

## FOLLOWING BRAZIL'S POLITICAL TURMOIL

Osamu Katano  
North America & Latin America Dept.  
MGSSI

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### POTENTIAL RESIGNATION OF PRESIDENT ROUSSEFF

Brazilian politics and economy are in an increasingly chaotic state. The country's economic growth is slowing down following the end of the resources boom, and Brazilian people are experiencing a recession with no end in sight. In addition, ordinary citizens suffering the sluggish economy are furious at politicians who are fattening their own wallets through corrupt practices. Amid this situation, over a total number of 3 million people participated in the demonstrations across the nation in mid-March, marking a record-high turnout of demonstration participants. Brazil is in an increasingly tense situation.

The anger of Brazilian citizens has been directed at President Rousseff, who has not been able to make a difference in alleviating the situation. As a result, her approval rate has been hovering at only the 10-plus percent range. In 2015, President Rousseff commenced fiscal restructuring, which was not included in her election campaign pledges. This heightened distrust among the general public towards politicians and politics. As a result, lawmakers even within the governing parties have turned their back on her, and now she is about to be brought to an impeachment trial with her term of office still having over two years and eight months left until December 2018. Brazil is now faced with an abnormal situation whereby its President who won re-election in the fall of 2014 with the support of the public is being presented with a question of whether or not she would resign, just over a year after returning to office for a second term.

The President is putting up resistance by using all possible measures against the impeachment proceedings, which were initiated by the President of the Chamber of Deputies. The problem is that as a result of this political conflict, parliamentary deliberations on the measures for fiscal reconstruction and economic revitalization from the medium- to long-term perspectives have entirely ceased, adding to the sense of uncertainty going forward. Currently, the situation does not allow any prediction at all regarding how this political turmoil will settle down.

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### TWO POSSIBLE SCENARIOS WHEREBY PRESIDENT ROUSSEFF WILL BE FORCED INTO RESIGNATION

#### **(1) Is Impeachment on the ground of the government's "account manipulation" possible?**

There are two focal points in examining the question of whether President Rousseff will be forced into resignation. The first concerns the President's impeachment proceedings, which were commenced in December 2015, on the ground of account manipulation.

In April 2015, it became clear that the Rousseff administration had manipulated the government accounts so that the fiscal revenue and expenditure of the federal government could be disguised as being in the black. In

other words, this is a case of the government having had the public banks (i.e., Caixa Econômica Federal (Federal Savings Bank), Banco do Brasil S.A. (Bank of Brazil), etc.) shoulder the costs necessary for social policies, such as the programs of Bolsa Família (subsidies for low-income earners) and Minha Casa Minha Vida (financial allowances for housing purchases). The Federal Accounts Court of Brazil, known as TCU, has found that the act was equivalent to the offering of loans by the public banks to the national coffers, which is prohibited under the country's Fiscal Responsibility Law ("LRF").

The Brazilian constitution stipulates that a violation of the LRF constitutes grounds for an impeachment trial. As a result, a motion to impeach President Rousseff was filed by the lawmakers of both the governing and opposition parties, who have been unhappy with the fiscal reconstruction implemented in the bad economic times, based on the allegations of the account manipulation in order to remove her from office. This served as a trigger for the present political disturbances.

Table 1: The Results of the Impeachment Vote at the Chamber of Deputies

Held on April 17	For	Against	Abstention	Absence	Total
<i>Governing Parties</i>	66	107	4	1	178
<i>Opposition Parties</i>	301	30	3	1	335
<i>Total</i>	367	137	7	2	513

Source: Compiled based on the announcement of the Lower House

Table 2: Findings of the surveys on the impeachment vote to be held at the Senate

	For	Against	Undecided	No answer	Dated
<i>O Estado</i>	47	20	4	10	April 19
<i>Folha</i>	48	20	5	8	April 19

Source: Compiled based on the data from the papers indicated above

In Brazil, impeachment trials are held by the Senate. To hold an impeachment trial, however, the advance approval of the Chamber of Deputies (the lower house of the National Congress of Brazil) supported by a two thirds majority of its members (i.e., 342 members) is required. On April 17, this condition was met as 367 members of the Chamber of Deputies voted for the holding of Ms. Rousseff's impeachment trial (see Table 1).

Hence, hereafter, the stage of deliberations on Ms. Rousseff's impeachment will move to the Senate. The process of impeachment is as follows: 1) The Senate will vote on the establishment of a court of impeachment. A court of impeachment will be formed if a majority of the senators (i.e., 41 senators or more) vote in favor thereof. 2) If two thirds (i.e., 54 senators) or more of the senators approve Ms. Rousseff's impeachment in the court of impeachment so formed, which the Chief Justice of the Supreme Court will preside over, then President Rousseff will be impeached and the Vice President will be promoted to substitute for her and serve the remaining tenure of her term of office, which will end at the end of December 2018. Conversely, if the quorums to implement the voting during stages 1) and 2) above are not met, then the deliberations on Ms. Rousseff's impeachment will end, allowing her to remain in office.

The voting in the Senate on the forming of a court of impeachment is expected to be held mid-May. According to surveys by the local newspapers as of April 19, a majority of the 81 senators has expressed their support for Ms. Rousseff's impeachment (see Table 2). Given this trend, the formation of the court of impeachment in the Senate appears unavoidable.

Once the court of impeachment is established, Brazilian politics will enter a transitional period. This is because with the establishment of the court of impeachment, President Rousseff will be suspended from office for 180 days at the maximum, and Vice President Temer will substitute for her to carry out the presidential powers.

