

BRAZIL, 2023 - 2024



2024

FROM THE INAUGURATION OF PRESIDENT LUIZ INÁCIO LULA DA SILVA AND ANTIDEMOCRATIC DEMONSTRATIONS IN JANUARY TO THE LONG-AWAITED APPROVAL OF THE FISCAL REFORM IN DECEMBER, 2023 UNVEILED NUMEROUS EVENTS AND DYNAMICS THAT RESHAPE THE POLITICAL LANDSCAPE, REDIRECT THE ECONOMY, AND HIGHLIGHT SOCIAL AND ENVIRONMENTAL CHALLENGES IN THE COUNTRY.

WHERE TO LOOK IN 2024?

The Brazilian political landscape in 2024 will be strongly marked by the election campaign of parties and leaders for elections for mayors and city councilors across the country.

Traditionally, local elections, unlike the more significant ones that elect the president, governors, and Congress, will play a significant role this year in a fierce clash between government forces and a well-articulated opposition. It is not an exaggeration to say that the mayoral campaign will be a strong indication of the electorate's mood and trends for the 2026 elections.

In addition, it will be essential to monitor the relationship between Brazil and Argentina, whose presidents are on opposite ends of the political spectrum and have publicly criticized each other. Regardless of the political issues, the neighboring country is Brazil's third-largest trading partner. Brazil is the largest exporter to Argentina and the second-largest importer of its products, second only to China.



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In 2024, it will also be essential to follow Brazil's term in the presidency of G-20, a group that brings together the world's largest economies, a leadership that extends until November of the following year. Brasília will undoubtedly want to use this period to give the country even more prominence on global issues, including geopolitical matters.

Finally, a note on the EU-Mercosur (Brazil, Argentina, Paraguay, Uruguay) trade agreement, long negotiated on both sides of the Atlantic. The agreement seemed close to being finalized throughout the year but is now on hold due to the arrival of Javier Milei as president of Argentina and refractory positions from France, allegedly due to environmental issues.

Unlike his predecessor Alberto Fernandez, Milei does not consider the agreement with the Europeans a relevant agenda. But it would be premature to say negotiations are dead, as the newly inaugurated president already signals a relaxation of the ultra-liberal economic discourse that marked his campaign to the Casa Rosada (official Presidential residence and Presidential office).



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2024 also marks the starting shot for an important commitment for Brazil: the preparation for COP30, to be held in Belém in 2025, requiring a huge effort from the federal government and the government of Pará state to prepare the infrastructure for such a large-scale event (which will demand significant logistical efforts and improvements in infrastructure). After all, COP28 just held in Dubai attracted over 70,000 people, including official delegations from countries, company executives, NGOs, experts, and journalists from around the world.

From an internal perspective, inflation is expected to remain stable in Brazil, along with the unemployment rate (currently at 7.8%). The forecast inflation for 2023 is 4.5%, and the market predicts a slowdown to 4% in 2024. These numbers indicate that, despite economic challenges and global uncertainties, Brazil may be heading towards a more robust and lasting economic recovery.

The projections of the Central Bank for the Brazilian economy are moderately optimistic, with an expected GDP growth of 2.92% for the year.

Despite the still high level of consumer indebtedness in Brazil (76.6%), government programs like "Desenrola" (an initiative aimed at renegotiating overdue debts of millions of financially struggling families) and the improvement in the formal job market have contributed to reducing the number of delinquent debtors, which was 2.3% higher in 2022.

The tax reform approved by the National Congress, now entering the regulatory phase, is almost unanimously seen as a positive variable in society. Despite a significant number of amendments and exceptions added to the original project, it should help unlock investment and consumption, create a better business environment, and limit the increase in the cost of living, benefiting lower-income populations.

Furthermore, the reform will serve as a stimulus for longer-term projects and initiatives.



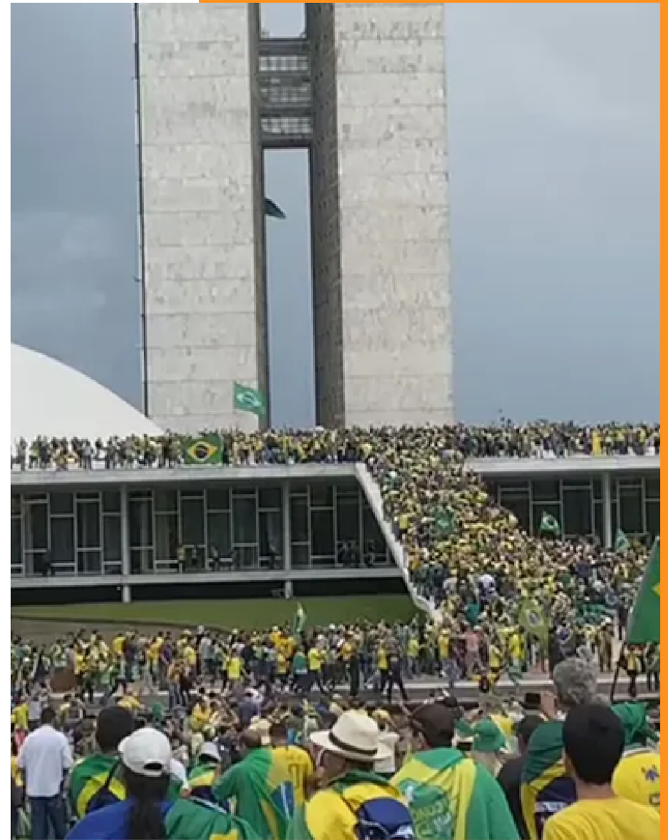
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POLITICS AND POLARIZATION

President Luiz Inácio Lula da Silva took office on January 1 for his third term, and just one week later, he faced his first crisis: the invasion of the Palácio do Planalto and the headquarters of the National Congress and the Supreme Federal Court by protesters who did not accept the result of the October 2022 elections.

