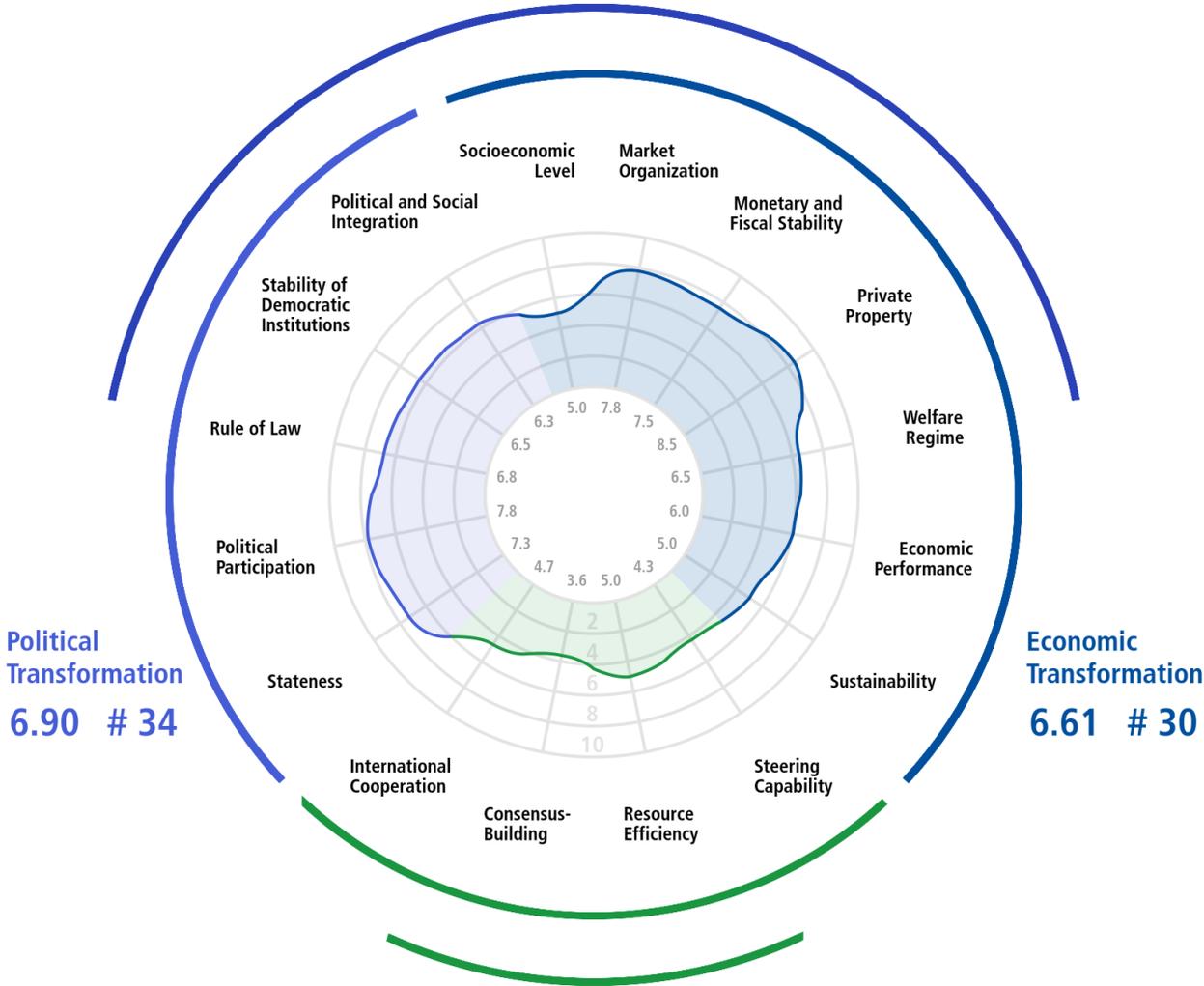


Brazil

Status Index

6.75 # 25

on 1-10 scale out of 137



Political Transformation
6.90 # 34

Economic Transformation
6.61 # 30

Governance Index

3.80 # 102

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	215.3	HDI	0.754	GDP p.c., PPP \$	17822
Pop. growth ¹	% p.a.	0.5	HDI rank of 189	87	Gini Index	52.9
Life expectancy	years	72.8	UN Education Index	0.704	Poverty ³	% 11.3
Urban population	%	87.6	Gender inequality ²	0.390	Aid per capita \$	5.2

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

The period under review primarily focuses on the latter half of ultra-conservative President Jair Bolsonaro's four-year term in office. Democracy faced a concrete stress test at this time, similar to the first two years of his administration. Nearly all indicators relevant to the country's democratic status experienced deterioration. The resilience of democratic institutions and the judiciary's interventions, which consistently checked the president's authoritarian tendencies, prevented these impairments from being more severe. Nonetheless, most observers concur that a second term for Bolsonaro would have propelled Brazil further into autocracy. Consequently, there was immense relief when former President Lula and a broad coalition successfully thwarted Bolsonaro's re-election in the 2022 run-off elections. However, Bolsonarismo remains deeply rooted in Brazilian society and politics, securing numerous mandates in parliamentary and gubernatorial elections and enjoying widespread approval. At the same time, an overwhelming majority of Brazilians condemned the violent storming of government, parliamentary and judicial buildings in the capital, Brasilia, by radicalized supporters of the former president in January 2023. The days following these violent clashes saw a peak in fundamental support for democracy as a form of government.

With regard to economic status, the situation in Brazil has not fundamentally changed. The country performs relatively well in terms of competition policy, liberalization of foreign trade, private property, the financial system and monetary stability. Economic performance has slightly improved compared to the previous reporting period. Comprehensive government aid programs have cushioned the social consequences of the COVID-19 pandemic. One sector that has suffered, particularly from government policies, is education. Universities and research institutions were confronted with massive budget cuts and a fundamentally anti-science attitude on the part of the president.

The general governance performance has continued to deteriorate in the past two years, affecting both the prioritization and implementation of public policies. Brazil has traditionally boasted a well-established public administration, but the arbitrary reshuffling of positions, budget cuts and the appointment of ideological followers instead of experts have greatly hindered the effective utilization of available resources. Despite the government's initial promise to engage in a comprehensive anti-corruption campaign, the situation has in fact worsened significantly. The Bolsonaro administration showed little interest in pragmatic and constructive cooperation with dissenting voices, whether internally or in the context of international relations. Instead, it exacerbated existing divisions for political purposes, severely curtailed mechanisms for civil society consultation, and disregarded the importance of reconciling with political opponents. The growing militarization of Brazilian politics has raised concerns abroad, and the Bolsonaro government has eroded much of Brazil's traditional prestige and international credibility. Brazilian foreign policy has shifted away from emphasizing medium- and long-term bilateral and multilateral cooperation with regional and global partners, instead prioritizing short-term and unpredictable alliances with governments that share the president's deeply conservative and autocratic worldview.

History and Characteristics of Transformation

Democratic transformation in Brazil spanned a period of almost 20 years. The first steps toward liberalizing the authoritarian regime (1964 – 1985) were taken in 1974. In January 1985, Tancredo Neves was elected president by an electoral assembly but died before he could take office. Vice President José Sarney instead assumed the office (1985 – 1990). A new democratic constitution took effect in October 1988. In March 1990, the first directly elected democratic president, Fernando Collor de Mello, assumed office. Implicated in a corruption scandal, Collor was removed from office in September 1992, and Vice President Itamar Franco served out the remainder of Collor's term. The economy began to stabilize under President Fernando Henrique Cardoso, who, elected in 1994 and re-elected in 1998, remained in office until 2002. In 2002, leftist Luiz Inácio da Silva (popularly referred to as "Lula"), a former union leader and chair of the Workers' Party (Partido dos Trabalhadores, PT), was elected president. He was re-elected to a second term of office (2007 – 2010) in 2006. In 2011, Lula's protégé Dilma Rousseff took office as Brazil's first female president. She was re-elected for a second term in 2014. After a highly controversial impeachment process, Rousseff was suspended in May 2016 and removed from office in August 2016. Vice President Michel Temer became acting president in May 2016 and was sworn in as president for the remainder of the presidential term in August 2016. In October 2018, right-wing politician Jair Bolsonaro was elected president for the term from 2019 to 2022. Bolsonaro repeatedly demonstrated that he posed a threat to democracy in both his rhetoric and concrete actions. He acted as a populist leader and incited his radicalized supporters to anti-democratic behavior. Thanks to existing checks and balances, some of the worst excesses of Bolsonaro's political plans were prevented.

After the end of World War II, Brazil's transition to a market economy was guided by the concept of import substitution industrialization. This period of development lasted until the 1980s. Throughout this time, the Brazilian government established priorities for industrialization and played a central role in the industrial sector. State-owned enterprises were highly influential in numerous sectors, and the state development bank provided funding for areas considered to be of high importance by government planners. In the 1990s, there was a partial shift away from the developmentalist model, paving the way for privatization and economic liberalization. The first two governments under President Lula adhered to the macroeconomic stability policy introduced by the Cardoso administration while also expanding social policy on a large scale. Thanks to favorable external conditions, such as the commodity boom, the PT Workers' Party administration managed to combine economic growth with social development, lifting millions of Brazilians out of poverty. Since 2013, Brazil's economy has increasingly faced difficulties and slipped into recession. President Temer began pursuing a much more neoliberal agenda in 2016. Although the economy has stabilized since 2017, high unemployment and a tense budget situation have persisted. Ultra-liberal economist Paulo Guedes served as President Bolsonaro's "super-minister" of economics and finance. He successfully maneuvered Brazil through the severe economic consequences of the COVID-19 pandemic with a certain level of stability. He aimed for a comprehensive neoliberal deregulation and privatization of the Brazilian economy, achieving only partial success in this regard.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

In principle, the state has a nationwide monopoly on the use of force, but in practice this is not fully functioning. There are problems related to the failure of security policies, as well as deficiencies in law enforcement. In several large cities and in remote areas, the state is unable or unwilling to guarantee private and public security. Organized crime is extremely powerful in several metropolitan areas. Gangs such as Primerio Comando da Capital and Comando Vermelho operate throughout the country and have additionally become a transnational threat in neighboring countries. They operate in the areas of arms and drug trafficking and control many of the country's prisons. Violent massacres frequently occur in Brazil's overcrowded prisons. Another source of extralegal violence is militias – paramilitary organizations primarily formed by off-duty police officers. Militias control numerous favelas and operate in many neighborhoods. Several million people live in areas controlled by these criminal actors. They collect protection money, threaten entire neighborhoods and are responsible for numerous extrajudicial killings. During President Bolsonaro's term in office, the incidence of environmental crimes and crimes against Indigenous people increased sharply in large parts of the Amazon. They were largely ignored by the government and the officials they appointed, so a climate of impunity spread, and many actors now lack a sense of guilt.

Civilian authorities generally maintain effective control of the federal security forces; however, state-level security forces have committed numerous human rights abuses. Police forces are decentralized and under the control of state governments. Brazil is characterized by a high rate of police violence. In 2022, a total of 6,145 deaths were attributed to the police, which is 4.9% less than the previous year. Brazil is one of the countries with the highest homicide rates in the world. Despite comprising only 2.7% of the world's population, the country accounts for 20.4% of the world's homicides. A consistently high number of 47,503 homicides was reported for 2022. While lethal violence has declined somewhat in many parts of the country, it continued to increase in the north in 2020 and 2021. In the Amazon region, the rate of lethal violence is

Question
Score

Monopoly on the
use of force

6

'06 '24 10

7 6

1

38% higher than the national average. Restrictions on the purchase of firearms were significantly relaxed by President Bolsonaro in 2019. Between 2018 and 2022, the number of registered guns increased by 473%. In addition to weapons owned by state and private security forces, as well as legally registered weapons, an estimated 3.8 million weapons are in the hands of criminals. The easy availability of firearms is considered a key contributor to the high number of violent crimes.

The vast majority of the population accepts the nation-state as legitimate and most fundamentally acknowledge the state's constitution. All citizens are accorded the same civic rights. Ethnic, religious and cultural minorities are not systematically excluded from political citizenship, either on a de jure or de facto basis. In 2003, Brazil ratified the International Labor Organization's Convention 169, which guarantees the Indigenous and quilombola populations the right to self-determination, participation in decisions affecting their ways of life and ownership of their traditional territories, among other things.

