

# BRAZIL IN 2020

## ANALYSIS AND PERSPECTIVES

DEC/2019 - JAN/2020



# BRAZIL HAS CHANGED SIDES



If we live in times of transformation, short cycles and uncertainties, Brazil in the coming decade is a good case study. In 2010, the country had chosen a progressive government in moral aspects and a statist in economics. It ends 2019 with the rise of conservatism in moral and an economic policy based on the liberal economic, inspired by the Chicago school. Thus it mixes signals and seems to move in one direction and back in the other.

The challenge of analyzing this first year of Jair Bolsonaro's office - recognized for his extreme right-wing profile and the high influence of three of his sons on the government - is precisely to consider the social, environmental, economic and political impacts; generated not only by government decisions but mainly by statements made by the president and his allies.

In this document, *Ágora Brasil* offers readers a compilation of data and references that point out the country's trends in 2020. The structure defined for the paper used as a parameter the UN Sustainable Development Goals (SDGs) divided into the following areas: Governance, Transparency and International Relations, Economic Performance, Social Performance and Environmental Performance. The analyzes mainly considered actions at the federal level, including the executive, legislative and judiciary powers. In the end, we present 2020 Perspectives for the main sectors of the economy.





# A NEW FACE



## UNDER BOLSONARO A SMALLER, LESS TRANSPARENT AND MORE AGGRESSIVE STATE

Since the campaign, President Jair Bolsonaro and his team had already showed signs that the executive power structure, information disclosure, and relationship with the international community would receive profound transformations. In many ways, political and social groups did not believe that those intentions could come true. Regarding governance, the restructuring of ministries has reduced spending and bureaucracy and weakened areas such as labor, culture, human rights and social development. These areas were incorporated by other folders or extinct, sparking negative reactions of different groups representing society, including the business community. Another important aspect of governance, the relationship between the three powers throughout the year seemed to deteriorate with several episodes of disagreement among their leaders. Strong statements by members of the government questioned if the democratic rules could act as an obstacle for the administration to function. Those statements were made by the president's sons and by the economy minister, Paulo Guedes. The transparency of governments was put to the test early in the term with a proposal by the executive branch to amend and weaken the Information Act, which obliges all public agencies to disclose data and decisions on public channels. The National Congress rejected the idea under pressure from public opinion. Actions like this have worsened Brazil's position on Transparency International's Corruption Perception Index (CPI). While the executive branch sought to weaken institutions by attacking the press, for example, the balance between the three powers has become essential, placing Congress and the Supreme Court as key players on relevant agendas such as Social Security Reform and court judgments. In international relations field, Brazil presented to the world a new and bellicose position. The fact that Brazil supports the US government's attack on Iran is a relevant indication of the new stance. It is still unclear whether this unfriendly tone will be maintained for years to come. The attempt to automatically align the Trump administration with exchange of benefits between countries failed. After criticism from economical groups such as agribusiness e mining sector, the negative tone towards China needed to be calibrated to make new trade arrangements viable. After two decades of negotiations, the Mercosur bilateral agreement with the European Union has evolved, but the country seems to gnash its teeth at its neighbors and Europeans, who are not comfortable with Brazilian environmental policy. Apparently, commercial interests will prevail and confrontation speeches will be nothing but words in the wind.



