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FEATURED Q&A

What Factors Will Decide Brazil's Presidential Race?

Q Brazilian president Dilma Rousseff is maintaining a lead over main opposition candidate Aécio Neves ahead of the country's October elections and would beat him in a potential second round, according to a recent poll by Ibope. However, other recent polls have shown the two candidates neck-and-neck in a runoff. With just over two months to go before the election, what factors will have the largest influence on the vote's outcome? With Brazilians also voting for national and state legislatures and state governors, what are the other the key races to watch?

A Carlos Eduardo Lins da Silva, global fellow at the Woodrow Wilson International Center for Scholars: "At this point of the presidential campaign in Brazil, it seems that the odds in favor of Dilma Rousseff's re-election are better in the election's first round than in the runoff if it becomes necessary. President Rousseff has a relatively comfortable advantage over the two main opposition candidates in public opinion polls that ask likely voters who they will pick in the first round. But in the runoff simulations, she appears in a virtual tie with Aécio Neves and with a larger but not huge majority over Eduardo Campos. This is probably because the runoff will appear as a kind of referendum on her government. Her chances to be re-elected in the first round will increase if the present inclination of around one-fourth of all voters (according to the most recent polls) to nullify their votes or to vote blank remains. If this happens, with more than a dozen candidates on the ballot, Rousseff may get more than 50 percent of the valid votes and avoid a runoff. The record amount of voters who say they do not want to vote for anyone reflects a growing frustration among Brazilians with the country's political system. The immense majority of poll respondents say they want change. But most do not seem happy with what the candidates have offered them as possible

Continued on page 3

Argentina's Fernández Denies Country Is in Default

Argentine President Cristina Fernández de Kirchner denied Thursday that the country's missed payment to the holders of restructured bonds constituted a default because the country honored its obligations. She added that Argentina will pay its debts. See story on page 2.

Photo: Argentine Government.

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NEWS BRIEFS

Leader of Venezuelan Opposition Alliance Steps Down

Venezuelan opposition leader Ramón Guillermo Aveledo on Wednesday resigned from his position as the leader of the opposition Democratic Unity alliance, the Associated Press reported. Aveledo said he resigned to make space for new leadership. His resignation is a blow to opposition forces, which have been internally divided over how best to challenge President Nicolás Maduro. Aveledo had pushed for negotiation with the government following anti-government protests, but hardliners criticized him for not taking a more confrontational position.

Brazil's Embraer Expects Regional Jet Orders From U.S. to Take Off

Brazilian aircraft maker **Embraer** expects to receive more regional jet orders next year from the United States, CEO Frederico Curado said on a call Thursday, Reuters reported. The world's third largest commercial plane maker said its E-175 regional jet has been well-received there.

Florida Subsidiary of Venezuelan Bank Sees Surge in Loan Portfolio

Coral Gables, Fla.-based **Mercantil Commercebank**, a subsidiary of Venezuela's **Mercantil Servicios Financieros**, experienced a surge of $183 million in its loans in the second quarter, the *South Florida Business Journal* reported Wednesday. The bank ended the second quarter with $5 billion in loans, an increase from $4.82 billion at the end of the first quarter. "The second quarter showed continued success in our loan and deposit growth," said CEO Millar Wilson. The bank had earnings of $6.7 million in the second quarter, an increase from $5.9 million in the first quarter.

Economic News

Argentina's Fernández Denies Country Is in Default

In her first public comments since a battle with holdout bondholders led Argentina to miss an interest payment on a portion of its restructured bonds, President Cristina Fernández de Kirchner on Thursday denied that the situation amounts to a default. "To prevent someone from paying is not default," Fernández said in a televised speech, the Associated Press reported. "In the first place, we are here on the 31st of July and the world continues and so does the Republic of Argentina. Tomorrow is the beginning of August and with that we can all continue with our lives." Argentina entered default on Thursday after the deadline passed for it to make a $539 million interest payment to holders of restructured bonds. U.S. District Judge Thomas Griesa in New York had barred Argentina from making the payment unless it also paid some $1.5 billion to bondholders who have refused to accept restructurings following the country's massive default in 2001. Argentine officials say they made the interest payment, but banks were barred from paying it out. On Thursday, Argentina's Merval stock index fell 8.39 percent to close at 8,187.99. A day earlier, shares had rallied in Buenos Aires when a group of private bankers said they would offer to buy the holdouts' debt. However, no such deal was struck by the midnight deadline. **Fitch Ratings** lowered its credit ratings for the South American country on Thursday, following a similar move by **Standard & Poor's**. However, Argentina's failure to negotiate a deal with the holdout creditors before the deadline appeared to have a limited effect on global markets. "The markets already sold off a fair amount before the news late yesterday night that we were definitely going into a default scenario," Alberto Ramos, managing director and co-head of Latin America economics at **Goldman Sachs** in New York, told the AP on Thursday. "But now, there's still the possibility that some deal is reached between the holdouts and some private entity. However, Argentina has limited options to strike a deal with the holdouts, at least until the end of the year. Dec. 31 marks the expiration of a clause in its restructuring agreements of 2005 and 2010 that requires it to pay the holders of those restructured bonds on terms similar to any deal it reaches with the holdouts. If Argentina violates that clause, it could be exposed to more than $109 billion in claims, officials have said. Argentina will pay its debts, Fernández said Thursday. However, she added, "I want to pass into history as a president who defended the interests of all Argentines."

