

**POLICY
 MONITOR**

March 05 – 07, 2014

The Week in Review

On The Economic Front

Focus projections: According to the weekly Central Bank poll of 50 leading market analysts, the 2014 GDP forecast rose from 1.67% to 1.70%. Also, most analysts surveyed now expect the benchmark interest rate (Selic) to rise by 0.25 percentage point to 11.0% in the next Central Bank's monetary policy committee meeting in April (see table)

Focus Economic Report		
Weekly market forecast for 12/31/2014 (%)		
Date of prediction	02/21	02/28
GDP	1.67	1.70
Selic benchmark rate	11.25	11.13
Inflation	6.00	6.00

Source: Central Bank

Drought: According to the national grid operator (ONS), the dams in the Southeastern and Midwestern regions, which account for 70% of the water storage in the country, are likely to end March at 37.9% of maximum capacity, a much lower level compared to the same period in 2013, when they stood at 54.1% of maximum capacity. And according to Bloomberg, Brazil's worst drought in four decades has increased the risk of energy shortages. For the first time since 2001, market analysts estimate a 20-40% chance of rationing. While power distributors and consumers are facing more than BRL\$ 9.6 billion in increased costs, net energy producers including pulp-maker Fibria, steelmaker CSN, and sugar-cane processor Cosan are selling excess supplies to bolster profits as spot prices surge. The Rousseff Administration dismisses the risk of energy shortages, citing the gas-fired thermal plants as an alternative source to cope with the energy demand.

On The Political Front

Carnival and the Campaign trail: While President Rousseff spent the Carnival holidays out of the public eye in the military reserve of Aratu in the state of Bahia, her main potential contenders in the October presidential elections attended festival parades. Senator Aécio Neves (PSDB/MG) went both to Salvador, the capital of Bahia, and Rio de Janeiro, while Governor Eduardo Campos (PSB) attended popular parties in his home state of Pernambuco.

Congressional production: According to newspaper *Folha de S. Paulo*, Congress has presented the lowest level of bills for approval for the month of February in the last ten years, an indication of increasing frictions between the Administration and its governing coalition. During the first month of legislative action, only six bills were conclusively approved. By comparison, in February 2013, 25 bills were approved by both the House and the Senate (see more in The Pulse below).

Task Force

Defense and Security:

- » **Anti-violence initiative:** According to the Justice Ministry, José Eduardo Cardozo, the Administration is expected to forward to Congress a new bill next week aimed at curbing abuses in public protests. Also according to Cardozo, the text is balanced and its main goal is "to ensure the people's freedom to express themselves." Although he did not give details about the penalties that would be applied to those who abused the new law, Cardozo said the new bill could be approved before the World Cup, to be held in Brazil between June 12th and July 13th of this year.

Innovation:



- » **Ministry of Education Strategic Planning:** Ordinance 357/14 establishes the Institutional Strategic Planning of the Ministry of Education (MEC), comprising the National Plan of Education (PNE), and the Federal Multiannual Plan. The Institutional Strategic Planning will be prepared and revised at least every two years with the participation of the secretariats of MEC, the National Fund for Educational Development (FNDE), the Coordination for the Improvement of Higher Education Personnel (CAPES), the National Institute for Educational Research (INEP), and the Brazilian Hospital Services Company (Ebserh). The elements of the Institutional Strategic Plan will be available on MEC's website, excluding any information that has been formally declared confidential or restricted.
- » **ANVISA: Ordinance 256/14** establishes the Technical Board of Technology Healthcare Products (CATEPS), technically linked to the General Management of Technology Healthcare Products (GGTPS), consisting of seven members appointed by President Rousseff from nominations supported by outstanding professional experience and public knowledge in the affairs of the Board, and qualified and distributed in two categories: three members who are systemic specialists with general knowledge about the production, regulation, and use of medical devices, and four members who are subject matter experts, with a specific subset of medical device knowledge.

Ordinance 259/14 adopts the Internal Rules for CATEPS, its collegiate body, advisory in nature and technically linked to ANVISA's GGTPS. CATEPS will be responsible for advising GGTPS on procedures related to the sanitary control of health products, especially regarding its efficacy and safety.

Tax and Investment:

- » **Land acquisition:** Joint Ordinance 04/14 issued by the Attorney General of Brazil (AGU) and the Ministry of Agrarian Development (MDA) on February 25 grants legal support to foreign companies that purchased rural land in Brazil between 1994 and 2010 and that followed certain procedures. The Ordinance aims to remove legal uncertainty on such properties acquired during that time.
- » **ANTT:** The National Land Transportation (ANTT) issued Resolution 4284/14 granting the concession of BR-163 to Companhia de Participação em Concessões (CPC). The concession entails a total length of 847.20 km (526 miles) of the federal highway erected in the state of Mato Grosso do Sul (MS).

