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Political Atmosphere for the Week



Continuation of the ministerial reform, announcement of other names for Finance Minister Guido Mantega's team and voting on the final report of the Mail Service CPI are the main highlights of the week. Furthermore, Congress will attempt to vote the 2006 Union Budget. In the House there are two important MPs: one that readjusts the income tax table for individuals and another that exempts income tax on financial gains obtained by foreigners that purchased Brazilian debt securities. Ousting proceedings against Representative João Paulo Cunha may also be put to the vote. Former Minister Antonio Palocci renders his deposition to the Federal Police regarding the removal of banking confidentiality from housekeeper Francenildo dos Santos.

Issues for the Week

Ministerial reform. President Lula should continue with his ministerial reform. He will still probably nominate substitutes for those who stepped down from office last week in order to run in this year's elections.

House. Three provisional measures are blocking the House agenda: MP 279 – which extends an extraordinary credit for the Ministry of Cities; MP 280/06 – which readjusts the income tax table for individuals; and MP 281/06 – which exempts foreigners from income tax on gains obtained from the purchase of Brazilian debt securities. Furthermore, ousting proceedings against a representative João Paulo Cunha (PT-SP) may also be voted.

Senate. Seven provisional measures are blocking the Senate agenda: MP 272/05 – which increases gratification for Social Welfare careers; MP 273/05 – which extends extraordinary credit amounting to R\$ 453 million for the National Department of Transport Infrastructure (Dnit) for the recuperation of federal highways in several States of the Federation; MP 274/05 – which alters the National Highways and Railways Plan to make it possible to earmarked funds for the construction and reform of federal highways and railways; MP 275/05 – which creates new rates and brackets for the Simples taxation to comply with the increased limits implemented last year; MP 276/2005 – which earmarks R\$ 350 million for "filling in potholes" on federal highways; MP 277/06 – which extends an extraordinary credit of R\$ 74,5 million for the Ministries of Agriculture and Foreign Relations; and MP 278/06 – which extends an extraordinary credit for the Ministry of National Integration.

Palocci. Former Minister of Finance Antonio Palocci will render his deposition on Wednesday to the Federal Police regarding the removal of banking confidentiality from housekeeper Francenildo dos Santos. Palocci was summoned to render his deposition last week, but he postponed it alleging health problems.

Guido Mantega. This week, Finance Minister Guido Mantega will announce the names to be included in his ministerial team. Last week, Bernardo Apy was confirmed as Executive Secretary and Carlos Kawall for the National Treasury. They substitute Murillo Portugal and Joaquim Levy, respectively.

Mail Service CPI. On Tuesday, the Mail Service CPI will start to discuss reporting representative Rep. Osmar Serraglio's (PMDB-PR) final report. The Government and the Opposition diverge over the report and have said they would be submitting alterations. An intense confrontation is expected between the parts. The deadline for the conclusion of the CPI is April 15.

Bingo CPI. On Tuesday, the Bingo CPI will place Sebrae President Paulo Okamoto face-to-face with former secretary of finance of the São José dos Campos City Hall, Tarso Venceslau. In light of the fact he will be rendering a deposition with Habeas Corpus, Okamoto shouldn't produce anything new.

2006 Budget. Last week, the Mixed Budget Committee concluded voting on the 2006 Union Budget. Thus, the text is ready to be voted by a congressional floor session and is expected to take place this week on either Tuesday or Wednesday. Governors continue dissatisfied with the amount of funds earmarked for reimbursement of States due to losses caused by the Kandir Law. They are claiming R\$ 5.2 billion being that the text only provides for R\$ 3.8 billion.

