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## Rousseff to Face Serra in Brazilian Runoff Vote With No Majority

By Maria Luiza Rabello, Matthew Bristow and Iuri Dantas - Oct 4, 2010

[Dilma Rousseff](#) finished first in Brazil's presidential election yesterday and will face her main rival, [Jose Serra](#), in a [runoff](#) later this month after failing to capture a majority of votes.

President [Luiz Inacio Lula](#) da Silva's handpicked successor won 46.9 percent, while former Sao Paulo Governor Serra had 32.6 percent with more than 99 percent of the ballots counted. Green Party candidate [Marina Silva](#), who came in third with 19.3 percent, didn't declare her support for either of her rivals in the Oct. 31 second round.

Brazilian dollar bonds gained for an eighth straight month in September while local [stocks](#) and the currency rallied on expectations Lula's successor will preserve policies that are fueling the fastest economic expansion in two decades. A prolonged presidential race will allow Rousseff and Serra to detail their proposals, said [Will Landers](#), who oversees \$8 billion in Latin American stocks at BlackRock Inc.

"Both candidates are committed to giving continuity to the current economic program," Landers said in an e-mail. "If speeches in the next month start to deviate from that, then we could see volatility."

An [Ibope](#) poll of a hypothetical runoff taken before yesterday's vote showed Rousseff with 51 percent and Serra at 37 percent. The poll of 3,010 people taken Oct. 1-2 had a margin of error of 2 percentage points.

### Two-Year High

The real, which reached a two-year high on Oct. 1, strengthened today as the runoff boosted speculation the government may postpone measures to curb the currency's gain. The real advanced 0.2 percent to 1.6860 per dollar at 10:43 a.m. New York time. The [Bovespa](#) stock index gained for a fifth day, advancing 0.2 percent to 70,392.59.

"I will face the second round with a lot of drive and energy," Rousseff, 62, told reporters in Brasilia. "I will have the opportunity to provide more details about my proposals to eradicate extreme poverty

and ensure the country's development with fast levels of growth."

A corruption scandal involving members of the governing Workers' Party cut into Rousseff's lead as voters defected to Marina Silva and Serra. Serra said his record in public service is "clean" and, if elected, he would strengthen Brazil's institutions against corruption.

#### 'Psychological Victory'

"It's a psychological victory for Serra," said Marcelo Neri, a development economist at the Getulio Vargas Foundation business school in Rio de Janeiro. "But it's going to be very difficult for him. The economic trends are highly favorable to Dilma."

Rousseff, a former Marxist guerrilla who was Lula's former Cabinet chief, has pledged continuity with her mentor's policies that almost doubled the pace of economic growth and helped lift 21 million out of poverty since 2003. After nearly eight years in office, Lula enjoys a record popularity rating of 85 percent, according to Ibope.

Rousseff's support in polls declined after media revelations of alleged influence peddling by family members of Erenice Guerra, her successor in Lula's Cabinet. Guerra resigned her post to defend herself against the accusations, which she denies, that her sons helped negotiate contracts for companies doing business with the government.

"The risk of an upset has increased significantly," Bank of America said in a report today. "Markets have been pricing extremely low political noise ahead and will likely have to adjust."

#### Government Spending

Serra, 68, lost to Lula in 2002. A critic of government spending growing at twice the pace of economic growth, Serra surprised supporters in his Social Democracy Party during the campaign by vowing to raise the [minimum wage](#) 17 percent to 600 reais (\$355) and boosting pensions by 10 percent next year.

The former governor also criticized policy makers for taking too long to cut interest rates amid the global credit crunch in 2008 and said that if elected he won't treat the central bank like the Vatican.

To surmount Rousseff's lead, Serra needs to capture the bulk of Marina Silva's support, said [Christopher Garman](#), director for Latin America at political risk consultancy Eurasia Group in Washington D.C.

"He probably needs to go on the attack more," Garman said in a telephone interview. "It's a risky

strategy, but unless he can deconstruct Dilma's image, it's going to be very hard for him to turn the tables."

## Growth Outlook

Latin America's biggest economy will grow 7.3 percent this year, the most in more than two decades, according to central bank estimates. That would mean that under Lula's watch, Brazil expanded an average 4 percent between 2003 and 2010, up from 2.3 percent in the previous eight-year period under President [Fernando Henrique Cardoso](#).

In a meeting with investors in New York in May, Rousseff said Brazil could "gradually reduce" its [inflation](#) target of 4.5 percent by 2014. In August she said the recovery of the world economy wouldn't allow such a reduction. She has also vowed to cut [tax](#) rates and increase the number of taxpayers.

Rousseff needs to boost Brazil's investment rate and curb [public spending](#) growth, said two former central bank presidents, [Gustavo Franco](#) and [Arminio Fraga](#). Those moves would allow the central bank to halve real interest rates from about 6 percent, the highest among the Group of 20 richest nations, Fraga said.

## Congress Majority

Rousseff's party and its coalition partners strengthened their representation in the Senate to at least 57 of 81 seats, up from 42 currently. Rousseff's coalition captured nine of 27 state governor races, and leading in six other races that are either too close to call or heading into a second round.

In the lower house, for which final results were not yet available, Rousseff's allies could increase their majority to 366 of 512 seats, from 297 today, according to the Inter-Union Parliamentary Advisory Department, a Brasilia-based policy group that tracks legislative races.

"If this was a soccer match I would say Dilma won 2-to-0 in the first half," [Andre Cesar](#), founder of Brasilia-based political analysis firm CAC Consultoria, said in an interview. "But her opponent has breath to play the second half."

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