Trade and Regulation:

- » **Antidumping:** According to the Secretariat of Foreign Trade (Secex), a body under the Ministry of Development, Industry and Trade (MDIC), the implementation of Decree 8.058/2013 has reduced the average time for the opening of antidumping claim proceedings from 179 to 39 days. The decree made mandatory the conduction of preliminary determination of the dumping case, which is a provisional conclusion on the existence of dumping, injury and causation, within 120 days by Secex. In cases of positive determination, provisional anti-dumping duties may be applied to protect domestic industry during the investigation, with preliminary duties imposed on imports of products under the investigation. In order to comply with the decree, Secex has hired a new team of foreign trade analysts.
- » **Health Strategic Actions:** The Health Ministry (MS) and ANVISA published Joint Ordinance 01/14 establishing the Inter-Institutional Committee for Monitoring of Strategic Actions of Sexually Transmitted Diseases, The Committee's duties are:
 - » Track the Deployment Plan for strategic inputs related to STD, AIDS, and viral hepatitis
 - » Discuss new technologies for prevention, diagnosis, and treatment of STDs, AIDS, and viral hepatitis
 - » Discuss technical research of interest to the Department of Surveillance, Prevention, and Control of Sexually Transmitted Infections, Acquired Immunodeficiency Syndrome, and Viral Hepatitis, Secretariat of Health Surveillance (DDAHV / SVS / MS)
 Committee's composition:
 - I - three representatives from the Secretariat of Health Surveillance (ADHD / SVS / MS);
 - II - three representatives from the Secretariat of Science, Technology and Strategic Inputs
 - a) Department of Industrial and Innovation in Health Facilities;
 - b) Department of Management and Technology in Development and Health, and
 - c) Department of Pharmaceutical Services;
 - III - six representatives from ANVISA:
 - a) General Management of Ports, Airports, Borders and Customs (CGPAF);
 - b) General Office of Inspection, Quality Monitoring, Control and Surveillance of Petrochemicals, Pharmaceuticals and Products, Advertising, and Promotion (CGIMP);
 - c) General Management of Public Health Laboratories (CGLAS);
 - d) General Management of Medicines (CGMED);
 - e) General Management of Technology Healthcare Products (CGTPS) and
 - f) General Management of Technology Health Services (CGTSS)



The Pulse

Despite increasing pressures from within the governing coalition and the private sector, former President Lula does not want to replace President Rousseff on the presidential ticket. He would only consider such a move if she lost her electoral momentum in the polls. In fact, he is already wearing three hats in her campaign: main advisor, fundraiser, and negotiator

When former President Luiz Inácio Lula da Silva left power three years ago, he enjoyed approval ratings north of 80% and was celebrated as a world leader capable of delivering growth, promoting social development, and maintaining the macroeconomic stabilization pillars begun during the Fernando Henrique Cardoso administration (1994-2002). Lula was so strong that he could pick President Rousseff, a novice politician, to be the governing coalition's presidential candidate. A technocrat known to be a good administrator, President Rousseff was elected with the support of various segments of the Brazilian society: the poorer and less educated voters, unions, a large portion of the private sector leadership, the Labor Party (PT), and PMDB, the largest Brazilian political party.

Today, as President Rousseff faces a re-election bid, a growing number of voices, including members of her own party, the PMDB, and business leaders, are pushing for Lula to return as the presidential candidate in the October elections. They claim that President Rousseff has not been able to deliver strong economic growth like Lula did and that she is too rigid, lacking his political gifts to mediate bargains that have enabled a fragmented coalition to survive on good terms.

In fact, President Rousseff is facing a congressional rebellion, especially in the House, from PMDB and smaller allies who want greater representation in the government. They could potentially inflict important defeats to the administration in key votes, such as the Internet Framework bill (PL 2126/2011). The business sector has also voiced its discontent over President Rousseff's policies towards issues such as the hydroelectric concessions renewal, the deterioration of fiscal accounts, and increasing economic uncertainty amid a more challenging global outlook marked by U.S. monetary tightening and China's economic slowdown. Although there is no formal impediment to Lula replacing President Rousseff on the ticket, he is unlikely to do so. In fact, he is intensely engaged in her campaign, wearing three different hats as her advisor, fundraiser, and main negotiator in talks with key allies and business leaders.

There are three main reasons why Lula, an astute political figure, does not want to come back: the first is President Rousseff's lead in the polls. As the Pulse noted last week, according to the latest Datafolha survey, if the elections were held today, she would win re-election in the first round with 47% of intended votes. President Rousseff's favored outcome is anchored in the strong support of voters who have benefited from the federal redistribution policies promoted by the Lula Administration and her own administration – the poorest, but also the so-called New Middle Class. Although they trust President Rousseff, most would also want to see major changes in the way she runs the country. The second reason is related to a political calculation. Lula knows that if he replaced President Rousseff, the opposition would try to frame the move as a failure of the current administration, one backed and endorsed by Lula himself. He also knows that the current scenario is more challenging than the one of 2010 and that the next administration will face unpopular policy choices to mend the fiscal side. Finally, the third reason is related to Lula's new status as a successful and well-paid speaker, both in Brazil and abroad. He has also reckoned that he values his privacy highly, being away from the scrutiny of the daily press. "Do you know what is even better than being the president of Brazil?" he asked recently during a lecture. "It's to be the President's best friend, which I am," he answered with a big smile.

Although a seemingly implausible outcome today, it is conceivable that if President Rousseff really loses steam in future polls, Lula could replace her on the ticket. However, if President Rousseff is re-elected, Lula has signaled that he would like to be a much closer mentor to the President during her second term, an indication that the administration could be more business-friendly with a greater openness to political and policy negotiation. Lula has been more ambiguous about the chances of coming back in 2018, even though this possibility suits the Labor Party's aspirations to retain the presidency well into the future.

