

BRAZIL SCENARIO

December 22, 2022

Politics



National Congress this month

The House of Representatives approved in two rounds the Constitutional Amendment that seeks to enable the payment of the nursing salary minimum cap. Suspended by the Federal Supreme Court (STF) in September, the Court made implementation of the cap conditional upon the indication of funding sources. The approval may cause worry because it sets a precedent for other categories of workers to claim similar legislation. The decision must still be voted on in the Senate.

Also approved in Congress this month was the amendment to the Law of State-Owned Companies. The bill reduces the political quarantine – the time required for nominees to hold positions in public companies without engaging in political campaigning or participating in party decision-making structures – from three years to 30 days. Such a measure is considered a step backwards in the good governance practices adopted with the enactment of the law in 2016. This proposal also still needs to be voted on in the Federal Senate.

The Transition Government Constitutional Amendment, on the other hand, approved in two rounds in the Senate, does not seem to be aligned with the House agreements. Sensitive points such as the ministerial composition of the new government and the vote on the Secret Budget by the STF were reasons to hit the brakes on its progress. Without the approval of this Proposal of Amendment to the Constitution (PEC), there is a risk that several areas such as Health and Education will come to a standstill in 2023, given the insufficient budget presented by the current government.

Before the end of the year, the 2023 Annual Budget Law needs to be analyzed by Congress, and congressional representatives will discuss who will be the president of each House.



STF decides on basic income

Minister of the STF, Gilmar Mendes, determined that the resources destined to pay benefits to guarantee minimum income social benefits to Brazilians must be guaranteed – in other words, he declared that they are outside the spending cap. Therefore, to maintain the R\$600 social aid there might be additional funding that is not counted in the spending cap. This decision affects the negotiation of the so-called Transition PEC, which had as one of its objectives to increase the spending ceiling so that it would fit the expense with the aid promised during Lula's campaign.



Secret Budget

In a 6-5 vote on Monday, December 19, the STF deemed unconstitutional the so-called Secret Budget. In practice, this mechanism, present in the budget since 2020, will not be able to operate in 2023.

With this, the scenario of uncertainties grows, while the current president of the House, Arthur Lira (PP-AL) targeted this instrument as a way to gain support for possible reelection in the next legislature. This support has even been the keynote of the negotiations of the National Congress with the Transition Cabinet, especially with regard to the approval of the Transition PEC (Proposal of Amendment to the Constitution)



President of the House of Representatives Arthur Lira and president-elect Lula greet each other

Source: Cristiano Mariz/O Globo

BRAZIL SCENARIO

December 22, 2022

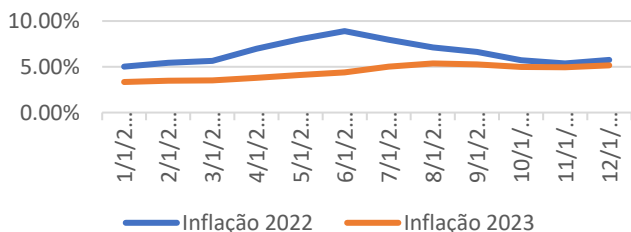
Economy



Inflation, foreign currency and interest rates

Market expectations, according to the new Focus Report released by the Central Bank, point to a reduction in the inflation estimate for 2022, from 5.92% to 5.79%, but still above the target limit established for this year of up to 5%. For 2023, the inflation estimate increased from 5.08% to 5.17%. If this expectation is confirmed, it will be the third year in a row that the target will be exceeded.

Inflation (Expectation for IPCA)



Source: Focus Report: Graph by: Edelman Global Advisory

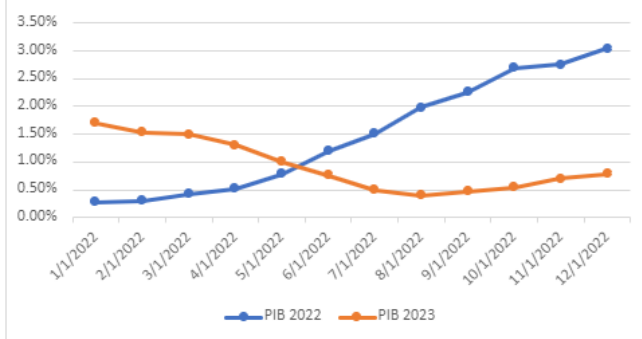
Besides inflation, the forecast is for a slight increase in the exchange rate for 2023. The expected price went from R\$5.25 to R\$5.26. In recent weeks, the exchange rate has already been feeling the effects of the political situation and the uncertainties around the country's budget in the next government, which has left investors on alert.

