Brazil-U.S. Business Council

Brazil Bulletin

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

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Public approval for President Dilma Rousseff and her ruling PT (Partido dos Trabalhadores) has plunged. As recently as December, the President enjoyed an approval rating of 52% while 40% of voting-age Brazilians said they approved of the PT's administration of the government, according to the Public Opinion Research Institute (Ibope). The most recent Ibope poll, in April, shows approval for the President at only 19%, with the PT weighing in at a dismal 12%. The Ibope polls were conducted for the National Confederation of Industries (CNI). The CNI's chief researcher, economist Renato da Fonseca, recently met reporters to analyse the most recent poll. Excerpts follow:

- **What the latest poll shows:** "What's most notable is that a large number of people who said they voted for the President in 2014 are now saying they have changed their minds. The decline in approval is even evident among low-income voters, a traditional bastion of support for the ruling PT. The negative view of the President and the PT is becoming more homogeneous throughout the population. Another trend is the abandonment of the PT by young voters. The President is losing support in all regions of the country, including the Northeast, where she ran strongest in 2010 and 2014."

- **What the poll means:** "Voters are frankly disappointed. They are worried about both the economic crisis and the government's austerity program to combat it. When asked about their most pressing concerns, voters are now citing economic problems more than social issues. They are still worried about public safety, health and education but they are even more worried about inflation, job security and interest rates. Nor do voters see much of a prospect for improvement on the economic front. This kind of response is to be expected, given current economic conditions."

- **On effects of the Petrobras scandal:** "Corruption is also gaining ground as a concern in the minds of most voters."

- **On the President's political prospects:** "Approval has sunk so low that it's hard to imagine the President and the PT suffering further losses. There is also the possibility that the March demonstrations against the government influenced the poll somewhat. This happened in 2013. The President's approval sank after the June demonstrations but then recovered some of the lost ground later in the year. This could happen again."

Top News of the Week

Government announces sweeping spending freeze, struggles to pass tax measures. The administration of President Dilma Rousseff last week announced a R$69.9 billion freeze on 2015 federal spending, the deepest reduction in 13 years. The biggest cut came in the area of infrastructure investments, some R$25.7 billion. Other areas suffering steep reductions included signature public housing and health programs. The announcement came following weeks of internal government negotiations, with Finance Minister Joaquim Levy calling for even deeper cost cutting. Levy failed to appear at the official announcement, fueling speculation of a rift among policy-makers. The government also altered its official forecasts for 2015 economic performance, saying GDP will likely fall by 1.2%, causing a R$65 billion gap in expected tax revenues. In a parallel announcement, the government issued an executive order hiking the CSLL welfare tax over net banking profits to 20% from the previous 15%. The measure should raise annual revenues of at least R$3 billion. However, the order will have to be approved by Congress to remain permanent. Meanwhile, Congress last week proved increasingly resistant to the administration's fiscal austerity measures. Senate leaders postponed consideration of a pair of retirement and unemployment measures, already passed by the Chamber of Deputies, until the end of May. The measures would cut certain retirement and unemployment benefits by a total of about R$14.5 billion per year.

Brazil, China sign massive financing deals during Li Keqiang visit. A working visit to Brasília last week by Chinese Prime Minister Li Keqiang came just in time for a Brazilian government badly in need of new sources of finance. The Chinese head of government and Brazilian President Dilma Rousseff signed a total of 35 separate accords, covering areas ranging from banking and project finance to commodities and aircraft. According to Brazilian government estimates, the agreements could bring an eventual total of more than $100 billion in new investments and business transactions. Heading the list was an agreement between Brazilian government investment bank CEF and the Industrial and Commercial Bank of China. The two will create a joint $50 billion fund for investments in Brazilian and South American infrastructure projects, including an ambitious rail link between Brazil and the Pacific, via Peru. The two government also pledged to create a separate $20 billion fund to finance business development in areas including steel, building materials and capital goods. Troubled Brazilian state oil company Petrobras won badly needed financing agreements from three different Chinese agencies totaling some $10 billion while Brazilian mining giant Vale snagged funding deals worth $4 billion. In other transactions, Brazilian aircraft manufacturer Embraer signed a 22-plane sales agreement with China's Tianjin Airlines. China's Bank of Communications purchased an 80% stake in Brazilian bank BBM for about $175 million. In an important gain for Brazilian diplomacy, China signed a final agreement allowing limited Brazilian beef exports to the Asian country.