Under the Bolsonaro government, there were systematic violations of Convention 169. Authorities that are supposed to protect the Indigenous population were weakened and staffed with individuals close to the interests of the agricultural lobby. No Indigenous territories were demarcated under the Bolsonaro government. State authorities have explicitly welcomed the illegal invasion of Indigenous territories by land invaders, miners and gold prospectors. The priority of the Lula government has been to restore Indigenous protection rights, but it remains uncertain to what extent it will be able to enforce such a policy against the large number of supporters of the current situation in the national Congress and in the affected states, the majority of which are governed by Bolsonaro supporters.

The state is secular. Religious dogmas have not notably influenced the country's legal order or political institutions in the past. However, the political power of religiously motivated forces has grown in recent years. The percentage of citizens identifying as evangelicals has increased from around 7% in 1980 to approximately 30% today. In the Federal Congress elected in 2022, about 132 deputies and 14 senators will be part of the Frente Parlamentar Evangélica (FPE) – a higher number than in the previous legislature (112 deputies and 11 senators). This represents slightly over 25% of the deputies and 17% of the senators. Moreover, not all evangelicals are members of the FPE. The evangelical caucus articulates positions against issues such as gender equality, abortion and same-sex marriage. It also opposes the imposition of criminal penalties for violence and discrimination against homosexuals, bisexuals and transsexuals, as well as for parents who engage in corporeal punishment directed at their children.

Surveys show that evangelical radicalism poses a threat to Brazilian democracy. In January 2023, 68% of evangelicals believed that President Lula had not received more votes in the elections than ex-President Bolsonaro. More than 64% of evangelicals surveyed favored military intervention to depose the elected

State identity

8



1

No interference of religious dogmas

8



1

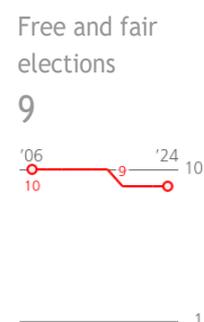
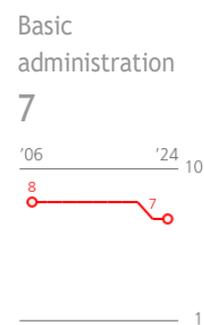
government, and 15.5% even called for a military dictatorship. Among the respondents, 31.2% of evangelicals supported the storming of the government and parliament buildings in Brasilia by radical supporters of ex-President Bolsonaro on January 8/9, 2023, while this share was only 18.4% among the entire survey population.

The administrative structures of the state provide the majority of basic public services throughout the country, but their operation is somewhat deficient. This is true for the provision of judicial functions, the tax authorities and law enforcement, as well as for administrative functions in areas such as communication, transportation and basic infrastructure. In 2020, 99.3% of the population had at least basic access to a water source, 85.8% had safely managed access to a water source, 90.1% had at least basic access to sanitation, 48.7% had safely managed access to sanitation and 100% had access to electricity. The state apparatus operates efficiently and professionally in some regions, while the northern and northeastern states remain characterized by clientelism and patronage. Many cities face challenges in delivering infrastructure services, reducing water and air pollution, minimizing disaster risks, and addressing problems of water scarcity and the lack of access to basic services.

The Sistema Único de Saúde (SUS, Unified Health System), introduced in the late 1980s, provides health care services for the entire population. In principle, the system is considered a successful model in the Latin American context, although in recent years there have been increasing complaints about the system's inadequate financing. Overall health spending of 9.6% of GDP in 2019 is actually higher than the OECD average of 8.8%, but private payments account for 60% of this spending, as the SUS is underfunded. During the COVID-19 pandemic, particularly in remote parts of the country and among the Indigenous population, there was a sometimes dramatic lack of medical services and inadequate levels of protection for vulnerable people. This was mainly due to the Bolsonaro government's health and vaccination policy, which was also sharply criticized by local and regional health authorities.

2 | Political Participation

There are no essential constraints on free and fair elections. This was reconfirmed by both the 2020 municipal elections and the presidential and parliamentary elections of 2022. Despite the heated political and social atmosphere, the country's electoral institutions function appropriately. General elections are regularly conducted on the national level, ensuring universal suffrage with secret balloting. Diverse parties, each with varying platforms, are able to run, and political posts are filled based on election outcomes. Legal regulations provide a fair registration procedure for all elections, preventing discrimination against candidates and parties. The electoral management body operates impartially and effectively. All citizens are permitted to compete in elections if nominated by a registered political party. The Supreme Electoral Court



enforces electoral rules and sanctions politicians and organizations that disregard the law. Political parties enjoy unrestricted operations. All adult citizens can participate in national elections, with registration and voting being compulsory. In practice, nearly all voting-age citizens are registered. Voting is accessible, secure and secret so as to ensure effective participation. Although former President Bolsonaro repeatedly questioned the reliability of the electoral system in public, he was never able to prove his claims. An investigation report on the 2022 elections, prepared by the armed forces, revealed no evidence of irregularities. Nevertheless, many Bolsonaro supporters question the legitimacy of Lula's victory in the 2022 presidential election.

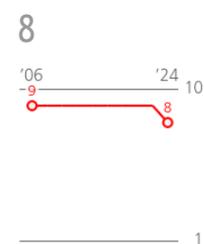
Democratically elected political representatives exercise governmental power. There are no explicit veto powers. However, it took a long time after the end of the last military dictatorship for the armed forces to be effectively subordinated to civilian power. It was not until 1999 that the Ministry of Defense was created. Prior to that, the commanders-in-chief of the branches of the armed forces sat at the cabinet table. Until 2018, all defense ministers were civilians. At that time, interim President Temer appointed a military officer as defense minister and used the armed forces to manage internal problems such as urban crime fighting. Under President Bolsonaro, there was a significant militarization of Brazilian politics. Many ministers appointed by Bolsonaro came from the armed forces, and more than 6,000 officers were appointed to administrative posts, sometimes blurring the lines between a civilian and a military government. This often violated the legal principle requiring active military personnel who have served in civilian office for more than two years to leave active military service.

The role of the armed forces in the storming of government and parliament buildings by radicalized supporters of former President Bolsonaro on January 8, 2023 has not yet been fully clarified. There is at least circumstantial evidence that elements within the armed forces tolerated the storming of the buildings. President Lula subsequently fired the army chief, as well as 26 of the 27 Federal Highway Police chiefs and numerous military officers responsible for presidential security. Lula faces the enormous challenge of countering the political role of the military, which Bolsonaro has explicitly promoted, and channeling the armed forces back to their proper role of national defense.

The constitution guarantees the unrestricted freedoms of association and assembly, and these rights are enforced. Brazil has ratified international human rights treaties that oblige the government to safeguard the freedoms of expression and association. There are no restrictions on assembly and association for specific groups. Groups are generally able to operate free of unwarranted state intrusion or interference in their affairs. Public debate is vibrant but highly polarized.

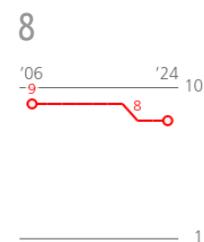
The Bolsonaro government did not alter the right to freedom of assembly, but excessive use of force was not uncommon in police actions against demonstrations. Bolsonaro repeatedly defended this police violence.

Effective power to govern



1

Association / assembly rights



1

Constitutional guarantees of freedom of expression and freedom of the press are strong. However, the situation for individuals holding positions critical of the government and for critical journalists significantly deteriorated during the Bolsonaro administration. In the 2022 edition of the World Press Freedom Index, Brazil's ranking declined from 102nd (2018) to 110th place. Media ownership in Brazil is highly concentrated, resulting in biased information that often favors private power interests. There are no government restrictions on internet access, and Brazilians are known for being among the most active internet users worldwide. Brazilians spend an extensive amount of time on social media networks, surpassing the global average. Over 85% of Brazilians actively engage with various social media platforms.

Brazil has had a Freedom of Information Act since 2011. It obliges the government to publish certain information on its own initiative and also gives citizens the right to request information from government institutions. In principle, the law has contributed to greater transparency in government action, but critics complain that the state's information obligations do not go far enough and that classifications of information as matters of national security can be abused to keep information under wraps.

Physical violence against journalists has long been a major problem in Brazil, especially in remote parts of the country. The murder of British journalist Dom Phillips and Brazilian expert Bruno Pereira in June 2022, while they were researching Indigenous rights violations in the Amazon, brought this problem to the attention of the world. In addition, the day-to-day threats to critical journalists, a general lack of resources and inadequate infrastructures place severe constraints on independent reporting and cause some journalists to self-censor. During President Bolsonaro's term in office, the situation was exacerbated by the fact that the media was systematically under fire from the government. Critical media outlets were among the Bolsonaro government's favorite targets throughout his term. Bolsonaro regularly attacked independent media organizations, making homophobic and racist remarks. His government instituted legal proceedings against numerous critics. On his social media channels, Bolsonaro regularly blocked critics, preventing them from exercising their right to freedom of expression. During the first month of the 2022 election campaign alone, more than 2.8 million social media posts by Bolsonaro supporters contained insults and threats against critics of the former president. Even after the end of Bolsonaro's term, independent journalists have been exposed to danger, as demonstrated by the numerous attacks from the Bolsonaro camp against journalists covering the storming of the government and parliament buildings on January 8, 2023. The state communications agency EBC, which is by law an independent authority, became a propaganda tool of the government under Bolsonaro. The ex-president repeatedly used the media for disinformation campaigns, for example, by spreading demonstrably false claims about the electoral system and the coronavirus. By decree, Bolsonaro imposed a 100-year closure on incriminating information about his family and government activities, such as his highly controversial handling of the COVID-19 pandemic.

Freedom of
expression

6



The Lula government faces the challenge of countering the climate of open hostility toward independent and anti-government media that has intensified under Bolsonaro. The new government has declared its intention to do so; however, the extent to which it will succeed remains to be seen.

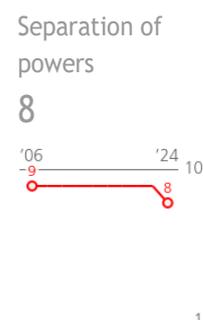
3 | Rule of Law

Formally, the separation of powers is firmly anchored in Brazil's 1988 constitution. The country has a federal system of government in which governmental powers are divided among the federal government, the states and local authorities. The powers of the federal government are divided horizontally among the executive, legislative and judicial branches. Mutual checks and balances are in place. The constitution makes the president accountable to the National Congress. The legislature can require any executive minister to appear personally to testify or answer written interrogatories. The National Congress has the power to legislate, but that power is not exclusive.

Considerable legislative power is granted to the executive. The president has the right to issue delegated laws and provisional measures that have the force of law for a limited period. He or she may also veto legislation, and only an absolute majority vote of both houses of the National Congress can override this decision. The National Congress is not allowed to authorize programs that are not included in the annual budgetary law. This grants the executive extraordinary power to prevent the passage of legislation to which it is opposed. The judiciary checks both the legislature and the executive through the power of judicial review. The Supreme Court may revoke laws and decisions of the executive branch if it concludes that they violate the constitution.

Relations between the executive and the other two branches of government fell far from the norms of democracy during the Bolsonaro administration. The president regularly questioned constitutional and legal norms, the Supreme Federal Court and the Supreme Electoral Court, as well as their individual members. He cast doubt on the Supreme Court's legitimacy and openly claimed he would not adhere to its rulings. By engaging in such behavior, the government not only endangered the role of judges in a democratic society but also put institutional stability at risk.

For its part, the Supreme Court repeatedly countered anti-democratic measures and policies of the executive branch, thereby preventing authoritarian excesses and democratic backsliding. In defense of democracy, the Supreme Court augmented its own powers in 2019, granting itself the authority to conduct independent investigations. Consequently, the court has become, on the one hand, a "hero" in terms of curbing the anti-democratic excesses of the Bolsonaro government. However, the legal controversy surrounding the expansion of its powers has also attracted critical scrutiny.



