



Brazil

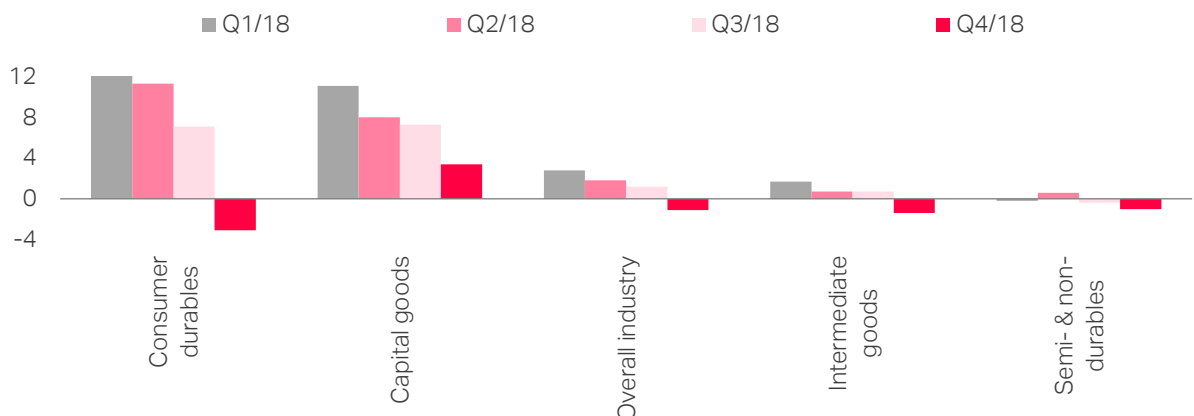
FIREWORKS IN THE SENATE

Grace Fan

- In a race marred by chaos and confusion, dark horse Senator Davi Alcolumbre won the race for Senate president, in a victory for the Bolsonaro government
- But while Alcolumbre is an ally of Bolsonaro's Chief-of-Staff, the tense election also left visible rifts, which will likely complicate governability in the Senate
- In the Lower House, market-friendly Speaker Maia, as expected, swept to a resounding victory in his re-election to the post, aiding the reform agenda
- But Maia also signalled that he has no plans to fast-track pension reform, even as Bolsonaro's PSL party joined a big Lower House bloc, isolating the left
- In a blow to the President, a top court justice rejected parliamentary immunity for Bolsonaro's son Flávio, allowing a Rio corruption probe to proceed
- Despite an improved 2018 primary deficit, the quality of federal spending is poor, more states are in fiscal trouble and key economic indicators remain weak

Industrial output by quarter

% change, yoy



Source: IBGE.

