



Visit to Brasilia

Joao Mauricio Rosal
Chief Economist, PhD
Vinicius Alves
Economist
September 18, 2017

Takeaways:

- *We met politicians of the highest caliber from the government's side of the aisle yesterday in Brasilia.*
- *Overall, they agreed the social security reform ought to be tackled as soon as possible, though support in the Lower House is running short at the moment.*
- *There were some different views on how much the second charge against President Temer may be an impediment for that.*
- *As for the fiscal agenda given by provisional measures and the likes, however, views were more reassuring.*
- *As expected, 2018 election is ever more present on their radar screen, and, accordingly, the economic recovery is increasingly present on the political logic.*

1. Main Points

We met yesterday with some politicians of the highest caliber on the government's side of the aisle, ranging from the Speaker of the Lower House, Mr. Rodrigo Maia, and the Temer's Chief of staff, Eliseu Patilha, to the leader of the Government in the Congress, Senator Romero Juca. Clearly, one of the best talks Brasilia can offer these days.

We discussed a multitude of topics concerning the political *cum* economic agenda. Some highlights looked particularly enticing for us, as follow:

- **Second Charge Against President Temer:** All our interlocutors agreed that its bite has been severely undermined by the recent events around Mr. Joesley Batista's plea bargain. This should certainly make the process less traumatic and more expedient compared to the first charge. In particular, this should lower rent-seeking/bargain within the Lower House and thus favoring Mr. Temer down the line.

That said, there were two competing views. On one hand, as confirmed by the press this morning, Mr. Rodrigo Maia understands the charge should take full priority from here on, both at Constitution and Justice Commission (CCJ) and on the floor. According to this logic, only after that, the government should be able to assess its real support on the Lower House in order to tackle other matters.

The other competing view, put forth by Mr. Juca, looked more sanguine to us. Accordingly, the best strategy at this juncture is to let the charge dormant in the House and thus focus on other businesses, after it is through the CCJ. After all, time is against any reform and since it is down to the opposition to prove Temer's guilty, one should just leave them struggling to do anything meaningful with this charge, while the government mind its own businesses.

- **Social Security Reform.** Overall, our interlocutors made it clear that, as soon as the political environment allows, the reform ought to be pressed on. However, they all agree that the proposal as is today lacks the necessary support in the Lower House.

That said, our impression is that none of them looks willing to leave the issue dormant. This is, by doing so, the markets may give the government at thumbs down, which could be a real liability for them in 2018.

At moment, the official stance is to stand firm by the report of the rapporteur, Mr. Arthur Maia. However, one could spot that in so far as some pillars are kept in place, particularly the minimum requirement age and a transition rule - including civil servants, that would be good enough for them.

Be all that as it may, it is worth noting that, as one of our interlocutors have stressed, high ranked members of the Judiciary are already lobbying in favor of excluding civil servants from the reform. Hence, the battle won't be any smoother this time around.

- **Fiscal Agenda.** While everybody seemed wary about the fate of the social security reform, they looked less so with regard to other short-term measures that can safeguard the 2018's primary target. In particular, they look confidence on soon-to-be issued provisional measures on: 1) postponing civil servants wage bills, 2) increasing their pension contributions, and 3) taxing some special funds. At the end of the day, these matters demand only single majority in both Houses, and they are relative comfortable they can rely on that.

With regards to the Refis, they all agreed the matter is pretty much settled and it should be approved within the next week or so. The unwinding of the social security tax subsidies (Reoneracao) looked more of a complex matter, however, and, possibly, the discussion over the topic may have to be re-ignited from scratch with another bill sent to Congress.

In regard to the policy agenda, one of our interlocutors dropped an important date for us to monitor: March 2018, when all Ministers running for public offices in 2018 will have to step down. Therefore, from then on, policies depending on the Congress are likely to be only about small bear issues.

- **2018 Elections.** Two facts seemed to have increased the confidence that a center-right candidacy may arrive in good shape for the 2018's presidential election. For one, Lula's candidacy looks no longer viable to our interlocutors, and, two, the economy is picking up, which could gather further momentum if the social security is approved.



Visit to Brasilia

In addition, they all shared the idea the Mr. Bolsonaro is going to be an important player next year. However, should politicians sponsoring the government right now not screw things up along the way, they may actually score a victory, spite of Mr. Bolsonaro.

The Doria *versus* Ackmin debate is certainly not settled in Brasilia. In fact, some of our interlocutors understand that this competition may be detrimental to PSDB, to the extent that it may open room for other parties to launch their own candidates. Others, however, understand that parties within Temer's coalition are likely to stand united around a single candidate already from the outset, say, by March 2018. In order to do so, however, these grand coalition should take whatever candidate is leading the context - Mr. Meirelles included - and go for it.



2. Disclaimer

This report has been produced by Guide Investimentos S.A Corretora de Valores solely for its recipients and should not be distributed without previous consent from Guide Investimentos S.A. Although this report is based upon the most reliable public information, Guide Investimentos makes no warranties of the reliability of such information. This document is for informational purposes only and does not constitute any tender to sell or buy financial instruments. Information discussed herein is not suitable for all investors and it does not aim at providing any trading strategy for individual goals. Investors should have experience and knowledge of the risks in FX/Fixed Income markets. Guide Investimentos S.A Corretora de Valores has no obligation to update, revise or modify any information contained herein. Guide Investimentos and its analysts shall not be held responsible for any accidental incorrect information, nor for investment decisions taken based upon the information contained herein. Additional information discussed on this report is available upon request. Analysts each certify that the views expressed in this report represent only personal views produced independently, including with respect Guide Investimentos S.A Corretora de Valores. This report should not be considered as research report ("relat de anse") for the purposes of the article 1 of CVM Instruction NR 483. Opinions, estimates and projections contained herein express the current judgment of the analysts build on the date this report was released and therefore can be changed without notice. Analysts do not accept any liability that incorrect use of this report could cause, including financial losses. Upon accepting this document, one should agree with all the above-mentioned limitations