

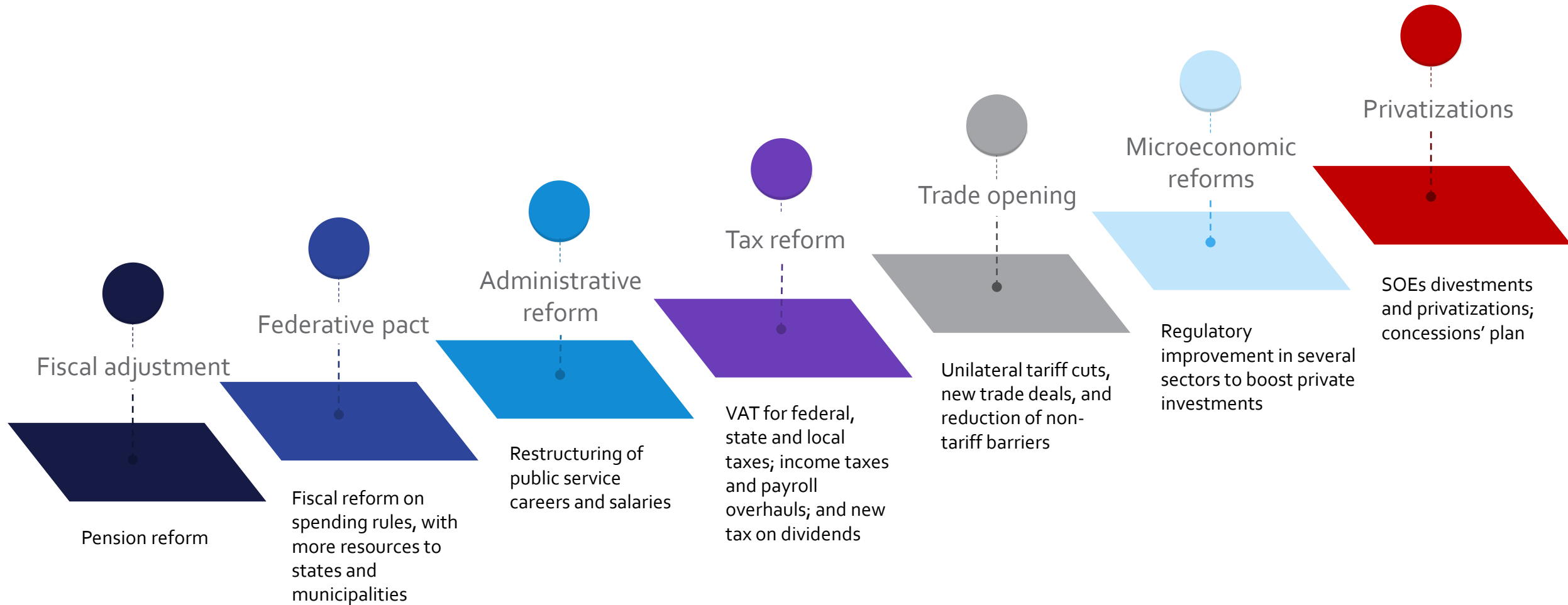


BRAZIL

Ambitious reforms, an angry middle class and minority government

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Managing Director for the Americas

The game plan: An ambitious reform agenda



Source: Eurasia Group

Window for reforms remains open after pension reform

- Bolsonaro is unlikely to ever construct a congressional majority. But **reforms will move forward as lawmakers support them out of self-interest.**
- Party leaders (who hold great power over their rank and file) see the reform agenda as a means of controlling more resources.
- Administrative, fiscal, and tax reforms are the priorities when congress resumes its activities in February. Not all will gain approval this year, but the outlook remains positive.







