

Brazil in Crisis

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- [Peter J. Meyer](#)

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Peter J. Meyer, Analyst in Latin American Affairs (pmeyer@crs.loc.gov, 7-5474)

Brazil, the fifth most populous country and ninth-largest economy in the world, is in the midst of severe economic and political crises that are closely intertwined and unlikely to be resolved quickly. The country's deep recession has taken a toll on [U.S.-Brazilian trade](#), with U.S. exports declining by more than 25% (\$10.8 billion) in 2015. The ongoing crises could also hinder Brazil's preparations for hosting the [2016 Summer Olympics](#) in August; its response to public health challenges, such as the [Zika outbreak](#); and its ability to address [foreign policy concerns](#), such as stability in neighboring Venezuela.

President Dilma Rousseff of the center-left Workers Party is currently suspended from office pending the outcome of an impeachment trial in the Brazilian Senate. A supermajority in Brazil's Chamber of Deputies voted to impeach Rousseff in April 2016—a little more than a year into her second four-year term—for allegedly violating the country's fiscal responsibility law by using state-run banks to cover budget expenses and thereby opening credit lines without congressional authorization. Rousseff argues that her administration's fiscal maneuvers do not constitute an impeachable offense and that removing her from office would amount to a "[coup](#)." Some analysts have questioned the legal merits of the charges against Rousseff and argued that the impeachment attempt is a [misuse of democratic procedures](#). Other analysts contend that impeachment is an inherently political process and assert that the process may help [preserve democratic stability](#) by providing the Brazilian Congress with a constitutional mechanism to remove an unpopular president who has proven incapable of resolving the country's challenges. According to a [poll](#) released prior to the Chamber of Deputies vote, 13% of Brazilians evaluated the Rousseff Administration positively, 63% evaluated it negatively, and 61% supported impeachment.

Rousseff lost much of her popular support as a result of Brazil's deteriorating economic situation. The country experienced strong economic growth from 2003 to 2010 but has been hit hard by the economic slowdown in China, Brazil's largest trading partner, and the decline in global commodity prices in recent years. 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 [projected to contract](#) by 3.8% again in 2016. The

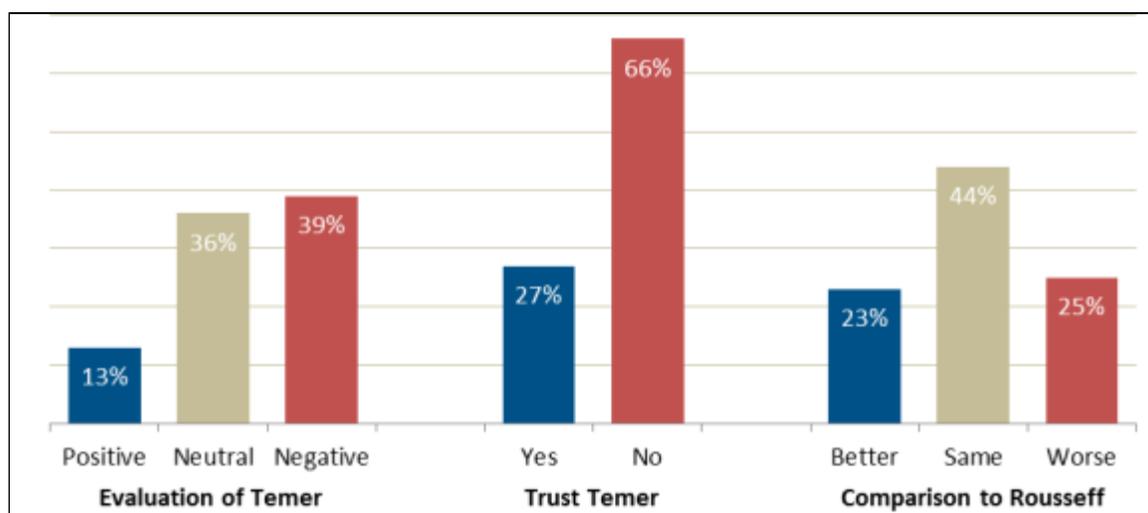
labor market has weakened considerably over the past year, with the [unemployment rate](#) climbing from 8.1% to 11.2%. Some of the nearly 40 million Brazilians who joined the middle class during the boom years have now fallen back into poverty.

A sprawling corruption investigation under way since March 2014 also contributed to the erosion of Rousseff's political support. Beginning in 2004, appointees at the state-controlled oil company, Petrobras, colluded with construction firms to systematically drive up contract prices. Executives pocketed a portion of the funds and funneled the rest to politicians and parties in the ruling coalition. Petrobras lost an estimated \$2.1 billion to the [corruption scheme](#), which has implicated prominent business leaders and much of Brazil's political class. Investigators believe these types of practices extended well beyond Petrobras and included contracts throughout the public sector. About [60% of federal legislators](#) are facing charges or are under investigation for corruption or other serious crimes. Rousseff served as chairwoman of Petrobras from 2003 to 2010 but has not been directly tied to the corruption scheme. She lost several key congressional allies as a result of her support for the investigation, and at least some [impeachment proponents](#) have sought her removal to bring the corruption investigation to a close.

Vice President Michel Temer is serving as the interim president while Rousseff is tried by the Senate. He hails from the Party of the Brazilian Democratic Movement, an ideologically amorphous party that traditionally has entered into governing coalitions in exchange for control over government posts and expenditures. Since assuming office in May, Temer has assembled a new, center-right Cabinet and called for economic reforms favored by many economists and international investors. These reforms include a cap on government expenditures, a cost-reducing pension reform, the privatization of some state assets, and a measure to allow greater participation by international companies in Brazil's oil sector.

Although Temer's proposed policy shifts have been well received by some observers, he has struggled politically since becoming interim president. Temer's decision to appoint a Cabinet lacking women or Afro-Brazilians—both of which constitute majorities of the population—was heavily criticized, as was his decision to include several individuals under investigation for corruption. Three ministers already have stepped down as a result of allegations that they accepted bribes or sought to derail corruption investigations; Temer has also been [accused of corruption](#). According to a [poll](#) from late June, 13% of Brazilians evaluate the Temer Administration positively, 39% evaluate it negatively, and 66% do not trust the interim president. Most analysts assert that it is still unlikely Rousseff will return to the presidency, but Temer's struggles could lead some Brazilian senators to reconsider their support for impeachment, which could prevent impeachment proponents from obtaining the two-thirds majority necessary to permanently remove Rousseff from office. The Senate is expected to vote on Rousseff's removal in late August.

Figure 1. Public Evaluation of the Temer Administration: June 2016



Source: [IBOPE Inteligência](#).

Whoever ends up president after the Senate trial will likely struggle to lead Brazil out of the current crises. Corruption investigations and popular mobilizations likely will continue to put pressure on the political class and complicate efforts to assemble majorities in the unwieldy Brazilian Congress, which includes 26 political parties. Far-reaching, and potentially painful, reforms to cut expenditures and address [structural barriers to economic growth](#) are unlikely to advance prior to municipal elections in October 2016 and may be delayed until after a new president and congress, scheduled to be elected in October 2018, take office in January 2019. Reforms to the political system, which many analysts argue fosters legislative [fragmentation and corruption](#), may prove even more difficult to enact given that many political parties have vested interests in maintaining the current system.