



**CONCORDIA**  
PUBLIC AFFAIRS STRATEGIES

**THE ROAD AHEAD: BRAZIL'S ECONOMIC AND  
POLITICAL OUTLOOK**

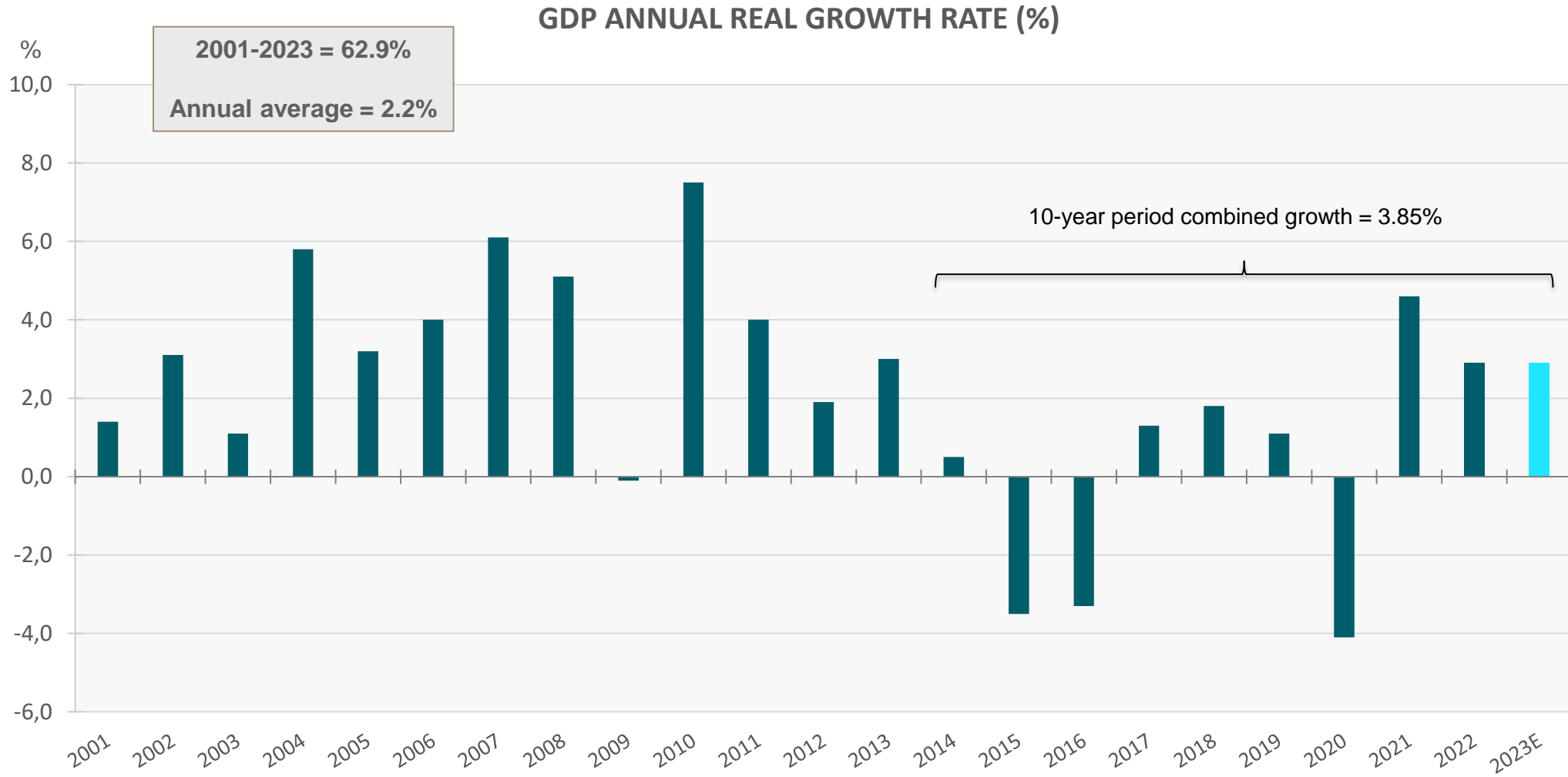
*OCTOBER 2023*



- 1) BRIEF ANALYSIS OF BRAZIL'S MACROECONOMIC INDICATORS
- 2) ECONOMIC OUTLOOK
- 3) POLITICAL DYNAMICS
- 4) WHAT TO EXPECT FROM THE LULA ADMINISTRATION
- 5) POTENTIAL CHALLENGES AND OPPORTUNITIES (SECTOR SPECIFIC)

