

Brazil's economy

Challenges for the new president

SUMMARY

Brazil is the 10th largest economy in the world and the largest in Latin America. Its recent history can be divided into three main periods: one of economic stabilisation, which laid the foundations for economic growth; one of growth and reduction in inequality; and one of crisis, which has highlighted not only the country's strengths and potential but also its vulnerabilities.

In 2018, after two years of economic crisis and several public corruption scandals, voters elected far-right Jair Bolsonaro to serve as president, marking a shift from years of left-wing governments. Bolsonaro, up for re-election in 2022, has generally pursued a free-market agenda, including an overhaul of the public pension system and privatisation of government assets. At the same time, he and his government have taken steps to tackle the two-fold challenges posed initially by the economic impact of the COVID-19 pandemic, and later by the global environment of high inflation and geopolitical insecurity following Russia's 2022 invasion of Ukraine. Recent estimates show that this approach has been partially effective – inflation and unemployment are falling, while gross domestic product has resumed its growth (albeit remaining low).

However, many challenges remain, including high income inequality and a rise in poverty and food insecurity. Moreover, their complexity is compounded by the fact that the incoming government will have little fiscal space to address them, and that the recent rise in commodity prices, which has helped the country's economy, might not last.

Relations between the EU and Brazil are multi-faceted: they work together in a number of sectors, and have strong trade relations. Nevertheless, the Bolsonaro government's position on deforestation in the Amazon rain forest has worsened Brazil's relationship with the EU, and could compromise ratification of the EU-Mercosur agreement.



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- Economic situation since the 1980s
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Introduction

[Brazil](#) is the [world's](#) fifth largest and fifth most populous country. As the [tenth](#) largest economy in the world, it is among the global giants of mining, agriculture and manufacturing.

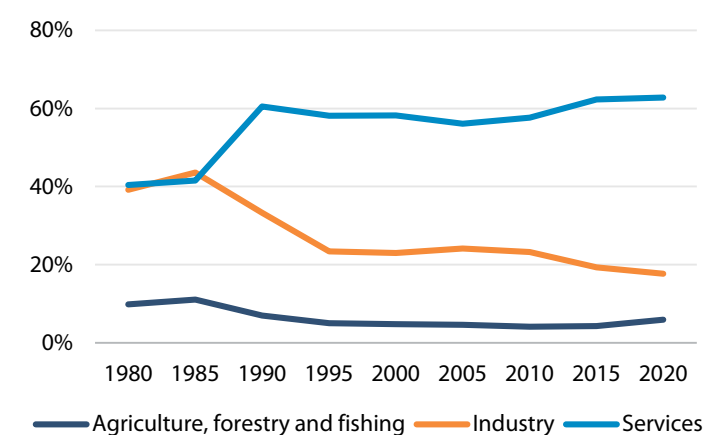
Brazil plays an important role in the international mining industry. It is a leading producer of niobium, the world's second largest producer of iron ore, and an important producer of tin, bauxite, manganese, gold, quartz and gems. Mining activities in the country are located mainly in the states of Minas Gerais, Pará, Bahia and Goiás.¹ The sector is important for the country's economy, [contributing](#) between 2 % and 4 % of gross domestic product (GDP). However, this comes with a downside, namely the significant [environmental liabilities](#) generated along the production chain.

In the agricultural sector, Brazil has [grown](#) from being an exporter of coffee, sugar and cacao in the 1960s and 1970s, to becoming a major global supplier of soya beans (and soya bean products), maize, cotton, sugar, coffee, orange juice, meat and ethanol. Farming and stock raising account for about one-fifth of the labour force and roughly one-twelfth of GDP (see Figure 1). The sector is also an important [contributor](#) to the country's energy supply, with energy mainly from sugarcane biomass, hydraulic energy and firewood accounting for almost half of the total energy supply.

Manufacturing in Brazil accounts for about 20 % of GDP and occupies more than 10 % of the labour force. The country exports automobiles, electronics, and consumer goods. However, a 're-primarisation' of the country's economy, that is, the expansion of activities associated with the primary sector (e.g. mining, oil, cattle and soya), at the expense of manufacturing, has slowly been taking place since the new millennium, concurrently with China's increasing trade in the region.²

Lastly, the country has a strong service sector which accounts for [71 %](#) of total employment, up from 57 % 30 years ago. The public service sector includes national and local bureaucracies, public utilities, and a host of special agencies. The private sector is composed of various sub-sectors, including travel and tourism, financial services, transportation, repairs, and retail sales.

Figure 1 – Sector value-added



Data source: [World Bank](#).

The energy industry plays a significant [role](#) in Brazil's economy. The country is one of the top 10 largest oil producers in the world. In addition, it has significant capacity to generate renewable energy (84 %, whereas the world average is 38 %), mainly from [hydropower](#) but [also](#) from solar and wind energy. The [International Energy Agency](#) reports that total primary energy demand in the country has doubled since 1990, propelled by strong growth in electricity consumption and demand for transport fuels on the back of robust economic growth and a burgeoning middle class. However, the [US Energy Information Administration](#) notes that there are issues that challenge energy generation and transmission, not least the uncertainty about the reliability of the national electricity generation system (Brazil relies for up to 66 % on hydropower, which was afflicted in 2021 by severe drought); the big distances between generation and demand centres; and ongoing droughts and deforestation.

