

May 05 – 09, 2014

# The Week in Review

## On The Economic Front

### OECD Outlook:

The Organization for Economic Development and Cooperation (OECD) lowered its forecast for Brazil's economic growth in 2014 to 1.8%, 0.4 percentage points less than their October projection. It also recommends continuing the monetary tightening cycle to anchor inflation. According to the OECD, the economy has lost its earlier momentum with softer external demand and policy uncertainties due to the presidential election likely to weigh on economic activity in 2014. Quote: "In 2015, GDP growth is projected to rise somewhat, with persistent supply constraints, including a tight labor market, and the need for continued tight macroeconomic policies holding back domestic demand." (See graph.)

OECD Projections (%)			
	2013	2014	2015
<b>GDP</b>	2.3	1.8	2.2
<b>Inflation</b>	6.2	5.9	5.5
<b>Fiscal balance/GDP</b>	-3.3	-3.4	-3.1
<b>Current account/GDP</b>	-3.6	-3.1	-2.9

### Industrial Production:

According to the National Statistics Institute (IBGE), March industrial production fell 0.5 percent from February. Some sectors such as oil derived products and pharmaceuticals actually grew 5.4% and 2.4%, respectively, but other sectors shrank including automobile, machinery and equipment. Industrial production rose by 0.4% for the first quarter and the March monthly decline was actually less than the forecasted 2.4% decline by a Bloomberg survey of economists. Nonetheless, the trend continues to reflect a low level of confidence in the economy by businesses and consumers.

### Tax Hikes:

Finance Minister Guido Mantega admitted in an *O Globo* interview that the government will likely raise taxes on automobiles and imports to meet the promised primary surplus target of 1.9% of GDP. Mantega's interview followed President Dilma Rousseff's Labor Day national broadcast address in which she announced a 10% increase in the *Bolsa Família* program. Quotes: "We have a projection of increasing some taxes. That is what happened, for instance, with beverages... There will be change in the PIS/COFINS on imports. The goal is to equalize taxes on imports and goods produced in Brazil. What we could also do is [change] consumption goods taxation," said Mantega. However, President Rousseff denied that the tax hikes have already been decided. "He [Mantega] spoke theoretically." (See more in *The Pulse* below.)

### Drought I:

The Executive Secretary of the Mines and Energy Ministry, Márcio Zimmerman, dismissed the need for additional steps to mitigate the risks of energy rationing in 2014. Speaking at the National Meeting of the Electrical Sector Agents, Zimmerman added that in 2001, the last year of former President Fernando Henrique Cardoso's Administration, the risk of rationing was as much as 6.7 times higher than today. On May 6<sup>th</sup>, the Southeast and Midwest regional dams, which provide 70% of the country's hydroelectric water storage, were at 38.7% of maximum capacity. Quote: "We are experiencing a cyclical phase of low inflow

BRASÍLIA  
SAF Sul Quadra 02, Lote 04.  
Edifício Via Esplanada  
Salas 103 a 106

CEP 70070-600  
Fone: (61) 3327-2606  
Fax: (61) 3327-1619

SÃO PAULO  
Rua Olimpíadas, 134, 5º andar, Cj 52.  
Condomínio Alpha Tower  
Vila Olímpia

CEP 04551-000  
Fone: (11) 3079-4533  
Fax: (11) 3079-2202

WASHINGTON, DC  
1101 17th St.  
NW Suite 1010

Phone: (202) 822-6420  
Fax: (202) 822-6423  
www.patni.com.br  
relgov@patni.com.br



(rainfall), [but] the system is responding, and we are not working with anything beyond the measures already being taken” said Zimmerman.

## Drought II:

On May 6<sup>th</sup>, the water level at the Cantareira system in São Paulo state was 9.8% of maximum capacity. As the dry season starts, there is no significant rainfall forecast in the SP region. Governor Geraldo Alckimin (PSDB), who will seek reelection in October, dismissed again the need for power rationing. Since March, the state water utility company Sabesp has performed emergency work to drain water below the reservoirs’ gate levels. Sabesp notes that this so-called “dead volume” could add as much as 300 billion liters (80 billion gallons) to the system by May 15<sup>th</sup>, or enough to supply water to over 9 million consumers in the Greater São Paulo area until February 2015. Also according to Sabesp, the “dead volume” would raise the Cantareira system level to 18.5 % of maximum capacity.

## On The Political Front

### Campaign Trail:

**President Dilma Rousseff** (PT) and her main presidential contenders, Senator Aécio Neves (PSDB/MG) and former governor Eduardo Campos (PSB), are already fully engaged in the campaign. On Tuesday May 6<sup>th</sup>, Rousseff invited female journalists for dinner at the Alvorada Palace. She also attended the inauguration of the São Paulo soccer arena on Thursday May 8<sup>th</sup> and the Curitiba arena on Friday May 9<sup>th</sup>. Quote: “The prospect that Brazil will explode in 2015 is absurd. It is a stable country, economically strong...a huge agribusiness,” she told reporters, adding that Brazil “will boom” next year.