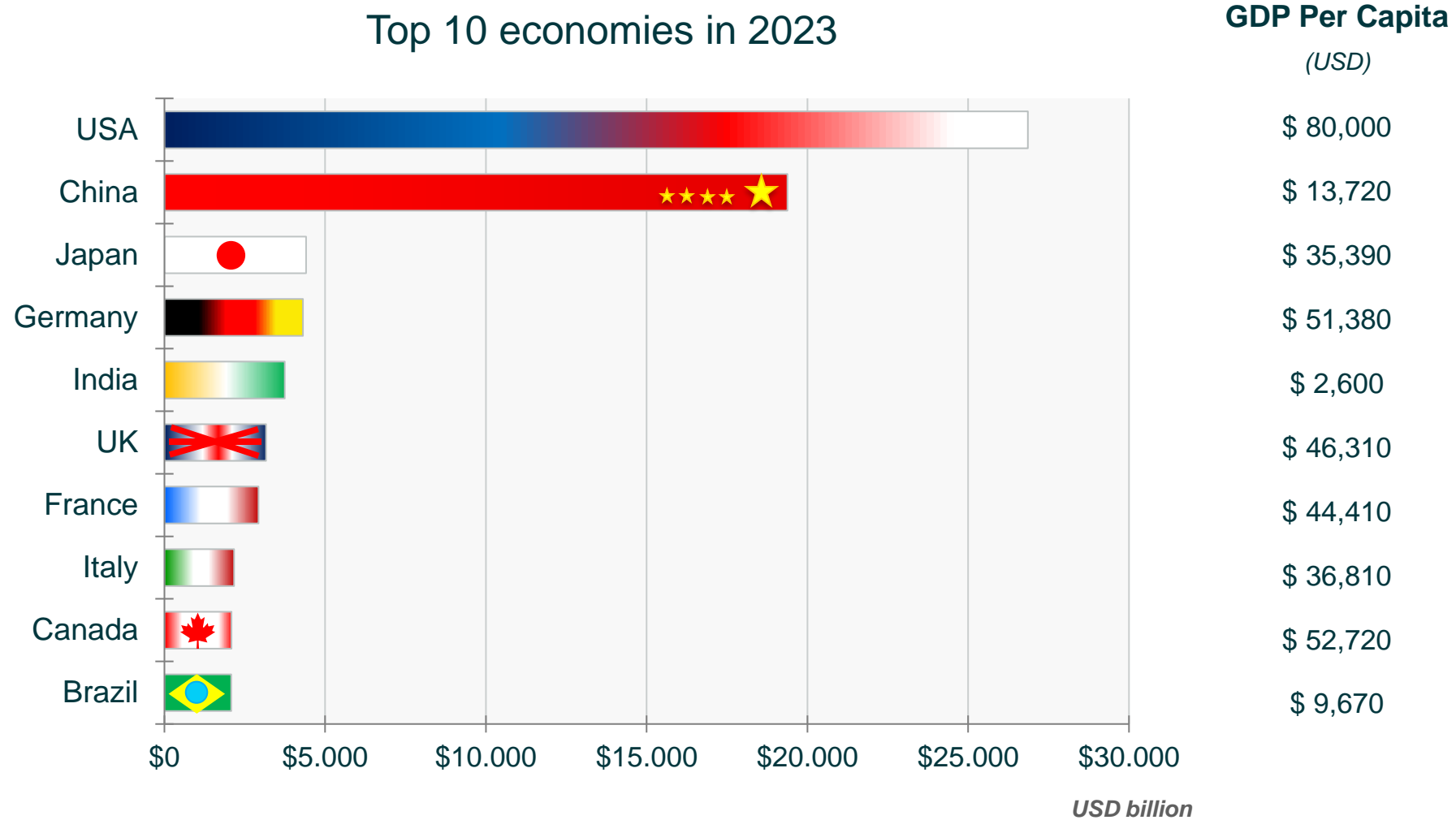


# GROWTH PICKING UP AFTER LOST DECADE



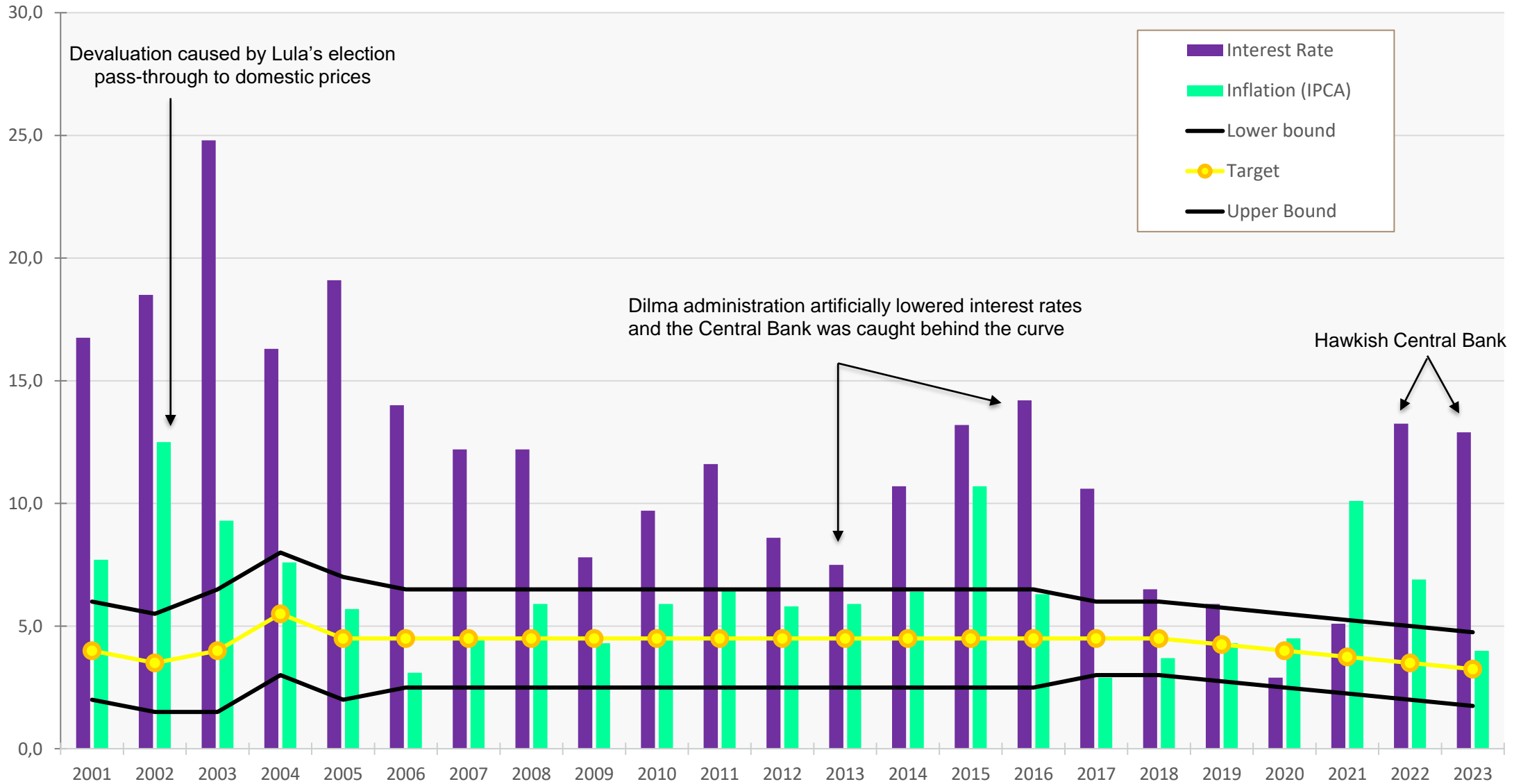


# BRAZIL IS BACK IN THE TOP 10



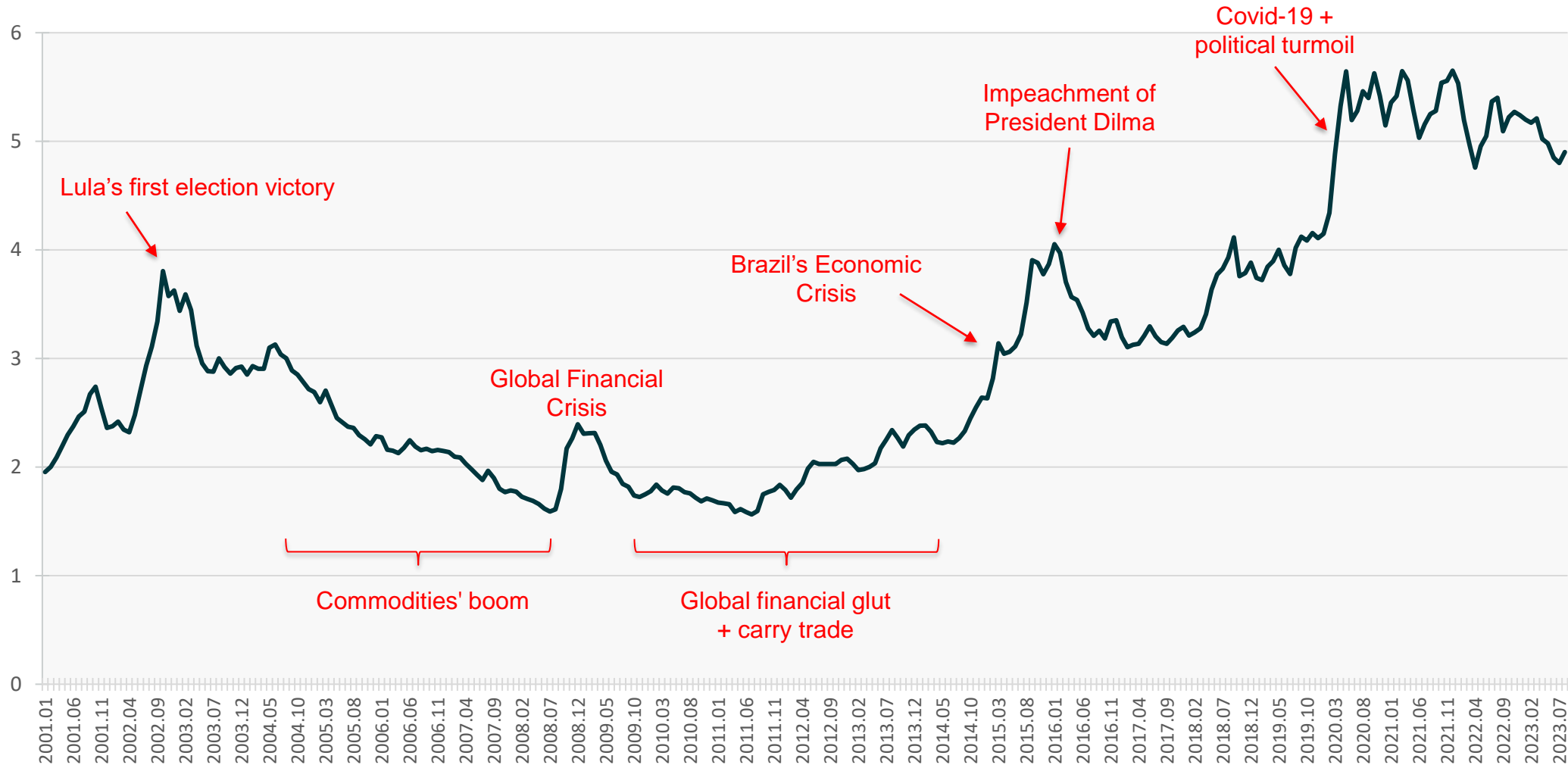


