

Brazilian Elections 2014




From the markets standpoint

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CANDIDATES STANCES ON KEY ISSUES

	 Aécio Neves (PSDB)	 Dilma Rousseff (PT)	 Marina Silva (PSB)
<i>Inflation</i>	Mid-point of target with gradual reduction of the latter	Does not set target	Mid-point of the target (4.5%)
<i>Central Bank</i>	Operational autonomy	Unchanged (against formal autonomy)	Formal autonomy + fixed mandates for board members
<i>Fiscal Policy</i>	Committed to primary fiscal surplus + reduction Debt/GDP + increased transparency	Highlights decrease net debt 2002-14 + Primary surplus 2015 2-2.5% GDP	Increase in primary surplus + rule spending as % GDP + institution to assess quality of expenditure & compliance with target

CANDIDATES STANCES ON KEY ISSUES

	 Aécio Neves (PSDB)	 Dilma Rousseff (PT)	 Marina Silva (PSB)
Tax reform	Simplification of tax system, fewer taxes/contributions	Fragmented tax reform	Simplification but no specific proposal
Min wage	Maintain current rule until 2019	Maintain policy of increasing but formula unclear	Maintain above-inflation increases
Welfare programs	Bolsa Familia maintained (law making it permanent)	Committed to increasing amount of entitlements in 2015	Committed to expanding Bolsa Familia

THE MARKETS' VIEW

- Dilma vs. Marina
- Tight election & 2nd round run-off

- ***Dilma win***: continuity with small adjustments
- ***Marina win***: market-friendly policy change

Scenario I: CONTINUITY

Against Dilma...

- Deterioration of macro fundamentals
 - Sluggish growth (technical recession); industry capacity utilisation down, payrolls trimmed, slowdown in job creation
 - Inflation at higher end of the CB target
- Lack of transparency / unpredictability econ policy
- Heavy-handed intervention in the economy
 - BNDES loans + Repressed Prices + CB intervention in FX markets (BRL appreciation)
- “Mixed” economic team

Scenario I: CONTINUITY

Against Dilma...

- Lack of key investments: infrastructure
- Lack of necessary reforms: tax reform?
- Tired economic model / 12 years of PT government

Scenario I: CONTINUITY

In favour of Dilma...

- PT legacy
- Experience / capacity to govern / stability
- Macro pillars *respected*
- Unemployment at historic low levels
- Lack of reforms / infrastructure → Feasible with other candidates ?

Scenario I: CONTINUITY

The Forecast...

- Limited change (fiscal policy)
- Tight monetary policy (high r) + (mostly) loose fiscal policy
- Overall sluggish economic growth

Scenario II: CHANGE

In favour of Marina...

- She's not Dilma
- Clean record as a politician (vs recent Petrobras scandal)
- Sound market-friendly approach / orthodox econ team
 - BCB independence
 - Tighter control over fiscal expenditure
 - Microeconomic policy to boost productivity
 - Unwinding repressed regulated prices
 - Support for inflation targeting and FX floating regime

Scenario II: CHANGE

Against Marina...

- Uncertainty
 - Environmental views + market-friendly policies needed to ignite infrastructure and agriculture investment? Energy sector?
 - PT at heart?
 - Can she / will she / how will she compromise?
 - Can she govern / lead a country?

Scenario II: CHANGE

The Forecast...

- Sluggish growth / painful adjustment in 2015
- If right signals given (independence / less interference / clear rules) → growth prospects from 2016
 - Less interference: positive prospects for SOEs
 - Cool down inflation expectations
 - Positive credibility shock that can stimulate private investment and reignite growth