

BRAZIL SCENARIO

September 05th 2022

Politics



Budget for 2023

On August 31st, the Federal Government presented the proposal for the 2023 budget. The text addresses topics such as the minimum wage, the readjustment in civil servants' pay, and the correction of the Income Tax table. The Brazil Aid of R\$ 600 was not covered by the project. Thus, unless extended, the aid must return to the amount of R\$ 400 at the beginning of 2023.



Energy

The Senate Infrastructure Committee approved Bill 576/2021, which establishes a regulatory framework for the exploitation of wind, solar or tidal energy on high seas. The project was sent to the Chamber of Deputies to be discussed. The deputies also approved the Provisional Measure 1118/2022, which exempts taxes on the import of oil and natural gas derivatives until December 31st. In addition, subsidies for renewable energy were extended. The proposal went to the Senate for appreciation.



Latin America

Brazil's foreign relations with Chile suffered a setback after President Bolsonaro's speech about Gabriel Boric, the Chilean president. In the first presidential debate, Bolsonaro accused him of burning subways in protests. Chile summoned the Brazilian ambassador in Santiago, Paulo Roberto Soares Pacheco, to comment the claims. The Chilean Minister of Foreign Affairs, Antonia Urrejola, stated that they were serious and false accusations.



Healthcare coverage

The House and Senate approved Bill 2033/2022, which overturns the so-called "exhaustive list" for health insurance coverage. According to the text, health plans may be required to finance health treatments that are not on the list maintained by the National Supplementary Health Agency (ANS). The project went to presidential sanction.



Investigation on businessmen

After a news story published messages exchanged in a group of businessmen who considered a coup d'état if former President Lula won the elections, Supreme Court Justice Alexandre de Moraes authorized a search and seizure operation against eight of them. The action takes place within the scope of the investigation of digital militias - an operation by the Federal Police that investigates the organization and financing of antidemocratic acts. Business leaders spoke out against the Justice's decision and released a note supporting free speech.



2022 Elections

The electoral campaign officially started on August 16th. Lula, Ciro and Tebet started the campaign with acts in São Paulo. Bolsonaro started the campaign in Juiz de Fora (MG). The four candidates also participated in live TV interviews and in the first presidential debate of 2022. According to the latest Datafolha poll, carried out between 08/30 and 09/01, Lula leads the electoral race with 45% of the voting intentions in the 1st round, while Bolsonaro has 32%. Ciro and Tebet hold 9% and 5% of voting intentions, respectively. On a second round, Lula dropped to 54%, while Bolsonaro rose to 37% of voting intentions.

Interest rates and inflation

The Central Bank reduced the inflation expectation for 2022. According to the Focus Report, published on August 29th, the projection for the year went from 6.82% to 6.70%. The estimates for the basic interest rate (Selic) remained at the same level, 13.75% per year, which was considered by most of the market as a clear sign that the high interest rate cycle that the Monetary Policy Committee (Copom) had previously considered will end.

Exchange rate

Fluctuations in the Brazilian currency exchange rate are expected to intensify in the coming weeks. Even with the maintenance of high interest rates, which contributes to the performance of the Brazilian currency, the proximity of the elections and the uncertainties associated with the country's fiscal situation seem to signal a difficult scenario ahead. The US central bank (FED) also admits the possibility of continuing to raise interest rates in the country – which makes the dollar even stronger, increasing pressure on other currencies.

Labor market

The unemployment rate dropped to 9.1%, but it still reaches 9.9 million people, according to data from the Brazilian Institute of Geography and Statistics (IBGE). It is the lowest level of unemployment since January 2016. The plunge, however, is due to increases in informality, which is at a record level of 39.3 million workers in the country without a formal contract or employers without a registration number.