The judiciary is institutionally differentiated, largely independent of government intervention and professionally organized. However, its efficiency is somewhat restricted by limited capacity and corruption. The system is heavily overburdened. Brazilian law is heavily procedural. Despite repeated attempts at reform, the legal system still operates with these weaknesses. There have also been inconsistent decisions, most prominently in the cases of the Lava-Jato corruption scandal or the corruption allegations against Lula da Silva – both cases that have seen considerable judicial back-and-forth in recent years.

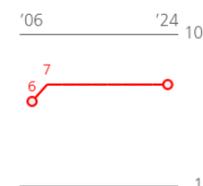
The judicial branch consists of the Common Justice and the Specialized Justice sections. The latter includes the Electoral Justice, Military Justice and Labor Justice sub-sections. The Common Justice division is responsible for all cases that do not fall within the spheres of action of the Specialized Justice division. It consists of the Federal Justice and the State Justice sub-sections. The Supreme Federal Court and the high courts constitute the highest level of the judiciary. Courts usually manage to control whether the government and administration conform to the law. Judges are granted ample authority to evaluate the constitutionality of the government's acts.

The Brazilian judiciary is professionally organized. Appointment to a career judgeship takes place after an open competition of tests and titles, observing the order of ranking. The president of the republic appoints the ministers of the superior courts, the judges of the Court of Justice of the Federal District and Territories and the judges of the regional courts after the choice has been made and approved by the competent body under the constitution (Federal Senate, election or court appointment). State governors appoint the judges of their local court of justice. Law judges are appointed by the president of the respective court of justice. Federal judges, labor judges and so on are appointed by the president of the regional court under the law and their respective internal regulations. A National Council of Justice oversees the administrative performance of the courts and the duties performed by judges.

Corruption has long been a serious problem in Brazilian society and politics. For many years, corrupt officeholders had little fear of prosecution. This has changed fundamentally in the past 20 years. Brazil has significantly expanded and tightened its anti-corruption legislation. The major corruption scandals of the past two decades, such as “Operation Car Wash,” were in part a consequence of the fact that law enforcement agencies are now much more capable of combating abuse of office and corruption than they were in the past. In recent times, however, the problem of a politicized judiciary resorting to unlawful means has also emerged. The most prominent example of such an approach was the conviction and imprisonment of former President Lula da Silva; this verdict was ultimately reversed, allowing Lula to regain his freedom and political rights.

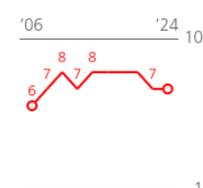
Independent judiciary

7



Prosecution of office abuse

7



Under Bolsonaro, the prosecution of office abuse was undermined by several measures. Within a short period of time, the attorney general appointed by Bolsonaro terminated the activities of several anti-corruption task forces, including the Operation Car Wash Taskforce. The president disabled the financial supervisory authority, which was investigating his eldest son for money-laundering and sought to delegitimize the Federal Police and the Supreme Court with persistent attacks. The government’s “secret budget” almost completely undermined transparency in the distribution of a significant portion of the federal budget. Shortly after taking office, Bolsonaro issued a decree granting the highest level of secrecy to an unusually large number of official government documents. Congress later rescinded this decree, but the president continued to use legal loopholes to declare a large amount of information about government activities secret.

In an independent assessment conducted in 2022 by Transparency International, Brazil was criticized and downgraded for its weakening anti-corruption efforts. Brazil’s implementation of the Anti-Bribery Convention was rated as “limited,” a decrease from the previous rating of “moderate” two years prior. During this period, Brazil initiated only five investigations, began one court case and imposed sanctions for transnational bribery in only two cases. The review highlights numerous setbacks, including political interference in the country’s anti-corruption bodies by the executive, the loss of independence in the Attorney General’s Office and the Federal Police, the discontinuation of the task forces, and a lack of transparency.

The Brazilian constitution contains comprehensive guarantees for the protection of civil rights without prejudice as to origin, race, sex, color, age or any other potential ground for discrimination. Men and women have equal rights and duties. Freedom of religion is guaranteed. Mechanisms and institutions are in place to prosecute, punish and redress violations of civil rights, but they often prove ineffective. Due to extreme inequalities in Brazilian society, there are vast disparities in citizens’ abilities to access legal counsel and the administration of justice. Despite constitutional guarantees, violations exist in practice, particularly in rural areas and urban slums. Brazil has a very high firearms-related homicide rate.

The protection of civil rights significantly deteriorated during the Bolsonaro administration. Bolsonaro and his supporters continuously disseminated hate speech against women, the LGBTQ+ community, Black individuals and Indigenous Brazilians. The president challenged the legitimacy of affirmative action policies in higher education implemented by previous governments. Emboldened by the president’s racist, homophobic, misogynistic and anti-Indigenous rhetoric, the number of attacks against these groups has increased in recent years. Some experts accused Bolsonaro of crimes against humanity for inadequately ensuring Indigenous people, Black people and quilombola (descendants of escaped slaves) their right to isolation, social distancing, prevention and vaccination during the COVID-19 pandemic.

Civil rights

5



4 | Stability of Democratic Institutions

The Bolsonaro administration subjected the country's political regime to the most serious stress test since the return to democracy in 1985. The president and his personal entourage were particularly to blame. Not only was Bolsonaro in constant conflict with the judiciary, but he also refused to cooperate constructively with Congress. Under Brazil's "coalition presidentialism," the highly fragmented party system and the need for presidents to have the support of parliamentary majorities for their policies usually lead to presidents having to form and coordinate multiparty coalitions. Bolsonaro refused to use these traditional mechanisms of Brazilian politics. In his first year in office, he went toe-to-toe with parliament but was unable to advance his agenda in this way. Faced with a parliament hostile to him, he would likely even have faced impeachment sooner or later.

Therefore, starting in his second year in office, the president relied primarily on cooperation with the powerful speakers of the two chambers of parliament. In exchange for political support, he granted them significant access to budgetary grants. In 2022, Congress controlled nearly 25% of the discretionary spending portion of the federal budget. In 2014, this figure was only 4%. These grants, known as "rapporteur-designated budgetary grants," are handled in a highly opaque manner, with no disclosure regarding which congressperson can access them; only the rapporteurs responsible for the grants are revealed. As a result, the parliamentary speakers became crucial actors in the allocation of the federal budget, which in turn undermined the constitutionally established budgetary discipline.

Bolsonaro also made exceptional use of the instrument of constitutional amendments. From 1988 to 2018, the constitution was amended on average 3.5 times per year, but under Bolsonaro, the average increased to 7.5 amendments per year. Among other effects, these amendments furthered the president's strategy of autocratization and challenged principles such as social democracy, labor protection and social security guarantees.

President Jair Bolsonaro, who was narrowly voted out of office in October 2022, held an anti-democratic attitude. For decades, he had made no secret of his admiration for the military dictatorship. In power, he ensured the militarization of Brazilian politics, fueled social polarization and denied legitimacy to his political opponents. Bolsonaro was able to count on the active support of a loyal, radicalized following and, as the close election results in 2022 showed, at least implicit support from almost half of Brazilian society. The president, his personal and private circles, and his radicalized following proved to be a serious threat to democracy. This was demonstrated by the storming of parliamentary, judicial and government buildings in Brasilia by Bolsonaro supporters on January 8, 2023. Bolsonaro had been agitating against the country's electoral system for some time without concrete evidence, denying in

Performance of democratic institutions

6



Commitment to democratic institutions

7



advance the legitimacy of any election result in which he would not be the winner. With this attitude, he incited his supporters after the lost election to call for intervention by the armed forces to prevent his duly elected successor, Lula da Silva, from taking office. Bolsonaro also refused the democratic custom of handing over the presidential sash to his successor. He traveled to the United States before the change of government on January 1, 2023. Despite his loss in the presidential election, the Bolsonarismo named after him remains a strong and anti-democratic social and political force that will not make it easy for the Lula government to return to democratic normalcy.

In addition, the military adopted an ambivalent position toward democratic legitimacy. They supported protesters who camped on their grounds after the 2022 elections and promoted ambivalent reports regarding the electoral process. Overall, they have accepted the election results, but there certainly are authoritarian enclaves inside the barracks that would support a military coup.

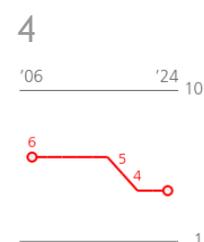
5 | Political and Social Integration

The Brazilian party system is characterized by high levels of fragmentation, volatility and polarization, as well as weak social roots. Clientelistic practices are frequently observed. In 2022, there were 22 parties that had been approved by the Supreme Electoral Court. The substantial fragmentation and volatility of the party system have multiple causes, which are in turn connected to the country's political polarization, which has significantly increased over the past 10 years, as well as anti-establishment attitudes and protest voters. Further explanatory factors include the organizational weaknesses of political parties and the fact that voters primarily vote for individuals rather than parties.

The most influential political parties in the Chamber of Deputies, which is made up of 513 members elected in October 2022, are the Partido Liberal (PL) with 99 seats; the Federação Brasil da Esperança (FE Brasil), consisting of Partido Comunista do Brasil (PCdoB), Partido dos Trabalhadores (PT) and Partido Verde (PV), with 81 seats; União Brasil (UNIÃO), which resulted from the merger of Democratas (DEM) and Partido Social Liberal (PSL), with 59 seats; Progressistas (PP) with 47 seats; Movimento Democrático Brasileiro (MDB) with 42 seats; Partido Social Democrático (PSD) with 42 seats; and Republicanos (REP) with 40 seats. Additionally, 12 other parties and party federations hold a combined total of 103 seats.

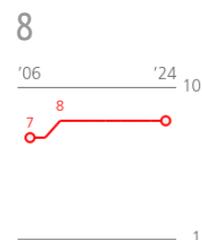
In the Senate, which is made up of 81 members, the PSD holds 15 seats, the PL holds 12 seats, the MDB holds 10 seats, UNIÃO holds nine seats, FE Brasil holds nine seats, PP holds six seats, PODE holds five seats, REP holds four seats, PSB holds four seats, PSDB-Cidadania holds three seats, PDT holds three seats and PSOL-REDE holds one seat.

Party system



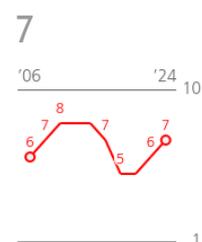
Brazil's network of interest groups is relatively close-knit, reflecting most social interests, but dominated by a few strong interests. Labor and capital associations are paramount. The country's contemporary union movement was born in the struggles against the military dictatorship that ruled the country from 1965 to 1985. Following democratization, there was a gradual drift away from traditional corporatist state models. The constitution of 1988 eliminated the Labor Ministry's previously extensive powers to intervene in union affairs, but other elements of the corporatist system remained intact. The 2017 labor legislation reform abolished the compulsory annual union tax. Workers now have to opt in to make the payment. This has led to a massive loss of revenue for the unions. Nevertheless, the number of individual unions has further increased from 16,517 in 2017 to 17,969 in 2022. Trade unions are increasingly seeking to provide additional services to their members in order to finance themselves. There are 13 trade union federations, the strongest of which is the Central Única dos Trabalhadores (CUT). The unionization rate is approximately 20%. Approximately 60% of the formally employed are covered by collective agreements. Even in difficult times, unions have demonstrated a relatively high mobilization capacity and have forged comprehensive political and social alliances. Since 2016, however, their room for maneuver has been reduced due to the ongoing economic crisis and the shift to the far right in politics and society. The National Confederation of Industries represents 27 industry federations in the states and federal district, encompassing more than 1,000 associated employers' unions and almost 100,000 industrial establishments.

Interest groups



Brazil has long had one of the lowest popular levels of support for democracy in Latin America. In 2018, only 34% of survey respondents indicated that they preferred democracy over any other form of government. Support for an authoritarian regime under certain circumstances reached 41% that year. The level of satisfaction with democracy was a mere 9% in 2018. A significant 65% of Brazilians believed that their country's democratic system was riddled with problems, and 17% even doubted if it should be called a democracy. Hence, the victory of political outsiders in the 2018 presidential and parliamentary elections directly resulted from widespread dissatisfaction with the existing democratic institutions.