The concern with the country's public accounts and the impact on inflation was also the theme of the last meeting of the Central Bank Monetary Policy Committee, in which it decided to maintain the basic Brazilian interest rate at 13.75% per year, the highest level in six years. According to the Committee, the increase in fiscal stimulus at this moment tends to override the desired impact on economic activity and put further pressure on prices.



GDP and unemployment

GDP - Perspectives



Fonte: Focus Report: Graph by: Edelman Global Advisory

According to the Focus Report, the Brazilian GDP should end 2022 with a growth of 3.05%. For 2023, the forecast increased from 0.75% to 0.79%.

The unemployment rate in the country fell to 8.3% in the quarter ended in October, according to data from the Brazilian Institute of Geography and Statistics (IBGE). The figure represents 9 million unemployed Brazilians – the lowest level recorded since July 2015. Nevertheless, this job growth movement should lose strength in 2023 due to the effects of high interest rates, which tend to slow investments and the opening of new jobs.



Fiscal Responsibility

President-elect Lula has stated that it is not possible to think of fiscal responsibility without social responsibility and that it is important to have an inflation target, but also a growth target. Linked to the discussions that allow extra spending in the budget, an increase in expenses is expected in the coming years. Lula will also face a scenario of fiscal deficit in the states that have suffered from the fall in revenue resulting from the cut in ICMS (Tax on Operations related to the Circulation of Goods) collection, and there may be no financial margin for compensation.

BRAZIL SCENARIO

December 22, 2022

Special – Government Transition

Transition Government

The government transition team had 940 people and was divided into more than 30 thematic groups. The final reports of the groups, consolidating all the work done, were delivered on December 11, one day before Lula's graduation by the Superior Electoral Court (TSE). The documents were sent to the general coordination of the transition, to the vice-president, Geraldo Alckmin, and to the technical staff. The reports contain points of attention, an organizational chart, budget and indications of structuring and priority activities for the first 100 days of government. They also indicate the revocation of several measures from the previous government, though the specific measures have not yet been disclosed. The consolidated document of the transition is to be delivered on December 21.

Composition of the New Government

The latest information from the president-elect's team indicates that the new government should consist of 37 ministries. The final organization chart of the government structure has not yet been released, but among the confirmed information is the dismemberment of the Ministry of Economy into four portfolios (Finance, Planning, Management and Development, and Industry and Commerce), the recreation of the Ministries of Culture, Fishing, Sports, Women, and Racial Equality, as well as the formation of a new Ministry of Original Peoples, a campaign promise made by Lula. The Ministry of Infrastructure is to be divided in two: the Ministry of Transportation, which will be responsible for railroads and highways, and another responsible for ports and airports.

Some well-known names are returning to the federal government. The highlight is Fernando Haddad (PT), former Minister of Education and former mayor of São Paulo, who will lead the Ministry of Finance.

Haddad also announced Gabriel Galípolo, a former banker, as his Executive Secretary, and Bernard Appy, a tax specialist, to take on the new position of Special Secretary for Tax Reform, one of the priority agendas.

Luiz Marinho (PT) returns to the Labor Ministry, a position he held between 2005 and 2007, still under Lula's administration. Another returning to the Esplanade is José Múcio Monteiro, who was Lula's Secretary of Institutional Relations during his second mandate and will now be Defense Minister. Diplomat Mauro Vieira will again be Minister of Foreign Affairs, a portfolio he previously held during Dilma Rousseff's terms.

Among the new occupants of the Esplanade, Flávio Dino, senator elected by the PSB and former governor of Maranhão, has already been confirmed as future Minister of Justice. Margareth Menezes, singer and activist, will be Minister of Culture.

Other well-known PT politicians have also been announced for relevant positions, such as Rui Costa (PT), who will take on the Civil House, and Aloízio Mercadante, who will hold the Presidency of the National Bank for Economic and Social Development (BNDES).

Among the names not yet confirmed, Camilo Santana (PT), former governor of Ceará, is expected to lead the Ministry of Education. Nísia Trindade, infectious disease specialist and president of Fiocruz, is listed for the Ministry of Health.

The main doubts hover over the future of strong names that were part of Lula's campaign, but that so far have not appeared on the list of new ministers. Simone Tebet (MDB), third place in the presidential race, who has been fighting with the PT for the Ministry of Social Development, may appear in the Environment Ministry. Marina Silva (REDE) has also not been confirmed and there is a possibility that she will not be part of the government.