Assessment of the Government

Managerial Performance. Ministers of Communication and Culture, Hélio Costa and Gilberto Gil, clashed regarding the digital TV standard to be adopted by Brazil. The substitution of Ministers with a political profile for those with a technical profile may reduce the intensity of friendly fire between them. 😞

Economic Performance. The tax burden reached a new record in 2005: 37.82% of GDP. In 2004 it was 36.8%. The IGP-M price index recorded the lowest level since September last year: deflation of 0.23% in March, according to FGV data. 😊

Political Performance. The Government continues on the defensive and is having an extremely hard time distancing itself from allegations of corruption. The political issue continues to be one of Lula's administration's major weaknesses. 😞

Fiscal Performance. The Government's primary surplus for the first two months of the year was R\$ 7.79 billion compared to R\$ 15.41 billion for the same period last year. On the other hand, February's primary surplus was R\$ 3.5 billion, representing an increase of 66% in relation to last year. 😊

Social Performance. GDP peaked at R\$ 1.9 trillion in 2005, increasing income per capita to R\$ 10,520.00, a real increase of only 0.8%, according to IBGE. 😞

Reformist Performance. Only one provisional measure was approved in the House last week. Of the nine provisional measures blocking the Senate agenda three were approved. Finally, the Mixed Budget Committee approved the 2006 Union Budget. 😊

Situational Analysis

What may take place during the week

- Congress concludes voting on the Budget. **Possible**
- Post Office CPI concludes voting on final report. **Difficult**
- House expels Representative João Paulo Cunha. **Uncertain**

Palocci continues to give Lula problems

The irresponsibility of Antonio Palocci will continue to give Lula headaches. If the story told by this weekend's *Veja* magazine is true, other government personalities could be investigated for violation of Francenildo's banking privacy rights.

The magazine details the episode that ended with the resignation of Palocci. From the supposed request for Jorge Mattoso to violate Nildo's privacy rights to the delivery of his bank statement to Palocci. Besides Palocci and Mattoso, the magazine involves former Finance Ministry Executive Secretary Murilo Portugal and Justice Minister Márcio Thomaz Bastos.

If the Public Prosecution Ministry and Federal Police thoroughly investigate the *Veja* accusations – such as the attempt to bribe Caixa employees to take the blame for violating caretaker Nildo's account – Lula will continue to be seriously pressured by the problem.

In addition, of course, to the inconvenience of Palocci being summoned to give explanations.

The extent of the episode is extravagant. Lula was exposed to a situation that could reach way beyond the simple resignation of Palocci, and will have grave repercussion on the electoral scene.

How is Lula still able to hang on?

Lula's resilience to the political dismantlement of his administration is admirable. The political death of Palocci is one more Dantesque chapter. However, Lula continues to lead in the polls and should continue to do so in the next few. The Palocci episode, as serious and grotesque as it may be, will not demolish – in the very short-term – the President's popularity. The reasons, in our understanding, are the following:

- a) The electronic media shows complacency towards Lula in dealing with the crisis. The news spares the President of the episodes that devastated his administration;
- b) Some groups that could lead campaigns against the president are co-opted by the power schemes or fear a "conservative" setback. When they are not co-opted, they are not mobilized.
- c) Lula has a decent amount of credibility acquired over the years when he was pampered by journalists and academics and treated as the best option for the country. The wear down is slow and would demand an intense bombardment from the electronic media;
- d) The population sees the President as someone like them that can identify with the problems of the people. Both for his origins and his discourse and posture;
- e) The government social assistance programs complete the list of factors due to their impact on the popularity of the President;
- f) The blame for the political crisis is attributed by many to the PT, representatives, and other personalities;
- g) Finally, the stable economic environment and some economic growth create a positive psychosocial atmosphere that discourages aggressive attitudes against the constituted power.

In spite of episodes that fulminated José Dirceu and Antonio Palocci, Lula's two strongmen, having devastating effects among opinion makers, without the participation of the electronic media Lula's loss of popularity should be slow. The most serious consequences of the episodes should be felt by Lula when the campaign heats up in the streets and the time arrives for election advertising on television.

Does the opposition still have ammunition against Lula?

The Waldomiro Diniz, monthly payoff, and Ribeirão Preto Republic scandals had two tough consequences for Lula: they affected his popularity and toppled strategic people in his administration.

