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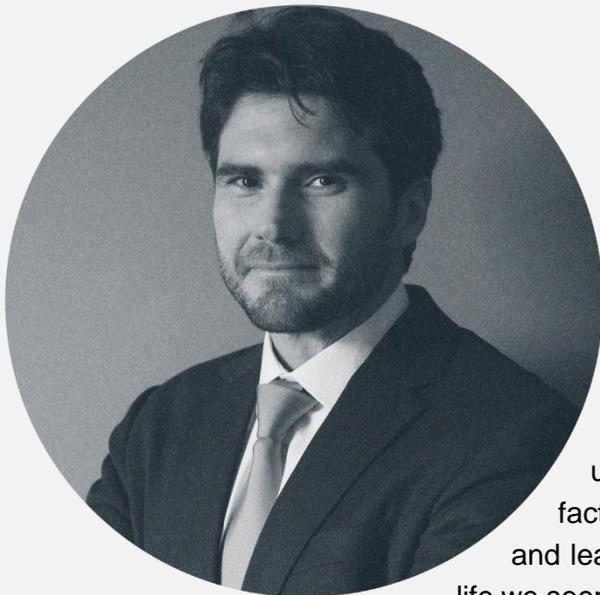
BRAZIL OUTLOOK 2023

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BRAZIL OUTLOOK 2023



OPENING LETTER

We usually differentiate our temporal metrics through the past and future. The past is necessarily an idea of what we left behind. Meanwhile, the future is always what is ahead of us. Perhaps we adopt this distinction for the simple fact that human beings walk forward into the future and leave behind their past. It is kind obvious and in our life we seem to reinforce this understanding through figures of speech such as: "in the last month," "for the next few years," "previously," "from now on" and so on. However, almost 2500 km separates Brasilia from the Andean Zone of South America, where there is another perspective on time. For the Aymara culture, it is the past that is in front of us, before our eyes, because we have experienced it before. On the other hand, the future is always behind us because it is still unknown. For the Aymara, it is tough to talk about the future because it is something that does not yet exist. For them, it is more necessary to understand the present through the past to understand the unknown.

And this is necessarily a metaphor that reminds us of the expectations and possibilities for next year. We will enter 2023 feeling the past is in front of our eyes and the unknown future in the background. A new government, but with a President in his third term. Something that has been in the past and is now part of the present. To understand the past in front of us it is much more interesting to observe how the present can bring reflections about this unknown future. The Lula 3 government begins at a very different moment from his ascension in 2003. After 10 years, the Congress is different, the political forces are others, and the challenges and priorities are also different.

Amid this search for the unknown, we present the ninth edition of our Brazil Outlook, a document prepared by BMJ's team of specialists to offer insights into the main risks and opportunities for our country in 2023. Our material expresses our historical commitment to our clients, and I also resort to an Aymara expression to invite you to read it. In the pursuit to understand the past that is in the present and that leads us to a still unknown future, Tanta Sarañani. In other words, we will go together!

WAGNER PARENTE

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RISKS

POLITICAL STABILITY

The electoral result of 2022 will be insufficient to diminish the social and political polarization in the country. Lula will assume a nation divided into two antagonistic political groups and will begin his term with a considerable rejection rate. As for the economy, a scenario of continued high inflation rates and unemployment may increase the negative perception of the government. Just like during Dilma Rousseff's second term, unsatisfactory economic performance may contribute to a loss of support in the Legislative Branch, a decrease in governability and, ultimately, a loss of population support and increased social turmoil. The new government has indicated that it tends to seek balance in fiscal matters and increase public spending, but an unfavorable external scenario may hinder this sphere of action, even with a conservative stance.

The relationship between the Executive and the Judiciary will be less conflictive than during the Bolsonaro administration, not necessarily because of Lula's alignment with the Court Justices, but rather because the pragmatic relationship between both branches was one of the keystones of his previous administrations. On the other hand, the president-elect should face tougher challenges in an institutionally strengthened legislature with a center-right profile. The Congress elected in October experienced an increase of conservative congressmen and congresswomen aligned with Jair Bolsonaro's main agendas. However, these Congress members were elected through established independent parties (the so-called *centrão*), which will not have an official opposition to the government. To attract these parties, Lula is likely to distribute high-level positions and support the *centrão* candidates with the best chances of being elected to command the House and Senate. In addition, the new government should abandon controversial proposals, such as the revocation of the labor reform, and focus on more moderate proposals that appeal not only to the parties, but also to voters in the center-wing.

A majority group of parliamentarians taking an organized position against the federal government is unlikely in this first year of government. However, at least in the short term, Bolsonarism should consolidate itself as one of the main political forces in Brazil. Without its main leader, there might be a dispute among conservative politicians to rise as successors and stand out nationally with an eye on the 2026 elections. In the United States, supporters of former President Donald Trump are following a similar path. Part of Bolsonaro's supporters is still likely to maintain an agenda of discrediting institutions.

The risk of democratic rupture will remain low. Brazilian institutions have proven resilient despite criticisms on the judiciary and the electoral system in 2022. It is important to highlight that the Brazilian scenario reflects the global dynamics of discrediting democratic institutions, but the outlook is that this trend will not increase significantly in 2023 due to government-related factors. Furthermore, at the regional level, the loss of support for democracy is linked to the lack of control in countries' socioeconomic indicators, such as the exponential increase in inflation and unemployment or the sharp decline in the population's consumption capacity - elements that should not be observed in Brazil.

SANITATION AND SOCIAL

Although COVID-19 is still not fully surpassed, the number of cases keeps moderate, and there is no significant pressure on the health system or risk of collapse. In this sense, the health scenario in 2023 should not impact the economy with the same force as in recent years. The management of the pandemic was widely criticized during the campaign, and therefore Lula government is expected to strongly oppose the previous one, with actions focused on preventing the disease and "depoliticizing" vaccination. The vaccine against COVID-19 will be included in the National Immunization Program, covering children from 6 months to 4 years - the population approved for vaccination in September 2022.

Vaccination campaigns are expected in the first year of government to prevent the reemergence of already eradicated diseases, such as polio and measles. The recurrence of one of these diseases in the first year of government could result in the opposition's criticism and popular dissatisfaction. Still considering the health scenario, the Health Ministry and the National Health Surveillance Agency (Anvisa) should keep monitoring any advances or setbacks from Monkeypox, but there is no prospect of a new pandemic or government isolation measures.

For 2023, the pressure of the health theme on the Federal Budget persists, although less than the most intense years of the pandemic, especially because the funds foreseen for the area are the lowest since 2014. Therefore, although resources are under pressure,

prevention and disease awareness actions should be a priority on the health agenda to avoid further impact on other social issues.

As for the social risk for 2023, the "honeymoon" duration between the President-elect and the population depends on the success of negotiating fiscal space in the budget to fund campaign promises. PT will endeavor to rename social programs in order to disassociate Bolsonaro's government brands. Brazil Aid (Auxílio Brasil) will be renamed Bolsa Família and its payments will not only be maintained for beneficiaries but also for families with children up to six years old. Besides people in vulnerable situations, Lula intends to target the middle class with proposals to increase the income tax exemption range for individuals, readjust the minimum wage above inflation, and grant labor guarantees for app services. Besides wider signals to the population, the government should pay special attention to some categories with the potential to organize protests, such as truck drivers, agribusiness and civil servants.

CORRUPTION

Past cases of corruption involving PT were the central pillars of Jair Bolsonaro's (PL) election campaign attacks in an attempt to weaken Lula's image. As anti-PT is still a force in the social sphere, the risk is likely to be one of the main challenges of the elected government in trying to dissociate the corruption scandals from the social imaginary involving the Workers' Party. Both the media and the opposition to the new government should remain the main actors in this scenario.

To minimize the risk, the new government may bet on the speech on strengthening the control and inspection bodies as the main strategy to combat corruption. Lula will commit to convey the message that there will be less government interference in institutions such as the Federal Police and the Council for Financial Activities Control (Coaf), which has left the Economy Ministry in the Bolsonaro government and is now subordinated to the Central Bank, operating autonomously from the federal government. Flávio Dino, future Justice Ministry, has a technical background in the area. However, a more pragmatic interlocution and the guarantee of autonomy for the investigation bodies will be crucial to transmit more credibility to the anti-corruption agenda. Lula's government plan foresees the reestablishment of the tools to fight corruption with joint action between the national institutions of internal and external control; more transparency to ensure

compliance with the Law of Access to Information, and better distribution of public resources.

The anti-corruption agenda will also be fundamental to the relationship with the Judiciary, where Lula will appoint two names to the Supreme Court (STF). In addition, the President has not been explicit about whether he will nominate the Federal Attorney General (PGR) following a three-nominee list, a tradition initiated by the PT government. Some allies defend the reappointment of Augusto Aras, but such an action could run up against the strategy of a more peaceful relationship with the Federal Prosecution Office.

Traditionally, it is unlikely that Congress could set off a Parliamentary Inquiry Committee (CPI) to investigate irregularities in the Executive branch in the first year of a new presidential term. This occurs for two reasons: corruption cases take a period to be articulated and detected; new governments usually have the strength in Congress to block CPIs. In addition, one can consider that the risk of corruption is necessarily linked to political, social, and fiscal stability risks. The popular perception of corruption cases is much more sensitive in scenarios of economic crises, high polarization, and mass mobilizations.

LEGAL AND REGULATORY

The regulatory environment is one of the most risky in Lula's government. During his previous terms, Lula traced a critical trajectory to the regulatory agencies. With Dilma Rousseff, a system of political appointments was consolidated for the composition of the agencies' boards, and Bolsonaro also did not act to strengthen these agencies and vetoed several provisions of the Regulatory Agencies' Legal Framework. In his campaign, Lula reiterated the criticism that the regulatory agencies overlap with the real enforcers of public policies. Despite the criticism in the campaign, Lula openly defends the importance of Anvisa's independence when it comes to containing the coronavirus pandemic. It is precisely in the health area, but in the scope of the National Supplementary Health Agency (ANS), that one expects the strongest urge for regulation by the PT administration, which has criticized financial abuses in the price of medicines, the value of health insurance plans, and in the release of pesticides.

It is important to remember that there are now more agencies than there were in Lula's previous administrations. Besides the National Data Protection Agency (ANPD), still in

the process of being structured, the National Water and Sanitation Agency (ANA) should be more carefully considered by PT due to the social relevance of water and sewage distribution. Despite the critical past, Lula is expected to safeguard the independence of the regulatory agencies, but will not fail to nominate reliable professionals to occupy positions in key sectors. In the Judiciary, the Supreme Court's agenda should be affected by the initially positive relationship with the Executive Branch, leading it to introduce more economic and private interest points in the daily agenda of votes to avoid institutional tensions. Finally, despite the presence of center-wing names, such as Simone Tebet (MDB) and Geraldo Alckmin (PSB), in his administration, Lula tends not to prioritize liberal initiatives and the debureaucratization at this first moment, unlike the relevance narrative built during Bolsonaro's administration.

STATE INTERVENTION AND BUSINESS ENVIRONMENT

There is a risk of heightened intervention in the business environment for 2023, especially considering the new government's proposals to revoke or possibly change microeconomic reforms, such as labor. However, considering the Congress composition, there is a possible reduction of this risk, since more substantial changes may meet more resistance from the Legislative, which keeps a more reformist and liberal profile in the economic sphere. The next government should be against the privatization agenda, although it should bet on the continuity of some concessions and public-private partnerships in models with more room for public investment. In this sense, a more active role for the State in the economy is expected, although fiscal sustainability may continue to be a limiting factor.

The agenda of debureaucratization and simplification of the business environment should not be abandoned, but its priority should be reduced compared to the previous government. Brazil's interest in acceding to the Organization for Economic Cooperation and Development (OECD) should be maintained as a strategy for repositioning Brazilian Foreign Policy. This process tends to create incentives for economic reforms favorable to private enterprise and can bring Brazil closer to international best practices. Furthermore, the need to demonstrate moderation to the domestic and international

public will ensure that the advances made by the Temer and Bolsonaro governments are not revoked. This applies to measures such as the Central Bank's autonomy, the Economic Freedom Law, the Regulatory Agencies Law, and the Labor Reform, the latter of which may undergo occasional changes.

Roberto Campos Neto will remain president of the Central Bank until December 2024, since the autonomy law assured fixed terms for the president and directors of the agency. The Brazilian President can reappoint Campos Neto, but he has already stated that he would not accept a new term. In 2023, Lula will appoint four directorships: Monetary Policy; Fiscalization; Relationship and Conduct Supervision; and International Affairs and Corporate Risk Management. In interviews, Lula has already stated that he hopes that, besides controlling inflation, the Central Bank will also prioritize economic activity and job creation, which are secondary objectives defined by law for the agency.

FISCAL

The fiscal risk remains high as discussions about changes in the fiscal and the increase in public spending. With the increase in tax collection over the past two years and the GDP growth, Brazil's public debt is in a relatively stable situation, although rising interest rates reduce the space for discretionary spending due to increased debt service payments.

