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FEATURED Q&A

What Will Rousseff's Second Term Mean for Banks in Brazil?

Q Earlier this year, Brazil's central bank eliminated 70 billion reais ($27.7 billion) worth of reserve and capital requirements for the country's banks in an effort to speed the growth of credit. However, Bloomberg News reported in September that large banks are seeing little demand for more loans as consumers and businesses are remaining cautious. Will bank lending in Brazil pick up over the next 12 months? What does President Dilma Rousseff's second-term election victory last month mean for Brazilian banks? Will the government take additional measures in the coming year to encourage banks to lend more?

A Riordan Roett, director of the Latin American Studies program at the Johns Hopkins University's School of Advanced International Studies: "Brazil is in a technical recession. From running a primary surplus for many years, this year it is running a primary deficit. As Tony Volpon at Nomura Securities International has commented recently, anything short of a meaningful increase in fiscal effort, return in confidence that boosts growth and a drop in real interest rates will likely lead Brazil down the path of losing its investment-grade status over the next two years. In that bleak environment, it is difficult to imagine that the Brazilian banking system will undertake a robust program of lending even if there were potential customers. Given the low or no growth that is forecast for this year and 2015, already heavily indebted Brazilians will be reluctant to acquire more credit-card debt or make large purchases financed through bank loans. President Rousseff's decision to postpone the appointment of a new finance minister until after the upcoming G-20 meeting will do little to instill confidence regarding the economic direction of the country in 2015. The second Rousseff administration may pressure banks to lend more next year, but with interest rates at 11.25 percent, and the real possibility of another increase in December, the econom-

Continued on page 3

Colombia's Santos Suspends Talks After General's Abduction

Colombian President Juan Manuel Santos on Sunday suspended the government's peace talks with the FARC after members of the rebel group apparently kidnapped a general in Chocó province. See story on page 2.

File Photo: Colombian Government.

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NEWS BRIEFS

Cielo in Talks to Run Banco do Brasil's Card Transactions

Brazil's **Cielo**, the country's largest processor of card payments, is in talks to manage the debit- and credit-card transactions of **Banco do Brasil**, Cielo said today in a regulatory filing, Bloomberg News reported. Cielo is controlled by Banco do Brasil and **Banco Bradesco**. Brazilian magazine *Veja* reported Saturday that Cielo would pay 9 billion reais ($3.4 billion) to take over Banco do Brasil's card operations.

Argentina's Kicillof 'Satisfied' With G20 Statement on Debt

Argentine Economy Minister Axel Kicillof on Sunday said his government is "satisfied" by the inclusion of a clause calling for the strengthening of the "orderliness and predictability" of sovereign debt restructurings in a G20 summit communiqué, Reuters reported. "We are extremely satisfied," the minister said in a posting on the government's YouTube page. Argentina defaulted on its debt in July after a decade-long battle with bondholders who refused to accept restructurings after it defaulted on its debt a decade ago.

Glencore, X2 Among Potential Buyers of Anglo American Assets

Commodity company **Glencore** and **X2**, a company founded by former **Xstrata** head Mick Davis, are among the potential buyers of copper assets being offered by **Anglo American**, sources told Reuters last week. The assets include the company's Mantos Blancos and Mantoverde mines, its stake in the El Soldado Mine and the Chagres smelter, all in Chile, which could cost up to $1 billion. Private equity firm **Warburg Pincus** and miners **Lundin** and **Nevsun Resources** are also potential buyers.