However, in spite of everything, Lula continues enjoying good popularity and leads in the election polls.

Where can the opposition aim to hit President Lula?

In the Post Office CPI it could try to include the President's name as one of the indicted or incorporate embarrassing elements for Lula in the final report. In the Bingo CPI it tries to continue aiming at Lula's friend Paulo Okamoto. It also insists on government involvement in the violation of the banking privacy rights of Francenildo Santos.

Even if it is not able to hit President Lula directly, the opposition expects to insist on these themes to keep the government on the defensive and weaken the administration in the election dispute.

The government, on the other hand, will try to counterattack. According to an article published in *O Globo* this weekend, São Paulo state legislators are trying to pull out 69 CPI requests against Geraldo Alckmin that had been shelved.

The difficult alliance between the PSDB and PMDB

In the last few days rumors have surfaced regarding an eventual coalition between the PSDB and PMDB, with Geraldo Alckmin as the Presidential candidate and Anthony Garotinho as the VP. Although this union could be possible, it's very unlikely that it will happen.

In the first place because the PSDB is looking for a Vice President from the Northeast. After all, it's in the North and Northeast regions that President Lula is the strongest.

Another doubt concerns the ability of Garotinho to bring votes to the PSDB candidacy. In spite of having an average of 10% of intended votes in the country, Garotinho wouldn't necessarily be able to transfer all of that percentage to Alckmin. Additionally, rejection to Garotinho is high, which could negatively affect the PSDB candidacy. All things considered, the balance could actually be negative.

Another crucial point is the lack of unity in the PMDB. In the same way that the governist faction boycotted the primaries to choose the party's Presidential candidate, it could make the alliance with the PSDB unviable.

With the permanence of verticalization, the tendency of the PMDB not having its own candidate and no alliance at the federal level prevails. Free in the states, the party has the chance to elect the largest number of governors and the most members in the House and Senate. It will therefore be indispensable to any administration.

In other words, it's in the PMDB's interest to remain divided. In that way, it can please everyone.

Naturally, there will be attempts by the PSDB to co-opt the PMDB. The government will do the same. The objective of both is to not let the other attract and win over the PMDB.

In today's scenario, the most that the PMDB could offer Alckmin and Lula are a few state platforms.

Serra helps and hinders Alckmin

The decision of José Serra to run for governor in São Paulo brings advantages to Geraldo Alckmin. The first is that it strengthens the PSDB election campaign in the state with a strong name to win the governor's seat. The names considered before did not seem to have the appeal to beat the PT.

The second advantage is that it solidifies the understanding with the PFL with the handing over of the São Paulo City Hall, reinforcing the alliance between the parties in the dispute in São Paulo and for the Presidency. The third advantage is that it reinforces Alckmin's national campaign, by presenting a united party.

However, the fact that José Serra left City Hall opens the remote possibility that he could eventually substitute Geraldo Alckmin, if the former governor doesn't take off in the polls. It's something to be considered. Geraldo Alckmin could be pressured to show gains in popularity in the short-term.

PT is behind in the fight for allies

The PSDB has already announced its Presidential candidate. The party has practically sealed an alliance with the PFL. And is still trying to win over part of the PMDB and other parties.

On the other hand, the PT is still timid as far as the policy of alliances. It doesn't have a lot of options. The coalition with the PC do B and PSB is still uncertain. Both fear not being able to reach the barrier clause, and for that reason have not yet announced a decision to officially support the PT ticket.

With so many problems to solve – Bingo CPI, Post Office CPI – and without Lula formally assuming his candidacy, there's not much that PT President Ricardo Berzoini can do.

Besides the alliances, Lula is bogged down in putting together his campaign team.

