Rousseff's reelection pitfalls

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A RECENT BATCH OF POLLING data casts little doubt on who is favored to win the presidential election in October. After the abrupt shake-up of the political chessboard brought about by last year's wave of urban protests, the pieces have settled somewhat. After a plunge in support, President Dilma Rousseff's approval ratings have since rebounded consistently. While her popularity is unlikely to reach pre-protest levels, it is safe to say that this year's election is hers to lose.

In the span of a few months, however, a flurry of potentially harmful issues (energy crisis, protests, political bickering, among others) has stormed the political landscape, giving more than a glimpse of hope to those who wish to see a very competitive ballot later this year. For now, the probability of these events escalating into a full-fledged crisis that could seriously undermine Rousseff's reelection chances seems relatively slim. Nonetheless, in the next few months pundits and politicians alike will scrutinize these issues to exhaustion. The fact that, despite Rousseff's favorable position, three major political forces will be competing from the outset may make this the most interesting presidential election in recent history. A closer look at each potential risk is therefore a valid exercise.

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The primary risk for Rousseff is the economy. Despite some good government intentions, economic activity continues to disappoint. Average growth for Rousseff's first four years will likely close at the lowest level since the early 1990s. So far, politically a vigorous labor market—unemployment reached historically low levels in January—and inflation somewhat under control—well above the inflation target but still within the central bank's tolerance band—have neutralized the low-growth environment. Ultimately, these mixed signals from the economy help explain the resilience of the president's support.

While the labor market is expected to loosen somewhat in the coming months, a sharp downturn is unlikely. Inflation on the other hand, may pose a greater problem.

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Despite central bank efforts, rising prices are still testing politically tolerable levels. In addition to continuing pressures to raise administered prices—fuel, electricity, public transportation—the currency may also play a decisive role, depending on both what happens with respect to U.S. monetary policy and the deterioration of Brazil's external accounts. Notably, high inflation was the main factor behind the slight decline in Rousseff's approval ratings even before last year's protests.

Social unrest constitutes another pitfall for Rousseff. The growing demands of a new middle class have scarred the political landscape with demonstrations since last year. Given that the government now faces more acute macroeconomic trade-offs, since it has less fiscal room while the pressure for more public spending is intensifying, a latent discontentment will probably linger and make its way to the headlines. But while protests will remain a source of risk, especially in June and July during the World Cup, and localized violence may erupt, they are unlikely to escalate to the same levels seen last year and lead to political instability. And even if they do, the political impact would probably be somewhat diffuse across party lines.

A third risk stems from a possible energy crisis. Drought and above-average temperatures are pushing Brazil's power system to the limit. Despite the risk of energy rationing, the likelihood of it being implemented is much lower now than it was during Brazil's energy crisis in 2001. The decision of the Fernando Henrique Cardoso administration (Brazilian Social Democratic Party, PSDB) to implement a rationing program and its mismanagement of the crisis were among the main causes of the PSDB fall from power. For the remainder of 2014, therefore, Rousseff's main challenges will be to avoid rationing or blackouts and also prevent electricity prices from rising substantially.

Finally, poor management of the party coalition in power constitutes another risk factor. Rousseff's lack of political savvy not only undermines the government's agenda in congress, it also poses a threat to the coalition heading into the election. Frequent squabbles between the two largest parties, the Workers' Party (PT) and the Brazilian Democratic Movement Party (PMDB), may ultimately lead to divorce, which would subtract precious resources from the president's reelection campaign. Until now, Rousseff's popularity has been the glue that has kept the coalition together. If that popularity wanes to a point of significantly lowering her reelection chances, parties are more likely to defect from the coalition and join forces with the opposition.

Even if all look unlikely for now, a combination heightening any of these four risks could seriously undermine Rousseff's reelection chances. Nevertheless, the caveat here for the PT is that they have the antidote to save their political project in case the worst scenario plays out. His name is Lula, the former and hugely popular president.

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