Indicators: Governance, Transparency and International Relations

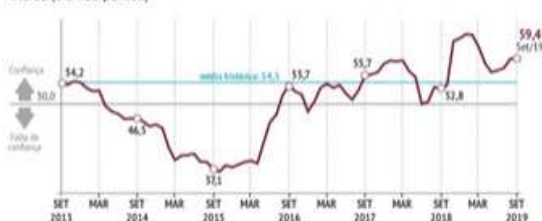




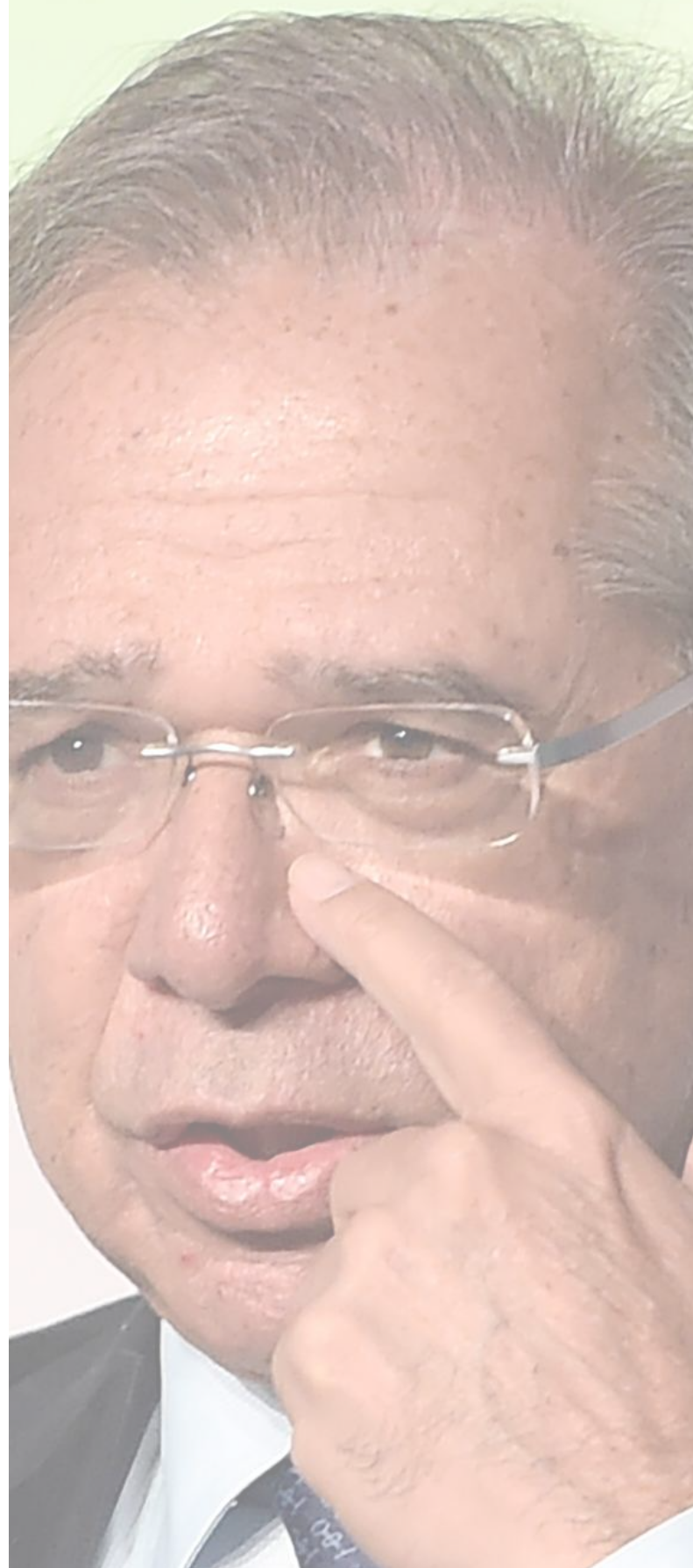
In the economy, the year ends with a sigh of relief. This is where the government seems to have had the biggest positive impact in 2019. The third quarter performed better than expected and achieved 0.6% growth over the previous quarter. The annual growth expectation is 1% of GDP increase. In fact, the numbers don't make anyone elated. After all, the exit from a recession is usually more powerful, but in view of the results of the first half, good figures are welcome. It is believed that this is the first reflection of the reforms carried out and programmed by the government, highlighting the new social security rules, and especially of a new wave of investments coming from the private sector and not, as at other times, driven by public money. What did not change was the leadership of agriculture (1.3%) in promoting growth, followed by industry (0.8%). A highlight is that the expectations of the industry, which is going through a long crisis, are positive. The Industrial Entrepreneur Confidence Index (ICEI) of the National Confederation of Industry (CNI) shows an upward trajectory and reached 62.5 points in November, up three percentage points from the previous month. What seems to materialize is the country's progress towards a more open economy and a leaner state focused on operational efficiency. In 2019, for example, the government has privatized 27 assets and plans a new round for 2020. The question is how well the concept of government efficiency will be able to meet social needs in a country symbolizing income concentration and social inequalities. Speaking of macroeconomics, the country experiences an unprecedented scenario at least in its recent history. Inflation below the target set by the Central Bank, basic interest of 4.5% per annum combined with a certain calm regarding the public sector deficit, which should be below the target of the year. The trade balance remains favorable with a balance of US \$ 42.7 billion (data from the first week of December) and the devalued real currency. However, the government keeps the expectation of public investments low, due, according to the Ministry of Economy, to the increase of compulsory expenses with pensions and active civil servants. We should not finish this analysis without mentioning the growth of household consumption and Central Bank actions to reduce the cost of credit to individuals in the country. Although the basic interest rate has been falling since the second half of 2016, the interest rates charged by banks continue to exceed 150% a.a. Since 2017, the Central Bank has encouraged increased competitiveness in the banking sector and fintechs are welcome in the country. This movement, along with other actions to free up resources for families, favored consumption as well as, obviously, the economic recovery that created jobs, but it is still far from welcoming the 13 million unemployed.