# MONETARY POLICY HICCUPS, BUT STABLE APPROACH





# BRL – USD EXCHANGE RATE



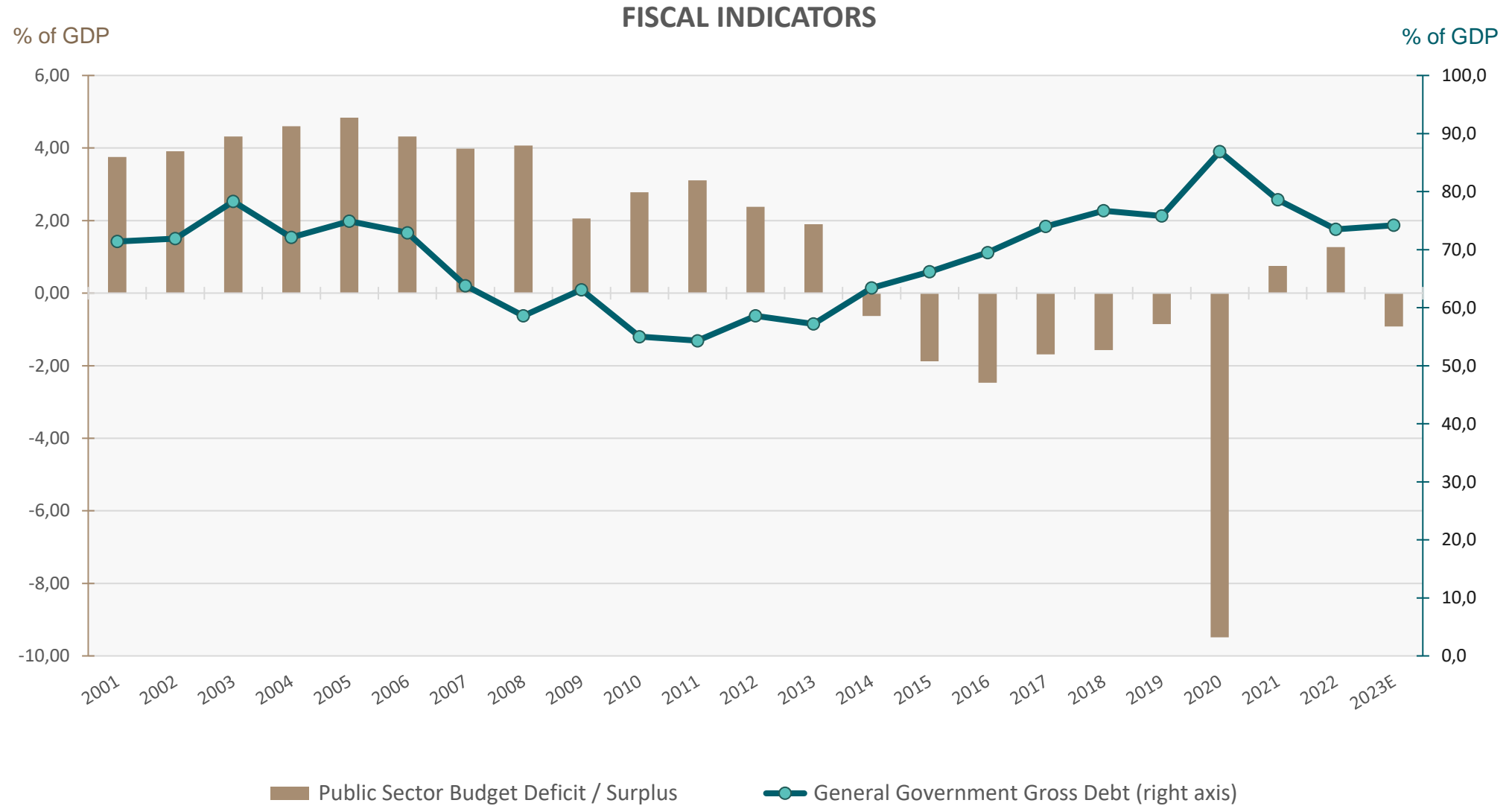
## FORECAST

2024 2025

5,00 5,05

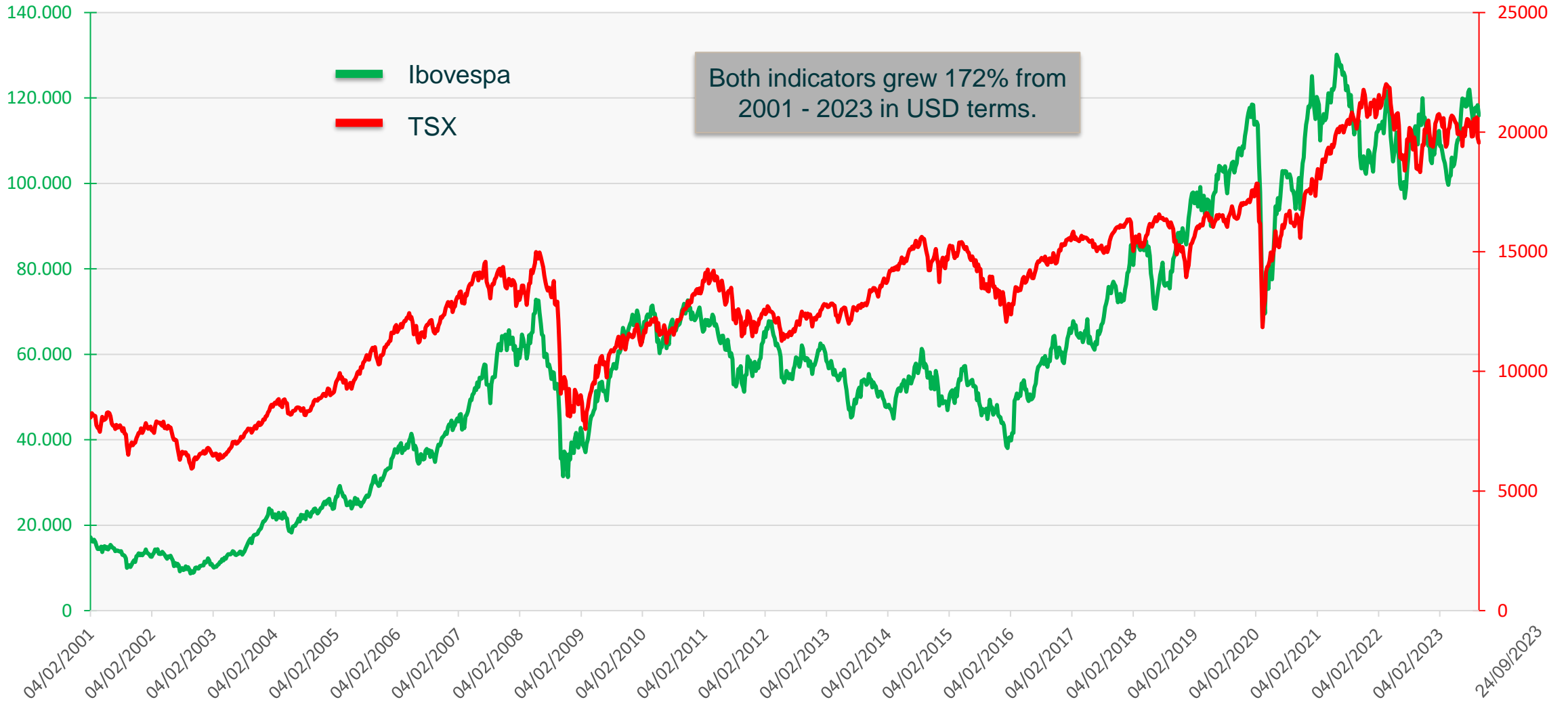


# FISCAL BUDGET A CAUSE FOR CONCERN





# IBOVESPA VS. TSX COMPOSITE INDEX







## KEY CHARACTERISTICS

- Highly productive agricultural sector
- Dependent on exports of primary products
- Medium to low level of industrial integration
- Solid and sophisticated banking sector
- Low productivity of service sector
- Consumption is heavily taxed
- High real interest rates
- Low investment rate

## KEY TRENDS

- Improving environment for startups
- Growing competition in certain service sectors
- Increased Chinese presence beyond imports
- Incentives to diversify capital markets
- Slow but growing dispersion away from Sao Paulo
- Steadily growth of e-commerce and digital services
- Income inequality decreasing but remains high
- Population aging faster than expected