The definition of a new fiscal regime will be the biggest challenge of the new government with Congress. However, even with a majority center-right profile, parliamentarians tend to support popular measures that open space for more social spending. So far, the most likely scenario is the adoption of some rule that links the increase in spending to GDP growth, which, in the short and medium term, could guarantee at least the maintenance of the debt/GDP ratio (although not its reduction). However, the low growth forecast for 2023 and the need to fulfill campaign promises will force the elected government to implement an exception to the fiscal limitations. This strategy will result in the discussion about the Spending Ceiling replacement occurring throughout 2023 and implemented in the development of the Multi-Year Plan and the 2024 Budget.

Finally, there is also the expectation of new hirings, readjustments, or expansions in the civil service, which tends to increase or create permanent expenses. It is important to

note that 2022 registered strikes by several public service categories requesting salary adjustments. The Bolsonaro government did not meet the demands, and there is the expectation of increased pressure for readjustments with the arrival of the new government. Lula has already committed to promoting an administrative reform that seeks to modernize the civil service and cut privileges and benefits deemed excessive. Since the new government will not adopt the proposal presented by the Bolsonaro government and the initial priority concerns the recomposition of social programs, there is no expectation that the reform will have concrete advances in 2023.

ENVIRONMENTAL AGENDA

The Environmental Agenda should occupy considerable attention in the Lula administration, mainly to improve the country's relationship with its international peers. To this end, Brazil will need to guarantee a decrease in the rates of Amazon deforestation by 2023. In addition, the elected government will need to resume dialogue with international partners to guarantee the flow of financing for environmental projects to the country, which will be one of the first challenges of the elected government.

International mistrust of Brazil's environmental agendas also puts Brazilian exports at risk. It will be necessary to dialogue with the productive sector and international agents to seek a balance between adequate conservation laws for the country and abroad. In addition, it will be fundamental to reinforce the enforcement of the Brazilian environmental policy for the country to have negotiation power with international agents in case of attempts to impose trade barriers under the environmental argument.

In the private sector, companies should continue to commit to the ESG (Environmental, Social, and Governance) agenda to meet consumer expectations, comply with environmental laws worldwide, and contribute to the reduction of greenhouse gases globally.

Lastly, the lack of coordination between the policies proposed by the Executive and Legislative branches may hinder the progress of the environmental agenda in the country and lead to a scenario of uncertainty for investors. In this sense, it will be important to break down legislative initiatives that have the potential to damage Brazil's image abroad. To this end, the new government will need to convey the notion that

strengthening the environmental agenda will not represent a loss for the private sector, nor is it an ideological matter of government, but of the State.

INTERNATIONAL POLICY

For 2023, Brazil will face some challenges in its international relations. Among these challenges are the outbreak of the Ukraine war, the world energy crisis, the disruption of the global supply chain, and high inflation rates that have undermined the stability of most developed and emerging countries. More manifestations of protectionist measures are expected worldwide with the adoption of strategies directed at the defense of internal markets. This scenario is aggravated by the intensification of tensions between the two greatest world powers, the United States and China. The elected government has already indicated it will reestablish the principles of South-South international cooperation, thus privileging relations with Latin America and Africa, besides strengthening blocs such as MERCOSUR and BRICS.

Furthermore, Brazil should continue with a pragmatic relationship with its main economic partners: Argentina, China, and the United States. With Argentina and China, however, the expectation is for further political closeness, which may reflect on trade relations. Finally, regarding MERCOSUR, Lula da Silva is not expected to advance in discussions about permanent reductions in the bloc's Common External Tariff (TEC), such as those promoted by Bolsonaro's administration. The presidential election in Argentina should be an important point on this issue, since, currently, both Lula and Alberto Fernández, leaders of the main MERCOSUR powers, are against TEC flexibilization. The victory of a candidate more aligned with the reform agenda within the Customs Union could leave the new government isolated. Regarding the MERCOSUR-European Union agreement, the new administration should intensify negotiations for its conclusion and subsequent internalization, especially if the new government presents, a real change in how it conducts the country's environmental policy.

Lula is also expected to adopt a more active posture in Brazil's foreign policy, resuming some notorious segments of his last administrations, which became known as presidential diplomacy. Since 2011, with the presidency of Dilma Rousseff, presidential

protagonism in foreign affairs has lost strength. The activism can be observed mainly in environmental agendas and in the defense of reforms within multilateral organizations.



POLITICS

POLARIZATION

Impact: ●●●●●

The President-elect must work to maintain the political alliances established during the campaign - the "broad front" - and negotiate with center parties to build governability already in the first months of his mandate. As for the *centrão*, the expectation is that pragmatic names from the political group will join, with the possibility of affiliation with parties of Lula's base - as is the case of the Republicanos, PP, and sectors of PL, which have a history of preferring to act in the government's ranks. Nevertheless, it is important to consider that Lula's victory happened with the tightest margin of difference in the country's history, indicating that the President-elect will inherit a divided country and already arrives on the scene with a high potential for rejection. In this sense, Lula will have to intensify his efforts to pressure the political class to pass measures in Congress and justify setbacks in promises to the ideological segment of his electorate.

If, in the short-term scenario, the expectation is to maintain polarization and use it as an instrument of political pressure, the commitment not to be a candidate for reelection in 2026, the closeness of Simone Tebet's MDB, and Brazil's exhaustion with the country's division, reflected in qualitative surveys, are elements to be considered in the medium term to stimulate the reduction of national polarization. At first sight, the polarization may be of interest to politicians ideologically closer to Lula and Bolsonaro since it could reduce the growth margin of a third-way candidate. However, persisting on this can potentially affect the new government's popularity and hinder the advance of new proposals. For now, the expectation is that Lula will opt for the conciliation path, as was explicit in his first speech as President-elect when he denied the existence of "two Brazils" and stated that he will govern all 215 million inhabitants.

Polarization will also depend on the country's economic development in the coming years. If the government fails to present measures capable of stimulating growth, polarization is likely to persist, resulting in new mobilizations against PT, as in 2013, when the economic agenda was linked to the corruption scandals that emerged during PT administrations. Therefore, it is possible to expect that one of the main measures to contain the polarization are measures aimed at the middle class and the most vulnerable population.

POST-BOLSONARISM

Impact: ●●●●●

Despite the defeat in the presidential election, President Jair Bolsonaro's (PL) allies received significant votes and will have an essential role in the command of states and the composition of the federal and state legislative houses. It is important to consider, however, that conservatism proved to be stronger than Bolsonarism. This is shown in the decline of about 1 million votes received by Federal Congressman Eduardo Bolsonaro (PL/SP) when compared to the performance of the President's son in the 2018 elections. In this sense, no matter how much the sectors of the conservative right have united with Jair Bolsonaro, the loss of control of the federal administration may cause an internal dispute movement by the actors who intend to occupy the role of the new national leader of the right.

From an institutional perspective, Lula should face obstacles in dialoguing with groups more aligned with Bolsonaro in Congress, especially in the Senate. However, with Bolsonaro's defeat, parties that formed his presidential coalition (PP, PL, and Republicanos) already opened dialogue with the new government, considering that these *centrão* (independent) parties obtained privileged space in the cabinet structure and second-level positions in previous PT's governments. With the moves, parties may suffer internal splits, as occurred with the PSL after 2018 regarding the dispute between bivarists and Bolsonarists. Regardless of the next moves, conservative parliamentarians from PL, PP, and Republicanos should form the core of a coalition of opposition to the new government. It is worth noting that PSDB, the party that historically led the opposition against PT governments in Congress, is weakened, which may create a gap to be explored by other parties.

If the disputes gain strength in *centrão* parties, Bolsonaro and his allies could revisit the idea of creating an exclusive party for Bolsonaro supporters. Previously, the *Aliança pelo Brasil* did not reach enough signatures, but the current President and his allies will have more time to formalize the creation of a new party in time to dispute institutional space in the coming years. This scenario grows stronger considering the loss of space for more moderate politicians in parliament compared to 2018. In this sense, even if some of the *centrão* parties join the government, a good portion of parliamentarians may maintain an anti-PT and conservative discourse, possibly placing them against their parties.

From the social point of view, mobilizations and public acts will be the main mobilization tools among Bolsonaro's supporters to maintain political and social engagement. Social networks will still have an important role in this scenario. Relevant public figures will continue to identify with Bolsonaro and will tend to continue engaging this sector of society in their priority agendas, especially on the anti-PT and the conservative agenda. In the medium term, the movements could lose strength if Bolsonaro loses visibility, and his allies have difficulties in finding another leader with the same political potential.

INSTITUTIONAL RUPTURE AND GOVERNMENT TRANSITION

Impact: ●●●○○

The social turmoil was strongest immediately after the runoff results, with roadblocks and disruptions to the logistical processes in various sectors of the economy. After the first days of November, there are still mobilizations rejecting the result proclaimed by the Electoral Court. However, the protests do not imply a concrete risk of institutional rupture for Brazil. The recognition by the main leaders of the international and domestic scene, representatives of organized civil society, and the security forces' denial to support more radical acts, immediately ruling out the risk of major disruption in the transition of power. Moreover, democratic institutions in Brazil are solid and capable of preventing any short-term turmoil related to the electoral process. However, the polarization arising from the electoral process is likely to persist throughout the four-year term and be an element of potential instability.

In the very short-term scenario, the transition process serves as a barometer for the stability of Brazilian institutions. Lula da Silva had the advantage that the transition regulations impose the sharing of information by career civil servants with the incoming government's team. One element to be observed is the promised demilitarization of the federal public administration, which has the potential to displease military commands. A 2021 study by the Federal Accounting Court (TCU) reveals that more than 6,000 military personnel held positions in the federal public sector that year. During the campaign, Lula reinforced his intention to fire all military personnel to fill the vacancies with civilian

candidates. Since the record of military personnel in the Federal Administration was restricted exclusively to the Bolsonaro government, the dismissals should generate momentary discomfort, but the Armed Forces tend to maintain a pragmatic and cooperative posture with the Executive Branch. It is worth to mention that some segments of the military core endorsed José Múcio Monteiro's nomination to the Defense Ministry. The support could influence a more pragmatic relationship with the Presidential Palace.

THE CABINET

Impact: ●●●○○

Lula's governments have been known for a high number of ministries and the preliminary expectation is that at least eight new ministries will be created or recreated, already discounting the divisions of existing ministries, such as Women, Family and Human Rights. Following the transition period, among the new Ministries are of Indigenous Peoples; Racial Equality; Human Rights; Culture; Planning; Finance; Small and Medium Enterprises; Public Security; Fisheries; and Women.

The President-elect should focus on building a viable governability plan from the very beginning of his administration. In this scenario, it is possible to expect that the political class will occupy key positions and that the ministries responsible for the economy will bring a combination of political and market names to convey the message of commitment to fiscal responsibility and the prospect of a good relationship with Congress.

One argument used by the PT is that the ministerial "shrinking" of the last few years did not necessarily lead to a reduction in public spending, since some ministries were only downgraded to the level of Secretariats, maintaining a good part of the personnel expenses. With a more conservative Congress, the allocation of allies, mainly from center parties, would be one of the most viable alternatives to build stable governability for the coming years. In this sense, Lula could nominate figures from PSD, MDB, and some parties that were part of Bolsonaro's support base such as PP, and even PL. However, the resistance of PT members to give up the command of strategic and highly visible portfolios may challenge the efforts to maintain a broad front.

RELATIONSHIP WITH CONGRESS

Impact: ●●●●●

The search for a good relationship with Congress will be Lula's main challenge, especially considering a legislature composed predominantly of center-right representatives and senators. According to preliminary calculations as December 2022, the House would have 193 representatives who have already declared support to Lula da Silva, 145 independents and 216 who expressed some degree of opposition. At the Senate, meanwhile, currently has 27 senators who support Lula, 22 independents and 32 in opposition. However, it is important to consider that many parliamentarians who currently support Bolsonaro could have incentives to join Lula's support base.

Lula had a history of good relations with Congress during his time in the Presidential Palace. Even with the accusations related to the *mensalão* scandal in 2005, then-President Lula managed to avoid the opening of an impeachment process and ensure his reelection the following year. A good part of consolidating the good relationship with Congress comes from the political alliances that Lula sought during his mandate. The names appointed to the presidential ministries will also be essential in building a closer relationship with Congress. The future Chief of Staff, Rui Costa (PT), has a good political articulation and may improve alliances with the *centrão*. The government tends to be willing to engage in dialogue with different ideological groups.

It is important to consider that the profile of Congress will be a barrier for Lula to advance more left-wing agendas, such as the revocation of labor reform. In this sense, the new government should prioritize agendas of greater consensus, mainly to make the most of its "honeymoon" period, as the first year of the administration is known, when new governments find it easier to approve more robust issues in economic matters. Furthermore, the constant pressure from the market and the continuous impacts of the global scenario crises will force the government to have a more pragmatic posture in the economic field since Congress did not authorize the new government to permanently exclude the *Bolsa Família* from the Spending Cap.

A good relationship with Congress is necessary not only for the approval of matters but mainly because currently the management of the Budget is concentrated among the parliamentarians. Congress' power over the budget began in 2015, with the approval of

the impositive amendments. Since then, the Executive has been compelled to execute the individual amendments of each parliamentarian, whose limit is BRL 16.3 million. In 2019, the rapporteur's amendments were created, also called "Secret Budget", whose allocation is based on political criteria. For 2023, more than BRL 19 billion have been allocated for the rapporteur's amendments, and Lula is hopeful that he will be able to negotiate an end to this mechanism, which has weakened the Executive's decision-making power when it comes to the allocation of federal funds.