## ICEI - Série histórica

Índice (0 a 100 pontos)\*



\*Valores acima de 50 pontos indicam confiança do empresário. Quanto mais acima de 50 pontos, maior e mais disseminada é a confiança.





# ACHIEVEMENTS AT RISK

## THE RETURN OF HUNGER AND INCREASED OF FEAR

O espectro social coloca o Brasil de 2019 em uma posição de atenção com decisões governamentais que reduziram a The social spectrum places Brazil in 2019 in a position of attention with governmental decisions that reduced social participation in decision-making and an authoritarian and religious discourse. There is a perception, not yet confirmed by scientific studies, that the change in the government's narrative on issues such as human rights, gender equality, the fight against racism and homophobia, and the role of the police in public security have influenced Brazilian social statistics. They are disturbing. A study by the Brazilian Institute of Geography and Statistics (IBGE) shows the deterioration of the social scenario in the last three years. In 2018, the country made up 6.5% of the population (13.5 million people) living below the poverty line established by the World Bank. The 2014 data indicated 4.5% of the population under these conditions. Among the numbers of violence, we highlight police lethality.

In Rio de Janeiro, partial data indicate a 20% increase in police killings by 2019 compared with a 42% reduction in the number of police officers killed, according to a survey by GloboNews TV Violence Monitor. This whole scenario can be aggravated by actions to dismantle the legal and institutional framework of the country's social protection network, in addition to reducing investments in education, health and culture in conjunction with the implementation of conservative values in public management. We do not intend to extend to the details of the contexts surrounding the social area of Brazil at the moment. What should be emphasized is that there is room for companies and institutions that act in line with the SDG and the 2030 Agenda to develop projects and businesses that enable the country's progress by offering better opportunities for access to education, health and culture, which naturally will reduce the rates of violence.



Indicators: social inequality and access to education, health and culture

## INESTIMABLE IMPACTS


This was the theme that gave most international visibility to the country in 2019. Unfortunately, this was due to numerous setbacks generated by the federal government. The critical positions of President Bolsonaro's strong core and even of Environment Minister Ricardo Salles on the studies and movements that recognize and combat climate change have made Brazil a kind of villain in the international community. The end result of COP25 summarizes the government's position not to move internally and not to collaborate with international actions. The episode that most impacted international public opinion was the burning in the Amazon that led to São Paulo, about six thousand kilometers away, a black cloud that made day become evening into one of the largest cities in the world. If the fact alone was not strong enough, the reactions of the Brazilian government showed that the space for constructive dialogue is small. Many experts believe that the setbacks promoted by the current government will impact protected areas and species in the long run. Therefore, indicators related to environmental SDGs also distance Brazil from the goals of Agenda 2030. An important piece of information was highlighted by the liberal newspaper O Estado de S. Paulo: 25 leadership positions of the Ministry of Environment were not filled, R \$ 8 million of the portfolio's budget has not been executed and many programs are stalled, including the Amazon deforestation program. If on the one hand the government goes against science; on the other, companies, national and international private institutions and citizens act to broaden their role in the defense of the environment. State and local governments are also organizing to develop projects and prevent the advance of practices that may affect the local ecosystem. There is therefore an opportunity for new business and initiatives with sustainable service and product offerings.



