

DELEGATION OF THE EUROPEAN UNION TO BRAZIL

Author: Art. 4(1)(b)

Date: 15.10.2018

Classification:
UNCLASSIFIED

To: EDITA HRDA, Managing Director Americas, EEAS

Subject: BRAZIL – Weekly report: 09 October – 15 October

Summary:

1. Polls for the presidential race show Jair Bolsonaro (PSL) ahead of Fernando Haddad (PT) by a double digit difference. The two candidates re-considered their strategies and announced they do not intend to pursue the establishment of a new Constitution.

2. On 11 October presidential candidate Jair Bolsonaro (PSL) officially announced the names of 3 ministers for his would-be government. Economist Paulo Guedes, nominee for the Finance Ministry, is under investigation for alleged pension funds fraud.

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9. After a sharp rise in Brazilian stocks and currency in the aftermath of the first round elections, Ibovespa stock index lost value and the dollar recent decline ceased, following an interview from leading presidential candidate Jair Bolsonaro (PSL).

10. The International Monetary Fund (IMF) says Brazil's public debt will be the second largest among emerging countries in 2019. The IMF also warned that the elected president should work to restore fiscal sustainability and promote reform of the Social Security system.

Detail:

2018 Elections:

1. Recent polls for the presidential race show Congressman Jair Bolsonaro (PSL) ahead of Fernando Haddad (PT) by a two-digit difference: Datafolha survey, 7 October, showed Bolsonaro with 58% of voting intentions and Haddad with 42%. On the BTG/FSB survey, 15 October, Bolsonaro polls 59% while Haddad polls 41%. In response to the

criticism upon their proposals to re-write the Brazilian Constitution, on 8 October the two candidates announced they have re-considered their plans. Bolsonaro was questioned on comments by his running mate, Hamilton Mourão, defending the establishment of a group of “notable” Brazilians to re-write the constitution. He responded that he had rejected Mourão’s statement and vowed to be a “slave” of the constitution. The candidate also indicated that if elected, he would propose to President Michel Temer a joint effort to approve a new social security reform before the end of the year. Haddad’s government programme called for the creation of a constituent assembly with special powers to re-write the Constitution. When questioned on this, he said that his party, PT, has changed its position and any constitutional reforms would take place through the current formal procedure for Constitutional amendments. The candidate added that he will propose constitutional amendments for: tax reform; banking system reform in order to increase the number of institutions and reduce interest rates and stopping the 20-year freeze of public expenditure approved by the current government.

2. On 11 October presidential candidate Jair Bolsonaro (PSL) officially announced the names of 3 ministers for his would-be government: Congressman Onyx Lorenzoni (DEM - RS) would be the head of the Chief of Staff of the Presidential Office, Retired Army General Augusto Heleno would take office as Defense Minister, while economist Paulo Guedes, as previously announced, would take the Finance & Planning portfolio – following a merger of the two ministries announced by Bolsonaro. Guedes is under federal investigation for alleged fraud tied to the mismanagement of BRL 1 billion (U\$270 million) from pension funds of state companies. His lawyers said the investigation was based on false allegations in the midst of the election “with the principal objective of confusing voters” in what they called “an affront to democracy.”

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Economic Developments

9. After an upward spike on Brazilian stocks and currency following Jair Bolsonaro's (PSL) first round victory, the Ibovespa stock index lost 2.8%. The dollar ended its recent decline and firmed at BRL 3.77, down 1.97%, by the end of the week: According to specialists, the decline reflected market investors' reactions to Bolsonaro's statements on the privatization of Brazilian energy companies in an interview on 10 October to Bandeirantes television network. The candidate expressed his opposition to the privatization of Eletrobras and Petroras and criticized the oil company's independent pricing policy for gasoline and other derivatives. These comments run counter to the positions defended by Bolsonaro's economic advisor Paulo Guedes and, according to specialists, raised concerns as to the candidate's commitment to a market friendly economic policy.

10. According to the International Monetary Fund (IMF), Brazil's public debt will be the second largest among emerging nations in 2019, behind only Venezuela: The announcement was made at the Annual IMF-World Bank meeting (12-14 October) in Indonesia. According to the IMF, the debt next year will reach 90.5% of gross domestic product and without a social security reform it will increase to 98.3% in 2023. The IMF's gross debt calculation differs from that of the Central Bank, since it includes government bonds that are issued but not yet traded on the market such as loans to state-owned companies. IMF's managing director, Christine Lagarde, recommended that the next president should work to restore fiscal sustainability and undertake structural reforms to improve credit, infrastructure and trade liberalization. She also pointed to the need to promote Social Security reform and the continuity of monetary policy to stimulate the economy. The IMF also reduced Brazilian economy's growth estimates for 2018 from 1.8% to 1.4%.

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