



**Interview: Roberto Macedo, University of São Paulo economist**

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International economic conditions have left the Rousseff Administration in an embarrassing position. “President Dilma Rousseff campaigned for re-election in 2014 on a platform blaming Brazil’s economic woes on an international crisis that was already over,” according to University of São Paulo economist Roberto Macedo. Brazil is now trying to “catch up” while the U.S., Europe and other regions are enjoying a gradual recovery. Macedo commented on Brazil’s economic problems at a recent meeting of investors and reporters in São Paulo. Excerpts follow: ‘

- **On Brazilian economic growth:** “The U.S. and Europe are growing. Chinese growth has decelerated a bit but China is still growing. India is growing. The only problem areas are Russia and Brazil.”
- **On growth patterns and opportunities:** “In Brazil, the crisis is *not* generalized. The North, the Northeast and the Center-West may actually post growth this year, while the industrialized Southeast and South falter. Western Piauí, Maranhão and Bahia, as well as the state of Tocantins, have prospered with the growth of soybeans and other crops. World commodities prices are down but that has been compensated by improved foreign exchange earnings. Chinese demand for farm commodities will likely remain strong because China is still urbanizing and its middle class is expanding. Some Brazilian industries, such as capital goods, are hurting but others, such as pharmaceuticals and food packaging, are getting along fine. The industries and companies that adjust to the present crisis will survive. That doesn’t necessarily mean the biggest companies. Remember, the mammals pulled through while the dinosaurs are extinct. Sometimes, smaller-and-leaner is the superior strategy.”
- **On the government’s fiscal strategy:** “The President has outsourced much of her power to Finance Minister Joaquim Levy, Vice President Michel Temer and Congress. This has helped lessen the political pressure on her a bit. Levy is negotiating the fiscal adjustment directly with congressional leaders, which is very unusual. But he seems to be doing it right—asking for more than he needs and then negotiating a compromise that keeps the adjustment on track.”
- **On Brazil’s fiscal problem:** “Seventy million people are paid by the government, through family assistance, retirement, payroll etc. We’re living in a welfare state. Most of these programs are politically inspired.”
- **On investment plans:** “(Because of the fiscal problem) we are investing less than other Latin American countries. For that reason, we are seeing a massive new government drive on concessions.”

## Top News of the Week

**Central Bank indicator shows consumer indebtedness at highest rate in a decade.** Brazilian consumer indebtedness reached its highest level in April since the Central Bank initiated use of its current consumer debt indicator in 2005. As of April, consumer debt payments of all kinds took up an average of 46% of income among registered wage and salary earners, the Central Bank said last week. The average figure in January, 2005, when the indicator was launched, was 18%. More than half, or 28% of income on average, goes to mortgage payments while 18% goes to installment buying, loans and revolving credit card debt, among other instruments. Brazilian consumers became heavily indebted during economic boom years from 2005 to 2010. Debts have grown more burdensome in recent months because of a sharp rise in interest rates.

**President Rousseff's job performance evaluation sinks to lowest level ever.** Political risk analysts were taken aback over the weekend with release of the latest nationwide Datafolha poll. Most analysts said in April, when the previous poll was released, that Rousseff's job performance evaluation couldn't go any lower. Over this past weekened it did. In April, only 13% of voting-age Brazilians called Rousseff's performance "good" or "very good." Last week's poll showed that level sinking to just 10%, the President's worst evaluation ever. Those calling the President's performance "poor" rose to 65% from 60% in April. The poll showed dwindling support among all age groups and income classes in all regions of the country. The same poll offered a theoretical slate of candidates for the 2018 presidential election. Opposition leader Aécio Neves was the leader with 35% of hypothetical voter intentions, trailed by former President Luiz Inácio Lula da Silva, with 25%. Environmental leader Marina Silva scored 18% of voter preferences, in line with her actual performance in presidential elections in 2014 and 2010.

**Prosecutors arrest, charge 12 more top executives in Petrobras corruption probe.** Federal Police last week arrested 12 more top executives at two major contractors in connection with the ongoing probe of corruption involving state-run oil company Petrobras. Those arrested included the President of Odebrecht, Marcelo Odebrecht, and the President of Andrade Gutierrez, Otávio Marques de Azevedo. The two companies are, respectively, Brazil's largest and second largest construction and engineering contractors. They had combined billing in 2014 of more than R\$120 billion, employing some 410,000 workers on projects ranging from ports and airports to office buildings and shopping centers. Altogether, police have now arrested 36 top executives at eight major contractors. Accusations include bribery, collusion and money laundering in connection with a corruption scandal focused on contracts between the companies and Petrobras. Prosecutors said bribes involving Odebrecht and Andrade Gutierrez totaled more than R\$700 million between 2004 and 2014.

