



# BRAZIL

OCTOBER 2023

COUNTRY REPORT

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To learn more, visit us online at [prsgroup.com](https://prsgroup.com) or contact us at:

**TELEPHONE**  
+1 (315) 431-0511

**ADDRESS**  
290 Elwood Davis Rd, Ste 290, Unit 3  
Liverpool, NY 13088-2133 USA

**EMAIL**  
[custserv@prsgroup.com](mailto:custserv@prsgroup.com)

# BRAZIL

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# MAP



## KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	Divided Government 50%
FIVE-YEAR	Divided Government 60% (55%)

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	FINANCIAL TRANSFER	DIRECT INVESTMENT	EXPORT MARKET
18-MONTH	High	C	B	B-
FIVE-YEAR	Moderate	C	B- (B)	C (C+)

( ) Indicates change in rating

\* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	INFLATION (%)	CURRENT ACCOUNT (\$bn)
2018-2022(AVG)	1.5	5.6	-50.20
2023(F)	3.1	4.7	-41.10
2024-2028(F)	1.8	3.5	-55.80

### UNRELIABLE MAJORITY

Ten months into his four-year term, President Luiz Inácio “Lula” da Silva remains broadly popular, but his approval rating has slipped since August, reflecting weakening confidence in the health of the economy. Lula’s popularity is crucial to his ability to implement a policy program that aims to strike a balance between addressing the priorities of his progressive base and maintaining the fiscal discipline required to retain the confidence of investors whose capital is essential to realizing the government’s social objectives. Although the administration has secured some important legislative victories so far, Lula’s agenda has also encountered some congressional roadblocks, and the obstacles will become harder to scale if the president’s approval rating continues to drop.

The economy is not the only potential source of vulnerability for the president. The eruption of open warfare between rival gangs in the streets of Rio de Janeiro has thrown a spotlight on crime that will provide fodder for opponents of Lula’s efforts to tighten controls on gun ownership, which were loosened significantly under his far-right predecessor, Jair Bolsonaro. Moreover, the cloud of scandal continues to hang over the president, despite the overturning of his conviction on corruption charges. Anything less than a zero-tolerance approach to instances of corruption—which are all but inevitable for any Brazilian administration—would risk lasting damage for the PT-led administration.

The markets have signaled satisfaction with a revised fiscal framework that received final congressional approval in August, but critics have noted with concern the dependence on increased revenues to ensure that targets are achieved. The government is counting on a combination of economic growth and improved tax compliance to generate the required rise in income.

A key component of the strategy is a reform that replaces five federal, state, and municipal taxes into a single VAT that will be applied at both the national and subnational levels. In contrast to the fiscal framework legislation, the tax reform entails changes to the constitution that required the backing of a three-fifths majority in the Congress. The legislation easily surpassed the 308-vote threshold in the lower house, but it is currently before the Senate, where regional interests are more likely to come into play, creating hurdles that require tweaks, the substance of which could significantly affect the fiscal impact of the reform. Separate legislation setting out changes to the tax rules for offshore holdings of Brazilians is likewise in the hands of the Senate, where, as with the VAT legislation, it is likely to be amended.

The central bank's Monetary Policy Committee has implemented two cuts of 50 basis points each since August, reducing the SELIC to a still high 12.75%. Central Bank Gov. Roberto Campos Neto has indicated that monetary authorities are prepared to make additional cuts (the next one is expected on November 1), despite the recent rise in the headline inflation rate, but noted that the government will need to do its part by sticking to the fiscal targets.

Brazil's economy recorded year-on-year real growth averaging 3.7% over the first two quarters of 2023, in part due to favorable weather conditions that produced record soybean and corn harvests. However, clouds have begun to appear, as the adverse effects of the El Niño weather phenomenon are already becoming apparent and monthly indicators reveal pessimism in the manufacturing sector.

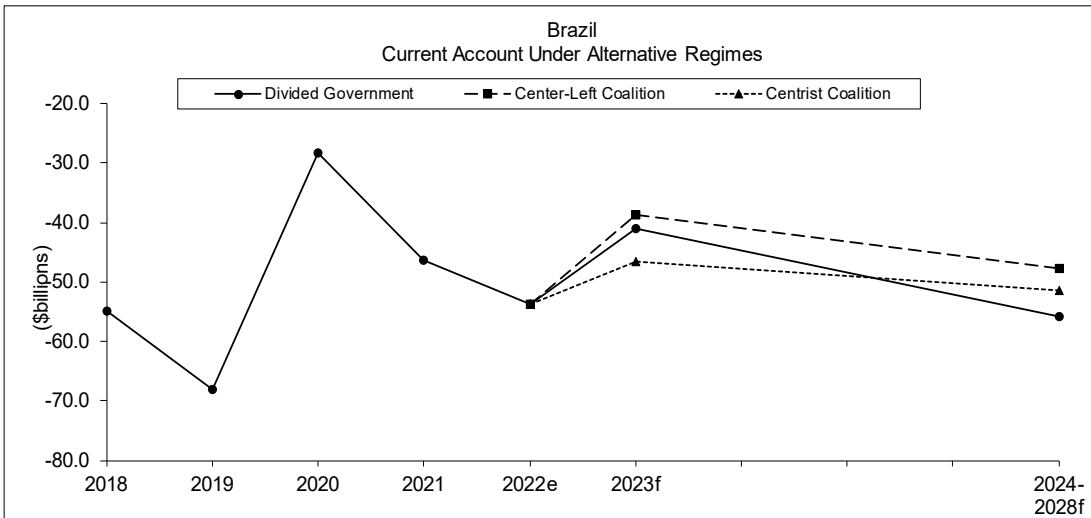
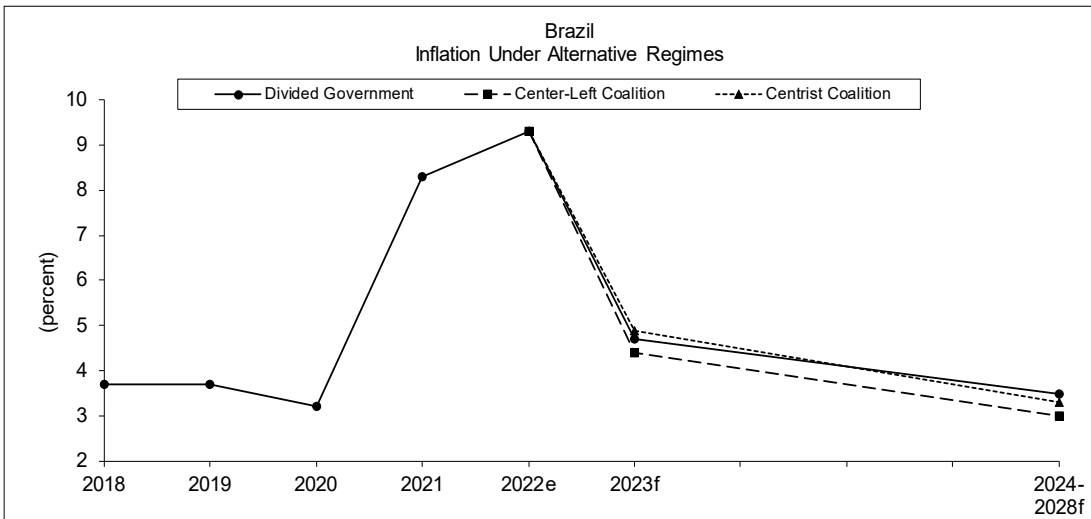
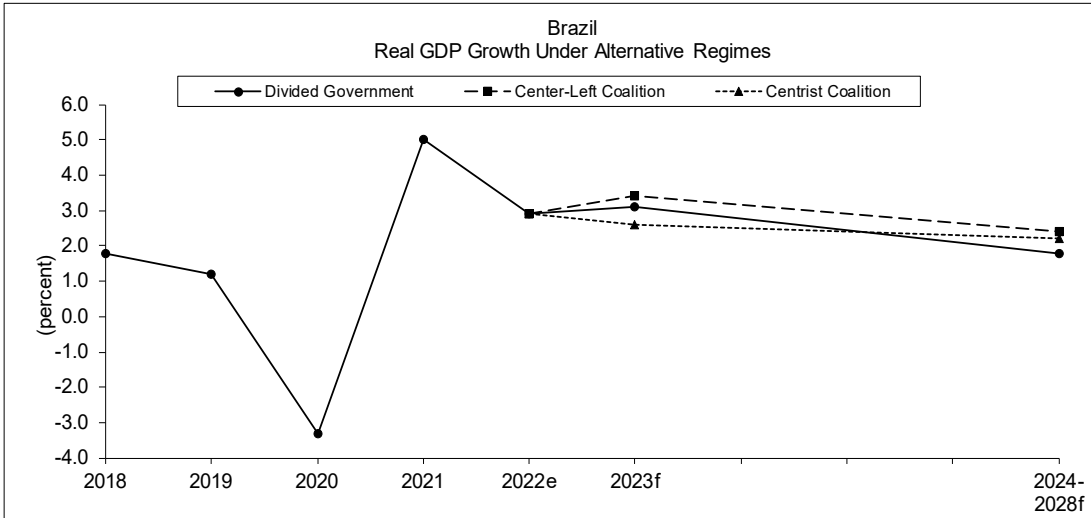
With interest rates still in double digits, the stimulus from monetary loosening will be limited in the immediate near term, while higher inflation is likely to have a dampening effect on household spending in the final months of 2023. Slower growth in the second half of the year will hold the annual average to 3.1%, and the weaker performance for the agricultural sector in 2024 points to a deceleration to no more than 2% next year.

ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES									
	Divided Government			Center-Left Coalition			Centrist Coalition		
	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)
2023	3.1	4.7	-41.10	3.4	4.4	-38.70	2.6	4.9	-46.50
2024-2028	1.8	3.5	-55.80	2.4	3.0	-47.60	2.2	3.3	-51.30

# REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		Divided Government 50%	Center-Left Coalition 35%	Centrist Coalition 15%
RISK FACTORS	CURRENT			
Turmoil	Moderate	SLIGHTLY MORE	Same	Same
Investment				
Equity	Moderate	Same	SLIGHTLY LESS	SLIGHTLY LESS
Operations	High	Same	Same	Same
Taxation	Moderate	Same	SLIGHTLY MORE	Same
Repatriation	Low	Same	Same	Same
Exchange	Moderate	Same	Same	Same
Trade				
Tariffs	Moderate	Same	Same	Same
Other Barriers	Moderate	Same	Same	Same
Payment Delays	Moderate	Same	Same	Same
Economic Policy				
Expansion	Very High	SLIGHTLY LESS	SLIGHTLY LESS	SLIGHTLY LESS
Labor Costs	Moderate	Same	SLIGHTLY MORE	SLIGHTLY MORE
Foreign Debt	Very High	SLIGHTLY LESS	SLIGHTLY LESS	SLIGHTLY LESS
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		Divided Government 60%	Center-Left Coalition 25%	Centrist Coalition 15%
RISK FACTORS	BASE			
Turmoil	Moderate	SLIGHTLY MORE	Same	Same
Restrictions				
Investment	Moderate	Same	SLIGHTLY LESS	SLIGHTLY LESS
Trade	Moderate	Same	SLIGHTLY LESS	SLIGHTLY LESS
Economic Problems				
Domestic	Very High	Same	SLIGHTLY LESS	SLIGHTLY LESS
International	Very High	Same	SLIGHTLY LESS	SLIGHTLY LESS

