



Part Two - Bolsonaro's election: A resounding victory yields an uncertain future

One week ago, right-wing candidate Jair Messias Bolsonaro of the Social Liberal Party (PSL) was declared the president-elect of Brazil, ushering in what he hopes will prove a historic shift for the role of the government in the daily lives of Brazilians: “More Brazil, Less Brasília” (“Mais Brasil, Menos Brasília”).

While Bolsonaro's victory was met with intense scrutiny from the 47 million people that voted for his opponent (Fernando Haddad of the Workers' Party), markets reacted positively to his election. One day after the run-off, Ibovespa futures jumped by over 4% and the Brazilian *real* appreciated against the dollar, reaching R\$3.60 to US\$1.

In Part One of this two-part series, we shared our reaction to and analysis of Bolsonaro's victory. We noted that Bolsonaro's mandate is not nearly as strong as the vote total suggests and, as a result, generating economic growth, improving employment prospects and delivering early political “wins” in 2019 will be critical to sustaining a Bolsonaro presidency. In this Part Two of our analysis, we provide additional commentary and a range of specific scenarios in which President Bolsonaro could achieve those goals and others.

This election demonstrated paradigm-shifting results, highlighting Brazilians' dissatisfaction and frustration with the establishment. After fourteen years of Workers' Party rule, Bolsonaro's victory of [55.1%](#) over Haddad's [44.9%](#) is astounding. However, what is perhaps more telling are the historic amount of

nulo (null or protest) and *branco* (blank) votes and abstention rates. Close to [41 million](#) people voted *branco*, *nulo* or chose to abstain from these elections, demonstrating the dire disenchantment of a large portion of the population with Brazilian politicians more broadly.

Bolsonaro's much-anticipated cabinet

Bolsonaro's campaign focused on reducing the size of the government to curb spending and political privileges. He promised to reduce the number of ministries from [29 to 15](#) by merging governmental bodies. Following a team meeting last Monday, just one day after the election, a number of appointees were defined. Bolsonaro will announce all cabinet members by the end of [November](#).

Ministry	Appointee	Comments	Status
Economy	Paulo Guedes	Guedes has confirmed the creation of a Super Ministry of Economy, which will merge the Ministry of Finance, Ministry of Planning, Budget and Management and Ministry of Industry, Foreign Trade and Services.	Confirmed
Chief of Staff	Onyx Lorenzoni	Responsible for cabinet appointments and executive-legislative relationships.	Confirmed
Defense	General Augusto Heleno	Cabinet position responsible for overseeing the armed forces in Brazil.	Confirmed
Justice	Sergio Moro	Super Ministry of Justice, which will be merged with the Ministry of Public Safety, Ministry of Transparency, General Controller of the Union and the Financial Activity Control Board.	Confirmed
Science and Technology	Marcos Pontes	Former military member and astronaut, declared support to Bolsonaro early in the campaign.	Confirmed
Infrastructure	General Oswaldo Ferreira	Bolsonaro's team has proposed a Super Ministry of Infrastructure , potentially comprised of the Ministry of Mines and Energy, Ministry of Science, Technology, Innovation and Communications and Cities, as well as the Ministry of Transportation, Ports, and Civil Aviation.	Tentative
Health	Henrique Prata	Considered a thought leader in the area of health in Brazil.	Tentative
Agriculture	Luis Antonio Nabhan Garcia/Airton Spies/Frederico D'Ávila	Agriculture Ministry may be merged with the Environment Ministry. Although Nabhan Garcia has denied rumors about his possible appointment, he leads the Rural Democratic Union, a right-wing association of farmers/Current Secretary of Agriculture of Santa Catarina.	Tentative
Education	Stravos Xanthopoulos/Aléssio Ribeiro Souto/Mendonça Filho	Ministry of Education may be merged with the Ministry of Culture and of Sports.	Tentative
Mines and Energy	José Carlos Aleluia/Leonardo Quintão/Fernando Bezerra Coelho Filho/Luciano de Castro/Adriano Pires	May be merged with Ministry of Infrastructure Adriano Pires confirmed that he met with Bolsonaro last week, but did not address the rumors.	Tentative

“Order and progress”

One of the most notable features of this election was the perception of Bolsonaro's “law and order” campaign as a potential cure to social disorder stemming from rampant crime and corruption under the Workers’ Party and during what proved a lame-duck Temer Administration. Bolsonaro's base therefore expects quick results on crime, corruption and perceived social unrest; and in the manner which politics are conducted. Bolsonaro might also try to get some early wins post-inauguration with other social initiatives promised during his campaign: for example, altering the Disarmament Statute (“*Estatuto do Desarmamento*”) to weaken restrictions on gun ownership (a promise he made early in the campaign as a blanket response to fears across his base of a lack of security in the country). However, this legislative change would require significant coalition support in what remains a highly-fragmented legislature (see Part One).

