

EM Political Economy

Brazil

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Brazil: The rise of the Right

For the first time in three decades, a right-wing movement has resurfaced. This new, potent force will shape the 2018 presidential race

Since the end of Brazil's military dictatorship, the country's political landscape has been dominated by centrist and left-wing parties and ideologies. Only recently, in the wake of the country's largest corruption probe – which exposed the dirty laundry of Brazil's political elite from parties across the spectrum – has a genuinely right-wing movement come out of the shadows to occupy a central position in the country's political and societal debates. Its electoral debut will be the battleground of next year's presidential race and its top candidate is the extreme right Rio de Janeiro Congressman Jair Bolsonaro.

Key judgments

- Often called Brazil's counterpart to Donald Trump, Bolsonaro is social media-savvy and takes a strong public security and anti-corruption stance that will give his candidacy legs, despite his often-incendiary social comments and contradictory economic views.
- Bolsonaro's ability to enter a run-off round will likely hinge on how many centre-right candidates are in the presidential race; the more fragmented the vote, the better his chances.
- Following the tepid showing in recent polls of investor-friendly São Paulo Mayor João Doria, the market is desperate for someone convincing to replace him as the centre-right consensus candidate; the absence of one is likely to weigh on sentiment.
- The potential, upcoming candidacy of compelling political outsiders like TV presenter Luciano Huck – whose first-rate team of economic advisers includes Armínio Fraga – could spark a massive market hope rally, even if Huck's ability to govern is uncertain.

Important information
Please see disclaimer ⓘ

As Brazil's political elite implodes, a vacuum is forming . . .

With less than a year before the 2018 presidential race, the vast majority of Brazil's political elite has been exposed as corrupt by Operation Lava Jato . . .

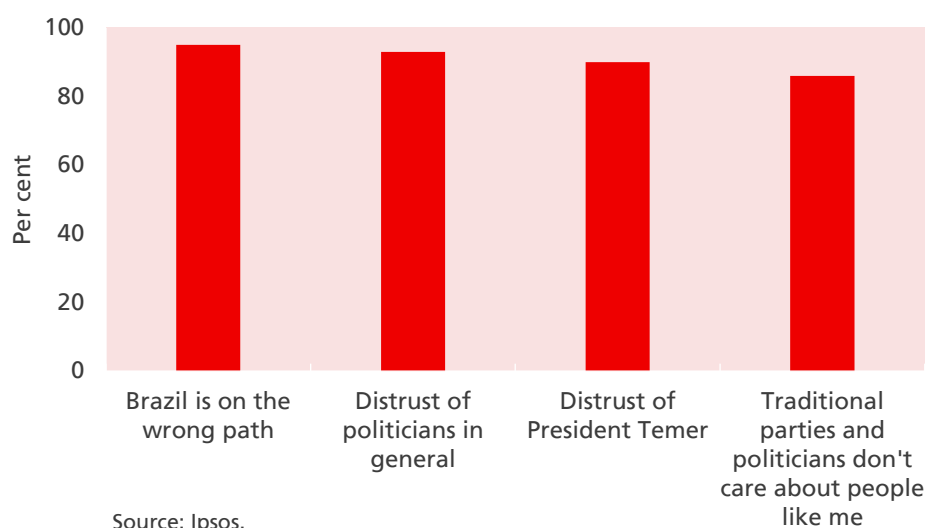
A storm is brewing in Brazilian politics as the clock ticks down to the October 2018 presidential race. Like elsewhere in the world – and in the wake of the worst recession in the country's history – the winds of populist anger are blowing strongly. More important, three-and-a-half years after the country's largest-ever corruption probe, Operation *Lava Jato* ("Car Wash"), first broke, hundreds of politicians across the political spectrum and all three levels of government from more than two dozen parties have been exposed as corrupt and ethically bankrupt – in the eyes of civil society, if not yet in the eyes of the law. They include the top leaders of Brazil's dominant three political parties of the past two decades, starting with former President Lula and his Workers' Party (PT), President Michel Temer and his centrist PMDB party and the centre-right Brazilian Social Democratic party (PSDB) of former presidential candidate Minas Gerais Senator Aécio Neves and current presidential contender São Paulo Governor Geraldo Alckmin.

. . . expediting the search for fresh faces, as nine out of 10 Brazilians express disgust with traditional politics and politicians in the latest polls

In a sign of overwhelming public rejection of the political status quo, as many as nine out of 10 Brazilians have said in recent surveys that they do not feel that any political party represents them (see Chart 1 below). Such sentiments have likely been exacerbated by the multiple criminal indictments against Lula and by the recent high-profile criminal case against Aécio, not to mention Temer's recent triumph at staving off two criminal indictments against him in the Lower House, even though the scandal-tainted President has the distinction of being Brazil's most unpopular leader in 30 years (for more background, see our 26 October 2017 note [Temer survives. What's next?](#)).

Chart 1: Brazilians' attitude towards politics and politicians

Roughly nine out of 10 respondents agree with the following:



Source: Ipsos.

The perception of rising impunity has also opened the door to alternative ideas and ideologies

It is this sense of rising impunity – and the widespread perception of a gaping moral and ethical vacuum in Brasilia – that is firing up a search for fresh political faces in the upcoming presidential race – and, with it, the growing acceptance of fringe ideologies that had formerly been anathema to mainstream Brazilian society.

In our previous coverage of the upcoming election, we have focused on the trend of rising voter rejection rates (see our 3 November 2016 note [Clues to the 2018 presidential race](#)), the core field of known presidential candidates (see our 12 May 2017 note [Looking ahead to the 2018 elections](#)), the seminal role that former President Lula will play in the race, regardless of whether he is allowed to run (see our 31 August 2017 note [The Lula factor in the 2018 election](#)) and the watered-down political reform recently enacted for the 2018 ballot (see our 12 October 2017 note [New electoral rules for 2018](#)). In this note, we take a closer look at the unlikely champion of Brazil's new conservative movement, extreme right Rio de Janeiro Congressman Jair Bolsonaro, the roots of his rise and his lesser-known competitors.