\* When present, indicates forecast of a new regime





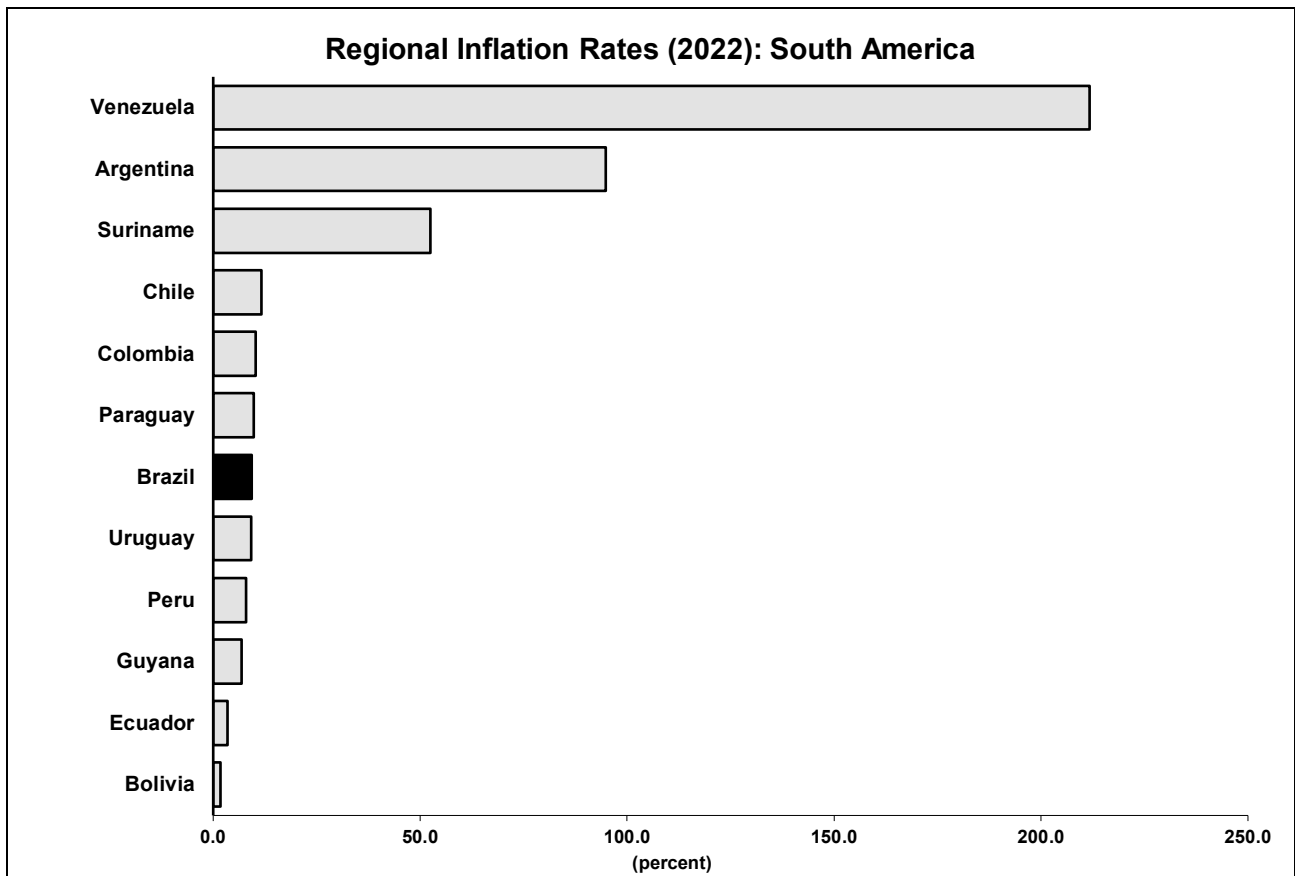
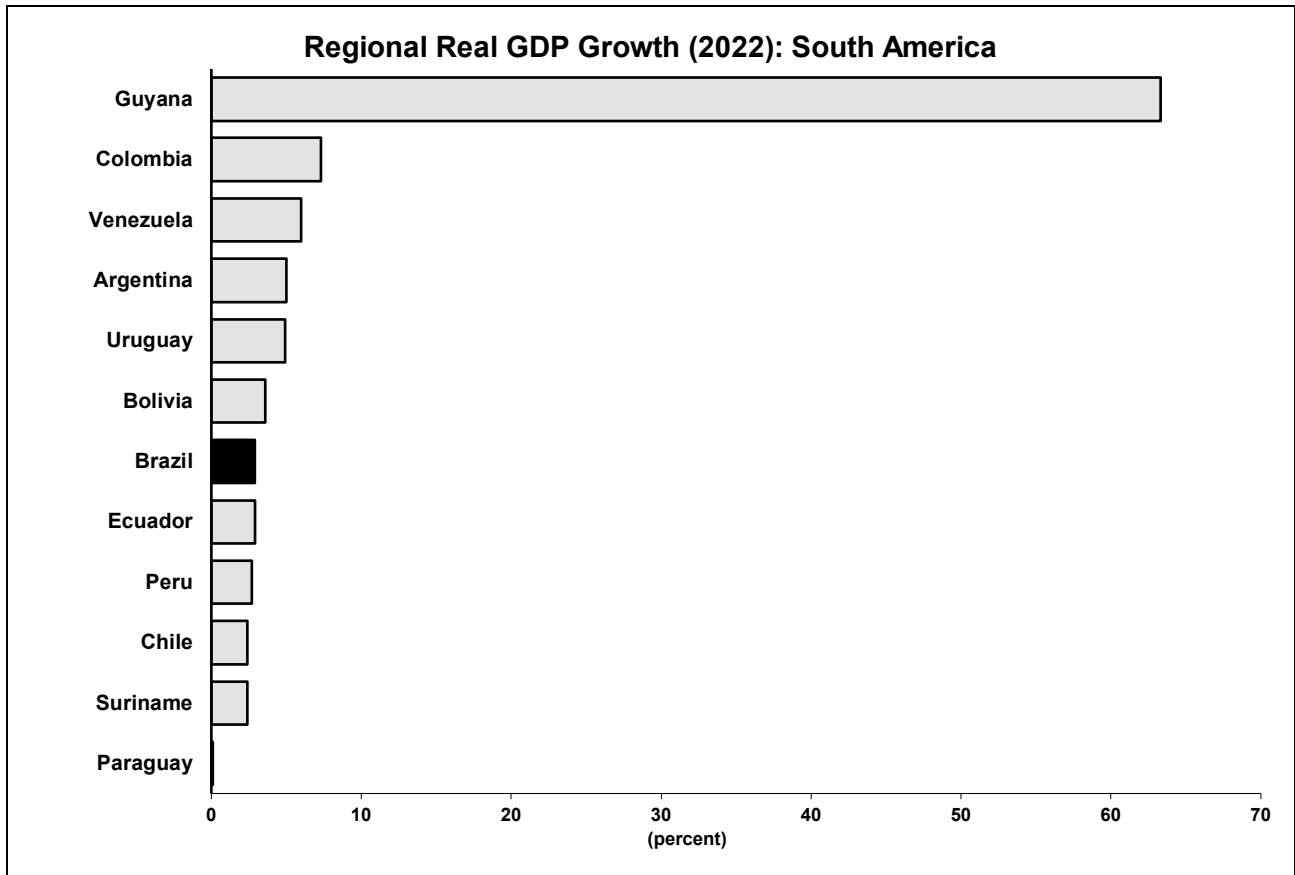
## Brazil Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
<b>Domestic Economic Indicators</b>							
GDP (Nominal, \$bn)	2116.51	1766.77	2468.34	2455.99	1797.84	1797.91	2062.47
Per Capita GDP (\$)	10293	8322	12195	12027	8729	8658	9855
Real GDP Growth Rate (%)	-0.4	1.5	3.0	0.5	-3.5	-3.3	1.3
Inflation Rate (%)	6.7	5.6	6.2	6.3	9.0	8.7	3.4
Capital Investment (\$bn)	380.86	298.65	516.18	488.08	320.66	279.11	300.27
Capital Investment/GDP (%)	17.7	16.9	20.9	19.9	17.8	15.5	14.6
Budget Revenues (\$bn)	598.18	498.05	702.48	666.55	521.90	528.85	571.12
Budget Revenues/GDP (%)	28.3	28.0	28.5	27.1	29.0	29.4	27.7
Budget Expenditures (\$bn)	723.44	620.50	760.93	787.66	663.92	656.10	748.60
Budget Expenditures/GDP (%)	34.5	35.2	30.8	32.1	36.9	36.5	36.3
Budget Balance (\$bn)	-125.26	-122.45	-58.45	-121.11	-142.02	-127.25	-177.48
Budget Balance/GDP (%)	-6.2	-7.2	-2.4	-4.9	-7.9	-7.1	-8.6
Money Supply (M1, \$bn)	126.08	117.25	159.35	149.74	100.37	99.77	121.18
Change in Real Wages (%)	0.3	-2.9	0.0	1.8	0.2	-1.1	0.8
Unemployment Rate (%)	9.4	12.2	7.3	6.9	8.4	11.4	12.9
<b>International Economic Indicators</b>							
Foreign Direct Investment (\$bn)	74.17	63.76	75.21	87.71	64.74	74.30	68.89
Forex Reserves (\$bn)	353.08	322.79	349.03	354.81	348.84	353.85	358.85
Gross Reserves (ex gold, \$bn)	361.00	349.76	356.22	360.96	354.17	362.51	371.15
Gold Reserves (\$bn)	2.56	5.06	2.59	2.59	2.29	2.51	2.82
Gross reserves (inc gold, \$bn)	363.56	354.82	358.81	363.55	356.46	365.02	373.97
Total Foreign Debt (\$bn)	668.30	666.45	621.49	712.68	664.40	675.84	667.10
Total Foreign Debt/GDP (%)	32.2	38.1	25.2	29.0	37.0	37.6	32.3
Debt Service (\$bn)	40.06	57.46	33.45	26.24	48.42	48.06	44.15
Debt Service/XGS (%)	15.6	17.7	11.2	9.5	21.0	20.4	15.8
Current Account (\$bn)	-63.63	-50.20	-88.38	-110.49	-63.41	-30.53	-25.34
Current Account/GDP (%)	-2.9	-2.8	-3.6	-4.5	-3.5	-1.7	-1.2
Current Account/XGS (%)	-23.8	-15.7	-29.6	-40.0	-27.5	-13.0	-9.1
Exports (\$bn)	211.53	260.07	241.51	223.97	189.91	184.27	218.00
Imports (\$bn)	188.94	223.51	241.14	230.71	172.47	139.72	160.68
Trade Balance (\$bn)	22.59	36.56	0.37	-6.74	17.44	44.55	57.32
Exports of Services (\$bn)	35.42	33.27	37.63	39.50	33.68	33.05	33.26
Income, credit (\$bn)	11.96	25.91	13.70	7.79	2.27	12.81	23.23
Transfers, credit (\$bn)	5.17	5.50	5.79	4.93	4.71	5.47	4.96
Exports G&S (\$bn)	264.09	324.76	298.63	276.19	230.57	235.60	279.45
Liabilities (\$bn)	10.50	25.88	8.69	5.54	6.38	10.29	21.59
Net Reserves (\$bn)	353.06	328.95	350.12	358.01	350.08	354.73	352.38
Liquidity (months import cover)	23.4	18.5	17.4	18.6	24.4	30.5	26.3
Currency Exchange Rate	2.906	4.664	2.160	2.353	3.335	3.487	3.193
Currency Change (%)	-8.5	-8.7	-9.5	-8.2	-29.4	-4.4	9.2
<b>Social Indicators</b>							
Population (million)	205.90	212.38	202.41	204.21	205.96	207.65	209.29
Population Growth (%)	0.9	0.5	0.9	0.9	0.9	0.8	0.8
Infant Deaths/1000	19	16	20	19	19	17	18
Persons under Age 15 (%)	23	22	24	24	23	23	22
Urban Population (%)	86	88	85	85	86	86	86
Urban Growth (%)	1.1	0.7	0.9	0.9	2.0	0.9	0.8
Literacy % pop.	92	93	90	93	93	93	93
Agricultural Work Force (%)	15	10	16	16	16	16	10
Industry-Commerce Work Force (%)	18	20	13	13	13	13	40
Services Work Force (%)	67	71	71	71	71	71	50
Unionized Work Force (%)	18	18	18	18	18	18	18
Energy - total consumption (10 <sup>15</sup> Btu)	12.78	12.80	12.82	13.14	12.86	12.48	12.60
Energy - consumption/head (10 <sup>9</sup> Btu)	0.06	0.06	0.06	0.06	0.06	0.06	0.06

