

2014 Brazilian Elections – Public Affairs Council

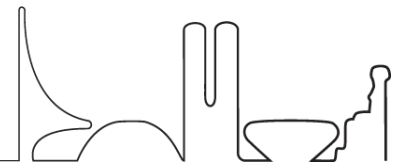
September 2014



A society in transformation



- ✓ Voter, consumer, taxpayer, citizen
- ✓ Upward social mobility
- ✓ Full employment, but low productivity
- ✓ New regions on the rise
- ✓ Demographic window opportunity lost
- ✓ Half of population with Internet access
- ✓ New generation of leaders
- ✓ Social expectations yet to be met
- ✓ Widespread and diffuse feeling for big changes
- ✓ Dissatisfaction with substandard public services
- ✓ Top down regulatory framework
- ✓ Political representation crisis
- ✓ Main concerns: health, security, employment, education, transportation and inflation



Key dates in the 2014 and 2015 political calendar:

2014 Second half	
10/04	Electoral campaign airtime ends (1st round)
10/05	GENERAL ELECTIONS (1 st round)
10/06	Electoral campaign airtime begins, radio and TV(2nd round) where necessary
10/26	GENERAL ELECTIONS (2 nd round)
12/03	Third Quarter GDP announced

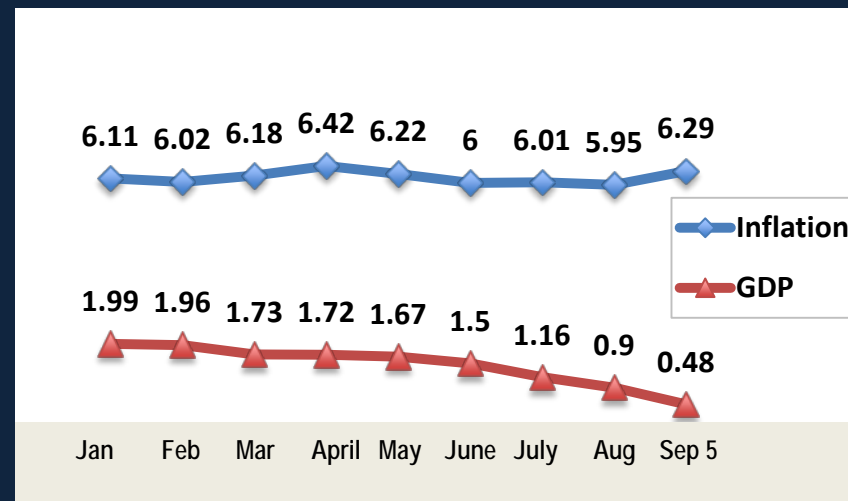
2015 - First half	
01/01	Inauguration: President and Governors
01/02	Congress and Legislatives reconvene
02/01	President's Annual Message to Congress
02/03	Congress and Superior Courts commencement
02/27	2014 Fourth Quarter GDP announced
04/15	Budgetary Guidelines Law (LDO): Submission deadline to Congress






























Macroeconomics

- ✓ Growth based on the commodities cycle, consumption and easy credit is over
- ✓ Interventionist policies have not worked well
- ✓ Very low private and public savings
- ✓ Low investments rate
- ✓ Very high tax burden
- ✓ Persistent inflation, above the 4.5% target
- ✓ Utility tariffs cap to contain inflation
- ✓ High interest rates
- ✓ Low GDP growth
- ✓ Fiscal imbalance
- ✓ Exchange rate imbalance
- ✓ Poor trade balance results
- ✓ Full employment may be at risk
- ✓ Very high labor costs
- ✓ Feeling of well being tends to diminish

Central Bank Weekly Focus Poll of Market Expectations
(Forecast made from Jan. through Aug. 2014
for Dec. 31, 2014)



Brazil macroeconomic indicators

	2012	2013	2014	2015*
GDP (%)	0.9	2.0 	0.8 	1.2 
Inflation (%)	5.9	5.9 	6.5 	6.5? 
Exchange rate (BRL\$ / US\$)	2.0	2.36 	2.40-2.50 	2.60-2.70 
Primary balance (GDP %)	2.38	1.9 	1.0? 	?
Nominal balance (GDP %)	- 2.47	-3.2 	- 3.7 	-4
Interest rate (%)	7.25	10.0 	11.0 	12.0 
Trade balance (US\$ billion)	19.4	2.56 	2.0 	8.0 
Current account (%)	-2.2	-3.0 	-2.5 	?
Net public debt (GDP %)	35.1	34.5 	34.9 	35 
Unemployment (%)	5.3	4.8 	5.7 	6.5? 

