Brazil-U.S. Business Council
Brazil Bulletin

Interview: José de Freitas Mascarenhas, Infrastructure Committee Chairman of the National Confederation of Industries (CNI)

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Brazil rates poorly in infrastructure, in comparison with the other BRICS countries (Russia, India, China and South Africa), because of low government investment capacity and a lack of incentives for private development, according to José de Freitas Mascarenhas. The problem affects almost the entire range of infrastructure, including highways, ports, rails and electric power utilities. Mascarenhas detailed Brazil's infrastructure issues at a recent meeting of investors and reporters sponsored by the National Confederation of Industries (CNI). He is chairman of the CNI's infrastructure committee. Excerpts follow:

- **On Brazil as a BRICS country:** "Among the BRICS countries, Brazil is last or next to last in virtually every infrastructure category. We managed to edge out Russia on highways. Our infrastructure deficit is about R$600 billion. Brazil is only investing 2.1% of GDP per year on infrastructure, while India is 5.6% and China 7.3%. We need to at least double our investment rate."

- **On investment bottlenecks:** "Brazil has everything it needs to build up its infrastructure. We have good planners, engineers and managers. We have abundant raw materials. We have means of finance. We have the equipment and technology we need. The only obstacles are man-made ones. We need to improve planning, modernize procedures and reduce regulation."

- **On investment strategies:** "We can improve by streamlining government regulation and increasing private sector investment. Currently, virtually all government-run projects are delayed; that goes for ports, rails, roads and everything else. We need more private sector involvement via PPPs (public-private partnerships). We need to revise the regulatory model for electric power utilities so they can charge viable rates and keep up with investment needs."

- **On investment and politics:** "Because of political pressure, government often starts work on a project prematurely. There isn't much planning, so the project runs into trouble. Indians protest. The courts rule on environmental petitions. The geology wasn't mapped out carefully. The result is cost overruns and delays. This can run into billions in losses. We *know* what to do; we just don't do it!"

- **On bidding rules for concessions:** "In Brazil, the government likes to establish a profit margin as part of the concession contract. Bidders don't want that. It feels like interference. It feels like the government doesn't trust anybody. Bidders want to bid. Their profit margin is built into their bids."

- **On ports and privatization:** "The government has allowed some development of private terminals. These tend to be very efficient. But the old port authorities are still way behind when it comes to efficiency. There is no excuse for this. We need a greater degree of privatization. More than 94% of our exports go out through ports. We can't afford inefficiencies in this area."

Top News of the Week

Government presents 2016 budget framework, foresees 2.0% primary surplus. Planning Minister Nelson Barbosa last week presented the government's 2016 budget framework to Congress. A detailed budget will be presented in August. The budget framework calls for a 2016 primary surplus equal to 2.0% of gross domestic product, some R$127 billion. This year's budget calls for a surplus of R$66 billion, or 1.2% of GDP. The framework includes projections for economic growth of 1.3% in 2016 and inflation of 5.6%. By contrast, this year's budget is based on a 0.9% decline in economic activity and inflation of 8.2%. Efforts to cut government spending will be aided in 2016 by proposed reductions in welfare benefits, according to Barbosa. Revenues should rise, in real terms, following gradual reduction this year of tax breaks for consumes and businesses. The budget includes a rise in the minimum monthly salary from the current R$788 to R$854.

Negotiations over key fiscal and labor bills inch forward in Congress. A bill opening the door to broader use of outsourcing by Brazilian companies inched forward in Congress last week, with proponents accepting a compromise on a key element of the proposal. Proponents allowed inclusion of an amendment excluding state-run companies from the broader definition of outsourcing. The amendment was added following passage by the Chamber of Deputies of the main body of the bill last week. A score of minor amendments will be considered next week, congressional leaders said. The bill will then go on to the Senate. Meanwhile, the Rousseff administration agreed to its own compromise on proposed legislation that would reduce certain welfare, retirement and unemployment benefits. The administration agreed to widen the scope for receiving unemployment benefits in a rules change that would reduce expected savings from the government package to about R$17 billion per year from the original R$19 billion.

