



BRAZIL BULLETIN INTERVIEW: Five Views on President Dilma Rousseff's first month in office—"We may be in for a positive surprise. The managerial model may work."— Five consultants tapped by *Brazil Bulletin* brought five different views of newly installed President Dilma Rousseff's performance during her first month in office, but they all had one thing in common—the idea that Rousseff will bring a business-like managerial style to the Planalto Palace. That would mark a sharp contrast with the charismatic style of former President Luiz Inacio Lula da Silva. Excerpts follow:

- Gaudencio Torquato, founder GTMarketing: "How has she performed? Better than expected. She's discreet, economical with words, demanding when it comes to her subordinates. When it comes to economic policy and public administration, she's looking to control spending, rationalize government agencies and establish priorities for infrastructure projects. It's a good start."
- James Mohr-Bell, São Paulo business consultant: "We may be in for a positive surprise. The managerial model may work. That's what Brazil needs now—roads, airports, bridges. Maybe it's a strategy. Nobody could be as charismatic as Lula, so why try? At her first Cabinet meeting, she came across as the one in charge. There are, to be sure, some negative signs. There is talk of raising taxes on mining and of reviving the CPMF (financial transactions tax). That's bad news."
- Jim Wygand, São Paulo risk analyst: "There's an old saying in the management world—leaders do the right things; managers do things right. Dilma is a manager and has instituted a managerial system. The question is whether that will work better than Lula, whose strong suit was leadership."
- Paulo Faria-Tavares, Managing-Director PTX Lending: "There is a lot to be done over the next ten years to keep the economy moving—roads, airports, ports, energy. If Dilma shows her managerial skills, she can get these things built. I'm very optimistic about Dilma. At her first Cabinet meeting, she started out being firm on ethics. That's a good sign."
- Celso Roma, Researcher at the Brazilian Center for Contemporary Studies: "It is highly likely that, as president, Dilma will adopt a managerial style as a strategy to differentiate herself from the charismatic figure of Lula. A managerial style, in any case, is highly appropriate since the times demand action against the current fiscal imbalance. Last year, in order to avoid spending cuts, the Lula Administration resorted to fiscal sleight of hand. It was a political, rather than an administrative, solution. This year, in order to meet the primary surplus goal of 3.1% of GDP, the government will have to cut spending, something on the order of R\$40 billion to R\$60 billion. Unlike Lula, Dilma may prefer a technical rather than a political solution to the problem. We'll see. Dilma will unfurl her true colors on the day she announces her 2011 fiscal plan."

Brazil posts disappointing 2010 primary budget surplus equal to 2.78% of GDP. Brazil's public sector reached a primary budget surplus in 2010 equal to only 2.78% of gross domestic product, thus failing to meet the government-set target of 3.1%. The actual surplus was R\$101.7 billion, buoyed by a December increment of R\$10.9 billion. The performance was better than 2009, when the government produced a surplus of only 2.06% of GDP. But analysts were quick to point out that 2009 was a recession year while, in 2010, Brazil's economy expanded by an estimated 7.5%. Federal officials were quick to blame lagging state and

municipal government surpluses in 2010, saying local officials failed to produce surpluses because of overspending related to general elections in October. Primary figures do not include debt service costs. With such costs included, Brazil ran a nominal public sector deficit in 2010 of R\$93.7 billion, or 2.56% of GDP. The 2009 nominal deficit was 3.34% of GDP.

President Rousseff delivers State-of-the-Union style address to Congress. President Dilma Rousseff broke with tradition last week by personally delivering her annual message to Congress in the form of a State-of-the-Union style speech. Previous presidents sent their annual messages to Congress by courier, with the statement read to a joint session by a clerk. In her speech, Rousseff called for “renewed cooperation among the three branches of government...so we can complete the work of making Brazil a just and a prosperous country.” She reiterated her administration’s commitment to fiscal responsibility and inflation-targeting. “We will not allow the return of chronic inflation,” she told members of Congress. She said her spending priorities will be health, education, infrastructure development and an increasingly intense “war on drug abuse and crime.” She also pledged to push long-awaited tax, voting and political party reforms.