## FAST GROWING SECTORS



AGRIBUSINESS → BUT CHINA



MINING → BUT CHINA



CLEAN ENERGY & ENVIRONMENTAL SERVICES  
→ REGULATORY FRAMEWORK



FINTECHS AND BANKING IN GENERAL → BUT  
INTEREST RATES



INFRASTRUCTURE → BUT INTEREST RATES



HEALTHCARE SERVICES → DRIVEN BY  
TELEHEALTH AND POPULATION AGING



INSURANCE → DRIVEN BY REGULATION AND AI



SUPPLEMENTS AND ORGANIC COSMETICS

General optimism regarding the Brazilian economy in the short-term anchored on five assumptions:

- 1) Political stability
- 2) Virtuous cycle between monetary and fiscal policies
- 3) Approval of long waited Tax Reform
- 4) Technological integration
- 5) Soft lending of Chinese economy



## ELECTION WAS TIGHT AND TRANSITION WAS BUMPY



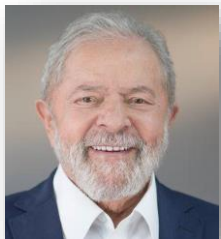
*Congress building*



*Presidential Palace*



*Supreme Court Plenary Room*



**LULA (PT)**

**50.9%** of valid votes

60.3 million votes



**BOLSONARO (PL)**

**49.1%** of valid votes

58.2 million votes

- Political polarization reached its highest level.
- President Bolsonaro admitted defeat only 30 days after the runoff.
- Protesters invaded and destroyed government buildings.
- Lula skillfully calmed things down with the armed forces.
- The failed attempted coup dominated the agenda for the first three months.



# THE DELICATE EQUILIBRIUM BETWEEN POWERS

- The federal government is now de facto semi-presidentialist with a strong President of the House of Representatives
- Congress has increasing control of the discretionary part of the budget
- The Supreme Court has become highly politicized, constantly clashing with Congress on polemic issues.

## EXECUTIVE



*Presidential Palace*

## LEGISLATIVE



*House and Senate*

## JUDICIARY



*Supreme Court Palace*



## PARTY FRAGMENTATION IN THE NATIONAL CONGRESS IS DECREASING

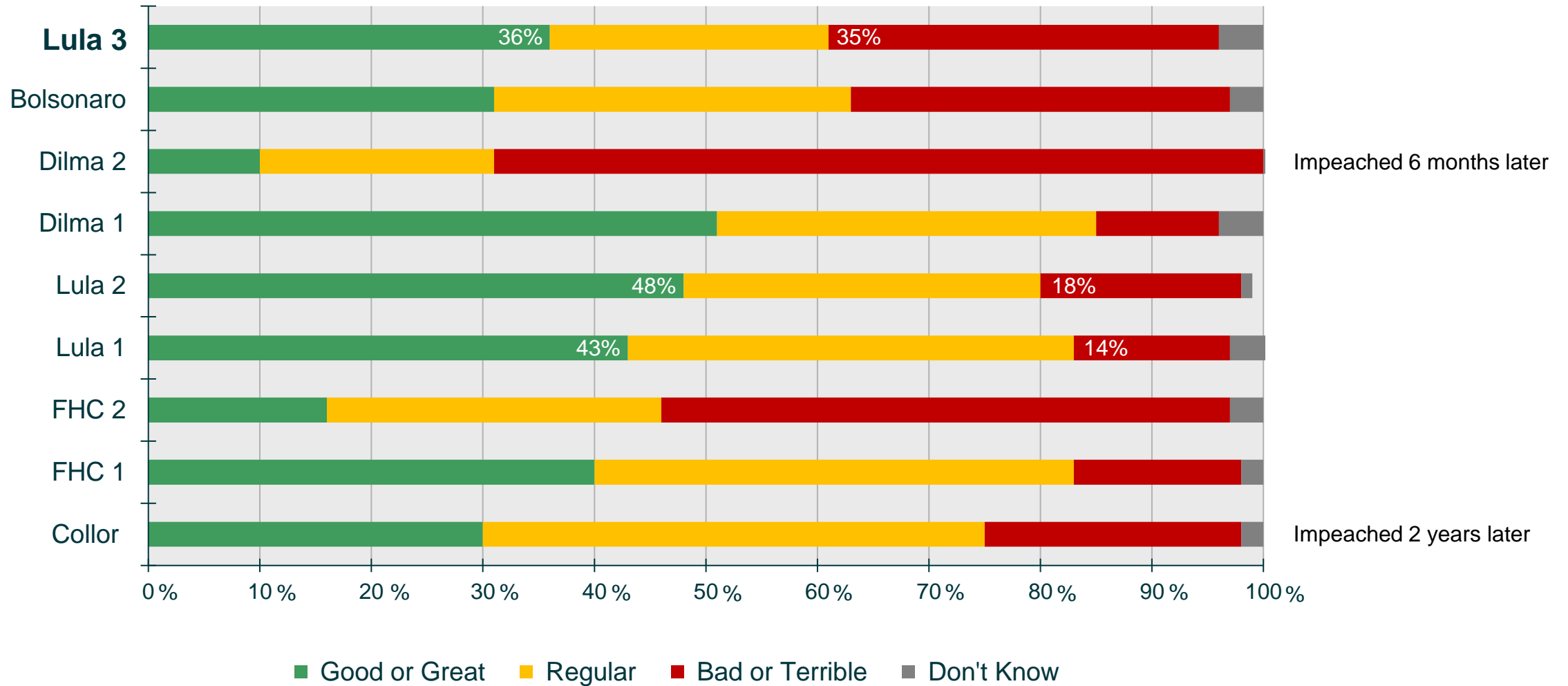
Top 10 Parties	# of representatives 2002	# of representatives 2010	# of representatives 2018	# of representatives 2022
President's Party	91 / 18%	86 / 16%	52 / 10%	81 / 16%
Main Opposition Party	70 / 14%	44 / 9%	54 / 11%	99 / 19%
Top 5 political parties	371 / 72%	306 / 60%	213 / 42%	330 / 64%
Top 10 political parties	479 / 93%	447 / 87%	366 / 71%	442 / 86%
Total number of parties	19	22	30	16
Fragmentation Index*	0,87	0,90	0,93	0,89