Indicadores: preservação e combate às mudanças climáticas







Next year, Brazil will go through the first post-rise right wing municipal elections. Center political groups are trying to organize to star in the poll and increase their capillarity through local governments and chambers, setting the stage for the 2022 presidential election. The leftist groups have not yet recovered from the concussions suffered by the Lava Jato complaints and the June 2013 demonstrations. Their main leader, Luis Inácio Lula da Silva, who spent about a year and a half in prison, was released and tries to strengthen PT, his party, and the left bloc as a whole. However, developments in this direction seem insufficient for the left to reoccupy their lost space. The municipal elections will be a test of fire. The government will also have its fire test in the elections and its relationship with the other powers. The number of allies elected will be a relevant indicator of Jair Bolsonaro's chances of reelection in 2022. This is because it will show the level of popular support for the government and will give - or not - capillarity to the government in the municipalities. The relationship, especially with the National Congress, will be guided by the municipal elections and the level of approximation or detachment of the government parliamentarians. In 2019, the legislative houses were protagonists with great prominence for the president of the House of Representatives, the center-right, Rodrigo Maia. Attention to confirm if in 2020 this movement will be repeated. The judiciary must continue to be required to trim the edges between the other two powers – executive and legislative. The point is that many jurists have considered the Federal Supreme Court to be more biased and political than expected in a democratic rule of law. The surprise factor may even be the streets. Since 2013, when the population surprised everyone and took to the streets to question rulers, making room for a major transformation in the national political scene, the political class has been on the alert. The truth is that the beginning, middle and end of these manifestations have not yet been completely decoded by politicians or scholars. This makes monitoring street temperature even more difficult. One click and Brazil will join Chile, Colombia, Bolivia and Argentina, once again changing the political landscape. What can trigger this device is the answer of a billion dollars - or more.

# INTERNAL OPTIMISM, EXTERNAL PRECAUTION



BRASIL  
BOLSA  
BALCÃO

In the last quarter, expectations for 2020 have improved. Not only is GDP growth forecast to reach 2.5%, but also the country's credit ratings that should be promoted positively by rating agencies. There is some positive expectation regarding the return of national and international investors to the country, which has a huge demand for long term investments. The international scenario remains prominent in the assessment of the government and national experts, just as foreigners maintain Brazil as a possibility, but still in evaluation.

The possible impacts of the agreement between the United States and China, which should favor each other in international trade, is the most sensitive point in the external scenario, although it has caused relief in the world. From a government action standpoint, promised reforms and privatizations are slower than expected by investors and entrepreneurs, who see the radicalism of Bolsonaro and his sons as a relevant factor in the backwardness. Municipal elections should influence the government's ability to move on unpopular measures such as cutting high financial benefits for civil servants. Public opinion welcomes changes in the structure of civil service, but the strength of unions can outweigh it.

Tax reform and the creation of new taxes are also on the agenda, but may be stalled until the October elections. Anyway, the agenda is still opening the economy, changing the complex and unproductive tax system, selling 44 assets between ports, airports and highways, in addition to Eletrobras (national energy company and largest in the sector) and Petrobras businesses. Privatization and public-private partnerships at the state and municipal levels in the area of basic sanitation should heat up the sector chain, generating jobs in all regions.

Indicador	Expectativa 2020	Tendências 2021 - 2022	Fonte
PIB	2,22%	Alta	Boletim Focus Banco Central
Dólar	R\$ 4,01	Estabilidade	Boletim Focus Banco Central
Taxa Básica de Juros Selic	4,5%	Alta	Boletim Focus Banco Central
IPCA - Inflação	3,6%	Estabilidade	Boletim Focus Banco Central
Déficit Primário do Setor Público/PIB	78,2%	Estável com viés de queda	Ministério da Economia
Investimentos Públicos	Até R\$ 26 bi	Alta	Ministério da Economia



## TO MONITOR


- Administrative Reform: State cost reduction
- Tax Reform: simplifying the system and boosting productivity
- Privatization: energy, oil and gas, sanitation, ports, airports and highways.





# SECTORS FORECASTS


## AGRIBUSINESS: A RECORD HARVEST



Opportunities in the Brazilian agribusiness sector are mainly related to management and production efficiency. It is expected that by 2020 the country will surpass the United States in grain production, but experts point out that it is possible to raise production rates even further. With the help of technology, this is possible without resorting to new deforestation, especially in the Amazon region. In 2020, livestock will continue to be the highlight in the sector, with growth forecast by the Institute for Economic Research (IPEA) of 4.3%. The National Supply Company (Conab) forecasts a record harvest for 2020, which, according to (IPEA), should generate a growth of agricultural GDP by 3.7%.