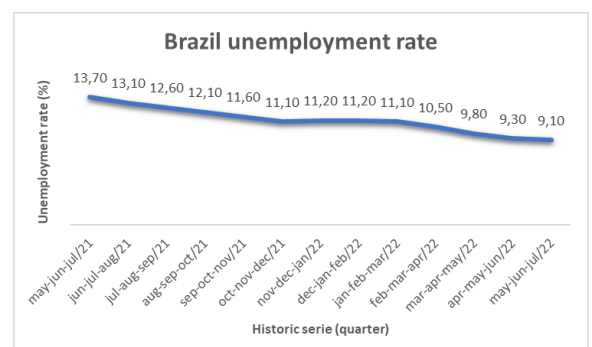
Taxes on Industrialized Products

The Government published a new decree guaranteeing a 35% reduction in the Tax on Industrialized Products (IPI) for a series of products manufactured in Brazil, except by those produced in the Manaus Free Trade Zone, which are exempt from the tax. The measure had been objected by the Supreme Court on the grounds that it would harm the competitiveness of companies located in the region. The Minister of Economy, Paulo Guedes, classified the measure as a 'good start', but continues to defend the reduction of the rate to zero.

GDP and Latin America

The share of Brazilian GDP registered a drop in its importance for the composition of the region's GDP. Brazil currently represents 31.8% of the total produced by Latin American countries. In the period from 2010 to 2019, however, this number reached 38%, while it rose to 44.1% in 2011 alone.

According to the Focus bulletin, there was an increase in the expected growth of Brazilian GDP for 2022, from 2.02% to 2.10%. For 2023, there was a reduction in the growth expectation to 0.37%, a value still higher than the 2.5% estimated by the government.



Privatizations

The Minister of Economy admitted frustration for not being able to move forward with the privatization agenda over the last 4 years. Out of the large state-owned companies, only Eletrobras and subsidiaries of Petrobras were privatized. However, the privatization of 3 harbors is planned by the end of the year.

Sanitation

Two years after the approval of the new sanitation legal framework, 57 Public-Private Partnerships and concessions involving water, sewage and solid waste are expected to be signed by the end of 2022, allowing expansion of coverage. The challenge is to universalize these services, as the national average for sewage treatment is still 51%. Government estimates indicate that the new sanitation framework should inject up to R\$ 700 billion in the sector over the next 10 years.

Highways

Experts say that the number of government highway concessions for the private sector is expected to double in the next 5 years. More than 26,000 km have already been granted in the last 26 years, with investments of around R\$ 230 billion. The Ministry of Infrastructure expects to auction in 2022 3 highways (one in Minas Gerais and two in Paraná), attracting R\$ 60 billion in private investments.

Airports

On August 18th, the 7th round of airport auctions took place, which was marked by the presence of the same groups that took part in previous auctions, as political uncertainties arising from the election year reduced the prospect of new groups in the Brazilian market. Aena, which already manages airports in the Northeast of Brazil, obtained the concession for Congonhas Airport (São Paulo). XP Investments took the airports of Jacarepaguá (Rio de Janeiro) and Campo de Marte (São Paulo). CCR, the government's main bet for the round, withdrew days before the auction. After this round, Brazil reached 91.6% of passengers served at private airports.

Candidates and infrastructure

At an event promoted by the Infrastructure sector, the presidential candidates and their representatives praised the concessions. Felipe D'Avila defended privatization; Simone Tebet defended that investments should not be under the expenditure ceilings; Ciro Gomes spoke about the urgency of fiscal reform; and Lula's campaign pointed to the need to advance in Public-Private Partnerships. The Brazilian Association of Infrastructure and Basic Industries (Abdib) delivered proposals for everyone, while demanding expansion of public spending in the sector.

Highlights



The inauguration of Alexandre de Moraes as head of the Superior Electoral Court and an investigation against businessmen who support Bolsonaro led to a spike in Google searches for the Court.



Candidates' participation in debates and interviews on live TV stirred interest and boost their social media, with Tik Tok gaining prominence in the campaign.



The Supreme Electoral Court has determined that social media platforms remove posts with lies about candidates or about electronic voting machines, but has not yet been able to establish clear parameters for this removal.