The Brazilian Democratic Movement Party (PMDB), which is led by Mr. Temer, supported as a coalition partner the Rousseff administration of the leftist Workers' Party (PT). On March 29, however, the PMDB ended the coalition, indicating that Ms. Rousseff, whose approval rate had fallen, had lost support from the public. It is said that if a Temer administration is formed, the administration will have the center-right Brazilian Social Democracy Party (PSDB), not the PT, as a coalition partner and, accordingly, a reshuffle of important ministers is likely to happen (some say that Mr. Temer plans to select a lineup of cabinet ministers that the markets would respond well to). As a result, an administration change will effectively occur prior to the official impeachment of Ms. Rousseff in such case.

That said, it is not an easy task to predict what will be the result of the voting in stage 2) above. As described earlier, only 47 to 48 senators, which are less than two thirds (i.e., 54 senators) of the senators, have expressed their support for Ms. Rousseff's impeachment as of now. About 20 senators oppose her impeachment, with the rest withholding their view. Unlike in Japan, political parties in Brazil allow their party members to vote freely regardless of the parties' stance. Therefore, even if a party is against the impeachment, their party members are, in principle, free to act in accordance with their own belief. So room exists here for the pro-Rousseff camp to take advantage of this system. Going forward, there is a possibility that lawmakers who have so far withheld their stance may decide to oppose her impeachment, or be absent from the voting (i.e., passive opposition), as a result of the desperate efforts of the pro-Rousseff camp.

If Ms. Rousseff is not impeached, then she will be restored to the office of president. In that case, Brazilian politics is likely to be thrown into disarray again.

## **(2) The results of the 2014 presidential election could be nullified, and the election could be rerun.**

The impeachment trial aside, there are allegations that the PT, the then-governing party at the time of the presidential election in 2014 that it fought to be reelected, might have received illicit funds from Petrobras. If these allegations are proved, the election results will be nullified by the Superior Electoral Court, whereby not only Ms. Rousseff, who was a presidential candidate, but also Mr. Temer, who joined hands with Ms. Rousseff to run as a vice presidential candidate and was elected, will lose office. The Brazilian constitution stipulates that in such case, a rerun election will be held within 90 days and the president elected in this follow-up election will serve the remaining tenure. (However, if the remaining tenure of the incumbent president is not more than two years, then the rerun election will not be held, and the new president will be chosen by the votes of the lawmakers within 30 days.)

The investigations into these allegations appear to have come to a head, with the governing party's chief election campaign strategists already having been arrested. Hence, even if Ms. Rousseff does find a way out of the current impeachment crisis resulting from the allegations of the fiscal manipulation, she will not have time to relax.

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## **SIGNIFICANCE OF THE POLITICAL TURMOIL**

### **(1) Are the legal grounds for impeachment vague?**

With more than two thirds of the lawmakers having supported Ms. Rousseff's impeachment in the voting at the Chamber of Deputies, it is certain that the Rousseff administration was pushed into a corner. Attention should be paid, however, to the fact that the legal grounds for Ms. Rousseff's impeachment in the current proceedings are ambiguous.

The primary grounds for the impeachment trial submitted on April 6 by the special committee formed by the Chamber of Deputies were that account manipulation was committed in 2014, and that the manipulation had continued into 2015. However, regarding the year 2014, the government has already settled the account by paying BRL 72.4 billion, which was outstanding before, to the public banks in December 2015 (although the fact of a violation of the LRF remains). With respect to the year 2015, no direct evidence of the account manipulation has been provided yet and accordingly, the allegations still remain as just allegations. Whether the grounds described above constitute rightful grounds for impeachment of a president is an open question due to the nature of the case.

However, the backlash against Ms. Rousseff, who went ahead with the fiscal reform in times of recession, thereby causing public opinion to forsake her, is so huge that the impeachment proceedings against her are progressing regardless of the vagueness of the legal grounds. In this sense, Brazil's recent political turbulence can be seen as a political war waged by the anti-Rousseff camp to bring down Ms. Rousseff.

## **(2) Is the roadmap for economic recovery in sight?**

So, will Brazil's political disturbance come under control and can Brazil get started for economic recovery, if Ms. Rousseff resigns? Unfortunately, things are not that easy.

The problem is that allegations of corruption also surround both Mr. Temer, who will become president if Ms. Rousseff is impeached, and Senator Aécio Neves of the PSDB, who can become a powerful candidate in the potential rerun election. It has to be said that it is not clear if the Brazilian citizens, who reject corruption, will support either of them if he becomes a new president and that accordingly, it is hard to see if he would be able to embark on necessary economic reconstruction work, a task that requires leadership. Furthermore, it is not only these two men against whom allegations of corruption are made; there are over three hundred more politicians who are suspected of bribery. Hence, there is no guarantee that investigations into the corruption surrounding the legislature will subside even if Ms. Rousseff resigns. Political turmoil is likely to continue during the investigations into the corruption, obstructing deliberations on economic recovery.

For the Brazilian economy, which has lost its growth engine after the resources boom plateaued, the structural reform needed to break away from its over-dependency on resources is intrinsically a challenge that the country has no time to lose in addressing. However, the reforms that force inconveniences and genuine suffering on its citizens, such as the fiscal reconstruction measures Ms. Rousseff commenced in January 2015, are hard to promote without a solid administration base even in times of a booming economy. Political stability is all the more likely to be necessary to promote reforms in the future, when economic growth based on the resources boom is hard to expect. Consequently, it is indispensable to thoroughly lance the boil of corruption in the political and business world through the crackdown currently implemented.

Presently, Brazil is faced with extreme political confusion. This is an unavoidable path, however, for the country to shine again as a great power. It is important to patiently track the development of the situation.

(The article was written on April 20, 2016.)