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## FEATURED Q&A

# Has Brazil Pulled Out of its Worst Recession Ever?



Brazil's economy is showing signs of growth and recovery despite the country's political turbulence, Finance Minister Henrique Meirelles said last week. // File Photo: Brazilian Government.

**Q** Brazil's economy grew 1 percent in the first quarter as compared with the previous three-month period, officially ending the country's worst recession on record and marking the economy's first quarter-on-quarter growth following eight consecutive quarters of contraction. What factors were behind the return to growth this year, and what challenges lie ahead as Brazil navigates its ascent from recession? How can the government keep the economy from backsliding into recession? How will the current political scenario affect future economic stability in the country?

**A** Marcos Vinicius Chiliatto Leite, economic affairs officer at the Economic Commission for Latin America and the Caribbean: "The end of the recession is not yet clear on the Brazilian horizon. The 1 percent growth in the first quarter of 2017 after several periods of decline is the result of the external sector, driven by agriculture, which saw 13.4 percent growth in the first quarter. For 2017, the Brazilian Institute of Geography and Statistics projects an almost 30 percent increase in cash crops, mainly because of an abundant rainy season after a dry 2016. In addition to improvements on the supply side, a spike in commodity prices in the beginning of 2017, along with higher demand, drove this growth. Brazil, with more than 200 million people and an industrialized economy, cannot rely on the export of commodities for its development. Brazil's strongest asset is its own people and domestic and regional markets, which still lack encouraging news. Household consumption and investment continue to fall, and

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## TODAY'S NEWS

### POLITICAL

## Venezuelan High Court Rejects Bid to Halt Rewrite of Constitution

The Supreme Court rejected a motion from the country's chief prosecutor, Luisa Ortega, to halt President Nicolás Maduro's efforts to form a "constituent assembly" to rewrite the country's Constitution.

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### BUSINESS

## Three Petrobras Workers Killed in Rig Blast

The explosion happened in the boiler room of a drill ship off Brazil's southeast coast.

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### POLITICAL

## Panama Severs Ties With Taiwan in Favor of China

President Juan Carlos Varela announced the decision in a televised address saying that switching diplomatic recognition from Taiwan to China was the "correct path" for the Central American country.

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Varela // File Photo: Panamanian Government.

## POLITICAL NEWS

## Panama Cuts Ties With Taiwan in Favor of Recognizing China

Panama on Tuesday severed diplomatic relations with Taiwan in favor of establishing them with China, a move that further alienated Taiwan from the rest of the world, The Washington Post reported today. Panamanian President Juan Carlos Varela announced the decision in a televised address, saying the new foreign policy was the “correct path” for the country. Panama and China released a joint statement announcing the change in diplomatic relations, saying they now recognize each other and were establishing ambassadorial-level relations the same day. “The Government of the Republic of Panama recognizes that there is but one China in the world, that the Government of the People’s Republic of China is the sole legal government representing the whole of China, and that Taiwan is an inalienable part of China’s territory,” the statement said, Taiwanese President Tsai Ing-wen called the move a betrayal and vowed the continue to maintain the island’s sovereignty. “Oppression

and threats are not going to help in cross-strait relations. It will on the contrary increase the discrepancy between the people” of Taiwan and China, he said. Panama was one of the largest countries in the world to recognize Taiwan, which now has only 20 formal diplomatic partners. Out of all of its diplomatic partners, 11 are in Latin America and the Caribbean. China’s policy is not to have diplomatic relations with any countries that recognize Taiwan, The New York Times reported. “It is very possible that the remaining countries will switch,” said Ross Feingold, a senior adviser in Taipei at D.C. International Advisory, of Taiwan’s diplomatic allies in Central America.

## Venezuelan Court Rejects Bid to Halt Constitution Change

Venezuela’s Supreme Court on Monday rejected a motion by the country’s chief prosecutor, Luisa Ortega, to halt President Nicolás Maduro’s efforts to rewrite the country’s Constitution, the Associated Press reported. Last week, Ortega stood on the steps of the high court, grasping a copy of the Constitution, and saying the country’s democracy was at stake. Maduro

## NEWS BRIEFS

## Former Panamanian President Martinelli Detained in Florida

Former Panamanian President Ricardo Martinelli, who is wanted for extradition in Panama, was detained in Florida on Monday by U.S. Marshals officials, an official familiar with the matter said, The Wall Street Journal reported. The former president and billionaire supermarket mogul is wanted in Panama as part of investigations into corruption and illegal wiretapping of political opponents that allegedly took place while he was in office. The Panamanian Supreme Court issued a warrant for Martinelli’s arrest in December 2015 after he failed to appear in court.

## Colombian Central Bank Chief Expecting Further Rate Cuts This Year

Colombian Central Bank Governor Juan José Echavarría on Monday said the bank may cut its overnight interest rate by 100 basis points this year in order to spur growth, predicting inflation would hit the bank’s 3 percent target by late next year, Reuters reported Monday. Policymakers reduced rates by a quarter point in May and by 50 basis points in April. “On the growth side, the economy is slowing down or not growing much, and on the inflation side we have good news but not good enough,” Echavarría said.

## Statoil Seeks to Triple Brazil Oil Production

Norwegian oil and gas company Statoil has set the goal of more than tripling its oil production in Brazil going into 2030, and hopes to become the operator for the entire Caracara discovery, said Anders Opedal, Statoil’s head of Brazilian operations, Reuters reported Monday. The company has invested more than \$10 billion into oil production in Brazil and is the country’s largest foreign offshore operator.

