

5 Things to Know About Brazil's Corruption Scandal

A massive corruption scandal in Brazil reached the doorstep of one of Brazil's most well known and charismatic politicians on Friday, when [federal police raided the home and briefly detained](#) former President Luiz Inácio Lula da Silva. The sprawling investigation has resulted in allegations against dozens of senior politicians, some of the country's richest executives and its biggest companies, including state-run oil company Petrobras.

By Will Connors

1 A Massive Investigation

Brazilian prosecutors say that executives from state-run oil firm Petróleo Brasileiro SA and some of the nation's largest construction firms colluded for more than a decade to inflate the price of contracts, kicking back a portion of the ill-gotten gains to lawmakers and other political officials. Executives from the company's biggest construction companies and roughly 50 politicians have been accused, including the heads of Brazil's senate and lower house. Eduardo Cunha, Brazil's powerful speaker of the lower house of Congress, and Sen. Delcídio do Amaral, a member of the Workers' Party and the Senate whip, have denied wrongdoing.

2 Scandal Reaches Popular Former President

With the allegations against Mr. da Silva, the scandal has reached the doorstep of Brazil's best-known politician. Mr. da Silva is an icon to supporters of the ruling Worker's Party, and he is a political mentor to Brazil's president, Dilma Rousseff. Prosecutors have accused him of spearheading a scheme to divert money from Petrobras to fund election campaigns and benefiting from renovations made to a beachside penthouse and a sprawling country estate by two construction companies implicated in the Petrobras investigation. [He has denied the charges](#) and has not ruled out running for president again in 2018.

3 What It Means for Brazil's Current President

Ms. Rousseff is not under investigation in the Petrobras case, but her popularity is at near-record lows. Separately, Ms. Rousseff is battling impeachment proceedings launched last year by Brazil's lower house of congress. The president is accused of manipulating the numbers of her government's budget to disguise its poor fiscal performance, a charge she strongly denies. The impeachment effort and widening corruption probe have significantly hobbled her administration's ability to govern.

4 Scandal Adds to Turmoil as Economy Falters

While the corruption scandal roils the country's political class, Brazil's economy continues to suffer. Unemployment is rising, the country's currency has crumbled, and this week the government [reported its worst economic performance in 25 years](#), as the GDP contracted 3.8%. Ms. Rousseff's finance minister, Joaquim Levy, stepped down late last year after intense scrutiny, and was replaced by a minister many analysts think is less market-friendly.

The corruption probe has paralyzed much of the oil and construction sectors, pillars of the local economy, which led in part to Brazil losing its sovereign-credit rating last year.

5 Petrobras, a Fallen Giant

Brazil's once-thriving national oil producer wrote off some \$20 billion related to the corruption scandal last year, is saddled with the oil industry's biggest debt load and is struggling with low oil prices. The company cut investment spending to about \$23 billion last year, compared with \$48 billion in 2013. Those cutbacks have had a powerful ripple effect on Brazil's oil, shipbuilding and manufacturing sectors, among others. Its debt was downgraded to junk status by all three major ratings agencies. In addition to the Brazilian probe, Petrobras is also the target of corruption probes by the U.S. Securities and Exchange Commission and the U.S. Department of Justice.