Political News

Colombia Suspends Peace Talks After General's Kidnapping

Colombian President Juan Manuel Santos suspended the government's peace talks with the Revolutionary Armed Forces of Colombia on Sunday after the rebel group apparently kidnapped an army general, Bloomberg News reported. General Rubén Alzate was abducted Sunday in Chocó province, which borders Panama. Along with Alzate, a corporal and a female civilian were also kidnapped, said Santos. The president added that Alzate was dressed in civilian clothes at the time of his capture and was taken by members of the FARC. It was unclear why Alzate was dressed as a civilian, unarmed and traveling in the area, said Santos. He added that the peace talks would be suspended immediately. "Tomorrow the peace negotiators were due to travel to Havana for a new phase of talks," Santos said. "I'll tell them not to travel and to suspend the negotiations until this incident is cleared up and these people are freed." Santos ordered the country's defense minister, Juan Carlos Pinzón, to Chocó to oversee an operation aimed at locating and freeing Alzate and the other hostages. The president added that he would hold the FARC responsible for their safety. Santos' government has been engaged in the peace talks with the FARC since November 2012. The government has rejected calls from the FARC to observe a cease-fire during the talks, saying it would allow the rebels an opportunity to regroup. When he was abducted, Alzate had been traveling by boat along the Atrato River, BBC News reported. He was captured after stopping at the village of Las Mercedes, about 10 miles from Quibdó, the provincial capital, to talk to local community members. In a posting on Twitter, Santos said he wanted the country's defense minister to find out why Alzate was in the area, which has a high level of rebel activity. More than two years ago, the FARC announced that it would show goodwill in advance of the peace negotiations by ending its kidnappings. However, the rebel group abducted two soldiers recently in Arauca province and said that its policy against kidnappings applied only to civilians, not members of the military.

> "I'll tell them not to travel and to suspend the negotiations until this incident is cleared up and these people are freed."
>
> — *Juan Manuel Santos*

Mexico's PRD on Verge of Collapsing: Cárdenas

Prominent Mexican politician Cuauhtémoc Cárdenas said Sunday in an open letter that his Party of the Democratic Revolution, or PRD, is on the verge of collapsing after the disappearance and apparent murders of 43 university students in Guerrero state, which the party rules, Reuters reported. Cárdenas, a three-time presidential candidate, said the PRD is urgently in need of reform. The party is "on the verge of dissolving, or ending up as a simple political-electoral franchise subordinate to interests alien to those of the broad base of its members," Cárdenas said in the open letter. Cárdenas called on the PRD's leadership to resign and allow the party to be reconstructed. José Luis Abarca, who was the mayor of Iguala, the city from which the students disappeared on Sept. 26, was formally charged Friday in connection with their disappearance, CNN reported. Authorities have accused Abarca, a member of the PRD, of being the likely mastermind behind the abductions. He stands charged with six counts of aggravated homicide and one count of attempted homicide, according the attorney general's office in Guerrero. Abarca is accused of ordering local police officers to abduct the students who were then apparently killed by a local drug gang.

Cárdenas

File Photo: Mexican Government

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Company News

Police Arrest 18 as Scandal Widens at Brazil's Petrobras

Federal police in Brazil arrested 18 people on Friday amid a widening scandal at state oil company **Petrobras**, *The Wall Street Journal* reported. Among those arrested was Renato Duque, a former director of engineering and services at the company. Duque and others stand accused of involvement in a bribery and money-laundering scheme that diverted hundreds of millions of dollars from Petrobras to company contractors, employees and politicians. In addition to making the 18 arrests, police on Friday raided offices of 11 companies that are also suspected of involvement in the scandal. Among them are **Odebrecht**, **Camargo Corrêa** and **Constructora OAS**. Investigators have alleged that companies involved in the scandal worked together to boost the costs of work they performed for the state oil company. Brazilian prosecutors have alleged that some profits were diverted into the pockets of executives of Petrobras as well as prominent politicians, including members of the ruling Workers' Party. The party has consistently denied the allegations. The widening scandal could become a major distraction for the government of President Dilma Rousseff, who was re-elected three weeks ago and starts her second term in January. The president is facing emboldened members of the opposition and is expected to soon announce a new economic team in an effort to spur Latin America's largest economy. The number of people accused in connection with the scandal is growing so quickly that it could delay Rousseff's announcement of new cabinet members, Thiago Aragão, a political analyst at **Arko Advice** in Brasília, told *The Wall Street Journal*. "What if she names a new minister just to have to fire him the next day after finding out he is also involved in the scandal?" Aragão told the newspaper. On Sunday, Rousseff told reporters that the scandal could cause major changes in Brazil. "This may change the country forever," Rousseff said in Brisbane, Australia during a summit of the G20, Reuters reported. "How? By ending impunity." Rousseff added that the case is the first large-scale scandal to be thoroughly investigated. "This will change forever the relationship between ... Brazilian society, the Brazilian state and private companies," she said. Before Rousseff became president, she chaired Petrobras' board of directors, making her the company's highest-ranking official, from 2003 to 2010. Over the weekend, thousands of demonstrators gathered in Brasília, São Paulo and Rio de Janeiro to protest Rousseff's management of the company, Reuters reported, citing state police.

