



**Brazil - U.S.
Business Council**

Brazil Bulletin

Interview: Eduardo Campos, Governor of Pernambuco and National Chairman of the Brazilian Socialist Party (PSB)

--“The president sometimes appears to be hiding from the truth and avoiding discussion of the issues.”—

In a recent meeting with business executives and reporters at the São Paulo Commercial Association, Socialist Party presidential candidate Eduardo Campos was long on rhetoric but short on specifics. He issued a vehement call for political change in Brasília but, as in the party's recent 2014 platform statement, he was vague on issues such as tax and labor reform and environmental protection. He did make news in one way, however. He challenged incumbent President Dilma Rousseff to a series of television debates, saying voters will not allow office holders to escape responsibility for their policies. The president has not yet responded to the call for debates. Excerpts from Governor Campos's comments follow:

- **On the ‘mess’ in Brasília:** “The current set of political arrangements in Brasília has reached a point of exhaustion. Brazil can't wait any longer for a change in policies and personnel. I could have waited until 2018 but I don't think the country can wait that long.”
- **On economic policies and investors:** “From the viewpoint of investors, the present administration has created the impression that it lacks long-term vision. Where are we going? How are we going to get there? These are unanswered questions.”
- **On the need for television debates:** “The president sometimes appears to be hiding from the truth and avoiding discussion of the issues. The solution is to initiate a series of debates right now in 2014.”
- **On prospects for TV debates:** “A lot of people want to hijack this election and turn it into a simple case of for-us-or-against-us. We don't want to do that. All of us have the greatest respect for the president but we don't want to let her escape without full debate and discussion of the issues. What we have heard from representatives of the media is alarming. They have told us they have the clear impression the president will refuse to take part in television debates. The president can't run away from the issues. The voters won't allow it.”
- **On President Rousseff's style:** “The president presents herself as a manager. But do we really want that? Managers are not known as people with a long-term vision of things.”
- **On President Rousseff's policies:** “The world began to reorganize itself in 2011. Different blocs of countries adapted themselves to the new reality in different ways, some with more difficulty than others. Brazil ended up missing the boat when it came to this process. We made the wrong decisions on a lot of matters. In other cases, the content may have been right but the approach was wrong and the government ended up scaring away investors.”

- **On the mood among voters:** “What we’re seeing today in Brazil is more a crisis of confidence than an economic crisis. What has happened is that the politicians in Brasília have lost touch with ordinary people and their concerns. The people themselves have, on several occasions, taken to the streets to tear down that wall.”

Top News of the Week

Brazil posts first monthly trade surplus of the year in March. Brazil posted its first monthly trade surplus of the year in March, but the amount, a very modest \$112 million, represented the worst trade performance for any month of March since 2001, according to the Trade and Development Ministry last week. Both exports and imports were lower than in March of 2013, reflecting Brazil’s sluggish economy and stagnant international commodities prices. Big trade deficits in January and February meant that the year-to-date deficit through March was a towering \$6.07 billion.

Government raises taxes on beer, energy drinks, other hikes to follow. Brazil’s government last week slapped a tax hike on beer and energy drinks in the first round of a plan to compensate for increased electric power subsidies. Officials said the increases in IPI industrial products taxes and welfare levies will lead to an average 0.4% rise in retail prices for beer and energy beverages. The new taxes will raise an estimated R\$200 million per year. But that’s only a small fraction of what will be needed to counterbalance some R\$4 billion in subsidies to electric power distributors. The subsidies are seen as necessary to guarantee energy supplies this year in the face of a drought that has diminished the country’s hydroelectric capacity. Tax hikes on other products are seen as likely in the coming weeks.

Central Bank hikes base rate to 11.0%, hints may end tightening cycle. The Central Bank’s directors voted unanimously last week to hike the bank’s base interest rate by 25 basis points to 11.0%. It was the ninth consecutive rate hike in a cycle that began early in 2012 when the base rate stood at only 7.25%. The Central Bank has been raising rates in a race to hold back inflation, which is currently running at nearly 6.0%. The government’s target for inflation this year is 4.5%, with a 6.5% “tolerance” ceiling under the country’s inflation-targeting program. In a brief statement, the Central Bank hinted that it may have brought the tightening cycle to an end. The statement said future hikes will depend on “monitoring of economic variables.” Previous statements called rate hikes part of “an ongoing cycle.”

