

Brazil in Crisis

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Brazil is in the midst of deepening economic and political crises that are closely intertwined and unlikely to be resolved quickly. Given that Brazil is the world's 9th-largest economy and the 12th-largest U.S. [trading partner](#), the country's deteriorating situation could impact U.S. businesses. The crises could also hinder Brazil's response to the [Zika outbreak](#), its preparations for hosting the [2016 Summer Olympics](#) in August, and its ability to address [foreign policy concerns](#), such as stability in neighboring [Venezuela](#).

Brazil's economy experienced strong growth from 2003 to 2010 but has been hit hard by the slowdown in China and the decline in global commodity prices in recent years. President Dilma Rousseff's [policies](#) exacerbated the situation, contributing to rising inflation and fiscal deficits and to declining consumer and investor confidence. The Brazilian [economy contracted](#) by 3.8% in 2015 and is expected to contract by 3.5% in 2016. The labor market has weakened considerably, with the [unemployment rate](#) climbing from 6.8% to 9.5% and real wages falling by 2.4% over the past year. Some of the nearly 40 million Brazilians who joined the middle class during the boom years are now at risk of falling back into poverty.

Rousseff has attempted to implement some economic adjustments since the start of her second four-year term in January 2015, but many of the initiatives have stalled in the fragmented Brazilian congress, which includes 26 political parties. Rousseff and her center-left Workers Party (PT) campaigned against austerity measures during the 2014 election, and much of the party is opposed to Rousseff's policy switch. Several parties that—until recently—were nominally allied with the PT, such as Vice President Michel Temer's Party of the Brazilian Democratic Movement (PMDB), have few ideological commitments but [condition their support](#) on control over government posts and legislative earmarks. Given the country's fiscal situation, Rousseff has had fewer resources to distribute. Meanwhile, opposition parties that campaigned in support of economic adjustments, such as the Brazilian Social Democracy Party (PSDB), have demonstrated more interest in opposing Rousseff than in advancing their policy preferences.

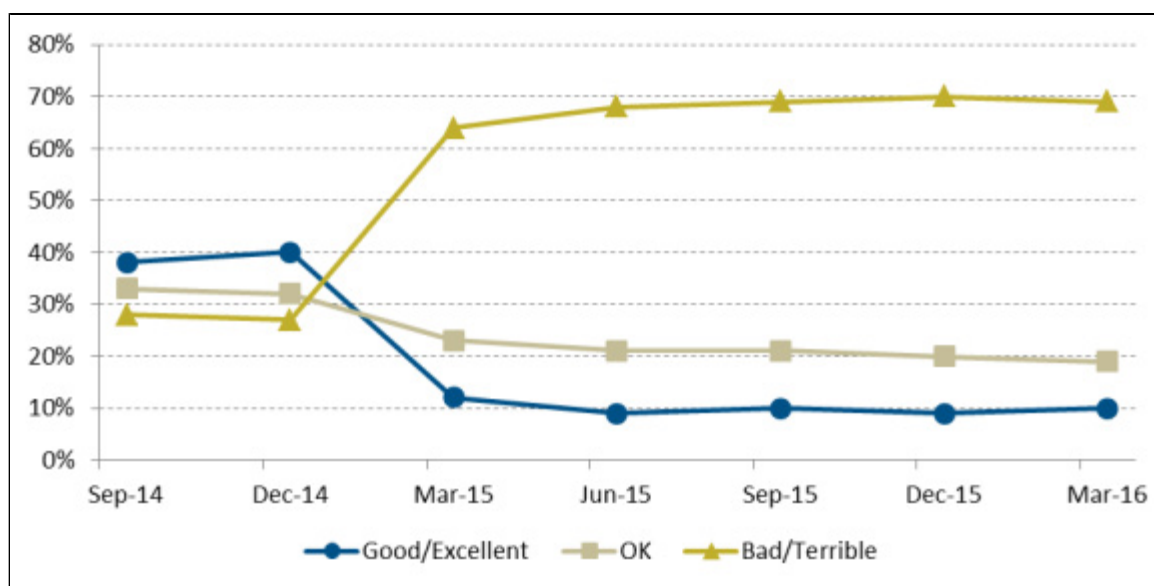
A sprawling corruption investigation under way since March 2014 has further complicated the situation, deterring