. . . galvanizing the resurgence of the Right

After Brazil's military dictatorship, the Right largely disappeared as a political force for some three decades

Following Brazil's military dictatorship (1964–85), the country's right-wing movement has long been marginalized, owing to the broad repression of civil liberties and rampant human rights violations (notably the torture of tens of thousands of dissidents) that had been institutionalized as a way of life under the military government. As a consequence, in the seven direct presidential elections that Brazil has held in the past three decades, centrist and left-wing parties have dominated the political landscape. At the peak of the popularity of the PT in 2011 – in a sign of the utter demobilization of the conservative cause, notwithstanding the country's profusion of political parties (numbering 27 at that time) – local newsweekly *Veja* even ran an article titled, "The incredible case of a country without the Right".

Brazil has had only one right-wing political party in recent history

There has been just one genuinely right-wing political party registered with the nation's highest electoral court in the period up to the 2014 elections: the Party of the Reconstruction of the National Order (PRONA), founded in 1989 by Brazilian cardiologist and three-time presidential candidate Enéas Carneiro. Enéas' platform was strongly nationalist, socially conservative (anti-abortion, anti-gay marriage, anti-legalization of drugs, pro-gun rights), anti-privatization and in favour of a strong state and military (including the development of nuclear weapons). But as the country tilted to the left of the political spectrum, the party remained on the fringes of Brazilian politics from its inception until it merged in 2006 with the centre-right Liberal Party (PL) to form the ideologically nebulous Party of the Republic (PR).

Although its founder, Enéas Carneiro, came in a distant third in the 1994 presidential race, his ideas failed to gain traction

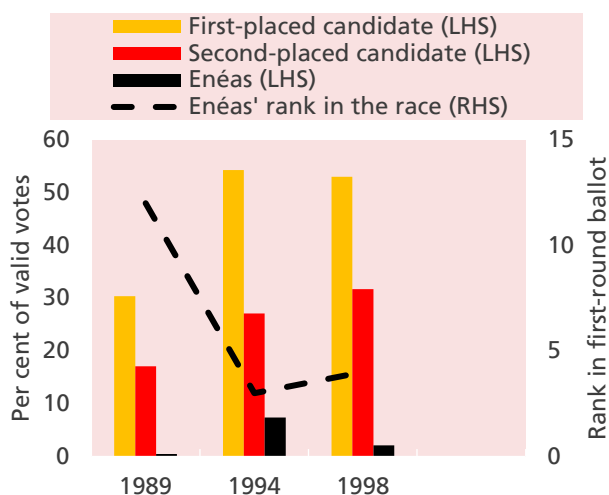
Still, in Enéas' best electoral showing – aided by his iconic appearance (bald head, big bushy beard and goggle glasses) and memorable electoral ads, which helped give him cult status – he surprised the country by coming a distant third in the 1994 presidential race with 7.4 per cent of the valid vote count (totalling 4.67 million), albeit far behind the second-placed candidate, as Chart 2 below illustrates. Even so, PRONA failed to elect a single federal legislator or governor that

year, in a sign of the party's patent inability to attract mass support for its ideas. Enéas went on to compete in the 1998 presidential race, when his support slipped to 2.1 per cent of valid votes. Thereafter he abandoned his presidential dreams altogether to become a twice-elected São Paulo federal congressman with a record number of votes, serving one full term before his death in 2007.

But that changed recently with the ascent of extreme right Congressman Jair Bolsonaro as a key contender in the 2018 presidential race

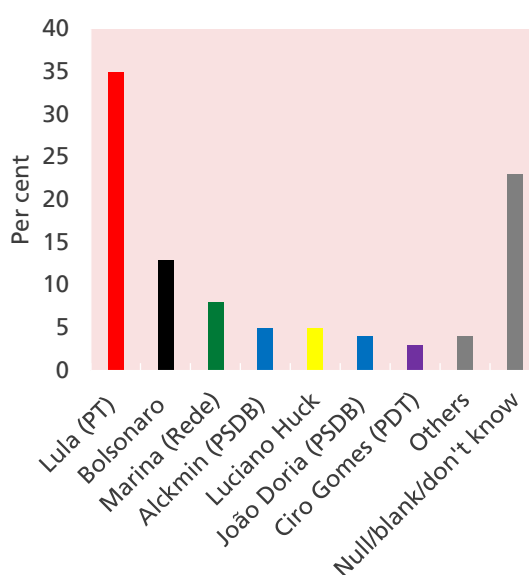
Although Enéas never achieved real political power, many of his ideas live on in his political heirs, of whom the best-known example today is far-right Rio de Janeiro Congressman Jair Bolsonaro. The Rio congressman – who has consistently ranked second in the latest presidential polls (see Chart 3 below) although voter intentions have fluctuated widely (13–25 per cent depending on the poll) – has called Enéas one of his heroes and has modelled much of his discourse on PRONA's platform. Earlier this year, Bolsonaro even contemplated renaming his future political party PRONA in homage to his predecessor, although he appears to have discarded this idea and now favours naming it the Patriot party (Patriota) instead.

Chart 2: Enéas' electoral results in three presidential races



Sources: TSE, local press reports.

Chart 3: First-round voter intentions for the 2018 presidential race



Source: IBOPE.

Why Bolsonaro should not be underestimated

Bolsonaro and other political outsiders will benefit from the country's political crisis, which is being stoked by widespread anger . . .

Although Bolsonaro, like Enéas before him, has been a marginal figure in Brasilia for nearly his entire political career, the ongoing political crisis has given rise to a once-in-a-lifetime opportunity for the Rio politician and other political outsiders. Crime is up, while trust in public institutions has plummeted. Increasing memberships at evangelical churches has fed a trend towards social conservatism, which is right in line with the congressman's message. Similarly, the growing fiscal disarray of the government's accounts has led to rising concerns about public spending and the revival of a discussion about the optimal role of the state in the economy. Although these are issues on which the

general population has long leaned left, particularly in better economic times, the subject may now be open to revisiting. Equally important, a new generation of Brazilians have become adults hungry for new ideologies and ideas, and without the bitter memories of their parents and grandparents from the military dictatorship.