Approval of democracy



President Bolsonaro's anti-democratic posturing has tended to have the opposite effect among the population. In January 2020, 64.8% of respondents said that a democratic regime was preferable to any other form of government. In June 2020 and August 2022, 75% of respondents affirmed the statement that "democracy is always better than any other form of government," while 10% said that a dictatorship is sometimes preferable (and 12% had no preference). Ten days into the run-off election between Lula and Bolsonaro in October 2022, support for democracy reached a record of 79%, while support for dictatorship (5%) was at the lowest level ever recorded by Brazilian polling institute Datafolha since it began asking the question in 1989. Shortly after the attacks on government and parliament buildings in Brasilia, 93% of respondents opposed the attacks in January 2023, while only 3% supported

them. Even among those who voted for Bolsonaro in the second round, 86% opposed the attacks and only 10% favored them. By the end of 2022, 75% of respondents had already come out against protests by Bolsonaro supporters calling for military intervention.

The work of the National Congress was described as good or very good by 20% of respondents in December 2022 (July 2022: 12%), as regular by 48%, and as poor or very poor by 26%. The work of the STF was rated as good or very good by 31% of respondents, as regular by 34%, and as poor or very poor by 31%.

There is a strong network of autonomous self-organized groups and civil society organizations (CSOs) in Brazil. As of 2018, there were about 782,000 CSOs active in the country – slightly fewer than in 2016 (820,000) – but significantly more than in 2015 (526,000). The sector holds economic importance in the labor market, in addition to addressing public interest issues. Organizations dedicated to defending rights and advocating for public interests account for 32% of CSOs, while religiously oriented organizations make up 28.7%.

Levels of interpersonal trust have traditionally been very low in Brazil. In the 2020 Latinobarómetro opinion survey, only 5% of respondents believed that one could trust most people. Latin America is the world region with the lowest level of interpersonal trust, with no country surpassing 21%. However, Brazil ranks last at 5%, behind Venezuela (5%), Nicaragua, Paraguay, and Ecuador (9%).

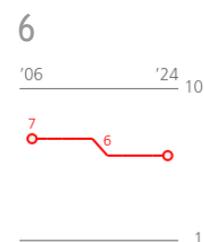
II. Economic Transformation

6 | Level of Socioeconomic Development

Brazil exhibits a moderate to high level of human development according to key indicators, but it has stagnated over the past 10 years and fallen behind countries such as Thailand or Türkiye. The country's Human Development Index (HDI) score for 2021 was 0.754, ranking 87th out of 191 countries and territories. The COVID-19 pandemic exacerbated preexisting structural imbalances and asymmetries. At the beginning of the pandemic, three out of 10 Brazilians were considered poor, and 9% were extremely poor. This had changed little since 2012, although poverty rates had declined sharply in the prior decade (falling by 16 percentage points between 2002 and 2011). Poverty rates remained constant during the pandemic as the government launched a direct cash transfer program for 67 million people. As a result, poverty rates actually declined slightly and were about one percentage point lower in 2021 than in 2019.

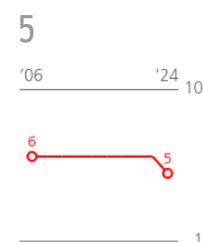
Social exclusion is pronounced and, to some degree, structurally ingrained. The COVID-19 pandemic has further increased social disparities. With a Gini coefficient of 48.9 (2020), Brazil still has one of the world's most unequal distributions of income. The overall loss in HDI due to inequality amounted to 23.6% in 2021. The

Social capital



Question Score

Socioeconomic barriers



inequality-adjusted HDI score was 0.576 in 2021. The gender gap in terms of economic opportunity seems to be narrowing, but women remain at a substantial disadvantage. In 2021, Brazil had a Gender Inequality Index score of 0.390. The 2021 HDI score for women was 0.750 in contrast to 0.755 for men, resulting in a Gender Development Index score of 0.994. Racial inequality remains a serious problem. The high-income population is essentially white, while most Brazilians who live in poverty are Black.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	1873288.2	1476107.3	1649623.0	1920095.6
GDP growth	%	1.2	-3.3	5.0	2.9
Inflation (CPI)	%	3.7	3.2	8.3	9.3
Unemployment	%	12.1	13.9	13.3	9.5
Foreign direct investment	% of GDP	3.7	2.6	2.8	4.8
Export growth	%	-2.6	-2.3	5.9	5.5
Import growth	%	1.3	-9.5	12.0	0.8
Current account balance	\$ M	-68021.7	-28207.6	-46357.8	-56997.4
Public debt	% of GDP	87.1	96.0	90.1	85.3
External debt	\$ M	568690.2	549263.2	606484.6	-
Total debt service	\$ M	151827.3	130057.2	155525.0	-
Net lending/borrowing	% of GDP	-5.4	-12.5	-4.2	-
Tax revenue	% of GDP	13.7	12.7	14.3	-
Government consumption	% of GDP	20.0	20.1	18.6	18.0
Public education spending	% of GDP	6.0	5.8	-	-
Public health spending	% of GDP	3.9	4.6	-	-
R&D expenditure	% of GDP	1.2	1.2	-	-
Military expenditure	% of GDP	1.4	1.3	1.2	1.1

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Brazil has a robust institutional framework for market competition, but the informal sector remains significant. In 2021, informal employment accounted for approximately 39.2% of the active workforce. Pricing is largely unrestricted and determined by market forces. Federal authorities regulate administered prices, which include prices for gasoline, vehicle oil and bottled gas, fuel alcohol, electricity tariffs for residential consumption, telephone and postal rates, public transportation (including airplane and interstate bus fares), and health plans and insurance. Prices determined at the municipal or state level include piped gas, vehicle registration and licensing fees, water and sewage taxes, and public transportation (including urban and intercity bus, subway, and taxi fares). The use and transfer of profits are not regulated. The government generally treats foreign and national capital equally. At the end of December 2022, a new Foreign Exchange Law went into effect, significantly improving currency exchange rules and the treatment of foreign investors. This new law is part of Brazil's efforts to modernize its business rules as it aims to join the OECD. Money transfers of less than \$100,000 to Brazil for foreign direct investment and loans of less than \$1 million no longer require registration with the Brazilian central bank. Transactions in the foreign exchange market can now be freely made, and the exchange rate is mutually agreed upon. Consequently, the Brazilian real can now be considered a fully convertible currency. This new framework simplifies imports and exports and has the potential to further enhance the country's appeal to foreign investors by reducing transaction costs.

In Brazil, there are approximately 300 state-controlled companies. The most representative areas in this regard are the financial, sanitation, and housing and urbanization sectors, respectively, with 35, 28 and 25 companies. By contrast, the mining and health sectors have the fewest state-controlled companies, with six and five, respectively. Despite the presence of ultra-liberal Minister of Economy Paulo Guedes during the review period, there were minimal changes in the basic regulatory mechanisms of the Brazilian economy. The process of organizing new investments remains quite bureaucratic. Entrepreneurs face high costs associated with establishing a business, registering property, accessing credit, paying taxes, enforcing contracts and engaging in cross-border trade. The Brazilian economy is highly regulated, standing out for its complex regulatory framework, burdensome tax system, and a relatively closed trade and competition system. Domestic competition is weak, with many firms prioritizing rent-seeking over innovation.

Market
organization

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Competition laws to prevent monopolistic structures and conduct exist and are enforced. Brazil's antitrust framework is based on Law No. 12,529/2011. The Administrative Council for Economic Defense (CADE) is an independent agency that reports to the Ministry of Justice. CADE's mission is to ensure free competition, and its functions are preventive, restrictive and educational. CADE analyzes and approves or disapproves all mergers between large companies that might undermine free competition. The council investigates and judges cartels and other anti-competitive conduct throughout the Brazilian territory. Furthermore, CADE provides public advice on business practices that might negatively affect free competition. Through CADE, Brazil is a member of the International Competition Network.

Based on an agreement signed in November 2020, the Organization for Economic Cooperation and Development (OECD) examined the existing regulatory mechanisms in two sectors that are of great importance to the Brazilian economy: civil aviation and ports. The civil aviation sector plays a crucial role in the national integration and development of a country the size of Brazil, while the ports are vital for the country's foreign trade. The OECD assessment, presented at the end of 2022, identifies over 500 potentially harmful restrictions such as laws, decrees, ordinances, regulations, public-auction notices and concession contracts that impact the governance of these two sectors and their infrastructure efficiency.

Brazil is an original member of the World Trade Organization (WTO) and a founding member of the Southern Common Market (Mercosur). The country regards the multilateral trading system as the foundation of its trade regime. Brazil has agreed to the 2005 protocol that amends the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (accepted on November 13, 2008) and the 2014 protocol on the Trade Facilitation Agreement (accepted on March 29, 2016). However, Brazil has maintained significant remnants of its protectionist foreign-trade policy from the era of industrialization. The value of exports and imports is less than 30% of GDP. Brazilian companies have a very limited level of participation in global value chains. Various trade barriers impede foreign competition, including approximately 450 tariff lines set at a maximum of 35%, which include textiles, apparel, leather and motor vehicles. The average applied tariff under the most-favored nation status was 13.3% in 2021. Additionally, there are different types of non-tariff barriers, such as local content requirements.

There are burdensome procedures associated with the export and import of goods. Brazil is an active user of anti-dumping measures. Most technical regulations concerning trade are based on international standards. The country's Export Financing Program (PROEX) aims to provide access to credit for companies that would otherwise have difficulties obtaining it. The BNDES-EXIM program is a scheme of export credits to promote exports with local value added. Legislation allows for the application of an export tax of 30%, which can be decreased or increased up to 150%. Taxes may in principle be applied to all exports, but in practice they are levied on only a few products.

Competition policy

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Liberalization of foreign trade

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Brazil has one of the most developed and sophisticated financial sectors in Latin America. The country's banking system and capital markets are well differentiated, internationally competitive and aligned with international standards. The banking infrastructure is strong, and there is a functioning system of banking supervision. Capital markets are open to domestic and foreign capital. The banking sector is dominated by domestic financial institutions, with public banks having a significant share. The regulatory institutions place high demands on financial institutions, which must report regularly on their situation and activities. The system also provides mechanisms for financial institutions facing liquidity problems. International investors have important roles in the capital and derivatives markets. Brazil's bank-capital-to-assets ratio was 9.7% in 2020. The share of bank non-performing loans was 2.2%. Brazil's external solvency and liquidity positions remain strong, and the external vulnerability of the financial sector is low. The country has been experiencing sizable capital inflows over the past decade. Reserve requirements are higher than in other emerging economies.

Moody's downgraded the outlook for the Brazilian banking system to "negative" in April 2020 due to concerns about declining profitability and quality resulting from the COVID-19 pandemic. Since 2021, the rating agency has once again rated the Brazilian banking system as "stable."

8 | Monetary and fiscal stability

Since 1999, Brazil has followed an inflation-targeting framework for monetary policy and a floating exchange rate regime. Foreign exchange regulations have been liberalized, but without allowing full convertibility to the real. The National Monetary Council (CMN) is responsible for the formulation and conduct of monetary policy, coordinating with fiscal policies. The CMN sets annual inflation targets and monetary policy goals, ensuring that inflation and foreign exchange policies align with other economic policy objectives. Brazil's central bank (BCB) institutionalizes these policies and, since 2021, has operated with autonomous status. The BCB's main responsibility is to guarantee price stability. The president of the republic nominates the BCB president for a fixed four-year term.

The benchmark interest rate (SELIC) has undergone dramatic changes over the past six years. Firstly, the BCB lowered the SELIC from 13% in January 2018 to 2% in August 2020, and this remained unchanged until March 2021. Subsequently, the SELIC was gradually increased once again. As of December 2021, it stood at 9.25% and had risen to 13.75% by August 2022. This rate remained stable until February 2023.

The annual inflation rate in 2021 was 10.06%, the highest such rate since 2015. In 2022, price increases initially stayed in double digits, by far exceeding the BCB's target of 3.5%. However, price increases later decreased considerably, leading to an annual inflation rate of 5.79%.