Impeachment talk resurfaces after Federal Auditing Court questions budget. Brazil's Federal Auditing Court last week called into question the government's handling of benefit payments under the federal budget during the first administration of President Dilma Rousseff (2011-2014). The administration has admitted that it delays lump sum payments to government-run banks at times, forcing the banks to meet individual benefit and entitlement payments for customers from their own funds for short periods. The court said such payment delays may have violated the 2000 Fiscal Responsibility Act, which prohibits state-run banks from financing government operations. The court gave government officials 30 days to present a defense. Opposition political parties said an eventual court ruling against the government could serve as the basis for an impeachment motion in Congress against Rousseff. The administration reacted swiftly, with Solicitor-General Luis Inácio Adams saying the government will present a vehement defense of the practice. He said payment delays to state-run banks have been common for more than 15 years.

Police arrest National Treasurer of ruling PT as bribery scandal spreads. An investigation of alleged bribery, conspiracy and money laundering came closer than ever to the heart of Brazil's government last week with the arrest of PT (Partido dos Trabalhadores) National Treasurer João Vaccari. Police and prosecutors said Vaccari helped funnel millions from private contractors and state-run oil company Petrobras into PT coffers from 2003 to 2014. According to prosecutors, the funds were obtained through various accounting scams and turned over to the PT as unregistered campaign contributions. The money may have helped Brazilian President Dilma Rousseff, as the PT's nominee, win election in 2010 and re-election in 2014, prosecutors said. Prosecutors added that some of the funds may have been taken personally by Vaccari and family members. Vaccari has denied all charges.

Levy pushes macro-economic and micro-economic reforms at IMF, World Bank. Finance Minister Joaquim Levy last week assured investors that Brazil was pursuing both macro-economic and micro-economic reforms in an effort to kick-start the nation's sluggish economy and promote long-term productivity gains and sustainable growth. Levy pushed the reform agenda during the annual meeting of World Bank and International Monetary Fund finance ministers and central bank presidents. His comments came in the face of some stiff criticism from IMF officials, who warned that Brazil was in for another year of zero growth in 2015. IMF economists also argued that, even with proposed reforms, Brazil was unlikely to top average 2.5% economic growth in the next five years.

Business News

Investment News:

State-run energy giant **Petrobras** will likely sell its stake in Brazilian petrochemicals company Braskem this year, company officials said last week. Petrobras holds a 36% stake and shares control over Braskem with Brazilian construction contractor Odebrecht. The Petrobras stake in Braskem is estimated to be worth about R$3.6 billion. Sale of the stake will help Petrobras manage its huge domestic and overseas debt load and is part of a broad program to sell assets.

Standard and Poor's last week downgraded the outlook for Vale's credit rating to 'negative' from 'stable.' **Vale** is one of Brazil's largest corporations and is the world's biggest iron ore producer and exporter. The company currently holds a triple-B-plus rating, which is well within investment grade range. S&P said it was downgrading the outlook because of a sharp decline in global iron ore prices.

Company News:

Brazil's government-run **CEF** (Caixa Económica Federal) began studies last week to re-organize and sell-off its insurance businesses. The announcement of studies aimed at an eventual sale of insurance properties was made jointly by the CEF and by the Brazilian Finance Ministry. The sale most likely will be effected by means of an initial public offering of shares. Officials have not put any financial values on the properties as yet. The Finance Ministry said sale of the properties will help Brazil to meet government budget surplus goals. The bank said spin off of the insurance businesses will help the CEF concentrate on its core responsibility, which is mortgages. A similar sell-off by government-run Banco do Brasil in 2013 yielded R$11.5 billion.

Brazilian Calendar

Tuesday, April 21, Tiradentes national holiday

Wednesday, April 22, Central Bank release of monthly current account data, Brasília

Friday, April 24, Central Bank release of monthly banking data, Brasília

Indicators

Foreign exchange rate: **R$3.04 = $1.00**

Brazilian **retail sales** took their biggest year-on-year plunge since 2003 in February, falling 3.1% against the same month in 2014, the Brazilian Census Bureau (IBGE) said last week. The biggest drop came in the area of home appliances and other big-ticket items, which have suffered because of rising interest rates. Inflation has been another headache for consumers, along with increased worries over job security.