A political outsider

Although Bolsonaro is a career politician – and has changed parties no less than seven times – he has been able to bill himself as a political outsider

Ironically, despite having spent the last 26 years in the Congress, Bolsonaro has successfully billed himself as an outsider. This is because the former army captain who espouses a strong nationalistic view has largely remained on the side-lines in the Congress. Despite his cult following among core supporters, he has forged very few alliances – in part because of his delight in making controversial statements that would make other politicians cringe. He has also changed parties multiple times. Since entering politics in 1988, the congressman has been in seven parties (the PDC, PPR, PRB, PTB, PFL and PP; he is now a member of the small Social Christian Party [PSC]).

But if elected, he is likely to face immense challenges forging an effective coalition government

Bolsonaro has also promised to change parties before running for the presidency next year, but has not yet decided which party he will choose. For example, the even tinier National Ecological Party (PEN) has already agreed to alter its name and ideology at the behest of the Rio congressman if he runs as its presidential nominee, but Bolsonaro has not fully committed to moving over. His lack of party fealty highlights the challenges that the congressman would have if he becomes President. His individualistic political style and the absence of a strong party behind him would likely make it difficult for him to negotiate with a fragmented legislature and to forge an effective coalition government.

Despite having spent more than a quarter-century as a federal congressman, Bolsonaro has co-authored only two bills

His past disinterest in writing and passing legislation is further highlighted by his thin congressional record. Although Bolsonaro has been in office for more than a quarter of a century, he has co-authored only two bills that were signed into law: 1) one in 1996 that gave tax incentives to computer parts manufacturers in the north, northeast and the centre-west; and 2) another in 2016 that approved the use of synthetic phosphoethanolamine neoplasm – an unproven cancer treatment popularly known as the “cancer-curing pill”, which has been slammed by the Brazilian Society of Clinical Oncology as a “political decision inspired by a messianic surge of pseudoscience”. Despite fierce opposition from researchers, the bill was signed into law by Dilma in a failed attempt to bolster popular support one month before the Lower House impeachment vote against her.

An anti-corruption mantra

So far, Bolsonaro has successfully billed himself as a clean, anti-corruption candidate

Bolsonaro has also played up his anti-establishment status by billing himself as a clean candidate untainted by corruption. His supporters often cite an incident that the congressman himself has frequently highlighted: he received a R\$200,000 donation from embattled meat-processing behemoth JBS in 2014, which Bolsonaro said he returned to the Progressive Party (PP), to which he belonged at that time. Although the accounting has been questioned – some critics argue that Bolsonaro did, in fact, receive this donation, albeit through legal

channels – the anecdote has helped Bolsonaro win support from people who oppose corruption, regardless of the veracity of the account.

Money launderer Alberto Youssef has confirmed that Bolsonaro did not receive kickbacks when he was a member of the Progressive Party

In addition, as a fringe member of the “Bullet, Beef and Bible” caucus in the Congress, Bolsonaro was never part of Brazil’s traditional political elite and is not known to have received kickbacks from implicated firms – something that has bolstered his anti-corruption credentials. To add to Bolsonaro’s credibility on this score, black market moneylender Alberto Youssef – a major financial operator for the PP, particularly in the Petrobras corruption scheme – affirmed that Bolsonaro did not receive kickbacks from the state-run oil firm.

Tough talk on public security

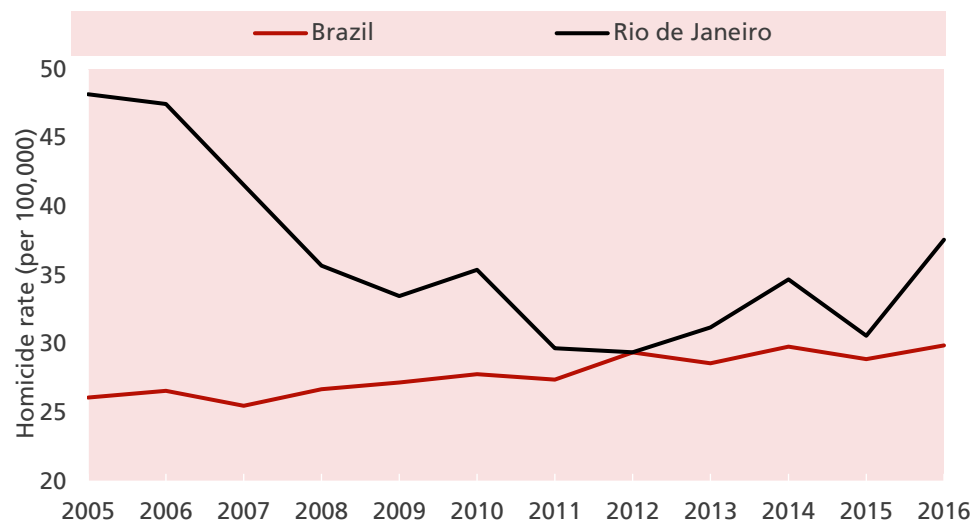
The rise in violent crime has boosted Bolsonaro’s candidacy, even though he also defends the military dictatorship and continues to hold Cold War-era views

Besides enjoying appeal as an anti-corruption candidate, Bolsonaro has seen his star rise over the past year as the “law-and-order” candidate amid rocketing crime rates and a general sense of growing public insecurity. He frequently praises the military government, arguing that the generals were defending the country against communist terrorists. In this vein, he dedicated his impeachment vote against Dilma to Colonel Carlos Ustra, known for brutal torture techniques during the dictatorship. The candidate’s seemingly anachronistic rhetoric is part of the broader anti-communist sentiment that is the overarching principle of Bolsonaro’s Cold War-era ideology and raises questions about his apparent fixation on this topic. He has also vowed to appoint military personnel to half of his cabinet.

But at a time of growing public insecurity and lawlessness, such tough talk has won more sympathizers

However, the tough-on-crime discourse increasingly resonates among the middle class, which has seen an increase in violent crime in recent years (see Chart 4 below) and is repulsed by the perceived impunity of Brazil’s political elite. His support in his home state of Rio de Janeiro – where homicides had dropped sharply in the decade to 2012, before rising in the past couple of years – has been particularly strong. This has been further underpinned by the state’s myriad corruption scandals.