On Monday May 5<sup>th</sup>, **Neves** met with the leadership of the Institute of Industrial Development Studies (IEDI). The institute identified 10 main hurdles to development including logistics, bureaucratic inefficiencies, and high public spending. In a survey conducted by *Valor Econômico* of 250 business leaders, Neves received 70% of the votes, Campos 17%, and Rousseff 3%. Quote: “The IEDI, which brings together the major national industries, is feeling the gravity of the deindustrialization process in Brazil...It is a set of economic contradictions that diminishes industrial competitiveness,” Neves said.

On Tuesday May 6<sup>th</sup>, **Campos**, who recently moved to São Paulo, a state with over 31 million voters, attended the 30<sup>th</sup> Supermarkets Congress and Business Fair and met journalists the following day. Quote: “Our candidacy synthesizes our successes over the past twenty years, overcoming the ‘us against them’ debate,” he said on the question of polarization between PT and PSDB.

### Petrobras:

Senate President Renan Calheiros (PMDB/AL) established two joint Parliamentary Inquiry Committees (CPMI). The first is to investigate the state owned oil company Petrobras, and the second will investigate the subway cartel in São Paulo State, allegedly run by PSDB. Calheiros gave party leaders 5 days to nominate members to get the CPMI started. A Senate probe to investigate Petrobras exclusively was already convened and its members selected. While the joint probe seems to favor the opposition, a Senate probe would likely favor PT. In the second probe, the ruling party would have more power to control the investigation because only three of its 13 members represent the opposition. The proliferation of CPIs created amid increasing political disputes suggests there is a low probability that Congress will be able to conduct a thorough investigation of Petrobras’ alleged corruption. A recent order by the Federal Court of Justice rescinds bank confidentiality rules that apply to Petrobras’ financial transactions with the Camargo Carrêa and Sanko Sider construction companies that were contracted to work on the Abreu e Lima refinery in Pernambuco. This action may strengthen the hand of investigators of the “Car Wash Operation.”

### House Vice Presidential Election:

The Workers’ Party (PT) leader in the House, Representative Arlindo Chinaglia (PT/SP), was elected as the House Vice Chairman, replacing Representative André Vargas (PT/PR). Vargas resigned on April 9<sup>th</sup>

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SAF Sul Quadra 02, Lote 04.  
Edifício Via Esplanada  
Salas 103 a 106

CEP 70070-600  
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SÃO PAULO  
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Vila Olímpia

CEP 04551-000  
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www.patni.com.br  
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following the opening of the House Ethics Committee disciplinary proceeding over allegations that he was involved in money laundering and bribery related to drug procurement and other illicit activities at the Health Ministry.

## Task Forces

### Trade and Regulation

**Forest Code:** The Administration published [Decree 8235/14](#), establishing rules for the new Rural Environmental Registry (CAR). The Brazilian Forest Code, approved and passed into law in 2012, anticipated the creation of the Registry and its regulations. The Administration expects all of the 5.6 million rural properties to be included in the unified computer system, with data records made separately by each State and the Federal District. The Decree also stipulates that the Ministries of the Environment, Agricultural Development, Agriculture, Livestock, and Supply, along with the Attorney General's office, will create a program to eliminate fines imposed on deforestation that occurred before July 22, 2008 for areas where it was not forbidden to remove vegetation.

**Visa Process Facilitation:** President Rousseff signed into law bill [\(PLC\) 04/14](#), which allows for creation of an international agreement permitting reciprocal waivers for tourist visas, temporary visas for business trips, and visas for artists or athletes. The new law, which is intended to reduce bureaucratic inconvenience for select travelers, was implemented on Wednesday May 7<sup>th</sup>.

**Cotton Case:** On Thursday, at a Senate Committee public hearing, Brazilian diplomat Enio Cordeiro stated that Brazil will formally request to open a Compliance Review Panel at the World Trade Organization (WTO), if no agreement to implement changes to certain provisions of the new U.S. Farm Bill can be reached by June 2014. Senator Ricardo Ferraço (PMDB/ES) requested a public hearing for the first week of August with the ministers of Agriculture, Livestock and Food Supply (MAPA), Foreign Affairs (MRE) and Development, Industry and Foreign Trade (MDIC) for a briefing on the measures taken by both countries to reach an agreement.