Opposition drops impeachment idea, to seek Rousseff indictment instead. The opposition Social Democrats (PSDB) last week formally dropped the idea of seeking impeachment of President Dilma Rousseff. Instead, the party will send a brief to prosecutors seeking a criminal indictment in the federal courts for alleged violations of the 1999 Fiscal Responsibility Act. The party's decision was based on a labored opinion offered by former Justice Minister Miguel Reale. The opinion was based on the federal government's failure, under the Rousseff administration, to make timely payments to government-controled banks on massive benefits due Brazilians under various entitlement programs. Failure to make such payments forced the banks to make unscheduled, short-term loans to the government, an alleged violation of the 1999 act. Federal prospectors can accept or reject the brief. Party leaders added that, in the current political climate in Congress, an impeachment motion was likely to be defeated. Social groups favoring impeachment called the party's decision a "betrayal."

Business News

Investment News:

Investors will have a crack at winning concessions to 30 separate **hydroelectric generating stations** in September, the Mining and Energy Ministry announced last week. The 30 power plants belong to five different public utilities which decided not to renew concession licenses coming due this year. Under a 2012 law, the utilities could renew the concessions automatically for 30 years but had to access rate cuts in exchange. The 30 hydroelectric stations, located in five states, have total generating capacity of over 6,000 megawatts. The government has not set a specific date in September for auction of the concession rights.

Company News:

It was not a good quarter for Brazil's 317 publicly listed companies, according to consulting group **Economatica**. A survey by Economatica showed a 41% drop in total profits for the companies in the first quarter of 2015 against the same quarter a year earlier. Profits amounted to only R$25.7 billion. Big losers included mining companies, including iron ore giant Vale, and the paper and pulp industry. Mining and pulp suffered from higher debt-service costs due to the depreciation of the Brazilian Real against the U.S. dollar. State-run oil company Petrobras did fairly well in the first quarter, dropping back only 1% from a year ago as higher domestic oil-product prices compensated for losses to assets from a sweeping corruption scandal. Banks did well, seeing profits rise in the first quarter on higher domestic interest rates.

Brazil's state-run holding company for electric power utilities, **Eletrobras**, last week lost its hard-won investment grade credit rating when Moody's downgraded the company to Ba1 from Baa3. The move will make it harder for Eletrobras to raise funds for massive expansion and upgrade projects planned by its many subsidiaries. In ordering the downgrade, Moody's cited the company's increased indebtedness, the result of government-imposed rate cuts dating to 2012.

Brazilian Calendar

-Monday, May 25, Tenth Brazilian Small Business Congress, Hotel Renaissance, São Paulo

-Tuesday, May 26, Brazilian Central Bank release of monthly current account data, Brasília

-Wednesday, May 27, Brazilian Central Bank release of monthly banking data, Brasília

-Wednesday, May 27, Brazilian Textile Fair, Transamêrica Expo Center, São Paulo

-Friday, May 29, Brazilian Central Bank release of monthly primary budget data, Brasília

-Friday, May 29, Brazilian Census Bureau (IBGE) release of quarterly GDP data, Rio de Janeiro

Indicators

Foreign exchange rate: **R$3.09 = $1.00**

Brazil's **unemployment rate** rose for the fourth month in a row in April, hitting 6.4%. Unemployment in March was 6.2% and, in April of 2014, only 4.9%. Jobs are drying up because of slack consumer demand, inflation and high interest rates. Average salaries are also falling. The average monthly salary for a registered worker in April was R$2,139, down from R$2,202 in April of 2014, according to the Brazilian Census Bureau (IBGE).