Chart 4: Homicide rate in Brazil vs Rio de Janeiro state



Sources: IPEA, the Brazilian Public Safety Form and the Rio Public Safety Institute.

Bolsonaro is in favour of loosening gun control regulations

Despite rising violent crime rates in Brazil, Bolsonaro advocates that all “honest” citizens should be given the right to own firearms, which is currently restricted in Brazil. He has also said that rural landowners should have the right to own automatic weapons to defend their properties from “invasions” and to guarantee their “sacred right” to private property. Although Bolsonaro has not offered even a rudimentary outline of how he would determine which citizens would be given the right to own weapons, arming the population remains one of the pillars of his anti-crime policies.

His policies have strong support among young men who were born after the military dictatorship

Another key element of his platform is his support for the police. Bolsonaro advocates ending inquiries into any homicides committed by police, arguing that the police have been transformed into criminals. This sentiment also resonates among his core supporters, who are younger men between 24 and 34 years old and were thus born after the end of the military dictatorship. Most are middle class (earning above five minimum wages per month or more than US\$1,500/month) and live in cities with more than 5,000 inhabitants in southeastern or northeastern Brazil.

Opposition to affirmative action and social programmes

...but will likely be resisted by poor Brazilians as well as people of African-Brazilian descent

While these policies have appealed to middle-class men, they could ultimately create a barrier for lower-income segments to vote for Bolsonaro, especially because of escalating reports of police violence in Brazil that targets people of African-Brazilian descent as well as the poor. This, coupled with his opposition to affirmative action and his support of ending the quota system for public universities, could mean that he will fail to receive backing from African-Brazilian communities which today account for more than half of the population. Similarly, he often talks about the importance of defending the meritocracy, which may include ending the popular government income transfer programme “*Bolsa Família*” or slashing the programme drastically, thereby significantly reducing his potential to drum up support in northeastern Brazil, the country’s second-most populous region.

The congressman was recently fined for making racist statements; without disavowing the statements, he has attacked “fake news”

In corroboration of the oft-stated view that Bolsonaro is a racist, he was found guilty early this year of racist statements against African-Brazilian communities – notably, for affirming, among other things, that the thinnest of the residents there weighed at least 230 pounds. As a result, he was ordered by a Rio de Janeiro court to pay a fine of R\$50,000. Yet like controversial statements by US President Donald Trump, to whom Bolsonaro is often compared, such unvarnished commentary which flies in the face of political correctness has also undoubtedly helped him win followers. In addition, the congressman has taken a leaf from Trump and criticized “fake news” as being responsible for his negative image in the media.

Likewise, he has yet to gain traction among female voters

His support among female voters appears limited too in the most recent Datafolha poll: Bolsonaro had just 13 per cent of female voter intentions. This could be because he is a defendant in two criminal cases at the nation’s highest court (STF) concerning a 2014 statement in which he called Congresswoman Maria do Rosário “very ugly” and

therefore “not worth raping”. In a corresponding civil case at the second-highest court (STJ) on the same matter, Bolsonaro was recently fined R\$10,000 for “moral damages” against the congresswoman. It is unclear whether the Rio congressman will be able to soften his image to appeal to core voter groups.

Evangelical base

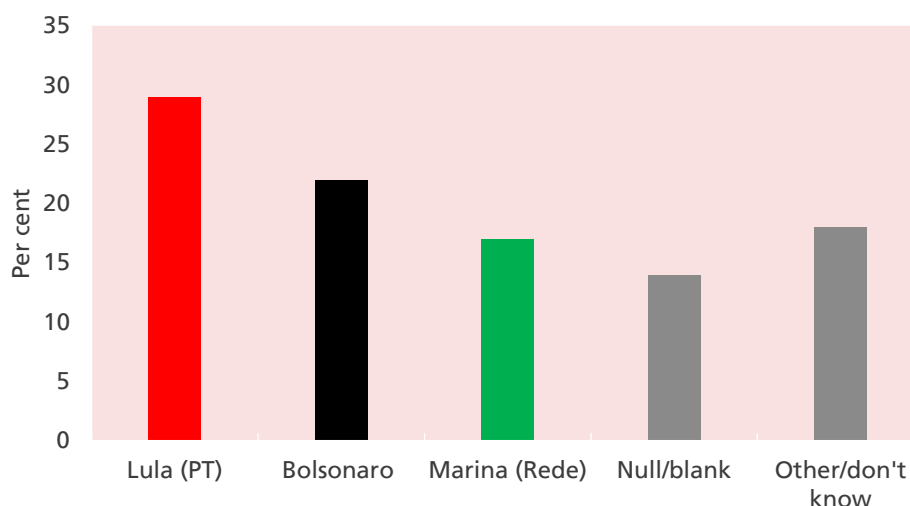
Although Bolsonaro’s socially conservative views should help him gain votes from evangelical voters . . .

But Bolsonaro’s conservative social views are likely to help him gain votes, particularly among Brazil’s growing evangelical population. Bolsonaro has been a long-time critic of gay marriage and civil union legislation. He is also against teaching sex education in schools. Because these platforms resonate with members of evangelical churches, he is expected to receive a share of this important vote. Bolsonaro is likely to continue to actively court evangelical voters, who are also seen as a vital source of campaign donations. This will be particularly important for the congressman, who will be operating his campaign on a shoe-string budget.

. . . Lula still has the largest share of this vote in the latest polls

Despite Bolsonaro’s conservative views, he still does not dominate the evangelical vote, according to a Datafolha poll conducted in late September that specifically questioned survey respondents about their religious views. At that time, in a first-round presidential election scenario which did not include São Paulo Governor Geraldo Alckmin, São Paulo Mayor João Doria or former Ceará Governor Ciro Gomes, Lula had the largest share of the evangelical vote with 29 per cent, followed by Bolsonaro with 22 per cent and former Environment Minister Marina Silva with 17 per cent (see Chart 5 below).

Chart 5: First-round voter intentions among evangelical voters*



*In a scenario without São Paulo Governor Geraldo Alckmin, São Paulo Mayor João Doria and centre-left candidate Ciro Gomes.
Source: Datafolha.