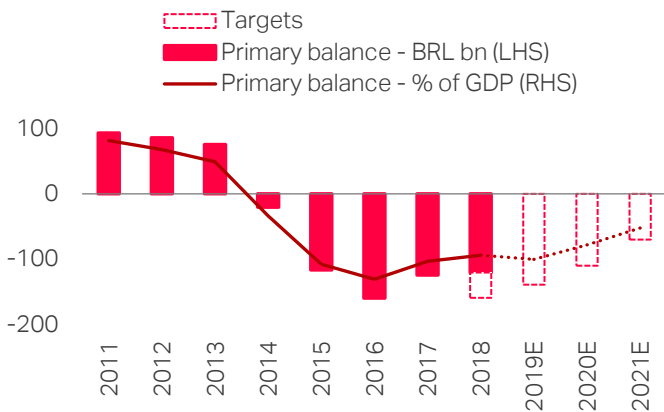
Politics

Top issues	Comment	Expected market impact
In an upset, Amapá Senator Davi Alcolumbre wins race for Senate presidency on Sat (2 Feb), aided by chaos and anti-Renan sentiment	In an election marred by high tension, judicial motions, cancelled votes and a final withdrawal from the race by scandal-ridden former favourite Senator Renan Calheiros, the 41-year old Alcolumbre – a junior member of the centre-right Democrats party (DEM) and the top pick of Bolsonaro's Chief-of-Staff Onyx Lorenzoni – won out. Next steps to watch are who will head key Senate committees.	Positive for the government's ability to set the Senate agenda; but visible friction and Alcolumbre's lack of experience threaten governability
Lower House Speaker Maia wins re-election to third term in post	The market-friendly Speaker (DEM) coasted to an easy victory, securing 65% of the vote count and winning votes from both the right and the left.	Neutral to positive, as this was long expected and will help reforms
No fast-track of pension reform, warns Maia, in divergence from Economy Ministry	Maia said the Lower House would need at least two months of debate before a floor vote would occur and added that if a new reform bill is sent, the Lower House debate could extend into H2/19.	Neutral to negative, as investors are eager for rapid approval
Bolsonaro's PSL joins big Lower House bloc	The 11-party bloc, with 59% of seats, will head key committees; this will also bar the left from top posts.	Positive, even if it does not guarantee votes
Top court (STF) justice rejects Bolsonaro's son Flávio's case for parliamentary immunity	STF Justice Marco Aurélio Mello on Fri struck down an earlier decision last month granting Flávio, a freshman senator, parliamentary immunity; this allows a Rio corruption probe to continue into the suspect financial activities of both Flávio and ex-aide Fabrício Queiroz, a longtime friend of the President's.	Negative, as more dirt is likely to be dug up, tarnishing Bolsonaro's image and weakening his reform drive in his honeymoon period

Economics

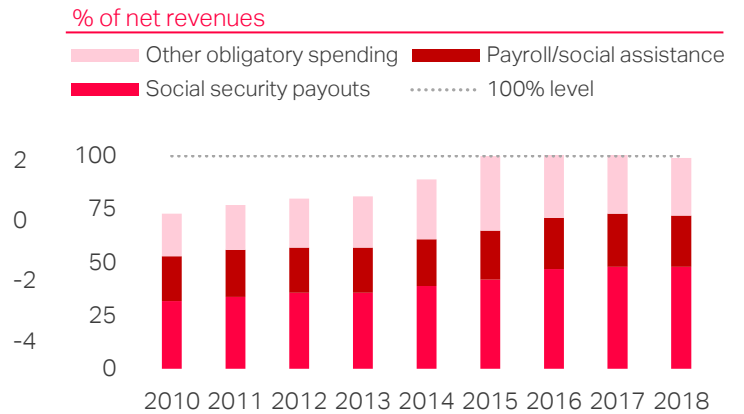
Top issues	Comment	Expected market impact
Federal primary deficit beats 2018 target, ends year at BRL120.3 bn (1.7% of GDP)	The 2018 primary deficit was 24% below the target of BRL159 bn and -3% yoy, while the consolidated public sector primary deficit fell to BRL108 bn (1.57% of GDP), the best result since 2014.	Neutral (Charts 1-2), as primary deficits are still likely into 2021 unless pension reform passes
7 states have declared 'financial calamity' so far, 4 of them in 2019	Goiás, Roraima, Rio Grande do Norte and Mato Grosso in Jan officially joined Rio de Janeiro, Minas Gerais and Rio Grande do Sul in this category.	Negative, as more states will follow; the hope is it will help pension reform
Unemployment in Q4/18 dips to 11.6%, -0.3pp qoq and -0.2pp yoy	The average rate of unemployment in 2018 was 12.3%, -0.4pp yoy as informal job creation grew; but the number of underemployed workers also rose in 2018 by 0.3pp yoy to 23.9%, while formal sector employment fell by 1.2pp yoy (Charts 3-4).	Neutral; yet without strong economic growth, unemployment will likely stay at double-digits both in 2019 and 2020
Industrial output stays weak, up 1.1% in 2018	Dec output edged up 0.2% mom/sa but down 3.6% yoy; Q4/18 output fell 1.1% yoy (Chart 5).	Neutral, as it is likely to pick up in 2019
Federal investment edges up in 2018	Investments rose to 0.77% of GDP, +0.07pp yoy but still well below 2007-16 levels (Chart 6).	Neutral, but reform is needed to push this up