Brazil is one of the most [unequal](#) societies in the contemporary world. From 1970 to 2000, the [Gini coefficients](#) of income per capita distribution remained practically constant around 0.6, one of the highest levels recorded at national level. After 2002, inclusive growth policies enabled a [pronounced reduction](#) in overall income inequality (Gini figures came closer to 0.5). However, over the past decade, and especially following the COVID-19 shock, income inequality increased again, reaching 0.642 in 2020 and as much as 0.674 in 2021.

Economic situation since the 1980s



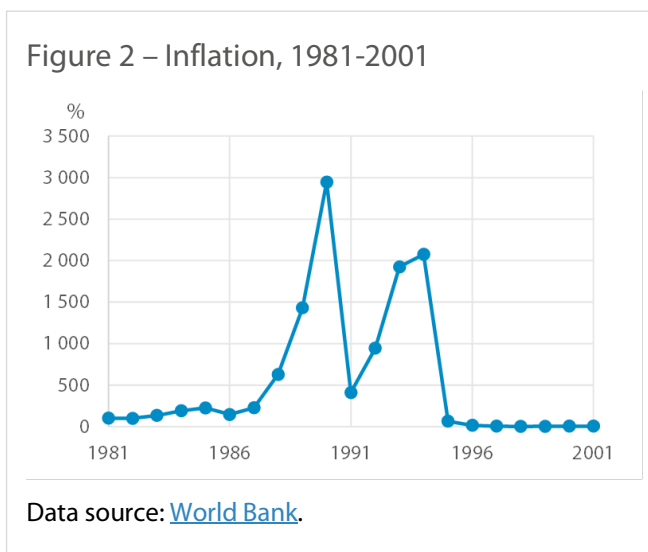
Politically, the 1980s were crucial for Brazil. Following twenty years of military rule, the decade was one of 're-democratisation' for the country, culminating in the 1988 [Constitution](#). For the economy, by contrast, that period was a 'lost decade', as the [country](#) struggled with internal challenges (democratic transition, sky-high inflation) and external headwinds: the [oil crises](#) of the 1970s, the 1982 Mexican [debt crisis](#), a generally adverse economic environment for [all Latin America](#), and the impact of US [interest rate increases](#) in the early 1980s. In January 1985, the election of **Tancredo Neves** (Brazilian Democratic Movement Party – PMDB),³ who had previously served as minister of justice (1953-1954) and prime minister (1961-1962), completed the transition to civilian rule. However, Neves died before he could take office, and was succeeded by his running mate José Sarney. In February 1986, Sarney decreed the [Cruzado plan](#), which provided for the introduction of a new currency of the same name and a wage-price freeze. However, despite positive initial results, the plan failed, with monthly inflation reaching [80 %](#) at the end of the president's term.

Situation in the 1990s



[turning point](#) in Brazil's economic history. The country had been a [closed economy](#) over the previous four decades, with a major presence of the state as producer of goods and services. After a long record of indexed high inflation, by the end of the decade, it had become an economy open to trade in goods and capital, with the role of the state reduced at the same time. Moreover, the economy achieved unprecedented price stabilisation.

President Sarney was succeeded by President **Fernando Affonso Collor de Mello** (1990-1992) from the National Reconstruction Party (PRN). The new administration followed the liberalisation precepts of the '[Washington consensus](#)', reducing customs tariffs⁴ and starting to privatise state-owned companies.⁵ At international level, the government finalised negotiations in view of establishing a Southern Common Market ([Mercosur](#)) with Argentina, Paraguay and Uruguay, a process initiated by the previous administration. However, the administration's results were marred by increasing inflation and reduced GDP growth (see Figure 2).



Inflation was finally tamed through the [Plano Real](#) implemented by the next administration, under President **Itamar Franco** (PMDB). The programme stopped the government from periodically raising prices; it introduced a new currency (the Brazilian real – R\$) and an exchange rate partially linked to that of the United States (US) dollar, and called for curbs on government spending. However, GDP growth remained sluggish and foreign direct investment [low](#) (around US\$4 billion/year).

The next president was **Fernando Henrique Cardoso** from the Brazilian Social Democracy Party (PSDB). His two terms took place in a difficult international context with a succession of financial crises in [Mexico](#) ('Tequila crisis' – 1994), [South-East Asia](#) (1997) and the [Russian Federation](#) (1998). Furthermore, the president's first term was marked by a [division](#) within the government between those who wanted to focus on consolidating inflation control, and those wanting to give priority to economic growth. This division led to an inconsistent macroeconomic policy that left the country vulnerable to the effects of the Asian and Russian crises. To mitigate their impact, Brazil [concluded](#) an agreement with the International Monetary Fund (IMF) on a three-year stand-by credit equivalent to about US\$18 billion. However, pressures on the currency continued, and by January 1999, became [untenable](#). Economic policy was therefore re-oriented to follow a '[macroeconomic tripod](#)', i.e. primary surplus,⁶ inflation targeting, and a floating exchange rate.