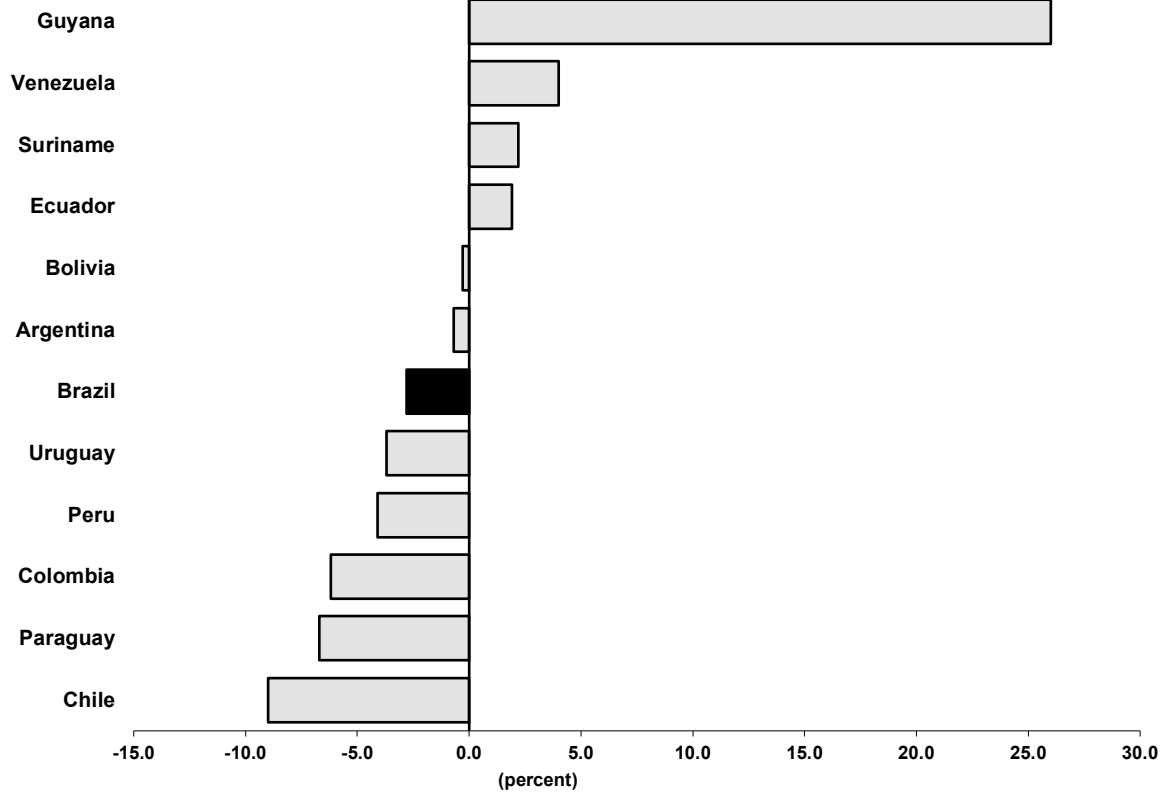
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Per Capita GDP (\$)	10293	8322	9151	8873	6943	7704	8938
Real GDP Growth Rate (%)	-0.4	1.5	1.8	1.2	-3.3	5.0	2.9
Inflation Rate (%)	6.7	5.6	3.7	3.7	3.2	8.3	9.3
Capital Investment (\$bn)	380.86	298.65	290.09	289.70	240.53	311.51	361.41
Capital Investment/GDP (%)	17.7	16.9	15.1	15.5	16.3	18.9	18.8
Budget Revenues (\$bn)	598.18	498.05	545.58	539.57	371.40	455.44	578.26
Budget Revenues/GDP (%)	28.3	28.0	28.5	28.8	25.2	27.6	30.1
Budget Expenditures (\$bn)	723.44	620.50	680.96	652.90	569.27	533.07	666.32
Budget Expenditures/GDP (%)	34.5	35.2	35.5	34.9	38.6	32.3	34.7
Budget Balance (\$bn)	-125.26	-122.45	-135.38	-113.33	-197.87	-77.63	-88.06
Budget Balance/GDP (%)	-6.2	-7.2	-7.1	-6.1	-13.4	-4.7	-4.6
Money Supply (M1, \$bn)	126.08	117.25	110.28	113.75	120.27	116.87	125.06
Change in Real Wages (%)	0.3	-2.9	-1.6	-2.6	-3.2	-4.0	-3.0
Unemployment Rate (%)	9.4	12.2	12.4	12.1	13.5	13.5	9.5
<b>International Economic Indicators</b>							
Foreign Direct Investment (\$bn)	74.17	63.76	78.16	69.17	37.79	46.44	87.24
Forex Reserves (\$bn)	353.08	322.79	361.36	339.35	332.00	309.37	271.89
Gross Reserves (ex gold, \$bn)	361.00	349.76	371.99	353.58	351.52	354.62	317.11
Gold Reserves (\$bn)	2.56	5.06	2.73	3.30	4.10	7.58	7.59
Gross reserves (inc gold, \$bn)	363.56	354.82	374.72	356.88	355.62	362.20	324.70
Total Foreign Debt (\$bn)	668.30	666.45	665.78	675.79	639.31	670.29	681.08
Total Foreign Debt/GDP (%)	32.2	38.1	34.7	36.1	43.3	40.7	35.5
Debt Service (\$bn)	40.06	57.46	48.40	48.57	51.10	62.72	76.50
Debt Service/XGS (%)	15.6	17.7	16.6	16.8	19.4	17.8	17.9
Current Account (\$bn)	-63.63	-50.20	-54.79	-68.02	-28.21	-46.36	-53.62
Current Account/GDP (%)	-2.9	-2.8	-2.9	-3.6	-1.9	-2.8	-2.8
Current Account/XGS (%)	-23.8	-15.7	-18.8	-23.5	-10.7	-13.2	-12.5
Exports (\$bn)	211.53	260.07	239.52	225.80	210.71	284.01	340.33
Imports (\$bn)	188.94	223.51	196.15	199.25	178.34	247.65	296.18
Trade Balance (\$bn)	22.59	36.56	43.37	26.55	32.37	36.36	44.15
Exports of Services (\$bn)	35.42	33.27	34.04	33.03	27.51	31.48	40.29
Income, credit (\$bn)	11.96	25.91	13.22	25.13	20.10	31.10	40.01
Transfers, credit (\$bn)	5.17	5.50	4.79	5.14	5.07	5.79	6.72
Exports G&S (\$bn)	264.09	324.76	291.57	289.10	263.39	352.38	427.35
Liabilities (\$bn)	10.50	25.88	18.72	11.90	15.11	43.21	40.44
Net Reserves (\$bn)	353.06	328.95	356.00	344.98	340.51	318.99	284.26
Liquidity (months import cover)	23.4	18.5	21.8	20.8	22.9	15.5	11.5
Currency Exchange Rate	2.906	4.664	3.654	3.946	5.156	5.398	5.164
Currency Change (%)	-8.5	-8.7	-12.6	-7.4	-23.5	-4.5	4.5
<b>Social Indicators</b>							
Population (million)	205.90	212.38	209.47	211.05	212.56	213.99	214.83
Population Growth (%)	0.9	0.5	0.1	0.8	0.7	0.7	0.4
Infant Deaths/1000	19	16	17	16	16	17	13
Persons under Age 15 (%)	23	22	22	22	22	21	21
Urban Population (%)	86	88	87	87	87	88	89
Urban Growth (%)	1.1	0.7	1.3	0.8	0.9	0.2	0.1
Literacy % pop.	92	93	93	93	93	93	94
Agricultural Work Force (%)	15	10	10	10	10	10	10
Industry-Commerce Work Force (%)	18	20	21	20	20	20	20
Services Work Force (%)	67	71	69	70	71	72	73
Unionized Work Force (%)	18	18	18	18	18	18	18
Energy - total consumption (10 <sup>15</sup> Btu)	12.78	12.80	12.62	12.73	12.90	12.84	12.91
Energy - consumption/head (10 <sup>9</sup> Btu)	0.06	0.06	0.06	0.06	0.06	0.06	0.06