2,151 of the invaders were arrested, the vast majority released in the following months but still subject to sentences that can reach up to 17 years of detention. According to Supreme Federal Court Justice Alexandre de Moraes, the sentences can be so high because the invaders committed "very serious crimes," not only the destruction of public property but also for the anti-democratic intentions that aimed to overthrow the elected government.

Federal government, Judicial power and National Congress came together in repudiation of the attack, reaffirmed democratic principles, and the country moved forward.



Afonso Ferreira/TV Globo

ECONOMY AND GOVERNABILITY

Shortly thereafter, President Lula entered into a dispute with the Central Bank, advocating for a reduction in interest rates, and the government as a whole mobilized to end the public spending ceiling imposed during Michel Temer's administration to ensure fiscal balance. The government negotiated and, in the National Congress, successfully ended the spending ceiling and introduced another mechanism, the so-called new fiscal framework, which emerged with the promise from Finance Minister Fernando Haddad to eliminate the fiscal deficit by 2024.

However, as nothing is as straightforward as it seems, the framework is also criticized by some members of the government party, the PT, for foreseeing restrictions on public spending beyond a certain limit.



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Unlike his two previous terms when he maintained a comfortable majority in both houses of Congress, President Lula has now made the effort of governability a permanent task, seeking votes in the Lower House and the Senate to pass his main agendas, not only economic but also those related to social, environmental, and land issues.

The government has been realistic: it knows that negotiating with Congress presupposes goodwill in releasing funds for parliamentary amendments, allowing deputies and senators to allocate money to projects in their electoral bases. Just to give an idea, by November, the government had released over 20 billion reais (US\$ 4 billion) to congress members, 15% more than the total of parliamentary amendments throughout last year.

But even that has not been enough to secure victories for the government: in early December, Palácio do Planalto suffered two setbacks—the overturning of presidential vetoes regarding the temporal landmark of indigenous peoples and the issue of tax exemptions.

The first concerns the rights of indigenous peoples regarding the scope of their territories. The government supported the idea that the so-called native peoples would have the right to much larger spaces, while the opposition, with the decisive support of the ruralist caucus, argued that indigenous people should only have rights to the lands they occupied when the Constitution was drafted in 1988, regardless of whether they may have abandoned areas they occupied after conflicts over possession and threats of violence.

As for tax exemptions, it directly concerns 17 sectors of the economy considered major employers. They intended (and succeeded) in extending a benefit that would expire this December, allowing them to pay lower taxes on their payroll. A concentrated effort in the National Congress allowed the overturning of the presidential veto and the extension of the fiscal benefit for another four years.



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INTEREST AND GDP

When the Brazilian government took office on January 1, official interest rates stood at 13.75%, a level set by the Central Bank in the previous administration of Jair Bolsonaro in August 2022, under the argument that it was necessary to curb inflation.

Lula quickly criticized interest rates for several months until the rate began to be gradually reduced, starting in August, reaching 12.25% in the last month of the year.

3.2% and 2.4%. These are market projections for the growth of the Brazilian Gross Domestic Product (GDP) in 2023 and 2024. The percentage for this year has been revised upward over the months due to positive signals in the economic scenario, especially the excellent results of agribusiness and its record exports. In light of this, the International Monetary Fund (IMF) projected that Brazil is expected to become the ninth-largest economy in the world still in 2023, with an estimated GDP of \$2.13 trillion in 2023, surpassing Canada. The IMF also improved the GDP projection for Brazil in 2024.

Another strength that puts Brazil in a privileged position compared to emerging peers is its international reserves, which amount to approximately \$342.5 billion, providing the country with security in times of turbulence in the international market.



ENVIRONMENT AND DIPLOMACY

On the environmental front, 2023 marked Brazil's return to major international discussions, with Minister Marina Silva being a factor of credibility.

In the first semester, the Amazon Fund was reactivated, which relies on international resources to help combat environmental crimes and deforestation. Norway and Germany, two of the main donors to the fund, had suspended contributions in the previous administration due to disagreements over the fund's management. As a result, Lula government could access R\$ 3 billion reais (US\$ 600 million) to resume previously planned environmental initiatives.

Another significant development was Brazil sending the largest delegation (1,337 people) to COP28 held in Dubai, representing a kind of resurgence in the environmental field.

2024 also marked the return of Brazil's diplomatic prominence, known and recognized for its traditional discreet and efficient style, a hallmark of the Ministry of Foreign Affairs (Itamaraty). In this context, Brazil assumed the presidency of the G20 in December and participated in the G7 summit for the first time in 14 years.