> "To prevent someone from paying is not default."
>
> *— Cristina Fernández de Kirchner*

Colombian Central Bank Raises Key Interest Rate

Colombia's central bank on Thursday raised its overnight lending rate for a fourth consecutive month, Bloomberg News reported. The bank, led by José Darío Uribe, increased the rate a quarter point to 4.25 percent in a split decision. Thirty of 32 analysts in a recent Bloomberg survey had expected the move, while two expected the bank to hold interest rates steady. Colombia's central bank started increasing the benchmark interest rate in April after the country's economy saw its fastest expansion in more than two years in the first quarter of the year. Also on Thursday, the central bank increased its forecast for growth this year to 5 percent from 4.3 percent. "Aggregate demand has maintained strong growth in the con-

Uribe

File Photo: Colombian Central Bank.

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text of near full employment," said Uribe, Bloomberg News reported. "At the same time, inflation expectations are close, or slightly higher, than 3 percent." Higher public works spending and a rebound in Colombia's coffee and coal industries fueled a 6.4 percent rise in gross domestic product in the first quarter of the year. By comparison, Chile's economy grew 2.6 percent in the first quarter, while Peru's expanded 4.8 percent. "Although some board members opposed the 25 basis point hike, the upwards revision in the growth forecast shows that the majority believe the economy is growing at or above potential and that they should continue to steadily withdraw monetary stimulus," Francisco Rodríguez, an economist at **Bank of America**, told Bloomberg in an email. Inflation also appears to be in check in Colombia. Consumer prices increased 2.8 percent in June as compared to the same month last year, the slowest pace among the seven largest economies in the region. Central bank policymakers in Colombia target inflation at 3 percent, plus or minus one percentage point. Inflation is likely to end this year at 3 percent, said Uribe.

Company News

Chile's Codelco Names Pizarro Chief Executive Officer

Chile's state-owned **Codelco**, the world's largest copper producer, has named a former mine manager as its new chief executive officer, Bloomberg News reported Thursday. Nelson Pizarro will take the helm of the company and lead its planned $25 billion revamp. Codelco's board appointed Pizarro in a unanimous vote. Pizarro, who previously managed Codelco's Chuquicamata and Andina mines, has more than 50 years of experience in the industry. Former CEO Thomas Keller was asked to step down in June amid his differences with Codelco's board on how to carry out the investment plan. Keller also had differences with labor unions representing Codelco workers over a redundancy plan at the Chuquicamata mine.

Featured Q&A

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change. The same polls show that health and public security are the main concerns of the population. But the dissatisfaction is also huge with public transportation, education and other social public services. To these problems, in recent months have been added serious doubts regarding the economy, chiefly about inflation and unemployment. All these will be the main issues in the campaign."

A Cesar Zucco Jr., assistant professor of political science at the Fundação Getúlio Vargas in Rio de Janeiro: "While there is no clear explanation for the discrepant predictions for the second round, I would not read too much into those poll results as voter interest and knowledge about the upcoming election is still very low if compared with the same point in the electoral cycle in previous years. The whole electoral process was delayed by the World Cup. Although inflation my taper off somewhat between now and October, there will not be any significant change in the economy, so the campaigns will be about competing narratives. The opposition will stress increasing inflation and low growth and the generally gloomy economic mood in the country. President Dilma Rousseff's campaign will attempt to shift this mood by pointing to long-term decreases in poverty and inequality and low unemployment. In addition, she will probably advertise specific government programs, which tend to enjoy much better ratings than her overall job performance. Finally, Lula will play an important role, as a large number of Brazilians who say they would vote for him if he were a candidate are still undecided. PSDB candidates are all but certain to win the state races in São Paulo and Minas Gerais, but the presidential election will hinge on how large of a margin Aécio Neves will build up in these states. The Rio race is a particularly interesting one, as it is a great example of the troubled relationship between the PT and the PMDB, its main electoral ally, and so is Bahia, which has generated large pro-PT margins in the past two elections."