Banking system

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Monetary stability

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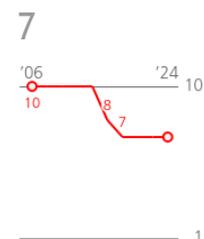
The Brazilian currency, the real, lost considerable value against the U.S. dollar from 2018 to 2020. The exchange rate fell from \$1 to BRL 3.90 in December 2018 to BRL 5.70 in 2020. Subsequently, the real recovered somewhat, trading for \$1 to BRL 5.2 at the end of 2022. The real effective exchange rate (2005 = 100) was 85.3 in November 2022, compared to 69.6 in 2019.

Brazil has various mechanisms in place to guarantee stability-oriented budgetary and expenditure policies, including the 2000 Fiscal Responsibility Act and a constitutional spending cap introduced under President Temer in 2016, which prevents the federal government from increasing public spending from one year to the next. The so-called golden rule bans debt issuance to fund current spending. The Bolsonaro government took further steps to improve fiscal stability, such as the 2019 pension reform. However, other reforms planned by Economy Minister Guedes were largely unenforceable. Moreover, starting in 2020, the Bolsonaro government invented creative ways to circumvent the spending limits enshrined in the constitution.

In fact, due to the spending cap, most of the budget – about 90% to 95% – is fixed. This means there is very little room for maneuver with the remaining 5% to 10% of discretionary spending. However, the Bolsonaro government repeatedly succeeded in getting constitutional amendment laws through Congress that exempted spending increases from the spending cap. This was the only way it was possible for the government to finance comprehensive programs for the poor and for informal workers in the wake of the COVID-19 pandemic. At the same time, the president used such laws to buy the support of the so-called *centrão* group of political parties, which in this way received budgets for individual projects. The minister of economy had intended to impose greater spending discipline again beginning in 2021, but this could not be enforced with the president. Instead, Bolsonaro continued to use government spending to a considerable extent in 2022 to buy political support in view of the upcoming elections.

Brazil's current account deficit has significantly decreased in recent years. At the end of 2019, it was \$50.9 billion, and by the end of 2021, it had dropped to only \$7.7 billion. However, by December 2022, it had risen again to \$10.9 billion. Total public debt reached \$36.6 billion at the end of 2022, corresponding to 73.5% of GDP. This marked Brazil's lowest debt-to-GDP ratio since July 2017, while in December 2020, it still amounted to 86.9% of GDP. Additionally, total external debt increased to \$676.3 billion in the fourth quarter of 2022 from \$569.4 billion at the end of 2019. The debt-service-to-GDP ratio was at 5.6% in December 2022. Government consumption declined to 19.1% of GDP in 2021, down from 20.3% in 2019. Furthermore, total foreign exchange reserves decreased to \$324.7 billion in December 2022, compared to \$371.9 billion in 2019. Lastly, the consolidated public sector recorded a primary surplus of BRL 126 billion (1.28% of GDP) in 2022, compared with a surplus of BRL 64.7 billion (0.73% of GDP) in 2021.

Fiscal stability



9 | Private Property

Private property rights are well defined, and property acquisition is adequately regulated. The process of real estate registration is well-developed and safe. Foreigners can purchase land and property. There are few restrictions on converting or transferring funds associated with a foreign investment. Foreign investors are allowed to remit dividends, capital and capital gains. Contracts are considered secure.

While once criticized for lax intellectual property (IP) rights protection, Brazil has been stepping up the implementation and enforcement of international IP rules in recent years. The country is a signatory to the General Agreement on Tariffs and Trade (GATT) Uruguay Round Accords, including the Trade-Related Aspects of Intellectual Property Agreement. Brazil is also a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the International Convention for the Protection of New Varieties of Plants (UPOV), and the Paris Convention for the Protection of Industrial Property. In most respects, Brazil's Industrial Property Law meets international standards regarding patent and trademark protection. Under this law, rights for patents, industrial designs and trademarks can be acquired. Brazil's National Intellectual Property Strategy (2021 – 2030) includes guidelines for the strategic use of intellectual property in public policies to encourage competitiveness and development. These guidelines aim to improve efficiency in intellectual property procedures; enhance the balance between intellectual property, competition and social interest; and guarantee legal certainty, transparency and predictability in intellectual property matters.

For decades, state-owned corporations dominated nearly all economic sectors in Brazil. In the 1990s and early 2000s, the Brazilian government privatized state-owned enterprises across a broad spectrum of industries. Both foreign and domestic private entities are allowed to establish, own and dispose of business enterprises. Tax regulations do not differentiate between foreign and domestic firms. Foreign individuals or foreign-owned companies can purchase property in Brazil.

In its 2020 economic survey for Brazil, the OECD emphasized that Brazil performs at an average level in terms of the scope of state-owned enterprises (SOEs). However, the organization highlighted significant weaknesses in SOE governance. The federal government controls 133 public companies; 47 are directly owned and 86 are indirectly owned. Since 2019, the Bolsonaro administration has made the privatization of state-owned assets a key objective. This objective is associated with the hope of attracting new investors and promoting competition in the domestic market. In recent years, the government has sold over 100 owned assets, either directly or through state-controlled companies. Divestments, which involve the sale of subsidiary assets, investments or divisions of a company, have primarily focused on the energy sector. These have included BR Distribuidora, the leading distributor

Property rights

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Private enterprise

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and trader of petroleum derivatives and biofuels (ethanol) in Brazil and Latin America; Transportadora Associada de Gás S.A. (TAG), the main natural gas transportation company in Brazil; and Liquigás Distribuidora S.A., a former subsidiary of Petrobras.

However, there has long been little progress on the Bolsonaro government's two most important privatization projects, Eletrobras and Correios, which are respectively the largest Brazilian electric energy generation company and the national postal service of Brazil. In June 2022, the government finally managed to sell its majority stake in Eletrobras and reduce the state's share in the company from 72% to 35%. So far, however, it has not been definitively clarified whether President Lula, a strict opponent of the privatization of Eletrobras, will try to reverse the sale of the majority shares. Lula believes that state ownership of companies like Eletrobras and Petrobras is urgently needed to drive the energy transition. However, renationalizing Eletrobras could prove to be a very costly undertaking.

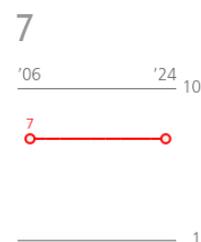
10 | Welfare Regime

Social protection policies in Brazil consist of noncontributory policies, contributory social insurance plans and health care policies. The country has a free and universal public health care system. Approximately 75% of the population is covered by this Unified Health System (SUS). The system provides a range of free health services to all citizens, not just those who are formally employed. It also plays an important role in the distribution of medicines. Shortages caused by the austerity policies introduced in 2016 contributed to the SUS's inability to adequately meet the sudden and dramatic increase in demand in the course of the COVID-19 pandemic. Budget cuts significantly reduced the coverage of the community-based Family Health Strategy, under which health teams provided regular health services, even in remote parts of the country. In the wake of the COVID-19 pandemic, preexisting regional, social and ethnic inequalities in access to the health care system have been significantly exacerbated. The Black and Indigenous populations have been particularly affected.

In the case of contributory pensions and insurances, a dual system has been in place since the 1988 constitution, with different benefit structures for public and private sector workers. The 2019 pension reform introduced a minimum retirement age of 65 for men and 62 for women and set the minimum contribution period at 15 years for women and 20 years for men. The reform is initially limited to federal employees. Savings of about \$214 billion are anticipated over the next 10 years, slightly less than previously estimated.

Noncontributory social transfers play a key role in ensuring social protection for individuals who are unable to access contributory benefits. Cash transfer programs in Brazil have been recognized for their significant contributions in reducing both absolute poverty and inequality. The Bolsa Família program, introduced during President Lula's first administration, stands out as the most influential conditional

Social safety nets



cash transfer initiative in recent Brazilian history, lifting millions of people out of poverty. Despite being extremely hostile to the PT government's legacy, the Bolsonaro administration initially opted to maintain the Bolsa Família program. In response to the economic and social repercussions of the COVID-19 pandemic, additional social programs were implemented to provide support to the impoverished population and workers in the informal sector. In 2021, Bolsa Família was finally replaced with Auxílio Brasil, a program that shares many similarities with its predecessor. The program continued throughout Bolsonaro's tenure, although critics alleged that the president sustained the relatively generous monthly payment of BRL 600 primarily for electoral purposes. Following his election, President Lula declared his commitment to maintaining the program at its previous level. Additionally, he proposed the provision of an extra BRL 150 for children under the age of six.

Equality of opportunity had only been partially achieved in Brazil by the end of the 2010s, despite significant progress in the first two decades of the 21st century. In the past four years, equality of opportunity has been severely affected by two factors: first, the rhetoric and actual policies of the Bolsonaro government, which have been hostile especially to vulnerable populations – women, Indigenous people and Black people – and, second, the economic and social consequences of the COVID-19 pandemic.

Fifty-six percent of the Brazilian population identifies as Black or “pardo” (mixed race). The non-white population is severely under-represented in positions of political and economic power and disproportionately affected by poverty, unemployment and violence. In 2018, out of the 513 members of the national House of Representatives, only 24.4% were Black or pardo. In the wake of new rules that seek to encourage the political participation of Black people, Brazil had a record proportion of Black candidates in the 2022 federal election, with 49.3% of all candidacies. In the newly elected House of Representatives in October, 135 Black candidates succeeded in winning the election, accounting for 26% of the 513 deputies.

Women are equal to men under the law. In education, the gaps between men and women have narrowed, and women on average possess higher educational attainments, with a female-male ratio of 1.1 in secondary and 1.4 in tertiary education. Women's rights have expanded in the home, the workplace and in land ownership. GNI per capita is \$10,535 for women and \$18,120 for men. Women hold 15% of parliamentary seats. A total of 61.6% of adult women have attained at least a secondary level of education, compared to 58.3% of men. The female participation rate in the labor market in 2021 was 52.4% (national estimate), compared to 72.9% for men. In 2022, the Gender Gap Index score in Brazil was 0.696. This means that opportunities for women in Brazil are about 30% below parity with those of men.

The Indigenous population of Brazil numbers approximately 900,000, with about 58% living on Indigenous lands. Apart from the very high estimated poverty rates of 96% for Indigenous people, other fragilities are evident. Close to one-third of this population lacks access to electricity, a figure much higher than the 2% of the rural

Equal opportunity

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poor. Roughly 51% have no water supply. Despite improvements in recent decades, 42% of Indigenous household heads have not completed primary education. The constitution provides for special protection rights, and previous governments have established protected areas. In contrast, President Bolsonaro rejected special protection for the Indigenous population and wanted to open Indigenous lands to agricultural activities and mining.

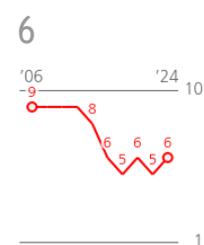
11 | Economic Performance

After a pandemic-induced slump in macroeconomic figures, the Brazilian economy has slightly recovered over the past two years, surpassing growth expectations in some cases. In 2020, GDP declined by 3.3%, but it experienced a growth of 4.6% in 2021, and it was projected to grow by 2.8% in 2022. GDP per capita (PPP) decreased to \$14,834 in 2020 from \$15,358 the previous year, but it rebounded to \$16,056 in 2021, and it is expected to be slightly higher in 2022 compared to 2019. ECLAC reports a GDP per capita growth of 4.3% in 2021 and a preliminary estimate of 2.2% for 2022. Gross capital formation as a percentage of GDP reached 15.5% in 2019, 15.9% in 2020 and 18.9% in 2021.

The annual inflation rate was 10.1% in 2021 and 5.8% in 2022. The unemployment rate reached 11.9% in 2019, 13.7% in 2020, and 14.4% in 2021. The unemployment rate decreased to 8.1% in the three months leading up to November 2022, down from 8.9% in the three months leading up to August, marking the lowest level since 2015. Public debt, as a percentage of GDP, was 87.9% in 2019, 98.7% in 2020 and 93.0% in 2021. Net lending (+) / net borrowing (–) as a percentage of GDP was -5.4 in 2019 and -12.7 in 2020. The current account deficit totaled \$65.0 billion in 2019, \$24.5 billion in 2020 and \$27.9 billion in 2021. In 2022, the country experienced a current account deficit of \$55.7 billion.