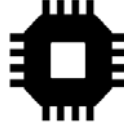


Partial progress is likely in a crowded agenda

Proposal	Summary	Outlook for approval
Federal Pact (PEC 188/2019)	The proposal decentralizes revenues while transferring more responsibilities to local governments	Likely in 2021
Emergency fiscal plan (PEC 186/2019)	The reform introduces automatic cuts to earmarked spending for federal and state governments once it reaches critical levels	Likely in 2020
Revision of public funds (PEC 187/2019)	The proposal can eliminate most of the country's 281 public funds within two years after approval and requires complementary bills for the creation of new funds	Likely in 2020
Administrative reform	The reform, yet to be submitted, will overhaul public service careers – mainly for incoming public servants –, with significant savings	Likely in 2020 but could well go to 2021
Tax reform (PEC 45/2019)	The proposal unifies three federal taxes, one state tax and one municipal tax into one single valued-added tax (VAT)	Unlikely (40% odds of a proposal). Lawmakers, however, are likely to either approve a federal VAT or one restricted to state and local governments
States aid program (PLP 149/2019)	The so-called "Mansueto Plan" allows states to contract new debt in exchange of fiscal measures	Likely in 2020



Source: Eurasia Group

Sector outlook: upside in regulated sectors of the economy

						
Oil & Gas	Electricity	Telecom	Infrastructure	Technology	Mining	Financial services
<ul style="list-style-type: none">• Favorable environment for Petrobras' divestment plan• New Gas Market bill and pre-salt exploration rules under discussion in congress	<ul style="list-style-type: none">• Eletrobras likely to be privatized next year• Changes to the GSF sector will likely be approved	<ul style="list-style-type: none">• Telecom reform was signed into law• 5G auction is likely in the second half of 2020, but risks of delays are significant	<ul style="list-style-type: none">• New framework for the sanitation sector is likely this year• PPI calendar for concessions, public services and privatizations• New model for railways and new PPPs framework are under discussion	<ul style="list-style-type: none">• National Data Privacy Authority was approved in congress• IoT plan under implementation• Huawei will likely continue in the Brazilian market	<ul style="list-style-type: none">• Slight tax increase is likely• More robust proposals for dam safety, licensing and criminal responsibility over mining disasters are probable	<ul style="list-style-type: none">• Central bank autonomy bill will likely be approved• BC# agenda• Initiatives to reduce banking spread

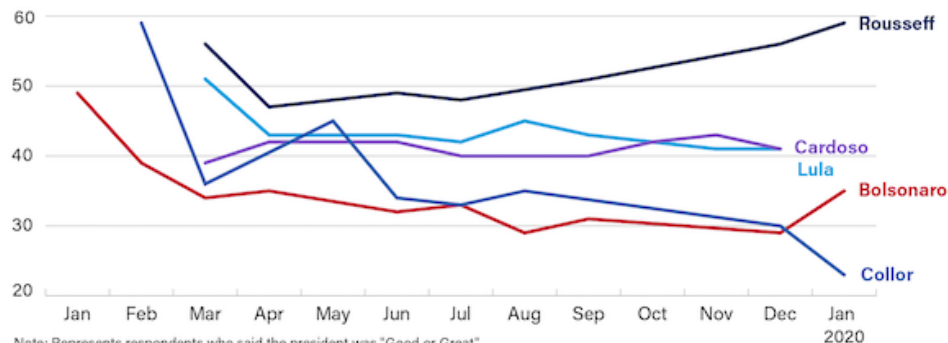


Source: Eurasia Group

Bolsonaro is well positioned, and the political center is in trouble

Brazil: Approval ratings in first year of government [%]