Actually, Lula may not even need to negotiate the end of the secret budget, since the Supreme Court (STF) is likely to rule on its legality. Within the STF, there is an understanding that Lula's victory opens space for a less conflictive resolution on the issue since a decision of this nature during the Bolsonaro government could bring greater instability to the relationship between the Powers. However, if on the one hand the Executive Branch gets rid of the political burden of ending this measure, the Legislative and Judiciary Branches could enter into a new clash.

If there is no judicial decision or if the STF declares the rapporteur's amendments to be legally valid, the end of the Secret Budget will depend on convincing a majority of Congress members to remove this method of transferring funds from the 2024 Budget Law. As Lula has an agenda of measures that require a large quorum for approval - such the new fiscal regime, the tax reform and changes in labor laws - it is possible that the President-elect will pursue alternative and more transparent forms of parliamentary allocations, mostly to escape the media spotlight of new corruption speeches.

RELATIONSHIP WITH THE JUDICIARY

Impact: ●●●●●

The tendency is for a more pacified environment between the Executive and the higher courts and for a more solid institutional harmony, with the presidential post being more restrained and respectful of the Supreme Court's decisions, but not exempt from criticism. The new government expects the Supreme Court to review the secret budget. Despite the alignment between the Executive and Judiciary Branches, the prospect is that the Legislative Branch will receive the overturning of the mechanism critically. A

decision that goes against the interests of the Legislative Branch may bring back to the agenda impeachment attempts or the creation of Parliamentary Committees to investigate Supreme Court Justices. The Senate presidency will be decisive in this case, since this is the house responsible for considering impeachment of judiciary members. The victory of a moderate name tends to contribute to the harmonization of the relationship between the powers.

Moreover, Lula will nominate at least two new members for the Supreme Court since Ricardo Lewandowski and Rosa Weber will retire in 2023. There are no names yet defined, but the tendency is that another woman will occupy Weber's seat. The nominations promoted in previous PT administrations, especially under Lula, used to nominate renowned names in public positions and fields of law studies, so it is natural to expect that one of the vacancies will be filled by a higher court judge. In case there is a nominee from the private or public law practice, it will most likely be for the second vacancy in his term, to outline an alternation of appointments, since the last nominee to the Court was André Mendonça, who came from the Office of the General Counsel for the Federal Government. (AGU). Another relevant factor is that they will probably be younger nominees to ensure the composition of a more progressive majority for the court for many years to come, even if the Workers' Party cannot appoint a successor to Lula in subsequent elections.

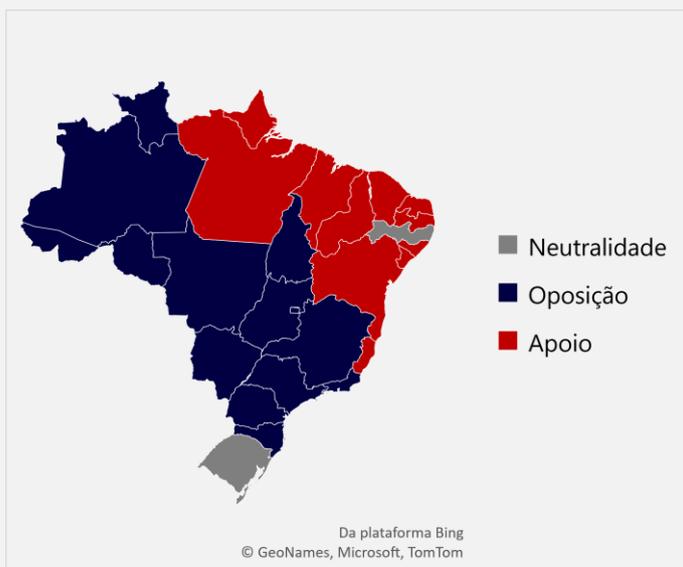
Finally, the Car Wash Operation should still have repercussions for the Lula government. The election in Congress of key players in the Operation, notably Deltan Dallagnol for the House of Representatives and Sérgio Moro for the Senate, will contribute to the PT perception of the political aspect of the operation. A concrete sign of Lula's still-present tension with the issue is the search for a new relationship with the Federal Prosecutor's Office. In 2023, the term of Augusto Aras as Federal Attorney General (PGR) ends and Lula will have the option of resuming the use of the triple list for the presidential nomination. The commitment to fighting corruption will be reinforced, but the relationship with the Judiciary may be strained on the issue. Lula will likely make some criticisms of the Judiciary, but without incisive attacks, also to differentiate his government from Jair Bolsonaro.

RELATIONSHIP WITH GOVERNORS

Impact: ●●●●○

For next year, Lula already has the consolidated support of 11 governors, most of them in the Northeast: RN, MA, CE, PI, AP, AL, BA, PB, SE. In addition, the President-elect will have support in PA and ES. On the independent spectrum, Lula will find RS and PE. Complementarily, 14 other governors are concentrated in the opposition: AC, DF, GO, PR, RJ, RR, MT, TO, MG, SP, SC MS, RO.

1 – MAP OF SUPPORT FOR LULA



Despite the rising tension in the national environment after the run-off, the trend is for a moderate climate and dialogue, even with the opposition governors. Therefore, the polarization observed in the elections tends to be mitigated due to some factors. The first is the presence of actors within Lula's base able to dialogue with the opposition, such as vice-president-elect Geraldo Alckmin (PSB) and André Ceciliano (PT). Besides this, a conflicting posture with the Executive Branch could block issues of interest to the governors. The President-elect has already stated that one of his first tasks will be to resume the council with governors in order to rebuild the dialogue, which has deteriorated during Bolsonaro's administration.

Among the agendas that should be priorities in 2023 are the tax reform and the State Tax (ICMS) on fuels, which impacted the collection funds of the federal entities. In the reform, Alckmin will lead the dialogue with governors since the federal entities are highly afraid of losing revenue

Regarding the measure for the ICMS on fuels, the Bill was approved to bring temporary benefits, however, the ceiling for the rate is permanent. Initially, the federation would

cover the difference between the fixed ICMS and the previous rate, but in the last instance, it opted not to proceed.

Many governors face the risk of increasing the state public debt. Some rulers have sought their own strategies to recompose revenues, either by increasing state taxes or by revising tax benefits. Besides, as in the Union, there is also pressure for readjustments for state civil servants. The demands can generate an increase in rejection in many states and put many governors in a fragile position. On the other hand, it is worth noting that the 2022 elections brought fewer outsiders to the command of public machines, which tends to be positive for the formation of governing bases in the legislative assemblies.

SECRET BUDGET

Impact: ●●●●○

The main political instrument of Jair Bolsonaro's allied base between 2020 and 2022, Lula is against the mechanism and has committed to extinguishing the Secret Budget during his presidential campaign. In practice, only Congress itself or the Supreme Court (STF) may decide on the matter. The execution of part of the budget resources by releasing the rapporteur's funds, the essence of the Secret Budget, is the target of Arguments of non-compliance with a fundamental precept (ADPFs) in the Supreme Court. The STF may rule out about them in the upcoming days to allow the budget for next year to be voted on and approved by Congress in a transparent context. There is an understanding that the Supreme Court may allow the secret budget continuity since Congress endorse changes that respect the principles of transparency and equality in the execution of budgetary resources. Justice Rosa Weber had already voted against the Secret Budget and eight Justices followed her opinion, which shows that the Court has room to form a majority against the proposal.

Regardless of the Supreme Court's decision, the theme has the potential to dominate the debates and define the power relations between the political class, the Executive, and the Judiciary in Lula's first year in office. If Justices annul the Secret Budget, segments of the political class, led mainly by current House Speaker Arthur Lira (Progressistas), should begin a strong reaction against the Judiciary. Currently, the Budgetary Bill (PLOA) of 2023 foresees more than BRL 19 billion through the

rappporteur's amendments for the next year. It is worth noting that besides the Senate President and the House Speaker - whose appointment, despite favoritism, depends on the internal elections in February - the general rapporteur of the 2023 budget is the third protagonist of the scenario. In 2023, the general budget rapporteur is Senator Marcelo Castro (MDB/PI), responsible for the official signing of the budget, politically aligned with President Lula.

REVOGAÇÃO

Impact: ●●○○○

The so-called *revogação* promised by Lula, is a political movement for revocation of provisions considered excessive in the labor legislation approved since the Temer administration, or current tax reductions. In the scope of the revocation are: the five-year confidentiality imposed on the content of Bolsonaro's visit to Russia in February, before the beginning of the conflict with Ukraine; the 100-year confidentiality of President Bolsonaro's vaccination card; the records of meetings held with pastors accused of being part of the corruption scheme in the Education Ministry during Milton Ribeiro's administration; the expenses with Bolsonaro's corporate card and the vice-president (and senator-elect), Hamilton Mourão; and the ingress of the president's sons, Carlos and Eduardo, to the Presidential Palace, among others.

Once public, the acts could eventually provide potential ammunition for opponents in actions against Bolsonaro. PT's objective would be to maximize possible irregularities through accusations that could lead to a conviction rendering Bolsonaro ineligible for the next elections. The measure is well received by Lula's most loyal electorate, but it should be noted that the new government inherits a high degree of social polarization, and the measure could be one of the first points of instability with Congress, as well as with Bolsonaro's voters, who represent more than 58 million inhabitants.

Aside from the political revocations, there is the president-elect's commitment to restructuring environmental protection and inspection agencies, which results in the expected revocation of decrees, ordinances, and normative instructions of environmental scope issued between 2019 and 2022. Finally, the episode involving former congressman Roberto Jefferson's (PTB/RJ) arrest on the eve of the runoff election should reinforce the pressure on the president-elect to restructure the rules of possession and transport of weapons and ammunition in Brazil. Making the possession

and transport of weapons more flexible has been one of the main goals of Bolsonaro's administration. It is worth noting that in September, before the first round of the elections, Lula expressed his support for the possession of weapons by rural producers, for the exclusive use of self-defense, which suggests that the new government would opt for revising only some points that diverge from the Disarmament Statute.

SEMI-PRESIDENTIAL SYSTEM

Impact: ●○○○○

The House Working Group approved a report with a draft of a Legislative Decree Bill (PDL) to hold a plebiscite in which the population would decide on a semi-presidential system. According to the text, the President would become only the head of state, while the head of government would be a Prime Minister, nominated by the President-elect and approved by Congress. The report proposes changes in the system of government starting in 2030. A semi-presidential system weakens the President and strengthens the center parties, which dominate the articulations in Congress. One of the advantages would be to reduce the damage caused by new impeachment petitions since, in case of dissatisfaction with the government, it would be simple for Congress to change the Prime Minister.

The discussion about a semi-presidential system depends on the reelection of Arthur Lira, the main sponsor of the discussions, as House Speaker. Lira is the favorite in the internal election. At the beginning of 2022, when Lira was counting on Jair Bolsonaro's expected victory for a second term, the idea was to resume the debate on the issue in the first months of the next legislature. With Lula's victory at the polls, however, the expectation is that Lira will postpone any debate until after 2023. The issue's progress will depend on the level of relationship Lula establishes with Congress.

PUBLIC HEALTH

Impact: ●●○○○

The Brazilian National Health System (SUS) faces structural challenges in serving more than 190 million people, 80% of whom depend exclusively on public services for any kind of care. The growth in demand for services, the incorporation of new drugs and technologies, and the management of resources are the main points of attention, besides the fight against new diseases. Lula's priorities include resuming and strengthening programs from the PT administrations, such as *Farmácia Popular* and *Mais Médicos*, and prioritizing Brazilian doctors (which presents new challenges, such as reaching remote areas). The focus for 2023 will be on basic care to reduce aggravations that result in higher expenses. Still on this agenda, the topic of immunizations stands out. Lula will prioritize the fight against COVID-19, including the vaccine in the National Immunization Program, and resume assistance to the demands that were withheld during the pandemic. The issues related to COVID (as well as monkeypox) must be prioritized in the first 100 days of the government to contrast with the actions of his predecessor.

Measures to deal with structural problems will demand more time and political force, such as investments to promote the Industrial Complex for Health, an old challenge in public health, but which stands out for its potential to increase the production capacity of medicines and health technologies. The health budget will also be a challenge. The figure provided for the area next year is the lowest since 2014, with a projected reduction of 10.1% when compared to 2022. Changes implemented in fiscal policy (such as the flexibilization or replacement of the Spending Ceiling) can increase spending volume for public health.

IBAMA RESTRUCTURING

Impact: ●●●○○

Lula's government is expected to work actively to restructure the Brazilian Institute for the Environment and Renewable Natural Resources (Ibama) and to rebuild the Institute's image before society. In the last few years, Ibama's inspection actions have gone through a weakening process, and billions of Brazilian reais in environmental fines have been forgiven due to changes in the sanctioning process of the agency. The flexibilization agenda was one of the main flags of Bolsonaro's administration and, therefore, should be one of the main challenges of the new government.