March brings sharp decline to motor vehicle output, sales. March brought a sharp decline in motor vehicle production and sales as tax breaks lapsed and consumers felt the pinch of higher interest rates. According to figures last week from the National Motor Vehicle Manufacturers Association (Anfavea), March output of 271,200 was down 3.6% from February and a stunning 17.6% from March of 2013. March sales of 240,800 represented a decline of 7.1% from February and 15.2% from March last year. Dealers were able to sustain sales in January and February by selling off 2013 models, which enjoyed the benefit of IPI tax breaks that lapsed at the end of that year. But March sales were mainly new models, suffering much higher prices. Meanwhile, consumers are being put off by higher interest rates. Brazil’s base rate is currently 11.0%, up from 7.25% when the current monetary tightening cycle began. More than half of motor vehicle sales are financed. First quarter production and sales were also down against year-ago levels. Production, at 790,000, was off 8.4% while sales, at 810,000, were down 2.1%, Anfavea said.

President Rousseff shows erosion of support in latest Datafolha poll. A weekend poll released by the Datafolha organization showed support for President Dilma Rousseff’s re-election bid eroding but without opposition candidates taking advantage of the shift. The poll showed 38% of respondents saying they would vote for Rousseff in October, down from 44% in a similar poll in February. Opposition Social Democrat Aécio Neves polled the same 16% as in February while Socialist candidate Eduardo Campos

rose by just one percentage point to 10%. Poll-takers said the decline in support for Rousseff reflects increasing worries about the economy. Inflation is running at nearly 6% while a sluggish economy has led to job security fears. Interest rates stand at a towering 11% or more. Voters are also increasingly critical of poor public services and heavy government spending on projects considered unnecessary. Opposition candidates, however, have failed to galvanize public worries into a viable campaign for change.

Business News

Investment News:

U.S.-based **Cargill** and Brazil's **Copersucar** have announced creation of an international joint venture for the marketing of sugar. Regulatory authorities are expected to approve the joint venture some time during the second half of this year. The new company has yet to be named. According to industry experts, the new firm will be the world's largest sugar trading company. Other Cargill and Copersucar operations and assets will not be included in the joint venture.

Company News:

State-run energy giant **Petrobras** last week released results of an internal investigation of alleged bribery in the case of Dutch supplier SBM Offshore. Petrobras said its investigation indicated that no Petrobras employees were guilty of accepting bribes from the Dutch company, which supplies offshore oil drilling platforms and equipment. Political critics of the company reacted to the news with skepticism, saying a congressional probe into the allegations will continue.

Brazilian Calendar

Wednesday, April 9, Brazilian Census Bureau (IBGE) release of monthly IPCA inflation data, Rio de Janeiro

Indicators

Foreign exchange rate: **R\$2.24 = \$1.00**

Consumer confidence, as measured by the Getúlio Vargas Foundation's **ICC** index, was broadly stable in March at 107.2 points. The ICC was 107.1 in February. According to foundation economists, the current level portrays a comparatively conservative buying public. Consumers are likely to spend money on some big-ticket items, such as television sets, ahead of this year's soccer World Cup, but they are inclined to put off other purchases because of rising interest rates and persistently high levels of indebtedness.

Consumption of **electric power** jumped 8.6% in February against the same month a year earlier, led by residential and commercial users, according to the National Energy Research Corp. (EPE). Use of air conditioners sky rocketed during the month because of an unusually hot summer. Industrial demand continued to lag, rising only 1.4%, as Brazilian manufacturing remained in the doldrums.

Industrial production staged a modest recovery in February, according to figures last week from the Brazilian Census Bureau (IBGE). Output was up 0.4% against January and 5.0% against February of 2013. Production gains were led by motor vehicles and capital goods.

Domestic **oil output** continued to expand in February, reaching 2.09 million barrels per day, according to the National Petroleum Authority (ANP). Production was aided chiefly

by the opening of new wells in the deep offshore region known as the pre-salt basin. Output there was up 3.2% from January. Overall domestic output in February was up 1.8% against the previous month.