investment and sending much of the political establishment scrambling for survival. Beginning in 2004, appointees at the state-owned oil company, Petrobras, colluded with construction firms to systematically drive up contract prices. Corrupt executives pocketed a portion of the funds and funneled the rest to political campaigns and politicians. These practices extended well beyond Petrobras and included contracts throughout the public sector. Investigators [reportedly have uncovered](#) bribes totaling about \$1.7 billion and total losses to the Brazilian state estimated at between \$7.9 billion and \$11.5 billion (at current exchange rates). While the investigation has focused primarily on members of the PT and PT coalition partners, it also has implicated some opposition politicians. Rousseff served as chairwoman of Petrobras from 2003 to 2010 but has not been directly tied to the corruption scheme.

As economic conditions have deteriorated and revelations of systemic corruption in the political system have come to light, Rousseff has lost nearly all her political support. Her [approval rating](#) collapsed within months of her narrow reelection in October 2014. As of March 2016, 10% of Brazilians evaluated her administration as "good" or "excellent," while 69% evaluated it as "bad" or "terrible" (see [Figure 1](#)). Key coalition partners have abandoned the government, including Vice President Temer's PMDB.

Figure 1. Public Evaluation of the Rousseff Administration

(September 2014-March 2016)



The political opposition has sought to channel this popular discontent into an effort to remove Rousseff from office. Brazil's Chamber of Deputies is considering an impeachment motion that accuses her of misrepresenting fiscal accounts and opening credit lines without congressional authorization in violation of the Fiscal Responsibility Law. Rousseff maintains that impeachment would be a "[coup](#)," arguing that such fiscal maneuvers were routine among her predecessors and do not constitute an impeachable offense.

Many analysts assert that legislators' political calculations, rather than the impeachment charges' legal merits, likely will determine Rousseff's fate. To stop the [impeachment process](#) from moving forward, Rousseff must secure the votes (or abstentions) of 171 of the 513 deputies in Brazil's lower house. Former president Luis Inácio Lula da Silva, who is under investigation for corruption but still has considerable political capital, is helping Rousseff round up votes. They are negotiating with small parties and individual legislators, reportedly exchanging government positions and other favors for support. About [60% of legislators](#)—including the leaders of both congressional chambers—are facing criminal charges or under investigation. Lula has also helped rally the PT base, which has taken to the streets to protest impeachment even as [polls](#) indicate that more than two-thirds of Brazilians support removing Rousseff from office.

The full Chamber of Deputies could vote on impeachment as early as mid-April. If two-thirds of deputies vote to proceed, Vice President Temer will assume the presidency for up to 180 days while Rousseff is tried by the 81-seat

Senate. If two-thirds of senators vote for conviction, Rousseff will be removed from office permanently and Temer will serve as president for the remainder of her term, assuming he is not [impeached](#). Chamber of Deputies President Eduardo Cunha, who is third in line to the presidency, also faces [removal from office](#).

Whoever ends up president will likely struggle to lead Brazil out of the current crises. Brazilian society has become increasingly [polarized](#), and many will likely view the outcome of the impeachment process as illegitimate. Corruption investigations and popular mobilizations will likely continue to put pressure on the political class, complicating efforts to form a governing majority and implement the sweeping [budget cuts](#) advocated by many economists. Structural reforms to strengthen the political system and address barriers to economic growth may be delayed until after a new president and congress, scheduled to be elected in October 2018, take office in January 2019. New elections could be held sooner if an independent inquiry into alleged electoral fraud leads Brazil's electoral court to nullify the 2014 presidential vote.