Lula is expected to focus on Ibama's enforcement role and resume monitoring activities to demonstrate his commitment to Brazilian environmental policy. For this process to result in major changes already in the first year of his mandate, Lula will need to dialogue with Congress to adjust the agency's budget in 2023. The current version of the budget bill foresees a 6.4% reduction for the Environment Ministry (from BRL 3.71 billion to BRL 2.96 billion); -12% for Ibama (from BRL 1.9 billion to BRL 1.7 billion), and -2% for ICMBio (from BRL 726 million to BRL 711 million) when compared to the 2022 budget. In the current scenario, however, increasing resources for the environmental ministry may not be a priority for Congress.

In case the adjustment does not occur in 2023, the Institute's activities may be resumed through the elaboration of the planned environmental awareness and monitoring campaigns, as well as strategies that consolidate its image as a legitimate environmental inspection agency. In addition, the new leader of Ibama must undertake new adjustments in the sanctioning process to prevent the continuity of the pardon of environmental fines. One of the arguments used by Lula is that restructuring the agency will be beneficial for repositioning Brazilian agribusiness on the international scene. To achieve this, however, a dialogue between ruralists and environmentalists will be necessary.

ENERGY TRANSITION

Impact: ●●●○○

For 2023, energy transition is expected to be one of Lula's most important agendas. His program mentions the development and expansion of clean and renewable sources, through smaller hydroelectric plants, solar plants, and electric power plants. In the same line as Bolsonaro, Lula is expected to also pursue foreign investment for expanding wind energy production in offshore parks and developing green hydrogen, a sector expected to be one of the world's investment leaders in the coming years. Federal representative Marina Silva (Rede/SP) presented a letter with relevant topics for the energy transition and the protection of Brazilian biomes. Among the points listed, the implementation of the carbon market and the creation of a National Authority for Energy Security, to contribute to the decarbonization of Brazilian industries, stand out.

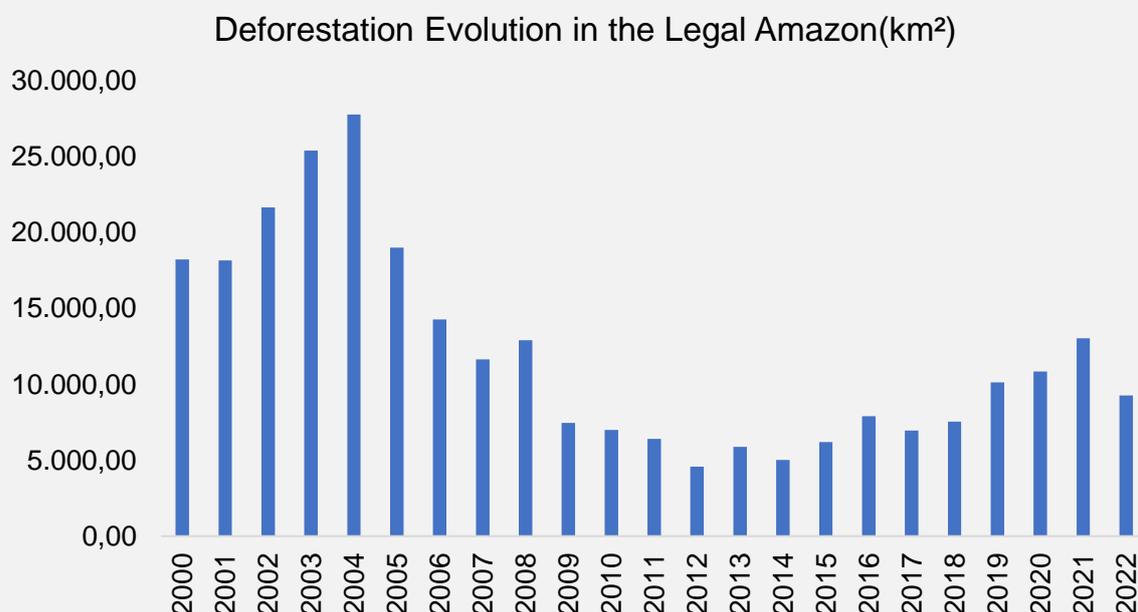
Another vital element for Lula is the reinsertion of Petrobras in the debate on the country's energy sector and, consequently, the company's greater participation in Brazil's

energy transition. PT's campaign allies are already affirming the need for the company's technical staff to play a greater role in producing biofuels, green hydrogen, and other renewable energies to be more than just an oil-exploration company. In a letter sent by the Union of Oil Workers to Lula's campaign, this willingness is also highlighted, not only on the mentioned issues but also in the power generation through wind and solar power plants.

DEFORESTATION

Impact: ●●●●○

Reducing deforestation will be one of the priorities for Lula's government. The increase in illegal deforestation in recent years has contributed to the worsening of Brazil's image in the international community and has increased concerns related to climate change mitigation and biodiversity conservation. Environmentalists and the international community have widely criticized the Bolsonaro administration mainly for Brazil's steady increase in deforestation rates. According to the National Institute for Space Research (INPE), deforestation in the Amazon region has risen 73% in the last three years.



The Bolsonaro government stipulated a commitment to reduce illegal deforestation by 15% per year until 2024, reaching 50% in 2027. Despite this, an increase has been observed. The data also show that 15% of this advance took place in areas of indigenous

reserves. Another important problem is the total growth of the degraded area, indicating the risk of reaching a point of no return.

Lula's government is expected to resume plans to prevent and control deforestation in the Amazon (PPCDAm) and the Cerrado (PPCerrado), measures that were successful in curbing illegal deforestation in previous years. To this end, the government must focus on the causes that lead to the occurrence of illegal deforestation, such as illegal mining and the increased economic exploitation of indigenous lands. To contain deforestation, the new management must also bet on strengthening the enforcement of environmental laws in the other biomes. It is important to consider that the changes will require a constant and more solid dialogue with the productive sector to guarantee the conciliation between environmental preservation and agricultural production. Under pressure, the names chosen for the Ministry of Agriculture and Environment will also need to converge on these themes. In addition, restructuring Ibama, Funai and ICMBio will be a fundamental step towards meeting the objectives of reducing deforestation in the country.

RURAL ENVIRONMENTAL REGISTRY (CAR)

Impact: ●○○○○

The Rural Environmental Registry (CAR) is a nationwide electronic public registry created by Law 12651 of 2012 (Forest Code). The CAR is mandatory for all rural properties and aims to integrate environmental information from rural properties to compose the database for control, monitoring, environmental and economic planning, and combating deforestation. Lula's government is likely to advocate accelerating the CAR's implementation and suspending the validity of registrations on public lands. In this scenario, it is possible that the discussions regarding Constitutional Amendment Bill (PEC) 7 of 2022, which regulates the allocation of public lands and may incorporate the legal framework for the suspension of registrations on public lands, will gain prominence. The measure may encounter resistance in the Legislative Branch, hindering the government's achievement. Despite this, Congress is expected to debate the changes in the CAR throughout 2023.

RESUMPTION OF THE AMAZON FUND

Impact: ●●○○○

The Amazon Fund is a mechanism created to finance national and international resources reinvested mainly in actions to prevent, monitor and combat deforestation in the Amazon, contributing to climate change control. The Fund is maintained mainly by donations from Norway (93%) and Germany (5%), countries that will resume investments as of 2023, after interrupting the transfers in 2019 when the Bolsonaro government extinguished the committees responsible for managing the project. In order to avoid the closure of projects due to lack of funding, parliamentarians debated Bill (PL) 415/2020, a matter that seeks to give more legal security to the Amazon Fund and was approved by the Senate in late 2021. However, the announcement of the resumption of international funding may reduce the pressure to approve the proposal.

In 2022, the Office of the Federal Controller General (CGU) published the Amazon Fund Governance Assessment Report, which points out irregularities within the Environment Ministry (MMA) in the administration of the Amazon Fund. In response to the CGU report, the MMA announced the creation of a working group to discuss a "restructuring" of the initiative. The WG's role would be to "analyze and propose the governance structures of the Amazon Fund and its objectives as an instrument to finance national public policies". This decision demonstrated the Ministry's commitment to showing concern for the region after years of criticism from various sectors. The WG should still have a significant role in the Lula government's management. The tendency is that the Amazon Fund will be restructured in the short-medium term, releasing conservation and development projects in the Amazon states.

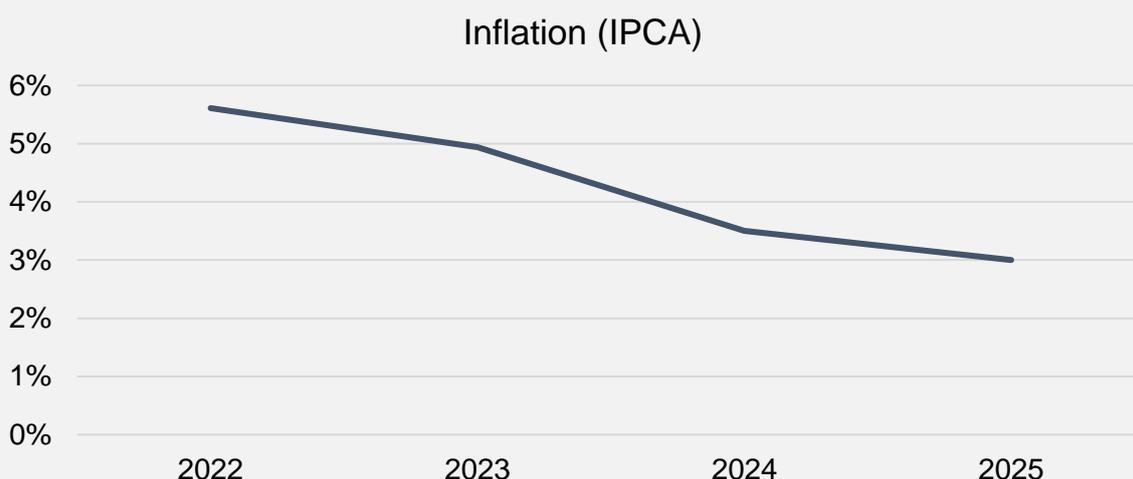


ECONOMY

INFLATION

Impact: ●●●●●

Inflation is not expected to meet the Central Bank’s target, representing the third consecutive year of non-compliance with the inflation targeting regime, one of Brazil’s macroeconomic foundations. However, inflation should be lower than in 2022. The pressure should be pushed from the demand side, considering the increase of *Bolsa Família* and other social programs. As a counterweight to the expansionist fiscal policy of the Executive Branch, the Brazilian Central Bank (BCB) will maintain its restrictive monetary policy. The perspective is that the basic interest rate (Selic) will remain double-digit and end in 2023 at 11.25%. However, if the increase in public spending is greater than expected, the Selic may reach a higher number.

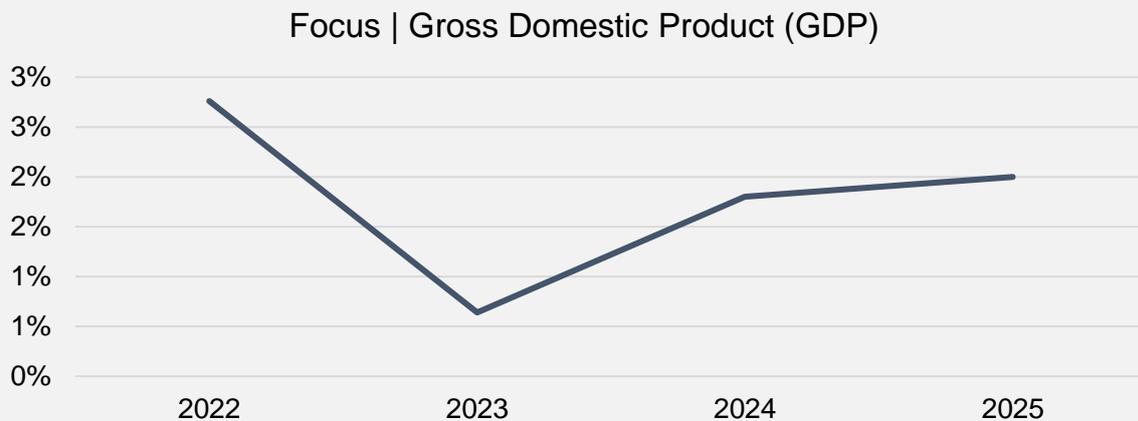


The maintenance of high interest rates will be observed in several countries, especially in the economies of the United States, the European Union, and the United Kingdom. This scenario will have a negative effect on world growth in 2023. One of the effects of the drop in global economic activity is the fall in the price of commodities in the international market, which is harmful to Brazil as an exporter of inputs, but is favorable to the companies that consume these products, which may reduce inflationary pressure by reducing production costs. Thus, the global inflation scenario in 2023 will be of higher pressure on the demand side and lower on the supply side, while the global recession should reduce prices in the international market, enabling the expansion of production in Brazil.

GROSS DOMESTIC PRODUCT (GDP)

Impact: ●●●●○

In the domestic scenario, there may be a positive effect from possible fiscal stimulus to demand, but the continuity of high interest rates should be a limiting factor to growth, as far as both consumption and investment are concerned).