Sources: PATRI, BC, IBGE and IMF

Forecast based on PATRI and Focus Pol/BC

*The blank lines refer to policy decisions to be taken by the next Administration



- ✓ Makeshifts for the short term problems
- ✓ Lack of sectorial policies
- ✓ Credit access too easy and risky
- ✓ Some sectors favored with lower taxes
- ✓ Public banks used to mitigate emergencies
- ✓ Most people don't feel effects yet

Brazil's New Middle Class

104 million are part of the middle class, which accounts for **53%** of the population



Source: SAE/ Federal Administration





Public Affairs in Brazil: How do they affect the private sector?

- ✓ Brazil has a strong bureaucratic tradition
- ✓ The country is an over-regulated environment (110,000 norms a year)
- ✓ 22,000 bills are currently under exam in Congress
- ✓ Deregulation has always been difficult to achieve
- ✓ After the 2008 global crisis, it became even more difficult

Critical issues for business:

- ✓ Tax burden amounts to 36% of GDP
- ✓ Public sector amounts to 22% of GDP
- ✓ Government is player, buyer, and regulator
- ✓ Labor regulation is 76 years old
- ✓ Payroll taxes over 100% of direct labor costs
- ✓ Consumer rights expanded
- ✓ Environment permits

2014 General elections

- ✓ Population: 200 million (in 2013)
- ✓ Voters: 145 million
- ✓ Mandatory Vote
- ✓ Political parties do not have clear platforms
- ✓ Voter picks persons, not electoral platforms
- ✓ 25,000 candidates for 1,617 offices
- ✓ Parties can form different alliances in the federal and state levels

Superior Electoral Court Campaign



Electronic ballot



2014 General Elections/ Executive branch



Dilma Rousseff
(PT)



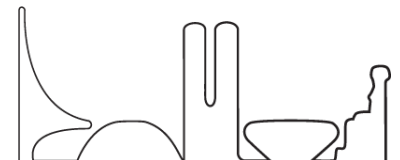
Marina Silva
(PSB)



Aécio Neves
(PSDB)

