BRAZIL

Ambitious reforms, an angry middle class and minority government

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The game plan: An ambitious reform agenda

- **Pension reform**: Fiscal reform on spending rules, with more resources to states and municipalities.
- **Administrative reform**: Restructuring of public service careers and salaries.
- **Tax reform**: VAT for federal, state and local taxes; income taxes and payroll overhauls; and new tax on dividends.
- **Trade opening**: Unilateral tariff cuts, new trade deals, and reduction of non-tariff barriers.
- **Microeconomic reforms**: Unilateral tariff cuts, new trade deals, and reduction of non-tariff barriers.
- **Fiscal adjustment**: Privatizations and concessions’ plan.

**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

<table>
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<tr>
<th>Proposal</th>
<th>Summary</th>
<th>Outlook for approval</th>
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<tr>
<td>Federal Pact (PEC 188/2019)</td>
<td>The proposal decentralizes revenues while transferring more responsibilities to local governments</td>
<td>Likely in 2021</td>
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<td>Emergency fiscal plan (PEC 186/2019)</td>
<td>The reform introduces automatic cuts to earmarked spending for federal and state governments once it reaches critical levels</td>
<td>Likely in 2020</td>
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<td>Revision of public funds (PEC 187/2019)</td>
<td>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</td>
<td>Likely in 2020</td>
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<td>Administrative reform</td>
<td>The reform, yet to be submitted, will overhaul public service careers – mainly for incoming public servants –, with significant savings</td>
<td>Likely in 2020 but could well go to 2021</td>
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<td>Tax reform (PEC 45/2019)</td>
<td>The proposal unifies three federal taxes, one state tax and one municipal tax into one single valued-added tax (VAT)</td>
<td>Unlikely (40% odds of a proposal). Lawmakers, however, are likely to either approve a federal VAT or one restricted to state and local governments</td>
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<td>States aid program (PLP 149/2019)</td>
<td>The so-called &quot;Mansueto Plan&quot; allows states to contract new debt in exchange of fiscal measures</td>
<td>Likely in 2020</td>
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Source: Eurasia Group
## Sector outlook: upside in regulated sectors of the economy

### Oil & Gas
- Favorable environment for Petrobras’ divestment plan
- New Gas Market bill and pre-salt exploration rules under discussion in congress

### Electricity
- Eletrobras likely to be privatized next year
- Changes to the GSF sector will likely be approved

### Telecom
- Telecom reform was signed into law
- 5G auction is likely in the second half of 2020, but risks of delays are significant

### Infrastructure
- 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

### Technology
- National Data Privacy Authority was approved in congress
- IoT plan under implementation
- Huawei will likely continue in the Brazilian market

### Mining
- Slight tax increase is likely
- More robust proposals for dam safety, licensing and criminal responsibility over mining disasters are probable

### Financial services
- 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

Source: Eurasia Group