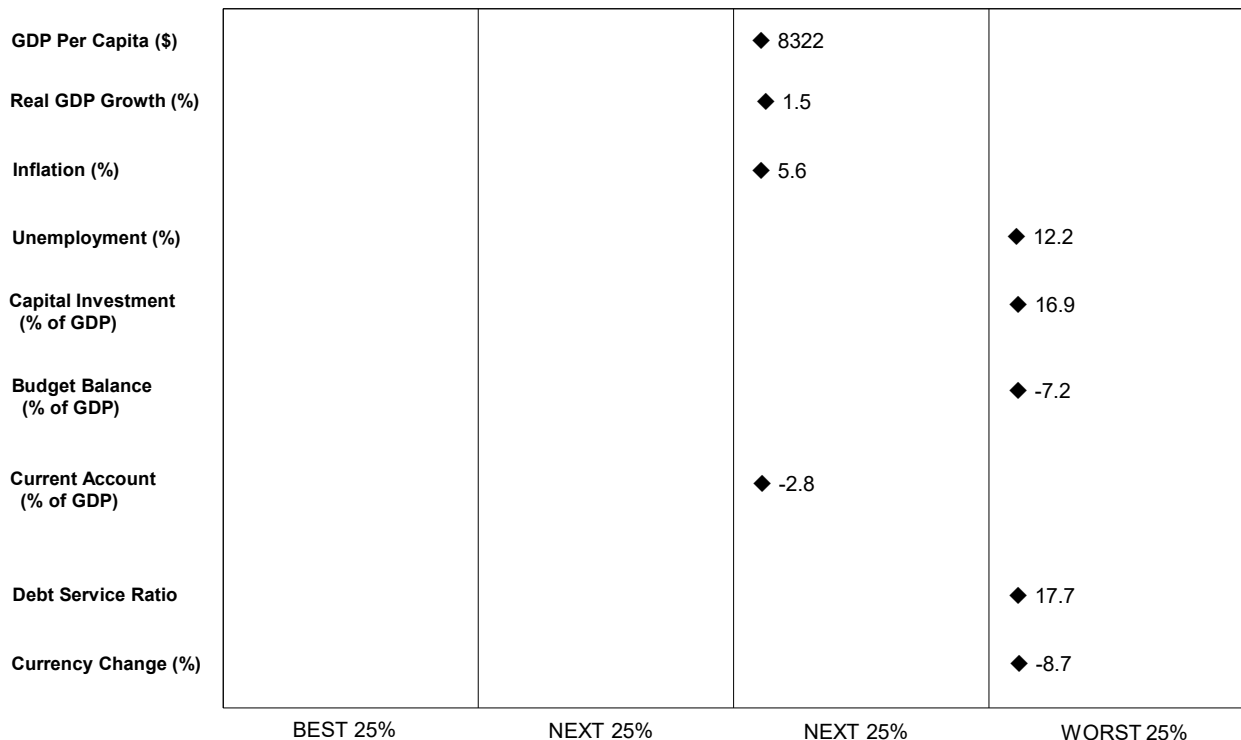
# INTRA-REGIONAL COMPARISONS



### Regional Current Account/GDP (2022): South America



### Economic Performance Profile Country's Ranking Relative to All Countries Covered by Political Risk Services 2018-2022



# GEOPOLITICAL & ECONOMIC ANALYSIS

## LULA DEPENDENT ON OPPOSITION TO IMPLEMENT AGENDA

Ten months into his four-year term, President Luiz Inácio “Lula” da Silva remains broadly popular, but his approval rating has slipped since August, reflecting weakening confidence in the health of the economy. A recent poll put Lula’s support at 54%, down from 60% two months earlier, and his disapproval rating rose from 35% to 42% over the same period.