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unemployment remains unchanged. These weakening conditions pose a huge challenge to Brazilian industry, which also competes with Asia. In the first quarter, Brazilian industrial production marked a persisting decline of 0.7 percent (12 months accumulates -9.7 percent). Since foreign demand and agriculture explain most of the 1 percent growth, this shouldn’t be attributed to economic policy. It is not related to the fiscal austerity or the social security and labor market reforms. Less public spending and labor market flexibility will not solve the industry challenge. It may even worsen the country’s situation if it leads to lower wages and even lower household consumption. The country should move toward social equality to drive demand, together with a revitalized industrial

development plan for boosting economic growth and structural change.”

**A** **Paulo Vieira da Cunha, partner at Verbank Consulting, LLC in New York:** “Brazil’s economy grew 1 percent in the first quarter, but this is not the end of the recession.

Data for the second quarter will likely return to negative numbers, and if the political crisis continues, so could the subsequent quarter-on-quarter seasonally adjusted numbers for 2017. A return of business confidence led to the steady pickup in activity since mid-2016. This, in turn, was due to the emergence of new economic teams, at the Ministry of Finance and the central bank, and to Temer’s ability to persuade his coalition

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has pushed to form a "constituent assembly" in order to rewrite the Constitution, which was put in place in 1999, soon after Maduro's late predecessor and mentor, Hugo Chávez, took power. However, the Supreme Court on Monday declared Ortega's request inadmissible. Ortega



Ortega // File Photo: Venezuelan Government.

said Monday in a radio interview that her family members have been threatened since she split from Maduro's government. "They harass them. They follow them, patrol cars that look like SE-BIN," Ortega said, referring to the government's intelligence service. The court's action came as anti-government protesters and journalists clashed with armed pro-government groups known as "colectivos" near the Supreme Court, the AP reported. National guardsmen wearing helmets and bulletproof vests stood in the street, using plastic shields, in order to stop protesters from reaching the court. More than two months of violent protests have left at least 68 people dead in Venezuela. On Monday, public transit in Caracas was virtually shut down as transport workers went on strike. The work stoppage affected about 90 percent of the capital, union leaders told the AP. Striking transit workers said they were protesting unsafe working conditions and were demanding the release of a bus driver who was detained and charged with terrorism after transporting a group of anti-government protesters. However, local media reports said protesters had forced the bus driver to give them a ride. Also on Monday, Venezuela's interior ministry took control of the police force in Miranda state, where opposition leader Henrique Capriles is the governor, BBC News reported. Miranda has seen some of the largest anti-government protests of the last two months. Capriles said the takeover of the state's police force amounted to a political attack. "It's clear they'll try to use the police against the people," he said.

## BUSINESS NEWS

### Three Petrobras Workers Killed in Oil Rig Blast

Three workers of Brazilian state-run oil company Petrobras were killed due to injuries they sustained following an explosion Friday at an offshore drill rig, The Wall Street Journal reported. The explosion occurred in the boiler room of a drill ship that is operated by Odebrecht Óleo e Gás in the Marlim field off Brazil's southeast coast. The incident was Petrobras' most deadly since an explosion on a floating production, storage and offloading vessel in 2015 left nine workers dead and 26 injured. The incident is raising concerns over whether

the firm is able to meet safety standards as it looks to cut costs and pay off some of its heavy debt load. "This type of accident has its origins in the workforce reduction that

“ This type of accident has its origins in the workforce reduction that Petrobras has been implementing.”

— Paulo Neves

Petrobras has been implementing," said Paulo Neves, a director at the national oil workers' federation, or FUP. Petrobras did not provide details as to the cause of the explosion, though it said it would form a commission to investigate the incident.

## Subscriber Notice

### A Conversation With the President of Panama

Featuring

**JUAN CARLOS VARELA**  
President of Panama

**Wednesday, June 21**  
**8:30 - 10:30 a.m.**

Inter-American Dialogue  
1155 15th St. NW  
Suite 800  
Washington, D.C.

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to approve important measures in Congress. Meanwhile, the deleveraging of indebtedness by consumers and firms was proceeding. Together with a path to lower interest rates, an exceptional performance in agriculture in the first quarter and the promise of continued policy and legislative progress in tackling the country's unsustainable buildup of public debt, the performance of Temer's government sustained confidence. And confidence is key to an upturn in the flow investments, which dropped nearly 30 percent in volume since the previous peak in the first quarter of 2014. For the economy to return to sustained growth, the political crisis must end; hopefully it will soon, with the resignation of President Temer, followed by indirect elections in Congress, or alternatively, with a new president in 2019."

**A** **Monica de Bolle, non-resident senior fellow at the Peterson Institute for International Economics:** "Brazil's first-quarter growth was essentially driven by bumper crops in soybeans and corn, as well as by recovering commodity prices. Agriculture recorded astounding growth rates of 15 percent relative to the first quarter of 2016, driving up economic activity. All other GDP components, however, remain in the red. Notably, consumption and investment have

continued to contract, underscoring the weakness in domestic demand. It is therefore too soon to call an end to the recession. Moreover, with the worsening political crisis

“**Consumption and investment have continued to contract, underscoring the weakness in domestic demand.**”

— Monica de Bolle

surrounding President Michel Temer, it is possible that the country will post another contraction in GDP this year—there isn't much that the government can do to contain this risk, given eroding governability and a lack of room for economic maneuver. The best one can hope for is that with falling inflation, some real wage gain may give support to household consumption. Brazil's ongoing drama is unlikely to be resolved before the 2018 general elections."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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