Political Agenda for the Week

Monday – April 3

- ✓ President Lula receives the participants of the 47th Annual Meeting of the Inter-American Development Bank (IDB) in Belo Horizonte. Ministers of Finance Guido Mantega and Planning, Paulo Bernardo and Central Bank President Henrique Meirelles, should also participate in the event.
- ✓ Finance Minister **Guido Mantega** will announce the names of the members of his team this week.
- ✓ In Rio de Janeiro, Development Minister **Luiz Fernando Furlan** will announce operational changes to the National Institute of Industrial Property (INPI), to speed up and afford more quality to patent requests received by the organization.
- ✓ Internal Revenue Service Secretary **Jorge Rachid** will take on the presidency of the Inter-American Center for Taxation Administration (Ciat), which includes 36 countries. The entity will hold its General assembly in Santa Catarina addressing "Tax Collection Potential as a Taxation Administration Target".
- ✓ The Ministry of Development will publish the **trade balance** for March.
- ✓ Ordinary Meeting of the National Electric Power Agency (**Aneel**) Board of Directors.

Tuesday – April 4

- ✓ In São Paulo, President Lula will participate in the opening of the International São Paulo Construction and Lighting Week, at 11:00 a.m.
- ✓ The **House** may initiate voting on three provisional measures blocking the agenda.
- ✓ The **Senate** will attempt to vote seven provisional measures blocking the agenda.

- ✓ The **Mail Service CPI** will initiate voting on reporting representative Rep. Osmar Serraglio's report (PMDB-PR).
- ✓ At 11:00 a.m., the **Bingo CPI** will place Sebrae President Paulo Okamoto face-to-face with former Secretary of Finance of the São José dos Campos City Hall, Tarso Vencelau.
- ✓ As of 10:30 a.m. the **Ethics Committee** should vote on Representative Antonio Carlos Mendes Thame's (PSDB-SP) report in favor of ousting Josias Gomes (PT-BA).
- ✓ The **Mixed Budget Committee** will meet during the afternoon to elect its new members.
- ✓ **IBGE** will publish the Monthly Physical Industrial Survey – Brazil (February/06).

Wednesday – April 5

- ✓ Former Finance Minister **Antonio Palocci** will render his deposition to the Federal Police regarding the removal of banking confidentiality from housekeeper Francenildo dos Santos.
- ✓ The **House of Representatives** may vote on ousting procedures against Rep. João Paulo Cunha (PT-SP).
- ✓ A meeting of National Congress is scheduled to vote on the **2006 Union Budget**.
- ✓ The **PMDB** will choose a new party leader for the House of Representatives.
- ✓ The Senate Agriculture and Agrarian Reform Committee will hold a public hearing at 9:30 a.m. to hear the former presidents of the National Colonization and Agrarian Reform Institute (Incra) Xico Graziano and Marcelo Resende, as well as its current president, Rolf Hack-

bart, regarding the **agrarian reform** process.

- ✓ An international forum will take place in Brasília until Friday to present and debate the results of the **1st Brazilian Legislative Census**, undertaken last year in 5,564 City Halls, 26 legislative assemblies and in the Federal District Legislative Chamber.
- ✓ Minister Raphael de Barros Monteiro Filho will take office as Chief Justice of the Superior Court of Justice (**STJ**) for the 2006-2008 two-year period.
- ✓ Fipe publishes the Consumer Price Index (**IPC**) results for April.
- ✓ The Central Bank publishes the **foreign exchange flow** report for March.

Thursday – April 6

- ✓ **PDT** national program on radio and TV network totaling 20 minutes.
- ✓ **IBGE** publishes the Systematic Assessment of Agricultural Production (March/06).
- ✓ **IBGE** publishes the National Civil Construction Survey System Costs and Rates (March/06).
- ✓ FGV publishes the general price index (**IGP-DI**) for March.
- ✓ **Anfavea** publishes vehicle production, sales and export results for March.

Friday – April 7

- ✓ **IBGE** publishes the National Consumer Price Index and the National Amplify Consumer Price Index (March/06).
- ✓ **IBGE** publishes the Monthly Physical Industrial Production Survey (February/06).