

**Brazil Macro Compass**
**Countdown to Elections Officially Begins**

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**Chart of the Week: Relative Strength of Presidential Candidate**

In our Chart of the Week, given the proximity of the official beginning of the campaigns for the October general elections (see more in the “Political Agenda” section on page 2), we try to measure the relative strength of each presidential coalition. We use four criteria: current number of Lower House deputies, population under mayors of parties in the coalition, resources from the public campaign financing fund, and time allocated to TV advertisement. All the values are expressed as share of the respective totals. Although coalitions for presidential elections are not necessarily replicated at the local level (we still do not have aggregated data on the coalitions for the state governor elections, but coalitions may differ in each state, with local power brokers asking for votes in candidates from many different parties for each office), we believe those metrics may serve to illustrate the potential competitiveness of each candidacy, insofar as votes tend to be influenced by such factors, among several others.

**Candidates to the 2018 Brazil Presidential Election, Share of Total (%) in Four Competitiveness Criteria**

Candidate (Party)	Deputies*	Population under mayors**	Campaign financing fund*	TV advertisement
Alvaro Dias (PODE)	5	3	5	5
Cabo Daciolo (PATRI)	1	0	1	1
Ciro Gomes (PDT)	5	6	4	5
Geraldo Alckmin (PSDB)	54	57	48	44
Guilherme Boulos (PSOL)	1	0	1	2
Henrique Meirelles (MDB)	11	16	15	16
Jair Bolsonaro (PSL)	2	0	1	1
João Amoêdo (NOVO)	0	0	0	1
João Goulart Filho (PPL)	0	0	0	1
José Maria Eymael (PSDC)	0	0	0	1
Lula (PT)	16	5	15	19
Marina Silva (REDE)	1	2	2	3
Vera Lúcia (PSTU)	0	0	0	1

\* Sum of all the parties in the coalition. \*\* Sum of all the parties in the coalition, as elected in 2016. Sources: Lower House, Electoral Court, Santander estimates.

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## Political Agenda: Let the Race Begin

August 15 is the deadline for the registration of candidacies for this year's general elections, with campaigning allowed from the following day. The campaign should empty out the Congress, with most of its members seeking reelection or supporting other candidates. With respect to the presidential race, the most anticipated developments are the launching of TV and radio advertisements on August 31 and a potential change in the strategy of the Workers' Party (PT) in the event that it is forced by the Electoral Court to replace Lula as the head of its presidential ticket. The Court has until September 17 to rule on registrations.

## Upcoming Data: June IBC-Br

The week ahead is light on economic indicators. We highlight only June IBC-Br, BCB's monthly GDP proxy. We expect the index to rebound strongly from May's poor performance, going back to a trend compatible with a 2% yearly GDP growth (which, per our estimate, requires 0.3% quarterly growth in 2Q18). We expect a +3.7% m/m (+2.4% y/y) change.

## What's New: Copom Minutes, July CPI

**The minutes of last week's monetary policy meeting did not bring significant changes from the statement that followed the decision to keep the overnight policy rate (Selic) at 6.5%.** The main message continues to be that the combination of well-anchored inflation expectations and the slow reduction in economic slack prescribes accommodative monetary policy, with the current Selic level being adequate for the set of available data. BCB's models continue to point to yearly inflation below the target midpoints for both YE2017 and YE2018 (at 4.2% and 3.8%, respectively). BCB continues to emphasize the importance of reforms to reduce the structural real rate. We continue to project a flat Selic rate until 2H19, conditioned upon the next president indicating commitment to the agenda of fiscal consolidation.

**July CPI inflation came in slightly above our expectations, at 0.33% m/m.** The surprise was concentrated in restaurant prices, which rose 0.72% m/m (from 0.17% m/m in May), raising worries about the pass-through of the spike in foodstuff prices following the May truckers' strike. It will be important to monitor if that trend will continue or reverse in August data. On the other hand, monthly core inflation is still well contained within the 0.1-0.3% range observed over the past few months (latest data was 3.02% y/y). We expect August headline CPI at -0.1% m/m and year-end inflation at 3.9% y/y. For more information on our most recent forecasts, see *The Power of Trade-Off* (August 2, 2018).

## Number of the Week

# 16.38%

The Supreme Court decided last Wednesday (August 8) to include in its 2019 budget a 16.38% rise in the wage of their own justices. The final decision now depends on the Senate. The current monthly paycheck of a Supreme Court justice is at BRL 33.7k (around USD 9k).

## Quote of the Week

*There is still a question of many people who like privileges, in fact, only those who don't have any don't enjoy privileges.*

— **Hamilton Mourão**, retired army general and Jair Bolsonaro's running mate, in an interview with *Jornal Nacional* (August 7, 2018).

## What We've Been Reading

- *International Monetary Fund Brazil 2018 Article IV Consultation* (August 3, 2018). IMF's executive board recognized progress in the economic recovery, underscoring the importance of continued fiscal consolidation to curb downside risks.
- "Advancing the evaluation of tax reforms: A new IMF database," by Era Dabla-Norris and Ruud de Mooij (*Vox EU*, August 7, 2018). Among the countries included in the study, Brazil has the lowest frequency of tax reforms.
- "It's Been 400 Years. Will Brazil's Voters Choose Progress?," by Mac Margolis (*Bloomberg Opinion*, August 6, 2018). Politically toxic reforms are needed if Brazil wants to boost its economic productivity.



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- “Brazil’s Populist Temptation,” by Luiz Felipe D’Avila (*Project Syndicate*, August 2, 2018). Geraldo Alckmin’s government plan coordinator makes the case in favor of centrism and his candidate.
  - “Why Brazilians are always late,” by Lucy Bryson (*BBC Travel*, July 30, 2018). Or why arriving on time for parties in Brazil is socially awkward.

### Recent Publications (Available on Our Website)

- *The Power of Trade-Off* (August 2, 2018)
- *It’s Not for a Lack of Credit – Part III: Delinquency, Way Better than it Seems* (July 20, 2018)
- *It’s Not for a Lack of Credit – Part II: Companies* (July 20, 2018)
- *It’s Not for a Lack of Credit – Part I: Individuals* (July 18, 2018)
- “*Lethal Weapon*”: *How Far Can the BCB Go with Swaps?* (June 15, 2018)



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