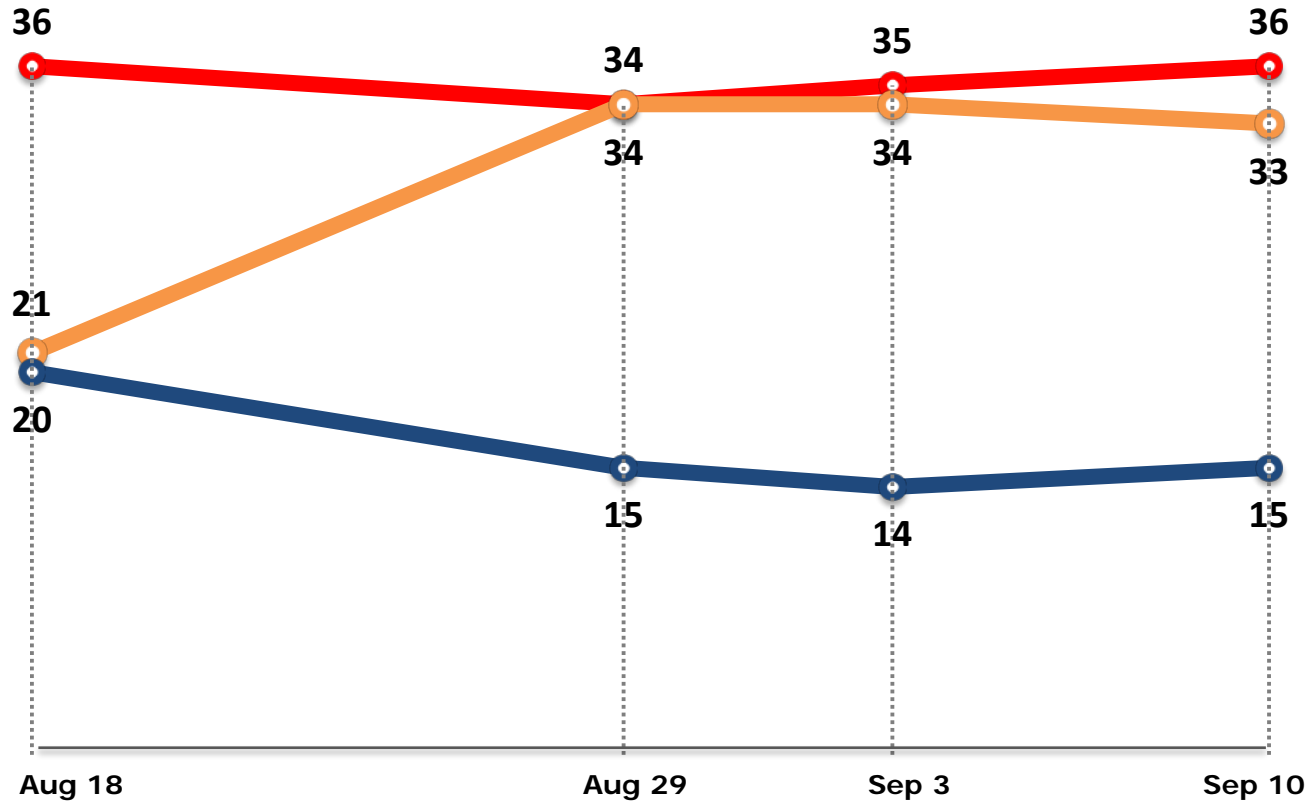
Photos: Political Parties

- ✓ Scope: President, Vice-President, 27 Governors and Vice Governors
- ✓ In general, three major candidates for each job, but more than a dozen in total
- ✓ The presidential race is wide open, specially after Marina Silva's entrance
- ✓ A runoff is practically unavoidable now; Rousseff and Silva are neck to neck
- ✓ Marina Silva is the dark horse; her platform is vague and under attack of opponents