2 – Source: Focus Report (2022)

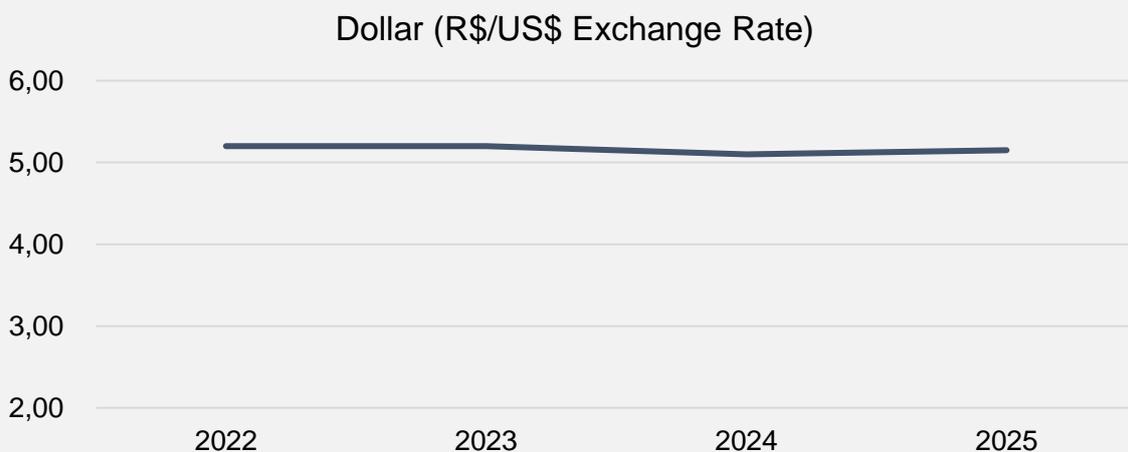
While diminished GDP growth is not as damaging in terms of governability as a negative result, it should still represent a significant challenge to the new government to start with a scenario of relative income stagnation soon after the 2022 results.

DOLLAR

Impact: ●●●●○

The market expects the Brazilian Real may remain devalued against the dollar in the medium term. Like 2022, the Central Bank forecast is that the Brazilian exchange rate will continue above BRL 5.00 in 2023, influenced by the domestic scenario and international factors. The new norm to substitute the spending cap will directly influence the Brazilian fiscal scenario, which could increase the devaluation of the Brazilian Real in the short term. Lula needs to seek support from center parties tends to decrease the

level of state intervention in the economy compared to previous PT administrations, which could balance out the risk of worsening fiscal health and, consequently, maintain the stability of the dollar exchange rate. As previously mentioned, the Central Bank will keep the Selic high in response to the trend of high interest rates in developed countries. This move may increase Brazil's attractiveness for investments and avoid the outflow of dollars, thus preventing further devaluation of the Real. However, for this to occur, the government needs to guarantee fiscal sustainability.



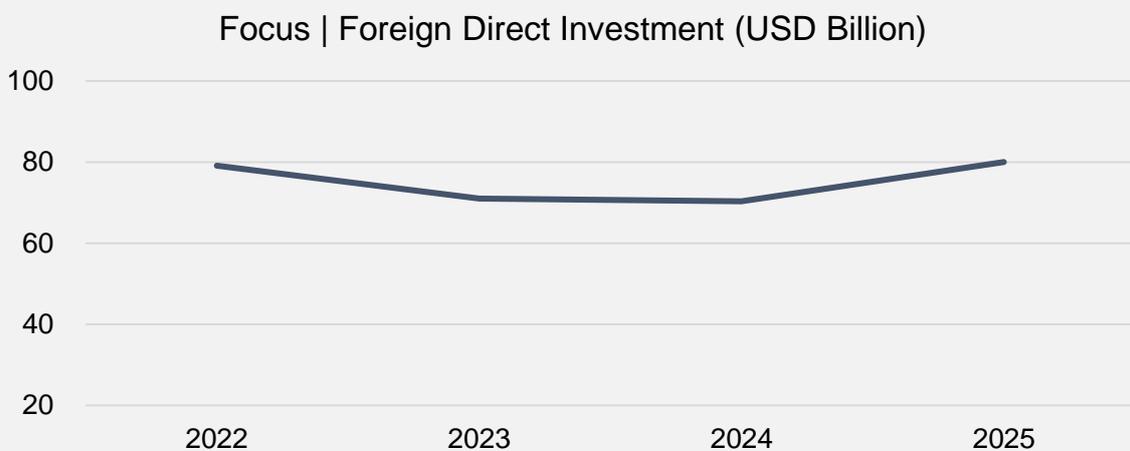
3 - Source: Focus Report (2022)

According to the Central Bank's Focus Report, the relationship between the Brazilian real and the US dollar should remain around BRL 5.00 in the coming years. It is possible that the currency will fluctuate at this level based on the policies announced by the Lula government over the next few years and their impacts on the Brazilian fiscal scenario. Even with the expectation of an unfavorable fiscal scenario, Lula's credibility position may alleviate the devaluation of the currency against the dollar.

FOREIGN DIRECT INVESTMENT

Impact: ●●○○○

A The outlook for inflows of Foreign Direct Investment (FDI) in Brazil is positive, given the international scenario. With the war between Russia and Ukraine, foreign investors have changed the priority of some requirements for sending investments. Still focused on countries that will enable profit, investors now analyze the geopolitical risks of the regions, considering the concepts of near and friendly shoring. In this way, foreign investors look for environments close to the main world markets and have stability with their neighbors, features that Brazil possesses. The positive repercussion of Lula's victory by the main European leaders may corroborate this vision for international investors.



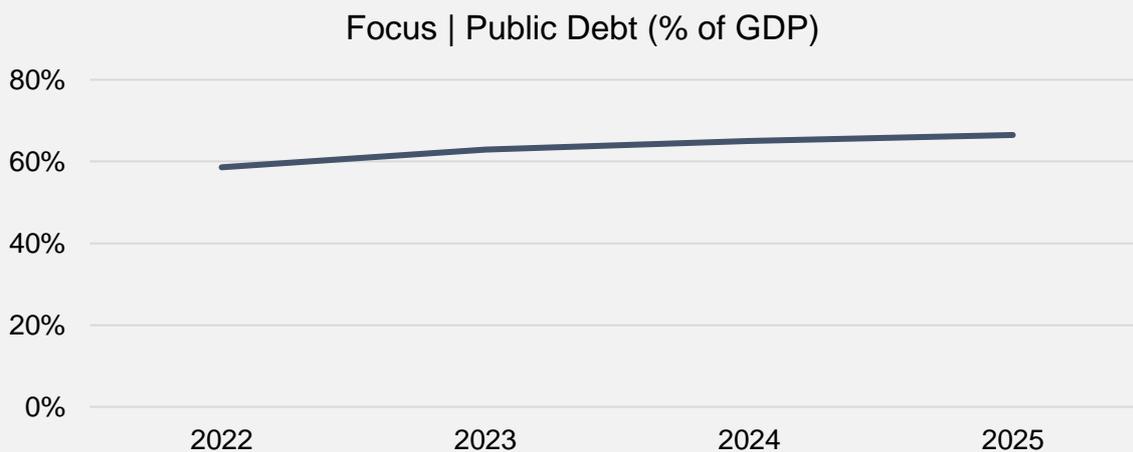
Data from the Central Bank indicate a tendency to increase the inflow of Direct Investments into the country, given the improvement in the political stability scenario. The interaction between Lula and Congress will be definitive for the entry of foreign investments, given that it will guide the government's possible reforms. Furthermore, the uncertainty in the international scenario may also help make Brazil more attractive to foreign investors.

In addition, the Federal Government should hold conversations with state governors to design a program of concessions and Public-Private Partnerships (PPP) for the coming years, aiming to attract more investments. These programs should also focus on the reindustrialization of Brazil by providing incentives to companies. In this context, Brazil is expected to continue attracting investments throughout 2023. However, the increase in fiscal risk is a factor that may prevent investment attraction from reaching its potential.

PUBLIC DEBT

Impact: ●●●○○

The positive results of public debt in 2022, achieved by high tax revenues and low interest rates in previous years, created a better environment than projected during the peak of the pandemic. However, discussions about changes in the spending cap regime may reverse this trend. Thus, the expectation for 2023 is to maintain or increase the debt in relation to the Gross Domestic Product (GDP), considering the expected low growth and high interest rates, which increase the cost of paying the existing debt. There is also an expectation of increased spending on public investment and civil service, either with new hirings or with readjustments, although the center-right profile of Congress may serve as a counterweight, promoting fiscal sustainability in the medium and long term. The debt situation is likely to pressure inflation in 2023, which may exceed the target for another year.



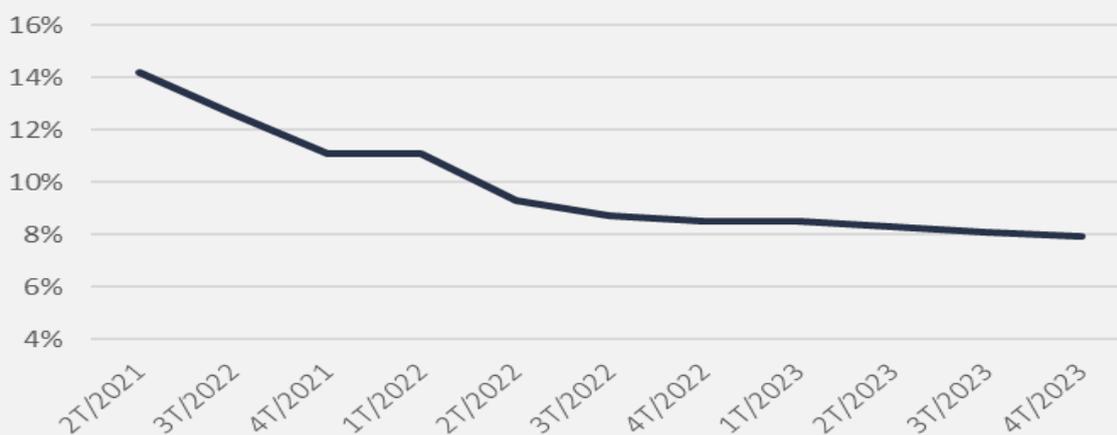
The data from the Focus Report predicts an increase in the Public Debt/GDP ratio over the next few years. This increase was already expected, given that the high interest rates in the country tend to raise the ratio. However, it is worth noting that the tendency of the Lula administration, especially in the first year in power, is to increase government spending, which could put even more pressure on the Public Debt. During the remaining years of his mandate, the fiscal adjustment measures are expected to be better defined, avoiding an excessive increase in the indicator.

LABOR AGENDA

Impact: ●●●●○

The labor agenda will be one of the main agendas of Lula’s government, which will bet on new incentive policies for the creation of formal jobs, such as the concession of benefits to companies and a possible trigger in case of an increase in layoffs. The new administration inherits an unemployment rate of 8.7%. Despite the reduction of this rate in the last few months (see graph below), the agenda was central in the presidential race.

Brazil Unemployment Rate



For 2023, the trend is for a drop in unemployment, but in a slower way than was observed in 2022. One of the causes of the unemployment control was the “pandemic hangover” when the country started to generate new jobs with lower salaries compared to the pre-pandemic period. This last point should also be on the new administration’s agenda.

Tendency for the drop in unemployment to decelerate in a way that Brazil should end 2022 with the index around the level of natural unemployment (8.5%). Given that Lula’s measures will not have an immediate effect and global demand tends to shrink at the beginning of 2023, the indicator should remain constant in the first quarter. If it does not follow, we expect to see a drop of around 2% per quarter in response to the government’s measures. Thus, the country would reach the end of 2023 with unemployment below 8%. However, it is worth noting that the rate, below the natural rate, will not be maintained in the long term without measures that also raise market productivity.

A potential impediment to increased hiring is the minimum wage adjustment above inflation. The figure for this is not yet settled, but the new government should undertake efforts during the transition government to create a more favorable space for the adjustment. Considering the short time frame for inclusion in the 2023 Budget, the government could apply the adjustment in mid-May, as was usual before the PT administrations.

Lula even considered revoking the labor reform, but this measure is considered unfeasible given the composition of Congress and the need for signals to the market. One of the ways to please the militancy will be to focus on new categories. Lula should present, possibly within the first 100 days of government, a Bill (PL) specific to app workers. The President has worked throughout 2022 with the companies that would be affected, which tend to support the proposal, facilitating its approval. According to the Institute for Applied Economic Research (IPEA) Brazil has almost 1.5 million app workers. In the Senate, Randolfe Rodrigues (Rede/AP), an influential player in the new Lula administration, had already presented Bill 974/2021. The government could bet on this proposal. New York, the European Union, the United Kingdom, and Japan are also debating similar proposals.

The international economic scenario also tends to affect job creation in the country, but to a lesser extent, given that consumption in the country tends to be elevated through government measures. Thus, the increase in domestic demand tends to increase job creation in sectors that produce for the domestic market, while the reduction in external demand should keep employment in export sectors stable. Unemployment in Brazil will also be linked to other codependent conditions: informal jobs, purchasing power, inflation, and commodity prices. Latin America in general should see a reduction in unemployment rates by 2022, but the countries in the region should return to pre-pandemic levels only after 2024.

