

BRAZIL: WIDE-OPEN PRESIDENTIAL ELECTIONS IN OCTOBER



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candidates. Opinion polls suggest that the elections would go into a second round on 30 October with a face-off between incumbent far-right president Jair Bolsonaro and former centre-left president Luiz Inácio Lula da Silva. Lula da Silva is currently leading the opinion polls by a significant margin, though a lot can

still happen in the coming three months. Lula da Silva served two presidential terms (2003-2010) and became immensely popular, but his image is tainted by the huge corruption scandal involving state-owned oil company Petrobras and for which he was sent to jail from 2018 to 2019.

IMPACT

Brazil has been democratically ruled since 1985, when the military regime peacefully ceded power to civilian rulers. Since then, the country has often swung between left and right presidents, who worked with a hugely fragmented Congress but where political parties were interest-based rather than ideologically driven. As a consequence, Brazil has a long history of working majority in Congress, with presidents from all ideologies, but also of corruption scandals. As a result, whoever wins the elections is likely to be able to govern despite the highly polarised context. This is quite unique in a polarised region where recent elections have hampered governability for presidents, as is the case in Peru.

Looking ahead, if Bolsonaro does not win the presidential elections, he may not respect the outcome. He could publicly question the credibility of the electoral system and request that the military plays a monitoring role. Nevertheless, a military coup seems unlikely, as military leaders have repeatedly said that they would respect any election result. Moreover, international pressure, notably from the USA, is high. That being said, if Bolsonaro loses, especially by a small margin, unrest is highly likely in a polarised left-versus-right context. Given the relatively strong institutions and history of peaceful transition of power, unrest – if any – is expected to be temporary.

The next president will need to enact fiscal reforms since a **degradation of public finances would place public debt onto an unsustainable path**. In this context, a possible return of Lula is spooking some investors. During Lula's second term, which coincided with a commodity boom, he enacted expansionary and more interventionist policies. However, in his first term, Lula was more fiscally disciplined and enacted orthodox economic policies, while pursuing some modest structural reforms. But, another presidential term under Bolsonaro also worries investors. Given his populist streak, Bolsonaro enacted some fiscal reforms, but some flagship reforms, such as the pension reform, were watered down, while international relations were damaged by a quickly worsening environment record under his rule and his preference for more military involvement in politics. That being said, it remains to be seen which policies will arise after the elections, as either candidate will face, on the one hand, high food and fuel inflation, in a country notorious for its high income inequality and, on the other hand, pressure from the financial markets, especially as the USA started to aggressively tighten its monetary policy.

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