\***Note:** the fragmentation index is a dispersion measure that gives a result from 0 to 1, in which zero means that there is a single political party and any number above zero indicates the probability of two deputies belonging to different parties if selected at random.



# LULA'S POPULARITY IS ON THE WANE

## GOVERNMENT APPROVAL RATINGS IN THE FIRST 9 MONTHS IN OFFICE





## PRIORITIES OF THE CURRENT GOVERNMENT

- Balance the budget by increasing tax revenues (no privatization)
  - Increase taxation of super rich
  - Legal disputes over unpaid taxes
  - Reduce tax incentives
- Position Brazil as a leader in the sustainability agenda
  - Regulate and launch Carbon Market
  - Reduce deforestation
  - But pragmatic about mining, oil exploration and farming
- Update capital markets regulatory framework
  - Open Finance
  - Official digital currency
  - Infrastructure finance and PPPs
- Revamp public policies from Lula's previous terms (2002-2010) in office
  - Cash transfer to the poor
  - Promotion of national industry
  - Government induced investment in infrastructure
- Regulation of digital markets, fair share and sports betting



# LULA'S FOREIGN POLICY



BRICS as an alternative power?

How profound would such partnership be?



Global peacekeeper?

Brazil in the UN Security Council?



Anything beyond the environmental agenda?



Mercosur + EU trade agreement?



South America leadership?





## KEY TAKEAWAYS

- 1) **MACROECONOMIC INDICATORS ARE FAIRLY IN CHECK**, THE GREATEST CONCERNS ARE HIGH INTEREST RATES AND THE FISCAL BUDGET
- 2) **TAX REFORM APPROVAL** AND OTHER REGULATORY UPDATES COULD BOOST INVESTMENT AND ECONOMIC GROWTH IN THE SHORT TERM
- 3) **DEMOCRATIC INSTITUTIONS** ARE FLAWED BUT ARE FUNCTIONING
- 4) THE **PRESIDENCY AND LULA ARE POLITICALLY WEAK**, NEVERTHELESS POLITICAL STABILITY TENDS TO INCREASE UNDER LULA
- 4) **CONGRESS HAS GREATER CONTROL** OF THE POLICY AGENDA
- 5) **OPPORTUNITIES IN CLEAN ENERGY**, INFRASTRUCTURE PROJECTS, FINANCIAL AND INSURANCE SERVICES, AMONG OTHERS.