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BRAZIL BULLETIN INTERVIEW: Michel Temer, Vice President of Brazil: "I think political reform is more important than tax reform." The climate exists in Brazil's Congress to pass a limited but effective political reform bill this year, according to Brazilian Vice President Michel Temer. The Vice President offered his views on political reform in a recent discussion with business leaders and reporters at the São Paulo Federation of Industries (Fiesp). Temer was elected vice president in 2010 after long service in the Chamber of Deputies. He is a past Chamber of Deputies Speaker and President of the Brazilian Democratic Movement (PMDB), Brazil's largest political party. Excerpts follow:

- On proposals for electoral reform: "I personally favor a limited reform under which members of the Chamber of Deputies would be elected by majority vote within a multi-member district. Each state would be its own multi-member district. São Paulo, for example, has 70 seats. The 70 individual candidates with the most votes would be elected. This would replace the current system based on a party coefficient under which all the votes for a given party are added up and then that party gets a certain percentage of seats."
- On alternative proposals: "The proposal favored by the Workers' Party (PT) is based on the party list system. People vote for the party, not the candidate. The party decides which of its candidates to place at the top of the list (with the greatest chance of being elected). This proposal has been brought before Congress before and it has not prospered. I don't think there is a climate for approval of this proposal in Congress. However, I do believe there is a climate for approval of a more limited reform. If Congress took up this debate now, I think we could pass a reform bill by October."
- On proposals for political party reform: "There should also be a provision for greater party loyalty. If a person is elected to Congress by a particular political party, he should not be allowed to leave that party. There is some discussion about this issue and an alternative proposal might allow for shifts in party membership during a six-month window at the end of each Congress."
- On the broader reform agenda: "I think political reform is more important than tax reform. We should start with political reform, and then move on to tax reform. Tax reform is much more complex and involves many more interests."

Brazil edges closer to 2011 fiscal goals with February primary budget surplus. Brazil scored a gain with its February primary budget surplus, edging closer to the 2011 goal. The monthly surplus was a healthy R$7.9 billion, bringing the 12-month figure up to R$108.1 billion, equal to 2.89% of gross domestic product, the Central Bank said last week. The surplus as of January had been only 2.79% of GDP. The goal for 2011 is a surplus of R$117.9 billion. Some R$50.7 billion in budget cuts, announced in February, should help Brazil meet and possibly surpass the target, according to officials. Primary figures, however, do not include debt service payments. With such payments factored in, Brazil ran a February deficit of R$11.2 billion for a 12-month deficit of R$97.3 billion. The national debt, on the other hand, remained virtually stable at R$1.49 trillion, or 39.9% of GDP.

Finance Minister Mantega orders another round of IOF tax hikes. Shopping in New York and Miami just became more expensive for Brazilians. The government last week raised the

IOF financial transactions tax on overseas credit card purchases to 6.38% from 2.38%. The objective is to reduce pressure on consumption of imports. In the first two months of 2011, Brazilians spent $2.03 billion on overseas credit card purchases, up from $1.51 billion for the same period of 2010. The government also hiked and broadened the IOF tax on foreign loans and overseas bond issues. Under the new rules, all bond issues and loans for 360 days or less will pay a flat 6.0% IOF tax. Previously, the tax was 5.38% on loans and bonds of 90 days or less. Mantega said the frank purpose of the new taxes on loans and bond issues was to reduce short-term dollar inflows and arrest the appreciation of the Brazilian Real against the U.S. dollar. The Real has gained 45% against the dollar over the last two years, hurting exporters and manufacturers.

Brazil to invest R$8.5 billion in transmission lines and sub-stations through 2015. Brazilian private and state-run utilities will invest an estimated R$8.5 billion in electric power transmission lines through 2015, according to a report last week by the National Energy Research Corp. (EPE). The utilities are expected to build a total of some 5,450 kilometers of transmission lines during the period. About half the total will go to beefing up transmission lines to and from the Amazon region, where huge hydroelectric projects are currently under construction. About one-fourth of the total will go to transmission line development in the Northeast, Brazil's fastest growing region, the report said. Investments will include the transmission lines themselves as well as a system of sub-stations designed to avoid blackouts.

