her anti-corruption drive was designed "to save Petrobras from both internal predators and outside enemies." She also outlined, in broad terms, some of the key objectives of her second term. These include boosting educational standards nationwide, expanding existing public housing programs and creating a so-called PAC-3 program of public works.

Government sets 2015 minimum salary, will seek renewal of current policy. Brazil's government last week ordered an 8.8% hike in the minimum salary to R\$788 per month. The hike follows the criteria set

down in a 2007 law, mandating an annual increase in the minimum salary equal to previous-year inflation plus economic growth from the year previous to that. The policy has been widely criticized by economists, who say it is leading to inflated salaries and steep increases in government benefit costs. Most government benefits are tied directly to the minimum salary. Each increase of one Real in the minimum salary brings an estimated increase of R\$375 million to government benefit costs. After some preliminary hedging, the administration of President Dilma Rousseff last week signaled its intention of keeping the current policy in place through 2019. The administration will seek congressional approval for the move during the 2015 session.

Business News

Investment News:

Brazilian investment fund **Patria** and U.S. fund **Blackstone** have teamed up to purchase four large office buildings in Rio de Janeiro, three downtown and one in Barra da Tijuca. The partners paid R\$700 million for the properties, previously owned by the Opportunity real estate fund.

Company News:

Brazilian educational development company **Anima** announced the purchase of two Brazilian universities from U.S. owner **Whitney** for R\$1.14 billion. The two universities are Veiga de Almeida in Rio de Janeiro and Jorge Amado in Bahia. They specialize in Internet-based educational services.

Brazilian Calendar

Wednesday, January 7, National Motor Vehicle Manufacturers Association release of 2014 data on production, sales and exports. Hotel Mercuré, São Paulo

Thursday, January 8, Brazilian Census Bureau (IBGE) release of monthly industrial production figures, Rio de Janeiro

Friday, January 9, Brazilian Census Bureau (IBGE) release of monthly and annual IPCA inflation figures, Rio de Janeiro

Indicators

Foreign exchange rate: **R\$2.69 = \$1.00**

Brazil's overall **tax burden** rose in 2013 to the equivalent of 35.95% of GDP in 2013 from 35.86% the previous year, according to the Brazilian Tax Authority. The rise in the tax burden came despite temporary reductions in taxes over many consumer goods. By contrast, the U.S. tax burden in 2013 was the equivalent of only 24.3% of GDP.

Brazil posted another large **primary budget deficit** in November, this time to the tune of R\$8.1 billion. The November figure brought the year-to-date deficit to R\$19.6 billion, scrapping any hope for a calendar-year surplus. The government began the year pledging a surplus equal to 1.9% of GDP. Congress recently released the government from any penalties associated with non-compliance. The year 2014 will likely see the first primary deficit since the current system was adopted in 1996.