Lack of economic policy clarity, despite recent attempts to appeal to the market

Bolsonaro has offered limited clues of his economic policies . . .

Because of multiple missteps with the media in the past, Bolsonaro has become guarded about specific policies and his treatment of the economy is no different. When asked about rudimentary policies he would pursue, he claims ignorance and says that his views are “evolving”. The congressman also finds it difficult to offer details, when pressed, although his economic advisers have clearly tried to coach him on key issues.

. . . but has clearly been trying to court the market in recent weeks as he tries to win its support

Yet Bolsonaro is also aware that having market support could be the difference between victory and defeat in a runoff round, which is why he visited the US on a recent trip to meet investors and is now trying more actively to court the market. In recent weeks, he has also been meeting regularly with Adolfo Sachsida, an economist and researcher at the Institute of Applied Economic Research (IPEA). Sachsida is an advocate of free market principles and affiliated with the centre-right DEM party of Lower House Speaker Rodrigo Maia. Although the economist would appear to have a positive influence on Bolsonaro, the candidate has also taken pains to emphasize that Sachsida is not his adviser, but someone with whom he exchanges ideas. The candidate’s fluid, sometimes paradoxical and ever-shifting stance appears to characterize many of his economic views as well, which include the following:

1. **“Less” state intervention . . .** Although Bolsonaro is nominally in favour of a conservative economic agenda now, guided by the principles of a free market, fiscal responsibility and less state intervention, he has in the past blamed “economics experts” for getting Brazil into its current fiscal hole.
2. **. . . but pro-development and strongly nationalist.** He also appears to favour a strongly nationalist as well as pro-development stance when it comes to natural resources – notably energy, mining and agricultural lands. He champions the reduction of the area of land demarcated as indigenous territories so that the resources can be developed by locals but at the same time has affirmed that these assets should not be sold to foreign investors. He is very critical of Chinese investment in Brazil. In September, he affirmed that “China is taking control of the subsoil in Brazil” and warned that Brazilians will become the “tenants of the Chinese”. Such policies are likely to appeal to the rural vote in the Congress.
3. **Newfound support for orthodox macro policies.** As his candidacy has gained traction, Bolsonaro has adopted other market-friendly views, including coming out in favour of Banco Central independence with “rules and a fixed mandate”. Earlier this month, after he appeared ignorant on the topic, he also avowed on Facebook that he supported the so-called “macroeconomic tripod” of a primary surplus, inflation-targeting, and a floating exchange rate.

In addition to striking a nationalistic stance on natural resources, Bolsonaro has been a vociferous critic of Chinese investment in Brazil

Bolsonaro says he now supports Banco Central independence and orthodox macro policies

Pension reform is not a big priority, yet . . .

4. . . . but more doubtful on pension reform. Yet he has criticized the government's original pension reform proposal as well as the latest one, and added that although he would enact pension reform if he were elected President, he would not attempt to do it in his first year in office. In all cases, he has said would oppose changing the pension system for members of the military.

Table 1: Key points of Bolsonaro's platform

Latest economic policies
1. Supports the longstanding, orthodox macroeconomic "tripod" of a primary surplus, inflation targeting, and a floating exchange rate*
2. Favours Banco Central independence with "rules and a fixed mandate"*
3. Favours international trade deals, but is also sympathetic to economic nationalism, particularly of natural resources (energy, mining, agricultural lands)
4. Believes some state-controlled companies should be sold while others should be extinct
5. Has indicated he could seek to restrict foreign investment in some sectors and been particularly vocal regarding Chinese investment
6. Would enact pension reform but not as a priority in his first year in office.
Social policies
1. Favours ending "Bolsa Família" or reducing the programme significantly
2. Advocates ending all affirmative action programmes and suspending the quota system for public universities
3. Has come out against gay marriage and civil union legislation
4. Supports rolling back the rights of indigenous peoples in favour of large infrastructure projects, such as hydroelectric plants or roads
Public safety
1. Supports lowering the minimum age for the prosecution of violent crimes to age 16, down from age 18
2. Adamantly opposes regulations to restrict gun ownership in Brazil
3. Supports allowing rural property owners to own automatic weapons to defend their properties
4. Advocates ending criminal inquiries into police officers involved in shootings while on the job

*Has opposed this in the past.

Sources: Local press reports.

. . . and Bolsonaro is short on details regarding state-controlled companies

5. **Divided on privatizations.** The Rio congressman does not offer a clear view of his privatization policies either. He has said that some state-controlled companies should be sold and others made "extinct" but has refused to offer many details. When pressed about the planned Eletrobras privatization, he has not yet offered a clear response but did highlight that he believed the privatization of airplane manufacturer Embraer in the early 1990s – which gave the government veto power over strategic decisions via a golden share – was a successful example of a state asset sale. By contrast, he has come out against a possible privatization of state-run Banco do Brasil, arguing that as the

bank is the country's biggest agricultural credit lender, it would hurt rural producers – who are part of his core base. He has also expressed doubts about privatizing Petrobras.

Bolsonaro regularly contradicts himself when it comes to his economic policies

6. **Contradictions abound.** But because Bolsonaro regularly contradicts himself, some of the above views should be taken with a grain of salt. While on the one hand he favours more trade deals and pays lip service to a more efficient state, he has yet to reconcile this with his sympathy for the nationalist “Brazil first” import substitution policies previously backed by both the military dictatorship and the Dilma administration. As a result, it is difficult to know exactly where he stands on any given issue. For example, during the Dilma years, he voted against fiscal austerity measures. Likewise, during the Temer administration he slammed the federal spending cap bill for weeks, only to turn around and vote in its favour – reportedly after talking with Sachsida, who argued that it was important.

Although there is some hope that Bolsonaro can be persuaded to adopt a more investor-friendly platform, there are legitimate concerns about his candidacy and how truly committed he would be to these policies in the event he becomes President. While some in the business community are hoping to co-opt the congressman and to rebrand him as a moderate-right candidate who can present a palatable alternative to former President Lula or another left-wing candidate, we believe that Bolsonaro's past inability to negotiate bills through the Congress, his perennial contradictions, his divisive comments and authoritarian tendencies make him a risky candidate from a market and economic-growth perspective.