Alongside its efforts to maintain economic stability, the Cardoso government attempted a series of constitutional and regulatory [reforms](#) designed to transform the state from an interventionist to a more liberal one. The reforms focused on breaking the state monopoly in various sectors of the economy (petroleum, electricity, telecommunications), privatising banks owned by federal states, and limiting the possibility for state governors to spend irresponsibly (through the [Lei de Responsabilidade Fiscal](#)).

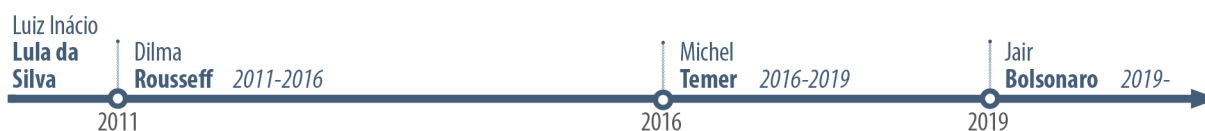
Situation in the 2000s



[austerity](#) and exchange rate stabilisation on the one hand, and significant social policies on the other.⁷ This, coupled with the favourable international [conditions](#) from which Brazil was able to benefit (e.g. the boom in commodity prices and the liquidity of the international financial market) helped economic growth accelerate and unemployment come down.

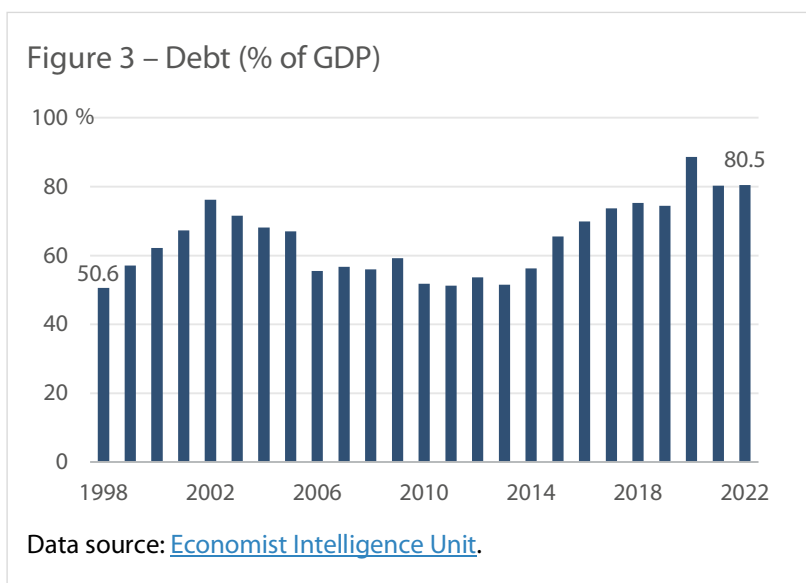
The 2008 financial crisis [hit](#) the country severely – albeit belatedly – by a decrease in exports and a credit squeeze, which led some companies to cut back operations, others to incur big losses, and still others to declare bankruptcy. To tackle those effects, economic policy changed direction. This shift, which would be consolidated under the next president (Dilma Rousseff), was characterised by the loosening of fiscal policies and the targeting of subsidised credit to the productive sector. One of the government's main instruments of action was the National Bank for Economic and Social Development (BNDES), which funded initiatives such as the [growth acceleration programme](#), established in 2007, and the 'national champions' policy.⁸ While this allowed Brazil to weather the global financial crisis better than other developing economies (GDP grew by 7.5 % in 2010), it resulted in added debt (see Figure 3, next page).

Situation in the 2010s



to reflect long-standing problems in the economy relating to corruption, low levels of investment, inflated and inefficient public spending, high social security costs, low labour productivity, and poor infrastructure. These issues have remained until today (and can be found in the programmes of the candidates to this year's election). To resolve them, a [Nova Matriz Econômica](#) (new economic matrix) was implemented – a set of measures that included expanded state intervention in the economy, currency devaluation, and interest rate reduction. However, it failed to spur growth, while at the same time increasing the fiscal deficit. This led credit rating agency Standard & Poor's to downgrade the country's sovereign debt rating in March 2014.

Between 2014 and 2016, the Brazilian economy [faced](#) one of its worst recessions in history. Its causes appear to have been a conjunction of [internal](#) and [external](#) factors.



The economy contracted by 3.8 % in 2015 and by 3.6 % in 2016; public debt rose from 52 % of GDP in 2014 to 67.5 % in June 2016; and unemployment grew from 4 % to 12 %. In this context, the government [changed](#) the direction of its economic policy in 2015 to regain the primary surplus and rein in the burgeoning debt. To that end, it reformed the labour market, social security, and several production sectors. However, efforts were constrained by its embroilment in the [Petrobras scandal](#). This also

eroded President Rousseff's political support, contributing to her impeachment and removal from office in 2016, with her vice president, **Michael Temer** (PMDB), [serving out](#) the remainder of her term (2016-2018).