- ✓ Aécio Neves is the business sector favorite candidate, but perceived as elitist by many
- ✓ 18 governors are running for reelection
- ✓ Most gubernatorial elections are also wide open



Who do you intend to vote for president?

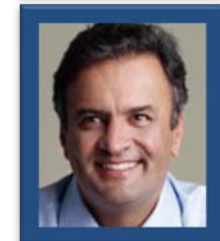
Margin of error of 2 percentage points (-/+)



Dilma
Rousseff
(PT)



Marina
Silva
(PSB)

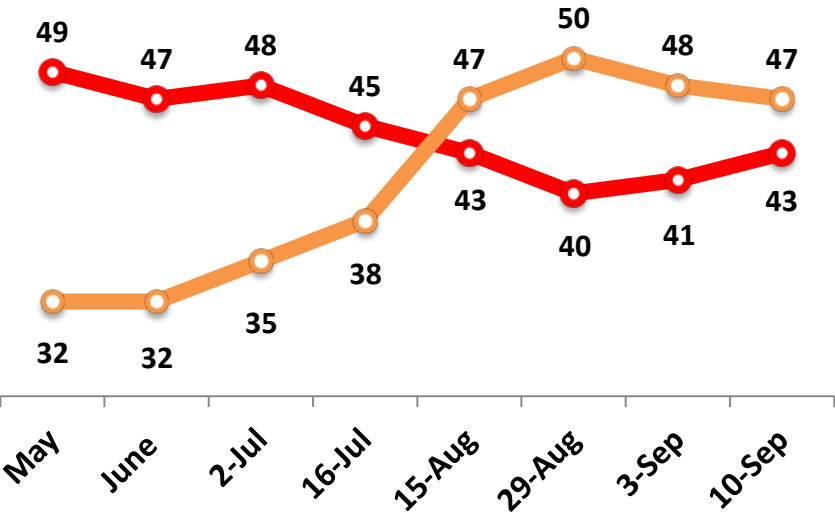


Aécio
Neves
(PSDB)

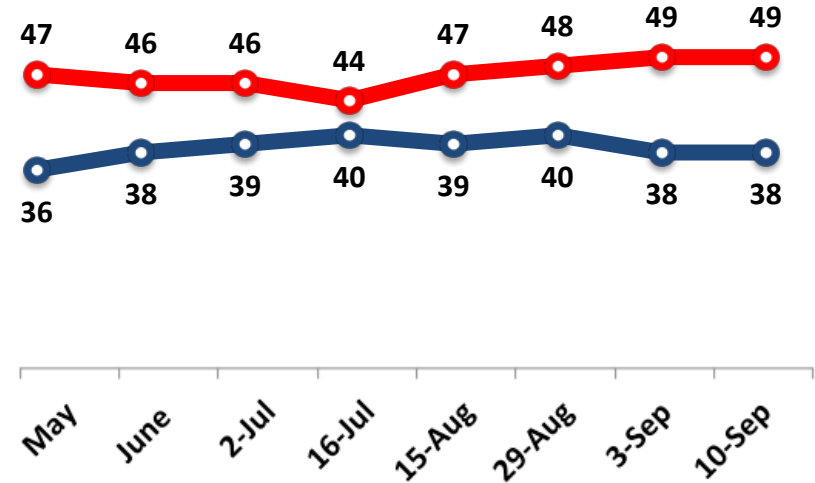


Datafolha: Silva and Rousseff tied in runoff; Rousseff most rejected (%)