**Working Hours:** Representative Rogerio Carvalho (PT/SE), a member of the House Committee on Social Security and Family (CSSF), presented a [report](#) in favor of bill [\(PL\) 4653/94](#). It establishes a maximum of a 40-hour workweek (previously 44 hours) or an 8-hour workday (unchanged) for all private sector employees. The report also states that a shorter workweek will not result in wage reductions; overtime performed on Saturdays, Sundays, and holidays; regular work days should be subject to a collective agreement; and the worker will be paid 100% more than the regular working time. Also, six consecutive months of overtime will obligate the employer to hire new employees.

**Copyright:** The Ministry of Justice published [Ordinance 836/14](#), which appoints the members of the National Council to Combat Piracy and their Board Contributors. Paulo Rosa Junior, with Jose Eduardo Garcia Rajo as the alternate, will represent the Brazilian Association of Record Producers (ABPD) on the board.

**700MHz Bid:** The National Telecommunication Agency (ANATEL) announced two public consultations, for a 30-day period, to receive statements and suggestions on procedures and mitigation techniques that can be incorporated into regulation in order to reduce the possibility of interference and facilitate coexistence between the broadcasting of sounds, pictures, and radio services operating in the 700MHz band. Both the telecom and the broadcasting industries have been pushing for these tests. The new 700MHz band will be used for 4G implementation.

**ANS & ANVISA:** Jaime César de Moura Oliveira was reappointed director of the National Health Surveillance Agency (ANVISA), and José Carlos de Souza Abrahão was appointed director of the National Agency for Supplementary Health Services (ANS). The nominations made by the Administration were approved in a confirmation hearing at the Senate's Committee on Social Affairs (CAS) followed by a Senate floor vote.

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www.patn.com.br  
relgov@patn.com.br



# The Pulse

Dilma Rousseff has been reconfirmed as the PT presidential candidate. To reverse her drop in the polls, she is on the offensive, promising more social spending, and trying to portray her opponents' policies as regressive and elitist

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Facing a continuing loss of support in the polls, President Dilma Rousseff (PT) is now on the offensive. The change in strategy emerged at the Labor Day celebrations. On a national broadcast network address, she took two steps, appealing to the poorest segment of the electorate as well as the new middle class: a 10% increase in the *Bolsa Família* program, a monthly stipend funded by the federal government for extremely poor households, and a 4.5% decrease in the individual income tax, effective in 2015. The latter is subject to Congressional approval as Provisional Measure 644-14. She has also promised to maintain the current policy of adjusting the minimum wage above the inflation rate. "My administration will not use a heavy hand against the workers," she said, adding that "the minimum wage increases have been an effective tool to reduce inequality and pay off the large social debt we still owe to our poorer workers."

President Rousseff's strategy has been crafted to help 86% of the population, comprising classes E (11%), D (17%) and C (58%). However, the benefits will mostly accrue to the poorest segment, or those eligible for the *Bolsa Família*, her secure political base. It will add BRL\$ 1.7 billion in 2014 and BRL\$ 2.7 billion in 2015 in spending. As for the income tax break, although it could cost as much as BRL\$ 5.3 billion in 2015, it will generate a small reduction to the lowest bracket of taxpayers of BRL\$ 140 (US\$ 63), and a maximum benefit of BRL\$ 863.33 (US\$ 388) to those in the highest income tax bracket. Today, classes C and D, which together account for some 150 million people, are taxpayers increasingly unhappy with the high Brazilian tax burden amounting to 36% of GDP.

The opposition reaction came quickly as a PSDB complaint to the Superior Electoral Court (TSE), claiming that the President misused the public funded broadcast airtime to campaign for herself ahead of the official start of the electoral airtime season on August 19<sup>th</sup>. Senator Aécio Neves (PSDB/MG), President Rousseff's main opponent, has also announced that he will try to amend the income tax Provisional Measure to increase the tax break to 6%. And Eduardo Campos (PSB), former governor of the state of Pernambuco, who appears in third place in the polls, says that if elected, he would gradually reduce the current inflation target of 4.5% to 3% by 2019. Distinct from President Rousseff, both opposition candidates have signaled that they would take steps to balance the budget. During a recent meeting with the private sector, Neves said that he would be willing to adopt "unpopular measures" if necessary.

Last Saturday, during a PT meeting in São Paulo, former President Lula reconfirmed that President Rousseff is the party's presidential candidate, dismissing rumors that he would replace her on the ballot. "Stop imagining that there is another candidate other than President Dilma Rousseff," said Lula. During the event, President Rousseff blasted the "nostalgic elites" and said that "Brazil will not regress because the Brazilian people will not let it happen." A Datafolha poll released Friday May 9<sup>th</sup>, points to a tightening race and if the first round of voting were held today, the election would go to a second-round runoff. In a poll of likely voters, President Rousseff received 37% (losing one percentage point from the previous poll), Senator Neves received 20% (gaining four percentage points), and former governor Campos received 11% (gaining one percentage point). The effectiveness of President Rousseff's renewed offensive strategy is yet undetermined and it may be awhile before a clearer picture emerges.

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