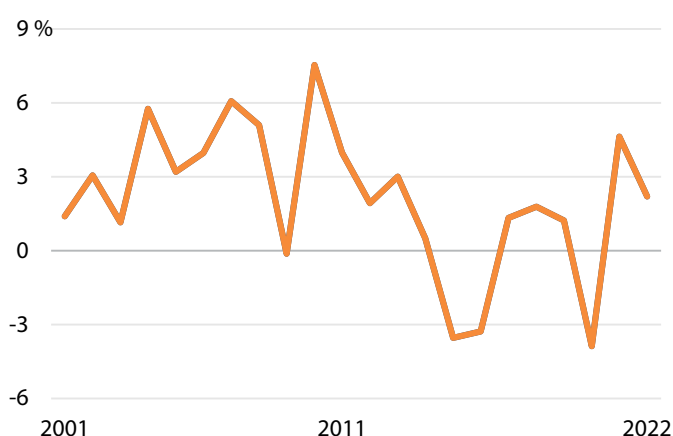
When centrist Temer became president, he diverged from the policies previously embraced by Lula and Rousseff (both belonging to the left-wing PT). During the first months of his mandate, he attempted a number of structural economic reforms to stabilise the economy. A [constitutional amendment](#) was adopted in December 2016 to reduce the fiscal deficit. The amendment introduced a mechanism, according to which total public spending can only be adjusted based on the previous year's inflation (thus being frozen in real terms) for up to 20 years. In addition, in July 2017, Congress approved a labour law reform that made hiring and firing workers more flexible. However, many of the other proposed structural reforms (including the important pension reform) proved unpopular; Temer's efforts were increasingly undermined by growing accusations of his own involvement in the Petrobras scandal and ended up being postponed. From 2016 to 2018, the rate

of unemployment remained high, at over 10 % of the economically active population, reaching 12.3 % in 2018.

Bolsonaro presidency

In 2018, after two years of economic crisis and several public corruption scandals, voters elected – for the first time after the return to democracy – a right-wing politician, **Jair Bolsonaro** (Social Liberal Party, PSL), as president. In January 2019, President Bolsonaro took office. The Bolsonaro government began in 2019 with a broad agenda of free-market reforms (including pension, tax and administrative reforms) to reduce the deficit and spur public investment in education, healthcare and public security. A key reform was that of the [pension system](#), which was introduced through a constitutional amendment. The reform is [expected](#) to result in savings of €193 billion over the next 10 years. The government also stepped up an infrastructure ([including](#) highways, port terminals, airports and railroads) and [natural resource](#) concession programme,⁹ which had already started under Temer, [generating](#) more than US\$145 billion in investments and US\$26 billion in government fees. Furthermore, in February 2021, the Central Bank of Brazil gained [autonomy](#).¹⁰

Figure 4 – GDP growth, 2002-2022



Data source: [World Bank](#).

However, despite the popular approval Bolsonaro's business-friendly policies enjoyed, [only](#) the pension reform passed (in [watered-down](#) form), while the other reforms stalled. This was attributed to two factors: first, the inability of Bolsonaro himself and his government to reach agreements with opposition parties. Bolsonaro left his party in 2019 and did not join another (the Liberal Party – PL) until 2021, in the context of his re-election campaign (the law does not provide for independent presidential candidates). Second, it was attributed to his handling of the COVID-19 pandemic, as the light-handed approach of the government in the beginning of the crisis led to

more cases and deaths from COVID-19 in Brazil than in other countries. By October 2021, Brazil had become the second country in the world in terms of absolute deaths due to COVID-19, ranking only behind the US – a deplorable position it still holds [to-date](#), with 685 000 deaths from the pandemic. This has resulted in growing impeachment threats by political factions in Congress, which forced him to forge an [alliance](#) with the '[Centrão](#)' parties, a powerful grouping known for their '[pork-barrel](#)' politics (see also 'Congress' section below). The new alliance secured control of the Lower House, eliminating the risk of Bolsonaro's impeachment, while at the same time watering down the free-market reforms launched by the Economy Minister, Paulo Guedes. With regard to the economic impact of COVID-19, Brazil's GDP contracted by 4.1 % in 2020 (Figure 4), unemployment reached a historic high of 13 %, government debt rose from 75 % of GDP in 2019 to 89 %, ¹¹ and the Brazilian real reached a historic low against the US dollar. To stimulate the Brazilian economy and support the country's economic recovery, the government made an about-turn, bypassed the fiscal ceiling, and [deployed](#) an ambitious [package](#) of policies and instruments. ¹² The package focused on health spending (tests, vaccines, transfers to municipalities to strengthen health response and attend acute emergencies); social assistance ([Auxílio Emergencial](#) – the 'emergency aid' financial instrument – for 66 million people, and the expansion of the Bolsa Familia programme), and support for firms to contain layoffs amounting to an [estimated](#) R\$815.5 billion (€155 billion), or 11.4 % of GDP in 2020. The Central Bank supported additional lending by the financial system, which underpinned an

increase in lending to micro-, small and medium-sized enterprises of over 31%, equivalent to 1.6 % of GDP, compared with 2019.