The least optimistic forecast is for growth of 3.2%. For foreign investors, a theme that must be followed is the definition of rules for land acquisition by foreigners. The proposal submitted by parliamentary representatives representing agribusiness to expand the dimensions of land that may belong to non-Brazilians can be voted in the first half of 2020.

## ENERGY: A CHANGING INDUSTRY WITH GREAT OPPORTUNITIES



Energy sector with vast opportunities. From acquisition of public companies to the provision of services for distributed generation. In Brazil, the analysis of energy consumption by sources, using data from the Energy Research Company (EPE), shows the increase in the share of renewable sources and the drop in the use of oil products between 2011 and 2020. Therefore, solutions for generation and consumption of energy from renewable sources have high acceptance potential in the Brazilian market. This involves distributed generation with emphasis on biomass, in the case of large companies, and photovoltaic energy that has also grown in homes. Major investors may participate in the acquisition of Eletrobras companies, which brings together 16 power generation and transmission companies. Privatization of these assets has been under discussion since 2017, but involves changes in laws and delicate negotiations with labor unions. However, it seems that in the second half of 2020 the government can finally meet its goal and raise about \$ 16 billion. Investors, for the time being predominantly national, have been interested in energy traders, companies that sell energy in the free market. In the 12-month comparison of November 2019 data, the number of consumers in this market increased by 19%. The total traded represents 37% of all energy consumed in the country, according to the Brazilian Electricity Trading Association (ABRACEEL). In the same period, 29% of the energy traded came from wind farms, photovoltaic, biomass and SHPs.



# SECTORS FORECASTS

## OIL AND GAS: NEW RULES TO ATTRACT INVESTORS

The oil and gas sector is one of the most impacted by Brazil's economic opening process. The biggest impact will come from regulatory changes aimed at raising investor interest in the exploitation area, which is expected to increase opportunities in pre-salt reserves. By 2020, the Brazilian Petroleum Institute (IBP) expects the industry to undergo unprecedented transformation by reducing government participation and returns based on market performance. In the prevailing model for the pre-salt fields, it is the government's responsibility to define the bonus paid to investors. It is noteworthy that Petrobras has been promoting divestment in the distribution and refining segment, maintaining its focus on exploitation. This movement should be maintained in 2020, attracting new investors. The possible arrival of new players should positively impact the demand throughout the sector's production chain for specialized services. Currently, these businesses represent 13% of national GDP.

## TELECOMMUNICATIONS: THE 5G DEADLOCK

Brazil is a major consumer of telecommunications services. Data indicates that Brazilians devote almost 10 hours a day to the internet, concentrated access on smartphones. Data are from the National Telecommunications Agency (Anatel). A recent survey by Deloitte Brazil confirmed users' willingness to pay more for better services and more satisfying experiences, including for online shopping, the country's fastest growing market. Following the international market, 2020 may be marked by a movement of mergers acquisitions in the fiber optics and towers segment. In Brazil, telcos sold tower assets to streamline operations and raise funds, but today they are thinking of creating new companies or repurchasing assets. The number of users per tower in the country is four thousand, in the USA is a maximum of 500. Fiber optics should change this scenario in the coming years, but before it has a lot of space to occupy. The government has not yet defined the rules for its 5G membership. The subject is under evaluation at Anatel, but has suffered some delays. It is expected that the rules will finally be defined in the first quarter of 2020 and the auctioning of operating licenses will take place in the second half. In addition to Anatel, Brazil, like other countries, has been under pressure from the US to prevent Chinese Huawei's participation in the domestic market. Thus, despite official forecasts, market does not expect a definition before 2021.



The graph shows the number of telecommunications service contracts in force until the first half of 2019. Data are from the National Telecommunications Agency (Anatel).