Dilma Rousseff X Marina Silva



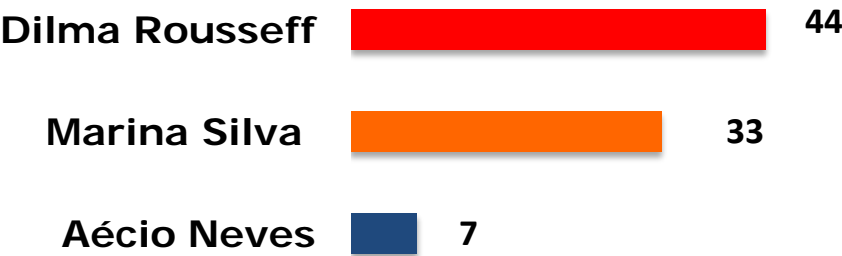
Dilma Rousseff X Aécio Neves



Rejection

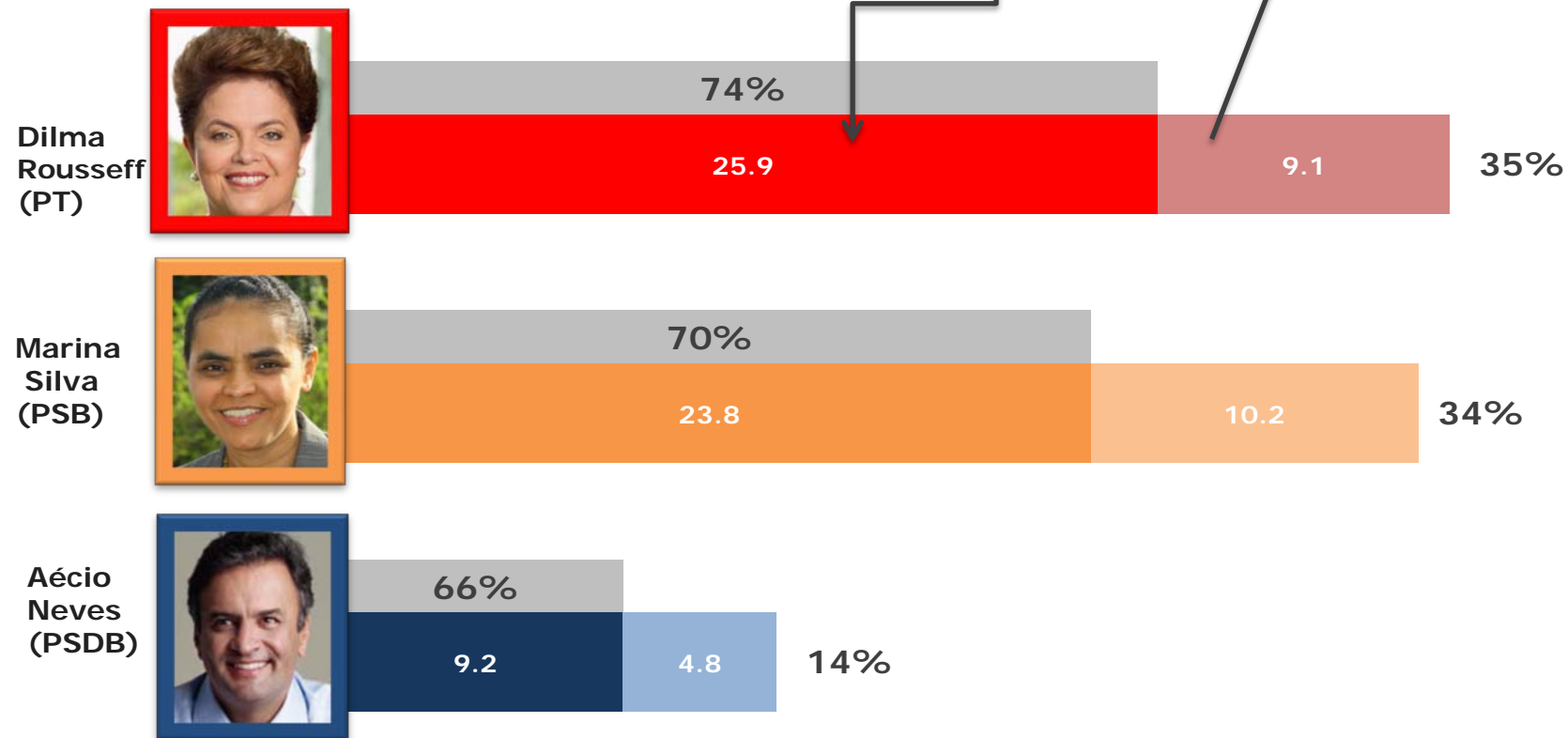


Marina leads in the runoff, but most believe Dilma will win:



Voters intention decisiveness (Datafolha %)

- Are you totally decided to vote for?
- Your vote could still change?