Recent developments and immediate challenges

After a successful vaccination campaign, economic activity [recovered strongly](#) in the second half of 2021, reaching 5 % for the year. However, high inflation, a tight financial situation, and



unfavourable weather conditions mitigated the recovery in the first part of 2022. In that context, the government adopted new measures, including the [Auxilio Brasil](#) programme, which essentially replaced Bolsa Familia.¹³ The Brazilian Institute of Economics (IBRE) concluded that, as far as GDP was concerned, the recovery from the COVID-19 gap was almost [complete](#). Similarly, in its July 2022 world economic outlook [update](#), the IMF Brazil noted that it expects Brazil's GDP to grow by 1.7 % in 2022, more than its previous estimates. Another

encouraging development is that the government now [runs](#) a primary surplus of 2.5 % of GDP, and that general government debt [fell](#) from 89 % of GDP in February 2021 to 77.6 % in July 2022 (to nearly pre-pandemic level). Lastly, the Organisation for Economic Co-operation and Development (OECD) Council decided unanimously to [invite](#) Brazil to start on the path towards formal organisation membership (see text box).

However, other indicators paint a [gloomier picture](#). The interest rate set by the Central Bank peaked in August (13.75 %), while [inflation](#) was still high, at 8.7 % (albeit falling). Investment in infrastructure remains tepid and disproportionate to the country's [needs](#).¹⁴ Unemployment is still high (9.3 % – Figure 5), while the percentage of young Brazilians neither working nor studying (NEET) has [increased](#) from 19.4 % in 2011 to 23.5 % a decade later. This is preoccupying, given that the share of young people in the population has increased over this past decade, and translates into a bigger part of the working

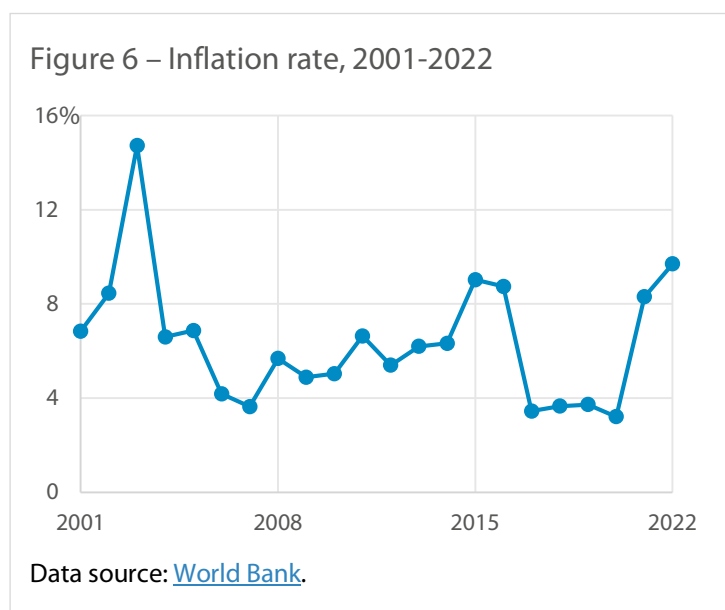
age population not acquiring crucial knowledge and skills at a time when they are most necessary. Furthermore, the number of Brazilians with a household per capita income lower than R\$497/month (about €95) increased¹⁵ to 62.9 million in 2021 (around 10 million more than in 2019), while 23 million people were [below](#) the poverty line set by Auxilio Brasil of R\$210/capita (€40). Worse still, for an agricultural heavyweight such as Brazil, a 2020 [study](#) found that, in 2019, slightly more than half

Brazil's accession to the OECD

The cooperation between Brazil and the OECD dates back from the early 1990s, when the organisation initiated its engagement with Brazil, Argentina, Chile and Mexico. In 2007, [Brazil](#) was invited to an 'enhanced engagement' with the OECD, which was subsequently referred to as 'key partnership'. As a key partner, Brazil has had access to partnerships in OECD bodies, adherence to OECD instruments, integration into OECD statistical reporting and information systems, and sector-specific peer reviews. Moreover, it has been invited to all OECD meetings at ministerial level since 1999. In 2017, Brazil presented its application for OECD membership, and in January 2022, the OECD Council decided to open accession discussions with the country.

Source: [OECD](#).

of the population (117 million) was confronted with some degree of [food insecurity](#), 43.4 million had not enough food, and 19 million faced hunger. The picture became even bleaker following COVID-19, as the number of Brazilians experiencing hunger [increased](#) by early 2022 to 33.1 million.



Similarly, forecasts for next year are not encouraging. The IMF expects GDP growth in 2023 to hover around 1.1%. In addition, the budget for 2023 contains [elements](#) that could contribute to fiscal worsening. Moreover, the fiscal situation in 2022 was eased by a [temporary](#) increase in tax collection owing to high inflation (Figure 6) and high commodity prices, a combination not likely to be repeated in 2023.¹⁶ A first challenge will therefore be [fiscal](#), namely to control the growth of public spending and bring down deficit and debt, while maintaining social expenditures, in the context of an economic slowdown.