No consensus market-friendly candidate: A reason for market jitters . . .

The lukewarm performance of former investor darling São Paulo Mayor Doria in recent polls has left the market frantic to find another name

Although fear of Bolsonaro's extremist appeal has recently led to a growing number of panicked magazine covers calling him a “threat” and a “menace”, another big reason for the media hubbub is the lack of a compelling market-friendly centrist in the latest presidential polls who has real voter appeal. This has been particularly evident since investor darling and political outsider São Paulo Mayor João Doria slipped in the latest polls (see Chart 1 above), as we recently [underlined](#), following his formerly meteoric rise (for more background on Doria, see our 12 May 2017 note [Looking ahead to the 2018 elections](#)). Although this does not mean that Doria is completely out of the presidential race, it does highlight the fact that with just 11 months left before the ballot, the market does not have a strong favourite to bet on who could persuasively beat both Lula and Bolsonaro in the polls.

... but also for a big hope rally if one does materialize

More presidential candidates are on their way, but the broad field will only be defined by early April next year

However, it also means that should a compelling candidate appear who checks all the right boxes and who rises in the polls, then global investors – aided by extremely liquid global conditions and desperate to find a reason to bet on Brazil – are likely to stage a massive hope rally based on the hypothesis that this candidate will be the winner. Although the full range of candidates is unlikely to be known until closer to the six-month deadline before the October 2018 ballot – at which point candidates holding cabinet positions or elected office will have to leave their posts to be eligible to run for a different office – one name in particular is worth monitoring.

All eyes on Luciano Huck

Luciano Huck, ranked the country's second-most popular celebrity, has assembled a first-rate economic team, including Arminio Fraga

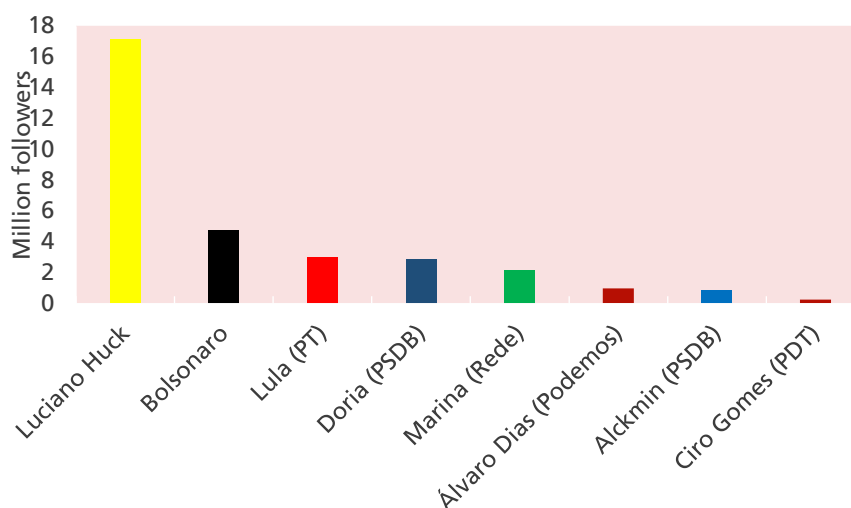
Brazil's highest-paid TV presenter Luciano Huck – who earlier this month was ranked Brazil's second-most popular celebrity by polling agency Ipsos (one notch above Brazilian supermodel Gisele Bündchen and three notches above the country's football superstar Neymar) – is young, famous, wealthy and seriously considering the possibility of entering the presidential race. More important for investors, the 46-year-old host of a popular programme on Brazil's dominant TV station Globo has already assembled a top-notch team of economic advisers (including former Banco Central President Armínio Fraga) and has had frequent chats with former Brazilian President Fernando Henrique Cardoso (PSDB), who has encouraged him to run for political office.

Huck could spark a market hope rally if he chooses to run and starts to rise in the polls; his decision could be made by yearend

The son of well-known academics who are professors at the country's most prestigious university, the University of São Paulo (USP), Huck studied law and journalism at USP. He therefore has a background that is likely to convince investors that he has the capability of understanding the breadth and complexity of the urgent structural reforms that Brazil needs, while his media experience should allow him to communicate that understanding to the general population. His wife, Angélica, is a TV star on Globo in her own right and likely to be a big asset in his campaign.

Huck also polls well in the northeast region, where Lula is currently the frontrunner

If Huck agrees to enter the race and begins to rise in the polls, we expect the market to adopt him as its preferred candidate, not only because he is business-friendly and a political outsider but because he has polled well in initial surveys in the politically important northeastern region – where Lula is the frontrunner. Although Huck appears to be committed to a centre-right economic vision, his message on social issues is likely to be centre-left, which could bolster his standing in the polls. His popular appeal is also evident on his Facebook page, where he far outranks all other candidates (see Chart 6 below). According to some reports, his decision could be made next month. Because of Globo's 2018 programming schedule, the TV station has told him that he must announce his decision to either stay with the station or leave by the end of this year; however, Huck is reportedly trying to extend this deadline.

Chart 6: Facebook followers of key presidential hopefuls

Source: Facebook.

Although Huck has discussed joining the tiny Popular Socialist Party (PPS) and the DEM party of Lower House Speaker Maia with representatives of both parties, at this stage he appears to be leaning towards the PPS. While the PPS does not have a strong political machine nationwide to help get out the vote, Huck's fame should make up for this shortcoming. Furthermore, he will certainly try to attract more allied parties to his campaign in the hope of aggregating more free, mandatory TV/radio ad time once the official campaign season starts.

It is too early to say if Huck, who is Jewish, will be able to capture a big part of the evangelical vote...

If the TV presenter joins the race, one unknown factor will be how voters respond to his being Jewish. Although religion has not played an important role in previous Brazilian presidential races, the evangelical vote is a growing force in the country's politics, as we have highlighted above, and this trend is likely to continue in the 2018 general election under the [new campaign finance rules](#). Whether Huck can successfully capture a significant part of this vote could make or break his candidacy.