Getulio Vargas Foundation's ICC Consumer Confidence Index declines. The Getulio Vargas Foundation's Consumer Confidence Index (ICC) took a dive in March, dropping to 120.1 points from 122.6 in February. It was the biggest dip since November of 2008, when Brazil was in the grip of the global credit crisis. Foundation economists said the decline in consumer confidence was based on expectations of higher inflation and continued interest rate hikes. Fully 69% of respondents said they expect interest rates to rise in the next six months. Only 29% of respondents said they expect the economy to improve during the same period. The index, however, is still in positive territory. It is based on a scale of 1 to 200, with 100 considered "neutral."

Investment News: Swiss food giant **Nestle** will invest $120 million in its Brazilian operations this year, company executives said. Centerpiece of the investment plan will be a new plant for milk-based products in Rio de Janeiro.

Company News: China's **Lifan Industry Group** and **Effa Group** last week announced plans to build and operate their first automotive research and development center outside China. The joint venture by the two companies will involve investments of some $70 million at a site in São Paulo state, near Campinas. The research center will study alternative energy motors, the companies said. *** Brazil's largest private company, **Vale**, last week announced that long-time CEO Roger Agnelli will step down at the end of April. Agnelli himself had no comment on the matter, lending credence to the view that he was pushed out of the post by pressure from government-controlled pension funds that own large blocks of Vale shares. Agnelli has butted heads with government officials in recent years over Vale's investment priorities. The Vale CEO has preferred overseas acquisitions to domestic projects. A new Vale president is likely to be named in the coming week.

Indicators: Brazilian **electric power use** rose 4% in February against the same month a year ago, mainly on rising residential consumption, the government's Energy Research Corp. (EPE) said last week. Energy consumption reached 35,357 gigawatt-hours. Residential use was up

5.5% while industrial use rose only 1.8%. *** Brazilian **lending volume** continued its long running expansion in February, rising 1.3% from the previous month and 21% from February a year ago, the Central Bank said last week. Total lending volume reached R$1.74 trillion, or 46.5% of gross domestic product. Interest rates, however, rose to an average of 38.1% from 37.4% in January. The overall default rate increased to 4.7% from 4.6% of loans the previous month. *** **Industrial production** took an unexpected leap in February, rising 1.9% from the previous month and 6.9% from February of 2010, the Brazilian Census Bureau (IBGE) said last week. Food processing rose 6.7% from January and motor vehicle production was up 4.7%. The figures, however, gave rise to renewed worries about inflation, now running at over 6.0%. *** Brazil posted a robust March **foreign trade surplus** of $1.55 billion, up from $1.2 billion in February and $673 million in March of 2010. The country's first-quarter surplus was hefty at $3.17 billion, up from only $882 million in the first quarter of 2010. Export revenues have been strong in recent months because of high international commodities prices.

Other News: Former Brazilian Vice President **Jose Alencar** died last week at 79 following years of battling intestinal cancer. President Dilma Rousseff and former President Luiz Inácio Lula da Silva cut short a visit to Portugal to attend Alencar's funeral. Alencar served as vice president for eight years under Lula. He brought a pro-business, pro-investment eye to government following decades as owner and president of Coteminas, Brazil's biggest textile manufacturer. *** The National Monetary Council (CMN) last week voted to keep the **Long-Term Interest Rate** (TJLP) steady at 6.0% for the second quarter of 2011. The rate has been stable since the third quarter of 2009. It is used for business loans made by the National Development Bank (BNDES). *** In its first sounding since President Dilma Rousseff took office in January, the **Public Opinion Research Institute** (Ibope) showed a stunning level of popular support for the president. Fully 73% of respondents said they approved of Rousseff's performance as chief executive. That level was higher than for President Lula at a similar stage in his administration. Some 56% of respondents called the president's Workers' Party (PT) administration "good" or "excellent."

Brazilian Calendar for Week of April 4:

- **Tuesday, April 5 -** Capital Markets Association (Anbima) Annual Seminar, Hotel Unique, São Paulo
- **Wednesday, April 6** - National Development Bank (BNDES) seminar on Demographics and Economic Growth in Brazil, BNDES headquarters, Rio de Janeiro
- **Thursday, April 7** - Brazilian Census Bureau (IBGE) release of IPCA inflation data, Rio de Janeiro
- **Thursday, April 7 -** National Motor Vehicle Manufacturers Association (Anfavea) release of monthly production, sales and export figures. Buffer Colonial, São Paulo

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R$1.62 = $1.00