September 1 – 3 2014

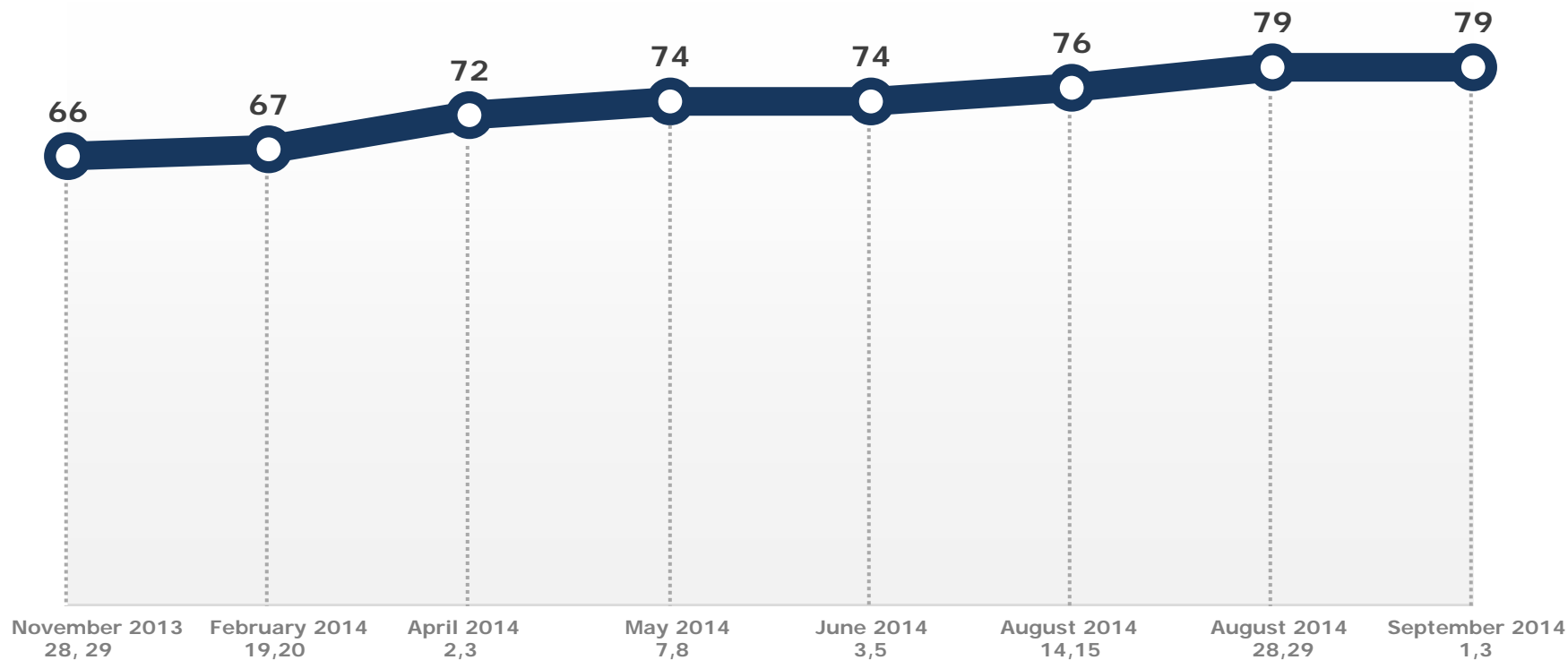


Desire for change (Ibope) %

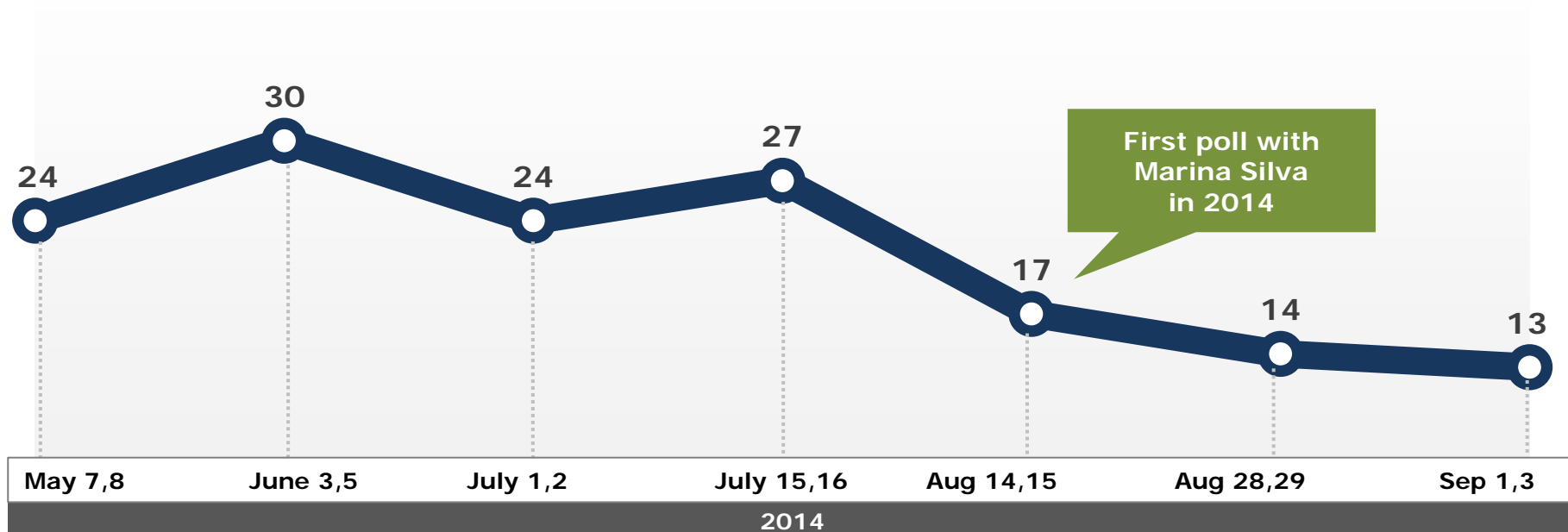
Ibope

Thinking of the next president, you would like him or her to:

■ Sum of answers: Change the country's government completely / Keep a few programs, but change many things:



Blank, null and undecided votes (Datafolha, %)