... or would be a successful President if he wins

Another big question is whether or not the TV presenter – if he were to enter the race and be elected – would be a successful President. Despite his potential as an effective candidate, the country's unwieldy political system – aggravated by a deeply fragmented legislature and the country's growing fiscal woes – will make day-to-day governing a big headache not only for highly experienced politicians but even more so for political novices. Yet this question, important though it is, is likely to be secondary to market concerns next year.

A fragmented centrist vote is the risk

A second problem that has resulted from the absence of a leading market-friendly presidential candidate is that a new presidential hopeful continues to emerge from out of the woodwork every few

weeks. To date, there are no less than six confirmed centre-right presidential aspirants (see Charts 7 and 8 below for some of their current poll numbers). They are:

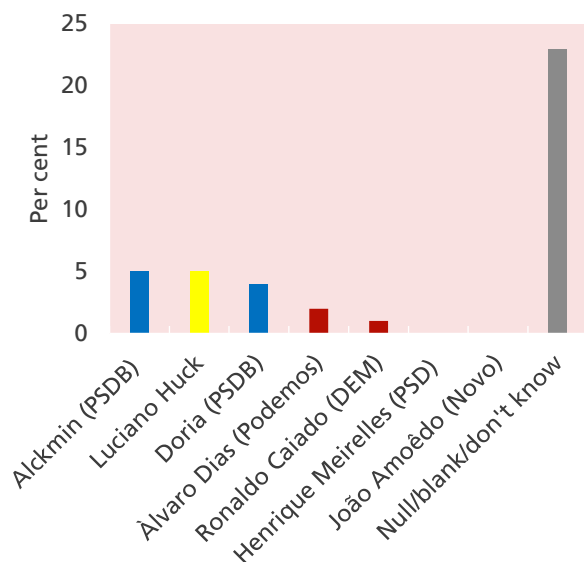
1. PSDB presidential hopeful **São Paulo Governor Alckmin**, the current frontrunner to win his party's nomination; although Alckmin has the experience, he is part of the political status quo, has been cited in *Lava Jato* and is an uninspiring campaigner.
2. Alckmin's protégé-turned-rival, **São Paulo Mayor Doria** (PSDB); if the media-savvy political outsider manages to revive his poll numbers and remains a viable presidential contender, he could migrate to another party such as Temer's PMDB or Speaker Maia's DEM (assuming he fails to win the PSDB nomination). Otherwise, he could be a contender for São Paulo governor.
3. **Finance Minister Henrique Meirelles**, who belongs to the mid-sized Social Democratic Party (PSD); although the market would welcome his candidacy, Meirelles lacks charisma and is linked to an unpopular government as well as the parent firm of implicated meatpacker JBS.
4. **Paraná Senator** (and former Paraná Governor) **Álvaro Dias**, formerly of the PSDB, who recently migrated to the "We Can" party (Podemos); although Dias is a respected market-friendly candidate, he lacks the popular appeal that could set him apart from the crowd.
5. Former banker **João Amoêdo** – founder of the moderate right New Party (Partido Novo), which was officially registered in 2015; Amoêdo is campaigning on a platform of a minimal state – a message that is likely to attract growing adherents of Brazil's new Right – but perhaps not the country's lower-income voters.
6. President of the state-run development bank BNDES **Paulo Rabello de Castro** recently expressed his interest in being the presidential candidate of the Social Christian Party (PSC), but appears to be largely indistinguishable from other centrist candidates. Yet while the PSC is a centre-right party, Rabello de Castro has also come out in favour of more credit, healthcare, education and social programmes, suggesting a centre-left tilt.

A seventh oft-cited centre-right presidential candidate is **Senator Ronaldo Caiado** (DEM). However, Caiado appears to be leaning towards becoming a gubernatorial candidate for his home state of Goiás – that is, if he gets his party's nomination.

Finally, **President Temer** has hinted recently that he does not plan to take himself entirely out of the race, on the grounds that economic growth is likely to pick up next year – which could push up his rock-bottom approval ratings (currently at a mere 3-5 per cent). His advisers have privately pointed out that if his approval ratings rise back to the low double-digits, this could feed his candidacy; moreover, Temer as President would not have to declare his candidacy until mid-year at the party conventions. We see these statements as part of Temer's attempt to extend his fading influence over an unruly legislature and ultimately

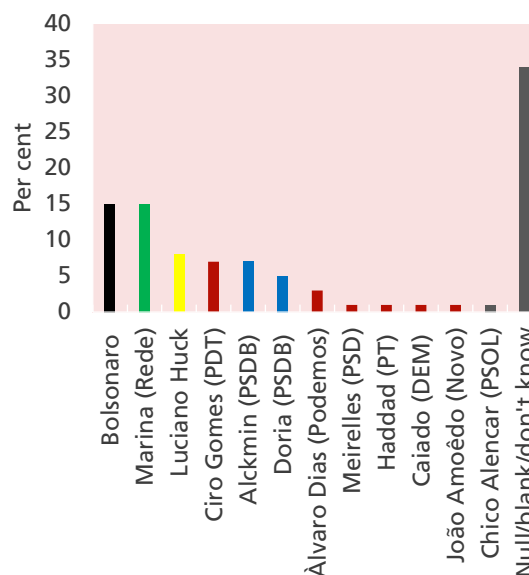
expect the scandal-ridden President to remain unpopular – with very little chance of re-election. However, should he enter the race too, a move of this sort would only further pulverize the centre-right vote.

Chart 7: First-round voter intentions for centre-right presidential candidates if Lula is in the race*



*This is the same poll that Chart 1 illustrates, but here the focus is only on centre-right candidates.
Source: IBOPE.

Chart 8: First-round voter intentions in the 2018 presidential race if Lula is not on the ballot



Source: IBOPE.