STATES' FISCAL SITUATION

Impact: ●●●●○

The main challenge for the states in 2023 is to negotiate a solution to mitigate the tax collection losses incurred by the approval of Supplementary Law (LC) 179/2022, which included fuel, electricity, communication, and public transportation in the list of essential

goods taxed by the State Tax on Goods and Services (ICMS). After six years of positive fiscal results, the change in the rules for the main state tax will generate revenue losses, with the potential to alter the positive trajectory of the Federation's fiscal performance even in the first half of next year. Compensation for the states is being negotiated in a Working Group at the Supreme Court.

Apart from the direct impacts of Law 179/2022, the states will have to deal with the drop in transfers from the Union due to the linear reduction of the Tax on Industrialized Products (IPI), maintained in the Union Budget for next year. The revenue losses estimated with the enactment of the National Nursing Floor are solved for next year, but throughout 2023, representatives and senators will need to define a permanent source of revenue for the salary floor. In addition, there is the possibility of a new reduction in transfers if the update of the Income Tax table promised during the electoral campaign by the President-elect is confirmed. It is worth mentioning that Lula is committed to negotiate with the governors the approval of a tax reform still in 2023.

The local managers should take the situation to the new President, considering that Lula has stated his intention to rebuild the Federative Pact with governors and mayors. One of the President-elect's campaign promises was also the expansion of the Municipal Participation Fund, as advocated by the Brazilian Municipalist Movement. The new administration is aware that the expansion of such measures depends on the situation of public accounts for next year. In this sense, the fiscal situation or new fiscal rules for the federative entities may enter the negotiation agenda in the short and medium term.

FOOD INSECURITY AND POVERTY

Impact: ●●●●○

Focused on poverty reduction, the Executive will press Congress to approve the Brazil Aid (Auxílio Brasil) at BRL 600 and rename the program Bolsa Família. In addition, Lula's team has already stated that it will implement an additional BRL 150 for each child up to 6 years old in the family, but that it will have to meet several conditions to obtain the additional amount, such as an updated vaccination card and school records. A study by FGV Social, carried out based on indexes provided by the Brazilian Institute of

Geography and Statistics (IBGE), shows that the poverty rate rose from 7.6% to 10.8% between 2020 and 2021, meaning that more than 23 million Brazilians entered poverty - earning less than BRL 210 per month. The pandemic was the main driver, but the reduction will require a concentrated effort in other areas besides social assistance, such as education and health.

Focused on reducing food security, the government tends to seek public policies that increase access to meals for low-income families. Government action to reduce food insecurity is expected to occur on other fronts, such as by readjusting the resources dedicated to lunch boxes in public schools and expanding this program to more schools around the country. In Brazil, many children depend on school meals to eat. The school meals policies cover today almost 40 million students and Brazil is the leader in school food incentives.

Brazilian agribusiness is concerned about a possible measure to restrict the export of essential items for Brazilian food. However, given that the government will seek to bring stability and credibility to the new administration, measures of this nature are unlikely to be implemented.



FOREIGN AFFAIRS

LATAM RELATIONSHIP

Impact: ●●○○○

The Lula administration joins other Latin American countries currently more aligned to the left-wing, such as Argentina, Bolivia, Chile, Colombia, and Peru, as well as the second largest economy in the region, Mexico. The trend of center-left governments in Latin America goes back to a period similar to the 2000s, when left-wing governments came to power in several countries in the region. At that time, the rise of the left had similar causes to the current ones, mainly the increase in inequality and high inflation rates. However, the new pink tide that has emerged in 2019 has a different face, mainly regarding its priority agenda and controversial alignment with countries such as Venezuela, Cuba, and Nicaragua. Not all politicians that have emerged in this period remain aligned with the aforementioned governments. Moreover, there seems to be a central concern with other issues such as the climate, structural reforms, but without neglecting a broad social agenda.

The PT government may work to strengthen Regional Organizations, like MERCOSUR, Celac and Unasur, and other integration initiatives. During the peak of left-wing governments in the 2000s, however, some international forums were reserved only for an ideological role, overlooking the relevance of a more solid economic cooperation.

Environmental agenda, a priority shared with the governments of Gustavo Petro, in Colombia, and Gabriel Boric, in Chile, is one of the themes that should contribute to strengthening Latin American integration. A greater political harmony among Latin American leaders could promote the region in the environmental debate. Besides, the countries of the Amazon region could advance towards the construction of more convergent goals and policies.

Regarding the trade agenda, despite ideological differences with the Bolsonaro government, Argentina, Chile, and Mexico remain among Brazil's main trade partners, with Argentina ranking third, behind China and the United States, respectively. For 2023, despite the political affinity between their leaders, the countries in the region will have to deal with a context of low global economic growth and increased inflation, which may prevent a significant increase in trade flow. However, it is worth reinforcing that one of PT's priorities is to put Brazil back as Argentina's largest trading partner, a title lost to China in 2021.

BRAZIL-MERCOSUR RELATIONS

Impact: ●●●○○

Focused on South-South relations, the Lula administration is likely to use the strengthening and modernization of MERCOSUR as one of the pillars of the new administration's foreign policy. It is worth noting that both Paraguay and Uruguay are governed by right-wing governments, which may hinder a more significant cooperation agenda through the bloc in the short term. Therefore, one of the main challenges within the bloc will be the relationship with Uruguay, which is pushing for the easing of unilateral trade negotiations, currently required to be conducted by common agreement. In addition, Uruguay also defends the revision of the Common External Tariff (TEC) and the updating and revision of the bloc. However, Lula has already stated that he is against a further TEC reduction, which should remove the issue's priority from Brazil's position in MERCOSUR, especially during Brazil's pro tempore management in the bloc.

As for Argentina, joint actions are expected to strengthen the bloc, which is in crisis due to tensions between its two main economies. With Lula, Argentina's president, Alberto Fernández, will have support against the TEC reduction, and there is the possibility of resuming MERCOSUR's social side, strengthened during Lula's and Kirchner's governments, and removed from the agenda during Macri, Temer, and Bolsonaro's governments. Furthermore, greater Brazilian cooperation in the crisis experienced by Argentina is expected, considering that the economic stability of the bloc's second-largest economy is fundamental for the harmony and growth of MERCOSUR. However, this alignment with Argentina will also depend on the results of the presidential elections in the country in October 2023. Currently, Lula's Peronist allies are under intense pressure due to the economic crisis in Argentina. A shift to the right in Argentina after 2023 could bring more pressure to the reform agenda in MERCOSUR.

During the second half of 2023, Brazil will hold the pro tempore presidency of MERCOSUR. The occupant of this position is responsible for organizing the meetings of the bloc's bodies and for setting the agenda for discussion among its members. In this context, the second half of 2023 tends to focus on signing the agreement between

MERCOSUR and the European Union, given the issue's priority for Lula's government. Furthermore, the government should also focus on signing and ratifying the Agreement with Singapore, which was finalized this year, and pursuing the bloc's green agenda.

BRAZIL-CHINA RELATIONS

Impact: ●●●○○

Recently, the Brazil-China relationship has gone through some crisis moments, which were overcome by the more technical wing of the Bolsonaro government and by paradiplomacy - states, municipalities, the private sector, Congress, and the Foreign Affairs Ministry, which acted more actively in foreign affairs. For example, the pandemic was one factor that resulted in tension between the two countries. For his part, during his government (2003-2010), Lula consolidated Brazil-China relations, considering the strategic importance of this emerging power at the time, which is currently Brazil's largest economic partner. Therefore, the new Lula administration should bet on the Brazil-China relationship as one of the main strategies to boost Brazilian development through the expansion of international trade agreements. It is worth noting that the President has pledged to restore relations with China in the first six months of his administration.

Although the diplomatic crises have raised concerns about the commercial relationship between the two countries, the surplus with China soared during the Bolsonaro government, which was able to rely on the rise in commodity prices and the resumption of economic activities in the post-pandemic context. Therefore, Brazil's Lula government should take advantage of the good moment in economic terms and bet on rebuilding the diplomatic relationship between Brazil and China, consolidating one of his government's main proposals for Brazilian foreign policy: putting an end to the international isolation experienced by the country in recent years.

Even with the expectation that Lula's administration will have a more active posture in Foreign Policy, diplomacy at the global level has been undergoing several changes, among them a greater insertion of subnational entities, private sector and Congress itself in diplomatic matters. This does not mean that the Ministry of Foreign Affairs will lose protagonism in the agenda, but that the decentralization of Brazilian diplomacy renders the approximation with other countries much more effective and pragmatic. Furthermore, Chinese participation in the Brazilian economy also depends on the market

developments in Beijing. Currently, China is facing economic stagnation, a crisis in the real estate market, growing unemployment, a worsening global crisis, a spike in coronavirus cases, and growing youth unemployment. The continued slowdown of the Chinese economy can directly impact Brazil, as it can potentially reduce the consumption of Brazilian raw materials, iron ore, and food.

BRAZIL-US RELATIONSHIP

Impact: ●●●○○

The first governments of President Lula (PT) maintained good relations with the US, especially at the technical level. The relationship was strained when the alleged spying by the Obama government on members of the Dilma Rousseff government came to light. For 2023, however, the trend is to maintain the pragmatic character between the countries and strengthen ties in under-explored areas, such as environmental protection. In the field of trade, driven by the entry into force of the Protocol to the Trade and Economic Cooperation Agreement, 2022 was a record year for Brazilian imports and exports, and the prospect is that bilateral trade between Brazil and the United States will not be affected by the change in government.

The increase in commodity prices, the war in Ukraine and the consequent destructuring of the global supply chain may represent an opportunity to strengthen Brazilian exports. In addition, the Brazilian government can be a strategic articulator in Washington's relations with Caracas. The Biden administration has loosened some energy sanctions on Venezuela and intends to use Venezuelan oil as a way to reduce the global energy dependence on Russia. In this sense, by betting on neutrality, Lula's government is able to establish itself as an important mediator in these negotiations. On the other hand, it is important to note that Latin America may take a back seat to other North American foreign policy agendas, whose efforts should be focused on strengthening relations with Europe and bordering countries (Mexico and Canada), as well as on containing Russia and managing tensions with China.

With the reorientation of domestic environmental policy, the United States is likely to reestablish its support for Brazil's accession to the Organization for Economic Cooperation and Development (OECD). The administration of Democrat Joe Biden has conditioned its support to concrete improvements in Brazil's environmental agenda, with

special attention to illegal deforestation. It should be noted, however, that the process of joining the entity takes an average of five years. Its speed will depend, basically, on the priority given by the government.

BRAZIL-EU RELATIONS

Impact: ●●●○○

The relations between Brazil and the European Union (EU) during the first year of Lula's government should be guided by environmental issues and the will to finalize the agreement between MERCOSUR and the EU. With the increased deforestation of forests and ecosystems in Brazil, European countries have started to press for reopening the Agreement's text on environmental points, even though the Sustainable Development chapter is the most advanced ever achieved by Europeans in trade negotiations. On the other hand, with the commodity crisis caused by the conflict in Ukraine, the EU is again seeking the finalization of the Agreement. One way to accelerate the agreement's conclusion would be to split the texts, so that the approval of the trade in goods and services part would depend only on the European Parliament and the EU Council, without the need for analysis by the member countries. In this context, the Lula government should act to advance with the preparation of an Additional Protocol, a solution to avoid opening the Agreement, in which the MERCOSUR countries' commitment to environmental protection will be reinforced. Thus, it is expected that the Treaty will move forward in the first year of Lula's government, with Spain in the rotating Presidency of the EU Council and Brazil in the Pro Tempore Presidency of MERCOSUR during the second half of 2023.

However, European pressures regarding the environmental agenda should not be limited only to the negotiation of the mentioned agreement. Brazil is currently one of the main targets of the European Union's Deforestation Regulation, which should block the entry of a list of products originating from deforestation areas. It is still considered uncertain how much the country will be impacted, since the regulation is still under discussion. However, Brazilian exports to the bloc will be affected in some way. Thus, a president with a stronger line of dialogue with the Europeans could be important to reduce the negative impact of the regulation on Brazilian exporters. It should also be noted that the European Union is advancing in other environmental issues that could impact Brazilian companies, such as the new Renewable Energy Directive, the Border Adjustment

Mechanism and Due Diligence in Corporate Sustainability. Therefore, the rescue of the Brazilian environmental agenda, especially in its international image, will be a challenge and a necessity for the next government to improve its relationship with the EU.

Finally, the implementation of the new EU agricultural quotas for Brazil should also be a priority throughout the year. Aiming to guarantee the access of agricultural products in the European bloc, the Brazilian government will seek to finalize the application of the new quotas, after the United Kingdom leaves the European Union.

ENVIRONMENTAL AGENDA

Impact: ●●●○○

The environmental agenda for 2023 will focus on ensuring the execution of current environmental laws (law enforcement) in order to ensure Brazil's repositioning in the international arena. At first, the Executive Branch is expected to provide legitimacy through campaigns that convey the government's commitment to the environment to the population and investors.

To highlight the theme, the government may create the National Climate Authority to lead the Brazilian environmental agenda before the international community, as well as acting jointly with other ministries. However, members of the transition Environment Technical Group are skeptical about this new structure. The Authority could have a little budgetary space and be overshadowed by the Ministry of Environment.

The economic instruments of environmental policy are also expected to play a prominent role in Brazilian environmental policy. The Carbon Market and Payment for Environmental Services (PES) are guidelines that should advance during the Lula administration and contribute to the opening of dialogue between environmentalists and ruralists. In general, economic instruments have a greater potential for consensus among agents, since they contribute to environmental conservation through financial incentives rather than penalties. Furthermore, the advancement of these agendas sends a positive signal to the international community.