Long live Car Wash

Bolsonaro faces few, if any, obstacles to strengthening anti-corruption efforts in Brazil. Efforts to combat corruption are almost universally supported, and therefore provide fertile territory for some early political wins. For instance, the acceptance by Judge Sergio Moro, who oversaw many of the Car Wash prosecutions (including the prosecution of former President Lula), of Bolsonaro's offer of “Super Minister of Justice” is certainly a win on the anti-corruption front for Bolsonaro (although some [question](#) whether it will prove to be as beneficial for Judge Moro). In addition, Bolsonaro has promised to implement the so-called “[10 Measures Against Corruption](#)”, originally developed and proposed by Brazil's Federal Public Prosecutor's Office (*Ministério Público Federal*, or MPF), and long-advocated at home and abroad by Deltan Dallagnol and other popular prosecutors involved in the Car Wash investigation. While it is unclear at this point how a Bolsonaro Administration will resolve some of the lingering and persistent challenges around enforcement of Brazil's current

anti-corruption laws (e.g., regulators and prosecutorial authorities regularly battle over who has jurisdiction on corporate and individual corruption matters), we expect Bolsonaro to double down on anti-corruption efforts, even if only rhetorically. On the other hand, Bolsonaro's own administration will not be immune from judicial and prosecutorial scrutiny, and therefore significant uncertainty could arise if allegations or investigations reach key members of Bolsonaro's own team or coalition partners—not a remote [possibility](#). This is an issue to watch in the months ahead, particularly as Bolsonaro positions himself as a strong defender of Car Wash and its legacy in Brazil.

Energy for growth

Like past governments, the incoming Bolsonaro Administration understands that a thriving energy sector is key for economic recovery. Plentiful offshore oil and gas reserves have positioned the country as an energy powerhouse, and the current Temer Administration undertook efforts to accelerate reserve development by softening restrictions on private investment and local content requirements. On the campaign trail, the president-elect vowed to deliver a more flexible, open, competitive, and profitable energy sector, indicating his administration will sustain Temer's policies. The Bolsonaro Administration could also score an early victory by pushing through Congress a much-needed opening of the natural gas market known as Gas for Growth (*Gas para Crescer*) that has stalled over the past year. Expanding domestic natural gas supply will diversify Brazil's electricity mix and support the integration of wind and solar resources through backup, gas-fired power generation. As a result, President Bolsonaro will be in a better position to deliver on his promise to create a renewable hub in Brazil's northeastern region. Finally, while early efforts to privatize state-owned enterprises have slowly fizzled, Petrobras' continuing divestment of non-core exploration and production assets, coupled with a favorable oil price environment, should provide private investment an auspicious outlook.

An economy in need of a lift

Despite the turmoil this electoral cycle, one thing is clear: to remain in power, Bolsonaro must move quickly to reenergize the economy. The Brazilian legislature has impeached presidents during periods of sustained economic malaise, and Brazilians have endured several years of anemic economic performance following the worst recession in the country's history. Patience is wearing thin in Brazil, and it is clear that both Bolsonaro and his University of Chicago-trained "Super Minister" of Economy, Paulo Guedes, a [zealous advocate for free and efficient markets](#), are keenly aware of this reality. They are meeting this week with outgoing President Temer, for example, to discuss reform of Brazil's unsustainable pension system even prior to Bolsonaro's official inauguration on January 1. This is certainly a promising start, but markets expect that Bolsonaro, who claims he has a "[superficial understanding](#)" of economics, will make good on his broader promise to give

Guedes free rein over economic policy. Analysts bet that, in addition to pension reform, Guedes will be able to make good on his campaign trail promises — including privatizations, reduced public spending and implementation of tax reform — to eliminate Brazil's fiscal deficit in year one and return it to a primary surplus in year two, bringing Brazil back to fiscal discipline.

We note, however, that there are reasons to question whether markets may have overestimated just how far Bolsonaro will take economic reforms. Bolsonaro himself appears to have only recently embraced the liberal market policies advocated by Guedes, raising suspicions over the true extent of his personal commitments to reform. Similarly, many of Bolsonaro's supporters in the military and his political party have long advocated for a strong state role in strategic sectors of the economy. And lastly, there is simply no historical precedent in Brazil for adopting deep neoliberal reforms advocated by Guedes.