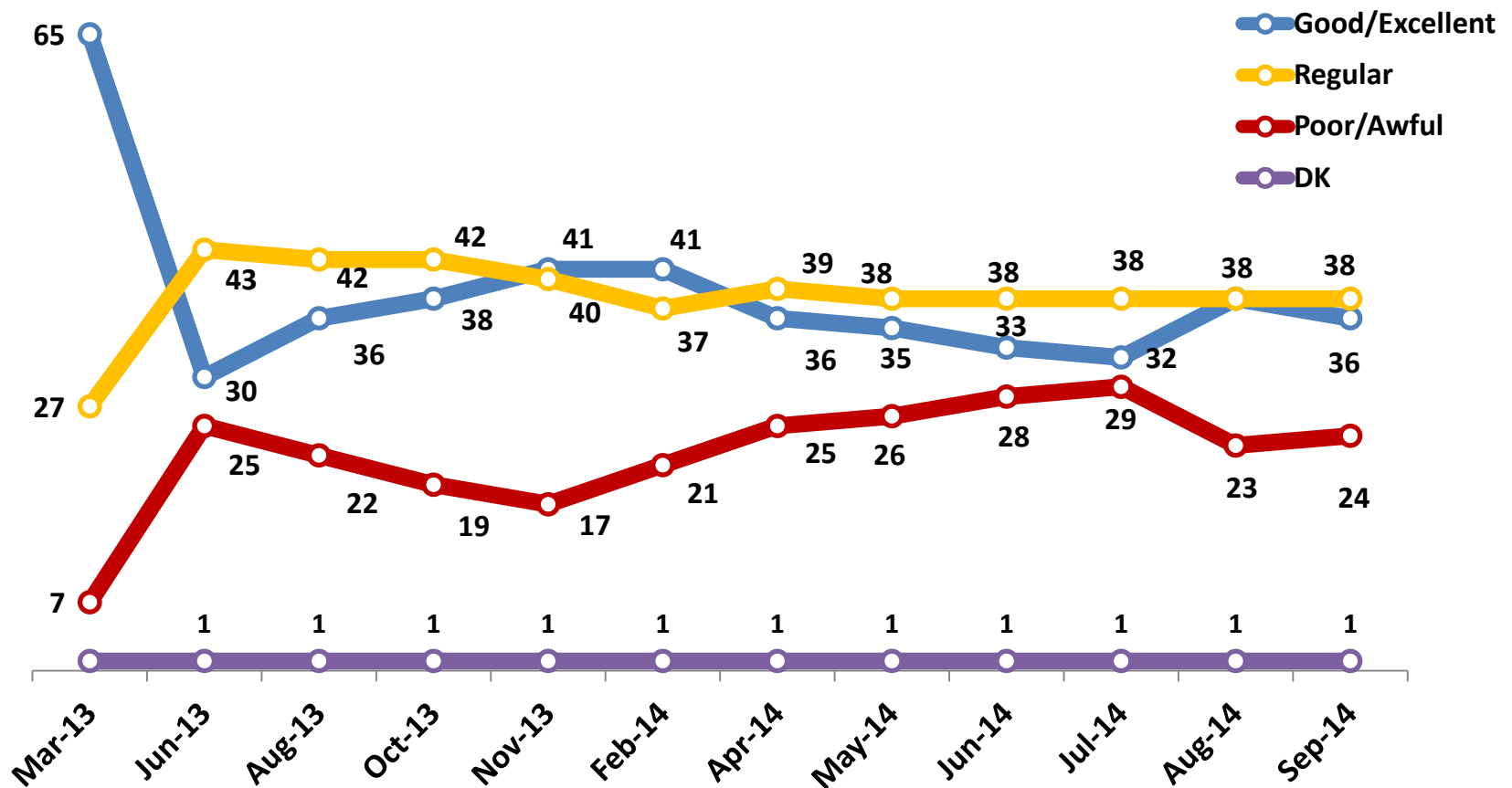


Blank, null and abstention in recent elections (%)			
	2002	2006	2010
First vote	28	25	27
Runoff	26	29	28

(Source: TSE)



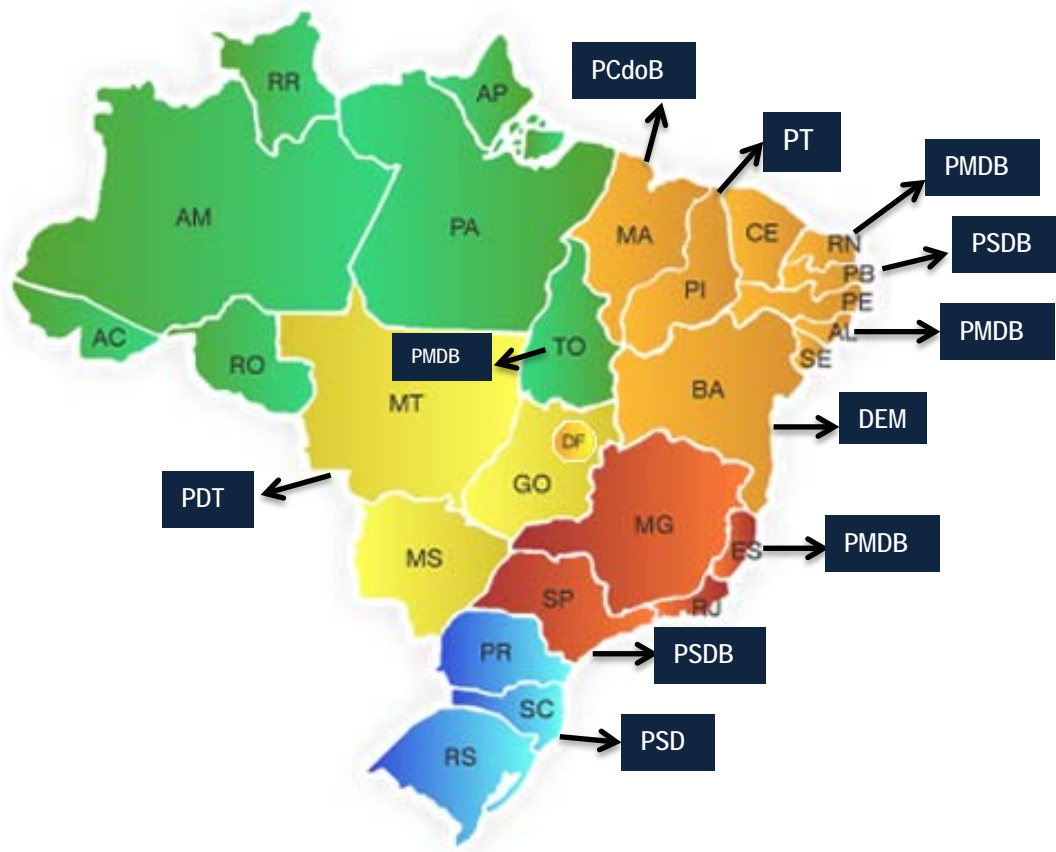
Presidential approval rate (Datafolha)