If that were not enough, there are potential centre-left contenders who are market-friendly and could split the vote too. They include:

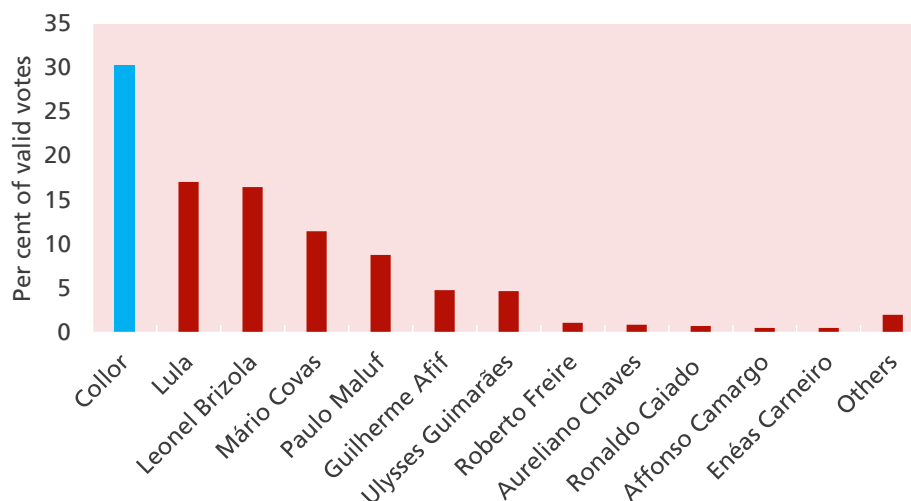
1. Former Environment Minister **Marina Silva** of the Network Sustainability party (Rede Sustentabilidade).
2. Former Chief Justice of the nation's highest court (STF) **Joaquim Barbosa**, who has been flirting with the idea of running and, as a political outsider, could win the anti-establishment vote too.

Neither of the two have officially declared their intention to join the race, but both are in the running. Looking ahead, as the presidential race draws closer, we believe the best-case scenario for the market would be if the two strongest centrist candidates would team up on a single ticket, while the majority of the rest would drop out of the race altogether – thereby allowing for one market-friendly consensus choice capable of beating both Lula and Bolsonaro.

But in a warning sign for 2018, in the absence of this or a similar scenario – and as the field of presidential contenders continues to widen – the race already promises to be the country's most unpredictable since 1989. That year, when there were more than 20 presidential candidates in the field, it was a dark horse candidate from a small, unknown party, Fernando Collor de Mello, who catapulted

from obscurity to win the nation's top elected post (see Chart 9 below). And in a further warning sign of the pitfalls that could lie ahead for political outsiders from small parties, a scant three years later, Collor – the country's first directly elected President after the military dictatorship – became the country's first President to be impeached.

Chart 9: Fragmented field in 1989 helped elect a dark horse candidate



Source: The Left and Right in the Brazilian Electorate.

The greatest risk is that there will be too many candidates from the centre-right, which will fragment the vote, as happened in the 2016 mayoral election in Rio

As we have previously highlighted, a crowded field of candidates in the Rio de Janeiro mayoral election last year also led to the fragmentation of the centrist vote, which benefited the most extreme candidates of the race on the Right and the Left, both of whom made it to the runoff round. Faced with the difficult decision of choosing the less unpalatable candidate of the two, much of the Rio electorate decided to annul or void their ballot or abstain from the vote altogether. As a result, the candidate of the Right, former Senator Marcelo Crivella, a well-known gospel singer and former evangelical bishop, was voted into office. Should the centrist candidates fail to unite and back one consensus candidate in 2018, a similar thing could happen in the upcoming presidential election, benefiting the most polarizing candidates of the extreme Right and Left.

Conclusion

Following Dilma's failed economic policies, there is a growing possibility that the Brazilian electorate will elect a centre-right candidate

The door is still wide open for both political outsiders and dark-horse candidates to crowd into the 2018 presidential race. And while it is too soon to conclude that the pendulum of Brazilian history is swinging irrevocably back to the Right, the palpable disappointment that many middle-class Brazilians feel today with the PT – especially those who voted for Lula in 2002, but felt betrayed by Dilma's mismanagement of the economy – means that this segment of the population is more likely to opt for a centre-right candidate than a left-leaning one next year.

Candidates will be forced to address the country's fiscal problems in next year's election

One positive aspect of this could be an increased willingness next year to tackle issues that were formerly demonized in past elections. This includes the future privatizations of more state assets, the importance of slashing public expenditures at a time of ballooning fiscal problems and the urgency of enacting pension reform and re-writing the social contract, at a time when the government no longer has the resources to pay for the generous benefits that are included in the 1988 Constitution (for more background, see our 17 August 2017 note [Closer to the fiscal precipice](#)). It has long been our hypothesis that such a debate – one that is vigorous, transparent, democratic and open – is a prerequisite to convincing society at large of the necessity of unpopular but important fiscal structural reforms.

Unless a new moderate candidate emerges who can unite the country, the next President could face strong opposition

Looking ahead, we see a significant risk that unless a new candidate emerges who is able to appeal to people from across the socio-economic spectrum, the growing polarization of Brazilian society will worsen in the upcoming election. If either Lula or Bolsonaro win, the country will remain sharply divided, and there is likely to be fierce opposition for changes in policy. This means that the structural reform agenda – which is going to be challenging for the next President to pass, no matter who is elected – could be even more difficult to get approved or sidelined altogether.

The business community understands that next year's election results will determine the direction of the country

The good news is that Brazil's business community appears to understand what is at stake in the 2018 election. There is a growing realization that a fed-up population that is frustrated with business-as-usual politics will not elect a political insider and that it is necessary to find a market-friendly political outsider with media savvy and broad appeal. Although there is hope that Luciano Huck might fit the bill, it is possible that another outsider with market credentials will emerge as well.

Regardless of what the polls say, there is a risk that there will be a last-minute upset in next year's ballot

Yet because of the country's extremely short official campaign season and Brazil's often fickle electorate, which only makes up its mind at the last minute, the final results of the election could easily catch the market by surprise. The accuracy of opinion polls has also declined substantially in recent elections, which will make the outcome more challenging to predict. In the final analysis, the determining factor could well be how sizeable the "protest" vote (composed of null/blank votes and abstentions) will be. The higher this is, the harder it will be for polls to capture, even though investors are already and increasingly anxious to price the outcome of next year's elections.

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