Uncertainty remains

Bolsonaro's achievement of other campaign promises on security, health and education—as well as some of the more controversial social policies he has supported over the years—remain even less certain. Indeed, he did not offer specific solutions or defined policies on these issues, but simply drew attention to the deteriorating environment under his predecessors. However, the [Manifesto](#) published by the [Evangelical caucus](#) just three days before the election offers a somewhat detailed Bolsonaro-like platform. It mirrors Bolsonaro's rhetoric on the campaign trail by outlining four key reforms the caucus will pursue in Congress: (i) modernization of the state with a smaller political apparatus and increased partnership with the private sector; (ii) rule of law focused on effectiveness, efficiency and a codified and consolidated body of law; (iii) fiscal security with a simplified tax system and pension reform; and (iv) education reform based on moral teaching, free of political ideology. This Manifesto will likely serve as the foundation for the relationship between the Bolsonaro Administration and its congressional allies.

With the need to expend significant political capital on achieving economic stability early on, it is unclear which, if any, policies Bolsonaro advocated for during the campaign will be prioritized. The effectiveness of his more radical proposals is doubtful and the potential for further politicization of the Brazilian electorate is great. Boosting employment may prove a more effective elixir for addressing violent crime in Brazil, for example, than some of the more draconian enforcement measures contemplated by the Bolsonaro team. While it is still too early to offer a host of specific prognostications for the Bolsonaro Administration, below we explore some general themes under optimistic, moderate and pessimistic scenarios.

	Coalition Building	Economic Policy	Social Policy	Foreign Policy
Scenario A: Optimistic	Brings a substantial number of centrist parties and smaller parties into the coalition. Achieves a workable balance for needed reforms. Political stability returns.	Achieves pension reform. Reduces <i>custo Brasil</i> . Tackles tax reform after positive reaction on pension reform. Finally addresses structural fiscal deficit. Favorable economic conditions allow for privatizations in a number of sectors. Privatizations send a green light to investors that Brazil is open for business.	Higher employment prospects and capital expenditures limit the incentives for social conflict and mute criticisms. Reforms create restraints on radical approaches to dealing with social conflict and any risk of "militarization" of the democratic process.	Strengthens ties with the U.S. Pursues new bilateral opportunities for cooperation and dialogue.
Scenario B: Moderate	Limited ability to form a coalition. Certain centrist and leftist parties opt to remain in opposition.	Achieves moderate pension reform measures and more restricted reductions to the <i>custo Brasil</i> . Market reaction is tepid. Select investments close and Brazilian companies can capitalize on market windows by issuing debt and equity, but certain deals stall under the uncertain mood.	Relatively high employment prospects and capital expenditures reduce the incentives for social conflict. Political compromise with the Centrão and others demanding pension and other reforms creates restraints on radical approaches to dealing with social conflict and any risk of "militarization" of the democratic process.	Moderately nationalist focus, with increased protectionism. Maintains the status quo.
Scenario C: Pessimistic	Sticks to his decision to avoid the coalition building practices. Never builds a stable majority in Congress. Must attempt to cobble together a majority repeatedly depending on legislative proposals. Results in a chaotic and unpredictable government with no significant allies to shepherd through any legislative agenda.	Neither pension reform nor any other meaningful economic policy gets approved. Economic crisis worsens. Labor unions and traditional left start to voice their opposition outside of traditional political channels, raising likelihood of general strikes and business interruptions.	Rising unemployment and inequality lead to more violence. Increased violence forces government to implement "law and order" militarized response.	Hyper nationalist approach to foreign policy. Significantly increases protectionism and isolates Brazil from neighbors and a leadership role in South America.

Conclusion

The fate of Bolsonaro's presidency depends on his ability to form a governing coalition. He will need to hit the ground running with quick wins on the economy, which are contingent on his ability to implement reforms in an expedited manner. If he restores political balance and stability and achieves pension reform (among others), favorable economic conditions may translate to improvements in social conflict and the opening of Brazil to new opportunities in trade and foreign policy. On the other hand, failure to form a coalition and address Brazil's economic crisis will likely push the Bolsonaro Administration into a downward spiral of rising unemployment, inequality and social violence coupled with protectionist policies. There is a path that puts Brazil back on a growth and prosperity track, but it requires Bolsonaro to reverse course on his earlier comments and play to traditional Brazilian politics in order to get things done.

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