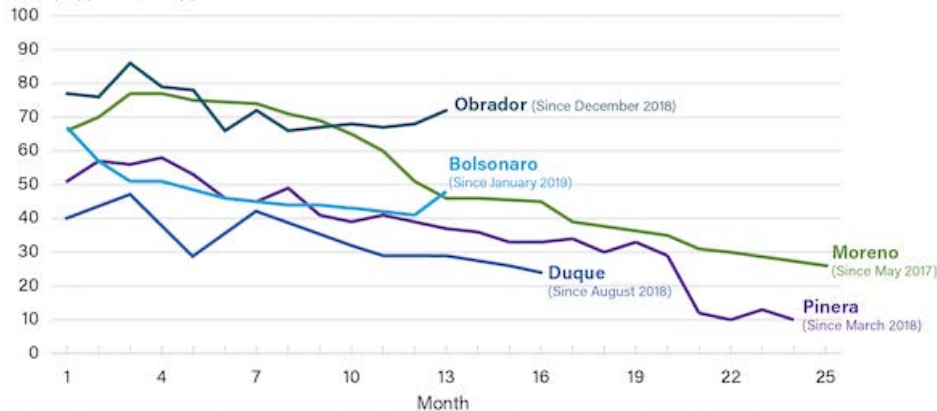
Five-point scale



Note: Represents respondents who said the president was "Good or Great" in a five-point scale that also includes "Regular", "Bad" and "Terrible".
Source: Datafolha, CNI/Ibope, CNT/MDA, Ibope

Latin America: Approval ratings in the first two years of administration [%]

Binary approval/disapproval

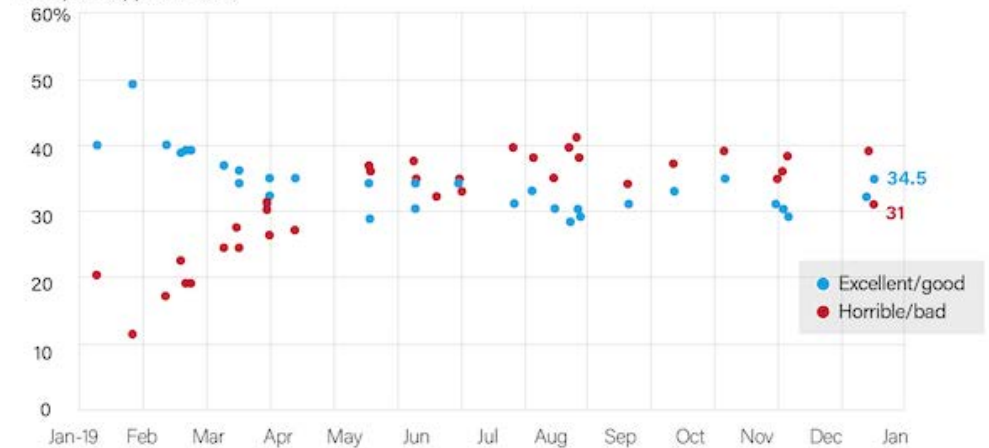


Source: Ibope, CNI/Ibope, CNT/MDA, Veja/FSB (Brazil); Cadem (Chile); Gallup (Colombia); Cedatos (Ecuador); El Financiero (Mexico)

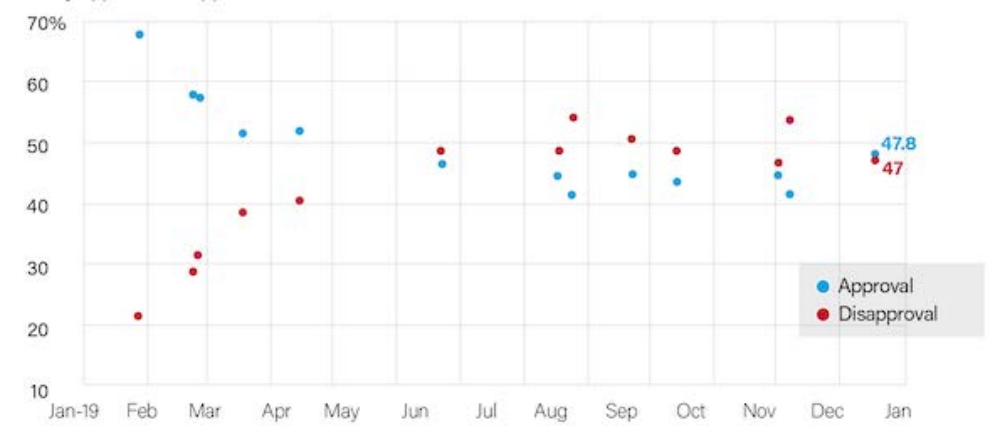
Source: Eurasia Group

Bolsonaro's approval ratings

Five-point approval scale



Binary approval/disapproval



Source: Ibope, XP/Ipespe, Atlas, CNI/Ibope, CNT/MDA, Datafolha, Veja/FSB
Note: Polls have different methodologies



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