

Brazil in Crisis

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Brazilian President Dilma Rousseff of the center-left Workers Party was permanently removed from office on August 31, 2016—a little more than a year and a half into her second four-year term. Officially, Rousseff was impeached and convicted by supermajorities in both houses of the Brazilian Congress for violating the country's fiscal responsibility law. Many analysts contend, however, that Rousseff's fate was determined more by legislators' political calculations than by the legal merits of the impeachment charges. Rousseff's political base collapsed over the past year as a deep economic recession eroded Brazilians' living standards and a damaging corruption investigation split the governing coalition.

Brazil 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 economic 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 3.3% this year. The labor market has [weakened considerably](#) since Rousseff began her second term, with the unemployment rate climbing from 6.8% in the quarter ending in January 2015 to 11.6% in the quarter ending in July 2015; real median wages fell by 4.3% over the same period. Some of the nearly 40 million Brazilians who joined the middle class during the boom years have now fallen back into poverty. The economic crisis also inhibited Rousseff's ability to maintain political alliances by reducing the resources available for distribution to her coalition partners.

A sprawling corruption investigation under way since March 2014 has further complicated political dynamics in Brazil. 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 more than \$2 billion to the [corruption scheme](#), which has implicated prominent business leaders and left much of the political establishment scrambling for survival. Rousseff served as chairwoman of Petrobras from 2003 to 2010 but has not been directly linked to the scandal. She alienated key sectors of her coalition by allowing the corruption probe to proceed unimpeded; some legislators pushed for her impeachment,

believing a new government would [stop the investigation](#).

Implications for Brazil

Vice President Michel Temer is expected to serve out the remainder of Rousseff's term, which concludes on December 31, 2018. He has been serving as the acting president since May 2016, when Rousseff was suspended from office to stand trial in the Brazilian Senate. Temer hails from the ideologically amorphous Party of the Brazilian Democratic Movement. He has assembled a new, center-right Cabinet and called for economic reforms favored by many economists and international investors, including a cap on government expenditures, a cost-reducing pension reform, the privatization of some state assets, and a measure to allow greater foreign participation in Brazil's oil sector.

Temer assumed office with little popular support and is likely to face sustained public opposition. Although [polls indicate](#) that a majority of Brazilians supported Rousseff's impeachment, many members of the Workers Party and its allied unions and social movements view Temer as an illegitimate president who came to power through a "[coup](#)." They have organized several mass protests in recent weeks and are likely to take to the streets in greater numbers if the Brazilian Congress attempts to weaken labor protections or reduce pension benefits. Temer also faces skepticism among the broader Brazilian public. As of June 2016, two-thirds of Brazilians had [no confidence](#) in the new president. With [Temer](#) and nearly [60% of federal legislators](#) under investigation or facing charges for corruption or other serious crimes, many Brazilians have lost faith in the country's political class and [democracy in general](#).

Temer has assembled a broad base of support in the Brazilian Congress, but he may struggle to hold the coalition together to enact his proposed policy changes. Some of the far-reaching reforms would amend Brazil's constitution and would require supermajority support in Congress. Although some sectors of Temer's coalition are ideologically committed to his proposals, others are more interested in securing control of government positions and resources. These sectors already have [pushed back](#) against the Temer Administration's initial efforts to reduce expenditures. Temer also faces a narrow window to enact his policy agenda because Brazil is scheduled to hold municipal elections in October 2016 and presidential, legislative, and gubernatorial elections in 2018. Few legislators and political parties are likely to support controversial, and potentially painful, reforms in the lead-up to elections.

Given these internal dynamics, it remains far from clear that Temer will be able to enact the [policy changes](#) many economists think are necessary to turn around Brazil's economy. Reforms to the political system, which some scholars argue inhibits good governance by fostering legislative [fragmentation and corruption](#), do not appear to be on Temer's agenda.

Implications for the United States

There has been considerable continuity in [U.S.-Brazilian relations](#) despite the change in government in Brazil. Although some [Members of Congress](#) called on the Obama Administration to express concern about the impeachment process, the Administration asserts that "[Brazil's democratic institutions have acted within its constitutional framework](#)." Bilateral dialogues, which facilitate policy coordination on issues of mutual concern, continued during the political crisis, and Secretary of State John Kerry has stated that the U.S. and Brazilian governments will [continue working together](#) to address issues such as climate change, Zika, and the crisis in Venezuela.

Brazil's economic recession has had a greater impact on bilateral relations. Bilateral merchandise trade declined by 18% in 2015 and has fallen an additional 17.5% through the first six months of 2016. U.S. exports have been particularly hard hit, declining by more than 25% (\$10.8 billion) in 2015 and 20.5% (\$3.5 billion) in the first six months of 2016. Brazil's new foreign minister has asserted that Brazil will seek to bolster commercial relations with the United States by focusing on [short-term practical solutions](#) for removing regulatory and nontariff barriers to trade.