The new government will concentrate on rebuilding the budget of the Environment Ministry and other environmental agencies, such as the Institute of the Environment and Renewable Natural Resources (IBAMA) and the Chico Mendes Institute for Biodiversity

Conservation (ICMbio). The appropriate operation of these institutions will be fundamental to ensure compliance with environmental laws and their respective activities, such as enforcing environmental laws and effectively collecting environmental fines. In this sense, Lula sees the first step in the environmental agenda as restoring Brazil's image abroad through properly enforcing laws that already exist domestically. Finally, the new government must disarticulate the relaxation of the Brazilian Forest Code.

MULTILATERALISM

Impact: ●●●○○

The agenda in defense of multilateralism will be one of the pillars of the new government's Foreign Policy. The focus of this relation is to be placed on Latin American regional partners and developing economies outside the Europe-USA axis, but a friendly and still close relationship with developed countries must continue on priority agendas without major ruptures or significant conflicts. A striking factor will be the attempt to oppose Jair Bolsonaro's Foreign Policy. A change of focus in bilateral relations is expected to occur and controversial positions in the environmental and conservative areas will be reviewed to strengthen Brazil's international image.

In instances of global multilateral relations, such as the World Trade Organization (WTO) and the United Nations (UN), Lula should institutionally reinforce the Brazilian diplomatic staff and strengthen under-prioritized cooperation agendas, such as South-South relations and cooperation with the BRICS. As occurred during his previous terms, the defense of multilateralism and the expansion of dialogue with partners will be the main flag of the actions in these forums, which should gain prominence during his administration. In international history, the administrations of Fernando Henrique Cardoso, Lula and Temer were known for a much more active stance in international and multilateral forums, mainly as a strategy to position Brazil as a leader in the region.

Brazil is expected to continue to seek a permanent seat on the UN Security Council, even if the chances of success remain low. The country is expected to change its position on issues such as the Israel-Palestine conflict, with the return of a more left-wing bias in international agendas in the social and political spheres. It is worth noting that international politics is often a sphere that allows a more ideological performance by the

Executive since it is less followed by most of society and rarely enters the sphere of the Legislative and Judiciary branches. Economically, processes such as joining the OECD and negotiating Free Trade Agreements should not be abandoned and can be used to reposition Brazil in the international community.

Regional integration via cooperation organizations such as Mercosur, the Union of South American Nations (UNASUR), and the Community of Latin American and Caribbean States (CELAC) can be undertaken more strongly, especially considering the current (more leftist) composition of governments in the region. Concrete advances towards regional integration are still likely to face challenges, as in other PT administrations, but may be reinvigorated after 2023. In this sense, it is expected that other organizations can take the lead in more forceful efforts, even if they currently have a less active concrete role.

SUPPLY CHAIN CRISIS

Impact: ●●●●○

Persisting since 2021, the supply chain crisis is an issue of global importance, which was also stimulated throughout 2022 by factors such as the Russia-Ukraine conflict (important exporters to the chain), the energy crisis and the continuing impacts of the COVID-19 pandemic, which led to increased volatility in consumer demand and destabilization of global shipping, directly impacting global supply chains. The scenario experienced in 2022 directly impacted the food production chain by impairing input manufacturing. In addition, countries dependent on imports, as Brazil, felt several impacts on their agricultural production. A similar context is found in most of Latin America regarding the supply of inputs and raw materials for the production sector, which still affects the region, impacted by a production chain that has not yet reorganized itself after the pandemic and is still impacted by the conflict in Ukraine. Meanwhile, the drought in the United States also damages important crops for the chain's restructuring.

In this context, the expectation is for a gradual return to normality in the global chain throughout 2023, but still with destabilization risks. To deal with factors involving infrastructure, logistics, and even the impact of climate change on production, the federal government will play an important role in relation to the measures adopted to address the problem, such as the continuity of the National Fertilizer Plan. Lula's government plan foresees the creation of a National Supply Policy. By doing so, the new

administration could opt to expand financing for food production, especially for small and medium-sized producers, and to regularize the country's food stocks. In addition, other measures to reduce production costs and the marketing price of food are being considered, also in the government's economic agenda. However, despite the issue's urgency, the budget adjustment for such measures is not expected to be immediate, putting the supply policy into a medium-term perspective.

The World Trade Organization (WTO) is also discussing the ability of developing countries to build up food stocks (commodities), aiming to ensure food security and aligning with the PT government's narrative of viable alternatives. In this scenario, the government's capacity for international articulation will also be at stake and may contribute to improve the country's international position to mitigate the scenario of shortages and food price inflation in the country, which are among the new government's priority agendas.

INTERNATIONAL LAWS ON DEFORESTATION AND CARBON

Impact: ●●●●○

2022 has been a crucial year for advancing international regulations and discussions to export domestic standards for international trade in order to control carbon emissions and illegal deforestation. The European Union (EU) has already approved in the European Parliament both the regulation that will control the entry of products associated with deforestation and forest degradation (Deforestation Regulation), and the Border Carbon Adjustment Mechanism (CBAM).

The EU is to impose an internal order that will create a risk analysis mechanism to assess areas at low, moderate, and high risk of deforestation or forest degradation. How this analysis will be performed is still under discussion, but it will be the bloc's executive arm. It will take into account several aspects, but national environmental protection laws are not expected to be of great value, considering that Brazil is one of the main targets of the measure and has a vast environmental protection framework. CBAM is a mechanism

that will work in conformity with the European Greenhouse Gas Emission Trading Scheme (EU ETS). Through this, the bloc will place a surcharge on importing products from areas that do not contribute to the climate targets for GHG emission reduction. The measure prevents highly polluting industries from transferring their production to countries with more flexible environmental standards and then exporting it to the EU.

Although the EU laws are the most relevant, similar measures are advancing in the UK (Products at Risk Forestry) and the US (FAIR and the Forest Act), indicating that all international trade will be impacted to some degree. The Amazon Rainforest preservation is an extremely relevant issue for foreign environmentalists, who have been very critical of the conduct of the environmental agenda during the Bolsonaro government. Thus, Lula's challenge will be to prioritize the environmental issue. The nomination of technical staff for the Environment Ministry and the revival of the prestige of institutions such as Ibama, Funai, and ICMBio will be the pillars to overcome international pressures and boost the environmental agenda as a parallel theme to Brazil's Foreign Policy and in the search for a leading role in the international arena. Brazil has a relevant international influence on environmental issues, reinforcing that the country could be one of the biggest targets of these external regulations. Thus, to protect both the environment and Brazilian trade, the new government must take into consideration the country's ecological image.



PRIORITY AGENDA

BOLSA FAMÍLIA

Chances of approval: ●●●●●

The expectation is that Lula will be able to pass, still in the transition phase, the Constitutional Amendment Bill (PEC) renaming the current *Auxílio Brasil* as *Bolsa Família* and guaranteeing the maintenance of the benefit at BRL 600, with an increase of BRL 150 for families who have children under the age of 6. The new administration will re-establish conditions for granting the benefit, such as enrolling children in school and vaccinating them. Although it may fund the program for the upcoming two years, the measure will generate a shortfall of about BRL 170 billion in public accounts than what was originally foreseen in the 2023 budget proposal sent by Bolsonaro in August

The new government still needs to present a long-term solution to cost the *Bolsa Família* from 2024 since the market will not react well if the government decides to extend the exceptions to the fiscal mechanism. The discussions on the transfers from 2024 will be tougher since the changes would require a new spending cap or the creation/amendment of taxes. It is worth noting that spending on social programs also competes for space with other PT campaign promises, such as the reorganization of spending on public health and income tax exemption for those earning up to BRL 5 thousand a month.

LABOR LEGISLATION REVIEW

Chances of approval: ●●●○○

Lula's government plan says that the focus in this area will be to bring social protection to all forms of occupation and labor relations, focusing on workers who provide services on apps. In addition, Lula may propose revising items introduced in the 2017 labor reform, such as restoring free access to labor courts and recreating mechanisms to strengthen unions. Aside from the priority issues for PT, PDT also demands approval of a new Brazilian Labor Code (CBT) to replace the Consolidation of Labor Laws (CLT). CBT was one of the conditions imposed by PDT and Ciro Gomes to support Lula's candidacy in the second round. Ciro Gomes' government plan dealt with the Brazilian

Labor Code superficially, only saying that the new norm would be for the country to incorporate modern practices and provisions of the International Labor Organization (ILO) Conventions.

Status: No text has yet been presented by the government, but the expectation is that the amendments will come through ordinary law, a topic that can be debated in Congress either through a Bill or a Provisional Measure. The new rules for app-based service providers can be referenced in the rules established in Spain, where app-based workers are considered paid employees and have all the protections provided by law. The subject has been debated for some time and may reach an agreement with the companies in the sector. Passing these reforms could be well received by the middle class and bring Bolsonaro supporters into the government's support base. On the other hand, the 2017 labor reform revisions tend to be unwelcomed to the market, and Lula may avoid addressing these issues early in his term to avoid impacts to the honeymoon" period. Discussions on CBT may take a back seat, given that the support of Ciro and PDT was not considered decisive by Lula's campaign, prioritizing demands from more relevant allies to ensure governability.

SPENDING CEILING REFORM

Chances of approval: ●●●●○

The new Economy Minister, Fernando Haddad (PT), may propose an alternative to the current regime by a flexible, anti-cyclical model that changes the rule of binding expenses. The proposal should present compatibility criteria of fiscal sustainability with the expansion of social and infrastructure investments.

The new government may present the new mechanism in the first semester of 2023, and it may initially go through the House of Representatives and the Senate. The proceedings can be rushed by political agreement and due to the precedent of the War Budget Amendment Bill (PEC), which in 2020 had all the stages of analysis and voting directly on the floor.

Although one of the campaign's central points, government members assess that time is needed to mature the reform, which would prevent its approval still in the first months of the government. Besides, the new government must strengthen its coalition and present counterparts to the market. The challenges could lead the PT to a moderated vision

compared to its traditional position. Although the Congress elected in October has a more conservative profile, the political class traditionally presses for more space on spending to ensure political bonuses in their electoral districts. Immediately, to ensure campaign commitments as early as 2023, Lula should articulate with the current Congress the approval, by December, of a Constitutional Amendment Bill (PEC) to ease the current ceiling until December of next year.

TAX REFORM

Chances of approval: ●●●○○

After the runoff, Lula da Silva and his allies suggested the government would prioritize the discussions on PEC 110/2019, which awaits deliberation within the Senate Committee on Constitution and Justice Committee (CCJ). The proposal replaces 5 taxes - Tax on Industrialized Products (IPI), Social Integration Program (PIS), Contribution to Finance Social Security (COFINS), State Tax on Goods (ICMS) and Service Tax (ISS) - with a Dual Goods and Services Tax (IBS) and a Selective Tax.

However, by appointing economist Bernard Appy as special secretary for Tax Reform, Haddad signaled that the government might prioritize another proposal. Appy designed PEC 45/2019, pending in the House of Representatives, and aims to unify federal, state, and municipal taxes. The proposal replaces five taxes (PIS, Cofins, IPI, ICMS, and ISS) with a single one, the Tax on Goods and Services (IBS). Besides, the PEC 45/19 was a source of friction between Arthur Lira (Progressives/AL) and Rodrigo Maia (PSDB/RJ) during the race for the House Presidency. Shortly after assuming the presidency of the Board, Lira decided to send the proposal to the Plenary, claiming the extrapolation of the statutory deadline for the work of the Special Committee.

The strategy aimed to stop the processing of the proposal. Today the move could be positive for the government since it eliminates the need to negotiate the issue within the committees and places the discussion directly on the Floor. Besides, Rodrigo Maia may head the National Confederation of Financial Institutions (CNF) from 2023, which may favor the creation of a consensus in the financial sector.

Despite being at different stages of processing, the text of both proposals is very similar. Both PECs deal with a broad change in the National Tax System, focusing on consumption taxation. After discussions in the House and Senate, the final report of PEC

110/2019 differs from PEC 45/2019 only in creating a dual IBS, with a federal tax and another unified one for the states and municipalities. Since they are similar, economic sectors criticized both proposals for unifying tax treatment without considering the peculiarities of the impact of taxation in each one. In this sense, the agriculture sector, articulated to avoid the approval of PEC 110/2019 at the Senate, may again resist a text without differentiated sectorial treatment. Since it is a segment that largely supported Bolsonaro's campaign, the Lula Administration will have to credit part of its political capital to manage this resistance and ensure a consensus for the approval of the Tax Reform.

Haddad's interest in delivering a robust reform during his tenure at the Finance Ministry, coupled with market pressure, may create a favorable environment for the matter to advance. On the other hand, the need to prioritize the approval of a new fiscal mechanism in 2023 and the disagreements among the main stakeholders weigh against it. The PEC will need the support of at least 49 votes in the Senate and 308 in the House in two rounds of voting, a task that will not be simple for a government that still faces resistance from segments of the center.