> "This will change forever the relationship between ... Brazilian society, the Brazilian state and private companies."
>
> — *Dilma Rousseff*

Featured Q&A

Continued from page 1

ic outlook appears to be deteriorating for the foreseeable future. It may well be that the fiscal challenges that the government will confront next year will place less priority on bank lending than earlier this year."

> "Already heavily indebted Brazilians will be reluctant to acquire more credit-card debt or make large purchases financed through bank loans."
>
> — *Riordan Roett*

Marta Garcia, associate attorney, and Marta Colomar-Garcia, partner, at Diaz, Reus & Targ, LLP: "Without a doubt, Dilma Rousseff's main challenge is economic recovery. Many have been detractors of Rousseff. She received Brazil four years ago from Lula da Silva when the country was growing at an annual rate of 7.5 percent. Now, Brazil is in a recession. Some analysts base Brazil's past growth on favorable conditions, where Lula's economic austerity was accompanied by the recovery in the markets for raw materials such as soy, meat and iron. However, as consumption increased, Brazil's internal production did not increase at the same rate, and the country became more dependent on imports, especially from China. Brazil has systemic problems such as inflation and a very complex and inefficient tax system, which hurts corporate cash flow. Rousseff's government will have to work to strengthen and offer financing to domestic businesses so the country can increase its exports and lessen its dependence on imports. This funding of domestic businesses should be used to bridge the gap on the high inflation that has elevated costs is ultimately damaging domestic consumption. However, challenges are already arising. Earlier this month, Brazilian state development bank BNDES, the main source of corporate financing, announced that if the government does not inject a substantial amount of capital, the bank might be forced to scale back loans. During Brazil's growth period, the middle class grew exponentially. This middle class, however, is not spending right now. This had already been announced by Moody's, which noted that despite growth of the middle class, Brazil had reached its ceiling and that a slowdown in consumer loans would ensue. Rousseff's government seemed to take note of this fact and pushed to offer cheap loans to Brazilians in the hopes of increasing consumption. Analysts and markets are still skeptical of her strategy as Brazilian consumers now seem to be wary and rational when consuming. Only a fall in market prices added to better consumer interest rates will increase consumption in Brazil."

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Featured Q&A

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Fernando Mello, Brazil-based consultant and journalist for publications including *El País, Folha de S. Paulo* and Brio Media: "Dilma Rousseff's electoral campaign connected private banks and interest rates with poverty and hunger. In one of her television ads, an empty plate showed the words 'interest rates,' making this explicit connection. Now, the campaign is over and reality sets in. In the next 12 months, credit might decrease for some reasons. First, the real increase of credit to consumers is around 4 percent, considering the accumulated result for 12 months, but the curve is already coming down. In addition, the labor market will not allow a new credit expansion. In the past months, industry is eliminating positions, and the data for new positions opened is expected to end 2014 with similar results as 2009, after the world economic crisis. Without employment and income, it will be hard to increase credit. Since the beginning of Rousseff's term, the credit through public banks increased 10 percentage points, from 20 percent to 30 percent of GDP. Some pressure is expected on the private banks. This happened in the past years with pressure to reduce spreads. At the same time, banks are reducing credit, while the government keeps trying to force lending. The way the Brazilian government is trying to do this is through compulsory deposits for banks. This might increase again in the next months. The real issue, however, is that the problem in Brazil is not the supply of credit, but rather the lack of demand. For banks, the situation is the result of the Brazilian economy. In this sense, expectations are not the best."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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