**Chamber passes three more elements in political reform, rejects one.** Brazil's Chamber of Deputies last week passed three more elements of a broad political reform, while rejecting a fourth. The measures, part of a proposed constitutional amendment, must still be passed in a second floor vote before going on to the Senate for two votes. By an overwhelming margin, the Chamber agreed to punish members of legislative bodies who change political parties by stripping them of office. The only "window" left open was a rule allowing for party changes during a period of 30 days following promulgation of the new rule. The Chamber voted to oblige creation of a written record for each ballot cast in any election as a way to facilitate recounts and avoid fraud. Currently, only electronic records are kept. Finally, the Chamber agreed to allow popular petitions with 500,000 signatures to come before Congress as legislative proposals. The current rule is more complex and usually demands at least 1.5 million signatures. By a narrow margin, the Chamber rejected a proposal to create quotas for women in all legislative bodies.

**Rousseff vetoes congressional reform of social security, substitutes own version.** President Dilma Rousseff last week vetoed a bill that would have streamlined access to social security benefits for

workers opting for early retirement. Congress sought to ease access to the system by removing the so-called “early retirement factor” when awarding benefits. The factor served to sharply reduce benefits for those retiring early. Congress sought to institute a points system combining age plus years of contribution to the system. Rousseff said the points system, as set up by Congress, would have led to a complete breakdown of the social security system by 2030. Instead, the President instituted her own, more rigorous, points system via an executive order. The President’s system will raise the bar for early retirement by one point per year from 2017 through 2021. According to the administration, the President’s system will save the government R\$50 billion between this year and 2030. The new system comes into force immediately but is subject to congressional review within a period of 120 days.

**Auditing court gives administration 30 days to clear up 2014 fiscal doubts.** The Federal Auditing Court, an arm of Congress, last week refused to issue a favorable report on the Rousseff administration’s 2014 budget conduct. Instead, the court took the unusual step of demanding an explanation for apparent budget irregularities. The explanation must be presented within 30 days. The court pointed to more than R\$280 billion in apparent irregularities. Most prominent was the government’s practice of delaying large-scale transfer payments to government-run banks, forcing the banks to make millions of benefit payments to ordinary citizens from their own funds. Once the administration’s explanation is in hand, the nine-member court can approve 2014 budget conduct, approve it with caveats or disapprove it. In the event of disapproval, the full Congress could impeach the President for violations of the 1999 Fiscal Responsibility Act.

## Business News

### Investment News:

Brazilian airline **Avianca Brasil** last week said it will invest an estimated \$6.6 billion in the purchase of A320neo commercial jets from European manufacturer Airbus. Avianca signed a letter of intent with Airbus during last week’s Le Bourget Air Show. Airbus will deliver as many as 62 of the 189-seater jets to Avianca. The deal would more than double Avianca’s current Brazilian fleet, which stands at 41. Avianca has a mere 9% of Brazil’s domestic air market and is bidding to increase that share by adding routes and challenging the long-held supremacy of Gol and TAM.

### Company News:

It was a good week for Brazilian aircraft manufacturer **Embraer** at the Le Bourget Air show. In the show’s first week, Embraer closed deals for 103 commercial jets and 12 military training planes. The transactions were worth an estimated \$2.7 billion, involving three U.S. carriers, a Chinese airline and the air forces of Mali and Ghana.

Shares in Brazilian steak house chain **Fogo de Chão** opened last week on the Nasdaq exchange in New York with a one-day rise in price of more than 28%, closing at \$25.75. Friday marked the first day of trading in the company’s shares following an initial public offering of shares earlier in the month. Investment fund Thomas H. Lee Partners bought Fogo de Chão in 2012 for \$400 million. After Friday’s session, the company was worth \$700 million.

## Brazilian Calendar

-**Wednesday**, June 24, Brazilian Central Bank release of monthly current account data, Brasília

**-Thursday**, June 25, Brazilian Census Bureau (IBGE) release of monthly unemployment data, Rio de Janeiro

**-Friday**, June 26, Brazilian Central Bank release of monthly financial system data, Brasília

## Indicators

Foreign exchange rate: **R\$3.10 = \$1.00**

Brazilian **retail sales** retreated 0.4% in April against the previous month and 3.5% against April of 2014, the Brazilian Census Bureau (IBGE) said last week. It was the third straight month for declining sales. Consumers are being hurt by rising interest rates and increasing worries about job security. Hardest hit among retail segments were home appliances and furniture. Supermarket sales managed to eke out modest gains.





