

Before dancing to the beat of samba, Brazilians will need to endure a political waltz

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Brazilian elections are coming up and the contest, which promises to be tight, will be determinant for the near future of the Brazilian economy. Between a fiery candidate who does not shy away from controversies and former President Lula's attempted comeback, the country is gearing up for a tight race.



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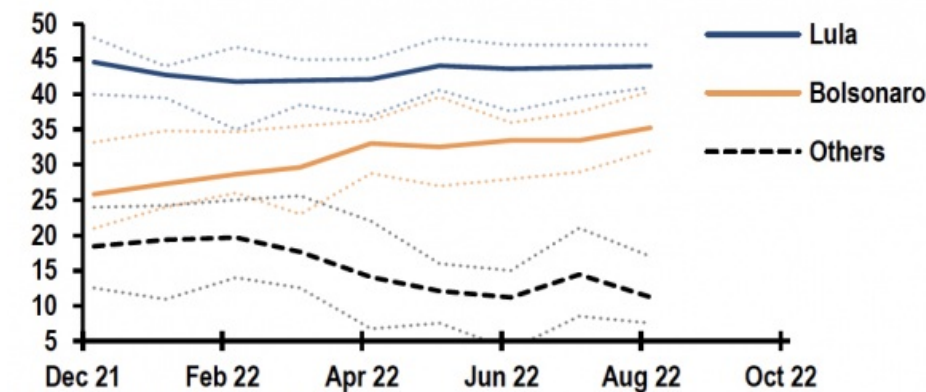
Brazilian elections kick off soon and for the moment, there are two candidates clearly far ahead, recent polls have shown. As could be expected, these are current president Jair Bolsonaro, a right-winger and the left wing former president Luiz Inácio Lula da Silva.

The first round will take place on Oct. 2, if no one wins more than 50% of the vote, a runoff is scheduled for Oct. 30.

Lula has been leading the polls for a long time but the gap between the former president and current president Bolsonaro is narrowing. On Monday, an FSB poll showed Lula's advantage down from 11% to 9%, and polls from Ideia on Wednesday and Atlas on Thursday came out with a slightly smaller gap of 8% (Figure 1).

However, the third favorite candidate in the polls, Ciro Gomes, is closer to Lula in terms of the political spectrum and is likely to support him in the event of a second round.

Therefore, at this stage, a Lula victory appears to be the most likely scenario.



Source
Multiple pollsters, J.P. Morgan

Political program

Below are the main points of the two candidates' agenda:

Luiz Inácio Lula da Silva

Repeal of the spending cap

Repeal of the labor reform

Using state-owned companies to leverage the country's growth

Increase of the minimum salary

Raising taxation on large fortunes

Renewal and expansion of bolsa familia

Jair Bolsonaro

Privatization of the post office and petrobras

Creation of a fund to invest in infrastructure

Taxation on profits and dividends

Corporate and personal income tax reduction

If Lula wins, his public spending program should be beneficial to domestic demand but could raise concern about the suitability of the Brazilian debt, with a potential negative impact on the Brazilian real.

On the other hand, if Jair Bolsonaro is reelected, the status quo is likely to prevail.

However, it is very hard to implement the entire political program due to multiple factors that can arise during the mandate, and each implementation remains subject to congressional agreement.

Risk and recent developments

Democracy at risk ?

- Recent comments of the current president about the reliability of the election system raises a crucial question - Will Jair Bolsonaro accept the results if he loses or will we see a similar situation as when Donald Trump lost the US election ?
- Brazil's last coup, in 1964, led to a brutal 21-year military dictatorship. "The middle class supported it. Business people supported it. The press supported it. And the U.S. supported it," said Luis Roberto Barroso, a Supreme Court justice and Brazil's former elections chief. "Well, none of these players support a coup now."

The first debate revealed some of the candidates' weaknesses

- The first debate took place last Sunday, August 28, with an under par performance from President Bolsonaro, as he insulted women during the debate and seemed not to know that hunger has increased in the country with the recent rise in inflation.
- On the other hand, Lula tried to avoid questions about corruption in his party despite having previously admitted that some missteps occurred in previous Workers' Party administrations.

Potential impacts

Victory

Impact on	Lula	Bolsonaro
Domestic Growth	Positive	Neutral
Inflation	Neutral	Positive (Decrease)
Fixed Income	Neutral	Positive
Equities	Neutral	Neutral
Currency Brazilian real (BRL)	Negative	Neutral

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