Congress, ally or obstacle?

As seen from recent history, Congress is a potent [actor](#) in Brazil's politics, and its influence is only growing under the powerful speaker of the house, Arthur Lira, who heads the [Centrão](#), a centrist group of about half of congress people. In 2020, lawmakers intensified the use of a mechanism known as the '[secret budget](#)', which allows them to transfer funds to members for discretionary usage in their district. This secret budget gave re-election advantage to incumbent members of Congress, in general, and to allies of President Bolsonaro and speaker Lira, who received the most [discretionary money](#), in particular. Therefore, the power of the Centrão, and generally the composition of Congress, will be an additional challenge to whomever wins the presidency – and an additional problem for Lula, in that it will possibly limit the ambition of his reforms.

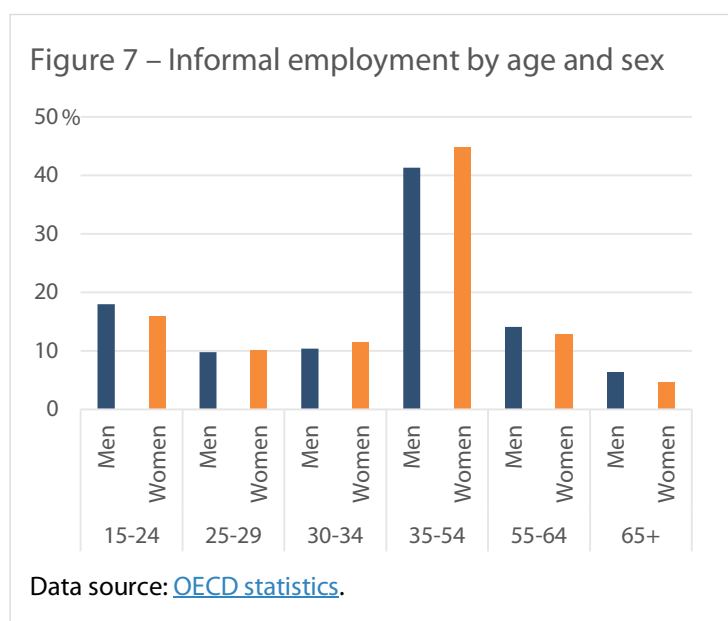
Inequality

Another challenge that needs addressing is inequality. The income share of the top 10% of the population [amounted](#) to 59.8% in 2021, with only Chile and Mexico scoring higher in Latin America. Another significant metric, the Gini index,¹⁷ remained largely unchanged between 2012 (53.5%) and 2019 (53.4%), but worsened significantly during the pandemic ([67.4%](#)), before diminishing again in 2021 ([56.7%](#)).

Inequality in Brazil has multiple dimensions. A first is [spatial inequality](#): the northern region has a poverty rate of 35.3%, almost twice the national average. In contrast, in the south, poverty stands at 7.7% (see in this context the [economic density](#) and [economic value-added](#) maps of the country). A second dimension is racial: according to a study led by the Brazilian Institute of Geography and Statistics (IBGE), white workers – who, at 43.1% of the [population](#), are a minority – have a 74% higher income on average compared with black people and people of mixed race (together 56%).¹⁸ The survey also revealed that earnings differentiation is further pronounced when examining the occupations and salaries of [women](#), with the average Brazilian black woman receiving approximately 44.4% of the average income of white men. Inequality is also illustrated by employment figures: among those employed, the share of white people in [informal](#) jobs was roughly one third (34.5%), while for black people and people of mixed race, it rose to 47.4% (Figure 7).¹⁹ Informality of work, in turn, can be associated with [lack of access](#) to types of social

protection. A similar picture emerges as regards unemployment. If before COVID-19, unemployment stood at 11 %, this rate was even higher for [women](#), particularly Afro-Brazilian women.²⁰ Similarly, a [disproportionate](#) number of households suffering from food insecurity are headed by Afro-Brazilian women in the country's north and north-east.

Searching for the causes of this inequality, some have brought attention to the existing tax system, while others have focused on the role of political and [social institutions](#), which – historically – worked against the adequate distribution of wealth and opportunities among all citizens.²¹ Regarding the tax system, two elements have been criticised in that context: first, that the country has a regressive consumption [tax system](#), which burdens the [poor](#) disproportionately; and second, that income and wealth taxes, which are more progressive, represent only 22 % of the total tax collections (versus 40 % on average for OECD countries). Coupled with high inflation (and high food inflation, in particular), this places again a disproportionate burden on the country's poor. As far as institutions are concerned, a 2019 survey by [IBGE](#) found that 6.8 % of the national population aged 15 and over were still illiterate, 40 % of Brazilians over 25 years old did not have primary education, and 25 % of Brazilians aged between 18 and 24 currently attended or had completed a university degree. As noted previously concerning poverty, access to education varies according to the region in the country but also according to race



This inequality, which has worsened as a result of the COVID-19 pandemic and, given the current difficult economic context, fails to revert, [threatens](#) the country's [growth](#) potential unless long-term structural reforms are undertaken.