Lula’s popularity is crucial to his ability to implement a policy program that aims to strike a balance between addressing the priorities of his progressive base, including poverty reduction and environmental protection, and maintaining the fiscal discipline required to retain the confidence of investors whose capital is essential to realizing the government’s social objectives. Although the administration has secured some important legislative victories so far, Lula’s agenda has also encountered congressional roadblocks, and the obstacles will become harder to scale if the president’s approval rating continues to drop.

The leftist Brazil of Hope bloc led by Lula’s Workers’ Party (PT) won just 81 seats in the 513-member Chambers of Deputies and nine seats in the 81-member Senate at congressional elections held in October 2022. Even with the backing of the Social Democratic Party (PSD), which controls 42 seats in the lower house and 16 seats in the Senate, and several smaller left-leaning parties, the government still requires the support of centrist and center-right parties to achieve a simple majority in either chamber.

Securing the necessary votes has entailed sometimes tense negotiations with Arthur Lira, the speaker of the lower house and leader of the Progressives (PP), one of the largest parties in the so-called Centrao bloc. The recent addition of two Centrao lawmakers—Silvio Costa Filho of the PP and André Fufuca of the Republicans—to the Cabinet (in relatively minor posts) will theoretically facilitate cooperation. However, the support of the Centrao parties will still come at the cost of sometimes significant policy concessions that can be expected to engender disappointment within the PT’s base and create tension among the partners in the governing coalition, neither of which will be conducive to stemming a further erosion of Lula’s popularity that weakens his political leverage with the Centrao.

The economy is not the only potential source of vulnerability for the president. The eruption of open warfare between rival gangs in the streets of Rio de Janeiro has thrown a spotlight on crime that will provide fodder for opponents of Lula’s efforts to tighten controls on gun ownership, which were loosened significantly under his far-right predecessor, Jair Bolsonaro.

The PT will also need to take special care to steer clear of corruption scandals. Although the credibility of the Operation Car Wash anti-corruption investigation that toppled Lula’s successor, Dilma Rousseff,

from the presidency in 2016 and resulted in Lula's conviction and imprisonment on corruption and money-laundering charges has been undermined by evidence of bias and collusion by state authorities, the cloud of scandal continues to hang over the president. Anything less than a zero-tolerance approach to instances of corruption—which are all but inevitable for any Brazilian administration—would risk lasting damage for the administration.

## **IMPACT OF FISCAL REFORMS STILL UNCERTAIN**

Last November, Lula's transition team proposed exceeding the spending cap imposed since 2016 to permit an additional \$32 billion in expenditures for welfare programs. The predictable negative response from the markets puts pressure on Finance Minister Fernando Haddad and Minister of Planning and Budget Simone Tebet to deliver a credible alternative fiscal framework.

The spending cap limited any increase in expenditures to the previous year's inflation rate. Under the new plan, which received final congressional approval in August, real growth of expenditures is to be held to no more than 70% of the real increase in revenues for the 12-month period to June of the previous year, except in priority areas, such as health and education, where expenditures are permitted to rise by up to 100% of revenue growth. Under the timeline proposed by Haddad, the primary deficit is to be held to no more than 0.75% of GDP this year, and the government will be required to achieve primary surpluses of 0.25%-0.75 of GDP and 0.75%-1.25% of GDP in 2025 and 2026, respectively.

To protect against repeated slippage, failure to achieve the target for a given year would limit spending increases in the following year to no more than 50% of revenue growth. In contrast, a positive overshooting of the primary budget target would free up extra funds for investment.

The markets have signaled satisfaction with the plan. The real has appreciated by 9% since the start of the year and the stock market has rebounded from a post-election slump that saw the Bovespa index fall below 10,000 for the first time in more than two years in March.

Even so, there is still debate about the credibility of the fiscal anchor. Critics have noted with concern the limited near-term impact on the size of the debt and the lack of clear medium-term benchmarks for debt reduction.

Other potential pitfalls include the dependence on increased revenues to ensure that targets are achieved, which is difficult to reconcile with Haddad's assurances that the government has no plans to introduce new taxes or increase rates on existing taxes. Instead, the government is counting on a combination of economic growth and improved tax compliance to generate the required rise in income.

A key component of the strategy is the proposed merger of five federal, state, and municipal taxes into a single value-added tax (VAT) that will be applied at both the national and subnational levels. Officials have touted the reform as a cure for many ills, arguing that simplification and increased transparency will not only reduce the incentives for tax evasion, but will produce numerous benefits for the economy more generally, including lower business costs, enhanced competitiveness, and a narrowing of regional economic disparities (reinforced by the creation of a regional development fund).

In contrast to the fiscal framework legislation, the tax reform entails changes to the constitution that required the backing of a three-fifths majority in the Congress. The legislation easily surpassed the 308-vote threshold in the lower house, but it is currently before the Senate, where regional interests are more likely to come into play, creating hurdles that require tweaks, the substance of which could significantly affect the fiscal impact of the changes.

Last month, the Congress approved a measure that reverses a 2020 law establishing that tie votes in disputes decided by the country's tax appeals court (Carf) would be ruled a judgment in favor of the taxpayer. The restoration of the government's tie-breaking vote is projected to boost revenues by about \$12 billion annually (equivalent to 0.6% of GDP in 2022).

The government had initially attempted to implement the change as a provisional measure, but Lula's decree expired when the Congress failed to approve it within 180 days. Officials are hoping for a similar result with new legislation that replaces a provisional measure setting out changes to the tax rules for offshore holdings of Brazilians. The bill was presented as urgent business that required action by the lower house within 45 days. It has moved on to the Senate, where, as with the VAT legislation, it is likely to be amended, with uncertain results for its fiscal impact.

## **WARMING TO CHINA AS EU DEAL REMAINS STUCK**

On the international front, Lula's return to power raised hopes of a reinvigoration of the Southern Common Market (Mercosur), a regional economic bloc that includes Argentina, Paraguay, and Uruguay as full members, following a period of troubled internal relations during his predecessor's presidency. Bolsonaro was at the center of much of the internal turmoil, which including sparring with the leftist government in Buenos Aires, and Bolsonaro's climate-change denialism became a big impediment to finalizing a free-trade agreement (FTA) between Mercosur and the EU.