A João Augusto de Castro Neves, Latin America director at the Eurasia Group in Washington: "Brazil will face its most competitive presidential race in nearly two decades. Diffuse middle class discontent with the poor quality of public services and a sharper-than-expected slowdown of the economy explain much of the uncertainty surrounding the upcoming election in October. But despite the recent tightening of the polls, President Dilma Rousseff remains favored to win. While voter fatigue with the Workers' Party (PT) is likely to increase, Rousseff still has a powerful message to deliver to voters. Despite the unfavorable economic cycle, unemployment remains low by historical standards, and real income hasn't been dropping. More importantly, under the PT's watch there has been a huge boost in disposable income and tremendous economic enfranchisement as families moved from lower economic classes to the new middle class. Rousseff's campaign, therefore, will try to remind voters of the economic gains they accrued in the last decade and make the case the PT—not the opposition—should be trusted to tackle the range of issues middle-class voters are upset about. While the fear-mongering tactics will be less effective now than they have been in previous elections, it will probably be a strong enough factor to benefit

> "Brazil will face its most competitive presidential race in nearly two decades."
>
> — *João Augusto de Castro Neves*

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Featured Q&A

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Rousseff. That said, two factors should be watched closely to determine how competitive this election could become. The first is the extent to which an economic slowdown can more meaningfully affect the labor market and disposable income in coming months. The second is how effectively each candidate will try to tap into middle-class discontent with a credible message."

Georges Landau, head of Prismax Consultoria in São Paulo: "Judging by the polls, Dilma Rousseff (PT and its coalition) is relatively stable, while Aécio Neves (PSDB and allied parties) is slowly inching forward, whereas Eduardo Campos (PSB) is lagging behind. Contrary to expectations, Campos has been unable to count on Marina Silva's electoral potential. Many of these alliances are purely nominal; for instance, the PSD, which is nominally allied with Dilma, is in fact lobbying for Aécio in several states. The three states to watch in this progression of voters' intentions are São Paulo, Minas Gerais and Rio de Janeiro. In the latter, the situation is hopelessly confused, and Dilma is not progressing; Minas Gerais is the solid purview of Aécio Neves, and in São Paulo he is making progress, thanks to the support of Governor Geraldo Alckmin. These three states together add up to more than 50 percent of the national electorate and are therefore critical to any candidate's victory in the campaign. However, according to the Ibope poll released July 22, Dilma would win with 38 percent in both the first and second ballots of the election, against Aécio's 32 percent. But the official campaign has just started, and results may still vary greatly as it unfolds. The final outcome is hard to predict."

Dorival Mata-Machado, managing director of public affairs at Ipsos Brasil: "Current poll numbers are basically a measure of awareness and evaluation. Dilma Rousseff, as elected president, is already known across the whole country. Aécio Neves is known just in the southeast, and Eduardo Campos is partially known in the northeast. As a TV-biased and based campaign, only after Aug. 19, when the free media time programs and spots start to be aired, will Aécio and Eduardo have a chance to increase their exposure. Until then, it is almost as if Dilma were running against herself. Just before the World Cup, Dilma's approval was at its worst. A wave of pessimism took the country from February on, mainly due to the return of the rumors of inflation, Brazilians' most feared memory. With her approval rating down, voting intention also went down, and for a while Aécio was neck-to-neck with Dilma. During the World Cup, Brazil experienced a breath of optimism due to the pride of holding the World Cup and the importance of soccer on local culture. At this moment, Dilma's approval rating stopped falling and even went up in some polls. In this context, her chances of winning increased, which was shown by the second-round poll numbers. Despite the end of the World Cup and despite Brazil's astonishing elimination, pessimism didn't suddenly replace optimism—Brazilians are just more cautious. In this scenario, the person with the most familiarity among voters regains force. Dilma is back on track, and we will have to wait for the script of the soap opera-like party programs."

> "Dilma is back on track ..."
>
> *— Dorival Mata-Machado*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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