Elections: State of play

In October 2022, Brazil held [elections](#) for the president, 27 out of 81 senators, all members of the Chamber of Deputies, and all 27 governors. The second round of the presidential race, due to take place on 30 October, will pit incumbent President Bolsonaro against former President Lula. Bolsonaro has vowed

to [maintain](#) his Auxilio Brazil programme and continue with his reforms, resume his privatisation agenda, and push for tax reform. As to the Amazon deforestation, Bolsonaro has not proposed any stringent measures, preferring a certain ambiguity regarding the future.

Lula, too, has promised to continue Auxilio Brazil, as well as [increase](#) current [social programmes](#), making Brazil's spending cap more [flexible](#), strengthen the role of public banks in supporting credit growth, and abolish the market-based pricing policy of Petrobras. At the same time, his selection of [Geraldo Alckmin](#), a former rival from the centre-right PSDB, as his vice-president is perceived as a strong signal that he aims to work with a [broad](#) political base. In this vein, he intends to introduce only specific changes to current labour legislation, as opposed to completely overhauling the reforms since Temer.²² Another promise of his is to simplify Brazil's tax system and make the existing regime more progressive. Lastly, Lula has vowed to stop illegal activity in the Amazon rain forest.

Relations with the EU

The EU and Brazil have long and deep relations. In 2007, they established a [strategic partnership](#) to consolidate achievements and further increase their cooperation. In that context, more than [30](#) sector dialogues have already taken place, including on energy and [human rights](#).

Trade

Based on 2020 data, EU was Brazil's second largest trading partner ([15%](#) of its total trade, or [US\\$28 billion](#)), after China (US\$67 billion), with the United States coming in third at US\$21 billion. EU imports from Brazil are dominated by primary products,²³ while the EU's exports to Brazil consist mainly of machinery, chemical products and transport equipment. The EU is the most important foreign [investor](#) in Brazil (foreign direct [investment stock](#) in 2020 reached €330 billion).

Trade relations of the EU and Brazil are a work in progress. A 2018 [report](#) from the European Commission notes that Brazil is highly protected (applied customs averaging duty of 13.5 %) and has [resorted](#) to a large number of potentially trade-restrictive measures. On the other hand, Brazil reacted to the proposed EU [deforestation regulation](#) by voicing its [concerns](#) to the Commission. Specifically, the Brazilian Ministry of Foreign Affairs took the view that the EU is using [deforestation](#) as a pretext to [pass legislation](#) that imposes restrictive measures on international trade. According to the Brazilian view, this could impact negatively on economic growth and increase food insecurity at a time when the world is struggling with COVID-19 and Russia's war on Ukraine, as well as undermine the functioning of a rules-based, market-oriented international trade system.

On 28 June 2019, after 20 years of negotiations, the EU and Mercosur reached a political [agreement](#) on an ambitious, balanced and comprehensive trade agreement. Nonetheless, to date, the agreement has not yet entered into force, given that both the European Parliament and EU Member States have expressed their concerns regarding the agreement, in particular regarding the environment (primarily the [deforestation](#) of the Amazon rain forest) and the rights of indigenous people.²⁴ In this context, the Commission and the European External Action Service have been working on an additional [instrument](#) to accompany the agreement, which would address concerns about sustainability and the agreement's potential environmental effects, notably deforestation. The Commission is still in the stage of consultations on this instrument; once this is finalised, it would be negotiated with Mercosur. In parallel, in summer 2022, EU representatives [approached](#) Brazil's government in bid to rekindle negotiations on the trade agreement. However, whether the negotiations will re-open depends on several factors, not least the outcome of the elections, given that Lula [favours](#) re-opening them to include environmental provisions, whereas Bolsonaro does not.

COVID-19 support and humanitarian assistance

The EU has made significant [efforts](#) to support partner countries such as Brazil in the fight against COVID-19. The effort was collective, with resources mobilised from the EU, its Member States (e.g. Belgium, Denmark, Germany), and European financial institutions, such as the European Investment Bank. It was also multi-pronged, ranging from measures to increase awareness about the virus, to vaccine provision through [COVAX](#) and access to vaccines (70 actions, €22.6 million in grants), to measures supporting the economic recovery of micro- and small businesses in north-eastern Brazil (€635 million in loans).

The EU has also been providing [humanitarian assistance](#) to Brazil. For example, in 2022, the EU [allocated](#) €1 million in January and €500 000 in July through its acute large emergency response tool (ALERT) to respond to the consequences of flooding in Brazil.²⁵

European Parliament

Over the past decade, the European Parliament has expressed its view on multiple topics regarding Brazil. Since 2020, it has been focusing on the heightened rate of deforestation in the Amazon and the rights of indigenous peoples. Examples of the former are the 2020 [resolutions](#) on draft Commission implementing decisions authorising the placing on the EU market of certain products from Brazil, in which Parliament called on the Commission to suspend the import of such products. Examples of the latter include a 2016 [resolution](#) on the situation of the Guarani-Kaiowá in the Brazilian state of Mato Grosso do Sul, and a July 2022 [resolution](#) on the situation of indigenous and environmental defenders in Brazil, including the killing of Dom Phillips and Bruno Pereira. In this recent resolution, the European Parliament strongly condemns the increasing violence against human rights and environmental defenders, indigenous peoples, minorities and journalists.