President Rousseff makes first overseas visit, meeting counterpart in Argentina. Brazilian President Dilma Rousseff and Argentine counterpart Cristina Fernandez Kirchner met in Buenos Aires last week on President Rousseff’s first official overseas visit, signing a number of agreements. These included accords on sharing of nuclear power technology, expansion of broadband Internet access in the South American continent and joint development of bio-fuels. The two presidents also agreed on a study group to establish regional standards for pharmaceutical products in an accord billed as an attempt to boost local production of medications. The two presidents endorsed a proposal to build a bridge across the Pepiri-Guazu River connecting San Pedro, Argentina with Paraiso, Brazil.

BTG Pactual buys controlling stake in Banco PanAmericano from Silvio Santos. Entertainer and conglomerate owner Silvio Santos last week agreed to sell his controlling stake in Banco PanAmericano to local investment bank BTG Pactual for R\$450 million. BTG Pactual will hold 51% of voting shares in the bank, with the government-run Caixa Economica Federal holding the other 49%. PanAmerican fell on hard times last November when government regulators revealed the existence of a R\$2.5 billion accounting gap in the bank’s balance sheets. The bank’s owners made up the difference with a loan from the Credit Guarantee Fund, a public-private group that insures banks against unusual shortfalls. More recently, regulators said additional shortfalls of R\$1.5 billion had appeared on the books.

Investment News: Upstart telecommunications player **GVT Holding** last week announced investments of R\$1.73 billion for 2011, including R\$400 million to structure the company’s new operations in the Rio de Janeiro market. The investment level is 23% higher than in 2010.

Company News: The planned merger of Brazil’s number one air carrier, **TAM**, with Chilean flagship carrier **LAN** suffered a setback last week when a Chilean anti-trust court opened an eight-month investigation into the deal. The court agreed to the probe based on a petition from a Chilean consumers group. Spokesmen for the two airlines said they believe the court will eventually allow the merger but completion of the deal may take until next year. The merger will create a new company called Latam Airlines Group, the largest air carrier in Latin America.

Indicator: Brazilian **supermarket sales** grew 4.2% in 2010, below industry forecasts of 4.4% to 4.5% growth, the Brazilian Supermarket Association (Abras) said last week. Total sales suffered during the last quarter of the year as high food prices scared away customers. The association said it is looking for 4.0% growth this year. *** Brazil's **foreign trade surplus** narrowed significantly in January to only \$424 million as manufactured exports dropped off. Brazil scored a December surplus of \$5.37 billion on an unexpected surge in manufactured exports. January's performance was better than that of last year, however, when Brazil suffered a monthly trade deficit of \$179 million. *** Brazil set a record for **crude oil output** in December as Petrobras ramped up production at offshore platforms, the National Petroleum Authority (ANP) said last week. Monthly production was 2.18 million barrels of oil, up 9.1% from December of 2009. Production was up 4.4% from November. *** Brazil notched up its biggest expansion in **industrial output** since 1986 last year at 10.5%, the Brazilian Census Bureau (IBGE) reported last week. But December's 0.7% decline was a disappointment, with economists saying increased competition from imports could hurt Brazilian manufacturers in 2011. The 2010 highlight was a 20.8% rise in capital goods production.

Other News: The **Brazilian Congress** last week began its 2011 session by electing new officers. In both houses, candidates backed by the government coalition of President Dilma Rousseff won by large margins. In the Senate, former Brazilian President Jose Sarney of the Brazilian Democratic Movement (PMDB) was chosen for the fourth time as presiding officer. In the Chamber of Deputies, Workers' Party (PT) Congressman Marco Maia was elected Speaker. *** **U.S. Treasury Secretary Tim Geithner** will visit Brazil on Monday for a single day of meetings with officials in Brasília and business leaders in São Paulo. A U.S. Treasury spokesman said, "The secretary will consult on shared bilateral and G-20 objectives, including ongoing efforts to promote balanced global growth and to reform the governance of the international financial institutions."

Brazilian Calendar for Week of February 7:

- **Monday, February 7** - National Motor Vehicle Manufacturers Association (Anfavea) release of monthly sales, production and export data, Sofitel Hotel, São Paulo
- **Monday, February 7** - U.S. Treasury Secretary Tim Geithner visit to Brasília, São Paulo
- **Tuesday, February 8** - Brazilian Census Bureau (IBGE) release of IPCA inflation data, Rio de Janeiro
- **Thursday, February 10** - National Confederation of Industry (CNI) release of monthly industrial sales, capacity data, Brasília
- **Saturday, February 12** - Latin America/Arab Summit, Lima, Peru, President Dilma Rousseff representing Brazil

R\$1.68 = \$1.00

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