Brazil has an export-oriented economy dependent on shipments of raw materials (50% of total exports) and manufactured goods (36%). In recent years, Brazil has reported trade surpluses, primarily due to strong exports of mining and agricultural products. The country recorded a trade surplus of \$4.8 billion in December 2022, widening from a \$4 billion surplus in the corresponding period of the previous year. In 2022, foreign direct investment (FDI) almost doubled to \$90.6 billion, the highest level since 2012, from \$46.4 billion in 2021. The federal government's tax revenue reached an all-time high of BRL 210.2 billion in December 2022, a 2.5% increase over the same month in 2021. Federal tax revenue totaled BRL 2.2 trillion in 2022, an 8.18% increase in real terms compared to the previous year, which is the highest value since the data series began in 1995.

Output strength



12 | Sustainability

Brazil has developed many of the legal and institutional instruments necessary to reconcile development and environmental protection. These include the Ministry of Environment, the National Council of the Environment, oversight agencies, and laws on water management, forest protection and biodiversity. While there are some mechanisms, sectoral policies and plans that address clean energy in the energy, transport and climate sectors, Brazil currently lacks a coordinated and long-term national strategy for low-carbon energy innovation. The use of environmental taxes in the country is limited, and certain products with high environmental impact, such as fertilizers and pesticides, still benefit from tax incentives. Regulatory instruments in place for sustainable development include environmental licensing, the establishment of environmental standards and environmental zoning. Economic instruments being utilized include water use charges, forest concessions, environmental easements and environmental insurance. Additionally, voluntary instruments such as voluntary environmental auditing and environmental self-regulation in companies through environmental management systems are also employed. Furthermore, the instrument of deferred prosecution agreements enables direct negotiations between the public prosecutor's office and private sector actors, thus persuading the polluting agents to adjust their behavior in order to avoid the need for sanctions.

Policy successes in mitigating deforestation and other environmental challenges were mixed even before the last government took office. Under the Bolsonaro government, the quality of Brazilian environmental policy hit an all-time low. The government appointed individuals who prioritized the interests of the agricultural and mining lobbies to the Ministry of the Environment and key environmental agencies at all levels of government. Furthermore, environmental agencies faced significant budget cuts and layoffs, affecting their ability to carry out their work. President Bolsonaro's aggressive rhetoric encouraged illegal slash-and-burn practices and illegal gold mining in the Amazon. The government largely disregarded the legal obligation to protect Indigenous territories, and scientific findings on climate change were not taken seriously. The government's destructive approach to environmental issues also contributed to a growing sense of impunity among individuals who have engaged in illegal acts against the environment in recent years.

The rate of deforestation increased by 34% in 2019 and 2020, and the number of wildfires in the Amazon increased by 30% in 2019 compared to the previous year. Fines imposed for illegal deforestation decreased by 42% between 2019 and 2020. The COVID-19 pandemic gave illegal loggers and land grabbers additional leeway, as already fragile environmental protections were further weakened by efforts to

Environmental
policy

4

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mitigate the impact of the pandemic. Estimates suggest that Brazil released between 2.1 billion and 2.3 billion metric tons of CO₂ into the atmosphere in 2020, despite a commitment in the Paris Agreement on climate change to reduce emissions to 1.3 billion metric tons by 2025.

The education sector has been significantly impacted in recent years, mainly due to the consequences of the COVID-19 pandemic and the education policy of the Bolsonaro government. In 2021, Brazil received a score of 0.704 in the U.N. Education Index, similar to the previous two years. According to the Brazilian NGO Instituto de Estudos Socioeconômicos, public spending on education decreased from BRL 146.7 billion in 2016 to BRL 130 billion in 2018, and further declined to only BRL 118.4 billion in 2021. In 2022, Brazil allocated the second-lowest percentage of investment resources to education, reaching levels comparable to those observed in 2001, 2002 and 2006.

The enrollment rate for three-year-olds reached the same level as the OECD average (25%) in 2019, while the rate for three- to five-year-olds was slightly above average (84%). In 2018, total public expenditure on primary, secondary and post-secondary nontertiary education amounted to 4% of GDP. While many countries reported increases in the funding allocated to primary and secondary schools to help them cope with the pandemic crisis, Brazil reported no change in the education budget for primary or lower secondary general education in either 2020 or 2021. In 2018, Brazil spent \$3,748 per student on primary, secondary and post-secondary nontertiary education. This is only one-third of the OECD average. Teachers' average salaries amounted to \$25,030 at the pre-primary level, \$25,366 at the primary level, \$25,740 at the general lower secondary level, and \$26,724 at the general upper secondary level. Class sizes in primary and lower secondary education have been decreasing between 2013 and 2019, from 23 to 20 students per class in primary education and from 28 to 26 in lower secondary education.

Tertiary education has expanded in Brazil in recent decades. In 2020, 27% of women aged 25 to 34 and 20% of their male counterparts held a tertiary qualification. This falls well below the OECD average of 52% for young women and 39% for young men. In 2019, only 20% of bachelor's degree graduates obtained their degree from a public institution. The admissions process for public institutions is highly competitive. A paradox of the Brazilian university system is that students attending public universities, known for their high prestige and positive outcomes, often come from families who can afford expensive schooling and private tutoring. Conversely, students from less privileged backgrounds often find themselves studying at lower-ranked private universities. Approximately 75% of the 8.6 million higher-education students study in private institutions, while the federal university system caters to 1.5 million students.

Education policy /
R&D

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The Bolsonaro administration made substantial cuts to scientific research. The total budget approved for science and technology in 2021 was the lowest in at least two decades. In 2015, funding for science grants amounted to BRL 10 billion; however, in 2019, it was reduced to about BRL 5 billion. In both 2020 and 2021, the budget fell below BRL 4 billion, while in 2022, it slightly increased to just over BRL 4 billion. Throughout the Bolsonaro government, the National Council for Scientific and Technological Development (CNPq) and the Coordination for the Improvement of Higher Education Personnel (CAPES), the two most important funding agencies, saw a 45% reduction in their grant budgets.

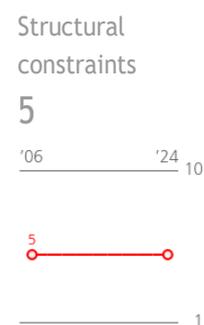
Governance

I. Level of Difficulty

Structural constraints on governance range from moderate to high intensity. Brazil is not a poor country; nonetheless, serious socioeconomic inequalities and regional disparities, which are also reflected in voter behavior, divide population groups and regions. The country exhibits an average level of development and educational standards. It is an ethnically heterogeneous and secular society. However, the political relevance of religious convictions has increased significantly in recent times. The literacy rate reached 99.2% in 2021, but functional illiteracy continues to be a problem throughout Brazil. Overall, living and working conditions for girls and women have improved in recent decades, but the gender gap and systematic discrimination against women remain problems. Violence, lawlessness and impunity are enormous development problems in many urban centers, as well as in remote parts of the country, posing major challenges for the state. Poverty, extreme poverty, malnutrition and hunger were significantly reduced in the first 15 years of the century, but in recent years they have again increased significantly, partly but not only as a result of the COVID-19 pandemic. The pandemic further exacerbated many preexisting inequalities and disparities, especially as already disadvantaged populations were particularly hard hit by the economic and social impact of the pandemic.

Brazil possesses immense economic potential and resources that have to date been utilized in an unsatisfactory manner. A considerable challenge lies in the reconciliation of economic growth and social development, while simultaneously addressing sustainability and fostering greater equality of opportunity. Historically, foreign investors have voiced concerns over endemic bureaucracy and corruption which substantially inflate transaction costs (referred to as “custo Brasil”). Moreover, efforts to harness the country’s economic potential are impeded by a significant deficit in infrastructure relevant to both domestic and foreign trade, such as roads, airports and ports. As a consequence, significant further investment is needed.

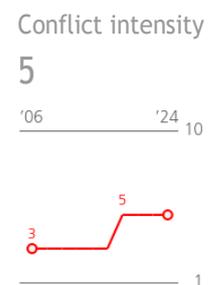
Brazil has moderate to strong civil society traditions. Since the return to democracy in 1985, civil society has become increasingly organized and influential. It consists of NGOs, community-based organizations, social movements and professional associations. There is a strong group of religious associations that participate in self-help activities and help the urban poor organize to claim public goods. During the 1980s, civil society was basically concerned with autonomy, the democratization of public policies and the establishment of forms of public control over the state. From the mid-1990s on, it became concerned with participation in various areas of public policy and with joining the state in the implementation of participatory forms of public deliberation.



In recent years, civil society has undergone a significant transformation. Since 2013, a wave of unexpected public protests has reflected a society shaped by new technologies, new ways of organizing, and people's newfound confidence in expressing their concerns and asserting their rights. Conservative civil society groups, combining various strands of conservatism and employing various collective action tactics, have garnered considerable support. Their programs express opposition to alleged left-wing economic and social policies and call for corruption to be controlled. Traditionalism, conservative and illiberal moral values, and differing degrees of economic liberalism and nationalism are observable in this particular segment. Certain sectors of conservative civil society are rather ambivalent about core democratic values, and some even openly advocate a return to the authoritarian military rule that occurred between 1964 and 1985. The rise of conservative civil society groups has contributed to Brazil's political polarization.

The available data make it difficult to make reliable statements about social trust in Brazil. According to the 2021 Latinobarómetro opinion survey, only 5% of respondents felt that most people could be trusted. Meanwhile, in the OECD Better Life Index, Brazil ranks above average with regard to civic engagement and social connections but below average in the areas of education and skills, personal security, income and wealth, jobs and earnings, housing, environmental quality, subjective well-being, work-life balance and health status. According to this index, there is a strong sense of community and high levels of civic participation in Brazil, with 90% of people believing that they know someone they could rely on in times of need.

Brazilian society and politics have become highly polarized over the past 10 years. Politicians such as Jair Bolsonaro and Lula da Silva are revered by one part of the population and hated by another. While Lula, who was elected president for the third time in October 2022 by a narrow majority, presents himself as a conciliator, Bolsonaro, who was narrowly voted out of office, deliberately sets his sights on division. Political incorrectness; defamatory attacks on political opponents; and sexist, racist, anti-democratic and violence-glorifying statements are part of his recipe for success, all of which draw great approval, especially among his most radicalized supporters. The country's democratic institutions have barely survived the stress test generated by the increasingly confrontational nature of political debate in recent years. However, the overwhelming rejection of the violent storming of the symbols of Brazilian democracy in January 2023 also shows that Brazilians desire to live in peace and democracy.



II. Governance Performance

14 | Steering Capability

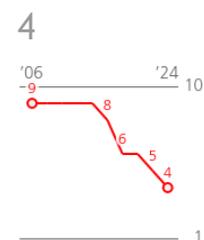
The Bolsonaro government formulated strategic priorities in only a few policy areas. This was particularly the case in the economic and financial sector, where the course was set for liberalization, privatization and deregulation. The ultra-liberal economist Paulo Guedes was appointed as a “super-minister,” and pension reform and the privatization of state-owned enterprises were identified as major priorities. Overall, Bolsonaro’s policies were only partially enforceable. Another priority was the dismantling of public policies created during the first two Lula da Silva mandates (2003 – 2010). This included social, rural development, environmental, health, educational and cultural policies.

However, Bolsonaro never actually acted strategically. Brazilian presidents need strong parliamentary majorities if they want to make a difference. At first, Bolsonaro flatly rejected constructive cooperation with Congress; later, he did an about-face and, so to speak, surrendered himself to Congress. Accordingly, he was able to secure political support, but not for the implementation of political reforms. This primarily appeared to be an insurance policy against potential impeachment. In return, he allowed a significant share of the state budget to be redirected to pork barrel projects by individual members of Congress. Bolsonaro did not govern based on strategic priorities but rather based on political sentiments directed toward the maintenance of power. Consequently, with congressional approval, he repeatedly disregarded constitutional rules on budgetary discipline and employed measures to ensure his re-election, especially in 2021 and 2022. In this regard, his priorities served particularistic interests rather than strategic ones.