Lula has been sending mixed signals with regard to Mercosur's ties with Europe. He campaigned on a pledge to renegotiate some terms of the agreement with the EU, insisting that Brazil would not permit European companies to sell goods and services in the public sector. In April, he begged off a planned meeting with European Commission President Ursula von der Leyen and instead flew to Beijing, after

having suggested that perhaps Mercosur might be better served by deepening its commercial ties with China than with the EU.

The president has more recently expressed his desire to implement the existing agreements. However, some EU members, notably France, are still demanding changes to the 2019 agreement to strengthen environmental safeguards, prompting angry responses from leaders of the Mercosur states.

Paraguayan President Santiago Peña has denounced the EU demands as tantamount to protectionism for European farmers worried about competition from Mercosur's agricultural and beef producers and has threatened that his government will abandon the deal if it is not finalized by early December. Peña's deadline coincides with an impending change of administration in Argentina, where Javier Milei, a populist libertarian whose radical policy proposals include pledges to dissolve Mercosur and suspend Argentina's relations with Brazil, has advanced to a run-off presidential contest that will be held next month. It is unclear what Milei might actually do if he wins the presidency, but there is a high risk of a crisis within Mercosur if he is victorious.

Lula's increased focus on strengthening ties with China appears to be a factor in the shift in his stance on expanding the BRICS bloc of large developing nations, which currently includes Brazil, Russia, India, China, and South Africa. Brazil and India have long resisted adding new members, presumably fearing a dilution of influence that would enable China to dominate the group. The president has also emerged as an enthusiastic advocate of a Chinese-backed "BRICS bank" that is funding development projects throughout the developing world, including in Brazil.

Argentina is among the group of six countries that has been invited to enter BRICS in 2024, the others being Saudi Arabia, the UAE, Iran, Ethiopia, and Egypt. Here, as well, the implications of Argentina's impending presidential election are not entirely clear, given Milei's stated skepticism regarding the merits of closer economic ties with China. Otherwise, the choice of new partners reflects China's goal of expanding its influence in the Middle East, amid an intensifying economic, political, and military rivalry with the western powers in which Brazil is becoming increasingly aligned with Beijing.

## **ECONOMY LOSING MOMENTUM**

When Lula previously served as president (2003–2011), the central bank governor was a Cabinet appointee who took direction from the government. That is no longer the case, and the bank's independence is clearly not to Lula's liking. Upon taking office in January, the president complained loudly and often that high interest rates inherited by this administration—the benchmark SELIC stood at 13.75% at the start of the year—jeopardized the growth required to deliver on promises of improved living standards and enhanced fiscal stability.



Lula's critics warned that his public demands for lower interest rates and higher inflation targets were counterproductive, as they only served to reinforce inflation expectations, making it less likely that the central bank would loosen policy. The president's shots at Central Bank Gov. Roberto Campos Neto, who was appointed by Bolsonaro and has claim to the post until December 2024, subsided with the unveiling of the fiscal framework in late March, as the locus of debate over policy shifted to the National Monetary Council (CMN), a body made up of Haddad, Tebet, and Campos Neto.

In late June, the CMN confirmed the inflation target of 3.25% in 2023 and 3% in 2024-2025 (with a tolerance margin of 1.5 percentage points to either side of the central target), and extended timeline for the 3% target to 2026. Policy makers also adjusted the mechanism for assessing fulfillment of the target, which is currently the calendar year but beginning in 2025 will shift to an ongoing basis, effectively expanding the time frame to 24 months. Campos Neto expressed satisfaction with the plan, signaling the potential for the initiation of a loosening cycle.

The Monetary Policy Committee (COPOM) has implemented two cuts of 50 basis points each since August, reducing the SELIC to a still high 12.75%. Campos Neto has indicated that monetary authorities are prepared to make additional cuts (the next one is expected on November 1), despite the recent rise in the headline inflation rate, but noted that the government will need to do its part by sticking to the fiscal targets.

Brazil's economy fared better than most others in the region in the first half of the year, recording year-on-year real growth averaging 3.7% over the first two quarters, in part due to favorable weather conditions that produced record soybean and corn harvests. However, clouds have begun to appear, as the adverse effects of the El Niño weather phenomenon are already becoming apparent (the Amazon River basin is at its lowest level in a century) and monthly indicators reveal pessimism in the manufacturing sector.

With interest rates still in double digits, the stimulus from monetary loosening will be limited in the immediate near term, while higher inflation is likely to have a dampening effect on household spending in the final months of 2023. Slower growth in the second half of the year will hold the annual average to 3.1%, and a weaker performance for the agricultural sector in 2024 points to a deceleration to no more than 2% next year.

Inflation accelerated for a fourth consecutive month in September, reaching a seven-month high of 5.2% (year-on-year) and pushing the year-to-date average up to 4.6%, which is still within the tolerance range for the central bank's target. Higher prices for fuel will reinforce the inflationary effect of interest-rate cuts, sustaining the upward trend through the end of the year. Above-target inflation will limit the room for maneuver on the fiscal side, meaning that even moderate slippage could put pressure on the central bank to hit the pause button on monetary loosening.

Goods imports decreased by more than 9% (year-on-year) in the first eight months of 2023, largely the result of lower prices for key staples, swelling the trade surplus to \$51.5 billion (compared to \$32.5 billion at the end of August 2022), despite a scant 0.1% year-on-year gain for exports. Large deficits in the services and income balances will keep the current account balance in negative territory, but the shortfall is forecast to narrow to 1.9% of GDP this year, from 2.8% of GDP in 2022. The firming of the real indicates that the government's broader economic strategy has reassured investors and a comfortable reserves position will keep external risks in check heading into 2024.

# INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies\* – using data on political risk claims and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have “predictive power for both political risk insurance claims as well as political risk events measured by news coverage.”

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact [custserv@prsgroup.com](mailto:custserv@prsgroup.com) for more information.

**TABLE 1**  
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING  
OCTOBER 2023 VERSUS NOVEMBER 2022

RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
<i>Very Low Risk</i>					
1	Norway	86.0	87.0	-1.0	2
1	Switzerland	86.0	87.3	-1.3	1
3	Luxembourg	85.8	86.0	-0.3	3
4	Denmark	84.8	84.3	0.5	6
5	Taiwan	84.5	84.3	0.3	6
6	Singapore	84.3	85.8	-1.5	4
7	Ireland	83.8	82.3	1.5	8
8	Saudi Arabia	82.5	85.5	-3.0	5
9	Brunei	81.8	79.5	2.3	16
10	Canada	80.8	82.0	-1.3	10
10	Iceland	80.8	80.5	0.3	14
10	Qatar	80.8	78.8	2.0	17

\* C Harvey, et al., “Political Risk Spreads,” Journal of International Business Studies, (2014), 471-493.