TAXATION ON PROFITS AND DIVIDENDS

Chances of approval: ●●●●○

The proposal defines a 15% tax rate on profits and dividends for partners and shareholders of companies with revenues of up to BRL 4.8 million per year. The text also provides for a reduction in the rates of Corporate Income Tax (IRPJ) from 15% to 8% through the implementation of an additional 1.5% of the Financial Compensation for Exploitation of Mineral Resources (CFEM) levied on the extraction of iron, copper, bauxite, gold, manganese, kaolin, nickel, niobium and lithium. The text also considers reducing the Social Contribution on Net Profit (CSLL) from 9% to 8% in the general case. The reduction for financial institutions foreseen is from 20% to 19%; and other financial institutions, from 15% to 14%. The matter also corrects the Individual Income Tax (IPRF) exemption range by 31.3%.

Approved by the House of Representatives in 2021 through an agreement involving left-wing parties, the proposal is stalled in the Senate Economic Affairs Committee (CAE), in the phase amendments. Rapporteur Ângelo Coronel (PSD/BA) is an ally of Lula, which may facilitate the presentation of a favorable opinion to the government and its vote. The matter requires a simple majority for approval. If it is approved with amendments in the Senate, the bill will return to the House of Representatives for final deliberation.

Taxing profits was part of Lula's government program, but it is still unclear whether Lula will "use" the bill, already approved by the House, to fulfill his campaign promise. Using bill in process speeds up the legislative process since it avoids discussion "from the beginning". If the government chooses to proceed with the available matter, it will need to build a political agreement on the bill's content - since there is no expectation that the Senate will approve the text as Congress approved in 2021. The measure tends to be unpopular among investors, but the increase in the income tax exemption is an important nod to the middle class and may contribute to the popularity of the new government. In addition, the resources obtained from taxing profits and dividends could be used as a source of funding for the *Bolsa Família*.

ADMINISTRATIVE REFORM

Chances of approval: ●○○○○

During the campaign, Lula's interlocutors admitted the need to present a comprehensive Administrative proposal with an evaluation system for public servants; modernization of public competitions; qualification of civil servants; and changes in the career structure to increase the salary range between the bottom and the top of the hierarchy in the public sector. In addition, the PEC 32/2020, presented by the Bolsonaro government, is in process. The new proposal has not yet been presented and would need to go through debate in the House and Senate. Although cited by Lula as an inevitable theme, the approval of the administrative reform is not on the list of priorities and may be postponed. Historically, PT has an important part of its electoral base in the civil service. Moreover, it is important to consider that the categories have been asking for readjustments since Bolsonaro's government and this demand is not likely to be met, since there are no resources - nor political justification - to ensure higher percentages than the less than 5% recomposition foreseen in the Budget Law sent by Bolsonaro. The PT is working with

the formula of dividing the salary bonus over the four years of mandate, as adopted during Dilma Rousseff's administration, under the argument of budgetary and fiscal limitations. If this model is confirmed, the scenario will be of immediate dissatisfaction among the civil service, and promoting administrative reform in a hostile political environment would open a new line of conflict in the first year of government.

PETROBRAS' PRICE POLICY

Chances of approval: ●●●●○

During his campaign, in the context of rising fuel prices, Lula said he would change the pricing policy of Petrobras, and that he would aim to end the company's Import Parity Price (IPP). The change depends on a decision by the Administrative Council of Petrobras, most of which is appointed by the Brazilian President. Thus, once sworn, Lula should appoint the new members of the Council, including the President, who will have the majority to determine the company's pricing policy.

The change in Petrobras' pricing policy should be a priority for the Executive Branch in the first year of its mandate. Currently, the Federal Government has a majority in the company's Board of Directors, and there will be a new composition of the Board simultaneously with the designation of a new president for Petrobras, which should occur in the first weeks of the government. After the process of approving the new members in the Assembly, the new composition of the Board may begin negotiations regarding the change in Petrobras' pricing policy. The government interference in Petrobras' policies has some costs. The Brazilian Corporations and State-Owned Companies Liability Laws stipulate that if Petrobras is used as an instrument to make specific public policies feasible, the federal government must repay the company and its partners for any losses. It is worth noting that the law on state-owned enterprises imposes restrictions on the nomination of members of Congress in office, even if they are away from their legislative activities. This may lead the Council to be composed of mostly technical names, but there is no impediment for politicians without a current mandate, such as former senator Jean Paul Prates (PT/RN), to assume strategic positions in the state-owned company.

TRUCK DRIVERS' AID

Chances of approval: ●○○○○

Direct cash transfer actions for truckers were not part of the campaign promises and Lula even criticized the aid implemented by Bolsonaro during the electoral race. An eventual need to contain strike movements, such as the 2018 truckers' strike or Lula's post-victory roadblocks, may lead to negotiations with the category. However, this is not expected to occur via cash transfer programs. A factor that increases the importance of such measures is that a relevant part of the group may continue to support Jair Bolsonaro. This segment may be more resistant and pessimistic regarding the new government, possibly threatening to carry out strikes and further demonstrations. The impact is not expected to reach those seen in the 2018 strike, but this will depend on how the main leaderships will act, as well as on the economy and the achievement of key agendas of the category.

The fuel price increase and the freight tariff were the main triggers for the 2018 crisis. Regarding the last agenda, Lula has already announced that he might adopt a position that directly or indirectly influences the truckers' agenda: the end of Petrobras' price parity policy.

CARBON MARKET

Impact: ●●●●○

The carbon market implementation in Brazil went through modest advances in 2022, mainly after the publication of [Decree 11.075/2022](#), which establishes the procedures for the elaboration of Sectoral Plans for Climate Change Mitigation and institutes the National System for the Reduction of Greenhouse Gas Emissions. Lula did not address the issue of the new market as a priority during his campaign, but the new government should opt for the regulation of the carbon market in the coming years. The adoption of economic instruments for environmental regulation, such as the carbon market, despite not having been traditionally chosen by previous PT governments, is an international trend that can position Brazil as a sustainable country in the international arena. International pressure, especially from European peers, is also a factor that should influence the new market discussions in the medium term.

There is no great resistance within the Legislative Branch to pass Bill 2148/2015, but the Executive Branch may present a new text more aligned with the new government interests. Building an ideal text depends on the dialogue between the public and private sectors, and small differences regarding operational details of the carbon market need to be resolved. Efforts to review Brazil's environmental policy may create a better environment in Congress for deliberation to proceed.

Passing a bill, however, does not guarantee the immediate implementation of a carbon market in Brazil. According to current perspectives, the operationalization of the market may take up to two years, and several definitions will need to be made during this period, such as establishing a limit for emissions of certain greenhouse gases and the appropriate pricing and distribution of marketable permits. Thus, even if the agenda advances in 2022, the effective implementation of a regulated carbon market in the country will depend on the continued commitment of the new government and the Legislative Branch for a few years. Internationally, COP27 should bring international updates for the construction of a global carbon market, even if it is still tentative. The consequences of the November 2022 meeting will still be analyzed by the next government.

CONCESSIONS AND PUBLIC-PRIVATE PARTNERSHIPS

Chances of approval: ●●●○○

Bill 7063/2017 reformulates the Legal Framework for Concessions and Public-Private Partnerships (PPPs), creates new concession contracts, among them the simplified concession for low-value projects with accelerated contracting procedures and joint service concessions, expands arbitration to settle disputes, and regulates the execution of contracts.

The alternate text is ready for a vote on the House floor. Although it has already passed through the Senate, if approved by the representatives, the amendments must be approved by the senators before the presidential enactment. Throughout the campaign, Lula announced his intention to promote two infrastructure programs - an emergency one for 2023 with actions in highways and railroads, and an increase in the exemption

range for the poorest in the *Casa Verde Amarela* Program until the *Minha Casa Minha Vida* program is recreated - and a more structured program until the end of the government, which includes concessions and public-private partnerships. However, the legislative agenda of the president-elect is under negotiation by the transition team. If President Lula decides to embrace the modernization of the concessions framework, he can use bill 7063/2017 as an instrument to accelerate the progress of the issue in Congress. It is worth noting that the bill has been on the list of priorities of the Bolsonaro government for four years, without real progress, and when negotiating the approval of the substitute by the special commission, PT members agreed to the voting agreement.

INFRASTRUCTURE DEBENTURES

Chances of approval: ●●●○○

Bill 2646/2020 defines the rules for issuing infrastructure debentures by special purpose companies, concessionaires, permissionaires, authorizers or lessees, constituted as joint stock companies. It also establishes rules for the operation of Investment Funds in Infrastructure Participation (FIP-IE), Investment Funds in Participation in Economic Production Intensive in Research, Development and Innovation (FIP-PD&I) and Incentivized Infrastructure Investment Funds (FI-Infra).

Currently, the proposal is on the Senate Floor. Senator Wellington Fagundes (PL/MT), who is reporting the matter, was not reelected, thus requiring the appointment of a new rapporteur in 2023. If approved by the Senate without amendments, the matter would follow for presidential sanction. On the other hand, if modified by the senators, it would return to the House of Representatives for final consideration. The bill was also among the Bolsonaro government's priorities, which may result in political resistance from PT in using the text already approved by the representatives, but the improvement of the debenture mechanism for infrastructure is convergent with PT's ideas for the infrastructure area.

NEW PRIVATIZATIONS

Chances of approval: ●○○○○

PT is historically against privatization, so Lula's government plan mentioned the recomposition of the State's role as an agent and coordinator of state enterprises and explicitly stated its opposition to the privatization of Petrobras. Thus, the president-elect does not intend to privatize any state-owned company but also says that he will not revert any concluded process. This applies to Eletrobras, which had its privatization approved in Congress during the Bolsonaro government and was validated in 2022 by the Federal Accounting Court (TCU). In addition, there is bill 591/2021, which allows the authorization for the private sector to operate all postal services and is currently in the Senate Economic Affairs Committee (CAE).

The privatization of Eletrobras has already been finalized. The Brazilian Post Office, under bill 591/2021, was approved by the House of Representatives in August 2021 and sent to the Federal Senate. However, since then, the bill has been stuck in the Economic Affairs Committee (CAE) it is unlikely to advance. It is worth noting that the bill is being resisted in the Senate, especially by senators from states with remote municipalities and communities. There is a fear that the privatization of the service will reduce the delivery range for more distant locations. The Bolsonaro government even negotiated a vote on the bill in the CAE last year, but without success. The negotiation lost momentum in 2022, especially because it is an election year. The Executive also preferred to set the bill aside to avoid a defeat in Congress. In this context, the bill is unlikely to advance during the PT administration.

EXCHANGE RATE POLICY

Chances of approval: ●●●●●

Approved and published in the Official Gazette on December 30, 2021, the New Foreign Exchange Law (Law 14,286/2021) will come into effect on December 31, 2022. The text, which sanctioned the new foreign exchange legal framework and consolidated the legal provisions already issued on the subject, aimed at reducing bureaucracy and encouraging Brazilian companies to be more inserted in the international market. Among

the changes, the highlight is the increased declared value for international trips and the elimination of restrictions on exporters for the free use of their resources. The Central Bank published, in October 2022, a draft resolution to regulate the new legal framework. The text, which underwent a Public Consultation between May and July 2022, regulated aspects related to the foreign exchange market and to the inflow and outflow of national and foreign currency values from the country. The measure will come into force with the legal framework. After the law comes into force, the Central Bank is still to publish other Public Consultations for the regulation of other provisions foreseen in the sanctioned text, as well as norms to regulate themes that have already been the target of Consultation. Among the topics are the use of foreign capital in the country the operations of foreign direct investment and foreign credit, and the use of foreign capital as an investment in the financial and capital markets and Brazilian capital abroad.

Since it is already approved and published, the Executive may not interfere in a possible revocation or amendment of the law, nor regarding the other proposals that will be presented to regulate the normative. Even with the devaluation of the real, the government is not expected to change the floating exchange rate regime, given that it is one of the macroeconomic pillars that brings stability and credibility to the country, and a possible artificial appreciation of the Brazilian currency against the dollar would be harmful to agribusiness exports, the main engine of the country's trade balance. In addition, Lula's economic team will seek to present favorable signals to the markets, reducing uncertainty about his economic management, thus tending to maintain the floating exchange rate.

CONSTITUTIONAL AMENDMENT ON REGULATORY AGENCIES

Chances of approval: ●○○○○

The proposal would bring the forecast the normative activity, even in regulated sectors, will be exercised through Councils linked to the Ministries and Secretariats that will act in the functions of regulation, de-legalization, and the issuing of infra-legal normative

acts. The administrative litigation will be exercised by an independent administrative adjudicating body which will guarantee the double degree and the right to full defense and adversary proceedings. Creation of a Council, linked to the Ministries and regulatory agencies, to deliberate on normative activities.

The current government did not submit a similar proposal. Still, the PEC is one of the priorities of the Parliamentary Front for Entrepreneurship. The proposal still faces strong resistance from the market and productive sector since there is the belief that the PEC undermines the autonomy of regulatory agencies and increases legal uncertainty for investors in regulated areas. Moreover, its approval is not on the president-elect's agenda. Since it is a constitutional amendment, which requires a significant majority of votes (3/5 of both houses), without government support and with resistance from the affected sectors, the PEC will face problems to be enactment. With the advance of new themes in Congress and the challenges of the president-elect, the PEC on Agencies may not find the required space in the political debate for its discussion.