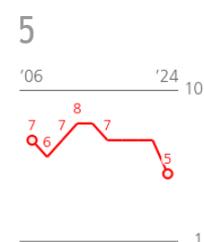
Fortunately, the Bolsonaro government was only partially able to implement its policy objectives. Otherwise, Brazilian democracy would be standing on much shakier legs today than it already is. Regarding the priorities mentioned in the “Prioritization” section, apart from the successful implementation of the pension reform in 2019, no other major reforms were achieved. The ambitious plans for privatizing state-owned enterprises resulted in only modest outcomes. Nonetheless, the government did manage to dismantle or weaken the sociopolitical, social and environmental accomplishments of previous administrations. A large list of policies, including the protection of Indigenous peoples and their territories, the guarantee of rights to the LGBTQ+ community, the promotion of equal opportunities for women, the implementation of a progressive climate policy, the reduction of deforestation, the development of well-equipped research institutions, and the adoption of a constructive and dynamic role as a regional and global actor, have all been fundamentally called into question and either fully or partially dismantled by the Bolsonaro government.

Question
Score

Prioritization



Implementation



The government utilized populist rhetoric to discredit its opponents, labeling the policies it disagreed with as Marxist, anti-national or anti-family. Negative narratives were used to stigmatize those who benefited from state protection and affirmative action policies. In executing its policy-dismantling strategy, the government employed various means. These measures included the significant reduction of funding for agencies entrusted with responsibilities that the government sought to undermine, the appointment of military officers and loyalists to various institutions, the centralization of decision-making processes, and the dismantling or weakening of participatory bodies intended to engage social actors in policymaking.

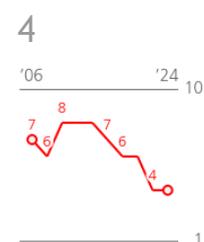
The Bolsonaro government pursued a distinctly ideologically motivated agenda and showed little willingness to learn from past experience, rely on proven best practices and international cooperation, or listen to academic experts and practitioners. One exception in this regard was economic and financial policy, in which the ex-president himself was not particularly interested. He delegated this policy area to his “super-minister,” Paulo Guedes. An extreme example of the Bolsonaro government’s unwillingness to learn was its handling of the COVID-19 pandemic. The federal government’s attitude and nonpolicies toward the crisis stood in marked contrast to numerous recommendations from national and international health experts. This was true, at least for the medical aspects of the pandemic. With regard to the social and economic effects of the pandemic and its possible consequences for social sentiment toward the government, Bolsonaro demonstrated a keen sense that led him not only to not abolish the PT governments’ cash transfer programs but even to launch additional pandemic-era aid for the poor and those employed in the informal sector.

The president’s anti-intellectual and anti-science attitude prevented him from prioritizing cooperation with experts, knowledge exchange, orientation toward best practices and international cooperation. If Brazil has cooperated constructively with international organizations such as the OECD or the World Bank over the past four years, it was not due to Jair Bolsonaro’s principled stance but rather in spite of it.

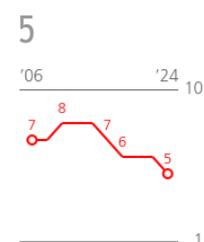
15 | Resource Efficiency

Brazil has a relatively well-functioning state administrative apparatus, especially at the federal level. Regulations require the civil service to be impartial, independent and fairly managed. Most appointees are hired through public examinations. In some areas, civil servants must be hired according to criteria for professional evaluation. Positions of responsibility are often filled with political appointees – in the federal sphere alone, there are more than 23,000 such positions. According to the World Bank’s Worldwide Governance Indicators, government effectiveness is below what might be expected given Brazil’s strong administrative capacity. Data reflect rather low scores, especially with regard to policy efficiency and regulatory quality. The structures and quality of the administration at the regional and local levels show great

Policy learning



Efficient use of assets

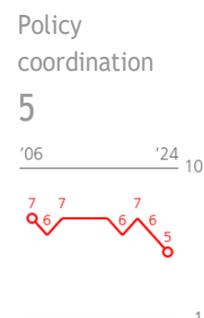


variation. Some municipalities have introduced a participatory budgeting procedure that grants civic organizations substantial opportunities for input in budget preparation and oversight. However, clientelist patterns have prevailed in a considerable proportion of municipalities.

Under the Bolsonaro administration, the treatment of administrative personnel was not based on efficiency criteria; rather, it served to enforce the ultra-conservative rollback sought by the government and to dismantle undesired policies. Numerous state employees were dismissed due to political motives and then replaced by less qualified successors who were politically aligned with the government. Despite being voted out of office, the Bolsonaro government has retained many of its supporters in key positions within the state apparatus. As a result, numerous authorities and institutions whose activities he disapproved of have been financially depleted and significantly weakened. The Lula government will face difficulties in repairing this situation, particularly given the realities of tight budgets.

The two most important instruments for ensuring a responsible budgetary policy – the Fiscal Responsibility Law approved in 2000 and the quite controversial constitutional spending cap enforced under Bolsonaro’s predecessor Michel Temer – were systematically circumvented from 2020 onward. This was initially done in order to finance social programs to mitigate the consequences of the COVID-19 pandemic. However, as the government progressed, it was also done to secure the political support of Congress through pork barrel projects, and to increase the chances of Bolsonaro’s re-election. No consideration was given to a balanced government budget, a manageable debt burden or transparent spending plans. The organization of the state administration was deliberately compromised in policy areas that the government wanted to dismantle (e.g., environmental and climate protection, protection of the Indigenous population, education and research). This approach had nothing to do with effective management based on criteria of professional rationality; rather, it solely aimed to realize personal political goals.

The Bolsonaro government was uninterested in consolidating conflicting goals into a cohesive policy or in attempting to establish a practical consensus among divergent interests. Some ministries were assigned to ideological hard-liners closely aligned with the president, while others were given to individuals closely connected to Brazil’s evangelical churches. Persistent disagreements within the administration between ideological hard-liners and more pragmatic politicians proved detrimental to the development of a coherent government policy. In this context, ministers hailing from the armed forces often tended to align with the pragmatists, although their significant presence in the government caused annoyance both inside and outside Brazil. Bolsonaro’s political strategy lacked coherence. The president declined to engage in the task, commonly undertaken in Brazilian coalition presidentialism, of forming a broad parliamentary majority including multiple parties. During his initial year in office, he relied on cooperation with the agrarian lobby, the gun lobby and the



evangelical lobby in Congress. However, starting in 2020, the president was compelled to seek the support of the influential speakers of both parliamentary chambers and the *centrão* (a collection of highly flexible conservative parties primarily interested in patronage politics) in order to maintain political efficacy and prevent the threat of impeachment proceedings. This objective was accomplished, but it resulted in a comprehensive transfer of decision-making power regarding discretionary budget allocations to Congress and an excessive rise in the national debt.

Brazil possesses a robust legal anti-corruption framework, although certain anti-corruption mechanisms were intentionally weakened under the Bolsonaro administration. Numerous laws and governing bodies aimed at combating office abuse and corruption are in place. The Brazilian penal code includes legislation addressing both active and passive corruption, the breach of public servants' functional duties, and the practice of influence peddling. Additionally, a multitude of legal provisions pertain to bribery and corruption. Among the entities responsible for combating corruption are the Federal Public Prosecutor's Office, the General Prosecutor's Office, the Comptroller-General of the Union, the Solicitor-General of the Union, the Federal Audit Court, the Council for Control of Financial Activities, and the Department of Asset Recovery and International Legal Cooperation. Brazil holds the status of a founding member within the Open Government Partnership. The Fiscal Responsibility Law holds each level of government accountable for its fiscal performance and aids in curbing corrupt behavior. Furthermore, citizens possess the right to access government information and essential records. All public procurement processes are extensively advertised, and the government is obligated to publicly disclose the outcomes of procurement decisions.

In an effort to enhance transparency and reduce corruption, campaign contributions from private legal entities were declared to be unconstitutional in 2015. The current legal framework permits individuals to contribute up to 10% of their income to electoral campaigns. In addition to candidates' contribution limit of 10% of their income, in order to prevent multimillionaire candidates from gaining an unfair advantage over others, a 2019 law stipulated that contributions from candidates to their own campaigns must not exceed 10% of the total campaign expenditure. Parties are supported via a Campaign Fund subsidized by the federal budget that helps them finance their electoral campaigns. Whether these regulations have actually resulted in decreased corruption remains unclear. There have been allegations of undue interference by private companies in the area of social media campaigning. Furthermore, campaign funding from multibillionaire donors has created an imbalance between candidates. In January 2020, a new Abuse of Authority Law took effect, replacing a law dating back to 1965. The new legislation broadened the definition of actions that constitute the abuse of authority, providing detailed descriptions for around 30 acts or omissions falling under this definition. It also significantly increased penalties for criminal behavior.

Anti-corruption policy

5



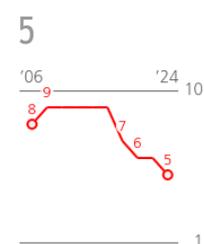
President Bolsonaro claimed that his government had ended corruption in Brazil, but in reality, the president weakened legal and institutional anti-corruption mechanisms and undermined the independence of key anti-corruption agencies. Shortly after taking office, Bolsonaro issued a decree that gave the highest level of secrecy to an unusually large number of official government documents, reducing transparency. Congress later revoked the decree, but the president continued to use legal loopholes to declare a large amount of information about government activity secret. Against all custom, the president appointed Augusto Aras, a person who was not on the federal prosecutors' list of nominees, to serve as chief general prosecutor. In a short period of time, Aras terminated the activities of several anti-corruption taskforces, including the Operation Car Wash Taskforce. The president also halted the Council for the Control of Financial Activities, which was investigating his eldest son for money-laundering. With his constant attacks on the Federal Police and the Supreme Court, Bolsonaro aimed to delegitimize institutions that play an important role in the fight against corruption. The “secret budget” almost completely eliminated any transparency with regard to the way a significant portion of the federal budget was distributed. The president used this mechanism to buy political support from Congress. More generally, the nontransparent allocation of federal resources to small municipalities without any oversight mechanisms opens the door to widespread corruption.

16 | Consensus-Building

New surveys reveal significant support for democracy as a political system among Brazilian society, particularly given the autocratic tendencies observed under the Bolsonaro government. However, the 2022 presidential elections' remarkably close outcome and the electoral successes of numerous ultra-conservative candidates have revealed Brazil to be a deeply divided and polarized state. This divide extends not only to society as a whole but also to major political players. Former President Bolsonaro and his staunch supporters tend to approach democracy with skepticism. This skepticism is evident not only in Bolsonaro's constant attacks on the nation's democratic institutions but also in the vehement demands of his radicalized followers for military intervention to prevent democratically elected President Lula from assuming power. Brazilian society and key political actors face significant polarization on other issues, with a conservative faction heavily influenced by evangelical churches opposing a liberal-libertarian faction.

Views among important political actors are also increasingly divergent when it comes to the economic and development model. Supporters of a state-centered economy oppose advocates of extreme neoliberalism. Actors who prioritize preserving the environment, fighting climate change and protecting Brazil's Indigenous peoples face political opponents who believe climate change is an invention of neocolonial foreign imperialists. These opponents focus on “development” at almost any cost and see no

Consensus on goals



need to consider Indigenous interests. The Lula government faces the great challenge of overcoming this social and political polarization, at least to some extent. It has expressed the will to do so, but it remains to be seen how successful it will be.

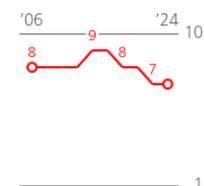
The greatest threat to Brazilian democracy between 2019 and 2022 came from the government itself. Institutional checks and balances and the pro-democracy commitment of some actors helped the democratic regime survive this stress test reasonably unscathed. However, most observers also agree that if Bolsonaro had been re-elected, further democratic backsliding would have been hard to prevent. The former president had already announced that he would put the Supreme Court out of business, and this would have broken an important bulwark against tendencies toward autocratization. The broad electoral alliance forged by Lula, which included not only left-wing parties but also large sections of the country's democratic right, entered the race with the explicit goal of protecting democracy from further erosion. It was only thanks to this coalition between longtime political opponents (Geraldo Alckmin, Lula's vice president and a co-founder of former President Fernand Henrique Cardoso's liberal PSDB, was a bitter opponent of the PT for many years) that Bolsonaro's re-election was narrowly prevented.