Chart 1: Federal primary balance and targets in 2019 budget



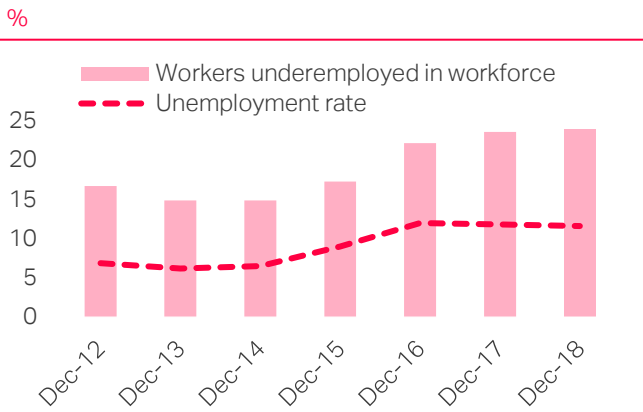
Sources: Finance and Planning Ministries.

Chart 2: Obligatory federal expenditures



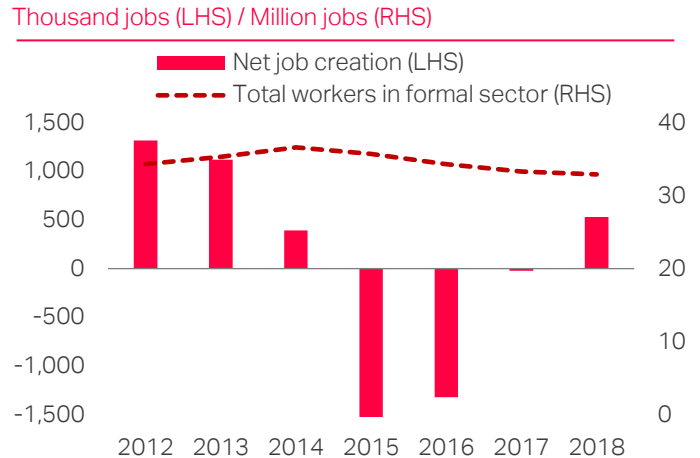
Source: Treasury.

Chart 3: Unemployment and underemployment



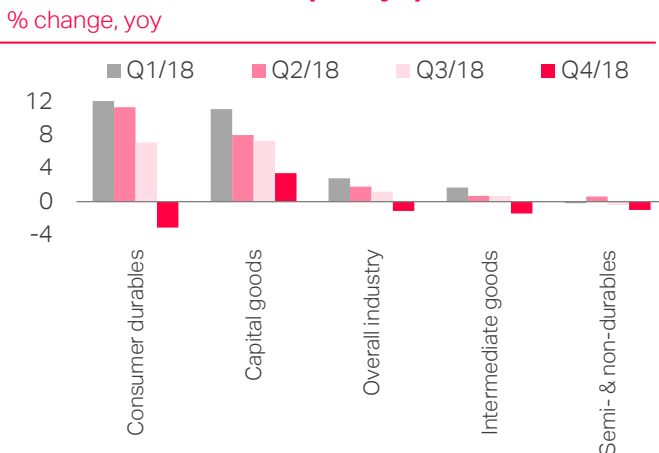
Source: IBGE.

Chart 4: Formal job market



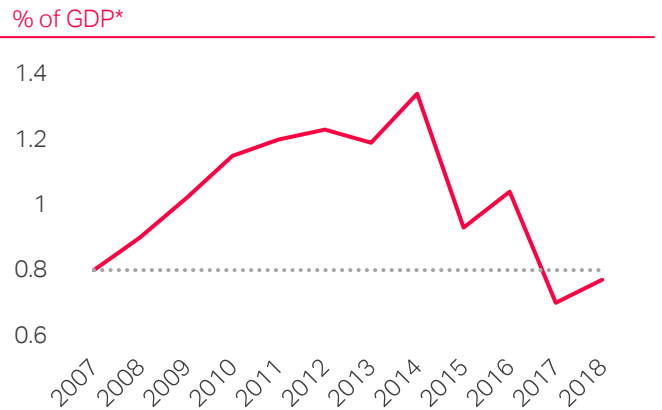
Sources: Caged, IBGE.

Chart 5: Industrial output by quarter



Source: IBGE.

Chart 6: Federal investment



*Adjusted for inflation (IPCA) and at Dec 2018 prices.
Source: Treasury.

Authors



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