

# Bolsonaro's election: A resounding victory yields an uncertain future

While Brazil's general elections may have come to an end with the much-anticipated victory of right-wing candidate Jair Messias Bolsonaro of the Social Liberal Party (PSL), the significance for the "country of the future" is far from clear. Bolsonaro may have handily won the run-off against his opponent, Fernando Haddad of the Workers' Party (PT), but questions abound over his ability to govern and how quickly he can return Brazil to macroeconomic and political stability, if at all.

We conclude that Bolsonaro's mandate is not nearly as strong as the vote totals suggest. As a result, generating economic growth, improving employment prospects and delivering early political "wins" in 2019 will be critical to sustaining a Bolsonaro presidency.

This is Part One of a two-part series on Brazil's new president. Later this week we will share with you Part Two of our analysis, where we look at a range of specific scenarios to consider under President Bolsonaro.

## How to interpret an "anti-election"

We believe that this election is not properly interpreted as a "win" for Bolsonaro; rather, it was a "loss" for traditionally powerful parties like the leftist Workers' Party, their coalition partners, such as the centrist PMDB, and historical political elites. Bolsonaro was simply the vehicle for opposition to the status quo and the establishment. Despite campaign rhetoric to the contrary, most of the electorate did not vote based on issues of political economy, nor were they focused on the two polarized presidential frontrunners that ultimately made it to

the second round. Rather, with the exception of small percentage of ideologically-committed voters on the left and right, centrist-minded Brazilians voiced their disgust with a discredited political class, a trail of systemic corruption left by the Workers' Party and a coterie of power-hungry political parties in their governing coalition during the last two decades – the extent of which was only truly revealed during the Car Wash ("Lava Jato") operation. Prior to the first round on October 7, electoral simulations consistently showed that

Bolsonaro would have lost to virtually any of the other candidates if he had faced them in the second round. In other words, if it had been anyone other than a candidate from the highly-discredited Workers' Party, this election would likely have gone very differently, at least at the presidential level.

### Many Brazilians hold their noses

Rightly or wrongly, therefore, a disenchanted majority of middle-of-the-road Brazilians ultimately chose to look past Bolsonaro's dubious moral compass and disagreeable authoritarian tendencies to punish political elites viewed as principally responsible for a lost decade of economic and political development, not to mention outright theft from the Brazilian people. Other factors were certainly also in play, including the attractiveness of Bolsonaro's populist, law-and-order rhetoric toward increased drug-related violence and his stabbing by a radicalized spectator at a campaign rally in the lead up to the first round, both of which energized Bolsonaro's base. But ultimately, it was reluctant support from more moderate disaffected voters, who were voting *against* the Workers' Party, that tilted the electoral balance heavily in Bolsonaro's favor.

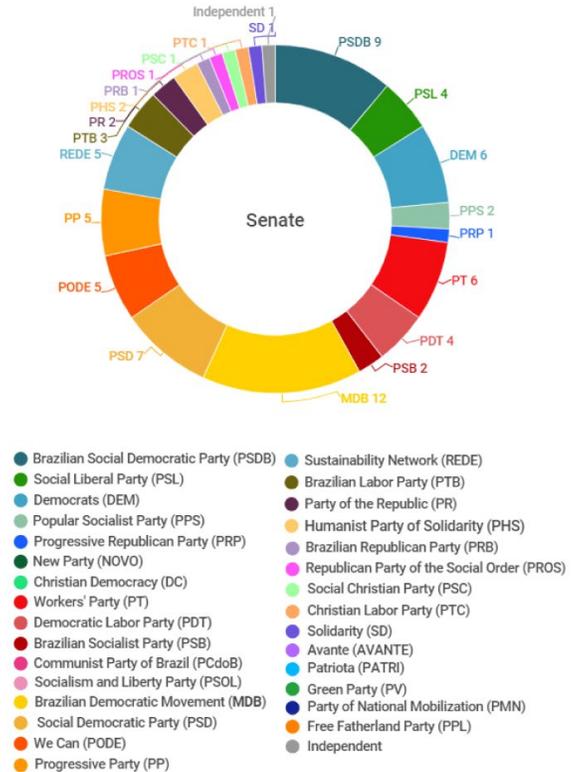
### Governing in Brazil has always been about power, not ideology

Despite his sizable win, Bolsonaro certainly has his work cut out for him. Although Brazil's political system grants the president strong executive powers, he must nevertheless rely upon an unwieldy legislature to implement any major policy changes. Academics refer to Brazil as a "coalitional presidentialist" system, which requires Brazilian presidents to cobble together a majority coalition from a dispersed and fragmented legislature. The Brazilian Congress currently comprises over 30 ideologically disparate political parties that must be corralled to enact legislative change, particularly as it pertains to constitutional amendments (e.g., pension reform). In the congressional contest, the PSL won a much larger portion of the legislature than anticipated (PSL went from eight to 52 seats in the Chamber of Deputies and from zero to four seats in the Senate, as shown in the images below). That said, there are 513 representatives in the Chamber of Deputies from 30 different political parties, so simple math demands that the PSL join forces with many other parties to achieve anything resembling legislative success in Bolsonaro's policy agenda.