Datafolha: Most gubernatorial races are wide open (September 2014)

Only 11 state races likely to be decided in the first vote

The “Marina factor” has also impacted the state races, threatening 18 incumbents. Out of them, just two – Geraldo Alckmin (SP) and Beto Richa (PR) – will likely win in the first vote



Number of state races decided in the first vote	
1990	11
1994	9
1998	14
2002	13
2006	17
2010	18
2014	11*

(Sources: TSE, O Globo and FSP/ *forecast)



Legislative elections

Scope:

- ✓ 27 Senators
- ✓ 513 Representatives
- ✓ 1,049 State Legislators

Further insights:

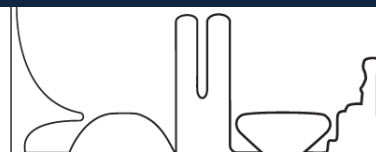
- ✓ Party fragmentation will continue in Congress
- ✓ No elected President's party will hold majority in Congress
- ✓ Most incumbent Members of Congress at risk of losing their seats

Party	House (%) (24 parties)	Senate (%) (16 parties)
PT	87 (16.9)	13 (16)
PMDB	75 (14.6)	20 (24.7)
PSDB	44 (8.6)	11 (13.6)
PSD	42 (8.2)	1 (1.2)
PP	39 (7.6)	5 (6.2)
PR	32 (6.2)	4 (5)
DEM	26 (5.1)	4 (5)
PSB	24 (4.7)	4 (5)
SDD	22 (4.3)	1 (1.2)
PROS	20 (3.9)	1 (1.2)
PDT	18 (3.5)	5 (6.2)
PTB	18 (3.5)	6 (7.4)
PSC	13 (2.5)	1 (1.2)
PCdoB	15 (2.9)	2 (2.5)
PV	9 (1.8)	1 (1.2)
PPS	8 (1.6%)	-
PRB	10 (1.9)	1 (1.2)
Other	11 (2.1)	1 (1.2)
TOTAL	513 (100%)	81 (100%)

Government
Independent
Opposition

The day after

- ✓ 3 certainties: democracy, inflation control and social inclusion will remain
- ✓ A heavy fiscal adjustment will be unavoidable
- ✓ Utility tariffs will have to be raised; but how soon and how much?
- ✓ Minimum wage increases will not be as big as they have been
- ✓ None of the candidates seems to have great leadership qualities
- ✓ No president's party will have a majority in Congress
- ✓ If Rousseff is reelected, Lula's influence is likely to increase much
- ✓ If Neves is elected, social movements are likely go to the streets to protest
- ✓ If Marina Silva is elected...



What if Marina Silva is elected?



Photo: PSB

- ✓ Political support will be an issue: she will need support, maybe in the way Itamar Franco had
- ✓ Dilma Rousseff has been criticized for burning bridges; but Silva is not known for building them
- ✓ Silva will also need experienced technocrats to operate core areas: Finance Ministry, Central Bank and regulatory bodies; will they come from the market and/or PSDB?
- ✓ Silva will likely face the disenchantment of the Millennials who took to the streets in 2013 and will have voted for her; promises of a steady recovery are unlikely to be fulfilled soon



Further insights



Photo: Caio Araújo/Instagram

- ✓ These elections are like no other – a **new political patchwork** will emerge
- ✓ The popular negative perception on the **fast economic degeneration** and **low governance** (all levels of governments) is likely to grow – during the campaign and following the elections



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