# SECTORS FORECASTS

## SANITATION: THE OPPORTUNITY TO ADVANCE ON A NATIONAL URGENCY

Only 53.2% of the Brazilian population is served by basic sanitation network. For the universalization of the service, investments of R \$ 50 billion / year are required until the year 2033, totaling R \$ 700 billion. In recent years, Brazilian society has focused on a broad debate about the regulation of the sector for the entry of private companies, since the companies are predominantly public. Therefore, a cycle of privatization of state and municipal companies is also expected. The new regulatory framework that will enable the sale of assets in the sector and the formation of public-private partnerships is being voted by the National Congress. It is expected to be defined in the first quarter of 2020. Business opportunities in this area are divided into four parts:- drinking water supply- Collection and treatment of sewage- Urban Cleaning- Waste reduction and recycling

## MOBILITY: PRIVATIZATION CAN TRANSFORM THE COUNTRY'S INFRASTRUCTURE LANDSCAPE

The Ministry of Infrastructure announced that by 2020 there are 44 privatizations in the mobility sector. The government expects to raise more than one hundred billion reais during the duration of contracts that average 35 years.

The poor quality of airport services and the poor condition of the country's highways are a relevant part of the "Brazil cost" making the need for investment urgent.

The package announced by the government includes 22 airports (divided into three blocks), seven highways, nine port terminals, two railways and the early renewal of four rail freight contracts.

## HEALTH: 210 MILLION PATIENTS OR WOULD THEY BE CLIENTS?

The Unified Health System (SUS) is an international reference, but the objective of the current government is to reduce public investments in the area and expand the performance of companies in the health insurance sector and other popular business models that can meet, above all, the poorer population.

The country already has the so-called "popular clinics" with low cost for consultations and exams. In the area of medicines, the government has also been reducing the supply of subsidized drugs, making room for the private sector.

## CANNABIS

As in other countries, Brazil is experiencing an internal debate on the liberalization of cannabis production and marketing. In November, the National Health Surveillance Agency (Anvisa) authorized the marketing of medicinal cannabis, but not the production of the plant in the country. The debate is still alive, especially because it is necessary to plant cannabis to evolve in national research that seeks to develop a market with different ways of using the plant.



# SECTORS FORECASTS

## CONSUMPTION: BACK TO SHOPPING

Expectations for the consumption of Brazilian families are positive. After five difficult years, Brazilians are again increasing their consumption of products and services. Experts project a rise above 2%.The financial market proves the expectation.

At B3, the Sao Paulo Stock Exchange, retail and services companies have attracted investors' attention. Thus, department stores, cosmetics companies, tourism companies and construction companies are performing well and are being recommended by market analysts. The end of 2019 was very positive for the stock markets that have broken consecutive records, driven precisely by the hopeful realism that hangs in the air. Therefore, in the consumer area, opportunities are as much in stock market investments as for companies that want to bring new business to the country..



## COMMUNICATIONS:

**IN TIMES OF PROFOUND TRANSFORMATION, YOU NEED TO KNOW WHERE TO LISTEN IN ORDER TO SPEAK**

Listening before you speak is a wise advice. Listening in times when everyone speaks through different channels is an exercise of attention and empathy. You have to be willing to understand what people want, but it is very important to understand what they no longer want. To reach and engage their audiences, governments and businesses are challenged to constantly practice this exercise and to be willing to review their practices and positions, if necessary.

In Brazil, WhatsApp messaging application is the most used means by over 90% of the population to inform themselves from political questions or shopping tips. Brazilians are recognized for their intense activity in social networks, which has influenced the polarization in politics and behaviors. This will be the communication challenge at the beginning of this third decade of the 2000s: properly understanding and segmenting communication actions to create positive and prosperous bonds.







#### **SOURCES:**

##### **Government agencies**

Ministry of Economy  
Ministry of Infrastructure  
Institute for Economic Research (IPEA)  
Brazilian Institute of Geography and Statistics (IBGE)  
National Supply Company (Conab)  
National Congress

##### **Private Institutions**

National Confederation of Industry (CNI)  
National Confederation of Agriculture (CNA)  
Getúlio Vargas Foundation (FGV)  
Brazilian Institute of Petroleum  
B3  
Moody's

##### **International Institutions**

United Nations (UN)  
World Bank

##### **Press**

Valor Econômico Newspaper-  
O Globo Newspaper  
Folha de S.Paulo Newspaper  
O Estado de S Paulo newspaper  
GloboNews TV

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