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13	United Arab Emirates	80.5	82.3	-1.8	8
14	Netherlands	80.3	79.8	0.5	15
15	Kuwait	80.0	80.8	-0.8	13
<b><i>Low Risk</i></b>					
16	Japan	79.8	76.3	3.5	26
16	Sweden	79.8	81.0	-1.3	12
18	Korea, Republic	79.5	77.8	1.8	22
19	Australia	79.3	81.3	-2.0	11
19	Botswana	79.3	77.0	2.3	24
21	Finland	78.8	78.3	0.5	20
21	New Zealand	78.8	76.0	2.8	27
23	Germany	78.5	78.8	-0.3	17
24	Hong Kong	78.0	74.0	4.0	36
25	Trinidad & Tobago	77.0	77.5	-0.5	23
26	Bahamas	76.8	71.0	5.8	55
26	Portugal	76.8	75.5	1.3	31
28	Austria	76.5	78.5	-2.0	19
28	Oman	76.5	78.3	-1.8	20
30	Czech Republic	75.8	75.5	0.3	31
31	Kazakhstan	75.5	76.0	-0.5	27
32	Guyana	75.3	75.8	-0.5	30
33	Uzbekistan	74.8	73	2.3	43
34	Belgium	74.5	74.5	0.0	35
34	Italy	74.5	73.5	1.0	38
36	Malaysia	74.3	73.5	0.8	38
37	Croatia	73.8	73.8	0.0	37
37	Libya	73.8	70.8	3.0	59
37	Malta	73.8	74.8	-1.0	34

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37	Panama	73.8	73.5	0.3	38
37	Slovenia	73.8	73.0	0.8	41
37	United Kingdom	73.8	76.8	-3.0	25
37	Uruguay	73.8	75.3	-1.5	33
44	Azerbaijan	73.3	72.5	0.8	43
45	Costa Rica	73.0	72.0	1.0	48
46	Latvia	72.8	71.5	1.3	52
47	Jamaica	72.5	72.3	0.3	46
47	Spain	72.5	72.8	-0.3	42
49	Dominican Republic	72.3	72.5	-0.3	43
50	Brazil	71.8	70.0	1.8	65
50	Chile	71.8	71.8	0.0	49
50	France	71.8	72.3	-0.5	46
50	Israel	71.8	76.0	-4.3	27
54	Bulgaria	71.5	70.8	0.8	59
54	Philippines	71.5	70.8	0.8	59
54	Poland	71.5	71.0	0.5	55
54	Vietnam	71.5	70.8	0.8	59
58	Hungary	71.0	71.5	-0.5	52
58	India	71.0	70.3	0.8	63
60	Guatemala	70.8	71.0	-0.3	55
60	Thailand	70.8	65.0	5.8	88
62	United States	70.5	71.8	-1.3	49
63	China, Peoples' Rep.	70.0	69.5	0.5	67
<b>Moderate Risk</b>					
64	Cyprus	69.8	70.0	-0.3	65
64	Gabon	69.8	66.5	3.3	84
64	Lithuania	69.8	70.3	-0.5	63

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67	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.0	71.5	-2.5	52
68	Indonesia	69.0	68.3	0.8	73
68	Papua New Guinea	69.0	69.3	-0.3	68
71	Greece	68.8	68.0	0.8	76
71	Mexico	68.8	68.3	0.5	73
73	Congo, Republic	68.5	64.3	4.3	94
73	Iraq	68.5	71.0	-2.5	55
73	Peru	68.5	68.0	0.5	76
76	Namibia	68.3	71.8	-3.5	49
76	Slovakia	68.3	68.8	-0.5	71
78	Algeria	67.8	69.3	-1.5	68
79	Romania	67.3	66.8	0.5	82
80	Ecuador	67.0	68.3	-1.3	73
80	Gambia	67.0	65.0	2.0	88
80	Honduras	67.0	66.8	0.3	82
83	Morocco	66.8	64.5	2.3	92
83	Russia	66.8	66.0	0.8	87
85	El Salvador	66.5	63.8	2.8	98
85	Mongolia	66.5	65.0	1.5	88
85	South Africa	66.5	67.3	-0.8	80
88	Tanzania	66.3	65.0	1.3	88
89	Armenia	66.0	60.0	6.0	110
90	Serbia	65.8	67.3	-1.5	80
91	Guinea-Bissau	65.3	64.0	1.3	96
91	Paraguay	65.3	64.3	1.0	94
93	Jordan	65.0	64.5	0.5	92
94	Albania	64.8	67.8	-3.0	79

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95	Iran	64.3	66.5	-2.3	84
96	Bolivia	64.0	66.5	-2.5	84
96	Cote d'Ivoire	64.0	62.3	1.8	105
98	Colombia	63.8	64.0	-0.3	96
98	Nicaragua	63.8	62.8	1.0	101
100	Bangladesh	63.5	62.5	1.0	103
100	Togo	63.5	63.3	0.3	100
102	Madagascar	63.0	62.5	0.5	3
103	Zambia	62.3	62.8	-0.5	101
104	Ghana	62.0	58.8	3.3	115
105	Cuba	61.8	69.3	-7.5	68
106	Cameroon	61.5	60.3	1.3	108
107	Moldova	61.3	59.0	2.3	114
107	Ukraine	61.3	51.8	9.5	133
109	Angola	60.5	68.0	-7.5	76
110	Mozambique	60.0	54.5	5.5	128
110	Uganda	60.0	59.3	0.8	113
<b>High Risk</b>					
112	Guinea	59.8	57.3	2.5	124
112	Tunisia	59.8	61.3	-1.5	107
114	Belarus	59.3	57.0	2.3	126
114	Senegal	59.3	58.3	1.0	119
114	Suriname	59.3	58.5	0.8	117
117	Burkina Faso	59.0	59.5	-0.5	111
118	Myanmar	58.3	55.8	2.5	127
119	Ethiopia	58.0	58.5	-0.5	117
120	Mali	57.8	58.8	-1.0	115
121	Zimbabwe	57.5	61.5	-4.0	106

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122	Egypt	57.3	57.8	-0.5	123
123	Congo, Dem. Republic	57.0	60.3	-3.3	108
123	Sierra Leone	57.0	53.5	3.5	131
125	Haiti	56.8	54.3	2.5	129
125	Kenya	56.8	58.3	-1.5	119
127	Argentina	56.3	63.8	-7.5	98
128	Nigeria	56.0	59.5	-3.5	111
129	Yemen, Republic	55.8	48.3	7.5	138
130	Turkey	55.5	54.3	1.3	129
131	Liberia	55.0	58.0	-3.0	121
131	Venezuela	55.0	58.0	-3.0	121
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.3	51.0	1.3	134
135	Somalia	51.8	52.0	-0.3	132
<b>Very High Risk</b>					
136	Korea, D.P.R.	49.3	51.0	-1.8	134
136	Pakistan	49.3	51.0	-1.8	134
138	Niger	47.8	57.3	-9.5	124
139	Syria	44.5	43.8	0.8	139
140	Sudan	43.5	43.0	0.5	140
141	Lebanon	34.8	41.3	-6.5	141



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