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Subject: FW: Faria:Brazil: No relief on the political front [C]
Date: Mon, 09 Mar 2015 20:11:44 +0000

Classification: Confidential

-----Original Message-----

From: Isin Sumengen-Ziel (DEUTSCHE BANK AG, LO) [mailto:sumeisi.lndb@bloomberg.net]
Sent: Monday, March 09, 2015 7:43 AM
Subject: Faria:Brazil: No relief on the political front

--- Original Sender: JOSE CARLOS FARIA, DEUTSCHE BANK S.A. B ---

The Supreme Court has released the list of people under investigation in the Petrobras bribery scandal. The list includes 34 congressmen and five former ministers of President Dilma Rousseff. As expected, Lower House Speaker Eduardo Cunha and Senate Speaker Renan Calheiros are among the 34 congressmen. According to newsmagazine Veja, the government believed that the inclusion of both speakers in the list would placate the two politicians and make things easier in Congress, so the news was received with a toast of Champaign at Palácio do Planalto (the government's headquarters). The reality, however, is that the inclusion of Cunha and Calheiros in the list enormously aggravated the political crisis, as the two politicians – especially Calheiros – have decided to retaliate against the government, blocking fiscal measures, installing investigation probes, etc. In our view, as the investigations keep politicians under pressure, it will be very difficult for Rousseff to regain control of Congress. Another potential problem for Rousseff is the inclusion of her former Chief of Staff Antonio Palocci in the list. One of the defendants testifying is a plea-bargain agreement has argued that Palocci – who will be investigated by the regular judicial system, not the Supreme Court – received illegal funds to finance Rousseff's presidential campaign in 2010. It is important to stress that the President cannot be prosecuted for offenses not perpetrated during her current term, so this could not provide legal grounds for impeachment. However, should the accusations be confirmed, they could further increase the pressure on Rousseff to resign.

Rousseff delivered a 16-minute speech on national TV yesterday night defending the fiscal adjustment. As usual, the president blamed the ongoing economic problems on the international scenario ("the most serious international crisis since the great depression of 1929") and on "the worst drought in history." According to the president, after fighting the effects of the international crisis in the past years by reducing taxes, the government has decided to "courageously change its methods and seek solutions that are more appropriate to this moment, even if it means temporary sacrifices for everybody and unfair and exaggerated criticism against the government." Rousseff stated that she expects the initial results of the new policies to become visible "at the end of the second semester." Rousseff's speech was received with an unprecedented "panelaço" (people banging pots and pans) in several cities, which is the main highlight of the local press today. The political atmosphere remains very tense, and will probably get worse due to the demonstrations scheduled this week. The labor unions have scheduled demonstrations against the government's fiscal measures on Friday, and there could be large demonstrations against Rousseff all over the country on Sunday.

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