ENDNOTES

- ¹ Nonetheless, other states such as São Paulo, Rio de Janeiro and Mato Grosso also have relevant mining industries.
- ² The phenomenon [concerns](#) more widely Latin America and not only Brazil.
- ³ For an overview of the various parties in Brazil, see [Brazil: Political parties](#), EPRS, European Parliament, 2015.
- ⁴ The average trading tariff in Brazil [fell](#) from 57 % in 1987 to 13.5 % in 1993.
- ⁵ The [national privatisation plan](#) allowed for the sale of state-owned companies, such as iron and steel producers Usiminas and Companhia Siderúrgica Nacional and aerospace and defence Embraer.
- ⁶ A government incurs a deficit when its expenditures exceed its revenues. It generates a surplus if revenues are greater than expenditures. The primary surplus is the component of the surplus that is comprised of current government spending less current income from taxes, and excludes interest paid on government debt.
- ⁷ Major priorities of Lula's administration included reforming social pension and tax policy, combating hunger and poverty, and enhancing educational opportunities, particularly for poor children. A famous example of such policies was [Bolsa Família](#), a conditional cash transfer [policy](#) that, by the end of Lula's administration, had reached some 13 million people at a cost of 0.5 % of GDP, with significant results on poverty reduction.
- ⁸ This policy consisted of providing Treasury-subsidised financing to large private companies in the agribusiness and civil construction sectors, which became internationally competitive and even made aggressive acquisitions abroad. While there is no comprehensive assessment of those policies, they seemed to have had [mixed](#) results.
- ⁹ Concessions and public-private partnerships (PPPs) are important drivers for investments in public utilities in Brazil. For the sake of illustration, in 2015, the government launched new programmes to foster investments, aiming to attract R\$ 200 billion for transportation infrastructure and R\$186 billion for electricity between 2015 and 2018.
- ¹⁰ Despite the Central Bank's independence being enshrined in Article 164 of the 1988 Constitution, until recently, the president of the Central Bank of Brazil had no fixed-term length of office and could be fired by the Brazilian president. The debate around Central Bank independence was so [divisive](#) that, in the end, the term used in the Complementary Law was not 'independence' but 'autonomy'.
- ¹¹ The crisis was exacerbated by lower tax revenue and higher public spending (in particular, the Auxílio Emergencial federal programme that provides cash transfers for informal and low-income workers affected by the pandemic).
- ¹² The economic stimulus programme in Brazil was [larger](#) than that of many developing – and even some developed – economies: Brazil spent the equivalent of 11.8 % of GDP, whereas Argentina spent 6.7 % of GDP and France 6.9 %.
- ¹³ Public spending measures adopted by the federal government this year included: (i) a maximum tax rate of 17 % on fuel, electricity and public transport services; (ii) an increase in the amount of aid to low-income families for the purchase of cooking gas; (iii) cash assistance to truck and taxi drivers; (iv) an increase in the monthly Auxílio Brasil.
- ¹⁴ Brazil ranks 56th out of 160 countries for the quality of its transport infrastructure, according to the World Bank's most recent logistics performance [index](#).
- ¹⁵ From 2019 to 2021, [almost](#) 10 million crossed that threshold.
- ¹⁶ One possible [support](#) for exports is demand from China. However, while demand for petroleum and soya beans (>50 % of exports) may increase, that for other commodities such as iron ore (20 %) will probably remain low (iron ore was used to make buildings, and China is experiencing a slowdown in the property market).
- ¹⁷ The Gini index measures income distribution across a country's population.
- ¹⁸ These are the official ethnic categories used in Brazilian Institute of Geography and Statistics censuses.

- ¹⁹ The result reflects the major participation of blacks and people of mixed race in informal work, such as agricultural activities, with 62.7 % of blacks and people of mixed race, construction, with 65.2 %, and household chores, with 66.6 %.
- ²⁰ This rate naturally worsened further after COVID-19, [reaching](#) 14.4 % by 2021.
- ²¹ Eustáquio Reis [notes](#) that the concentration of income and wealth and the low levels of education prevailing today are largely legacies of slavery, which was abolished in the country as late as 1888.
- ²² Those changes include giving workers free recourse to labour tribunals and extending more rights to autonomous, remote and informal workers.
- ²³ e.g. mineral products, foodstuffs and vegetable products.
- ²⁴ According to a 2010 [census](#), 896 917 indigenous people live in Brazil.
- ²⁵ ALERT is a financing instrument designed to respond to large natural hazards that cause disasters affecting over 100 000 people or over 50 % of the population. Depending on the type of disaster, the aim is to allocate funds within 24 to 48 hours of the onset of the emergency.

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