Since the return to democracy in 1985, every president has had to patch together a hodgepodge of ideologically-disparate parties to effectively govern. Former presidents have used a variety of licit (e.g., doling out of powerful

## SENATE

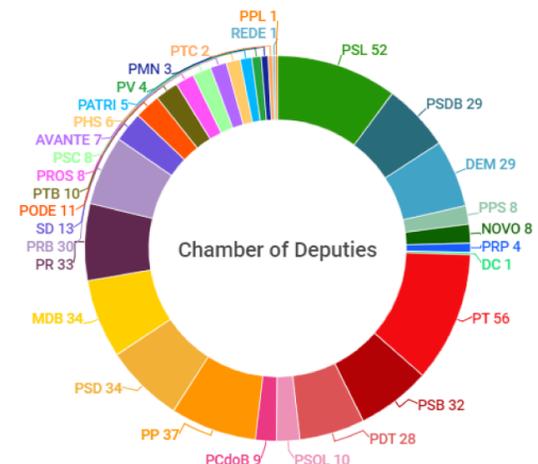
PSL went from 0 to 4 seats in the Senate.



Senate: Total Seats = 81

## CHAMBER OF DEPUTIES

PSL went from 8 to 52 seats in the Chamber.



Lower House: Total Seats = 513

ministries) and illicit (e.g., illegal campaign financing) practices to create party loyalty and fidelity within the governing coalition – in a system of horse trading known as “toma lá, dá cá” (“take there, give here”). The Car Wash and earlier “mensalão” corruption scandals were both born out of this give-and-take system. This institutional feature of the Brazilian political system means that Bolsonaro will have to put aside his rhetoric and create a majority coalition that includes trenchant opposition if he wants to govern successfully – this is life in the Brazilian Congress.

### **Bolsonaro's first steps are critical**

Lifting Brazil out of its dire economic crisis must be one of the first issues tackled by President Bolsonaro, as none of his other policy objectives can be achieved without a return to growth and lower unemployment. To restore Brazil's fiscal equanimity, President Bolsonaro must overcome a fiscal deficit totaling almost [8 percent of GDP](#) and somehow enact desperately needed pension reform.

To appease investors and capital markets, Bolsonaro has indicated that University of Chicago-trained, orthodox economist Paulo Guedes, an advocate of free markets, deregulation and liberal economic policies, will be a “super minister” with some oversight over what are currently the Ministries of Finance (*Fazenda*); Planning, Budget and Management (*Planejamento, Desenvolvimento e Gestão*); and Development, Industry and Trade (*Desenvolvimento, Indústria e Comércio Exterior*). However, to achieve the kind of meaningful pension reform anticipated by foreign investors, Guedes and Bolsonaro will need a two-thirds majority in the Brazilian legislature to modify the pension system, a Herculean task even in normal times, but particularly challenging in this hyper-polarized political environment. It is far from clear how they will achieve this.

Moreover, Brazil desperately needs to reduce its infamous “Brazil cost” (*custo Brasil*) if it wants to unleash animal spirits within the economy. Some potential reforms include reducing corporate bureaucracy (especially the Byzantine incorporation and tax laws), further liberalizing labor reforms to reduce the informal labor market, incentivizing investments in infrastructure and logistics, and reducing the cartelization of industry. With the World Bank ranking Brazil's business climate [125<sup>th</sup>](#) out of 190 countries, attracting foreign investment continues to be urgently needed, and the business community vote of confidence in Bolsonaro must now be matched by tangible change.

As these challenges highlight, there is still much to consider when contemplating the impact of Bolsonaro's presidency in Brazil. **Part Two** of our analysis will detail potential scenarios to project outcomes in 2019 and beyond.

The views expressed herein are those of the author(s) and not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, its affiliates, or its other professionals

Gavin Parrish  
Managing Director  
+1 646 485 0575

Christopher DeSa  
Managing Director  
+1 832 667 5262

Ana Heeren  
Managing Director  
+1 202 346 8824

Anabel Teixeira  
Consultant  
+1 202 414 3625

Gavin.Parrish@fticonsulting.com

Christopher.DeSa@fticonsulting.com

Ana.Heeren@fticonsulting.com

Anabel.Teixeira@fticonsulting.com



### **About FTI Consulting**

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. For more information, visit [www.fticonsulting.com](http://www.fticonsulting.com) and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.