Brazil is a country characterized by a number of fundamental cleavages. These include, in particular, the contrasts between the extremely poor and extremely wealthy segments of the country, as well as between advocates of conservative to arch-conservative values and defenders of diversity and liberal values. Because Brazilian politics is highly personalized, cleavages frequently form around well-known political figures, such as supporters and opponents of the former President Bolsonaro or the current President Lula. The cleavages are only partially reflected in the Brazilian party system. There are certainly radical parties that stand for unambiguous partisanship in one direction or another, but most relevant parties have only a limited programmatic profile and react flexibly to social developments.

The previous government, narrowly voted out in October 2022, was uninterested in depolarizing social conflicts or seeking constructive cooperation with political opponents. Instead, Bolsonarismo utilized populist polarization; political incorrectness; and aggressive verbal attacks against the opposition, media critics and various sections of Brazilian society (including women, Indigenous people, quilombos and the LGBTQ+ community) as a means for its success. This polarization strategy relied heavily on the targeted utilization of social media. Political opponents were depicted as unpatriotic, enemies of the nation and self-serving parasites.

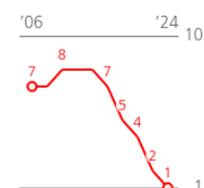
Anti-democratic actors

7



Cleavage / conflict management

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The participation of organized civil society groups in Brazilian politics has intensified since (re)democratization. An important factor enabling civil society's political involvement was the implementation of participatory budgeting in many Brazilian cities. Another example of civil society participation was the National Public Policy Conferences, which consisted of deliberation and participation spheres aimed at providing guidelines for federal policy formulation. Representatives from both the government and civil society were involved in these conferences.

From the outset, the Bolsonaro government sought to dismantle existing civil society participation in formulating, deliberating, making decisions about, implementing and monitoring state policies. One of the president's initial actions, via decree, was to eliminate multiple national public policy management councils. Four months later, he attempted to abolish all legislatively mandated national-level councils through another decree. Although the Supreme Federal Court declared this decree to be unconstitutional, Bolsonaro subsequently employed other strategies to weaken the councils. These included modifying their internal rules, reducing the number of participants, contracting out decision-making powers and cutting financial resources. Furthermore, Bolsonaro reduced state funding for civil society organizations, particularly those in the environmental sector. He also utilized the National Security Law, which had not been invoked since the end of the military dictatorship, specifically against civil society actors critical of the government. Through these measures, bolstered by the severe restrictions on public activities resulting from the COVID-19 pandemic, the government greatly curtailed the involvement and participation of civil society actors.

The Bolsonaro government was uninterested in promoting reconciliation between the victims and perpetrators of the last military dictatorship – quite the opposite, in fact. During his 27 years as a backbencher in the Federal Congress, Bolsonaro had already attempted to downplay the military dictatorship, deride its victims and defend torture. As president, he continued to vocally support this position without reservation. The government's approach to remembrance was geared toward suppressing the widespread human rights abuses committed during the dictatorship and extolling the virtues of the authoritarian regime. Furthermore, it made a deliberate attempt to manipulate the collective memory of Brazilian society in relation to the military dictatorship.

Public consultation

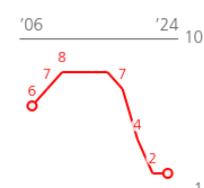
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Reconciliation

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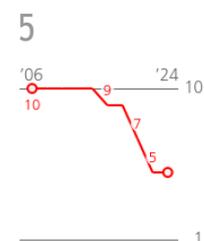
17 | International Cooperation

The Bolsonaro government was willing to cooperate constructively with international partners only in areas where its own objectives coincided with those of the international organization in question, such as the OECD. Brazil has been cooperating with OECD missions since it applied for membership in 2017, and this did not change under Bolsonaro. However, in contrast, the government significantly reduced its cooperation with international organizations in the areas of climate and environment. It also repeatedly attacked their representatives. Shortly after taking office in 2019, Brazil withdrew its commitment to host the 25th UN Conference of the Parties to the Paris Agreement (COP25). Bolsonaro's government frequently threatened to withdraw from the agreement, though it ultimately did not do so. Additionally, the government eliminated the Climate Change Division of the State Department. Cabinet members criticized international climate diplomacy as a neocolonial strategy by the West to prevent Brazil from accessing its territory and natural resources in a legitimate manner. The perception of the Brazilian government as a radical and unconstructive actor led international partners to distance themselves. The German and Norwegian governments suspended their payments to the Amazon Fund. Most European governments avoided official contacts with high-ranking members of the Brazilian government.

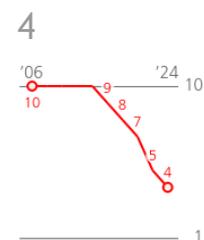
After the change of government from Bolsonaro to Lula, signs are emerging of Brazil's return to a constructive role in the international arena. However, the internal and global context has undergone a complete transformation since the heyday of Brazil's position as a respected global player during Lula da Silva's initial two terms (2003 – 2010).

Brazil has been an active participant in global affairs for many years, engaging in numerous international forums and organizations. This commitment included a critical stance toward certain institutions of the global order that were established after 1945, such as the Bretton Woods institutions and the WTO. Nevertheless, this criticism was always based on valid reasons and in line with a long-term foreign policy strategy aimed at reducing global disparities. Brazil's involvement in alternative forums, like the BRICS group, also served this objective. However, when the Bolsonaro government assumed power, Brazil completely deviated from decades of foreign policy traditions. Pragmatism was replaced by an anti-globalist ideology. Supporters of this position interpret "globalism" as a complex and secretive international network that infiltrates and weakens national borders, erodes national cultures by blending them into a disparaged "cosmopolitan whole," and ultimately undermines state sovereignty. Some believe that a communist conspiracy acting through the medium of cultural Marxism is lurking behind globalism. Attitudes toward many international partners and organizations underwent repeated changes, making Brazil an unpredictable player. The government frequently threatened to

Effective use of support



Credibility



withdraw from international organizations and agreements, including the Paris Agreement, WHO and the BRICS group. In some instances, Brazil actually followed through with disengagement, as in the case of the U.N. migration pact.

The Bolsonaro government also repeatedly alienated partners in bilateral relationships. Initially openly critical of China, the administration later adopted a more cautious stance, as the Asian giant is an extremely important partner from an economic point of view. Brazil sought the closest possible relations with the Trump administration in the United States and Macri in Argentina, but after their electoral defeats, Bolsonaro openly attacked the successor governments of Joe Biden and Alberto Fernández. The Bolsonaro government initially kept its distance from the BRICS partners, but the more it isolated itself within the West, the more it sought to draw closer to these partners, especially Russia. A few days before the start of the illegal Russian invasion of Ukraine in February 2022, Bolsonaro declared his solidarity with Vladimir Putin during a state visit to Russia. Even under President Lula, Brazilian participation in the Western alliance and its sanctions against Russia should not have been expected, but there would certainly not have been an open approach to right-wing autocrats all over the world, as was the case under Bolsonaro.

A pragmatic foreign policy, oriented toward the long term and not changing fundamentally despite changes in government, had been one of the basic paradigms of Brazilian policy for many decades. The continuity of such a foreign policy had also been due to the professionalism of the Brazilian foreign ministry, the Itamaraty and the country's diplomatic service. Beginning during the governments of President Cardoso (1995 – 2002) and reinforced under the first two governments of President Lula (2003 – 2010), Brazil had played a very dynamic role in regional cooperation and integration in South and Latin America. Several of the new regional networks that have emerged since the beginning of the 21st century can be traced back to Brazilian initiatives. In bilateral relations with its neighbors, Brazil has always strived for pragmatic cooperation, regardless of ideological orientations.

All of this changed fundamentally when the Bolsonaro government took office. The Ministry of Foreign Affairs' capacity to act was systematically undermined; individuals ideologically aligned with the government replaced experts. Brazil largely withdrew from regional cooperation. In the first year of the government, when the liberal-conservative President Macri was still in power in Argentina, the focus was on a joint reactivation of Mercosur. After Alberto Fernández's election victory, the Bolsonaro administration distanced itself from its neighboring country and even threatened to withdraw from Mercosur. Relations with other neighboring countries (Chile, Peru and Colombia) also deteriorated significantly after progressive forces came to power there in 2021 and 2022. Brazil similarly wanted nothing to do with left-leaning governments like those of Nicaragua, Cuba and Venezuela. Brazil withdrew from the Union of South American Nations (UNASUL) and the Community of Latin American and Caribbean States (CELAC), both seen as

Regional cooperation

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inheritors of the PT's foreign policy. In 2019, PROSUR, a network of like-minded conservative governments, was created, but after the switch to more progressive governments in some of the countries involved, it engaged in little activity. Basically, the Brazilian government under Bolsonaro showed extremely little interest in relations with its Latin American neighbors.

The Lula government that took office in January 2023 immediately began putting the troubled relations with neighboring countries back on a pragmatic track and addressing cooperation within the region. A first step was the return to CELAC and participation in its summit meeting in January 2023. "Brazil is back," declared President Lula to the public. However, conditions within the region have fundamentally changed since his first two terms of office, so Brazil is not expected to pursue a similarly active regional policy in the near future as it did in the first decade of the 21st century.

Strategic Outlook

Brazil faces a challenging situation in the coming years. Luiz Inácio Lula da Silva won the presidential election, but the victory was his personal triumph, not a triumph of the leftist PT. Many people voted for Lula as the lesser evil. In the campaign, Lula forged a broad alliance between political forces ranging from the left to the democratic right, united not by a progressive program but primarily by concern for the future of Brazilian democracy. The great challenge will be not only to find majorities to shape policy with such a heterogeneous governing coalition, especially confronted with an extremely conservative Congress, but also to bring together the different perspectives in a coherent government policy. Bolsonarismo is still very much present in Brazilian society, as is traditional anti-PTismo. Moreover, the internal and external conditions today are completely different and incomparably more difficult than during the first two Lula administrations. At that time, the country was internally stable, and the international environment was very favorable for Brazil due to the commodity boom. Today, the country faces immense domestic challenges, society is deeply divided and polarized, and the global situation is geopolitically heated.

Immediately after the election, Lula initiated communication with his political opponents and engaged them in dialogue. In most instances, he has achieved success. With Congress, he strives for constructive cooperation rather than confrontation. During the opening session of the recently elected parliament in early February 2023, Lula endorsed the re-election of the two influential conservative congressional leaders, Arthur Lira (Chamber of Deputies) and Rodrigo Pacheco (Senate), recognizing that only through such realpolitik does he stand a chance of implementing at least some of his political objectives. However, it will not be a straightforward task to secure congressional cooperation without yielding to the patronage demands of the deputies, many of whom benefited from the secret budget funds tolerated by Bolsonaro. Lula must also pursue collaboration with various states, particularly the largest and most influential ones, which are governed by governors closely aligned with Bolsonaro.

In economic terms, a departure from the neoliberal strategies of the previous government can be anticipated. Lula is highly critical of the partial privatization of Eletrobras in 2022, which decreased the state's share from 72% to 45%. The government has also expressed disapproval of high interest rates and has made it evident that it would prefer someone other than Bolsonaro's appointee Roberto Campos Neto to lead the central bank. Nonetheless, the central bank functions independently. In principle, the government is likely to attempt to expand the state's economic and sociopolitical role again without undermining the market economy. Given this context, it remains uncertain at this time whether Brazil will continue its efforts to join the Organization for Economic Cooperation and Development (OECD). Moreover, Brazil is only likely to ratify the EU-Mercosur agreement if Europe makes certain concessions.

In foreign policy, there are signs of a return to traditional guidelines such as pragmatic cooperation, multilateralism and multipolarity. The new government is striving to overcome the international isolation caused by the previous administration. Lula has made it clear that his country is prepared to make a constructive contribution to solving global problems. Environmental and climate protection are back on Brazil's agenda. Contrary to what many in Europe expect, Brazil under Lula will not engage in a "Western" closing of ranks against Russia and China. Rather, Brazil is returning to the traditional maxims of its foreign policy, and these include autonomy and multipolarity. The government will not allow itself to be forced into alliances that could limit its own room for maneuver, either regionally or globally. It will continue to do business with Russia and China and make every effort not to be forced into a new bipolarity by the United States.